PROPERTY BAROMETER

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

The buy-to-let picture remains one of mediocrity, and primary residential demand remains king

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MARKET ANALYTICS AND SCENARIO FORECASTING UNIT: FNB HOME LOANS

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In the 4th Quarter 2016 FNB Estate Agent Survey, buy-to-Let demand was a little slower than the prior quarter, keeping the level of recent years "moderate" by pre-2008 boom time standards, and our estimates point to little in the way of growth in secondary property ownership.

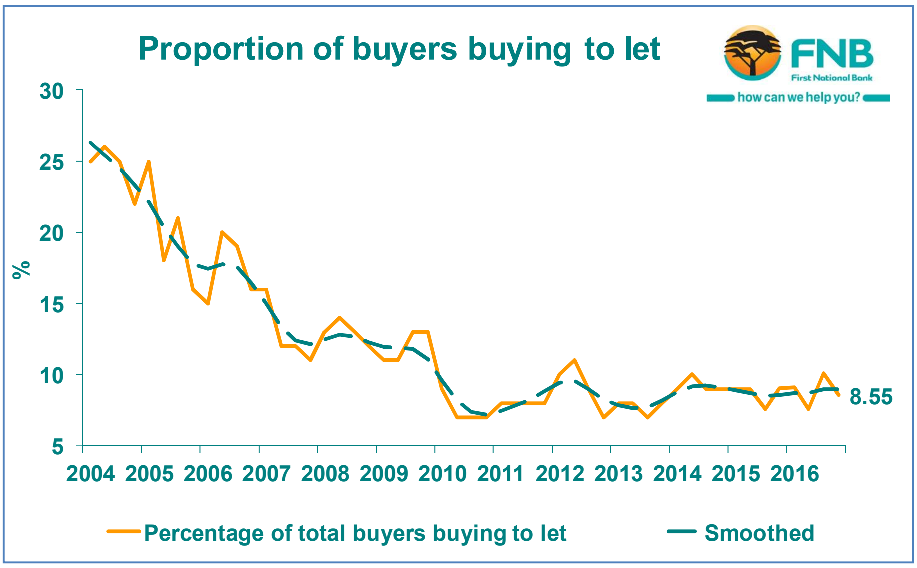
In a financially constrained time, one should expect primary residential demand to remain "king", and possibly even rise in prominence in the near term.

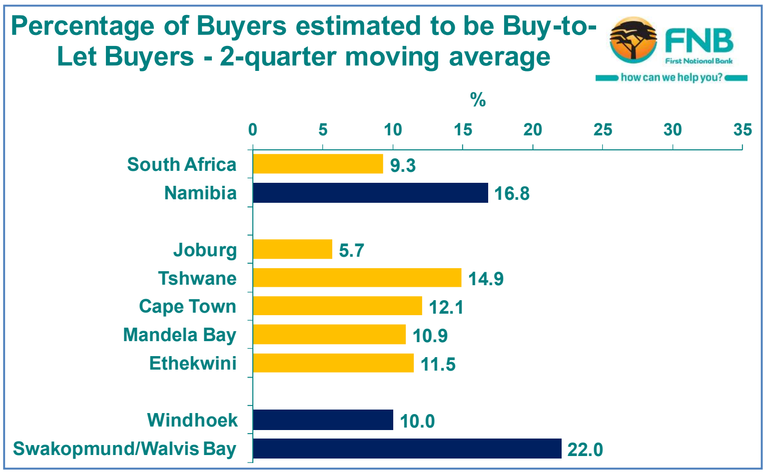
BUY-TO-LET BUYING PERCENTAGE SLIGHTLY LOWER

The 4th quarter 2016 FNB Estate Agent Survey once again pointed to little "excitement or exuberance" in the level of buy-to-let home buying.

As a percentage of total home buying, buy-to-let purchases are estimated by survey respondents to have moved lower, from 10.1% in the previous quarter to 8.55% in the 4th Quarter of 2016.

This estimate continues a lengthy period of mostly single-digit percentage estimates for buy-to-let buying, stretching back to 2010.





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 still have been considerably lower than that of Namibia in the 2nd half of 2016, recording an average of 9.3% of total home buying for the last 2 quarters of 2016.

Namibia, by comparison, was estimated at a far higher 16.8%

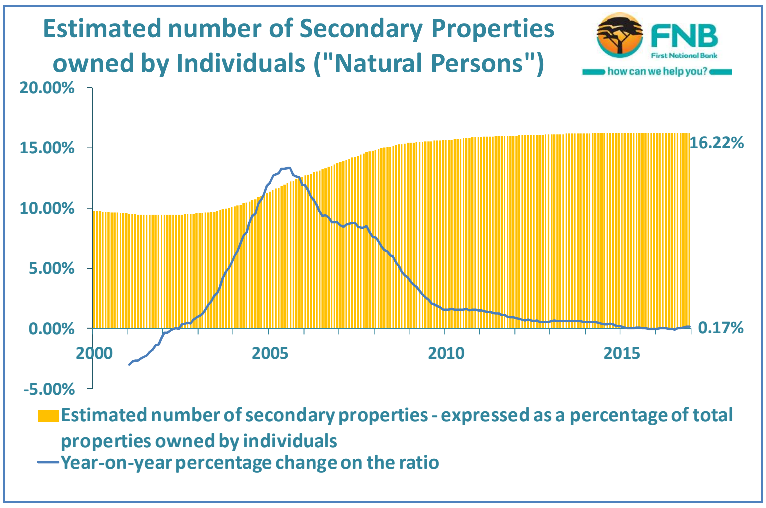
We believe that the difference between the 2 countries has much to do with the differing strengths of the 2 markets in recent years, with the Namibian market having "boomed" by comparison. While "buying on the lows" is the old adage of the seasoned investor, the reality is that many investors (rightly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

However, this differential between the 2 countries in buy-to-let buying may soon change significantly, with the Namibian housing market having weakened sharply of late.

Zooming in on South Africa's major regions then, the weakest estimated major buy-to-let market in the last half of 2016 was Joburg, with a 5.7% buy-to-let buying percentage, which ties in to this city market returning the weakest activity rating estimate from the agents too. By comparison, it was the relatively vibrant Tshwane market which returned the highest buy-to-let estimate of 14.9%. One may ask why Cape Town (12.1%), the recently strong part of the national market, had a lower estimate in buy-to-let than Tshwane? The answer may lie in the Cape Town market's house price growth having run hard in recent years, making it very expensive while also compressing its rental yields.

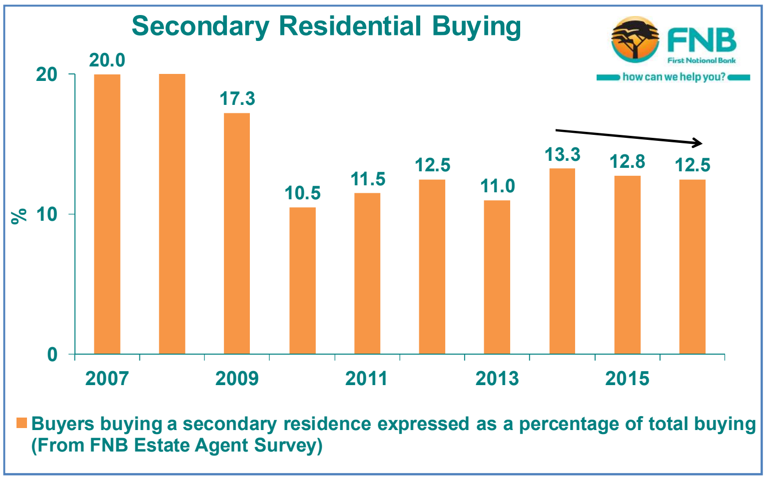
OVERALL SECONDARY HOME BUYING "FLATTENS OUT"

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 secondary home buying market as a whole. The estimated growth rate is currently near to zero.

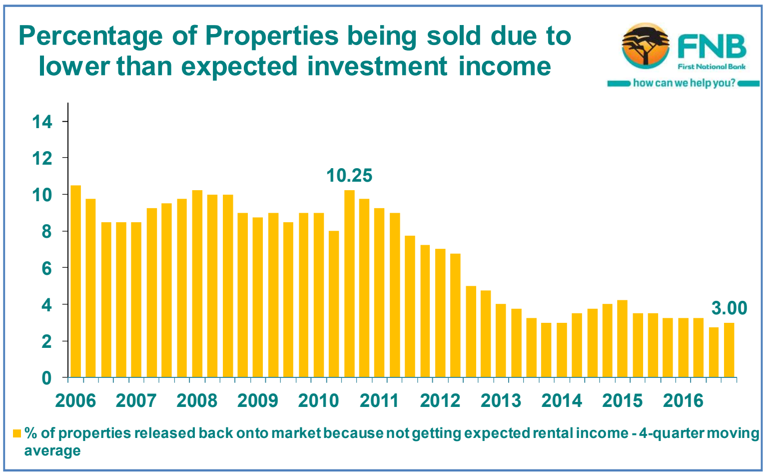


Important to understand is that secondary properties include those for buy-to-let purposes as well as for use by relatives, leisure purposes and other non-primary residence motives.

In the FNB Estate Agent Survey, too, we have witnessed a slight annual decline in the estimated percentage of homes believed to be bought for secondary purposes, from a multi-year high of 13.3% of total home buying in 2014 to 12.5% in 2016.



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 4^{th} quarter of 2016 to be 3%. 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.

CONCLUSION

The picture that emanates from the Buy-to-Let Market is one of slow demand, as is the case for secondary properties as a whole (buy-to-let, holiday buying and other non-primary residence motives).

Simultaneously, though, the estimated pace of selling of investment properties remains low, suggesting that while financial constraints exist, curbing the buying side, levels of financial stress in this market still remain low.

In the current weak economic time, it is realistic to expect secondary home buying to be somewhat on the "backburner", and this is what we appear to be seeing.

The already-moderate pace of secondary home buying in South Africa, can limit the "downside risks" to the residential market in a weakening phase, such as what we have been in of late, because this form of residential demand can typically weaken more sharply when economic downturns occur.