PROPERTY BAROMETER - RESIDENTIAL MAINTENANCE AND UPGRADES

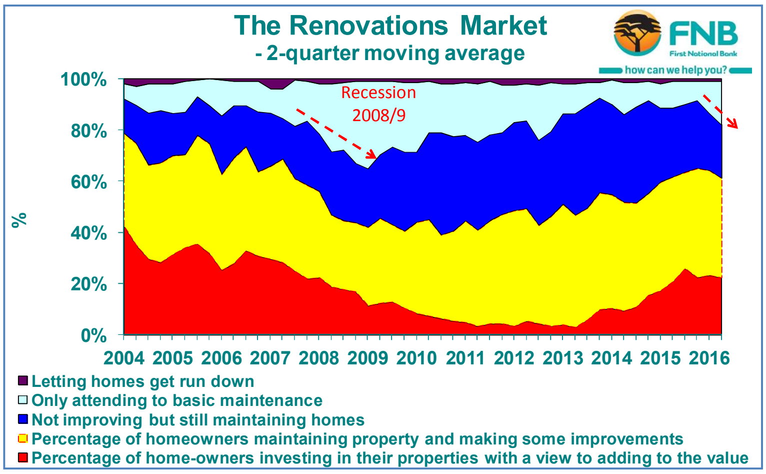
The perceived level of Residential Maintenance and Upgrades, as per the FNB Estate Agent Survey, declines further in the 2nd Quarter of 2016.

12 July 2016

FNB ESTATE AGENT SURVEY POINTS TO A MILD WEAKENING IN LEVELS OF HOME MAINTENANCE AND UPGRADES

The FNB Estate Agent Survey has begun to record a mild weakening in agent perceptions of home maintenance and upgrades, following a broad improving trend through 2013 to late-2015.

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 noticeable improvement in this category through much of 2013 to 2015, recent quarters' surveys have begun to show a tapering off in the percentage, from a high of 26% in the 3rd quarter of 2015 to 22.5% in the 2nd quarter of 2016.

The start of a decline in the level of these costly value adding upgrades is plausible in the current time of almost recessionary economic conditions, and with interest rates gradually rising. Consumer Confidence remains extremely low in 2016, as consumers become increasingly aware of, and concerned about, the weak economic and unstable socio-political environment. One should expect these consumer concerns to drive a more conservative approach to home investment.

The next level "down" is the percentage of homeowners "fully maintaining their property and making some improvements". This category has also seen a slight decline of late, from 42.5% for the 2 quarters up to an including the 4th quarter of 2015, to 39% by the 2nd quarter of 2016.

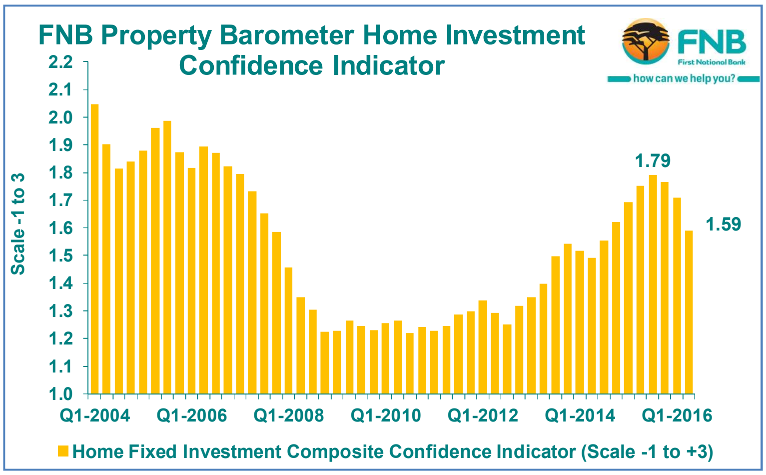
The following level down, namely the "percentage of owners not improving but still fully maintaining homes", continues its decline, from a high of 37.5% back in the 3rd quarter of 2014 to 21% by the 2nd quarter of 2016.

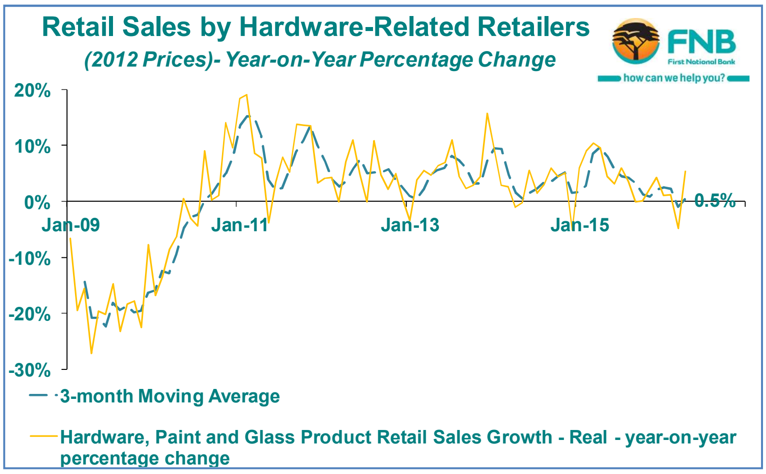
This all translates into a recent rise in the category that one would always like to see being low, i.e. the "percentage of homeowners attending to basic maintenance only", a level which in effect means the home will "go backward" over time. This estimated percentage was 7.5% for the 2 quarters up to an including the 4th quarter of 2015, but has risen to 17% by the 2nd quarter of 2016.

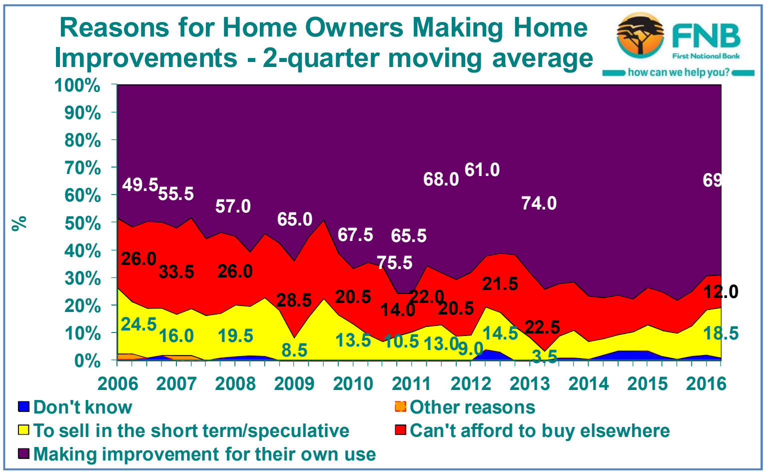
Those owners allowing their homes to "get run down", in the areas surveyed, returned a fairly insignificant 1% in the 2nd quarter.

In prior quarters, we had previously said that the decline in the top "upgrade-related" category, but not yet at that stage in the "bottom" basic maintenance" or "letting home get run down" categories, pointed to the Household Sector having begun to run into financial limits, causing a more conservative spending approach, but not yet experiencing a noticeable increase in full blown financial stress.

However, the more recent start of a rise in the lower category "only attending to basic maintenance", suggests some rise in the levels of financial stress too.







The decline in the highest 3 categories of home investment, "Value adding upgrades", "Maintaining and making some improvements", and "Not Spending but still maintaining homes", in recent quarters has contributed to a 3-quarter decline in the FNB Home Investment Confidence Indicator.

This indicator is represented on a scale of -1 to +3. The indicator had shown a steady increase over the 2013 to 2015 period, to reach a level of +1.79 in the 3rd quarter of 2015. That level was the highest level since the 1st quarter of 2007.

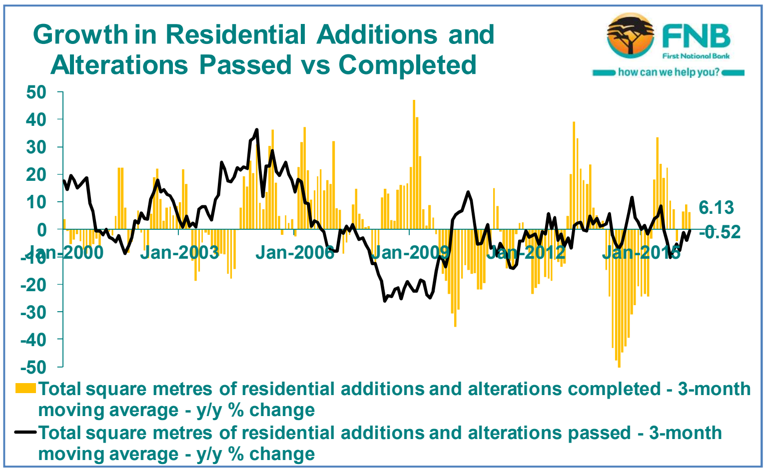
Thereafter, however, we have seen a 3-quarter decline to a 1.59 reading for the 2nd quarter of 2016. Although having declined, this most recent reading remains a relatively strong one.

A settling down in the level of home investment, after prior strong improvement, may also have become evident in real sales growth of Hardware, Paint and Glass Retailers. Using a 3-month moving average for smoothing purposes, this category of real retail sales grew by a mere 0.5% year-on-year for the 3 months to April 2016. This represents a considerable growth slowdown from a 9.6% high in April last year. In past years, this retail sales category has been one of the strong growth areas of retail, as households increased their home investment levels. But the rate of growth has broadly stagnated since a year ago.

Finally, with regard to the reasons for why people undertaking home improvements are doing it, interesting is that our agent survey points to some increase in the significance of the speculative building motive to 18.5% of total home improvements. This is noticeably above the 3.5% low reached at a stage of 2013.

But the overwhelming majority of 69% still do the improvements for their own use, while 12% do it because they "can't afford to buy elsewhere".

CONCLUSION



The Home Maintenance and Upgrades market remains significantly better than 2008/9 recession levels. However, in a rising interest rate environment, along with deteriorating economic growth putting disposable incomes under more pressure, we appear to have seen signs of the start of some weakening in levels of "home investment".

In a weak, but not stressed, financial environment, one could expect to see cut backs on non-essential or luxury expenditure items, with Value Adding Upgrades to homes arguably fall into this category.

However, an increase in the estimated percentage of homes falling into the "Only attending to basic maintenance" category points towards some increase in financial stress too.

Examining a different source of data, "Additions and Alterations" data from StatsSA, mediocre performance appears to be setting in.

For the 3 months to April 2015, Square Metres of Additions and Alterations Plans Passed declined by -0.52% year-on-year, suggesting little in the way of growth in additions activity to come.

Square Metres of Additions and Alterations completed, by comparison, were still growing by 6.13% in the same period, but this growth is a far cry from an earlier high of 33.5%year-on-year for the 3 months to June 2015.

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