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PROPERTY BAROMETER

FNB ESTATE AGENT HOME BUYING SURVEY

The "sideways" market - 2nd Quarter 2015 FNB Estate Agent Survey once again points to a well balanced residential market but with a lack of any further residential market improvement

FNB Property Barometer

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FNB HOME LOANS: MARKET ANALYTICS AND SCENARIO FORECASTING UNIT

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SUMMARY OF FINDINGS

The broad picture emanating from the sample of estate agents surveyed is a "well balanced, stable, but sideways moving market", and this appears to be their near term future expectation as well.

The 2nd quarter movements in the key survey indicators were for the most part almost insignificant. On a seasonally adjusted basis, the Activity Rating was only slightly higher than the prior quarter. And when examining price realism, we had the average time on the market being slightly lower than previous, but having moved broadly sideways for the past 3 quarters, while the percentage of sellers dropping, and the percentage drop in, asking price deteriorated mildly.

Agents' aggregate recent experience of a more or less sideways moving market appears to be playing a role in shaping their near term expectation, with the percentage of agents expecting an activity increase almost equal to those expecting a decrease.

- ***The 2nd Quarter Residential Activity Indicator declined to 6.33, from the previous quarter's 6.73.*** *However, when one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted Indicator rose almost insignificantly from 6.44 in the previous quarter, to 6.47 in the 2nd quarter of 2015.*

- ***In the 2nd quarter of 2015, the percentage of agents citing stock constraints as a factor remained high at 22%,*** *but this was slightly lower than the 24% of the previous quarter, and there has been no apparent continuation of a prior upward trend in this percentage over the past year.*

- ***Since a 3rd quarter 2014 "low" estimate of 11 weeks and 4 days, the estimated average time of properties on the market has moved more or less sideways at just above 12 weeks,*** *estimated at 12 weeks and 1 day in the 2nd quarter 2015 survey, slightly lower than the 12 weeks and 5 days in the 1st quarter.*

- ***Agents reported a slight increase in the percentage of sellers having to drop their asking price,*** *from 83% in the 1st quarter of 2015 to 87% in the 2nd quarter. The estimated average percentage asking price drop, on those properties where a price drop is required to make the sale, increase slightly in magnitude, from -8% in the prior 5 quarters to -9%.*

- ***Agents' recent experience of a more or less sideways moving market appears to be playing a role in shaping their near term expectations****, with the percentage of agents expecting an activity increase almost equal to those expecting a decrease.*

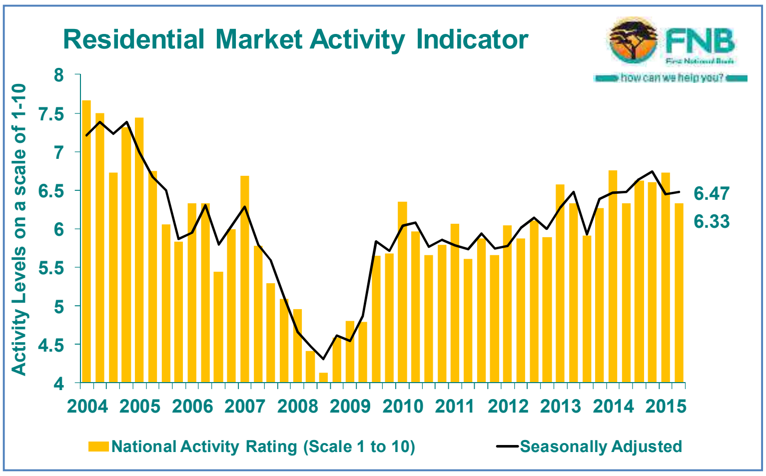
- ***When asking agents for the factors influencing their near term expectations,*** *seasonal factors are obviously a big one in the 2nd quarter.* ***But the biggest factor influencing agents' near term expectations****, excluding seasonality, was once again "stock constraints", cited by 22% of agents as an issue,*

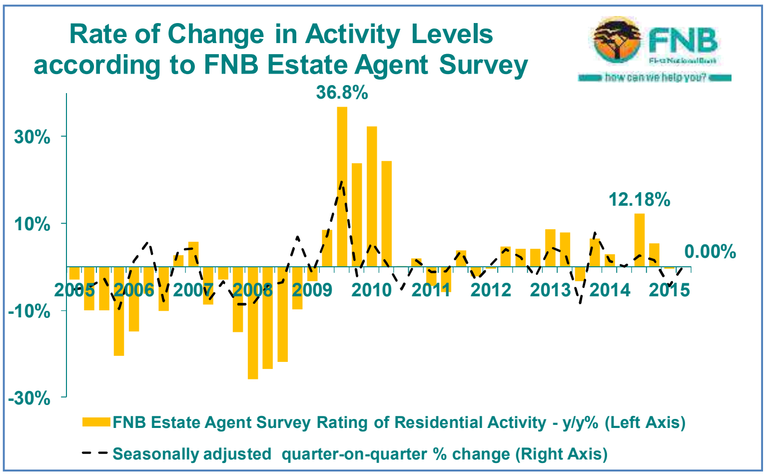
- ***The average expected house price increase,*** *by survey respondents, of +5.8% up from the previous survey's 4.8%.*

ESTATE AGENTS CONTINUE TO POINT TO A "COMFORTABLE" MARKET, BUT ONE WITH A LACK OF FURTHER STRENGTHENING

Once again, in the 2nd quarter 2015 FNB Estate Agent Survey, our sample of estate agents surveyed has pointed to a very "stable and well-balanced" residential market, but one with a lack of further residential market strengthening. This is perhaps unsurprising after the stagnation in economic growth in recent years, along with interest rates starting to rise mildly last year.

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





The 2nd Quarter Residential Activity Indicator declined to 6.33, from the previous quarter's 6.73. However, when one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted version of the Indicator rose almost insignificantly from 6.44 in the previous quarter, to 6.47 in the 2nd quarter of 2015. Seasonal factors aside, therefore, we saw an almost un-noticeable quarter-to-quarter rise in the 2nd quarter of this year.

The 2nd quarter Activity Indicator level remains at the upper end of the "stable" bracket (a level from 4 to 6), and not far from the "Positive" bracket of 7 to 8. The 2 other rating brackets are the "not very active (1 to 3), and "very active (9 to 10).

Examining the percentage change in the Activity Indicator, we had seen the year-on-year growth rate in the Residential Activity Rating for the 2nd quarter of 2015 "improve" from a prior quarter's -0.4% decline to zero percent change, emphasizing this "stability with a lack of growth" that we refer to of late.

The past 2 quarters of very little change in Activity Levels are distinctly different from the prior 2 quarters, with a big +12.18% increase in the 3rd quarter of 2014, to +5.42% in the 4th quarter. In short, 2015 to date has seen the market run out of growth momentum, it would appear.

On a quarter-on-quarter seasonally adjusted basis, the 2nd quarter rate of change was a very slight +0.5% too.

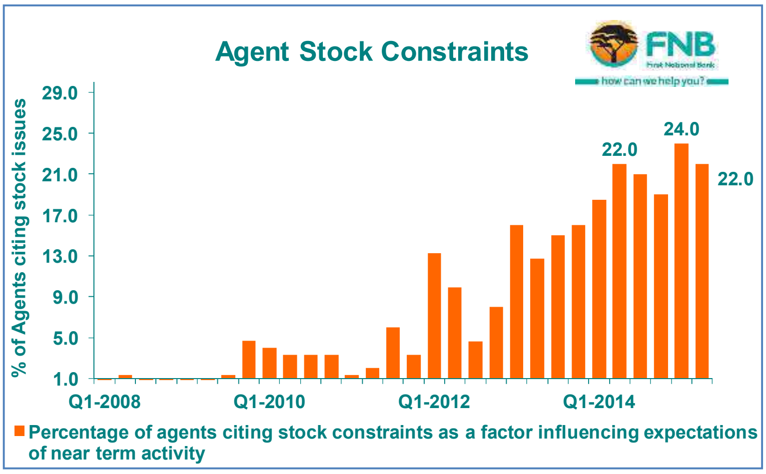
Therefore, while the level of activity remains solid, according to the agents, the rate of change in the activity rating suggests a lack of further growth momentum through the 1st half of 2015.

This is not too surprising. After the benefit of a massive interest rate cutting stimulus back around 2009/10, South Africa's economic growth rate has "settled down" into what appears to be its growth potential, between 1% and 2%, while interest rates began to rise last year, thus withdrawing the stimulus gradually.

Other key indicators from the FNB Estate Agent Survey continue to point to a very good balance between supply and demand in the residential market, but these too suggest that improvement has stalled.

Relevant in this regard is the combination of responses regarding stock constraints, average time of properties on the market, and those questions related to sellers having to drop their asking prices.

RESIDENTIAL SUPPLY CHALLENGES REMAIN SIGNIFICANT



The level of stock constraints in the existing home market remains significant, as it has been over the past 2 to 3 years or so.

These stock constraints intensified noticeably from 2012 to early-2014, assisted by relatively low levels of residential building activity since the end of the building boom in 2008.

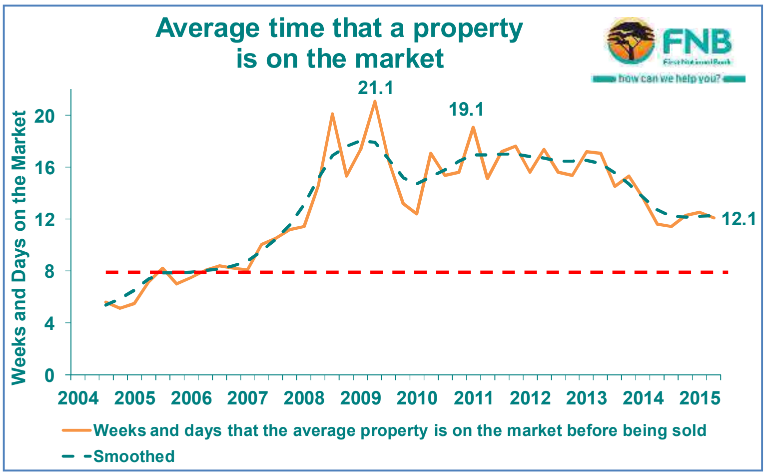
It is difficult to gauge the strength of supply of residential stock through asking survey respondents for their opinion. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way.

And in the 2nd quarter of 2015, the percentage of agents citing stock constraints as a factor remained high at 22%, but this was slightly lower than the 24% of the previous quarter, and there has been no apparent continuation of the prior upward trend in this percentage over the past year.

Nevertheless, stock constraints remain significant, an ongoing sign of a well balanced market, and certainly far more agents point to constraints than the lesser 5% that indicated "ample stock" in the survey.

THE BROADLY SIDEWAYS MOVEMENT IN THE AVERAGE TIME ON THE MARKET CONTINUES

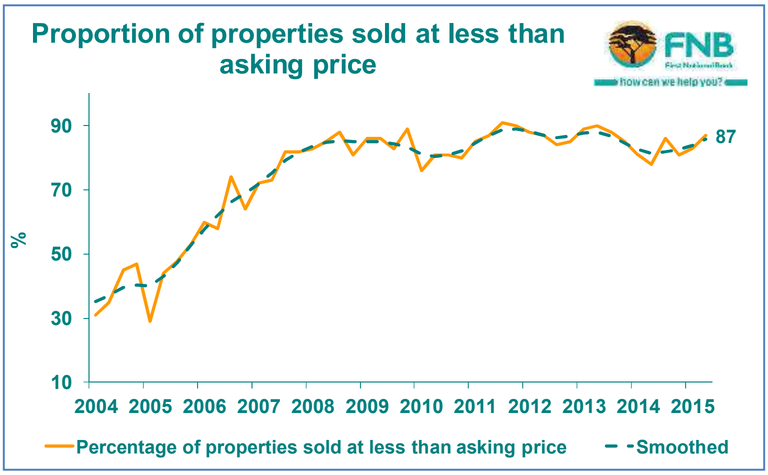
One indicator of where the market is in terms of seller pricing realism, or otherwise put the balance between demand and supply at prevailing price levels, is the estimated average time that properties remain on the market prior to sale.



Since a 3rd quarter 2014 "low" estimate of 11 weeks and 4 days, the estimated average time on the market has moved more or less sideways at just above 12 weeks, estimated at 12 weeks and 1 day in the 2nd quarter 2015 survey, slightly lower than the 12 weeks and 5 days in the 1st quarter.

This indicator of market balance or price realism, therefore, also points to a solid market, much improved from a time back around 2011 when the average was above 4 months, but again suggests no further improvement over the past 3-4 quarters.

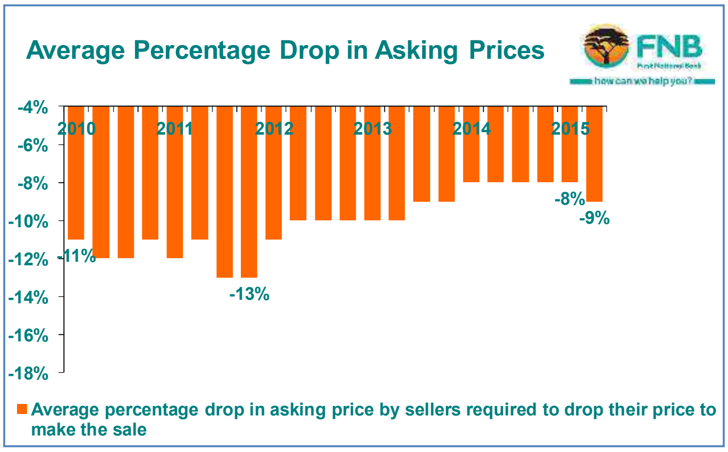
THE EXTENT OF DROPPING OF ASKING PRICES DETERIORATES SLIGHTLY



In another important "price realism"-related question, agents suggest a very mild deterioration (increase) in the percentage of sellers being required to drop their asking price to make a sale.

They reported a slight increase in the percentage of sellers having to drop their asking price, from 83% in the 1st quarter of 2015 to 87% in the 2nd quarter. The data can also be slightly volatile, but the smoothed trendline has also begun to move slightly higher, and this 87% estimate is the highest percentage since the 3rd quarter of 2013.

One must be careful of jumping to conclusions regarding a weakening trend too soon, but the recent



quarters' estimates do at least point to a lack of further improvement since mid-2014.

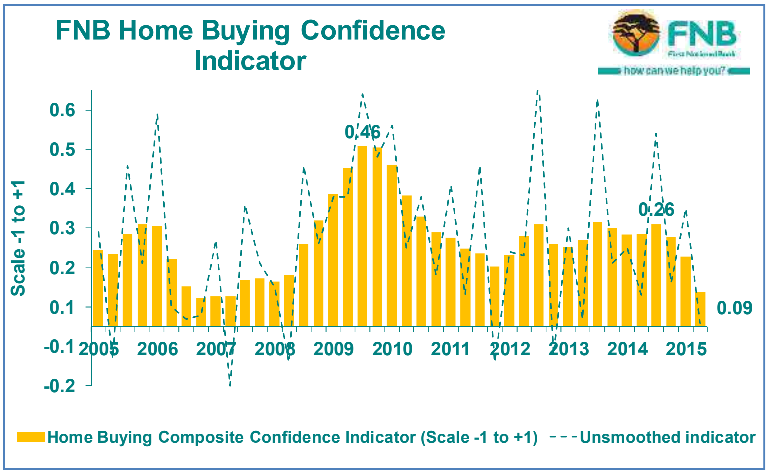
We also ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. This average estimated drop increased in magnitude slightly to -9% in the 2nd quarter survey, after having remained unchanged at -8% for the previous 5 quarters.

Therefore, while we allow for quarterly data volatility, and don't yet draw conclusions regarding any weakening trend, it has become evident in recent quarters' surveys that the agents don't appear to see the "key market fundamentals" (market balance and price realism) improving.

HOW AGENTS SEE THE NEAR TERM OUTLOOK

Near term agent expectations regarding activity levels

On balance, agents expected very little near term strengthening in residential activity levels in the 2nd quarter survey. For agents, activity is crucial. They make a living on buying and selling properties, unlike investors who hold properties for a return.



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

In the 2nd quarter survey, 19% of agents expected activity to increase in the next 3 months, while 63% expected it to stay the same and 18% expected a decrease in activity.

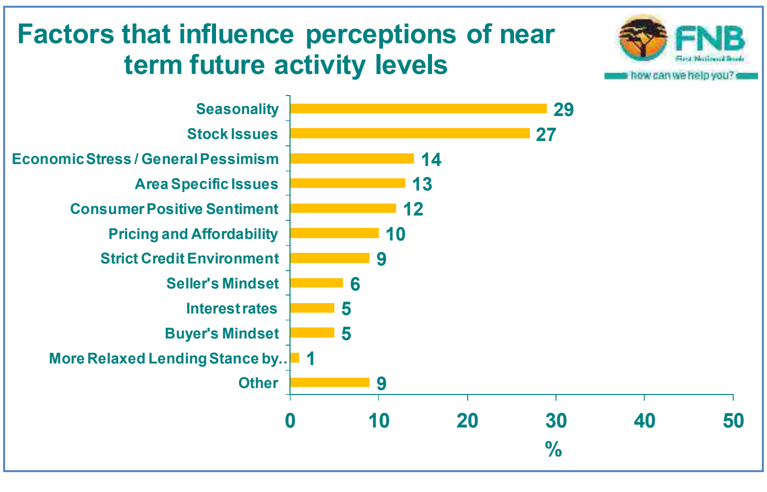
This muted expectation is to be expected when one moves into the slow winter period, seasonality thus playing a major role in dampening expectations.

However, this is the weakest 2nd quarter expectations response since 2008. The weak 2nd quarter expectation may therefore be more than just seasonal factors.

The "Home Buying Confidence Indicator" in its unsmoothed form, the combined result of the various agent expectations, declined from the previous level of +0.3 (on a scale of 1 to -1) to +0.1, as one could expect with the winter season's lull approaching at the time of the survey. However, we then statistically smooth this index to eliminate seasonal and general volatility, and here we have seen a 3-quarter decline from a +0.26 high in the 3rd quarter of 2014 to +0.09.

Therefore, even free of seasonal fluctuations, the Home Buying Confidence Indicator of recent quarters has pointed to a sample of estate agents' expectations converging on "neutral", which is the zero level where the number expecting strengthening activity would equal those expecting a decline.

Factors influencing agents' near term activity level expectations



When asking agents for the factors influencing their near term expectations, seasonal factors are obviously a big one in the 2nd quarter.

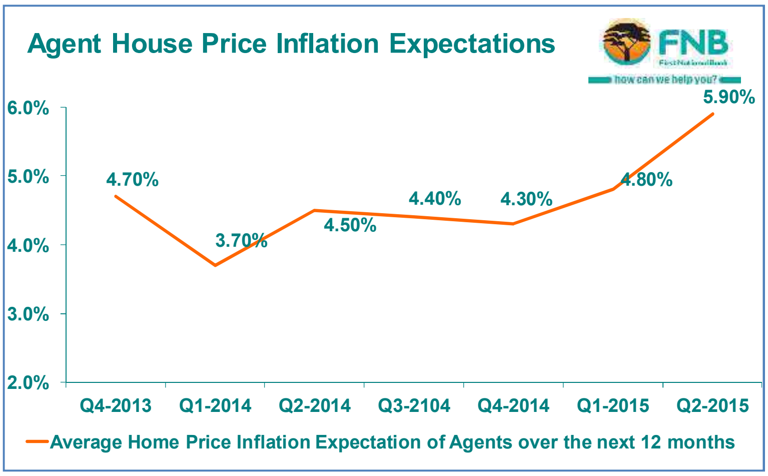
The biggest influencing factor, excluding seasonality, in the latest survey was once again "stock issues", cited by 27% of agents as an issue. It is important to break this category down though, as 22% cited "stock constraints" as a key influencing factor, while

5% cited "plenty of stock", reminding us that supply shortages don't exist everywhere.

There is also a not too uneven a split between those agents experiencing "Positive Consumer Sentiment" versus those perceiving "Economic Stress/Pessimism", with slightly more, i.e. 14% perceiving "Economic Stress/Pessimism", and 12% experiencing the more positive "Positive Consumer Sentiment.

Pricing and Affordability is also cited by 10% of agents, with the majority tending towards "prices still unrealistic", and 9% cite "strict credit environment" as an issue.

Agent Price Expectations



Perhaps one irony to come out of the survey is that in recent quarters agents' average house price inflation expectations have risen mildly.

In the 2nd quarter 2015 survey, the respondents' average price inflation expectation over the next 12 months was 5.9%, up from a previous survey's 4.8% and the 2nd consecutive quarter of increase.

This suggests that agents are not altogether "bearish" regarding the market. As much of the "pessimism" regarding near term activity levels has to do with stock constraints, it is possible that the same agents see stock constraints also leading to higher house price inflation.

Nevertheless, even 5.9% house price inflation is certainly not an extreme expectation, given that CPI inflation is expected to shift up to a similar level over the rest of the year.

CONCLUSION

In summary, the broad picture emanating from the sample of estate agents surveyed is a "well balanced, stable, but sideways moving market", and this appears to be their near term future expectation as well.

The 2nd quarter movements in the key survey indicators were for the most part almost insignificant. On a seasonally adjusted basis, the Activity Rating was only slightly higher than the prior quarter. And when examining price realism, we had the average time on the market being slightly lower than previous, but having moved broadly sideways for the past 3 quarters, while the percentage of sellers dropping, and the percentage drop in, asking price deteriorating mildly.

Their recent experience of a more or less sideways moving market appears to be playing a role in shaping agents' near term expectations, with the percentage of agents expecting an activity increase almost equal to those expecting a decrease.

However, one must not interpret the expectation of a lack of activity increase as always being "bearish". It is a bearish view from an agent's point of view, as it is sales activity that drives their own income. But do they necessarily see a weak residential market? Not necessarily. Many still see strong demand but major supply constraints in their areas. Such a situation represents a strong market but not necessarily one that benefits an agent.

Nevertheless, there is an air of pessimism amongst some agents, with the percentage of respondents experiencing "Economic Stress/General Pessimism" slightly outnumbering those who perceive "Positive Consumer Sentiment", but once again the balance is not too uneven.

In short, the average expectation seems to be one of "a stable market but no major growth from here onward". This expectation is not altogether unrealistic, given an economy appearing stuck in a stagnant 1-2% growth range and interest rates gradually rising. Early in 2015, we had expected to see a bit more of a lift from last year's oil price slump. It didn't materialize, as many of SA's export commodity prices also fell, negating any oil-positives, and of course our myriad of structural economic constraints continue. The impact of low oil prices has moved on, inflation is rising, and the SARB is once again warning of interest rate hikes.

What estate agents experience is very often a leading indicator for the business cycle/economy. "Low growth" in residential market activity probably means "low growth" in the economy. In the current economic policy environment, that all sounds fairly realistic.