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Explanatory notes:

The Absa house price indices, available back to 1966, are based on the total purchase price of houses in the 80m²-400m² size category, priced at R4 million or less in 2014 (including improvements), in respect of which mortgage loan applications were received and approved by Absa. Prices are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index values and price data may differ from previously published figures.

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House price indices

5 December 2014

Further slowdown in middle-segment house price growth

Year-on-year growth in the nominal value of middle-segment homes in the South African residential property market slowed down further in November 2014 against the background of a continuing declining trend in month-on-month price growth since early this year. In real terms, i.e. after adjustment for the effect of consumer price inflation, year-on-year house price growth was in positive territory, but remained relatively low in the ten months up to October on the back of inflation averaging 6,2% year-on-year (y/y) over this period. These price trends are according to the Absa house price indices, which are based on applications for mortgage finance received and approved by the bank in respect of middle-segment small, medium-sized and large homes (see explanatory notes).

The average nominal value of homes in each of the middle-segment categories was as follows in November 2014:

- Small homes (80m²-140m²): R852 000
- Medium-sized homes (141m²-220 m²): R1 191 000
- Large homes (221m²-400m²): R1 814 000

The South African Reserve Bank's Monetary Policy Committee kept the key monetary policy interest rate – the repo rate – unchanged at their last meeting of the year in November, with the result that commercial banks' prime and variable mortgage rates remained stable at 9,25% per annum. The interest rate decision came on the back of a slight downward adjustment to the Reserve Bank's inflation forecast as a result of the view that the risk to the inflation outlook is largely balanced, impacted by sharply lower international oil prices. Domestic fuel prices have been substantially lowered between the beginning of September and early December on the back of the lower oil price, with these trends seen as positive for inflation over the short to medium term.

The expectation is for headline consumer price inflation to average just above the 5% level in 2015, with interest rates forecast to remain on hold until May next year before being hiked to keep inflation in check. The current projection is for interest rates to rise by a cumulative 75 basis points between May and November 2015, which will bring prime lending and variable mortgage interest rates to a level of 10% per annum by year-end. Further hikes in interest rates will, however, add to the financial pressure experienced by consumers and affect the affordability of and demand for credit.

In view of the abovementioned trends and prospects, as well as house price growth in the first eleven months of the year, nominal price growth of around 9% is forecast for the full year. The expectation is for house prices to rise by a nominal 7,5% in 2015, with real price growth to come in at about 2%, based on current inflation projections for next year.

Absa house price indices (nominal, 2000=100)

Houses of 80m²-400m², up to R4 million

Month	Small houses 80m²-140 m²			Medium-sized houses 141m²-220 m²			Large houses 221m²-400 m²		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
January	330.7	377.9	389.6	391.1	427.8	448.6	411.0	437.4	474.9
February	330.2	374.4	395.6	391.6	427.6	452.9	408.5	442.2	478.3
March	332.2	371.3	402.3	393.9	427.1	456.1	406.8	447.0	482.6
April	336.0	369.9	408.2	397.2	427.4	457.9	407.0	450.8	487.7
May	341.1	370.7	412.2	400.6	428.5	458.9	409.1	453.7	492.5
June	347.0	373.9	414.4	404.2	429.8	460.5	412.4	456.2	496.0
July	353.8	378.2	415.8	408.3	430.7	463.2	416.0	458.7	497.9
August	360.5	382.3	418.3	412.9	431.3	467.0	419.4	461.4	498.6
September	367.2	384.6	421.5	417.2	432.3	470.7	422.3	464.3	498.6
October	373.4	384.7	425.0	421.3	434.7	474.1	425.3	466.8	498.2
November	378.2	384.2	427.8	424.7	438.4	476.9	428.9	469.0	497.9
December	379.8	385.5		426.9	443.4		433.0	471.8	
Average	352.5	378.1	411.9	407.5	431.6	462.4	416.6	456.6	491.2

Absa house price indices

Houses of 80m²-400m², up to R4 million

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	October 2014	November 2014	Year-to-date 2014	September 2014	October 2014	Year-to-date 2014
Small (80m²-140m²)	10.5	11.4	9.1	3.5	4.3	2.5
Medium (141m²-220m²)	9.1	8.8	7.4	2.8	3.0	1.0
Large (221m²-400m²)	6.7	6.2	7.9	1.4	0.8	1.8



