

RESIDENTIAL MAINTENANCE AND UPGRADES

The FNB Estate Agent Survey pointed to further improvement home maintenance levels late last year, explaining much of StatsSA building data in 2013, which showed strengthening Additions and Alterations

6 February 2014

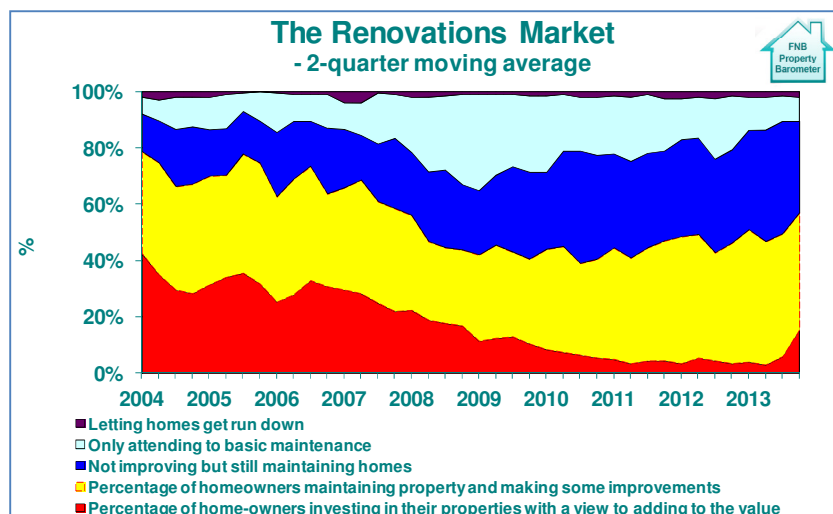
FNB ESTATE AGENT SURVEY POINTS TO FURTHER IMPROVEMENT IN LEVELS OF INVESTMENT IN HOMES BY OWNERS

When it comes to protecting the value of the security backing a residential mortgage loan, the levels of home maintenance and value adding upgrades become 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 certain distressed properties had become problematic, 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 situation, however, has improved noticeably over the post-recession years, and the FNB 4th Quarter 2013 Estate Survey reported further improvement in agent perceptions of the levels of home maintenance .

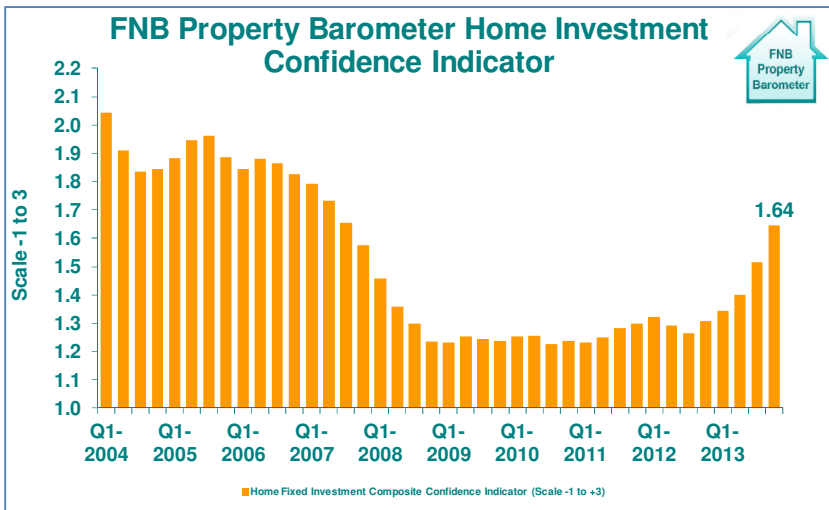
The agents surveyed have perceived a gradual increase in the level of home maintenance since 2009. Using a 2-quarter moving average to smooth the data mildly, we depict agent perceptions regarding levels of home maintenance below. From 2004, the survey respondents reported a long decline in the percentage of homeowners “investing in their properties with a view to adding value”. This percentage reached a lowly 3% of total homeowners in the areas of these agents by the 1st half of 2013, a far cry from the 43% at the beginning of 2004. However, suddenly in the 2nd half of 2013 this category jumped noticeable to 15.5% for the 2 quarters up until and including the 4th quarter of 2013.

The improvement in the value adding upgrades level was the most recent improvement, with improvements in the lower levels of home investment/maintenance having steadily improved over a few years prior.

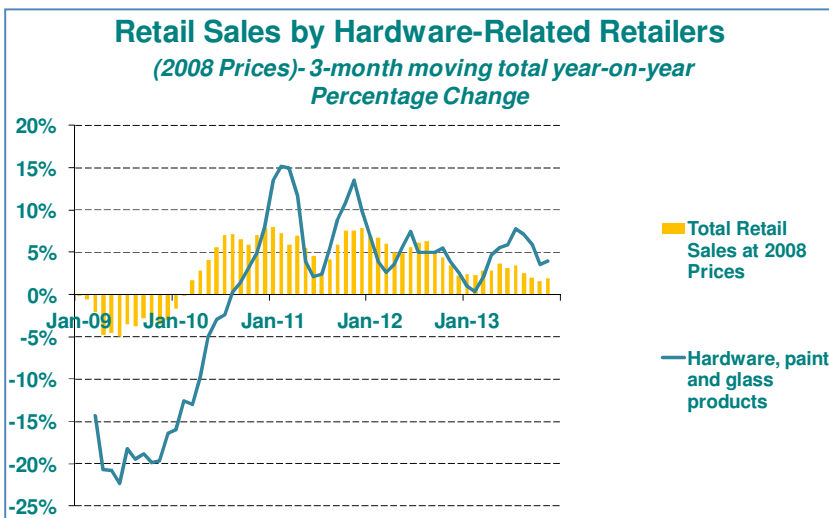
The next level “down” is the percentage of homeowners “fully maintaining their property and making some improvements”. This percentage has climbed significantly from a low of 27% in 2008 to 43.5% by the 4th quarter of 2013. So too has the next level down, namely “percentage of owners not improving but still fully maintaining homes”, having risen from levels between 20% and 30% around the recession of 2008/9 to 32.5% by the 4th quarter of 2013. Both of these most recent survey percentages, however, are slightly down on their percentages of a quarter before. However, we don’t believe that to be an indicator of increased financial stress just yet, but rather due to a shift of a significant portion of homeowners up into the Value Adding Upgrades category.



The category that one would want to see declining, and which indeed continued to do so through 2013, 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, 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 8.5% by the 4th quarter of 2013, as many of these homeowners 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.

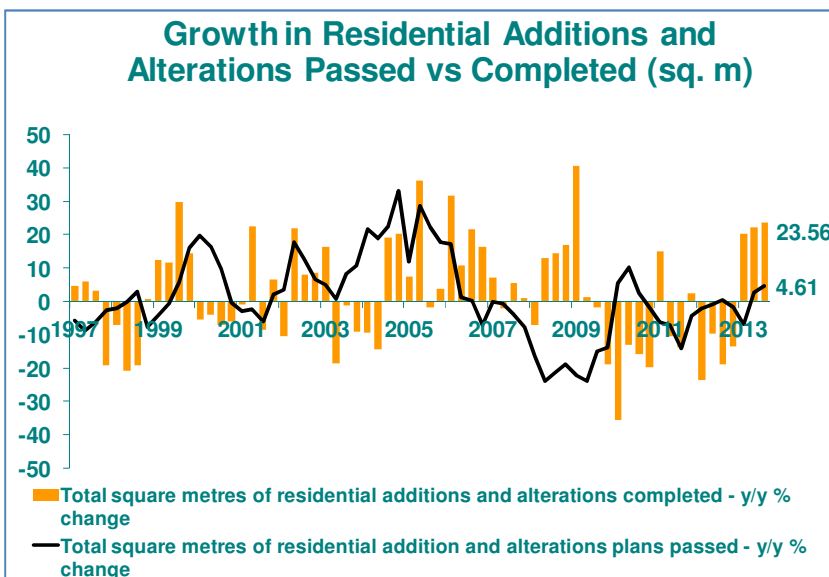


The combined result of the agent survey of investment levels in homes is rolled up into the FNB Home Investment Confidence Indicator, represented on a scale of -1 to +3. The indicator has shown a gradual increase from a low of 1.23 reached in the 1st quarter of 2009, to 1.64 by the 4th quarter of 2013, reflecting mostly improvements in the categories “Not improving but still maintaining homes” and “Maintaining property and making some improvements”, but more recently also the level of Value Adding Upgrades..

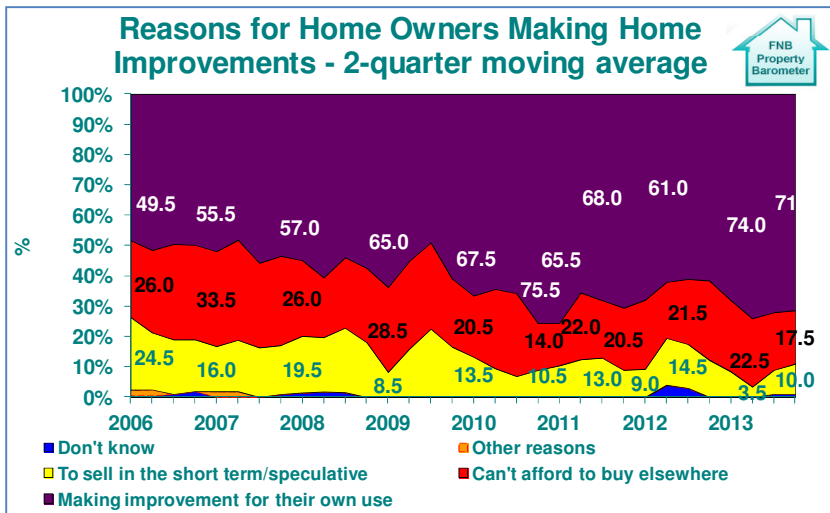


The noticeable further increase in levels of home maintenance and improvements must have had a key impact on the growth rate in retail sales for Hardware, Paint and Glass Products in real terms, which recovered from a huge slump around 2008/9 to record real year-on-year growth in excess of overall retail sales growth for much of the period from 2011-2013.

As at November, this retail category still showed respectable growth of 3.9% year-on-year for the 3 months to November, higher than the 2% growth in overall retail sales, despite having tapered somewhat recently.



In addition, StatsSA building stats through 2013 showed what the estate agent survey respondents had begun to see in terms of value adding upgrades, namely a significant increase in additions and alterations recorded by major municipalities for the 1st 3 quarters of the year.



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. However, this did rise a little further in the 4th quarter of 2013, with the estimated percentage of homeowners making improvements in order to “sell for speculative purposes” rising from a lowly 3.5% of the total in the 2nd Quarter to 8% and 10% in the 3rd and 4th quarters respectively. However, this remains low when compared to the 24.5% estimate back in early-2006. The overwhelming majority (71%) still do it for their own use, while 17.5% do it because they “can’t afford to buy elsewhere”.

CONCLUSION

The Home Maintenance and Upgrades market continued to improve in the 4th quarter of 2013.

The FNB Estate Agent Survey has pointed to further improvements in the levels of homeowner investment in their homes through 2013, and this would have had a positive impact on hardware retail sales and building activity too.

The noticeable change in the latter half of 2013, however, was a significant rise in the top category of home investment, namely “Value Adding Upgrades” to properties, whereas prior improvement had been largely 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 continued to improve in the 4th quarter.

The question now, however, is to what extent these healthy levels of home investment levels can be maintained in the face of rising interest rates. Our expectation is for Value Adding Upgrades to decline noticeably once more in coming quarters, but that the 2 “Full Maintenance” categories would be less affected should the current interest rate hiking cycle prove to be a mild one.

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
011-649 0125
John.loos@fnb.co.za

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