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PROPERTY BAROMETER- FNB ESTATE AGENT SURVEY BY SEGMENT

As Affordability and Confidence pressures drive a “back to basics” approach to home buying, the Lower Income Area Segment makes a “comeback”

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ACTIVITY APPEARS STRONGEST IN THE MIDDLE INCOME SEGMENT OVER THE PAST 4 QUARTERS, BUT LOWER INCOME AREAS MAKE A COMEBACK

For the 4 quarters up to and including the 2nd quarter of 2015, the sample of FNB Estate Agent Survey respondents from the Middle Income Area Segment of the residential market returned the highest estimated activity rating for their areas. However, the most noticeable pace of increase in activity in recent times has been seen in Lower Income Segment.

The FNB Estate Agent Survey is of a sample of estate agents predominantly in SA’s major metro regions. The 1st question asked to agents is with regard to their perceptions of residential activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.

This report focuses on the 4 income segments defined in the survey. For this segment exercise, we use 4-quarter moving averages in analyzing the data, so as to smooth out data volatility from quarter to quarter (with segment sample sizes being limiting) and examine the broader trends.

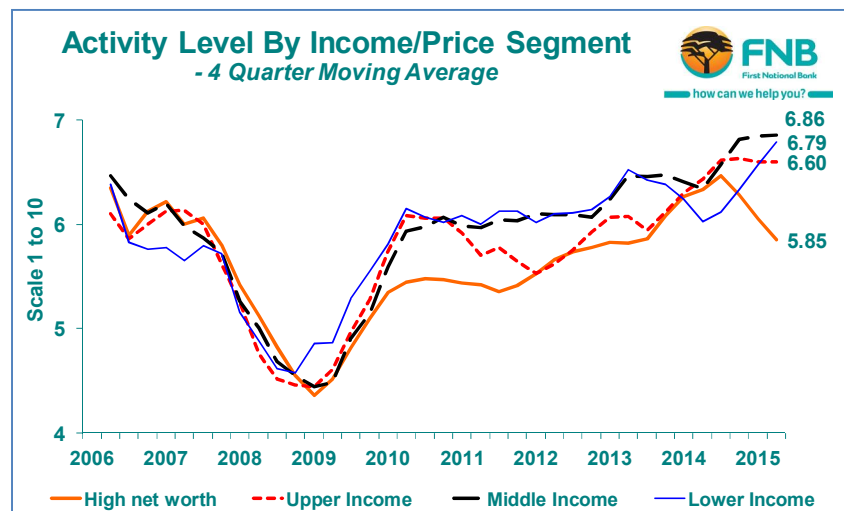
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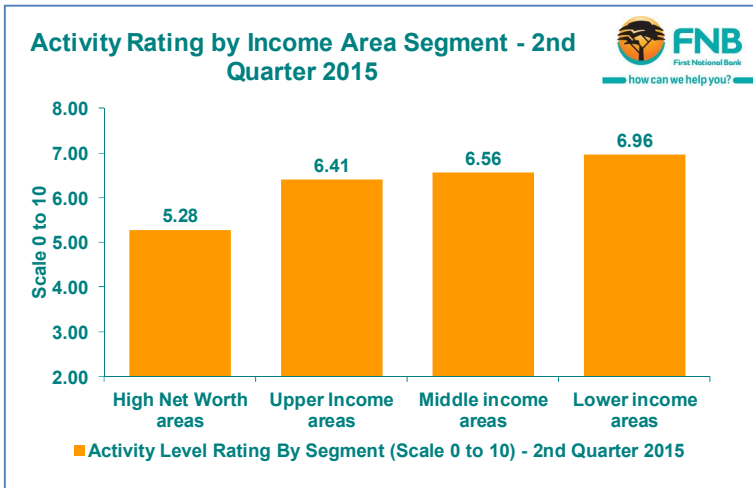
The 4 Income segments are self-defined by agents working the areas, and comprise the High Net Worth segment (average price = R4.62m), the Upper Income segment (average price = R2.65m), the Middle Income segment (average price = R1.46m), and the Lower Income segment (average price = R888,300).

Examining average agent activity ratings (scale of 1 to 10) by segment for the 4 quarters up to and including the 2nd quarter of 2015, the High Net Worth Segment recorded the lowest average rating of 5.85 over the 4 quarters, and the Upper Income Segment being the 2nd lowest with 6.60, both segments having seen their average ratings decline of late. The High Net Worth Segment’s decline has been far more pronounced, however, and it appears to be the “weak link” of the 4 income segments.

The stronger part of the market has been at the middle-to-lower end, with the 4-quarter average activity rating of the Middle Income Area Segment having measured 6.86, the highest of the 4 income area segments, but the Lower Income has played a big catch-up to average a now similar 6.79.

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In fact, if we ignore the 4-quarter moving averages and their more smoothed trends for a moment, and view the activity ratings for the 2nd quarter of 2015 only, the Lower Income Segment had the highest level of 6.96, followed closely by the Middle Income Segment's 6.56, while the High Net Worth Segment had the lowest rating at 5.28.

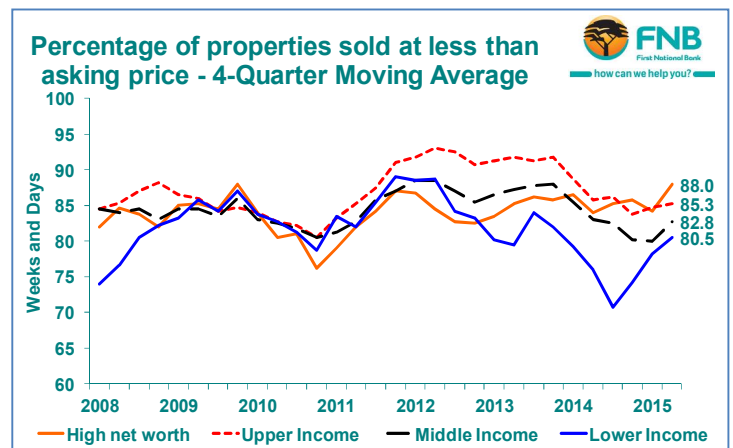
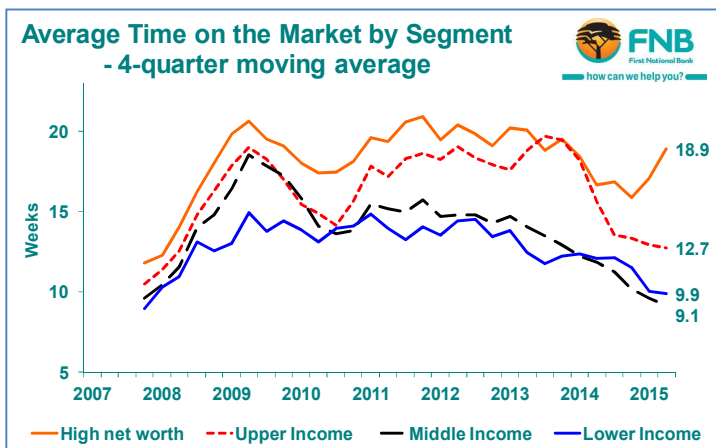
INDICATORS OF SELLER PRICE REALISM OR SUPPLY-DEMAND BALANCE ALSO POINT TO GREATER STRENGTH IN THE MIDDLE AND LOWER INCOME SEGMENTS

The Lower and Middle Income segments still appear to maintain a noticeable gap between themselves on the one hand, and the Upper Income and High Net Worth Segments on the other hand, in terms of more realistic pricing, or otherwise put in terms of demand-supply balance.

For the 4-quarters up until the 2nd quarter of 2015, the average estimated time of homes on the market prior to sale was lowest in the Middle Income Segment at 9.1 weeks, followed closely by the Lower Income Segment with 9.9 weeks. These two segments' moving averages for average time on the market had declined more rapidly than the Upper Income Segment since mid-2014, too.

The Upper Income Segment still appeared in good shape, though, with its average time on the market estimate declining over the past 4 quarters, albeit at a slightly slower rate, averaging 12.7 weeks for the 4 quarters up to the 2nd quarter of 2015.

The High Net Worth Area Segment, however, once again appeared to be the noticeable weak spot in the market. It is fairly normal for higher end houses to have a higher average time on the market than lower end homes. However, what is significant is that the High Net Worth Area Segment's average time on the market rose noticeably from a 4-quarter average of 15.9 weeks at the end of 2014 to 18.9 weeks by the 2nd quarter of 2015, making it the only segment to have seen its estimated average time on the market rise.

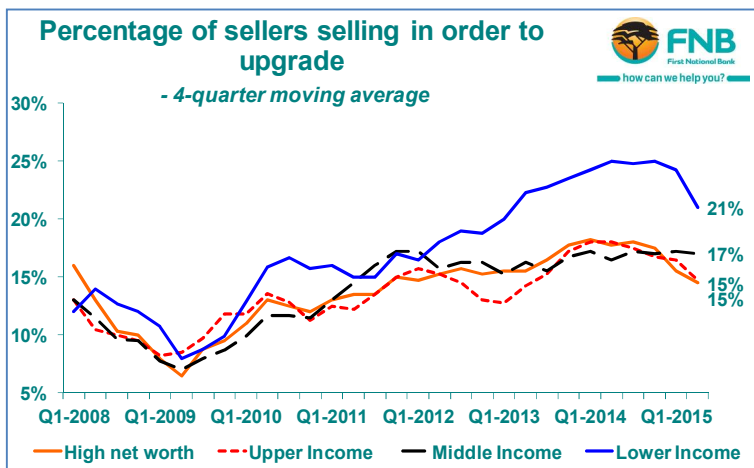


The other measure of price realism is the percentage of sellers having to drop their asking price to make the sale. While all segments have seen this percentage rise in recent times, the High Net Worth Segment has become the segment with the highest estimated percentage in the past year or so, which was previously not the case through 2011-2014. The Lower Income segment was lower than the rest, with a 4-quarter average of 80.5% of sellers having to drop their asking price up to the 2nd quarter of 2015. By comparison, the Middle Income segment had a percentage of 82.8%, the Upper Income Segment 85.3%, and the High Net Worth Segment 88%.

A SHIFT TOWARDS A MORE “BACK TO BASICS” APPROACH IN MORE CONSTRAINED FINANCIAL TIMES APPEARS TO BE PLAYING INTO THE HANDS OF THE LOWER AND MIDDLE INCOME END

- **A slower pace of upgrading**

A noticeable feature of recent FNB Estate Agent Surveys by segment in recent quarters has been a decline in the percentage of sellers believed to be selling in order to upgrade to a better home. Such a decline in this motive for selling should play into the hands of the Lower Income Areas’ markets, because these areas have seen the largest percentage of upgrade-related selling by far in recent years. So, if there is a noticeable slowdown in upgrading, we believe that it should ultimately contribute more toward supply constraints at the Lower Income end, as more would-be upgraders stay put, while it would also imply a lack of upgrade-related buyer demand moving up into higher area value bands.

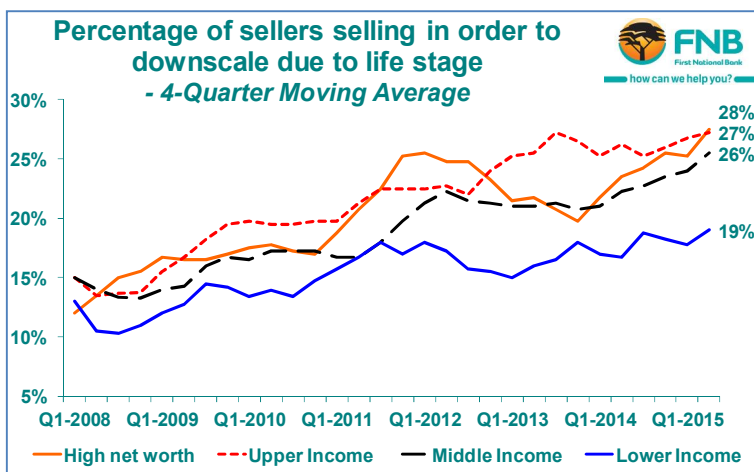


By the 2nd quarter of 2015, the 4-quarter moving average percentage of sellers believed to be selling in order to upgrade, for the Lower Income Areas, had declined to 21%, from 25% as at the final quarter of 2014.

By comparison, the Middle Income (17%) had just started to show signs of decline, while the Upper Income (15%) and High Net Worth (15%) Income Area segments had shown noticeable declines in their percentages in recent times.

Therefore, especially the Middle Income Area Segment, and to a lesser extent the Upper Income Area Segment, may well be receiving less of a boost from upgrading out of the Lower Income Segment of late.

- **And a more rapid pace of downscaling by “ageing” households**



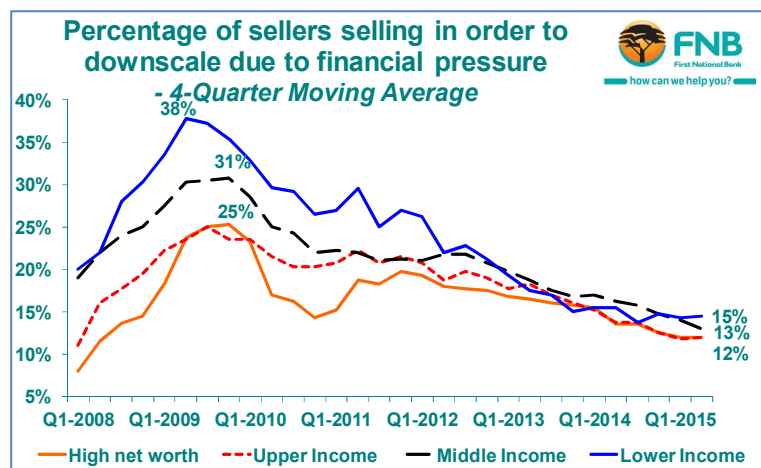
In addition to a slower pace of upgrading to higher valued properties, the survey also points to a higher rate of selling in order to downscale due to “life stage”, which refers to sellers who no longer have the need for a “large or costly” home due to children having left home, or because they are ageing and the running of a large home becomes “a hassle”

For the market as a whole, this reason for selling is believed to be the single-biggest one, and is more pronounced at the higher end of the market, with the High Net Worth Area Segment estimated to have had 28% of total sellers selling for this reason over the past 4 quarters, compared with 27% in the Upper Income Segment. By comparison, Middle Income Areas had an estimated percentage of 26%, and Lower Income areas a significantly lower 19%.

The trend in selling in order to downscale due to life stage has been upwards in recent times in all 4 of the segments. But given the higher percentages of these sellers at the higher end, one would think that this form of downscaling would provide mildly greater support to the Lower Priced segments, as a portion of these sellers shift “downward”. This, along with a slower pace of upgrading, we believe is the apparent explanation for the High Net Worth Segment having the weakest indicators emanating from the survey, and the Lower and Middle Income Area Segments having the strongest showing.

BUT FINANCIAL STRESS-RELATED SELLING IN ORDER TO DOWNSCALE REMAINS AT VERY SIMILAR LEVELS ACROSS SEGMENTS

Despite clear signs of a household sector with financial constraints starting to take a more “conservative approach” to property, it does not yet appear to be a household sector with rising levels of financial stress. Rises in the pace of downscaling, and slowing in upgrading, thus appear to be more “voluntary” in nature, whereas the pace of selling in order to downscale due to financial “stress” or “pressure” seems to have remained fairly constant across the segments.



The various segments’ percentages of sellers “selling in order to downscale due to financial pressure” also continue to move in a very narrow range. The Middle Income Segment has seen this motive for selling averaging 13%, the Lower Income Segment slightly higher at 15%, while the Upper Income and High Net Worth Segments have averaged a slightly lower 12% over the past 4 quarters.

These percentages all remain dramatically lower compared to the peak percentage reached at the height of the financial stress back around 2008/9.

It is always important to remember that low interest rates mask many financial frailties, so one must be careful of drawing conclusions as to how sustainable this improved financial performance is when tougher times come again one day.

Interest rates have started to rise this year, and the lower income end is also arguably more interest rate sensitive, being highly credit-dependent. No noticeable negative impact from interest rate hikes has shown up yet, but with more rate hikes anticipated in 2015, a mild increase in all of the segments’ financial stress-related percentages could be expected. The more cyclical history of the Lower Income segment suggests that it is likely to be more significantly affected by rate hiking, being more credit-dependent and with its homeowners on average possessing less wealth and discretionary income buffers.

REASONS FOR SELLING IN 2ND QUARTER 2015 ONLY

Reasons for selling (As % of Total Sales)	Total	High Net Worth	Upper income	Middle income	Lower income
Downscaling due to financial pressure	13%	12%	13%	13%	15%
Downscaling with life stage	30%	37%	30%	32%	22%
Emigrating	4%	3%	4%	4%	4%
Relocating within SA	9%	10%	9%	7%	10%
Upgrading	13%	10%	12%	14%	18%
Moving for safety and security reasons	10%	10%	10%	10%	10%
Change in family structure	13%	10%	14%	13%	15%
Moving to be closer to work or amenities	8%	8%	9%	7%	7%

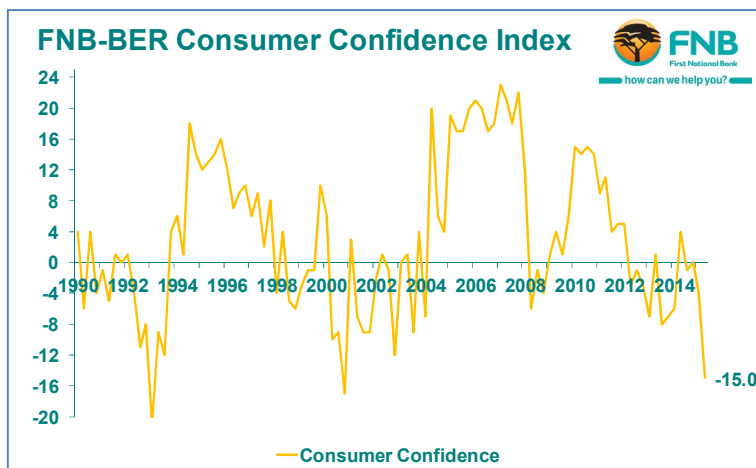
CONCLUSION

The broad picture emanating from the FNB Estate Agent Survey by segment is one of relative weakness on the High End, notably the High Net Worth Segment, and relative strength in the Middle Income Area segment with the Lower Income Area Segment having played significant catch up to the Middle Income segment.

The driver of mounting relative higher end weakness is a “back to basics” approach by a rising percentage of households, it would appear, including a slowing in the pace of upgrading to better properties, along with a rise in the pace of downscaling due to “life stage”. While the high rate of downscaling due to life stage is not theoretically driven by financial stress, it is highly possible that the rising costs associated with homes is encouraging ageing households to “speed up” their rate of downscaling.

Certain developments in recent years have worked against owning large and more expensive homes, and perhaps these are starting to constrain the higher end a little more than the rest. These include:

- A newly introduced higher 11% property transfer duty bracket kicking in at a property value R2.25m and above
- A stagnation to noticeably weaker Economic and Household Sector Disposable Income growth in recent times, since a peak around 2010/11.
- Last year’s start to the interest rate hiking cycle, which has contributed to a gradually rising Household Debt-Service Ratio (Interest on Household Debt expressed as a percentage of Disposable Income), with widespread expectation of future interest rate hiking.
- Steadily rising municipal rates and tariffs, with another above-inflation hike in Eskom tariffs currently being introduced.
- House price inflation of recent years that has more or less kept up with average income growth, translating into a lack of further home affordability improvements.



But the shift towards a more conservative approach in the residential market, by the Household Sector, of late may furthermore be affected by general Consumer Confidence,

The 2nd Quarter’s FNB-BER Consumer Confidence Index was a “shocker” at best, with its negative level of -15 being the lowest since the year 2000.

The cause of such a Consumer Confidence drop may go further than any actual deterioration in household finances to an expected deterioration to come, which in turn can be caused by a generally negative economic policy environment in South Africa at present, along with heightened social tensions and an electricity crisis.

This environment of “heightened” uncertainty looks

set to be with us for some time, and can contribute to a more cautious approach by the Household Sector.

Most of the above appears likely to play ‘relatively’ into the hands of the Lower and Middle Income end of the market, which could see superior market strength “lower down”, compared to the high end of the market, in the near term.