

FNB 1st QUARTER 2011 ESTATE AGENT SURVEY

- An interesting time, where demand strengthens but supply appears to be easily keeping up



FNB PROPERTY MARKET ANALYTICS

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1. SUMMARY – THE 1st QUARTER FNB ESTATE AGENT SURVEY

From a property owner/investor's point of view, one would typically want to see a strong market, which implies that demand is strong relative to supply of residential stock. This relative shortage of residential stock would then lead to solid capital growth of the asset, a strong contributing factor to total financial return on one's property. Unfortunately, the past few years have not seen any meaningful capital growth, due to generally weak demand relative to supply.

In the past two quarters, the FNB Estate Agent Survey once again began to show estate agents perceiving strengthening housing demand, which may be largely seasonal as is customary in the summer season, but which may also be partly due to two further interest rate cuts by the Reserve Bank (SARB) late in 2010. So, from an agent residential demand activity rating of 5.66 (scale of 1 to 10) in the 3rd quarter of 2010, the level has increased to 6.07 in the 1st quarter of 2011. The agents surveyed in the 1st quarter also reported a very significant increase in the number of viewers at their show houses that they perceived to be "serious buyers".

However, it has become interesting, with the agents surveyed simultaneously report a significant lengthening in the average time of homes on the market prior to sale, from a previous 15 weeks and 6 days to the 1st quarter's 19 weeks and 1 day, as well as an increased percentage of sellers having to ultimately drop their asking price to make the sale, from a previous 80% to 85% in the 1st quarter. This may suggest that stronger demand has not yet led to an improved market balance, possibly because it is being matched by stronger supply of residential stock on the market.

The evidence that we have of stronger supply is perhaps not yet solid, but there are signs. For one, our FNB Valuers as a group have on average been giving stronger supply ratings in their valuation reports in recent months. As for the estate agents, after an increase in the percentage of survey respondents reporting "stock issues" (constraints) from late-2009 and through the winter of 2010, that percentage declined noticeably in the summer 2010/11 quarters, i.e. the 4th quarter of 2010 and the 1st quarter of 2011.

In addition, when examining the various reasons for selling, we sense that there is evidence of improved supply of stock coming to the market too. The evidence lies in the fact that agents have reported an increase in the percentage of what we call "selling for non-negative reasons". These reasons are "selling in order to downscale due to life stage (e.g. retirement or kids leaving home), selling in order to upgrade, selling in order to re-locate to elsewhere in SA (mostly for better job opportunities), and selling in order to move closer to work or amenities. We believe that a greater portion of such categories of sellers are not in a rush to sell, compared to those selling in order to downscale due to financial pressure for instance, and thus are possibly more willing to bide their time, coming out of the woodwork in larger numbers when they perceive it to be a relatively good time to sell.

Recently, a significant increase in sellers selling for "non-negative" reasons suggests to us that there has perhaps been an improvement in the confidence that sellers have in their ability to get their price, bringing an increased number of aspirant sellers out of their hiding places.

This apparent development on the supply side is all part of the long residential market healing process. One should expect that, after an improvement in demand there should at some stage be an improvement in seller confidence as well. However, this event would also serve to slow the pace of return to a better market balance, with a better market balance ultimately being reflected in a significantly shorter average time of properties on the market along with a smaller percentage of sellers having to drop their asking price. It would also be likely to delay the return of respectable growth to house prices. Such is the long slow nature of the residential property market recoveries – patience required.



How can we help you?

2. INTERESTING TIMES - THE 1ST QUARTER FNB ESTATE AGENT SURVEY POINTS TO A RISE IN DEMAND, BUT POSSIBLY A SIMULTANEOUS RISE IN SUPPLY OF PROPERTY ON THE MARKET.

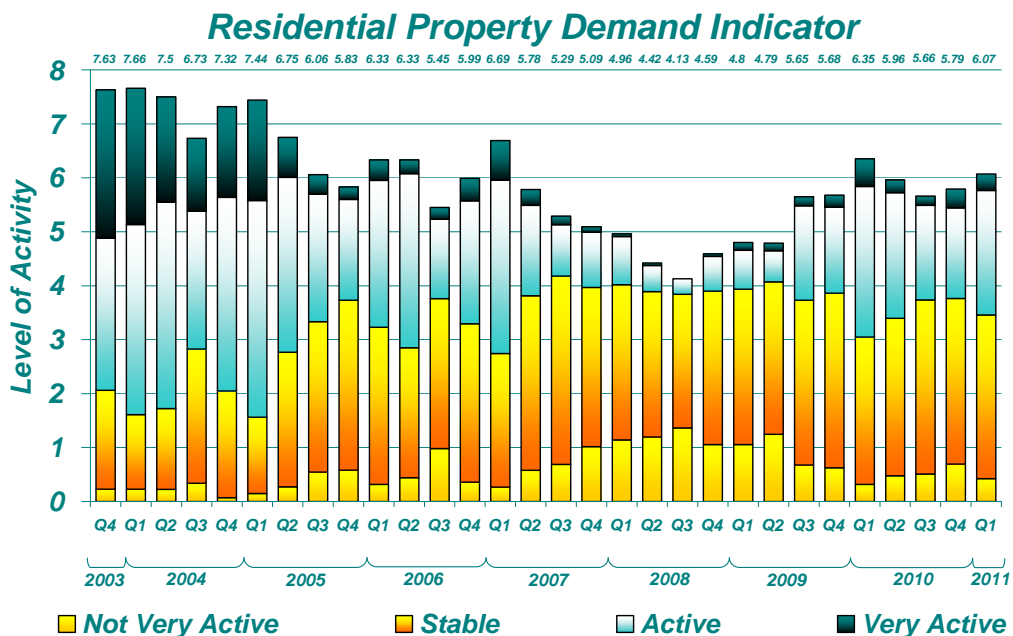
Residential demand strengthens further in the 1st Quarter of 2011

It is probably normal to spend most of our time focusing on the strength of demand in the residential property market, and less time on the strength of supply. When interest rates decline, and demand strengthens as a result, we often tend to assume that the market should strengthen, or otherwise put that price growth should accelerate. Not necessarily. The interplay between demand and supply is what drives home price trends, not merely demand alone.

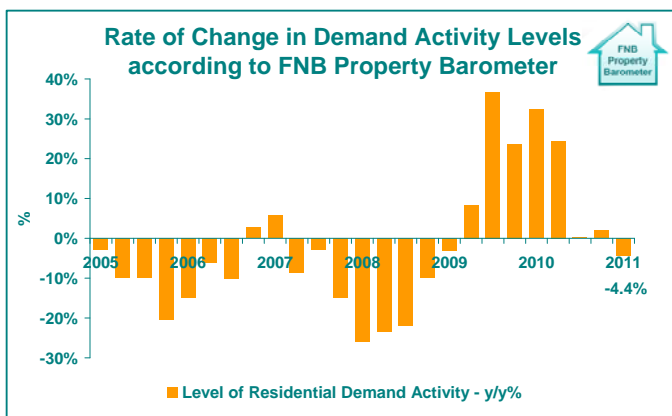
Our FNB Valuers, in their subjective ratings of demand and supply, have recently been pointing towards some mild strengthening in residential demand, but also a simultaneous strengthening in residential supply. This implies that, in their view, the supply-demand imbalance in the market (with supply being stronger than demand) has not been improving as of late.

Now, in a different way, the FNB Estate Agent Survey for the 1st quarter of 2011 may be pointing towards the same phenomenon. Is it possible that would-be sellers waiting for "the right time" have become a little more confident of achieving the price that they desire, and are starting to place their homes on the market in larger numbers? The survey suggests that in the summer months this may have been the case.

When asking the panel of agents surveyed for their perceptions of residential demand strength, on a scale of 1 to 10, they estimated an average of 6.07 in the 1st quarter. This is up from the previous quarter's 5.79, and represents the 2nd successive quarter of increase. The 1st Quarter survey was done in February 2011.



The summer months, excluding the December holiday period, can tend to be period of higher activity than the winter months, so one must always interpret with caution. Nevertheless, one would think that the two 50 basis point interest rate cuts in September and November, by the SARB, should have provided some mild support over and above the seasonal factors.

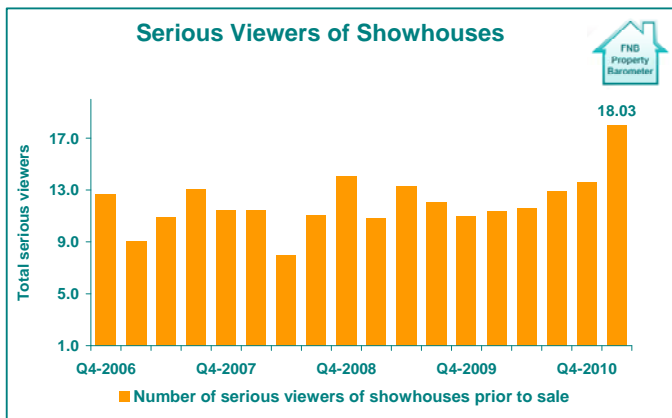


In an attempt to eliminate seasonal factors, we calculate the year-on-year percentage change in the demand activity ratings. Here, the recent improvement in demand strength appears less impressive, and could possibly have been largely seasonal, with a year-on-year decline of -4.4% in the 1st quarter coming on the heels of a very mild year-on-year strengthening of +1.9% in the previous quarter. Bear in mind, though, that the 1st quarter of 2010 demand activity reading created a high base for a year-on-year calculation, having represented the "mini-cycle" peak at 6.35.



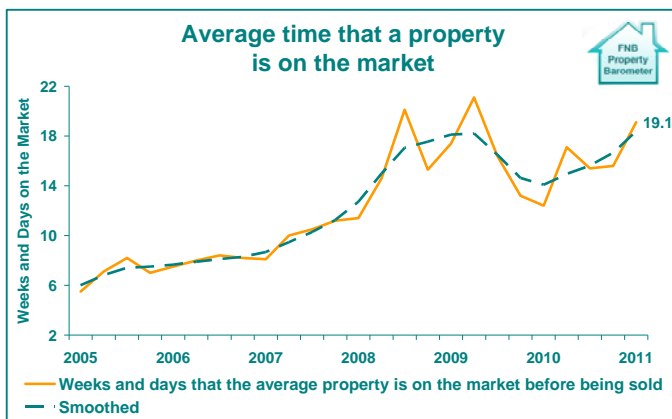
How can we help you?

A jump in the reported number of serious viewers suggests that the increase in interest in property was more than just seasonal



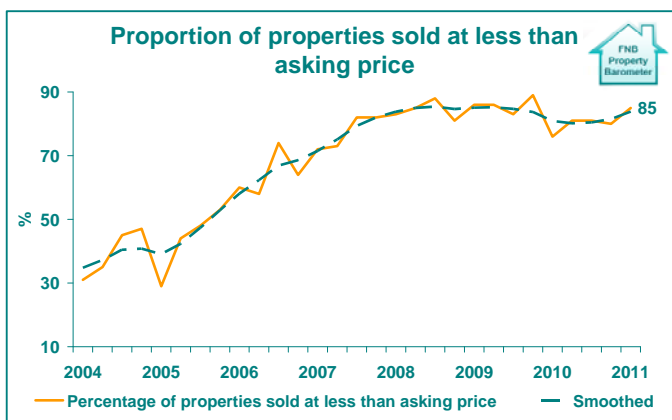
What makes it appear possible that there has been some genuine strengthening in demand over and above the normal seasonal factors, is that the agents report a noticeable increase in interest in their show houses by "serious viewers". In the survey, we ask the panel of agents to indicate the estimated number of viewers, that they deem to be serious about buying, that go through their show houses prior to the home being sold. This, therefore, excludes people that are coming to view the home purely out of curiosity. The agents reported a marked increase in the average number of serious viewers, from a previous quarter's 13.57 buyers to 18.03 buyers in the 1st quarter. While possibly indicating greater interest in buying homes, this does not necessarily translate into more rapid sales. It is possible that tougher financial times have made many potential buyers more discerning, implying that they shop around for longer before buying.

But despite stronger demand, the supply-demand imbalance appears to have simultaneously deteriorated



Indeed, the notion of the emergence of a more discerning buyer may have some merit if one looks at the average time that a home is on the market prior to being sold. One would perhaps assume that stronger demand for property would lead to a decline in the average time on the market, as stronger demand leads to greater competition amongst buyers for homes on the market, which in turn should lead to homes being sold at a faster pace. Not so at present, says the panel of agents surveyed. To the contrary, the estimated average time that a home stays on the market prior to being sold rose to 19 weeks and 1 day in the 1st quarter survey, up from a previous quarter's 15 weeks and 6 days.

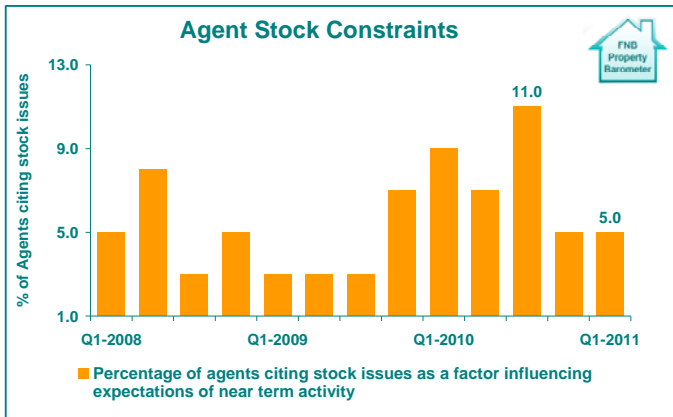
While it is also possible that there are some seasonal factors in the average time on the market estimates, and that the holiday period slowed things down temporarily, the fact is that the estimated average time on the market has been on a broad rising trend ever since early-2010, after the 1st quarter of last year where it reached a low of 12 weeks and 4 days.



Simultaneously, the 2nd indicator of unrealistic pricing or oversupply, i.e. the percentage of sellers required to drop their asking price to make the sale, also behaved in a manner that one would not always anticipate in a period of residential demand strengthening. From the already-high 80% recorded in the previous quarter, the estimated percentage of sellers having to drop their asking price rose to 85% in the 1st quarter survey.

The average drop in asking price for those having to drop was -12% in the 1st quarter, slightly more than the -11% for the previous quarter, but the variation is insignificant and has fluctuated between -11% and -12% since we started this question at the beginning of 2010.

Supply of residential stock may also be strengthening



So, what then of supply? Is it playing a role in perpetuating the "imbalance" in the market". The Estate Agent Survey doesn't have any specific quantification of supply of stock to the market. However, an implicit indicator is found when we question agents as to the factors that influence their near term expectation of activity in the market. As at the 3rd quarter of 2011, 11% of respondents cited stock issues (constraints) as a factor contributing to their expectations. That dropped to 5% for the 4th quarter of 2010 and the 1st quarter of 2011. It would appear, therefore, that there was a noticeable rise in the number of agents that reported stock constraints from the 4th quarter of 2009 to the 3rd quarter of 2010, but during the summer months of 2010/11 this had subsided.

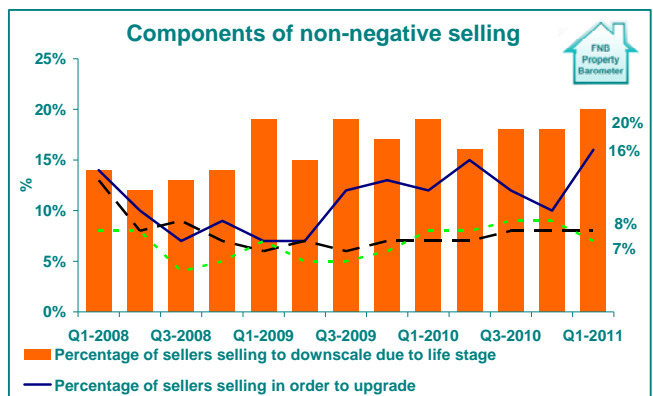
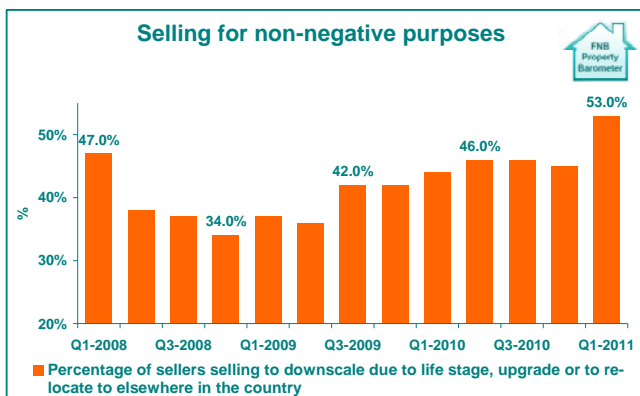
Supply may be being boosted by increased seller optimism, implying increased numbers of sellers who are not in a hurry entering the market

If supply is indeed being boosted, is it possible that a group of people with the intention to sell, but who are perhaps not in too much of a hurry, has now decided to enter the market as a seller in greater numbers, on the back of perceptions that the market has become more of a sellers market and that they have a better chance of getting the price they desire? This is a possible reason for explaining less agents reporting stock issues during the past 2 quarters despite rising demand.

It is possible that sellers who are perhaps not in a rush to sell would largely be those selling properties for what we call "non-negative" purposes. The 4 reasons for selling that we label "non-negative" are "selling to downscale due to life stage (i.e. retirement or kids leaving home), "selling in order to upgrade (normally reflecting financially strong households undertaking what is largely "non-urgent" selling/buying)", "selling in order to re-locate to elsewhere in SA (largely done for better job opportunities), and selling in order to move closer to work or amenities. These reasons for selling contrast to the "negative" reasons for selling, i.e. downscaling due to financial pressure, emigrating, moving for safety reasons, or selling due to a change in family structure (e.g. divorce, death). These negative reasons are perhaps more "essential", and thus may not be as cyclical, with selling for negative reasons thus more inclined to take place regardless of the state of the market, through necessity. The "negative" sellers, as a group, appear to be more stable through the cycle, increasing in percentage of total sales when volumes are thin, and decreasing in significance when overall volumes improve.

The graphs below appear to support this notion, with sellers selling for "non-negative" reasons amounting to a mere 34% at the end of 2008, around the time when sales volumes reached rock bottom, but having since increased their reported share noticeably to 53% by the 1st quarter of 2011. Also noticeable has been a very significant quarter-to-quarter jump in this seller category in the 1st quarter of 2011, from 45% previous to 53%.

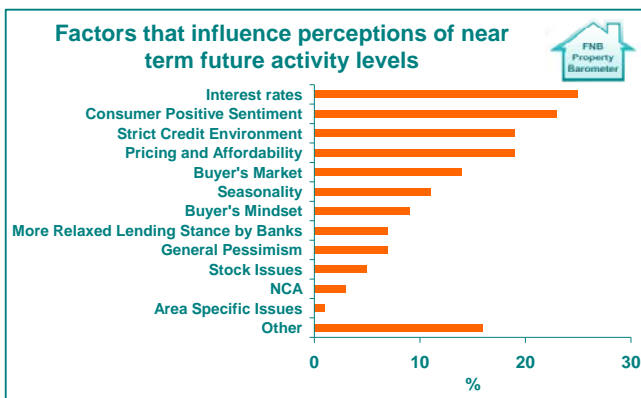
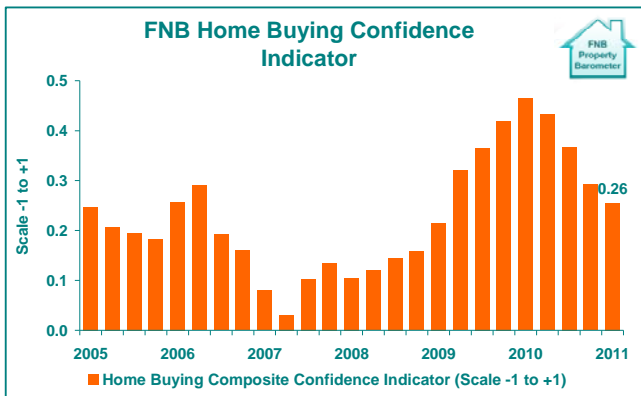
Examining the components of "non-negative" reasons for selling, the noticeable quarter-to-quarter increases took place in the reported percentage of sellers selling in order to upgrade, as well as sellers selling in order to downscale due to life stage.



Reasons for selling (As % of Total Sales)	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Q1-2011
Downscaling due to financial pressure	15%	22%	26%	26%	26%	34%	28%	24%	20%	20%	25%	17%	22%
Downscaling with life stage	14%	12%	13%	14%	19%	15%	19%	17%	19%	16%	18%	18%	20%
Emigrating	12%	18%	20%	14%	11%	8%	6%	7%	7%	7%	6%	10%	4%
Relocating within SA	13%	8%	9%	7%	6%	7%	6%	7%	7%	7%	8%	8%	8%
Upgrading	14%	10%	7%	9%	7%	7%	12%	13%	12%	15%	12%	10%	16%
Moving for safety and security reasons	12%	12%	8%	10%	11%	11%	11%	11%	12%	14%	10%	12%	12%
Change in family structure	12%	10%	13%	14%	14%	13%	12%	16%	16%	14%	13%	15%	11%
Moving to be closer to work or amenities	8%	8%	4%	5%	7%	5%	5%	6%	8%	8%	9%	9%	7%

Outlook – Agent expectations in the near term

The FNB Home Buying Confidence Indicator attempts to capture agents expectations of the near term. In each agent survey, we ask them whether they expect activity in the market to increase, decrease, or remain the same in the next 3 months. In order to eliminate expectations driven by seasonal factors, we use a 4-quarter moving average in which a "increase" response gets a rating of 1, "unchanged" gets a zero, and "decline" gets a rating of -1. We see that the peak of agent confidence was for the 4 quarters up to and including the 1st quarter of 2010, understandable given the huge interest rate cuts that took place from late-2008 to August 2009. The 1st quarter 2011 rating represents further decline from the previous quarters, but is not a bad rating by historic levels. More than representing weak expectations by agents, its current level arguably represents the expectation of a "settling" down of the market after the biggest improvements in demand took place late in 2009 and early-2010. To give one an idea of what we mean, the majority, i.e. 56%, of agents surveyed in the 1st quarter expected activity to remain unchanged, compared to 40% anticipating further strengthening and only 4% expecting weakening. This is still a good result, but moderated from the 3rd quarter 2009 survey when as many as 61% of respondents were expecting strengthening.



The list of factors influencing estate agent expectations of near term activity sees interest rates still ranking as most important. The currently low interest rates are overwhelmingly seen as a positive factor, as is positive consumer sentiment. Banks' credit criteria, however, continue to be seen as the "spoiler", with deposit requirements being seen as especially troublesome. Pricing and affordability appears split both ways, with some seeing prices as still unrealistic and others believing that realism has improved. The response regarding a longer average time on the market along with a higher percentage of sellers having to drop their asking price, however, still tends to point towards a lack of realism.