FNB 4th QUARTER 2010 ESTATE AGENT SURVEY

- 2010 as a whole was a better year than 2009, but survey results don't provide convincing arguments for further improvement in 2011

FNB Property Barometer

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SUMMARY – THE 4th QUARTER 2010 FNB ESTATE AGENT SURVEY

The 4th quarter FNB Estate Agent survey continues to depict a market tilted in favour of those buyers with the financial resources at their disposal.

On average, the sample of estate agents surveyed in the 4th quarter perceived residential demand to have strengthened very slightly after some previous quarters of decline. On a scale of 1 to 10, the agent demand activity rating rose from a previous quarter's 5.66 to a 4th quarter 5.79. Seasonal factors are believed to have played a significant role in this, but there also exists the possibility that renewed interest rate reduction in September had a slight positive impact.

The agents surveyed continue to point to apparent unrealistic pricing in the market. Estimated average time of properties on the market was still a lengthy 15 weeks and 6 days in the 4th quarter, which was slightly worse than the previous quarter's 15 weeks and 4 days. While this is well-lower than a stage of 2008 where the estimate neared 22 weeks, it would still appear far too long for an average, given that in the healthier market days of 2005/6 the average time was generally below 2 months. Furthermore, the percentage of sellers having to drop their asking price remained almost unchanged from the previous quarter's 81%, declining slightly to 80%, and the average price drop for that majority having to drop their prices was estimated at -11%.

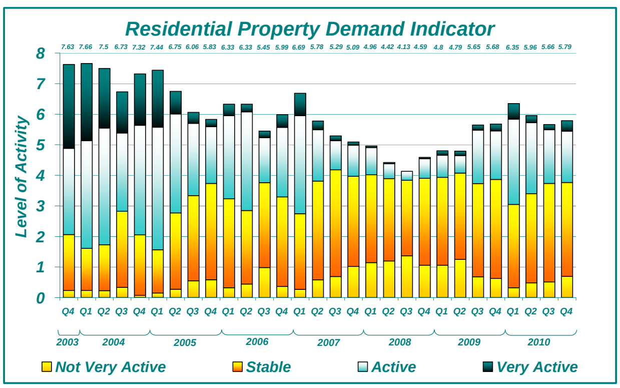
The 4th quarter survey provides us with the complete 2010 picture as experienced by our estate agent survey respondents. Aggregating the results for 2010 it is clear that the agents surveyed perceived it on the whole to be a better year in many ways than 2009 as a whole. The average demand level rating for 2009 was 5.23, which improved to an average of 5.94 in 2010. The average time on the market came down from 17 weeks in 2009 to 15 weeks and 1 day average for 2010. Examining the composition of buying and selling in 2010, we saw 1st time buyers increasing moderately in significance from an average of 15.8% of total buyers in 2009 to 17% in 2010. However, while the above stats point to an overall improvement in the market for 2010 as a whole, compared to 2009, 2010 remained a year where households still appeared focused on rebuilding the post-recession balance sheet. This meant a continued focus on essential buying, with primary residential buying increasing its share from 82.3% of total buying in 2009 to 89.8% in 2010, at the expense of buy-to-let buying, holiday buying and buying residences for relatives. The balance sheet rebuilding appeared to be partly successful, with those sellers "selling in order to downscale due to financial pressure" declining as a percentage of total selling, from 28% in 2009 to 20.5% in 2010. Happily, too, it would seem that the World Cup's positive spin off on sentiment bore some fruit, with a further slight decline in emigration selling as a percentage of total selling, from 8% in 2009 to 7.5% in 2010 (following a 2008 shocker of 16%).

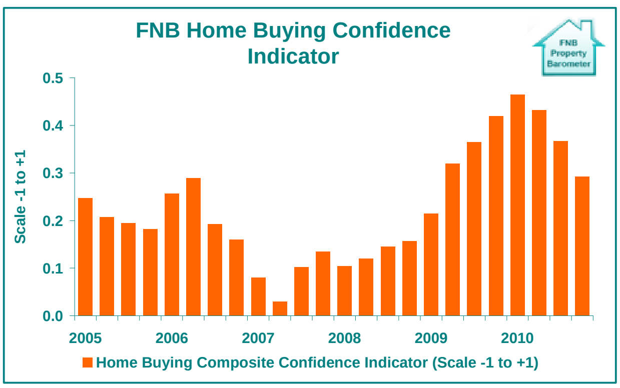
2010, therefore, in most ways was a more positive residential property year than 2009, according to our sample of survey respondents. However, the survey of agents' expectations suggested that it was not guaranteed that 2011 would se further gains. The 4th quarter Estate Agent Home Buying Confidence Indicator showed a decline for the 3rd consecutive quarter, suggesting an average deterioration in the near term market expectations of the sample of agents surveyed. Therefore, as 2010 drew nearer to its close, it would seem that estate agent confidence gradually declined, after peaking in the 1st quarter.

Interestingly, whereas the 3rd quarter survey had agents citing positive consumer sentiment as the main influencing factor on their near term expectations, this positive sentiment, possibly very much world cup-related, has receded to 4th place in importance. Low interest rates have once again become the number one influence on expectations, but very important in 2nd place is the negatively perceived factor of "tight bank credit criteria". The 3rd most important influencing factor for agents' expectations was that of "pricing and affordability. Here, the response appeared split between those who believed that properties were realistically price versus those who believed they weren't.

However, when read in conjunction with a different survey question regarding whether incomes had kept up with prices, one saw a steady increase in percentage of agents that believe that "incomes have got far behind price levels. From a 2010 low of 43% for the 2nd quarter of last year, the percentage of agents stating that income levels were far behind price levels had risen for 2 consecutive quarters to 57% by the 4th quarter survey. This separate question does, therefore, suggest that survey respondents' perceptions of affordability have been deteriorating late in 2010, and this could thus contribute to weakening expectations of residential demand.

In a nutshell, therefore, agents believe 2010 to have been a batter year for the market than 2009. However, the group still points to a mediocre and unrealistically priced market, and does not paint a convincing picture for further gains in 2011.





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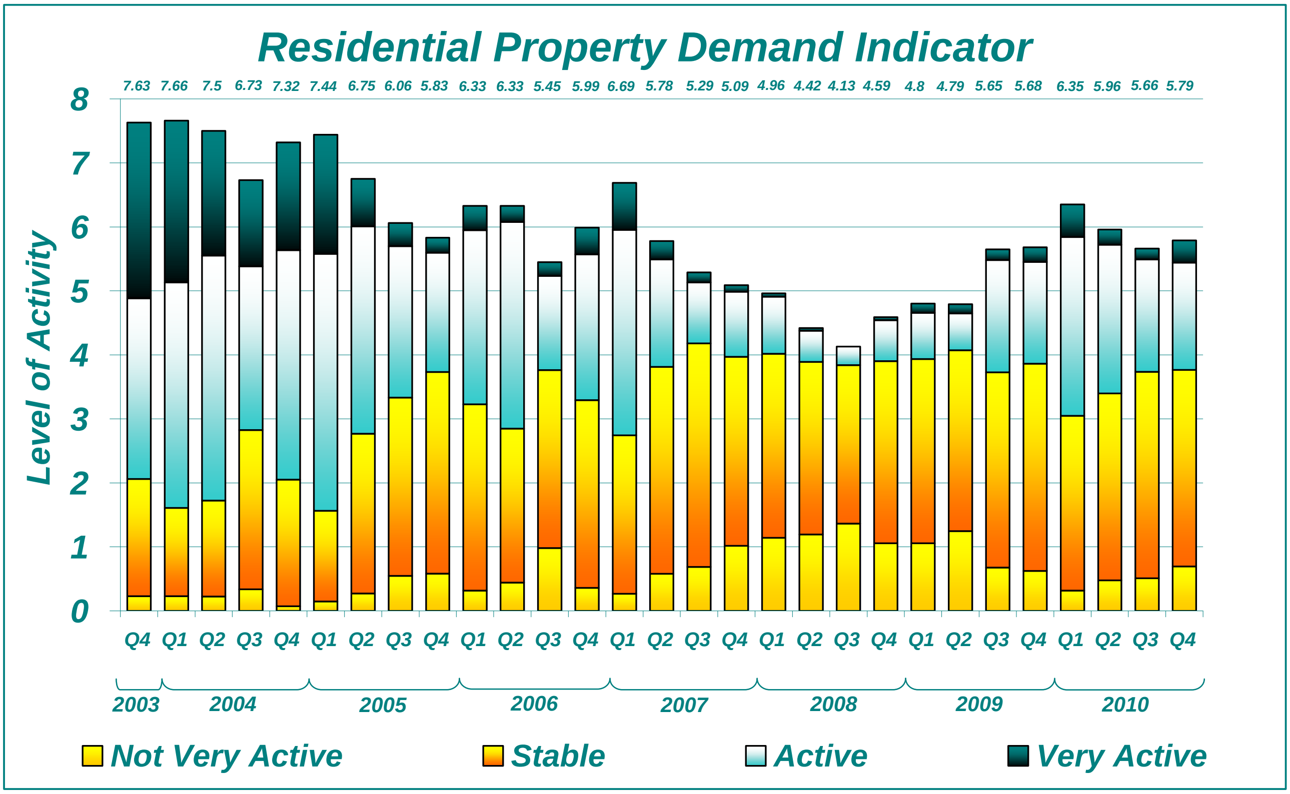
1. DEMAND CONDITIONS – A SLIGHT IMPROVEMENT IN RESIDENTIAL DEMAND WAS REPORTED IN THE 4TH QUARTER. CAN THE LATE-2010 INTEREST RATE CUTS MAKE A DIFFERENCE?

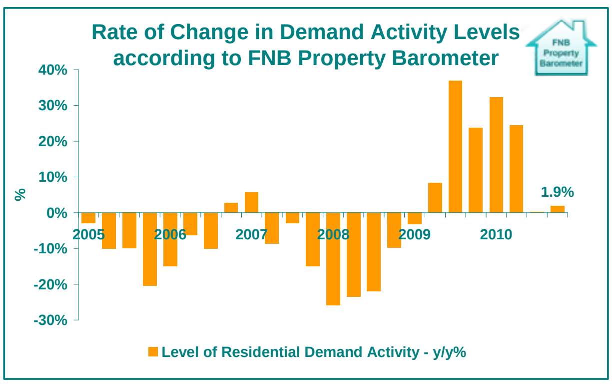
According to the FNB Estate Agent Survey for the 4TH quarter of 2010, home buying demand activity has strengthened very mildly, following the previous 2 consecutive quarters of decline.

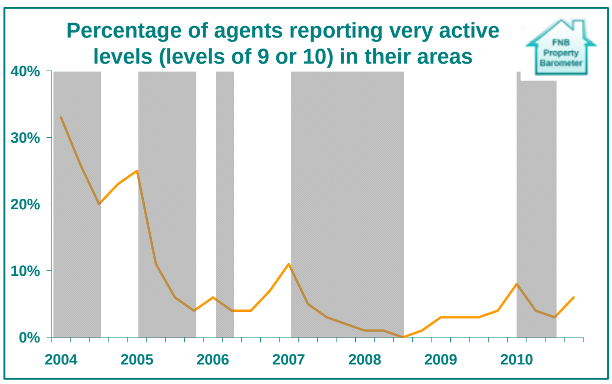
In the survey, the sample of agents participating is asked to provide an estimate of how they experience residential demand in their area on a scale of 1 to 10. After a "mediocre" level of 5.66 , reached in the 3rd quarter of 2010, the level has risen to 5.79 by the 4th quarter survey, which took place in November.



As the Summer months arrive, seasonal factors can support the market positively. However, it is possible that this slight uptick in demand may be something a little more than seasonal factors, as late-2010 saw 2 consecutive interest rate cuts in September and November. The November rate cut would have come too late to be reflected in the November survey though.

In an attempt to eliminate the effects of seasonal factors, we calculate the year-on-year percentage change on the demand activity ratings, and see that the 4th quarter growth in the demand rating rose very slightly from +0.2% previous to +1.9%. This is not a convincing improvement, but certain agents do indicate that they believe that low interest rates are filtering through to demand in a positive way.

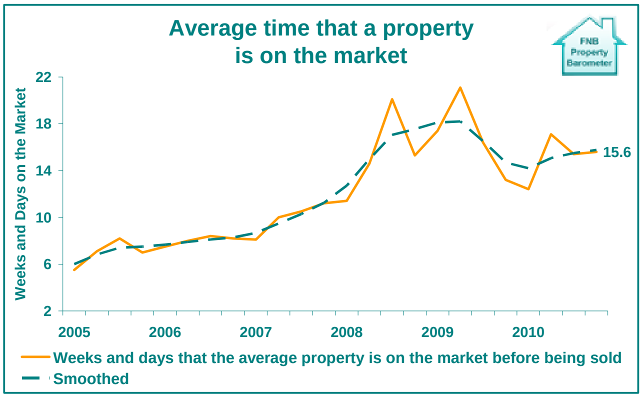


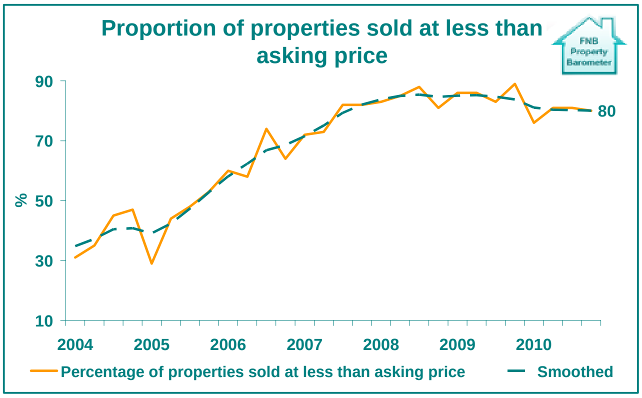


2. PRICING REALISM AND MARKET BALANCE – IN A MARKET WHERE DEMAND REMAINS MEDIOCRE AT BEST, PRICES STILL APPEAR GENERALLY UNREALISTIC.

The agents surveyed effectively continue to report a lack of pricing realism in the residential market, although from quarter to quarter this didn't change much, with the estimated average time on the market of 15 weeks and 6 days for the 4th quarter being marginally higher than a previous 15 weeks and 4 days.

This average time on the market remains on the long side, when one compares it with 2005/06, where the market was still solid, and where average times were 2 months or below. The 2nd indicator of pricing realism is the estimated percentage of sellers that were required to drop their asking price in order to make the sale. This percentage declined slightly from 81% previous to 80% in the 4th quarter. Of those sellers that dropped their asking price, the estimated average drop was -11%, only slightly better than the -12% of the previous quarter.

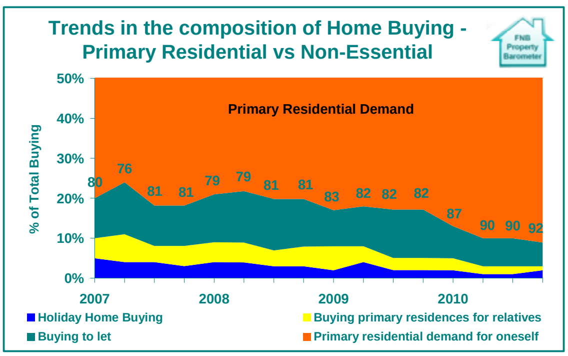


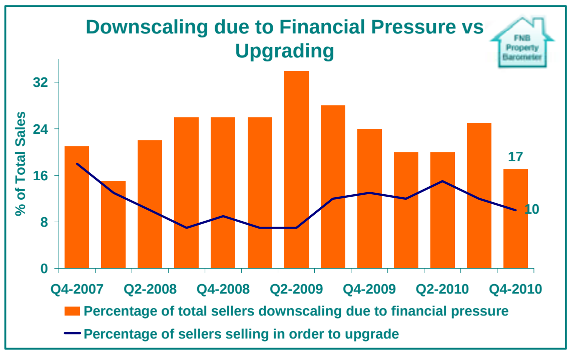


3. THE COMPOSITION OF BUYING AND SELLING SHOWS THAT ESSENTIAL BUYING IS STILL KING, BUT FINANCIAL STRESS MAY HAVE EASED

On the buying side, the 4th quarter survey continued to point towards a "back to basics" approach to home buying in which primary residential demand is priority and any non-essential buying remains firmly on the backburner. As a percentage of total buying, primary residential demand increased to 92% in the 4th quarter from a previous quarter's 90%, setting a new record. The 3 non-essential components, i.e. buy-to-let buying, holiday property buying and buying primary residences for relatives, made up a mere 8% in total. This is in stark contrast to back in 2007, where the non-essential items made up more than 20% of total buying.

On the selling side, "basics" also appear to be increasingly a priority. After some uptick in the percentage of sellers selling in order to upgrade through late-2009/early-2010, this reason for selling has receded in the 2nd half of the year from a 2010 high of 15% in the 2nd quarter to 10% in the 4th quarter. Good news though is that financial stress may be receding, with agents in the 4th quarter of 2010 survey reporting 17% of sellers selling in order to downscale due to financial pressure. While this percentage is still unacceptably high, it was the lowest estimated percentage for this category of selling since the 1st quarter of 2008.



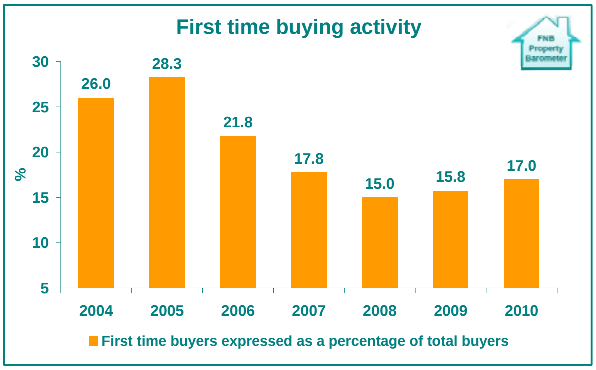


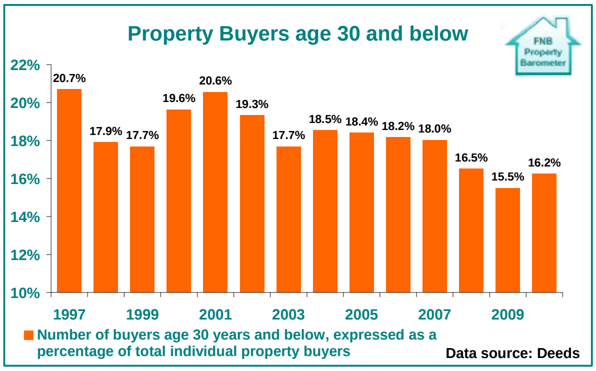
Reasons for selling (As % of Total Sales)	Total	High Net Worth	Upper income	Middle income	Lower income
Downscaling due to financial pressure	**17%**	**10%**	**19%**	**20%**	**19%**
Downscaling with life stage	18%	18%	20%	16%	17%
Emigrating	**10%**	**12%**	**11%**	**9%**	**8%**
Relocating within SA	8%	5%	8%	11%	8%
Upgrading	**10%**	**10%**	**10%**	**11%**	**11%**
Moving for safety and security reasons	12%	14%	11%	12%	13%
Change in family structure	15%	19%	14%	13%	13%
Moving to be closer to work or amenities	9%	12%	7%	9%	10%

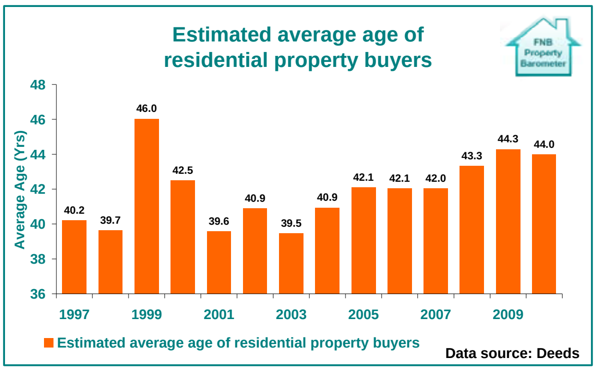
4. A LOOK BACK AT BUYER AND SELLER COMPOSITION TRENDS IN 2010

It is probably safe to say that 2010 was a better residential property year than 2009, but conditions nevertheless remained tough due to ongoing pressure on the household sector's finances, and this could be seen in the estate agents' responses with regard to the composition of buyers. We take a look at the composition of buying for 2010 as a whole.

1st time buyers battled their way back into the market - slowly







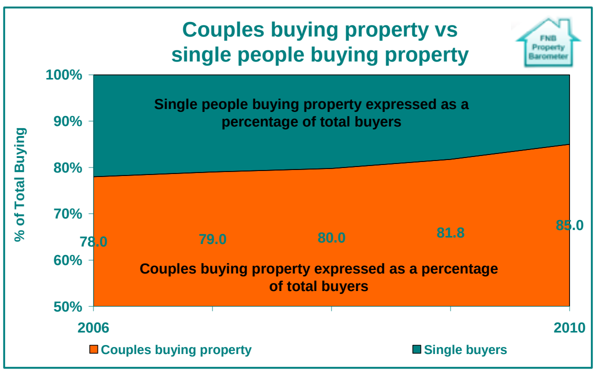
1st time buyers are very often the younger buyers with little in the way of wealth to back them, and are more highly dependent on credit for home buying than the older repeat home buyers. Their significance in the market will also be determined by their ability to enter the job market, also tough at present in an economy that doesn't appear to be creating a significant number of new jobs.

Estate agent comments from the 4th quarter survey reflect the strong dependence of the 1st time buyer group on credit. They cite lower interest rates, a little more leniency from banks, and a better economy as reasons for improvement in the percentage of 1st time buyers. However, many still see banks as conservative on lending, which is the case compared to a few years ago, and deposit requirements are cited as a key stumbling block for the 1st time buyer group with its very low levels of savings.

In our own estimates of the age of buyers, the 2010 findings are supportive of the Estate Agent Survey. One would think that the age cohort 30 and under would be overwhelmingly 1st time buyer driven. Using Deeds Office data, we estimate that age 30 and under buyers increased their percentage of total buying from 15.5% in 2009 to 16.2% in 2010, an improvement which follows on 5 previous consecutive years of decline.

This resulted in a slight decline in the estimated average age of individual property buyers from 44.3 years in 2009 to 44.0 years. To put it all in perspective, though, the percentage of 1st time buyers remains low compared to the 2005 peak of 28.3%, and the 44 year old average age of home buyer remains high compared to the 39.5 year past decade low recorded in 2003.

Couples had the upper hand over single buyers, due to their ability to pool their resources



According to the survey panels over the past few years, a further apparent result of tougher economic times has been a decline in the significance of individual buyers versus that of couples that purchase property.

In 2007, single people buying property were estimated at 22% of total buyers. This group has diminished to an estimated 15% average for 2010.

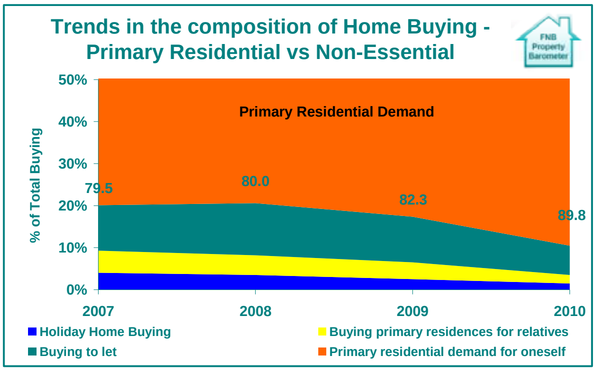
There are 3 probable reasons for the relative demise of the single buyers:

Firstly, one probably finds that there are more aspirant single buyers amongst the younger age groups, and who are would-be 1st time buyers. Such individuals have more flexibility than established families, and can remain either in the rental market or in their parents' home for longer when economic times turn tough. On average, single individuals probably have more flexibility than couples, many of whom are established families and need their own home.

Secondly, couples can often pool their resources to qualify for finance, so on average they probably have an advantage over the aspirant single buyers in terms of ability to qualify for finance and service debt.

Thirdly, and related to the first reason, is the fact that the economy is currently weak, translating into weak job creation for young people trying to enter the labour market. This probably hits the singles market a little harder.

Primary Residential Demand is king, as non-essentials stay on the backburner

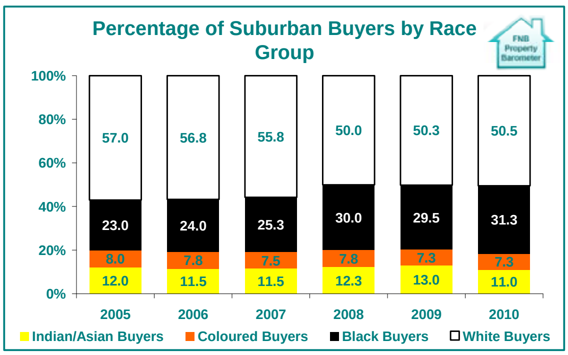


According to the 2010 surveys, primary residential demand continued to increase its domination of overall buying, with all forms of non-essential residential buying remaining very much on the backburner. Primary residential demand, expressed as a percentage of total buying, increased further in 2010 to 89.8%, from 82.3% in 2009. This was the 2nd consecutive year of increase in its share. Buy-to-let buying saw its share decline further from 10.8% average in 2009 to 7% in 2010, while holiday property buying also declined from 2.5% share in 2009 to 1.5% in 2010. The 4th category, i.e. buying a primary residence for a relative, also saw its share shrink from 4% of total buying to an estimated 2%.

The decline in importance of all 3 forms of non-essential property buying is an ongoing reflection of the tough economic and financial times in which we find ourselves, as well as a lack of capital growth currently making non-essential buying unattractive from a more speculative point of view.

The shift in composition of residential buying towards essential buying has favoured the major urban markets over many of the more holiday property-driven markets in recent years.

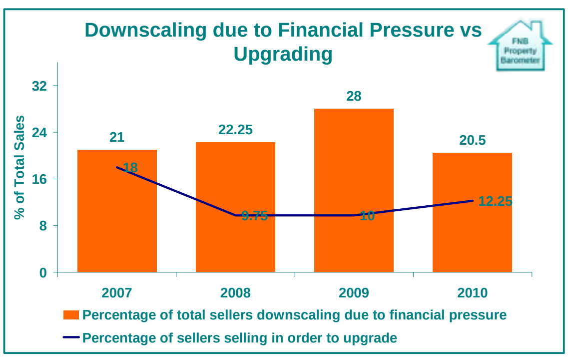
Black Middle Class holds its own



Tougher economic times caused some people to express concerns that the so-called Emerging Black Middle Class would be most vulnerable, and that this could see its ability to purchase homes being eroded to a greater extent than other population groups.

These fears appear to have been misplaced. Early in 2010 we expressed the view that it would be the Black Middle Class that may be a greater source of support for the market due to it having lower levels of indebtedness in income groups below about R500k per annum. In addition, the Black group's income in recent years has been growing at the fastest pace off the lowest per capita base. Not surprisingly, therefore, this group's buying, expressed as a percentage of total buying, easily held its own according to our agent panel, increasing its share of the total from 29.5% in 2009 to 31.3% in 2010. The so-called White population group estimate remained virtually unchanged at 50.5% (50.3% in 2009), the Coloured group unchanged at 7.3%, while the Asian group's estimated share declined from 13% in 2009 to 11% in 2010.

Seller composition in 2010 – Lower percentages of financial pressure-related selling and emigration selling

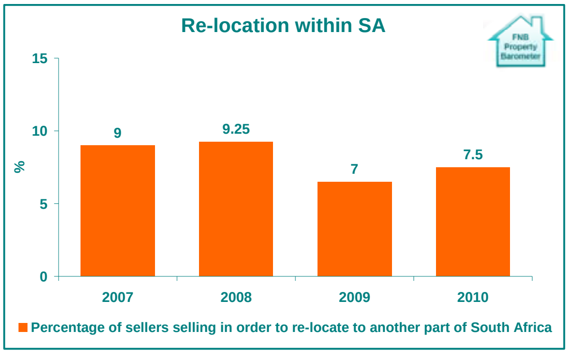


Estimates by agents of the main reasons for selling property pointed to 2010 being a better year on average in terms of both the household sector's financial position as well as national sentiment. After the previous 2 years of deterioration (increase) in the percentage of sellers "selling in order to downscale due to financial pressure", 2010 saw a drop in this percentage from 28% in 2009 to 20.5%. While significantly better, however, the 2010 estimates would still appear troublesomely high, reflecting still very significant financial pressure across the country.

The 2nd reason for selling, also partly related to the financial situation of households, is “selling in order to upgrade”. This, too, improved in 2010 from a 10% average in 2009 to 12.25% in 2010.

The reason for selling titled “re-location within SA” (referring to re-location to another part of the country), can also be linked to economic times, as times of weak economic growth often mean a lack of job creation and thus a shortage of re-location opportunities for skilled labour. The recessionary effect on re-location appeared to show in 2009, with the percentage selling in order to re-locate elsewhere in SA declining from 9.25% in 2008 to 7% in 2009. The estimate for 2010 was slightly higher at 7.5%, possibly reflecting a mildly better economic growth year in 2010, compared to 2009.

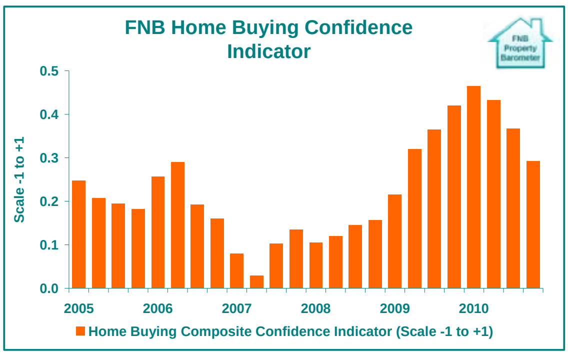
Finally, and not surprisingly given all the World Cup hype of 2010, a more positive sentiment compared with 2009 may have been behind a further mild decline in emigration selling of property, expressed as a percentage of total, from 8% in 2009 to 7.5% last year. These 2 consecutive years of single-digit emigration selling came after a terrible 2008, a year in which emigration selling “spiked” to an estimated 16%.

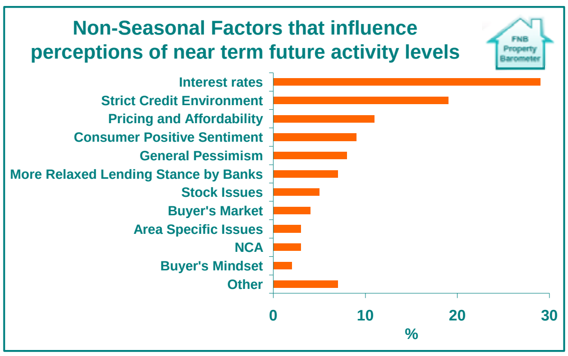


5. OUTLOOK – AGENT CONFIDENCE WEAKENS?

Interest rates feature most prominently as factors driving estate agents’, but on the negative side affordability and tight lending criteria are high on the list.

So, after a more positive 2010, a year in which SA did itself proud, what do agents believe that 2011 holds in store?





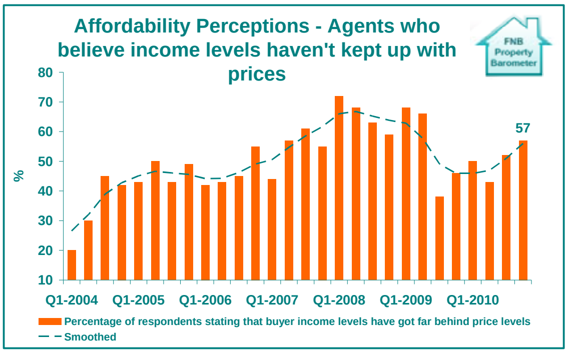
Each quarter, we ask agents to provide us with their expectations regarding the market’s direction over the next 3 months, i.e. they either expect the market to strengthen, remain the same or weaken. We quantify the answers, giving a “1” for strengthening, zero for remaining unchanged and “-1” for an expected weakening. We then calculate the average, but use a 4-quarter moving average to eliminate seasonal factors which are so often prevalent in the market and in the agents’ answers to this question. The graph to the left shows the overall result, and is known as the FNB Home Buying Market Confidence Indicator.

In the 4th quarter, the Confidence Indicator showed a decline for the 3rd consecutive quarter, suggesting an average decline in the near term market expectations of the sample of agents surveyed (seasonal factors excluded). Therefore, as 2010 drew nearer to its close, it would seem that estate agent confidence gradually declined.

Accompanying the question regarding near term expectations, we ask agents to provide the main factors influencing their expectations.

Interestingly, whereas the 3rd quarter survey had agents citing positive consumer sentiment as the main influencing factor on their near term expectations, this positive sentiment, possibly very much world cup-related, has receded to 4th place in importance in the most recent survey. Low interest rates have once again become the number one influence on expectations, but very important in 2nd place is the negatively perceived factor of “tight bank credit criteria”.

The 3rd most important influencing factor for agents was that of “pricing and affordability. Here, the response appeared split between those who believed that properties were realistically priced versus those who believed they weren’t.



However, when read in conjunction with a different survey question regarding whether incomes had kept up with prices, one sees a steady increase in percentage of agents that believe that "prices have got far behind price levels. From a 2010 low of 43% for the 2nd quarter of last year, the percentage of agents stating that income levels were far behind price levels had risen for 2 consecutive quarters to 57% by the 4th quarter survey. This separate question does, therefore, suggest that survey respondents' perceptions of affordability had been deteriorating late in 2010, and this could thus contribute to weakening expectations of residential demand.

6. CONCLUSION

The 4th quarter 2010 FNB Estate Agent Survey pointed to some very slight strengthening in residential demand, although the major portion of that improvement is probably seasonal. However, there was no reported improvement in pricing realism, with both the average time on the market and the percentage of sellers having to drop their asking price remaining virtually unchanged at their high levels.

Examining the various motives for buying and selling, the agents would appear to be telling us that the household sector still experiences very significant financial constraints, but perhaps less financial stress. This conclusion is drawn firstly from the fact that the 4th quarter survey indicates a record 92% of total buying being for primary residence purposes, with non-essential buying motives (buy-to-let, holiday and buying for relatives) being a very low priority. Secondly, selling in order to upgrade, too, has receded in significance late in 2010. However, the indicator that perhaps the level of financial stress has receded is the fact that the 4th quarter survey showed 17% of sellers being those downscaling due to financial pressure, the lowest estimate of this selling category since early-2008.

As we head into 2011, however, it would appear that agents' near term expectations have deteriorated, and while many point to the positive factor of low interest rates, many also point to the negatives of still-tight bank lending criteria as well as deteriorating perceptions of home affordability.