PROPERTY BAROMETER

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FNB INVESTMENT AND LEISURE PROPERTY ESTATE AGENT SURVEY

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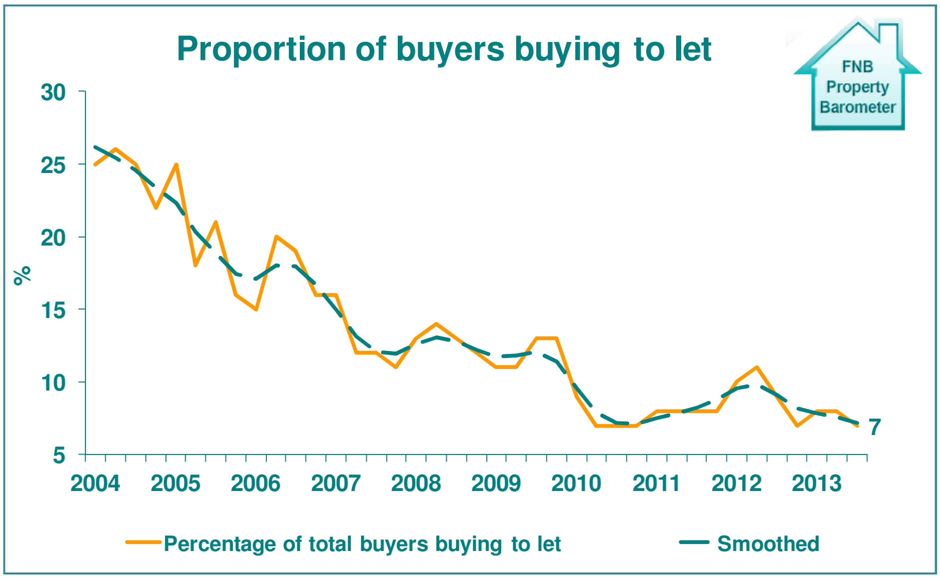
Buy-to-let home buying remains a low priority in an overwhelmingly primary residence-driven market

3RD QUARTER FNB ESTATE AGENT SURVEY SHOWS A SMALL DECLINE IN THE PERCENTAGE OF BUY-TO-LET BUYERS

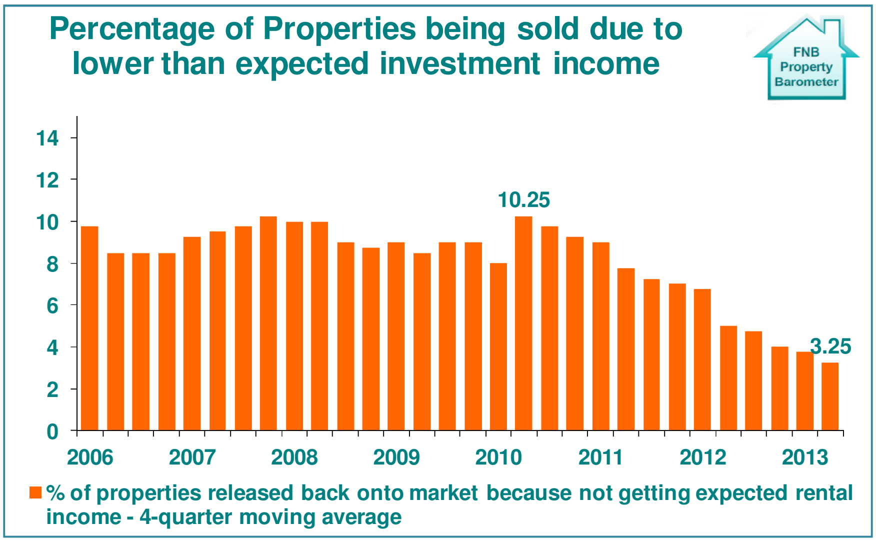
While the residential rental market has yet to see any fireworks in terms of rental inflation, one of the positive developments from a letting landlord point of view in recent years has been a very slow pace of growth in the supply of available rental stock. This potentially allows demand for rental space to ultimately catch up, and thus lays the foundation for stronger future rental inflation.

The 3rd Quarter 2013 FNB Estate Agent Survey points to this slow pace of supply growth in the rental market having continued of late. One of the questions that is asked in the survey is for agents to estimate the level of home buying for investment/buy-to-let purposes as a percentage of total home buying. The 3rd quarter estimate came in at a lowly 7% of total home buying, slightly down from the previous quarter's 8%, and more significantly down from a "mini-peak of 11% reached in the 2nd quarter of 2012.

This all remains a far cry from the height of the boom in early 2004 where buy-to-let buying was estimated to be as high as 25% of total buying, of which a portion may have admittedly been more of the short term speculative nature.



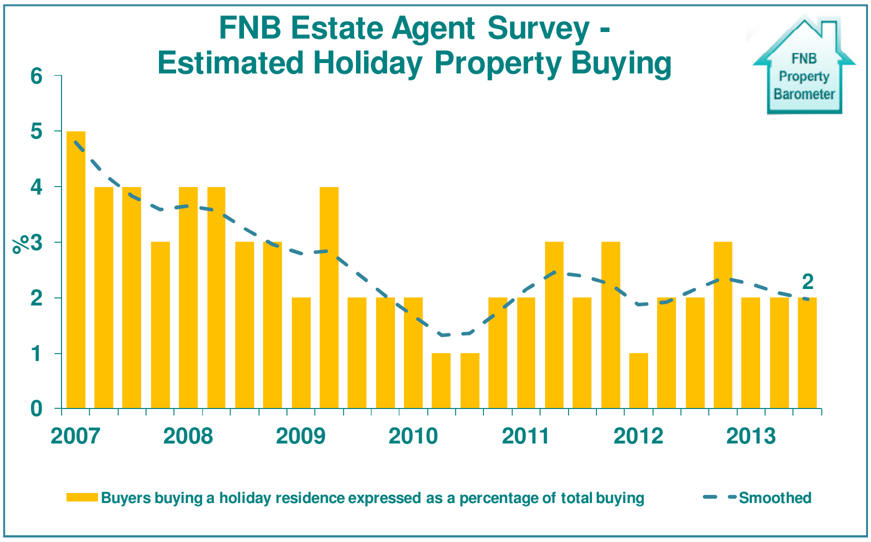
However, growth in supply of available rental stock is not just about the rate of buy-to-let buying but also about the rate of selling of such properties by investors. Towards the end of, and in the period shortly after, the residential boom, a significant number of buy-to-let investors had become disillusioned with the level of rental income generated on their properties, and a portion were perhaps financially "overcommitted" at the time as recession hit, tenant payment performances deteriorated, and household sector disposable income growth came under pressure.



Not surprisingly, therefore, the rate of selling of investment properties due to owners "not achieving the expected rental income" was significant, reaching a high of 10.25% of total residential sales as at the 2nd quarter of 2010, on a 4-quarter moving average basis.

Since then, however, this percentage has steadily declined to a lowly 3.25% for the 4-quarters up until the 3rd quarter of 2013. So, while growth in buy-to-let buying proceeds at a snails pace, the pace of investors exiting the letting market has also slowed dramatically since 2010.

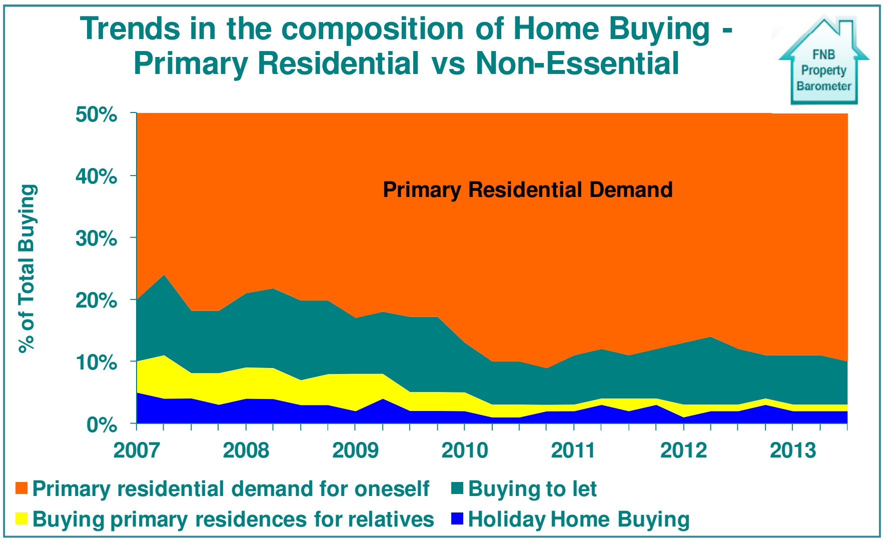
HOLIDAY HOME BUYING ALSO REMAINS A LOW PRIORITY



Like buy-to-let buying, the other form of non-essential buying, i.e. holiday property buying, continues to have a relatively low profile these days, in what continues to be a financially constrained environment.

The Estate Agent survey estimates total holiday home buying to be in the region of 2% of total home buying, a percentage that has remained fairly stable in recent quarters, but which remains well-down on the 5% estimate at the beginning of 2007.

ALL OF THIS IMPLIES THAT HOME BUYING FOR PRIMARY RESIDENCE PURPOSES REMAINS KING



All of this translates into a further rise in the significance of home buying for primary residential purposes, which accounted for an estimated 90% of total home buying in the 3rd quarter 2013 survey. This is up on the 89% in the previous quarter, and well above the estimate of 80% as at the beginning of 2007 in the final stages of the residential boom.

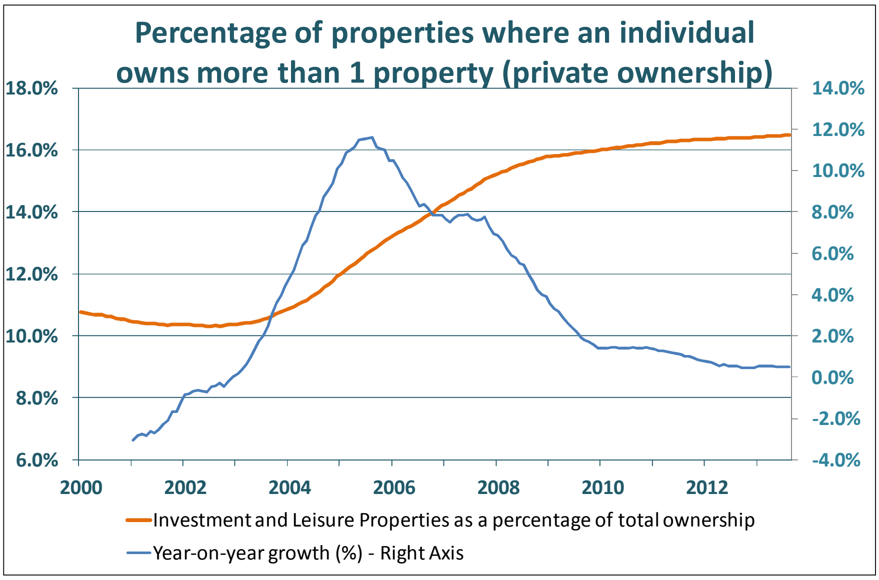
Buy-to-let buying (7%) and holiday home buying (2%), account for 9% of the remaining 10% of home buying, with the last 1% going to "buying primary residences for relatives". This percentage, too, is well below an estimated 5% at the beginning of 2007.

CONCLUSIONS

The reasons for low rates of buying in all 3 of the "non-essential" categories of home buying, namely buy-to-let, holiday home buying, and buying a home for relatives, are:

- *A financially constrained household sector financial situation, despite low interest rates helping somewhat;*
- *Low rates of capital growth. This is important because many investors focus heavily on capital growth (perhaps incorrectly) prospects, which seem mediocre at present;*
- *Interest rate levels above capital growth rates. This makes short term speculative activity in the buy-to-let market relatively unattractive;*
- *Municipal rates and utilities tariffs are rising fast, which diminishes the attractiveness of leisure property ownership somewhat;*
- *And finally, yields on buy-to-let property, while off their lows of 2008, are probably not wonderfully attractive at an estimated national average gross yield of 8.87% (with operating costs still to be subtracted from this number) according to the FNB-TPN* Yield estimate.*

At the current rates of buying and selling of non-primary residences, we still estimate growth in the number of such properties owned, but that growth rate proceeds at a snails pace. Using Deeds Office data, we attempt to identify all properties owned by individuals where that owner owns more than 1 property. The growth rate in the number of such properties proceeded at a lowly pace of 0.5% year-on-year as at August 2013, now far below the above-16% growth rate at a stage of 2005.



This implies that, although there is growth in the total number of "non-primary" residences, this growth is pedestrian, and means that as a percentage of total home ownership, *this group of properties is relatively stable at around 16.5%, after a major rise through the years 2004-2008.*

Slow growth in investment property ownership is ultimately a positive for landlords, as it constrains supply of rental property availably, which should ultimately mean stronger rental income growth. However, in recent times, the FNB-TPN estimates have been moderate rental inflation of near to 5%, and the benefits of rental supply constraints may only be witnessed more significantly the next time interest rates rise and home buying popularity recedes somewhat.

**TPN – Tenant Profile Network*