PROPERTY BAROMETER

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

Increasing signs of residential affordability limitations on the "Sell-Side" of Housing Market, but no significant signs of rising financial stress yet

FNB Property Barometer

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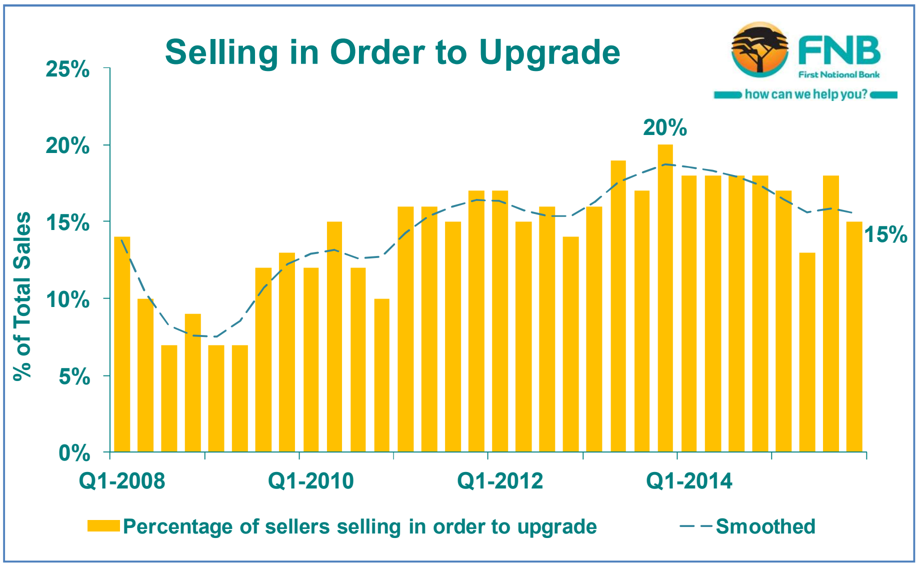
The 4th quarter 2015 FNB Estate Agent Survey regarding the "selling side" of the residential market shows a decline in the percentage of sellers selling in order to upgrade homes, with this percentage now well off its late-2013 high. This suggests that, while financial stress is not meaningfully rising, financial "limits" may be being reached for an increasing number of households. This is also apparent amongst a huge percentage of "oldies" continuing to downscale to smaller properties, not necessarily due to financial trouble, but perhaps feeling the cost of running a "large" home.

UPGRADE-RELATED SELLING DOWN FROM EARLIER HIGHS – A SIGN OF GROWING FINANCIAL LIMITATIONS?

In the FNB Estate Agent Survey, one of the questions asked to 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"

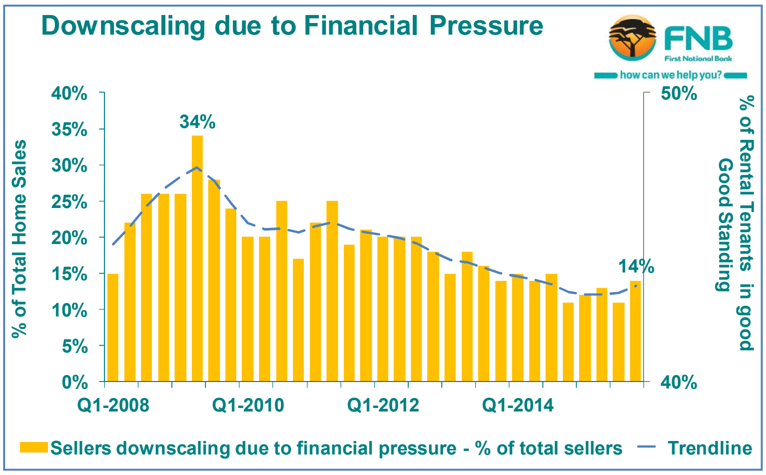
Recent surveys have begun to point to the possibility that residential affordability challenges have slowly begun to mount, which perhaps ties in with Estate Agent perceptions that affordability did deteriorate mildly in 2015 compared with 2014. This is not to say that there is any meaningful sign of an increase in financial stress yet, but rather that households' spending on non-essentials may be diminishing in significance as a more cautious approach to household finances sets in.

Our survey respondents in the 4th quarter of 2015 indicated that "upgrade-related selling" accounted for 15% of total home selling. This represents a decline from the 18% of the previous quarter, and is now noticeably down from the 20% high reached late in 2013.



BUT WHILE WE MEY BE APPROACHING FURTHER GROWTH LIMITS, THERE IS NO MORE THAN A VAGUE HINT OF RISING FINANCIAL STRESS JUST YET

- ***Is financial stress-related selling yet? Too early to conclude anything based on a 1 quarter rise***



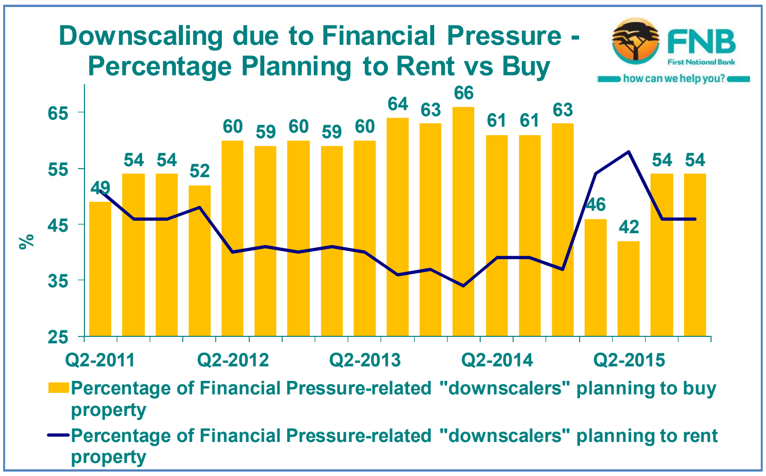
While a slight deterioration in affordability through 2014 may be starting to put the brakes on the level of "non-essentials" such as residential upgrade-related selling, we can't yet claim that there is any meaningful increase in financial stress yet, or for that matter in the percentage of financial 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 14% in the 4th quarter of 2015. However, such a move can possibly be mere data volatility, so we will need a few more quarters to confirm the start of any upward trend.

This 14% 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 the Household sector. This category will be watched closely in coming quarters for signs of further increase.

- ***But the estimated percentage of financial stress-related sellers intending to "rent down" as opposed to "buying down" remains elevated from the lows of 2013***

What has changed noticeably since 2014, however, is a significantly higher portion of this category of sellers believed to be intending to "buy down" as opposed to "rent down"



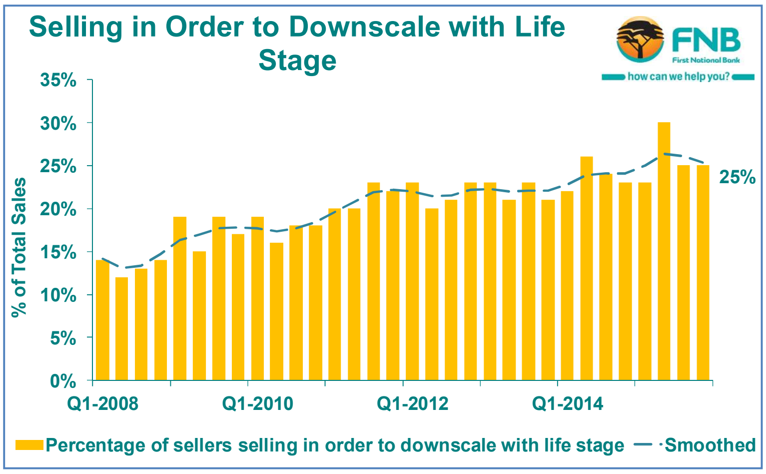
Through much of the 2013 to 2014 period, the survey respondents believed that above 60% of sellers "selling to downscale due to financial stress" were intending to buy a cheaper property, and nearer to 40% would move into a rental property. Early in 2015, the percentage believed to be intending to "rent down" jumped quite significantly to above 50%, and although receding back to 46% in the 2 latter quarters of 2015, this group's percentage remains noticeably higher than in 2013 and 2014, again pointing to a more conservative approach by households to their finances.

This change may be supportive of higher demand for rental properties, playing increasingly into the hands of the rental market, something which is perhaps to be expected as many wait to see what the SARB is going to do on the interest rate front, and given near recessionary economic conditions.

THE DESIRE OF THE OLDER SECTION OF THE HOME OWNER POPULATION TO "CUT THE COAT ACCORDING TO THE CLOTH" REMAINS APPARENT.

The perception of financial limits being reached, which could set further growth limits on the residential market from here on, is also fueled by the ongoing high percentage of sellers "selling in order to downscale due to financial pressure". This category of sellers is the biggest one, and in the 4th quarter 2015 survey it was estimated that a still-massive 25% of sellers fell into this category. This is unchanged from the previous quarter's estimate.

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 25% estimate is a little down on the 2nd quarter 2015 high of 30%, but still well up on the 2008/9 recession low of around 12%.

We believe that the upward trend prior to 2015 in this group's estimated percentage may have come to an end, but the still-high estimate continues to suggest that this group of older home owners still sees the market as a good seller's market, and are making use of the window of opportunity to offload larger properties.

We would anticipate some decline in this percentage in the not too distant future, however, as some adopt a "hold" approach in weaker market times.

While not necessarily in financial difficulty, this group would often wish to "offload" properties that are perhaps too large and costly for their requirements.

Their large percentage is believed in part to be reflective of the various cost escalations associated with property. These include:

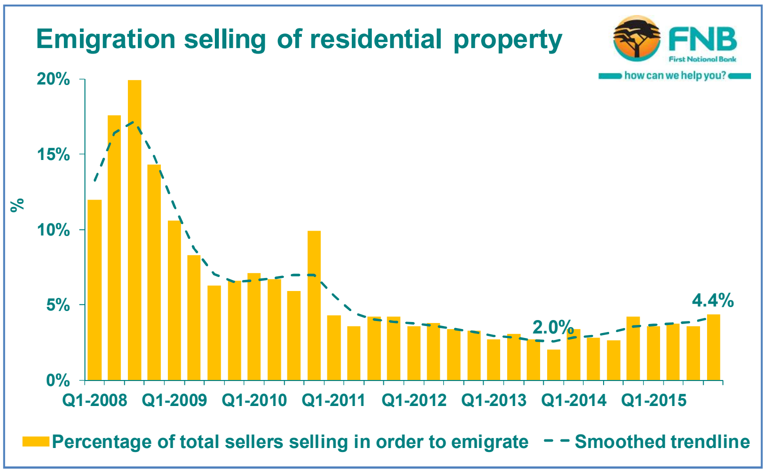
- *Security costs in a high crime environment that may be deteriorating once more;*
- *Municipal rates and tariff increases that consistently exceed inflation and household income growth*

These cost increases come at a time when Economic and Household Sector Income growth is mediocre at best. Given that one's house is for most of us the largest single driver of expenses, including security, rates and tariffs, but also a myriad of insurance, maintenance and running costs, downscaling to a smaller home can dramatically improve one's financial position.

In addition, the fastest growing age cohorts are those heading for retirement age, i.e. in their 50s and 60s, so this group can be expected to be a significant portion of total sellers.

SELLING IN ORDER TO EMIGRATE

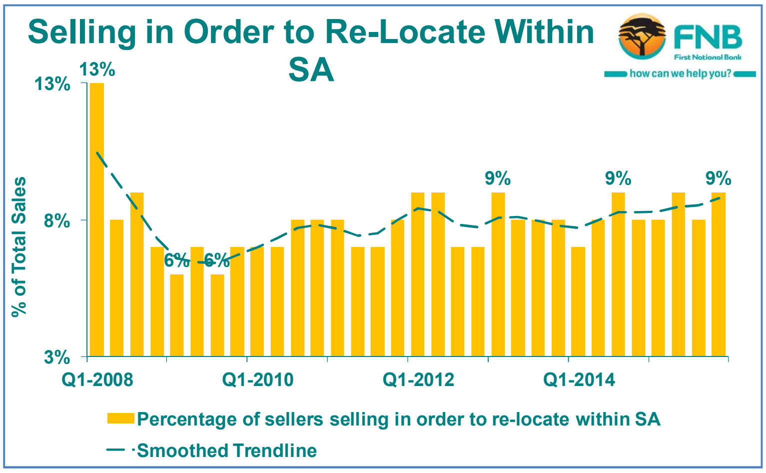
Given the current period of weak confidence in South Africa, influenced by a multi-year economic growth stagnation and heightened social tensions, one important sentiment "barometer" to watch is the selling category "selling in order to emigrate".



To date, this category of selling as a percentage of total home selling continued to return a moderate estimate of 4.4% in the 4th quarter 2015 survey.

This percentage, however, has edged mildly higher since a low of 2% late in 2013. It remains, however, far below its 20% peak late in 2008, although that high was admittedly achieved in a very thin recessionary market back then. Whilst the current climate could be expected to lift emigration-related selling, a mediocre global economy, and extremely high property values in some of the key emigration destinations, possibly serves to contain the pace *of emigration somewhat.*

"SEMI-GRATION"-RELATED SELLING



The impact of the economic slowdown doesn't appear to have affected the level of selling in order to relocate to other parts of South Africa just yet.

At 9% of total selling in the 4th quarter 2015 survey, this percentage remains elevated on the 6% low reached back in 2009, which was around the time of the last recession and greatly limited new employment and business opportunities at the time.

IN CONCLUSION

In conclusion, the broad picture emanating from the FNB Home Selling Estate Agent Survey is not one of any meaningful increase in financial stress just yet, although a quarterly rise in the percentage of sellers selling in order to downscale due to financial pressure, during the final quarter of 2015, is a possible hint of things to come.

However, it does appear that the Household Sector is becoming gradually more conservative in its approach to spending as "financial and affordability limitations" become more acute. This is perhaps seen in a decline in selling in order to upgrade to a better and more costly property, and possibly ties in with currently weak consumer confidence as per the FNB Consumer Confidence Index.

Significant financial conservatism is perhaps also witnessed in an ongoing high percentage of sellers selling order to downscale where their "large" property is no longer seen as being that necessary, as in the case of sellers downscaling due to life stage.

A further possible sign of a greater level of conservatism is possibly visible amongst those sellers selling in order to downscale due to financial stress, with 2015 having seen a higher portion of these sellers expected to "rent down" as opposed to the often more costly "buying down", when compared to 2014

In the current time of stagnating economic performance and heightened social tensions, a selling category to watch is that of "selling in order to emigrate". This category has seen its percentage edging up slowly since late-2013, but remains fairly modest still.

In short, it appears as if the Household Sector is preparing itself for a tougher economic and financial period, and probably responding gradually to the SARB's ongoing interest rate hiking. We know that consumer confidence is weak, so a more cautious approach to home buying and selling should come as no surprise. The economy remains on its long term path of stagnation moving into 2016, and the expectation is for further gradual interest rate hiking by the SARB (Reserve Bank).

Reasons for selling (As % of Total Sales)	Q1-2014	Q2-2014	Q3-2014	Q4-2014	Q1-2015	Q2-2015	Q3-2015	Q4-2015
Downscaling due to financial pressure	**15%**	**14%**	**15%**	**11%**	**12%**	**13%**	**11%**	**14%**
Downscaling with life stage	22%	26%	24%	23%	23%	30%	25%	25%
Emigrating	**3.4%**	**2.8%**	**2.7%**	**4.2%**	**3.6%**	**3.8%**	**3.6%**	**4.4%**
Relocating within SA	7%	8%	9%	8%	8%	9%	8%	9%
Upgrading	**18%**	**18%**	**18%**	**18%**	**17%**	**13%**	**18%**	**15%**
Moving for safety and security reasons	11%	10%	10%	11%	11%	10%	12%	10%
Change in family structure	12%	12%	14%	16%	16%	13%	15%	14%
Moving to be closer to work or amenities	10%	9%	9%	8%	8%	8%	7%	9%