

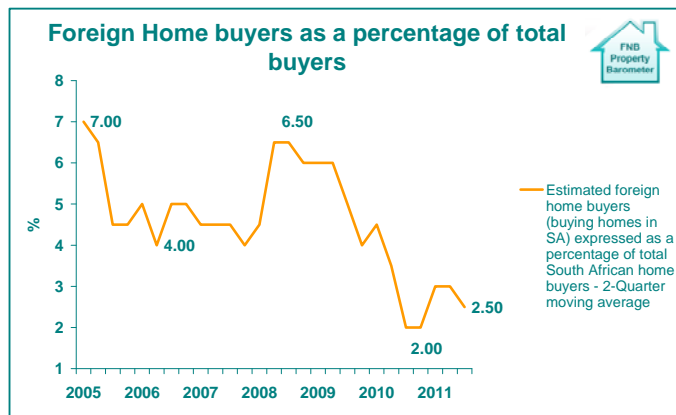


## FOREIGN RESIDENTIAL BUYING UPDATE

SA property affordability improves mildly for foreigners, but they don't appear to be arriving in droves yet. But do some overseas markets appear attractive for South Africans?

4 November 2011

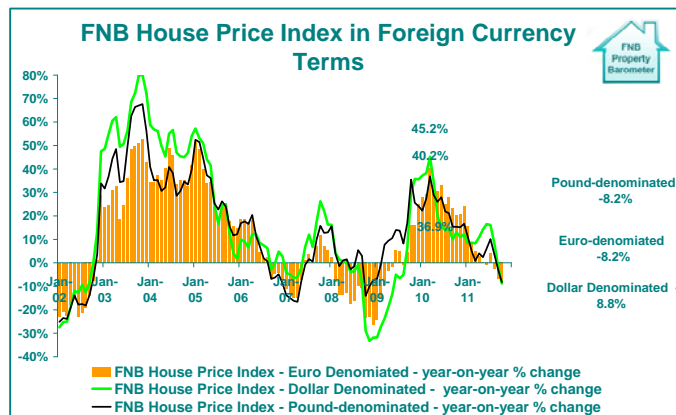
*It was encouraging to hear one leading estate agency this week stating that it had had an increase in enquiries on its marketing websites from overseas sources. From an improving affordability point of view such a development would make absolute sense, helped on by some recent rand weakening. Working against such a positive development, however, would be considerable household sector financial pressure in much of the western developed part of the world.*



As at August 2011, when our most recent 3<sup>rd</sup> Quarter Estate Agent Survey was undertaken, our sample of estate agents surveyed did not yet appear to pick up any foreign buying improvement. Using a 2-quarter moving average, the 3<sup>rd</sup> quarter showed a mild decline in the percentage of total buyers deemed to be foreigners, from a previous quarter's 3% to 2.5%. These percentages remain low compared to the 6.5% peak back at a stage in 2008.

However, it must be said that as at the time of our August survey, the rand had not yet undergone significant weakening after a bout of relative strength. So our survey result does not necessarily contradict the experience of the estate agency regarding foreign enquiries.

But just how much more affordable has South African property got for foreign buyers from major western economies?

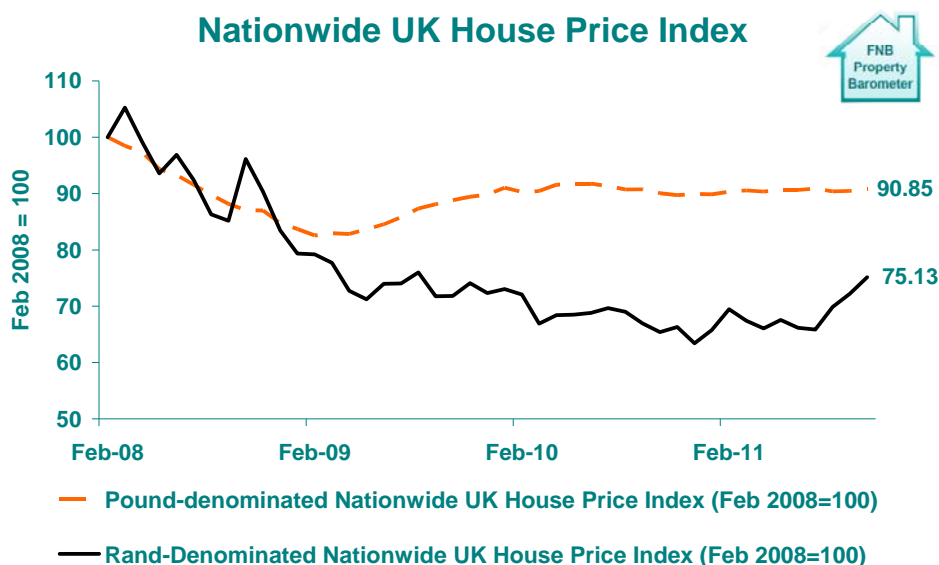


Using the October FNB House Price Index, which rose 4.5% year-on-year in rand terms, indeed we do see a different trend when viewed in foreign currency terms. Denominated in UK Pounds and in Euros, the FNB House Price Index fell -8.2% in October. In US Dollar terms, the decline was even more spectacular, measuring -8.8% year-on-year.

The recent currency weakness has thus indeed made a significant difference to SA housing affordability when seen by foreigners. In both euro and dollar terms, current price levels are now not too far out of line with early-2008 when the general SA property slump began. February 2008 was the boom time peak in real house prices in SA. Since then, in rand terms house prices have grown only 6.2% in nominal terms. In Dollar terms, the cumulative rise in the FNB House Price Index since February 2008 has been a mere 3.1%, and in euro terms 10.7%. However, it has been the UK pound that has weakened most over this period, implying that the FNB House Price Index in pound terms is still 28.5% higher than in February 2008 despite the recent downward correction. Therefore, UK residents and South African expats in that country may not yet be finding South African property overly attractive or affordable.

But while we often seem to be focusing on foreign buying, of lack thereof, a seemingly less asked question is whether a good opportunity doesn't perhaps exist for South Africans to buy UK property at present? Granted, it is almost impossible to time the bottom of a cycle correctly, especially when it isn't just about a country's property market but about the exchange rate too, so this shouldn't be interpreted as advice.

But consider the following. In UK Pound terms, the Nationwide UK House Price Index is cumulatively -9.2% down on February 2008 (Feb 2008 is used to compare it with SA prices since the peak in our own real price levels). When converted to rands, however, this index was a massive -24.9% lower as at October 2011 due to the pound weakening from GBPZAR15.07 in February 2008 to GBPZAR12.46 in October 2011.



So, while many sectors of the South African economy decry the strength of the rand, the combination of rand strength and weakness in many global property markets may well present a good buying opportunity. The UK Pound has been significantly hit by adverse economic events in recent years, making UK property significantly more affordable for South Africans compared with a few years ago.

How much further the rand may strengthen or the pound may weaken only time will tell. But it may be worth exploring.

**JOHN LOOS:**  
**HOUSEHOLD AND PROPERTY SECTOR STRATEGIST**  
**011-6490125**  
[John.loos@fnb.co.za](mailto:John.loos@fnb.co.za)

**EWALD KELLERMAN:**  
**PROPERTY MARKET ANALYST**  
**011-6320021**  
[ekellerman@fnb.co.za](mailto:ekellerman@fnb.co.za)

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