

## PROPERTY BAROMETER – REASONS FOR SELLING HOMES

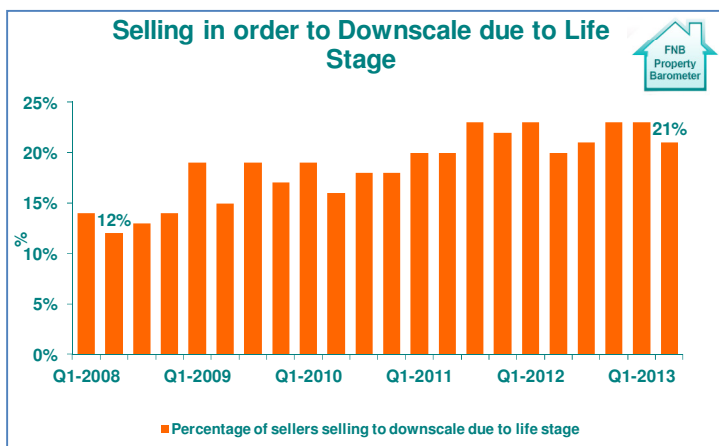
*FNB 2<sup>nd</sup> Quarter Estate Agent Survey continues to show South Africa’s the ageing part of the homeowner population as the largest driver of residential selling.*

17 July 2013

**While the need to “downscale due to financial pressure” and the desire to “upgrade homes” are key drivers of residential property selling, they are not the biggest drivers. Rather, it is still South Africa’s ageing middle-to-upper income classes that remain the most important driver of residential selling according to the 2<sup>nd</sup> Quarter 2013 FNB Estate Agent Survey.**

### **“OLDIES” CONTINUE TO BE A STRONG DRIVER OF RESIDENTIAL SALES**

*In the FNB Estate Agent Survey, one of the questions asked of survey respondents is to provide an indication as to the key reasons for selling. 8 categories of reasons for selling properties are provided. They are “Downscaling due to financial pressure”, “Downscaling with Life Stage”, “Emigrating”, “Relocating to Elsewhere in SA”, Upgrading”, “Moving for Safety and Security Reasons”, “Change in Family Structure”(Divorce, etc)”, and “Moving to be Closer to Amenities”.*



*The largest percentage of sellers, i.e. 21% is believed to fall into the category “Downscaling due to Life Stage” as at the 2<sup>nd</sup> Quarter 2013 survey. This form of downscaling refers to those sellers who desire a smaller home, either because they are getting older or because their offspring have left home.*

*While 21% is slightly down from the previous quarter’s estimate of 23%, the level has hovered at or above 20% since 2011, and is sharply higher than the lowly 12% registered in the 2<sup>nd</sup> quarter of 2008.*

*High rates of selling in order to downscale due to life stage should not surprise, and as mentioned by us previously, has partly to do with the economic cycle, but also partly to do with South Africa’s ageing middle and*

*upper income groups.*

*Members of this group of sellers are not necessarily under financial pressure, and can often bide their time to a certain extent while the market is very weak. That seemed to be the case back around 2008, where many could stay out of the selling market until such time as they felt they could obtain a better price for the sale of their home. Then, as the market gradually improved following the 2008/9 recession, they indeed came out in larger numbers, it would appear.*

*But, cyclical factors aside, a structural change in the form of the ageing population phenomenon may well see this percentage ease higher in the next few years, making this motive for selling an even more significant supporting factor of residential supply in the “mainstream” residential market.*

*The flipside is that this motive for selling could probably be expected to drive strong demand for various forms retirement property, as well as for smaller properties in the “mainstream” market in the coming years.*

### **BUT FINANCIAL PRESSURE-RELATED DOWNSCALING, ALONG WITH UPGRADING REMAIN KEY MOTIVES**

*While the “oldies” remain the strongest driver of selling, our survey respondents in the 2nd quarter of 2013 continued to point to financial pressure-related selling (“selling in order to downscale due to financial pressure”) remaining significant at 18% of total selling. This is slightly up from the previous quarter’s 15%, although not too much should be read into one quarter’s fluctuation.*

While this percentage should serve as an ongoing caution as to the financial frailty of a significant number of households, its trend since 2009 has been in the opposite direction to the “Life Stage” sellers, having declined from a peak of 34% as at the 2<sup>nd</sup> quarter of 2009.

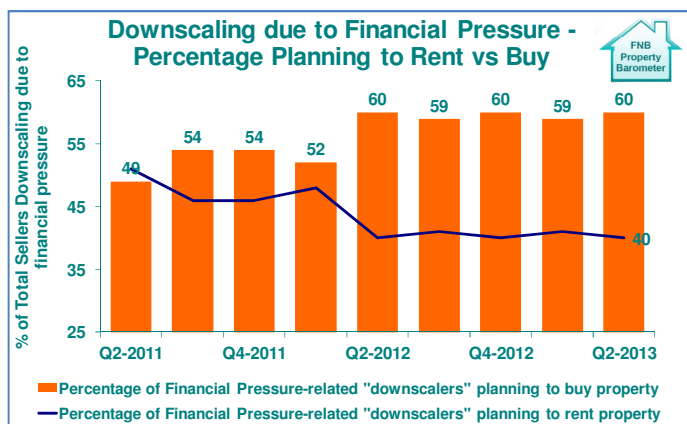
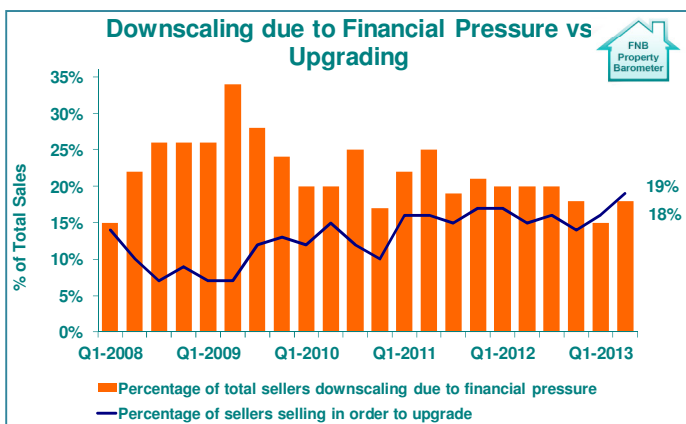
On top of this selling motive having diminished, its contribution to residential supply on the market has been reduced even further by a rise in the percentage of financial stress-related sellers believed to be planning to purchase a cheaper home, as opposed to moving into the rental market.

When we first questioned agents on the split between those “financial stress-related downscalers” planning to rent vs buy, back in the 2<sup>nd</sup> quarter of 2011, they estimated that 51% of this group were planning to rent a home versus 49% planning to buy. By the 2<sup>nd</sup> quarter 2013 survey, this had swung to 60% believed to be planning to buy vs only 40% planning to rent.

The contribution to supply on the market by financial stress-related downscaling has thus declined noticeably, although still significant.

The other key selling group is those households who are financially more solid and are planning to upgrade to a “better” home. The percentage of sellers selling in order to upgrade rose further in the 2<sup>nd</sup> quarter survey, to 19% of total sellers, once again exceeding the percentage of sellers downscaling.

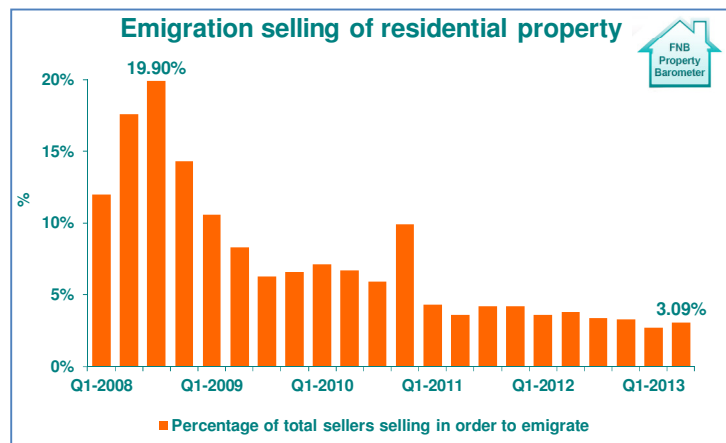
The above 2 reasons for selling are arguably the 2 most important indicators in the survey of financial pressure/constraints experienced by homeowners. Of significance is that as from the 1<sup>st</sup> quarter of 2013, it was the 1<sup>st</sup> time since this survey question started back in late-2007 that the upgrading percentage has been estimated to be higher than the “financial pressure-related downscaling” percentage.



**EMIGRATION SELLING REMAINS A FAR CRY ITS 2008 PEAK**

Of the 8 categories of selling motives, the 4<sup>th</sup> one that we like to monitor closely is “Selling in order to emigrate”. This is particularly of interest with South Africa in a period of seemingly heightened social tension, and due to the fact that our surveys back in 2008 suggested that this motive for selling was one of the largest drives of residential supply.

For the time being however, a deterioration in sentiment towards South Africa does not appear to have brought about any noticeable renewed emigration surge. But this is believed to be due to economic weakness abroad, and it is believed that domestic sentiment would have to improve prior to a sustainable global economic strengthening if we are to avoid another emigration surge.



From a low of 2.7% of total selling in the 1<sup>st</sup> quarter of 2013, the survey respondents estimated emigration-related selling to be only marginally higher in the 2<sup>nd</sup> quarter, at 3.09% of total sellers.

This is not a meaningful increase. However, this percentage will be closely watched in the coming surveys, as recent times can be seen as a rather negative period in South Africa’s recent economic history, with poor labour relations and significant dissatisfaction with government service delivery causing volatility which has affected economic performance.

## IN CONCLUSION

*Selling in order to upgrade has become very significant once more, following a lull in the 2008/9 recession period. However, it has yet to exceed the selling category of “Downscaling due to life stage”.*

*Put life stage and financial pressure-related downscaling together (in total 39% of total selling), and weigh them up against the upgrade-related selling motive (19%), and it would still appear that the environment favours the smaller-sized more affordable home market segments.*

*This suggests that residential building statistics will continue to show a multi-year trend towards a smaller average sized home being completed, as building activity in the smaller-sized and more affordable segment grows more rapidly than in the larger-sized home segment.*

*While that other once key driver of selling back in 2008, namely emigration-related selling, remains subdued at present, despite recently heightened domestic tensions, it is important to understand that our “brain drain” problem has probably not permanently subsided. In different (better) global economic times, the negative impact may have been far more significant, as was the case in various historic periods of weak sentiment towards SA. Improved service delivery and economic performance thus remains crucial.*

Reasons for selling (As % of Total Sales)	Q1-2011	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012	Q4-2012	Q1-2013	Q2-2013
<b>Downscaling due to financial pressure</b>	<b>22%</b>	<b>25%</b>	<b>19%</b>	<b>21%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>18%</b>	<b>15%</b>	<b>18%</b>
Downscaling with life stage	20%	20%	23%	22%	23%	20%	21%	23%	23%	21%
<b>Emigrating</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>
Relocating within SA	8%	7%	7%	8%	9%	9%	7%	7%	9%	8%
<b>Upgrading</b>	<b>16%</b>	<b>16%</b>	<b>15%</b>	<b>17%</b>	<b>17%</b>	<b>15%</b>	<b>16%</b>	<b>14%</b>	<b>16%</b>	<b>19%</b>
Moving for safety and security reasons	12%	11%	10%	9%	9%	12%	11%	11%	11%	10%
Change in family structure	11%	11%	13%	12%	12%	13%	15%	14%	14%	12%
Moving to be closer to work or amenities	7%	6%	8%	7%	6%	7%	8%	9%	10%	8%

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