



# Housing Review

First Quarter 2011

## Contents

|   |
|---|
| Overview ...2   |
| House price trends in 2010 ...3                             |
| Building costs and new and existing house price trends ...5 |
| Land values ...6  |
| Interest rates and mortgage repayments ...6                 |
| Affordability of housing ...6                               |
| Outlook ...7  |
| Statistics ...8   |

Compiled by:  
Jacques du Toit  
Senior Property Analyst  
Absa Home Loans  
Absa Group Limited  
(Reg No 1986/003934/06)

45 Mooi Street  
Johannesburg  
2001

PO Box 7735  
Johannesburg  
2000  
South Africa

Tel: +27 (11) 350 7246  
E-mail: [jacques@absa.co.za](mailto:jacques@absa.co.za)  
Website: <http://www.absa.co.za>

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Absa Group Limited and/or the authors of the material.

Date of completion: 17 February 2011

## Summary

- The South African economy recovered in 2010 after the recession of 2009, supported by the global recovery, growing domestic demand, and low inflation and interest rates. Real GDP growth of just below 4% is forecast for 2011.
- Despite the positive effect of declining inflation and interest rates in 2010, the household sector was plagued by continued job losses in most sectors of the economy up to late last year, while the ratio of household debt to disposable remained high at just below 79%.
- House prices continued to rise in 2010 after bottoming in mid-2009, but last year was a tale of two halves, with both nominal and real price growth in the second half of the year being significantly lower in the middle segment of the market compared with the first six months of the year.
- In 2010 the average nominal price of affordable houses was 2,6% higher at a level of R299 100, while declining by 1,6% in real terms. 2009 saw nominal price growth of 2,8% in this category of housing, with prices declining by a real 4,1%.
- House prices in the middle segment of the market increased by 6,8% in nominal terms in 2010, which was markedly better than the marginal decline of 0,3% that occurred in 2009. The average price of a house in this category came to a level of about R1 008 500 in 2010. In real terms middle-segment house prices were 2,4% higher last year compared with 2009 when prices dropped by a real 6,9%.
- In the luxury segment house prices were only a nominal 1,3% higher in 2010 than in 2009, to a reach level of just more than R4,5 million. The average real price of luxury homes was down by 2,9% in 2010 after declining by 5,9% in 2009.
- At a regional level house price growth occurred across all provinces, metropolitan areas and the major coastal regions in nominal terms, while in some regions some real price declines were recorded in 2010 compared with 2009.
- The affordability of housing improved further up to late 2010 on the back of slowing house price growth, declining interest rates and rising household income. This is based on trends in the ratios of house prices and mortgage repayments to household disposable income.
- Taking account of recent trends in house prices, as well as expectations with regard to the economy, nominal price growth of around 1,5% is forecast for 2011. Based on this forecast and a projected average consumer price inflation rate of between 4,5% and 5% this year, house prices are set to decline in real terms in 2011, after rising by 2,4% in 2010.
- Projections of a growing economy, some increase in employment, household disposable income growth, and low interest rates, are factors expected to support the residential property market in 2011.

## Overview

### The economy

The South African economy recovered during the course of 2010 after being in recession in 2009 for the first time in seventeen years. However, growth in real gross domestic product (GDP) slowed down to a seasonally adjusted annualised rate of below 3% in both the second and third quarter of last year, from 4,6% in the first quarter.

The slower pace of real economic growth of 2,8% recorded in the second quarter of 2010 was mainly related to significantly lower production in the mining sector, while the manufacturing sector also showed lower growth in the same period.

In the third quarter of 2010 real GDP growth tapered off somewhat further to an annualised rate of 2,6% on the back of industrial action in the motor vehicle sector and related industries. Slower growth in the tertiary sector owing to a massive public sector strike also contributed to the lower real GDP growth recorded in the third quarter of last year.

### The household sector

Despite the positive effect of declining inflation and the fact that domestic interest rates were at the end of 2010 at their lowest level in more than 35 years, the household sector was still plagued by continued job losses in most sectors of the economy up to the third quarter of last year, while the ratio of household debt to disposable income remained high.

Real household disposable income increased at an annualised rate of 5,6% in the third quarter of 2010 (4,5% in the second quarter), while annualised growth in real household final consumption expenditure was higher at 5,9% in the penultimate quarter of last year compared with 4,9% in the second quarter. Growth in

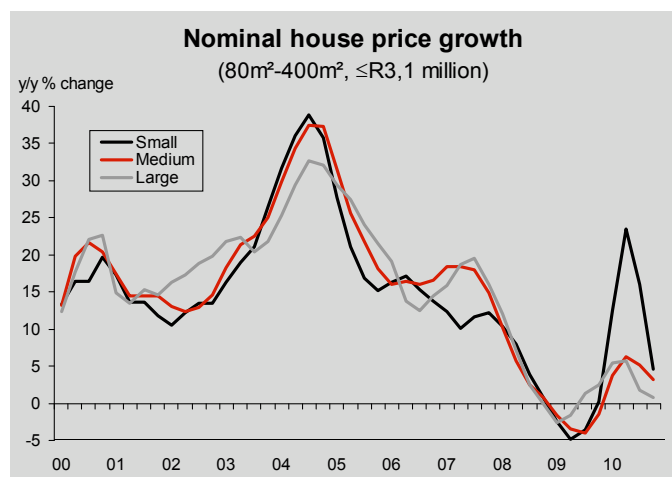
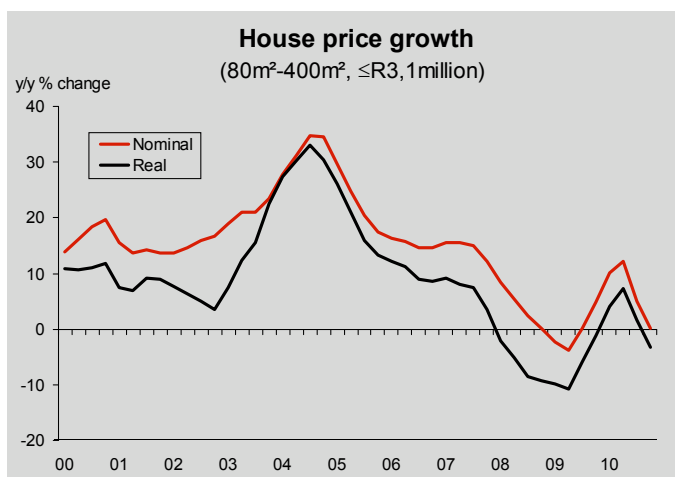
household consumption was to some extent supported by strong growth in the category of durable goods (furniture; household appliances; transport equipment; and information technology and communication equipment) during the course of 2010.

Growth in household credit extension, comprising instalment sales credit, leasing finance, mortgage advances, credit card debt and other loans and advances, remained relatively low up to the end of 2010, coming in at almost 7% year on year (y/y) in December. This is a reflection of the general state of household finances and the ability to take up credit, influenced by the National Credit Act and banks' lending criteria that take account of consumers' risk profile.

The ratio of household debt to disposable income remained high at 78,5% in the third quarter of 2010 (78,2% in the second quarter), but was somewhat lower than the all-time high of 82% recorded in the first two quarters of 2008. The cost of servicing household debt as a percentage of disposable income was around 7,7% in the third quarter of last year, after peaking at about 12,7% in the third quarter of 2008. The abovementioned lower debt servicing ratio in the third quarter last year was mainly the result of the prime interest rate having been significantly lower in the quarter than two years ago.

The ratio of net household saving to disposable income remained in negative territory at a level of -0,4% in the third quarter of 2010 (-0,2% and -0,3% in the first and second quarter respectively). Net household saving is based on the level of gross saving, adjusted for depreciation write-offs on the value of fixed assets held by households, such as residential buildings.

The household sector's net wealth improved somewhat to 351,9% of disposable income in the third quarter of 2010, from 347,8% in the preceding quarter, largely as a result of rising share prices in the quarter.



The net wealth of households is the total value of tangible assets (mainly residential buildings) and financial assets (mainly assets with monetary institutions, interest in pension funds and long-term insurers, equities and bonds) less liabilities (mortgage and other debt).

### **The residential property market**

Real residential fixed capital formation continued to contract up to the third quarter of 2010, to the tune of 6,8% y/y, but the pace of contraction has been slowing down since the final quarter of 2009. The continued contraction in residential investment is evident of conditions in the housing market up to late last year against the background of households' financial position. These trends reflect the significantly lower levels of activity experienced in the planning as well as the construction phase of new residential property during the past year.

Year-on-year house price growth in the middle segment of the market (houses of 80m<sup>2</sup> - 400m<sup>2</sup>, and priced at R3,1 million or less, for which Absa approved mortgage finance) picked up markedly during the first six months of 2010, but peaked around mid-year and slowed down towards the end of the year. These trends were related to the base effect of price movements during 2009. However, economic factors are also believed to have played a contributing role in slowing house price growth in the second half of 2010. These include lower economic growth; continued job losses up to the third quarter; high levels of household debt; the effect of the National Credit Act (NCA) and banks' lending criteria on the ability of consumers to take up credit; and fewer interest rate cuts compared with 2009.

### **Mortgage finance**

Despite the fact that the mortgage rate dropped to its lowest level in more than three decades, the value of

outstanding mortgage balances in the household sector was up by only 4,6% in 2010, after rising by 3,8% in 2009. Although the growth rate has improved somewhat from the previous year, it is still low compared with historical trends. This is a reflection of the state of household finances, property market conditions and the demand for and availability of mortgage finance against the background of the NCA and banks' lending criteria.

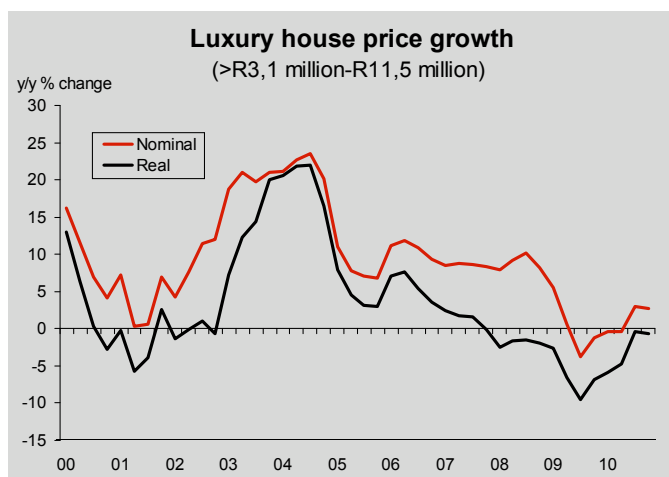
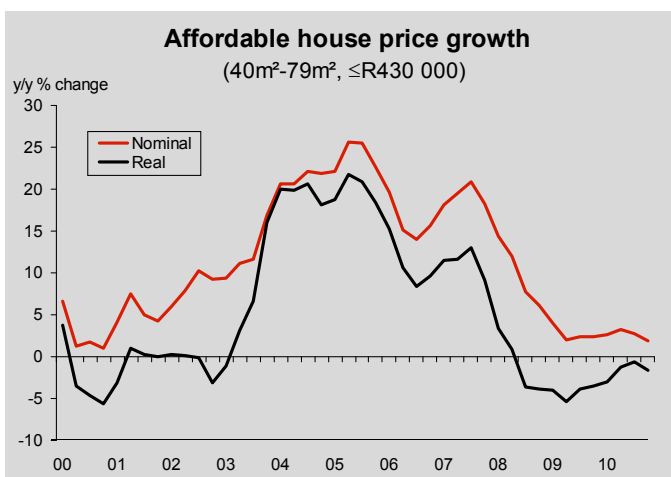
In the third quarter of 2010 the ratio of outstanding household mortgage debt to disposable income was at a level of 47,8% – virtually unchanged from the ratio of 47,7% in the first two quarters of the year. This was the net result of growth in household mortgage debt of 1,7% quarter on quarter (q/q) and nominal disposable income of 1,4% q/q in the third quarter. Households' mortgage debt remained relatively stable at a level of just below 61% of total debt over the past number of quarters up to late 2010.

The cost of servicing household mortgage debt as a percentage of disposable income was marginally lower at about 4,7% in the third quarter of 2010, from 4,9% and 4,8% in the first and second quarter respectively. This was the net result of the abovementioned growth in household mortgage debt and disposable income, as well as movements in the mortgage rate.

### **House price trends in 2010**

House prices continued to rise in 2010 after bottoming in mid-2009, but last year was a tale of two halves, with both nominal and real price growth in the second half of the year being significantly lower in the middle segment of the market compared with the first six months of the year. As indicated above, price trends during 2010 are believed to have been influenced by base effects, as well as developments on the economic front.

Real house price growth is calculated taking into account the headline consumer price inflation rate,



which averaged 4,3% in 2010 (7,1% in 2009) and 3,5% in both the third and fourth quarter of last year.

The trends in house prices mentioned below are based on the value of homes for which Absa approved mortgage finance in the specific period.

### Affordable housing

The average price of houses in the affordable category (houses of 40m<sup>2</sup> - 79m<sup>2</sup> and priced at R430 000 or less) increased by a nominal 2,6% in 2010 (2,8% in 2009). This translated into a real price decline of 1,6% in 2010 from -4,1% in 2009.

In the fourth quarter of 2010, the average nominal price of affordable houses increased by 1,8% y/y to about R300 600, with price growth of 2,8% y/y recorded in the third quarter. In real terms, i.e. after adjustment for the effect of inflation, house prices in the affordable segment declined by 1,6% y/y in the final quarter of last year, compared with a real price decline of 0,7% y/y registered in the preceding quarter.

### Middle-segment housing

The average value of houses in the middle segment of the market (houses of 80m<sup>2</sup> - 400m<sup>2</sup> and priced at R3,1 million or less) was up by 6,8% in 2010, after declining by 0,3% in 2009. This was the net result after prices increased by 11,1% y/y in the first half of last year, while price growth of just 2,6% y/y were recorded in the last six months of the year. The huge difference between price growth in the first half of the year and that of the second half, is related to base effects, while economic factors also played a contributing role. Real price inflation of 2,4% was registered in 2010, after prices dropped by a real 6,9% in 2009.

In the fourth quarter of 2010 middle-segment home values were up by a marginal 0,2% y/y in nominal terms (5,1% y/y in the third quarter). This brought the average

house price to a level of about R1 008 500 in the fourth quarter. In real terms, house prices in the middle segment dropped by 3,2% y/y in the final quarter of the year (+1,6% y/y in the third quarter).

The following price growth occurred in the three middle-segment categories of the housing market in 2010:

- Small houses (80m<sup>2</sup> - 140m<sup>2</sup>): 14% y/y nominal and 9,4% y/y real.
- Medium houses (141m<sup>2</sup> - 220m<sup>2</sup>): 4,6% y/y nominal and 0,3% y/y real.
- Large houses (221m<sup>2</sup> - 400m<sup>2</sup>): 3,4% y/y nominal and -0,8% y/y real.

### Luxury housing

Nominal house price growth in the luxury segment (houses valued at above R3,1 million up to R11,5 million) came to 1,3% in 2010 (0,8% in 2009). After adjustment for the effect of inflation, house prices in this category were down by a real 2,9% in 2010, compared with a drop of 5,9% in 2009.

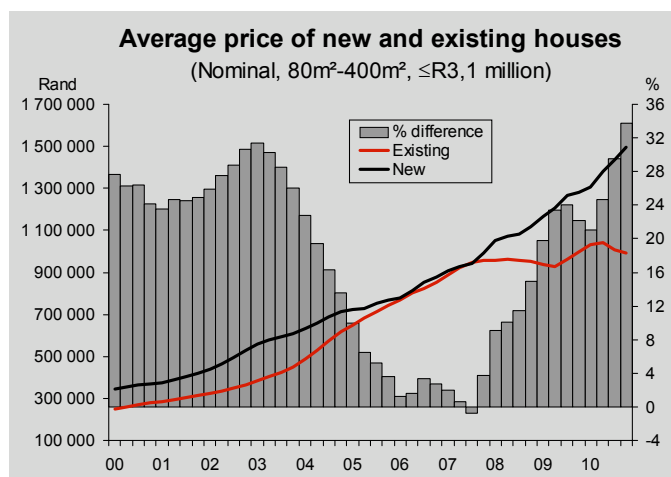
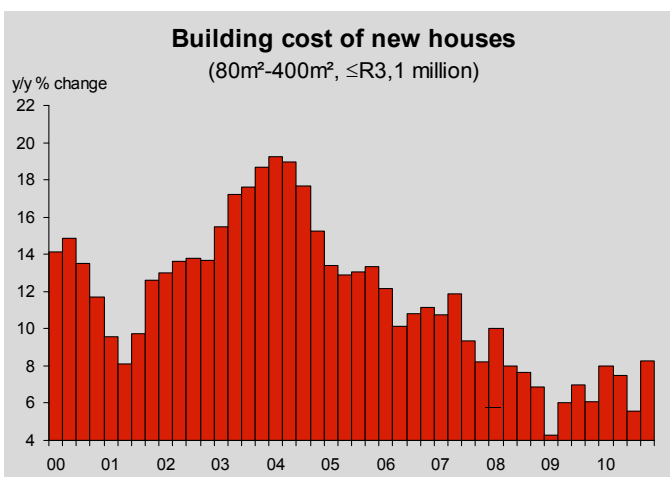
The average nominal price of luxury housing was up by 2,8% y/y in the final quarter of 2010 (3% y/y in the preceding quarter), while in real terms, prices in this segment dropped by 0,7% y/y in the fourth quarter (-0,4% y/y in the third quarter).

### Regional house prices

On a regional basis house price growth occurred across all provinces, metropolitan areas and the major coastal regions in nominal terms, while in some regions some real price declines were recorded in 2010 compared with 2009.

While affected by general economic trends, the residential property market at regional level is in many respects also influenced by area-specific factors and developments.

House prices in the middle segment of the market



performed as follows at provincial level in 2010:

- Free State: Up by a nominal 12,6% (7,9% in real terms).
- Northern Cape: 11,7% up in nominal terms (7,1% in real terms).
- Eastern Cape: 9,8% up in nominal terms (5,3% in real terms).
- North West: Up by a nominal 7,9% (3,4% in real terms).
- KwaZulu-Natal: 7,3% higher in nominal terms (2,9% in real terms).
- Western Cape: 6,3% up in nominal terms (1,9% in real terms).
- Limpopo: Up by 6,2% in nominal terms (1,8% in real terms).
- Gauteng: 5,4% higher in nominal terms (1,1% in real terms).
- Mpumalanga: A nominal 4,7% higher (0,4% in real terms).

House prices increased in nominal terms in all major metropolitan areas in 2010, while in two areas prices were slightly lower in real terms.

The performance of middle-segment house prices in the metropolitan areas was as follows in 2010:

- Bloemfontein: 17,3% higher in nominal terms (12,5% in real terms).
- Pretoria: Up by 10,2% in nominal terms (5,6% in real terms).
- Port Elizabeth/Uitenhage: Nominal growth of 9,8% (5,3% in real terms).
- Cape Town: 8,3% higher in nominal terms (3,8% in real terms).
- Durban: Up by a nominal 7,1% (2,7% in real terms).
- East London: Up by 2,8% in nominal terms (-1,5% in real terms).
- Greater Johannesburg: 2,4% higher in nominal terms (-1,8% in real terms).

In the major coastal regions prices of houses of between 80m<sup>2</sup> and 700m<sup>2</sup> and priced up to R11,5 million, increased in both nominal and real terms in 2010, with the following price growth recorded:

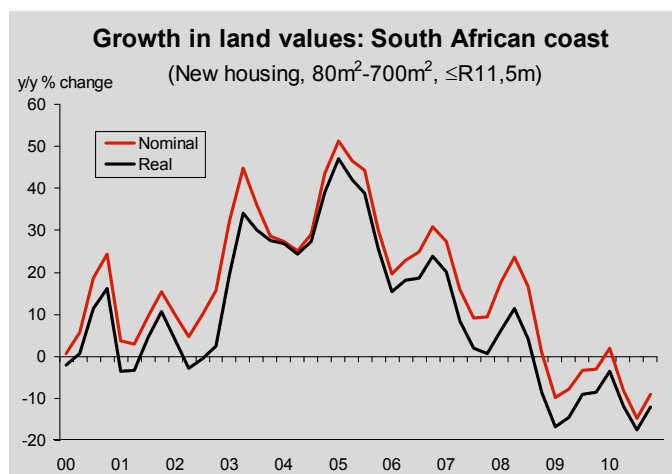
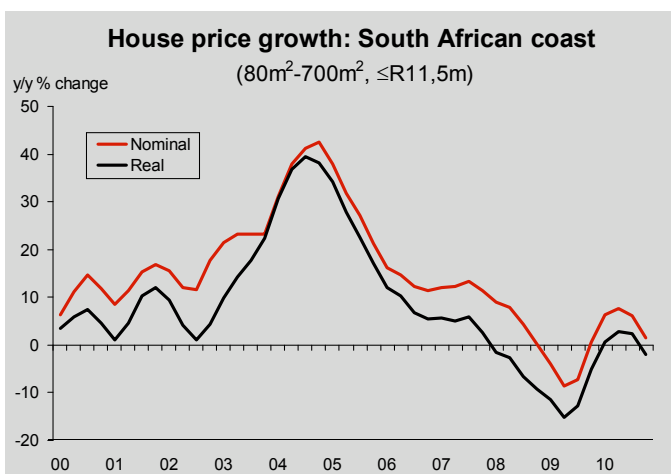
- All coastal regions: Up by 5,3% in nominal terms (0,9% in real terms).
- Western Cape: 6,5% higher in nominal terms (2,1% in real terms).
- KwaZulu-Natal: Up by a nominal 6,1% (1,8% in real terms).
- Eastern Cape: 4,8% up in nominal terms (0,5% in real terms).

### Building costs and new and existing house price trends

The average increase in the cost of building a new house in the middle segment of the market was a nominal 7,3% in 2010, up from 5,8% in 2009. Against the background of this increase in building costs, the average nominal price of a new house was 14,3% higher at a level of about R1 405 400 in 2010. This was a real 9,6% higher than in 2009. The average nominal price of an existing house came to about R1 019 000 in 2010 (up by 6,7% and 2,3% in nominal and real terms respectively). This made it R386 400, or 27,5%, cheaper to have bought an existing house than to have built a new house in 2010.

In the fourth quarter of 2010 the building cost of a new house was up by a nominal 8,3% y/y (5,6% y/y in the third quarter), which was well above the average headline consumer price inflation rate of 3,5% in the quarter.

The average price of a new house increased by a nominal 14,5% y/y to about R1 497 800 in the fourth quarter of 2010, which translated into a real increase of 9,8% y/y. The average price of an existing house was down by a nominal 0,7% y/y to about R991 700 in the fourth quarter, which came to a real decline of 4% y/y in the quarter. As a result, it



was R506 100, or 33,8%, cheaper to have bought an existing house than to have a new one built in the fourth quarter of last year.

### Land values

In 2010 land values for new housing in the middle and luxury segments of the market for which Absa approved finance, increased by a nominal 12,8% to an average of about R505 600, compared with an increase of 8% in 2009. In real terms land values were 8,1% higher in 2010 (0,8% in 2009).

In the fourth quarter of 2010 average land values for new housing were 10,4% y/y higher, while in real terms price growth of 6,7% y/y was recorded in the quarter.

In the coastal regions land values for new housing of 80m<sup>2</sup> - 700m<sup>2</sup> and priced up to R11,5 million, averaged about R408 600 in nominal terms last year, which were 7,5% lower than in 2009 when land prices along the coast were 6,1% down on the 2008 average. In real terms land prices in the coastal regions were 11,4% lower in 2010 compared with 2009. In 2009 a real decline of 12,3% in coastal land values for new housing was recorded.

In the final quarter of last year, land values along the coast averaged about R391 700 in nominal terms, which were 8,9% y/y lower than twelve months ago. A real price decline of 12,1% y/y occurred in the fourth quarter of 2010.

The abovementioned trends in respect of land values along the coast are evident of market conditions in these areas in the aftermath of the recession of 2009. Adverse economic conditions may have a profound effect on regional property markets where investment is a prominent feature.

The demand for and availability of suitable and properly serviced vacant land for residential development in especially the major metropolitan areas

and along the South African coast, will be reflected in land prices in future.

### Interest rates and mortgage repayments

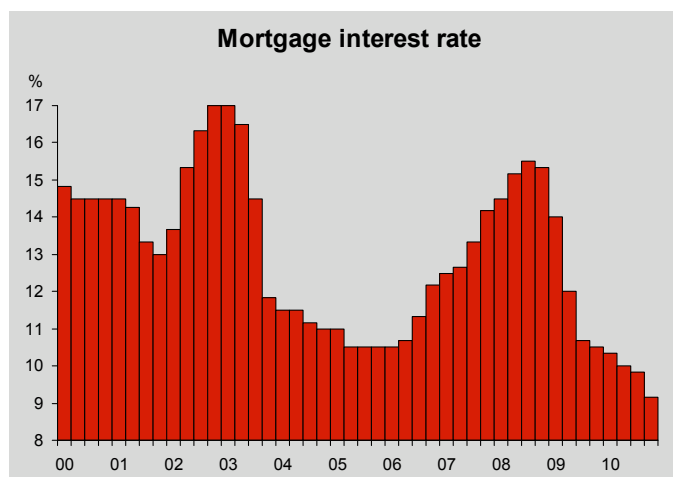
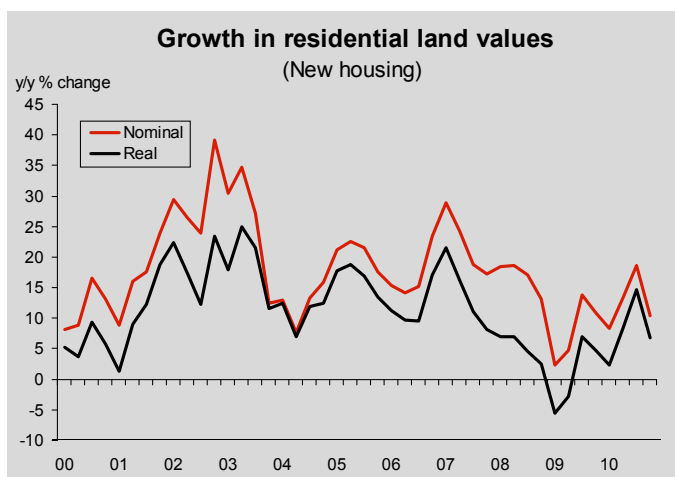
Interest rates were cut by a further 150 basis points during the course of 2010 after rates have been lowered by 50 basis points in December 2008 and a cumulative 450 basis points in 2009. These rate cuts of a cumulative 650 basis points over the past two years brought banks' lending rates to the public, i.e. prime and variable mortgage rates, to their lowest level in more than 35 years.

The abovementioned drop in especially the variable mortgage interest rate, currently at 9%, was instrumental in monthly mortgage repayments having been 33,5% lower by the end of 2010 compared with December 2008, when the mortgage rate was at a level of 15,5%. This, together with banks' selective relaxation of mortgage lending criteria over the past two years, contributed to the improvement in the affordability of housing (see the section and graph on the affordability of housing), which supported the residential property market.

The impact of changes in the mortgage interest rate is reflected in the tables at the back of the report, presenting monthly mortgage repayments for various loan amounts at various interest rates, as well as mortgage loan amounts based on various fixed monthly repayments at various interest rates. These calculations are based on a 20-year repayment term.

### Affordability of housing

The affordability of housing improved further up to late 2010 on the back of slowing house price growth, declining interest rates and rising household income. This is based on trends in the ratios of house prices and mortgage repayments to household disposable income (see graph on the affordability of housing).



In the third quarter of 2010 the ratio of house prices to disposable income declined further to its lowest level since mid-2004, which was the net result of house price growth slowing down to a nominal 5,1% y/y, while nominal disposable income growth of 8,1% y/y was recorded in the quarter.

The ratio of mortgage repayments to household disposable income was in the third quarter of last year at its lowest level since early 2002. This was the net result of the abovementioned trends in nominal house price and household disposable income growth, as well as the mortgage interest rate declining to a level last seen in more than three decades.

A downward/upward trend in the abovementioned two housing affordability ratios implies that house prices and mortgage repayments are rising at a slower/faster pace than household disposable income. The result is that housing has in effect become more/less affordable.

Despite the positive developments in respect of the affordability of housing, many households' financial ability to take advantage of these affordability trends is hampered by high levels of debt and damaged credit records on the back of defaults on debt repayments and the adverse effect of the recent recession. These factors, against the background of the NCA and banks' lending criteria, have a limiting effect on many consumers' ability to take up further credit and increase their level of debt. Property market conditions and the growth in mortgage finance extended to the household sector during the past twelve months are evident of these developments.

## Outlook

### The economy

The South African economy is forecast to expand at a rate of just below 4% in real terms in 2011, largely driven by global economic growth and gradually increasing domestic demand, which will support levels of production, employment and household income.

Consumer price inflation is expected to rise during the course of the year, mainly reflecting trends in the rand exchange rate, international oil prices and food prices. However, the headline consumer price inflation rate is forecast to remain within the inflation target range of 3% - 6%.

Against the background of the abovementioned

economic and inflation expectations, interest rates are projected to remain unchanged in 2011.

### The residential property market

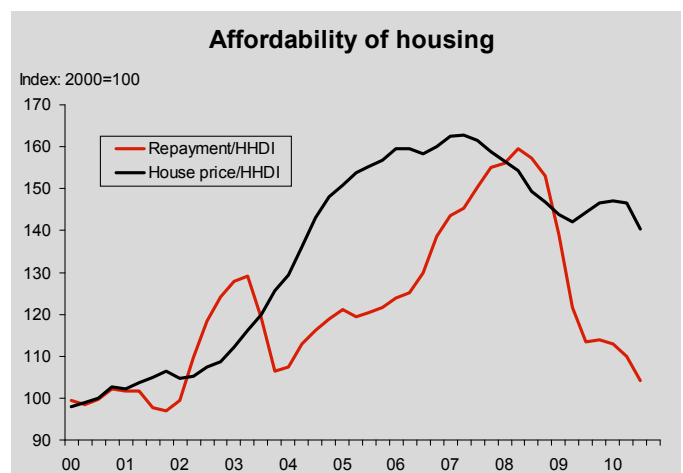
The residential property market is expected to continue to reflect developments on the macroeconomic, the household sector and interest rate front.

Residential building activity contracted further in 2010, reflecting demand and supply conditions in respect of new housing. Against this background a significant improvement in the planning phase of new housing, reflected by building plans approved, and the construction phase, reflected by the completion of new housing, is not expected in the near term.

Taking account of recent trends in house prices, as well as expectations with regard to the economy, nominal price growth of around 1,5% is forecast for 2011. Based on this forecast and a projected average consumer price inflation rate of between 4,5% and 5% this year, house prices are set to decline in real terms in 2011, after rising by 2,4% in 2010.

Year-on-year growth in household mortgage advances, which improved only gradually in 2010 after bottoming in late 2009, will continue to reflect conditions with regard to the economy, household finances, banks' lending criteria, interest rates and the residential property market. As a result, growth in mortgage finance extended to the household sector might gradually rise during the course of the year, but is set to remain in single digits.

Projections of a growing economy, some increase in employment, household disposable income growth, and low interest rates, are factors expected to support the residential property market in 2011.



## Statistics

| Average nominal house prices                                     |              |              |              |              |            |            |            |            |           |         |         |
|--|--------------|--------------|--------------|--------------|------------|------------|------------|------------|-----------|---------|---------|
|  | 2007<br>Rand | 2008<br>Rand | 2009<br>Rand | 2010<br>Rand | 2009       |            | 2010       |            |           |         |         |
|  |              |              |              |              | Q4<br>Rand | Q1<br>Rand | Q2<br>Rand | Q3<br>Rand | Q4        |         |         |
|  |              |              |              |              |            |            |            |            | Rand      | q/q % Δ | y/y % Δ |
| <b>National</b>  |              |              |              |              |            |            |            |            |           |         |         |
| <b>Middle segment (80m<sup>2</sup>-400m<sup>2</sup>, ≤R3,1m)</b> | 930 332      | 967 298      | 964 241      | 1 029 331    | 1 006 751  | 1 040 547  | 1 048 973  | 1 019 265  | 1 008 539 | -1,1    | 0,2     |
| Small (80m <sup>2</sup> -140m <sup>2</sup> , ≤R3,1m)             | 647 432      | 683 910      | 665 743      | 759 153      | 685 787    | 751 865    | 802 606    | 765 226    | 716 915   | -6,3    | 4,5     |
| Medium (141m <sup>2</sup> -220m <sup>2</sup> , ≤R3,1m)           | 906 296      | 948 656      | 923 976      | 966 038      | 934 571    | 966 104    | 972 630    | 960 855    | 964 562   | 0,4     | 3,2     |
| Large (221m <sup>2</sup> -400m <sup>2</sup> , ≤R3,1m)            | 1 319 138    | 1 388 000    | 1 386 832    | 1 434 061    | 1 412 860  | 1 436 669  | 1 449 610  | 1 426 686  | 1 423 278 | -0,2    | 0,7     |
| New (80m <sup>2</sup> -400m <sup>2</sup> , ≤R3,1m)               | 942 732      | 1 080 827    | 1 230 057    | 1 405 424    | 1 282 861  | 1 308 001  | 1 382 247  | 1 433 615  | 1 497 831 | 4,5     | 16,8    |
| Existing (80m <sup>2</sup> -400m <sup>2</sup> , ≤R3,1m)          | 929 655      | 957 102      | 954 746      | 1 019 016    | 998 669    | 1 033 163  | 1 041 571  | 1 009 572  | 991 758   | -1,8    | -0,7    |
| <b>Affordable (40m<sup>2</sup>-79m<sup>2</sup>, ≤R430 000)</b>   | 257 342      | 283 614      | 291 476      | 299 140      | 295 173    | 296 605    | 298 561    | 300 539    | 300 564   | 0,0     | 1,8     |
| <b>Luxury (&gt;R3,1m-R11,5m)</b>                                 | 4 085 474    | 4 428 493    | 4 465 790    | 4 522 871    | 4 486 058  | 4 505 182  | 4 451 677  | 4 530 784  | 4 609 898 | 1,7     | 2,8     |
| <b>Provinces</b>   |              |              |              |              |            |            |            |            |           |         |         |
| <b>Eastern Cape</b>  | 848 327      | 869 267      | 824 318      | 904 898      | 883 318    | 922 088    | 923 729    | 893 601    | 880 514   | -1,5    | -0,3    |
| <b>Free State</b>  | 689 147      | 728 080      | 750 820      | 845 120      | 771 655    | 837 050    | 836 124    | 863 222    | 845 248   | -2,1    | 9,5     |
| <b>Gauteng</b>   | 974 693      | 998 217      | 1 021 444    | 1 076 651    | 1 057 738  | 1 085 796  | 1 083 530  | 1 069 866  | 1 065 874 | -0,4    | 0,8     |
| <b>KwaZulu-Natal</b>   | 882 866      | 850 962      | 854 853      | 917 143      | 904 782    | 952 599    | 977 825    | 909 530    | 837 324   | -7,9    | -7,5    |
| <b>Limpopo</b>   | 828 559      | 837 265      | 830 723      | 882 428      | 865 154    | 916 638    | 917 613    | 867 288    | 828 173   | -4,5    | -4,3    |
| <b>Mpumalanga</b>  | 754 315      | 799 589      | 813 884      | 852 048      | 854 639    | 846 525    | 851 095    | 860 904    | 849 666   | -1,3    | -0,6    |
| <b>North West</b>  | 715 997      | 794 244      | 779 574      | 840 834      | 822 065    | 861 302    | 875 863    | 842 777    | 783 394   | -7,0    | -4,7    |
| <b>Northern Cape</b>   | 621 989      | 669 912      | 702 208      | 784 400      | 708 965    | 753 023    | 787 832    | 780 672    | 816 075   | 4,5     | 15,1    |
| <b>Western Cape</b>  | 1 050 143    | 1 103 002    | 1 096 899    | 1 165 659    | 1 124 396  | 1 162 621  | 1 171 426  | 1 156 643  | 1 173 039 | 1,4     | 4,3     |
| <b>Metropolitan regions</b>                                      |              |              |              |              |            |            |            |            |           |         |         |
| <b>PE/Uitenhage (Eastern Cape)</b>                               | 870 790      | 900 400      | 814 697      | 894 309      | 875 848    | 905 162    | 897 488    | 887 287    | 887 300   | 0,0     | 1,3     |
| <b>East London (Eastern Cape)</b>                                | 888 584      | 998 692      | 1 018 128    | 1 046 446    | 1 041 294  | 1 053 387  | 1 053 672  | 1 042 816  | 1 035 910 | -0,7    | -0,5    |
| <b>Bloemfontein (Free State)</b>                                 | 933 625      | 949 341      | 939 228      | 1 101 961    | 988 286    | 1 063 772  | 1 083 256  | 1 136 598  | 1 124 217 | -1,1    | 13,8    |
| <b>Greater Johannesburg (Gauteng)</b>                            | 1 011 142    | 1 044 462    | 1 074 804    | 1 100 387    | 1 116 446  | 1 130 724  | 1 102 219  | 1 080 178  | 1 086 655 | 0,6     | -2,7    |
| Johannesburg Central & South                                     | 873 408      | 880 503      | 876 661      | 895 469      | 903 349    | 906 996    | 891 345    | 878 702    | 904 833   | 3,0     | 0,2     |
| Johannesburg North & West  | 1 235 861    | 1 277 394    | 1 300 271    | 1 387 272    | 1 360 653  | 1 400 295  | 1 417 633  | 1 384 757  | 1 346 404 | -2,8    | -1,0    |
| East Rand  | 874 269      | 911 286      | 933 350      | 946 347      | 952 247    | 957 918    | 948 132    | 932 565    | 946 774   | 1,5     | -0,6    |
| <b>Pretoria (Gauteng)</b>  | 1 074 791    | 1 064 624    | 1 054 964    | 1 162 142    | 1 085 593  | 1 132 111  | 1 174 791  | 1 173 029  | 1 168 634 | -0,4    | 7,6     |
| <b>Durban/Pinetown (KwaZulu-Natal)</b>                           | 980 912      | 978 591      | 918 071      | 982 984      | 1 004 713  | 1 043 772  | 1 054 547  | 976 252    | 857 365   | -12,2   | -14,7   |
| <b>Cape Town (Western Cape)</b>                                  | 1 071 547    | 1 097 824    | 1 095 262    | 1 185 956    | 1 136 381  | 1 179 837  | 1 186 812  | 1 174 164  | 1 203 013 | 2,5     | 5,9     |
| <b>Coastal regions</b>   |              |              |              |              |            |            |            |            |           |         |         |
| <b>South Africa</b>  | 1 133 569    | 1 193 615    | 1 135 845    | 1 195 787    | 1 176 430  | 1 206 786  | 1 193 662  | 1 189 382  | 1 193 316 | 0,3     | 1,4     |
| <b>Western Cape</b>  | 1 187 506    | 1 233 466    | 1 189 699    | 1 266 717    | 1 235 138  | 1 249 559  | 1 251 425  | 1 261 846  | 1 297 387 | 2,8     | 5,0     |
| West Coast   | 1 114 244    | 1 270 928    | 1 131 883    | 1 246 634    | 1 117 136  | 1 153 004  | 1 203 058  | 1 275 961  | 1 354 512 | 6,2     | 21,2    |
| Cape Peninsula and False Bay                                     | 1 157 185    | 1 208 881    | 1 158 287    | 1 232 780    | 1 222 592  | 1 246 787  | 1 226 226  | 1 226 309  | 1 231 798 | 0,4     | 0,8     |
| South Coast  | 1 324 473    | 1 319 722    | 1 308 214    | 1 370 693    | 1 289 481  | 1 295 396  | 1 317 259  | 1 398 946  | 1 471 172 | 5,2     | 14,1    |
| <b>Eastern Cape</b>  | 993 699      | 1 104 962    | 1 034 066    | 1 084 067    | 1 070 521  | 1 130 590  | 1 115 437  | 1 034 344  | 1 055 896 | 2,1     | -1,4    |
| <b>KwaZulu-Natal</b>   | 1 156 914    | 1 161 621    | 1 105 992    | 1 173 798    | 1 130 751  | 1 149 461  | 1 209 391  | 1 197 793  | 1 138 755 | -4,9    | 0,7     |
| South Coast  | 1 102 895    | 1 062 002    | 910 646      | 1 063 187    | 862 514    | 982 676    | 1 101 390  | 1 127 596  | 1 041 085 | -7,7    | 20,7    |
| North Coast  | 1 203 325    | 1 238 826    | 1 206 304    | 1 247 950    | 1 275 186  | 1 278 024  | 1 258 482  | 1 253 055  | 1 202 240 | -4,1    | -5,7    |

House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank. House prices for the provinces and metropolitan regions are smoothed for all houses between 80m<sup>2</sup> and 400m<sup>2</sup>, up to R3,1 million. House prices for the coastal regions are smoothed for all houses between 80m<sup>2</sup> and 700m<sup>2</sup>, up to R11,5 million.

| Key variables and projections                                  |               |      |      |      |      |      |      |      |      |
|--|---------------|------|------|------|------|------|------|------|------|
| Annual averages  |               |      |      |      |      |      |      |      |      |
|  |               | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| <b>\$/R exchange rate</b>                                      | Rand per US\$ | 6,36 | 6,77 | 7,05 | 8,25 | 8,44 | 7,32 | 7,36 | 7,77 |
| <b>CPI headline inflation rate</b>                             | %             | 3,4  | 4,6  | 7,1  | 11,0 | 7,1  | 4,3  | 4,6  | 5,9  |
| <b>Mortgage interest rate</b>                                  | %             | 10,6 | 11,2 | 13,2 | 15,1 | 11,7 | 9,9  | 9,0  | 10,7 |
| <b>Household disposable income</b>                             | Real % Δ      | 5,9  | 7,3  | 5,3  | 2,2  | -1,4 | 4,6  | 4,8  | 5,0  |
| <b>Final consumption by households</b>                         | Real % Δ      | 6,1  | 8,3  | 5,5  | 2,2  | -2,0 | 4,6  | 4,9  | 5,1  |
| <b>Household saving to disposable income</b>                   | %             | 0,1  | -0,8 | -1,0 | -1,0 | -0,3 | -0,3 | -0,4 | -0,5 |
| <b>Household debt to disposable income</b>                     | %             | 64,3 | 72,8 | 79,9 | 81,9 | 80,9 | 78,4 | 78,6 | 79,3 |
| <b>Household debt servicing to disposable income</b>           | %             | 6,8  | 8,1  | 10,5 | 12,4 | 9,5  | 7,7  | 7,1  | 8,5  |
| <b>Gross domestic product</b>                                  | Real % Δ      | 5,3  | 5,6  | 5,6  | 3,6  | -1,7 | 2,7  | 3,8  | 4,2  |
| <b>House prices (80m<sup>2</sup>-400m<sup>2</sup>, ≤R3,1m)</b> | Nominal % Δ   | 22,7 | 15,3 | 14,6 | 4,0  | -0,3 | 6,8  | 1,5  | 5,8  |
| <b>House prices (80m<sup>2</sup>-400m<sup>2</sup>, ≤R3,1m)</b> | Real % Δ      | 18,7 | 10,2 | 7,0  | -6,2 | -6,9 | 2,4  | -3,0 | -0,1 |

### Average nominal house prices by middle-segment category in the fourth quarter 2010

|  | Small: 80m <sup>2</sup> – 140m <sup>2</sup> |         |         | Medium: 141m <sup>2</sup> – 220m <sup>2</sup> |         |         | Large: 221m <sup>2</sup> – 400m <sup>2</sup> |         |         |
|--|---|---------|---------|---|---------|---------|--|---------|---------|
|  | Price Rand                                  | q/q % Δ | y/y % Δ | Price Rand                                    | q/q % Δ | y/y % Δ | Price Rand                                   | q/q % Δ | y/y % Δ |
| <b>National and provinces</b>          |   |         |         |   |         |         |  |         |         |
| <b>South Africa</b>                    | 716 915                                     | -6,3    | 4,5     | 964 562                                       | 0,4     | 3,2     | 1 423 278                                    | -0,2    | 0,7     |
| <b>Eastern Cape</b>                    | 642 585                                     | 4,2     | 17,6    | 881 294                                       | 1,3     | 5,2     | 1 380 921                                    | -0,8    | 6,0     |
| <b>Free State</b>                      | 581 293                                     | -13,1   | 16,4    | 656 467                                       | -7,0    | 2,0     | 1 160 962                                    | 3,7     | 11,7    |
| <b>Gauteng</b>                         | 710 625                                     | -10,9   | 3,6     | 942 429                                       | -0,6    | 1,6     | 1 458 690                                    | -0,9    | 0,4     |
| <b>KwaZulu-Natal</b>                   | 586 957                                     | -7,5    | -5,4    | 898 346                                       | -0,5    | -1,3    | 1 264 518                                    | -5,6    | -4,7    |
| <b>Mpumalanga</b>                      | 655 888                                     | -3,1    | 9,1     | 845 625                                       | 1,7     | 3,1     | 1 195 250                                    | 5,7     | 1,8     |
| <b>North West</b>                      | 525 527                                     | -18,7   | -4,0    | 750 586                                       | 0,2     | -2,8    | 1 120 893                                    | -0,2    | -3,9    |
| <b>Northern Cape</b>                   | 608 260                                     | 8,1     | 19,7    | 809 706                                       | 6,0     | 22,7    | 957 466                                      | 0,2     | -4,6    |
| <b>Limpopo</b>                         | 571 599                                     | -10,7   | 3,0     | 881 833                                       | -0,7    | 10,9    | 1 298 849                                    | 0,9     | 4,0     |
| <b>Western Cape</b>                    | 912 713                                     | -0,2    | 13,0    | 1 218 805                                     | 3,4     | 9,4     | 1 644 961                                    | 2,0     | -0,7    |
| <b>Metropolitan regions</b>            |   |         |         |   |         |         |  |         |         |
| <b>PE/Uitenhage (Eastern Cape)</b>     | 597 808                                     | 3,4     | 4,9     | 853 589                                       | 11,1    | 4,7     | 1 454 581                                    | 4,8     | 14,0    |
| <b>East London (Eastern Cape)</b>      | 853 754                                     | 6,8     | 39,0    | 1 075 786                                     | -3,4    | 10,9    | 1 325 111                                    | -6,5    | -8,1    |
| <b>Bloemfontein (Free State)</b>       | 707 773                                     | -11,7   | 14,4    | 981 257                                       | 4,2     | 18,3    | 1 363 367                                    | -5,1    | 13,5    |
| <b>Greater Johannesburg (Gauteng)</b>  | 723 594                                     | -10,5   | -3,6    | 976 242                                       | -0,1    | -2,0    | 1 505 841                                    | 0,0     | -0,6    |
| Johannesburg Central & South           | 571 202                                     | -4,4    | 1,3     | 873 063                                       | -0,4    | -3,6    | 1 308 528                                    | -12,2   | -11,6   |
| Johannesburg North & West              | 928 490                                     | -13,7   | 0,8     | 1 147 543                                     | -2,4    | -5,6    | 1 717 148                                    | 0,9     | -1,1    |
| East Rand                              | 687 436                                     | -8,4    | -2,5    | 882 454                                       | 1,6     | 5,3     | 1 331 966                                    | 2,5     | 5,5     |
| <b>Pretoria (Gauteng)</b>              | 807 151                                     | -9,9    | 22,5    | 1 016 716                                     | 0,5     | 10,4    | 1 495 041                                    | -1,3    | 2,6     |
| <b>Durban/Pinetown (KwaZulu-Natal)</b> | 600 838                                     | -15,3   | -15,5   | 894 526                                       | -2,8    | -10,1   | 1 300 776                                    | -12,3   | -9,6    |
| <b>Cape Town (Western Cape)</b>        | 929 381                                     | -1,1    | 11,5    | 1 282 590                                     | 3,2     | 10,1    | 1 710 726                                    | 3,5     | 1,2     |

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m<sup>2</sup> and 400m<sup>2</sup>, up to R3,1 million, in respect of which loan applications were approved by Absa Bank.

### Monthly mortgage repayment (rand, calculated over a period of 20 years)

| Mortgage amount | Repayment at a mortgage rate of |        |        |        |        |        |        |        |        |        |        |        |        |        |
|-----------------|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                 | 9,0%                            | 9,5%   | 10,0%  | 10,5%  | 11,0%  | 11,5%  | 12,0%  | 12,5%  | 13,0%  | 13,5%  | 14,0%  | 14,5%  | 15,0%  | 15,5%  |
| 100 000         | 900                             | 932    | 965    | 998    | 1 032  | 1 066  | 1 101  | 1 136  | 1 172  | 1 207  | 1 244  | 1 280  | 1 317  | 1 354  |
| 200 000         | 1 799                           | 1 864  | 1 930  | 1 997  | 2 064  | 2 133  | 2 202  | 2 272  | 2 343  | 2 415  | 2 487  | 2 560  | 2 634  | 2 708  |
| 300 000         | 2 699                           | 2 796  | 2 895  | 2 995  | 3 097  | 3 199  | 3 303  | 3 408  | 3 515  | 3 622  | 3 731  | 3 840  | 3 950  | 4 062  |
| 400 000         | 3 599                           | 3 729  | 3 860  | 3 994  | 4 129  | 4 266  | 4 404  | 4 545  | 4 686  | 4 829  | 4 974  | 5 120  | 5 267  | 5 416  |
| 500 000         | 4 499                           | 4 661  | 4 825  | 4 992  | 5 161  | 5 332  | 5 505  | 5 681  | 5 858  | 6 037  | 6 218  | 6 400  | 6 584  | 6 769  |
| 600 000         | 5 398                           | 5 593  | 5 790  | 5 990  | 6 193  | 6 399  | 6 607  | 6 817  | 7 029  | 7 244  | 7 461  | 7 680  | 7 901  | 8 123  |
| 700 000         | 6 298                           | 6 525  | 6 755  | 6 989  | 7 225  | 7 465  | 7 708  | 7 953  | 8 201  | 8 452  | 8 705  | 8 960  | 9 218  | 9 477  |
| 800 000         | 7 198                           | 7 457  | 7 720  | 7 987  | 8 258  | 8 531  | 8 809  | 9 089  | 9 373  | 9 659  | 9 948  | 10 240 | 10 534 | 10 831 |
| 900 000         | 8 098                           | 8 389  | 8 685  | 8 985  | 9 290  | 9 598  | 9 910  | 10 225 | 10 544 | 10 866 | 11 192 | 11 520 | 11 851 | 12 185 |
| 1 000 000       | 8 997                           | 9 321  | 9 650  | 9 984  | 10 322 | 10 664 | 11 011 | 11 361 | 11 716 | 12 074 | 12 435 | 12 800 | 13 168 | 13 539 |
| 1 500 000       | 13 496                          | 13 982 | 14 475 | 14 976 | 15 483 | 15 996 | 16 516 | 17 042 | 17 574 | 18 111 | 18 653 | 19 200 | 19 752 | 20 308 |
| 2 000 000       | 17 995                          | 18 643 | 19 300 | 19 968 | 20 644 | 21 329 | 22 022 | 22 723 | 23 432 | 24 147 | 24 870 | 25 600 | 26 336 | 27 078 |
| 2 500 000       | 22 493                          | 23 303 | 24 126 | 24 959 | 25 805 | 26 661 | 27 527 | 28 404 | 29 289 | 30 184 | 31 088 | 32 000 | 32 920 | 33 847 |

### Mortgage amount at fixed monthly repayment (rand, calculated over a period of 20 years)

| Mortgage repayment | Mortgage amount at a mortgage rate of |           |           |           |           |           |           |           |           |           |           |           |           |           |
|--------------------|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                    | 9,0%                                  | 9,5%      | 10,0%     | 10,5%     | 11,0%     | 11,5%     | 12,0%     | 12,5%     | 13,0%     | 13,5%     | 14,0%     | 14,5%     | 15,0%     | 15,5%     |
| 1 000              | 111 145                               | 107 281   | 103 625   | 100 162   | 96 882    | 93 771    | 90 819    | 88 017    | 85 355    | 82 824    | 80 417    | 78 125    | 75 942    | 73 862    |
| 2 000              | 222 290                               | 214 562   | 207 249   | 200 325   | 193 763   | 187 542   | 181 639   | 176 035   | 170 710   | 165 649   | 160 834   | 156 250   | 151 885   | 147 724   |
| 3 000              | 333 435                               | 321 843   | 310 874   | 300 487   | 290 645   | 281 313   | 272 458   | 264 052   | 256 065   | 248 473   | 241 250   | 234 375   | 227 827   | 221 585   |
| 4 000              | 444 580                               | 429 124   | 414 498   | 400 649   | 387 526   | 375 083   | 363 278   | 352 069   | 341 421   | 331 297   | 321 667   | 312 501   | 303 769   | 295 447   |
| 5 000              | 555 725                               | 536 405   | 518 123   | 500 811   | 484 408   | 468 854   | 454 097   | 440 086   | 426 776   | 414 122   | 402 084   | 390 626   | 379 711   | 369 309   |
| 6 000              | 666 870                               | 643 686   | 621 748   | 600 974   | 581 289   | 562 625   | 544 916   | 528 104   | 512 131   | 496 946   | 482 501   | 468 751   | 455 654   | 443 171   |
| 7 000              | 778 015                               | 750 967   | 725 372   | 701 136   | 678 171   | 656 396   | 635 736   | 616 121   | 597 486   | 579 770   | 562 918   | 546 876   | 531 596   | 517 032   |
| 8 000              | 889 160                               | 858 248   | 828 997   | 801 298   | 775 052   | 750 167   | 726 555   | 704 138   | 682 841   | 662 595   | 643 335   | 625 001   | 607 538   | 590 894   |
| 9 000              | 1 000 305                             | 965 529   | 932 622   | 901 460   | 871 934   | 843 938   | 817 375   | 792 156   | 768 196   | 745 419   | 723 751   | 703 126   | 683 480   | 664 756   |
| 10 000             | 1 111 450                             | 1 072 810 | 1 036 246 | 1 001 623 | 968 815   | 937 708   | 908 194   | 880 173   | 853 551   | 828 243   | 804 168   | 781 251   | 759 423   | 738 618   |
| 15 000             | 1 667 174                             | 1 609 216 | 1 554 369 | 1 502 434 | 1 453 223 | 1 406 563 | 1 362 291 | 1 320 259 | 1 280 327 | 1 242 365 | 1 206 252 | 1 171 877 | 1 139 134 | 1 107 926 |
| 20 000             | 2 222 899                             | 2 145 621 | 2 072 492 | 2 003 245 | 1 937 631 | 1 875 417 | 1 816 388 | 1 760 346 | 1 707 103 | 1 656 487 | 1 608 337 | 1 562 503 | 1 518 846 | 1 477 235 |
| 25 000             | 2 778 624                             | 2 682 026 | 2 590 615 | 2 504 057 | 2 422 038 | 2 344 271 | 2 270 485 | 2 200 432 | 2 133 878 | 2 070 608 | 2 010 421 | 1 953 128 | 1 898 557 | 1 846 544 |