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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 R4,2 million or less in 2015 (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

7 December 2015

### Sustained steady slowdown in house price growth, with the prospect of continued low growth over the next 12-18 months

The gradual downward trend in local annual house price growth since late 2014 continued up to November 2015. Year-on-year growth in the average nominal value of homes in the middle segment of the South African housing market slowed down further to 4,2% in November from 4,6% in October. On a monthly basis house price growth subsided to a virtually negligible level of less than 0,1% in November, contributing to the declining trend in year-on-year price growth. 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).

Nominal year-on-year price growth in middle-segment medium-sized and large homes appeared to have levelled out in recent months, with a further slight uptick in growth in November. This may be attributed to the important base effect of a downward trend in price growth in these two segments of housing commencing late last year. This development may have the effect that year-on-year price growth in these two categories of housing may technically show a further gradual upward trend in coming months. Month-on-month price growth, however, remained at a low level in both these segments up to November.

In real terms, i.e. after adjustment for the effect of headline consumer price inflation, house price growth remained under downward pressure up to October on the back of inflation trends and declining nominal price growth. Real year-on-year price deflation was still evident in the small and medium-sized categories of middle-segment housing in October, with some real price growth recorded in respect of large homes. The net effect of these price trends was that only a marginal real year-on-year price drop was recorded in middle-segment housing in October.

The average nominal value of homes in each of the middle-segment categories was as follows in November 2015:

- Small homes (80m<sup>2</sup>-140m<sup>2</sup>): R877 000
- Medium-sized homes (141m<sup>2</sup>-220 m<sup>2</sup>): R1 241 000
- Large homes (221m<sup>2</sup>-400m<sup>2</sup>): R1 989 000

Factors related to the economy, household finances and consumer confidence will remain important to the future performance of the residential property market. Economic growth is forecast to remain relatively subdued in 2016, with increasing inflationary pressures as a result of inter alia expected rising food prices and a depreciating rand exchange rate. Against this background interest rates are projected to be hiked further next year and in 2017. These factors will negatively affect household finances and the affordability of housing and mortgage finance.

Nominal house price growth of 5%-6% is forecast for 2016, with the risk to the downside against the background of economic and consumer sector trends and prospects. Based on the outlook for nominal price growth and the headline consumer price inflation rate, real house price growth is expected to remain under severe pressure in the next 12-18 months.

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

Houses of 80m²-400m², up to R4,2 million

Month	Small houses 80m²-140 m²			Medium-sized houses 141m²-220 m²			Large houses 221m²-400 m²		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
January	375.4	388.7	434.4	427.1	448.2	478.6	441.3	479.8	504.6
February	372.5	395.5	431.1	427.3	452.6	479.4	445.4	483.4	506.5
March	370.5	403.2	427.2	427.2	456.0	480.2	449.5	487.3	509.0
April	370.2	409.9	424.9	428.1	458.2	481.1	452.9	491.6	512.3
May	371.8	414.1	425.6	429.7	459.9	482.6	455.8	495.7	517.1
June	375.1	415.7	428.8	431.3	462.3	484.5	458.5	498.6	522.9
July	379.1	416.1	433.2	431.9	465.9	486.7	461.2	500.4	528.8
August	382.5	417.7	436.8	432.0	470.1	489.2	464.1	501.6	534.1
September	384.2	421.4	438.9	432.5	474.1	491.8	467.0	503.0	538.6
October	383.8	426.9	439.8	434.3	476.7	494.3	469.4	504.0	542.7
November	383.0	432.2	440.1	437.8	478.1	496.9	472.1	504.1	546.0
December	384.2	435.1		442.9	478.4		475.8	503.9	
Average	377.7	414.7	432.8	431.8	465.0	485.9	459.4	496.1	523.9

### Absa house price indices

Houses of 80m²-400m², up to R4,2 million

Category of housing	Nominal year-on-year % change			Real year-on-year % change		
	October 2015	November 2015	Year-to-date 2015	September 2015	October 2015	Year-to-date 2015
Small (80m²-140m²)	3.0	1.8	4.8	-0.4	-1.6	0.7
Medium (141m²-220m²)	3.7	3.9	4.8	-0.8	-0.9	0.4
Large (221m²-400m²)	7.7	8.3	5.7	2.4	2.9	0.9



