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PROPERTY BAROMETER-
FNB ESTATE AGENT SURVEY BY SEGMENT

– *Middle Income Segment was the "sweet spot" in 2013, but the higher end played some catch up*

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ESTATE AGENTS STILL POINTED TO A GAP IN "MARKET FUNDAMENTALS" BETWEEN THE LOWER/MIDDLE INCOME AREA SEGMENTS AND THE HIGHER END, BUT THE GAP NARROWED

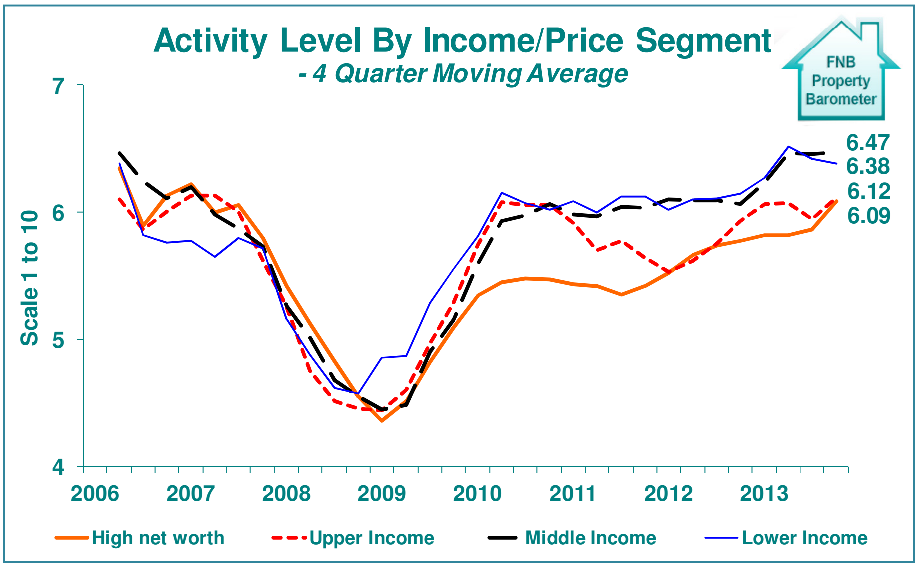
For 2013 as a whole, FNB Estate Agent Surveys continue to point to a gap between, on the one hand, the Lower and Middle Income Area segments, and the Upper Income and High Net Worth Segments on the other hand, but the gap narrowed noticeably late in the year.

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 activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.

This report focuses on the 4 income segments defined in the survey. For this exercise, we use 4-quarter moving averages in our data, so as to smooth out data volatility from quarter to quarter (with segment sample sizes being limiting) and examine the broader trends.

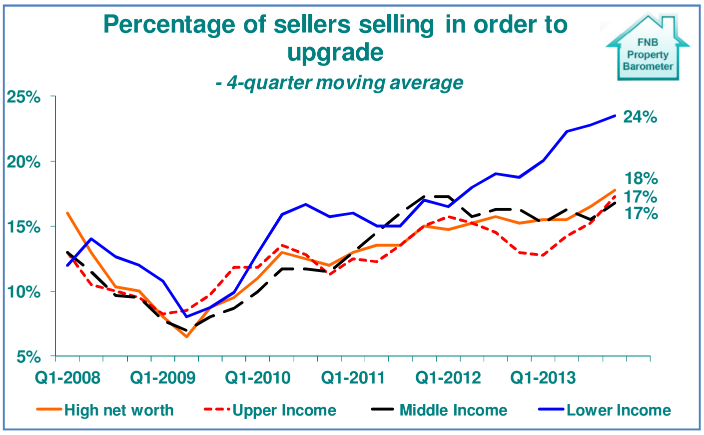
The 4 Income segments are self-defined by agents working the areas, and comprise the High Net Worth segment (average 4th quarter 2013 price = R3.88m), the Upper Income segment (average price = R2.33m), the Middle Income segment (average price = R1.19m), and the Lower Income segment (average price = R854,100).

Examining average agent activity ratings (scale of 1 to 10) by segment for the 4 quarters up to and including the 4th quarter of 2013, the Middle Income Segment comes out top with an average rating of 6.47, with the Lower Income Segment slightly lower on a 6.38 rating. However, the gap between these 2 segments and the Upper Income segment's 6.12 rating, as well as the High Net Worth segment's 6.09, has narrowed, with the latter 2 segments both moving above the 6 market by late-2013.



STRONG UPGRADE-RELATED SELLING IN THE LOWER INCOME AREAS MAY BE PROVIDING STRONG SUPPORT TO MIDDLE INCOME AREAS,…..

A noticeable feature of the Lower Income Area Segment since early-2012 has been a steady rise in the percentage of sellers believed to be selling in order to upgrade to a better home, reaching 24% by late-2013. So, while solid 1st time buying, in these times of low interest rates and relatively easy access to credit, is probably a key driver of the relatively good activity levels perceived in the Lower Income Areas, strong levels of selling in order to upgrade in Lower Income Areas may be a key driver of activity levels in the next segment up, i.e. the Middle Income Area Segment, as a group of sellers moves upward to their next purchase.



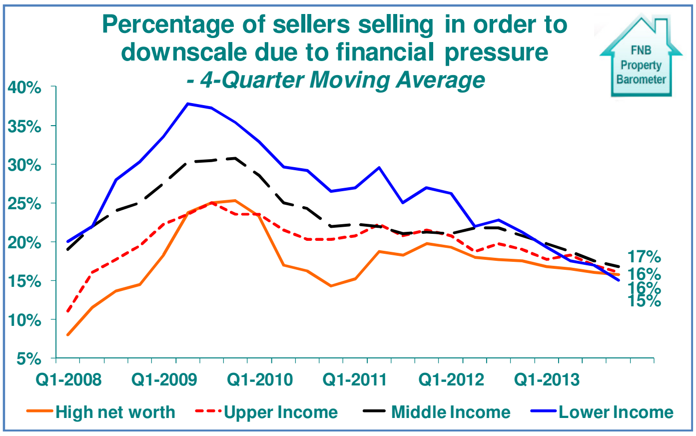
By comparison, the Middle (17%), Upper (17%) and High Net Worth (18%) Income Area segments have a significantly lower percentage of sellers selling in order to upgrade.

So, the Middle Income Area Segment may well be receiving the strongest boost from upgrading out of the Lower Income Segment, possibly going a long way to explaining its activity level rating being the highest.

However, important to note is that all segments having been seeing a rising trend in the percentage of sellers intending to upgrade, meaning that the general support from upgrade-related selling for the higher end segments has been increasing.

FINANCIAL STRESS-RELATED SELLING IN ORDER TO DOWNSCALE IS AT VERY SIMILAR LEVELS ACROSS SEGMENTS

The Lower Income Segment has seen the financial health of its homeowners improving at a more rapid rate than all of the other 3 segments, off a higher base, since the height of financial stress in 2009.



So, compared to a peak of 38% back in the 2nd quarter of 2009, Lower Income Areas have seen their estimated percentage of sellers believed to be downscaling due to financial pressure decline to 15% for the 4 quarters up until and including the 4th quarter of 2013.

A word of caution is required here. It is important to remember that low interest rates mask many financial frailties, so one must be careful of drawing conclusions as to how sustainable this better financial performance is when tougher times come again one day. The lower end is also arguably more interest rate sensitive, being highly credit-dependent. But for the time being the improved home owner financial performance is noticeable, and more supportive of the property market, especially at the Lower Income End. And over the past 4 quarters, the Lower Income Area financial stress-related downscaling percentage has even moved slightly below the percentages of Middle Income Areas (17%), Higher Income Areas (16%) and High Net Worth Areas (16%).

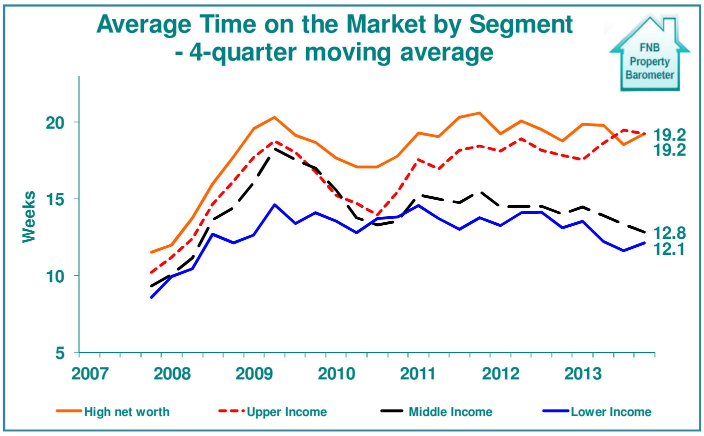
However, it would not appear that any segment benefits noticeably more, or less, than another from financial stress-related downscaling, as the relative percentages are currently in a very narrow range.

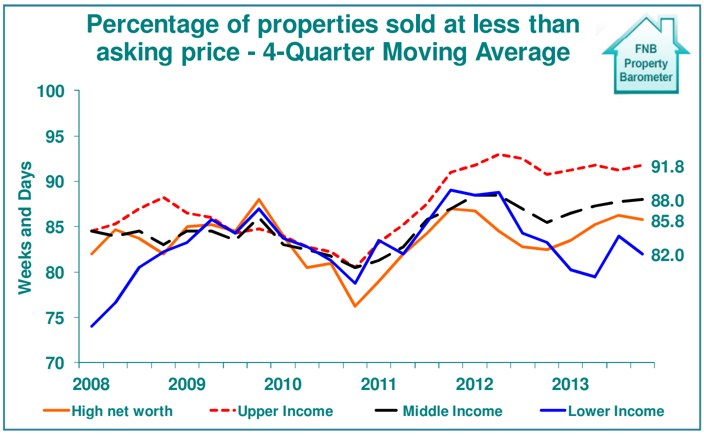
SELLER PRICE REALISM STILL APPEARS BEST IN THE LOWER INCOME SEGMENT

The Lower and Middle Income segments still appear to maintain a significant gap between themselves on the one hand, and the Upper and High Net Worth Segments on the other hand, in terms of more realistic pricing.

For the 4-quarters up until the 4th quarter of 2013, the average estimated time of homes on the market prior to sale for the Lower and Middle Income segments, was 12.1 weeks and 12.8 weeks respectively. By comparison, the Upper Income and High Net Worth segments both recorded 19.2 weeks. While one should normally expect higher end homes to be on the market for longer, the fact is that the gap between these segment estimates and the 2 lower segments widened during 2013.

The other measure of price realism is the percentage of sellers having to drop their asking price to make the sale. Here, too, the Lower Income segment remains ahead at 82% of total sellers for the past 4 quarters. The Upper Income Segment has the highest percentage at 91.8%, while the Middle Income (88%) and the High Net Worth (85.8%) Segments hover in the middle.





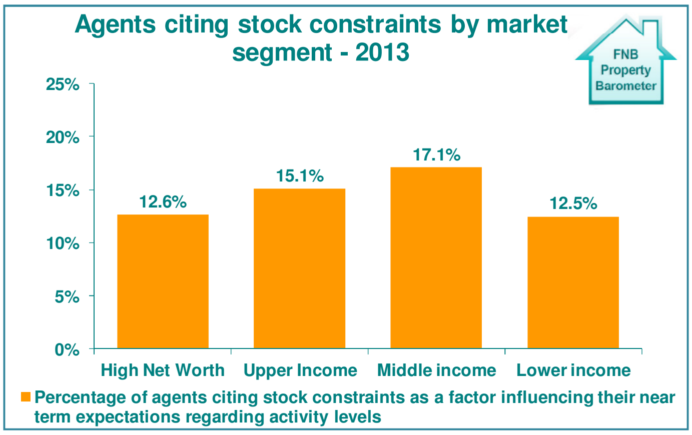
CONCLUSION

When examining the FNB Estate Agent Survey by Income segment through 2013, we continued to see the Middle and Lower Income segments' agents being a little more upbeat on activity than the 2 segments further up the income/price ladder. However, the 2 higher end segments continued to improve, and indeed narrowed the gap between themselves and the Lower/Middle Income Segments.

Nevertheless, the so-called "Middle Income" Segment appeared to be the sweet spot in the residential market through 2013. It had the highest average activity rating, according to survey respondents, for the year, beating both the Upper Income and High Net Worth Segments as well as the Lower Income Segment. This segment may have benefited significantly from a very high percentage of upgrade-related selling in the Lower Income Segment, as one would think than many of that group of sellers would move up into the Middle Income Segment, strengthening the Middle Segment's demand.

Simultaneously, the Upper Income Segment had by far the highest estimated percentage of sellers selling in order to downscale due to life stage (the oldies), and it is conceivable that the Middle Income Segment may have benefited somewhat from this downward movement (although it must be remembered that the Upper Income Segment is far smaller in overall size than the lower segments).

Reasons for selling (As % of Total Sales) - 2013	Total	High Net Worth	Upper income	Middle income	Lower income
Downscaling due to financial pressure	**16%**	**16%**	**16%**	**17%**	**15%**
Downscaling with life stage	22%	20%	27%	21%	18%
Emigrating	**3%**	**2%**	**3%**	**2%**	**5%**
Relocating within SA	8%	9%	9%	8%	9%
Upgrading	**18%**	**18%**	**17%**	**17%**	**24%**
Moving for safety and security reasons	11%	13%	10%	12%	10%
Change in family structure	13%	14%	12%	14%	11%
Moving to be closer to work or amenities	9%	10%	7%	10%	9%



Not surprisingly, therefore, the highest percentage of survey respondents in the Middle Income Areas reported "stock constraints" in 2013, i.e. 17.1%. There is no specific question in the survey relating to stock constraints. Rather, it comes out when we ask agents for the reasons for their expectations regarding near term activity levels, and the percentages reporting stock constraints as a key factor driving their future activity level expectations has risen noticeably across the segments in 2012/13.

Not all of the Middle Income Segment's indicators were the best of the segments though. The Lower Income Segment still appears slightly better on price realism as well as on financial strength-related indicators, i.e. downscaling due to financial pressure and selling in order to upgrade, although its households' apparent superior financial "health" may be benefiting the Middle Income Segment due to upgrading activity from the Lower Income Areas.

So in a nutshell, in 2013 we saw two main features. Firstly, the Middle Income Segment was rated the strongest in terms of activity levels and stock constraints (higher stock constraints). And secondly, we saw a closing of the activity gap between the lower and higher end, with the Upper Income and High Net Worth segments showing noticeable improvements.