

# Residential Property Indices



## MAY HOUSE PRICE INFLATION AT LOWEST LEVEL THIS DECADE

### ANNUAL HOUSE PRICE INFLATION NEGATIVE BY OCTOBER

Lightstone's latest repeat sales house price index (based on Deeds Office data) up to the end of May shows that national house price inflation has started to drop much more rapidly than in previous months. Month on month inflation dipped into negative territory from March 2008 dragging annual inflation even closer to zero. As a result annual inflation dropped from a revised 5.5% in April to 4.5% in May. More recent mortgage application data indicates that annual house price inflation has dropped to 1.7% in August which supports the prediction that **annual** house price inflation will be negative by October 2008.

Month on month house price inflation emphasises recent changes in house price inflation. Annualising May's month on month inflation rate\* shows that May inflation dropped to -3.6% from -2.0% in April. Projecting this forward to August suggests that monthly house price appreciation will reach -6 to -8% by August.

At a segment level, year on year inflation up to May 2008 in the Affordable market (R250,000), (which continues to grow at 20.0%) is the only market showing any strength. All of the other segments tracked are growing in the 1-7% range with several now very close to annual zero growth (e.g. KZN at 1.0% and the High Value segment at 1.4%).

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

#### Best performers

Major Province – Eastern Cape at 6.6%

Municipality – Cape Town at 4.7%

Area value band – Affordable Market at 20.0%

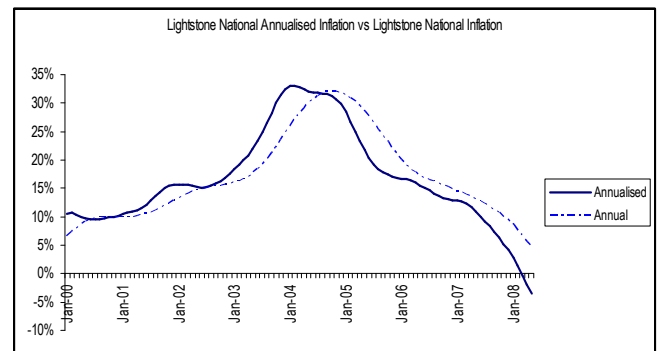
#### Worst performers

Major Province – KZN at 1.0%

Municipality – Tshwane at 2.7%

Area value band – High Value Market at 1.4%

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

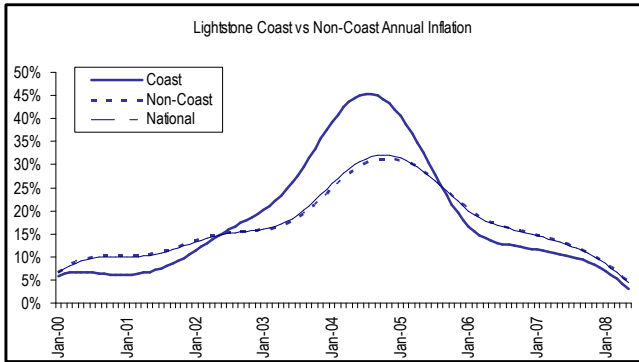
The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial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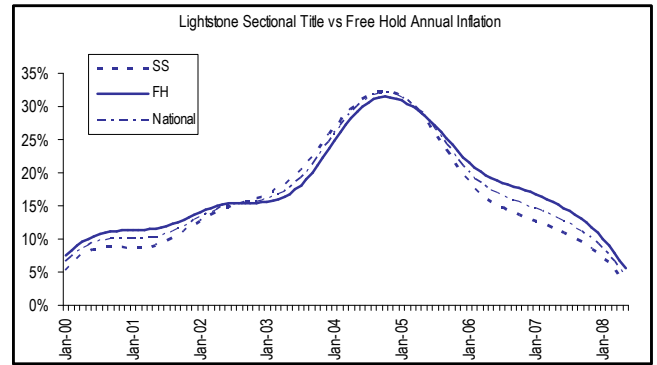
## COASTAL VS NON-COASTAL INDEX

May saw a big drop in Coastal house price inflation from 6.0% in April to 3.0% in May. Non-coastal inflation dropped too but at a relatively lower rate from 5.9% in April to 4.6% in May. Looking at the most recent month's performance shows that Coastal properties dropped 13.8% in value on an annualised basis. The Coastal segment tracks the performance of properties within 500m of the beach and as a result is made up with a large proportion of holiday houses. As a result it tends to have more volatile house price inflation due to the discretionary nature of the spending that supports this market. From mid-2005 as inflation and interest rates started to rise, prices at the Coast have come under pressure as owners found it harder to afford to own that vacation home.



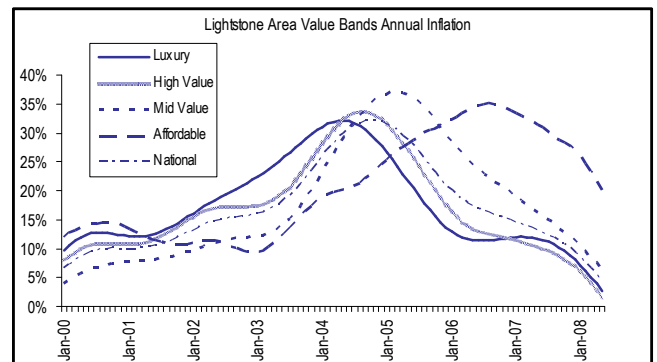
## FREE HOLD VS SECTIONAL TITLE INDEX

Year on year inflation of Freehold properties remains above Sectional Title properties (5.6% vs. 3.5%). Despite the increased demand for centrally located properties and better security that should support prices for Sectional Title properties, they have tended to underperform Freehold properties. This could possibly be explained by the large numbers of new developments that have come onto the market in the last few years which may have depressed repeat sales inflation for Sectional Title properties.



## 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 exceeded the other segments performance over the last 2 years. However, this market is now tracking the steep declines seen by the other segments and has dropped from 31.5% in May 2007 to 20.0% in May 2008. Furthermore annualised monthly inflation for this segment has dropped from 23% at the beginning of the year to 12% in May indicating that annual inflation will continue to plunge in the months ahead. Nevertheless its annual inflation still remains significantly above the other segments: Mid-value (R250k-R750k) = 6.5%; High-value (R750k-R1.5m) = 1.4% and Luxury (R1.5m) = 2.7%.



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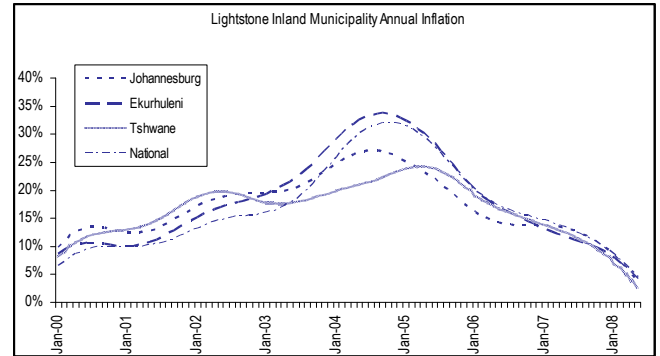
## PROVINCIAL INDEX

Of the major provinces, the Eastern is now the top performing province on a year on year basis at 6.6% having actually risen from April's 6.2%. The Western Cape follows at follows at 4.9% with Gauteng next at 4.1%. KZN is now the major province most under stress with annual prices only rising 1.0%.

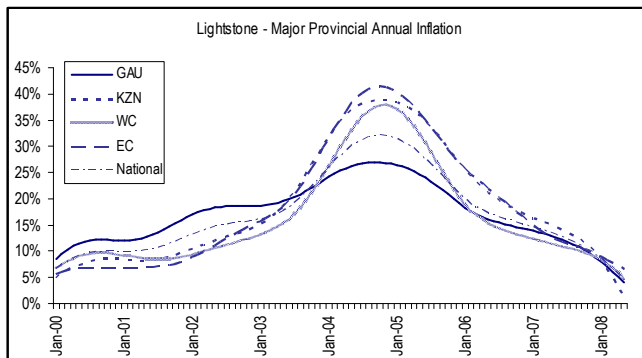
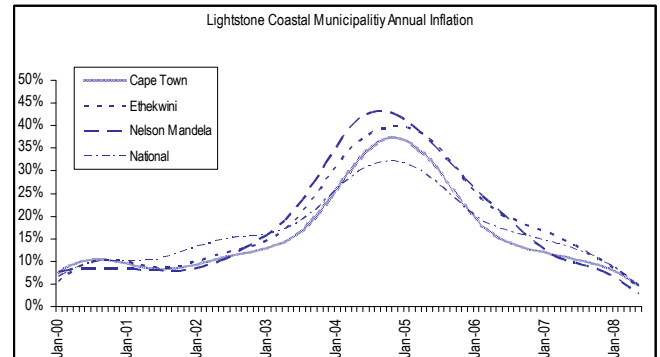
Interestingly there is a wide range of year-on-year performance of the smaller provinces up to May 2008:

- North West – 13.4%
- Limpopo – 9.1%
- Free State – 8.1%
- Northern Cape – 6.6%
- Mpumalanga – 3.9%

## Inland Municipalities Index



## Coastal Municipalities Index



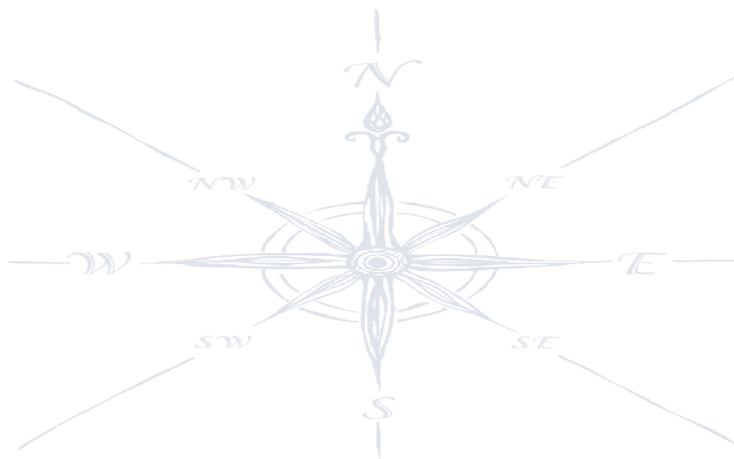
## MUNICIPAL INDEX

Finally, when one examines the major municipalities, Cape Town is now the top performing city with 4.7% annual house price inflation. Interestingly Nelson Mandela, unlike the other metros, did not see a decline in annual house price inflation this month with May inflation being 2.8%, 0.1% above April. However it is quite possible that this may prove to be only a temporary respite from its downward trend. Tshwane has now dropped to the lowest inflation rate of the metros (2.7% in May).

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								2007				2008					
		2000	2001	2002	2003	2004	2005	2006	Q1	Q2	Q3	Q4	Jan	Feb	Mar	Apr	May
PROVINCE	NATIONAL	9.1%	10.9%	14.9%	19.4%	30.0%	26.6%	17.4%	14.8%	13.6%	12.2%	10.0%	9.2%	8.3%	7.4%	5.8%	4.5%
	EASTERN CAPE	6.9%	7.2%	12.1%	21.4%	38.1%	33.6%	21.1%	15.1%	13.5%	12.5%	9.9%	9.7%	8.8%	7.7%	6.2%	6.6%
	GAUTENG	11.3%	13.7%	18.2%	20.4%	26.0%	23.1%	16.2%	14.1%	13.2%	11.8%	9.5%	8.5%	7.6%	6.6%	5.5%	4.1%
	KWAZULU NATAL	7.5%	8.7%	12.6%	21.4%	36.7%	33.4%	21.0%	16.6%	15.2%	13.3%	10.5%	9.1%	8.1%	6.5%	3.9%	1.0%
	WESTERN CAPE	9.1%	8.8%	11.3%	17.8%	33.6%	29.3%	15.4%	12.3%	11.4%	10.5%	9.3%	9.5%	8.7%	8.5%	6.3%	4.9%
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%	9.0%	8.2%	8.2%	6.6%	4.7%
	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%	9.0%	8.2%	7.0%	5.7%	3.8%
	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%	7.3%	6.1%	5.3%	3.8%	2.7%
	EKHURULENI METROPOLITAN	10.0%	11.8%	17.3%	22.9%	32.4%	26.9%	17.0%	13.6%	12.3%	10.8%	9.2%	8.1%	7.4%	6.9%	5.6%	4.1%
	ETHEKWINI	9.0%	9.0%	12.3%	20.8%	36.9%	34.0%	20.5%	16.5%	14.5%	12.0%	9.9%	8.9%	9.6%	8.1%	6.4%	3.8%
	NELSON MANDELA	8.2%	8.0%	11.3%	23.7%	40.9%	34.0%	19.3%	12.1%	10.6%	9.2%	7.6%	4.9%	4.3%	3.9%	2.7%	2.8%
COAST	NON-COAST	9.3%	11.1%	15.0%	18.8%	29.0%	26.6%	17.6%	15.0%	13.8%	12.3%	10.1%	9.4%	8.5%	7.5%	5.9%	4.6%
	COAST	6.6%	7.5%	15.8%	27.9%	43.1%	29.2%	13.8%	11.3%	10.6%	10.4%	8.2%	8.5%	7.0%	7.2%	6.0%	3.0%
ST / FH	SECTIONAL TITLE	8.0%	9.9%	14.8%	20.4%	30.4%	26.0%	15.3%	12.6%	11.6%	10.4%	8.5%	8.0%	7.0%	6.0%	4.8%	3.5%
	FREE HOLD	10.3%	12.1%	15.2%	18.5%	29.2%	27.1%	19.9%	17.4%	16.2%	14.4%	11.7%	10.8%	9.7%	8.9%	7.1%	5.6%
AREA VALUE BANDS	LUXURY	12.5%	14.0%	20.1%	27.4%	29.7%	19.1%	11.8%	12.2%	11.8%	10.7%	8.9%	8.1%	5.6%	5.1%	4.2%	2.7%
	HIGH VALUE	10.2%	12.2%	16.9%	21.3%	31.8%	24.1%	13.2%	11.3%	10.4%	9.1%	7.5%	6.4%	5.6%	4.6%	3.3%	1.4%
	MID VALUE	6.4%	8.1%	11.0%	15.5%	30.7%	34.5%	23.6%	18.7%	16.8%	14.9%	12.0%	11.8%	10.1%	8.5%	6.8%	6.5%
	AFFORDABLE	16.2%	12.0%	11.1%	13.5%	22.3%	30.4%	38.0%	35.6%	34.1%	31.1%	27.6%	24.3%	21.8%	21.1%	20.0%	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.

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