HOME LOANS DIVISION

BUILDING AND FIXED INVESTMENT UPDATE

–November Building Stats – still no strong signs of a move to recovery yet

PROPERTY AND MORTGAGE MARKET ANALYTICS

20 January 2009

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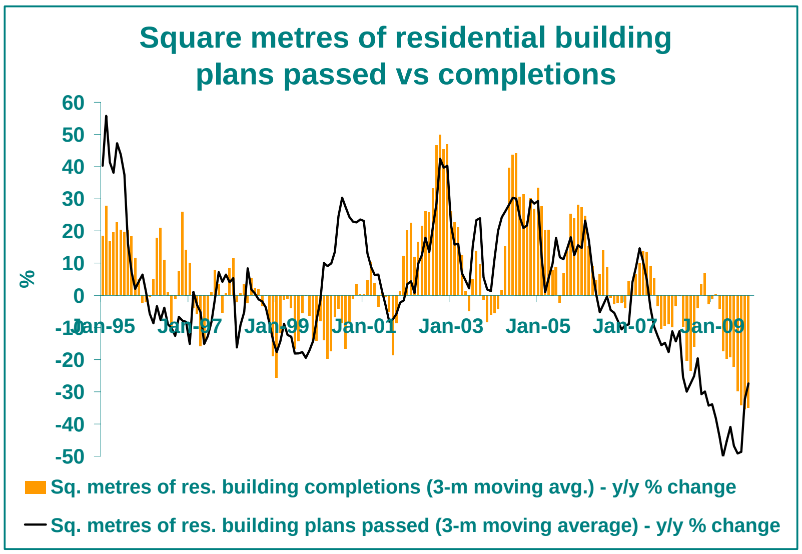
YEAR-ON-YEAR DECLINE IN BUILDING COMPLETIONS CONTINUES UNABATED

The November StatsSA building stats continue to point towards an extremely weak picture for the residential building sector. For the 3 months to November 2009, the square metreage of residential buildings completed declined by -35% year-on-year, almost unchanged from the -35.4% year-on-year decline for the 3 months to October.

There is, at best, some early indication that the sector may be moving towards stabilisation, with a diminishing rate of decline in square metreage of building plans passed now apparent. For the 3 months to November, square metres of building plans passed declined year-on-year by a still-massive -27.4%. However, this is an improvement from the -32.3% for the 3 months to October, and more so compared to the -48.7% for the 3 months to September.

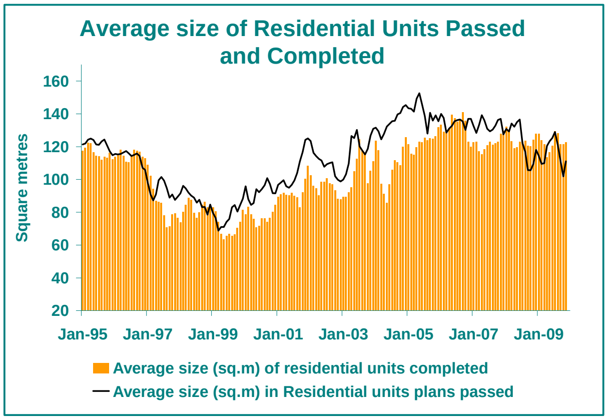
Obviously, it remains to be seen as to whether some improvement in building plans will translate into an actual improvement in activity.

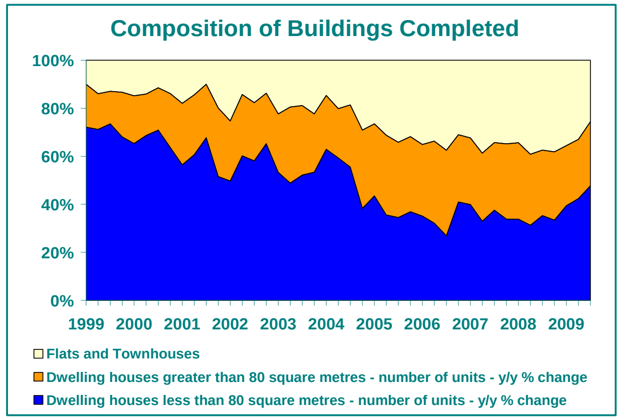


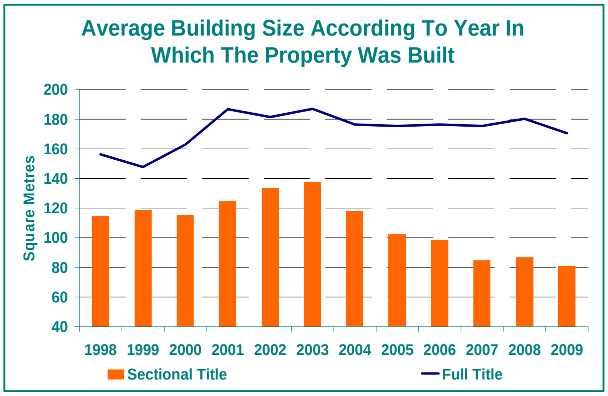
Surprisingly, perhaps, we have not seen strong evidence of a shift towards a smaller average size of unit, despite affordability in the new residential building sector being a major issue. There has been a gradual decline in average size of building built, from a peak of 140.9 square metres in September 2006 to November 2009's 122.7 square metres. But this is still considerably larger than the big dip in size after the 1998 interest rate spike, to 63.4 square metres by May 2009.

This possibly has to do with our perception that the biggest oversupply of residential property was created in the flats and townhouses segment of the market during the boom, and that in 2009 we started to see a noticeable decline in this segment's percentage of total building.

In other words, the affordability drive may be more pronounced than what the building stats suggest, but a stronger cut-back in building of small-sized flats and townhouses due to oversupplies already existing leads to the average size of unit for the total market not declining as much as one would expected.







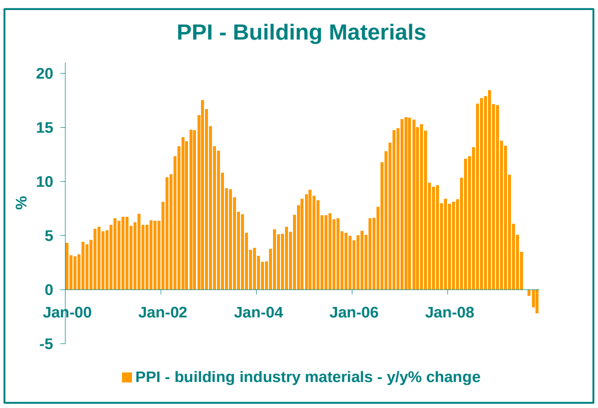
FNB Valuations stats according to the year in which a home was built, suggest that there has been a more pronounced decline in average size of building since 2004, as affordability became more of an issue.

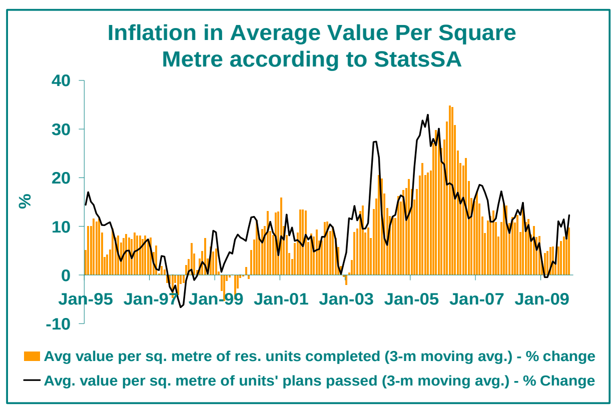
However, the smaller-size drive was predominantly in the sectional title market, a segment that gained in significance during the boom, but which has probably declined in importance for the building sector temporarily during the slump, as the building stats also suggest through their showing a decline in importance of flats and townhouses.

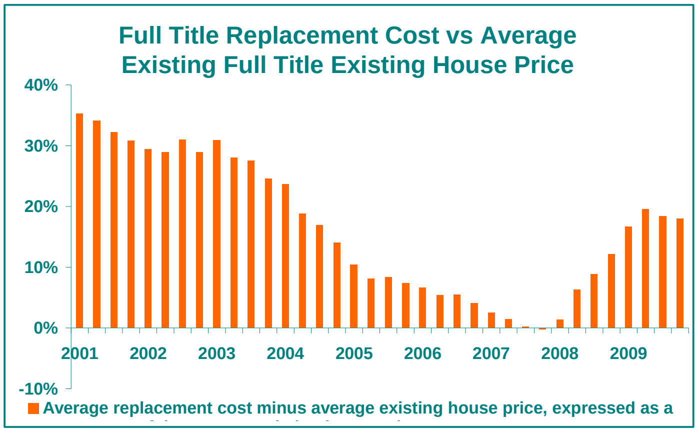
COST PRESSURE STILL MAKE IT A DEMANDING TIME FOR THE RESIDENTIAL BUILDING SECTOR

The November 2009 Producer Price Index for Building Materials showed a year-on-year decline for the third consecutive month, to the tune of -2.8%. This is probably reflective of both the global commodity price slump as well as the domestic building construction sector slowdown.

However, in the absence of stats for labour and other input costs, it would be incorrect to assume that overall building costs have declined. Indeed, if average value of buildings completed and passed is anything to go by, cost pressures are still in play, albeit less so compared with a few years ago. Average square metre value of buildings completed for the 3 months to November rose by 9.7% year-on-year, while that of plans passed rose 12.3%.







As such, only limited progress has been made in reducing the gap between replacement value and existing home values (Full title).

Back in the days of the property boom, we saw a steady diminishing of this gap from 35% at the beginning of 2001 to -0.2% by the end of 2007. The increasing ease with which developers could bring competitively priced new stock the market contributed to the building boom that we saw gathering steam from around 2002.

This came to an abrupt end around 2008/09 as input cost inflation surged, while existing house prices declined, once more widening the gap between replacement cost and existing home value.

During the second half of 2009, we saw some slight decline in the gap between replacement value and existing house prices starting, but the relief is not yet significant, as the gap still stands at around 18%.

CONCLUSION

A diminishing rate of decline in building plans passed may possibly be an early sign of pending improvement in the residential building environment. However, the figures remains very weak. The existing home market has indeed seen an improvement in demand through 2009, but there remain many stressed sellers in the market, and as such many bargain prices. This, coupled to building cost issues that don't appear to altogether have gone away, suggest that the road to building sector recovery is a long one. As such, we remain of the belief that it may only be in the second half of 2010 that we begin to see positive year-on-year growth in completions, off which will be a very low base.

Building Plans Passed

Residential Buildings	2006	2007	2008	Q1-2009	Q2-2009	Q3-2009	Sep-09	Oct-09	Nov-09
Dwelling houses less than 80 m.sq (Number)	37,147	36,796	30,881	6,920	4,960	7,135	3,195	2,455	1,024
Y/Y % change	*-1.4*	*-0.9*	*-16.1*	*2.4*	*-16.9*	*-49.1*	*-40.1*	*-23.9*	*-29.8*
Dwelling houses less than 80 m.sq (m^2)	1,657,023	1,624,463	1,378,904	300,235	218,883	311,655	137,084	106,415	50,907
Y/Y % change	*1.7*	*-2.0*	*-15.1*	*-2.7*	*-20.7*	*-46.2*	*-35.9*	*-26.6*	*-27.8*
Dwelling houses less than 80 m.sq (R'000)	2,984,546	3,098,758	2,775,455	517,057	452,812	598,290	256,818	196,584	149,511
Y/Y % change	*24.2*	*3.8*	*-10.4*	*-23.1*	*-28.5*	*-43.8*	*-42.9*	*-31.6*	*-12.4*
Dwelling houses larger than 80 m.sq (Number	34,846	31,782	21,440	3,490	3,525	3,445	1,191	1,190	1,141
Y/Y % change	*2.1*	*-8.8*	*-32.5*	*-39.7*	*-41.0*	*-36.1*	*-25.9*	*-30.6*	*-16.9*
Dwelling houses larger than 80 m.sq (m^2)	8,082,214	7,971,177	5,468,375	890,246	969,412	888,494	313,427	315,699	306,419
Y/Y % change	*-0.4*	*-1.4*	*-31.4*	*-40.1*	*-36.0*	*-36.4*	*-23.1*	*-23.8*	*-13.7*
Dwelling houses larger than 80 m.sq (R'000)	24,237,240	26,417,445	19,901,574	3,511,741	3,989,658	3,652,048	1,423,195	1,359,226	1,382,735
Y/Y % change	*13.3*	*9.0*	*-24.7*	*-36.9*	*-31.4*	*-31.2*	*-10.3*	*-14.4*	*2.7*
Flats and Townhouses (Number)	31,932	32,988	29,946	3,472	3,913	2,647	1,404	1,817	1,671
Y/Y % change	*4.8*	*3.3*	*-9.2*	*-59.3*	*-46.3*	*-66.9*	*-32.7*	*-32.3*	*-14.7*
Flats and Townhouses (m^2)	4,138,546	3,848,201	3,230,918	343,899	366,104	240,699	104,310	160,987	143,254
Y/Y % change	*-7.3*	*-7.0*	*-16.0*	*-64.8*	*-56.3*	*-72.3*	*-51.9*	*-27.3*	*-32.6*
Flats and Townhouses (R'000)	13,230,325	13,480,089	12,882,634	1,467,060	1,541,760	989,378	503,941	746,720	630,002
Y/Y % change	*4.9*	*1.9*	*-4.4*	*-63.7*	*-54.2*	*-71.7*	*-43.7*	*-15.0*	*-27.1*
Total units plans passed (Number)	**103,925**	**101,566**	**82,267**	**13,882**	**12,398**	**13,227**	**5,790**	**5,462**	**3,836**
Y/Y % change	***1.6***	***-2.3***	***-19.0***	***-34.2***	***-35.5***	***-51.8***	***-35.8***	***-28.3***	***-19.9***
Total building plans passed (m^2)	**13,877,783**	**13,443,841**	**10,078,197**	**1,534,380**	**1,554,399**	**1,440,848**	**554,821**	**583,101**	**500,580**
Y/Y % change	***-2.3***	***-3.1***	***-25.0***	***-44.6***	***-40.9***	***-49.4***	***-33.8***	***-25.3***	***-21.6***
Other Residential Buildings (m^2)	207,859	253,101	365,906	57,113	61,153	63,024	20,388	20,152	4,939
Y/Y % change	*12.4*	*21.8*	*44.6*	*-36.3*	*-29.1*	*-10.8*	*147.2*	*-68.8*	*-78.9*
Other Residential Buildings (R 000)	812,730	971,053	1,526,884	252,076	322,835	321,700	148,482	123,314	14,713
Y/Y % change	*46.6*	*19.5*	*57.2*	*-32.6*	*-34.6*	*11.4*	*280.4*	*-38.8*	*-86.6*
Total Residential Buildings (R 000)	**41,264,841**	**43,967,345**	**37,086,547**	**5,747,934**	**6,307,065**	**5,561,416**	**2,332,436**	**2,425,844**	**2,176,961**
Y/Y % change	***11.6***	***6.5***	***-15.6***	***-46.0***	***-38.8***	***-45.2***	***-21.5***	***-17.9***	***-12.6***
Additions and Alterations									
Dwelling houses (m^2)	5,288,732	5,123,880	4,121,654	766,595	771,610	920,332	345,218	314,806	290,287
Y/Y % change	*1.7*	*-3.1*	*-19.6*	*-22.3*	*-24.2*	*-15.3*	*0.9*	*-16.9*	*-15.4*
Dwelling houses (R'000)	14,745,152	16,003,257	14,286,383	2,845,142	2,922,066	3,639,359	1,501,048	1,323,973	1,241,609
Y/Y % change	*16.2*	*8.5*	*-10.7*	*-19.7*	*-19.7*	*-9.3*	*19.3*	*-7.5*	*-2.7*

Buildings Completed

Residential Buildings	2006	2007	2008	Q1-2009	Q2-2009	Q3-2009	Sep-09	Oct-09	Nov-09
Dwelling houses less than 80 m.sq (Number)	24,029	27,555	23,514	5,941	5,617	6,232	2,536	1,739	1,929
Y/Y % change	*-8.7*	*14.7*	*-14.7*	*10.3*	*13.3*	*-11.9*	*-6.6*	*-3.7*	*-14.0*
Dwelling houses less than 80 m.sq (m^2)	1,032,528	1,192,474	1,057,017	256,673	249,716	277,045	110,551	78,800	84,151
Y/Y % change	*-1.6*	*15.5*	*-11.4*	*9.9*	*6.3*	*-11.3*	*-3.3*	*-6.7*	*-16.9*
Dwelling houses less than 80 m.sq (R'000)	1,851,863	2,226,861	2,193,791	492,368	533,585	533,083	194,719	177,624	203,004
Y/Y % change	*34.2*	*20.2*	*-1.5*	*8.7*	*-2.0*	*-15.8*	*-8.8*	*-11.5*	*1.7*
Dwelling houses larger than 80 m.sq (Number)	22,118	22,158	20,315	3,761	3,272	3,477	1,180	1,304	1,073
Y/Y % change	*-0.6*	*0.2*	*-8.3*	*-25.6*	*-30.0*	*-36.4*	*-33.6*	*-28.2*	*-42.7*
Dwelling houses larger than 80 m.sq (m^2)	4,941,428	5,042,274	4,744,774	963,805	858,143	931,606	297,227	321,820	324,674
Y/Y % change	*0.6*	*2.0*	*-5.9*	*-12.0*	*-20.9*	*-28.0*	*-34.2*	*-21.9*	*-29.5*
Dwelling houses larger than 80 m.sq (R'000)	14,059,447	15,809,143	15,781,525	3,567,011	3,167,426	3,589,610	1,215,345	1,268,078	1,429,688
Y/Y % change	*17.0*	*12.4*	*-0.2*	*-4.6*	*-18.7*	*-23.0*	*-25.4*	*-17.0*	*-15.8*
Flats and Townhouses (Number)	23,858	26,949	25,981	5,352	4,371	3,347	1,309	1,303	995
Y/Y % change	*8.1*	*13.0*	*-3.6*	*-2.2*	*-29.4*	*-55.4*	*-57.8*	*-58.8*	*-44.0*
Flats and Townhouses (m^2)	3,120,296	3,092,497	2,777,548	612,243	465,280	379,830	151,966	152,173	108,743
Y/Y % change	*10.4*	*-0.9*	*-10.2*	*4.1*	*-26.2*	*-52.6*	*-51.1*	*-57.3*	*-49.9*
Flats and Townhouses (R'000)	9,881,190	10,354,321	10,389,967	2,507,265	1,952,202	1,490,550	629,867	667,323	488,375
Y/Y % change	*32.1*	*4.8*	*0.3*	*12.9*	*-22.4*	*-52.4*	*-51.8*	*-52.4*	*-39.4*
Total units completed (Number)	**70,005**	**76,662**	**69,810**	**15,054**	**13,260**	**13,056**	**5,025**	**4,346**	**3,997**
Y/Y % change	***-0.9***	***9.5***	***-8.9***	***-5.4***	***-16.2***	***-34.8***	***-33.9***	***-36.0***	***-32.2***
Total building space completed (m^2)	**9,094,252**	**9,327,245**	**8,579,339**	**1,832,721**	**1,573,139**	**1,588,481**	**559,744**	**552,793**	**517,568**
Y/Y % change	***3.5***	***2.6***	***-8.0***	***-4.4***	***-19.3***	***-34.0***	***-36.1***	***-35.2***	***-33.6***
Other Residential Buildings (m^2)	76,101	175,955	193,783	55,652	20,095	21,403	13,871	37,540	55,276
Y/Y % change	*17.2*	*131.2*	*10.1*	*90.4*	*-56.1*	*-47.8*	*576.3*	*73.2*	*361.8*
Other Residential Buildings (R 000)	280,250	729,269	762,808	246,863	81,796	107,696	77,924	208,190	203,622
Y/Y % change	*81.7*	*160.2*	*4.6*	*127.0*	*-63.3*	*-44.8*	*1417.5*	*209.9*	*405.7*
Total Residential Buildings (R 000)	**26,072,750**	**29,119,594**	**29,128,091**	**6,813,507**	**5,735,009**	**5,720,939**	**2,117,855**	**2,321,215**	**2,324,689**
Y/Y % change	***24.0***	***11.7***	***0.0***	***4.4***	***-20.1***	***-33.7***	***-32.9***	***-27.4***	***-15.3***
Additions and Alterations									
Dwelling houses (m^2)	1,987,253	2,044,928	2,238,662	666,090	542,684	649,080	184,200	188,191	171,951
Y/Y % change	*19.6*	*2.9*	*9.5*	*40.2*	*0.4*	*3.9*	*-10.4*	*-15.5*	*-21.3*
Dwelling houses (R'000)	5,065,165	5,782,551	6,787,595	2,301,176	1,845,612	2,327,229	703,277	727,979	712,494
Y/Y % change	*45.4*	*14.2*	*17.4*	*50.5*	*4.8*	*14.8*	*1.9*	*4.2*	*-0.6*

Provincial Residential Building Plans Passed - Number of Units

	2004	2005	2006	2007	2008	Q1-2009	Q2-2009	Q3-2009	Sep-09	Oct-09	Nov-09
Residential Buildings											
National Total	92,749	102,258	103,925	101,566	82,267	13,882	12,398	13,227	5,790	5,462	3,836
Y/Y % change	*10.5*	*10.3*	*1.6*	*-2.3*	*-19.0*	*-34.2*	*-35.5*	*-51.8*	*-35.8*	*-28.3*	*-19.9*
Western Cape	23,959	22,429	20,577	17,269	17,996	2,399	3,169	2,803	936	1,111	840
Y/Y % change	*29.0*	*-6.4*	*-8.3*	*-16.1*	*4.2*	*-49.7*	*-10.0*	*-48.9*	*-22.3*	*-43.9*	*22.1*
% Share of National Total	*25.8*	*21.9*	*19.8*	*17.0*	*21.9*	*17.3*	*25.6*	*21.2*	*16.2*	*20.3*	*21.9*
Gauteng	32,699	43,356	48,658	48,568	35,276	4,708	4,359	5,592	2,566	2,683	1,788
Y/Y % change	*18.9*	*32.6*	*12.2*	*-0.2*	*-27.4*	*-51.4*	*-39.5*	*-57.2*	*-57.8*	*46.3*	*-16.1*
% Share of National Total	*35.3*	*42.4*	*46.8*	*47.8*	*42.9*	*33.9*	*35.2*	*42.3*	*44.3*	*49.1*	*46.6*
KZN	10,184	11,015	8,672	9,689	8,994	1,101	1,146	1,013	761	541	266
Y/Y % change	*-30.5*	*8.2*	*-21.3*	*11.7*	*-7.2*	*-65.5*	*-64.2*	*-62.6*	*57.9*	*-12.3*	*-49.5*
% Share of National Total	*11.0*	*10.8*	*8.3*	*9.5*	*10.9*	*7.9*	*9.2*	*7.7*	*13.1*	*9.9*	*6.9*
Eastern Cape	9,061	6,432	6,449	4,726	5,145	1,657	881	1,855	868	210	120
Y/Y % change	*3.5*	*-29.0*	*0.3*	*-26.7*	*8.9*	*261.0*	*-29.9*	*131.6*	*250.0*	*-89.0*	*-73.3*
% Share of National Total	*9.8*	*6.3*	*6.2*	*4.7*	*6.3*	*11.9*	*7.1*	*14.0*	*15.0*	*3.8*	*3.1*
North West	3,272	4,367	5,670	7,418	4,474	2,400	640	668	232	291	256
Y/Y % change	*-42.0*	*33.5*	*29.8*	*30.8*	*-39.7*	*140.7*	*-43.6*	*-53.1*	*-35.2*	*-27.8*	*-12.9*
% Share of National Total	*3.5*	*4.3*	*5.5*	*7.3*	*5.4*	*17.3*	*5.2*	*5.1*	*4.0*	*5.3*	*6.7*
Free State	6,551	5,808	4,993	4,776	3,719	773	1,315	473	114	248	145
Y/Y % change	*44.3*	*-11.3*	*-14.0*	*-4.3*	*-22.1*	*72.5*	*51.3*	*-61.6*	*-54.4*	*117.5*	*-41.5*
% Share of National Total	*7.1*	*5.7*	*4.8*	*4.7*	*4.5*	*5.6*	*10.6*	*3.6*	*2.0*	*4.5*	*3.8*
Northern Cape	877	1,552	918	596	444	47	51	36	10	29	17
Y/Y % change	*265.4*	*77.0*	*-40.9*	*-35.1*	*-25.5*	*-73.6*	*-20.3*	*-77.9*	*-41.2*	*190.0*	*-41.4*
% Share of National Total	*0.9*	*1.5*	*0.9*	*0.6*	*0.5*	*0.3*	*0.4*	*0.3*	*0.2*	*0.5*	*0.4*
Mpumalanga	3,476	4,617	4,996	5,705	4,348	553	656	534	183	234	350
Y/Y % change	*37.2*	*32.8*	*8.2*	*14.2*	*-23.8*	*-34.3*	*-51.8*	*-59.4*	*-28.5*	*-36.9*	*120.1*
% Share of National Total	*3.7*	*4.5*	*4.8*	*5.6*	*5.3*	*4.0*	*5.3*	*4.0*	*3.2*	*4.3*	*9.1*
Limpopo	2,670	2,682	2,992	2,819	1,871	244	181	253	120	115	54
Y/Y % change	*76.2*	*0.4*	*11.6*	*-5.8*	*-33.6*	*-53.1*	*-70.4*	*-79.2*	*8.1*	*-1.7*	*-28.9*
% Share of National Total	*2.9*	*2.6*	*2.9*	*2.8*	*2.3*	*1.8*	*1.5*	*1.9*	*2.1*	*2.1*	*1.4*

Provincial Residential Buildings Completed - Number of Units

Residential Buildings	2004	2005	2006	2007	2008	Q1-2009	Q2-2009	Q3-2009	Sep-09	Oct-09	Nov-09
National Total	70,682	70,624	70,005	76,662	69,810	15,054	13,260	13,056	5,025	4,346	3,997
Y/Y % change	*24.6*	*-0.1*	*-0.9*	*9.5*	*-8.9*	*-5.4*	*-16.2*	*-34.8*	*-33.9*	*-36.0*	*-32.2*
Western Cape	17,301	19,598	17,207	19,312	15,065	4,669	2,267	3,685	1,023	941	960
Y/Y % change	*46.4*	*13.3*	*-12.2*	*12.2*	*-22.0*	*32.8*	*-22.5*	*-18.2*	*-23.9*	*-35.0*	*-35.9*
% Share of National Total	*24.5*	*27.7*	*24.6*	*25.2*	*21.6*	*31.0*	*17.1*	*28.2*	*20.4*	*21.7*	*24.0*
Gauteng	23,997	27,433	33,654	33,372	32,695	5,379	5,213	4,990	2,227	1,805	1,733
Y/Y % change	*10.9*	*14.3*	*22.7*	*-0.8*	*-2.0*	*-26.6*	*-33.2*	*-45.1*	*-42.4*	*-43.9*	*-30.5*
% Share of National Total	*34.0*	*38.8*	*48.1*	*43.5*	*46.8*	*35.7*	*39.3*	*38.2*	*44.3*	*41.5*	*43.4*
KZN	8,157	8,189	5,984	5,823	7,594	1,714	2,021	1,218	377	378	351
Y/Y % change	*-24.0*	*0.4*	*-26.9*	*-2.7*	*30.4*	*25.1*	*6.9*	*-41.3*	*-40.3*	*-61.0*	*-41.7*
% Share of National Total	*11.5*	*11.6*	*8.5*	*7.6*	*10.9*	*11.4*	*15.2*	*9.3*	*7.5*	*8.7*	*8.8*
Eastern Cape	5,767	4,617	4,334	4,466	3,582	694	997	1,015	416	341	522
Y/Y % change	*89.9*	*-19.9*	*-6.1*	*3.0*	*-19.8*	*1.9*	*110.8*	*-30.7*	*-41.4*	*4.3*	*16.3*
% Share of National Total	*8.2*	*6.5*	*6.2*	*5.8*	*5.1*	*4.6*	*7.5*	*7.8*	*8.3*	*7.8*	*13.1*
North West	6,629	4,124	3,531	5,324	4,459	744	564	748	458	392	200
Y/Y % change	*298.4*	*-37.8*	*-14.4*	*50.8*	*-16.2*	*-43.6*	*-48.9*	*-38.8*	*23.1*	*36.6*	*-47.1*
% Share of National Total	*9.4*	*5.8*	*5.0*	*6.9*	*6.4*	*4.9*	*4.3*	*5.7*	*9.1*	*9.0*	*5.0*
Free State	4,573	3,431	1,466	3,556	1,656	547	693	560	188	191	44
Y/Y % change	*-4.2*	*-25.0*	*-57.3*	*142.6*	*-53.4*	*-7.3*	*38.4*	*13.7*	*45.7*	*1.6*	*-77.0*
% Share of National Total	*6.5*	*4.9*	*2.1*	*4.6*	*2.4*	*3.6*	*5.2*	*4.3*	*3.7*	*4.4*	*1.1*
Northern Cape	374	438	398	751	420	69	139	138	110	105	21
Y/Y % change	*92.8*	*17.1*	*-9.1*	*88.7*	*-44.1*	*-47.2*	*-38.4*	*-66.5*	*816.7*	*-4.5*	*-80.0*
% Share of National Total	*0.5*	*0.6*	*0.6*	*1.0*	*0.6*	*0.5*	*1.0*	*1.1*	*2.2*	*2.4*	*0.5*
Mpumalanga	2,799	1,833	2,313	2,738	3,381	341	777	616	206	155	141
Y/Y % change	*41.0*	*-34.5*	*26.2*	*18.4*	*23.5*	*-64.9*	*-17.9*	*-28.4*	*-51.8*	*-34.3*	*-37.1*
% Share of National Total	*4.0*	*2.6*	*3.3*	*3.6*	*4.8*	*2.3*	*5.9*	*4.7*	*4.1*	*3.6*	*3.5*
Limpopo	1,085	961	1,118	1,320	958	897	589	86	20	38	25
Y/Y % change	*27.0*	*-11.4*	*16.3*	*18.1*	*-27.4*	*250.4*	*127.4*	*-68.0*	*-77.3*	*-51.9*	*-56.9*
% Share of National Total	*1.5*	*1.4*	*1.6*	*1.7*	*1.4*	*6.0*	*4.4*	*0.7*	*0.4*	*0.9*	*0.6*