July 2020

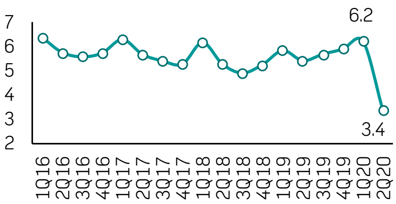
FNB Estate Agents Survey

3.4
Market activity (out of 10)

14.1
Weeks on market

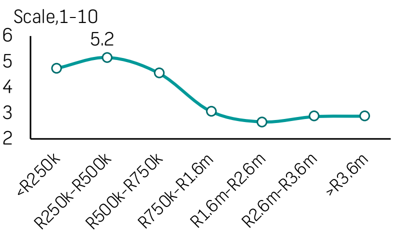
12%
Average discount (from asking price)

Figure 1: Market activity plummeted in 2Q20



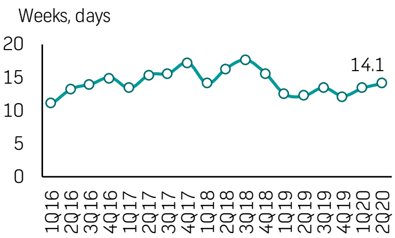
Source: FNB Estate Agents Survey

Figure 2: "Affordable" segments holding steady



Source: FNB Estate Agents Survey

Figure 3: Time on market lengthened, but by less than expected



Source: FNB Estate Agents Survey

Activity plummets; outlook uninspiring

Market activity plummeted to 3.4 points in 2Q20, from 6.4 in 1Q20, prior to the lockdown according to the FNB Estate Agents Survey*. This marks the lowest rating in 17 years (since the inception of the survey), and is below the 4.4 recorded in 2Q08, during the global financial crisis. The market activity rating is derived from a sample of estate agents' rating of activity in their respective markets, scaled between 1 and 10. Anecdotally, this implies that the impact of the pandemic will be larger than during the previous market shock, at least from the market volumes perspective.

The slowdown in activity was experienced across all price segments, although agents in the affordable market (crudely defined as properties priced < R750k) reported relatively better activity. To put this into context, activity rating in the affordable market declined to 4.7, from 6.9 in 1Q20. By comparison, activity rating plummeted to 2.9 points, from 6.02 in 1Q20, for the "conventional" market (defined as properties valued > R750k).

Commensurately, time on market lengthened to 14 weeks and 1 day, from 13 weeks and 4 days in 1Q20. As expected, this varied markedly across regions and price segments, with the affordable market averaging 11 weeks, while the conventional market averaged 15 weeks and 2 days. Note, however, that this estimate is from a small sample of estate agents who were able to make a sale during this period. As such, it may have an area bias in that the sample may be over-represented in highly sought-after areas (see below).

Nevertheless, we attribute the slump in market activity to the impact of lockdown regulations on human movement; lack of confidence, due to heightened job insecurity and uncertainty about the economic outlook; as well as the temporary closure of the deeds office.

The outlook is also uninspiring – only 44% of the interviewed agents see activity improvement in the next two to three months. The majority of those who expect activity to improve primarily operate in the affordable segments. From a home value perspective, 70% of sampled estate agents believe that prices will decline over the next 12 months. However, only about 46% expect a decline in property values in the affordable market. This is consistent with our view that we will likely see a contraction in prices in middle to affluent segments, with a relative resilience in the

** Results include the "affordable" market segment from 1Q19.*

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affordable market. Overall, we expect a decline in property prices (around 5%) for 2020.

Results further show that the pandemic has not yet led to exceptional market discounts. In fact, the average discount (difference between the final sale price and sellers' initial asking price) was 12% in 2Q20, relatively unchanged from 13% in 1Q20. This could be due to a limited number of transactions taking place during this period (due to lockdown), and that transactions may have been constrained to sought-after areas. Some agents opined that "… people who really want to buy are not influenced by the pandemic". Furthermore, there has not been a material change in the volume of transactions concluded at below the initial asking price (79%, relatively unchanged from 80% in 1Q20). As expected, this varies markedly across price segments – with an estimated 92% of transactions in the R750k and above segment concluded below asking price, compared to 39% in the affordable market. This suggests that the negotiating power still favours buyers in the upper segments, and sellers in the lower end. This, in part, is supported by the fact that approximately 5% of transactions in the affordable segment are concluded at above the sellers' initial asking prices. Nevertheless, there is a ceiling to which sellers (in the affordable market) can push their asking prices, even with a supply deficit. Agents explain that this would be the case when socioeconomic conditions do not allow or when asking prices are simply unrealistic.

Reasons for selling

Survey results show "Downscaling because of life stage" as still the most prominent reason for selling a property in SA, with such sales accounting for 23% of all transactions in 2Q20.

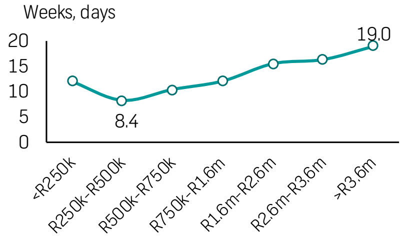
Concerningly, agents reported an increase in volume of properties believed to be put on the market due to financial pressure. This was accompanied by a decline in the volume of sellers who are believed to be looking to upgrade. The rise in selling due to financial pressure largely came from the low- to middle-priced segments (< R750k and R750k–R1.6m segments). Nevertheless, an estimated 55% of these sellers return to the market and look for a cheaper property, as opposed to renting.

Emigration-related sales remained unchanged at 17% in 2Q20, after having averaged around 18% over the past year. The bulk (70%) of those selling to emigrate are aged between 35 and 44 years old.

Bottom line

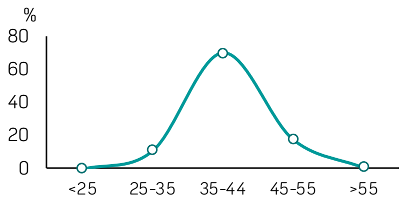
Overall, the FNB Estate Agents Survey results are consistent with our outlook. We expect both volumes and house price to decline significantly this year. Some pent-up demand could be unleashed in the recovery phase (potentially from 2021), due to lower prices and borrowing costs. However, this will likely not be enough to replace the lost demand (possibly constrained to sought after areas) due to very weak labour market outcomes and the uncertain economic outlook. Indeed, some agents report that they have started seeing a recovery in buyer interest, and web traffic to property portals continues to improve. We reiterate that sustained recovery will depend on confidence and labour market outcomes.

Figure 4: Time on market increased across all segments



Source: FNB Estate Agents Survey

Figure 5: Likely age profile of those "selling to emigrate"



Source: FNB Estate Agents Survey

Table 1: Agents' estimate of "reasons for selling" by price segment

Reasons for selling (as % of total sales)	2Q20	<R750k	R750k-R1.6m	R1.6m-R2.6m	R2.6m-R3.6m	>R3.6m
Downscaling due to financial pressure	18	23	18	15	16	14
Upgrading	8	9	9	8	4	5
Downscaling with life-stage	23	18	23	26	24	29
Sacurity concerns	9	8	12	9	6	8
Emigrating	17	7	14	21	26	25
Relocating	11	16	10	7	10	8
Change in family structure	10	9	9	11	11	9
Moving to be closer to work or amenities	5	10	5	2	4	2

Source: FNB Estate Agents Survey

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