

PROPERTY BAROMETER –The “Foreign Effect” on the domestic housing market appears to have weakened in recent years

We are frequently asked whether Cape Town has seen a foreign buyer decline due to the drought? It has seen a foreign buyer decline in 2017, but given that so has South Africa as a whole, it is not possible to conclude that this decline is due to a regional drought.

8 February 2018

RECENT ESTIMATES OF DOMESTIC RESIDENTIAL PROPERTY BUYING BY FOREIGNERS

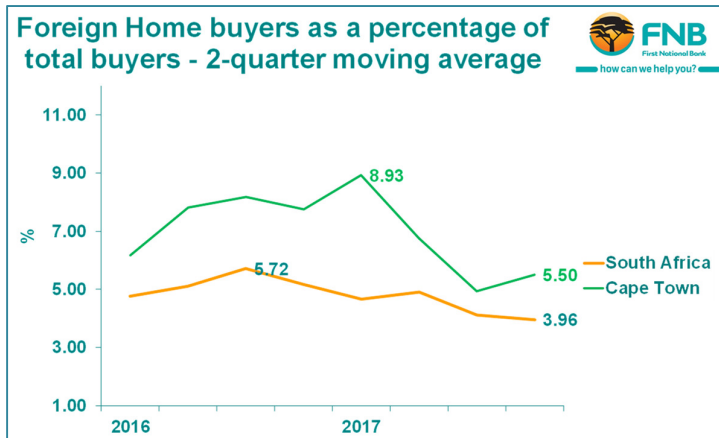
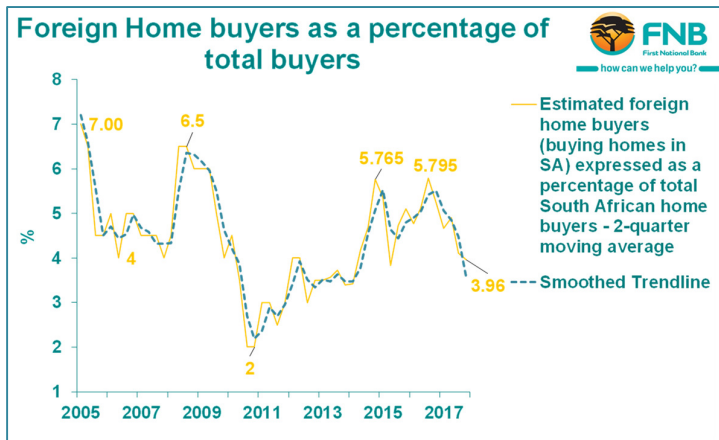
The FNB Estate Agent Survey has pointed to estimated foreigner buying of South Africa property having been on a declining trend through 2017 .

In the survey, we ask the sample of agents surveyed (predominantly in the 6 major metros of the country) to estimate the number of foreign citizens buying homes domestically as a percentage of total home buying. Using a 2-quarter moving average in order to reduce quarterly volatility in the data, the estimate was 3.96% of total home buying for the 2 quarters up to and including the 4th quarter of 2017.

This is slightly down on the 3rd quarter’s 4.1%, and more significantly down on the 5.8% high reached in the final quarter of 2016.

In recent times, we have been asked many questions as to the Western Cape drought, and its potential impacts on that region’s housing market, including whether foreign buyers have been losing interest in that region due to the drought conditions and an acute water shortage in the City of Cape Town.

All we can say is that the estimated foreigner home buying percentage in Cape Town, as in the case of the national percentage, has declined in recent quarters too, from 8.9% for the 2 quarters up to and including the 1st quarter of 2017 to 5.5% of total home buying by the final quarter of last year, according to that region’s sample of agents surveyed.



However, the fact that the national estimate has also declined makes us reluctant to conclude that drought conditions in Cape Town have played any significant role in this to date. Rather, we suspect that the weak sentiment dominant amongst the investor community, the business community as well as consumers, towards South Africa through 2017 was more likely to have played a key role.

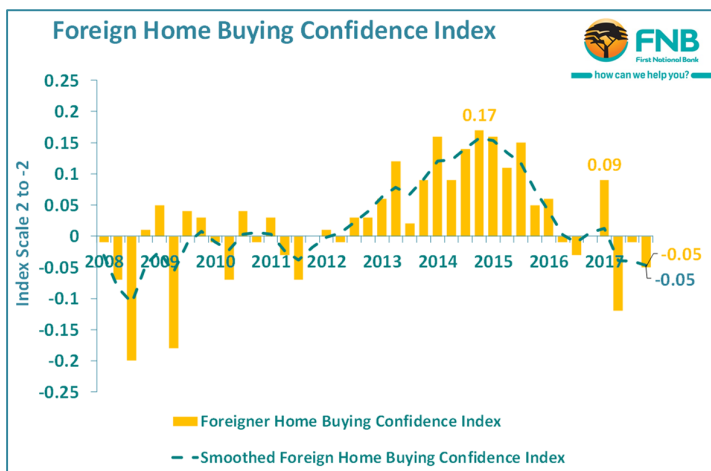
That weak sentiment was influenced by, amongst other factors, a weakened Rand (reflective of weak sentiment as well as a partial cause of it, we believe), weak economic performance, and a distinct lack of political and policy direction, contributing to widely publicized ratings agency downgrades to “junk status”.

We have a follow up question in the survey which also hints at slowing foreigner buying. In this question, the survey respondents are asked whether they perceive an increase, decrease or unchanged level in foreign buyer numbers compared to 12 months ago.

The responses were biased very slightly in favour of “less foreigner buying” in the 4th quarter survey. 86% reported “unchanged levels” (“unchanged” is normally by far the largest response). 1% of agents reported a “lot less” foreign buyers and 8% reported a “little less”. That totaled 9% of respondents indicating less foreign buyers from a year ago. By comparison, 3% of respondents reported “a little more” foreign home buyers and 1% “a lot more”. This means 4% perceiving more foreign buyers, keeping the bias very slightly in favour of “less foreign buyers”.

We aggregate the agent answers into what we call our Foreign Home Buying Confidence Index, depicted on a scale of +2 to -2. A level of +2 means that 100% of agents state a “lot more foreigner buying”, -2 reflecting 100% stating a “lot less”, and with a zero level indicating that on average the agents are saying that levels are unchanged from 12 months ago.

The index was at its strongest positive level of +0.17 as at the final quarter of 2014, having climbed to that level starting around 2012 and reflecting prior years’ improvement. However, since 2015 this indicator’s level has fallen, and in 5 of the last 7 quarters it has been in negative territory. The 4th quarter 2017 level was slightly negative, to the tune of -0.05.



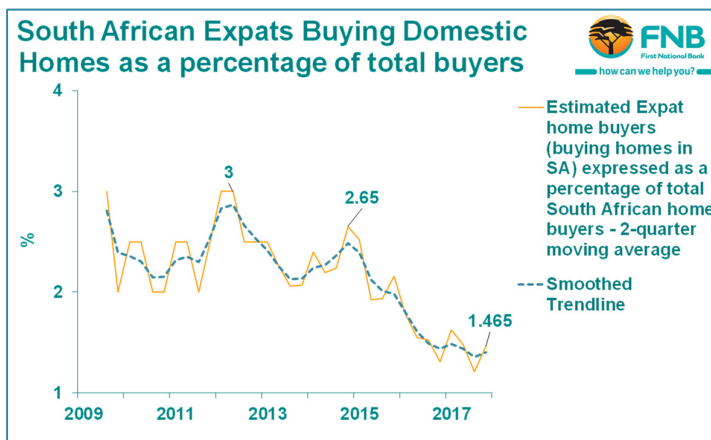
EXPAT BUYING OF LOCAL PROPERTY HAS ALSO BEEN ON A GRADUAL BROAD DECLINING TREND

A second set of foreign-related buying questions that we pose to the sample of agents relates to the levels of buying of domestic residential property by South African expats living abroad.

Here, too, we have seen a decline in recent years, although this broad declining trend seems to have been gradual and over a longer duration, having started back in 2015.

In the final quarter of 2014, the estimated level of Expat buying was 2.65% of total home buying using a 2-quarter moving average.

This percentage has gradually slowed to where both the quarterly estimate and the 2-quarter moving average measured 1.465% in the 4th quarter of 2017, albeit that this latest percentage is marginally higher than the prior quarter.



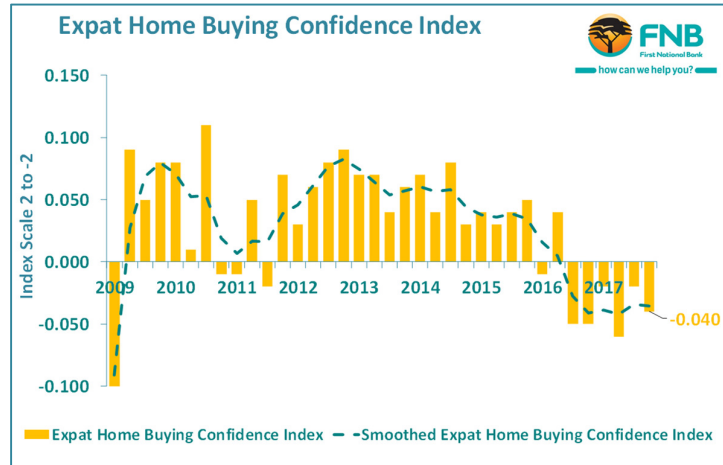
We have a follow up question in the survey, similar to the follow up question in the case of foreign buyers. In this question, the survey respondents are asked whether they perceive an increase, decrease or unchanged level in foreign buyer numbers compared to 12 months ago.

The responses in the past 6 quarters have been biased in favour of “less expat buying”. In the 4th quarter survey, 88% reported “unchanged levels” (“unchanged” is normally by far the largest response). 3% of agents reported a “lot less” expat buyers and 4% reported a “little less”. That totaled 7% of respondents indicating less expat buyers from a year ago. By comparison, 4% of respondents reported “a little more” expat home buyers and 1% “a lot more”. This means 5% perceiving more expat buyers vs 7% saying “less”.

The bias is thus only slightly in favour of “less expat buyers” However, that the bias in favour of “less expat buyers” has been in place for the past 7 out of 8 quarters becomes significant.

We aggregate the agent answers into what we call our Expat Home Buying Confidence Index, depicted on a scale of +2 to -2. A level of +2 means that 100% of agents state a “lot more expat buying”, -2 reflecting 100% stating a “lot less”, and with a zero level indicating that on average the agents are saying that levels are unchanged from 12 months ago.

The Index level for the 4th quarter was a slightly negative -0.04, a little more negative than the -0.02 of the prior quarter, sustaining the bias in favour of “less expat buyers”, a noticeable turnaround from the sustained positive period from late-2010 to end-2014.



CONCLUSION

In short, both foreigner buying of domestic residential property as well as South African expat buying of local property are perceived to have moved gradually weaker through 2017, the latter weakening gradually through 2016 too.

The perceived national weakening in both of these categories of demand, which included declines in recent quarters in Gauteng too, make it impossible to conclude that drought conditions have to date played a major role in curbing foreign demand in Cape Town.

Rather, it is possible that this weakening was significantly reflective of a dampened investor sentiment towards South Africa in general last year, which in turn is the result of the country’s multi-year economic stagnation, uncertainty regarding future economic policy, and widely publicized negative news such as the recent sovereign rating downgrades to “junk status”.

However, we have started 2018 with a noticeably more positive mood in South Africa, which has been in part reflected in a stronger Rand. Leadership change in the country’s ruling party may have been partly responsible for the positive mood swing, while leading business cycle indicators have for some time also hinted at improved near term economic performance to come. Should this improved sentiment continue through the year, it is possible that foreigner interest may improve. However, should the Western Cape drought not be broken this winter, it would be a dire situation for that region which could well start to impact negatively on Cape Town-specific foreign buyer demand.

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