

# FNB releases Residential Fixed Investment Review

Residential fixed investment has been hard hit in recent years by the lagged impact of the 2008 recession and residential property market slowdown, which in turn was caused by a global recession along with significant interest rate hiking from 2006 to 2008.



The decline in overall residential fixed investment started back in 2007, and has continued unabated up until early in 2011, according to the Reserve Bank's (SARB) data. It is not only new building activity that has suffered but the additions and alterations market too, and sometimes even home maintenance has fallen short.

The FNB Estate Agent Survey provides evidence to this effect. The sample of agents has been of the opinion that, since the start of the survey back in 2004, there has been a broad decline in the percentage of home owners undertaking "value-adding upgrades" or "maintaining and making some improvements" on their homes. From 79.5% of total estimated homeowners in early-2004, agents see homeowners falling into these 2 categories of home investment as having declined to 41.5% of total homeowners in their areas.

## Major shift

This implies a major shift by a significant portion of homeowners towards "lesser forms" of home investment, namely "fully maintaining with no improvements", "only attending to basic maintenance" and "letting homes get run down".

This is reflective of tough economic times as well as an ongoing obsession with consumption, by households, in order to maintain their material lifestyle in the short term. This propensity to consume can be seen in the SARB numbers, where saving is so low that households remain in a situation of "net dis-saving", i.e. where the little gross saving that exists is insufficient to cover the depreciation on fixed assets owned by households. In the 1st quarter of 2011, the SARB reports that real household consumption expenditure grew year-on-year by 5%, higher than real disposable income growth in the same quarter, while residential fixed investment was the victim of the need to trim expenditure, declining year-on-year by -4.9% in real terms.

Not only did home investment/upgrades suffer, but building of new homes has also been reduced greatly. From the peak of building completions at the end of 2005, square metres completed had dropped by -57.4% by the 2nd quarter of 2011.

## Some signs of stabilisation

However, there is some sign of stabilisation at these lower levels of building activity. In the 2nd quarter of 2011, square metres of residential buildings completed were only marginally down year-on-year by -3.2%, after far greater drops in earlier quarters. Interest rates remain low, existing residential demand has picked up since the lows of 2008/9, and one would expect building activity to respond positively to these events with a lag. However, we expect stabilisation and very low growth in completions at best in 2012, as the household sector remains financially stressed, supply overhangs in many existing markets remain, and existing home bargains are still to be found. On top of this, estimated replacement costs of homes are on average 21.7 higher than existing home prices. Therefore, after a projected -0.8% slight decline for 2011 as a whole, we forecast a mild +2.4% growth rate in square metres of residential buildings completed for 2012 as a whole.

In addition, economic growth slowdown is at hand, and the risk of a 2nd global recession is significant. Under those conditions, we would expect any residential building sector growth to run out of steam towards the latter stage of 2012.

The relative bright spot is expected to be the Affordable Housing Market, which we think should be the key driver of any building activity growth that may take place, having been the least oversupplied market following the property boom.

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