



Absa Homeowner Sentiment Index (HSI)

Economic overview

With the release of the first-quarter 2017 economic growth data, the South African economy entered a technical recession, i.e. two consecutive quarters of a contraction in real gross domestic product (GDP). This was the result of the economy contracting by 0,3% in the fourth quarter of 2016 and a further 0,7% in the first quarter of this year. Contractions in prominent sectors such as wholesale and retail trade and manufacturing, as well as financial and business services, were the main contributors to the poor economic performance in the first quarter.

The declines in the trade and manufacturing sectors were in line with trends in household consumption expenditure, which dropped by 2,3% in the first

quarter, as well as a continued low level of consumer confidence in the first two quarters of the year.

Significant rand exchange rate and other financial market volatility occurred in the first half of the year against the background of political developments and policy uncertainty. These factors and perceived increased institutional and economic risks prompted two country credit rating agencies, namely Standard & Poor's (S&P) Global Ratings and Fitch Ratings, to downgrade the country to below-investment, or so-called "junk status" in the first week of April. Moody's Investor Service followed in early June by lowering their country credit rating to one notch above junk status.

In view of these developments, the outlook is for economic growth and confidence levels to remain subdued in the rest of 2017, with the rand exchange rate expected to depreciate against the major international currencies towards year-end and consumer price inflation to average around 5,3%. On the back of an improved inflation outlook and the prospect of continued low economic growth, interest rates were cut by 25 basis points in July, with market expectations for rates to be lowered further before the end of the year.

Consumer sector overview

Headline consumer price inflation averaged 5,8% in the first half of 2017, after slowing down from 6,3% in the first quarter to 5,3% in the second quarter, mainly as a result of markedly lower food inflation and fuel price cuts in recent months. These and the lower lending interest rates are positive developments in view of the financial strain experienced by many consumers. However, tax increases announced in the Budget in February are impacting consumers' disposable income and spending power, while labour market conditions remained tight in the first half of the year.

On balance, consumer confidence remained low up to June and real household disposable income and consumption expenditure contracted in the first quarter of the year compared with the fourth quarter of last year.

Conditions in the consumer sector will in the rest of 2017 be driven by trends in prominent macroeconomic variables such as economic growth, employment, inflation and interest rates, which will affect household income, consumption expenditure, confidence levels and the demand for credit.



Absa Homeowner Sentiment Index Overview

Absa continuously strives to provide customers with new innovative solutions to meet their needs and assist them in the anxiety of probably making one of the biggest financial commitments of their lives – buying a home.

To better understand what customers need through their home buying, selling, investing and renovating journeys, Absa Home Loans has commissioned independent research company Columinate to conduct consumer-related research on its behalf. Absa has in the process built a quarterly database of rich consumer insights, some of which are shared

with the market from time to time through Homeowner Insight articles and now the Absa Homeowner Sentiment Index (HSI).

The HSI is the result of surveying a representative sample of approximately 1 000 existing and prospective homeowners in major urban areas in the country, which may include both Absa and non-Absa customers. The survey determines the level of positive sentiment regarding buying, selling, investing, renting and the renovating of property, as well as property market conditions in general.



Absa Homeowner Sentiment Index Findings

Despite the abovementioned economic and household sector-related trends, consumers were in general still largely positive about the residential property market during the course of 2016, with levels of sentiment improving up to the third quarter of last year, according to the Homeowner Sentiment Index. A total of 83% of consumers surveyed in the third quarter had a positive perception regarding property market conditions.

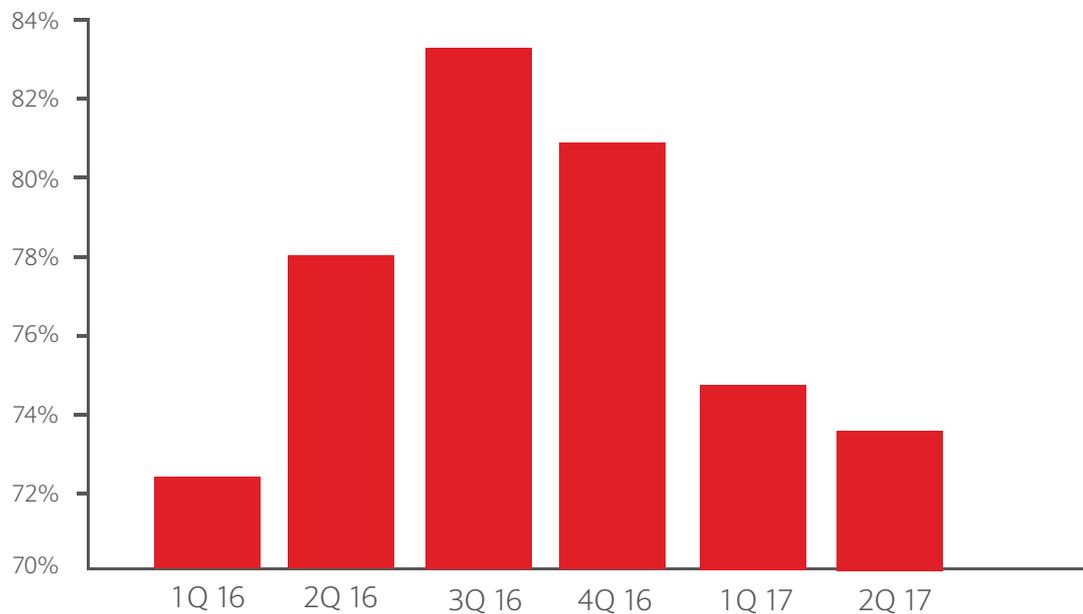
However, as economic conditions gradually deteriorated during the course of last year, consumers experienced further financial pressure, which caused confidence in general as well as sentiment regarding the property market to decline towards year-end and into 2017, as measured by the Bureau for Economic Research's Consumer Confidence Index and the Absa Homeowner Sentiment Index. By end-2016 the HSI was slightly lower, with 81% of respondents who were still

positive about property market conditions at the time.

Based on the April 2017 survey, the overall HSI score dropped to 75% in the wake of developments in the run-up to and after the country credit downgrades announced by S&P and Fitch in the first week of that month. The second-quarter survey results show that property market-related sentiment has largely stabilised with an HSI score of 74%, despite the widely expected lowering of the country's credit rating by Moody's in early June. Although most respondents were in the latest survey still confident that property is a secure asset, there were concerns regarding factors such as the state of the economy, politics and the impact of the country's junk status. These developments brought the first and second-quarter HSI scores back to a level that were much in line with that of the first quarter of 2016.

Absa Homeowner Sentiment Index

% of respondents with overall positive sentiment



Absa Homeowner Sentiment Sub-indices findings Buying property

The decision to buy property is usually driven by a number of changes in peoples' personal circumstances. These may include aspects such as young people entering the labour market for the first time and wanting to buy property, couples wanting to buy larger homes closer to schools and to cater for the needs of expanding families, or matured couples wanting low-maintenance and smaller homes in secure retirement villages.

The choice to buy property remains a big and emotional decision, which in many instances is filled with anxiety.

After buying sentiment dropped to a recent low of 60% in the first quarter of 2017, a total of 64% of consumers surveyed in the second quarter displayed positive sentiment about buying property.

The major reasons mentioned in favour of buying property were the following:

- Property still accumulates in value and is a good investment (32%)
- Prices are relatively low and there are bargains in the market (31%)

The biggest concern mentioned in the latest survey regarding buying property was that the economy is not doing well and is in recession (33%).



Selling property

Making the decision to sell property is largely impacted by general economic conditions, property price trends and personal circumstances.

As much as 66% of respondents surveyed in the second quarter displayed a negative sentiment when asked whether they feel if it is an appropriate time to sell property. The sentiment around selling property declined noticeably in the first two quarters of the year from the second half of last year.

The top reasons mentioned not to sell property were the following:

- Property prices are low, and you won't get the price you want for your property (41%)
- The economy is not doing well and is in recession (13%)
- Property still accumulates in value and is a good investment (11%)

Investing in property

Various factors influence the decision to invest in a second property or multiple properties, such as deriving a regular income and capital appreciation over time.

In the second-quarter 2017 survey, 78% of respondents were positive about property as an investment, which was much in line with sentiment in the first quarter, but below positive sentiment of above 80% in the third and fourth quarters of 2016.

Reasons mentioned in the second-quarter 2017 survey why it is an appropriate time to invest in property were as follows:

- It is still a good time investment (43%)
- Prices are relatively low and there are bargains in the market (18%)
- There is a demand for rental properties (13%)

The most prominent reason why respondents felt that it is not an appropriate time to invest in property is the state of the economy and concerns about the country's future (20%).

Renovating property

A total of 75% of respondents displayed positive sentiment in the second-quarter survey when asked whether it is a good time to renovate or do alterations to a property.

The most important reasons mentioned why it is an appropriate time to renovate a property were the following:

- Renovation increases the value of a property (40%)
- It is good to constantly upgrade a property (18%)

The cost of renovation was in the second-quarter survey the main reason why homeowners are not in favour of renovating a property (36%), followed by the state of the economy (11%).

Buying versus renting property

The majority of consumers (68%) surveyed in the second quarter of 2017 indicated that it is better to buy property than to rent.

The top reasons in favour of buying property were:

- It is better to buy and pay off your own bond than rent and pay someone else's bond (33%)
- Prices are relatively low and there are bargains in the market (24%)
- Property still accumulates in value and is a good investment (21%)

32% of respondents who were asked whether it is better to buy or rent property, indicated that renting is a better option.

Reasons mentioned in favour of renting a property were as follows:

- Renting is cheaper (19%)
- Property prices are relatively high (11%)
- The economy is not doing well and is in recession (8%)
- Renting is more flexible, with no long-term commitment (8%)

Concluding remarks

Against the background of the abovementioned economic and consumer sector trends and prospects, the Absa Homeowner Sentiment Index may remain under some downward pressure in the rest of the year. This may be the result of existing homeowners and prospective homebuyers opting to postpone planned property transactions over the short to medium term until there is more certainty and direction regarding future economic trends and developments that may impact them financially. These may become evident in property market activity and transaction volumes, which will be reflected in property price growth and the demand for and growth in mortgage finance.

Absa Homeowner Sentiment Index

% of respondents with overall positive sentiment

Period	Buying Property	Selling Property	Investing in Property	Renovating Property	Buy rather than Rent	Overall Sentiment
1Q 2016	60%	38%	77%	72%	67%	73%
2Q 2016	64%	39%	79%	79%	67%	78%
3Q 2016	72%	46%	85%	79%	75%	83%
4Q 2016	71%	48%	83%	76%	73%	81%
1Q 2017	60%	42%	77%	77%	66%	75%
2Q 2017	64%	34%	78%	75%	68%	74%

About the Absa Homeowner Sentiment Index (HSI)

The index measures sentiments of South African consumers with regard to various aspects of the residential property market. The index and its sub-indices are derived from a quarterly survey of a representative sample of about 1 000 urban consumers, conducted by Columinare and based on demographic survey information. The HSI survey determines consumer sentiment regarding buying, selling, investing in, renting of and renovating property, as well as property market conditions in general.

Absa Homeowner Sentiment Index (HSI)

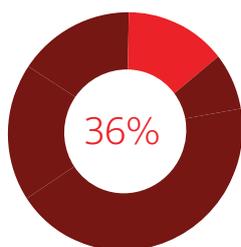
HSI respondent trends (% positive sentiment):

2Q 2017	
Buying property	64%
Selling property	34%
Investing in property	78%
Renovating property	75%
Buying rather than renting property	68%
Overall sentiment	74%

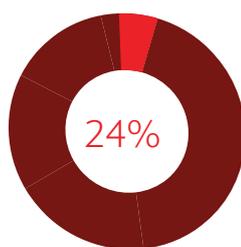
1Q 2017	
Buying property	60%
Selling property	42%
Investing in property	77%
Renovating property	77%
Buying rather than renting property	66%
Overall sentiment	75%

2Q 2016	
Buying property	64%
Selling property	39%
Investing in property	79%
Renovating property	79%
Buying rather than renting property	67%
Overall sentiment	78%

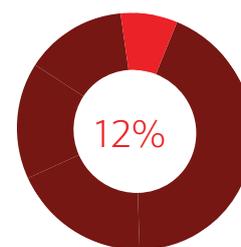
Main factors leading to positive sentiment in 2Q 2017 %



Property is a secure asset

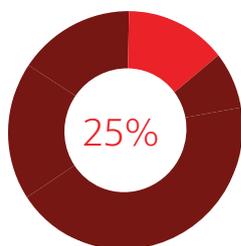


Property still increases in value

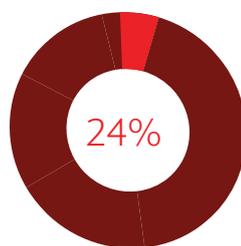


A home is essential

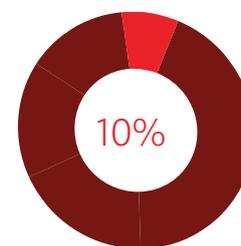
Main factors leading to negative sentiment in 2Q 2017 %



The political environment is unstable



The economy is volatile and in recession



Property is expensive

Outlook:

The HSI may remain under downward pressure in the rest of 2017 on the back of trends in and prospects for the economy, household sector finances and consumer confidence