

RESIDENTIAL MAINTENANCE AND UPGRADES

The FNB Estate Agent Survey points to improved home maintenance levels, while StatsSA data points to a strengthening Additions and Alterations market.

20 August 2013

FNB ESTATE AGENT SURVEY POINTS TO IMPROVED LEVELS OF INVESTMENT IN HOMES BY OWNERS

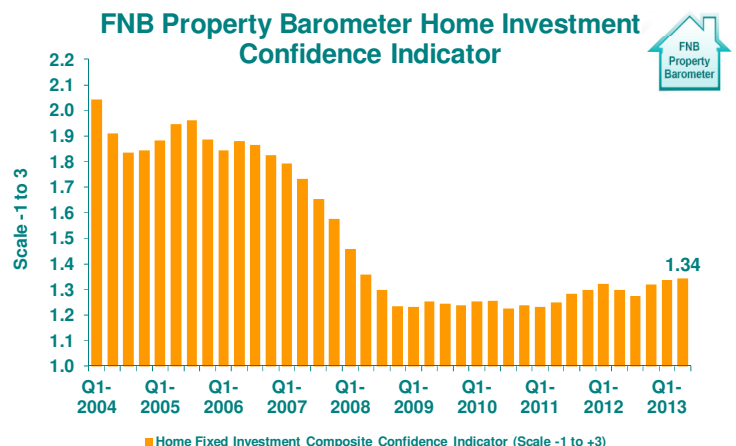
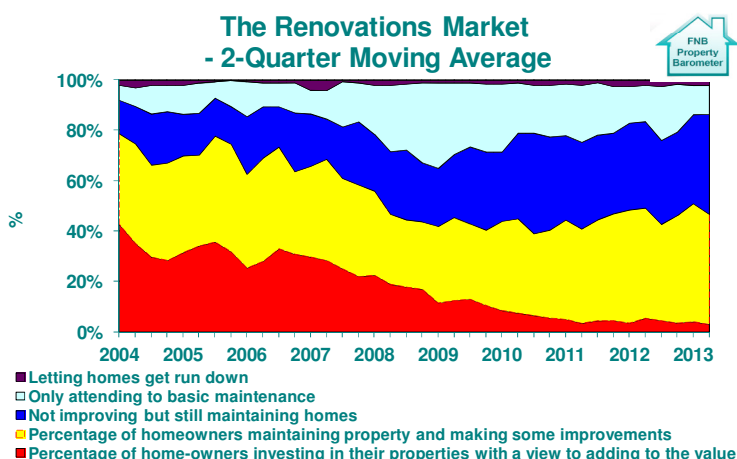
When it comes to protecting the value of the security backing a residential mortgage loan, the levels of home maintenance and value adding upgrades becomes important from a banking sector point of view. In and around the recession of 2008/9, and in the aftermath, the low levels of maintenance on distressed properties had become a problem for the banking Sector, because it effectively meant that in many cases homes had not held the value required to fully back the value of the mortgage loan. This, however, has since turned for the better, it would appear, with the FNB Estate Survey having reported an improvement in agent perceptions of the levels of home maintenance .

The agents certainly don't point to a market that is "splashing out", but they have perceived a gradual increase in the level of home maintenance. Using a 2-quarter moving average to smooth the data a little, we depict agent perceptions regarding levels of home maintenance in the graph below. Since 2004, the sample of agents surveyed has reported a long decline in the percentage of homeowners "investing in their properties with a view to adding value". This percentage was a lowly 3% of total homeowners in the areas of these agents, and is a far cry from the 43% as at the beginning of 2004 at the height of the boom.

But value adding upgrades aside, things have improved significantly. The next level "down" is the percentage of homeowners "fully maintaining their property and making some improvements". This percentage has climbed significantly from a low of 27% in 2008 to 43.5% in the 1st half of 2013. So too has the next level, namely "percentage of owners not improving but still fully maintaining homes", having risen from levels between 20% and 30% around the recession of 2008/9 to 39.5% of total by the 1st half of 2013.

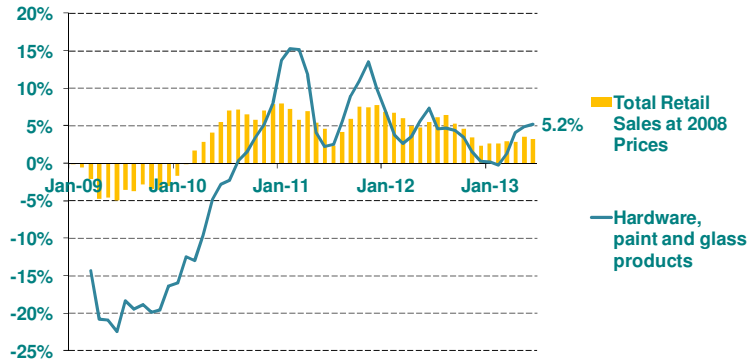
The category that needs to decline, and indeed has, is the category "percentage of homeowners attending to basic maintenance only", which in effect means the home will "go backward" over time. This percentage increased significantly around the time that banks' non-performing home loans were skyrocketing, from 6% at the beginning of 2004 to a massive 34% as at the 1st quarter of 2009. Thereafter, however, it has receded all the way back to 11.5% by the 1st half of 2013, as many of these homeowners have once again migrated to higher levels of maintenance. Those owners allowing their homes to "get run down" remain a small percentage, hovering near to the 2% mark.

The combined result of the agent survey of investment levels in homes is rolled up into the FNB Home Investment Confidence Indicator, represented on a scale of -1 to +3. The indicator has shown a gradual increase from a low of 1.23 reached in the 1st quarter of 2009, to 1.34 by the 2nd quarter of 2013, reflecting mostly improvements in the categories "Not improving but still maintaining homes" and "Maintaining property and making some improvements".



The noticeable renewed increase in these two categories of home investment since around mid-2012 may have had an impact on the growth rate in retail sales for Hardware, Paint and Glass Products in real terms, which recorded 5.2% year-on-year for the 3 months to June 2013. This is well up from the -0.2% decline as at February, and is now well above growth for the overall retail sector's sales.

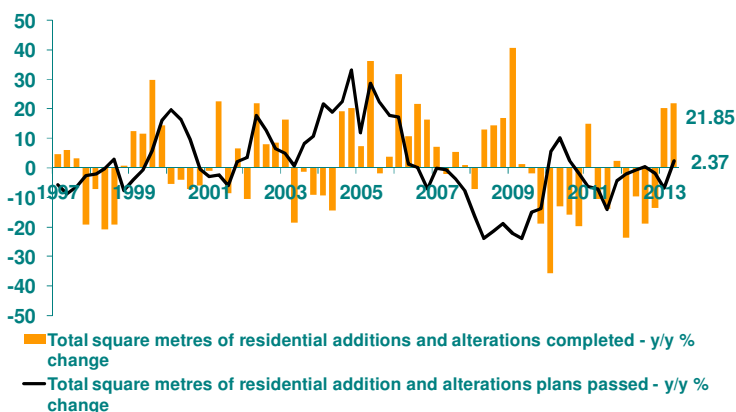
Retail Sales by Hardware-Related Retailers
(2008 Prices)- 3-month moving total year-on-year Percentage Change



At 5.2% in the 2nd quarter, year-on-year growth in Hardware, Paint and Glass Products is one of the strong areas of an overall weak retail sector, with improved home maintenance levels possibly playing a role.

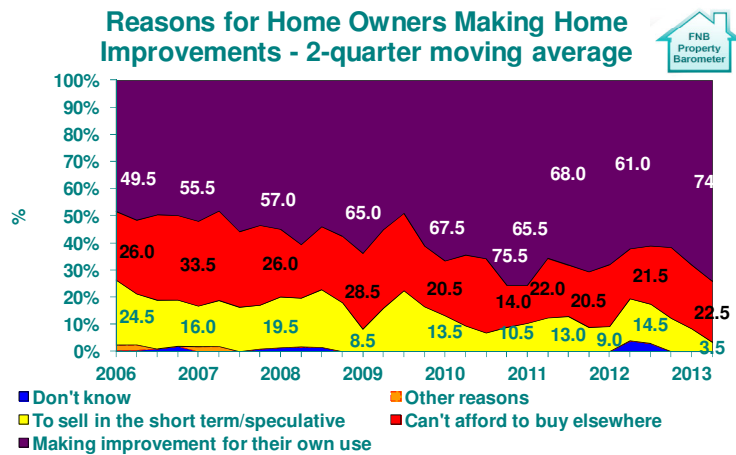
Interestingly, StatsSA building stats appear to show what the estate agent survey respondents have perhaps yet to see, namely a significant increase in additions and alterations recorded by major municipalities. In the 2nd quarter of 2013, the year-on-year growth in square metreage of residential additions and alterations completed was 21.85%, while plans passed had also eased into positive territory to the tune of 2.4%. This appears to have yet to be witnessed by estate agents in the form of "Value Adding Upgrades" in their areas, so some of it is either perceived as being "maintenance with some alterations", or we may be set to witness a rise in the "Value adding upgrades" category of the FNB Estate Agent Survey very soon.

Growth in Residential Additions and Alterations Passed vs Completed (sq. m)



While estate agents don't yet appear to be witnessing improvement in value adding upgrades to homes in their areas, StatsSA building stats suggest that this has already started to take place at a more significant pace

Finally, with regard to the reasons for why people undertaking home improvements are doing it, our agent survey points to very little in the way of speculative behavior. For the 1st 2 quarters of 2013, the estimated percentage of homeowners making improvements that were doing it in order to “sell/for speculative purposes” was a lowly 3.5% of the total, significantly different from the 24.5% estimate back in early-2006. The overwhelming majority (74%) do it for their own use, while 22.5% do it because they “can’t afford to buy elsewhere”.



CONCLUSION

The Home Maintenance and Upgrades market appears to be a better place as of late.

The FNB Estate Agent Survey has pointed to further improvements in the levels of homeowner investment in their homes in the 1st half of 2013, and this may be having a positive impact on hardware retail sales too.

However, as yet they have not perceived any noticeable increase in the top category of home investment, namely “Value Adding Upgrades” to properties. Rather, they see the main improvement in the areas of “percentage of homeowners doing full home maintenance” and those doing “full maintenance plus some improvements”.

And so, the FNB Home Investment Confidence Indicator continues to improve gradually. However, StatsSA building stats appear to already point to significant improvement in additions and alterations levels in 2013, which suggests that Value Adding Upgrades may already be on the rise.

Finally, the homeowner investment market would seem to be a “rational” place at present, with very little in the way of short term speculative behavior, with most improvements being done for own use by owners.

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