Seeing the GAP

Affordable housing insights

FNB Economics October 2019
Methodology & sample

- 200 telephonic interviews
- Top 35+ estate agencies
- All mainly in the residential market

Market in which the agent operates (estimated value of the property sold in their area) and geographical area were quota controlled.
Price segments

- <R250k
- R250k - R500k
- R500k - R700k
- R700k - R1.6m
- R1.6m - R2.6m
- R1.6m - R2.6m

Values:
- 8.5
- 8.5
- 8
- 25
- 22.5
- 12.5
- 15
Executive summary 2019

Market activity

Market activity was perceived to have been stronger in 3Q19 following a relatively muted 2Q19, partly due to elections.

The R250k-R500k pocket has proven more resilient, generating the most activity to date.

On average, a property stays on market for approximately 6 weeks before it gets sold.

To put into context, the “conventional” market averages 9.6 viewers and approximately 16 weeks on market for sale.

Again, the R250k-R500k pocket scores relatively better on both counts, with 16 viewers per showroom, with a duration of 5 weeks and 6 days on market.
Executive summary 2019

Price realisation

Approximately 1 in 3 properties in the Affordable segment sell below the initial asking price, at an average 12.7% discount.

By contrast, over 95% of properties in the higher end sell below asking price, at approximately 10% discount.

Interestingly, approximately 5% sell above asking price. This implies strong levels of demand in the market.
Buy-to-let activity

There is a vibrant buy-to-let activity, with such purchases constituting an estimated 35% of all transactions.

This is more prevalent in the R250k-R500k basket, with over 50% of transactions estimated to be buy-to-let.

The above factors:

• Give credence to the view that there is inadequate supply at appropriate price points and;
• Contribute to strong house price growth in the lower end.
Reasons for selling

- Majority are first-time buyers who enter the property market at lower price points and migrate upwards overtime
- Either due to financial pressure or life stage evolution
- Generally, there is minimal moves in the lower end.
- Such sales become more prominent in higher price segments.

- Buying a bigger property or
- Moving closer to work and/or amenities

Upgrading

Upgrading (2nd time buyers)

Downscaling

Emigration and relocation
Estate agents in the lower price baskets are more upbeat about near-term market activity and property price growth.

Among the reasons commonly cited, apart from seasonality, is the positive consumer sentiment and the lower interest rate environment.

*By contrast, agents in the higher end commonly cite consumer pessimism, pricing and affordability as factors driving market outcomes.*
Affordable housing market vs Traditional market
Affordable Housing Market

Traditional Market

Activity rating

1Q | 19  2Q | 19  3Q | 19

Robust activity suggests stronger levels of demand in the affordable market...
## Time on the Market

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Affordable Housing Market</th>
<th>Traditional Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q 19</td>
<td>5,1</td>
<td>15,3</td>
</tr>
<tr>
<td>2Q 19</td>
<td>6,6</td>
<td>14,1</td>
</tr>
<tr>
<td>3Q 19</td>
<td>6,4</td>
<td>16,0</td>
</tr>
</tbody>
</table>
Sold above asking price

...and stronger demand drives prices up in the affordable market, sometimes above asking prices
The affordable market

Demand / Supply indicators
Market activity across price segments
More agents expect activity to pick up in the next three months, with more conviction in the lower end.
Anticipated future activity

More optimism about the Gauteng market; positively, market is expected to remain resilient in the Western Cape.
Increased interest following aggressive price discounts. Viewer enquiries are stronger in the lower end:

- R250k-R500k bucket is the most popular.
It takes less than a month and half to sell a property in the lower end.
More optimism about the Western Cape market; positively, the market is expected to remain resilient in the Gauteng.
The affordable market

Pricing dynamics
**Volumes sold at less than the initial asking**

<table>
<thead>
<tr>
<th>Price Segment</th>
<th>Volumes Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; R250k</td>
<td>25.7</td>
</tr>
<tr>
<td>R250k - R500k</td>
<td>31.0</td>
</tr>
<tr>
<td>R500k - R700k</td>
<td>32.2</td>
</tr>
<tr>
<td>R700k - R1.6m</td>
<td>94.3</td>
</tr>
<tr>
<td>R1.6m - R2.6m</td>
<td>96.9</td>
</tr>
<tr>
<td>R2.6m - R3.6m</td>
<td>96.2</td>
</tr>
<tr>
<td>&gt; R3.6m</td>
<td>98.5</td>
</tr>
</tbody>
</table>

Asking prices more attainable in lower price segments
Average discount on the asking price

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Average Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;R250k</td>
<td>13.3</td>
</tr>
<tr>
<td>R250k – R500k</td>
<td>10.0</td>
</tr>
<tr>
<td>R500k – R700k</td>
<td>11.1</td>
</tr>
<tr>
<td>R700k – R1.6m</td>
<td>7.9</td>
</tr>
<tr>
<td>R1.6m – R2.6m</td>
<td>9.7</td>
</tr>
<tr>
<td>R2.6m – R3.6m</td>
<td>10.6</td>
</tr>
<tr>
<td>&gt;R3.6m</td>
<td>13.2</td>
</tr>
</tbody>
</table>

The few that sell below asking price, generally offer attractive discounts.
The affordable market

Buyer patterns
First-time buyer participation

Lower price buckets are dominated by first-time buyers
Communal purchase
Excluding couples

High levels of consolidation:
Buying together with a view to share expenses
The affordable market
Buy-to-let activity
Buy-to-let activity

...and a significant number of those get resold at a premium (after renovations)
Reasons for selling

The affordable market
### Reasons for selling: 2019

<table>
<thead>
<tr>
<th>Reason</th>
<th>&lt;R250k</th>
<th>R250k - R500k</th>
<th>R500k - R750k</th>
<th>R750k – R1.6m</th>
<th>R1.6m – R2.6m</th>
<th>R2.6m – R3.6m</th>
<th>&gt;R3.6m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downscaling due to financial pressure</td>
<td>12.5</td>
<td>13.7</td>
<td>14.2</td>
<td>17.2</td>
<td>16.8</td>
<td>16.1</td>
<td>14.8</td>
</tr>
<tr>
<td>Downscaling with life stage</td>
<td>11.1</td>
<td>20.1</td>
<td>13.6</td>
<td>20.9</td>
<td>21.3</td>
<td>24.5</td>
<td>26.0</td>
</tr>
<tr>
<td>Emigrating</td>
<td>5.4</td>
<td>1.3</td>
<td>4.4</td>
<td>11.5</td>
<td>15.4</td>
<td>17.5</td>
<td>19.0</td>
</tr>
<tr>
<td>Relocating</td>
<td>11.9</td>
<td>7.9</td>
<td>14.7</td>
<td>7.6</td>
<td>9.0</td>
<td>7.4</td>
<td>8.6</td>
</tr>
<tr>
<td>Upgrading</td>
<td>17.9</td>
<td>24.7</td>
<td>14.4</td>
<td>11.2</td>
<td>9.0</td>
<td>8.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Safety reasons</td>
<td>11.4</td>
<td>9.4</td>
<td>16.5</td>
<td>10.4</td>
<td>9.1</td>
<td>9.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Change in family structure</td>
<td>5.0</td>
<td>8.6</td>
<td>7.7</td>
<td>12.1</td>
<td>12.7</td>
<td>11.7</td>
<td>14.7</td>
</tr>
<tr>
<td>Moving to be closer to amenities</td>
<td>24.8</td>
<td>14.3</td>
<td>14.6</td>
<td>9.0</td>
<td>6.7</td>
<td>4.8</td>
<td>4.1</td>
</tr>
</tbody>
</table>
Reasons for selling: 2019

Upgrading is the most prominent reason for property disposals in the lower end.

Emigration/Relocation
Downscaling
Upgrading
Circumstantial
Sellers who downscale due to financial pressure

Those who downgrade due to financial pressure are more likely to search for a cheaper property than opt for rented space.
Thank you