Property Barometer

All you need to know about the property market.

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FNB 2nd Quarter Estate Agent Home Buying Survey

Estate agents are reporting financial stress rising in prominence in the market once more

1. Summary

The FNB Estate Agent Survey is a survey of a sample of estate agents predominantly from South Africa's 6 major metros, with a view to obtaining their perceptions of residential property market conditions.

The 2nd quarter survey, undertaken in May 2011, points towards some slowing in residential demand, while also suggesting a deterioration in buyer confidence and in households' financial positions. This comes after 2 relatively positive 2010/11 summer quarters.

When asked to rate residential demand in their areas, on a scale of 1 to 10, the agent panel put the average estimate at 5.61 in the 2nd quarter, significantly down from the 6.07 rating of the 1st quarter. However, caution should be exercised when interpreting such a rating, as there is a seasonal aspect at play here, with demand typically weakening as the winter approaches.

But the numbers perhaps suggest something a little more than just seasonal factors. On a year-on-year basis, the rating of demand activity for the 2nd quarter is -5.9% down on the corresponding quarter of a year ago.

Examining estate agents' near term expectations, and the influencing factors for their expectations, it is evident that they are implicitly citing financial pressure on households as well as a lack of further interest rate cutting in 2011, as key influences. The Estate Agent Confidence Indicator, which is a 4-quarter moving average of agents' expectations for demand over the 3 months following each survey, has declined to 0.23 (on a scale of +1 to -1), the 5th successive quarter of decline. But of more interest in the latest survey is a very significant change in the prominence of certain key factors influencing agents' near term expectations. Whereas in the 1st quarter survey interest rates were cited as the key (positive) influence on expectations, the 2nd quarter survey saw interest rates fall back sharply into 4th place in terms of their importance as an influence on perceptions. Most prominent in the latest survey was "Economic/Financial Stress and General Pessimism" as a driver of near term expectations.

Seasonality came in 2nd place in importance, as it typically does at this time of year, followed by the National Credit Act (NCA) as the 3rd most important driver of expectations. The NCA was generally seen as negative, being perceived as a key reason for the limited amount of loans still being granted by banks. In 4th place came interest rates, which are still generally seen as a positive factor in the market because they are so low, but being seen as such by a diminishing number of agents.

Coupled to the above, regarding economic/financial stress, agents believe that there has been a rise in the significance of selling "in order to downscale due to financial pressure", from 22% of the total number of sellers in the 1st quarter to 25% in the 2nd quarter. This reason for selling must be seen as providing strong support for supply of property on the market. Some would argue that a sale in order to downscale due to financial pressure should be followed by a purchase of a cheaper property shortly thereafter, negating the boost to supply of property after the initial sale. However, agents believe that around half (51%) of sellers selling for financial stress-related reasons actually exit the market and move into property rental for the time being, thus leaving something of a gap.

1st time buyers entering the market can fill some of this gap left by those exiting. According to the survey, the 1st time buying percentage has increased further to 25% of total buying, from 22% in the 1st quarter. However, as yet agents are not generally reporting any increase in stock constraints, with a relatively low, and unchanged, 5% of agents citing stock of properties on their books as a constraint.

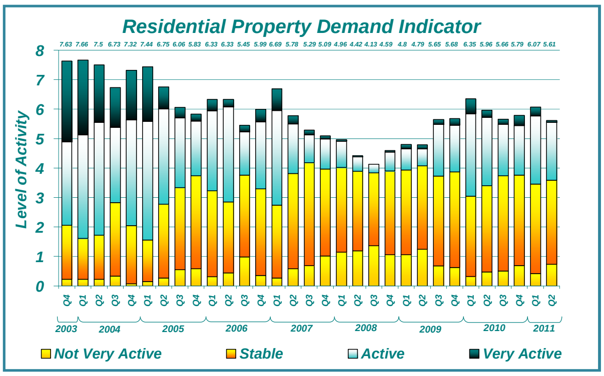
2. Three factors appear to drive the weakening in residential demand in the 2nd Quarter FNB Estate Agent Survey – Winter approaching, signs of a weakening economy and a lack of further interest rate cutting.

Residential demand weakens in the 2nd Quarter of 2011

Residential property demand is seasonal, and can typically weaken during the winter months. However, it looks likely that this winter, the market will also have to contend with a lack of further stimulus. The Reserve Bank (SARB) hasn't cut interest rates since November, and the Governor regularly warns of inflation pressures that raise the risk of the next move interest rates being up rather than down. In addition, there are signs that the economy may be starting to slow, after 2 very good growth quarters in the summer, and evidence is that financial pressure is still widespread.

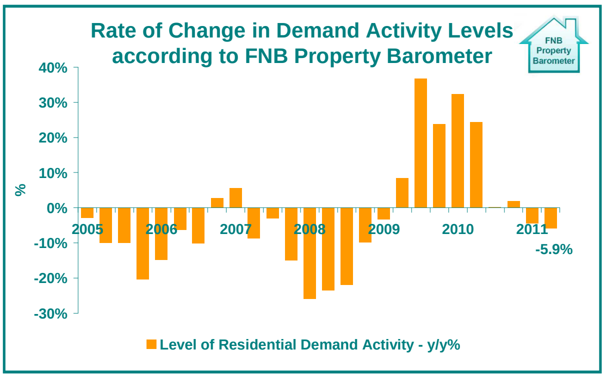
The FNB Estate Agent Survey for the 2nd quarter of 2011 may be pointing towards the forces mentioned above starting to influence the market.

When asking the panel of agents surveyed for their perceptions of residential demand strength, on a scale of 1 to 10, they estimated an average of 5.61 in the 2nd quarter, down from 6.07 in the 1st quarter. The 2nd Quarter survey was done in May 2011. Also visible in the 2nd quarter survey was a decline in the percentage of agents claiming their areas to be "very active" (an activity level of 9-10), from a previous of 5%, to 1% of total respondents, while those claiming their areas to be "active (an activity level rating of 7-8) declined from 38% to 35% from quarter to quarter.



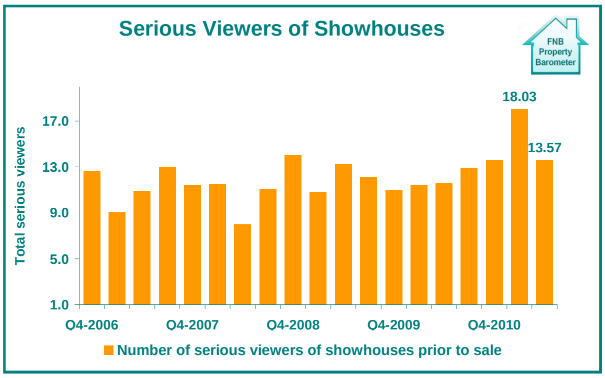
Given the possible negative seasonal factors as we enter the winter months, it is important to interpret quarter to quarter changes with caution.

In an attempt to eliminate seasonal factors, we calculate the year-on-year percentage change in the demand activity ratings. According to this calculation method, a genuine softening in the market, over and above seasonality, may be setting in. After a brief return to positive year-on-year change in the final quarter of 2010, which was possibly the effect of late-2010 interest rate cuts coming through, the 1st 2 quarters of 2011 once again returned to negative year-on-year change. In short, the agent panel rates demand for the 1st half of 2011 as slightly worse than in the 1st half of 2010.



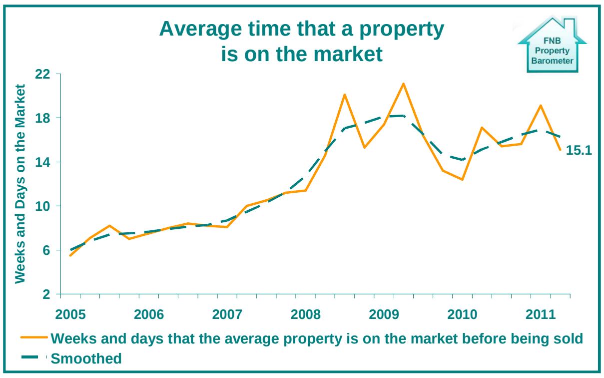
The year-on-year decline was -5.9% in the 2nd quarter, after a decline rate of -4.4% in the previous quarter. This may well indicate that the positive impact of the late-2010 interest rate cuts on demand is starting to wear thin.

A decline in the reported number of serious viewers also supports the agent estimates of weaker demand in the 2nd quarter



Examining demand in a different way, i.e. via agent estimates of the number of "serious viewers", the indications once again are that demand possibly cooled in the 2nd quarter. Agents report a noticeable decline in interest in their show houses by "serious viewers". In the survey, we ask the panel of agents to indicate the estimated number of viewers, that they deem to be serious about buying, that go through their show houses prior to the home being sold. This, therefore, excludes people that are coming to view the home purely out of curiosity. The agents reported a marked decrease in the average number of serious viewers, from a previous quarter's multi-year high of 18.03 buyers to 13.57 buyers in the 2nd quarter. However, this decline can also be partly the result of strong supply of units on the market, something both agents and FNB's valuers have pointed to in recent times.

Demand appears to remain weak relative to supply, although the average time on the market is down in the 2nd quarter.

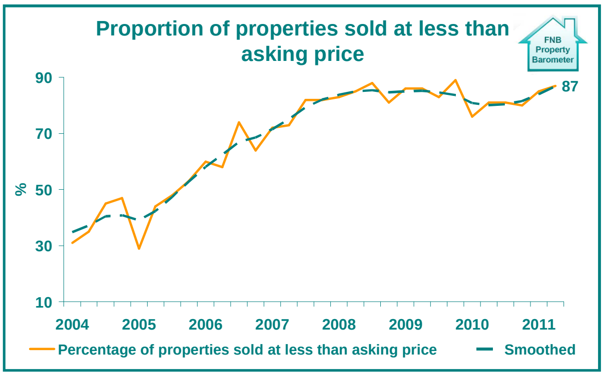


One of the anomalies in recent quarters has been the estimated average time that a property is on the market prior to being sold. This estimate has become more volatile from quarter to quarter ever since the market thinned dramatically during the 2008 recession. It would also appear that there is something of a lag in movements in this average time, with a 2nd quarter decline from 19 weeks and 1 day in the previous quarter to 15 weeks and 1 day in the 2nd quarter reflective more of the demand increases during the summer quarters than of the current quarter's demand weakening. Therefore, we have a situation where average time on the market has declined in tandem with the decline in demand during the 2nd quarter of 2011, after rising in tandem with a demand increase in the summer quarters.

Nevertheless, while volatile, the important reality is that at 15 weeks and 1 day, the average time on the market remains long compared to back in the healthy market days of 2005/6 where it was below 2 months.

We would thus continue to interpret the estimated average time on the market as pointing to a market that remains unrealistically priced, or other wise put where supply is still strong relative to demand.

This assertion appears to be supported by the estimate of the percentage of properties sold at less than the asking price.



This 2nd indicator of unrealistic pricing or oversupply has risen further to 87% of total sellers being required to drop their asking price to make the sale, from a previous quarter's 85%.This percentage has been gradually trending higher since early-2010.

The average drop in asking price for those having to drop was -11% in the 2nd quarter, insignificantly less than the estimated -12% for the previous quarter. The variation in the estimated drop has fluctuated only slightly between -11% and -12% since we started this question at the beginning of 2010.

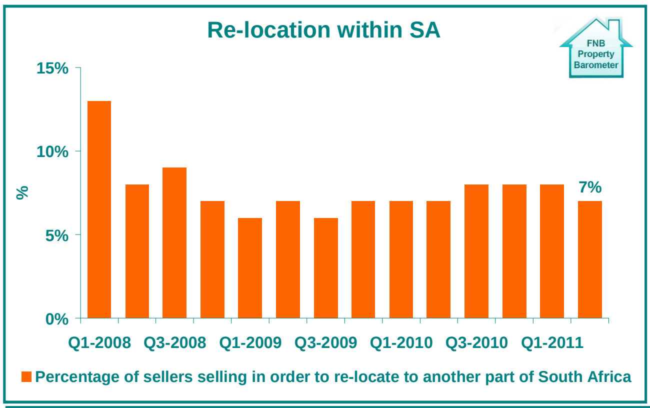
Supply continues to be supported by financial stress-related selling

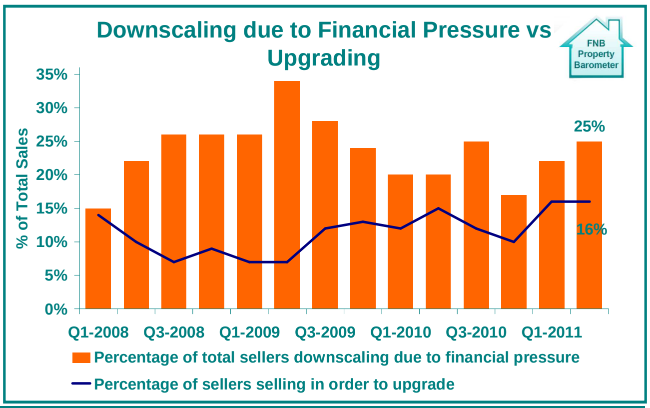
Questions surrounding the reasons for sellers selling suggest strong support for residential property supply to the market from selling "in order to downscale due to financial pressure". Some would question this, claiming that if a seller sells in order to downscale, he/she will be buying a cheaper property soon afterward thus negating the negative impact of the sell-off with a corresponding purchase, albeit in a cheaper segment of the market.

Theoretically, this is possible and is in some instances the case. However, we have added an additional question regarding this reason for selling. We asked agents to provide us with an estimate of what percentage of sellers selling in order to downscale due to financial pressure would be buying a home shortly thereafter, versus the percentage that would move into the rental market. The sample of agents felt that around half (51%) would be renting after the sale, versus 49% that would buy again.

Some increase in estimated financial stress-related selling in the 2nd quarter survey is not entirely surprising. The household sector's finances have remained fragile ever since the 2008 recession, and vulnerable to any slightly negative event. Firstly, 2011 has brought about no further interest rate cuts, while rising global oil and food prices have begun to lift domestic consumer price inflation this year, eating into household disposable income slightly more than previously. Then there's Eskom, whose next big increase in tariffs took place in April, while there are also signs that the economy is starting to slow after two good summer quarters.

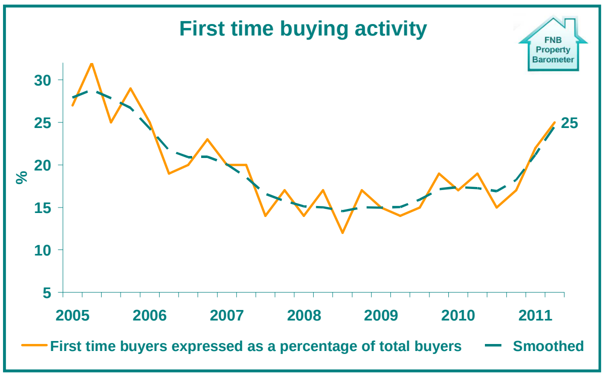
11111Also not surprising, therefore, is that we saw no further rise in the percentage of sellers selling in order to upgrade, which remained unchanged on the previous quarter at 16%. In addition, there was a slight decline in the estimated percentage of sellers selling in order to re-locate to elsewhere in South Africa. While it is too early to draw a conclusion relating to this one quarter decline, selling for re-location purposes is driven predominantly by moves employment opportunities, and as such should reflect economic trends, declining in weaker economic times.





Reasons for selling (As % of Total Sales)	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Q1-2011	Q2-2011
Downscaling due to financial pressure	15%	22%	26%	26%	26%	34%	28%	24%	20%	20%	25%	17%	22%	25%
Downscaling with life stage	14%	12%	13%	14%	19%	15%	19%	17%	19%	16%	18%	18%	20%	20%
Emigrating	12%	18%	20%	14%	11%	8%	6%	7%	7%	7%	6%	10%	4%	4%
Relocating within SA	13%	8%	9%	7%	6%	7%	6%	7%	7%	7%	8%	8%	8%	7%
Upgrading	14%	10%	7%	9%	7%	7%	12%	13%	12%	15%	12%	10%	16%	16%
Moving for safety and security reasons	12%	12%	8%	10%	11%	11%	11%	11%	12%	14%	10%	12%	12%	11%
Change in family structure	12%	10%	13%	14%	14%	13%	12%	16%	16%	14%	13%	15%	11%	11%
Moving to be closer to work or amenities	8%	8%	4%	5%	7%	5%	5%	6%	8%	8%	9%	9%	7%	6%

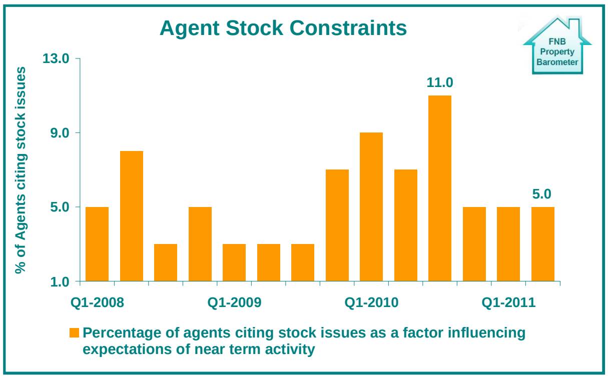
1st time buyers can fill some of the void left by distressed sellers exiting the market



While agents suggest a large gap in the market left by financially stressed sellers exiting the market for the rental option, they do also suggest that some of this void may be being filled by increased interest from 1st time buyers entering the market.

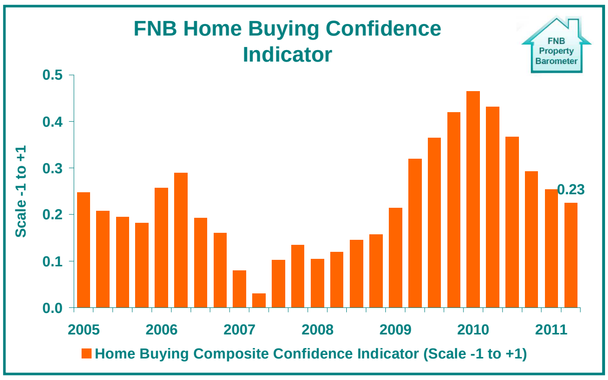
From 22% in the previous quarter, the percentage of buyers deemed to be 1st time buyers rose yet again to 25% of total buyers in the 2nd quarter of 2011.

Estimated supply of residential stock remains strong

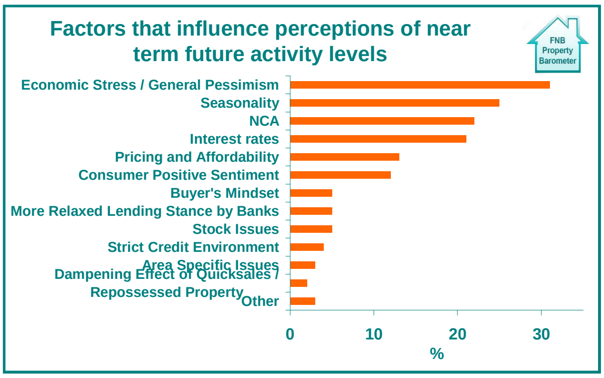


However, agents don't suggest that increased 1st time buyer interest has made a dent in strong supply relative to demand as yet. The survey doesn't have any specific quantification of supply of stock to the market. However, an implicit indicator is found when we question agents as to the factors that influence their near term expectation of activity in the market. As at the 3rd quarter of 2011, 11% of respondents cited stock issues (constraints) as a factor contributing to their expectations. That dropped to 5% for the 4th quarter of 2010, and has remained at 5% in the 1st 2 quarters of 2011. It would appear, therefore, that significantly less agents have reported stock constraints in late-2010 and in 2011 than was the case in the 1st 3 quarters of 2010. This ties in with significantly slower house price growth recorded in the FNB House Price Index in recent times, when compared to more solid growth in the 1st half of 2010.

Outlook – Agent expectations in the near term



The FNB Home Buying Confidence Indicator attempts to capture agents' expectations of the near term. In each agent survey, we ask them whether they expect activity in the market to increase, decrease, or remain the same in the next 3 months. In order to eliminate expectations driven by seasonal factors, we use a 4-quarter moving average in which an "increase" response gets a rating of 1, "unchanged" gets a zero, and "decline" gets a rating of -1. We see that the peak of agent confidence was for the 4 quarters up to and including the 1st quarter of 2010, understandable given the huge interest rate cuts that took place from late-2008 to August 2009. The 2nd quarter 2011 rating represents further decline from the previous quarters, but is not a bad rating by historic levels. The lowest level on record came in the 2nd quarter of 2007, when interest rates were rising, and the National Credit Act implementation was approaching.



There has been a very significant change in the composition of "factors that influence agents' expectations of near term activity levels". For a number of successive quarters, interest rates were top of the list, and largely seen as a positive factor in driving demand. The 2nd quarter survey saw "Economic Stress/General Pessimism" rising quickly to the top of the list, with 31% of respondents citing this as a key issue.

Also rising in prominence is the National Credit Act, which is now above interest rates in prominence, and largely cited as a negative factor making it tough for people to get loans.

The decline in prominence of interest rates, which were seen as a major positive while they were declining, suggests that their impact is wearing thin. The fact that agents point to widespread financial stress, while interest rates are so low, bodes ill for households when interest rates do ultimately rise once more. It would suggest that the household sector has not yet recovered from the 2008/9 recession.