



1ST QUARTER 2010 FNB PROPERTY BAROMETER PREVIEW

FNB PROPERTY
MARKET ANALYTICS

*- Agent confidence in Buy-to-let
market slumps as primary residential
demand dominates*

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PROPERTY AND MORTGAGE MARKET ANALYTICS

JOHN LOOS:
FNB HOME LOANS STRATEGIST
011-6490125
John.loos@fnb.co.za

EWALD KELLERMAN:
PROPERTY MARKET ANALYST
011-6320021
ekellerman@fnb.co.za

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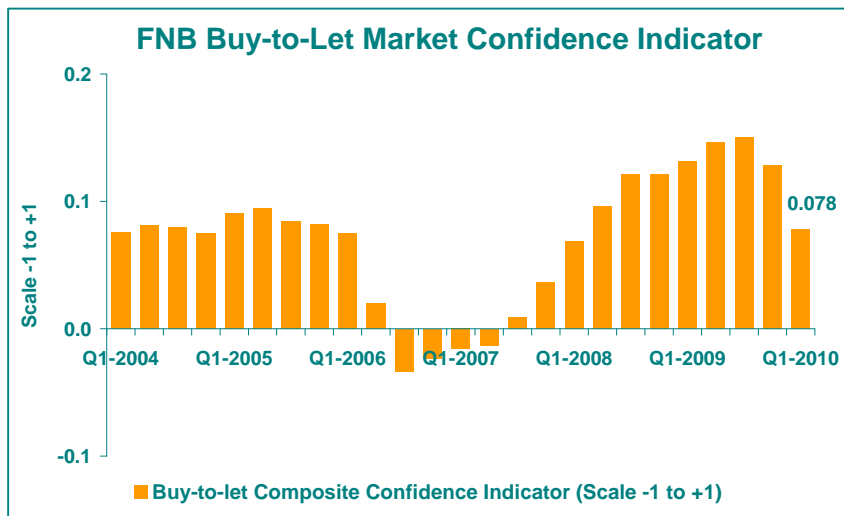
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Q1 2010 FNB PROPERTY BAROMETER PREVIEW – BUY-TO-LET CONFIDENCE SLUMPS AS PRIMARY RESIDENTIAL DEMAND IS KING

In advance of the release of the main FNB Property Barometer for the 1st quarter of 2010, on 22 April 2010, we focus on one component of the Barometer survey, namely the buy-to-let market, which is definitely the bad news of the 1st quarter survey.

It would appear that some recovery in agent optimism in the buy-to-let market in 2008/09 was somewhat misplaced, and has started to recede sharply as this segment of the market shows little strengthening.

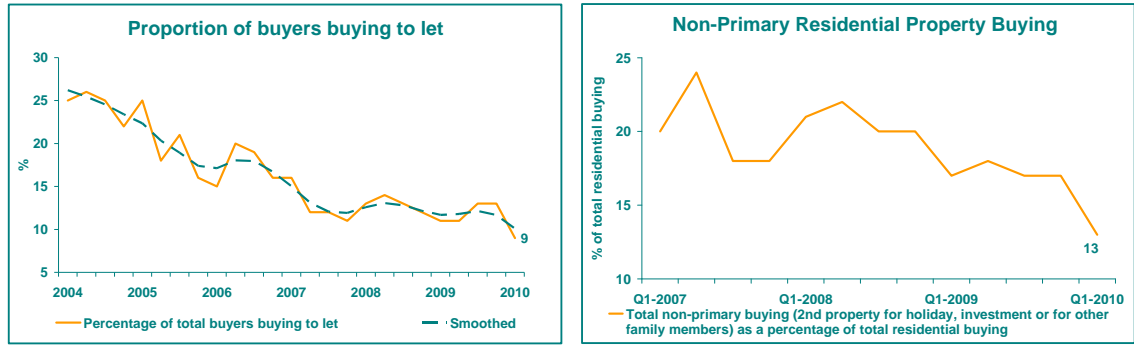
Agents surveyed in the FNB Property Barometer are asked for their near term expectations on buy-to-let demand, and their answer is either “strengthen” (1), “remain the same” (0) or “weaken” (-1). The net expectation is reflected in the Agent Buy-to-let Market Confidence Indicator, which is still positive (on a scale of 1 to -1) at 0.078, but has receded significantly from the previous quarter’s value of 0.128. This is the 2nd successive quarter of decline in confidence.



The slump in agent confidence should come as little surprise, as they also report a slump in buy-to-let buying expressed as a percentage of total residential buying too.

From a previous quarter's 13% of total buying, agents surveyed estimated that buy-to-let buying dropped to 9% of total buying in Q1 2010, the lowest percentage on record since the survey started back in 2004.

As a matter of fact, as the household sector slowly works its way back to better financial health following recession, overall non-primary residential buying has also reportedly declined from 17% of total buying in the previous quarter to 13% of total buying in Q1 2010, according to Barometer survey respondents. At a stage early in 2007, non-primary residential buying accounted for almost a quarter of total buying, according to previous Barometer surveys.



The ongoing weakness in buy-to-let demand, and now the slump in agent confidence in this market, is not altogether surprising. Although interest rates have been cut significantly, and the economy is improving, SA's household sector remains under financial pressure and still near to a cyclical high in its debt-to-disposable income ratio. For many would-be investors, therefore, having to fund the difference between rental income on a property and a bond repayment, for the 1st few years of ownership, remains an unattractive prospect. And agents are indeed indicating that in most cases such a "top-up" would be required, with survey respondents estimating that on average only 65% of a bond is covered by rental income.

Anecdotal evidence from some quarters is that rental markets may be starting to recover, as economic times improve and tenant financial pressures are reduced. However, in the near term at least, low yields on residential property look set to constrain buy-to-let buying, as well as other forms of non-primary residential buying, causing their recoveries to lag the overall cycle, and keep the current residential market recovery predominantly driven by primary residential buying.