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Explanatory notes:
The Absa House Price Index is based on the total purchase price of houses in the 80m²-400m² size category, valued at R2,9 million or less in 2007 (including improvements), in respect of which loan applications 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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House price growth at an 8½-year low

According to the latest Absa House Price Index, house price growth slowed to a nominal 6,8% year-on-year (y/y) in the middle segment of the market (see explanatory notes) in April 2008, down from a revised 7,8% in March. It was the fourth consecutive month of single-digit growth in nominal house prices since a growth rate of 11,2% was recorded in December last year. The latest price rise of 6,8% y/y was the lowest since November 1999, when it was 6,5%, and brought the average price of a middle-segment house to about R974 000 in April this year.

In real terms, house prices in the middle segment of the market dropped by 2,5% y/y in March 2008, compared with a decline of 0,9% y/y recorded in February, based on headline CPI inflation. This was the biggest negative real year-on-year growth rate recorded in house prices since May 1997, when it was at a level of -3,4% y/y, based on nominal price growth of 5,7% y/y, and a headline CPI inflation rate of 9,5% at the time.

On a month-on-month basis, nominal house price growth was only 0,2% in April, unchanged from March. In real terms, house prices dropped by 1,3% in March from February. The real price of a middle-segment house has dropped by a total of R19 700, or 3%, from an all-time high of around R651 500 (at constant 2000 prices) in August last year to about R631 800 in March this year.

Sharply rising CPIX inflation, currently at 10,1% y/y and mainly driven by international oil price, rand exchange rate and food price trends; the 450 basis points worth of interest rate hikes since mid-2006 on the back of inflationary pressures; a significant slowdown in growth in real household disposable income in 2007; and the full implementation of the National Credit Act in mid-2007, are factors having a negative effect on the affordability of housing. These trends have caused the focus of homebuyers to have shifted from luxury, large and expensive properties to smaller and more affordable properties in recent times. As a result of these developments, the downward trend in year-on-year house price growth has accelerated since September last year.

With inflation still under strong upward pressure, inflation expectations will remain high over the short term, which will have a significant influence on demands for higher wages this year. Against this background, the Reserve Bank's Monetary Policy Committee is expected to hike interest rates by another 50 basis points at the June meeting.

In view of these developments and expectations, house price growth is forecast to slow down even further in the rest of 2008 from current levels. Nominal price growth of well below 10% is projected for the full year, with real price growth expected to be in negative territory, which will be the first annual drop in real prices since 1999, when it was -0,3%.

