



FNB HOUSE PRICE INDEX

PROPERTY AND MORTGAGE MARKET ANALYTICS

HOME LOANS DIVISION

-Further acceleration in house price inflation in January, but slowly does it, and primary residential demand is king

1 February 2010

PROPERTY AND MORTGAGE MARKET ANALYTICS

JOHN LOOS:
FNB HOME LOANS STRATEGIST
011-6490125
John.loos@fnb.co.za

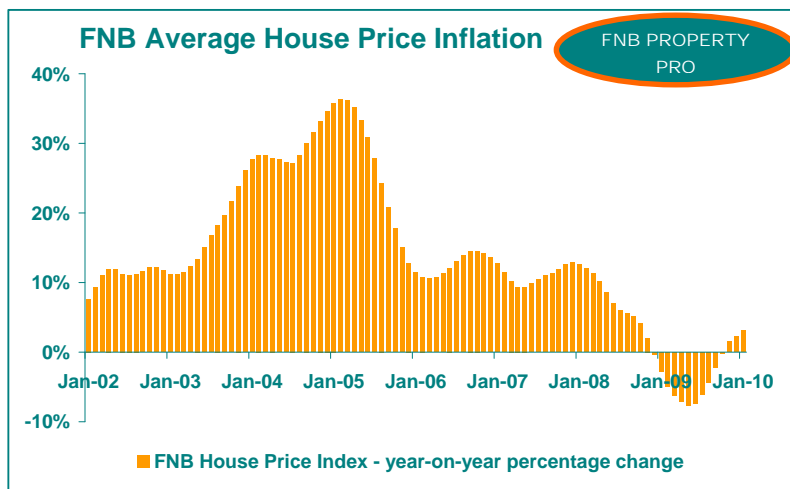
EWALD KELLERMAN:
PROPERTY MARKET ANALYST
011-6320021
ekellerman@fnb.co.za

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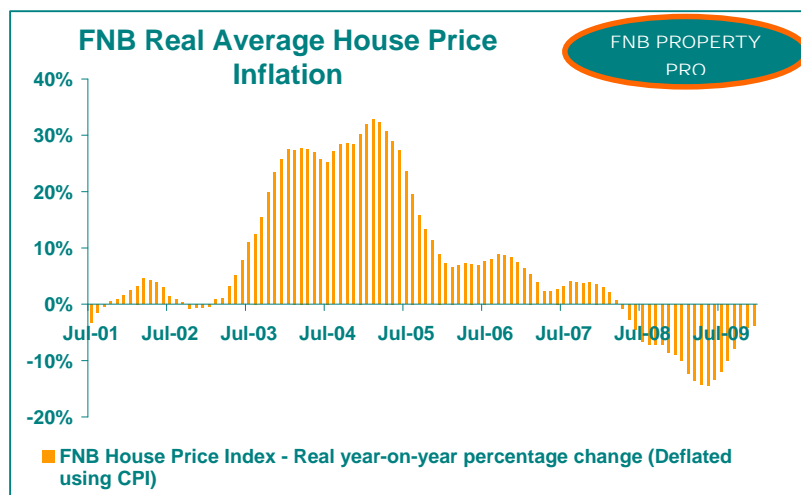
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FNB HOUSE PRICE INDEX EXPERIENCES 3RD SUCCESSIVE MONTH OF YEAR-ON-YEAR INCREASE, BUT NO FIREWORKS

The FNB House Price Index showed a further acceleration in year-on-year inflation, from a revised 2.3% in December to 3.1% in January 2010. This is the 3rd consecutive month of year-on-year price inflation.



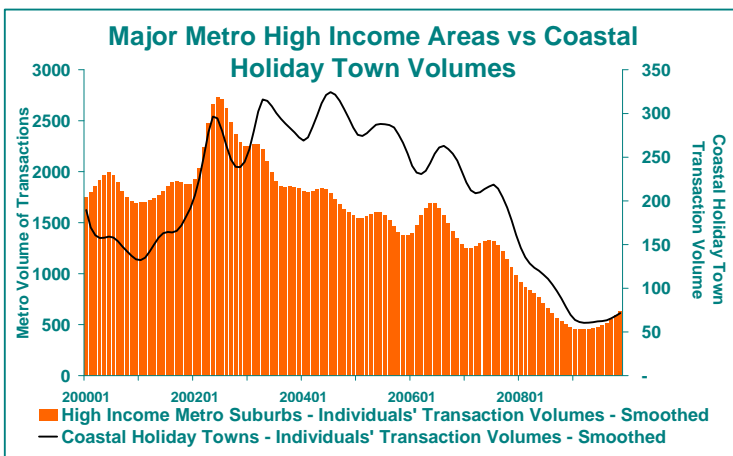
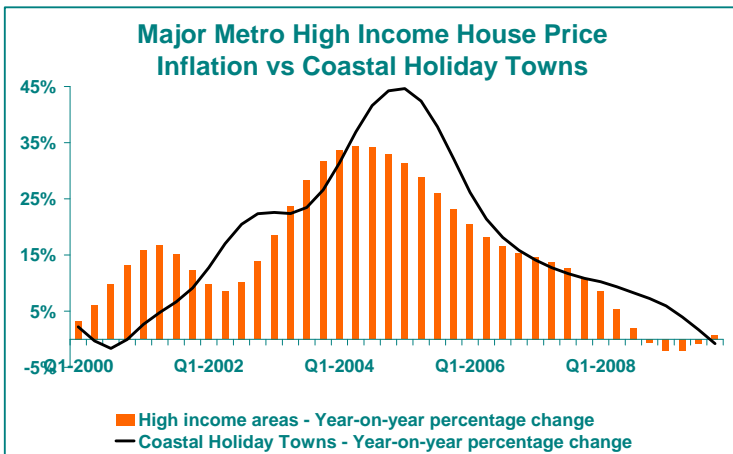
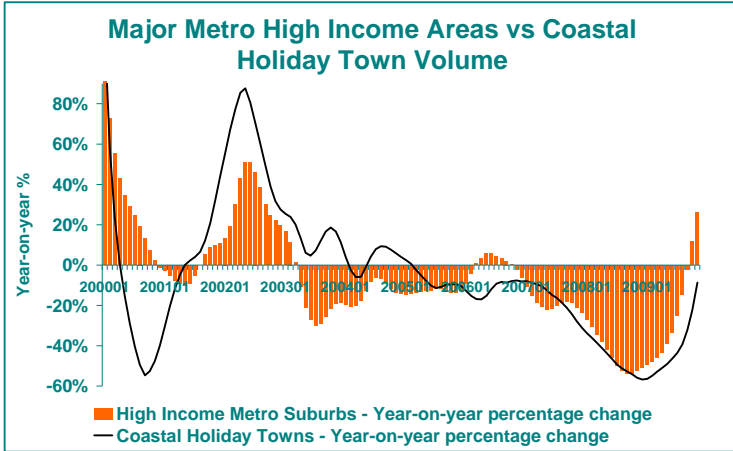
In real terms, however, the market is not yet quite “out of the woods”, with real (adjusted for consumer price inflation) house price decline persisting on a year-on-year basis to the tune of -3.8%. The “downward stickiness” of consumer price inflation is a contributor to the ongoing real price deflation. In December 2009, consumer price inflation rose mildly to 6.3% year-on-year, from 5.8% previous, thus keeping well-ahead of house price inflation for the time being.



STILL-WEAKER COASTAL HOLIDAY TOWNS POINT TO ESSENTIAL BUYING BEING KING IN THE CURRENT RECOVERY

An examination of Deeds data, for transactions by individuals in areas deemed to be residential-dominant, appears supportive of the view that the household sector is generally not yet on a firm financial footing, and is thus primarily focused on essential property buying as opposed to luxury buying.

The essential buying focus hampers the pace of recovery in areas such as coastal holiday towns, where a far greater percentage of residential buying is typically for non-essential holiday purposes.



Using a smoothed time series of the volume of transactions by individuals in residential-dominant areas, we see our sample of high income areas in the 6 major metros (average price R1.154m) showing year-on-year volume growth of +25.9% by November 2009. This is not an impressive number yet, as it is admittedly off a very low base. But it far outstrips the volumes calculated for our sample of coastal holiday towns (average price R1.054m), which still showed year-on-year volume decline of -8.7% in November (although admittedly also slowly turning the corner). We use the "high income" areas of metros as a comparison with our coastal holiday town index because they are very comparable in terms of average price level.

The apparent result of the slower recovery (or stabilisation at least) in the coastal holiday town market is that the coastal holiday town average price inflation index remains on a declining path, showing year-on-year price deflation of -0.8% for the final quarter of 2009. This is in contrast to the +0.8% year-on-year increase in the High Income Metro Area Price Index. Although there is little difference in the inflation/deflation rates of the 2 indices, the High Income Metro Area Index is already on an improving trend, and so the gap between the two could probably be expected to widen in the near term.

These graphs show the more extreme "cyclicality" of coastal holiday towns, as opposed to the major metro areas, with the coastal holiday areas having done far better at the peak of the residential boom, but in more recent times sliding to greater depths.

Data source for this section: Deeds Office

CONCLUSION

January was the third successive month of year-on-year increase in house prices after almost a year of decline. This reflects a modest start to 2010, but more importantly an improving trend. Little changes to our expectation that price inflation won't go further than single-digits, with a household sector still under significant financial pressure, and the belief that interest rates are at or near to the bottom.

The SARB Governor did hint at the possibility of interest rate reduction in the not too distant future, but given the "downward stickiness" of consumer price inflation, even were further reduction to happen it would be unlikely to be substantial. The consumer price inflation rate actually rose from 5.8% year-on-year to 6.3% in December, and even though it is expected to return to the 3%-6% target range, both the SARB and ourselves expect it to hug the upper end of the target band, limiting the scope for further interest rate cutting.

Nevertheless, the strengthening in the market is expected to continue until around mid-2010 at least, with the full impact of last year's interest rate cuts still to feed through, and supported by a moderately strengthening economy. It is, however, a mild recovery where primary residential buying is the dominant focus, a view that is supported by the above indices which report a stronger high income metro market compared with coastal holiday markets. In addition, the FNB Residential Property Barometer for the 4th quarter, released last week, continued to show little sign of buy-to-let buying increasing in importance relative to the overall market.

Monthly FNB House Price Index (July 2000 = 100)

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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	288.2	5.1%
Jan-01	99.3		Aug-03	134.4	18.3%	Mar-06	238.3	10.5%	Oct-08	289.9	4.1%
Feb-01	99.6		Sep-03	136.9	19.7%	Apr-06	240.9	10.8%	Nov-08	289.7	2.1%
Mar-01	99.7		Oct-03	140.3	21.6%	May-06	241.9	11.3%	Dec-08	287.5	-0.3%
Apr-01	100.0		Nov-03	144.1	23.9%	Jun-06	242.2	12.1%	Jan-09	283.4	-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	273.9	-6.3%
Jul-01	101.8	1.8%	Feb-04	155.3	28.3%	Sep-06	246.4	14.5%	Apr-09	269.5	-7.1%
Aug-01	102.2	3.0%	Mar-04	158.3	28.3%	Oct-06	249.0	14.5%	May-09	265.3	-7.6%
Sep-01	102.5	4.0%	Apr-04	160.8	27.9%	Nov-06	252.1	14.2%	Jun-09	264.0	-7.3%
Oct-01	102.9	4.5%	May-04	163.0	27.6%	Dec-06	255.5	13.6%	Jul-09	266.7	-6.1%
Nov-01	103.7	5.1%	Jun-04	165.2	27.6%	Jan-07	258.9	12.8%	Aug-09	273.5	-4.3%
Dec-01	105.1	6.2%	Jul-04	168.1	27.2%	Feb-07	261.3	11.5%	Sep-09	281.9	-2.2%
Jan-02	106.9	7.6%	Aug-04	172.4	28.3%	Mar-07	262.6	10.2%	Oct-09	289.3	-0.2%
Feb-02	108.9	9.3%	Sep-04	178.0	30.0%	Apr-07	263.5	9.4%	Nov-09	294.0	1.5%
Mar-02	110.7	11.1%	Oct-04	184.6	31.6%	May-07	264.6	9.4%	Dec-09	294.1	2.3%
Apr-02	112.0	11.9%	Nov-04	191.9	33.2%	Jun-07	266.2	9.9%	Jan-10	292.3	3.1%
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

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From Date	Cumulative % change to Jan 2010	From Date	Cumulative % change to Jan 2010	From Date	Cumulative % change to Jan 2010	From Date	Cumulative % change to Jan 2010
Jul-00	192.3%	Feb-03	141.6%	Sep-05	35.9%	Apr-08	0.8%
Aug-00	194.7%	Mar-03	137.0%	Oct-05	34.4%	May-08	1.7%
Sep-00	196.5%	Apr-03	132.5%	Nov-05	32.4%	Jun-08	2.6%
Oct-00	197.0%	May-03	128.9%	Dec-05	30.0%	Jul-08	2.9%
Nov-00	196.4%	Jun-03	125.2%	Jan-06	27.3%	Aug-08	2.3%
Dec-00	195.4%	Jul-03	121.2%	Feb-06	24.7%	Sep-08	1.4%
Jan-01	194.4%	Aug-03	117.5%	Mar-06	22.7%	Oct-08	0.8%
Feb-01	193.5%	Sep-03	113.5%	Apr-06	21.4%	Nov-08	0.9%
Mar-01	193.3%	Oct-03	108.4%	May-06	20.9%	Dec-08	1.7%
Apr-01	192.2%	Nov-03	102.9%	Jun-06	20.7%	Jan-09	3.1%
May-01	190.4%	Dec-03	97.5%	Jul-06	20.4%	Feb-09	5.0%
Jun-01	188.2%	Jan-04	92.7%	Aug-06	19.8%	Mar-09	6.7%
Jul-01	187.0%	Feb-04	88.3%	Sep-06	18.7%	Apr-09	8.5%
Aug-01	186.1%	Mar-04	84.7%	Oct-06	17.4%	May-09	10.2%
Sep-01	185.1%	Apr-04	81.8%	Nov-06	16.0%	Jun-09	10.7%
Oct-01	184.2%	May-04	79.4%	Dec-06	14.4%	Jul-09	9.6%
Nov-01	182.0%	Jun-04	77.0%	Jan-07	12.9%	Aug-09	6.9%
Dec-01	178.2%	Jul-04	73.9%	Feb-07	11.9%	Sep-09	3.7%
Jan-02	173.5%	Aug-04	69.5%	Mar-07	11.3%	Oct-09	1.0%
Feb-02	168.5%	Sep-04	64.2%	Apr-07	11.0%	Nov-09	-0.6%
Mar-02	164.1%	Oct-04	58.4%	May-07	10.5%	Dec-09	-0.6%
Apr-02	161.1%	Nov-04	52.3%	Jun-07	9.8%		
May-02	159.5%	Dec-04	46.6%	Jul-07	9.0%		
Jun-02	159.1%	Jan-05	41.9%	Aug-07	7.9%		
Jul-02	158.4%	Feb-05	38.1%	Sep-07	6.6%		
Aug-02	157.2%	Mar-05	35.6%	Oct-07	4.9%		
Sep-02	155.5%	Apr-05	34.4%	Nov-07	3.0%		
Oct-02	153.4%	May-05	34.6%	Dec-07	1.3%		
Nov-02	151.3%	Jun-05	35.3%	Jan-08	0.3%		
Dec-02	148.9%	Jul-05	36.1%	Feb-08	-0.2%		
Jan-03	146.0%	Aug-05	36.4%	Mar-08	0.0%		

KEY PROPERTY AND ECONOMIC INDICATORS SUMMARY

Property and Mortgage Market Summary, and Key Economic Indicators

END OF PERIOD	2005	2006	2007	2008	2009	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Residential Property Prices														
FNB National Average House Price (Rand)	565,077	636,111	706,811	755,390	727,008	728,897	696,755	717,100	765,282	737,709	757,074	769,220	769,553	764,912
<i>y/y % change</i>	26.5	12.6	11.1	6.9	-3.8	-4.7	-7.4	-4.2	1.2	-2.2	-0.2	1.5	2.3	3.1
Major Metro Areas Average House Price (Rand)	613,412	731,000	829,001	866,880		856,218	852,315	849,967						
<i>y/y % change</i>	26.8	19.2	13.4	4.6		1.3	2.1	2.0						
- Top End Area Average House Price (Rand)	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>	19.5	13.9	10.0	6.6		2.5	1.7	1.7						
- High Income Area Average House Price (Rand)	841,026	988,778	1,117,847	1,159,759		1,133,597	1,123,895	1,116,436						
<i>y/y % change</i>	27.1	17.6	13.1	3.7		-2.9	-3.7	-3.6						
- Middle Income Area Average House Price (Rand)	536,433	650,808	733,050	757,816		746,983	743,097	739,877						
<i>y/y % change</i>	32.2	21.3	12.6	3.4		-1.8	-2.4	-2.3						
- Affordable Area Average House Price (Rand)	209,323	275,559	339,241	360,465		354,286	352,130	351,026						
<i>y/y % change</i>	29.2	31.6	23.1	6.3		-1.9	-2.8	-2.7						
- Major 3 Provinces' Former Black Township Average House Price (Rand)	119,142	163,252	219,938	261,760		269,137	270,118	270,606						
<i>y/y % change</i>	26.1	37.	34.7	19.		6.5	3.6	1.9						
Freehold Vacant Land/Square Metre (Rand)	485	503	503	512		527	540	560						
<i>y/y % change</i>	22.4	3.7	-0.2	1.8		5.1	6.9	8.3						
FNB Residential Property Barometer														
Level of Residential Demand Activity (Scale 1 to 10)	6.5	6.0	5.7	4.5	5.2	4.8	4.8	5.7	5.65					
<i>y/y % change</i>	-10.7	-7.6	-5.2	-20.8	15.6	-3.2	8.4	36.8	23.7					
First time buyers as a percentage of total buyers (%)	28.3	21.8	17.8	15.0	15.8	15.0	14.0	15.0	19					
Buy-to-let as a percentage of total buyers (%)	20.0	17.5	12.8	13.0	12.0	11.0	11.0	13.0	13					
Average time of properties on the market (Weeks and Days)	7.0	8.0	10.0	15.4	17.0	17.4	21.1	16.4	13.2					
Percentage of properties sold at less than asking price (%)	43.5	64.0	77.3	84.3	86.0	86.0	86.0	83.0	89					
Percentage of properties on the market for 3 months or more (%)	21.0	26.0	42.8	74.8	74.0	79.0	85.0	70.0	62					
Residential Building Sector														
Number of units' plans passed	102,258	103,925	102,566	84,508	49618.0	14,329	12,391	13,600		5,790	5,462	3,836		
<i>y/y % change</i>	10.3	1.6	-1.3	-17.6	-41.3	-32.0	-35.6	-50.4		-35.8	-28.3	-19.9		
Square metres' worth of plans passed	14,211,337	13,877,783	13,471,430	10,181,185	5652381.0	1,554,033	1,553,756	1,460,911		554,821	583,101	500,580		
<i>y/y % change</i>	12.8	-2.3	-2.9	-24.4	-44.5	-43.9	-40.9	-48.7		-33.8	-25.3	-21.6		
Average size of units' plans passed (square metres)	139.0	133.5	131.3	120.5	113.9	108.5	125.4	107.4		95.8	106.8	130.5		
Number of units completed	70,624	70,005	76,661	69,933	49851.0	15,132	13,258	13,118		5,025	4,346	3,997		
<i>y/y % change</i>	-0.1	-0.9	9.5	-8.8	-28.7	-4.9	-16.2	-34.5		-33.9	-36.0	-32.2		
Square metres' worth of buildings completed	8,789,257	9,094,252	9,327,001	8,596,194	6065305.0	1,835,841	1,573,174	1,585,929		559,744	552,793	517,568		
<i>y/y % change</i>	17.7	3.5	2.6	-7.8	-29.4	-4.2	-19.3	-34.1		-36.1	-35.2	-33.6		
Average size of units' completed (square metres)	124.5	129.9	121.7	122.9	121.7	121.3	118.7	120.9		111.4	127.2	129.5		

Property and Mortgage Market Summary, and Key Economic Indicators

END OF PERIOD	2005	2006	2007	2008	2009	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Mortgage Market														
Total Mortgage Advances Outstanding (R'm)	526,647	684,593	853,819	966,921	994,942	981,192	983,387	986,765	994,942	986,765	989,369	991,754	994,942	
<i>y/y % change</i>	27.6	30.0	24.7	13.2	2.9	11.2	8.2	4.8	3	4.8	3.6	3.0	2.9	
New residential loans and re-advances granted (R'm)	248,800	338,327	364,575	271,276	117,641	35,347	35,718	46,576		18,777				
<i>y/y % change</i>	38.7	36.0	7.8	-25.6	-56.6	-57.5	-49.6	-22.2		-13.8				
Residential re-advances granted (R'm)				81,585	39,750	13,244	11,400	15,106		5,996				
<i>y/y % change</i>				-51.3	-43.4	-50.2	-18.8			-3.4				
Total residential mortgage loans outstanding - Banks (R'm)	426,204,649	546,196,842	672,988,765	753,122,034	774,475,359	766,361,552	768,659,583	772,098,287	774,475,359	772,098,287	773,800,623	774,475,359		
<i>y/y % change</i>	30.0	28.2	23.2	11.9	2.8	8.9	7.1	4.8	2.8	4.8	3.7	3.1		
Key Economic Indicators														
Real Gross Domestic Product (R'm at 2000 prices)	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>	5.3	5.6	5.5	3.7		-0.8	-2.6	-2.1						
Real Residential Fixed Investment (R'm)	33,455	36,198	35,874	33,156		30,861	30,117	29,695						
<i>y/y % change</i>	29.3	8.2	-0.9	-7.6		-9.6	-10.1	-9.9						
Prime Rate (%)	10.6	11.2	13.2	15.1	12.1	14.0	12.0	10.7	10.5	10.5	10.5	10.5	10.5	10.5
Yields on Government Bonds 10 years and Longer (%)	8.1	7.9	8.0	9.1	8.7	8.2	8.7	8.9	9.0	8.7	9.1	9.0	9.0	9.2
Currencies - USDZAR	6.36	6.75	7.04	8.27	8.43	9.94	8.46	7.79	7.52	7.48	7.53	7.49	7.53	7.46
Currencies - EURZAR	7.91	8.48	9.64	12.10	11.72	12.94	11.54	11.15	11.10	10.89	11.14	11.14	11.03	10.61
CPI - <i>y/y % change</i>	3.4	4.6	7.1	11.5	7.1	8.4	7.7	6.4	6.0	6.1	5.9	5.8	6.3	
Gauteng pump price <i>y/y%</i>						-16.6	-21.9	-23.4	-9.8	-17.1	-18.9	-14.8	8.1	
FNBBER Consumer Confidence Index	18.3	19.0	21.0	0.3	3.0	1.0	4.0	1.0	6.0					
RMBBER Business Confidence Index	82.5	83.5	74.8	40.0	26.0	27.0	26.0	23.0	28.0					
SARB Composite Leading Business Cycle Indicator	118.5	125.4	125.5	117.0	109.3	104.9	107.2	110.0		112.3	116.5	119.8		
<i>y/y % change</i>	3.2	5.8	0.1	-6.8	-6.5	-14.8	-11.6	-4.9		-0.7	6.0	11.6		
Real Retail Sales (2008 Prices) - R'm	418,556	468,446	498,767	500,191	421,776	114,637	114,498	113,359		37,820	39,059	40,223		
<i>y/y % change</i>	8.2	11.9	6.5	0.3	-15.7	-3.0	-6.2	-5.2		-4.9	-6.1	-6.6		
Manufacturing - Volume of Production (Index 2005=100)	100.0	104.8	109.6	110.6	97.3	91.6	92.5	99.5		101.5	109.8	109.3		
<i>y/y % change</i>	3.0	4.8	4.6	0.9	-12.1	-13.2	-18.7	-13.5		-11.4	-9.6	-4.7		
Mining - Volume of Production (Index 2005=100)	100.0	98.7	97.8	92.3	86.0	76.7	87.9	90.8		90.3	88.8	90.9		
<i>y/y % change</i>	1.3	-1.3	-0.9	-5.6	-6.8	-7.3	-8.4	-5.8		-11.7	-10.3	-1.6		
Vehicle Sales - Total (NAAMSA)	565,182	647,021	613,043	489,340	353,970	93,300	79,947	92,124	88,599	31,726	31,622	30,019	26,958	
<i>y/y % change</i>	25.6	14.5	-5.3	-20.2	-27.7	-34.0	-33.9	-25.6	-14.2	-22.5	-17.1	-12.2	-12.9	
Passenger Vehicle Sales - Total (NAAMSA)	377,002	427,021	384,582	294,761	224,754	60,039	50,611	57,873	56,231	20,266	20,836	19,317	16,078	
<i>y/y % change</i>	25.2	13.3	-9.9	-23.4	-23.8	-30.0	-27.3	-24.5	-10.4	-20.1	-9.7	-4.0	-17.9	