Home Loans

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Housing review

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- The South African economy is estimated to have grown by a real 1,4% in 2014, down from 2,2% in 2013. Economic growth is expected to gradually rebound in 2015 and 2016, to 2,2% and 2,8% respectively, driven by domestic demand and global growth over the next two years. However, continued severe electricity supply constraints will be a major risk to economic growth over this period.

- Headline consumer price inflation averaged 6,1% in 2014 and is forecast to subside to below 4% this year on the back of significantly lower international oil and domestic fuel prices as well as declining food price inflation. This may cause interest rates to remain stable until later this year.

- The consumer sector remained under financial pressure up to late 2014. The state of and trends in household finances will continue to be driven by the all-important factors of economic growth, employment, income, debt, inflation and interest rates. Consumers' credit-risk profiles will remain a key factor in the accessibility of and growth in household credit, which will impact consumption expenditure against the background of a projected continued low level of household savings.

- House price growth in the middle segment of the market remained largely resilient throughout 2014, despite some challenging economic conditions impacting households over a wide front during the course of the year. In both the categories of affordable and luxury housing nominal price growth was higher last year compared with 2013, with prices also increasing in real terms in these two segments of the market. A situation of a normalisation of and more balanced housing demand and supply conditions have largely contributed to house price growth in 2014.

- Single-digit nominal house price growth is expected to continue in 2015 and in 2016 against the background of the outlook for major economic and household sector-related factors, although base effects may cause price growth to be somewhat lower over the forecast period compared with 2013 and 2014. Based on current expectations regarding nominal price growth and consumer price inflation, continued real house price inflation is projected for this year and next year, after real price growth was recorded in both 2013 and 2014.

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Economic overview

The global economy

According to the International Monetary Fund's (IMF) latest assessment of global economic conditions, published in the January 2015 *World Economic Outlook Update,* world growth accelerated to 3,8% in the third quarter of 2014 from 3,3% in the second quarter, with growth that remained largely divergent among the major economies.

Oil prices in US dollar terms have dropped sharply since September last year, putting huge downward pressure on inflation over a wide front, with oil exporting countries facing significantly lower levels of revenue as a result of the lower oil prices.

Economic growth in the US has picked up during the course of last year after a contraction in the first quarter on the back of severe weather conditions, with labour market conditions improving as the year progressed and inflation remaining low as a result of dollar strength and declining oil prices. In the euro area, economic growth was still very much subdued up to late last year, while inflation continued to decline to a point where the region is on the brink of falling into a state of widespread deflation. The European Central Bank has announced a package of substantial quantitative easing in January this year, related to the purchase of financial assets in an attempt to revive economic activity and inflation in the European economy. The Japanese economy technically experienced a recession in the third quarter of 2014, with inflation on a downward trend. Lower economic growth was also evident in China, impacted by subdued investment growth, while the Russian economy weakened markedly on the back of the significantly lower oil prices and ongoing geopolitical tensions that caused economic sanctions to be imposed against the country by some prominent Western countries. As a result of the abovementioned trends and developments, monetary policy has remained largely accommodative in advanced economies in 2014, whereas currency weakness in emerging and developing economies has caused interest rates to be raised in some of these countries that are heavily reliant on commodity exports.

The South African economy

Annualised growth in South Africa's real gross domestic product (GDP) measured 1,4% in the third quarter of 2014, up from growth of 0,5% in the second quarter and a contraction of 1,6% in the first quarter. In the first three quarters of 2014, the country's real economic growth came to 1,5% on a year-on-year basis. However, during this period economic activity was severely hampered by the protracted 5-month-long strike in the platinum mining sector and the strike in the steel and engineering industry in July last year.

If the contribution of the strike-affected mining and manufacturing sectors is excluded from the growth calculation, the growth rate was a real annualised 2,5% in the third quarter, instead of 1,4% when these two sectors are included. Futhermore, the South African Reserve Bank (SARB) has calculated that the annualised real economic growth would have been 3,1% in the third quarter of last year if the strike in the steel and engineering industry did not occur. This includes the secondary negative effect on household consumption expenditure as a result of the loss in household income during this period.

The year-on-year (y/y) headline consumer price inflation rate was on a declining trend in the fourth quarter of last year to end the year at 5,3%, impacted by lower food price inflation as well as sharply declining fuel prices on the back of significantly lower international oil prices during this period. Headline consumer price inflation came to 6,1% in 2014, up from 5,8% in 2013 and 5,7% in 2012. Underlying core inflation, i.e. headline inflation excluding the more volatile components of food, non-alcoholic beverages, petrol and energy, remained under upward pressure during the course of 2014, ending the year at a level of 5,7% y/y and averaging 5,6% last year compared with 5,2% in 2013 and 4,6% in 2012.

Lending rates remained unchanged up to the end of January this year after hikes of 50 basis points in January and 25 basis points in July last year. The repurchase rate, or repo rate, which is the key monetary policy interest rate and the 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.

Household sector overview

The consumer sector remained under financial pressure up to the third quarter of 2014. Real household disposable income and consumption growth stayed below the 2% level, while the level of household debt was above 78% of disposable income over this period, with the net savings ratio remaining in negative territory in the first three quarters of the year. The interest rate hikes during the course of last year caused the cost of servicing household debt to mildly rise as a percentage of disposable income. The number of credit-active consumers with impaired credit records was higher by the end of the third quarter of last year, reflecting continued financial strain experienced by households. Consumer confidence, remaining extremely low during 2014, is a key driving factor of the demand for credit and household consumption expenditure. However, the consumer sector is currently benefitting from sharply declining domestic fuel prices as a result of significantly lower international oil prices, which are expected to result in lower inflation in coming months, while interest rates may remain relatively low for an extended period.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income, was slightly higher at an annualised rate of 1,8% in the third quarter of 2014 from 1,6% in the second quarter. This was to some extent the result of the normalisation of salary and wage income of workers affected by the platinum mining strike in the first half of the year, whereas compensation of workers in the steel and engineering industry was adversely affected by the sector-wide strike in July last year. Based on calculations by Andrew Levy Employment Publications, the nominal wage settlement rate came to 8,1% in 2014 (7,9% in 2013), which was above the average headline consumer price inflation rate of 6,1% y/y over this period.

Growth in real household consumption expenditure improved marginally from an annualised rate of 1,1% in the second quarter of 2014 to 1,3% in the third quarter. The somewhat higher real consumption growth came against the background of faster growth in real disposable income, while consumer price inflation subsided slightly during the quarter. The close correlation between growth in real household disposable income and growth in consumption expenditure continued up to the third quarter of 2014 and remains related to the severe lack of household savings, as well as many consumers' limited financial ability to access credit for the purpose of spending. This is an indication of households' reliance on mainly income and credit to fund consumption expenditure.

The ratio of net household savings to disposable income, in negative territory since 2006, was at a level of -2,3% in the third quarter of 2014 from -2,4% in the second quarter. 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 3,4% y/y in 2014. Growth in the value of outstanding household secured credit balances (instalment sales credit, leasing finance and mortgage loans) came to 3,0% y/y at the end of December last year, largely driven by low growth of 2,3% 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 4,7% y/y at end-December. The relatively low growth in unsecured credit balances was mainly the result of subdued growth in the component of general loans and advances (60,7% of household unsecured credit balances and mainly consisting of personal loans and microfinance) of 2,1% last year. 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.

The ratio of household debt to disposable income was only marginally lower at 78,3% in the third quarter of 2014 from 78,6% in the second quarter. 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.

As a result of the interest rate hikes in January and July last year, the household debt service-cost ratio increased gradually from 8,6 at the end of 2013 to 9,1% in the third quarter of 2014. 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 78,3% in the third quarter of last year 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 third quarter of 2014 to service household debt was around 11,6% per annum, which was 2,35 percentage points above the ruling average prime interest rate of 9,25% per annum over this period. The premium paid by consumers on debt of above the prime rate is the result of the state of consumer finances, credit-risk profiles, and banks' risk appetite and lending criteria against the background of expectations that interest rates will be hiked further.

Statistics on consumer credit-risk profiles since the first quarter of 2014, published by the National Credit Regulator (NCR), reflect changes to credit regulations announced in late 2013 to make provision for a credit amnesty process, which came into effect on 1 April 2014. The shift in the data in the first quarter of last year occurred as a result of credit bureaus implementing the changed regulations as from that 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.

In the third quarter of 2014 a total of 10,05 million credit-active consumers, or 44,7% of a total of 22,5 million, had impaired credit records, up from 9,95 million (45,0%) in the second quarter. The number of consumers in good standing came to 12,45 million (55,3%) in the third quarter compared with 12,17 million (55%) in the second quarter. A total number of 81,18 million consumer credit accounts were active in the third quarter of last year, of which 59,55 million (73,3%) were in good standing and 21,64 million (26,7%) 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.

Consumer financial vulnerability, as measured by the Bureau of Market Research (BMR), improved somewhat in the third quarter of 2014 from the second quarter. At an overall index reading of 51,4 in the third quarter (50,4% in the second quarter), consumers remained financially mildly exposed. An index reading of 50-59,9 in the Consumer Financial Vulnerability Index (CFVI) and its sub-indices indicates that consumers are financially mildly exposed. An index reading of 40-49,9 indicates that consumers are financially very exposed, whereas an index reading of 60-79,9 indicates that consumers are financially very secure. The sub-components of the CFVI were measured as follows in the third quarter of 2014:

- Income vulnerability: At 50,9 index points, consumers were mildly exposed
- Expenditure vulnerability: At 54,3 index points, consumers were mildly exposed
- Savings vulnerability: At 51,9 index points, consumers were mildly exposed
- Debt service vulnerability: At 48,4 index points, consumers were very exposed

In the third quarter of last year, 23,8% of consumers were regarded as financially vulnerable (36,8% in the third quarter of 2013), with 49,3% regarded as financially exposed (38,4% in the third quarter of 2013) and 26,9% were regarded as financially secure (24,7% in the third quarter of 2013). This implies that about 73% of consumers were experiencing financial pressure of some or other kind late last year.

Based on the latest *Quarterly Labour Force Survey* published by Statistics South Africa, a total of 15,117 million people were employed in the formal and informal sectors of the economy in the third quarter of 2014. The labour market was severely affected by major strikes in some mining and manufacturing sub-sectors in the first seven month of last year, with only 0,2% more people that were employed in the third quarter compared with the second quarter, while employment growth was also low in the second quarter at 0,3% compared with the first quarter. The unemployment rate remained above the 25% level in the third quarter, with a total of 5,151 million people being unemployed in the quarter. According to Andrew Levy Employment Publications, a total number of 11,6 million workdays were lost due to industrial action in the first three quarters of 2014 compared with 4,7 million lost in the same period in 2013 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.

According to the Bureau for Economic Research (BER), consumer confidence remained relatively low in 2014, measured at a level of 0 index points in the fourth quarter of the year and averaging -0,8 index points for the full year. These index readings were well below the average of +5 in the past twenty years, which were also the case in 2012 and 2013. 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 third quarter of 2014, there were just more than 6 million residential properties in South Africa with a total value of almost R4,3 trillion, of which 2,1 million with a total value of R2,3 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).

Growth in the planning phase of new housing, as reflected by the number of building plans approved by local government institutions for houses, flats and townhouses, was recorded at 12,8% y/y to a level of 53 532 units in the first eleven months of 2014 from a total of 47 441 units in the corresponding period of 2013. This growth in the planning phase came in anticipation of a growing demand for housing, whereas construction activity has declined on an annual basis. The construction phase of new housing, i.e. the number of housing units reported as completed, contracted by 5,9% y/y to a total of 34 424 units in the period from January to November last year compared with 39 003 new housing units built in the same period in 2013. 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. The segments of smaller sized houses and higher density flats and townhouses had a share of just more than 70% in the planning and construction phases of new housing in 2014. This has been a structural feature of the supply of new housing in especially the major metropolitan areas over the past twenty years, continuously driven by factors such as urbanisation, land scarcity, building costs, housing affordability, property-operating costs (property rates and taxes, levies, electricity, etc.) and changing lifestyles.

Building confidence, based on the BER's building confidence index, jumped further in the fourth quarter of 2014 on the back of improved conditions regarding residential building activity, especially in terms of the planning phase, which showed double-digit year-on-year growth for most of last year. Building confidence, with an index reading of 50 regarded as neutral, measured 49,5 index points in 2014, up from 43,5 in 2013. 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 variable mortgage interest rate is currently 9,25% per annum, after interest rates were hiked by a cumulative 75 basis points last year. 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.

The relatively subdued performance of the residential mortgage market continued up to the end of 2014 on the back of trends in the economy, household finances, consumer credit-risk profiles, banks' risk appetite and lending criteria and consumer confidence. The year-on-year growth in the value of outstanding household mortgage balances remained low at just above 2% at year-end. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital and normal monthly repayments on mortgage loans as well as loans fully paid up.

Housing rental indices, as published by Statistics South Africa, showed that rental inflation was below the headline consumer price inflation rate of 6,1% in 2014, measuring 4,8% for houses, 5,3% for townhouses and 5,7% for flats last year.

Based on Absa's calculations, nominal year-on-year house price growth in the middle segment of the market remained largely resilient throughout 2014, despite some challenging economic conditions impacting households over a wide front. All categories of housing analysed posted nominal year-on-year price growth of above the average consumer price inflation rate up to year-end (see section below and tables at the back of the report on house price trends).

House prices

The average nominal value of homes in the middle segment of the market (homes of $80m^2$ — $400m^2$ and priced up to

R4 million in 2014) performed relatively well in 2014, with real price growth recorded for a second consecutive year. In both the categories of affordable and luxury housing nominal price growth was higher last year compared with 2013, with prices also increasing in real terms in these two segments of the market. However, this house price performance in 2014 occurred against the background of low economic growth, significant labour market tension, marginal growth in employment, a depreciating exchange rate and rising inflation and interest rates, which negatively affected household finances and levels of confidence. It is believed that a situation of a normalisation of and more balanced housing demand and supply conditions, as indicated inter alia by trends in residential building activity during last year (see above), have largely contributed to the house price growth seen in 2014.

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

In the fourth quarter of 2014, the average price of affordable housing (homes of 40m² — 79m² and priced up to R545 000 in 2014) increased by a nominal 7,4% y/y (8,2% y/y in the third quarter) to about R381 000. Real price inflation of 1,6% y/y occurred in the fourth quarter (1,9% y/y in the third quarter).

The average price of affordable homes increased by a nominal 6,4% in 2014 compared with growth of 3,5% in 2013. In real terms prices increased by a marginal 0,3% last year after declining by 2,1% in 2013.

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 9,4% y/y to more than R1 315 000 in the final quarter of last year compared with growth of 9,8% y/y in the third quarter and 9,3% y/y in the second quarter. Real price inflation in this category of housing was recorded at 3,4% y/y and 3,6% y/y in the third and fourth quarters respectively.

Middle-segment housing experienced nominal price growth of 9,4% in 2014 (10% in 2013), while in real terms the average price of homes in this category improved by 3,1% in 2014 after real price growth of 4,0% in 2013.

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

- Small houses (80m² — 140m²): 9,8% y/y nominal and 3,5% y/y real
- Medium-sized houses (141m² — 220m²): 7,5% y/y nominal and 1,3% y/y real
- Large houses (221m² — 400m²): 7,7% y/y nominal and 1,6% y/y real

Luxury housing

The fourth 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 15,7% y/y to a level of about R5 935 000, after prices had risen by an equally strong 11,9% y/y in the third quarter. In real terms, the average price in this category of housing was up by 5,3% y/y and 9,7% y/y in the third and fourth quarters respectively.

In 2013 nominal price growth of 4,8% (0,6% in 2012) was recorded in the segment for luxury housing. This translated into real price deflation of 0,9% in 2013 after adjustment for the effect of inflation (-4,8% in 2012), causing prices in this category of housing to have declined for the sixth consecutive year in real terms.

As the sample size of luxury-segment housing is relatively small, a number of transactions of a higher value compared with the previous quarters, as well as a year ago, could have contributed to the strong price growth in the third and fourth quarters of last year.

Regional house prices

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, sectoral economic composition and the level and extent of economic growth and development. These factors may have a profound effect on property demand and supply conditions, market activity, buying patterns, transaction volumes and price levels and growth.

At a provincial, metropolitan and coastal level, house prices increased in most regions on a nominal and real basis in 2014.

House prices in the middle segment of the market performed as follows at provincial level in 2014:

- Free State: 11,9% higher in nominal terms (5,5% in real terms)
- Western Cape: A nominal 11,7% higher (5,4% in real

terms)
- Gauteng: Up by 9,8% in nominal terms (3,5% in real terms)
- KwaZulu-Natal: Up by 9,4% in nominal terms (3,1% in real terms)
- Limpopo: Up by a nominal 7,4% (1,3% in real terms)
- Northern Cape: 7,3% higher in nominal terms (1,1% in real terms)
- Mpumalanga: A nominal 6,5% higher (0,4% in real terms)
- Eastern Cape: Up by a nominal 5,0% (-1,0% in real terms)
- North-West: 3,3% higher in nominal terms (-2,6% in real terms)

The performance of middle-segment house prices in the major metropolitan areas was as follows in 2014:
- Bloemfontein: 18,0% higher in nominal terms (11,3% in real terms)
- Cape Town: A nominal 13,3% higher (6,8% in real terms)
- Pretoria: Up by a nominal 11,6% (5,2% in real terms)
- Greater Johannesburg: Up by 10,5% in nominal terms (4,2% in real terms)
- Durban/Pinetown: A nominal 6,0% higher (-0,1% in real terms)
- East London: Up by 3,1% in nominal terms (-2,8% in real terms)
- Port Elizabeth/Uitenhage: Up by a nominal 1,6% (-4,2% in real terms)

The metropolitan areas of Port Elizabeth, Uitenhage, East London and Durban are closely related to the vehicle and component manufacturing industry, which experienced challenging times in 2014 against the background of labour action and subdued new vehicle sales and export volumes compared with previous years. These developments, together with some other macroeconomic trends, are believed to have contributed to the largely muted house price performance in these areas last year compared with some other major metropolitan areas.

Year-on-year price growth in coastal regions was lower than in the country as a whole during 2014, although both quarterly and annual price growth proved to be relatively strong towards the end of the year, with the exception of only the KwaZulu-Natal South Coast that experienced price deflation in the fourth quarter of last year. The coastal property market, normally having a relatively large investment and leisure focus, experienced a lot of downward price pressure in recent years against the background of financial strain experienced by the household sector in general. However, a gradual improvement in market conditions along the coast is evident in view of continued excellent buying opportunities in certain areas.

The coastal regions saw the following changes in the average price level of homes between 80m² and 700m² and priced up to R14,6 million in 2014:
- All coastal regions: Up by 5,1% in nominal terms (-0.9% in real terms)
- Western Cape: 8,6% higher in nominal terms (2,4% in real terms)
- Eastern Cape: A nominal 6,2% higher (0,1% in real terms)
- KwaZulu-Natal: Down by 2,6% in nominal terms (-8,1% in real terms)

New and existing housing

The average price of a new home showed virtually no price movement on a year-on-year basis in the fourth quarter of 2014, while real price deflation of 5,4% y/y was recorded. Price growth with regard to new homes has been on a downward trend during last year, which could be the result of the inclusion in the sample of an increasing number of cheaper new homes in view of continued above-inflation increases in building costs (see below) and households remaining under financial pressure over the past year on the back of low real income growth, rising inflation and higher interest rates. The average price of a new home came to about R1 805 500 in the fourth quarter of 2014.

The average price of an existing house was up by a nominal 10,0% y/y to a level of around R1 289 400 in the fourth quarter of last year, which resulted in real year-on-year price growth of 4,1% in the quarter. As a result, it was around R516 100, or 28,6%, cheaper to have bought an existing house than to have had a new one built in the fourth quarter of 2014.

In 2014 the average nominal price of a new house was up by just 1,9% to a level of about R1 796 400, which resulted in real price deflation of 3,9% taking account of headline consumer price inflation of 6,1% last year. The average nominal price of an existing house was about R1 248 400 in 2014 (up by 9,7% in nominal terms and 3,4% in real terms compared to 2013). This made it R548 000, or 30,5%, cheaper to have bought an existing home than to have built a new one in 2014.

Building costs

The cost of having a new house built increased by 6,8% y/y in the fourth quarter of 2014, down from an increase of 7,8% y/y in the third quarter and 8,6% y/y in the second quarter, but remained above the average consumer price inflation rate of 6,1% y/y in these quarters. Despite the continued upward trend in building costs, the growth in the average price of a new house has been slowing down up to the end of last year (see above price trends with regard to new homes). Building costs showed an increase of 7,5% in 2014 after rising by 7,1% in 2013.

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 8,9% y/y to an average of about

R588 500 in the fourth quarter of 2014, after having risen by 7,9% y/y in the third quarter. In real terms residential land values were up by 3,1% y/y in the fourth quarter of last year, after rising by 1,6% y/y in the preceding quarter. Residential land values increased by a nominal 6,1% and a real 0,1% in 2014 after nominal and real growth of 7,6% and 1,8% respectively in 2013.

The average price of land for new middle-segment and luxury housing came to 26,7% of the total value of a new residential property in these categories in the fourth quarter of 2014, with this ratio averaging 27,1% last year.

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

Affordability of housing

The affordability of housing showed a further gradual deterioration in the third 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 9,4% y/y and nominal disposable income growth of 7,2% y/y in the quarter, while the mortgage interest rate increased further by 25 basis points to 9,25% per annum early in the third quarter of the year.

Apart from trends in house prices and the mortgage interest rate, households' ability to afford housing is also influenced by other important factors such as employment, income, savings, living costs, debt levels, credit-risk profiles (as reflected by the state of consumer credit records), National Credit Act stipulations and banks' risk appetite and lending criteria in the case of applications for mortgage finance to acquire 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 is projecting world economic growth at 3,5% in 2015 and 3,7% in 2016, which is slightly lower than predicted late last year. The downward revision of global growth of 0,3 percentage points came on the back of a struggling European economy, as well as a slower pace of economic activity foreseen in China, Japan and some major oil producing countries, including Russia, driven by inter alia the significantly lower international oil prices. In contrast, economic growth in the US is expected to be somewhat higher in 2015 than previously estimated. However, the boost to global demand resulting from lower oil prices may be regarded as a supporting factor to world growth over the short term, but the future outlook for oil prices remains uncertain, with eventual risks for world inflation, monetary policy and economic growth.

Growth in advanced economies are forecast at 2,4% in both 2015 and 2016. The US is set to grow by 3,6% in 2015 and 3,3% in 2016, with a possible start to monetary policy normalisation, i.e. higher interest rates, later this year. The euro area is projected to continue to show very modest growth of 1,2% in 2015, increasing only marginally to 1,4% next year. The European Central Bank has, however, announced major stimulatory measures in January in an attempt to revive economic activity in the region and spur on inflation. The UK economy is forecast to grow by 2,7% in 2015, while growth in 2016 is expected to be slightly lower at 2,4%. Japanese economic growth is projected to remain sluggish at 0,6% this year and 0,8% next year, with the possibility of further stimulatory measures to be announced by the Bank of Japan, if deemed necessary, to lift the economy out of recession.

Emerging market and developing country growth is forecast at 4,3% in 2015 and 4,7% in 2016, with growth in China to slow down from 7,4% in 2014 to 6,8% and 6,3% in 2015 and 2016 respectively. Sub-Saharan Africa is expected to show growth of 4,9% this year and 5,2% next year, with many countries in the region highly exposed to the commodity cycle, which is forecast to remain largely depressed over the next year or two in view of relatively muted global growth expectations.

The South African economy

The South African economy is estimated to have grown by a real 1,4% in 2014, down from 2,2% in 2013. Economic growth is expected to gradually rebound in 2015 and 2016, to 2,2% and 2,8% respectively, driven by domestic demand and global growth over the next two years. However, continued severe electricity supply constraints will be a major risk to the performance of the economy over this period.

Headline consumer price inflation is forecast to be significantly down from 6,1% in 2014 to less than 4% this year on the back of lower international oil and domestic fuel prices and declining food price inflation. However, oil prices may show a gradual rising trend in the second half of the year, with eventual adverse consequences for fuel prices and inflation. As a result, consumer price inflation is projected to rise to almost 5% by year-end and above the 6% level in 2016. The rand exchange rate, which is expected to stay under some depreciating pressure, remains an additional risk to the inflation outlook, together with above-inflation salary and wage increases and low productivity growth.

Largely driven by the outlook for consumer price inflation over the next twelve months, domestic interest rates are forecast to remain unchanged until September this year when a 25 basis point hike is projected to curb an expected rising trend in inflation. Depending on developments regarding domestic inflation and US interest rates, there is, however, a risk that the next hike in local interest rates may occur somewhat later. A further 75 basis points worth of domestic interest rate hikes are forecast for 2016 in an attempt to keep inflation under control, which is expected to rebound to well above 6% next year. With prime lending and variable mortgage rates unchanged at 9,25% per annum since July last year, the current forecast is for these interest rates to end the year at a level of 9,5% per annum, rising to 10,25% per annum by the end of 2016.

The household sector

The state of and trends in household finances will continue to be driven by the all-important factors of economic growth, employment, income, debt, inflation and interest rates in 2015-16. Employment growth is forecast to remain relatively low, whereas growth in real household disposable income and consumption expenditure is set to rise from levels of below 2% in 2014 on the back of expected low inflation and stable interest rates for a large part of this year. The ratio of household consumption expenditure to GDP is forecast to remain around the 60% level, indicating the importance of the consumer sector in economic activity. The household debt-to-income ratio is projected to subside gradually in view of some faster growth in income, but to remain well above the 70% level. Consumers' credit-risk profiles will remain a key factor in the accessibility of and growth in household credit, which will impact consumption expenditure against the background of a projected continued low level of household savings.

The property market

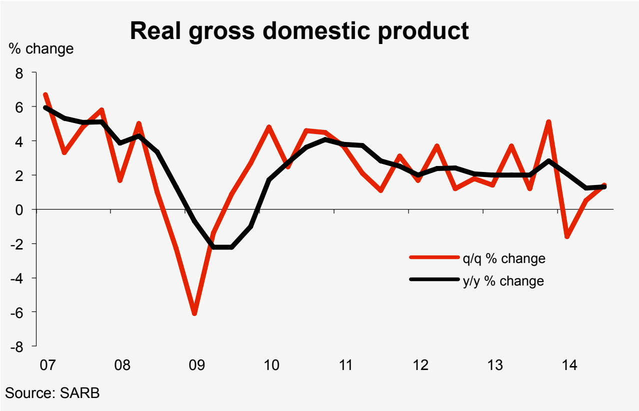
The residential property market is set to continue reflecting trends in economic growth, employment and household income, property running costs and living costs in general, interest rates, consumers' credit-risk profiles, banks' risk appetite and lending criteria and consumer confidence. These factors are to largely drive the affordability and accessibility of housing and mortgage finance, which are expected to be reflected in trends in property demand and supply conditions, residential building activity, property prices, indicators of market activity, buying patterns, transaction volumes, the demand for mortgage finance and home loan repayment patterns.

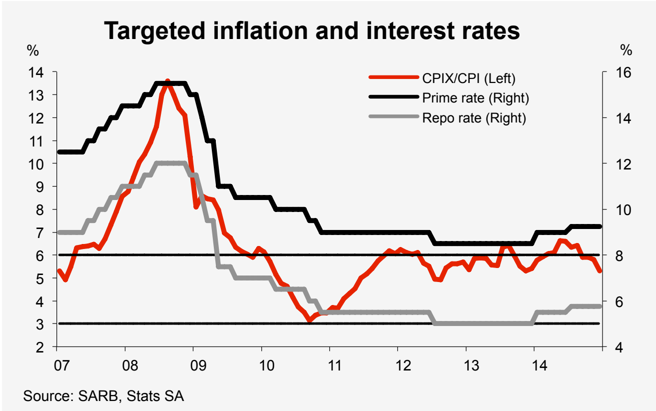
Single-digit nominal house price growth is expected to continue in 2015 and in 2016 against the background of the outlook for major economic and household sector-related factors (see above), although base effects may cause price growth to be somewhat lower over the forecast period compared with 2013 and 2014 when price growth of 10% and 9,3% respectively was recorded. Based on current expectations regarding nominal house price growth and consumer price inflation, continued real price inflation is projected for this year and next year, after real price growth was recorded in both 2013 and 2014.

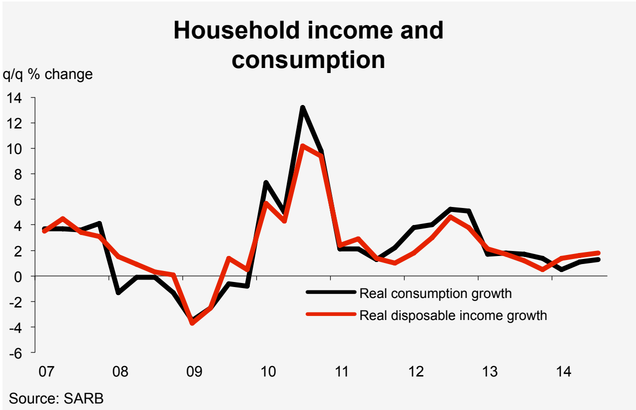
Growth in outstanding household mortgage balances, which remained low at just above 2% y/y up to the end of 2014, may improve somewhat this year on the back of abovementioned expected trends in the economy and household finances, which may also lead to an improvement in consumer confidence from its relatively low level of the past three years.

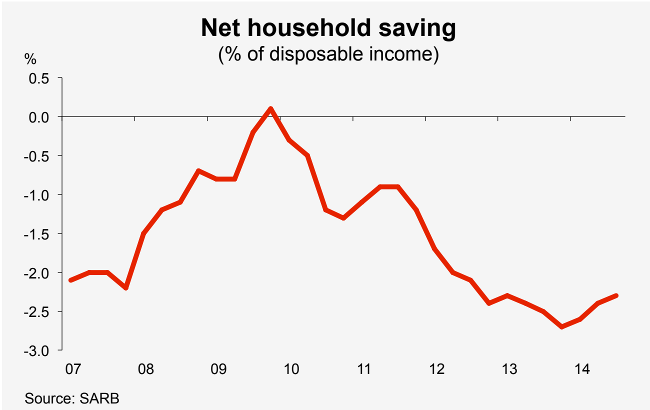
Economic trends, household finances and consumer and building confidence are important factors driving residential building activity and the demand for and supply of new housing, along with trends in the secondary housing market, changing lifestyles, the availability of serviced development land and building costs. The planning phase of building activity for new housing has rebounded strongly in 2014, which is expected to be reflected in the construction phase over the next 12 to 18 months. However, not all housing that are planned are eventually built, mainly as a result of various factors that may have a constraining impact, such as the availability and approval of municipal services, the availability and accessibility of finance and building confidence.

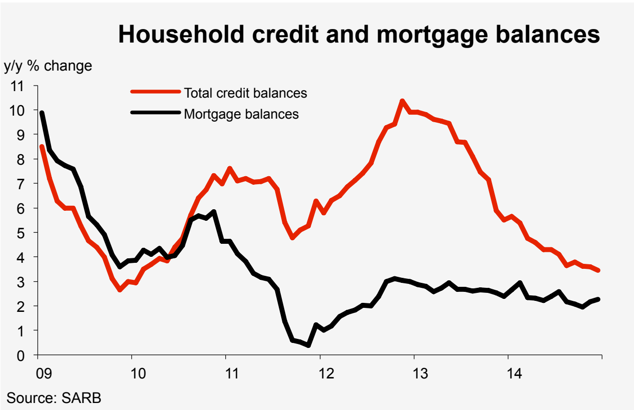
Graphs

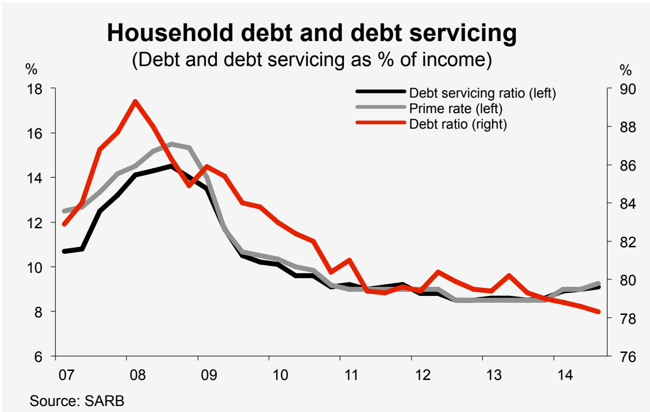

Real gross domestic product
% change
8
6
4
2
0
-2
-4
-6
-8
07
08
09
10
11
12
13
14
q/q % change
y/y % change
Source: SARB

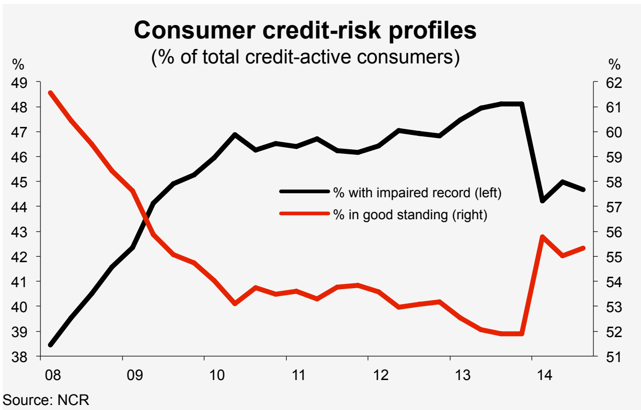

Targeted inflation and interest rates
%
%
CPIX/CPI (Left)
Prime rate (Right)
Repo rate (Right)
07
08
09
10
11
12
13
14
Source: SARB, Stats SA

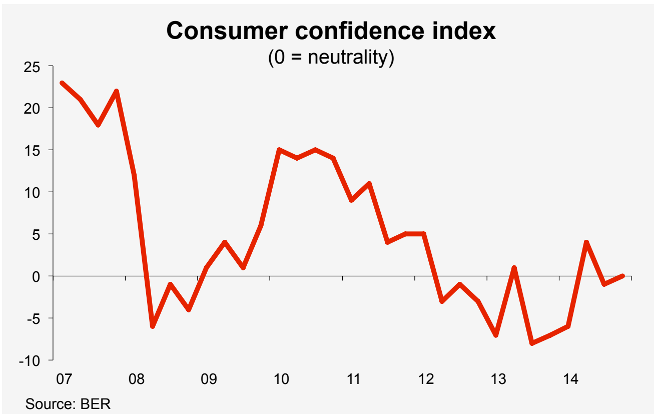

Household income and consumption
q/q % change
Real consumption growth
Real disposable income growth
07
08
09
10
11
12
13
14
Source: SARB

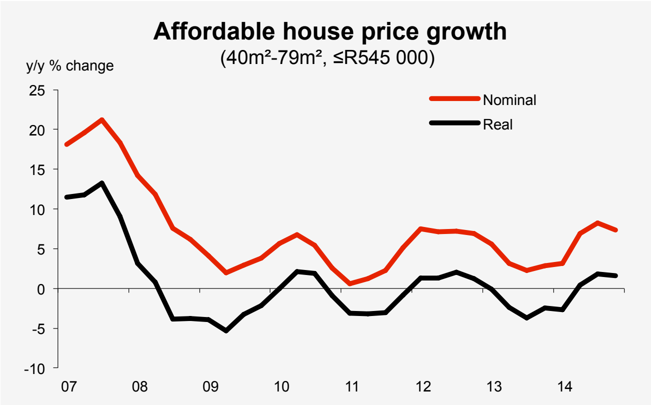

Net household saving
(% of disposable income)
%
07
08
09
10
11
12
13
14
Source: SARB

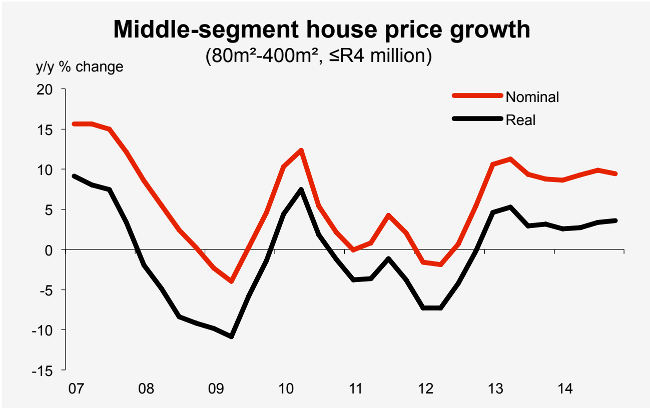

Household credit and mortgage balances
y/y % change
Total credit balances
Mortgage balances
09
10
11
12
13
14
Source: SARB

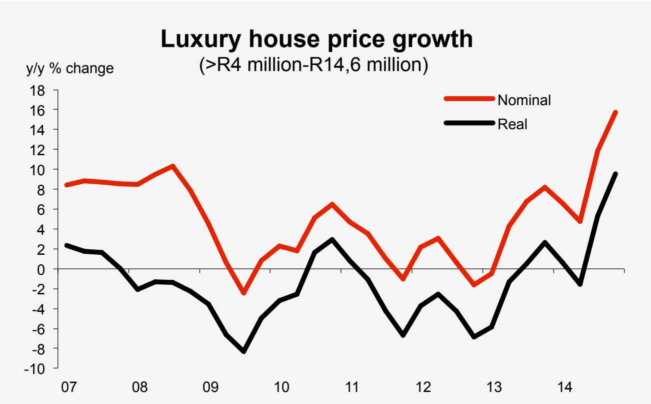

Household debt and debt servicing
(Debt and debt servicing as % of income)
%
%
Debt servicing ratio (left)
Prime rate (left)
Debt ratio (right)
07
08
09
10
11
12
13
14
Source: SARB

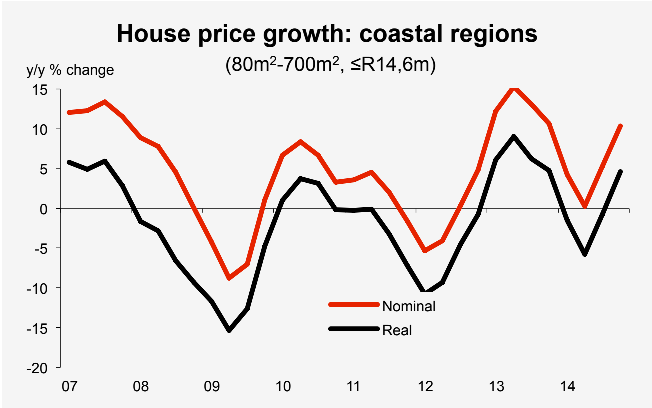

Consumer credit-risk profiles
(% of total credit-active consumers)
%
%
% with impaired record (left)
% in good standing (right)
08
09
10
11
12
13
14
Source: NCR

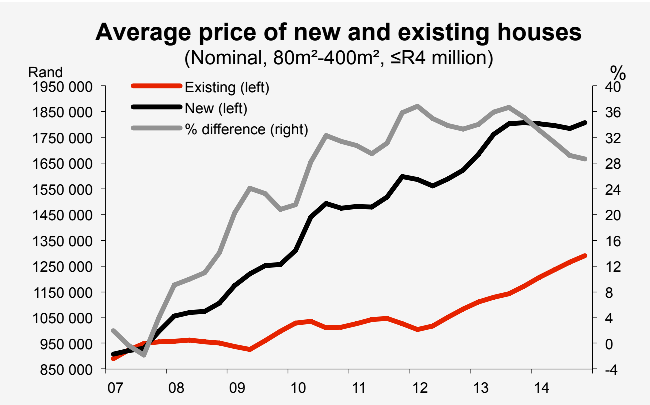

Consumer confidence index
(0 = neutrality)
07
08
09
10
11
12
13
14
Source: BER

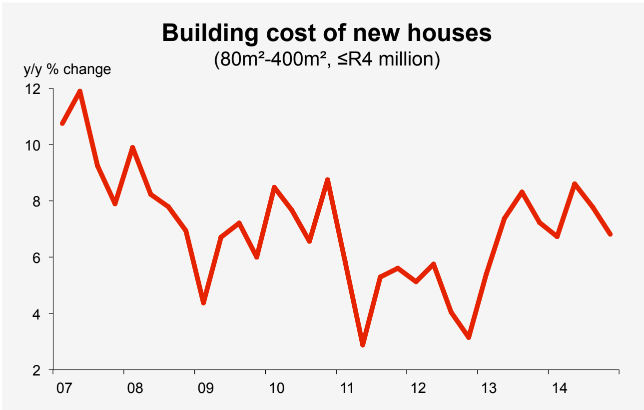

Affordable house price growth
(40m²-79m², ≤R545 000)
y/y % change
Nominal
Real
25
20
15
10
5
0
-5
-10
07
08
09
10
11
12
13
14

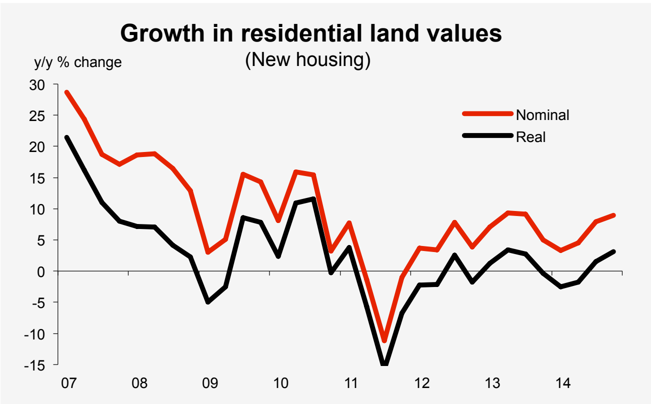

Middle-segment house price growth
(80m²-400m², ≤R4 million)
y/y % change
Nominal
Real
20
15
10
5
0
-5
-10
-15
07
08
09
10
11
12
13
14

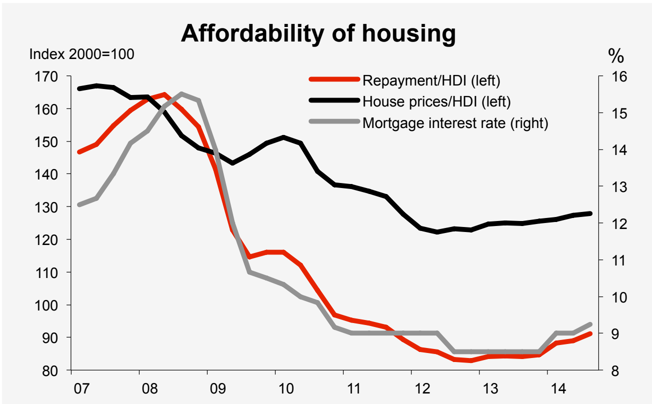

Luxury house price growth
(>R4 million-R14,6 million)
y/y % change
Nominal
Real
18
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
07
08
09
10
11
12
13
14


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


Average price of new and existing houses
(Nominal, 80m²-400m², ≤R4 million)
Rand
%
Existing (left)
New (left)
% difference (right)
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


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
Nominal
Real
30
25
20
15
10
5
0
-5
-10
-15
07
08
09
10
11
12
13
14


Affordability of housing
Index 2000=100
%
Repayment/HDI (left)
House prices/HDI (left)
Mortgage interest rate (right)
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

Statistics

Residential property stock[1]	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	% share[2]
Number of properties								
Total number	5 929 259	5 940 649	5 957 397	5 972 060	5 983 002	5 992 796	6 003 339	100.0
Bonded	2 139 510	2 136 259	2 130 943	2 126 565	2 122 315	2 114 869	2 094 241	34.9
Non-bonded	3 789 749	3 804 390	3 826 454	3 845 495	3 860 687	3 877 927	3 909 098	65.1
Freehold properties (excluding estate properties)	4 935 142	4 942 018	4 953 322	4 962 243	4 969 818	4 977 125	4 984 452	83.0
Bonded	1 529 758	1 525 783	1 520 054	1 514 820	1 510 198	1 503 819	1 483 885	29.8
Non-bonded	3 405 384	3 416 235	3 433 268	3 447 423	3 459 620	3 473 306	3 500 567	70.2
Sectional title properties (excluding estate properties)	701 193	704 764	708 866	713 266	715 864	717 549	719 742	12.0
Bonded	423 832	424 399	424 897	425 679	426 117	425 337	424 025	58.9
Non-bonded	277 361	280 365	283 969	287 587	289 747	292 212	295 717	41.1
Estate properties[3]	292 924	293 867	295 209	296 551	297 320	298 122	299 145	5.0
Bonded	185 920	186 077	185 992	186 066	186 000	185 713	186 331	62.3
Non-bonded	107 004	107 790	109 217	110 485	111 320	112 409	112 814	37.7
Property value (R billion)								
Total value	3 860	3 933	4 007	4 080	4 149	4 216	4 290	100.0
Bonded	2 078	2 109	2 136	2 165	2 193	2 217	2 259	52.7
Non-bonded	1 782	1 824	1 871	1 915	1 956	1 999	2 031	47.3
Freehold properties	2 757	2 807	2 856	2 905	2 953	3 000	3 051	71.1
Bonded	1 413	1 433	1 449	1 465	1 483	1 497	1 528	50.1
Non-bonded	1 344	1 375	1 408	1 440	1 470	1 502	1 523	49.9
Sectional title properties	566	579	591	605	616	627	639	14.9
Bonded	331	337	343	349	355	359	365	57.2
Non-bonded	235	242	248	256	262	268	274	42.8
Estate properties[3]	536	547	559	570	580	590	600	14.0
Bonded	334	340	345	351	355	360	366	60.9
Non-bonded	203	208	215	219	224	229	234	39.1

[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
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, calcutaled 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

	2011	2012	2013	2014	2013	2014					
	Rand	Rand	Rand	Rand	Q4	Q1	Q2	Q3	Q4		
					Rand	Rand	Rand	Rand	Rand	q/q %Δ	y/y %Δ
National											
Middle segment (80m²-400m², ≤R4m)	1 054 448	1 061 226	1 166 840	1 275 530	1 201 987	1 232 565	1 263 818	1 290 238	1 315 498	2.0	9.4
Small (80m²-140m², ≤R4m)	737 108	703 203	752 738	826 643	765 176	787 249	819 462	835 091	864 770	3.6	13.0
Medium (141m²-220m², ≤R4m)	987 055	1 017 956	1 078 936	1 159 683	1 096 571	1 130 689	1 146 785	1 167 085	1 194 171	2.3	8.9
Large (221m²-400m², ≤R4m)	1 487 634	1 519 596	1 673 181	1 802 723	1 718 768	1 753 748	1 800 594	1 822 845	1 833 707	0.6	6.7
New (80m²-400m², ≤R4m)	1 518 167	1 589 296	1 762 957	1 796 391	1 806 284	1 800 835	1 795 216	1 784 022	1 805 491	1.2	0.0
Existing (80m²-400m², ≤R4m)	1 035 054	1 038 422	1 138 409	1 248 428	1 172 043	1 204 724	1 235 274	1 264 305	1 289 410	2.0	10.0
Affordable (40m²-79m², ≤R545 000)	315 298	337 165	349 059	371 274	354 927	358 994	369 028	376 050	381 061	1.3	7.4
Luxury (R4m-R14,6m)	4 769 555	4 817 211	5 056 146	5 548 705	5 127 704	5 210 772	5 326 889	5 711 343	5 935 257	3.9	15.7
Provinces											
Eastern Cape	895 407	905 145	964 083	1 012 241	1 021 132	1 034 679	1 029 397	1 011 383	960 209	-5.1	-6.0
Free State	893 317	870 110	940 022	1 052 234	961 189	1 018 745	1 085 294	1 037 262	1 062 396	2.4	10.5
Gauteng	1 116 682	1 103 130	1 202 224	1 319 768	1 235 536	1 271 264	1 304 798	1 337 396	1 369 081	2.4	10.8
KwaZulu-Natal	965 965	936 282	1 083 153	1 184 726	1 117 011	1 163 729	1 163 881	1 189 635	1 216 261	2.2	8.9
Limpopo	878 943	935 303	1 017 612	1 093 413	1 016 706	1 038 550	1 069 915	1 109 332	1 155 856	4.2	13.7
Mpumalanga	903 712	928 735	1 025 345	1 091 760	1 042 064	1 080 531	1 108 702	1 099 383	1 078 424	-1.9	3.5
North West	844 337	871 691	917 300	947 824	950 886	938 006	944 025	959 014	950 252	-0.9	-0.1
Northern Cape	777 794	868 067	996 936	1 069 553	990 755	1 075 638	1 094 746	1 079 871	1 027 958	-4.8	3.8
Western Cape	1 159 197	1 195 509	1 291 359	1 443 047	1 320 920	1 366 460	1 413 143	1 475 925	1 526 079	3.4	15.5
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	871 555	861 762	907 010	921 265	930 569	929 703	922 089	917 551	915 719	-0.2	-1.6
East London (Eastern Cape)	994 854	1 052 516	1 158 896	1 195 161	1 277 888	1 266 188	1 207 178	1 162 962	1 144 316	-1.6	-10.5
Bloemfontein (Free State)	1 108 642	1 104 746	1 200 777	1 417 229	1 234 152	1 348 656	1 473 498	1 479 551	1 367 211	-7.6	10.8
Greater Johannesburg (Gauteng)	1 161 317	1 132 315	1 210 484	1 337 574	1 236 653	1 286 063	1 322 722	1 361 929	1 386 049	1.8	12.1
Johannesburg Central & South	899 882	867 454	863 089	993 008	872 003	953 706	1 001 577	1 001 731	1 015 019	1.3	16.4
Johannesburg North & West	1 409 231	1 423 969	1 499 161	1 678 085	1 547 864	1 622 691	1 691 735	1 712 383	1 685 531	-1.6	8.9
East Rand	1 023 399	1 016 255	1 104 820	1 166 621	1 109 851	1 117 807	1 156 042	1 187 677	1 204 958	1.5	8.6
Pretoria (Gauteng)	1 183 093	1 185 006	1 309 908	1 462 249	1 359 028	1 392 977	1 455 150	1 492 887	1 507 983	1.0	11.0
Durban/Pinetown (KwaZulu-Natal)	1 021 731	1 000 498	1 095 241	1 160 502	1 121 513	1 131 466	1 147 853	1 163 027	1 199 664	3.2	7.0
Cape Town (Western Cape)	1 182 192	1 237 682	1 336 704	1 514 694	1 367 544	1 430 430	1 482 727	1 543 388	1 602 232	3.8	17.2
Coastal regions											
South Africa	1 232 522	1 218 717	1 374 478	1 444 050	1 394 703	1 384 347	1 387 711	1 464 711	1 539 432	5.1	10.4
Western Cape	1 316 151	1 313 627	1 465 035	1 591 017	1 521 519	1 509 199	1 514 474	1 618 120	1 721 059	6.4	13.1
West Coast	1 337 185	1 236 615	1 398 026	1 454 191	1 527 688	1 373 311	1 410 986	1 479 554	1 552 913	5.0	1.7
Cape Peninsula and False Bay	1 270 025	1 310 661	1 490 853	1 625 923	1 551 385	1 572 351	1 538 958	1 642 781	1 749 603	6.5	12.8
Southern Cape	1 428 309	1 354 335	1 444 140	1 578 685	1 463 337	1 442 846	1 503 012	1 618 258	1 750 625	8.2	19.6
Eastern Cape	1 079 505	1 108 030	1 098 298	1 166 166	1 129 866	1 096 537	1 133 737	1 214 373	1 220 017	0.5	8.0
KwaZulu-Natal	1 276 178	1 194 281	1 474 550	1 436 649	1 433 394	1 528 615	1 399 388	1 369 439	1 466 369	7.1	2.3
South Coast	1 018 655	1 002 043	1 082 554	1 066 128	1 141 544	1 125 489	1 104 794	1 062 254	971 975	-8.5	-14.9
North Coast	1 405 792	1 323 181	1 666 257	1 648 375	1 627 960	1 655 312	1 620 334	1 619 738	1 698 116	4.8	4.3

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 fourth 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	864 770	3.6	13.0	1 194 171	2.3	8.9	1 833 707	0.6	6.7
Eastern Cape	676 106	0.9	10.0	952 586	-1.9	-2.2	1 573 815	0.2	-3.0
Free State	757 507	-0.8	-1.7	1 132 368	23.3	35.9	1 392 661	0.1	11.4
Gauteng	898 059	2.8	10.9	1 185 245	3.9	8.5	1 924 261	1.1	10.5
KwaZulu-Natal	706 472	-0.1	1.0	1 109 315	2.8	5.7	1 714 154	3.1	9.6
Mpumalanga	717 003	-6.8	-5.1	998 441	-1.2	2.2	1 445 610	-2.5	5.5
North West	598 603	-3.4	-5.9	900 522	-1.0	0.3	1 348 021	-0.2	1.4
Northern Cape	682 283	1.4	15.5	1 069 500	-8.4	1.3	1 610 326	10.4	6.3
Limpopo	652 778	-4.3	5.5	1 075 617	7.5	18.7	1 588 882	2.2	18.4
Western Cape	1 055 834	11.1	24.7	1 444 969	3.2	12.6	2 147 774	0.7	9.6
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	677 348	5.3	11.4	902 166	5.6	-2.8	1 428 929	-4.0	-12.4
East London (Eastern Cape)	759 725	-3.2	-2.0	1 176 634	6.6	7.8	2 058 265	5.0	8.8
Bloemfontein (Free State)	1 010 854	-7.9	5.6	1 408 908	4.7	20.8	1 725 748	-6.5	14.6
Greater Johannesburg (Gauteng)	990 071	2.8	13.7	1 208 174	1.0	11.3	1 919 590	1.0	11.5
Johannesburg Central & South	590 510	-9.4	-1.2	906 159	-3.3	7.5	1 686 971	8.7	32.2
Johannesburg North & West	989 807	3.7	22.6	1 410 854	-3.3	12.9	2 123 993	-1.7	9.0
East Rand	1 081 672	3.0	10.3	1 065 209	0.8	3.5	1 649 116	5.5	8.8
Pretoria (Gauteng)	854 561	8.0	15.3	1 215 772	0.2	1.9	2 101 301	1.0	11.5
Durban/Pinetown (KwaZulu-Natal)	804 933	5.5	15.6	1 111 920	4.2	12.7	1 728 805	3.7	3.7
Cape Town (Western Cape)	1 141 597	11.1	28.2	1 541 579	3.9	9.1	2 272 367	-0.2	11.4

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

Key variables and projections

		2009	2010	2011	2012	2013	2014	2015	2016
Annual averages									
World									
Gross domestic product	Real % Δ	0.0	5.4	4.1	3.4	3.3	3.3	3.5	3.7
Advanced economies	Real % Δ	-3.4	3.1	1.7	1.2	1.3	1.8	2.4	2.4
Emerging market and developing economies	Real % Δ	3.1	7.5	6.2	5.1	4.7	4.4	4.3	4.7
South Africa									
Gross domestic product	Real % Δ	-1.5	3.0	3.2	2.2	2.2	1.4	2.2	2.8
$/R exchange rate	Rand per US$	8.44	7.32	7.25	8.21	9.65	10.85	11.35	12.06
Headline consumer price inflation rate	%	7.1	4.3	5.0	5.7	5.8	6.1	3.7	6.7
Mortgage interest rate (end of period)	%	10.50	9.00	9.00	8.50	8.50	9.25	9.50	10.25
Household disposable income	Real % Δ	-1.1	4.2	4.6	2.4	2.5	1.3	2.7	3.2
Household final consumption expenditure	Real % Δ	-1.8	4.5	4.9	3.4	2.9	1.2	2.4	3.0
Household final consumption expenditure	% of GDP	59.2	59.0	59.4	60.5	60.6	60.6	60.4	60.5
Household saving to disposable income	%	-0.4	-0.8	-1.1	-2.1	-2.5	-2.4	-1.6	-1.1
Household debt to disposable income	%	84.8	81.9	79.8	79.8	79.5	78.4	77.4	76.9
House prices (80m²-400m², ≤R4m)	Nominal % Δ	-0.4	7.4	1.7	0.6	10.0	9.3	7.9	8.2
House prices (80m²-400m², ≤R4m)	Real % Δ	-7.0	3.0	-3.1	-4.7	4.0	3.1	3.9	1.8

Source: IMF, SARB, Stats SA, Absa