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3rd QUARTER RESIDENTIAL BUILDING ACTIVITY

Mild improvement in building completions, but weak “fundamentals” point to the building environment remaining challenging for the foreseeable future

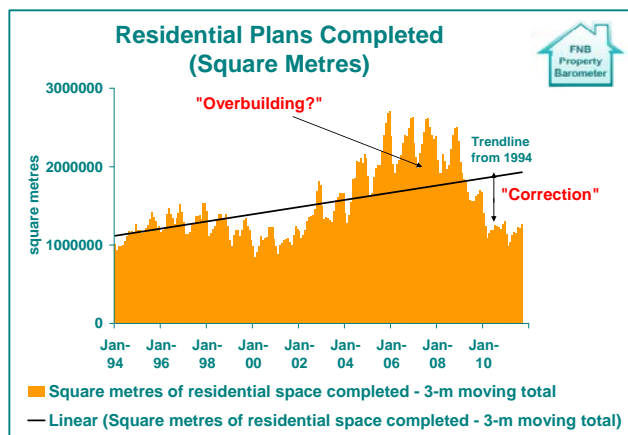
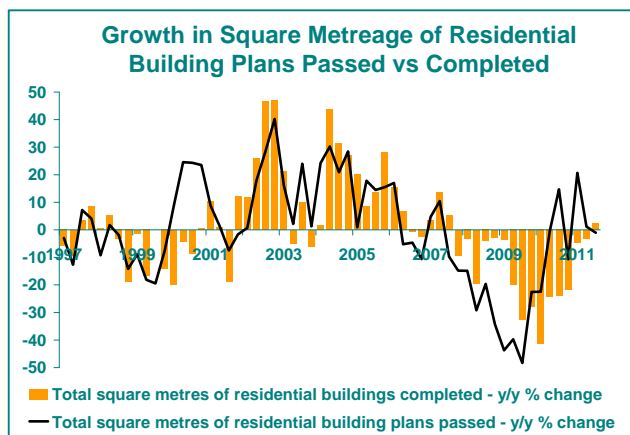
17 November 2011

The 3rd QUARTER SAW SOME MILD GROWTH IN RESIDENTIAL BUILDING COMPLETIONS

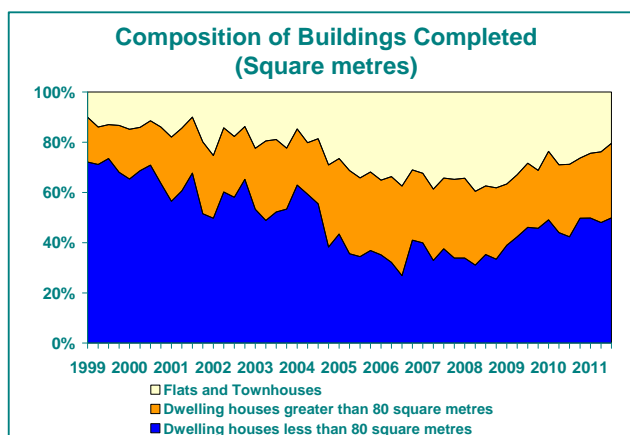
After a tough few years, 3rd quarter 2011 building completions have recently been seeing some mildly positive year-on-year growth. In terms of the number of homes completed, the year-on-year growth for the quarter was +6.9%, up from 0.8% in the previous quarter. In terms of square metres completed, the growth rate was a more moderate +2.5%, up from a -2.3% decline in the previous quarter, reflecting a decline in the average size of home completed.

However, despite some mild growth, the level of building completions remains a shadow of its boom time glory. At 1.263 million square metres completed for the 3rd quarter, the level of completion remains at 46.7% of the peak level reached in the final quarter of 2005. Activity also remains well-below the long term trend level since 1994, as the correction, in response to an oversupplied existing home market, continues

Despite some improvement in completions, the growth rate in building plans passed has been highly erratic in recent times, spiking in the 1st quarter at year-on-year growth of 40.2%, before retreating to a mild decline of -1% year-on-year in the 3rd quarter in terms of square metreage. Given that plans passed can serve as a leading indicator of future building activity, it could thus be said that the building sector currently has no strong direction, which is probably reflective of an economy and housing market which also have no strong direction at present.



AFFORDABLE HOUSING DRIVES STRONG GROWTH IN THE SMALL SIZED “DWELLING HOUSE” SEGMENT



In terms of residential demand, affordable segment demand appears to be strongest at present, and the building sector is responding to this demand trend. So, in the 3rd quarter we saw completions in “dwelling houses smaller than 80 square metres” growing year-on-year by 26% in number and 32.7% in square metres. By comparison, dwelling houses larger than 80 square metres saw their completions rise by a lesser 9.9% in number

(3.2% in square metres), and the more oversupplied flats and townhouses segment saw further year-on-year decline of -24% in number of units year-on-year (-19% in square metreage)

FURTHER WIDENING IN THE REPLACEMENT COST GAP COULD KEEP PRESSURE ON RESIDENTIAL BUILDING IN 2012

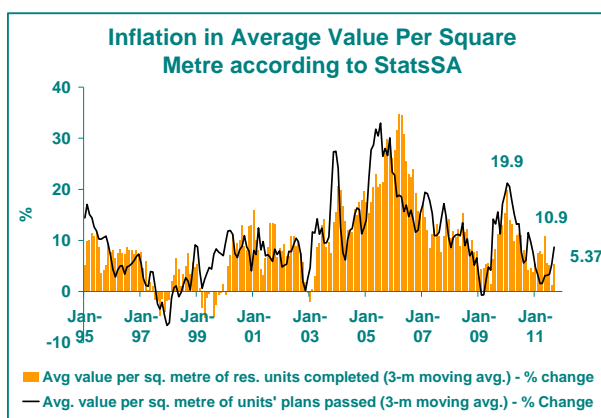
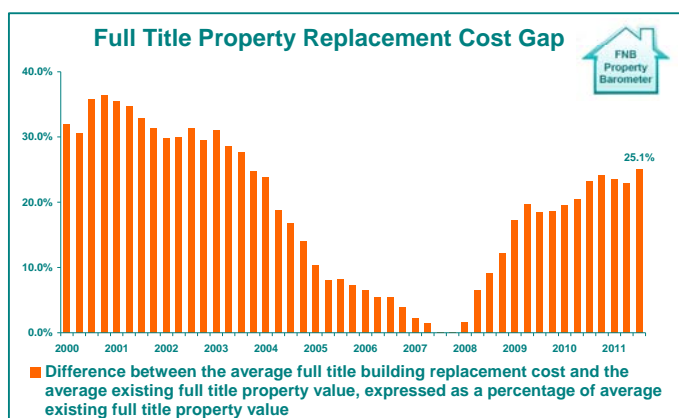
Despite the mild growth in the 3rd quarter, we have mentioned that overall building activity remains weak compared to the boom years. A major constraint on building activity remains the significant “replacement cost gap”.

According to FNB’s valuers, the aggregate estimated residential replacement cost gap in the 3rd quarter widened from the previous quarter’s 22.9% to 25.1%, the widest that this gap has been since the 3rd quarter of 2003.

For insurance purposes, when valuing a home FNB’s valuers are required to estimate the cost of replacing that home, on top of the normal valuation of the existing property. The replacement cost excludes the value of the land. The 25.1% gap means that the replacement cost was estimated to be 25.1% higher than the average existing house price.

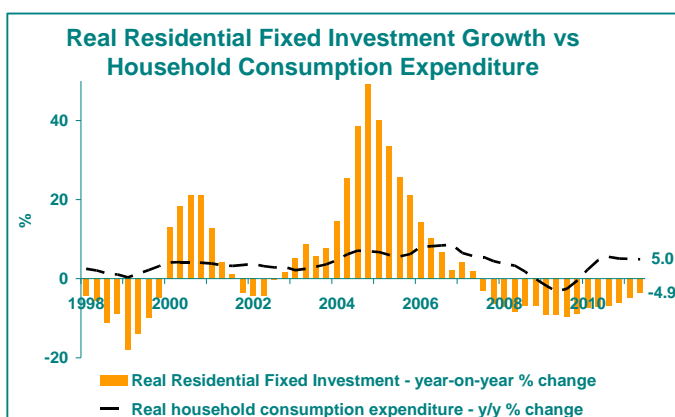
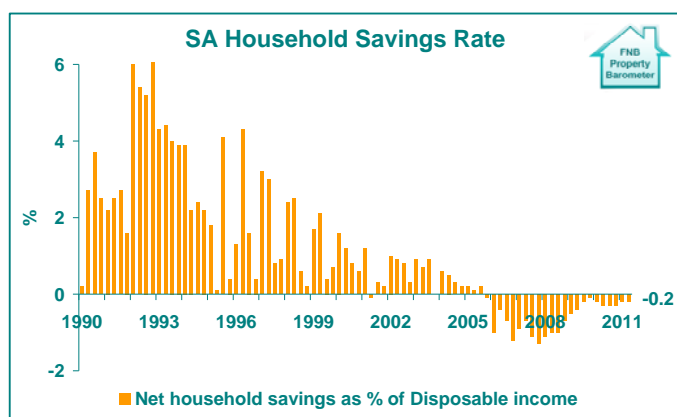
At a time when the existing home market is well supplied, and the household sector remains under significant pressure, it is tough for the development sector to bring new competitively priced homes to the market, a far cry from 2007 where the gap was insignificant, and which translated into high levels of building activity at the time.

Indeed, the StatsSA building stats suggest that the building sector is making little progress to address this wide cost differential. In the 3rd quarter, the year-on-year increase in the value of completions per square metre was 5.37%, which is very much keeping pace with the lowly price growth rate in existing home values.



WEAK HOUSEHOLD SECTOR SAVINGS ALSO KEEPS THE PRESSURE ON RESIDENTIAL FIXED INVESTMENT

Accompanying the high cost of building relative to buying an existing property, the South African household sector’s weak savings rate remains a drag on overall residential fixed investment. With a net dissavings rate (gross savings adjusted for depreciation on fixed assets owned by households) of -0.2% of disposable income in the 2nd quarter, unchanged from the 1st quarter, the source of funding for residential fixed investment remains constrained. When the household sector experiences income or cost pressures, as it has in recent years, it tends to “sacrifice” fixed investment first, preferring to maintain its material living standard in the short term through maintaining its levels of consumption expenditure. Therefore, whereas real household consumption expenditure remained at a solid 5% year-on-year growth rate in the 2nd quarter of 2011, real residential fixed investment showed further decline of -4.9%.



CONCLUSION

The 3rd quarter proved to be a mild improvement on the 2nd quarter in terms of the growth in building completions. However, the volatile nature of building plans passed provides no clear indication on whether this improving trend will be sustained. We are of the opinion that this trend will probably not yet prove to be sustainable, with a wide replacement cost gap set to continue to make life tough for the building sector to bring competitively-priced homes to the market, especially with existing house price growth starting to slow once more.

In addition, there are signs that, after a brief improvement in economic activity in the 3rd quarter, that the economy may well come under pressure in the near term. Notable are recent monthly declines in the SARB Leading Business Cycle Indicator.

In short, the existing home market is well supplied, and as a result its prices look set to remain under pressure in the near term. Under such conditions, the overall environment looks set to be challenging for the residential development sector.

The “outperforming” segment is expected to continue to be the “Dwelling Houses smaller than 80 square metres” with SA’s Affordable Segment believed to be the healthiest of the housing market segments at present.

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Building Plans Passed

| Residential Buildings | 2008 | 2009 | 2010 | Q1-2011 | Q2-2011 | Q3-2011 | Jul-11 | Aug-11 | Sep-11 |
|---|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Dwelling houses less than 80 m.sq (Number) | 34,173 | 25,115 | 20,636 | 6,046 | 4,895 | 6,500 | 3,087 | 1,954 | 1,459 |
| Y/Y % change | -9.6 | -26.5 | -17.8 | 63.6 | -31.2 | 9.8 | 89.7 | -32.3 | 3.8 |
| Dwelling houses less than 80 m.sq (m ²) | 1,497,120 | 1,100,737 | 922,525 | 290,135 | 232,372 | 310,208 | 140,421 | 91,998 | 77,789 |
| Y/Y % change | -9.5 | -26.5 | -16.2 | 76.4 | -24.8 | 18.8 | 94.1 | -23.4 | 13.5 |
| Dwelling houses less than 80 m.sq (R'000) | 3,015,492 | 2,214,516 | 2,082,926 | 606,217 | 569,613 | 801,702 | 336,617 | 226,241 | 238,844 |
| Y/Y % change | -5.8 | -26.6 | -5.9 | 54.0 | -6.5 | 42.8 | 88.7 | 6.9 | 39.5 |
| Dwelling houses larger than 80 m.sq (Number) | 21,441 | 13,785 | 14,888 | 3,294 | 4,085 | 4,082 | 1,337 | 1,459 | 1,286 |
| Y/Y % change | -32.5 | -35.7 | 8.0 | 0.1 | 5.8 | -3.1 | -9.7 | 3.8 | -3.2 |
| Dwelling houses larger than 80 m.sq (m ²) | 5,467,768 | 3,618,817 | 3,809,381 | 870,012 | 986,373 | 969,214 | 312,304 | 350,527 | 306,383 |
| Y/Y % change | -31.4 | -33.8 | 5.3 | 2.3 | 0.5 | -9.8 | -17.1 | -1.7 | -10.2 |
| Dwelling houses larger than 80 m.sq (R'000) | 20,788,044 | 15,514,207 | 17,931,237 | 4,207,264 | 4,772,185 | 5,012,180 | 1,606,008 | 1,853,021 | 1,553,151 |
| Y/Y % change | -25.6 | -25.4 | 15.6 | 6.5 | 4.9 | -1.8 | -9.4 | 7.5 | -3.5 |
| Flats and Townhouses (Number) | 29,603 | 15,490 | 11,511 | 3,465 | 3,990 | 4,309 | 1,715 | 1,488 | 1,106 |
| Y/Y % change | -10.6 | -47.7 | -25.7 | 61.5 | 18.5 | 19.2 | 81.3 | 76.3 | -39.4 |
| Flats and Townhouses (m ²) | 3,244,177 | 1,413,920 | 1,101,497 | 301,033 | 395,136 | 391,320 | 131,732 | 134,734 | 124,854 |
| Y/Y % change | -16.1 | -56.4 | -22.1 | 53.9 | 29.7 | 11.0 | 33.8 | 22.7 | -13.5 |
| Flats and Townhouses (R'000) | 13,160,693 | 6,387,401 | 5,613,757 | 1,466,049 | 1,908,475 | 2,086,215 | 678,686 | 644,424 | 763,105 |
| Y/Y % change | -6.3 | -51.5 | -12.1 | 59.2 | 22.4 | 14.2 | 48.6 | 17.5 | -7.2 |
| Total units plans passed (Number) | 85,217 | 54,390 | 47,035 | 12,805 | 12,970 | 14,891 | 6,139 | 4,901 | 3,851 |
| Y/Y % change | -17.0 | -36.2 | -13.5 | 40.2 | -9.6 | 8.3 | 51.5 | -4.6 | -15.5 |
| Total building plans passed (m²) | 10,209,065 | 6,133,474 | 5,833,403 | 1,461,180 | 1,613,881 | 1,670,742 | 584,457 | 577,259 | 509,026 |
| Y/Y % change | -24.3 | -39.9 | -4.9 | 20.7 | 1.2 | -1.0 | 6.7 | -1.6 | -8.1 |
| Other Residential Buildings (m ²) | 386,316 | 264,521 | 191,854 | 44,436 | 13,172 | 17,470 | 3,785 | 12,271 | 1,414 |
| Y/Y % change | 52.6 | -31.5 | -27.5 | -31.1 | -72.8 | -43.1 | -69.3 | 7.7 | -79.7 |
| Other Residential Buildings (R 000) | 1,661,015 | 1,343,307 | 1,045,834 | 196,597 | 55,514 | 88,298 | 18,925 | 60,597 | 8,776 |
| Y/Y % change | 69.3 | -19.1 | -22.1 | -50.4 | -80.1 | -39.0 | -68.2 | 44.6 | -79.7 |
| Total Residential Buildings (R 000) | 38,625,244 | 25,459,431 | 26,673,754 | 6,476,127 | 7,305,787 | 7,988,395 | 2,640,236 | 2,784,283 | 2,563,876 |
| Y/Y % change | -16.3 | -34.1 | 4.8 | 14.4 | 4.4 | 4.6 | 7.0 | 10.2 | -3.1 |
| Additions and Alterations | | | | | | | | | |
| Dwelling houses (m ²) | 4,081,631 | 3,318,140 | 3,444,667 | 755,777 | 790,849 | 814,379 | 286,999 | 251,901 | 275,479 |
| Y/Y % change | -20.3 | -18.7 | 3.8 | -6.4 | -7.1 | -13.7 | -15.1 | -16.9 | -8.9 |
| Dwelling houses (R'000) | 14,881,779 | 13,618,736 | 15,392,132 | 3,471,760 | 3,702,899 | 3,957,839 | 1,387,264 | 1,227,508 | 1,343,067 |
| Y/Y % change | -11.4 | -8.5 | 13.0 | -2.3 | -1.8 | -6.0 | -8.1 | -9.4 | -0.4 |

Buildings Completed

| Residential Buildings | 2008 | 2009 | 2010 | Q1-2011 | Q2-2011 | Q3-2011 | Jul-11 | Aug-11 | Sep-11 |
|---|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Dwelling houses less than 80 m.sq (Number) | 23,480 | 24,579 | 18,858 | 4,743 | 4,640 | 5,460 | 2,057 | 1,795 | 1,608 |
| Y/Y % change | -14.8 | 4.7 | -23.3 | 5.9 | 9.9 | 26.0 | 49.7 | 19.1 | 10.6 |
| Dwelling houses less than 80 m.sq (m ²) | 1,055,108 | 1,075,337 | 837,429 | 206,999 | 222,217 | 253,328 | 94,312 | 82,196 | 76,820 |
| Y/Y % change | -11.5 | 1.9 | -22.1 | 6.4 | 20.1 | 32.7 | 57.7 | 25.9 | 16.8 |
| Dwelling houses less than 80 m.sq (R'000) | 2,231,253 | 2,271,302 | 1,835,428 | 449,594 | 541,689 | 600,258 | 212,570 | 199,518 | 188,170 |
| Y/Y % change | -1.4 | 1.8 | -19.2 | 14.0 | 36.4 | 43.3 | 53.7 | 46.1 | 30.6 |
| Dwelling houses larger than 80 m.sq (Number) | 20,357 | 13,906 | 10,848 | 2,466 | 2,722 | 3,251 | 1,053 | 1,070 | 1,128 |
| Y/Y % change | -8.1 | -31.7 | -22.0 | -1.1 | 5.1 | 9.9 | 0.0 | 6.3 | 25.8 |
| Dwelling houses larger than 80 m.sq (m ²) | 4,751,322 | 3,667,902 | 2,786,013 | 628,244 | 653,475 | 774,533 | 246,097 | 237,269 | 291,167 |
| Y/Y % change | -5.8 | -22.8 | -24.0 | 0.0 | -2.9 | 3.2 | -7.9 | -10.2 | 32.6 |
| Dwelling houses larger than 80 m.sq (R'000) | 17,052,758 | 14,613,516 | 12,319,303 | 2,889,591 | 3,089,155 | 3,714,980 | 1,185,991 | 1,142,524 | 1,386,465 |
| Y/Y % change | 1.2 | -14.3 | -15.7 | 9.5 | 3.5 | 11.2 | -1.7 | -2.8 | 44.7 |
| Flats and Townhouses (Number) | 26,221 | 18,462 | 10,965 | 2,322 | 2,300 | 2,241 | 603 | 432 | 1,206 |
| Y/Y % change | -2.7 | -29.6 | -40.6 | 7.7 | -17.2 | -24.0 | -41.2 | -56.3 | 29.0 |
| Flats and Townhouses (m ²) | 2,808,764 | 1,970,734 | 1,191,976 | 198,608 | 277,205 | 235,452 | 63,207 | 45,542 | 126,703 |
| Y/Y % change | -9.2 | -29.8 | -39.5 | -23.9 | -16.8 | -19.0 | -36.6 | -57.3 | 50.4 |
| Flats and Townhouses (R'000) | 11,054,136 | 8,499,489 | 5,645,543 | 987,626 | 1,246,963 | 1,098,689 | 331,804 | 208,348 | 558,537 |
| Y/Y % change | 3.2 | -23.1 | -33.6 | -20.0 | -19.2 | -19.0 | -30.4 | -57.2 | 42.2 |
| Total units completed (Number) | 70,058 | 56,947 | 40,671 | 9,531 | 9,662 | 10,952 | 3,713 | 3,297 | 3,942 |
| Y/Y % change | -8.6 | -18.7 | -28.6 | 4.4 | 0.8 | 6.9 | 7.5 | -5.9 | 20.0 |
| Total building space completed (m²) | 8,615,194 | 6,713,973 | 4,815,418 | 1,033,851 | 1,152,897 | 1,263,313 | 403,616 | 365,007 | 494,690 |
| Y/Y % change | -7.6 | -22.1 | -28.3 | -4.6 | -3.2 | 2.5 | -5.4 | -16.3 | 33.9 |
| Other Residential Buildings (m ²) | 201,665 | 223,633 | 192,468 | 52,822 | 42,072 | 16,416 | 5,391 | 5,443 | 5,582 |
| Y/Y % change | 14.6 | 10.9 | -13.9 | 166.3 | -66.0 | -9.5 | -46.3 | 633.6 | -24.2 |
| Other Residential Buildings (R 000) | 892,815 | 1,002,579 | 1,208,759 | 316,382 | 265,573 | 72,420 | 23,407 | 25,227 | 23,786 |
| Y/Y % change | 8.3 | 12.3 | 20.6 | 241.4 | -66.2 | -18.9 | -56.7 | 1259.9 | -28.7 |
| Total Residential Buildings (R 000) | 31,230,962 | 26,386,886 | 21,009,033 | 4,643,193 | 5,143,380 | 5,486,347 | 1,753,772 | 1,575,617 | 2,156,958 |
| Y/Y % change | 1.9 | -15.5 | -20.4 | 6.5 | -9.9 | 5.4 | -6.5 | -12.5 | 41.2 |
| Additions and Alterations | | | | | | | | | |
| Dwelling houses (m ²) | 2,233,737 | 2,311,557 | 1,811,083 | 495,464 | 425,627 | 445,407 | 153,219 | 144,021 | 148,167 |
| Y/Y % change | 9.2 | 3.5 | -21.7 | 14.9 | -10.6 | -13.8 | -25.8 | -14.5 | 4.7 |
| Dwelling houses (R'000) | 7,254,730 | 8,417,523 | 7,391,971 | 2,180,542 | 1,812,761 | 1,974,143 | 684,791 | 641,510 | 647,842 |
| Y/Y % change | 18.4 | 16.0 | -12.2 | 31.0 | -6.7 | -8.4 | -22.3 | -9.2 | 14.0 |