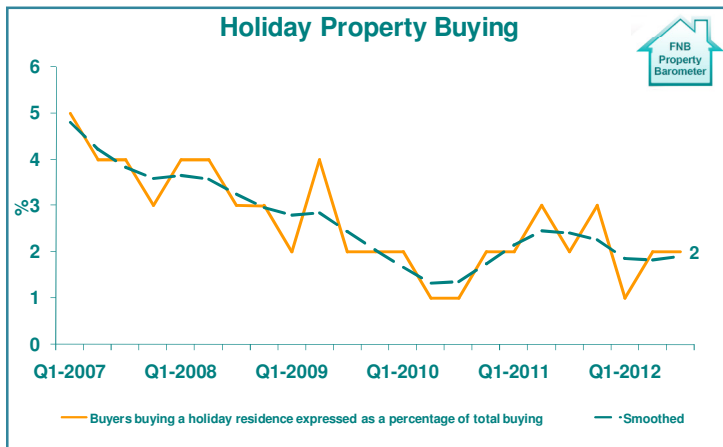


PROPERTY BAROMETER – HOLIDAY TOWN HOUSE PRICE PERFORMANCE

After a sizeable price correction in holiday town markets, some semblance of price stability may be returning in 2012.

22 October 2012

Due to the non-essential nature of a holiday home, holiday home buying has taken more of a back seat to primary residential buying during the tough financial times of recent years. Now, in 2012, after a very significant real price decline in the FNB Holiday Towns Index, some return to price stability may be being observed.

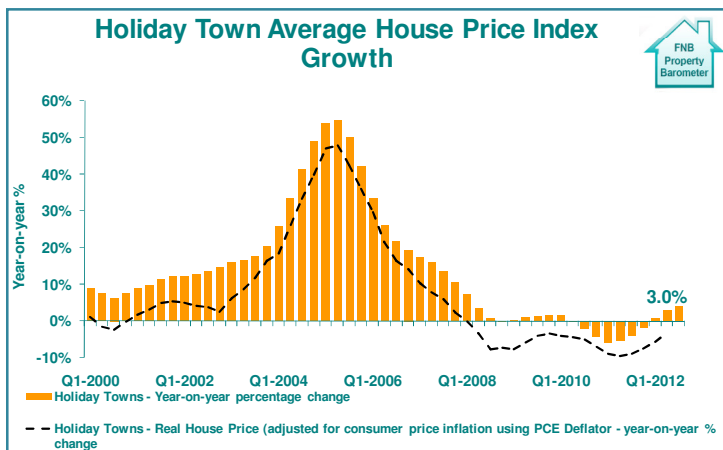


The holiday property market has had major challenges in recent years. After the 2008/9 recession South Africa's household sector has been under significant financial pressure, and the sharp rises in municipal rates and utilities tariffs related to housing must surely have caused a good number of aspirant holiday home buyers to rethink the merits of owning a 2nd home for leisure purposes.

The FNB Estate Agent survey appears to tell such a story. Whereas back in early-2007, prior to the recession, the sample of agents surveyed estimated that 5% of home buying was for holiday home purposes, in recent years the percentage has ranged between 1% and 3% of total buying. In the 3rd quarter survey of 2012, the percentage of buyers buying for holiday home purposes was estimated at 2%, unchanged from the previous quarter.

Therefore, our agent sample certainly doesn't point to a strong holiday buying market, but one that is slightly better than the low of Winter of 2011 where only 1% of buying was believed to be for holiday purposes.

However, it is possible that after a major downward correction in real holiday town home values, the combination of holiday home buying being slightly up off the low point, combined with improved price realism, may have led to a move



towards real price stability in holiday town markets.

Indeed, the FNB Holiday Town Index has hinted at this recently, with a return to slight nominal average house price growth in 2012. In the 3rd quarter of 2012, this year-on-year price growth reached 3%, the 3rd consecutive quarter of positive nominal growth.

This may be a mild form of encouragement for holiday home owners, although in real terms we are not quite there yet. With general inflation in SA, as measured by consumer price inflation, hovering at near to 5% year-on-year, this mild house price growth still translates into house price deflation in real terms (nominal house prices adjusted for consumer price inflation). As at the 2nd quarter of 2012 (3rd quarter consumer inflation data not yet available), holiday town

house price change in real terms was still negative to the tune of -3.1%. However, this represents a diminishing of the rate of real decline from -5.6% year-on-year in the previous quarter.

Since the 3rd quarter of 2007, which was the estimated peak in real price levels in the FNB Holiday Town House Price Index, the total decline in real house prices in this market has been -23.9% up until the 2nd quarter of 2012.

While a move towards price stability is welcome, we remain of the belief that markets strongly driven by holiday home buying will remain subdued in the coming years. The global and domestic economies look set for a prolonged period of mediocrity, sustaining significant financial constraints on the household sector. In addition, municipalities and utilities (notably Eskom) still look set to ratchet up the rates and tariffs at rates well above consumer inflation. Under these conditions, we would still expect regions dominated by primary residential home buying to broadly outperform the more “non-essential” holiday markets.

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
011-6490125
John.loos@fnb.co.za

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Firststrand Group Limited and / or the authors of the material.

First National Bank – a division of FirstRand Bank Limited. An Authorised Financial Services provider. Reg No. 1929/001225/06