PROPERTY BAROMETER

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

The buy-to-let picture remains one of "mediocrity" and further mild slowdown, according to the 2nd Quarter 2018 FNB Estate Agent Survey.

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MARKET ANALYTICS AND SCENARIO FORECASTING UNIT: FNB HOME LOANS

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In the 2nd Quarter 2018 FNB Estate Agent Survey Buy-to-Let demand is perceived to be slower of late, along with moderating near term expectations amongst agents.

Mediocrity in the buy-to-let market can have much to do with recently very slow house price growth, with many investors focusing strongly on capital growth prospects and not just yields, and ongoing weakness in the economy in 2018 provides little indication to would-be investors that this may change any time soon.

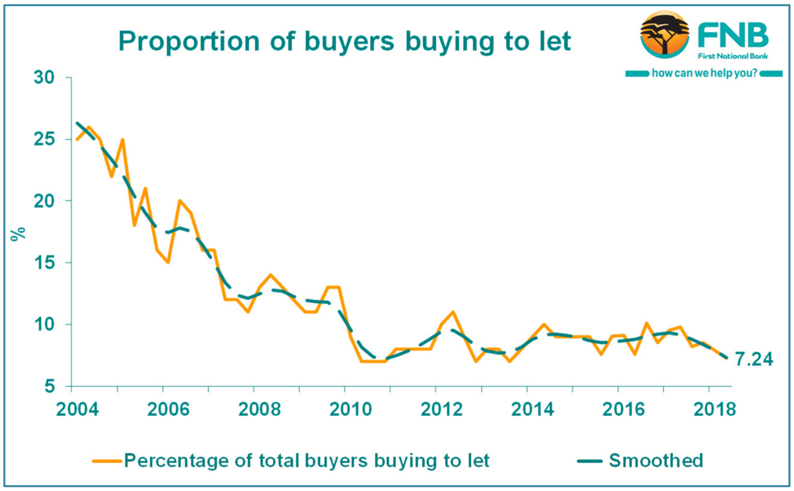
A lack of "exuberance" in this market may ultimately become supportive of the rental market, constraining growth in supply of available homes for rental. However, as yet we have not seen strong indications of such a rental market strengthening

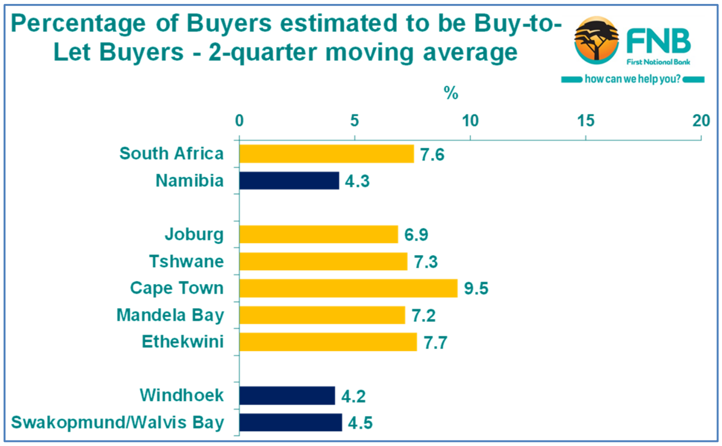
BUY-TO-LET BUYING PERCENTAGE SLIGHTLY LOWER

The 2nd quarter 2018 FNB Estate Agent Survey once again pointed to little "excitement or exuberance" in the level of buy-to-let home buying, and even a possible decline in significance from already-modest levels.

As a percentage of total home buying, buy-to-let purchases are estimated by survey respondents to have moved lower, from 7.9% in the previous quarter to 7.24% in the 2nd Quarter of 2018.

This is now noticeably lower than the 9.77% estimate of the 2nd quarter a year ago, and continues a lengthy period of single-digit percentage estimates for buy-to-let buying.





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 be considerably higher than that of Namibia, recording an average 7.6% of total home buying for the 1st 2 quarters of 2018.

Namibia, by comparison, was estimated at a lower 4.3%

We believe that the difference between the 2 countries has much to do with Bank of Namibia limits on Loan-to-Value (LTV) Ratios on mortgage loans for secondary properties in recent years, as well as a price deflating market which doesn't encourage capital growth-seeking buy-to-let buyers at the current time in Namibia.

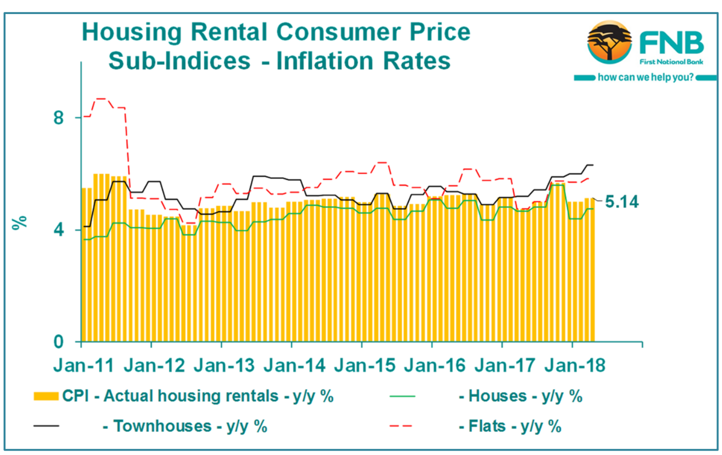
Zooming in on South Africa's major regions then, it is the Cape Town housing market, which until recently was the strongest regional housing market, that has shown the strongest buy-to-let estimate of 9.5% of total home buying for the 1st 2 quarters of 2018.

BUY-TO-LET LEVELS REMAIN MODEST COMPARED TO THE BOOM YEARS

The recent estimates of buy-to-let levels in South Africa remain moderate by comparison to last decade's boom period, where they were estimated as high as around 25% of total home buying at a stage back in 2004. Admittedly, it is difficult to ascertain what would be a "normal" percentage in weak economic times such as the current ones, because we do not have a survey history dating back to previous "super-cycle" periods of economic weakness before last decade's boom period.

Examining potential drivers of buy-to-let buying, it is realistic to expect moderate levels to continue, and even some further slowing. Of course, buy-to-let buying along with leisure home buying is a non-essential purchase, and as such can be expected to be constrained in times of economic weakness such as the present. South Africa's GDP (Gross Domestic Product) contracted quarter-on-quarter in the 1st quarter of this year.

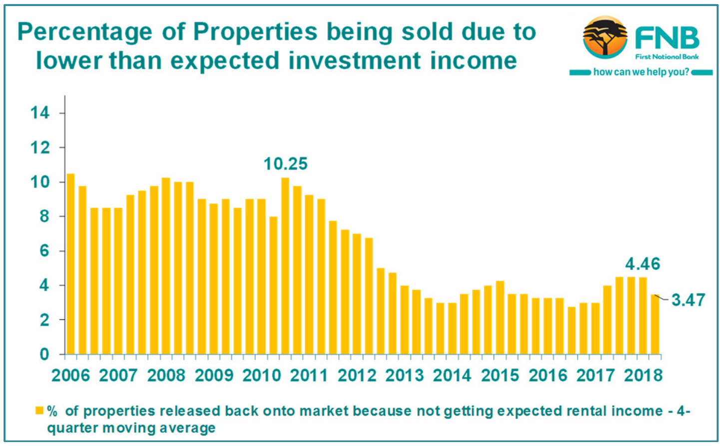
One of the big potential attractions of buy-to-let buying, at times, for many is the expected capital growth that can be achieved. However, house price growth currently remains benign (4.6% year-on-year average house price growth was recorded in May 2018).



For those more focused on the rental income stream, rental growth has not been overly exciting either, the latest StatsSA CPI-Rental survey recording 5.14% year-on-year rental growth, only marginally better than our most recent house price growth estimate.

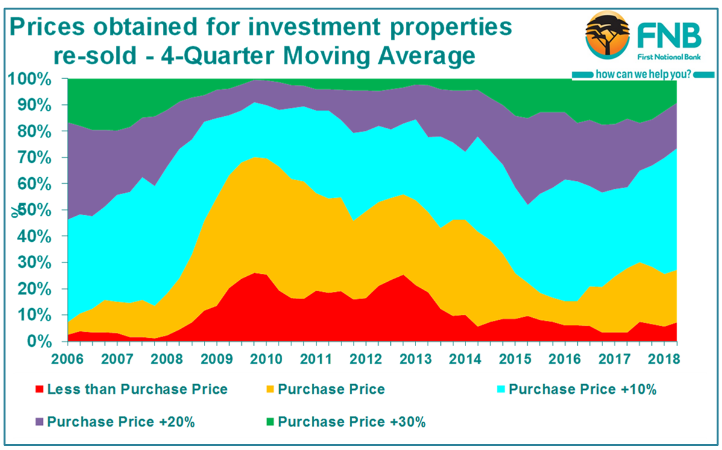
SELLING OF INVESTMENT PROPERTIES STILL PERCEIVED AS LOW

We are often asked to what extent the recent noise regarding "land expropriation without compensation" is having a negative impact on the investment property market. This is difficult to say, as we do not survey the reasons for buy-to-let levels and expectations thereof amongst estate agents, but we can't count this factor out.



However, we do ask agents to provide estimates of the percentage of total home sales that are investment properties being returned to the market due to these properties "not obtaining a satisfactory rental income". Should investment property owners suddenly perceive a major change to their risk environment, we would perhaps expect to see a marked increase in sales of such investment properties, but as yet this is not the case. In the 2nd quarter of 2018 survey, estimated re-selling of investment homes remained low at 3.04% of total sales. In order to smooth this otherwise volatile data we use a 4 quarter moving average, and we saw a decline in the 4-quarter moving average up to the 2nd quarter recording 3.47%, lower than the average of 4.46% for the 4-quarters up to the 1st quarter of 2018.

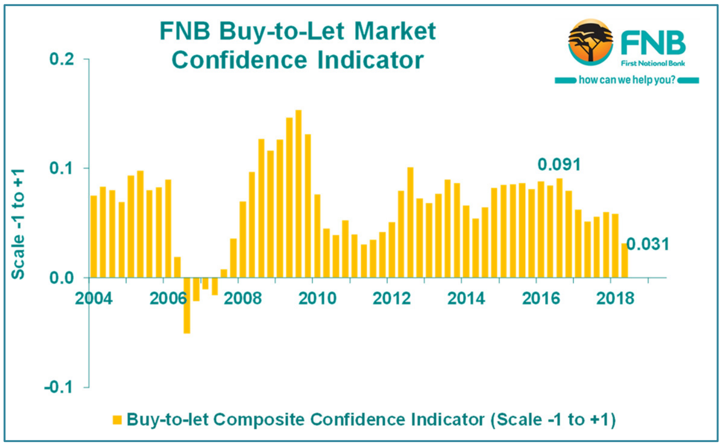
In short, our survey doesn't yet show any significant sell-off.



But for those indeed selling off, recent times have not been a wonderful selling opportunity. The sample of agents reports diminishing capital gains on investment home sales recently. On a 4-quarter average basis, they estimate 9.25% of resold investment properties achieving values in excess of 30% higher than the previous purchase price. This is significantly lower than the 17% achieving this in the year 2016.

AGENTS BUY-TO-LET EXPECTATIONS ARE LESS OPTIMISTIC IN THE 2ND QUARTER OF 2018

In the 2nd Quarter 2018 survey, the agents surveyed appear to have less optimistic expectations regarding levels of buy-to-let home buying growth in the near term, compared with prior quarters.



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. The 2nd Quarter 2018 survey came out noticeably lower than the prior few quarters, at 0.031 (scale of 1 to -1), down from 0.058 in the previous quarter, and the lowest reading since the 2nd quarter of 2011.

CONCLUSION

The picture that emanates from the Buy-to-Let Market is one of slowing demand, along with weakening near term expectations amongst agents. Simultaneously, though, the estimated pace of selling of investment properties remains low, suggesting still-low levels of financial stress or pressure in this market.

The low level of buy-to-let buying does not surprise too much. Annual average house price growth has slowed for 3 consecutive years, which does not provide encouragement for many buy-to-let buyers who focus significantly on capital growth prospects and not only on rental income prospects. In addition, the current “recessionary-looking” economic times do not boost the confidence to spend and invest in general.

We have been asked as to what impact policy uncertainty around land expropriation plays a role in dampening investor sentiment. This is a possibility, but the agent survey does not survey such detail as to why agents perceive or expect what they do in the buy-to-let market.

A lack of “exuberance” in this market could, however, ultimately be a positive for a lacklustre rental market, constraining growth in supply of available homes for rental.