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PROPERTY BAROMETER – 3rd QUARTER FNB ESTATE AGENT SURVEY

Conflicting signals - Residential demand believed to be slightly stronger in the 3rd quarter, but price realism still appears to lack.

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1. SUMMARY

The FNB Estate Agent Survey is a survey of a sample of estate agents predominantly from South Africa's 6 major metros, with a view to obtaining their perceptions of residential property market conditions. Estate agents provide useful insights, because they tend to "lead" the rest in terms of experiencing market changes first.

The 3rd quarter survey, undertaken in August 2011, points towards a slight increase in residential demand, and some mild improvement in Estate Agent Confidence, but not currently a market with any strong direction.

When asked to rate residential demand in their areas, on a scale of 1 to 10, the agent panel put the average estimate at 5.86, which falls on the higher end of the "Stable" activity range which is between 4 and 6. This demand reading is slightly up on the 5.61 level of the previous quarter, and is also 3.7% higher than the 3rd quarter 2010 reading. In the context of past changes, 3.7% year-on-year increase is very small, and could probably better be termed a "stabilization" in demand.

Nevertheless, this slight improvement is surprising, as the 3rd quarter survey reading has always been weaker than the 2nd quarter reading since the inception of the FNB Estate Agent Survey, and this at a time when there has been no further interest rate cutting since late-2010 and SA's economy has recently come under increased pressure.

The survey also saw agents estimating a decline in the percentage of sellers selling their homes in order to downscale due to financial pressure, from 25% in the previous quarter to 19%. Could this be the clue to the slight activity improvement, i.e. that we may be starting to see some results from the long process of household debt-to-income reduction and other measures aimed at rebuilding balance sheets?

It is too early to tell, and another few data points will be required. But we do know from SARB data that the decline in the household debt-to-disposable income ratio, and thus the debt-service ratio, continues.

However, while agents point to a slight demand improvement, they do not indicate any further improvement in pricing realism, or otherwise put in the balance between demand and supply.

The estimate average time that a house remains on the market before being sold rose from 15 weeks and 1 day in the previous quarter to 17 weeks and 1 day in the 3rd quarter survey. Simultaneously, the percentage of sellers having to drop their asking price to make the sale rose still further from 87% previous to 91%, and the average percentage drop increase from 11% to 13%.

So, while agents point to a slightly better residential demand, they don't indicate an improvement in the balance of demand relative to supply, which would suggest that house price growth is set to remain under pressure.

Along with the slight demand rating improvement came a slight increase in the FNB Home Buying Confidence Indicator, which measures agents' expectations of near term activity, from +0.23 in the 2nd quarter to +0.25 (on a scale of -1 to +1). While slightly higher, this level remains a mild one, and agents are not strongly optimistic in the near term. Indeed, in this regard, 23% of agents cite "economic stress and general pessimism" as a key factor in influencing their near term expectations, the single-most cited factor behind the positive of "seasonal factors" as the summer approaches. By comparison, a lesser 10% cite "positive consumer attitude" as a key factor.

We believe, therefore, that while the latest Estate Agent Survey demand reading is mildly encouraging, not too much should be read into it yet. Only after another few quarters' surveys will we be able to see whether a sustainable "market stabilization" is setting in. In this regard, much will depend on the future state of the global and local economy.

2. DETAILED FINDINGS – 3RD QUARTER FNB ESTATE AGENT SURVEY POINTS TO SLIGHTLY STRONGER DEMAND, BUT A RESIDENTIAL MARKET THAT DOESN'T YET HAVE A CLEAR DIRECTION

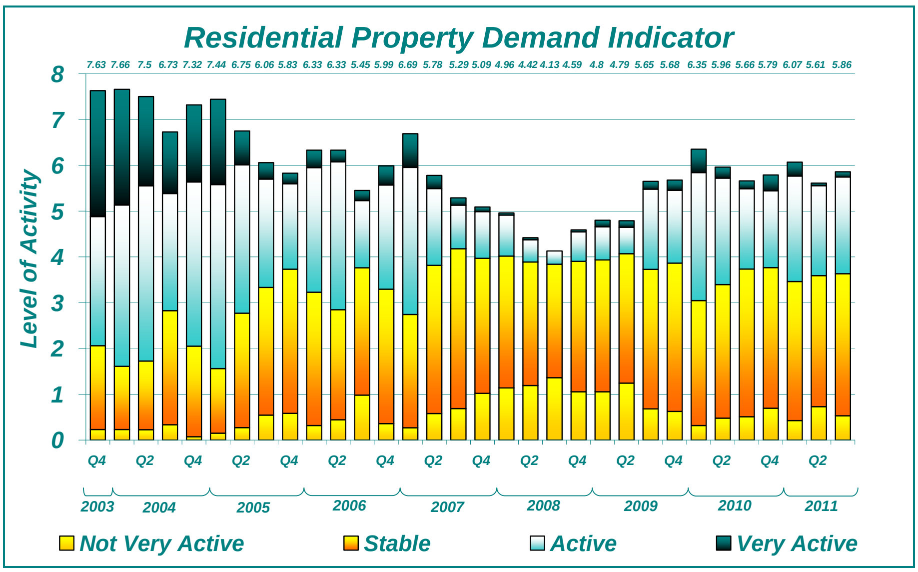
Residential demand strengthens slightly n the 3rd Quarter of 2011

Residential property demand is seasonal, and can typically weaken during the winter months. The 3rd quarter survey, done in August, typically returns a weak result, and this is what the agents had expected when asked for their near term expectations a quarter earlier.

Surprisingly, therefore, the 3rd quarter FNB Estate Agent Survey returned a slightly stronger residential demand activity rating in the 3rd quarter, compared to a quarter earlier. This comes despite a slowing economic growth rate, slowing consumer confidence in the 3rd quarter, and no further interest rate cutting in 2011.

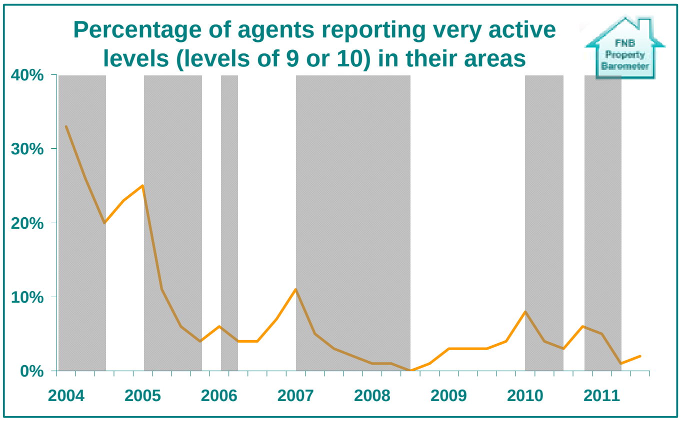
When asking the panel of agents surveyed for their perceptions of residential demand strength, on a scale of 1 to 10, they estimated an average of 5.86 in the 3rd quarter, slightly up from the 5.61 rating returned by the panel in the 2nd quarter.

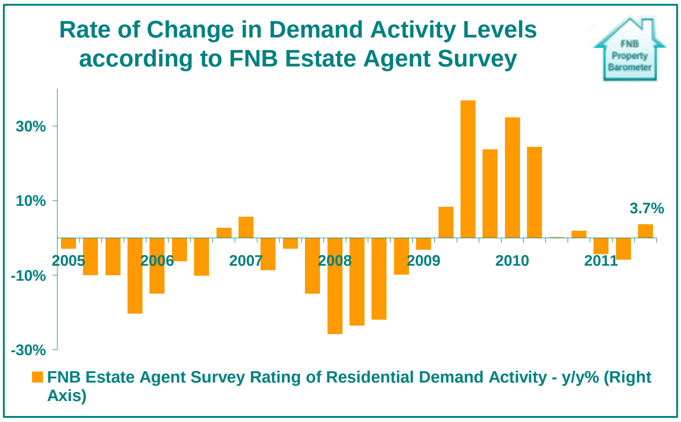
Also visible in the 3rd quarter survey was a slight increase in the percentage of agents claiming their areas to be "very active" (an activity level of 9-10), from a previous of 1%, to 2% of total respondents, while those claiming their areas to be "active" (an activity level rating of 7-8) also rose slightly from 35% to 36% from quarter to quarter.



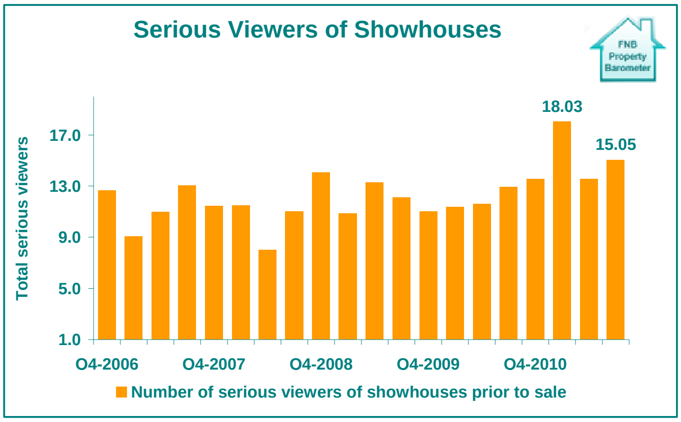
In an attempt to eliminate seasonal factors, we calculate the year-on-year percentage change in the demand activity ratings. According to this calculation method, there appears to have been a very slight strengthening in demand, over and above any seasonality.

The year-on-year increase was +3.7%, which it should be mentioned is relatively small, but nevertheless is slightly up on the -5.9% year-on-year decline registered in the 2nd quarter survey.





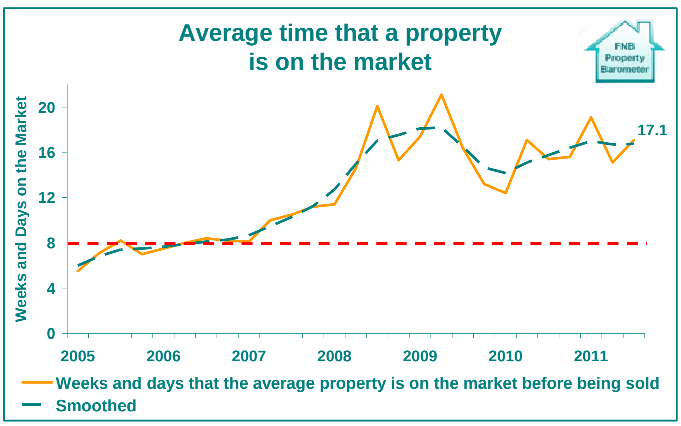
Co-inciding with the slight increase in the demand rating was a rise in the reported number of "serious viewers" at show houses.



Examining demand in a different way, i.e. via agent estimates of the number of "serious viewers", the indications are also that demand may well have strengthened slightly in the 2nd quarter. In the survey, we ask the panel of agents to indicate the estimated number of viewers, that they deem to be serious about buying, of those that go through their show houses prior to the home being sold. This, therefore, excludes people that are coming to view the home purely out of curiosity. The agents reported a renewed increase in the average number of serious viewers, from a previous quarter's 13.57 buyers to 15.05 buyers in the 3RD quarter.

However, this rise can also be partly the result of a quarterly deterioration in the supply of units on the market, something some agents have pointed to in the 3rd quarter survey.

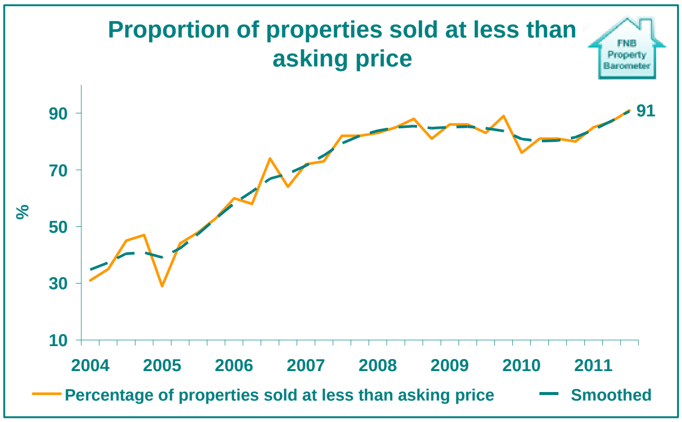
Demand appears to remain weak relative to supply, with the average time on the market having risen in the 3rd quarter.



One of the apparent anomalies in recent quarters continues to be the estimated average time that a property is on the market prior to being sold. This estimate has become more volatile from quarter to quarter ever since the market thinned dramatically during the 2008 recession. It would also appear that there is something of a lag in movements in this average time, with a 3rd quarter rise from 15 weeks and 1 day in the previous quarter to 17 weeks and 1 day perhaps more reflective of the demand decline from the 1st quarter to the 2nd quarter than of the current quarter's demand strengthening. Therefore, we have a situation where average time on the market has *risen in tandem with the rise in demand during the 3rd quarter of 2011, after a decline in tandem with a demand decrease in the summer quarters.*

Indeed, we believe that, due to the generally long periods of homes on the market these days compared to the boom times, the current quarter's higher average time on the market is more reflective of the previous quarter's demand conditions which were weaker.

However one wants to interpret the leads and lags though, at 17 weeks and 1 day the average time on the market remains long compared to back in the healthy market days of 2005/6 where it was below 2 months, which leads us to the ongoing belief that the market remains unrealistically priced, or other wise put where supply is still strong relative to demand.



This assertion appears to be supported by the estimate of the percentage of properties sold at less than the asking price.

This 2nd indicator of unrealistic pricing or oversupply has risen further to 91% of total sellers being required to drop their asking price to make the sale, from a previous quarter's 87%. .This percentage has been gradually trending higher since early-2010.

In addition, the average estimated drop in asking price for those having to drop was -13% in the 3rd quarter, slightly more than the -11% average in the 2nd quarter.

Financial stress-related selling declines in the 3rd quarter.

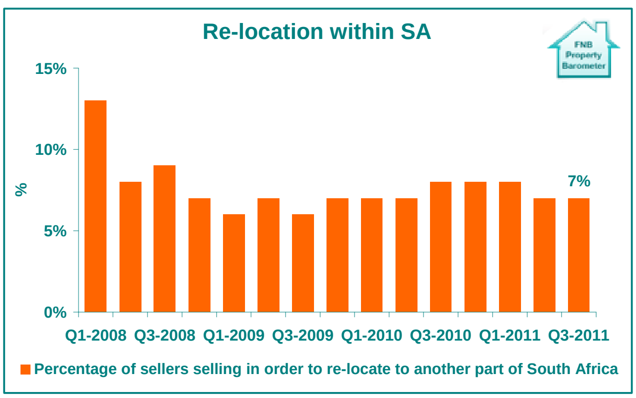
The 3rd quarter survey suggests a decline in the percentage of sellers selling in order to "downscale due to financial pressure". This percentage still remains very significant at 19%, but is down from 25% in the previous quarter's survey.

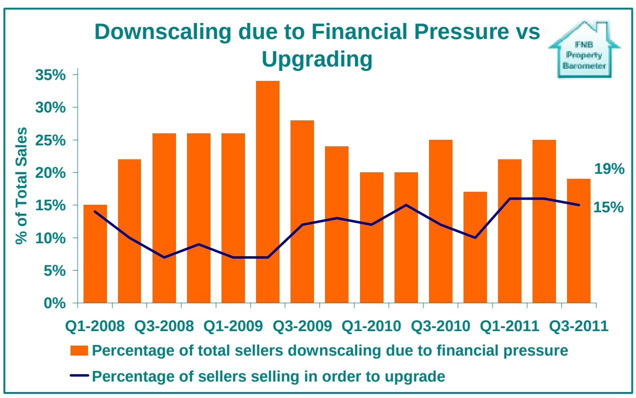
This financial pressure-related reason for selling, we believe, is a strong source of support for the rental market, because a significant portion of these sellers probably move into the rental market for the time being as opposed to buying a cheaper home immediately.

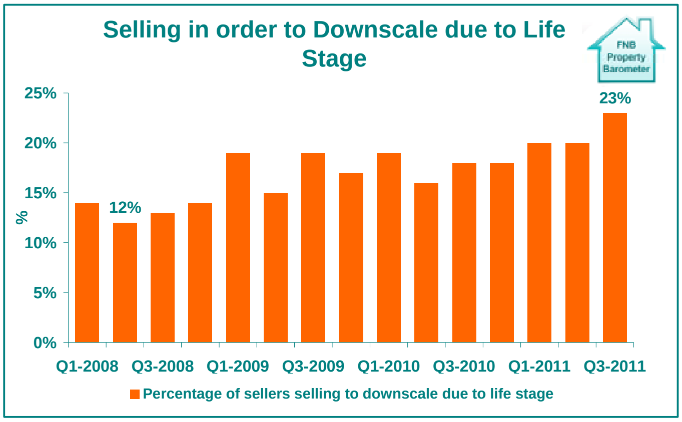
We have added an additional question regarding this reason for selling. We now ask agents to provide us with an estimate of what percentage of sellers selling in order to downscale due to financial pressure would be buying a home shortly thereafter, versus the percentage that would move into the rental market. The sample of agents felt that near to half (46%) would be renting after the sale, versus 54%% that would buy again immediately.

The other reason for selling that may be a good indicator of the household sector's financial situation is "selling in order to upgrade". This reason for selling declined marginally from 16% in the 2nd quarter to 15% in the 3rd quarter, according to the agents surveyed.

The estimated percentage of sellers selling in order to re-locate to elsewhere in South Africa remained unchanged at 7%, lower than the 8% readings achieved in the quarters from mid-2010 to early-2011. As mentioned in our previous survey report, this may just be a reflection of a slowing economy as of late, which in turn weakens "job and career move" prospects for some.



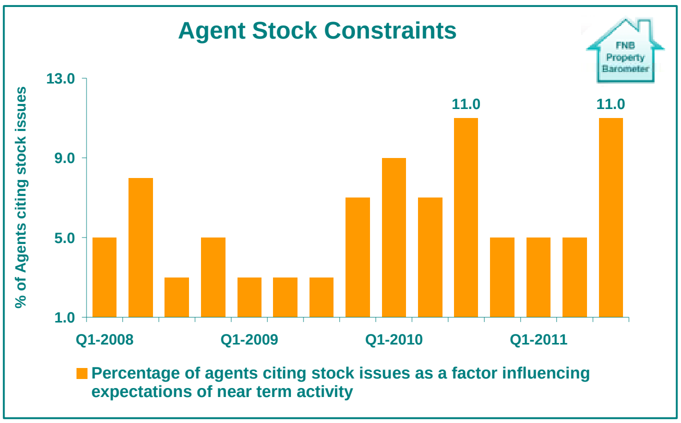




But who dominates selling these days? According to the 3rd quarter agent survey it is now those people "selling on order to downscale due to life stage" (retiring or "empty nest"). This group as a percentage of total sellers has risen to 23%, the highest percentage since this selling-related question started back at the beginning of 2008.

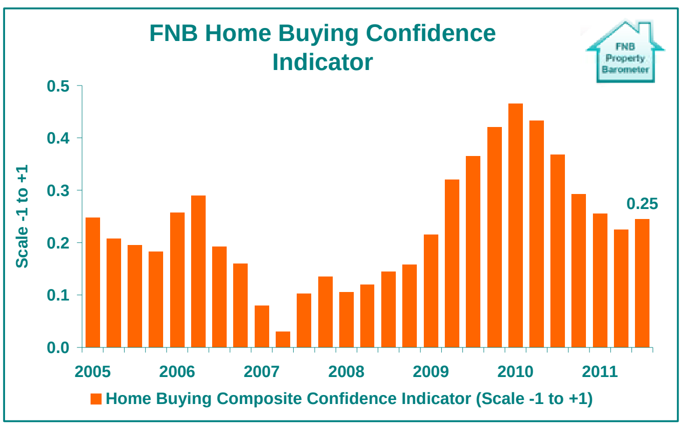
Reasons for selling (As % of Total Sales)	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Q1-2011	Q2-2011	Q3-2011
Downscaling due to financial pressure	**15%**	**22%**	**26%**	**26%**	**26%**	**34%**	**28%**	**24%**	**20%**	**20%**	**25%**	**17%**	**22%**	**25%**	**19%**
Downscaling with life stage	14%	12%	13%	14%	19%	15%	19%	17%	19%	16%	18%	18%	20%	20%	23%
Emigrating	**12%**	**18%**	**20%**	**14%**	**11%**	**8%**	**6%**	**7%**	**7%**	**7%**	**6%**	**10%**	**4%**	**4%**	**4%**
Relocating within SA	13%	8%	9%	7%	6%	7%	6%	7%	7%	7%	8%	8%	8%	7%	7%
Upgrading	**14%**	**10%**	**7%**	**9%**	**7%**	**7%**	**12%**	**13%**	**12%**	**15%**	**12%**	**10%**	**16%**	**16%**	**15%**
Moving for safety and security reasons	12%	12%	8%	10%	11%	11%	11%	11%	12%	14%	10%	12%	12%	11%	10%
Change in family structure	12%	10%	13%	14%	14%	13%	12%	16%	16%	14%	13%	15%	11%	11%	13%
Moving to be closer to work or amenities	8%	8%	4%	5%	7%	5%	5%	6%	8%	8%	9%	9%	7%	6%	8%

A greater percentage of agents cite "stock issues" in the 3rd quarter



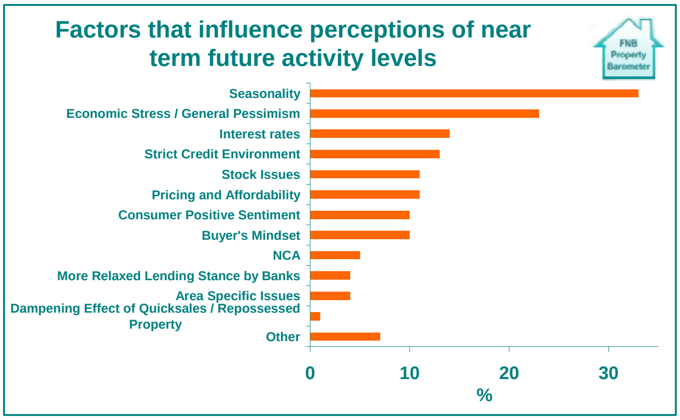
The survey doesn't have any specific quantification of supply of stock to the market. However, an implicit indicator is found when we question agents as to the factors that influence their near term expectation of activity in the market. As at the 3rd quarter of 2011, 11% of respondents cited stock issues (constraints) as a factor contributing to their expectations. That represents a significant rise from 5% in the previous 3 quarters. This could point to a pending decline in average time on the market in the 4th quarter survey, should demand indeed increase further as the summer arrives.

Outlook – Agent expectations improve marginally in the near term



The FNB Home Buying Confidence Indicator attempts to capture agents' expectations of the near term. In each agent survey, we ask them whether they expect activity in the market to increase, decrease, or remain the same in the next 3 months. In order to eliminate expectations driven by seasonal factors, we use a 4-quarter moving average in which an "increase" response gets a rating of 1, "unchanged" gets a zero, and "decline" gets a rating of -1. Since the peak of agent confidence reached in the 1st quarter of 2010, after huge interest rate cuts in 2009, the FNB Home Buying Confidence Indicator steadily declined until the 2nd quarter of 2011, where it reached 0.23. The 3rd quarter level was very slightly higher at 0.25. This *reflects slightly more respondents being positive about near term activity in the 3rd quarter 2011 survey than was the case in the same quarter a year ago. Despite a small improvement, however, the 0.25 reading remains moderate.*

Taking a look at the 3rd quarter survey response alone, the agents don't yet paint a strongly optimistic picture. We saw 44% of respondents expecting activity levels to strengthen in the next 3 months, against 53% expecting unchanged levels and 3% expecting a weakening. Much of these expectations are driven by the coming of the summer season, a seasonally stronger period for residential demand. Therefore, it comes as little surprise that when we view the 3rd quarter "factors that influence perceptions of near term future activity levels, we see the largest percentage of agents citing seasonal factors (32%) as an influence.



Seasonal factors aside, however, the agent near term expectations appear less positive, with the 2nd most important factor being "economic stress/general pessimism" (23%). Here, some of the comments suggest that some believe that the recession is still with us, jobs are uncertain for many, the global economy is in crisis and talk of nationalization causes negative sentiment. By comparison, only 10% cite "positive consumer sentiment as an influencing factor.

Interest rates (14%) are still cited by come as a positive because they are "stable and low", but against this the ongoing "strict credit environment (13%)" is cited by almost as many as a negative factor.

CONCLUSION – ESTATE AGENTS HINT AT SOME SLIGHT ACTIVITY IMPROVEMENT IN THE 3RD QUARTER, BUT THE MARKET LACKS CLEAR DIRECTION

In conclusion, while agents point to a slightly better residential demand, they don't indicate an improvement in the balance of demand relative to supply, which would suggest that house price growth is set to remain under some pressure.

Along with the slight demand rating improvement came a slight increase in the FNB Home Buying Confidence Indicator, which measures agents' expectations of near term activity. However agents don't appear strongly optimistic in the near term. Indeed, 23% of agents cite "economic stress and general pessimism" as a key factor in influencing their near term expectations, the single-most cited factor behind the positive of "seasonal factors" as the summer approaches. By comparison, a lesser 10% cite "positive consumer attitude" as a key factor.

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