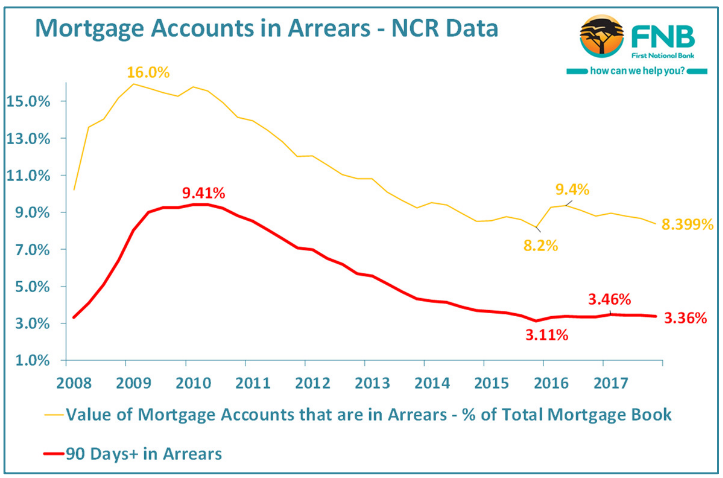
PROPERTY BAROMETER – Reasons for Selling Homes – A focus on Residential Market Financial Stress

After having seen a gradual improving trend in the level of Household Sector Mortgage Arrears, the FNB Estate Agent Survey for the 1st quarter of 2018 also starts to point to a decline in financial stress in the Housing Market, when viewing estimates of the level of home selling for financial pressure-related reasons

25 April 2018

Three factors have, over the past year-or-so, led us to expect an improving Residential Market financial stress situation, and indeed this is what appears to be what has been happening. The 3 positive contributing factors are, first and foremost, ongoing decline in the Household Sector's Debt-to-Disposable Income Ratio, secondly, mildly improving economic growth which strengthens Household Sector Disposable Income growth, and, thirdly a mild reduction in interest rates in 2017 and 2018 to date.

HOUSEHOLD SECTOR MORTGAGE ARREARS



When examining the most recent NCR (National Credit Regulator) data for Household Sector Mortgage Arrears, the 4th quarter of 2017 saw a further decline in the value of mortgage arrears, expressed as a percentage of the total value of mortgage accounts, from 8.671% in the previous quarter to 8.399%. Accounts that have been in arrears for 90 days or more, which we would classify as "Non-Performing Loans(NPLs)", also saw their percentage of total accounts decline slightly, from 3.44% previous, to 3.36% in the final quarter of last year.

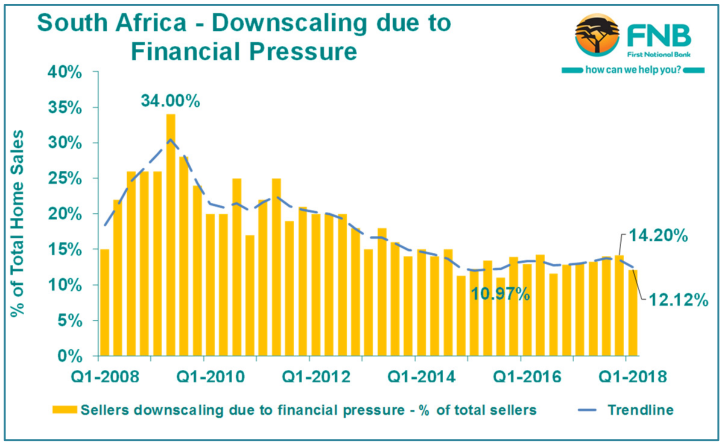
This means that total arrears as a percentage of the value of total mortgage accounts has declined from a multi-year high of 9.354% as at the 2nd quarter of 2016, to the end-2017 8.399%.

The declining trend started shortly after the end of the last interest rate hiking cycle, the last rate hike being in January 2016.

AN INDICATOR OF BROADER RESIDENTIAL MARKET FINANCIAL PRESSURE

However, mortgage arrears do not necessarily capture total financial stress in the housing market, because a portion of financially pressured households will typically sell their homes proactively, and downscale to cheaper accommodation, prior to going into mortgage arrears.

We therefore like to keep an eye on what our FNB Estate Agent Survey respondents estimate in terms of the percentage of home sellers selling "in order to downscale due to financial pressure", an estate agent perception of the extent of financial pressure in the housing market.



This indicator of financial pressure has taken a little longer to show an improvement, following an earlier interest rate hiking-led deterioration from around late-2015.

From a low of 10.97% of total home selling as at the 3rd quarter of 2015, the estimated percentage of home sellers selling to downscale due to financial pressure rose to 13.9% a quarter later, and has been "elevated" ever since, being around 14% in the latter half of 2017. Then, in what has been the 1st decline since the 3rd quarter of 2016, this estimated percentage declined noticeably from 14.2% in the final quarter of 2017 to 12.1% in the 1st quarter 2018 survey.

2 percentage points is a noticeable decline, and although 1 quarter's survey result is not conclusive evidence of sustainably lower financial stress, it does point to agents as a group perceiving lower financial stress early in 2018.

What is also significant is that, even with the elevated percentage estimates through 2016 and 2017, the percentages were moderate compared to a major high point of 34% reached back in the 2nd quarter of 2009, around the time of the "Great Recession" and previous interest rate peak.

FINANCIAL STRESS LEVELS IN THE HOUSING MARKET ARE THUS VERY MUCH "UNDER CONTROL"

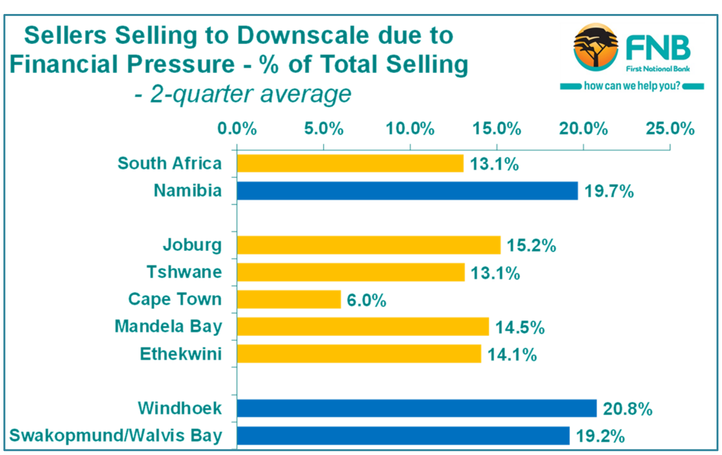
Financial stress levels in the Housing Market thus remain very much "under control".

It must be understood that a part of the reason why these stress levels remain moderate relative to a decade ago is due to the most recent interest rate hiking cycle being far more moderate, with Prime Rate peaking at 10.5% in January 2016 as opposed to 15.5% back in mid-2008.

However, arguably a very significant difference between now and a decade ago has also been a dramatic drop in Household Sector vulnerability, due to a major decline in the level of indebtedness as measured by the Household Sector Debt-to-Disposable Income Ratio. As at the 1st quarter of 2008, the Debt-to-Disposable Income Ratio reached an all-time high of 87.8, implying that the Household Sector was at its most vulnerable to interest rate moves in recorded history. By the end of 2017, this ratio had declined very significantly to 71.2, lowering that vulnerability considerably since 2008.

REGIONAL COMPARISONS OF FINANCIAL STRESS-RELATED HOME SELLING – NAMIBIA VERY HIGH, WESTERN CAPE STILL VERY LOW

Finally, we take a look at financial stress-related home selling on a major regional basis. Due to the smaller sample size of survey respondents by region, we use a 2-quarter average to boost the sample. Therefore, we compare the average percentage of financial pressure-related downscaling for the 2 summer 2017/18 quarters.



For the 2 major countries in the Rand Area, we find that Namibia has a significantly higher estimated percentage of sellers selling in order to downscale due to financial pressure, i.e. 19.7% of total home selling, than South Africa (13.1% for the 2 quarters) or any of its major metro regions.

The highest regional estimate in South Africa emanated from Greater Johannesburg, to the tune of 15.2%, followed by Nelson Mandela Bay at 14.5%, Ethekwini with 14.1% and Tshwane with 13.1%.

Then, what is interesting is the Western Cape's very low estimate of 6.0% for the 2 quarters. This is a region that we are monitoring for signs that its severe drought may be starting to impact negatively upon its economy, and thereby its Household Sector's financial strength and its housing market.

This very low estimate of financial stress-related home selling suggests that, to date, the potentially negative economic impact of the drought in the Western Cape has not yet materialized. However, we feel that the 2018 Winter rainfall season in that province is crucial, given now very low dam levels. Should it experience another low rainfall winter, at some point one would expect the negative impact to become "recessionary", and Household Sector financial stress could rise

Reasons for selling (As % of Total Sales)	Q2-2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017	Q3-2017	Q4-2017	Q1-2018
Downscaling due to financial pressure	**14.24%**	**11.6%**	**12.9%**	**13.1%**	**13.2%**	**14.0%**	**14.20%**	**12.1%**
Downscaling with life stage	26%	28%	28%	29%	24%	26%	24%	25%
Emigrating	**4.6%**	**5.0%**	**5.8%**	**6.2%**	**6.2%**	**7.3%**	**7.4%**	**7.4%**
Relocating within SA	9%	7%	10%	9%	9%	10%	10%	10%
Upgrading	**12%**	**11%**	**13%**	**12%**	**13%**	**11%**	**11%**	**13%**
Moving for safety and security reasons	12%	12%	10%	11%	13%	10%	10%	11%
Change in family structure	15%	17%	15%	13%	15%	14%	15%	15%
Moving to be closer to work or amenities	8%	8%	6%	6%	7%	7%	6%	7%

Reasons for selling (As % of Total Sales)	Total	High Net Worth	Upper income	Middle income	Lower income
Downscaling due to financial pressure	**12.1%**	**13.2%**	**15.7%**	**11.0%**	**13.7%**
Downscaling with life stage	25%	29%	27%	26%	17%
Emigrating	**7.4%**	**6.0%**	**8.9%**	**6.0%**	**6.6%**
Relocating within SA	10%	12%	8%	10%	13%
Upgrading	**13%**	**9%**	**11%**	**15%**	**18%**
Moving for safety and security reasons	11%	11%	10%	11%	11%
Change in family structure	15%	13%	15%	15%	14%
Moving to be closer to work or amenities	7%	7%	5%	8%	7%

JOHN LOOS: HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
087-328 0151
John.loos@fnb.co.za