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PROPERTY BAROMETER-

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FNB ESTATE AGENT HOME BUYING SURVEY

– 3rd Quarter survey sees further slight decline in Estate Agent perceptions of activity, but market balance may have improved nevertheless, and agents remain upbeat.

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ON AVERAGE, ESTATE AGENTS PERCEIVED A MILD SOFTENING IN RESIDENTIAL ACTIVITY IN THE 3RD QUARTER OF 2013

The 3rd Quarter 2013 FNB Estate Agent Survey, completed in the month of August, came out with a slightly weaker picture of perceived domestic residential property activity than the preceding quarter.

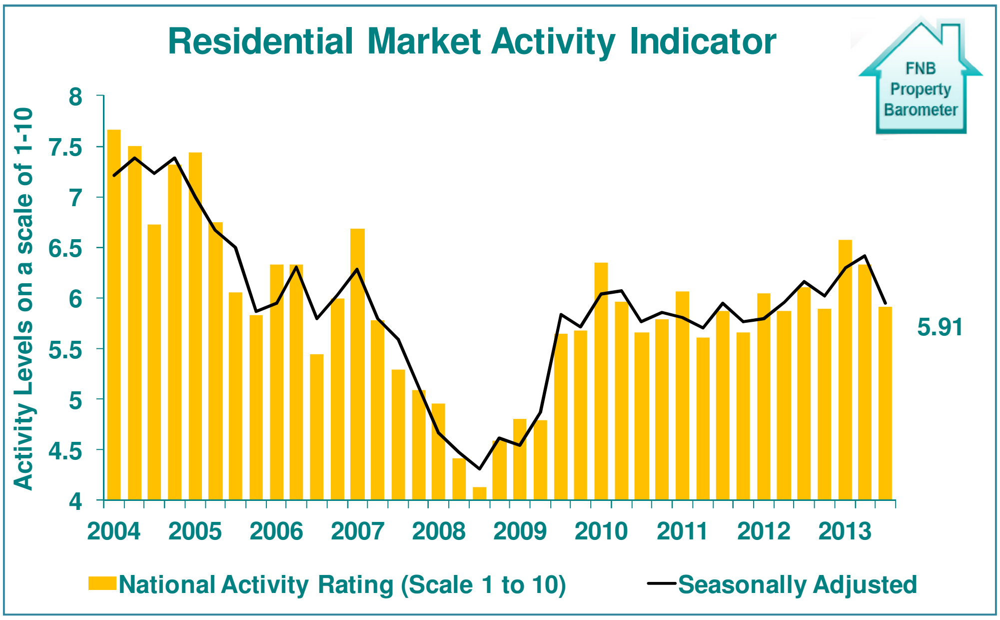
The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential market activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.

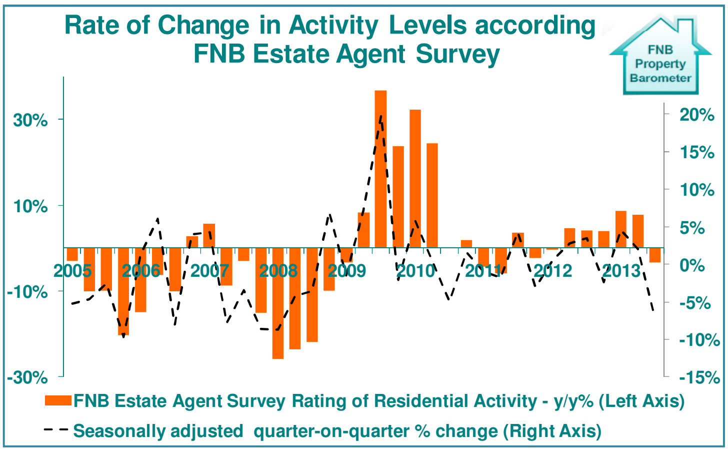
The 3rd Quarter Residential Activity Indicator declined from the previous quarter's 6.33 to 5.91. While seasonal factors can play a role during Winter, our statistically seasonally-adjusted version of the Indicator also declined from 6.41 to 5.95 from the 2nd to the 3rd quarter, suggesting that the decline was more than just seasonal.

This noticeable seasonally-adjusted decline in the activity rating comes after a broad rising trend which started back in early-2012.

Despite the 3rd quarter Activity Indicator decline, the Activity Rating level remains firmly in the "stable" bracket (a level from 4 to 6), and indeed that is how we would describe the market too, with our own FNB House Price Index growth rate being very close to consumer price inflation at just above 6%, translating into very stable house price levels in real terms.

The other rating brackets are the "Positive" bracket, which would comprise a rating of 7 to 8, "not very active (1 to 3), and "very active (9 to 10).

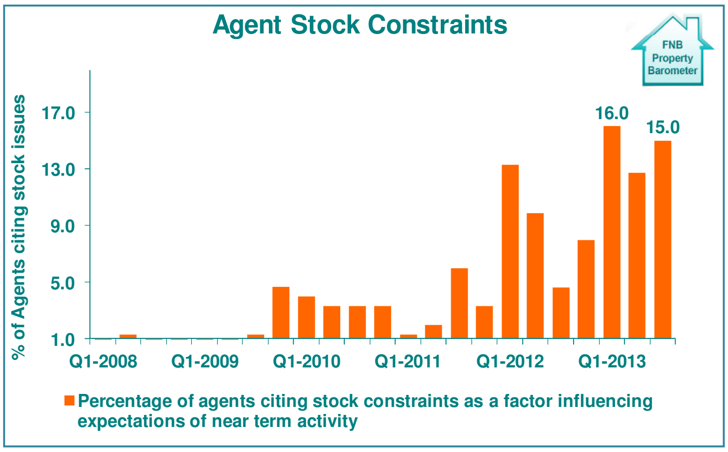




Examining the percentage change, we saw a year-on-year decline in the Residential Activity Rating in the 3rd quarter, to the tune of -3.3%, the 1st decline in 6 quarters after a period of gradual positive growth since early-2012.

However, while agents saw activity declining a little, which may imply a slight slowdown in demand, this doesn't mean that they experienced any weakening in the market's performance when one considers the balance between demand and supply.

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



Since early-2011, the levels of demand, combined with a low level of new residential development, have been sufficient to cause mounting stock constraints.

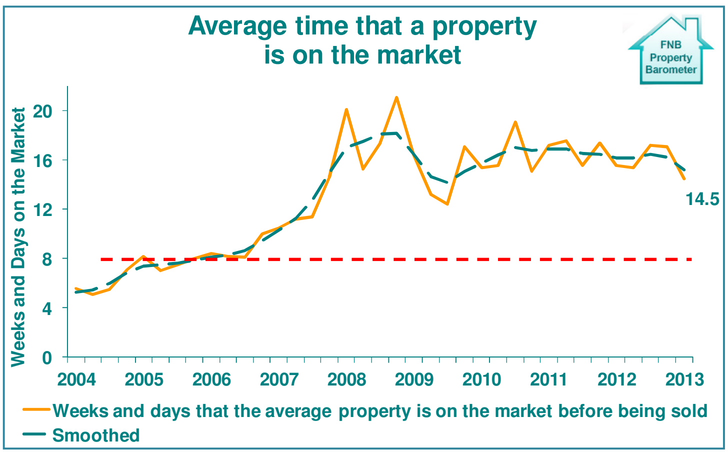
Trying to gauge the strength of supply of residential stock through asking survey respondents for their opinion is a tall order. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way. In the 3rd quarter of 2013, we saw a mild increase in the percentage of agents citing stock constraints as a factor influencing their near term expectations, from 12.7% in the previous quarter to 15%.

This translates into an average of 14.6% of agents in 2013 citing stock constraints, up from a 9% average for 2012.

SIGNIFICANT STOCK CONSTRAINTS MAY HAVE STARTED TO TRANSLATE INTO A FASTER PACE OF SELLING

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 2nd quarter estimate of 17 weeks and 1 day in the previous quarter, the estimated average time on the market in the 3rd quarter 2013 survey declined noticeably to 14 weeks and 5 days.

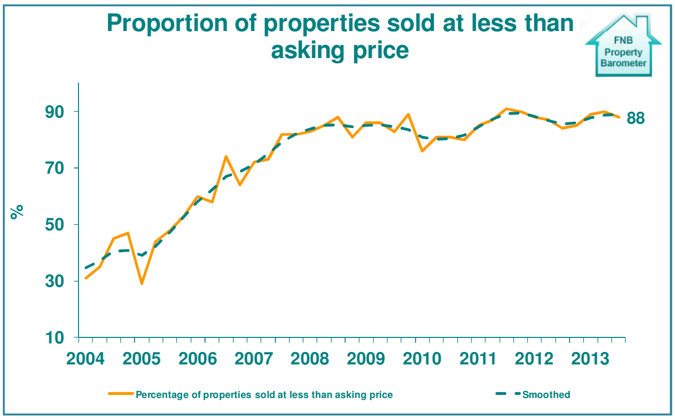


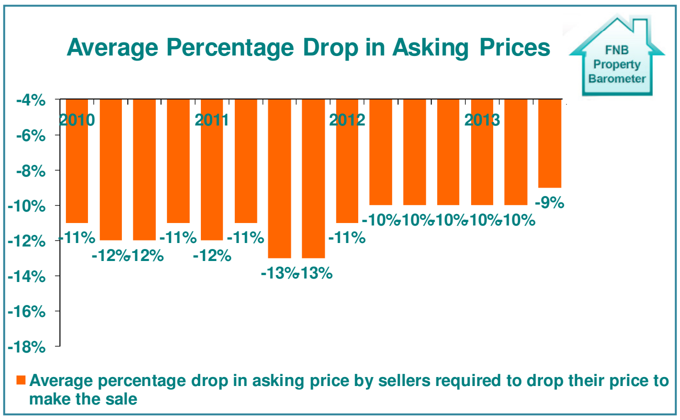
Month to month fluctuations can be a little volatile, so one quarter's decline doesn't yet prove much. However, the 3 consecutive quarters of significant stock constraints reported by part of the agent panel could conceivably be starting to have what could be a more lasting decline in the average time of homes on the market.

At 14 weeks, the average time on the market is still significant, compared to the below-2 month level back in 2005/6, and still probably not yet conducive to significant real house price growth. But the direction is the right one from a price performance point of view.

AND THE EXTENT OF DROPPING OF ASKING PRICES RECEDES VERY SLIGHTLY

Along with agents pointing to a decline in the average time on the market in the 3rd quarter survey, which is often seen as a good indicator of seller pricing realism in the market, they also estimated a very slight decrease in the percentage of sellers being required to drop their asking price to make a sale, a second indicator of pricing realism.





However, this move is not meaningful, declining from 90% in the 2nd quarter of 2013 to a slightly lower 88% in the 3rd quarter.

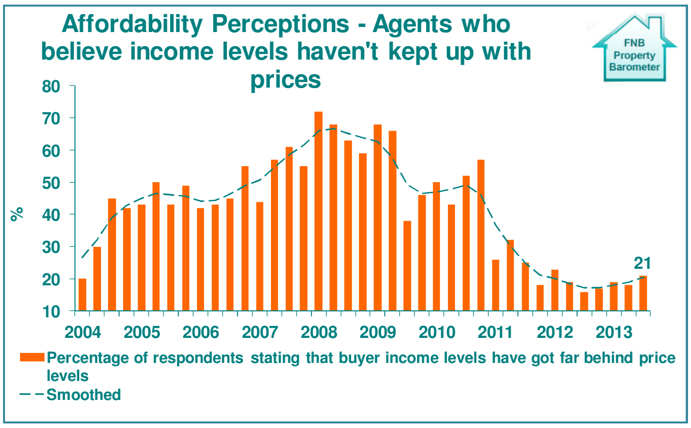
We also ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average drop diminished to -9% in the 3rd quarter after 5 quarters at an estimated -10%. This one percentage point change alone is not significant either, but is now a more noticeable change since -13% at a stage of 2011.

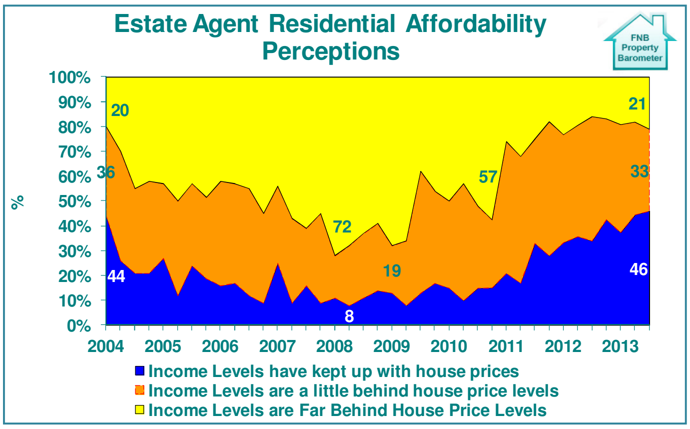
So, although too soon to draw firm conclusions based on one quarter's shifts, the 3rd quarter survey does point to a slight move towards greater price realism, or otherwise put, a better balance between supply and demand.

AGENT PERCEPTIONS OF RESIDENTIAL AFFORDABILITY ARE INCREASINGLY DIVIDED

the FNB Estate Agent Survey asks agents for their general perception of housing affordability through requesting them to choose one of 3 statement options, i.e. "Income levels have kept up with house prices", "Income levels have got a little behind house price levels" or "Income levels have got far behind house price levels". What we appear to be seeing in 2013 is the survey respondents perceiving greater variation in affordability levels between the different areas that they operate in. By this we mean that the "middle of the road" option has receded as a choice for agents, with 33% perceiving "income levels are a little behind house prices", compared to 50% of agents choosing this option in the 3rd quarter of last year.

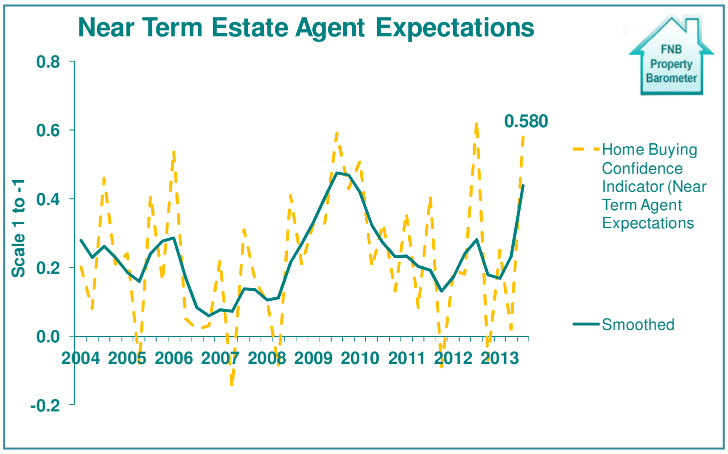
An increasing percentage are choosing both of the other 2 options. Thus the number perceiving "income levels to be far behind house prices has increased from 16% a year ago to 21%, while those perceiving "income levels to have kept up with house price levels" has also risen further from 34% of agents a year ago to 46% in the most recent survey.





Therefore, survey respondent perceptions of affordability have become more unequal in recent times. While not yet pointing to an overall deterioration in affordability, it may be pointing to greater inequality in the financial situations of home buyers. Nevertheless, the largest group of agents nowadays sees income levels as "having kept up with prices". One important point to *add is that interest rates play an important role in these agent perceptions of affordability, and their current abnormally low levels provide a huge boost to affordability which will not always be there in future.*

HOW AGENTS SEE THE NEAR TERM OUTLOOK



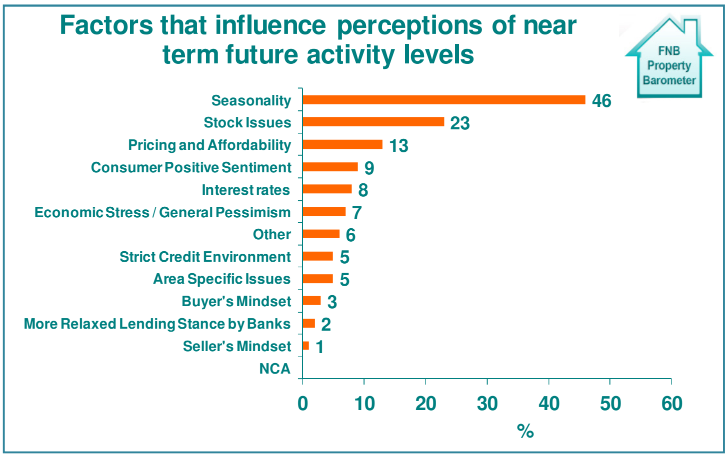
In terms of expectations of activity in the near term, the slight decline in agent perceptions of activity levels did not seem to mean a decline in confidence regarding near prospects.

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 3rd quarter survey, a majority of 61% expected activity to increase in the next 3 months, while 36% expected it to stay the same and only 3% expected a decrease in activity.

This response reflects a significant improvement on the previous quarter's expectations. The "Home Buying Confidence Indicator", the combined result of the various agent expectations, rose from the previous level of +0.02 (on a scale of 1 to -1) to +0.58. The smoothed trendline also pointed significantly higher in the 3rd quarter.

Granted, the major reason for agent expectations of increasing activity to come is seasonal factors as the normally busier summer months approach. However, comparing prior 3rd quarter responses, the customary spike in the 3rd quarter Home Buying Confidence Indicator level is comparable with last year's high level, and significantly higher than the spikes of 2010 and 2011.



When asking agents for the factors influencing their near term expectations, "seasonal factors" are by far the most common factor as one would expect with summer approaching, with 46% of agents citing these.

Thereafter, "stock issues" are the next most significant factor, with 23% of agents citing them, 15% pointing to stock constraints and 8% claiming "lots of stock".

Agents are not all yet perceiving price realism in the market. 13% cite "pricing and affordability issues" as a factor influencing their expectations, with 8.7% still perceiving unrealistically high asking prices and a lesser 4.7% perceiving price realism.

The agents are split on consumer sentiment/confidence, but a slightly greater 9% cite "positive consumer confidence" as a factor as opposed to 7% citing "economic stress/pessimism".

8% of agents cite interest rates as a key factor driving their expectations, of which the majority see low and stable interest rates as a positive factor for activity in the near term.

Therefore, the bulk of the agents foresee a near term increase in activity levels, mostly due to seasonal factors as summer nears. But examining the non-seasonal factor, one nevertheless still sees a leaning of the group of respondents towards "positive" factors with regard to market performance. We put "positive" in inverted commas because not everyone sees the same factor as a positive one. But from a property market performance point of view, as reflected in price growth, stock constraints are a positive factor (though often being a negative factor for agents whose living depends more on volume of sales). More agents cite stock constraints than those claiming oversupplies, and the percentage citing stock constraints remains relatively high of late compared to prior years. A slightly greater percentage see positive consumer sentiment compared to those who cite economic stress pessimism, and low interest rates are seen by more as a positive than those seeing them as a negative.

As yet, therefore, it would not appear that the past quarter's mild decline in perceived residential activity has had any significant impact on estate agent confidence levels, if their near term expectations are anything to go by.