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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 80m<sup>2</sup>-400m<sup>2</sup> size category, priced at R4 million or less in 2014 (including improvements), in respect of which mortgage loan applications were received and approved by Absa. Prices are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index values and price data may differ from previously published figures.

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## House price indices

8 August 2014

### Resilient house price growth amidst challenging economic conditions

Growth in the average nominal value of homes in the middle-segment categories of the South African residential market varied between 6,5% year-on-year (y/y) and 8,5% y/y in the first seven months of 2014. On a month-on-month basis, nominal price growth has been on a gradual downward trend since the start of the year, which is expected to dampen year-on-year growth at some stage. Real house price growth, i.e. after adjustment for the effect of consumer price inflation, was recorded across all three segments of housing in the first half of the year compared with the corresponding period in 2013. Real price growth was to some extent dampened by upward pressure on inflation in recent months. These price trends are according to the Absa house price indices, which are based on applications for mortgage finance received and approved by the bank in respect of middle-segment small, medium-sized and large homes (see explanatory notes).

The average nominal value of homes in each of the middle-segment categories was as follows in July this year:

- Small homes (80m<sup>2</sup>-140m<sup>2</sup>): R826 000
- Medium-sized homes (141m<sup>2</sup>-220 m<sup>2</sup>): R1 147 000
- Large homes (221m<sup>2</sup>-400m<sup>2</sup>): R1 816 000

After being raised by 50 basis points in late January this year, lending rates remained unchanged up to July when a hike of 25 basis points were announced in the key monetary policy interest rate – the repo rate – by the Reserve Bank’s Monetary Policy Committee. The repo rate (the interest rate at which commercial banks borrow money from the Reserve Bank) is currently at 5,75% per annum, with commercial banks’ prime lending and variable mortgage interest base rates for extending credit to the public at a level of 9,25% per annum.

The latest interest rate hike came against the background of macroeconomic trends and related concerns, while the outlook for headline consumer inflation, currently at 6,6% y/y, is on the upside. Interest rates are forecast to rise somewhat further during the remainder of 2014, with prime lending and variable mortgage base rates expected to end the year at 9,5% per annum, rising further during 2015 to a level of 10,5% at year-end.

The residential property market will continue to be driven by macro-economic trends and factors related to household finances, such as employment, income, savings, property running costs and inflation in general, interest rates, credit-risk profiles, banks’ risk appetite and lending criteria and consumer confidence. These factors are to impact the property market and mortgage advances, which will be evident in demand and supply, prices, market activity, buying patterns, transaction volumes and growth in mortgage finance. Based on trends in and prospects for the economy and household finances, as well as house price growth in the first seven months of the year, single-digit nominal price growth is expected in the remainder of 2014 and in 2015. Real house price growth will be the result of the combined effect of nominal price trends and inflation, with relatively low real price inflation projected for this year and 2015.

### Absa house price indices (nominal, 2000=100)

Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R4 million

Month	Small houses 80m <sup>2</sup> -140 m <sup>2</sup>			Medium-sized houses 141m <sup>2</sup> -220 m <sup>2</sup>			Large houses 221m <sup>2</sup> -400 m <sup>2</sup>		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
January	330.7	378.5	390.0	391.6	428.6	449.6	410.7	437.6	474.4
February	330.5	374.9	395.8	392.2	428.4	454.0	408.1	442.3	477.8
March	332.8	371.8	402.2	394.4	427.7	456.8	406.2	447.2	481.7
April	336.4	370.1	408.2	397.4	427.9	458.1	406.7	450.8	486.3
May	341.0	370.3	412.1	400.5	428.9	458.6	409.5	453.1	490.7
June	346.5	372.7	414.4	403.7	430.2	459.2	413.9	454.6	494.8
July	353.1	376.7	414.7	407.6	431.1	459.1	418.7	456.0	498.6
August	359.9	381.0		412.2	431.8		422.9	458.0	
September	367.0	383.7		416.7	432.9		425.9	460.8	
October	373.6	384.5		421.2	435.3		428.3	463.8	
November	378.8	384.5		425.1	439.2		431.0	467.0	
December	380.4	386.0		427.6	444.3		433.9	470.7	
Average	352.6	377.9	405.4	407.5	432.2	456.5	418.0	455.2	486.3

### Absa house price indices

Houses of 80m<sup>2</sup>-400m<sup>2</sup>, up to R4 million

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	June 2014	July 2014	Year-to-date 2014	May 2014	June 2014	Year-to-date 2014
Small (80m <sup>2</sup> -140m <sup>2</sup> )	11.2	10.1	8.5	4.4	4.3	1.9
Medium (141m <sup>2</sup> -220m <sup>2</sup> )	6.7	6.5	6.4	0.3	0.1	0.2
Large (221m <sup>2</sup> -400m <sup>2</sup> )	8.8	9.4	8.4	1.6	2.1	1.9

