

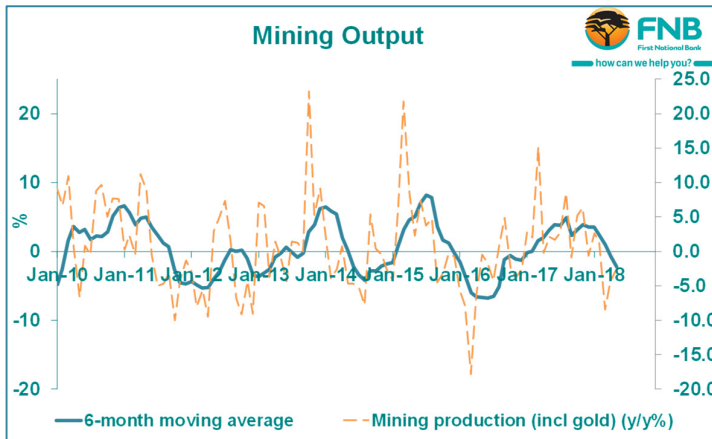
PROPERTY BAROMETER – FNB Mining Towns House Price Indices

The FNB Mining Towns House Price Index growth accelerates slightly in the 2nd quarter, but remains underperforming the national house price growth rate and negative in real terms.

7 August 2018

FNB MINING TOWN HOUSE PRICE INDEX PERFORMANCES

The FNB Mining Towns House Price Indices’ growth rates remain negative in real terms, underperforming the national average and by-and-large reflecting the impact of a poorly performing Mining Sector on these towns’ markets.

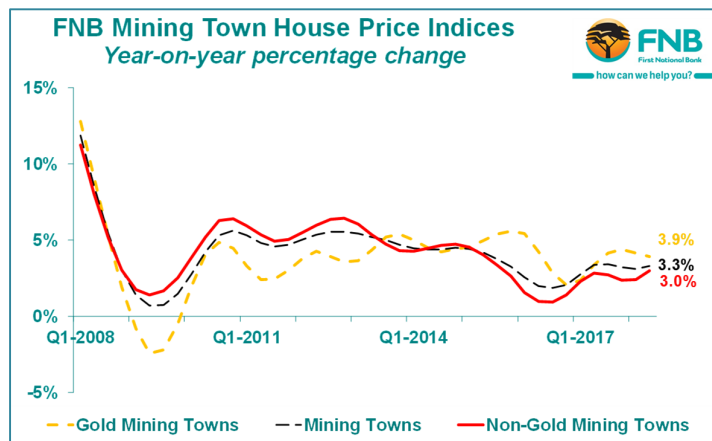


RECENT DEVELOPMENTS IN THE MINING SECTOR

South Africa’s Mining Sector output growth has broadly slowed in recent months. Using a 6-month moving average for smoothing purposes, year-on-year growth in mining production slowed from a 4.9% high for the 6 months to August 2017 to a negative -2.3% for the 6 months to May 2018.

FNB MINING TOWNS HOUSE PRICE INDICES’ GROWTH RATES REMAIN NEGATIVE IN REAL TERMS AND SLOWER THAN THE NATIONAL HOUSE PRICE GROWTH RATE

This recent renewed slowing in growth in Mining Production volumes is believed to be a major influence on the ongoing underperformance of Mining Towns’ Housing Markets and slow growth in the FNB Mining Towns House Price Index growth rate.



In the 2nd quarter of 2018, the FNB Mining Towns House Price Index grew by 3.3%, slightly faster than the 3.1% revised rate of the previous quarter. We do not read too much into a slight acceleration in this growth. There was an early-2018 interest rate cut which may have assisted slightly in boosting mining town housing demand, while the brief period of “Ramaphoria” (on the back of a change of the country’s president) -driven positivity early in the year may have also supported housing demand slightly.

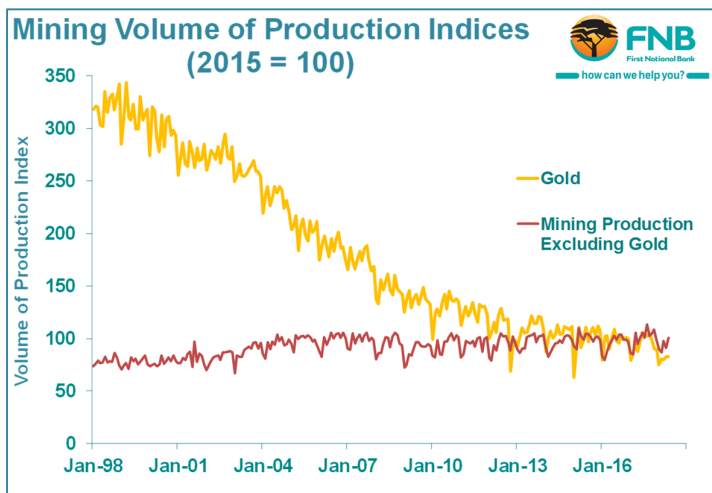
But despite some small potential positives, the acceleration in growth in the 2nd quarter is too small to attach any significance to, and most importantly house price growth in the Mining Towns remains in negative real

territory (when adjusted for CPI inflation). Their price growth also remains below the national house price growth rate of 4.9% (using an FNB National House Price Index which uses deeds data, as does the Mining Towns Index, and is based on the same repeat sales methodology).

Interestingly, the FNB Gold Mining Towns House Price Index continued to grow faster than the Non-Gold Mining Towns Sub-Index, to the tune of 3.9% in the 2nd quarter of 2018, while the FNB Non-Gold Mining Towns House Price Index grew by a lesser 3.0%. However, both indices growth rates remain below the National Index's rate and negative in real terms.

LONGER RUN PERFORMANCE

The FNB Gold Mining Towns House Price Index has outperformed that of Non-Gold Mining Towns for most of the period since late-2013, despite also being weak, but both the Gold Mining and Non-Gold Mining House Price Indices have underperformed the National Index growth-wise since around 2013.



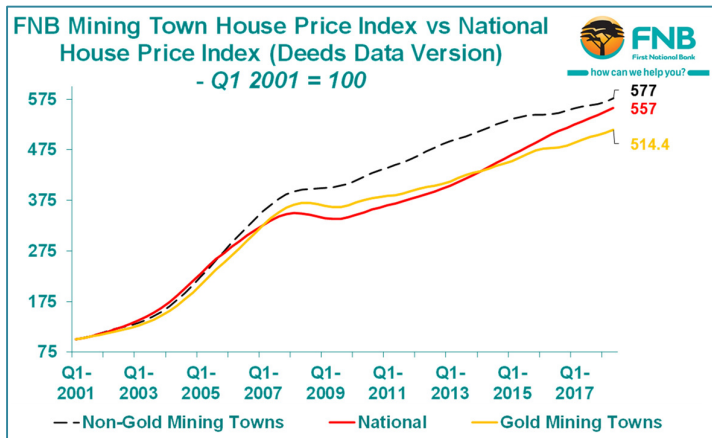
The Gold Mining Towns' house price growth outperformance of the Non-Gold Mining Towns in recent years may suggest more "realistic" Gold Mining Town housing markets, which have long-since come to terms with gold's long term decline, probably translating into far less expansion in housing supply (less supply growth possibly provides slightly more support for house price growth). In addition, from a rapid declining trend until around 2013/14, Gold Production appears to have been moving more sideways in recent years, the industry thus achieving some semblance of stability after earlier long run decline.

But in the longer run, we would continue to expect Gold Mining Town housing markets to underperform Non-Gold Mining Towns, while also expecting both indices to continue to underperform the broader National Market.

We expect this because Gold Mining production is still seen to be in a major long term decline, while Non-Gold Mining production, although more stable, has not kept up with the broader economy's growth either.

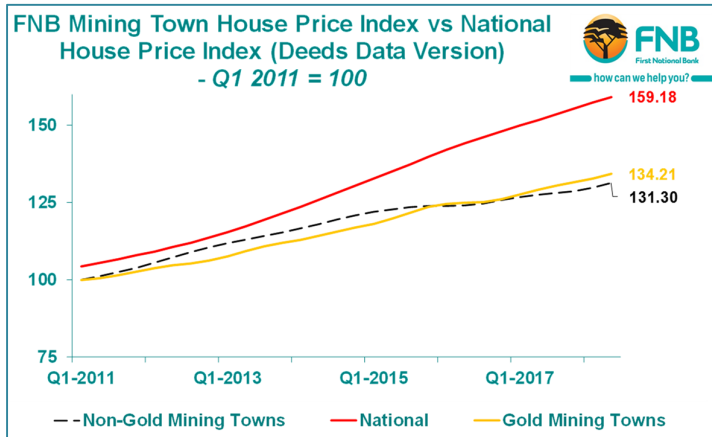
Mining Output growth struggles in and out of contraction For the year 2017, total Mining Production was - 3.5% lower than 20 years prior in 1997, while overall GDP (Gross Domestic Product) for SA was 71% higher than 20 years prior.

Gold production has declined by an extreme -72.3% over the 20 years to 2017, while Non-Gold production has actually risen, but by only 31.1%, which does not nearly match overall GDP expansion over the period



The difference in long term performance of these major 2 Mining Sectors is reflected in the slower cumulative growth rate in the FNB Gold Mining Towns House Price Index over the past 17.5 years, which has risen by 414.4% since the beginning of 2001, compared to 477% in the Non-Gold Mining Towns Index.

While The FNB Non-Gold Mining Town House Price Index did mildly exceed the cumulative growth of the



overall National Housing Market from early-2001 to the present, the Mining Sector's problems have intensified more recently, with the end of the commodity price boom around 2011.

And since then, both the Gold and Non-Gold Mining Town House Price Indices have significantly underperformed the National House Price Index, the National Index rising cumulatively by 59.18% since the 2nd quarter of 2011, the Gold Mining Towns Index by a far slower 34.21% and the Non-Gold Index by 31.3%.

CONCLUSION

In short, the FNB Mining Towns House Price Indices' year-on-year growth rates continue to underperform the National average. These price growth rates may weaken in the near term, should Mining production continue its recent negative growth.

With the Mining Sector in a longer term stagnation trend, one should expect these markets to continue to underperform the broader national market.

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Note:

The FNB Mining Town House Price Indices are derived from Deeds Office Data, utilizing only property transactions by individuals (“natural persons”). There are 3 Mining Town-related indices:

- The FNB Gold Mining Towns House Price Index
- The FNB Non-Gold Mining Towns Index
- The FNB Mining Towns Index (which includes both gold and non-gold mining towns).

The index methodology used is a “repeat sales” methodology

Given that deeds data is a different dataset to our monthly FNB National House Price Index, and more dated than our own FNB data, the Mining Town Indices are not exactly comparable with it.

The FNB National House Price Index quoted in this report is also compiled from deeds data using the same methodology as the Mining Town House Price Indices. It is thus comparable with the Mining Town House Price Indices, but is a different house price index to the monthly FNB National House Price Index which is compiled using FNB-specific data and according to a different methodology.

MINING TOWNS AVERAGE HOUSE PRICE INDICES

	2015	2016	2017	Q3-2017	Q4-2017	Q1-2018	Q2-2018
MINING TOWNS HOUSE PRICE INDICES							
Total Mining Towns (Index Q1 2001 = 100)	516.4	527.3	544.2	546.4	549.8	554.5	560.6
- year-on-year % change	3.9%	2.1%	3.2%	3.4%	3.2%	3.1%	3.3%
- quarter-on-quarter % change				0.7%	0.6%	0.9%	1.1%
Gold Mining Towns (Index Q1 2001 = 100)	463.1	479.8	497.0	499.9	504.4	509.1	514.4
- year-on-year % change	5.1%	3.6%	3.6%	4.2%	4.4%	4.2%	3.9%
- quarter-on-quarter % change				1.0%	0.9%	0.9%	1.0%
Non-Gold Mining Towns (Index Q1 2001 = 100)	540.8	547.4	561.3	562.6	565.4	570.3	577.1
- year-on-year % change	3.6%	1.2%	2.5%	2.7%	2.4%	2.4%	3.0%
- quarter-on-quarter % change				0.4%	0.5%	0.9%	1.2%