PROPERTY BAROMETER – MARCH FNB HOUSE PRICE INDEX

2 April 2012

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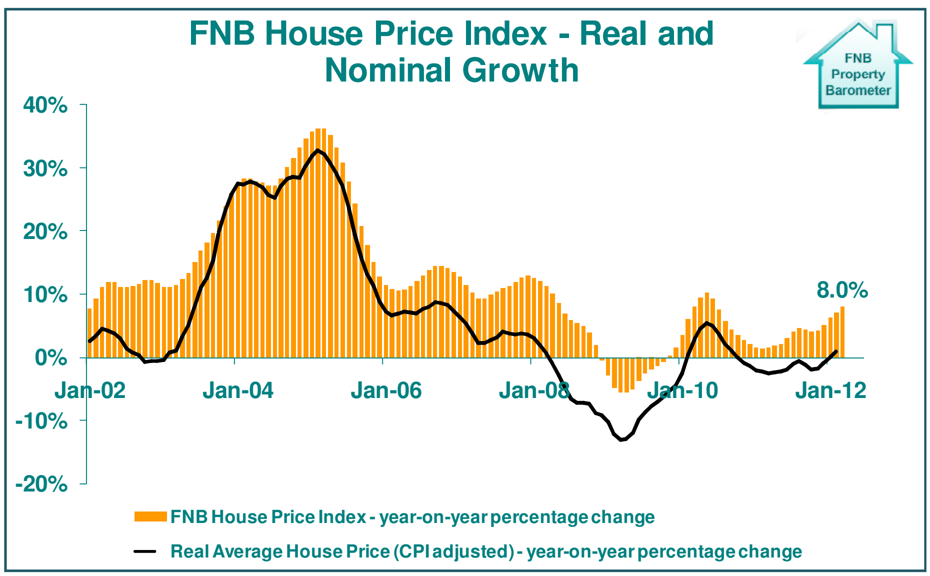
FNB House Price Index shows residential property to have been going through a good patch recently, with further price growth acceleration.

HOUSE PRICE GROWTH ACCELERATED FURTHER IN MARCH

The FNB House Price Index showed a further slight acceleration in March, up from a revised February growth rate of 7.1% to 8% year-on-year. This is the highest year-on-year growth since June 2010.

In real terms, too, as at February the index showed a mild increase to the tune of +0.9% year-on-year, with consumer price inflation in February having been slightly lower than house price growth in that month, at 6.1%.



This means that, since the real house price peak reached in March 2008, real house prices (house prices adjusted for CPI inflation over the period) were -11.5% lower at February 2012, while in nominal terms they were +11.8% higher than March 2008.

However, compared to price levels at the inception of the FNB House Price Index back in July 2000, real prices were 69.4% higher as at February 2012, while nominal price +226.8% higher as at March 2012.

We attribute the recent mild improvement in house price growth in part to a late-2011 uptick in real economic growth. SA's gross domestic product (GDP) number for the 4th quarter came in at a quarter-on-quarter annualized rate of. 3.2%. This was higher than the previous quarter's weak 1.7%.

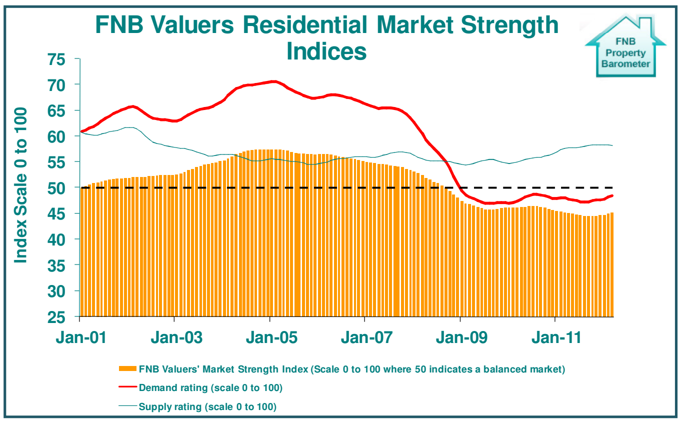
While job creation emanating from an economy that has moved out of recession a few years ago has not been spectacular, perceived job security for many may have improved significantly, as one would think that a growing economy no longer retrenches as much as it may have been doing during and just after the 2008/9 recession.

In addition, interest rates have been low and stable for a long time now, with interest rate cutting in the current cycle having started as far back as December 2008. As mentioned in previous reports, lenders and borrowing households alike are generally "pro-cyclical" in their behavior, and as the recent history "improves", and bad events such as the 2008/9 recession and the 2008 interest rate peak fade in the memories, so too their perceptions of risk usually improve. While this is perhaps a flawed way to look at risk, it is a human reality for many.

Furthermore, the currently abnormally low interest rates do mask a lot of the underlying household financial frailties that still exist. Households may fall into the trap of having an inflated opinion of how solid their financial situation is, while it is more difficult for banks in these relatively good times to assess the financial strength of a borrower, than what it would have been back around 2008 in the period of high interest rates and recession.

So, while many of the longer term financial risks to the household sector, emanating from still high levels of indebtedness and a very weak savings rate, may not have subsided significantly to date, abnormally low interest rates do create a perception that these risks have subsided, and this may be driving gradually increasing borrower and lender confidence alike in the residential property market.

FNB VALUERS POINT TO DEMAND STRENTHENING AND SUPPLY WEAKENING EARLY IN 2012



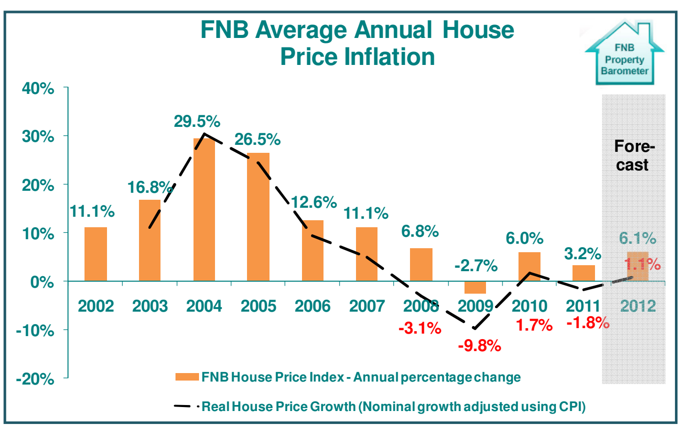
The FNB Valuers Market Strength Index shows our valuers pointing to an increase in the average residential demand rating in recent months (see notes at the end for explanation of the Valuers Market Strength Index). They have also started to report a deterioration in supply, which is positive in improving the market balance. And so, the Market Strength Index, which represents the demand rating minus the supply rating, has moved up from a revised 44..9 in February to 45.2 in March.

This level is still below 50, meaning that the supply rating exceeds the demand rating, though, and as such does not yet suggest any major house price growth in real terms to come.

OUTLOOK

Although the world and local economy has been going through something of a good period of economic performance over the past 2 quarters or so, the expectation remains for a slower economic growth year for both the world and local economy.

However, slowing global commodity price growth, helped on by signs of global economic mediocrity, suggests that recorded consumer price inflation in SA should not be problematic in the near term from an interest rate point of view (Real life inflation may indeed be troublesome at present). Indeed, CPI inflation for February declined from 6.3% year-on-year in January to 6.1%, and could indeed return to the 3-6% target range within the next few months. This is expected to persuade the SARB to keep interest rates unchanged for the rest of 2012.



Ongoing low interest rates are expected to lead to further increase in borrower and lender confidence alike, as their perceptions of risk continue to improve. As a result, despite expectations of slower global and local economic growth for 2012 as a whole, we are now of the opinion that average house price growth for 2012 as a whole could achieve a higher, but not spectacular, rate of around 6% compared to 3.2% for the year of 2011 as a whole.

*Notes: *When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal..*

***The FNB House Price Index is a fixed-weighted average of its sub-indices, which are split by room number and by sectional title versus freehold properties. The index is lightly smoothed using a Hodrick-Prescott smoothing function. An index month commences 7 days prior to the end of the previous month to 7 days prior to the said calendar month.*