



HOUSE PRICE DEFLATION GATHERS FURTHER MOMENTUM

PROPERTY MARKETS

FNB HOUSE PRICE INDEX – FEBRUARY 2009

– Price Deflation picks up speed

2 March 2009

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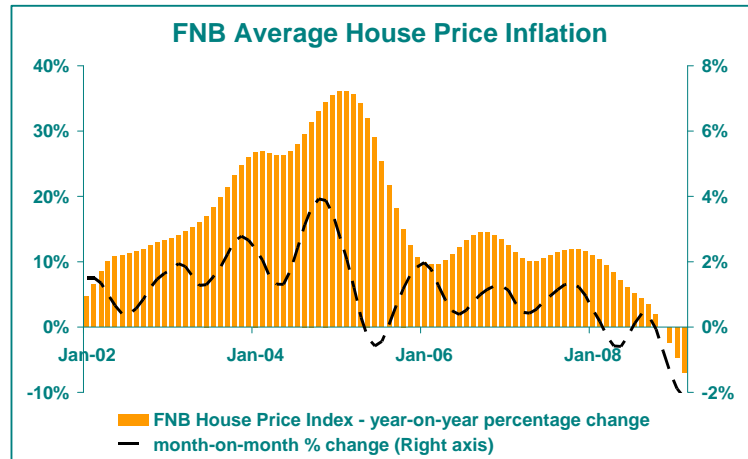
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The year-on-year decline in the FNB House Price Index continued to gather momentum in February, from a January revised rate of -4.7% to -6.9% last month. This is the fourth consecutive month of average year-on-year house price deflation, and it continues to appear likely that this situation of national house price decline will continue for most of 2009. On a month-on-month basis -2.2% deflation was recorded, worse than the revised -1.9% of the previous month.

This ongoing deflation is the lagged response to a decline in demand dating back to 2007. Rather than being reflective of the recent global recession, it is likely that the deteriorating house price trend is still largely reflective of rising inflation and interest rates up until mid-2008, and unfortunately this means that the negative impact of the more recent recessionary conditions probably still has to be seen. This would suggest that the rate of house price deflation will probably get worse before it gets better.



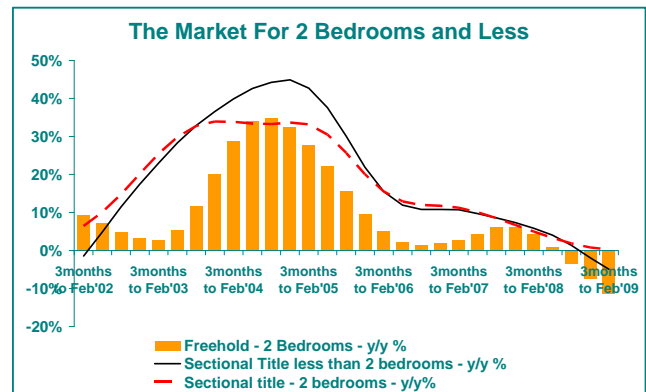
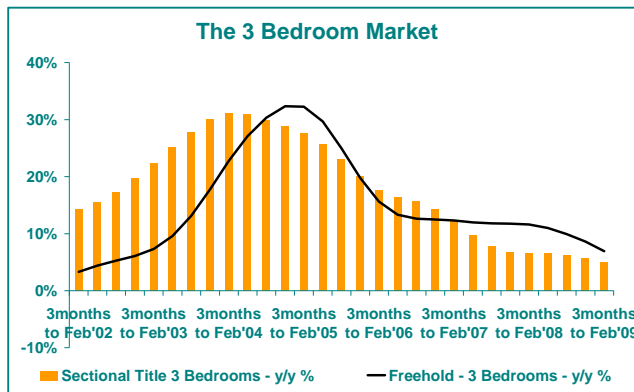
Note: The FNB House Price Series is constructed using the average value of housing transactions financed by FNB. In order to eliminate outliers from the data sample, transaction values included in the sample must be above 70% of FNB Valuations Division's valuation of the property but below 130%, while purchase prices recorded as above R10m are excluded. In order to reduce the impact on the index of rapid short term changes in weightings of different property segments, due to relative shifts in transaction volumes, the weightings of the different market segments according to room number are kept constant at their 5-year average weighting. A statistical smoothing function is applied to the data.*

**data compiled by Ewald Kellerman and John Loos, FNB Home Loans*

THE SMALLER-SIZED "2-BEDROOM AND LESS" MARKET REMAINS THE AREA WHERE THE WORST WEAKNESS APPEARS TO BE

The market for 2 bedroom houses and less is where the weakness continues to appear worst, as compared to the 3 bedroom market. For the 3 month period to February 2009, the average freehold 2 bedroom house price (R307,141) declined by -11.3% year on year. This represents a deterioration from -7.5% year-on-year deflation in the previous 3-month period. The sectional title "2 bedroom and less" market continued to fare slightly better but nevertheless continued with very weak performance in the 3 month period to February 2009 as well. The average price of sectional title 2 bedroom houses (622,655) showed a slight 0.3% year-on-year rise using revised figures, although still on a downward trend, the average price of sectional title units with less than 2 bedrooms (R426,403) declined by -5%.

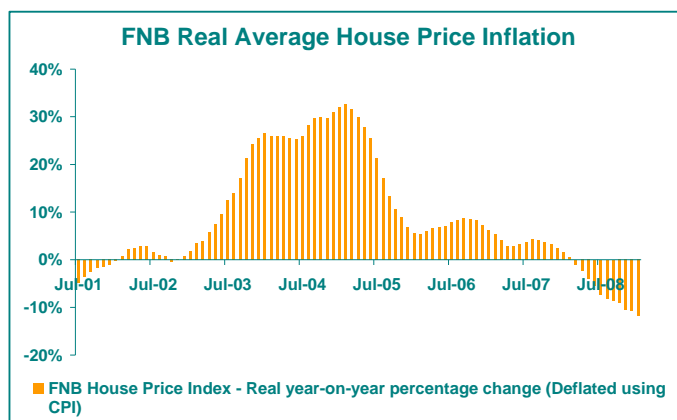
The 3 bedroom market still managed to remain in low year-on-year house price inflation in the 3 months to February, although on a slowing trend. The average price for sectional title 3 bedroom units (R933,910) showed year-on-year price inflation of 5% in the 3 month period to February, down from 5.7% in the previous 3 month period, while the average price of the mildly more affordable freehold 3 bedroom category (R821,098) inflated by 6,9%, down from 8.6%



It has been previously explained that the possible reason for the apparent superiority in performance of the 3 bedroom market compared to 2 bedroom and less sectional title property, is that much of the buy-to-let surge back in the boom years was focused on the sectional title 2 bedroom and less market, as was much of the first time buying attention that we saw at the time. That may have explained the sectional title market for 2 bedroom units and less showing the highest price inflation of all of the major categories back at the peak of the boom around 2004/05. But it was also mentioned that, buy-to-let buying and first time buying has a tendency to be more cyclical than the more essential primary residential buying. Hence, a more extreme pull back in buy-to-let and first time buying in the bad times (compared with established family primary residential demand) may be the driving force behind the "2 bedroom and less" market now performing worse than the 3 bedroom market. The 3 bedroom market is probably a more primary residential buyers' market, driven by family demand.

**Note: While other room size categories not mentioned are included in the overall price index, their sample sizes are believed to be too small to justify the compilation of their own price index*

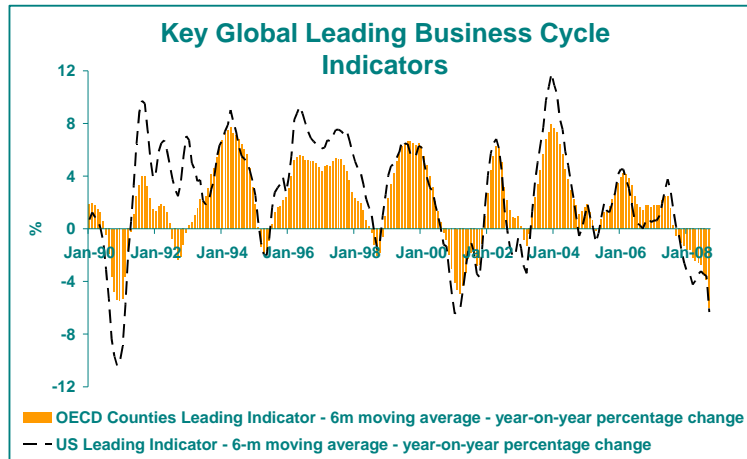
REAL PRICE DEFLATION STILL RAMPANT



In real terms, when adjusted for general inflation by using the Consumer price Index (CPI), house price deflation also picked up further downward speed -on-year to -11.8% year, in January from -10.8% in the previous month, despite falling consumer price inflation. It must be remembered that a new CPI measure was used as from January, so it is not entirely comparable with prior months. However, the new CPI measure dropped significantly but even this was insufficient to offset the nominal house price deflation rate.

ONGOING DETERIORATION IN THE GLOBAL ECONOMIC ENVIRONMENT KEEPS PROSPECTS FOR 2009 WEAK

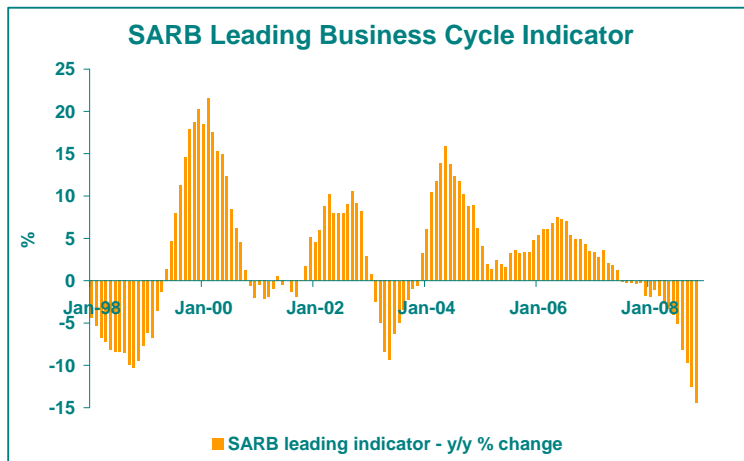
The dire global economic situation is increasingly making any impressive recovery in residential demand unlikely in 2009, despite the prospects for rapid interest rate cutting. We are of the belief that prime rates could be down to around 11% before this year is over, and this should have some mild stimulatory impact on demand in such a credit-driven market.



In the final quarter of 2008 US real economic growth declined sharply by -3.8% on a quarter-on-quarter annualised basis, and as at late last year both the US and the composite OECD countries' leading business cycle indicators were pointing sharply downward.

Where does this leave South Africa? Definitely heavily affected by global events. The 2 highly-export-driven sectors of manufacturing and mining are where the global impact is being felt most, and the South African economy followed the global economy into contraction in the fourth quarter, with real GDP declining by -1.8% on a quarter-on-quarter annualised basis.

By November, the SARB's Leading Business Cycle Indicator was declining year-on-year at a rate of -14.5%, which bodes ill for economic growth prospects in the near term



The positive side to this very weak economic situation is the likelihood of low inflation in the near term, and the SARB is expected to reduce the repo rate by a further 100 basis points in April and June, with further cutting thereafter.

Such interest rate cutting should provide some stimulus in what is a highly credit-driven market. However, under such a dire global and domestic economic growth scenario, with confidence-dampening retrenchments likely to be severe as a result, it would seem unlikely that aggressive interest rate cutting could be more than a very mild stimulus for residential demand at best.

It should be remembered that, in contrast to what is taking place currently, the aggressive interest rate cuts of 2003, which boosted the market dramatically, took

place at a time when the global economy was in far better shape and local economic growth gathering long term steam.

Therefore, I remain of the opinion that any demand uptick in 2009 will be insufficient to make a serious dent in oversupplies of property in the market, and that house price deflation should be with us at least for the entire 2009.

Monthly FNB House Price Average (Rand)											
Date			Date			Date			Date		
Jul-00	266,886		Feb-03	326,299	14.0%	Sep-05	568,288	18.2%	Apr-08	751,515	8.4%
Aug-00	265,519		Mar-03	332,365	14.6%	Oct-05	574,895	15.0%	May-08	747,077	7.2%
Sep-00	264,687		Apr-03	337,571	15.3%	Nov-05	583,967	12.5%	Jun-08	744,975	6.0%
Oct-00	265,107		May-03	341,884	16.0%	Dec-05	594,735	10.7%	Jul-08	745,876	5.2%
Nov-00	266,610		Jun-03	346,333	17.0%	Jan-06	606,473	9.9%	Aug-08	749,008	4.4%
Dec-00	268,363		Jul-03	351,678	18.3%	Feb-06	617,171	9.5%	Sep-08	751,482	3.4%
Jan-01	269,258		Aug-03	358,076	19.8%	Mar-06	625,069	9.6%	Oct-08	750,960	2.0%
Feb-01	268,623		Sep-03	366,056	21.4%	Apr-06	630,295	10.2%	Nov-08	745,470	0.0%
Mar-01	267,117		Oct-03	375,692	23.2%	May-06	633,395	11.1%	Dec-08	735,169	-2.3%
Apr-01	266,178		Nov-03	386,146	24.8%	Jun-06	635,839	12.2%	Jan-09	721,308	-4.7%
May-01	266,167		Dec-03	396,419	26.0%	Jul-06	639,101	13.3%	Feb-09	705,707	-6.9%
Jun-01	266,718		Jan-04	405,879	26.8%	Aug-06	644,069	14.1%			
Jul-01	267,201	0.1%	Feb-04	414,185	26.9%	Sep-06	650,475	14.5%			
Aug-01	268,044	1.0%	Mar-04	420,582	26.5%	Oct-06	657,987	14.5%			
Sep-01	269,336	1.8%	Apr-04	426,119	26.2%	Nov-06	666,275	14.1%			
Oct-01	271,088	2.3%	May-04	431,701	26.3%	Dec-06	674,659	13.4%			
Nov-01	273,923	2.7%	Jun-04	439,239	26.8%	Jan-07	682,254	12.5%			
Dec-01	277,703	3.5%	Jul-04	449,901	27.9%	Feb-07	687,281	11.4%			
Jan-02	281,896	4.7%	Aug-04	463,968	29.6%	Mar-07	690,389	10.5%			
Feb-02	286,143	6.5%	Sep-04	480,977	31.4%	Apr-07	693,330	10.0%			
Mar-02	289,992	8.6%	Oct-04	499,841	33.0%	May-07	697,143	10.1%			
Apr-02	292,884	10.0%	Nov-04	519,206	34.5%	Jun-07	702,492	10.5%			
May-02	294,826	10.8%	Dec-04	537,167	35.5%	Jul-07	709,242	11.0%			
Jun-02	296,041	11.0%	Jan-05	551,993	36.0%	Aug-07	717,361	11.4%			
Jul-02	297,231	11.2%	Feb-05	563,386	36.0%	Sep-07	726,692	11.7%			
Aug-02	298,908	11.5%	Mar-05	570,231	35.6%	Oct-07	736,513	11.9%			
Sep-02	301,436	11.9%	Apr-05	571,952	34.2%	Nov-07	745,538	11.9%			
Oct-02	305,038	12.5%	May-05	569,995	32.0%	Dec-07	752,620	11.6%			
Nov-02	309,500	13.0%	Jun-05	566,700	29.0%	Jan-08	756,616	10.9%			
Dec-02	314,569	13.3%	Jul-05	564,232	25.4%	Feb-08	757,965	10.3%			
Jan-03	320,084	13.5%	Aug-05	564,655	21.7%	Mar-08	755,888	9.5%			

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The House Price Indices are of a general nature, and should be seen as attempts to indicate important trends in the broader market, and should not be seen as being accurate indicators of specific properties' values or price inflation rates.