Absa House Price Indices

Compiled by:
Jacques du Toit
Senior Property Analyst
Absa Home Loans
Absa Group Limited
(Reg No 1986/003934/06)

45 Mooi Street
Johannesburg
2001

PO Box 7735
Johannesburg
2000
South Africa

Tel: +27 (0) 11 350 7246
E-mail: jacques@absa.co.za
Website: http://www.absa.co.za

Explanatory notes:
The Absa House Price Indices, available back to 1966, are based on the total purchase price of houses in the 80m²-400m² size category, priced at R3,5 million or less in 2011 (including improvements), in respect of which mortgage loan applications were approved by Absa. Prices are smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index and price growth data may differ materially from previously published figures.

Latest trends in house prices appear to be unsynchronised

Based on the latest trends in the Absa house price indices for small, medium-sized and large homes, i.e. the middle segment of the South African housing market, for which the bank approved mortgage finance (see explanatory notes), house price growth appeared to be unsynchronised between the abovementioned three categories of housing up to August 2011. These mixed signals regarding house price trends are evident from recent year-on-year as well as month-on-month price growth.

Nominal house price growth improved further on an annual basis in the medium-sized segment in August this year, while price deflation continued to slow down in the small segment. However, in the category of large houses, prices were deflating in July and August, although only marginally. On a monthly basis price growth remained subdued in the small and medium-sized segments, with prices of large houses declining month-on-month.

In real terms, i.e. after adjustment for inflation, prices in all three categories of housing continued to decline on a year-on-year basis in August this year. Real house price calculations are based on the headline consumer price inflation rate, which was 5,3% year-on-year (y/y) in July 2011, up from 5% y/y in June this year.

The average nominal price of homes in the various categories was as follows in August 2011, with nominal and real price growth presented in the table on the next page:
- Small homes (80m²-141m²): R770 200
- Medium-sized homes (141m²-220m²): R1 009 000
- Large homes (221m²-400m²): R1 440 700

The latest trends in house prices, rising by about 1% y/y on average in nominal terms in the first eight months of 2011, are indicative of conditions in the local residential property market against the background of developments on the front of the macro economy and the household sector. Consumer price inflation is accelerating, adversely affecting consumers' purchasing power, while interest rates were kept unchanged since last cut in November 2010, and labour market conditions remained tight up to the 2nd quarter of the year. Many consumers are still battling with relatively high levels of debt (76,8% of disposable income in the 1st quarter of 2011) while a large number of credit-active consumers (8,63 million, or 46,4% of a total of 18,6 million) had damaged credit records by the 1st quarter of the year. These factors limit consumers' ability to take up credit, including mortgage finance extended to the household sector, which showed growth of only 2,7% y/y in July 2011.

Absa House Price Indices (nominal, 2000=100)

Month	Small houses 80-140 m²			Medium-sized houses 141-220 m²			Large houses 221-400 m²		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Jan	342.1	364.6	380.0	375.0	382.8	385.5	373.1	392.4	405.7
Feb	337.4	377.2	380.7	372.6	386.8	385.3	371.6	395.1	407.5
Mar	332.0	389.8	380.7	370.3	389.9	386.4	371.3	397.8	407.6
Apr	327.1	400.2	380.4	368.1	391.4	389.0	372.6	400.0	405.8
May	324.3	405.3	380.9	366.1	391.6	392.8	375.3	400.9	403.1
Jun	324.6	404.4	382.5	364.9	390.5	396.8	378.8	400.1	400.5
Jul	327.5	398.7	384.5	364.9	388.8	400.6	382.7	398.3	397.9
Aug	331.7	391.0	386.7	365.8	387.5	403.9	385.9	396.4	395.6
Sep	335.8	384.2		367.8	387.0		387.9	395.9	
Oct	340.2	380.1		370.7	386.8		388.8	397.1	
Nov	345.6	378.5		374.4	386.7		389.4	399.6	
Dec	353.7	378.9		378.5	386.3		390.5	402.7	
Average	335.2	387.7	382.0	369.9	388.0	392.5	380.7	398.0	403.0

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Real economic growth of 1,3% at a seasonally adjusted annualised rate was recorded in the 2nd quarter of 2011 (4,5% in the 1st quarter), impacted by global and domestic demand trends, as well as labour action in some sectors of the economy during the quarter, which negatively affected production activities and service delivery. Against the background of a struggling global economy, relatively low domestic economic growth, consumer and business confidence, and rising inflation, interest rates are expected to remain stable for the rest of 2011 and into 2012.

In view of these developments and expectations, nominal house price growth is forecast to be well within single digits for the full year, while in real terms, prices are expected to continue to decline in the rest of the year in the face of rising consumer price inflation, which is projected to be around 6% y/y by year-end.

Absa House Price Indices
Houses of 80m²-400m², up to R3,5 million

Category of housing	Nominal y/y % change			Real y/y % change		
	July 2011	August 2011	Year-to-date 2011	June 2011	July 2011	Year-to-date 2011
Small houses (80m²-140m²)	-3.6	-1.1	-2.4	-9.9	-8.4	-6.6
Medium-sized houses (141m²-220m²)	3.0	4.2	0.9	-3.2	-2.1	-3.6
Large houses (221m²-400m²)	-0.1	-0.2	1.3	-4.7	-5.1	-2.5

Absa House Price Indices — Nominal y/y % change

Absa House Price Indices — Real y/y % change