PROPERTY BAROMETER

FNB Estate Agent Home Selling Survey

Further signs of mounting Household Sector financial constraints on the "Sell-Side"

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The 1st quarter 2016 FNB Estate Agent Survey once again shows a decline in the percentage of sellers selling in order to upgrade homes. This points to mounting financial limits, and increased household caution. However, there is still no significant rise in financial stress-related home selling.

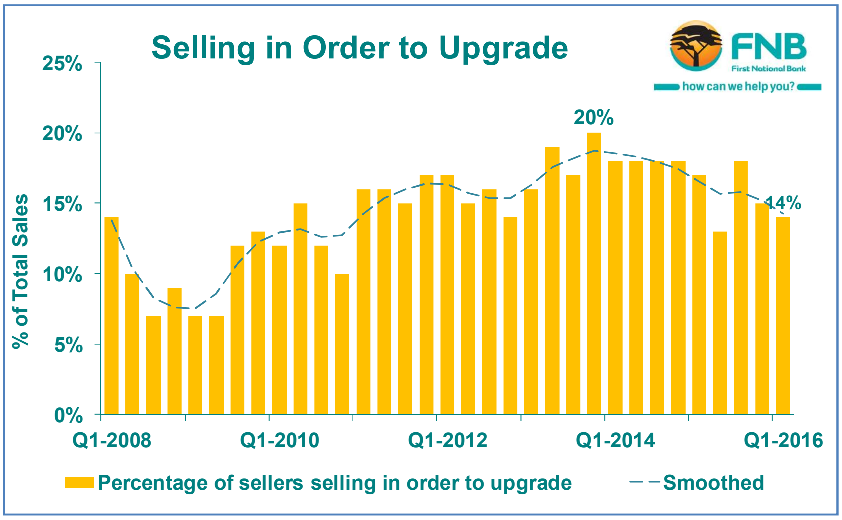
The largest motive for selling remains the ageing segment of the Household Sector downscaling to smaller properties "due to life stage". A key indicator of perceived "relative opportunity" between South Africa and other countries, for skilled labour, is the percentage of sellers selling in order to emigrate. This motive for selling remains moderate, but has been gradually ticking higher.

UPGRADE-RELATED SELLING SLOWS FURTHER

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"

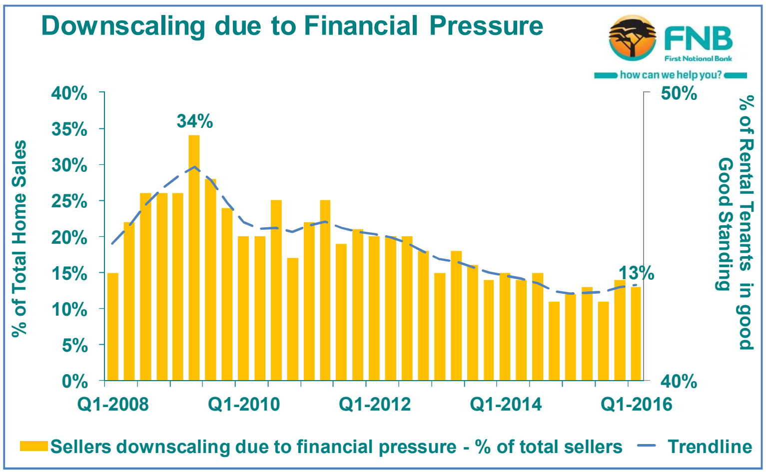
Recent surveys have begun to point to the possibility that residential affordability challenges have slowly begun to mount, which perhaps ties in with Estate Agent perceptions that affordability did deteriorate mildly in 2015 compared with 2014. As yet, the survey doesn't show any meaningful sign of an increase in financial stress. However, households' spending on non-essentials appears to be diminishing in significance as a more cautious approach to household finances sets in.

Our survey respondents in the 1st quarter of 2016 indicated that "upgrade-related selling" accounted for 14% of total home selling. This represents a decline from the 15% of the previous quarter, and is now noticeably down from the 20% high reached late in 2013.



THERE REMAINS NO MORE THAN A SLIGHT INDICATION OF HEIGHTENED FINANCIAL STRESS

- **There is still no conclusive indication of rising financial stress-related selling yet**

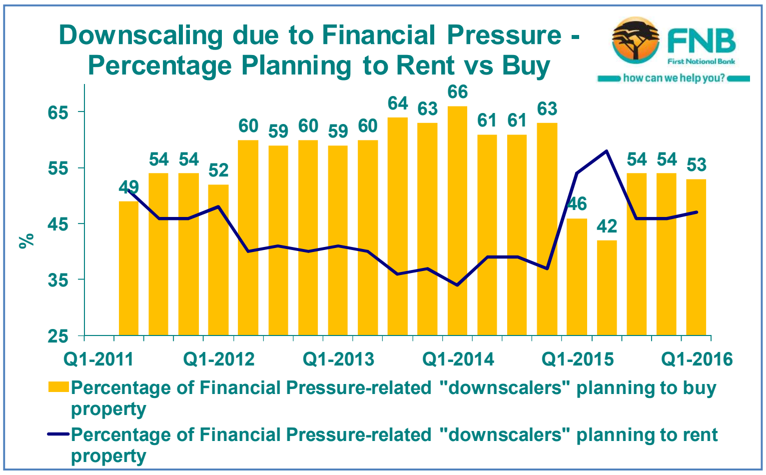


While a slight deterioration in affordability through 2014 may be starting to put the brakes on the level of "non-essentials" such as residential upgrade-related selling, we can't yet claim that there is any meaningful increase in financial stress, or for that matter in the percentage of financial stress-related selling.

The estimated percentage of sellers "selling in order to downscale due to financial pressure" was 13% in the 1st quarter of 2016, slightly down from the 14% of the previous quarter, but elevated from the 11% low of 2 quarters ago (3rd quarter of 2015). However, such small moves from quarter to quarter can be mere data volatility, so conclusion of a trend change would be premature. It would appear, however, that the broad declining trend in the financial stress-related selling estimate, up until 2014, has come to an end.

That pre-2015 multi-year declining trend started back late in 2009, after a 34% high was reached, and was the result of some years of abnormally low interest rates and some "deleveraging" by the Household sector. While not seeing conclusive evidence of the start of a rising trend in this motive for selling yet, we do anticipate it, given recent economic weakness along with rising interest rates over the past 2 years.

- **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 that within this category of sellers believed to be intending to "rent down" as opposed to "buy down", the "rent down" percentage is elevated from 2013/14 levels.

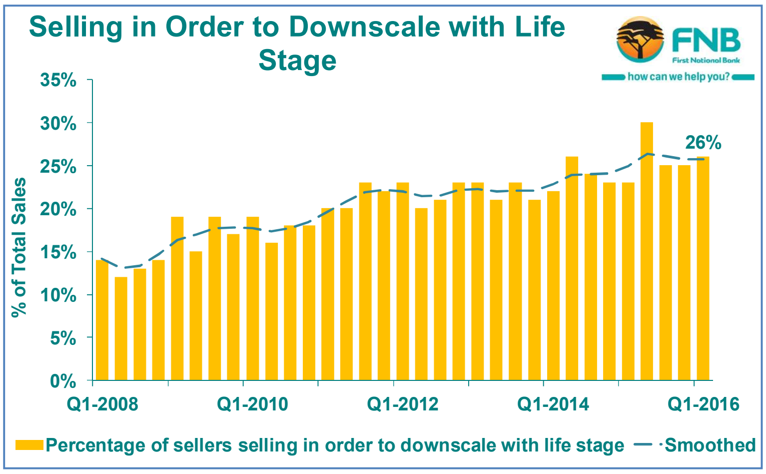
Through much of the 2013 to 2014 period, the survey respondents believed that above 60% of sellers "selling to downscale due to financial pressure" were intending to buy a cheaper property, and nearer to 40% would move into a rental property. Early in 2015, the percentage believed to be intending to "rent down" jumped quite significantly to above 50%, and although receding back to 46% late last year, before going slightly higher to 47% in the 1st quarter of 2016, this "rent down" group's percentage remains noticeably higher than in 2013 and 2014. This also points to a more conservative approach by households towards their finances, with rental being the cheaper short term option.

We would expect an increase in the portion "renting down" to provide mild additional support to the rental market in 2016.

THE AGEING SECTION OF THE HOME OWNER POPULATION CONTINUES TO BE THE SINGLE BIGGEST DRIVER OF SELLING.

The strong growth in the 50+ age cohort's numbers is reflected in the ongoing strength in selling "in order to downscale due to life stage".

This category of sellers remains by far the biggest one, and in the 1st quarter 2016 survey it was estimated that a still-huge 26% of sellers were selling for this reason. This is slightly higher than the previous quarter's estimate of 25%. 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 26% 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 be more or less coming 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.

This group is, theoretically, not in financial difficulty, but would often wish to "offload" properties that are perhaps too large and costly for their altered requirements. Their currently large percentage is believed in part to be reflective of the various cost escalations associated with property. These include:

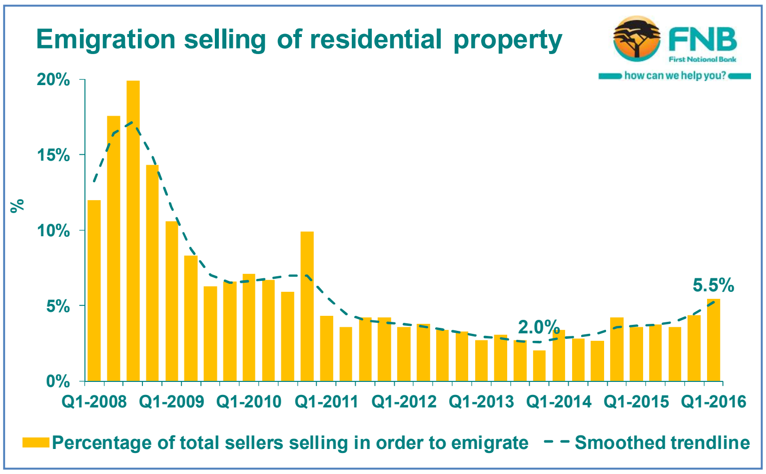
- Security costs in a high crime environment that may be deteriorating once more;
- Municipal rates and tariff increases that consistently exceed inflation and household income growth

These cost increases come at a time when Economic and Household Sector Income growth is mediocre at best, and the effective income tax rate is steadily rising. 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.

SELLING IN ORDER TO EMIGRATE

The "Selling in order to emigrate" motive for selling has been gradually rising in significance in recent quarters, although its level still appears moderate. Given the currently weak economy and sentiment in South Africa, with the FNB Consumer Confidence Index pointing to very low confidence in the near term economic future over the next 12 months, this mild increase is perhaps not too surprising. Skilled labour tends to follow economic opportunity to a certain degree, and while South Africa's economy has been stagnating, certain Developed Economies have seen higher employment rates and mildly improved economic opportunity in recent years compared to back in the Global Financial Crisis around 2008 and for a while thereafter.

In addition, a weak Rand currently makes SA skills cheap in many places overseas (and makes hard foreign currency jobs look attractive for SA skills), which can be supportive of "skills exports". This potential erosion of a country's skills base is a key reason why a weak currency is undesirable from the country's competitiveness point of view.

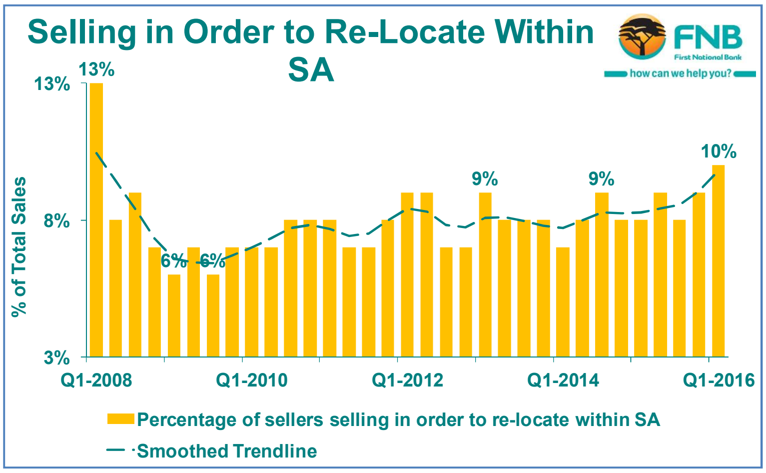


This category of selling as a percentage of total home selling returned a still-moderate estimate of 5.5% in the 1st quarter 2016 survey.

However, this percentage 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.

"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.

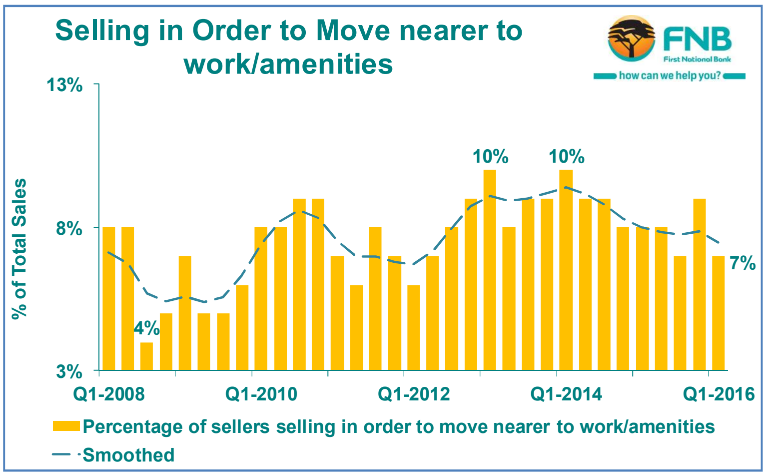


At 10% of total selling in the 1st quarter 2016 survey, this percentage remains elevated on the 6% low reached back in 2009, which was around the time of the last recession and greatly limited new employment and business opportunities at the time.

But a significant portion of this relocation is about a search for a better lifestyle, as well as people retiring to other regions and not solely about chasing after employment opportunities. Therefore, the rise in this percentage does not necessarily reflect any increase in economic opportunities in recent times.

SELLING TO MOVE NEARER TO WORK OR AMENITIES

Greater Household Sector caution may also be starting to be reflected in the percentage of sellers selling in order to move closer to work or amenities. Such moves are often popular these days, in order to be better located from an urban commuting point of view relative to places of work, with congestion being a key challenge, or from a quality schooling point of view, for instance. However, while such moves can greatly enhance people's quality of life, they are costly to undertake, and recently tougher economic times, along with rising interest rates, appears to have seen a gradual slowdown in the percentage of sellers with this motive in mind since early-2014. From a high of 10% of total sellers as at the 1st quarter of 2014, the percentage of sellers selling in order to move nearer to work/amenities has declined to 7% by the 1st quarter of 2016.



IN CONCLUSION

The broad picture emanating from the FNB Home Selling Estate Agent Survey remains one of signs of growing financial constraints and weakening Household Sector confidence, but not yet of any meaningful increase in financial stress.

It appears that such increasing constraints/weakening confidence are leading to a gradually more conservative spending approach by the Household Sector, and this is reflected in a decline in the percentage of sellers selling in order to upgrade to a better and more costly property. This possibly ties in with currently weak consumer confidence as per the FNB Consumer Confidence Index.

Although that large group of sellers “selling in order downscale due to life stage” are downscaling due to no longer requiring the properties they have lived in up until recently, it is possible that weakened household confidence levels, and the resultant need for greater financial conservatism, has sped up this move to downscale for many.

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” (“buying down” being the other option) when compared to 2014

One key indicator of perceived “relative opportunity”-between South Africa and other countries, for skilled labour, is that of “selling in order to emigrate”. In the current time of weakening economic performance, poor Household Sector confidence levels (as reflected in weak Consumer Confidence surveys) and a very weak Rand, it would perhaps not be too surprising to see this category’s percentage rising. Indeed, it has been rising, but by its historic standards dating back to the beginning of 2008 the level still remains fairly moderate.

In short, signs of the effects of a tougher economic and financial environment impacting on the Household Sector have been gradually becoming more prominent. We know that consumer confidence is weak, so a more cautious approach to home buying and selling is to be expected. The economy appears to still be 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 Sale	Q1-2014	Q2-2014	Q3-2014	Q4-2014	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016
Downscaling due to financial pressure	**15%**	**14%**	**15%**	**11%**	**12%**	**13%**	**11%**	**14%**	**13%**
Downscaling with life stage	22%	26%	24%	23%	23%	30%	25%	25%	26%
Emigrating	**3.4%**	**2.8%**	**2.7%**	**4.2%**	**3.6%**	**3.8%**	**3.6%**	**4.4%**	**5.5%**
Relocating within SA	7%	8%	9%	8%	8%	9%	8%	9%	10%
Upgrading	**18%**	**18%**	**18%**	**18%**	**17%**	**13%**	**18%**	**15%**	**14%**
Moving for safety and security reasons	11%	10%	10%	11%	11%	10%	12%	10%	10%
Change in family structure	12%	12%	14%	16%	16%	13%	15%	14%	15%
Moving to be closer to work or amenities	10%	9%	9%	8%	8%	8%	7%	9%	7%