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## PROPERTY BAROMETER

### FNB Estate Agent Survey – Foreign Buying of Domestic Residential Property

*Agents indicate further slower growth in foreign home buyer levels*

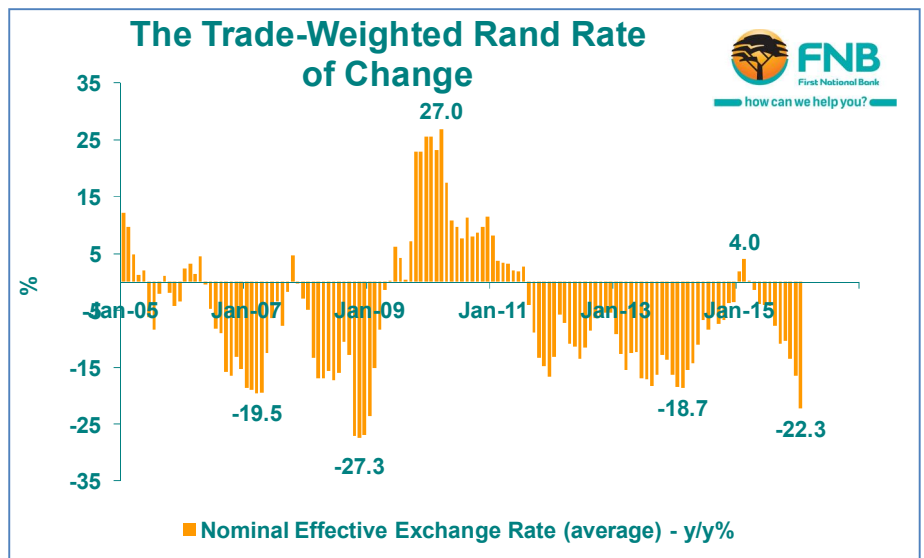
*The recent bout of further weakening in the Rand has made South Africa residential property cheaper on average for aspirant foreign buyers dealing in some of the world’s major currencies.*

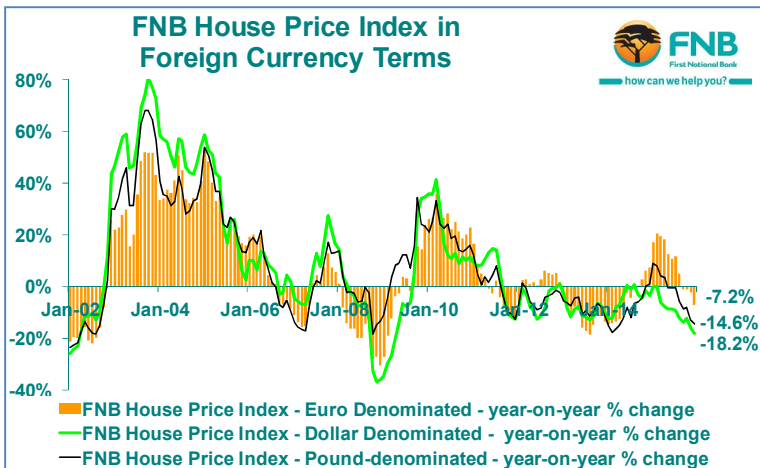
*However, this does not necessarily imply stronger growth in foreigner demand for domestic property. Working against this improved affordability is a deterioration in investor sentiment towards South Africa, while property’s popularity as a global asset class is perhaps not quite what it was about 2 years ago.*

#### **THE CONTINUATION OF THE RAND’S LONG TERM SLIDE MAKES SA PROPERTY CHEAP FOR FOREIGNERS**

*Late-2015 and early in 2016, the Rand’s long term depreciating trend, dating back to 2011, once again gathered steam. The drivers of this have been numerous, including a multi-year export commodity price slide, frequent Emerging Market jitters in an uncertain global economic environment, the arrival of US interest rate hiking and a well-documented myriad of domestic structural constraints on economic growth.*

*The numbers make for dismal reading. In January to date, the Trade-Weighted Rand Index (measured against a basket of currencies based on the extent of SA’s trade with those countries) had declined (depreciated) by -22.3% year-on-year, faster than December’s -16.5%. The Index has shown an average year-on-year decline in all but 3 months of the last 54 months. It is now -47.8% down on the level of July 2011.*





This translates into big declines in South African residential property values when measured in foreign currency terms.

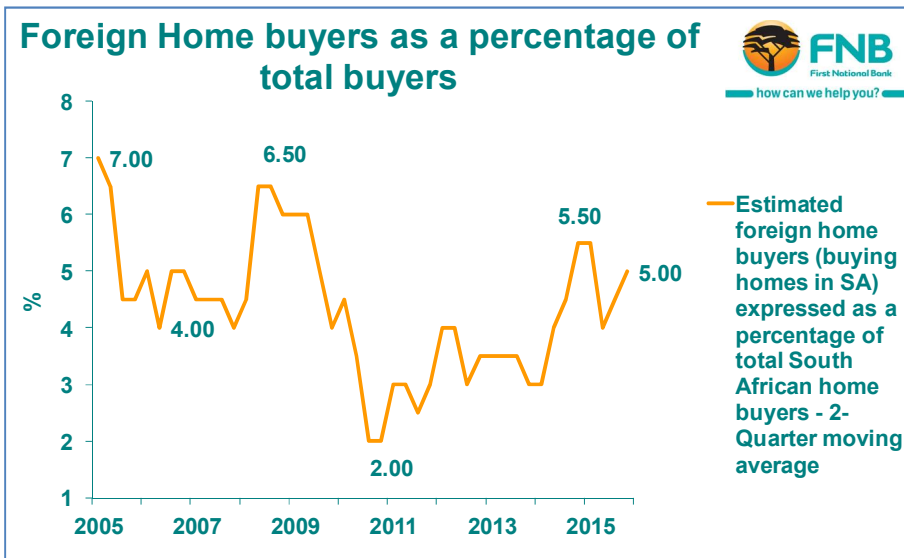
As at December 2015, in Rand terms the FNB House Price Index rose year-on-year by 7%. In Dollar terms this meant a sharp year-on-year decline of -18.2%, in UK Pound terms a decline of -14.6%, and in Euro terms a lesser, but still significant, -7.2% fall.

Compared with July 2011, the month preceding the start of the big Rand slide, the FNB House Price Index was -39.2% down by December 2015, -20.3% lower in Euro terms and -34.6% down in UK Pound terms.

In short, a major “downward correction” has already taken place in recent years in terms of certain major foreign currencies, making South African property far cheaper today for certain foreign buyers than a few years ago.

**BUT THE ESTATE AGENT SURVEY SUGGESTS THAT FOREIGN BUYING GROWTH HAS TAPERED, DESPITE CHEAPER PROPERTY**

While South African property, on average, has become substantially cheaper for many aspirant foreign buyers who deal in some of the major developed world currencies, the FNB Estate Agent Survey for the 4<sup>th</sup> quarter of 2015 doesn't point to any major surge in foreigner buying. Rather, they continue to suggest that foreigner buying is off its “highs” reached around 2014.



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 did rise mildly from 4.5% of total buying in the previous quarter to 5% for the two quarters up to the final quarter of 2015.

However, quarterly movements can be volatile, and this latest estimate remains down on the 5.5% estimate in the summer of 2014/15.

In addition, agents point to recent declines in overall residential activity, suggesting that any rise in foreigner buying as a percentage of total home buying may not definitely imply a rise in actual level of foreigner buying.

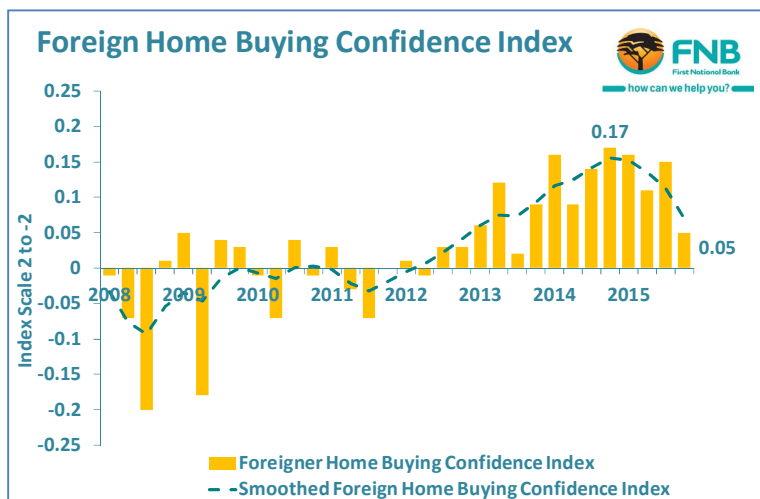
Rather, it may be better to see what agents, as a group, say with regard to increases or declines in the number of foreigner home buyers in South Africa.

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. However, the percentage of agents seeing an increase has declined over the

past few quarters. In the 4<sup>th</sup> quarter 2015 survey, 1% of respondents perceived “a lot more foreign buyers”, 6% “a little more foreign buyers”, 90% saw “unchanged foreign buyer levels”, 1% indicated a “little less foreign buyers” and 1% a “lot less foreign buyers”.

This means that 7% of agents pointed to “more foreign buyers” and only 2% “less foreign buyers”. This distribution represents a deterioration from back in the 1<sup>st</sup> quarter of 2015, where 16%% of agents surveyed pointed to “more foreign buyers” against 2% saying “less foreign buyers”.



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 declined from a +0.17 high at the end of 2014 to +0.05 by the 4<sup>th</sup> quarter of 2015.

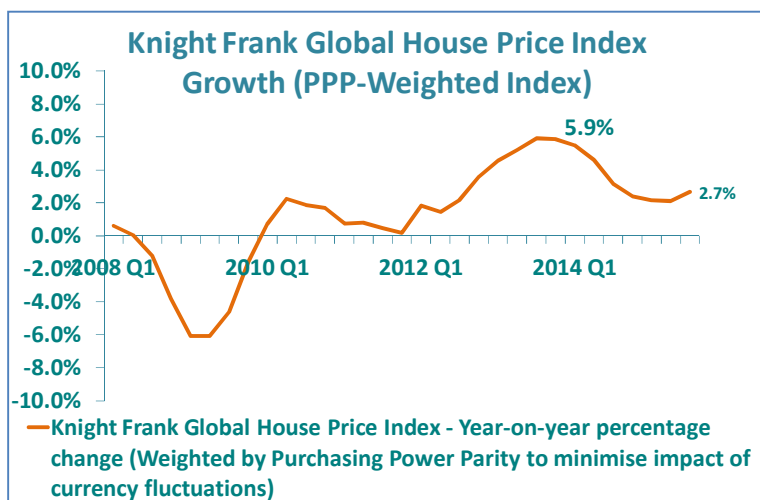
The index remains positive, suggesting agents as a group still pointing to growth in foreign buyer numbers, bit indicating that the pace of growth has been broadly slowing through 2015, and must be very low by now.

Therefore, both lines of questioning regarding foreign home buying point to at least a slower pace of growth in foreign buyer numbers compared to 2014, and possibly getting close to an absolute decline in their overall number.

### KEY POTENTIAL CAUSES OF SLOWING GROWTH IN FOREIGNER DEMAND FOR SA HOMES

Whilst the major decline in domestic average home values in foreign currency terms, due to a sharp weakening in the Rand, could conceivably be a reason for some foreign “bargain hunters” to buy local property, it is perhaps important to understand that the weaker Rand is reflective of a deterioration in investor sentiment towards South Africa for reasons highlighted earlier. So, working against cheaper property one has a sentiment deterioration which can be a negative factor. We thus place limited emphasis on a weak rand’s ability to drive foreigner buying higher.

A more important factor, we believe, is that property globally has perhaps just “gone off the boil” through 2014 and 2015, thereby losing some of its shine as an asset class for the wealthy. This is not to say global property as a whole is doing badly just yet, but we have seen some slower price growth of late when compared to back in 2014.

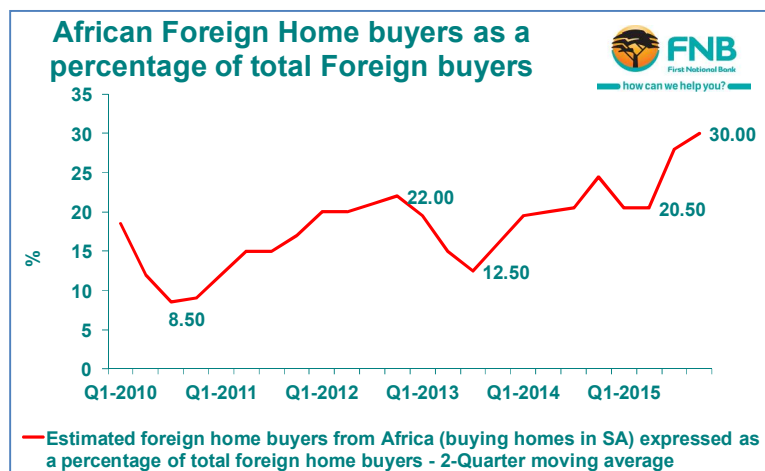


Whereas the big monetary and fiscal stimulus around the time of last decade’s Financial Crisis boosted the global economy and property, driving Knight Frank’s Global House Price Index (PPP weighted) to a peak growth rate of 5.9% year-on-year late in 2013, this rate has since tapered to more modest levels as the global stimulus wears thin. In the 3<sup>rd</sup> quarter of 2015, the inflation rate was a more moderate 2.7%, suggesting that the general excitement around property globally may have waned somewhat.

We remain of the opinion that the trend in growth in foreign buying of SA homes has largely following this broader global property

market trend as opposed to responding to Rand movements.

## AFRICAN CONTINENT BUYING



Finally, of interest is the ongoing 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 saw its share of total foreigner buying rise still further in the 2<sup>nd</sup> half of 2015 to a new high of 30%.

## CONCLUSION

FNB's Estate Agent Survey hadn't yet pointed towards all out decline in foreigner buying nationally in the 2<sup>nd</sup> half of 2015, but it did point to a steady slowing in growth to date.

While domestic residential property continues to appear cheap on average to foreign buyers, compared to levels back around 2011 before the multi-year slide in the rand, global sentiment towards South Africa remains weak, and this can largely work against any affordability benefits of a weak Rand.

We generally place little emphasis on a weak Rand's ability to attract foreigner buying. Rather, we remain of the belief that the performance of residential property globally influences its popularity as an asset class, and is the key influence on foreigner buying direction. We say this because the agent survey suggests that growth in foreigner buying has turned slower since 2014, despite further rand slide. What changed from 2014 onward? Slower global house price growth.

In addition, back 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.

## 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".