



PROPERTY BAROMETER

FNB Estate Agent Survey – Buy-to-Let and Secondary Home Buying

9 October 2017

**MARKET ANALYTICS AND
SCENARIO FORECASTING UNIT:
FNB HOME LOANS**

**JOHN LOOS:
HOUSEHOLD AND PROPERTY
SECTOR STRATEGIST
FNB HOME LOANS
087-328 0151
john.loos@fnb.co.za**

**THEO SWANEPOEL:
PROPERTY MARKET ANALYST
FNB HOME LOANS
087-328 0157
tswanepoel@fnb.co.za**

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material.

First National Bank – a division of FirstRand Bank Limited. An Authorised Financial Services provider. Reg No. 1929/001225/06

Investment Property Market shows weakening signs in the 3rd quarter 2017 FNB Estate Agent Survey.

In the 3rd Quarter 2017 FNB Estate Agent Survey, the secondary home demand percentage was mildly lower than in the prior quarter, representing the second successive quarter of decline. In addition, there was a quarterly decline in the estimated percentage of investment (buy-to-let) home buying, a mild increase in the offloading of investment properties, and the pricing power of sellers of these homes appears reduced.

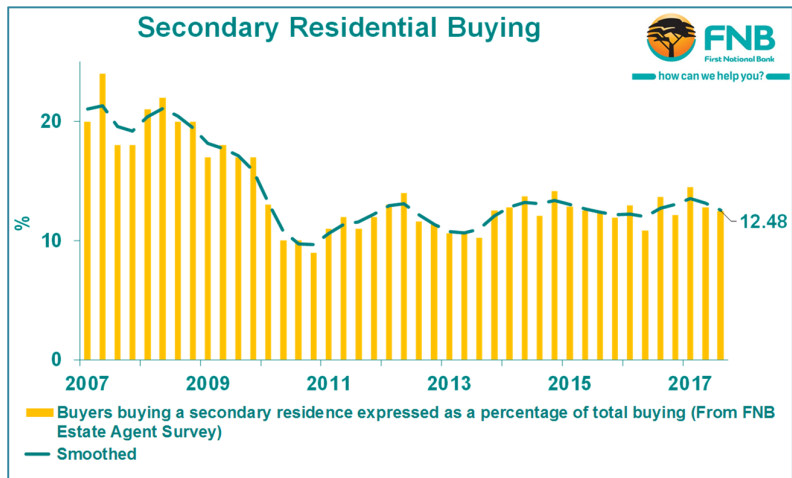
2ND PROPERTY BUYING REMAINS MIRED IN MEDIOCRITY

Perhaps it is to be expected that, in these tougher economic times, secondary home buying overall would be placed “on the backburner” by many, given its non-essential nature, and that the levels of such home buying would be mediocre at best.

Indeed, this continues to be the case.

Secondary home buying doesn’t appear to have “fallen through the floor”, but the FNB Estate Agent Survey does point to recent quarters’ estimates showing some decline in such buying as a percentage of total home buying.

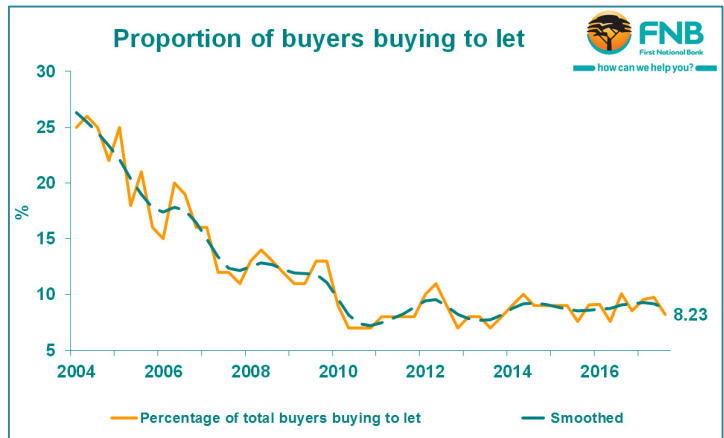
According to the FNB Estate Agent Survey, secondary residential property buying reached a multi-year high of 14.47% of total home buying back in the 1st quarter of 2017, the highest estimated percentage since the end of 2009. Since then, this estimate has declined mildly to 12.48% by the 3rd quarter of 2017. These levels remain far below the pre-2008 boom time levels, which exceeded 20% at times.



BUY-TO-LET BUYING PERCENTAGE REMAINS IN SINGLE DIGITS, AND DOWN IN THE 3RD QUARTER OF 2017.

The main category of secondary home buying is the Buy-to-Let category. This category showed a decline in the estimated percentage in the 3rd quarter 2017 FNB Estate Agent Survey. The respondents estimated buy-to-let buying at 8.23% of total home buying, slightly down on the 9.77% of the 2nd quarter.

The quarter-to-quarter estimates are somewhat volatile, so this does not yet confirm a declining trend. However, it does mean a continuation of single-digit buy-to-let buying estimates, which have been a feature for most of the time since 2010, and these are levels far below the above-25% estimates seen back in 2004 at the height of the housing boom.

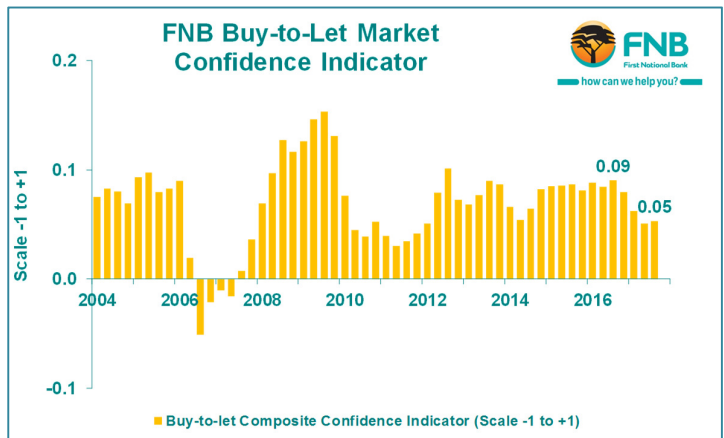


AGENT NEAR TERM BUY-TO-LET ACTIVITY EXPECTATIONS HAVE BEEN WEAKER THROUGH 2017 TO DATE

As a follow up, we ask agents for their near term expectation of buy-to-let direction, i.e. “will buy-to-let home buying strengthen, weaken or remain the same in the next 3 months”?

We assign a 1 rating to an “increase” response, a 0 to an “unchanged” response, and a -1 to a “weaken” response, and then compile the aggregated FNB Buy-to-Let Market Confidence Indicator.

While this indicator remains in positive territory, indicating more agents still pointing to an expected increase than those expecting a decrease, the index levels for the 1st 3 quarters of 2017 have been noticeably down on 2016 levels.



Whereas the 3rd quarter 2017 Indicator reading reached a multi-year high of 0.09, the 3rd quarter of 2017 level was noticeably lower at 0.05, pointing to lower levels of optimism amongst agents in 2017 regarding near term buy-to-let expectations, compared with last year as well as compared to 2015.

AGENTS PERCEIVE A RECENT RISE IN LEVEL OF INVESTMENT PROPERTIES BEING RESOLD

In another survey question related to investment properties, we see agents surveyed pointing to recent quarters showing a slightly higher estimated level of investment properties being sold due to having achieved lower than expected investment income, expressed as a percentage of total home selling.

In order to smooth this data series, we use a 4-quarter moving average calculations. From a lowly 2.75% of properties being resold due to lower than expected investment income, for the 4 quarters up to the 3rd quarter of 2016, this estimate has risen to 4.5% of total properties being sold for the 4 quarters up to the 3rd quarter of 2017.

This increase suggests a possible deterioration in the popularity of owning investment properties, but remains at a moderate level compared to the 10.25% estimate for such sales back at a stage of 2010.

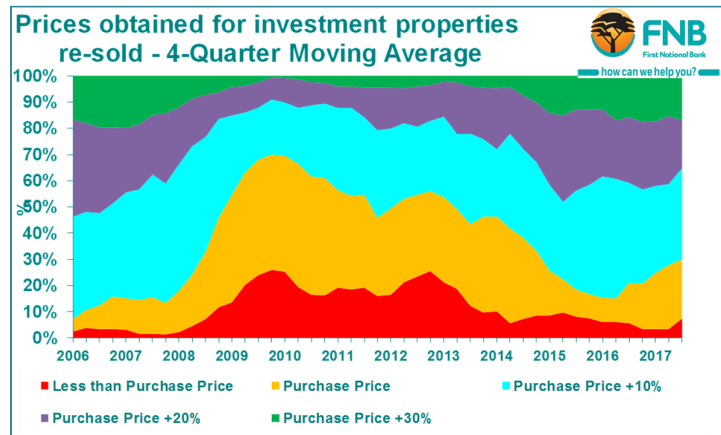


AGENTS PERCEIVE REDUCED PRICING POWER ON RESOLD INVESTMENT PROPERTIES

It goes further. We ask agents to provide an idea of prices being obtained for investment properties being resold.

We have started to see a slight rise in the estimated percentage “sold below previous purchase price”, and have for some time already been seeing a marked rise in the estimated percentage being “sold at purchase price” and not above.

This translates into a rise in the percentage of homes being resold at either purchase price or below, from a multi-year low of 15.25% of total investment property sales for the 4 quarters up to the 2nd quarter of 2016, to 29.5% for the 4 quarters up to the 3rd quarter of 2017.



CONCLUSION

The 3rd quarter Estate Agent Survey saw the 2nd consecutive quarterly decline in its estimated secondary property buying percentage. Although 2 quarters does not yet constitute a confirmed trend, we would expect to see some decline in these current times of very weak Household Sector and Consumer Confidence, times which usually lead to a greater level of financial caution.

One category of 2nd home buying that has declined quite noticeably is the percentage of buyers “buying a home for use as a primary residence by a family member”. Whereas this category reached a multi-year high of 2.32% of total home buying back in the 3rd quarter of 2015, this percentage was significantly lower through 2017 to date, recording only 0.89% in the 3rd quarter of 2017.

The estimated holiday home buying percentage, however, has surprisingly not yet shown a noticeable decline. This category of buying was estimated at 3.3% of total home buying in the 3rd quarter of 2017, exceeded only once since 2014 and that was in the 1st quarter of 2017 where it measured 3.77%. We would however expect holiday home buying to recede in the near term.

But buy-to-let buying is the largest driver of overall secondary home buying by far, and this remains anchored in single digit percentage territory, and declined in the 3rd quarter.

However, emerging weakness in the investment (buy-to-let) market is not yet seen so much in a declining percentage of buy-to-let buyers. Rather, it is seen more in the increase in the percentage of investment property sellers not achieving a sales price above what they originally bought the home for, as well as in a mild increase in the estimated percentage of investment property owners putting the properties back on the market due to those properties not achieving satisfactory returns.