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PROPERTY BAROMETER-
FNB ESTATE AGENT SURVEY BY SEGMENT

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–While Higher End segments played some catch up through 2012, its more a Lower End story in 2013

ESTATE AGENTS POINT TO NOTICEABLE IMPROVEMENT IN "MARKET FUNDAMENTALS" IN THE LOWER INCOME AREA SEGMENT

FNB Estate Agent Surveys since early in 2012 have pointed to a broad strengthening trend in agents' perceptions of residential demand. In terms of market segments, the story remains more a lower end one, even after higher priced areas having shown noticeable improvement back in 2012.

The 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 demand in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of demand.

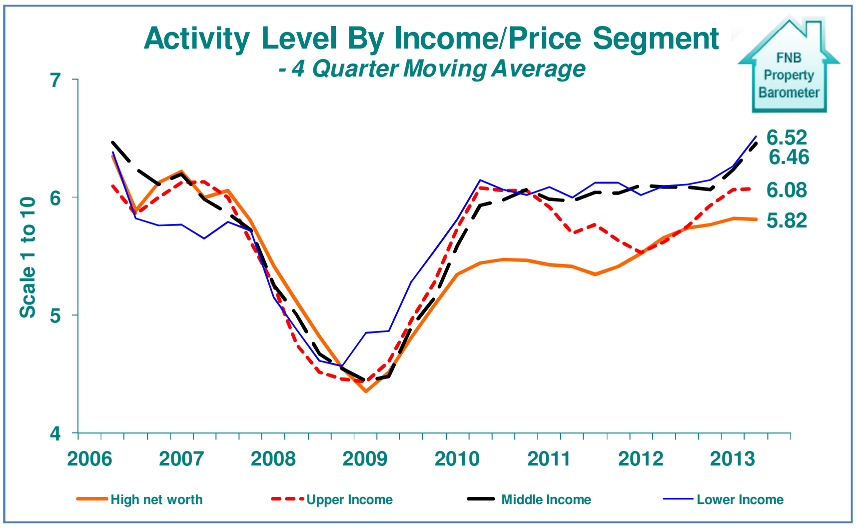
This report focuses on the 4 income segments defined in the survey. For this exercise, we use 4-quarter moving averages in our data, so as to smooth out data volatility from quarter to quarter (with segment sample sizes being limiting) and examine the broader trends.

The 4 Income segments are self-defined by agents working the areas, and comprise the High Net Worth segment (average 2nd quarter 2013 price = R3.636m), the Upper Income segment (average price = R2.411m), the Middle Income segment (average price = R1.15m), and the Lower Income segment (average price = R724,700).

Examining average agent activity ratings (scale of 1 to 10) by segment for the 4 quarters up to and including the 2nd quarter of 2013, the Lower Income segment still comes out top with an average rating of 6.52, slightly ahead of the Middle Income segment on 6.46,and more significantly ahead of the Upper Income segment on 6.08, and the High Net Worth segment on the lowest level of 5.82.

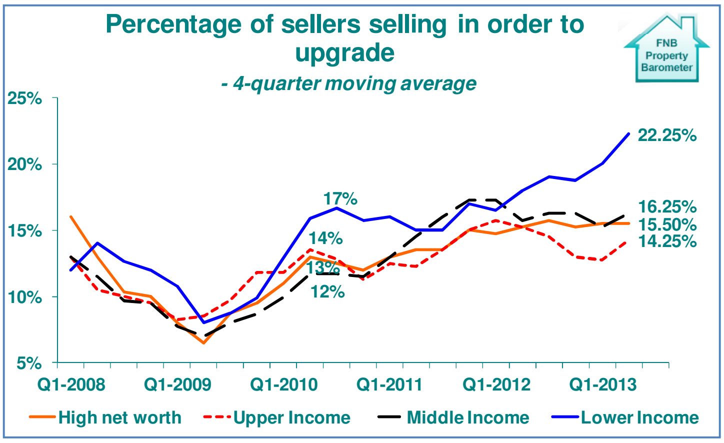
In terms of the relative performances of segments, after a significant narrowing of the activity gap between Upper Income Areas on the one hand, and Lower and Middle Income Areas on the other, during 2012, the 1st half of 2013 appears to have seen the Lower and Middle Income Area Activity ratings once again start to accelerate away from the 2 higher income areas.

Although having improved through 2012, the activity rating for the High Net Worth segment continues to lag the other 3 segments noticeably.



STRONG UPGRADE-RELATED SELLING IN THE LOWER INCOME AREAS MAY BE PROVIDING STRONG SUPPORT TO MIDDLE INCOME AREAS

A noticeable feature of the Lower Income Area Segment over the past 4 quarters has been a steady rise in the percentage of sellers believed to be selling in order to upgrade to a better home, reaching 22.25%. So, while solid 1st time buying, in these times of low interest rates and relatively easy access to credit, is probably a key driver of the superior activity levels perceived in the Lower Income Areas, strong levels of selling in order to upgrade in Lower Income Areas may be a key driver of activity levels in the next segment up, i.e. the Middle Income Area Segment, as a group of sellers moves upward to their next purchase.

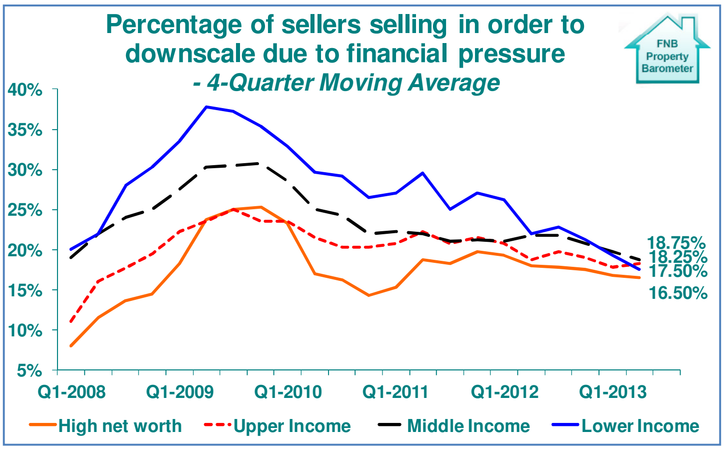


By comparison, the Middle Income Area segment has a significantly lower 16.25% of sellers selling in order to upgrade, and unlike the Lower Income Area Segment's steady rising trend in "upgrade-related" selling, its own upgrading percentage has been trending sideways-to-lower over the past year. Similar stagnant trends in upgrading have been witnessed in the Upper Income and High Net Worth Areas too.

So, whereas the Middle Income Area Segment may be receiving a strong boost from upgrading out of the Lower Income Segment, the Upper Income and High Net Worth Areas may not be receiving quite the same level of support from the immediate level below them.

FINANCIAL STRESS-RELATED SELLING IN ORDER TO DOWNSCALE HAS IMPROVED (DECLINED) MORE RAPIDLY AT THE LOWER END

Lower End segments have also seen the financial strength of their homeowners improving at a more rapid rate than all of the other 3 segments, since the height of financial stress in 2009.



So, compared to a peak of 38% back in the 2nd quarter of 2009, Lower Income Areas have seen their estimated percentage of sellers believed to be downscaling due to financial pressure decline to 17.5% for the 4 quarters up until and including the 2nd quarter of 2013.

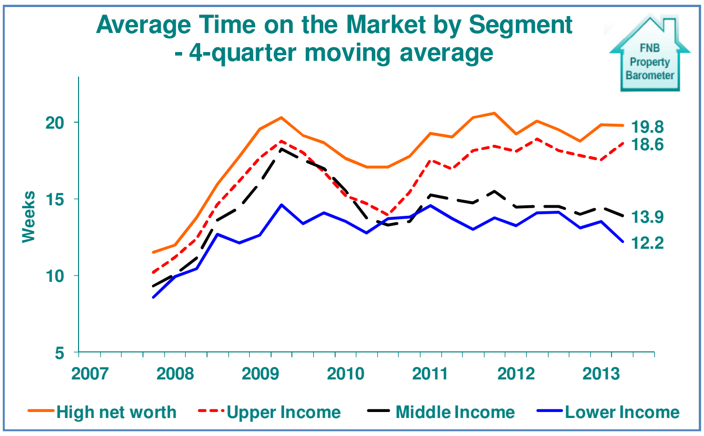
A word of caution is required here. It is important to remember that low interest rates mask many financial frailties, so one must be careful of drawing conclusions as to how sustainable this better financial performance is when tougher times come again one day, but for the time being the improved home owner financial performance is noticeable, and more supportive of the property market, especially at the Lower Income End. And over the past 4 quarters, the Lower Income Area financial stress-related downscaling percentage has even moved below the percentages of Middle Income Areas (18.75%) and Higher Income Areas (18.25%), with only High Net Worth Areas having a lower percentage of 16.5%.

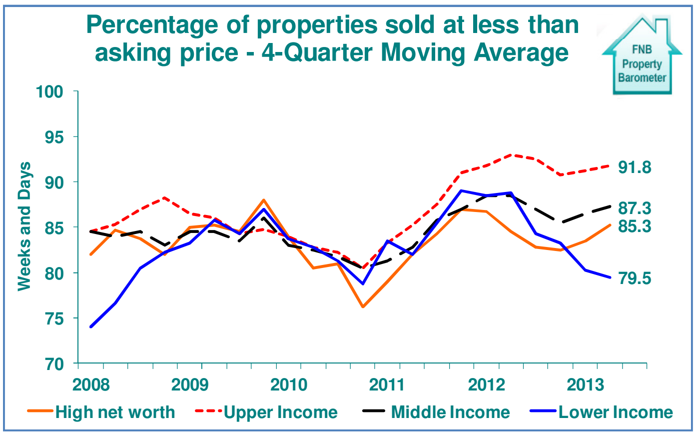
SELLER PRICE REALISM ALSO APPEARS BEST AND MOST IMPROVED IN THE LOWER INCOME SEGMENT

The Lower and Middle Income segments still appear to maintain a significant gap between themselves on the one hand, and the Upper and High Net Worth Segments on the other hand, in terms of more realistic pricing.

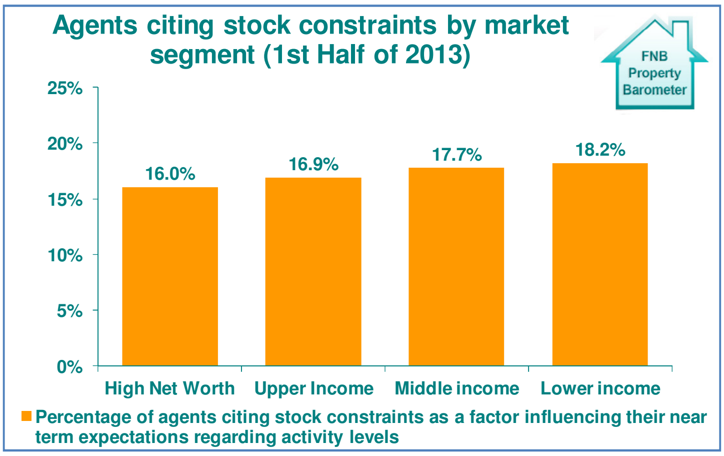
For the 4-quarters up until the 2nd quarter of 2013, the average estimated time of homes on the market prior to sale for the Lower and Middle Income segments, was 12.2 weeks and 13.9 weeks respectively. By comparison, the Upper Income and High Net Worth segments recorded 18.6 weeks and 19.8 weeks respectively. While one should normally expect higher end homes to be on the market for longer, the fact is that the gap between these segment estimates widened in the 1st half of 2013, with the 2 higher end segments' times on the market rising, while the Lower and Middle Income Area Segments saw declines.

The other measure of price realism is the percentage of sellers having to drop their asking price to make the sale. Here, too, the Lower Income segment remains ahead at 79.5% of total sellers for the past 4 quarters, and this segment has also showed the largest improvement since early 2012, whereas all 3 other segments have seen mild increases in this percentage in the 1st half of 2013.





AND IN THE 1ST HALF OF 2013, RESIDENTIAL SUPPLY HAS REMAINED SLIGHTLY MORE CONSTRAINED AT THE LOWER END, IT APPEARS



With demand appearing relatively stronger in the Lower and Middle Income segments, it is probably unsurprising that the percentage of agents citing stock constraints as an issue has been slightly higher in the Lower and Middle Income segments than in the Upper Income and High Net Worth segments.

And indeed this was the picture in the 1st half of 2013, with 18.2% of agents in the Lower Income segment citing stock constraints, 17.7% in the Middle Income areas, 16.9% in Upper Income Areas and 16% in High Net Worth areas.

The gap between the segments is not large though, with Lower Income Area stock constraints probably being prevented from getting too extreme, despite stronger demand, by stronger building activity at this end than in the higher income segments.

CONCLUSION

Therefore, in short, when examining the FNB Estate Agent Survey by Income segment, we continue to see the Lower Income segment's sample of agents being more upbeat on activity than the segments further up the income/price ladder. After having shown some significant catch up through 2012 by the Upper Income and High Net Worth Area segments, 2013 to date appears to have seen the gap in market fundamentals between these 2 segments and the 2 lower priced area segments widening once again, as activity level ratings accelerated more strongly in the Lower and Middle Income Segments.

Indeed, not only in terms of activity levels but in terms of other market indicators, too, especially the Lower Income Area segment has shown a noticeable improvement. These improvements include a steady rise in "selling in order to upgrade", the most impressive decline in "selling in order to downscale due to financial pressure" off a very high base since 2009, and declines in both the average time on the market as well as the percentage of sellers having to drop their asking price.

So, in short, the Lower Income Area segment appears to possess the most solid market fundamentals of the 4 income segments, followed closely by Middle Income Areas. One must sound the necessary cautions, however. The Lower Income segment can be more extremely affected by economic and interest rate cycles both in a negative way in bad times and in a positive way in good times. Currently, abnormally low and stable interest rates play more into the hands of the Lower Income Area segment than is the case for the higher income end, and the results are showing in this segment's superior performance, it would appear. But the recent solid performance by this segment does not necessarily mean that its superiority is sustainable once the interest rate cycle turns. That will depend on how households are using (or not using) this period of low interest rates to adjust their "balance sheets".