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MARKET ANALYTICS AND
SCENARIO FORECASTING
UNIT: FNB HOME LOANS

JOHN LOOS:
HOUSEHOLD AND PROPERTY
SECTOR STRATEGIST
FNB HOME LOANS
087-328 0151
john.loos@fnb.co.za

THEO SWANEPOEL:
PROPERTY MARKET
ANALYST
FNB HOME LOANS
087-328 0157
tswanepoel@fnb.co.za

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PROPERTY BAROMETER

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

Estate Agents continue to expect Buy-to-let home buying to start to grow a little more rapidly in 2015, but actual growth appears limited.

For the 4th successive quarter, the FNB Estate Agent Survey returned a buy-to-let home buying estimate of 9% of total home buying, which probably reflects some very moderate growth in total buy-to-let volumes as overall residential transaction volumes have crept higher.

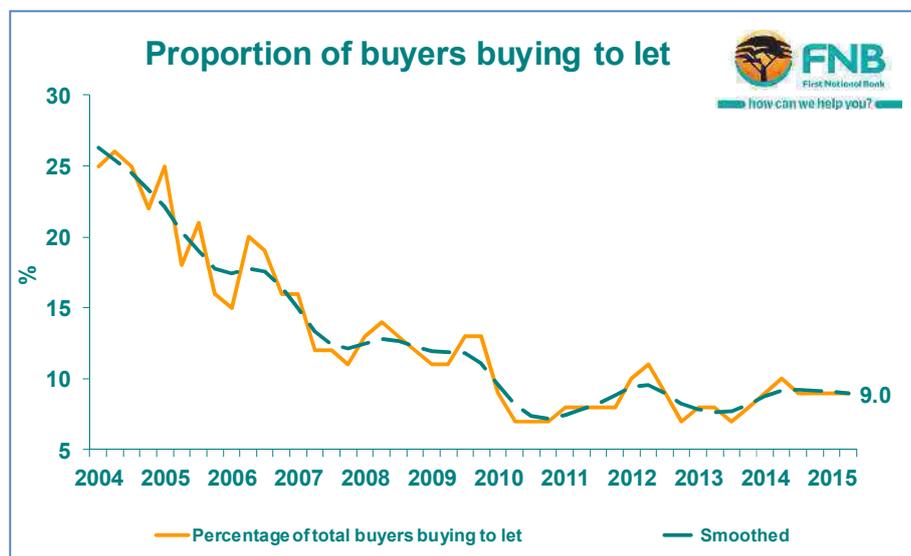
Looking forward, we don't expect any meaningful increase in buy-to-let buying levels. We do believe that the rental market could strengthen mildly given our expectation of further mild interest rate hiking. But an increase in yields on residential property towards noticeably more attractive levels would be a slow process.

BUY-TO-LET BUYING PERCENTAGE REMAINS UNCHANGED AGAIN

The 2nd quarter 2015 FNB Estate Agent Survey once again pointed to no further increase in the significance of buy-to-let buying in the market compared with the previous quarter.

By this we mean that, as a percentage of total home buying, buy-to-let purchases are estimated by survey respondents to have remained unchanged on the previous quarter at 9%, the 4th successive quarter of this estimated percentage.

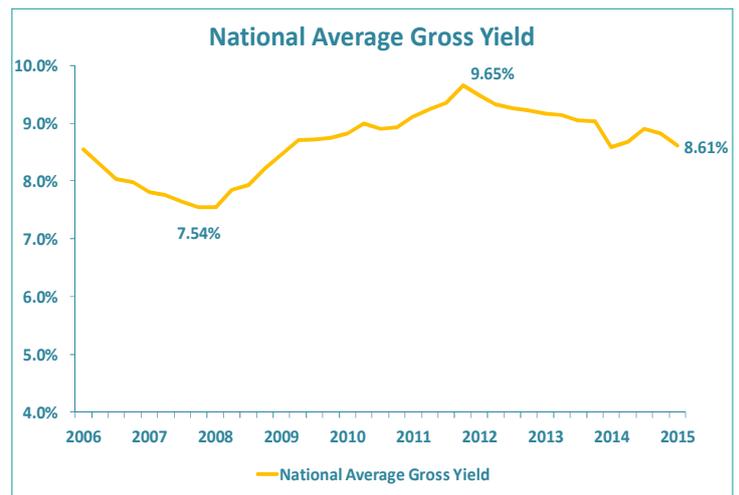
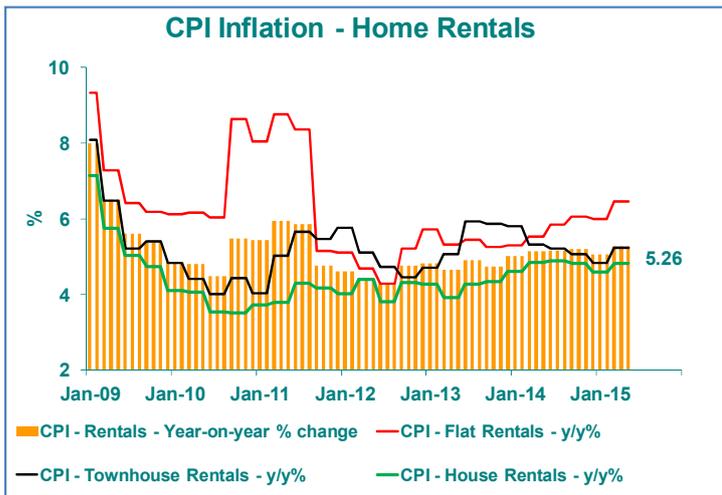
This is very much in line with a host of other national residential market indicators that point to stability but not much in the way of strengthening. We believe that this percentage is a healthy one, reflecting an absence of widespread "exuberance" in the property market at the current stage. The percentage remains low in comparison to the estimated 25% back in the boom times of early-2004, reflecting both a lack of "irrational behavior" these days as well as a constrained economy and Household Sector.



Buy-to-let attractiveness has perhaps been curbed by a rental market whose performance remains moderate, constrained by a low interest rate environment that has encouraged strong 1st time buying levels and low selling due to financial stress, two factors that limit growth in tenant demand to rent.

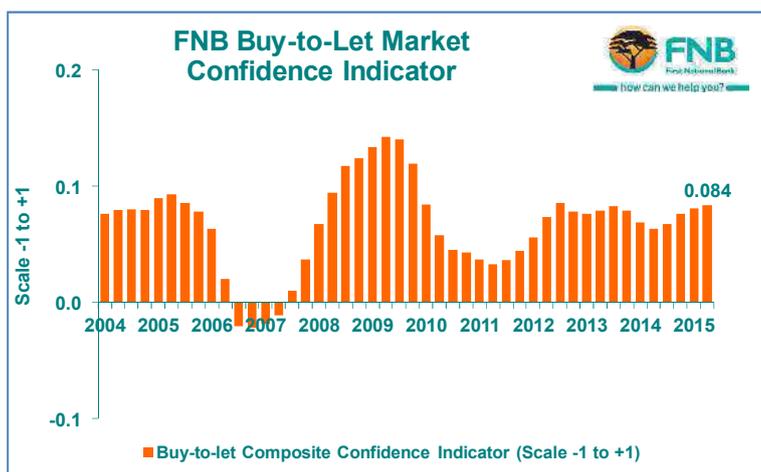
So, although rental inflation has accelerated mildly to just above 5% by early-2015, according to StatsSA CPI data, this has been insufficient to prevent some yield compression from taking place since early-2012, which in turn reduces buy-to-let attractiveness mildly.

It is perhaps, therefore, unsurprising that the buy-to-let percentage improved only mildly off its 7% lows of around 2010, and that the improvement quickly flattened out.



Nevertheless, a stable buy-to-let percentage of total home buying should have meant a gradual rise absolute volume of buy-to-let purchases, given that we have seen gradually rising overall transaction volumes in the residential market in recent years..

AGENTS CONTINUE TO EXPECT STRONGER BUY-TO-LET BUYING IN THE NEAR TERM



Looking forward, the agents surveyed appear to be expecting stronger levels of buy-to-let home buying growth in the near term.

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, and the 2nd quarter survey came out more positive than the previous one at 0.084, slightly higher than the revised 0.081 of the 1st quarter (scale of 1 to -1). This is the 4th successive quarter of increase in this index.

WE ARE A LITTLE LESS CONFIDENT OF NEAR TERM BUY-TO-LET GROWTH THAN THE AGENTS

We are less convinced that there will be any near term increase in the buy-to-let buying percentage, or more rapid growth in absolute levels of buy-to-let buying. Two factors are gradually militating in favour of the rental market. Firstly, 1st time buying appears to be tapering gradually, although still strong. The prospect of interest rate hiking, with the Reserve Bank (SARB) repeatedly issuing warnings to this effect, may be encouraging a growing group of 1st time buyers to wait it out on the sidelines, and this could mildly promote rental demand. Secondly, our Estate Agent Survey also points to a recently increased percentage of sellers who are “downscaling due to financial pressure” believed to be intending to rent as opposed to buy.

These 2 factors could strengthen the rental market mildly, and this in turn could cause yields to start to increase in the near term making buy-to-let gradually more attractive.

But this increase in attractiveness would be a gradual process, and we are not convinced that we will see any meaningful increase in buy-to-let buying in the short term.