



Absa House Price Indices

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Explanatory notes:

The Absa House Price Indices are based on the total purchase price of houses in the 80m²-400m² size category, priced at R2,9 million or less (including improvements), in respect of which loan application were approved by Absa. Prices are smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index figures may differ materially from previously published figures.

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Lowest house price growth in almost 9 years

Absa House Price Index expanded

This month sees the expansion of the Absa House Price Index, compiled and published for the first time back in May 2002. Traditionally the House Price Index focused on the entire middle segment of the residential property market (see explanatory notes), which comprises small houses (80m²-140m²), medium-sized houses (141m²-220m²) and large houses (221m²-400m²) up to R2,9 million.

Price indices with regard to each of the abovementioned categories of middle-segment housing at a national level will be published in future, including the weighted average price index for these three categories combined.

The latest trends in house prices

Nominal price growth in all three categories of housing in the middle segment of the market, as defined by Absa, slowed down further in July this year, whereas prices dropped in real terms (i.e. after adjustment for inflation). This was the result of deteriorating market conditions on the back of rising inflation and interest rates, adversely affecting household finances and the affordability of housing.

The average nominal price of **middle-segment housing** increased by 3,2% year-on-year (y/y) in July this year, down from a revised growth rate of 4,0% in June. The July growth rate was the lowest since September 1999, and brought the average nominal price of a house in this segment of the market to about R967 600. Compared with June this year, house prices increased by only 0,1% in July. In real terms, prices dropped for the fifth consecutive month in June, by 7,3% y/y (-6,2% y/y in May), based on headline CPI inflation. On a month-on-month basis house prices were down by a real 1,1% in June.

Absa House Price Indices (nominal, 2000=100)

Month	Small houses 80-140 m ²			Medium-sized houses 141-220 m ²			Large houses 221-400 m ²			All houses 80-400 m ²		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
	Jan	273.7	310.2	340.4	286.9	339.1	379.7	292.7	336.6	382.3	280.6	323.7
Feb	277.6	313.0	341.4	290.3	344.6	378.9	295.4	341.6	383.1	283.8	328.1	354.8
Mar	281.7	315.3	342.0	294.3	349.7	377.7	297.2	346.5	383.4	287.0	332.1	354.7
Apr	285.7	317.3	342.3	298.7	354.5	376.5	298.6	351.5	383.0	290.2	335.6	354.9
May	289.2	319.6	342.3	303.2	359.1	375.7	300.1	356.7	382.3	293.4	338.8	355.1
Jun	291.9	322.4	342.1	307.4	363.4	375.3	302.2	362.1	381.4	296.4	341.9	355.5
Jul	294.1	325.7	341.8	311.2	367.6	375.2	305.1	367.1	380.5	299.3	345.0	355.9
Aug	296.0	329.3		314.8	371.6		309.2	371.4		302.5	347.7	
Sep	297.9	332.6		318.4	375.0		314.4	374.7		306.0	350.1	
Oct	300.2	335.4		322.6	377.4		320.2	377.3		309.9	352.1	
Nov	303.2	337.6		327.7	379.0		325.9	379.5		314.3	353.7	
Dec	306.7	339.2		333.3	379.8		331.3	381.1		319.0	354.5	
Average	291.5	324.8		309.1	363.4		307.7	362.2		298.5	341.9	

In the category of **small houses** (80m²-140m²), nominal price growth slowed to a level of 4,9% y/y in July 2008 compared with a growth rate of 6,1% y/y registered in June. This brought the average nominal price of houses in this category to about R680 800 in July, with prices declining by a marginal 0,1% on the preceding month. Taking account of the effect of inflation, the average price of small houses dropped by a real 5,4% y/y in June this year after a decline of 4,1% y/y was recorded in May. In June this year average house prices in the small category was 1,3% lower than in May.

Nominal year-on-year price growth in respect of **medium-sized houses** (141m²-220m²) came in at just 2,1% in July 2008 (3,3% y/y in June), which brought the average price to around R937 300 in July. Compared with June, no nominal price growth was recorded, while prices have declined by 1,2% in nominal terms between December last year and July this year. In real terms, the average price of medium-sized housing was 7,9% y/y lower in June (-6,3% y/y in May). On a month-on-month basis, prices declined by a real 1,4% in July compared with June, after declining by 1,3% in real terms in comparison with May.

With regard to **large houses** (221m²-400m²), nominal price growth of 3,6% y/y was recorded in July 2008, down from 5,3% y/y in June. On a monthly basis, the average price was a nominal 0,3% lower in July than in June. This brought the average price in this category of housing to a level of about R1 385 800 in July. Taking into account the effect of inflation, the average price of large houses was 6,1% y/y lower in June (-4,1% y/y in May), while in comparison with May this year, prices were down by a real 1,5% in June.

The outlook for house prices

On the back of current and expected economic conditions over the next 12 months, nominal price growth across all three categories of housing in the middle segment of the market is forecast to be markedly lower for the full year and in 2009 compared with the past number of years, with prices set to decline in real terms this year and next year. This will be the first annual real decline in house prices since 1999.

Economic conditions are expected to improve in the second half of 2009, to a large extent as a result of declining inflation and interest rates. On the back of these expectations, the residential property market is set to recover gradually from late next year with the household sector experiencing less financial pressure. Nominal house price growth is forecast to rise to levels of above 10% from 2010, with real price growth projected to turn positive again in 2010.

