Home Loans

Housing review

Fourth quarter 2016

Contents

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- The South African economy grew at a much subdued 0,3% year-on-year in the first half of the year, with low growth in most sectors of the economy, whereas real value added in the agricultural and mining sectors contracted sharply. However, on a quarter-on-quarter basis, growth improved to 3,3% at a seasonally adjusted, annualised rate in the second quarter from a contraction of 1,2% in the first quarter. The economy is forecast to expand by 0,4% in 2016 and 1,1% in 2017.

- The headline consumer price inflation rate averaged 6,2% year-on-year in the first nine months of 2016, largely driven by the key factors of food prices, fuel prices and the rand exchange rate. Inflation is forecast to remain above the 6% level up to early next year, averaging 6,3% this year and 5,5% next year.

- Interest rates have been hiked by a cumulative 75 basis points in the first quarter of 2016 and remained unchanged into the fourth quarter of the year. Despite inflation expected to breach the upper inflation target limit of 6% in coming months, domestic interest rates are forecast to remain unchanged in the rest of the year, with rate movements that will be highly dependent on trends in relevant economic and financial market data.

- Continued consumer financial strain was evident up to the fourth quarter of 2016. Inflationary pressures persisted, interest rates have been on a gradually rising trend since early 2014, while economic growth remained low and employment contracted up to mid-year. Consumers are to face further financial pressure over the short to medium term, which will impact credit risk profiles and confidence.

- Nominal year-on-year growth in home values, based on Absa's house price data, slowed down further in the third quarter of 2016, whereas prices deflated in real terms across most segments. These house price trends were the result of a range of developments on the economic and consumer front during the year.

- The forecast is for nominal house price growth to remain in a relatively narrow range of between 3,5% and 4,5% in 2016 and 2017. Real price deflation of between 1,5% and 2,5% is projected over this period, taking account of the outlook for headline consumer price inflation.

Economic overview

The global economy

World economic growth is estimated to have slowed down to a real 2,9% in the first half of 2016 from the second half of 2015, based on the International Monetary Fund's (IMF) latest assessment of the performance of the world economy, published in the *World Economic Outlook* of October 2016.

In advanced economies monetary policy remained accommodative during the course of the year against the background of continued low inflation and subdued levels of economic activity. Real growth in the US was recorded at a relatively low seasonally adjusted, annualised rate of 1,1% in the second quarter of the year, with growth in consumption that remained strong at 3% in the first six months of the year, supported by labour market and wage trends. Growth in the euro area was markedly lower at 1,2% in the second quarter from 2,1% in the first quarter, mainly as a result of declining domestic demand. In the UK real economic growth of 2,4% was recorded in the second quarter, but a slowdown in levels of activity was evident towards the end of the quarter in the run-up to the referendum and into the third quarter as a result of the eventual vote to leave the European Union. Economic growth in Japan dropped sharply to 0,7% in the second quarter from 2,1% in the first quarter, with fiscal and monetary stimulation measures announced by the Japanese government and the Bank of Japan respectively in an attempt to prop up growth and activity.

Levels of economic activity were relatively stable to marginally higher across emerging market and developing economies in the first half of 2016, despite some slowdown in advanced economies over this period. The first six months of the year saw economic growth in China stabilising at around 6,5% to 7% on the back of policy measures and strong growth in credit extension. The recovery in the Indian economy continued, driven by focused policy actions, improved terms of trade and higher levels of confidence. In Brazil the economic recession continued unabatedly, while some stabilisation was evident in the Russian economy. Economic activity slowed down in sub-Saharan Africa during the first half of the year, driven by a number of negative factors impacting Nigeria, while South Africa's economic performance remained much subdued over this period.

Consumer price inflation was marginally higher at 0,5% in advanced economies in the first six months of 2016 (0,3% in 2015), mainly as a result of more stable to somewhat higher international oil prices. In emerging market and developing economies inflation was largely unchanged in the first half of the year as the impact of previous exchange rate depreciations diminished gradually.

The South African economy

The performance of the South African economy remained much subdued in the first half of the year, with real growth of 0,3% year on year (y/y) posted over this period. This came against the background of relatively low year-on-year growth in most sectors of the economy, whereas real value added in the agricultural and mining sectors contracted by 8,3% y/y and 6,5% y/y respectively in the first six months of the year. However, on a quarter-on-quarter (q/q) basis, growth improved substantially to 3,3% at a seasonally adjusted, annualised rate in the second quarter from a contraction of 1,2% in the first quarter. This sharp variation in quarter-on-quarter growth was the result of huge fluctuations in agricultural and mining production between the quarters, which showed growth of 8,8% q/q and 11,8% q/q respectively in the second quarter compared with massive contractions of 15,5% q/q and 18,1 q/q respectively in the first quarter.

The South African Reserve Bank's leading business cycle indicator, which serves as an indication of the direction of economic activity over the next 6 – 9 months, remained on a downward trend into the third quarter of the year, declining by 3% y/y over this period. A range of sectoral economic and financial variables are included 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.

In the first nine months of 2016 the headline consumer price inflation rate averaged 6,2% y/y, with the September inflation rate at 6,1% y/y. Inflation is currently mainly driven by the key factors of food prices, fuel prices and the rand exchange rate. Food price inflation, with a weight of 14,2% in the headline index, came to 11,6% y/y in September and averaged 10,4% y/y over the 9-month period. The rising trend in food price inflation over the past 12 months is the result of the severe drought which gripped the country since last year, with relatively dry conditions that continued into the fourth quarter in many food-producing regions. International oil prices trended somewhat upward since August, which led to domestic fuel price hikes in October and November against the background of $/R exchange rate movements, with these developments adding to inflationary pressures.

Interest rates have been hiked by a cumulative 75 basis points in the first quarter of 2016 and remained unchanged into the fourth quarter of the year. 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), is currently at 7% per annum. Commercial banks' prime lending and variable mortgage base interest 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 have resulted in higher debt repayments and credit in general becoming less affordable.

Household sector overview

Continued consumer financial strain was evident into the fourth quarter of 2016, with inflationary pressures persisting and interest rates that have been on a gradually rising trend since early 2014. However, interest rates have remained stable after they were last hiked in the first quarter of this year. Economic growth was much subdued in the first half of the year compared with a year ago, with employment contracting and unemployment rising up to mid-year. Growth in household real disposable income and consumption expenditure remained low and closely correlated in the second quarter against the background of a continued low level of household savings. The debt-to-income ratio improved only marginally in the second quarter, with consumers' financial vulnerability and credit health deteriorating further in the quarter. Credit risk profiles continued to impact the accessibility of credit against the background of banks' risk appetites and lending criteria, with the effect that growth in household credit balances remained subdued up to the third quarter of the year. In view of the abovementioned developments related to the household sector, consumer confidence remained on a declining trend in the 6-month period up to June, which contributed to downward pressure on credit demand and growth in household consumption expenditure.

According to Statistics South Africa's *Quarterly Labour Force Survey*, a total of 15, 634 million people were employed in the formal and informal sectors of the economy at the end of the second quarter of 2016. A total of 129 000, or 0,8%, less people were employed by the second quarter compared with the first quarter. The unemployment rate came to 26,6% in the second quarter, with a total of 5, 634 million people who were unemployed in the period. The number of unemployed people increased by 7,7% y/y, or 403 000, in the second quarter of the year from the corresponding quarter last year.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income, remained low at an annualised rate of 0,7% in the second quarter of 2016 (0,4% in the first quarter). The continued low growth in real disposable income was the combined effect of inflationary pressures and adverse trends in employment in the second quarter.

Real household consumption expenditure showed annualised quarter-on-quarter growth of 1% in the second quarter of 2016 after a contraction of 1,7% q/q in the first quarter, with consumption growth that remained closely correlated with growth in real disposable income. Real retail sales growth, strongly related to trends in household consumption, came to 2,2% y/y in the first eight months of the year after declining sharply to only 0,2% y/y in August. Business confidence in the retail sector was also much lower in the first three quarters of the year compared with the same period last year. These trends in household consumption, retail sales and retailer confidence came against the background of consumer financial strain, a low level of household savings, a limited financial ability to access credit due to prevailing debt levels and strict lending criteria, deteriorating financial vulnerability and credit health, and low consumer confidence.

The ratio of net household savings to disposable income, which is in negative territory since 2006, came to -0,8% in the second 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 470,3 billion at end-August 2016 and comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal loans and microfinance)], measured only 1,4% y/y in the 8-month period up to the end of August. 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 a distortion for the 12-month period up to March next year.

The value of outstanding household secured credit balances (R1 130,5 billion), consisting of instalment sales credit, leasing finance and mortgage loans, showed growth of 2,9% y/y up to end-August this year. This low growth is the result of ongoing relatively subdued growth in household mortgage balances as well as a year-on-year contraction in instalment sales balances in the 8-month period, which is largely related to downward pressure on vehicle sales and vehicle finance.

The value of outstanding household unsecured credit balances (R339,8 billion at end-August 2016 and consisting of credit card debt, overdrafts and general loans and advances) contracted by 3,1% y/y up to the end of August, with the value of general loans and advances (58,6% of household unsecured credit balances) declining by 6,3% y/y over this period as a result of the inclusion of the African Bank data.

The ratio of household debt to disposable income was somewhat lower at 75,1% in the second quarter of the year compared with 75,7% in the first quarter. The continuing challenging and tough economic conditions are impacting household finances, such as income growth and credit demand, with trends in these variables eventually reflected in the debt ratio. This ratio is calculated from 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 to 9,8% in the second quarter of 2016 from a level of 8,6% at the end of 2013, mainly due to the rising interest rate cycle since 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 13,05% per annum in the second quarter of the year, which was 2,55 percentage points above the ruling average prime interest rate of 10,5% per annum over this period.

The abovementioned interest rate premium on 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, financial vulnerability and credit health in general), banks' risk appetites and lending criteria and 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 was at a level of 23,1% at the end of August this year, which was noticeably higher than the low of 15,4% back in 2009. The steadily rising share of unsecured credit since 2010 came against the background of declining and eventually relatively stable and low interest rates between late 2008 and early 2014, which contributed to strong year-on-year growth in unsecured credit balances between late 2010 and the end of 2013.

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 50,71 in the second quarter of 2016. As a result, 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 second quarter of 2016:

- Income vulnerability: At 52,54 index points, consumers were mildly exposed (50,5 in the first quarter).
- Expenditure vulnerability: At 52,34 index points, consumers were mildly exposed (52,62 in the first quarter).
- Savings vulnerability: At 49,77 index points, consumers were very exposed (52,13 in the first quarter).
- Debt service vulnerability: At 48,18 index points, consumers were very exposed (49,86 in the first quarter).

Based on statistics published by the National Credit Regulator (NCR), the state of consumer credit risk profiles was as follows in the second quarter of 2016:

- 24,08 million consumers were credit-active (23,88 million in the first quarter).
- 14,41 million (59,8%) credit-active consumers were in good standing (14,33 million, or 58,4%, in the first quarter).
- 9,67 million credit-active consumers (40,2%) had impaired credit records (9,55 million, or 40%, in the first quarter).
- 84,56 million consumer credit accounts were active (84,96 million in the first quarter).
- 64,32 million consumer credit accounts (76,1%) were in good standing (65,03 million, or 76,5%, in the first quarter).
- 20,24 million consumer credit accounts (23,9%) were impaired (19,93 million, or 23,5%, in the first quarter).

Statistics published by the NCR showed that the number of applications for credit dropped by 18% y/y to 9,95 million in the second quarter of 2016 (9,99 million in the first quarter) from 12,1 million in the corresponding quarter last year. Despite the abovementioned decline in the number of credit applications, the percentage of these rejected increased from 53,8% in the first quarter to 54,4% in the second quarter. These trends in credit applications are in line with increased financial pressure experienced by consumers and credit providers' risk appetites and lending criteria.

The TransUnion Consumer Credit Index showed that South African consumers' credit health, which started to weaken in the third quarter of 2015, remained on a deteriorating trend up to the second quarter of 2016. Distressed borrowing increased marginally, households' cashflow tightened further and debt service costs remained elevated in the second quarter on the back of lending rates that have been hiked at various occasions since early 2014.

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. 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 second quarter of 2016 there were about 6,33 million residential properties in South Africa with a total value of R4,56 trillion. Of these properties around 2,18 million (34,5% of the total) with a total value of R2,46 trillion were bonded and 4,15 million (65,5% of the total) with a total value of R2,10 trillion were non-bonded. Gauteng, the Western Cape and KwaZulu-Natal remained the most prominent regional residential property markets, with these regions having a combined share of 64,6% of the total number of residential properties and 75,8% of the total value of residential properties in the country in the second 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.

Based on data published by Statistics South Africa, building activity in the market for new private sector-financed housing (excluding government-subsidised low-cost housing) has deteriorated in the first eight months of 2016 compared with the same period last year. Building activity in the planning phase, i.e. the number of plans approved for new houses, flats and townhouses, dropped by 10,6% y/y to a total of 36 733 units in the 8-month period, while the number of new housing units constructed increased by a marginal 1,3% y/y to 25 595 units over this period. There is normally a considerable lag between the planning and construction phases, especially in respect of big housing projects consisting of a large number of units, with the abovementioned contraction in the planning phase of new housing that may only become evident in construction activity at a later stage. At a geographical level, Gauteng and the Western Cape continued to dominate residential building activity in the first seven months of the year. These two provinces accounted for 69,6% of the total number of plans approved and 70,3% of the total number of housing units completed in January to August this year. Building activity with regard to alterations and additions to existing houses was much subdued in the first eight months of the year, with a contraction of 5,7% y/y in terms of the building area for which plans were approved and growth of 1,3% y/y in respect of the building area reported as completed. This is a reflection of the extent of housing maintenance and upgrading against the background of financial strain experienced by homeowners.

Building confidence, based on the BER's building confidence index, has been on a declining trend since the first quarter of 2015 and measured 38 index points in the third quarter of 2016. The downward trend in building confidence came against the background of tough conditions in and prospects 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 and expected 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 total of 75 basis points in the first quarter of 2016 and by a cumulative 200 basis points since 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 low at around 4% in the first eight 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. The value of household mortgage balances amounted to R885,4 billion at end-August, with a share of 69,8% in total private sector mortgage credit balances, 60,2% in total household credit balances and 27,9% in total private sector credit balances. 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 data published by Statistics South Africa, national residential rental inflation remained relatively stable at an average of 5,2% y/y in the first nine months of 2016. Rental inflation measured 4,9% y/y for houses, 5,4% y/y for townhouses and 5,7% y/y for flats in the 9-month period, which were all below the average headline consumer price inflation rate of 6,2% y/y over this period. However, rental inflation for flats was on a gradual rising trend from 5,2% y/y in January to 5,8% y/y in September, whereas townhouse rental inflation slowed from 5,6% y/y in the first month of the year to 4,9% y/y by September.

Residential yields remained relatively stable in the second quarter of 2016, measuring 8,62% in the quarter compared with 8,59% in the first quarter, according to the *FNB-TPN Residential Yields Review* of September 2016. In view of trends in and the outlook for the economy and household finances, residential tenants are experiencing a fair amount of financial strain and a strong upward trend in rental inflation and yields is not expected over the next 12-month period.

Based on Tenant Profile Network (TPN) Credit Bureau's latest published *Residential Rental Monitor*, a total of 85,1% of residential tenants were in good standing in terms of rental payments in the second quarter of 2016, comprising those who paid on time (67,5%), those who paid late (11,3%) and those who paid within the grace period (6,3%). Impaired tenants (14,9% of the total) in the second quarter were those who made only a partial payment (9,6%) and those who did not pay at all (5,3%). A total of 80% of residential tenants rented for less than R7 000 a month in the second quarter of the year, with the majority (57%) renting for between R3 000 and R7 000 a month. A total of 20% of tenants rented for more than R7 000 a month in the second quarter (15% 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 (52,6%) of residential tenants renting for more than R25 000 a month paid on time in the second quarter (the lowest percentage of on-time-paying tenants across the rental value bands), while 16,8% of those renting for above R25 000 paid late and 14% in this value band made a partial payment only. These were the highest percentages of late-paying and partial-paying tenants across the various rental value bands. The abovementioned trends in rentals serve as an indication of the general financial profile of tenants renting residential property.

The TPN research shows that the national average for residential rentals was R6 046 a month in the second quarter of 2016, ranging from R7 221 a month in the Western Cape to R5 295 a month in the Eastern Cape and the Free State.

House prices

Nominal year-on-year growth in home values, based on Absa's house price data, slowed down further in the third quarter of 2016, whereas prices deflated in real terms across most segments. House price trends were the result of macroeconomic and consumer-related factors and developments (see the sections above on the economy and the household sector).

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

Price growth in respect of affordable housing (homes of 40 m² — 79 m² and priced up to R600 000 in 2016) slowed down further to a nominal 2,9% y/y in the third quarter of the year, from 3,9% y/y in the second quarter. This brought the average price of a home in this segment of the market to around R425 000, with price growth on a downward trend since the fourth quarter of last year. In real terms, prices dropped by 2,9% y/y in the affordable segment in the third quarter.

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) tapered off to 3,6% y/y in the third quarter of 2016 (5,4% y/y in the second quarter), with these properties priced at around R1 414 000 in the quarter. Real price deflation accelerated to 2,3% y/y in the third quarter from a drop of 0,8% y/y in the preceding quarter, with inflation-adjusted price growth on a downward trend since the first quarter of last year.

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

- Small houses (80 m² — 140 m²): 6,2% nominal and 0,2% real.
- Medium-sized houses (141 m² — 220 m²): 5,1% nominal and -0,9% real.
- Large houses (221 m² — 400 m²): 3,0% nominal and -2,8% y/y real.

Luxury housing

The segment for luxury housing (homes priced at between R4,4 million and R16,3 million in 2016) saw the average nominal price rising 9,0% y/y to a level of R6,5 million in the third quarter of 2016. In real terms, the average price of a luxury home was up by 2,8% y/y in the third quarter of the year.

Regional house prices

House price growth varied across the provinces, major metropolitan areas and coastal regions, with prices declining in some regions while rising in others in nominal and real terms on a quarterly as well as an annual basis in the third quarter of the year (see relevant tables at the back of the report).

The performance of the residential property market at a geographical level is in general also affected by national macroeconomic trends and developments. However, regional property markets may react differently to these macro trends, mainly as a result of 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

In the third quarter of 2016 the average nominal price of a new house increased sharply by 16,1% y/y to R2 020 200, after increasing by 9,0% y/y in the second quarter. Accelerating building cost inflation and rising vacant land values in the second and third quarters of the year (see section below on building costs and land values) might have contributed to the abovementioned significantly higher price growth in new housing in these two quarters. In real terms, price inflation of 9,5% y/y and 2,6% y/y was recorded with regard to new housing in the third and second quarters respectively.

The average price of an existing house increased by a nominal 3,5% y/y to a level of about R1 390 700 in the third quarter of the year, with some real price deflation of 2,4% y/y recorded. Nominal year-on-year growth in the average price of existing homes has been on a slowing trend since the fourth quarter of 2014.

The abovementioned price trends in respect of new and existing housing imply that it was about R629 500 or 31,2% cheaper to have bought an existing house than to have had a new one built in the third quarter of 2016.

Building costs

The cost of having a new house built showed a noticeable increase of 10,3% y/y in the third quarter of 2016, after rising by 8,3% 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, increased further by 14,1% y/y to about R736 300 in the third quarter of 2016 after rising by 18,5% y/y in the second quarter. In real terms residential land values were up by 7,6% y/y in the third quarter (11,5% y/y in the second quarter).

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 28,6% in the third quarter of the year.

Residential land values reflect various key factors with regard to new housing, such as location, the demand and supply of suitable and serviced land for development, the availability, condition and accessibility of transport and other physical infrastructure and the proximity to places of work, schools, shopping centres, medical facilities, etc. These factors have over time caused substantial upward pressure on land prices for new residential green-field and/or brown-field developments in especially the major metropolitan areas of the country.

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 since early 2014, housing affordability from a mortgage repayment perspective showed some deterioration over this period up to the second quarter of 2016. The ratio of house prices to disposable income was, however, on a gradual declining trend since the first quarter of 2015, mainly as a result of steadily slowing house price growth and relatively stable growth in nominal household disposable income 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 with regard to borrowing and lending, as well as 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 ratios imply 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

According to the latest projections by the IMF, world economic growth is forecast to be marginally lower at 3,1% in 2016 compared with 3,2% in 2015. This is mainly due to the prospect of more subdued growth in advanced economies after the British vote to leave the European Union and expected markedly lower growth in the US this year. Global growth is forecast to improve to a level of 3,4% in 2017.

Economic growth in advanced economies is projected at 1,6% in 2016 and 1,8% in 2017, down from 2,1% in 2015. US economic growth is forecast to slow down from 2,6% in 2015 to 1,6% in 2016 before edging up to 2,2% in 2017. Growth in the eurozone is forecast to taper off to 1,7% in 2016 (2,0% in 2015) and 1,5% in 2017 on the back of the effect of Brexit. In view of the Brexit vote and its likely effect, the UK economy is expected to slow down from growth of 2,2% in 2015 to 1,8% in 2016 and 1,1% in 2017. The Japanese economy is expected to remain relatively weak, with growth forecast at 0,5% in 2016 and 0,6% in 2017. The outlook is for emerging market and developing countries to record growth of 4,2% in 2016 (4,0% in 2015) and 4,6% in 2017. The expected uptick in growth in these economies is based on Chinese growth projected to remain above the 6% level in 2016-17, growth of 7,6% in India and somewhat higher commodity prices over this period.

Trends in the global commodity cycle are forecast to cause economic growth in sub-Saharan Africa to slow down from 3,4% in 2015 to 1,4% in 2016 before rising to 2,9% in 2017. Tough economic conditions in some of the region's largest economies, notably Nigeria and South Africa, will contribute to the expected lower growth in 2016.

Consumer price inflation in advanced economies is projected to remain largely subdued at 0,8% in 2016 and 1,7% 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 4,5% in 2016 and 4,4% in 2017, with inflation in sub-Saharan Africa forecast at 11,3% in 2016 and 10,8% in 2017, up from 7% in 2015.

There are, however, a number of risks which have the potential to markedly impact the performance of the world economy in the next 12 months. These risks include a further deterioration in growth in advanced economies, higher levels of protectionism, ongoing structural adjustment in China that will affect the commodity cycle and consequently commodity exporters, protracted severe drought conditions in large parts of sub-Saharan Africa that threaten food security, political strife and geopolitical tensions in some regions, the continuing refugee issue in Europe, the Middle East and some African countries and the spread of the Zika virus in Latin America and the Caribbean.

The South African economy

Growth in the South African economy is forecast to be much subdued at only 0,4% in 2016 compared with 1,3% in 2015, with the growth rate expected to pick up to a still low 1,1% in 2017. Over the short to medium term the economy is expected to be affected by the following factors:

- The commodity cycle, affecting the country's export performance
- Subdued world economic growth, especially in Europe, North America, Africa and Japan, with structural adjustment in China impacting commodity exporters and developing countries over a wide front
- A possible country credit downgrade to junk status by some credit rating agencies by year-end, which will affect capital flows, the rand exchange rate, inflation, interest rates, household and business sector finances, confidence levels, domestic demand, fixed investment, economic growth and employment
- The after-effects of the most severe drought in many years
- Declining levels of consumer and business confidence, which have a negative effect on demand, fixed investment and employment
- Continued tight fiscal conditions in the wake of pressure on state revenue as a result of low levels of economic activity.

A fair amount of upward pressure on inflation is still present in the economy against the background of trends in key driving factors such as the rand exchange rate, food prices and fuel prices, which will drive demands for above-inflation salary and wage increases. Headline consumer price inflation is forecast to remain above the 6% level up to early next year, averaging 6,3% this year and 5,5% next year. The rand exchange rate is forecast to depreciate further against the major international currencies towards year-end and in 2017.

Despite the headline inflation rate expected to be above the upper inflation target limit of 6% in coming months, domestic interest rates are forecast to be kept unchanged in the rest of the year, with rate movements that will be highly dependent on trends in relevant economic and financial market data.

The household sector

The household sector is set to face continued financial strain over the short to medium term, with employment and income growth to remain subdued. Spending power will be further eroded in view of inflationary pressures, the interest rate cycle and expected tax increases in 2017, which will be a limiting factor regarding the ability to service debt and take up further credit. Against this background, credit risk profiles and financial vulnerability will remain key factors in banks' risk appetites and lending criteria, which will determine the accessibility of, the demand for and growth in consumer credit and consumption expenditure. The already low level of consumer confidence is expected to continue and may deteriorate further, with confidence being an important factor regarding credit demand and consumption growth.

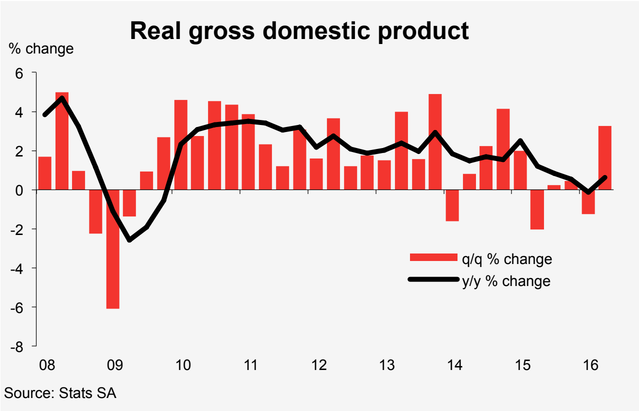
The property market

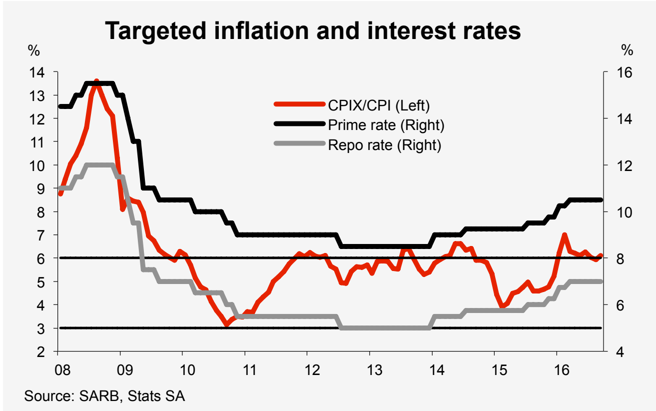
The performance of the property market is to a large extent determined by trends in and the outlook for the economy, the state of household finances and levels of consumer confidence. These factors will be evident in property demand and supply conditions, buying patterns, market activity, transaction volumes, building activity and trends in the mortgage market. Against this background the growth in household mortgage balances is expected to remain subdued at between 3,5% and 4% towards year-end and in 2017.

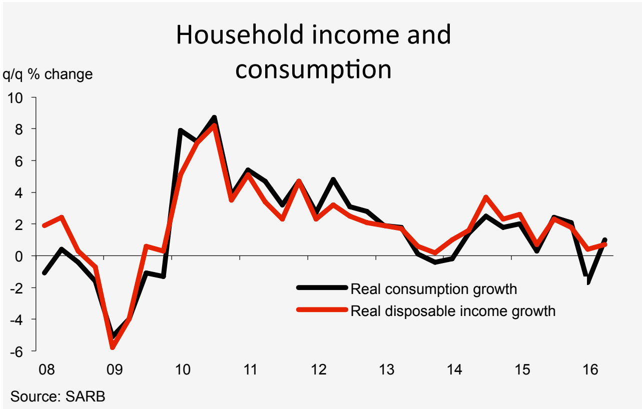
Based on macroeconomic and household sector-related trends and prospects, nominal house price growth is forecast to remain in a relatively narrow range of between 3,5% and 4,5% in 2016 and 2017. Real price deflation of between 1,5% and 2,5% is projected over this period, taking account of the outlook for headline consumer price inflation.

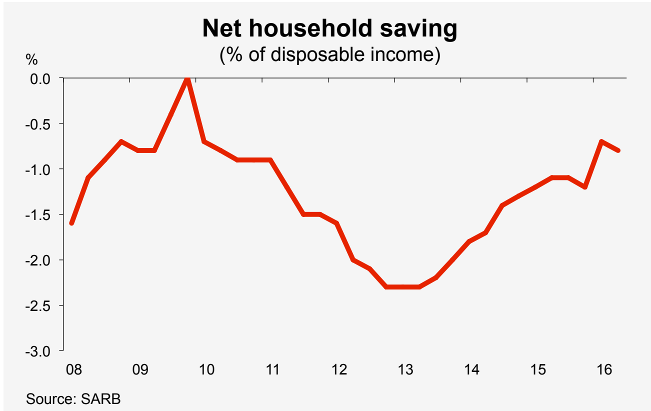
Building confidence and levels of residential building activity are expected to remain largely depressed over the short to medium term against the background of trends in and the outlook for the economy, the household sector and the property market.

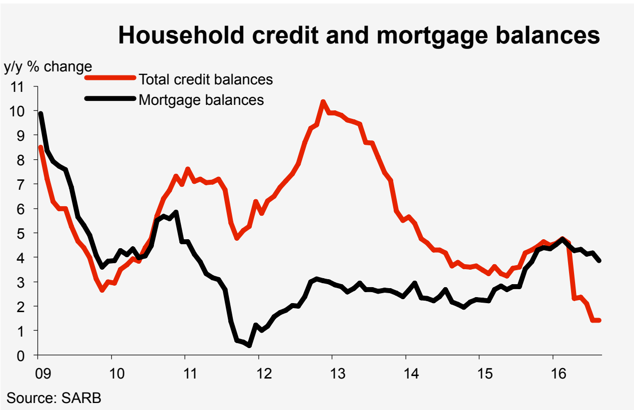
Graphs

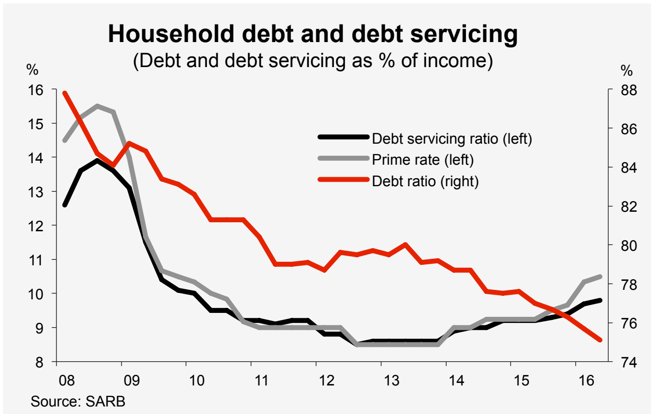

Real gross domestic product
% change
q/q % change
y/y % change
Source: Stats SA

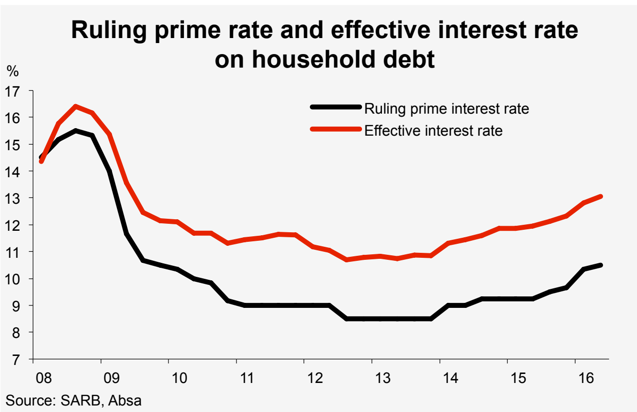

Targeted inflation and interest rates
%
CPIX/CPI (Left)
Prime rate (Right)
Repo rate (Right)
Source: SARB, Stats SA

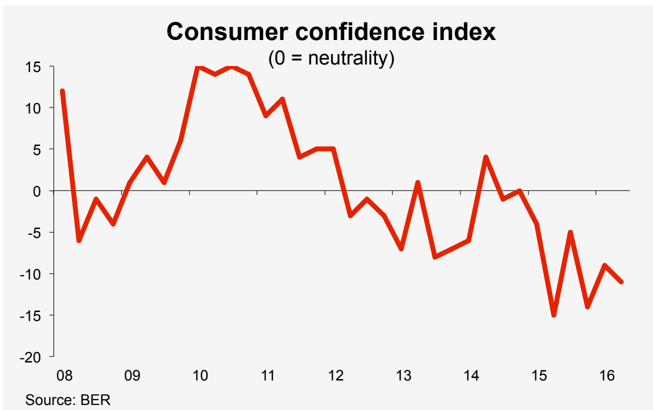

Household income and consumption
q/q % change
Real consumption growth
Real disposable income growth
Source: SARB

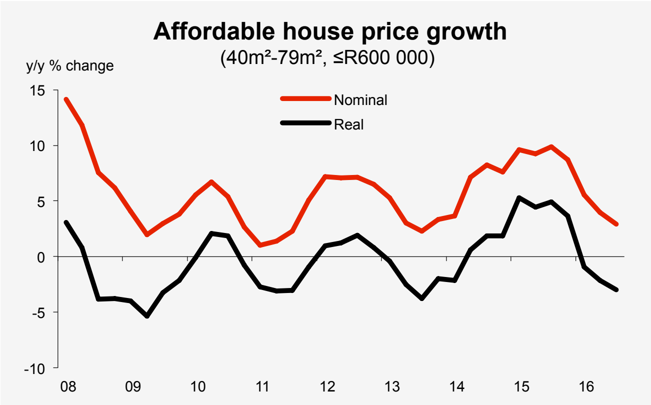

Net household saving
(% of disposable income)
%
Source: SARB

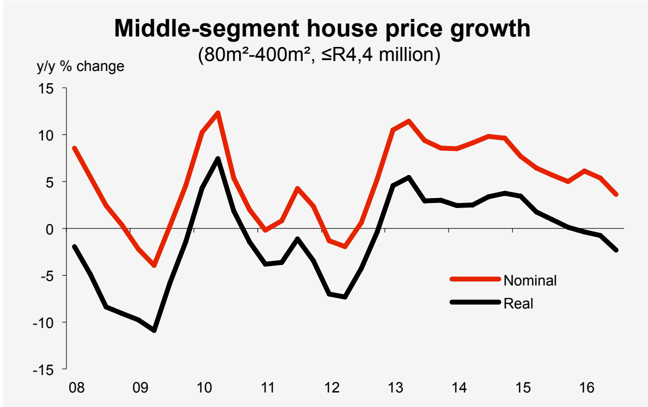

Household credit and mortgage balances
y/y % change
Total credit balances
Mortgage balances
Source: SARB

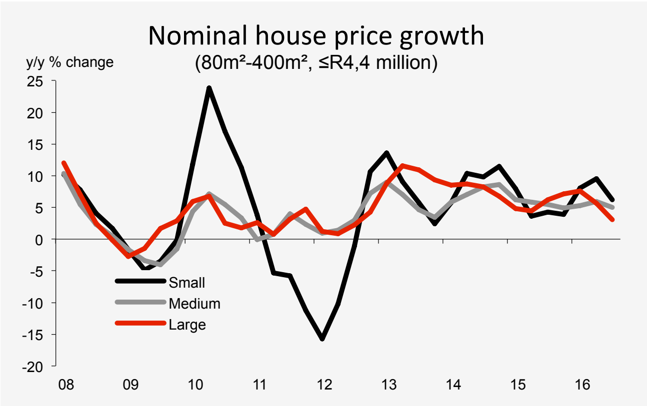

Household debt and debt servicing
(Debt and debt servicing as % of income)
%
Debt servicing ratio (left)
Prime rate (left)
Debt ratio (right)
Source: SARB

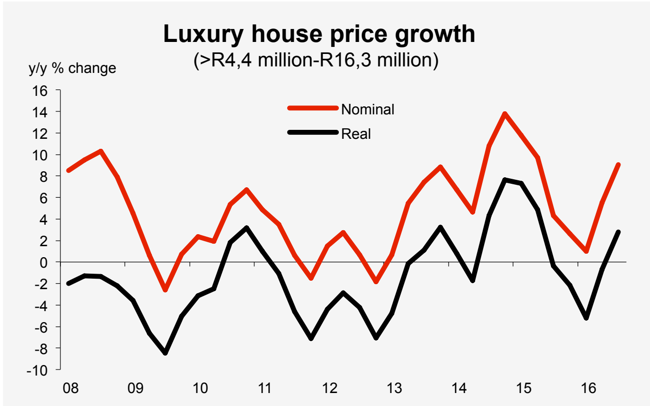

Ruling prime rate and effective interest rate on household debt
%
Ruling prime interest rate
Effective interest rate
Source: SARB, Absa

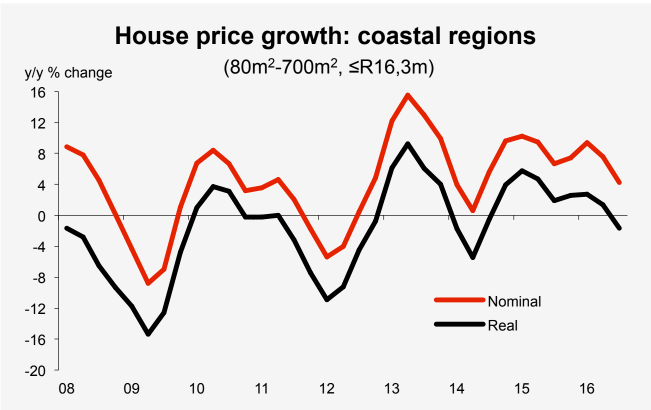

Consumer confidence index
(0 = neutrality)
Source: BER

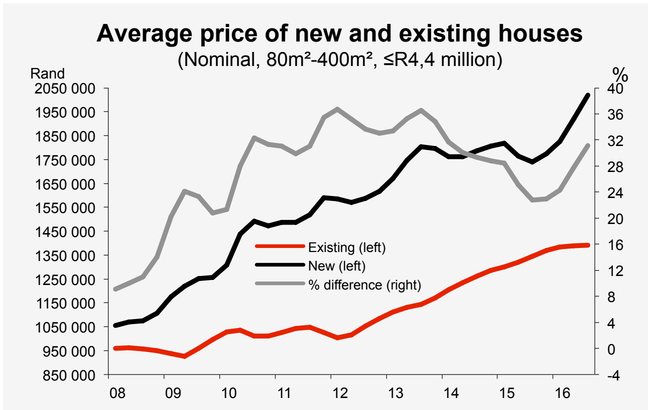

Affordable house price growth
(40m²-79m², ≤R600 000)
y/y % change
Nominal
Real

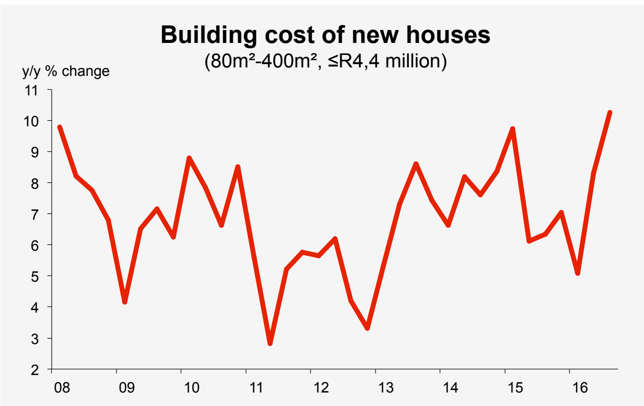

Middle-segment house price growth
(80m²-400m², ≤R4,4 million)
y/y % change
Nominal
Real

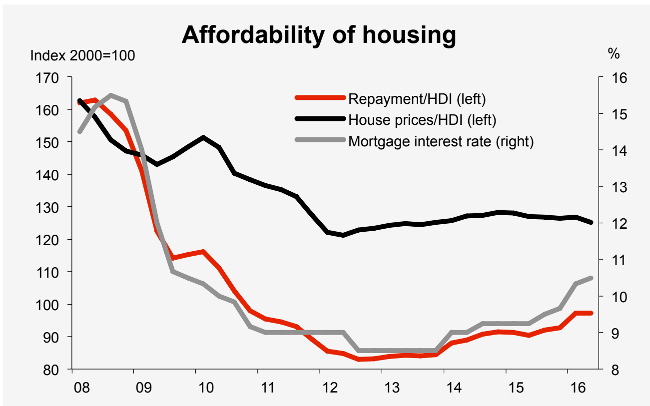

Nominal house price growth
(80m²-400m², ≤R4,4 million)
y/y % change
Small
Medium
Large


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)

Residential property stock[1]

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	% share[2]
Number of properties						
Total number	6 142 219	6 181 901	6 210 698	6 269 586	6 333 523	100.0
Bonded	2 181 116	2 184 389	2 177 505	2 194 593	2 185 984	34.5
Non-bonded	3 961 103	3 997 512	4 033 193	4 074 993	4 147 539	65.5
Freehold properties (excluding estate properties)	5 131 138	5 161 387	5 184 210	5 232 080	5 277 781	83.3
Bonded	1 549 836	1 548 159	1 539 480	1 551 096	1 536 306	29.1
Non-bonded	3 581 302	3 613 228	3 644 730	3 680 984	3 741 475	70.9
Sectional title properties (excluding estate properties)	700 325	703 443	707 683	711 209	715 792	11.3
Bonded	429 935	431 111	432 691	434 693	434 675	60.7
Non-bonded	270 390	272 332	274 992	276 516	281 117	39.3
Estate properties[3]	310 756	317 071	318 805	326 297	339 950	5.4
Bonded	201 345	205 119	205 334	208 804	215 003	63.2
Non-bonded	109 411	111 952	113 471	117 493	124 947	36.8
Property value (R billion)						
Total value	4 155	4 252	4 291	4 436	4 557	100.0
Bonded	2 287	2 329	2 348	2 417	2 456	53.9
Non-bonded	1 868	1 923	1 943	2 019	2 101	46.1
Freehold properties (excluding estate properties)	2 918	2 983	3 001	3 091	3 170	69.6
Bonded	1 527	1 551	1 559	1 598	1 621	51.1
Non-bonded	1 391	1 432	1 442	1 493	1 549	48.9
Sectional title properties (excluding estate properties)	619	631	644	657	665	14.6
Bonded	367	373	379	386	388	58.4
Non-bonded	252	258	265	270	277	41.6
Estate properties[3]	618	639	646	688	722	15.8
Bonded	394	405	410	432	447	61.9
Non-bonded	224	233	236	256	275	38.1

[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 amount	Repayment at a mortgage rate of 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 repayment	Mortgage amount at a mortgage rate of 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	Q3	Q4	Q1	Q2	Q3		
					Rand	Rand	Rand	Rand	Rand	q/q %∆	y/y %∆
National											
Middle segment (80m²-400m², ≤R4,4m)	1 061 966	1 167 635	1 276 108	1 355 093	1 365 005	1 382 435	1 408 757	1 418 093	1 414 112	-0.3	3.6
Small (80m²-140m², ≤R4,4m)	702 976	755 821	826 552	867 027	872 302	891 381	922 342	932 217	926 646	-0.6	6.2
Medium (141m²-220m², ≤R4,4m)	1 018 060	1 078 790	1 158 902	1 224 078	1 232 078	1 248 897	1 263 415	1 287 258	1 294 325	0.5	5.1
Large (221m²-400m², ≤R4,4m)	1 519 829	1 673 912	1 808 327	1 911 328	1 941 130	1 968 241	1 989 916	1 994 278	1 999 949	0.3	3.0
New (80m²-400m², ≤R4,4m)	1 589 591	1 754 140	1 779 356	1 774 438	1 740 369	1 775 255	1 826 525	1 922 389	2 020 193	5.1	16.1
Existing (80m²-400m², ≤R4,4m)	1 038 970	1 139 211	1 246 506	1 333 470	1 344 026	1 368 328	1 383 323	1 388 451	1 390 692	0.2	3.5
Affordable (40m²-79m², ≤R600 000)	336 904	348 785	371 830	406 115	412 693	415 901	416 482	419 247	424 718	1.3	2.9
Luxury (R4,4m-R16,3m)	4 797 024	5 078 864	5 534 694	5 912 861	5 920 584	5 985 213	5 929 523	6 213 129	6 455 355	3.9	9.0
Provinces											
Eastern Cape	902 243	964 109	1 010 285	1 068 640	1 075 694	1 077 528	1 103 025	1 092 215	1 085 909	-0.6	0.9
Free State	870 379	944 052	1 046 684	1 068 651	1 030 067	1 062 787	1 124 551	1 163 360	1 154 466	-0.8	12.1
Gauteng	1 102 917	1 202 375	1 318 273	1 406 925	1 409 015	1 431 066	1 444 344	1 427 253	1 458 527	2.2	3.5
KwaZulu-Natal	936 750	1 081 517	1 179 897	1 237 305	1 250 835	1 280 443	1 278 360	1 244 860	1 186 926	-4.7	-5.1
Limpopo	928 109	1 007 460	1 061 778	1 113 215	1 124 718	1 154 818	1 181 098	1 194 890	1 192 337	-0.2	6.0
Mpumalanga	929 315	1 035 554	1 089 666	1 068 980	1 061 186	1 084 587	1 115 414	1 153 339	1 187 491	3.0	11.9
North West	872 157	920 013	952 877	956 860	962 369	1 016 870	1 020 974	980 372	938 259	-4.3	-2.5
Northern Cape	872 025	999 509	1 079 879	1 125 605	1 172 631	1 187 683	1 153 196	1 157 940	1 151 395	-0.6	-1.8
Western Cape	1 195 773	1 291 324	1 442 501	1 563 376	1 571 058	1 642 697	1 688 268	1 695 306	1 685 963	-0.6	7.3
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	857 804	901 293	910 822	963 609	970 159	978 604	991 327	1 002 383	1 008 992	0.7	4.0
East London (Eastern Cape)	1 052 871	1 157 519	1 184 543	1 317 250	1 352 313	1 306 554	1 280 409	1 332 310	1 438 584	8.0	6.4
Bloemfontein (Free State)	1 104 934	1 205 926	1 400 493	1 421 452	1 442 464	1 456 123	1 465 201	1 498 264	1 547 537	3.3	7.3
Greater Johannesburg (Gauteng)	1 131 936	1 210 025	1 337 124	1 427 737	1 450 925	1 471 687	1 476 587	1 432 898	1 483 206	3.5	2.2
Johannesburg Central & South	866 388	865 129	997 963	1 038 744	1 083 982	1 087 246	1 085 916	1 088 677	1 113 059	2.2	2.7
Johannesburg North & West	1 424 870	1 499 515	1 678 741	1 787 781	1 798 716	1 847 764	1 883 478	1 873 802	1 893 094	1.0	5.2
East Rand	1 016 077	1 102 933	1 162 770	1 236 691	1 251 798	1 259 560	1 249 524	1 246 897	1 245 733	-0.1	-0.5
Pretoria (Gauteng)	1 184 548	1 310 056	1 457 171	1 534 938	1 516 827	1 542 651	1 578 743	1 592 198	1 578 165	-0.9	4.0
Durban/Pinetown (KwaZulu-Natal)	1 001 339	1 097 915	1 161 777	1 259 471	1 282 305	1 323 565	1 380 551	1 353 714	1 216 411	-10.1	-5.1
Cape Town (Western Cape)	1 236 973	1 338 247	1 514 911	1 674 005	1 693 482	1 740 741	1 782 204	1 793 257	1 759 035	-1.9	3.9
Coastal regions											
South Africa	1 219 034	1 373 015	1 441 013	1 562 201	1 567 140	1 629 507	1 663 708	1 648 015	1 633 397	-0.9	4.2
Western Cape	1 313 789	1 462 039	1 583 462	1 688 353	1 656 097	1 714 124	1 769 100	1 827 692	1 837 878	0.6	11.0
West Coast	1 237 129	1 397 634	1 466 061	1 592 718	1 472 176	1 518 762	1 704 154	1 778 844	1 726 925	-2.9	17.3
Cape Peninsula and False Bay	1 308 969	1 485 119	1 611 198	1 696 992	1 701 489	1 712 762	1 747 122	1 877 516	1 940 427	3.4	14.0
Southern Cape	1 358 654	1 444 863	1 576 502	1 716 965	1 670 992	1 793 396	1 824 536	1 766 434	1 761 134	-0.3	5.4
Eastern Cape	1 110 944	1 097 204	1 159 786	1 264 321	1 285 856	1 260 347	1 212 326	1 174 153	1 216 009	3.6	-5.4
KwaZulu-Natal	1 189 514	1 476 512	1 430 605	1 589 136	1 680 019	1 705 608	1 840 902	1 717 287	1 500 576	-12.6	-10.7
South Coast	1 008 487	1 089 037	1 069 387	1 325 517	1 368 310	1 426 345	1 517 060	1 420 422	1 222 490	-13.9	-10.7
North Coast	1 310 896	1 666 008	1 637 015	1 729 183	1 832 249	1 947 637	1 955 814	1 816 242	1 617 664	-10.9	-11.7

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 third 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	926 646	-0.6	6.2	1 294 325	0.5	5.1	1 999 949	0.3	3.0
Eastern Cape	650 808	-2.2	-4.6	1 008 817	-2.9	6.3	1 715 623	2.8	-0.4
Free State	919 111	-8.7	4.3	978 049	5.3	26.6	1 395 097	-3.2	6.2
Gauteng	863 626	2.3	7.3	1 238 830	1.8	1.5	2 071 968	3.5	5.9
KwaZulu-Natal	720 628	3.9	-5.0	1 000 362	-7.8	-10.1	1 757 901	-7.8	-9.8
Mpumalanga	734 695	1.5	6.6	1 084 947	1.9	5.8	1 724 320	8.3	18.3
North West	674 201	-0.2	-1.4	810 939	-7.7	-9.6	1 389 958	3.1	-0.6
Northern Cape	813 397	8.5	20.2	1 022 556	-6.3	-9.9	1 845 077	7.3	6.5
Limpopo	760 710	4.7	15.0	1 069 769	0.7	-6.6	1 736 586	-1.5	13.5
Western Cape	1 204 387	-0.4	7.2	1 677 881	1.4	11.1	2 427 148	2.7	9.6
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	718 719	7.0	11.0	845 253	-3.5	3.1	1 545 991	-0.8	-6.4
East London (Eastern Cape)	711 442	-4.1	-5.4	1 322 815	4.4	4.7	2 049 355	1.5	3.4
Bloemfontein (Free State)	1 160 315	-14.0	3.9	1 309 821	-9.1	6.5	1 920 996	6.9	11.2
Greater Johannesburg (Gauteng)	934 063	5.6	6.9	1 280 766	2.4	2.4	2 115 264	5.9	5.7
Johannesburg Central & South	694 989	8.5	5.9	1 027 260	5.8	5.8	1 659 344	10.6	0.2
Johannesburg North & West	1 028 015	7.1	13.1	1 618 633	3.8	2.3	2 497 455	1.1	11.0
East Rand	939 133	-1.4	2.2	1 111 062	-1.2	1.8	1 796 024	5.5	2.2
Pretoria (Gauteng)	818 017	-2.6	4.9	1 343 271	0.6	3.5	2 146 417	-1.5	2.7
Durban/Pinetown (KwaZulu-Natal)	794 311	3.7	-7.7	1 101 984	-4.7	-9.3	1 728 605	-16.7	-9.0
Cape Town (Western Cape)	1 295 194	-2.7	5.2	1 776 820	-0.5	4.1	2 549 981	0.1	8.3

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m² and 400m², up to R4.4 million, in respect of which loan applications were approved by Absa Bank.

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
R10 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	2016F	2017F
World									
Gross domestic product	Real % Δ	5.4	4.2	3.5	3.3	3.4	3.2	3.1	3.4
Advanced economies	Real % Δ	3.1	1.7	1.2	1.2	1.9	2.1	1.6	1.8
Emerging market and developing economies	Real % Δ	7.5	6.3	5.3	5.0	4.6	4.0	4.2	4.6
South Africa									
Gross domestic product	Real % Δ	3.0	3.3	2.2	2.3	1.6	1.3	0.4	1.1
$/R exchange rate	Rand per US$	7.32	7.25	8.21	9.65	10.84	12.75	14.91	15.56
Headline consumer price inflation rate	%	4.3	5.0	5.7	5.8	6.1	4.6	6.3	5.5
Mortgage interest rate (end of period)	%	9.00	9.00	8.50	8.50	9.25	9.75	10.50	10.50
Household disposable income	Real % Δ	3.7	4.6	3.0	1.8	1.4	2.2	1.0	1.1
Household final consumption expenditure	Real % Δ	3.9	5.1	3.7	2.0	0.7	1.7	0.5	0.7
Household final consumption expenditure	% of GDP	59.0	59.6	61.0	60.4	59.9	60.2	59.6	59.2
Household saving to disposable income	%	-0.8	-1.3	-2.0	-2.2	-1.6	-1.1	-0.6	-0.2
Household debt to disposable income	%	81.6	79.4	79.4	79.4	78.2	77.4	76.5	76.6
House prices (80m²-400m², ≤R4.4m)	Nominal % Δ	7.4	1.8	0.6	10.0	9.3	6.1	4.6	3.7
House prices (80m²-400m², ≤R4.4m)	Real % Δ	3.0	-3.1	-4.8	4.0	3.1	1.4	-1.6	-1.7

Source: IMF, SARB, Stats SA, Absa