

PROPERTY BAROMETER - RESIDENTIAL MAINTENANCE AND UPGRADES

The perceived level of Residential Maintenance, as per the FNB Estate Agent Survey, remains solid, but the level of “Value Adding Home Upgrades” is perceived to have weakened significantly

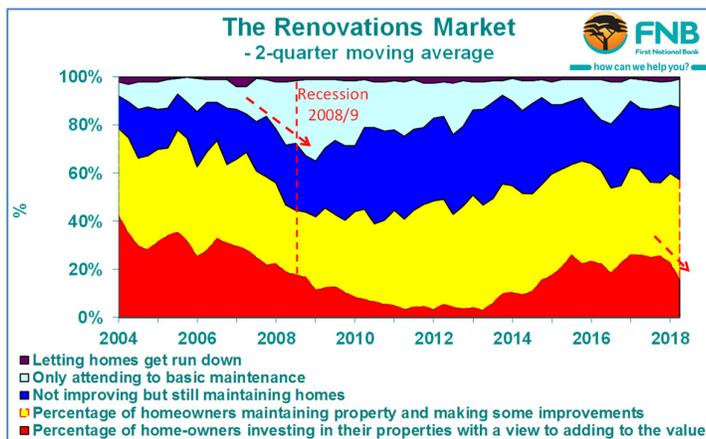
9 July 2018

HOME UPGRADES PERCEIVED TO HAVE DECLINED SIGNIFICANTLY, BUT MAINTENANCE PERCEIVED TO HAVE REMAINED AT RELATIVELY GOOD LEVELS.

While agents surveyed have not perceived major declines in average home maintenance levels in recent surveys, they have pointed to a significant slowdown in the level of “value adding upgrades” to homes.

The FNB Estate Agent Survey recorded a weakening in agent perceptions of overall home maintenance and upgrades levels in the 1st half of 2018. However, this was largely due to a perceived decline in the level of upgrades to homes as opposed to a weakening in general home maintenance levels.

Using a 2-quarter moving average to smooth the data mildly, we depict agent perceptions regarding levels of home maintenance and upgrades, and we have 5 categories/levels of home maintenance and upgrades in the survey.



The “top” level is “Owners are investing a great deal in improvements, renovations and value adding upgrades to their homes”

This response category has shown a very significant weakening from 22.85% of total agents in the 1st quarter of 2018 to 15.5% of agents in the 2nd quarter, now significantly down on 26% highs reached in the 1st 2 quarters of 2017.

The next level “down” is “Owners are maintaining their homes well and making some improvements”. This category has risen from 37.35% of agents in the 1st quarter of 2018 to 41.85% in the 2nd quarter, and is now noticeably higher than the 31% low recorded

in the 3rd quarter of 2017.

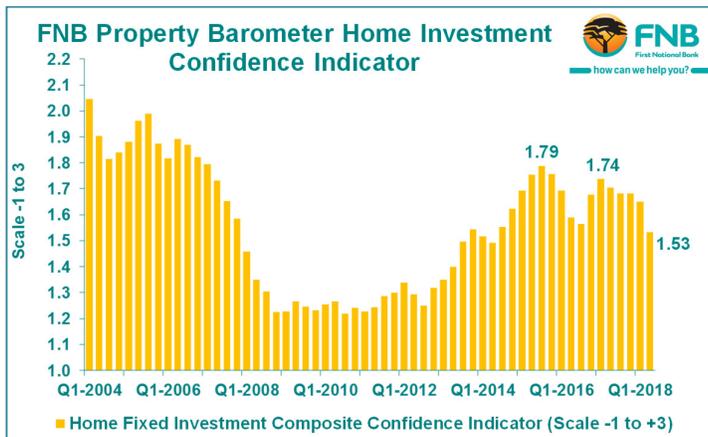
The following level down, namely “Owners are not spending a great deal on improvements / value added features but they are still fully maintaining their homes” is how 30.15% of respondents perceived the situation to be in the 2nd quarter of 2018, also mildly higher than the 28.65% in the 1st quarter.

The 4th level down, namely “owners are really only attending to basic maintenance issues” also saw a slight increase from 9.85% of agents in the 1st quarter of 2018 to 11.85% in the 2nd quarter. Unlike the 3 categories above, a rise in this category is seen as a mild negative. However, those agents responding in the 5th category, i.e. “owners are doing little to maintain their homes and are letting them get run down”, actually receded from 1.85% in the previous quarter to 0.85% in the 2nd quarter of 2018.

Seen together, the 2 lowest categories have thus not receded significantly to date, which is important because these 2 categories are the ones that can point to the condition of an area deteriorating.

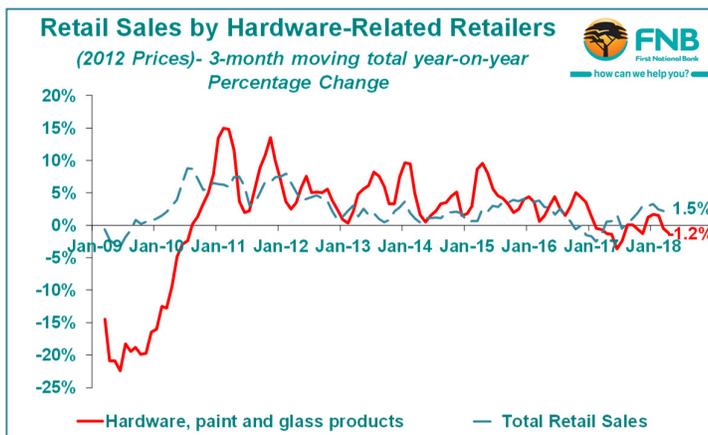
All of this put together points to 2 major themes that we have highlighted for some time, i.e. mounting financial “constraints” in a stagnating economic environment, but no significant increase in financial “stress” yet. Therefore, various indicators, including this part of the survey, points to a noticeable cutback on luxuries, which value adding upgrades could generally be classified as, but not yet significant cutbacks in the more essential general maintenance items.

FNB HOME INVESTMENT CONFIDENCE INDICATOR SHIFTS LOWER



The noticeable decline in the highest of the 5 categories of home investment, i.e. the “Value Adding Upgrades” category, in recent quarters, has been instrumental in lowering the revised FNB Home Investment Confidence Indicator, from a high of 1.74 in the 1st quarter of 2017 to 1.53 by the 2nd quarter of 2018.

This indicator is represented on a scale of -1 to +3.



The recent decline in the overall home investment levels, according to the agent survey, may have begun to take its toll on the level of Hardware Retail Sector Sales growth early in 2018. Whereas overall Real Retail Sales year-on-year growth was still in positive territory to the tune of 1.5% for the 3 months to April, Hardware, Paint and Glass Products Retail had seen real year-on-year sales growth fall into negative territory to the tune of -1.2% for the same period.

CONCLUSION

The FNB Estate Agent Survey questioning relating to the Home Maintenance and Upgrades market has shown noticeable weakening in the 1st half of 2018. However, this is largely the result of a significant perceived decline in value adding upgrades, and far less to do with any noteworthy decline in the perceived level of home maintenance. This reflects a Household Sector that is increasingly financially constrained, thus cutting back on luxuries such as home upgrades, but not significantly financially stressed yet (financial stress would result in greater cutbacks in home maintenance too, such as was the case around the 2008/9 recession).

The home maintenance situation is still perceived to be far stronger than it was during the 2008/9 recession, which is important from a mortgage lender perspective, lenders wishing to see the value of the security backing their loans being maintained as far as possible.

But with signs that a stagnant economy is here for the foreseeable future, along with rising personal and consumption-related tax rates, and recent petrol price increases, it is not inconceivable that levels of financial stress could gradually rise, which could start to exert greater pressure on home maintenance levels as well in the not too distant future.

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