PROPERTY BAROMETER- FNB ESTATE AGENT SURVEY

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– 2nd Quarter survey sees a slight decline in Estate Agent perceptions of activity, but this appears due to normal Winter seasonal factors.

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ESTATE AGENTS POINT TO A SLIGHT SOFTENING IN RESIDENTIAL ACTIVITY IN THE 2ND QUARTER OF 2013, BUT THIS CAN BE ATTRIBUTED TO SEASONAL FACTORS

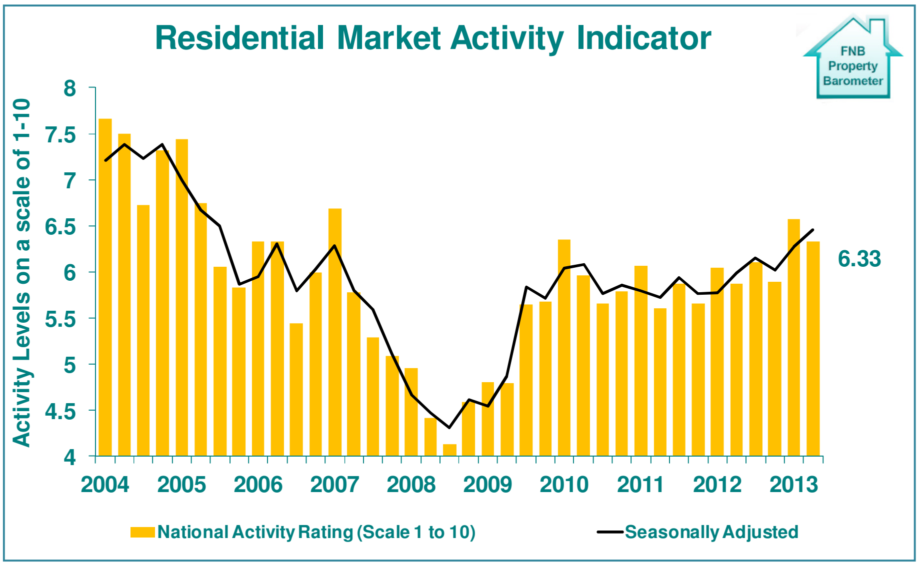
The 2ND Quarter 2013 FNB Estate Agent Survey, completed in the month of May, came out with a slightly weaker picture of domestic residential property activity than the preceding quarter. This comes after the 1st quarter of 2012 had shown an increase on the preceding quarter.

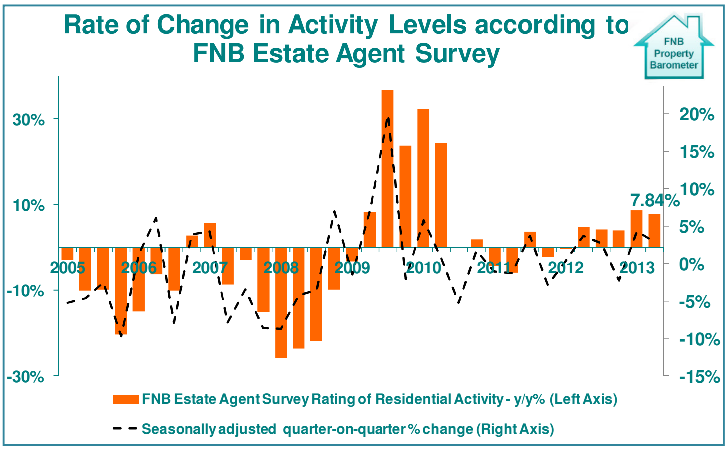
The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential market activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.

The 2nd Quarter Residential Activity Indicator declined mildly, from the previous quarter's 6.57, to 6.33. However, we believe that seasonal factors are largely to blame for this decline, with the onset of the Winter months in the 2nd quarter.

We base this argument on the statistically seasonally adjusted version of the Activity Indicator. On a seasonally adjusted basis, the activity rating actually continued to rise in the 2nd quarter, from a previous quarter's 6.27 to 6.45, the highest seasonally adjusted level since the 3rd quarter of 2005. So, seasonal factors eliminated, it would appear that the broad renewed strengthening trend in residential activity that started back in 2012 is still intact.

Recent Activity Rating levels still remain in the "stable" bracket (a level from 4 to 6), but are bordering 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)



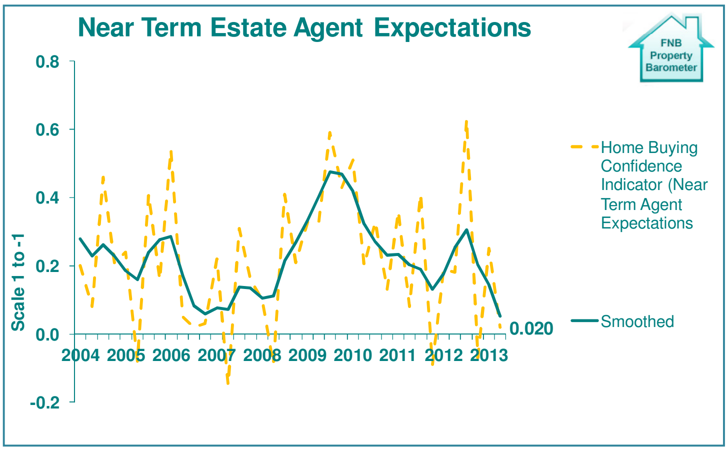


Examining the percentage change, we saw a slightly slower rate of increase in the year-on-year growth rate in the Residential Activity Rating in the 2nd quarter, down from 8.6% in the preceding quarter to 7.8%. The quarter-on-quarter seasonally adjusted rate of increase, too, slowed slightly from 4.3% to 2.9%.

This slightly slower rate of seasonally-adjusted improvement, however, is not yet meaningful.

However, while still pointing to broad residential activity strengthening when seasonal factors are ignored, certain responses to the survey questions by the sample of agents may be suggesting an expectation that the recent pace of improvement may be about to lose some steam.

HOW AGENTS SEE THE NEAR TERM OUTLOOK



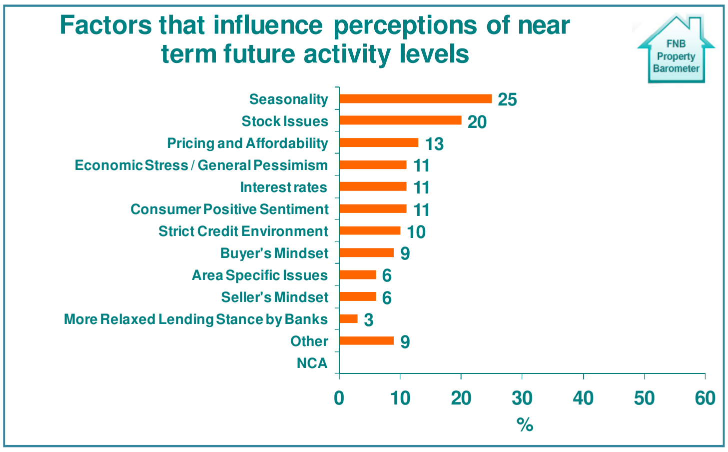
In terms of expectations of activity in the near term, the 2nd quarter agent survey returned a weaker response than in the preceding quarter..

We ask agents 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, a majority of 56% expected activity to remain the same in the next 3 months, while 23% expected an improvement and 21% expected a decrease in activity.

This response reflects a significant deterioration on the previous quarter's expectations. The "Home Buying Confidence Indicator", the combined result of the various agent expectations, declined from the previous level of +0.25 (on a scale of 1 to -1) to +0.02. While still slightly above zero, reflecting a very slight bias in favour of strengthening residential activity, the smoothed trend line however continued to point lower, as it has done since a mini-peak reached in the 2nd quarter of last year.

Broadly, therefore, agents expectations regarding residential activity improvements have been moderating over the past year or so.



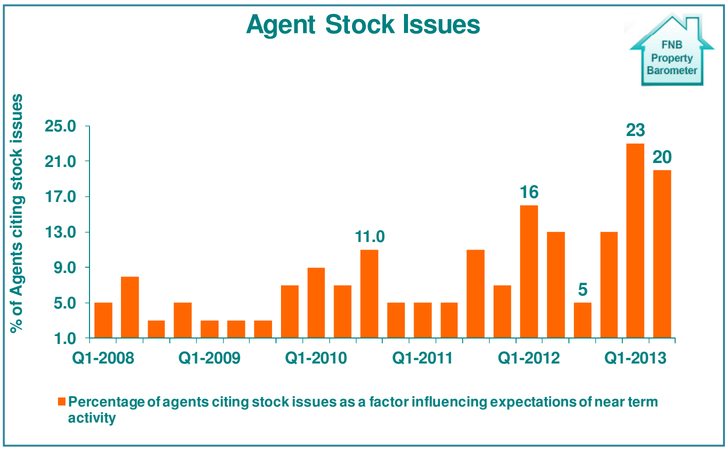
When asking agents for the factors influencing their near term expectations, "stock issues" (the largest portion pointing to stock constraints as opposed to an oversupply of stock) once again came as the most common factor in the 2nd quarter survey, after seasonal factors of course.

The 2nd most important factor relates to "pricing and affordability", which 13% of agents make mention of. Of these agents, there is almost an equal split between those claiming that prices are more realistic and affordable versus those pointing to unrealistic prices and buyers not being able to afford such prices.

The same lack of "consensus" seems to prevail regarding perceptions of the economy, with 11%

referring to the prevalence of "Economic Stress and General Pessimism" while 11% experience "Positive Consumer Sentiment".

RESIDENTIAL SUPPLY ISSUES ARE STILL AN ISSUE FOR A SIGNIFICANT PERCENTAGE OF AGENTS



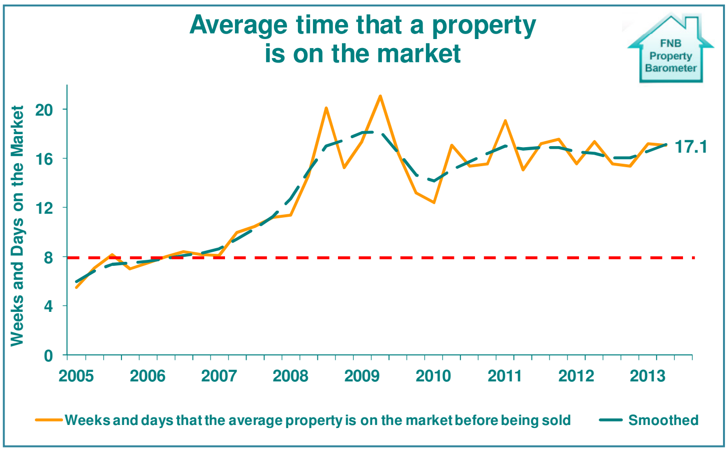
With strengthening demand has come a reported increase in supply constraints, it would appear. Trying to gauge the strength of supply of residential stock through asking survey respondents for their opinion is a tall order. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way. In the 2nd quarter of 2013, we saw a mild decline in the percentage of agents citing stock issues as a factor influencing their near term expectations, from 23% in the previous quarter to 20%.

The majority of these had stock constraints, i.e. 13% of the total sample of agents, while a lesser 7% of agents cite stock oversupplies.

Stock issues have been noticeably more significant over the past few quarters than previously, with more of the agents with stock issues citing shortages as opposed to oversupplies), suggesting that gradually over time demand is gradually making gains on residential supply.

AS YET, THE LEVEL OF STOCK CONSTRAINTS HAS NOT BEEN SUFFICIENT TO INDUCE A SIGNIFICANTLY MORE RAPID SPEED OF PROPERTY SALES

One indicator of where the market is in terms of seller pricing realism, or otherwise put the balance between demand and supply at prevailing price levels, is the estimated average time that properties remain on the market prior to sale.



From a 1st quarter estimate of 17 weeks and 2 days, the estimated average time on the market in the 2nd quarter 2013 survey remained almost unchanged at 17 weeks and 1 day.

While month to month fluctuations can be a little volatile, the broad trend in average time on the market has been virtually sideways since early-2011, with average time fluctuating near to the 4 month mark.

Fluctuating between 15 and 17 weeks, the average time on the market still remains a lengthy one, as compared to the below-2 month level back in 2005/6, and is probably not yet conducive to sustained real house price growth.

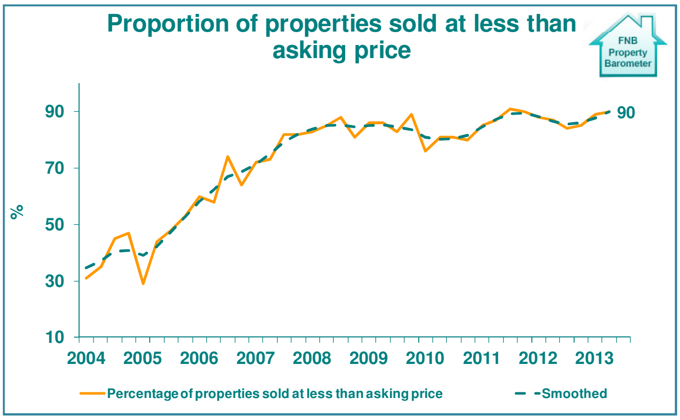
AND STILL, THE OVERWHELMING MAJORITY HAVE TO DROP THEIR ASKING PRICE TO SELL

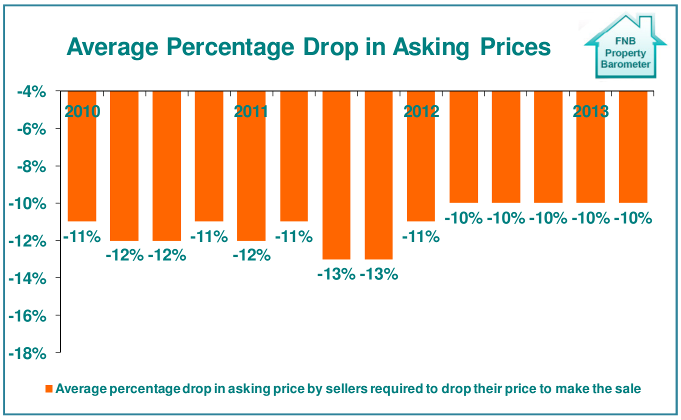
Along with agents still pointing to a lengthy average time on the market in the 2nd quarter survey, which is often seen as a good indicator of seller pricing realism in the market, they also estimated a slight further increase in the percentage of sellers being required to drop their asking price to make a sale, a second indicator of pricing realism, or in this case perhaps lack thereof.

The percentage of properties sold at less than asking price was 90% in the 2nd quarter of 2013, according to the survey, and this was slightly higher than the 89% recorded in the 1st quarter survey.

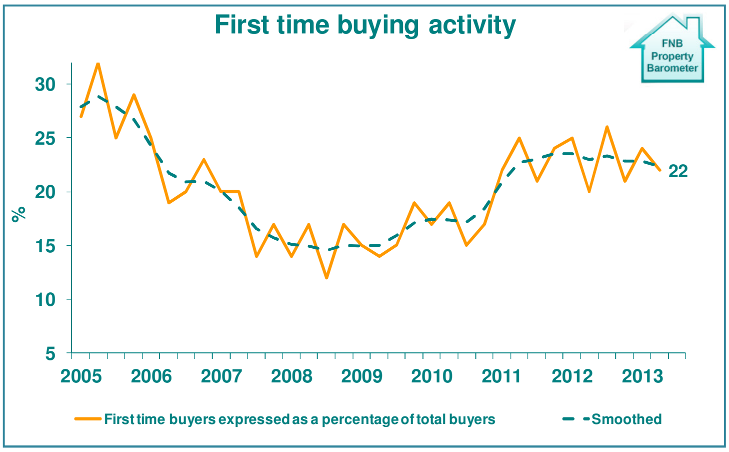
Furthermore, we ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average drop has remained stable for the past 5 quarters at an estimated -10%.

So, after some hint of the start of improving pricing realism by sellers in the 2nd half of 2012, the 1st half of 2013 survey once again suggests that we still have some way to go towards a significant improvement in overall price realism.. It is possible that seller optimism increases as the market is perceived to be improving, and that this in turn may have kept price realism from improving more significantly.





THE MORE CYCLICAL 1ST TIME BUYER COMPONENT OF RESIDENTIAL DEMAND APPEARS TO BE SETTLING DOWN AFTER A MAJOR IMPROVEMENT BACK IN 2009-2011

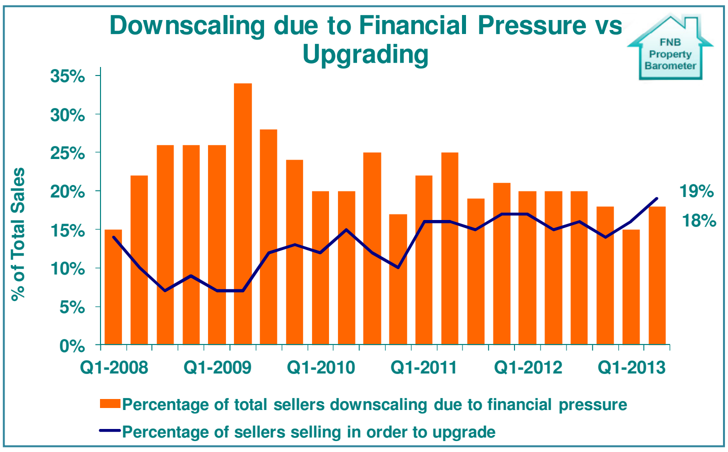


1st time buyer demand tends to be more cyclical than the total market. This is arguably because many young buyers have more flexibility than established households, being able to delay their own formation of a new household by remaining in their parent's home for longer during tougher property and economic 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 or not.

Recently, it would appear that 1st time buying, expressed as a percentage of overall buying, has been settling down after a significant rise through 2009-2011. In the 2nd quarter 2013 survey, 1st time buyers were estimated to make up 22% of total buying. This was down from 24% in the preceding quarter. The data can be volatile from quarter to quarter, but the smoothed trend line also points to a slightly declining trend in this percentage since early 2012.

AGENTS CONTINUE TO SEE SIGNIFICANT FINANCIAL STRESS-RELATED SELLING, BUT SIMULTANEOUS IMPROVEMENT IN SELLING IN ORDER TO UPGRADE BY FINANCIALLY STRONGER HOUSEHOLDS.



Our survey respondents in the 2nd quarter of 2013 pointed to financial pressure-related selling ("selling in order to downscale due to financial pressure") remaining significant at 18% of total selling. This is slightly up from the previous quarter's 15%, but not too much should be read into one quarter's fluctuation.

This percentage should serve as an ongoing caution as to the financial frailty of a significant number of households, because 18%, while better than the 2009 peak of 34%, remains high given the currently abnormally low level of interest rates.

However, there is another significant group of households who are financially more solid, and the percentage of sellers selling in order to upgrade rose further in the 2nd quarter survey to 19% of total sellers, once again exceeding the percentage of sellers downscaling.

The above 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 as from the 1st quarter of 2013, it was the 1st time since this survey question started back in late-2007 that the upgrading percentage has been estimated to be higher than the "financial pressure-related downscaling" percentage.***

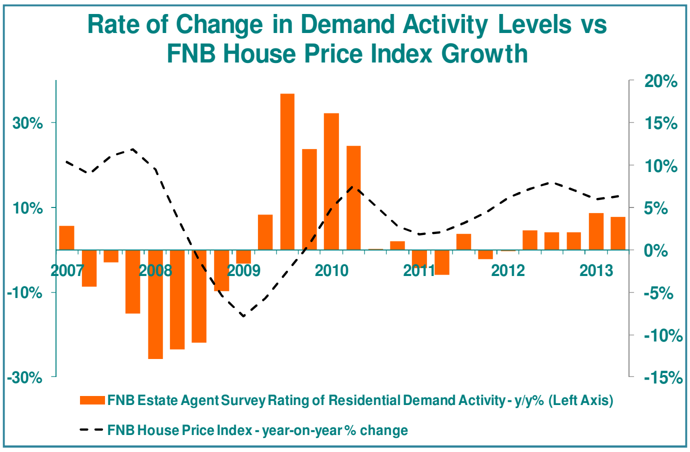
IN CONCLUSION – A MARKET STILL STRENGTHENING, BUT AGENTS'FUTURE EXPECTATIONS REGARDING FURTHER NEAR TERM IMPROVEMENT ARE MODERATING.

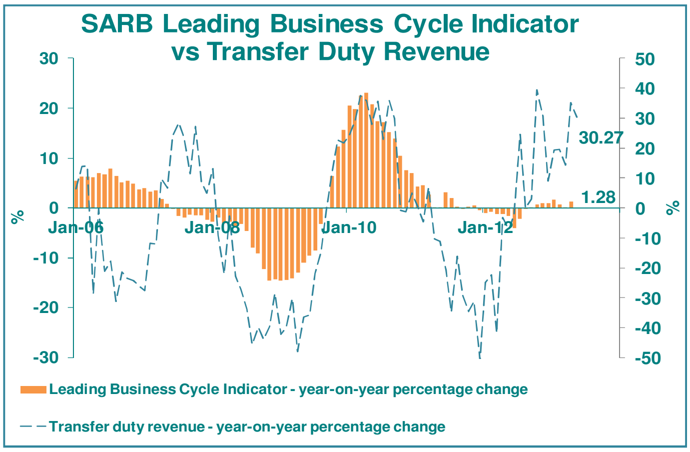
The FNB Estate Agent Survey is a useful tool with which to gain insight into residential market trends first hand, because estate agents experience changes in the market arguably before any of the other market role players.

Since the 2008/9 recession, the residential market has had 2 noticeable growth periods. The most impressive one, off a very weak base, took place in 2009/2010 on the back of a post-recession economic growth recovery along with a rapid decline in interest rates at the time.

2011 then saw a lull, with year-on-year growth in the Agent Activity Rating going back into decline. Then, from early-2012 until the present time, the market got something of a "second wind" although the rate of growth in activity off a now higher base has not been nearly as impressive as back in 2009/10.

The pattern of 2 post-recession "recoveries" in residential activity co-incides with 2 "mini-peaks" in the FNB House Price Index growth rate, the 1st in 2010 and the 2nd in 2012, while the same patterns are observed in both the year-on-year growth rates in the SARB Leading Business Cycle Indicator and Transfer Duty revenues.





However, while agents continued to point to a broad improvement in residential market activity having taken place in the most recent 2nd quarter 2013 survey, their near term expectations of activity have been broadly flattening out in recent quarters.

Perceptions regarding the economy amongst respondents continues to diverge, with an equal percentage experiencing "Economic Stress/Pessimism" to those perceiving "Positive Consumer Sentiment". This does not surprise us too much, with economic growth statistics of recent quarters suggesting that the country's economy is rather directionless, and may battle to even reach 2% growth for 2013.

Overall, therefore, agents have seen more improvement in market conditions in the 2nd quarter, but are far from unanimous regarding the strength of the drivers of the market in the near future.