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Explanatory notes:

The Absa house price indices, available back to 1966, are based on the total purchase price of homes in the 80m²-400m² size category, priced at R4,4 million or less in 2016 (including improvements), in respect of which mortgage loan applications were received and approved by Absa. Prices are seasonally adjusted and smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index values and price data may differ from previously published figures.

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House price indices

8 March 2016

Steady middle-segment house price growth in early 2016

Nominal year-on-year growth in the average value of middle-segment homes in the South African residential property market remained steady around the 6% level in the first two months of 2016. Somewhat slower price growth occurred in two of the middle-segment categories of housing in February, with an uptick in growth in the third category. In real terms, i.e. after adjustment for the effect of inflation, some price deflation was recorded in January. These trends in home values are according to the Absa house price indices, which are based on applications for mortgage finance received and approved by the bank in respect of middle-segment small, medium-sized and large homes (see explanatory notes).

The two middle-segment categories of medium-sized and large homes saw marginally lower price growth on a nominal year-on-year basis in February. The small category, however, registered a jump in price growth, but growth remained below that of the other two segments. Real price deflation accelerated in the small and medium-sized categories up to January, with real price growth slowing down in the large segment. The latest trends in real house price growth came against the background of rising headline consumer price inflation, which increased from 4,8% year-on-year (y/y) in November last year to 5,2% y/y in December and 6,2% y/y in January.

The average nominal value of homes in each of the middle-segment categories was as follows in February 2016:

- Small homes (80m²-140m²): R892 000
- Medium-sized homes (141m²-220 m²): R1 259 000
- Large homes (221m²-400m²): R1 978 000

The residential property market will continue to be driven by macroeconomic trends and developments with regard to household finances. The expectation is for consumers to experience increased financial strain during the course of 2016. Real economic growth is forecast to slow down further to only 0,9% this year from 1,3% in 2015, whereas the headline consumer price inflation rate is expected to average 6,4%, up from 4,6% last year. In view of mounting inflationary pressures, interest rates are forecast to increase by a further 75 basis points in the rest of the year, after being hiked by 50 basis points in January. This will bring the prime lending and variable mortgage interest rates, currently at 10,25%, to a level of 11% by the end of the year. Further interest rate hikes will negatively affect the affordability of mortgage finance and dampen levels of activity in and the performance of the housing market as well as the mortgage market.

Against the background of the abovementioned expectations, nominal house price growth is projected to slow down from around 6% last year to a level of about 5% this year, with the risk for price growth remaining to the downside. Taking into account the forecasts for nominal house price growth and the headline consumer price inflation rate, some real price deflation is projected for 2016.

Absa house price indices (nominal, 2000=100)

Houses of 80m²-400m², up to R4.4 million in 2016

Month	Small houses 80m ² -140 m ²			Medium-sized houses 141m ² -220 m ²			Large houses 221m ² -400 m ²		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
January	391.6	432.2	447.0	447.7	477.8	503.7	480.0	504.8	542.4
February	397.6	429.7	447.8	452.1	478.6	503.8	483.6	506.6	543.0
March	404.3	426.9		455.5	479.4		487.4	508.9	
April	410.3	425.6		457.9	480.4		491.7	512.1	
May	414.5	426.8		459.7	482.2		495.9	516.7	
June	416.6	429.8		462.1	484.4		498.9	522.7	
July	417.7	433.9		465.7	487.1		500.7	529.0	
August	419.2	438.2		470.0	490.4		501.7	534.0	
September	422.3	441.4		473.9	494.0		503.0	537.1	
October	426.6	443.2		476.4	497.5		504.0	539.2	
November	430.7	444.5		477.5	500.4		504.2	540.7	
December	432.9	445.7		477.7	502.3		504.1	541.6	
Average	415.4	434.8	447.4	464.7	487.9	503.7	496.3	524.4	542.7

Absa house price indices

Houses of 80m²-400m², up to R4.4 million in 2016

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	January 2016	February 2016	Year-to-date 2016	November 2015	December 2015	January 2016
Small (80m ² -140m ²)	3.4	4.2	3.8	-1.5	-2.1	-2.6
Medium (141m ² -220m ²)	5.4	5.3	5.3	0.0	-0.1	-0.8
Large (221m ² -400m ²)	7.5	7.2	7.3	2.4	2.1	1.2



