PROPERTY BAROMETER – Home selling related to financial pressure and constraints

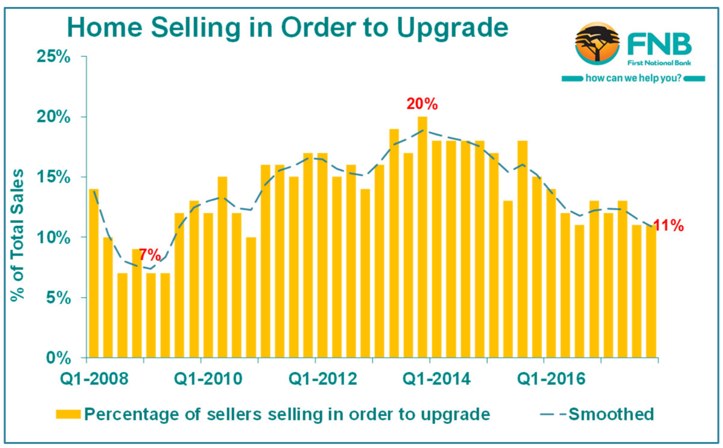
FNB Estate Agent Survey pointed to ongoing caution amongst households in their property buying decisions in the 4th quarter, but with financial "pressure" still at moderate levels

13 February 2018

The 4th Quarter 2017 FNB Estate Agent Survey continued to point to significant Household Sector "caution" with regard to home buying, with a relatively low level of selling of homes in order to upgrade to a better one. However, the market is not a highly "stressed" one.

UPGRADE-RELATED SELLING REMAINED MEDIOCRE LATE IN 2017, AS FINANCIAL "CONSERVATISM" PERSISTED

With widespread weakness in sentiment late in 2017, showing up in both Consumer and Business Confidence readings as well as the Rand, it came as no surprise to see households remain a relatively conservative bunch at the time of the 4th quarter 2017 FNB Estate Agent Survey, which was done in October.



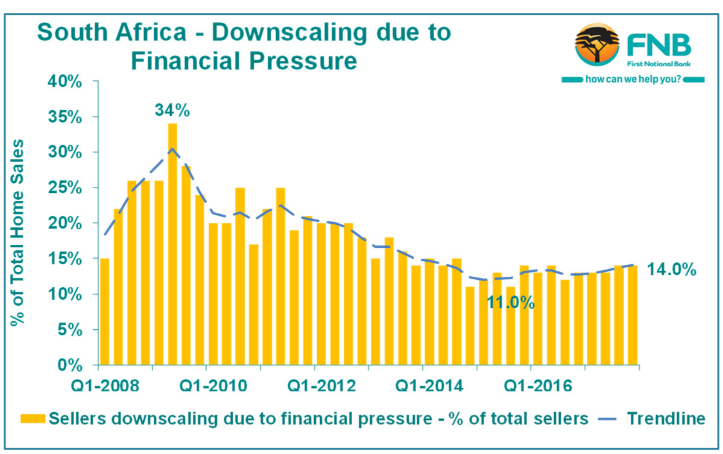
A good indicator of financial caution is to be found within the main reasons that agents believe sellers are selling primary residences for, most notably the estimated percentage of home sellers selling in order to upgrade to a better residence.

The sample of agents surveyed in the FNB Estate Agent Survey estimated that 11% of home sellers were selling in order to upgrade to a better property during the 4th quarter of 2017.

This is unchanged from the prior quarter's 11%, and very significantly lower than the last multi-year high of 20% reached in the final quarter of 2013, just before interest rates started to rise in January 2014.

THE SURVEY POINTS TO MILDLY ELEVATED FINANCIAL STRESS-RELATED SELLING

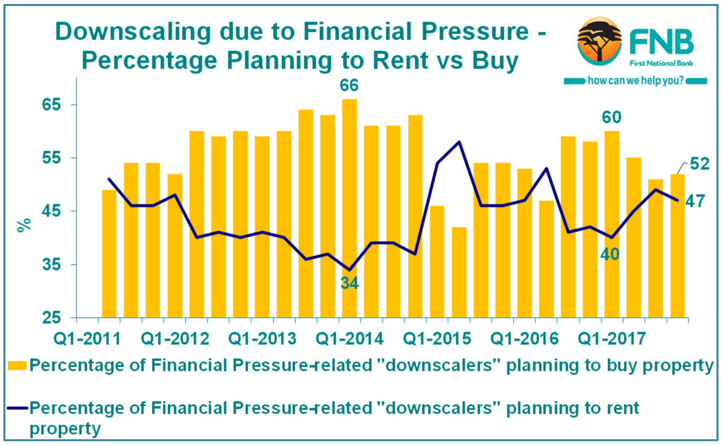
Recent years of economic weakness, and interest rates off their pre-2014 lows, have caused a slight increase in financial stress-related home selling since 2015, but nothing that would appear concerning.



The estimated percentage of sellers "selling to downscale due to financial pressure" was at 14% in the 4th quarter of 2017, unchanged from the prior quarter and only mildly higher than the 11% multi-year low point reached in the 3rd quarter of 2015.

To provide perspective, this percentage remains moderate compared to the 34% high reached in the 2nd quarter of 2009, shortly after the last recession and previous interest rate hiking cycle peak.

WILL FINANCIALLY PRESSURED HOME SELLERS BECOME A LITTLE MORE CONFIDENT AND "BUY DOWN" IN GREATER NUMBERS IN 2018?



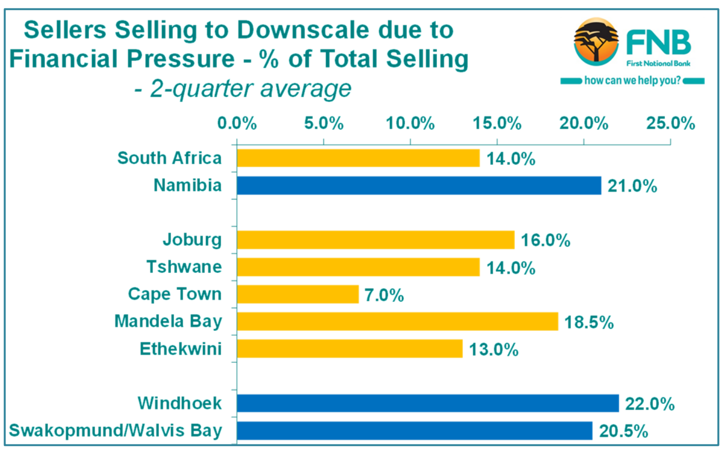
A further sign of relative caution in the housing market from time to time comes when agents begin to perceive a greater portion of financial pressure-related downscalers intending to "rent down" as opposed to "buying down", with renting often seen as the safer short term option.

The agents estimated the percentage of this seller group intending to "rent down" at 47% in the 4th quarter of 2017, slightly down from the prior quarter's 49%, but still noticeably higher than the 40% estimated at the start of last year, and well above the 34% multi-year low reached in the 1st quarter of 2014.

Ever since interest rates started to rise early in 2014, this rental percentage estimate has never reached, nor even got near to, that 34% low again.

The rental option is often the cheaper and lower cashflow risk option, so an elevated percentage intending to "rent down" points to some weakness in confidence amongst this group of financially pressured sellers.

CITY OF CAPE TOWN STILL APPEARS FINANCIALLY HEALTHIEST METRO REGION



Viewing the financial pressure-related downscaling percentages by major metro regions, the divergences in the percentage of sellers selling in order to downscale due to financial pressure may say a lot about economic conditions in these regions in recent years. We use a 2-quarter average percentage for sellers downscaling due to financial pressure for smoothing purposes, due to smaller sample sizes at a regional level.

For the second half of 2017, we see South Africa's estimated selling in order to downscale due to financial pressure recording 14%. Neighbouring Namibia, by comparison, looks significantly worse off with an estimate of 21%, perhaps reflective of that country's recently recessionary conditions, along with a very expensive housing market following a very long boom period.

Within South Africa, the City of Cape Town region appears least plagued by financial stress to date, with the lowest estimate of financial pressure-related downscaling to the tune of 7% for the latter 2 quarters of 2017. The 2 worst performers were Nelson Mandela Bay with 18.5% and Joburg with 16%.

The drought conditions in Cape Town, however, are a key risk going forwards. Failure of the drought to end soon poses the risk of recessionary conditions in that region, and this could alter the Household financial situation negatively. For the time being, though, Cape Town appears the freest of financial stress in its housing market of the major metro regions.

In short, the survey responses regarding the reasons for selling of homes continues to point to a "cautious" Household Sector, and a slightly more financially "pressured" Household Sector compared with 2015.

The still relatively low estimated percentage of households selling in order to downscale due to financial pressure is in part reflective of the Household Sector financial improvements that come with the caution of recent years, most notably a major decline in the Household Sector's Debt-to-Disposable Income Ratio from early-2008 to end-2017. This decline has significantly reduced financial vulnerability of households as a group over the past decade. In addition, the negative impact of a weak economy has been cushioned to a great degree by interest rates remaining relatively low, even after the mild hiking cycle from early-2014 to early-2016.

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