how can we help you?

PROPERTY BAROMETER – FNB Home Buying Estate Agent Survey by Segment

28 May 2012

FNB Estate Agent Survey and house price growth estimates by area value bands suggest a "sweet spot" just above the R1m house price level.

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

EWALD KELLERMAN:
PROPERTY MARKET ANALYST
011-6320021
ekellerman@fnb.co.za

The FNB Estate Agent Survey by segment, in recent quarters, points to a possible "relative sweet spot" in the Middle Income segment of the major metro residential property market, which is that segment averaging prices not far above R1 million.

1. FNB ESTATE AGENT SURVEY BY SEGMENT POINTS TO THE MIDDLE INCOME SEGMENT POSSIBLY OVERTAKING THE LOWER INCOME SEGMENT IN TERMS OF DEMAND STRENGTH

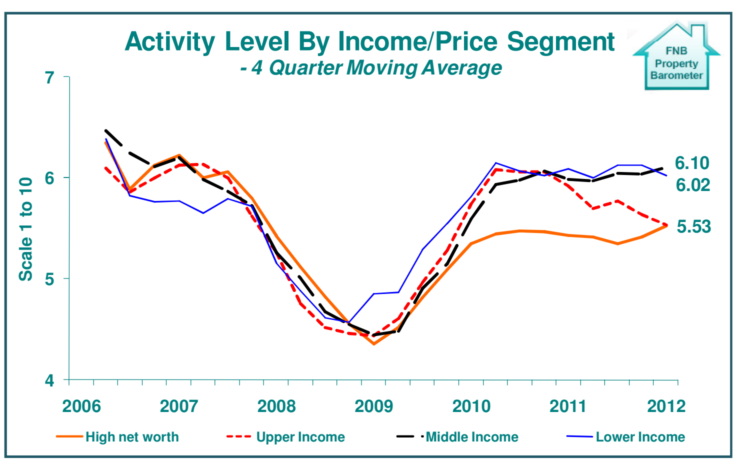
The FNB Estate Agent Survey by income segment focuses largely on the highly-traded "suburban" markets of the country's 6 major metros.

For the 4 quarters up until and including the 1st quarter of 2012, agents surveyed in "Lower and Middle Income" areas appeared more optimistic in terms of their perceptions of demand strength in their areas, compared to those areas classified as "Upper Income" and "High Net Worth". But the survey has increasingly pointed to something of a "sweet spot" developing in the Middle Income Segment especially.

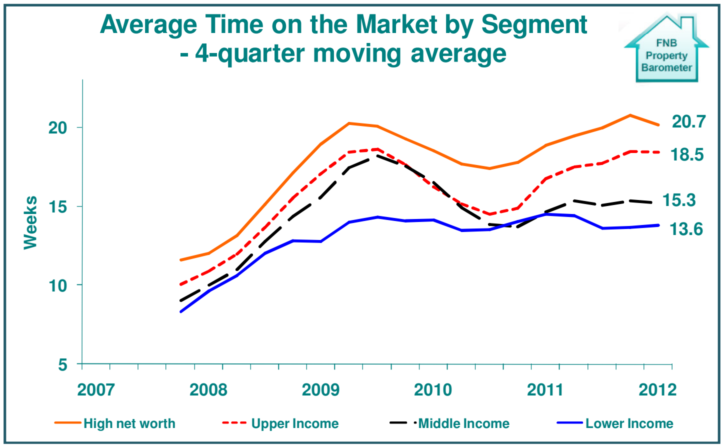
The survey asks agents to place the areas that they serve into one of 4 categories, i.e. High Net Worth areas (average price = R3.08m average in the 1st quarter of 2012), Upper Income areas (average price = R2.18m), Middle Income areas (average price = R1.01m), and Lower Income areas (average price = R706,100).

One of the key questions to agents involves them providing a subjective estimate of their perception of demand levels in their areas, on a scale of 1 to 10. As one views the demand levels in the different segments, one sees that in the 4 quarter period under discussion, the Middle Income segment has averaged the highest demand rating of 6.1, having just overtaken the Lower Income Segment which averaged 6.02.

The 2nd noticeable feature has been the steady decline in the Upper Income Segment to an average of 5.53, now significantly lower than its 2010 levels of around 6. Through 2010 and 2011, the High Net Worth segment's demand rating was significantly weaker than the other 3 segments, but the decline in the Upper Income segment's demand rating has brought the 2 highest income segments into line with each other at significantly weaker levels than the 2 lower priced segments.



2. DEMAND-SUPPLY BALANCE REMAINS MOST IMPROVED IN THE MIDDLE INCOME SEGMENT SINCE 2009.

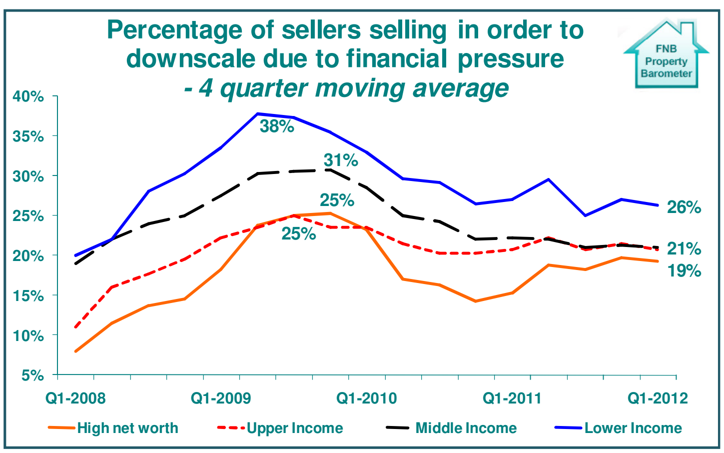


A further survey question relates to the estimated average time that homes stay on the market prior to being sold. Using the average time of homes on the market prior to sale as a proxy for the balance (or imbalance) between demand and supply, the Lower Income segment once again outperformed the rest over the 4 quarters up until the 1st quarter of 2012, averaging an estimated time of homes on the market of 13.6 weeks. This average has been the most stable of all the segments since 2009.

The 3 higher priced segments have all shown a greater degree of "cyclicality" in recent years than the Lower Income segment. But, from the average time peak reached around mid-2009, the Middle Income Segment is the most improved of the segments, averaging 15.3 weeks over the past 4 quarters (compared to a peak of 18.2 weeks at the 3rd quarter of 2009). By comparison, the Upper Income Segment averaged 18.5 weeks in the most recent 4 quarters (which represents a level back up around its mid-2009 levels of 18.6 weeks), while the High Net Worth Segment averaged 20.7 weeks (which is slightly higher than its 20.2 week peak around mid-2009).

It must be borne in mind that higher income areas normally do have a higher average time on the market than lower income ones, but more significant is that the Upper Income and High Net Worth segments appear to have shown a more significant increase in average time on the market since mid-2010 than the other two segments, using 4-quarter moving averages to eliminate shorter term volatility in the numbers.

3. OVERALL FINANCIAL "STRENGTH" APPEARED BEST IN THE MIDDLE INCOME SEGMENT.



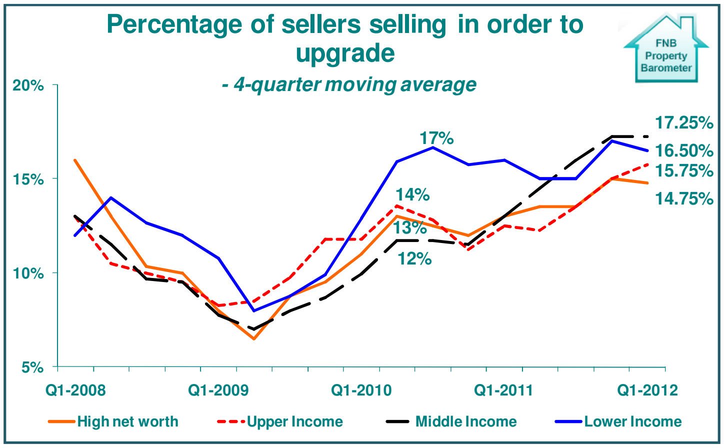
The past 4 quarters' surveys have also pointed to mild further improvement in overall financial strength of home buyers/sellers during the year in all segments.

Gauging overall financial strength in a segment is difficult, but for this purpose we examine two categories of reasons for selling, namely "selling in order to downscale due to financial pressure", and "selling in order to upgrade".

With regard to percentage of sellers who were "selling in order to downscale due to financial pressure", the Middle Income segment average of 21% for the 4 quarters up until the 1st quarter of 2012 represents a 10 percentage point improvement from a peak of 31% in 2009. This improvement is similar to that of the Lower Income segment, whose percentage dropped from 38% at a stage in 2009 to 26% for the most recent 4 quarters.

By comparison, the Upper Income and High Net Worth segments have made less significant improvements in this selling category, having peaked at a lower 25% in 2009 and having declined to 21% and 19% respectively for the most recent 4 quarters.

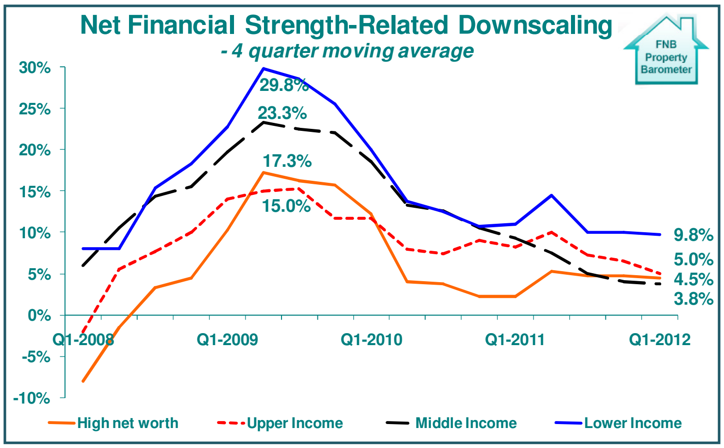
One also needs to examine the buyer side for signs of improvement in financial strength in a segment, and indeed in recent years we have seen indications of this (arguably largely due to sharp interest rate cuts since 2008) in the form of a broad rise in estimates of selling in order to upgrade.



All 4 segments have shown a noticeable rise in the percentage of sellers selling in order to upgrade, but the Middle Income Segment has stood out in recent times, averaging the highest percentage of 17.25% for the past 4 quarters, which is higher than the Lower Income segment's 16.5%.

Once again the 2 higher income segments showed inferior performance to the lower two segments, with the Upper Income segment averaging 15.75% and the High Net Worth segment 14.75%.

In order to give a rudimentary estimate of the overall financial strength of each segment, we subtract the percentage upgrading from the percentage downscaling, to get to what we term "net financial strength-related downscaling".



Here, the Middle Income segment has shifted to being the segment with the lowest percentage of "net financial strength-related downscaling" of 3.8% of total selling on average for the past 4 quarters.

This is followed by the 4.5% of the High Net Worth segment, while the Upper Income Segment at 5% and the Lower Income Segment at 9.8% were weaker, although it must be said that the Lower Income Segment normally seems to have a "structurally" higher percentage over time than the rest..

Examining the multi-year trend, from the peak of "net financial strength-related downscaling" in 2009, it would once again appear that the biggest improvement (decline) has been made in the Middle Income Segment.

4. PRICE TRENDS BY SEGMENT –AFFORDABLE SEGMENT STILL GROWING THE STRONGEST, BUT MIDDLE INCOME SEGMENT STARTING TO CATCH UP.

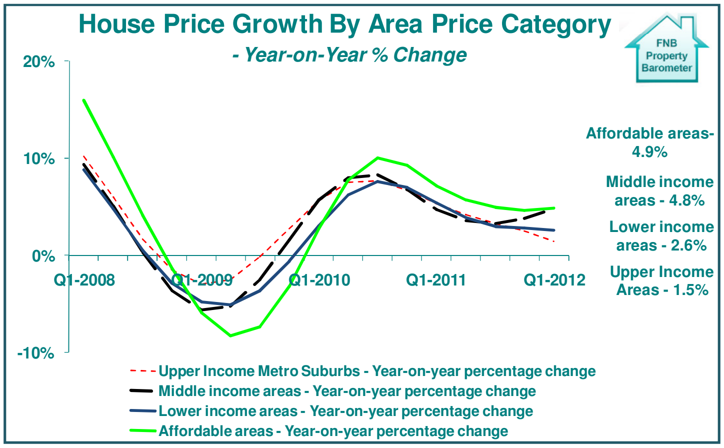
We have created our own area value band indices for residential-dominated areas in the 6 major metros, grouped according to average prices of areas, and using Deeds data for transactions by individuals in the 6 major metro regions with which to estimate these.

Note: Our highest-priced 3 area indices' average price levels are not too dissimilar from the estate agent income segment groupings, but are not exactly the same. We, however, include an Affordable Area segment, which falls largely outside of our Estate Agent survey groupings which are dominated by the former "white suburban" areas. The Deeds data time series are also not entirely comparable with our FNB House Price Index, as that index makes use of FNB's transaction data. Deeds data can lag FNB data in terms of trends and turning points.

After the "relief rally" (or mini-recovery) that we saw in 2010, estimated house price growth in all of the 4 Major Metro area value band indices showed something of a tapering off.

However, in recent quarters, there were signs that certain segments were starting to turn upwards in terms of price growth, which ties in with the recent rise in price growth in the FNB National House Price Index whose data is more "current".

The area value band that appears to have "defied gravity" the best through 2011 has been the so-called Affordable Segment, which includes a group of lower-priced metro areas (including many of the so-called former Black Townships) with an average price was R385,199 in the 1st quarter of 2012. The Affordable Area Value Band saw estimated average price growth of 4.9% in the 1st quarter, mildly higher than the 4.7% in the previous quarter.



However, starting to play catch-up to the Affordable Areas appear to be the Middle Income areas, according to the Middle income Areas Price Index. With an average price of R1.139m, this index has seen its price growth accelerate mildly from a low of 3.3% in the 3rd quarter of 2011 to 4.8% by the 1st quarter of 2012. This price growth rate is now very similar to that of the Affordable Areas Index, and perhaps reflects what estate agents seem to be saying about the relative strength of this segment.

By comparison, our Lower Income Area Value Band Index (Average price = R734,921) appears flatter at 2.6% year-on-year growth, while the Upper Income Area Index (Average price = R1.864m) has yet to turn for the better, showing only marginal average price growth of 1.5% in the 1st quarter.

It must be emphasised, however, that the differences in price growth between the segments in recent times remains marginal..

5. CONCLUSION – Do we have a Middle Income "sweet spot"?

Our segment house price indices continue to point to the Affordable Segment performing the best, but as of late only by a slight margin.

It would appear as of late that the "Middle Income" segment, which is the major metro price segment somewhere just above R1m, has developed into something of a relative "sweet spot" in the residential market. As yet, its average price growth improvement has only managed to more-or-less catch up with the Affordable segment, and at 4.8% in the 1st quarter (using Deeds data) is not yet hugely impressive. But it has been the 1st of the 3 higher value segments to show some improvement from late in 2011, and our FNB Estate Agent Survey by segment points to this segment as possibly having the healthiest "fundamentals.

By "fundamentals", we refer not only to the best demand rating by agents over the past year, but also in terms of the Middle Income segment being estimated to have the lowest "net financial strength-related downscaling due to financial pressure", as well as having been the most improved segment in this regard since the dark days of 2009.

In terms of balance between supply and demand, as implicitly reflected in the "estimated average time of homes on the market", the Middle Income segment has been the most improved in this regard from 2009 up until the past 4 quarters.

By comparison, the High Net Worth and Upper Income segments still appear to have been languishing in the relative doldrums, with the 2 lowest demand ratings of the 4 segments, and average times of homes in the past 4 quarters being up at levels similar to the peaks registered around 2009