

PROPERTY BAROMETER – THE STRONGEST AND WEAKEST OF 2011 –HOLIDAY PROPERTY MARKETS vs FORMER TOWNSHIPS

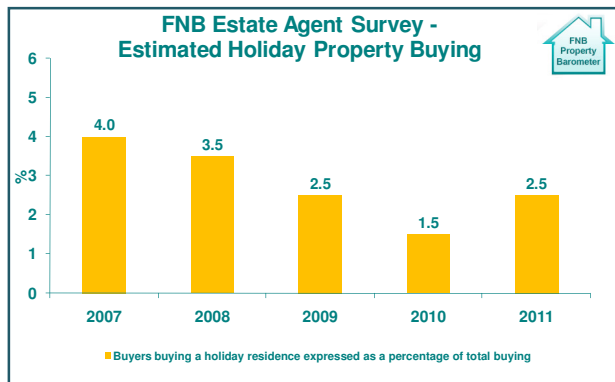
Holiday property buying may have mildly improved in 2011, but insufficient to turn holiday town property price performances significantly for the better yet. Former Black Townships, on the other hand, arguably had far less shortage of support given the need for primary residential affordability

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*Although the household sector has benefited from dramatically lower interest rates since 2008, and has made some strides in rebuilding its balance sheet, notably through lowering its debt-to-disposable income ratio, financial pressure is far from over. Not surprisingly, therefore, during 2011, the search for affordability and the **focus on basics in the housing market continued**. This was not necessarily great news for the country's holiday towns, but may have been key to the highly-affordable former Black Townships' superior house price growth performance last year.*

ASA GROUP, HOLIDAY TOWNS WERE THE WEAKER REGIONS IN THE NATIONAL RESIDENTIAL MARKET

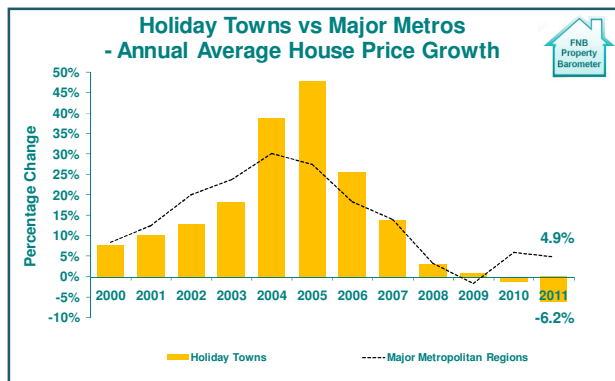
During 2011, the FNB Estate Agent Survey pointed towards something of a come-back in holiday property buying when expressed as a percentage of total buying. It is important to note that this survey is dominated by major metropolitan regions, and thus will always have a high percentage of estimated primary residential demand. Nevertheless, it shows the agent sample surveyed as perceiving that holiday buying had increased mildly as a percentage of total buying in their areas, from a low of 1.5% in 2010 to average a better 2.5% in 2011.



Whilst improved, 2.5% holiday buying remains moderate in comparison with the 4% recorded in 2007, however.

It was plausible to expect some improvement in the holiday buying percentage, given that we have had some improvement in economic times since the sharp recession of 2008/9, interest rates are far lower than their peak in 2008, and indeed the household sector has made some limited improvement in strengthening its balance sheet, with levels of indebtedness relative to income having declined moderately.

However, it is also realistic to expect primary residential demand to remain the key focus for many previously would-be holiday home buyers, as economic and financial times remain tough.



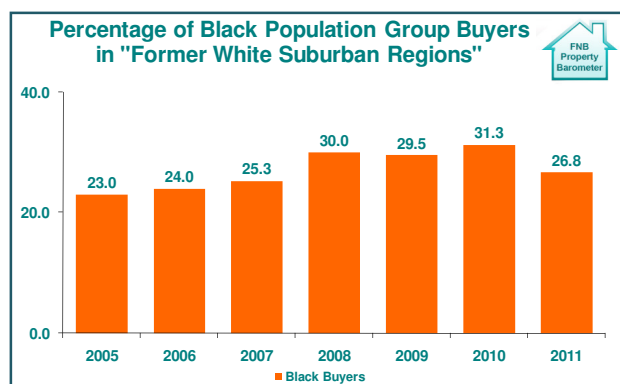
Therefore, it would appear from the FNB Holiday Town House Price Index (using Deeds data for transactions by individuals), that the mild improvement in holiday home buyer interest since the recession has been insufficient to close the gap between major metro house price growth and that of holiday towns in 2011.

Whereas the FNB Major Metro House Price Index, dominated by primary residential home buying, rose on average by 4.9% in 2011, the FNB Holiday Town House Price Index showed an average decline of -6.2%, the 2nd consecutive year of nominal price decline.

Looking forward, the major metros, and other primary residential demand-driven regions, are expected to continue to outperform the more holiday-driven regions. This expectation is based on signs that the global and domestic economy are forecast to show slowing growth this year, while the Reserve Bank appears increasingly unlikely to cut interest rates any further in the near term. Under "tight" economic circumstances the focus should continue to be "basics", and thus primary residential buying, which benefits the metros to a greater degree. The other key challenge still facing holiday markets are the very sharp hikes in municipal rates and utilities tariffs associated with housing. This is believed to be making the owning more than one non-income generating home significantly less attractive for many.

FORMER BLACK TOWNSHIPS IN MAJOR METROS OFFER GREATER AFFORDABILITY, AND THUS BETTER PRICE GROWTH PERFORMANCE IN TOUGH TIMES

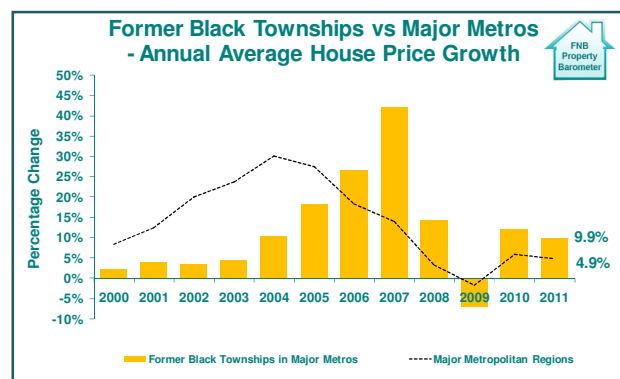
During 2011, the FNB Estate Agent Survey pointed towards something of a decline in the percentage of former White "suburban" buyers deemed to be from the so-called Black population group. While some may jump to the conclusion that this is a sign that this population group has been worse affected by the weak economy of recent years, we would argue to the contrary.



What is more likely is that this is a reflection of the flexibility that this group has in terms of being happy to move to the "suburbs" in greater numbers in better economic times, but when the search for affordability is on, an increased number may be content to look for it in the former Black areas, previously known as "townships", areas which are indeed considerably more affordable even today, or alternatively in new so-called "Affordable Housing" developments in or around these township areas.

This view is difficult to prove, but we believe that it goes some way to explaining the superior house price growth performance that the township regions in the 6 major metros of SA continued to experience in 2011. This is on top of the probability that entry into the labour market is taking place faster amongst members of the Black population group, compared to the minority groups, due in part to transformation policies but also due to the so-called White group being further down the ageing population road.

Therefore, 2011 was another year in which the FNB Metro Black Township Index, with an average price of R262,915 (excludes former "Indian" and Coloured" areas), outperformed the overall FNB Major Metro Price Index, growing by 9.9% average for the year.



Can this continue in 2012? Well, as we have seen in recent years, township markets certainly don't get away from the same economic events that boost and slow other major property markets. Indeed, 2011 reflects a mild slowing in price growth from the 12% achieved in the "mini-recovery" of 2010. With 2012 looking set to be an even slower economic growth year than 2011, and the Reserve Bank not hinting at any further interest rate cuts any time soon. We think further slowing in township house price growth this year is likely. But in terms of relative price growth performances, it is likely that township markets and Affordable Housing developments will once again be the pick of the bunch when compared to the likes of "suburban" metro markets, with affordability expected to remain a key priority in 2012.

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