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FNB GAUTENG PROPERTY REVIEW –2ND QUARTER 2012

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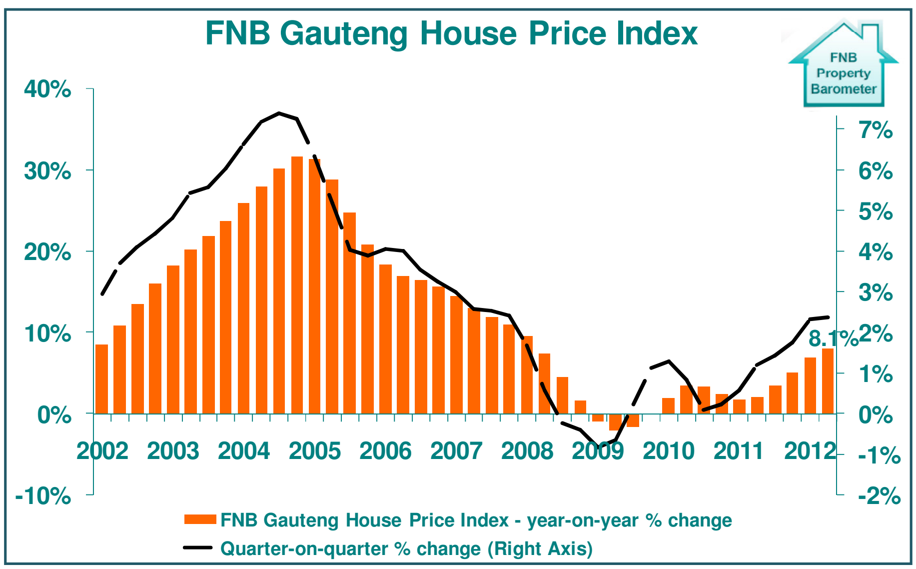
The 2nd Quarter 2012 FNB Gauteng House Price Index saw further year-on-year growth acceleration, but the peak may be at hand.

GAUTENG HOUSE PRICE GROWTH ACCELERATED FURTHER ON A YEAR-ON-YEAR BASIS IN THE 2ND QUARTER

The FNB Gauteng House Price Index showed a further acceleration in its year-on-year growth rate in the 2nd quarter of 2012, from 6.9% in the previous quarter, to 8.1%. This reflects a relatively good period for house price growth, and the 5th consecutive quarter of year-on-year growth acceleration. The average price of properties transacted in the Gauteng index was R887,633 in the 2nd quarter.

However, after a good run, the accelerating price growth trend may be nearing its peak. We say this for a number of reasons. Firstly, merely examining quarter-on-quarter price growth, we saw a slowing in the pace of growth acceleration, from 2.3% in the previous quarter to 2.4% in the 2nd quarter, after more significant increases in previous quarters.



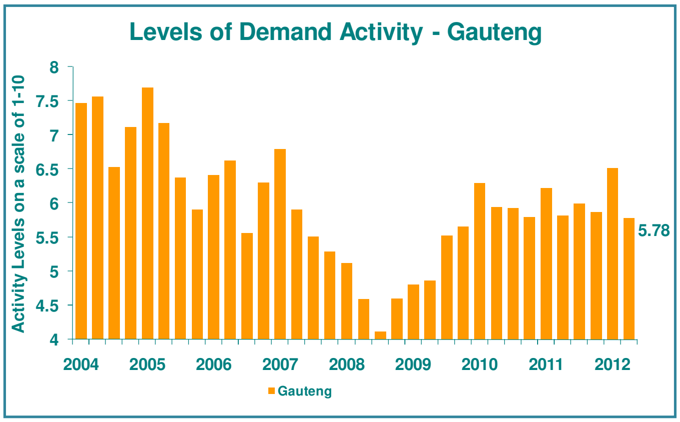
But one quarter's slowdown in price growth acceleration on its own is insufficient to draw the conclusion that a price growth peak is nearing. Our opinion is based more on signals emanating from our most recent FNB Gauteng Estate Agent Survey, as well as signs that the economy has been starting to slow recently.

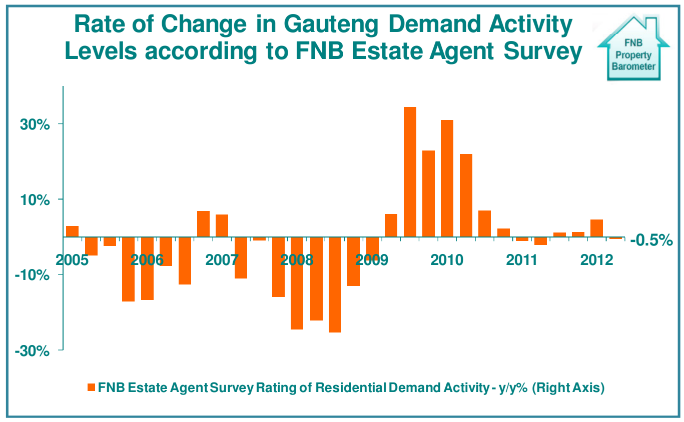
The FNB Gauteng Estate Agent survey is of a sample of estate agents in the Province. The 1st question asked to agents is with regard to their perceptions of residential demand in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of demand.

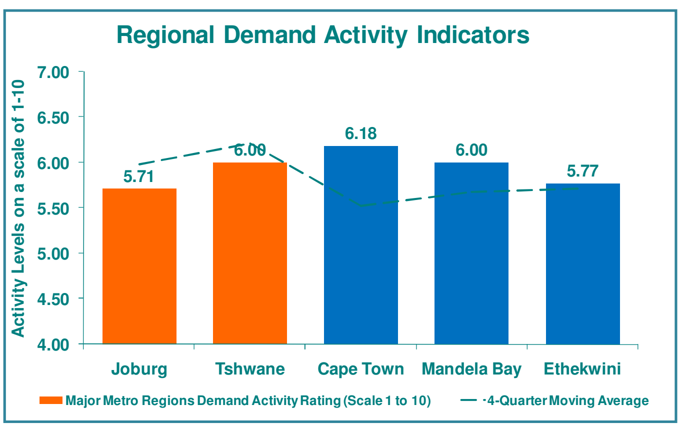
The 2nd quarter Gauteng Residential Demand Activity Indicator declined noticeably from the previous quarter's 6.51, to 5.78.

We caution about the interpretation of the 2nd quarter Gauteng deterioration, as the 2nd quarter is generally a seasonally weak period as the region heads into the winter months.

In order to attempt to eliminate seasonal factors, we calculate the year-on-year percentage change in the Demand Activity Indicator. This approach suggests that, after some prior quarters of improvement, with a year-on-year growth rate of 4.7% in the Demand Indicator in the 1st quarter, the 2nd quarter reverted to a slight decline of -0.5%.

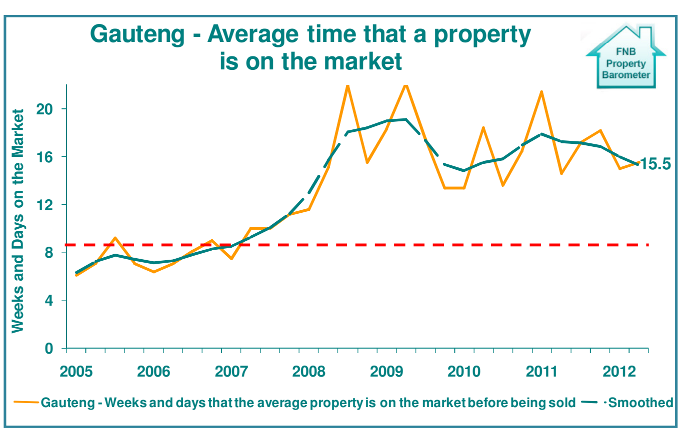






The total Gauteng Demand Activity Indicator is now slightly lower than the level of 6 registered for the combined coastal metro regions. Breaking the Demand Indicators up into the major metro regions, we find the Greater Joburg region to be the weakest with a level of 5.71, While Cape Town was the strongest in the 2nd quarter with a Demand rating of 6.18.

GAUTENG ESTATE AGENTS STILL SUGGEST AN UNREALISTICALLY PRICED MARKET IN THE 2ND QUARTER



In order to examine the balance between supply and demand, or otherwise put, the level of pricing realism in the market, the Estate Agent Survey asks agents to estimate the average time that properties remain on the market in their areas prior to being sold.

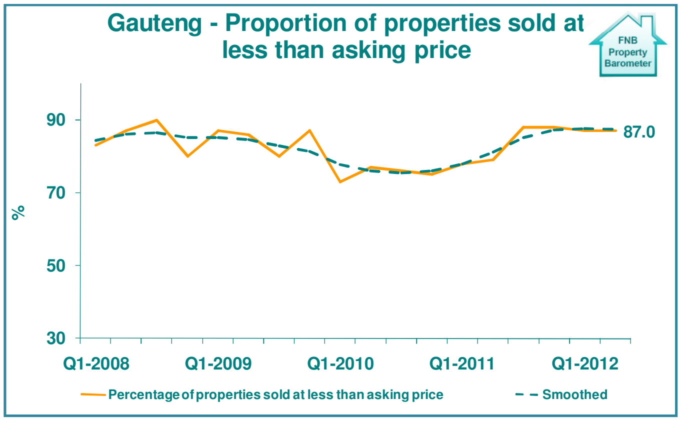
In the 2ND quarter, Gauteng's average time on the market increased slightly from the previous quarter's 15 weeks to 15 weeks and 5 days. From quarter to quarter, this figure can be volatile, but the smoothed trend line that we have created, using a statistical smoothing function, has declined slightly as of late.

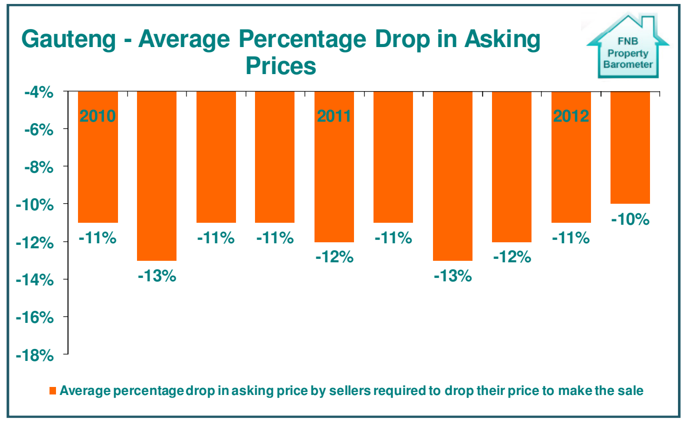
This would suggest some broad improvement in pricing realism since early-2011. However, we are of the opinion that a well balanced market, of a realistically priced market, would be one where the average time on the market was around 2 months, as was the case up until about early-2007.

So this average time on the market still remains high, therefore. And read in conjunction with the high percentage of sellers being required to drop their asking price to make a sale, the market can still be said to be unrealistically priced.

The percentage of properties sold at less than asking price was 87%, according to the survey, which was unchanged from the previous quarter's percentage.

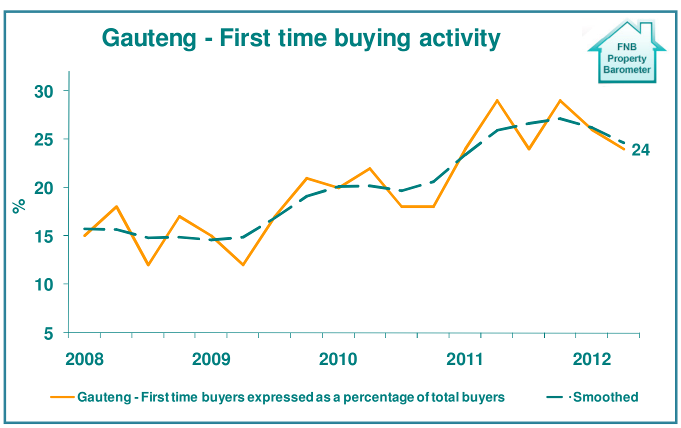
Furthermore, we ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average drop has also moderated mildly from -13% 3 quarters prior to -10% in the 2nd quarter of 2012.





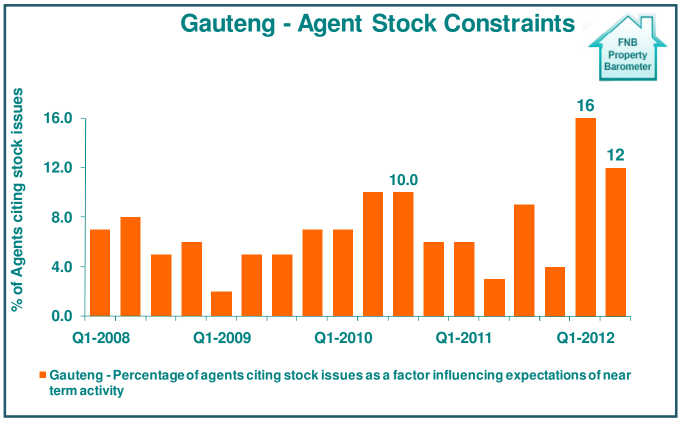
In short, therefore, ignoring a quarter to quarter slight increase in average time on the market, there appears to have been a slight improvement in pricing realism since early-2011, with a broader declining trend in average time on the market since then, and a decline in the average percentage drop in asking price. But the market nevertheless appears to remain unrealistically priced.

THE 1ST TIME BUYER COMPONENT OF RESIDENTIAL DEMAND APPEARS TO BE PEAKING



1st time buyer demand in Gauteng remained high in the 2ND quarter of 2012 at 24%. However, this was down on the 26% of the 1st quarter and 28% of the final quarter of 2011. One must bear in mind that this number can be volatile from quarter to quarter, but the smoothed trend line appears to show a decline after 2 years of steady increase up until late-2011 in the 1st time buyer percentage.

GAUTENG RESIDENTIAL SUPPLY APPEARS TO BE SLIGHTLY LESS CONSTRAINED IN THE 2ND QUARTER

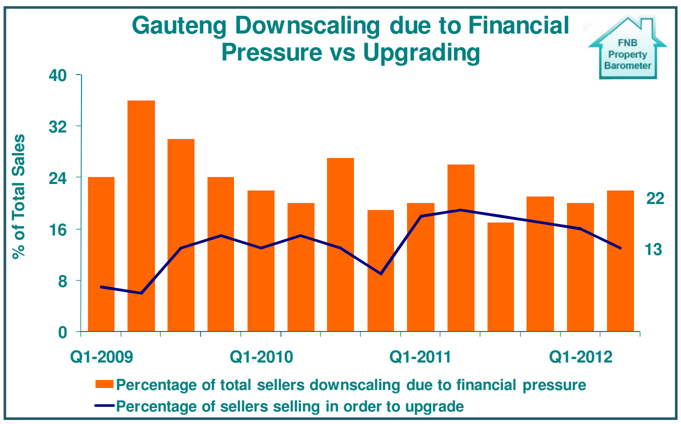


While bad news for estate agents, residential stock constraints are good from a point of view of market strength and property price performance.

Measuring supply relative to demand is admittedly challenging. However, when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way. In the 2ND quarter of 2012, although the percentage was still significant, we saw a slight decline in the percentage of Gauteng agents citing "stock constraints" as an issue, from 16% previous to 12%.

A decline in supply constraints should come as little surprise, given that the agent Demand Rating has also declined in the 2nd quarter.

ON THE SELLING SIDE, AGENTS STILL SEE SIGNIFICANT FINANCIAL STRESS-RELATED SELLING

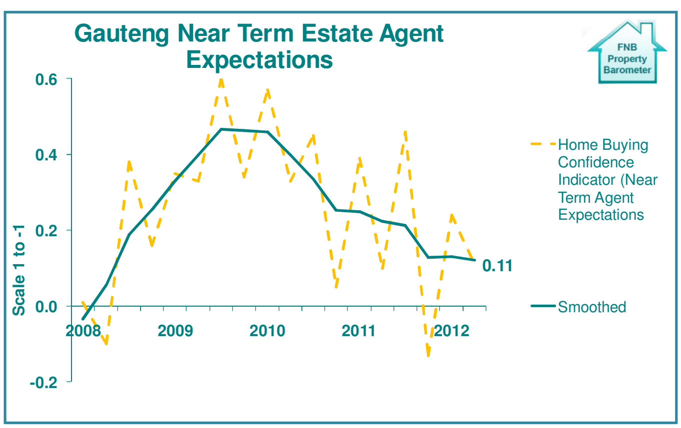


Agents in Gauteng continue to report a fragile financial state of homeowners. They estimate that 22% of sellers are selling in order to downscale due to financial pressure, slightly higher than the 21% estimated for the 1st quarter.

A 2nd indicator of financial strength is the estimate of the percentage of sellers selling in order to upgrade. A recent decline in this percentage may also be a sign of mildly mounting pressure on the Gauteng home market. This percentage has declined from 19% in the 2nd quarter of 2011 to 13% in the 2nd quarter of 2012.

HOW GAUTENG AGENTS SEE THE NEAR TERM OUTLOOK

In terms of expectations of demand in the near term, from early-2010 onward we have seen a broadly declining trend in the percentage of agents expecting residential demand to strengthen in the quarter following the survey.



This was probably to be expected, as interest rate reduction by the Reserve Bank slowed to a snails' pace after a series of rapid cuts to August 2009. With little obvious to further drive the market significantly stronger since 2010, agent expectations have gradually tapered off.

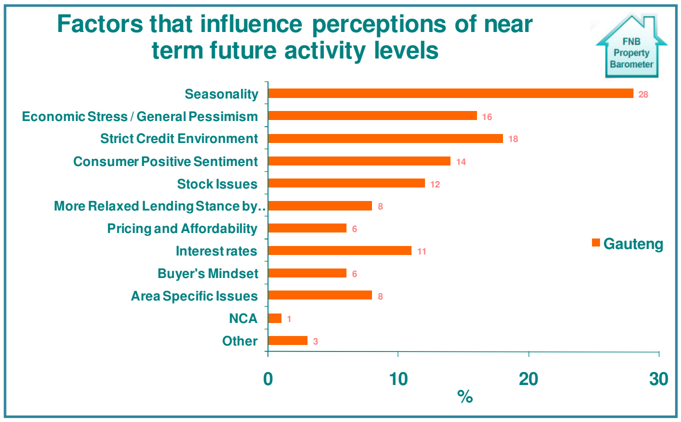
On a quarter to quarter basis, the results can be volatile, given a high degree of seasonality in the market. Agents are asked whether they expect a strengthened, weakened or unchanged demand for residential property in the 3 months following the survey.

From this we compile the FNB Gauteng Home Buying Confidence Indicator. The Indicator is on a scale of -1 to +1, with a -1 number assigned to a "weakening expectation" by an agent, a rating of zero to an "unchanged" expectation, and a +1 rating to a "strengthening" expectation.

In the 1st quarter, there was a slight deterioration in the Gauteng Home Buying Confidence Indicator. This was as a result of an increase in the percentage of respondents expecting the market to weaken, from 7% previous to 15%, along with a decline in those expecting a strengthening from 31% to 26%. This meant a decline in the Indicator from a 1st quarter level of +0.24 to +0.11 in the 2nd quarter.

Due to the quarterly volatility, however, we include a smoothed trend line. Important is that the latest smoothed data point, at 0.12, in this trend line is the lowest level since the 2nd quarter of 2008. This implies an expectation of little in the way of market strengthening in the near term.

When asking Gauteng agents for the factors influencing their near term expectations, seasonality is the dominant driver, with winter in Gauteng typically a slow period. Seasonality aside, the tight credit environment remains a key perceived negative, with 18% of agents pointing to this as a negative factor. After this comes "Economic Stress/General Pessimism" which is cited as a negative factor by 16% of respondents. It must be said though that a significant 14% cites "Consumer Positive" sentiment as a positive influence on their perceptions, so not everyone is pessimistic.



Thereafter comes "Stock Issues", cited by 12% of agents as a negative, while a far lower 8% cite "More relaxed lending by banks as a factor.

Therefore, although not all factors cited are negative ones, the negative factors of tight lending criteria and Economic Stress/Pessimism outweigh the positives of relaxed lending and positive sentiment.

In summary, therefore, the agents surveyed in Gauteng have pointed to a slowing in residential demand in the 2nd quarter. Some is seasonal, but also noticeable is that a higher percentage perceives a weak economy and "general pessimism" than those who perceive positive sentiment. The agents thus continue to follow a broad trend of moderating expectations, when smoothing the trend and looking past quarterly volatility.

While one quarter's agent survey data doesn't mean a trend, there are additional signs that the economy is slowing in response to a weaker global economic period. This has been seen in the Reserve bank's Leading Business Cycle Indicator in recent months, as well as in Economists.co.za's Gauteng Barometer, which has seen broadly slowing growth after an early-2012 peak. For these reasons, we expect the Gauteng house price growth to peak in the 2nd half of 2012 and taper off mildly back to lower single digit growth.