# PROPERTY BAROMETER

## *FNB ESTATE AGENT HOME BUYING SURVEY*

*Agents point to a decline in Residential Market Activity Rating and in viewers of show houses, suggesting slowing demand. This has implications for near term mortgage lending growth.*

*21 September 2015*

*FNB HOME LOANS: MARKET ANALYTICS AND SCENARIO FORECASTING UNIT*

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**KEY POINTS**

***The picture emanating from the sample of estate agents surveyed is a "still-well balanced market", but one whose activity levels appear to be moving from "sideways to slowing".***

***The 3rd quarter Estate Agent Survey saw a noticeable decline in the Residential Activity Level Rating. This, along with a decline in recent quarters in the average number of serious viewers per show house, suggests that residential demand may be slowing. Simultaneously, 2 consecutive quarters of decline in the percentage of agents citing stock constraints as an issue in their lives starts to suggest that supply constraints may be becoming less acute.***

***The resumption of gradual interest rate hiking, but also an economy slow on growth, may be starting to have a cooling impact on the market, and agents also perceive home affordability to have deteriorated of late.***

- ***The 2nd Quarter Residential Activity Indicator declined to 6.14, from the previous quarter's 6.33.*** *When one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted Indicator also declined from 6.46 in the previous quarter, to 6.18 in the 3rd quarter.*

- ***Average estimated number of viewers per show house slowed to 9.31,*** *down from 11.5 in the corresponding quarter a year ago*

- ***In the 2nd quarter of 2015, the percentage of agents citing stock constraints as a factor remained significant at 17%,*** *but this was the 2nd successive quarter of decline from a high of 24% in the 1st quarter of 2015.*

- ***Perhaps surprisingly, given the slowing in Activity levels, the estimated average time of properties on the market declined*** *from a previous quarter's 12 weeks and 1 day to 11 weeks and 1 day.*

- ***Agents reported an unchanged percentage of sellers having to drop their asking price, of 87% in the 3rd quarter,*** *although this is noticeably higher than the 78% recorded in the 2nd quarter of 2014. The estimated average percentage asking price drop, on those properties where a price drop is required to make the sale, was -9%, slightly more than the -8% of early-2015.*

- ***Agents' on average perceive residential affordability to have deteriorated mildly in recent quarters,*** *with a declining percentage perceiving income levels to have kept up with house price levels.*

- ***1st Time buying was 25% of total buying in the 3rd quarter 2015 survey,*** *still solid but off the high of 28% reached in the 2nd quarter of last year.*

- ***Buy-to-let home buying remained mediocre,*** *and declined from a previous quarter's 9% of total buying to 8% in the 3rd quarter 2015 survey.*

## *EXECUTIVE SUMMARY*

***The picture emanating from the FNB South African Estate Agent Survey for the 3rd quarter of 2015 is one of a "still-well balanced market", but one whose activity levels appear to be moving from "sideways to slowing".***

*In the 3rd quarter 2015 FNB Estate Agent Survey, our sample of estate agents surveyed has begun to point to declining activity levels, after prior quarters of almost sideways movement. This shift to a slowing direction may finally be starting to reflect a multi-year stagnation in South African economic growth as well as gradual interest rate hiking by the SARB (South African Reserve Bank).*

*On a scale of 1 to 10, the 3rd Quarter Residential Activity Indicator declined to 6.14, from the previous quarter's 6.33. When one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted version of the Indicator also declined from 6.46 in the previous quarter, to 6.18 in the 3rd quarter of 2015. We therefore saw a noticeable decline, even when eliminating seasonal factors.*

*On a year-on-year basis, the 3rd quarter saw a significant decline in the Residential Activity Rating for the 1st time in a few years. In the 3rd quarter, the year-on-year rate of decline measured -7.39%, significantly weaker than the +12.18% growth high reached in the 3rd quarter a year ago.*

*When estate agents are asked to estimate the average number of serious viewers per show house, the response has started to point to weakening residential demand as a contributor to declining activity. This average declined to an estimated 9.31 serious viewers per show house in the 3rd quarter of 2015, from 11.05 in the previous quarter and 11.5 in the corresponding quarter of 2014*

*Simultaneously, 2 consecutive quarters of decline in the percentage of agents citing stock constraints as an issue in their lives starts to suggest that supply constraints may be becoming less acute. From a high of 24% of agents citing the existence of "stock constraints" being an issue for them in the 1st quarter 2015 survey, this percentage has declined for 2 consecutive quarters to 17% by the 3rd quarter 2015 survey.*

*Besides some possible demand weakening, "stock", or "supply" constraints may also be being alleviated by indications of significant growth in the reported number of new residential units completed in the 2nd quarter.*

*Why would demand start to weaken? There are plenty of economic reasons, most notably the resumption of gradual interest rate hiking, but also an economy slow on growth and even having contracted in the 2nd quarter. Within the survey, agents may be implicitly explaining part of the reason when they answer the question related to home affordability, with an increasing percentage perceiving "incomes not to have kept up with house prices".*

*But despite the abovementioned indications of demand and activity weakening, to date the impact on the market balance doesn't appear to have been severe, if one looks at potential indicators of the balance between supply and demand or of "price realism". Interestingly, the estimated average time of properties on the market declined from a previous quarter's 12 weeks and 1 day, to 11 weeks and 1 day, after previously hovering for a few quarters at just above 12 weeks. This decline is a mild surprise at a time when other indicators suggest declining demand and some alleviation of supply constraints.*

*But there have been some small hints of deterioration in 2 other indicators of price realism. In the 3rd quarter survey, agents reported an unchanged percentage of sellers having to drop their asking price, of 87%. However, this level is now noticeably higher than the 78% "relative low" recorded in the 2nd quarter of 2014. The estimated average percentage asking price drop, on those properties where a price drop is required to make the sale, was -9%, also slightly more than the -8% of early-2015.*

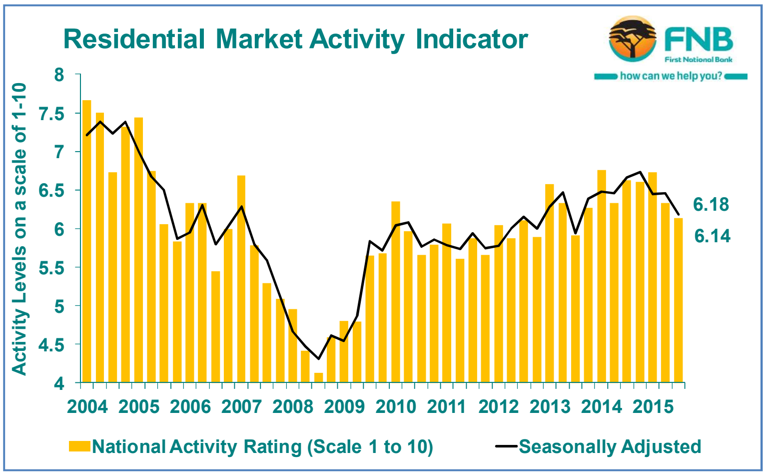
*Perceived affordability deterioration in recent quarters may be the reason for the 1st time buying percentage being slightly off 2014 highs. 1st Time buying was 25% of total buying in the 3rd quarter 2015 survey, still solid and up from the previous quarter's dip to 21%, but still lower than the high of 28% reached in the 2nd quarter of last year. On the one hand, an affordability deterioration may be a 1st time buyer constraint, but on the other hand the agents do point to significant 1st time buyer panic. This refers to when 1st time buyers believe that if they do not buy now they may not be able to afford a home in future. Buyer panic typically comes after a period of relative market strength, and although the market has not exactly boomed from 2012, there definitely has been a significant amount of positive hype around it through 2012-2014, which may have elevated "buyer panic" with a lag, and which may be sustaining solid 1st time buyer demand, albeit a little weaker than 2014, for the time being.*

*Finally, buy-to-let home buying remained mediocre, declining from a previous quarter's 9% of total buying to 8% in the 3rd quarter 2015 survey. This suggests little sign of "over-exuberance" in the market at present, with these levels a far cry from the 25% estimate recorded early in 2004 at the height of last decade's boom period.*

## *STILL A MARKET AT "STABLE" LEVELS, BUT ESTATE AGENTS INCREASINGLY POINT TO SIGNS OF SLOWDOWN*

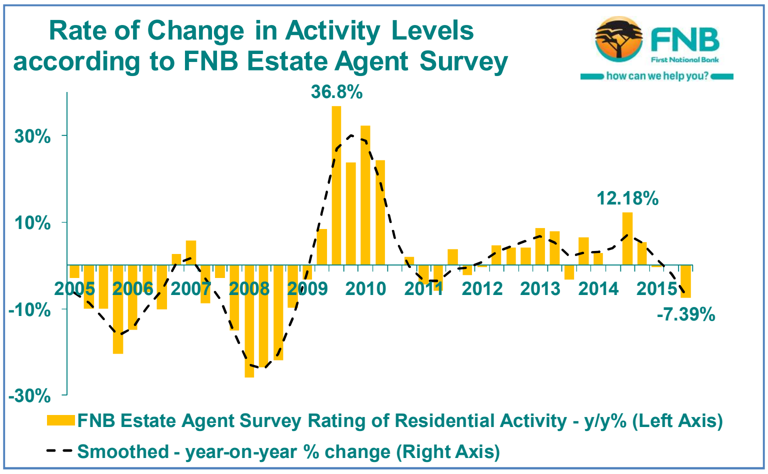
***In the 3rd quarter 2015 FNB Estate Agent Survey, our sample of estate agents surveyed has begun to point to declining activity levels, after prior quarters of almost sideways movement. The residential market still appears "well-balanced", but a slowing direction may finally be starting to reflect a multi-year stagnation in South African economic growth as well as gradual interest rate hiking by the SARB (South African Reserve Bank).***

*The FNB South Africa (SA) Estate Agent Survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential market activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.*




*The 3rd Quarter Residential Activity Indicator declined to 6.14, from the previous quarter's 6.33. When one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted version of the Indicator also declined from 6.46 in the previous quarter, to 6.18 in the 3rd quarter of 2015. We therefore saw a noticeable decline, even when eliminating seasonal factors, and the seasonally-adjusted Indicator is now noticeably lower than its multi-year high of 6,74 reached in the final quarter of 2014.*

*The 2nd quarter Activity Indicator level remains at the upper end of the "stable" bracket (a level from 4 to 6), however, and not far from the "Positive" bracket of 7 to 8. The 2 other rating brackets are the "not very active (1 to 3), and "very active (9 to 10).*




*Examining the year-on-year percentage change in the Activity Indicator, however, we start to see a noticeable decline in the Residential Activity Rating for the 1st time in a few years. In the 3rd quarter, the year-on-year rate of decline measured -7.39%, after the previous 2 quarters had more-or-less treaded water at close to zero. This is the most significant year-on-year decline in the rating since 2008, and the smoothed trendline shows a year-on-year decline of very similar magnitude.*

*The rate of decline also represents a noticeable change from the +12.18% growth high reached in the 3rd quarter a year ago.*

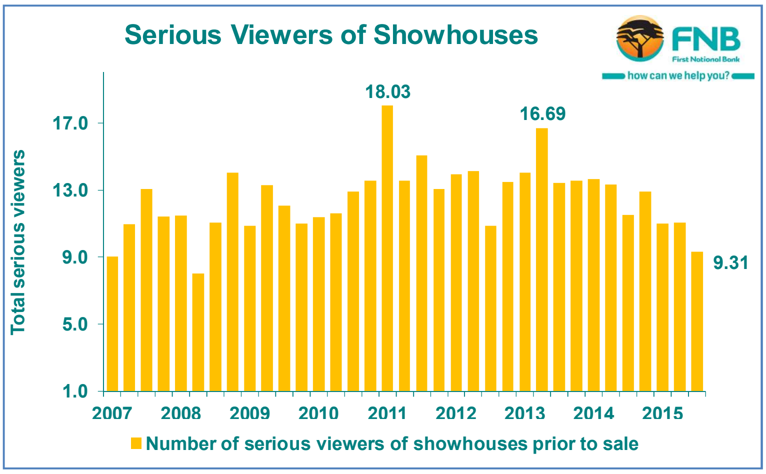
*In short, 2015 to date has first seen the market run out of activity growth momentum, and more recently possibly starting to shift to an activity decline.*

*This is not too surprising. After the benefit of a massive interest rate cutting stimulus back around 2009/10, South Africa's economic growth rate has "stagnated" from 2012, and the economy contracted in the 2nd quarter of 2015. The country's economic growth potential appears to be in a lowly range between 1% and 2%, a global commodity price slump constrains it too, and of course interest rates began to rise last year.*

***Other key indicators from the FNB Estate Agent Survey continue to point to a very good balance between supply and demand in the residential market, with supply of stock remaining relatively constrained, but there are some signs that residential demand may be affected by the abovementioned economic factors, ultimately weakening the demand-supply balance.***

***Relevant in this regard is the combination of responses regarding number of serious show house viewers, stock constraints, average time of properties on the market, and those questions related to sellers having to drop their asking prices.***

### *A DEMAND-SIDE RELATED INDICATOR HINTS AT SLOWING*




*One of the residential "demand-side" questions that is asked to the survey respondents is to give an estimate of how many serious viewers per show house they get before making the sale.*

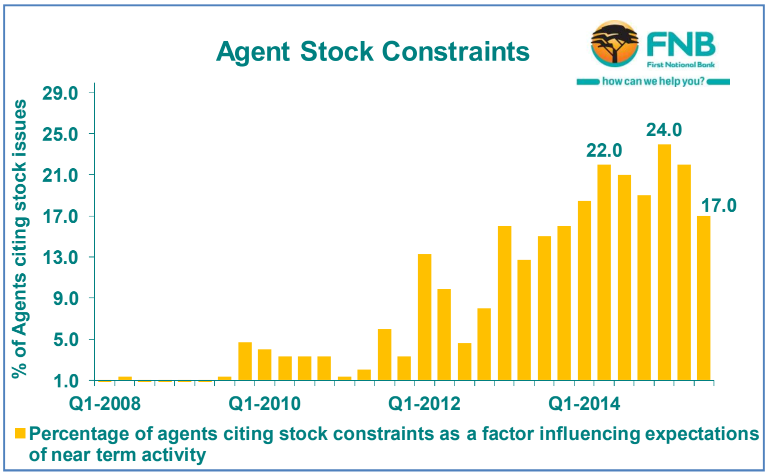
*This estimated average per show house has been noticeably declining in recent quarters, from 12.9 at the end of 2014 to 9.31 as at the 3rd quarter 2015 survey. This estimate is the lowest since the 2nd quarter 2008 survey.*

*The decline in this estimate of serious viewers per show house would suggest the recent decline in the Activity Rating is at least in part about some slowing in residential demand.*

### *RESIDENTIAL SUPPLY CHALLENGES REMAIN SIGNIFICANT, ALTHOUGH POSSIBLY BEING ALLEVIATED SLOWLY*

*It is difficult to gauge the strength of supply of residential stock through asking survey respondents for their opinion. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way*

*The level of stock constraints in the existing home market remains significant, as it has been over the past 2 to 3 years or so.*



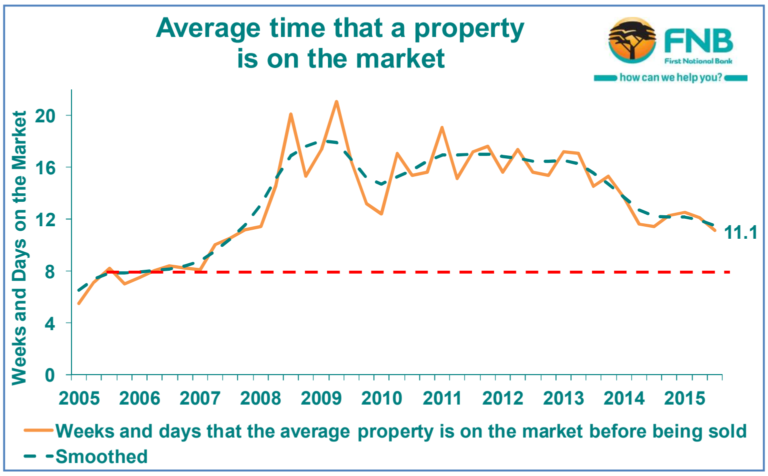

*These stock constraints intensified noticeably from 2012 to early-2014, assisted by relatively low levels of residential building activity since the end of the building boom in 2008.*

*However, in the 3rd quarter of 2015, the percentage of agents citing stock constraints as a factor declined to 17%, from a previous quarter's 22% and a 1st quarter 2015 high of 24%. While still a significant percentage, the 2nd consecutive quarterly decline in the 3rd quarter, to the lowest percentage since late-2013, just begins to suggest that stock constraints are starting to be alleviated.*

*In addition to a decline in the "stock constraints" percentage, the percentage of agents pointing to "ample stock" rose from a previous quarter's 5% to 7% in the 3rd quarter survey.*

### *BUT AS YET, THERE IS NO SIGN OF SLOWING IN THE AVERAGE TIME ON THE MARKET*

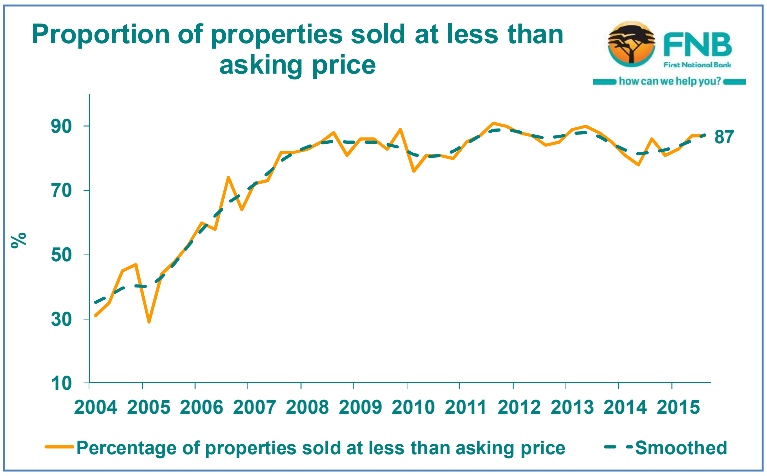
***One indicator of seller pricing realism, or of the balance between demand and supply, is the estimated average time that properties remain on the market prior to sale. If demand is indeed slowing, and supply constraints being alleviated, one would expect that ultimately the average time of homes on the market would increase. To date, however, this hasn't happened, and this indicator certainly doesn't yet point to any meaningful deterioration in the demand-supply balance.***




*After a 3rd quarter 2014 "low" estimate of 11 weeks and 4 days, the estimated average time on the market moved more or less sideways at just above 12 weeks, at least until the 3rd quarter 2015 survey where it dipped (perhaps surprisingly) to 11 weeks and 1 day.*

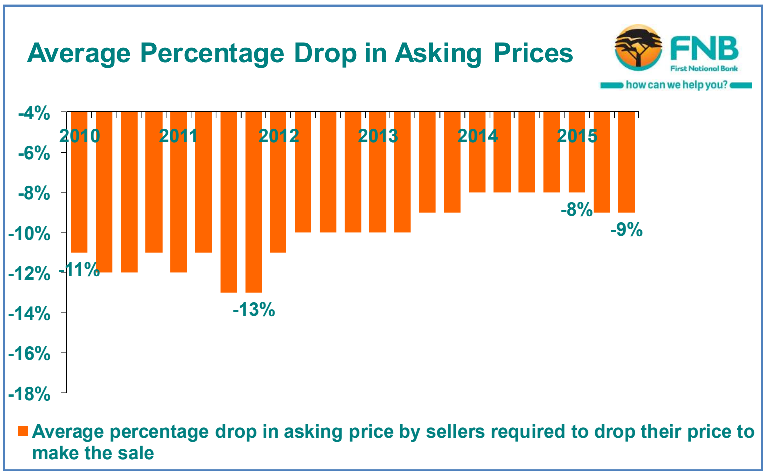
*This indicator of market balance or price realism, therefore, still points to a well-balanced market, much improved from a time back around 2011 when the average was above 4 months, but it is surprising to see any further decline in time on the market in the 3rd quarter. The indicators mentioned prior to this one suggest that this decline in time on the market will probably not be sustainable.*

### *THE EXTENT OF DROPPING OF ASKING PRICES HAS DETERIORATED SINCE 2014*




*In another important "price realism"-related question, agents have suggest a very mild deterioration (increase) in the percentage of sellers being required to drop their asking price to make a sale since early-2014.*

*They reported a broad increase in the percentage of sellers having to drop their asking price, from 78% in the 2nd quarter of 2014 to 87% by the 2nd quarter of 2015. The 3rd quarter percentage remained unchanged at 87%. The data can be slightly volatile, but the smoothed trendline has also moved slightly higher since last year, suggesting that asking price realism may have deteriorated mildly relative to demand conditions.*




*We also ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average estimated drop increased in magnitude slightly to -9% in the 2nd quarter survey, after having remained unchanged at -8% for the previous 5 quarters. It was unchanged at -9% in the 3rd quarter 2015 survey.*

***Therefore, while there is no strong evidence of a deteriorating trend in the abovementioned 3 indicators relating to price realism, i.e. average time on the market, percentage of sellers dropping their asking price and the percentage drop in asking price, the latter 2 of the 3 are off their best levels reached in 2014.***

### *AGENT PERCEPTIONS OF RESIDENTIAL AFFORDABILITY*

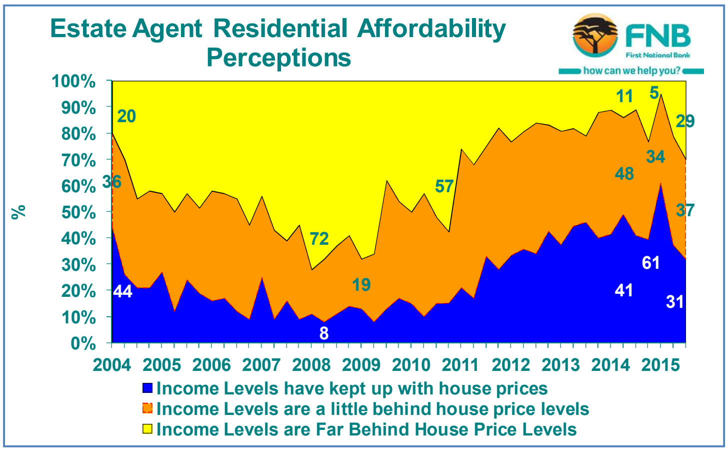
*The FNB Estate Agent Survey also asks agents for their general perception of housing affordability, through requesting them to choose one of 3 statement options, i.e. "Income levels have kept up with house prices", "Income levels have got a little behind house price levels" or "Income levels have got far behind house price levels".*

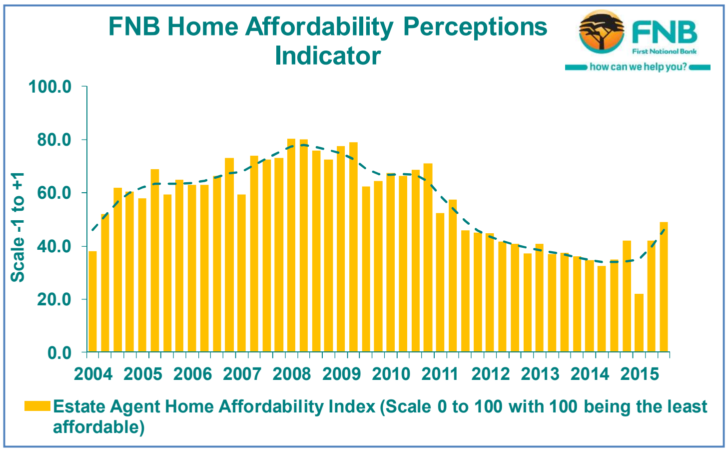
*In the 2nd and 3rd quarter 2015 surveys, we have started to see a perceived deterioration in residential affordability according to this line of questioning. There was another increase in the percentage of agents perceiving "income levels to be far behind house prices", from 21% in the preceding quarter to 29% in the 3rd quarter 2015. Those perceiving "income levels to be a little behind house price levels" declined slightly from 41% in the preceding quarter to 37% in the 3rd quarter. This translated into a decline in the percentage of agents believing that "income levels have kept up with prices", from 37% in the 2nd quarter, to 31%. The percentage believing that income levels had kept up with prices had previously averaged above 40% through 2014.*

*The perceived affordability deterioration may in part be due to household income growth being sluggish, but also possibly due to a gradually rising cost of credit as interest rates edge up.*

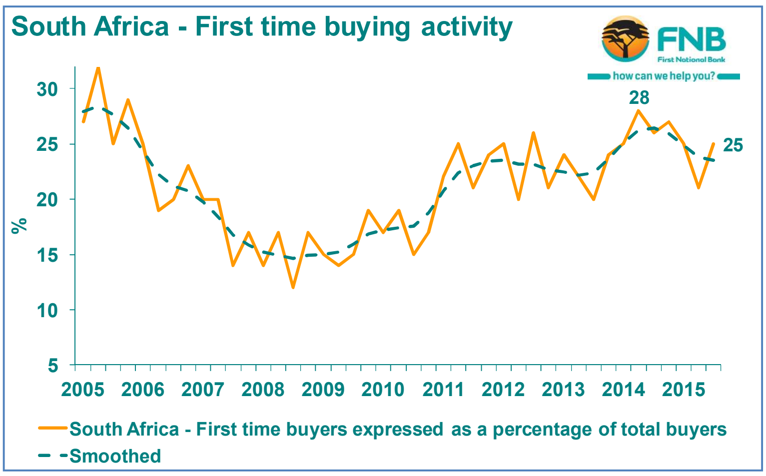
*From these 3 categories of responses we compile the FNB Estate Agent Affordability Perceptions Indicator. The Indicator is set up on a scale of 0 to 100. If 100% of respondents answer that "income levels have kept up with house prices", the Affordability Perceptions Indicator will be zero. If 100% of them answer that "incomes are a little behind house prices", the Indicator level will be 50. If 100% answer that "income levels are far behind house prices", the Indicator level will be 100. Therefore, the higher the indicator, the worse the perceptions of affordability.*

*The Affordability Perceptions Indicator level has risen (deteriorated) further in the 3rd quarter of 2015, from a previous 41.9 to 49. This is the highest (worst perception of affordability) level since the 2nd quarter of 2011.*



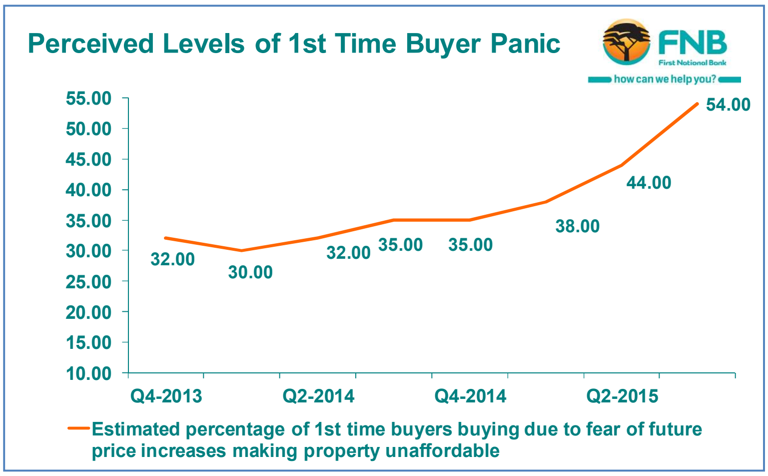

### *1ST TIME BUYING ACTIVITY*




*The start of a deterioration in estate agent perceptions of affordability could signal that the start of a deterioration in 1st time buying activity is imminent. While we saw some hint of this possibly starting in prior quarters, the 3rd quarter 2015 saw a "comeback" in 1st time buyers to an estimated 25% of total buying, from 21% in the prior quarter.*

*However, this remains slightly lower than 2014 levels, with a peak 28% being reached in the 2nd* *quarter of last year, and it would appear as though a broad "softening" move in the 1st time buying percentage has possibly recently begun (despite the 3rd quarter rise) if one looks at the smoothed trend line. But the evidence is far from conclusive.*

*1st time buyers, many who may be single-status buyers, are on average more financially limited than repeat or "couples" buyers, and tend to be more cyclical in their buying patterns. A larger portion stays out of the market in tougher economic times or when affordability deteriorates.*

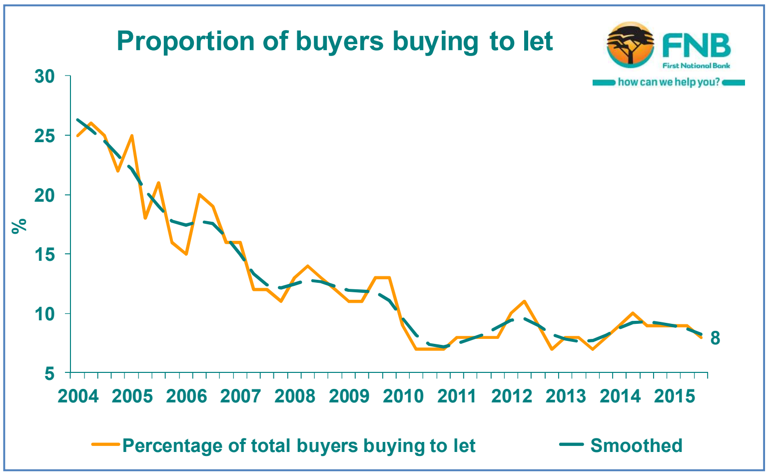



*What may be delaying any meaningful slowdown in 1st time buying since the 2014 high is a considerable degree of "1st Time Buyer Panic", at least according to agent perceptions. When asking them to estimate the rough percentage of 1st time buyers who they believe to be wanting to buy now, "before house prices become in-affordable", the agents estimate this at 54%, now significantly higher than 30% at the beginning of 2014.*

*This "panic" can be the lagged result of a relatively solid period for the residential market from around 2012 to 2014, and continues to be significant for the time being despite early signs of a market set to slow.*

### *BUY-TO-LET BUYING*

*The level of buy-to-let home buying can be reflective of the recent strength in house price growth, with many less seasoned home buyers believing that in times of strong recent price growth it is "the time to buy".*




*Therefore, high levels of buy-to-let buying activity can possibly signal "over-exuberance" in a residential market, where not current economic fundamentals but rather recent house price growth drives this source of demand higher to levels where over-investment and market "overshoots" are caused.*

*Currently, there is little sign of such "over-exuberance" in the South African residential market, with a 3rd quarter 2015 survey estimate of 8% of total buying being buy-to-let. This remains a far cry from the 25% back in early-2004 in times of rampant house price growth.*

### *HOW AGENTS SEE THE NEAR TERM OUTLOOK*

#### *Near term agent expectations regarding activity levels*

*On balance, agents expected near term strengthening in residential activity levels in the 3rd quarter survey. For agents, activity is crucial. They make a living on buying and selling properties, unlike investors who hold properties for a return.*

*We ask agents for their expectations of residential activity levels in the near term, i.e. the three months subsequent to when the survey takes place, requesting them to choose between 3 options, namely that activity will "strengthen", "weaken", or "remain the same".*

*In the 3rd quarter survey, 55% of agents expected activity to increase in the next 3 months, while 42% expected it to stay the same and 3% expected a decrease in activity.*

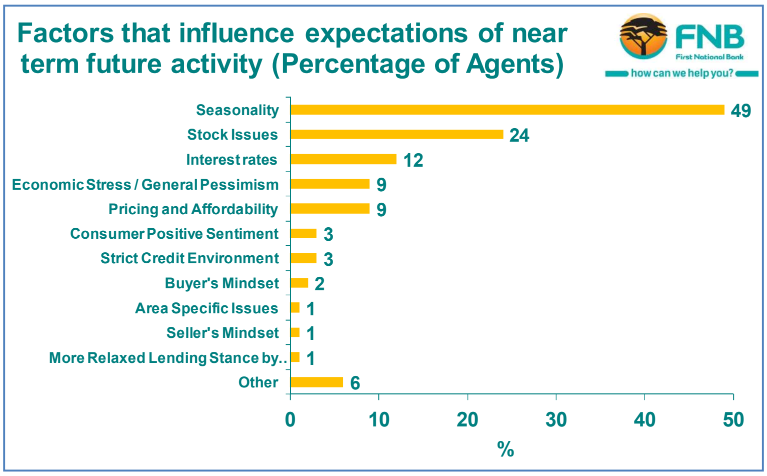
*However, this positive expectation is to be expected when one moves towards the busier Summer period, seasonality thus playing a major role in boosting expectations, more than any economic improvement.*

*The "Home Buying Confidence Indicator" in its unsmoothed form, the combined result of the various agent expectations, rose from the previous level of +0.01 (on a scale of 1 to -1) to +0.52, as one could expect with the Spring/Summer approaching at the time of the survey.*

***Factors influencing agents' near term activity level expectations***

*When asking agents for the factors influencing their near term expectations, seasonal factors are obviously a big one in the 3rd quarter, and seen as positive as Summer approaches, with 49% of respondents citing these as a key factor influencing their expectations.*

*The biggest influencing factor, excluding seasonality, in the latest survey was once again "stock issues", cited by 24% of agents as an issue. It is important to break this category down though, as 17% cited "stock constraints" as a key influencing factor, while 7% cited "plenty of stock", reminding us that supply shortages don't exist everywhere. The 17% citing stock shortages is down from the 2 previous quarters, suggesting that stock is becoming a little less constrained.*




*Interesting, too, is that whereas previously there was an almost even split between those agents experiencing "Positive Consumer Sentiment" versus those perceiving "Economic Stress/Pessimism", the 3rd quarter survey saw only 3% pointing to "Positive Consumer Sentiment" while 9% perceived "Economic Stress/Pessimism".*

*Pricing and Affordability is also cited by 9% of agents, with a split of 5% tending towards "prices still unrealistic", and 4% towards "lots of realistically priced homes coming onto the market".*

***CONCLUSION***

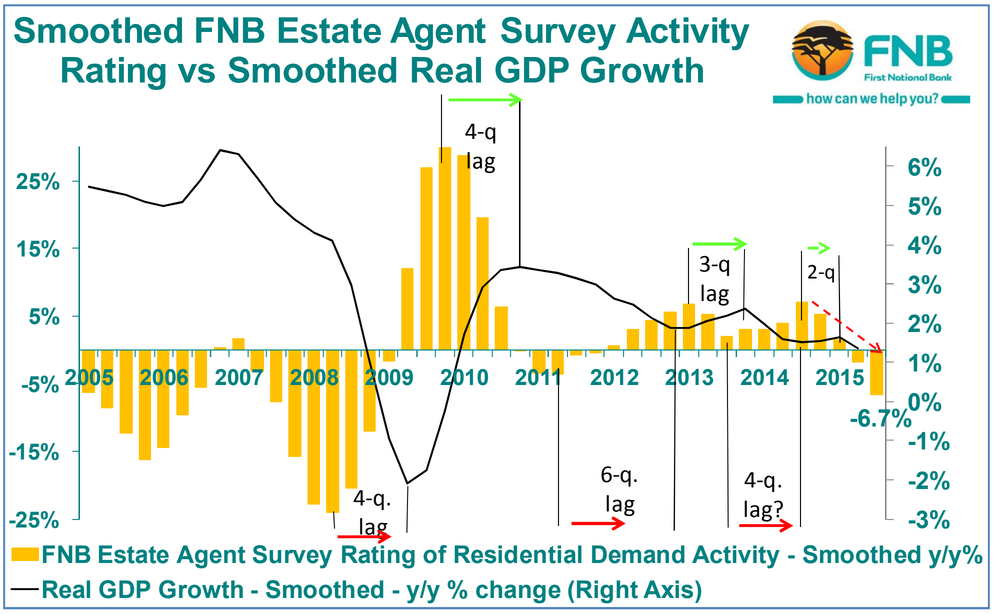
*In summary, the picture emanating from the sample of estate agents surveyed is a "still-well balanced market", but one whose activity levels appear to have been moving from "sideways to slowing".*

*The 3rd quarter survey saw a noticeable decline in the Activity Level Rating. This, along with a decline in recent quarters in the average number of serious viewers per show house suggests that residential demand may be slowing. Simultaneously, 2 consecutive quarters of decline in the percentage of agents citing stock constraints as an issue in their lives starts to suggest that supply constraints may be becoming less acute.*

*Why would demand start to weaken? There are plenty of economic reasons, most notably the resumption of gradual interest rate hiking, but also an economy slow on growth and even having contracted in the 2nd quarter. Within the survey, agents may be implicitly explaining part of the reason when they answer the question related to home affordability, with an increasing percentage perceiving "incomes not to have kept up with house prices".*

## *IMPLICATIONS FOR ECONOMIC GROWTH AND RESIDENTIAL MORTGAGE LENDING*

*Finally, we use the year-on-year growth rate in the FNB Estate Agent Activity Rating in its smoothed form as a potential "leading indicator" both for near term economic growth as well as for residential mortgage lending growth. Lightly smoothing both year-on-year percentage change in the Activity Rating as well as South Africa's GDP (Gross Domestic Product), we see that the "mini-peaks" in growth in the Activity Rating can precede the "mini-peaks" in smoothed GDP growth by 2-4 quarters, and the troughs in growth by 4-6 quarters. Admittedly, the history of the Activity Rating is a bit short to strongly confirm its use as a leading indicator, but we believe it has potential, with estate agents feeling the impact of changes in economic and household financial conditions quite early. The recent slowing year-on-year growth slowing and then the decline in the Activity Rating suggests that, if the apparent relationship continues to hold true, further weakening in GDP growth should ensue in the not too distant future.*




*Similarly, the Residential Activity Rating year-on-year rate of change's peaks and troughs generally lead the peaks and troughs in the value of new residential mortgage loans granted. Using the SARB time series for New Residential Mortgage Loans and Re-Advance Granted, we see some year-on-year growth acceleration in the 1st 2 quarters of 2015. Given the apparent lag of 2-4 quarters on the Activity Rating growth peaks and troughs, 3 quarters into the lag time on the last growth "mini-peak" in the Activity Rating we are probably due for new mortgage lending growth to be slowing very soon.*