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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 80m<sup>2</sup>-400m<sup>2</sup> 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

6 October 2016

### Middle-segment house price growth remains under downward pressure

Year-on-year growth in the average nominal value of middle-segment homes in the South African housing market remained on a declining trend in September 2016, with growth at its lowest level since September 2012. On a monthly basis, prices deflated in nominal terms in the past four months after some data revisions (see explanatory notes in this regard). In real terms, i.e. after adjustment for the effect of consumer price inflation, house prices continued to deflate on both a year-on-year and month-on-month basis in the first eight months of the year. These house price trends came against the background of economic developments affecting household finances and consumer confidence, which eventually impact the performance of the property market.

In September this year, nominal price growth in the middle-segment of the local housing market slowed down further to 3,2% year-on-year (y/y) from a revised 3,6% y/y in August, with real price deflation that accelerated to -2,2% y/y in August from -1,9% y/y in July.

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

- Small homes (80m<sup>2</sup>-140m<sup>2</sup>): R924 000
- Medium-sized homes (141m<sup>2</sup>-220 m<sup>2</sup>): R1 292 000
- Large homes (221m<sup>2</sup>-400m<sup>2</sup>): R2 006 000

The abovementioned 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 performance of the South African economy remained much subdued in the first half of the year, with real growth of 0,3% y/y posted over this period. This performance came against the background of relatively low growth in most sectors of the economy, whereas real value added in the agricultural and mining sectors contracted by 8,3% y/y and 6,5% y/y respectively in the first six month of the year. The forecast is for the economy to grow by only 0,4% in 2016 (1,3% in 2015), with growth expected to improve to a still relatively low real 1,1% in 2017.

Headline consumer price inflation is expected to average 6,4% this year, with a slowdown to 5,5% projected for 2017. Interest rates are forecast to remain unchanged up to year-end, with rate movements to remain highly dependent on trends in relevant economic data and related developments.

The consumer sector is expected to continue to experience a fair amount of financial pressure over the short to medium term, with credit risk profiles to remain an important driver of credit providers' risk appetites and lending criteria, which will impact consumers' access to credit. Consumer confidence is expected to remain relatively low into next year, which will affect the demand for credit, growth in household consumption expenditure and the property market.

Nominal house price growth is forecast to remain in a narrow range of between 4% and 4,5% in 2016 and 2017, with real price deflation of around 1,5% to 2% expected over this period, taking into account the outlook for headline consumer price inflation.

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

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

Month	Small houses 80m²-140 m²			Medium-sized houses 141m²-220 m²			Large houses 221m²-400 m²		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
January	391.2	431.6	458.2	448.2	478.9	503.3	480.4	505.5	544.9
February	396.6	428.5	463.6	452.7	480.4	505.3	484.0	507.4	546.6
March	402.8	425.6	467.3	456.2	482.1	508.5	487.9	509.9	547.5
April	408.5	424.8	468.6	458.2	484.0	512.4	492.2	513.2	547.8
May	412.8	426.5	468.1	459.2	486.4	515.6	496.3	517.7	547.5
June	415.4	430.0	467.2	460.7	488.7	517.8	499.1	523.3	547.2
July	417.1	434.3	466.2	463.6	490.9	518.6	500.7	529.1	547.7
August	419.3	438.2	465.3	467.5	493.1	518.4	501.5	533.5	548.8
September	423.0	441.2	464.1	471.5	495.6	517.3	502.7	536.2	550.8
October	427.8	443.5		474.5	498.0		503.9	538.2	
November	431.7	446.9		476.6	500.1		504.5	540.3	
December	433.1	452.0		477.8	501.7		504.6	542.7	
Average	415.0	435.3	465.4	463.9	490.0	513.0	496.5	524.8	547.6

### 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		
	August 2016	September 2016	Year-to-date 2016	July 2015	August 2016	Year-to-date 2016
Small (80m²-140m²)	6.2	5.2	7.9	1.2	0.2	1.9
Medium (141m²-220m²)	5.1	4.4	5.4	-0.4	-0.8	-0.7
Large (221m²-400m²)	2.9	2.7	5.4	-2.4	-2.9	-0.4

### Absa house price index

Houses of 80-400m², up to R4.4 million in 2016, Index 2000=100







