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PROPERTY BAROMETER – 3rd QUARTER FNB PROVINCIAL HOUSE PRICE INDICES

More cyclical in major coastal provinces than inland, it would appear, but coastal provinces have made something of a comeback

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GAUTENG PROVINCE, THE STABLE METRO PROVINCE

Of the major provincial housing markets, Gauteng appears to have been the most stable in recent years, not showing as much price deflation during the 2009 period of national house price decline, and not showing the same extent of “mini-recovery” that the national market as a whole has shown.

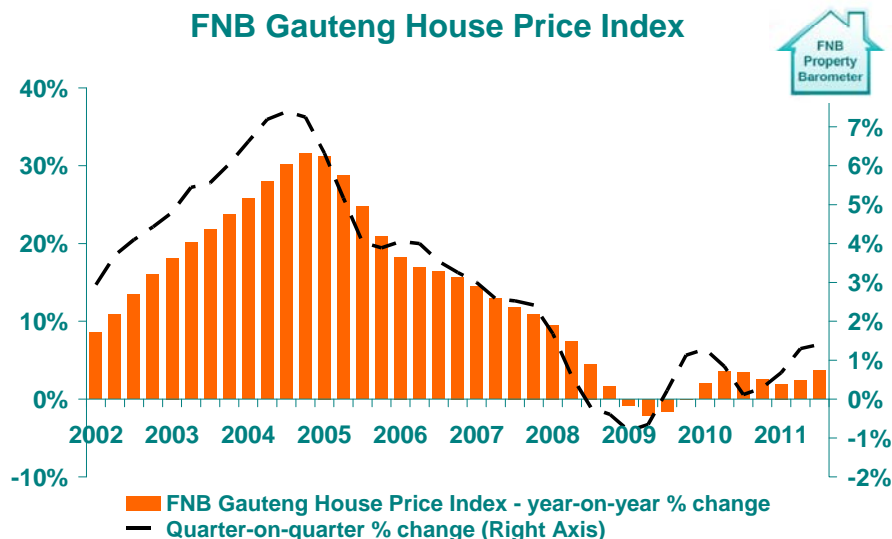
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So 2009 saw Gauteng price decline bottom at -2.1% year-on-year in the 2nd quarter of 2009 while the national average decline in that quarter was -5%. However, the flipside is that as at the 2nd quarter of 2011, the FNB Gauteng House Price Index could only manage a “mini-peak” of 3.5%, compared to the Western Cape’s 10.5% peak in that quarter for instance. And after some very mild renewed acceleration in 2011, the Gauteng House Price Index was “ticking along” at +3.7% year-on-year price growth in the 3rd quarter, well-behind the “rejuvenated” KZN and Eastern Cape

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FNB Gauteng House Price Index



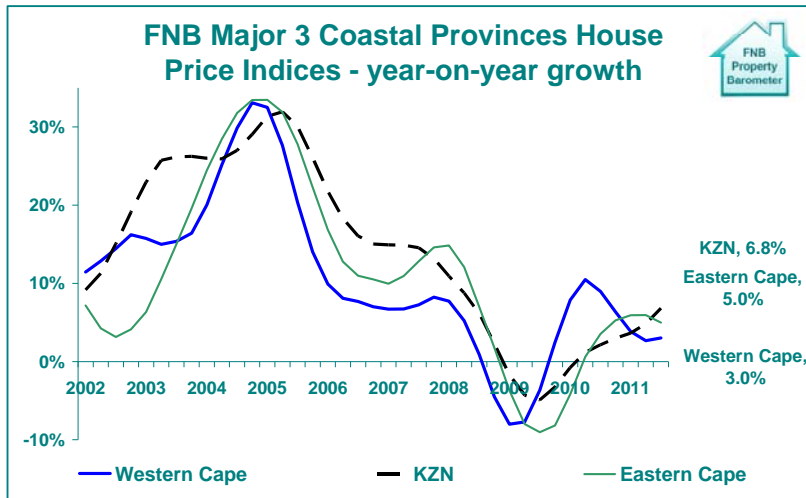
What makes Gauteng seemingly a more stable residential property market than the other major provinces of the country, not seemingly hitting quite their peaks or their troughs?

We believe that the answer lies in its economy being arguably one of the most developed as well as one of the best diversified, not being as exposed to the highly cyclical manufacturing and related sectors as KZN for instance.

In addition, Gauteng has a very small holiday market relative to the size of its primary residential market, and primary residential demand is far less cyclical than holiday residential demand due to more essential nature.

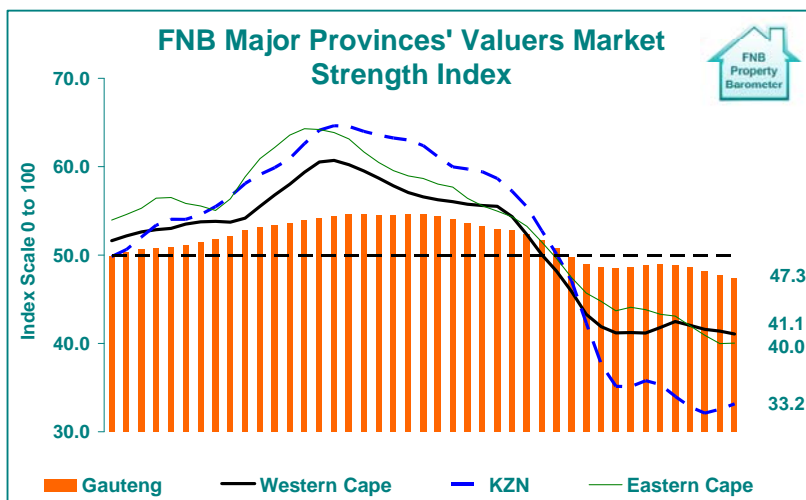
On top of this, Gauteng is SA's main "head office" region, and during tough economic times such as those of recent years one often finds corporates centralizing more functions to head office and cutting back on their operations in smaller economic regions. This may have partly cushioned the employment blow of the recession in Gauteng.

By comparison, the 3 major coastal provinces appear to be significantly more cyclical, hitting lower floors in slowdowns and recovering more impressively off a lower base than Gauteng. Larger holiday property markets may well play a role here, while higher exposure to the highly cyclical manufacturing sector in the case of KZN and the Eastern Cape may also contribute to greater cyclicality in recent years.



The Western Cape market led the coastal mini-recovery in 2009/10, but has since settled down to a pedestrian 3% year-on-year price growth in the 3rd quarter. The Eastern Cape and KZN lagged the Western Cape in the recovery, and both still have higher year-on-year growth rates of 5% in the case of Eastern Cape and 6.8% in the case of KZN. The KZN growth rate was the only one of the 3 still continuing to accelerate following a very slow recovery out of the 2009 slump.

Comparing the 4 major South African provinces FNB Valuers' Market Strength Indices, all 4 are below a level of 50, implying weak demand relative to supply, which in turn points towards further possible downward price correction at least in real terms.



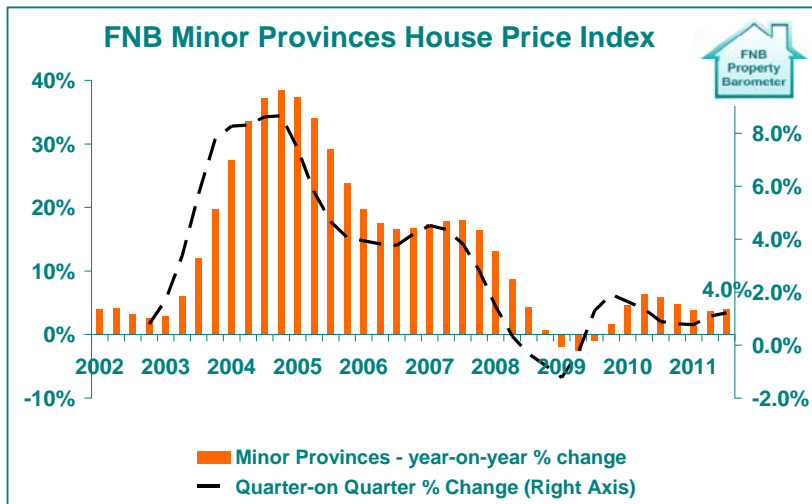
These indices support the notion of the 3 coastal provinces being more cyclical than Gauteng, with Gauteng's market strength index never having reached the highs of the other 3 in the boom years, while in the slump never having reached their lows.

It may appear somewhat ironic that the KZN House Price Index has the highest growth while the province's Market Strength Index is still the lowest. However, the province's low market strength index probably explains why the province took significantly longer to launch into its mini-recovery than, for instance, Gauteng and the Western Cape, and why the

coastal regions' mini-recoveries came off a significantly lower base than Gauteng following 2009.

MINOR PROVINCES AS A GROUP

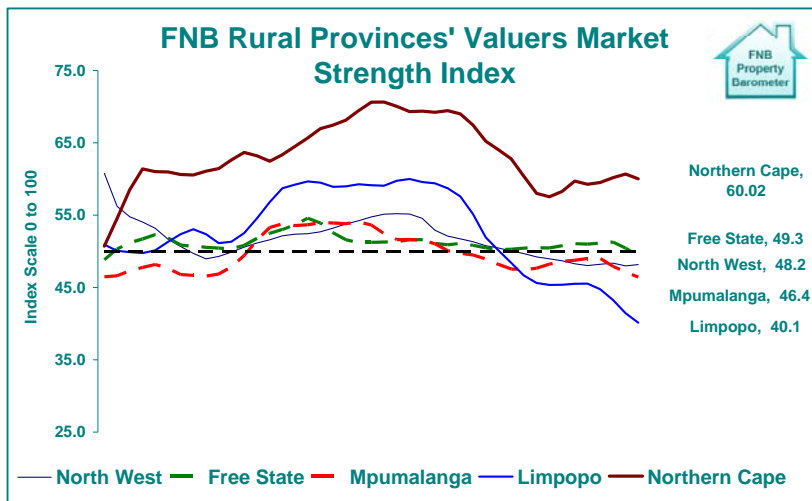
Finally, the FNB Minor Provinces House Price Index showed mild growth of 4% year-on-year in the 3rd quarter of 2011, slightly higher than the 3.6% of the previous quarter.



These more rural and predominantly inland regions also show some resemblance to the more stable Gauteng market, with the index showing less volatility in recent years than the coastal country regions. Less holiday-driven than the coast, and heavily exposed to the “non-cyclical” agriculture sector, this should perhaps not be too surprising either, although one would expect greater cyclicity in certain mining and holiday-driven sub-regions within these provinces..

Indeed, it would appear from examining the Market Strength Indices of each of the 5 provinces that make up the Minor Provinces’ Index, that two more strongly holiday-driven markets, namely Limpopo and Mpumalanga, have the weakest demand relative to supply

By comparison, the Free State and Northern Cape regions appear to have weathered the storm better, with the Northern Cape Market Strength Index well-above the 50 level and the Free State Index only slightly below 50.



IN CONCLUSION

As a group, the 5 minor, predominantly inland, provinces and Gauteng appear more stable than the 3 major coastal provinces. This has implied that the inland provinces as a group didn't appear to suffer quite the same price decline during the 2008/9 recession, but did also not experience quite as impressive a “mini-recovery” as the coastal provinces. We believe that the average price recoveries made by KZN, the Eastern and Western Cape were largely driven by the eThekweni, Mandela Bay and Cape Metros, however, with the coastal holiday town regions still remaining the weaker link in those regions’ property markets.

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 Regional House Price Indices are fixed-weighted averages of their sub-indices, which are split by room number and by sectional title versus freehold properties. The indices are lightly smoothed using a Hodrick-Prezcott smoothing function. An index quarter commences 7 days prior to the end of the previous quarter and runs to 7 days prior to the said calendar quarter.

FNB PROVINCIAL HOUSE PRICE INDEX TABLE

	Gauteng - Average Price (Rand)	<i>Year-on-year % change</i>	Western Cape - Average Price (Rand)	<i>Year-on-year % change</i>	KwaZulu-Natal - Average Price (Rand)	<i>Year-on-year % change</i>	Eastern Cape - Average Price (Rand)	<i>Year-on-year % change</i>	Minor Provinces - Average Price (Rand)	<i>Year-on-year % change</i>
Q1-2002	272,525	8.6%	372,296	11.5%	238,081	9.2%	266,048	7.2%	182,555	4.0%
Q2-2002	282,599	10.8%	385,370	12.9%	246,862	11.3%	265,722	4.3%	183,099	4.2%
Q3-2002	294,181	13.5%	399,702	14.4%	260,041	15.0%	267,633	3.1%	183,270	3.3%
Q4-2002	307,208	16.0%	417,060	16.2%	275,685	19.1%	273,832	4.1%	184,714	2.6%
Q1-2003	321,950	18.1%	430,924	15.7%	292,695	22.9%	282,927	6.3%	187,871	2.9%
Q2-2003	339,463	20.1%	443,153	15.0%	310,412	25.7%	293,741	10.5%	194,218	6.1%
Q3-2003	358,337	21.8%	461,178	15.4%	328,119	26.2%	307,865	15.0%	205,305	12.0%
Q4-2003	379,979	23.7%	485,510	16.4%	348,038	26.2%	327,550	19.6%	221,269	19.8%
Q1-2004	405,132	25.8%	517,272	20.0%	368,779	26.0%	352,147	24.5%	239,567	27.5%
Q2-2004	434,254	27.9%	554,733	25.2%	390,833	25.9%	377,379	28.5%	259,490	33.6%
Q3-2004	466,333	30.1%	598,870	29.9%	416,706	27.0%	405,732	31.8%	281,872	37.3%
Q4-2004	500,130	31.6%	646,161	33.1%	449,078	29.0%	437,094	33.4%	306,295	38.4%
Q1-2005	531,729	31.2%	685,424	32.5%	484,327	31.3%	469,964	33.5%	329,002	37.3%
Q2-2005	559,223	28.8%	708,100	27.6%	515,601	31.9%	497,834	31.9%	348,021	34.1%
Q3-2005	581,746	24.7%	720,700	20.3%	541,970	30.1%	518,493	27.8%	364,229	29.2%
Q4-2005	604,373	20.8%	736,746	14.0%	566,053	26.0%	534,489	22.3%	379,028	23.7%
Q1-2006	628,853	18.3%	753,365	9.9%	589,760	21.8%	549,136	16.8%	393,956	19.7%
Q2-2006	653,997	16.9%	765,386	8.1%	609,970	18.3%	561,489	12.8%	409,020	17.5%
Q3-2006	677,171	16.4%	776,191	7.7%	628,945	16.0%	575,449	11.0%	424,431	16.5%
Q4-2006	699,190	15.7%	788,394	7.0%	651,167	15.0%	590,644	10.5%	442,232	16.7%
Q1-2007	720,152	14.5%	803,874	6.7%	677,824	14.9%	603,756	9.9%	462,179	17.3%
Q2-2007	738,740	13.0%	816,831	6.7%	700,761	14.9%	622,852	10.9%	482,355	17.9%
Q3-2007	757,403	11.8%	832,550	7.3%	720,545	14.6%	649,226	12.8%	500,832	18.0%
Q4-2007	775,690	10.9%	853,365	8.2%	736,995	13.2%	676,938	14.6%	514,935	16.4%
Q1-2008	788,714	9.5%	866,026	7.7%	751,865	10.9%	693,362	14.8%	522,458	13.0%
Q2-2008	793,274	7.4%	859,601	5.2%	762,212	8.8%	698,077	12.1%	524,226	8.7%
Q3-2008	791,487	4.5%	840,144	0.9%	764,666	6.1%	694,662	7.0%	522,501	4.3%
Q4-2008	788,359	1.6%	814,921	-4.5%	753,834	2.3%	688,821	1.8%	518,541	0.7%
Q1-2009	781,911	-0.9%	796,608	-8.0%	738,723	-1.7%	667,722	-3.7%	512,168	-2.0%
Q2-2009	776,787	-2.1%	793,245	-7.7%	729,415	-4.3%	642,324	-8.0%	510,706	-2.6%
Q3-2009	778,498	-1.6%	809,397	-3.7%	727,177	-4.9%	631,890	-9.0%	517,360	-1.0%
Q4-2009	787,273	-0.1%	834,993	2.5%	729,263	-3.3%	632,652	-8.2%	527,270	1.7%
Q1-2010	797,399	2.0%	859,305	7.9%	732,937	-0.8%	639,802	-4.2%	535,943	4.6%
Q2-2010	804,095	3.5%	876,445	10.5%	737,888	1.2%	646,229	0.6%	543,234	6.4%
Q3-2010	805,030	3.4%	882,080	9.0%	742,781	2.1%	654,136	3.5%	548,058	5.9%
Q4-2010	807,373	2.6%	888,052	6.4%	751,037	3.0%	666,085	5.3%	552,497	4.8%
Q1-2011	812,850	1.9%	892,288	3.8%	759,694	3.7%	677,653	5.9%	556,777	3.9%
Q2-2011	823,380	2.4%	899,888	2.7%	773,420	4.8%	684,746	6.0%	562,879	3.6%
Q3-2011	834,941	3.7%	908,691	3.0%	793,425	6.8%	686,710	5.0%	569,762	4.0%