

RESIDENTIAL MAINTENANCE AND UPGRADES

The FNB Estate Agent Survey points to further improvement home maintenance levels, and StatsSA data points to strengthening Additions and Alterations

26 November 2013

FNB ESTATE AGENT SURVEY POINTS TO FURTHER IMPROVEMENT IN LEVELS OF INVESTMENT IN HOMES BY OWNERS

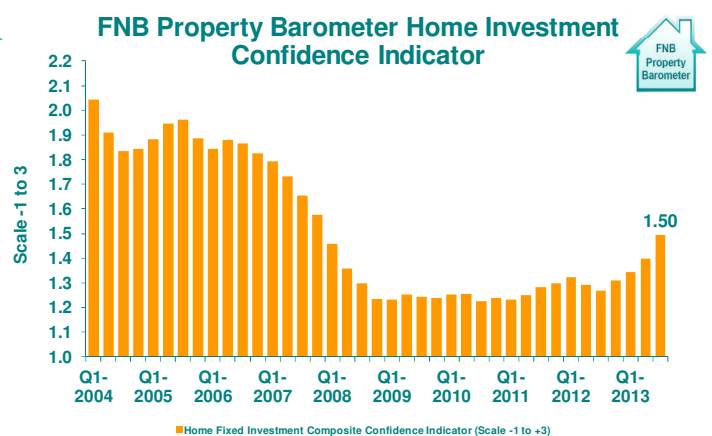
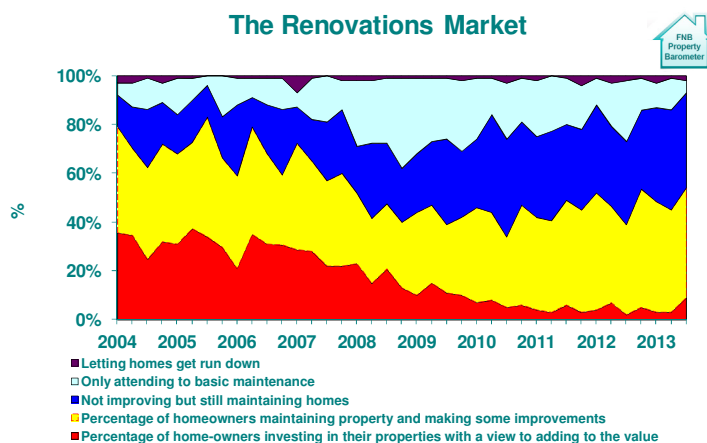
When it comes to protecting the value of the security backing a residential mortgage loan, the levels of home maintenance and value adding upgrades become important from a banking sector point of view. In and around the recession of 2008/9, and in the aftermath, the low levels of maintenance on distressed properties had become problematic for the banking Sector, because it effectively meant that in many cases homes had not held the value required to fully back the value of the mortgage loan. This situation, however, continues to improve, with the FNB 3rd Quarter 2013 Estate Survey reporting further improvement in agent perceptions of the levels of home maintenance .

The agents have perceived a gradual increase in the level of home maintenance since 2009, with the pace of improvement picking up in 2013. Using a 2-quarter moving average to smooth the data mildly, we depict agent perceptions regarding levels of home maintenance below. From 2004, the survey respondents reported a long decline in the percentage of homeowners “investing in their properties with a view to adding value”. This percentage reached a lowly 3% of total homeowners in the areas of these agents by the 1st half of 2013, a far cry from the 43% at the beginning of 2004, but has since jumped a little to 9% in the 3rd quarter survey.

But value adding upgrades aside, things have arguably improved more significantly. The next level “down” is the percentage of homeowners “fully maintaining their property and making some improvements”. This percentage has climbed significantly from a low of 27% in 2008 to 45% in the 3rd quarter of 2013. So too has the next level, namely “percentage of owners not improving but still fully maintaining homes”, having risen from levels between 20% and 30% around the recession of 2008/9 to 39% of total by the 3rd quarter of 2013.

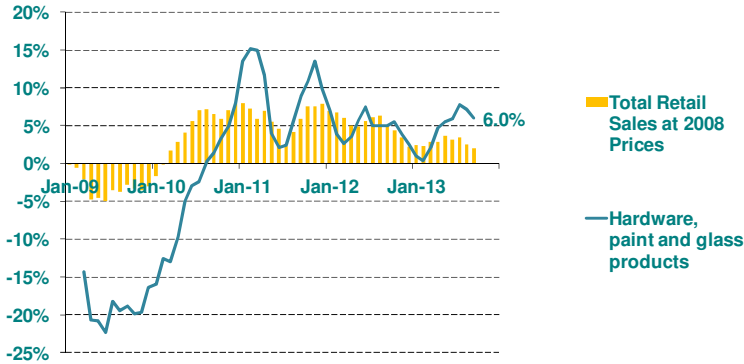
The category that needs to decline, and indeed has, is the category “percentage of homeowners attending to basic maintenance only”, which in effect means the home will “go backward” over time. This percentage increased significantly around the time that banks’ non-performing home loans were skyrocketing, from 6% at the beginning of 2004 to a massive 34% as at the 1st quarter of 2009. Thereafter, however, it has receded all the way back to 5% by the 3rd quarter of 2013, as many of these homeowners have once again migrated to higher levels of maintenance. Those owners allowing their homes to “get run down” remain a small percentage, hovering near to the 2% mark.

The combined result of the agent survey of investment levels in homes is rolled up into the FNB Home Investment Confidence Indicator, represented on a scale of -1 to +3. The indicator has shown a gradual increase from a low of 1.23 reached in the 1st quarter of 2009, to 1.5 by the 3rd quarter of 2013, reflecting mostly improvements in the categories “Not improving but still maintaining homes” and “Maintaining property and making some improvements”.



The noticeable further increase in levels of home maintenance and improvements may have had an impact on the growth rate in retail sales for Hardware, Paint and Glass Products in real terms, which recorded 6% year-on-year for the 3 months to September 2013. This is well up from the revised 0.4% growth rate as at February, and remains well above growth for the overall retail sector's sales.

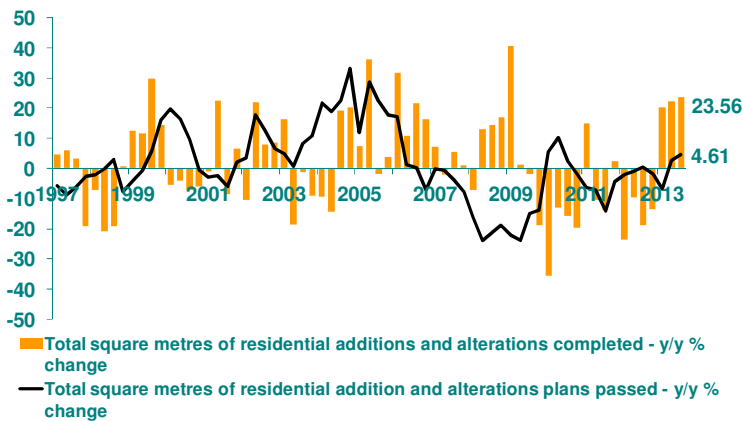
Retail Sales by Hardware-Related Retailers
(2008 Prices)- 3-month moving total year-on-year Percentage Change



At 6% in the 3rd quarter, year-on-year growth in Hardware, Paint and Glass Products is one of the strong areas of an overall weak retail sector, with improved home maintenance levels possibly playing a role.

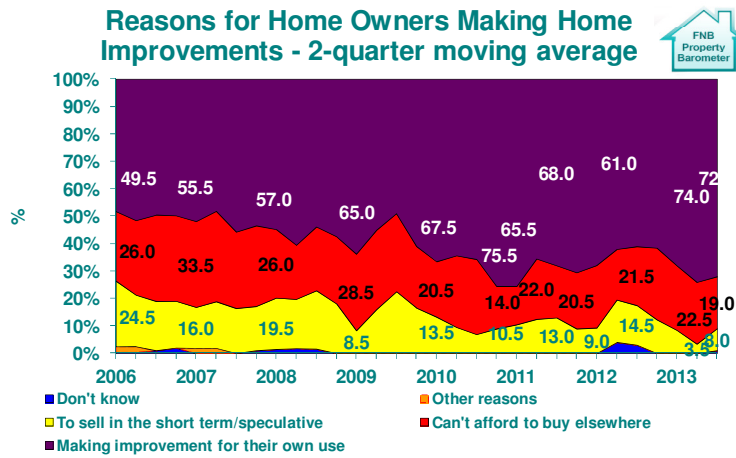
StatsSA building stats also show what the estate agent survey respondents have begun to see, namely a significant increase in additions and alterations recorded by major municipalities. In the 3rd quarter of 2013, the year-on-year growth in square metreage of residential additions and alterations completed was 23.56%, while plans passed were in mildly positive territory to the tune of 4.61%. This has perhaps begun to be witnessed by estate agents in the form of "Value Adding Upgrades" in their areas.

Growth in Residential Additions and Alterations Passed vs Completed (sq. m)



StatsSA building stats have been showing what estate agents have recently started to see, i.e. a higher level of value adding upgrades to homes in their areas.

Finally, with regard to the reasons for why people undertaking home improvements are doing it, our agent survey still points to limited speculative building behavior. However, this did rise a little in the 3rd quarter of 2013, with the estimated percentage of homeowners making improvements in order to “sell for speculative purposes” rising from a lowly 3.5% of the total in the previous quarter to 8%. However, this remains low when compared to the 24.5% estimate back in early-2006. The overwhelming majority (72%) still do it for their own use, while 19% do it because they “can’t afford to buy elsewhere”.



CONCLUSION

The Home Maintenance and Upgrades market continued to improve in the 3rd quarter of 2013.

The FNB Estate Agent Survey has pointed to further improvements in the levels of homeowner investment in their homes through 2013, and this may be having a positive impact on hardware retail sales too.

As yet they do not perceived major strength in the top category of home investment, namely “Value Adding Upgrades” to properties. However, a mild uptick in this category in the 3rd quarter survey may be a sign of things to come. But for the time being, they see the main improvement in the areas of “percentage of homeowners doing full home maintenance” and those doing “full maintenance plus some improvements”.

And so, the FNB Home Investment Confidence Indicator continues to improve, while StatsSA building stats appear to already point to significant improvement in additions and alterations levels in 2013, also suggesting that Value Adding Upgrades may have started to rise.

Finally, the homeowner investment market would seem to be a “rational” place at present, with still very little in the way of short term speculative behavior, with most improvements being done for own use by owners.

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