

PROPERTY BAROMETER – Foreigner Home Buying in South Africa

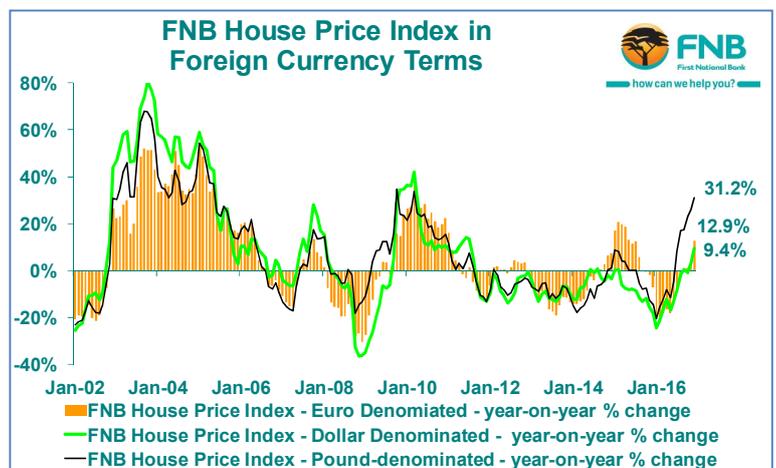
Some comeback in the Rand through 2016 left domestic property significantly higher for foreign buyers. This, along with arguably very high global property values, raising concerns of a slowdown in housing markets, may cause some decline in estimated foreigner buying of domestic property in SA in 2017, after a solid 2016

27 January 2017

The FNB House Price Index, when denominated in certain major foreign currencies, points to a sharp average increase in South African home values for some aspirant foreign buyers in the latter stages of 2016. 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 9.4%, and a slightly more significant 12.9% year-on-year in Euro terms. But in Pound terms the increase was a very sharp 31.2%.

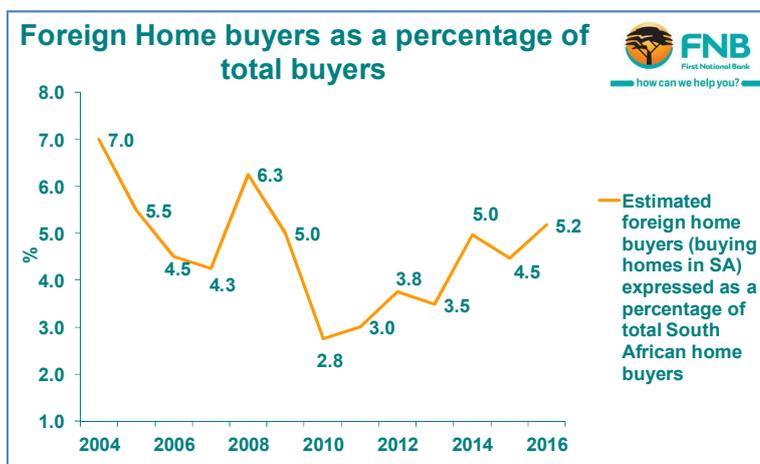
South African residential property has thus become more expensive late in 2016 for buyers from the UK, Eurozone and US, particularly in the UK case.



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

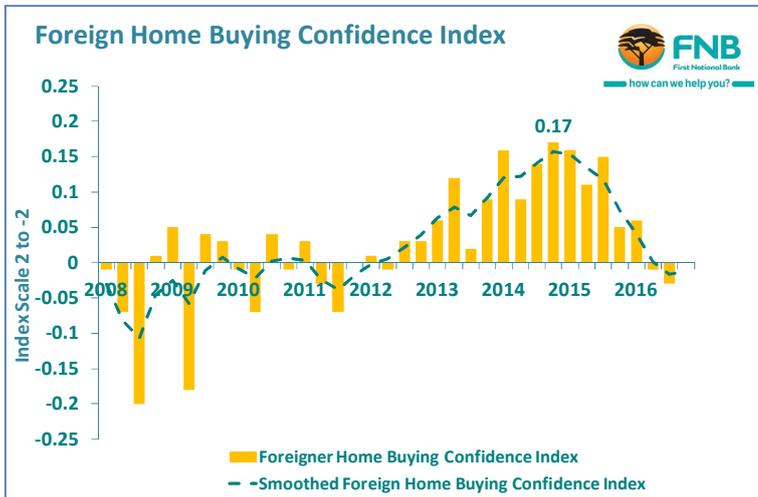
However, we believe the key driver of foreigner housing demand to be more related to the popularity of property as an asset class globally, and indeed 2016 was another generally strong year for global housing.

The result is that in our 2016 FNB Estate Agent Survey we did not see any noticeable decline in estimated foreigner demand for housing for the year on average, although late in the year we may well have seen foreigner demand showing signs of "leveling out".



In the FNB Estate Agent 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. For 2016 as a whole, the average estimate of foreigner buying was 5.2% of total home buying. Despite the rand strengthening through the year, the average for 2016 turned out a little higher than the 5% and 4.5% for 2014 and 2015 respectively.

Admittedly, though, the more significant recovery in foreigner buying came in the years 2011 to 2014. After a low of 2.8% in 2010, the estimate rose steadily to 5% in 2014, thereafter not having moved too significantly. So despite a slightly better estimate in 2016, we could arguably say that 2015 and 2016 represent a broad leveling out in the level of foreigner buying following prior years' strengthening.



We question agents about foreigner buying in another way, too. We ask them to state how they see foreigner buying compared to 12 months ago, giving them 5 answer options. These options are: “There are a lot more foreign buyers now compared to 12 months ago”, a “little more foreign buyers now”, the “same as 12 months ago”, a “little less than 12 months ago” or a “lot less than 12 months ago”.

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

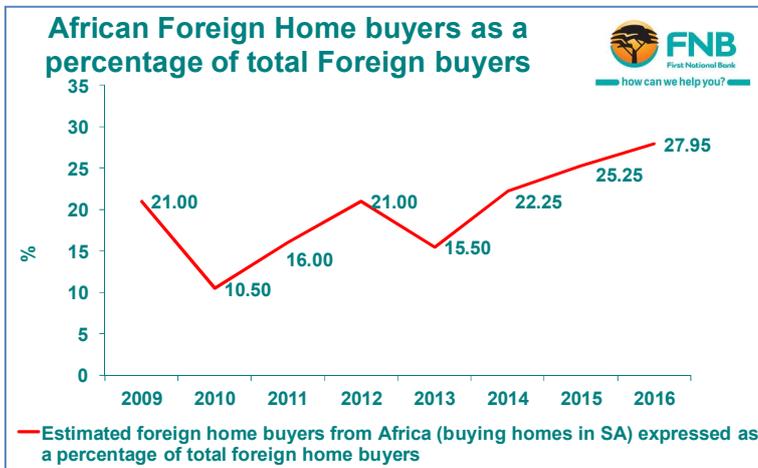
with a zero level indicating that on average the agents are saying that levels are unchanged from 12 months ago.

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 the prior years’ improvement that we spoke about. However, since 2015 this indicator’s level has fallen back to zero as at the final quarter of 2016, indeed pointing to a “leveling out in foreigner buying” late last year.

CONCLUSION

Looking into 2017, we would expect to see some decline in estimated levels of foreigner buying for 2 reasons. Firstly, we go into 2017 with significantly more expensive local property from many foreigners’ points of view, given the strengthening of the Rand last year. Secondly, there have been some concerns that global housing markets have run hard for a number of years, and that they may be due to some correction. We could thus see housing’s global popularity as an investment moderate somewhat.

AFRICAN CONTINENT FOREIGNER BUYING



Finally, 2016 saw a continuation of the multi-year rising trend in foreign buyers from the rest of the African continent, expressed as a percentage of total foreign buyers of domestic housing.

From a 10.5% low in 2010, this percentage has risen to a 27.95% average for 2016, the highest annual average estimate for African Continent buyers since we started this survey question back in 2009.

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