



# FNB HOUSE PRICE INDEX

PROPERTY AND MORTGAGE MARKET ANALYTICS

HOME LOANS DIVISION

*-Back into year-on-year house price inflation, pointing towards a better 2010*

1 December 2009

## PROPERTY AND MORTGAGE MARKET ANALYTICS

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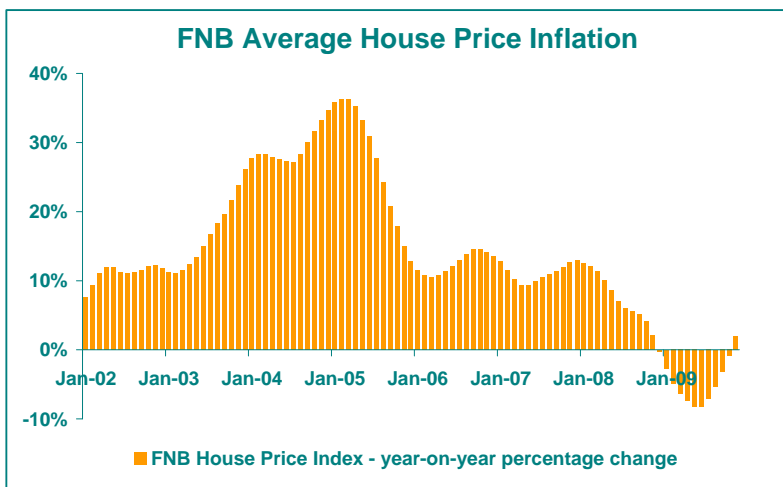
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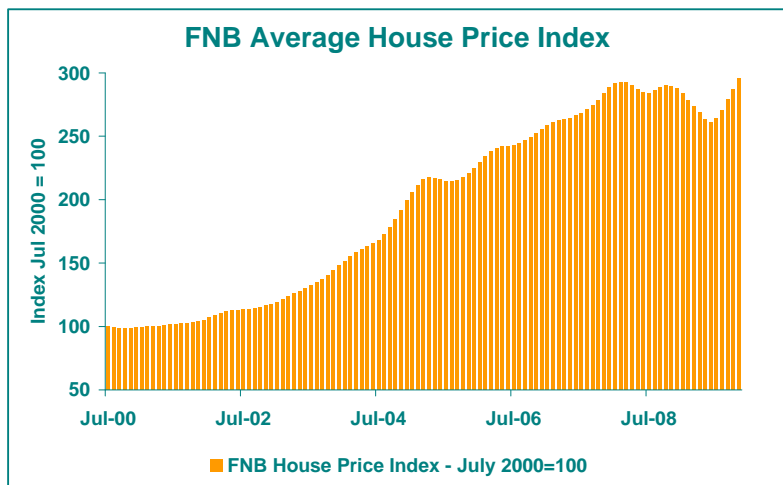
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### YEAR-ON-YEAR RISE RETURNS TO HOUSE PRICES AFTER ALMOST A YEAR OF DECLINE

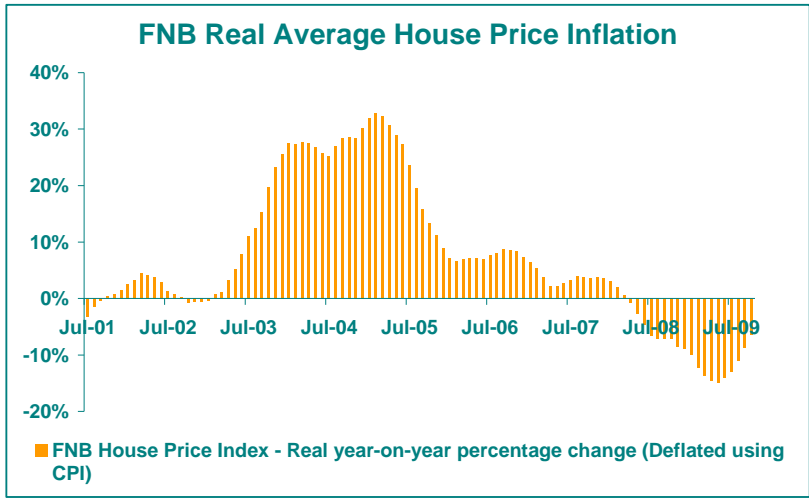
The FNB House Price Index showed renewed year-on-year house price inflation in November, after a period of deflation starting back in December 2008. The index rose year-on-year by 2%, after a previous month's revised figure of -0.9% decline.



On a month-on-month basis, the index has been rising solidly for some months, but due to seasonality in the numbers we place less emphasis on the 2.8% increase for November. On a cumulative basis, the index is now 195.4% higher than the July 2000 level, the point at which the FNB House Price Index started at a level of 100. The average house value for the month of November was measured at R773,018.



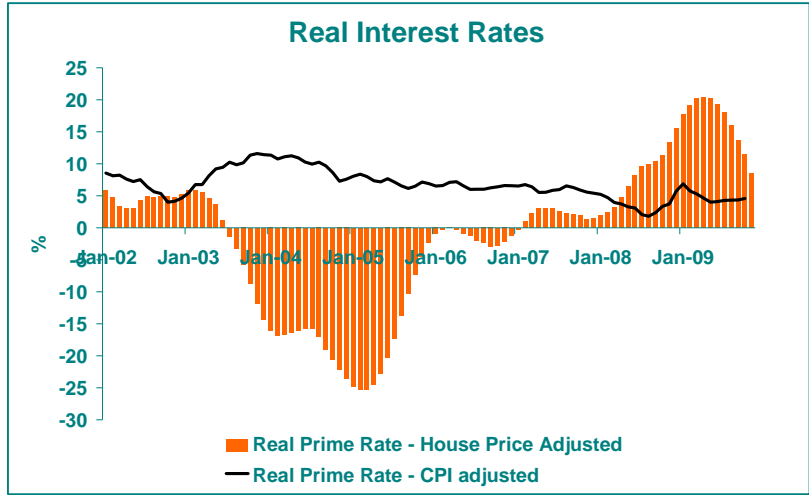
IN REAL TERMS, HOUSE PRICE DEFLATION PERSISTS, BUT AT A DIMINISHING RATE



Although consumer price inflation has been slowing since the 2<sup>nd</sup> half of last year, at a 5.9% year-on-year rate it is still too high for REAL house price deflation (i.e. when house prices are adjusted for consumer inflation) to yet have been wiped out.

As at October, real year-on-year house price deflation was still as much as -6.5%, although due to the combination of declining consumer inflation and diminishing house price deflation, this had diminished substantially from a low point of -15% year-on-year in May

REAL PRIME IS DECLINING, BUT ITS STILL NO PLACE FOR A SPECULATOR



Two measures of real prime rate are shown in the graph to the left. Given the SARB's focus on the CPI inflation target, it is not too surprising that prime rate adjusted using the CPI is relatively stable over time, generally staying positive, and recently at levels around 4.5%, rising a little in recent months as inflation declines and interest rates no longer do.

The 2<sup>nd</sup> measure of real prime rate, though, is more relevant when determining the viability of short term property speculation. Here, we adjust prime rate with house price inflation to get to real

prime rate, and although this rate is declining steadily due to improving house price inflation, at 8.5% this real prime rate remains significant. No place for speculators on a large scale just yet it would seem.

COMMENTS

Although this is the first month of return to year-on-year price increase, the November number is actually just the continuation of an improving trend which started in the form of diminishing house price deflation from around June, a lagged response to gradually rising demand from early in the year as interest rates began to fall.

The improving demand and price situation makes for the likelihood of a better year in 2010, with not only the rest of this year's interest rate stimulus still to feed through but also increasing signs of economic growth recovery. The SARB Leading Business Cycle Indicator continues its month-by-month rise, and real economic growth has emerged from negative territory to record a 0.9% quarter-on-quarter annualised rate in the 3<sup>rd</sup> quarter.

The pace at which house prices have returned to inflation, a few months earlier than previously expected, leads us to believe that our previous forecast of 5% average price increase for 2010 is slightly on the conservative side, and that an upward revision would be in order. We remain expectant of single-digit average price inflation for next year, but a slightly higher rate than the previous forecast to the tune of 7-8%

**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	287.6	-0.3%
Apr-01	100.0		Nov-03	144.1	23.9%	Jun-06	242.2	12.1%	Jan-09	283.5	-2.7%
May-01	100.7		Dec-03	148.0	26.1%	Jul-06	242.8	13.0%	Feb-09	278.2	-5.0%
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	268.5	-7.4%
Aug-01	102.2	3.0%	Mar-04	158.3	28.3%	Oct-06	249.0	14.5%	May-09	263.6	-8.3%
Sep-01	102.5	4.0%	Apr-04	160.8	27.9%	Nov-06	252.1	14.2%	Jun-09	261.4	-8.2%
Oct-01	102.9	4.5%	May-04	163.0	27.6%	Dec-06	255.5	13.6%	Jul-09	263.9	-7.1%
Nov-01	103.7	5.1%	Jun-04	165.2	27.2%	Jan-07	258.9	12.8%	Aug-09	270.6	-5.3%
Dec-01	105.1	6.2%	Jul-04	168.1	27.2%	Feb-07	261.3	11.5%	Sep-09	279.0	-3.2%
Jan-02	106.9	7.6%	Aug-04	172.4	28.3%	Mar-07	262.6	10.2%	Oct-09	287.3	-0.9%
Feb-02	108.9	9.3%	Sep-04	178.0	30.0%	Apr-07	263.5	9.4%	Nov-09	295.4	2.0%
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 Nov 2009	From Date	Cumulative % change to Nov 2009	From Date	Cumulative % change to Nov 2009	From Date	Cumulative % change to Nov 2009	
Jul-00	195.4%	Feb-03	144.2%	Sep-05	37.3%	Apr-08	1.8%	
Aug-00	197.9%	Mar-03	139.5%	Oct-05	35.8%	May-08	2.8%	
Sep-00	199.6%	Apr-03	134.9%	Nov-05	33.8%	Jun-08	3.7%	
Oct-00	200.1%	May-03	131.3%	Dec-05	31.4%	Jul-08	3.9%	
Nov-00	199.5%	Jun-03	127.6%	Jan-06	28.7%	Aug-08	3.3%	
Dec-00	198.6%	Jul-03	123.5%	Feb-06	26.0%	Sep-08	2.5%	
Jan-01	197.5%	Aug-03	119.8%	Mar-06	24.0%	Oct-08	1.9%	
Feb-01	196.6%	Sep-03	115.8%	Apr-06	22.7%	Nov-08	2.0%	
Mar-01	196.4%	Oct-03	110.6%	May-06	22.1%	Dec-08	2.7%	
Apr-01	195.3%	Nov-03	105.0%	Jun-06	21.9%	Jan-09	4.2%	
May-01	193.5%	Dec-03	99.5%	Jul-06	21.7%	Feb-09	6.2%	
Jun-01	191.2%	Jan-04	94.7%	Aug-06	21.0%	Mar-09	8.0%	
Jul-01	190.1%	Feb-04	90.3%	Sep-06	19.9%	Apr-09	10.0%	
Aug-01	189.1%	Mar-04	86.7%	Oct-06	18.6%	May-09	12.1%	
Sep-01	188.1%	Apr-04	83.7%	Nov-06	17.2%	Jun-09	13.0%	
Oct-01	187.2%	May-04	81.3%	Dec-06	15.6%	Jul-09	11.9%	
Nov-01	185.0%	Jun-04	78.9%	Jan-07	14.1%	Aug-09	9.2%	
Dec-01	181.1%	Jul-04	75.7%	Feb-07	13.0%	Sep-09	5.9%	
Jan-02	176.4%	Aug-04	71.3%	Mar-07	12.5%	Oct-09	2.8%	
Feb-02	171.3%	Sep-04	65.9%	Apr-07	12.1%			
Mar-02	166.9%	Oct-04	60.0%	May-07	11.7%			
Apr-02	163.9%	Nov-04	53.9%	Jun-07	11.0%			
May-02	162.3%	Dec-04	48.2%	Jul-07	10.1%			
Jun-02	161.8%	Jan-05	43.4%	Aug-07	9.0%			
Jul-02	161.1%	Feb-05	39.6%	Sep-07	7.7%			
Aug-02	159.9%	Mar-05	37.0%	Oct-07	6.0%			
Sep-02	158.2%	Apr-05	35.9%	Nov-07	4.1%			
Oct-02	156.1%	May-05	36.0%	Dec-07	2.4%			
Nov-02	154.0%	Jun-05	36.7%	Jan-08	1.4%			
Dec-02	151.6%	Jul-05	37.5%	Feb-08	0.9%			
Jan-03	148.6%	Aug-05	37.8%	Mar-08	1.1%			

**KEY PROPERTY AND ECONOMIC INDICATORS SUMMARY**

**Property and Mortgage Market Summary**

END OF PERIOD	2004	2005	2006	2007	2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
<b>Residential Property Prices</b>														
FNB National Average House Price (Rand)	446,708	565,078	636,111	706,811	755,482	728,604	690,183	705,261		690,645	708,021	730,044	751,816	773,018
<i>y/y % change</i>	29.5	26.5	12.6	11.1	6.9	-4.7	-8.2	-5.8		-7.1	-5.3	-3.2	-0.9	2.0
Major Metro Areas Average House Price (Rand)	483,876	613,412	731,000	829,001	866,880	856,218	852,315	849,967						
<i>y/y % change</i>	31.8	26.8	19.2	13.4	4.6	1.3	2.1	2.0						
- Top End Area Average House Price (Rand)	1,138,853	1,361,340	1,551,203	1,705,693	1,818,917	1,840,502	1,848,222	1,859,565						
<i>y/y % change</i>	30.6	19.5	13.9	10.0	6.6	2.5	1.7	1.7						
- High Income Area Average House Price (Rand)	661,578	841,026	988,778	1,117,847	1,159,759	1,133,597	1,123,895	1,116,436						
<i>y/y % change</i>	33.8	27.1	17.6	13.1	3.7	-2.9	-3.7	-3.6						
- Middle Income Area Average House Price (Rand)	405,782	536,433	650,808	733,050	757,816	746,983	743,097	739,877						
<i>y/y % change</i>	32.8	32.2	21.3	12.6	3.4	-1.8	-2.4	-2.3						
- Affordable Area Average House Price (Rand)	162,075	209,323	275,559	339,241	360,465	354,286	352,130	351,026						
<i>y/y % change</i>	25.1	29.2	31.6	23.1	6.3	-1.9	-2.8	-2.7						
- Major 3 Provinces' Former Black Township Average House Price (Rand)	94,478	119,142	163,252	219,938	261,760	269,137	270,118	270,606						
<i>y/y % change</i>	12.5	26.1	37.0	34.7	19.0	6.5	3.6	1.9						
Freehold Vacant Land/Square Metre (Rand)	397	485	503	503	512	527	540	560						
<i>y/y % change</i>	38.6	22.4	3.7	-0.2	1.8	5.1	6.9	8.3						
<b>FNB Residential Property Barometer</b>														
Level of Residential Demand Activity (Scale 1 to 10)	7.3	6.5	6.0	5.7	4.5	4.8	4.8	5.7						
<i>y/y % change</i>	-	-10.7	-7.6	-5.2	-20.8	-3.2	8.4	36.8						
First time buyers as a percentage of total buyers (%)	26.0	28.3	21.8	17.8	15.0	15.0	14.0	15.0						
Buy-to-let as a percentage of total buyers (%)	24.5	20.0	17.5	12.8	13.0	11.0	11.0	13.0						
Average time of properties on the market (Weeks and Days)	5.4	7.0	8.0	10.0	15.4	17.4	21.1	16.4						
Percentage of properties sold at less than asking price (%)	39.5	43.5	64.0	77.3	84.3	86.0	86.0	83.0						
Percentage of properties on the market for 3 months or more (%)	14.0	21.0	26.0	42.8	74.8	79.0	85.0	70.0						
<b>Residential Building Sector</b>														
Number of units' plans passed	92,749	102,258	103,925	102,566	84,508	14,329	12,391	13,227		3,255	4,555	5,417		
<i>y/y % change</i>	10.5	10.3	1.6	-1.3	-17.6	-32.0	-35.6	-51.8		-73.3	-26.7	-40.0		
Square metres' worth of plans passed	12,604,144	14,211,337	13,877,783	13,471,430	10,181,185	1,554,033	1,553,756	1,440,848		436,608	469,482	534,758		
<i>y/y % change</i>	25.8	12.8	-2.3	-2.9	-24.4	-43.9	-40.9	-49.4		-65.1	-37.8	-36.2		
Average size of units' plans passed (square metres)	135.9	139.0	133.5	131.3	120.5	108.5	125.4	108.9		134.1	103.1	98.7		
Number of units completed	70,682	70,624	70,005	76,661	69,933	15,132	13,258	13,056		4,136	3,957	4,963		
<i>y/y % change</i>	24.6	-0.1	-0.9	9.5	-8.8	-4.9	-16.2	-34.8		-32.0	-37.8	-34.7		
Square metres' worth of buildings completed	7,464,831	8,789,257	9,094,252	9,327,001	8,596,194	1,835,841	1,573,174	1,588,481		527,123	499,062	562,296		
<i>y/y % change</i>	26.0	17.7	3.5	2.6	-7.8	-4.2	-19.3	-34.0		-31.2	-34.8	-35.8		
Average size of units' completed (square metres)	105.6	124.5	129.9	121.7	122.9	121.3	118.7	121.7		127.4	126.1	113.3		

### Property and Mortgage Market Summary

END OF PERIOD	2004	2005	2006	2007	2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
<b>Mortgage Market</b>														
Total Mortgage Advances Outstanding (R'm)	412,769	526,647	684,593	853,819	966,921	981,192	983,387	986,765		982,819	985,225	986,765	989,369	
<i>y/y % change</i>	24.4	27.6	30.0	24.7	13.2	11.2	8.2	4.8		6.4	5.6	4.8	3.6	
New residential loans and re-advances granted (R'm)	179,316	248,800	338,327	364,575	271,276	35,347	35,718							
<i>y/y % change</i>	60.9	38.7	36.0	7.8	-25.6	-57.5	-49.6							
Residential re-advances granted (R'm)					81,585	13,244	11,400							
<i>y/y % change</i>					-43.4	-50.2								
Total residential mortgage loans outstanding - Banks (R'm)	327,952,525	426,204,649	546,196,842	672,988,765	753,122,034	766,361,552	768,659,583	772,098,287		768,945,114	770,850,008	772,098,287		
<i>y/y % change</i>	25.9	30.0	28.2	23.2	11.9	8.9	7.1	4.8		5.9	5.4	4.8		
<b>Key Economic Indicators</b>														
Real Gross Domestic Product (R'm at 2005 prices)	1,492,330	1,571,082	1,659,122	1,750,139	1,814,521	1,786,419	1,773,864	1,778,026						
<i>y/y % change</i>	4.6	5.3	5.6	5.5	3.7	-0.8	-2.6	-2.1						
Real Residential Fixed Investment (R'm)	18,175	23,908	25,750	25,674	24,221	23,033	22,587							
<i>y/y % change</i>	10.6	31.5	7.7	-0.3	-5.7	-7.7	-7.7							
Prime Rate (%)	11.3	10.6	11.2	13.2	15.1	14.0	12.0	11.0		11.0	10.7	10.5	10.5	10.5
Yields on Government Bonds 10 years and Longer (%)	9.5	8.1	7.9	8.0	9.1	8.2	8.7	8.9		9.1	8.8	8.7	9.1	9.0
Currencies - USDZAR	6.44	6.36	6.76	7.04	8.28	9.91	8.43	7.79		7.97	7.91	7.48	7.53	7.52
Currencies - EURZAR	8.01	7.91	8.49	9.64	12.11	12.94	11.52	11.15		11.22	11.34	10.89	11.14	11.21
CPI - y/y % change	1.4	3.4	4.6	7.1	11.5	8.4	7.7	6.4		6.7	6.4	6.1	5.9	
Gauteng pump price y/y%						-16.6	-21.9	-23.4		-26.4	-26.3	-17.1	-18.9	-14.8
FNBBER Consumer Confidence Index	5.8	18.3	19.0	21.0	0.3	1.0	4.0	1.0						
RMBBER Business Confidence Index	76.0	82.5	83.5	74.8	40.0	27.0	26.0	23.0	28.0					
SARB Composite Leading Business Cycle Indicator	115.2	118.6	125.4	126.1	117.9	105.2	108.3	112.4		110.1	112.5	114.6		
<i>y/y % change</i>	10.7	2.9	5.8	0.6	-6.5	-15.1	-11.3	-4.0		-8.4	-3.5	0.3		
Real Retail Sales (2008 Prices) - R'm	386,885	418,556	468,446	498,767	500,191	114,637	114,498	113,263		38,272	37,267	37,724		
<i>y/y % change</i>	11.2	8.2	11.9	6.5	0.3	-3.0	-6.2	-5.2		-4.1	-6.5	-5.1		
Manufacturing - Volume of Production (Index 2005=100)	97.1	100.0	104.8	109.6	110.6	91.6	92.5	99.5		99.5	97.5	101.4		
<i>y/y % change</i>	4.0	3.0	4.8	4.6	0.9	-13.2	-18.7	-13.5		-13.7	-15.2	-11.4		
Mining - Volume of Production (Index 2005=100)	98.8	100.0	98.7	97.8	92.3	76.7	87.8	89.2		92.4	89.3	86.0		
<i>y/y % change</i>	3.7	1.3	-1.3	-0.9	-5.6	-7.3	-8.5	-7.4		3.4	-8.4	-15.9		
Vehicle Sales - Total (NAAMSA)	449,816	565,182	647,021	613,043	489,340	93,300	79,947	92,124		30,731	29,667	31,726	31,622	
<i>y/y % change</i>	22.1	25.6	14.5	-5.3	-20.2	-34.0	-33.9	-25.6		-27.6	-26.6	-22.5	-17.1	
Passenger Vehicle Sales - Total (NAAMSA)	301,188	377,002	427,021	384,582	294,761	60,039	50,611	57,873		18,818	18,789	20,266	20,836	
<i>y/y % change</i>	21.8	25.2	13.3	-9.9	-23.4	-30.0	-27.3	-24.5		-27.7	-25.7	-20.1	-9.7	