

RESIDENTIAL BUILDING SECTOR

- FNB Estate Agent Survey shows no sign of improvement in the maintenance and renovations market, but building plans passed suggest mildly better things to come.



FNB PROPERTY MARKET ANALYTICS

15 September 2010

JOHN LOOS:
FNB HOME LOANS STRATEGIST
011-6490125
John.loos@fnb.co.za

EWALD KELLERMAN:
PROPERTY MARKET ANALYST
011-6320021
ekellerman@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 Firstrand 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

SUMMARY – FNB ESTATE AGENT HOME FIXED INVESTMENT SURVEY AND STATSSA RESIDENTIAL BUILDING STATS FOR JULY

According to the FNB Estate Agent Survey for the 3RD quarter of 2010, the perceived level of fixed investment in residential homes deteriorated from the previous quarter.

Agents are asked to estimate the percentage of homeowners that fall into 5 major levels of home fixed investment. When we started the survey at the beginning of 2004, in the areas surveyed it was estimated that a massive 43% of homeowners were doing value adding investments to their properties, the highest level of fixed investment. By the 3rd quarter 2010 survey, this percentage had declined to 7%, further down on the 8% of the previous quarter. The 2nd highest fixed investment category, namely residents who are maintaining properties fully and making some limited upgrades, has also declined slightly since early-2004 from 36.5% to 33% by the 3rd quarter of 2010, and is down from 38% in the previous quarter. This has translated into a significant quarterly increase in the percentage of residents estimated to be merely fully maintaining homes but making no improvements. Positive news is that one of the lower categories of home fixed investment, i.e. doing basic maintenance only, has shrunk slightly from 20% in the previous quarter to 19%, while the percentage of owners allowing homes to get run down remains low at 2%.

From the 2nd quarter to the 3rd quarter, therefore, the sample of agents surveyed perceive a deterioration in the overall level of home fixed investment in the 3rd quarter compared to the previous quarter.

However, examining StatsSA building statistics, things may be set to turn a little for the better. While actual home additions and alterations completed remain firmly in year-on-year decline, thus supportive of what our agents surveyed are seeing, for the 3 months to July we saw positive year-on-year growth in square metreage of additions and alterations plans passed, to the tune of +12.9%. This suggests possible improvement to come.

On the new home building front, plans passed also suggest a possible return to positive building activity growth in 2011 after a dismal 2010. Square metreage of building plans passed rose by 7.4% year-on-year for the 3 months to July, although actual completions were still a massive - 20.9% down.

Most of the planning growth appears to be taking place in the category "dwelling houses smaller than 80 square metres, suggesting that the least oversupplied so-called "affordable housing" segment may be set to boost building activity somewhat. However, while it is plausible that there may be some recovery in residential building activity in 2011, we suspect that it will be a very muted recovery for 2 reasons.

Firstly, there are signs that the mini-recovery in the existing home market appears to have come to an end, and we are slowing again.

Secondly, the overall residential market balance between demand and supply doesn't appear good yet.

Nevertheless, it is conceivable that off a very low base, after a huge decline in building activity, and with interest rates likely to remain low for a considerable time, that 2011 can show mildly positive growth in building activity. We would think, however, that this growth in activity would largely take place in the so-called affordable housing sector, boosting the numbers of the StatSA building category known as "Dwelling houses smaller than 80 square metres".



How can we help you?

THE FNB ESTATE AGENTS SURVEY - MAINTENANCE AND RENOVATIONS

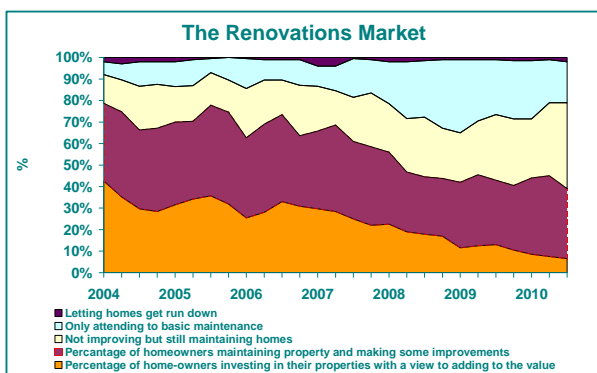
Estate Agent survey shows no noticeable improvement in actual property maintenance and upgrading yet

The theme for residential property in recent years, driven largely by household sector financial pressure, has been a shift in focus towards essential spending. Not only have we seen this in terms of a trend towards less non-essential buy-to-let and holiday property buying, but also in terms of what type of maintenance and renovations are being done. At least this is what our panel of estate agents, included in the FNB Estate Agent Survey, is telling us.

In the survey, we ask them for their opinion regarding the level of maintenance and upgrade activity taking place in their area.

When we started the survey at the beginning of 2004, in the areas surveyed it was estimated that a massive 43% of homeowners were doing value adding investments to their properties. By the 3rd quarter 2010 survey, this percentage had declined to 7%, further down on the 8% of the previous quarter. Through the recent mini-recovery in the residential market, from early-2009 to 2010 we saw no recovery in this category of fixed investment.

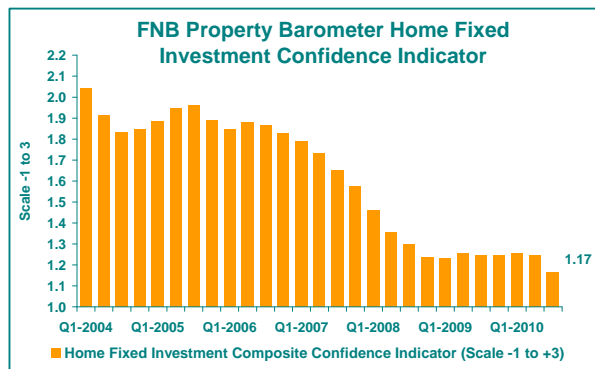
The 2nd fixed investment category, namely residents who are maintaining properties fully and making some limited upgrades, has also declined slightly since early-2004 from 36.5% to 33% by the 3rd quarter of 2010. The estimated percentage of residents fully maintaining homes but making no improvements has increased since early-2004 from 13.5% to 40% as at the 3rd quarter 2010 survey. The 4th category, those who only attend to basic maintenance, increased dramatically in percentage from 6% early in 2004 to 34% at the beginning of 2009, but lower interest rates appear to have made a dent in this percentage, reducing it to 19% by the latest survey, as many residents are believed to have resumed full maintenance. Those letting their homes get run down are estimated at 2% in the latest survey.



From the 2nd quarter agent survey to the 3rd quarter of 2010, the noticeable change was in the top 2 levels of fixed investment, which both declined from quarter to quarter, suggesting an overall deterioration in perceptions of our sample of agents regarding the level of fixed investment in homes.

This deterioration in the top two levels of fixed investment in the quarter has led to a decline in the Agent Home Fixed Investment

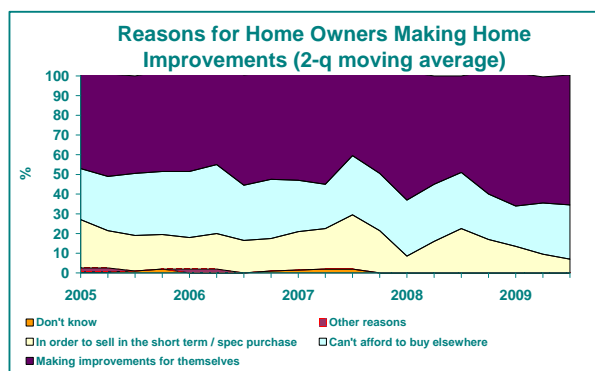
Confidence Index from a previous quarter's 1.24 to 1.17, signalling that the agents surveyed see a net deterioration in the overall level of home fixed investment (or otherwise put, the overall level of maintenance and upgrades). This noticeable decline is the first since 2008, with 2009/early-2010 having seen a general stabilising in the index.



The agents also suggest that speculative home fixed investment activity continues to become a smaller portion of overall investment. When asked the reasons as to why home owners make home improvements (amongst those that do), they estimate a further increase in the percentage of those doing it merely for their own use, from a previous quarter's 64%, to 66% in the 3rd quarter 2010 survey, using a 2-quarter moving average. This is significantly higher than the 49.5% recorded at the start of 2005, when this survey question started.

The 2nd main reason for making improvements is because the home owner cannot afford to buy elsewhere. This percentage also increased in the 3rd quarter survey, from 26% previous to 27.5%, not too different though from 26% at the start of 2005.

A major change has come in the 3rd major reason, i.e. making improvements in order to sell and profit in the short term. This percentage was 7% in the latest survey, down from 9.5% in the previous quarter and sharply lower than the 24.5% recorded early in 2005 when house price inflation was far stronger.



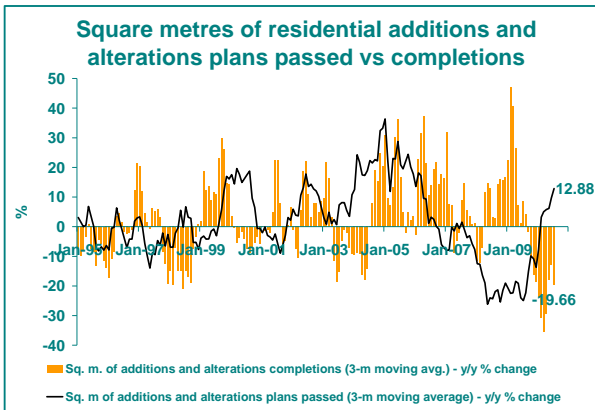
JULY STATSSA BUILDING STATISTICS

While actual additions and alterations completed seem to support estate agent survey view of weak home fixed investment, plans passed hint at some possible improvement.

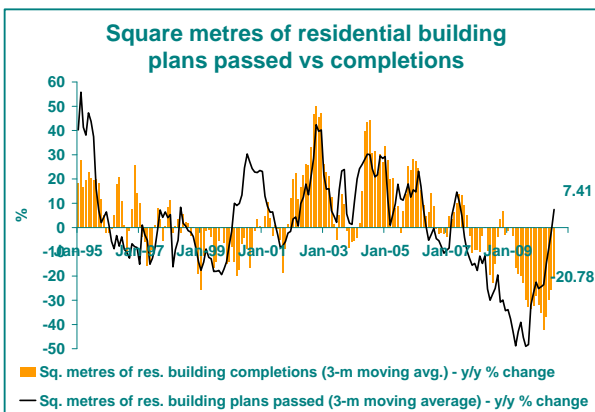
Using a 3-month moving average, the year-on-year percentage decline in square metre-age of residential additions and alterations completed for the 3 months to July was -19.7%, supporting the FNB Estate Agent survey view that home fixed investment to date remains very weak.

However, should economic times remain reasonably stable in the near term, we may be set for some improvement in this regard, with square metres of plans passed for the 3 months to July showing solid year-on-year growth of +12.9%.

This improvement in planned additions and alterations, at least, comes in lagged response to far lower interest rates since 2008, along with the prospect that they may stay low in the near term.



When it comes to new home building, the picture looks not to dissimilar, with square metres of plans passed having recently moved back into positive growth to the tune of 7.4% year-on-year for the 3 months to July, while actual square metres completed still shows a very significant -20.8% year-on-year decline.



However, even when planning some recovery in development activity, affordability clearly remains a key issue for a financially

constrained household sector, with the strongest growth in plans passed in small-sized "dwelling houses smaller than 80 sq.m." whose square metreage of plans passed grew by +35.1% year-on-year for the 3 months to July. This compares well to the +9.6% growth in "dwelling houses larger than 80 square metres" and even more so compared to the "flats and townhouses" category which showed year-on-year decline of -13.7%.

The breakdown of plans passed appears to make good sense, as it has long been the so-called affordable housing category (which we suspect makes up much of the "dwelling houses smaller the 80 sq.m" category) which has been the least oversupplied, whereas the flats and townhouses market appears to have become the most oversupplied during the boom years, having seemingly been the main target of speculative and buy-to-let demand.

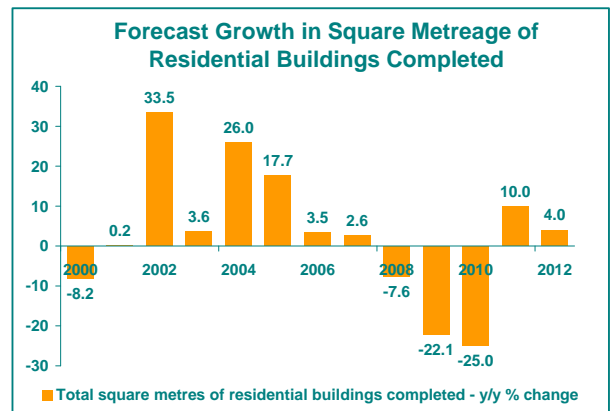
OUTLOOK

Where too for building activity? Judging by the resumption of positive growth in plans passed, it would appear that some form of recovery in building activity is in the pipeline as we head towards 2011. At least this is what is being planned.

However, given that there are signs that the mini-recovery in the existing home market appears to have come to an end, and we are slowing again, a 2011 building sector recovery is likely to very muted.

The overall residential market balance between demand and supply doesn't appear good yet.

Nevertheless, it is conceivable that off a very low base, after a huge decline in building activity, and with interest rates likely to remain low for a considerable time, 2011 can show mildly positive growth in building activity. We would think, however, that this growth in activity would largely take place in the so-called affordable housing sector, boosting the numbers of the StatsSA building category known as "Dwelling houses smaller than 80 square metres".



Building Plans Passed

Residential Buildings	2007	2008	2009	Q4-2009	Q1-2010	Q2-2010	May-10	Jun-10	Jul-10
Dwelling houses less than 80 m.sq (Number)	37,806	33,464	25,115	5,694	3,695	6,608	3,343	1,590	1,628
<i>Y/Y % change</i>	1.8	-11.5	-24.9	-15.1	-49.7	33.4	92.0	-8.7	21.6
Dwelling houses less than 80 m.sq (m ²)	1,653,726	1,469,240	1,100,737	254,097	164,512	288,576	142,747	72,012	72,352
<i>Y/Y % change</i>	-0.2	-11.2	-25.1	-16.8	-48.2	32.0	84.5	-3.8	20.0
Dwelling houses less than 80 m.sq (R'000)	3,202,727	2,982,036	2,159,212	552,056	393,331	585,443	245,457	177,109	177,193
<i>Y/Y % change</i>	7.3	-6.9	-27.6	-9.7	-27.6	29.4	49.4	16.0	29.2
Dwelling houses larger than 80 m.sq (Number)	31,772	21,441	13,784	3,302	3,296	3,873	1,395	1,343	1,474
<i>Y/Y % change</i>	-8.8	-32.5	-35.7	-23.0	-6.0	10.2	16.3	6.1	26.3
Dwelling houses larger than 80 m.sq (m ²)	7,969,503	5,467,768	3,618,675	864,230	853,210	987,616	343,940	351,309	379,200
<i>Y/Y % change</i>	-1.4	-31.4	-33.8	-19.2	-4.5	2.0	0.1	2.7	28.6
Dwelling houses larger than 80 m.sq (R'000)	27,932,693	20,788,044	15,281,459	3,865,644	3,941,958	4,557,807	1,570,566	1,643,020	1,753,807
<i>Y/Y % change</i>	15.2	-25.6	-26.5	-5.7	11.8	14.2	7.9	17.2	41.0
Flats and Townhouses (Number)	33,113	29,603	15,593	4,121	2,145	3,367	1,394	1,262	946
<i>Y/Y % change</i>	3.7	-10.6	-47.3	-28.6	-46.0	-20.5	-15.9	1.6	19.7
Flats and Townhouses (m ²)	3,867,201	3,244,177	1,441,378	380,638	195,578	304,727	113,641	116,681	98,486
<i>Y/Y % change</i>	-6.6	-16.1	-55.6	-32.1	-48.2	-26.5	-36.6	1.0	14.5
Flats and Townhouses (R'000)	14,038,581	13,160,693	6,366,040	1,743,327	913,123	1,555,945	633,514	545,101	456,066
<i>Y/Y % change</i>	6.1	-6.3	-51.6	-22.9	-43.8	-11.9	-14.5	5.2	17.0
Total units plans passed (Number)	102,691	84,508	54,492	13,117	9,136	13,848	6,132	4,195	4,048
<i>Y/Y % change</i>	-1.2	-17.7	-35.5	-21.8	-38.4	9.0	33.4	-1.3	22.8
Total building plans passed (m²)	13,490,430	10,181,185	6,160,790	1,498,965	1,213,300	1,580,919	600,328	540,002	550,038
<i>Y/Y % change</i>	-2.8	-24.5	-39.5	-22.5	-23.6	-1.3	0.0	1.4	24.7
Other Residential Buildings (m ²)	253,101	386,316	214,895	31,771	50,796	33,170	4,829	8,429	11,045
<i>Y/Y % change</i>	21.8	52.6	-44.4	-73.1	-11.1	-52.1	-83.7	-72.4	-2.1
Other Residential Buildings (R 000)	980,984	1,661,015	1,059,154	180,106	282,351	186,779	30,849	37,628	53,932
<i>Y/Y % change</i>	20.7	69.3	-36.2	-57.0	12.0	-50.5	-83.9	-74.1	31.9
Total Residential Buildings (R 000)	46,154,985	38,591,788	24,865,865	6,341,133	5,530,763	6,885,974	2,480,386	2,402,858	2,440,998
<i>Y/Y % change</i>	11.9	-16.4	-35.6	-14.2	-7.0	4.5	-2.8	8.3	34.8
Additions and Alterations									
Dwelling houses (m ²)	5,123,325	4,081,631	3,318,156	855,287	805,464	849,513	294,582	300,852	333,833
<i>Y/Y % change</i>	-3.1	-20.3	-18.7	-13.7	5.1	9.8	12.5	8.6	17.5
Dwelling houses (R'000)	16,803,718	14,881,779	13,389,029	3,674,495	3,539,755	3,757,334	1,317,397	1,312,206	1,464,886
<i>Y/Y % change</i>	14.0	-11.4	-10.0	-0.3	24.3	28.3	34.2	24.7	22.9



How can we help you?

Buildings Completed

Residential Buildings	2007	2008	2009	Q4-2009	Q1-2010	Q2-2010	May-10	Jun-10	Jul-10
Dwelling houses less than 80 m.sq (Number)	27,555	23,480	24,579	6,682	4,227	3,881	1,577	1,102	1,324
<i>Y/Y % change</i>	14.7	-14.8	4.7	10.1	-29.8	-30.8	14.4	-36.1	-26.4
Dwelling houses less than 80 m.sq (m ²)	1,192,474	1,055,108	1,075,337	288,162	184,561	171,553	70,287	49,753	57,814
<i>Y/Y % change</i>	15.5	-11.5	1.9	5.0	-29.0	-31.2	12.1	-38.2	-28.0
Dwelling houses less than 80 m.sq (R'000)	2,263,566	2,231,253	2,226,917	646,955	381,749	380,866	156,174	118,177	134,763
<i>Y/Y % change</i>	22.2	-1.4	-0.2	7.7	-23.3	-28.5	10.1	-37.4	-20.0
Dwelling houses larger than 80 m.sq (Number)	22,157	20,357	13,906	3,373	2,481	2,575	1,022	818	1,051
<i>Y/Y % change</i>	0.2	-8.1	-31.7	-34.6	-34.2	-21.5	-14.3	-24.5	-10.3
Dwelling houses larger than 80 m.sq (m ²)	5,042,030	4,751,322	3,667,902	913,861	625,518	672,224	258,290	223,331	270,075
<i>Y/Y % change</i>	2.0	-5.8	-22.8	-28.5	-35.2	-21.9	-15.3	-26.4	-15.5
Dwelling houses larger than 80 m.sq (R'000)	16,843,803	17,052,758	14,418,696	3,872,570	2,623,090	2,983,783	1,157,715	1,006,487	1,197,737
<i>Y/Y % change</i>	19.8	1.2	-15.4	-18.5	-26.6	-6.0	4.2	-12.8	-7.4
Flats and Townhouses (Number)	26,949	26,221	18,462	4,563	2,155	2,751	857	827	960
<i>Y/Y % change</i>	13.0	-2.7	-29.6	-34.2	-62.0	-37.1	-36.0	-29.3	-17.7
Flats and Townhouses (m ²)	3,092,497	2,808,764	1,970,734	468,546	261,049	329,418	106,327	104,620	93,219
<i>Y/Y % change</i>	-0.9	-9.2	-29.8	-39.1	-58.1	-29.2	-25.0	-23.2	-27.1
Flats and Townhouses (R'000)	10,708,767	11,054,136	8,374,637	2,145,004	1,235,108	1,515,823	475,293	520,228	435,006
<i>Y/Y % change</i>	8.4	3.2	-24.2	-29.8	-51.3	-22.4	-23.1	-9.7	-12.7
Total units completed (Number)	76,661	70,058	56,947	14,618	8,863	9,207	3,456	2,747	3,335
<i>Y/Y % change</i>	9.5	-8.6	-18.7	-19.5	-42.7	-30.6	-11.6	-30.9	-19.4
Total building space completed (m²)	9,327,001	8,615,194	6,713,973	1,670,569	1,071,128	1,023,625	434,904	377,704	421,108
<i>Y/Y % change</i>	2.6	-7.6	-22.1	-28.1	-42.0	-35.0	-14.6	-27.4	-20.2
Other Residential Buildings (m ²)	175,955	201,665	223,633	128,050	19,837	122,064	108,675	4,656	3,458
<i>Y/Y % change</i>	131.2	14.6	10.9	49.5	-64.4	564.4	7106.6	-62.4	3.9
Other Residential Buildings (R'000)	824,122	892,815	1,002,579	572,376	92,683	779,922	697,367	21,903	15,429
<i>Y/Y % change</i>	194.1	8.3	12.3	56.4	-62.5	934.9	15314.8	-59.3	21.5
Total Residential Buildings (R'000)	30,640,258	31,230,962	26,022,829	7,236,905	4,332,630	5,660,394	2,486,549	1,666,795	1,782,935
<i>Y/Y % change</i>	17.5	1.9	-16.7	-17.5	-36.8	-1.3	32.6	-15.5	-9.6
Additions and Alterations									
Dwelling houses (m ²)	2,044,860	2,233,737	2,312,209	482,855	430,843	476,305	177,463	144,388	176,268
<i>Y/Y % change</i>	2.9	9.2	3.5	-18.6	-35.6	-12.9	-10.4	-24.3	-23.8
Dwelling houses (R'000)	6,129,639	7,254,730	8,357,901	1,862,756	1,659,711	1,947,107	705,555	587,753	723,654
<i>Y/Y % change</i>	21.0	18.4	15.2	-3.8	-28.1	4.8	1.9	-9.7	-14.7



How can we help you?