PROPERTY BAROMETER- FNB ESTATE AGENT SURVEY

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– High end segments have been playing some catch up, but Lower Income segment still appears strongest

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ESTATE AGENTS POINT TO LOWER END SEGMENTS STILL BEING STRONGEST, BUT THE HIGHER END IS NARROWING THE GAP

As mentioned in last week's report regarding the FNB 1ST Quarter 2013 Estate Agent Survey, we have seen a broad strengthening trend in agents' perceptions of residential demand through 2012 to early-2013, barring a slight lull late in 2012. In terms of market segments, the biggest improvement in demand appears to be at the higher end, but to date the Lower Income end still appears most solid.

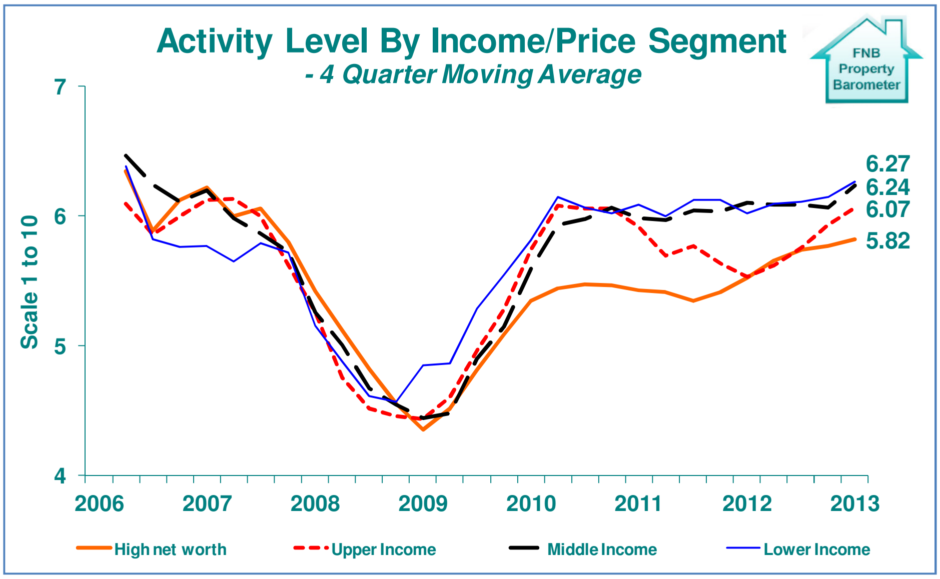
The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential demand in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of demand.

In last week's report on the overall market situation, we mentioned that the overall 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.

But what about the relative various market segments? For this exercise, we use 4-quarter moving averages in our data, so as to smooth out data volatility from quarter to quarter and examine the broader trends.

The 4 Income segments are self-defined by agents working the areas, and comprise the High Net Worth segment (average 1st quarter 2013 price = R3.4m), the Upper Income segment (average price = R2.94m), the Middle Income segment (average price = R1.34m), and the Lower Income segment (average price = R822,900).

Examining average demand activity ratings by segment for the 4 quarters up to and including the 1st quarter of 2013, the Lower Income segment still comes out top with an average rating of 6.27, followed by the Middle Income segment on 6.24, the Upper Income segment on 6.07, and the High Net Worth segment on the lowest level of 5.82.



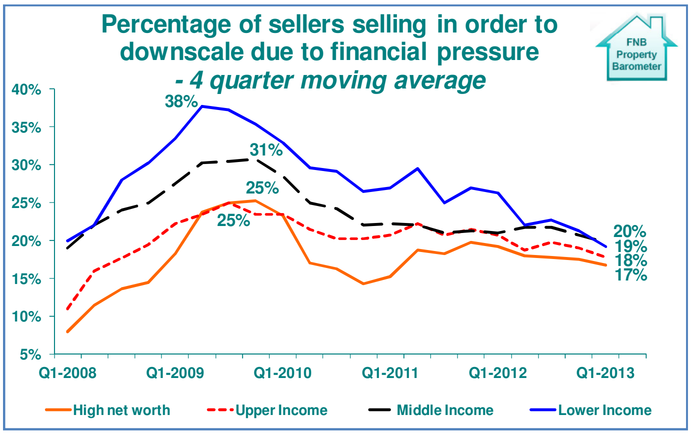
However, despite the Lower Income segment still keeping its nose just ahead in terms of its demand ratings by agents operating in those areas, the higher end segments definitely appear to have been catching up and narrowing the gap. A year ago, the gap between, on the one hand, the Lower and Middle Income segments, and on the other hand the High Net Worth and Upper Income segments, was far more significant.

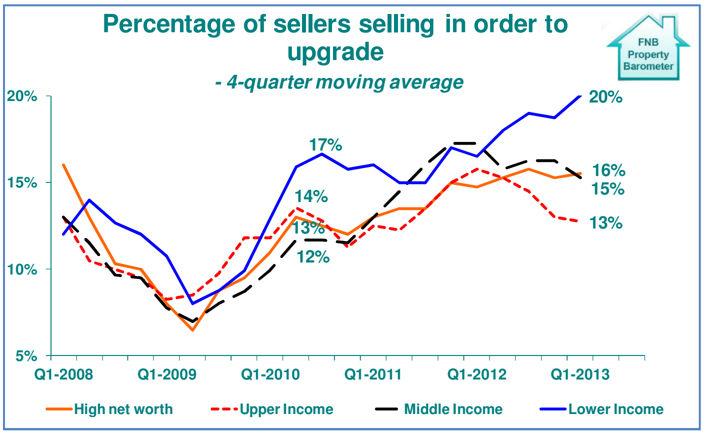
The catch up by the higher end segments in terms of demand ratings should probably not be surprising. The Lower End segments are arguably more credit dependent, and thus recovered more rapidly off a low base around 2009/10 as interest rates plummeted to multi-decade lows. More recently, however, there has been very little interest rate cutting, and the relative benefit to the lower segments may thus be wearing thin.

Secondly, high levels of financial pressure on households following the 2008/9 recession was evident in high rates of selling in order to downscale due to financial pressure. This downscaling should have benefited the more affordable segments more. Recently, though, we have been seeing agents estimate a decline in financial pressure-related downscaling across all segments, suggesting that this relative benefit to the lower priced end of the market may also be wearing thin.

In addition, agents in the Lower Income segment have been reporting a noticeable rise in the percentage of sellers selling in order to upgrade, to 20% of total sellers for the 4 quarters up until Q1 2013. This must surely be providing some support especially for the Middle Income segment just above it, as more home owners probably upgrade into that segment.

And on top of all of this, the lengthy period of positive economic growth since 2009, and low and stable interest rates, may be encouraging home investors (rightly or wrongly) to forget the pain of high interest rates and recession back in 2008, and to gradually take on more risk in the form of increased spending (and perhaps borrowing) on homes.



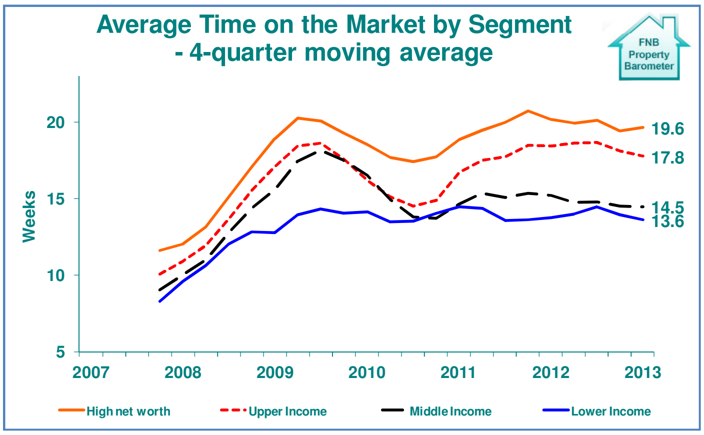


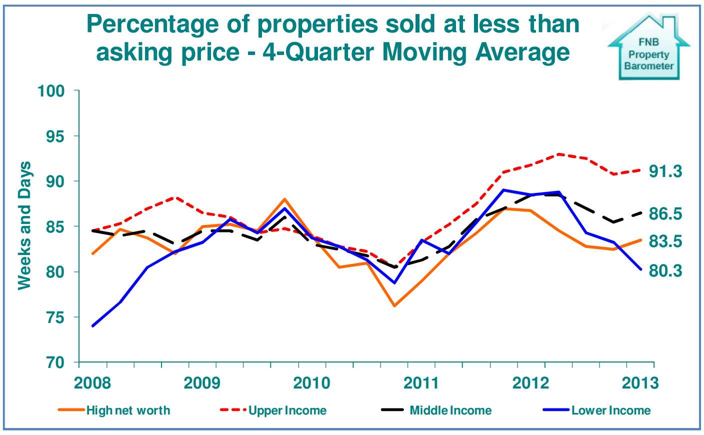
There thus appears to be some good explanation for a narrowing of the gap between the superior demand in the Lower end and Higher end.

However, while the demand gap has narrowed significantly, as yet the Lower and Middle Income segments still appear to maintain a significant gap in terms of superior balance between demand and supply, or otherwise put in terms of more realistic pricing.

For the 4-quarters up until the 1st quarter of 2013, the average estimated time of homes on the market prior to sale, for the Lower and Middle Income segments, was 13.6 weeks and 14.5 weeks respectively. By comparison, the Upper Income and High Net Worth segments recorded 17.8 weeks and 19.6 weeks respectively. While one should normally expect higher end homes to be on the market for longer, the fact is that the gap between these segment estimates widened noticeably around 2011, and has not narrowed meaningfully since. Therefore, while one would expect a catch up in the higher end demand ratings to translate into a narrowing in other gaps such as average time on the market, this does not appear to have happened noticeably yet.

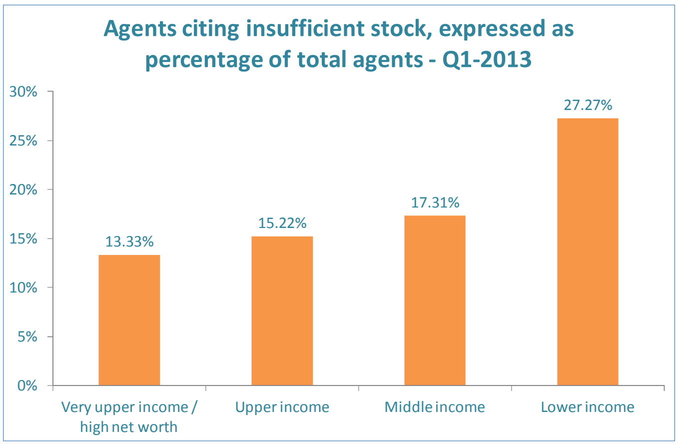
The other measure of price realism is the percentage of sellers having to drop their asking price to make the sale. Here, too, the Lower Income segment remains ahead at 80.3% of total sellers for the past 4 quarters, and this segment has also showed the largest improvement.





AND RESIDENTIAL SUPPLY IS STILL MORE CONSTRAINED AT THE LOWER END, IT APPEARS

Therefore, while the Lower Income end no longer holds a major advantage in terms of demand level, according to the agents of the various segments, it still appears to be better off in terms of the balance between demand and supply, thus enabling more sellers in this segment to achieve their asking price, and do it in a significantly shorter period.



And this view of a superior market balance relative to the higher income segments is supported by agents' views on stock constraints. In recent quarters' surveys, a noticeable feature has been a rise in the percentage of survey respondents pointing to residential stock shortages (shortages of stock to sell, that is). Split up by segment, the highest percentage, namely 27.3% of agents citing stock constraints, is still found in the Lower Income segment, with lower percentages higher up the segment ladder.

CONCLUSION

Therefore, in short, when examining the FNB Estate Agent Survey by Income segment, we continue to see the Lower Income segment's sample of agents being more upbeat on demand than the segments further up the income/price ladder. However, that demand gap between the lower and higher end has been noticeably closing, as the Higher Income segments play catch up.

There appears good reason for this "catch up" by the higher end segments, because as time passes the level of downscaling due to financial pressure (something that has benefited the Lower End more in the recent past, arguably) is subsiding, while the level of selling in order to upgrade out of the Lower Income segment appears to have been on the rise (benefiting segments higher up).

Apart from this, the lengthy period of low and stable interest rates in recent years, along with sustained positive economic growth since 2009, has perhaps begun to lower perceptions of risk (rightly or wrongly) in the eyes of home buyers.

Nevertheless, while such a catch up in demand by the Higher End should ultimately translate into a narrowing in the gap in "market balance" indicators such as Average Time on the Market and percentage of sellers having to drop their asking price to make the sale, this has not been too noticeable yet, with the Lower Income Segment is still showing noticeably better levels in this regards. In addition, stock constraints reported by agents still seem most significant in the Lower Income segment.

So, while agents appear to be reporting higher income segments starting to "come to the party" and narrow the performance gap, the Lower Income Area segment still records the best performance, for the time being, in key areas of the FNB Estate Agent Survey.