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PROPERTY BAROMETER- FNB ESTATE AGENT SURVEY BY SEGMENT

After the High Net Worth Area segment led the slowing in Residential Activity, weakening spread into Upper and Middle Income Areas through 2015. The Lower Income Area segment remains the strong point

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ACTIVITY APPEARED STRONGEST IN THE LOWER INCOME SEGMENT OVER THE PAST 4 QUARTERS.

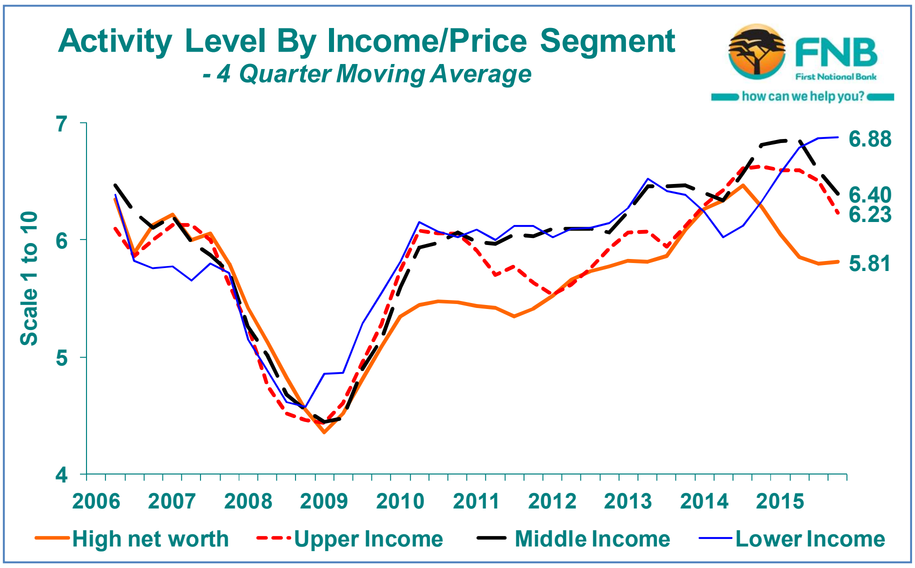
For the 4 quarters up to and including the 4th quarter of 2015, the sample of FNB Estate Agent Survey respondents from the Lower Income Area Segment of the residential market returned the highest estimated activity rating for their areas. The High Net Worth Area segment remained the segment with the weakest Activity Rating last year, but through 2015 that weakening activity spread to the Upper and Middle Income Area segments.

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 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 segment exercise, we use 4-quarter moving averages in analyzing the 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 price = R5.32m), the Upper Income segment (average price = R2.8m), the Middle Income segment (average price = R1.39m), and the Lower Income segment (average price = R872,500).

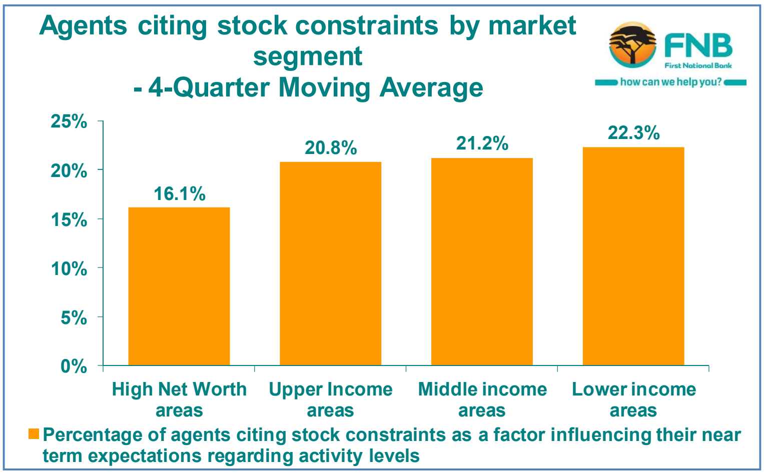
Examining average agent activity ratings (scale of 1 to 10) by segment for the 4 quarters up to and including the 4th quarter of 2015, the High Net Worth Segment recorded the lowest average rating of 5.81 over the 4 quarters. However, after noticeable decline through much of 2014 and 2015, this segment's Activity rating appeared to stabilise, whereas the Upper and Middle Income Area Activity ratings weakened noticeably. However, these 2 Activity ratings remained higher than the High Net Worth Area Rating,



at 6.23 and 6.4 respectively on a 4-quarter moving average basis, but had declined noticeably as 2015 progressed.

The strong segment of the market, from an Activity level point of view remained the Lower Income Area segment, with an average Activity rating of 6.88.

INDICATORS OF SELLER PRICE REALISM OR SUPPLY-DEMAND BALANCE POINTED TO THE HIGH NET WORTH SEGMENT BEING THE WEAKEST



When we ask agents for their expectations of near term activity levels, we follow up with an open ended question as to the reasons why they expect whatever they expect.

In recent years, "stock constraints" have been a key issue for a sizeable portion of estate agents.

Segmenting the percentage of survey respondents citing stock constraints as an issue in their lives, we see that in 2015 these constraints appeared to become more acute as one went from the high end to the low end of the residential market.

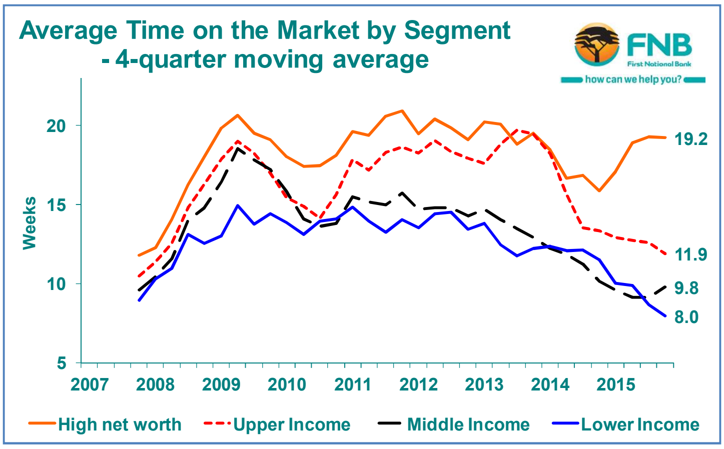
On this count, too, therefore, the Lower Income Area segment came out as the strongest segment from a demand-supply balance it would seem.

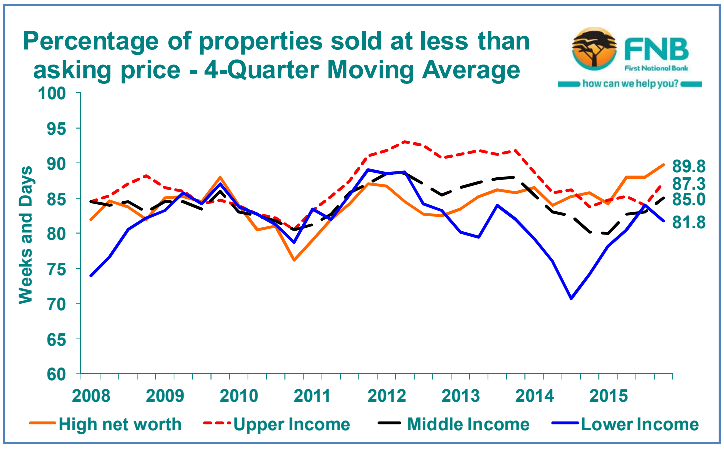
The Lower Income segment saw its average time of homes on the market declined further, too, in 2015, averaging a lowly 8 weeks for the 4 quarters up to the final quarter of 2015. At the other end of the spectrum, we saw the High Net Worth segment's 19 weeks and 2 days average flattening out after a strong prior rise in this average time on the market.

After a lengthy downward trend in the average time on the market of the Middle Income segment, this area segment saw a slight uptick late in 2015, providing further evidence that some relative weakness may have recently been creeping into this segment.

Despite its decline in Activity Rating, the Upper Income Segment still appeared in good shape, though, with its average time on the market estimate declining over the past 4 quarters, albeit at a slightly slower rate, averaging 11.9 weeks for the 4 quarters up to the 4th quarter of 2015.

The other measure of price realism is the percentage of sellers having to drop their asking price to make the sale. While all segments have seen this percentage rise in recent times, the High Net Worth Segment has become the segment with the highest estimated percentage in the past year or so, which was previously not the case through 2011-2014. The Lower Income segment was lower than the rest, with a 4-quarter average of 81.8% of sellers having to drop their asking price up to the 4th quarter of 2015. By comparison, the Middle Income segment had a percentage of 85%, the Upper Income Segment 87.3%, and the High Net Worth Segment 89.8%.

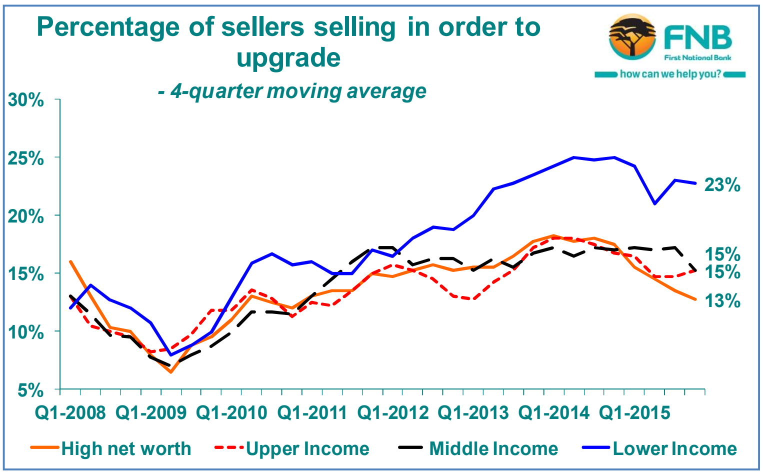




A SHIFT TOWARDS A MORE "BACK TO BASICS" APPROACH CURBS UPGRADING ACROSS ALL INCOME AREA SEGMENTS

- ***A slower pace of upgrading***

A noticeable feature of recent FNB Estate Agent Surveys by segment has been a broad decline in the percentage of sellers believed to be selling in order to upgrade to a better home. Such decline has taken place across all 4 of the area segments, although being most pronounced at the High Net Worth Area end to date.

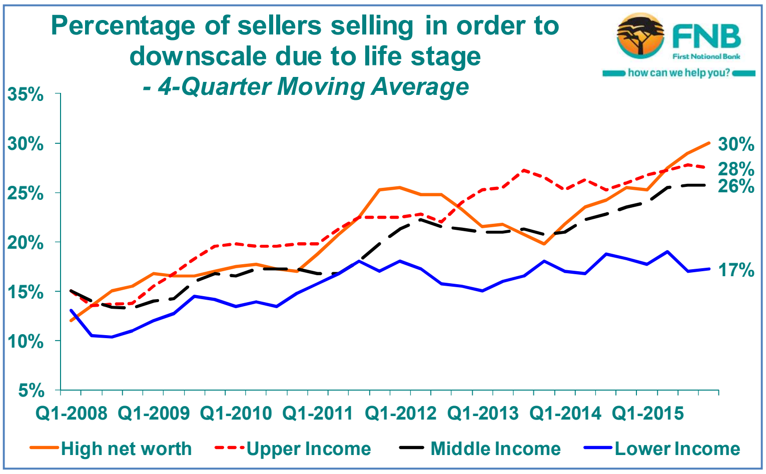


By the 4th quarter of 2015, the 4-quarter moving average percentage of sellers believed to be selling in order to upgrade, for the Lower Income Areas, had declined mildly to 23%, from 25% as at the final quarter of 2014.

By comparison, the Middle Income (15%) had just started to show signs of decline, while the Upper Income (15%) and High Net Worth (13%) Income Area segments were also down off their 2014 highs.

Therefore, the higher end areas may be starting to receive less of a boost from upgrading out of the Lower and Middle Income Segments of late.

- ***And an ongoing rapid pace of downscaling by "ageing" households***



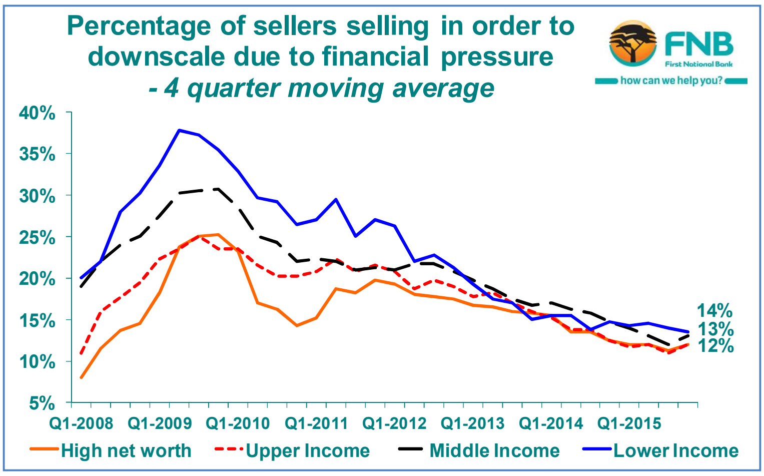
In addition to a slower pace of upgrading to higher valued properties, the survey also points to a higher rate of selling in order to downscale due to "life stage" in 2015, which refers to sellers who no longer have the need for a "large or costly" home due to children having left home, or because they are ageing and the running of a large home becomes "a costly hassle"

For the market as a whole, this reason for selling is believed to be the single-biggest one, and is more pronounced at the higher end of the market, with the High Net Worth Area Segment estimated to have had 30% of total sellers selling for this reason over the past 4 quarters, compared with 28% in the Upper Income Segment. By comparison, Middle Income Areas had an estimated percentage of 26%, and Lower Income areas a significantly lower 17%.

The trend in selling in order to downscale due to life stage had been upwards for a number of years following the 2008/9 recession. This upward trend took place in all 4 of the segments. But given the higher percentages of these sellers at the higher end, one would think that this form of downscaling would provide mildly greater support to the Lower Priced segments, as a portion of these sellers shift "downward". This, along with a slower pace of upgrading, we believe is the apparent explanation for the High Net Worth Segment having the weakest indicators emanating from the survey, and part of the reason why the Lower Income Area Segments have the strongest showing.

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

Despite clear signs of a household sector with financial constraints starting to take a more "conservative approach" to property, it does not yet appear to be a household sector with a noticeable rise in levels of financial stress. Increases in the pace of downscaling, and slowing in upgrading, thus appear to be more "voluntary" in nature, whereas the pace of selling in order to downscale due to financial "stress" or "pressure" seems to have remained benign across the segments.



The various segments' percentages of sellers "selling in order to downscale due to financial pressure" also continue to move in a very narrow range. The Middle Income Segment has seen this motive for selling averaging 13%, the Lower Income Segment slightly higher at 14%, while the Upper Income and High Net Worth Segments have averaged a slightly lower 12% over the past 4 quarters.

These percentages all remain dramatically lower compared to the peak percentage reached at the height of the financial stress back around 2008/9.

It is always important to remember that low interest rates mask many financial frailties, so one must be careful of drawing conclusions as to how sustainable this relatively solid financial performance is when tougher times come again one day. Furthermore, while interest rates have begun to rise gradually (although still low by SA standards), there is often a considerable time lag from when rates rise until when heightened financial stress is observed. For all segments except the Lower Income Areas, there was admittedly a very slight rise in the percentage of sellers selling to downscale due to financial pressure, but the magnitude was too little to be seen as meaningful yet.

With more interest rate hiking expected along with further slowdown in economic growth, however, we would expect some rise in this motive for selling, across all segments, in 2016.

REASONS FOR SELLING IN 4TH QUARTER 2015 ONLY

Reasons for selling (As % of Total Sales)	Total	High Net Worth	Upper income	Middle income	Lower income
Downscaling due to financial pressure	**14%**	**13%**	**14%**	**14%**	**15%**
Downscaling with life stage	25%	28%	27%	23%	17%
Emigrating	**4.4%**	**6%**	**4%**	**5%**	**3%**
Relocating within SA	9%	9%	8%	10%	9%
Upgrading	**15%**	**14%**	**17%**	**12%**	**21%**
Moving for safety and security reasons	10%	10%	9%	12%	10%
Change in family structure	14%	14%	14%	14%	14%
Moving to be closer to work or amenities	9%	6%	7%	10%	11%

CONCLUSION

The broad picture emanating from the FNB Estate Agent Survey by segment is one of relative weakness on the High End, notably the High Net Worth Segment, while the previously strong Middle Income Area segment also seems to have been showing signs of weakening through 2015. The Lower Income Area Segment has been the relatively strong part of the market.

The driver of relative higher end weakness is a "back to basics" approach by a rising percentage of households, it would appear, reflected in a slowing in the pace of upgrading to better properties, along with a rise in the pace of downscaling due to "life stage". While the high rate of downscaling due to life stage is not theoretically driven by financial stress, it is highly possible that the rising costs associated with homes has been encouraging ageing households to "speed up" their rate of downscaling.

The myriad of steadily rising costs associated with owning and running a home are increasingly challenging. They include the higher 11% property transfer duty bracket kicking in at a property value R2.25m and above; A stagnation to noticeably weaker Economic and Household Sector Disposable Income growth in recent years; Rising interest rates; and Steadily rising municipal rates and tariffs;

These cost increases play into the hands of the cheaper and smaller-sized segments of the market. This is expected to see the Lower Income Area segment remain relatively stronger than the higher segments in the near term. However, this is not to say that this segment won't also weaken. To the contrary, it can't defy economic gravity indefinitely, and the economy remains on a deteriorating path.