

WESTERN CAPE PROPERTY MARKET MATTERS

FNB Estate Agent Survey suggests that Cape Town has a way to go before residential market is strong, but more buy-to-let and first time buyers are apparent, and the region remains SA's premier investment destination

25 August 2011



The 2nd quarter FNB Estate Agent Survey for the City of Cape Town brought about little in the way of fireworks, which isn't entirely out of kilter with the rest of the country at present. However, the market hasn't been without any improvements.

Certain facets of it are indeed better, according to the agent survey, for instance an apparent improvement including buy-to-let buying as well as 1st time buying.



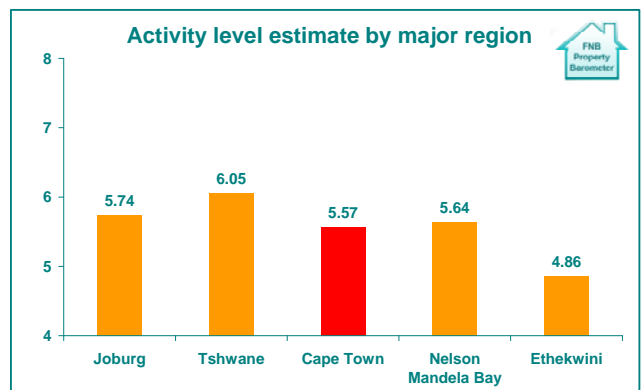
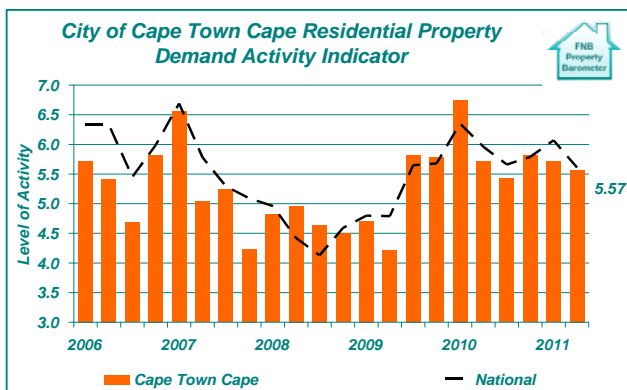
2nd Quarter Activity Level rating was slightly down,...

The very first question which the sample of agents surveyed is asked is how they perceive residential demand activity levels. This is a subjective rating, on a scale of 1 to 10, and our City of Cape Town agents have put the demand rating at an average of 5.57, very much in line with the national average of 5.61.

The number is slightly down on the 5.71 level estimated for the 1st quarter survey, which was half expected due to seasonal factors. However, our economics team suggests that it may be more than merely seasonal, with the impact of the interest rate cuts late in 2010 starting to wear thin.

Comparing our estate agent activity level rating with the other major metro regions surveyed, we see the City of Cape Town very much in the middle of the pack, significantly higher than Ethekwini, similar to Joburg and Nelson Mandela Bay, but significantly lower than the Tshwane rating.

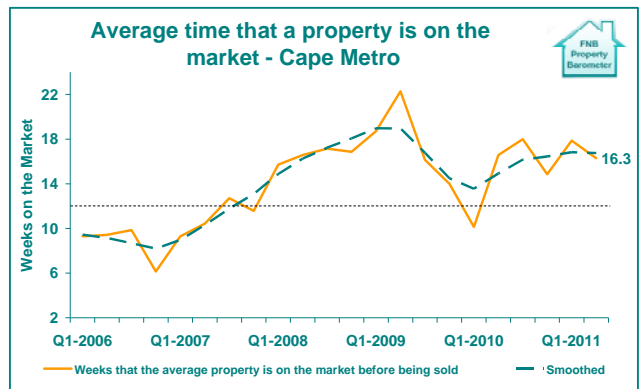
Nevertheless, while certainly not boom times, the demand rating remains considerably higher than the very weak bottom point of 4.21 reached in the 2nd quarter of 2009, which was just as the national recession was coming to an end.



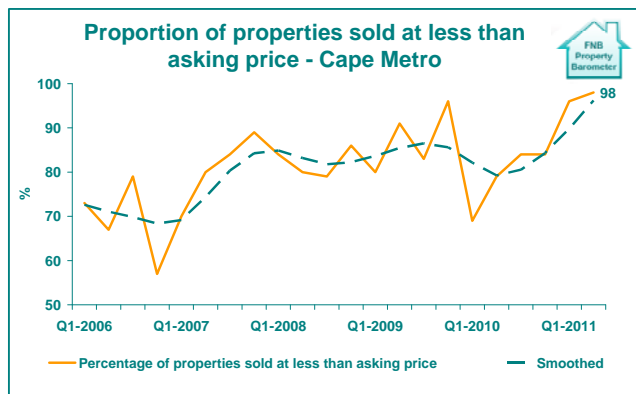
....and pricing Realism Still Lacks.

Two indicators of price realism in the region still point to generally unrealistic asking price levels, given that residential demand remains mediocre. The first of these two indicators is the average time that a property remains on the market prior to sale. The panel of agents put it at 16 weeks and 3 days in the 2nd quarter survey.

While an appropriate level is debatable, what we do know is that back in the healthier market days of 2006 the average time was closer to 9 weeks. After the recovery experienced late in 2009 and early in 2010, where the average time estimate dropped back to 10 weeks and 1 day in the 1st quarter of 2010, we have seen it once again increasing broadly to settle at nearer to 4 months.



The second indicator of price realism emanating from the survey is the estimated percentage of sellers being required to drop their asking price. This percentage has risen to 98% in the 2nd quarter survey, up from 96% in the previous quarter, the highest percentage on record since the survey started.



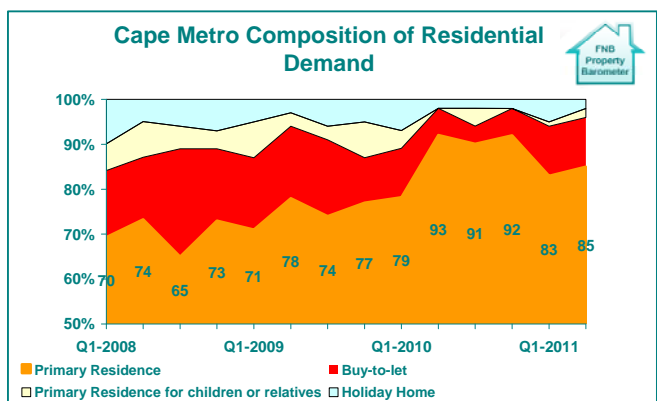
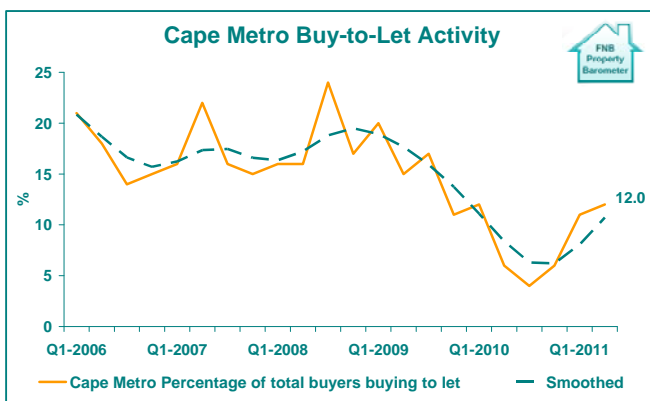
One may ask how it is possible that this percentage is higher than even the 2008/9 recession period where demand was weaker than now? We suspect that the answer may lie in the supply side, with the possibility that sellers may have become more optimistic in recent times, which means that they may be putting their homes on the market in greater numbers than was the case when interest rates were high and economic times were far worse than the present.

The estimated percentage by which sellers had to drop their asking price was -10%, very similar to the -11% estimate for the previous quarter.

But the good news is that buy-to-let buying has increased in significance,....

We believe that ongoing mediocrity in total residential demand points very much to financial weakness amongst a significant portion of households rather than a lack of long term optimism in our region's market, a region which we still believe to be the prime property region in the country. We say this because of a recent shift in the composition of buying, with agents estimating that 12% of total buyers were buy-to-let investors in the 2nd quarter, now significantly higher than the low of 4% as at the 3rd quarter of 2010, and also higher than the 8% estimated national average.

While an increased percentage of buyers appear to see Western Cape property as providing a good income generating investment, the financial pressure mentioned earlier means that holiday property buying remains very much on the backburner, with only 2% of buyers estimated to be holiday property buyers in the City of Cape Town Metro. This is a far cry from the 10% estimate early in 2008.

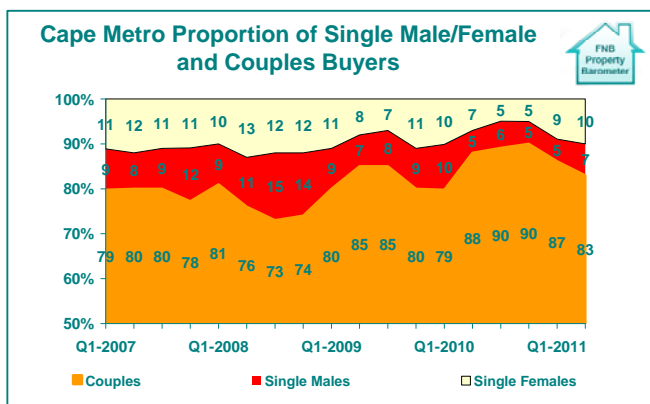
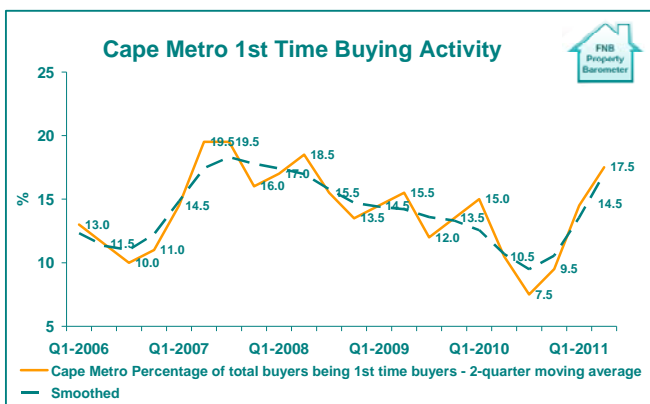


.....as has 1st time buying.

First time buyers have also become more significant in our market in recent quarters. Using a 2-quarter moving average to smooth this somewhat volatile data series, the 2nd quarter survey indicated an estimated 17.6% of sellers for the 2 quarters up to and including the 2nd quarter of 2011.

This is up from 14.6% in the previous quarter, and reflects the combination of mildly greater confidence levels amongst 1st time buyers, who can often opt to remain on the sidelines in bad times, but also perhaps reflects slightly easier access to credit compared with 2008/9.

The upward trend in the percentage of 1st time buyers is arguably also reflected in an increase in the percentage of single people buying homes, from 14% in the 1st quarter survey (men and women combined) to 17% in the 2nd quarter.



And finally, don't forget that the region remains the country's prime property investment destination

Finally, it is important to keep one's eye on longer term property prospects, and from this point of view the Estate Agent Survey continues to point to the Western Cape as the country's prime foreign property investor destination.

That isn't to say that the Western Cape hasn't suffered from the global economic slowdown. Indeed it has, and nationally, foreign buying in South African property has weakened significantly compared with a few years ago.

But still, according to the Estate Agent Survey, our region maintains its premier position. In the 2nd quarter, the agent survey showed an estimated 5% of total buyers to be foreign buyers, above the national average of 3%. In addition, it estimated South African Expatriates to make up 4% of total buying, above the national average of 2%.

Best Regards

CLINTON MARTLE:
REGIONAL SALES MANAGER: WESTERN CAPE REGION
021-480 8117
clintonm@fnb.co.za

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