Home Loans

Housing review

Fourth quarter 2015

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- South Africa's real GDP contracted at a seasonally adjusted, annualised rate of 1,3% in the second quarter of 2015, after positive growth of 1,3% was recorded in the first quarter. The contraction in second-quarter GDP was largely the result of declines in real value added by the agricultural, mining and manufacturing sectors. Against the background of domestic trends and a struggling global economy, real GDP growth is forecast at 1,4% in 2015 and 1,8% in 2016.

- Headline consumer price inflation averaged 4,5% in the first nine months of 2015. The forecast is for inflation to average 4,6% in 2015 and 5,7% in 2016. The rand exchange rate, oil prices, food prices and electricity prices are regarded as the main risks to the inflation outlook.

- Domestic interest rates are projected to rise further up to the end of 2016, driven by inflationary pressures and eventually higher interest rates in the US over the next 12 months that may impact especially emerging market capital flows and exchange rates.

- The household sector faced increased financial strain during most of 2015. Household finances are to continue to be driven by factors such as economic growth, employment, income and consumption growth, debt levels, inflation and interest rates. Credit-risk profiles will most probably stay under pressure and are to remain a key factor in the accessibility of and the demand for and growth in household credit. In view of a persistent severe lack of sufficient savings, access to credit, together with the aspect of consumer confidence, will to a large extent drive household consumption expenditure, and eventually economic growth.

- In the first three quarters of 2015 year-on-year house price growth was lower in some segments of the market, while remaining relatively stable or rising in other segments. The gradual slowing trend in middle-segment house price growth continued in the third quarter of the year. Declining real price growth came on the back of inflationary pressures up to the third quarter. Price growth in the affordable segment remained relatively strong, with the luxury segment showing a significant downward trend in price growth since a recent peak in late 2014.

- House price growth is forecast to remain in the single digits in the rest of the year and in 2016. Lower price growth is forecast for 2015 and 2016 compared with the previous two years, mainly as a result of trends in and the outlook for key macroeconomic and household sector-related factors. In view of expectations for nominal house price growth and consumer price inflation, low real price inflation is projected for this year, with prices to remain virtually flat in real terms in 2016.

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Economic overview

The global economy

Based on the International Monetary Fund's (IMF) latest assessment of global economic conditions, published in the October 2015 edition of the *World Economic Outlook*, global economic growth was lower in the first half of 2015 than in the corresponding period of last year and in the second half of 2014. While economic activity in advanced economies remained fairly modest in the first half of the year, growth in emerging markets and developing economies came under further pressure due to weakening commodity prices, which continued into the third quarter, slowing economic activity in China that affected exports to that country, depreciating currencies and lower capital inflows.

Economic growth in the United States was relatively subdued in the first half of 2015 due to the combined effects of depressed levels of activity in the first quarter after severe weather conditions, and a strong rebound in the second quarter. The modest recovery in the Eurozone continued in the second quarter against the background of quantitative easing, but inflation remained extremely low on the back of the low oil price. The United Kingdom's economy showed steady growth of more than 2% in the first half of the year, with the unemployment rate declining to pre-crisis levels. Japan's economic performance was under pressure in the second quarter on the back of lower levels of domestic consumption and exports. In China economic activity continued to edge lower, with growth in imports, exports and investment slowing down, while growth in consumption remained relatively stable. The economic contraction in Russia and the Ukraine continued in the first half of 2015, due to the ongoing regional conflict. Economic activity in sub-Saharan Africa was to a large extent adversely affected by downward pressure on oil and other commodity prices, while currencies were on a weakening trend.

The South African economy

Real gross domestic product (GDP) contracted at a seasonally adjusted, annualised rate of 1,3% in the second quarter of 2015, after positive growth of 1,3% was recorded in the first quarter. The contraction in second-quarter real GDP was largely the result of

- a decrease of 17,4% quarter-on-quarter (q/q) in output in the agriculture, forestry and fishing sectors on the back of continued severe drought conditions in some major food-producing regions of the country having a significant effect on field crops;
- a decline of 6,8% q/q in value added by the mining and quarrying industry, hampered by subdued global demand for commodities and power-supply constraints; and
- a drop of 6,3% q/q in manufacturing output, driven by lower levels of production in some manufacturing sub-sectors affected by power cuts.

Growth in real value added by the services sector was positive at 1,1% q/q in the second quarter of the year, but growth remained on a gradual downward trend since a recent peak of 2,4% q/q in the third quarter of 2014.

The South African Reserve Bank's leading business cycle indicator continued to decline after peaking in the first quarter of 2011, dropping to an almost 6-year low in August this year. This is confirmation of a slowing economy over the past 3½ years and an indication of ongoing depressed economic conditions in the short to medium term. The leading business cycle indicator is forward looking and represents the direction of expected economic activity 6 — 9 months into the future. Variables included in the calculation of the leading indicator relate to the labour market, manufacturing, vehicle sales, building activity, commodity prices, interest rates, confidence, money supply, business financial performance and business conditions in trading-partner countries.

Headline consumer price inflation averaged 4,5% year-on-year (y/y) in the first nine months of 2015, largely driven by trends in food prices and domestic fuel prices (determined by the international oil price and $/R exchange rate movements). Underlying core inflation, i.e. headline inflation excluding the more volatile components of food, non-alcoholic beverages, petrol and energy, averaged 5,6% y/y in the nine-month period up to September. The weakening in the exchange rate during the course of the year is a major upside risk to the inflation picture, together with the extreme drought conditions that are set to drive food prices to higher levels in the near future.

Interest rates were hiked by 25 basis points in July this year, with the repurchase rate, or repo rate (the key monetary policy interest rate and the rate at which commercial banks borrow money from the Reserve Bank) currently at 6% per annum and commercial banks' prime lending and variable mortgage interest base rates for extending credit to the household and business sectors at 9,5% per annum. Lending rates have been raised by a full 100 basis points since early 2014, which impacted debt repayments and the affordability of credit over a wide front.

Household sector overview

The household sector faced increased financial strain during most of the year. Economic growth and employment levels remained under pressure, with further risks to the downside. Inflationary pressures caused interest rates to be hiked further, eroding consumers' purchasing power. Against this background, together with an increase in individuals' tax burden, growth in real household disposable income and consumption expenditure slowed down further up to mid-year, with little prospect of showing a significant improvement in the rest of the year. The level of household savings remains extremely low, while the debt-to-income ratio stays around the 78% level and credit-active consumers' risk profiles deteriorating somewhat further up to mid-year. These factors caused growth in household credit balances to stay in the low single digits up to the third quarter. In view of these developments, consumer confidence remained low in the first three quarters of the year, negatively affecting growth in household consumption expenditure and credit extension.

Growth in real household disposable income, i.e. after-tax, inflation-adjusted income, slowed down to an annualised rate of 1,6% in the second quarter of the year from 2,2%

in the first quarter, mainly due to inflationary pressures, continued low levels of employment and an increase in personal income tax rates and some indirect taxes in the national Budget in February.

Growth in real household consumption expenditure was lower at an annualised rate of 1,2% in the second quarter of 2015 from 2,4% in the first quarter, impacted by lower real disposable income growth and upward pressure on inflation. The close correlation between growth in real household disposable income and consumption expenditure continued up to the second quarter of the year and is a reflection of the severe lack of household savings, as well as consumers' limited financial ability to access credit for consumption purposes in view of prevailing debt levels and credit-risk profiles. This is an indication of households' reliance on mainly income and credit to fund consumption expenditure in the absence of sufficient savings.

The ratio of net household savings to disposable income, uninterruptedly in negative territory for almost 10 years now, measured -2,2% in the second quarter of 2015. Net household savings are calculated from gross savings, adjusted for depreciation write-offs on the value of physical assets held by households, such as residential buildings and vehicles.

Year-on-year growth in the value of outstanding household credit balances [R1 455,9 billion at end-September and comprising instalment sales credit, leasing finance, mortgage loans, credit card debt, overdrafts and general loans and advances (mainly personal loans and microfinance)], was just above the 4% level in the first nine months of the year.

Growth in the value of outstanding household secured credit balances, which amounted to R1 102,5 billion at end-September and consisting of instalment sales credit, leasing finance and mortgage loans, came to 3,6% y/y in the nine-month period. This was largely the result of continued relatively low growth in household mortgage balances and declining growth in instalment sales balances, mainly related to vehicle finance, which dropped to its lowest level since mid-2007.

Growth in the value of outstanding household unsecured credit balances (R353,4 billion at end-September and consisting of credit card debt, overdrafts and general loans and advances) was 6,6% y/y in the first nine months of the year.

Factors such as the National Credit Act (NCA), banks' risk appetites and lending criteria, consumers' credit-risk profiles and consumer confidence largely affected the availability and accessibility of and demand for credit by households.

The ratio of household debt to disposable income eased to 77,8% in the second quarter of the year from 78,7% in the first quarter, with household debt rising by 1,2% q/q and nominal household disposable income increasing by 2,4% q/q 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.

The household debt service-cost ratio was unchanged at 9,4% in the second quarter of the year from the first quarter after increasing throughout last year on the back of rising interest rates. This ratio is the interest component of debt repayments expressed as a percentage of disposable income and took account of the debt-to-income ratio and the average effective lending rate in respect of the servicing of household debt during a specific period. Based on the abovementioned debt-to-income and debt service-cost ratios, the average effective interest rate charged to service household debt is calculated to have been 12,08% per annum in the second quarter of 2015, which was 2,83 percentage points above the ruling average prime interest rate of 9,25% per annum over this period. The abovementioned interest rate premium paid by consumers on total outstanding debt, i.e. secured and unsecured debt, of above the ruling prime lending rate, is the result of factors such as the state of household finances, credit-risk profiles, banks' risk appetites and lending criteria, expectations of future interest rate movements as well as the composition of debt, with unsecured credit normally extended at a higher interest rate than secured credit. Due to strong growth, the share of unsecured credit in total household credit balances increased from 15,4% in 2009 to 24,2% by mid-2015. This contributed to an upward trend in the margin between the ruling prime lending rate and the effective interest rate on household debt over this period.

Since the first quarter of 2014 statistics on consumer credit-risk profiles 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 credit information kept by credit bureaus with regard to consumers who have repaid their debt. The amnesty, however, does not relieve consumers from the obligation to repay outstanding debt.

The following trends were evident in consumer credit-risk profiles in the second quarter of 2015:

- A total of 10,53 million credit-active consumers, or 45,1% of a total of 23,37 million, had impaired credit records, up from 10,41 million (45%) in the first quarter. In mid-2007 a total of 36,4% credit-active consumers had impaired credit records.
- A total number of 12,84 million (54,9%) credit-active consumers were in good standing, up from 12,7 million (55%) in the first quarter. As much as 63,6% of credit-active consumers were in good standing in mid-2007.
- A total number of 82,17 million consumer credit accounts were active, of which 60,47 million (73,6%) were in good standing and 21,71 million (26,4%) were impaired.

Consumers' credit-risk profiles are reflected in banks' risk appetites and lending criteria, impacting the access to credit and growth in 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), deteriorated in the second quarter of 2015 compared with the first quarter. At an overall Consumer Financial Vulnerability Index (CFVI) reading of 50,8 in the second quarter (52,7 in the preceding quarter), consumers remained financially mildly exposed. The sub-components of the CFVI were measured as follows in the second quarter of 2015:

- Income vulnerability: At 52,1 index points, consumers were mildly exposed.
- Expenditure vulnerability: At 52,5 index points, consumers were mildly exposed.
- Savings vulnerability: At 51,5 index points, consumers were mildly exposed.
- Debt service vulnerability: At 47,0 index points, consumers were very exposed.

An overall and/or sub-index reading of 40 — 49,9 in consumer financial vulnerability indicates that consumers are financially very exposed, with an index reading of 50 — 59,9 indicating that consumers are financially mildly exposed, whereas an index reading of 60 — 79,9 indicates that consumers are financially secure.

According to Statistics South Africa's *Quarterly Labour Force Survey*, 15,828 million people were employed in the formal and informal sectors of the economy in the third quarter of 2015. A total of 171 000, or 1,1%, more people were employed by the third quarter of the year compared with the second quarter. The unemployment rate was 25,5% in the third quarter, with a total of 5,418 million people being unemployed in that quarter. This implies that the number of unemployed people increased by 181 000 q/q and 267 000 y/y in the third quarter of the year.

Consumer confidence, as measured by the Bureau for Economic Research (BER), improved to -5 index points in the third quarter of 2015 from a 14½-year low of -15 index points in the second quarter, but remained well below its long-term average of +5 index points. In the third quarter the confidence index was at almost the same level of -6 index points as during the economic recession of 2008/09. An index value of zero indicates confidence neutrality. Consumer confidence is measured by expectations regarding the outlook for the domestic economy, household finances and durable consumption expenditure. Consumer confidence is an important factor with regard to the demand for and growth in household credit, which is closely related to especially durable consumption expenditure, such as vehicles, furniture, household appliances, audio-visual equipment, photographic equipment, communication devices, computers and related equipment, as well as the acquisition of property for primary, investment and leisure purposes.

Property sector overview

Based on statistics supplied by Lightstone, there were more than 6,1 million residential properties in South Africa with a total value of R4,16 trillion in the second quarter of 2015. Of the more than 6,1 million properties, about 2,18 million (35,5%) with a total value of R2,29 trillion were bonded and 3,96 million (64,5%) with a total value of R1,87 trillion were non-bonded (see relevant table at the back of the report).

The *General Household Survey 2014*, published by Statistics South Africa in June this year, provided some insight into housing conditions in the country in 2014:

- 79,4% of a total of 15,602 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.
- 12,9% 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.
- 55,3% of households living in formal housing, fully owned their properties, with 10,6% that partially owned their properties (financed by and not yet fully paid off to financial institutions) and 21,7% renting the properties they were living in.
- 15,3% of households were living in RDP or state-subsidised housing.

Levels of residential building activity improved in the first eight months of 2015 compared with a year ago, but growth remained well in the single digits over this period. In the planning phase, as reflected by the number of building plans approved, as well as in the construction phase, i.e. housing reported as being completed, activity remained largely subdued along the lines of the past 6 years against the background of economic, household finance and confidence factors. Over this period these levels of building activity were well below those of 2005 — 07, when the economy and real household disposable income were growing strongly and interest rates were relatively low.

The number of new housing units for which building plans were approved was up by 6,8% y/y to more than 41 000 units in the period January to August this year. This was the net result of growth of 10,1% y/y in the segments of houses less than 80m² and flats and townhouses, whereas the segment for houses larger than 80m² showed a small decline of around 1% y/y in the eight-month period.

The number of new housing units constructed increased by 7% y/y to more than 25 200 units in the first eight months of the year, which was largely driven by the two categories of houses, which recorded combined growth of 14,5% y/y to an overall total of more than 18 000 units. However, the segment of flats and townhouses registered a contraction of 8,1% y/y to about 7 200 units built in January to August from almost 7 900 units built in the corresponding period last year. It should, however, be kept in mind that there is normally a significant time lag between the planning phase and eventual completion of large housing projects.

Building confidence, based on the BER's building confidence index, declined for the third consecutive quarter in the third quarter of 2015 to a level of 44 index points from a recent high of 60 in the fourth quarter of 2014. With an index reading of 50 representing confidence neutrality, the majority of survey respondents indicated that business conditions in the building sector were unfavourable in the third quarter. This decline in building confidence was mainly driven by markedly lower levels of confidence in the sectors of building material manufacturers and retailers. 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 base interest rate is 9,5% per annum after being raised by 25 basis points in July this year, implying that the mortgage rate has increased by a cumulative 100 basis points since late January 2014. 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 residential mortgage market showed somewhat higher year-on-year growth up to the end of September compared with previous months this year, mainly as a result of the base effect of slowing growth a year ago. The performance of the mortgage market is impacted by developments regarding employment, inflation and interest rates as well as trends in household finances, consumer credit-risk profiles, banks' risk appetites and lending criteria and consumer confidence. Growth in the value of outstanding household mortgage balances (R855,8 billion at end-September, with a share of 77,6% in household secured credit balances and 58,8% in total household credit balances) came to 3,8% in the first nine months of 2015. Outstanding mortgage balances are the net result of property transactions, mortgage finance paid out, capital and monthly 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 on primary residences showed some shifts over the past two years up to mid-2015. The percentage of homeowners paying the minimum only on mortgage loans increased over this period, whereas the percentage of homeowners paying extra into their mortgage accounts on a monthly basis declined significantly during the same period. The percentage of homeowners paying extra lump sums into their mortgage accounts varied between 5% and 9% since mid-2012. Home loan repayment patterns by income category in mid-2015 showed that low- to middle-income homeowners are mostly paying the minimum only, with higher-income homeowners in a better position to pay extra on a monthly basis and are also able to pay extra lump sums into mortgage accounts (see relevant tables at the back of the report).

The abovementioned trends in home loan repayment patterns are a reflection of the state of and changes in homeowners' financial positions based on trends in economic conditions that point to increased levels of household financial strain in the past two years. These developments adversely affected consumers' ability to service existing debt and prevented them from taking up new credit on a large scale, thereby increasing debt levels, which eventually caused the demand for and growth in credit extension to remain subdued.

Housing rental indices, as published by Statistics South Africa, showed that national rental inflation averaged 5% y/y in January to September this year, which was above the average headline consumer price inflation rate of 4,5% y/y during this period. Rental inflation measured 4,6% for houses, 5% for townhouses and 6% for flats over the nine-month period.

Based on research by Tenant Profile Network (TPN) Credit Bureau , a total of 84,3% of residential tenants was in good standing in the second quarter of the year, comprising those that paid on time (67,4%), those who paid within the grace period (5,5%) and those who paid late (11,4%). Impaired tenants are those who made only a partial payment (10,1% in the second quarter) and those who did not pay at all (5,6% in the second quarter). A total of 82% of residential tenants rented for less than R7 000 per month in the second quarter of the year, with the majority (59%) that rented for between R3 000 and R7 000 per month. Only 18% of tenants thus rented for more than R 7 000 per month in the second quarter (13% rented for R7 000 – R12 000 per month; 4% rented for R12 000 – R25 000 per month; and 1% rented for more than R25 000 per month). An interesting fact is that only 54% of residential tenants renting for more than R25 000 per month paid on time in the second quarter (the lowest percentage of on-time-paying tenants across the rental value bands), while 17% of those renting for above R25 000 paid late and 15% in this value band made a partial payment only (the highest percentages of late-paying and partial-paying tenants across the rental value bands). These trends in the rentals per value band are regarded an indication of the general financial profile of tenants renting residential property.

Research by both PayProp and TPN showed that the provinces of Gauteng, the Northern Cape and the Western Cape had the highest level of monthly residential rentals in the country in the second quarter of 2015, ranging from above R6 000 to more than R7 000 per month. Both Gauteng and the Western Cape have large and prominent metropolitan areas, causing rentals to be in general markedly higher in these regions than in rural areas. However, rentals in the Northern Cape have increased significantly over the past 2½ years against the background of expanded mining operations in certain regions of the province, impacting the demand for rental housing in these areas.

House prices

According to Absa's house price data, year-on-year growth in home values was lower in some segments of the market, while remaining relatively stable or rising in other segments in the first three quarters of 2015. House price growth was driven by economic developments and factors affecting the household sector, which were eventually reflected in property market trends and conditions on a segment and geographical level during this nine-month period.

The gradual slowing trend in nominal year-on-year growth in the average value of homes in the middle segment of the market, which commenced in the final quarter of last year, continued in the third quarter of this year. Declining real year-on-year house price growth came on the back of slower nominal price growth and inflationary pressures up to the third quarter. Year-on-year price growth in the affordable segment remained relatively strong, with the luxury segment showing a significant downward trend in nominal and real price growth since a recent peak in the fourth quarter of last year.

The nominal price of a property refers to the price at which it was valued or transacted on the open market, i.e. the market price, selling or purchase price and is reflected in a valuation, an offer to purchase, an application for mortgage finance and the transfer documents 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 average inflation rate. In addition to the nominal price, real property price trends are thus 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

After rising by just over 9% y/y in the first half of 2015, the average nominal price of affordable housing (homes of 40m² — 79m² and priced up to R575 000 in 2015) increased by a relatively strong 10% y/y to around R414 000 in the third quarter of the year. Real price inflation was 5,1% y/y in the third quarter, contributing to a year-to-date average of 4,8% y/y. Taking account of some key factors driving the affordable market, such as demand and supply conditions and households' affordability to buy property, this segment of housing has performed relatively well during 2014 and in the first three quarters of 2015.

Middle-segment housing

The average nominal price growth of middle-segment housing (homes of 80m² — 400m² and priced at R4,2 million or less in 2015) slowed down further to 5,6% y/y to a level of about R1 364 000 in the third quarter of the year, from 6,8% y/y in the second quarter and 7,9% y/y in the first quarter. Real price inflation in middle-segment housing dropped to only 0,9% y/y in the third quarter from 3,6% and 2,1% y/y in the first and second quarters respectively. These real house price growth rates are also a reflection of the consumer price inflation rate that averaged 4,1%, 4,6% and 4,7% y/y in the first, second and third quarters of the year respectively.

The following price changes occurred in the three middle-segment categories in the third quarter of 2015:

- Small houses (80m² — 140m²): 4,7% y/y nominal and no change in real terms.
- Medium-sized houses (141m² — 220m²): 4% y/y nominal and -0,7% y/y real.
- Large houses (221m² — 400m²): 6,2% y/y nominal and 1,4% y/y real.

Luxury housing

The third quarter of 2015 saw the average nominal price of luxury housing (homes priced at between R4,2 million and R15,5 million in 2015) rising by 3,2% y/y to a level of almost R5,9 million. Luxury house price growth was relatively strong between the third quarter of 2014 and the second quarter of 2015, but, however, started to slow down from the first quarter. In real terms, the average price in this category of housing was down by 1,5% y/y in the third quarter of the year, after average real price growth of 6,7% y/y over the preceding four quarters.

Regional house prices

The residential property market at regional level is also affected by national macroeconomic trends and developments, but regional markets may react differently to these trends at national level. This may be as a result of additional area-specific factors, such as location, the extent and size of regional property markets, economic and social infrastructure, sectoral economic composition and the level and extent of economic growth and development. These factors may have different effects on property demand and supply conditions, buying patterns, transaction volumes, price levels and price growth at a geographical level.

House price growth varied across the provinces and major metropolitan areas, with prices declining somewhat in only a few regions while rising in others in nominal and real terms in the third quarter of the year on a quarter-on-quarter and year-on-year basis.

Year-on-year house price growth was largely positive in coastal areas in the third quarter of the year, with strong price growth evident along the KwaZulu-Natal coast, which was mainly the result of the base effect of declining prices a year ago. Coastal property markets normally have a relatively large investment and leisure focus, which may cause significant swings in market conditions against the background of trends and developments in the economy, household finances and confidence levels.

New and existing housing

The average nominal price of a new house was down by 3,6% y/y to R1 713 800 in the third quarter of 2015, with real price deflation of 8% y/y that was recorded. The average price of an existing house increased by a nominal

6,3% y/y to R1 339 600 in the third quarter, which resulted in real year-on-year price growth of 1,5%. As a result, it was R374 200, or 21,8%, cheaper to have bought an existing house than to have had a new one built in the third quarter of the year.

Building costs

Building costs, driving prices of newly built houses and the cost of renovations and alterations to existing houses, continued to increase at a rate of above inflation in the third quarter of 2015, but cost escalations were on a slight declining trend since the second quarter of the year. The cost of having a new house built increased by 5,9% y/y in the third quarter, down from an increase of 6,3% y/y in the second quarter and 9,6% y/y in the first quarter.

Factors impacting building costs 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 affected 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 nominal value of vacant residential stands in the middle and luxury segments of the housing market for which Absa received applications and approved mortgage finance, contracted for the second consecutive quarter on a year-on-year basis, with prices deflating by 1,9% y/y to an average of about R608 000 in the third quarter of the year. In real terms residential land values were down by 6,3% y/y in the third quarter, after declining by 7% y/y in the second quarter.

The ratio of the average price of land for new middle-segment and luxury housing to the total value of a new residential property in these segments of the market came to 25,8% in the third quarter of 2015, with this ratio averaging 27,3% since 2010.

Residential land values 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 was on a gradual deteriorating trend from 2012, with only a slight improvement evident in the second quarter of 2015, as reflected by the ratios of house prices and mortgage repayments to household disposable income. This was the net result of slowing year-on-year nominal house price growth and a slight uptick in nominal year-on-year disposable income growth from the first quarter, while the mortgage interest rate was unchanged at 9,25% per annum in the second quarter.

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.

Apart from trends in house prices, disposable income and the mortgage interest rate, households' ability to afford housing is also influenced by a number of other important factors such as employment, savings, living costs, debt levels, credit-risk profiles (as reflected by the state of consumer credit records), National Credit Act stipulations and banks' risk appetites and lending criteria in the case of applications for mortgage finance to acquire property.

Outlook

The global economy

The IMF expects the world economy to grow by 3,1% in 2015 and 3,6% in 2016 (3,4% in 2014), with growth to remain largely uneven across the major economies and geographical regions.

Growth in advanced economies is forecast to continue to improve at a steady pace from 1,1% and 1,8% in 2013 and 2014 respectively to 2% this year and 2,2% next year. The uptick in growth in advanced economies in 2015 and 2016 will to a large extent be driven by continued low oil prices and accommodative monetary policy, with the following outlook for growth in the major economies:

- US economic growth is projected to rise from 2,4% in 2014 to 2,6% in 2015 and 2,8% in 2016, supported by low energy prices and a growing housing market. The Federal Reserve is expected to start hiking interest rates in early 2016, with rate hikes to be gradual and driven by trends in key economic data.
- Economic growth in the Eurozone is forecast to improve to 1,5% in 2015 and 1,6% in 2016 from a level of 0,9% in 2014. Although the quantitative easing (QE) measures imposed by the European Central Bank in March this year did not yet yield much results, it will remain the key driver of economic activity in Europe over the next year or two.
- Economic growth in the UK is forecast at 2,5% in 2015 and 2,2% in 2016, with the economy to find some support from low oil prices and increasing wage inflation, which will drive consumption expenditure. Interest rates are expected to be raised early next year.
- The Japanese economy remains relatively weak with only marginal growth forecast in 2015 and 2016 on the back of expected further stimulatory measures by the Bank of Japan to prevent the country from falling back into a state of deflation.

Economic growth in emerging and developing countries is forecast to continue its multi-year downward trend since 2011 to 4% in 2015, affected by an economic slowdown in China and pressure on oil- and other commodity-exporting countries. Growth in emerging and developing economies is, however, expected to rebound somewhat to 4,5% in 2016. The growth prospects are as follows for some prominent economies in this group of countries:

- Growth in China is forecast to slow down from 7,3% in 2014 to 6,8% and 6,3% in 2015 and 2016 respectively, which will mainly be the result of declining investment growth. The Chinese authorities are seen to continue with structural reform measures to transform the economy to become more consumption driven.

- India's economic growth is forecast to remain steady at a healthy 7,3% in 2015 and 7,5% in 2016, after rising from 5,1% in 2012 to 6,9% in 2013 and 7,3% in 2014. The economy is to benefit from policy reforms, lower commodity prices and rising levels of investment.
- The Brazilian economy is projected to contract by 3% in 2015 and a further 1% in 2016, largely due to political factors, declining investment and the tightening of macroeconomic policies that will negatively impact domestic demand.
- Russia is experiencing recessionary conditions, with the economy projected to contract by 3,8% in 2015 and 0,6% in 2016 on the back of low oil prices and international sanctions as a result of its alleged involvement in the conflict in Ukraine.
- Economic growth in the sub-Saharan African region is forecast to slow down from 5% in 2014 to 3,8% in 2015, mainly due to widespread lower commodity prices, tightening global financial conditions, lower growth in trading-partner countries such as China and the after-effect of the Ebola epidemic in some West African countries. Economic growth in the region is forecast to pick up slightly to 4,3% in 2016.

The South African economy

The South African economy experienced relatively difficult conditions during the course of 2015, with real gross domestic product that contracted in the second quarter of the year. Indications from recent relatively weak data releases on manufacturing and mining production and the fact that severe drought conditions are still prevailing in major food-producing regions, set to keep agricultural production under downward pressure, do not bode well for the economy in the third quarter. Taking account of these factors, electricity-supply constraints, inflationary pressures and expected higher interest rates, real growth is forecast at 1,4% in 2015 (1,5% in 2014) and 1,8% in 2016.

The headline consumer price inflation rate averaged 4,5% in the first nine months of 2015 and is forecast to rise to above 6% y/y in the first quarter and again in the fourth quarter of next year. Headline inflation is projected to average 4,6% in 2015 and 5,7% in 2016. The main risks to the inflation outlook are food prices, electricity prices, the rand exchange rate and oil prices, with the latter two factors that will determine domestic fuel prices.

Domestic interest rates are projected to rise further up to the end of 2016, driven by inflationary pressures and eventually higher interest rates in the US over the next 12 months that may impact especially emerging market capital flows and exchange rates.

The household sector

The state of and trends in household finances will continue to be driven by factors such as economic growth, employment, income growth, debt levels, inflation and interest rate trends. Economic and employment growth is forecast to remain relatively subdued in 2015-16, with growth in real household disposable income and consumption expenditure to stay closely correlated in view of an expected ongoing low level of savings. The ratio of household consumption expenditure to GDP is forecast at around 61% over the forecast period, reflecting the significant importance of the consumer sector in economic activity. The ratio of household debt to disposable income ratio is projected to remain relatively high at above 78% in the rest of the year and in next year. Consumers' credit-risk profiles will remain key to the accessibility of and growth in household credit, which will impact consumption expenditure in view of a severe lack of household savings.

The property market

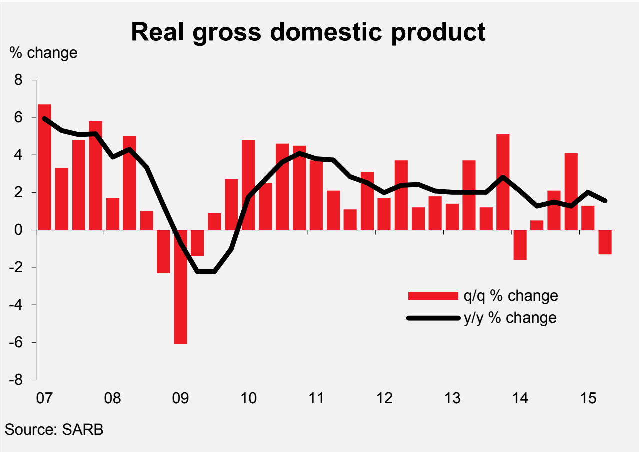
The residential property market will continue to be driven by factors related to the economy, household finances and consumer confidence. These factors will affect the affordability of housing and the accessibility of and demand for mortgage finance. Property market conditions will be reflected in levels of property demand and supply, residential building activity, property prices, buying patterns, transaction volumes and growth in mortgage advances.

House price growth has been on a steady downward trend since late 2014 and is forecast to remain in the single digits for the rest of the year and in 2016. Lower price growth is forecast for 2015 and 2016 compared with the previous two years, mainly as a result of trends in and the outlook for key macroeconomic and household sector-related factors. In view of expectations for nominal house price growth and consumer price inflation, low real price inflation is projected for this year, with prices to remain virtually flat in real terms in 2016.

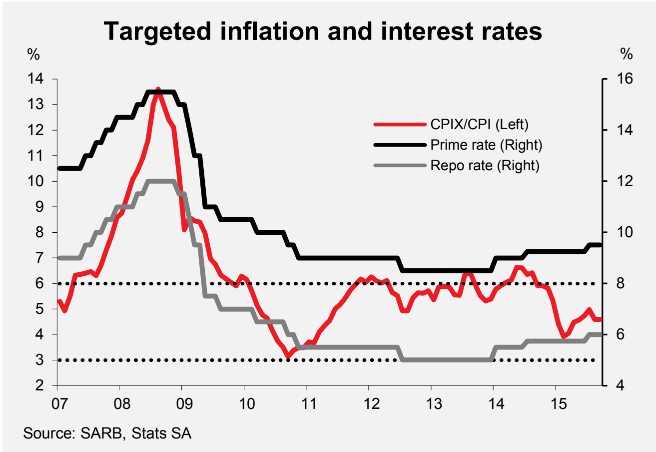
The value of outstanding household mortgage balances is forecast to continue to record low single-digit growth over the next 12 months, affected by expected trends in interest rates, the state of household finances and consumer confidence.

Levels of residential building activity have remained subdued for the past 6 years against the background of developments on the fronts of the economy, household sector and building confidence. These and other key factors such as the availability of suitable development land, building costs, the process of property rezoning, the availability of municipal services and the extent of the planning and construction phases will eventually affect the demand for and supply of new housing, as well as the timing and timespan of building activity. Building confidence will be a function of the abovementioned factors and trends related to the economy, the household sector and the property market in general.

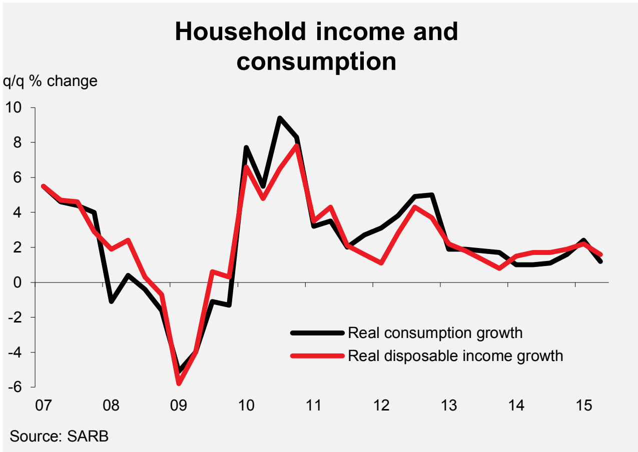
Graphs



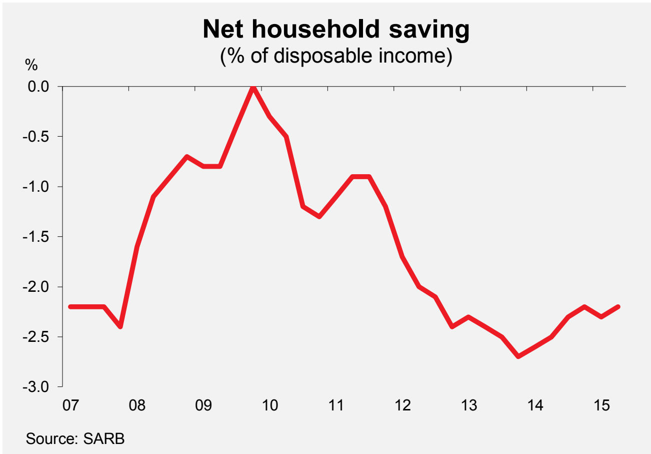
Real gross domestic product
% change
8
6
4
2
0
-2
-4
-6
-8
07
08
09
10
11
12
13
14
15
q/q % change
y/y % change
Source: SARB



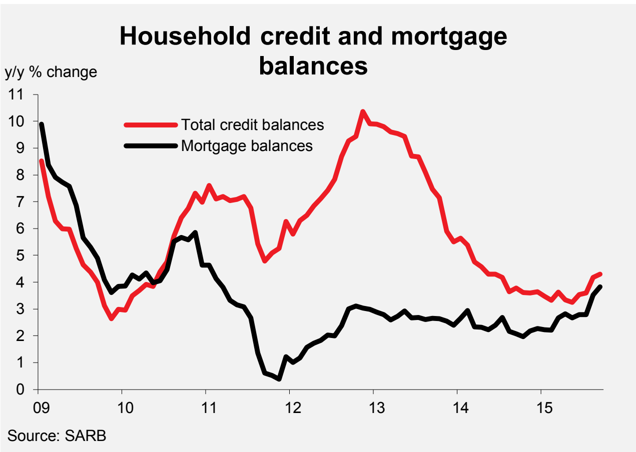
Targeted inflation and interest rates
%
14
13
12
11
10
9
8
7
6
5
4
3
2
%
16
14
12
10
8
6
4
CPIX/CPI (Left)
Prime rate (Right)
Repo rate (Right)
07
08
09
10
11
12
13
14
15
Source: SARB, Stats SA



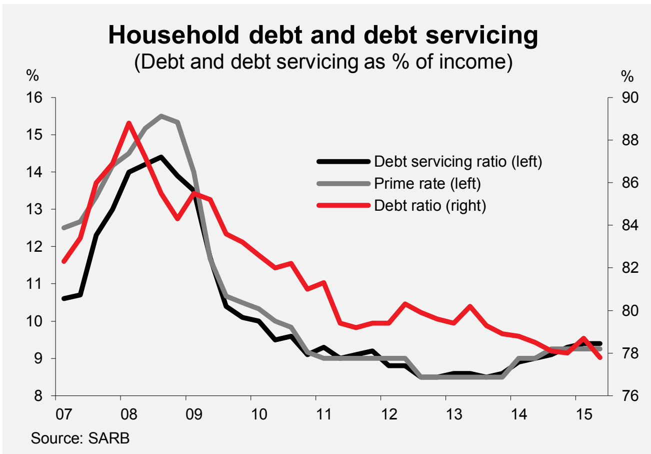
Household income and consumption
q/q % change
10
8
6
4
2
0
-2
-4
-6
Real consumption growth
Real disposable income growth
07
08
09
10
11
12
13
14
15
Source: SARB



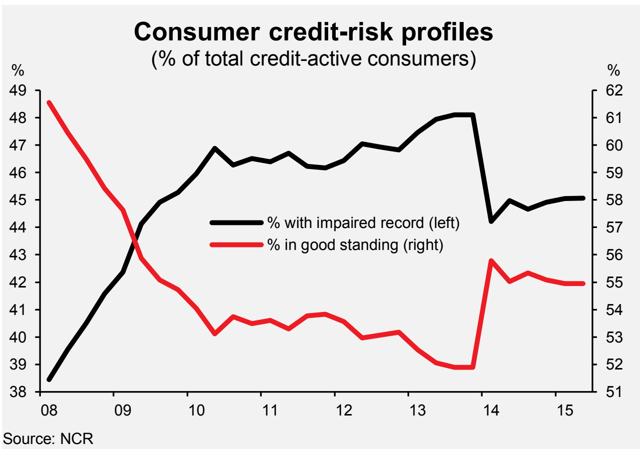
Net household saving
(% of disposable income)
%
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
-3.0
07
08
09
10
11
12
13
14
15
Source: SARB



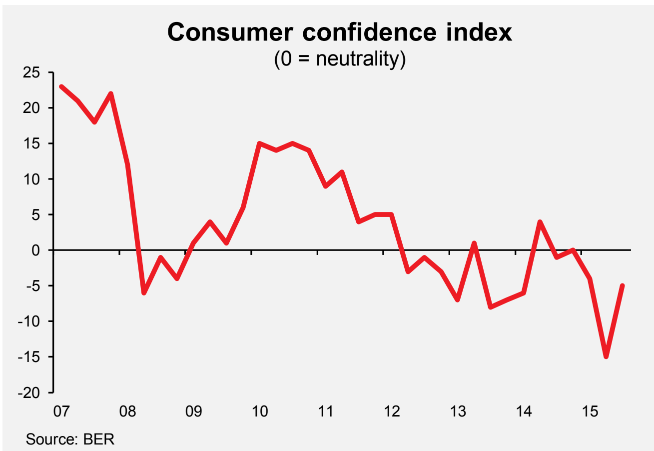
Household credit and mortgage balances
y/y % change
11
10
9
8
7
6
5
4
3
2
1
0
Total credit balances
Mortgage balances
09
10
11
12
13
14
15
Source: SARB



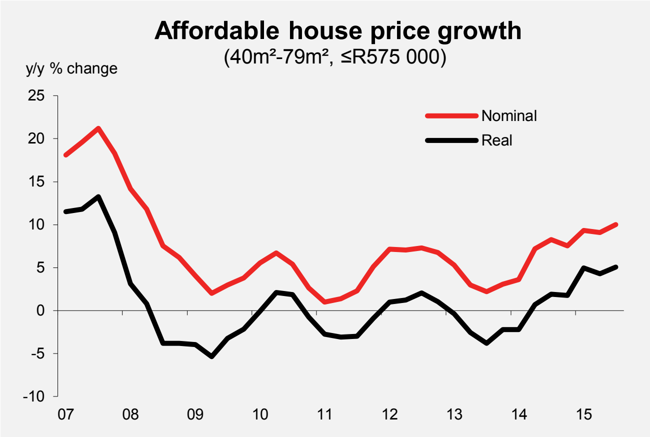
Household debt and debt servicing
(Debt and debt servicing as % of income)
%
16
15
14
13
12
11
10
9
8
%
90
88
86
84
82
80
78
76
Debt servicing ratio (left)
Prime rate (left)
Debt ratio (right)
07
08
09
10
11
12
13
14
15
Source: SARB

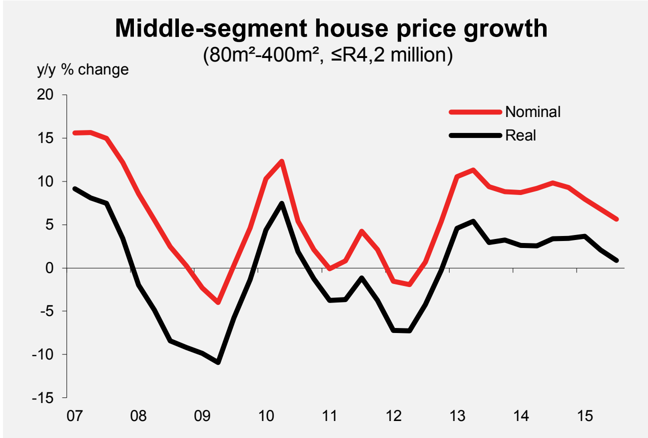


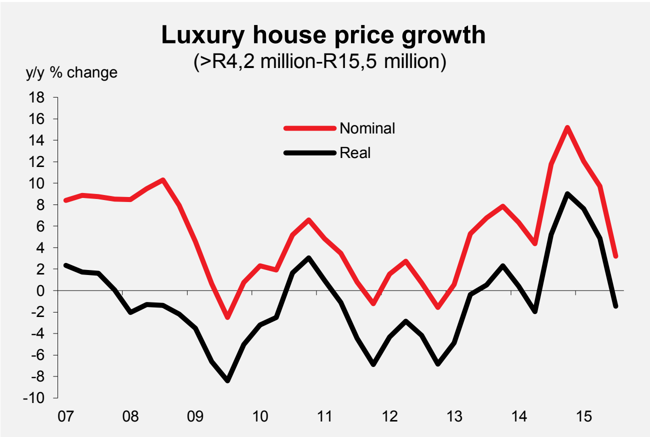
Consumer credit-risk profiles
(% of total credit-active consumers)
%
49
48
47
46
45
44
43
42
41
40
39
38
%
62
61
60
59
58
57
56
55
54
53
52
51
% with impaired record (left)
% in good standing (right)
08
09
10
11
12
13
14
15
Source: NCR

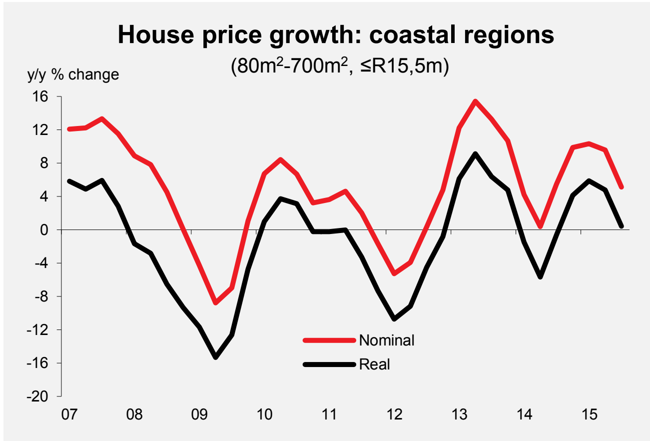


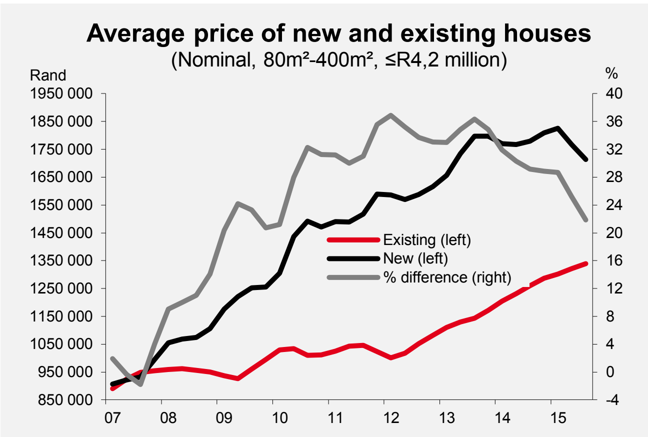
Consumer confidence index
(0 = neutrality)
25
20
15
10
5
0
-5
-10
-15
-20
07
08
09
10
11
12
13
14
15
Source: BER

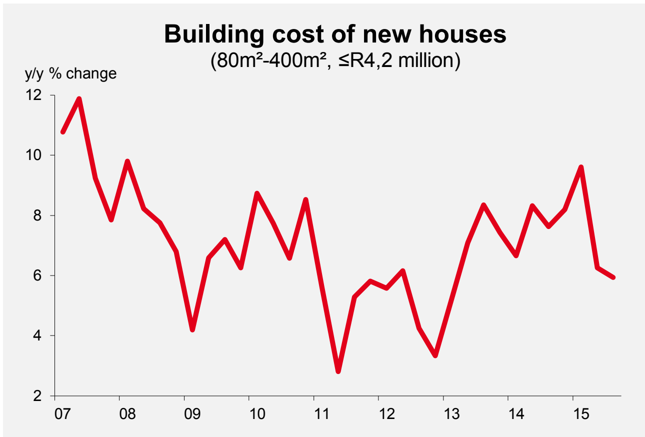

Affordable house price growth
(40m²-79m², ≤R575 000)
y/y % change
Nominal
Real

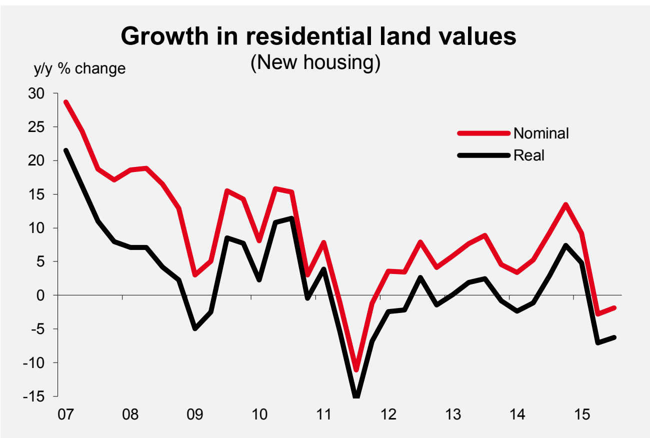

Middle-segment house price growth
(80m²-400m², ≤R4,2 million)
y/y % change
Nominal
Real

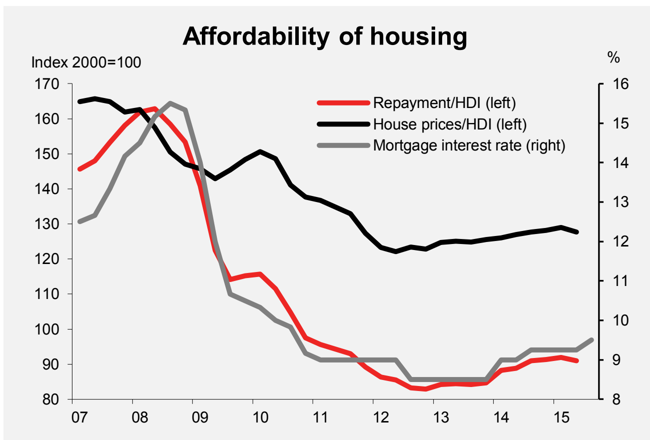

Luxury house price growth
(>R4,2 million-R15,5 million)
y/y % change
Nominal
Real


House price growth: coastal regions
(80m²-700m², ≤R15,5m)
y/y % change
Nominal
Real


Average price of new and existing houses
(Nominal, 80m²-400m², ≤R4,2 million)
Rand
%
Existing (left)
New (left)
% difference (right)


Building cost of new houses
(80m²-400m², ≤R4,2 million)
y/y % change


Growth in residential land values
(New housing)
y/y % change
Nominal
Real


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

Statistics

Residential property stock[1]

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	% share[2]
Number of properties						
Total number	6 088 621	6 101 803	6 118 358	6 128 977	6 142 219	100.0
Bonded	2 197 767	2 191 735	2 191 030	2 187 640	2 181 116	35.5
Non-bonded	3 890 854	3 910 068	3 927 328	3 941 337	3 961 103	64.5
Freehold properties (excluding estate properties)	5 096 880	5 105 123	5 114 968	5 121 649	5 131 138	83.5
Bonded	1 570 750	1 563 946	1 560 662	1 556 262	1 549 836	30.2
Non-bonded	3 526 130	3 541 177	3 554 306	3 565 387	3 581 302	69.8
Sectional title properties (excluding estate properties)	687 362	690 775	694 889	697 549	700 325	11.4
Bonded	426 821	427 347	428 983	429 557	429 935	61.4
Non-bonded	260 541	263 428	265 906	267 992	270 390	38.6
Estate properties[3]	304 379	305 905	308 501	309 779	310 756	5.1
Bonded	200 196	200 442	201 385	201 821	201 345	64.8
Non-bonded	104 183	105 463	107 116	107 958	109 411	35.2
Property value (R billion)						
Total value	3 878	3 954	4 028	4 094	4 155	100.0
Bonded	2 174	2 205	2 237	2 265	2 287	55.1
Non-bonded	1 704	1 749	1 791	1 829	1 868	44.9
Freehold properties (excluding estate properties)	2 733	2 784	2 832	2 876	2 918	70.2
Bonded	1 462	1 480	1 498	1 514	1 527	52.3
Non-bonded	1 271	1 304	1 334	1 362	1 391	47.7
Sectional title properties (excluding estate properties)	572	585	597	609	619	14.9
Bonded	343	349	356	361	367	59.2
Non-bonded	229	235	242	247	252	40.8
Estate properties[3]	573	586	599	609	618	14.9
Bonded	369	376	383	390	394	63.7
Non-bonded	204	210	215	220	224	36.3

[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 and updated information, as well as 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

	2011	2012	2013	2014	2014		2015				
	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, ≤R4,2m)	1 054 556	1 061 231	1 167 243	1 275 312	1 290 692	1 313 870	1 330 789	1 349 058	1 363 550	1.1	5.6
Small (80m²-140m², ≤R4,2m)	736 950	701 648	751 943	826 189	834 229	861 080	857 519	847 445	873 723	3.1	4.7
Medium (141m²-220m², ≤R4,2m)	985 765	1 018 125	1 078 916	1 161 261	1 173 168	1 193 186	1 200 073	1 208 984	1 220 511	1.0	4.0
Large (221m²-400m², ≤R4,2m)	1 488 067	1 519 760	1 672 458	1 807 309	1 827 598	1 836 130	1 846 298	1 887 082	1 940 581	2.8	6.2
New (80m²-400m², ≤R4,2m)	1 521 644	1 589 878	1 746 391	1 781 069	1 778 577	1 809 030	1 825 037	1 767 028	1 713 791	-3.0	-3.6
Existing (80m²-400m², ≤R4,2m)	1 034 738	1 038 164	1 139 014	1 245 835	1 260 089	1 286 862	1 301 979	1 321 121	1 339 575	1.4	6.3
Affordable (40m²-79m², ≤R575 000)	315 679	337 241	348 829	371 844	376 149	382 265	393 235	402 797	413 858	2.7	10.0
Luxury (R4,2m-R15,5m)	4 766 149	4 804 064	5 061 115	5 538 485	5 697 322	5 877 591	5 859 210	5 857 374	5 879 693	0.4	3.2
Provinces											
Eastern Cape	894 911	908 366	965 004	1 008 403	996 101	978 621	1 035 517	1 117 974	1 106 382	-1.0	11.1
Free State	893 561	870 290	941 839	1 052 427	1 034 500	1 084 897	1 090 828	1 077 970	1 038 282	-3.7	0.4
Gauteng	1 116 509	1 102 673	1 204 147	1 319 389	1 334 969	1 371 381	1 385 995	1 412 116	1 411 863	0.0	5.8
KwaZulu-Natal	965 891	935 985	1 085 434	1 180 666	1 185 692	1 202 032	1 180 158	1 226 618	1 266 440	3.2	6.8
Limpopo	879 024	932 178	1 016 433	1 065 674	1 074 948	1 077 777	1 092 836	1 110 149	1 115 939	0.5	3.8
Mpumalanga	903 350	929 460	1 031 203	1 092 074	1 098 110	1 084 987	1 063 669	1 062 360	1 087 333	2.4	-1.0
North West	844 838	871 877	919 467	953 677	959 658	940 014	930 320	939 494	950 392	1.2	-1.0
Northern Cape	775 402	868 834	997 400	1 076 596	1 079 007	1 043 799	1 021 416	1 077 830	1 178 648	9.4	9.2
Western Cape	1 158 506	1 194 809	1 292 546	1 440 182	1 472 880	1 509 713	1 523 795	1 533 323	1 569 728	2.4	6.6
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	870 576	861 188	901 272	906 772	898 947	907 886	938 226	985 889	1 037 418	5.2	15.4
East London (Eastern Cape)	995 184	1 057 988	1 158 393	1 178 552	1 110 238	1 154 436	1 284 211	1 334 622	1 378 230	3.3	24.1
Bloemfontein (Free State)	1 109 085	1 104 952	1 205 784	1 412 852	1 465 669	1 400 301	1 373 752	1 397 364	1 462 981	4.7	-0.2
Greater Johannesburg (Gauteng)	1 161 069	1 132 005	1 210 559	1 336 797	1 358 169	1 382 507	1 372 077	1 429 272	1 454 342	1.8	7.1
Johannesburg Central & South	900 344	866 563	864 836	1 003 072	1 029 232	991 110	951 113	1 026 754	1 107 180	7.8	7.6
Johannesburg North & West	1 409 234	1 424 943	1 499 496	1 678 343	1 708 163	1 692 408	1 729 123	1 787 660	1 781 734	-0.3	4.3
East Rand	1 022 832	1 015 840	1 104 544	1 160 416	1 173 131	1 198 228	1 205 824	1 223 124	1 266 622	3.6	8.0
Pretoria (Gauteng)	1 182 907	1 184 524	1 315 389	1 460 533	1 488 177	1 512 572	1 550 333	1 542 712	1 509 976	-2.1	1.5
Durban/Pinetown (KwaZulu-Natal)	1 022 001	999 796	1 095 110	1 159 368	1 160 315	1 182 138	1 172 224	1 255 699	1 354 202	7.8	16.7
Cape Town (Western Cape)	1 182 895	1 237 548	1 336 520	1 514 067	1 546 238	1 598 704	1 616 544	1 644 021	1 715 698	4.4	11.0
Coastal regions											
South Africa	1 232 227	1 218 714	1 375 567	1 444 326	1 468 663	1 528 804	1 528 592	1 527 543	1 543 772	1.1	5.1
Western Cape	1 316 838	1 312 533	1 460 499	1 584 435	1 619 128	1 705 596	1 723 807	1 666 076	1 619 435	-2.8	0.0
West Coast	1 336 079	1 235 919	1 386 718	1 459 120	1 465 486	1 639 882	1 809 938	1 619 049	1 417 269	-12.5	-3.3
Cape Peninsula and False Bay	1 270 994	1 308 777	1 484 587	1 614 756	1 646 886	1 699 349	1 678 540	1 684 284	1 702 748	1.1	3.4
Southern Cape	1 428 899	1 354 902	1 444 759	1 575 837	1 618 598	1 739 590	1 766 033	1 658 034	1 581 126	-4.6	-2.3
Eastern Cape	1 082 985	1 111 346	1 101 426	1 164 077	1 206 253	1 199 771	1 208 752	1 287 233	1 307 891	1.6	8.4
KwaZulu-Natal	1 276 141	1 190 703	1 474 621	1 430 916	1 364 868	1 426 576	1 410 441	1 529 181	1 657 694	8.4	21.5
South Coast	1 020 383	1 003 735	1 082 742	1 070 646	1 040 450	1 025 263	1 194 374	1 361 679	1 358 492	-0.2	30.6
North Coast	1 404 867	1 316 069	1 666 270	1 636 785	1 629 209	1 614 691	1 505 299	1 602 009	1 803 816	12.6	10.7

House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank.
House prices for the provinces and metropolitan regions are smoothed for all houses between 80m² and 400m², up to R4,2 million in 2015.
House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R15,5 million in 2015.

Average nominal house prices by middle-segment category in the third quarter of 2015

	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	873 723	3.1	4.7	1 220 511	1.0	4.0	1 940 581	2.8	6.2
Eastern Cape	693 972	5.0	3.0	930 693	-4.6	-4.1	1 773 936	3.4	14.5
Free State	966 043	0.8	27.6	751 988	-6.6	-14.6	1 308 794	-6.1	-5.7
Gauteng	792 460	-2.4	-8.9	1 229 360	1.4	7.2	1 964 181	2.9	2.5
KwaZulu-Natal	797 514	2.0	12.3	1 097 725	0.4	2.4	1 962 572	5.1	17.7
Mpumalanga	702 159	3.4	-10.0	1 002 573	-1.4	-1.1	1 508 611	4.7	2.0
North West	662 999	0.0	6.9	890 038	2.3	-1.7	1 438 926	6.6	6.3
Northern Cape	686 020	-1.0	1.1	1 143 621	8.2	-1.4	1 682 858	4.7	11.7
Limpopo	674 824	0.3	-0.7	1 183 730	3.7	17.2	1 572 716	-5.3	6.3
Western Cape	1 114 479	6.2	16.4	1 515 381	2.9	8.9	2 212 615	1.4	3.9
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	667 165	5.1	4.0	813 734	-0.9	-6.5	1 863 064	7.7	27.2
East London (Eastern Cape)	749 916	1.5	-5.0	1 292 680	4.8	19.9	1 896 725	-1.7	0.2
Bloemfontein (Free State)	1 295 741	15.3	18.9	1 160 497	-2.1	-9.0	1 758 442	1.9	-4.0
Greater Johannesburg (Gauteng)	858 688	1.2	-10.3	1 273 945	3.1	6.7	2 007 702	2.0	5.6
Johannesburg Central & South	686 083	12.1	11.9	972 339	2.3	3.5	1 726 214	1.5	11.1
Johannesburg North & West	912 840	-4.3	-3.7	1 573 476	-2.5	8.8	2 192 979	-1.4	1.5
East Rand	881 041	-0.1	-16.4	1 152 884	8.3	8.5	1 830 957	10.2	16.6
Pretoria (Gauteng)	771 348	0.4	-3.0	1 294 782	-1.9	6.4	2 090 324	2.7	-0.6
Durban/Pinetown (KwaZulu-Natal)	873 722	5.5	14.7	1 215 552	3.8	16.6	1 905 050	1.6	14.0
Cape Town (Western Cape)	1 223 117	7.2	18.0	1 728 301	5.2	16.6	2 433 466	2.2	7.2

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m² and 400m², up to R4,2 million, in respect of which loan applications were approved by Absa Bank.

Home loan repayment patterns

% of homeowners

Payments on primary residence	July 2010	July 2011	July 2012	July 2013	July 2014	July 2015
Pay minimum only	59	59	62	54	63	65
Pay extra every month	16	24	24	31	28	18
Pay extra lump sums	3	11	9	8	5	9

Source: Old Mutual

Home loan repayment patterns by income category

% of homeowners in July 2015

Payments on primary residence	R6 000 - R13 999 per month	R14 000 - R19 999 per month	R20 000 - R39 999 per month	R40 000 and more per month
Pay minimum only	78	80	67	51
Pay extra every month	14	4	11	33
Pay extra lump sums	0	4	12	13

Source: Old Mutual

Key variables and projections

Annual averages

		2009	2010	2011	2012	2013	2014	2015	2016
World									
Gross domestic product	Real % Δ	0.0	5.4	4.2	3.4	3.3	3.4	3.1	3.6
Advanced economies	Real % Δ	-3.4	3.1	1.7	1.2	1.1	1.8	2.0	2.2
Emerging market and developing economies	Real % Δ	3.1	7.5	6.3	5.2	5.0	4.6	4.0	4.5
South Africa									
Gross domestic product	Real % Δ	-1.5	3.0	3.2	2.2	2.2	1.5	1.4	1.8
$/R exchange rate	Rand per US$	8.44	7.32	7.25	8.21	9.65	10.84	12.65	14.41
Headline consumer price inflation rate	%	7.1	4.3	5.0	5.7	5.8	6.1	4.6	5.7
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	-2.1	3.7	4.6	2.4	2.5	1.5	1.9	2.1
Household final consumption expenditure	Real % Δ	-2.6	3.9	4.9	3.4	2.9	1.4	1.5	1.3
Household final consumption expenditure	% of GDP	59.5	59.0	59.4	60.5	60.6	60.6	60.7	60.8
Household saving to disposable income	%	-0.5	-0.8	-1.1	-2.1	-2.5	-2.4	-2.0	-1.2
Household debt to disposable income	%	84.4	81.9	79.8	79.8	79.5	78.3	78.0	77.7
House prices (80m²-400m², ≤R4m)	Nominal % Δ	-0.4	7.4	1.8	0.6	10.0	9.3	6.3	6.0
House prices (80m²-400m², ≤R4m)	Real % Δ	-7.0	3.0	-3.1	-4.8	4.0	3.0	1.6	0.3

Source: IMF, SARB, Stats SA, Absa