FNB ESTATE AGENT SURVEY

- Survey points to slowdown being across all price/income segments. Luxury Segment seems most sluggish, but Post-World Cup sentiment can support this segment most.

FNB PROPERTY MARKET ANALYTICS

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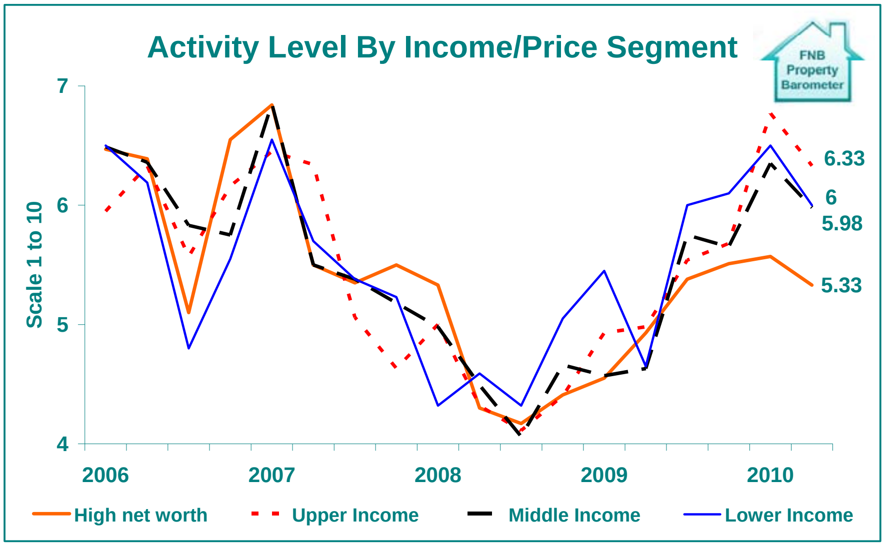
SEGMENTING THE MARKET – LUXURY SEGMENT DEMAND HAS WEAKEST DEMAND, BUT LOWER INCOME SEGMENTS HAVE MORE FINANCIAL STRESS

In previous reports, we've mentioned that the current market is dominated by essentials, and that primary residential demand has been increasing its percentage of the total market (to 90% as at the 2nd quarter). This is the nature of the environment at present, with significant financial pressure still prevalent in the country's household sector.

Segmenting the market in a different way, i.e. by price/income band, we once again see that the luxury, in the form of the High Net Worth Segment (which we'll call the Luxury Property Segment from here on), has taken a back seat.

By this we mean that the Luxury Segment sees its demand in the doldrums relative to segments lower down the price ladder. At least this is what our FNB Estate Agent Survey has been indicating in recent quarters up to and including the 2nd quarter of 2010.



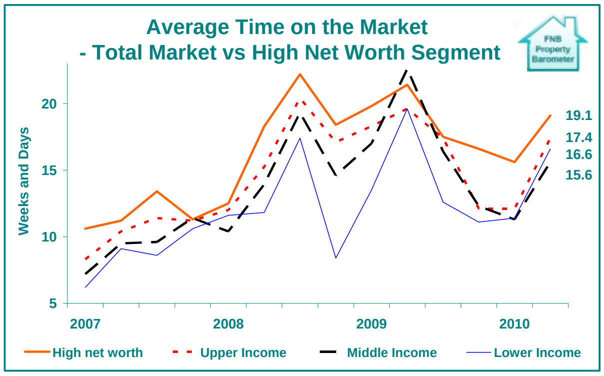
All 4 price/income segments saw a broad recovery in demand from late-2008 to early-2010, and all 4 segments saw a weakening in activity level ratings in the 2nd quarter of 2010. However, whereas the "Upper Income" segment (average price = R2.1m) has achieved the highest demand rating of 6.33 on a scale of 1 to 10, with the "Middle Income" segment (average price = R1.01m) at a rating of 5.98, and the "Lower Income" segment (average price = R554k) at 6, not far behind, the "High Net Worth" segment's (average price R4.01m) rating stands out at a significantly lower level of 5.33.

Consistent with the widening gap in demand ratings between the High Net Worth segment's demand rating and the lower three segments, during the 1st quarter of 2010, was a clear widening of the gap regarding estimated average time of a property on the market.

This gap has narrowed in the 2nd quarter of 2010, but the High Net Worth segment's average time on the market remains longest. Typically, this segment should have a longer average time of home on the market, so one must interpret this gap with caution, but it is more the very low demand activity rating, relative to other segments, that stands out.

The average time on the market for the Luxury Segment was 19 weeks and 4 days, nearly 5 months is significantly up from the previous quarter's 15 weeks and 6 days, reflecting a weakening.

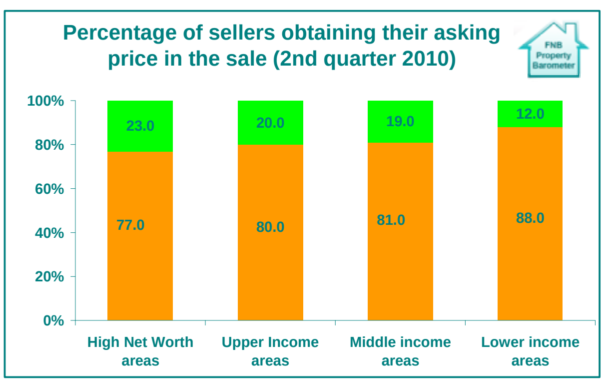
All of the other three income segments have seen their estimated average time on the market rise, too, in the second quarter. The Upper Income Segment averaged 17 weeks and 4 days, the Lower Income Segment 16 weeks and 6 days, and the Middle Income Segment 15 weeks and 6 days.



But looking solely at the demand side of property as a gauge of market strength can be misleading. Examining what sellers do, it would appear that the Luxury Segment in many ways looks to be the more solid, or at least its market participants are financially in the strongest position.

THE APPARENT PARADOX – WEAKER DEMAND BUT LESS FINANCIAL STRESS IN THE LUXURY SEGMENT?

That the Luxury Segment's sellers, on average, hold on to their property for the longest period in order to obtain their price can be seen as a reflection of their superior financial strength. And according to the Estate Agent Survey, after waiting longer, a greater percentage of sellers obtain their asking price, namely 23%. This outstrips the 20% of Upper Income sellers, 19% of Middle Income Areas' sellers, and only 12% of sellers in the Lower Income Segment obtaining their price.



Against this, though, those sellers that are required to drop their asking price in the Luxury Segment have to drop by a larger percentage, i.e. -14% compared to -13% in the Upper Income Segment, -12% in the Middle Income Segment, and -11% in the Lower Income Segment.

Average percentage by which sellers had to drop their asking price to secure the sale	Q2-2010	Q1-2010
Total	12%	11%
Income Market:		
Luxury Segment / High Net Worth	14%	12%
Upper	13%	12%
Middle	12%	11%
Lower	11%	9%

Luxury segment participants on average make for a "cleaner" transaction process. This segment has the largest percentage of sellers selling prior to making an offer on a new home, i.e. an estimated 42% of sellers/buyers.

HOW BUYERS AND SELLERS APPROACH TRANACTIONS	Buy / make an offer prior to selling existing home	Sell existing home prior to buying / making offer on new home	Simultaneously market their existing home and search for a new one
Total	30%	35%	35%
Income Market:			
Very Upper / High Net Worth	27%	42%	31%
Upper	30%	34%	36%
Middle	29%	33%	38%
Lower	31%	34%	35%

This translates into a higher percentage of unconditional sales, i.e 51%, as opposed to the sales of one's existing homes with "subject to" offers to purchase.

At the other end of the price/income spectrum, a lesser 44% of total sales are unconditional.

UNCONDITIONAL SALE VS "SUBJECT TO" SALE	Unconditional Sale	Subject to Sale of Existing Home
Total	49%	51%
Income Market:		
Very Upper / High Net Worth	51%	49%
Upper	49%	51%
Middle	48%	53%
Lower	44%	56%

In short, the high value of the Luxury Segment's homes makes the selling and buying decision a far more "seriously considered" matter than in the lower income bands, and this understandably implies that the decision making process surrounding luxury home investment may be longer, and sales thus slower.

However, the high net worth participants in this market still need to have the superior financial means to cover higher holding costs associated with a property being on the market for longer, and the Estate Agent Survey reasons given for selling suggest that indeed the high net worth sellers still do.

Examining the table on the following page regarding reasons for selling, the percentage of sellers selling "in order to downscale due to financial pressure" is at its lowest in the Luxury segment, i.e. 12%. This percentage, a good indicator of the level of financial stress in a segment, rises as one goes down the income bands, to reach as much as 28% in the Lower Income Segment.

So, it would appear that there is a lower level of financial stress in the luxury segment. However, if one looks at another reason for selling, i.e. the percentage of sellers selling in order to upgrade, here the Luxury Segment appears least healthy, showing the lowest percentage of sellers of the 4 income bands, i.e. 12%. When this survey question was started back in late-2007, the Luxury segment had the highest rate of upgrading.

So what can explain the Luxury segments weak demand rating, while its participants seem to have a lower rate of financial stress compared with lower income areas?

One explanation possibly lies in the manner in which high net worth households lose income in tough economic times. It is possible that income loss amongst high net worth households is more evenly distributed than is the case in lower income groups. Arguably a higher portion of high net worth household are self-employed, i.e. run their own businesses, while as one moves towards the lower income bands one may find a higher percentage are fixed salary employees. Self-employed people, with a client base, can often find themselves losing a part of their income but not all, whereas in the case of "employees", those not losing their jobs can lose very little income while those losing their jobs lose it all. On top of this, high income "employees" often have a higher portion of their total remuneration being "flexible", and falling away in tough economic times, while being in the highly-skilled bracket protects them to a greater degree against job loss. In addition, the wealthy receive a greater portion of their income from investments, and many investments do not perform well in recessionary times.

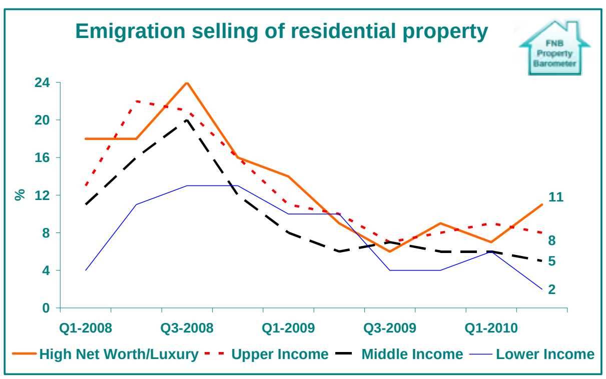
So, in a nutshell, it is possible that a greater portion of high net worth individuals lose some income, but a smaller percentage of them lose it all. Hence, while there is less downscaling due to financial pressure in the Luxury Segment, reflecting a lower portion of households in "dire straits ***(this curbs supply of property onto the Luxury market)****", there is also a smaller percentage of households in this segment buying in order to upgrade* ***(this curbs the demand side as well as supply)****, suggesting that this group nevertheless feels the financial pressure post the recession, but that the pressure is just more evenly spread, enabling a greater percentage of households to cope but perhaps a lower percentage to buy to upgrade.*

Reasons for selling (As % of Total Sales)	**Total**	**High Net Worth**	**Upper income**	**Middle income**	**Lower income**
Downscaling due to financial pressure	**20%**	**12%**	**18%**	**22%**	**28%**
Downscaling with life stage	16%	15%	16%	17%	13%
Emigrating	**7%**	**11%**	**8%**	**5%**	**2%**
Relocating within SA	7%	13%	6%	5%	3%
Upgrading	**15%**	**12%**	**16%**	**14%**	**17%**
Moving for safety and security reasons	14%	13%	12%	16%	15%
Change in family structure	14%	17%	14%	12%	14%
Moving to be closer to work or amenities	8%	7%	9%	8%	8%

BUT "FOREIGN" FACTORS MIGHT BE A MORE PLAUSIBLE REASON FOR RELATIVE WEAKNESS IN LUXURY DEMAND?

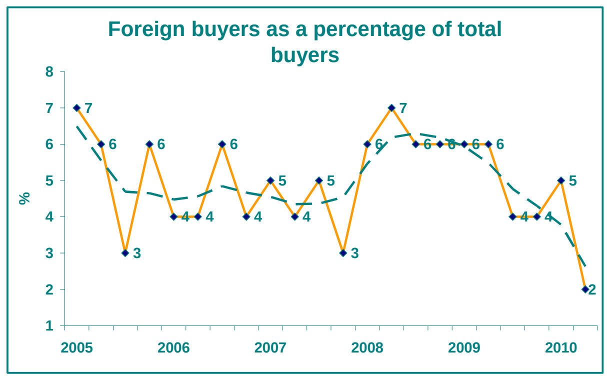
On top is this, foreign factors may have played a negative role in the 1st half of the year.

Although quarter-to-quarter data movements can be volatile, agents surveyed indicated a rise in the percentage of sellers selling in order to emigrate in the Luxury Segment, from 7% previous to 11% in the 2nd quarter, with both quarters being up from the 6% low point reached in the 3rd quarter of 2009.



Simultaneously, they reported a noticeable decline in foreign buying in the 2nd quarter to just 2% of total buying, which we would believe to impact far more on the luxury end of the market as opposed to the lower income segments.

Once again, one must remember that these data movements can be volatile on a quarter-to-quarter basis.



IN CONCLUSION

Putting emigration selling and low foreign buying together, it is possible that relative weakness in the Luxury Segment's demand levels in the 1st half of 2010 may be explained by these factors rather than due to financial stress, which doesn't appear to be worse in the Luxury Segment.

Should this be the case, we would expect to see the post-World Cup picture change significantly. While the World Cup would probably not prevent a cyclical downturn in any of the segments, it is possible that we could see a narrowing in the gap between the low level of demand in the Luxury Segment versus that of the other 3 segments. We believe that the Luxury Segment is more sensitive to both negative and positive drivers of national sentiment, compared to lower income echelons where property need drives buying to a greater degree. Lack of foreign buying early in 2010 and a rise in emigration selling (i.e. a group of sellers who don't buy again) may have hampered the Luxury Segment to a greater degree than others. We now look to the World Cup sentiment boost to turn this relative position around.