



Contents	
Economic overview	2
Household sector overview	2
Property sector overview	3
House prices	4
Building costs	5
Land values	5
Affordability of housing	5
Outlook	5
Graphs	7
Statistics	9

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Housing review

Second quarter 2014

- The South African economy expanded at a real rate of 1,9% in 2013, with the growth performance hampered by severe labour strikes in some sectors of the economy, as well as electricity supply and logistical constraints. Real GDP growth of 2,2% is forecast for 2014, driven by higher export growth on the back of faster global growth and a weaker rand exchange.
- Headline consumer price inflation of above 6% is forecast for 2014, with the main risks to the inflation outlook being movements in and developments regarding the exchange rate, food prices, wage hikes and administered prices such as fuel prices, electricity prices and property assessment rates. Domestic interest rates are forecast to rise further during the course of 2014 on the back of current trends in and prospects for the global and local economy, as well as the outlook for inflation.
- Many consumers continued to experience financial pressure up to the first quarter of 2014. Growth in real disposable income and consumption expenditure slowed down further, resulting from subdued employment growth and rising inflation. The household savings ratio did not improve, while the number of credit-active consumers with impaired credit records remained at an all-time high up to the end of 2013. Consumer confidence was still low in the first quarter of 2014, with consumers pessimistic about the outlook for the economy and the resultant consequences for their finances and consumption expenditure.
- Nominal and real year-on-year price growth in the middle segment of the housing market was marginally lower in the first quarter of 2014 compared with the fourth quarter of 2013. In both the categories of affordable and luxury housing nominal price growth continued in the first quarter of the year. House prices continued to be driven by property market conditions and related factors, which were affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence.
- Based on the current trends in and prospects for economic and household sector-related factors, continued single-digit nominal house price growth is forecast for 2014 and 2015. Real house price growth will be the result of the combined effect of nominal price trends and inflation, with some real price deflation projected for this year and next year.

Economic overview

The global economy

Global real economic growth accelerated to 3,8% in the second half of 2013 from 2,8% in the first half of the year, with full-year growth recorded at 3% (3,2% in 2012), based on the International Monetary Fund's (IMF) World Economic Outlook of April 2014. The upward momentum in world economic activity was largely driven by advanced economies, although their recoveries were largely uneven. Emerging market and developing economies experienced some uptick in real economic growth in the second half of 2013, supported by stronger export growth due to improved advanced-economy conditions. Some of these economies continued to struggle with supply-side and structural issues, while investment and financial conditions remained tight. However, emerging market and developing economies were responsible for more than two-thirds of world growth in 2013.

Real economic growth in the United States was stronger than expected at 3,3% in the second half of 2013, largely driven by a good export performance and an increase in inventory investment. However, a slowdown was evident in the early stages of this year on the back of extreme bad weather conditions. The economic contraction in the euro area of the past two years came to an end, with growth in domestic demand turning positive and stronger exports also contributing to the turnaround in activity levels. Factors that still hamper the recovery in European economies include high unemployment and debt, with continued subdued investment and ongoing relatively large output gaps. The Chinese economy is showing signs of cooling off, but the Chinese government is putting measures in place to support growth. A slowdown in the Chinese economy is not good news for commodity demand and prices, which will impact many commodity-driven emerging and developing economies. Economic growth in Sub-Saharan Africa remained robust throughout 2013, boosted by increased production in the agricultural sector and continued investment in natural resources and physical infrastructure.

Inflation remains relatively low in advanced economies, especially in the euro area, where some concerns were recently expressed with regard to the possibility of deflation. Although significantly higher than in advanced economies, inflation in emerging market and developing economies remained relatively stable. In view of current trends in and the outlook for economic growth and inflation, monetary policy remained accommodative in advanced economies, whereas there has been some tightening in emerging market and developing economies since mid-2013 on the back of domestic financial conditions, currency movements and associated potential risks.

The South African economy

The South African economy expanded at a rate of 1,9% in 2013 (2,5% in 2012), as measured by growth in the real gross domestic product (GDP). The country's economic performance was last year occasionally hampered by severe labour strikes in some sectors of the economy, as well as electricity supply and logistical constraints. Fourth-quarter

growth was 3,8% at a seasonally adjusted annual rate, which was to a large extent the result of the base effect of extremely low growth of only 0,7% in the third quarter. On a year-on-year basis, economic growth came to 2,1% in the final quarter of 2013, up from 1,8% in the preceding quarter.

After averaging 5,8% in 2013, headline consumer price inflation remained around this level in the early months of 2014, with upward pressure on inflation still resulting from rising transport and property-running costs, increasing food price inflation, a relatively weak exchange rate of the rand and above-inflation wage hikes. Underlying core inflation, i.e. headline inflation excluding the more volatile components of food, non-alcoholic beverages, petrol and energy, remained stable at 5,3% year-on-year (y/y) in the past few months, after rising to 5,2% in 2013, from 4,6% in 2012 and 3,5% in 2011.

Domestic interest rates remained stable up to April, after being hiked in late January on the back of economic trends, rand exchange rate weakness and the outlook for consumer price inflation. The key monetary policy interest rate – the repo rate – is currently at 5,5% per annum, with commercial banks' prime lending and variable mortgage interest rates at a level of 9% per annum.

Household sector overview

Many consumers continued to experience financial strain up to the first quarter of 2014. Growth in both real disposable income and private consumption expenditure remained low throughout last year and has by the fourth quarter slowed down to its lowest level since the economic recession in 2009. The low real income and consumption growth resulted from continued subdued employment growth and rising inflation, impacting consumers' purchasing power. The household savings ratio did not improve in recent times, while the number of credit-active consumers with impaired credit records remained at an all-time high up to the end of last year. Consumer confidence was still low in the first quarter of 2014, with consumers still pessimistic about the outlook for the economy and the resultant consequences for their finances and consumption expenditure.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income slowed down further to an annualised rate of 2% in the fourth quarter of 2013, marginally down from 2,1% in the third quarter. Average real disposable income growth came to 2,5% in 2013, down from 3,9% in 2012 and 5,2% in 2011. The downward trend in real income growth was the result of the combined effect of continued low employment growth and upward pressure on inflation. According to Andrew Levy Employment, the nominal wage settlement rate averaged 7,9% in 2013 compared with 7,6% in 2012, which was above inflation in both years.

Household consumption expenditure showed real annualised growth of 2% in the fourth quarter of 2013 (2,1% in the third quarter), which was the result of inflationary pressures eroding consumers' spending power, lower real disposable income growth, consumer indebtedness and low consumer confidence. The close correlation between growth in real household disposable

income and consumption continued unabatedly in 2013 and is related to the severe lack of household savings (see relevant graphs at the back of the publication) and many consumers' financial inability to access credit for the purpose of consumption expenditure.

The ratio of gross household saving to GDP was relatively stable, but still extremely low at around 1,7% in 2013. The ratio of net household saving to disposable income remained at a zero-level up to the fourth quarter of last year. Net household saving is calculated from gross saving, adjusted for depreciation write-offs on the value of physical assets held by households, such as residential buildings and vehicles.

Growth in the value of outstanding household credit balances, comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal and micro loans), tapered off to just above 5% y/y in the early months for 2014. Growth in the value of outstanding household secured credit balances (instalment sales credit, leasing finance and mortgage loans) came to 4,5% y/y in February this year, mainly impacted by continued low growth in mortgage balances (77,7% of total household secured credit balances) of only 2,8% by end-February. Year-on-year growth in the value of outstanding household unsecured credit balances (credit card debt, overdrafts and general loans and advances) slowed down further to 7,7% at the end of February from a high of 31,6% y/y in November 2012. This slowdown in growth in unsecured credit balances was driven by sharply lower growth in the component of general loans and advances (mainly personal loans and microfinance) to 4,3% y/y by end-February from a peak of 35,4% y/y in November 2012. Factors such as the National Credit Act (NCA), banks' risk appetite and lending criteria, consumers' credit-risk profiles and consumer confidence affect the availability and accessibility of and demand for credit.

The household debt ratio dropped to 74,3% in the fourth quarter of 2013 from 75% in the third quarter, which was the result of nominal household disposable income growing by 1,7% quarter-on-quarter (q/q), while household debt increased at a rate of 0,7% q/q in the fourth quarter. The debt ratio is calculated as the total amount of outstanding household debt expressed as a percentage of the total annual disposable income of households, i.e. after deductions for tax, social contributions and transfers. Based on a debt ratio of 75,2% in 2013 and a stable prime lending rate throughout the year, the cost of servicing household debt as a percentage of disposable income was unchanged at 7,7% in 2013 from 2012. The household debt-servicing ratio is calculated as the interest component of debt repayments expressed as a percentage of disposable income. Based on the abovementioned statistics, the average interest rate charged in 2013 to service household debt was around 10,25%, which was 1,75 percentage points above the ruling prime interest rate of 8,5% at the time, reflecting banks' lending criteria in view of consumer credit-risk profiles.

Consumers' credit-risk profiles did not improve during the course of 2013, based on statistics published by the National Credit Regulator. A total of 9,93 million credit-

active consumers, or 48,1% of a total of 20,64 million, had impaired credit records in the fourth quarter of last year, up from 9,76 million in the third quarter. The number of consumers in good standing came to 10,71 million (51,9%) in the fourth quarter. An increased number of 73,18 million consumer credit accounts were active in the fourth quarter of 2013 (71,17 million in the third quarter), of which with 53,44 million (73%) were in good standing and 19,74 million (27%) were impaired. Consumers' credit-risk profiles impact their access to credit and affect household consumption expenditure against the background of an extremely low level of saving.

A total of 8,495 million people were employed in the formal non-agricultural sectors of the economy by the fourth quarter of 2013. Against the background of continued labour market instability, only 0,4% more people were employed in the fourth quarter of last year compared with the preceding quarter, which saw an increase of 0,2% q/q in employment. The unemployment rate was 24,1% in the fourth quarter of last year, which implies that a total of 4,83 million people were unemployed in the quarter. According to Andrew Levy Employment, a total number of 5,2 million man-days were lost due to industrial action in 2013 compared with 3,5 million days lost in 2012, with such trends not conducive to job creation in the medium to longer term.

The Bureau for Economic Research's (BER) consumer confidence index remained low at -6 index points in the first quarter of 2014, with confidence being on a downward trend since 2011. Consumers remain relatively pessimistic about the prospects for the domestic economy, with the economic outlook sub-index of the overall confidence index at a level of -9 index points in the first quarter, which implies that the majority of consumers continue to expect weak local economic conditions over the next 12 months. Consumer confidence is measured by expectations regarding the outlook for the economy, household finances and durable consumption expenditure.

Property market overview

According to Absa's calculations, nominal year-on-year house price growth in the middle segment of the market remains resilient up to the first quarter of 2014, despite challenging economic, consumer sector and property market conditions. Two categories of housing analysed showed an uptick in nominal price growth in the first quarter of the year compared with a year ago (see section below on house prices).

Residential building activity remained under pressure throughout 2013, with the number of building plans for new housing (houses, flats and townhouses) approved by local government institutions rising by only 1,3% to 50 484 units. The construction phase of new housing contracted by 3,7% to a total of 41 398 units built last year. The segment of residential building activity that performed the best in 2013, was flats and townhouses, growing by 5,9% in terms of the number of plans approved and 9,1% in terms of the number of units built. This emphasises the fact that there is a strong focus on higher-density housing, affected by a number of factors, such as urbanisation, affordability, land scarcity, building costs and changing lifestyles. The

abovementioned residential building statistics refer to private-sector financed housing, excluding government-subsidised low-cost housing.

Building confidence, based on the BER's building confidence index, edged up further in the first quarter of 2014, largely as a result of improved levels of confidence with regard to the planning phase of the building industry, as reflected by the expectations of architects and quantity surveyors. The building confidence index measures prevailing business conditions in the building industry sub-sectors of architects, quantity surveyors, main building contractors, sub-contractors, manufacturers of building materials and retailers of building materials and hardware.

The performance of the mortgage market remained subdued up to early 2014 in view of economic trends, the state of household finances, consumer credit-risk profiles, banks' risk appetite and lending criteria, consumer confidence and residential property market conditions in general. Growth in the value of outstanding household mortgage balances remained low at less than 3% y/y in the early stages of the year, to reach a level of just below R820 billion. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital repayments on mortgage loans as well as loans fully paid up.

The variable mortgage interest rate is currently at a level of 9% per annum, after interest rates were hiked by 50 basis points in January this year. The impact of changes in the mortgage interest rate is reflected in the relevant tables at the back of the report, presenting monthly mortgage repayments for various loan amounts at various interest rates, as well as mortgage loan amounts based on various fixed monthly repayments at various interest rates. These calculations are based on a 20-year repayment term.

House prices

Nominal and real year-on-year house price growth in the middle segment of the market (homes of 80m² – 400m² and priced up to R4 million in 2014) was marginally lower in the first quarter of 2014 compared with the final quarter of 2013. In both the categories of affordable and luxury housing nominal price growth continued in the first quarter of the year. House prices continued to be driven by property market conditions and related factors, which were affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence.

The nominal price of a property refers to the price at which it was valued or transacted on the open market, i.e. the market price, selling or purchase price and is reflected in a valuation, an offer to purchase, an application for mortgage finance and the transfer documentation at registration.

The real price of a property is the nominal price adjusted for the effect of inflation, and is calculated to determine if the value of a property has increased at a rate above or below the inflation rate. In addition to the nominal price, real property price trends and growth are important from a property investment point of view.

The residential property price trends presented in this report are based on the value of properties for which Absa received and approved applications for mortgage finance. As a result, price movements may reflect changed market strategies and lending criteria implemented by the bank, impacting differently on the various segments of housing analysed. Real price calculations are based on nominal prices deflated by the headline consumer price index. All price data series are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers, which may have the effect of recent price data and growth rates differing from previously published figures.

Affordable housing

In the first quarter of 2014, the average price of affordable housing (homes of 40m² – 79m² and priced up to R545 000 in 2014) increased by a nominal 3,1% y/y to a level of about R357 700, after rising by 4,2% y/y in the fourth quarter of last year quarter. Some real price deflation of 2,6% y/y was recorded in the affordable segment in the first quarter (-1,2% y/y in the final quarter of 2013).

Middle-segment housing

The average nominal price of a home in the middle segment of the market (homes of 80m² – 400m² and priced at R4 million or less in 2014) increased by 8,5% y/y to around R1 230 400 in the first quarter of 2014 (8,8% y/y in the fourth quarter of 2013). Real price inflation in this category of housing came to 2,5% y/y in the first quarter of the year, down from 3,2% y/y in the fourth quarter of last year.

The following price changes occurred in the three middle-segment categories in the first quarter of 2014:

- Small houses (80m² – 140m²): 4,9% y/y nominal and -0,9% y/y real
- Medium-sized houses (141m² – 220m²): 6,4% y/y nominal and 0,6% y/y real
- Large houses (221m² – 400m²): 7,6% y/y nominal and 1,6% y/y real

Luxury housing

The first quarter of 2014 saw the average price of luxury housing (homes priced at between R4 million and R14,6 million in 2014) rising by a nominal 7,7% y/y to a level of about R5 284 900, after prices had risen by 7,5% y/y in the fourth quarter of 2013. In real terms, the average price in this category of housing was up by 1,7% y/y in the first quarter of the year (1,9% y/y in the fourth quarter of last year).

Regional house prices

At a provincial, metropolitan and coastal level, house prices performed relatively well in most regions on a nominal and real basis in the first quarter of 2014 (see tables at the back of the report presenting house price trends at a geographical level).

The performance of the residential property market at geographical level are affected by economic trends in

general, but these regional markets may react differently to these developments as a result of various area-specific factors, such as location, physical infrastructure and the level and extent of economic development and growth. These factors may affect property demand and supply conditions, market activity, buying patterns, transaction volumes and price levels and growth.

New and existing housing

Growth in the price of a new house was markedly lower at a nominal 5,8% y/y in the first quarter of 2014 from 11,3% y/y in the fourth quarter of 2013, which brought the average price to about R1 771 800. In real terms the average price of a new house was marginally lower by 0,1% y/y in the first quarter. A markedly lower increase in building costs in the first quarter contributed to the abovementioned lower growth in the average price of new houses. The average price of an existing house was up by a nominal 8,5% y/y to a level of around R1 206 200 in the first quarter of 2014, which came to real year-on-year price growth of 2,6% in the quarter. As a result, it was R565 600, or 31,9%, cheaper to have bought an existing house than to have a new one built in the first quarter of last year.

Building costs

The cost of having a new house built increased by 5,9% y/y in the first quarter of 2014 (8,1% y/y in the fourth quarter of 2013).

Factors impacting building costs, and eventually the price of new housing, include building material costs; equipment costs; transport costs; labour costs; developer and contractor profit margins; and the cost of developing land for residential purposes, which is impacted by aspects such as finance costs, land values, the cost of rezoning, the cost of preparing land for construction and holding costs in general.

Land values

The value of land for new housing in the middle and luxury segments of the market for which Absa received applications and approved mortgage finance, increased marginally by a nominal 0,8% y/y to an average of about R542 800 in the first quarter of 2014, after having risen by 4,5% y/y in the preceding quarter. In real terms residential land values were down by 4,8% y/y in the first quarter of the year, after declining by a real 0,9% y/y in the fourth quarter of last year.

The average price of land for new middle-segment and luxury housing, which amounted to 24,9% of the total value of a new residential property in these categories in the first quarter of 2014, will continue to reflect the all-important factor of location, as well as the availability of suitable land for development, the availability of municipal services such as electricity, water, sewerage and refuse removal, the availability and condition of transport infrastructure and the proximity to places of work, schools, shopping centres, medical facilities, etc.

Affordability of housing

Despite not improving further during 2012 and 2013,

housing affordability remained favourable up to the end of last year, as reflected by the ratio of house prices and mortgage repayments to household disposable income (see graph on the affordability of housing). This was the net result of trends in house price and income growth, while the mortgage interest rate was unchanged at 8,5% per annum in 2013.

Although the mortgage interest rate is still low compared to historical trends, households' ability to take advantage of the relative affordability of housing are also affected by factors such as employment, income, savings, living costs, debt levels, as well as credit-risk profiles (as reflected by the state of consumer credit records), the NCA and banks' lending criteria in the case of mortgage loan applications for buying property.

A downward/upward trend in the abovementioned two housing affordability ratios implies that house prices and mortgage repayments are rising at a slower/faster pace than household disposable income. The result is that housing is in effect becoming more/less affordable.

Outlook

The global economy

Based on the latest forecasts by the IMF, world output is expected to grow by a real 3,6% in 2014, rising to 3,9% in 2015, which will be the result of a continued gradual recovery in advanced economies, while growth in emerging market and developing countries is projected to improve moderately over the same period. According to the IMF some downside risks to the growth forecasts remain, whereas new risks have emerged. In advanced economies the risk of lower-than-expected inflation is a concern and will continue to drive monetary policy, while risks in emerging market and developing economies relate to ongoing relatively low domestic growth prospects, tighter financial conditions, the possibility of a slowdown in the Chinese economy, which impact the demand for and prices of commodities, and geopolitical risks that have emerged in the Ukraine and surrounding regions.

The advanced economies are forecast to experience real growth of 2,2% in 2014, increasing marginally to 2,3% in 2015. Growth in the US is projected to rise to 2,8% in 2014 and 3% in 2015, up from 1,9% in 2013. The tapering of quantitative easing in the US is set to continue, which will remain challenging for especially emerging market and developing economies. After being in recession in 2012 and 2013, the Euro area economy is forecast to post modest growth of 1,2% in 2014 and 1,5% in 2015.

Real output in emerging market and developing world economies is forecast by the IMF to grow by 4,9% in 2014 and 5,3% in 2015 from 4,7% in 2013. China, the world's second biggest economy, is forecast to grow by a real 7,5% in 2014, with growth slowing down somewhat to 7,3% in 2015. However, the Chinese government has indicated that they will impose measures to support the economy in the event of a slowdown in activity.

The IMF forecasts economic growth in sub-Saharan Africa to rise from 4,9% in 2013 to around 5,4% in 2014 and 5,5% in 2015. The main risks to growth in this part

of the world are the performance of the global economy, including China, and trends in commodity prices, which will be reflected in the performance of exports. The region also remains vulnerable to severe changes in weather conditions, which may have a major impact on food production and food price inflation.

Inflation in the advanced economies is forecast by the IMF to remain relatively low at 1,5% and 1,6% in 2014 and 2015 respectively. Inflation in emerging market and developing economies is projected to subside to 5,5% in 2014 and 5,2% in 2015, from 5,8% in 2013. Lower commodity prices in US dollar terms should help to soften price pressures, but exchange rate depreciation in these economies may cause upward pressure on inflation.

Monetary policy is expected to remain accommodative in most advanced economies over the next twelve months on the back of the outlook for economic growth and inflation.

The South African economy

The South African economy posted real economic growth of 1,9% in 2013, with the forecast by Barclays Research for growth to be slightly higher at 2,2% in 2014 and rising to 2,8% in 2015. Higher export growth will support the country's economic performance on the back of faster global growth and a weaker rand exchange rate, but which will also drive up the value of imports. Growth in domestic demand is projected to be only marginally up on 2013, which will be impacted by financial pressure on consumers and the business sector, coming from factors such as rising inflation and interest rates. With electricity supply constraints and labour market tensions in especially the platinum mining sector continuing, the economic growth outlook remains subdued for the rest of the year. As a result, employment and household income growth will stay under pressure, impacting the financial position and credit-risk profiles of consumers. The household sector remains a major driver of economic activity, with private consumption expenditure that had a share of 60,8% in the country's total gross domestic product in 2013.

Headline consumer price inflation remains relatively high at just below the upper limit of the inflation target range of 3%-6%. The forecast is for inflation to rise above 6% on average in 2014, with the main risks to the inflation outlook being movements in and developments regarding the exchange rate, food prices, wage hikes and administered prices such as fuel prices, electricity prices and property assessment rates.

Domestic interest rates are forecast to rise further during the course of 2014 on the back of current trends in and prospects for the global and local economy, as well as the outlook for consumer price inflation. Prime lending and variable mortgage interest rates, currently at 9%, are forecast to end the year at a level of 10% per annum.

The household sector

The factors of economic growth, employment, income, debt, inflation and interest rates will remain important to

the state of and trends in household finances, with the following prospects for the major household sector-related variables in 2014-15:

- Employment growth is forecast to remain low over the forecast period.
- Real household disposable income growth is forecast at 2,1% in 2014, rising to 2,8% in 2015, impacted by economic growth, employment and inflation.
- Growth in real household consumption expenditure, projected at 2,2% and 2,7% in 2014 and 2015 respectively, is set to remain closely correlated with disposable income growth on the back of low savings and inflationary pressures. Household consumption is forecast at just below 61% of GDP in 2014 and 2015 respectively.
- Rising lending rates will impact the affordability and accessibility of and demand for credit, with the household debt-to-income ratio to be lower at 74,5% in 2014 and 73,7% in 2015 from 75,2% in 2013.
- The cost of servicing household debt as a percentage of disposable income will increase on the back of rising lending rates.
- The risk profiles of credit-active consumers will remain crucial to the aspects of the accessibility of credit and growth in household consumption expenditure.

The property market

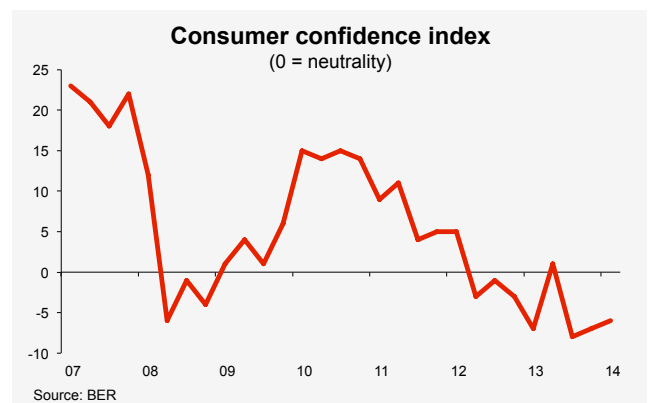
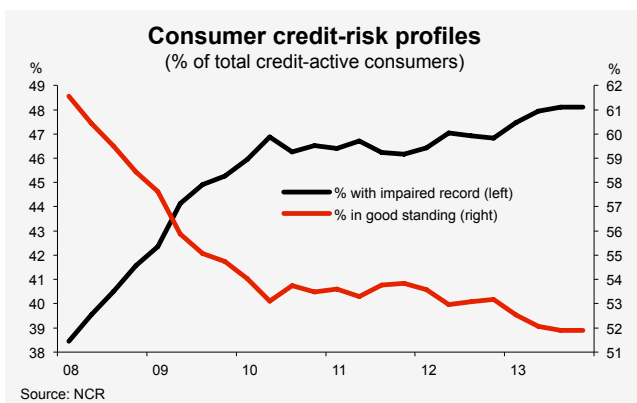
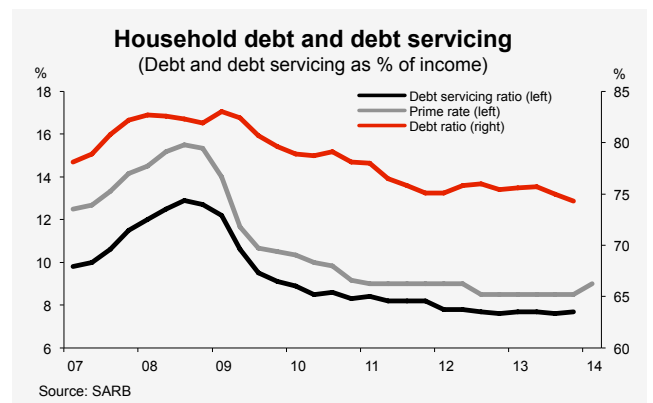
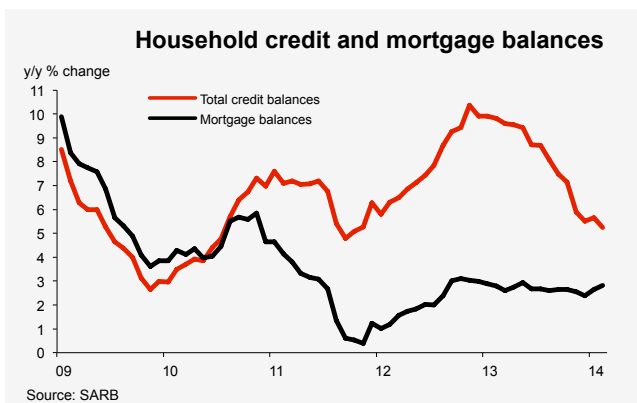
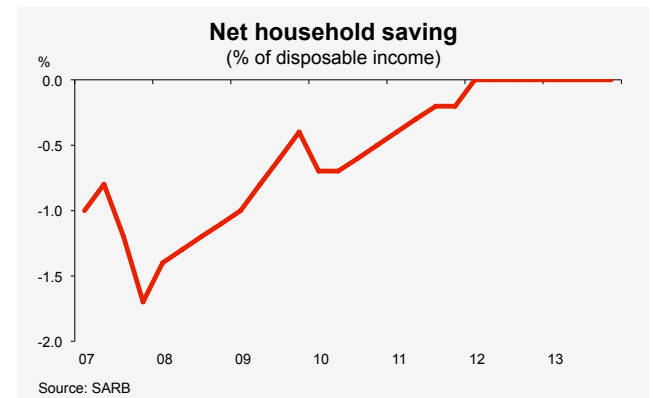
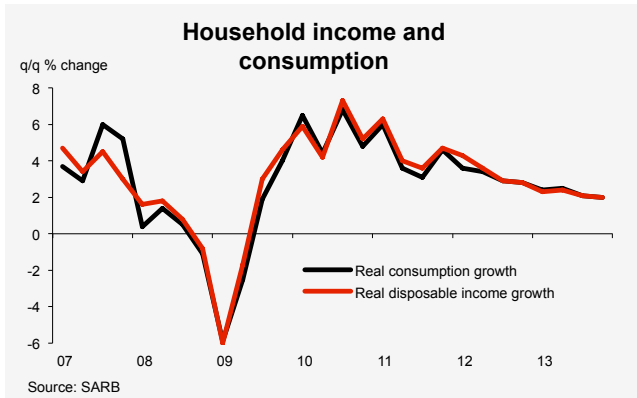
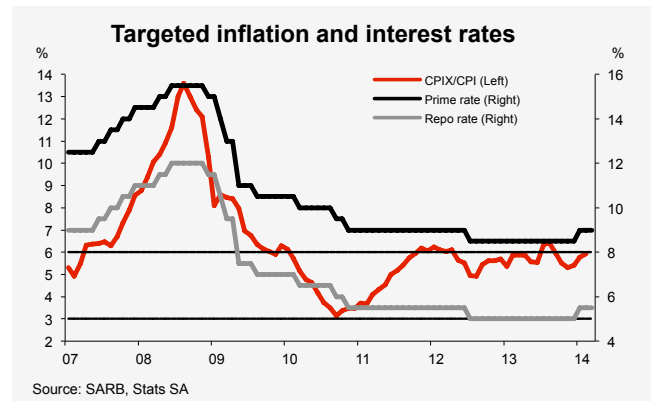
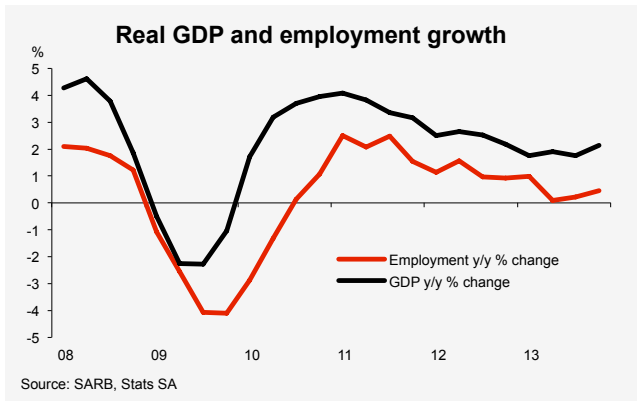
The aspects of economic growth, employment and household income growth, property running costs and living costs in general, interest rates, consumers' credit-risk profiles, banks' risk appetite and lending criteria and consumer confidence will remain important to the performance of and outlook for the residential property market. These factors will affect the affordability of housing and mortgage finance and will be reflected in property demand and supply conditions, price trends, market activity, buying patterns, transaction volumes and the demand for mortgage finance.

Based on the current trends in and prospects for the major economic and household finance-related factors, as well as recent trends in house price growth, continued single-digit nominal price growth is forecast for 2014 and 2015. Real house price growth will be the result of the combined effect of nominal price trends and inflation, with some real price deflation projected for this year and next year.

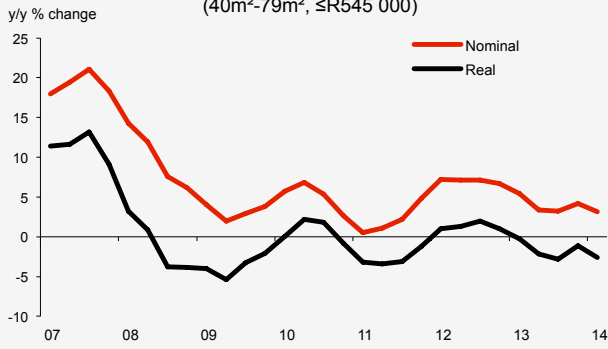
Against the background of current conditions in and the outlook for the economy, household finances and consumer confidence, growth in outstanding household mortgage balances, which remained very subdued at 2,4% y/y up to the end of last year, is forecast to continue to record low single-digit growth in 2014.

Residential building activity, which remained relatively subdued over the past five years, will continue to be driven by economic, consumer and housing demand and supply factors. The demand for new housing as well as the supply of existing properties in the secondary market, changing lifestyles, the availability of development land and building costs will also be important factors affecting residential building activity.

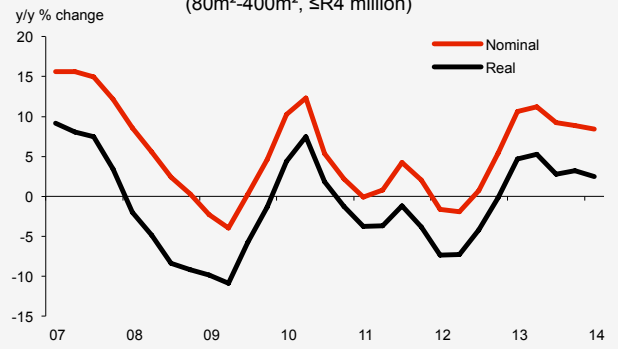
Graphs



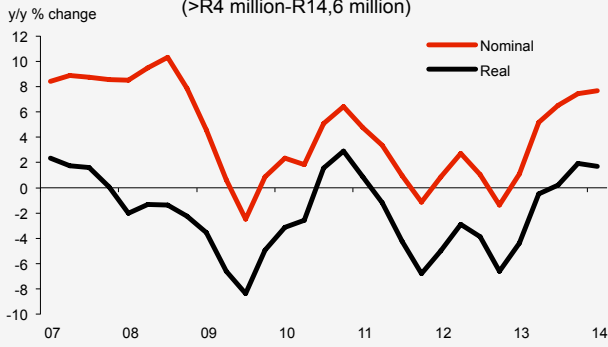
Affordable house price growth
(40m²-79m², ≤R545 000)



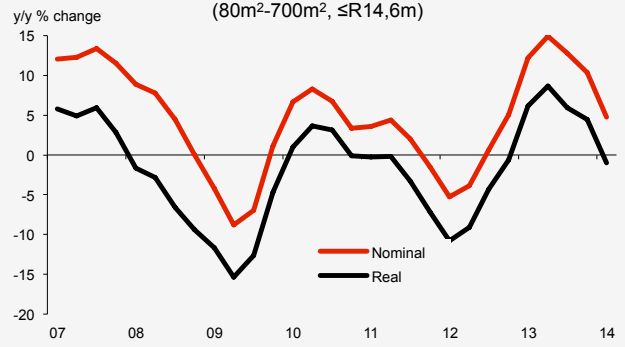
Middle-segment house price growth
(80m²-400m², ≤R4 million)



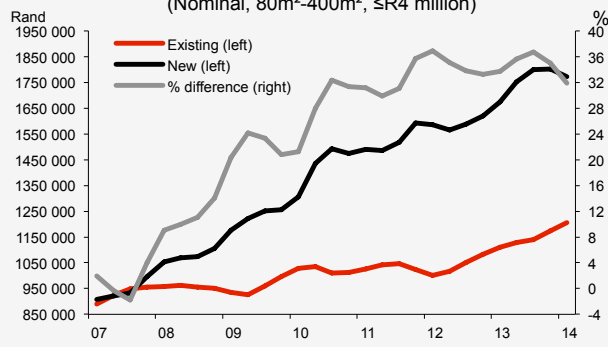
Luxury house price growth
(>R4 million-R14,6 million)



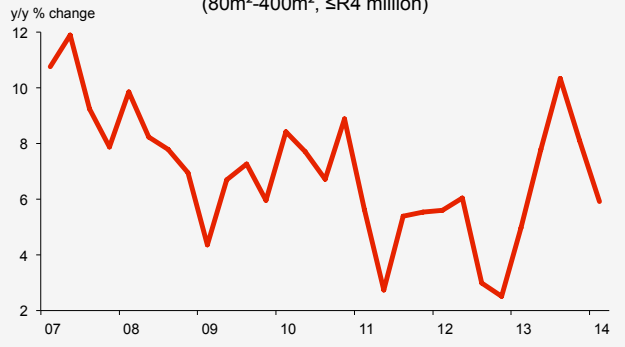
House price growth: coastal regions
(80m²-700m², ≤R14,6m)



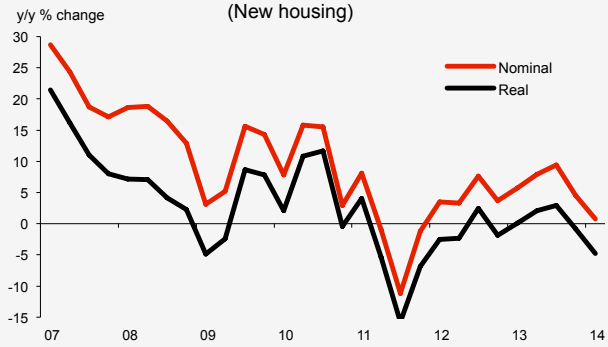
Average price of new and existing houses
(Nominal, 80m²-400m², ≤R4 million)



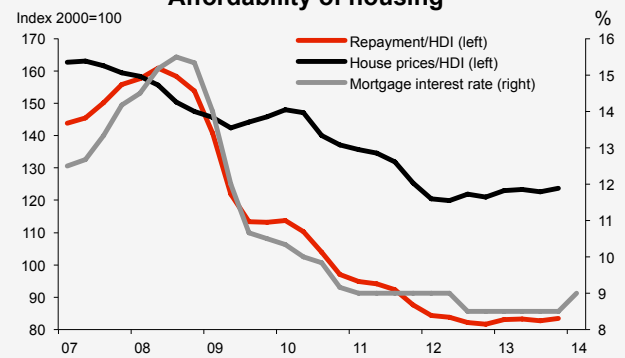
Building cost of new houses
(80m²-400m², ≤R4 million)



Growth in residential land values
(New housing)



Affordability of housing



Average nominal house prices

	2010 Rand	2011 Rand	2012 Rand	2013 Rand	2013				2014		
					Q1	Q2	Q3	Q4	Q1		
					Rand	Rand	Rand	Rand	Rand	q/q %Δ	y/y %Δ
National											
Middle segment (80m²-400m², ≤R4m)	1 036 425	1 054 256	1 060 921	1 166 591	1 134 508	1 155 752	1 173 484	1 202 619	1 230 428	2.3	8.5
Small (80m²-140m², ≤R4m)	775 012	738 358	703 181	754 409	742 027	737 728	764 156	773 726	778 610	0.6	4.9
Medium (141m²-220m², ≤R4m)	970 260	986 552	1 018 063	1 077 629	1 069 661	1 069 367	1 075 337	1 096 150	1 138 536	3.9	6.4
Large (221m²-400m², ≤R4m)	1 446 528	1 481 137	1 517 688	1 660 405	1 610 410	1 653 356	1 675 771	1 702 083	1 732 294	1.8	7.6
New (80m²-400m², ≤R4m)	1 427 251	1 521 630	1 589 339	1 757 713	1 675 423	1 752 065	1 800 625	1 802 737	1 771 782	-1.7	5.8
Existing (80m²-400m², ≤R4m)	1 021 326	1 034 611	1 037 585	1 137 862	1 110 859	1 127 513	1 140 208	1 172 868	1 206 230	2.8	8.6
Affordable (40m²-79m², ≤R545 000)	307 683	314 999	336 447	350 372	346 837	345 380	350 152	358 162	357 687	-0.1	3.1
Luxury (R4m-R14,6m)	4 676 611	4 764 715	4 803 538	5 055 879	4 908 587	5 098 705	5 102 630	5 096 799	5 284 888	3.7	7.7
Provinces											
Eastern Cape	909 465	890 902	907 614	965 065	930 631	931 637	970 185	1 020 946	1 023 987	0.3	10.0
Free State	840 447	892 234	870 248	943 306	937 341	945 814	931 337	960 087	1 021 975	6.4	9.0
Gauteng	1 082 287	1 116 146	1 103 467	1 204 882	1 157 368	1 195 500	1 219 841	1 242 889	1 260 989	1.5	9.0
KwaZulu-Natal	924 817	964 806	936 532	1 087 483	1 078 053	1 075 323	1 080 099	1 119 501	1 197 155	6.9	11.0
Limpopo	890 073	879 225	925 045	1 018 829	1 022 437	1 017 050	1 015 339	1 020 491	1 027 658	0.7	0.5
Mpumalanga	854 652	903 036	928 193	1 024 038	1 015 400	1 014 426	1 022 506	1 043 819	1 079 301	3.4	6.3
North West	839 056	845 431	871 881	920 177	869 752	909 406	936 522	965 029	937 320	-2.9	7.8
Northern Cape	785 533	772 648	866 962	996 656	985 036	1 045 115	976 500	979 975	1 101 231	12.4	11.8
Western Cape	1 174 476	1 157 501	1 190 990	1 291 341	1 251 909	1 292 675	1 298 282	1 326 628	1 378 353	3.9	10.1
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	899 648	861 608	861 988	906 236	879 241	898 172	919 003	928 527	930 712	0.2	5.9
East London (Eastern Cape)	1 046 775	994 092	1 064 875	1 157 904	1 043 625	1 116 780	1 208 697	1 262 515	1 286 244	1.9	23.2
Bloemfontein (Free State)	1 093 677	1 106 919	1 104 822	1 207 089	1 199 670	1 214 197	1 177 498	1 236 990	1 314 481	6.3	9.6
Greater Johannesburg (Gauteng)	1 107 507	1 160 316	1 133 087	1 213 437	1 170 636	1 210 917	1 223 952	1 243 363	1 278 664	2.8	9.2
Johannesburg Central & South	906 511	899 939	868 053	865 320	860 869	862 891	861 483	876 035	957 072	9.3	11.2
Johannesburg North & West	1 390 802	1 409 568	1 424 916	1 499 669	1 469 281	1 474 515	1 499 126	1 555 753	1 617 011	3.9	10.1
East Rand	955 592	1 019 824	1 016 468	1 109 905	1 072 230	1 117 033	1 134 260	1 116 095	1 106 296	-0.9	3.2
Pretoria (Gauteng)	1 164 698	1 182 972	1 182 928	1 314 040	1 248 119	1 297 897	1 340 125	1 370 017	1 375 134	0.4	10.2
Durban/Pinetown (KwaZulu-Natal)	999 256	1 019 256	1 001 769	1 096 069	1 099 651	1 051 527	1 096 947	1 136 153	1 144 283	0.7	4.1
Cape Town (Western Cape)	1 197 446	1 181 897	1 231 654	1 340 875	1 291 671	1 348 008	1 345 628	1 378 194	1 442 134	4.6	11.6
Coastal regions											
South Africa	1 206 808	1 232 193	1 220 728	1 373 897	1 329 086	1 380 330	1 390 167	1 396 007	1 392 229	-0.3	4.8
Western Cape	1 274 926	1 319 195	1 315 743	1 465 065	1 396 204	1 458 082	1 483 342	1 523 721	1 518 671	-0.3	8.8
West Coast	1 244 792	1 333 778	1 234 814	1 398 106	1 271 905	1 292 412	1 473 732	1 554 383	1 294 740	-16.7	1.8
Cape Peninsula and False Bay	1 243 620	1 274 338	1 312 658	1 488 731	1 443 044	1 488 538	1 474 723	1 548 611	1 624 004	4.9	12.5
Southern Cape	1 375 324	1 430 343	1 358 446	1 447 759	1 385 530	1 437 217	1 500 910	1 467 379	1 407 241	-4.1	1.6
Eastern Cape	1 083 109	1 078 981	1 112 900	1 102 934	1 064 128	1 082 531	1 122 185	1 142 892	1 084 244	-5.1	1.9
KwaZulu-Natal	1 195 497	1 276 794	1 195 748	1 481 613	1 464 044	1 519 878	1 502 313	1 435 161	1 572 482	9.6	7.4
South Coast	1 072 089	1 022 048	1 004 866	1 082 876	988 787	1 060 785	1 139 133	1 142 798	1 120 748	-1.9	13.3
North Coast	1 277 315	1 405 010	1 323 738	1 676 616	1 728 075	1 718 404	1 629 917	1 630 069	1 714 456	5.2	-0.8

House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank.

House prices for the provinces and metropolitan regions are smoothed for all houses between 80m² and 400m², up to R4 million in 2014.

House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R14,6 million in 2014.

Key variables and projections

		Annual averages								
		2008	2009	2010	2011	2012	2013	2014	2015	
World										
Gross domestic product	Real % Δ	2.7	-0.4	5.2	3.9	3.2	3.0	3.6	3.9	
Advanced economies	Real % Δ	0.1	-3.4	3.0	1.7	1.4	1.3	2.2	2.3	
Emerging market and developing economies	Real % Δ	5.9	3.1	7.5	6.3	5.0	4.7	4.9	5.3	
South Africa										
Gross domestic product	Real % Δ	3.6	-1.5	3.1	3.6	2.5	1.9	2.2	2.8	
\$/R exchange rate	Rand per US\$	8.25	8.44	7.32	7.25	8.21	9.65	11.52	11.43	
Headline consumer price inflation rate	%	11.0	7.1	4.3	5.0	5.7	5.8	6.5	6.0	
Mortgage interest rate (end of period)	%	15.0	10.5	9.0	9.0	8.5	8.5	10.0	10.0	
Household disposable income	Real % Δ	2.1	-1.2	4.6	5.2	3.9	2.5	2.1	2.8	
Household final consumption expenditure	Real % Δ	2.2	-1.6	4.4	4.9	3.5	2.6	2.2	2.7	
Household final consumption expenditure	% of GDP	61.7	60.7	59.3	59.4	60.8	60.8	60.7	60.6	
Household saving to disposable income	%	-1.2	-0.7	-0.6	-0.3	0.0	0.0	-0.2	-0.1	
Household debt to disposable income	%	82.4	81.4	78.7	76.3	75.6	75.2	74.5	73.7	
House prices (80m²-400m², ≤R4m)	Nominal % Δ	4.1	-0.4	7.4	1.7	0.6	10.0	6.0	4.8	
House prices (80m²-400m², ≤R4m)	Real % Δ	-6.2	-7.0	3.0	-3.1	-4.8	4.0	-0.5	-1.1	

Source: IMF, SARB, Stats SA, Barclays Research

Average nominal house prices by middle-segment category in the first quarter 2014

	Small: 80m² - 140m²			Medium: 141m² - 220m²			Large: 221m² - 400m²		
	Price Rand	q/q %Δ	y/y %Δ	Price Rand	q/q %Δ	y/y %Δ	Price Rand	q/q %Δ	y/y %Δ
National and Provinces									
South Africa	778 610	0.6	4.9	1 138 536	3.9	6.4	1 732 294	1.8	7.6
Eastern Cape	682 618	12.7	6.5	931 755	-5.1	-1.0	1 559 256	-4.1	2.2
Free State	744 477	-6.0	-9.7	944 261	12.9	28.0	1 259 605	-1.5	4.5
Gauteng	804 971	-1.7	5.9	1 130 183	4.3	10.1	1 779 935	2.1	9.4
KwaZulu-Natal	741 646	3.9	23.1	1 048 778	1.1	3.4	1 642 304	3.6	3.7
Mpumalanga	752 754	-0.7	11.5	1 049 036	7.4	2.7	1 390 863	2.0	0.2
North West	686 430	7.3	13.8	903 199	1.5	6.0	1 338 690	-0.6	15.6
Northern Cape	634 411	3.7	7.5	1 161 580	10.4	26.1	1 554 894	4.1	6.6
Limpopo	724 765	16.5	15.5	858 244	-5.2	-20.6	1 445 453	5.8	-0.2
Western Cape	849 797	0.7	3.0	1 341 382	4.7	7.7	1 989 914	2.0	7.1
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	684 594	12.6	9.8	878 591	-5.5	7.6	1 531 242	-6.2	5.9
East London (Eastern Cape)	804 147	5.1	11.0	1 082 442	-1.7	-6.2	1 969 538	1.2	17.0
Bloemfontein (Free State)	905 950	-9.7	-7.7	1 251 711	6.4	18.2	1 655 163	6.8	8.0
Greater Johannesburg (Gauteng)	884 202	0.7	8.5	1 100 311	2.2	12.4	1 802 792	4.8	10.8
Johannesburg Central & South	619 490	3.5	14.1	883 919	3.6	13.8	1 390 276	8.0	-7.0
Johannesburg North & West	846 639	3.2	-0.7	1 241 971	-0.3	-0.1	2 058 127	5.8	16.9
East Rand	954 554	-3.4	5.4	1 030 935	2.6	12.9	1 565 042	3.2	6.7
Pretoria (Gauteng)	754 707	0.9	7.6	1 228 942	4.3	6.4	1 866 094	-1.1	3.6
Durban/Pinetown (KwaZulu-Natal)	698 153	-1.1	7.1	954 028	-3.4	-9.3	1 741 130	2.7	5.4
Cape Town (Western Cape)	892 241	1.0	4.7	1 469 330	4.3	10.4	2 131 365	5.1	10.4

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m² and 400m², up to R4 million, in respect of which loan applications were approved by Absa Bank.

Monthly mortgage repayment

(rand, calculated over a period of 20 years)

Mortgage amount	Repayment at a mortgage rate of													
	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	14.5%
100 000	836	868	900	932	965	998	1 032	1 066	1 101	1 136	1 172	1 207	1 244	1 280
200 000	1 673	1 736	1 799	1 864	1 930	1 997	2 064	2 133	2 202	2 272	2 343	2 415	2 487	2 560
300 000	2 509	2 603	2 699	2 796	2 895	2 995	3 097	3 199	3 303	3 408	3 515	3 622	3 731	3 840
400 000	3 346	3 471	3 599	3 729	3 860	3 994	4 129	4 266	4 404	4 545	4 686	4 829	4 974	5 120
500 000	4 182	4 339	4 499	4 661	4 825	4 992	5 161	5 332	5 505	5 681	5 858	6 037	6 218	6 400
600 000	5 019	5 207	5 398	5 593	5 790	5 990	6 193	6 399	6 607	6 817	7 029	7 244	7 461	7 680
700 000	5 855	6 075	6 298	6 525	6 755	6 989	7 225	7 465	7 708	7 953	8 201	8 452	8 705	8 960
800 000	6 692	6 943	7 198	7 457	7 720	7 987	8 258	8 531	8 809	9 089	9 373	9 659	9 948	10 240
900 000	7 528	7 810	8 098	8 389	8 685	8 985	9 290	9 598	9 910	10 225	10 544	10 866	11 192	11 520
1 000 000	8 364	8 678	8 997	9 321	9 650	9 984	10 322	10 664	11 011	11 361	11 716	12 074	12 435	12 800
1 500 000	12 547	13 017	13 496	13 982	14 475	14 976	15 483	15 996	16 516	17 042	17 574	18 111	18 653	19 200
2 000 000	16 729	17 356	17 995	18 643	19 300	19 968	20 644	21 329	22 022	22 723	23 432	24 147	24 870	25 600
2 500 000	20 911	21 696	22 493	23 303	24 126	24 959	25 805	26 661	27 527	28 404	29 289	30 184	31 088	32 000

Mortgage amount at fixed monthly repayment

(rand, calculated over a period of 20 years)

Mortgage repayment	Mortgage amount at a mortgage rate of													
	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%	14.5%
1 000	119 554	115 231	111 145	107 281	103 625	100 162	96 882	93 771	90 819	88 017	85 355	82 824	80 417	78 125
2 000	239 109	230 462	222 290	214 562	207 249	200 325	193 763	187 542	181 639	176 035	170 710	165 649	160 834	156 250
3 000	358 663	345 693	333 435	321 843	310 874	300 487	290 645	281 313	272 458	264 052	256 065	248 473	241 250	234 375
4 000	478 217	460 923	444 580	429 124	414 498	400 649	387 526	375 083	363 278	352 069	341 421	331 297	321 667	312 501
5 000	597 771	576 154	555 725	536 405	518 123	500 811	484 408	468 854	454 097	440 086	426 776	414 122	402 084	390 626
6 000	717 326	691 385	666 870	643 686	621 748	600 974	581 289	562 625	544 916	528 104	512 131	496 946	482 501	468 751
7 000	836 880	806 616	778 015	750 967	725 372	701 136	678 171	656 396	635 736	616 121	597 486	579 770	562 918	546 876
8 000	956 434	921 847	889 160	858 248	828 997	801 298	775 052	750 167	726 555	704 138	682 841	662 595	643 335	625 001
9 000	1 075 989	1 037 078	1 000 305	965 529	932 622	901 460	871 934	843 938	817 375	792 156	768 196	745 419	723 751	703 126
10 000	1 195 543	1 152 308	1 111 450	1 072 810	1 036 246	1 001 623	968 815	937 708	908 194	880 173	853 551	828 243	804 168	781 251
15 000	1 793 314	1 728 463	1 667 174	1 609 216	1 554 369	1 502 434	1 453 223	1 406 563	1 362 291	1 320 259	1 280 327	1 242 365	1 206 252	1 171 877
20 000	2 391 086	2 304 617	2 222 899	2 145 621	2 072 492	2 003 245	1 937 631	1 875 417	1 816 388	1 760 346	1 707 103	1 656 487	1 608 337	1 562 503
25 000	2 988 857	2 880 771	2 778 624	2 682 026	2 590 615	2 504 057	2 422 038	2 344 271	2 270 485	2 200 432	2 133 878	2 070 608	2 010 421	1 953 128