Residential Property Perspective

Second Quarter 2006

Contents

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This publication is also available on the Internet at http://www.finforum.co.za/absa

Date of completion: 20 April 2006

In a nutshell

Focus article: Residential living trends in South Africa

- Over the years, but especially during the past six years of a booming residential property market in South Africa, various economic, social, cyclical and structural factors have had an impact on the housing market. As a result, residential living trends have, to a large extent, changed in the country.
- Factors believed to have influenced living trends in South Africa over the years, include: economic conditions; fiscal policy; demographic trends; the availability of land for residential development; the country's transport infrastructure; the affordability of housing; lifestyle changes; and access to housing finance.
- Living trends with regard to the type of housing have shifted in favour of lifestyle estates, such as golf estates and retirement villages. Higher-density security complexes have also become the norm, especially in the highly urbanised metro areas throughout the country. In recent times, inner-city residential living has also picked up momentum.
- These developments have led to ever declining stand sizes for new housing over the years. The average building area of new homes has also declined since 2004.
- This was most probably the result of housing becoming relatively expensive in recent years, impacting adversely on the affordability of housing for many first-time and lower- and middle-income households.

Recent house price trends

- Nominal house price growth of 14,5% year-on-year was recorded in the middle segment of the market in the first quarter of 2006. This was the lowest nominal growth in any quarter since the first quarter of 2002, when a growth rate of 13,7% was posted. In real terms, house price growth came to 10,6% year-on-year in the first quarter of the year. In both nominal and real terms the year-on-year growth in house prices in this market segment was down on that of the fourth quarter of 2005, when it was respectively 16,3% and 12,2%.
- House prices in the affordable category increased by only 3,9% year-on-year in the first quarter of 2006. This represents price growth of 0,4% year-on-year in real terms.
- In the luxury segment of the market, house prices declined by a nominal 2,4% year-on-year in the first quarter of 2006. This was the second consecutive quarter of declining house prices in the luxury category. In real terms, house prices in this segment of the market declined by 5,8% y/y in the first quarter of the year.

Outlook

- Lower nominal growth in house prices of around 12% is projected for this year compared with an increase of 22,1% recorded in 2005.
- In 2006 house price growth will mainly be driven by the combined effect of the affordability of housing, especially for first-time and low- to middle-income buyers, significantly lower transfer duty on property since 1 March 2006, and interest rates, which are expected to remain stable or move only slightly higher over the next twelve months.

Focus article:
Residential living trends in South Africa

Introduction

Over the past few years, especially since 2000, the South African residential property market has experienced strong growth. During this period, house prices increased by about 20% per annum in nominal terms and around 14% in real terms.

This was the result of a wide range of factors impacting positively on the housing market, including low inflation and interest rates, and high growth in real household disposable income.

These and other supporting factors benefited not only prospective and existing home-owners – hordes of first-time and existing property investors, as well as speculators, also focused on the property market in an attempt to benefit from the strong growth in and good prospects for the sector. The demand for housing from a rapidly growing middle class also contributed to higher levels of investment in middle-class housing in formal residential areas.

Many home-owners opted to renovate, alter and expand their existing homes. Others sold their homes and upgraded to more upmarket, new and modern areas and properties. The residential market boomed and some property owners used the opportunity to sell their existing large houses and buy new, smaller properties in a more secure environment. Some people moved to exclusive lifestyle estates, wanting to enjoy low-density living, perceived better security, and a quiet, relaxing environment. In the process people might have completely changed their residential lifestyle.

Despite the positive economic and property market conditions over the past few years, many young people entering the formal labour market could still not afford to or did not wish to buy their own houses. These people opted to rent – and probably found it more affordable and less risky than buying, depending on their personal circumstances.

Rental yields have dropped because of the huge supply of buy-to-let properties coming onto the market as a result of the strong investment focus on this type of property. Buy-to-let properties are normally one-, two- or three-bedroom flats in security complex developments.

Against the background of these developments and changed supply and demand conditions for residential property in the country, residential living trends have changed.

This article focuses on these changes, first discussing the most important factors that directly or indirectly drive residential living trends in South Africa and then analysing the impact of these factors on living trends in the country.

The factors influencing residential living trends

During the past six years, various economic, social, cyclical and structural factors have impacted the residential property market in South Africa. Many of these not only had an effect on the performance of the country's housing market, but also influenced the structure and composition of housing, and thus living trends, in the local market.

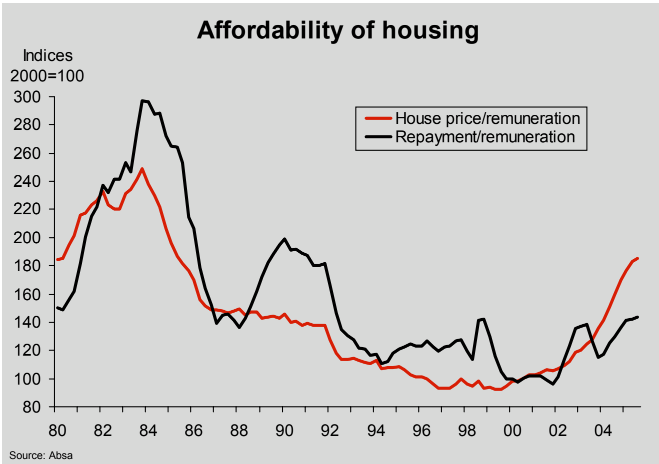
Factors which influence or have the potential to ultimately impact on residential living trends include the following:

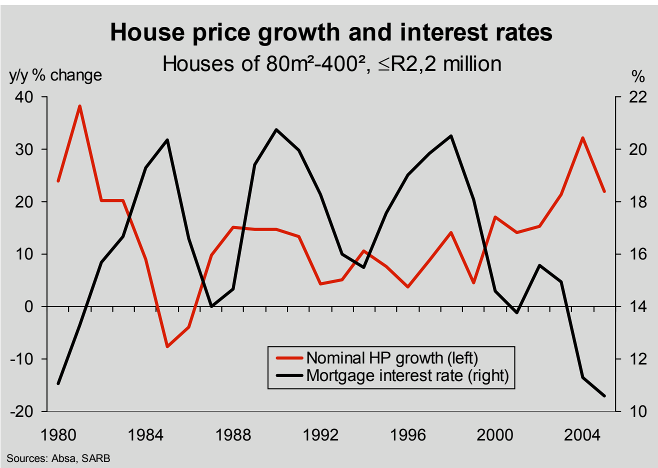
- ***Economic conditions**:* The country recorded an improved economic performance during 2000 to 2005, with growth in real gross domestic product (GDP) averaging 3,8% per annum over this period. Inflation declined to its lowest level since the 1960s, resulting in interest rates dropping to levels not seen during the past 25 years. Growth in real household disposable income averaged 4,4% per annum in 2000 to 2005. This was the strongest growth ever recorded in household income for a period of this duration.
- ***Fiscal policy**:* Personal tax relief totalling R57,7 billion was granted between 2000 and 2006, and a further R12,1 billion in personal tax relief was announced for the 2006/07 fiscal year in the Budget in February. Transfer duty on property has been cut for five consecutive years since 2002/03. These fiscal policy related measures, especially the cuts in transfer duty, were largely focused on the lower- and middle-income groups in the country. These measures represented an effort from government to make housing more affordable.
- ***Demography**:* The abovementioned economic and fiscal policy factors, as well as a rapidly growing middle class with a strong culture of home-ownership, caused the demand for housing from people in this category to increase sharply. A bigger focus on property investment, as a result of the strong demand for middle-class housing from this segment of the population, as well as the fact that especially the equity market underperformed during most of 1998 to 2003, contributed to an overall higher demand for residential property. Furthermore, the number of households has increased over the years, which also contributed to the higher demand for housing. Another demographic factor affecting housing and living trends is the tendency for people to live longer than they did many years back, while the life expectancy of people who have a low risk exposure to HIV/Aids has also increased. This resulted in a bigger demand for accommodation in old-age homes and retirement villages. Against the background of these demographic developments, the supply of housing struggled to keep up with demand, contributing to higher property prices.

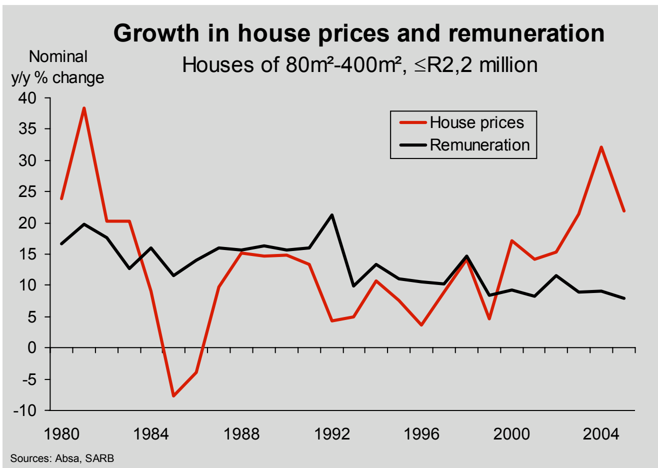
- ***Availability of land for residential development****:* Specifically rapidly growing urban areas in the country are experiencing increasing shortages of suitable and properly serviced land for residential purposes. This caused a sharp rise in land prices over the past few years.
- ***Transport infrastructure****:* A strongly growing economy, which includes record sales of new vehicles in recent times, increased the already immense pressure on the country's transport infrastructure. The road infrastructure, especially in urban areas, struggles to cope with higher volumes of traffic, resulting in a more rapid deterioration of this infrastructure. Public transport systems are not up to standard, nor geared to effectively transport increasing numbers of commuters daily. These factors have resulted in a rapid rise in travelling times, and a stronger demand for residential properties close to business nodes.
- ***Affordability of housing****:* In view of favourable economic conditions and a strong demand for residential property in South Africa, house prices increased sharply in 2000 to 2005, whereas growth in income levels lagged behind. The result was that the house price-to-remuneration ratio increased rapidly during this period. Last year, it reached its highest level since 1985. The ratio of the mortgage repayment on a house to remuneration (influenced by house prices, interest rates and remuneration), has been on an upward trend since early 2002. The increase in these two variables over the past few years implies that house prices and mortgage repayments have both increased at a faster rate than remuneration. Housing has, in effect, become less affordable, especially for first-time, and lower- and middle-income buyers.
- ***Lifestyle changes****:* Hectic urban lifestyles, traffic congestion and technological progress are prompting more people to work from home. Also, an increasing number of people opt to live in various types of more relaxed, tranquil, less cramped and perceived to be more secure estates. However, changing urban conditions have also forced many people to live in higher-density residential developments close to places of work and amenities such as shopping centres, schools and access routes.
- ***Access to finance****:* The major developments on these fronts have caused a surge in the demand for housing finance. Because of the tough competition between the major banks for mortgage loan business, these institutions launched various innovative products and marketing campaigns in an attempt to keep existing customers and attract new ones, many of whom did not previously have access to finance. As a result, many home-owners have been able to negotiate a home loan at a lower interest rate than the variable mortgage rate during the past number of years. These developments have made a mortgage one of the most flexible banking products and also one of the cheapest forms of credit in recent times, making it much easier for people to afford housing in formal residential areas, thus changing residential living trends.

The impact of the factors driving residential living trends

These factors and developments have brought about many changes in the residential property market, of







which the changes in residential living trends are probably the most visible.

- ***Lifestyle residential developments**:* Certainly one of the most obvious changes in residential living trends in South Africa in recent years is that a large number of people have opted to live in residential developments and estates where they can enjoy a lifestyle that would not have been possible under normal conditions. However, local authorities increasingly require that residential developments, in some instances also lifestyle estates, make provision for both low-cost and upmarket housing.

  Many lifestyle developments follow a mixed-use approach and may include amenities such as a golf course, equestrian, polo and other sporting facilities, boutique retail shops, schools and churches. Strict access control and high levels of security are normally a major feature of this type of development. These are also important reasons for people wanting to live in such enclosed communities.

  As these residential developments normally require large areas of vacant land, they are usually on the outskirts of cities and towns. Aspects such as wide open spaces, exclusivity, tranquillity, quietness and low-density living are important to the residents. Being near their place of work and factors such as traffic congestion and time spent on the road seem to be of lesser importance to people living in these estates.

  Golf estates, in particular, have become extremely popular in South Africa in recent years. It is estimated that there are currently at least 45 completed golf estates in the country, consisting of around 20 000 stands in total. A further 30 golf estates are in various stages of construction and around 32 are proposed and awaiting final approval.

  The mushrooming of golf estate developments over the past few years has prompted increasing concern from environmental and conservation groups, as well as the government, as to whether these estates are sustainable. The impact of these developments on biodiversity is widely questioned by these groups. As a result, the final approval of many proposed new golf estates, many of which are near sensitive coastal areas and nature reserves, especially in the Western Cape, currently hangs in the balance.

  If these and other lifestyle estate developments are not eventually approved by the government, estate living in South Africa will become even more exclusive, which will push up property prices in these areas even more.

  Another type of residential living that is becoming increasingly popular, especially in the Western Cape, is wine estate developments. People can buy residential property on these estates and be involved in active wine production, becoming part of an operating wine farm. A good example of such a development is the recent selling of parts of the historical Boschendal wine estate near Stellenbosch to private investors.

- ***Security villages and complexes**:* This type of residential development took off quite a few years ago when security in especially the major urban areas became a bigger concern. Residential properties in these villages and complexes are single-stand houses, townhouses, duet houses, or low-rise blocks of flats. However, these properties do not normally provide the space in terms of land area and building area, nor the amenities be found on golf and other lifestyle estates. The requirement by local authorities in recent times is that many of these residential developments have to cater for both low-cost and upmarket housing.

  Higher-density living is the norm in security villages and complexes, but living conditions in these differ from those prevailing in the high-rise blocks of flats prevalent many years ago. These are still to be found in the major urban areas of the country.

  Although the older, high-rise residential apartments in the cities still attract residents, they are mostly occupied by lower income earners, and very seldom have communal leisure amenities such as a swimming pool, squash or tennis courts.

  However, in recent times, high-rise luxury apartments in upmarket areas such as Sandton, Johannesburg, have been developed, mainly because people want to live near their place of work and major shopping centres to avoid traffic congestion, but still want to live in an upmarket area. High-rise luxury residential apartments have also become a trend in popular holiday destinations such as the Strand on the False Bay coast in the Western Cape, and Umhlanga Rocks on the KwaZulu-Natal north coast.

  The constant demand for more housing, especially in urban areas, is causing an increasing shortage of suitable and properly serviced land for residential development in these areas. The result is that new developments in urban areas are normally in the form of higher-density security complexes.

  The prevailing housing supply and demand conditions are also reflected in the prices of vacant residential land and of existing and new houses, townhouses and flats.

  The deteriorating situation regarding available land for residential development has caused property developers to start looking at older neighbourhoods close to schools and central business areas for redevelopment into security complexes. The land area of many properties in the older suburbs varies between 4 000 m² and 6 000 m², giving a developer the opportunity to erect six to eight single-stand houses, or one or two low-rise blocks of flats consisting of around 48 units.

Because of the strong demand for housing in recent years, which led to an increasing scarcity of development land, vacant areas of land that were not regarded as prime sites in the past are being developed. This is specifically the case in many of the established and popular urban areas. These areas of land are sometimes relatively small and situated near busy roads, intersections and retail outlets. The result may be that the units erected on these sites are small double-storey units providing very little outdoor or private living space.

Taking into account that residential property has become relatively expensive in recent years, security complexes are popular among younger people who do not earn a large income. As their financial position improves, they normally sell these properties to people entering the property market for the first time, or keep them as an investment, renting them out to earn an extra income.

However, people wanting to make extra provision for retirement, have also invested in buy-to-rent properties in these complexes and developments in recent times.

- ***Inner-city residential developments****:* The rejuvenation of inner-city areas picked up momentum some time ago in places such as the Cape Town city bowl (largely driven by the highly successful Victoria & Alfred Waterfront development) and the Durban central business district (only about 5 kilometres away from the Durban Point development).

Formal residential developments in these two cities have already benefited from these higher levels of activity. The refurbishment and development of flats in the Cape Town inner-city area has increased, with around 3 500 units expected to come onto the market by the end of 2006. In Durban about 2 500 upmarket residential units are expected to come on stream as a result of the Durban Point development. However, these inner-city apartments are usually not affordable to the lower end of the market.

Johannesburg, although lagging these two cities, has also seen increased activity in terms of restaurants, leisure activities and residential developments, especially in the region of Newtown on the western side of the city.

In Pretoria, the demand for inner-city residential accommodation, such as flats, has also increased in recent years, largely because of the growing number of students at the universities and colleges. This is a phenomenon is not restricted to Pretoria, but also impacts on the demand for residential accommodation in other cities and towns with universities and colleges.

These developments are all providing scope for rapid growth in the demand for refurbished and new residential property in inner-city areas. As demand for these properties increases because traffic congestion encourages people to live near their place of work or study, while supply is limited, prices will increase significantly in future.

Inner-city residential properties coming onto the market in future will consist of existing blocks of flats, renovated and upgraded, existing office blocks converted into residential apartments and new blocks of flats erected on sites where old and dilapidated buildings have been demolished.

A new development regarding inner-city residential living is the introduction of "residential" or "condominium" hotels. This concept, which will include facilities such as gymnasiums and restaurants, will be introduced to the Johannesburg inner city later this year. It allows individual investors to place their five star apartments in a short-term rental pool or put them up for a long-term contract.

According to Urban Hip Hotels, which will be launching and managing the concept, the combination of short-term hotel occupancy and long-stay rentals has the potential of a significantly better return than a typical long-term contract for a luxury apartment in a residential complex. Having people living in these hotels on a permanent basis will serve as a catalyst for other property developments, especially in the commercial segment.

The business sector in inner-city areas, especially retail outlets, restaurants, night clubs, bars and other leisure facilities, will also be revived and further developed once residential living, specifically on the part of middle- and higher-income households, increases in these areas. Demand for office space in the inner-city areas will also increase as a result of these developments, impacting on vacancy and rental rates.

However, the ultimate success of these developments, both residential and commercial, will depend heavily on the eradication and prevention of crime and grime, as well as the sustainable future delivery of proper municipal services and infrastructure such as electricity, water, sewage and refuse removal. An adequate, well run public transport system will also promote the success and further expansion of inner-city residential developments.

- ***Coastal and rural properties****:* The residential property market in the rural areas of the country displayed different trends from town to town. In some cases a decline in industrial and mining activities in areas such as the Vaal Triangle and the Free State gold fields had a negative impact on the housing market. Pressure on the agricultural sector has also served to push many people to urban areas, having an adverse impact on property market conditions in rural areas.

However, some rural housing markets have put up a good performance in recent years. Higher levels of mining activity in e.g. the North West province caused the property market in Rustenburg to post strong growth, while other “niche towns” attracted many retirees and artists. A factor such as the security on farms might also have played a supporting role in recent years.

Towns in rural areas which are relatively near the major metro areas, as well as coastal property, have also become increasingly popular with people feeling the need to get away from busy urban lifestyle over weekends and during holidays. An increasing number of people have also opted to retire in coastal regions in an attempt to have a more relaxed and quiet lifestyle compared with that of a busy and crowded city environment.

Against the background of the more limited supply of residential properties in these areas compared with urban areas, prices have increased sharply along the coast and in rural towns as a result of the higher demand. In the coastal provinces of the Western Cape, Eastern Cape and KwaZulu-Natal, demand and supply conditions for coastal property have, in some cases, pushed prices in all segments of the market to not far below, or even higher than the level of prices in metropolitan areas.

- ***Single-stand residential properties**:* This type of residential property was the norm in South Africa for many years. Although the trend in respect of residential living, especially in the urban areas, has shifted towards security villages and complexes for various reasons, single-stand properties are still popular with people having young children, for example.

  Upmarket lifestyle estates and complexes also favour this type of accommodation, but normally all houses in these developments have to conform to a uniform style, such as Tuscan, Balinese or Victorian.

- ***Retirement villages**:* Although relatively expensive, the popularity of this type of accommodation among older and retired people has increased significantly over the years compared with the traditional old-age home. The fact that people tend to live longer now than years ago has increased the demand for suitable accommodation from retirees. Old-age homes are no longer able to cope with the higher demand for accommodation.

  The lifestyle in retirement villages is relaxed, secure, and quiet, with people living privately in comfortable, specially-equipped, lock-up-and-go, and easily manageable units. This gives retirees the opportunity to remain independent in their own household. Moreover, on-site medical services are often provided in these developments, giving people peace of mind regarding their future health care needs. In most cases, daily meals are also available to residents at a subsidised price.

  Retirement villages also give people the opportunity to mix and interact more easily with people in the same age group.

  Most retirement villages allow people to acquire property in these developments at the age of 50. Many people do not live there themselves at that age, but rent the property out to other retired people. The main reason for this is that the prices of these developments continue to increase, leading to strong capital appreciation and providing investors with an income. It also gives them the opportunity to move into their unit when they themselves retire or if they have, for various reasons, the need to occupy the unit at any stage.

- ***Building statistics for new residential buildings**:* The building statistics for new residential buildings regularly published by Statistics South Africa are a source of information for determining how residential living trends in the country have changed over time (see tables below).

  From these statistics, it is evident that the planning phase (reflected by data for plans passed by local government institutions) and the construction phase (reflected by data for buildings completed) saw various cyclical movements over the past ten years.

  - *New houses of less than 80 m²:* Building statistics for affordable residential property at the lower end of the market showed a very erratic trend over the past number of years that does not correlate well with the broad macroeconomic trends. This may be the result of various factors impacting on the delivery and financing of housing in this segment of the market, such as expensive development land, the high cost of and delays in rezoning land for high-density, middle-class residential developments, which have contributed to a sharp increase in holding costs. In addition to these factors, building cost increases have been well above the inflation rate, resulting from shortages in certain building materials and skilled labour. The combined effect of these factors has put profit margins under pressure in this segment of the property market.

    These developments contributed to the number and the total square metres of building plans passed for this type of housing declining sharply in the past, which had a lagged effect on the construction of housing in this segment. The number of these houses built dropped by 28,3% to 27 397 in 2005 compared with 2004. This was mainly the result of a decline in plans passed for this type of house in 2003 and 2004.

According to Statistics South Africa, 353 553 new houses were constructed in this category between 1994 and 2005.

- *New houses of ≥80 m²:* In this category, the total number of houses built declined by as much as 18,3% to 10 643 units in 1999 after the high interest rates of 1998. With the property market starting to pick up in 2000 and growing strongly up to 2005, the number of new houses built in this segment of the market increased to 23 136 units in 2005 (31% of a total number of 74 549 residential units built in 2005), which was about 117% more than the 10 643 units built in 1999. In total, 93 142 new houses in this category were built between 2000 and 2005.

  The growth in the number of and total square metres for plans passed for this category of houses was significantly lower in 2005 compared with 2004, which implies that the growth in construction of these houses will probably be lower in 2006. This is in line with a residential market that has been cooling off since late 2004.
- *New flats and townhouses:* The total number of these properties built showed a sharp declining trend between 1997 and 2001 on the back of rising interest rates from 1997 to 1998. By 2001, the number of units built, at 7 093, was down by as much as 61,4% compared with 1996, when 18 354 units were built.

  This segment of the residential property market performed well over the past four years on the back of a wide range of supporting factors. The number of units built increased to 24 016 in 2005. This was 64,3% up on 2004 and a massive 238,6% up on the 7 093 units built in 2001. In 2005, a total of 880 more flat and townhouse units were built than houses of 80 m² and above – the first time since 1997 that this was the case.

  However, because of the smaller average size of flats and townhouses (see table below) compared with houses of 80 m² and above, the total area of new flats and townhouse built was 3,1 million m² in 2005 (up 53,7% on 2004) compared with 5 million m² (up 28% on 2004) in the case of the abovementioned houses.

  Although the growth rate of above 40% in 2004 in both the number of and total square metres for

Residential buildings completed

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number										
New houses of <80m²	11 971	39 687	36 988	47 670	37 860	27 287	36 353	29 555	38 200	27 397
% of total	*25,5*	*58,4*	*59,7*	*71,5*	*67,5*	*59,3*	*59,3*	*52,1*	*54,0*	*36,8*
% change	*18,3*	*231,5*	*-6,8*	*28,9*	*-20,6*	*-27,9*	*33,2*	*-18,7*	*29,3*	*-28,3*
New houses of ≥80m²	16 580	13 198	13 034	10 643	10 734	11 653	14 459	15 296	17 864	23 136
% of total	*35,3*	*19,4*	*21,0*	*16,0*	*19,1*	*25,3*	*23,6*	*27,0*	*25,3*	*31,0*
% change	*3,6*	*-20,4*	*-1,2*	*-18,3*	*0,9*	*8,6*	*24,1*	*5,8*	*16,8*	*29,5*
New flats and townhouses	18 354	15 060	11 907	8 402	7 527	7 093	10 473	11 862	14 618	24 016
% of total	*39,1*	*22,2*	*19,2*	*12,6*	*13,4*	*15,4*	*17,1*	*20,9*	*20,7*	*32,2*
% change	*5,4*	*-17,9*	*-20,9*	*-29,4*	*-10,4*	*-5,8*	*47,7*	*13,3*	*23,2*	*64,3*
Total	**46 905**	**67 945**	**61 929**	**66 715**	**56 121**	**46 033**	**61 285**	**56 713**	**70 682**	**74 549**
% change	***7,7***	***44,9***	***-8,9***	***7,7***	***-15,9***	***-18,0***	***33,1***	***-7,5***	***24,6***	***5,5***
Square metres										
New houses of <80m²	667 196	1 583 216	1 448 724	1 684 685	1 411 988	1 084 435	1 417 214	1 131 718	1 480 215	1 122 897
% of total	*12,4*	*29,7*	*28,6*	*36,2*	*32,9*	*25,3*	*24,8*	*19,1*	*19,8*	*12,1*
% change	*19,2*	*137,3*	*-8,5*	*16,3*	*-16,2*	*-23,2*	*30,7*	*-20,1*	*30,8*	*-24,1*
New houses of ≥80m²	2 895 395	2 360 741	2 473 960	2 095 979	2 122 119	2 399 334	3 081 257	3 344 622	3 940 331	5 045 427
% of total	*54,0*	*44,3*	*48,8*	*45,0*	*49,5*	*55,9*	*53,9*	*56,5*	*52,8*	*54,2*
% change	*4,6*	*-18,5*	*4,8*	*-15,3*	*1,2*	*13,1*	*28,4*	*8,5*	*17,8*	*28,0*
New flats and townhouses	1 803 073	1 389 917	1 149 657	878 728	753 732	804 997	1 218 020	1 448 249	2 044 285	3 142 499
% of total	*33,6*	*26,1*	*22,7*	*18,9*	*17,6*	*18,8*	*21,3*	*24,4*	*27,4*	*33,8*
% change	*7,2*	*-22,9*	*-17,3*	*-23,6*	*-14,2*	*6,8*	*51,3*	*18,9*	*41,2*	*53,7*
Total	**5 365 664**	**5 333 874**	**5 072 341**	**4 659 392**	**4 287 839**	**4 288 766**	**5 716 491**	**5 924 589**	**7 464 831**	**9 310 823**
% change	***7,1***	***-0,6***	***-4,9***	***-8,1***	***-8,0***	***0,0***	***33,3***	***3,6***	***26,0***	***24,7***
Alterations and additions to existing houses	1 440 242	1 416 741	1 243 919	1 456 109	1 378 552	1 431 749	1 533 155	1 460 323	1 512 008	1 737 694
% change	*2,2*	*-1,6*	*-12,2*	*17,1*	*-5,3*	*3,9*	*7,1*	*-4,8*	*3,5*	*14,9*

Source: Statistics South Africa

building plans passed for new flats and townhouses tapered off somewhat to around 34% in 2005, prospects are looking bright for the construction phase of these properties over the next 12 to 24 months.

- *Alterations and additions to existing houses*: The total area of completed alterations and additions to existing houses was 1,7 million m² in 2005, up 14,9% on the 2004 total and 39,7% higher than the 1,2 million m² completed in 1998. The favourable economic conditions of the past few years also had a positive influence on these activities in the housing market.

  Many home-owners could well have sold their properties for a lot more in recent times compared with what they paid many years back, but quite a number of them could not afford to replace their current home at the market price, taking into account the facilities, size, and location of their current property, as well as transaction and moving costs. Against this background, many home-owners decided rather to renovate and expand their existing homes.

  The total square metres for which building plans were passed for alterations and additions to existing houses increased by 27,1% in 2005 compared with 24,3% in 2004, taking the total to 5,5 million m² last year.

  Against this background, construction activity regarding this segment of the housing market may be expected to remain strong in 2006, but the ratio of the total square metres of alterations and additions completed to plans passed over the past few years tells a different story. The ratio dropped to a low of only 31,6% in 2005 after being on a declining trend since 2002, which may be ascribed to the fact that building cost increases were well above inflation over this period in view of a booming property market.

  After taking into account the cost of alterations and additions, many home-owners probably decided to cancel their plans to renovate or expand and keep their properties as is. Others may have decided to rather sell and move to another house, either existing or new.

- ***Size trends regarding new residential buildings****:* The

Building plans passed for residential buildings

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number										
New houses of <80m²	20 290	42 981	49 063	54 934	49 816	36 800	46 401	42 424	36 559	38 905
% of total	*29,6*	*50,8*	*59,1*	*68,6*	*61,0*	*52,6*	*54,2*	*50,5*	*39,4*	*36,3*
% change	*27,3*	*111,8*	*14,2*	*12,0*	*-9,3*	*-26,1*	*26,1*	*-8,6*	*-13,8*	*6,4*
New houses of ≥80m²	23 610	22 281	19 966	16 709	20 782	21 175	24 393	24 645	32 152	36 086
% of total	*34,4*	*26,3*	*24,1*	*20,9*	*25,5*	*30,3*	*28,5*	*29,4*	*34,7*	*33,7*
% change	*-6,6*	*-5,6*	*-10,4*	*-16,3*	*24,4*	*1,9*	*15,2*	*1,0*	*30,5*	*12,2*
New flats and townhouses	24 639	19 385	13 925	8 494	11 059	12 006	14 746	16 896	24 038	32 213
% of total	*35,9*	*22,9*	*16,8*	*10,6*	*13,5*	*17,2*	*17,2*	*20,1*	*25,9*	*30,0*
% change	*-13,9*	*-21,3*	*-28,2*	*-39,0*	*30,2*	*8,6*	*22,8*	*14,6*	*42,3*	*34,0*
Total	**68 539**	**84 647**	**82 954**	**80 137**	**81 657**	**69 981**	**85 540**	**83 965**	**92 749**	**107 204**
% change	***-1,8***	***23,5***	***-2,0***	***-3,4***	***1,9***	***-14,3***	***22,2***	***-1,8***	***10,5***	***15,6***
Square metres										
New houses of <80m²	1 103 828	1 775 368	2 006 117	2 010 530	1 951 843	1 461 590	1 771 097	1 666 531	1 529 730	1 710 247
% of total	*14,3*	*23,3*	*27,9*	*32,5*	*26,1*	*19,6*	*19,5*	*16,6*	*12,1*	*11,5*
% change	*25,8*	*60,8*	*13,0*	*0,2*	*-2,9*	*-25,1*	*21,2*	*-5,9*	*-8,2*	*11,8*
New houses of ≥80m²	4 282 469	3 966 420	3 778 790	3 326 354	4 299 007	4 589 374	5 509 129	5 840 174	7 548 704	8 456 246
% of total	*55,3*	*52,0*	*52,6*	*53,7*	*57,5*	*61,6*	*60,7*	*58,3*	*59,9*	*56,8*
% change	*-7,9*	*-7,4*	*-4,7*	*-12,0*	*29,2*	*6,8*	*20,0*	*6,0*	*29,3*	*12,0*
New flats and townhouses	2 358 361	1 892 176	1 404 611	853 546	1 220 680	1 402 078	1 793 234	2 514 504	3 525 710	4 719 053
% of total	*30,5*	*24,8*	*19,5*	*13,8*	*16,3*	*18,8*	*19,8*	*25,1*	*28,0*	*31,7*
% change	*-19,4*	*-19,8*	*-25,8*	*-39,2*	*43,0*	*14,9*	*27,9*	*40,2*	*40,2*	*33,8*
Total	**7 744 658**	**7 633 964**	**7 189 518**	**6 190 430**	**7 471 530**	**7 453 042**	**9 073 460**	**10 021 209**	**12 604 144**	**14 885 546**
% change	***-8,4***	***-1,4***	***-5,8***	***-13,9***	***20,7***	***-0,2***	***21,7***	***10,4***	***25,8***	***18,1***
Alterations and additions to existing houses	2 852 087	2 685 925	2 636 605	2 753 611	3 051 421	2 973 871	3 275 538	3 475 917	4 320 487	5 491 571
% change	*-0,6*	*-5,8*	*-1,8*	*4,4*	*10,8*	*-2,5*	*10,1*	*6,1*	*24,3*	*27,1*

Source: Statistics South Africa

data for the total number and total square metres of new houses (below and above 80 m²), flats and townhouses built published by Statistics South Africa can be used to calculate the average size of these types of residential buildings (see table below).

- *New houses of less than 80 m²:* The average size of houses of less than 80 m² remained fairly stable at around 40 m² over the past few years.
- *New houses of 80 m² and above:* The average building area of these newly-built houses was on a gradual upward trend during the past ten years. In 2000, after the high interest rates of 1998/99, the average building area increased by only 0,4% over 1999. Despite the surge in house prices during the past six years since 2000, which negatively influenced the affordability of housing over this period, the average size of these new houses kept increasing up until 2004. The main reason for this was that stand size was probably compromised in an attempt to still afford a decent-sized house (see graph on land area). However, in 2005, the average size of these new houses dropped by 1,1% from 221 m² to 218 m². This is probably because the affordability of housing eventually started to have an impact.
- *New flats and townhouses:* The average building area of new flats and townhouses largely followed the size trends of newly-built houses of ≥80 m² over the past few years. In 2000, the average building area declined by 4,3%, which was probably a lagged result of the high interest rates in 1998/99. As in the case of new houses of ≥80 m², the average size of new flats and townhouses also declined in 2005, by 6,4% from almost 140 m² in 2004 to 131 m² in 2005. Housing has generally become less affordable in recent times, which probably also eventually impacted on the average building area of new flats and townhouses.

Virtually the same trends as the abovementioned emerged from calculations done by Absa in respect of new homes in the so-called middle segment of the market (houses of between 80 m² and 400 m², with a value of up to R2,2 million). However, these calculations not only focus on the average building area of these homes, but also on the average area of the stands on which these homes were built over the years. Average building area and land area were calculated for the country as a whole as well as for the major metropolitan regions in the country. These metro regions are Port Elizabeth/ Uitenhage (Eastern Cape), Bloemfontein (Free State), Greater Johannesburg (Gauteng), Pretoria (Gauteng), Durban/Pinetwon (KwaZulu-Natal), and Cape Town (Western Cape).

The main reason these calculations were also done for the metro areas is that a large proportion (4,3 million or 34,2%) of the country's total number of about 12,4 million households were living in the abovementioned metro areas in 2004. In the country's two largest

Ratio of residential buildings completed to plans passed (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number										
New houses of <80m²	59,0	92,3	75,4	86,8	76,0	74,1	78,3	69,7	104,5	70,4
New houses of ≥80m²	70,2	59,2	65,3	63,7	51,7	55,0	59,3	62,1	55,6	64,1
New flats and townhouses	74,5	77,7	85,5	98,9	68,1	59,1	71,0	70,2	60,8	74,6
Square metres										
New houses of <80m²	60,4	89,2	72,2	83,8	72,3	74,2	80,0	67,9	96,8	65,7
New houses of ≥80m²	67,6	59,5	65,5	63,0	49,4	52,3	55,9	57,3	52,2	59,7
New flats and townhouses	76,5	73,5	81,8	103,0	61,7	57,4	67,9	57,6	58,0	66,6
Alterations and additions to existing houses	50,5	52,7	47,2	52,9	45,2	48,1	46,8	42,0	35,0	31,6

Source: Statistics South Africa

Average size of new residential buildings completed (square metres)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
New houses of <80m²	55,7	39,9	39,2	35,3	37,3	39,7	39,0	38,3	38,7	41,0
% change	*0,8*	*-28,4*	*-1,8*	*-9,8*	*5,5*	*6,6*	*-1,9*	*-1,8*	*1,2*	*5,8*
New houses of ≥80m²	174,6	178,9	189,8	196,9	197,7	205,9	213,1	218,7	220,6	218,1
% change	*1,0*	*2,4*	*6,1*	*3,8*	*0,4*	*4,1*	*3,5*	*2,6*	*0,9*	*-1,1*
New flats and townhouses	98,2	92,3	96,6	104,6	100,1	113,5	116,3	122,1	139,8	130,9
% change	*1,7*	*-6,1*	*4,6*	*8,3*	*-4,3*	*13,3*	*2,5*	*5,0*	*14,5*	*-6,4*

Source: Statistics South Africa

regional property markets (Gauteng and the Western Cape), 77,2% of households (a total of 2,2 million) in Gauteng were living in Greater Johannesburg and Pretoria, while 62,7% of households (a total of 800 000) in the Western Cape were living in the Cape Town metro area in 2004. The result was that trends in average building and land area in respect of new housing did not differ materially from national trends (see graphs).

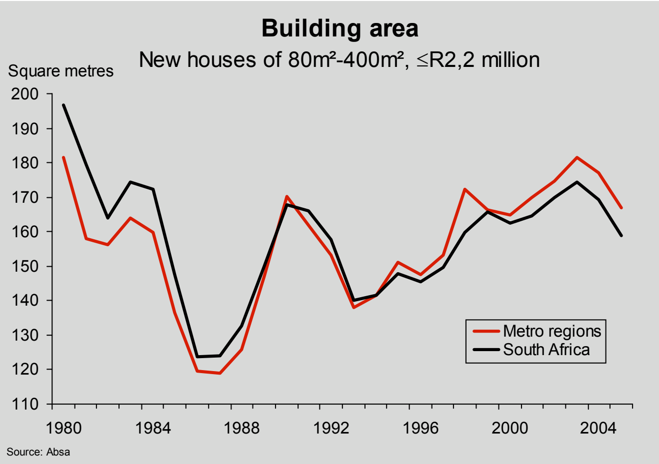
- *Building area:* Calculations by Absa regarding the building area of new houses showed virtually the same rising trend over the past number of years as the statistics on average building area calculated from data published by Statistics South Africa. The effect of the high interest rates of 1998/99 is evident from the Absa data, with a drop in the average building area of new houses in 1999-2000. The declining trend in the average building area of new houses since 2004 to 167 m² in the metro areas and 159 m² in the whole of South Africa last year can be ascribed to housing, in general, becoming relatively expensive during this period.
- *Land area:* The average size of stands on which new houses are built has been on a declining trend since the early 1990s. The average land area in the metro regions was virtually equal to that of the national average from 1984 up to 1992, but has dropped from 829 m² in 1993 to 494 m² in 2005, which is below the national average of 536 m² last year (see graph). This can be ascribed to suitable vacant land for residential development becoming increasingly scarce, especially in the rapidly growing metro areas in the country. In 2005, the average land area for new housing was less than half of what is was back in 1980. This is an indication of an increase in higher-density residential developments over the years. This trend is expected to continue in future.

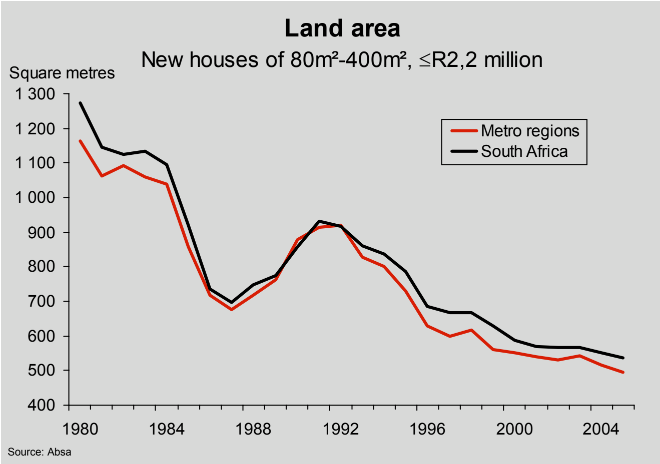
Conclusion

Over the years, but especially during the past six years of a booming residential property market in South Africa, various economic, social, cyclical and structural factors have had an impact on the housing market. As a result, residential living trends have, to a large extent, changed in the country.

Living trends with regard to the type of housing have shifted in favour of lifestyle estates, such as golf estates and retirement villages. Higher-density security complexes have also become the norm, especially in the highly urbanised metro areas throughout the country.

These developments have led to ever declining stand sizes for new housing over the years. The average building area of new homes has also started to decline over the past two years. This was most probably the result of housing becoming relatively expensive in recent years, impacting adversely on the affordability of housing for many first-time and lower- and middle-income households.





Residential property market

Macroeconomic and household sector overview

In 2005, the South African economy expanded by 4,9% in real terms. This was the thirteenth consecutive year of positive real economic growth and also the best economic performance since 1981, when a growth rate of 5,4% was recorded.

Factors such as buoyant domestic demand, high commodity prices, a strong rand exchange rate, low inflation and the lowest interest rates in more than 20 years played an important role in this high economic growth of last year.

In the fourth quarter of 2005, the ratio of household debt to disposable income increased further to a record high of 65,6%. Continued high growth in private sector credit extension, on the back of the low interest rates and strong consumer demand, was largely responsible for this increase. However, the household debt servicing ratio increased marginally from about 6,8% in the third quarter of last year to 7% in the final quarter. This was still well below its 1998 and 2003 levels. Lending rates were significantly higher then than they are currently.

The ratio of household net saving to disposable income dropped to an all-time low of 0,1% in the second half of 2005. The low interest rates of the past two years, which offered no real incentive for households to increase deposit-type investments, together with high levels of geared consumer demand, were the main contributors to this low savings ratio. Growth of 20% per annum in nominal house prices between 2000 and 2005 also caused the consumption of fixed capital (depreciation write-offs on the value of fixed assets held by households) to increase significantly. This figure is subtracted from gross saving to arrive at net saving. These higher levels of depreciation also contributed to the net saving-to-income ratio to decline to only 0,1% at the end of 2005.

Seasonally adjusted annualised growth in the real disposable income of households increased to 6,7% in the fourth quarter of 2005. This can be ascribed to further personal tax relief in 2005, whereas CPI inflation was somewhat lower, at 3,7%, in the fourth quarter, compared with 3,9% in the third quarter.

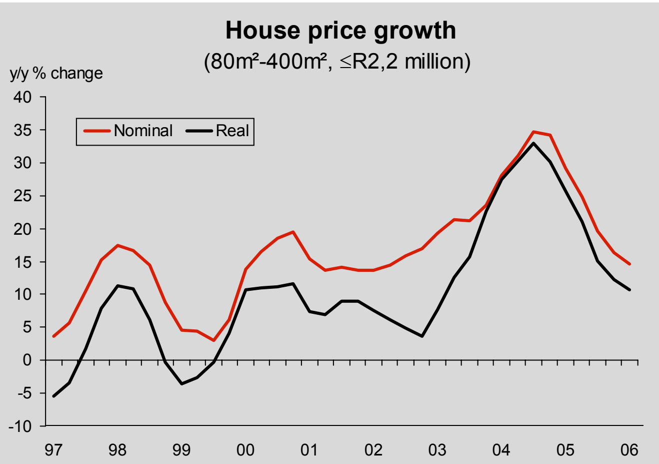
The following macroeconomic and household sector related developments occurred in the first four months of 2006:

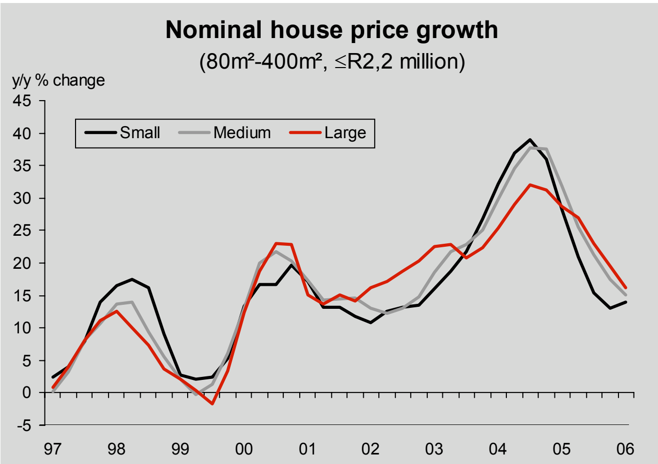
- In the 2006/07 Budget, personal income tax relief amounting to R12,1 billion was announced, of which 73% will be to the benefit of taxpayers earning R250 000 a year or less. The tax-free limits for interest and dividend income were marginally increased. A reduction in transfer duty on property was also announced.
- Domestic fuel prices increased in reaction to significantly higher international oil prices.
- Both headline consumer price inflation and CPIX inflation (headline CPI inflation, excluding the effect of mortgage interest rates) increased to higher levels.
- The Reserve Bank's Monetary Policy Committee kept the key monetary policy interest rate, the repo rate, unchanged at its February and April 2006 meetings. As a result, commercial banks' lending rates (the prime overdraft rate and the mortgage rate) were also left unchanged.
- Growth in domestic private sector credit extension, especially mortgage advances, remained high.

The 2006 Budget and the property market

Transfer duty on property was reduced for the fifth consecutive year in the 2006 Budget. As from 1 March 2006, no transfer duty will be levied on a property valued at R500 000 or less (see table). The maximum value of a property exempted from transfer duty was R70 000 in 2001/02, R100 000 in 2002/03, R140 000 in 2003/04, R150 000 in 2004/05, and R190 000 in 2005/06.

The substantial lowering of transfer duty on property announced in the Budget is a government effort to make home-ownership more affordable, especially for the lower-income groups, taking into account the sharp increase in house prices in recent years and a greater focus on housing delivery at the bottom end of the market. This, together with





the government's housing subsidy scheme for low-income, first-time homebuyers, will support the lower end of the housing market.

The capital gains tax exemption on the profit on a primary residence was lifted from R1 million to R1,5 million in the 2006 Budget. This was the first time since capital gains tax was imposed on 1 October 2001 that this threshold was increased. This announcement was widely welcomed, as nominal house prices increased by as much as 136,7% in total between October 2001 and March 2006.

House prices in the first quarter of 2006

Middle-segment housing

In the first quarter of 2006, nominal house prices in the middle segment of the market increased by an average 14,5% year-on-year (y/y) to about R760 000. This was the lowest nominal growth in any quarter since the first quarter of 2002, when a growth rate of 13,7% was recorded. In real terms, house price growth came to 10,6% y/y in the first quarter of the year. In both nominal and real terms, the y/y growth in house prices was down on that of the fourth quarter of 2005, when it was a nominal 16,3% and a real 12,2%.

In the three middle-segment categories, house price growth was as follows in the first quarter of 2006:

- Small houses (80m²-140m²): a nominal 14,1% and a real 10,2% higher.
- Medium houses (141m²-220m²): a nominal 15,1% and a real 11,2% higher.
- Large houses (221m²-400m²): a nominal 16,2% and a real 12,3% higher.

Affordable housing

In the first quarter of 2006, nominal house prices in the affordable category increased by only 3,9% y/y compared with an increase of 8,3% y/y in the preceding quarter. In real terms, house price growth in this category came to 0,4% y/y in the first quarter the year, whereas real y/y growth of 4,5% was recorded in the final quarter of 2005.

House price growth in the affordable market has been on a downward trend since mid-2004. The affordability of housing has probably also played a role in this segment of the property market.

Luxury housing

Nominal house prices in this segment (houses valued at between R2,2 million and R8,2 million, in respect of which mortgage loans were approved by Absa) declined by an average 2,4% y/y in the first quarter of 2006. This was the second consecutive y/y drop in house prices in the luxury category, with prices declining by 1,6% in the fourth quarter of last year.

In real terms, house prices in this segment of the market declined by 5,8% y/y in the first quarter of the year, following a real price decline of 5,1% y/y in the final quarter of 2005.

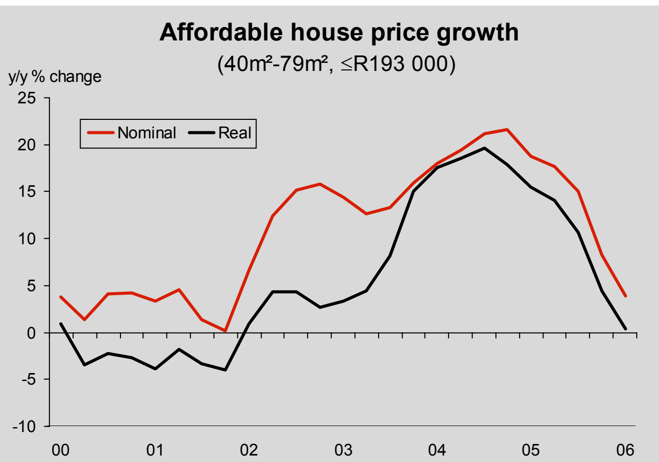
The declining trend in house price growth at the upper end of the market can be related to a strong supply of properties in this market segment during recent years, whereas demand started to taper off in late 2004 because of the high prices caused by strong price growth in 2003 to 2004.

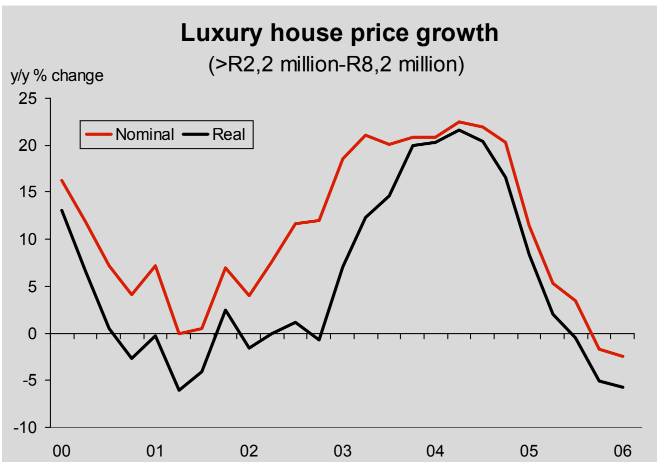
The prices of luxury houses, as defined above, are forecast to decline by as much as 5% in nominal terms this year, whereas a drop of about 9% in real terms can be expected, taking into account projections for inflation.

Regional house prices

On a provincial basis, growth in house prices in the middle segment of the market remained relatively strong in some provinces in the first quarter of 2006. Nominal house price growth varied from as high as 33,8% y/y in Limpopo to only 9% y/y in the Eastern Cape. The low house price growth in the Eastern Cape can probably be ascribed to technical factors, as a growth rate of about 39% in the first quarter of 2005 created a high base of calculation twelve months later in the first quarter of 2006.

In the country's major metropolitan areas, nominal house price growth varied from 20,2% y/y in the Cape Town metro area in the first three months of 2006 to a decline of 2% y/y in the Port Elizabeth/Uitenhage area. The decline in





y/y house prices in this metro area also contributed to house prices increasing by only 9% y/y in the province as a whole.

Building costs and new and existing house price trends

The cost of building a new house increased by a nominal 10,7% y/y in the first quarter of 2006, compared with a growth rate of 12,1% y/y in the preceding quarter. This above-inflation increase in building costs reflected an active building and construction sector over the past twelve months. Factors such as a strong demand for building materials and skilled labour in view of the demand for new housing have contributed to this development.

However, the nominal y/y growth in building costs continued its downward trend, which commenced in the third quarter of 2003, into the first quarter of 2006. This can be ascribed to the large number of developers and building contractors active in the property market, which leads to greater competition.

The average price of a new house increased by a nominal 6,5 % y/y to about R767 100 in the first quarter of this year, which came to an increase of 2,4% y/y in real terms. In the first quarter of 2006, the average price of an existing house increased by a nominal 15,8% y/y to about R755 700, which brought the real price increase to 11,8% y/y.

The nominal price difference between new and existing houses declined to only about R11 400, or 1,5%, in the first quarter of 2006. This is the smallest price difference since early 1989. The price difference between new and existing houses has declined sharply since the first quarter of 2003, when it reached an all-time high of 31,2%.

The year-on-year increase in the building cost of new houses in the various categories was as follows in the first quarter of 2006:

- Small houses (80m²-140m²): a nominal 13,8% and a real 9,9%.
- Medium houses (141m²-220m²): a nominal 12,5% and a real 8,6%.
- Large houses (221m²-400m²): a nominal 9,0% and a real 5,3%.
- Affordable housing (40m²-79m²): a nominal 15,8% and a real 11,8%.
- Luxury housing (>R2,2 million-R8,2 million): a nominal 11,5% and a real 7,7%.

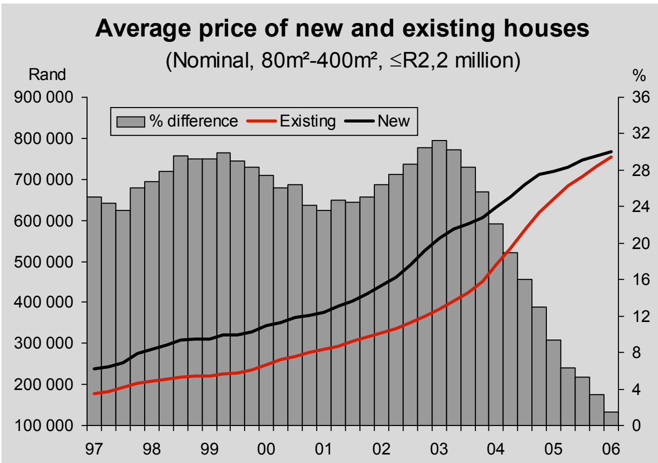
Land prices

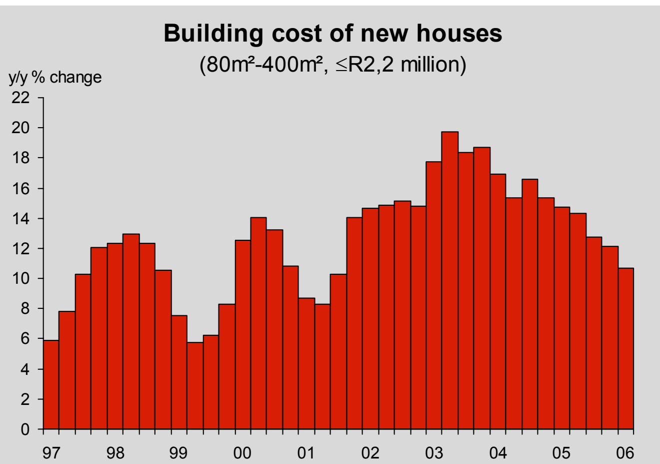
In the first quarter of 2006, nominal residential land prices increased by 22,3% y/y to about R267 400 on average, compared with growth of 25,5% y/y in the fourth quarter of last year. Real growth in land prices of 18,1% y/y was recorded in the first quarter.

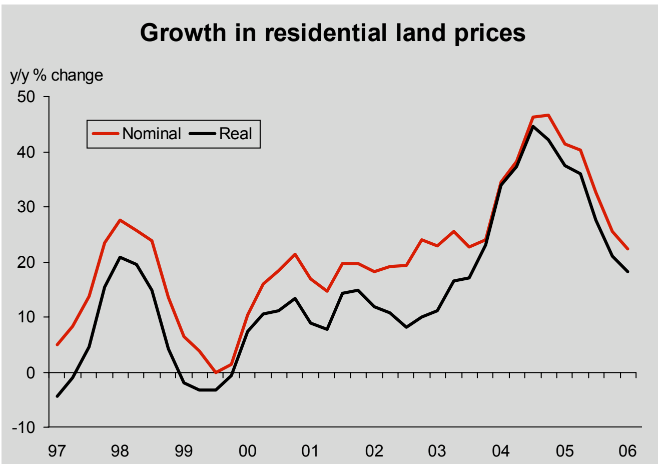
The scarcity of suitable and properly serviced land for residential development has been a problem for some time, especially in the rapidly growing urban areas of the country. These conditions are not expected to improve materially in years to come. Along the coast, residential land with good views also increased significantly in value over the past few years. As the supply of and demand for vacant land are, to a large extent, moving in opposite directions in these areas, prices are expected to escalate even more in future.

Mortgage finance

Commercial banks' variable mortgage interest rates were stable at 10,5% in the first four months of 2006 after the Reserve Bank's Monetary Policy Committee decided to







keep the repo rate unchanged at its February and April meetings this year. Interest rates were last adjusted in April 2005, when they were cut by 50 basis points.

Based on an average house price of R760 034 in the middle segment of the market in the first quarter of 2006, the monthly repayment on a new mortgage (100% over a 20-year repayment period at a variable mortgage rate averaging 10,5%) amounted to R7 588. In the same quarter of last year, the comparable repayment was R6 849, calculated at an average house price of R663 502 and a mortgage rate of 11% at the time. The difference of R739 between these monthly repayments can be ascribed to house prices being 14,7% higher in the past quarter than they were a year ago, whereas the mortgage rate was 50 basis points lower than in the first quarter of 2005.

Affordability of housing

Based on interest rate and house price trends in the first quarter of 2006, the average mortgage repayment and the qualifying gross income levels were 10,8% up on the same quarter last year. In the first quarter of 2005, this growth rate was still at a level of 25,1%. Although housing is, in general, still less affordable than it was a year ago according to this analysis, the declining trend in the year-on-year growth rates of these variables since the first quarter of 2005 is an indication that affordability has not deteriorated to a greater extent over the past twelve months.

The house price-to-remuneration ratio increased further in the third quarter of 2005 (most recent remuneration data available), but the upward trend moderated somewhat. This was the result of slower house price growth, whereas growth in remuneration was around 8% in the third quarter of last year.

The mortgage repayment-to-remuneration ratio, which can also be regarded as an indication of the affordability of mortgage debt, increased marginally in the second and third quarters of last year. Although the ratio of mortgage debt to the disposable income of households increased to an all-time high of almost 52% in the fourth quarter of 2005, the affordability ratio has displayed a more gradual rising trend since 2002 than in the case of the house price-to-remuneration ratio (see graph). These developments in the mortgage repayment-to-remuneration ratio can be ascribed to slower growing house prices and stable interest rates over the past twelve months, whereas nominal remuneration growth was almost 8% y/y in the third quarter of last year.

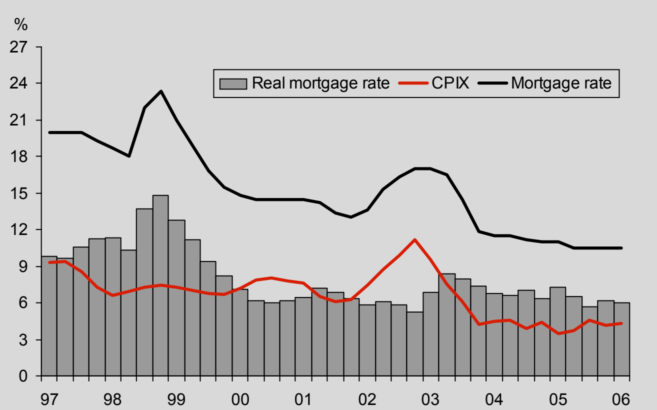
An increase in the abovementioned two ratios implies that house prices and mortgage repayments are rising at a faster rate than remuneration. Housing is, in effect, becoming less affordable. However, the upward trend in both of these ratios moderated somewhat in the third quarter of last year. Taking into account that house price growth is expected to keep gradually declining towards the end of 2006, the ratios of house prices to remuneration and mortgage repayments to remuneration may taper off further and may even start to edge downwards, depending on further trends in remuneration.

Outlook

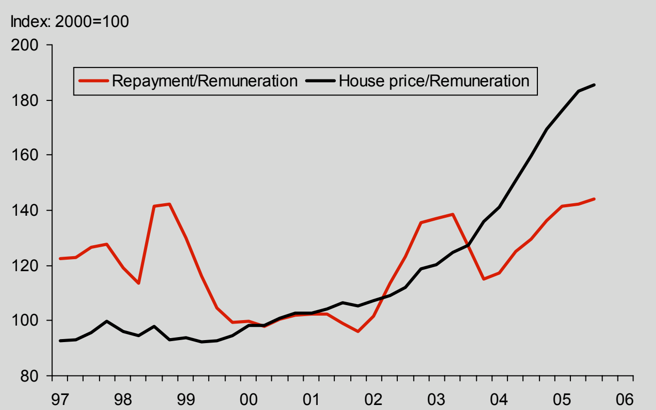
Although international oil prices rose to above $70/barrel in recent times and CPIX inflation has been increasing gradually since November last year, the Reserve Bank has opted to keep interest rates unchanged thus far in 2006. CPIX inflation is still well within the inflation target range of 3% to 6%, whereas the rand exchange rate is relatively strong against the major international currencies. With CPIX inflation forecast to remain under control in 2006, the Reserve Bank is expected to keep interest rates at current levels for the rest of the year.

Against this background, the current declining trend in both nominal and real house price growth is forecast to continue in 2006. Lower nominal growth in house prices of around 12% is projected for this year compared with an increase of 22,1% recorded in 2005. Price growth will mainly be driven by the combined effect of the affordability of housing, especially for first-time and low- to middle-income buyers, significantly lower transfer duty on property since 1 March 2006, and interest rates, which are expected to remain stable or move only slightly higher over the next twelve months.

Mortgage rate and inflation



Affordability of housing



Statistics and projections

Average nominal house prices											
	2002 Rand	2003 Rand	2004 Rand	2005 Rand	2005				2006		
					Q1 Rand	Q2 Rand	Q3 Rand	Q4 Rand	Q1		
									Rand	q/q % Δ	y/y % Δ
National											
Middle segment (80m²-400m², ≤R2,2m)	357 892	434 501	574 215	701 143	663 502	690 917	712 721	737 433	760 034	3,1	14,5
Small (80m²-140m², ≤R2,2m)	255 437	308 925	420 566	500 191	478 413	492 224	506 294	523 832	545 707	4,2	14,1
Medium (141m²-220m², ≤R2,2m)	325 992	398 103	537 798	664 580	626 567	651 240	677 978	702 535	721 083	2,6	15,1
Large (221m²-400m², ≤R2,2m)	492 925	601 985	779 773	969 191	903 184	958 813	992 928	1 021 840	1 049 704	2,7	16,2
New (80m²-400m², ≤R2,2m)	479 741	583 049	671 422	738 880	720 150	729 969	747 432	757 969	767 143	1,2	6,5
Existing (80m²-400m², ≤R2,2m)	343 585	415 090	554 719	694 016	652 661	683 545	707 554	732 304	755 724	3,2	15,8
Affordable (40m²-79m², ≤R193 000)	89 427	102 475	122 614	140 907	135 502	140 300	143 858	142 317	140 844	-1,0	3,9
Luxury (>R2,2m-R8,2m)	2 157 578	2 601 311	3 150 554	3 277 241	3 286 468	3 258 023	3 299 866	3 267 705	3 206 640	-1,9	-2,4
Provinces											
Eastern Cape	288 590	361 334	526 584	664 460	632 598	662 127	674 701	682 887	689 686	1,0	9,0
Free State	236 883	287 190	390 611	483 870	453 662	478 400	492 411	505 879	530 485	4,9	16,9
Gauteng	402 692	480 268	613 571	735 858	700 165	723 259	749 487	765 925	778 610	1,7	11,2
KwaZulu-Natal	289 568	407 233	551 602	679 437	628 008	662 768	692 061	732 768	775 160	5,8	23,4
Limpopo	252 269	287 877	375 372	526 912	467 119	506 917	547 050	586 560	624 979	6,5	33,8
Mpumalanga	256 851	304 286	407 309	530 871	496 288	522 010	540 275	564 913	589 465	4,3	18,8
North West	288 035	334 153	427 104	514 872	481 884	503 945	521 603	552 056	569 611	3,2	18,2
Northern Cape	224 325	273 844	368 553	439 649	432 941	435 454	434 678	455 523	493 073	8,2	13,9
Western Cape	404 729	489 677	656 188	831 495	771 589	816 537	855 022	883 532	907 269	2,7	17,6
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	299 137	364 389	540 956	666 957	663 241	679 293	668 917	656 379	649 646	-1,0	-2,0
Bloemfontein (Free State)	278 255	340 548	479 789	613 022	571 900	610 029	629 848	640 311	673 270	5,1	17,7
Greater Johannesburg (Gauteng)	405 600	483 719	619 915	739 385	703 683	724 391	754 038	775 951	798 146	2,9	13,4
Johannesburg Central & South	378 173	432 810	596 377	689 969	697 986	670 062	677 237	714 593	728 648	2,0	4,4
Johannesburg North & West	507 992	633 296	772 813	937 879	880 934	932 853	962 894	974 836	1 007 399	3,3	14,4
East Rand	336 967	387 881	503 666	634 011	581 416	616 139	658 143	680 345	689 873	1,4	18,7
Pretoria (Gauteng)	446 391	533 711	664 774	799 187	773 277	795 251	807 975	820 244	833 639	1,6	7,8
Durban/Pinetown (KwaZulu-Natal)	328 343	468 081	623 443	742 693	707 062	733 970	744 441	785 299	832 211	6,0	17,7
Cape Town (Western Cape)	417 149	497 892	662 906	836 102	768 474	816 384	862 364	897 186	923 977	3,0	20,2

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 80m² and 400m², up to R2,2 million.

Average nominal house prices by middle-segment category in the first quarter 2006									
	Small: 80m² – 140m²			Medium: 141m² – 220m²			Large: 221m² – 400m²		
	Price Rand	q/q % Δ	y/y % Δ	Price Rand	q/q % Δ	y/y % Δ	Price Rand	q/q % Δ	y/y % Δ
National and Provinces									
South Africa	545 707	4,2	14,1	721 083	2,6	15,1	1 049 704	2,7	16,2
Eastern Cape	505 905	9,5	27,7	688 400	1,4	12,5	987 055	0,9	7,7
Free State	352 954	1,7	9,7	439 476	-4,4	14,6	689 222	8,5	16,4
Gauteng	499 964	6,4	12,5	713 800	1,6	14,6	1 092 658	1,4	13,1
KwaZulu-Natal	519 991	11,4	22,1	778 791	5,3	29,8	1 095 385	3,8	25,4
Mpumalanga	450 635	-1,7	17,1	598 227	5,2	27,6	778 833	5,1	23,6
North West	450 162	7,8	21,6	502 291	1,1	8,0	780 751	2,3	30,9
Northern Cape	423 082	11,3	37,6	461 977	10,1	11,2	629 821	4,3	14,0
Limpopo	420 367	7,5	32,6	626 906	7,4	39,1	833 198	5,3	39,0
Western Cape	695 291	4,3	17,3	927 974	1,8	16,7	1 291 954	1,4	14,2
Metropolitan regions									
PE/Uitenhage (Eastern Cape)	470 203	3,5	16,0	632 190	-0,7	2,2	997 104	0,0	5,1
Bloemfontein (Free State)	384 291	3,6	17,0	606 879	-2,0	14,0	911 539	2,5	11,2
Greater Johannesburg (Gauteng)	508 708	7,7	14,6	740 863	3,1	15,1	1 100 672	2,1	11,4
Johannesburg Central & South	429 647	9,5	5,5	684 046	1,6	9,9	1 108 693	1,3	8,9
Johannesburg North & West	643 739	3,9	21,2	910 662	3,7	14,7	1 299 047	1,4	8,7
East Rand	479 367	2,9	20,6	650 837	2,6	16,7	937 622	3,1	17,9
Pretoria	523 581	4,8	9,3	779 037	1,8	13,1	1 186 657	2,3	15,0
Durban/Pinetown (KwaZulu-Natal)	462 238	7,6	7,4	835 537	2,6	25,0	1 292 594	3,9	25,3
Cape Town (Western Cape)	698 994	3,0	17,7	959 202	2,4	20,6	1 369 418	0,8	16,1

House prices are based on the total smoothed purchase price of houses (including all improvements) between 80m² and 400m², up to R2,2 million, in respect of which loan applications were approved by Absa Bank.

Affordability of housing taking into account house price and interest rate trends

Quarter	Nominal house prices[1]		Average mortgage interest rate	Monthly repayment over 20 years (100% mortgage)	Gross monthly qualifying income[2] (100% mortgage)	q/q % change in repayment & income (100% mortgage)	y/y % change in repayment & income (100% mortgage)
	Price	y/y % change					
1q2003	R 400 858	19,2	17,0%	R 5 880	R 19 599	4,9	38,0
2q2003	R 422 228	21,4	16,5%	R 6 033	R 20 111	2,6	29,3
3q2003	R 442 656	21,2	14,5%	R 5 666	R 18 886	-6,1	9,5
4q2003	R 472 262	23,6	11,8%	R 5 145	R 17 151	-9,2	-8,2
1q2004	R 513 321	28,1	11,5%	R 5 474	R 18 247	6,4	-6,9
2q2004	R 553 520	31,1	11,5%	R 5 903	R 19 676	7,8	-2,2
3q2004	R 595 940	34,6	11,2%	R 6 219	R 20 730	5,4	9,8
4q2004	R 634 079	34,3	11,0%	R 6 545	R 21 816	5,2	27,2
1q2005	R 663 502	29,3	11,0%	R 6 849	R 22 828	4,6	25,1
2q2005	R 690 917	24,8	10,6%	R 6 929	R 23 096	1,2	17,4
3q2005	R 712 721	19,6	10,5%	R 7 116	R 23 719	2,7	14,4
4q2005	R 737 433	16,3	10,5%	R 7 362	R 24 541	3,5	12,5
1q2006	R 760 034	14,5	10,5%	R 7 588	R 25 293	3,1	10,8

[1] Smoothed purchase price of houses in the 80m²-400m² size category (including all improvements), valued at R2,2 million or less, in respect of which loan applications were approved by Absa.
[2] Gross monthly income required to qualify for a mortgage bond if assumed that the monthly repayment does not exceed 30% of income.

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

Mortgage amount	Repayment at different mortgage rates				
	9,5%	10,5%	11,5%	12,5%	13,5%
100 000	932	998	1 066	1 136	1 207
200 000	1 864	1 997	2 133	2 272	2 415
300 000	2 796	2 995	3 199	3 408	3 622
400 000	3 729	3 994	4 266	4 545	4 829
500 000	4 661	4 992	5 332	5 681	6 037
600 000	5 593	5 990	6 399	6 817	7 244
700 000	6 525	6 989	7 465	7 953	8 452
800 000	7 457	7 987	8 531	9 089	9 659
900 000	8 389	8 985	9 598	10 225	10 866
1 000 000	9 321	9 984	10 664	11 361	12 074
1 500 000	13 982	14 976	15 996	17 042	18 111
2 000 000	18 643	19 968	21 329	22 723	24 147

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

Mortgage repayment	Mortgage amount at different mortgage rates				
	9,5%	10,5%	11,5%	12,5%	13,5%
1 000	107 281	100 162	93 771	88 017	82 824
2 000	214 562	200 325	187 542	176 035	165 649
3 000	321 843	300 487	281 313	264 052	248 473
4 000	429 124	400 649	375 083	352 069	331 297
5 000	536 405	500 811	468 854	440 086	414 122
6 000	643 686	600 974	562 625	528 104	496 946
7 000	750 967	701 136	656 396	616 121	579 770
8 000	858 248	801 298	750 167	704 138	662 595
9 000	965 529	901 460	843 938	792 156	745 419
10 000	1 072 810	1 001 623	937 708	880 173	828 243
15 000	1 609 216	1 502 434	1 406 563	1 320 259	1 242 365
20 000	2 145 621	2 003 245	1 875 417	1 760 346	1 656 487

Transfer duty on property in 2006/07

Value of property	Transfer duty payable
R0-R500 000	0%
R500 001-R1 000 000	5% on the value above R500 000
R1 000 001 and above	R25 000 plus 8% on the value above R1 000 000

Source: National Treasury

Key variables and projections
Annual averages

		2000	2001	2002	2003	2004	2005	2006	2007
$/R exchange rate	Rand per US$	6,94	8,60	10,52	7,56	6,45	6,36	6,33	6,71
CPI headline inflation rate	%	5,3	5,7	9,2	5,9	1,4	3,4	4,3	5,8
CPIX inflation rate	%	7,7	6,6	9,3	6,8	4,3	3,9	4,5	5,6
Mortgage rate	%	14,5	13,8	15,8	15,0	11,3	10,6	10,5	11,3
Household disposable income	Real % Δ	4,0	3,2	3,0	4,0	5,7	6,6	5,5	4,3
Final consumption by households	Real % Δ	4,1	3,5	3,2	3,5	6,5	6,9	5,7	4,5
Household saving to disposable income	%	1,2	0,9	0,7	1,2	0,5	0,2	0,0	-0,1
Private sector credit extension	Nominal % Δ	7,9	10,6	10,3	11,7	13,1	20,9	15,0	9,6
Mortgage advances	Nominal % Δ	8,3	15,7	12,1	13,7	20,4	27,7	24,6	18,6
Household debt to disposable income	%	53,3	52,6	50,3	51,8	55,9	62,4	67,4	68,5
Gross domestic product	Real % Δ	4,2	2,7	3,7	3,0	4,5	4,9	4,1	4,5
House prices (80m²-400m², ≤R2,2m)	Nominal % Δ	17,1	14,2	15,3	21,4	32,2	22,1	12,1	10,6
House prices (80m²-400m², ≤R2,2m)	Real % Δ	11,2	8,0	5,6	14,7	30,3	18,1	7,5	4,5