

PROPERTY BAROMETER – REASONS FOR SELLING HOMES

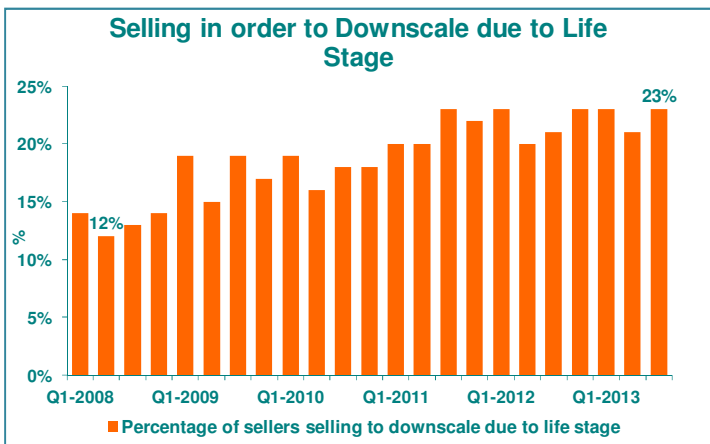
FNB 3rd Quarter Estate Agent Survey continues to show the key motive for selling to be downscaling with “life stage”, reflecting a relatively good stage of the property cycle.

6 November 2013

While the need to “downscale due to financial pressure” and the desire to “upgrade homes” are still key drivers of residential property selling, it is still South Africa’s ageing middle-to-upper income classes that remain the most important driver of residential selling according to the 3rd Quarter 2013 FNB Estate Agent Survey.

“OLDIES” CONTINUE TO BE THE STRONGEST 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 primary residential 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. 23% is believed to fall into the category “Downscaling due to Life Stage” as at the 3rd Quarter 2013 survey. This form of downscaling refers to those sellers who desire a smaller home, usually either because they are getting older or because their offspring have left home.

While 23% is slightly up from the previous quarter’s estimate of 21%, it would appear that this level has broadly stabilized, with two quarters prior to the 2nd quarter survey also recording 23% estimates. The percentage has hovered at above the 20% level since 2011, and is sharply higher than the lowly 12% registered in the 2nd quarter of 2008.

High rates of selling in order to downscale due to life stage should not surprise at this stage. While this significant percentage has partly to do with South Africa’s ageing population, especially in the middle and upper income groups, it also has much to do with the stage of the economic and property cycle..

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. They therefore tend to be “pro-cyclical”.

But, cyclical factors aside, a structural change in the form of the ageing population phenomenon may well see this percentage ease even higher in the coming years, given strong growth in the numbers of people reaching retirement age, 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 continue to drive solid 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, ALSO REMAIN KEY MOTIVES

While the “oldies” remain the strongest driver of selling, our survey respondents in the 3rd quarter of 2013 continued to point to financial pressure-related selling (“selling in order to downscale due to financial pressure”) remaining significant at 16% of total selling. This is slightly down from the previous quarter’s 18%, although not too much should be read into one quarter’s fluctuation. At the current time, the significant percentage of sellers under financial pressure is not troublesome, as some resurgence in house price growth in recent times would probably make it significantly easier for households to trade out of properties without incurring too serious a financial loss. However, such situations become far more troublesome when interest rates rise, as residential demand and prices are often suppressed, the number of sellers under financial pressure increases, and losses when trading out can become more significant. As such, one would still like to see this percentage of sellers downscaling due to financial pressure diminish further before the next interest rate hiking cycle.

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 2nd quarter of 2009.

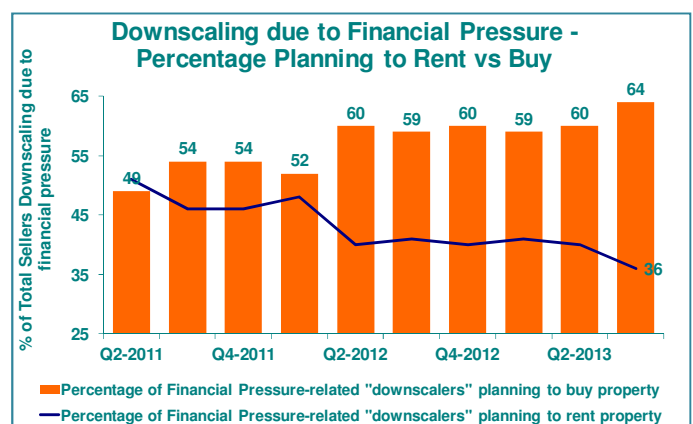
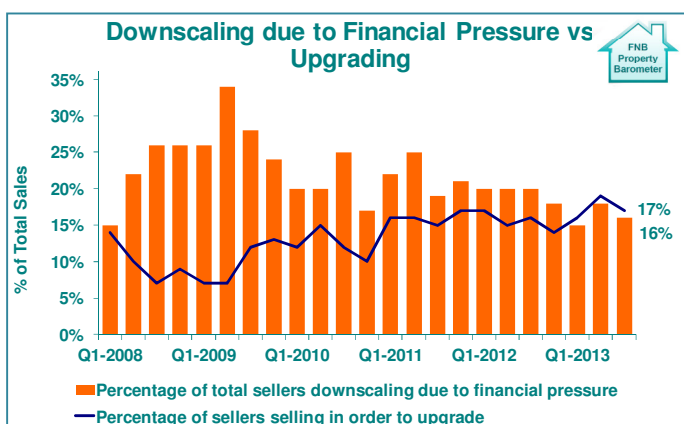
On top of this selling motive having diminished, its contribution to overall residential supply on the market has been reduced further by a rise in the percentage of financial stress-related sellers believed to be planning to purchase a cheaper home, as opposed to moving into the rental market.

When we first questioned agents on the split between those “financial stress-related downscalers” planning to rent vs buy, back in the 2nd quarter of 2011, they estimated that 51% of this group were planning to rent a home versus 49% planning to buy. By the 3rd quarter 2013 survey, this had swung to 64% believed to be planning to buy vs only 36% planning to rent.

The contribution to supply on the market by financial stress-related downscaling has thus declined noticeably in recent years, 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 slowed mildly in the 3rd quarter, from 19% previous to 17% of total sellers, but still exceeds the percentage of sellers downscaling due to financial pressure.

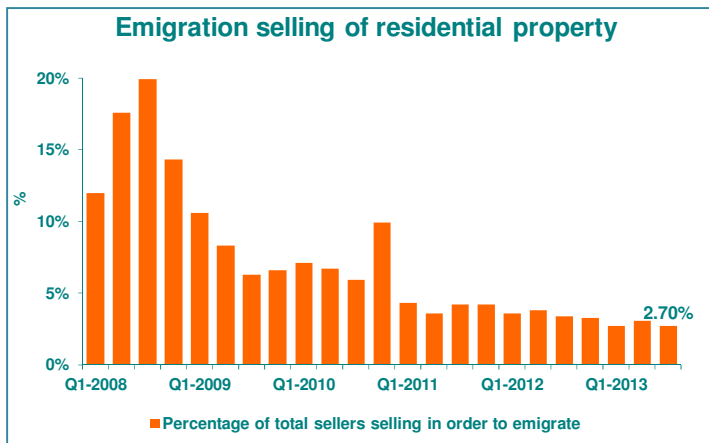
The “downscaling due to financial pressure” and “upgrading” reasons for selling are arguably the 2 most important indicators in the survey of financial pressure/constraints experienced by homeowners. **Of significance is that as from the 1st quarter of 2013, it was the 1st time since this survey question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



EMIGRATION SELLING STILL VERY SUBDUED

Of the 8 categories of selling motives, the 4th 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 still does not appear to have brought about any noticeable renewed emigration surge. But this is believed to be due to economic and employment 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.



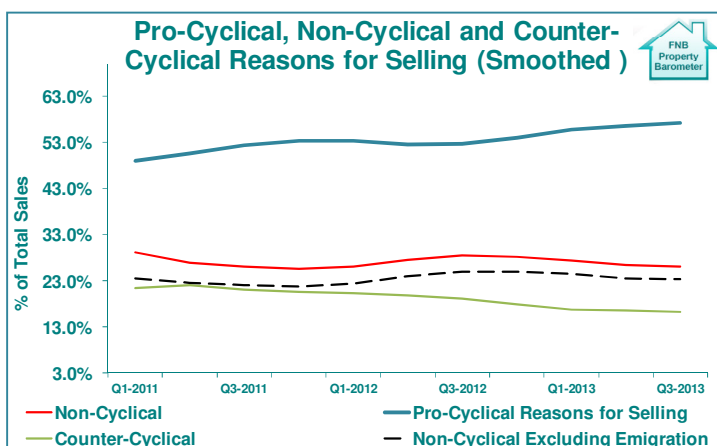
From a previous quarter’s 3.09% of total sellers, estimated emigration-related selling declined slightly to an estimated 2.7% of total selling in the 3rd quarter Agent Survey.

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

An analysis of the various reasons for selling appears to confirm that we are still currently at a relatively strong stage of the property cycle, despite the 3rd Quarter Estate Agent Survey pointing to a slight decline in overall residential market activity levels.

This conclusion is drawn from grouping the various reasons for selling into what we perceive to be “Pro-Cyclical Reasons”, i.e. those categories that tend to increase in significance as the economic/property gathers momentum and vice versa in slowdowns, “Counter-Cyclical Reasons”, i.e. those categories that diminish in significance in better economic and market times and increase in prominence in weaker times, and “Non-Cyclical Reasons”, which have no obvious correlation with the economic/market cycle.



Using smoothed trendlines, we continue to see a broad rising trend in the Pro-Cyclical reasons for selling, which include Selling in order to downscale due to life stage, selling in order to upgrade, relocating within South Africa, and Selling in order to move closer to work or other amenities. Conversely, the Counter Cyclical component, which is solely selling in order to downscale due to financial pressure, remains on a broad declining trend.

With regard to market segments, selling patterns still seem to mildly favour the lower priced segments of the market. Selling in order to upgrade has become very significant once again since the end of 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	Q3-2013
Downscaling due to financial pressure	22%	25%	19%	21%	20%	20%	20%	18%	15%	18%	16%
Downscaling with life stage	20%	20%	23%	22%	23%	20%	21%	23%	23%	21%	23%
Emigrating	4%	4%	4%	4%	4%	4%	3%	3%	3%	3%	3%
Relocating within SA	8%	7%	7%	8%	9%	9%	7%	7%	9%	8%	8%
Upgrading	16%	16%	15%	17%	17%	15%	16%	14%	16%	19%	17%
Moving for safety and security reasons	12%	11%	10%	9%	9%	12%	11%	11%	11%	10%	12%
Change in family structure	11%	11%	13%	12%	12%	13%	15%	14%	14%	12%	12%
Moving to be closer to work or amenities	7%	6%	8%	7%	6%	7%	8%	9%	10%	8%	9%

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