

2nd QUARTER 2012 FNB SEGMENT HOUSE PRICE REVIEW

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INTRODUCTION – RESIDENTIAL AFFORDABILITY IMPROVEMENTS ARE STILL TAKING PLACE, BUT NOW AT A SNAIL'S PACE

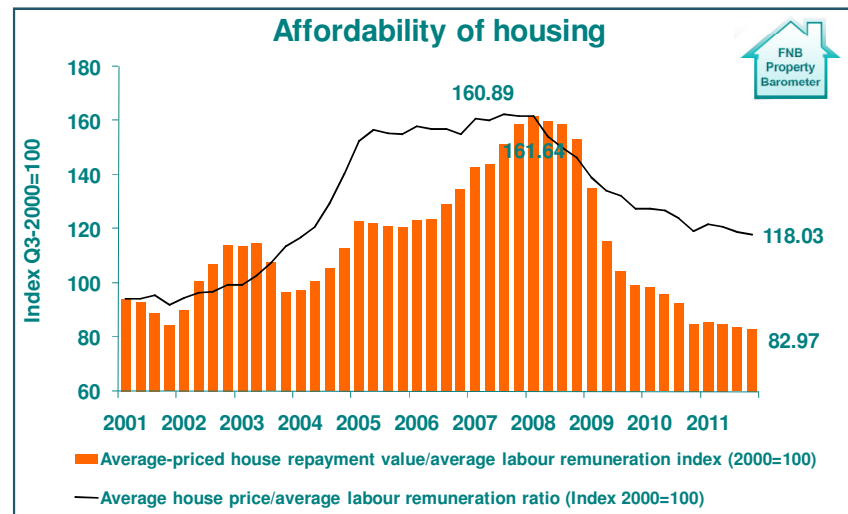
The 2nd quarter of 2012 saw a further acceleration in year-on-year house price growth from the 1st quarter's 7.7% to 8.6%. With average wage growth having slowed in 2011, house price growth more recently accelerating, and no sign of further interest rate reduction since late-2010, it would appear that the steadily improving housing affordability trend since around 2009 has slowed significantly.

Indeed, according to the two "traditional" measures of affordability, further affordability improvements have taken place, but at a very slow pace since late-2010.

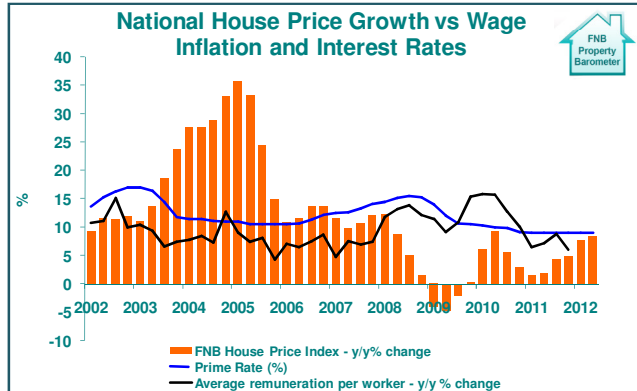
Viewing home affordability from a price relative to average employee remuneration perspective, there was a major improvement in home affordability for the average income earner from the 2nd quarter of 2008 until the end of 2010, due to the combination of average wage growth outstripping growth in house 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 4th quarter of 2011. At that stage, the average price/average labour remuneration ratio index (Q3 2000=100) had reached a level of 118.03. While still 25.2% up on mid-2000, this represents a massive -27% 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 -48.7% since its peak as at the 1st quarter of 2008, due to the added benefit of interest rate cuts.

However, the most recent data point, the 4th quarter of 2011, showed both measures of affordability having improved only marginally on the 4th quarter of 2010, with most of the affordability improvement happening in 2009/10.



The reasons for slowing affordability improvements are driven by all three variables that are used in the affordability measures. Average remuneration inflation as at the end of 2011 was down to 6% year-on-year, significantly slower than 2009/10 where it touched 15% at stages, and although still ahead of weak house price growth as at the 4th quarter of 2011, the gap was narrowing between the two, and has probably narrowed further since then given the acceleration in house price growth in 2012 to date. And interest rates, the 3rd variable in driving the “repayment/income” affordability measure, have moved sideways since late-2010.



With affordability improvements slowing, and still strongly-increasing assessment rates and utilities tariffs, as well as a significant degree of household financial pressure, the search for “value for money” in the housing market still appears to be on. We believe that this “value for money” drive has caused a mildly better price growth performance in the Full Title segment relative to Sectional Title in recent years. However, given a superior price growth performance in the Full Title segment for some time now, the superiority in this segment’s “value for money” must have been getting less over time, and we may be seeing the result in the form of the Sectional Title segment’s

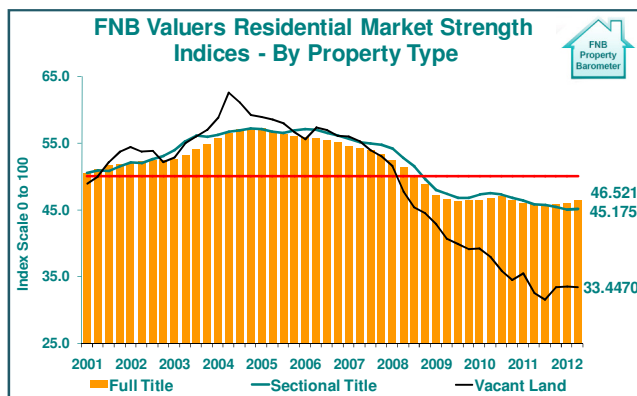
price growth starting to narrow the gap with that of Full Title.

So, while the Full Title segment showed a still-impressive 10.3% year-on-year price growth rate in the 2nd quarter, this was slightly slower than the previous quarter’s revised 10.5% rate. By comparison, the Sectional Title segment showed average year-on-year price growth of 5.1% in the 2nd quarter. But while this remains significantly lower than the Full Title segment’s growth, it was a significant acceleration on the 2.4% rate of the previous quarter.

This affordability drive sees the so-called “Affordable Housing Segment” having outperformed the rest in recent times, but this superior performance may be starting to lose some steam. We say this because the 2-Bedroom Full Title sub-segment, which is believed to be strongly driven by the Affordable Segment, showed some slowing in average price growth in the 2nd quarter, although still performing strongly with 12.3% year-on-year growth. The 4 Bedroom sub-segment also showed some slowing in price growth, from 6.4% previous to 5.6%. However, the main sub-segment in the Full Title segment, i.e. the 3 Bedroom segment, still performed impressively in the 2nd quarter, showing accelerating average price growth to 12.3% year-on-year, from a previous rate of 10.5%.

While we have long believed that the Sectional Title segment built up a bigger oversupply during the years of the building boom, than did the Full Title Market, things may be starting to equalise at this stage. We say this because the price growth acceleration in the Sectional Title segments is becoming more noticeable, although not yet having caught up with that of Full Title.

Of the main sub-segments of the Sectional Title segment, the Less Than 2 Bedroom segment accelerated from 2.8% previous to 7% year-on-year growth in the 2nd quarter, the 2 Bedroom sub-segment from 1.5% to 2.8% over the same period, and the 3 Bedroom sub-segment from 3.6% to 7.5%.

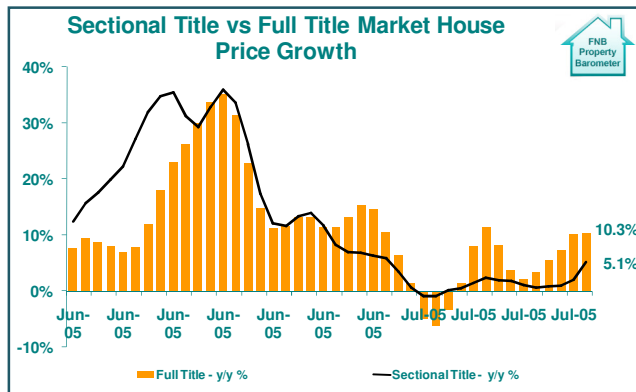


For the time being, though, the Full Title segment appears a little stronger than the Sectional Title segment, and this is also reflected in our FNB Valuer’s perceptions, as captured in the FNB Valuers’ Market Strength Indices (see notes on page 6). The FNB Full Title Market Strength Index measured 46.521 in the 2nd quarter of 2012, slightly higher than the 45.175 level of the Sectional Title segment.

But the difference between the two was not a major one. Far more significant was the huge gap between existing houses and vacant land, whose Market Strength Index was a very lowly 33.447, suggesting still weak building activity in the foreseeable future.

DETAILED PRICE TRENDS

Although showing hints of slowing growth, the Full Title Market continued to outperform the Sectional Title segment in the 2nd quarter of 2012



The Full Title Market segment's price growth continued to outperform the Sectional Title Segment by a significant margin in the 2nd quarter of 2012, although the Full Title Index did perhaps show signs that its growth is peaking.

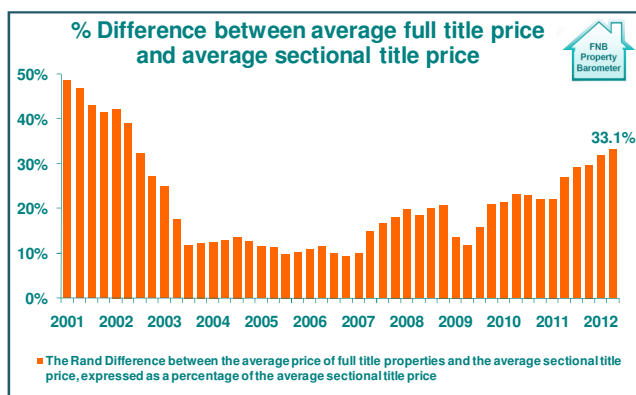
The year-on-year growth rate in the Full Title Price Index for the 2nd quarter was 10.3%, slightly lower than the previous quarter's revised 10.5%, while the Sectional Title Index's growth accelerated to 5.1%, compared to 2.4% in the previous quarter. Therefore, while the Full Title segment still appears to have been largely responsible for the recent period of solid overall growth in the FNB National House Price Index, the Sectional Title Segment may have begun to play catch-up.

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 especially the 3 bedroom Full Title segment, and this demand is more steady than 1st time buyer and buy-to-let demand, this segment is a bit more stable by comparison. The Full Title segment appeared to have less "over-building" during the boom and thus less of an oversupply than did the Sectional Title segment.

In addition, although its price growth may be starting to slow, the 2 Bedroom Full Title market continues to support solid 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 also been less oversupplied than the suburban markets in recent years, and has had better demand during the recent economic recovery years.

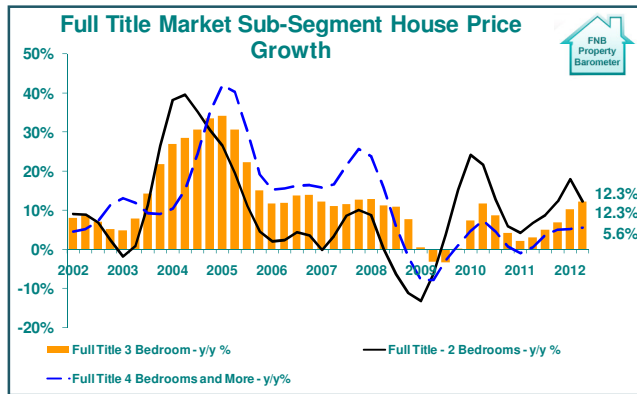
However, in the 2nd quarter, the differential between the Full Title segment's price growth, and that of the Sectional Title segment, was reduced by a slightly slower full title price growth rate and a noticeable acceleration in sectional title price growth. Could it be that sectional title oversupplies are being "mopped up", and possibly that superior full title price growth in recent years has begun to eliminate the "value for money" advantage that the Full Title segment had over sectional title? We'll have to wait for another few quarters' worth of data to draw harder conclusions.



For the time being, though, still-superior price growth in the Full Title segment meant that there was a 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, compared to a revised 31.9% in the previous quarter. This is now significantly wider than the 9.4% reached at the end of 2006.

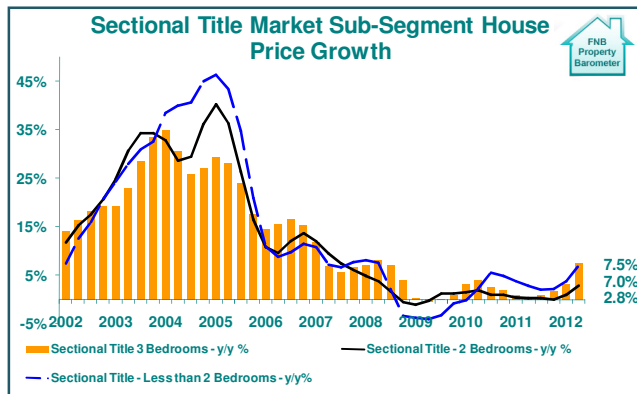
A word of caution is needed in interpreting this average price differential between the 2 segments. Their composition is quite different, with sectional title being dominated by 2 bedroom units while the Full Title segment is dominated by larger 3 bedroom units.

2 of the 3 main Full Title Segments saw price growth start to slow in the 2nd quarter.



Of the 3 key sub-segments within the Full Title Market, i.e. the 2, 3, and “4 bedroom plus” sub-segments, two of the 3 showed mild declines in year-on-year price growth in the 2nd quarter of 2012. The 2 Bedroom sub-segment (average price = R494,607), saw year-on-year price growth of +12.3%, down from a revised 18% in the previous quarter, while the 4 Bedroom+ Sub-Segment’s (average price = R1.575m) growth slowed mildly from +6.4% year-on-year in the previous quarter to +5.6% in the 2nd quarter of 2012. The 3 Bedroom sub-segment’s (average price = R1.029m) growth still held firm, however, accelerating from a revised 10.5% in the 1st Quarter 2012 to 12.3% year-on-year in the 2nd quarter.

All 3 major sectional title sub-segments showed a noticeable acceleration in average price growth in the 2nd Quarter.

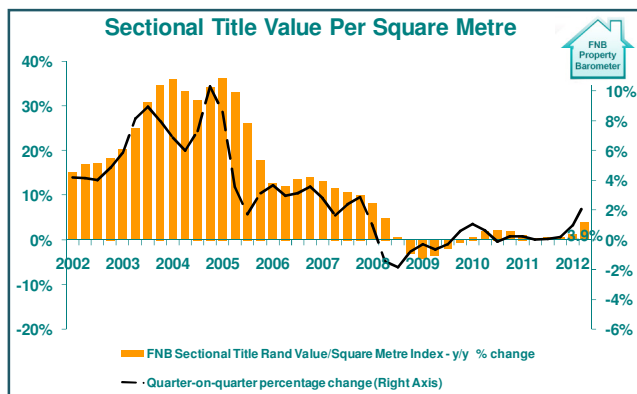


Within the Sectional Title Market, the Less than 2 Bedroom sub-segment (average price = R500,319) has resumed some growth acceleration. This segment may benefit somewhat from young 1st time buyers, who have increased significantly in number, and its price growth has accelerated further from a revised 2.8% year-on-year in the previous quarter to 7% in the 2nd quarter of 2012.

By comparison, the larger 2 Bedroom sub-segment (average price = R651,139) showed a weaker increase in price growth from a revised 1.5% in the 1st quarter to 2.8% year-on-year previous in the 2nd quarter, while the 3 Bedroom Segment, (average price = R1.014m) became the top sectional title performer with a 7.5% year-on-

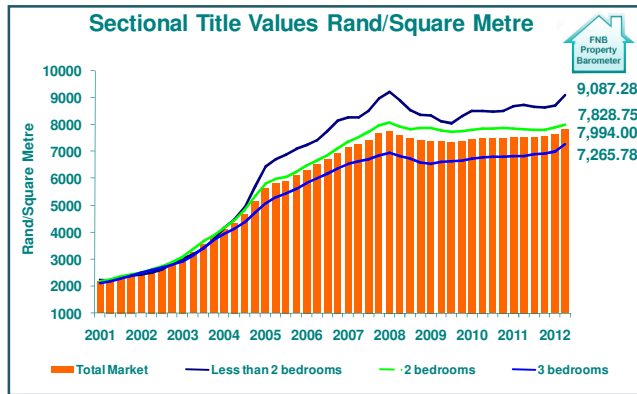
year price growth rate in the 2nd quarter.

Sectional Title price trends on a per square metre basis



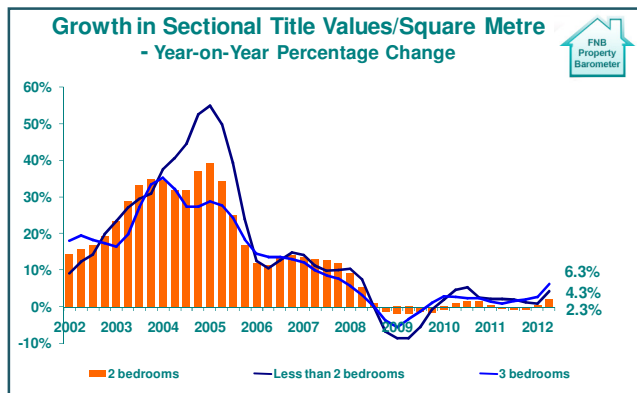
The FNB Sectional Title Value Per Square Metre Index, which estimates the average value of sectional title property on a per square metre basis, is an attempt to reduce the effect of a change in the size composition of property transactions on property indices over time, thereby getting a more accurate 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 3.9%, which is higher than the previous quarter’s revised 1.2%.



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 R9,087/square metre in the 2nd quarter of 2012, the 2 Bedroom Segment averaged R7,994/square metre, and the 3 Bedroom Segment R7,266/square metre. The overall average value per square metre was R7,829.

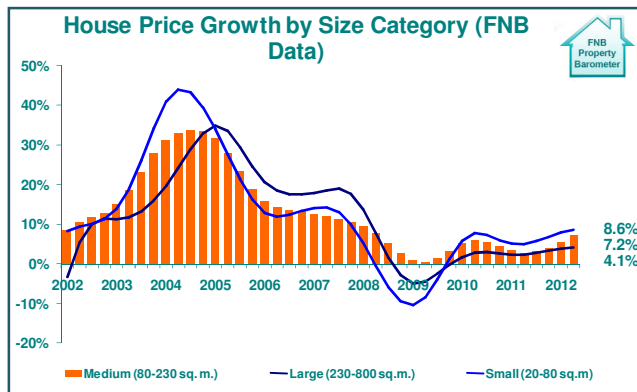
All segments, except the 3 Bedroom segment are still at lower average per square metre values than their pre-recession 1st Quarter 2008 peak values, despite their gradual rise after the recession. The “Less than 2 Bedroom” sub-segment was the most negatively affected during the 2008/9 slump and even after a recent catch-up sees its revised average value/square metre value still -1.3% below the early-2008 peak. The 2 Bedroom sub-segment is -0.8% down from the 2008 peak while the 3 Bedroom sub-segment is now slightly higher to the tune of +4.5%.



The reasonably good performance of the 3 bedroom sub-segment has lifted the overall Sectional Title per sq.m Index to 0.9% higher than its early-2008 peak. Just over 4 years later, therefore, the nominal per square metre value of sectional title units has just managed to re-coup its 2008/9 recession-time losses.

In real terms, though, adjusting for consumer price inflation, that implies an approximate -22% decline from the 1st quarter of 2008 to the 2nd quarter of 2012.

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 2nd quarter. Of the 3 size categories, the 20–80 square metre Small Sized category (average price = R451,237) continued to show the best year-on-year price growth of +8.6% in the 2nd 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 year-on-year price growth, with the 80–230 square metre Medium Size category (average price = R905,626) rising by 7.2% in the 2nd quarter, and the 230–800 square metre Large Size category (average price = R1.642m) 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 as 2012 approached, 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 significant further housing affordability improvement, we believe, has created an “affordability” or “value for money search” which has been visible in some recent segment trends.

The Full Title segment has outperformed the Sectional Title segment in recent times, 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 and arguably offered better “value for money”, with the sectional title segment having perhaps “overshot the mark” back in the boom years. However, this may be changing due to the recent more rapid affordability deterioration in the area of full title property compared to sectional title, and as a result we may be starting to see a narrowing of the average house price growth rates between the Full Title and Sectional Title segments, with sectional title price performance starting to improve a little.

When homes are segmented by size, we see smaller-sized homes still outperforming price growth-wise, also a sign of the affordability drive, we believe. This “affordability drive” is expected to continue for the foreseeable future in some form of another, 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.

Note on the FNB Valuers’ Market Strength Index: *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.

AVERAGE HOUSE PRICE BY MAJOR SEGMENT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012
FULL TITLE SEGMENT													
Full Title Average Price (Rand)	364,788	467,592	587,250	660,593	744,423	806,790	775,990	838,546	876,563	889,183	896,264	932,874	966,520
- year-on-year % change	11.1%	28.2%	25.6%	12.5%	12.7%	8.4%	-3.8%	8.1%	4.5%	6.1%	7.0%	10.5%	10.3%
- quarter-on-quarter % change										1.5%	0.8%	4.1%	3.6%
2 Bedroom (Rand)	213,845	290,377	334,320	346,403	363,562	356,021	352,417	408,477	441,666	446,903	460,060	494,581	494,607
- year-on-year % change	8.5%	35.8%	15.1%	3.6%	5.0%	-2.1%	-1.0%	15.9%	8.1%	8.8%	12.1%	18.0%	12.3%
- quarter-on-quarter % change										1.5%	2.9%	7.5%	0.0%
3 Bedroom (Rand)	360,414	468,458	586,815	663,001	741,684	824,308	807,522	875,449	913,889	921,610	931,201	979,280	1,028,882
- year-on-year % change	12.2%	30.0%	25.3%	13.0%	11.9%	11.1%	-2.0%	8.4%	4.4%	5.8%	6.7%	10.5%	12.3%
- quarter-on-quarter % change										0.6%	1.0%	5.2%	5.1%
4 Bedrooms and More (Rand)	597,523	724,100	958,384	1,113,031	1,334,570	1,476,500	1,408,477	1,471,026	1,501,040	1,537,223	1,532,034	1,534,728	1,575,122
- year-on-year % change	11.0%	21.2%	32.4%	16.1%	19.9%	10.6%	-4.6%	4.4%	2.0%	4.5%	4.7%	6.4%	5.6%
- quarter-on-quarter % change										3.0%	-0.3%	0.2%	2.6%
SECTIONAL TITLE SEGMENT AVERAGE HOUSE PRICE													
Sectional Title Average House Price (Rand)	313,944	414,008	530,266	597,890	647,586	673,753	671,712	684,817	690,433	689,112	691,190	707,412	725,990
- year-on-year % change	29.0%	31.9%	28.1%	12.8%	8.3%	4.0%	-0.3%	2.0%	0.8%	1.2%	0.7%	2.4%	5.1%
- quarter-on-quarter % change										-0.2%	0.3%	2.3%	2.6%
Less than 2 Bedroom (Rand)	193,696	273,903	372,196	409,344	442,088	456,824	444,615	458,028	470,365	469,246	471,486	486,792	500,319
- year-on-year % change	28.7%	41.4%	35.9%	10.0%	8.0%	3.3%	-2.7%	3.0%	2.7%	2.2%	2.0%	2.8%	7.0%
- quarter-on-quarter % change										0.4%	0.5%	3.2%	2.8%
2 Bedroom (Rand)	292,875	385,285	498,631	556,305	604,066	618,477	620,386	628,708	629,650	626,673	626,196	641,589	651,139
- year-on-year % change	31.2%	31.6%	29.4%	11.6%	8.6%	2.4%	0.3%	1.3%	0.1%	0.6%	-0.4%	1.5%	2.8%
- quarter-on-quarter % change										-1.1%	-0.1%	2.5%	1.5%
3 Bedroom (Rand)	427,157	552,137	688,949	795,982	857,462	914,733	913,810	941,484	949,132	950,212	957,338	979,068	1,014,205
- year-on-year % change	26.0%	29.3%	24.8%	15.5%	7.7%	6.7%	-0.1%	3.0%	0.8%	1.4%	1.4%	3.6%	7.5%
- quarter-on-quarter % change										0.7%	0.8%	2.3%	3.6%
SECTIONAL TITLE PER SQUARE METRE													
Sectional Title Average Price (Rand/square metre)	3,421	4,564	5,854	6,617	7,368	7,556	7,362	7,494	7,538	7,546	7,528	7,632	7,829
- year-on-year % change	27.8%	33.4%	28.3%	13.0%	11.3%	2.6%	-2.6%	1.8%	0.6%	1.0%	0.2%	1.2%	3.9%
- quarter-on-quarter % change										0.1%	-0.2%	1.4%	2.6%
Less than 2 Bedroom (Rand/square metre)	3,326	4,804	6,797	7,639	8,486	8,712	8,209	8,495	8,667	8,642	8,565	8,706	9,087
- year-on-year % change	27.5%	44.5%	41.5%	12.4%	11.1%	2.7%	-5.8%	3.5%	2.0%	2.2%	1.4%	-0.5%	4.3%
- quarter-on-quarter % change										-0.8%	-0.9%	1.6%	4.4%
2 Bedroom (Rand/square metre)	3,506	4,683	6,018	6,785	7,644	7,906	7,778	7,844	7,805	7,787	7,782	7,899	7,994
- year-on-year % change	30.2%	33.6%	28.5%	12.7%	12.7%	3.4%	-1.6%	0.8%	-0.5%	-0.3%	-1.3%	0.8%	2.3%
- quarter-on-quarter % change										-0.4%	-0.1%	1.5%	1.2%
3 Bedroom (Rand/square metre)	3,300	4,292	5,362	6,091	6,679	6,771	6,601	6,779	6,875	6,922	6,913	7,003	7,266
- year-on-year % change	24.3%	30.1%	24.9%	13.6%	9.7%	1.4%	-2.5%	2.7%	1.4%	2.1%	1.7%	2.6%	6.3%
- quarter-on-quarter % change										1.3%	-0.1%	1.3%	3.7%
HOUSE PRICES BY HOME SIZE													
Large Homes (Rand)	639,380	810,167	1,055,516	1,250,923	1,480,260	1,551,867	1,505,147	1,542,921	1,585,486	1,592,467	1,608,550	1,624,710	1,641,639
- year-on-year % change	13.1%	26.7%	30.3%	18.5%	18.3%	4.8%	-3.0%	2.5%	2.8%	2.9%	3.4%	3.9%	4.1%
- quarter-on-quarter % change										1.0%	1.0%	1.0%	1.0%
Medium Sized Homes (Rand)	342,530	455,320	569,728	650,502	725,981	771,163	781,983	822,973	850,587	853,627	866,230	884,339	905,626
- year-on-year % change	21.4%	32.9%	25.1%	14.2%	11.6%	6.2%	1.4%	5.2%	3.4%	3.2%	4.0%	5.5%	7.2%
- quarter-on-quarter % change										1.1%	1.5%	2.1%	2.4%
Small Sized Homes (Rand)	180,618	256,392	318,573	359,108	405,011	394,142	372,307	397,262	419,832	423,029	431,759	441,568	451,237
- year-on-year % change	23.5%	42.0%	24.3%	12.7%	12.8%	-2.7%	-5.5%	6.7%	5.7%	5.8%	6.8%	7.9%	8.6%
- quarter-on-quarter % change										1.8%	2.1%	2.3%	2.2%