

# PROPERTY BAROMETER – WESTERN CAPE ESTATE AGENT SURVEY

City of Cape Town Metro estate agents suggest that the Western Cape residential market is in a relatively “good space”, but pricing realism still lacks

16 July 2012

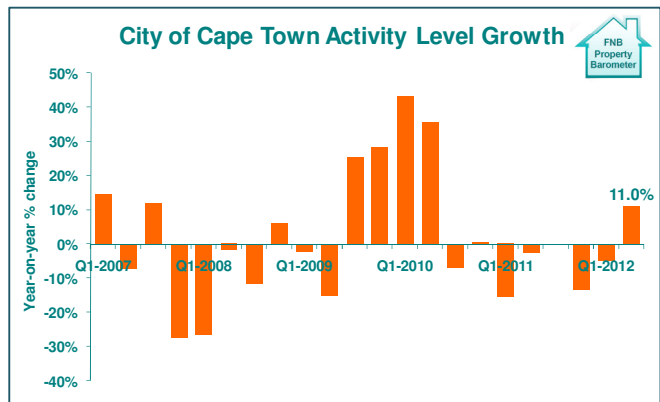
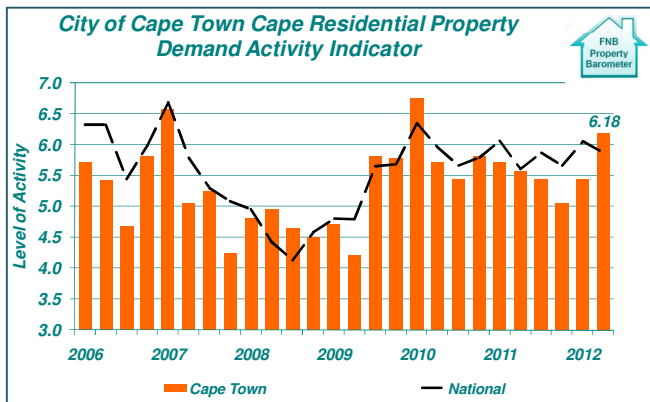


*The 2<sup>nd</sup> quarter FNB Estate Agent Survey for the City of Cape Town brought about some improvement in the strength of residential property demand, according to the sample of agents surveyed. However, the survey may be hinting at “seller optimism”, keeping prices unrealistically high.*

*2<sup>nd</sup> Quarter Demand Activity Level rating was further up,...*

The very first question which the sample of agents surveyed is asked is how they perceive residential demand activity levels. This is a subjective rating, on a scale of 1 to 10, and our City of Cape Town agents have put the demand rating at an average of 6.18. This is the 2<sup>nd</sup> consecutive quarter of increase in this demand rating, and it means that local agents are now a little more upbeat regarding the strength of residential demand in the Cape Metro than are their counterparts in the rest of the country, with the national average rating being a little lower at 5.87.

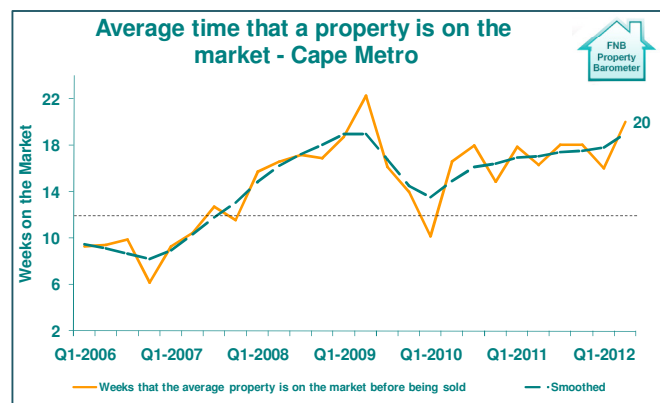
On a year-on-year basis, the 2<sup>nd</sup> quarter demand activity rating was 11% higher than the level in the 2<sup>nd</sup> quarter of 2011. This is the 1<sup>st</sup> time that we’ve seen positive year-on-year growth in the demand rating since the 4<sup>th</sup> quarter of 2010. This is also the highest demand rating since the 1<sup>st</sup> quarter of 2010.



*...but pricing realism still appears to lack.*

An interesting feature of our two indicators of “pricing realism” in the Western Cape is that they appear to currently be going in “contradictory” directions.

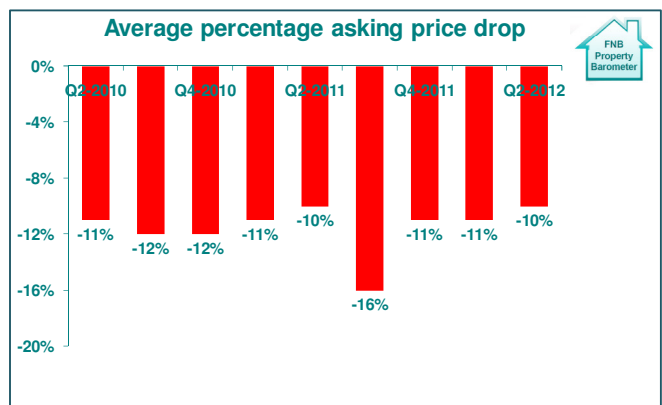
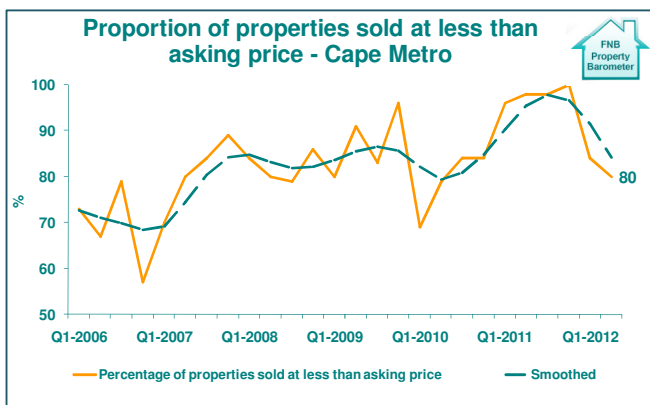
The 1<sup>st</sup> of these indicators is the estimated average time that a property stays on the market prior to being sold. The broad trend in this average has been an “upward drift” since early-2010, to a 2<sup>nd</sup> quarter average time of 20 weeks.



This would appear strange at a time when agents perceive demand strength to have improved. Could it be that seller optimism has improved in recent times, on the back of their perceptions of an improving market? It would appear so, because the second indicator of pricing realism, i.e. the percentage of properties sold at below asking price, has shown a significant decline from an estimated 100% in the final quarter of 2011 to 80% by the 2<sup>nd</sup> quarter of 2012.

One would expect an increasing average time on the market to go hand in hand with an increase in the percentage of sellers having to drop their asking price. We will have to watch these 2 indicators in the coming quarters, as there can be some volatility from quarter to quarter, but the apparent contradiction can perhaps only be explained by increased seller optimism, causing fewer sellers to drop their asking price because they are confident of achieving the price they want, and hereby causing the time on the market to remain long. In addition, a 3<sup>rd</sup> indicator, namely the percentage by which sellers having to drop their asking price actually drop it, is not believed to have increased either, hovering at around 10%, slightly less than the -11% of previous quarters. This also suggests a more optimistic attitude in recent times.

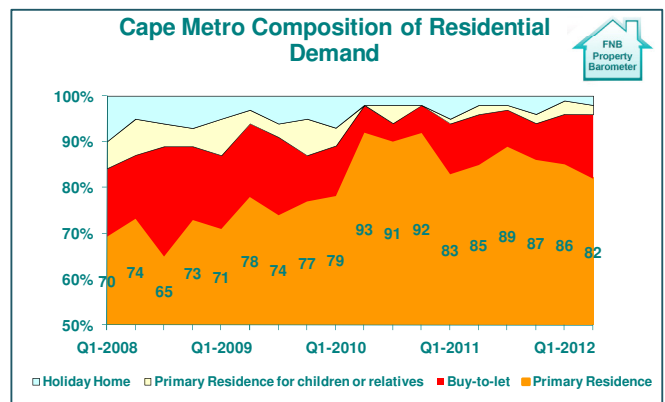
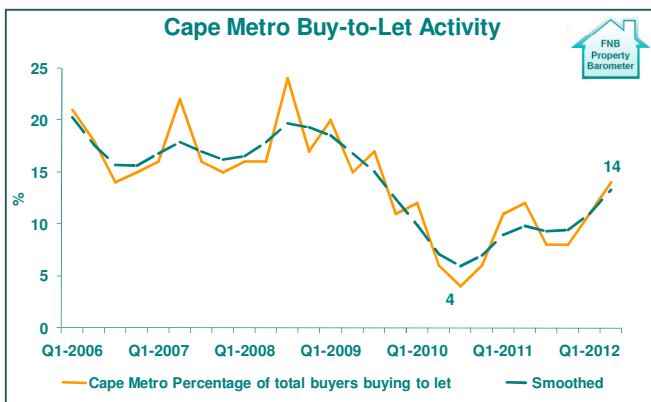
Interesting. Could it be increased optimism by sellers in recent times has driven average time on the market a little longer? Another quarter or two's data is perhaps required before drawing strong conclusions.



**More indicators of increased optimism and demand strength are found in buy-to-let buying estimates,....**

During and after the recession of 2008/9, as financial pressure on the household sector piled up, non-essential forms of property buying very much took a back seat, and primary residential demand was "king". This is still very much the case, but there has been some mild improvement in buy-to-let buying, suggesting greater confidence and perhaps a gradually improving financial position of a portion of the household sector.

From a low of 4% of total buying, reached in the 3<sup>rd</sup> quarter of 2010, buy-to-let buying in the Western Cape has risen in significance to 14% of total buying as at the 2<sup>nd</sup> quarter of 2012, according to agents surveyed. Holiday home and buying of homes for relatives' primary residences, however, remain muted. But all-in-all, largely as a result of increased buy-to-let buying, primary residential buying has slipped back to 82% of total buying as at the 2<sup>nd</sup> quarter of 2012, down from a peak of 93% in the 2<sup>nd</sup> quarter of 2010.

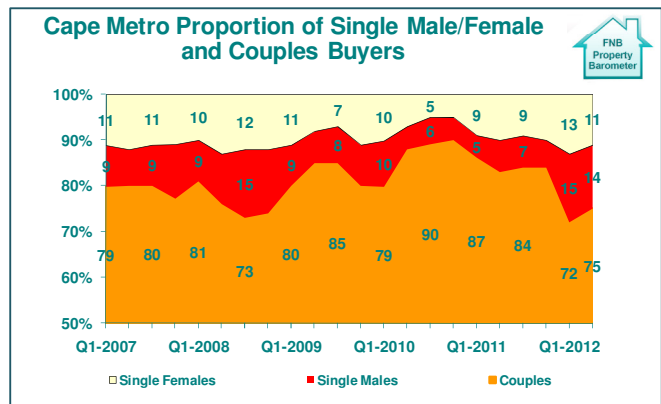
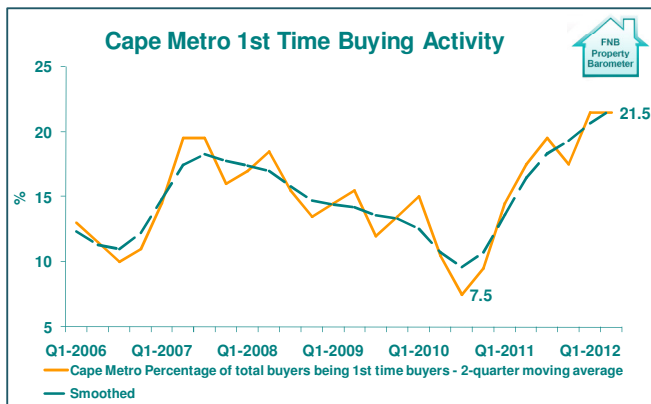


.....as well as 1<sup>st</sup> time buying.

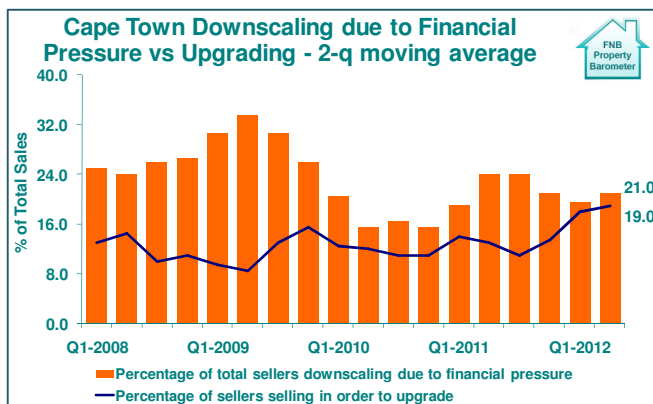
First time buyers have also become more significant in our market in recent quarters. Using a 2-quarter moving average to smooth this somewhat volatile data series, the 2<sup>nd</sup> quarter survey indicated an estimated 21.5% of total buyers being 1<sup>st</sup> time buyers for the 2 quarters up to and including the 2<sup>nd</sup> quarter of 2011.

This is well-up from a low of 7.5% as at the 3<sup>rd</sup> quarter of 2010, and reflects the combination of mildly greater confidence levels amongst 1<sup>st</sup> time buyers, who often have the flexibility to remain on the sidelines in bad times, but also perhaps reflects slightly easier access to credit compared with 2008/9.

The upward trend in the percentage of 1<sup>st</sup> time buyers is arguably also reflected in a recent increase in the percentage of single people buying homes, and the simultaneous decline in couples' buying as a percentage of total home buying. From a peak of 90% of total buying in the 2<sup>nd</sup> half of 2010, buying by couples has receded to 75% by the 2<sup>nd</sup> quarter of 2012, the result of younger buyers entering the market in larger numbers as confidence has picked up.



**But despite a confidence pick up, financial pressure in the Western Cape remains very significant**



The confidence improvement in the Cape Metro residential market can also be seen in a recent increase in the percentage of sellers selling in order to upgrade, from 11% as at the 3<sup>rd</sup> quarter of 2011, using a 2-quarter moving average, to 19% as at the 2<sup>nd</sup> quarter of 2012.

However, despite improved confidence in the Western Cape residential market, we must not fool ourselves as to the extent of the financial frailty of many other households that still exists.

This is probably best reflected in the estimated percentage of sellers selling in order to downscale due to financial pressure, which stood at a still-high 21% in

the 2<sup>nd</sup> quarter, using a 2 quarter moving average.

CAPE TOWN - REASONS FOR SELLING (AS % OF TOTAL SALES) - 2-Quarter Moving Average	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Q1-2011	Q2-2011	Q3-2011	Q4-2011	Q1-2012	Q2-2012
<b>Downscaling due to financial pressure</b>	20.5	15.5	16.5	15.5	19.0	24.0	24.0	21.0	19.5	21.0
<b>Upgrading</b>	12.5	12.0	11.0	11.0	14.0	13.0	11.0	13.5	18.0	19.0
Downscaling with life stage	18.5	15.0	16.5	18.0	21.5	21.5	21.5	23.0	22.0	19.0
Moving for safety and security reasons	11.5	13.0	11.0	10.5	10.0	11.0	9.5	7.0	9.0	12.5
<b>Emigrating</b>	7.5	8.0	6.5	7.0	5.5	2.0	2.5	3.5	2.5	2.5
Relocating within SA	5.5	6.0	8.5	9.5	5.5	5.5	6.0	6.0	6.0	5.5
Change in family structure	16.0	19.5	19.0	17.0	16.0	17.0	17.5	16.5	15.0	13.5
Moving to be closer to work or amenities	8.5	12.0	11.5	11.5	9.0	6.0	7.5	9.5	8.5	8.0

*Finally, on the subject of reasons for selling, I'm happy to say that selling for emigration purposes was at a lowly 2.5% of total selling in the 1<sup>st</sup> half of 2012, well down on recent years and below the national average of 4%, reflecting the relatively high levels of confidence in the Western Cape region by South African standards.*

#### **CONCLUSION**

Therefore, in a nutshell, the picture given by our survey of a sample of estate agents in the Cape Metro is one of further improvement in confidence in the region's residential property market. This can be seen in the overall Demand Indicator, as well as in other indicators such as 1<sup>st</sup> time and buy-to-let buying, and increased selling in order to upgrade. An apparent contradiction in the survey, however, is a further lengthening in the average estimated time of properties on the market, simultaneous with a decline in the percentage of sellers having to drop their asking price. Can it be that sellers are also gaining in confidence, and that this is making them hold out for longer in the belief that they will achieve their asking price? Tough to say as yet, and perhaps another quarter or two of data is required to understand this apparent contradiction.

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