

PROPERTY BAROMETER – Foreigner Home Buying of Domestic Residential Property

Indications are that the level of foreign citizens’ buying of domestic residential properties may have declined recently. But it isn’t clear whether this would be due to significant Rand recovery since a year ago, or due to recent resurgence in negative sentiment following downgrades of certain of South Africa’s country ratings to “junk status”, and the negative hype that accompanied this.

25 June 2017

RECENT ESTIMATES OF DOMESTIC RESIDENTIAL PROPERTY BUYING BY FOREIGNERS

Recently, there have been hints emanating from our FNB Estate Agent Survey that foreigner demand for local residential properties may be declining.

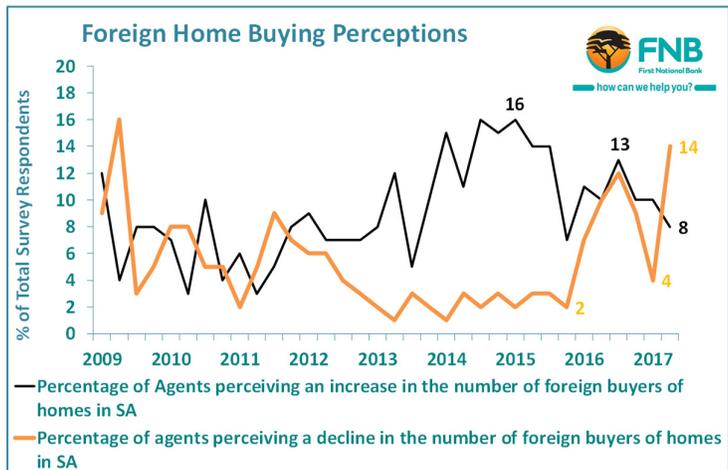
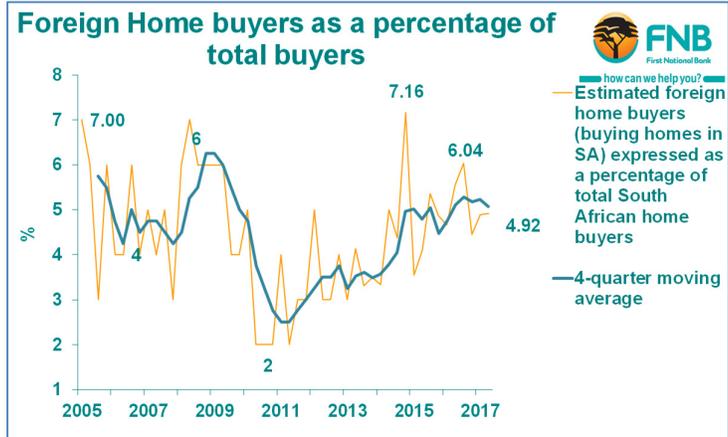
In the survey, we ask the sample of agents surveyed (predominantly in the 6 major metros of the country) to estimate the number of foreign citizens buying homes domestically as a percentage of total home buying. The 2nd quarter estimate was insignificantly different from the 1st quarter estimate, at 4.92% compared to the 1st quarter’s 4.89%. We don’t place too much significance on such a quarterly move, not only because the change is extremely small, but also because quarter to quarter estimates can be a bit volatile.

However, on a less volatile 4-quarter moving average basis, we have seen some mild decline in the estimated percentage of foreign buyers, from 5.28% for the 4 quarters up to and including the 3rd quarter of 2016 (the highest 4-quarter average since the 3rd quarter of 2009), to a mildly lower 5.057 for the 4 quarters up to the 2nd quarter of 2017.

While the percentage is not too different from a year ago, given that overall residential transaction volumes have declined the change in the absolute number of foreign buyers of domestic homes may be a bit more significant.

But where the perception of decline amongst the estate agents as a group becomes a bit more evident perhaps, is in the follow up question where they are asked whether they perceive an increase, decrease or unchanged level in foreign buyer numbers compared to 12 months ago.

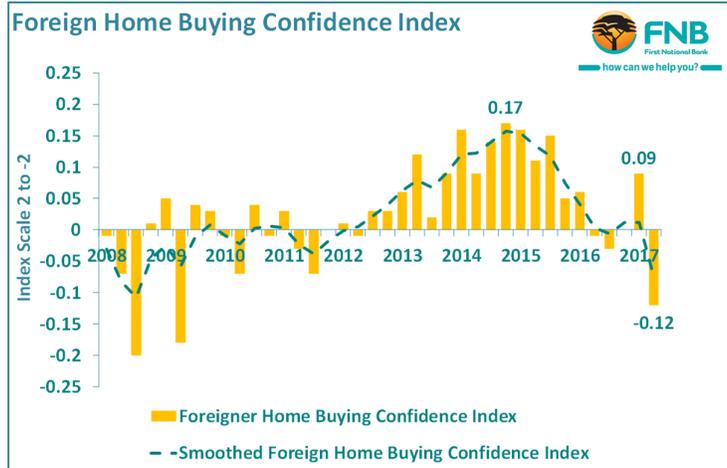
In the 2nd quarter survey, 78% reported “unchanged levels” (“unchanged” is normally by far the largest response). 7% of agents reported “a lot less” foreign buyers and 7% reported a “little less”. That totaled 14% of respondents indicating less foreign buyers from a year ago. By comparison, 7% of respondents reported “a little more” foreign home buyers and 1% “a lot more”.



These percentage estimates have changed noticeably of late. In the 1st quarter only 4% of agents saw less foreign buyers while 10% saw more. Those seeing less foreign buyers was as low as 2% back in the final quarter of 2015, while those seeing more foreign buyers was as high as 16% late in 2014.

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. It moved into negative territory at a stage of 2016. It then rebounded briefly to +0.09 in the 1st quarter of 2017, before dropping strongly back into negative territory to the tune of -0.12 in the 2nd quarter 2017 survey.

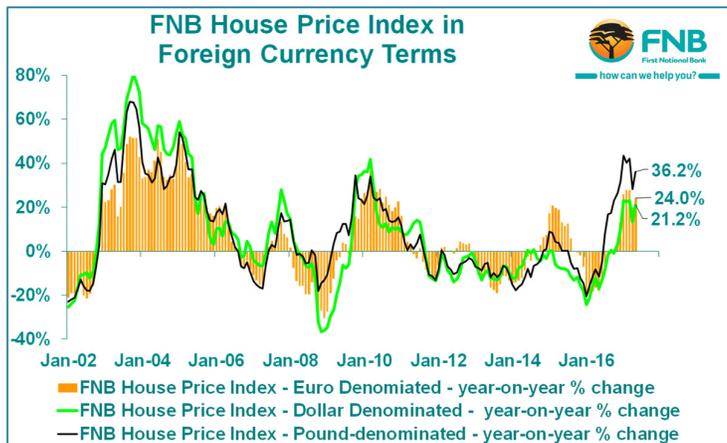


Therefore, the estimated percentage of foreigner buying of domestic residential property has shown marginal decline over the past year or so, and a greater portion of agents has recently pointed to a decline in absolute numbers of foreign home buyers since a year ago, and in a lower volume market this is believable.

POTENTIAL REASONS FOR A DECLINE IN FOREIGNER BUYING OF LOCAL RESIDENTIAL PROPERTY

The question is what may have caused an apparent tapering of foreign home buying levels.

Our 1st “port of call” is to examine the cost for foreigners of domestic housing. Indeed, the FNB House Price Index, when denominated in certain major foreign currencies, points to a sharp average increase in South African home values for certain aspirant foreign buyers recently. This is especially the case for UK Pound investors, with the Pound having suffered severely at the hands of last year’s Brexit vote (the referendum vote in favour of the UK leaving the European Union).



In US Dollar terms, the FNB House Price Index rose year-on-year by 21.2% in May 2017, and a slightly more significant 24% year-on-year in Euro terms. But in Pound terms the increase was a very sharp 36.2%.

South African residential property has thus become more expensive of late for buyers from the UK, Eurozone and US, but particularly in the UK case.

This Rand-driven increase in foreign-denominated values could conceivably have had something of a dampening impact on foreigner demand for domestic property.

However, as we have mentioned from time to time, we believe that, normally, the key driver of foreigner housing demand to be more related to the popularity of property as an asset class globally.

With a time lag, the recovery of global housing markets from around 2009/10, as reflected in a broad acceleration in the Knight Frank House Price Index inflation rate from 2010 to 2013, saw agents perceiving a strengthening in foreigner residential buying from around 2012 to 2014/15.

Some moderation in the Knight Frank Index inflation rate through 2014/15 was followed by a similar moderation in the perceived strengthening in foreigner home buying through 2015 and 2016.

However, in 2016/17 the Knight Frank House Price Index saw renewed strengthening in its growth rate. With a lag, we did see a brief uptick in the FNB Foreigner Home Buying Confidence Index as at the 1st quarter of 2017, which would point to a positive lagged response as we have come to expect.

But in the 2nd quarter, the Confidence Index fell quite significantly, going against what we would normally expect given relative global housing market strength and its perceived impact on foreign buying locally.

This may point to a dampening of sentiment amongst would be foreigner buyers, possibly caused by widespread negative publicity in the 2nd quarter of 2017 surrounding South Africa's newly acquired "junk status" when it comes to credit ratings assigned to the country by certain of the ratings agencies recently.

While the "junk status" announcement has little directly to do with foreign property buyers, it may have contributed to a deterioration in general sentiment in many areas of the economy, as reflected by a weakening to very weak levels in the RMB-BER 2nd Quarter Business Confidence Index, while estate agents in our survey also perceive a significant increase in "General Pessimism" amongst all buyers (domestic and foreign) in the 2nd quarter Estate Agent Survey. Why not then a dampening in sentiment amongst would-be foreign buyers of domestic homes?

So, we suspect that a sharp recent rise in domestic house prices in foreign currency denominated terms (after last year's weakness following the late-2015 Rand slump on the back of "Nenegate"), may have been a partial cause in some decline in levels of foreigner buying of domestic housing. But a change in agent perceptions regarding foreigner buying in the 2nd quarter may also suggest some dampening in sentiment of these would be foreigner home buyers regarding South Africa, a potential consequence of widespread negative publicity surrounding the ratings downgrades to "junk status". Coupled to this we had further negative publicity after South Africa was reported to be one of very few countries to have been in recession in recent times.

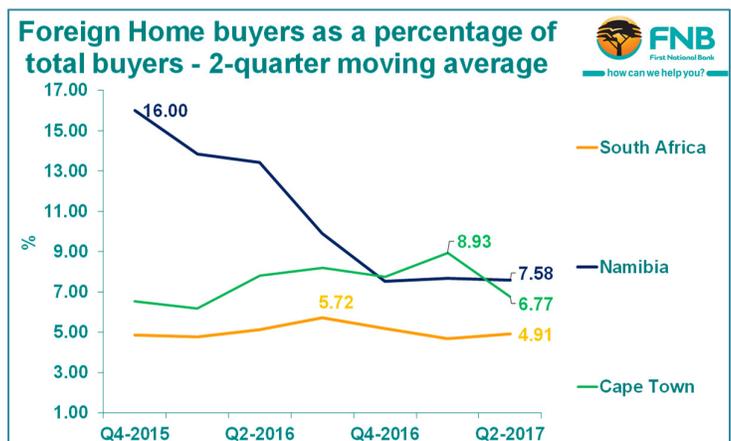
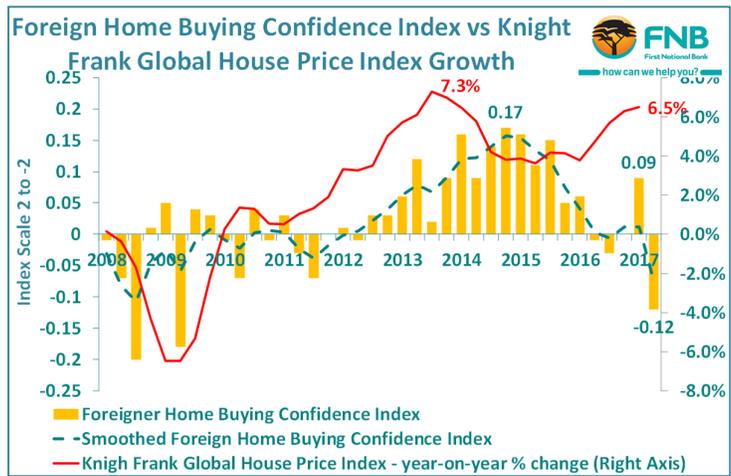
REGIONAL FOREIGNER HOME BUYING TRENDS

A decline in foreigner buying in a region can obviously have a dampening impact on that region's residential market should it be significant.

For South Africa as a whole, any decline in foreigner buying would not have too significant an impact, as the percentages of foreign buyers are generally quite low.

Using 2-quarter moving averages for smoothing purposes when breaking down survey estimates into regions, we have seen a marginal decline in the South African average percentage from 5.72% in the 2 quarters to the 3rd quarter of 2016 to 4.91% for the 1st 2 quarters of 2017.

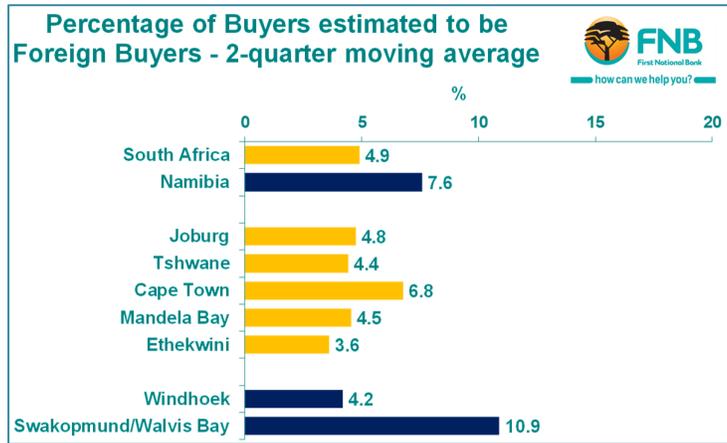
In neighboring Namibia, however, the impact may have been more significant at the end of its housing market boom. From an estimated 16% of



total home buying in that country as at the final 2 quarters of 2015 (when we started the Namibia survey), the percentage of home buyers believed to be foreigners has decline markedly to 7.58% by the 1st 2 quarters of 2017.

Within South Africa, Cape Town is the Major Metro region that usually has the highest foreigner home buying percentage. Here, we have seen a decline in the most recent estimated percentages, from an 8.93% average for the 2 quarters to the 1st quarter of 2017 to 6.77% for the 2 quarters to the 2nd quarter of 2017. However, this is not an extreme decline, and we would have to wait and see if further decline will be sustained or not.

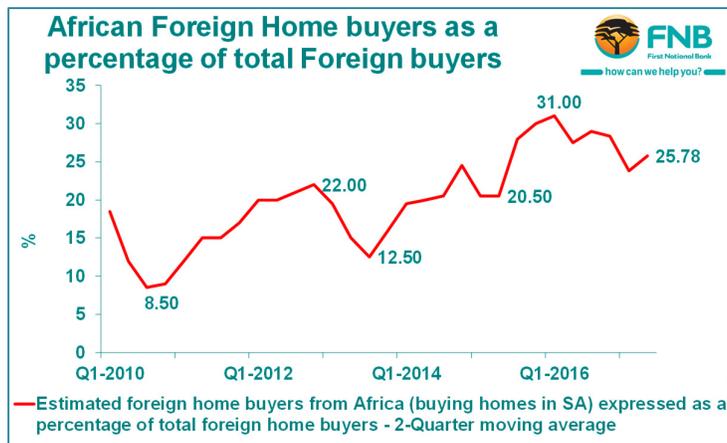
Despite some mild decline, Cape Town remains the major metro with the highest estimated foreigner buying percentage.



AFRICAN CONTINENT FOREIGNER BUYING

Finally, 2017 started with a mildly lower estimate of foreign buyers from the rest of the African continent, expressed as a percentage of total foreign buyers of domestic housing.

After starting last year at a 31% multi-year high, the 2-quarter average for buyers from the African continent declined through last year, and the most recent 2-quarter estimate for the 1st 2 quarters of 2017 is that buyers from the African continent made up 25.8% of total foreigner buyers of domestic property.



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