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PROPERTY BARCOMETER

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FNB ESTATE AGENT HOME BUYING SURVEY

– 4th Quarter 2013 survey sees a resumption of residential activity improvement after previous quarter's slight decline, as the residential market seemingly defies very weak economy.

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ON AVERAGE, ESTATE AGENTS PERCEIVED A STRENGTHENING IN RESIDENTIAL ACTIVITY IN THE 4TH QUARTER OF 2013

The 4th Quarter 2013 FNB Estate Agent Survey, completed in the month of November, saw a resumption of strengthening in perceived domestic residential property activity, after the preceding quarter's reading had dipped slightly.

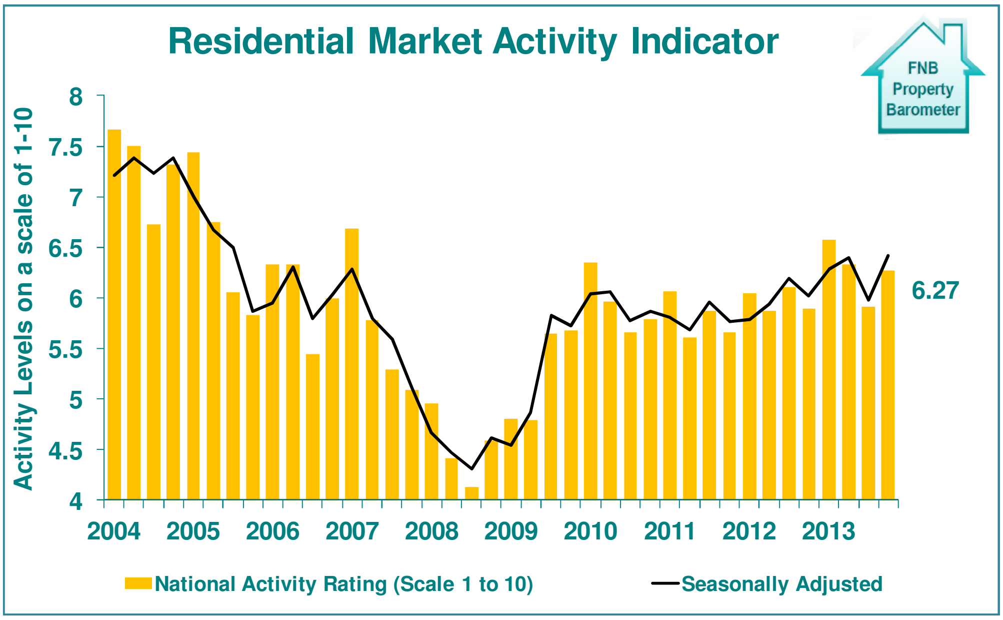
The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential market activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.

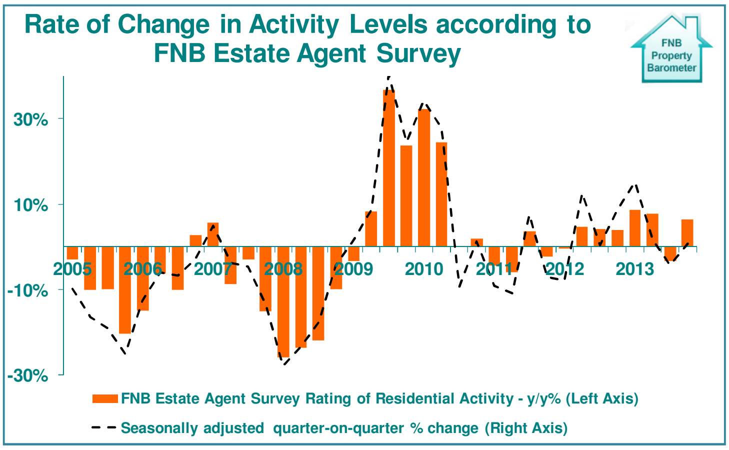
The 4th Quarter Residential Activity Indicator rose, from the previous quarter's 5.91, to 6.27. This increase would appear to be more than just positive seasonal factors as the summer arrived, because our statistically seasonally-adjusted version of the Indicator also rose from 5.98 to 6.41 over the 2 quarters.

This rise in the Activity Rating in the 4th quarter of 2013 suggests that the gradual strengthening trend in the market through 2012 and 2013 is still intact, and that the mild seasonally-adjusted decline in the preceding quarter did not yet signal a trend change.

The 4th quarter Activity Indicator increase makes sure that the Activity Rating level remains in the "stable" bracket (a level from 4 to 6), and indeed that is how we would continue to describe the market too, with our own FNB House Price Index growth rate for 2013 having averaged price growth slightly above consumer inflation, implying 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).



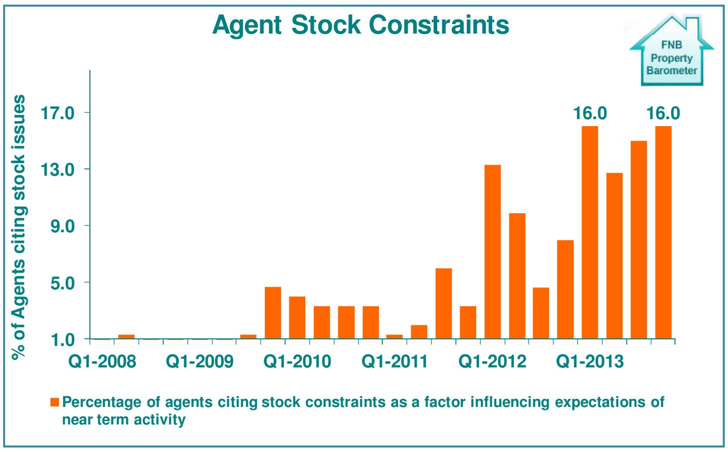


Examining the percentage change in the Activity Indicator, we saw a year-on-year increase in the Residential Activity Rating in the 4th quarter of 2013, to the tune of +6.5%, the 6th quarter of increase out of 8 in the 2 years since the beginning of 2012.

This rising trend in the activity rating through 2012 and 2013 has been more "gradual" than the short sharp growth surge of 2009/10 (the 2009/10 surge being driven by huge interest rate cutting at the time) which tapered off relatively quickly in 2011.

Along with the gradually rising activity trend, agents also saw a broad improvement in the balance between demand and supply in 2013.

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



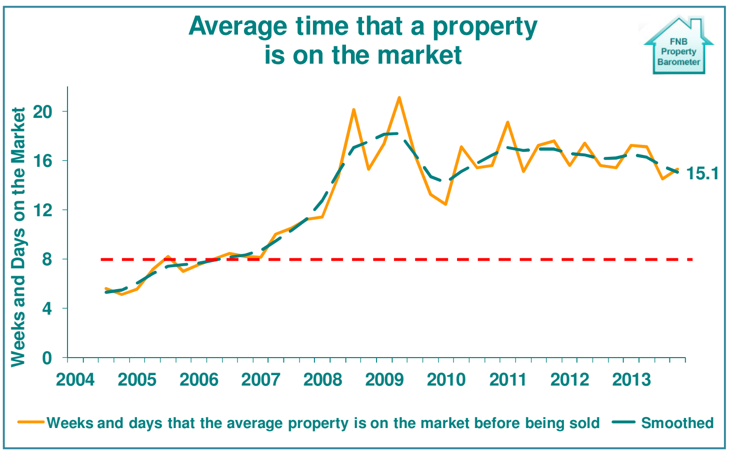
Along with the rise in residential activity levels over the past 2 years, which reflects a rise in residential demand, has come a rise in "stock constraints" experienced by certain estate agents.

These stock constraints are also reflective of building activity which has remained relatively weak in recent years.

It is tough to gauge the strength of supply of residential stock through asking survey respondents for their opinion. 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 4th quarter of 2013, we once again saw a significant 16% of agents citing stock constraints as a factor influencing their near term expectations. This was slightly higher than the 15% recorded in the 3rd quarter, and the bigger picture shows 2013 to have been a more constrained year than 2012, with an annual average of 15% of agents citing stock constraints, up from 9% for 2012.

THERE ALSO EXISTS A BROAD TREND TOWARDS A FASTER PACE OF SELLING, DESPITE A SLIGHT 4TH QUARTER RISE IN AVERAGE TIME ON THE MARKET

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.



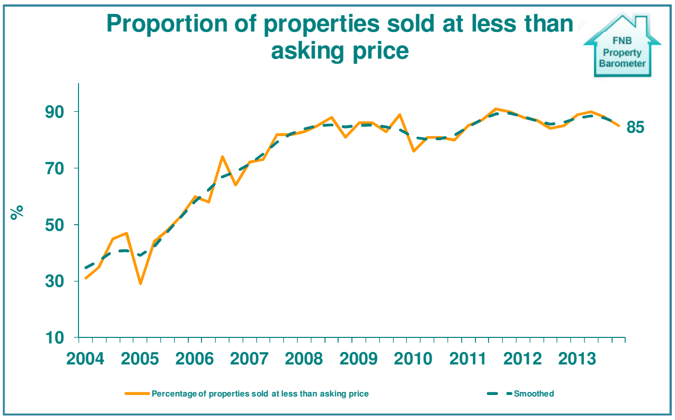
From a 3rd quarter estimate of 14 weeks and 5 days in the previous quarter, the estimated average time on the market in the 4th quarter 2013 survey rose very slightly to 15 weeks and 1 day.

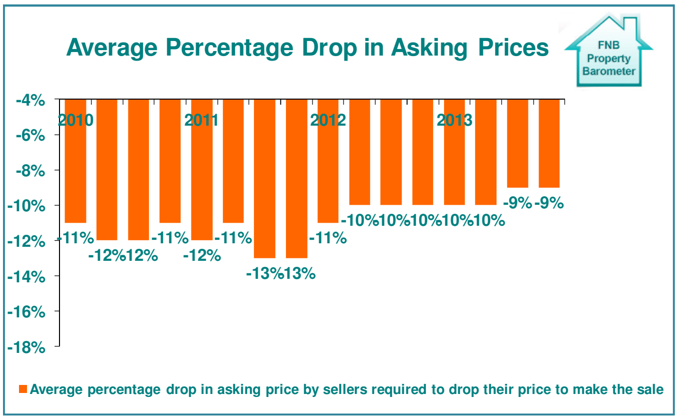
However, quarter-to-quarter fluctuations can be a little volatile, so one quarter's rise doesn't prove much. More significant is that the smoothed trend line continues to point to a broadly declining trend in the average time on the market ever since a 19 weeks and 1 day high at the beginning of 2011.

Nevertheless, at around 15 weeks, which remains a lengthy time compared to the levels of 2004/5, this estimate still does not point to a "buying frenzy" or booming market. Things still seem by-and-large "rational and calm".

THE EXTENT OF DROPPING OF ASKING PRICES RECEDES VERY SLIGHTLY

Along with agents still pointing to a significant average time on the market in the 4th quarter survey, which is often seen as a good indicator of seller pricing realism in the market, they also continue to estimate a high percentage of sellers being required to drop their asking price to make a sale, another important indicator of pricing realism.





However, they once again report a slight decline in this percentage, from 88% in the 3rd quarter to 85%, but this too remains far above the level of around 30% back in early-2004.

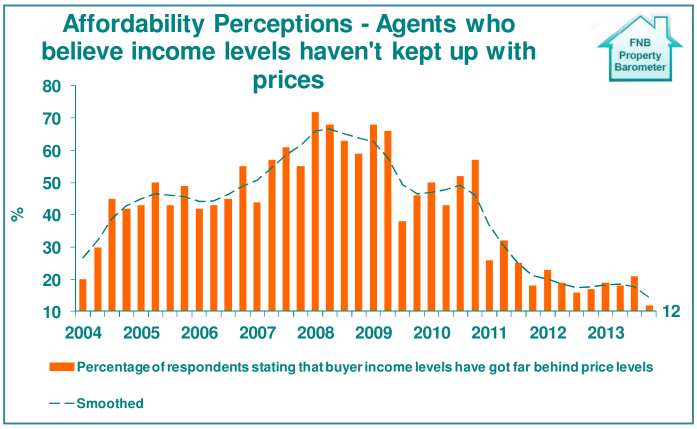
We also ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average drop remained at -9% in the 4th quarter survey, the same as in the 3rd quarter, but is now noticeably less in magnitude than estimates of -13% at a stage of 2011.

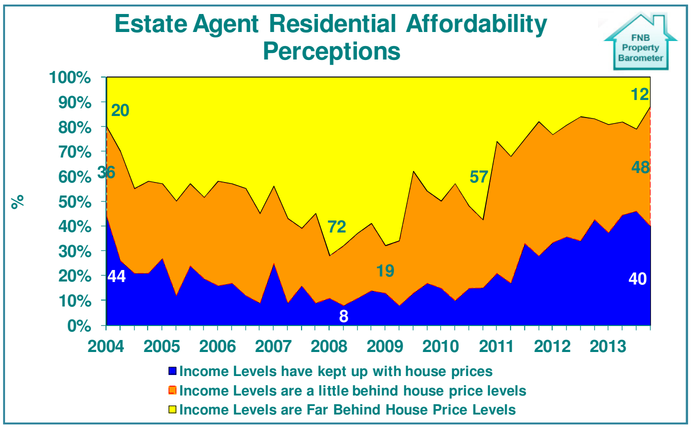
So, a broadly declining trend in average time on the market since 2011, despite a slight increase in the most recent survey, mild recent decline in the percentage of sellers dropping their asking price, and a gradually lessening magnitude of average price drop, all points to a slow move towards greater price realism, or otherwise put, a better balance between supply and demand.

AGENT PERCEPTIONS OF RESIDENTIAL AFFORDABILITY

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".

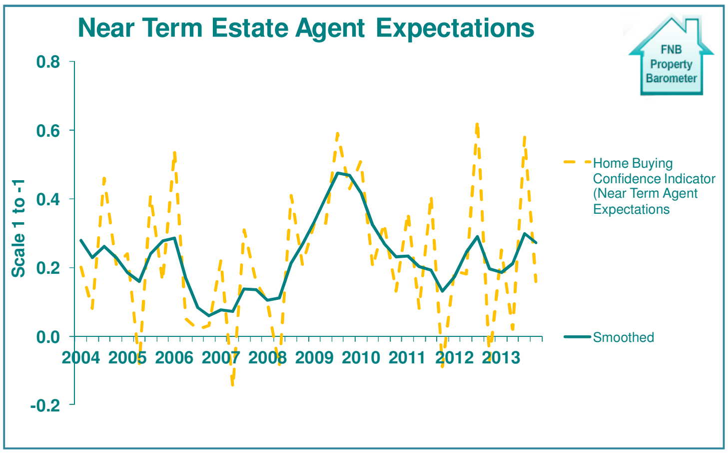
What we appeared to have en at the end of 2013 was a slight deterioration in the average agent perception of residential affordability. This conclusion needs to be qualified, as the percentage perceiving "income levels to be far behind house prices declined from 21% in the preceding quarter to 12% in the 4th quarter 2013 survey. However, those perceiving "income levels to be a little behind house price levels" rose significantly from 33% in the previous quarter to 48%, implying that the percentage of agents believing that income levels have kept up with prices" declined from 46% to 40% over the 2 quarters.





It is too early to ascertain whether the decline in those perceiving income levels to have kept up with prices in the 4th quarter survey is the start of a deteriorating affordability trend. However, given no further interest rate cuts in 2013, weak economic and wage bill growth, and our FNB House Price Index showing accelerating growth late last year, it is entirely possible that we may be entering a period of deteriorating affordability, after an improving trend dating back to around 2009.

HOW AGENTS SEE THE NEAR TERM OUTLOOK

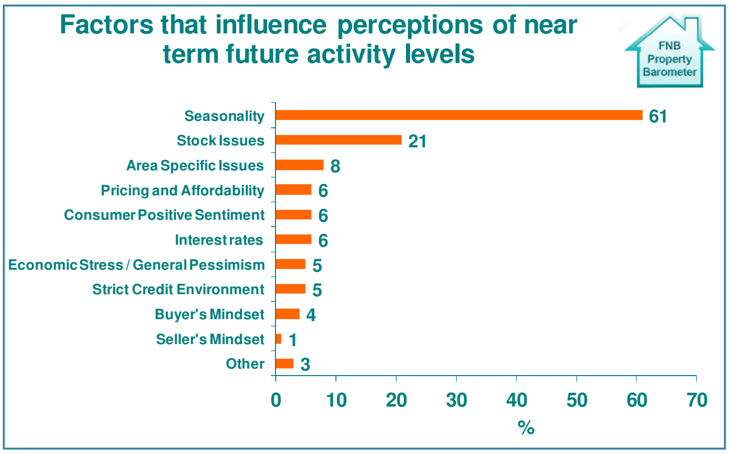


Agent confidence regarding near term prospects remains noticeably above the low points of 2007/8 and 2011, but still not "overly strong".

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 4th quarter survey, 34% of agents expected activity to increase in the next 3 months, down from 61% in the previous quarter, while 48% expected it to stay the same and only 18% expected a decrease in activity.

The "Home Buying Confidence Indicator", the combined result of the various agent expectations, declined from the previous level of +0.58 (on a scale of 1 to -1) to +0.16.However, seasonal factors played the key role here, with 4th quarter survey respondents always expecting a quiet period to come during the December/January holiday period. The smoothed trendline would thus be a better indicators of confidence levels, and at +0.27 this remains one of the higher readings of the past 3 years.



When asking agents for the factors influencing their near term expectations, "seasonal factors" were by far the most common factor as one would expect with the 4th been completed just prior to the quiet summer holiday period, and 61% of agents did cite such seasonal factors.

Seasonal factors aside, "stock issues" were the next most significant factor, with 21% of agents citing them, 16% pointing to stock constraints and 5% claiming "lots of stock".

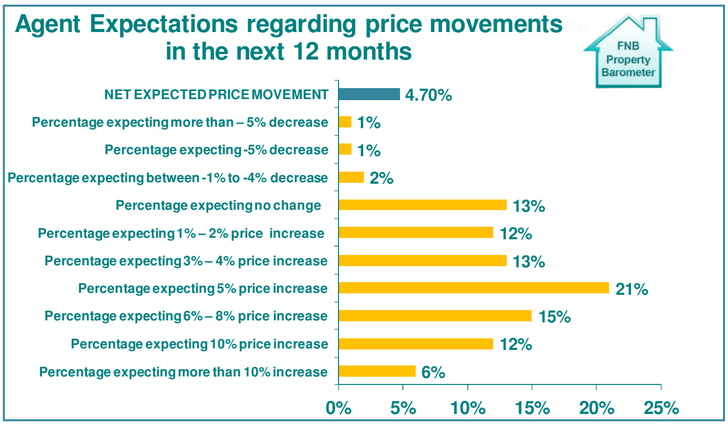
The other influencing factors cited pale into insignificance by comparison. But agents are not all yet perceiving price realism in the market. 6% cite "pricing and affordability issues" as a factor influencing their expectations, with 5% still perceiving unrealistically high asking prices and a lesser 1% perceiving price realism.

The agents were split on consumer sentiment/confidence, but a slightly greater 6% cite "positive consumer confidence" as a prevalent factor as opposed to 5% citing "economic stress/pessimism".

6% of agents cited interest rates as a key factor driving their expectations, of which the majority saw low and stable interest rates as a positive factor for activity in the near term.

Therefore, the bulk of the agents foresaw a near term decrease in activity levels, mostly due to seasonal factors as summer holidays approached. But examining the non-seasonal factors, stock constraints were the next biggest factor cited, and these can have something of a constraining impact on activity levels in the short term, until such time that building activity has increased in response to such constraints. But while stock constraints are not always popular amongst agents, who make their living on turnover volume, it can be positive for house price performance.

So what do agents expect in terms of price performance over the next 12 months? Perhaps, surprisingly, no extreme increase. We have added the price expectations question for the 1st time in the most recent survey, asking agents what they expect in terms of average house price increase/decrease in their areas over the following 12 months.



The most popular survey response was a 5% price increase, which is the view of 21% of respondents, while 15% expect 6-8% increase, 12% expect a 10% rise, and 6% anticipate above 10% growth. However, there is still a significant percentage expecting very little change, no price change, and even a few anticipating price decline, which translates into a "net expected price movement" of +4.7% increase.

CONCLUSION

In summary, therefore, late in 2013, estate agents surveyed continued to point to a very comfortable and gradually improving residential property market, a broad trend that has been in place since early-2012. As a group they point to a market whose levels of activity are in the "stable" range. They perceive the balance between demand and supply to be gradually improving, stock constraints mounting, and gradually improving price realism.

However, they do not yet point to a market that could be classified as "booming or irrational", and they do not appear to anticipate such a market in the near term, expecting house price growth not far from 5%, which would be not far behind our expectations for consumer price inflation.