Housing review

Fourth quarter 2014

Contents

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- A recession was technically averted in South Africa, but the economy remained under pressure in the first half of 2014. Annualised growth of 0,6% was recorded in the second quarter of the year, after a contraction of 0,6% in the first quarter. On a year-on-year basis, growth in the country's real gross domestic product (GDP) slowed down further to 1,1% in the second quarter, from 1,8% in the first quarter and 2,1% in the fourth quarter of last year. Real GDP growth of 1,5% and 2,7% is forecast for 2014 and 2015 respectively.

- Headline consumer price inflation remained under upward pressure, averaging above 6% year-on-year in the first nine months of 2014 and expected to subside in 2015. The main risks to the inflation outlook are the rand exchange rate, food prices, wage hikes, transport costs and property running costs. Domestic interest rates are forecast to rise through 2015, based on global and local economic trends and prospects, and inflationary pressures.

- Financial strain experienced by the household sector continued unabatedly during the course of 2014. The declining trend in growth in real household disposable income and consumption expenditure continued up to the second quarter of the year. The net household savings ratio remains in negative territory, while an increasing number of credit-active consumers had impaired credit records at mid-year. Consumer confidence remained low in the first three quarters of 2014.

- The third quarter of 2014 saw nominal year-on-year house price growth in the middle segment of the market being marginally higher compared with the second quarter. In the category of affordable housing nominal price growth accelerated further in the third quarter, with price growth in the luxury segment in double digits. Real house price growth was affected by rising inflation. House prices are continued to be driven by property market conditions, which were affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence.

- Against the background of trends in and prospects for the economy and household finances, as well as house price growth in the first three quarters of the year, single-digit nominal price growth is set to continue in the remainder of 2014 and in 2015. Real house price growth will be the result of nominal price trends and inflation, with some real price inflation projected for this year and next year.

Economic overview

The global economy

On the back of an uneven global economic recovery, world growth slowed down in the first half of 2014 compared with the second half of 2013. The International Monetary Fund's (IMF) latest assessment of global economic conditions, published in the October 2014 edition of the *World Economic Outlook*, indicates that growth in real world output was down to an annualised rate of 2,7% in the first half of the year from 3,9% in the last six months of 2013.

The pace of economic recovery has picked up in some advanced economies such as the UK and the US in the second quarter of the year, but indications emerged during the third quarter and early in the fourth quarter that the recovery in the US economy might be slower than anticipated, set to impact monetary policy in the near term while the tapering of quantitative easing continues. The Eurozone, however, continued to struggle into the fourth quarter of the year, despite some far-reaching measures announced by the European Central Bank in an attempt to revive economic activity and prevent the region from falling into a state of deflation. The prospect of another recession in the Eurozone is gaining momentum, with the German economy that contracted in the second quarter and indications of a further contraction in the third and fourth quarters. Other key Eurozone economies such as France and Italy remain relatively weak, adding to the economic woes of the region.

Against the background of economic trends in advanced economies, emerging market and developing economies are growing at a steady pace, with stimulatory measures imposed in China after lower levels of activity were recorded in the first quarter of the year. These measures contributed to faster growth in the Chinese economy in the second quarter. The Russian economy has slowed down on the back of tension with Ukraine and resultant economic sanctions by some prominent Western countries, while growth in Latin America has also tapered off, especially in Brazil where investment remains low and economic activity has contracted in the first half of the year. In sub-Saharan Africa economic growth remains resilient and robust against the contrast of favourable external financial conditions and continued domestic macroeconomic imbalances, which impact exchange rates and inflation, whereas the Ebola outbreak is having a severe negative effect on the economies of and health and living conditions in Guinea, Liberia and Sierra Leone.

Inflation in advanced economies remained below central bank targets in the first half of 2014, while in emerging markets and developing economies inflation was largely stable. Against this background and in an attempt to support economic activity, monetary policy conditions remained very accommodative in advanced economies during this period, while remaining mostly unchanged in emerging and developing countries.

The South African economy

Although a recession was technically averted in South Africa, the economy remained under pressure in the first half of 2014, with annualised growth in the country's real gross domestic product (GDP) of 0,6% recorded in the second quarter of the year, after a contraction of 0,6% in the first quarter. On a year-on-year basis, growth in the country's real gross domestic product slowed down further to 1,1% in the second quarter, from 1,8% in the first quarter and 2,1% in the fourth quarter of last year.

The dismal growth performance in the first half of the year came on the back of contractions in both manufacturing and mining production. Output in the mining sector was severely affected by the protracted five-month long labour strike in the platinum sector since late January. This had the result of mining production contracting at a real annualised rate of 24,7% and 9,4% in the first and second quarters respectively, with mining output that dropped markedly further in July and August. Manufacturing production was down by a real 2,7% in the first quarter, while declining further by 0,9% in the second quarter. The labour strike in the steel and engineering sector for most of July will have contributed to lower manufacturing output in the third quarter, although the level of production rebounded somewhat in August from July. Real growth in the teriary sector was stable at 1,8% in both the first and second quarters of the year. Lower growth in value added by the financial services sector during this period was countered by an improvement in output in the transport and general government sectors.

Headline consumer price inflation remained on an upward trend, averaging above the level of 6% year-on-year (y/y) in the first nine months of the year, after bottoming at 5,3% y/y in November last year. The major factors which caused inflation to move above the upper inflation target limit of 6% are food prices, transport costs, property running costs, a weak exchange rate and wage hikes. Growth in wages remained above inflation, while labour productivity growth was still low at 1,2% y/y in the early stages of the year, in line with growth in productivity of 1,3% per annum in 2011-2013. Underlying core inflation, i.e. headline inflation excluding the more volatile components of food, non-alcoholic beverages, petrol and energy, continued to edge higher to a level of almost 6% y/y recently.

Lending rates remained unchanged up to October since July this year when a hike of 25 basis points was announced in the key monetary policy interest rate – the repo rate – by the Reserve Bank's Monetary Policy Committee (MPC). 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. However, the Reserve Bank continues to remain concerned about movements in the rand exchange rate, which depreciated to well above the level of R11 against the US dollar recently, and the possible effect of this on inflation. These developments may hold implications for monetary policy, and thus interest rates, over the short to medium term.

Household sector overview

Financial strain experienced by the household sector continued unabated during the course of 2014. The declining trend in growth in real household disposable income and consumption expenditure, which commenced as far back as late 2010, continued up to the second quarter of the year. Consumer price inflation is on average above 6%, negatively affecting consumers' purchasing power, while interest rates were hiked on two occasions as a result of inflationary pressures expected to persist. The net household savings ratio remains in negative territory, while an increasing number of credit-active consumers had impaired credit records at mid-year. Consumer confidence remained low in the first three quarters of 2014, negatively affecting the demand for goods and services and credit.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income, remains on a downward trend, reaching an annualised rate of 1,3% in the second quarter of 2014 (1,7% in the first quarter). This was the lowest growth in real disposable income in the past 4½ years and was the result of the combined effect of continued low employment growth and rising inflation. According to Andrew Levy Employment Publications, the nominal wage settlement rate was 8% in the first half of 2014, which was above the average headline consumer price inflation rate of 6,2% y/y over this period.

Growth in real household consumption expenditure slowed down to an annualised rate of 1,5% in the second quarter of 2014 from 1,8% in the first quarter, which was the lowest level of growth since the third quarter of 2009. The lower consumption growth came against the background of continued inflationary pressures eroding consumers' spending power, lower real disposable income growth, consumer indebtedness, deteriorating credit-risk profiles and a low level of consumer confidence. The close correlation between growth in real household disposable income and growth in consumption expenditure continued up to the second quarter of 2014 and remains related to the severe lack of household savings, as well as many consumers' financial inability to access credit for the purpose of spending. This is an indication that households have become increasingly reliant on just income to fund consumption.

The gross household savings-to-GDP ratio remained unchanged at a relatively low level of 1,6% in the second quarter of 2014. The ratio of net household savings to disposable income was at a level of -0,1% in the second quarter, unchanged from the first quarter. The net household savings ratio is in negative territory since 2006. Net household savings is calculated from gross savings, adjusted for depreciation write-offs on the value of physical assets held by households, such as residential buildings and vehicles.

The value of 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 less than 4% y/y recently. Growth in the value of outstanding household secured credit balances (instalment sales credit, leasing finance and mortgage loans) dropped to 3,4% y/y at the end of August, largely driven by low growth of just above 2% y/y in household mortgage balances, which account for more than 77% of total household secured credit balances. Growth in the value of outstanding household unsecured credit balances (credit card debt, overdrafts and general loans and advances) dropped to 4,5% y/y recently from a peak of 31,6% y/y at end-November 2012. The sharp downward trend in growth in unsecured credit balances was largely driven by significantly lower growth in the component of general loans and advances (61% of household unsecured credit balances and mainly consisting of personal loans and microfinance) to below 2% y/y in recent months from a high of 35,4% y/y at the end of September 2012. Factors such as the National Credit Act (NCA), banks' risk appetite and lending criteria, consumers' credit-risk profiles and consumer confidence affected the availability and accessibility of and demand for credit, which resulted in extremely low growth in various components of household credit.

The ratio of household debt to disposable income declined further to 73,5% in the second quarter of 2014 from 74,4% in the first quarter. This was the lowest debt-to-income ratio since mid-2006 and was the net result of nominal household disposable income growing by 2,3% quarter-on-quarter (q/q), while household debt increased by 1,1% q/q in the second quarter of the year. 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.

The household debt service-cost ratio was unchanged at 7,9% in the second quarter of 2014 from the first quarter. This ratio is the interest component of debt repayments expressed as a percentage of disposable income and took account of a debt-to-income ratio of 73,5% in the second quarter and the average lending rate paid on debt during this period. Based on the abovementioned debt-to-income and debt service-cost ratios, the average interest rate charged in the second quarter of 2014 to service household debt was around 10,7% per annum, which was 1,7 percentage points above the ruling average prime interest rate of 9% per annum over this period. Due to trends in consumer finances, credit-risk profiles and banks' risk appetite and lending criteria, consumers paid on average a premium on debt of almost 1,4 percentage points above the average ruling prime lending rate between the first quarter of 2009 and the second quarter of 2014.

Statistics on consumer credit-risk profiles since the first quarter of the year reflect changes to credit regulations announced late last year to make provision for a credit amnesty process, which came into effect on 1 April 2014. The shift in the data since the first quarter occurred as a result of credit bureaus implementing the changed regulations from this quarter. The credit amnesty process involves the continuous removal of adverse consumer credit information kept by credit bureaus, specifically with regard to consumers who have repaid their debt. The amnesty, however, does not relieve consumers from the obligation to repay outstanding debt.

Despite the credit amnesty process, consumer credit-risk profiles deteriorated somewhat further in the second quarter of 2014, with a total of 9,95 million credit-active consumers, or 45% of a total of 22,12 million, having impaired credit records, compared with 9,6 million (44,2%) in the first quarter. The number of consumers in good standing came to 12,17 million (55%) in the second quarter. A total number of 79,42 million consumer credit accounts were active in the second quarter of the year, of which 58,15 million (73,2%) were in good standing and 21,28 million (26,8%) were impaired. Consumers' credit-risk profiles impact their access to credit, as reflected by banks' risk appetite and lending criteria, which eventually affect household consumption expenditure against the background of a continued low level of savings.

Based on the latest *Quarterly Labour Force Survey* published by Statistics South Africa, a total of 15,094 million people were employed in the formal and informal sectors of the economy in the second quarter of 2014. Against the background of major labour market instability since early this year, which lasted into the third quarter, only 0,3% more people were employed in the second quarter of the year compared with the first quarter. The unemployment rate increased to 25,5% in the second quarter from 25,2% in the first quarter of the year, which implies that a total of 5,154 million people were unemployed by the second quarter, up from 5,067 million in the preceding quarter. According to Andrew Levy Employment Publications, a total number of 7,5 million workdays were lost due to industrial action in the first half of 2014 compared with 1,8 million lost in the same period last year and 5,2 million lost in the whole of 2013. These labour market trends are not conducive to higher levels of confidence, investment and employment in the medium to longer term.

Consumer financial vulnerability, as measured by the Bureau of Market Research (BMR), remained a concern up to the second quarter of 2014. At an overall index reading of 50,2 in the second quarter, consumers were financially mildly exposed, which was only a fraction above the level of being very exposed. An index reading of 50-50,9 in the Consumer Financial Vulnerability Index (CFVI) and its sub-indices indicates that consumers are financially mildly exposed, with an index reading of 40-49,9 indicating that consumers are financially very exposed. The sub-components of the CFVI were measured as follows in the second quarter of 2014:

- Income vulnerability: At 47,7 index points, consumers were very exposed
- Expenditure vulnerability: At 54,6 index points, consumers were mildly exposed
- Savings vulnerability: At 51,7 index points, consumers were mildly exposed
- Debt service vulnerability: At 48,9 index points, consumers were very exposed

According to the Bureau for Economic Research (BER), consumer confidence was at a level of -1 index points in the third quarter of 2014, with an average of -1 index points in the first three quarters of the year. These index readings are well below the past 20-year average of +5. Consumer confidence is measured by expectations regarding the outlook for the domestic economy, household finances and durable consumption expenditure. Consumer confidence remains an important factor with regard to the demand for credit, which is crucial for household consumption expenditure, especially the durable component thereof.

Property sector overview

In the second quarter of 2014, there were 6 million residential properties in South Africa with a total value of R4,2 trillion, of which 2,1 million with a total value of R2,2 trillion were bonded and 3,9 million with a total value of R2 trillion were non-bonded. These statistics with regard to the residential property stock in the country are supplied by Lightstone (see relevant table at the back of the report).

The *General Household Survey 2013*, published by Statistics South Africa in June this year, provided some insight into housing conditions in the country in 2013:

- 77,7% of a total of 15,107 million households were living in formal housing. Formal housing refers to structures built according to approved architectural plans, i.e. houses on separate stands, flats, apartments, townhouses and rooms and flats in backyards.
- 13,6% of households were living in informal housing. Informal housing refers to makeshift structures not erected according to approved architectural plans, e.g. shacks in informal settlements and backyards.
- 54,9% of households living in formal housing, fully owned their properties, with 11,5% that partially owned their properties (financed by and not fully paid off to financial institutions) and 21,6% renting the properties they were living in.
- 15,3% of households were living in RDP or state-subsidised housing.
- 13,6% of households had at least one member on a waiting list for state-subsidised housing.
- 13,3% of households were receiving a housing subsidy from the state.

Residentail rental payment behaviour was relatively stable in the second quarter of 2014, based on research by Tenant Profile Network (TPN) Credit Bureau. A large percentage of residential tenants remained in good standing with regard to rental payments in the second quarter, with 72% that paid on time (up from 69% in the first quarter), 9% that paid late, 4% that paid within the grace period, 9% that made partial payments and 6% that did not pay at all. With interest rates rising during the course of the year, there has been a noticeable deterioration in rental payment behaviour in especially the upper rental brackets, as tenants in these categories are more credit-active and thus more exposed to the effect of interest rate hikes.

The variable mortgage interest rate is currently 9,25% per annum, after interest rates were hiked by 50 basis points in January and a further 25 basis points in July this year, which caused mortgage rapayments to rise. 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.

Residential building activity remained largely under pressure in the first half of 2014, in line with trends since 2010. The planning phase of new housing, as reflected by the number of building plans approved by local government institutions for houses, flats and townhouses, showed relatively strong growth of 13,5% y/y to a level of 38 516 units in the first eight months of 2014 from 33 936 units in the corresponding period last year. However, the construction phase of new housing, i.e. the number of housing units reported as completed, contracted by 14,2% y/y to a total of 23 605 units in the period from January to August this year compared with 27 520 new housing units built in the same period last year. The improvement in levels of activity in the planning phase is expected to become evident in a higher level of construction activity in the short to medium term. In both the planning and construction phases more than 73% of the level of building activity this year occurred in the segments of smaller sized houses and higher-density flats and townhouses, which has become a structural feature of the supply of new housing over the past twenty years, driven by factors such as urbanisation, land scarcity, building costs, housing affordability, property running costs (property rates and taxes, levies, electricity, etc.) and changing lifestyles.

Building confidence, based on the BER's building confidence index, rebounded somewhat to 45 index points in the third quarter of 2014 from a level of 41 index points in the second quarter. The slight rise in building confidence was largely due to improved conditions regarding residential building activity, especially in terms of the planning phase, which showed double-digit year-on-year growth in the first eight months of the year. Levels of confidence with regard to the non-residential sector remained flat. The building confidence index measures prevailing business conditions in the building industry sub-sectors of architects, quantity surveyors, main building contractors, sub-contractors, manufacturers of building materials and retailers of building materials and hardware.

The subdued performance of the residential mortgage market continued well into 2014 on the back of trends in the economy, household finances, consumer credit-risk profiles, banks' risk appetite and lending criteria, consumer confidence and general conditions in the residential property market. As a result, the year-on-year growth in the value of outstanding household mortgage balances has remained low at between 2% and 3% since early 2013. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital repayments on mortgage loans as well as loans fully paid up.

According to information published by Old Mutual in the latest edition of the *Savings and Investment Monitor*, home loan repayment patterns showed some recent shifts against the background of changed conditions regarding the economy and the financial position of households:

- 63% of homeowners paid the minimum only on mortgage loans on primary residences by mid-2014, up from 54% in mid-2013.
- 28% of homeowners paid extra money monthly into their mortgage loans in mid-2014, down from 31% in mid-2013.
- 5% of homeowners paid extra lump sums into their mortgage loans in mid-2014, down from 8% in mid-2013.

Based on Absa's calculations, nominal year-on-year house price growth in the middle segment of the market remained resilient in the first three quarters of 2014, increasing somewhat in the third quarter from the second quarter, despite challenging economic, consumer sector and property market conditions. However, month-on-month house price growth has been on a downward trend since January, with early indications that this is starting to impact year-on-year price growth. All categories of housing analysed posted nominal price growth of above the average inflation rate in the third quarter of the year compared with a year ago, while price growth was also evident on a quarterly basis (see tables and section below on house price trends).

House prices

The third quarter of 2014 saw nominal year-on-year house price growth in the middle segment of the market (homes of $80m^2$ — $400m^2$ and priced up to R4 million in 2014) being marginally higher compared with the second quarter. In the category of affordable housing nominal price growth accelerated further in the third quarter, with price growth in the luxury segment in double-digits. Real house price growth was affected by consumer price inflation, which remained above the 6% level in the third quarter. House prices are continuously being driven by property market conditions, which were affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence.

The nominal price of a property refers to the price at which it was valued or transacted on the open market, i.e. market price, selling or purchase price and is reflected in a valuation, an offer to purchase, an application for mortgage finance and the transfer documentation at registration.

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 above or below the inflation rate. In addition to the nominal price, real property price trends and growth are important from a property investment point of view.

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 reflect 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 seasonally adjusted and 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

Nominal year-on-year growth in the average price of affordable housing (homes of $40m^2$ — $79m^2$ and priced up to R545 000 in 2014) accelerated further to 7,6% in the third quarter of 2014 from 6,7% and 3,5% in the second and first quarters respectively. The average price of an affordable home came to R375 000 in the third quarter. Real price inflation of 1,3% y/y was recorded in the third quarter, up from 0,2% y/y in the second quarter and some real price deflation of 2,2% y/y in the first quarter of the year.

Middle-segment housing

The average nominal price of a home in the middle segment of the market (homes of 80m² — 400m² and priced at R4 million or less in 2014) increased by 9,6% y/y to a level of almost R1 287 000 in the third quarter of 2014 (9,3% y/y in the second quarter and 8,7% in the first quarter). Real price inflation in this category of housing came to 3,2% y/y in the third quarter of the year, up from 2,6% y/y in the second quarter.

The following price changes occurred in the three middle-segment categories in the third quarter of 2014:

- Small houses (80m² — 140m²): 7,4% y/y nominal and 1,1% y/y real
- Medium-sized houses (141m² — 220m²): 7,7% y/y nominal and 1,3% y/y real
- Large houses (221m² — 400m²): 10,8% y/y nominal and 4,3% y/y real

Luxury housing

The third quarter of 2014 saw the average price of luxury housing (homes priced at between R4 million and R14,6 million in 2014) rising strongly by a nominal 10,9% y/y to a level of just below R5,7 million, after prices had risen by 8,6% y/y in the second quarter. In real terms, the average price in this category of housing was up by 4,3% y/y in the third quarter after rising by 1,9% y/y 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 the previous quarter and a year ago, could have contributed to the strong price growth in the third quarter.

Regional house prices

At a provincial and metropolitan level, house prices continued to perform relatively well in most regions in nominal terms, with some real deflation evident in certain areas in the third quarter of 2014. However, on a quarterly basis nominal price deflation occurred in five provinces in the third quarter, while there was also some price deflation in some metropolitan areas compared with the second quarter of the year. This might be an indication of the start of some subdued price growth over a wide front in the not-to-distant future, as month-on-month price growth has been trending downwards since early this year, which is expected to be reflected in year-on-year price growth at some stage in the near future.

Along the country's coast, year-on-year house price growth was markedly lower than in the country as a whole, although quarter-on-quarter price growth proved to be relatively strong, with the exception of only the KwaZulu-Natal coast that experienced price deflation. House prices have been under pressure for some time in coastal areas, which have a relatively large focus in terms of investment and leisure properties. These conditions in coastal areas may continue over the short to medium term against the background of financial strain experienced by the household sector in general.

The performance of the residential property market at geographical level is affected by national economic trends in general. However, the regional property markets may react differently to macroeconomic developments as a result of additional area-specific factors, such as location, physical infrastructure and the level and extent of economic development and growth. These factors may affect property demand and supply conditions, market activity, buying patterns, transaction volumes and price levels and growth.

New and existing housing

The average price of a new house showed some price deflation of 0,7% y/y in the third quarter of 2014 after accelerating price growth up to the third quarter of 2013. However, growth in the average price of new homes has been on a downward trend since the fourth quarter of last year. This development could be the result of somewhat cheaper new housing included in the sample against the background of continued above-inflation increases in building costs (see below) and households experiencing increased financial strain over the past year, such as declining real income growth, rising inflation and higher interest rates. The average price of a new home came to about R1 788 000 in the third quarter of the year. In real terms the average price of a new house dropped by 6,5% y/y in the third quarter.

The average price of an existing house was up by a nominal 10,5% y/y to a level of around R1 261 000 in the third quarter of 2014, which resulted in real year-on-year price growth of 4% in the quarter. As a result, it was around R527 000, or 29,5%, cheaper to have bought an existing house than to have had a new one built in the third quarter of the year.

Building costs

The cost of having a new house built increased by 8% y/y in the third quarter of 2014, slightly lower than the increase of 8,4% y/y in the second quarter, but still above the average consumer price inflation rate of 6,3% y/y in the third quarter. Despite the continued upward trend in building costs, the growth in the average price of a new house has been slowing down into a state of deflation (see above price trends with regard to new homes).

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, the cost of rezoning, the cost of preparing land for construction and holding costs in general.

Land values

The value of vacant residential stands in the middle and luxury segments of the housing market for which Absa received applications and approved mortgage finance, increased by a nominal 10,1% y/y to an average of about R627 000 in the third quarter of 2014, after having risen by 5% y/y in the preceding quarter. In real terms residential land values were up by 3,6% y/y in the third quarter of the year, after declining by a real 1,4% y/y in the second quarter.

The average price of land for new middle-segment and luxury housing increased to 27,5% of the total value of a new residential property in these categories in the third quarter of 2014 from a recent low of 25,3% in the fourth quarter of last year.

Residential land values will continue to reflect the all-important factor of location, as well as the availability of suitable land for development, the availability of municipal services such as electricity, water, sewerage and refuse removal, the availability and condition of transport infrastructure and the proximity to places of work, schools, shopping centres, medical facilities, etc.

Affordability of housing

The affordability of housing remained on a gradual deteriorating trend up to the second quarter of 2014, as reflected by the ratios of house prices and mortgage repayments to household disposable income (see graph on the affordability of housing). This was the net result of nominal house price growth of 9,3% y/y and nominal disposable income growth of 7,8% y/y in the quarter, while the mortgage interest rate remaind stable at 9% per annum in the second quarter after being hiked in the first quarter.

Apart from house prices and the mortgage interest rate, households' ability to afford housing is also affected by factors such as employment, income, savings, living costs, debt levels, credit-risk profiles (as reflected by the state of consumer credit records), the National Credit Act and banks' risk appetite and lending criteria in the case of mortgage loan applications for buying property.

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

The IMF's forecast is for the world economy to grow by a real 3,7% in the second half of 2014, with growth of 3,3% expected for the full year, rising to 3,8% in 2015. Advanced, emerging and developing economies are to gradually recover further over the forecast period. However, the IMF remains mindful of some downside risks to the outlook for the world economy, which include geopolitical risks, financial market corrections (which have to some extent already occurred recently), the eventual normalisation of monetary policy in the US, deflation or continued low inflation in some regions, continued low levels of economic growth over a wide front and lower than expected growth in China.

Growth in advanced economies are forecast to increase from 1,4% in 2013 to 1,8% in 2014 and 2,3% in 2015. The US is forecast to grow by 2,2% in 2014, rising to 3,1% in 2015, which may hold implications for inflation and interest rates. The Eurozone, however, is expected to show growth of only 0,8% in 2014, increasing gradually to 1,3% in 2015, with monetary policy set to remain very much accommodative for an extended period to stimulate economic activity and prevent deflation. The UK economy is forecast to grow by 3,2% in 2014, while growth in 2015 is expected to be slightly lower at 2,7%. Japanese economic growth is expected to remain sluggish at 0,9% and 0,8% in 2014 and 2015 respectively.

In emerging market and developing economies growth is forecast at 4,4% in 2014 and 5% in 2015, with growth in China to slow down from 7,7% in 2013 to 7,4% in 2014 and 7,1% in 2015, despite some stimulatory measures imposed by the authorities. Growth in sub-Saharan Africa is expected to remain robust at 5,1% in 2014 and 5,8% in 2015, but growth prospects are largely overshadowed by the situation in Guinea, Liberia and Sierra Leone where the Ebola outbreak is taking a heavy toll. In addition to this, the performance of the global economy, including China, and trends in commodity prices, remain important to most countries in sub-Saharan Africa, while the region also remains vulnerable to severe weather conditions, which may have a major impact on food production and food price inflation.

The IMF forecasts consumer price inflation in advanced economies to remain relatively low at 1,6% and 1,8% in 2014 and 2015 respectively, with inflation of around 2% expected in the US this year and next year, which may prompt the Federal Reserve to hike interest rates at some stage in the next twelve months. However, inflation expectations in the US have dropped in recent months, which may have the implication that interest rates may be on hold for longer than anticipated. In the Eurozone, fears of deflation persist, with interest rates to remain low for an extended period. In emerging market and developing economies consumer price inflation is projected to be around 5,5% in 2014 and 2015.

The South African economy

Against the background of severe strike action in the South African economy in the first seven months of the year, which led to huge production losses, growth forecasts were downscaled to around 1,5% for 2014. Economic growth is expected to rebound in 2015, but to remain below the 3% level in real terms. The performance of exports will largely be a result of global economic trends and movements in the rand exchange rate, which is expected to depreciate further against some major international currencies such as the US dollar. Growth in real domestic demand is set to be below 1% in 2014, which will be a reflection of relatively low levels of confidence and financial strain experienced by consumers and the business sector on the back of inflationary pressures and rising interest rates.

Headline consumer price inflation is forecast to remain above the 6% level until year-end/early 2015 before tapering off gradually. The main risks to the inflation outlook are the exchange rate, food prices, transport costs, property running costs and wage hikes. The $/R exchange rate is forecast to depreciate by 11,3% in 2014 and 6,9% in 2015, which will keep inflation under upward pressure.

Domestic interest rates are forecast to rise through 2015 on the back of current trends in and prospects for the global and local economy, financial conditions and sentiment, and inflationary pressures. Prime lending and variable mortgage interest rates are forecast to end the year at a level of 9,25% per annum, rising to 10% by the end of 2015.

There are, however, a number of key risks that may affect the outlook for the South African economy over the short to medium term, which include the following:

- Continued, subdued world economic growth, affecting the country's export performance.
- Eventual US interest rate hikes on the back of a faster growing economy and rising inflation. Higher US interest rates will narrow interest rate differentials, impacting capital flows, exchange rates, inflation and interest rates in emerging markets, including South Africa.
- A credit rating downgrade to speculative level, which may lead to a weaker rand exchange rate, rising inflation, a higher country risk premium and thus a higher cost of funding, higher interest rates on credit extended to households and the business sector, subdued domestic demand and investment conditions, low economic growth and a stagnant or even lower level of employment. A speculative credit rating may also negatively impact capital flows, as some global portfolio managers' mandates prevent them from investing in countries having a credit rating below investment grade.
- Continued, tight labour market conditions and tension, reflected by strike action, a loss of production and export earnings, low growth in productivity, rising unit labour costs on the back of above-inflation wage hikes, subdued employment growth and unemployment remaining high.
- Continued or increased financial strain on consumers and businesses, which may further dampen demand, production, investment, employment and confidence in the economy.

The household sector

The aspects of economic growth, employment, income, debt, inflation and interest rates will remain important to the state of and trends in household finances, with the following expectations regarding some major household sector-related factors in 2014-15:

- Growth in employment is expected to remain low.
- Growth in real household disposable income is projected at below 2% in 2014 and 2015, impacted by factors such as economic growth, employment and inflation.
- Household consumption expenditure is forecast to grow by less than 2% in 2014 and 2015, and to continue its close correlation with disposable income growth as a result of low savings and inflationary pressures.
- The ratio of household consumption expenditure to GDP is forecast at around 60% for both 2014 and 2015, emphasising the fact that the consumer sector remains a major driver of economic activity in general.
- An expected further upward trend in lending rates will hamper the affordability and accessibility of and demand for credit, with the household debt-to-income ratio to further subside towards the end of 2014 and in 2015 as a result.
- The cost of servicing household debt as a percentage of disposable income will increase further on the back of rising lending rates.

Consumers' credit-risk profiles will remain a key factor in the accessibility of and growth in credit, which will be reflected in consumption expenditure.

The property market

The residential property market will continue to reflect trends in economic growth, employment and household income, property running costs and inflation in general, interest rates, consumers' credit-risk profiles, banks' risk appetite and lending criteria and consumer confidence. These factors will drive the affordability of housing and mortgage finance, which will be evident in trends in property demand and supply, property prices, market activity, buying patterns, transaction volumes, the demand for mortgage finance and home loan repayment patterns.

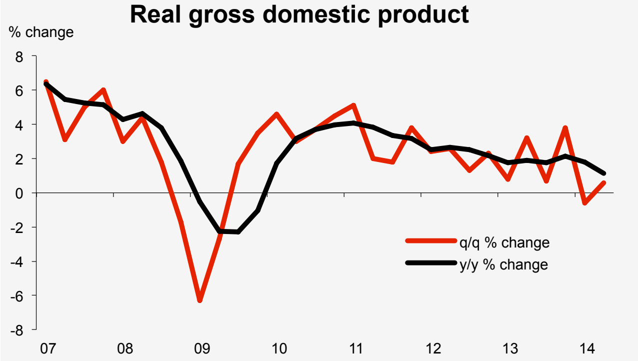
Against the background of trends in and prospects for the economy and household finances, as well as house price growth in the first three quarters of the year, single-digit nominal price growth is set to continue for the remainder of 2014 and in 2015. Real house price growth will be the result of nominal price trends and inflation, with some real price inflation projected for this year and next year.

Growth in outstanding household mortgage balances, which remained low at just above 2% y/y beyond mid-2014, is expected to continue to be in low single-digits up to year-end and in 2015 against the background of the state of household finances and consumer confidence.

Residential building activity will continue to be driven by economic trends, household finances and consumer and building confidence. These factors will impact the demand for and supply of new housing, along with trends in the secondary market for homes, changing lifestyles, the availability of serviced development land and building costs. Building activity for new housing is expected to remain relatively subdued over the next 12 to 18 months, very much along the trends of 2010-2013 when the number of plans approved per annum came to 50,1% of the annual average of 100 406 units planned in 2004-2007 and the number of new housing units constructed per annum came to 57,5% of the annual average of 71 993 units built in 2004-2007.

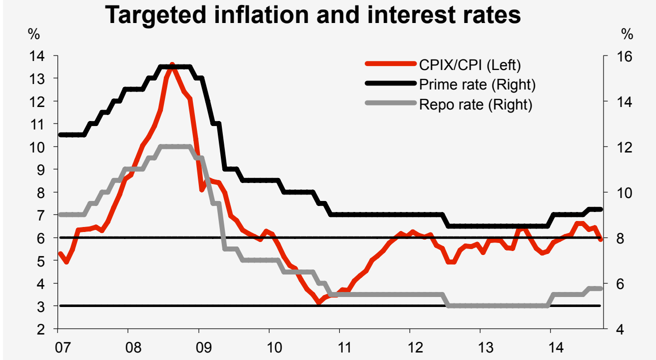
Graphs

Real gross domestic product



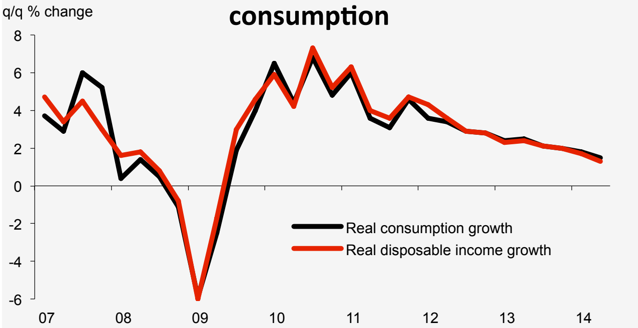
Source: SARB

Targeted inflation and interest rates



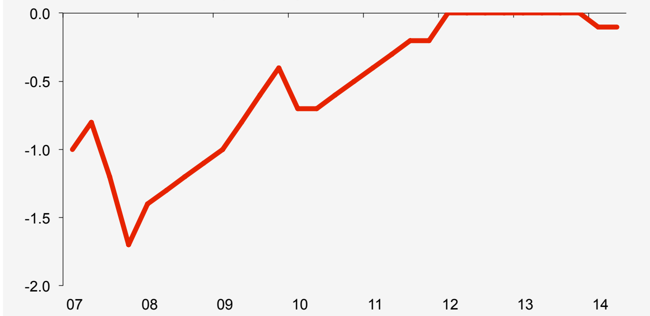
Source: SARB, Stats SA

Household income and consumption



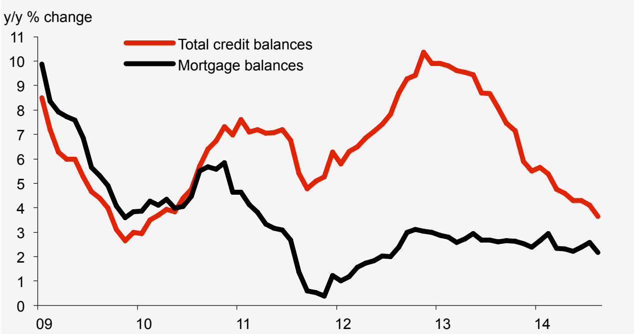
Source: SARB

Net household saving
(% of disposable income)



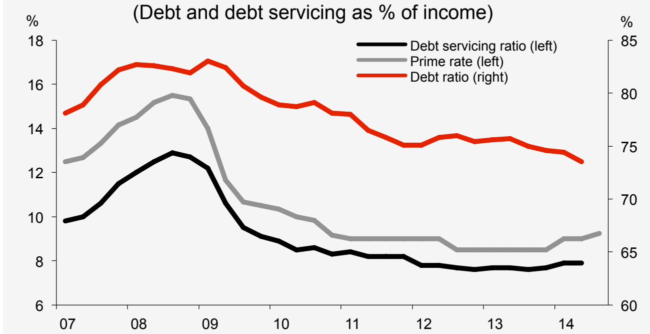
Source: SARB

Household credit and mortgage balances



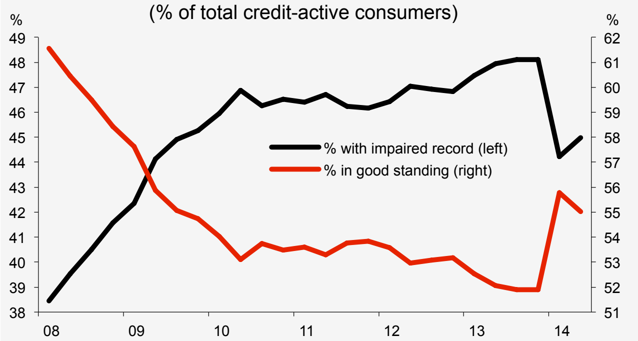
Source: SARB

Household debt and debt servicing
(Debt and debt servicing as % of income)



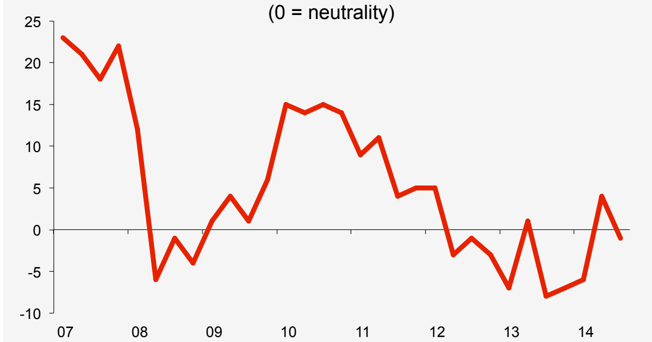
Source: SARB

Consumer credit-risk profiles
(% of total credit-active consumers)

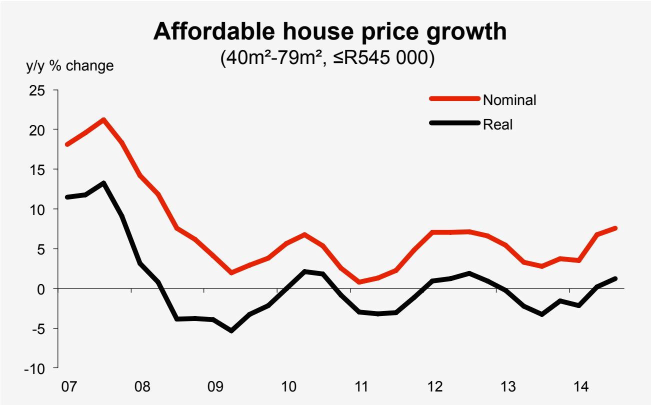


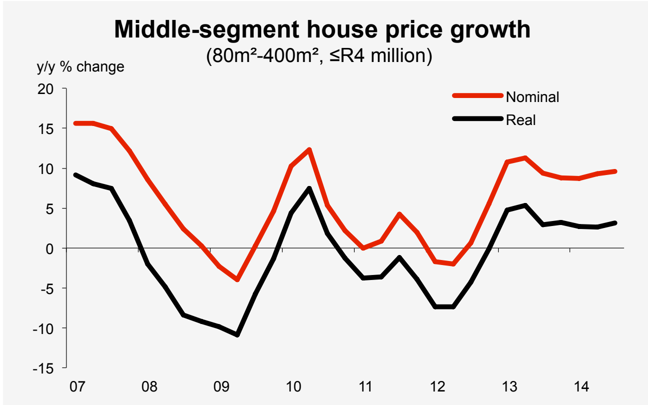
Source: NCR

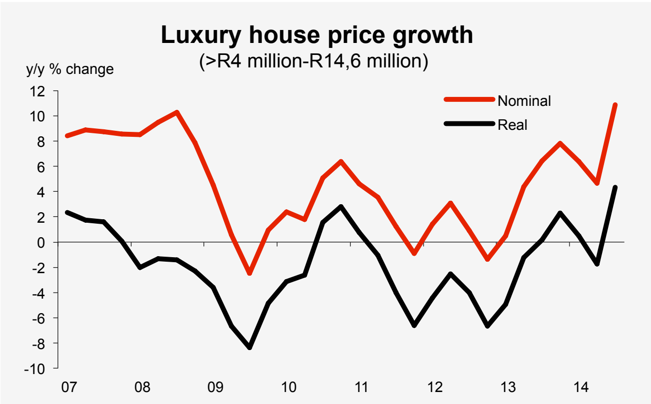
Consumer confidence index
(0 = neutrality)

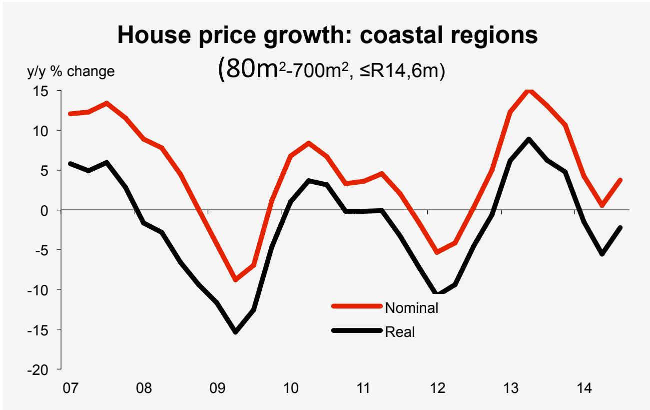


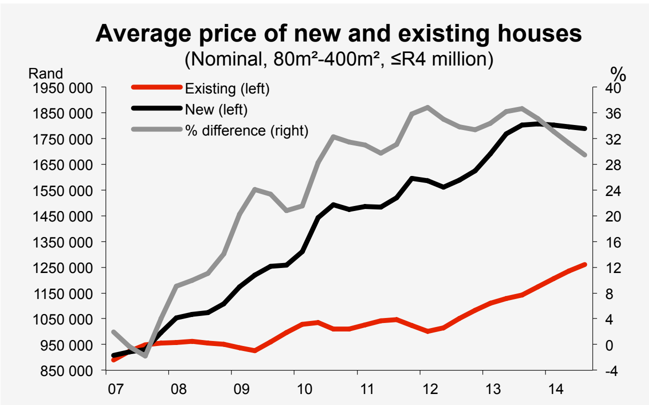
Source: BER

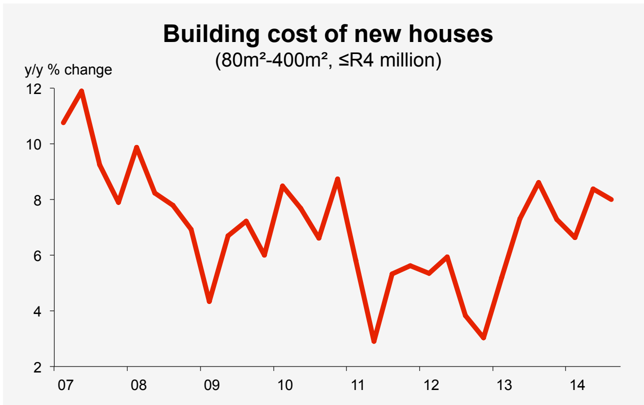

Affordable house price growth
(40m²-79m², ≤R545 000)
y/y % change
25 20 15 10 5 0 -5 -10
07 08 09 10 11 12 13 14
Nominal
Real

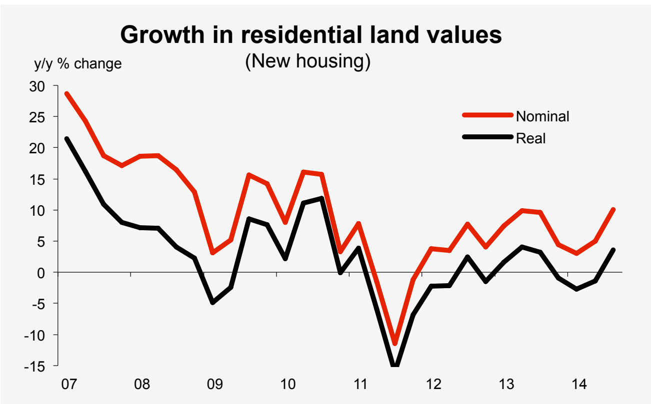

Middle-segment house price growth
(80m²-400m², ≤R4 million)
y/y % change
20 15 10 5 0 -5 -10 -15
07 08 09 10 11 12 13 14
Nominal
Real

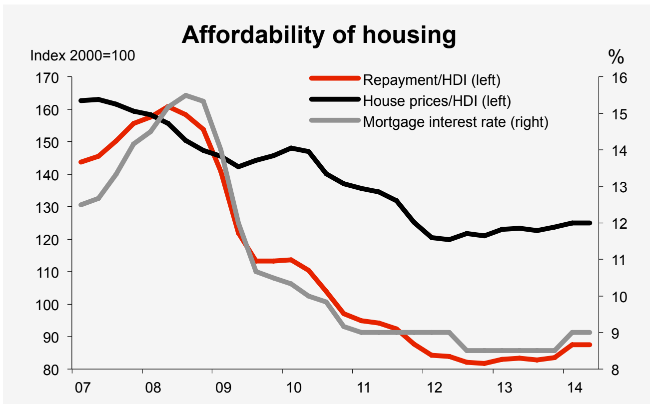

Luxury house price growth
(>R4 million-R14,6 million)
y/y % change
12 10 8 6 4 2 0 -2 -4 -6 -8 -10
07 08 09 10 11 12 13 14
Nominal
Real


House price growth: coastal regions
(80m²-700m², ≤R14,6m)
y/y % change
15 10 5 0 -5 -10 -15 -20
07 08 09 10 11 12 13 14
Nominal
Real


Average price of new and existing houses
(Nominal, 80m²-400m², ≤R4 million)
Rand
1950 000 1850 000 1750 000 1650 000 1550 000 1450 000 1350 000 1250 000 1150 000 1050 000 950 000 850 000
%
40 36 32 28 24 20 16 12 8 4 0 -4
07 08 09 10 11 12 13 14
Existing (left)
New (left)
% difference (right)


Building cost of new houses
(80m²-400m², ≤R4 million)
y/y % change
12 10 8 6 4 2
07 08 09 10 11 12 13 14


Growth in residential land values
(New housing)
y/y % change
30 25 20 15 10 5 0 -5 -10 -15
07 08 09 10 11 12 13 14
Nominal
Real


Affordability of housing
Index 2000=100
170 160 150 140 130 120 110 100 90 80
%
16 15 14 13 12 11 10 9 8
07 08 09 10 11 12 13 14
Repayment/HDI (left)
House prices/HDI (left)
Mortgage interest rate (right)

Statistics

Residential property stock[1]

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	% share[2]
Number of properties							
Total number of properties	5 929 259	5 940 649	5 957 397	5 972 060	5 983 002	5 992 796	100.0
Bonded	2 139 510	2 136 259	2 130 943	2 126 565	2 122 315	2 114 869	35.3
Non-bonded	3 789 749	3 804 390	3 826 454	3 845 495	3 860 687	3 877 927	64.7
Freehold properties (excluding estate properties)	4 935 142	4 942 018	4 953 322	4 962 243	4 969 818	4 977 125	83.1
Bonded	1 529 758	1 525 783	1 520 054	1 514 820	1 510 198	1 503 819	30.2
Non-bonded	3 405 384	3 416 235	3 433 268	3 447 423	3 459 620	3 473 306	69.8
Sectional title properties (excluding estate properties)	701 193	704 764	708 866	713 266	715 864	717 549	12.0
Bonded	423 832	424 399	424 897	425 679	426 117	425 337	59.3
Non-bonded	277 361	280 365	283 969	287 587	289 747	292 212	40.7
Estate properties[3]	292 924	293 867	295 209	296 551	297 320	298 122	5.0
Bonded	185 920	186 077	185 992	186 066	186 000	185 713	62.3
Non-bonded	107 004	107 790	109 217	110 485	111 320	112 409	37.7
Property values (R billion)							
Total value of properties	3 860	3 933	4 007	4 080	4 149	4 216	100.0
Bonded	2 078	2 109	2 136	2 165	2 193	2 217	52.6
Non-bonded	1 782	1 824	1 871	1 915	1 956	1 999	47.4
Freehold properties (excluding estate properties)	2 757	2 807	2 856	2 905	2 953	3 000	71.1
Bonded	1 413	1 433	1 449	1 465	1 483	1 497	49.9
Non-bonded	1 344	1 375	1 408	1 440	1 470	1 502	50.1
Sectional title properties (excluding estate properties)	566	579	591	605	616	627	14.9
Bonded	331	337	343	349	355	359	57.3
Non-bonded	235	242	248	256	262	268	42.7
Estate properties[3]	536	547	559	570	580	590	14.0
Bonded	334	340	345	351	355	360	61.1
Non-bonded	203	208	215	219	224	229	38.9

[1]Housing and vacant land, excluding housing on agricultural smallholdings and farms.
[2]Latest available quarter. Percentage share may not add up due to rounding.
[3]Freehold properties, sectional title properties and vacant land.
Historical data may be revised due to the inclusion of lagged information and the re-estimation of property values.
Source: Lightstone

Monthly mortgage repayment

Rand, calculated over a period of 20 years

Mortgage amount	Repayment at a mortgage rate of 9.00%	9.25%	9.50%	9.75%	10.0%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%	12.25%
100 000	900	916	932	949	965	982	998	1 015	1 032	1 049	1 066	1 084	1 101	1 119
200 000	1 799	1 832	1 864	1 897	1 930	1 963	1 997	2 030	2 064	2 099	2 133	2 167	2 202	2 237
300 000	2 699	2 748	2 796	2 846	2 895	2 945	2 995	3 046	3 097	3 148	3 199	3 251	3 303	3 356
400 000	3 599	3 663	3 729	3 794	3 860	3 927	3 994	4 061	4 129	4 197	4 266	4 335	4 404	4 474
500 000	4 499	4 579	4 661	4 743	4 825	4 908	4 992	5 076	5 161	5 246	5 332	5 419	5 505	5 593
600 000	5 398	5 495	5 593	5 691	5 790	5 890	5 990	6 091	6 193	6 296	6 399	6 502	6 607	6 711
700 000	6 298	6 411	6 525	6 640	6 755	6 872	6 989	7 107	7 225	7 345	7 465	7 586	7 708	7 830
800 000	7 198	7 327	7 457	7 588	7 720	7 853	7 987	8 122	8 258	8 394	8 531	8 670	8 809	8 949
900 000	8 098	8 243	8 389	8 537	8 685	8 835	8 985	9 137	9 290	9 443	9 598	9 753	9 910	10 067
1 000 000	8 997	9 159	9 321	9 485	9 650	9 816	9 984	10 152	10 322	10 493	10 664	10 837	11 011	11 186
1 500 000	13 496	13 738	13 982	14 228	14 475	14 725	14 976	15 228	15 483	15 739	15 996	16 256	16 516	16 778
2 000 000	17 995	18 317	18 643	18 970	19 300	19 633	19 968	20 305	20 644	20 985	21 329	21 674	22 022	22 371
2 500 000	22 493	22 897	23 303	23 713	24 126	24 541	24 959	25 381	25 805	26 231	26 661	27 093	27 527	27 964

Mortgage amount at fixed monthly repayment

Rand, calculated over a period of 20 years

Mortgage repayment	Mortgage amount at a mortgage rate of 9.00%	9.25%	9.50%	9.75%	10.0%	10.25%	10.50%	10.75%	11.00%	11.25%	11.50%	11.75%	12.00%	12.25%
1 000	111 145	109 186	107 281	105 428	103 625	101 870	100 162	98 500	96 882	95 306	93 771	92 276	90 819	89 400
2 000	222 290	218 372	214 562	210 856	207 249	203 740	200 325	197 000	193 763	190 611	187 542	184 552	181 639	178 801
3 000	333 435	327 559	321 843	316 283	310 874	305 610	300 487	295 500	290 645	285 917	281 313	276 828	272 458	268 201
4 000	444 580	436 745	429 124	421 711	414 498	407 480	400 649	394 000	387 526	381 222	375 083	369 103	363 278	357 601
5 000	555 725	545 931	536 405	527 139	518 123	509 350	500 811	492 500	484 408	476 528	468 854	461 379	454 097	447 001
6 000	666 870	655 117	643 686	632 567	621 748	611 220	600 974	591 000	581 289	571 834	562 625	553 655	544 916	536 402
7 000	778 015	764 303	750 967	737 994	725 372	713 090	701 136	689 500	678 171	667 139	656 396	645 931	635 736	625 802
8 000	889 160	873 489	858 248	843 422	828 997	814 960	801 298	788 000	775 052	762 445	750 167	738 207	726 555	715 202
9 000	1 000 305	982 676	965 529	948 850	932 622	916 830	901 460	886 500	871 934	857 751	843 938	830 483	817 375	804 603
10 000	1 111 450	1 091 862	1 072 810	1 054 278	1 036 246	1 018 700	1 001 623	984 999	968 815	953 056	937 708	922 759	908 194	894 003
15 000	1 667 174	1 637 793	1 609 216	1 581 416	1 554 369	1 528 050	1 502 434	1 477 499	1 453 223	1 429 584	1 406 563	1 384 138	1 362 291	1 341 004
20 000	2 222 899	2 183 724	2 145 621	2 108 555	2 072 492	2 037 400	2 003 245	1 969 999	1 937 631	1 906 112	1 875 417	1 845 517	1 816 388	1 788 006
25 000	2 778 624	2 729 654	2 682 026	2 635 694	2 590 615	2 546 750	2 504 057	2 462 499	2 422 038	2 382 641	2 344 271	2 306 896	2 270 485	2 235 007

Average nominal house prices

	2010	2011	2012	2013	2013		2014				
	Rand	Rand	Rand	Rand	Q3	Q4	Q1	Q2	Q3		
					Rand	Rand	Rand	Rand	Rand	q/q %Δ	y/y %Δ
National											
Middle segment (80m²-400m², ≤R4m)	1 036 402	1 054 257	1 060 773	1 166 988	1 173 966	1 202 654	1 233 726	1 263 473	1 286 838	1.8	9.6
Small (80m²-140m², ≤R4m)	773 260	737 039	702 252	756 141	765 735	771 704	788 457	820 210	822 583	0.3	7.4
Medium (141m²-220m², ≤R4m)	969 747	986 975	1 018 087	1 078 794	1 078 570	1 098 361	1 130 746	1 146 701	1 161 087	1.3	7.7
Large (221m²-400m², ≤R4m)	1 446 659	1 485 705	1 518 935	1 662 694	1 678 913	1 707 080	1 740 266	1 794 261	1 860 413	3.7	10.8
New (80m²-400m², ≤R4m)	1 429 856	1 520 803	1 589 410	1 766 591	1 801 065	1 805 671	1 801 644	1 795 911	1 788 484	-0.4	-0.7
Existing (80m²-400m², ≤R4m)	1 021 333	1 034 974	1 037 558	1 138 434	1 141 642	1 172 983	1 205 800	1 234 804	1 261 428	2.2	10.5
Affordable (40m²-79m², ≤R545 000)	307 502	315 195	336 441	349 478	348 548	356 397	359 277	368 521	374 998	1.8	7.6
Luxury (R4m-R14,6m)	4 675 375	4 769 594	4 817 315	5 058 327	5 103 496	5 127 125	5 215 984	5 318 393	5 658 303	6.4	10.9
Provinces											
Eastern Cape	908 915	892 240	906 948	965 088	970 613	1 017 825	1 032 180	1 032 244	1 025 767	-0.6	5.7
Free State	840 665	894 168	870 049	943 614	933 346	959 194	1 030 289	1 091 995	1 043 489	-4.4	11.8
Gauteng	1 081 739	1 116 511	1 102 361	1 203 361	1 215 518	1 239 649	1 274 357	1 302 510	1 331 596	2.2	9.5
KwaZulu-Natal	922 105	965 276	937 404	1 080 968	1 077 713	1 118 368	1 165 685	1 145 404	1 122 158	-2.0	4.1
Limpopo	890 127	879 202	933 262	1 016 878	1 008 349	1 015 364	1 040 995	1 068 829	1 090 125	2.0	8.1
Mpumalanga	854 513	903 393	928 102	1 024 379	1 024 407	1 043 681	1 081 551	1 106 269	1 078 167	-2.5	5.2
North West	838 267	844 162	871 903	919 611	935 282	962 059	948 025	946 944	967 049	2.1	3.4
Northern Cape	783 898	776 670	867 766	998 669	989 977	992 058	1 078 657	1 097 721	1 086 329	-1.0	9.7
Western Cape	1 175 411	1 157 428	1 194 434	1 293 511	1 302 955	1 329 278	1 378 088	1 417 327	1 468 496	3.6	12.7
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	899 262	864 461	861 460	906 016	919 325	927 972	925 366	926 779	934 385	0.8	1.6
East London (Eastern Cape)	1 046 877	991 225	1 064 107	1 160 277	1 210 960	1 270 540	1 259 520	1 203 109	1 132 027	-5.9	-6.5
Bloemfontein (Free State)	1 093 977	1 110 327	1 104 603	1 209 669	1 179 300	1 231 639	1 347 746	1 465 498	1 511 625	3.1	28.2
Greater Johannesburg (Gauteng)	1 106 417	1 160 961	1 132 701	1 211 092	1 219 124	1 238 996	1 289 682	1 320 141	1 353 537	2.5	11.0
Johannesburg Central & South	907 140	899 556	868 347	865 869	863 731	878 867	961 446	986 454	963 979	-2.3	11.6
Johannesburg North & West	1 390 802	1 408 614	1 423 951	1 504 053	1 508 794	1 557 622	1 625 220	1 691 239	1 735 931	2.6	15.1
East Rand	952 963	1 023 232	1 016 665	1 100 769	1 113 276	1 104 047	1 120 967	1 156 821	1 161 969	0.4	4.4
Pretoria (Gauteng)	1 164 808	1 183 028	1 182 150	1 312 056	1 332 934	1 365 825	1 394 598	1 451 845	1 493 173	2.8	12.0
Durban/Pinetown (KwaZulu-Natal)	1 000 223	1 019 768	1 002 611	1 090 974	1 088 493	1 122 652	1 135 412	1 144 411	1 130 740	-1.2	3.9
Cape Town (Western Cape)	1 198 749	1 181 977	1 237 882	1 341 280	1 347 966	1 382 052	1 440 247	1 487 479	1 541 670	3.6	14.4
Coastal regions											
South Africa	1 206 765	1 232 584	1 218 968	1 374 473	1 390 766	1 397 886	1 384 973	1 387 912	1 442 456	3.9	3.7
Western Cape	1 274 914	1 315 663	1 312 354	1 467 145	1 488 691	1 528 348	1 507 558	1 514 231	1 596 408	5.4	7.2
West Coast	1 246 379	1 332 589	1 234 724	1 399 835	1 469 731	1 542 597	1 375 040	1 403 390	1 473 607	5.0	0.3
Cape Peninsula and False Bay	1 243 606	1 269 780	1 307 853	1 492 874	1 492 656	1 559 775	1 573 745	1 537 299	1 613 477	5.0	8.1
Southern Cape	1 374 753	1 428 644	1 356 904	1 446 499	1 488 643	1 464 736	1 435 253	1 507 980	1 604 413	6.4	7.8
Eastern Cape	1 082 761	1 080 024	1 112 752	1 104 710	1 115 597	1 138 634	1 103 190	1 137 768	1 228 226	8.0	10.1
KwaZulu-Natal	1 195 888	1 276 987	1 197 383	1 480 516	1 507 926	1 433 214	1 528 406	1 400 720	1 367 859	-2.3	-9.3
South Coast	1 073 336	1 020 999	1 003 682	1 082 579	1 132 957	1 140 866	1 122 985	1 100 971	1 084 492	-1.5	-4.3
North Coast	1 277 138	1 405 829	1 327 263	1 675 127	1 639 671	1 628 113	1 655 823	1 625 531	1 598 752	-1.6	-2.5

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 R4 million in 2014.
House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R14,6 million in 2014.

Average nominal house prices by middle-segment category in the third quarter of 2014

	Small: 80m² - 140m²			Medium: 141m² - 220m²			Large: 221m² - 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	822 583	0.3	7.4	1 161 087	1.3	7.7	1 860 413	3.7	10.8
Eastern Cape	677 267	-0.2	14.7	1 010 966	7.2	2.5	1 566 229	0.2	-2.8
Free State	775 634	1.9	-4.0	898 257	-1.6	3.2	1 399 375	-3.2	24.2
Gauteng	870 366	2.3	9.7	1 134 942	-0.5	6.7	1 907 888	1.7	12.6
KwaZulu-Natal	684 257	0.3	0.8	1 035 007	-2.0	-0.4	1 648 452	2.8	6.2
Mpumalanga	779 923	-1.3	5.3	1 008 637	-3.8	3.7	1 465 322	1.4	6.8
North West	619 943	-6.2	5.9	892 197	-0.6	-1.3	1 355 206	6.1	2.7
Northern Cape	688 406	6.6	17.7	1 213 098	8.2	19.7	1 427 926	-6.2	-8.0
Limpopo	702 589	-2.3	19.2	984 184	2.4	3.1	1 532 986	8.1	17.1
Western Cape	918 849	0.0	7.4	1 399 007	3.6	11.2	2 164 756	5.5	12.2
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	631 695	-2.3	9.2	884 570	11.2	-6.1	1 524 905	2.8	-5.7
East London (Eastern Cape)	837 838	1.2	12.0	1 077 111	4.6	-3.0	1 746 114	-4.7	-2.9
Bloemfontein (Free State)	1 128 152	9.6	17.4	1 404 265	18.2	23.9	1 869 889	0.7	27.3
Greater Johannesburg (Gauteng)	962 380	4.2	14.2	1 213 454	2.0	12.3	1 899 721	1.1	13.5
Johannesburg Central & South	699 903	10.0	28.8	1 018 253	10.1	19.8	1 463 088	-3.2	12.2
Johannesburg North & West	960 331	14.0	17.4	1 476 772	2.9	14.9	2 188 307	0.8	15.9
East Rand	1 033 952	0.0	8.6	1 043 447	-4.0	7.8	1 539 261	-2.3	2.2
Pretoria (Gauteng)	782 719	0.1	7.5	1 211 510	-1.3	5.8	2 101 669	3.9	15.3
Durban/Pinetown (KwaZulu-Natal)	736 926	2.0	5.4	1 079 239	6.6	6.6	1 656 474	-0.6	0.6
Cape Town (Western Cape)	995 250	2.4	10.5	1 478 725	0.6	8.9	2 303 213	4.3	14.4

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m² and 400m², up to R4 million in 2014, in respect of which loan applications were approved by Absa Bank.

Key variables and projections

Annual averages

		2008	2009	2010	2011	2012	2013	2014	2015
World									
Gross domestic product	Real % Δ	3.0	0.0	5.4	4.1	3.4	3.3	3.3	3.8
Advanced economies	Real % Δ	0.1	-3.4	3.1	1.7	1.2	1.4	1.8	2.3
Emerging market and developing economies	Real % Δ	5.8	3.1	7.5	6.2	5.1	4.7	4.4	5.0
South Africa									
Gross domestic product	Real % Δ	3.6	-1.5	3.1	3.6	2.5	1.9	1.5	2.7
$/R exchange rate	Rand per US$	8.25	8.44	7.32	7.25	8.21	9.65	10.88	11.69
Headline consumer price inflation rate	%	11.0	7.1	4.3	5.0	5.7	5.8	6.2	5.1
Mortgage interest rate (end of period)	%	15.00	10.50	9.00	9.00	8.50	8.50	9.25	10.00
Household disposable income	Real % Δ	2.2	-1.1	4.5	5.2	3.8	2.5	1.6	1.8
Household final consumption expenditure	Real % Δ	2.2	-1.6	4.4	4.9	3.5	2.6	1.8	1.8
Household final consumption expenditure	% of GDP	61.7	60.7	59.3	59.4	60.8	60.8	60.9	60.4
Household saving to disposable income	%	-1.2	-0.7	-0.6	-0.3	0.0	0.0	-0.1	-0.2
Household debt to disposable income	%	82.4	81.4	78.7	76.4	75.6	75.2	73.5	72.5
House prices (80m²-400m², ≤R4m)	Nominal % Δ	4.1	-0.4	7.4	1.7	0.6	10.0	8.9	7.5
House prices (80m²-400m², ≤R4m)	Real % Δ	-6.2	-7.0	3.0	-3.1	-4.8	4.1	2.5	2.3

Source: IMF, SARB, Stats SA, Absa