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**Explanatory notes:**

The Absa house price indices, available back to 1966, are based on the total purchase price of homes in the 80m<sup>2</sup>-400m<sup>2</sup> size category, priced at R4,4 million or less in 2016 (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

8 April 2016

### Stable middle-segment house price growth in the first quarter of 2016

The first three months of 2016 saw growth in the average value of middle-segment homes in the South African residential property market remaining relatively stable at a nominal 5,7% year-on-year (y/y). First-quarter price growth was to some extent influenced by noticeable base effects in one of the housing categories analysed. Due to continued relatively low nominal price growth and rising headline consumer price inflation to a level of 7% y/y in February, house prices deflated by almost 1% y/y in real terms in the first two months of the year. The average level of house prices was in February 2016 around 10,5% lower in real terms compared with the peak in August 2007. These trends in home values 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).

Year-on-year nominal price growth in the categories of medium-sized and large homes slowed down further in March. However, in the segment of small housing, price growth accelerated further to above 10% in March. The rising price growth in this category of housing since late last year can to a large extent be ascribed to the base effect of sharply declining price growth in the corresponding period a year ago. Some marginal real price inflation was evident in the small and large categories of middle-segment housing in February this year, with continued price deflation recorded in the medium-sized category.

The average nominal value of homes in each of the middle-segment categories was as follows in March 2016:

- Small homes (80m<sup>2</sup>-140m<sup>2</sup>): R937 000
- Medium-sized homes (141m<sup>2</sup>-220 m<sup>2</sup>): R1 255 000
- Large homes (221m<sup>2</sup>-400m<sup>2</sup>): R1 987 000

Challenging economic conditions in the form of low economic and employment growth, rising inflation and higher interest rates are negatively affecting household finances and consumer confidence. Economic growth is projected at only 0,6% this year (1,3% in 2015), with headline consumer price inflation forecast to average short of 7%, up from 4,6% in 2015. Prime lending and variable mortgage interest rates, currently 10,5% per annum, are expected to rise further to a level of 11% by year-end. These factors are set to impact the property market in various ways, such as diverging demand and supply conditions, changing buying patterns, pressure on market activity and transaction volumes, as well as mortgage providers reconsidering and adjusting risk appetite, lending criteria and market strategies accordingly. As a result, growth in mortgage balances is projected to remain low.

Against the background of the abovementioned trends and expectations, nominal house price growth is forecast to slow down from 6,2% last year to a level of between 4,5% and 5% this year, with the risk for price growth to be even lower. Based on the forecasts for nominal house price growth and the headline consumer price inflation rate, real price deflation of around 2% is projected for 2016.

### Absa house price indices (nominal, 2000=100)

Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R4.4 million in 2016

Month	Small houses 80m <sup>2</sup> -140 m <sup>2</sup>			Medium-sized houses 141m <sup>2</sup> -220 m <sup>2</sup>			Large houses 221m <sup>2</sup> -400 m <sup>2</sup>		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
January	391.8	432.1	458.2	447.7	477.9	502.5	480.1	505.1	542.8
February	397.5	429.2	464.4	452.1	478.8	502.8	483.6	507.0	544.4
March	404.1	426.2	470.3	455.6	479.6	502.3	487.4	509.4	545.7
April	409.9	425.0		457.9	480.7		491.8	512.4	
May	414.2	426.4		459.7	482.4		495.9	516.9	
June	416.5	429.7		462.1	484.6		498.9	522.7	
July	417.7	434.0		465.5	487.1		500.5	528.9	
August	419.3	437.8		469.7	490.2		501.5	533.7	
September	422.7	440.8		473.5	493.8		502.7	536.8	
October	427.2	443.3		476.1	497.2		503.8	538.9	
November	431.3	446.7		477.3	500.0		504.1	540.4	
December	433.2	451.9		477.6	501.8		504.2	541.6	
Average	415.4	435.3	464.3	464.6	487.8	502.6	496.2	524.5	544.3

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Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R4.4 million in 2016

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	February 2016	March 2016	Year-to-date 2016	January 2015	February 2016	Year-to-date 2016
Small (80m <sup>2</sup> -140m <sup>2</sup> )	8.2	10.3	8.2	-0.2	1.1	0.5
Medium (141m <sup>2</sup> -220m <sup>2</sup> )	5.0	4.7	5.0	-1.0	-1.8	-1.4
Large (221m <sup>2</sup> -400m <sup>2</sup> )	7.4	7.1	7.3	1.2	0.3	0.8

### Absa house price index

Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R4.4 million in 2016



