

PROPERTY BAROMETER - RESIDENTIAL MAINTENANCE AND UPGRADES

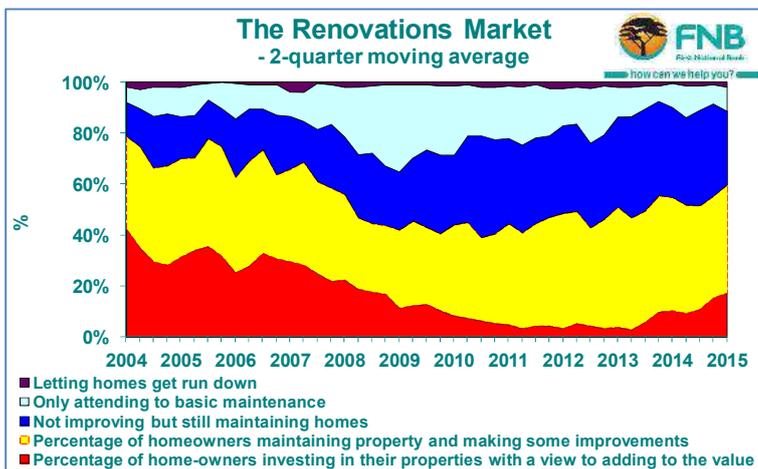
The FNB Estate Agent Survey points to the improving trend in the level of home maintenance and upgrades continuing, especially in the area of “value adding home upgrades”

15 May 2015

FNB ESTATE AGENT SURVEY POINTS TO A CONTINUATION OF THE STRENGTHENING TREND IN LEVELS OF HOME MAINTENANCE AND UPGRADES EARLY IN 2015

During the early stages of 2015, the FNB Estate Agent Surveys showed a further improvement in agent perceptions of home maintenance and upgrades, continuing a noticeable improving trend that dates back to late-2012.

Using a 2-quarter moving average to smooth the data mildly, we depict agent perceptions regarding levels of home maintenance, and we have 5 categories/levels of home maintenance and upgrades in the survey.



The “top” level is that of “Value Adding Home Upgrades”. After a very weak period around 2011-2013, the survey respondents have more recently reported a rising trend in the percentage of these homeowners “investing in their properties with a view to adding value” through 2014 and into early-2015. From a lowly 3% of total homeowners estimated to be doing “value adding upgrades” in the 1st half of 2013, we have seen this percentage rise to 17.5% by the 1st quarter of 2015. This is far from the 43% achieved back in 2004, but is nevertheless a solid number, and is the highest estimated percentage since the 3rd quarter of 2008.

The level of these costly value adding upgrades has understandably taken the longest to recover of the 5 categories, because the initial battle, following the financial shock of the 2008/9 recession and interest rate peak, was for many households merely about getting standard home maintenance restored to full levels in cases where this had been deferred.

The next level “down” is the percentage of homeowners “fully maintaining their property and making some improvements”. This percentage declined slightly in 2014, not necessarily due to home owners shifting into lower levels of home investment but possibly due to a greater portion shifting up into the “Value Adding Upgrades” category. However, early 2015 saw a renewed increase in this percentage from 39.5% in the 4th quarter of 2014 to 42.5% in the 1st quarter of 2015.

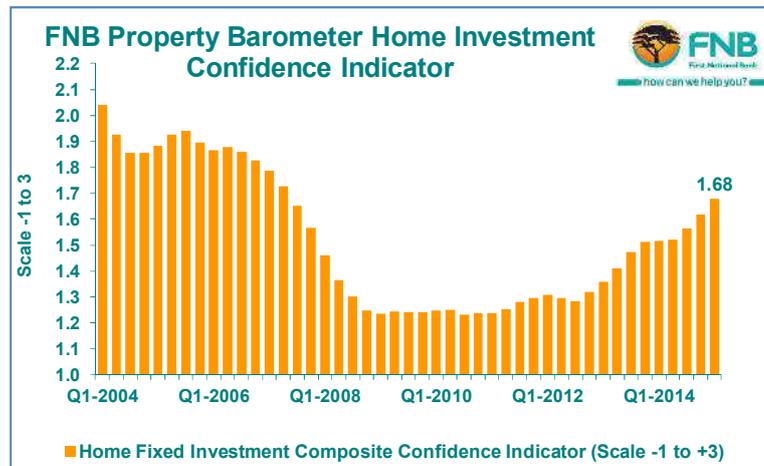
The next level down, namely the “percentage of owners not improving but still fully maintaining homes”, showed a decrease from a previous quarter’s 36% to 29 % in the 1st quarter of 2015.

This all translates into a slight 1st quarter increase in the category that one would want to see declining, i.e. the “percentage of homeowners attending to basic maintenance only”, which in effect means the home will “go backward” over time. This percentage rose from 7.5% in the 4th quarter of 2014 to 9.5% in the 1st quarter of 2015, having started 2014 slightly higher at 9.5%. This rise, however, is not yet regarded as significant.

Those owners allowing their homes to “get run down”, in the areas surveyed, returned a zero percent estimate, from an insignificant at 1% in the previous quarter.

Given the increase in estimated percentages of the 2 “top” levels of home maintenance and upgrades, the net position appears to be one of improvement in the overall levels perceived by our sample of estate agents surveyed.

This is positive, especially in light of the fact that we have already had some small interest rate hikes in 2014 as well as 3 years of economic growth slowdown, which has led to slowing in household disposable income growth. A temporarily low consumer price inflation rate early in 2015, largely as a result of a late-2014 oil price drop, may however have been providing some support to households needing to do home maintenance.



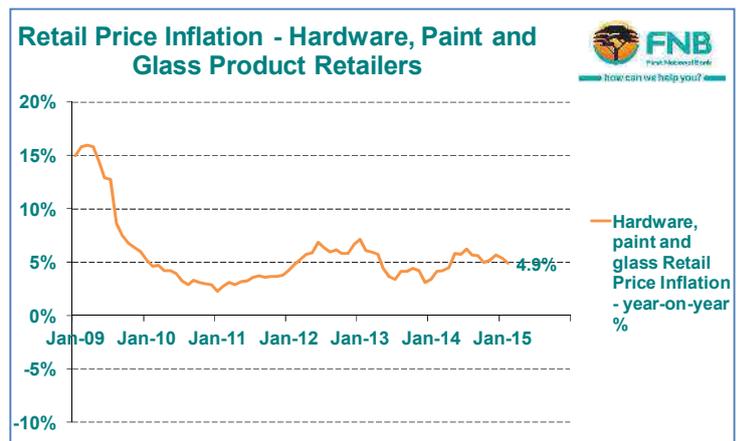
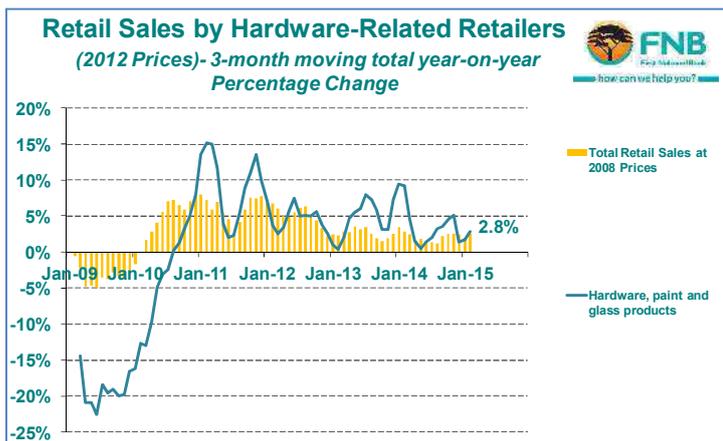
The improvement in the 2 higher levels of maintenance and upgrades when added together are reflected in a further 1st Quarter strengthening in the FNB Home Investment Confidence Indicator.

This indicator is represented on a scale of -1 to +3. The indicator has shown a steady increase over the 2013 to 2015 period, to reach a level of +1.68 in the 1st quarter of 2015.

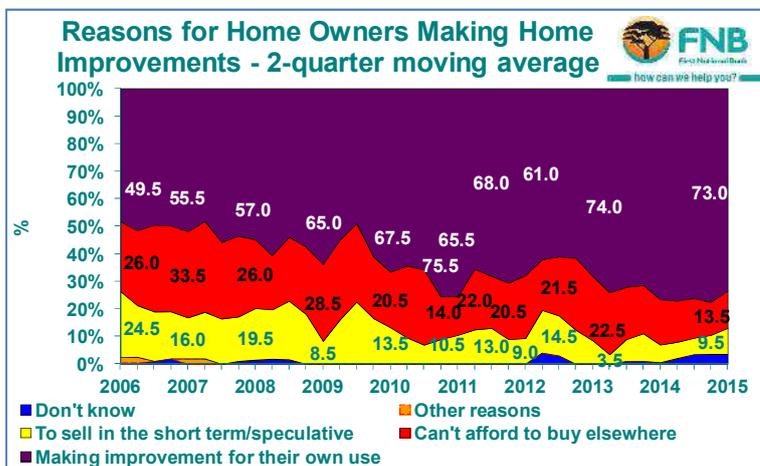
This 1st quarter level is the highest level since the 2nd quarter of 2007.

The increase in Home Maintenance levels continues to be seemingly reflected in the numbers for Retail sales for Hardware, Paint and Glass

Product Retailers. While this category of retail sales was only growing at a real rate of 2.8% year-on-year for the 3 months to February 2015, its strong growth through much of 2013 and 2014 keeps the actual level of sales markedly elevated from lows around 2009 and 2010.



Finally, with regard to the reasons for why people undertaking home improvements are doing it, our agent survey still points to limited speculative building behavior, to the tune of 9.5% of total home improvements.



This remains low when compared to the 24.5% estimate back in early-2006. The overwhelming majority (73%) still do it for their own use, while 13.5% do it because they “can’t afford to buy elsewhere”.

CONCLUSION

The Home Maintenance and Upgrades market remains vastly improved from 2008/9 levels, and as at the 1st quarter of 2015 it appeared to remain on its steady strengthening path which it has been on since around 2013.

While we had been concerned with the possibility that the early-2014 start of interest rate hiking may lead to the end of the broad improving trend in home investment levels, the more recent surveys suggested that such concerns were premature.

The consumer price inflation situation has been positive for the consumer early in 2014, with a sharp dip having been caused by a major drop in oil prices late last year.

For the time being, the inflation situation remains benign, and we do not anticipate any interest rate hiking by the SARB in the next few months. It is quite possible, therefore than home maintenance and upgrade levels could improve further in the coming quarter or two.

However, by late in 2015 we expect the positive impact of low oil prices to have worn thin, and CPI inflation to be back nearer to 6%, which we expect will be the catalyst for renewed interest rate hiking very late this year.

Such renewed interest rate hiking could possibly mean that the upward trend in home maintenance and upgrade levels would come to an end at that stage.

For the time being, though, the situation appears very healthy, with good levels of maintenance, significant upgrades, but not a lot of speculative activity.

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
011-649 0125
John.loos@fnb.co.za

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