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DEVELOPMENTS IN THE ECONOMY AND THEIR IMPACT ON
HOUSING DEVELOPMENT

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ENVIRONMENTAL SCANNING: DEVELOPMENTS IN THE GLOBAL AND LOCAL ECONOMY AND THEIR IMPACT ON HOUSING DEVELOPMENT

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1. INTRODUCTION

The human settlements environmental scanning report is a quarterly publication focusing on developments in the global and local economy, building sector as well as residential property market and their potential impact on housing development. This report is compiled by Governance Frameworks, Research Directorate of the Department of Human Settlements using various sources that comprise Statistics South Africa, Bureau for Economic Research, building material retailers, document analysis, surveys and interviews with key players in the construction industry. The publication is intended for practitioners and stakeholders in the human settlements sector. It provides an analysis of trends relating to developments in the global and local economy, the state of the building industry, the residential property market and how these affect the mandate of the Department of Human Settlements.

The impact of global economic developments in South Africa is analysed using variables such as GDP growth, inflation, interest rates, access to credit, credit defaults and rate of unemployment. Analysis of developments in the building industry includes comparative analysis of the cost of building materials, building plans passed, etc. An analysis of developments in the residential property market is also discussed focusing mainly on the affordable market.

Furthermore business and consumer confidence indices are utilised to determine future developments in the economy and construction industry. Implications are drawn on how these could weaken or strengthen the implementation of policies and programmes of the Department of Human Settlements.

2. GLOBAL ECONOMIC DEVELOPMENTS

According to the International Monetary Fund (IMF), world growth slowed down in the first half of 2014 compared with the second half of 2013. It indicates that growth in real world output was down to an annualised rate of 2.7% in the first half of the year from 3.9% in the last six months of 2013.

The United States (US) and the United Kingdom (UK) remain the main drivers of global growth although more broadly, global growth may get some movement from lower oil and food prices, which should provide some boost to consumers. US economic growth was better than expected in the third quarter of 2014 with the first advanced estimate of 3.5%, and the unemployment rate declining to 5.8%. The UK recorded growth of 2.8% in the third quarter, while the unemployment rate was unchanged at 6.0%. The Japanese economy contracted for a second consecutive quarter during the third quarter, and has prompted a reconsideration of a further value-added tax (VAT) increase next year (South African Reserve Bank).

The eurozone outlook also remains bleak, including in the core countries such as France and Germany, although lower food and oil prices, coupled with further monetary easing, may have a positive impact. The outlook for emerging markets is mixed, with emerging Asian economies expected to benefit most from the positive spill-overs from the US recovery. This is expected to offset in part the adverse impact of the slowdown in China, where growth is expected to be lower than in the past few years, as the economy rebalances away from investment towards consumption. This moderation is expected to continue to impact negatively on commodity prices. The Indian economy is showing signs of sustained recovery, while the other BRICS partners, Russia and Brazil, face significant growth headwinds. Oil exporters generally are expected to face challenges from international oil price weakness (South African Reserve Bank).

3. SOUTH AFRICAN ECONOMIC OUTLOOK

3.1 Economic Performance

According to Statistics South Africa, domestic seasonally adjusted real gross domestic product (GDP) at market prices increased by an annualised rate of 1.4 % in the third quarter of 2014. The main contributors to this increase in economic activity were finance, real estate and business services and the wholesale, retail and motor trade; catering and accommodation industry each contributed 0.5% based on increases of 2.4% and 3.4%

respectively. General government services contributed 0.3% based on growth of 2.2%. The agriculture, forestry and fishing industry and the transport, storage and communication industry each contributed 0.2% based on increases of 8.2% and 2.2% respectively (STATSSA, 2014).

The growth in the agriculture, forestry and fishing industry was due to high production in field crops and animal products. The wholesale, retail and motor trade; catering and accommodation industry's growth was due to increases in turnover in most trade divisions. The growth in finance, real estate and business services was due to increases in activities in the financial markets. Economic activity in the manufacturing industry reflected negative growth of 3.4% due to lower production in basic iron and steel, non-ferrous metal products, metal products and machinery; petroleum, chemical products, rubber and plastic products; and wood and wood products, paper, publishing and printing (STATSSA, 2014).

3.2 Developments in energy prices

The energy prices and in particular petrol price in South Africa is linked to the price of crude oil in international markets and is quoted in US dollars (US\$) per barrel. Crude oil prices combined with the Rand/Dollar exchange rate therefore have a major impact on petrol prices. In order for a refinery to make a profit, the price for the product manufactured from crude oil has to be higher than that of the crude oil price. Therefore, if crude oil prices increase, the petrol price has to increase so that crude oil refineries are able to cover their costs.

The average international product prices of petrol, diesel and illuminating paraffin decreased during the review period of 31 October to 27 November 2014. The main contributing factor to the fuel price decreases is the recurrent drop in the crude oil prices. The average international price of Brent crude oil fell by around US\$7.0 per barrel (/bbl) from an average of US\$87.0/bbl to the current US\$80.0/bbl. Since mid June, Brent crude oil prices have fallen by more than 30% with a panic over abundant supplies in the world economy as a result of rise in output from shale oil and other unconventional sources and a strong US dollar (Department of Energy, 2014).

The Rand appreciated against the US Dollar. The average Rand/ US Dollar exchange for the period 31 October to 27 November 2014 was R11.0969 compared to the R11.1004 during the previous period. The strengthening of the rand against the US Dollar increased the contribution to the basic fuel price on petrol. For the fourth quarter of 2014, petrol price has been on a declining trend. From October, November and December; petrol prices decreased by 5c, 45c and 69c respectively. Prices moved from R14.62c/L to the current R13.43c/L.

3.3 Inflation¹ movements and its impact

The Consumer Price Index (CPI) and Producer Price Index (PPI) are the two primary measures of inflation for South Africa. The CPI tracks the rate of change in the prices of goods and services purchased by consumers. Thus, the headline CPI is used as the inflation target measure which guides the South African Reserve Bank (SARB) on the setting of interest rates. The PPI tracks the rate of change in the prices charged by producers of goods.

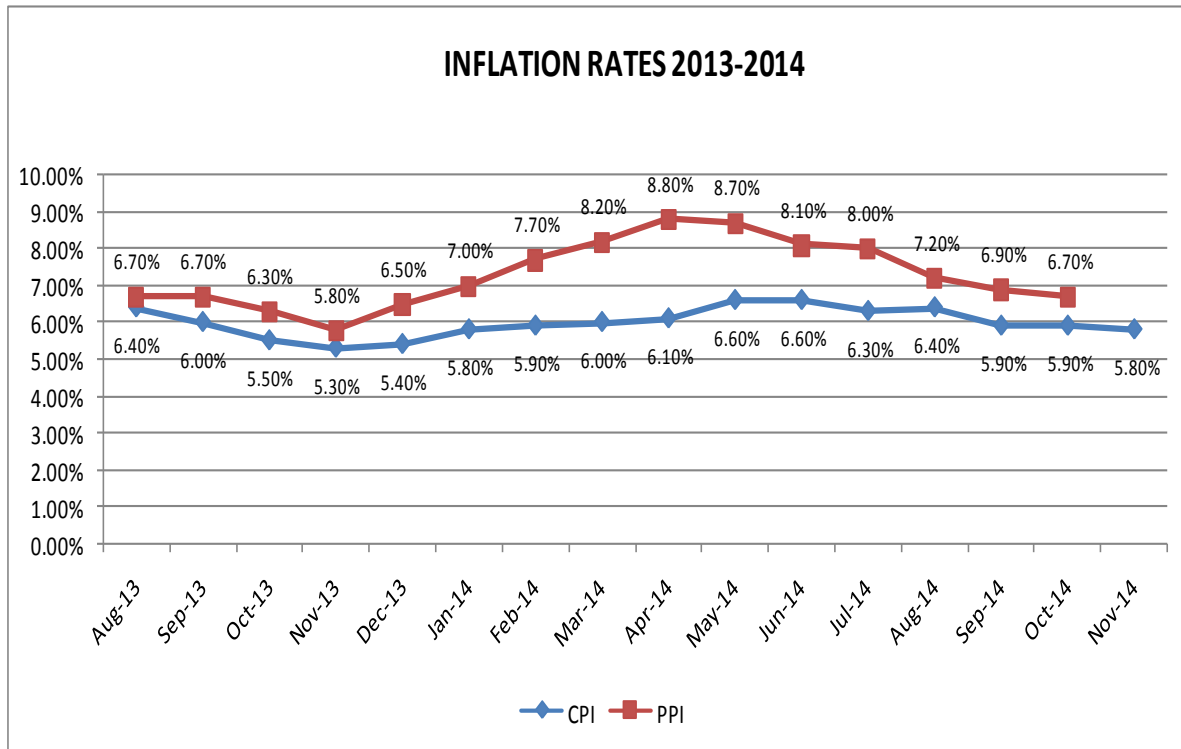
Consumer inflation decreased to 5.8% in November compared with October's reading of 5.9%. The downward pressure on inflation came from the continued moderation in food and petrol prices. Food and non-alcoholic beverages index increased by 0.6% between October and November 2014. The annual rate decreased to 7.6% in November 2014 from 7.8% in October 2014.

According to the South African Reserve Bank, the downward trend in CPI is expected to continue into 2015, with inflation forecast to reach a low of 5.1 % in the second quarter, and to average 5.3% for the year. The forecast for 2016 has been revised down from 5.8 % to 5.5%, and is expected to measure 5.4% in the final quarter of the year.

The downward trend in inflation generally mean that household's disposable income can atleast afford to purchase more goods as prices are now increasing at decreasing rate.

¹ Inflation is the rate at which prices are increasing

FIGURE 1: INFLATION RATES



Source: STATSSA, Nov 2014

The annual percentage change in the PPI for final manufactured goods was 6.7% in October 2014 compared with 6.9 in September 2014. From September 2014 to October 2014 the PPI for final manufactured goods increased by 0.3%. The main contributors to the annual rate of 6.7% were food products, beverages and tobacco products which contributed 2.8 % points. Metals, machinery, equipment and computing equipment contributed 1.4% points.

Though PPI is also on a declining trend, the cost of production is still expensive. For housing specifically, if costs of production are still high, it means that the value capital investments made for housing development will consistently decline. The result is that it will cost a little more to build the same size of a house. These developments together with high prices of essentials like food and clothing for instance does indicate that households will find it more challenging to provide shelter for themselves and therefore will require some form of assistance from government.

3.4 Interest Rates

At its Monetary Policy Committee (MPC) meeting in November, the South African Reserve Bank left the repo rate unchanged at 5.75%. The prime interest rate asked by commercial banks also remained unchanged at 9.25% (SA Reserve Bank, 2014). This decision meant that the pressure on disposable income for individuals with mortgages and other forms of credit exposure also remained unchanged.

In his statement, the Governor of the Reserve Bank indicated that the domestic growth outlook remains challenging, and the risks to the forecast are assessed to be moderately on the downside. The MPC does not see significant signs of excess demand pressures that are impacting on the inflation outlook and household consumption expenditure is expected to remain constrained (SA Reserve Bank, 2014).

3.5 Unemployment

According to the labour force survey of Statistics SA, third quarter saw an increase in employment of 22 000 from 8 666 000 in June 2014 to 8 688 000 in September 2014. This resulted to a slight decrease in the unemployment rate from 25.5% in the second quarter of 2014 to 25.4% in the third quarter. Increases in employment were observed in both the formal and the informal sectors (88 000 and 28 000 respectively). Employment increased by 16 000 in the Agricultural industry, while a decrease of 110 000 was observed in Private households. The quarterly increase of 137 000 among the not economically active population was driven by an increase of 95 000 in discouraged job-seekers (Statssa, 2014).

In the third of 2014 the number of unemployed people decreased slightly by 3 000 to 5.2 million. Unemployment increased consecutively in the first two quarters of 2014. Increases of 237 000 and 87 000 in the number of unemployed people were observed in first and second quarter respectively (Statssa, 2014).

The high levels of unemployment means people will still be dependent on State assistance programmes. For the Department of Human Settlements it means more people will require housing assistance and this will add to the already existing backlog

3.6 Access to credit

At the end of the second quarter, there were 79.42 million accounts recorded at registered credit bureaus. This was an increase of 2.9% quarter-on-quarter and 11.6% year-on-year. Of the 79.42 million accounts, 58.15 million (73.2%) were classified as in good standing, a negative variance of 1.8% quarter-on-quarter and 0.3% year-on-year.

According to the National Credit Regulator (NCR), the overall value of credit granted increased from R117.21 billion to R118.66 billion for the quarter ended December 2013. This is an increase of 1.24% when compared to the previous quarter but it decreased by 1.06% a year ago. The number of applications for credit increased by 525,000 from 10.22 million in September 2013 to 10.75 million in December 2013. This represents an increase of 5.14% for the fourth quarter (NCR, 2013).

The rejection rate of applications was 57.37%. Mortgages accounted for R34.72 billion (29.26%); "Secured credit agreements" for R40.58 billion (34.20%); Credit facilities for R18.70 billion (15.76%); Unsecured credit for R21.61 billion (18.22%); Short-term credit for R1.38 billion (1.16%); and Developmental credit for R1.68 billion (1.41%) of the total credit granted.

The number of applications received and the number of applications rejected increased by 5.14% and 5.41% respectively for the quarter ended December 2013.

TABLE 1: NUMBER OF APPLICATIONS RECEIVED AND REJECTED

Agreements	2012 4th Q 000	2013 1st Q 000	2013 2nd Q 000	2013 3rd Q 000	2013 4th Q 000
Number of application received	11,813	10,117	10,350	10,222	10,748
Number of applications rejected	6,301	5,631	5,811	5,850	6,166
% of applications rejected	53.34%	55.65%	56.14%	57.23%	57.37%

Source: National Credit Regulator, 2013

Mortgages' percentage share of total credit granted decreased to **29.26%** for the quarter ended December 2013 from 29.45% in the previous quarter. Unsecured credit as a percentage of total credit granted continued to grow from **17.83%** for the quarter ended September 2013 to **18.22%** for the quarter ended December 2013.

TABLE 2: CREDIT GRANTED BY CREDIT TYPE

Agreements	2012 4 th Q R000	2013 1 st Q R000	2013 2 nd Q R000	2013 3 rd Q R000	2013 4 th Q R000	2013 4 th Q % distributi on
Mortgages	28,603,463	25,039,734	30,099,218	34,521,936	34,717,349	29.26%
Secured credit	39,478,512	35,185,813	37,539,671	39,911,580	40,579,597	34.20%
Credit facilities	19,182,321	16,725,388	16,627,607	17,719,904	18,698,299	15.76%
Unsecured credit	29,072,652	22,592,797	22,064,444	20,897,196	21,614,882	18.22%
Short term credit	1,707,277	1,590,561	1,450,531	1,394,880	1,378,018	1.16%
Developmental credit	1,896,498	1,151,721	1,834,435	2,768,119	1,675,816	1.41%
Total	119,940,724	102,286,014	109,615,905	117,213,616	118,663,962	100.00%

Source: National Credit Regulator, 2013

The value of the gross debtors book for the period ended December 2013 grew by R26.68 billion (1.79%) and by R76.90 billion (5.33%) on a year on year basis. The unsecured credit book grew by R3.34 billion (2.00%) on quarter on quarter and by R11.50 billion (7.22%) year on year. The mortgages book grew by R8.17 billion (1.01%) and secured credit book grew by R11.74 billion (3.77%) for the December 2013 quarter. Gauteng province accounted for R56.10 billion (47.27%) of the total R118.66 billion of credit granted. Western Cape and KwaZulu Natal accounted for R16.28 billion (13.72%) and R14.24 billion (12.00%) respectively. The remaining provinces constituted R32.05 billion (NCR, 2013).

There was an overall quarter on quarter increase of 0.57% in the rand value of mortgage agreements granted for the quarter ended December 2013. The majority (71.39%) of mortgage agreements granted during the December 2013 quarter were in excess of R700K. The number of mortgage agreements concluded increased by 0.04% for the quarter ended

December 2013. The majority (72.78%) of mortgages were granted in favour of larger sized credit agreements. On a year on year basis, mortgage agreements increased by 13.18%.

TABLE 3: MORTGAGES GRANTED BY SIZE OF AGREEMENTS

Agreements	2013 3rdQ (R000)	2013 4 th Q (R000)	2013 4 th Q % distribution	% change (4 th Q/3 rd Q)	% Change (Y/Y)
R0-R50K	33.008	38,750	0.11%	17.40%	-29.00%
R51K-R100K	174.358	165,330	0.48%	-5.18%	-11.67%
R101K-R150K	241.926	226,155	0.65%	-6.52%	-3.58%
R151K-R350K	1,972.058	1,905,584	5.49%	8.17%	-4.51%
R351K-R700K	7,450.421	7,598,281	21.89%	16.87%	7.47%
≥R700K	24,650.16	24,783,24	71.39%	14.93%	27.91%
	4	8			
Total	34,521.93	34,717,34	100.00%	14.69%	20.02%
	6	9			

Source: National Credit Regulator, 2013

Individuals with a gross monthly income of “Up to R10K” received 63.33% of the total number of short-term credit agreements granted for the quarter ended December 2013 as indicated in Table 4. Individuals with a gross monthly income of “Up to R10K” received 50.85% of the rand value of short-term credit granted for the quarter ended December 2013. This may suggest the individuals at lower income levels depend more on short-term loans.

TABLE 4: SHORT-TERM CREDIT GRANTED – GROSS MONTHLY INCOME OF INDIVIDUALS (NUMBER OF AGREEMENTS)

Level of income	2013 1 st Q	2013 2 nd Q	2013 3 rd Q	2013 4 th Q
≤R10K (R000)	620,696	589,912	562,322	553,823
<i>% share of credit granted</i>	62.35%	62.44%	62.59%	63.33%
R10.1K-R15K (R000)	172,994	162,221	149,922	142,294
<i>% share of credit granted</i>	17.38%	17.17%	16.69%	16.27%
>R15K (R000)	201,882	192,693	186,189	178,388
<i>% share of credit granted</i>	20.28%	20.39%	20.72%	20.40%
Total value of mortgages	995,572	944,826	898,433	874,505

(R000)				
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Source: National Credit Regulator, 2013

The number of agreements that were concluded with individuals in the greater than R15K income category constituted more than 85% as indicated in Table 5. This income category also accounted for 95.88% of the rand value of the mortgages granted during the quarter ended December 2013 (NCR, 2013).

TABLE 5: MORTGAGES GRANTED BY GROSS MONTHLY INCOME OF INDIVIDUALS (RAND VALUE)

Level of income	2013 1 st Q	2013 2 nd Q	2013 3 rd Q	2013 4 th Q
≤R10K (R000)	210.541	236.620	260.179	242.376
<i>% share of credit granted</i>	<i>0.85%</i>	<i>0.80%</i>	<i>0.765%</i>	<i>0.71%</i>
R10.1K-R15K (R000)	981.329	1,146.680	1,233.152	1,171.389
<i>% share of credit granted</i>	<i>3.95%</i>	<i>3.86%</i>	<i>3.61%</i>	<i>3.41%</i>
>R15K (R000)	23,654.688	28,313.860	32,658.951	32,935.414
<i>% share of credit granted</i>	<i>95.20%</i>	<i>95.34%</i>	<i>95.63%</i>	<i>95.88%</i>
Total value of mortgages (R000)	24,846.558	29,697.161	34,152.282	34,349.179

Source: National Credit Regulator, 2013

The above data indicates that it has become increasingly difficult for low-income earners to access credit particularly mortgage loans. This trend suggests a need to encourage banks to focus on the lower market. But the argument might be that individuals at the lower market are not affording due to over-indebtedness and lower salaries or are not qualifying for mortgages.

Inflation rates and availability of stock also affect access to mortgages finance. If the entry stock is priced at an average of R350 000, monthly repayment will be R3 500 at 10% interest. This amount will be difficult for the household earning around R7 000.00 to make repayments. The cost of home ownership is not only the bond repayment, but it includes the property rates, electricity and water charges. At the end the household will be required to pay over R4000.00.

The policy implication is that the success of FLISP will remain limited if the implementation continues to rely on mortgages. There is a need for provinces to provide serviced stands for the gap market as this will allow individuals to request finance in smaller amounts depending on individual affordability.

3.7 Credit Defaults

According to du Toit (2014), despite the credit amnesty process, consumer credit risk profiles deteriorated somewhat further in the second quarter of 2014, with a total of 9.95 million credit-active consumers, or 45% of a total of 22.12 million, having impaired credit records, compared with 9.6 million (44.2%) in the first quarter. The number of consumers in good standing came to 12.17 million (55%) in the second quarter. A total number of 79.42 million consumer credit accounts were active in the second quarter of the year, of which 58.15 million (73.2%) were in good standing and 21.28 million (26.8%) were impaired.

This situation regarding consumers' credit-risk profiles severely restricts the access to credit and adversely affects household consumption expenditure against the background of the continued low level of household savings.

4. CURRENT DEVELOPMENTS IN THE BUILDING INDUSTRY

Residential building activity remained largely under pressure in the first half of 2014, in line with trends since 2010. The planning phase of new housing, as reflected by the number of building plans approved by local government institutions for houses, flats and townhouses, showed relatively strong growth in the first eight months of 2014. However, the construction phase of new housing contracted.

According ABSA, statistics supplied by Lightstone shows that in the second quarter of 2014 there were 6 million residential properties in South Africa with a total value of R4,2 trillion,

of which 2,1 million with a total value of R2,2 trillion were bonded and 3,9 million with a total value of R2 trillion were non-bonded.

ABSA further highlights that the General Household Survey 2013, published by Statistics South Africa in June this year shows that 77.7% of a total of 15.107 million households were living in formal housing; 13.6% of households were living in informal housing; 15.3% of households were living in RDP or state subsidised housing; 13.6% of households had at least one member on a waiting list for state-subsidised housing and 13.3% of households were receiving a housing subsidy from the state.

4.1 Building plans completed

The number of building completed reflects the level of building activities that occurred during the specified period. According to Statistics South Africa (2014d), the value of buildings reported as completed at current prices decreased by 7.9% (-R3 078.6 million) during January to September 2014 compared with January to September 2013. Additions and alterations were the largest contributor with -26.6% (Statssa, 2014).

4.2 Building Plans Passed

The building plans passed provide an indication of the level of building activities that is expected to take place in the near future. According to the Statistics South Africa, the value in the building plans passed at current prices increased by 9.1% (R5 874.8 million) during January to September 2014 compared with January to September 2013. The increase was mainly driven by an increase in residential buildings with 17.7% (Statssa, 2014).

Table 2: Comparative Analysis of Building Plans Passed and Completed by Province

Province	% Change in Buildings Completed Between January to September 2013 and January to September 2014	% Change in Building Plans Passed Between January to September 2013 and January to September 2014
Eastern Cape	6.4	2.5
Free State	-54.2	54.5
Gauteng	12.3	0.4
KwaZulu-Natal	-11.8	21.2
Limpopo	29.6	-8.4
Mpumalanga	41.3	-2.4
Northern Cape	36.6	32.2
North West	18.4	-18.3
Western Cape	-40.6	21.3
Total	-7.9	9.1

Source: Stats SA, 2014

Out of the nine provinces, three reported a year on year (y/y) negative value of buildings completed in the third quarter of 2014. The major decrease was reported by the Free State Province followed by Western Cape and KwaZulu-Natal. Mpumalanga and Northern Cape were very active in terms of buildings completed and Northern Cape Province still shows some signs of future activities as the building plans approved are also high. In terms of building plans passed, six provinces reported y/y increases in the value of building plans passed. Free State recorded the highest followed by Northern Cape, Western Cape and KZN.

Residential building activity continues to be influenced by conditions and trends in the economy, household finances, consumer and building confidence, as well as factors related to the demand for and supply of new housing. These will remain the main driving factors of residential building activity.

4.3 Building Costs

According to ABSA (2014b), the average building cost of a new house increased by 8% y/y in the third quarter of 2014. Factors impacting building costs and ultimately the price of new housing include building material; transport; equipment and labor costs. The cost of developing land for residential purposes also contributes extensively to the escalation of building costs.

Global economic growth rates seem to be recovering gradually. BER business survey data reflect an improved business confidence levels. BER building survey respondents have become optimistic about business conditions for the first time in six and a half years.

According to the Medium-Term Forecasting Associates, the Haylett Index (Work Group 180, lump-sum domestic buildings), which is a reflection of builders' input costs, rose by 6.4% on average in 2013. A rise of 6.7% was recorded in the year to August 2014 and it is expected to rise to an average of 6.9% in 2014. Haylett Index (Work Group 181, commercial and industrial buildings), rose by 6.2% on average during 2013. A rise of 6.5% was recorded in the year to August 2014 and an average rise of 6.9% is expected in 2014.

Tender price increases, as measured by the BER Building Cost Index, dropped by -0.2% in 2010 as intensive competition in tendering forced building contractors to trim their profit margins. However, tender prices rose by 3.4% in 2011 and by 6.9% in 2012. In 2013 preliminary data record an average rise of 6.6% per annum.

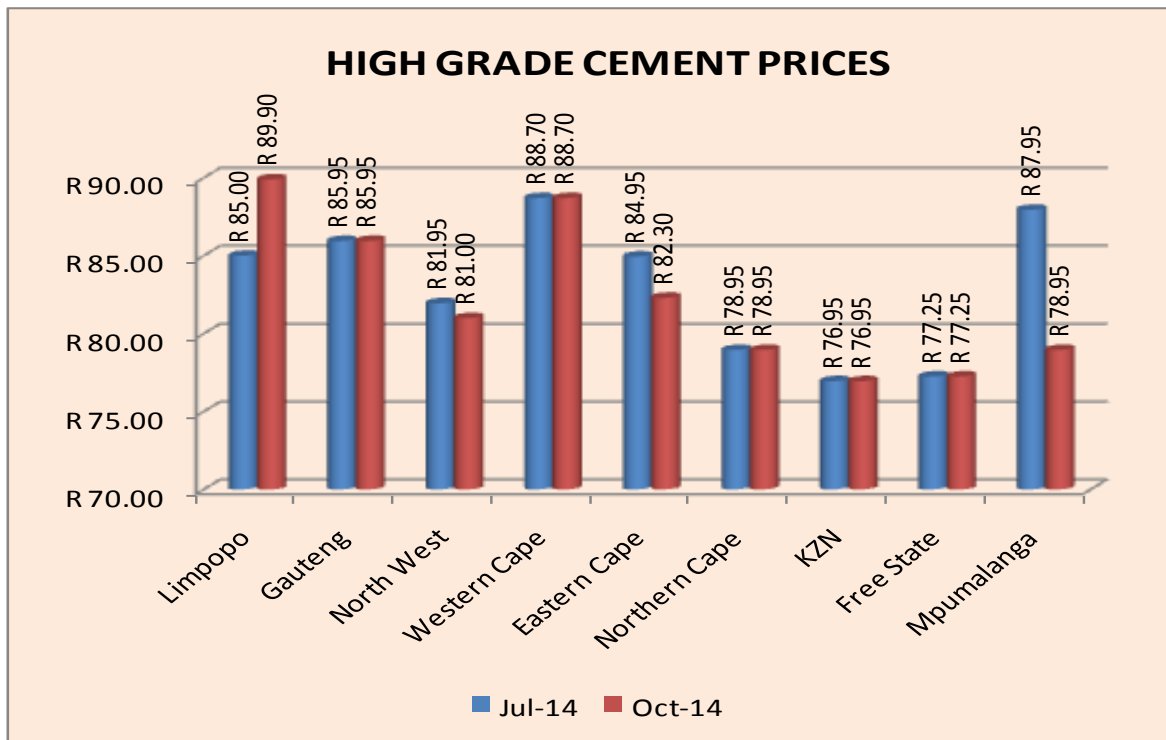
These building costs developments suggest that input costs continues to increase going forward and therefore they should be adequately accommodated in the subsidy quantum.

4.4 Cement Prices

Cement is one of the major products utilised in the building industry particularly in government-subsidised housing. Therefore, increases in the cement price impact

significantly in the delivery of government subsidised housing and the total building costs. A telephonic interview with Cash Build Hardware was conducted to establish the cement prices in all Provinces. According to the data obtained from them, it was evident that the cement prices vary. These varying prices might be due the transport costs associated with delivering products different provinces within the country.

FIGURE 2



Source: Department of Human Settlements, 2014

In trying to track trends in cement prices, most provinces experienced unchanged cement prices between July and October 2014. It should be noted that in provinces such as Mpumalanga, Free State, KwaZulu Natal and Eastern Cape, the Cashbuild hardware don't stock the PPC cement. They only sell the NPC, LaFarge, Afrisam and Sephaku. This might be the reason for the difference in prices. In terms of the most expensive prices, Limpopo is ahead with R89.90 followed by Western Cape at R88.70. Cement seems to be more affordable in KZN province with R76.95 (Human Settlements, 2014).

These figures are indicating that the transport costs from the harbour to the inland could be a major factor that affects prices for goods in the inland provinces.

5. OVERVIEW OF THE RESIDENTIAL PROPERTY MARKET

Trends in house prices is a reflection of the property market conditions and related factors which are affected by a combination of macroeconomic developments, the state on household finances and the level of consumer confidence.

According to ABSA, nominal and real y/y house price growth in the middle segment of the market was marginally higher in the third quarter compared with the second quarter of 2014. In the category of affordable housing nominal price growth accelerated further in the third quarter, whereas price growth in the luxury segment saw a double digit. Real house price growth was influenced by pressure on consumer price inflation in the third quarter of the year. House price trends continued to be driven by property market conditions and related factors, which were affected by a combination of macroeconomic developments, the state of household finances and the level of consumer confidence (ABSA, 2014).

5.1 Residential Property Prices

The affordable segment (houses with the size of 40m² to 79m² and priced up to R545, 000 in 2014), accelerated to 7.6%, with an average price of about R375 000 in the third quarter of 2014, after rising by 6.7% in the second quarter. Real price inflation of 1.3% y/y was recorded in the third quarter from the 0.2% recorded in the second quarter. (du Toit, 2014).

The average nominal price of a home in the middle segment of the market (homes of 80m² to 400m² and priced at R4million or less in 2014) increased by 9.6% y/y to around R1 287 000 in the third quarter of 2014 (9.3% y/y in the second quarter). Real price inflation in this category of housing came to 3.2% y/y in the third quarter of the year, down from 2.6% y/y in the second quarter (du Toit, 2014).

The second quarter of 2014 saw the average price of luxury housing (homes priced at between R4 million and R14.6million in 2014) rising by a nominal 10.9% y/y to a level of about R5.7 million, after prices had risen by 8.6% y/y in the second quarter. In real terms,

the average price in this category of housing was down by 4.3% y/y in the third quarter of the year after rising by 1.9% y/y in the second quarter (du Toit, 2014).

5.2 Land Values

The value of land for new housing in the middle and luxury segments of the market for which Absa received applications and approved mortgage finance, increased by a nominal 10.1% y/y to an average of about R627 000 in the third quarter of 2014, after having risen by 5% y/y in the second quarter. In real terms residential land values were down by 3.6% y/y in the third quarter of the year, after declining by a real 1.4% y/y in the second quarter.

The average price of land for new middle-segment and luxury housing, which amounted to 27.5% of the total value of a new residential property in these categories in the third quarter of 2014, will continue to reflect the all-important factor of location, as well as the availability of suitable land for development, the availability of municipal services such as electricity, water, sewerage and refuse removal, the availability and condition of transport infrastructure and the proximity to places of work, schools, shopping centres and medical facilities (du Toit, 2014).

6. CHALLENGES

6.1 Poor prospects of economic performance

World economic growth slowed down in the first half of 2014 compared with the second half of 2013. It indicates that growth in real world output was down to an annualised rate of 2.7% in the first half of the year from 3.9% in the last six months of 2013.

6.2 High rate of unemployment

The third quarter saw an increase in employment of 22 000 from 8 666 000 in June 2014 to 8 688 000 in September 2014. This resulted to a slight decrease in the unemployment rate from 25.5% in the second quarter of 2014 to 25.4% in the third quarter. Though a slight

improvement was seen, more South Africans will still rely on government for assistance including housing.

6.3 Vulnerability of the low income earners

High level of indebtedness and high level of impaired credit record presents evidence of vulnerability of low income earners to access mortgage loans which is the main form of funding housing development for ownership currently. This suggests that incremental housing should be the preferred approach for housing development for low income earners. Information from Credit Regulator provides evidence that low income earners are continually opting for short term loans to fund their housing development as opposed to mortgage loans.

6.4 Increasing input cost

Cost escalations for new house construction continue to outstrip the cost of buying an existing house. Increasing land cost is also expected to continue to contribute significantly to the costs of housing development. This means that more funding will be required to ensure that the level of housing development is not affected.

6.5 Subdued property market

The property market is expected to continue to reflect conditions of poor economic performance, struggling consumer sector due to declining values of disposable income (owing to inflation and increasing costs of living) and limited access to funding due to indebtedness, impaired credit record and risk aversion by financial institutions. This is more prevalent in the affordable segment of the market which registered real price deflation of 2.6% y/y in the first quarter.

7. FUTURE ECONOMIC PROSPECTS AND IMPACT ON THE RESIDENTIAL PROPERTY MARKET

Confidence indices are the key leading indicators which points the direction for the future economic performance. Business confidence and building confidence indices provides

indication of future investments by businesses while consumer confidence is critical to point the direction of spending by the general public.

The **Business Confidence Index**² (BCI) which measures the confidence levels of prevailing business conditions in the manufacturing, building, retail trade, wholesale trade and new vehicle trade sectors increased by 5 points to 46 points third quarter of 2014.

According to RBM/BER the rise in the BCI reflects an improvement in sentiment in all the sectors making up the headline index, except for the new vehicle trade. Confidence among wholesalers increased by 15 index points. The retailers, building contractors and manufacturers, the business mood improved by 11, 8 and 3 points respectively. By contrast, sentiment among new vehicle dealers deteriorated by 15 points.

After increasing from 39 to 49 in the second quarter, retailers' confidence rose further to 60 index points. The confidence of wholesalers jumped from 44 to 59 index points and building contractors increased from 45 to 53. Manufacturing confidence increased marginally from 25 to 28 index points, as sales and production recovered only partially from the poor performance in the strike-affected second quarter. While both export and domestic sales volumes improved, levels are still much lower than they were at the beginning of the year.

According to RBM/BER, the **Consumer Confidence Index**³ (CCI) The FNB/BER consumer confidence index (CCI) rebounded from -6 to 4 index points during the second quarter of 2014. The latest reading is the highest since third quarter 2011, but still marginally below the long-term average reading of the CCI (+5 since 1994). Consumers' rating of their own financial prospects improved significantly during the second quarter of 2014, with high income consumers in particular expecting their household finances to look up over the next 12 months. Consumers' rating of the outlook for the national economy and the

² Business Confidence Index (BCI) is determined from a survey of five major sectors of the economy namely manufacturing, building, retail trade, wholesale trade and new vehicle trade. BCI measures whether investors in these sectors rate prevailing business conditions as satisfactory or not.

³ **Consumer Confidence Index** is a FNB/BER survey of consumers based on three questions, namely the expected performance of the economy, the expected financial situation of households and the rating of the appropriateness of the present time to buy durable goods (such as furniture, appliances, electronic equipment, and motor vehicles) (BER, 2011c).

appropriateness of the present time to buy durable goods also improved notably, but these two indices still remain well below their historical averages (RBM/BER, 2014).

The **Building Confidence Index**⁴ increased up to 45 points in the third quarter of 2014 after the fall of 41 points which was registered in the second quarter. The survey results suggest that residential building activity improved satisfactorily, supporting the rest of the building sector. In contrast, nonresidential building activity was unchanged. Retailers of building materials increased by 18 to a six year high of 74 index points. Main contractors increased by 8 to 53 index points. This was primarily due to a marked increase in residential contractor confidence on the back of a sharp rise in residential building activity. Sub-contractors, manufacturers of building materials and architects gained confidence, recording an increase of 4, 4 and 1 respectively. Despite the activity level in residential sector, confidence for quantity surveyors declined by 8 and recorded 37 index points.

⁴ **Building confidence Index** measures the level of performance as well as possibility for future investments in all sectors of the building industry. The index measures the business confidence of all the major role players and suppliers involved in the building industry, such as architects, quantity surveyors, contractors, sub-contractors, wholesale and retail merchants, and manufacturers of building materials (BER, 2011f). The index can vary between zero (indicating an extreme lack of confidence) and 100 (indicating extreme confidence).

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