FNB HOME BUYING ESTATE AGENT SURVEY – 1st QUARTER 2012

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The FNB Estate Agent Survey shows estate agents experiencing a mildly stronger residential property market performance in the 1st quarter of 2012.

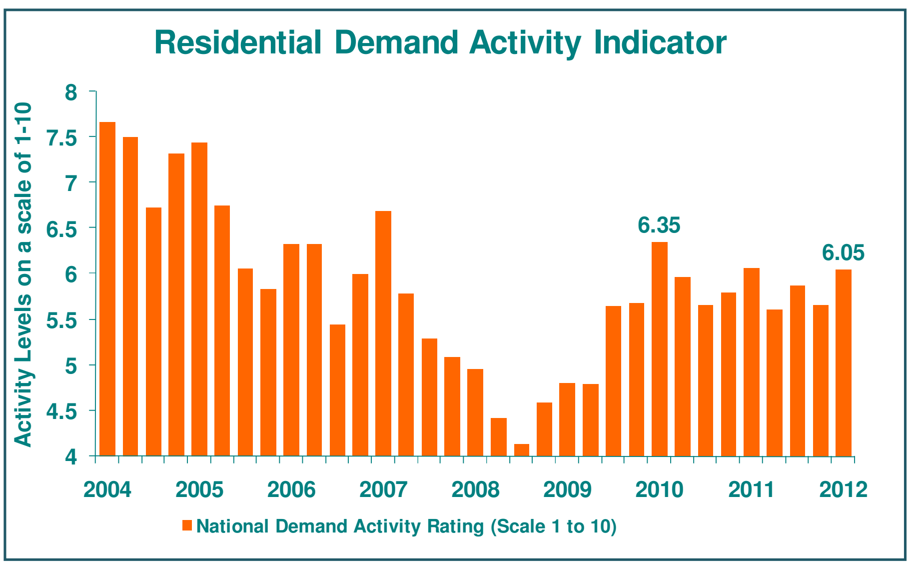
ESTATE AGENTS POINT TO STRONGER DEMAND IN THE 1ST QUARTER

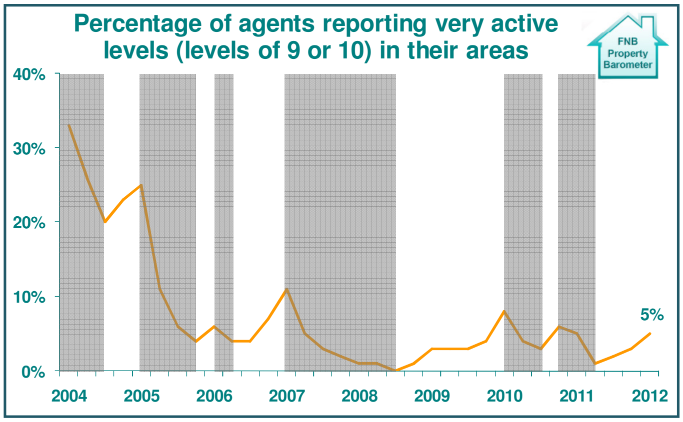
The 1st Quarter 2012 FNB Estate Agent Survey, completed in the month of February, came out with a mildly more positive view of the domestic residential property market. The improvement was witnessed both in terms of improved demand in the quarter, as well as some improvement in the balance between demand and supply, or otherwise put an improvement in "pricing realism".

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.

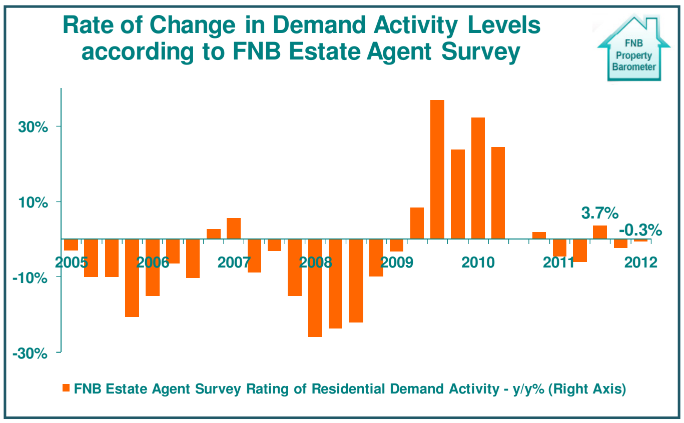
The 1st quarter Residential Demand Activity Indicator rose noticeably from the previous quarter's 5.66, to 6.05.

Some care should be taken with interpretations, however, as the 1st quarter is generally a seasonally strong period. But South Africa did also experience better economic growth late in 2011, which is supportive of employment and disposable income growth, and thus of residential purchasing power, and this may also play a positive role.





The percentage of agents reporting their areas to be at "very active" activity levels, i.e. 9 or 10 ratings, remains relatively low, but has risen for the 3rd consecutive quarter to 5% as at the 1st quarter of 2012, up from a low of only 1% as at the 2nd quarter of 2011.

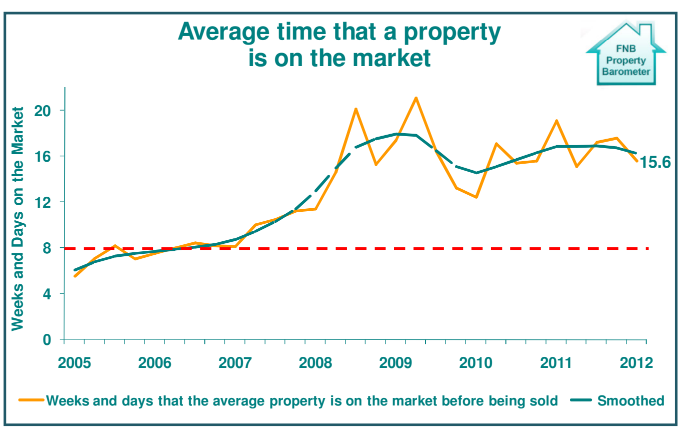


In order to attempt to eliminate seasonal factors, we calculate the year-on-year percentage change in the Demand Activity Indicator. This approach suggests a very stable performance, although no fireworks yet, when ignoring seasonal factors, with year-on-year percentage change improving from -2.2% in the previous quarter to an "almost insignificant" -0.3% in the 1st quarter of 2012.

Other indicators emanating from survey suggest that there was an improvement in the balance between demand and supply in the residential market too, something that is not only driven by demand but by availability of stock for sale as well. This is mildly encouraging from a price performance point of view.

ESTATE AGENTS SUGGEST A SLIGHTLY MORE "REALISTICALLY PRICED" MARKET IN THE 1ST 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.

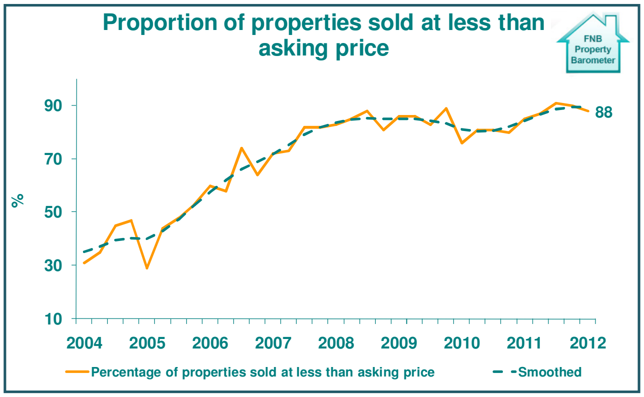


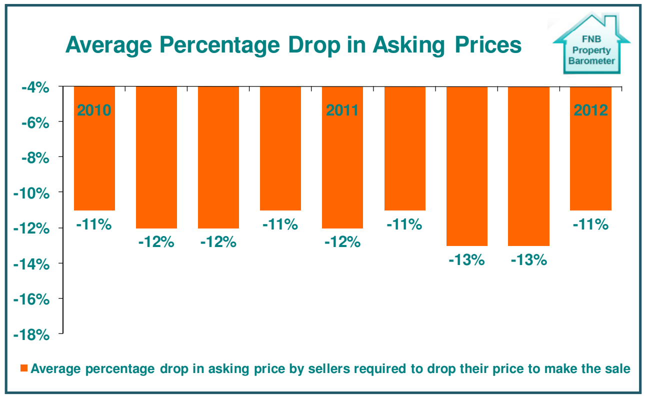
In the 1st quarter, this average time on the market declined from the previous quarter's 17 weeks and 6 days to 15 weeks and 6 days. It must be borne in mind that this estimate can be volatile from quarter to quarter, but the smoothed trend line that we have created, using a statistical smoothing function, also declined mildly in the 1st quarter.

This is a positive development, but 15 weeks and 6 days remains a lengthy time on the market, and 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 "healthy" market, so there is still some way to go.

The percentage of properties sold at less than asking price was 88%, according to the survey, which was also a slight improvement on the previous 2 quarters' 91% and 90% respectively. Once again, moderate improvement but still a high percentage.

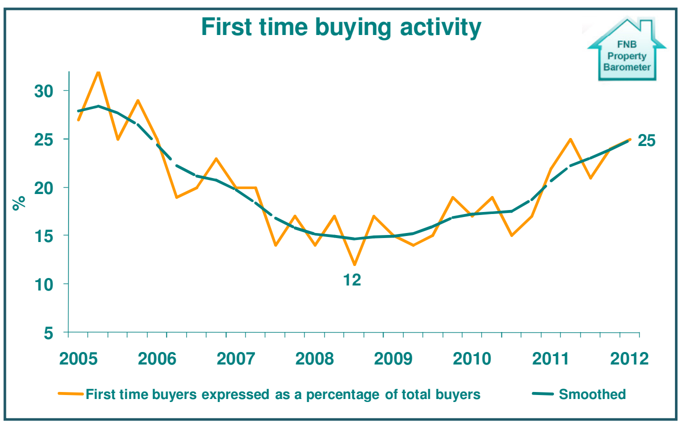
Furthermore, we ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average drop also moderated mildly from -13% in the previous 2 quarters to -11% in the 1st quarter of 2012.





THE MORE CYCLICAL 1ST TIME BUYER COMPONENT OF RESIDENTIAL DEMAND HAS ALSO IMPROVED IN 1ST QUARTER

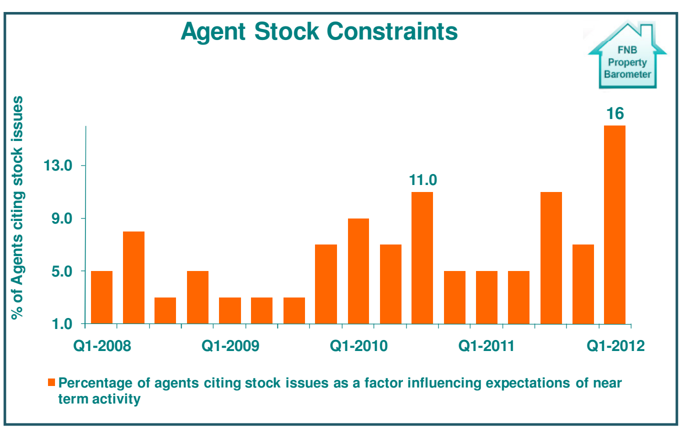
1st time buyer demand tends to be more cyclical than the total market. This is arguably because many young buyers have more flexibility than established households, being able to delay their own formation of a new household by remaining in their parent's home for longer during tougher property and economic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

And indeed, the FNB Estate Agent Survey showed a further slight improvement in 1st time buying, expressed as a percentage of total buying, from 24% in the previous quarter to 25% in the 1st quarter, the 2nd successive quarter of improvement, and now very significantly higher than the 12% low point reached in the 3rd quarter of 2008.

RESIDENTIAL SUPPLY MAY ALSO BE BECOMING A LITTLE MORE CONSTRAINED – GOOD FOR MARKET PERFORMANCE

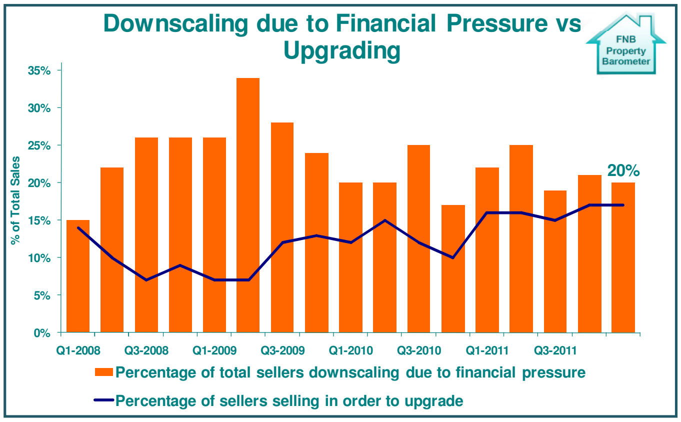


Trying to gauge the strength of supply of residential stock through asking survey respondents for their opinion is admittedly a tall order. When asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way. In the 1st quarter of 2012, we saw something of a spike in the percentage of agents citing stock constraints as an issue to 16%, from 7% in the previous quarter.

What this hints at is that the improvement in the balance in the market, as witnessed in a quarterly decline in the average time on the market, may have partly been due to a demand improvement, but also partly due to some increase in residential supply constraints.

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

Whilst our survey respondents have indicated a picture of mild improvement in the residential market, they do nevertheless point to financial pressure amongst households still remaining high. When asked to provide an indication of the reasons as to why people are selling their properties, in the 1st quarter they estimated that 20% of sellers were selling in order to downscale due to financial pressure. This is slightly down from the 21% of the previous quarter, but remains a very high number.



This arguably needs to be read in conjunction with the percentage of sellers selling in order to upgrade, which remained unchanged at 17% of total sellers in the 1st quarter.

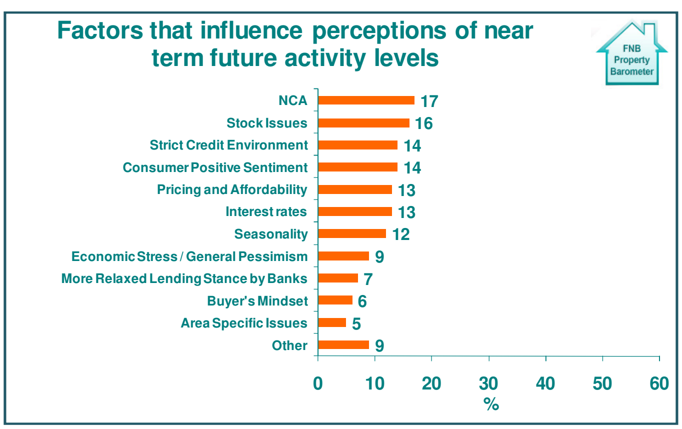
These 2 reasons for selling are arguably the 2 most important indicators in the survey of financial pressure/constraints experienced by homeowners. The gap between the two has closed significantly since early-2009, but the level of downscaling due to financial pressure remains high.

HOW AGENTS SEE THE NEAR TERM OUTLOOK

In terms of expectations of demand in the near term, the 1st quarter agent survey returned a mediocre response, which could perhaps be expected as we head into the winter quarters.

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 1st quarter survey, only 26% of respondents expected an increase in demand levels in the 2nd quarter of 2012. This is admittedly up from the lowly 17% recorded in the 4th quarter of last year, but remains relatively low.



When asking agents for the factors influencing their near term expectations, the National Credit Act comes up as the most common factor. It is seen in a negative light, with 17% of agents believing that this Act makes it difficult to obtain finance for home buyers.

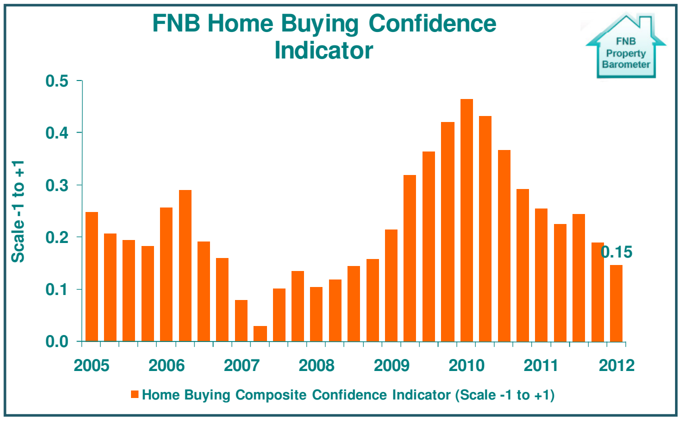
The factor that has moved up into 2nd place is that of "stock constraints", which an increased 16% of agents cite as a problem from their point of view. This group say people are holding on to properties, while there is little in the way of new developments. From a market returns point of view this is good news. From an agent point of view this is a negative, as their businesses are based on turnover, and this constrains it.

In 3rd place 14% of agents cite a strict credit environment as a negative issue (which can be lumped together with the NCA factor). Against this a lesser 7% believe that banks are more relaxed, and see this as a positive. Overall, therefore, it appears that more still see conservative bank landing as a key issue.

In 4th place, 14% of agents cite positive consumer sentiment as a factor influencing their near term expectations, while a lesser 9% point to "economic stress/general pessimism" as a negative factor.

Therefore, the sample of agents surveyed is not overly optimistic with regard to its near term expectations, *despite experiencing some market improvement in the 1st quarter. More perceive their clientele to be generally optimistic than those who perceive pessimism, but the "strict credit environment/Credit Act restrictions come up most often as constraints on the market.*

In order to eliminate the strong influence of seasonal factors, we aggregate the results for agents' near term expectations on a 4-quarter moving average basis, and the result is what we call the FNB 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.



Here, with seasonal factors eliminated, we see the 1st quarter Home Buying Confidence Indicator declining further on the previous quarter's level, from 0.19 to 0.15.

The agents surveyed, therefore, continue to follow a broad trend of moderating expectations. The still-positive Indicator reading still points to more agents expecting increase in activity than decrease, but the gap continues to narrow since the big surge in 2009/early-2010.

IN SUMMARY – AGENTS POINT TO MILD IMPROVEMENT IN THE RESIDENTIAL MARKET, BUT FINANCIAL STRESS STILL REMAINS SIGNIFICANT, AND THEY HARBOUR MODERATE EXPECTATIONS REGARDING THE NEAR TERM

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 1st quarter Estate Agent Survey, the sample of agents surveyed suggests some mild strengthening in the market. They saw demand strengthening, the supply of residential stock is seemingly becoming more constrained for some, the average time of properties on the market declined, and slightly less sellers having to drop their asking price to make the sale.

Much of this improvement can be attributed to seasonal factors, but it is possible that stronger economic growth since late-2011 is playing a role through boosting household disposable income and thus residential purchasing power.

Agents do also, however, point towards a still-very significant level of financial pressure, which manifests itself in a still-high percentage of sellers downscaling due to financial pressure, and this should be a concern given that interest rates offer huge relief at their current multi-decade lows.

The agents surveyed harbor moderate expectations regarding near term future activity, with many still citing the tight bank lending environment as a key constraint on the market.