CAPE METRO PROPERTY BAROMETER

- Oversupplies still abundant away from the mountain

FNB PROPERTY MARKET ANALYTICS

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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

SUMMARY – CAPE METRO RECOVERY INTACT, BUT FINANCIAL STRESS AND OVERSUPPLY STILL SEEMINGLY WIDESPREAD

The positive impacts of last year's interest rate cuts, and to a lesser extent the recent economic recovery, continue to feed into the Cape Metro Property Market. Although, the Western Cape FNB Property Barometer demand activity reading was slightly down in the 4th quarter of 2009 (compared to the previous quarter), it was still a healthy 28.4% up on the 4th quarter of a year before, and Western Cape agents surveyed are the most upbeat about residential demand of the major metros surveyed.

However, all is not yet well in the region's market, with survey respondents also reporting widespread financial stress, estimating that as much as 27% of total selling may be selling in order to downscale due to financial pressure. This would suggest that an oversupply of property probably still exists, and indeed FNB's valuers in many of the Cape Metro areas, as well as FNB's sub-regional house price indices, also point strongly towards this.

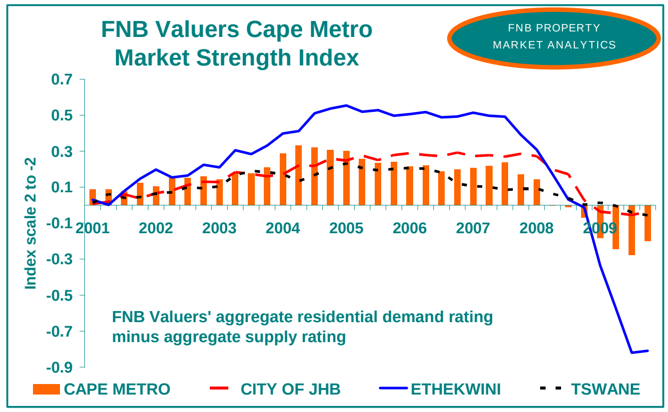
The FNB Valuers Cape Metro Market Strength Index still indicates that the entire metro's supply of residential property exceeds that of demand, and it is likely that the oversupply is mainly in areas to the north of the metro and generally away from the mountain. This view is supported by price trends, with the price index for Cape Town-Fishoek-Simonstown sub-region (the areas close to the mountain) being the only one bar the former Black Townships to have avoided average price decline during the recent property slump, and showed +4.4% year-on-year inflation as at the 4th quarter of 2009. In contrast, out north in the Milnerton-Melbosstrand region, average price deflation was running at -9.5% year-on-year, seemingly the worst performing sub-region in the metro.

The contrast between the above 2 sub-regions' performances has much to do with vacant land supply for development, and FNB valuations data indicates far less new property stock having been added to the Cape Town area during last decade's boom, compared to a massive surge in new homes added to the stock of the Milnerton area during the past decade.

So, while the Cape Town area has the huge advantage of having 2 of the premier business nodes in South Africa, namely Claremont and Cape Town CBD, making it an attractive part of the city to live in, it is this along with the vacant land constraint caused by the mountain (and the sea on one side) which has supported seemingly superior property market performance in this area compared to the rest of the metro. It is this land constraint which also keeps the Cape Town area one of the most expensive in the country, and has possibly prevented the full-blown average price decline that has been noticeable in many other parts of the metro..

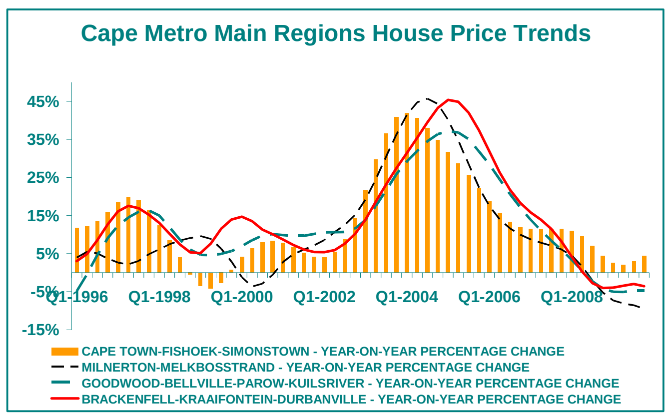
AWAY FROM THE MOUNTAIN, HOUSE PRICE DECLINE REMAINED WIDESPREAD IN THE CAPE METRO AS AT LATE LAST YEAR

For the Cape Metro as a whole, FNB Valuers, on aggregate, indicated that supply still exceeds demand in the residential property market. With each property valuation done by FNB Valuers, they are asked to rate demand (good, average or bad) and supply (good, average or bad). We assign the numbers 1, 0, and -1 to the "good, average and bad" ratings respectively, aggregate demand and supply, and subtract the aggregate supply rating from that of demand to calculate the FNB Valuers Market Srength Index. At present, all 4 major metros show supply exceeding demand, eThekwini by the largest margin, Joburg and Pretoria by small margins, and Cape Town somewhere in between at -0.2 as at the 4th quarter of 2009 (Scale from 2 to -2). According to this index, as at the 4th quarter of 2009 the oversupply had started to diminish from the previous quarter, but was some way from being entirely eliminated. Therefore, it was not surprising that house price deflation was still widespread in the metro until recently.

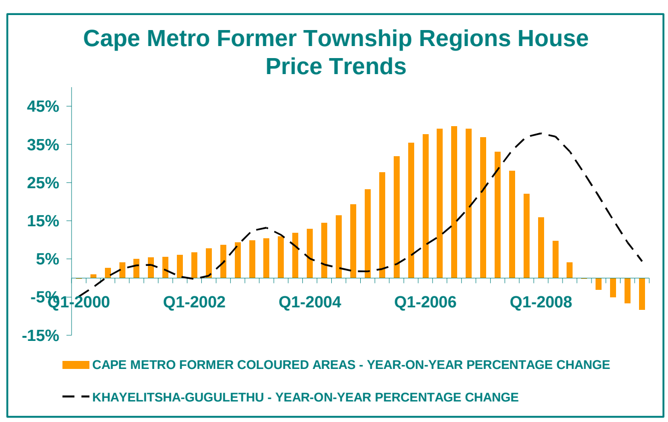


Through the property slump, Table Mountain proved to be a wonderful protector of value to its surrounding property market. Areas close to the mountain excluded, price deflation in the Cape Metro appears to have been widespread.

- The Cape Town-Fishoek-Simonstown sub-region (average price = R1.196m), the area close to the mountain, showed estimated year-on-year average price inflation of +4.4% in the final quarter of 2009, a rise from the previous quarter's +3%, thus appearing to have avoided average price decline



- The only other sub-region to so far have avoided average price decline in the recent slump was the former Black Township region of Khayelitsha-Gugulethu (average price = R209,284), whose average price also rose year-on-year by +4.4%, but this was arguably only because townships lag the cycle, and the region looks to be heading towards deflation fast.



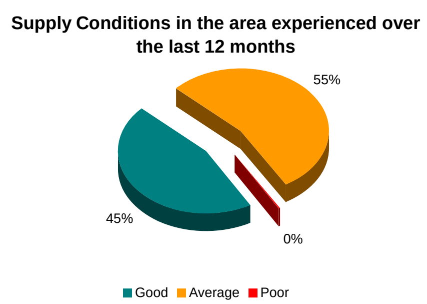
- Gordons Bay-Strand-Somerset West (average price = R1.041m) showed year-on-year inflation of +1.4%, having experienced deflation back in 2008.

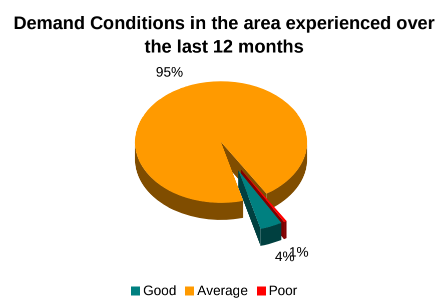
- Goodwood-Bellville-Parow-Kuilsriver (average price = R775k) average price declined year-on-year by -4.7%.
- Brackenfell-Kraaifontein-Durbanville (average price – R754k) prices deflated year-on-year by -3.6%.
- The former so-called Coloured areas of Cape Town (average price = R262k) were very weak, showing average year-on-year price decline of -8.4%.
- And the worst performing area appeared to be Milnerton-Melkbosstrand region (average price = R706k), showing average year-on-year price decline of -9.5%.

We compare the town of Cape Town, the lion's share of the best performing sub-region, with Milnerton, the major town of the worst performing sub-region, using our FNB Valuer's database. The data strongly supports the view that a lack of vacant land for new development near to Table Mountain has greatly contributed to values holding up better in the Cape Town market as opposed to those markets to the North of the metro.

Over the past 12 months, 45% of our valuers in the Milnerton area have given the supply for properties a "Good" rating, versus 55% rating supply as average. Their view of demand has been far less positive, with only 4% rating demand as "good" and 95% rating it as "average".

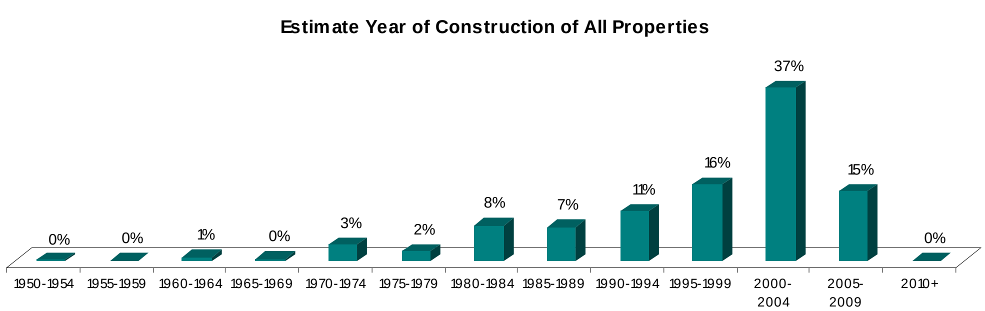
MILNERTON SUPPLY VERSUS DEMAND





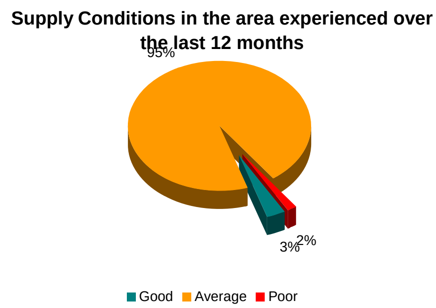
The valuers' aggregate view thus leans very much towards strong supply relative to demand, and possible oversupply of residential property in Milnerton. This comes as little surprise, as much of the Cape Metro's residential building boom of last decade took place in this sub-region. To illustrate the point, 37% of properties valued by FNB during the past decade were built in the period 2000 to 2004, implying that the most recent property boom saw a huge addition of new stock to the area, with developers having looked to wherever vacant land was plentiful.

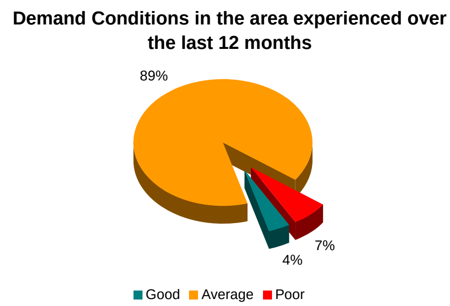
MILNERTON ESTIMATED YEAR OF CONSTRUCTION OF ALL PROPERTIES VALUED



The picture for the town of Cape Town looks significantly healthier. Only 3% of valuers rated supply conditions as “good” in Cape Town over the past year, while 95% rated it as “average”. The demand picture was similar, with 4% rating it as “good” and 89% giving it an “average” rating. This would point to a residential market where supply and demand have remained far more in balance during the slower time.

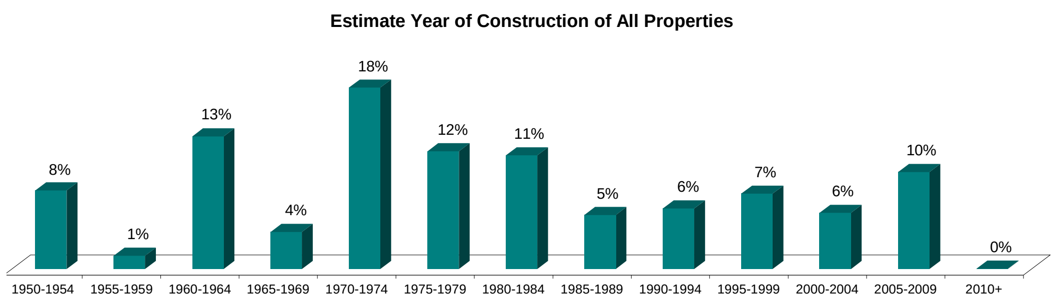
CAPE TOWN SUPPLY VERSUS DEMAND





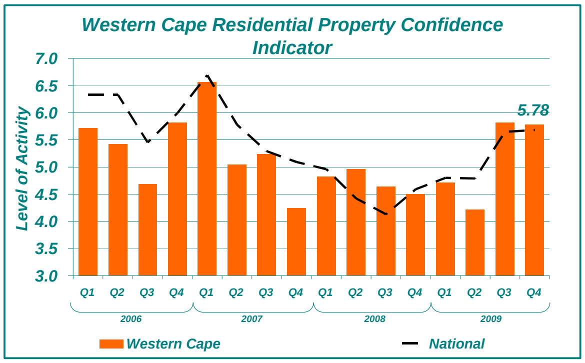
Once again, this comes as little surprise when one looks at the properties valued over the past 10 years by FNB in the area. Less vacant land meant a lower percentage of new stock added to the area in the boom, and this shows up with only 6% of properties valued having been built from 2000 to 2004 and another 10% built from 2005 to 2009. Cape Town’s new development heyday was a few decades ago in the 60s, 70s and early-1980s, and it is far tougher these days to create an oversupply in this sub-region, hence the better price performance even in a recession.

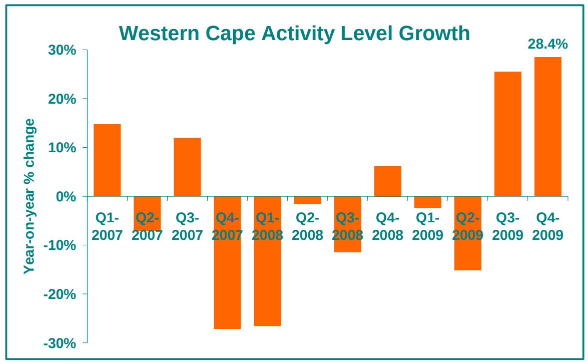
CAPE TOWN ESTIMATED YEAR OF CONSTRUCTION OF ALL PROPERTIES VALUED



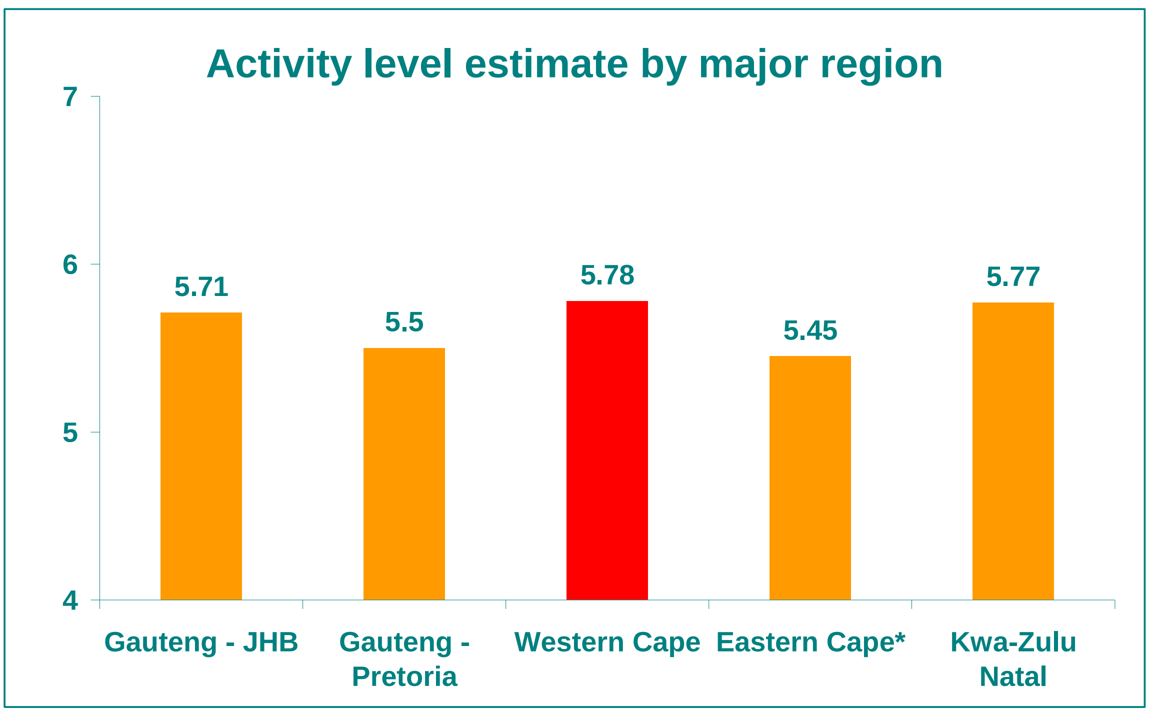
CAPE METRO FNB PROPERTY BAROMETER – DEMAND ACTIVITY SLIGHTLY DOWN QUARTER TO QUARTER, BUT STILL STRONGLY UP YEAR-ON-YEAR

Turning to the Cape Metro FNB Property Barometer for the 4th quarter of 2009, the sample of estate agents surveyed continued to be slightly more upbeat than the overall national market, despite a slightl decline in the demand activity level rating from 5.82 in the previous quarter to 5.78 in the final quarter of 2009 (on a scale of 1 to 10). However, the year-on-year growth rate in the activity rating accelerated further from 25% to 28.4% from quarter to quarter, suggesting that the strengthening trend is still intact when any possible seasonality is excluded, and that the positive stimulus from last year's interest rate cuts is still feeding through into demand for property strongly.



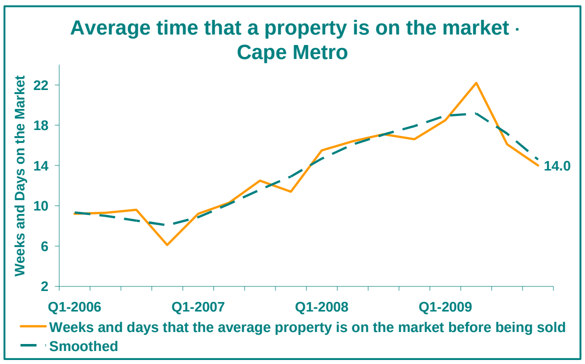


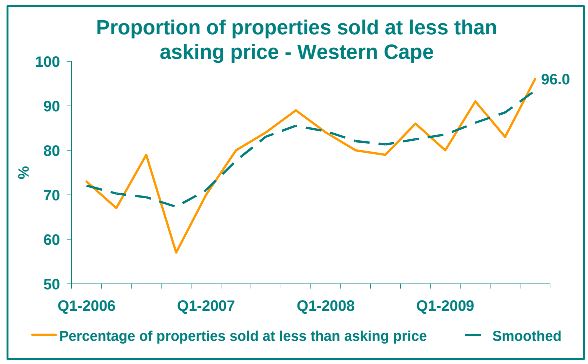
Comparing demand activity ratings by major region, the Cape Metro survey respondents are the most upbeat by a small margin over KZN and Joburg



REALISM IN PRICING IMPROVING

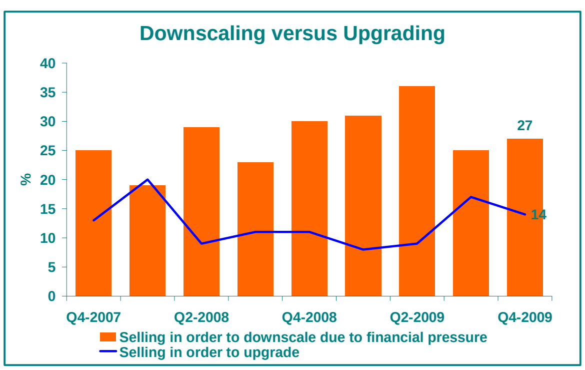
The mismatch between supply and demand can still arguably be seen in certain of the Property Barometer survey numbers too. In a "healthy" market, our (admittedly subjective) belief is that the average property should be sold within 2 months of being put on the market. Although the Cape Metro average estimated time on the market has declined from a 2nd Quarter 2009 peak of 22 weeks and 2 days to 14 weeks at the end of 2009, suggesting an improving trend in pricing realism, this is still well-above the 2 month mark, suggesting in our view that the market has yet to fully re-balance. In addition, 96% 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.

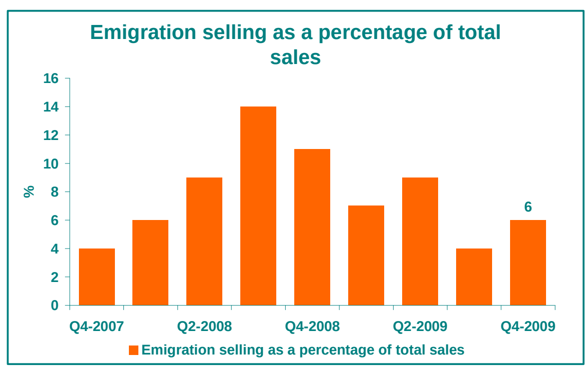




REASONS FOR SELLING STILL REFLECT WIDESPREAD FINANCIAL STRESS

Although the most upbeat on demand, agents surveyed still point to widespread financial stress, and high levels of "selling in order to downscale due to financial pressure" at an estimated 27% of total sales. This is higher than the national average of 24%, and slightly higher than the previous quarter's estimate of 25%. Estimated selling in order to upgrade also deteriorated on a quarter to quarter basis, from 17% of total sales in the previous quarter, to 14%. Therefore, in terms of financial pressure on home owners, the Cape Metro has some way to go before having what could be termed a "healthy" picture in this regard.





CAPE TOWN - 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	**25**	**19**	**29**	**23**	**30**	**31**	**36**	**25**	**27**
Upgrading	**13**	**20**	**9**	**11**	**11**	**8**	**9**	**17**	**14**
Downscaling with life stage	18	14	16	13	14	33	10	31	23
Moving for safety and security reasons	12	8	10	9	8	5	9	5	9
Emigrating	**4**	**6**	**9**	**14**	**11**	**7**	**9**	**4**	**6**
Relocating within SA	8	13	9	10	6	5	10	4	4
Change in family structure	11	14	8	16	13	8	14	11	13
Moving to be closer to work or amenities	7	5	10	4	6	4	3	3	4

Also showing a slightly worse number from the previous quarter was selling in order to emigrate, which was up slightly from 4% of total sales to 6%. One quarter is too early to claim a rising trend, but an apparent increase in "populist" rhetoric emanating from government these days, and a seeming lack of direction and delivery capacity in key departments and parastatals, does raise the risk of a renewed emigration selling rise, although a mediocre global economic situation is expected to keep something of a lid on this form of selling in the near term.

CONCLUSION

Despite a quarter to quarter decline in the demand activity rating for the Cape Metro, as provided by our FNB Property Barometer survey respondents, the year-on-year growth rate in demand still suggests that the strengthening demand trend is intact. However, all is not yet entirely healthy, with agents simultaneously pointing to widespread financial stress selling of property. FNB Valuers also point to an oversupply of property in the metro as a whole, and it would appear that this oversupply dominates more in areas away from Table Mountain. This is believed to be due to greater vacant land scarcity near to the mountain, which constrained the supply of new stock during the property and building boom last decade. As a result, the Cape Town-Fishoek-Simonstown sub-region seems to have shown the best property performance through the slump, avoiding average house price deflation.