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2 April 2015

PROPERTY BAROMETER- FNB ESTATE AGENT SURVEY BY SEGMENT

As various affordability constraints mount, it would appear that the "high end" is becoming the relative "soft patch" in the residential market again

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
011-6490125
John.loos@fnb.co.za

THEO SWANEPOEL:
PROPERTY MARKET ANALYST
FNB ASSET FINANCE
011-6320604
tswanepoel@fnb.co.za

HIGHLIGHTS

When examining the FNB Estate Agent Survey by Income segment for past 4 quarters up until and including the 1st quarter of 2015, a noticeable weak spot appears to be the High Net Worth Segment. While the segment doesn't appear to have rising financial stress yet, it would seem that affordability "constraints" may be on the rise for some.

Therefore, we have seen this segment's Activity Rating decline noticeably in the past 4 quarters, which sets it apart from the other 3 segments who still saw some increase over the period. The High Net Worth segment also saw a slightly more pronounced downturn in the percentage of sellers selling in order to upgrade, as well as a rise in the average time of properties on the market.

On the other hand, the so-called Middle Income Segment appears to be the "sweet spot still, but perhaps not too far ahead of the Lower Income Segment.

- *Examining average estate agent activity ratings (scale of 1 to 10) by segment for the 4 quarters up to and including the 1st quarter of 2015, the Middle Income Segment appeared to be the strong part of the market, recording an average rating of 6.85 over the 4 quarters, with the Upper Income Segment close behind on 6.6. However, these 2 segments' activity ratings appeared to be starting to "flatten out after prior increases, while the Lower Income Segment's rating had risen markedly to 6.57, closing the gap with the aforementioned 2 segments.*

- *At the high end, the High Net Worth Segment appears to have become the weak spot, with a declining Activity Rating reaching a noticeably lower level of 6.05.*

- *For a few years, a noticeable feature of the FNB Estate Agent Survey by segment is the high percentage of sellers believed to be selling in order to upgrade to a better home from the Lower Income Area Segment, at 24.25% for the 4 quarters up to the 1st quarter of 2015. By comparison, the Middle Income (17.25%), Upper Income (16.5%) and High Net Worth (15.5%) Area segments have significantly lower estimated percentages of sellers selling in order to upgrade.*

- *The various segments' percentages of sellers "selling in order to downscale due to financial pressure" continue to move in a very narrow range of 12-14% of total selling, and don't show any noticeable signs of increase yet.*

- *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, as reflected in the average time of homes on the market. For the 4-quarters up until the 1st quarter of 2015, the average estimated time of homes on the market prior to sale for the Lower and Middle Income segments was 10 weeks and 9.6 weeks respectively. By comparison, the Upper Income segment recorded 12.9 weeks.*

- *But it is again the High Net Worth segment that differs more noticeably from the rest, being the only one to see its average time on the market increase slightly over the period to 17.1, the average time gap between itself and the rest thus widening.*

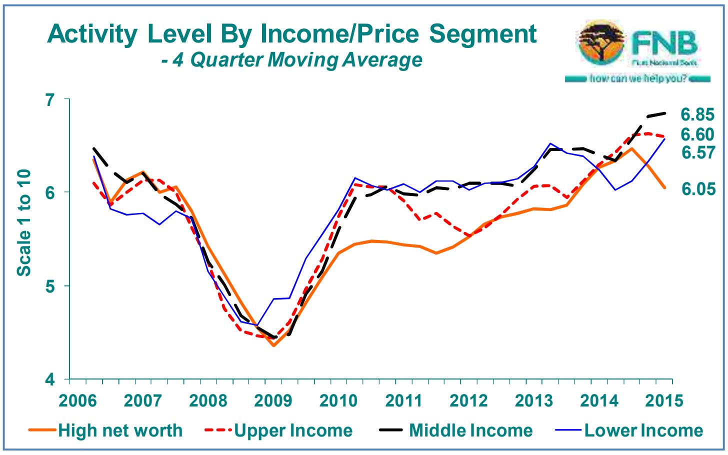
ESTATE AGENTS SUGGEST THAT THE HIGH NET WORTH SEGMENT HAS STARTED TO SHOW SOME RELATIVE FRAILTY

For the 4 quarters up to and including the 1st quarter of 2015, the sample of FNB Estate Agent Survey respondents from the High Net Worth Segment of the residential market returned the lowest estimated activity rating for their areas. In addition, this segment's Activity Rating is noticeably down on prior quarters, and below the other 3 lower priced segments.

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 our data, so as to smooth out data volatility from quarter to quarter (with segment sample sizes being limiting) and examine the broader trends.

The 4 Income segments are self-defined by agents working the areas, and comprise the High Net Worth segment (average price = R4.45m), the Upper Income segment (average price = R2.25m), the Middle Income segment (average price = R1.42m), and the Lower Income segment (average price = R856,300).



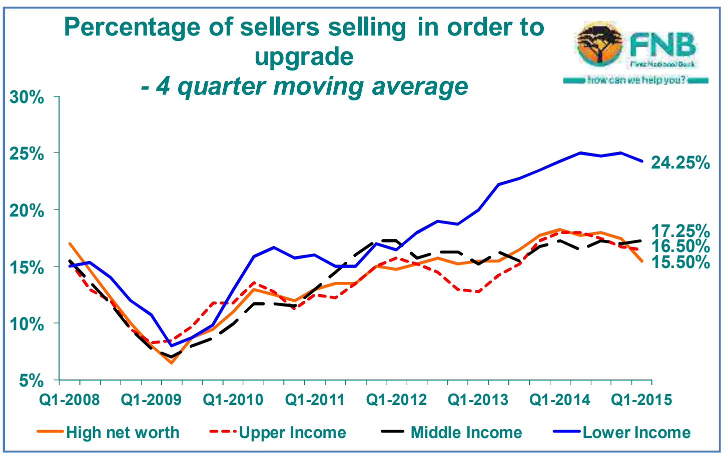
Examining average agent activity ratings (scale of 1 to 10) by segment for the 4 quarters up to and including the 1st quarter of 2015, the Middle Income Segment appeared to be the strong part of the market, recording an average rating of 6.85 over the 4 quarters, with the Upper Income Segment close behind on 6.6. However, these 2 segments' activity ratings appeared to be starting to "flatten out after prior increases, while the Lower Income Segment's rating had risen markedly to 6.57, closing the gap with the aforementioned 2 segments. At the other end of the spectrum, the High Net Worth Segment appears to have become the weak spot, with a declining Activity Rating reaching a noticeably lower level of 6.05.

This is a noticeable turnaround after this segment's activity had been rising strongly up until around mid-2014.

THE PERCENTAGE OF UPGRADE-RELATED SELLING IS STARTING TO TURN LOWER IN MOST SEGMENTS, BUT THE DECLINE APPEARS SLIGHTLY MORE PRONOUNCED IN THE HIGH NET WORTH AREAS.

For a few years, a noticeable feature of the FNB Estate Agent Survey by segment is the high percentage of sellers believed to be selling in order to upgrade to a better home from the Lower Income Area Segment, at 24.25% for the 4 quarters up to the 1st quarter of 2015. So, while solid 1st time buying, in these times of low interest rates and relatively easy access to credit, feeds new entrant demand in the Lower Income Areas, strong levels of selling in order to upgrade in Lower Income Areas may be a key driver of buyer activity levels in the next segment up, i.e. the Middle Income Area Segment, as a group of sellers moves upward to their next purchase.

By comparison, the Middle Income (17.25%), Upper Income (16.5%) and High Net Worth (15.5%) Income Area segments have far lower estimated percentages of sellers selling in order to upgrade.



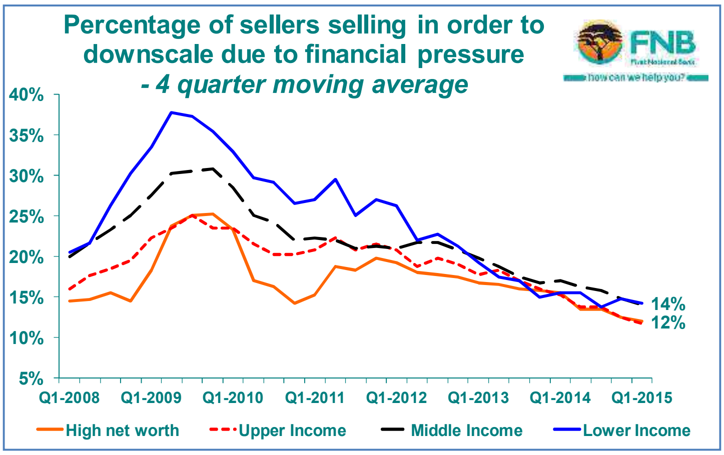
Therefore, especially the Middle Income Area Segment, and to a lesser extent the Upper Income Area Segment, may well be receiving significant support from upgrading out of the Lower Income Segment.

Examining recent trends, however, it is noticeable that all segments except the Middle Income Segment have seen their upgrade-related selling move slightly lower in recent times. This arguably reflects "affordability ceilings" being reached for some, after 3 years of relatively healthy house price growth, slow disposable income growth and the start of mild interest rate hiking last year. All in all, the current time is perhaps one *where you would expect to see an increasing proportion of home owners staying where they are for the time being.*

In addition, a slightly more noticeable decline in this percentage of sellers upgrading has been witnessed in the High Net Worth Segment, perhaps also reflecting slightly more "relative constraints" in this top segment.

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

The various segments' percentages of sellers "selling in order to downscale due to financial pressure" continue to move in a very narrow range. The Middle Income Segment has seen this motive for selling averaging 14% over the 4 quarters up to the 1st quarter of 2015, as has the Lower Income Segment, whereas the 2 higher segments are both slightly lower on 12%. Typically, however, the higher end does have less financial stress-related selling through the cycle.



However, since the peak of 38% back in the 2nd quarter of 2009, Lower Income Areas have seen their estimated percentage of sellers believed to be downscaling due to financial pressure decline by the largest magnitude to date.

It is 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 started to rise last year, and the lower income end is arguably more interest rate sensitive, being highly credit-dependent and having less discretionary income available to cushion financial "shocks". No noticeable negative impact from last year's small interest rate hikes has shown up yet, but with more rate hikes anticipated from late 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.

REASONS FOR SELLING IN 1st 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	**12%**	**11%**	**10%**	**14%**	**14%**
Downscaling with life stage	23%	27%	26%	23%	14%
Emigrating	**4%**	**5%**	**4%**	**2%**	**3%**
Relocating within SA	8%	10%	6%	10%	7%
Upgrading	**17%**	**12%**	**17%**	**16%**	**23%**
Moving for safety and security reasons	11%	9%	11%	11%	13%
Change in family structure	16%	18%	17%	15%	16%
Moving to be closer to work or amenities	8%	7%	9%	8%	11%

THE HIGH NET WORTH SEGMENT APPEARS TO HAVE LOST SOME GROUND IN TERMS OF PRICE REALISM TOO

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.

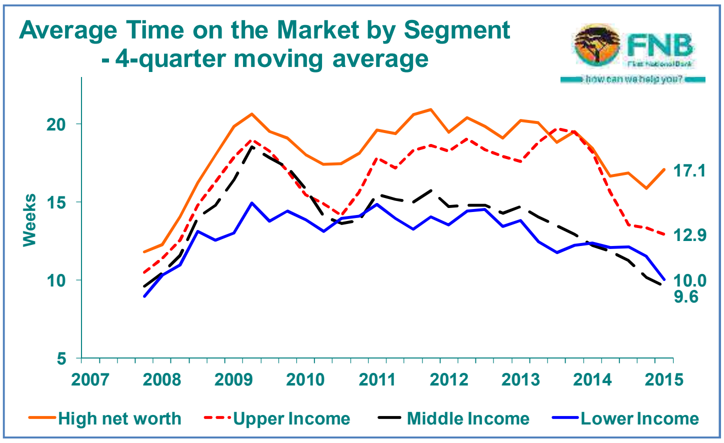
However, recent quarters' surveys show the gap between the 2 lower segments on the one hand and the Upper Income Area Segment on the other hand did narrow significantly. For the 4-quarters up until the 1st quarter of 2015, the average estimated time of homes on the market prior to sale, for the Lower and Middle Income segments was 10 weeks and 9.6 weeks respectively. By comparison, the Upper Income segment recorded 12.9 weeks.

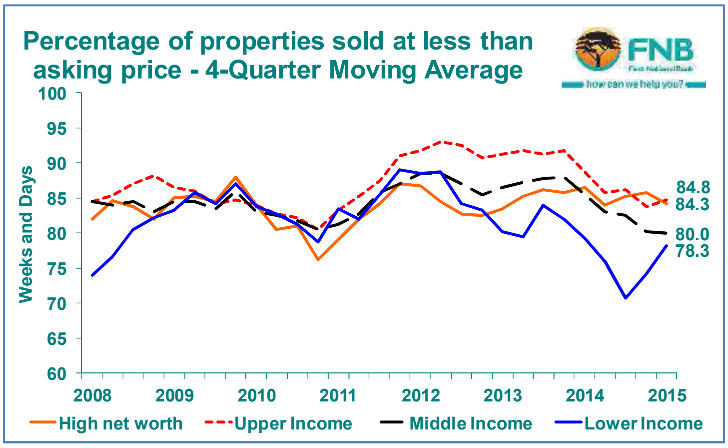
But it is again the High Net Worth segment that differs more noticeably from the rest, being the only one to see its average time on the market increase slightly over the period to 17.1, the average time gap between itself and the rest thus widening.

While one should normally expect higher end homes to be on the market for longer, significant is that the gap between the High Net Worth Segment and the other 3 has widened as the High Net Worth Segment shows some weakness relative to the rest.

The other measure of price realism is the percentage of sellers having to drop their asking price to make the sale. Here, the High Net Worth Segment appears to have lost ground relatively speaking. Whereas the High Net Worth Segment's percentage has moved broadly sideways for a few years, the others went through a noticeable decline (improvement) in 2013/14.

The Lower Income segment is still lower than the rest, with 78.3% of sellers having to drop their asking price, but its percentage has risen somewhat recently. By comparison, the Middle Income segment has a percentage of 80%, the High Net Worth 84.3% and the Upper Income segment 84.8%.



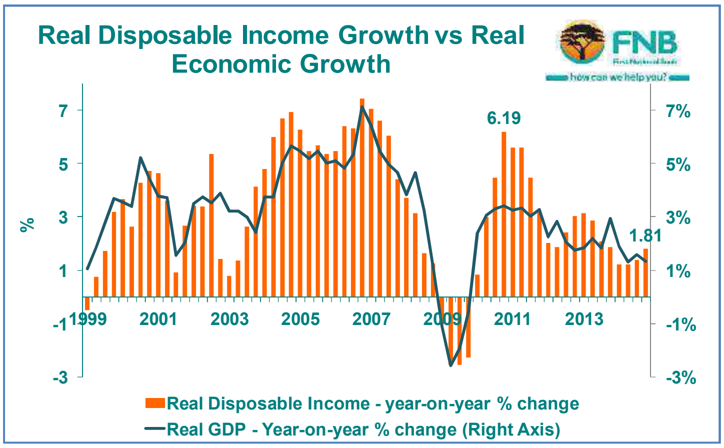


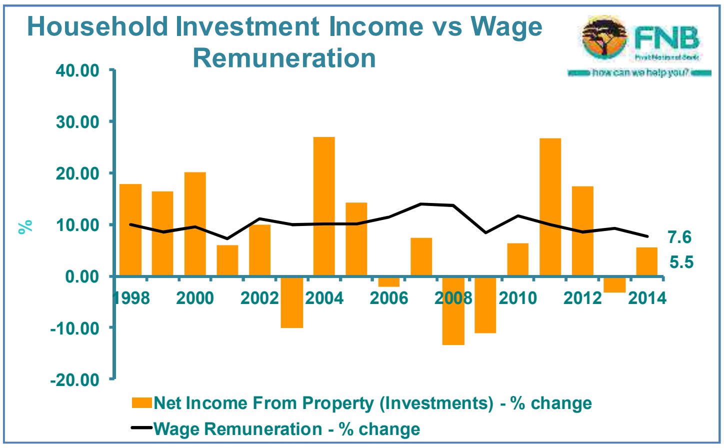
CONCLUSION – THE HIGHER END FACES SOME HEADWINDS, IT WOULD SEEM

When examining the FNB Estate Agent Survey by Income segment for past 4 quarters up until and including the 1st quarter of 2015, a noticeable weak spot appears to be the High Net Worth Segment. While the segment doesn't appear to have rising financial stress yet, it would seem that affordability "constraints" may be on the rise for some.

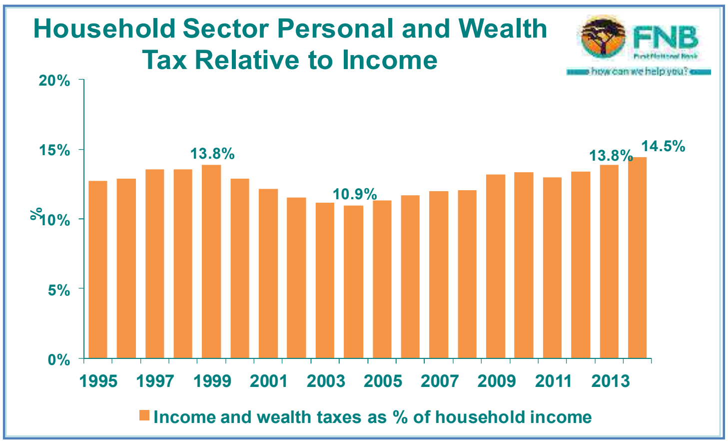
Therefore, we have seen this segment's Activity Rating decline noticeably in the past 4 quarters, which sets it apart from the other 3 segments who still saw some increase over the period. The High Net Worth segment also saw a slightly more pronounced downturn in the percentage of sellers selling in order to upgrade, as well as a rise in the average time of properties on the market.

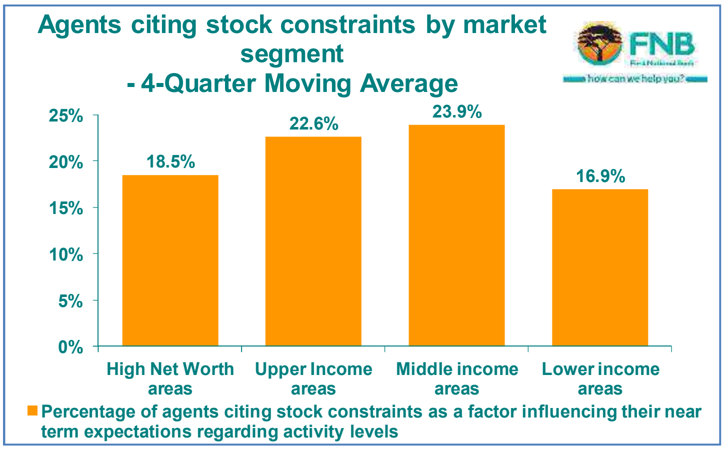
While this segment's activity rating can't be classified as "weak" just yet, more noticeable signs of softening here are perhaps to be expected. The High End of the market has some reason to expect some headwinds. Over the past 3 years, economic growth has stagnated, and with it Real Household Disposable Income growth. This, along with a relatively solid house price inflation rate over the past 3 years, and the start of interest rate hikes last year, imply mounting residential affordability challenges. Typically when this happens, an increased portion of buyers may look to buy cheaper, and less may decide to sell and upgrade into a higher segment, all of this playing relatively speaking into the hands of the lower priced segments.





In addition, over the past 2 years we have seen weak growth in what the SARB calls "Income from Property", actually the term for all investments including dividend and interest income as well as rentals, at rates well below average growth in nominal wage remuneration. With high income households likely to be more dependent on investment income than middle to lower income households, who rely more on wages, it may well be that the High Net Worth group of households has experienced slower income growth than the rest recently.





Then comes the matter of the increase in the "effective" personal tax rates in recent years continuing on a more significant scale in 2015, more Eskom tariff hikes to come, and the new 11% transfer duty bracket applicable too more expensive properties, all designed to impact more on the higher income end.

As a result of this constraining environment, we would expect "smaller and cheaper to be better" as a general rule during 2015, and for the High Net Worth segment to be the "relative underperformer"

The apparent "underperformance" of the High Net Worth segment may be another early sign of affordability limits being reached, and of a stagnating economy just starting to have a cooling impact on the residential market growth.

The Middle Income segment still appears to be the "relative sweetspot". Not only is it estimated to have the highest activity rating, but also possesses the highest percentage of agents citing stock constraints as a factor in their lives.

However, the Middle Income segment doesn't "lead" by far. The Lower Income segment appears to have showing some relative strength, too, in recent times.

PREVIOUS MARKET ANALYTICS REPORTS AND LINKS

Property Barometer - Fnb March 2015 House Price Index – 1 April 2015
https://blog.fnb.co.za/2015/04/fnb-property-barometer-march-2015-house-price-index/

Property Barometer – FNB Estate Agent Survey – Reasons for Selling Property - 1st Quarter 2015 – 31 March 2015
https://blog.fnb.co.za/2015/03/fnb-property-barometer-estate-agent-survey-reasons-for-selling-1st-quarter-2015/

Consumer Banking Barometer – 1st Quarter 2015 Household/Consumer Sector Review – 30 March 2015
https://blog.fnb.co.za/2015/03/fnb-consumer-banking-barometer-quarterly-consumer-review-1st-quarter-2015/

Property Barometer – FNB Home Buying Estate Agent Survey for the 1st Quarter 2015 – 23 March 2015
https://blog.fnb.co.za/2015/03/fnb-property-barometer-home-buying-estate-agent-survey-1st-quarter-2015/

Consumer Banking Barometer – MPC Interest Rate Meeting Preview – 20 March
https://blog.fnb.co.za/2015/03/consumer-banking-barometer-mar-mpc-preview-mar-2015/

Mortgage Market Barometer – 20 March 2015
https://blog.fnb.co.za/2015/03/mortgage-market-barometer-mar-2014/

Consumer Banking Barometer – February CPI – 18 March 2015
https://blog.fnb.co.za/2015/03/consumer-banking-barometer-february-2015-cpi/

Property Barometer – Residential Affordability Review – 18 March 2015
https://blog.fnb.co.za/2015/03/fnb-property-barometer-residential-affordability-mar-2015/

Consumer Banking Barometer – Household Sector Debt Service Risk Index – 17 March 2015
https://blog.fnb.co.za/2015/03/household-consumer-debt-service-risk-index-mar-2015/

Property Barometer – FNB Estate Agent Survey - Buy to Let Buying – 17 March 2015
https://blog.fnb.co.za/2015/03/fnb-property-barometer-buy-to-let-jan-2015/

Property Barometer – FNB Estate Agent Survey – 1st Time Buying – 16 March 2015
https://blog.fnb.co.za/2015/03/fnb-property-barometer-1st-time-buying-mar-2015/

Property Barometer – FNB February 2015 House Price Index – 1 March 2015
https://blog.fnb.co.za/2015/03/fnb-property-barometer-february-2015-house-price-index/

Property Barometer – Western Cape Residential Property Review – 11 February 2015
https://blog.fnb.co.za/2015/02/fnb-property-barometer-4th-quarter-western-cape-residential-property-review-feb-2015/

Property Barometer – FNB Estate Agent Survey – Race Group Buying – 10 February 2015
https://blog.fnb.co.za/2015/02/fnb-property-barometer-home-buying-by-race-group-feb-2015/