



Home Loans

PROPERTY MARKETS

FNB HOUSE PRICE INDEX – DECEMBER 2008

*– Price Deflation continues,
and positive impact of interest
rate cuts may take a while to
reverse the trend*

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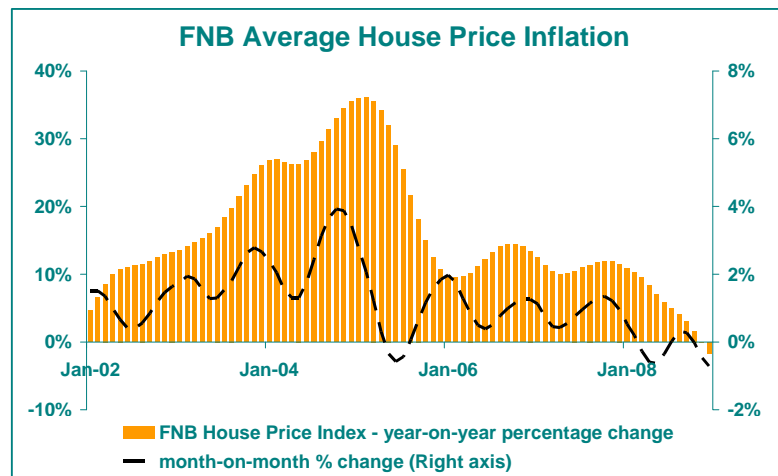
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YEAR-ON-YEAR AVERAGE PRICE DEFLATION DEEPENS

The FNB House Price Index continued its worsening year-on-year percentage change trend in December, to record its second month of average price deflation by this measure to the tune of -1.7%. This is significantly worse than the -0.1% revised year-on-year deflation rate of November. On a month-on-month basis -0.7% deflation was recorded, worse than the revised -0.4% of the previous month.

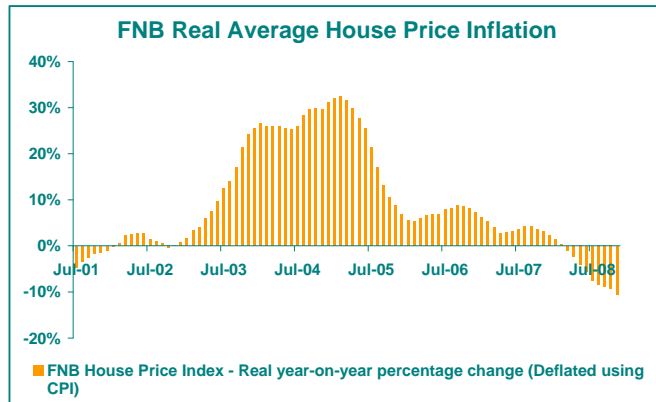
For 2008 as a whole, the average house price was R748,428, which was 5.2% higher than the average of R711,591 for 2007. The average price inflation rate for the year is significantly down on the 11.2% average for 2007, and represents the fourth year of weakening from the bumper average inflation rate of 29.5% recorded for 2004, which was the peak year in the most recent property boom.



The FNB House Price Series is constructed using the average value of housing transactions financed by FNB. In order to eliminate outliers from the data sample, transaction values must be above 70% of FNB Valuations Division's valuation of the property but below 130%, while purchase prices recorded as above R10m. In order to reduce the impact on the index of rapid short term changes in weightings of different property segments, due to relative shifts in transaction volumes, the weightings of the different market segments according to room number are kept constant at their 5-year average weighting. A statistical smoothing function is applied to the data.*

**data compiled by Ewald Kellerman and John Loos, FNB Home Loans*

REAL PRICE DEFLATION NOW IN EXCESS OF -10%

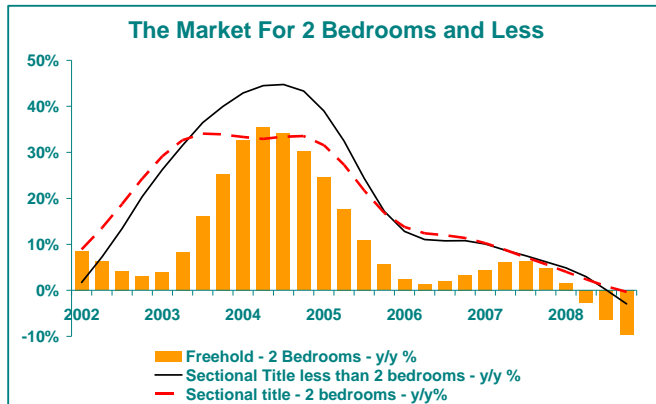


In real terms, using the consumer price index to deflate the house price series, year-on-year price deflation for December was -10.6%, worse than the -9.4% revised figure of the previous month despite some decline in CPI inflation last month.

The rate of real price deflation may be curbed in the near future, as the consumer price inflation rate has started to decline over the past few months and this looks set to continue. From 13.7% in August, the year-on-year consumer price inflation rate has declined to 11.8% in November and more decline is foreseen.

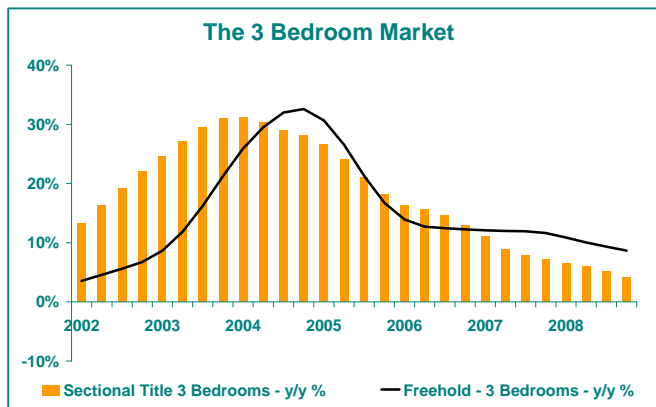
THE SMALLER-SIZED MARKET APPEARS TO BE WHERE THE STRAIN IS MOST PREVALENT

It would appear that the market for 2 bedroom houses and less is where much of the weakness lies. For quarter 4 of 2008, the average freehold 2 bedroom house price (R332,000) declined by -9.6% year on year. This represents a deterioration from -6.5% year-on-year deflation in the previous quarter.



The sectional title "2 bedroom and less" market fared slightly better but nevertheless also moved into average price deflation in the final quarter of 2008. The average price of sectional title 2 bedroom houses (612,072) declined by -0.4% year-on-year, while the average price of sectional title units with less than 2 bedrooms (R434,535) depreciated by -2.9%.

The 3 bedroom market appears more solid by comparison and still hovering in single-digit price inflation territory, although also on a slowing trend. The average price for sectional title 3 bedroom units (R914,534) showed year-on-year price inflation of 4.1% in the fourth quarter of 2008, down from 5.2% in the previous quarter, while the average price of the mildly more affordable freehold 3 bedroom category (R841,819) inflated by 8.7%, down from 9.3%



There may be some good reasons for apparent superiority in performance of the 3 bedroom market. In the case of sectional title property, it is possible that much of the buy-to-let surge back in the boom years was focused on this market, as was much of the first time buying attention that we saw at the time. That may have explained the sectional title market for 2 bedroom units and less showing the highest price inflation of all of the categories back at the peak of the boom around 2004. However, buy-to-let buying and first time buying has a tendency to be more cyclical than the more essential primary residential buying. Hence, a pull back in buy-to-let and first time buying in the bad times may be the driving force behind the "2 bedroom and less" market now performing worse than the 3 bedroom market, because the 3 bedroom market is possibly a more primary residential buyers' market, driven by family demand.

**Note: While other room size categories not mentioned are included in the overall price index, their sample sizes are believed to be too small to justify the compilation of their own price index*

OUTLOOK FOR 2009

As we go into 2009, the recent history of residential property performance continues to look bleak to say the least, and year-on-year price deflation is expected to be with us for most of, if not the entire year.

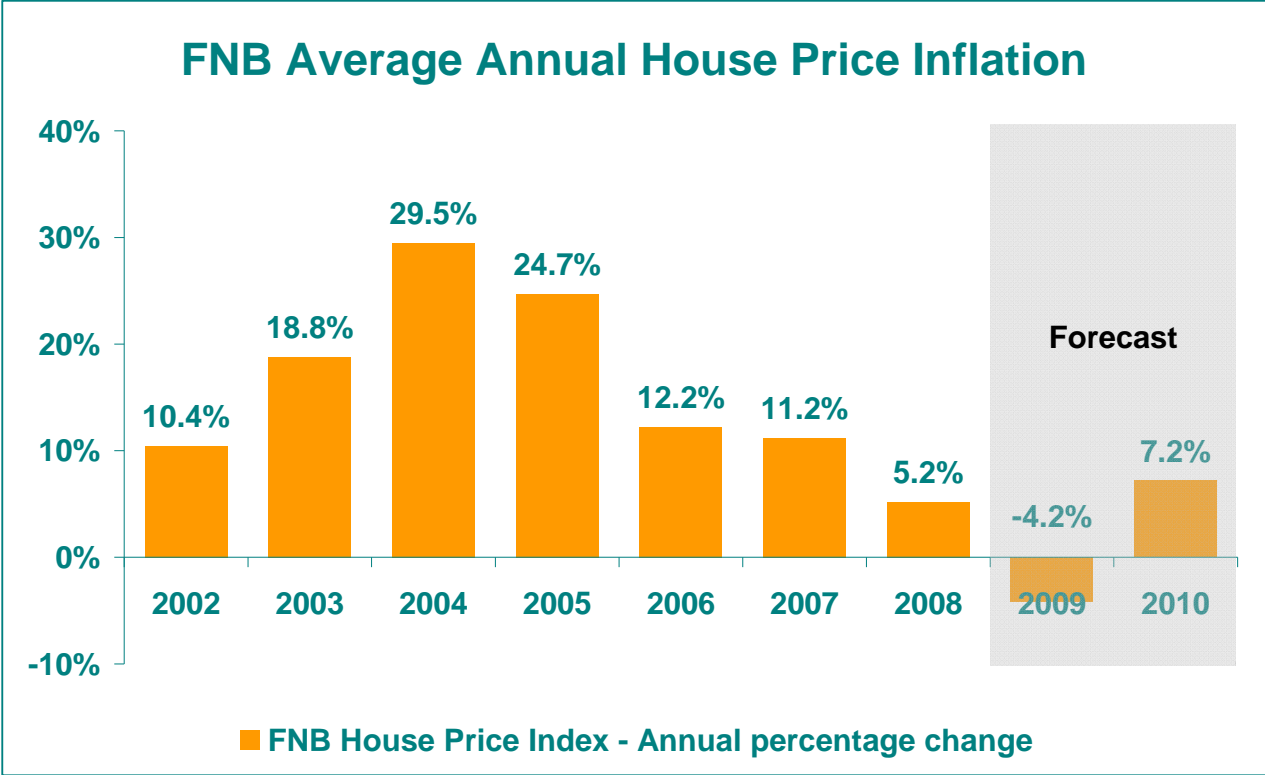
This is not to say the news is all bad. Following on the global commodity price slump in the second half of 2008, CPIX inflation numbers have begun to improve in recent months, and as a result, the SARB began interest rate cutting in December with a 50 basis point reduction in its repo rate. It is expected to continue with steady rate reductions throughout 2009.

Being a very interest rate-sensitive market, residential demand is expected to respond positively to the expected further interest rate cutting, and a stabilisation in demand followed by gradual recovery through the year is anticipated. However, the emphasis remains on "gradual" because against the positive news of lower interest rates looming, the market will unfortunately probably have to deal with the negative news of low economic growth and possible further job shedding this year, also an important influence on residential demand.

While lower interest rates do help to stimulate economic growth and job creation, their influence is expected to be partly negated by a very weak global economy, still reeling from the lagged negative impact of the commodity price spike (most notably oil) which peaked around mid-2008, along with the financial sector crisis sweeping some major parts of the developed world, most notably the US.

The global economic crisis has already taken its toll on SA's export-driven manufacturing and mining sectors, and it would be unrealistic to believe that the effects are over yet.

So, although some improvement in residential demand is expected, 2009 is still expected to be a tough year for the market. There will probably still be some oversupplies around for much of the year, with selling due to financial strain and "sales in execution" not expected to decline sharply over-night. Hence, the forecast of year-on-year price deflation remaining for the entire 2009, and the FNB House Price Index average for 2009 to decline by -4.2% before showing some recovery in 2010.



Monthly FNB House Price Average (Rand)

Date			Date			Date			Date		
Jul-00	266,388		Feb-03	326,284	14.0%	Sep-05	568,273	18.2%	Apr-08	751,085	8.3%
Aug-00	265,173		Mar-03	332,353	14.6%	Oct-05	574,876	15.0%	May-08	746,321	7.1%
Sep-00	264,454		Apr-03	337,563	15.3%	Nov-05	583,941	12.5%	Jun-08	743,674	5.9%
Oct-00	264,938		May-03	341,877	16.0%	Dec-05	594,703	10.7%	Jul-08	743,845	4.9%
Nov-00	266,468		Jun-03	346,325	17.0%	Jan-06	606,437	9.9%	Aug-08	746,208	4.0%
Dec-00	268,238		Jul-03	351,669	18.3%	Feb-06	617,135	9.5%	Sep-08	748,217	3.0%
Jan-01	269,171		Aug-03	358,066	19.8%	Mar-06	625,034	9.6%	Oct-08	748,111	1.6%
Feb-01	268,572		Sep-03	366,047	21.4%	Apr-06	630,262	10.2%	Nov-08	744,747	-0.1%
Mar-01	267,093		Oct-03	375,685	23.2%	May-06	633,365	11.1%	Dec-08	739,449	-1.7%
Apr-01	266,170		Nov-03	386,140	24.8%	Jun-06	635,809	12.2%			
May-01	266,168		Dec-03	396,413	26.0%	Jul-06	639,069	13.3%			
Jun-01	266,723		Jan-04	405,873	26.8%	Aug-06	644,031	14.1%			
Jul-01	267,204	0.3%	Feb-04	414,179	26.9%	Sep-06	650,427	14.5%			
Aug-01	268,044	1.1%	Mar-04	420,577	26.5%	Oct-06	657,929	14.4%			
Sep-01	269,331	1.8%	Apr-04	426,113	26.2%	Nov-06	666,216	14.1%			
Oct-01	271,078	2.3%	May-04	431,693	26.3%	Dec-06	674,604	13.4%			
Nov-01	273,909	2.8%	Jun-04	439,229	26.8%	Jan-07	682,199	12.5%			
Dec-01	277,686	3.5%	Jul-04	449,888	27.9%	Feb-07	687,220	11.4%			
Jan-02	281,877	4.7%	Aug-04	463,953	29.6%	Mar-07	690,321	10.4%			
Feb-02	286,127	6.5%	Sep-04	480,962	31.4%	Apr-07	693,261	10.0%			
Mar-02	289,980	8.6%	Oct-04	499,826	33.0%	May-07	697,069	10.1%			
Apr-02	292,877	10.0%	Nov-04	519,191	34.5%	Jun-07	702,405	10.5%			
May-02	294,822	10.8%	Dec-04	537,152	35.5%	Jul-07	709,136	11.0%			
Jun-02	296,038	11.0%	Jan-05	551,977	36.0%	Aug-07	717,225	11.4%			
Jul-02	297,230	11.2%	Feb-05	563,370	36.0%	Sep-07	726,514	11.7%			
Aug-02	298,906	11.5%	Mar-05	570,218	35.6%	Oct-07	736,275	11.9%			
Sep-02	301,431	11.9%	Apr-05	571,941	34.2%	Nov-07	745,226	11.9%			
Oct-02	305,030	12.5%	May-05	569,985	32.0%	Dec-07	752,245	11.5%			
Nov-02	309,489	13.0%	Jun-05	566,691	29.0%	Jan-08	756,236	10.9%			
Dec-02	314,553	13.3%	Jul-05	564,222	25.4%	Feb-08	757,655	10.2%			
Jan-03	320,067	13.5%	Aug-05	564,643	21.7%	Mar-08	755,589	9.5%			

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The House Price Indices are of a general nature, and should be seen as attempts to indicate important trends in the broader market, and should not be seen as being accurate indicators of specific properties' values or price inflation rates.

AVERAGE ANNUAL AND QUARTERLY PRICES AND INFLATION RATES FOR SOME KEY CATEGORIES BY ROOM NUMBER

Annual and Quarterly FNB House Price Averages (Rand)						
Date	Freehold 2 bedrooms	Freehold 3 bedroom	Sectional title less than 2 bedrooms	Sectional title 2 bedrooms	Sectional title 3 bedroom	Overall House Price Average
2001	185,482	305,457	136,438	195,441	290,113	269,263
2002	195,624	321,087	151,004	227,607	341,843	297,363
2003	221,928	367,921	202,147	301,677	438,123	353,207
2004	295,241	478,831	290,849	402,152	567,799	457,386
2005	337,163	590,871	370,650	498,201	694,171	570,403
2006	344,929	666,596	412,658	559,711	797,270	640,026
2007	363,642	745,902	446,080	604,020	866,423	711,591
2008	347,858	818,314	451,467	614,356	913,663	748,428
Q3-2000	164,234	298,687	140,259	189,603	273,606	265,339
Q4-2000	172,088	300,664	139,293	190,521	275,763	266,548
Q1-2001	178,750	302,773	137,848	191,507	279,188	268,279
Q2-2001	183,912	304,171	135,882	193,038	285,080	266,354
Q3-2001	187,924	305,816	135,310	196,129	292,953	268,193
Q4-2001	191,342	309,066	136,710	201,091	303,232	274,224
Q1-2002	194,035	313,502	140,205	208,516	316,442	285,995
Q2-2002	195,454	318,069	145,711	219,133	331,619	294,579
Q3-2002	195,820	322,891	153,498	232,889	349,309	299,189
Q4-2002	197,187	329,885	164,601	249,891	370,002	309,691
Q1-2003	201,662	340,663	177,052	269,332	394,012	326,234
Q2-2003	211,744	355,749	191,645	290,644	421,541	341,922
Q3-2003	227,313	375,308	209,499	312,180	452,309	358,594
Q4-2003	246,994	399,964	230,392	334,550	484,632	386,079
Q1-2004	267,651	428,949	252,999	359,099	516,953	413,543
Q2-2004	286,938	460,722	276,902	386,291	549,671	432,345
Q3-2004	304,937	495,329	303,275	416,449	583,844	464,934
Q4-2004	321,439	530,323	330,222	446,771	620,727	518,723
Q1-2005	333,240	560,592	351,719	472,422	654,200	561,855
Q2-2005	337,520	583,107	366,768	491,636	682,250	569,539
Q3-2005	338,363	600,683	377,210	506,893	707,065	565,713
Q4-2005	339,531	619,104	386,902	521,852	733,171	584,507
Q1-2006	341,408	638,704	396,818	537,415	761,508	616,202
Q2-2006	342,285	657,239	407,276	552,534	788,578	633,145
Q3-2006	345,372	675,393	417,852	567,628	810,375	644,509
Q4-2006	350,651	695,049	428,685	581,266	828,617	666,250
Q1-2007	356,604	716,017	436,844	592,480	845,379	686,580
Q2-2007	362,995	735,868	442,769	601,037	858,933	697,578
Q3-2007	367,522	755,896	449,379	608,330	873,425	717,625
Q4-2007	367,446	775,827	455,329	614,231	887,957	744,582
Q1-2008	362,281	793,874	458,259	616,379	900,650	756,493
Q2-2008	353,407	809,822	455,907	615,409	910,649	747,027
Q3-2008	343,743	826,540	449,700	613,563	918,676	746,090
Q4-2008	332,000	843,019	442,000	612,072	924,676	744,102

Annual and Quarterly FNB House Price Averages - Year-on-year percentage change

Date	Freehold 2 bedrooms	Freehold 3 bedroom	Sectional title less than 2 bedrooms	Sectional title 2 bedrooms	Sectional title 3 bedroom	Overall House Price Average
2002	5.5%	5.1%	10.7%	16.5%	17.8%	10.4%
2003	13.4%	14.6%	33.9%	32.5%	28.2%	18.8%
2004	33.0%	30.1%	43.9%	33.3%	29.6%	29.5%
2005	14.2%	23.4%	27.4%	23.9%	22.3%	24.7%
2006	2.3%	12.8%	11.3%	12.3%	14.9%	12.2%
2007	5.4%	11.9%	8.1%	7.9%	8.7%	11.2%
2008	-4.3%	9.7%	1.2%	1.7%	5.5%	5.2%
Q3-2001	14.4%	2.4%	-3.5%	3.4%	7.1%	1.1%
Q4-2001	11.2%	2.8%	-1.9%	5.5%	10.0%	2.9%
Q1-2002	8.6%	3.5%	1.7%	8.9%	13.3%	6.6%
Q2-2002	6.3%	4.6%	7.2%	13.5%	16.3%	10.6%
Q3-2002	4.2%	5.6%	13.4%	18.7%	19.2%	11.6%
Q4-2002	3.1%	6.7%	20.4%	24.3%	22.0%	12.9%
Q1-2003	3.9%	8.7%	26.3%	29.2%	24.5%	14.1%
Q2-2003	8.3%	11.8%	31.5%	32.6%	27.1%	16.1%
Q3-2003	16.1%	16.2%	36.5%	34.0%	29.5%	19.9%
Q4-2003	25.3%	21.2%	40.0%	33.9%	31.0%	24.7%
Q1-2004	32.7%	25.9%	42.9%	33.3%	31.2%	26.8%
Q2-2004	35.5%	29.5%	44.5%	32.9%	30.4%	26.4%
Q3-2004	34.1%	32.0%	44.8%	33.4%	29.1%	29.7%
Q4-2004	30.1%	32.6%	43.3%	33.5%	28.1%	34.4%
Q1-2005	24.5%	30.7%	39.0%	31.6%	26.5%	35.9%
Q2-2005	17.6%	26.6%	32.5%	27.3%	24.1%	31.7%
Q3-2005	11.0%	21.3%	24.4%	21.7%	21.1%	21.7%
Q4-2005	5.6%	16.7%	17.2%	16.8%	18.1%	12.7%
Q1-2006	2.5%	13.9%	12.8%	13.8%	16.4%	9.7%
Q2-2006	1.4%	12.7%	11.0%	12.4%	15.6%	11.2%
Q3-2006	2.1%	12.4%	10.8%	12.0%	14.6%	13.9%
Q4-2006	3.3%	12.3%	10.8%	11.4%	13.0%	14.0%
Q1-2007	4.5%	12.1%	10.1%	10.2%	11.0%	11.4%
Q2-2007	6.1%	12.0%	8.7%	8.8%	8.9%	10.2%
Q3-2007	6.4%	11.9%	7.5%	7.2%	7.8%	11.3%
Q4-2007	4.8%	11.6%	6.2%	5.7%	7.2%	11.8%
Q1-2008	1.6%	10.9%	4.9%	4.0%	6.5%	10.2%
Q2-2008	-2.6%	10.0%	3.0%	2.4%	6.0%	7.1%
Q3-2008	-6.5%	9.3%	0.1%	0.9%	5.2%	4.0%
Q4-2008	-9.6%	8.7%	-2.9%	-0.4%	4.1%	-0.1%