

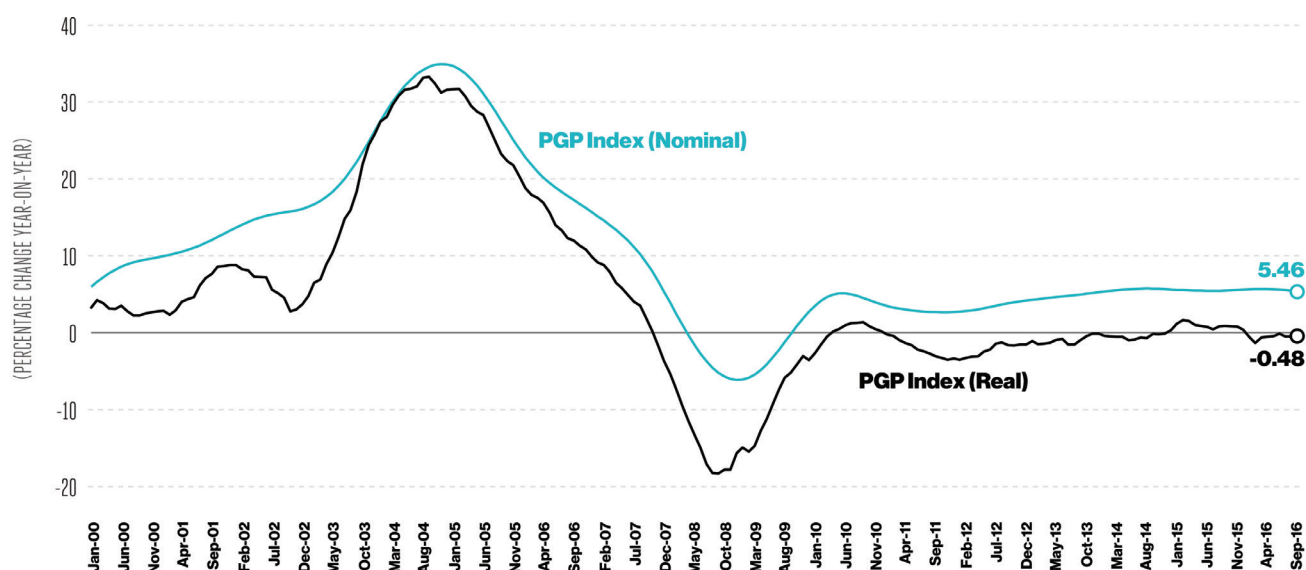
SEVERAL SECTORS IN LOCAL HOUSING MARKET CONTINUE TO FLOURISH

Purchasing a home is a complex decision which is typically driven by a wide arrange of factors including how close buyers wish to be to their place of employment, good schools, family and friends as well as their preferred lifestyle e.g. lock-up-and-go or large family home. Nonetheless, purchasing a home is often the largest single investment decision many households make, so there is a desire to ensure that it is also a sound financial investment.

This is relatively easy to achieve during a housing market boom, when most property sectors experience rising prices. However, when purchasing a property during an economic slowdown, which is typically accompanied by softer housing market conditions, buyers need a good understanding of market dynamics in order to select the suburb, price band and unit type that best suits their needs but which also continues to enjoy healthy growth in prices, despite the prevailing economic climate. This is perhaps best illustrated by looking at real, or inflation-adjusted, house price inflation.

National house price inflation: nominal and real

SOURCE: PGP INDEX & STATS SA



The current slowdown in national house price inflation is occurring at a time when Rand weakness and higher food prices have driven the consumer price index above the Reserve Bank's 6% upper inflation target limit. This has prompted some analysts to raise concerns about whether purchasing a home in the current economic environment is a sound investment, given that house prices appear to be declining in real, or inflation-adjusted, terms.

The PGP Index has averaged 5.6% during the year to date, while the consumer inflation rate has averaged 6.2% during the same period. This would suggest that, after adjusting for inflation, real South African house prices have fallen by an average of 0.6% compared to the same period last year (as seen in the graph above).