

## PROPERTY BAROMETER – EMIGRATION AND FOREIGN BUYING

*FNB Estate Agent Survey still doesn't show meaningful changes in foreign buying or recently low levels of emigration-related selling. However, domestic sentiment needs to improve before the global economy recovers more sustainably.*

25 March 2013

*For the time being, a deterioration in sentiment towards South Africa does not appear to have brought about any noticeable renewed emigration surge. But this is believed to be due to economic weakness abroad, and it is believed that domestic sentiment would have to improve prior to a sustainable global economic strengthening if we are to avoid such a surge again.*

*The 2<sup>nd</sup> half of 2012 could be seen as a rather negative period in South Africa's recent economic history. And 2013 has not started on a high note, with deteriorating investor confidence having brought the Rand under further pressure. Most commentators appear to focus on negative sentiment's impact on financial capital in- and outflows, which are reflected in the likes of currency fluctuations and bond yields, while some even surprisingly proclaim positive impacts on exports emanating from Rand weakness. Less time is spent considering the impact on "human capital", arguably the most crucial factor of production in South Africa's modern services-dominated economy.*

*Emigration statistics are no longer kept by StatsSA. They were, however, up until 2003, and the number of self-declared emigrants was recorded via Home Affairs departure forms filled in by people departing the country.*

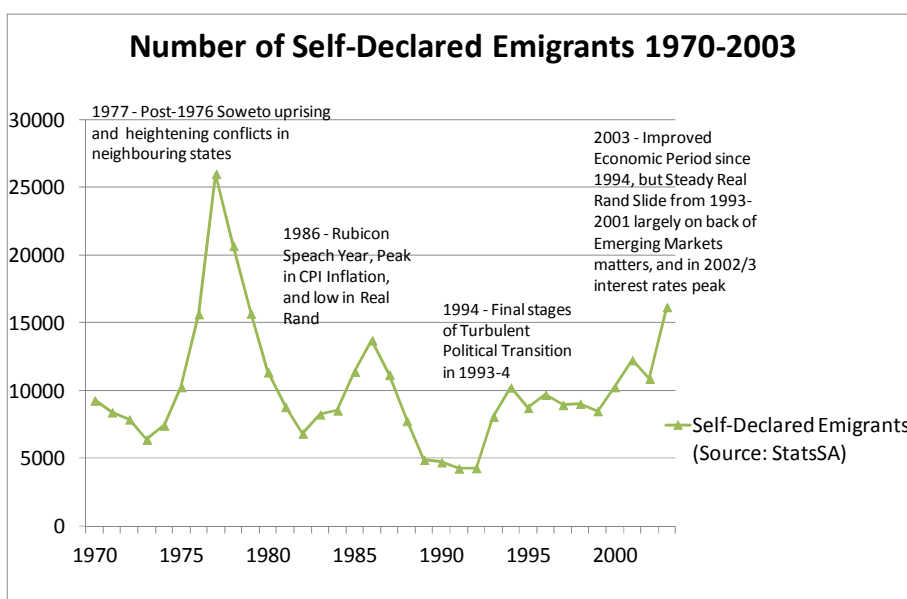
*While relying on declarations from people regarding the motive for departure can't be 100% reliable, the data does show trends which make a lot of sense when comparing the periodic emigration spikes with historic events.*

*In 1977, the high peak in self-declared emigration came after a very turbulent 1976 with its Soweto-led uprisings, and there was an economic contraction at the time too, while the external conflict situation in neighboring states had also been deteriorating. This situation was reversed for a short period, as a Gold-led economic boom set in for a short time in the late-70s/early-80s. By the mid-80s, however, SA was dipping in and out of economic contractions (1982-83 and 1985), CPI inflation peaked near 20% in 1986, and State President PW Botha's Rubicon Speech (which scuttled hopes of a political solution to Apartheid) the year before saw capital outflows. The Rand hit rock bottom as sentiment plummeted. 1986 thus saw another emigration peak.*

*While that final political solution started to unfold in 1990, with the release of Mandela and the unbanning of the liberation*

*organizations, it was an often violent political transition which created much uncertainty, hence the 1993-4 spike in emigration.*

*After 1994, a relatively good period of improving long term economic growth and political stability set in. However, SA's link to the Emerging Markets group continued to exert pressure on the real value of the Rand all the way to late-2001, culminating in an extreme Rand crash late in 2001, and an interest rate hiking cycle in 2002 as a result of an imported inflation surge. So, a broad rising trend in self-declared emigration from 1999-2003*

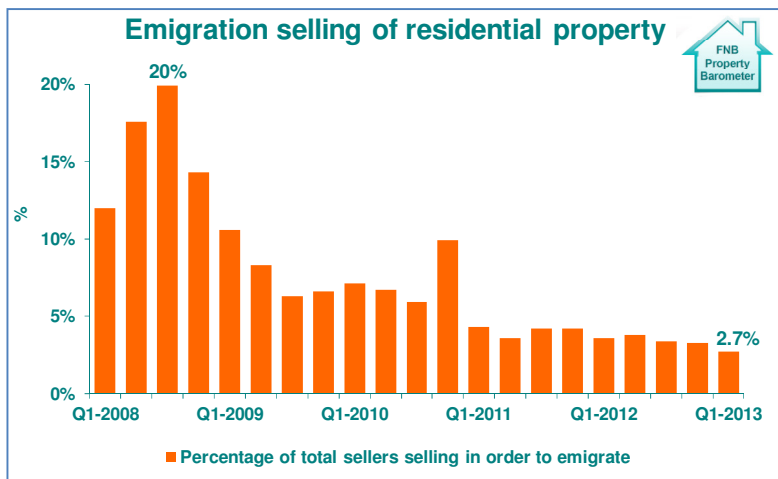


took place, but post-2003 emigration data was no longer recorded.

It is likely that from 2004 to 2007 SA's emigration rate subsided, as it was not only a relative economic boom time in South Africa, but strong capital flows had seen the Rand also go into a period of longer term strength from 2002 onward.

**SO WHAT'S THE LATEST SITUATION ON EMIGRATION LEVELS?**

While official emigration stats no longer exist, from late-2007 we began to ask our FNB Estate Agent survey sample of agents for estimates of the percentage of total sellers that were selling homes in order to emigrate. From this, it became apparent that 2008 saw another emigration upturn, peaking at 20% of total home sellers in the 2<sup>nd</sup> quarter of 2008, in a thinly traded market. At that time, there had just been very significant changes in the country's ruling party leadership following its Polokwane conference late in 2007, while The Eskom "crisis" early in 2008 with its widespread "power load shedding" is thought to have played a role too.



Thereafter, however, the percentage steadily subsided to the most recent survey's 2.7% of total home sellers, with the survey having been done in February 2013. This is still further down on the previous quarter's 3.3%.

This low emigration-related selling rate, in the face of a very significant deterioration in sentiment towards the country yet again, seems out of line with what has taken place in previous periods of sentiment deterioration.

This survey response, however, will need to be closely watched in coming quarters for signs of increase, as the rise may still come with a lag.

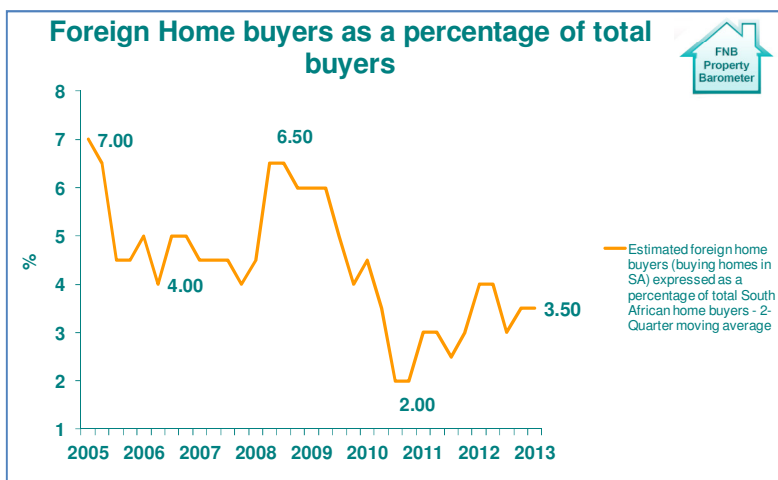
However, there is one arguable key difference in the economic environment this time around.

Economic times have been particularly tough globally over the past 4 years or so, and unemployment rates in some of the popular South African emigration destinations are high.

We continue to believe that weak job prospects abroad may continue to be a key constraint on aspirant emigrants, and in better global economic times, recent turbulence in South Africa could have resulted in another emigration surge.

**THE FOREIGN BUYING OF SOUTH AFRICAN HOMES SHOWS NO STRONG DIRECTION AT PRESENT, BUT....**

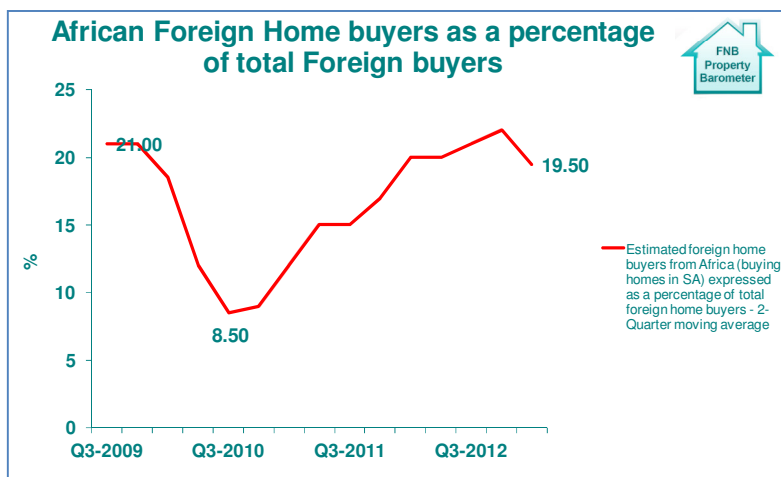
The currently weak global economic period probably also masks any change in sentiment towards South Africa too, in terms of foreign buyers of South African homes, because foreign buying has been relatively weak since 2010, probably as a result of foreign households also having financial constraints of their own, and property not having been the popular asset class in any case for a few years now.



With regard to foreign buyers, the 2-quarter moving average (we use a 2-quarter average done for smoothing purposes) for the 1<sup>st</sup> quarter of 2013 was unchanged from the previous quarter's 3.5% of total buyers of local residential property.

This remains far from the highs of 6.5% back in 2008, although it is admittedly still a little better than the 2% low reached in late-2010.

Financial times in economies such as Europe and the UK, from where a significant portion of SA's foreign buyers come, are currently tough, and that could conceivably be putting pressure on foreign buying, so this source of residential demand could have been expected to be weak with or without domestic sentiment changes.



However, one interesting turn which will be watched with interest is a slight decline in the estimated percentage of foreign buyers that are from African countries.

According to the estate agent sample, this was one group that hadn't appeared to be affected by the recently negative South African environment.

Expressed as a percentage of total foreign buyers, the African contingent increased from a low of 8.5% in 2010 to 22% for the 2 quarters to the 4th quarter of 2012.

However, this 2-quarter moving average declined to 19.5% in the 2-quarters up to the 1<sup>st</sup> quarter of 2013.

It is far too early to say whether this is the start of a declining trend in African foreign buyers. Certainly, I have for a while believed that South Africa is likely to see further increase in the African foreign buyer percentage, as Africa's economic fortunes continue to improve and its household wealth grows too. But this is by no means a foregone conclusion. As Africa's economic fortunes improve, so too will its cities and property markets develop. This will mean that the African property investor will also have more alternatives to South Africa, the African shopper more retail alternatives, and African skilled professionals more alternative places on the continent to be employed.

Yes, while nothing much can yet be concluded from a slight decline in estimated African foreign buyers in the latest survey, South Africa will be facing significantly more competition for skills and foreign property investors on the continent, and sentiment towards it needs to be positive.

#### CONCLUSION

In short, therefore, with regard to emigration selling of local property we still do not appear to be seeing any negative impact (increase) from recently heightened domestic tensions. But it is important to understand that our "brain drain" problem has probably NOT permanently subsided. In different (better) global economic times, the negative impact may have been far more significant, as was the case in various historic periods of weak sentiment towards SA.

In terms of foreign buying of domestic residential property, foreign buyers from the African continent appear to have been a key driver of some mildly improved foreign buying levels since 2010. However, a slight decline in this group's share of total foreign buying reminds us that this source of investment is not guaranteed. As Africa's household wealth grows strongly, South Africa can stand to benefit handsomely. But with that growth in wealth comes a growth in greater investment and employment alternatives for this group elsewhere on the African Continent, introducing greater competition for African purchasing power and skills.

Related Link:

#### SOME THOUGHTS ON THE UNCOMPETITIVELY VALUED RAND

<http://johnloos.blogspot.com/2013/03/some-thoughts-on-uncompetitively-valued.html>

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