HOME LOANS DIVISION

BUILDING AND FIXED INVESTMENT UPDATE

– Slightly less negative growth in residential building late in 2009. Is this the start of a "leveling out?"

PROPERTY AND MORTGAGE MARKET ANALYTICS

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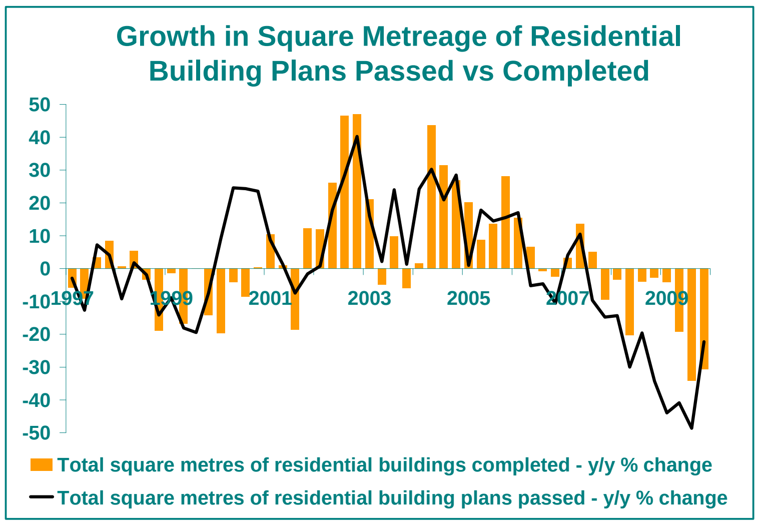
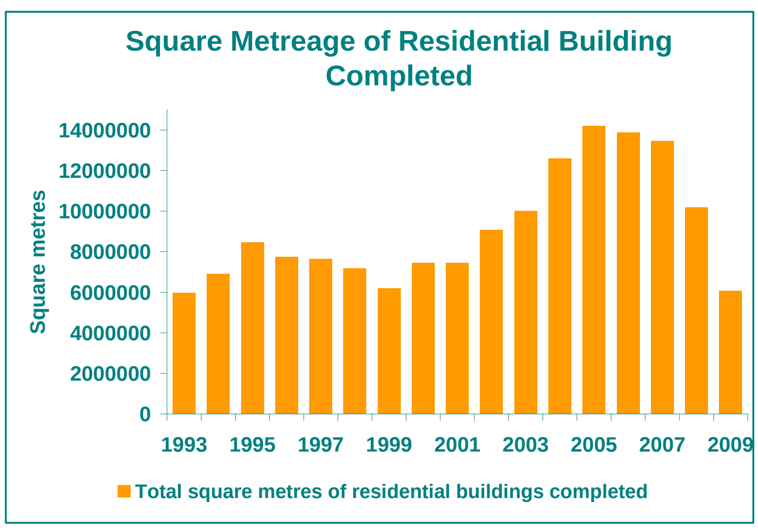
2009 PROVES A DISMAL YEAR FOR THE BUILDING SECTOR

December StatsSA building stats complete the picture for 2009, a dismal year for the residential building sector.

For 2009 as a whole, the square metreage of residential buildings completed declined by -23.2%, while that of plans passed fell by an even greater -40.4%.

For the final quarter of the year, the numbers continue to point towards an extremely weak picture for the residential building sector, but perhaps there is just a hint that activity may be starting to hit the bottom and level out. In the 4th quarter, square metres of building completed declined by -31% year-on-year, slightly better than the previous quarter's -34%, while year-on-year decline in building plans passed diminished more significantly from -49% in the 3rd quarter to -22% in the final quarter of 2009.

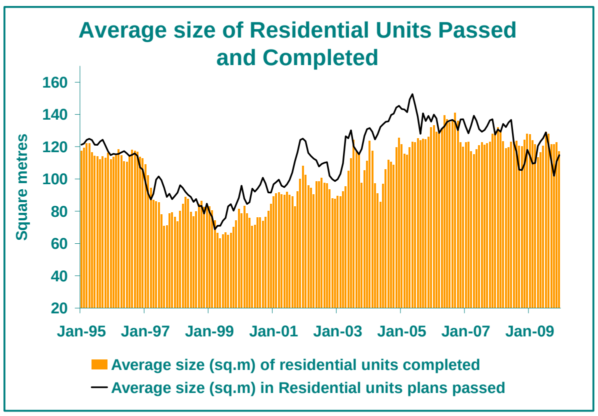


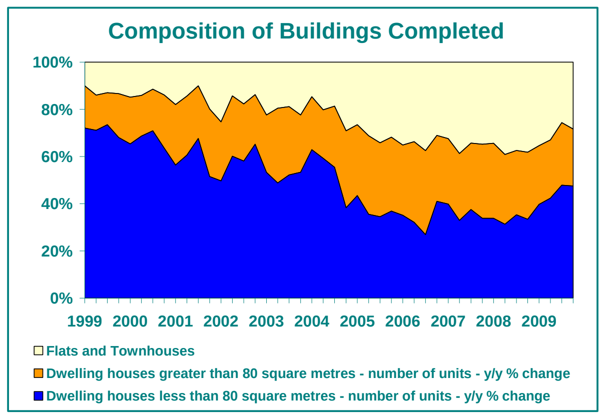


Actual square metreage of residential completions gives a perspective of by how much building activity has been cut back since the 2005 peak. In 2005, 14,211,337 square metres of residential units were recorded as completed (102,258 actual units completed) by StstsSA, a cumulative rise of 129.6% from the previous low of 1999. From 2005 to 2009, the cumulative drop has been as spectacular, amounting to -57.3%, to 6,071,839 square metres (84,508 units), a level lower than the 1999 low point.

The tighter market since the 2005 peak, owing to affordability issues, has also caused something of an "economy drive", with average size of home completed declining from 141 square metres in the 3rd quarter of 2006 to 117 square metres at end-2009. The reduction in average size has not been nearly as extreme as the one in the late-1990s, where average size of unit completed reached as low as 63 square metres in May 1999, but this has been due to the boom of recent years having resulted in a greater oversupply of new stock in the smaller-sized segment of the market, and thus a sharper cutback in building activity at the smaller-sized end as a result.

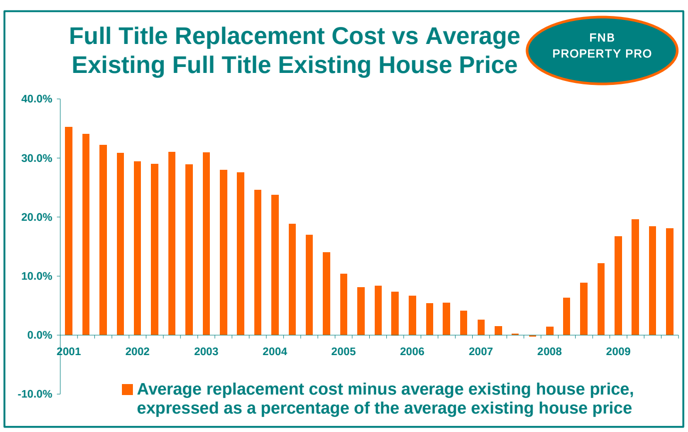
It has been our contention for some time that the smaller-sized "2 bedroom and less" sectional title market was a big target of the more cyclical buy-to-let and first time buying during the boom years, and building stats seem to show that the development sector responded accordingly. The graph below showing the "composition of buildings completed", shows that flats and townhouses completed were only 10% of total completions at the beginning of 2009. This percentage rose to 39% by mid-2008. Although we believe that the smaller-sized unit will be far more in demand in years to come, it is likely that the market got ahead of itself temporarily, and that this building frenzy in the flats and townhouses segment was "too much too soon". The situation has been rectifying itself gradually since 2008, with the percentage of completions being flats and townhouses having declined to 28.4% by end-2009, and this in a far thinner overall market.





WHERE TOO IN 2010?

We expect 2010 to be another tough year for the residential building sector, and for the year as a whole expect growth in completions to be in the region of zero percent. This, however, would imply an improving level of activity as the year progresses, with the worst part of the year being the first half, including more year-on-year decline, while the 2nd half is expected to see some positive year-on-year growth off what is now a very low base.



Some recent decline in building materials costs has possibly helped to lessen the gap between replacement value and existing house prices slightly, while renewed price inflation in the existing home market is expected to narrow the gap further. This narrowing makes it easier for developers to bring "competitively-priced" stock to the market. However, one cannot expect it to be an easy ride just yet, as existing house price inflation remains low, and there is a high number of distressed sales in the existing home market, often representing "bargains" for the home buyer.

Building Plans Passed

Residential Buildings	2007	2008	2009	Q2-2009	Q3-2009	Q4-2009	Oct-09	Nov-09	Dec-09
Dwelling houses less than 80 m.sq (Number)	37,806	33,464	25,129	4,959	7,127	5,693	2,455	1,012	2,226
Y/Y % change	*1.8*	*-11.5*	*-24.9*	*-16.9*	*-49.2*	*-15.1*	*-23.9*	*-30.6*	*10.0*
Dwelling houses less than 80 m.sq (m^2)	1,653,726	1,469,240	1,101,395	218,839	311,179	253,942	106,415	50,410	97,117
Y/Y % change	*-0.2*	*-11.2*	*-25.0*	*-20.7*	*-46.3*	*-16.9*	*-26.6*	*-28.5*	*7.8*
Dwelling houses less than 80 m.sq (R'000)	3,202,727	2,982,028	2,160,103	452,893	611,818	552,193	196,584	145,608	210,001
Y/Y % change	*7.3*	*-6.9*	*-27.6*	*-28.5*	*-42.5*	*-9.7*	*-31.6*	*-14.7*	*36.9*
Dwelling houses larger than 80 m.sq (Number	31,772	21,441	13,768	3,519	3,446	3,296	1,190	1,165	941
Y/Y % change	*-8.8*	*-32.5*	*-35.8*	*-41.1*	*-36.0*	*-23.2*	*-30.6*	*-15.1*	*-21.8*
Dwelling houses larger than 80 m.sq (m^2)	7,969,503	5,467,768	3,614,457	968,813	889,895	862,050	315,699	307,831	238,520
Y/Y % change	*-1.4*	*-31.4*	*-33.9*	*-36.1*	*-36.3*	*-19.4*	*-23.8*	*-13.3*	*-20.4*
Dwelling houses larger than 80 m.sq (R'000)	27,932,693	20,781,474	15,245,422	3,988,152	3,881,626	3,852,591	1,359,226	1,395,833	1,097,532
Y/Y % change	*15.2*	*-25.6*	*-26.6*	*-31.4*	*-26.8*	*-6.0*	*-14.4*	*3.7*	*-5.8*
Flats and Townhouses (Number)	32,988	29,603	14,609	3,913	3,017	4,207	1,817	1,718	672
Y/Y % change	*3.3*	*-10.3*	*-50.7*	*-46.3*	*-62.3*	*-27.1*	*-32.3*	*-12.3*	*-40.6*
Flats and Townhouses (m^2)	3,848,201	3,244,177	1,355,987	366,104	259,924	387,060	160,987	146,863	79,210
Y/Y % change	*-7.0*	*-15.7*	*-58.2*	*-56.3*	*-70.1*	*-30.9*	*-27.3*	*-30.9*	*-37.2*
Flats and Townhouses (R'000)	13,912,181	13,160,265	6,011,948	1,541,760	1,206,221	1,796,907	746,720	653,236	396,951
Y/Y % change	*5.2*	*-5.4*	*-54.3*	*-54.2*	*-65.4*	*-20.5*	*-15.0*	*-24.4*	*-23.3*
Total units plans passed (Number)	**102,566**	**84,508**	**53,506**	**12,391**	**13,590**	**13,196**	**5,462**	**3,895**	**3,839**
Y/Y % change	***-1.3***	***-17.6***	***-36.7***	***-35.6***	***-50.4***	***-21.3***	***-28.3***	***-18.7***	***-11.9***
Total building plans passed (m^2)	**13,471,430**	**10,181,185**	**6,071,839**	**1,553,756**	**1,460,998**	**1,503,052**	**583,101**	**505,104**	**414,847**
Y/Y % change	***-2.9***	***-24.4***	***-40.4***	***-40.9***	***-48.7***	***-22.3***	***-25.3***	***-20.9***	***-19.6***
Other Residential Buildings (m^2)	253,101	386,316	216,613	61,153	63,712	34,635	20,152	4,939	9,544
Y/Y % change	*21.8*	*52.6*	*-43.9*	*-43.3*	*-9.8*	*-70.7*	*-68.8*	*-78.9*	*-68.5*
Other Residential Buildings (R 000)	980,984	1,660,603	1,089,635	322,835	327,524	187,200	123,314	14,713	49,173
Y/Y % change	*20.7*	*69.3*	*-34.4*	*-44.3*	*13.4*	*-55.2*	*-38.8*	*-86.6*	*-54.0*
Total Residential Buildings (R 000)	**46,028,585**	**38,584,370**	**24,507,108**	**6,305,640**	**6,027,189**	**6,388,891**	**2,425,844**	**2,209,390**	**1,753,657**
Y/Y % change	***11.5***	***-16.2***	***-36.5***	***-39.3***	***-40.6***	***-13.5***	***-17.9***	***-11.3***	***-9.7***
Additions and Alterations									
Dwelling houses (m^2)	5,123,325	4,081,631	3,312,842	772,486	922,195	851,566	314,806	286,258	250,502
Y/Y % change	*-3.1*	*-20.3*	*-18.8*	*-24.1*	*-15.1*	*-14.1*	*-16.9*	*-16.6*	*-7.0*
Dwelling houses (R'000)	16,803,718	14,878,062	13,343,959	2,923,485	3,929,395	3,645,937	1,323,973	1,222,261	1,099,703
Y/Y % change	*14.0*	*-11.5*	*-10.3*	*-19.6*	*-2.0*	*-1.1*	*-7.5*	*-4.2*	*12.3*

Buildings Completed

Residential Buildings	2007	2008	2009	Q2-2009	Q3-2009	Q4-2009	Oct-09	Nov-09	Dec-09
Dwelling houses less than 80 m.sq (Number)	27,555	23,480	24,600	5,615	6,277	6,689	1,739	1,923	3,027
Y/Y % change	*14.7*	*-14.8*	*4.8*	*13.3*	*-11.2*	*10.3*	*-3.7*	*-14.3*	*50.0*
Dwelling houses less than 80 m.sq (m^2)	1,192,474	1,055,108	1,076,951	249,585	278,612	288,961	78,800	83,729	126,432
Y/Y % change	*15.5*	*-11.5*	*2.1*	*6.3*	*-10.8*	*5.3*	*-6.7*	*-17.3*	*42.4*
Dwelling houses less than 80 m.sq (R'000)	2,263,566	2,231,253	2,233,738	533,361	550,344	652,608	177,624	199,186	275,798
Y/Y % change	*22.2*	*-1.4*	*0.1*	*-2.0*	*-13.1*	*8.7*	*-11.5*	*-0.2*	*37.7*
Dwelling houses larger than 80 m.sq (Number)	22,157	20,357	13,897	3,272	3,474	3,390	1,304	1,083	1,003
Y/Y % change	*0.2*	*-8.1*	*-31.7*	*-30.0*	*-36.5*	*-34.2*	*-28.2*	*-42.2*	*-31.6*
Dwelling houses larger than 80 m.sq (m^2)	5,042,030	4,751,322	3,665,072	858,309	927,024	915,934	321,820	327,073	267,041
Y/Y % change	*2.0*	*-5.8*	*-22.9*	*-20.9*	*-28.4*	*-28.3*	*-21.9*	*-29.0*	*-34.1*
Dwelling houses larger than 80 m.sq (R'000)	16,843,803	17,050,357	14,420,632	3,167,656	3,793,898	3,892,067	1,268,078	1,445,590	1,178,399
Y/Y % change	*19.8*	*1.2*	*-15.4*	*-18.7*	*-18.6*	*-18.1*	*-17.0*	*-14.9*	*-22.6*
Flats and Townhouses (Number)	26,949	26,096	17,081	4,371	3,363	3,995	1,303	979	1,713
Y/Y % change	*13.0*	*-3.2*	*-34.5*	*-29.4*	*-55.1*	*-42.4*	*-58.8*	*-44.9*	*-14.0*
Flats and Townhouses (m^2)	3,092,497	2,789,764	1,863,261	465,280	379,994	405,744	152,173	106,568	147,003
Y/Y % change	*-0.9*	*-9.8*	*-33.2*	*-26.2*	*-52.6*	*-47.3*	*-57.3*	*-50.9*	*-25.2*
Flats and Townhouses (R'000)	10,708,767	10,926,199	7,848,668	1,952,202	1,581,383	1,807,818	667,323	475,325	665,170
Y/Y % change	*8.4*	*2.0*	*-28.2*	*-22.4*	*-49.6*	*-40.8*	*-52.4*	*-41.0*	*-21.5*
Total units completed (Number)	**76,661**	**69,933**	**55,578**	**13,258**	**13,114**	**14,074**	**4,346**	**3,985**	**5,743**
Y/Y % change	***9.5***	***-8.8***	***-20.5***	***-16.2***	***-34.6***	***-22.5***	***-36.0***	***-32.4***	***4.9***
Total building space completed (m^2)	**9,327,001**	**8,596,194**	**6,605,284**	**1,573,174**	**1,585,630**	**1,610,639**	**552,793**	**517,370**	**540,476**
Y/Y % change	***2.6***	***-7.8***	***-23.2***	***-19.3***	***-34.1***	***-30.6***	***-35.2***	***-33.6***	***-21.7***
Other Residential Buildings (m^2)	175,955	201,665	225,549	20,362	21,560	127,975	37,540	55,276	35,159
Y/Y % change	*131.2*	*14.6*	*11.8*	*-55.5*	*-47.4*	*49.4*	*73.2*	*361.8*	*-32.4*
Other Residential Buildings (R 000)	824,122	892,815	1,009,519	83,116	107,978	571,562	208,190	203,622	159,750
Y/Y % change	*194.1*	*8.3*	*13.1*	*-62.7*	*-44.6*	*56.2*	*209.9*	*405.7*	*-38.2*
Total Residential Buildings (R 000)	**30,640,258**	**31,100,624**	**25,512,557**	**5,736,335**	**6,033,603**	**6,924,055**	**2,321,215**	**2,323,723**	**2,279,117**
Y/Y % change	***17.5***	***1.5***	***-18.0***	***-20.1***	***-30.0***	***-21.0***	***-27.4***	***-15.3***	***-19.5***
Additions and Alterations									
Dwelling houses (m^2)	2,044,860	2,233,737	2,308,820	542,949	609,323	490,458	188,191	165,775	136,492
Y/Y % change	*2.9*	*9.2*	*3.4*	*0.5*	*-2.5*	*-17.4*	*-15.5*	*-24.1*	*-10.5*
Dwelling houses (R'000)	6,129,639	7,254,255	8,402,013	1,845,923	2,316,427	1,938,487	727,979	665,180	545,328
Y/Y % change	*21.0*	*18.3*	*15.8*	*4.8*	*14.3*	*0.1*	*4.2*	*-7.2*	*4.6*

Provincial Residential Building Plans Passed - Number of Units

	2005	2006	2007	2008	2009	Q2-2009	Q3-2009	Q4-2009	Oct-09	Nov-09	Dec-09
Residential Buildings											
National Total	102,258	103,925	102,566	84,508	53,506	12,391	13,590	13,196	5,462	3,895	3,839
Y/Y % change	*10.3*	*1.6*	*-1.3*	*-17.6*	*-36.7*	*-35.6*	*-50.4*	*-21.3*	*-28.3*	*-18.7*	*-11.9*
Western Cape	22,429	20,577	17,269	17,995	10,744	3,169	2,803	2,373	1,111	840	422
Y/Y % change	*-6.4*	*-8.3*	*-16.1*	*4.2*	*-40.3*	*-10.0*	*-48.9*	*-43.8*	*-43.9*	*22.1*	*-72.8*
% Share of National Total	*21.9*	*19.8*	*16.8*	*21.3*	*20.1*	*25.6*	*20.6*	*18.0*	*20.3*	*21.6*	*11.0*
Gauteng	43,356	48,658	48,568	35,305	21,260	4,359	5,592	6,601	2,683	1,788	2,130
Y/Y % change	*32.6*	*12.2*	*-0.2*	*-27.3*	*-39.8*	*-39.5*	*-57.2*	*23.7*	*46.3*	*-16.1*	*55.5*
% Share of National Total	*42.4*	*46.8*	*47.4*	*41.8*	*39.7*	*35.2*	*41.1*	*50.0*	*49.1*	*45.9*	*55.5*
KZN	11,015	8,672	10,700	10,571	4,867	1,146	1,383	1,237	541	311	385
Y/Y % change	*8.2*	*-21.3*	*23.4*	*-1.2*	*-54.0*	*-64.2*	*-48.9*	*-15.9*	*-12.3*	*-41.0*	*17.7*
% Share of National Total	*10.8*	*8.3*	*10.4*	*12.5*	*9.1*	*9.2*	*10.2*	*9.4*	*9.9*	*8.0*	*10.0*
Eastern Cape	6,432	6,449	4,726	5,143	5,366	876	1,843	543	210	136	197
Y/Y % change	*-29.0*	*0.3*	*-26.7*	*8.8*	*4.3*	*-30.3*	*130.1*	*-79.3*	*-89.0*	*-69.8*	*-28.4*
% Share of National Total	*6.3*	*6.2*	*4.6*	*6.1*	*10.0*	*7.1*	*13.6*	*4.1*	*3.8*	*3.5*	*5.1*
North West	4,367	5,670	7,407	4,467	4,597	638	673	886	291	256	339
Y/Y % change	*33.5*	*29.8*	*30.6*	*-39.7*	*2.9*	*-43.8*	*-52.7*	*-2.7*	*-27.8*	*-12.9*	*58.4*
% Share of National Total	*4.3*	*5.5*	*7.2*	*5.3*	*8.6*	*5.1*	*5.0*	*6.7*	*5.3*	*6.6*	*8.8*
Free State	5,808	4,993	4,776	3,719	2,999	1,315	473	438	248	145	45
Y/Y % change	*-11.3*	*-14.0*	*-4.3*	*-22.1*	*-19.4*	*51.3*	*-61.6*	*-62.6*	*117.5*	*-41.5*	*-69.0*
% Share of National Total	*5.7*	*4.8*	*4.7*	*4.4*	*5.6*	*10.6*	*3.5*	*3.3*	*4.5*	*3.7*	*1.2*
Northern Cape	1,552	918	596	444	186	51	36	52	29	17	6
Y/Y % change	*77.0*	*-40.9*	*-35.1*	*-25.5*	*-58.1*	*-20.3*	*-77.9*	*33.3*	*190.0*	*-41.4*	*-64.7*
% Share of National Total	*1.5*	*0.9*	*0.6*	*0.5*	*0.3*	*0.4*	*0.3*	*0.4*	*0.5*	*0.4*	*0.2*
Mpumalanga	4,617	4,996	5,705	4,216	2,608	656	534	865	234	350	281
Y/Y % change	*32.8*	*8.2*	*14.2*	*-26.1*	*-38.1*	*-51.8*	*-59.4*	*23.9*	*-36.9*	*120.1*	*67.3*
% Share of National Total	*4.5*	*4.8*	*5.6*	*5.0*	*4.9*	*5.3*	*3.9*	*6.6*	*4.3*	*9.0*	*7.3*
Limpopo	2,682	2,992	2,819	2,648	879	181	253	201	115	52	34
Y/Y % change	*0.4*	*11.6*	*-5.8*	*-6.1*	*-66.8*	*-70.4*	*-79.2*	*-33.2*	*-1.7*	*-31.6*	*-68.5*
% Share of National Total	*2.6*	*2.9*	*2.7*	*3.1*	*1.6*	*1.5*	*1.9*	*1.5*	*2.1*	*1.3*	*0.9*

Provincial Residential Buildings Completed - Number of Units

	2005	2006	2007	2008	2009	Q2-2009	Q3-2009	Q4-2009	Oct-09	Nov-09	Dec-09
Residential Buildings											
National Total	70,624	70,005	76,661	69,933	55,578	13,258	13,114	14,074	4,346	3,985	5,743
Y/Y % change	*-0.1*	*-0.9*	*9.5*	*-8.8*	*-20.5*	*-16.2*	*-34.6*	*-22.5*	*-36.0*	*-32.4*	*4.9*
Western Cape	19,598	17,207	19,312	15,065	13,709	2,267	3,685	3,088	941	960	1,187
Y/Y % change	*13.3*	*-12.2*	*12.2*	*-22.0*	*-9.0*	*-22.5*	*-18.2*	*-25.0*	*-35.0*	*-35.9*	*1.0*
% Share of National Total	*27.7*	*24.6*	*25.2*	*21.5*	*24.7*	*17.1*	*28.1*	*21.9*	*21.7*	*24.1*	*20.7*
Gauteng	27,433	33,654	33,372	32,535	22,221	5,213	4,990	6,639	1,805	1,733	3,101
Y/Y % change	*14.3*	*22.7*	*-0.8*	*-2.5*	*-31.7*	*-33.2*	*-45.1*	*-20.2*	*-43.9*	*-30.5*	*18.9*
% Share of National Total	*38.8*	*48.1*	*43.5*	*46.5*	*40.0*	*39.3*	*38.1*	*47.2*	*41.5*	*43.5*	*54.0*
KZN	8,189	5,984	5,823	7,804	6,373	2,021	1,219	1,419	378	336	705
Y/Y % change	*0.4*	*-26.9*	*-2.7*	*34.0*	*-18.3*	*6.9*	*-41.3*	*-42.5*	*-61.0*	*-44.2*	*-21.5*
% Share of National Total	*11.6*	*8.5*	*7.6*	*11.2*	*11.5*	*15.2*	*9.3*	*10.1*	*8.7*	*8.4*	*12.3*
Eastern Cape	4,617	4,334	4,466	3,616	4,012	995	1,056	1,189	341	524	324
Y/Y % change	*-19.9*	*-6.1*	*3.0*	*-19.0*	*11.0*	*110.4*	*-27.9*	*19.3*	*4.3*	*16.7*	*46.6*
% Share of National Total	*6.5*	*6.2*	*5.8*	*5.2*	*7.2*	*7.5*	*8.1*	*8.4*	*7.8*	*13.1*	*5.6*
North West	4,124	3,531	5,323	4,504	2,858	564	764	786	392	200	194
Y/Y % change	*-37.8*	*-14.4*	*50.8*	*-15.4*	*-36.5*	*-48.9*	*-37.5*	*-8.5*	*36.6*	*-47.1*	*0.0*
% Share of National Total	*5.8*	*5.0*	*6.9*	*6.4*	*5.1*	*4.3*	*5.8*	*5.6*	*9.0*	*5.0*	*3.4*
Free State	3,431	1,466	3,556	1,638	2,105	693	560	305	191	44	70
Y/Y % change	*-25.0*	*-57.3*	*142.6*	*-53.9*	*28.5*	*38.4*	*13.7*	*-19.4*	*1.6*	*-77.0*	*59.1*
% Share of National Total	*4.9*	*2.1*	*4.6*	*2.3*	*3.8*	*5.2*	*4.3*	*2.2*	*4.4*	*1.1*	*1.2*
Northern Cape	438	398	751	421	499	139	138	153	105	21	27
Y/Y % change	*17.1*	*-9.1*	*88.7*	*-43.9*	*18.5*	*-38.4*	*-66.5*	*-58.1*	*-4.5*	*-80.0*	*28.6*
% Share of National Total	*0.6*	*0.6*	*1.0*	*0.6*	*0.9*	*1.0*	*1.1*	*1.1*	*2.4*	*0.5*	*0.5*
Mpumalanga	1,833	2,313	2,738	3,381	2,134	777	616	400	155	141	104
Y/Y % change	*-34.5*	*26.2*	*18.4*	*23.5*	*-36.9*	*-17.9*	*-28.4*	*-33.7*	*-34.3*	*-37.1*	*-27.3*
% Share of National Total	*2.6*	*3.3*	*3.6*	*4.8*	*3.8*	*5.9*	*4.7*	*2.8*	*3.6*	*3.5*	*1.8*
Limpopo	961	1,118	1,320	969	1,667	589	86	95	38	26	31
Y/Y % change	*-11.4*	*16.3*	*18.1*	*-26.6*	*72.0*	*127.4*	*-68.0*	*-48.6*	*-51.9*	*-55.2*	*-35.4*
% Share of National Total	*1.4*	*1.6*	*1.7*	*1.4*	*3.0*	*4.4*	*0.7*	*0.7*	*0.9*	*0.7*	*0.5*