PROPERTY BAROMETER – Home selling related to financial pressure and constraints

FNB Estate Agent Survey points to a slight increase in caution amongst households in their property decisions in the 3rd quarter, and a slight increase in financial "pressure"

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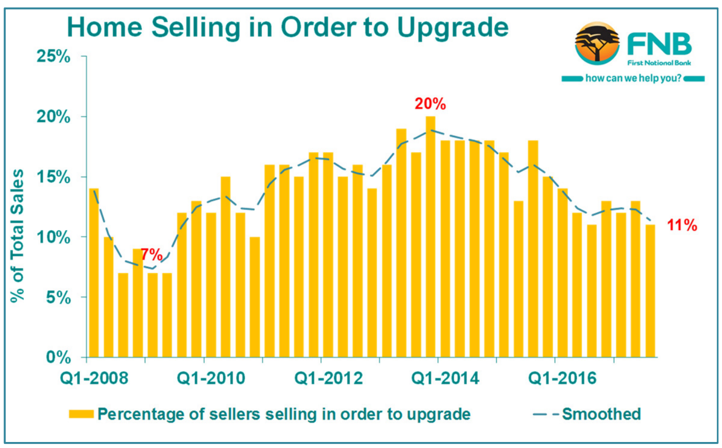
The 3rd Quarter 2017 FNB Estate Agent Survey continues to point to significant household financial constraints and mounting caution with regard to spending decisions, but still no more than a minor increase in financial "stress".

UPGRADE-RELATED SELLING REMAINS MEDIOCRE, CONTINUING TO REFLECT A MORE CONSERVATIVE AND FINANCIALLY-CONSTRAINED CONSUMER OF LATE

A weak economy, and resultant weak consumer confidence, we believe is gradually shifting the Household Sector towards being more cautious, or conservative, in their spending habits. We have seen this in SARB (Reserve Bank) data showing a multi-year declining trend in the Household Sector Debt-to-Disposable Income Ratio (reflecting slow borrowing growth), as well as in recent mild improvements in the Household Sector Savings Rate, although the latter still remains at dismally low levels.



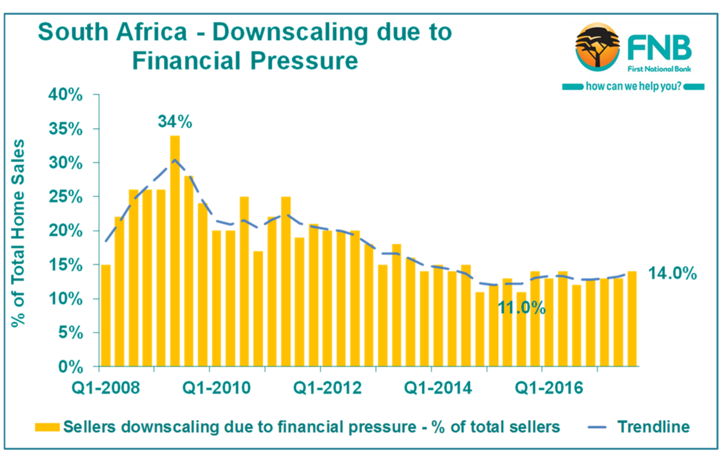
In FNB's housing market data we have seen similar indications.

Examining the reasons that agents believe sellers are selling primary residences for, the sample of agents surveyed in the FNB Estate Agent Survey estimated that 11% of home sellers were selling in order to upgrade to a better property during the 3rd quarter of 2017.

This is down from the prior quarter's 13%, and now very significantly lower than the last multi-year high of 20% reached in the final quarter of 2013, just before interest rates started to rise in January 2014.

The 3rd quarter decline in this percentage does not suggest that the July 2017 interest rate cut did anything to improve confidence levels in the housing market, if one regards this indicator as a key confidence indicator.

THE SURVEY POINTS TO A MILD RISE IN FINANCIAL STRESS-RELATED SELLING



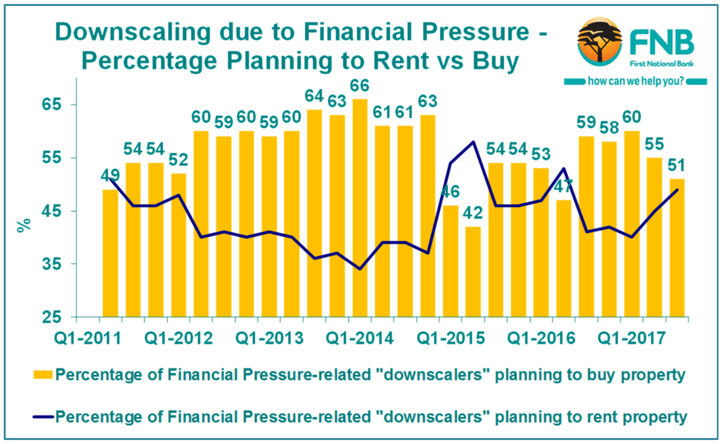
Despite economic weakness and a mild rise in interest rates from early-2014 to early-2016, we have seen little more than a minor increase in financial stress-related home selling.

The estimated percentage of sellers "selling to downscale due to financial pressure" was slightly higher at 14% in the 3rd quarter of 2017, up from 13% in the prior quarter and mildly higher than the 11% multi-year low point reached in the 3rd quarter of 2015.

To provide perspective, this percentage remains moderate compared to the 34% high reached in the

2nd quarter of 2009, shortly after the last recession and previous interest rate hiking cycle peak.

INCREASING PORTION OF FINANCIALLY PRESSURED SELLERS LIKELY TO "RENT DOWN" VS "BUY DOWN"

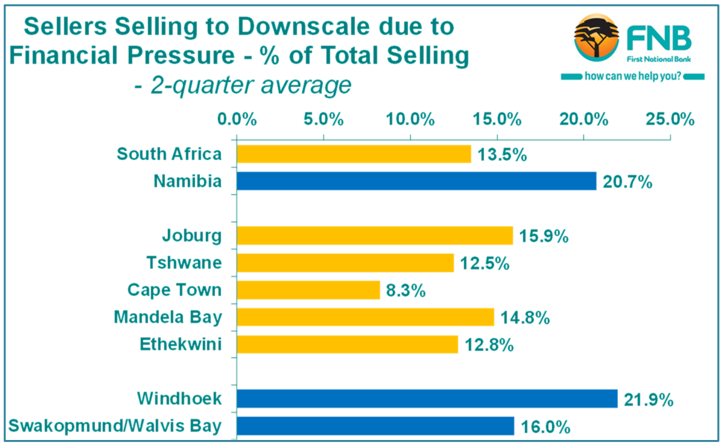


A further sign of rising caution in the housing market comes from estimates of what percentage of the abovementioned "financial pressure-related down-scalers" are planning to take the safer option of "renting down" instead of "buying down".

The agents estimated the percentage of this seller group intending to "rent down" to have increased from 40% in the 1st quarter of 2017 to 49% in the 3rd quarter, the 2nd consecutive quarter that this percentage has risen.

The rental option is often the cheaper and lower cashflow risk option, so a rise in the percentage intending to "rent down" as opposed to "buying down" points to some decrease in confidence amongst this group of financially pressured sellers.

CITY OF CAPE TOWN APPEARS FINANCIALLY HEALTHIEST METRO REGION



Viewing the financial pressure-related downscaling percentages by major regions, the divergences in percentage of sellers selling in order to downscale due to financial pressure may say a lot about economic conditions in these regions. We use a 2-quarter average percentage for sellers downscaling due to financial pressure for smoothing purposes, due to smaller sample sizes at a regional level.

For the 2 winter quarters of 2017, we see South Africa's estimated selling in order to downscale due to financial pressure recording 13.5%. Neighbouring Namibia, by comparison, looks significantly worse off with an estimate of 20.7%, and we should not be too surprised, as that country's economy appears significantly worse off than South Africa, having been in recession for the past 4 quarters.

Within South Africa, the City of Cape Town region appears least plagued by financial stress, with the lowest estimate of financial pressure-related downscaling to the tune of 8.3% for the 2 winter quarters. The 2 worst performers were Joburg, with an estimated of 15.9%, and Nelson Mandela Bay with 14.8%, followed by Ethekwini's 12.8% and Tshwane's 12.5%.

In short, the survey responses regarding the reasons for selling of homes points to a more constrained Household Sector, a more financially cautious Household Sector, and a slightly more financially "pressured" Household Sector.

The slight rise in the estimated percentage of households selling in order to downscale due to financial pressure is very much in line with some mild small increase in banks' home loan arrears as a percentage of total loans, that was witnessed from around late-2015. This was largely predictable, and believed to be the lagged response to that gradual rise in interest rates from early-2014 to early-2016. However, this rise is not expected to continue in the near term, given that interest rates have actually come down slightly in July 2017, and the Household Sector Debt-Service Ratio (Interest cost on household debt expressed as a ratio of disposable income) has recently begun to decline once more.

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