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PROPERTY BAROMETER – EMIGRATION AND FOREIGN BUYING

No noticeable effects yet on the residential property market emanating from this year's heightened "socio-political" uncertainty

18 October 2012

2012 has been something of a turbulent year politically and socially. Industrial action has been widespread and sometimes violent, while service delivery protests have also become quite frequent events. A few days ago, Standard and Poors downgraded its South African sovereign ratings, reportedly citing increased uncertainty linked to strikes and rising social tension, which have the potential to place additional constraints on South Africa's fiscus, and to negatively affect growth.

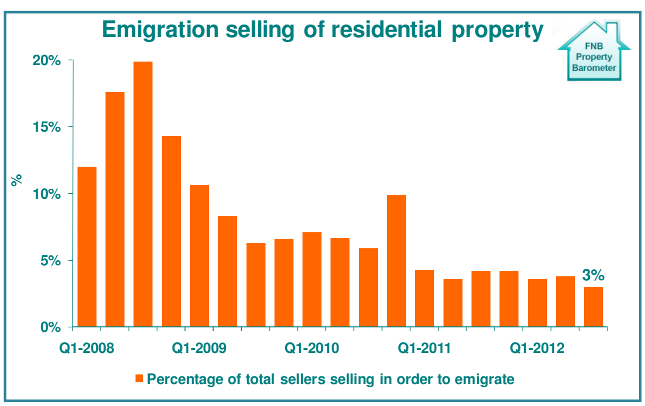
The recent turbulence has also in part contributed to bouts of rand weakness. Clearly, there appears to be some heightened investor concern regarding South Africa's future stability and prosperity.

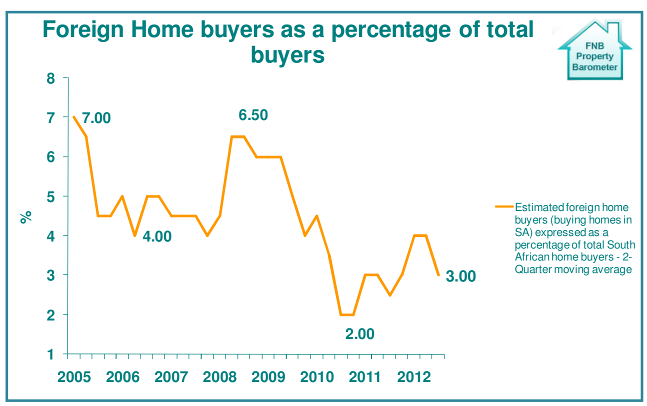
*The question is, how do these negative developments potentially affect the residential property market? Well, higher costs of borrowing for South Africa, should they occur due to rating downgrades or heightened risk perceptions by investors, have the potential to restrict economic growth to lower levels than would otherwise have been the case. In addition, pressure on the rand can increase imported prices and thus exert some upward pressure on consumer prices. This has the potential to eat into household disposable income. Due to this upward pressure on consumer price levels, rand weakness also raises the risk of interest rate hiking, **although as yet, the rand weakness has probably not been significant enough to warrant rate hikes.***

But, while the abovementioned factors can be seen as potential "indirect" impacts on the residential market via negative impacts on purchasing power, there can also be "direct impacts on the residential market. These would occur due to changes in sentiment of local home owners, causing a greater amount to consider emigration, as well as due to a deterioration in aspirant foreign property investor confidence, causing a weakening in foreign buying of local property.

Have we seen any possible signs of such direct negative effects on the residential property market to date? Fortunately, the answer is "not really", according to our 3rd Quarter FNB Estate Agent Survey. In the survey, one of the questions we ask the sample of agents is what estimated percentage of sellers sell properties in order to emigrate. Interestingly, this percentage dropped from 4% of total sellers in the 2nd quarter to 3% in the 3rd quarter, the lowest emigration selling percentage estimated since the start of this survey question at the beginning of 2008.

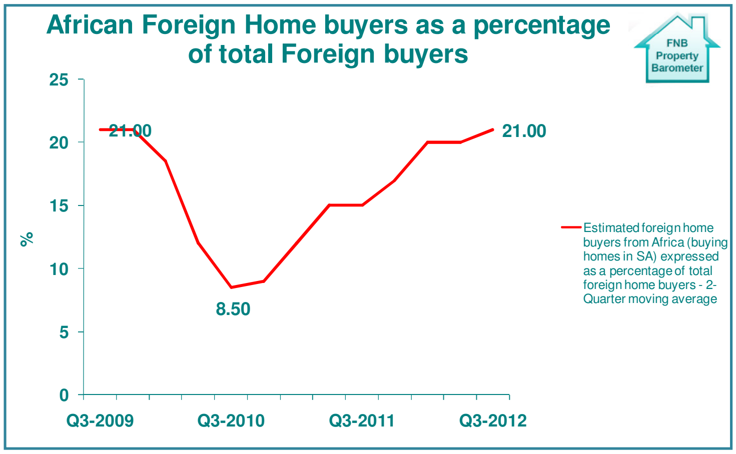
With regard to foreign buyers, the 2-quarter moving average (we use a 2-quarter average done for smoothing purposes) for the 3rd quarter did indeed show some decline to 3% of total buyers of local residential property, following prior quarters of improvement to around 4%. As yet, though, we would not draw any hard and fast conclusions based on one quarter's data, but it is something to watch.





It is important to add that currently weak global economic times probably mask any changes in sentiment towards South Africa. Even if a heightened number of domestic homeowners were feeling a desire to emigrate in recent times, job prospects in some of the traditionally popular emigration destinations are far from rosy. In addition, financial times in economies such as Europe and the UK, from where a significant portion of SA's foreign buyers come, are currently tough, and that could conceivably be putting pressure on foreign buying.

In short, therefore, with regard to emigration selling of local property we do not appear to be seeing any negative impact (increase) from recently heightened domestic tensions. But we should not "rest on our laurels", and think that our "brain drain" problem has permanently subsided. It is possible that in different (better) global economic times, the negative impact may have been different, and better global economic times will one day return.



According to the estate agent sample, however, one group which doesn't appear to be affected by recent tensions is foreign buyers from African countries. Expressed as a percentage of total foreign buyers, the African contingent has increased further to 21% for the 2 quarters to the 3rd quarter of 2012. This continues an upward trend in this percentage from a low of 8.5% back in the 3rd quarter of 2010. ***Looking longer term, I believe that South Africa is likely to see further increase in the African foreign buyer percentage, as Africa's economic fortunes continue to improve and its household wealth grows too.***

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