PROPERTY BAROMETER

FNB ESTATE AGENT HOME BUYING SURVEY

Agents continue to point to a decline in Residential Market Activity, suggesting slowing demand, Whilst stock constraints are diminishing, market balance still remains good.

KEY POINTS

The picture emanating from the sample of estate agents surveyed remains one of a "well balanced market", but one whose activity levels appear to be clearly slowing.

The 4th quarter 2015 FNB Estate Agent Survey saw a noticeable decline in the Residential Activity Level Rating once again. This, along with a broad decline since 2014 in the average number of serious viewers per show house, suggests that residential demand may have been be slowing. Simultaneously, 3 consecutive quarters of decline in the percentage of agents citing stock constraints as an issue in their lives, starts to suggest that supply constraints may be becoming less acute.

Gradual interest rate hiking, but also an economy slow on growth, appears to be having a cooling impact on the market, and agents also perceive home affordability to have been slightly worse in 2015 compared to 2014.

- ***The 4th Quarter 2015 Residential Activity Indicator declined to 6.02, from the previous quarter's 6.14.*** *When one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted Indicator also declined from 6.19 in the previous quarter, to 6.13 in the 4th quarter.*

- ***Average estimated number of viewers per show house*** *rose to 11.29, up from 9.31 in the prior quarter, but down from 12.9 in the corresponding quarter of 2014.*

- ***In the 4th quarter of 2015, the percentage of agents citing stock constraints as a factor slowed again to 13.4%,*** *the 3rd successive quarter of decline from a high of 24% in the 1st quarter of 2015.*

- ***The estimated average time of properties on the market rose mildly*** *from a previous quarter's 11 weeks and 1 day to 12 weeks and 1 day.*

- ***Agents reported an unchanged percentage of sellers having to drop their asking price, of 87% in the 4th quarter,*** *although this is noticeably higher than the 78% recorded back in the 2nd quarter of 2014. The estimated average percentage asking price drop, on those properties where a price drop is required to make the sale, was -9%, unchanged from the previous quarter but slightly more than the -8% of early-2015.*

- ***Agents on average perceive residential affordability to have deteriorated mildly in 2015, compared with 2014,*** *with an "elevated" percentage perceiving income levels to have dropped behind house price levels.*

- *On average, agents expect improved activity levels in the near term, but have moderated their expectations of house price increases over the next 12 months.*

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FNB HOME LOANS: MARKET ANALYTICS AND SCENARIO FORECASTING UNIT

JOHN LOOS: HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
087-328 0151
John.loos@fnb.co.za

THEO SWANEPOEL: PROPERTY MARKET ANALYST
FNB ASSET FINANCE
087-328 0157
tswanepoel@fnb.co.za

EXECUTIVE SUMMARY

The picture emanating from the FNB South African Estate Agent Survey for the 4th quarter of 2015 remains one of a "still-well balanced market", but one whose activity levels have been slowing.

In the survey, our sample of estate agents surveyed pointed to declining activity levels for the 3rd successive quarter, and the 4th consecutive quarter on a seasonally-adjusted basis. This slowing direction may well reflect the impact of anemic South African economic growth (not far above 1% year-on-year as at the 3rd quarter of 2015), as well as gradual interest rate hiking by the SARB (South African Reserve Bank).

On a scale of 1 to 10, the 4th Quarter Residential Activity Indicator declined to 6.02, from the previous quarter's 6.14. When one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted version of the Indicator also declined from 6.19 in the previous quarter, to 6.13 in the 4th quarter of 2015. We have now seen a noticeable decline from a 1st quarter 2015 high of 6.73.

On a year-on-year percentage change basis, the 4th quarter saw a significant decline in the Residential Activity Rating for the 2nd consecutive quarter. This year-on-year rate of decline measured -8.93%, weaker than the prior quarter's -7.4%, and significantly weaker than the +12.18% growth high reached in the 3rd quarter of 2014.

When estate agents are asked to estimate the average number of serious viewers per show house, the 4th quarter response showed an improvement on the prior quarter's 9.31, recording 11.29. However, summer seasonal factors may have played a role in this quarter-to-quarter rise. More significant perhaps is that this average is below the corresponding quarter of 2014, which recorded an average of 12.9. In addition, the 4-quarter moving average number of viewers per show house continued to decline throughout the entire 2015. We believe, therefore, that the broader declining trend in the average number of viewers remains intact, seasonal factors aside.

Simultaneously, 3 consecutive quarters of decline in the percentage of agents citing stock constraints as an issue in their lives starts to suggest that supply constraints may be becoming less acute. From a high of 24% of agents citing the existence of "stock constraints" being an issue for them in the 1st quarter 2015 survey, this percentage has declined for 3 consecutive quarters to 13.4% by the 4th quarter 2015 survey.

Besides some possible demand weakening, "stock", or "supply" constraints may also be being alleviated by indications of moderately positive growth in the reported number of new residential units completed through much of 2015.

Why would demand be weakening? There are currently numerous economic reasons, notably the ongoing gradual interest rate hiking, but also an economy having experienced a broad growth slowdown over the past 4 years, recording a poor 1% year-on-year growth rate as at the 3rd quarter of 2015.This hampers job creation and the pace of Household Sector Disposable Income growth.

In addition, agents may be implicitly explaining part of the reason when they answer the question related to home affordability. Whilst they don't perceive affordability levels to have deteriorated too much yet, their affordability perceptions were on average mildly worse in 2015 compared with 2014.

But despite the indications of demand and activity weakening, to date the impact on the market balance doesn't appear to have been severe, if one looks at potential indicators of the balance between supply and demand or of "price realism". The estimated average time of properties on the market did rise slightly, from a previous quarter's 11 weeks and 1 day, to 12 weeks and 1 day in the 4th quarter of 2015, having hovered not far from the 12 week level since back in 2014. But around 12 weeks average time on the market still reflects a good market balance.

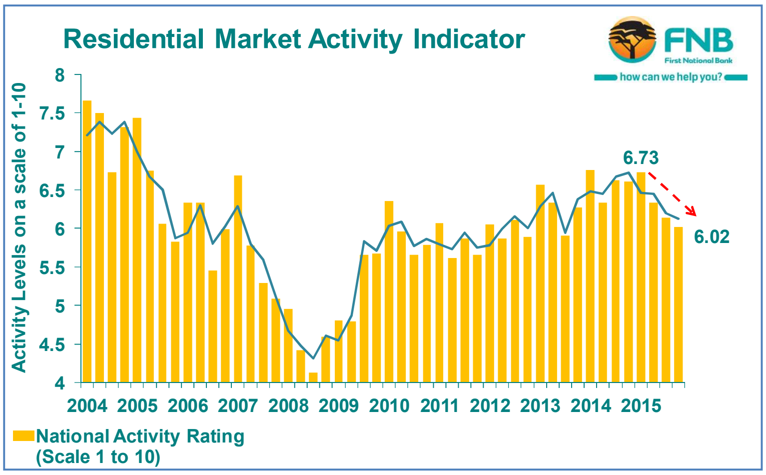
Examining indicators of price realism, there was only a small deterioration in 2015 compared with 2014. In the 4th quarter survey, agents reported an unchanged percentage of sellers having to drop their asking price, to the tune of 87%. However, this level is now noticeably higher than the 78% "relative low" recorded in the 2nd quarter of 2014. The estimated average percentage asking price drop, on those properties where a price drop is required to make the sale, was -9%, unchanged on the prior quarter but slightly more than the -8% of 2014 and early-2015.

Interesting, though, is a noticeable improvement in agents' expectations of near term activity levels, despite the recent activity decline. The clear reasons for this are not apparent, given agent perceptions that economic stress/pessimism is more widespread than positive consumer sentiment. In addition, the agents expect less in terms of house price growth compared to prior expectations. We suspect, therefore that the widespread expectation of a *rise in near term activity may be more supply-related than demand-related, given some apparent alleviation of stock constraints in the market, while also possibly being a function of a low activity base having been created by the noticeable decline in the Activity rating through 2015.*

STILL A MARKET AT "STABLE" LEVELS, BUT ESTATE AGENTS POINT TO SLOWDOWN

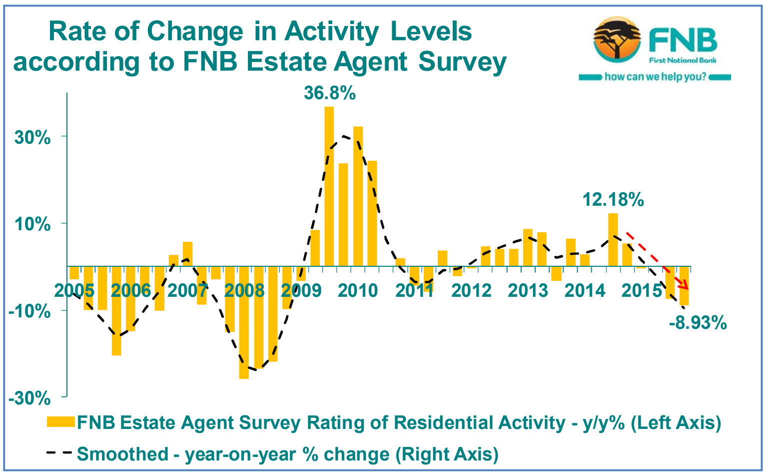
In the 4th quarter 2015 FNB Estate Agent Survey, our sample of estate agents surveyed continued to point to declining activity levels for the 3rd consecutive quarter. The residential market still appears fairly "well-balanced", but the slowing direction in activity, possibly a reflection of a multi-year economic stagnation in South Africa along with gradual interest rate hiking, could conceivably weaken this balance.

The FNB South Africa (SA) 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 4th Quarter Residential Activity Indicator declined to 6.02, from the previous quarter's 6.14. When one takes seasonal factors out through a statistical seasonal adjustment, we see that our seasonally-adjusted version of the Indicator also declined further from 6.19 in the previous quarter, to 6.13 in the 4th quarter of 2015. We therefore saw a decline, even when eliminating seasonal factors, and the seasonally-adjusted Indicator is now noticeably lower than its multi-year high of 6,72 reached in the final quarter of 2014.

The 4th quarter 2015 Activity Indicator level remains at the upper end of the "stable" bracket (a level from 4 to 6), however, 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 year-on-year percentage change in the Activity Indicator, however, we start to see a noticeable decline in the Residential Activity Rating. In the 4th quarter, the year-on-year rate of decline measured -8.9%, after the previous quarter's -7.4%. This is the most significant year-on-year decline in the rating since the final quarter of 2008, and the smoothed trendline shows a year-on-year decline of very similar magnitude.

The rate of decline also represents a noticeable turnaround from the +12.18% growth high reached in the 3rd quarter of 2014.

In short, 2015 saw the market run out of activity growth momentum, and in the 2nd half of the year shift to an activity decline.

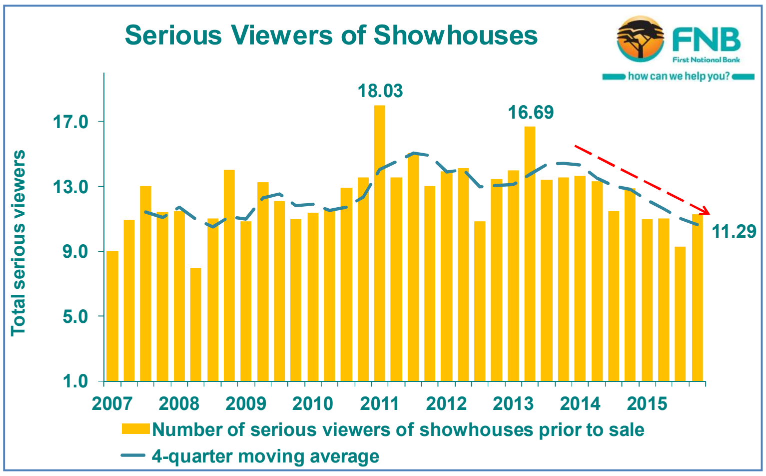
The slowing is arguably to be expected. After the benefit of a massive interest rate cutting stimulus back around 2009/10, South Africa's economic growth rate has "stagnated" from 2012, and it is likely that 2015 represented the 4th consecutive year of economic growth slowdown. The country's economic growth has been in a lowly range between 1% and 2% for some time. And with a global commodity price slump, along with gradual interest rate hiking adding to the drag of the country's structural woes, recession risk is high.

Other key indicators from the FNB Estate Agent Survey continue to point to still-good balance between supply and demand in the residential market. However, there are signs that the supply of stock is becoming less

constrained, and this may reflect some slowing in residential demand, which could ultimately weaken the demand-supply balance.

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

A DEMAND-SIDE RELATED INDICATOR HINTS AT SLOWING, SEASONAL FACTORS ASIDE



One of the residential "demand-side" questions that is asked to the survey respondents is to give an estimate of how many serious viewers per show house they get before making the sale.

This estimated average per show house rose to 11.29 in the 4th quarter survey, up from 9.31 in the previous quarter.

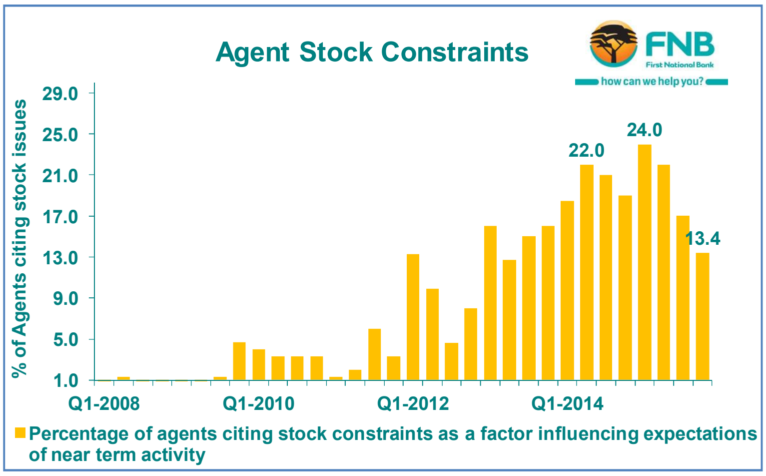
However, there can often be seasonal factors influencing quarter to quarter fluctuations. Eliminating such seasonal possibilities by comparing this average with the corresponding quarter of 2014, it was slightly lower, while the 4-quarter moving average remains on a declining trend too.

We would thus suggest that the broader slowing trend in the average number of serious viewers per show house is still intact.

RESIDENTIAL SUPPLY CHALLENGES REMAIN SIGNIFICANT, BUT APPEAR TO BE BEING ALLEVIATED SLOWLY

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

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.

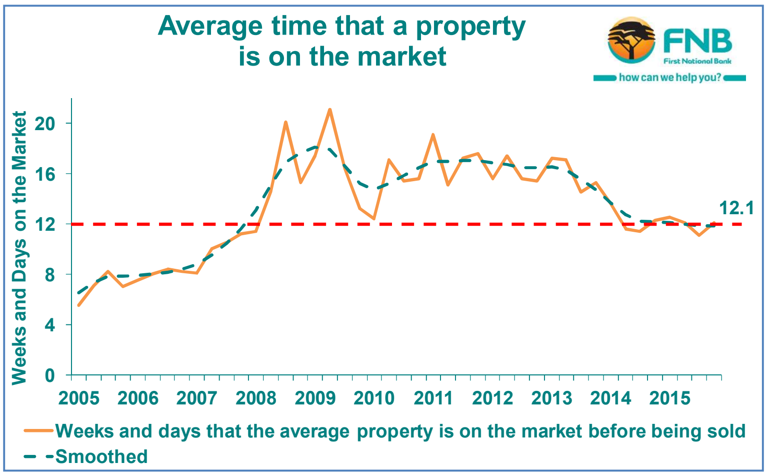
However, during 2015, the percentage of agents citing stock constraints as a factor began to decline, from a high of 24% in the 1st quarter of the year to 13.4% by the final quarter.

While still a significant percentage, this was the 3rd consecutive quarterly decline in the 4th quarter, to the lowest percentage since the 2nd quarter of 2013, suggesting that stock constraints are gradually being alleviated.

In addition to a decline in the "stock constraints" percentage, the percentage of agents pointing to "ample stock" rose, from a previous quarter's 7%, to 9.3% the 4th quarter survey.

BUT AS YET, THERE IS NO MEANINGFUL SIGN OF SLOWING IN THE AVERAGE TIME ON THE MARKET

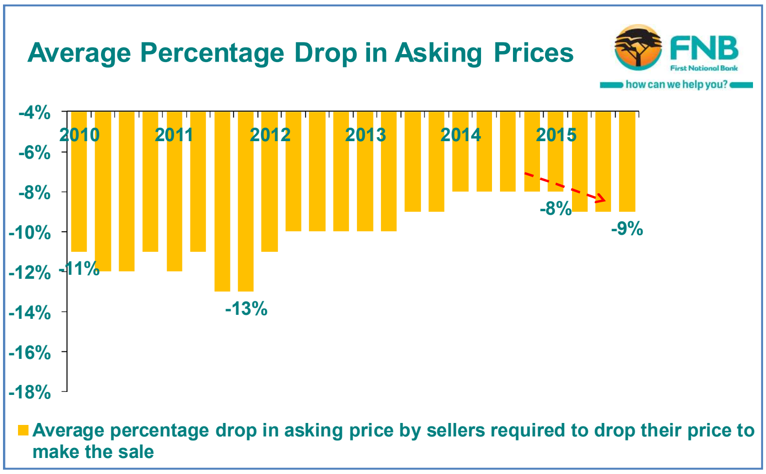
One indicator of seller pricing realism, or of the balance between demand and supply, is the estimated average time that properties remain on the market prior to sale. If demand is indeed slowing, and supply constraints being alleviated, one would expect that ultimately the average time of homes on the market would increase. To date, however, very little of this has happened, and this indicator certainly doesn't yet point to a meaningful deterioration in the demand-supply balance.



After a 3rd quarter 2014 "low" estimate of 11 weeks and 4 days, the estimated average time on the market moved more or less sideways at not far from the 12 weeks level. After a slight dip to 11 weeks and 1 day in the 3rd quarter of 2015, the average moved back up to 12 weeks and 1 day in the 4th quarter, thereby maintaining the broad sideways movement since back in 2014.

This indicator of market balance or price realism, therefore, still points to a well-balanced market, much improved from a time back around 2011 when the average was above 4 months. However, the indicators mentioned prior to this suggest that we may have some increase in time on the market in the near term.

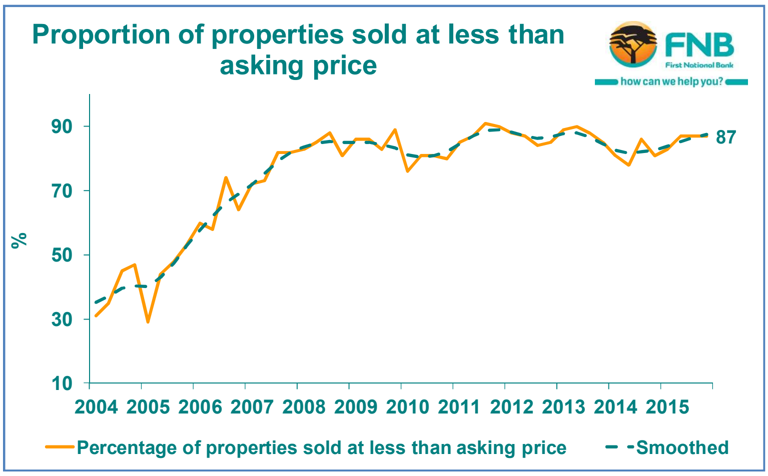
THE EXTENT OF DROPPING OF ASKING PRICES HAS DETERIORATED SLIGHTLY SINCE 2014



In another important "price realism"-related question, agents have indicated a mildly deteriorated (higher) percentage of sellers being required to drop their asking price to make a sale since early-2014.

They reported an increase in the percentage of sellers having to drop their asking price, from 81% in the final quarter of 2014 to 87% by the 2nd quarter of 2015. Thereafter, the percentage remained unchanged at 87% until the final quarter of 2015.

The data can be slightly volatile, but the smoothed trendline has also moved slightly higher since 2014, suggesting that asking price realism may have deteriorated slightly relative to demand conditions.



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 2015 survey, after having remained unchanged at -8% for the previous 5 quarters. It has since remained at -9% until the 4th quarter 2015 survey.

Therefore, while there is no more than slight evidence of a deterioration in the abovementioned 3 indicators relating to price realism, i.e. average time on the market, percentage of sellers dropping their asking price and the percentage drop in asking price, the latter 2 of the 3 are off their best levels reached in 2014.

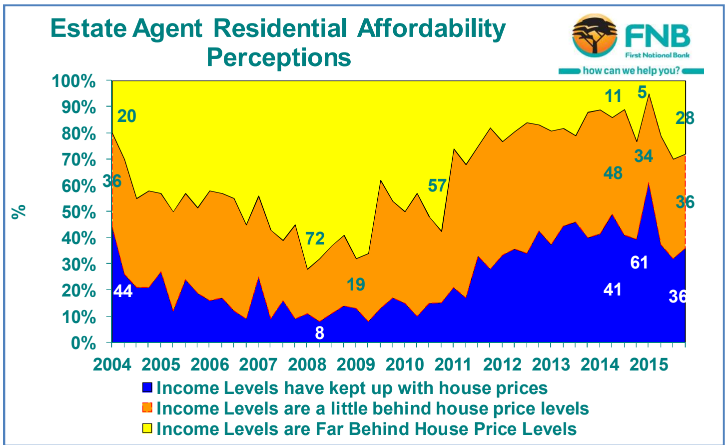
AGENT PERCEPTIONS OF RESIDENTIAL AFFORDABILITY

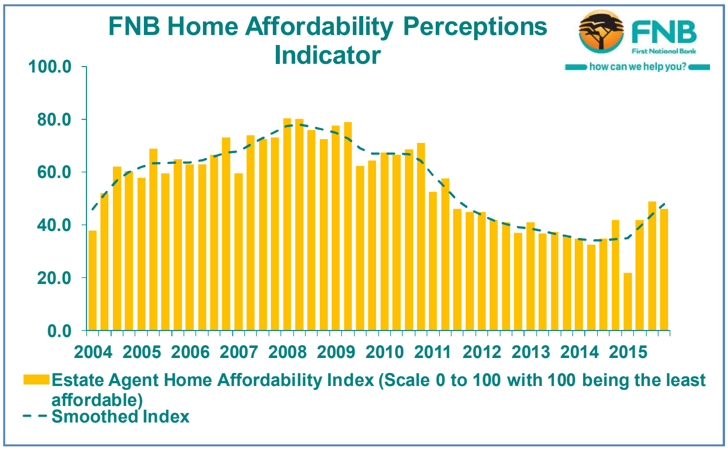
The FNB Estate Agent Survey also asks agents for their general perception of housing affordability, through requesting them to choose one of 3 statement options, i.e. "Income levels have kept up with house prices", "Income levels have got a little behind house price levels" or "Income levels have got far behind house price levels".

In the 2015 Estate Agent Surveys, we started to see a perceived deterioration in residential affordability according to this line of questioning, after prior years of improvement. There was a slight decrease in the percentage of agents perceiving "income levels to be far behind house prices", from 29% in the preceding quarter to 28% in the 4th quarter 2015. However, this decline is not meaningful, and remains elevated from percentages regularly below 20% back in 2014. Those perceiving "income levels to be a little behind house price levels" also declined insignificantly from 37% in the preceding quarter to 36% in the 4th quarter. This translated into a mild rise in the percentage of agents believing that "income levels have kept up with prices".

From these 3 categories of responses we compile the FNB Estate Agent Affordability Perceptions Indicator. The Indicator is set up on a scale of 0 to 100. If 100% of respondents answer that "income levels have kept up with house prices", the Affordability Perceptions Indicator will be zero. If 100% of them answer that "incomes are a little behind house prices", the Indicator level will be 50. If 100% answer that "income levels are far behind house prices", the Indicator level will be 100. Therefore, the higher the indicator, the worse the perceptions of affordability.

The Affordability Perceptions Indicator level declined mildly (improved) further in the 4th quarter of 2015, from a previous 49 to 46. However, it remains noticeably higher than 2014 levels that were generally in the 30s. In short, affordability has not been perceived as a major problem to date, and the 4th quarter survey actually showed a slight improvement. But agents do perceive it to have deteriorated since 2014.





HOW AGENTS SEE THE NEAR TERM OUTLOOK

Near term agent expectations regarding activity levels

On balance, agents expected near term strengthening in residential activity levels in the 4th 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 4th quarter survey, 49% of agents expected activity to increase in the next 3 months, while 27% expected it to stay the same and 24% expected a decrease in activity.

It is difficult to compare such expectations with the preceding quarter, due to seasonal factors. Interesting, though, is that the agents surveyed in the 4th quarter of 2015 are more upbeat regarding activity levels compared to those surveyed in the corresponding quarter of 2014, where only 28% expected a near term activity increase.

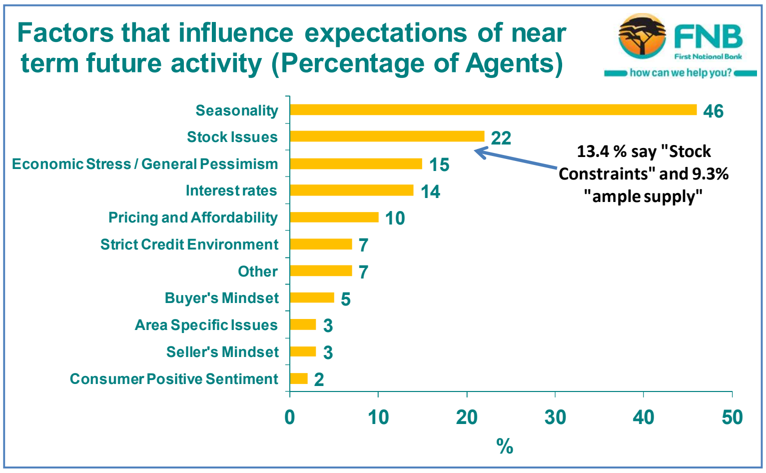
This is interesting, as it comes at a time when economic indicators are weak, interest rates continue to gradually rise, and agents have been reporting recent activity declines.

We must remember that "Activity" for agents is not merely related to demand. It is also about interest by aspirant sellers in listing their properties too. For there to be transaction activity, it depends on both demand as well as stock availability. The question is, therefore, do agents base their expectations of increased activity on a rise in demand or an increase in available supply of stock o sell? Or are their expectations based on "low base effects" after having experienced a noticeable activity decline in recent times?

Let's examine the factors that drive their expectations.

Factors influencing agents' near term activity level expectations

When asking agents for the factors influencing their near term expectations, seasonal factors are a big one in the 4th quarter, but are largely seen as a negative factor due to the approaching quiet period during the summer holidays.46 % of respondents cite these as a key factor influencing their expectations.



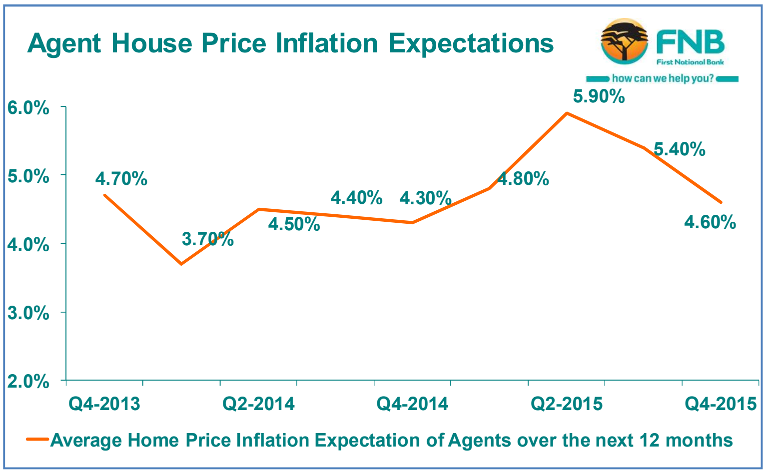
The biggest influencing factor, excluding seasonality, in the latest survey was once again "stock issues", cited by 22% of agents as an issue. However, it is important to break this category down, as 13.4% cited "stock constraints" as a key influencing factor, while 9.3% cited "plenty of stock".

A recent trend change in stock issues could possibly be driving the optimism of some regarding activity levels, because the 13.4% citing stock constraints is well down on the 24% at the beginning of 2015, while the percentage citing ample stock represents a rise on prior quarters.

It is possible that some alleviation of stock constraints is boosting the activity expectations of some.

Stock issues aside, there is little to suggest that the agents are perceiving an overly-positive demand-side environment however. 14% cite interest rates as a key issue, with almost all of them pointing to rising interest rates and the possibility of further rises, in a negative manner.

In addition, 15% point to "Economic Stress/General Pessimism" as a factor influencing their expectations, while a far lesser 2% experience "Positive Consumer Sentiment". Pricing and Affordability is also cited by 10% of agents, with a split of 8% tending towards "prices still unrealistic", and 2% towards "lots of realistically priced homes coming onto the market".



When it comes to house prices, the agents as a group have moderated their expectations. On average they expect a 4.6% rise in house prices over the next 12 months, lower for the 2nd consecutive quarter from a 5.9% high in the 2nd quarter of 2015.

67% of survey respondents expect an increase in values, 25% expect no change, and 7% expect a decline in value.

CONCLUSION

In summary, the picture emanating from the sample of estate agents surveyed remains one of a "well balanced market", but one whose activity levels appear to have been slowing.

The 4th quarter survey saw a further noticeable decline in the Activity Level Rating for the 3rd consecutive quarter, and the 4th consecutive quarter on a seasonally adjusted basis.

This, along with a broad decline in the average number of serious viewers per show house suggests that residential demand may have been slowing since 2014. Simultaneously, 3 consecutive quarters of decline in the percentage of agents citing stock constraints as an issue in their lives starts to suggest that supply constraints may be becoming less acute. This may be in part a reflection of slower housing demand

Why would demand be weakening? There are plenty of economic reasons, most notably the ongoing gradual interest rate hiking, but also an economy slow on growth, and Consumer Confidence low.

A noticeable improvement in agents' expectations of near term activity levels is interesting, and perhaps a bit surprising, coming after recent activity declines. The clear reasons for this are not apparent, given agent perceptions that economic stress/pessimism is more widespread than positive consumer sentiment. In addition, the agents expect less in terms of house price growth compared to prior expectations. We suspect, therefore that the average expectation of a rise in near term activity may be more supply-related than demand-related, given some apparent alleviation of stock constraints, while also possibly being a function of a low base having been created by the noticeable decline in the Activity rating through 2015.