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PROPERTY BAROMETER

FNB Estate Agent Survey – The drivers of primary residential property selling

Are affordability limits starting to become visible in the “Sell-Side” of the Residential Market?

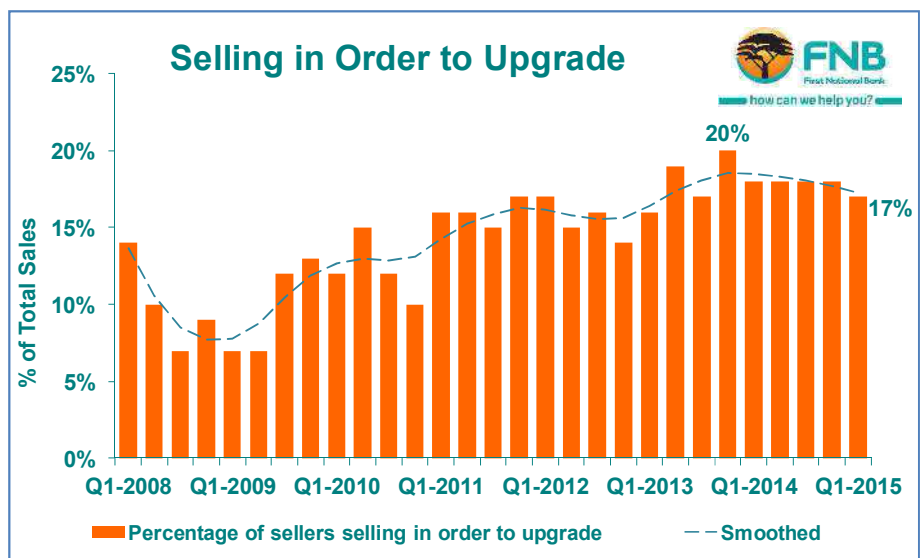
The 1st quarter FNB Estate Agent Survey pertaining to the “selling side” of the residential market still shows a very strong situation. However, mild recent declines in certain key “pro-cyclical” categories of selling may just be an early hint of limits to further market strengthening from here onward.

SLOWING UPGRADE-RELATED SELLING MAY REFLECT THE EARLY SIGNS OF RISING AFFORDABILITY CHALLENGES

In the FNB Estate Agent Survey, one of the questions asked of survey respondents is to provide an indication as to the key reasons for selling properties. 8 categories of reasons for selling primary residential properties are provided. They are “Downscaling due to financial pressure”, “Downscaling with Life Stage”, “Emigrating”, “Relocating to Elsewhere in SA”, “Upgrading”, “Moving for Safety and Security Reasons”, “Change in Family Structure”(Death, Divorce, etc)”, and “Moving to be Closer to Amenities”

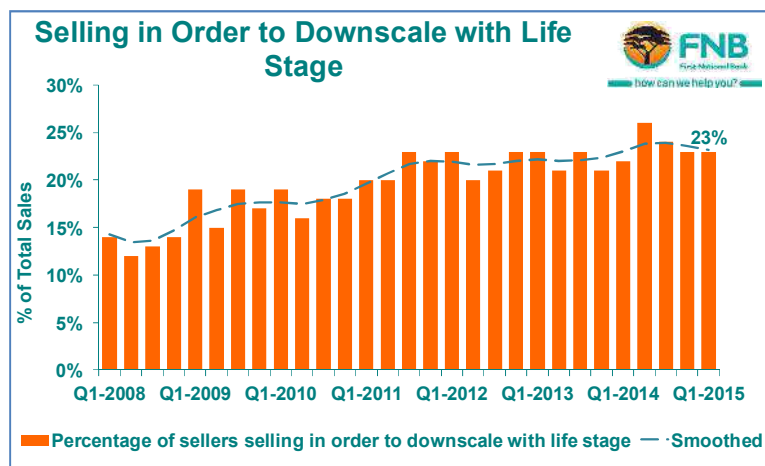
Recent surveys have begun to hint at the possibility that residential affordability challenges have slowly begun to mount. This is not to say that there is any meaningful sign of an increase in financial stress, but rather that households’ “splashing out” on luxuries may not be growing as strongly anymore. By this we refer to those financially solid households that may be “selling in order to upgrade to an improved home”.

Our survey respondents in the 1st quarter of 2015 suggested that “upgrade-related selling” accounted for 17% of total home selling. This is slightly lower than the 18% of the previous quarter, and more noticeably down from the 20% high reached late in 2013.



“LIFE STAGE-RELATED SELLING”, TOO, MAY BE SETTLING DOWN

The single largest percentage of sellers, i.e. 23% is still believed to fall into the category “Downscaling due to Life Stage” as at the 1st Quarter 2015 survey. This form of downscaling refers to those sellers who desire a smaller home, usually either because they are getting older or because their offspring have left home.



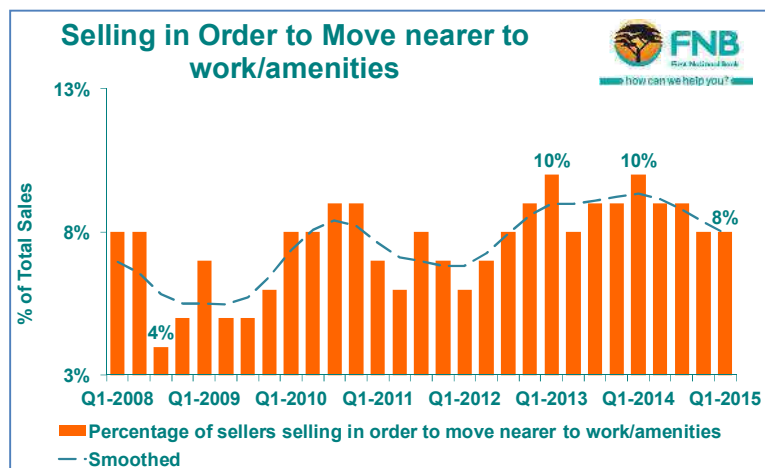
This group also appears to lack further growth off a high base. Its estimated percentage of 23% is now slightly lower than the multi-year peak of 26% earlier in 2014. This said, though, it remains near a high percentage, and far above the low of 12% reached back in the 2nd quarter of 2008 in far weaker market times.

We believe this “ageing” group of sellers to be “pro-cyclical” in their behaviour. They are not by-and-large financially stressed, and can thus wait for a “good time” to sell their property. They tend to come out of the woodwork in better market times. Therefore, the lack of further increase in their percentage since early in 2014

may be one further hint of limits on further strengthening in the residential market as a whole from here onward.

SELLING IN ORDER TO MOVE CLOSER TO WORK AND AMENITIES ALSO HINTS AT “SETTLING”

The 3rd reason for selling which we believe to be “pro-cyclical”, i.e. its percentage increases in a strengthening market and decreases in a weakening market, is that of “selling in order to move closer to work or amenities”.

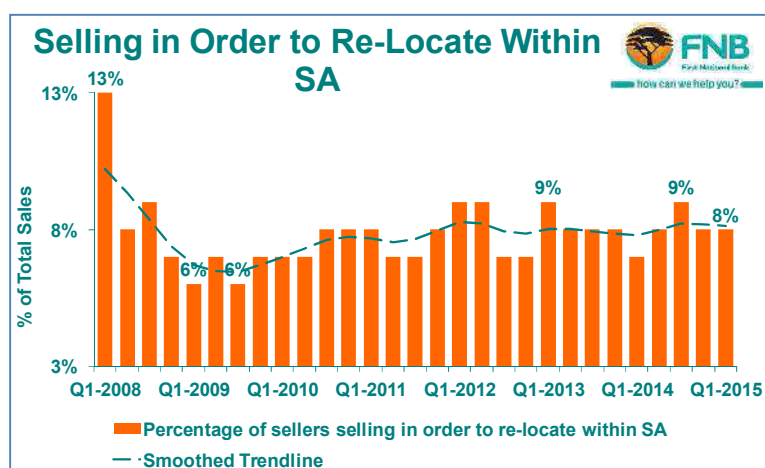


Like the former 2 categories and as one would perhaps expect, this category’s percentage hit rock bottom back in 2008/9 as the recession hit, but rose noticeably in subsequent years as economic and financial conditions improved for households.

So, from a low of 4% of total selling in the 3rd quarter of 2008, this group of sellers rose broadly in significance to 10% by early-2013, and reached a 10% estimate again in the 2nd quarter of 2014. However, since then a lack of further progress appears to have set in, with the percentage declining to 8% by the 1st quarter of 2015. Once again one must caution against

early conclusions, but it would appear as if the 10% highs were about as “good as it gets” following the residential market recovery.

SELLING IN ORDER TO RELOCATE TO ANOTHER REGION MOVES BROADLY SIDEWAYS”



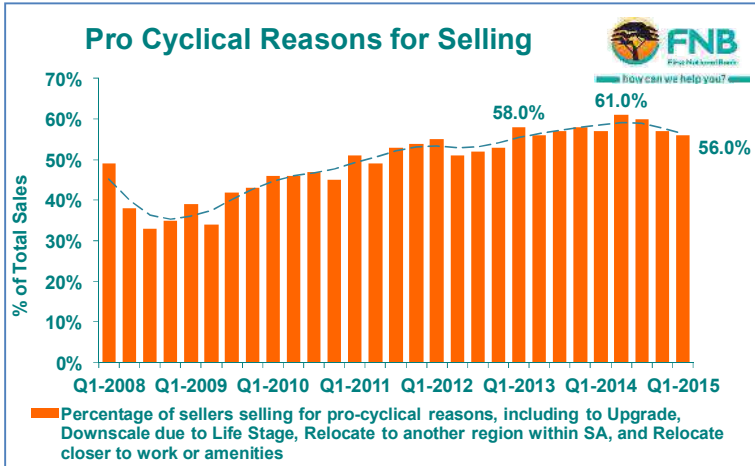
The 4th reason for selling which we believe to be “pro-cyclical” is that of “selling in order to relocate to another region of South Africa”. In stronger economic times, employment opportunities improve and one would expect a higher level of such relocation as a result. This percentage shows no strong hint of either decline or increase, however, hovering between 8% and 9% for most of the time since early-

2013, but still higher than the 6% lows around 2009.

THE 4 PRO-CYCLICAL REASONS COMBINED SUGGEST EARLY SIGNS THAT THE MARKET HAS LIMITS TO FURTHER STRENGTHENING

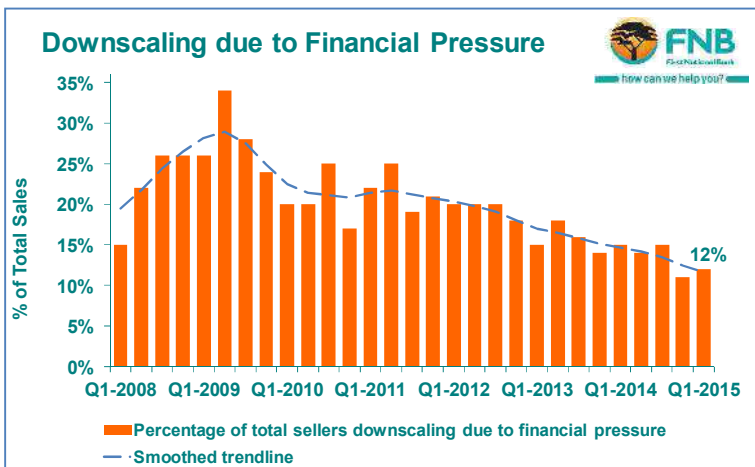
Combining the 4 abovementioned reasons for selling, which we believe to be more the “pro-cyclical” categories, they perhaps point to early hints of limitations on further residential market strengthening. At 56% of total selling in the 1st quarter of 2015, the “pro-cyclical” reasons for selling still point to a strong market. The percentage is still well up on the 33% low of the 3rd quarter of 2008, back when the recession was arriving.

However, for the past 3 quarters we have seen a mild decline in this percentage from its multi-year high of 61% reached in the 2nd quarter of last year. This may just be a hint of limitations on further market strengthening from here onward.



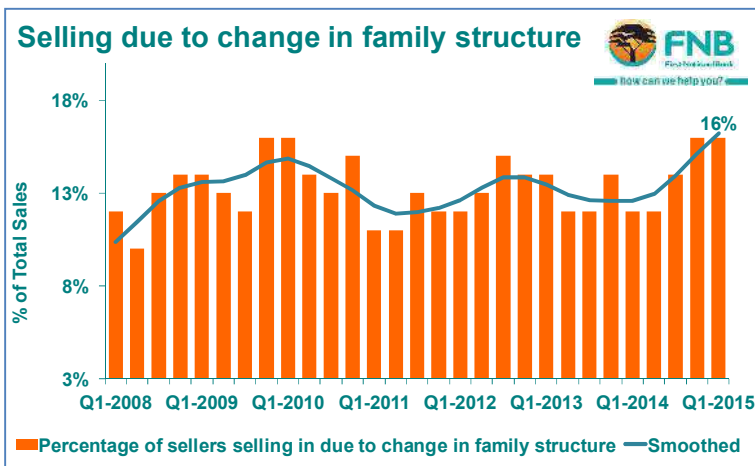
WHILE WE MEY BE APPROACHING FURTHER GROWTH LIMITS, THERE CAN BE NO TALK OF MOUNTING FINANCIAL STRESS JUST YET

While a lack of further affordability improvements through 2014 may be starting to put the brakes on the level of residential upgrade-related selling, we don’t yet perceive any meaningful increase in financial stress yet, or for that matter in the percentage of financial stress-related selling. The estimated percentage of sellers “selling in order to downscale due to financial pressure” did admittedly rise slightly from 11% in the previous quarter to 12% in the 1st quarter of 2015. However, such a small move can be mere data volatility, and the smoothed trendline remains downward for the time being. The 12% estimate remains far below the 34% high reached at a stage of 2009, as one would expect after some years of abnormally low interest rates and some “deleveraging” by households..



SO WHAT HAS RISEN NOTICEABLY?

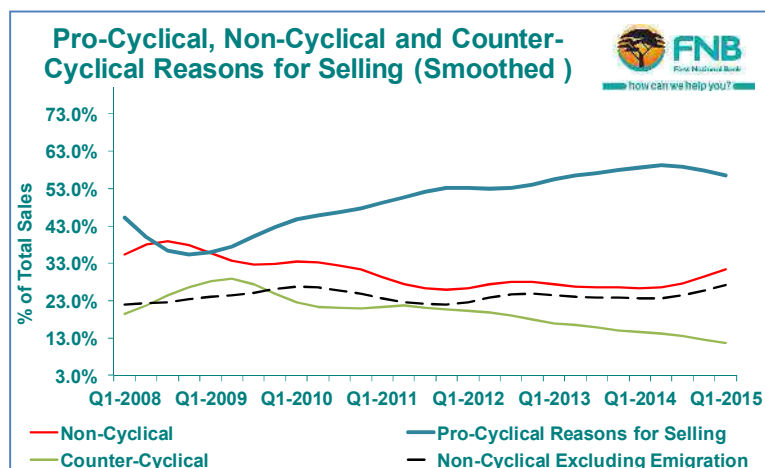
So if we’ve had some decline in the percentage of “pro-cyclical” selling, the question is which category has seen its percentage rise? The most noticeable increase appears to be in the category “selling due to change in family structure”, selling which can result from events such as death or divorce. We believe these events to be “non-cyclical”, so such categories’ absolute levels of selling should be more stable than the pro- and counter- cyclical categories, and this percentage should perhaps be expected to increase should the pro-cyclical selling percentage decline. Of late, this appears to have



been the case, with selling due to change in family structure's estimated percentage of total selling having risen from 12% in the 2nd quarter of 2014 to 16% in the 1st quarter of 2015.

IN CONCLUSION

An analysis of the various reasons for selling appears to confirm that we are still currently at a relatively strong stage of the property cycle, although certain "pro-cyclical" categories may have seen their improving trend ending late in 2004, and are perhaps starting to turn "weaker".



This assertion is partly supported by grouping the various reasons for selling into what we perceive to be "Pro-Cyclical Reasons", i.e. those categories that tend to increase in significance as the economic/property cycle gathers momentum and vice versa in slowdowns, "Counter-Cyclical Reasons", i.e. those categories that diminish in significance in better economic and market times and increase in prominence in weaker times, and "Non-Cyclical Reasons", which have no obvious correlation with the economic/market cycle.

Using smoothed trendlines, we saw an end to the broad rising trend in the Pro-Cyclical

reasons for selling recently, which include Selling in order to downscale due to life stage, selling in order to upgrade, relocating within South Africa, and selling in order to move closer to work or other amenities.

Selling in order to upgrade has declined slightly to 17% in recent quarters, off an earlier high of 20%, although the percentage remains far above the lows of the 2008/9 recession period.

The same goes for the percentage of selling in order to "downscale due to life stage", which at 23% in the 1st quarter remains high, but a little off the 26% of 2 quarters prior. This strong source of selling is to be expected as the middle and upper income groups head down the "ageing population path", and they have recently taken advantage of a relatively good period in the property market to offload their properties.

But while the key "Pro-Cyclical" reasons for selling may have declined mildly from previous highs, the Counter Cyclical component, which is solely "selling in order to downscale due to financial pressure", saw its broad declining (improving) trend continue up until early-2015. Therefore, the evidence of a turn in the cycle towards weakening is not conclusive in the selling side of the market yet, but there are hints of limits to future market strengthening from here onward..

Reasons for selling (As % of Total Sales)	Q1-2013	Q2-2013	Q3-2013	Q4-2013	Q1-2014	Q2-2014	Q3-2014	Q4-2014	Q1-2015
Downscaling due to financial pressure	15%	18%	16%	14%	15%	14%	15%	11%	12%
Downscaling with life stage	23%	21%	23%	21%	22%	26%	24%	23%	23%
Emigrating	2.7%	3.1%	2.7%	2.0%	3.4%	2.8%	2.7%	4.2%	3.6%
Relocating within SA	9%	8%	8%	8%	7%	8%	9%	8%	8%
Upgrading	16%	19%	17%	20%	18%	18%	18%	18%	17%
Moving for safety and security reasons	11%	10%	12%	12%	11%	10%	10%	11%	11%
Change in family structure	14%	12%	12%	14%	12%	12%	14%	16%	16%
Moving to be closer to work or amenities	10%	8%	9%	9%	10%	9%	9%	8%	8%