FNB HOME BUYING ESTATE AGENT SURVEY BY SEGMENT

- The Lower Income end led the recent "mini-upswing"…..but the it isn't clear that this segment is in healthy shape

FNB Property Barometer

FNB PROPERTY MARKET ANALYTICS

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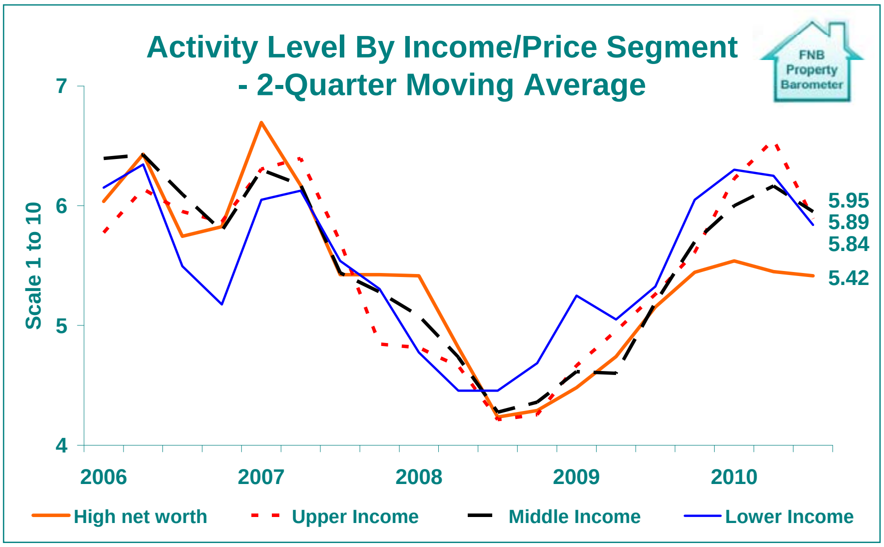
THE HIGH END CONTINUES TO GIVE THE WEAKEST DEMAND READINGS, BUT THE LOWER INCOME END STILL APPEARS UNDER THE MOST PRESSURE

It is tough, in the current property environment to pick out clearly superior segments of the market, with most segments experiencing weakness. And weakness may not always be what it seems. From around mid-2008 to late-2009, the FNB Estate Agent survey pointed to the lower end of the residential market as possibly leading the recent "mini-cycle upswing" in terms of demand. Using a 2-quarter moving average (for smoothing purposes), agents providing us with their demand activity level ratings for the survey (scale of 1-10) indicated a quicker turn for the better in "Lower Income Areas" (average price = R595,000) in the 2nd half of 2008, and a consistently higher 2-quarter average demand activity level rating for this segment up until early-2010 when compared to the 3 higher income/priced segments. At the other end of the spectrum, the so-called "High Net Worth" income segment (average price = R4.25m) regularly showed the lowest demand activity reading, and in 2010 has reportedly lagged far behind the rest.

However, before one gets too excited about lower end property just yet, it would appear that this segment may be running out of steam the fastest, too, whilst the High Net Worth segment has begun to show a very stable demand activity reading, albeit still lower than the other more rapidly declining segments. The 2-quarter average demand activity rating for the Lower Income segment, as at the 3rd quarter of 2010, was lower than the Middle Income (average price = R1.18m) and Upper Income (average price = R1.78m) segments, at a rating of 5.84. Only the "High Net Worth" (average price = R4.25m) segment has clearly shown a far lower average demand rating in recent quarters.



This may suggest that, far from being a market segment in healthy shape, the Lower Income Segment is merely more cyclical because it is perhaps more dependent on credit buying than is the case in the High Net Worth Segment, with the other 2 income segments somewhere in between.

It is important to note here that the agent survey is dominated by the highly-traded former White Surburbs of the major metros, so the Lower Income end does not necessarily reflect the

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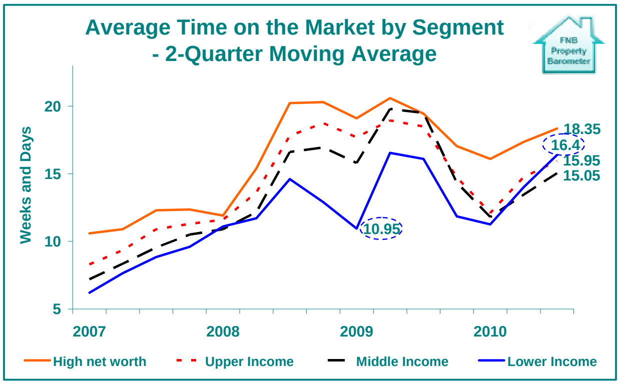
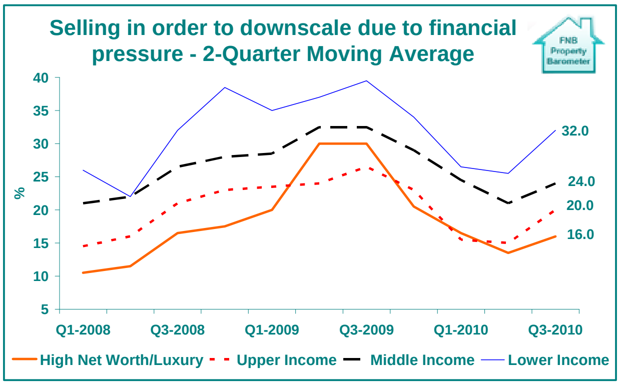
behaviour of the so-called Affordable Housing Segment, which may have a slightly different dynamic.





The 2nd key indicator from the survey, namely the average time that a home is on the market before being sold, also appears to point to a more rapid deterioration in the Lower Income segment. From mid-2008 to early-2010, this segment had the lowest estimated average time on the market. The past 2 quarters, using a 2-quarter moving average, has seen this situation change, with the Lower Income segment having the 2nd highest average time on the market, i.e. 16 weeks and 4 days.

The High Net Worth Segment, by comparison, still has the longest average time on the market, which is normal for this segment, but the gap between itself and the Lower Income Segment was only 2 weeks in the 3rd quarter, compared to around 6 weeks at the start of the year.

Perhaps much of the answer to the question as to why the Lower Income end seems to be slowing more noticeably than the high end lies in estate agents' estimates of selling in order to downscale due to financial pressure. Once again, the aggregate answers that agents give in this regard seem to be consistent with the observation that the Lower Income end is slowing the fastest. The agents estimate that the Lower Income end has arguably made the least progress in sorting out its financial troubles, with estimated selling in order to downscale due to financial pressure having measured 32% on a 2-quarter average basis for the 3rd quarter (36% for the 3rd quarter alone).

While it is probably "natural" for the Lower Income end to have a consistently higher level of financial stress over the cycle than the higher income echelons, it is once again noticeable that the gap between the Lower Income Segment and the other segments seems to be widening as of late. The High Net Worth segment, by comparison, seemingly burnt its fingers badly in 2009, where the graph shows its level of downscaling selling to have "spiked" above that of the Upper Income segment. In more recent times, however, the status quo that one would expect, i.e. the lowest percentage of downscaling to take place in the High Net Worth segment, appears to have been restored.

Therefore, although the Lower Income Segment may have shown the sharpest acceleration in demand during the Late-2008/09 mini-upswing, that is not to say that this segment is in good shape. To the contrary, it would appear that the High Net Worth Segment, at the other end of the spectrum, may be the one that possesses more solid fundamentals in the form of far less financial stress, but it may possess a more cautious group of buyers in what are risky times – not necessarily a bad thing. A greater portion of cash buying on the high end may have also curbed demand growth in 2009, with household income growth generally weak. The lower income segment, by comparison, is arguably more credit dependent, and a massive interest rate drop in 2009 thus probably temporarily stimulated the lower end demand more than it would the very high end. That big interest rate stimulus, however, now appears to wearing thin for the Lower Income segment.

Reasons for selling (As % of Total Sales)	**Total**	**High Net Worth**	**Upper income**	**Middle income**	**Lower income**
Downscaling due to financial pressure	**25%**	**20%**	**22%**	**26%**	**36%**
Downscaling with life stage	18%	16%	20%	19%	15%
Emigrating	**6%**	**8%**	**6%**	**7%**	**2%**
Relocating within SA	8%	10%	9%	6%	6%
Upgrading	**12%**	**12%**	**11%**	**10%**	**16%**
Moving for safety and security reasons	10%	9%	10%	11%	10%
Change in family structure	13%	16%	13%	12%	10%
Moving to be closer to work or amenities	9%	9%	10%	10%	4%