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The Absa Homeowner Sentiment Index (HSI) measures sentiments of South African consumers with regard to various aspects of the residential property market. The index and its sub-indices are derived from a quarterly survey of a representative sample of urban consumers, conducted by Columinate and based on demographic survey information. The HSI survey determines consumer sentiment regarding buying, selling, investing in, renting of and renovating property, as well as property market conditions in general.

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## Homeowner Sentiment Index

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### Perceptions about the property market improved in the third quarter

#### Economic and consumer sector overview

After a contraction in South Africa's real gross domestic product in the fourth quarter of 2016 and the first quarter of this year, economic growth rebounded to 2,5% at a seasonally adjusted annualised rate in the second quarter of the year. The second-quarter growth was to a large extent influenced by strong growth of 33,6% quarter-on-quarter (q/q) in agricultural production. Excluding the agricultural sector, the economy showed growth of 1,6% in the second quarter compared with the preceding quarter. The forecast is for the economy to grow by a real 0,6% in 2017, with growth expected to rise to 1,1% in 2018.

Headline consumer price inflation has slowed down from 6,6% year-on-year (y/y) in January this year to 4,8% y/y in August, to a large extent as a result of a sharp downward trend in food price inflation over this period. These developments contributed to an average headline inflation rate of 5,5% y/y in the first eight months of the year. The forecast is for inflation to average between 5% and 5,5% in 2017 and 2018. The major risks to the inflation outlook remain the rand exchange rate as well as fuel and electricity price trends.

Interest rates were kept unchanged at the South African Reserve Bank's September Monetary Policy Committee meeting on the back of inflationary risks related to movements in and the outlook for the rand exchange rate. The forecast is currently for interest rates to remain stable up to year-end and throughout 2018.

The state of household finances showed some improvement in the second quarter of 2017, with the debt-to-income ratio that dropped to 72,6% in the quarter, which was the lowest level since the first quarter of 2006. Growth in real household disposable income and consumption expenditure measured 4,5% q/q and 4,7% q/q respectively in the second quarter after a contraction in both variables in the first quarter. Consumer confidence, however, remained low in the first half of the year. Although the forecast is for slightly higher economic growth, inflation to remain within the inflation target range of 3%-6% and stable interest rates in 2018, consumer finances may only show some marginal improvement next year.

#### Homeowner Sentiment Index (HSI) results

The overall HSI score, which reflects the percentage of survey respondents with positive sentiment regarding property market conditions, improved to 81% in the third quarter of 2017 from 74% in the preceding quarter. The third-quarter index reading increased to a level that was much in line with the corresponding quarter last year, and was mainly driven by improved economic growth and consumer financial conditions in the second quarter of the year, after the country credit downgrades earlier this year that negatively affected confidence levels over a wide front. The main reasons mentioned by survey respondents which impacted their perceptions regarding the property market in the third quarter were the following:

- Property is a secured asset (33%)
- Property still increases in value (28%)
- A home is essential (11%)

## Homeowner Sentiment Sub-indices results

The HSI sub-indices all showed an improvement in the third quarter of the year compared to the first and second quarters, with these trends indicating that consumers remain largely positive about the property market.

### Buying property

Property-buying sentiment improved further to 68% in the third quarter of the year after rising from a recent low of 60% in the first quarter. The main reasons mentioned in favour of buying property were the following:

- Prices are relatively low and there are bargains in the market (28%)
- Property still accumulates in value and is a good investment (27%)
- Interest rates are low (8%)

### Selling property

The positive sentiment towards selling property hit a low of only 34% in the second quarter, with a slight improvement to 37% in the third quarter. The top reasons mentioned to sell property were the following:

- Property prices are relatively high and you may get a good price when selling (35%)
- Many people want to own property, which is supportive of selling (10%)
- Property still accumulates in value and is a good investment (7%)

### Investing in property

In the third-quarter survey, as much as 82% of respondents were positive about property as an investment, which was much in line with sentiment in the fourth quarter of 2016. Reasons mentioned in the third quarter why it is an appropriate time to invest in property were as follows:

- It is still a good time to investment in property (31%)
- Prices are relatively low and there are bargains in the market (15%)
- There is a demand for rental properties (14%)

### Renovating property

A total of 79% of survey respondents displayed positive sentiment in the third-quarter when asked whether it is a good time to renovate or do alterations to a property. The most important reasons mentioned in this regard were the following:

- Renovation increases the value of a property (45%)
- Building materials are currently well-priced (13%)
- It is good to constantly upgrade a property, especially if trying to sell (10%)

### Buying rather than renting property

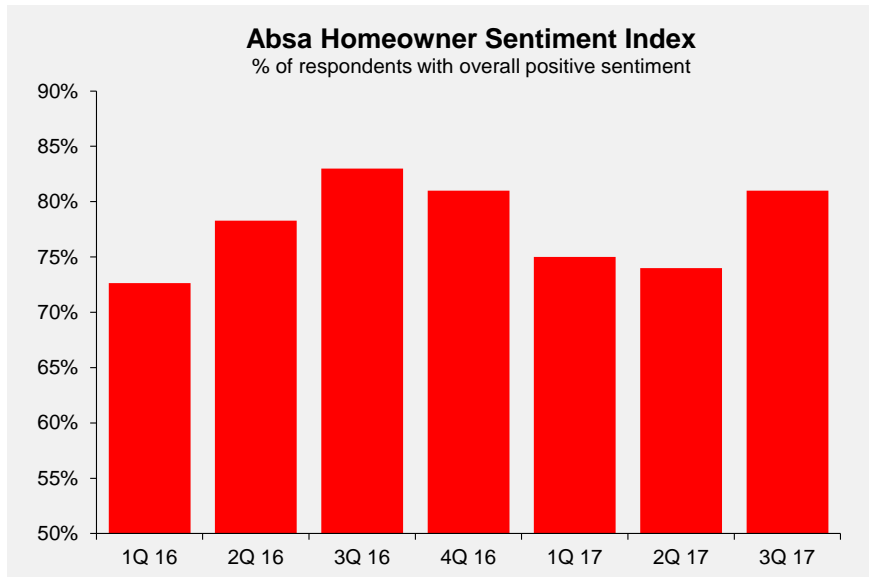
The majority of consumers (74%) surveyed in the third quarter of 2017 indicated that it is better to buy property than to rent. The main reasons mentioned in favour of buying property were:

- It is better to buy and pay off your own bond than rent and pay someone else's bond (29%)
- Property still accumulates in value and is a good investment (24%)
- Prices are relatively low and there are bargains in the market (23%)

### Conclusion and outlook

The Absa Homeowner Sentiment Index recovered noticeably in the third quarter of 2017 after economic developments and the country credit downgrades had a particularly negative impact on property market sentiment in the first and second quarters of the year. However, macro conditions showed some improvement during the second quarter and into the third quarter, which are believed to have had a positive effect on consumers' perceptions regarding the property market.

Based on recent trends in and the outlook for the economy and consumer finances, the HSI and its sub-indices may stabilise around current levels in the fourth quarter of the year. However, a subdued economic growth outlook, developments on the political front, policy uncertainty and trends with regard to government finances may impact the country's credit rating, confidence levels and eventually property market sentiment towards year-end and in early 2018. These developments will be evident in property market activity and transaction volumes, which will be reflected in property price growth and the demand for and growth in mortgage finance.



### Absa Homeowner Sentiment Index

% of respondents with positive sentiment

Period	Buying property	Selling property	Investing in property	Renovating property	Buy rather than rent	Overall sentiment
1Q 2016	60%	38%	77%	72%	67%	73%
2Q 2016	64%	39%	79%	79%	67%	78%
3Q 2016	72%	46%	85%	79%	75%	83%
4Q 2016	71%	48%	83%	76%	73%	81%
1Q 2017	60%	42%	77%	77%	66%	75%
2Q 2017	64%	34%	78%	75%	68%	74%
3Q 2017	68%	37%	82%	79%	74%	81%