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# FNB HOME BUYING ESTATE AGENT SURVEY – 4th QUARTER 2012

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*The FNB Estate Agent Survey showed some mild cooling in residential demand in the 4th quarter of 2012, at the end of what was a relatively good 2012.*

### *ESTATE AGENTS POINT TO SLIGHTLY SLOWER DEMAND IN THE 4TH QUARTER, AFTER PREVIOUS QUARTERS' IMPROVEMENTS*

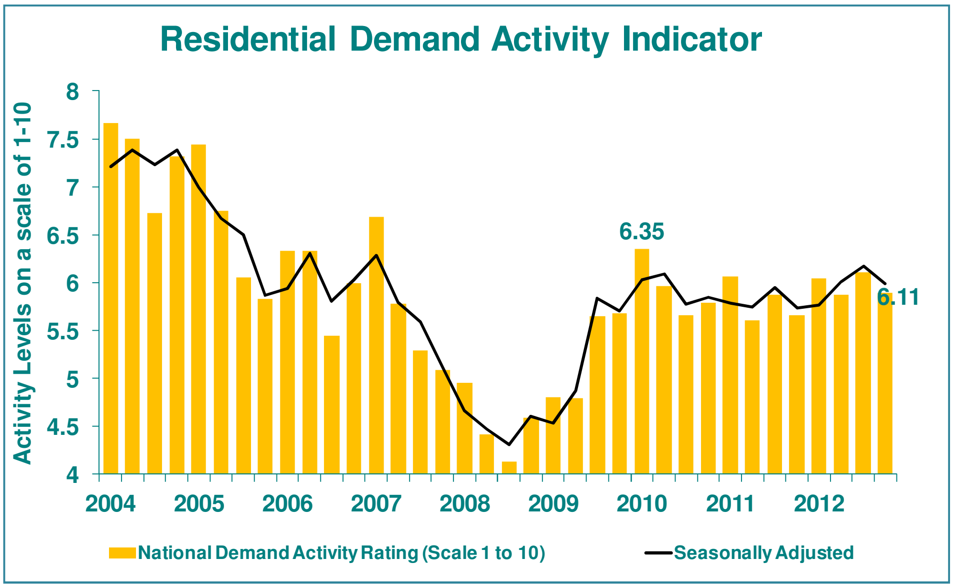
***The 4TH Quarter 2012 FNB Estate Agent Survey, completed in the month of November, came out with a slightly weaker view of the domestic residential property market than the preceding quarter. However, this slight weakening came at the end of a year that, as a whole, was an improvement on 2011.***

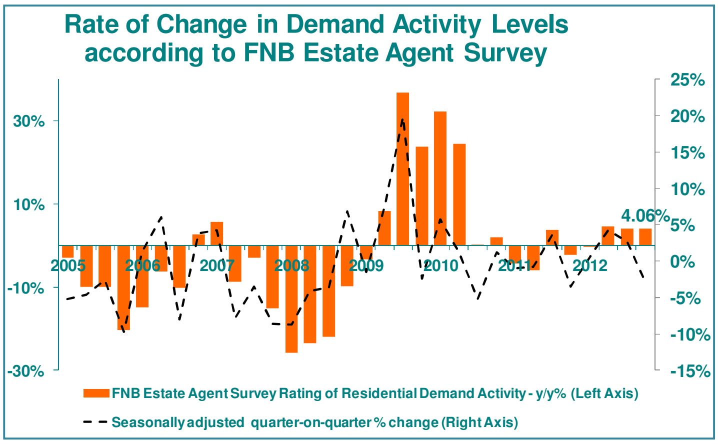
*The survey is of a sample of estate agents predominantly in SA's major metro regions. The 1st question asked to agents is with regard to their perceptions of residential demand in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of demand.*

*The 4th Quarter Residential Demand Activity Indicator declined mildly, from the previous quarter's 6.11, to 5.89. We also statistically seasonally adjust the data, and on a seasonally adjusted basis, the demand rating also declined slightly from a previous quarter's 6.17 to a 4th quarter 6.11.*

*This level still remains firmly in the "stable" bracket (a level from 4 to 6), the other brackets being "not very active (1 to 3), "positive" (7 to 8) and "very active (9 to 10)*

*While the decline was only marginal, one should ask whether agents have perhaps started to feel some effect a weakened economy in the latter half of 2012, hampered by major strike disruptions late in 2012? One quarter's data won't confirm much, but it is possible. Nevertheless, the decline in activity in the 4th quarter was mild, and the average demand rating for the entire 2012 was 5.98, which was a mild improvement on 2011's 5.8 average rating.*





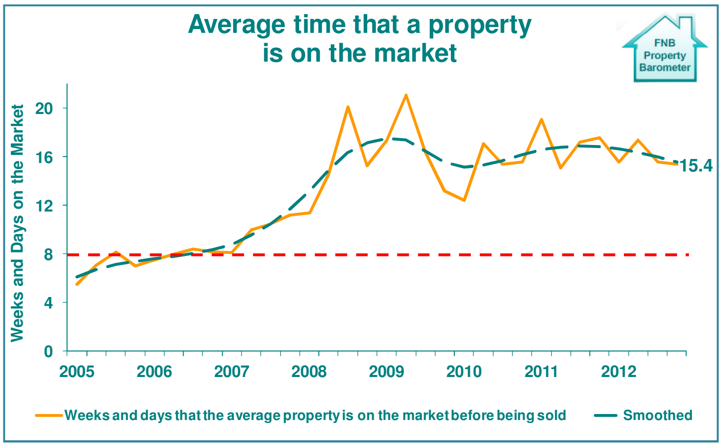

*Examining the percentage change in the Demand Activity Rating, we see a mild tapering in growth momentum in the 2nd half of 2012. On a year-on-year basis, percentage change in the demand activity rating was 4.06% in the final quarter of 2012, slightly slower than the 4.63% and 4.09% year-on-year growth rates recorded in the 2nd and 3rd quarters of 2012 respectively.*

*On a quarter-on-quarter seasonally-adjusted basis, the easier way to gauge recent growth momentum, we saw the 4th quarter showing negative growth (decline) of –2.9%, after the 2 prior quarters' positive quarter-on-quarter growth rates of +4.2% and +2.7% respectively.*

*The best rate of improvement in residential demand in 2012 did thus appear to be in the 2nd quarter of the year.*

## *ESTATE AGENTS SUGGEST THAT THE BALANCE OF DEMAND RELATIVE TO SUPPLY MAY HAVE IMPROVED SLIGHTLY THROUGH 2012*

***Other indicators emanating from survey suggest that there was some improvement in the balance between demand and supply in the residential market, during the 3rd and 4th quarters of 2012, in response to the mild demand improvements that took place from earlier in the year.***



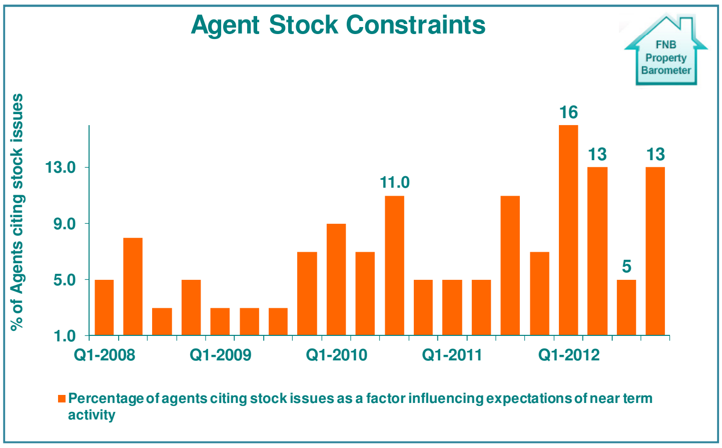

*In order to examine the balance between supply and demand, or otherwise put the level of pricing realism in the market, the Estate Agent Survey asks agents to estimate the average time that properties remain on the market in their areas prior to being sold.*

*In the 4th quarter, this average time on the market declined slightly from the previous quarter's 15 weeks and 6 days to 15 weeks and 4 days, 2 weeks lower than the 2nd quarter's 17 weeks and 4 days. It must be borne in mind that this estimate can be volatile from quarter to quarter, but the smoothed trend line that we have created, using a statistical smoothing function, also declined slightly through the year.*

*This is an encouraging development, as it suggests marginal progress in improving the market balance. For 2012 as a whole, the average time on the market was 16 weeks, a little better (lower) than the 17 weeks and 0..25 days average in 2011.*

*However, 15 weeks and 4 days by year end remained too long to represent a strong market. Judging from the healthier market days prior to 2008, a level nearer to 8 weeks (2 months) on the market appears to be the benchmark for a "strong" market, so there remains some way to go.*

## *RESIDENTIAL SUPPLY WAS MORE CONSTRAINED THROUGH 2012 THAN COMPARED TO 2011*




*Trying to gauge the strength of supply of residential stock through asking survey respondents for their opinion is admittedly a tall order. 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 4th quarter of 2012, we continued to see a significant percentage, i.e. 13%, of agents citing stock constraints as an issue. This percentage was up from the 5% peak registered in the previous quarter, and very much in line* *with the year 2012's average of 11.75% of agents citing stock constraints. This is well-above the 6.5% average for 2011..*

*This supports the notion of a broadly improved balance in the market through 2012, compared with 2011, when read with the previous indicator, i.e. the average estimated time of a property on the market*

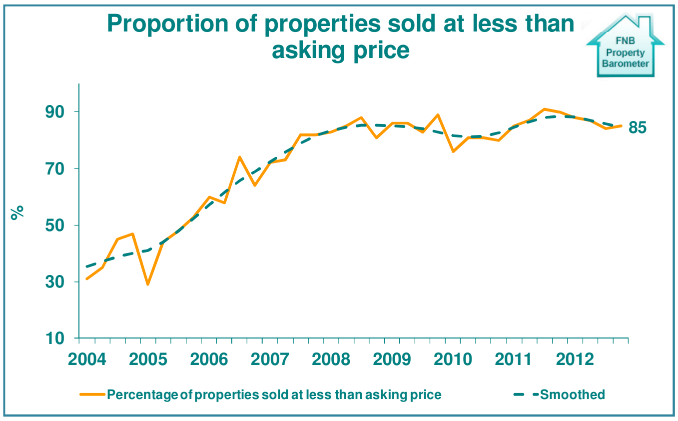
### *WHILE PROPERTIES ARE SELLING A LITTLE QUICKER, STILL THE OVERWHELMING MAJORITY HVE TO DROP THEIR ASKING PRICE TO SELL*

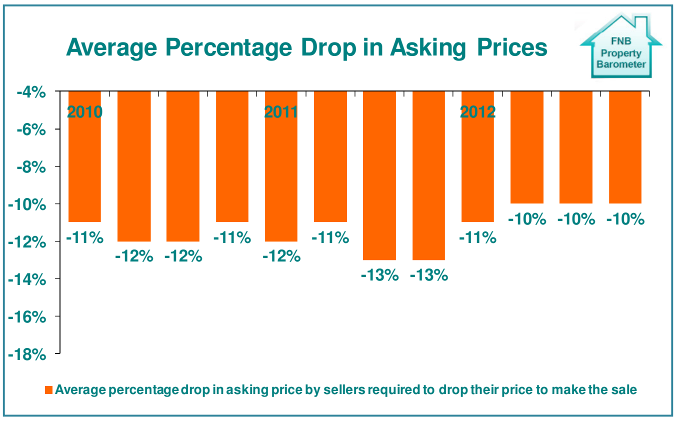
*Despite agents pointing to a shorter period of properties on the market, which is often seen as a good indicator of pricing realism in the market by sellers, they estimated only very slight decline in the percentage of sellers being required to drop their asking price to make a sale, a second indicator of pricing realism.*

*The percentage of properties sold at less than asking price was 85% in the 4th quarter of 2012, according to the survey, which was insignificantly different from 87% in the 2nd quarter and 84% in the 3rd quarter.*

*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 moderated mildly from -13% in the 2nd half of 2011 to -10% by the 2nd quarter of 2012, where it remained in the last 2 quarters of 2012.*

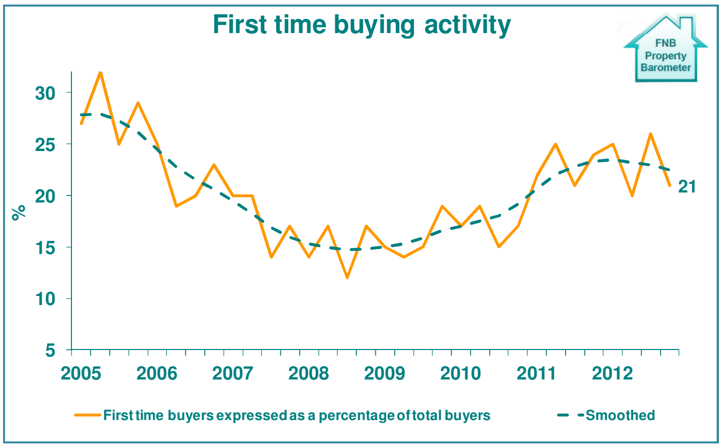
*These quarter to quarter moves are not yet significant, and can perhaps be merely due to data volatility. But the smoothed trendline regarding percentage of sellers dropping their price does show some very slight decline since 2011, once again pointing to a slightly more realistic market when read along with the moderate decline in average time on the market and a smaller average percentage drop. But any improvements come slowly and certainly don't point to a very strong market direction.*




### *THE MORE CYCLICAL 1ST TIME BUYER COMPONENT OF RESIDENTIAL DEMAND HAS WEAKENED SLIGHTLY IN THE 4TH QUARTER*

*1st time buyer demand tends to be more cyclical than the total market. This is arguably because many young buyers have more flexibility than established households, being able to delay their own formation of a new household by remaining in their parent's home for longer during tougher property and economic times, or by often remaining in a rental property for longer.*

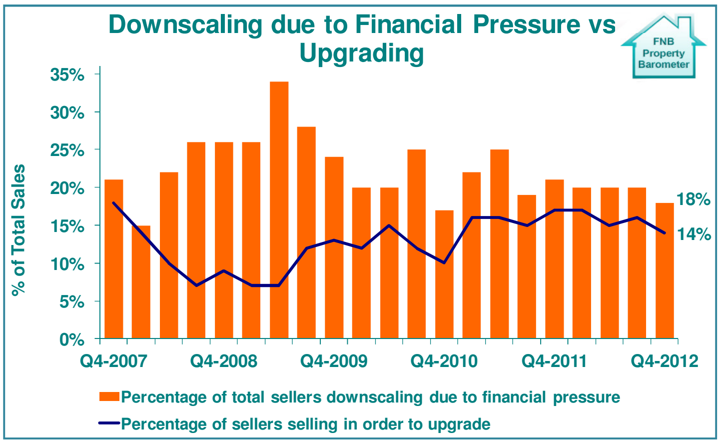



***The level of 1st time buying, therefore, is also a good indicator of whether market conditions are improving and, given this group's high dependence on credit, possibly also an indication of whether credit is becoming easier to obtain or not.***

*For 2012 as a whole, the average 1st time buyer percentage of 23% was unchanged from the 23% of 2011, with both of these years' percentages reflecting a significantly better performance of 1st time buyers compared with the 2008-2010 period.*

*However, after a steadily improving trend in the 1st time buyer percentage from the 2008 low, in 2012 it has begun to appear as if this percentage has been flattening out and perhaps* *starting to decline a little. From 25% in the 3rd quarter, the 4th quarter 1st time buyer percentage declined to 21%. From quarter to quarter this percentage can be volatile, so view that figure with caution. However, the smoothed trendline has also begun to decline slightly through 2012.*

***ON THE SELLING SIDE, AGENTS SEE SOME IMPROVEMENT IN FINANCIAL STRESS-RELATED SELLING, BUT THE LEVEL IS STILL SIGNIFICANT***

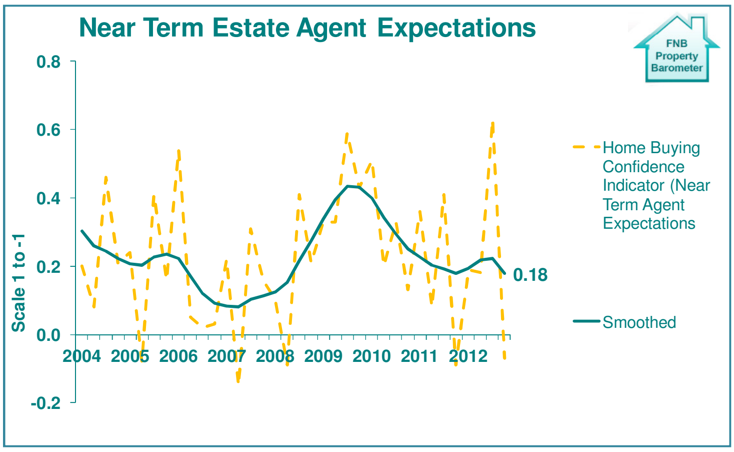



*Our survey respondents in the 4th quarter of 2012 pointed to a decline in financial pressure-related selling of homes among households, but the level still remains very significant. When asked to provide an indication of the reasons as to why people are selling their properties, in the 4th quarter they estimated that 18% of sellers were selling in order to downscale due to financial pressure. This is down from the previous quarter's 20%, but remains a high number.*

*This arguably needs to be read in conjunction with the percentage of sellers selling in order to upgrade, which declined mildly from 16% of total sellers in the 3rd quarter to 14% in the 4th quarter, also possibly a small sign of a market settling a little after some previous growth.*

*These 2 reasons for selling are arguably the 2 most important indicators in the survey of financial pressure/constraints experienced by homeowners. The gap between the two has closed significantly since early-2009, a positive development, but the level of downscaling due to financial pressure remains high, reflecting a still-fragile household sector financial situation.*

***HOW AGENTS SEE THE NEAR TERM OUTLOOK***



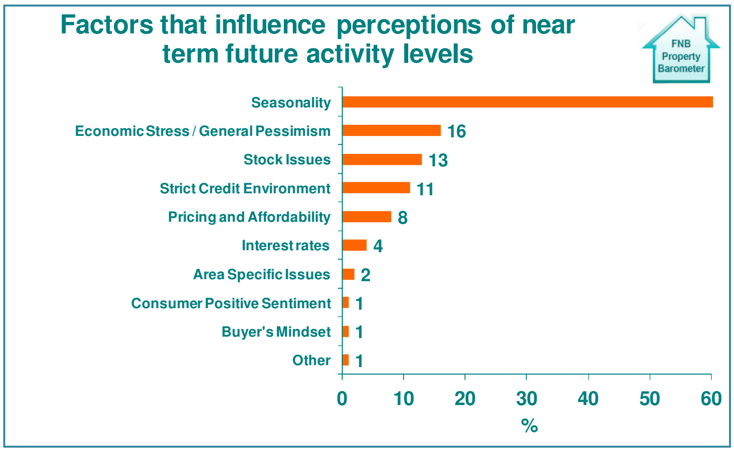

*In terms of expectations of demand in the near term, the 4th quarter agent survey returned a fairly weak response, despite what had for the most part been a good 2012.*

*We ask them for their expectations of residential demand strength in the near term, i.e. the three months subsequent to when the survey takes place, requesting them to choose between 3 options, namely the market will "strengthen", "weaken", or "remain the same".*

*In the 4th quarter survey, only 18% of respondents expected an increase in demand levels in the subsequent 3 months. Admittedly, the November survey outlook shows weak near term expectations because agents are mindful of the negative seasonal impact of the December/January holiday period on urban sales, but this percentage is nevertheless the 2nd lowest for a 4th quarter survey in the history of the survey dating back to 2003.*

*The majority of respondents, namely 57% expected activity levels to move sideways, while 28% predicted a near term deterioration.*

*This all translates into a decline in the Home Buying Confidence Indicator from a previous of 0.63 to -0.07 (on a scale of 1 to -1).As mentioned, some decline in near term expectations would not be out of place in a 4th quarter survey, given a typically weak summer holiday period looming at the time of survey (November). But there may be a little more than just seasonal factors in the response, because the smoothed trendline on the Home Buying Confidence Indicator also declined mildly in the 4th quarter, from 0.22 previous to 0.18. Is it that agents are starting to feel the effects of recent economic weakness?*




*When asking agents for the factors influencing their near term expectations, seasonal factors come up as the most common factor, with the holiday season typically a weak period.*

*However, ignoring seasonal factors, the next most important factor cited by agents was that of "Economic Stress/Pessimism". Simultaneously, only 1% of agents perceived an environment of "Consumer Positive Sentiment". This represents a significant swing from 14% citing "Consumer Positive Sentiment in the $3^{rd}$ quarter and 11% citing "Economic Stress/Pessimism".*

*So, although agents reported only a mild weakening in demand activity in the residential market in the $4^{th}$ quarter survey, they have become a little less optimistic on the near term future, and noticeably far less perceive any consumer positive sentiment in the market. This may be beginning to reflect the significantly weaker economy late last year, which was severely disrupted by strike action in certain sectors.*

***IN SUMMARY – LATE IN 2012, AGENTS POINTED TO SLIGHTLY SLOWER, ALTHOUGH STILL GOOD, DEMAND IN THE RESIDENTIAL MARKET. HOWEVER, THEY MAY HAVE BEEN STARTING TO FEEL THE INITIAL EFFECTS OF THE WEAKER ECONOMY IN THE $2^{ND}$ HALF OF THE YEAR.***

*The FNB Estate Agent Survey is a useful tool with which to gain insight into residential market trends first hand, because estate agents experience changes in the market arguably before any of the other market role players.*

*In the $4^{TH}$ quarter Estate Agent Survey, the overall impression gained from the sample of agents surveyed is one of mild weakening in residential demand, at the end of a relatively strong year. The situation was far from bad, with average time on the market remaining at levels lower than in the $1^{st}$ half of the year, and a significant percentage of agents still cited stock constraints.*

*But perhaps slower demand late in 2012 was to be expected, as major industrial action disruptions, along with a global economy slow period, saw our own economic growth slow significantly in the $2^{nd}$ half of 2012, and this must surely have some negative impact on property. Indeed, as opposed to the $3^{rd}$ quarter, we saw a swing in the percentages of agents experiencing "consumer positive sentiment" versus those seeing "Economic stress/pessimism", with those experiencing positive consumer sentiment declining sharply in terms of percentage of total agents.. It would thus appear that they did start to perceive greater economic pressure in the $4^{th}$ quarter compared to previous quarters.*

*This slightly more negative situation need not continue for long though, as industrial action disruptions may have subsided significantly, and there are signs that the global economy is moving into a mildly stronger patch once more.*

*Agents do, also, still point towards a very significant level of financial pressure, which manifests itself in a still-high percentage of sellers downscaling due to financial pressure. However, they indicated a mild improvement in this still-high percentage from a previous 20% to the $4^{th}$ quarter's 18%. It is important that this indicator of financial pressure decline significantly further before the next interest rate hiking cycle.*

*Finally, the agents surveyed harbored slightly weaker expectations regarding near term future activity, even excluding seasonal factors, with the level of the Estate Agent Confidence Indicator, which reflects agent near term expectations of market direction, slightly down on the previous quarter's levels..*