

Authored by:
Jacques du Toit
Senior Economist

Published by:
Absa Group
Economic Research

2nd Floor—South
Absa Towers North
180 Commissioner Street
Johannesburg
2001

PO Box 7735
Johannesburg
2000

Tel: +27 (11) 350-7246
Fax: +27 (11) 350-7252
E-mail: jacques@absa.co.za

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

Disclaimer:
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.

Mortgage advances growth likely to benefit from the Budget announcement on transfer duty on property

According to data released by the South Africa Reserve Bank, mortgage advances by the monetary sector increased by 27,4% year-on-year in January 2006, which was marginally lower than a growth rate of 27,6% recorded in December 2005.

The declining trend in mortgage advances growth since October 2005 resulted from a slowing residential property market during the course of last year. Base effects, caused by a sharp upward trend in mortgage advances growth in the past twelve months, are most probably also starting to contribute to this development.

The expectation is that year-on-year mortgage advances growth has declined further in February 2006, especially in view of the recent announcement by the Minister of Finance in the Budget that transfer duty on property will be significantly cut as from 1 March this year. This has apparently caused many property transactions already in the pipeline to be temporarily halted or delayed in an attempt to benefit from this development.

In view of this, activity in the property market is forecast to pick up significantly during the next couple of months. This will put immense pressure on all players in the property industry (financial institutions, estate agents, mortgage originators, attorneys, and the registration authorities), which may lead to mortgage applications and registrations taking longer than normal to conclude. During this period growth in mortgage advances is expected to increase to higher levels again as a result of a strong demand for housing, which will put upward pressure on house prices as well.

Against this background, but also taking into account affordability issues and forecasts of stable interest rates in the rest of the year, average nominal house price growth of at least 12% is projected for 2006 (21,9% in 2005), while mortgage advances growth of between 22% and 24% is expected compared with 27,6% recorded in 2005.

