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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 R3,6 million or less in 2012 (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.

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Home values in a state of deflation

Latest trends

The average value of homes in the South African residential property market for which Absa received and approved applications for mortgage finance, is deflating. This is based on the bank's house price indices for the small, medium-sized and large categories in the middle segment of the market (see explanatory notes).

Nominal year-on-year price deflation was recorded in all three the abovementioned segments of the housing market in March 2012, with values starting to decline on a monthly basis at various stages during the course of last year. In real terms, i.e. after adjustment for the effect of inflation, home values continued to deflate up to February this year, based on headline consumer price inflation of 6,1% year-on-year (y/y) in the month.

Average nominal price levels of houses in the various categories of the middle segment of the market were as follows in March 2012, with nominal and real price changes presented in the table and graph on the next page:

- Small homes (80m²-141m²): R620 700
- Medium-sized homes (141m²-220 m²): R961 600
- Large homes (221m²-400m²): R1 476 000

The latest trends in house prices are believed to be a reflection of macroeconomic developments and property-related factors such as running costs, impacting household finances. These factors may affect the demand for housing and cause changes in property buying trends, which will impact market activity, price trends in the various segments of the market, and the demand for mortgage finance.

Absa House Price Indices (nominal, 2000=100)

Month	Small houses 80-140 m ²			Medium-sized houses 141-220 m ²			Large houses 221-400 m ²		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Jan	364.9	386.2	328.2	383.9	386.6	389.3	391.6	404.0	411.4
Feb	377.1	386.5	318.8	388.4	386.4	387.0	394.5	406.1	408.4
Mar	389.3	385.1	311.6	391.3	387.3	384.9	397.7	406.7	405.2
Apr	399.3	383.0		392.2	389.9		400.1	406.1	
May	404.0	381.2		391.3	393.6		400.8	405.1	
Jun	402.8	379.7		389.0	397.8		399.6	404.9	
Jul	397.0	377.8		386.5	401.3		397.0	406.2	
Aug	389.8	374.2		385.0	402.8		394.6	409.0	
Sep	384.2	368.2		385.0	402.0		393.5	412.2	
Oct	381.9	359.5		385.7	399.3		394.5	414.6	
Nov	382.5	349.2		386.6	395.7		397.1	415.2	
Dec	384.5	338.3		387.0	392.2		400.7	413.9	
Average	388.1	372.4	319.6	387.7	394.6	387.1	396.8	408.7	408.3

Outlook

The South African economy is forecast to grow by a real 2,7% in 2012, after growth of 3,1% was recorded in 2011. Consumer price inflation is projected to remain outside the inflation target range of 3%-6% this year, expected to average 6,3% before tapering off to 5,8% on average in 2013. Against the background of expected economic developments and inflation trends, interest rates are forecast to remain unchanged until late this year before being hiked on the back of inflationary pressures. The forecast is for interest rates to rise further in 2013, with prime and variable mortgage rates to peak at 11% by the end of next year.

The residential property market is expected to continue to be affected by macroeconomic and household finance-related factors in the rest of the year. These may include the following:

- Economic growth, measured by the change in the country's gross domestic product.
- Consumer price inflation, affecting consumers' spending power.
- Interest rates, affecting the affordability of debt and the cost of servicing debt.
- Household finances and consumers' risk profile, impacted by factors such as employment, income growth, savings, debt and debt servicing, and the state of consumer credit records.
- The affordability of property and accessibility of mortgage finance, which will be determined by factors such as property prices, interest rates, household finances and banks' lending criteria.
- Consumer confidence, which is measured by expectations with regard to the performance of the economy, household finances and consumer demand for durable goods such as household appliances, furniture and electronic equipment.

If recent trends in house prices are to continue, nominal and real price deflation for the year as a whole is a strong possibility. This will imply another year of dismal price performance by the housing market.

Absa House Price Indices

Houses of 80m²-400m², up to R3,6 million

Category of housing	Nominal y/y % change			Real y/y % change		
	February 2012	March 2012	Year-to-date 2012	January 2011	February 2011	Year-to-date 2012
Small houses (80m ² -140m ²)	-17.5	-19.1	-17.2	-20.0	-22.3	-21.1
Medium-sized houses (141m ² -220m ²)	0.2	-0.6	0.1	-5.2	-5.6	-5.4
Large houses (221m ² -400m ²)	0.6	-0.4	0.7	-4.2	-5.2	-4.7

