

Residential Property Indices



BIG DROP IN AFFORDABLE MARKET HOUSE PRICE INFLATION DRIVING OVERALL MARKET INTO NEGATIVE TERRITORY

MOST RECENT MONTHLY INFLATION FIGURES SHOW NEGATIVE GROWTH

Lightstone's latest repeat sales house price index (based on Deeds Office data) up to the end of April shows that national house price inflation has started to drop much more rapidly than in previous months. Year on year inflation has dropped from 7.4% in March to 5.8% in April, a drop of 1.6%. This is significantly more than previous monthly drops which have been below 1% over the preceding 6 months. Using more recent mortgage application data shows that year on year inflation has dropped further to 3.3% by July and suggests that year on year inflation will finally hit negative territory around October 2008.

Annualising the April month on month inflation rate* shows even more clearly how recent market performance has dropped off so dramatically. The annualised monthly inflation rate in April dropped to -3.7% which shows that nationally, house prices were in decline between March and April.

At a segment level, year on year inflation up to April 2008 continues to show a dichotomy between the Affordable market (R250,000), which is growing at 20.0%, and the rest of the market which is growing in the 3-7% range. The biggest drops since the beginning of 2007 have been experienced geographically in KwaZulu Natal, now at 3.9%, and value-wise in the mid market (R250,000 to R700,000) which is now at 6.8%.

The worst performing markets on a year on year basis up to April are:

Major Province – KZN at 3.9%

Municipality – Nelson Mandela (Port Elizabeth) at 2.7%

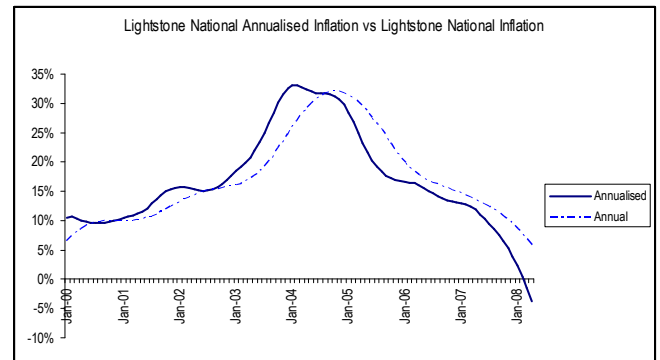
Area value band – High value (R700,000 to R1.5m) at 3.3%

The best performing markets on a year on year basis up to April are:

Major Province – Western Cape at 6.3%

Municipality – Cape Town at 6.6%

Area value band – Affordable (<R250,000) at 20.0%



The detailed performance of the different segments tracked is shown in more detail in the pages that follow.

* Annualised house price inflation takes the most recent change in monthly house price inflation and converts it to an annual rate i.e. it shows the month on month change as apposed to the year on year change. This emphasises recent changes in house price inflation which are muted by looking at a year on year view

DISCLAIMER

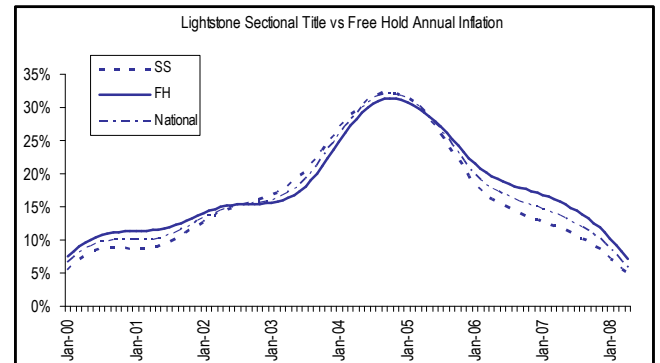
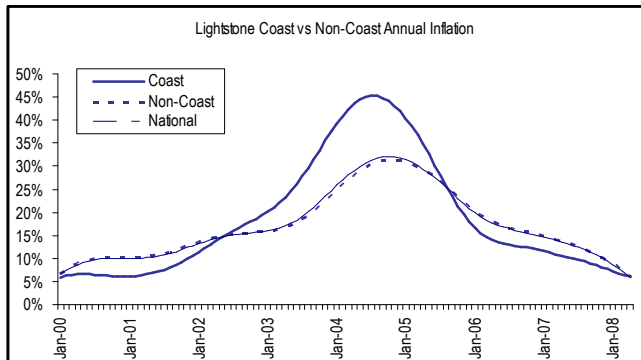
The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial rigour applied, Lightstone cannot guarantee the accuracy and reliability of the data. Furthermore, the index is a statistical tool and does not amount to advice and may not be applicable in some cases. Lightstone does not take responsibility for any losses incurred as a result of any person acting or omitting to act as a result of the publication of this index.

Residential Property Indices



COASTAL VS NON-COASTAL INDEX

Both Coastal and Non-coastal house price inflation has converged to about 6% up to April 2008. Coastal inflation has been below Non-coastal inflation from mid way through 2005, driven mainly by the more discretionary spending on second properties that takes place in the Coastal segment. As inflation, along with interest rates, started to rise over this period, prices at the Coast have come under pressure as owners have found it more difficult to afford to own a vacation home. However this price discrepancy has now disappeared and Non-coastal houses are under the same level of price pressure.

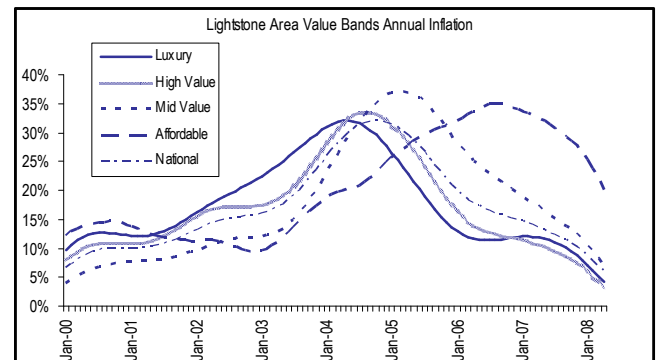


AREA VALUE BAND INDEX

The story up to now has been the enormous difference in performance between the Affordable segment of the market (<R250,000) and the rest of the market. On a year on year basis this remains true, however the story more in more recent months is beginning to paint a different picture. Annualised monthly performance in the Affordable market dropped from just over 20% in December 2007 to 3.8% in April, a dramatic decrease. This can be clearly seen in the big downward plunge in the most recent year on year inflation rates and is probably the major driver for National annualised house price inflation dipping into negative territory recently. With respect to the other segments the monthly annualised inflation rates in April are Mid Value (R250k-R700k): -3.5%; High Value (R700k to R1.5m): -4.6% and Luxury (>R1.5m): -2.2%.

FREE HOLD VS SECTIONAL TITLE INDEX

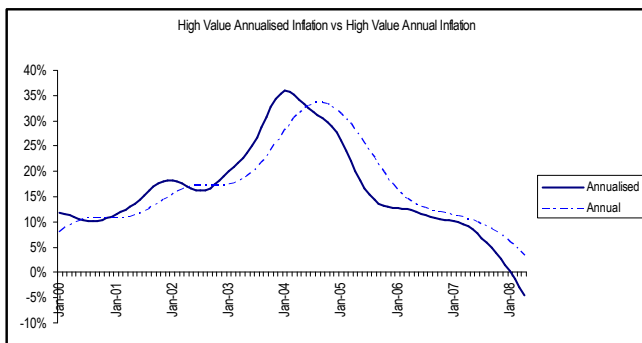
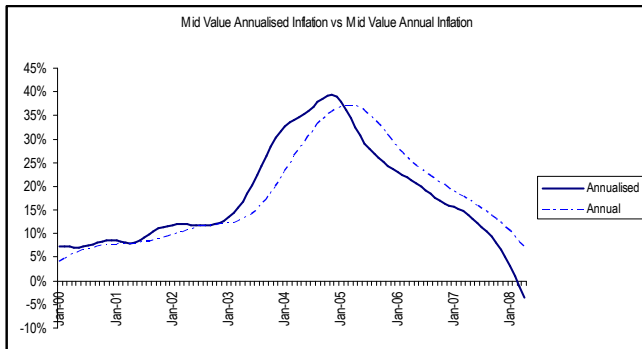
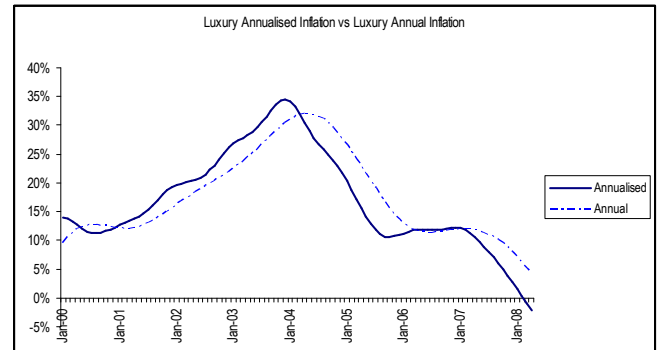
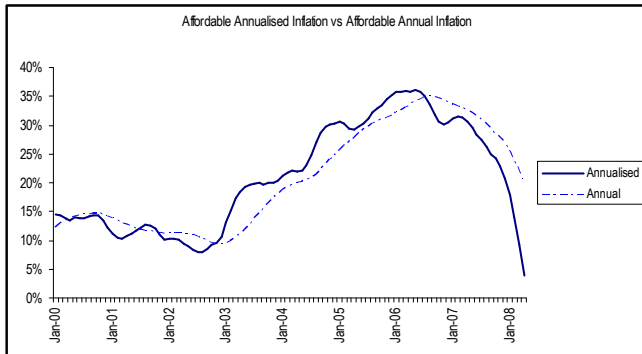
Although the year on year inflation rate to April 2008 of Freehold properties remains above Sectional Title properties (7.1% vs. 4.8%) the annualised monthly performance tells a different story. On this basis, Freehold properties were dropping -4.4% per year while Sectional Title properties were dropping -1.8%. This is reflected in the recent narrowing of the gap in inflation rates on a year on year basis. Increased demand for properties near urban nodes and the better security on offer for Sectional Title properties would suggest that that this segment should outperform Freehold properties. However the large numbers of new developments that have come onto the market over this period appear to have depressed repeat sales inflation over the last few years.



DISCLAIMER

The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial rigour applied, Lightstone cannot guarantee the accuracy and reliability of the data. Furthermore, the index is a statistical tool and does not amount to advice and may not be applicable in some cases. Lightstone does not take responsibility for any losses incurred as a result of any person acting or omitting to act as a result of the publication of this index.

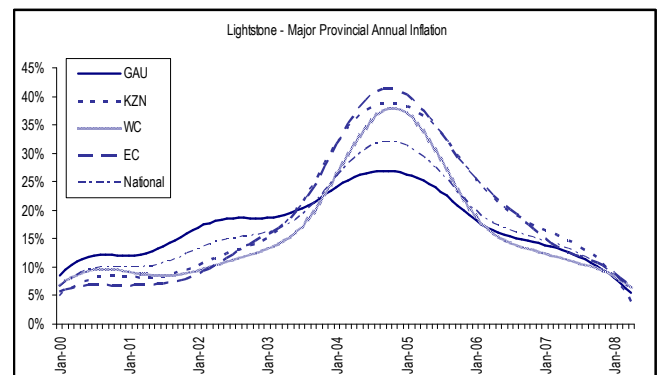
Residential Property Indices



PROVINCIAL INDEX

Of the major provinces, the Eastern and Western Cape are the top performing provinces on a year on year basis at 6.2% and 6.3% respectively. Gauteng follows at follows at 5.5% with KZN bringing up the rear at 3.9%. Interestingly there are significant differences between the year-on-year performances of the smaller provinces up to April 2008 (which will be further analysed in our next release):

- North West – 15.6%
- Limpopo – 10.1%
- Northern Cape – 10.0%
- Free State – 9.4%
- Mpumalanga – 3.3%.



DISCLAIMER

The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial rigour applied, Lightstone cannot guarantee the accuracy and reliability of the data. Furthermore, the index is a statistical tool and does not amount to advice and may not be applicable in some cases. Lightstone does not take responsibility for any losses incurred as a result of any person acting or omitting to act as a result of the publication of this index.

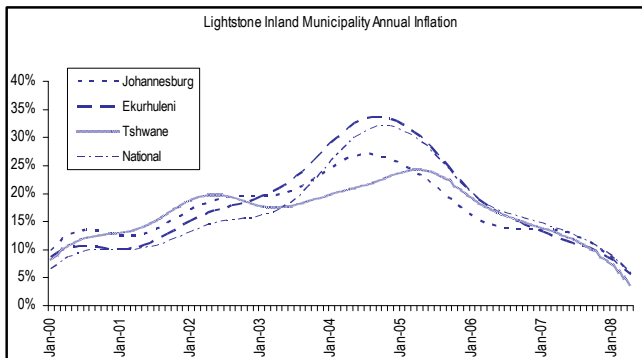
Residential Property Indices



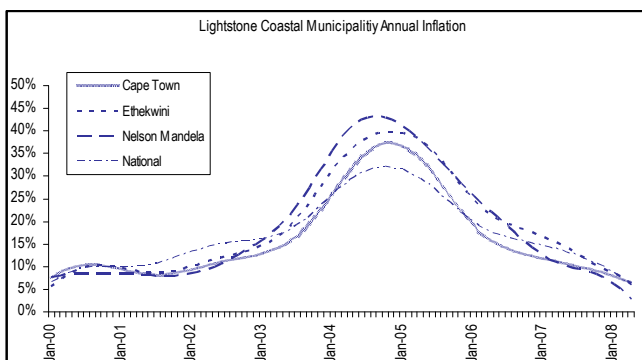
MUNICIPAL INDEX

Finally, when one examines the major municipalities, Cape Town (6.6%) and Ethekwini (6.4%) have marginally the best year on year inflation. On the other end of the scale Tshwane (3.8%) and Nelson Mandela (2.7%) are the lowest performing municipalities. Joburg and Ekurhuleni are sitting in the middle of the pack at 5.7% and 5.6% respectively.

Inland Municipalities Index



Coastal Municipalities Index



DISCLAIMER

The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial rigour applied, Lightstone cannot guarantee the accuracy and reliability of the data. Furthermore, the index is a statistical tool and does not amount to advice and may not be applicable in some cases. Lightstone does not take responsibility for any losses incurred as a result of any person acting or omitting to act as a result of the publication of this index.

Residential Property Indices



									2007					2008				
		2000	2001	2002	2003	2004	2005	2006	Q1	Q2	Q3	Oct	Nov	Dec	Jan	Feb	Mar	Apr
	NATIONAL	9.1%	10.9%	14.9%	19.4%	30.0%	26.6%	17.4%	14.8%	13.6%	12.2%	11.1%	10.5%	9.9%	9.2%	8.3%	7.4%	5.8%
PROVINCE	EASTERN CAPE	6.9%	7.2%	12.1%	21.4%	38.1%	33.6%	21.1%	15.1%	13.5%	12.5%	11.6%	11.0%	10.3%	9.7%	8.8%	7.7%	6.2%
	GAUTENG	11.3%	13.7%	18.2%	20.4%	26.0%	23.1%	16.2%	14.1%	13.2%	11.8%	10.6%	10.0%	9.3%	8.5%	7.6%	6.6%	5.5%
	KWAZULU NATAL	7.5%	8.7%	12.6%	21.4%	36.7%	33.4%	21.0%	16.6%	15.2%	13.3%	11.7%	10.8%	9.9%	9.1%	8.1%	6.5%	3.9%
	WESTERN CAPE	9.1%	8.8%	11.3%	17.8%	33.6%	29.3%	15.4%	12.3%	11.4%	10.5%	10.0%	9.7%	9.5%	9.5%	8.7%	8.5%	6.3%
MUNICIPALITIES	CITY OF CAPE TOWN	9.7%	8.7%	11.1%	17.5%	33.2%	29.4%	14.9%	11.6%	10.8%	10.0%	9.5%	9.2%	8.9%	9.0%	8.2%	8.2%	6.6%
	CITY OF JOHANNESBURG	12.7%	13.8%	18.9%	21.1%	26.2%	21.2%	14.5%	13.9%	13.4%	12.1%	10.8%	10.2%	9.5%	9.0%	8.2%	7.0%	5.7%
	CITY OF TSHWANE	11.2%	15.1%	19.1%	18.1%	21.4%	22.8%	16.6%	14.0%	12.8%	11.2%	9.9%	9.2%	8.4%	7.3%	6.1%	5.3%	3.8%
	EKHURULENI METROPOLITAN	10.0%	11.8%	17.3%	22.9%	32.4%	26.9%	17.0%	13.6%	12.3%	10.8%	9.6%	8.9%	8.1%	8.1%	7.4%	6.9%	5.6%
	ETHEKWINI	9.0%	9.0%	12.3%	20.8%	36.9%	34.0%	20.5%	16.5%	14.5%	12.0%	10.2%	9.3%	8.5%	8.9%	9.6%	8.1%	6.4%
	NELSON MANDELA	8.2%	8.0%	11.3%	23.7%	40.9%	34.0%	19.3%	12.1%	10.6%	9.2%	8.0%	7.0%	5.9%	4.9%	4.3%	3.9%	2.7%
COAST	NON-COAST	9.3%	11.1%	15.0%	18.8%	29.0%	26.6%	17.6%	15.0%	13.8%	12.3%	11.1%	10.5%	9.8%	9.4%	8.5%	7.5%	5.9%
	COAST	6.6%	7.5%	15.8%	27.9%	43.1%	29.2%	13.8%	11.3%	10.6%	10.4%	10.7%	10.9%	11.2%	8.5%	7.0%	7.2%	6.0%
ST / FH	SECTIONAL TITLE	8.0%	9.9%	14.8%	20.4%	30.4%	26.0%	15.3%	12.6%	11.6%	10.4%	9.6%	9.3%	8.9%	8.0%	7.0%	6.0%	4.8%
	FREE HOLD	10.3%	12.1%	15.2%	18.5%	29.2%	27.1%	19.9%	17.4%	16.2%	14.4%	13.0%	12.2%	11.4%	10.8%	9.7%	8.9%	7.1%
AREA VALUE BANDS	LUXURY	12.5%	14.0%	20.1%	27.4%	29.7%	19.1%	11.8%	12.2%	11.8%	10.7%	9.7%	9.2%	8.6%	8.1%	5.6%	5.1%	4.2%
	HIGH VALUE	10.2%	12.2%	16.9%	21.3%	31.8%	24.1%	13.2%	11.3%	10.4%	9.1%	8.1%	7.5%	7.0%	6.4%	5.6%	4.6%	3.3%
	MID VALUE	6.4%	8.1%	11.0%	15.5%	30.7%	34.5%	23.6%	18.7%	16.8%	14.9%	13.5%	13.2%	12.7%	11.8%	10.1%	8.5%	6.8%
	AFFORDABLE	16.2%	12.0%	11.1%	13.5%	22.3%	30.4%	38.0%	35.6%	34.1%	31.1%	28.3%	26.6%	24.8%	24.3%	21.8%	21.1%	20.0%

AUTHOR

Andrew Watt

Business Development Director, Lightstone

NOTE ON METHODOLOGY AND DATA

In contrast to 'average house price' indices, repeat sales indices provide a measure of the actual price inflation of houses that have transacted twice within a particular period of time. The main benefit of this is that it is less influenced by the mix of transacting properties. The repeat sales methodology is recognised as the premier methodology for indexing house prices and is used by many international residential property price indexers including the Office of Federal Housing Enterprise Oversight (OFHEO) in the United States.

All property transactions in South Africa are registered in the Deeds Office and each record contains the legal details of both the property and the transaction. For the purposes of the Repeat Sales Index for residential properties, the following transactions have been excluded: farms; any transactions which may be of a development, commercial or community services nature; new developments; sales made in execution of a judgement; non-arms-length transactions; transactions where the inflation is extremely different to the norm of the statistical distribution of inflation rates; and township transactions

For more information please contact Lightstone Risk Management.

DISCLAIMER

The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial rigour applied, Lightstone cannot guarantee the accuracy and reliability of the data. Furthermore, the index is a statistical tool and does not amount to advice and may not be applicable in some cases. Lightstone does not take responsibility for any losses incurred as a result of any person acting or omitting to act as a result of the publication of this index.