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## PROPERTY BAROMETER

### FNB Estate Agent Home Selling Survey

*Pro-Cyclical motives for selling homes continue to recede gradually, a reflection of broad residential market softening since 2015.*

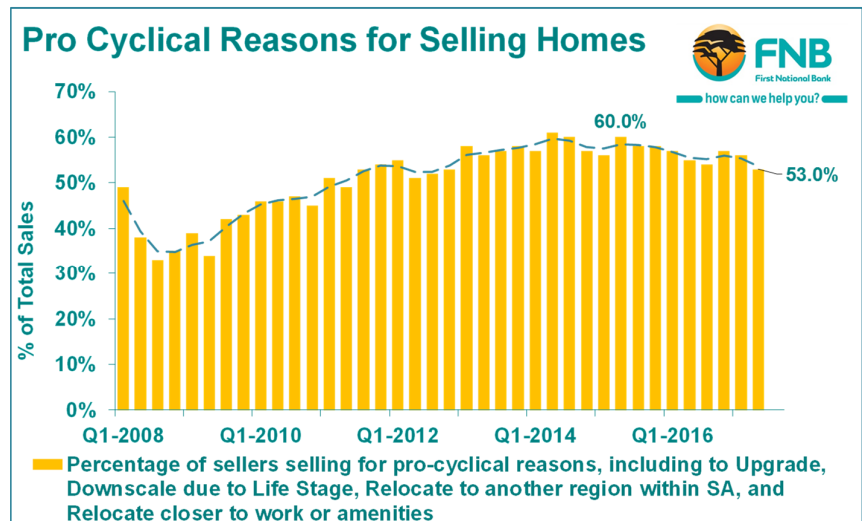
In the FNB Estate Agent Survey, one of the questions asked to respondents is to provide an indication as to the key reasons for selling properties. 8 categories of reasons for selling primary residential properties are provided. They are “Downscaling due to financial pressure”, “Downscaling with Life Stage”, “Emigrating”, “Relocating to Elsewhere in SA”, “Upgrading”, “Moving for Safety and Security Reasons”, “Change in Family Structure”(Death, Divorce, etc)”, and “Moving to be Closer to Amenities”.

#### PRO-CYCLICAL MOTIVES FOR SELLING GRADUALLY RECEDE

Four of these selling motives we believe to be “pro-cyclical”. In other words, these motives should normally recede in significance as the housing market weakens, and vice versa when the market strengthens. These 4 motives are “Selling in order to upgrade”, “Selling in order to downscale due to life stage”, “Selling in order to relocate to another region”, and “Selling in order to relocate closer to work or other amenities”.

In times of a weakening economy or rising interest rates, and resultant weakening in the housing market, less sellers may choose to upgrade to rising financial constraints and weaker confidence. Older sellers who reach a life stage where the home they have is too large for their purposes may aspire to sell to downscale, but a weaker market may cause a portion of them to delay this sale until they can achieve a better price at a later stage. A smaller portion may sell in order to relocate to another region in tougher economic times, due to less new employment and business opportunities to relocate to, and lower confidence levels may dissuade some from incurring the huge costs of relocating nearer to work or amenities for the time being.

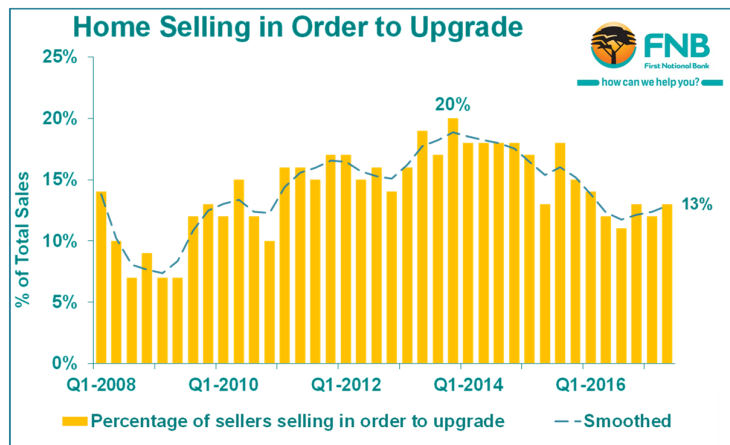
All 4 of these selling motives together made up 53% of total home selling in the 2<sup>nd</sup> quarter of 2017, according to the agents survey. This represents a decline from 56% in the previous quarter, and is noticeably down from a multi-year high of 60% in the 2<sup>nd</sup> quarter of 2015.



The gradual decline in this percentage of pro-cyclical reasons for selling homes is reflective of a multi-year economic growth stagnation since 2012, along with mild increase in interest rates from early-2014 to early-2016.

**UPGRADE-RELATED SELLING REMAINS MEDIOCRE, CONTINUING TO REFLECT A MORE CONSERVATIVE AND FINANCIALLY-CONSTRAINED CONSUMER OF LATE**

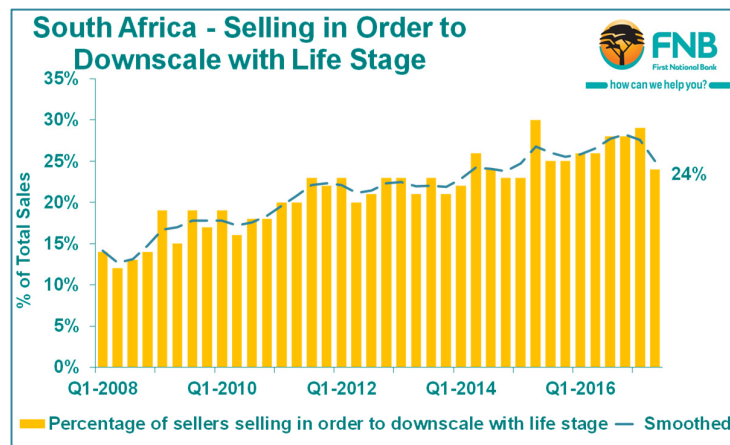
A weak economy, and resultant weak consumer confidence, should cause a shift by many households towards being more cautious, or conservative, in their spending habits.



And indeed, this is what we have seen in the housing market in the form of a far lower percentage of sellers selling in order to upgrade to better homes, compared with 2013/14.

In the 2<sup>nd</sup> quarter 2017 Estate Agent Survey, the estimated percentage of sellers selling in order to upgrade to a better homes was 13%, thus continuing a broad sideways movement in this percentage in recent quarters, having recorded the same 13% 2 quarters prior. This remains well-below the 20% estimate achieved in the final quarter of 2013, just before interest rates started to rise.

**WILL THE “OLDIES” PACE OF DOWNSCALING MODERATE IN A WEAKER SELLER’S MARKET?**



The 2<sup>nd</sup> quarter 2017 survey saw a noticeable decline in the estimated percentage of sellers selling in order to downscale due to “life stage”.

This group has been the dominant force amongst the selling population in recent years, driven by strong growth in the 50+ age cohort’s numbers.

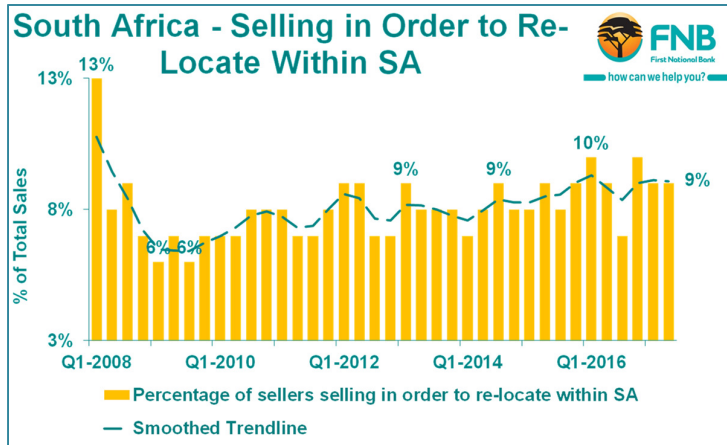
But a 24% of total selling estimate for this selling motive in the 2<sup>nd</sup> quarter 2017 survey is noticeably lower than the previous quarter’s estimate of 29%, and the lowest percentage estimate since the 1<sup>st</sup> quarter of 2015.

Does this reflect the start of a slowing in the pace of the older sellers downscaling? One quarter drop is too early to tell, but a near term decline is possible given a current weakness in the housing market.

While this group of sellers may want to downscale, because they no longer need the “over-sized” home that they have, given their life stage, they are in theory not under too much financial pressure. So, if the market weakens, as it has done in recent times, a portion of them could conceivably decide to wait for a better market period at some future stage before trying to sell, in order to realise the best capital gains possible.

We shall watch this in the coming quarters, but for the time being, despite the 2<sup>nd</sup> quarter decline, this motive for selling remains the single-biggest one of the 8 major reasons.

**SELLING IN ORDER TO RELOCATE TO ANOTHER GEOGRAPHICAL REGION REMAINS SIGNIFICANT**

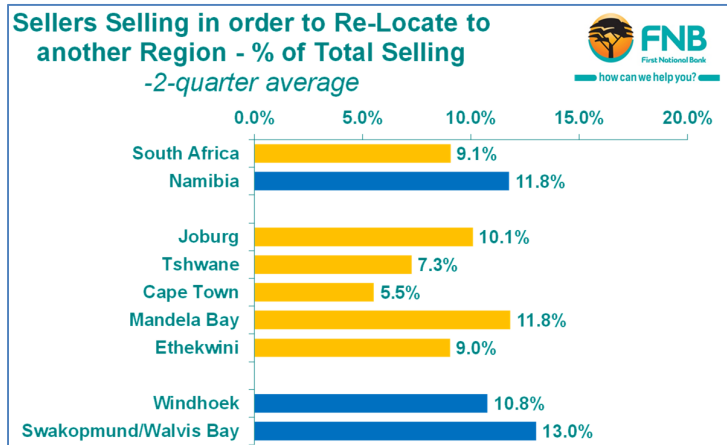


The impact of the economic slowdown doesn't appear to have meaningfully affected the level of selling in order to relocate to other parts of South Africa.

The more affluent members of society are increasingly searching for lifestyle, and are often prepared to relocate for it.

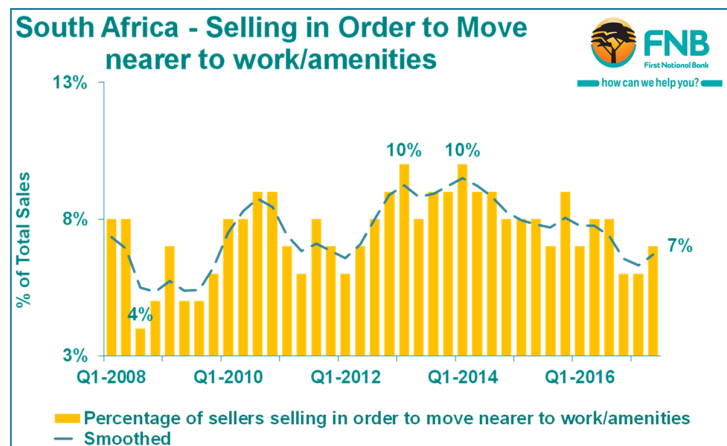
In certain cases, we believe that this "semigration" has become the affordable alternative to emigration for some people, given that extreme property values in many popular emigration destinations have made emigration a very costly business.

At 9% of total selling in the 2<sup>nd</sup> quarter 2017 survey, this estimate is slightly down from recent highs of 10%, reached at stages of 2016, but remains significantly higher than the 6% lows of the 2008/9 recession period.



We believe that there is still a strong Western Cape "flavor" in these "semi-gration" estimates. The survey shows that for the 1<sup>st</sup> 2 quarters of 2017, the City of Cape Town had the lowest percentage of sellers selling in order to relocate to another part of the country to the tune of 5.5%. Simultaneously, Nelson Mandela Bay had the highest estimate of 11.8%, followed by Joburg with 10.1%. Recently, our deeds data estimates have again pointed to a strong Western Cape drive by many of the "semigrating" inhabitants from the other regions.

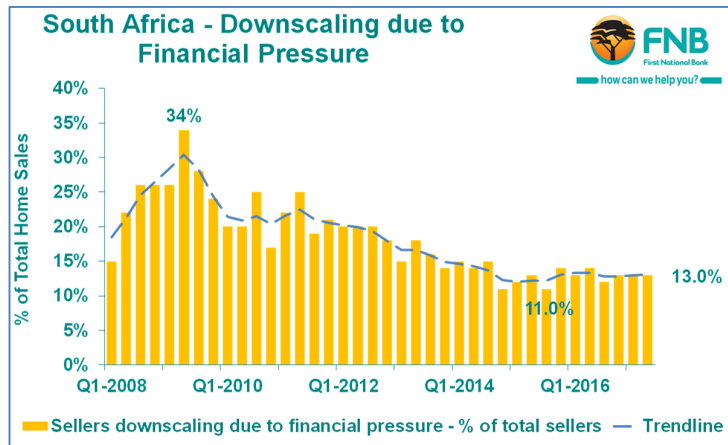
**PREDICTABLY, THE TOUGHER ECONOMIC TIMES OF LATE HAVE SLOWED RELOCATION CLOSER TO PLACES OF WORK AND AMENITIES**



In tougher financial and economic times, the costly nature of property trading and less "job hopping" can cause a slowing in selling in order to relocate closer to places of employment or amenities (such as schools).

Indeed, the agent survey has pointed to such slowing since 2014. In the 1<sup>st</sup> quarter of 2014, this motive for selling was estimated at 10% of total home selling. As at the 2<sup>nd</sup> quarter of 2017 this estimate was 7%.

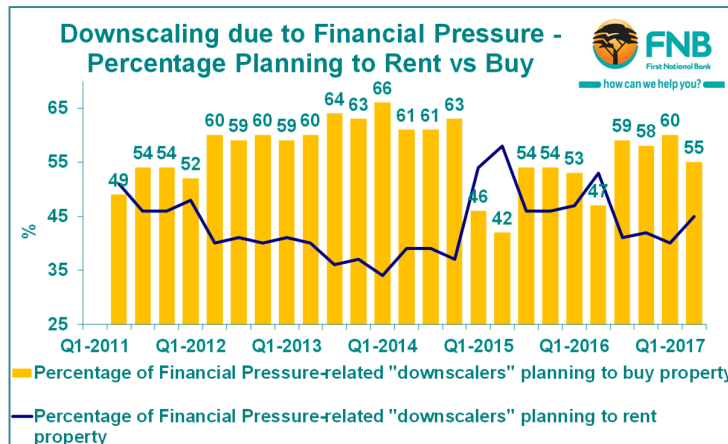
## THE SURVEY DOES NOT POINT TO A NOTICEABLE RISE IN FINANCIAL STRESS-RELATED SELLING



Despite economic weakness and a mild rise in interest rates from early-2014 to early-2016, we have seen little more than a minor increase in financial stress-related selling.

The estimated percentage of sellers “selling in order to downscale due to financial pressure” was unchanged at 13% in the 2<sup>nd</sup> quarter of 2017, which remains only mildly up from the 11% low back in the 3<sup>rd</sup> quarter of 2015.

This percentage remains moderate compared to the 34% high reached in the 2<sup>nd</sup> quarter of 2009, shortly after the last recession and previous interest rate hiking cycle peak.



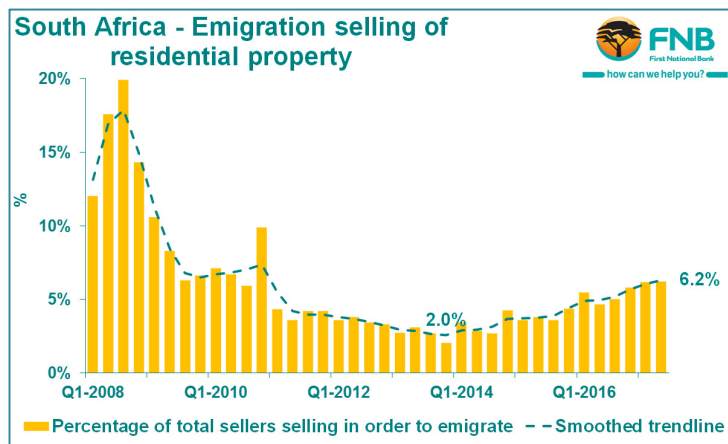
The survey respondents may be starting to suggest a slight deterioration in the confidence levels of those sellers downscaling due to financial pressure as a group, though.

We say this because the agents believe that within the category of sellers selling in order to downscale due to financial pressure, the estimated percentage of those intending to “rent down” as opposed to “buy down” has increased mildly, from 40% in the 1<sup>st</sup> quarter of 2017 to 45% in the 2<sup>nd</sup> quarter.

The rental option is often the cheaper and lower cashflow risk option, so a rise in the percentage intending to “rent down” as opposed to “buying down” points to some decrease in confidence amongst this group of financially pressured sellers. However, to date it is only a 1-quarter increase in the “rent down” percentage, so it is too early to draw hard conclusions.

## EMIGRATION RATE CREEPS UP GRADUALLY

The “Selling in order to emigrate” motive for selling is one that we have been watching closely in recent years, given signs of rising “social tensions”, along with recent years of economic growth stagnation in South Africa.



And indeed, our survey respondents have been pointing towards a gradual rise in the percentage of sellers selling in order to emigrate, from a low of 2% back in the final quarter of 2013 to 6.2% of total selling by the 2<sup>nd</sup> quarter of 2017.

This is not extreme when compared to the estimate reaching as much as 20% at a stage of 2008. However, the rising trend is a concern from an economic performance point of view, as emigration-related home selling in many instances represents highly skilled labour departing for foreign shores.

## IN CONCLUSION

The broad picture emanating from the FNB Home Selling Estate Agent Survey remains one of financial constraints and caution, in an environment of economic weakness and uncertainty.

The 4 “pro-cyclical” motives for selling as a group continued their gradual decline, as a percentage of total selling, reflective of broad market softening since 2015.

We believe that the very high level of selling in order to downscale due to life stage is not only driven by strong growth in the size of the older middle and upper income population numbers, but also due to a sizeable group of the ageing population wanting to “offload” larger homes, that are increasingly costly to operate, in favour of smaller and less costly homes. However, in the 2<sup>nd</sup> quarter 2017 survey this group’s percentage declined noticeably, which could mean a portion of ageing home owners deciding to postpone such downscaling until a later stage when the market is hopefully a better sellers market than the current time.

The 2<sup>nd</sup> sign of relative caution these days is the relatively low level of selling in order to upgrade homes compared with 2013/2014. A greater portion of home owners thus seem intent on “staying put” for the time being.

Relocating to another region remains relative strong, albeit slightly off recent estimated highs, while relocating closer to places of employment and amenities has seen a noticeable decline since 2014, reflecting more cautious and financially constrained households perhaps “staying put” for the time being in greater numbers.

There is no strong sign of rising financial “stress”, with little increase in sellers selling in order to downscale due to financial pressure. This group, however, may be set to become a little more “cautious” however, with the 2<sup>nd</sup> quarter 2017 survey showing a mild rise in the estimated percentage believed to be taking the less risky “rent down” route as opposed to the “buy down” route.

Finally, a key concern that remains is the gradual uptick in emigration-related home selling. Although at 6.2% of total selling this percentage is not extreme, there has been a gradual rising trend from the 2% low of late-2013, and such an increase is never positive given that it probably represents a rise in the departure rate of skilled members of the labour force.

Reasons for selling (As % of Total Sales)	Q1-2016	Q2-2016	Q3-2016	Q4-2016	Q1-2017	Q2-2017
<b>Downscaling due to financial pressure</b>	<b>13.0%</b>	<b>14.0%</b>	<b>12.0%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>13.0%</b>
Downscaling with life stage	26%	26%	28%	28%	29%	24%
<b>Emigrating</b>	<b>5.5%</b>	<b>4.6%</b>	<b>5.0%</b>	<b>5.8%</b>	<b>6.2%</b>	<b>6.2%</b>
Relocating within SA	10%	9%	7%	10%	9%	9%
<b>Upgrading</b>	<b>14%</b>	<b>12%</b>	<b>11%</b>	<b>13%</b>	<b>12%</b>	<b>13%</b>
Moving for safety and security reasons	10%	12%	12%	10%	11%	13%
Change in family structure	15%	15%	17%	15%	13%	15%
Moving to be closer to work or amenities	7%	8%	8%	6%	6%	7%