ABSA

Home Loans

Contents

Compiled by
Jacques du Toit
Property Analyst
Absa Home Loans

45 Mooi Street
Johannesburg | 2001

PO Box 7735
Johannesburg | 2000
South Africa
Tel +27 (0) 11 350 7246
jacques@absa.co.za
www.absa.co.za

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Housing review — Third quarter 2013

- South Africa's economic growth was sharply lower at a real seasonally adjusted, annualised rate of 0,9% in the first quarter of 2013 compared with 2,1% in the fourth quarter of 2012. This lower growth came against the background of global economic trends as well as a contraction in the real value added in the manufacturing, agriculture and electricity sectors, whereas mining production improved in the quarter. Real GDP growth of 2,3% is forecast for 2013.
- Inflationary pressures persist on the back of rising fuel prices and a weak exchange rate, with inflation averaging just below 6% in the first half of the year. The forecast is for headline consumer price inflation rate to rise to above the 6% level in the second half of the year. Interest rates are expected to remain unchanged at current levels throughout 2013 before rising around mid-2014 to keep inflation under control.
- Financial pressure on consumers continued in the early months of 2013, with growth in real household disposable income and consumption expenditure slowing down further, savings remaining low, the number of credit-active consumers with impaired credit records rising further and consumer confidence at a nine-year low in the first quarter of the year.
- Nominal year-on-year house price growth in the middle segment of the market increased further in the second quarter of 2013, but lower price growth was evident in some middle-segment categories as a result of base effects. Although remaining in positive territory, lower nominal year-on-year price growth occurred in the category for affordable housing in the second quarter of the year from the first quarter, whereas price growth in the luxury segment turned positive in the second quarter after some price deflation in the first quarter.
- Taking account of economic and household finance trends and prospects as well as recent developments regarding house prices, single-digit nominal price growth is forecast for 2013. As a result of expected trends in nominal prices and headline consumer price inflation in the rest of the year, relatively low real house price inflation is projected for 2013.
- The performance of and prospects for the residential property market will continue to be closely related to economic growth, employment and income growth, property running costs and living costs in general, interest rates, consumers' credit risk profiles, consumer confidence and banks' risk appetite and lending criteria. These factors will impact the affordability of housing and mortgage finance and will be reflected in property demand and supply conditions, price trends, market activity, buying trends, transaction volumes and the demand for mortgage finance.

Economic and household sector overview

The global economy

According to the International Monetary Fund (IMF), global economic growth showed only marginal improvement from a real annualised rate of 2,5% in the second half of 2012 to 2,8% in the first quarter of 2013. The continued subdued growth in the world economy was the result of various influencing factors.

Economic growth in the major emerging market and developing economies remained low on the back of infrastructure and capacity constraints, slow growth in the demand for exports, and declining commodity prices. The Chinese economy recorded somewhat slower-than-expected growth, although still growing at double the rate of output in the global economy.

The pace of expansion in advanced economies remained low into the early stages of 2013. The euro area continued to experience recessionary conditions in response to low levels of demand and confidence in the wake of developments in Cyprus, while tight fiscal and financial conditions remained a constraining factor to economic growth. The pace of economic expansion in the US economy was impacted by fiscal contraction, which led to subdued private sector demand. Japanese economic growth improved somewhat in the first quarter of the year, supported by domestic consumption and exports.

Consumer price inflation remained largely under control globally, especially in advanced economies, affected by continued relatively low levels of demand and lower commodity prices. As a result of these developments, monetary policy remained accommodative in most countries.

The South African economy

Economic growth was sharply lower at a real seasonally adjusted, annualised rate of 0,9% in the first quarter of 2013 compared with 2,1% in the fourth quarter of 2012, as measured by growth in real gross domestic product (GDP). This came against the background of global economic trends as well as a contraction in the real value added in the manufacturing, agriculture and electricity sectors. However, mining production improved in the first quarter of the year after contractions in the third and fourth quarters last year as a result of strike-related production losses in especially the platinum sub-sector. Steady growth was recorded in the real value added by the services sector, supported by higher levels of activity in the financial, wholesale and retail trade and transport, storage and communication sub-sectors.

The first half of 2013 saw headline consumer price inflation remaining relatively stable at around 5,7% year-on-year (y/y), much in line with 5,6% y/y in the fourth quarter of 2012. Inflation was largely driven by rand exchange rate depreciation, pressure on transport costs, food inflation and property running costs, as well as rising costs with regard to education and health services. Underlying core inflation, i.e. headline inflation excluding the volatile components of food, non-alcoholic beverages, petrol and energy, continued its upward trend from 3% y/y in the first quarter of 2011 to above 5% y/y by mid-2013.

Domestic interest rates were kept stable in the first half of 2013 on the back of economic developments and trends in and expectations with regard to headline consumer price inflation, which is forecast to rise to above the 6% level in the second half of the year, while the South African Reserve Bank expects core inflation to average 5,3% in 2013. Banks' prime lending and variable mortgage interest rates remained unchanged at 8,5% per annum up to July this year – their lowest level in 40 years, supporting the repayment of debt and the affordability of credit.

The household sector

Financial pressure on South African consumers continued in the early months of 2013, with growth in real household disposable income and consumption expenditure slowing down further, savings remaining low, the number of credit-active consumers with impaired credit records rising further and consumer confidence at a nine-year low in the first quarter.

Real household disposable income growth slowed down further to an annualised rate of 2,2% in the first quarter of the year, from 2,4% in the final quarter of 2012. The declining trend in real disposable income growth occurred against the background of continued tight labour market conditions and inflationary pressures. Labour costs increased at a faster pace than inflation, with the average wage settlement rate at 7,9% in the first quarter of 2013 compared with 7,6% a year ago, as reported by Andrew Levy Employment. Growth in labour productivity remained low at 1,2% y/y in 2012 after similar growth in 2011, contributing to nominal unit labour costs increasing by 6,3% in 2012 from 5,9% in the preceding year.

Growth in real household consumption expenditure came to an annualised rate of 2,3% in the first quarter, marginally down from 2,4% in the fourth quarter of last year. This was due to slowing income growth, inflationary pressures, which affected consumers' spending power, and continued low consumer confidence. The close correlation between real income and consumption growth continued up to the first quarter of the year and is related to the severe lack of household savings to support consumption expenditure.

The ratio of gross household saving to GDP remained stable at 1,7% in the first quarter of the year, with the ratio of net household saving to disposable income remaining at a zero-level up to the first quarter. Net household saving is based on the level of gross saving, adjusted for depreciation write-offs on the value of physical assets held by households, such as residential buildings and vehicles.

Outstanding household credit balances, comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal and micro loans), showed growth of around 9,5% y/y up to mid-2013. Outstanding household secured credit balances (instalment sales credit, leasing finance and mortgage loans) recorded steady growth of 5,4% y/y in 2012 and the first half of 2013. However, year-on-year growth in outstanding household unsecured credit balances (credit card debt, overdrafts and general loans and advances) remained above the 20% level in the first half of the year, although slowing down gradually since late last year. Factors such as the National Credit Act (NCA), banks' risk appetite and lending criteria and consumers' credit risk profiles, affect the availability and accessibility of credit.

The household debt ratio was relatively stable in 2012 and into early 2013, averaging 75,6% last year and 75,4% in the first quarter this year, unchanged from the fourth quarter of 2012. The debt ratio is calculated as the total amount of outstanding household debt expressed as a percentage of the total annual disposable income of households, i.e. after deductions for tax, social contributions and transfers. Based on the debt ratio and the prime lending rate in the first quarter of the year, the cost of servicing household debt as a percentage of disposable income was 7,7% in the first quarter, virtually unchanged from 7,6% in the final quarter of 2012. The household debt-servicing ratio is calculated as the interest component of debt repayments expressed as a percentage of disposable income.

Consumers' credit risk profiles deteriorated somewhat further in the first quarter of 2013, based on statistics published by the National Credit Regulator. A total of 9,53 million credit-active consumers, or 47,5% of a total of 20,08 million, had impaired credit records in the first quarter, up from 9,35 million, or 46,8%, in the fourth quarter of last year. The number of consumers in good standing dropped from 10,62 million (53,2%) in the last quarter of 2012 to 10,55 million (52,5%) in the first quarter of 2013. A total of 70,73 million consumer credit accounts were active in the first quarter of the year, with 52,42 million (74,1%) in good standing and 18,31 million (25,9%) impaired. Consumers' credit-risk profiles impact the access to credit and affect household consumption expenditure against the background of the state of savings.

A total of 13,621 million people were employed in the first quarter of 2013 (13,577 million employed in the fourth quarter of last year), based on the latest *Quarterly Labour Force Survey* published by Statistics South Africa. However, despite employment growth of 0,6% in 2012 and a further 1,5% y/y in the first quarter of 2013, a total of 406 000 less people were still employed in the first three months of the year compared with 14,027 million having been employed at the end of 2008. The unemployment rate was somewhat higher at 25,2% in the first quarter this year from 24,9% in the fourth quarter of last year.

The Bureau for Economic Research's (BER) consumer confidence index was at -7 index points in the first quarter of 2013, down from -3 in the final quarter of 2012. This brought the level of consumer confidence, as measured by expectations regarding the outlook for the economy, household finances and durable consumption expenditure, to its lowest level since the first quarter of 2004. The consumer confidence index averaged 14,5 index points in 2010, 7,3 index points in 2011 and -0,5 index points in 2012.

Property market overview

Based on calculations by Absa, nominal year-on-year house price growth improved somewhat further in the second quarter of 2013, but in some segments of the market price growth peaked and is slowing down (see section on house prices below).

The first five months of 2013 saw levels of residential building activity rising by more than 10% compared with a year ago. The volume of building plans for new housing approved by local government institutions increased by 11,3% y/y to 21 583 units in the period January to May this year, largely driven by the segment for flats and townhouses, which posted growth of 43,7% y/y in plans approved. The construction phase of new housing saw growth of 8,6% y/y to a total of 17 878 units in the five months up to May, with the segments for smaller-sized houses (below 80m²) and flats and townhouses the main contributors. These trends in residential building activity are in line with an improvement in building confidence up to the second quarter of 2013, based on the BER's building confidence index, which was by mid-year at its highest level since late 2008.

Based on the factors of affordability and changing lifestyles, the focus of the demand for and supply of new housing was largely on smaller-sized houses and higher-density flats and townhouses over the years. As a result, over 800 000, or more than 73% of all new housing units built since 1994, were in these two segments of the market. The abovementioned residential building statistics refer to private-sector financed housing, excluding government-subsidised low-cost housing.

The performance of the mortgage market remained subdued against the background of economic trends, the state of household finances, consumer credit-risk profiles, banks' risk appetite and lending criteria, consumer confidence and residential property market conditions in general. As a result, the value of outstanding household mortgage balances continued to show low growth of around 3% y/y in the first half of 2013 to a level of just above R800 billion, after similar growth in 2012. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital repayments on mortgage loans and loans fully paid-up.

The household mortgage debt-to-income ratio (outstanding household mortgage debt as a percentage of annual disposable income) was slightly lower at about 39,5% in the first quarter of 2013 from 39,8% in the fourth quarter of 2012. This was the net result of quarter-on-quarter growth of 0,6% in household mortgage debt and growth of 1,3% in nominal disposable income.

The cost of servicing household mortgage debt (the interest component of mortgage debt repayments) as a percentage of disposable income was unchanged at 3,4% in the first quarter of 2013 from the fourth quarter of last year. This was the net result of trends in household mortgage debt and nominal disposable income, which determines the mortgage debt ratio, and the mortgage interest rate.

With the variable mortgage interest rate currently at a level of 8,5% per annum, monthly repayments on mortgage loans are in general 35,9% lower compared to early December 2008, when the mortgage rate was at a level of 15,5% per annum. The continued low mortgage interest rate is beneficial to the affordability of mortgage finance, supporting the demand for housing and consumers' ability to take up credit to buy property.

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.

Based on research published by Tenant Profile Network (TPN) Credit Bureau, the shortage of rental stock in the residential market has increased in recent times, which is in line with still relatively low levels of residential building activity since bottoming in 2010 and a low number of buy-to-let residential property transactions being concluded compared with a few years ago. According to TPN a total of 71% of residential tenants paid rent on time, 3% paid in the grace period, 10% paid late, 8% made a partial payment and 8% did not pay at all in the first quarter of 2013.

Buy-to-let investors, having to deal with the aspect of property yields against the background of currently relatively low capital appreciation and rising running costs (municipal rates and taxes, electricity tariffs, maintenance, security, etc.), as well as consumers renting these properties, are impacted by economic trends (inflation, interest rates) and challenges with regard to personal financial circumstances (employment, income, consumption, savings, credit-risk profiles, etc.). These factors are most likely affecting investor demand for buy-to-let property, while TPN has found in recent research that the average age of tenants increased from 27 years to 31 years, which serves as an indication of the possible impact of the abovementioned factors on home ownership and property investment.

House prices

Nominal year-on-year house price growth in the middle segment of the market (homes of 80m² — 400m² and priced up to R3,8 million in 2013) increased further in the second quarter of the year, but lower price growth was evident in some middle-segment categories. In real terms, i.e. after adjustment for the effect of inflation, house price growth in the middle segment of the market accelerated in the second quarter of the year compared with a year ago.

Although remaining in positive territory, lower nominal year-on-year price growth occurred in the category for affordable housing in the second quarter of the year from the first quarter, whereas price growth in the luxury segment turned positive in the second quarter after some price deflation in the first quarter.

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. The nominal price will be reflected in a valuation, an offer to purchase, an application for mortgage finance and in the transfer documentation when registered.

The real price of a property is the nominal price adjusted for the effect of inflation, and is calculated to determine if the value of a property has increased at a rate of above or below the inflation rate. In addition to the nominal price, real price trends and growth are important from an investment point of view.

House price trends continued to be a reflection of property market conditions and related factors, which are affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence.

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 be evident of changed market strategies and lending criteria implemented by the bank, impacting differently on the various segments of housing analysed. Real price calculations are based on nominal prices deflated by the headline consumer price index. All price data series are 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

The second quarter of 2013 saw the average nominal price growth of affordable housing (homes of 40m² - 79m² and priced up to R515 000 in 2013) continuing its gradual downward trend of the past three quarters to 3,6% y/y since peaking at around 7% in the third quarter of 2012. The slowdown in year-on-year price growth came on the back of the base effect of accelerating price growth in the corresponding quarters a year ago. In real terms prices in the affordable segment dropped by 2% y/y in the second quarter this year.

The average price of a home in the affordable segment of the market was R345 600 in the second quarter of 2013.

Middle-segment housing

Year-on-year house price growth in the middle segment of the market (homes of 80m² — 400m² and priced at R3,8 million or less in 2013) came to about 12% in the second quarter of 2013 from 10,4% in the first quarter. This brought the average price of a middle-segment home to about R1 162 500 in the second quarter.

Despite the further improvement in year-on-year price growth in middle-segment housing up to the second quarter of the year, price growth has moderated in some categories in this segment as a result of base effects and monthly price growth slowing down since mid-2012.

The following price changes occurred in the three middle-segment categories in the first and second quarters of 2013:

Small houses (80m² - 140m², up to R3,8 million):
- First quarter: nominal 14,5% y/y and real 8,3% y/y
- Second quarter: nominal 8,1% y/y and real 2,3% y/y

Medium-sized houses (141m² - 220m², up to R3,8 million):
- First quarter: nominal 9,6% y/y and real 3,7% y/y
- Second quarter: nominal 7,5% y/y and real 1,7% y/y

Large houses (221m² - 400m², up to R3,8 million):

- First quarter: nominal 7,7% y/y and real 1,8% y/y
- Second quarter: nominal 11,8% y/y and real 5,7% y/y

The number of records included in the calculation of price trends in the large-house category increased from the first to the second quarter this year, which could have contributed to the acceleration in price growth, especially if a larger number of transactions at a higher average price were included in the large-category sample compared with the previous quarter. Base effects, however, also played a role in the higher second-quarter growth rate of large houses, as price growth was extremely low (nominal 0,7% y/y) in the second quarter of 2012.

Base effects also contributed to recent trends in price growth in the small and medium-sized segment of the market.

Luxury housing

In the segment of luxury housing (homes priced at between R3,8 million and R13,8 million in 2013), nominal price inflation of 6,5% y/y was recorded in the second quarter of 2013 after price deflation occurred in the preceding two quarters. The average price of a luxury home came to R5 172 800 in the second quarter. As the sample size of this category of housing is relatively small, a number of transactions of a higher value compared with previous quarters could have contributed to the strong price growth in the second quarter. Marginal real price inflation of 0,7% y/y was evident in the second quarter after real price deflation was recorded in the preceding eight quarters.

Regional house prices

House price growth at a regional level, i.e. in the various provinces, metropolitan areas and coastal regions, performed relatively strong in a number of geographical areas in the second quarter of 2013 on both a quarter-on-quarter and year-on-year basis (see tables at the back of the report presenting house price trends at a geographical level).

House prices along the coast improved further in the second quarter of 2013, growing by a nominal 15,6% y/y, after being in a state of deflation from late 2011 up to mid-2012. The relatively strong performance of the coastal market was largely driven by two regions:

- The north coast of KwaZulu-Natal posted nominal house price growth of 42,7% y/y in the second quarter, which is indicative of the development along this section of the province's coast in recent times and the consequent increasing demand for primary residential property.
- The Cape peninsula and False Bay area in the Western Cape also recorded relatively strong nominal growth in house prices in the second quarter of the year, coming in at 16% y/y.

The abovementioned two coastal regions are, however, to a large extent either part of or on the edge of greater metropolitan areas, which are driven by higher levels of economic activity and having larger populations than some other coastal regions, impacting property demand and supply conditions and price trends.

The Eastern Cape coastal region, despite having two metropolitan areas (Port Elizabeth and East London), recorded nominal price deflation of 3% y/y in the second quarter of 2013. This drop in house prices along the Eastern Cape coast is, however, related to base effects and came against the background of relatively strong price growth recorded in especially East London a year ago.

In addition to national economic and consumer-related developments and trends, the residential property market at geographical level is in many respects also influenced and driven by area-specific factors and developments of an economic, infrastructure, demographic, social and physical nature, such as location. These factors may impact and lead to different property demand and supply conditions, level of market activity, buying patterns, transaction volumes and price levels and growth across the various regions.

New and existing housing

The average nominal price of a new house was up by 9,8% y/y to about R1 716 000 in the second quarter of the year, which translated into real price growth of 3,8% y/y. The average price of an existing house increased by a nominal 11,9% y/y to R1 135 200 in the second quarter, which came to a real price increase of 5,8% y/y in the quarter. As a result, it was R580 700, or 33,8%, cheaper to have bought an existing house than to have a new one built in the second quarter of 2013. The price difference between new and existing housing has remained relatively stable at just below 34% since the second quarter last year.

Building costs

The cost of building a new house accelerated further in the second quarter of 2013, increasing by a nominal 7% y/y after rising by 5,1% y/y in the first quarter. The rise in building costs was driven by inflationary pressures, with the headline consumer price inflation rate averaging just below 6% y/y in the second quarter.

Factors impacting building costs, and eventually the price of new housing, 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 is impacted by aspects such as finance costs, land values, which reflect the scarcity of serviced land, the cost of rezoning and the preparation of land for construction, which include the demolition of old and unwanted structures and other infrastructure, and the installation of new infrastructure where applicable.

Land values

The average value of land for new housing in the middle and luxury segments of the market for which Absa received applications and approved mortgage finance, increased by a nominal 9,4% y/y to about R567 100 in the second quarter of 2013, after rising by 7,9% y/y in the first quarter. In real terms residential land values were up by 3,5% y/y in the second quarter of the year, after rising by a real 2,5% y/y in the first quarter.

Land values for new housing will continue to reflect the all-important factor of location, as well as the availability of municipal services such as electricity, water, sewerage and refuse removal, and the availability and condition of transport infrastructure.

Affordability of housing

Housing affordability, as measured by the ratios of house prices and mortgage repayments to household disposable income (see graph on the affordability of housing), levelled out somewhat towards the end of 2012 and early 2013, but remained largely favourable compared with a few years ago. This was the net result of trends in house price and disposable income growth, and the mortgage interest rate remaining unchanged since mid-2012, currently at a 40-year low of 8,5% per annum.

Despite the low mortgage interest rate, many households' ability to take advantage of the favourable trends in housing affordability is still affected by factors such as employment, income, savings, living costs, debt levels, as well as credit-risk profiles (as reflected by the state of consumer credit records), the NCA and banks' lending criteria in the case of mortgage loan applications for buying homes.

A downward/upward trend in the abovementioned two housing affordability ratios 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

Global economic growth is forecast by the International Monetary Fund (IMF) to remain subdued at a real 3,1% in 2013, unchanged from 2012. The continued low growth projected will be the result of slower growth and weaker demand in a number of key emerging market and developing economies, whereas the euro area is expected to remain in recession.

Growth in advanced economies is forecast at a real 1,2% this year, unchanged from last year. The euro-area economy is expected to contract by 0,6% in 2013 (-0,6% in 2012), with the US forecast to show growth of 1,7% this year (2,2% in 2012), Japan to grow by 2% (1,9% in 2012) and the United Kingdom to grow by 0,9% (0,3% in 2012).

Emerging market and developing economies are forecast to post real growth of 5% in 2013, marginally up from 4,9% in 2012. Real economic growth in China and India is projected at 7,8% and 5,6% respectively in 2013 (7,8% and 3,2% respectively in 2012), which will largely drive economic growth in the developing Asian region from 6,5% in 2012 to 6,9% in 2013.

The IMF is projecting consumer price inflation at 1,5% in advanced economies this year (2% in 2012) and 6% in emerging market and developing economies (6,1% in 2012). In view of continued low global growth and inflation remaining under control, interest rates are forecast to remain at relatively low levels for the foreseeable future.

The South African economy

The Absa forecast is for the domestic economy to expand by a real 2,3% in 2013, (2,5% in 2012), with growth to be driven by global economic trends and the resultant demand for exports, as well as domestic demand and other developments on the economic front. Both the South African Reserve Bank and the IMF forecast domestic real GDP growth at 2% in 2013.

Domestic inflationary pressures persist on the back of rising fuel prices and a weak exchange rate, with inflation averaging just below 6% in the first half of the year. The Absa forecast is for headline consumer price inflation rate to rise to above the 6% level in the second half of the year, before tapering off to between 5,5% and 6% on average in 2014. The Reserve Bank is expecting headline consumer price inflation rate to average 5,9% in 2013 and 5,5% in 2014, with core inflation forecast at 5,3% in 2013 and 5,2% in 2014.

Based on current trends in and prospects for the global and local economy, as well as the outlook for consumer price inflation, interest rates are still forecast to remain unchanged at current levels throughout 2013 before rising around mid-2014 to keep inflation under control.

The household sector

Trends in household sector finances will continue to be driven by macroeconomic factors such as economic growth, employment, inflation and interest rates.

The following trends are expected in household sector-related variables in 2013:

- Employment growth of 0,9% is forecast after growth of 0,6% in 2012.
- Growth in real household disposable income is expected to slow down to 2,6% from 3,8% in 2012, affected by upward pressure on inflation and only moderate employment growth.
- On the back of a continued low level of savings, real household consumption expenditure growth is projected at 2,6% (3,5% in 2012) and is expected to remain closely correlated with income growth.
- Household consumption expenditure is forecast at 60,7% of GDP in 2013 (60,4% in 2012), implying that the household sector will remain an important part of the economy and driver of economic growth.
- With lending rates forecast to remain low for longer and levels of saving not expected to show a substantial improvement, the household sector will continue to largely rely on credit for funding consumption expenditure, with the result that the debt-to-income ratio will remain above the 75% level after being at 75,6% in 2012.
- The cost of servicing household credit as a percentage of disposable income is forecast to remain under control in view of continued low interest rates and a relatively stable debt-to-income ratio.
- The credit-risk profiles of consumers are not expected to show a significant improvement from current levels, impacting the accessibility of credit and household consumption expenditure.

The property market

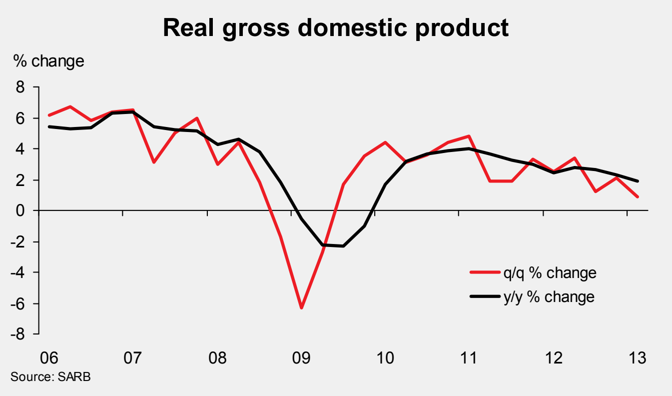
The performance of and prospects for the residential property market will continue to be closely related to economic growth, employment and income growth, property running costs and living costs in general, interest rates, consumers' credit-risk profiles, consumer confidence and banks' risk appetite and lending criteria. These factors will impact the affordability of housing and mortgage finance and will be reflected in property demand and supply conditions, price trends, market activity, buying trends, transaction volumes and the demand for mortgage finance.

Against this background, as well as recent developments regarding house price growth, nominal prices are forecast to record single-digit growth this year. As a result of expected trends in nominal price growth and headline consumer price inflation in the rest of the year, relatively low real house price inflation is projected for 2013.

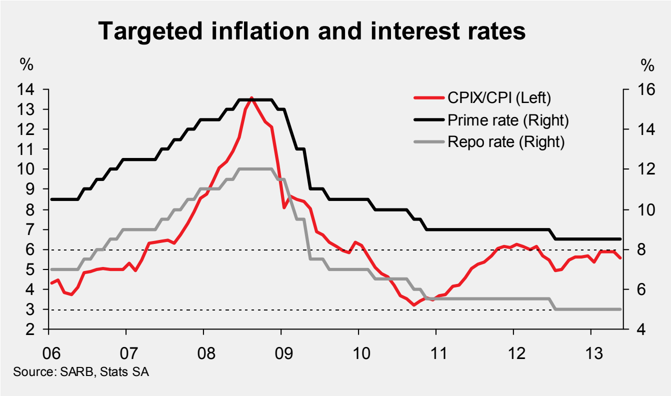
Taking account of the current trends in and outlook for the economy, household finances and consumer confidence, growth in household mortgage balances, at around 3% in the first half of 2013, is forecast to remain well in the single digits up to year-end.

Levels of residential building activity, bottoming in 2010 and which have since picked up gradually in the initial months of 2013, are set to continue to steadily recover along with improved levels of building confidence in the first half of the year. With a growing demand for housing, pressures on the affordability of housing and changing lifestyles, the expectation is that the strong focus of the past number of years on the supply of especially smaller-sized houses, flats and townhouses will continue.

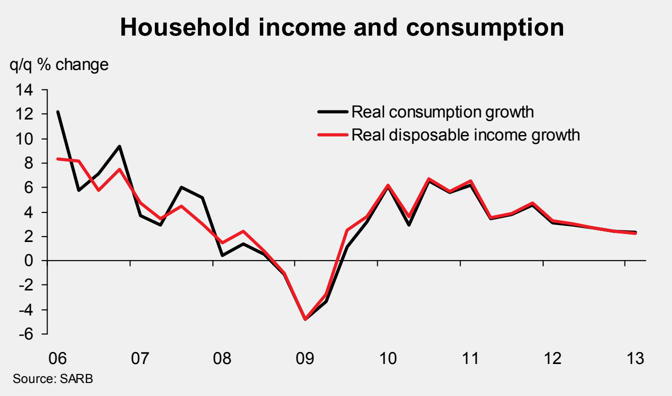
Graphs



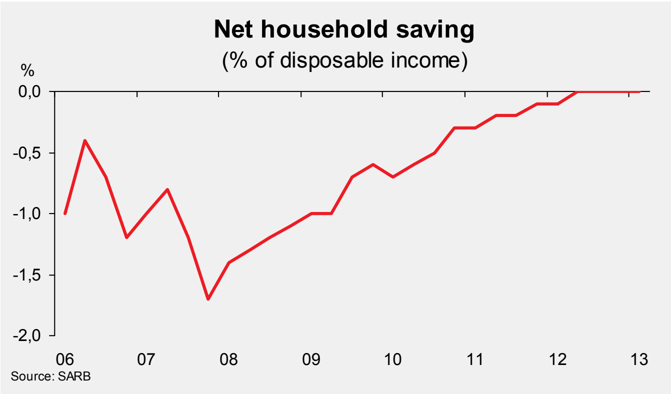
Real gross domestic product
% change
8
6
4
2
0
-2
-4
-6
-8
q/q % change
y/y % change
06
07
08
09
10
11
12
13
Source: SARB



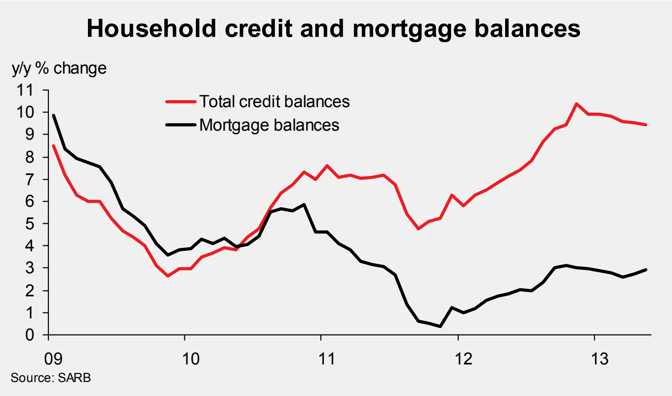
Targeted inflation and interest rates
%
%
CPIX/CPI (Left)
Prime rate (Right)
Repo rate (Right)
06
07
08
09
10
11
12
13
Source: SARB, Stats SA



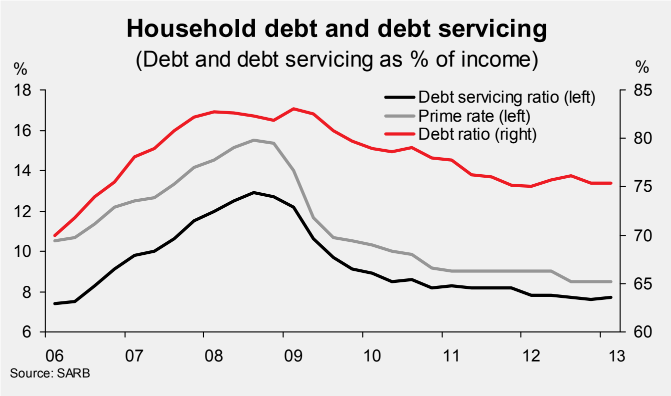
Household income and consumption
q/q % change
Real consumption growth
Real disposable income growth
06
07
08
09
10
11
12
13
Source: SARB



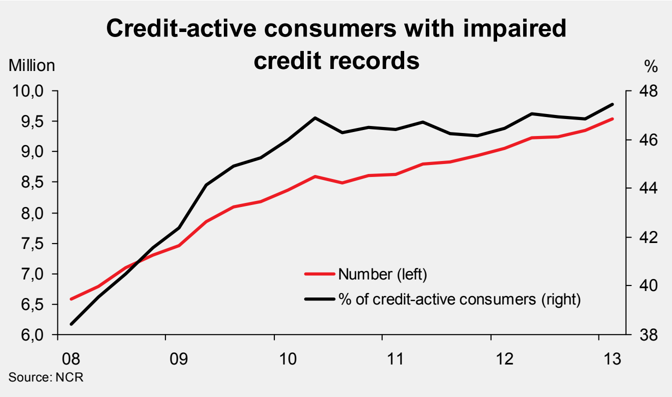
Net household saving
(% of disposable income)
%
0,0
-0,5
-1,0
-1,5
-2,0
06
07
08
09
10
11
12
13
Source: SARB



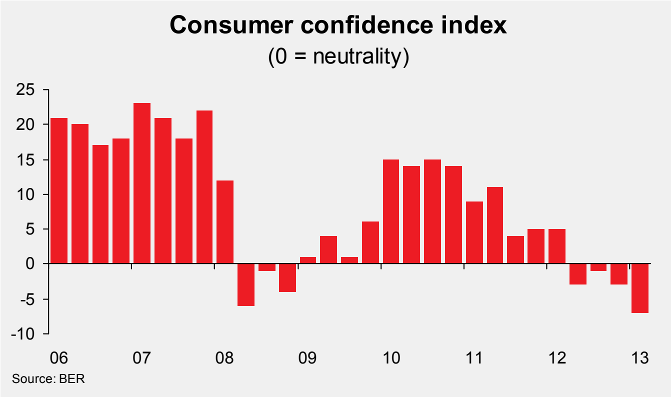
Household credit and mortgage balances
y/y % change
Total credit balances
Mortgage balances
09
10
11
12
13
Source: SARB



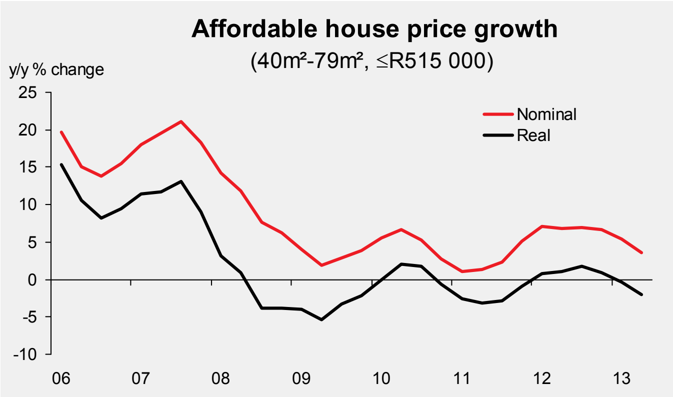
Household debt and debt servicing
(Debt and debt servicing as % of income)
%
%
Debt servicing ratio (left)
Prime rate (left)
Debt ratio (right)
06
07
08
09
10
11
12
13
Source: SARB

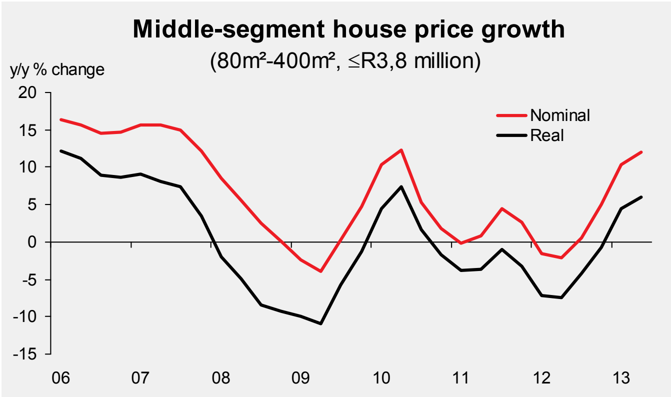


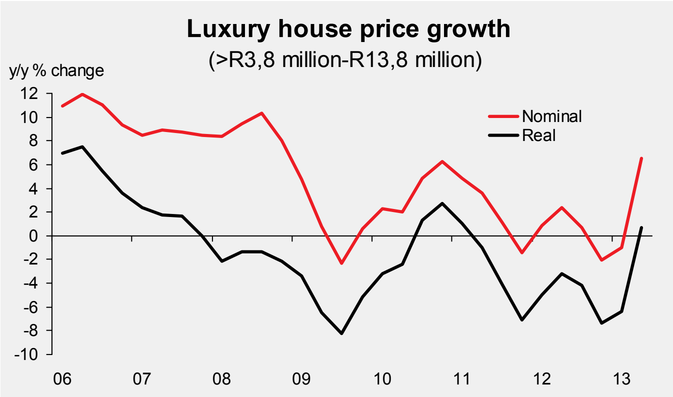
Credit-active consumers with impaired credit records
Million
%
Number (left)
% of credit-active consumers (right)
08
09
10
11
12
13
Source: NCR

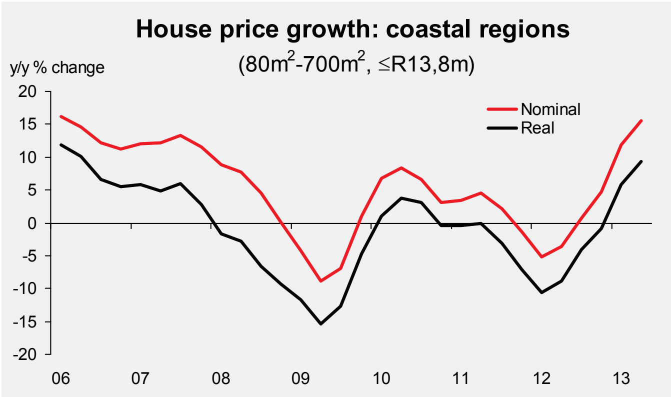


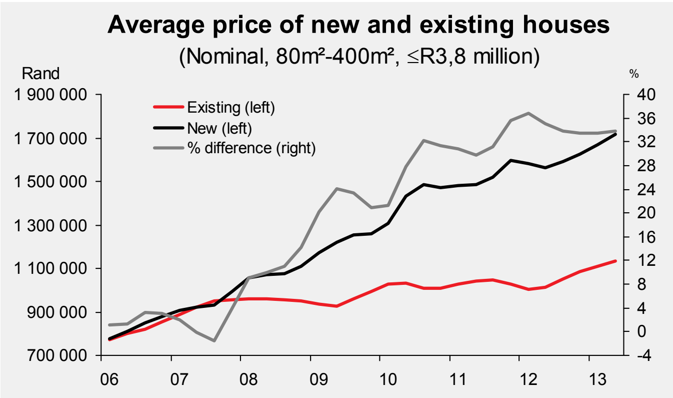
Consumer confidence index
(0 = neutrality)
06
07
08
09
10
11
12
13
Source: BER

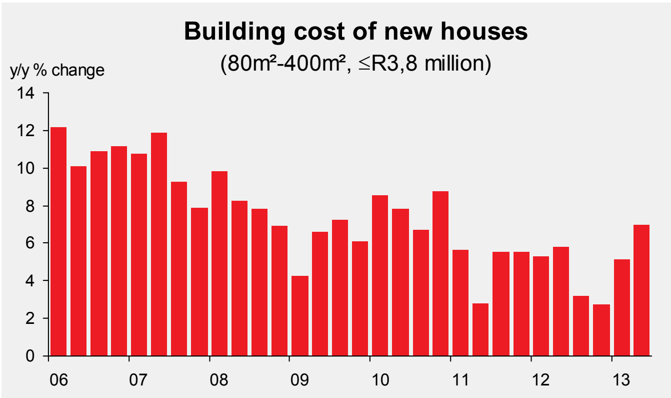

Affordable house price growth
(40m²-79m², ≤R515 000)
y/y % change
Nominal
Real
06 07 08 09 10 11 12 13

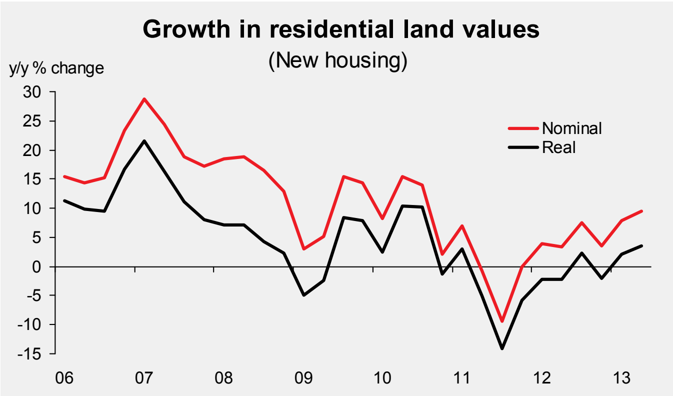

Middle-segment house price growth
(80m²-400m², ≤R3,8 million)
y/y % change
Nominal
Real
06 07 08 09 10 11 12 13

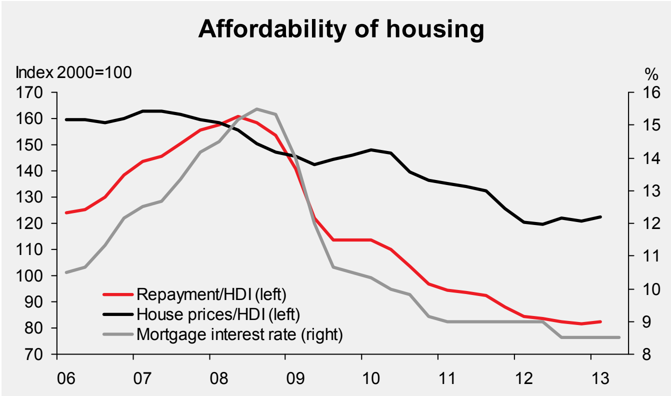

Luxury house price growth
(>R3,8 million-R13,8 million)
y/y % change
Nominal
Real
06 07 08 09 10 11 12 13


House price growth: coastal regions
(80m²-700m², ≤R13,8m)
y/y % change
Nominal
Real
06 07 08 09 10 11 12 13


Average price of new and existing houses
(Nominal, 80m²-400m², ≤R3,8 million)
Rand
%
Existing (left)
New (left)
% difference (right)
06 07 08 09 10 11 12 13


Building cost of new houses
(80m²-400m², ≤R3,8 million)
y/y % change
06 07 08 09 10 11 12 13


Growth in residential land values
(New housing)
y/y % change
Nominal
Real
06 07 08 09 10 11 12 13


Affordability of housing
Index 2000=100
%
Repayment/HDI (left)
House prices/HDI (left)
Mortgage interest rate (right)
06 07 08 09 10 11 12 13

Statistics

Average nominal house prices

	2009 Rand	2010 Rand	2011 Rand	2012 Rand	2012			2013			
					Q2	Q3	Q4	Q1	Q2		
					Rand	Rand	Rand	Rand	Rand	q/q % Δ	y/y % Δ
National											
Middle segment (80m²-400m², ≤R3,8m)	964 801	1 035 101	1 054 813	1 059 999	1 037 155	1 073 943	1 103 611	1 131 761	1 162 492	2,7	12,1
Small (80m²-140m², ≤R3,8m)	666 456	775 373	742 827	706 443	677 769	726 428	765 093	751 556	732 923	-2,5	8,1
Medium (141m²-220m², ≤R3,8m)	923 670	970 077	985 863	1 015 968	998 751	1 029 169	1 060 101	1 069 895	1 073 960	0,4	7,5
Large (221m²-400m², ≤R3,8m)	1 387 049	1 446 628	1 486 167	1 511 236	1 485 747	1 519 780	1 554 465	1 599 104	1 660 401	3,8	11,8
New (80m²-400m², ≤R3,8m)	1 226 565	1 424 409	1 520 085	1 590 979	1 563 286	1 590 076	1 627 506	1 668 359	1 715 954	2,9	9,8
Existing (80m²-400m², ≤R3,8m)	954 642	1 020 775	1 034 916	1 037 731	1 014 805	1 051 160	1 083 454	1 109 978	1 135 205	2,3	11,9
Affordable (40m²-79m², ≤R515 000)	292 768	307 507	315 822	336 634	333 621	338 620	344 805	347 755	345 644	-0,6	3,6
Luxury (R3,8m-R13,8m)	4 509 942	4 676 120	4 769 614	4 785 910	4 857 787	4 781 041	4 680 379	4 817 055	5 172 815	7,4	6,5
Provinces											
Eastern Cape	830 967	909 947	889 384	916 717	899 083	935 935	943 122	937 848	938 028	0,0	4,3
Free State	751 029	838 392	891 095	871 713	806 210	883 523	968 982	930 909	951 849	2,2	18,1
Gauteng	1 021 902	1 081 308	1 118 763	1 100 767	1 084 322	1 106 116	1 129 148	1 154 831	1 201 078	4,0	10,8
KwaZulu-Natal	851 745	923 486	961 629	936 530	889 283	952 067	1 033 130	1 082 992	1 087 718	0,4	22,3
Limpopo	831 914	889 510	878 387	925 385	893 338	950 499	998 670	1 025 937	1 046 322	2,0	17,1
Mpumalanga	808 592	855 289	902 984	929 551	894 303	933 142	1 001 988	1 029 902	1 020 891	-0,9	14,2
North West	786 780	838 891	848 279	871 960	884 056	857 928	840 547	869 376	922 502	6,1	4,3
Northern Cape	693 637	781 436	772 030	864 507	860 035	899 486	885 107	971 877	1 074 172	10,5	24,9
Western Cape	1 098 414	1 172 395	1 157 812	1 191 099	1 180 987	1 201 011	1 210 041	1 251 409	1 313 457	5,0	11,2
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	816 122	901 143	860 389	868 251	868 318	889 889	885 247	878 408	878 861	0,1	1,2
East London (Eastern Cape)	1 017 858	1 049 314	984 558	1 073 498	1 082 015	1 080 216	1 066 272	1 041 559	1 021 850	-1,9	-5,6
Bloemfontein (Free State)	941 032	1 089 841	1 104 607	1 108 009	1 042 661	1 124 292	1 207 887	1 191 542	1 253 136	5,2	20,2
Greater Johannesburg (Gauteng)	1 074 545	1 106 199	1 165 062	1 132 253	1 116 140	1 136 954	1 152 221	1 161 781	1 208 452	4,0	8,3
Johannesburg Central & South	886 549	906 545	906 378	866 717	841 266	897 888	879 279	848 440	862 078	1,6	2,5
Johannesburg North & West	1 296 125	1 391 723	1 413 969	1 422 523	1 405 661	1 433 947	1 449 039	1 462 296	1 472 759	0,7	4,8
East Rand	932 525	951 866	1 024 937	1 017 366	1 004 424	1 015 429	1 025 320	1 063 250	1 113 723	4,7	10,9
Pretoria (Gauteng)	1 056 292	1 163 494	1 181 287	1 179 938	1 161 039	1 190 345	1 220 705	1 261 727	1 318 128	4,5	13,5
Durban/Pinetown (KwaZulu-Natal)	919 939	997 772	1 012 695	1 002 269	960 018	995 421	1 094 846	1 114 479	1 047 490	-6,0	9,1
Cape Town (Western Cape)	1 097 720	1 193 415	1 182 057	1 236 404	1 237 823	1 237 490	1 240 621	1 288 873	1 363 164	5,8	10,1
Coastal regions											
South Africa	1 136 278	1 206 236	1 232 205	1 221 066	1 205 538	1 235 039	1 259 645	1 325 176	1 393 741	5,2	15,6
Western Cape	1 187 949	1 274 308	1 319 036	1 315 138	1 323 921	1 329 314	1 337 437	1 388 379	1 471 956	6,0	11,2
West Coast	1 140 992	1 239 044	1 339 381	1 234 784	1 231 692	1 213 920	1 231 954	1 242 739	1 229 331	-1,1	-0,2
Cape Peninsula and False Bay	1 155 302	1 243 253	1 272 162	1 311 801	1 317 419	1 328 335	1 344 890	1 441 650	1 528 469	6,0	16,0
South Coast	1 307 486	1 375 792	1 433 375	1 358 175	1 367 409	1 380 142	1 374 325	1 378 103	1 419 067	3,0	3,8
Eastern Cape	1 039 732	1 083 867	1 084 798	1 108 812	1 110 743	1 113 316	1 078 200	1 063 832	1 077 609	1,3	-3,0
KwaZulu-Natal	1 097 807	1 195 611	1 278 962	1 191 235	1 133 631	1 232 786	1 278 470	1 462 984	1 536 993	5,1	35,6
South Coast	912 533	1 072 809	1 029 549	1 005 781	989 297	1 044 098	1 009 501	978 111	1 033 016	5,6	4,4
North Coast	1 192 948	1 277 026	1 404 494	1 315 585	1 229 854	1 328 729	1 513 817	1 732 358	1 754 929	1,3	42,7

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 R3,8 million in 2013.
House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R13,8 million in 2013.

Key variables and projections
Annual averages

		2007	2008	2009	2010	2011	2012	2013	2014
Gross domestic product	Real % Δ	5,5	3,6	-1,5	3,1	3,5	2,5	2,3	3,2
$/R exchange rate	Rand per US$	7,05	8,25	8,44	7,32	7,25	8,21	9,83	9,98
Headline consumer price inflation rate	%	6,1	9,9	7,1	4,3	5,0	5,7	6,1	5,7
Mortgage interest rate (end of period)	%	14,5	15,0	10,5	9,0	9,0	8,5	8,5	9,0
Household disposable income	Real % Δ	5,2	2,2	-1,2	4,7	5,2	3,7	2,6	2,9
Household final consumption expenditure	Real % Δ	5,5	2,2	-1,6	4,4	4,8	3,5	2,6	3,1
Net household saving to disposable income	%	-1,2	-1,2	-0,8	-0,5	-0,2	0,0	-0,1	-0,3
Household debt to disposable income	%	80,0	82,3	81,0	78,2	76,3	75,6	75,9	76,7
House prices (80m²-400m², ≤R3,8m)	Nominal % Δ	14,5	4,1	-0,3	7,3	1,9	0,5	7,9	6,1
House prices (80m²-400m², ≤R3,8m)	Real % Δ	6,9	-6,2	-7,0	2,9	-2,9	-4,9	1,7	0,4

Average nominal house prices by middle-segment category in the second quarter 2013

	Small: 80 m² – 140m²			Medium: 141 m² – 220m²			Large: 221 m² – 400m²		
	Price Rand	q/q % Δ	y/y % Δ	Price Rand	q/q % Δ	y/y % Δ	Price Rand	q/q % Δ	y/y % Δ
National and provinces									
South Africa	732 923	-2,5	8,1	1 073 960	0,4	7,5	1 660 401	3,8	11,8
Eastern Cape	624 411	-1,4	0,4	949 781	0,0	6,1	1 592 400	3,2	14,9
Free State	750 734	-9,2	21,7	746 692	0,9	17,8	1 312 957	6,2	23,4
Gauteng	748 817	-1,0	14,3	1 060 301	4,1	6,3	1 654 921	2,1	8,0
KwaZulu-Natal	586 420	-3,4	4,0	1 028 959	1,7	16,3	1 562 222	-1,3	16,6
Mpumalanga	679 348	0,6	7,0	1 015 463	-0,9	6,2	1 398 296	-0,6	18,2
North West	585 233	-2,7	3,0	860 481	1,0	-0,7	1 267 030	6,8	3,9
Northern Cape	553 824	-6,3	-17,3	1 170 648	26,8	48,2	1 680 548	14,9	45,0
Limpopo	614 889	-2,2	12,9	1 012 598	-4,2	5,6	1 337 136	-11,8	3,5
Western Cape	819 543	-0,6	1,4	1 293 870	3,3	8,2	1 948 053	5,1	11,8
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	579 849	-6,1	-10,6	968 528	13,4	18,6	1 503 024	2,8	13,8
East London (Eastern Cape)	763 298	1,4	12,8	1 057 116	-7,5	2,2	1 445 935	-9,3	-18,7
Bloemfontein (Free State)	895 527	-9,2	30,3	1 066 803	-0,7	6,8	1 701 734	7,5	27,5
Greater Johannesburg (Gauteng)	793 397	-2,3	14,2	1 048 539	7,6	4,2	1 630 794	0,5	4,4
Johannesburg Central & South	526 331	-0,6	-5,1	845 531	9,7	5,5	1 335 871	-7,2	-4,2
Johannesburg North & West	815 618	-1,1	0,9	1 253 565	1,6	3,2	1 829 527	3,8	3,8
East Rand	873 965	-4,2	19,6	937 116	2,7	3,0	1 481 585	0,9	10,9
Pretoria (Gauteng)	690 176	-1,2	7,5	1 164 236	1,7	4,9	1 840 485	2,8	13,5
Durban/Pinetown (KwaZulu-Natal)	593 648	-8,2	-7,3	1 060 847	0,7	11,0	1 710 445	3,8	15,4
Cape Town (Western Cape)	851 562	0,3	-0,7	1 392 800	3,7	8,2	1 993 338	3,5	6,4

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m² and 400m², up to R3,8 million, in respect of which loan applications were approved by Absa Bank.

Monthly mortgage repayment
(rand, calculated over a period of 20 years)

Mortgage amount	Repayment at a mortgage rate of													
	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%	11,0%	11,5%	12,0%	12,5%	13,0%	13,5%	14,0%	14,5%
100 000	836	868	900	932	965	998	1 032	1 066	1 101	1 136	1 172	1 207	1 244	1 280
200 000	1 673	1 736	1 799	1 864	1 930	1 997	2 064	2 133	2 202	2 272	2 343	2 415	2 487	2 560
300 000	2 509	2 603	2 699	2 796	2 895	2 995	3 097	3 199	3 303	3 408	3 515	3 622	3 731	3 840
400 000	3 346	3 471	3 599	3 729	3 860	3 994	4 129	4 266	4 404	4 545	4 686	4 829	4 974	5 120
500 000	4 182	4 339	4 499	4 661	4 825	4 992	5 161	5 332	5 505	5 681	5 858	6 037	6 218	6 400
600 000	5 019	5 207	5 398	5 593	5 790	5 990	6 193	6 399	6 607	6 817	7 029	7 244	7 461	7 680
700 000	5 855	6 075	6 298	6 525	6 755	6 989	7 225	7 465	7 708	7 953	8 201	8 452	8 705	8 960
800 000	6 692	6 943	7 198	7 457	7 720	7 987	8 258	8 531	8 809	9 089	9 373	9 659	9 948	10 240
900 000	7 528	7 810	8 098	8 389	8 685	8 985	9 290	9 598	9 910	10 225	10 544	10 866	11 192	11 520
1 000 000	8 364	8 678	8 997	9 321	9 650	9 984	10 322	10 664	11 011	11 361	11 716	12 074	12 435	12 800
1 500 000	12 547	13 017	13 496	13 982	14 475	14 976	15 483	15 996	16 516	17 042	17 574	18 111	18 653	19 200
2 000 000	16 729	17 356	17 995	18 643	19 300	19 968	20 644	21 329	22 022	22 723	23 432	24 147	24 870	25 600
2 500 000	20 911	21 696	22 493	23 303	24 126	24 959	25 805	26 661	27 527	28 404	29 289	30 184	31 088	32 000

Mortgage amount at fixed monthly repayment
(rand, calculated over a period of 20 years)

Mortgage repayment	Mortgage amount at a mortgage rate of													
	8,0%	8,5%	9,0%	9,5%	10,0%	10,5%	11,0%	11,5%	12,0%	12,5%	13,0%	13,5%	14,0%	14,5%
1 000	119 554	115 231	111 145	107 281	103 625	100 162	96 882	93 771	90 819	88 017	85 355	82 824	80 417	78 125
2 000	239 109	230 462	222 290	214 562	207 249	200 325	193 763	187 542	181 639	176 035	170 710	165 649	160 834	156 250
3 000	358 663	345 693	333 435	321 843	310 874	300 487	290 645	281 313	272 458	264 052	256 065	248 473	241 250	234 375
4 000	478 217	460 923	444 580	429 124	414 498	400 649	387 526	375 083	363 278	352 069	341 421	331 297	321 667	312 501
5 000	597 771	576 154	555 725	536 405	518 123	500 811	484 408	468 854	454 097	440 086	426 776	414 122	402 084	390 626
6 000	717 326	691 385	666 870	643 686	621 748	600 974	581 289	562 625	544 916	528 104	512 131	496 946	482 501	468 751
7 000	836 880	806 616	778 015	750 967	725 372	701 136	678 171	656 396	635 736	616 121	597 486	579 770	562 918	546 876
8 000	956 434	921 847	889 160	858 248	828 997	801 298	775 052	750 167	726 555	704 138	682 841	662 595	643 335	625 001
9 000	1 075 989	1 037 078	1 000 305	965 529	932 622	901 460	871 934	843 938	817 375	792 156	768 196	745 419	723 751	703 126
10 000	1 195 543	1 152 308	1 111 450	1 072 810	1 036 246	1 001 623	968 815	937 708	908 194	880 173	853 551	828 243	804 168	781 251
15 000	1 793 314	1 728 463	1 667 174	1 609 216	1 554 369	1 502 434	1 453 223	1 406 563	1 362 291	1 320 259	1 280 327	1 242 365	1 206 252	1 171 877
20 000	2 391 086	2 304 617	2 222 899	2 145 621	2 072 492	2 003 245	1 937 631	1 875 417	1 816 388	1 760 346	1 707 103	1 656 487	1 608 337	1 562 503
25 000	2 988 857	2 880 771	2 778 624	2 682 026	2 590 615	2 504 057	2 422 038	2 344 271	2 270 485	2 200 432	2 133 878	2 070 608	2 010 421	1 953 128