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PROPERTY BAROMETER – FNB Home Buying Estate Agent Survey by Segment

FNB Estate Agent Survey by Segment suggests that the “lower priced” market segments looked the healthiest in 2011

JOHN LOOS:
HOUSEHOLD AND PROPERTY
SECTOR STRATEGIST
011-6490125
John.loos@fnb.co.za

EWALD KELLERMAN:
PROPERTY MARKET ANALYST
011-6320021
ekellerman@fnb.co.za

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The FNB Estate Agent Survey for the 4th quarter of 2011 completes the picture for the year, and this report focuses on relative performances of the main residential price/income segments for last year as a whole.

1. FNB ESTATE AGENT SURVEY BY SEGMENT POINTS TO THE “LOWER INCOME” SEGMENT EXPERIENCING THE STRONGEST DEMAND IN 2011

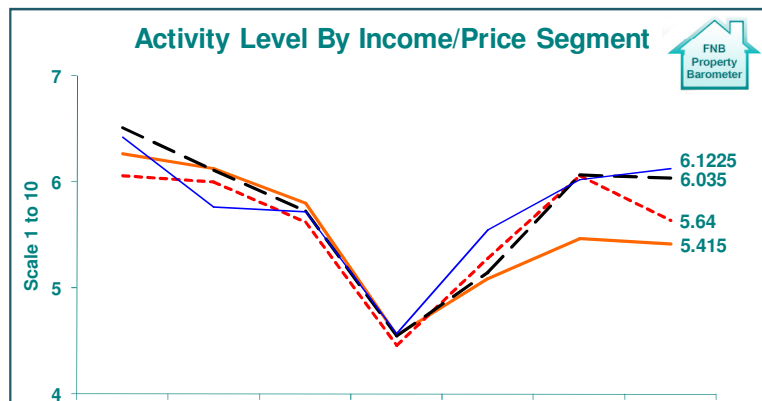
The FNB Estate Agent Survey by income segment focuses largely on the highly-traded “suburban” markets of the country’s 6 major metros.

For the year 2011, the surveys showed agents surveyed in “Lower and Middle Income” areas being more optimistic in terms of their perceptions of demand strength in their areas compared to those areas classified as “Upper Income” and “High Net Worth”. All segments except the Lower Income Segment did, however, show an average decline in residential demand strength, according to survey respondents, with the Upper Income Segment showing the most significant decline.

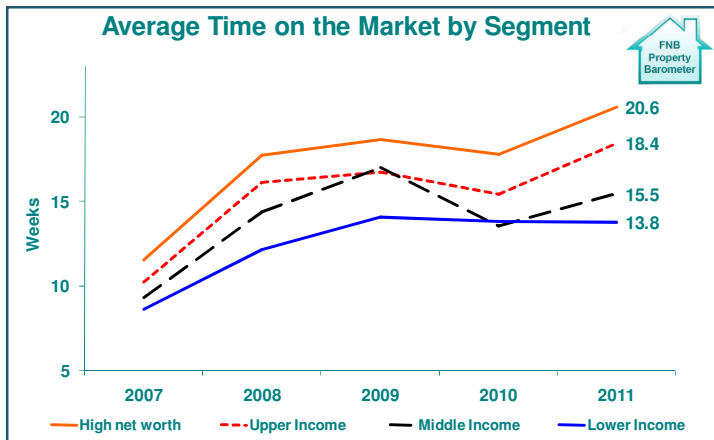
The survey asks agents to place the areas that they serve into one of 4 categories, i.e. High Net Worth areas (average price = R3.7m average in 2011), Upper Income areas (average price = R2.2m), Middle Income areas (average price = R1.2m), and Lower Income areas (average price = R679,000).

One of the key questions to agents involves them providing a subjective estimate of their perception of demand levels in their areas, on a scale of 1 to 10. As one views the demand levels in the different segments, one sees that the Lower Income segment was the only one to see estimated demand strength rise mildly in 2011, compared with average demand in 2010, thus becoming the segment with the strongest demand rating of 6.12 average for last year. The Middle Income segment follows closely with a rating of 6.04, which represents a slight weakening on 2010, while the Upper Income (5.64) and High Net Worth (5.42) segments are noticeably weaker.

Through 2010 and 2011, the High Net Worth segment’s demand rating has been significantly weaker than the other 3 segments, although the Upper Income Segment’s weakened demand rating narrowed the gap with the High Net Worth Segment in 2011.



2. DEMAND-SUPPLY BALANCE APPEARS TO HAVE IMPROVED MOST IN THE MIDDLE INCOME SEGMENT.



A further question relates to the estimated average time that homes stay on the market prior to being sold. Using the average time of homes on the market prior to sale as a proxy for the balance (or imbalance) between demand and supply, the Lower Income segment once again outperformed the rest in 2011, keeping its average estimated time of homes on the market virtually unchanged at 13.8 weeks in 2011. By comparison, the 3 higher priced segments all showed a noticeable rise in average time on the market for 2011 as a whole, with the Middle Income Segment averaging 15.5 weeks (compared to 13.5 weeks in 2010), the Upper Income Segment 18.4 weeks (compared to 15.4 weeks in 2010), and the High Net Worth

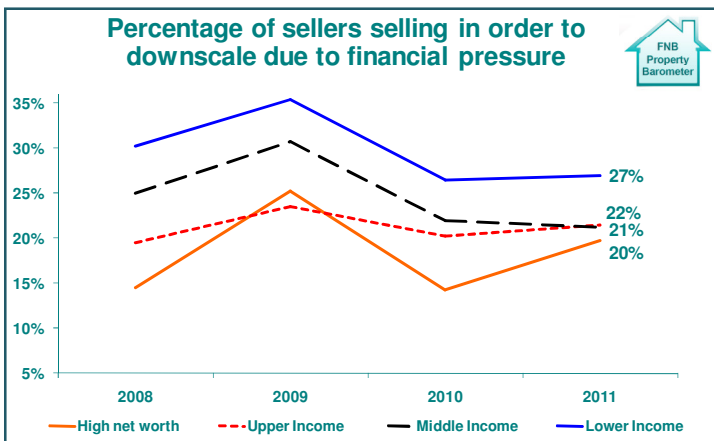
Segment 20.6 weeks (compared to 17.8 weeks in 2010).

It must be borne in mind that higher income areas normally do have a higher average time on the market than lower income ones, but more significant is that the Upper Income and High Net Worth segments appear to have shown a more significant increase in average time on the market in 2011 than the other two segments.

3. OVERALL FINANCIAL "STRENGTH" APPEARED BEST IN THE MIDDLE INCOME SEGMENT.

The 2011 surveys also pointed to a slight further improvement in overall financial strength of home buyers/sellers during the year in all but the High Net Worth Segment.

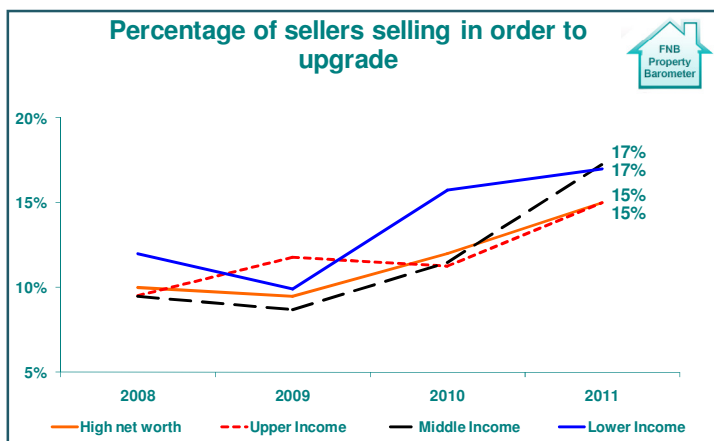
Gauging overall financial strength in a segment is difficult, but for this purpose we examine two categories of reasons for selling, namely selling in order to downscale due to financial pressure, and selling in order to upgrade.



With regard to "Selling in order to downscale due to financial pressure", the Middle Income segment was the only segment to see a slight decline in the estimated percentage of sellers selling for this reason, from an average of 22% in 2010 to 21.5% in 2011.

The Lower Income Segment average was only slightly up, from 26.5% to 27% for the respective years, the Upper Income Segment more noticeably up from 20.3% to 21.3%, while the High Net Worth Segment saw the most deterioration (increase) on the score from 14.3% to 19.8%.

It was on the buyer side, however, where greater apparent improvements in financial strength were seen in the form of a broad rise in estimates of selling in order to upgrade.

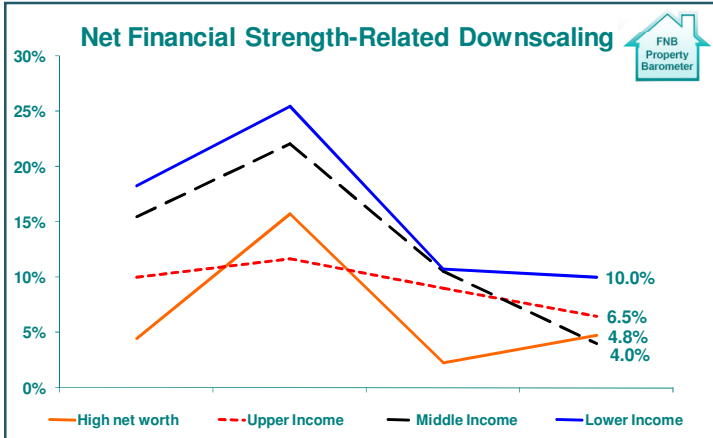


All 4 segments showed a noticeable rise in the percentage of sellers selling in order to upgrade, but once again the Middle Income Segment stood out, averaging the highest percentage 17.25%, for the first time on record being slightly higher than the Lower Income Segment's 17%.

Once again the 2 higher income segments showed noticeably inferior performance to the other two

segments, both averaging 15% in 2011 for this category of selling.

In order to give a rudimentary estimate of the overall financial strength of each segment, we subtract the percentage upgrading from the percentage downscaling, to get to what we term “net financial strength-related downscaling”.



Here, the Middle Income segment moved to being the segment with the lowest percentage of “net financial strength-related downscaling” of 4% of total selling for 2011 as a whole.

This is followed by the 4.8% of the High Net Worth segment, while the Upper Income Segment at 6.5% and the Lower Income Segment at 10% were weaker, although it must be said that the Lower Income Segment normally has a higher percentage over time than the rest..

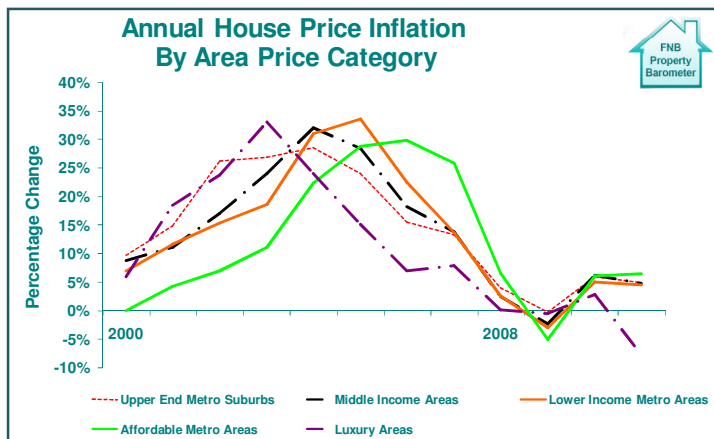
However, the only segment to show a weakening in this percentage compared with 2010 was the High Net Worth Segment.

Reasons for selling (As % of Total Sales) 2011	Total	High Net Worth	Upper income	Middle income	Lower income
Downscaling due to financial pressure	22%	20%	22%	21%	27%
Downscaling with life stage	21%	25%	23%	20%	17%
Emigrating	4%	5%	5%	3%	3%
Relocating within SA	8%	8%	6%	8%	8%
Upgrading	16%	15%	15%	17%	17%
Moving for safety and security reasons	11%	10%	11%	11%	10%
Change in family structure	12%	12%	13%	11%	11%
Moving to be closer to work or amenities	7%	6%	6%	9%	7%

4. PRICE TRENDS BY SEGMENT – AFFORDABLE SEGMENT STILL GROWING THE STRONGEST.

FNB has created its own area value band indices for residential-dominated areas in the 6 major metros, grouped according to average prices of areas, and using Deeds data for transactions by individuals in the 6 major metro regions with which to estimate these.

These indices differ from the 4 estate agent income segment groupings, as they include the entire metro residential market, importantly what are known as former Black, Coloured and Indian Township regions.



Since the “relief rally” (or mini-recovery) that we saw in 2010, estimated house price growth in all but one of our Major Metro area value band indices has shown a tapering off.

The area value band that appears to have narrowly “defied gravity” in 2011 has been the so-called Affordable Segment, which includes a group of lower-priced metro areas whose average price was R375,460 in 2011. The Affordable Area Value Band saw estimated average price growth of 6.5% in 2011, mildly higher than the 6.1% recorded for 2010

The next 3 higher area value bands were all grouped in a very narrow price growth range in 2011, with the Lower Income Value Band (avg. price = R726,943) showing growth of 4.6% in 2011, what we deem to be "Middle Income Areas" (avg. price = R1.110m) growing by 4.8%, and our Upper End Metro Suburbs (avg. price = R1.87m) rising by 5%. Slightly higher price growth in the higher of the 3 value bands may appear contrary to what agents are saying about the Higher Income segment being fundamentally weaker. However, one should allow some room for statistical error when price growth differences are so small. In addition, the higher segments tend to lack more in terms of pricing realism, implying that while price growth may have been ever so slightly better for those properties transacting in the higher segments, much of the relative market weakness is seen in longer average times that properties stay on the market, i.e. in slower turnaround times rather than in weaker price growth.

However, at the other end of the spectrum to the "outperforming" Affordable Segment, we have created a Luxury Area Index (avg. price = R2.89m in 2011 with maximum price cut-off of R5m), which is similar in average price to the High Net Worth areas defined by estate agents. This index suggests a noticeable underperformance in this segment compared to the lower priced value bands, declining on average by -7.6%, following an also underperforming +2.9% rise in 2010.

5. CONCLUSION – What’s troubling the High Net Worth Segment?

It would appear that the lower end of the market had the healthier "fundamentals", in terms of demand and market balance, while the High Net Worth segment continues to be the weak part of the market.

The FNB Estate Agent Survey suggests that the metro market segment that agents define as the Lower Income Segment (with average value at R679,000), showed the strongest demand-supply "fundamentals" of the 4 "suburban" income segments during 2011. It recorded the highest average agent demand rating for the year, and was the only segment to see its demand rating for 2011 at a higher level than 2010. It was also the only segment whose average estimated time of homes on the market did not rise in 2011, compared to 2010.

When it comes to financial strength, however, it would appear that the Middle Income Segment, with average price around R1.2m, took the honours when comparing the levels of selling in order to downscale due to financial pressure with selling in order to upgrade, between the different segments.

In contrast, the High Net Worth Segment appeared to continue to battle to catch up. This is arguably not surprising. The High Net Worth segment is possibly less interest rate sensitive than the lower end of the market, being less credit-dependent than the lower end. One would thus expect the High Net Worth segment to have shown less of a mini-recovery in 2010, given that this recovery was largely driven by massive interest rate cuts. Our perception is that the High Net Worth segment is more "economy-dependent", with high net worth households receiving greater portions of their overall incomes from business/investment income and discretionary remuneration, which perform weaker in tougher economic times such as those of the past 4 years.

Relatively tough financial times in the household sector as a whole should also be expected to drive demand towards the more affordable parts of the market, also benefiting the lower end more. On top of this, the astronomical increases in municipal rates and utilities tariffs bills is sure to be affecting the top end of the market far more severely.

The list of possible reasons for the High Net Worth segment's apparent sub-par performance is therefore lengthy. **As we look set to head into a year of slower economic growth in 2012, we would anticipate "more of the same", i.e. for the lower-priced end of the residential market to show a better relative performance than the higher priced segments. However, we must emphasize that all segments are expected to see something of a slowdown in 2012. In addition, little in the way of further interest rate stimulus is anticipated in 2012, with the Reserve Bank having raised its consumer price inflation forecast to reflect an expectation that the consumer price inflation rate will remain above the 6% target limit for the entire 2012.**

*Note: In the FNB Estate Agent Survey, we ask a sample of agents to provide a subjective rating of residential demand strength in their areas. The rating is on a scale of 1 to 10, with 10 being the strongest.