ABSA

Home Loans

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Housing review

Third quarter 2016

- The South African economy contracted by a real 1,2% quarter-on-quarter and 0,2% year-on-year in the first quarter of 2016, measured according to production. This was largely the result of a sharp drop in production in the primary subsectors of agriculture and mining in the quarter. Based on a number of global and domestic factors and consequent prospects, the forecast is for a full-year contraction of 0,2% in real gross domestic product in 2016.

- Inflationary pressures persist, with headline consumer price inflation forecast to rise to above the 7% level by end-2016 and a full-year average of around 6,5% expected. The major driving factors of inflation in the rest of the year will be food prices, the rand exchange rate and fuel prices, which will to a large extent impact demands for above-inflation salary and wage increases over a wide front.

- After being hiked by a cumulative 75 basis points since the beginning of 2016, interest rates are forecast to rise further in the second half of the year, with prime lending and variable mortgage interest rates, currently at 10,5%, to end the year at a level of 10,75% per annum.

- Increased financial strain experienced by consumers continued into the third quarter of 2016, with inflationary pressures persisting and interest rates in an upward cycle. The economy and employment contracted, unemployment soared and growth in real household income and consumption deteriorated in the first quarter of the year. Consumers are expected to face further financial pressure over the short to medium term, which will lead to a continued low level of confidence.

- Nominal year-on-year growth in house prices remained in the single digits in the second quarter of 2016, with some real price deflation evident in all segments of housing as a result of low nominal price growth and inflationary pressures. These trends in house price growth came on the back of macroeconomic trends and factors affecting consumers financially.

- Based on economic and household sector-related trends and expectations, nominal house price growth is forecast at between 4% and 4,5% in 2016 and 2017, with the risk for price growth remaining on the downside over this period. Real price deflation of between 1,5% and 2,5% is expected for this year and next year on the back of forecasts for nominal house price growth and the headline consumer price inflation rate.

Economic overview

The global economy

The International Monetary Fund's (IMF) latest assessment of the performance of the world economy, published in the *World Economic Outlook Update* of July 2016, indicated that first-quarter growth in advanced economies was much in line with expectations, whereas growth in emerging market and developing economies was marginally better than expected. Factors that continued to affect global growth in early 2016 include a combination of low productivity growth, subdued inflation and accommodative monetary policy in advanced economies, while emerging markets and developing countries were affected by low commodity prices, exchange rate volatility and tight fiscal and monetary conditions.

In late June 2016 the majority of British voters unexpectedly elected in a referendum to leave the European Union (EU) after being a member of the economic bloc for many years. The country has, however, not been a member of the eurozone, with the pound sterling that remained the official currency of Britain instead of accepting the euro as a currency. The outcome of the so-called "Brexit" referendum caused significant volatility in and, initially, huge losses on financial markets around the globe, while causing a sharp decline in risk appetite and creating a high level of political, institutional and economic uncertainty in that part of the world.

The South African economy

In view of Britain's decision to leave the EU, South Africa's close historical relations with that country and Europe jumped to prominence, especially with regard to foreign trade. In 2015, as much as 22,8% of South Africa's total exports to the world of R1 030 billion went to Europe, with 4,1% of the total going to the UK. The largest share of exports to these parts of the world last year was related to the agricultural, mining and manufacturing sectors.

The first quarter of 2016 saw the South African economy contracting by a real 1,2% quarter-on-quarter (q/q) and 0,2% year-on-year (y/y), measured according to production. This was largely the result of a sharp quarter-on-quarter decline of 15,5% in production in the primary sector, with agricultural production down by 6,5% and mining production contracting by 18,1% from the preceding quarter. The secondary and tertiary sectors posted much subdued real growth of only 0,2% and 0,8% respectively on a quarterly basis. Factors that have contributed to the continued poor economic growth performance are severe domestic drought conditions, low international commodity prices and subdued levels of global and domestic demand in general.

The South African Reserve Bank's leading business cycle indicator, which is a reflection of the direction of expected economic activity 6 — 9 months into the future, remained on a downward trend into the second quarter of the year, after the indicator index had declined throughout 2014 and 2015. A number of sectoral economic and financial variables are used in the compilation of the leading indicator, with these variables related to the labour market, manufacturing, vehicle sales, building activity, commodity prices, interest rates, confidence, money supply, business financial performance and business conditions in trading-partner countries.

The headline consumer price inflation rate averaged 6,4 in the first six months of 2016, driven by key factors such as food prices, fuel prices and rand exchange rate movements. Food price inflation, with a weight of 14,2% in the headline index, was on a rising trend and averaged 9,8 in the first half of the year. The higher food prices were the result of severe drought conditions since last year, and which continue to have a seriously negative impact on field crop production and livestock in some parts of the country.

After a sharp, short-lived depreciation in the rand exchange rate against the major international currencies in the wake of the decision by the majority of UK voters to leave the EU, the currency strengthened markedly afterwards during the course of July. The stronger rand and softer international oil prices during this period are positive developments with regard to the near-term direction of local fuel prices and eventually the headline inflation rate.

Interest rates have been hiked by a cumulative 75 basis points since the beginning of 2016, with the repurchase rate, or repo rate (the key monetary policy interest rate and the rate at which commercial banks borrow money from the Reserve Bank), currently at 7% per annum. Commercial banks' prime lending and variable mortgage interest base rates for extending credit to the household and business sectors are at a level of 10,5% per annum. Since the start of the upward cycle in interest rates in early 2014, lending rates have been raised by a cumulative 200 basis points, which resulted in higher debt repayments and credit in general becoming less affordable over this period.

Based on the economic, social and political conditions and trends in South Africa, the IMF has stated in a recent report on the country that growth continues to lag that of emerging market economies and commodity-exporting countries. The key messages from the report are that the country faces serious challenges on various fronts, such as a tight fiscal position, unemployment and inequality, policy uncertainty and the looming prospect of a credit downgrade, with dedicated and focused action and urgent policy reforms needed to address various structural economic and social issues and significantly improve economic growth and job creation.

Household sector overview

Increased financial strain experienced by consumers continued into the third quarter of 2016, with inflationary pressures persisting and interest rates that have been hiked by a cumulative 75 basis points so far this year, while the economy is performing poorly, employment contracted and unemployment soared in the first quarter of the year. Growth in household real disposable income dropped in the first quarter to its lowest level since the end of 2013, with real household consumption expenditure contracting for the first time in two years. Household savings remained critically low, with the debt-to-income ratio that was only marginally down from its level at the end of last year. Consumers' financial vulnerability changed little in the early stages of the year, with credit risk profiles that continued to be a constraint to the accessibility of credit against the background of banks' risk appetites and lending criteria. These credit-related factors contributed to growth in household credit balances remaining subdued in the first half of the year. In view of these developments, consumer confidence remained on a downward trend in the 6-month period up to June, which contributed to downward pressure on growth in credit extension and household consumption expenditure.

According to Statistics South Africa's *Quarterly Labour Force Survey*, a total of 15,663 million people were employed in the formal and informal sectors of the economy at the end of the first quarter of 2016. As much as 355 000, or 2,2%, less people were employed by the first quarter of the year compared with the fourth quarter of last year. This resulted in the unemployment rate increasing to 26,7% in the first quarter (24,5% in the preceding quarter), with a total of 5,714 million people unemployed in the period. The unemployment number increased by a substantial 521 000 in the first three months of the year from the final quarter of last year.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income, slowed down to an annualised rate of 0,4% in the first quarter of 2016, the lowest income growth on record since the fourth quarter of 2013. This low growth in real disposable income occurred against the background of inflationary pressures and the abovementioned noticeable contraction in total employment in the first quarter.

Real household consumption expenditure contracted at an annualised rate of 1,3% in the first quarter of 2016, the first contraction in the level of consumption since the first quarter of 2014. Growth in real household disposable income and consumption expenditure remained closely correlated in the early stages of the year. Retail sales, which are closely related to household consumption, recorded relatively low real growth of 3,3% y/y in the first five months of the year, with business confidence in the retail sector declining in the second quarter to its lowest level since 2001 as a result of weakening sales volumes across all categories of consumer goods, especially durable goods. These trends came against the background of a severe lack of household savings and consumers' limited financial ability to access credit due to prevailing high debt levels, credit risk profiles, overall financial vulnerability and the resultant credit criteria applied by credit providers, which are all a reflection of the eventual impact of macroeconomic developments on household finances.

The ratio of net household savings to disposable income, uninterruptedly in negative territory since 2006 as a result of increased pressure on household finances from various fronts over the years, came to -0,8% in the first quarter of 2016. Net household savings are calculated from gross savings, 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 [R1 467,2 billion at end-May and comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal loans and microfinance)], measured 2,4% y/y at the end of May 2016. The value of and growth in household credit balances, especially unsecured credit balances (see below), are affected by the inclusion of new data for African Bank as from April this year. As a result, year-on-year growth in household credit balances and some of its unsecured components will show some distortion for a 12-month period up to March next year.

The value of outstanding household secured credit balances, amounting to R1 129,9 billion at end-May and consisting of instalment sales credit, leasing finance and mortgage loans, showed growth of 3,7% y/y over the 12-month period. This resulted from continued relatively low growth in household mortgage balances and slowing growth in instalment sales balances, mainly related to vehicle finance, which is at its lowest level since June 2007.

The value of outstanding household unsecured credit balances (R337,3 billion at end-May and consisting of credit card debt, overdrafts and general loans and advances) contracted by 1,8% y/y up to the end of May this year, with the value of general loans and advances declining by 6,3% y/y as a result of the inclusion of the new African Bank data.

The ratio of household debt to disposable income was marginally lower at 76,6% in the first quarter of 2016 compared with 77% in the fourth quarter of 2015. The increasingly challenging and tough economic conditions, impacting household finances, are not supportive of further deleveraging in the household sector, i.e. a lower level of debt in relation to disposable income. The debt ratio is calculated as the total amount of outstanding household debt expressed as a percentage of the total level of household disposable income.

The household debt service-cost ratio increased further to 9,7% in the first quarter of 2016 from a level of 8,6% at the end of 2013, mainly due to the rising interest rate cycle that commenced in early 2014. This ratio is the interest component of debt repayments expressed as a percentage of disposable income and takes into account the debt-to-income ratio and the average effective lending rate in respect of the servicing of household debt during a specific period. Based on the abovementioned debt-to-income and debt service-cost ratios, the average effective interest rate charged to service household debt is calculated to have been 12,66% per annum in the first quarter of the year, which was 2,33 percentage points above the ruling average prime interest rate of 10,33% per annum over this period.

The abovementioned interest rate premium of above the ruling prime lending rate paid by consumers on total outstanding debt, i.e. secured and unsecured debt, is the result of factors such as the state of household finances, credit risk profiles, consumers' overall financial vulnerability, banks' risk appetites and lending criteria, expectations of future interest rate movements, as well as the composition of household debt, with unsecured credit normally extended at a higher interest rate than secured credit. The share of unsecured credit in total household credit balances came to 23% at the end of May this year, which was noticeably higher than the low of 15,4% back in 2009. The steadily rising share of unsecured credit since 2009 came against the background of declining and relatively stable and low interest rates between late 2008 and early 2014.

The extent of consumer financial vulnerability is calculated by the Bureau of Market Research (BMR) on a scale of 0 – 100, with the overall Consumer Financial Vulnerability Index (CFVI) measuring 51,28 in the first quarter of 2016. This indicated that consumers remained financially mildly exposed during this period. An overall and/or sub-index reading of 40 — 49,9 in consumer financial vulnerability indicates that consumers are financially very exposed, with an index reading of 50 — 59,9 indicating that consumers are financially mildly exposed, whereas an index reading of 60 — 79,9 indicates that consumers are very secure financially.

The sub-components of the CFVI were measured as follows in the first quarter of 2016:

- Income vulnerability: At 50,5 index points, consumers were mildly exposed (50,23 in the fourth quarter of 2015).
- Expenditure vulnerability: At 52,62 index points, consumers were mildly exposed (53,18 in the fourth quarter of 2015).
- Savings vulnerability: At 52,13 index points, consumers were mildly exposed (51,67 in the fourth quarter of 2015).
- Debt service vulnerability: At 49,86 index points, consumers were very exposed (48,71 in the fourth quarter of 2015).

Based on statistics published by the National Credit Regulator (NCR), consumers' credit risk profiles showed an apparent improvement towards the end of 2015 and in the first quarter of 2016. This was largely due to the fact that credit bureaus may hold adverse credit record information for a limited period only, after which this information is removed.

The state of consumer credit risk profiles was as follows in the first quarter of 2016:

- 23,88 million consumers were credit-active (23,74 million in the fourth quarter of 2015).
- 14,33 million (60%) credit-active consumers were in good standing (13,87 million, or 58,4%, in the fourth quarter of 2015).
- 9,55 million credit-active consumers (40%) had impaired credit records (9,87 million, or 41,6%, in the fourth quarter of 2015).
- 84,96 million consumer credit accounts were active (83,55 million in the fourth quarter of 2015).
- 65,03 million consumer credit accounts (76,5%) were in good standing (63,56 million, or 76,1%, in the fourth quarter of 2015).
- 19,92 million consumer credit accounts (23,5%) were impaired (19,99 million, or 23,9%, in the fourth quarter of 2015).

The TransUnion Consumer Credit Index showed that the general credit health of South African consumers deteriorated markedly in the first three months of the year from the end of last year, with distressed borrowing increasing marginally, households' cashflow tightening further and debt service costs rising noticeable on the back of lending rates increasing by a cumulative 75 basis points in the quarter.

The Bureau for Economic Research's (BER) consumer confidence index measured -11 index points in the second quarter of 2016 (-9 index points in the first quarter), with an average of -10 index points in the first half of the year. Consumer confidence is measured according to expectations regarding the outlook for the domestic economy, household finances and durable consumption expenditure, with an index value of zero indicating neutrality in confidence. The deterioration in consumer sentiment in the second quarter was driven by a decline of 6 index points in consumers' rating of their own financial positions, as well as a drop of 3 index points in their rating of the country's economic outlook. Consumers' view of the time to buy durable goods edged up by a marginal 2 index points from a 6½-year low of -22 in the first quarter. Consumer confidence remains a key factor in the demand for and growth in household credit, which is closely related to especially durable consumption expenditure, such as the purchase of vehicles, furniture, household appliances, audio-visual equipment, photographic equipment, communication devices, computers and related equipment, as well as the acquisition of property for primary, investment and leisure purposes.

Property sector overview

In the first quarter of 2016 there were reportedly about 6,27 million residential properties in South Africa with a total value of R4,44 trillion. Of these properties about 2,19 million (35% of the total) with a total value of R2,42 trillion were bonded and 4,07 million (65% of the total) with a total value of R2,02 trillion were non-bonded. On a geographical level, the provinces of Gauteng, the Western Cape and KwaZulu-Natal are the most prominent regional residential property markets, with these regions having a combined share of 65% of the total number of residential properties and more than 76% of the total value of residential properties in the country in the first quarter of the year. The relevant table at the back of the report presents more detailed information on the residential property stock in the country.

The *General Household Survey 2015* (GHS 2015) and the *Community Survey 2016* (CS 2016), published by Statistics South Africa in June and July 2016 respectively, provide some insight into housing conditions in the country in 2015/16:

- The average household size was 3,3 persons in early 2016 (CS 2016).
- 79,2% of a total of 16,92 million households were living in formal housing (CS 2016). Formal housing refers to structures built according to approved architectural plans, i.e. houses on separate stands, flats, apartments,

townhouses and rooms and flats in backyards.
- 13% of households were living in informal housing (CS 2016). Informal housing refers to makeshift structures not erected according to approved architectural plans, e.g. shacks in informal settlements and backyards.
- 78,5% of households in eight of the country's biggest metropolitan areas were living in formal housing (GHS 2015).
- 19,2% of households in the major metropolitan areas were living in informal housing (GHS 2015).
- 54,7% of households fully owned their properties, i.e. paid off in full (CS 2016).
- 11% of households partially owned their properties, i.e. financed by and not yet fully paid off to financial institutions (CS 2016).
- 18,4% of households were renting the properties they were staying in (CS 2016).
- 23,1% of households were living in Reconstruction and Development Programme (RDP) or state-subsidised housing (CS 2016).
- 85,5% of households were connected to the electricity supply network (GHS 2015).

Based on data published by Statistics South Africa, building activity in the market for new private sector-financed housing has not performed particularly well in the first five months of 2016 compared with the same period last year. Building activity up to May with regard to the planning phase, i.e. the number of plans approved for new houses, flats and townhouses, dropped across all segments of housing by a combined 3,5% y/y to a total of 22 859 units in the 5-month period, while the number of new housing units constructed increased by 5,1% y/y to 16 357 units over the same period. There can be a noticeable lag between the planning and construction phases, especially in respect of large housing projects, with the result that earlier trends with regard to building plans approved could have supported the growth in construction activity up to May this year. The contraction in the planning phase of new housing may become evident in construction activity at a later stage. At a geographical level, the provinces of Gauteng and the Western Cape continued to dominate residential building activity in the first five months of the year.

Building confidence, based on the BER's building confidence index, which has been on a declining trend since the first quarter of 2015, dropped further to 39 index points in the second quarter of this year. This was the lowest level of confidence in the building sector since December 2012. A lower level of confidence was evident across all building subsectors measured in the second quarter, with the largest drop in confidence occurring among building material and hardware retailers. These trends in building confidence came against the background of trends in and the outlook for the economy, the household sector and building activity. An index reading of 50 represents neutrality in building confidence among survey respondents. The building confidence index measures prevailing business conditions in the building industry subsectors of architects, quantity surveyors, main building contractors, subcontractors, manufacturers of building materials and retailers of building materials and hardware.

Currently the variable mortgage base interest rate for extending mortgage finance is 10,5% per annum, after being raised by a cumulative 75 basis points so far this year. The mortgage rate has been raised by a cumulative 200 basis points since the start of the upward cycle in interest rates in late January 2014. 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.

Year-on-year growth in outstanding household mortgage balances remained well in the single digits in the first five months of 2016, with the performance of the mortgage market driven by trends in factors such as interest rates, household finances, consumer credit risk profiles, banks' risk appetites and lending criteria and consumer confidence. Growth in household mortgage balances (R878,4 billion at end-May, with a share of 77,7% in household secured credit balances and 59,9% in total household credit balances) came to 4,3% y/y at the end of May this year. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital and monthly repayments on mortgage loans, as well as loans fully paid up.

According to information published by Old Mutual in the July 2016 edition of the *Savings and Investment Monitor*, home loan repayment patterns on primary residences showed some further shifts up to mid-2016. The percentage of homeowners paying the minimum only on their mortgage loans increased to its highest level in the past few years since mid-2010, whereas the percentage of homeowners paying extra into their mortgage loan accounts on a monthly basis dropped to its lowest level during this period. The percentage of homeowners paying extra lump sums into their mortgage loan accounts was also lower in mid-2016 compared with a year ago. Unsurprisingly, repayment patterns by income category showed that low- to middle-income homeowners were mostly paying the minimum only by mid-2016, with high-income homeowners in a better position to pay extra on a monthly basis. High-income homeowners were also more able to pay extra lump sums into their mortgage loan accounts. The largest percentage of homeowners had mortgage repayments in the category of R3 000 – R4 999 a month by mid-2016. The relevant tables at the back of the report present more detailed information regarding home loan repayment patterns.

The abovementioned trends in home loan repayment patterns are a reflection of the state of and changes in homeowners' financial positions based on trends in economic conditions that point to increased levels of household financial strain in especially the past three years. These developments adversely affected consumers' ability to service existing debt and prevented them from taking up new credit on a large scale, thereby increasing debt levels, which eventually caused the demand for and growth in credit extension to remain subdued.

According to data published by Statistics South Africa, national residential rental inflation averaged 5,2% y/y in the first half of 2016. Rental inflation measured 4,9% y/y for houses, 5,5% y/y for townhouses and 5,5% y/y for flats in the 6-month period, which were all below the average headline consumer price inflation rate of 6,4% y/y over this period.

Against the background of trends in and the outlook for the economy and household finances, residential tenants are most probably not in a position to absorb significant rental increases, with the result that no strong growth in rental inflation and yields can be expected this year and next year. In fact, according to the FNB-TPN Residential Yields Review of July 2016, the nominal yield in the residential market continued its gradual declining trend to 8,3% in the first quarter of the year after peaking at an estimated 8,6% in late 2013.

Based on research by Tenant Profile Network (TPN) Credit Bureau, a total of 82,2% of residential tenants were in good standing in terms of rental payments in the first quarter of 2016, comprising those who paid on time (67,3%), those who paid within the grace period (4,7%) and those who paid late (10,2%). Due to increased financial pressure, the percentage of tenants in good standing has dropped from a peak of around 86% in the second half of 2014 to the abovementioned 82,2% in the first quarter of this year. Impaired tenants are those who made only a partial payment (11,8% in the first quarter of 2016) and those who did not pay at all (6% in the first quarter). A total of 81% of residential tenants rented for less than R7 000 a month in the first quarter of the year, with the majority (57%) renting for between R3 000 and R7 000 a month. Only 19% of tenants rented for more than R7 000 a month in the first quarter (14% rented for R7 000 — R12 000 a month; 4% rented for R12 000 — R25 000 a month; and 1% rented for more than R25 000 a month). A relatively low percentage (51,5%) of residential tenants renting for more than R25 000 a month paid on time in the first quarter (the lowest percentage of on-time-paying tenants across the rental value bands), while 17,3% of those renting for above R25 000 paid late and 15,3% in this value band made a partial payment only (the highest percentages of late-paying and partial-paying tenants across the rental value bands). These trends in rentals are regarded as an indication of the general financial profile of tenants renting residential property.

TPN research also showed that there was a strong demand nationally for residential properties to rent (69,2% of survey respondents) in the first quarter of the year, whereas the largest percentage of respondents (53,9%) indicated that the supply of rental stock was only at an average level for the quarter. If continued, these demand and supply trends may eventually put some upward pressure on rental escalations, prices of and building activity in respect of buy-to-let housing.

House prices

Nominal year-on-year growth in home values, based on Absa's house price data, remained in single digits in the second quarter of 2016, with some real price deflation evident in all segments of housing as a result of low nominal price growth and inflationary pressures. These trends in house price growth came on the back of macroeconomic trends and factors affecting consumers financially (see the sections above on the economy and the household sector) and eventually the various segments of housing.

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 documents at registration.

The real price of a property is the nominal price adjusted for the effect of inflation, and is calculated to determine whether the value of a property has increased at a rate above or below the average inflation rate. In addition to the nominal price, real property price trends are thus 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 housing segments 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

Year-on-year growth in the average nominal price of affordable housing (homes of 40 m² — 79 m² and priced up to R600 000 in 2016) slowed down further to 3,2% y/y in the second quarter of the year, from 5,8% y/y in the first quarter. The average nominal price of a home in this segment of the market has changed very little from the first quarter, with the result the price level remained at around R416 000 in the second quarter. Real price inflation of 2,9% y/y was recorded in this segment of housing in the second quarter of the year.

Middle-segment housing

Average nominal price growth in middle-segment housing (homes of 80 m² — 400 m² and priced at R4,4 million or less in 2016) came to 5,4% y/y, with these properties priced at around R1 416 500 in the second quarter of the year. A marginal real price deflation of less than 1% y/y was registered in middle-segment housing in the first half of the year. Real price growth in this category of housing has been on a gradual downward trend since the first quarter of last year.

The following price changes occurred in the three middle-segment categories in the second quarter of 2016:

- Small houses (80 m² — 140 m²): 9,9% nominal and

3,4% real.
- Medium-sized houses (141 m² — 220 m²): 6,1% nominal and -0,2% real.
- Large houses (221 m² — 400 m²): 5,6% nominal and -0,6% y/y real.

Luxury housing

In the segment for luxury housing (homes priced at between R4,4 million and R16,3 million in 2016) the average nominal price increased by 3,6% y/y to a level of R6,1 million in the second quarter of 2016. In real terms, the average price of luxury housing was down by 2,5% y/y in the second quarter of the year.

Regional house prices

Nominal house price growth varied at a geographical level in the second quarter of 2016, with year-on-year price growth of below the average inflation rate or in negative territory in some areas, which caused some real price deflation in these regions (see relevant tables at the back of the report).

The performance of the residential property market at a geographical level is in general affected by national macroeconomic trends. However, regional property markets may react differently to these developments and trends at a macro level, mainly due to additional area-specific factors such as the size, composition and extent of regional markets (e.g. primary, investment, leisure and/or student-related properties and accommodation), location, physical economic and social infrastructure, community and neighbourhood amenities (e.g. retail outlets and medical facilities), sectoral economic composition and the level and extent of economic growth and development. These factors may have a determining impact on property demand and supply conditions, market activity, buying patterns, transaction volumes, price levels and price growth in regional markets.

New and existing housing

The average nominal price of a new house increased by 9,8% y/y to R1 937 000 in the second quarter of 2016, after marginal growth of 0,6% y/y in the first quarter. Accelerating building cost inflation in the second quarter (see section below on building costs) might have contributed to the abovementioned higher price growth in new housing. Real price inflation of 3,4% y/y with regard to new housing was recorded in the second quarter.

The average price of an existing house increased by a nominal 4,7% y/y to a level of around R1 383 300 in the second quarter of the year, with some real price deflation of 1,4% y/y recorded.

The abovementioned price trends regarding new and existing housing imply that in the second quarter of 2016 it was about R553 700 or 28,6% cheaper to have bought an existing house than to have had a new one built.

Building costs

The cost of having a new house built increased by 8,5% y/y in the second quarter of 2016, after increasing by 5,1% y/y in the preceding quarter. Factors impacting building costs 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 includes aspects such as finance costs, land values, the cost of rezoning, the cost of preparing land for construction, costs related to the installation and construction of physical infrastructure, and property holding costs in general.

Land values

The average value of vacant residential stands in the middle and luxury segments of the housing market for which Absa received applications and approved mortgage finance, showed a sharp increase of 21,1% y/y to about R698 000 in the second quarter of 2016. In real terms residential land values were up by 14% y/y in the quarter. This sharp increase in land values is related to relatively low transaction volumes of a high value in the second quarter compared with a year ago.

The ratio of the average price of land for new middle-segment and luxury housing to the total value of a new residential property in these segments of the market came to 27,7% in the second quarter of the year.

Residential land values reflect the demand factors for new housing; location; the supply of suitable and serviced land for development; the availability, condition and accessibility of transport infrastructure and the proximity to places of work, schools, shopping centres, medical facilities, etc. In the major metropolitan areas of the country the abovementioned factors have over time caused significant upward pressure on land prices for new residential green-field and/or brown-field developments.

Affordability of housing

The affordability of housing is measured by the ratio of house prices and mortgage repayments to household disposable income (see relevant graph at the back of the report). Due to a rising interest rate cycle, housing affordability from a mortgage repayment perspective deteriorated further in the first quarter of 2016. The ratio of house prices to disposable income was largely unchanged between the second quarter of last year and the first quarter of this year, mainly as a result of relatively stable growth in both these two variables over this period.

Apart from trends in house prices, disposable income and the mortgage interest rate, households' ability to afford housing is also influenced by a number of other important factors such as employment, savings, living costs, debt levels, credit risk profiles (as reflected by the state of consumer credit records), National Credit Act stipulations and banks' risk appetites and lending criteria in the case of applications for mortgage finance to buy property.

A downward/upward trend in the abovementioned housing affordability ratio 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

In view of the Brexit vote, the IMF's forecast for growth in advanced economies was lowered to 1,8% in both 2016 and 2017, with the biggest downscaling of growth being in the UK and the eurozone. The economic growth outlook for emerging market and developing countries remains largely unchanged at 4,1% and 4,6% for 2016 and 2017 respectively, but future capital and financial aid flows to these countries may be affected by the abovementioned developments and the consequent after-effects in the UK and Europe.

Due to largely driven by the global commodity cycle, economic growth in sub-Sahara African countries is forecast to slow down to 1,6% in 2016 from 3,3% in 2015 and 5,1% in 2014. This expected sharp decline in growth this year will be the result of deteriorating economic conditions in some of the region's largest economies, such as Nigeria, with this economy expected to contract by 1,8%, and South Africa, where the economy is forecast to show virtually no growth or may even contract this year.

Consumer price inflation in advanced economies is projected to remain largely subdued at 0,7% in 2016 and 1,6% in 2017, with the result that monetary policies in these countries are expected to remain mostly accommodative over the forecast period. Inflation in emerging market and developing countries is forecast at a relatively stable 4,6% for 2016 and 4,4% for 2017.

Risks to world growth over the next two years identified by the IMF include the uncertain after-effects of the Brexit vote, the possibility of increased levels of protectionism, the impact of adjustment in China, the ongoing refugee issue affecting many European countries, severe drought conditions in East and Southern Africa that are a threat to food security in these parts of Africa, the Zika virus-related disease in Latin America and the Caribbean and geopolitical tensions and terrorism in various regions and countries.

The South African economy

The South African economy is forecast to contract marginally by a real 0,2% in 2016, after a declining trend in growth since 2012. The country's growth outlook over the short to medium term is affected by the following factors:

- Expected continued low commodity demand and prices in view of subdued world economic growth and structural adjustments in China.
- The prospect of deteriorating economic conditions in the UK and the European Union after the Brexit referendum outcome, which may negatively affect South Africa's exports to that part of the world.
- A continued weak and probably further depreciating rand exchange rate against the major international currencies, above-inflation electricity tariff increases, fuel price movements and the protracted after-effect of extreme drought conditions, which will cause ongoing upward pressure on inflation and interest rates in the rest of the year.
- Low levels of consumer and business confidence over a wide front, adversely affecting demand, fixed investment and employment across various sector of the economy.
- Tight fiscal conditions on the back of downward pressure on state revenue as a result of the poorly performing economy, while government expenditure needs to be further contained and reprioritised. These trends in government finances have already had and may have further tax implications, which will exert increased pressure on household and business sector finances.
- The looming prospect of a country credit downgrade later this year, which may eventually have a seriously negative effect on capital flows, the rand exchange rate, inflation, interest rates, household and business sector finances, confidence levels, domestic demand, fixed investment and employment.

Inflationary pressures persist across the South African economy, with headline consumer price inflation forecast to rise to above the 7% level by year-end and a full-year average of around 6,5% expected, compared with 4,6% in 2015. The major driving factors of inflation in the remainder of the year and into 2017 will be food prices, the rand exchange rate and fuel prices, which will to a large extent drive demands for above-inflation salary and wage increases over a wide front. The rand exchange rate is forecast to remain on a depreciating trend against the major international currencies in the rest remainder of the year as well as during next year, which will be a major contributing factor to sustained inflationary pressures.

In view of the abovementioned expectations regarding inflation for the rest of the year, domestic interest rates are forecast to be hiked further in the second half of the year, with prime lending and variable mortgage interest rates, currently at 10,5%, to end the year at a level of 10,75% per annum.

The household sector

The household sector is expected to experience increased financial strain over the short to medium term against the background of the abovementioned factors that may impact the country's economic performance. Consumers' spending power is set to be further eroded, which will limit their ability to service debt and take up further credit. In view of these prospects, consumers' credit risk profiles and financial vulnerability will remain key factors in the accessibility of, the demand for and growth in credit. The low level of consumer confidence is expected to continue and may deteriorate even further from its current level, with confidence remaining an important factor in the demand for credit and growth in consumption expenditure of especially durable consumer goods. With household consumption expenditure having a share of around 60% of the country's gross domestic product, it remains a major driver of trading conditions in the business sector and affects overall economic activity and growth, and eventually fixed investment, employment and household income.

The property market

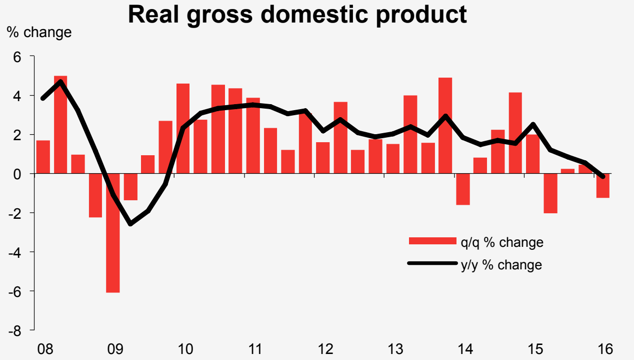
Trends in and the outlook for the economy, household finances and consumer confidence will continue to impact the property market in terms of demand and supply conditions, buying patterns, market activity, transaction volumes, building activity and mortgage providers' risk appetites, lending criteria and market strategies. These factors will eventually be evident in growth in household mortgage balances, which is expected to remain subdued in the rest of the year and in 2017.

Based on the economic and household sector-related trends and expectations, nominal house price growth is forecast at between 4% and 4,5% for 2016 and 2017, with the risk of price growth remaining on the downside over this period. Real price deflation of between 1,5% and 2,5% is expected for this year and next year on the back of the abovementioned forecasts for nominal house price growth and the headline consumer price inflation rate.

The outlook is for residential building activity and levels of confidence across the building sector to remain subdued over the short to medium term, which will be the result of expected trends in the economy and the household sector.

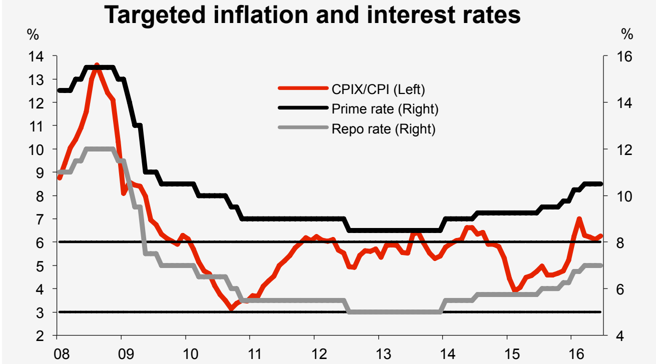
Graphs

Real gross domestic product



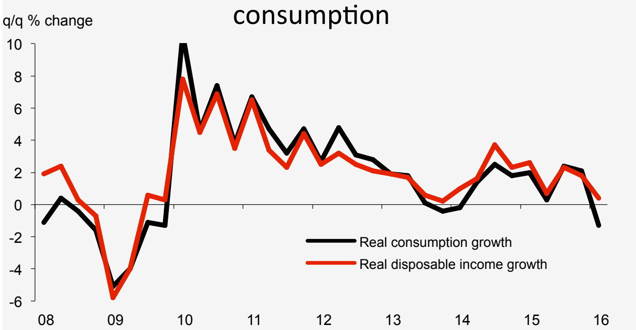
Source: Stats SA

Targeted inflation and interest rates



Source: SARB, Stats SA

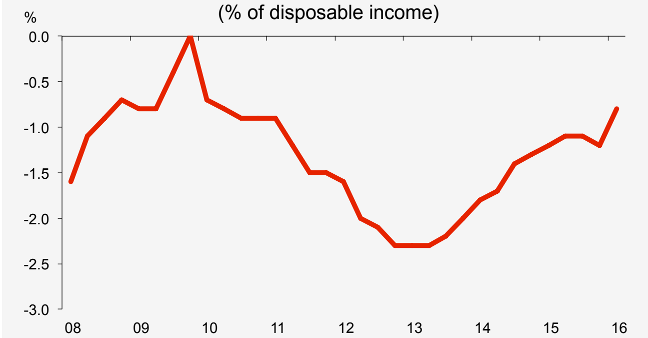
Household income and consumption



Source: SARB

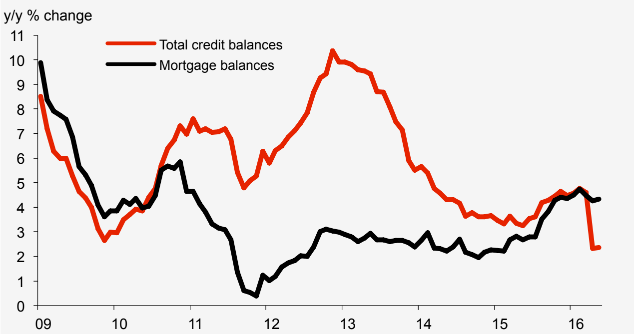
Net household saving

(% of disposable income)



Source: SARB

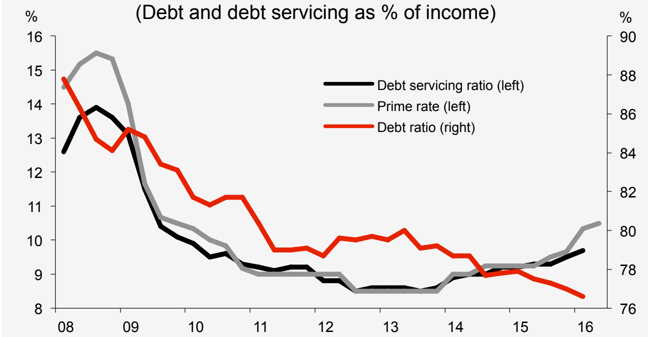
Household credit and mortgage balances



Source: SARB

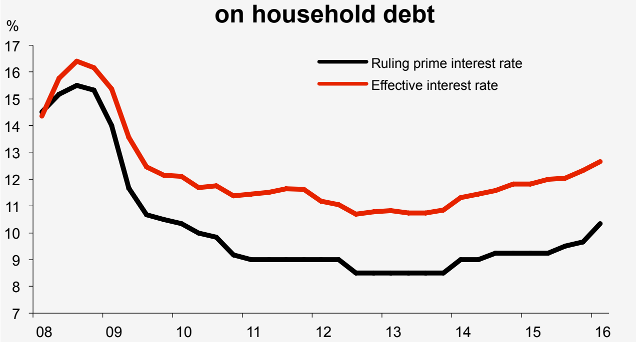
Household debt and debt servicing

(Debt and debt servicing as % of income)



Source: SARB

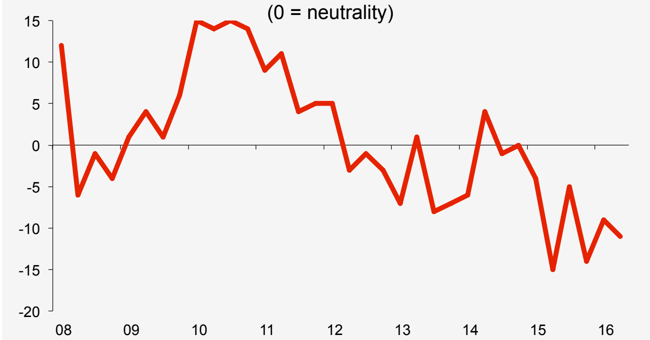
Ruling prime rate and effective interest rate on household debt



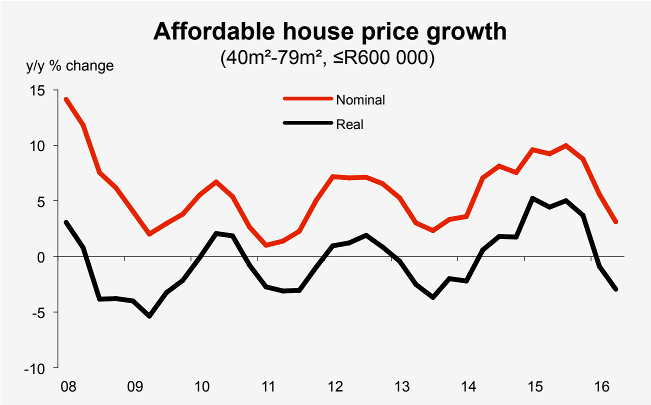
Source: SARB, Absa

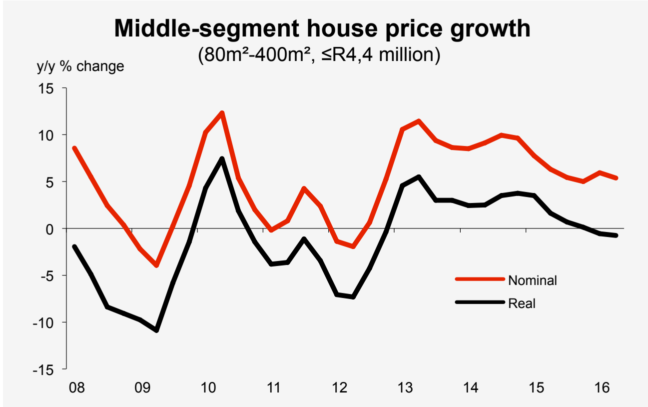
Consumer confidence index

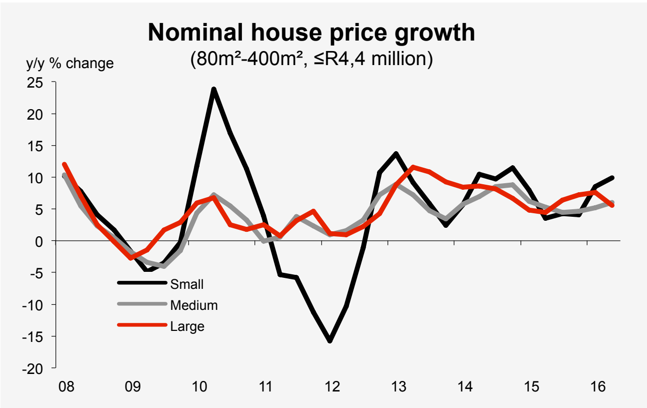
(0 = neutrality)

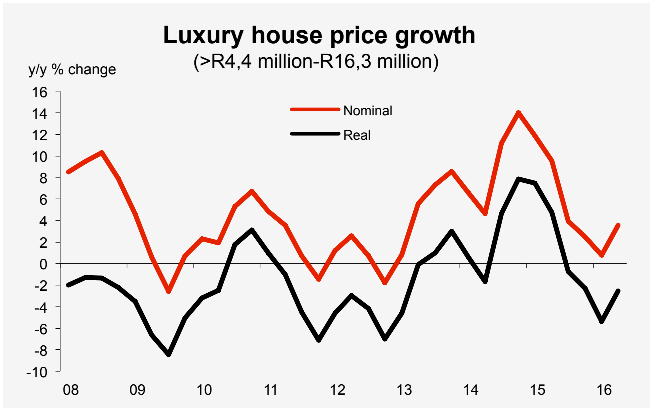


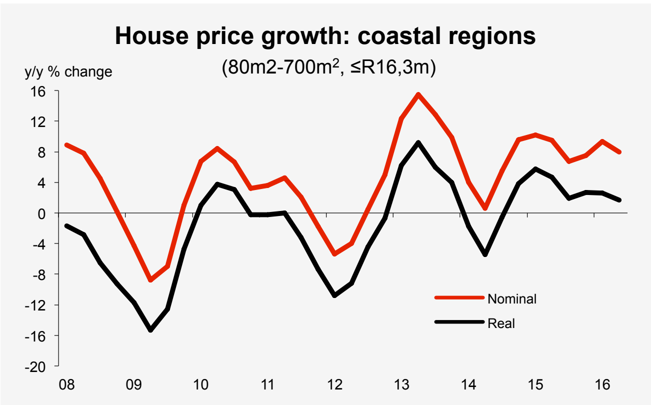
Source: BER

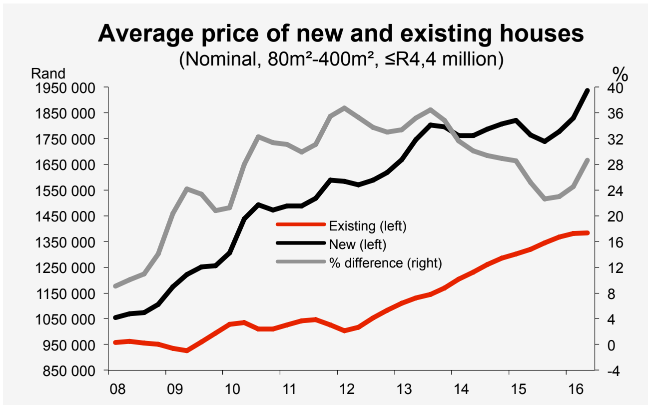

Affordable house price growth
(40m²-79m², ≤R600 000)
y/y % change
Nominal
Real

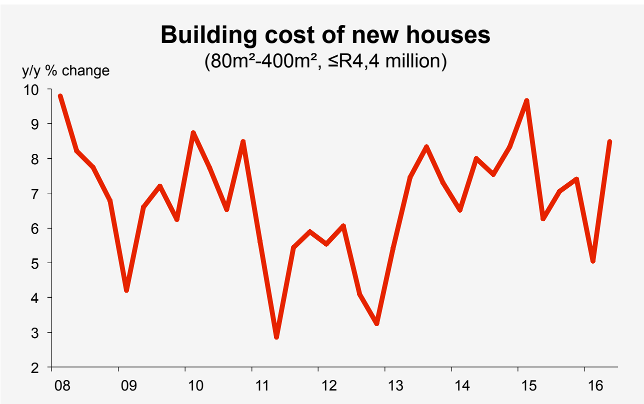

Middle-segment house price growth
(80m²-400m², ≤R4,4 million)
y/y % change
Nominal
Real

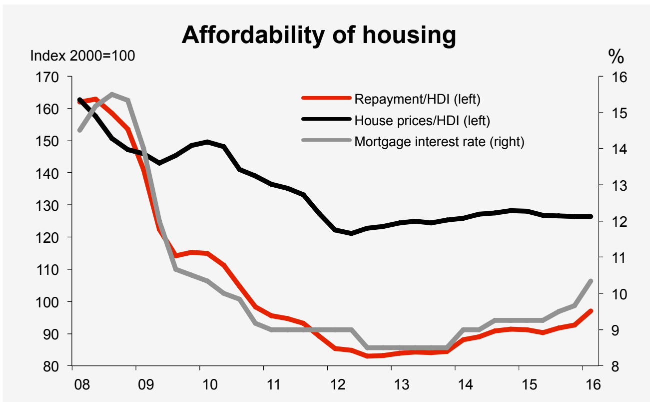

Nominal house price growth
(80m²-400m², ≤R4,4 million)
y/y % change
Small
Medium
Large


Luxury house price growth
(>R4,4 million-R16,3 million)
y/y % change
Nominal
Real


House price growth: coastal regions
(80m2-700m², ≤R16,3m)
y/y % change
Nominal
Real


Average price of new and existing houses
(Nominal, 80m²-400m², ≤R4,4 million)
Rand
%
Existing (left)
New (left)
% difference (right)


Building cost of new houses
(80m²-400m², ≤R4,4 million)
y/y % change


Affordability of housing
Index 2000=100
%
Repayment/HDI (left)
House prices/HDI (left)
Mortgage interest rate (right)

Statistics

Residential property stock[1]

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	% share[2]
Number of properties						
Total number	6 128 977	6 142 219	6 181 901	6 210 698	6 269 586	100.0
Bonded	2 187 640	2 181 116	2 184 389	2 177 505	2 194 593	35.0
Non-bonded	3 941 337	3 961 103	3 997 512	4 033 193	4 074 993	65.0
Freehold properties (excluding estate properties)	5 121 649	5 131 138	5 161 387	5 184 210	5 232 080	83.5
Bonded	1 556 262	1 549 836	1 548 159	1 539 480	1 551 096	29.6
Non-bonded	3 565 387	3 581 302	3 613 228	3 644 730	3 680 984	70.4
Sectional title properties (excluding estate properties)	697 549	700 325	703 443	707 683	711 209	11.3
Bonded	429 557	429 935	431 111	432 691	434 693	61.1
Non-bonded	267 992	270 390	272 332	274 992	276 516	38.9
Estate properties[3]	309 779	310 756	317 071	318 805	326 297	5.2
Bonded	201 821	201 345	205 119	205 334	208 804	64.0
Non-bonded	107 958	109 411	111 952	113 471	117 493	36.0
Property value (R billion)						
Total value	4 094	4 155	4 252	4 291	4 436	100.0
Bonded	2 265	2 287	2 329	2 348	2 417	54.5
Non-bonded	1 829	1 868	1 923	1 943	2 019	45.5
Freehold properties (excluding estate properties)	2 876	2 918	2 983	3 001	3 091	69.7
Bonded	1 514	1 527	1 551	1 559	1 598	51.7
Non-bonded	1 362	1 391	1 432	1 442	1 493	48.3
Sectional title properties (excluding estate properties)	609	619	631	644	657	14.8
Bonded	361	367	373	379	386	58.8
Non-bonded	247	252	258	265	270	41.2
Estate properties[3]	609	618	639	646	688	15.5
Bonded	390	394	405	410	432	62.8
Non-bonded	220	224	233	236	256	37.2

[1]Housing and vacant land, excluding housing on agricultural smallholdings and farms

[2]Latest available quarter. Percentage share may not add up due to rounding

[3]Freehold properties, sectional title properties and vacant land

Historical data may be revised due to the inclusion of lagged and updated information, as well as the re-estimation of property values

Source: Lightstone

Monthly mortgage repayment

Rand, calculated over a period of 20 years

Mortgage	Repayment at a mortgage rate of													
amount	9.00%	9.25%	9.50%	9.75%	10.0%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%	12.25%
100 000	900	916	932	949	965	982	998	1 015	1 032	1 049	1 066	1 084	1 101	1 119
200 000	1 799	1 832	1 864	1 897	1 930	1 963	1 997	2 030	2 064	2 099	2 133	2 167	2 202	2 237
300 000	2 699	2 748	2 796	2 846	2 895	2 945	2 995	3 046	3 097	3 148	3 199	3 251	3 303	3 356
400 000	3 599	3 663	3 729	3 794	3 860	3 927	3 994	4 061	4 129	4 197	4 266	4 335	4 404	4 474
500 000	4 499	4 579	4 661	4 743	4 825	4 908	4 992	5 076	5 161	5 246	5 332	5 419	5 505	5 593
600 000	5 398	5 495	5 593	5 691	5 790	5 890	5 990	6 091	6 193	6 296	6 399	6 502	6 607	6 711
700 000	6 298	6 411	6 525	6 640	6 755	6 872	6 989	7 107	7 225	7 345	7 465	7 586	7 708	7 830
800 000	7 198	7 327	7 457	7 588	7 720	7 853	7 987	8 122	8 258	8 394	8 531	8 670	8 809	8 949
900 000	8 098	8 243	8 389	8 537	8 685	8 835	8 985	9 137	9 290	9 443	9 598	9 753	9 910	10 067
1 000 000	8 997	9 159	9 321	9 485	9 650	9 816	9 984	10 152	10 322	10 493	10 664	10 837	11 011	11 186
1 500 000	13 496	13 738	13 982	14 228	14 475	14 725	14 976	15 228	15 483	15 739	15 996	16 256	16 516	16 778
2 000 000	17 995	18 317	18 643	18 970	19 300	19 633	19 968	20 305	20 644	20 985	21 329	21 674	22 022	22 371
2 500 000	22 493	22 897	23 303	23 713	24 126	24 541	24 959	25 381	25 805	26 231	26 661	27 093	27 527	27 964

Mortgage amount at fixed monthly repayment

Rand, calculated over a period of 20 years

Mortgage	Mortgage amount at a mortgage rate of													
repayment	9.00%	9.25%	9.50%	9.75%	10.0%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%	12.25%
1 000	111 145	109 186	107 281	105 428	103 625	101 870	100 162	98 500	96 882	95 306	93 771	92 276	90 819	89 400
2 000	222 290	218 372	214 562	210 856	207 249	203 740	200 325	197 000	193 763	190 611	187 542	184 552	181 639	178 801
3 000	333 435	327 559	321 843	316 283	310 874	305 610	300 487	295 500	290 645	285 917	281 313	276 828	272 458	268 201
4 000	444 580	436 745	429 124	421 711	414 498	407 480	400 649	394 000	387 526	381 222	375 083	369 103	363 278	357 601
5 000	555 725	545 931	536 405	527 139	518 123	509 350	500 811	492 500	484 408	476 528	468 854	461 379	454 097	447 001
6 000	666 870	655 117	643 686	632 567	621 748	611 220	600 974	591 000	581 289	571 834	562 625	553 655	544 916	536 402
7 000	778 015	764 303	750 967	737 994	725 372	713 090	701 136	689 500	678 171	667 139	656 396	645 931	635 736	625 802
8 000	889 160	873 489	858 248	843 422	828 997	814 960	801 298	788 000	775 052	762 445	750 167	738 207	726 555	715 202
9 000	1 000 305	982 676	965 529	948 850	932 622	916 830	901 460	886 500	871 934	857 751	843 938	830 483	817 375	804 603
10 000	1 111 450	1 091 862	1 072 810	1 054 278	1 036 246	1 018 700	1 001 623	984 999	968 815	953 056	937 708	922 759	908 194	894 003
15 000	1 667 174	1 637 793	1 609 216	1 581 416	1 554 369	1 528 050	1 502 434	1 477 499	1 453 223	1 429 584	1 406 563	1 384 138	1 362 291	1 341 004
20 000	2 222 899	2 183 724	2 145 621	2 108 555	2 072 492	2 037 400	2 003 245	1 969 999	1 937 631	1 906 112	1 875 417	1 845 517	1 816 388	1 788 006
25 000	2 778 624	2 729 654	2 682 026	2 635 694	2 590 615	2 546 750	2 504 057	2 462 499	2 422 038	2 382 641	2 344 271	2 306 896	2 270 485	2 235 007

Average nominal house prices

	2012	2013	2014	2015	2015			2016			
	Rand	Rand	Rand	Rand	Q2	Q3	Q4	Q1	Q2		
					Rand	Rand	Rand	Rand	Rand	q/q %∆	y/y %∆
National											
Middle segment (80m²-400m², ≤R4,4m)	1 061 923	1 167 825	1 276 441	1 354 329	1 343 986	1 363 062	1 382 464	1 406 357	1 416 538	0.7	5.4
Small (80m²-140m², ≤R4,4m)	702 842	755 977	826 677	867 535	851 024	871 926	893 327	926 244	935 037	0.9	9.9
Medium (141m²-220m², ≤R4,4m)	1 018 111	1 079 322	1 160 305	1 219 793	1 208 751	1 225 259	1 246 278	1 260 628	1 282 053	1.7	6.1
Large (221m²-400m², ≤R4,4m)	1 519 929	1 673 649	1 807 279	1 910 654	1 885 575	1 943 224	1 967 383	1 986 145	1 991 015	0.2	5.6
New (80m²-400m², ≤R4,4m)	1 589 451	1 752 482	1 778 769	1 774 489	1 764 152	1 737 948	1 776 308	1 829 962	1 937 017	5.9	9.8
Existing (80m²-400m², ≤R4,4m)	1 038 822	1 139 260	1 245 680	1 333 399	1 320 688	1 344 264	1 368 400	1 382 047	1 383 309	0.1	4.7
Affordable (40m²-79m², ≤R600 000)	336 956	348 913	371 772	406 179	403 310	413 148	415 985	416 362	416 018	-0.1	3.2
Luxury (R4,4m-R16,3m)	4 796 167	5 075 823	5 537 199	5 906 492	5 880 555	5 918 899	5 978 471	5 910 431	6 089 823	3.0	3.6
Provinces											
Eastern Cape	901 847	964 631	1 011 566	1 069 688	1 095 626	1 074 015	1 080 325	1 097 436	1 068 136	-2.7	-2.5
Free State	870 434	941 983	1 051 494	1 069 121	1 076 311	1 031 412	1 059 534	1 118 878	1 177 308	5.2	9.4
Gauteng	1 102 726	1 203 529	1 318 799	1 407 629	1 407 656	1 409 137	1 433 662	1 448 683	1 423 107	-1.8	1.1
KwaZulu-Natal	936 576	1 086 763	1 175 535	1 238 181	1 226 397	1 253 190	1 279 105	1 275 560	1 253 738	-1.7	2.2
Limpopo	927 547	1 005 802	1 059 803	1 110 394	1 094 408	1 121 216	1 153 044	1 189 790	1 222 402	2.7	11.7
Mpumalanga	927 357	1 037 326	1 088 078	1 075 050	1 068 139	1 072 907	1 088 795	1 117 731	1 143 504	2.3	7.1
North West	872 173	919 825	953 232	957 021	938 704	962 399	1 015 180	1 018 896	975 717	-4.2	3.9
Northern Cape	870 120	1 001 367	1 077 023	1 126 099	1 092 978	1 170 742	1 190 157	1 137 862	1 133 186	-0.4	3.7
Western Cape	1 195 980	1 291 424	1 442 245	1 562 084	1 522 805	1 568 235	1 644 352	1 685 781	1 701 048	0.9	11.7
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	859 001	901 523	910 699	962 689	961 433	968 444	977 099	990 845	1 004 121	1.3	4.4
East London (Eastern Cape)	1 052 675	1 158 562	1 192 286	1 321 626	1 336 325	1 360 702	1 326 130	1 242 993	1 140 917	-8.2	-14.6
Bloemfontein (Free State)	1 104 958	1 205 971	1 407 658	1 424 387	1 399 587	1 444 442	1 460 484	1 465 638	1 486 819	1.4	6.2
Greater Johannesburg (Gauteng)	1 131 775	1 211 384	1 338 112	1 428 375	1 426 138	1 451 970	1 475 598	1 486 942	1 433 060	-3.6	0.5
Johannesburg Central & South	866 244	865 016	1 002 438	1 040 308	1 025 887	1 090 974	1 087 713	1 080 630	1 083 236	0.2	5.6
Johannesburg North & West	1 424 758	1 499 456	1 678 988	1 789 509	1 777 483	1 798 359	1 857 627	1 911 264	1 886 750	-1.3	6.1
East Rand	1 016 011	1 106 015	1 163 125	1 236 535	1 226 204	1 251 811	1 259 346	1 249 621	1 238 699	-0.9	1.0
Pretoria (Gauteng)	1 184 272	1 311 164	1 457 177	1 535 496	1 535 829	1 514 683	1 543 601	1 580 309	1 594 954	0.9	3.8
Durban/Pinetown (KwaZulu-Natal)	1 001 141	1 095 583	1 161 048	1 261 348	1 246 452	1 285 904	1 321 044	1 376 610	1 381 161	0.3	10.8
Cape Town (Western Cape)	1 237 400	1 339 632	1 514 358	1 673 589	1 643 840	1 691 311	1 742 472	1 775 628	1 782 329	0.4	8.4
Coastal regions											
South Africa	1 219 263	1 372 940	1 440 390	1 562 009	1 531 025	1 564 776	1 629 896	1 664 495	1 652 974	-0.7	8.0
Western Cape	1 312 521	1 461 143	1 584 193	1 688 652	1 668 980	1 653 545	1 714 921	1 772 487	1 826 532	3.0	9.4
West Coast	1 236 597	1 394 946	1 464 195	1 590 835	1 607 156	1 457 488	1 512 709	1 711 012	1 819 580	6.3	13.2
Cape Peninsula and False Bay	1 308 342	1 483 838	1 611 725	1 697 041	1 691 467	1 706 310	1 712 878	1 741 058	1 868 864	7.3	10.5
Southern Cape	1 355 570	1 445 210	1 578 418	1 718 673	1 660 719	1 662 262	1 798 047	1 839 030	1 761 690	-4.2	6.1
Eastern Cape	1 110 900	1 097 126	1 159 100	1 269 166	1 296 771	1 296 807	1 262 470	1 214 661	1 148 601	-5.4	-11.4
KwaZulu-Natal	1 190 077	1 478 968	1 431 795	1 588 181	1 539 508	1 674 971	1 703 121	1 833 169	1 752 780	-4.4	13.9
South Coast	1 007 884	1 087 454	1 072 081	1 324 966	1 341 093	1 358 226	1 419 814	1 516 201	1 467 407	-3.2	9.4
North Coast	1 312 241	1 670 438	1 637 346	1 728 013	1 625 775	1 829 660	1 948 655	1 945 641	1 847 905	-5.0	13.7

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 R4,4 million in 2016.
House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R16,3 million in 2016.

Average nominal house prices by middle-segment category in the second quarter of 2016

	Small: 80m² - 140m²			Medium: 141m² - 220m²			Large: 221m² - 400m²		
	Price Rand	q/q %∆	y/y %∆	Price Rand	q/q %∆	y/y %∆	Price Rand	q/q %∆	y/y %∆
National and provinces									
South Africa	935 037	0.9	9.9	1 282 053	1.7	6.1	1 991 015	0.2	5.6
Eastern Cape	671 868	-2.0	0.1	1 017 246	-1.4	4.4	1 622 034	-0.6	-5.5
Free State	1 064 686	-0.7	11.9	922 105	3.4	15.6	1 477 792	7.7	3.4
Gauteng	849 392	0.7	5.2	1 212 462	-1.1	0.4	1 986 060	-1.6	4.3
KwaZulu-Natal	683 431	-2.5	-11.6	1 096 022	-5.6	0.3	1 943 481	0.7	4.2
Mpumalanga	746 217	2.4	9.6	1 058 539	0.9	4.5	1 571 786	5.1	9.9
North West	664 746	-6.7	0.4	875 523	-7.4	-1.0	1 338 010	2.7	-0.3
Northern Cape	627 442	-5.8	-9.7	1 121 836	-2.3	5.5	1 663 162	-0.5	3.1
Limpopo	682 475	3.7	2.2	1 025 100	-7.5	-6.5	1 847 788	1.9	14.6
Western Cape	1 214 793	1.2	13.3	1 655 725	4.3	12.3	2 360 600	1.5	8.0
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	643 701	-3.0	1.0	870 463	0.9	5.1	1 565 794	5.2	-8.0
East London (Eastern Cape)	791 378	3.0	4.8	1 161 601	-1.3	-10.0	1 879 975	-5.0	-4.1
Bloemfontein (Free State)	1 407 111	6.5	25.6	1 486 946	11.1	25.2	1 723 706	0.1	-0.7
Greater Johannesburg (Gauteng)	880 032	-0.8	3.6	1 240 852	-2.7	1.3	1 969 201	-3.5	0.5
Johannesburg Central & South	632 416	5.1	4.4	957 258	2.8	1.9	1 421 814	-3.3	-14.3
Johannesburg North & West	952 039	4.4	0.1	1 541 317	-2.1	-3.6	2 454 086	1.3	11.3
East Rand	950 606	-0.4	6.8	1 122 240	-1.4	6.0	1 684 767	-0.8	0.5
Pretoria (Gauteng)	860 392	0.6	12.0	1 340 692	2.2	1.9	2 184 909	-0.5	7.2
Durban/Pinetown (KwaZulu-Natal)	761 251	-3.0	-8.0	1 162 219	-2.5	-1.8	2 168 844	2.2	16.3
Cape Town (Western Cape)	1 341 020	2.1	15.0	1 772 754	2.4	7.8	2 617 961	7.4	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.

Home loan repayment patterns

% of homeowners

Payments on primary residence	July 2010	July 2011	July 2012	July 2013	July 2014	July 2015	July 2016
Pay minimum only	59	59	62	54	63	65	67
Pay extra every month	16	24	24	31	28	18	14
Pay extra lump sums	3	11	9	8	5	9	7

Source: Old Mutual

Home loan repayment patterns by income category

% of homeowners in July 2016

Payments on primary residence	Income categories				
	R6 000 - R13 999 per month	R14 000 - R19 999 per month	R20 000 - R39 999 per month	R40 000 and more per month	All income categories Weighted average
Pay minimum only	77	77	68	58	67
Pay extra every month	8	12	12	21	14
Pay extra lump sums	0	4	6	12	7

Source: Old Mutual

Monthly home loan repayments by income category

% of homeowners in July 2016

Monthly home loan repayment categories	Income categories				
	R6 000 - R13 999 per month	R14 000 - R19 999 per month	R20 000 - R39 999 per month	R40 000 and more per month	All income categories Weighted average
R1 - R2 999	36	24	17	9	19
R3 000 - R4 999	60	61	38	45	47
R5 000 - R9 999	4	15	41	42	32
R10 000 and more	0	0	4	4	3
Average monthly repayment in 2016	R3 142	R3 797	R4 877	R5 322	R4 554
Average monthly repayment in 2015	R2 786	R3 370	R3 983	R5 474	R4 170

Source: Old Mutual

Rate structure of transfer duty on property

2016/17

Value of property	**Transfer duty payable**
R0 - R750 000	0%
R750 001 - R1 250 000	3% on the value from R750 001 to R1 250 000
R1 250 001 - R1 750 000	R15 000 plus 6% on the value from R1 250 001 to R1 750 000
R1 750 001 - R2 250 000	R45 000 plus 8% on the value from R1 750 001 to R2 250 000
R2 250 001 - R10 000 000	R85 000 plus 11% on the value from R2 250 001 to R10 000 000
RR10 000 001 and above	R937 500 plus 13% on the value above R10 000 000

Source: National Treasury

Key variables and projections

Annual averages

		2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
World									
Gross domestic product	Real % Δ	5.4	4.2	3.4	3.3	3.4	3.1	3.1	3.4
Advanced economies	Real % Δ	3.1	1.7	1.2	1.1	1.9	1.9	1.8	1.8
Emerging market and developing economies	Real % Δ	7.5	6.3	5.2	5.0	4.6	4.0	4.1	4.6
South Africa									
Gross domestic product	Real % Δ	3.0	3.3	2.2	2.3	1.6	1.3	-0.2	0.8
$/R exchange rate	Rand per US$	7.32	7.25	8.21	9.65	10.84	12.75	15.82	17.53
Headline consumer price inflation rate	%	4.3	5.0	5.7	5.8	6.1	4.6	6.5	5.6
Mortgage interest rate (end of period)	%	9.00	9.00	8.50	8.50	9.25	9.75	10.75	10.75
Household disposable income	Real % Δ	3.7	4.6	3.0	1.8	1.4	2.2	-0.4	0.4
Household final consumption expenditure	Real % Δ	3.9	5.1	3.7	2.0	0.7	1.7	-0.4	0.5
Household final consumption expenditure	% of GDP	59.0	59.6	61.0	60.4	59.9	60.2	59.4	59.3
Household saving to disposable income	%	-0.8	-1.3	-2.0	-2.2	-1.6	-1.1	-1.0	-1.2
Household debt to disposable income	%	81.6	79.4	79.4	79.4	78.2	77.4	76.5	76.6
House prices (80m^2-400m^2, ≤R4.4m)	Nominal % Δ	7.4	1.8	0.6	10.0	9.3	6.1	4.2	4.3
House prices (80m^2-400m^2, ≤R4.4m)	Real % Δ	3.0	-3.1	-4.8	4.0	3.1	1.4	-2.2	-1.5

Source: IMF, SARB, Stats SA, Absa