

Residential Property Indices



NATIONAL HOUSE PRICE INFLATION RAPIDLY HEADS TOWARDS NEGATIVE TERRITORY

NATIONAL PRICE APPRECIATION ACCELERATING DOWN

The national rate of house price inflation has accelerated down towards negative territory in the last few months. Year on year inflation dropped from 8.3% in February to 7.4% in March 2008. However when one annualises the most recent monthly change in house price inflation*, one finds that recent inflation is closer to 2.8%. This is significantly below the annualised 4.5% figure for February which confirms that the downward trend in house price inflation is picking up momentum.

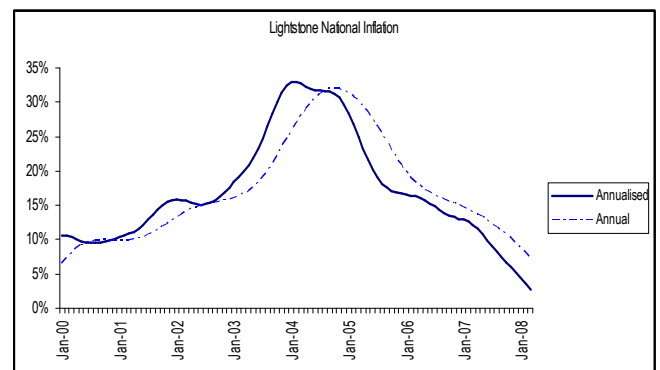
The current downward trend of 1-2% drop per month in house price inflation would indicate that June 2008 year on year inflation is about 4% while annualised monthly inflation will be around -2%.

Since the relationship between year on year and annualised monthly house price inflation has widened recently, it indicates that recently the price performance has begun to deteriorate rapidly. The impact of successive interest rate hikes and inflation in food and energy prices in particular has started to eat away at disposable income, resulting in a sharp drop in demand for housing. This has put house prices under pressure and is being felt in the majority of the market segments tracked.

Whilst most segments (whether geographic or value based) have been showing stress for some time now, previously stronger performing segments are now correcting sharply. The affordable housing market (average prices below <R250,000) has seen annual inflation drop from 35% in Q1, 2007 to 21% in March 2008. Similarly the mid-value (R250,000-R700,000) market has dropped from 19% to 9% over the same period.

The luxury (>R1,500,000) and high value (R700,000 to R1,500,000) markets are now the worst performing nationally while on a regional basis, Gauteng and KwaZulu Natal are performing the worst.

Regardless of near term interest rate forecasts, we expect to see the downward trend in house price inflation persist for some time to come. Reserve bank lending statistics and sales in execution notices both show signs that borrowers are under increasing strain which will not be resolved in the short term. Furthermore, as current owners try to ride out the storm, they are only resorting to a sale when all other options are exhausted. This is leading to a low transaction volumes combined with depressed prices as the few remaining buyers wait for house price inflation to bottom out.



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. This emphasises recent the recent changes in house price inflation which is muted by looking at a year on year view

DISCLAIMER

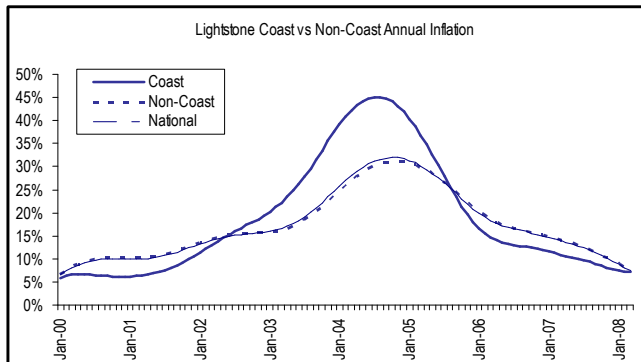
The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial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

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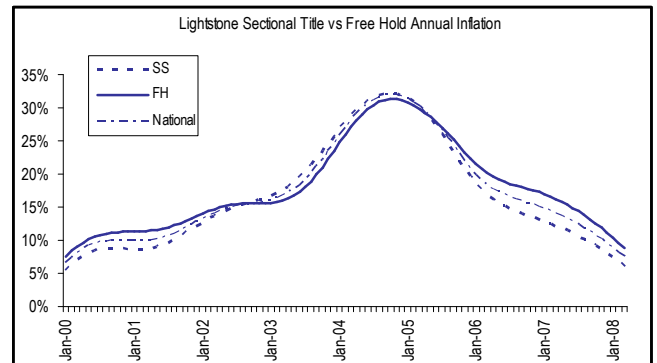
COASTAL VS NON-COASTAL INDEX

Both Coastal and Non-coastal house price inflation has converged around 7.0-7.5% up to March 2008. While Non-coastal inflation seems to be dropping faster than Coastal inflation, the trends are volatile and we would not expect there to be significant differentiation over the next few months. Coastal houses are often more vacation related than Non-coastal houses and are thus a good indicator of what is happening in the vacation market. There has clearly been some strain in this market since the peaks of 2004 as the discretionary spend required to finance a second home has come under pressure. Furthermore, while wealthy foreign buyers do play a more active role in the Coastal market, their contribution remains relatively small compared to local buyers and as a result will generally not offer relief to this segment.



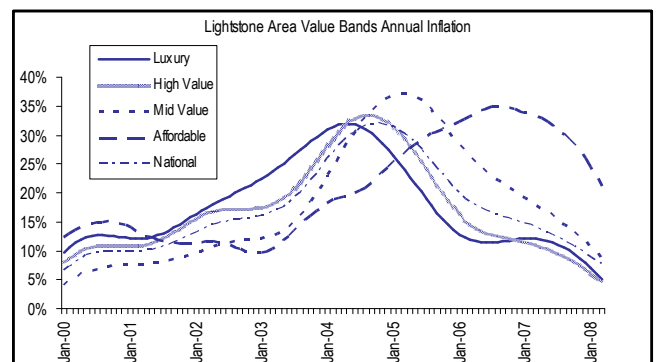
FREE HOLD VS SECTIONAL TITLE INDEX

The difference in performance between Freehold and Sectional Title properties has also narrowed over the last year with Freehold properties continuing to outperform Sectional Title properties. Freehold year on year price inflation up to March 2008 was 8.9% which is 2.9% above Sectional Title properties for the same period. Increased densification and better security on offer for Sectional Title properties should indicate that this segment would begin to outperform Freehold properties however the large numbers of new developments sold by commercial developers seems to have depressed repeat sales inflation over the last few years.



AREA VALUE BAND INDEX

Lightstone's area value bands show the price trends for areas with different average values. The affordable market (<R250,000) is the strongest performing segment, having lagged the other segments by almost 2 years. However, although price inflation is still high, the rate of decline from its peaks is now steep having dropped to 21.1% in March. This is still well above the other segments (Mid-value = 8.5%; High-value = 4.6% and Luxury = 5.1%) but annualised monthly performance is closer to 15% which indicates, that despite the relatively strong underlying economics supporting this market, it is likely to join the other segments with single figure growth before year end.



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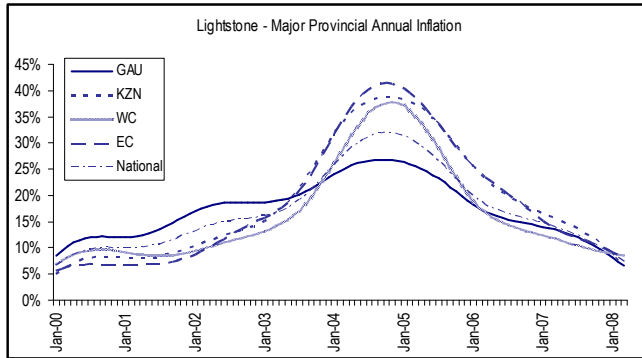
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PROVINCIAL INDEX

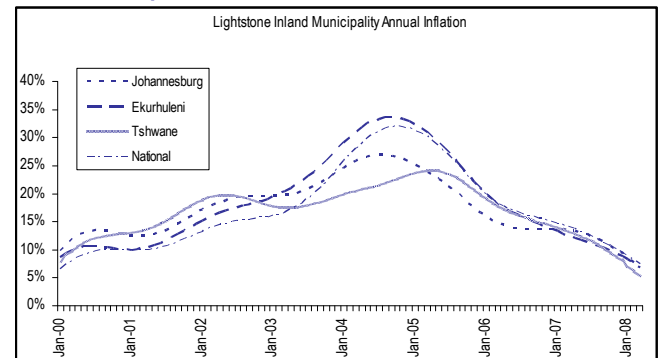
On a provincial level, KZN has joined Gauteng as the worst performing major provinces in the country with year on year inflation of 6.5% and 6.6% respectively. KZN has shown the most significant decline in the last month dropping from 8.1% in February. On the other hand, the Western Cape is the strongest performing of the major provinces with March inflation of 8.5% and has seen relatively slowly declines since Q3, 2007.



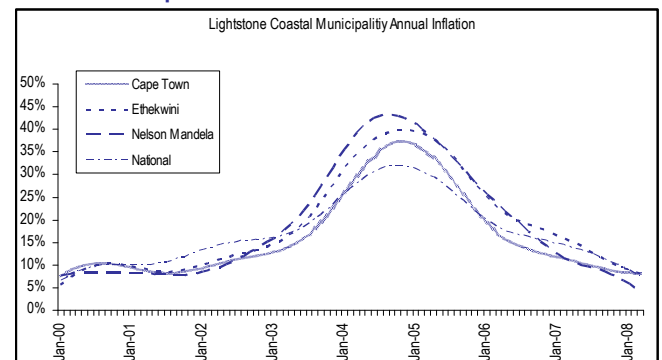
MUNICIPAL INDEX

Finally, when one examines the major municipalities, although there is little to separate them, Cape Town does seem to be holding up a little better than the others. Cape Town's inflation in March remained constant at 8.2% while all of the other municipalities showed a decline from February to March. The worst performing municipalities remain Nelson Mandela and Ekurhuleni which dropped to 3.9% and 5.3% respectively in March.

Inland Municipalities Index



Coastal Municipalities Index



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| | | | | | | | | | 2007 | | | | | 2008 | | | |
|------------------|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Q1 | Q2 | Q3 | Oct | Nov | Dec | Jan | Feb | Mar |
| PROVINCE | 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% |
| | 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% |
| | 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% |
| | 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% |
| | 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% |
| 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% |
| | 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% |
| | 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% |
| | 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% |
| | 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% |
| | 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% |
| 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% |
| | 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% |
| 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% |
| | 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% |
| 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% |
| | 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% |
| | 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% |
| | 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% |

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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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