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PROPERTY BAROMETER

FNB Estate Agent Survey – Foreign Buying of Domestic Residential Property

Slight increase, but Agents continue to perceive foreign home buyer levels to be mildly off the 2014 high

The FNB Estate Agent Survey for the 3rd quarter of 2015 pointed to a slight increase in the prominence of foreigner buying of domestic residential property, but the change is not yet significant. The foreign buying estimated percentage remains a little weaker than the 2014 high.

It is possible that a further bout of Rand weakness, translating into a recent house price decline in major foreign currency terms, could support some additional foreign buying of South African homes. However, we never expect too much support from this source, because Rand weakness in part both reflects and drives weak investor sentiment towards South Africa. A more significant driver of the foreign buying trends is believed to be the popularity of residential property as an asset class globally, and this popularity may be tapering off.

ESTATE AGENT SURVEY FOREIGN BUYING ESTIMATE

The FNB Estate Agent Survey for the 3rd quarter of 2015 hints at some increase in the prominence of buying of South Africa residential properties by foreigners, but the rise is not yet significant. In the survey, we ask respondents to provide an estimate of the percentage of total home buyers that are foreigners.

Using a 2-quarter moving average for smoothing purposes, the estimated percentage of foreign buyers rose from 4% in the previous quarter to 4.5% as at the 2nd quarter of 2015.

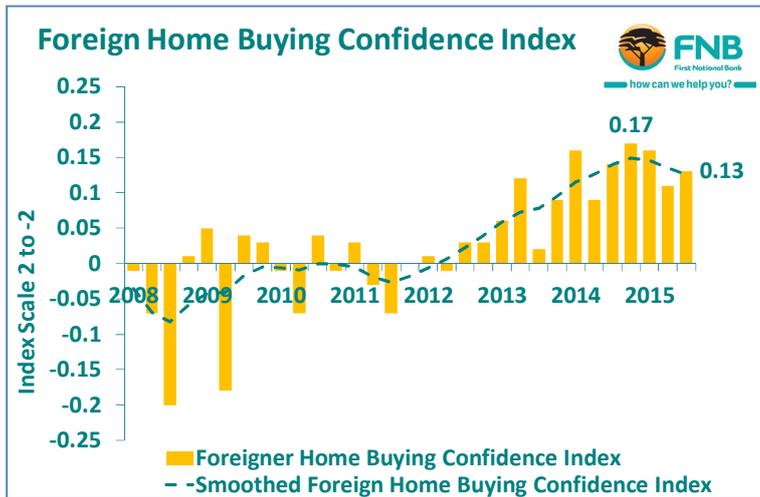
However, the 4.5% estimate remains below the late-2014 high of 5.5%, and the rise is not yet significant.

Foreign Home buyers as a percentage of total buyers



Viewing foreign buying in a different way, we ask agents if they have experienced foreign buyer numbers to have increased, decreased or remained the same. In this question, they have 5 answer options, “There is a lot more foreign buying”, “a little more foreign buying”, the same amount of foreign buying”, a little less foreign buying”, or a “lot less foreign buying”.

When using this questioning, a higher percentage of agents still see an increase in foreign buyer numbers compared to those seeing a decline. In the 3rd quarter 2015 survey, 5% of respondents perceived “a lot more foreign buyers”, 9% “a little more foreign buyers”, 83% saw “unchanged foreign buyer levels”, 2% indicated a “little less foreign buyers” and 2% a “lot less foreign buyers”.

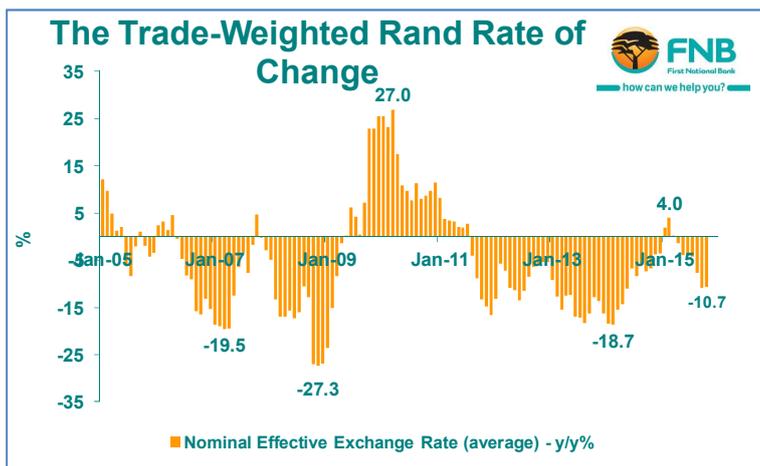


This distribution is a slight strengthening on the prior quarter, coming after 2 prior quarters of deterioration. Taking the quarterly distributions, we construct our Foreign Home Buying Confidence Index on a scale of -2 to 2, where +2 would imply 100% of respondents claiming a “lot more” foreign buyers and -2 meaning a 100% saying a “lot less”, with all the other possible distributions somewhere in between.

This index’s value has risen to 0.13, from a previous 0.11, but remains down in the high of 0.17 at the end of 2014, and the smoothed trend line still points lower.

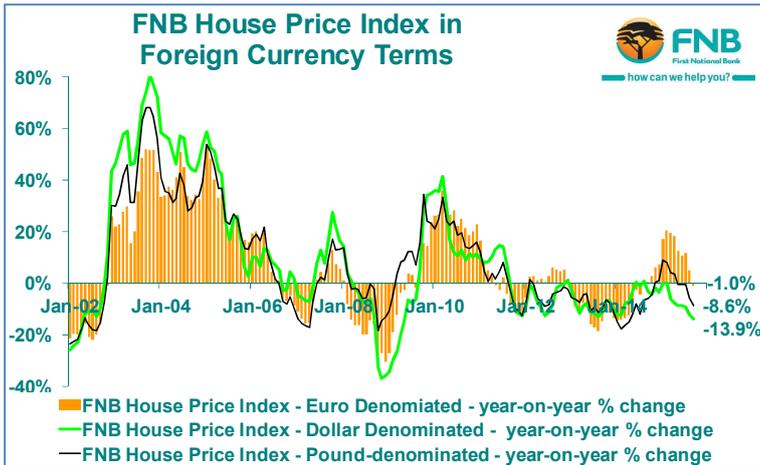
Therefore, both lines of questioning regarding foreign home buying point to some strengthening in foreign buyer significance, although it is difficult to draw conclusions after only one quarter of slight increase. Despite this small rise, however, we continue to expect soft levels of foreign buying. But let’s examine the main potential driving forces of foreign buying.

1. THE RAND’S MULTI-YEAR WEAKENING IS BACK ON TRACK



As 2015 has progressed, the Rand’s multi-year drift to weaker levels has resumed, and year-on-year depreciation has accelerated. The Trade-Weighted Rand Index started the year with some mild year-on-year strengthening, reaching +4% in the month of February. By October to date, however, this had turned to a significant depreciation of -10.7 year-on-year.

This depreciation has led to renewed South African house price declines when denominated in some of the major global currencies, improving affordability for certain foreign buyers.



The Euro-denominated FNB House Price Index suggests that foreign buyers using Euros would benefit the least from the Rand's slide, with the Euro-denominated FNB House Price Index showing a mere -1% decline in September 2015.

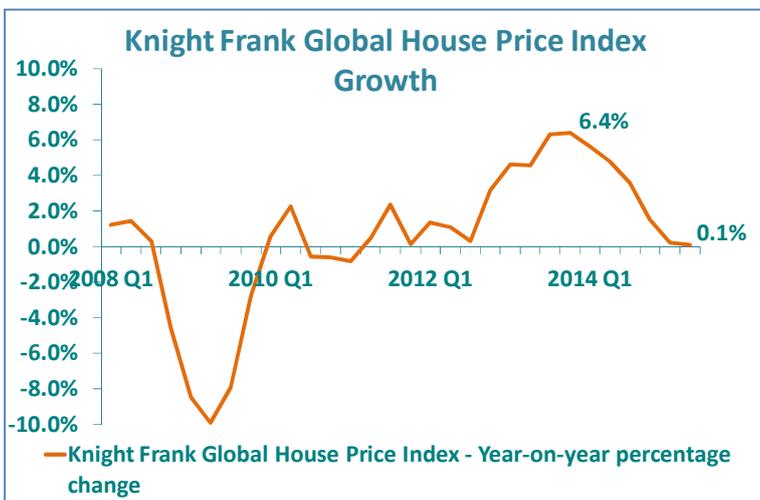
The UK Pound-denominated FNB House Price Index, by comparison, declined more significantly by -8.6% year-on-year, while the US Dollar-denominated FNB House Price Index has shown a sharp decline of -13.9%.

The poor performance of the Rand thus presents a general affordability improvement for many foreign buyers, with those operating in Dollars potentially benefiting most.

However, we place limited emphasis on the Rand's performance in driving foreign buying. This is because, while a Rand weakening can improve local residential affordability for foreign buyers, it does also reflect in part weakening investor sentiment towards South Africa, and indeed a weakening Rand actually contributes to a deterioration in investor sentiment. This is negative for foreign home buying levels. So there are two sides to the weak Rand debate when it comes to its influence on foreigner home buying.

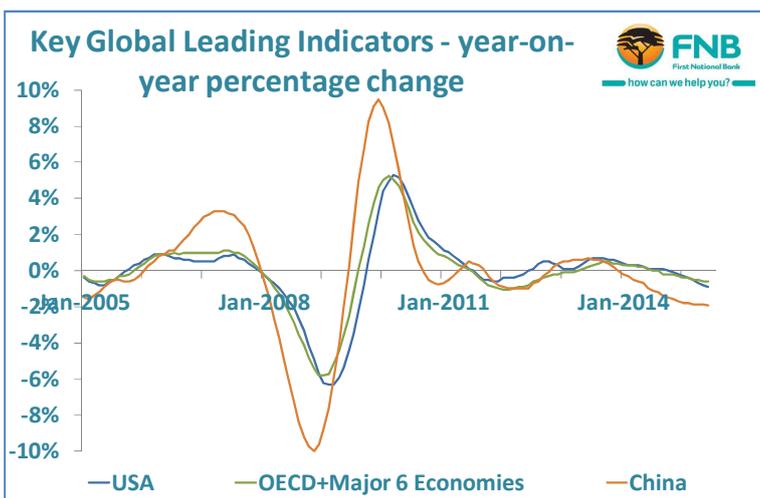
2. SLOWING IN THE RATE OF INCREASE IN POPULARITY OF RESIDENTIAL PROPERTY AS A GLOBAL ASSET CLASS

The factor that we believe to be more significant in driving the pace of foreign home buying in South Africa, however, is the performance of residential property as an asset class globally. This determines its popularity to a certain extent, while also being a reflection of its popularity.



The big monetary and fiscal stimulus since around the time of last decade's Financial Crisis has been gradually fading, and the global economy's growth is a little slower these days when compared to the post-recession recovery period around 2010/11.

Given that property largely reflects economic trends, it is not surprising that global property prices are not inflating as rapidly on average as they were back around late-2013. The Knight Frank Global House Price Index inflation rate had slowed to 0.1% year-on-year by the 2nd quarter of 2015, down from a high of 6.4% in the 4th quarter of 2013.



Examining the OECD's set of Leading Business Cycle Indicators, we see deteriorations in the form of year-on-year declines in the Chinese, US and OECD+Major 6 Leading Business Cycle Indicators. This points to a likely further global economic growth slowing in the near term.

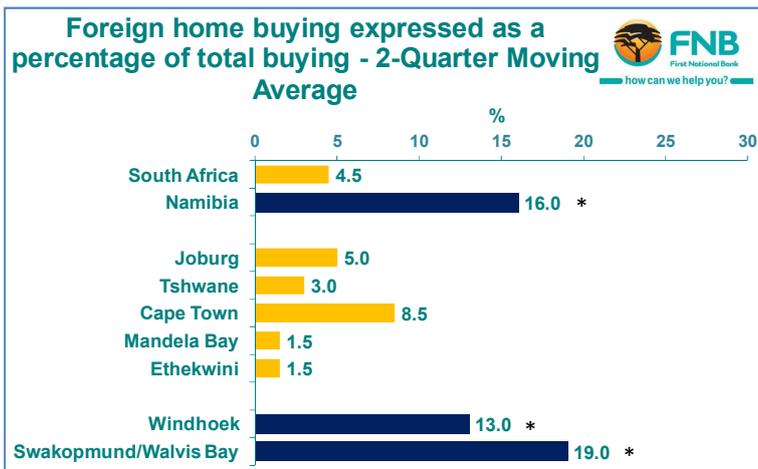
A Global economy off the boil, and a global property market off the boil, is expected to diminish the popularity of residential property as an asset class, and this we believe is more

likely to impact negatively on the level of foreign property buying, or at least the growth therein, in the near term.

3. LONGER TERM INVESTOR SENTIMENT

It is also possible that South Africa’s stagnating economic growth performance, along with heightened social tensions, may encourage a more cautious approach by certain foreigners towards residential investment in South Africa. This could be expected to see the foreigner residential buying levels remaining muted.

Viewing regional foreign buyer levels may be insightful in this regard. Within South Africa’s weak economy, the best performers are Gauteng and the Western Cape. The Western Cape has the added advantage of being perceived as a great “lifestyle” region. Not surprisingly, therefore, the 2-quarter average estimated percentage of foreign buying was highest in the Western Cape at 8.5%, followed by the country’s top metro economy, i.e. Joburg, with 5%.



But perhaps the positive impact of a good economic growth performance on foreigner home buyer sentiment is reflected in our new FNB Estate Agent Survey for neighbouring Namibia. Namibia has for some years experienced real economic growth substantially higher than that of South Africa. And although the survey is only 1 quarter old, the estimated foreigner buyer level at 16% of total home buying dwarfs the South African percentage.

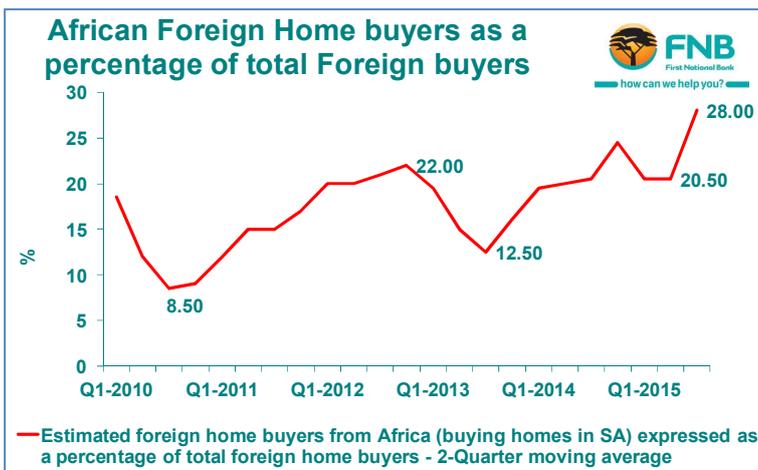
And it is not just about leisure property buying in that country either, it would seem. Windhoek, the economic hub, recorded an estimated of 19% foreign buyer percentage, higher than that

of the more holiday driven Coastal Region of Namibia. It is about confidence in the long term future, but also about strong economic growth providing greater growth in economic opportunity for foreigners over time.

*Namibia’s estimates are only for 1 quarter, not a 2-quarter moving average, as the survey is only 1 quarter old

AFRICAN CONTINENT BUYING

Of interest is the seeming gradual change in the key sources of foreign buying over the longer term, with more coming from the rest of the African Continent in recent years.



Foreign buying of SA property by African Continent buyers rose further, for the 2 quarters up to the 3rd quarter of 2015, to 28% of total foreign buying. This is the highest estimated percentage since we started this question back in 2010.

It will be interesting to see whether this percentage can be maintained in the near term, given the headwinds that face many of Africa’s economies in the form of depressed global demand for commodity exports.

CONCLUSION

Domestic residential property has seen a recent decline in values when denominated in foreign currency terms. This period of renewed Rand weakness may contribute to some additional foreigner home buying in South Africa, and it is possible that this has contributed to a slight rise in the foreign home buyer percentage estimate recently.

However, the small rise to date is not yet significant, and remains off a high recorded late last year. And we continue to expect muted levels of foreign buying despite this slight recent rise in percentage.

Our moderate expectation is due to the belief the performance of residential property globally influences its popularity as an asset class, and that such fluctuations in its popularity are more of an influence on foreign buyer levels in South Africa than are the fluctuations in the Rand.

Our arguments are based on the history of recent years. In the boom market of 2005, estimated foreigner buying was as high as 7% of total local home buying despite Rand strength making local property relatively expensive for foreigners at that time. Property back then was an extremely popular asset class. We believe that this popularity was the key driver at that time. Conversely, we believe that a slower pace of improvement in Global property markets on average, which is in part reflective of a slower Global economic growth rate since a few years ago, is likely to be a key contributor to a slower pace of increase in foreigner home buying in South Africa.

A further potential constraining factor may be South Africa's own weakened economic growth performance, along with heightened social tensions, which may cause concern amongst certain residential investors.

In short, the slight 3rd quarter rise in the foreign buyer percentage does not change our expectation of a moderate pace of foreigner home buying in South Africa in the near term.

Notes:

1. *The Foreigner Home Buying Confidence Index is constituted as follows. When agents are asked the question as to the direction of foreigner home buying, they have 5 choices of answer to which we assign a numerical score. These are “there is a lot more foreign buying (which gets a score of +2)”, “there is a little more foreign buying (score of +1)”, “foreign buying remains the same as a quarter ago (score of 0)”, “there is a little less foreign buying (score of -1)”, or “there is a lot less foreign buying (score of -2)”. The Index is then calculated by weighting each of the 5 scores according to the percentage of agents choosing each answer option on a 4-quarter moving average basis. The maximum index value is thus +2, in which case 100% of respondents would be answering that “there is a lot more foreign buying”, and the minimum index value is -2, in which case 100% of respondents would be choosing the option “there are a lot less foreign buyers” .*