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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

15 November 2016

Continued subdued middle-segment house price growth

October 2016 saw year-on-year growth in the average nominal value of middle-segment homes in the South African housing market remaining relatively low against the background of trends in and prospects for the economy and the household sector. On a month-on-month basis prices showed subdued growth of less than 0,5% in October. In real terms, i.e. after adjustment for the effect of consumer price inflation, house prices deflated further in September this year.

Nominal price growth in the middle-segment of the local housing market came to 4,4% year-on-year (y/y) in October this year, with real price deflation in September recorded at 1,7% y/y. The average price of a middle-segment home was in real terms about 12% lower in September this year compared with the peak in August 2007.

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

- Small homes (80m²-140m²): R961 000
- Medium-sized homes (141m²-220 m²): R1 316 000
- Large homes (221m²-400m²): R2 008 000

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 South African economy posted relatively low real growth of only 0,3% y/y in the first half of 2016, with the Reserve Bank's leading business cycle indicator, which is a reflection of the direction of economic activity 6 – 9 months into the future, that continued its declining trend in the first eight months of the year. The forecast is for the economy to grow by a real 0,4% in 2016 and 1,1% in 2017.

Headline consumer price inflation measured 6,1% y/y in September, with the year-to-date average at 6,2% y/y. Inflationary pressures still persist with headline CPI forecast to remain above 6% y/y up to early 2017 before declining steadily to around 5% y/y by the end of next year. Interest rates were kept unchanged after being hiked by a cumulative 75 basis points in the first quarter of the year and are forecast to remain stable up to year-end, with rate movements to remain highly dependent on trends in key economic and financial market data.

Consumers are to experience further financial strain over the short to medium term, with employment and income growth to remain much subdued. Spending power will be eroded in view of inflationary pressures, interest rate trends and expected tax increases in 2017. Credit risk profiles, financial vulnerability and credit health will affect the accessibility of, the demand for and growth in household credit. The low level of consumer confidence is expected to continue and may deteriorate further over the short to medium term, with confidence an important factor impacting credit demand and the performance of the property market.

In view of the above-mentioned trends and prospects, nominal house price growth is forecast to average between 3,5% and 5% in 2016 and 2017, with prices set to deflate by 1,5% to 2% in real terms over this period. Real house price trends will be affected by consumer price inflation, which is expected to average 6,3% this year and 5,5% next year.

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	391.1	431.5	457.8	448.0	478.8	503.0	480.3	505.7	544.8
February	396.4	428.4	463.1	452.4	480.4	504.8	483.9	507.6	546.4
March	402.6	425.5	466.5	455.9	481.9	507.9	487.7	510.1	547.2
April	408.4	424.7	467.5	458.2	483.4	511.8	492.0	513.3	547.6
May	412.8	426.7	467.4	459.5	485.4	515.7	496.1	517.7	547.4
June	415.6	430.4	468.0	461.2	487.5	519.3	498.9	523.4	547.1
July	417.3	434.7	470.3	464.0	489.6	522.2	500.4	529.2	547.4
August	419.4	438.5	473.8	467.7	492.0	524.3	501.3	533.7	548.6
September	423.1	441.2	477.9	471.5	494.8	525.9	502.5	536.5	550.1
October	427.7	443.3	482.3	474.3	497.5	526.9	503.8	538.5	551.3
November	431.5	446.5		476.3	499.9		504.5	540.6	
December	433.0	451.5		477.5	501.6		504.8	542.8	
Average	414.9	435.2	469.5	463.9	489.4	516.2	496.3	524.9	547.8

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		
	September 2016	October 2016	Year-to-date 2016	August 2015	September 2016	Year-to-date 2016
Small (80m ² -140m ²)	8.3	8.8	8.6	2.0	2.1	2.1
Medium (141m ² -220m ²)	6.3	5.9	6.0	0.6	0.2	-0.3
Large (221m ² -400m ²)	2.5	2.4	5.0	-3.0	-3.4	-0.8

Absa house price index

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



