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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

5 February 2016

Uptick in house price growth in some categories of middle-segment housing on the back of base effects

Nominal year-on-year growth in the average value of middle-segment homes in the South African residential property market remained in single digits in January 2016, with a recent gradual rising trend evident in price growth in two categories of housing analysed. Despite challenging economic conditions that affect consumers, such as rising inflation and interest rates, the uptick in price growth in some segments of housing was largely the result of the base effect of slowing price growth a year ago. In real terms, i.e. after adjustment for the effect of headline consumer price inflation, price growth remained low in the middle segment of the market. 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).

Price growth in middle-segment small and medium-sized homes improved on a nominal year-on-year basis in January 2016 due to the abovementioned base effects, whereas growth in the large category started to slow down after an upward trend up to late last year. In real terms house price growth was below 1% y/y in the small and medium-sized categories in 2015, with real price growth of 1,6% y/y registered in the large segment. Continued real price deflation was evident in the small category up to the end of last year.

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

- Small homes (80m²-140m²): R904 000
- Medium-sized homes (141m²-220 m²): R1 281 000
- Large homes (221m²-400m²): R1 957 000

The outlook for the residential property market in 2016 is one of subdued growth against the background of expected low real economic growth of only 0,9% this year, low employment growth, rising inflation and higher interest rates. Since early 2014 interest rates were raised by a cumulative 175 basis points, with further rate hikes forecast during the rest of the year on the back of expected ongoing inflationary pressures. The headline consumer price inflation rate is projected to average above the 6% level this year, with prime lending and variable mortgage interest rates, currently at 10,25%, forecast to end the year at 11% per annum. These factors will lead to increased financial strain on consumers and homeowners and will contribute to low consumer confidence.

The outlook for nominal house price growth is to slow down from just above 6% in 2015 to 5% this year, with the risk for price growth to the downside against the background of trends in and prospects for the economy and the household sector. Based on expectations for nominal house price growth and consumer price inflation, 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 80m²-140 m²			Medium-sized houses 141m²-220 m²			Large houses 221m²-400 m²		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
January	391.0	431.8	453.9	447.8	478.1	512.6	480.0	504.7	537.2
February	397.0	429.1		452.3	478.9		483.7	506.6	
March	403.8	426.3		455.7	479.7		487.5	509.1	
April	410.0	425.2		458.0	480.6		491.8	512.3	
May	414.3	426.7		459.7	482.2		496.0	517.1	
June	416.7	429.9		462.1	484.0		499.0	523.2	
July	417.9	434.0		465.7	486.3		500.8	529.6	
August	419.5	438.0		470.0	489.8		501.9	534.7	
September	422.8	441.4		473.9	494.2		503.0	537.7	
October	427.1	444.3		476.4	499.3		504.0	539.3	
November	431.0	447.2		477.6	504.2		504.1	539.5	
December	432.8	450.6		477.8	508.4		503.9	538.8	
Average	415.3	435.4	453.9	464.8	488.8	512.6	496.3	524.4	537.2

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		
	November 2015	December 2015	January 2016	November 2015	December 2015	Year-to-date 2015
Small (80m²-140m²)	3.8	4.1	5.1	-0.9	-1.1	0.3
Medium (141m²-220m²)	5.6	6.4	7.2	0.8	1.1	0.6
Large (221m²-400m²)	7.0	6.9	6.4	2.2	1.6	1.0

Absa house price index

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



