

Residential Property Indices



LIGHTSTONE'S NATIONAL REPEAT SALES INDEX FOR DECEMBER SHOWS 2% ANNUAL PRICE DROP

UNDERSTANDING PRICE TRENDS IN BONDED AND UNBONDED PROPERTY TRANSACTIONS IS INCREASINGLY IMPORTANT

Lightstone's annual house price inflation has dropped to 0.1% in September, down by 0.9% from previous month and down by 11.2% from September 2007. Extrapolating the September house price to December indicates that December house price inflation is -2.0% year on year.

Unlike other indices, Lightstone's repeat sales house price index is based on all transactions recorded in the National Deeds Office and tracks repeats sales inflation instead of average or median house price inflation. The advantage of this approach is that it covers both bonded and unbonded transactions and strips out the affect of mix changes in transaction types. Lightstone has noted that over the last 6 months bonded transaction volumes have decreased much faster than unbonded transaction volumes. As a result, the volume of bonded and unbonded transactions are almost equal - bonded transactions used to be more than double that of unbonded transactions in 2006 and 2007. Therefore understanding the total transaction volumes in the market is a becoming increasingly important as an indicator of true house price inflation.

Annualised house price inflation, which is calculated by annualising the most recent monthly inflation, is showing a slight up turn reaching -0.6% this month, a slight improvement from -1.1% in August. However, this is a notoriously volatile number so not too much should be read into monthly changes. Overall the trend is still negative.

Many of the sub-segments tracked are now showing negative annual house price inflation. Overall however the picture is of one where most mid value to luxury properties are showing growth between -4% and +2% with only the Affordable market showing any strength.

The best and worst performing markets on an annual basis to the end of September were:

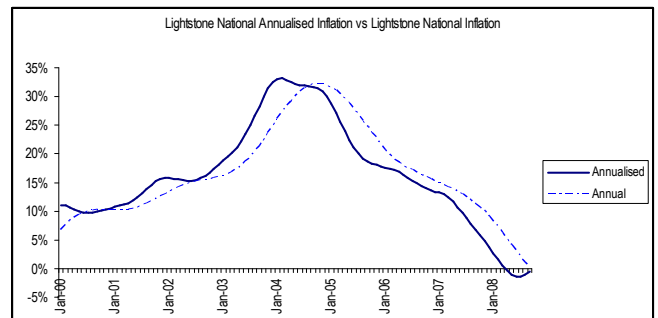
Best performers

Major Province – Eastern Cape at 1.2%
Municipality – Ekurhuleni at -0.2%
Area value band – Affordable Market at 17.5%

Worst performers

Major Province – KZN at -1.7%
Municipality – Nelson Mandela at -3.7%
Area value band – Luxury and High Value Markets at -2.3%

The decline in the residential property prices is expected to continue into 2009. Economic drivers which could halt the decline in prices are being seen e.g. falling interest rates and inflation. However a big unknown is the impact of increasingly strict bank lending criteria. This could further drive down the supply of financing and hence availability of buyers.



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

DISCLAIMER

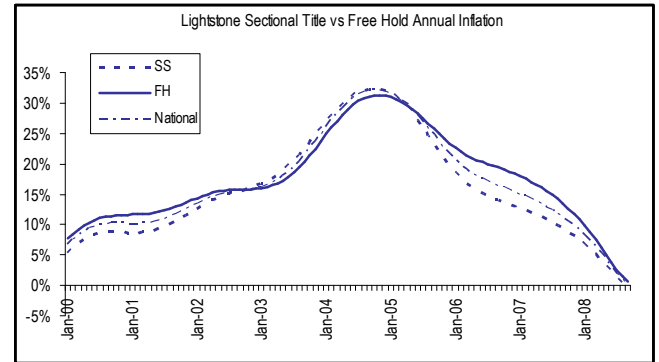
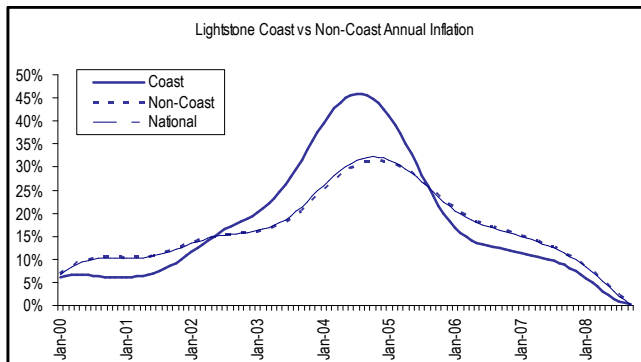
The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial 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.

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COASTAL VS NON-COASTAL INDEX

The gap between coastal and non-coastal regions has narrowed in September reaching 0.3% and 0.2% respectively. Non-coastal regions have seen a substantial drop of 31% from their peak in late 2004, while coastal regions have dropped by 46% after peaking in mid 2004. The pressure that coastal areas have come under is as a result of these regions being mostly influenced by holiday investment properties, the market that first comes under pressure as the economy takes a downward turn and financing costs increase.

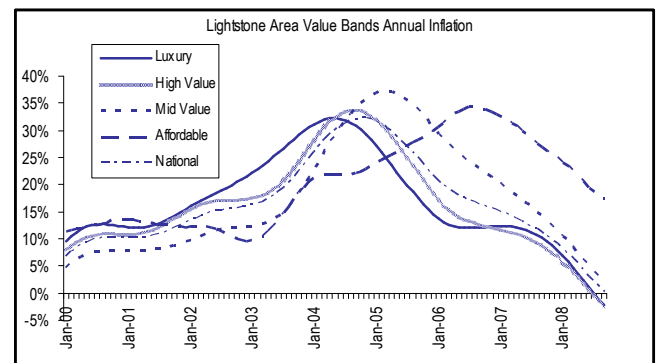


AREA VALUE BAND INDEX

Lightstone's area value bands show the annual price trends for areas with different average values. This month the High Value market (R750k – R1.5m) and Luxury market (above R1.5m) have both experienced a sharp decline into negative territory with both categories performing at -2.3% in September. The Affordable and Mid Value markets (below R750k) have remained positive at 17.5% and 2.3% respectively, with the Affordable market continuing to be by far the strongest performing segment. The slight uptick in inflation in September is not expected to continue and we expect to see inflation resume its downward trend next month.

FREE HOLD VS SECTIONAL TITLE INDEX

Sectional title properties have seen a considerable drop in September reaching -0.6% inflation, down by 0.9% from last month. This is possibly driven by many sectional title buy-to-let properties struggling to find buyers and these properties staying on the market for long periods of time. Freehold properties, with +0.6% inflation this month, outperform sectional title properties although it will be interesting to see whether the increase in the gap will persist.



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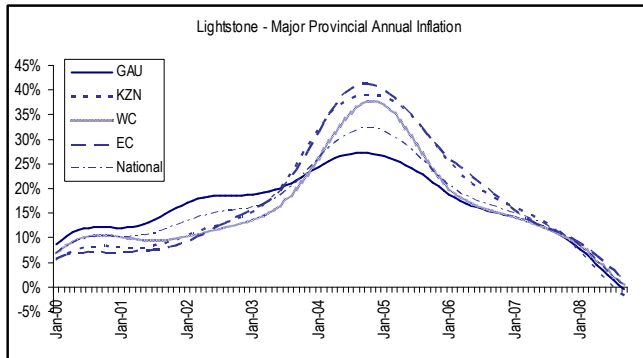
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PROVINCIAL INDEX

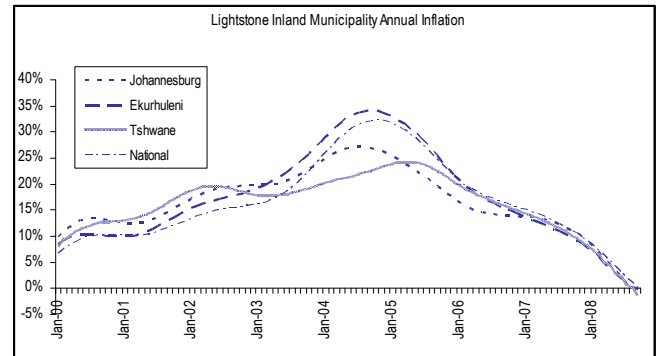
Of the major provinces, KZN and Gauteng are both experiencing negative inflation numbers this month at -1.7% and -0.5%, respectively. Although KZN has experienced negative inflation since July, this is the first month that Gauteng has dipped into negative territory dropping by 0.9% from previous month. The Eastern Cape remains the top performing province at 1.2% well above national inflation, although it is unlikely that this province will stay out of negative inflation territory in the coming months.



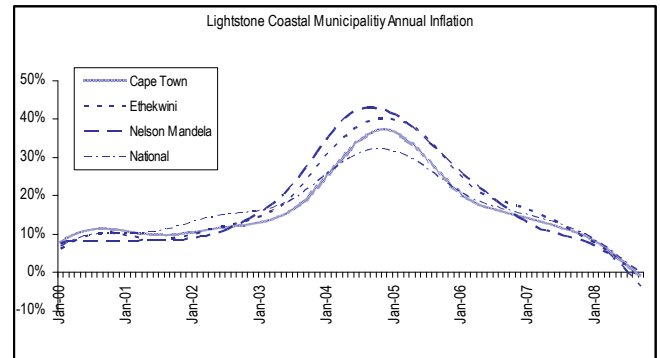
MUNICIPAL INDEX

This month all inland and coastal municipalities are experiencing negative inflation, with Nelson Mandela municipality showing the worst inflation numbers nationally at -3.7%. Cape Town is the strongest performing coastal municipality at -0.6%, while Ekurhuleni is the strongest performing inland municipality at -0.2%, both are well below national inflation which is at 0.1%. This does indicate that inflation rates outside the metros are marginally positive, a finding that requires more detailed analysis.

Inland Municipalities Index



Coastal Municipalities Index



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Inflation table

									2007				2008						
		2000	2001	2002	2003	2004	2005	2006	Q1	Q2	Q3	Q4	Q1	Apr	May	Jun	Jul	Aug	Sep
PROVINCE	NATIONAL	9.1%	10.9%	14.9%	19.4%	30.0%	26.6%	17.4%	14.8%	13.6%	12.2%	10.0%	7.5%	5.8%	4.5%	2.9%	1.5%	0.4%	0.1%
	EASTERN CAPE	6.9%	7.2%	12.1%	21.4%	38.1%	33.6%	21.1%	15.1%	13.5%	12.5%	9.9%	8.3%	6.2%	6.6%	4.2%	4.7%	2.5%	1.2%
	GAUTENG	11.3%	13.7%	18.2%	20.4%	26.0%	23.1%	16.2%	14.1%	13.2%	11.8%	9.5%	7.0%	5.5%	4.1%	2.8%	1.2%	-0.3%	-0.5%
	KWAZULU NATAL	7.5%	8.7%	12.6%	21.4%	36.7%	33.4%	21.0%	16.6%	15.2%	13.3%	10.5%	6.6%	3.9%	1.0%	-0.7%	-1.8%	-2.1%	-1.7%
	WESTERN CAPE	9.1%	8.8%	11.3%	17.8%	33.6%	29.3%	15.4%	12.3%	11.4%	10.5%	9.3%	7.5%	6.3%	4.9%	2.7%	1.8%	0.7%	0.3%
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%	8.8%	8.6%	6.6%	4.7%	4.0%	1.2%	0.5%	-0.6%
	CITY OF JOHANNESBURG	12.7%	13.8%	18.9%	21.1%	26.2%	21.2%	14.5%	13.9%	13.4%	12.1%	10.0%	7.1%	5.7%	3.8%	2.4%	0.2%	-1.2%	-1.4%
	CITY OF TSHWANE	11.2%	15.1%	19.1%	18.1%	21.4%	22.8%	16.6%	14.0%	12.8%	11.2%	8.7%	6.0%	3.8%	2.7%	1.5%	0.7%	-0.6%	-1.1%
	EKHURULENI METROPOLITAN	10.0%	11.8%	17.3%	22.9%	32.4%	26.9%	17.0%	13.6%	12.3%	10.8%	9.2%	7.0%	5.6%	4.1%	1.7%	0.1%	-1.5%	-0.2%
	ETHEKWINI	9.0%	9.0%	12.3%	20.8%	36.9%	34.0%	20.5%	16.5%	14.5%	12.0%	9.9%	7.3%	6.4%	3.8%	1.8%	0.8%	-0.8%	-1.9%
COAST	NELSON MANDELA	8.2%	8.0%	11.3%	23.7%	40.9%	34.0%	19.3%	12.1%	10.6%	9.2%	7.6%	5.7%	2.7%	2.8%	-0.2%	-1.2%	-3.0%	-3.7%
	NON-COAST	9.3%	11.1%	15.0%	18.8%	29.0%	26.6%	17.6%	15.0%	13.8%	12.3%	10.1%	7.6%	5.9%	4.6%	3.1%	1.8%	0.4%	0.2%
ST / FH	COAST	6.6%	7.5%	15.8%	27.9%	43.1%	29.2%	13.8%	11.3%	10.6%	10.4%	8.2%	5.7%	6.0%	3.0%	1.8%	0.9%	0.5%	0.3%
	SECTIONAL TITLE	8.0%	9.9%	14.8%	20.4%	30.4%	26.0%	15.3%	12.6%	11.6%	10.4%	8.5%	6.2%	4.8%	3.5%	2.4%	1.5%	0.3%	-0.6%
AREA VALUE BANDS	FREE HOLD	10.3%	12.1%	15.2%	18.5%	29.2%	27.1%	19.9%	17.4%	16.2%	14.4%	11.7%	8.9%	7.1%	5.6%	3.4%	1.6%	0.8%	0.6%
	LUXURY	12.5%	14.0%	20.1%	27.4%	29.7%	19.1%	11.8%	12.2%	11.8%	10.7%	8.9%	6.0%	4.2%	2.7%	1.0%	-0.4%	-1.2%	-2.3%
	HIGH VALUE	10.2%	12.2%	16.9%	21.3%	31.8%	24.1%	13.2%	11.3%	10.4%	9.1%	7.5%	4.8%	3.3%	1.4%	-0.2%	-1.2%	-2.1%	-2.3%
	MID VALUE	6.4%	8.1%	11.0%	15.5%	30.7%	34.5%	23.6%	18.7%	16.8%	14.9%	12.0%	9.4%	6.8%	6.5%	5.1%	3.6%	2.1%	2.3%
	AFFORDABLE	16.2%	12.0%	11.1%	13.5%	22.3%	30.4%	38.0%	35.6%	34.1%	31.1%	27.6%	25.0%	20.0%	20.0%	19.0%	15.4%	14.3%	17.5%

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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.

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