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Explanatory notes:

The Absa House Price Index is based on the total purchase price of houses in the 80m²-400m² size category, valued at R2,2 million or less in 2004 (including improvements), in respect of which loan applications were approved by Absa. Prices are smoothed in an attempt to exclude the distorting effect of seasonal factors and outliers in the data. As a result, the most recent index figures may differ materially from previously published figures.

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House price growth still on a declining trend

Nominal house price growth declined further to 14,7% year-on-year in November 2005, according to the latest Absa House Price Index. This was the lowest year-on-year growth since mid-2002 and brought the average house price in the middle segment of the market (see explanatory notes) to about R727 700 in November this year. In October 2005 growth in nominal house prices of 16,2% was recorded compared with the same month in 2004. The average nominal year-on-year growth in house prices during the first eleven months of the year was 22,5%.

In real terms, year-on-year growth of 11,7% was recorded in October compared with a revised growth rate of 12,9% in September, based on the headline consumer price index. The average real year-on-year growth in house prices during January to October 2005 was 19,4%, which is based on a headline CPI inflation rate of 3,4% on average during this period.

On a month-on-month basis, nominal growth in house prices came to 0,6% in November this year compared with a revised growth rate of 0,7% in October. Nominal month-on-month growth continues to slow down since the 3% recorded in January 2004.

If the current trend in nominal house price growth is to continue, price growth of about 13,5% year-on-year (0,5% month-on-month) can be expected by year end. This will bring the average price of a house in the 80m²-400m² size category to about R731 000 by December. In view of these developments, average nominal house price growth of between 21,5% and 22% is forecast for 2005 compared with 32,2% in 2004.

CPIX inflation is currently trending downwards as a result of lower international oil prices and a stronger rand exchange rate in recent times. In view of this, interest rates are expected to remain at current levels until the second quarter of 2006, when a 50 basis points hike is projected. Thereafter rates are expected to move sideways for the rest of the year. However, if inflationary conditions remain favourable during next year, it is possible that interest rates will stay at current levels for the whole of 2006.

Lower house price growth is expected to continue into 2006, but the slowing downward trend in month-on-month growth suggests price growth will bottom out at some stage and start a gradual upward trend again, most probably in the second half of 2006. If the abovementioned expectations regarding inflation and interest rates are to materialise, nominal house price growth of between 8% and 12% can be expected next year.

