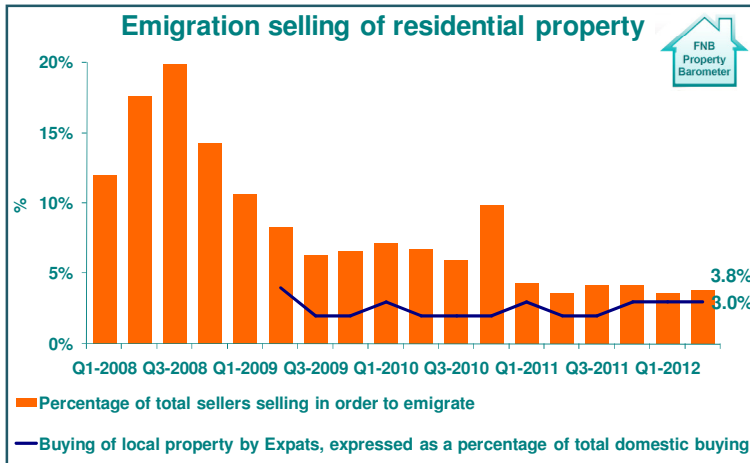


PROPERTY BAROMETER – THE FOREIGN IMPACT ON THE SOUTH AFRICAN RESIDENTIAL MARKET

A weak Developed World economy keeps emigration selling low, and Africa’s improving economic situation may have begun to increase the significance of African-driven foreign buying in SA.

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In the 2nd quarter of 2012, the “net foreign effect” on the South African property market was virtually unchanged on 1st quarter levels, and at levels significantly better than a year-or-so ago.



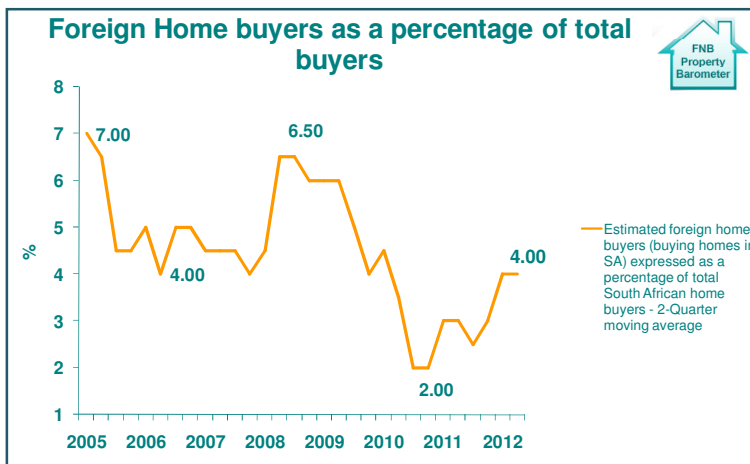
With regard to outflows of South African home owners, the estimated percentage of domestic sellers “selling in order to emigrate” remains very stable, and almost unchanged at 3.8% of total sellers in the 2nd quarter of 2012, compared to 3.6% in the previous quarter, according to agents surveyed. This is the 6th consecutive quarter that the sample of agents has estimated a percentage at near to 4%, and the level remains a far cry from the 20% peak of the 3rd quarter of 2008.

The ongoing slow rate of emigration-related selling is hardly surprising, given the weak economies and accompanying high unemployment rates in many parts of the

developed world, especially the UK and Europe. By comparison, South Africa ticks along with a mediocre economic growth rate, no major debt crises, and with the additional “advantage” (from a skilled employee and entrepreneur’s point of view) of having a very significant skilled labour and entrepreneurial shortage.

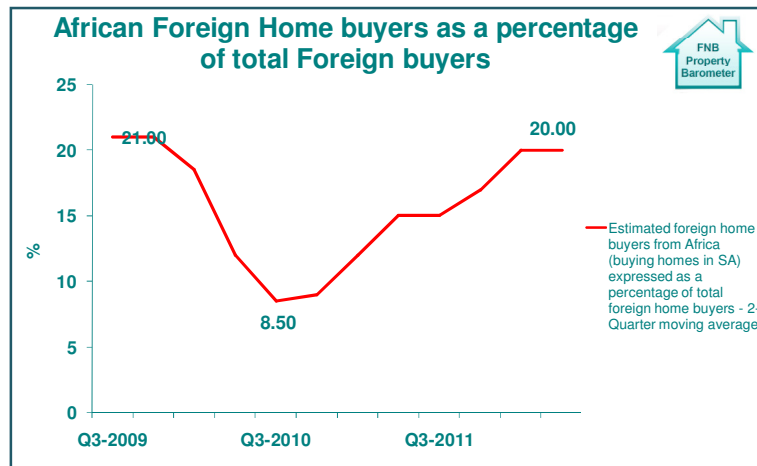
Simultaneously, the estimated number of SA expatriates buying property in South Africa hovers at around 3% of total buying according to agents, so there is no significant perceived change from quarter to quarter in this level either. From a year ago, however, expat buying is believed to be very slightly up from an estimated 2% of total buying, with 7% of respondents perceiving a higher level of expat buying since 12 months ago, 93% perceiving no change and 1% suggesting a weakening in expat buying.

One needs to be cautious about reading too much into such small moves though, as this survey question response, since its inception, has typically shown little movement



Where there has been a more noticeable improvement emanating from the survey responses during 2012 is in the survey response regarding the percentage of home buyers that are foreign citizens. Using a 2-quarter moving total, the 2nd quarter 2012 survey estimate was an estimated 4% of total buyers. While unchanged from the 1st quarter, this percentage is up from the 2% recorded in late-2010, but still significantly lower than the 6.5% back in 2008 prior to the recession.

It must be borne in mind that overall transaction volumes are far weaker than in the boom years, implying a still significantly weaker volume of foreign buying compared to early-2008 and before.



What has also becoming apparent from the survey is that foreign citizens from the rest of Africa have become a more significant foreign buyer group once again following a slump.

Although unchanged from the 1st quarter of 2012, from a low estimate of 8.5% of total foreign buyers back in 2010, the African foreign buyer contingent is now estimated at a significantly higher 20% of total foreign buyers as at the 2nd quarter of 2012 using a 2 quarter moving average.

From this part of the survey, agents are telling us that African foreign buyers have become a very significant part of the foreign buyer contingent in the SA residential market.

Given expected global economic developments, I would expect African foreign buying of residential property to become a far more significant percentage than its current 20% in the coming years. The reasoning is twofold. Firstly, Africa's economic growth prospects, admittedly off a low base, appear somewhat more rosy than the likes of Europe and the USA, whose economies have some years to go to resolving their debt and financial commitment issues. Sub-Saharan Africa has become significantly more stable politically in recent years, laying the foundation for improved economic growth. The result should be a faster growth rate in individual wealth of Africans, and South Africa is, for the foreseeable future the economic hub of the region to which many Africans like to come to visit or work. Secondly, as Sub-Saharan Africa grows, and with the likes of Gauteng being key services hubs, business interaction between SA and the rest of Africa, and skilled labour movement between the two, is likely to increase. This is a positive for foreign residential property buying.

CONCLUSION

For the time being, foreign buyers remain a relatively small group of buyers of South African residential property. However, there are signs that their contribution to overall buying has been stronger in the 1st half of 2012 than in 2011, with the effects of the recession of a few years ago gradually passing on.

But more noticeable is a significant increase in the African continent's contribution to foreign buying, according to the agents' perceptions, and one could expect this group's contribution to increase significantly in the coming years with Africa's economic fortunes expected to improve.

Against this, the outflow of emigrant sellers from the SA market appears to remain subdued, as one would expect in what is still a relatively tough period economically for many developed countries. This restricts job prospects, and thus the limits the attractiveness of certain traditionally popular emigration destinations.

The "net foreign effect" on the South African residential property market thus appears to have been improved in 2012 to date, compared to 2011, according to the FNB Estate Agent Survey.

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