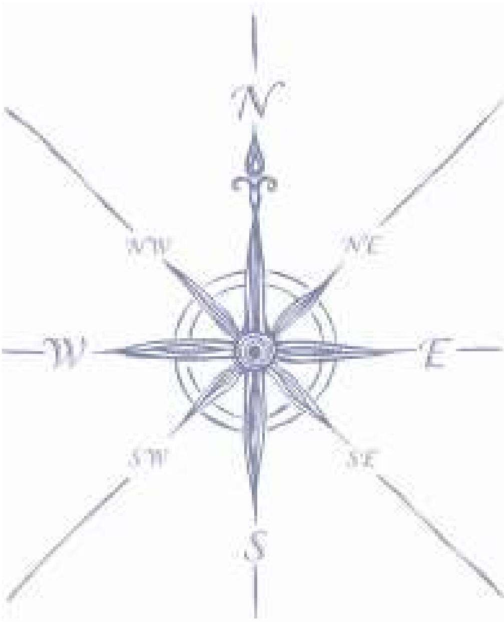
THE LIGHTSTONE INDICES



REPEAT SALES RESIDENTIAL PROPERTY PRICE INDICES

19 April 2007

AGENDA

What	Who	Time
Introduction to the Indices	Anthony Miller	15 min
What do the Indices tell us?	John Loos	30 min
How you can access them?	Anthony Miller	5 min
Questions	All	10 min

LIGHTSTONE HAS DEVELOPED A CORE COMPETENCE IN AUTOMATED PROPERTY VALUATION

Lightstone Risk Management

Automated Property Valuation

- Predict individual property prices
- Estimate property inflation for different market segments
- Value portfolios of properties

Comparable Sales Model

Repeat Sales Model

- Deeds Office information provides repeat sales data
- Spatial information provides segmental view
- Data provides basis for generating repeat sales indices

Other Models

LIGHTSTONE'S INDICES PROVIDE A 'NEW' VIEW OF THE SA RESIDENTIAL PROPERTY MARKET

Lightstone Risk Management

Leverages Lightstone's unique AVM data and analytics

- Repeat sales indices generated as part of Lightstone's AVM technology
- Lightstone's spatial information enables unique segmental splits

Consistent with international best practice

- Office of Federal Housing Enterprise Oversight (OFHEO) - US
- Standard & Poors / Case-Shiller Metro Area Home Price Indices - US

Provides 'new' view of the SA residential property market

- Absa and Standard Bank indices based on mean and median house price movements

> "The OFHEO Index gives a more accurate picture than more timely series, because it tracks the value of the same houses when they are resold or remortgaged. As a result the index is not pulled this way and that by changes in the mix of houses sold."
>
> \- *Economist, March 10th-16th, 2007*

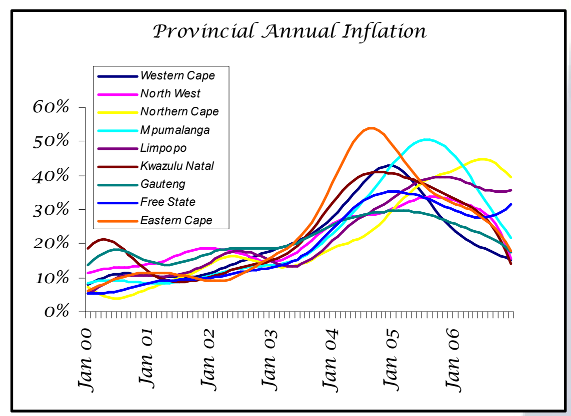
THE REPEAT SALES APPROACH TRACKS THE PRICE INFLATION OF ACTUAL PROPERTIES IN AN AREA

Repeat Sales Indices track the price inflation of properties that have transacted twice in a defined period

Transacts in Year 1

Transacts in Year 2

- Repeat sales data within selected period
- Excludes transactions not appropriate for indices*
- Separate models fitted to different market segments



* Details available in methodology document available online at www.lightstone.co.za

DIFFERENCE BETWEEN REPEAT SALES PRICE AND AVERAGE PRICE APPROACHES

Period 1

Market contains
- 50 houses worth R600k
- 50 houses worth R400k

Properties transacted
- R600k houses sold: 10
- R400k houses sold: 20

+10%

Period 2

Market contains
- 50 houses worth R660k
- 50 houses worth R440k

Properties transacted
- R660k houses sold: 20
- R440k houses sold: 10

<u>Calculation of change in average price of properties transacted</u>

Average price: R467k

Average price: R587k

+26%

<u>Calculation of change in price of repeat sales transactions*</u>

Cheap houses: R400k

Cheap houses: R440k

+10%

Expensive houses: R600k

Expensive houses: R660k

* Assumes that some of the houses transacted in Period 1 are transacted in Period 2

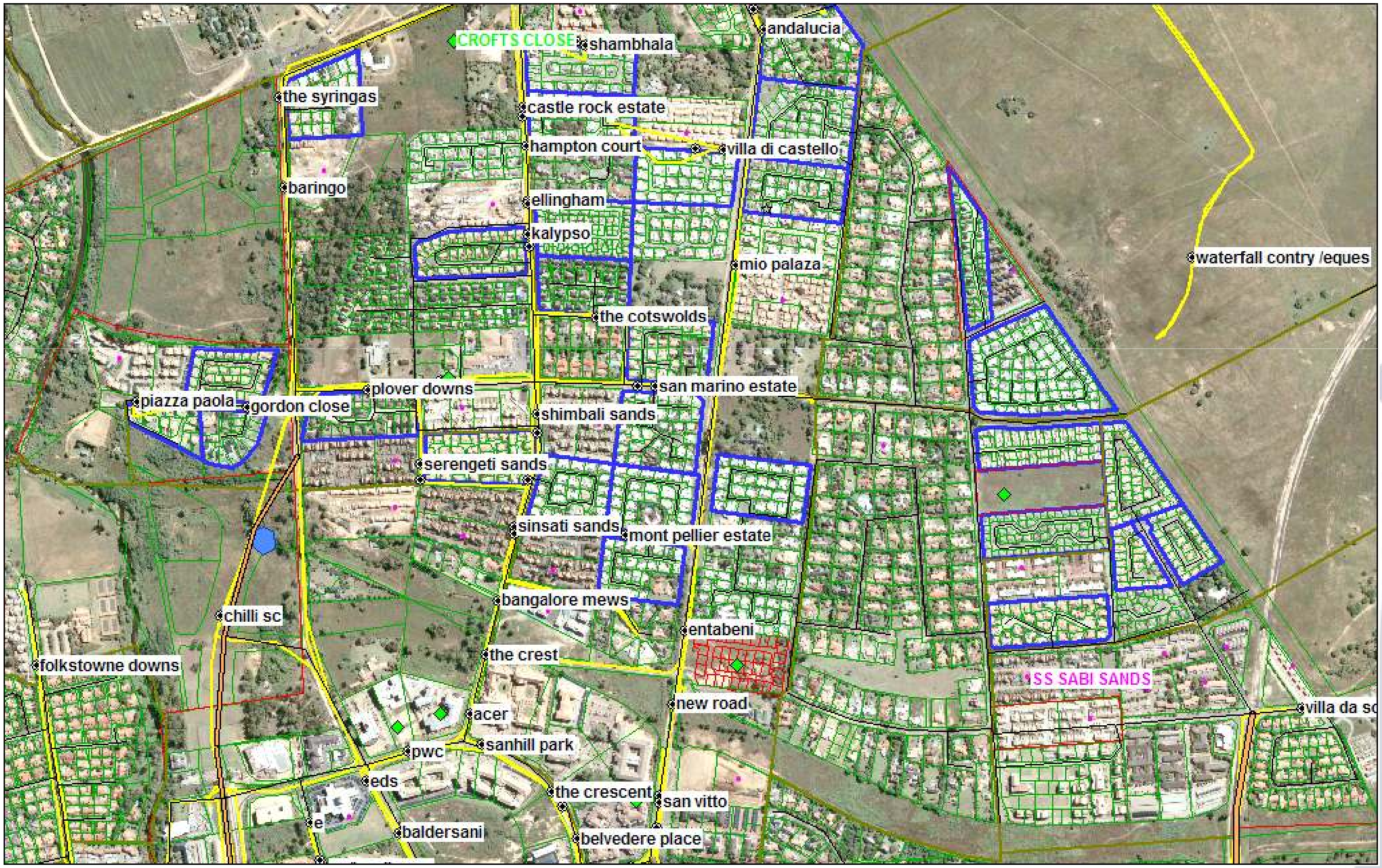
THE CURRENT LIGHTSTONE SUITE

The national index

Sub-indices:

- **Provincial**
- **Major municipalities**
- **Coastal/non-coastal**
- **Section title/freehold**
- **Average price areas**

LIGHTSTONE'S SPATIAL DATA ENABLES THE CREATION OF THESE SEGMENTS



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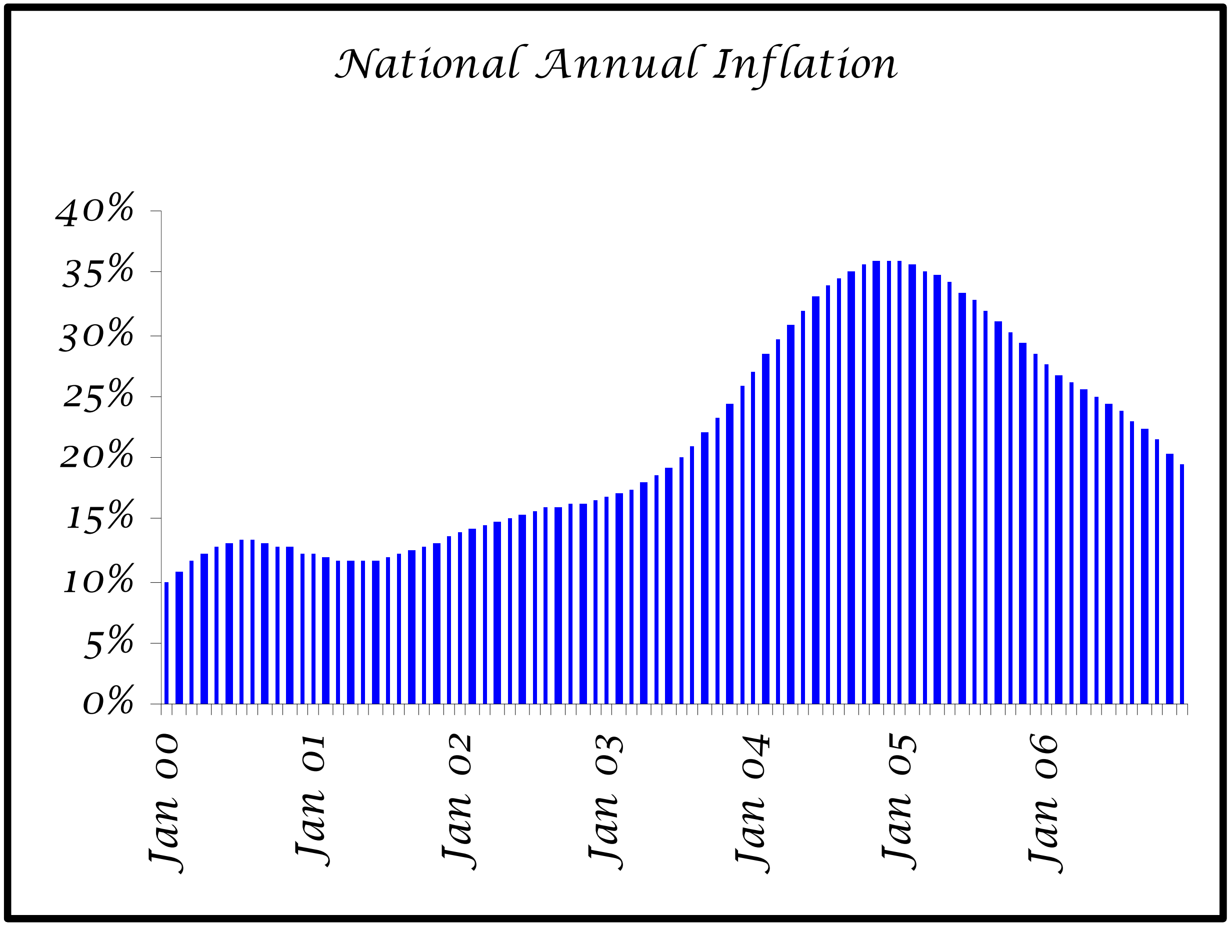
LIGHSTONE INDICES – WHAT'S UNIQUE?

- Indices exclude new property
- Coastal vs non-coastal index
- Value categories according to area rather than price of each property
- Sectional title vs freehold

NATIONAL INDEX GROWTH STEADILY DECLINING



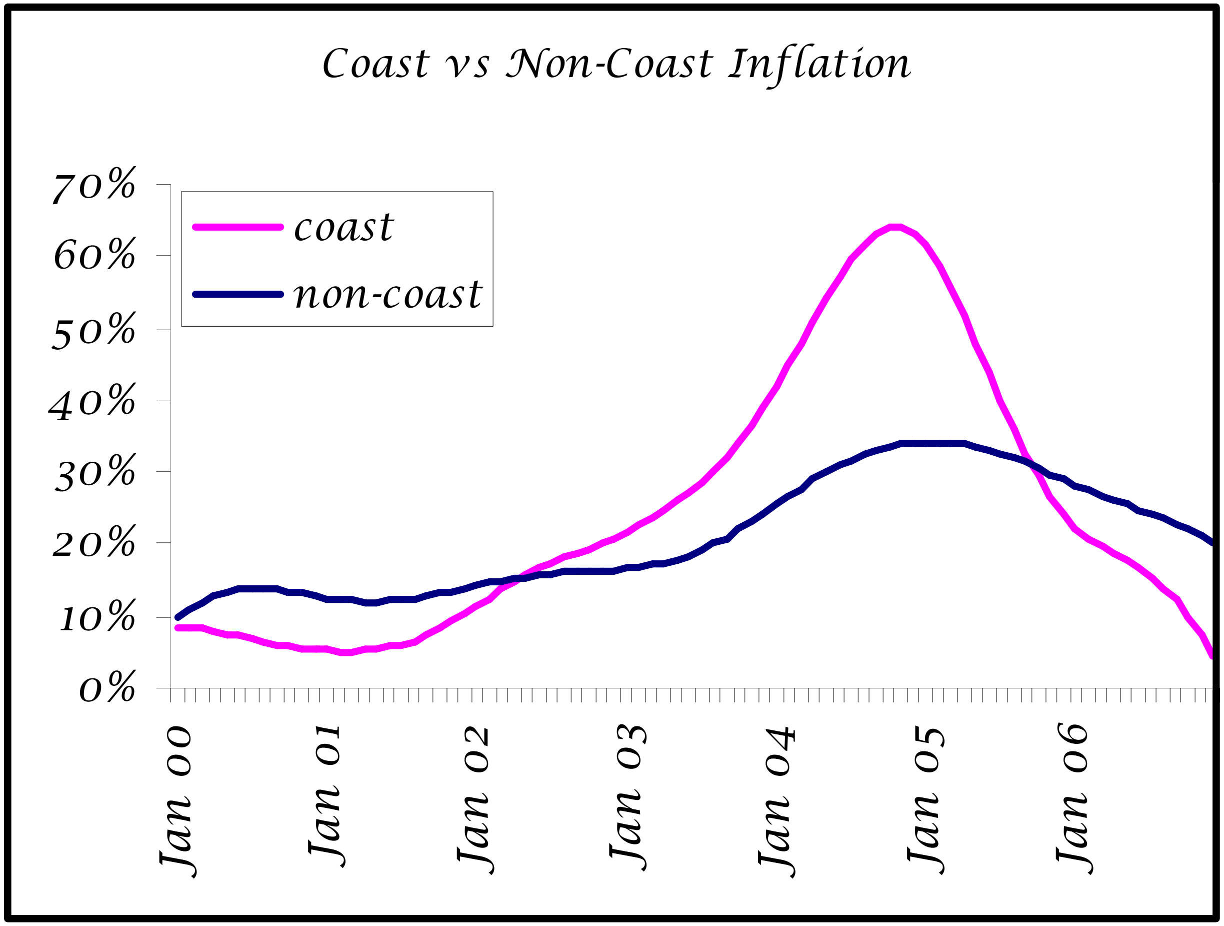
- 24% average house price inflation for 2006
- 19% y/y as at December 2006

SALES PER VALUE AREA

Percentage of sales per value band

	2000	2001	2002	2003	2004	2005	2006
affordable	7%	7%	6%	6%	6%	8%	8%
mid value	35%	35%	36%	37%	40%	41%	40%
high value	51%	51%	49%	49%	46%	44%	45%
luxury	8%	8%	9%	9%	7%	7%	7%

COASTAL PROPERTY MORE VOLATILE, AND POSSIBLY MORE INTEREST RATE SENSITIVE

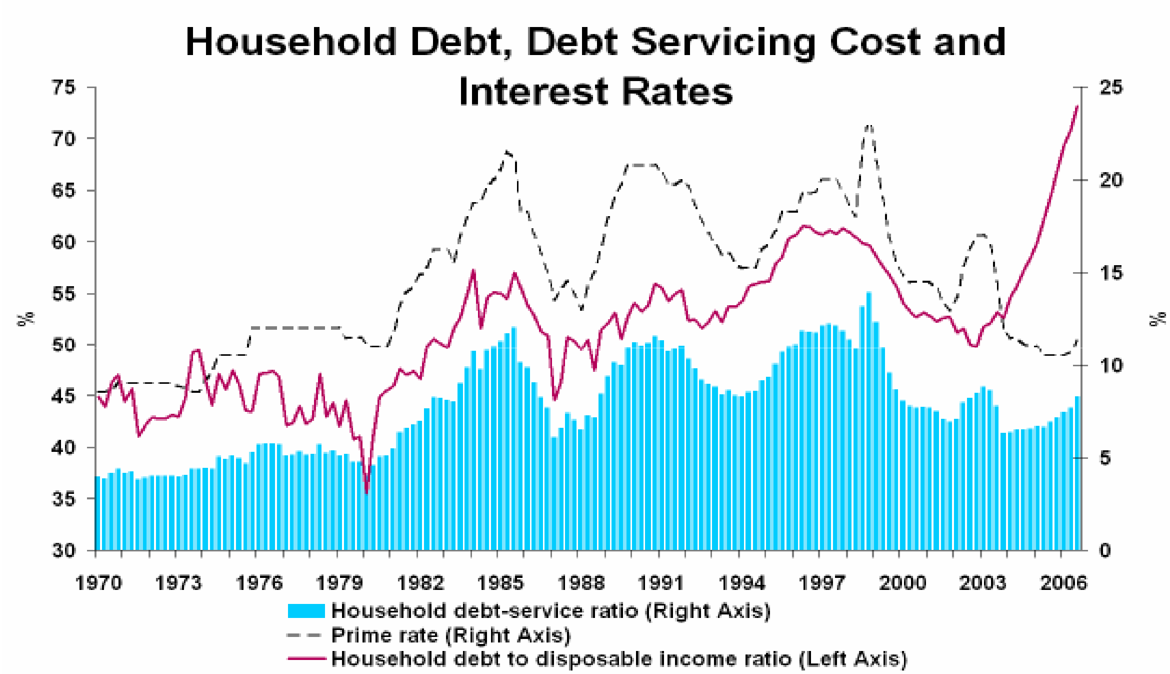


- Coastal property seemingly most volatile and interest rate sensitive
- Accelerated at a time when interest rates were rising, i.e. 2002 (lagged post-1998 stimulus
- Affordability issue building by 2005, and lack of new rate stimulus precipItates sharp slowdown
- Sharpening decline from mid-2006 as rates rose

WHAT STARTED COASTAL ACCELERATION IN 2002?

- Weak rand, dirt cheap property in hard currency terms – did foreign and expat buying increase?
- Locals with nowhere to shift their “worthless rands”?
- 2002 showed that the rand could actually strengthen?
- Lagged impact of earlier rate cuts?
- Accelerating economic growth?
- Increased confidence in SARB with more stable interest rates?

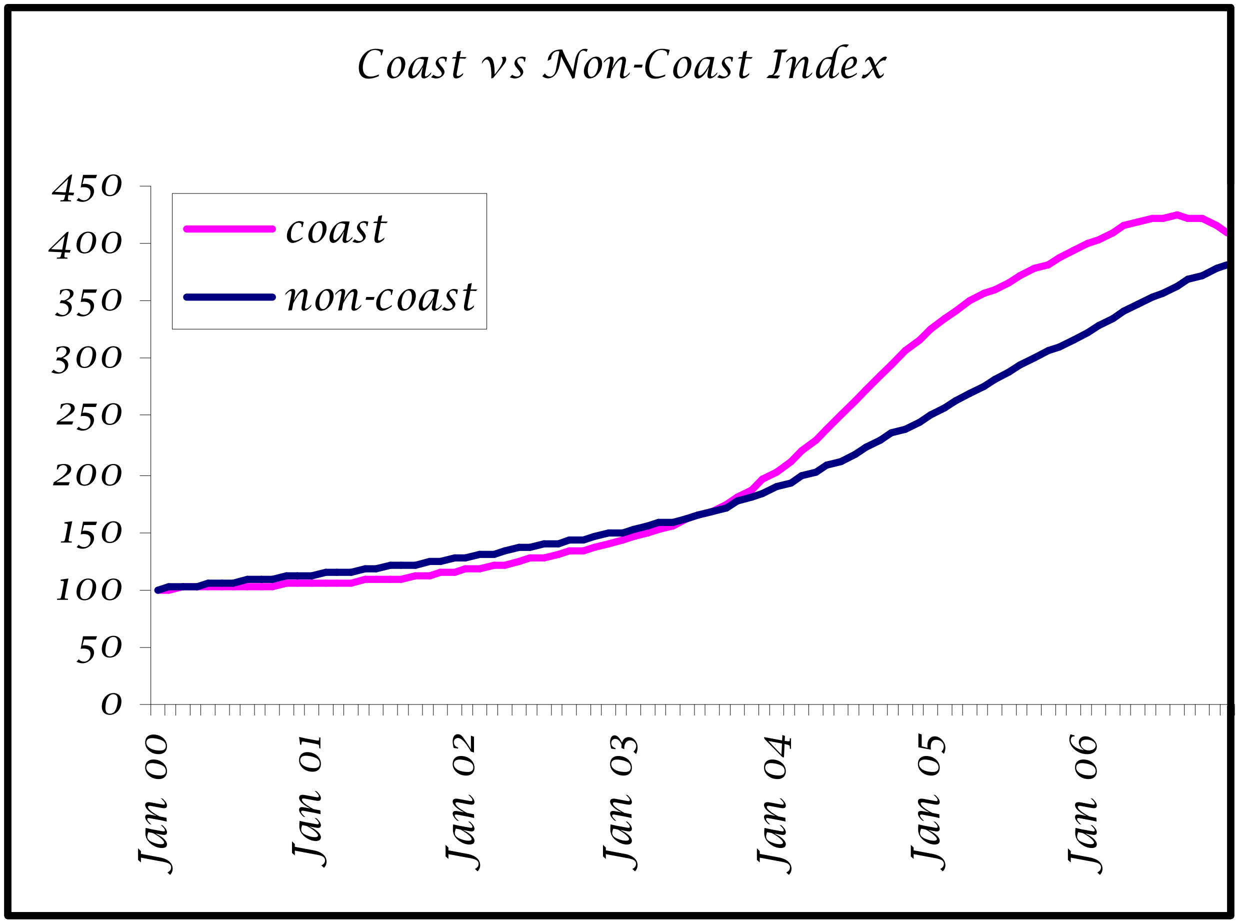
OVERALL HOUSEHOLD DEBT NOT PROBLEMATIC



- Household debt-servicing costs still under control

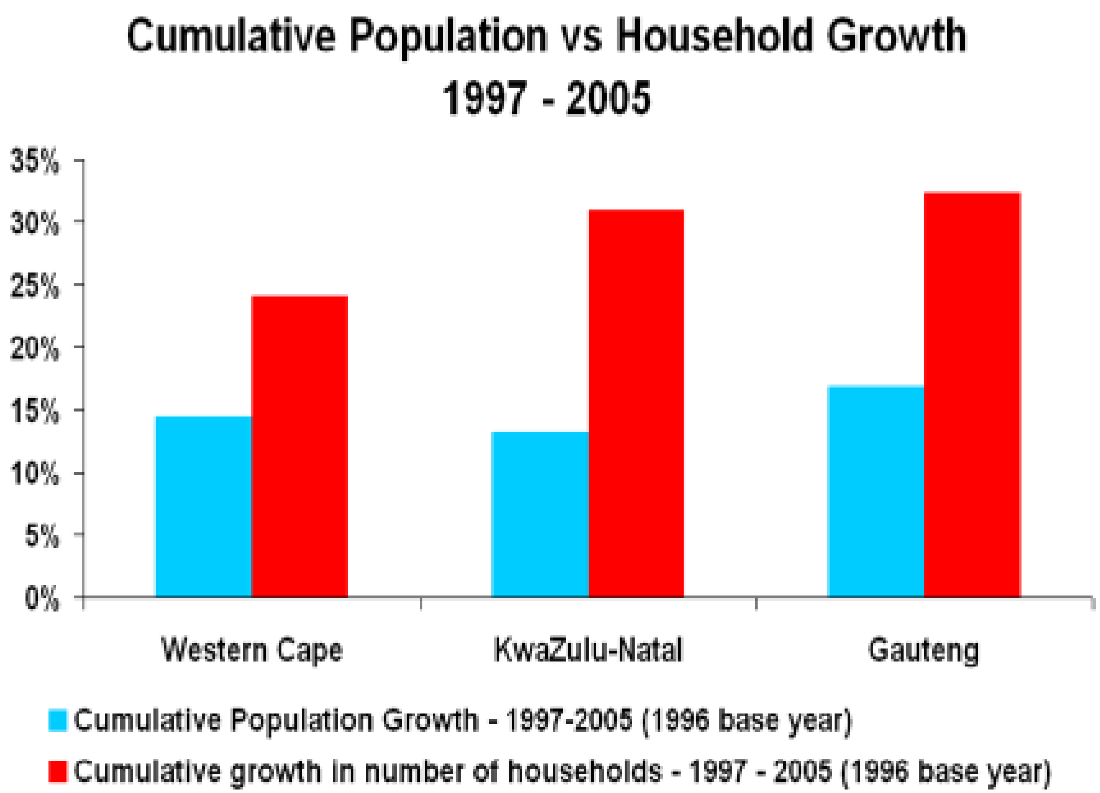
- However, the costs have risen, and low yield areas could see an uptick in debt servicing problems – i.e. coastal holiday areas

COASTAL PROPERTY PRICE DEFLATION



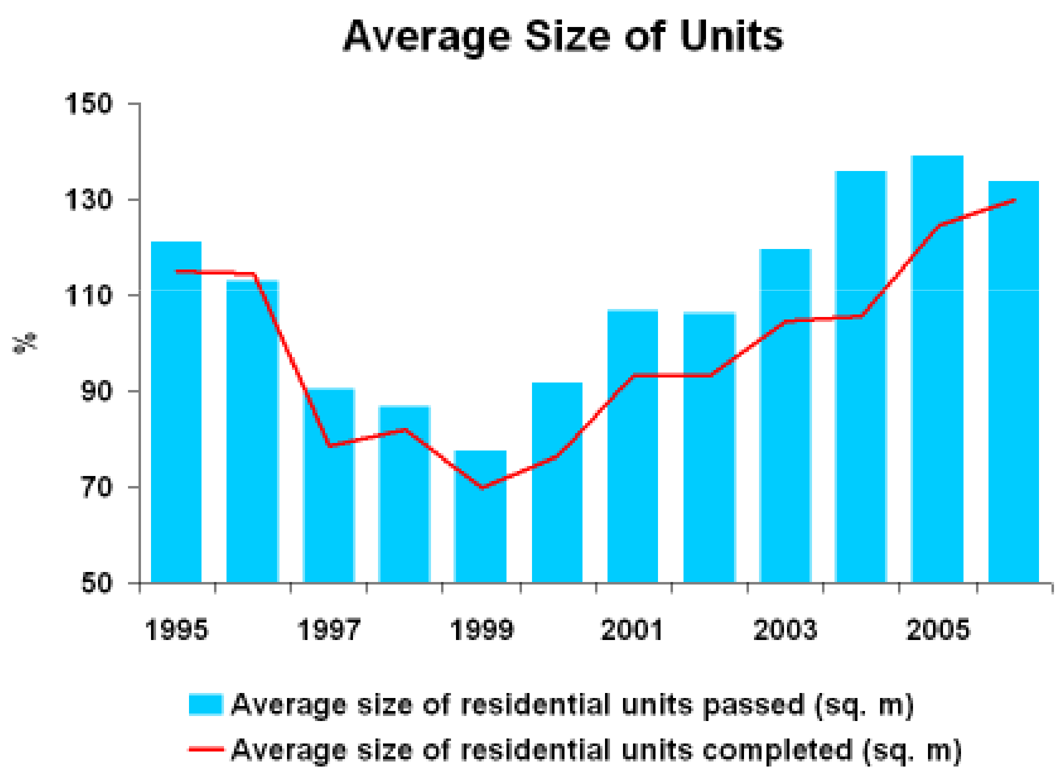
- Coastal prices now actually declining
- KZN-driven

HOUSEHOLD GROWTH



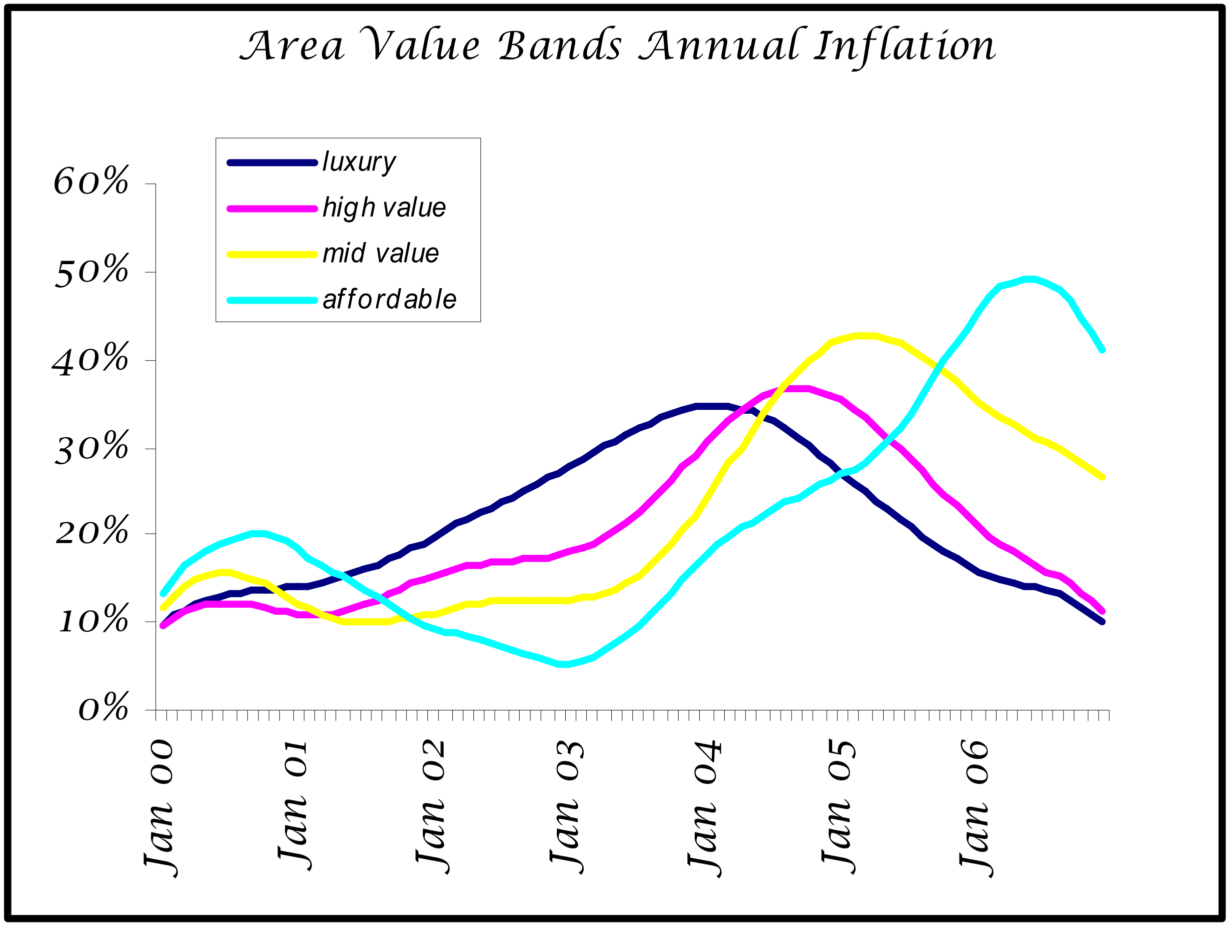
- Number of households growing more rapidly than population
- Smaller average size household

SIZE TRENDS IN NEW STOCK



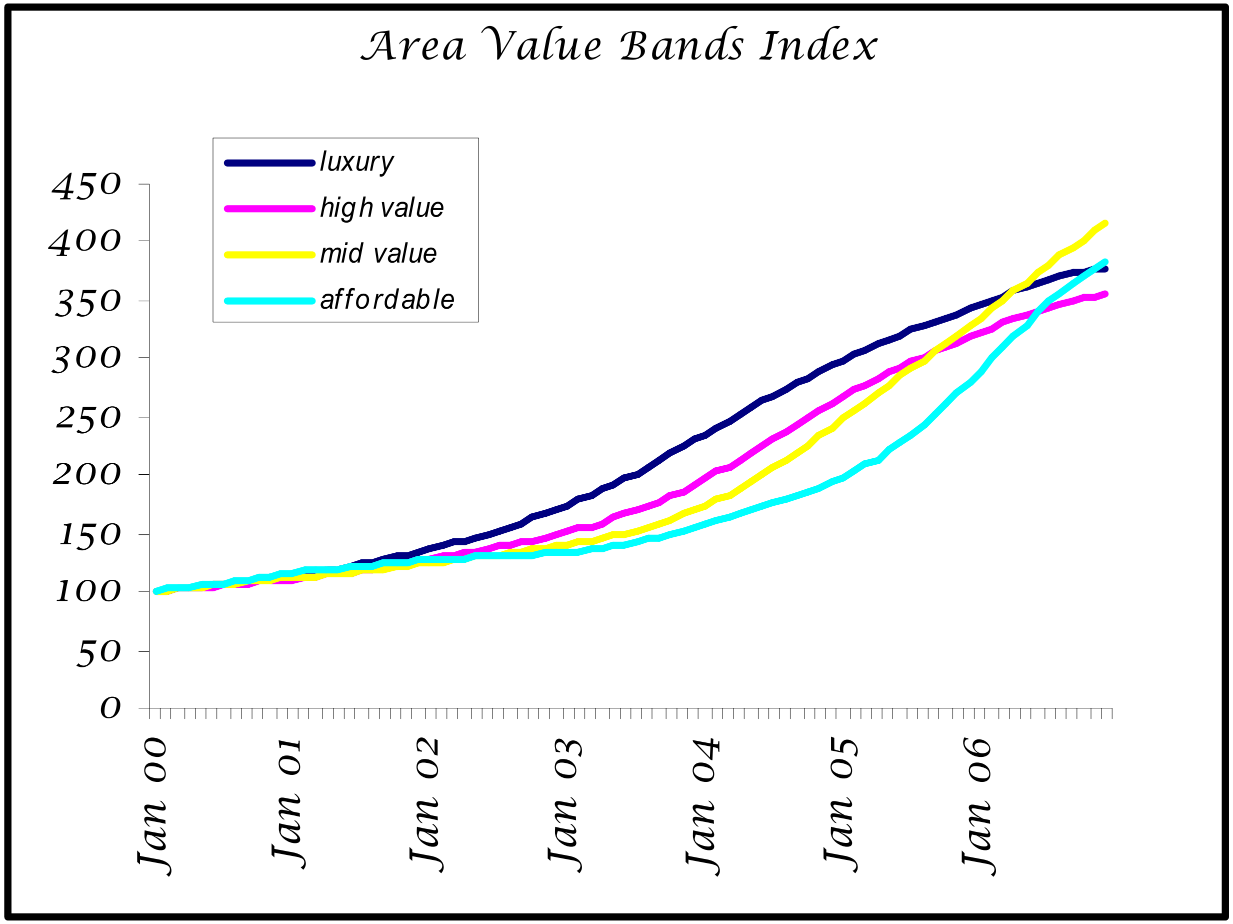
- Development activity to start shifting towards the lower and smaller end
- Boom years saw increasing average size, although average stand size declined

THE SHIFT TO THE LOWER END



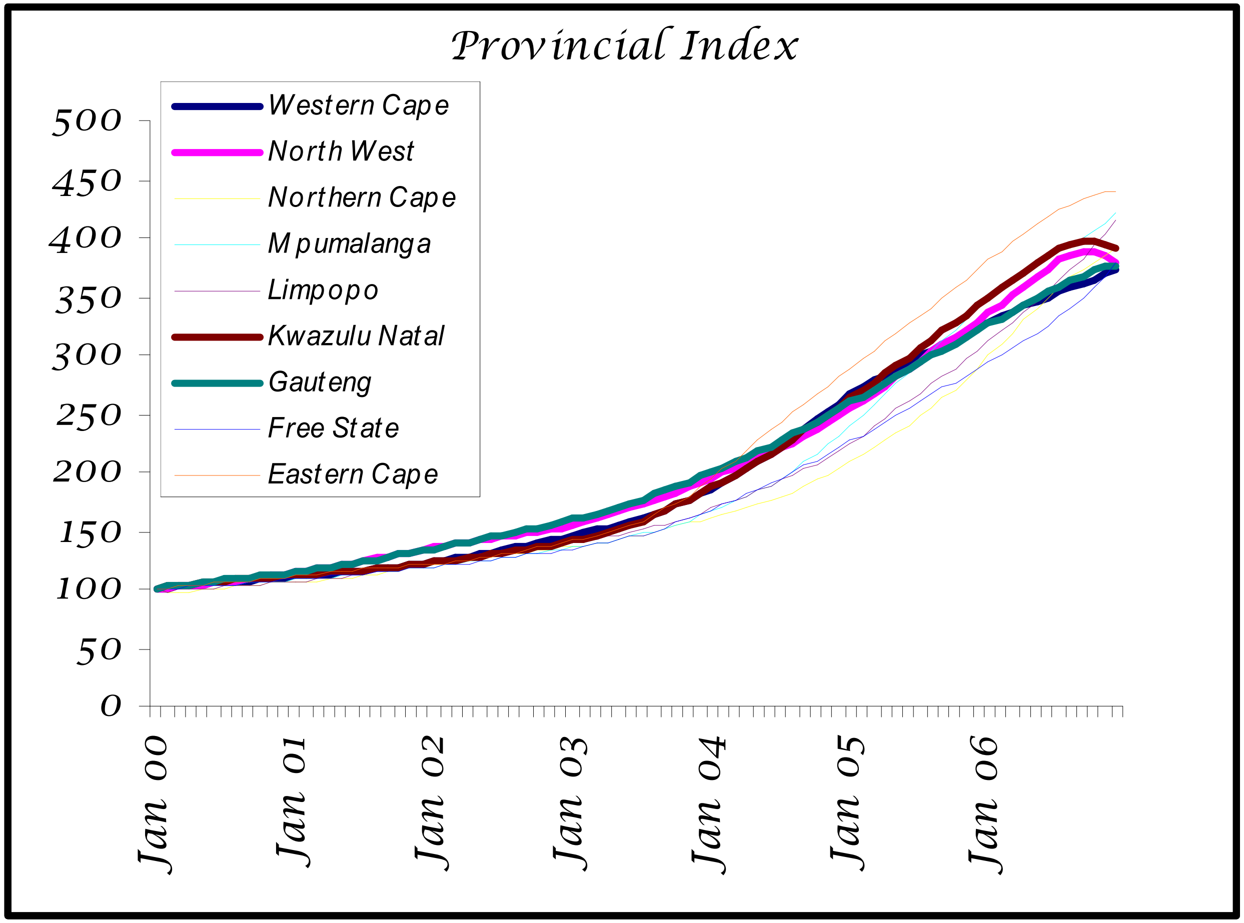
- Finally we have data to confirm the common theory
- Shifting demand as affordability deteriorates
- Lower end now stronger
- But all categories see softening growth

PERFORMANCES OF VALUE CLASSES SINCE 2000



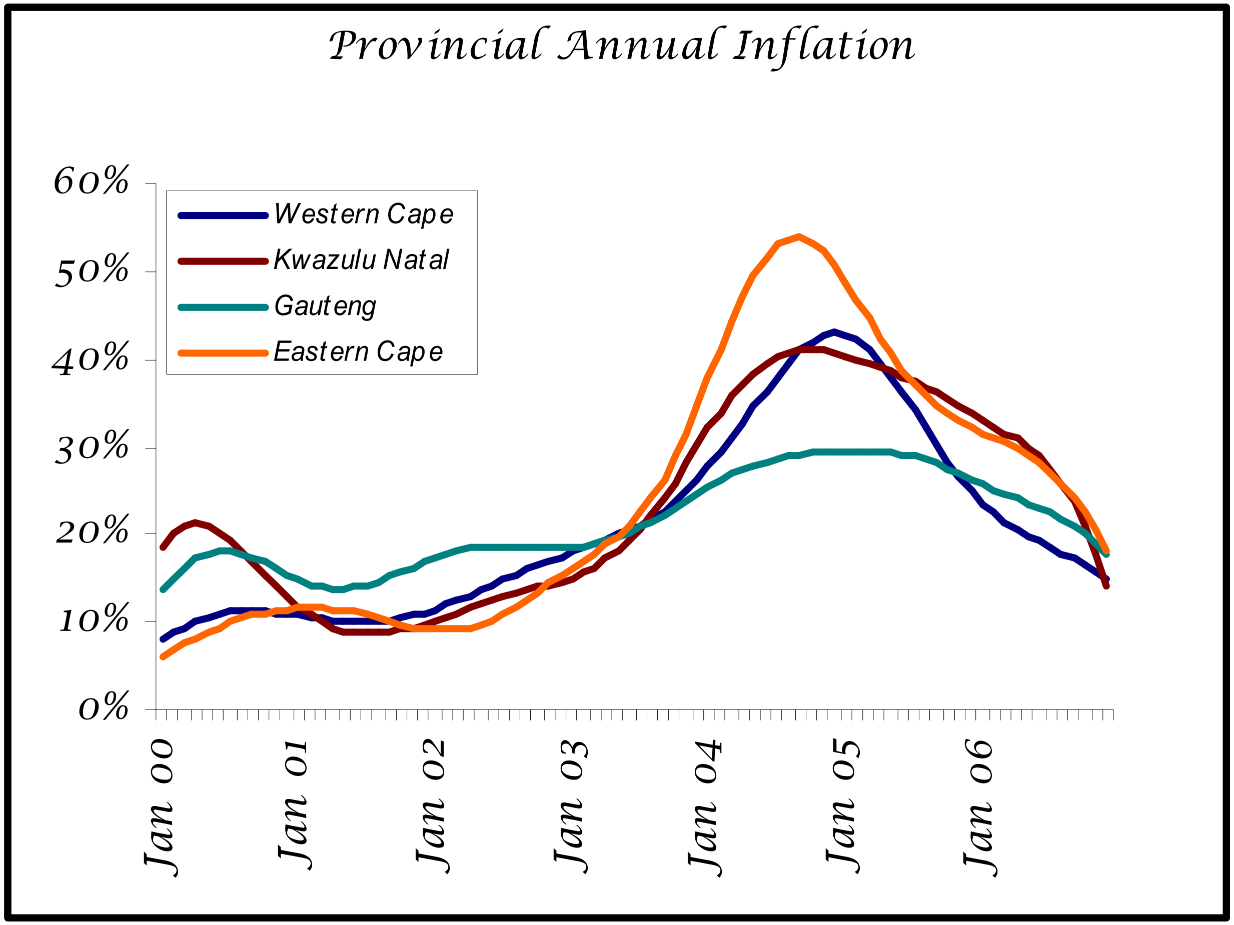
- Lower end has now performed better over the decade

SMALLER PROVINCES HOLDING UP BETTER



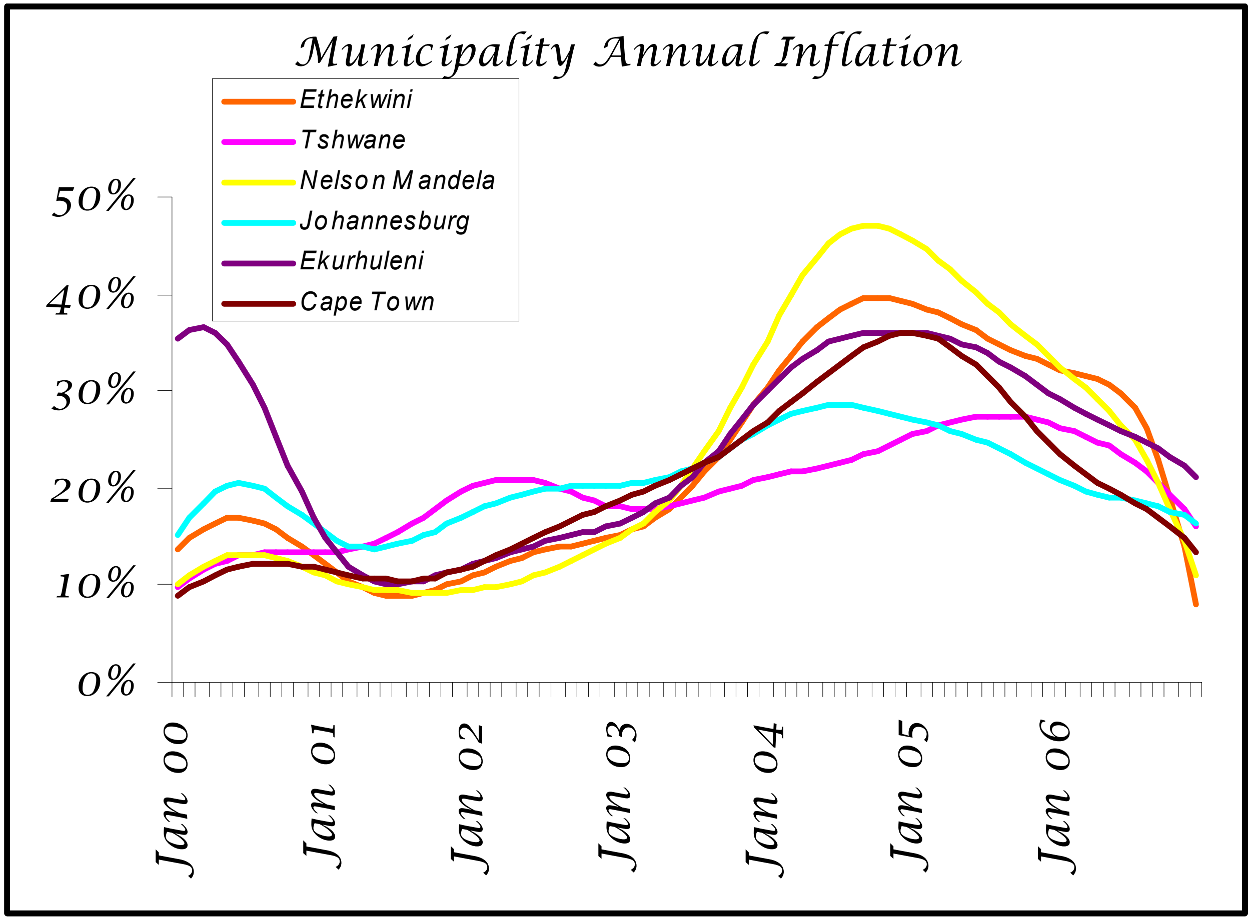
- With the exception of North West, smaller (and inland) provinces appear to be holding up better at this stage of the cycle

COASTAL PROVINCES ON THE LOWER END OF INFLATION SPECTRUM



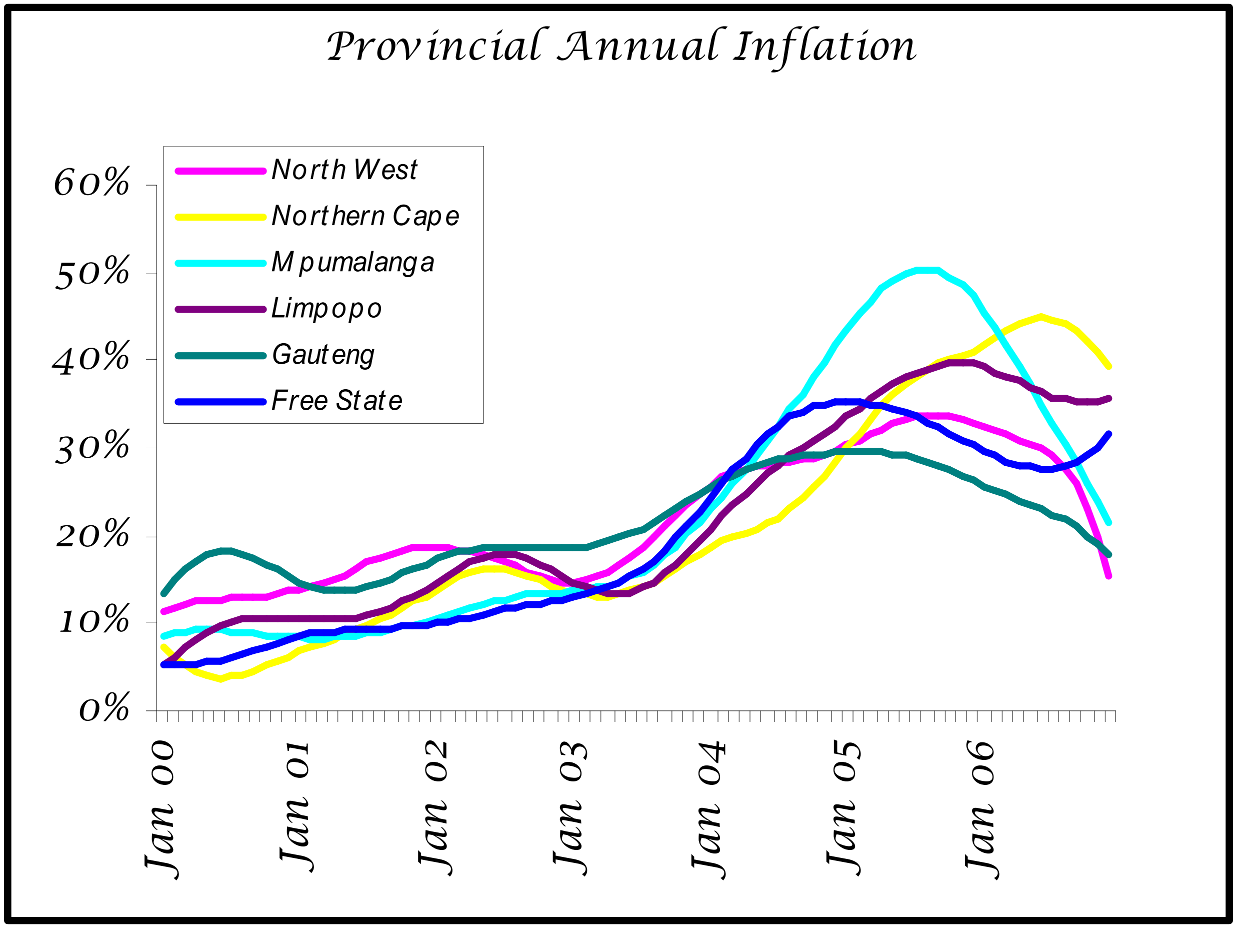
- KZN and ECape appear worst hit by interest rate hikes, with gradients steepening around mid-2006

GAUTENG METROS NOW THE MOST SOLID



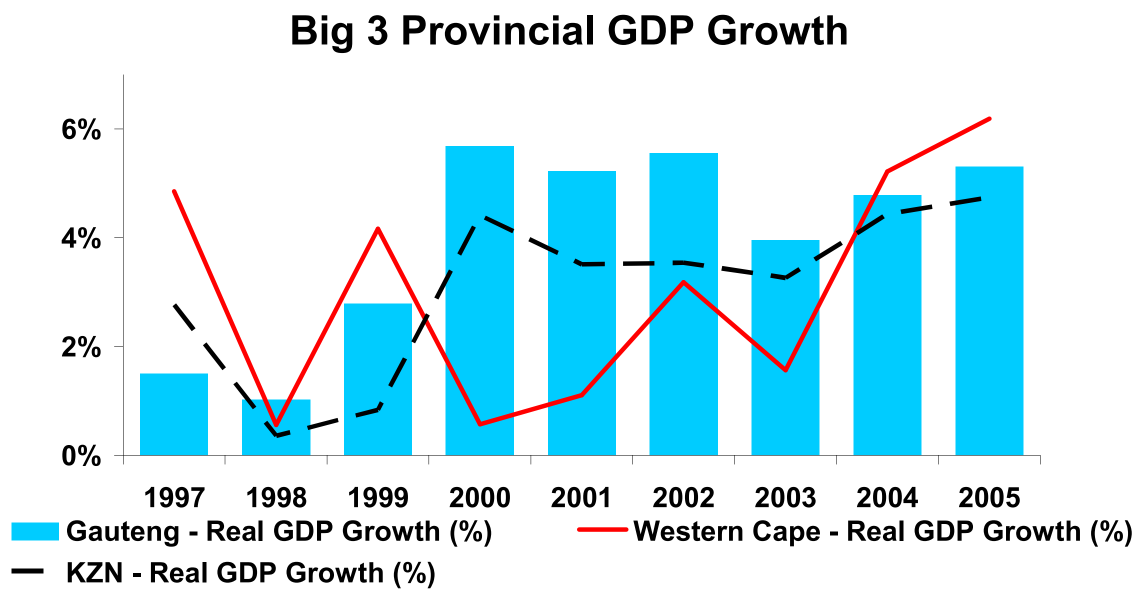
- eThekwini and Mandela Bay metros taking strain. Interest rates appear to be biting hard

SMALLER PROVINCES ABOVE AVERAGE



- Smaller provinces holding up better
- Gauteng is the “solid” market, with shallow troughs and low highs

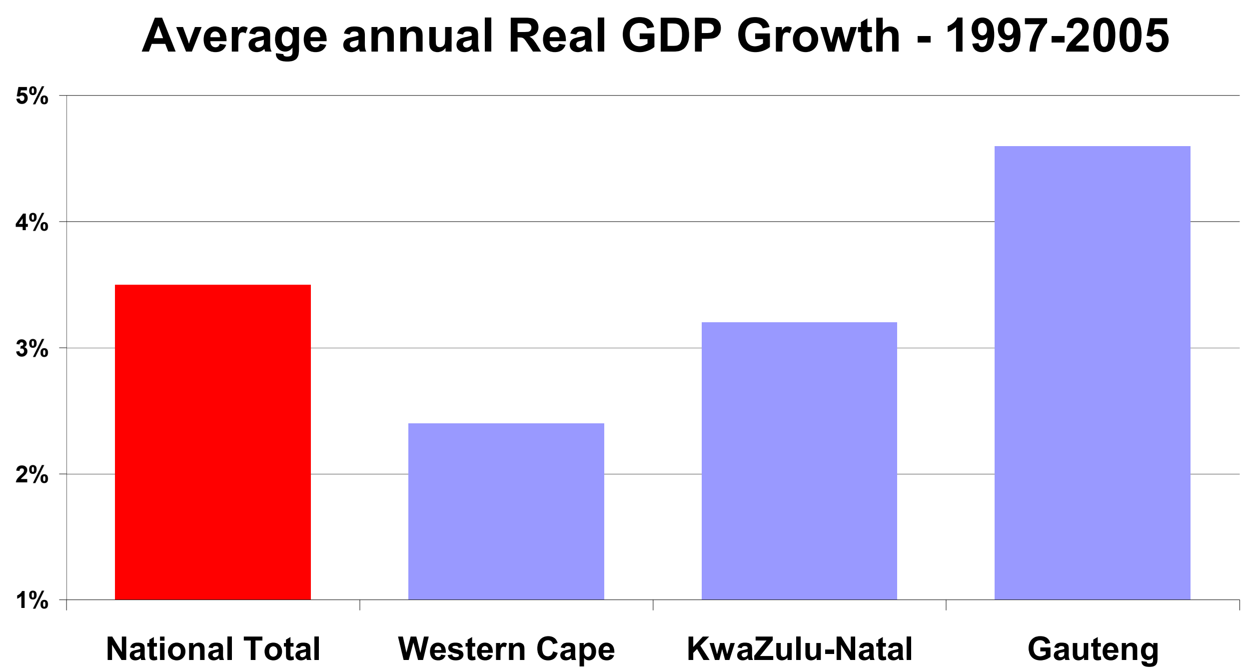
STILL A BULLISH LONG TERM OUTLOOK FOR KZN



Data Source: Globalinsight
Graphics: FNB Commercial Poperty Finance

- La Mercy, Dube Tradeport and old airport re-development
- Ultimately direct flights to Europe must come
- Greater numbers of commuters along North Coast should reduce volatility of market
- Growth correlation to Gauteng is beneficial
- Waterfront and Victoria Embankment Marina
- KZN has it all from a tourist point of view

STRONG GAUTENG GROWTH POSITIVE FOR KZN



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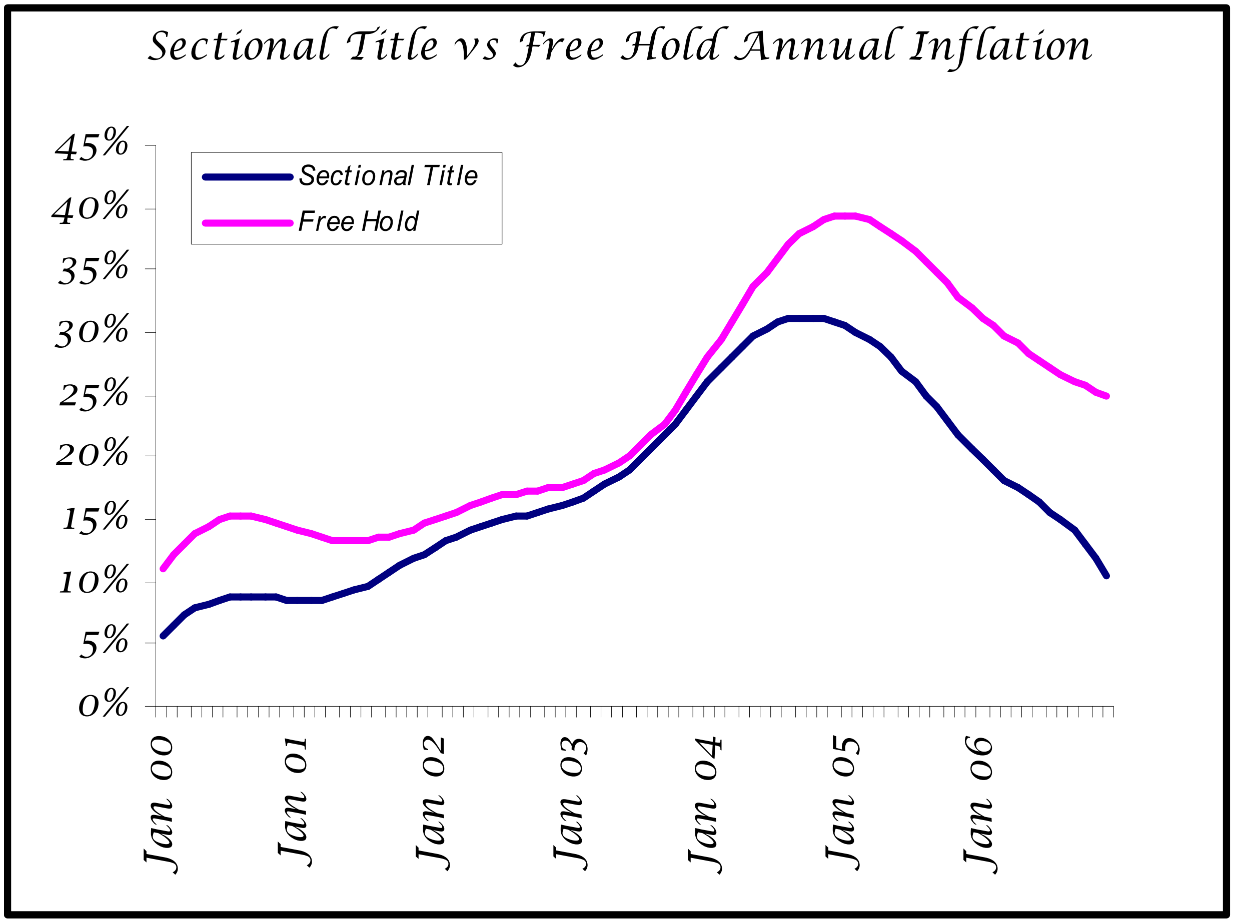
FREEHOLD VS SECTIONAL TITLE



- Freehold outperformed sectional title consistently
- On the lower end, there are numerous problems associated with sectional title
- On the higher end, stronger land price inflation vs building value inflation probably reflected

IN A NUTSHELL – THE WAY FORWARD

- I remain of the expectation that the market will begin to recover in 2008 after bottoming in 2007. Rental market showing early signs of recovery, interest rates are believed to have peaked – unchanged rates expected for the rest of 2007, and economic growth to remain solid although slightly slower in 2007. Supply of new stock to decline in 2007, reducing prospects for oversupply.

- Deteriorating affordability suggests that the lower end will perform the best, and a greater portion of development activity will shift towards that end

- Gauteng looking to be the most solid performer of the major markets while the downturn is still in progress

- In the long term, I remain most bullish on KZN for capital growth of the major 3 provinces

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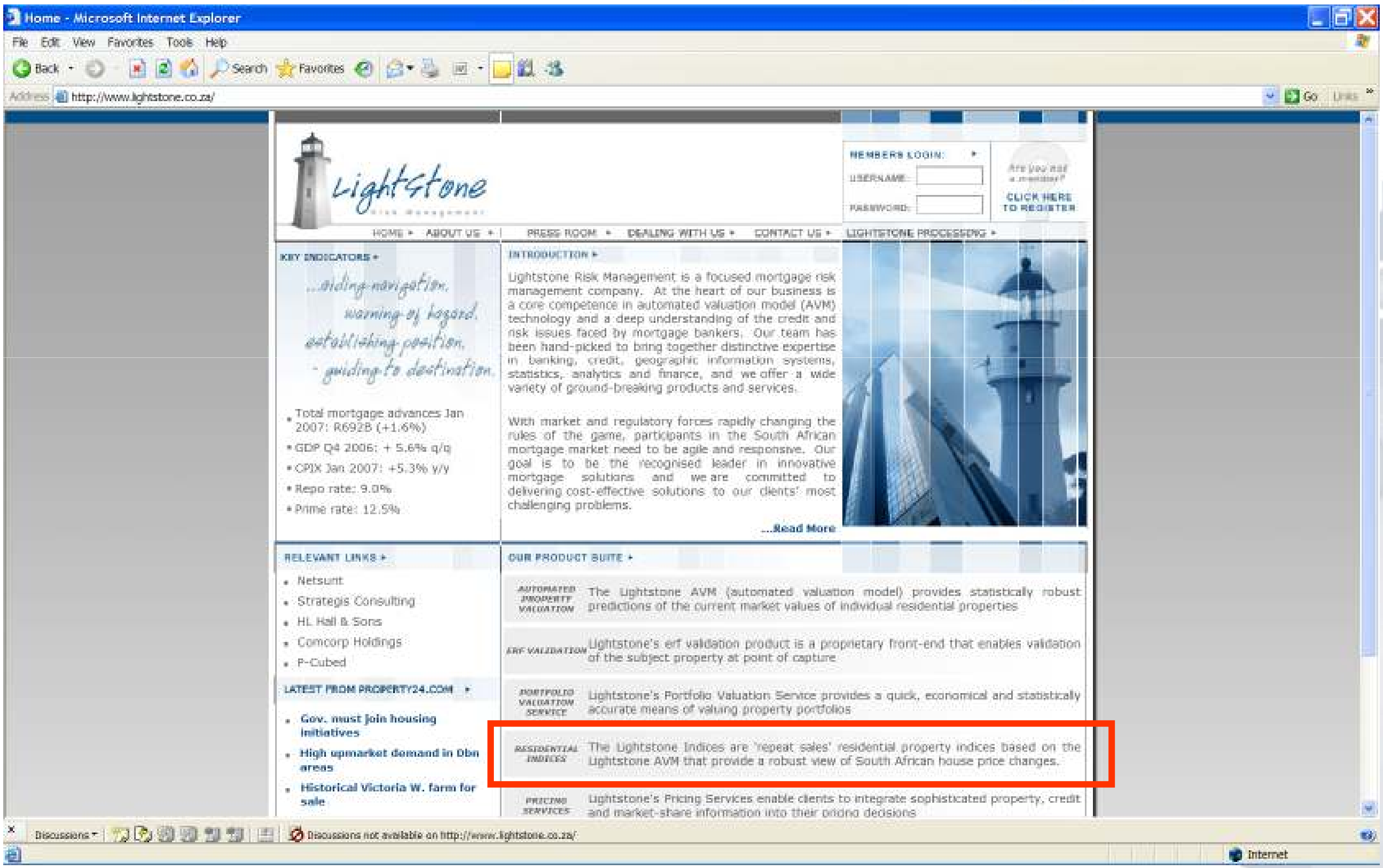
ACCESSING THE LIGHTSTONE RESIDENTIAL PROPERTY PRICE INDICES

- Indices will be published monthly on Lightstone website
  - www.lightstone.co.za
  - Indices and data tables will be uploaded monthly
  - Detailed commentary interpreting indices will be published quarterly

- Subscribe to email notification about indices
  - On questionnaire distributed
  - On line

LOCATING THE LIGHTSTONE REPEAT SALES RESIDENTIAL PROPERTY PRICE INDICES ONLINE



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