

29 August 2012**PROPERTY BAROMETER
–REGIONAL MIGRATION TRENDS REVIEW**

Western Cape continues to outperform the other 8 provinces in terms of its ability to attract repeat home buyers from other provinces.

JOHN LOOS:
**HOUSEHOLD AND PROPERTY
SECTOR ECONOMIST**
011-6490125
John.loos@fnb.co.za

CLINTON MARTLE:
PROPERTY LEADER STRATEGIST
021-480 8117
clintonm@fnb.co.za

KUTLWANO MAPHAPHO
STATISTICAL ANALYST
011-632 0477
kmaphapho@fnb.co.za

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SUMMARY

Over the years, the competitiveness of economies has been a key focus of economists, both of national economies as well as of regional and even city economies. In services-dominant economies such as South Africa's, the ability to attract skilled labour is crucial, because skills drive such economies. As such, an indicator of a country or region's ability to attract and retain skilled migrants is arguably one useful indicator of a region's "economic competitiveness". We believe that looking at residential property transactions can provide such an indicator.

In recent years, The FNB Estate Agent Surveys have been used to gather information regarding agents' views of why people sell property, and the results have been broken down into major metro regions. Regional differences in survey results, regarding the reasons for selling homes, can often be interpreted as representing differences in perceptions and confidence levels of the group of home owners with regard to their various regions. The surveys are dominated by middle and upper income suburbs, so these groups generally represents the skilled and highly-skilled echelons of society, and are thus influential in driving the regional economies.

Our survey results in major metros over the past year-and-a-half (since the beginning of 2011) continue to point to relatively strong levels of long term confidence being shown by the property sellers of the City of Cape Town.

This does not mean that the region's inhabitants showed superiority in terms of their financial position, nor does the region's property market show the strongest price growth at present.

It also does not mean that the region's residents don't see key problem areas. During this period, the estimated percentage of Cape Town residents selling in order to re-locate due to safety and security issues was the same as Joburg's estimate, as well as being level with the coastal metro average.

However, the indicators of long term confidence in the region that we refer to relate to the level of emigration-related selling of property, "semi-gration"-related selling and foreign buying in the region. In these areas, Cape Town remains impressive relative to the other major cities surveyed.

The city has the 2nd lowest emigration selling rate of the major cities, i.e. 2.7% of total sellers selling in order to emigrate over the 1.5 year period analysed, according to the estimates of the sample of agents surveyed, which is higher only than Pretoria. But when it comes to sellers selling in order to re-locate to another part of SA ("semi-gration"), Cape Town is noticeably lower than all of the other major cities with a percentage of 5.7%. To complete the picture, agents are asked to estimate the number of foreign buyers of a region's properties expressed as a percentage of total buying. Here again, Cape Town consistently has a higher percentage of foreign buyers than the rest of the major metros, i.e. 5%.

So, as intimated already, the emigration and semi-gration reasons for selling, along with foreign buying, can be regarded as important indicators of confidence in a region. Given that many people vote with their feet, Deeds data offers us the opportunity to further gain an indication of a region's attractiveness by trying to quantify the migration of people between regions, in this case between provinces. For this purpose, we identify all purchases by individuals where there is a corresponding sale by the same individual within 12 months either side of the purchase. The bulk of these "repeat buying" transactions are within the same province, but a portion of these purchases, 17.4% in 2011, were in a province other than where the corresponding sale took place, and this figure represents our estimate of the year's inter-provincial re-location rate or, alternatively put, the "repeat buyer semi-gration" rate.

It isn't an exact science, as some holiday property buying may "interfere", while 1st time buyers who have re-located do not get included into this figure. Nevertheless, we believe it to be a good indicator of a large portion of semi-gration flows.

The 2011 total inter-provincial repeat buyer flow rate was very similar to the 17.6% of 2010.

Breaking it down by province, we found the Western Cape to have the lowest outbound re-location rate of 10.7% of total repeat buyers, followed by Gauteng with 14%. The smaller provinces had the worst rates of outbound migration, with the highest estimated to be Mpumalanga on 33.9% followed by the Northern Cape with 33.1%.

On a net migration basis, i.e. repeat buyers entering a province minus those departing, it was only the Western Cape that saw positive or "net inward" migration to the tune of +9.7% of total repeat buying. Next best were Eastern Cape and Gauteng with slight "net outbound" migration rates to the tune of -0.4% and -0.6% respectively. Gauteng, Eastern Cape and North West were the only 3 provinces who saw some mild improvement in their net migration rates in 2011.

The Western Cape's 2011 net migration performance is very much "more of the same", with the province having had the best net inward migration for the past decade or more. This should be a key source of long term support to its economy, providing it with the potential to have superior long term economic growth to most other regions. Has this been the case of late? Well, according to StatsSA estimates, for the 10 years from 2001 to 2010 the Western Cape was only slightly behind the top performing Gauteng, with an average annual real economic growth rate of 3.77%, compared to Gauteng's 3.91%, making the country's 2 major economies the top 2 growth performers.

While Gauteng's net migration rate of repeat buyers is considerably weaker than the Western Cape, we suspect that it probably has a superior inward migration rate of 1st time buyers from other regions, made up of younger people starting out on their career paths. We believe this probably to be the case because Gauteng remains by far the largest economic region and thus the one with the greatest economic opportunities.

What also comes out of the Estate Agent Survey is that a lower percentage of Gauteng outbound semi-grants leave the region for work purposes, suggesting a greater proportion of its departures possibly being retirees or semi-retirees. Gauteng's skills loss may thus not be as significant as what its net repeat buyer migration estimates would suggest.

Therefore, we believe that the country's 2 major provincial economies, Gauteng and the Western Cape, appear to be leading the race to attract and retain skilled labour, with the Western Cape appearing significantly better off than Gauteng in attracting the more lifestyle-driven repeat buyers, but we suspect Gauteng has the advantage in attracting the more career-driven 1st time buyers. So these 2 regions lead the others in terms of economic opportunity, the key driver of skills migration, while the Western Cape has the added advantage of a higher perceived quality of life.

While relatively good economic and perceived superior lifestyle opportunity have made it one of the most competitive in terms of attracting skills, this ability in turn has arguably led to the Western Cape experiencing longer term economic growth not far behind that of Gauteng in recent years, and superior to the remaining 7 provinces. This can still further enhance its ability to attract skilled migrants to the region in future. The Western Cape's key challenge is to grow in an environmentally sound way, because its natural environment is a key part of its attractiveness with the region lacking in mineral resources.

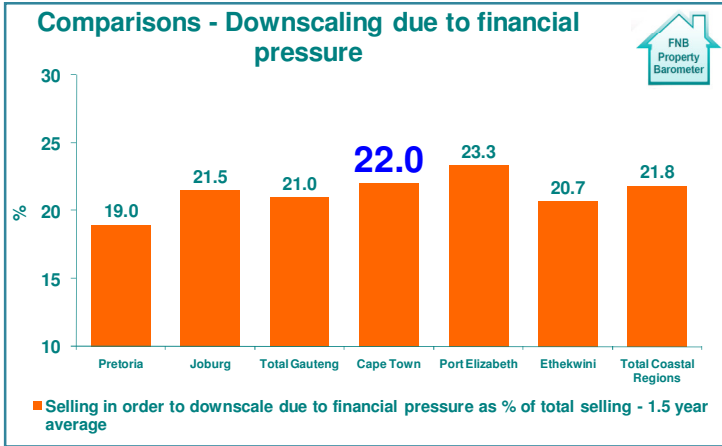
What is also clear is that certain of the minor provinces have very significant net outward migration rates, Mpumalanga being the worst, suggesting steady skills losses in those provinces, and it is thus not surprising that their economic growth performances are generally weaker than the Big 4 provinces (Gauteng, Western Cape, KwaZuluNatal and the Eastern Cape). These smaller provinces may therefore find it increasingly difficult to grow their economies and provide jobs in future.

DETAILED RESULTS OF THE INTERPROVINCIAL MIGRATION MONITOR.

While not coming out tops in terms of household financial strength, the Western Cape province fares best in terms of indicators of long term positive sentiment towards the province.

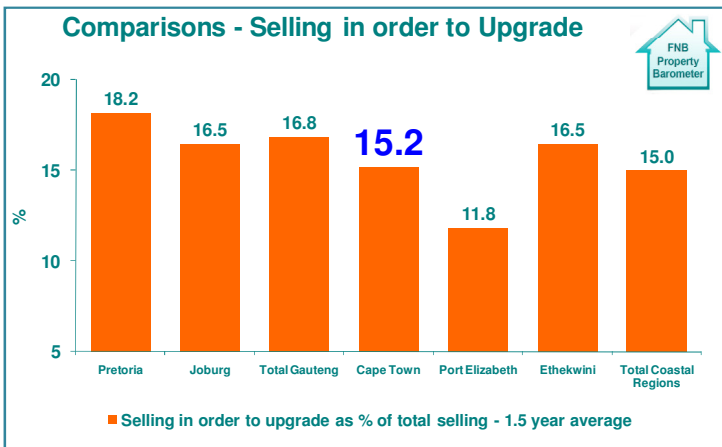
The FNB Estate Agent Surveys of recent years have been used to gather information regarding agents' views of why people sell property, and the results have been broken down into major metro regions. In some sales categories, significant regional differences in survey results can be interpreted as representing differences in perceptions and confidence levels of the group of residents that trades formal sector homes within those regions. This group generally represents the more skilled echelons of society, and is thus influential in driving the regional economies. The survey results in major metros over the past one-and-a-half years (2011 and 1st half of 2012) point to still-high levels of financial pressure on the residents of the City of Cape Town. However, they also indicate stronger long term confidence in the region being shown relative to the property sellers of the other major metropolitan regions.

The key survey findings are as follows:

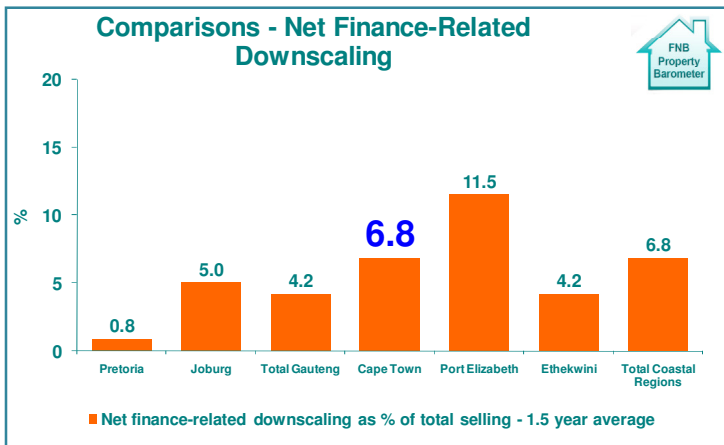


Over the past 1.5 years, estate agents perceive the City of Cape Town's household sector financial health to be relatively weak, though not far out of line with other major cities.

Selling in order to downscale due to financial pressure has averaged 22% of total selling, with only Port Elizabeth (PE) being estimated to have a higher percentage by its own sample of agents that we surveyed.

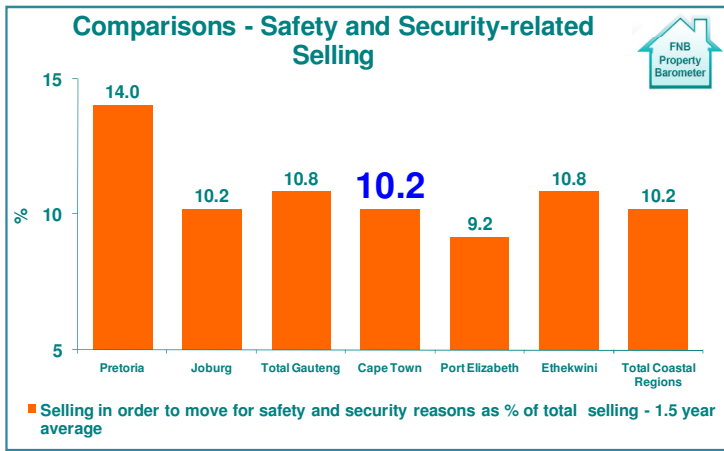


Cape Town estimated selling in order to upgrade, at 15.2%, was slightly lower than Joburg, Tshwane and Ethekekwini.



Netting downscaling due to financial pressure from selling in order to upgrade (the two reasons for selling related to financial weakness or strength), City of Cape Town's financial health appears to have been mildly weaker than all of the major cities except Port Elizabeth over the past 1.5 years

"Net Selling in order to downscale due to financial pressure" was 6.8% in Cape Town, higher than all major cities except Port Elizabeth.



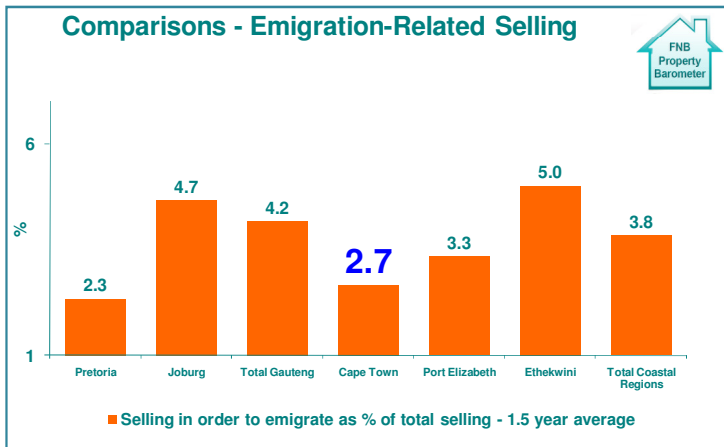
From the agent survey, apart from Pretoria's very high level, it would still appear that there is little to choose between the major cities in terms of perceptions of homeowners regarding safety from a crime point of view.

Cape Town's estimated home **selling in order to re-locate within the region** for safety and security reasons was 10.2% of total selling over the past 1.5 years. This is on a par with the Joburg estimate, significantly below Pretoria, slightly less than Ethekwini, but higher than Port Elizabeth's 9.2%. In this category, Pretoria appears to be the troubled city.

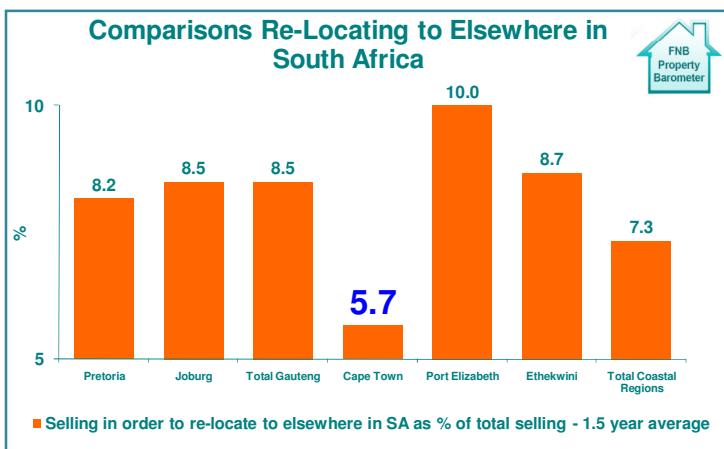
Indicators of long term confidence and perceptions regarding major metro regions

While above indicators are important in terms of gauging a region's current health, better indicators of long term confidence in a region are to be found in those measuring people departing to or arriving from other parts.

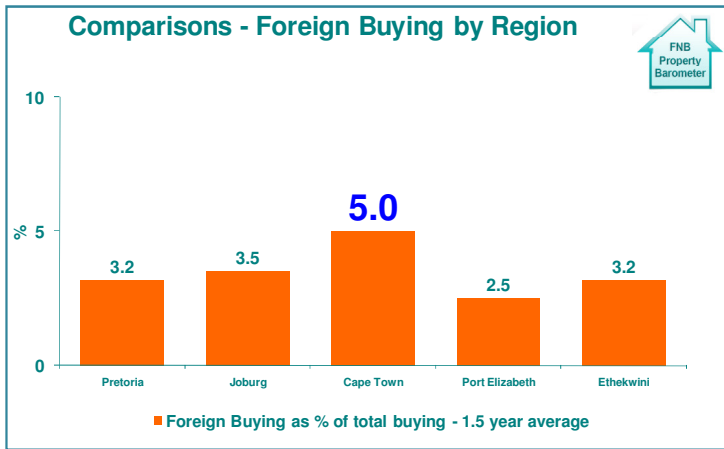
When it comes to selling in order to leave a city for another part of the country, or to emigrate, Cape Town's home owners appear to show above average longer term confidence in the region.



Cape Town has the 2nd lowest emigration selling rate behind Pretoria, which would be to a large degree reflective of how its residents perceive the long term future, future opportunity, and quality of life.



A relatively low average estimated rate of selling in order to re-locate to elsewhere in SA, at 5.7% of total selling, also appears to say much about the region's ability to provide career opportunities, along with perceived lifestyle.



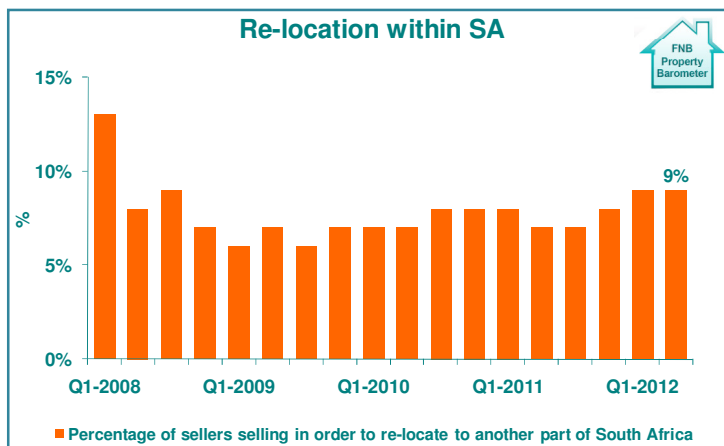
According to the estate agents surveyed, over the past 1.5 years Cape Town has also been the metro attracting the largest portion of foreign buying at 5% of total Cape Town buying, which speaks about external perceptions towards the region.

Therefore, Over the past 1.5 years the reasons for selling suggest that the Cape Metro, like other cities, still suffers from very significant financial pressure. Reported selling patterns also reflect perceptions of a very significant crime rate. However, its residents, along with foreign buyers, appear to have above average confidence in the region's long term future, if the estimated reasons for selling are to go by. It's strong points include:

- the 2nd lowest rate of emigration selling
- the Lowest rate of selling in order to re-locate to another part of the country
- It also has the highest percentage of foreign buying

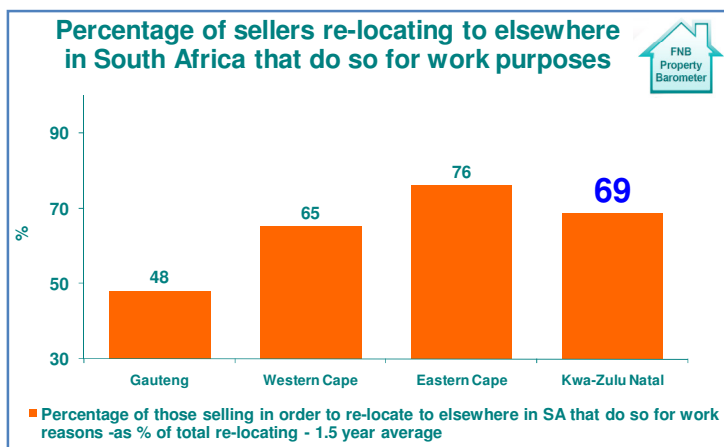
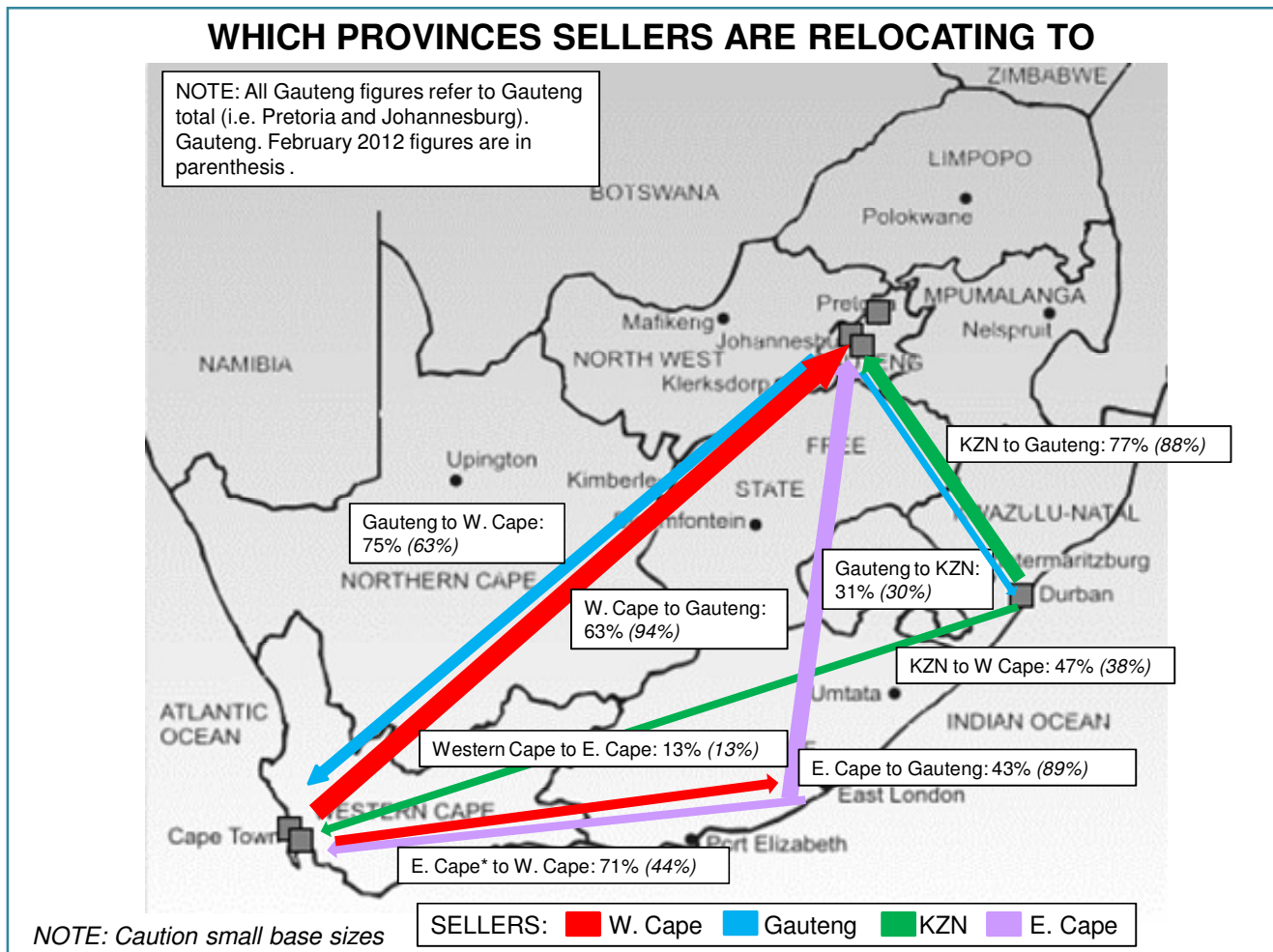
Put all of this together with the fact that the Western Cape is the country's 2nd largest provincial economy, thus offering very significant economic opportunities, as well as the perception of a good lifestyle, and this should be the recipe for a relatively good rate of migration to the region by, and retention of, the more skilled echelons of society. In terms of economic opportunity, given its sheer size, Gauteng remains a key draw card for skilled people, but Western Cape sellers indicate that their region has the edge in terms of longer term confidence and perceived lifestyle.

In 2012, estate agents from all the major cities surveyed, indicated a mild increase in selling in order to re-locate to elsewhere in South Africa



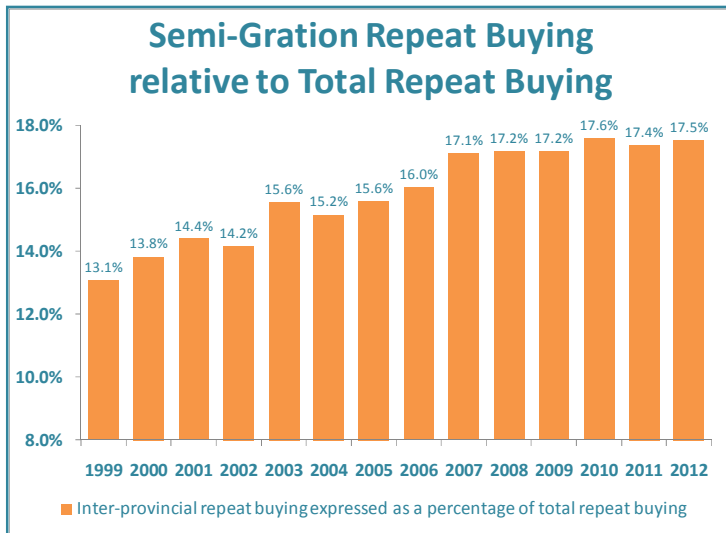
From a low of 6% of total sellers at a stage of 2009, hampered by recession, selling in order to re-locate to elsewhere in South Africa, from all regions surveyed, reportedly rose to 9% of total selling by the 1st and 2nd quarters of 2012, a lagged reflection of better economic times since the recession of 2008/9.

We asked our panel of agents as to where the key re-location destinations were, and given that the bulk of re-locating is for job purposes, it came as little surprise that the largest percentages of agents cited one or more of SA's major metro provinces. The map shows the percentage of agents citing each of the major metro provinces as a key re-location destination in the most recent 2nd quarter 2012 survey. **Note that the total percentage of agents need not add up to 100%. Agents can cite more than 1 key destination. Figures in parenthesis are the previous quarter's survey percentages.** For Western Cape "semi-grants", most agents cite Gauteng as the big destination, while Gauteng agents see the Western Cape as the single-biggest destination for that province's semi-grants.



Of those sellers selling in order to re-locate to another region of SA, the majority do so for work reasons, with the second strongest motive being retirement. Here, Gauteng's superiority in terms of economic opportunity is visible, with only 48% of its outbound sellers believed to be leaving for work-related reasons. On the other hand, combine the Western Cape's lowly outbound semi-grant rate with the agent estimate that a significantly higher 65% of selling is for work-related purposes, and this all points to a perceived higher quality of life. The 2 other coastal regions, i.e. KZN and the Eastern Cape, also show relatively high rates of re-location for work purposes.

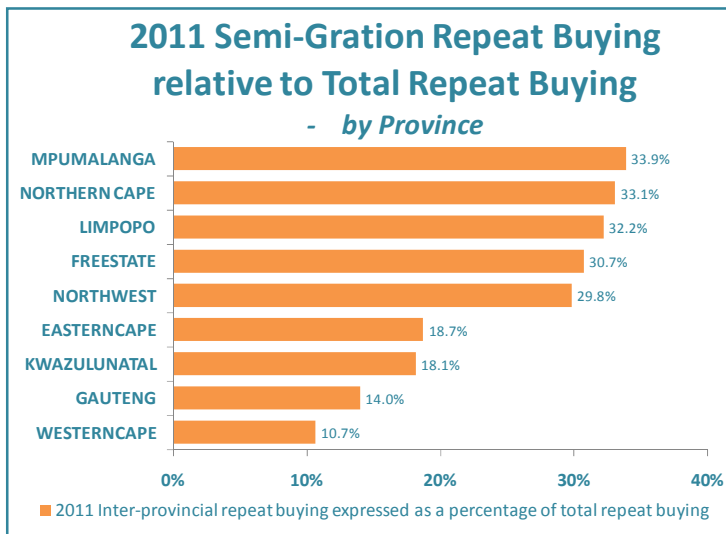
So how do people vote when using their feet? We estimate numbers of “semi-grants” between provinces using DeedsData



Deeds data offers us the opportunity to try to quantify the migration of people between regions, in this case between provinces. For this purpose, we identify all purchases by individuals where there is a corresponding sale by the same individual within 12 months either side of the purchase. The bulk of these “repeat buying” transactions are within the same province, but in 2011 17.4% of these purchases were in a province other than where the corresponding sale took place (and 17.5% in the initial stages of 2012 up until April). This figure is our estimate of the year’s inter-provincial repeat buyer re-location rate or, alternatively put, the “semi-gratation” rate of repeat buyers. It isn’t an exact science, as a portion of holiday buying may “infiltrate the numbers”, while 1st time buyers who have re-located do not get included into this figure. Nevertheless, we believe it to be a good indicator of

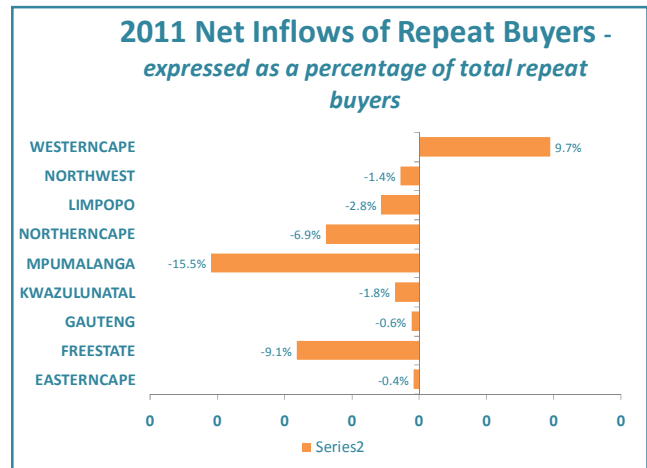
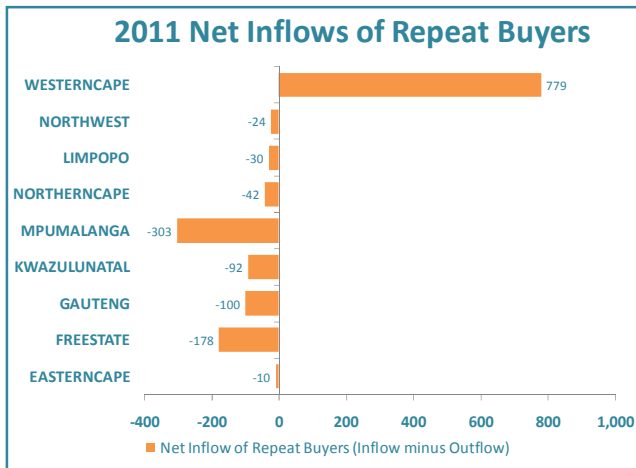
a large part of the country’s skilled semi-gratation flows.

The 2011, the total national inter-provincial flow rate was slightly higher than the 17.6% of 2010, although the difference is insignificant. More significant is that there has been a broad long term upward trend in the percentage of repeat buyers moving between provinces, since the near-13% at the end of the 90s, suggesting increasing labour mobility.

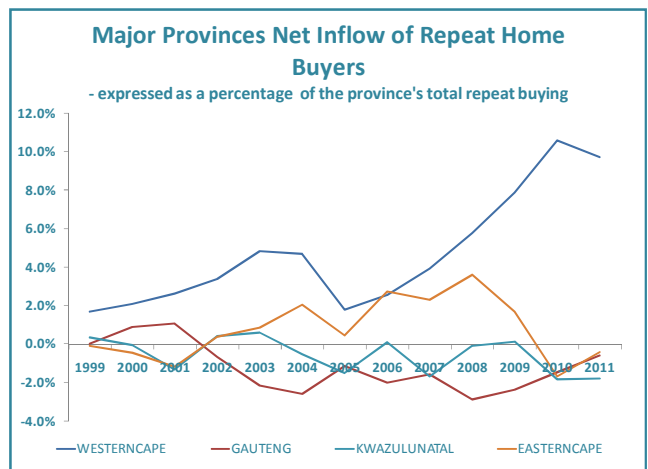
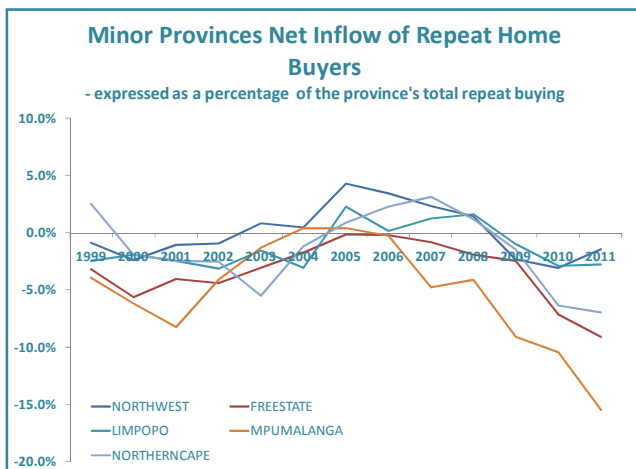


Breaking it down by province, at 10.7% of total repeat buyers in 2011, it would appear that the Western Cape had the lowest outbound migration of “repeat buyers” to other provinces. Gauteng is estimated to have the 2nd lowest outbound rate of repeat buyers at 14%, and KZN and Eastern Cape in 3rd and 4th place.

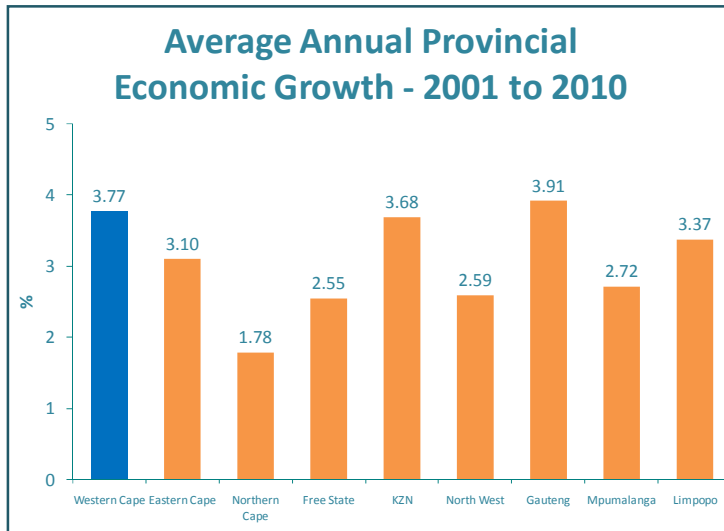
However, it is on a net migration basis where the Western Cape's superior competitiveness really starts becoming apparent. On a net migration basis, i.e. repeat buyers entering a province minus those departing, it was only the Western Cape that saw positive or "net inward" migration to the tune of +9.7% of total repeat buying. Next best were Eastern Cape and Gauteng with slight net outbound migration rates of -0.4% and -0.6% respectively.



Of the major provinces, Gauteng and the Eastern Cape saw slight improvements in their net migration rates, the Western Cape saw a slight deterioration, while KZN remained virtually unchanged. Some of the smaller provinces, notably Mpumalanga, Free State and Northern Cape have seen significant deteriorations in their net outward migration rates since the end of the economic boom around 2008, and these levels can be troublesome in terms of their future ability to grow their economies.



SUPERIOR SKILLS ATTRACTION APPEARS TO HAVE SUPPORTED IMPRESSIVE LONG TERM ECONOMIC GROWTH FOR THE WESTERN CAPE, WHICH IS ONLY SLIGHTLY BEHIND SA'S MAJOR ECONOMY, GAUTENG, OVER THE PAST DECADE.



We believe that repeat home buyer interprovincial migration estimates are a good indication of a region's economic competitiveness, and that the Western Cape comes out very much on top in this regard in recent years. The Western Cape's 2011 net migration performance is "more of the same", having had the best net inward migration of repeat buyers for the past decade or more. This should be a key source of long term support to its economy, providing it with the potential to have superior long term economic growth to other regions.

In recent years, its growth performance has indeed been superior to all expect one, i.e. Gauteng.

According to StatsSA's estimates, for the 10 years 2001 to 2010, the Western Cape experienced average annual real economic growth of 3.77, slightly lower than Gauteng's 3.91%, but higher

than all of other 7 provinces.

While Gauteng has a weaker net repeat buyer migration rate, agents suggest that a lower percentage of its sellers leave for work purposes, which may mean less of a productive skills drain than the overall outward migration rate suggests. In addition, we suspect that Gauteng has a superior inflow of skilled aspirant 1st time buyers, although we can't prove that here.

CONCLUSION

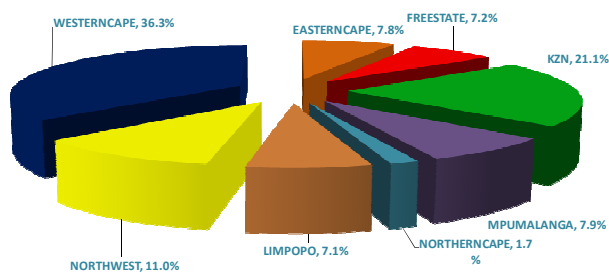
Therefore, we believe that the country's 2 major provincial economies, Gauteng and the Western Cape, appear to be leading the race to attract and retain skilled labour, with the Western Cape appearing significantly better off than Gauteng in attracting the more lifestyle-driven repeat buyers, but we suspect Gauteng has the advantage in attracting the more career-driven 1st time buyers (not visible in our repeat buyer stats). These 2 regions lead the others in terms of economic opportunity, the key driver of skills migration, while the Western Cape has the added advantage of a higher perceived quality of life.

While relatively good economic and perceived superior lifestyle opportunity have made it one of the most competitive in terms of attracting skills, this ability in turn has arguably led to the Western Cape experiencing longer term economic growth not far behind Gauteng in recent years, and superior to the remaining 7 provinces. This can still further enhance its ability to attract skilled migrants to the region in future. The Western Cape's key challenge is to grow in an environmentally sound way, because its natural environment is a key part of its attractiveness with the region lacking in mineral resources.

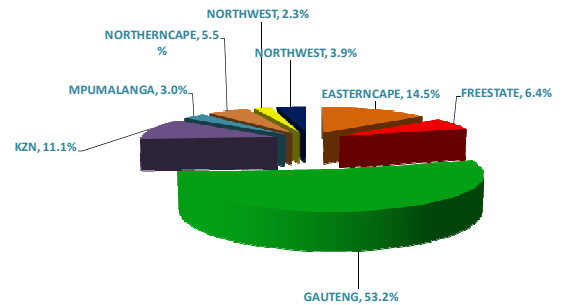
What is also clear is that certain of the minor provinces have very significant net outward migration rates, Mpumalanga being the worst, suggesting steady skills losses in those provinces, and it is thus not surprising that their economic growth performances are generally weaker than the Big 4 provinces (Gauteng, Western Cape, KwaZuluNatal and the Eastern Cape). These smaller provinces may therefore find it increasingly difficult to grow their economies and provide jobs in future.

KEY SEMI-GRATION DESTINATIONS FROM MAJOR PROVINCES

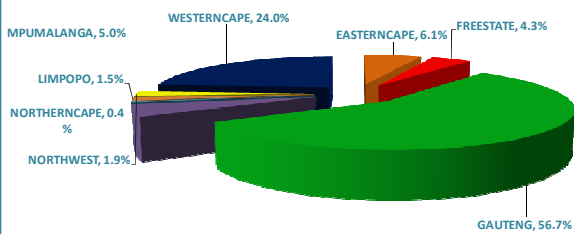
2011 Gauteng Repeat Buyer Semi-Gratation Destinations



2011 Western Cape Repeat Buyer Semi-Gratation Destinations



2011 KZN Repeat Buyer Semi-Gratation Destinations



2011 Eastern Cape Repeat Buyer Semi-Gratation Destinations

