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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 80m²-400m² 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

9 June 2016

Continued relatively low price growth in middle-segment housing

May 2016 saw year-on-year growth in the average nominal value of middle-segment homes in the South African residential property market slowing down somewhat from April. In real terms, i.e. after adjustment for the effect of consumer price inflation, house price growth remained around the zero level up to April. Real price trends are important from a property investment perspective, as investors would want to determine if their investment is beating inflation. The abovementioned 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 of 5,7% was recorded in middle-segment housing in May, slightly down from 6,1% in April. Year-to-date price growth up to May came to about 6% y/y. Some negligent real price deflation of 0,1% year-on-year (y/y) was evident in April on the back of a consumer price inflation rate of 6,2% y/y in the month. Current trends in house prices are believed to be the result of a fair amount of financial pressure experienced by homebuyers on the back of tough macroeconomic conditions, which have the effect of an increasingly strong focus on the affordability of housing and mortgage finance.

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

- Small homes (80m²-140m²): R947 000
- Medium-sized homes (141m²-220 m²): R1 282 000
- Large homes (221m²-400m²): R2 010 000

Current trends in and prospects for the economy and household finances will remain important with regard to the performance of the residential property market and property price growth in particular. The economy contracted by a real 1,2% quarter-on-quarter and 0,2% y/y, measured by production, in the first three months of 2016. This has increased the risk of a recession, i.e. two consecutive quarters of a contraction in gross domestic product. Continued inflationary pressures and higher interest rates towards year-end will further erode consumers' purchasing power, with resultant low consumer confidence and subdued growth in consumption expenditure and credit extension. Against this background consumer credit-risk profiles and financial vulnerability may come under further pressure, which will impact credit providers' risk appetites and lending criteria.

In view of the abovementioned economic and household sector trends and outlook, house price growth is expected to slow down further from current levels towards the end of the year. Nominal price growth is forecast at around 5% for the full year, with some real price deflation of about 2% expected on the back of a projected consumer price inflation rate of almost 7% this year.

Absa house price indices (nominal, 2000=100)

Houses of 80m²-400m², up to R4.4 million in 2016

Month	Small houses 80m ² -140 m ²			Medium-sized houses 141m ² -220 m ²			Large houses 221m ² -400 m ²		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
	January	390.9	431.6	460.7	447.9	478.7	502.6	480.0	505.0
February	396.1	428.8	466.8	452.1	480.0	504.6	483.6	506.9	545.5
March	402.0	426.1	471.2	455.5	481.1	507.2	487.5	509.3	548.0
April	407.5	425.2	474.3	457.7	482.2	510.2	491.9	512.5	550.1
May	411.7	426.9	475.6	459.4	483.7	513.0	496.1	517.1	551.8
June	414.3	430.2		461.8	485.5		499.0	523.0	
July	416.2	434.1		465.4	487.6		500.5	529.1	
August	418.7	437.6		469.6	490.3		501.4	533.8	
September	422.7	440.6		473.4	493.5		502.5	536.7	
October	427.5	443.7		475.9	496.7		503.5	538.5	
November	431.4	448.1		477.2	499.3		503.9	540.1	
December	432.9	454.0		477.9	501.1		504.0	541.6	
Average	414.3	435.6	469.7	464.5	488.3	507.5	496.2	524.5	547.7

Absa house price indices

Houses of 80m²-400m², up to R4.4 million in 2016

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	April	May	Year-to-date	March	April	Year-to-date
	2016	2016	2016	2015	2016	2016
Small (80m ² -140m ²)	11.5	11.4	9.8	4.1	5.0	2.8
Medium (141m ² -220m ²)	5.8	6.1	5.5	-0.8	-0.4	-1.0
Large (221m ² -400m ²)	7.3	6.7	7.4	1.2	1.0	1.0

Absa house price index

Houses of 80-400m², up to R4,4 million in 2016, Index 2000=100



