FNB HOUSE PRICE INDEX

– Double-digit price deflation was reached in April as residential oversupplies continue

HOME LOANS DIVISION

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DOUBLE DIGIT HOUSE PRICE DEFLATION RECORDED FOR APRIL, AS AVERAGE PRICE LEVEL FALLS BACK TO LEVELS LAST SEEN AT THE END OF 2006

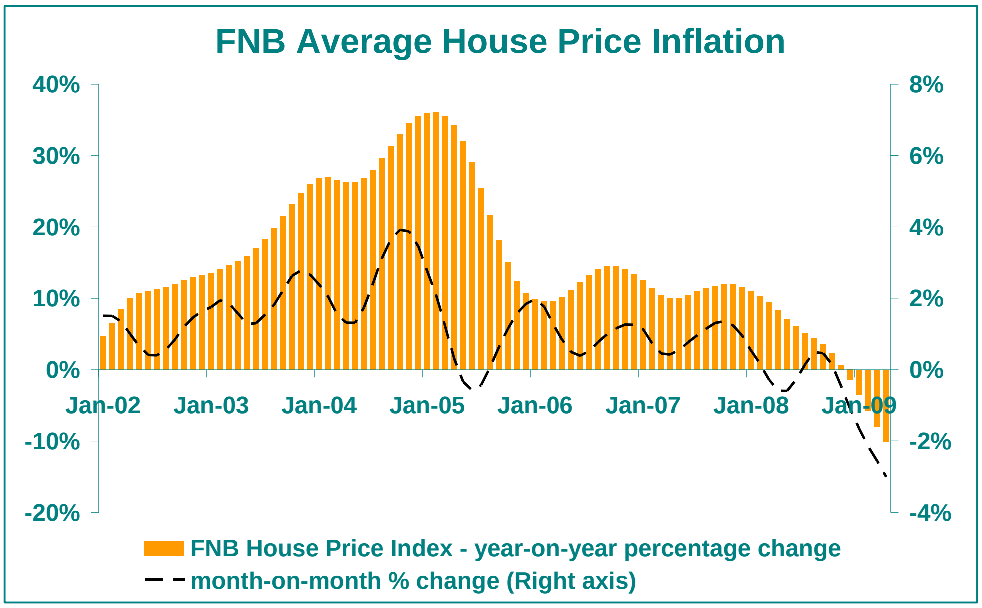
The FNB House Price Index reached double-digit deflation in April 2009, declining year-on-year to the tune of -10.2%. This represents a deterioration on the revised -7.9% rate of year-on-year decline recorded for March, and was the 5th consecutive month of year-on-year decline in the house price index.

On a month-on-month basis, the rate of deflation was -3% in April.

The further deflation in April implies that the FNB average house price level (R674,885 for April 2009) has receded back to a level more-or-less equal to the average price recorded in December 2006 (R674,669).

This steady deterioration is the result of a sizeable oversupply that has built up in the residential market, with selling due to financial pressure being a key driver of supply, and recessionary conditions in the South African economy hampering residential demand growth despite a series of interest rate cuts having already taken place.

April House price deflation recorded -10.2% year-on-year, down from a revised -7.9% in March. The average house price level is now back to end-2006 levels.



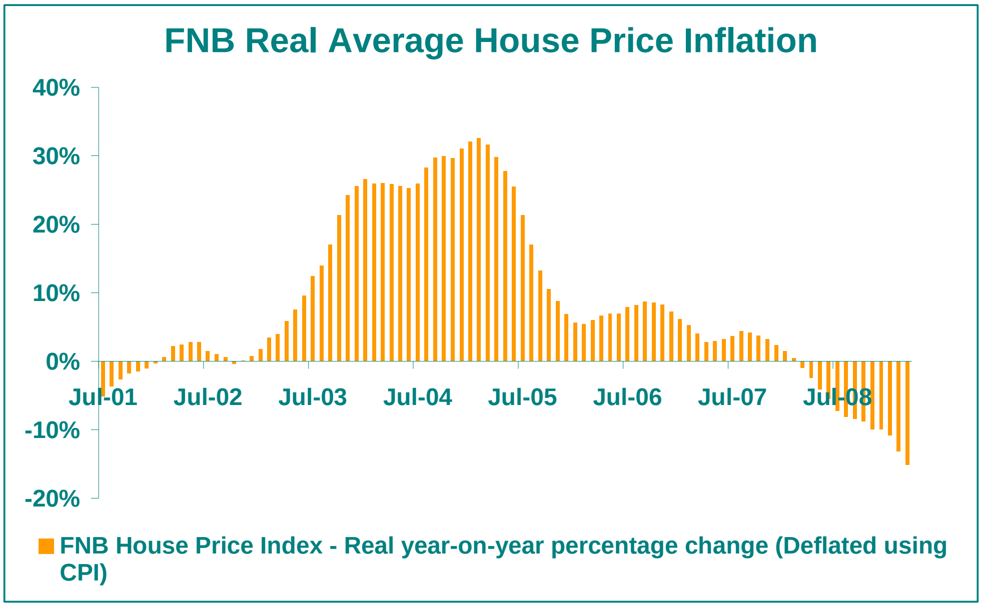
Note: The FNB House Price Series is constructed using the average value of housing transactions financed by FNB. In order to eliminate outliers from the data sample, transaction values included in the sample must be above 70% of FNB Valuations Division's valuation of the property but below 130%, while 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 key market segments split by 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.*

REAL HOUSE PRICE DEFLATION CONTINUES TO WORSEN, AS CONSUMER PRICE INFLATION TREADS WATER

Using the consumer price index to deflate the FNB House Price Index into real terms, we saw March real house price deflation measuring -15.2% year-on-year, a deterioration on the -13.1% for February. This was the net effect of a substantial deterioration in monthly house price deflation, while consumer price inflation remained almost unchanged at 8.5% year-on-year in March compared to 8.4% in February.

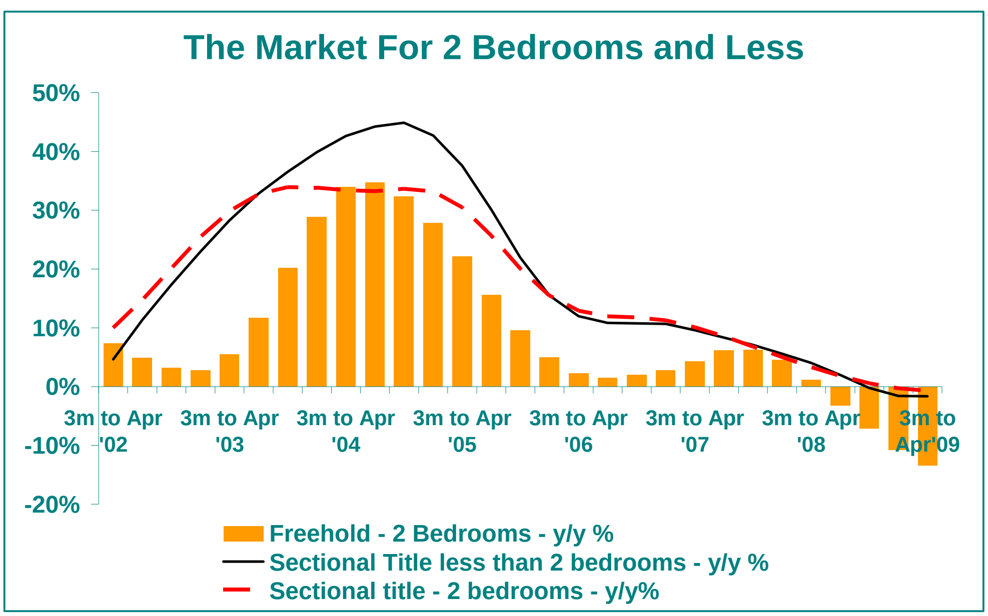
Real House price deflation, using CPI to deflate the FNB House Price Index, recorded -15.2% in March.



KEY HOUSING MARKET SEGMENTS BY ROOM NUMBER

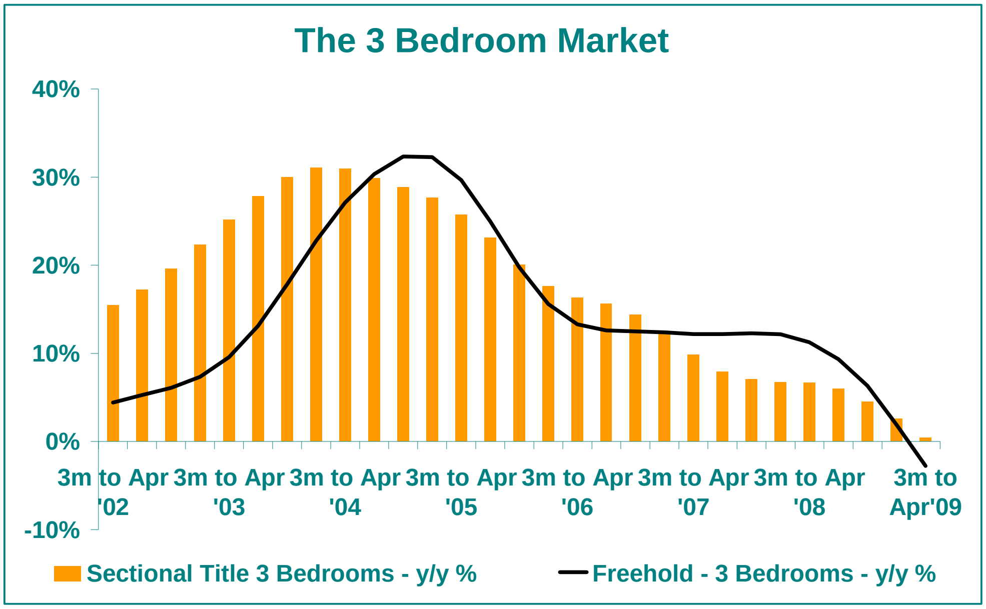
Examining key segments of the residential market, split by room number, the freehold 2 bedroom segment (average price R312,260) recorded average house price deflation of -13.4% year-on-year for the 3 months to April 2009. This represents further deterioration from the -10.7% of the previous 3 month period. The sectional title 2 bedroom segment (average price R606,760) fared significantly better, showing mild year-on-year house price deflation of -0.7% for the 3 months to April 2009, as did the sectional title less than 2 bedroom (average price R461,104) segment which recorded deflation of -1.6%.

Smaller-sized freehold segments, in terms of room number, show significantly worse performance than sectional title counterparts



In the larger sized 3 bedroom market, which held up better than the 2 bedroom and smaller segment until not long ago, the cracks have started to appear recently. The 3 bedroom sectional title segment (average price R 887,342) showed slight increase in average price to the tune of 0.4% year-on-year for the 3 months to April, while the 3 bedroom freehold segment (average price R738,755) slipped into deflation territory, recording -2.8% for the same period.

The 3 Bedroom segment, which has held up better than the 2 bedroom and less segment until recently, is also moving into price decline, as housing market weakness broadens.



OUTLOOK

The domestic interest rate situation has improved significantly since December 2008, with 350 basis points' worth of repo rate cuts in total since then. With prime rate having been reduced by the same margin, affordability of home loans has improved substantially in the early stages of this year. A R500k home loan at prime is R1,264 per month cheaper than at the beginning of December 2008, and a R1 million loan repayment value has declined by R2,528 per month.

Affordability of home loans has improved significantly since late-2008, with a R1 million loan at prime having declined by R2,528 per month in cost.

CHANGE TO 20-YEAR BOND REPAYMENTS FOLLOWING A FURTHER 100 BP APRIL INTEREST RATE REDUCTION

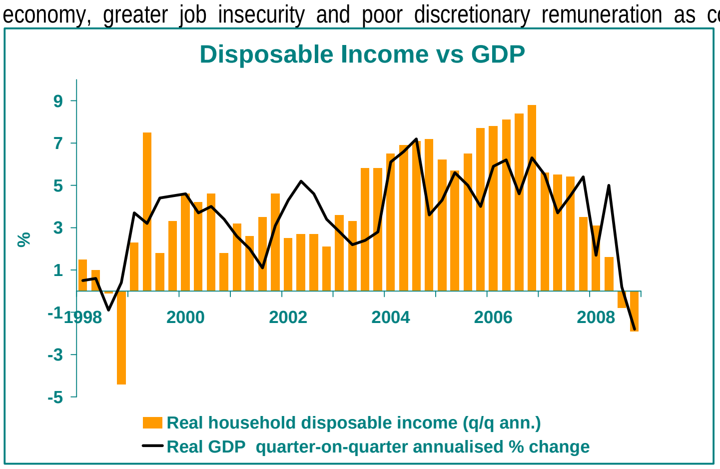
Bond Value (20 years)	Monthly repayment at 15.5% prime (Pre-Dec 2008)	Monthly repayment at 13% prime	Monthly repayment at 12% prime	Saving following assumed 100 bps interest rate cut in April 2009	Cumulative Saving following 350 bps worth of interest rate cuts since December 2008
R 300,000	R 4,062	R 3,515	R 3,303	R -211	R -758
R 400,000	R 5,416	R 4,686	R 4,404	R -282	R -1,011
R 500,000	R 6,769	R 5,858	R 5,505	R -352	R -1,264
R 600,000	R 8,123	R 7,029	R 6,607	R -423	R -1,517
R 700,000	R 9,477	R 8,201	R 7,708	R -493	R -1,770
R 800,000	R 10,831	R 9,373	R 8,809	R -564	R -2,022
R 900,000	R 12,185	R 10,544	R 9,910	R -634	R -2,275
R 1,000,000	R 13,539	R 11,716	R 11,011	R -705	R -2,528
R 1,100,000	R 14,893	R 12,887	R 12,112	R -775	R -2,781
R 1,200,000	R 16,247	R 14,059	R 13,213	R -846	R -3,034
R 1,300,000	R 17,600	R 15,230	R 14,314	R -916	R -3,286
R 1,400,000	R 18,954	R 16,402	R 15,415	R -987	R -3,539
R 1,500,000	R 20,308	R 17,574	R 16,516	R -1,057	R -3,792
R 1,750,000	R 23,693	R 20,503	R 19,269	R -1,234	R -4,424
R 2,000,000	R 27,078	R 23,432	R 22,022	R -1,410	R -5,056

**The values in the table are indicative only, and individual home loan repayment values can differ depending on calculation method used.*

The reduction in interest rates should, therefore, imply that a greater number of potential home buyers qualify for home loans compared with a few months prior, due to the positive impact that rate cuts have on affordability calculations done by banks.

Despite a series of interest rate cuts, any recovery in residential property demand is likely to be mild at best, given that the economy finds itself in recession, job cuts are the order of the day, and real disposable income growth thus finds itself under pressure.

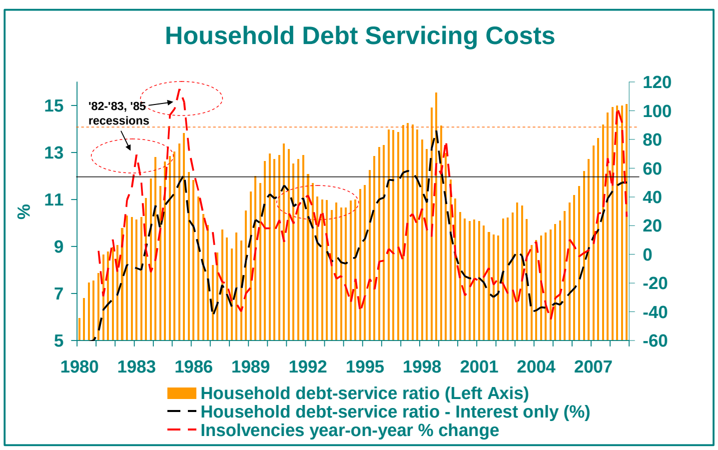
However, against this positive news, and the prospect of further interest rate cutting in the near future, the economy appears to be in recession and net job loss is probably the order of the day. This situation concerns banks, as job loss can exert upward pressure on loan default rates despite interest rate cuts, and is thus likely to curb the pace at which banks ease any lending criteria in time to come. In addition, a weak economy, greater job insecurity and poor discretionary remuneration as company profits come under pressure, are all likely to play a role in containing household/consumer confidence levels. Indeed, the March SARB Quarterly Bulletin showed that real household disposable income growth recorded 2 successive quarters of negative quarter-on-quarter growth in the second half of 2008, the culmination of 2 years of steady growth decline.



Therefore, at best one should only expect interest rate cuts to have a mildly positive impact on residential demand, and the expected uptick in residential demand as 2009 progresses is expected to be gradual, as real disposable income growth looks set to remain under pressure for most of this year in weak global and local economic conditions.

Household debt service ratios are believed to have peaked, and a decline driven by declining interest rates and debt-to-disposable income ratio should bring about a decline in non-performing home loans, but only in the second half of 2009.

On the supply side of the market, a significant oversupply of residential property in the market appears to exist, driven by financial stress selling. It is no secret that bank repossessions have increased, and with them the level of auction selling from this source, while estate agents (surveyed in the FNB Property Barometer) also report an estimated 26% of all selling through their sales channel to be due to the need of home owners to downscale due to financial pressure.

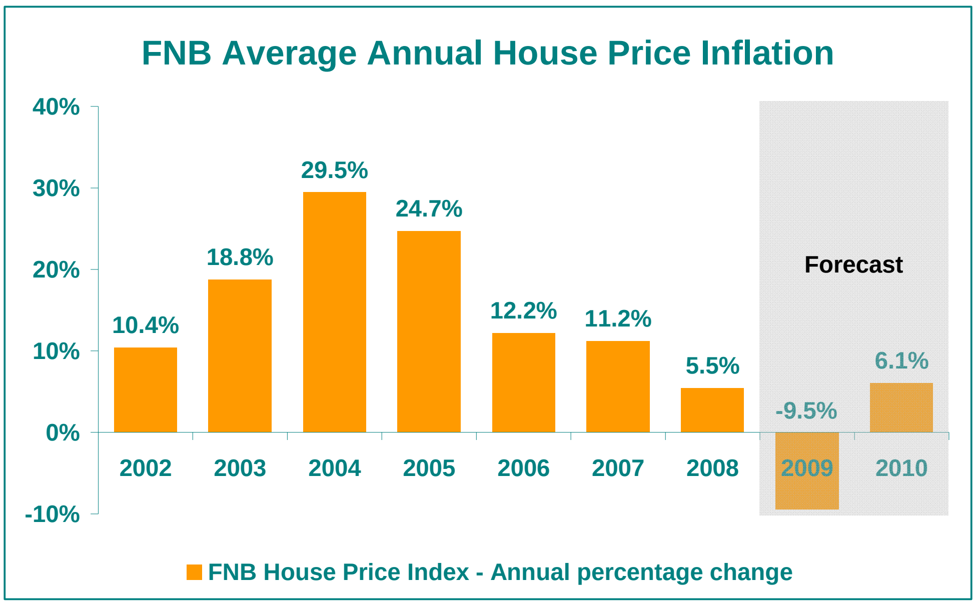


The household debt-service ratios (cost of servicing debt expressed as a percentage of household sector disposable income) appear to have more-or-less peaked late in 2008, and their anticipated decline (due to declining interest rates as well as declining debt-to-disposable income ratio) is likely to bring about an improvement in home loans credit quality. Indeed, we have already seen declining year-on-year growth in insolvencies, from 102.4% year-on-year in the second quarter of 2008 to 26.1% in the final quarter of last year, as have we seen declining growth in non-performing home loans, but actual decline in insolvencies or in non-performing loans is only anticipated for the second half of this year after a significant decline in debt service ratio. At that point we should see the start of declining "financial stress" home sales, but for the time being this driver of sales remains strong.

Reasons for selling (As % of Total Sales)	Total	High Net	Upper income	Middle income	Lower income
Downscaling due to financial pressure	**26%**	**23%**	**22%**	**29%**	**33%**
Downscaling with life stage	19%	17%	22%	18%	17%
Emigrating	**11%**	**14%**	**11%**	**8%**	**10%**
Relocating within SA	6%	7%	6%	5%	5%
Upgrading	**7%**	**8%**	**8%**	**6%**	**7%**
Moving for safety and security reasons	10%	12%	8%	12%	10%
Change in family structure	14%	13%	17%	14%	12%
Moving to be closer to work or amenities	7%	6%	6%	8%	6%

The ongoing mismatch between demand and supply, at least for 2009 as we wait for levels of household financial stress to decline more significantly, continues to drive the belief that house price deflation will be with us for the entire 2009, and that we may only return to some mild national average house price inflation in 2010. At current rates of deflation, it appears increasingly likely that the average house price for 2009 as a whole will be close to -10% (-9.5% projected) lower than the average price in 2008, which would imply that on a monthly basis we could see year-on-year price decline reach as much as -15% by around mid-year. I am of the opinion that the worst rate of deflation will be around mid-2009, after which time the mild stimulus from interest rate cuts will start to bring about a slower rate of deflation.

The ongoing mismatch between demand and supply, with oversupply being the situation at present, leads to the expectation of house price deflation for most of 2009, and the average price for the year being not far off -10% lower than the average for 2008.



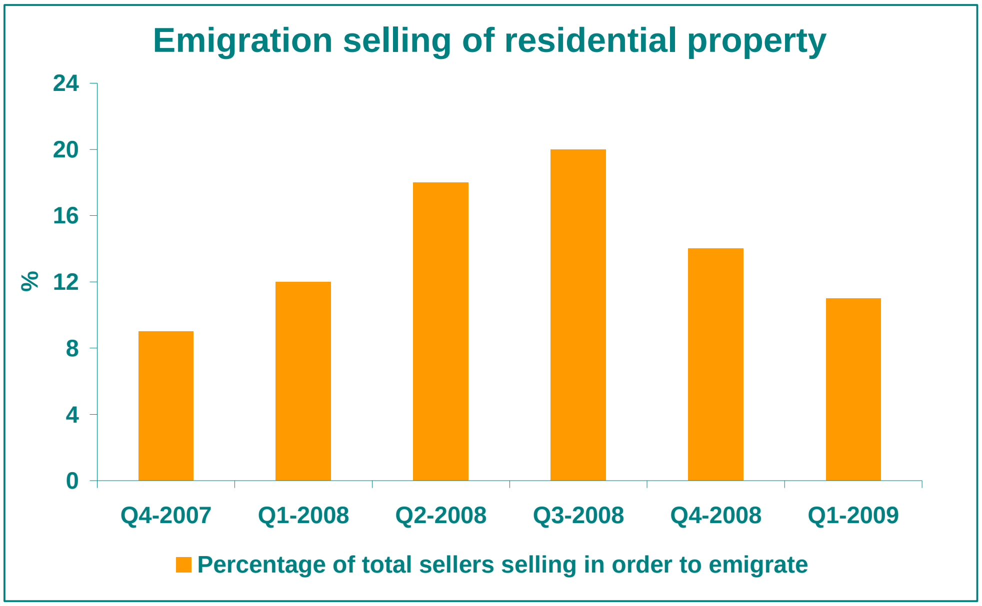
FORECAST RISKS

The greatest risk/threat to any forecast/expectation regarding the domestic housing market at present emanates from the state of the global economy and how quickly it may or may not recover

The big risks to all forecasts at present lie in the state of the global economy. The current global financial and economic crisis, and its negative impact on SA's export sectors, has arguably become the major driver of the country's recession, and ultimate global recovery is key to our own ultimate recovery, not only of the economy but also in the country's housing market. While interest rate cuts can provide an economic stimulus of sorts on their own, this promises to be limited in the face of such negative global forces, and as such we project only very mediocre average house price inflation of around 6% in 2010.

However, while the global economy may be the key problem at present, domestic risks do exist, and political issues in the near term will need to be watched closely. In 2008, following the ANC's Polokwane Conference and the Eskom crisis, the FNB Property Barometer reported a significant increase in the importance of emigration selling, which was estimated to reach as much as 20% of total suburban selling by the 3rd quarter of last year. In a thin market such as the current one, therefore, emigration can become a key driver of weakness. The percentage has subsided since, and I believe that this is due to minority race groups having calmed somewhat, after a surge in jitters that often accompanies major political change in the country.

However, we're not quite out of the woods yet. All eyes will be on Parliament this month, as Mr Jacob Zuma becomes president, for signs of things to come under a new ANC leadership. Key to calming the nerves or creating renewed concerns will be the composition of the Zuma Cabinet and the fate of individuals such as Minister Trevor Manuel. So May is a key month politically, and thus a key month for the residential property market's well-being.



In the mean time, come what may, the price deflation situation in 2009 is likely to keep banks conservative on loan-to-value limits (implying significant deposit requirements) for some time to come, as they work towards reducing their losses in the event of default.

Monthly FNB House Price Average (Rand)

Date			Date			Date			Date		
Jul-00	267,556		**Feb-03**	326,309	14.0%	**Sep-05**	568,294	18.2%	**Apr-08**	751,334	8.4%
Aug-00	265,958		**Mar-03**	332,372	14.6%	**Oct-05**	574,904	15.0%	**May-08**	746,828	7.1%
Sep-00	264,948		**Apr-03**	337,577	15.3%	**Nov-05**	583,979	12.5%	**Jun-08**	744,763	6.0%
Oct-00	265,259		**May-03**	341,889	16.0%	**Dec-05**	594,752	10.7%	**Jul-08**	745,893	5.2%
Nov-00	266,712		**Jun-03**	346,338	17.0%	**Jan-06**	606,492	9.9%	**Aug-08**	749,559	4.5%
Dec-00	268,449		**Jul-03**	351,684	18.3%	**Feb-06**	617,190	9.5%	**Sep-08**	752,988	3.6%
Jan-01	269,329		**Aug-03**	358,082	19.8%	**Mar-06**	625,088	9.6%	**Oct-08**	753,920	2.3%
Feb-01	268,685		**Sep-03**	366,061	21.4%	**Apr-06**	630,314	10.2%	**Nov-08**	750,354	0.6%
Mar-01	267,162		**Oct-03**	375,697	23.2%	**May-06**	633,414	11.1%	**Dec-08**	742,101	-1.4%
Apr-01	266,205		**Nov-03**	386,150	24.8%	**Jun-06**	635,858	12.2%	**Jan-09**	729,816	-3.6%
May-01	266,181		**Dec-03**	396,422	26.0%	**Jul-06**	639,121	13.3%	**Feb-09**	714,104	-5.8%
Jun-01	266,723		**Jan-04**	405,883	26.8%	**Aug-06**	644,094	14.1%	**Mar-09**	695,787	-7.9%
Jul-01	267,202	-0.1%	**Feb-04**	414,188	26.9%	**Sep-06**	650,507	14.5%	**Apr-09**	674,885	-10.2%
Aug-01	268,045	0.8%	**Mar-04**	420,585	26.5%	**Oct-06**	658,026	14.5%			
Sep-01	269,338	1.7%	**Apr-04**	426,123	26.2%	**Nov-06**	666,317	14.1%			
Oct-01	271,092	2.2%	**May-04**	431,706	26.3%	**Dec-06**	674,699	13.4%			
Nov-01	273,930	2.7%	**Jun-04**	439,245	26.8%	**Jan-07**	682,295	12.5%			
Dec-01	277,712	3.5%	**Jul-04**	449,908	27.9%	**Feb-07**	687,326	11.4%			
Jan-02	281,906	4.7%	**Aug-04**	463,977	29.6%	**Mar-07**	690,436	10.5%			
Feb-02	286,152	6.5%	**Sep-04**	480,986	31.4%	**Apr-07**	693,374	10.0%			
Mar-02	289,998	8.5%	**Oct-04**	499,850	33.0%	**May-07**	697,188	10.1%			
Apr-02	292,888	10.0%	**Nov-04**	519,215	34.5%	**Jun-07**	702,546	10.5%			
May-02	294,828	10.8%	**Dec-04**	537,176	35.5%	**Jul-07**	709,312	11.0%			
Jun-02	296,042	11.0%	**Jan-05**	552,003	36.0%	**Aug-07**	717,455	11.4%			
Jul-02	297,232	11.2%	**Feb-05**	563,395	36.0%	**Sep-07**	726,820	11.7%			
Aug-02	298,910	11.5%	**Mar-05**	570,239	35.6%	**Oct-07**	736,681	12.0%			
Sep-02	301,438	11.9%	**Apr-05**	571,959	34.2%	**Nov-07**	745,748	11.9%			
Oct-02	305,042	12.5%	**May-05**	570,000	32.0%	**Dec-07**	752,851	11.6%			
Nov-02	309,507	13.0%	**Jun-05**	566,705	29.0%	**Jan-08**	756,810	10.9%			
Dec-02	314,578	13.3%	**Jul-05**	564,237	25.4%	**Feb-08**	758,041	10.3%			
Jan-03	320,095	13.5%	**Aug-05**	564,661	21.7%	**Mar-08**	755,827	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.