Current property trends at the low end of the Market?

LightStone

28 October 2009

Urban LandMark Conference

Agenda

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Market structure and growth trends

Price trends

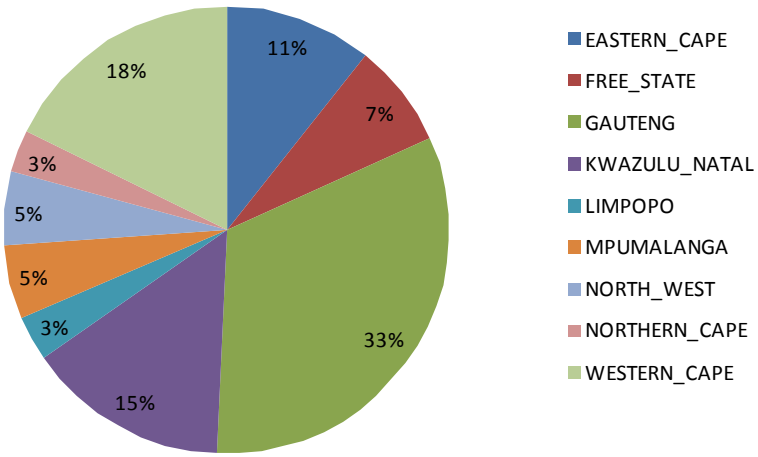
Sales and ownership patterns

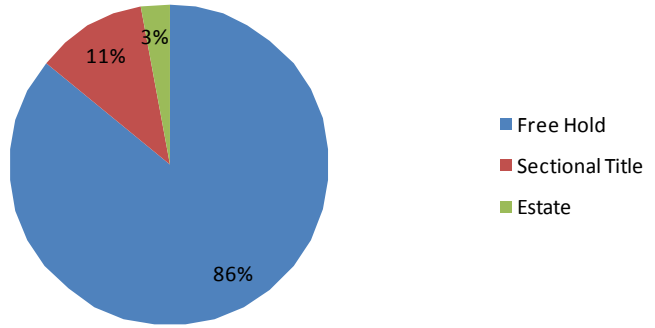
Bond trends

Distressed sales overview

Conclusions

Structure of the South African property market



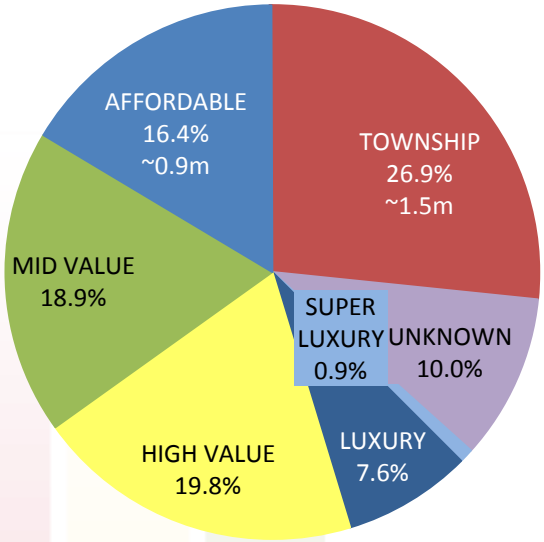


* The above is based on properties registered in the deeds data. Where municipalities or government may own a stand with a block of flats on it, the different units will not be represented in the deeds register

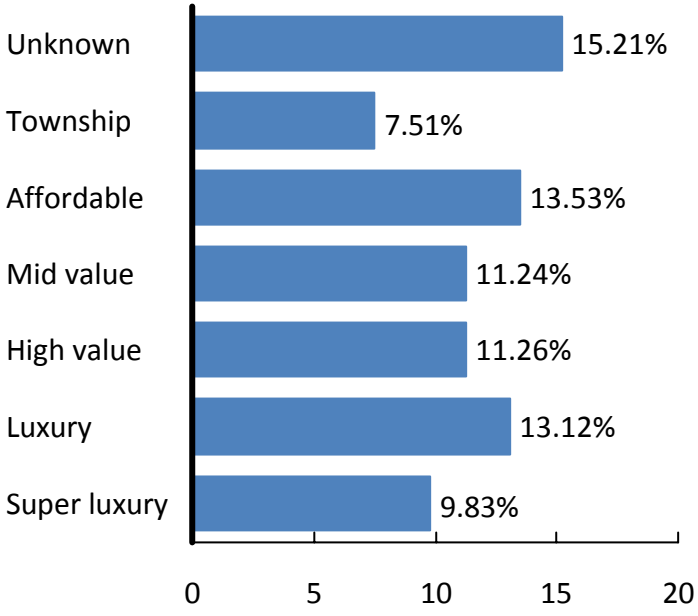
Property stock growth by area value band

Split of properties by wealth segment

100% = 5 475 104

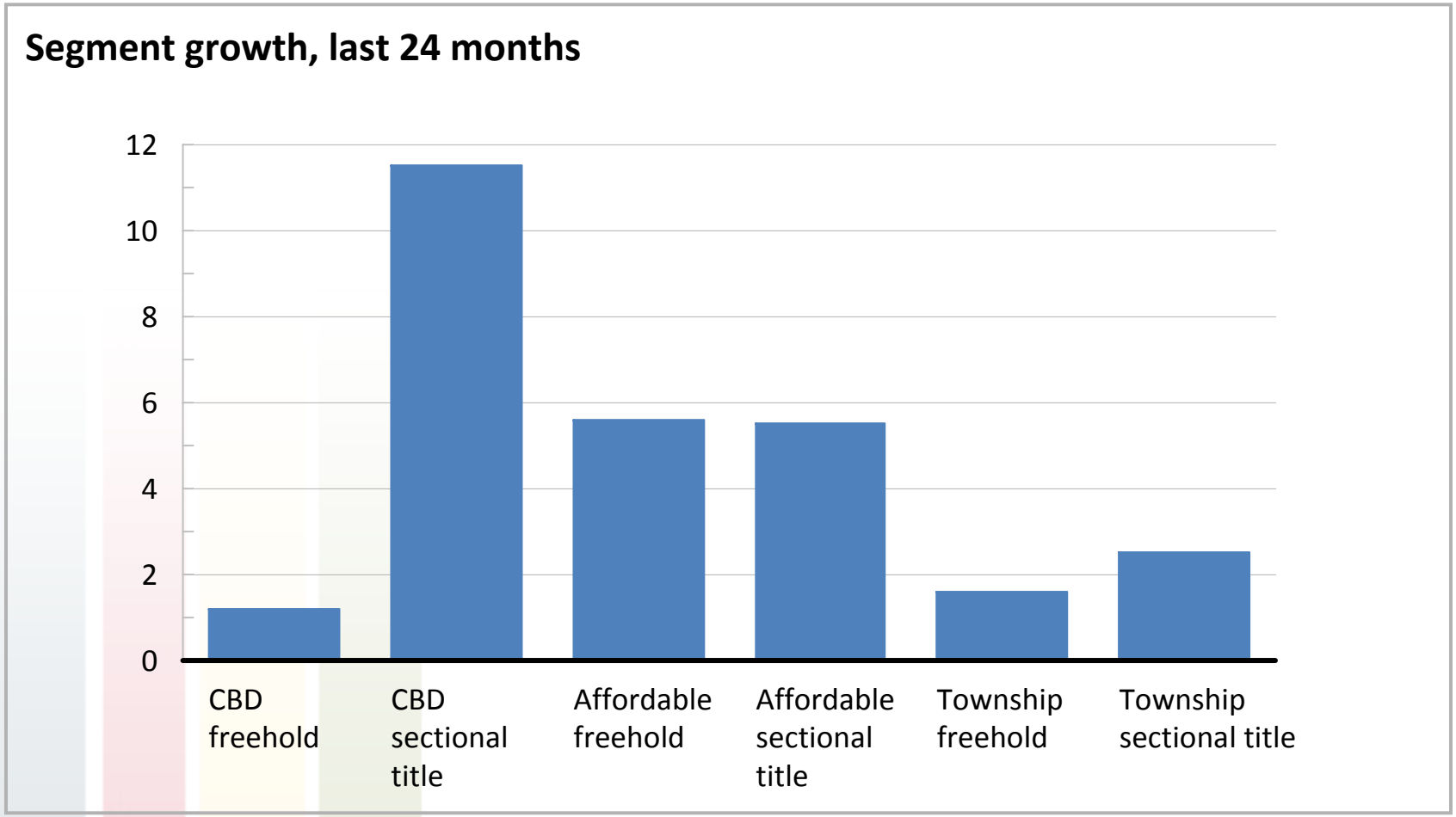


Segment growth, 2005-current



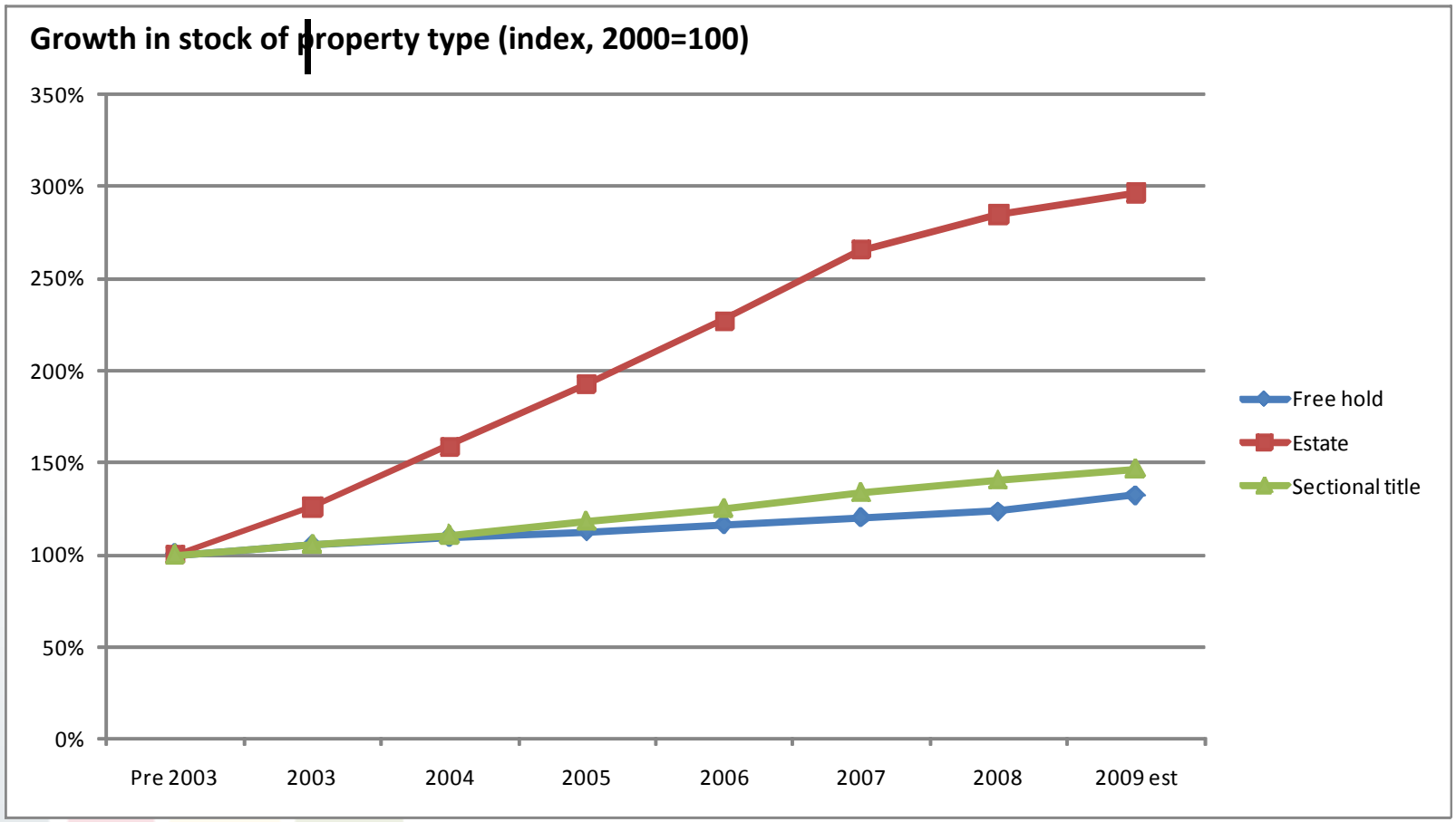
- Area value bands track house price inflation in areas with different average values: Luxury (>R1.5m); High value (R750k-R1,5m); Mid value (R250k-R750k) and Affordable (<R250k)
- Stock growth has been quite even across the different value segments. Township growth has probably been restrained by density/boundaries.

Stock growth at the lower end (last 24 months)



There has been substantially stronger growth in CBD sectional title than in any of the other 'development' areas

Growth of property market by property type (2002 – 2009)



There has been almost 200% growth in the number of Estate properties since 2003 (compared to 50% for sectional titles and 30% for free hold properties)

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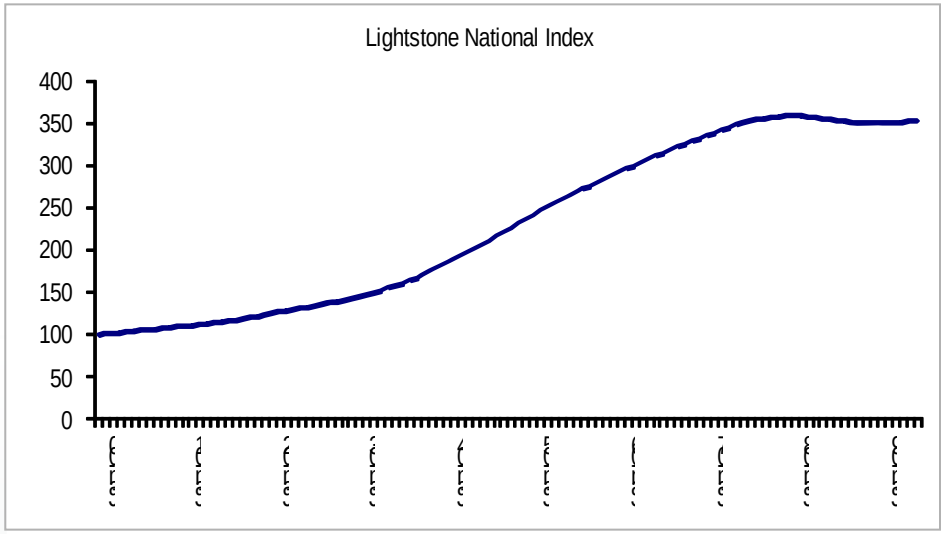
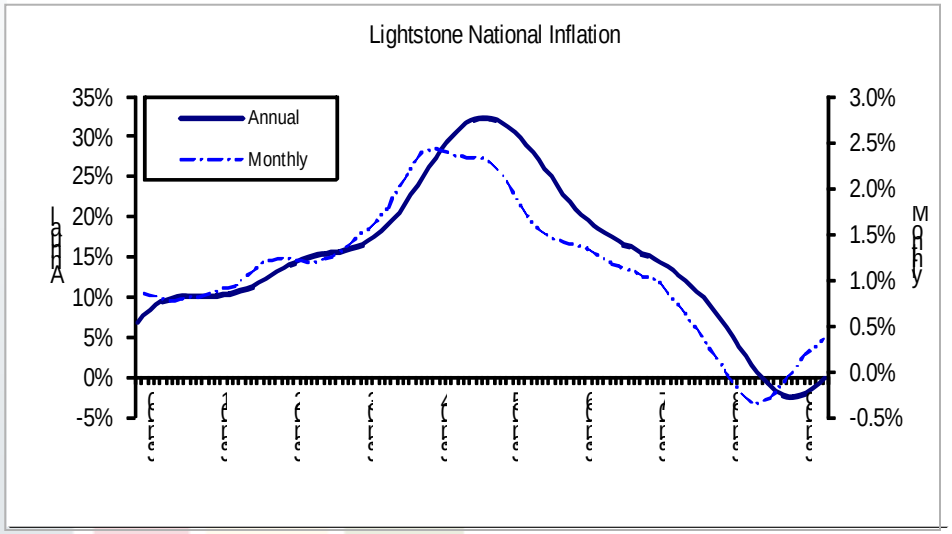
Annual house price inflation: National

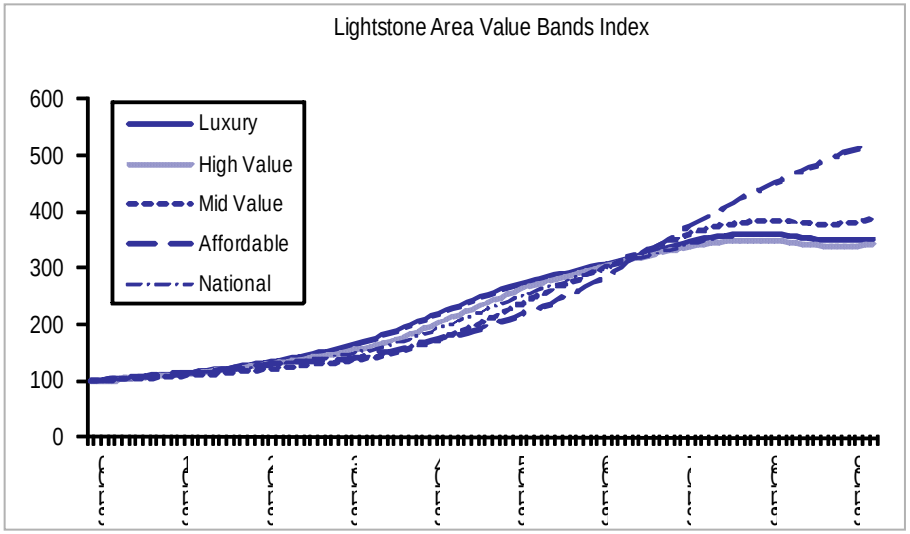


National house prices have started to edge up again. The index is 2% up from its trough in December 2008

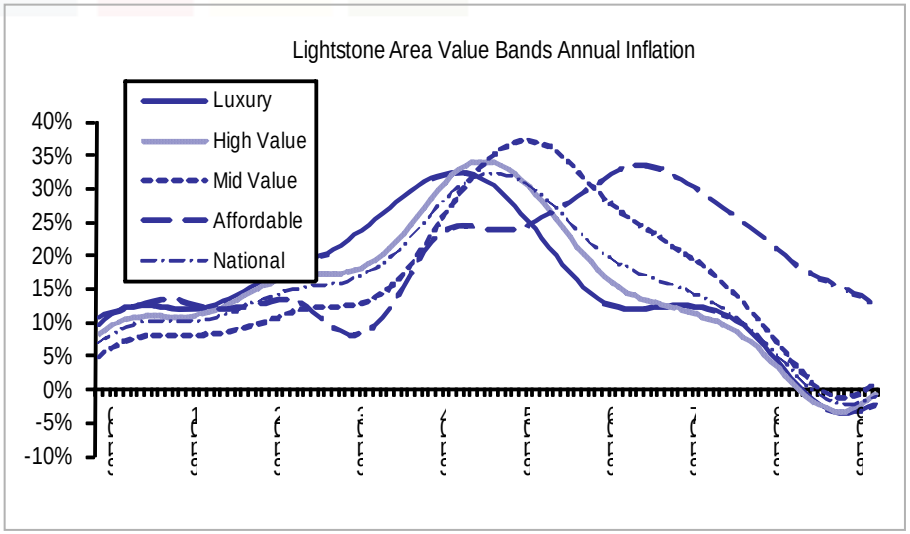


June annual nominal house price inflation is -0.3% based on Deeds Office data. Monthly inflation between May and June was 0.35%. Extrapolating forward based on mortgage application data, September inflation rose to 1.8%.

Annual house price inflation: Area value bands

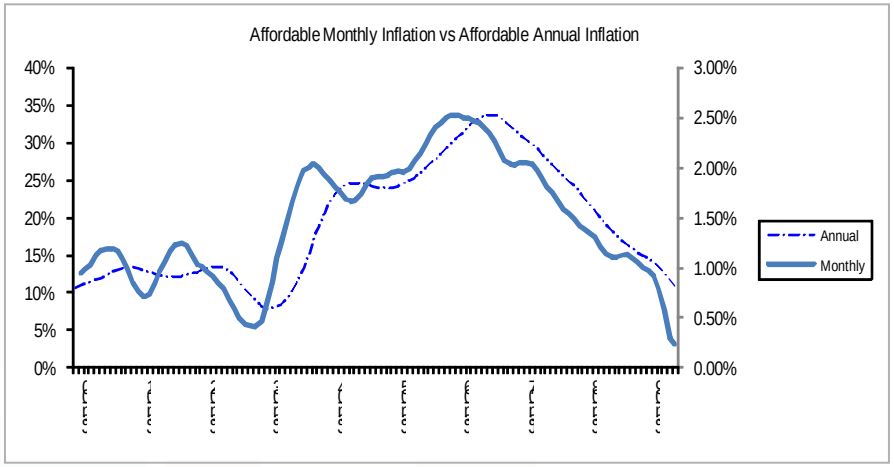


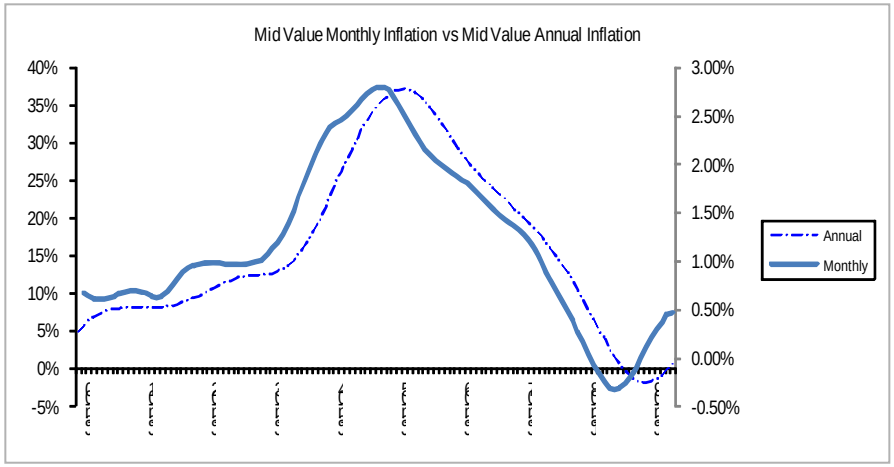
The indices for each value segment are still now on their way up with only the mid, high and luxury markets having dipped briefly in 2009

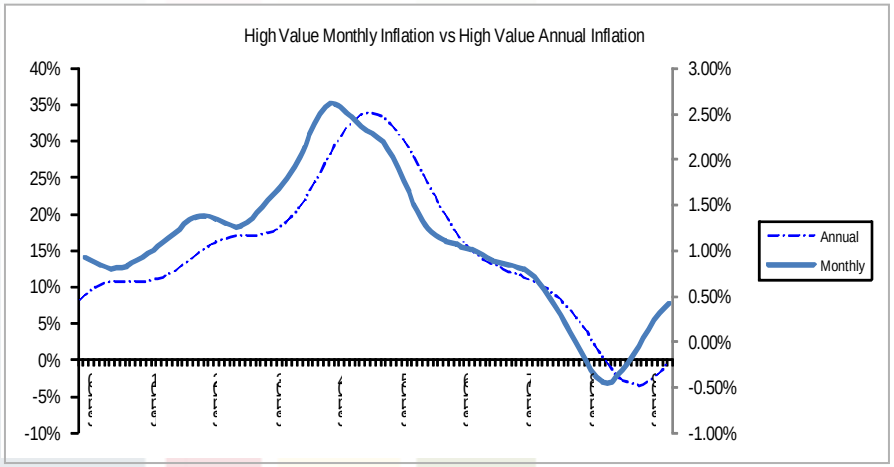


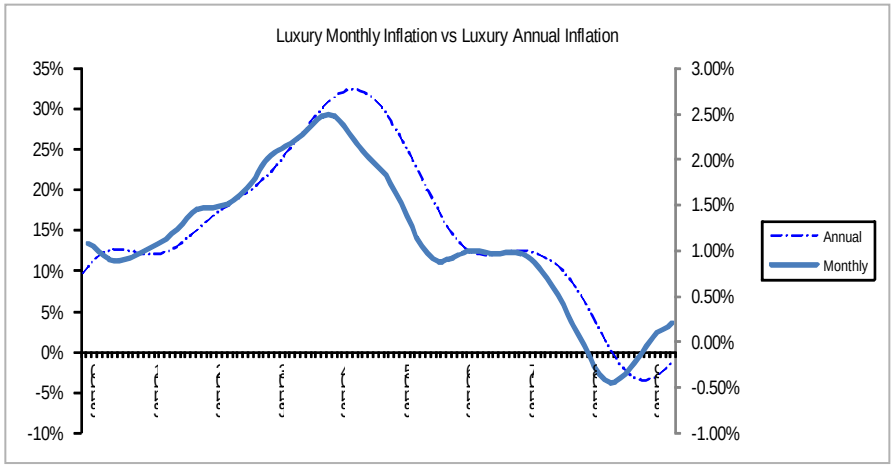
The higher value segments are all moving up towards 0% nominal annual house price inflation having been in negative territory since the middle of 2008

Monthly house price inflation: Area value bands









Although the Affordable market is still increasing 10.8% year on year, monthly data is very volatile with the most recent figures indicating that theinflation in this segment will continue to drop

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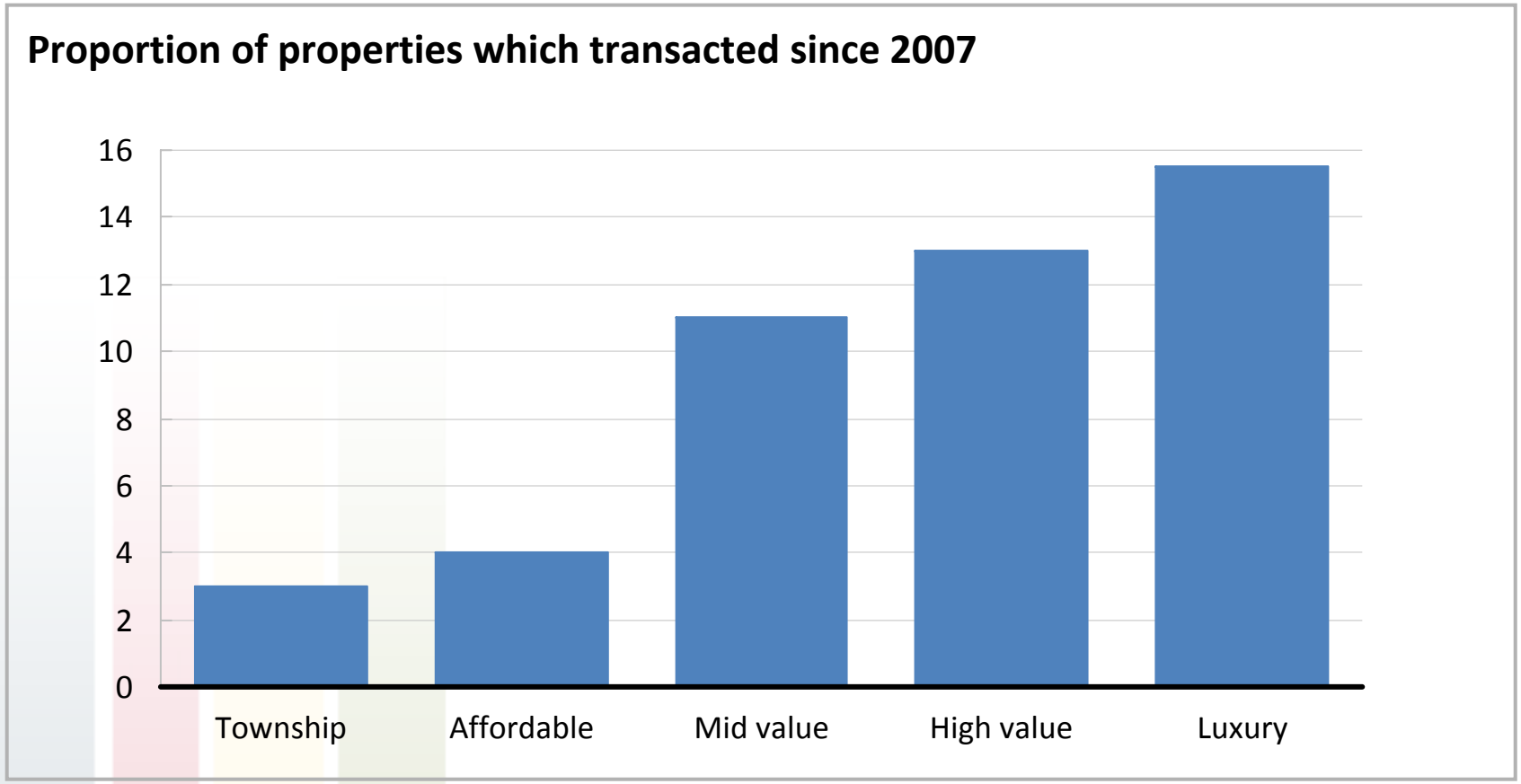
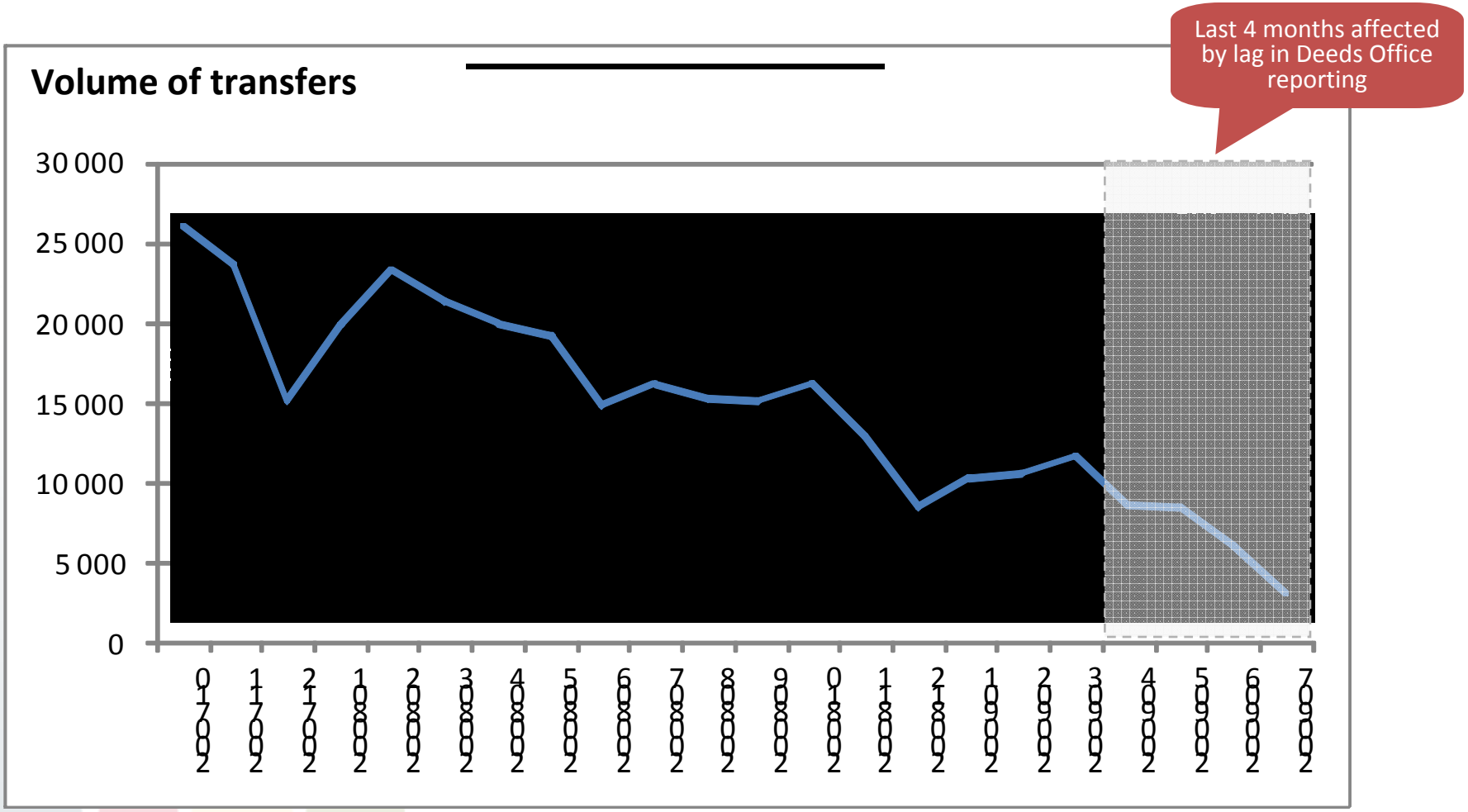
Sales turnover rate: Value bands



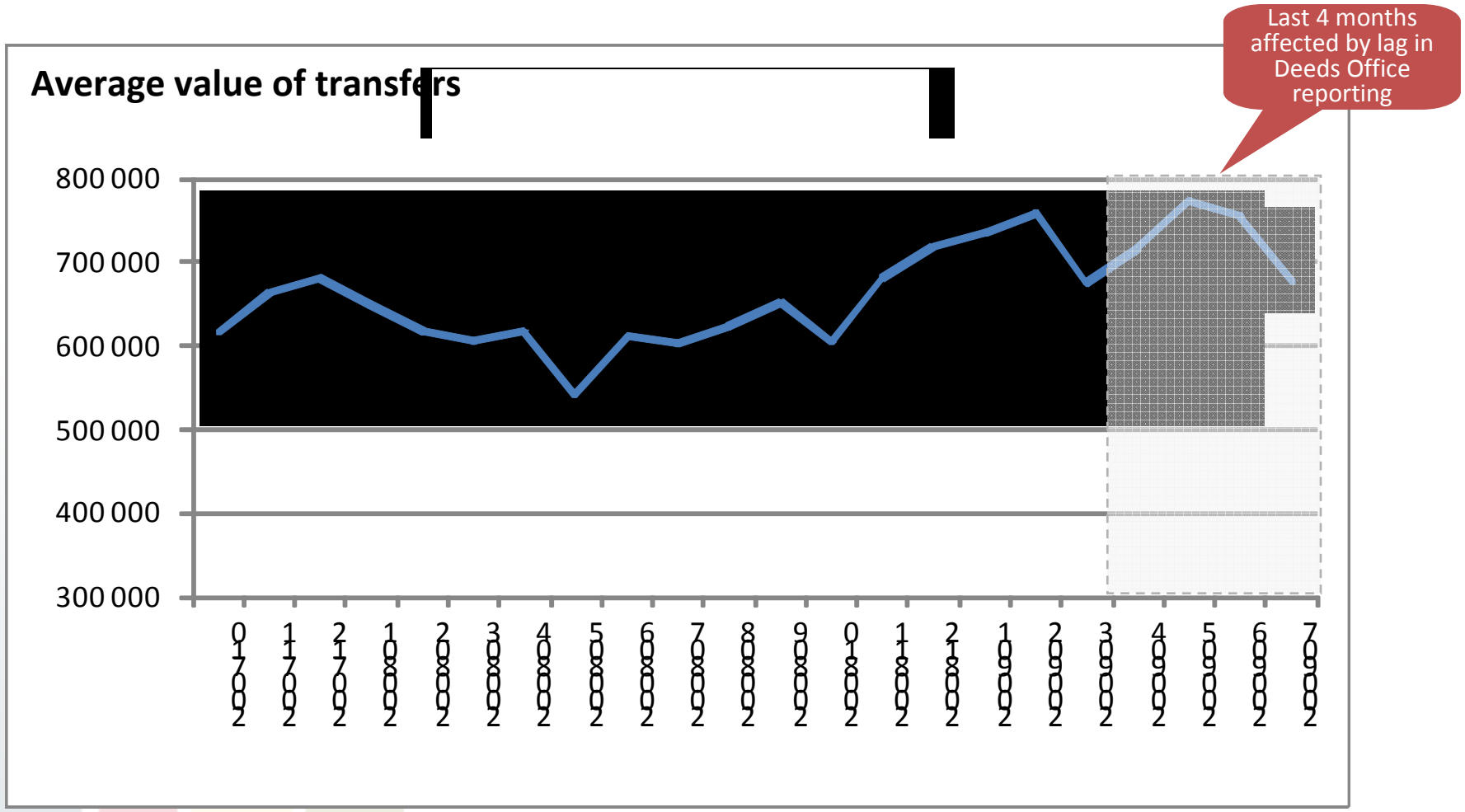
Higher value markets tend to be much more liquid, probably due to access to finance with lower value markets also less likely to trade for cultural or social reasons (e.g. houses remain in family, subsidy housing sales restrictions)

Total monthly transfer volumes (residential)



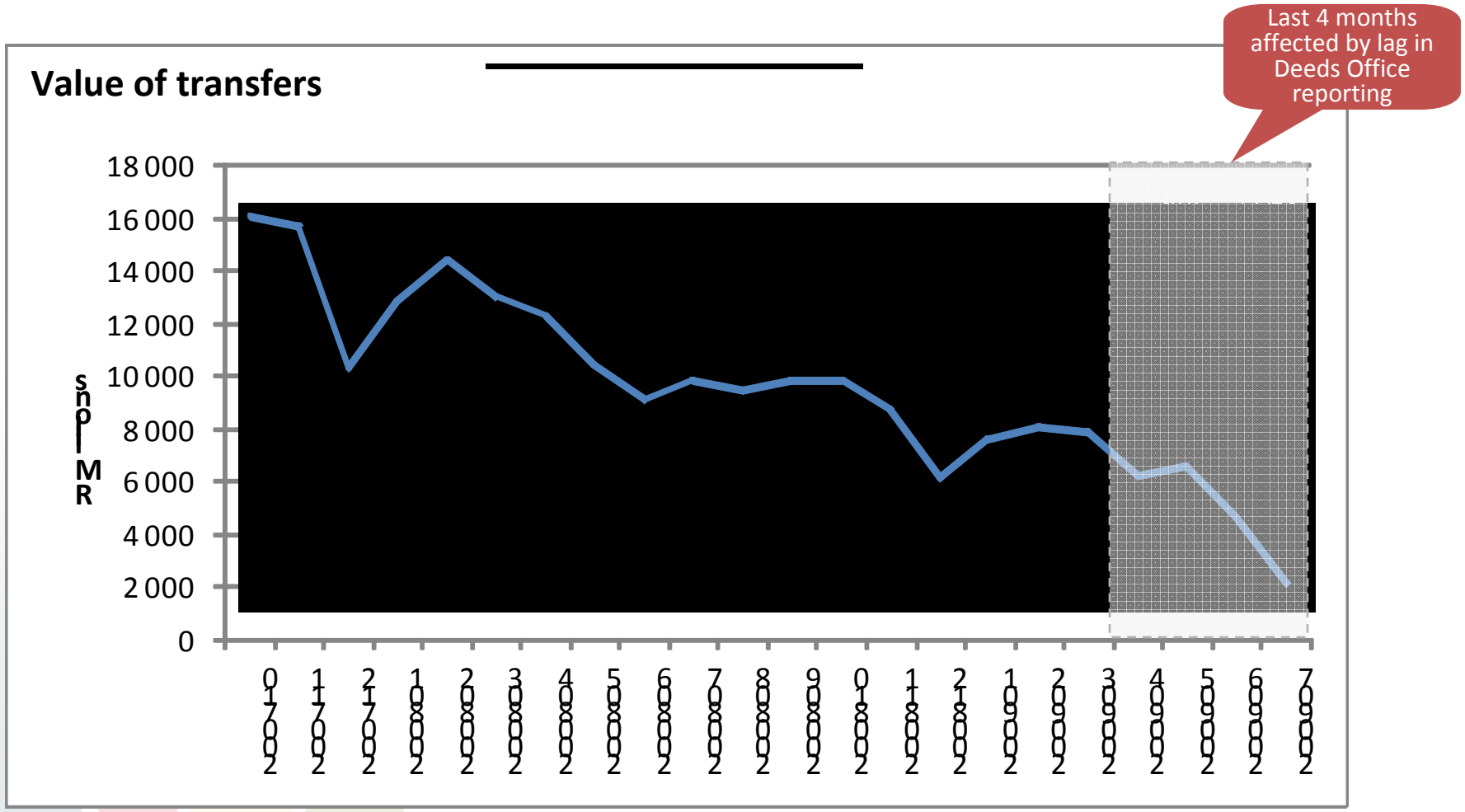
Total monthly residential transfers have dropped from ~25k to ~10k

Average monthly transfer values (residential)



Contrary to popular belief, average transfer values have remained fairly consistent at ~R750k

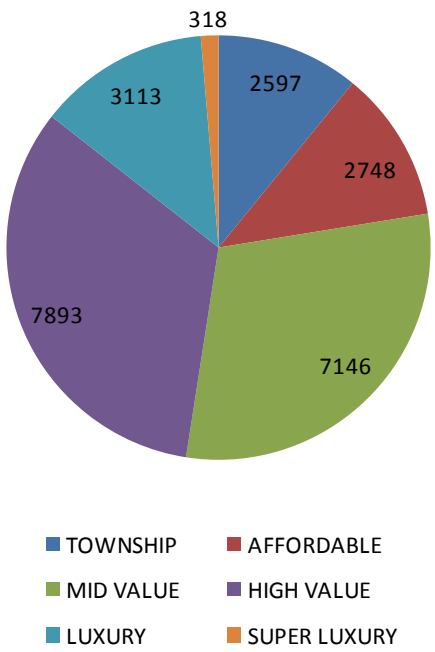
Total monthly transfer values (residential)



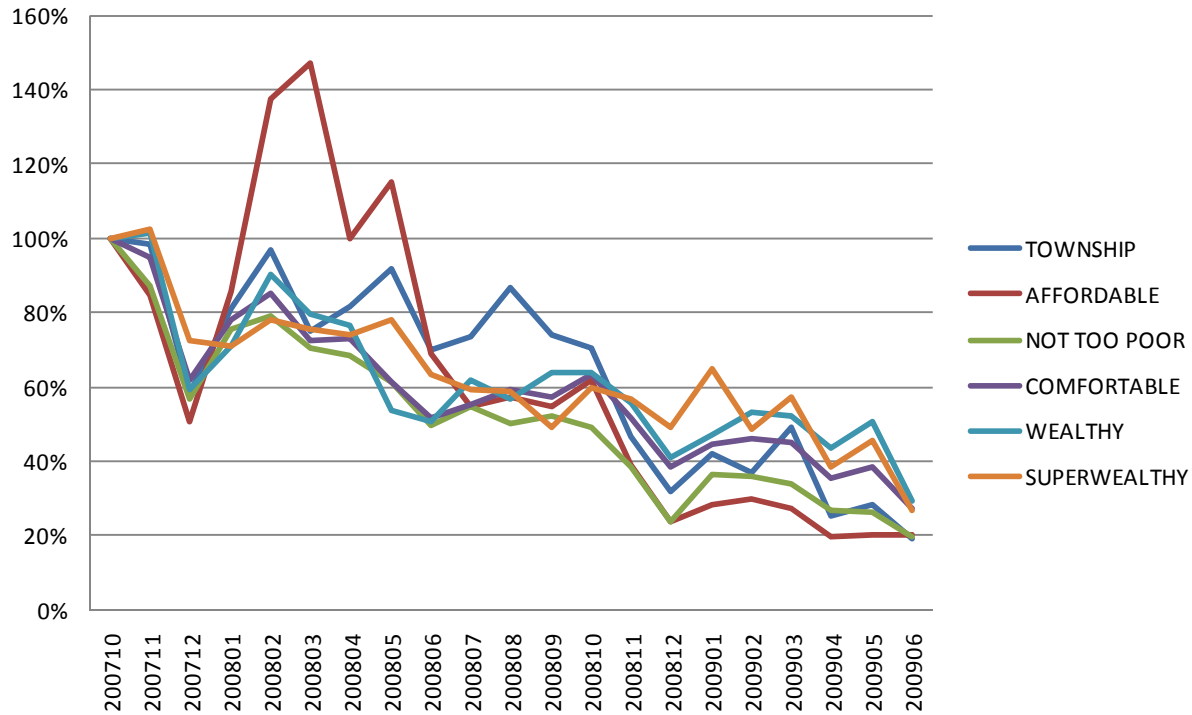
Drive by the reduction in transfer volumes, total monthly transfer values have dropped from ~R16Bn to ~R7Bn

Residential transfers* by value bands

Transfers by value band 10/2007



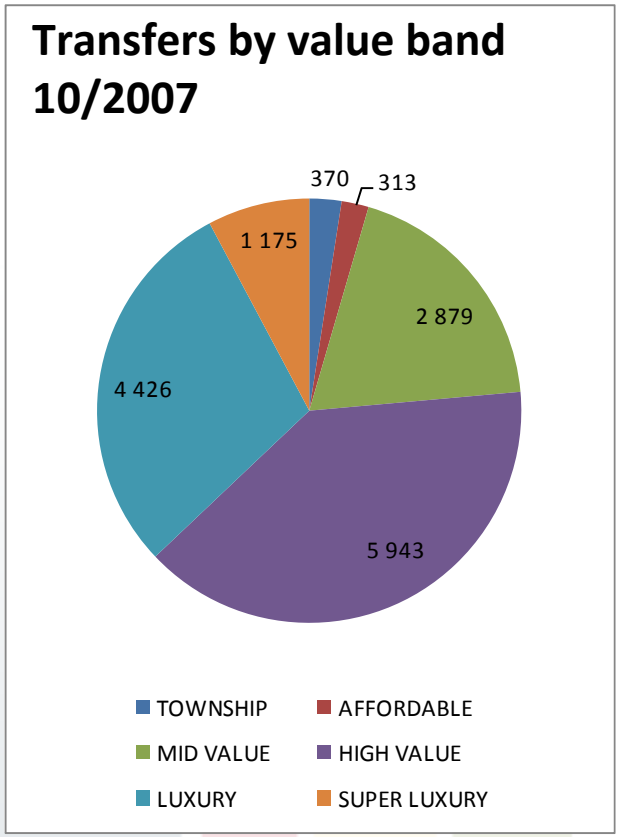
Volumes by value band (10/2007 = 100%)

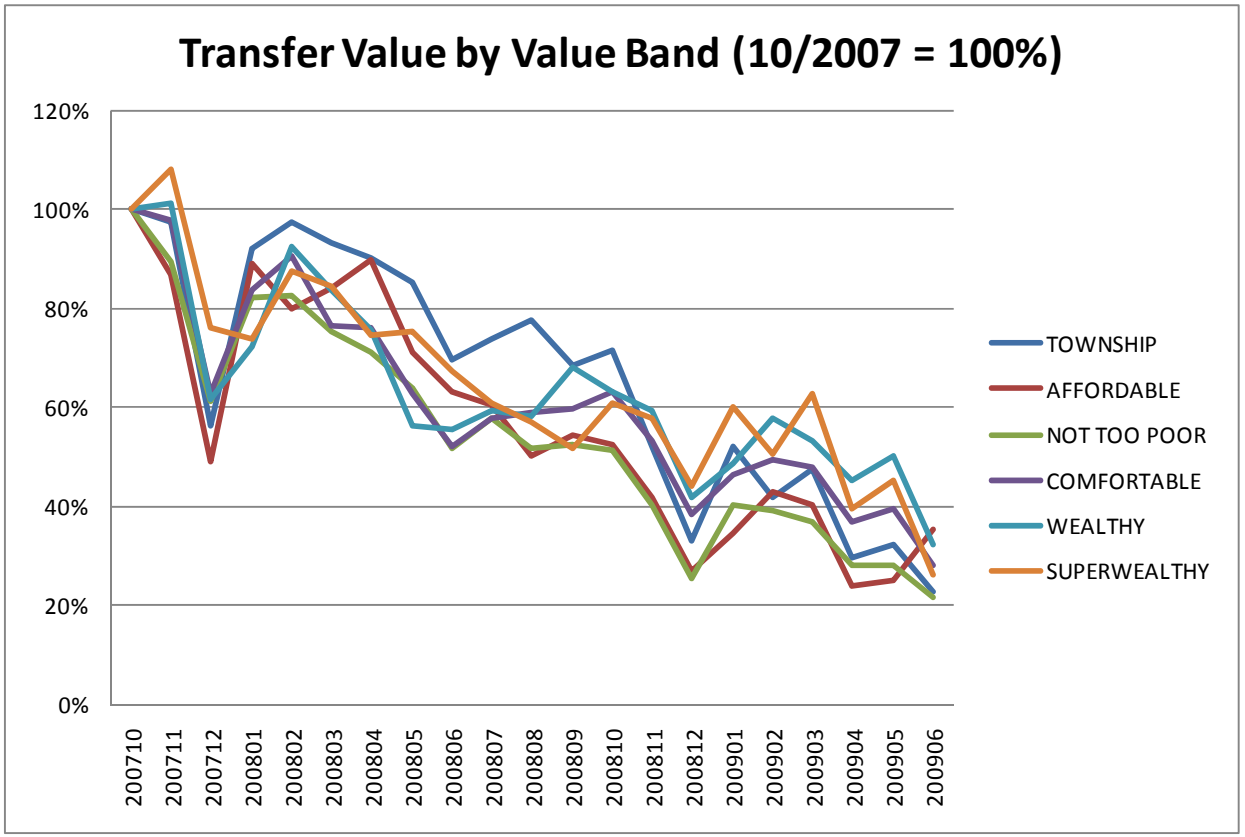


The drop-off in transfer volumes has been fairly consistent across the segments, with affordable and township among the worst affected

*Excludes transfers with no price or zero price

Total residential transfer value by value bands

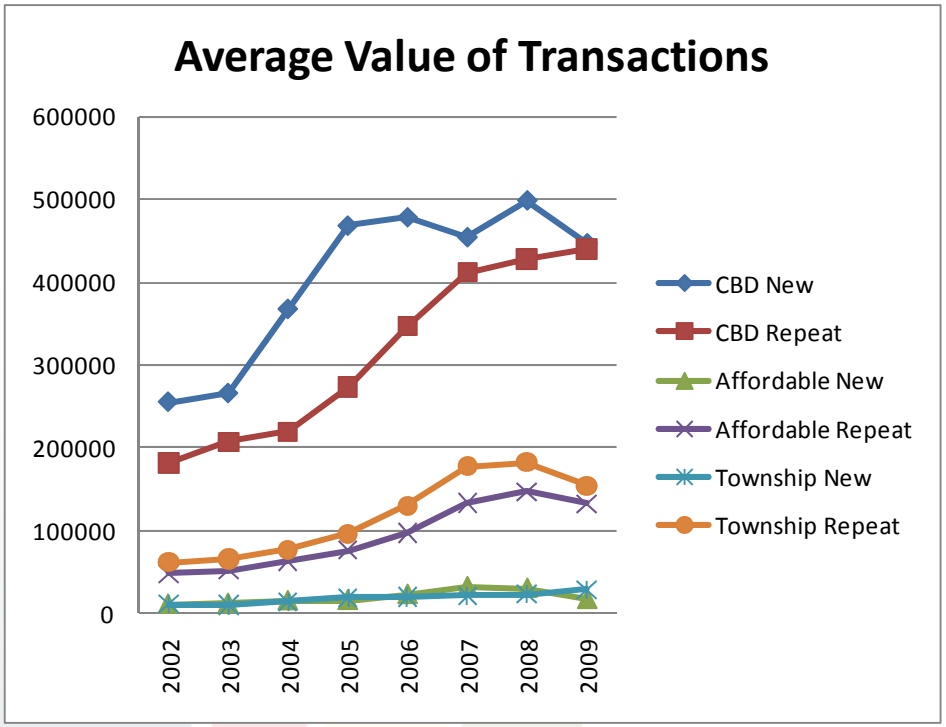


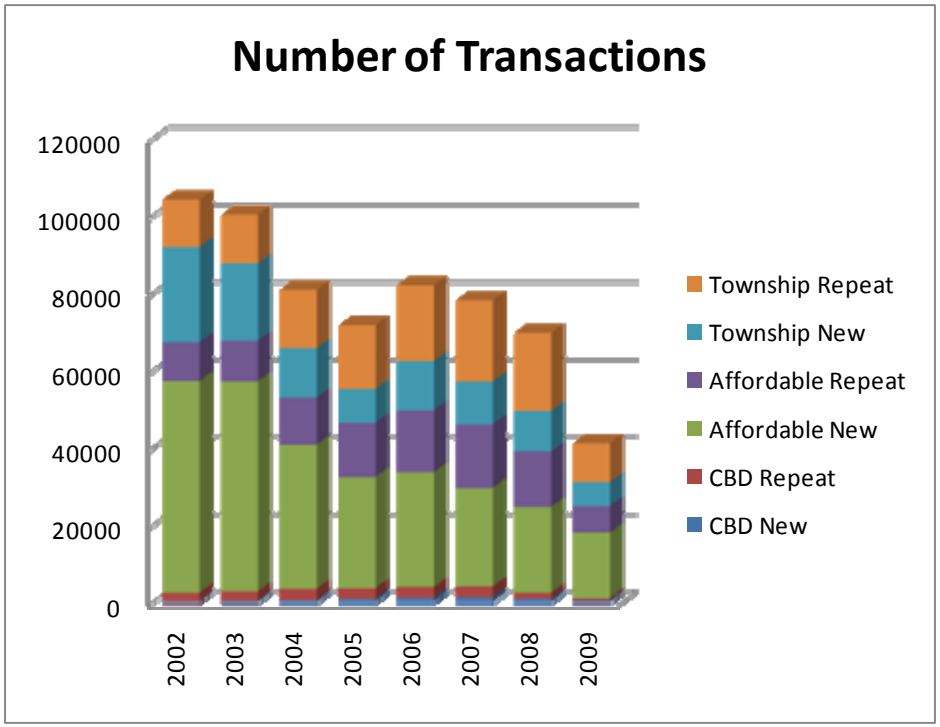


The drop-off in total transfer value has also been severe across all segments, with affordable and township amongst the worst performing segments

*Excludes transfers with no price or zero price

Average Value and Number of Transactions at the Low End of the Market 2002-2009

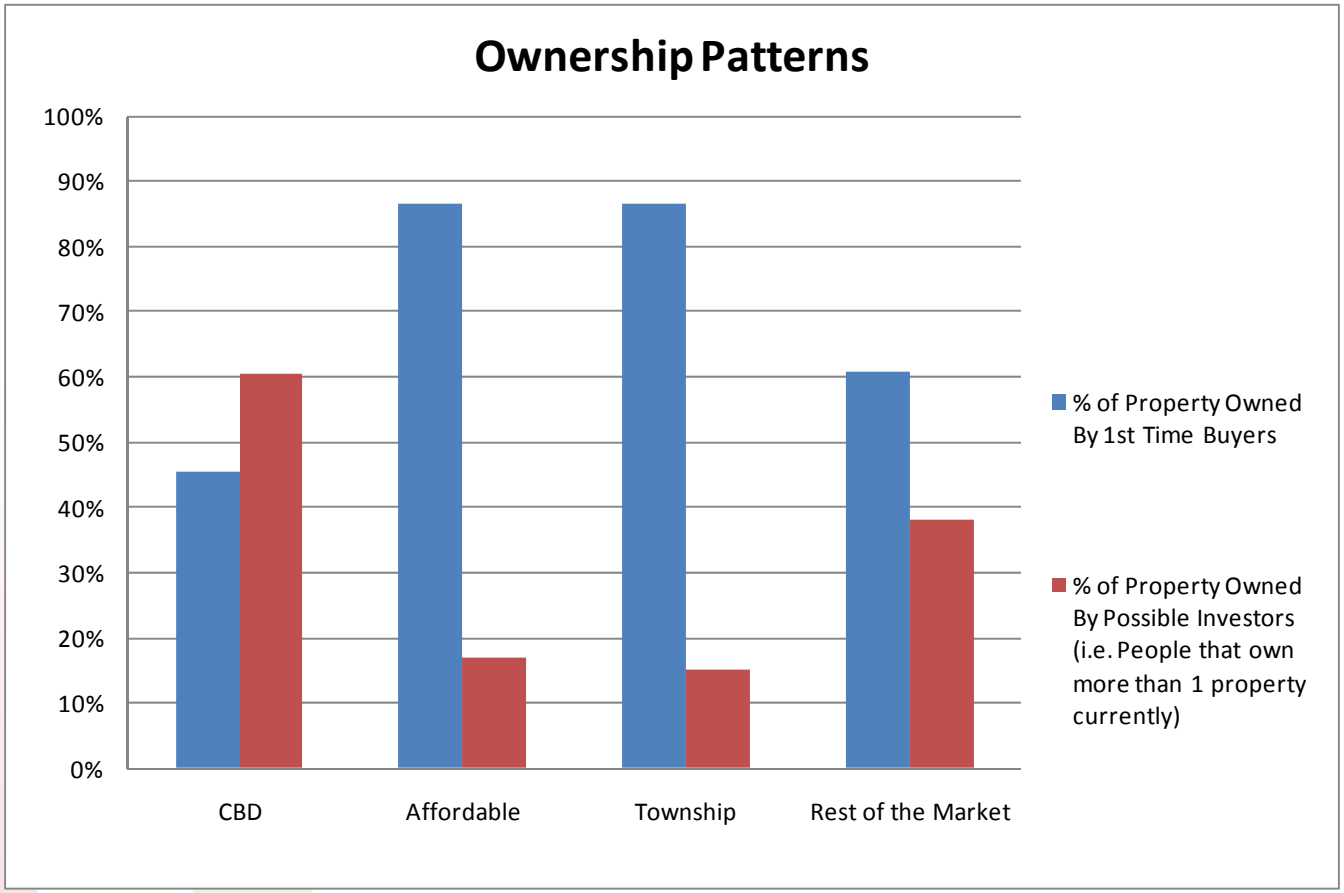




- Low end volumes have held up relatively well through the cycle, despite a significant drop in 'new affordable' properties post-2003
- The CBD has realised the highest values with Township properties also running up strongly over the period

*Excludes transfers with no price or zero price

Ownership Patterns at the Low End of the Market



The high level of 'investment ownership' goes some way towards explaining the strong increases in value in CBD property (previous slide)

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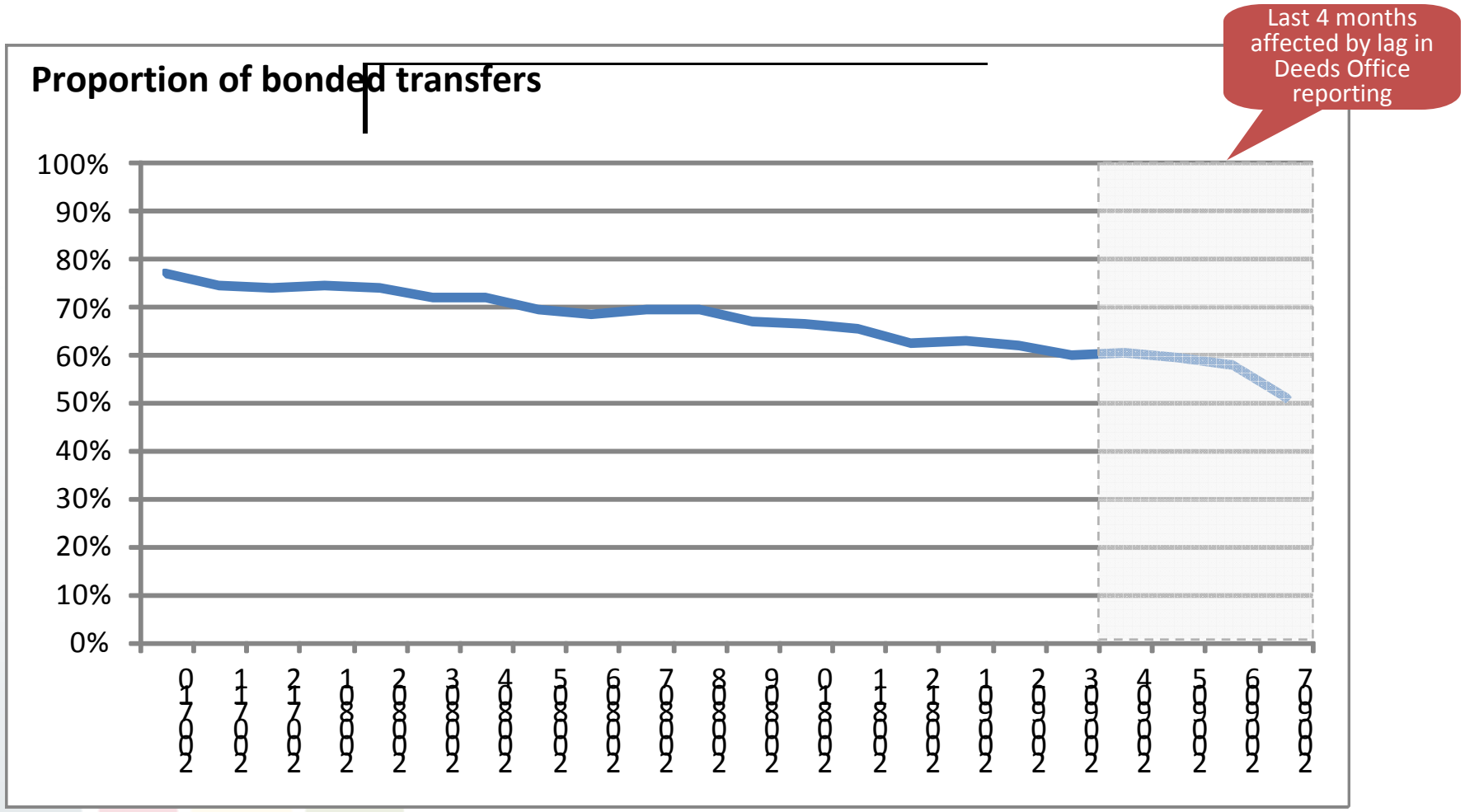
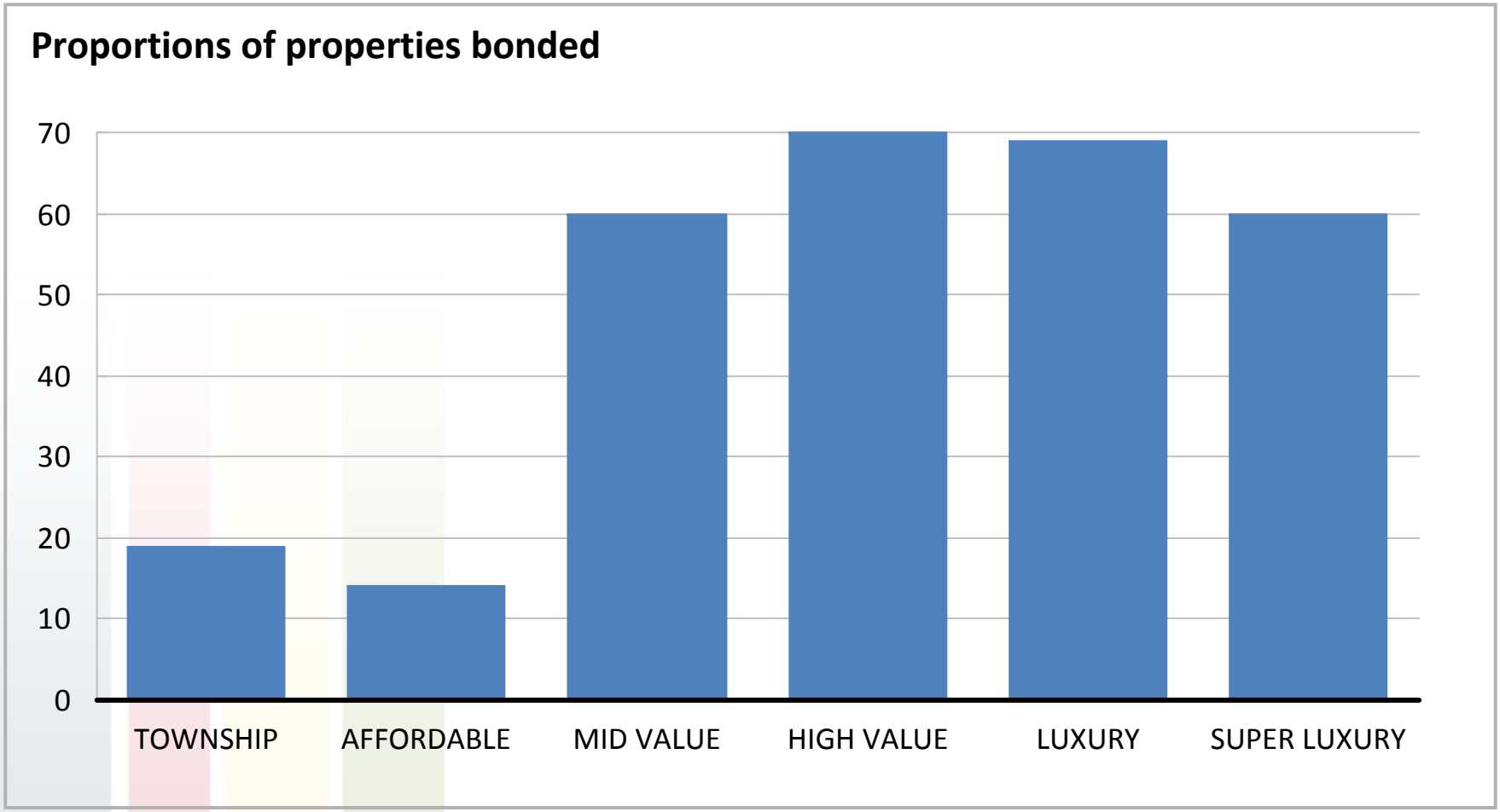
Proportion of bonded transfers



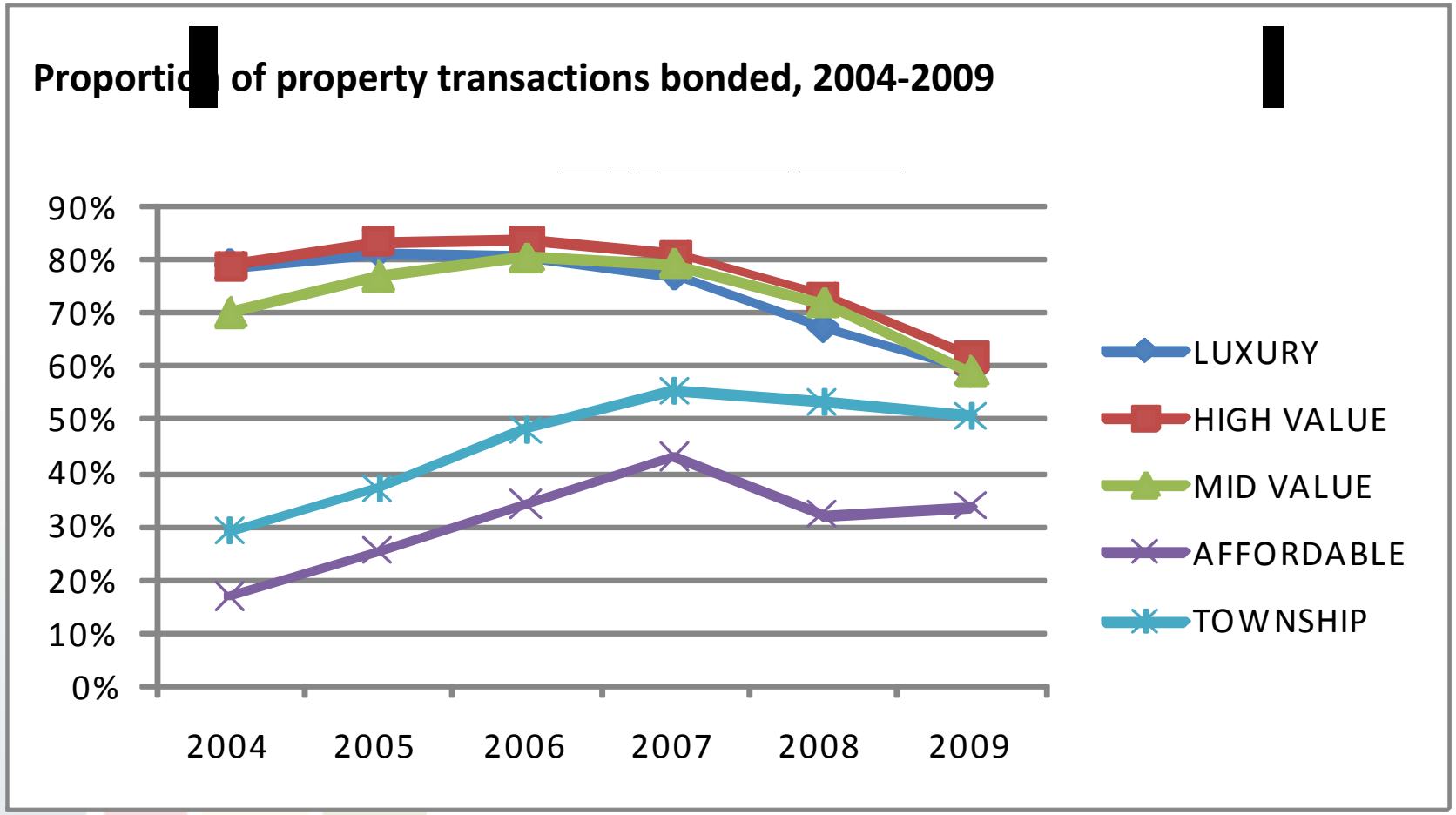
The proportion of bonded transfers has dropped from ~75% in late 2007 to ~55% on mid 2009

Total bond penetration



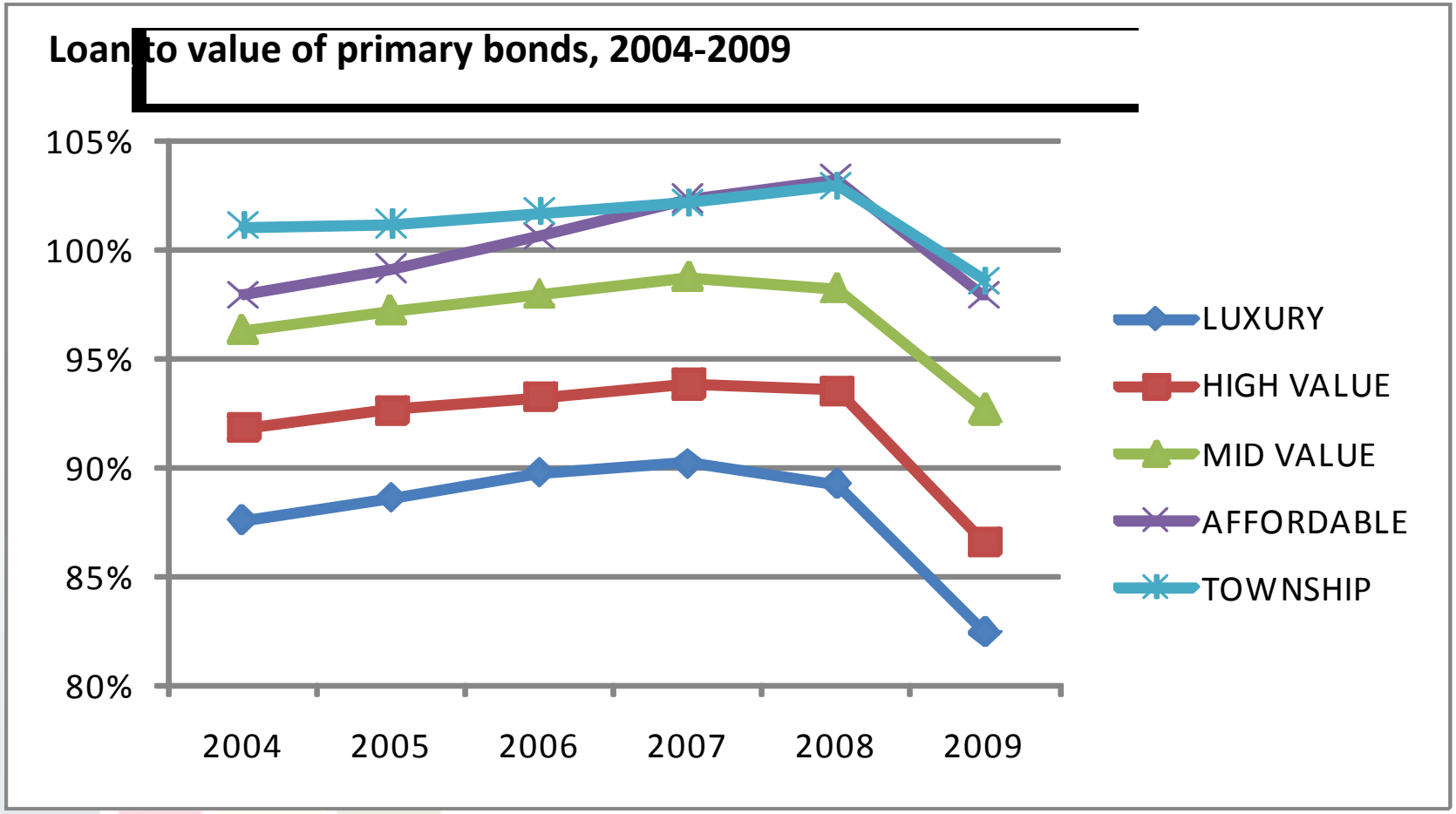
Bond penetration is very low in the township and affordable segments, due largely to historic issues like RDP/BNG housing and transfer of 99 year leases

Annual bond penetration



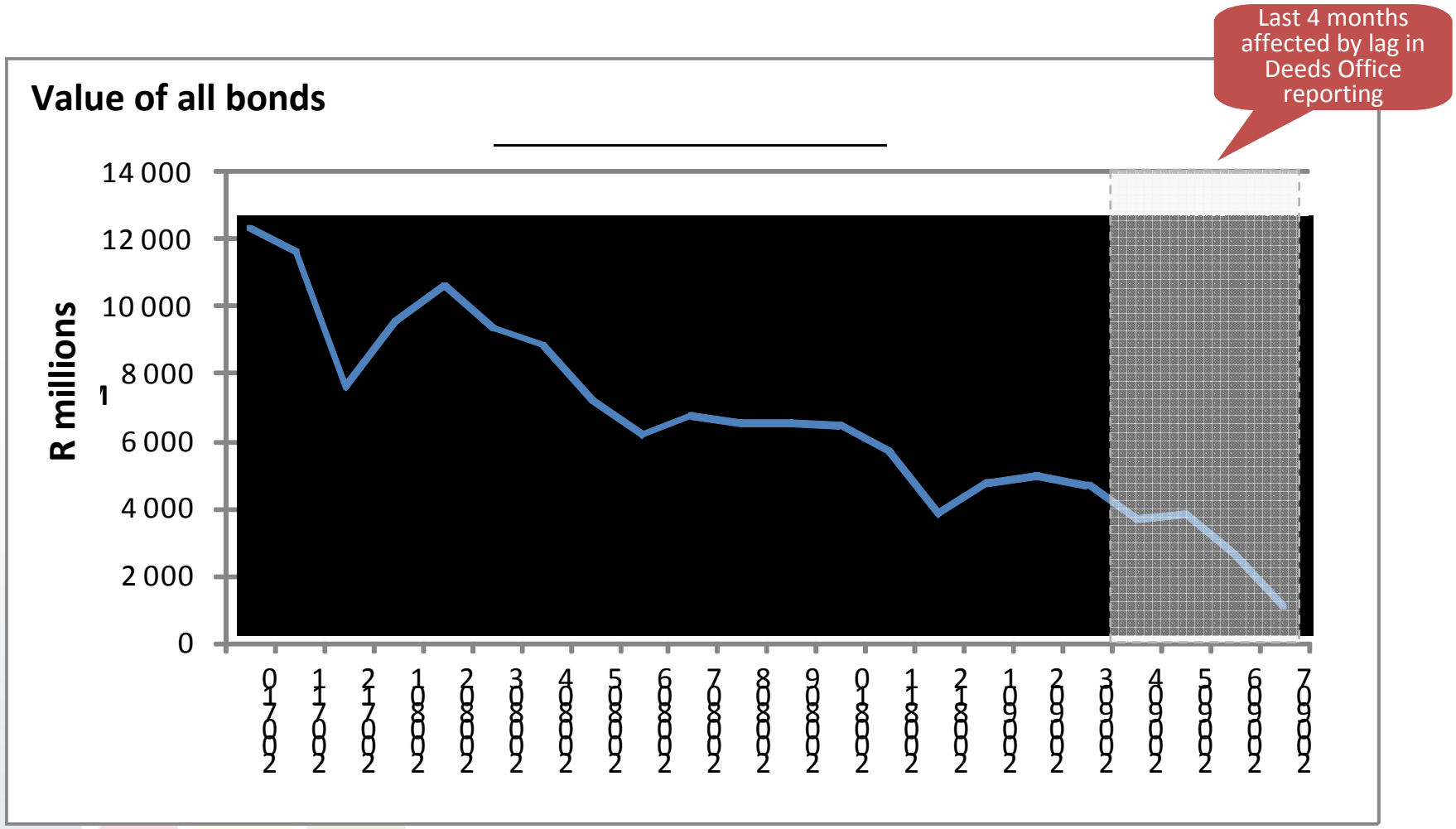
Bond penetration in the township and affordable segments has plateaued following a period of improvement in the early 2000's

Annual loan to value ratios



Loan to Value (LTV) levels in the affordable and township markets are higher than in any other segments – illustrating commitment from lenders

Monthly bond values: National



The mix of reduced transfer values and lower bond penetration has driven total monthly bond value from ~R12Bn in late 2007 to ~R4Bn in mid 2009

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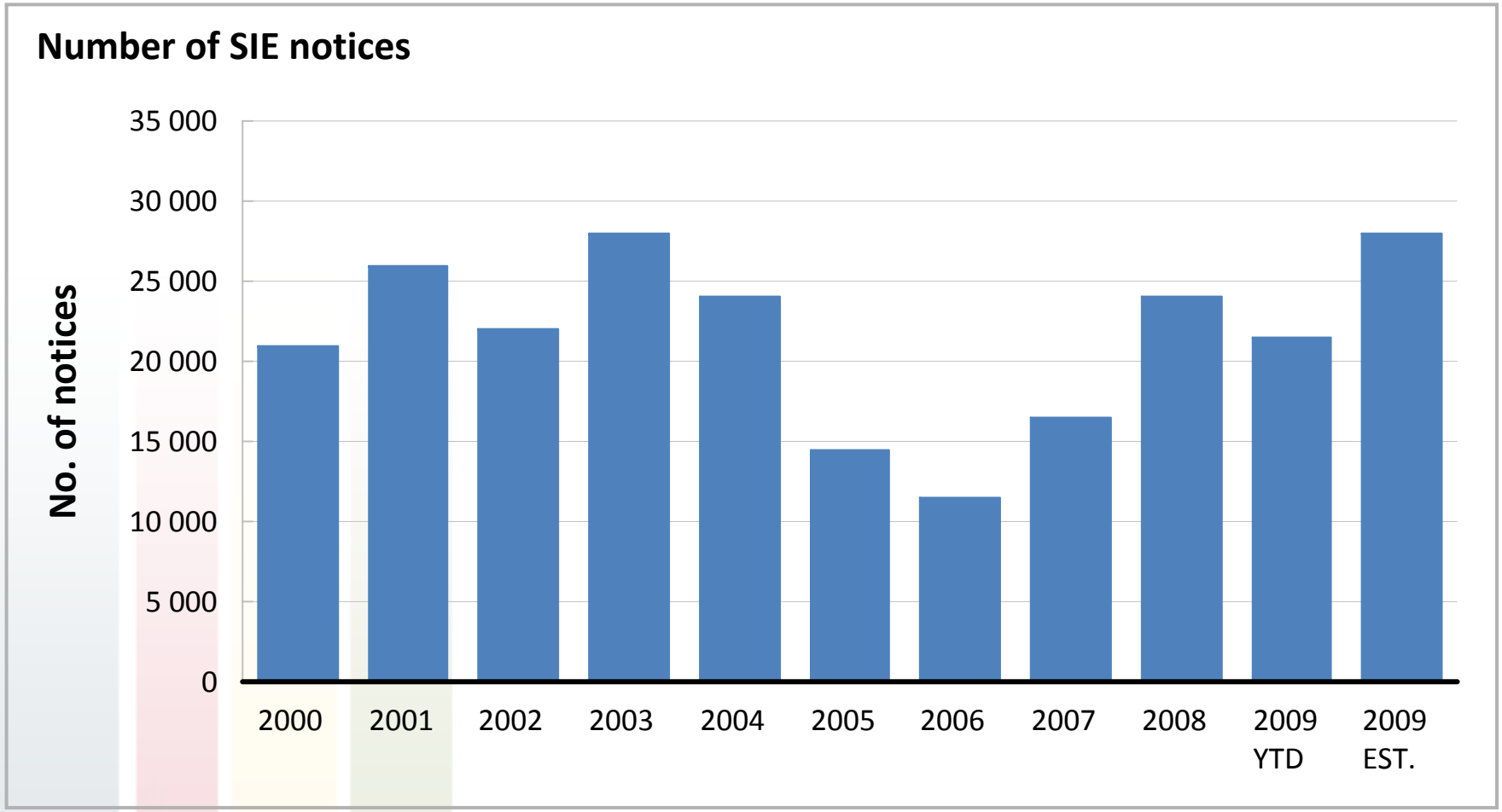
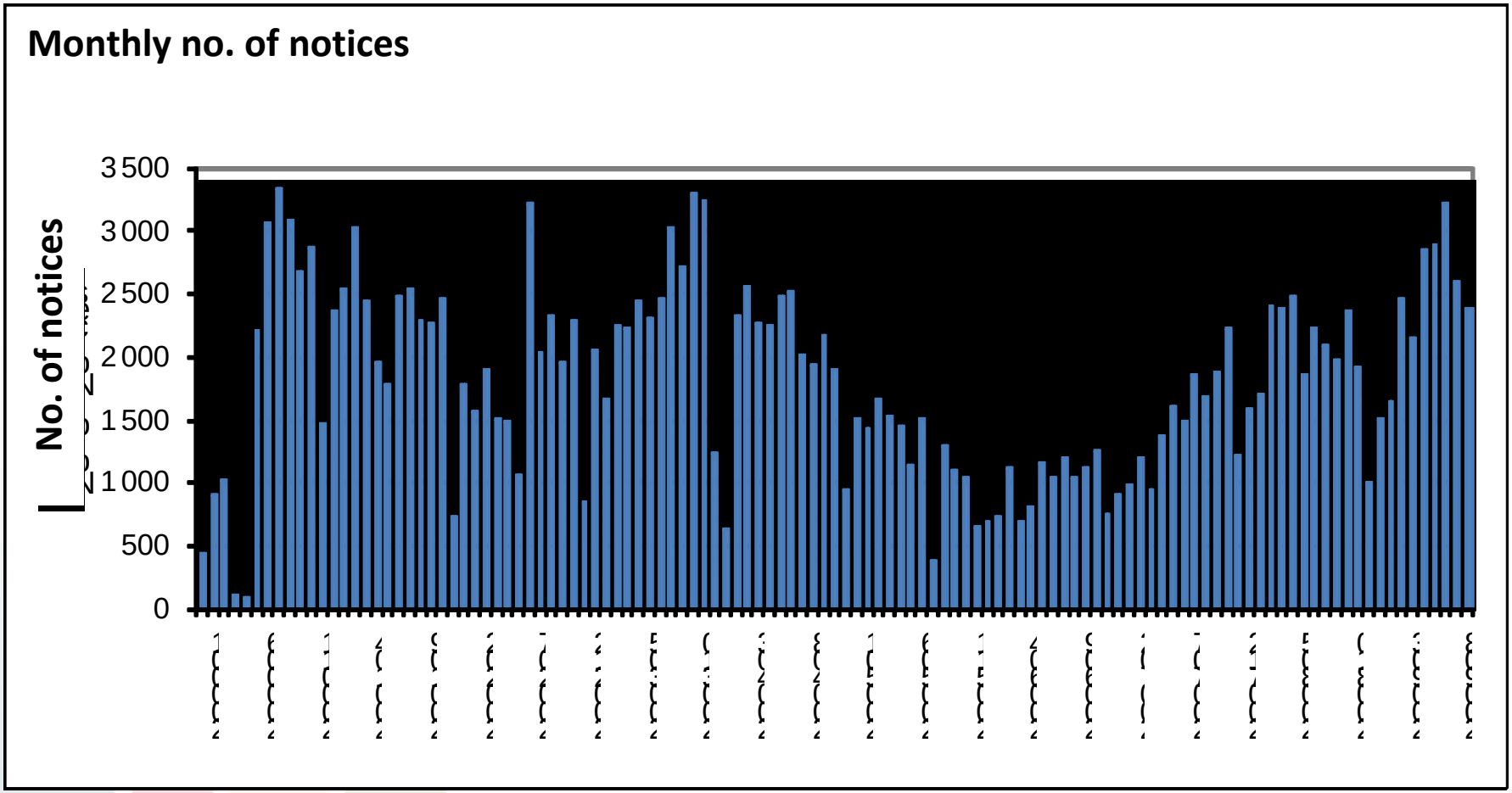
Sales in execution (SIE) notices per year



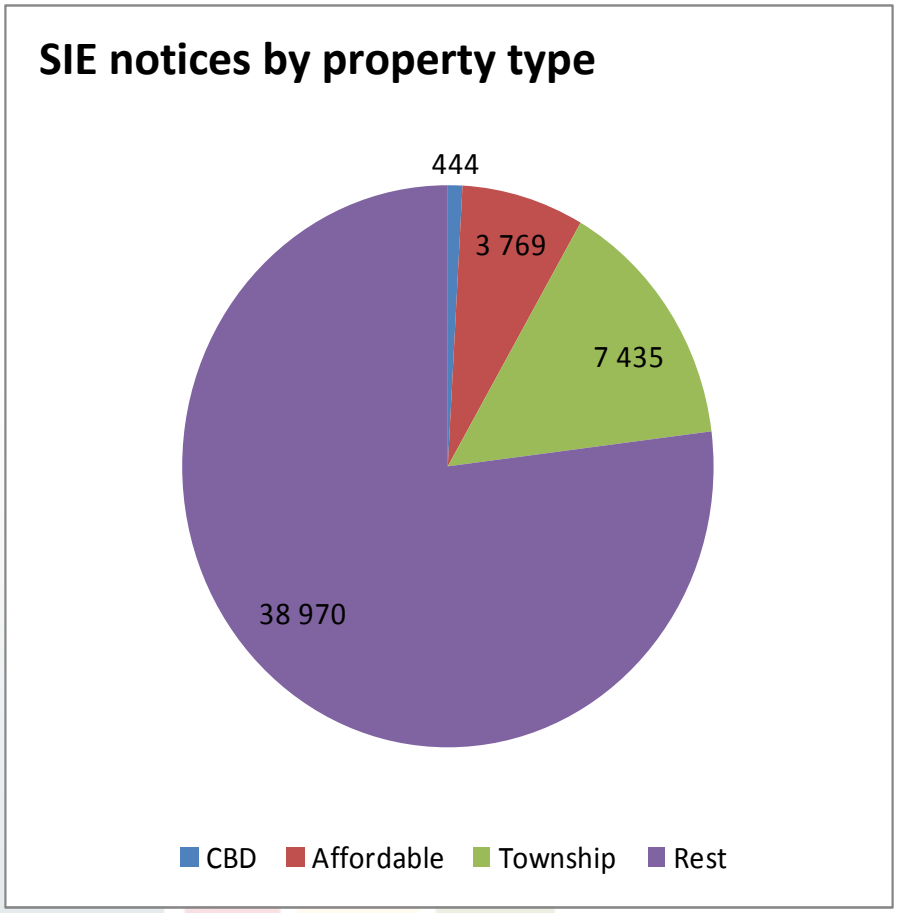
At current run-rates SIE notices are expected to reach a new peak since 2000 by the end of 2009

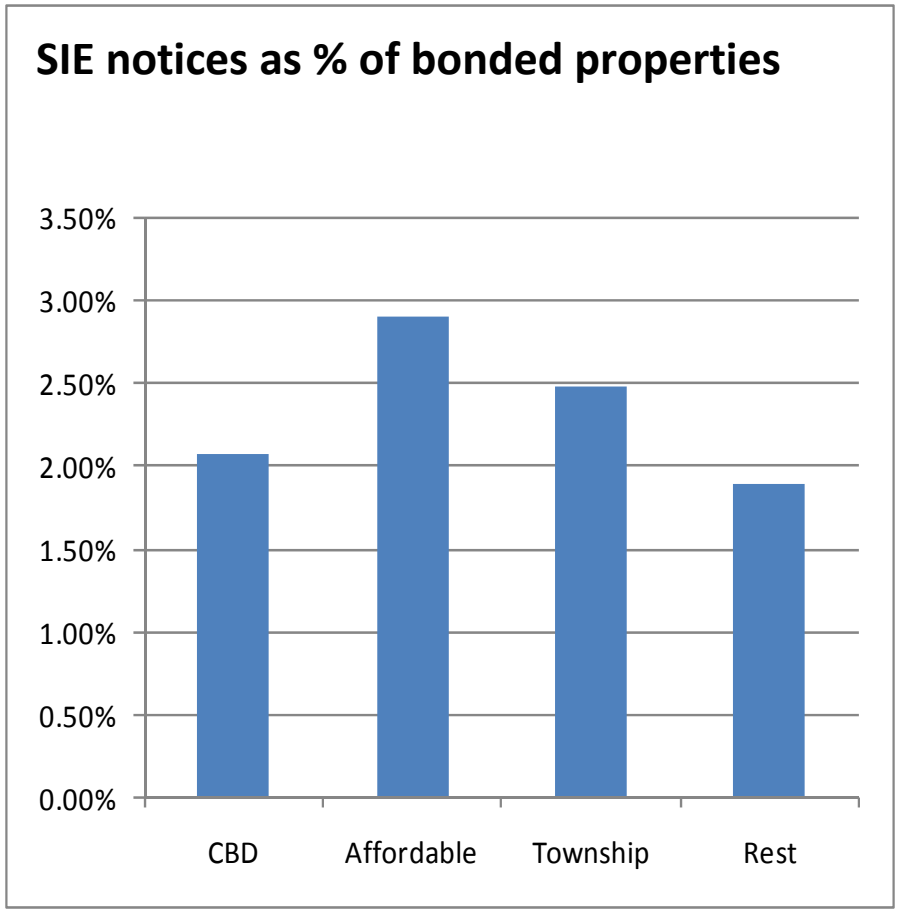
SIE notices per month



Nevertheless there has been somewhat of a slow down in monthly notices since July 2009

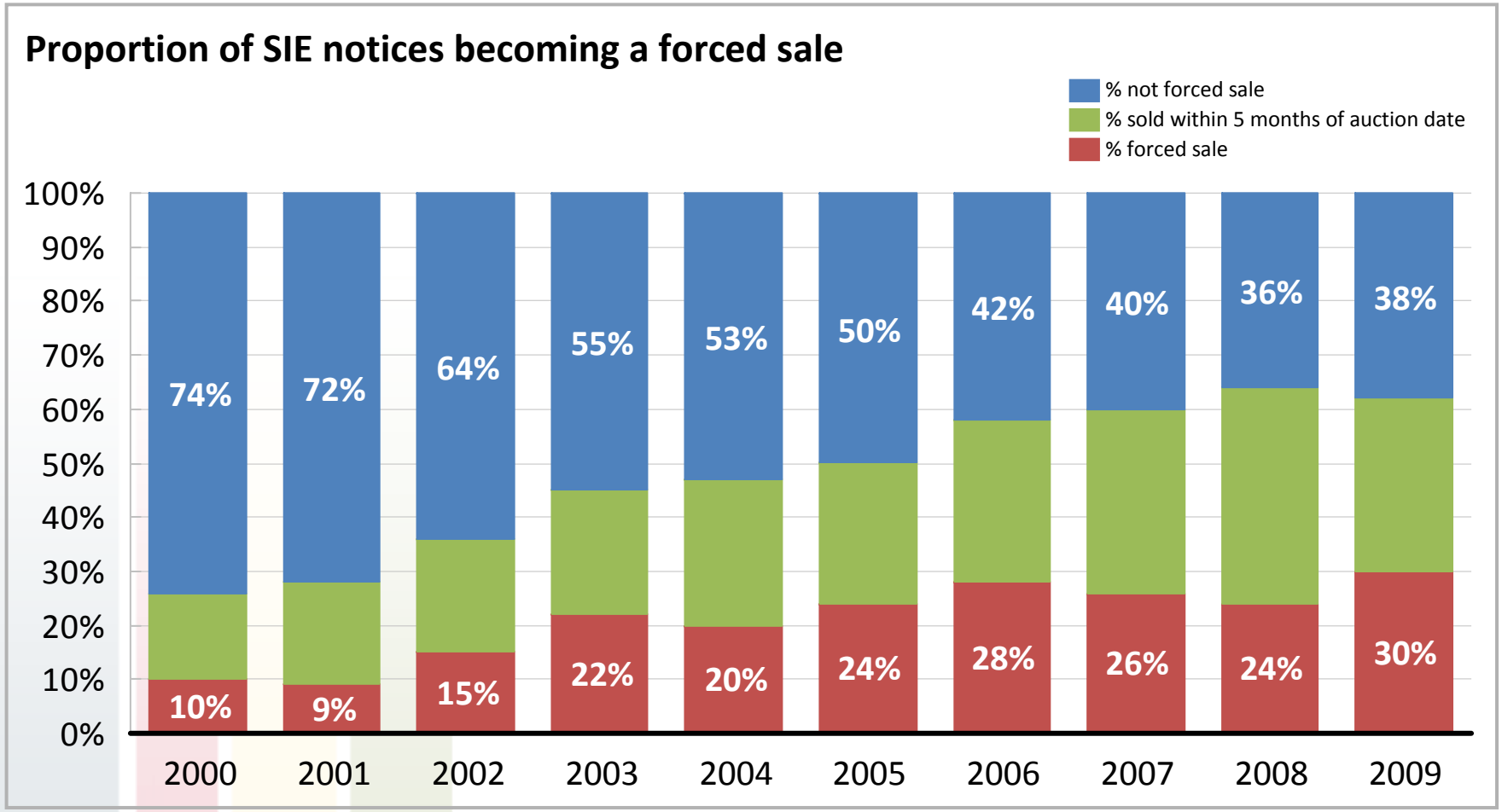
SIE trends at the lower end of the market





While CBD, Affordable and Township properties only represent ~25% of SIE notices, they have a higher 'notice rate' than other properties

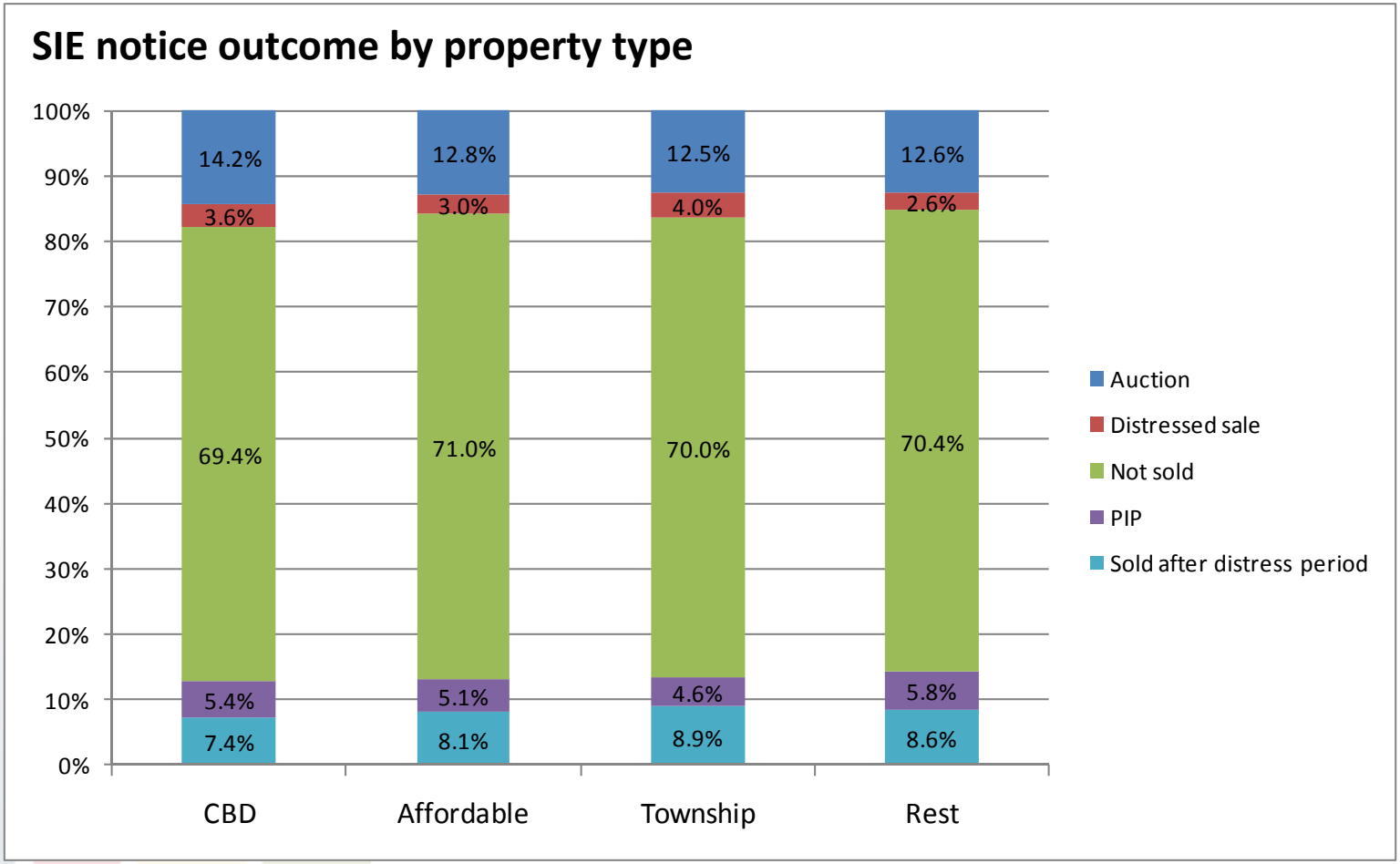
SIE notice outcomes by year



The % of SIE notices being executed has stabilised at ~30%, with a further ~30% sold within 5 months and therefore also probably distressed

* Forced Sales include sales on Auction Date, within 1 month of Auction Date or PIPs

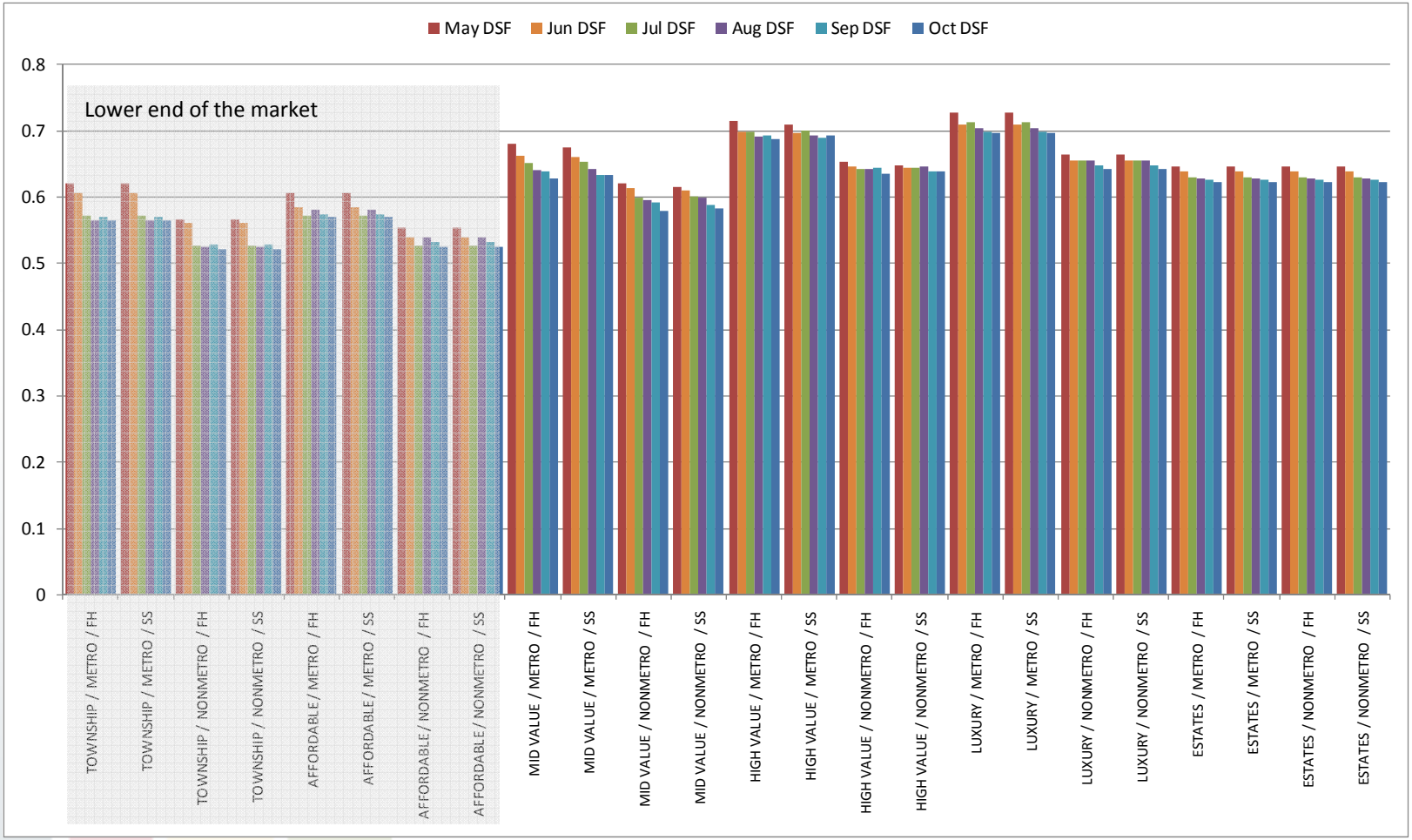
SIE notice outcomes by property type



The notice outcomes are fairly consistent across the various property types, with the lowest incidence of PIPs in the township segment

* Forced Sales include sales on Auction Date, within 1 month of Auction Date or PIPs

Distressed sale factor (DSF)



Distressed sale discounts are deepest in affordable and township markets, but appear to have stabilised

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Property trends at the low end of the Market: Conclusions

- Represents ~43% of privately held residential proper-ties and has been growing slightly faster than the rest of the market
- Has been the best performing segment from a price perspective, but monthly price inflation is slowing rapidly
- Transact far less frequently than properties in other segments (3-4% in low end segments vs 11-15% in other segments since 2007)
- Volumes have dropped dramatically in recent years (along with the overall market), but average values have held up well, especially the CBD segment driven by investor interest
- The proportion of bonded transactions has improved since 2004, but still significantly lags the rest of the market; on the flip-side, LTV's are higher than the market average
- The incidence of SIE notices is higher than for the rest of the market and, (arguably) as a result, distressed sales discounts are deeper than average