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# PROPERTY BAROMETER

## FNB Estate Agent Survey by Segment still points to relative strength at the lower-priced end, although all segments have shown some demand weakening.

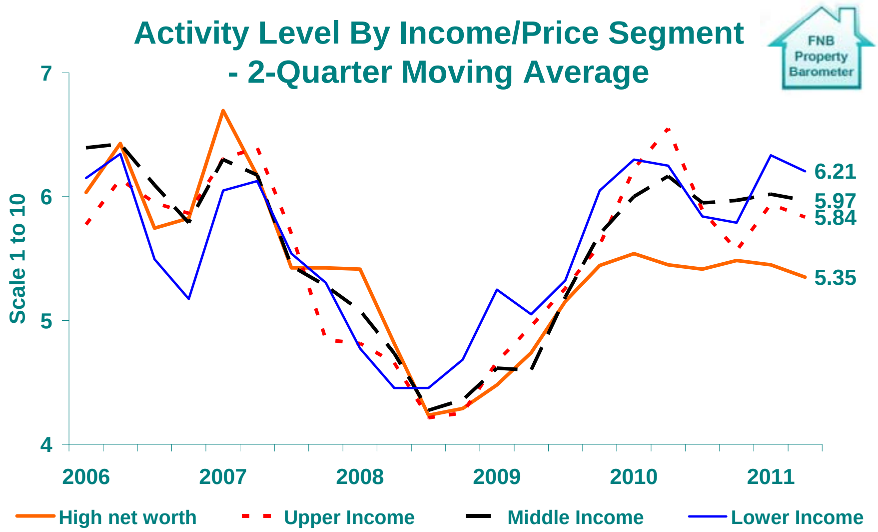
***The FNB Estate Agent Survey for the 2nd quarter of 2011, broken down into 4 income segments, shows slower demand in all 4 segments compared with the previous quarter, but continues to show a relatively stronger market the further one goes down the price ladder towards the lower end. The same is broadly true when comparing our estimates of house price growth trends by area value band.***

### 1. FNB ESTATE AGENT SURVEY BY SEGMENT POINTS TO LOWER PRICED SEGMENTS EXPERIENCING STRONGER DEMAND THAN THE HIGHER INCOME SEGMENTS

The FNB Estate Agent Survey by income segment, for the 2nd quarter of 2011, continues to show agents surveyed in "Lower Income" areas being the most optimistic in terms of their perceptions of demand strength in their areas*. The survey asks agents to place the areas that they serve into one of 4 categories, i.e. High Net Worth areas (average price = R2.68m), Upper Income areas (average price = R1.8m), Middle Income areas (average price = R1.21m), and Lower Income areas (average price = R599,000). As one moves up the income area ladder, agents surveyed become less optimistic, with agents in the High Net Worth areas having been consistently the least optimistic through 2010 and the 1st half of 2011.

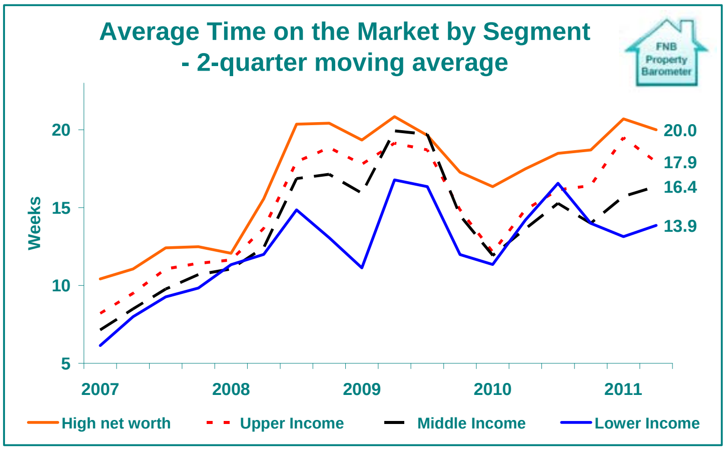
We make use of 2-quarter moving averages when depicting segment results, in order to boost sample size. For the 2 quarters to the 2nd quarter of 2011, the Middle Income demand rating (on a scale of 1 to 10) came out at 6.21, followed by Middle Income areas on 5.97. Upper Income area agents gave a rating of 5.84, while High Net Worth area agents were significantly lower on 5.35. All 4 segments' ratings are down on the previous quarter.

Through 2010 and 2011, the High Net Worth segment's demand rating has been noticeably weaker than the other 3 segments, whose ratings are more closely grouped together.

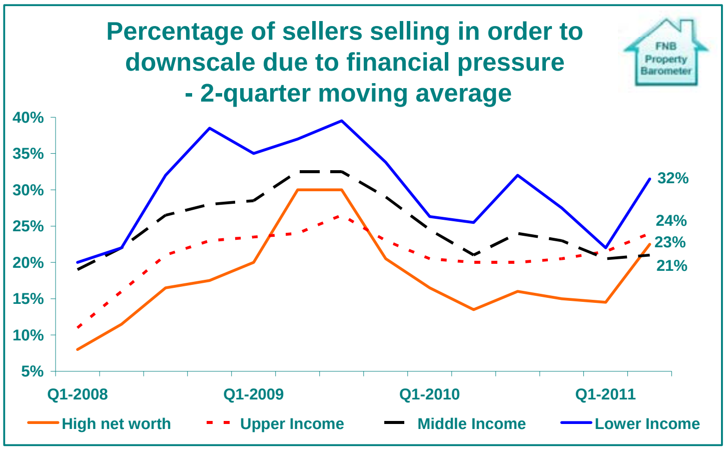


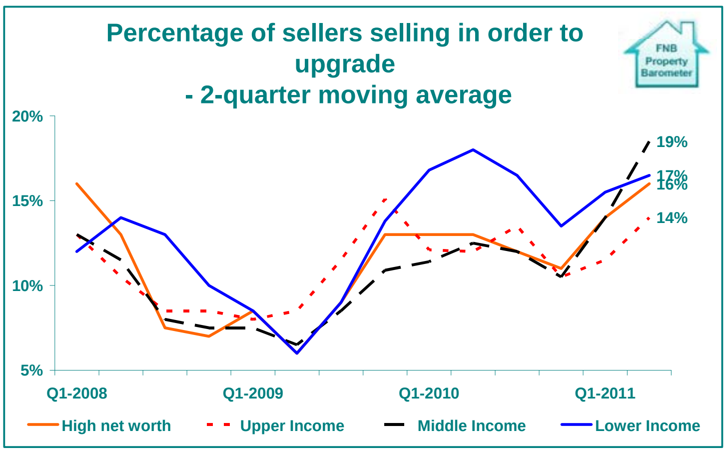
## 2. DEMAND-SUPPLY BALANCE APPEARS BEST AT THE LOWER PRICED/INCOME END

*Using the average time of homes on the market prior to sale as a proxy for the balance (or imbalance) between demand and supply, the 2 higher priced segments once again show a weaker situation than the more affordable two. One must interpret this result with caution however, as higher end homes do typically have a longer time on the market even in healthy times. However, we did see a noticeable widening in the gap between the average time of the Lower Income segment (the only segment to have shown a decline in average time on the market since about a year ago) at the one end of the spectrum, and the High Net Worth segment at the other, late in 2010, before some mild narrowing in the most recent survey. High Net Worth segment homes average an estimated 20 weeks on the market for the 1st 2 quarters of 2011, Upper Income segment homes 17.9 weeks, Middle Income homes 16.4 weeks, and Lower Income homes 13.9 weeks.*




## 3. FINANCIAL "HEALTH" APPEARS BEST IN THE MIDDLE INCOME SEGMENT




*In 2011, agents almost across the board may be implicitly pointing to the distribution of wealth between households shifting more significantly. We say this because what is observed is significant increases in the percentages of sellers selling in order to downscale due to financial pressure, but simultaneously a very significant increase in the percentage of sellers selling in order to upgrade.*

*The income segment whose members as a group now appear most financially healthy, according to the survey, is the Middle Income segment.*

*We say this because from the 1st quarter to the 2nd quarter, this segment's percentage of sellers selling in order to downscale due to financial pressure remained virtually unchanged at 21%. Simultaneously, this segment has had a massive estimated increase in the percentage of sellers selling in order to upgrade from 11% at end-2010 to 19% in the 2nd quarter of 2011. Therefore, the segment's estimated upgrading percentage is now almost on par with the financial pressure-related downscaling.*

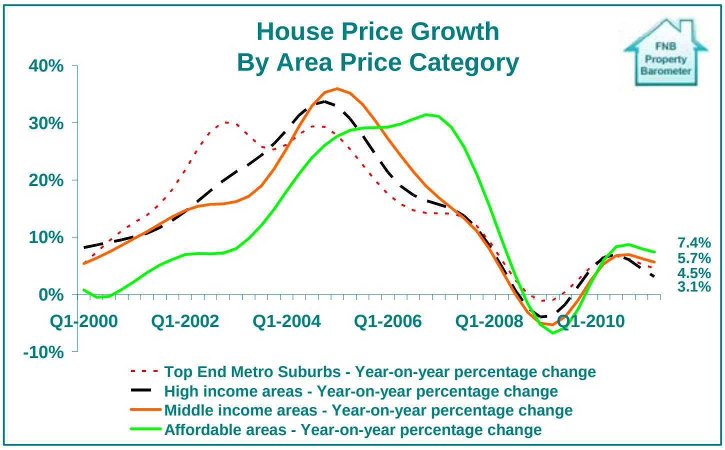
*The other 3 segments all have significantly more estimated downscaling than upgrading, the High Net Worth segment having 23% downscaling versus 16% upgrading, the Upper Income segment 24% downscaling versus 14% upgrading, and the Lower Income segment a massive 32% downscaling versus 17% upgrading.*

*However, the Lower Income segment has a significantly greater slice of the 1st time buyer market to give it support, and offset a possible greater level of financial stress than the higher segments..*

### *4. PRICE TRENDS BY SEGMENT*

*FNB has created its own 4 area value band indices for residential-dominated areas in the 6 major metros, grouped according to average prices of areas, and using Deeds data for transactions by individuals in the 6 major metro regions with which to estimate these.*

*Since the peak in the "relief rally" (or mini-recovery) that we saw in the 1st half of 2010, estimated house price growth in all four of our Major Metro area value band indices has shown a tapering off.*




*Broadly speaking, however, the better price growth since early-2010 has been in the lower priced value bands with average area values below R1m. On a year-on-year basis, Affordable Areas' (average price = R376,974) average price grew by 7.4%, and Middle Income Areas' (average price = R724,136) average price by 5.7% in the 2nd quarter of 2011.*

*By comparison, the two higher priced area value bands registered slower price growth, with Upper Income Areas (average price = R1.092m) showing 3.1% year-on-year growth and the Top End areas (average price = R1.889m) showing 4.5% increase.*

***Comment: The slightly "odd band out" was the Upper Income Area Band, in the sense that it showed price growth slightly weaker than the Top End, partly breaking the pattern of "the higher the weaker". Raw data volatility can always play a role in any index, so one must allow some "leeway". However, it may point towards this market segment's supply improving more significantly than others in recent times. If one examines the average time on the market by segment, one sees a noticeable increase in the average time on the market of what estate agents term the "Middle Income" segment in their own classification for the survey. This segment, according to the agents, has an average price of R1.21m and is thus reasonably comparable with our own-defined Upper Income area value band (average price = R1.092m), narrowing the gap between itself and the higher segments' declining average times, with a rise to 16.4 weeks in the 2nd quarter. This is a possible explanation, but a few more quarters' survey results and deeds data are probably required before drawing conclusions.***

*Nevertheless, when one examines our estimates of price trends by area value band, although price growth rates are grouped closely together these days the price trend picture seems broadly consistent with what the agents are reporting in the survey, with. the two highest value bands showing the slower price growth compared to the 2lower value bands whose average values are below R1m. That broadly ties in with the Estate Agent Survey story.*

### *5. CONCLUSION*

*Following the summer quarters, where the benefits of two late-2010 interest rate cuts were still being felt along with positive seasonal factors, the 2nd quarter Estate Agent Demand Ratings weakened across all 4 income segments.*

*When examining the relative performances of the 4 income segments, it probably comes as little surprise in these tough financial times that the more affordable end of the market shows higher demand ratings by agents.*

*Examining FNB's estimates of price trends by area value bands, a broadly similar relative picture emerges, with the higher priced bands showing slower price growth than the value bands with average prices below R1m.*

**Note: In the FNB Estate Agent Survey, we ask a sample of agents to provide a subjective rating of residential demand strength in their areas. The rating is on a scale of 1 to 10, with 10 being the strongest.*