PROPERTY BAROMETER-
FNB ESTATE AGENT SURVEY

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– An interesting situation with a noticeable jump in residential demand as well as supply constraints, but pricing realism still appears to lack.

JOHN LOOS:
HOUSEHOLD AND CONSUMER SECTOR STRATEGIST
011-6490125
John.loos@fnb.co.za

THEO SWANEPOEL:
PROPERTY MARKET ANALYST
FNB ASSET FINANCE
011-6320604
tswanepoel@fnb.co.za

ESTATE AGENTS POINT TO A RESUMPTION OF THE RISING TREND IN RESIDENTIAL DEMAND IN THE 1ST QUARTER 2013, AFTER THE PREVIOUS QUARTER'S MILD DECLINE

The 1ST Quarter 2013 FNB Estate Agent Survey, completed in the month of February, came out with a noticeably stronger picture of domestic residential property demand than the preceding quarter. This comes after the final quarter of 2012 had shown a slight decline.

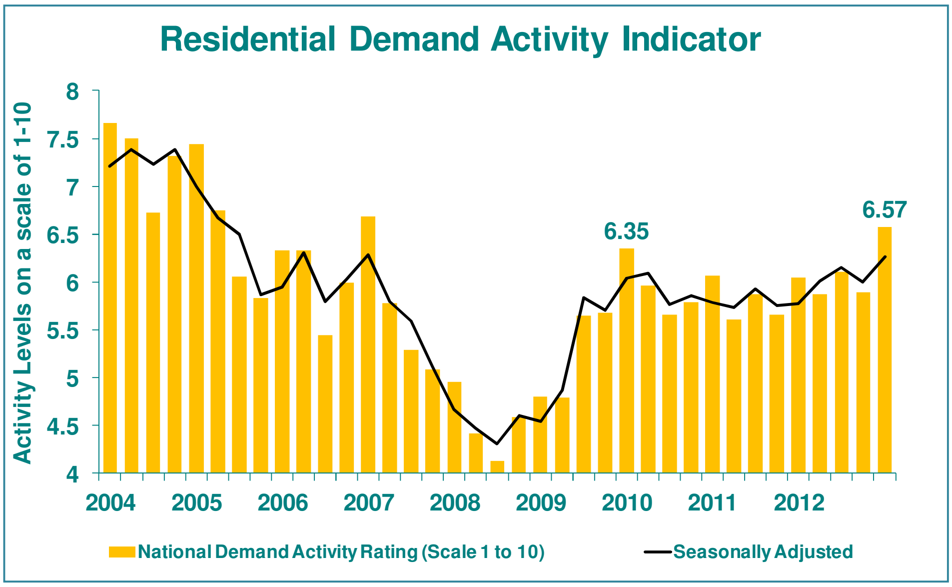
The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential demand in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of demand.

The 1st Quarter Residential Demand Activity Indicator rose noticeably, from the previous quarter's 5.89, to 6.57. This is the highest level since the 1st quarter of 2007, which was just prior to the big slump in the residential property market.

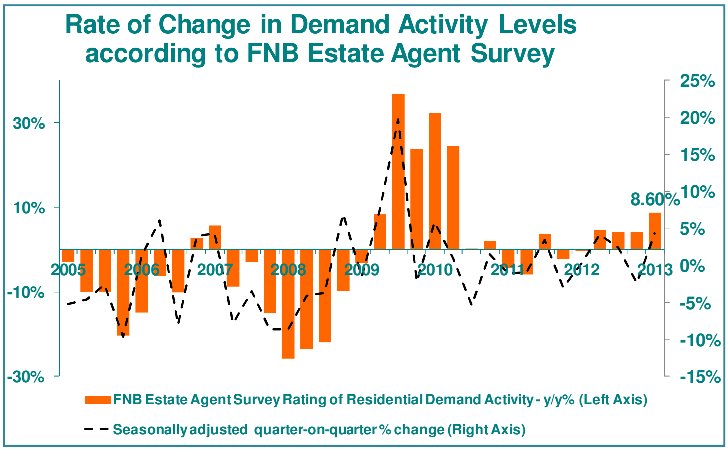
We also statistically seasonally adjust the data, and on a seasonally adjusted basis, the demand rating also rose from a previous quarter's 6.0 to a 1st quarter 6.26, also the highest level since the 1st quarter of 2007. So the rise was more than just seasonal factors it would appear.

This level still remains in the "stable" bracket (a level from 4 to 6), but is now beginning to border on the higher "Positive" bracket which would comprise a rating of 7 to 8, the other brackets being "not very active (1 to 3), and "very active (9 to 10)

The quarterly rise in the Demand Activity Rating resumes a broad improving trend which, after 3 quarters of improvement on a seasonally adjusted basis, stalled temporarily in the final quarter of 2012.The temporary weakening in the 4th quarter of 2012, we believe, probably had to do with a significantly slower economic growth rate in the 2nd half of 2012, with production disrupted by widespread industrial action. The signs are, however, that economic growth has "normalized" back up into the 2-3% range, and this may have played a partial role in driving this noticeable increase in the Demand Activity Indicator.



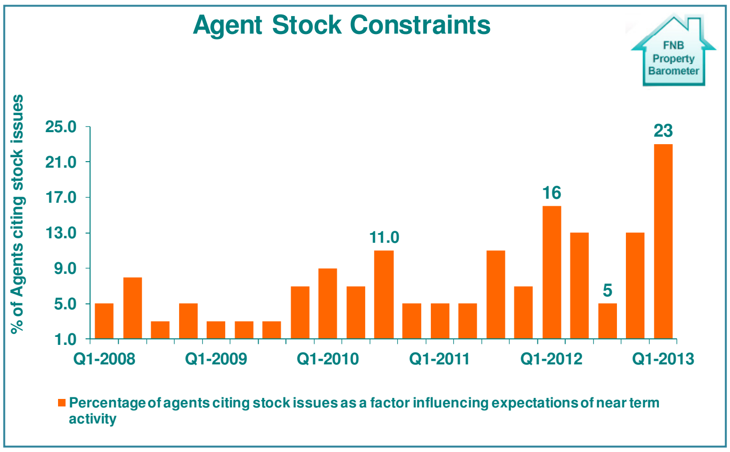
On top of a mild recovery in economic growth, it may be that in recent times we have started to see the lagged improvement in home buyer confidence as a result of a very long period of low interest rates. People tend to be more influenced by recent events (as opposed to those further into the past) when formulating a perception of their risk, in what is known as "Recency Bias". The recession and 2008 interest rate peak are probably fading in the memories as time goes by, causing a perception of diminished risk.



Examining the percentage change in the Demand Activity Rating, we saw a noticeable improvement in the year-on-year growth rate in the Demand Rating in the 1st half of last year, a mild tapering in this growth rate in the 2nd half, and then a renewed jump from 4.1% in the 4th quarter of 2012 to 8.6% year-on-year increase in the 1st quarter of 2013.

On a quarter-on-quarter seasonally-adjusted basis, the easier way to gauge recent growth momentum, we saw the 4th quarter showing negative growth (decline) of –2.9%, after the 2 prior quarters' positive growth rates, and then a significant increase of 4.3% in the 1st quarter of 2013.

AND RESIDENTIAL SUPPLY HAS BEEN BECOMING MORE CONSTRAINED, IT APPEARS

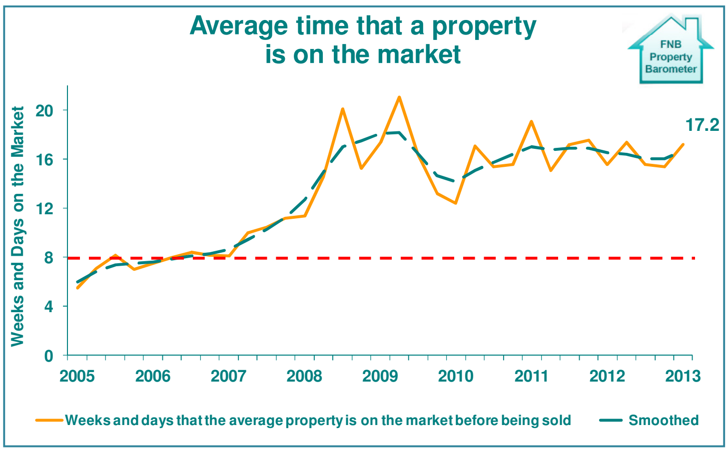


With strengthening demand has come a reported increase in supply constraints it would appear. Trying to gauge the strength of supply of residential stock through asking survey respondents for their opinion is a tall order. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way. In the 1st quarter of 2013, we saw a noticeable increase in the percentage of agents citing stock constraints as an issue in their lives, from 13% in the previous quarter to 23%.

Simplistically, one would expect this growing supply constraint to cause a renewed decline in average time on the market, and with it stronger house price growth, in the coming quarters should solid demand levels be sustained.

INTERESTINGLY, THOUGH, THE LAGGED IMPACT OF THE 4TH QUARTER 2012 DECLINE IN THE DEMAND RATING MAY HAVE BEEN A 1ST QUARTER 2013 DETERIORATION IN INDICATORS OF "PRICE REALISM"

However, an apparent contradiction in the latest FNB Estate Agent Survey results is a quarterly increase in the estimated average time that a property remains on the market prior to sale, as well as an increase in the estimated percentage of sellers being required to drop their asking price to make the sale.



But a possible explanation is that the short weak economic period late in 2012 may have caused average time on the market to lengthen with a lag, whose impact is only witnessed in the 1st quarter of 2013, and of course there can be some seasonal negative impact caused by the December holiday period in between the November and February Estate Agent Surveys.

In addition, it is possible that seller optimism regarding market conditions has been improving too, thereby sustaining unrealistic asking prices.

From a 4^{th} quarter estimate of 15 weeks and 4 days, the average time on the market rose in the 1^{st} quarter of 2013 to 17 weeks and 2 days.

Besides the possibility of a December holiday effect, it must be borne in mind that data from quarter too quarter can be slightly volatile, and for this reason we include a smoothed trendline, which shows a sideways-to-slightly downward movement in average time on the market since 2011.

Fluctuating between 15 and 17 weeks, the average time on the market still remains a lengthy one, and probably not yet conducive to sustained real house price growth.

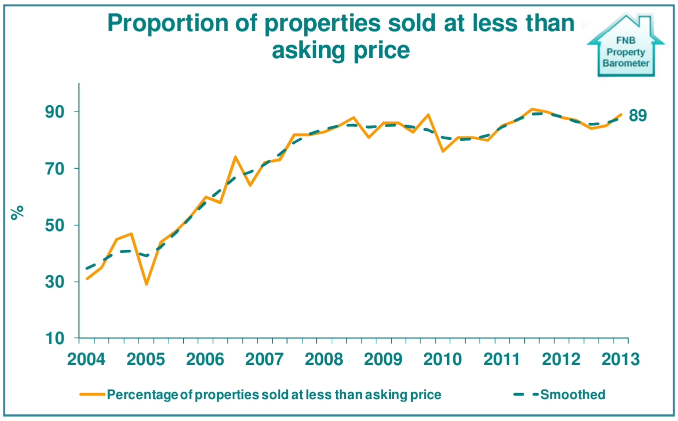
AND STILL, THE OVERWHELMING MAJORITY HAVE TO DROP THEIR ASKING PRICE TO SELL

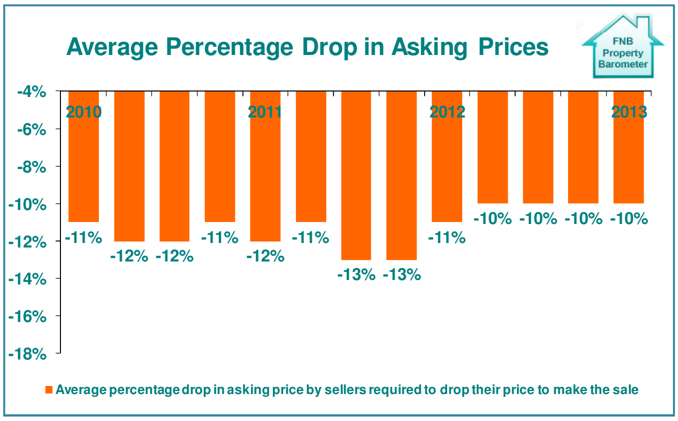
Along with agents pointing to a longer average time on the market in the 1^{st} quarter, which is often seen as a good indicator of pricing realism in the market by sellers, they also estimated a slight increase in the percentage of sellers being required to drop their asking price to make a sale, a second indicator of pricing realism.

The percentage of properties sold at less than asking price was 85% in the 4^{th} quarter of 2012, according to the survey, and this rose to 89% in the 1^{st} quarter 2013 survey.

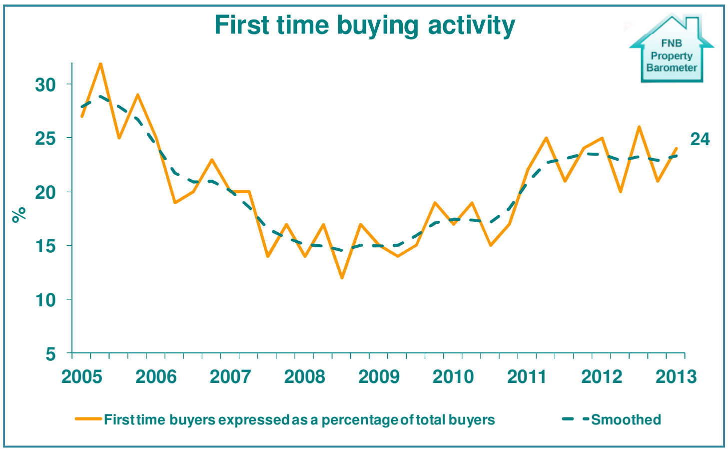
Furthermore, we ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average drop has remained stable for the past 4 quarters at an estimated -10%.

Therefore, after some hint of improving pricing realism by sellers in the 2nd half of 2012, the 1^{st} quarter of 2013 survey once again suggests that perhaps we are not there yet. It is possible that seller optimism increases as demand is perceived to be improving, and that in turn keeps prices ahead of demand. ***Sellers may also perceive themselves to be increasingly in the "pound seats" agents have to compete harder to secure mandates on increasingly scarce stock.***





THE MORE CYCLICAL 1^{ST} TIME BUYER COMPONENT OF RESIDENTIAL DEMAND HAS STRENGTHENED IN THE 1^{ST} QUARTER



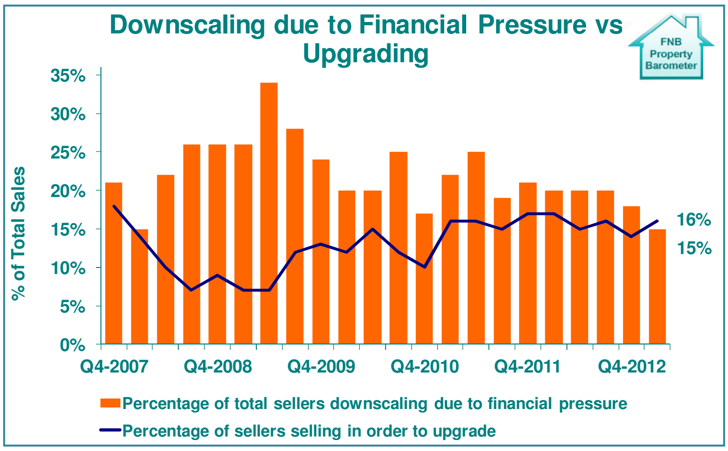
1^{st} time buyer demand tends to be more cyclical than the total market. This is arguably because many young buyers have more flexibility than established households, being able to delay their own formation of a new household by remaining in their parent's home for longer during tougher property and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

The level of 1^{st} 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 or not.

For 2012 as a whole, the average 1^{st} time buyer percentage of 23% was unchanged from the 23% of 2011. On a quarter to quarter basis, the 1^{st} quarter of 2013 saw some increase in the percentage of 1^{st} time buyers, from 21% in the previous quarter to 24%.

However, from quarter to quarter this percentage can be volatile, so we view that figure with caution, and attach more significance to the broader trend as reflected by smoothed trendline .Its direction is more or less sideways, and has been since 2011.

ON THE SELLING SIDE, AGENTS HAVE ONCE AGAIN BEGUN TO SEE A NOTICEABLE IMPROVEMENT IN FINANCIAL STRESS-RELATED SELLING.



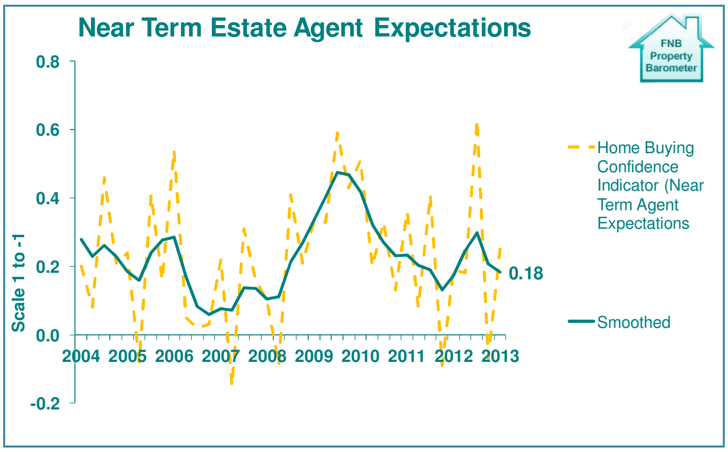
Our survey respondents in the 1ST quarter of 2013 pointed to a further decline in financial pressure-related selling of homes among households, the 2nd consecutive decline after the percentage had previously been treading water.

When asked to provide an indication of the reasons as to why people are selling their properties, in the 1st quarter they estimated that 15% of sellers were selling in order to downscale due to financial pressure. This is down from the previous quarter's 18%, suggesting that a large part of the household downscaling process in order to adjust to the recessionary shock of 2008/9 may have been completed. The 15% figure remains significant, however, especially in an environment of what can be termed abnormally low interest rates, so the work is not entirely over yet.

This arguably needs to be read in conjunction with the percentage of sellers selling in order to upgrade, which rose mildly from 14% of total sellers in the 4th quarter of 2012 to 16% in the 1st quarter of 2013.

These 2 reasons for selling are arguably the 2 most important indicators in the survey of financial pressure/constraints experienced by homeowners. ***Of significance is that for the 1st time since this survey question started back in late-2007, the upgrading percentage has been estimated to be higher than the "financial pressure-related downscaling" percentage.***

HOW AGENTS SEE THE NEAR TERM OUTLOOK



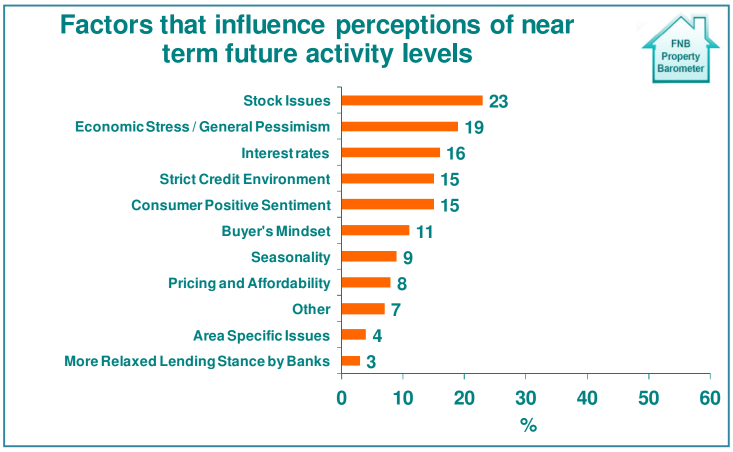
In terms of expectations of demand in the near term, the 1st quarter agent survey returned a fairly "average" response.

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 1st quarter survey, a large majority of 65% expected demand to remain the same in the next 3 months, while 30% expected an improvement and only 5% expected a decrease in activity.

While this response is an improvement on previous quarter's expectations, it remains significantly below late-2009/early-2010 levels, the height of the post-recession recovery in activity of a very low base at the time.

The Home Buying Confidence Indicator, the combined result of the various agent expectations, rose from a previous of -0.07 (on a scale of 1 to -1) to +0.18.The smoothed trendline, however, continued to point lower, which is arguably not surprising given the significant improvement already witnessed in the market since early-2012.



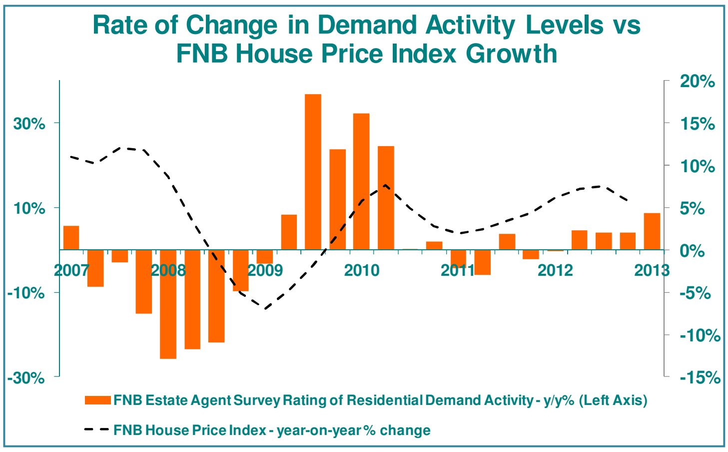
When asking agents for the factors influencing their near term expectations, "stock issues" (usually meaning residential stock availability constraints) now come up as the most common factor.

It is currently something of a "curious" market, however, because while agents point to improved demand and growing supply constraints, the 2nd most important factor on the list is "Economic Stress/Pessimism", which 19% of agents mention. This beats the 15% that perceive "Consumer Positive Sentiment".

So, while many agents point to a substantially better residential market as of late, the group is not overly optimistic regarding the state of the economy and consumer confidence.

Similarly, the agents are not unanimous on the state of the credit market, with 16% citing low and stable interest rates as a positive, but 15% pointing to the still "strict credit environment" as a not-so-positive factor.

IN SUMMARY – AN INTERESTING MARKET, IN WHICH AGENTS POINT TO INCREASED DEMAND AND STOCK CONSTRAINTS, BUT NOT NECESSARILY IMPROVED PRICE REALISM.



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 previous quarter's survey, the overall impression gained from the sample of agents surveyed was one of mild weakening in residential demand, at the end of a relatively strong year. The situation was far from bad, but there may have been some negative impact emanating from a weak strike disrupted economy in the 2nd half of last year.

Then, in the 1st quarter 2013 survey, we saw a very noticeable jump in the Demand Activity Rating, to a level last seen in 2007. Simultaneously, stock constraints became the single-most important issue cited by agents when providing factors influencing their expectations of near term future activity.

While stock constraints are not necessarily positive for agents, whose income is determined largely on turnover of stock, it could be positive from a house price growth point of view in the near future, as it suggests an improved balance between demand and supply.

However, interestingly, agents were also reporting a longer estimated time of properties on the market in the 1st quarter, along with an increase in the percentage of sellers having to drop their asking prices. This seems surprising in a supply-constrained market. However, it is possible that there is a seasonal issue here, with a longer average time on the market due to the December/January holiday lull, while it can also be that selling prices remain unrealistic relative to the market due to increased seller optimism or increased agent competition for what is becoming scarce housing stock for sale.

Another noticeable improvement was that agents pointed to a further decline in the levels of sellers downscaling due to financial pressure. However, they are not overly positive regarding consumer sentiment, with a greater percentage of agents perceiving "Economic Stress/Pessimism" than those perceiving "Positive Consumer Sentiment". Simultaneously, while low and stable interest rates are seen as a positive by some, others cite "strict lending criteria as still constraining the market.

Overall, therefore, agents have seen a noticeable improvement in market conditions in the 1st quarter, but are far from unanimous regarding the strength of the drivers of the market in the near future.