

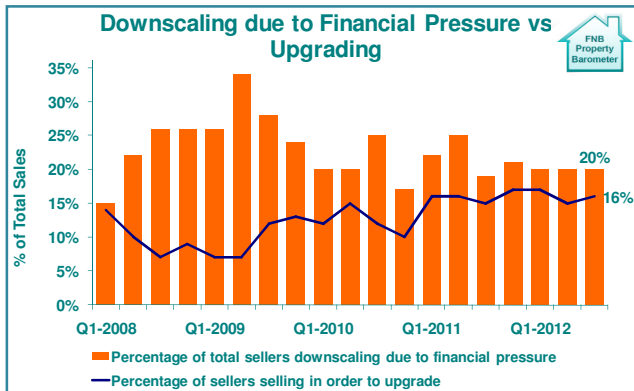
PROPERTY BAROMETER – REASONS FOR SELLING RESIDENTIAL PROPERTIES

For those downscaling due to financial pressure, the rental option appears to have become relatively less attractive in recent times

19 October 2012

The FNB Estate Agent Survey reminds us that, just because extremely low interest rates have lowered the numbers of home loans and many other forms of debt in arrears, underlying financial weakness is still widespread amongst South Africa's households.

This is witnessed in the responses to questions regarding the reasons that sellers sell residential properties. Although the estimated percentage of sellers "selling in order to downscale due to financial pressure" is significantly lower than the 2nd quarter 2009 peak of 34% of total selling, the 3rd Quarter 2012 percentage of 20% of total sellers downscaling due to financial pressure remains in my books a very high one. And the percentage remains stubbornly sticky around the 20% mark over the past year or so.



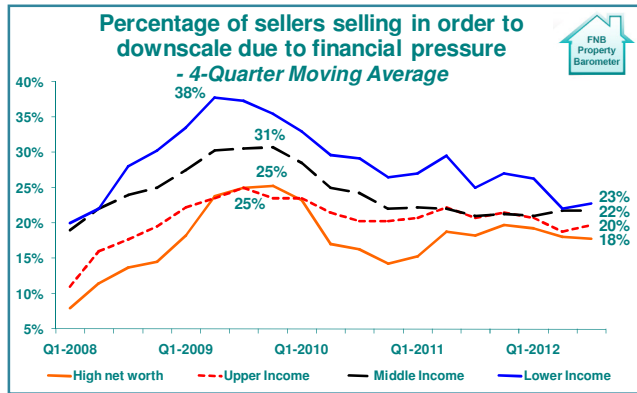
There is a positive aspect to this, in the sense that it points to many households taking pro-active steps to reduce their financial obligations in order to rebuild the household balance sheet prior to defaulting on debt. But the figure continues to suggest that SA's household sector remains far from ready to take on the next interest rate hiking cycle when it comes.

Admittedly not everyone is pressured, however. The other financial strength-related indicator is arguably the percentage of sellers selling in order to upgrade.

This percentage sits at 16% of total sellers as at the 3rd Quarter 2012 Estate Agent Survey, remaining significantly above the 2008/9 recession-lows of around 7%. The question, though, is how financially strong are these sellers that are upgrading? Or is it in many instances the abnormally low interest rates currently in play?

Reasons for selling (As % of Total Sales)	Q1-2011	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012
Downscaling due to financial pressure	22%	25%	19%	21%	20%	20%	20%
Downscaling with life stage	20%	20%	23%	22%	23%	20%	21%
Emigrating	4%	4%	4%	4%	4%	4%	3%
Relocating within SA	8%	7%	7%	8%	9%	9%	7%
Upgrading	16%	16%	15%	17%	17%	15%	16%
Moving for safety and security reasons	12%	11%	10%	9%	9%	12%	11%
Change in family structure	11%	11%	13%	12%	12%	13%	15%
Moving to be closer to work or amenities	7%	6%	8%	7%	6%	7%	8%

Another feature emanating from the survey is that the biggest improvement (decline) in the percentage of sellers downscaling due to financial pressure since 2009 has taken place in the lower income markets.



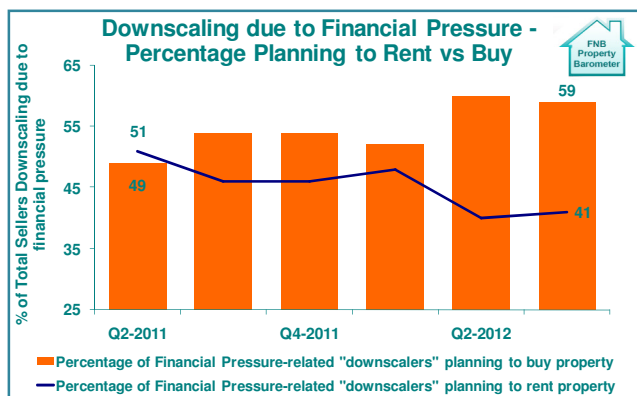
Using 4-quarter moving averages to smooth out volatility in the segment numbers, we see the various percentages of selling in order to downscale due to financial pressure to be moving in a far narrower range than was the case back in 2008/9. The "Lower Income" segment (areas with average price=R731,500), typically having the highest percentage, has shown an average percentage of 23% over the past 4 quarters. This is not far higher than the most expensive "High Net Worth" segment's 18% (average house price = R3.812m), with the Upper (average house price=R1.972m) and Middle Income Segments (average house price=R1.043m) in between at 20% and 22% respectively.

By comparison, back around the 2008/9 recession and interest rate peak, the gap was far wider, with the Lower Income segment peak of 38%, compared to a High Net Worth area peak of a significantly lower 25%.

For the 3rd quarter 2012 survey alone, the percentages of sellers downscaling due to financial pressure formed a narrow range from 22% in the case of the Middle Income segment to 17% in the case of the High Net Worth segment.

Reasons for selling (As % of Total Sales)	Total	High Net Worth	Upper income	Middle income	Lower income
Downscaling due to financial pressure	20%	17%	20%	22%	21%
Downscaling with life stage	21%	23%	22%	21%	14%
Emigrating	3%	2%	3%	2%	3%
Relocating within SA	7%	6%	8%	6%	6%
Upgrading	16%	14%	13%	18%	20%
Moving for safety and security reasons	11%	12%	12%	11%	10%
Change in family structure	15%	18%	13%	14%	16%
Moving to be closer to work or amenities	8%	7%	9%	7%	8%

The bottom line is that the multi-year trends in these percentages point to the more credit-dependent lower income segments taking a bigger knock during recessionary conditions and periods of interest rate hiking than the higher income segments. Thereafter, however, their financial improvements are more impressive off a weaker base.



Finally, estate agents surveyed also point to the *home buying option as becoming a little more popular for those selling in order to downscale due to financial pressure, as opposed to the rental option*. Back in the 2nd quarter of 2011, when we started asking agents to estimate what percentage of these downscalers they believed would buy versus rent after selling, the estimate was that 51% would rent and 49% buy a cheaper property. By the 3rd quarter of 2012, this had changed significantly to an estimate that 59% would buy versus a smaller 41% renting.

This does not surprise us too much, as it is our perception that rental growth may have outpaced house price growth mildly in recent years, reducing the relative advantage of renting from a cash flow point of view

CONCLUSION

At 20% of total selling, the percentage of sellers downscaling due to financial pressure remains high, a reminder that there still exists widespread underlying financial pressure in South Africa's household sector. The 2008/9 recession was a major blow to a highly-indebted household sector, from which is still recovering, and there is also the issue of sharp increases in electricity and other utilities tariffs related to housing as well as municipal rates.

The lower income groups have narrowed the gap with High Net Worth households in terms of percentage of selling in order to downscale due to financial pressure, benefiting to a relatively greater degree from major interest rate cuts since late-2008.

The increased percentage of these "financial pressure-related down-scalers" believed to be intending to buy another property as opposed to rent, reflects a combination of rentals perhaps having outpaced house price growth in recent years mildly, but also possibly some increased confidence in their own financial future.

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