



BUILDING SECTOR UPDATE

PROPERTY AND MORTGAGE MARKET ANALYTICS

HOME LOANS DIVISION

- Vacant Stand Prices starting to turn the corner? So when does building activity begin to follow suit?

21 October 2009

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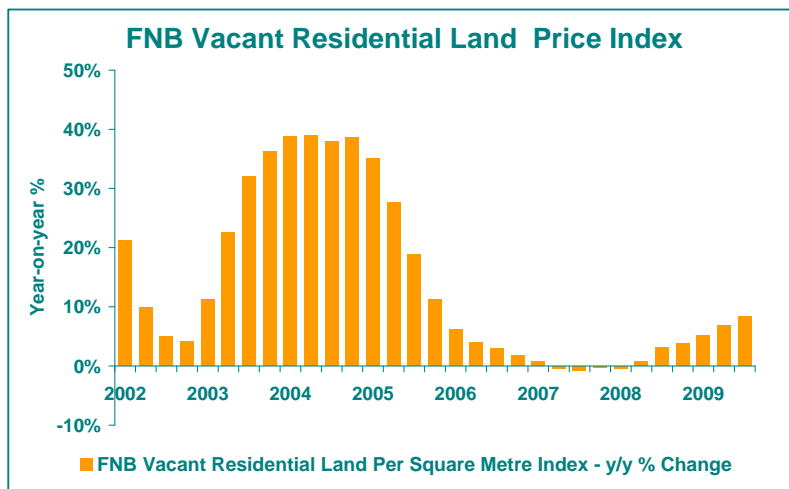
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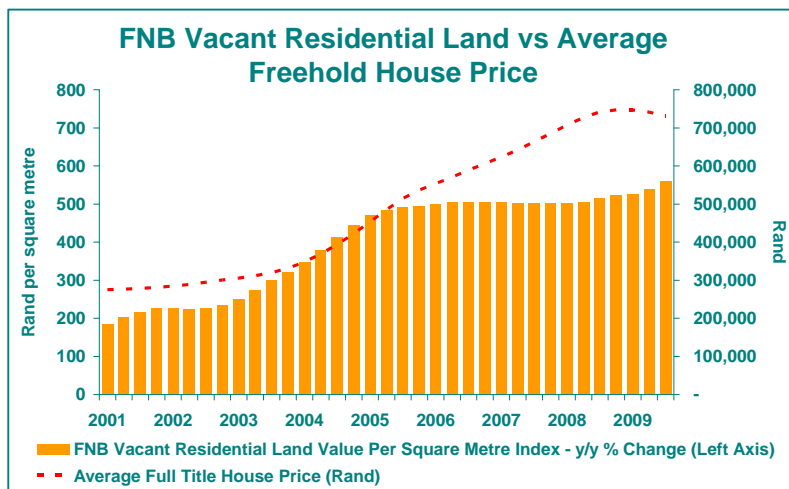
AFTER LAGGING THE MARKET FOR EXISTING HOUSES, IS IT TIME FOR THE VACANT LAND MARKET TO PLAY CATCH UP?

FNB Property Market Analytics has developed a vacant land value time series in order to gain an understanding of the full title vacant land market. While the new property development sector remains under severe pressure, in recent times we have been experiencing some mild increase in demand for vacant residential stands, and accompanying this, a slight increase in rand value per square metre.

The FNB Vacant Residential Land Price Index, depicting the average per square metre for freehold residential land (as purchased by the end user of the property), rose by 8.3% year-on-year for the third quarter of 2009, slightly higher than the 5.9% rise in the 2nd quarter.

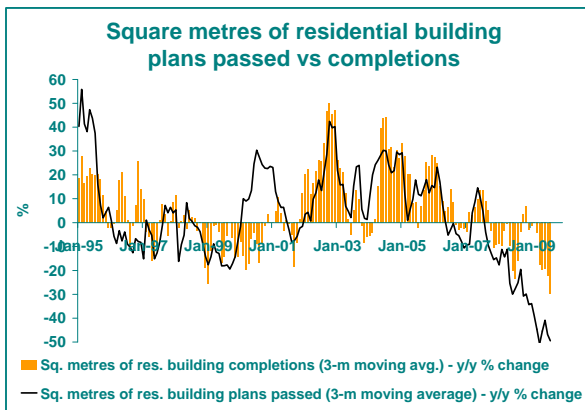
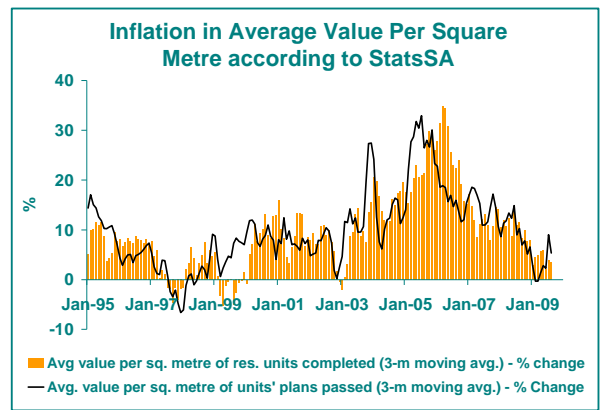
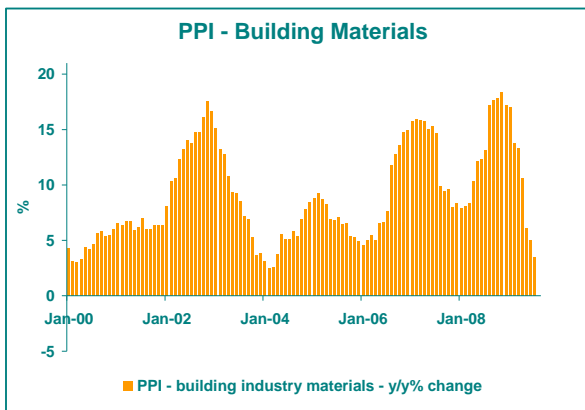


This improvement comes after a long flat period in the vacant land market, in which the average value of vacant land lagged prices of existing houses by an increasing margin. On the graph below, one can see that the average freehold house price continued to rise steadily during the latter stages of the property boom, i.e. 2006 and 2007, while average per square metre value of vacant stands appeared to stagnate from 2006.



Does this slight improvement in vacant land demand and values imply a pending increase in building activity? Extremely high building cost inflation around 2006 may have had much to do with starting the rot in terms of building activity and the vacant land market stagnation of that time. The Producer Price Index (PPI) for building materials had 2 surges in recent years, one peaking in February 2007 at 15.9% year-on-year, and the next one at 18.4% in November 2008. So the past few years have been characterised by high input cost inflation, with materials costs playing a key role. On the one hand we had a global commodity price surge helping prices higher, and locally we had the residential sector competing for certain resources with other booming construction sub-sectors. Construction in general has cooled off as the recession has hit, while the global commodity price spike is long gone. The result is that the PPI for building materials reached 0% year-on-year change by August, and on a month-on-month basis is already in decline, bringing some relief for the building sector.

The building sector has in part followed the trend toward lower input cost inflation, with the latest August building statistics of StatsSA showing low average per square metre value inflation of 3.4% year-on-year for residential buildings completed, and 5.4% for plans passed for the 3 months to August. This to date, however, has been insufficient to improve the competitiveness of new houses, price wise, given that existing house prices have been declining and becoming more affordable until recently.



Therefore, as yet we have not seen any improvement in the building activity statistics regarding the volumes of residential building activity. For the 3 months to August, the year-on-year decline in square metreage of plans passed remained dismal at -49.4% year-on-year, while the deterioration in square metres completed picked up downward speed to -29.9% year-on-year.

The sharp ongoing drop in plans passed suggests that it will be a lengthy wait before we see any meaningful improvement in the level of new stock coming onto the market. What is needed is for existing house prices to catch up to a certain extent with new housing costs, which is coming slowly as residential demand slowly increases and as we move back towards national house price inflation. But the process looks set to be a slow one

CONCLUSION

The mild rise in the FNB Vacant Land Price Index could point towards greater interest in building new properties in future. However, it is also possible that greater interest in vacant land is in many instances with a longer term view in mind to building, and that the mild uptick in the vacant land market is merely a catch-up as some early-birds take advantage of basement prices, because this market segment has been suppressed for a considerably longer period than the overall residential market. With a household sector still under severe financial pressure, and many bargains to be had in the existing housing market still, it remains unlikely that we will see a noticeable improvement in building completions until well into 2010.

Building Plans Passed

Residential Buildings	2006	2007	2008	Q4-2008	Q1-2009	Q2-2009	Jun-09	Jul-09	Aug-09
Dwelling houses less than 80 m.sq (Number)	37,147	36,796	30,881	6,707	6,916	4,821	1,742	1,341	2,586
<i>Y/Y % change</i>	-1.4	-0.9	-16.1	-25.2	2.4	-19.3	-32.1	-77.6	-4.7
Dwelling houses less than 80 m.sq (m ²)	1,657,023	1,624,463	1,378,904	305,569	299,932	213,142	74,898	60,429	113,370
<i>Y/Y % change</i>	1.7	-2.0	-15.1	-21.4	-2.8	-22.7	-34.0	-76.0	-0.4
Dwelling houses less than 80 m.sq (R'000)	2,984,546	3,098,758	2,775,455	611,317	516,145	442,526	152,552	133,233	209,073
<i>Y/Y % change</i>	24.2	3.8	-10.4	-19.5	-23.2	-30.1	-30.8	-61.2	-23.2
Dwelling houses larger than 80 m.sq (Number)	34,846	31,782	21,440	4,291	3,493	3,523	1,270	1,154	1,082
<i>Y/Y % change</i>	2.1	-8.8	-32.5	-38.9	-39.7	-41.0	-37.2	-46.5	-33.3
Dwelling houses larger than 80 m.sq (m ²)	8,082,214	7,971,177	5,468,375	1,069,152	890,572	969,271	342,283	292,228	280,859
<i>Y/Y % change</i>	-0.4	-1.4	-31.4	-39.5	-40.1	-36.0	-33.1	-46.5	-36.6
Dwelling houses larger than 80 m.sq (R'000)	24,237,240	26,417,445	19,901,574	4,098,605	3,513,376	3,987,268	1,400,146	1,158,361	1,141,639
<i>Y/Y % change</i>	13.3	9.0	-24.7	-35.7	-36.9	-31.4	-30.3	-43.5	-31.7
Flats and Townhouses (Number)	31,932	32,988	29,946	5,774	3,472	3,784	1,242	760	799
<i>Y/Y % change</i>	4.8	3.3	-9.2	-16.6	-59.3	-48.0	-35.3	-81.2	-57.5
Flats and Townhouses (m ²)	4,138,546	3,848,201	3,230,918	560,176	343,899	358,831	115,518	83,951	67,703
<i>Y/Y % change</i>	-7.3	-7.0	-16.0	-28.9	-64.8	-57.2	-41.7	-81.5	-65.8
Flats and Townhouses (R'000)	13,230,325	13,480,089	12,882,634	2,259,677	1,467,060	1,504,957	518,343	360,802	272,820
<i>Y/Y % change</i>	4.9	1.9	-4.4	-23.4	-63.7	-55.3	-36.2	-79.1	-68.7
Total units plans passed (Number)	103,925	101,566	82,267	16,772	13,881	12,128	4,254	3,255	4,467
<i>Y/Y % change</i>	1.6	-2.3	-19.0	-26.8	-34.2	-36.9	-34.6	-73.3	-28.2
Total building plans passed (m²)	13,877,783	13,443,841	10,078,197	1,934,897	1,534,403	1,541,244	532,699	436,608	461,932
<i>Y/Y % change</i>	-2.3	-3.1	-25.0	-34.3	-44.6	-41.4	-35.3	-65.1	-38.8
Other Residential Buildings (m ²)	207,859	253,101	365,906	118,184	57,113	61,630	30,520	11,697	31,627
<i>Y/Y % change</i>	12.4	21.8	44.6	71.3	-36.3	-28.6	-43.5	-70.2	36.7
Other Residential Buildings (R 000)	812,730	971,053	1,526,884	418,211	252,076	324,535	145,197	41,194	137,322
<i>Y/Y % change</i>	46.6	19.5	57.2	75.0	-32.6	-34.3	-60.9	-72.6	38.3
Total Residential Buildings (R 000)	41,264,841	43,967,345	37,086,547	7,387,810	5,748,657	6,259,286	2,216,238	1,693,590	1,760,854
<i>Y/Y % change</i>	11.6	6.5	-15.6	-28.5	-46.0	-39.3	-35.1	-60.3	-39.5
Additions and Alterations									
Dwelling houses (m ²)	5,288,732	5,123,880	4,121,654	991,160	765,203	799,773	276,621	284,186	295,088
<i>Y/Y % change</i>	1.7	-3.1	-19.6	-19.0	-22.5	-21.4	-22.2	-30.1	-12.5
Dwelling houses (R'000)	14,745,152	16,003,257	14,286,383	3,686,058	2,840,270	3,061,637	1,050,689	1,102,024	1,190,701
<i>Y/Y % change</i>	16.2	8.5	-10.7	-12.5	-19.9	-15.8	-17.3	-27.8	-3.0

Buildings Completed

Residential Buildings	2006	2007	2008	Q4-2008	Q1-2009	Q2-2009	Jun-09	Jul-09	Aug-09
Dwelling houses less than 80 m.sq (Number)	24,029	27,555	23,514	6,067	5,941	5,552	1,727	1,803	1,917
<i>Y/Y % change</i>	-8.7	14.7	-14.7	-2.9	10.3	12.0	16.2	-15.0	-14.2
Dwelling houses less than 80 m.sq (m ²)	1,032,528	1,192,474	1,057,017	274,477	256,673	246,881	80,585	80,551	86,338
<i>Y/Y % change</i>	-1.6	15.5	-11.4	-3.3	9.9	5.1	9.6	-18.5	-12.9
Dwelling houses less than 80 m.sq (R'000)	1,851,863	2,226,861	2,193,791	600,569	492,368	525,136	189,155	162,403	175,113
<i>Y/Y % change</i>	34.2	20.2	-1.5	-7.3	8.7	-3.5	1.9	-24.1	-14.8
Dwelling houses larger than 80 m.sq (Number)	22,118	22,158	20,315	5,154	3,761	3,273	1,083	1,166	1,144
<i>Y/Y % change</i>	-0.6	0.2	-8.3	-11.0	-25.6	-30.0	-30.1	-38.1	-36.7
Dwelling houses larger than 80 m.sq (m ²)	4,941,428	5,042,274	4,744,774	1,277,803	963,805	851,202	303,238	318,660	317,256
<i>Y/Y % change</i>	0.6	2.0	-5.9	-5.1	-12.0	-21.5	-13.5	-27.4	-21.4
Dwelling houses larger than 80 m.sq (R'000)	14,059,447	15,809,143	15,781,525	4,750,250	3,565,507	3,126,656	1,153,003	1,209,329	1,271,472
<i>Y/Y % change</i>	17.0	12.4	-0.2	3.0	-4.7	-19.8	-11.1	-21.9	-14.3
Flats and Townhouses (Number)	23,858	26,949	25,981	6,935	5,352	4,202	1,169	1,167	782
<i>Y/Y % change</i>	8.1	13.0	-3.6	7.9	-2.2	-32.1	-50.1	-43.8	-66.3
Flats and Townhouses (m ²)	3,120,296	3,092,497	2,777,548	769,893	612,243	450,194	136,234	127,912	92,857
<i>Y/Y % change</i>	10.4	-0.9	-10.2	1.3	4.1	-28.6	-44.5	-44.0	-64.6
Flats and Townhouses (R'000)	9,881,190	10,354,321	10,389,967	3,053,316	2,492,168	1,868,284	576,121	471,058	397,371
<i>Y/Y % change</i>	32.1	4.8	0.3	15.9	12.2	-25.8	-42.4	-44.1	-59.7
Total units completed (Number)	70,005	76,662	69,810	18,156	15,054	13,027	3,979	4,136	3,843
<i>Y/Y % change</i>	-0.9	9.5	-8.9	-1.7	-5.4	-17.7	-26.0	-32.0	-39.6
Total building space completed (m²)	9,094,252	9,327,245	8,579,339	2,322,173	1,832,721	1,548,277	520,057	527,123	496,451
<i>Y/Y % change</i>	3.5	2.6	-8.0	-2.9	-4.4	-20.6	-22.4	-31.2	-35.1
Other Residential Buildings (m ²)	76,101	175,955	193,783	85,679	55,652	20,156	12,100	3,327	5,079
<i>Y/Y % change</i>	17.2	131.2	10.1	101.6	90.4	-55.9	-55.0	-64.8	-82.8
Other Residential Buildings (R 000)	280,250	729,269	762,808	366,026	246,863	81,979	52,475	12,703	22,925
<i>Y/Y % change</i>	81.7	160.2	4.6	140.7	127.0	-63.2	-64.8	-65.8	-85.0
Total Residential Buildings (R 000)	26,072,750	29,119,594	29,128,091	8,770,161	6,796,906	5,602,055	1,970,754	1,855,493	1,866,881
<i>Y/Y % change</i>	24.0	11.7	0.0	9.0	4.2	-22.0	-25.1	-29.8	-34.0
Additions and Alterations									
Dwelling houses (m ²)	1,987,253	2,044,928	2,238,662	593,528	666,090	545,238	189,008	229,846	196,191
<i>Y/Y % change</i>	19.6	2.9	9.5	16.8	40.2	0.9	8.8	9.6	-6.3
Dwelling houses (R'000)	5,065,165	5,782,551	6,787,595	1,937,005	2,301,176	1,854,789	646,856	767,688	707,191
<i>Y/Y % change</i>	45.4	14.2	17.4	29.4	50.5	5.3	11.3	12.3	8.2