



FNB HOUSE PRICE INDEX

PROPERTY MARKET ANALYTICS

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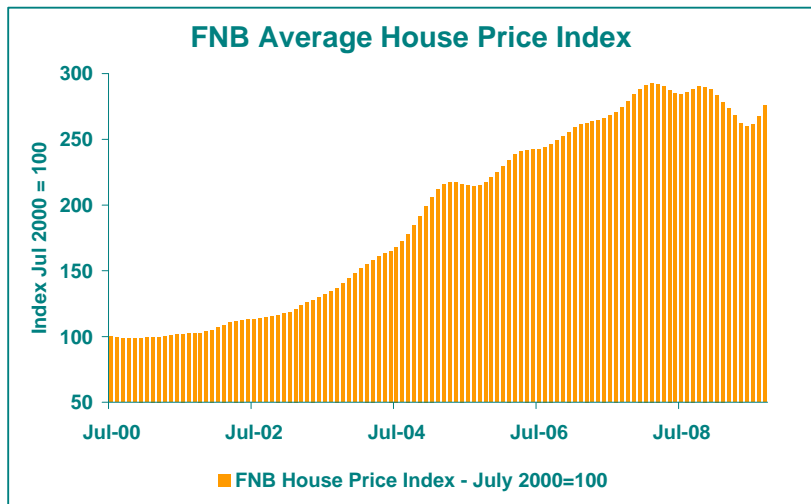
HOME LOANS DIVISION

- Rapid strides towards the end of price deflation

1 October 2009

FNB HOUSE PRICE INDEX NOW VERY NEAR TO RESUMING YEAR-ON-YEAR INFLATION

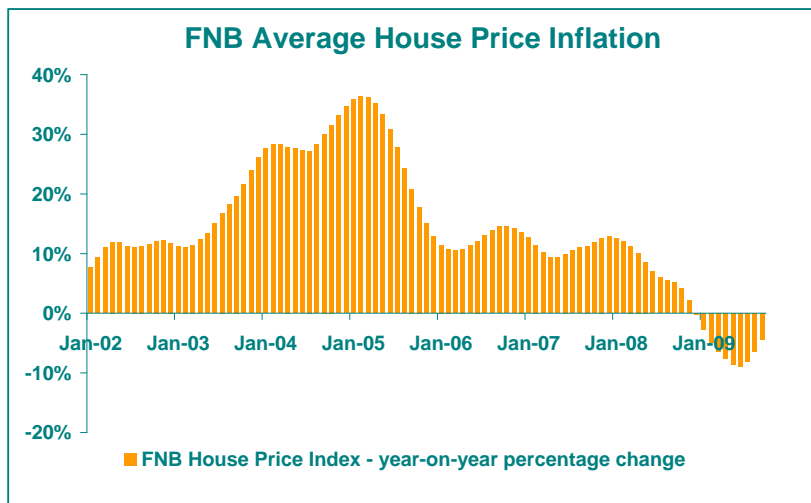
The FNB House Price Index's year-on-year decline continued to diminish at a steady pace, and it looks likely that year-on-year price increase will resume in the next few months. The deflation rate for September was -4.4% year-on-year, significantly less than a revised August rate of -6.5%. At this rate, year-on-year deflation will probably be a thing of the past before year-end.



This diminishing price deflation trend is a strong sign that the positive impact of 500 basis points' worth of interest rate cuts since December 2008 is starting to be felt in terms of residential market performance.

It is becoming clearer that the recent months' diminishing price deflation is indeed the start of a trend back towards price inflation, following on an improving trend in demand and transaction volumes, which started earlier in 2009.

The improvement in the market to date has been very much due to interest rate cuts, which have improved the household sector's ability to service debt. However, there has been no real help from the economy, which remained in recession until very recently, exerting huge pressure on household disposable incomes.



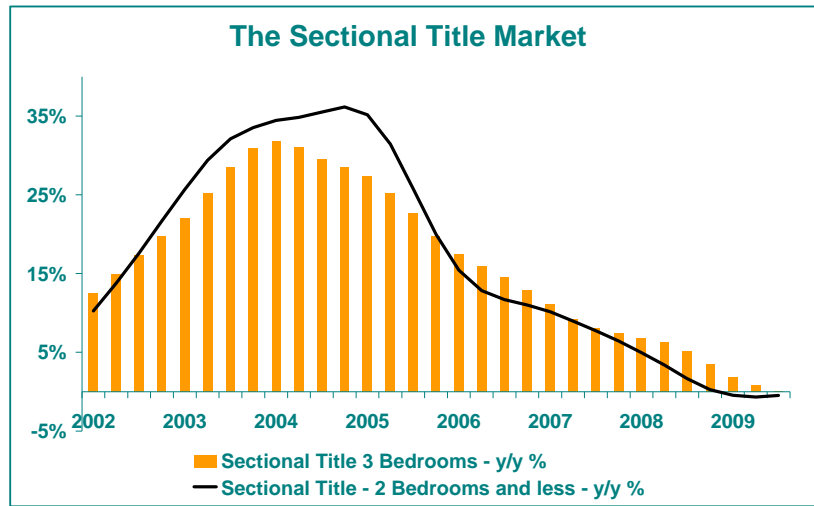
The improvement in the market has not only been seen in volume of transactions and diminishing price deflation, but also in an improvement in credit quality. FNB has seen home loan arrears numbers improving, while 2nd quarter insolvencies were down by -40% year-on-year.

The FNB Price Index has July 2000 as its base month, i.e. July 2000 = 100. The latest index value was 275.6, implying an average value 175.6% higher than the price average measured in July 2000 when the time series started. However, from the peak in the index reached in February 2008, a cumulative price decline of -5.9% has been recorded to date.

Note: Data compiled by Ewald Kellerman and John Loos: FNB Home Loans Property Analytics

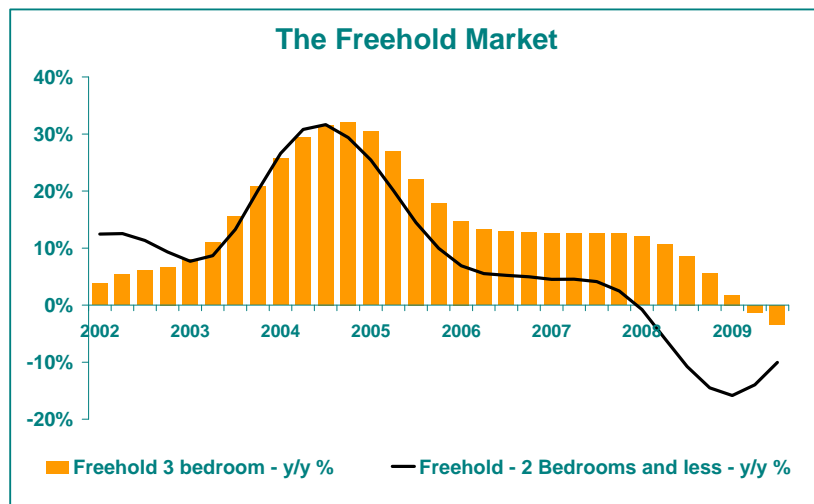
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MARKET SEGMENTS – “2 BEDROOM AND LESS” SEGMENT STILL WEAKER THAN THE 3 BEDROOM SEGMENT BUT SHOWING SIGNS OF IMPROVEMENT



We remain of the belief that the smaller “2 bedroom and less” market segment should be more cyclical over time than the 3 bedroom market. This is because the smaller-sized segment is more the target of first time buying as well as buy-to-let buying, more cyclical demand types than the established family demand which would probably dominate in the 3 bedroom market.

The most recent quarterly house price numbers expressed according to number of bedrooms still appear to support this view. In the sectional title market, the 3 bedroom segment showed year-on-year price inflation of +0.1% in the 3rd quarter, still slightly better than the 2 bedroom and less segment's -0.5%. However, the 2 bedroom and less segment appears to have been turning already, reflecting its greater sensitivity to cyclical changes, while as yet the 3 bedroom segment still shows weakening price inflation.



In the freehold market, too, year-on-year price deflation of -10.1% in the 2 bedroom and less segment is far worse than the -3.5% recorded in the 3rd quarter for the 3 bedroom segment. But again, the 2 bedroom and less segment has shown improvement for a few quarters already (diminishing price deflation), while the 3 bedroom segment still points to deterioration.

In both the freehold and sectional title markets, therefore, it would appear that although the 2 bedroom and less segments still appear to be weaker to date, it is these smaller-sized segments that appear to be responding first to the declining interest rate cycle.

CONCLUSION

The September house price numbers represent the 3rd consecutive month of diminishing house price deflation, suggesting that an improving trend has indeed been established, and that by year-end we may have seen the last of year-on-year house price deflation for the time being.

There has been an increase in residential demand in recent times, mostly driven by a series of interest rate cuts. However, this strengthening in demand has been slow and moderate, because against interest rate cuts the country has had the spectre of declining real household income, caused by the combination of job loss, deteriorating discretionary remuneration, and weaker investment income flows to households in tough economic times. Therefore, as yet it would not appear that oversupplies of property on the market have been entirely eliminated.

With regard to the economy, there have been some early signs of levelling out, with the SARB Leading Business Cycle Indicator starting a rising trend during recent months after a major decline in 2008. It is conceivable that economy-wide production could be showing some signs of stabilising, and that the 3rd quarter may have seen the end of the recession. However, we continue to emphasise that the platform off which the USA hopes to launch its economic recovery doesn't appear very stable, with that country's various debt and debt-service ratios still at or near the highest levels in history. In SA, too, the household debt to disposable income has made little downward progress, due to incomes being under huge pressure and making debt reduction slow going.

Realistically, therefore, while we expect to see a move back to house price inflation in 2010, the expectation is that average price inflation for next year will be moderate at around 5%.

Monthly FNB House Price Index (July 2000 = 100)											
Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change	Date	Index	y/y % change
Jul-00	100.0		Feb-03	121.0	11.1%	Sep-05	215.1	20.8%	Apr-08	290.1	10.1%
Aug-00	99.2		Mar-03	123.4	11.4%	Oct-05	217.5	17.8%	May-08	287.3	8.6%
Sep-00	98.6		Apr-03	125.8	12.3%	Nov-05	220.7	15.0%	Jun-08	284.9	7.0%
Oct-00	98.4		May-03	127.7	13.4%	Dec-05	224.9	12.8%	Jul-08	284.2	6.0%
Nov-00	98.6		Jun-03	129.8	15.0%	Jan-06	229.6	11.5%	Aug-08	285.9	5.5%
Dec-00	98.9		Jul-03	132.2	16.8%	Feb-06	234.4	10.8%	Sep-08	288.3	5.1%
Jan-01	99.3		Aug-03	134.4	18.3%	Mar-06	238.3	10.5%	Oct-08	290.0	4.1%
Feb-01	99.6		Sep-03	136.9	19.7%	Apr-06	240.9	10.8%	Nov-08	289.8	2.1%
Mar-01	99.7		Oct-03	140.3	21.6%	May-06	241.9	11.3%	Dec-08	287.7	-0.2%
Apr-01	100.0		Nov-03	144.1	23.9%	Jun-06	242.2	12.1%	Jan-09	283.6	-2.7%
May-01	100.7		Dec-03	148.0	26.1%	Jul-06	242.8	13.0%	Feb-09	278.3	-4.9%
Jun-01	101.4		Jan-04	151.7	27.7%	Aug-06	244.1	13.8%	Mar-09	273.5	-6.4%
Jul-01	101.8	1.8%	Feb-04	155.3	28.3%	Sep-06	246.4	14.5%	Apr-09	268.1	-7.6%
Aug-01	102.2	3.0%	Mar-04	158.3	28.3%	Oct-06	249.0	14.5%	May-09	262.5	-8.6%
Sep-01	102.5	4.0%	Apr-04	160.8	27.9%	Nov-06	252.1	14.2%	Jun-09	259.6	-8.9%
Oct-01	102.9	4.5%	May-04	163.0	27.6%	Dec-06	255.5	13.6%	Jul-09	261.2	-8.1%
Nov-01	103.7	5.1%	Jun-04	165.2	27.2%	Jan-07	258.9	12.8%	Aug-09	267.3	-6.5%
Dec-01	105.1	6.2%	Jul-04	168.1	27.2%	Feb-07	261.3	11.5%	Sep-09	275.6	-4.4%
Jan-02	106.9	7.6%	Aug-04	172.4	28.3%	Mar-07	262.6	10.2%			
Feb-02	108.9	9.3%	Sep-04	178.0	30.0%	Apr-07	263.5	9.4%			
Mar-02	110.7	11.1%	Oct-04	184.6	31.6%	May-07	264.6	9.4%			
Apr-02	112.0	11.9%	Nov-04	191.9	33.2%	Jun-07	266.2	9.9%			
May-02	112.6	11.9%	Dec-04	199.3	34.6%	Jul-07	268.2	10.5%			
Jun-02	112.8	11.2%	Jan-05	206.0	35.8%	Aug-07	270.9	11.0%			
Jul-02	113.1	11.1%	Feb-05	211.6	36.3%	Sep-07	274.2	11.3%			
Aug-02	113.7	11.2%	Mar-05	215.6	36.2%	Oct-07	278.6	11.9%			
Sep-02	114.4	11.6%	Apr-05	217.4	35.2%	Nov-07	283.8	12.6%			
Oct-02	115.4	12.1%	May-05	217.2	33.3%	Dec-07	288.4	12.9%			
Nov-02	116.3	12.2%	Jun-05	216.1	30.9%	Jan-08	291.4	12.5%			
Dec-02	117.4	11.8%	Jul-05	214.8	27.8%	Feb-08	292.8	12.0%			
Jan-03	118.8	11.2%	Aug-05	214.4	24.3%	Mar-08	292.2	11.3%			

Cumulative Percentage Change in the FNB House Price Index							
From Date	Cumulative % change to Sept 2009	From Date	Cumulative % change to Sept 2009	From Date	Cumulative % change to Sept 2009	From Date	Cumulative % change to Sept 2009
Jul-00	175.6%	Feb-03	127.8%	Sep-05	28.1%	Apr-08	-5.0%
Aug-00	177.9%	Mar-03	123.4%	Oct-05	26.8%	May-08	-4.1%
Sep-00	179.6%	Apr-03	119.2%	Nov-05	24.9%	Jun-08	-3.3%
Oct-00	180.0%	May-03	115.9%	Dec-05	22.6%	Jul-08	-3.0%
Nov-00	179.4%	Jun-03	112.4%	Jan-06	20.0%	Aug-08	-3.6%
Dec-00	178.6%	Jul-03	108.6%	Feb-06	17.6%	Sep-08	-4.4%
Jan-01	177.6%	Aug-03	105.1%	Mar-06	15.7%	Oct-08	-5.0%
Feb-01	176.7%	Sep-03	101.3%	Apr-06	14.4%	Nov-08	-4.9%
Mar-01	176.5%	Oct-03	96.5%	May-06	14.0%	Dec-08	-4.2%
Apr-01	175.5%	Nov-03	91.3%	Jun-06	13.8%	Jan-09	-2.8%
May-01	173.8%	Dec-03	86.2%	Jul-06	13.5%	Feb-09	-1.0%
Jun-01	171.7%	Jan-04	81.7%	Aug-06	12.9%	Mar-09	0.8%
Jul-01	170.7%	Feb-04	77.5%	Sep-06	11.9%	Apr-09	2.8%
Aug-01	169.8%	Mar-04	74.2%	Oct-06	10.7%	May-09	5.0%
Sep-01	168.8%	Apr-04	71.4%	Nov-06	9.4%	Jun-09	6.2%
Oct-01	167.9%	May-04	69.1%	Dec-06	7.9%	Jul-09	5.5%
Nov-01	165.9%	Jun-04	66.9%	Jan-07	6.4%	Aug-09	3.1%
Dec-01	162.3%	Jul-04	64.0%	Feb-07	5.5%		
Jan-02	157.9%	Aug-04	59.8%	Mar-07	5.0%		
Feb-02	153.2%	Sep-04	54.8%	Apr-07	4.6%		
Mar-02	149.0%	Oct-04	49.3%	May-07	4.2%		
Apr-02	146.2%	Nov-04	43.6%	Jun-07	3.5%		
May-02	144.7%	Dec-04	38.3%	Jul-07	2.8%		
Jun-02	144.3%	Jan-05	33.8%	Aug-07	1.7%		
Jul-02	143.6%	Feb-05	30.3%	Sep-07	0.5%		
Aug-02	142.5%	Mar-05	27.9%	Oct-07	-1.1%		
Sep-02	140.9%	Apr-05	26.8%	Nov-07	-2.9%		
Oct-02	138.9%	May-05	26.9%	Dec-07	-4.4%		
Nov-02	137.0%	Jun-05	27.5%	Jan-08	-5.4%		
Dec-02	134.7%	Jul-05	28.3%	Feb-08	-5.9%		
Jan-03	132.0%	Aug-05	28.6%	Mar-08	-5.7%		

Note: The above table titled "Cumulative Percentage Change in the FNB House Price Index" shows the total (cumulative) change for the period starting from the month shown in the "From Date" column and ending July 2009. For example, from February 2003 to September 2009, the total rise in the House Price Index was 127.8%. Taking the period starting February 2008 and ending September 2009 the total drop in the House Price Index was -5.9%.

Annual and Quarterly FNB House Price Averages (Rand)				
Date	Freehold 2 bedrooms and less	Freehold 3 bedroom	Sectional title 2 bedrooms and less	Sectional title 3 bedroom
2001	190,459	300,187	177,120	288,511
2002	221,921	321,633	205,517	340,428
2003	238,549	359,403	267,585	426,352
2004	313,906	469,266	356,387	551,995
2005	371,132	587,235	466,579	688,553
2006	392,852	661,498	519,768	792,003
2007	403,940	742,762	564,740	862,605
2008	376,044	828,270	576,412	915,859
Q3-2000	158,215	319,551	171,317	277,682
Q4-2000	193,687	291,170	171,499	272,554
Q1-2001	193,332	296,652	171,927	275,805
Q2-2001	189,046	302,667	173,081	288,512
Q3-2001	186,964	296,439	178,957	295,019
Q4-2001	192,492	304,988	184,515	294,708
Q1-2002	215,816	317,179	187,467	319,067
Q2-2002	232,469	326,130	200,608	331,448
Q3-2002	215,946	320,617	205,749	346,426
Q4-2002	223,452	322,608	228,244	364,771
Q1-2003	220,917	329,892	229,001	367,071
Q2-2003	225,955	351,515	261,323	405,726
Q3-2003	232,247	365,479	284,520	452,412
Q4-2003	275,079	390,725	295,495	480,200
Q1-2004	288,056	428,861	319,545	504,473
Q2-2004	305,943	447,638	339,232	548,172
Q3-2004	320,579	475,114	361,673	542,147
Q4-2004	341,048	525,452	405,096	613,191
Q1-2005	381,536	568,938	458,562	668,501
Q2-2005	373,313	604,182	469,297	682,046
Q3-2005	356,171	566,674	462,071	694,390
Q4-2005	373,508	609,144	476,386	709,274
Q1-2006	391,025	630,345	507,099	762,298
Q2-2006	382,785	668,551	510,407	795,413
Q3-2006	389,533	660,235	521,330	808,447
Q4-2006	408,067	686,860	540,237	801,853
Q1-2007	379,518	718,551	567,719	878,776
Q2-2007	401,445	735,358	551,333	827,933
Q3-2007	413,478	739,195	556,428	857,663
Q4-2007	421,320	777,942	583,480	886,047
Q1-2008	416,938	813,337	589,545	909,641
Q2-2008	371,345	803,508	586,543	904,054
Q3-2008	367,843	821,261	563,743	924,353
Q4-2008	348,050	874,975	565,817	925,389
Q1-2009	307,589	783,744	593,744	891,670
Q2-2009	313,444	780,578	565,802	918,276
Q3-2009	353,103	800,308	577,066	915,222

The FNB House Price Series is constructed using the average value of housing transactions financed by FNB. In order to eliminate outliers from the data sample, transaction values must be above 70% of FNB Valuations Division's valuation of the property but below 130%, while purchase prices recorded as above R10m. In order to reduce the impact on the index of rapid short term changes in weightings of different property segments, due to relative shifts in transaction volumes, the weightings of the different market segments according to room number are kept constant at their 5-year average weighting. A statistical smoothing function is applied to the data.

The House Price Indices are of a general nature, and should be seen as attempts to indicate important trends in the broader market, and should not be seen as being accurate indicators of specific properties' values or price inflation rates.

Annual and Quarterly FNB House Price Averages - Year-on-year percentage change

Date	Freehold 2 bedrooms	Freehold 3 bedroom	Sectional title less than 2 bedrooms	Sectional title 3 bedroom
2002	16.5%	7.1%	16.0%	18.0%
2003	7.5%	11.7%	30.2%	25.2%
2004	31.6%	30.6%	33.2%	29.5%
2005	18.2%	25.1%	30.9%	24.7%
2006	5.9%	12.6%	11.4%	15.0%
2007	2.8%	12.3%	8.7%	8.9%
2008	-6.9%	11.5%	2.1%	6.2%
Q3-2001	15.3%	-1.8%	5.1%	7.8%
Q4-2001	12.8%	1.2%	7.3%	9.9%
Q1-2002	12.5%	3.7%	10.2%	12.5%
Q2-2002	12.5%	5.3%	13.8%	14.9%
Q3-2002	11.3%	6.1%	17.6%	17.3%
Q4-2002	9.3%	6.7%	21.7%	19.7%
Q1-2003	7.7%	8.1%	25.7%	22.1%
Q2-2003	8.7%	11.0%	29.4%	25.2%
Q3-2003	13.3%	15.5%	32.1%	28.5%
Q4-2003	20.1%	20.8%	33.6%	30.9%
Q1-2004	26.6%	25.8%	34.5%	31.8%
Q2-2004	30.8%	29.4%	34.8%	31.1%
Q3-2004	31.6%	31.6%	35.5%	29.5%
Q4-2004	29.4%	32.1%	36.2%	28.5%
Q1-2005	25.5%	30.5%	35.2%	27.3%
Q2-2005	20.1%	27.0%	31.5%	25.2%
Q3-2005	14.5%	22.1%	25.8%	22.6%
Q4-2005	10.0%	17.8%	20.0%	19.7%
Q1-2006	6.9%	14.8%	15.4%	17.4%
Q2-2006	5.5%	13.3%	12.8%	15.9%
Q3-2006	5.2%	12.9%	11.7%	14.5%
Q4-2006	5.0%	12.7%	11.0%	12.9%
Q1-2007	4.5%	12.6%	10.1%	11.1%
Q2-2007	4.5%	12.5%	9.0%	9.2%
Q3-2007	4.1%	12.6%	7.7%	8.0%
Q4-2007	2.5%	12.6%	6.4%	7.4%
Q1-2008	-0.8%	12.0%	5.0%	6.8%
Q2-2008	-5.8%	10.7%	3.4%	6.2%
Q3-2008	-10.8%	8.6%	1.7%	5.1%
Q4-2008	-14.5%	5.6%	0.2%	3.5%
Q1-2009	-15.8%	1.8%	-0.4%	1.8%
Q2-2009	-14.0%	-1.3%	-0.7%	0.8%
Q3-2009	-10.1%	-3.5%	-0.5%	0.1%