FNB HOME BUYING ESTATE AGENT SURVEY – 2nd QUARTER 2012

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The FNB Estate Agent Survey shows mild slowing in the residential market in the 2nd quarter of 2012, but not a strong sense of direction at this stage.

ESTATE AGENTS POINT TO SLOWER DEMAND IN THE 2ND QUARTER

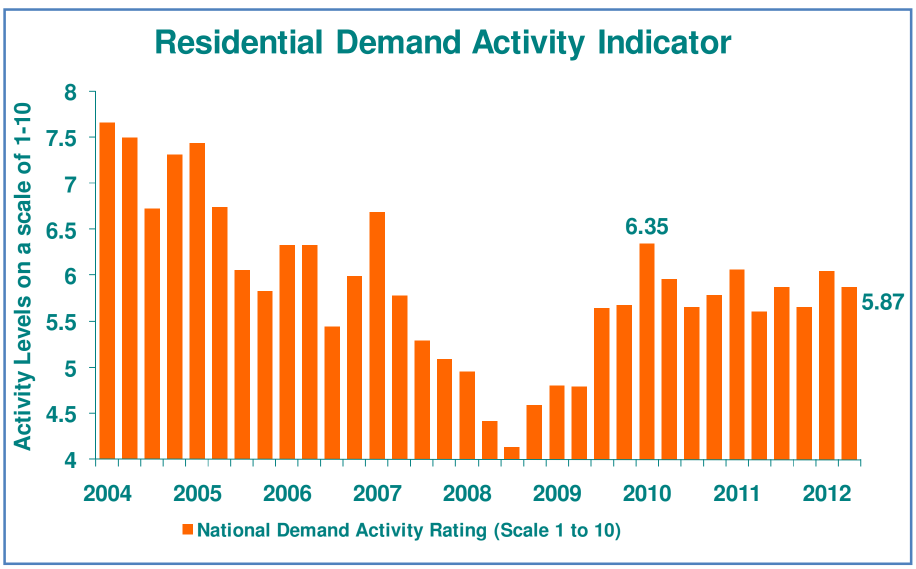
The 2ND Quarter 2012 FNB Estate Agent Survey, completed in the month of May, came out with a slightly more negative view of the domestic residential property market than the preceding quarter. However, important to bear in mind is that seasonal factors can play a significant role, and the 2nd quarter survey often comes out weaker than the 1st quarter, as the country heads into the winter period.

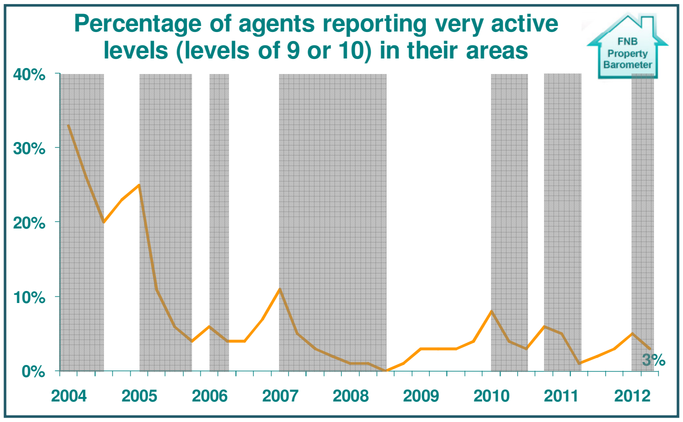
The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential demand in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of demand.

The 2nd Quarter Residential Demand Activity Indicator declined mildly from the previous quarter's 6.05 to 5.87.

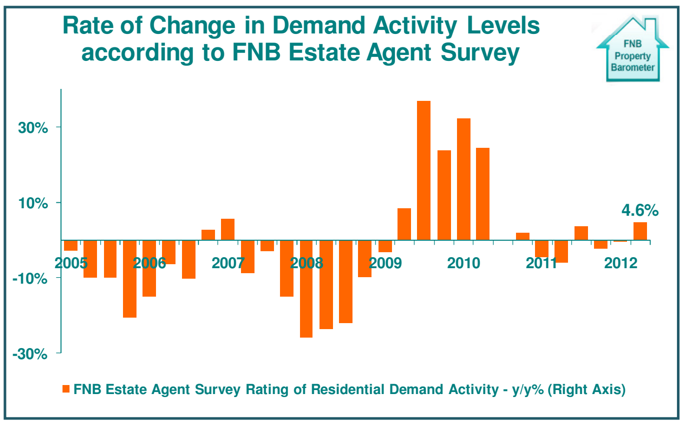
This level still remains firmly in the "stable" bracket (a level from 4 to 6), the other brackets being "not very active (1 to 3), "positive" (7 to 8) and "very active (9 to 10)

Recently, South African economic indicators have pointed to some slowing in the economy, after a period of relative strength in the summer quarters. However, while a slowing economy may have some dampening impact, some care should be taken with interpretations, as the 2nd quarter is generally a weaker seasonal period than the 1st quarter.





The percentage of agents reporting their areas to be at "very active" activity levels, i.e. 9 or 10 ratings, remains relatively low, and has declined from 5% in the previous quarter to 3% in the 2nd quarter of 2012. This decline comes after 3 preceding quarters of increase from mid-2011.



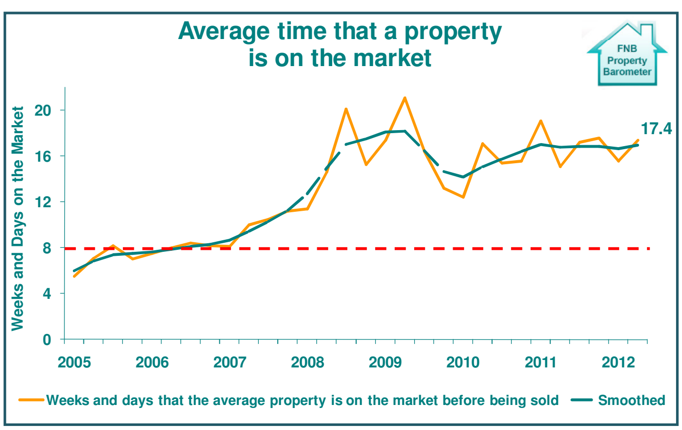
Although year-on-year percentage change in the demand activity rating, i.e. the 2nd quarter of 2012's reading compared to the 2nd quarter a year ago, can't show very recent momentum changes, it does help to view demand changes in this way because seasonal factors are eliminated.

The demand activity rating in the 2nd quarter of 2012 was 4.6% higher than the 2nd quarter of 2011's level. While not overly-impressive, the year-on-year improvement does tie in with the FNB House Price Index's year-on-year growth direction, which has also accelerated since late-2011 to mid-2012.

ESTATE AGENTS SUGGEST THAT THE BALANCE OF DEMAND RELATIVE TO SUPPLY MAY HAVE WEAKENED SLIGHTLY IN THE 2nd QUARTER

Other indicators emanating from survey suggest that there was a deterioration in the balance between demand and supply in the residential market, from the 1st quarter to the 2nd quarter of 2012, something that is not only driven by demand slowing but by availability of stock for sale as well.

In order to examine the balance between supply and demand, or otherwise put the level of pricing realism in the market, the Estate Agent Survey asks agents to estimate the average time that properties remain on the market in their areas prior to being sold.

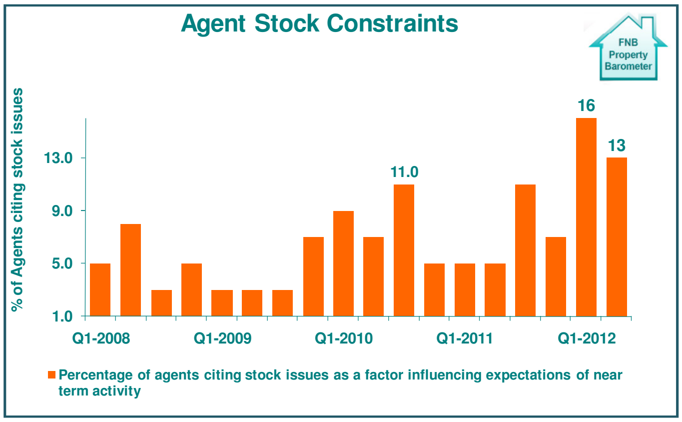


In the 2nd quarter, this average time on the market rose from the previous quarter's 15 weeks and 6 days to 17 weeks and 4 days. It must be borne in mind that this estimate can be volatile from quarter to quarter, but the smoothed trend line that we have created, using a statistical smoothing function, also rose slightly in the 2nd quarter.

This is a disappointing development, and although the winter seasonality begins to play a role, the reality is that we have made only marginal progress in improving the market balance since 2009.

17 weeks and 4 days remains too long to represent a healthy market, and judging from the healthier *market days prior to 2008, a level nearer to 8 weeks (2 months) on the market appears to be the benchmark for a "healthy" market, so there remains some way to go.*

RESIDENTIAL SUPPLY MAY BE SLIGHTLY LESS CONSTRAINED COMPARED TO THE 1ST QUARTER



Trying to gauge the strength of supply of residential stock through asking survey respondents for their opinion is admittedly a tall order. 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. In the 2ND quarter of 2012, we continued to see a significant percentage, i.e. 13%, of agents citing stock constraints as an issue. However, this percentage was a little down from the 16% peak registered in the previous quarter.

This hints at a slight weakening in the balance in the market, when read with the previous indicator, i.e. the average estimated time of a property on the market

INTERESTINGLY, WHILE PROPERTIES ARE STAYING ON THE MARKET LONGER, AGENTS REPORT SLIGHTLY LESS PRICE DROPS IN THE 2nd QUARTER

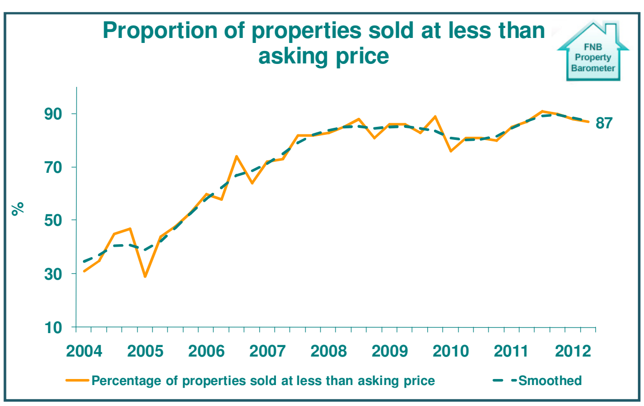
Despite agents pointing to a longer period of properties on the market, which is often seen as a good indicator of pricing realism in the market by sellers, they simultaneously point towards a very slight improvement in two other indicators of pricing realism.

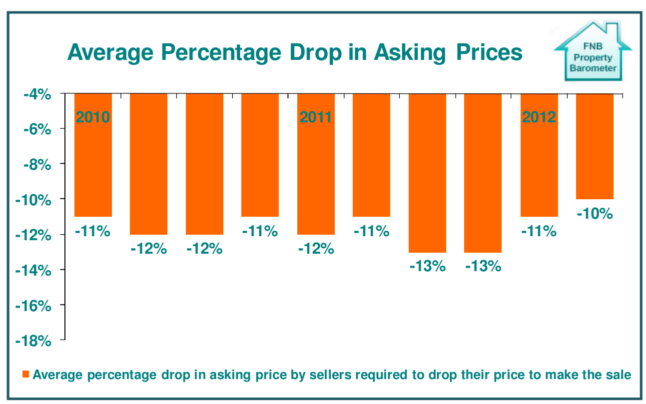
The percentage of properties sold at less than asking price was 87%, according to the survey, which was a slight improvement on the previous 2 quarters' 90% and 88% respectively.

Furthermore, we 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 drop also moderated mildly from -13% in the 2nd half of 2011 to -10% by the 2nd quarter of 2012.

These quarter to quarter moves are not yet significant, and can perhaps be merely due to data volatility. But the direction of their slight moves does nevertheless go against what one would expect, given a longer average time on the market and slower demand. One plausible explanation is a possible increase in seller confidence, the lagged impact of a stronger market earlier in 2012, which may perhaps be causing more sellers not to "give in" by dropping their price, and this may in turn be causing the slightly longer average time on the market. But we'll need another quarter or two's worth of data to ascertain whether these small moves in 2nd quarter data points are something more than data volatility, because the moves are very small.

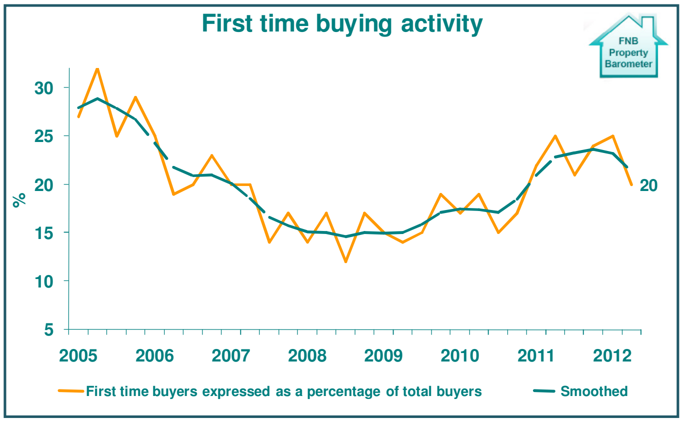
More important is that still a very high percentage of sellers ultimately do have to drop their asking price, thus still pointing to a widespread lack of pricing realism. In addition, these seemingly "contradictory" moves in these 2 variables point to a market which currently doesn't have a strong sense of direction.





THE MORE CYCLICAL 1ST TIME BUYER COMPONENT OF RESIDENTIAL DEMAND HAS WEAKENED IN THE 2ND QUARTER

1st time buyer demand tends to be more cyclical than the total market. This is arguably because many young buyers have more flexibility than established households, being able to delay their own formation of a new household by remaining in their parent's home for longer during tougher property and economic times, or by often remaining in a rental property for longer.

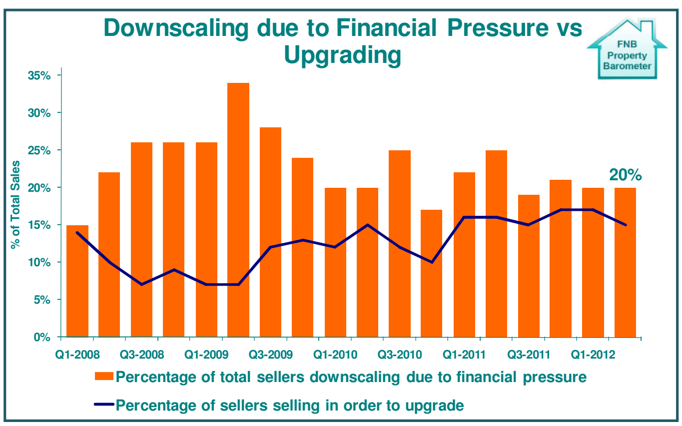


The level of 1st time buying, therefore, is also a good indicator of whether market conditions are improving and, given this group's high dependence on credit, possibly also an indication of whether credit is becoming easier to obtain.

And after a steadily improving trend in the 1st time buyer percentage from the 2008 low, it has begun to appear as if this percentage has been flattening out and perhaps starting to decline a little. From 25% in the 1st quarter, the 2nd quarter 1st time buyer percentage declined to 20%. From quarter to quarter this percentage can be volatile. However, the smoothed trendline has also begun to decline slightly.

ON THE SELLING SIDE, AGENTS STILL SEE SIGNIFICANT FINANCIAL STRESS-RELATED SELLING

Our survey respondents continue to point to significant financial pressure amongst households. When asked to provide an indication of the reasons as to why people are selling their properties, in the 2ND quarter they estimated that 20% of sellers were selling in order to downscale due to financial pressure. This is unchanged from the previous quarter, and remains a very high number.

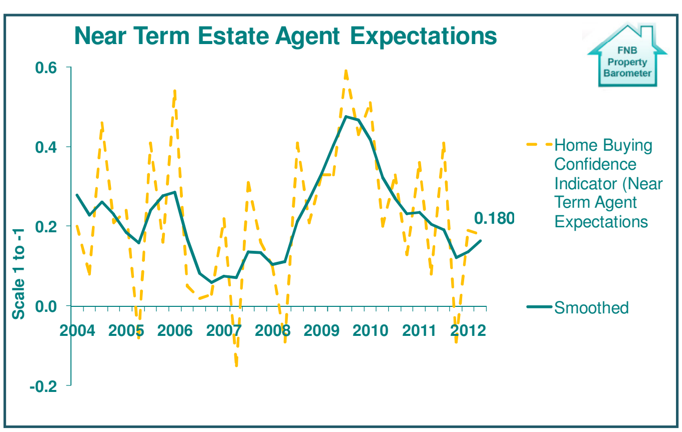


This arguably needs to be read in conjunction with the percentage of sellers selling in order to upgrade, which declined mildly from 17% of total sellers in the 1st quarter to 15% in the 2nd quarter.

These 2 reasons for selling are arguably the 2 most important indicators in the survey of financial pressure/constraints experienced by homeowners. The gap between the two has closed significantly since early-2009, but the level of downscaling due to financial pressure remains high.

HOW AGENTS SEE THE NEAR TERM OUTLOOK

In terms of expectations of demand in the near term, the 2ND quarter agent survey returned a mediocre response, which could perhaps be expected as we head into the winter quarters.

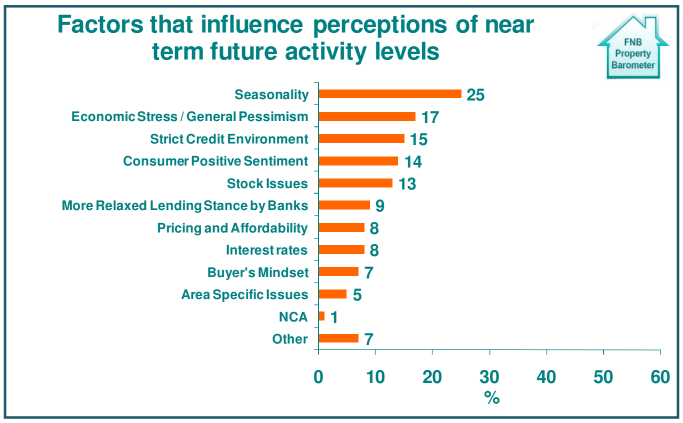


We ask them for their expectations of residential demand strength in the near term, i.e the three months subsequent to when the survey takes place, requesting them to choose between 3 options, namely the market will "strengthen", "weaken", or "remain the same".

In the 2nd quarter survey, only 30% of respondents expected an increase in demand levels in the 3rd quarter of 2012. This is admittedly up from the lowly 26% recorded in the 1st quarter, but against this, we also had an increase in the percentage of agents expecting a decrease in demand levels, from a previous of 7% to 12%, implying a decline in the percentage of agents expecting demand to remain stable from 67% to 58%.

This all translates into a very slight decline in the Home Buying Confidence Indicator from a previous of 0.19 to 0.18 (on a scale of 1 to -1). Some decline in near term expectations would not be out of place in a 2^{nd} quarter survey, given a typically weak winter season looming at the time of survey (May).

The smoothed trendline on the Home Buying Confidence Indicator was still trending slightly up in the 2^{nd} quarter, reflecting 2 past quarters of improved expectations compared to late-2011. This reflects a generally better agent sentiment in the 1^{st} half of 2012,compared with late-2011, arguably as a result of a better summer period after a very weak economic and housing market winter 2011 period, which appeared to still be dampening agent confidence as at late-2011. However, the current level of the confidence indicator remains not too different from the low levels of 2008. Agent expectations are thus currently mediocre at best.



When asking agents for the factors influencing their near term expectations, seasonal factors come up as the most common factor, with the winter typically a weak period.

However, ignoring seasonal factors, the next 2 most important factors cited by agents is that of "Economic Stress/Pessimism" and "strict credit environment".

Still a significant 13% of agents cite "stock issues" (constraints) as an issue, generally perceived as negative for agents, who need homes to turn over.

A lesser percentage of agents cite "consumer positive sentiment" and "more relaxed lending" criteria of banks.

Therefore, although still a little higher than late-2011 lows, the Confidence Indicator of expectations in near term market direction is not significantly higher than 2008 levels.

IN SUMMARY – AGENTS POINT TO MILD WEAKENING IN THE RESIDENTIAL MARKET, MUCH OF IT PROBABLY SEASONAL. BUT FINANCIAL STRESS IS STILL SIGNIFICANT, AND A SIGNIFICANT PERCENTAGE PERCEIVE A WEAK ECONOMY TOO

The FNB Estate Agent Survey is a useful tool with which to gain insight into residential market trends first hand, because estate agents experience changes in the market arguably before any of the other market role players.

In the 2^{ND} quarter Estate Agent Survey, the overall impression gained from the sample of agents surveyed is one of mild weakening in the market. This is to be expected as we move into winter, with seasonal factors playing a key role.

The question is, will the weakening prove to be more than just seasonal factors? Is a weakening economy starting to play a role too? It is tough to tell at this stage. The demand activity rating still remains higher in the 2^{nd} quarter of 2012, than in the corresponding quarter a year ago when annualized economic growth slumped to a mere 1%. However, seasonal factors aside, the next most cited influence of agent near term expectations was "Economic Stress/General Pessimism", which suggests that there may be some influence of recent economic weakness creeping in. Indeed, the summer 2011/12 period showed relatively solid quarter-on-quarter annualized economic growth rates of 3.2% and 2.7% for the final quarter of 2011 and 1^{st} quarter of 2012 respectively. But recent high frequency economic indicators have been pointing towards global and local economic slowing. But how much has this affected the market to date?

Agents do, also, still point towards a very significant level of financial pressure, which manifests itself in a still-high percentage of sellers downscaling due to financial pressure, and this should be a concern given that interest rates offer huge relief at their current multi-decade lows.

Finally, the agents surveyed continue to harbor moderate expectations regarding near term future activity, with the level of the Estate Agent Confidence Indicator, which reflects agent near term expectations of market direction, not significantly higher than 2008 levels..