

1ST QUARTER 2012 FNB SEGMENT HOUSE PRICE REVIEW

18 April 2012

JOHN LOOS:
HOUSEHOLD AND PROPERTY
SECTOR STRATEGIST
 011-6490125
John.loos@fnb.co.za

THEO SWANEPOEL:
PROPERTY MARKET ANALYST
 011-6320604
tswanepoel@fnb.co.za

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material.

First National Bank – a division of FirstRand Bank Limited. An Authorised Financial Services provider. Reg No. 1929/001225/06

INTRODUCTION – RESIDENTIAL AFFORDABILITY IMPROVEMENT SLOWS, AS WAGE GROWTH SLOWS AND HOUSE PRICE GROWTH RISES

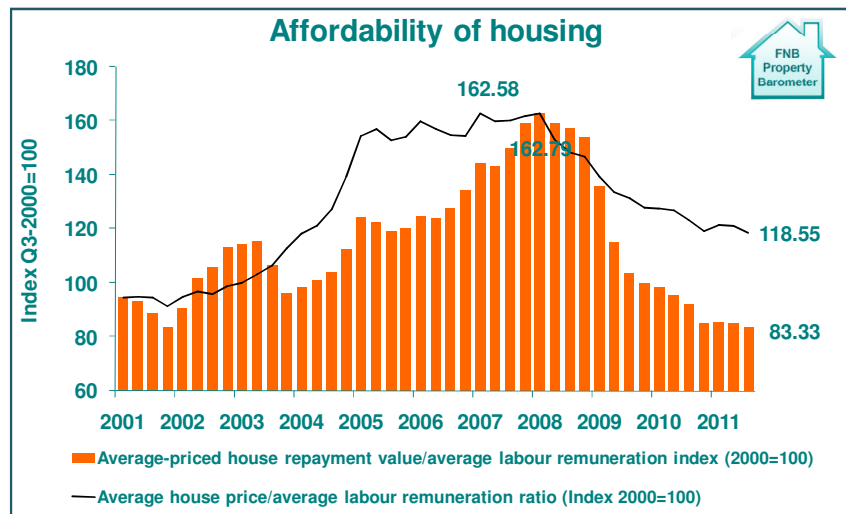
The 1st quarter of 2012 saw an acceleration in house price growth in almost all segments of the market when segmented by room number and title deed. With wage growth having seemingly slowed in 2011, house price growth more recently accelerating mildly, and no sign of further interest rate reduction since late-2010, it would appear that the steadily improving housing affordability trend since around 2009 has almost ground to a halt.

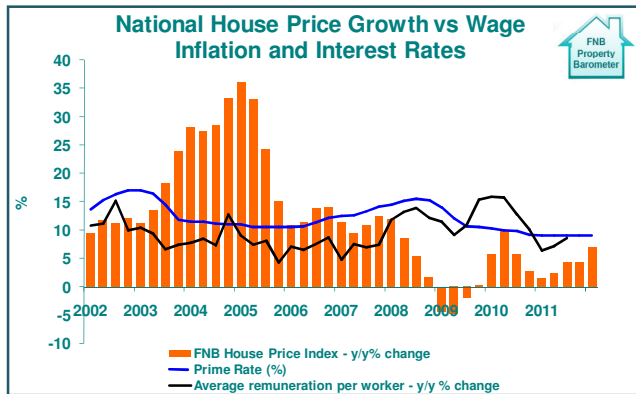
Indeed, according to the two “traditional” measures of affordability, further affordability improvements have been almost non-existent since late-2010.

Viewing home affordability from a price relative to average employee remuneration perspective, there was a major improvement in home affordability for the average income earner from the 2nd quarter of 2008 until the end of 2010, due to the combination of average wage growth outstripping growth in house prices, and of course for those utilising credit there was a major drop interest rates over much of that period.

Labour data runs behind national economic data, so the “traditional” affordability measures only run up until the 3rd quarter of 2011. At that stage, the average price/average labour remuneration ratio index (Q3 2000=100) had reached a level of 118.55. While still 18.55% up on mid-2000, this represents a massive -27.2% decline (improvement) on the peak of in-affordability reached in the 1st quarter of 2008. The second measure of affordability, i.e. the loan instalment value of a 100% bond on the average-priced house/average labour remuneration ratio (also in index form), has seen an even bigger decline of -48.8% since its peak as at the 1st quarter of 2008.

However, the most recent data point, the 3rd quarter of 2011, showed both measures of affordability having improved very little from the 4th quarter of 2010, the former index -0.6% lower and the latter -1.8% lower.





The reasons for slowing affordability improvements are driven by all three variables that are used in the affordability measures. Average remuneration inflation in 2011 was significantly slower than 2009/10, and although still ahead of weak house price growth as at the 3rd quarter of 2011, the gap was narrowing between the two, and has probably narrowed further since then given a mild acceleration in house price growth. Interest rates, the 3rd variable in driving the “repayment/income” affordability measure, have moved sideways since late-2010, and show little sign of being reduced further at this stage.

So, affordability improvements slowing, and add to the mix the ongoing above-inflation increases in housing-related costs such as municipal assessment rates and utilities tariffs (most notably electricity but water probably still to come), as well as a significant degree of household financial pressure, and it is easy to see why the search for affordability, or “value for money”, in the housing market still appears to be on.

This affordability drive sees the so-called “Affordable Housing Segment” outperforming the rest, with has resulted in the 2-Bedroom Full Title sub-segment showing the best price growth when we segment by title deed and room number. Its price growth may be “amplified” by the significant pace of new affordable developments, which come with a higher price tag than existing former “Black Township” properties.

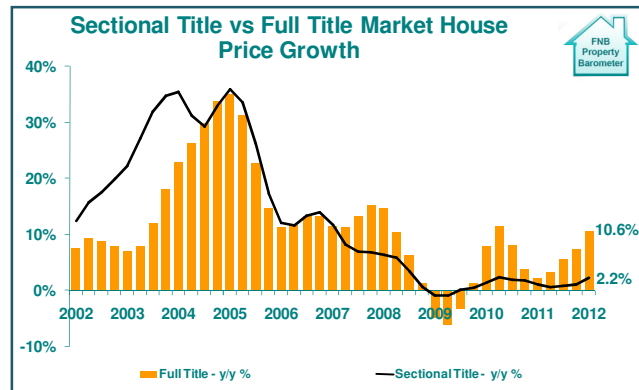
In fact, the entire Full Title segment has shown far more significant average price growth (10.6% year-on-year in the 1st quarter of 2012) than the sectional title segment (2.2% in the 1st quarter). We believe that this reflects both more of a post-boom oversupply in the sectional title market, as well as the search for affordability making Full Title property temporarily more popular. This may seem strange, as the average Full Title house price is higher than the average Sectional Title price. However, this has much to do with a difference in composition of the 2 segments, sectional title being dominated by 2 bedroom units and Full Title by 3 bedroom homes. If one compares “like for like” one sees that, for instance, the 3 bedroom Full Title category has long been cheaper than the average 3 bedroom sectional title unit.....until lately that is. In the 1st quarter of 2012 we saw the average 3 bedroom full title home overtake the average 3 bedroom sectional title unit’s value. The two are not quite comparable, as full title units are very different in design and space, but the point is that the “affordability advantage” of full title property is steadily dwindling as its price growth outstrips that of sectional title property, and we would expect the price inflation differential between the two categories to start dwindling soon as a result.

The affordability drive can also be seen in the FNB house price indices segmented by home size, with small-sized units’ price growth outstripping that of medium and large-sized units.

But moving away from relative performances of segments to “absolutes”, the 1st quarter saw price growth accelerations of varying degrees in virtually all of the sub-segments of housing, when segmented by title deed, room number or size.

DETAILED PRICE TRENDS

The Full Title Market continued to outperform the Sectional Title segment in the 1st quarter of 2012



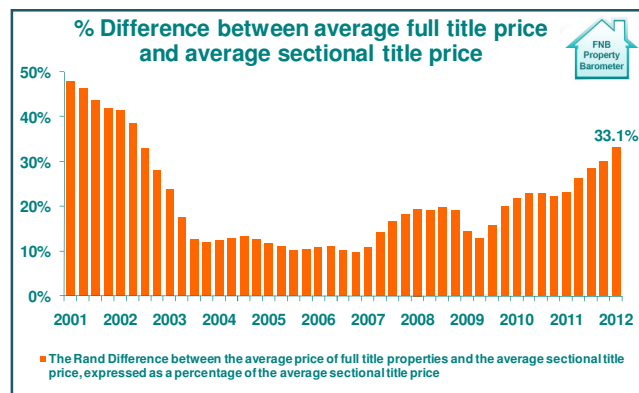
The Full Title Market segment's price growth continued to outperform the Sectional Title Segment by a significant margin in the 1st quarter of 2011, although both indices showed growth accelerations in the quarter.

The year-on-year growth rate in the Full Title Price Index for the 1st quarter was 10.6%, up from the previous quarter's revised 7.4% while the Sectional Title Index grew at a far slower 2.2%, up from a revised 1.1% rate in the previous quarter. The Full Title segment would thus appear to have been largely responsible for the acceleration in the FNB National House Price Index growth rate in the initial stages of 2012.

As mentioned in previous reports, our view is that the "suburban" 3 bedroom family market (the largest segment of the Full Title Market) is a very solid and stable component, because it was arguably less of a first time buyer and buy-to-let target during last decade's boom than the Sectional Title Market. Surges in these highly cyclical buying components drove a huge building boom in the sectional title segment, leaving it arguably more oversupplied when the boom had ended.

In contrast, we believe that because established family demand dominates the 3 bedroom Full Title segment, and this demand is more steady than 1st time buyer and buy-to-let demand, this segment is relatively stable by comparison. The Full Title segment also appeared to have less "over-building" during the boom and thus less of an oversupply than did the Sectional Title segment.

In addition, the 2 Bedroom Full Title market continues to support average price growth of the Full Title Segment. The 2-Bedroom Full Title Segment is believed to be driven heavily by the Affordable Housing Segment, which has been less oversupplied than the suburban markets in recent years, and has had better demand during the recent economic recovery years.

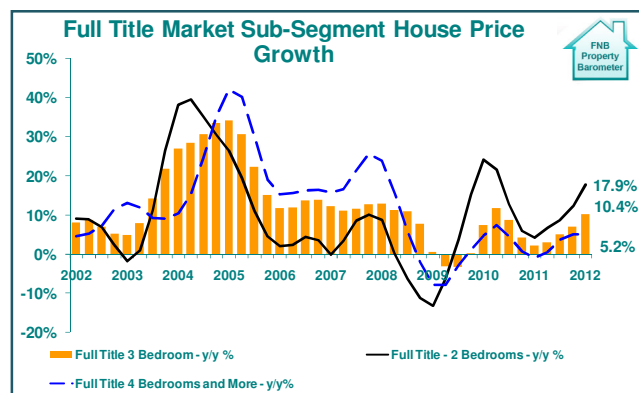


The 2-Bedroom Full Title Segment is believed to be driven heavily by the Affordable Housing Segment, which has been less oversupplied than the suburban markets in recent years, and has had better demand during the recent economic recovery years.

In the 1st quarter, ongoing superiority in price growth in the Full Title Segment, relative to the Sectional Title Segment, implied further widening in the gap between average full title price and the average sectional title value, with the latter now 33.1% above that of the sectional segment. This is now significantly wider than the 9.6% reached at a stage of 2006.

A word of caution is needed in interpreting this average price differential between the 2 segments. Their composition is quite different, with sectional title being dominated by 2 bedroom units while the Full Title segment is dominated by larger 3 bedroom units.

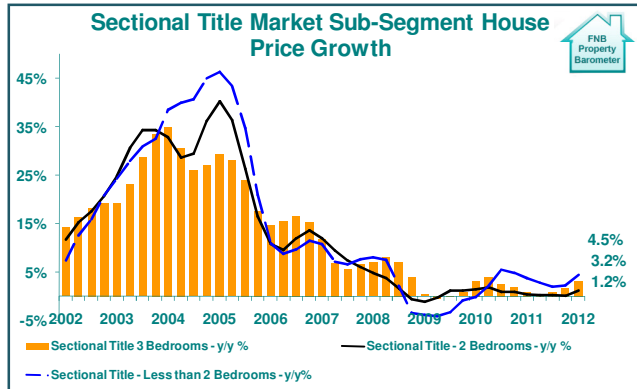
All of the main Full Title Segments saw price growth rise further in the 1st quarter.



Of the 3 key sub-segments within the Full Title Market, i.e. the 2, 3, and "4 bedroom plus" sub-segments, all showed further increases in year-on-year price growth in the 1st quarter of 2012. The 2 Bedroom sub-segment (average price = R496,456), saw year-on-year price growth rise from +12.2% revised in the previous quarter to +17.9% in the 1st quarter, while the 4 Bedroom+ Sub-Segment's (average price = R1.531m) accelerated slightly from +5.1% year-on-year growth in the previous quarter to +5.2% in the 1st quarter of 2012. The 3

Bedroom sub-segment's (average price = R981,040) growth moves in between the 2 other major sub-segments, having also accelerated from a revised 7.1% in the final quarter of 2011 to 10.4% year-on-year in the 1st quarter of 2012.

All 3 major sectional title sub-segments showed some increase in average price growth, although remaining weak

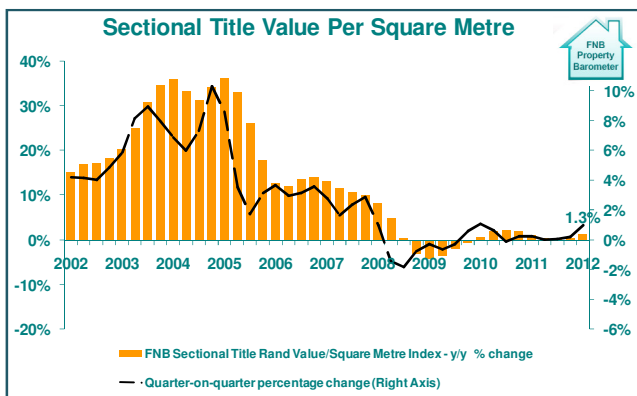


Within the Sectional Title Market, the Less than 2 Bedroom sub-segment (average price = R491,036) has resumed some growth acceleration, maintaining a mildly superior price growth performance to the other key Sectional Title sub-segments. This segment may benefit somewhat from young 1st time buyers, who have increased significantly in number, but at 4.5% year-on-year price growth, mildly up from the previous quarter's revised 2.2%, its performance remains unimpressive, and negative in real terms being below the consumer price inflation rate.

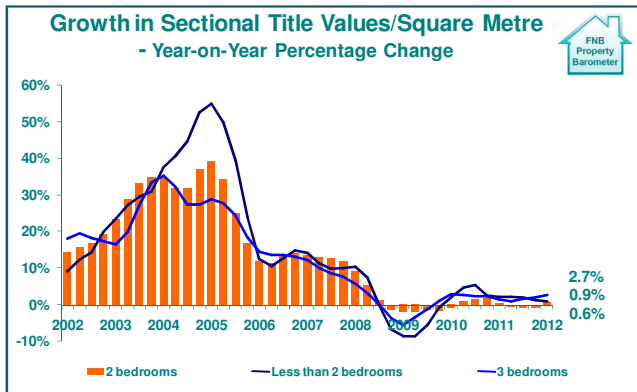
By comparison, the larger 2 Bedroom sub-segment (average price = R639,055) showed a weaker increase in price growth from 0.1% year-on-year previous to 1.2% in the 1st quarter, while the 3 Bedroom Segment, (average price = R974,174) was in the middle of the other two segments with 3.2% year-on-year price growth in the 1st quarter.

By comparison, the larger 2 Bedroom sub-segment (average price = R639,055) showed a weaker increase in price growth from 0.1% year-on-year previous to 1.2% in the 1st quarter, while the 3 Bedroom Segment, (average price = R974,174) was in the middle of the other two segments with 3.2% year-on-year price growth in the 1st quarter.

Sectional Title price trends on a per square metre basis

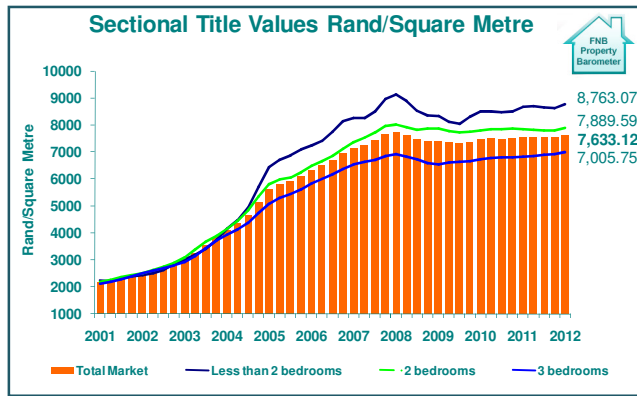


The FNB Sectional Title Value Per Square Metre Index, which estimates the average value of sectional title property on a per square metre basis, is an attempt to reduce the effect of a change in the size composition of property transactions on property indices over time, thereby getting a more accurate reflection of true property value trends in this property category. The index is a fixed-weighted average of the 4 Sectional Title Market sub-segments, i.e. the "Less than 2 Bedroom Segment, the 2 Bedroom Segment, the 3 Bedroom Segment and the 4 Bedroom Segment". The 2 Bedroom sub-segment is by far the largest of the Sectional Title Market, accounting for almost half of the overall sectional title index.



On a per square metre basis, the average value of sectional title properties rose by 1.3%, which is mildly higher than the previous quarter's revised 0.6%.

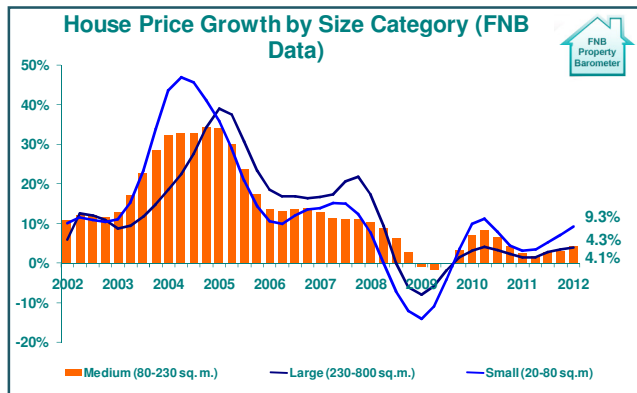
Segmenting the Sectional Title Market into its 3 key segments, the smaller the size in terms of bedroom number the higher the per square metre value. The "Less than 2 Bedroom Segment" showed an average value of R8,763/square metre in the 1st quarter of 2011, the 2 Bedroom Segment averaged R7,890/square metre, and the 3 Bedroom Segment R7,006/square metre. The overall average value per square metre was R7,633.



All segments, except the 3 Bedroom segment are still at lower average per square metre values than their 1st Quarter 2008 peak values despite their gradual rise after the recession. The “Less than 2 Bedroom” sub-segment was the most negatively affected during the 2008/9 slump and even after a recent catch-up sees its revised average/square metre value now -4% below the early-2008 peak. The 2 Bedroom sub-segment is -1.7% down from the peak while the 3 Bedroom sub-segment is now slightly higher to the tune of +1.3%.

Price Trends by Size of Home –Smaller still Better

With financial pressure still significant, and the search for affordability still on for many, smaller building size remains more popular, and an increasing number of these homes would probably be found in so-called “affordable housing developments”.



The smaller size properties continued to perform slightly better in terms of price growth in the 1st quarter. Of the 3 size categories, the 20-80 square metre Small Sized category (average price = R444,929) continued to show the best year-on-year price growth of +9.3% in the 1st quarter. This segment’s growth has outperformed the other 2 since the end of 2009, influenced strongly by the Affordable Housing sector. The other two larger segments also showed some acceleration in price growth, with the 80-230 square metre Medium Size category (average price = R873,366) rising by 4.3% in the 1st quarter, and the 230-800 square metre Large Size category (average price = R1.620m) saw price growth rise slightly to 4.1%.

CONCLUDING REMARKS

In 2011, it would appear that housing affordability made little further improvement, with interest rates moving sideways, house price growth accelerating mildly, and average employee remuneration growing slower than in 2009/10.

There still exists very significant financial pressure on households, as indicated by the FNB Estate Agent Survey, where the sample of agents estimates that 20% of home sellers are selling in order to downscale due to financial pressure.

Financial pressure, coupled to a lack of further housing affordability improvement, we believe, has created an “affordability” or “value for money search” which has been visible in recent segment trends. The Full Title segment has outperformed the Sectional Title segment, because when one compares “like for like” (i.e. 3 bedroom full title with 3 sectional title, 2 bedroom with 2 bedroom etc), the Full Title segment has until recently been more affordable, with the sectional title segment having perhaps “overshot the mark” back in the boom years. However, this is changing due to higher price growth in the area of full title property, and as a result we may begin to see a narrowing of the average house price growth rates between the Full Title and Sectional Title segments in the not too distant future.

When homes are segmented by size, we see smaller-sized homes outperforming, also a sign of the affordability drive taking place. This “affordability drive” is expected to continue for the foreseeable future as many households continue to repair their somewhat fragile balance sheets, new entrants especially from previously disadvantaged communities attempt to get onto the housing ladder, and many attempt to adapt to a rapidly changing environment in terms of rising municipal and utilities bills related to housing.

AVERAGE HOUSE PRICE BY MAJOR SEGMENT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Q2-2011	Q3-2011	Q4-2011	Q1-2012
FULL TITLE SEGMENT														
Full Title Average Price (Rand)	327,983	364,884	468,427	587,241	659,786	744,765	804,380	777,855	838,411	876,851	871,056	886,144	901,538	938,537
- year-on-year % change		11.3%	28.4%	25.4%	12.4%	12.9%	8.0%	-3.3%	7.8%	4.6%	3.3%	5.5%	7.4%	10.6%
- quarter-on-quarter % change											2.6%	1.7%	1.7%	4.1%
2 Bedroom (Rand)	196,469	214,343	290,883	334,376	344,846	364,062	355,151	353,407	408,624	441,578	436,319	446,345	462,556	496,456
- year-on-year % change		9.1%	35.7%	15.0%	3.1%	5.6%	-2.4%	-0.5%	15.6%	8.1%	6.8%	8.8%	12.2%	17.9%
- quarter-on-quarter % change											3.6%	2.3%	3.6%	7.3%
3 Bedroom (Rand)	321,089	360,588	469,168	586,738	662,429	741,848	821,576	810,207	875,283	914,104	909,690	920,564	937,466	981,040
- year-on-year % change		12.3%	30.1%	25.1%	12.9%	12.0%	10.7%	-1.4%	8.0%	4.4%	3.2%	5.2%	7.1%	10.4%
- quarter-on-quarter % change											2.4%	1.2%	1.8%	4.6%
4 Bedrooms and More (Rand)	538,433	596,999	725,914	959,005	1,112,103	1,335,350	1,473,245	1,408,912	1,470,202	1,502,178	1,491,173	1,527,823	1,534,182	1,530,667
- year-on-year % change		10.9%	21.6%	32.1%	16.0%	20.1%	10.3%	-4.4%	4.4%	2.2%	0.6%	3.8%	5.1%	5.2%
- quarter-on-quarter % change											2.4%	2.5%	0.4%	-0.2%
SECTIONAL TITLE SEGMENT AVERAGE HOUSE PRICE														
Sectional Title Average House Price (Rand)	243,092	314,218	415,048	529,873	597,541	647,586	673,676	671,838	684,603	690,835	689,983	689,808	693,921	705,016
- year-on-year % change		29.3%	32.1%	27.7%	12.8%	8.4%	4.0%	-0.3%	1.9%	0.9%	0.6%	0.9%	1.1%	2.2%
- quarter-on-quarter % change											0.1%	0.0%	0.6%	1.6%
Less than 2 Bedroom (Rand)	150,434	194,272	274,401	371,340	409,386	442,355	457,725	443,979	457,866	470,257	468,239	468,710	474,207	491,036
- year-on-year % change		29.1%	41.2%	35.3%	10.2%	8.1%	3.5%	-3.0%	3.1%	2.7%	2.8%	2.0%	2.2%	4.5%
- quarter-on-quarter % change											-0.3%	0.1%	1.2%	3.5%
2 Bedroom (Rand)	223,180	292,949	386,345	498,353	555,831	604,145	618,553	620,360	628,500	630,117	631,641	627,959	629,332	639,055
- year-on-year % change		31.3%	31.9%	29.0%	11.5%	8.7%	2.4%	0.3%	1.3%	0.3%	0.2%	0.3%	0.1%	1.2%
- quarter-on-quarter % change											0.0%	-0.6%	0.2%	1.5%
3 Bedroom (Rand)	338,355	427,604	553,352	688,725	795,804	857,048	913,509	914,934	941,169	949,698	944,725	950,207	959,581	974,174
- year-on-year % change		26.4%	29.4%	24.5%	15.5%	7.7%	6.6%	0.2%	2.9%	0.9%	0.0%	1.0%	1.7%	3.2%
- quarter-on-quarter % change											0.0%	0.6%	1.0%	1.5%
SECTIONAL TITLE PER SQUARE METRE														
Sectional Title Average Price (Rand/square metre)	2,674	3,422	4,574	5,848	6,615	7,369	7,557	7,362	7,491	7,541	7,535	7,541	7,556	7,633
- year-on-year % change		28.0%	33.7%	27.8%	13.1%	11.4%	2.6%	-2.6%	1.8%	0.7%	0.4%	0.6%	0.6%	1.3%
- quarter-on-quarter % change											0.0%	0.1%	0.2%	1.0%
Less than 2 Bedroom (Rand/square metre)	2,606	3,336	4,815	6,774	7,637	8,499	8,720	8,202	8,501	8,663	8,697	8,643	8,629	8,763
- year-on-year % change		28.0%	44.4%	40.7%	12.7%	11.3%	2.6%	-5.9%	3.6%	1.9%	2.2%	2.0%	1.4%	0.9%
- quarter-on-quarter % change											0.2%	-0.6%	-0.2%	1.6%
2 Bedroom (Rand/square metre)	2,692	3,507	4,695	6,013	6,780	7,643	7,910	7,777	7,839	7,813	7,813	7,791	7,809	7,890
- year-on-year % change		30.3%	33.9%	28.1%	12.7%	12.7%	3.5%	-1.7%	0.8%	-0.3%	-0.5%	-0.6%	-0.7%	0.6%
- quarter-on-quarter % change											-0.3%	-0.3%	0.2%	1.0%
3 Bedroom (Rand/square metre)	2,651	3,301	4,300	5,359	6,093	6,679	6,765	6,606	6,776	6,876	6,848	6,902	6,933	7,006
- year-on-year % change		24.5%	30.3%	24.6%	13.7%	9.6%	1.3%	-2.3%	2.6%	1.5%	0.9%	1.6%	1.9%	2.7%
- quarter-on-quarter % change											0.4%	0.8%	0.4%	1.1%
HOUSE PRICES BY HOME SIZE														
Large Homes (Rand)	573,457	638,040	803,923	1,062,498	1,245,098	1,484,901	1,554,862	1,498,851	1,547,418	1,583,580	1,575,207	1,593,483	1,608,984	1,619,770
- year-on-year % change		11.3%	26.0%	32.2%	17.2%	19.3%	4.7%	-3.6%	3.2%	2.3%	1.6%	2.8%	3.5%	4.1%
- quarter-on-quarter % change											1.2%	1.2%	1.0%	0.7%
Medium Sized Homes (Rand)	283,180	341,138	454,354	571,696	649,776	725,210	775,378	776,440	827,011	847,896	844,199	851,056	858,607	873,366
- year-on-year % change		20.5%	33.2%	25.8%	13.7%	11.6%	6.9%	0.1%	6.5%	2.5%	1.9%	2.7%	3.1%	4.3%
- quarter-on-quarter % change											0.8%	0.8%	0.9%	1.7%
Small Sized Homes (Rand)	147,168	178,265	257,281	319,815	356,866	407,509	395,005	368,796	399,542	418,584	413,672	421,847	431,560	444,929
- year-on-year % change		21.1%	44.3%	24.3%	11.6%	14.2%	-3.1%	-6.6%	8.3%	4.8%	3.5%	5.3%	7.2%	9.3%
- quarter-on-quarter % change											1.6%	2.0%	2.3%	3.1%