

Residential Property Indices



LIGHTSTONE OCTOBER REPEAT SALES INDICES

TOUGH YEAR AHEAD FOR THE HOUSE MARKET

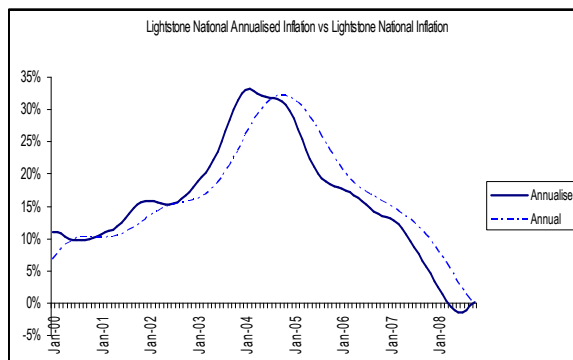
Despite the fact that interest rates have dropped by 1,5% since December 2008, and that more rate cuts are expected, it is unlikely that the house market will stage a miraculous rebound during 2009.

Although declining interest rates have a positive effect on demand, lacklustre economic growth, coupled with high house prices and consumer debt, is likely to keep demand under pressure. The SARB composite-leading business cycle indicator has been heading steadily south since March 2008 while real economic growth actually slowed to 0,2% in the third quarter of 2008. Given contracting retail sales and manufacturing output, feeble economic activity can be expected throughout 2009. What's more, with increasing defaults, the poor prognosis for growth, and an uncertain international financial environment, banks are likely to be cautious in granting credit. The net result: house-price growth is likely to disappoint in 2009.

This view is given credence by considering Lightstone's latest national house-price index, which shows that house-price growth for the year ended October 2008 was marginally negative (-0,1%).

But the growth performance by price-segment is even more revealing. As at October 2008, luxury and high-value house prices were down by 3% and 2%, respectively, on a year earlier, whereas mid-value house prices grew by 2%, and prices in the affordable category were up by an astonishing 19%. The dramatically stronger performance of the latter category has, certainly to some extent, got its roots in the unaffordability of the other categories, which has forced many buyers to scale down.

At municipal level, house prices in all the major metros contracted by between 1% and 3% year-on-year as at October 2008. The only exception was Ekurhuleni, which posted a positive 2,1% growth rate.



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

DISCLAIMER

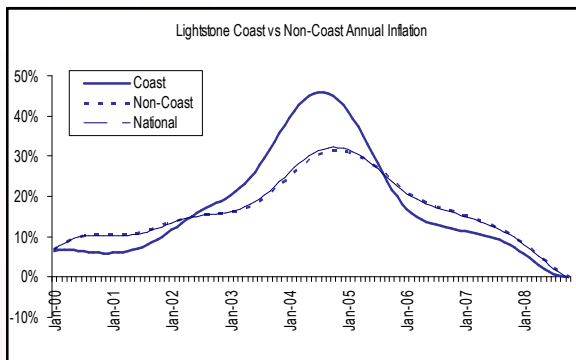
The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial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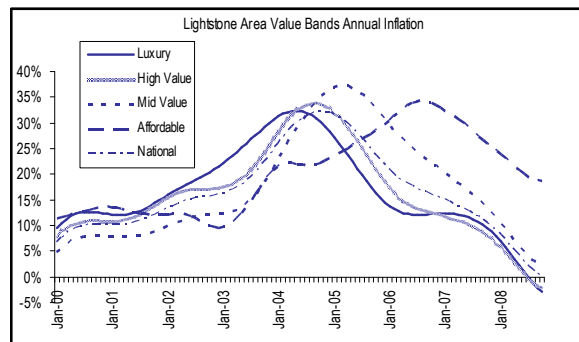
COASTAL VS NON-COASTAL INDEX

Both segments are essentially experiencing no growth with year on year inflation of 0.2% and 0.0% respectively. Interestingly, annualised month on month inflation for coastal properties over the last 6 months has grown from -1.8% to +3.5% which may indicate that things are slowly starting to improve in that market. However, even if this trend continues are not likely to see a return to the heady days for 2004 in the short to medium term.



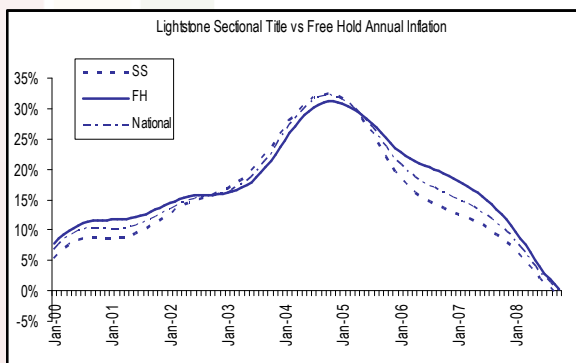
AREA VALUE BAND INDEX

Lightstone's area value bands show the annual price trends for areas with different average values. This split of the market has consistently shown the most interesting trends and this month is no different. The Affordable market (<R250,000) continues to defy the performance of other segments with 18.6% growth year on year. The Mid value market (R250,000-R750,000) is also in positive territory but at a much lower annual growth rate of 2.1%. The High value and Luxury markets however are showing the most price stress at -2.1% and -2.9% respectively.



FREE HOLD VS SECTIONAL TITLE INDEX

Sectional title and free hold property price inflation are both very close to zero year on year to October 2008 with very little to distinguish them. Sectional title is marginally worse off than freedhold at -0.9% vs +0.3%. Annualised month on month inflation for both segments is just below zero growth suggesting we are likely to continue to see a downward trend in prices over the subsequent months.



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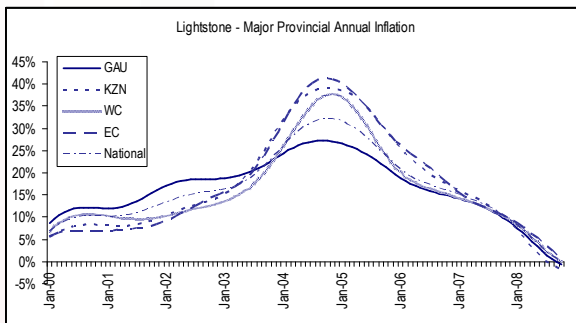
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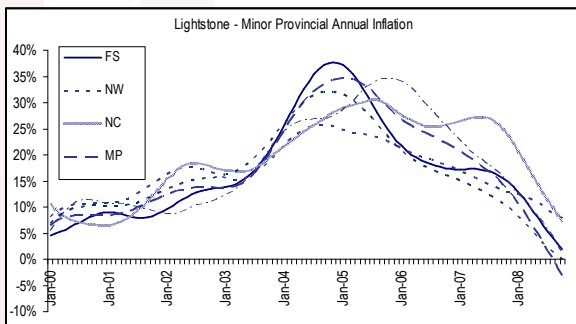
PROVINCIAL INDEX

This month we take a closer look at the smaller provinces, something we tend to do quarterly. Unlike the major provinces which have annual house price inflation tightly bound in the range of -2% to +1%, the minor provinces have a much larger range. The North West and Northern Cape lead the way at 7.9% and 7.4% respectively. This is followed by the Free State and Limpopo at 2.0% and 0.9%, while Mpumalanga not only lags the other minor provinces but also lags the major provinces at -3.4%.

Major Provinces Index



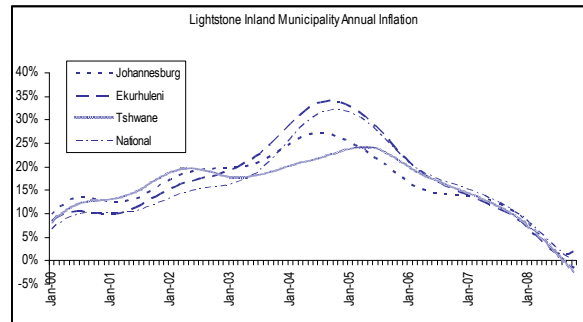
Minor Provinces Index



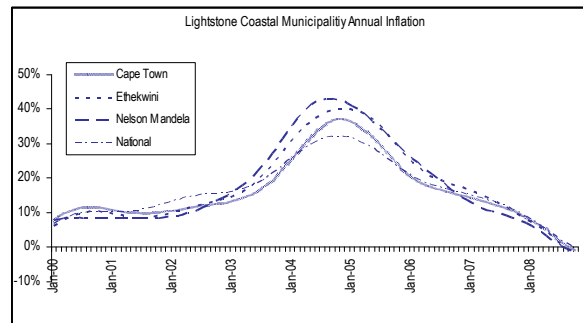
MUNICIPAL INDEX

Apart from Ekurhuleni which is growing at 2.1%, all of the other metros are in negative territory ranging from -1% to -3%. Interestingly Ekurhuleni and Nelson Mandela are the only 2 metros where the performance has improved from the previous month.

Inland Municipalities Index



Coastal Municipalities Index



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INFLATION TABLE

												2008					
		2000	2001	2002	2003	2004	2005	2006	2007	Q1	Q2	Jul	Aug	Sep	Oct		
PROVINCE	NATIONAL	9.1%	10.9%	14.9%	19.4%	30.0%	26.6%	17.4%	12.4%	7.5%	4.1%	1.5%	0.4%	0.1%	-0.1%		
	EASTERN CAPE	6.9%	7.2%	12.1%	21.4%	38.1%	33.6%	21.1%	12.2%	8.3%	5.2%	4.7%	2.5%	1.2%	0.5%		
	GAUTENG	11.3%	13.7%	18.2%	20.4%	26.0%	23.1%	16.2%	11.7%	7.0%	3.4%	1.2%	-0.3%	-0.5%	-0.7%		
	KWAZULU NATAL	7.5%	8.7%	12.6%	21.4%	36.7%	33.4%	21.0%	12.6%	6.6%	1.9%	-1.8%	-2.1%	-1.7%	-1.6%		
	WESTERN CAPE	9.1%	8.8%	11.3%	17.8%	33.6%	29.3%	15.4%	11.9%	7.5%	4.3%	1.8%	0.7%	0.3%	0.0%		
MUNICIPALITIES	CITY OF CAPE TOWN	9.7%	8.7%	11.1%	17.5%	33.2%	29.4%	14.9%	11.9%	8.6%	4.0%	1.2%	0.5%	-0.6%	-0.9%		
	CITY OF JOHANNESBURG	12.7%	13.8%	18.9%	21.1%	26.2%	21.2%	14.5%	11.9%	7.1%	3.3%	0.2%	-1.2%	-1.4%	-1.5%		
	CITY OF TSHWANE	11.2%	15.1%	19.1%	18.1%	21.4%	22.8%	16.6%	11.5%	6.0%	3.1%	0.7%	-0.6%	-1.1%	-2.3%		
	EKHURULENI METROPOLITAN	10.0%	11.8%	17.3%	22.9%	32.4%	26.9%	17.0%	11.0%	7.0%	2.7%	0.1%	-1.5%	-0.2%	2.1%		
	ETHEKWINI	9.0%	9.0%	12.3%	20.8%	36.9%	34.0%	20.5%	12.5%	7.3%	3.2%	0.8%	-0.8%	-1.9%	-2.6%		
COAST	NELSON MANDELA	8.2%	8.0%	11.3%	23.7%	40.9%	34.0%	19.3%	9.8%	5.7%	2.4%	-1.2%	-3.0%	-3.7%	-1.4%		
	NON-COAST	9.3%	11.1%	15.0%	18.8%	29.0%	26.6%	17.6%	12.6%	7.6%	4.2%	1.8%	0.4%	0.2%	0.0%		
ST / FH	COAST	6.6%	7.5%	15.8%	27.9%	43.1%	29.2%	13.8%	9.4%	5.7%	2.1%	0.9%	0.5%	0.3%	0.2%		
	SECTIONAL TITLE	8.0%	9.9%	14.8%	20.4%	30.4%	26.0%	15.3%	10.4%	6.2%	2.9%	1.5%	0.3%	-0.6%	-0.9%		
AREA VALUE BANDS	FREE HOLD	10.3%	12.1%	15.2%	18.5%	29.2%	27.1%	19.9%	14.9%	8.9%	5.1%	1.6%	0.8%	0.6%	0.3%		
	LUXURY	12.5%	14.0%	20.1%	27.4%	29.7%	19.1%	11.8%	10.9%	6.0%	2.2%	-0.4%	-1.2%	-2.3%	-2.9%		
	HIGH VALUE	10.2%	12.2%	16.9%	21.3%	31.8%	24.1%	13.2%	9.7%	4.8%	1.6%	-1.2%	-2.1%	-2.3%	-2.1%		
	MID VALUE	6.4%	8.1%	11.0%	15.5%	30.7%	34.5%	23.6%	16.1%	9.4%	5.9%	3.6%	2.1%	2.3%	2.1%		
AFFORDABLE	16.2%	12.0%	11.1%	13.5%	22.3%	30.4%	38.0%	28.6%	25.0%	20.8%	15.4%	14.3%	17.5%	18.6%			
												2008					
		2000	2001	2002	2003	2004	2005	2006	2007	Q1	Q2	Jul	Aug	Sep	Oct		
MINOR PROVINCE	FREE STATE	6.8%	8.5%	12.2%	17.6%	33.5%	30.3%	18.8%	16.4%	11.7%	7.9%	5.2%	4.0%	3.0%	2.0%		
	NORTH WEST	10.1%	12.8%	17.0%	17.0%	24.6%	23.5%	19.2%	14.6%	12.1%	10.8%	9.5%	8.8%	8.4%	7.9%		
	NORTHERN CAPE	7.7%	9.5%	17.5%	18.0%	25.2%	29.7%	26.1%	25.9%	19.0%	14.3%	11.2%	9.8%	8.4%	7.4%		
	MPUMALANGA	8.0%	9.9%	13.5%	17.1%	30.9%	31.9%	24.0%	16.7%	9.2%	4.8%	1.6%	-0.1%	-1.8%	-3.4%		
	LIMPOPO	9.8%	9.9%	10.1%	17.1%	26.5%	32.5%	29.1%	18.2%	11.4%	8.1%	5.7%	4.2%	2.5%	0.9%		

AUTHORS

John S. Lottering

Research Editor, Rode and Associates

Andrew Watt

Sales 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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