

## LIGHTSTONE NOVEMBER REPEAT SALES INDICES

### NATIONAL HOUSE PRICE INFLATION DROPS TO -3% IN FEBRUARY WITH ONLY AFFORDABLE MARKET SHOWING RESIDUAL STRENGTH

Annual house price inflation has dropped to -1.0% in November 2008 based on Deeds Office data and -2.8% based on mortgage lending data up to the end of February 2009. This reflects the ongoing slowing of the property market which was up 12.4% in 2007 and -0.1% for October 2008. Annualised monthly house price inflation in November 2008 was even more negative dropping to -4.3% which indicates that the current downward trend is accelerating.

Once again at a segment level, only the Affordable market (for areas under R250k) is showing significant annual house price inflation. The affordable market is up 14.1% year on year in November 2008 though this is steeply down from the 18.6% level in October 2008. The only other segments that were positive in November were the Mid-value segment (R250k-R750k) which is fractionally above zero at 0.6% (which is likely to be negative by now) and Ekurhuleni which is 3.0%.

Most other segments are narrowly grouped in negative territory between -0.1% and -4.1% in November suggesting that apart from the Affordable market, the property market slow down has been felt widely across all segments of the market with no particular segment being substantially worse than the others.

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

#### **Best performers**

Major Province – Western Cape at -1.1%

Municipality – Ekurhuleni at +3.0%

Area value band – Affordable Market at +14.1%

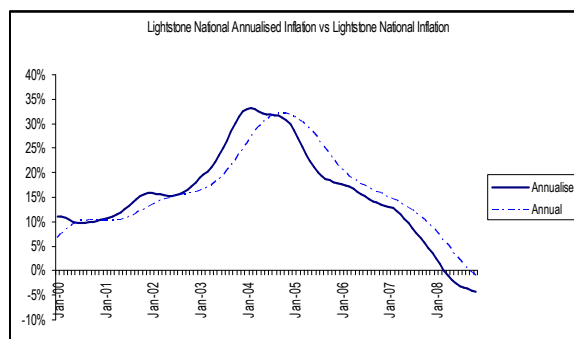
#### **Worst performers**

Major Province – KZN at -2.1%

Municipality – Tshwane at -4.1%

Area value band – Luxury Markets at -2.6%

Despite recent and anticipated interest rate cuts over the remainder of the year, we expect to see a continuation of the current downward trend for the remainder of the year. The only strongly performing segment is the Affordable segment and it is coming down rapidly. Furthermore a number of negatives are still working their way through the system e.g. job losses, ongoing debt burden, global slowdown and tightened bank lending with the result that house prices may only start to climb again well into 2010.



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

#### DISCLAIMER

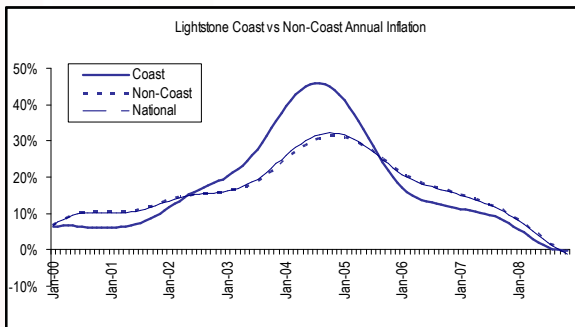
The Lightstone Repeat Sales Index system applies advanced statistical methods to a comprehensive property data base - compiled from the Deeds Office, the Surveyor General and other sources - to generate repeat sales inflation data for individual residential properties. Despite the statistical and actuarial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

# Residential Property Indices



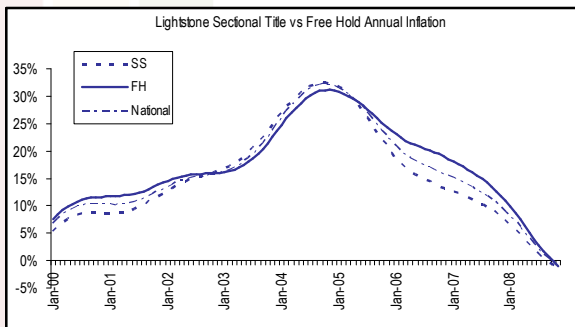
## COASTAL VS NON-COASTAL INDEX

While the non-coastal index tends to closely track the National index. We have seen significant divergence of the Coastal house price index over the last 9 years. This is mainly driven by the discretionary nature of purchases of these properties e.g. as second homes or holiday houses. In November Coastal house price inflation was sitting at -0.1% and has shown some level of stability over the last few months. With the weakening Rand and investors with cash looking for alternative investment choices, we may see this segment turn first though this is far from guaranteed.



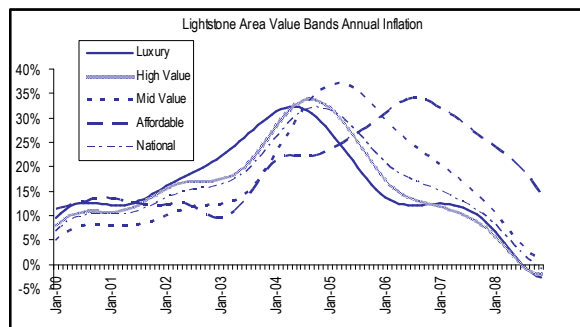
## FREE HOLD VS SECTIONAL TITLE INDEX

Sectional title and free hold properties are performing at virtually the same level (-1.3% and -1.1% respectively) in November. Whilst free hold properties have performed better than sectional title properties for the last few years, prospects for sectional titles in the years ahead are likely to be good. Increase demand for lower priced properties along with the move towards higher density living nearer public transport and places of work are likely to be major contributors.



## AREA VALUE BAND INDEX

Lightstone's area value bands have shown marked differences over the last 9 years. Currently there is only one segment that is materially different to the others. The Affordable market (areas under R250k) is growing at 14% annually in November (though the trend is clearly downward) whilst all of the other segments are between 1% and -3%. This discrepancy has existed since around 2006 when the Affordable market broke out from the others and became the top performing segment. Despite the recent economic pressure on lower income (who have less discretionary income and more limited borrowing options), the fundamental growth in wealth in this segment over the last 10 years has created demand for entry level properties. Going forward, whilst the threat of job losses is likely to dampen growth in the Affordable segment, increasing access to finance from lenders focused on growing this market, may provide some cushioning to house prices.



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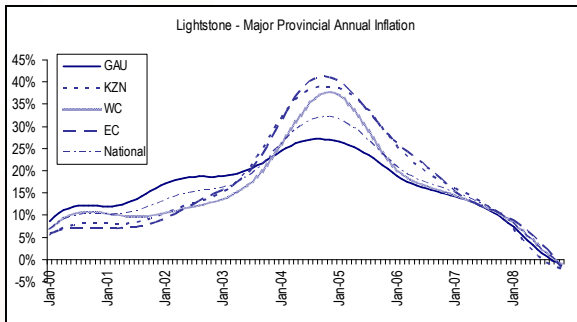
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# Residential Property Indices



## PROVINCIAL INDEX

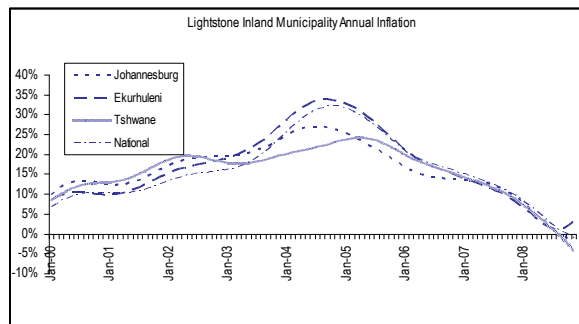
All of the major provinces (KZN, W Cape, E Cape and Gauteng) are performing at between -1% and -2% in November. Gauteng which has tended to be the least volatile of these provinces may hold up better than the other provinces going forward however this is far from certain. For example, Gauteng may not benefit proportionally as much from the World Cup in 2010 as the other provinces due to the size and diversity of its economy which many are hoping to be a shot in the arm for coastal/holiday properties.



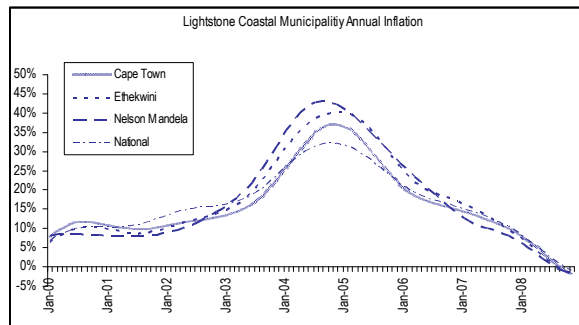
## MUNICIPAL INDEX

There are some interesting numbers coming out of the municipal indices this month with Ekurhuleni and Tshwane as much as 7% apart in their November property performance. In fact Tshwane is the poorest performing metro at -4.1% while Ekurhuleni has unexpectedly climbed out of negative territory a few months back to reach 3.0% in November. However it is too early to draw any firm conclusions for this and the relative performance will be tracked carefully in the months ahead.

### Inland Municipalities Index



### Coastal Municipalities Index



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# Residential Property Indices



## Inflation table

									2008							
		2000	2001	2002	2003	2004	2005	2006	2007	Q1	Q2	Jul	Aug	Sep	Oct	Nov
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%	-1.0%
	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%	-1.9%
	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%	-1.2%
	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%	-2.1%
	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%	-1.1%
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%	-1.8%
	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%	-1.6%
	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%	-4.1%
	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%	3.0%
	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%	-1.5%
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%	-1.8%
	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%	-1.0%
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%	-0.1%
	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%	-1.3%
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%	-1.1%
	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%	-2.6%
	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%	-2.0%
	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%	0.6%
	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%	14.1%

## AUTHOR

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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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