

Residential Property Indices

Press Release

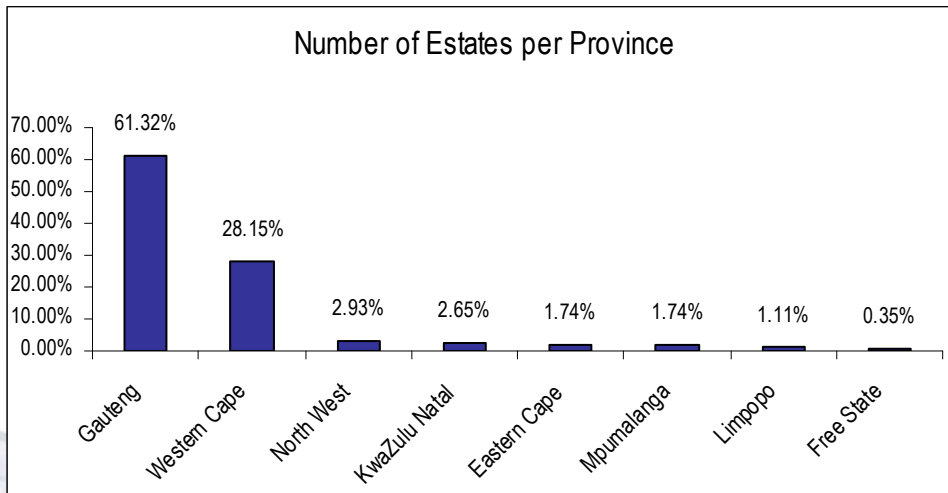
WALLED ESTATES – WHERE TO FROM HERE?

ESTATE LIVING – WHERE TO FROM HERE?

Estate living is a global trend that has been particularly popular in South Africa where a variety of residential, golf, and leisure estates have been developed over the past decade. The trend shows no signs of slowing and according to Lightstone's proprietary Freehold Estates database, South Africa now has 1,435 registered Walled Estates containing 140,000 properties. These Estates primarily provide a secure lifestyle which has been particularly important in South Africa as a result of the crime situation. Other advantages include having access to high quality recreational facilities, increasing the sense of community (which is limited by the high walls outside Estates) and having more control over community expenditure and development.

Who buys properties in Estates? It would seem everyone from retirees to young married couples with two to three kids to single young professionals. They are also buying for similar reasons – they want a secure environment for their family, they enjoy golf or fishing or other recreational activities on offer and have seen how the demand for this type of housing has created an investment that will appreciate in value or generate good rental income.

Gauteng is the province with by far the highest number of estates. This is driven by the combination of large population, relentless property development in line with economic growth and relatively high crime rates. Gauteng currently has approximately 900 estates which make up 61% of the national total. This is more than double that found in Western Cape which has the second largest number (around 440 estates). The remaining provinces only make up 10% of Estate properties as most of estate developments in rural and inland areas are leisure and holiday estates.



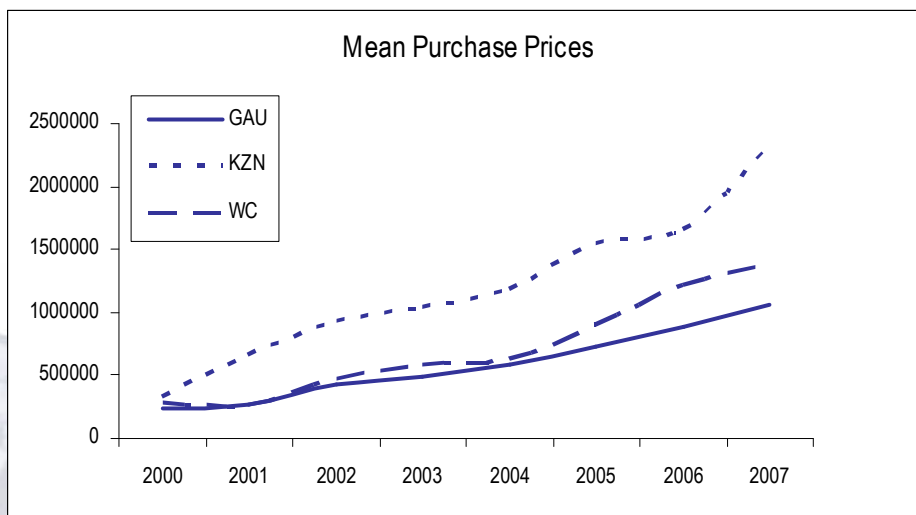
The nature of Estates however varies from province to province. Lightstone classifies estates as High or Low Density where High Density estates have an average plot size less than 700sqm and Low Density Estates are any estates with a larger average plot size. Nationally there are 480 Low Density Estates which contain 57% of Estate properties and 900 High Density Estates with 43% of Estate properties.

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If one considers the types of buyers who bought Estate property in 2007, 75% are existing home owners mainly from Free Hold properties (51%) or Sectional Scheme properties (22%) outside of an Estate. Interestingly the remaining 25% are first time buyers who are more than likely looking for a primary residence in a secure environment from which to commute. Surprisingly about 60% of these first time buyers are white males over 30 which begs the question why they have only entered the property market now? One explanation could be that they have just started a family and are looking for a safe community environment which they did not find in their previous neighborhood. The next highest proportion are non-whites and females over 30 which make up a third of the new buyers while only 10% are under 30.

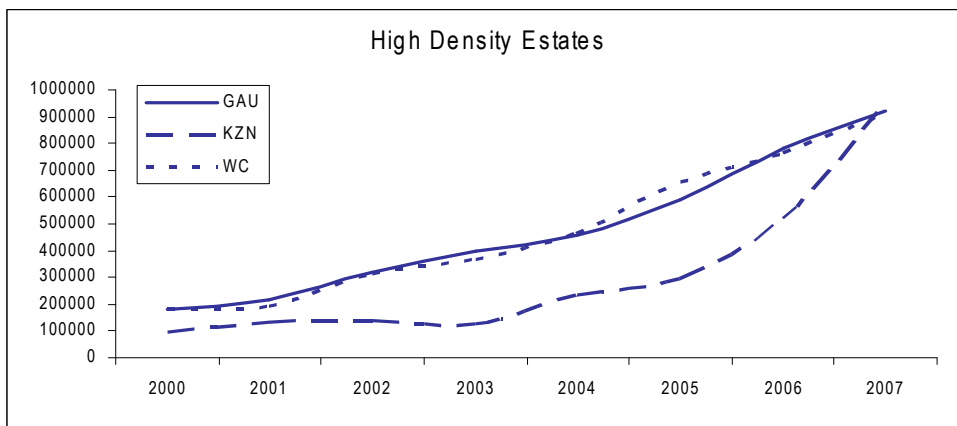
As one would expect, previous owners from Free Hold areas with an average value between R700k and R1.5m are more likely to move into Higher Density estates which have an average price around R1.0m. On the other hand, buyers from Luxury Free Hold areas (with average prices above R1.5m) are more likely to move into Low Density Estates which have an average price around R2.5m. However what this doesn't show is the extent to which people are prepared to "buy up" to get into a Walled Estate. There are many examples of buyers spending at least 50% more for an Estate property than the non-Estate one they sold e.g. in the last year there are numerous examples of buyers in Bassonia Rock (southern Joburg), Welgedacht (Cape Town), Kleinbron Estate (Brackenfell), Dainfern (Fourways) and Midstream (Centurion) who have all traded up by more than 50%.

Estate prices in each province have shown different trends. In 2007, KZN has had the highest average sales price in the country (R2,302,422) although this has been driven by the relatively low total number of Estates with the majority of them being low density luxury Estates like Zimbali and Mount Edgecombe. In fact the top 10 Estates in KZN make up 89% of the total Estates value in the province (compared to 22% in Gauteng and 26% in the Western Cape). The Western Cape has the second highest average price at R1,381,150 while Gauteng has the lowest of the three main provinces at R1,056,702 however this is clearly driven by the larger proportion of High Density residential estates in Gauteng. Finally, as shown below, price inflation in KZN has been the strongest, with each province having started at about the same price in 2000. This again seems to have been driven by the high density nature and greater supply of Estates in Gauteng which have depressed price inflation. The most expensive average Estate sales prices in province in the last year have been Fancourt Golf Estate in Western Cape (R3,2m), Dainfern in Gauteng (R3,2m), and Mount Edgecombe in KZN (R3,5m).

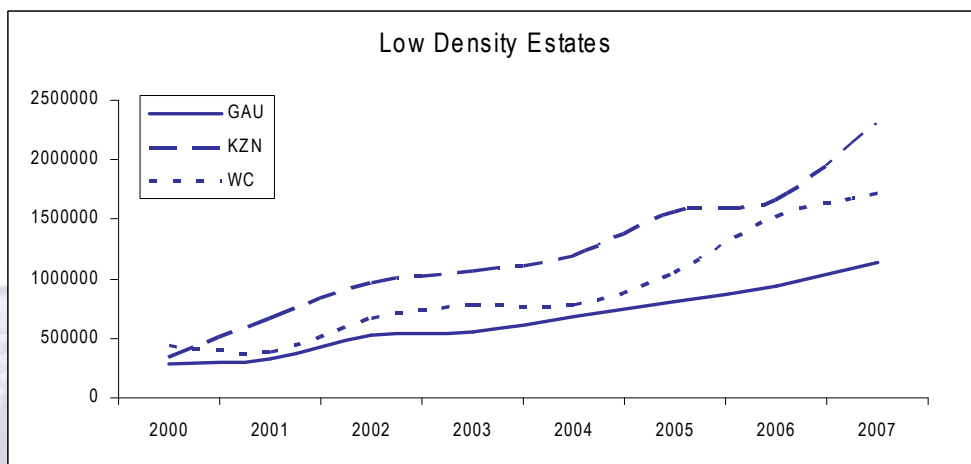


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High Density Estate price performance at a provincial level has shown much more consistency than Low Density Estates. Although the Western Cape lagged for some time, all three major provinces now show similar price levels. The catch up in the Western Cape from 2005 is probably driven by a switch in demand from Low Density holiday Estates to demand for affordable, secure, primary residences in High Density Estates in the commuter belt. Overall though, the average Low Density Estate property prices have grown by about 27% per year since 2000.



With respect to Low Density Estates, this is where Gauteng clearly underperforms. Low Density Estates in Gauteng are generally aimed at providing a mix of security, community involvement and a parkland lifestyle. However, many are some distance from key business nodes leading to long commutes which decreases their attractiveness. On the other hand, Low Density Estates in the Western Cape and KZN are more driven by the top end of the holiday market and they compete more on location, facilities and prestige. Recent interest rate hikes have slowed the holiday market in general (see Lightstone Coastal Index which is currently showing 10,9% growth) however the top end of the market is less interest rate sensitive. So although price growth in Western Cape has slowed recently, it is still strongly up in KZN. Average Low Density Estate price inflation from 2000 to 2007 has been 23% in Gauteng, 25% in Western Cape and 34% in KZN.



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The key question over the next couple of months will be whether properties in Estates will maintain or increase in value, particularly given the seven consecutive interest rate increases since mid-2006 and stricter mortgage lending criteria introduced by the National Credit Act in June. The key determinant will be how these issues will affect the potential buyers. For buyers looking for primary residences in Estates, demand is likely to remain strong, particularly as crime relating to house breaking remains high. Lower priced High Density Estates are likely to benefit the most as affordability becomes an increasing issue for Estate property buyers while traffic congestion will continue to disadvantage Low Density commuter Estates. On the other hand, wealthy buyers of holiday properties in Low Density Estates are less likely affected by affordability issues. However with the increasing supply of Estates in this segment (a recent report indicated that there are 74 golf estates in various levels of development) prices could come under pressure.

Footnote: The estimated market value of a property is based on the previous sales price of the property, inflated with the relevant Lightstone Property Price Index (depending on the type of property and where it is located) to bring it to a current value. This estimate is then compared with the average sales price of transacting properties in the immediate vicinity (for a sectional title unit it will be compared with sales prices of units in the same sectional scheme. If there was insufficient activity in the scheme it will be compared with sectional schemes in the same area) The final estimate of market value is a combination of the individual property estimate based on the relevant Lightstone index and the average comparable sales as described above. 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. The transactions include residential property sales, land sales, farm sales, commercial property sales and property transfers.

AUTHORS

Andrew Watt

Business Development Director, Lightstone

John Loos,

Property Strategist, FNB Commercial

