PROPERTY BAROMETER- FNB ESTATE AGENT SURVEY BY SEGMENT

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–It still remains a Lower End story when examining our survey results by income area segments

JOHN LOOS:
HOUSEHOLD AND PROPERTY 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 STILL POINT TO NOTICEABLE GAP IN "MARKET FUNDAMENTALS" BETWEEN THE LOWER INCOME AREA SEGMENTS AND THE HIGHER ONES

FNB Estate Agent Surveys continue to point to a considerable gap between, on the one hand, the Lower and Middle Income Area segments, and the Upper Income and High Net Worth Segments on the other hand, with the 2 lower segments' market fundamentals still seemingly significantly more impressive.

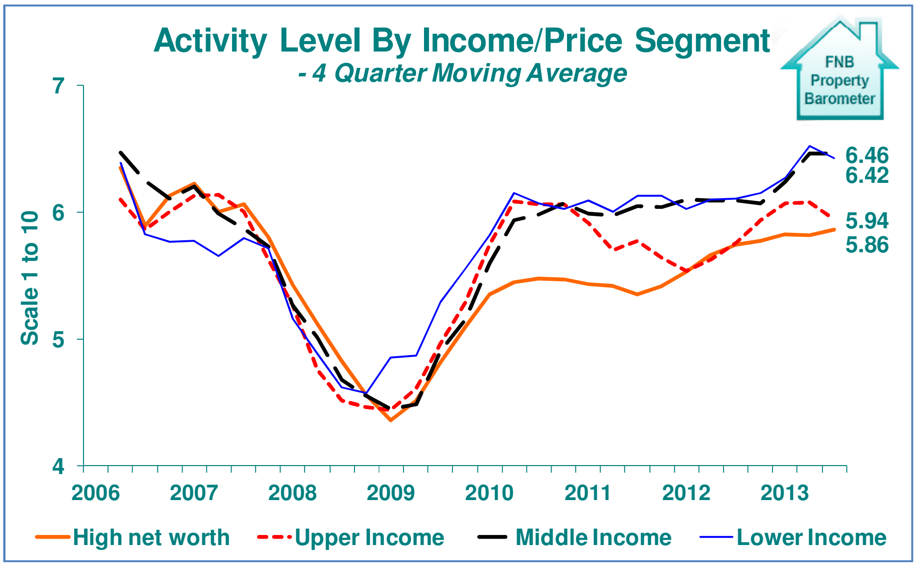
The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.

This report focuses on the 4 income segments defined in the survey. For this exercise, we use 4-quarter moving averages in our data, so as to smooth out data volatility from quarter to quarter (with segment sample sizes being limiting) 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 2nd quarter 2013 price = R3.376m), the Upper Income segment (average price = R3.208m), the Middle Income segment (average price = R1.364m), and the Lower Income segment (average price = R911,100).

Examining average agent activity ratings (scale of 1 to 10) by segment for the 4 quarters up to and including the 3rd quarter of 2013, the Middle Income segment comes out top with an average rating of 6.46, but there is only an insignificantly small difference between this rating and the 6.42 rating for the Lower Income segment. However, the gap between these 2 segments and the Upper Income segment's 5.94 rating, as well as the High Net Worth segment's 5.86, is more significant.

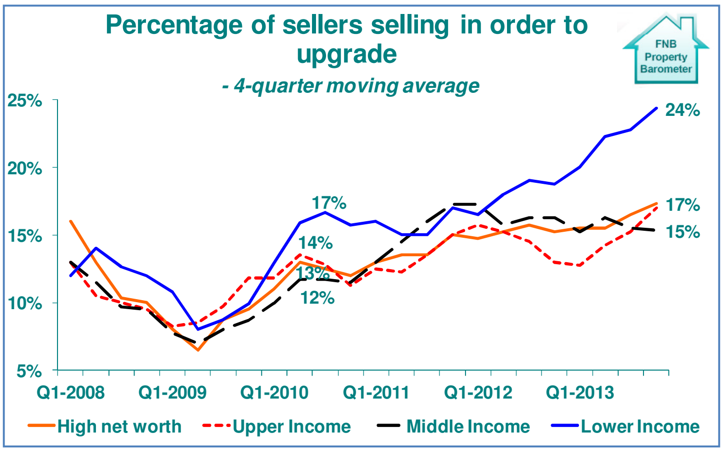
In terms of the relative performances of segments, after a significant narrowing of the activity gap between Upper Income Areas on the one hand, and Lower and Middle Income Areas on the other, during 2012, recent quarters' survey results appear to have seen the gap open up once more, with the Upper Income segment activity rating deteriorating more noticeably.



The High Net Worth segment's activity rating has lagged the others noticeably and consistently since 2010.

STRONG UPGRADE-RELATED SELLING IN THE LOWER INCOME AREAS MAY BE PROVIDING STRONG SUPPORT TO MIDDLE INCOME AREAS

A noticeable feature of the Lower Income Area Segment since early-2012 has been a steady rise in the percentage of sellers believed to be selling in order to upgrade to a better home, reaching 24%. So, while solid 1st time buying, in these times of low interest rates and relatively easy access to credit, is probably a key driver of the superior activity levels perceived in the Lower Income Areas, strong levels of selling in order to upgrade in Lower Income Areas may be a key driver of activity levels in the next segment up, i.e. the Middle Income Area Segment, as a group of sellers moves upward to their next purchase.

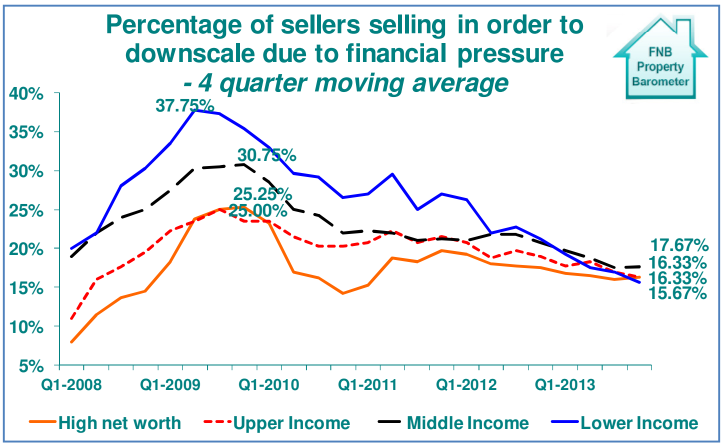


By comparison, the Middle Income Area segment has a significantly lower 15% of sellers selling in order to upgrade, and unlike the Lower Income Area Segment's steady rising trend in "upgrade-related" selling, its own upgrading percentage has been trending sideways-to-lower since early-2012. Similar more moderate trends in upgrading have been witnessed in the Upper Income and High Net Worth Areas too.

So, whereas the Middle Income Area Segment may be receiving a strong boost from upgrading out of the Lower Income Segment, the Upper Income and High Net Worth Areas may not be receiving quite the same level of support from the immediate level below them.

FINANCIAL STRESS-RELATED SELLING IN ORDER TO DOWNSCALE HAS IMPROVED (DECLINED) MORE RAPIDLY AT THE LOWER END

The Lower Income Segment has also seen the financial strength of its homeowners improving at a more rapid rate than all of the other 3 segments, off a higher base, since the height of financial stress in 2009.



So, compared to a peak of 38% back in the 2nd quarter of 2009, Lower Income Areas have seen their estimated percentage of sellers believed to be downscaling due to financial pressure decline to 15.7% for the 4 quarters up until and including the 3rd quarter of 2013.

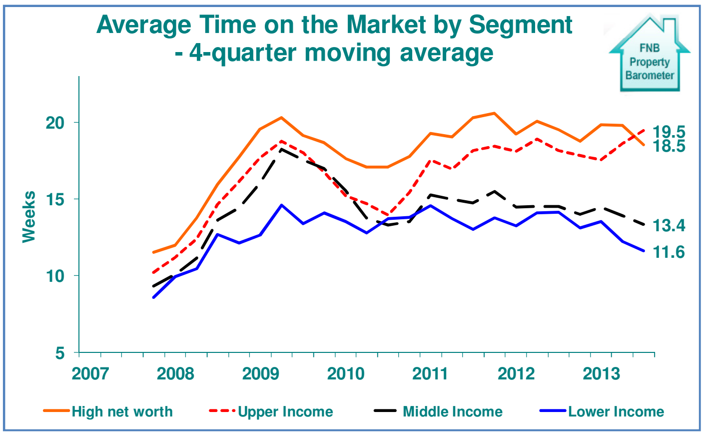
A word of caution is required here. It is important to remember that low interest rates mask many financial frailties, so one must be careful of drawing conclusions as to how sustainable this better financial performance is when tougher times come again one day, but for the time being the improved home owner financial performance is noticeable, and more supportive of the property market, especially at the Lower Income End. And over the past 4 quarters, the Lower Income Area financial stress-related downscaling percentage has even moved below the percentages of Middle Income Areas (17.7%), Higher Income Areas (16.3%) and High Net Worth Areas (16.3%).

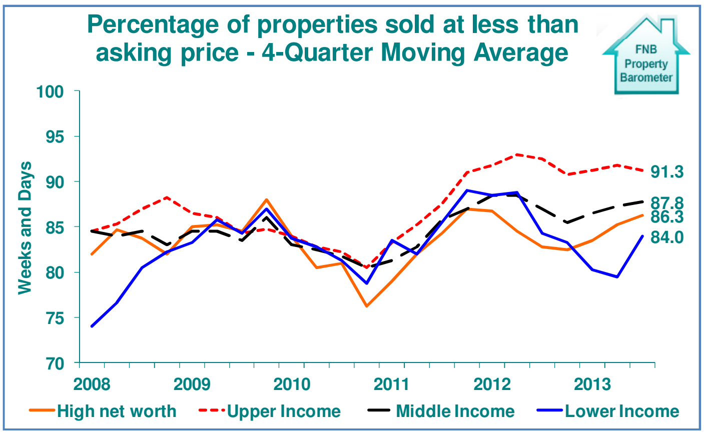
SELLER PRICE REALISM ALSO APPEARS BEST IN THE LOWER INCOME SEGMENT

The Lower and Middle Income segments still appear to maintain a significant gap between themselves on the one hand, and the Upper and High Net Worth Segments on the other hand, in terms of more realistic pricing.

For the 4-quarters up until the 3rd quarter of 2013, the average estimated time of homes on the market prior to sale for the Lower and Middle Income segments, was 11.6 weeks and 13.4 weeks respectively. By comparison, the Upper Income and High Net Worth segments recorded 19.5 weeks and 18.5 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 and the 2 lower segments widened in the 1st 3 quarters of 2013, with the Upper Income segments' times on the market actually rising, while the Lower and Middle Income Area Segments saw declines.

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 84% of total sellers for the past 4 quarters, and this segment also showed the largest improvement from early 2012 until 2013 before a deterioration in the 3rd quarter of this year.





CONCLUSION

Therefore, when examining the FNB Estate Agent Survey by Income segment, we see the Middle and Lower Income segments' agents being more upbeat on activity than the 2 segments further up the income/price ladder. After having shown some significant catch up through 2012 by especially the Upper Income segment, 2013 to date appears to have seen the gap in market fundamentals between the Lower and middle Income segments, on the one hand, and the 2 higher priced area segments widening once again, as activity level ratings slowed a little more noticeably in the Upper Income Area segment.

Indeed, not only in terms of activity levels but in terms of other market indicators, too, especially the Lower Income Area segment has shown a noticeable improvement. These improvements include a steady rise in "selling in order to upgrade", the most impressive decline in "selling in order to downscale due to financial pressure" off a very high base since 2009, and a further decline in the average time on the market.

So, in short, the Lower Income Area segment appears to generally possess the most solid market fundamentals of the 4 income segments, followed closely by Middle Income Areas, although the Middle Income Areas have been rated very slightly better on activity than the Lower Income segment.

One must continue to sound the necessary cautions, however. The Lower Income segment can be more extremely affected by economic and interest rate cycles both in a negative way in bad times and in a positive way in good times. Currently, abnormally low and stable interest rates play more into the hands of the Lower Income Area segment than is the case for the higher income end, and the results have been showing in this segment's superior performance, it would appear. But the recent solid performance by this segment does not necessarily mean that its superiority is sustainable once the interest rate cycle turns.