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*17 February 2014*

# PROPERTY BAROMETER
## 4th Quarter 2013 Housing Market Segment Review


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*Performances of various key segments have moved in a narrow range in recent times in a "well-balanced" market, but some differences remain.*

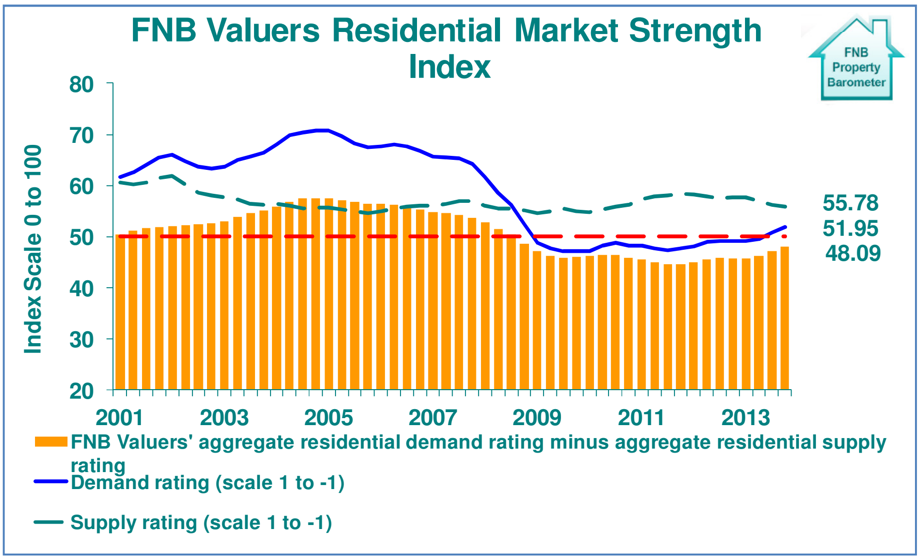
### *4th QUARTER 2013 OVERALL MARKET FINDINGS*

*According to the FNB Valuers Market Strength Index, the final quarter of 2013 saw the trend towards an improving balance between demand and supply continuing, the combined result of strengthening demand and weakening supply.*

*This had been the 2nd consecutive quarter that FNB's group of valuers had given an aggregate demand rating of above 50 to the residential property market, 51.95 to be precise, implying that a higher number of valuers now rate demand as strong compared to those rating demand as weak.*

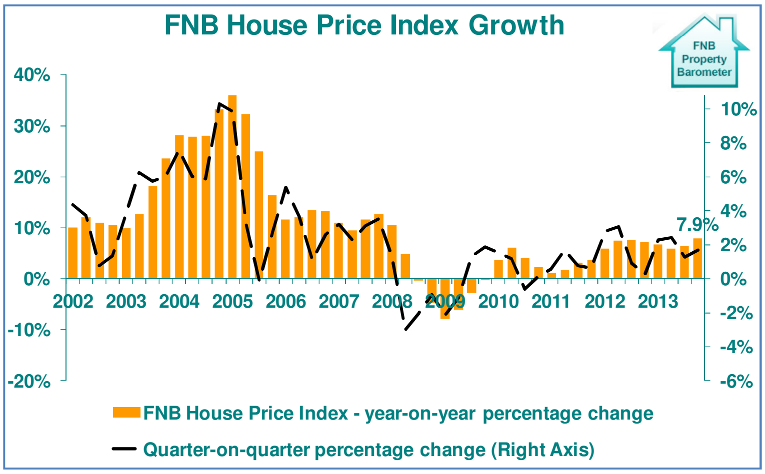
*The demand ratings of the past 2 quarters were the 1st above-50 ratings since the final quarter of 2008.*

*The FNB Valuers Supply Rating, however, was still above the Demand rating at a level of 55.78, meaning that the Market Strength Index (which reflects the gap between demand and supply) was still below the "balanced" 50 level, but was closing in on 50 steadily.*




*The gradually improving demand through 2012 and 2013 is believed to have been caused by what is termed "recency bias", a well-known cognitive bias in humans which implies that recent events have a greater influence in formulating people's views on matters such as the level of risk, than do events further back in time.*

*So, in the residential property market through 2013, both buyers and lending institutions appeared to be becoming more comfortable that the environment had become less risky, although that is not to say that such a perception was necessarily correct.*




*The result of an improving market balance has been a period of improved average house price growth since early-2012, although a market balance still-below 50 would "decree" that this price growth would stay in single-digit figures.*

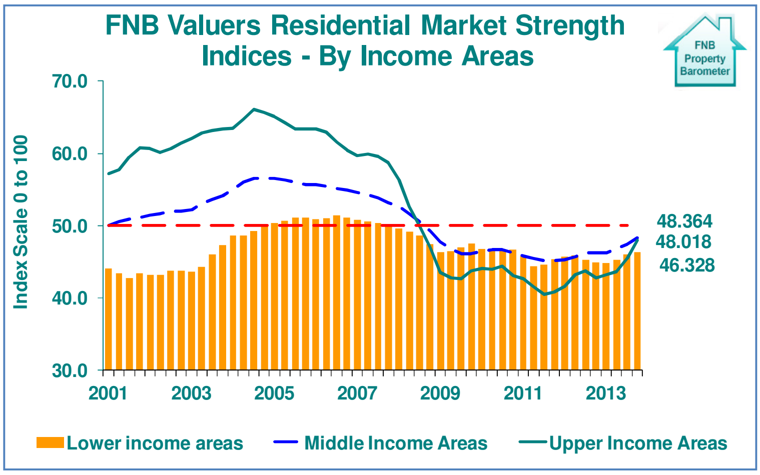
*By the final quarter of 2013, a year-on-year growth rate of 7.9% was recorded, which implies modest price growth in real terms, given CPI inflation at nearer to 6% at the time.*

*This 4th quarter price growth represented a mild "re-acceleration" since earlier in the year, Credit Regulator data had suggested that mortgage lenders had been becoming more accommodating, and the general mood in the residential market was good.*

*The logic of the timing of this market strengthening was perhaps questionable, however, as it was somewhat out of line with a weakening economy, but interest rates had been stable for a long time, and "recency bias" is not a logical phenomenon.*

## *RELATIVE SEGMENT PERFORMANCES FAR MORE IN LINE WITH EACH OTHER OF LATE*

*Our FNB Estate Agent Surveys have long been telling us that, as confidence gradually returned to the market, the percentage of sellers selling in order to upgrade to a better property has been rising steadily, reaching 20% of total sellers by the 4th quarter of 2013. Simultaneously they told us that the percentage of sellers selling in order to downscale due to financial pressure had been in a multi-year declining trend since 2009.*

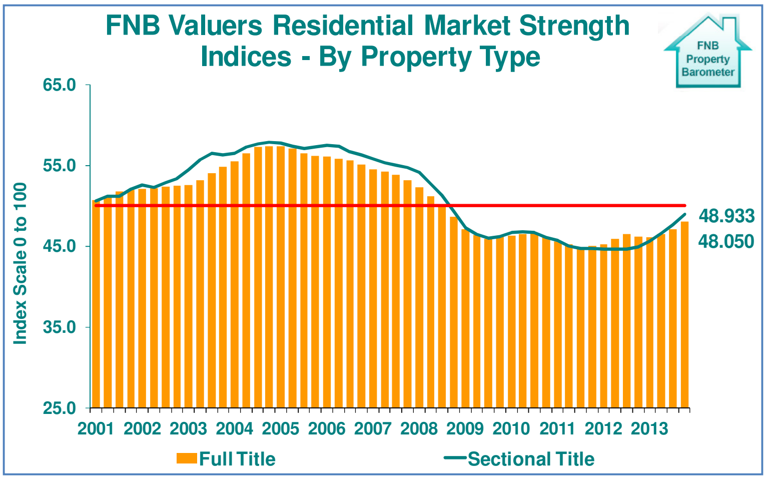



*These factors could be expected to play into the hands of the higher echelons of the market, and indeed this appeared to be the case.*

*Examining the FNB Valuers' Market Strength Indices split according to Income Areas (valuers' classification of areas by income level is their own subjective opinion), we have seen the Market Strength Index of the "Upper Income Areas" rising the fastest off the lowest level of our 3 income segments. This index has overtaken the level of the Lower Income Area Index in the last quarter, and has drawn almost level with the Middle Income Areas Market Strength Index, recording a 48.018 reading. By comparison the Middle Income Area reading was marginally higher at 48.364, and the Lower Income Area Index noticeably lower than the other 2 at 46.328 in the final quarter of 2013.*

*These most recent readings represent a significant change in relative performances of segments since 2011, at which stage the Upper Income Areas were lagging noticeably.*

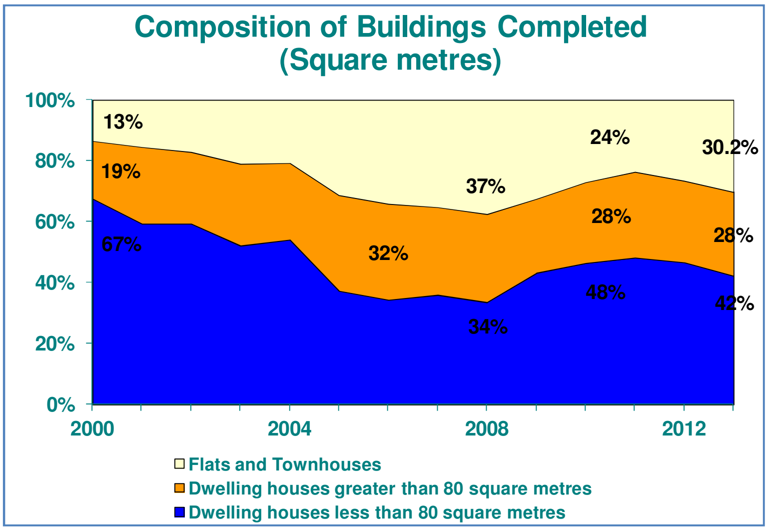
## *ON A SECTIONAL VS FULL TITLE BASIS, TOO, THE DIFFERENCE IN PERFORMANCES WERE MARGINAL, WITH SECTIONAL TITLE GETTING SLIGHTLY AHEAD*




*The Valuers' Market Strength Indices for both the Sectional Title and Full Title Segments showed steady strengthening in recent quarters.*

*Whereas the Sectional Title segment had lagged the Full Title segment from after the 2008/9 recession to a stage of 2011/12, more recently in 2013 the Sectional Title segment has seen its Index marginally outperforming that of Full Title.*

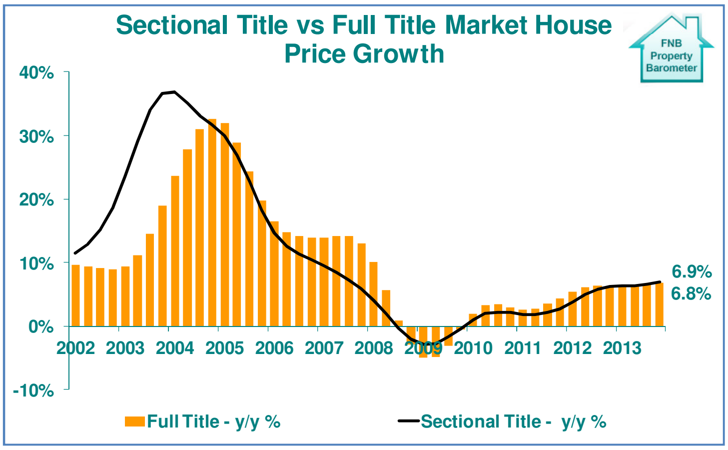
*This may be due to a combination of 2 key factors. Firstly, the pace of 1st time buying since interest rates fell from 2008/9 onward has been brisk, and we believe that sectional title properties are a major focus for this buyer group. Secondly, supply growth in sectional title has been relatively more constrained since the end of the building boom in 2008, with flats and townhouses building completions having slumped worse than building completions of free standing houses, according to StatsSA building stats.*

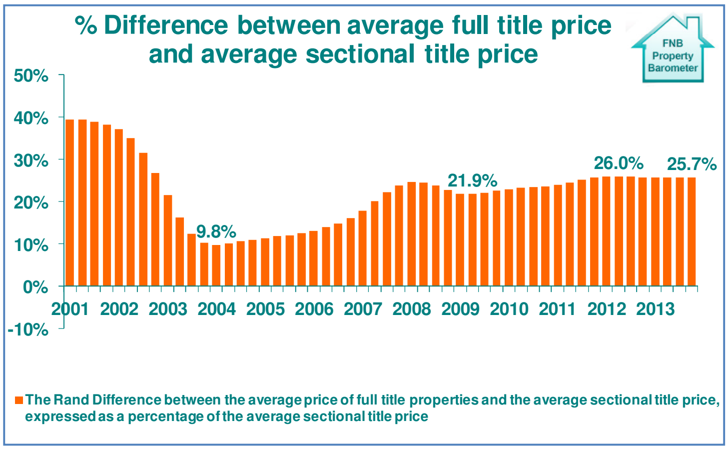



*This can be seen in the accompanying graph where Flats and Townhouses completions, expressed as a percentage of total completions, declined from 37% in 2008 to 24% by 2011. The percentage has since started to increase again in 2012-13, but as yet has not had a negative impact on the relative performance of the Sectional Title segment, with entry level buying having remained strong up until the end of 2013.*

*The result has been that, whereas average Sectional Title House Price growth lagged Full Title House Price growth through 2010-2012, by the 4th quarter of 2013 its year-on-year house price inflation was very slightly ahead of Full Title to the tune of 6.9%, versus Full Title's 6.8%.*

*All of these differences in price growth in recent years have been marginal, admittedly. However, the mild changes in relative performance do imply a trend change in the gap between average full title price levels and average sectional title price. So, whereas from the 2nd quarter of 2009 to the 2nd quarter of 2012 the average Full Title price level rose from 21.9% above the average sectional title price to 26% above it, since then the gap has narrowed marginally to 25.7%, indicating a Sectional Title segment now at least "holding its own".*



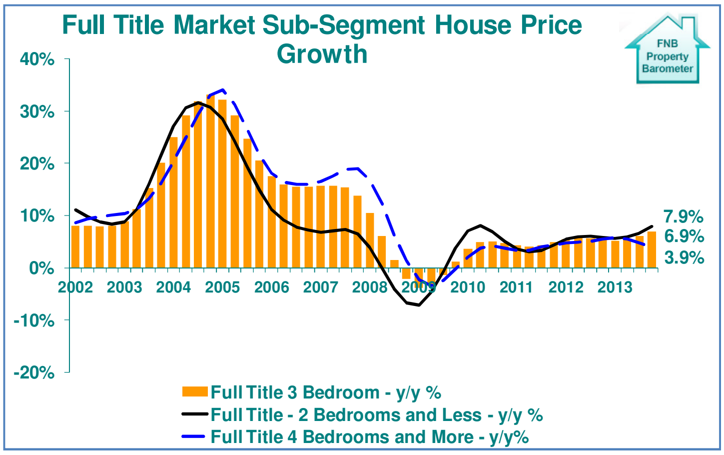



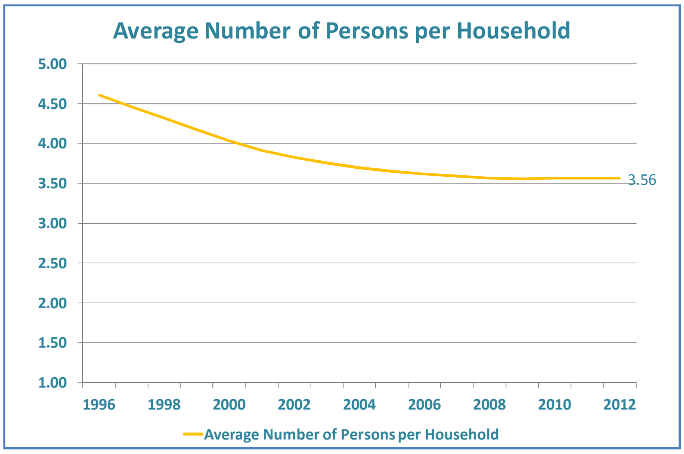
### *ARE DEMOGRAPHICS PLAYING A ROLE IN FULL TITLE 4 BEDROOM SEGMENT WEAKNESS?*

*Within the Full Title segment, the "underperformer" appears to be the "4 Bedroom and More" sub-segment, whose price inflation rate has been slightly lower than the 3 and 2 Bedroom Full Title sub-segments since 2009, and recorded the weakest price growth of the 3 sub-segments, i.e. 3.9% year-on-year, as at the final quarter of 2013.*

*It wasn't always this way. During the boom years preceding 2008 the 4 Bedroom and More segment appeared to outperform the 2 other segments. However, those were the days when buyers were extremely confident, and believed that they could afford the luxury of larger homes. In more recent times, despite evidence of rising levels of upgrading, the home buyer of today remains a more conservative one than in the boom years, and changing demographics may have made a 4 bedroom of larger home more of a luxury rather than a necessity for an increasing portion of the population.*

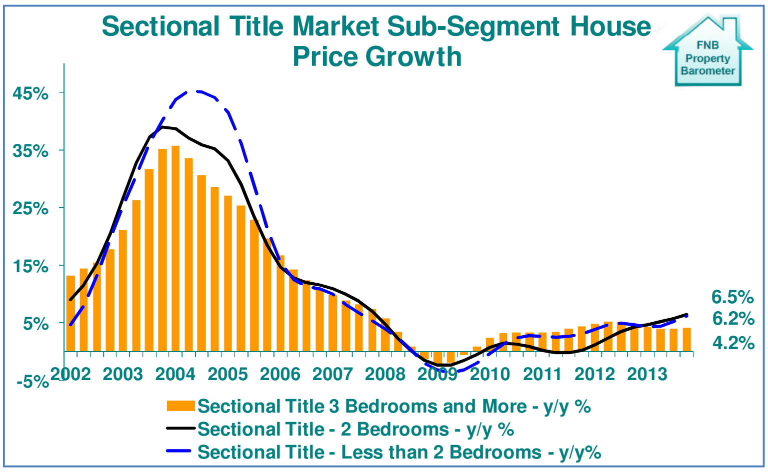
*This assertion is borne out by data showing a decline in the average size of household, from4.6 persons as at 1996 to 3.56 by 2012, thus perhaps playing increasingly into the hands of the 3 and 2 Bedroom segments.*




*Data source: IHSGlobalinsight*

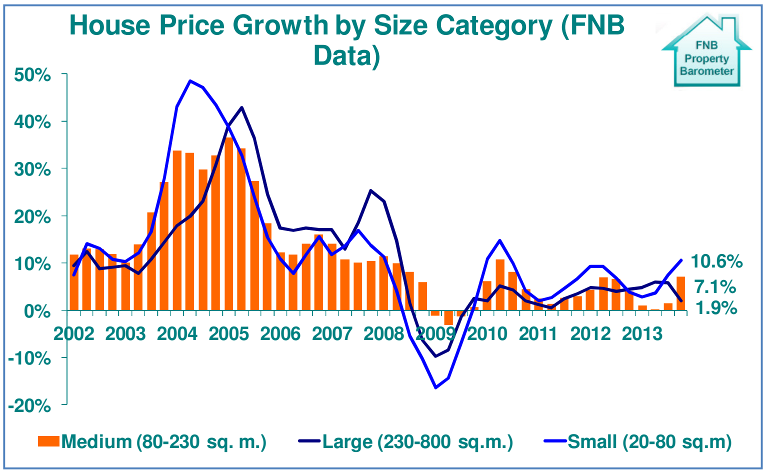
### *THE SECTIONAL TITLE MARKET – HAS 1ST TIME BUYING BROUGHT THE SMALLER SECTIONAL TITLE UNITS BACK TO LIFE?*




*In the Sectional Title Market, smaller seems to be slightly better, with the 2 Bedroom and Less segments appearing to be outperforming the 3 Bedroom segment mildly. The 2 Bedroom segment showed 6.5% year-on-year price growth in the final quarter of 2013, the 1 Bedroom and Less segment slightly slower at 6.2%, and the 3 Bedroom segment more noticeably lower at 4.2%.*

*This outperformance of the 2 Bedroom and Less segments may well be a reflection of a period of strong 1st time buying in recent years having increased the supply constraints.*

## *SMALLER IS STILL GENERALLY BETTER*

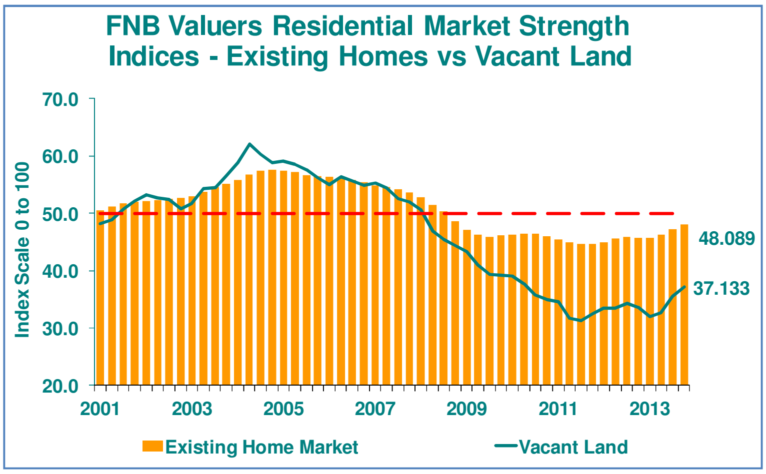



*While both our Estate Agent Surveys as well as the FNB Valuers Market Strength Indices point to the higher income market segments having played some catch up to the lower end of late, this does not necessarily mean that the Large Home market segment has done the same.*

*Homes remain costly to run, and the household sector financial environment remains significantly constrained. This may explain why, when we segment the market according to home size, we find that the Small-sized segment (homes 20-80 square metres in size) showed the best house price growth of 10.6% year-on-year as at the 4th quarter of 2013, Medium-sized homes (80-230 square metres in size) 7.1%, while the Large-sized homes segment (230-800 square metres) underperformed with average price growth of 1.9%.*

*These relative performances appear to tie in with the relative performances of Full and Sectional Title segments by room number, with the segments with less rooms generally outperforming moderately in terms of house price inflation.*

## *THE VACANT LAND MARKET HAD STARTED TO RECOVER THROUGH 2013, BUT STILL LAGS THE EXISTING HOME MARKET CONSIDERABLY*




*During the residential market downturn back around 2008/9, we saw the Vacant Land Market weaken far more severely than the Existing Home Market, in line with a major slowdown in residential building activity.*

*However, through 2013 a noticeable rise in the FNB Valuers Market Strength Index for Vacant Land was witnessed, which is in line with a definite increase in popularity of residential property over the last year, and also in line with rising stock constraints in the existing home market which have supported slightly improved price growth. Building a new home may thus have just started to become more appealing to a larger group of people.*

*However, to put it all in perspective, the FNB Valuers Vacant Land Market Strength Rating of 37.133 for the 4th quarter of 2013, while noticeably improved, remains very weak compared to the 48.089 rating for the Existing Home market.*

## *CONCLUSION*

*In an improved overall residential market through 2012/13, we have seen many of the relative key segment performances moving within a narrow range. Sectional Title house price growth has eliminated the gap between Full Title and itself, while even the very weak Vacant Land Market appears to have narrowed a still very wide Market Strength gap between the Existing Home Market and itself.*

*Examining sub-segments, however, affordability still appears to be a priority, especially given very significant numbers of 1st time buyers in the market in recent times, and so the smaller-sized homes appear to have moderately higher house price growth despite both valuers and estate agents reporting that the higher income end of the market having has played catch up to the lower segments recently.*

***ADDENDUM - NOTES:***

***Note on The FNB Average House Price Index:*** *Although also working on the average price principle (as opposed to median or repeat sales), the FNB House Price Index differs from a simple average house price index in that it could probably be termed a "fixed weight" average house price index.*

*One of the practical problems we have found with house price indices is that relative short term activity shifts up and down the price ladder can lead to an average or median price index rising or declining where there was not necessarily "genuine" capital growth on homes. For example, if "suburban segment volumes remain unchanged from one month to the next, but former Black Township (the cheapest areas on average) transaction volumes hypothetically double, the overall national average price could conceivably decline due to this relative activity shift.*

*This challenge of activity shifts between segments is faced by all constructors of house price indices. In an attempt to reduce this effect, we decided to fix the weightings of the FNB House Price Index's sub-segments in the overall national index. This, at best, can only be a partial solution, as activity shifts can still take place between smaller segments within the sub-segments. However, it does improve the situation.*

*With our 2013 re-weighting exercise, we have begun to segment not only according to room number, but also to segment according to building size within the normal segments by room number, in order to further reduce the impact of activity shifts on average price estimates.*

*The FNB House Price Index's main segments are now as follows:*

• *The weightings of the sub-segments are determined by their relative transaction volumes over the past 5 years, and will now change very slowly over time by applying a 5-year moving average to each new price data point. The sub-segments are:*

- *Sectional Title:*
    - *Less than 2 bedroom – Large*
    - *Less than 2 bedroom – Medium*
    - *Less than 2 bedroom – Small*

    - *2 Bedroom – Large*
    - *2 bedroom – Medium*
    - *2 bedroom – Small*

    - *3 Bedroom and More - Large*
    - *3 Bedroom and More - Medium*
    - *3 Bedroom and More - Small*

- *Full Title:*
    - *2 Bedrooms and Less - Large*
    - *2 Bedrooms and Less - Medium*
    - *2 Bedrooms and Less - Small*

    - *3 Bedroom - Large*
    - *3 Bedroom - Medium*
    - *3 Bedroom - Small*

    - *4 Bedrooms and More - Large*
    - *4 Bedrooms and More - Medium*
    - *4 Bedrooms and More – Small*

*The size cut-offs for "small", medium" and "large" differ per room number sub-segment. "Large" would refer to the largest one-third of homes within a particular room number segment over the past 5 year period, "Medium" to the middle one-third, and "Small" to the smallest one-third of homes within that segment.*

- *The Index is constructed using transaction price data from homes financed by FNB.*
- *The minimum size cut-off for full title stands is 200 square metres, and the maximum size is 4000 square metres*
- *The maximum price cut-off is R10m, and the lower price cut-off is R20,000 (largely to eliminate major outliers and glaring inputting errors).*
- *The index is very lightly smoothed using a Hodrick-Prescott smoothing function with a Lambda of 5.*

***Note on the FNB Valuers' Market Strength Index:*** **When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (100)", "average (50)", and "weak (0)". From all of these ratings we compile an aggregate demand and an aggregate supply rating, which are expressed on a scale of 0 to 100. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating, add 100 to the difference, and divide by 2, so that the FNB Valuers' Residential Market Strength Index is also depicted on a scale of 0 to 100 with 50 being the point where supply and demand are equal.*

# AVERAGE HOUSE PRICE BY MAJOR SEGMENT

| | 2009 | 2010 | 2011 | 2012 | 2013 | Q1-2013 | Q2-2013 | Q3-2013 | Q4-2013 |
|---|---|---|---|---|---|---|---|---|---|
| **FULL TITLE SEGMENT** | | | | | | | | | |
| **Full Title Average Price (Rand)** | 802 935 | 826 139 | 853 741 | 905 513 | 964 032 | 939 972 | 955 956 | 971 905 | 988 296 |
| *- year-on-year % change* | *-3.4%* | *2.9%* | *3.3%* | *6.1%* | *6.5%* | *6.2%* | *6.3%* | *6.5%* | *6.8%* |
| *- quarter-on-quarter % change* | | | | | | *1.6%* | *1.7%* | *1.7%* | *1.7%* |
| **2 Bedrooms and Less (Rand)** | 399 884 | 427 030 | 442 473 | 468 231 | 498 930 | 484 759 | 493 071 | 503 095 | 514 794 |
| *- year-on-year % change* | *-2.3%* | *6.8%* | *3.6%* | *5.8%* | *6.6%* | *5.6%* | *5.9%* | *6.7%* | *7.9%* |
| *- quarter-on-quarter % change* | | | | | | *1.6%* | *1.7%* | *2.0%* | *2.3%* |
| **3 Bedroom (Rand)** | 816 059 | 853 835 | 891 622 | 941 339 | 997 003 | 971 099 | 987 845 | 1 005 347 | 1 023 721 |
| *- year-on-year % change* | *-1.9%* | *4.6%* | *4.4%* | *5.6%* | *5.9%* | *5.1%* | *5.4%* | *6.1%* | *6.9%* |
| *- quarter-on-quarter % change* | | | | | | *1.4%* | *1.7%* | *1.8%* | *1.8%* |
| **4 Bedrooms and More (Rand)** | 1 324 421 | 1 370 254 | 1 422 070 | 1 494 300 | 1 568 751 | 1 547 699 | 1 564 816 | 1 576 703 | 1 585 784 |
| *- year-on-year % change* | *-2.1%* | *3.5%* | *3.8%* | *5.1%* | *5.0%* | *5.8%* | *5.5%* | *4.8%* | *3.9%* |
| *- quarter-on-quarter % change* | | | | | | *1.4%* | *1.1%* | *0.8%* | *0.6%* |
| **SECTIONAL TITLE SEGMENT AVERAGE HOUSE PRICE** | | | | | | | | | |
| **Sectional Title Average House Price (Rand)** | 657 250 | 669 295 | 683 605 | 719 220 | 766 352 | 746 965 | 759 527 | 772 739 | 786 175 |
| *- year-on-year % change* | *-2.0%* | *1.8%* | *2.1%* | *5.2%* | *6.6%* | *6.3%* | *6.4%* | *6.6%* | *6.9%* |
| *- quarter-on-quarter % change* | | | | | | *1.6%* | *1.7%* | *1.7%* | *1.7%* |
| **Less than 2 Bedroom (Rand)** | 451 848 | 458 971 | 471 608 | 493 273 | 518 234 | 505 829 | 513 398 | 522 515 | 531 194 |
| *- year-on-year % change* | *-2.9%* | *1.6%* | *2.8%* | *4.6%* | *5.1%* | *4.3%* | *4.4%* | *5.3%* | *6.2%* |
| *- quarter-on-quarter % change* | | | | | | *1.1%* | *1.5%* | *1.8%* | *1.7%* |
| **2 Bedroom (Rand)** | 615 392 | 622 517 | 622 681 | 640 427 | 676 152 | 660 043 | 669 784 | 681 160 | 693 621 |
| *- year-on-year % change* | *-1.6%* | *1.2%* | *0.0%* | *2.8%* | *5.6%* | *4.8%* | *5.2%* | *5.8%* | *6.5%* |
| *- quarter-on-quarter % change* | | | | | | *1.3%* | *1.5%* | *1.7%* | *1.8%* |
| **3 Bedrooms and More (Rand)** | 887 210 | 914 855 | 950 375 | 998 059 | 1 039 277 | 1 022 673 | 1 033 939 | 1 044 895 | 1 055 601 |
| *- year-on-year % change* | *-0.9%* | *3.1%* | *3.9%* | *5.0%* | *4.1%* | *4.3%* | *4.0%* | *4.0%* | *4.2%* |
| *- quarter-on-quarter % change* | | | | | | *0.9%* | *1.1%* | *1.1%* | *1.0%* |
| **SECTIONAL TITLE PER SQUARE METRE** | | | | | | | | | |
| **Sectional Title Average Price (Rand/square metre)** | 7 664 | 7 853 | 7 894 | 8 165 | 8 423 | 8 258 | 8 335 | 8 487 | 8 613 |
| *- year-on-year % change* | *-3.8%* | *2.5%* | *0.5%* | *3.4%* | *3.2%* | *3.0%* | *2.2%* | *3.0%* | *4.5%* |
| *- quarter-on-quarter % change* | | | | | | *0.2%* | *0.9%* | *1.8%* | *1.5%* |
| **Less than 2 Bedroom (Rand/square metre)** | 8 706 | 8 980 | 9 122 | 9 650 | 10 063 | 9 826 | 9 959 | 10 182 | 10 283 |
| *- year-on-year % change* | *-5.2%* | *3.1%* | *1.6%* | *5.8%* | *4.3%* | *4.6%* | *3.5%* | *3.9%* | *5.1%* |
| *- quarter-on-quarter % change* | | | | | | *0.4%* | *1.4%* | *2.2%* | *1.0%* |
| **2 Bedroom (Rand/square metre)** | 7 815 | 7 966 | 7 959 | 8 187 | 8 503 | 8 344 | 8 389 | 8 575 | 8 706 |
| *- year-on-year % change* | *-3.6%* | *1.9%* | *-0.1%* | *2.9%* | *3.9%* | *3.7%* | *3.0%* | *4.1%* | *4.7%* |
| *- quarter-on-quarter % change* | | | | | | *0.3%* | *0.5%* | *2.2%* | *1.5%* |
| **3 Bedrooms and More (Rand/square metre)** | 6 626 | 6 828 | 6 933 | 7 268 | 7 501 | 7 317 | 7 458 | 7 544 | 7 683 |
| *- year-on-year % change* | *-3.7%* | *3.1%* | *1.5%* | *4.8%* | *3.2%* | *3.1%* | *2.2%* | *2.3%* | *5.3%* |
| *- quarter-on-quarter % change* | | | | | | *0.2%* | *1.9%* | *1.2%* | *1.8%* |
| **HOUSE PRICES BY HOME SIZE** | | | | | | | | | |
| **Large Homes (Rand)** | 1 497 353 | 1 547 057 | 1 576 323 | 1 647 606 | 1 724 113 | 1 693 621 | 1 733 723 | 1 754 855 | 1 714 252 |
| *- year-on-year % change* | *-4.5%* | *3.3%* | *1.9%* | *4.5%* | *4.6%* | *4.8%* | *6.0%* | *5.9%* | *1.9%* |
| *- quarter-on-quarter % change* | | | | | | *0.7%* | *2.4%* | *1.2%* | *-2.3%* |
| **Medium Sized Homes (Rand)** | 769 610 | 826 011 | 845 451 | 891 667 | 912 954 | 878 247 | 904 618 | 921 236 | 947 715 |
| *- year-on-year % change* | *-1.3%* | *7.3%* | *2.4%* | *5.5%* | *2.4%* | *1.0%* | *0.1%* | *1.5%* | *7.1%* |
| *- quarter-on-quarter % change* | | | | | | *-0.8%* | *3.0%* | *1.8%* | *2.9%* |
| **Small Sized Homes (Rand)** | 363 905 | 399 525 | 415 487 | 445 620 | 472 987 | 453 362 | 467 737 | 481 853 | 488 998 |
| *- year-on-year % change* | *-9.5%* | *9.8%* | *4.0%* | *7.3%* | *6.1%* | *2.9%* | *3.6%* | *7.5%* | *10.6%* |
| *- quarter-on-quarter % change* | | | | | | *2.6%* | *3.2%* | *3.0%* | *1.5%* |