PROPERTY BAROMETER – The “Foreign Effect” on the domestic housing market

The FNB Estate Agent Survey continued to point to estimates of foreigner buying, as well as South African Expat buying, of domestic residential property remaining noticeably down from highs of recent years, despite some slight 1st quarter 2018 hint of strengthening.

16 April 2018

The 1st quarter 2018 FNB Estate Agent Survey continued to point to foreigner and SA expat buying of domestic residential remaining noticeably down on highs of 2014 to 2016.

RECENT ESTIMATES OF DOMESTIC RESIDENTIAL PROPERTY BUYING BY FOREIGNERS

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 4.33% of total home buying for the 2 quarters up to and including the 1st quarter of 2018.

This is slightly up on the 4th quarter’s 3.96%, but it is not a significant difference, and is still significantly down on the 5.72% high reached in the 3rd quarter of 2016.

We have a follow up question in the survey which still hints at slower foreigner buying since a year or so ago. 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 aggregated response was biased very slightly in favour of “less foreigner buying” in the 1st quarter 2018 survey. 87% reported “unchanged levels” (“unchanged” is normally by far the largest response). 3% of agents reported a “lot less” foreign buyers and 4% reported a “little less”. That totaled 7% of respondents indicating less foreign buyers from a year ago. By comparison, 5% of respondents reported “a little more” foreign home buyers and 0% “a lot more”. This means 5% 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 6 of the last 8 quarters it has been in negative territory. The 1st quarter 2018 level was slightly negative, to the tune of -0.05, unchanged from the prior quarter.
FOREIGNER BUYING ESTIMATES IN NAMIBIA

Looking a bit broader to a key region in the Rand Area, Namibia, the survey shows that country’s estimated foreigner buying of 5.1% being slightly above that of South Africa in the 1st quarter of 2018 (also using a 2-quarter moving average). However, that country’s housing market strength has been impacted more significantly by a major drop in estimated foreigner buying, all the way from 16% at the end of 2015 to this recent percentage.

Namibia has a significantly higher percentage of foreign buyers from other African countries (i.e. around 35%), and tougher economic conditions on the African continent in recent years have arguably slowed African Continent foreigner housing demand.

AFRICAN CONTINENT FOREIGNER HOME BUYING IN SOUTH AFRICA

Viewing a 2-quarter moving average of estimated foreigner home buying from African Continent foreigners, expressed as a percentage of total foreigner home buying, we have seen a multi-year decline in this percentage, from a 31% high as at the 1st quarter of 2016 to 21.29% by the 1st quarter of 2018.

This implies that African Continent foreigner home buying has slowed faster than overall foreigner home buying in recent years, arguably a reflection of tougher African economic conditions compared to those in more developed nations in recent years.

EXPAT BUYING OF LOCAL PROPERTY

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, we saw a slight increase in the 1st quarter 2018 estimate, but the estimated level remains low after a decline through 2015 to 2017.

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 slowed to a multi-year low of 1.21% in the 3rd quarter of 2017, but has recently risen marginally for 2 quarters to reach 1.51 in the 1st quarter of 2018.

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.
After 6 prior quarters in which the responses were biased in favour of “less expat buying”, the 1st quarter 2018 survey response saw a move back to being biased slightly in favour of “more expat buying”. In the survey, 94% reported “unchanged levels” (“unchanged” is normally by far the largest response). 1% of agents reported a “lot less” expat buyers and 1% reported a “little less”. That totaled 2% of respondents indicating less expat buyers from a year ago. By comparison, 5% of respondents reported “a little more” expat home buyers and 0% “a lot more”. This means 5% perceiving more expat buyers vs 2% saying “less”.

The bias is thus only slightly in favour of “more expat buyers”, but is a mild change from the prior few years of bias in favour of “less expat buyers”.

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 1st quarter of 2018 was a slightly positive +0.02, following on the previous quarter’s negative -0.04.

CONCLUSION

In short, estimates of both foreigner buying of domestic residential property as well as South African expat buying of local property are perceived to have moved slightly stronger on the prior quarter, using a 2-month moving average to Quarter 1 2018. However, agents perceive both sources of demand to be well down on significantly higher levels around 2015/16.

The weakening in these estimates through 2017 was arguably reflective of a dampened investor sentiment towards South Africa in general last year, which in turn was probably caused in part by the country’s multi-year economic stagnation, uncertainty regarding future economic policy, and widely publicized negative news such as sovereign rating downgrades to “junk status”.

However, we have started 2018 with a noticeably more positive mood in South Africa, partly due to the political leadership change in the country following the ruling party’s elective conference in December 2017.

The improved sentiment has been in part reflected in a stronger Rand, along with a jump in the RMB-BER Business Confidence Index in the 1st quarter of 2018.

Therefore, it would not be surprising to start seeing estimates in foreigner buying levels of domestic residential property, along with expat home buying levels, starting to increase. However, as yet the 1st quarter increases on the prior quarter are too small to confirm our expectations, and we will wait for further quarterly surveys before concluding that foreigner and expat buying levels are picking up meaningfully or not.

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