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PROPERTY BAROMETER

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FNB Estate Agent Survey suggests some positive rental market drivers

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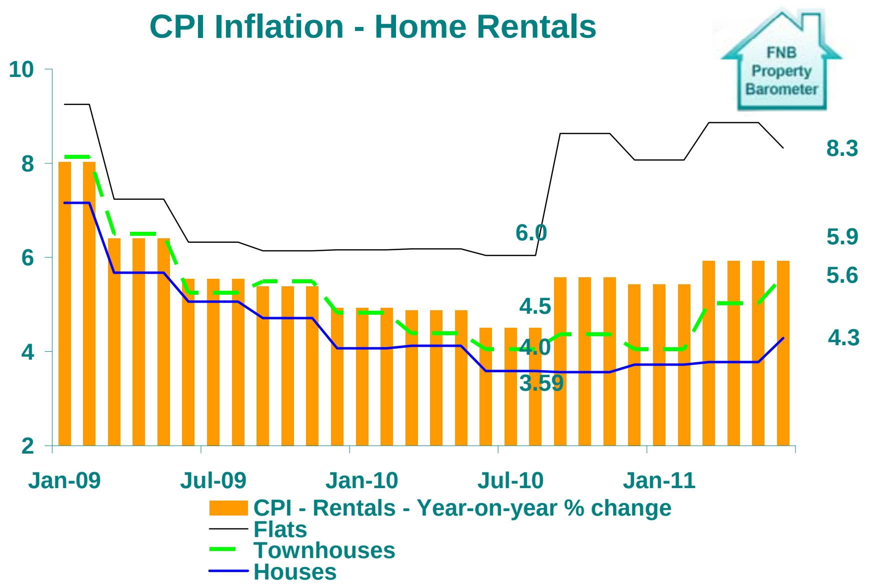
Weak economic times, and the fact that municipalities and parastatals are raising housing-related rates and tariffs is negative for home buying. However, this is not necessarily the case for the performance of the rental market, whose performance we expect to improve in the short to medium term.

1. RENTAL MARKET PERFORMANCE APPEARS TO HAVE BEEN STRENGTHENING

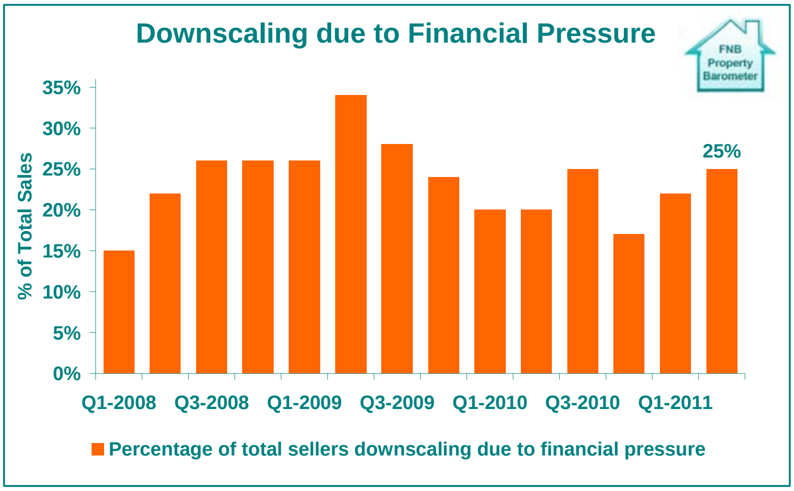
*To date, the rental market appears to have shown some mild strengthening since last year. This at least is according to the StatsSA **actual** rental surveys which take place every three months as part of Consumer Price Index (CPI) survey. Whereas flat rental growth saw a broad acceleration first, from 6% year-on-year as at June 2010 to 8.3% in the June 2011 survey, more recently we have seen more noticeable accelerations in townhouse rental inflation, from 4% to 5.6% over the same period and in house rental inflation, from 3.6% to 4.3% over the 12 month period.*



2. HOUSEHOLD FINANCIAL PRESSURE MAY BE PROVIDING SIGNIFICANT SUPPORT FOR RENTAL PROPERTY DEMAND

In our FNB Estate Agent Survey, we ask the panel of agents to provide an indication of the reasons for sellers selling. They estimate that in their experience about 25% of sellers are "selling in order to downscale due to financial pressure" during the most recent survey that took place in the 2nd quarter.

The 25% estimate of sellers selling in order to downscale due to financial pressure represents an uptick from the previous 2 quarters' estimates, which could either mean an increase in financial pressure (concerning at a time when interest rates



are so low, if this is the case), or it could mean an increase in the number of sellers getting more realistic regarding their financial state. Either way, this remains a high percentage. The percentages are high across income bands, measuring 26% in the agent-defined "High Net Worth Segment", 24% in the Upper Income Segment, 21% in the Middle Income Segment, and 38% in the Low Income Segment.

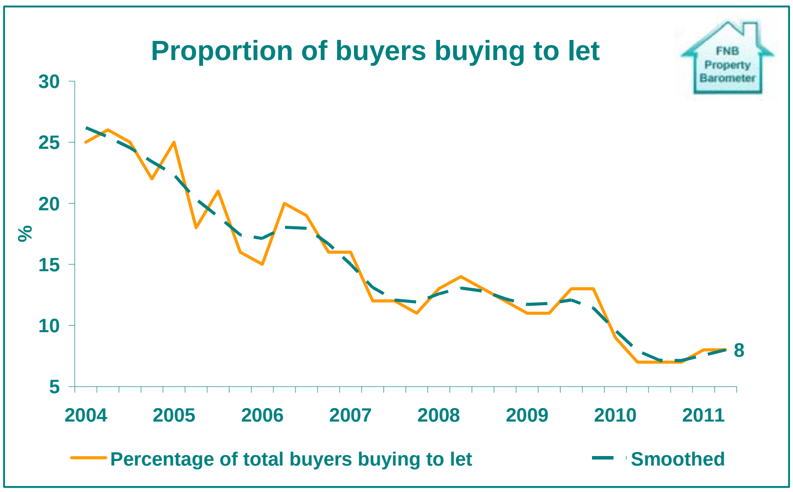
Our perception has long been that many of these sellers move into the rental market following the sale of their home. This would seem to make sense in the near term, given that yields are in many cases still low on residential property, meaning that rental payments can often be more affordable than a new 100% bond instalment. To this effect, we have introduced a question asking agents for a percentage estimate of this category of sellers that intends to rent versus those that intend to buy a cheaper property.

The results are laid out in the table below, indicating that an estimated 51% of sellers selling in order to downscale due to financial pressure intend to rent after selling their property.

This financial pressure-related selling could thus be a very significant driver of residential rental demand.

SELLERS SELLING IN ORDER TO DOWNSCALE DUE TO FINANCIAL PRESSURE	Q2-2011 TOTAL	High Net Worth	Upper income	Middle income	Lower income
Will be renting after selling property	51%	51%	48%	54%	51%
Will be buying a cheaper property after sale	49%	49%	52%	46%	49%

3. WEAK BUY-TO-LET DEMAND EXPECTED TO CONSTRAIN THE GROWTH IN THE SUPPLY OF RENTAL PROPERTY



On the supply side of the rental market, the FNB Estate Agent Survey continues to point to relatively weak buy-to let demand. In the 2nd quarter 2011 survey, the percentage of buyers buying to let remained unchanged from the previous quarter at a lowly 8%. This is only slightly up from the low point reached late in 2010, of 7%, and remains very poor compared to the boom years where the percentage at a stage was up around 25%

The low percentage of buy-to-let buying is also partly a reflection of household financial pressure, with fewer households in a financial position to become landlords at present.

However, other constraining factors on buy-to-let demand include:

- *Recent speculation that interest rates have bottomed and that they may start rising later in 2011 or in 2012;*
- *Low capital growth on property, and many would be property investors are rightly or wrongly focused predominantly on capital growth prospects, which are poor at present; and finally*
- *The dramatic increase in municipal/parastatal rates and tariffs related to owning and running a home. This is a key issue at present. Huge Eskom tariff hikes, announced a few years ago, started the ball rolling, but more recently the Municipal Rates Amendment Bill has put the matter back in the media spotlight. Under this Bill, the proposal is to begin to charge higher commercial assessment rates on residential properties used for financial gain. Government has tried to calm fears by claiming that this amendment is not aimed at rental properties but more at businesses such as guest houses. However, one would expect that many would-be investors adopt a wait and see approach until such time as the Bill is enacted, which could mean more slow going on the buy-to-let front.*

4. CONCLUSION – CURRENT ECONOMIC AND FINANCIAL CLIMATE IS SUPPORTIVE OF A STRONGER RENTAL MARKET

The FNB Estate Agent Survey points towards ongoing weakness in buy-to-let demand, which constrains growth in the supply of rental properties, while simultaneously indicating very significant financial pressure-related selling of property which is also believed to result in significant rental property demand.

1st time buying remains relatively solid, encouraged by low interest rates, and this partly militates against rental demand. Nevertheless, the net result of all of these factors appears to have been some mild rental market strengthening as reflected in the StatsSA CPI survey of rental inflation.

Going forward, ongoing financial pressure in a weak economy, uncertainty regarding the Municipal Rates Amendment Bill, along with increased speculation that interest rates may rise late this year or in 2012, may lead to further pressure on buy-to-let demand, while also possibly dampening 1st time buying enthusiasm and keeping more of these buyers in the rental market.

Regarding the buy-to-let demand outlook, agents expectations of near term buy-to-let demand deteriorated in the 2nd quarter survey did weaken from the 1st quarter survey.

Unlike the home buying market, therefore, the fundaments driving the rental market, currently, would appear quite solid.