PROPERTY BAROMETER

FNB Estate Agent Survey – Buy-to-let Home Buying

The buy-to-let picture is possibly starting to become one of slowdown, according to the 2nd Quarter 2016 FNB Estate Agent Survey.

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MARKET ANALYTICS AND SCENARIO FORECASTING UNIT: FNB HOME LOANS

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In the 2nd Quarter 2016 FNB Estate Agent Survey Buy-to-Let demand is perceived to be a little slower of late, along with moderating near term expectations amongst agents. Simultaneously, though, the estimated pace of selling of investment properties remains low, suggesting still-low levels of financial stress or pressure in this market.

A lack of "exuberance" in this market may become supportive of the rental market, constraining growth in supply of available homes for rental. This, coupled with our expectation of some increase in demand for homes to rent, could contribute to some strengthening in the rental market in the near term.

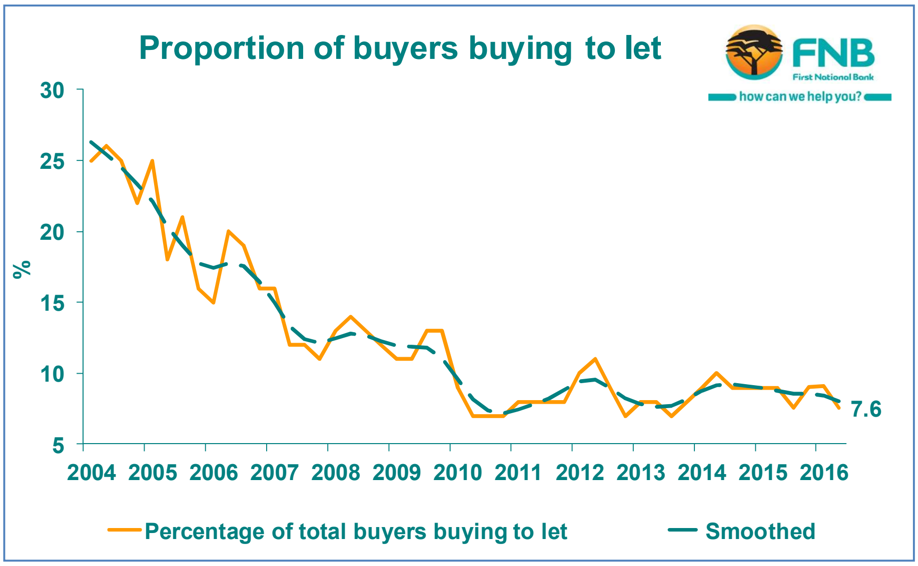
In addition, an already-moderate pace of Buy-to-Let buying can limit the "downside risks" to the residential market when the economy is on a deteriorating path, because this form of residential demand can weaken more sharply when economic downturns occur.

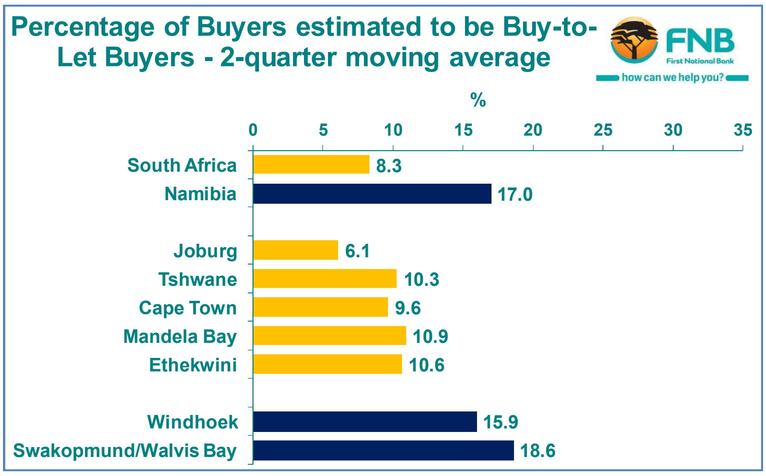
BUY-TO-LET BUYING PERCENTAGE SLIGHTLY LOWER

The 2nd quarter 2016 FNB Estate Agent Survey once again pointed to little "excitement or exuberance" in the level of buy-to-let home buying, and even a possible decline in significance from already-modest levels.

As a percentage of total home buying, buy-to-let purchases are estimated by survey respondents to have moved lower, from 9.1% in the previous quarter to 7.6% in the 2nd Quarter of 2016.

This estimate continues a lengthy period of single-digit percentage estimates for buy-to-let buying.





Examining the buy-to-let estimates by major region, using a 2-quarter moving average for smoothing purposes, we find South Africa's estimate to be considerably lower than that of Namibia, recording an average 8.3% of total home buying for the 1st 2 quarters of 2016.

Namibia, by comparison, was estimated at a far higher 17%

We believe that the difference between the 2 countries has much to do with the differing strengths of the 2 markets in recent years, with the Namibian market having "boomed" by comparison. While "buying on the lows" is the old adage of the seasoned investor, the reality is that many investors (rightly or wrongly) are more "pro-cyclical", and buy-to-let only after lengthy periods of market strength.

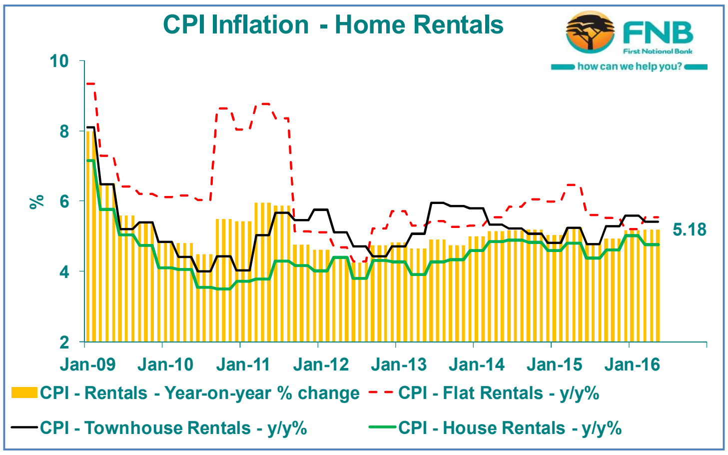
Zooming in on South Africa's major regions then, does this mean that the relatively strong Western Cape housing market is due for a buy-to-let buying surge? To date, this does not appear to have been the case, and that province's average buy-to-le t percentage of 9.6% is not too dissimilar from 4 out of 5 of the other major metros. So far so good, therefore, a buy-to-let spree in the Western Cape does not appear to have happened, and we believe it desirable for such exuberance not to take place, because it can build up to volatility at a later stage.

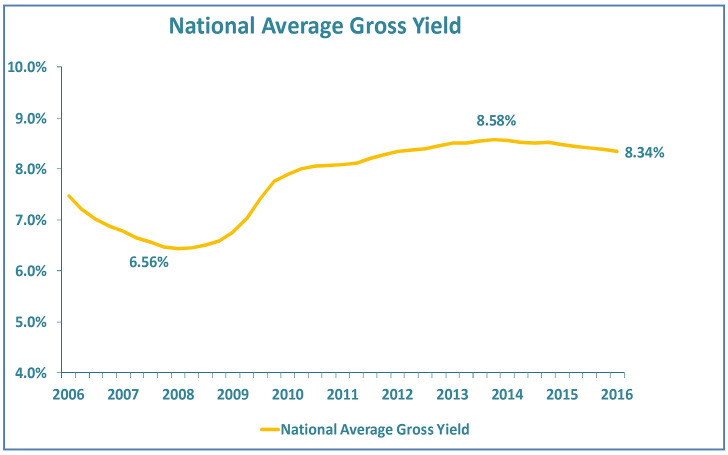
BUY-TO-LET LEVELS REMAIN MODEST COMPARED TO THE BOOM YEARS

The recent estimates of buy-to-let levels in South Africa remain moderate by comparison to last decade's boom period, where they were estimated as high as around 25% of total home buying at a stage back in 2004. Admittedly, it is difficult to ascertain what would be a "normal" percentage in weak economic times such as the current ones, because we do not have a survey history dating back to previous "super-cycle" periods of economic weakness before last decade's boom period.

Examining potential drivers of buy-to-let buying, it is realistic to expect moderate levels to continue, and even some further slowing. Of course, buy-to-let buying along with leisure home buying is a non-essential purchase, and as such can be expected to be constrained in times of economic weakness and rising interest rates.

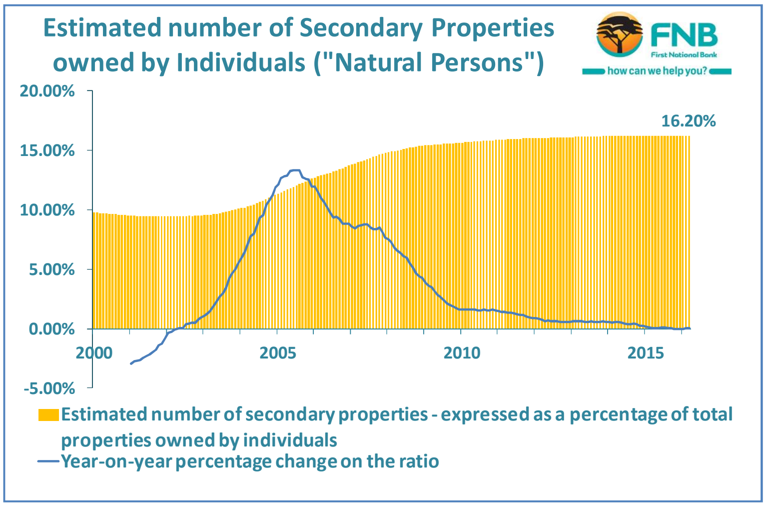
One of the big attractions of buy-to-let buying for many is the expected capital growth that can be achieved, but house price growth generally remains benign at present. For those more focused on the rental income stream, there has been some yield "compression" since 2014 too, also reducing buy-to-let attractiveness mildly in recent years. The StatsSA CPI for Actual Rentals has seen its inflation rate accelerate mildly since around 2012, but at 5.18% year-on-year, this rental inflation has not yet overtaken average house price inflation. So, as at the 1st Quarter of this year we still estimated the average yield on residential property to be on its gradual declining trend.





From a peak of 8.58% at the end of 2013, our revised National Average Gross Yield has declined to 8.34 by the 1st Quarter of 2016, compressed by a period of relative home buying market strength in recent years, contributing to a less attractive buy-to-let opportunity for those focused on yields.

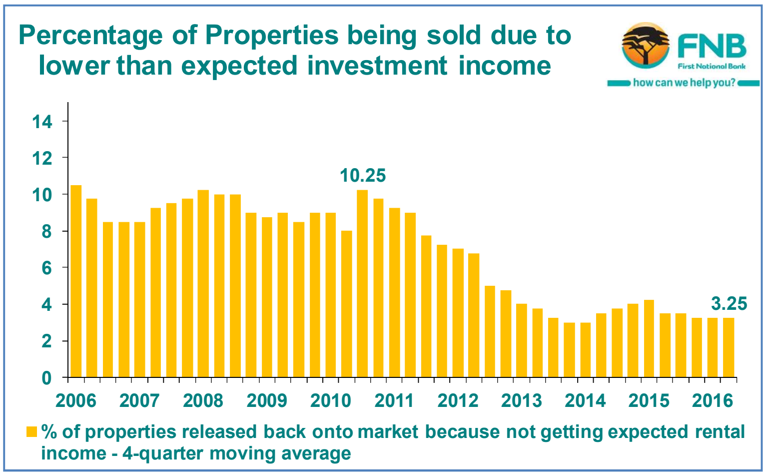
We have created an additional measure with which to measure secondary property buying, using Deeds data for transactions by individuals ("Natural Persons"). Here, we estimate the number of secondary properties owned by individuals (i.e. where someone owns more than one property) to be about 16.2% of all the properties identified. This ratio has flattened out in recent years, after a noticeable boom time rise during last decade, thus also pointing to little excitement in the 2nd home buying market.



Important to understand is that secondary properties includes those for purposes other than buy-to-let buying, including purchases for use by relatives or for leisure purposes.

However, one would expect that holiday home buying, like buy-to-let buying, would probably also be at moderate levels in the currently weak economic times.

SELLING OF INVESTMENT PROPERTIES STILL PERCEIVED AS LOW

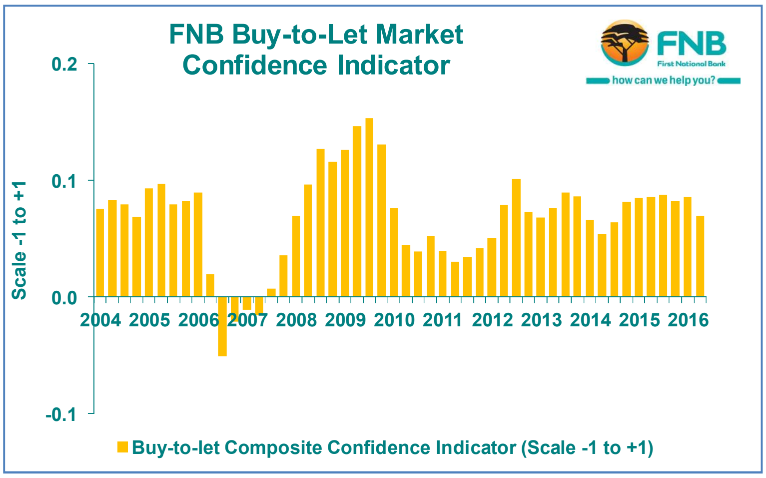


While investment property buying levels are seen as "moderate", the level of selling of such properties is also perceived as low.

We ask agents to estimate the portion of all properties sold that are believed to be investment properties being sold due to owners not earning the type of investment income that they had anticipated. For smoothing purposes, we use a 4-quarter moving average percentage, and find the average for the 4 quarters up to the 2nd quarter of 2016 to be 3.25%%, unchanged from the prior quarter. This percentage remains relatively low, having been as high as 10.25% at a stage of 2010.

In short, therefore, while buy-to-let buying levels are not seen to be setting the world alight at present, buy-to-let property selling appears even more modest, which is one indication of still little in the way of financial stress in this market.

AGENTS BUY-TO-LET EXPECTATIONS ARE SLIGHTLY LESS OPTIMISTIC



In the 2nd Quarter 2016 survey, the agents surveyed appear to have slightly less optimistic expectations regarding levels of buy-to-let home buying growth in the near term, compared with prior quarters.

In our survey, we ask them to state whether they expect buy-to-let demand to increase (which gets a rating of +1), stay the same (rated as zero) or decline (rates as -1).

The FNB Buy-to-let Market Confidence Indicator is the weighted average of these different expectations. The 2nd Quarter 2016 survey came out at a slightly lower level than the prior few quarters, at 0.07 (scale of 1 to -1), down from 0.086 in the previous quarter.

CONCLUSION

The picture that emanates from the Buy-to-Let Market is one of possible slowing demand, along with moderating near term expectations amongst agents. Simultaneously, though, the estimated pace of selling of investment properties remains low, suggesting still-low levels of financial stress or pressure in this market.

A lack of "exuberance" in this market is probably a positive for the rental market, constraining growth in supply of available homes for rental. This, coupled with our expectation of some increase in demand for homes to rent, could contribute to some strengthening in the rental market in near term.

In addition, an already-moderate pace of Buy-to-Let buying, can limit the "downside risks" to the residential market when the economy is on a deteriorating path, because this form of residential demand can weaken more sharply when economic downturns occur.