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1 March 2012

PROPERTY BAROMETER – FEBRUARY FNB HOUSE PRICE INDEX

FNB House Price Index growth ticks up mildly again in February, as late-2011 economic growth improvement filters into the market, while "recency bias" may. be starting to support lending/borrowing in 2012

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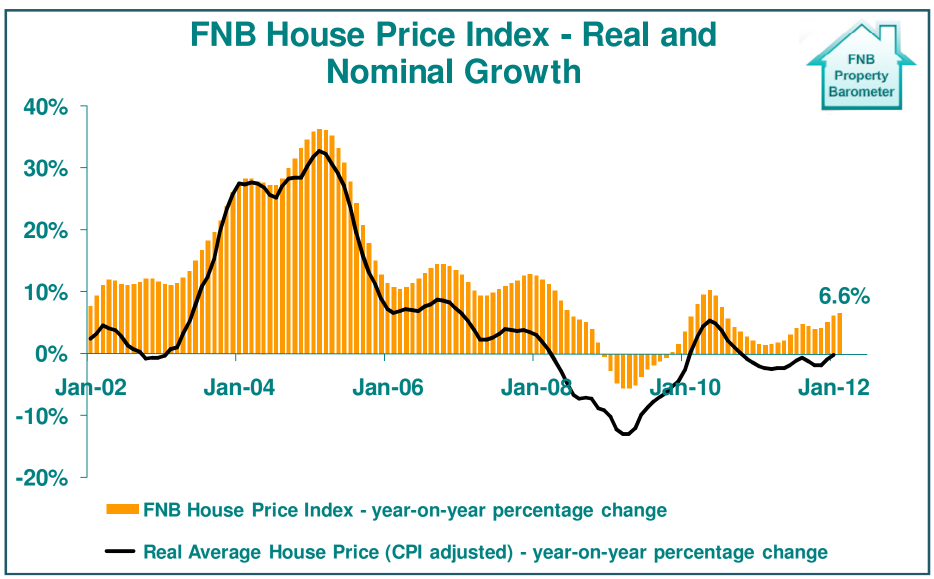
HOUSE PRICE GROWTH ACCELERATED MILDLY AGAIN IN FEBRUARY

The FNB House Price Index showed a further slight acceleration in February, up from a revised January growth rate of 6.1% to 6.6% year-on-year. This is the highest year-on-year growth since July 2010.

In real terms, however, as at January the index was still in a slight state of decline to the tune of -0.2% year-on-year, with consumer price inflation in January still having been slightly higher than house price growth, at 6.3%.

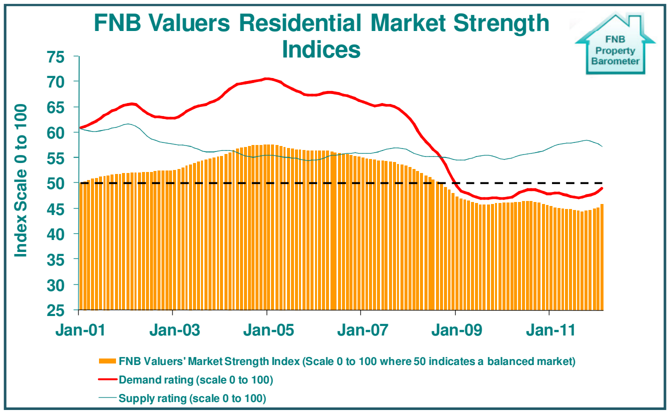
This recent mild improvement in house price growth is attributed largely to a late-2011 uptick in real economic growth. SA's gross domestic product (GDP) number for the 4th quarter was released this week, and came in at a quarter-on-quarter annualized rate of. 3.2%, which was higher than the previous quarter's weak 1.7%.



In addition, early-2012 may be seeing an increase in levels of home loans bank competition levels, as market share once again becomes the key focus. Lenders and borrowing households alike are generally "pro-cyclical" in their behavior, and as the recent history "improves", and bad events such as the 2008/9 recession and the 2008 interest rate peak fade in the memories, so too their perceptions of risk usually *improve. This is not necessarily the right way to look at risk, but it is a human reality for many.*

As yet, we don't have Reserve Bank (SARB) stats for 4th quarter mortgage loan grants, while deeds data lags a little, so we can't confirm the suspicion that mortgage borrowing/lending may indeed be strengthening after slowing growth through much of 2011.

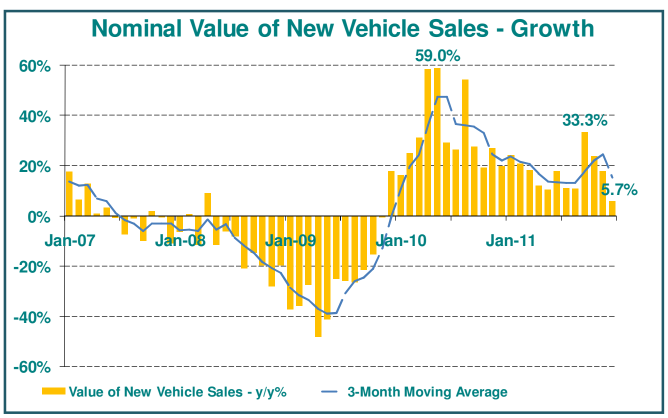
FNB VALUERS POINT TO DEMAND STRENTHENING AND SUPPLY WEAKENING EARLY IN 2012

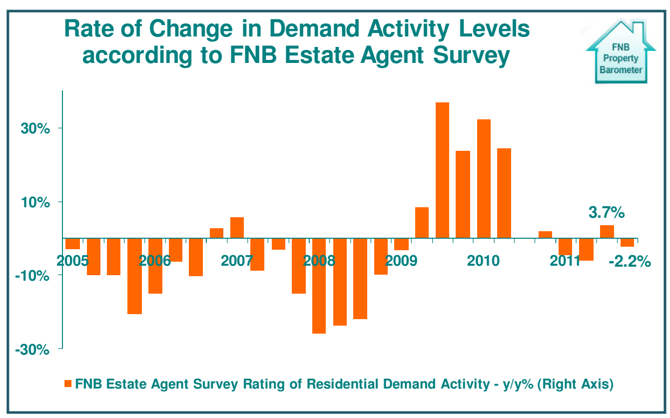


The FNB Valuers Market Strength Index has indeed shown our valuers pointing to a noticeable increase in the average demand rating in recent months (see notes at the end for explanation of the Valuers Market Strength Index). They have also started to report a deterioration in supply, which is positive in improving the market balance. And so, the Market Strength Index, which represents the demand rating minus the supply rating, has moved up from 45.3 in January to 45.9 in February

This level is still below 50, meaning that the supply rating exceeds the demand rating, though, and as such does not yet suggest any significant house price growth in real terms.

The valuers' index tends to be more of a "co-incident" indicator than a leading indicator. A more popular leading indicator is that of new motor vehicle sales. Indeed, year-on-year growth in the value of new vehicle retail sales (StatsSA figures) did show a temporary spike to 33.3% in September, while our own Estate Agent Survey demand rating showed a 3rd quarter 2011 brief return to positive year-on-year increase. These 2 leading indicators did point to something of a rise in household demand growth, which was duly witnessed in the economy in general in the 4th quarter, and is probably being noticed in slightly elevated year-on-year house price growth early in 2012.

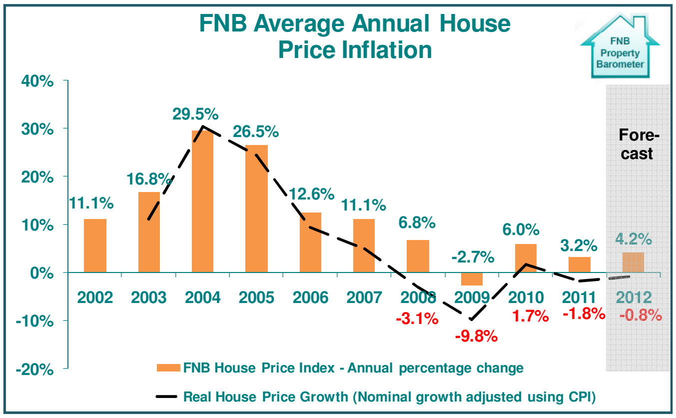




OUTLOOK

From the vehicle sales numbers, as well as the FNB Estate Agent Survey, we see that after a brief uptick in year-in-year growth around quarter 3 2011, both year-on-year growth rates receded once more, suggesting that the flurry of faster growth was not a lasting one. We suspect that this will be the same for house price growth, and that the relatively high February rate of 6.6% year-on-year will probably not be sustained for more than a few months.

With our expectation for slower economic growth in 2012 (compared to 2011 as a whole), despite the late-2011 uptick, we would continue to expect slow single-digit house price growth.



However, we have more recently considered the prevalence of the so-called "recency bias" in many people, which means that the more recent past is a bigger influence on their perceptions of risk than events further back in the past. It is possible that recency bias is causing borrowers and lenders alike to become more confident in early-2012, and that this may continue to unfold up until the next interest rate hiking cycle begins.

This is not an entirely rational approach, as periods of low interest rates can often be the higher risk periods as the inevitable interest rate hikes get nearer. However, the reality is that borrowers and lenders alike have this tendency to become more confident the longer interest rates stay low, and the view in the "rear view mirror" is looking better as we are now over 3 years into the interest rate cutting-to-sideways part of the cycle.

As such, we have revised our average house price growth forecast for the entire 2012 slightly upward to 4.2% from a previous rate of 2%. This remains slow, but would be slightly faster than the 3.2% recorded in 2011.

*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 House Price Index is a fixed-weighted average of its sub-indices, which are split by room number and by sectional title versus freehold properties. The index is lightly smoothed using a Hodrick-Prescott smoothing function. An index month commences 7 days prior to the end of the previous month to 7 days prior to the said calendar month.*