

PROPERTY INSIGHTS - RESIDENTIAL MAINTENANCE AND UPGRADES

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

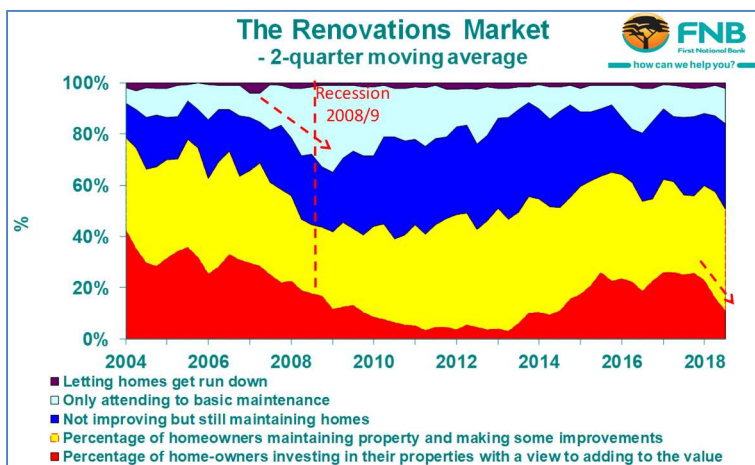
25 October 2018

HOME UPGRADES PERCEIVED TO HAVE DECLINED SIGNIFICANTLY, BUT MAINTENANCE PERCEIVED TO HAVE DECLINED ONLY MARGINALLY TO DATE.

While agents surveyed have perceived only marginal 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 has recorded a noticeable weakening in agent perceptions of overall home maintenance and upgrades levels in the 1st 3 quarters of 2018. However, this was mostly due to a perceived decline in the level of upgrades to homes and less due to a weakening in regular 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 further weakening from 16% of total agents in the 2nd quarter of 2018 to 11% of agents in the 3rd 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 declined mildly from 42% of agents in the 2nd quarter of 2018 to 40% in the 3rd quarter, but remains noticeably higher than the

30.5% low recorded in the 4th 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 33.5% of respondents perceived the situation to be in the 3rd quarter of 2018, also mildly higher than the 30% in the 2nd quarter and more significantly higher than the 2017 low of 25.5% in the 2nd quarter of that year.

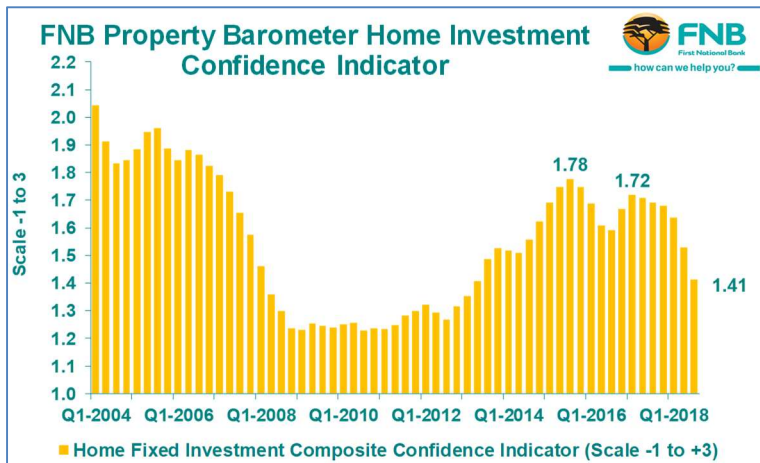
The 4th level down, namely “owners are really only attending to basic maintenance issues” saw a slight increase from 12% of agents in the 2nd quarter of 2018 to 14% in the 3rd quarter, up from a 9.5% low at the start of 2017. Unlike the 3 categories above, a rise in this category is seen as a mild negative. And those agents responding in the 5th category, i.e. “owners are doing little to maintain their homes and are letting them get run down”, also rose slightly from 1% in the prior quarter to 2% in the 3rd quarter.

Seen together, the 2 lowest categories have thus deteriorated mildly, 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 some marginal increase in financial “stress”, reflected by the rise in the 2 “bottom” categories of home investment, but definitely more noticeable signs of mounting financial “constraints” and caution in a stagnating economic environment. Heightened financial “constraints” rather than “stress” is reflected in the

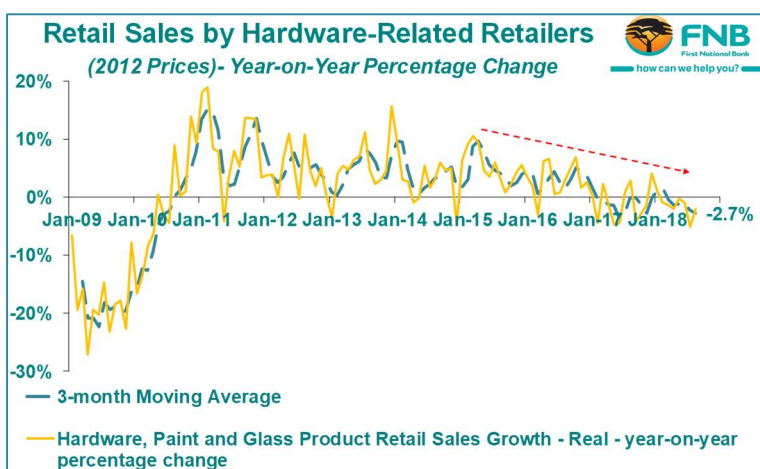
sizeable decline in the perceived level of “value adding home upgrades. Mounting financial constraints can lead to a cutback on luxuries, which value adding upgrades could generally be classified as.

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 1.72 in the 1st quarter of 2017 to 1.41 by the 3rd 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 be gradually taking its toll on the level of Hardware Retail Sector Sales growth in 2018. Whereas overall Real Retail Sales year-on-year growth was still in positive territory to the tune of 2.1% for the 3 months to August 2018, Hardware, Paint and Glass Products Retail had seen real year-on-year sales growth fall into negative territory to the tune of -2.7% for the same period using a 3-month moving average for smoothing purposes.

CONCLUSION

The FNB Estate Agent Survey questioning relating to the Home Maintenance and Upgrades market has shown noticeable weakening in the 1st 3 quarters of 2018. This is mostly due a significant perceived decline in value adding upgrades. However, there has been slight increase in the percentage of agents perceiving home owners to only be undertaking basic maintenance, as well as those letting homes get run down.

This reflects a Household Sector that is increasingly financially constrained, thus cutting back on luxuries such as home upgrades, but perhaps also early hints at rising financial stress (financial stress should result in greater cutbacks in regular home maintenance too, and not just value adding upgrades).

The home maintenance and upgrade situation is still perceived to be stronger than it was during the 2008/9 recession, but the pace of decline has sped up in 2018.

JOHN LOOS:
PROPERTY SECTOR STRATEGIST: FNB COMMERCIAL PROPERTY FINANCE
087-312 1351
John.loos@fnb.co.za

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by Firstrand Group Limited and / or the authors of the material.