



ETHEKWINI PROPERTY BAROMETER

FNB PROPERTY
MARKET ANALYTICS

*- Manufacturing and economic
recovery most welcome here*

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PROPERTY AND MORTGAGE MARKET ANALYTICS

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SUMMARY – ETHEKWINI RESIDENTIAL MARKET STARTS TO AWAKEN, AS ITS ECONOMY RECOVERS

It is possible that demand for residential property in eThekweni (Durban-Pinetown Urban Complex) during the recession was hit a little harder than was the case in Joburg and Tshwane, given the metro's heavy reliance on a manufacturing sector that bore the brunt of a global meltdown.

Adjacent to the metro are some of SA's major holiday towns, which also took a beating as non-essential holiday property buying saw cutbacks from inland investors. In addition, anecdotal evidence suggests that certain corporates may have centralised certain functions at head offices very often located in Gauteng, which may have drained some more home owners from the region as they moved inland to search for scarce opportunities.

However, recently as the global and local inventory run-downs come to their end, and manufacturing orders re-start, we see manufacturing recovering rapidly, while the positive stimulus from last year's interest rate cuts continues to feed through into the market.

And so, from a time in 2008 when eThekweni estate agents surveyed in the FNB Property Barometer were significantly less optimistic regarding residential demand than their counterparts elsewhere, they are now slightly more optimistic.

However, FNB's valuers believe that the region is not yet out of the woods in terms of existing oversupplies on the market, while agents re-inforce this view by continuing to estimate high rates of selling in order to downscale due to financial pressure. Therefore, it is not surprising to see that as at the 4th quarter of 2009, eThekweni still showed estimated year-on-year house price deflation of -1.6%, which in real terms (adjusting with the CPI) amounted to -6.3%.

The sub-regions in the worst shape are the eThekweni Former Black Township areas, which had a price inflation peak above 40% as recently as early-2008, but now find themselves in deflation territory and still deteriorating. Townships aside, however, all other major sub-regions find themselves on improving trends, either with diminishing price deflation or returning to house price inflation.

So, in short, while residential demand has seen improvement through 2009, oversupplies persist and the metro's property market is by no means out of the woods yet. But off a lower base, estate agents are suggesting that demand for eThekweni property may have been recovering at a more rapid pace than other major metros.

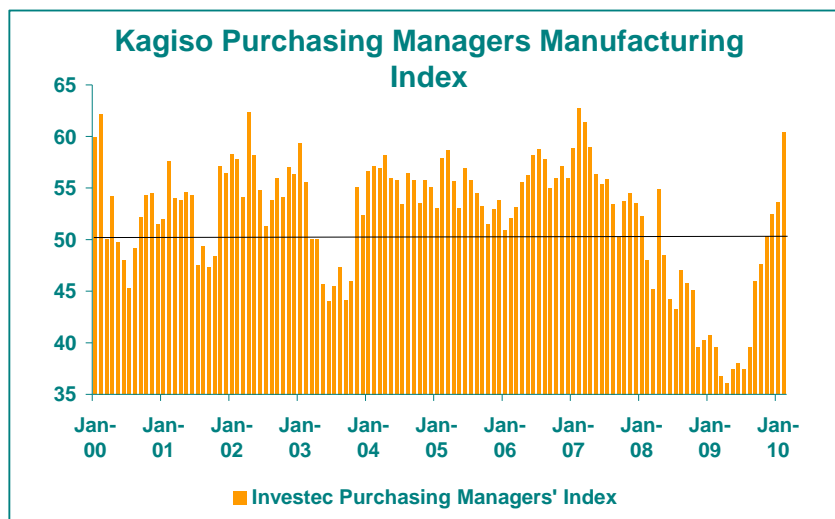
ETHEKWINI – RECENT POSITIVE MANUFACTURING NUMBERS ARE GOOD NEWS FOR THE MANUFACTURING-DEPENDENT DURBAN

It's no secret that eThekweni is a metro hugely dependent on manufacturing, both directly and indirectly. A large percentage of its economy is manufacturing, while a large portion is related to the freight transport sector, where manufactured goods feature prominently too.

Therefore, evidence that the global economy is picking up, which implies greater demand for the country's manufactures, would be great news for this metro. This would be more so than in the case of the more services-driven economies of Cape Town and Joburg, or the more Government sector-dependent Tshwane.

Both the Kagiso Purchasing Managers Index, now well-above the crucial 50 level at 60.3 (implying expansion in production), and the 4th Quarter GDP numbers show that the manufacturing sector as a whole is growing again, and the GDP numbers show that at a 10.1% annualised rate, manufacturing is the key contributor to overall national economic growth.

The recovery in manufacturing was to be expected, as inventory run-downs during the recession have probably approached completion, and the need to re-stock, both globally and domestically has probably



become increasingly necessary. Domestically, lower interest rates have provided some stimulus for consumer demand, while in the developed world we are seeing the effects of low interest rates (almost zero in the USA) along with huge fiscal stimulus packages feeding into the economic numbers.

ETHEKWINI'S PROPERTY DEMAND MAY BE MORE CYCLICAL THAN SOME OTHER MAJOR METROS

Having said that the Metro's dependence on manufacturing probably makes its economy more cyclical than some other major metros, implies that demand for residential property in this region is possibly more cyclical too.

Therefore, one would have expected to see EtheKwini's property market having taken a slightly larger knock during the downturn, and during the recent moderate recovery one would expect to see its market recovering a little faster than some other major ones whose economies are more service-driven.

Other possible negative impacts for its market may have come from:

- In tough economic times, demand for holiday property may dry up faster than primary residential demand. The greater volatility of holiday property demand in adjacent economies on

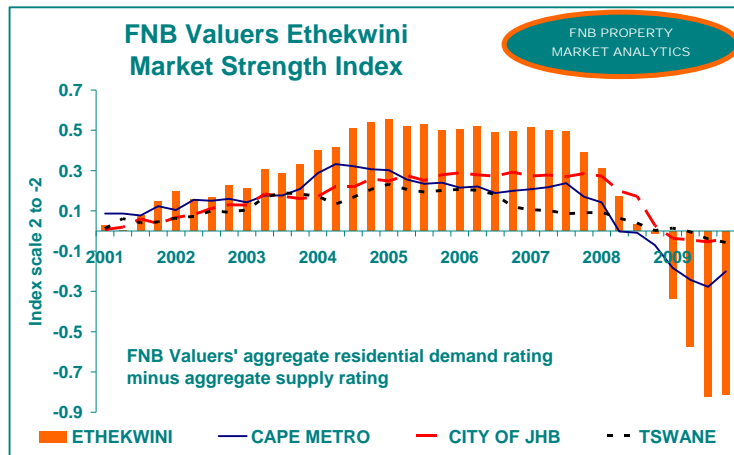
the South and North Coast not only hampers those economies, but may feed through to an extent into the eThekwi, given their interdependence.

- One often sees corporates centralising functions to head offices, very often in Johannesburg, during weak economic times, cutting back on regional activities and causing certain individuals to re-locate inland in search of opportunity. This can cause the Gauteng property market to remain slightly less unstable than some other major regions through the recessionary period.

It would seem that FNB's valuations teams in the eThekwi area echo the sentiment that this region's demand for property is more cyclical than the other 3 big metros..

FNB Valuers, upon valuing a property, provide their view on demand conditions for the type of property in question in the specific area (Good, Average or Poor), as well as providing a similar view of supply of such property in the area (also on a Good, Average or Poor basis).

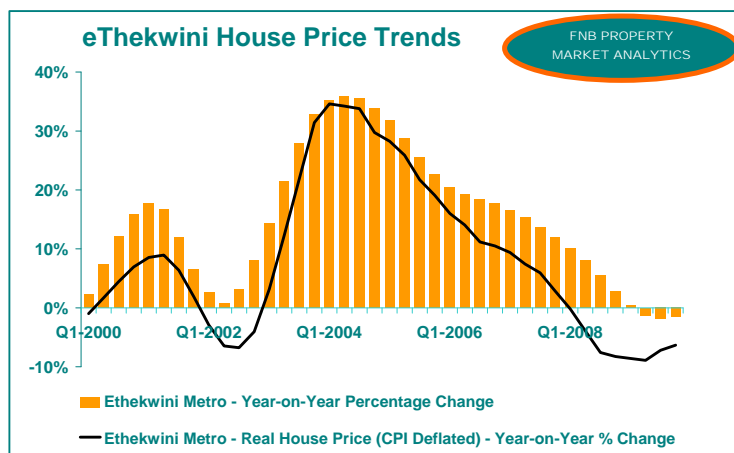
We give a number to their both supply and demand ratings (Good=1, Average =0, and Poor=-1), and the FNB Valuers Market Strength Index is then the average demand rating in the eThekwi region minus the average supply rating.



The results of the country's 4 top metros, namely Joburg, Cape Town, Tshwane and eThekwi show that the valuers in the eThekwi region have a very strong view that demand relative to supply is extremely weak in eThekwi, far weaker than any other metro, while at the height of the boom they had a strong opinion that demand well-outstripped supply, again far more so than the other metros.

The result of this index seems to indeed support the view that eThekwi is more cyclical than the other major metros. It would also suggest that, even though demand for property has been improving over the past year, eThekwi's oversupply remains significant, which should imply further house price deflation in real terms.

Indeed, this was still the case at at the 4th quarter of 2009. In nominal terms, mild house price deflation



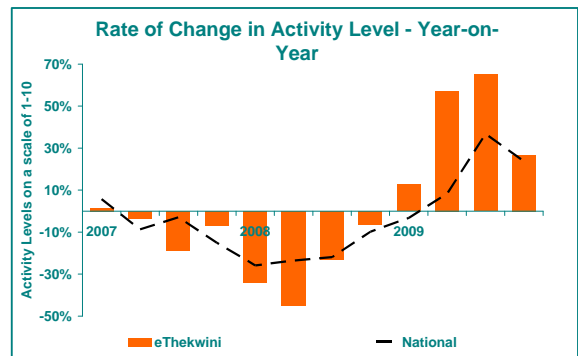
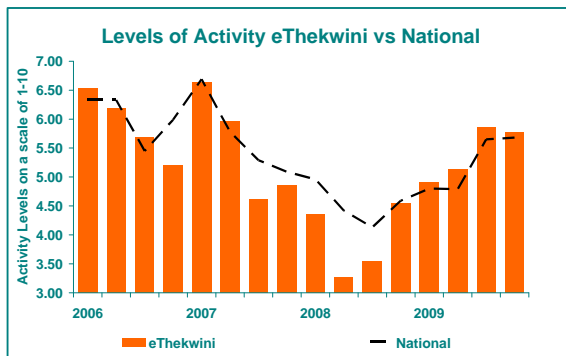
of -1.6% year-on-year was recorded (using Deed Office data for transactions by individuals), while adjusting into real terms using KZN consumer price inflation the real house price deflation rate was a more substantial -6.3%.

However, in the latter stage of 2009, both nominal and real house price deflation had started

diminishing as demand for residential property picked up.

ETHEKWINI FNB PROPERTY BAROMETER – DEMAND STILL STRENGTHENING, BUT POSSIBLY HEADING TOWARDS A PEAK LATER IN 2010

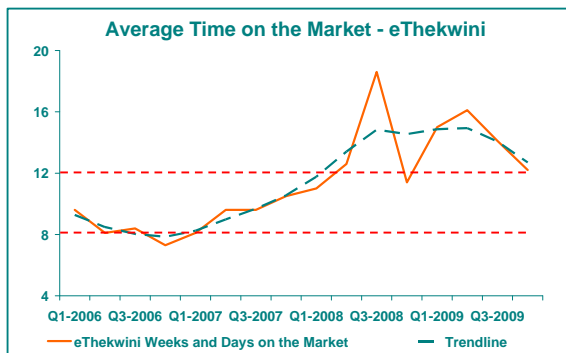
Turning to the eThekweni Residential Property Barometer, the sample of estate agents surveyed also seems to show a greater level of cyclicality in demand, compared with the national average (which is metro-dominated). The eThekweni demand activity rating bottomed out at 3.27 in the 2nd quarter of 2008, the lowest of all the major metros and well-below the national low point of 4.13 a quarter later. In the most recent survey, the eThekweni Metro’s activity level was slightly above the national average at 5.77 (national average of 5.68), and the level of cyclicality in its market is more visible when the activity rating is viewed on a year-on-year percentage change basis, which peaked at 65% in the 3rd quarter of last year (compared with a 37% national average)



The most recent Barometer survey, though, points to a tapering off in demand growth in eThekweni, with year-on-year growth having dropped back to 27% in the 4th quarter of 2009, suggesting that the stimulus from last year’s rate cuts is showing early signs of wearing off.

REALISM IN PRICING IMPROVING

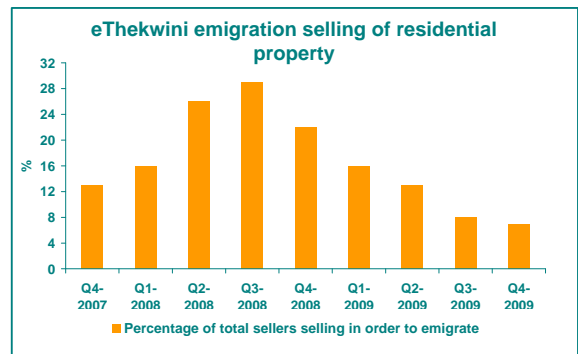
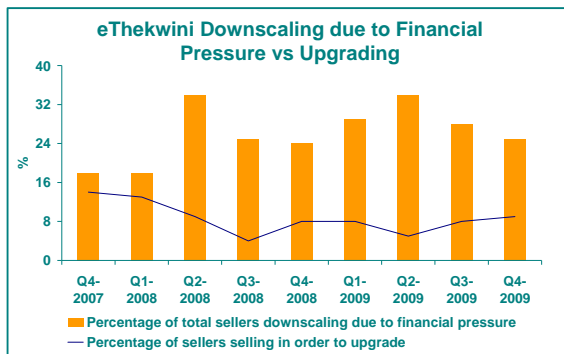
The mismatch between supply and demand can still arguably be seen in certain of the Property Barometer survey numbers too. In a “healthy” market, our (admittedly subjective) belief is that the average property should be sold within 2 months of being put on the market. Although the eThekweni average estimated time on the market has declined from a late-2008 peak of 18 weeks and 6 days to 12 weeks and 2 days at the end of 2009, this is still well-above the 2 month mark, suggesting in our view that the market has yet to fully re-balance. In addition, 91% of properties’ asking prices had to be dropped in order to make the sale, further pointing to unrealistic asking prices, although our guess is that the magnitude of the average asking price drop may have diminished as demand has strengthened.



REASONS FOR SELLING STILL REFLECT WIDESPREAD FINANCIAL STRESS

Agents surveyed point to high levels of selling in order to downscale due to financial pressure, at an estimated 25% of total sales. However, this does represent the 2nd consecutive quarter of improvement from a high of 34% of total sales in the 2nd quarter of 2009, while selling in order to upgrade has increased for the 2nd successive quarter to 9% of total sales as at the 4th quarter, from a 2nd quarter 2009 low of 5%.

Other good news emanating from the “reasons for selling” in eThekweni relates to estimated emigration selling, which continued its decline in the 4th quarter of 2009 down to 7% of total sales, this from a peak of 29% in the 3rd quarter of 2008.

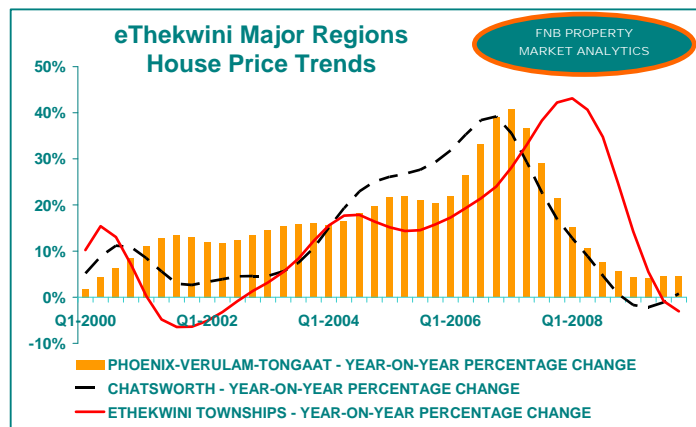


ETHEKWINI - REASONS FOR SELLING (AS % OF TOTAL SALES)	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009
Downscaling due to financial pressure	18	18	34	25	24	29	34	28	25
Upgrading	14	13	9	4	8	8	5	8	9
Downscaling with life stage	21	20	11	18	16	16	20	24	23
Moving for safety and security reasons	10	8	3	5	6	6	5	8	7
Emigrating	13	16	26	29	22	16	13	8	7
Relocating within SA	11	14	8	9	8	6	7	7	9
Change in family structure	8	6	6	9	15	18	14	16	16
Moving to be closer to work or amenities	7	1	4	1	1	1	2	3	4

ETHEKWINI FORMER BLACK TOWNSHIPS, LAST TO PEAK IN THE CYCLE, ARE NOW THE WEAK LINK WHEN EXAMINING SUB-REGIONAL PRICE TRENDS

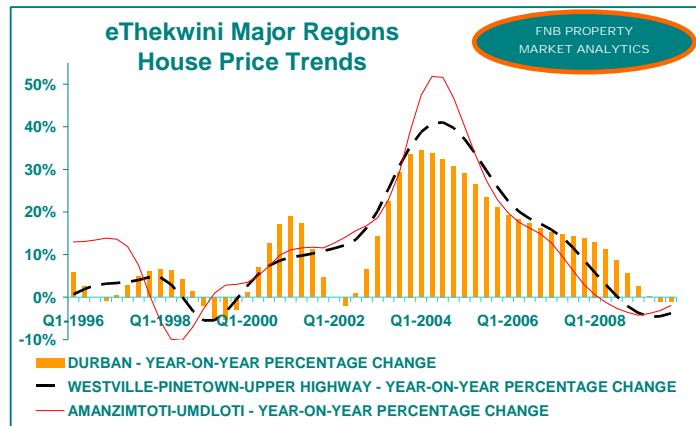
A feature of eThekweni’s house price trends by sub-regions within the metro, is the speed of the recent slump in township house price inflation to deflation:

- eThekweni’s former Black Township House Price Index (average price = R229,588) showed a very late peak in the price inflation cycle, as recently as the 1st quarter of 2008, at 43.1% year-on-year. Within less than 2 years, this had declined to a year-on-year rate of decline of -3.1%.



Apart from the former Black Townships, which lag the cycle, the other 5 major eThekweni are all slowly seeing year-on-year rates of inflation/deflation turning for the better, and all had either diminishing price deflation rates or renewed inflation by the 4th quarter of last year.

- The Phoenix-Verulam-Tongaat region (average price = R401,864) showed year-on-year price increase of 4.4% in the 4th quarter of 2009, while Chatsworth (average price = R426,379) showed slight year-on-year inflation of 0.7%.
- The town of Durban (average price=R850,955) showed mild year-on-year deflation of -1% in the 4th quarter of 2009, Amanzimtoti-Umdloti (average price=R944,962) -2% decline, and the Westville-Pinetown-Upper Highway region (average price=R916,510) showed the worst price decline of -3.8%.



CONCLUSION

The near term outlook for eThekweni is one of further strengthening in demand and transaction volumes, and given the perception that this is a more cyclical regional economy than the more services-driven metros of Joburg, Tshwane and Cape Town, it is possible that the rapid manufacturing recovery off a low base may help eThekweni's recovery to slightly greater highs than those metros.

However, as in the case of the national economy, it would be un-wise to think that the residential market, or its key driver the household sector, is in good shape. 25% of total sales is still high percentage of sellers selling in order to downscale due to financial pressure, while the positive impact of last years rate cuts is expected to wear thin in the 2nd half of 2010.

As such, it is expected that high single-digit average house price inflation for 2010 as a whole will be as good as it gets for eThekweni.