

FOURTH QUARTER 2009 – TWENTIETH EDITION

## FNB Residential Property Barometer

*Increase in residential demand proves marginal compared to the third quarter*

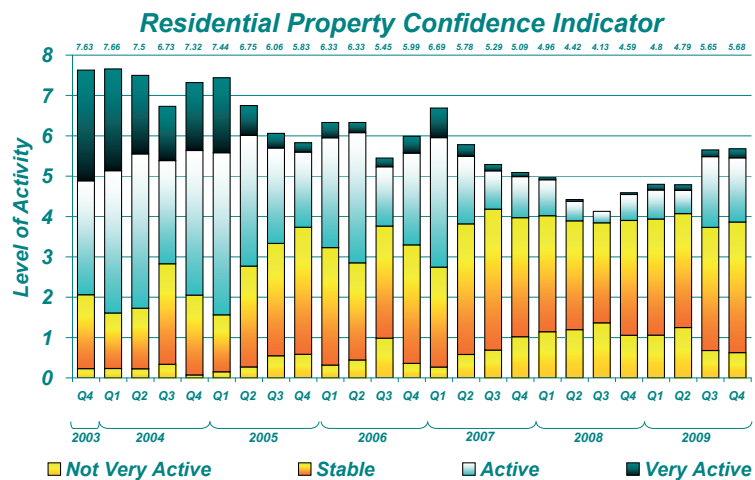
The Fourth Quarter FNB Residential Property Barometer saw estimated demand activity levels rise slightly further, after the third quarter had shown a more impressive increase.

The Property Barometer is a survey of a sample of estate agents in the major cities of the country regarding their personal experience of market conditions.

The main Barometer question relates to the level of demand activity, and agents are asked to rate the level of demand that they experience on a scale of 1 to 10.

After a rise from a historic low of 4.1 in the third quarter of 2008, to 5.65 by the third quarter of 2009, the fourth quarter level came in at 5.68, an almost unchanged level.

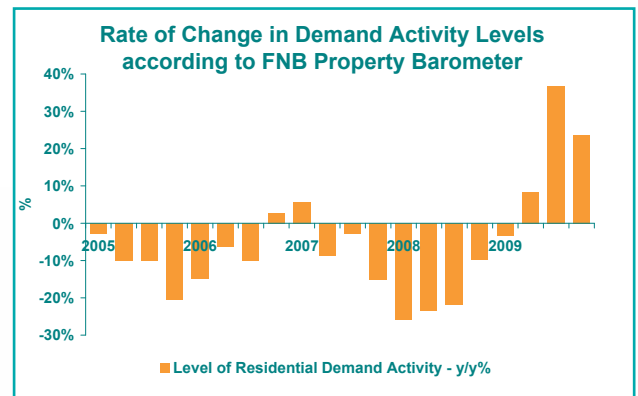
Therefore, while the improving trend continues, the marginal rate of improvement reflects a market constrained by a slow economy, and a highly-indebted household sector unable to respond in a dramatic fashion to the big interest rate cuts earlier in 2009.



## Year-on-year, activity levels continue to increase, but the rate has slowed in the fourth quarter of 2009

One needs to be cautious in viewing the activity level data, as seasonal factors can play a role from time to time. One manner of eliminating seasonal factors is to calculate the year-on-year percentage change in activity levels, thereby comparing the rate of change in activity with the same quarter a year before.

After seeing a strong growth rebound during the third quarter of 2009, recording a year-on-year rate of 36.8%, we have witnessed a slower growth rate of 23.7% in the fourth quarter. Bearing in mind that the third quarter 36.8% rise came off a lower base than the fourth quarter growth rate, it is nevertheless expected that growth in activity will begin to level out as 2010 progresses and the big interest rate cutting stimulus of 2009 wears thinner.

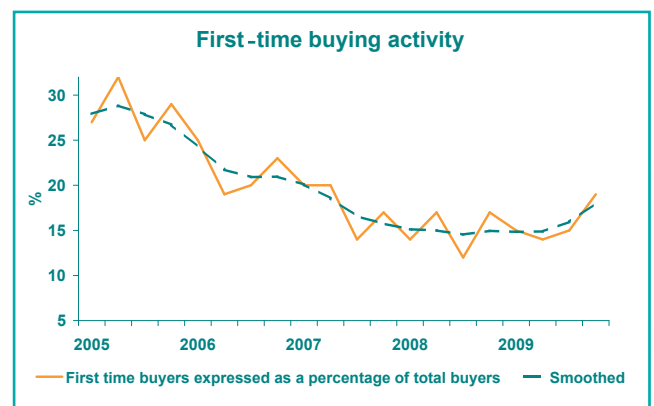


## First-time buying starting to show a more noticeable improvement

First-time buying, expressed as a percentage of total buying, has started to show a noticeable increase. From 14% of total buying two quarters ago, the percentage of first-time buyers had risen to an estimated 19% by the fourth quarter of last year.

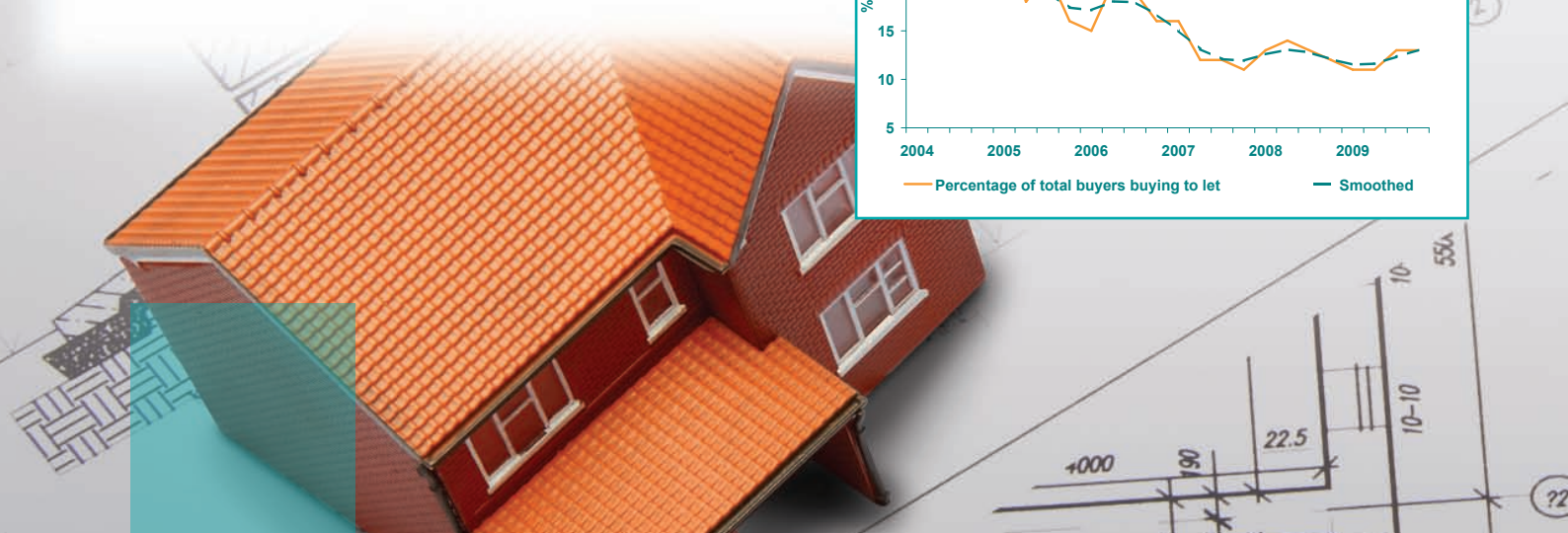
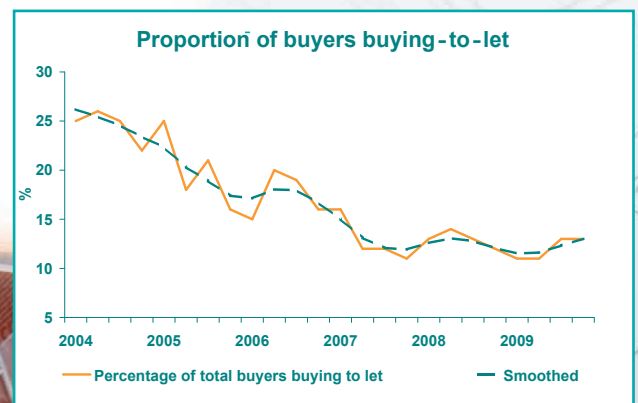
This group probably benefits more than many others from the banks' recent relaxation of deposit requirements on home loans, as these buyers are probably a low savings group even by South Africa's weak savings standards.

This source of demand is typically more cyclical than the overall market, and it is expected to rise to a higher percentage of the total in the coming quarters.



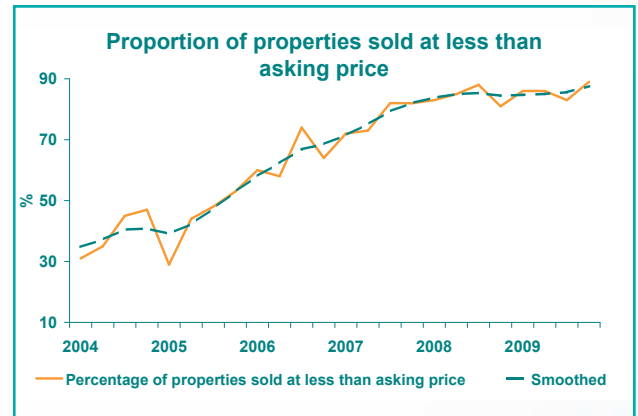
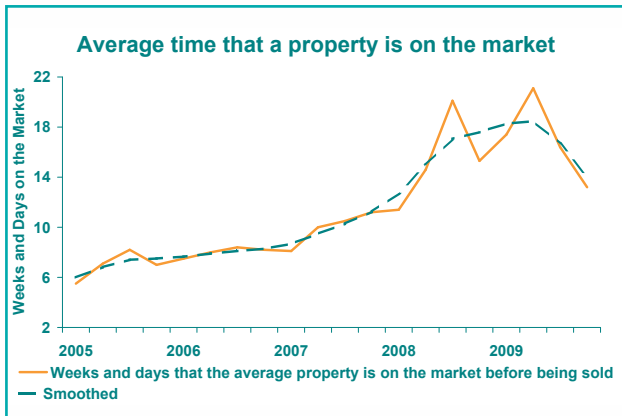
## Buy-to-let remains in the doldrums

The buy-to-let market has showed no significant improvement when its activity is expressed as a percentage of total activity. Estate agents surveyed believe that buy-to-let buying made up 13% of total buying in the fourth quarter, which is unchanged from the third quarter of 2009.



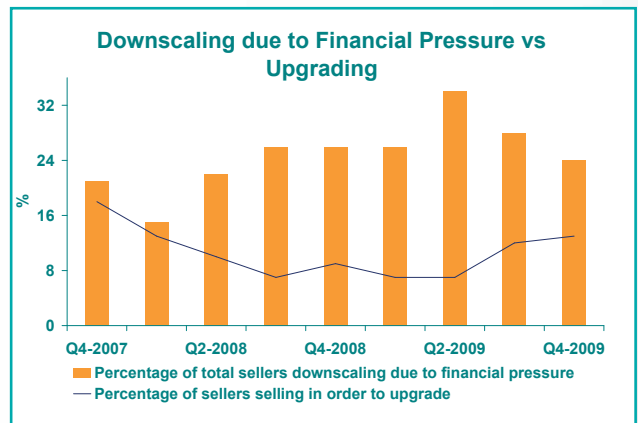
## The move towards greater pricing realism continues – in a sense

In the final quarter, survey respondents reported that the overwhelming majority of sellers, i.e. 89%, still had to ultimately drop their asking price in order to make a sale. This percentage was, perhaps surprisingly, up from the previous quarter's 83% and this figure alone would not point towards an increase in realism in pricing by sellers of their properties. However, the average time on the market declined significantly for the second consecutive quarter from a previous 16 weeks and 4 days to 13 weeks and 2 days, which now represents a big decline from the peak of 21 weeks and 1 day just two quarters ago. The faster pace of the average sale suggests greater realism, not necessarily in the form of sellers deliberately asking for lower prices, but rather in terms of the demand side catching up, and buyers putting in stronger offers.



## Reasons for selling

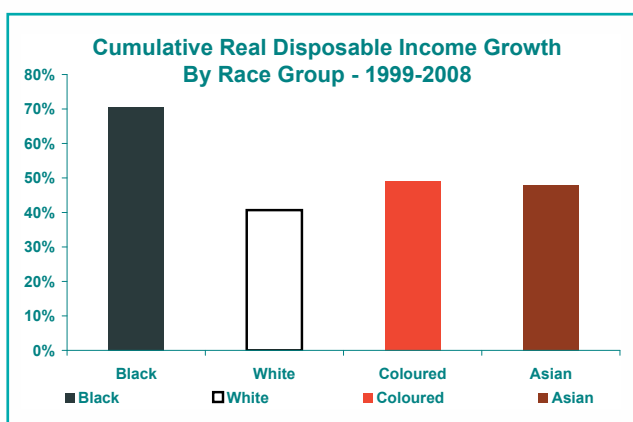
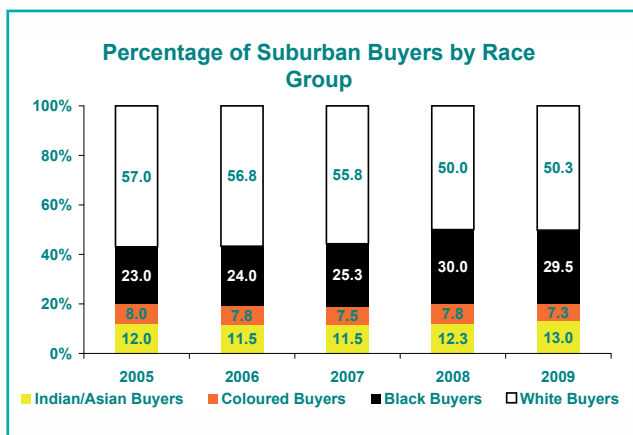
On the selling side, the reasons for selling given by estate agents have begun to point towards a mildly better financial position of households. However, the financial strain remains high. Downscaling due to financial pressure during the fourth quarter declined from 28% in the previous quarter to 24%, and the percentage of downscaling sellers on the higher end of the market is noticeably less than the lower end. Simultaneously, selling in order to upgrade rose further from 12% of total sales to 15% over the same two quarters.



Emigration selling expressed as a percentage of total sales rose slightly from 6% in the previous quarter to 7% in the fourth quarter. This suggests that after the strong downward trend in this percentage, from the 20% high at a stage of 2008, the rate of emigration selling may be leveling out.

Reasons for selling (as % of Total Sales)	Total	High Net	Upper Income	Middle Income	Lower Income
<b>Downscaling due to financial pressure</b>	<b>24%</b>	<b>18%</b>	<b>19%</b>	<b>29%</b>	<b>30%</b>
Downscaling with life stage	17%	19%	19%	16%	12%
<b>Emigrating</b>	<b>7%</b>	<b>9%</b>	<b>8%</b>	<b>6%</b>	<b>4%</b>
Relocating within SA	7%	7%	7%	6%	7%
<b>Upgrading</b>	<b>13%</b>	<b>12%</b>	<b>16%</b>	<b>12%</b>	<b>15%</b>
Moving for safety and security reasons	11%	13%	11%	10%	9%
Change in family structure	16%	16%	16%	15%	17%
Moving to be closer to work or amenities	6%	6%	3%	7%	8%

## The gradual transformation of the suburbs



The FNB Property Barometer survey has been conducted overwhelmingly in the former white suburban markets, where the lion's share of property transactions take place. As part of the survey questionnaire, we have been asking respondents to give estimates of the racial mix of buyers in their respective areas.

Not surprisingly, since 2005 when the survey question started, we have been witnessing the ongoing gradual transformation of these suburban areas. Whereas in 2005, the estimate was that the so-called White population group was responsible for around 57% of total purchases. By 2008, this had declined to 50.3%, while the 2nd largest group of buyers, the so-called Black population group's percentage has risen from 23% to 29.5%.

The group classified as "Coloured" has seen a slight decline in its percentage over the period, while the "Indian/Asian" group has seen a slight increase from 12% of the total in 2005 to 13% in 2008.

The change in the composition corresponds to a great extent with the relative real disposable income changes between population groups.

The Black population group, has seen its total real disposable income grow by an estimated 70.5% over the ten years from 1999 to 2008, according to IHSGlobalinsight, coming off the lowest base. In the middle of the pack one gets the Coloured (49%) and Indian (48%) groups, while the lowest cumulative real growth took place in the White population group to the tune of 40.7% off the highest base of the four.

## Conclusion

The fourth quarter of 2009 FNB Property Barometer reflected a general improvement in the state of residential property market. The activity level estimate from the Barometer points to ongoing growth, but at a slower rate than that of the third quarter. It is expected that further growth in activity levels will be experienced in the 1st half of 2010, but thereafter we should see a leveling out as last year's interest rate stimulus wears off.

It is also anticipated that financial stress will diminish further, which would imply slightly more selling in order to upgrade and less having to sell in order to downgrade. Although we have seen some improvement in these numbers to date, the level of selling due to financial stress nevertheless remains at high levels.

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