

## PROPERTY BAROMETER – REASONS FOR SELLING HOMES

*As residential market optimism rises, so it would appear that upgrade-related selling may soon take over from life stage-related downscaling as the key reason for selling property.*

16 January 2014

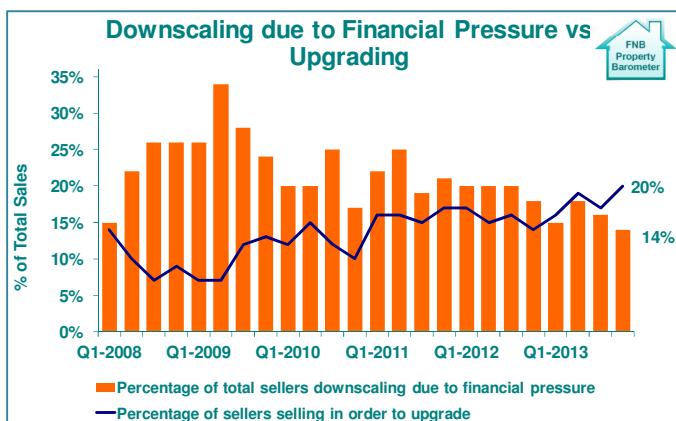
*South Africa’s “oldies” have been estimated to be the key driver of property sales in recent times, selling in order to downscale due to “life stage”. However, increasing confidence in the residential property market, as the 2008/9 recession and the last interest rate hiking cycle of 2006-2008 fade in the memories, has seen a rising trend in the percentage of sellers “selling properties in order to upgrade”, and this motive may soon be the most common reason for selling property.*

*In the FNB Estate Agent Survey, one of the questions asked of survey respondents is to provide an indication as to the key reasons for selling. 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”(Divorce, etc)”, and “Moving to be Closer to Amenities”.*

### **UPGRADE-RELATED SELLING CONTINUES TO RISE, WHILE FINANCIAL PRESSURE-RELATED DOWNSCALING DECLINES**

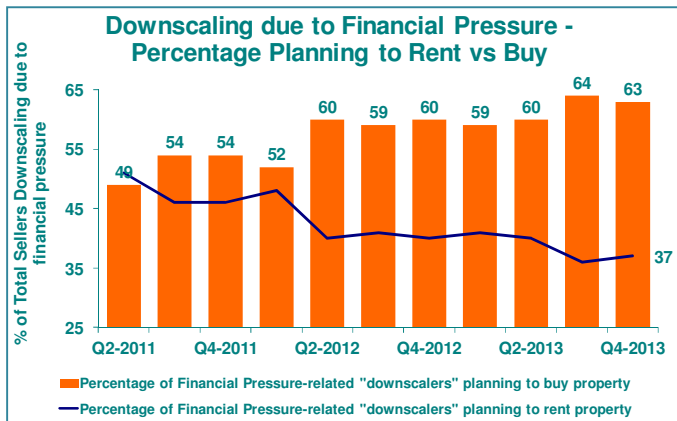
*The confidence may well be in part misplaced, driven by the current lengthy period of abnormally low and stable interest rates by South Africa’s standards. Nevertheless, such confidence appears to be a reality in the residential market, even at a time when weak consumer confidence elsewhere in the area consumer spend exists.*

*In the FNB Estate Agent Survey for the 4<sup>th</sup> quarter of 2013, survey respondents estimated a further increase in the percentage of sellers selling in order to upgrade” to 20% of total sellers, from 17% in the previous quarter . This continues a gradual rising trend which started back in 2009, after this motive had hit a low of 7% early in that year.*



*The rising trend is perhaps not only about rising confidence in property, but also about some increase in the number of households that have strengthened their financial position since the recession, along with gradual credit relaxation by banks in recent years.*

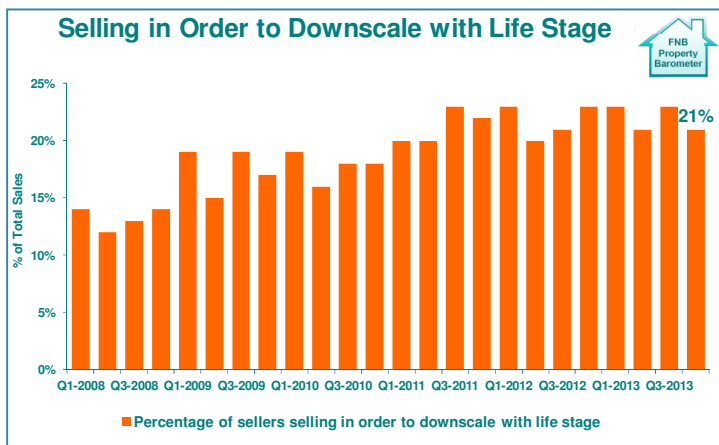
*The other “financial strength (or weakness)”-related motive for selling residential property is selling “in order to downscale due to financial pressure”. This motive was estimated to account for 14% of total sellers in the 4<sup>th</sup> quarter 2013 survey, a further decline from the previous quarter’s 16% and the lowest percentage since we started this survey back late in 2007.*



Increased confidence is also perhaps reflected in the 63% of the financially-stressed sellers, downscaling due to financial pressure, who are believed by agents to be intending to buy a cheaper property as opposed to renting. While this latest 63% is insignificantly lower than the prior quarter's 64%, it remains well up on the 49% estimate of the 2<sup>nd</sup> quarter 2011.

## **"OLDIES" CONTINUE TO BE THE STRONGEST DRIVER OF RESIDENTIAL SALES, BUT PERHAPS FLATTENING OUT**

The largest percentage of sellers, i.e. 21% is still believed to fall into the category "Downscaling due to Life Stage" as at the 4<sup>th</sup> Quarter 2013 survey. This form of downscaling refers to those sellers who desire a smaller home, usually either because they are getting older or because their offspring have left home.



This percentage has hovered at above the 20% level since 2011, and is sharply higher than the lowly 12% registered in the 2<sup>nd</sup> quarter of 2008.

High rates of selling in order to downscale due to life stage should not surprise at this stage. While this significant percentage has partly to do with South Africa's ageing population, especially in the middle and upper income groups, it also has much to do with the stage of the property cycle..

Members of this group of sellers are not necessarily under financial pressure, and can often bide their time to a certain extent while the market is very weak. That seemed to be the case back

around 2008, where many could stay out of the selling market until such time as they felt they could obtain a better price for the sale of their home. Then, as the market gradually improved following the 2008/9 recession, they indeed came out in larger numbers, it would appear. They therefore tend to be "pro-cyclical".

However, we may have reached the stage of the property cycle where this group's significance stabilizes. Its 21% estimate is slightly down on the previous quarter's estimate of 21%, and while one quarter's move is not meaningful given data volatility, it would appear that the level of this motive for selling has broadly stabilized at just above 20% in terms of percentage of the total, following a noticeable rising trend back in 2009-2011.

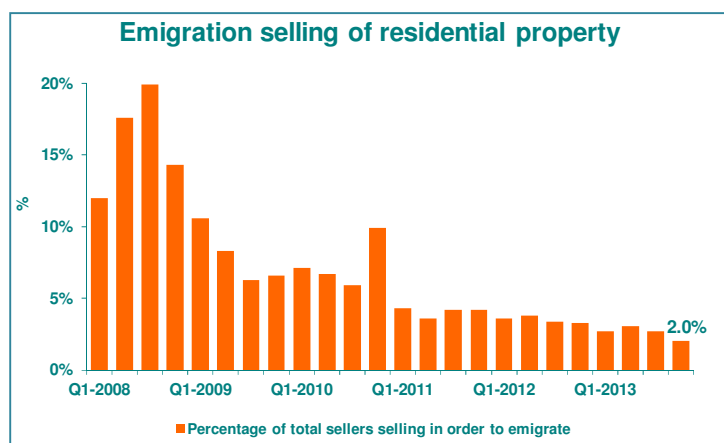
And now, should the rising trend in the upgrade-related selling motive continue, we may be only a quarter or two away from that motive becoming the strongest single motive for selling or property, and the "oldies" being relegated to 2<sup>nd</sup> place in terms of their significance in the selling market.

## **EMIGRATION SELLING STILL VERY SUBDUED**

Finally, of the 8 categories of selling motives, the 4<sup>th</sup> one that we like to monitor closely is "Selling in order to emigrate". This is because, at a stage back in 2008 it became the most important reason for selling in an admittedly thin market, and is particularly of interest with South Africa currently being in a period where some key potential emigration drivers appear to exist.

Such drivers include heightened social and political tensions, although far from as bad as the levels of the 1980s for instance, and a bout of renewed Rand weakness. That Rand weakness is a generally negative event for the economy is well known. Rand weakness is often reflective of weak sentiment towards SA, but it can also cause

negative sentiment, because nobody likes to see their country's or their personal global purchasing power being eroded, and for a highly import-dependent economy the real impact can be significant.



For the time being however, a deterioration in sentiment towards South Africa, along with Rand weakness, still does not appear to have brought about any noticeable renewed emigration surge. This, we still believe to be due to economic and employment weakness abroad despite some mild pick up in the Global economy, hampering job prospects for emigrants.

So, from a previous quarter's 2.7% of total sellers, estimated emigration-related selling declined still further to an estimated 2% of total selling in the 4<sup>th</sup> quarter 2013 Agent Survey.

## IN CONCLUSION

An analysis of the various reasons for selling appears to confirm that we are still currently at a relatively strong stage of the property cycle, the result of some gradual improvement in the financial situation of the household sector since the end of the 2008/9 recession. The improved financial situation is reflected in the declining trend in the percentage of sellers selling in order to downscale due to financial pressure.

It is important to warn against complacency, as much of this improved financial situation of households is due to very low interest rates, and the household sector still remains vulnerable to interest rate hikes due to ongoing high levels of indebtedness.

However, for now financial times are relatively good, and are perhaps driving improved confidence too. Improving confidence in residential property is perhaps better reflected in the rising trend in those sellers selling in order to upgrade, as this type of behavior is done more through choice than through necessity.

The confidence in the market is still also reflected by a high percentage of selling in order to downscale due to life stage, a motive which recedes in tougher times because these sellers can wait it out for better times.

However, the lowly level of emigration selling, whilst good news, we don't see as a sign of confidence or of positive sentiment. Rather, we still see it as a reflection of labour market weakness in certain developed countries which are known to be popular emigration destinations. While residential market confidence has been good of late, general sentiment in and towards South Africa has been battling a little.

	Q1-2012	Q2-2012	Q3-2012	Q4-2012	Q1-2013	Q2-2013	Q3-2013	Q4-2013
<b>Reasons for selling (As % of Total Sales)</b>								
<b>Downscaling due to financial pressure</b>	20%	20%	20%	18%	15%	18%	16%	14%
Downscaling with life stage	23%	20%	21%	23%	23%	21%	23%	21%
<b>Emigrating</b>	4%	4%	3%	3%	2.7%	3.1%	2.7%	2.0%
Relocating within SA	9%	9%	7%	7%	9%	8%	8%	8%
<b>Upgrading</b>	17%	15%	16%	14%	16%	19%	17%	20%
Moving for safety and security reasons	9%	12%	11%	11%	11%	10%	12%	12%
Change in family structure	12%	13%	15%	14%	14%	12%	12%	14%
Moving to be closer to work or amenities	6%	7%	8%	9%	10%	8%	9%	9%

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