

# PROPERTY BAROMETER - RESIDENTIAL MAINTENANCE AND UPGRADES

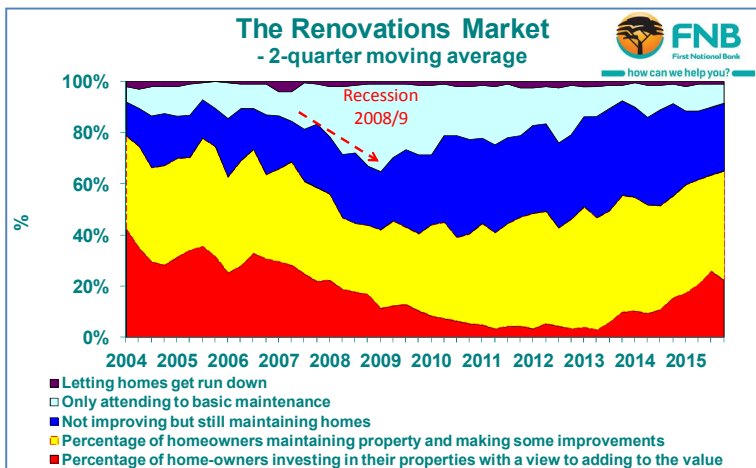
*Is the level of Residential Maintenance and Upgrades starting to settle after a period of significant improvement?*

3 February 2016

## FNB ESTATE AGENT SURVEY POINTS TO A POSSIBLE STALLING IN THE STRENGTHENING TREND IN LEVELS OF HOME MAINTENANCE AND UPGRADES OF RECENT YEARS

For the 1<sup>st</sup> time in 6 quarters, the FNB Estate Agent Survey did not record a further improvement in agent perceptions of home maintenance and upgrades, the broad improving trend having been in place since 2013.

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



The “top” level is that of “Value Adding Home Upgrades”. After a noticeable improvement in this category through much of 2013 to 2015, the 4<sup>th</sup> quarter survey recorded a decline in the estimated percentage of homeowners “investing in their properties with a view to adding value” from 26% in the previous quarter to 22.5% on a 2-quarter moving average basis.

A decline in the level of these costly value adding upgrades is plausible in the current time of almost recessionary economic conditions, and with interest rates gradually rising. Consumer Confidence was extremely low through much of 2015 as consumers become increasingly aware of, and concerned about, the poor economic environment.

The next level “down” is the percentage of homeowners “fully maintaining their property and making some improvements”. This category had previously looked like it had peaked, but returned a strong reading in the 4<sup>th</sup> quarter survey to the tune of 42.5% of home owners, up from the prior quarter’s 37.5%.

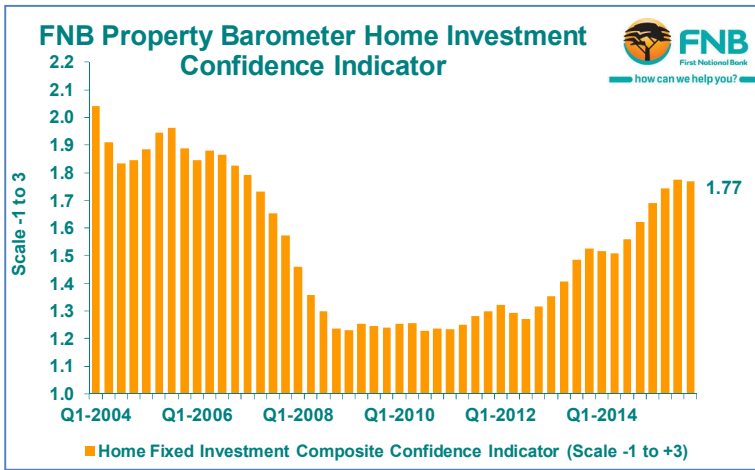
The following level down, namely the “percentage of owners not improving but still fully maintaining homes”, was unchanged at an estimated 26.5% in the 4<sup>th</sup> quarter survey.

This all translates into a slight decline in the category that one would always like to see being low, i.e. the “percentage of homeowners attending to basic maintenance only”, a level which in effect means the home will “go backward” over time. This estimated percentage was 7.5% in the 4<sup>th</sup> quarter of 2015, slightly lower than the 9% of the prior quarter.

Those owners allowing their homes to “get run down”, in the areas surveyed, returned a fairly insignificant 1% in the 4<sup>th</sup> quarter.

The decline in the top “upgrade-related” category, but not yet in the “bottom” basic maintenance” or “letting home get run down” categories is in line with our view that the Household Sector has begun to run into financial limits, causing a more conservative spending approach, but has not yet experienced a noticeable increase in full blown financial stress.

Rising financial stress would see those bottom categories’ percentage increase, as they did around the time of the 2008/9 recession.



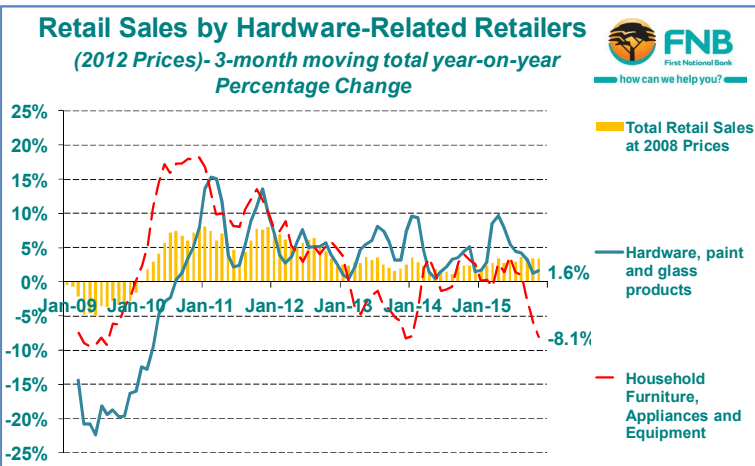
The decline in the highest category of home investment, “Value adding upgrades”, was the key cause of a slight decline in the 4<sup>th</sup> Quarter 2015 FNB Home Investment Confidence Indicator.

This indicator is represented on a scale of -1 to +3. The indicator had shown a steady increase over the 2013 to 2015 period, to reach a level of +1.83 in the 3<sup>rd</sup> quarter of 2015.

This 3<sup>rd</sup> quarter level was the highest level since the 1<sup>st</sup> quarter of 2007.

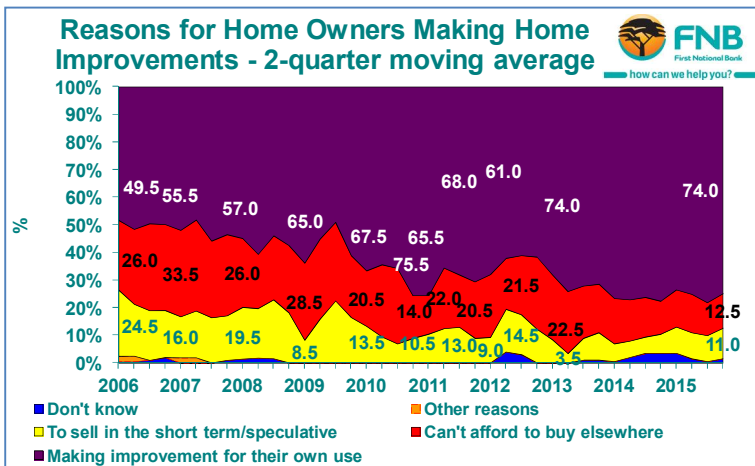
The 4<sup>th</sup> quarter 2015 level, although strong, was slightly lower at 1.73.

A settling down in the level of home investment, after prior strong improvement, may also be evident in real sales growth of Hardware, Paint and Glass Retailers. Using a 3-month moving average for smoothing purposes, this category of real retail sales grew by a mere 1.6% year-on-year for the 3 months to November. This represents a considerable growth slowdown from a 9.7% high in April last year. In recent years, this retail sales category has been one of the strong growth areas or retail, as households increased their home investment levels. Is this the end of the growth phase? We do know that this area of retail is highly cyclical, so it is possible.

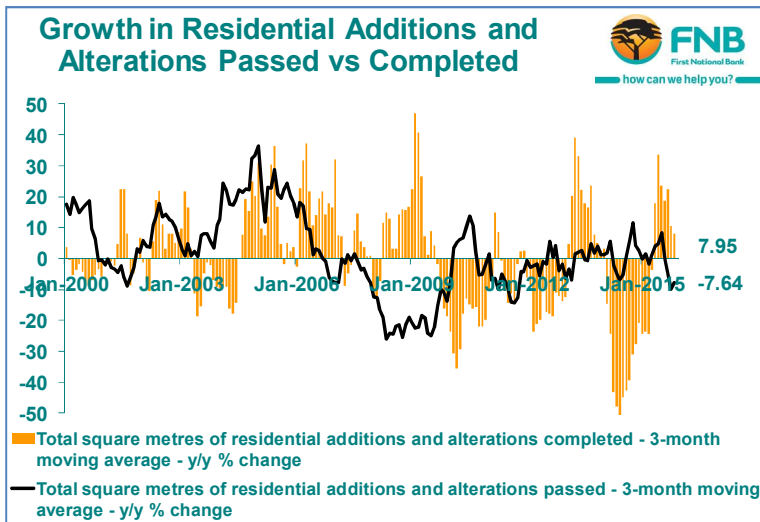


Finally, with regard to the reasons for why people undertaking home improvements are doing it, our agent survey still points to limited speculative building behavior, to the tune of 11% of total home improvements.

This remains low when compared to the 24.5% estimate back in early-2006. The overwhelming majority (74%) still do it for their own use, while 12.5% do it because they “can’t afford to buy elsewhere”.



## CONCLUSION



The Home Maintenance and Upgrades market remains vastly improved from 2008/9 levels. However, in a rising interest rate environment, along with deteriorating economic growth putting disposable incomes under more pressure, it is plausible to see a weakening in levels of “home investment”. In a weak, but not stressed, environment, as we are in at the moment, we may be starting to see a cut-back on non-essential or luxury expenditure items, and Value Adding Upgrades to homes arguably fall into this category.

This is possibly what the estate agents are starting to see, although it is admittedly too early to conclude that the decline is the start of a trend.

Examining a different source of data, “Additions and Alterations” data from StatsSA seems to point to possible slowing too. For the 3 months to November 2015, Square Metres of Additions and Alterations Plans Passed declined by -7.64% year-on-year. Square Metres of Additions and Alterations completed were still growing by 7.95% in the same period, but this growth had slowed from an earlier high of 33.5% year-on-year for the 3 months to June.

However, such a decline in value adding upgrades would not be a major concern. What would be more of a concern is if the economic environment weakened considerably further to a state where there is a considerable rise in financial stress, which in turn could translate into a deterioration in the levels of ordinary home maintenance. To date, the FNB Estate Agent Survey doesn’t point to this.

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