

PROPERTY BAROMETER – 1ST TIME AND AGE GROUP HOME BUYING

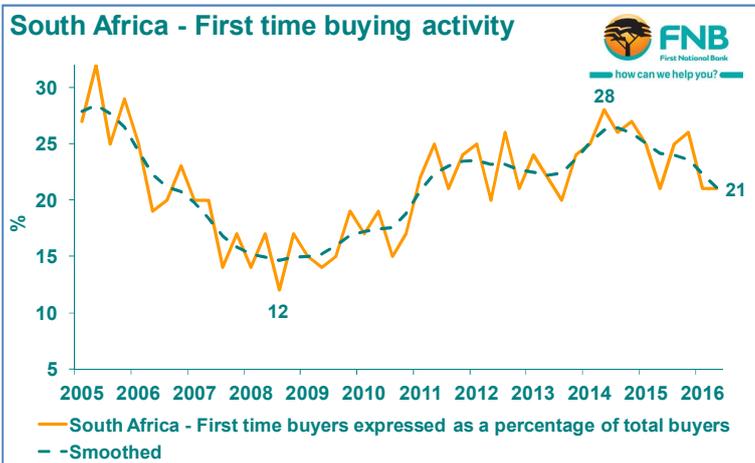
Estate Agents see 1st time home buying to be off its best levels, and the broad rising trend in average home buyer age continues.

7 July 2016

As a percentage of total home buying, the 2nd quarter 2016 FNB Estate Agent Survey pointed to an unchanged level of 1st time buying, but the broader trend has been down since the high point reached in 2014.

1ST TIME BUYING ACCORDING TO THE FNB ESTATE AGENT SURVEY

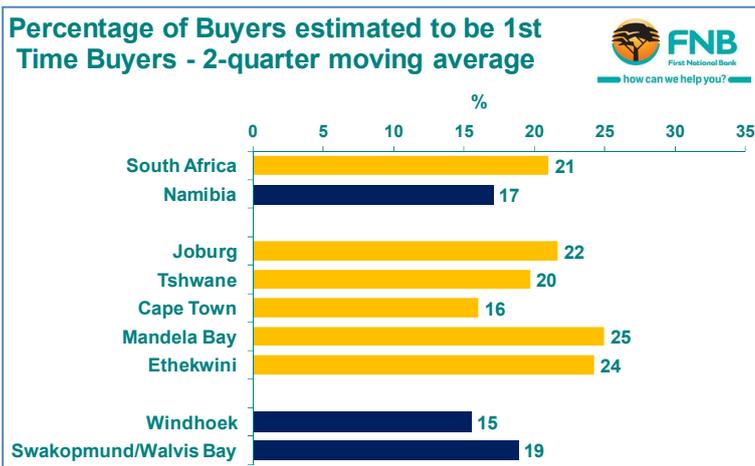
According to the FNB Estate Agent Survey, for the 2nd quarter of 2016, 1st time home buying remained unchanged from the previous quarter when expressed as a percentage of total home buying.



This source of residential demand remains a significant source of housing demand, accounting for an estimated 21% of total home buying. While the percentage estimate can be volatile from quarter to quarter, recent quarters’ estimates have remained below the multi-year high point of 28%, reached in the 2nd quarter of 2014, and the smoothed trendline has recently moved lower.

This percentage nevertheless remains solid compared to the 12% low reached around recession time back in 2008.

Breaking it down to major regions, we use a 2-quarter moving average due to volatility that can come with survey sample size getting smaller. For the 1st 2 quarters of 2016, we see Cape Town as having the lowest estimated 1st time buyer percentage of 16%.

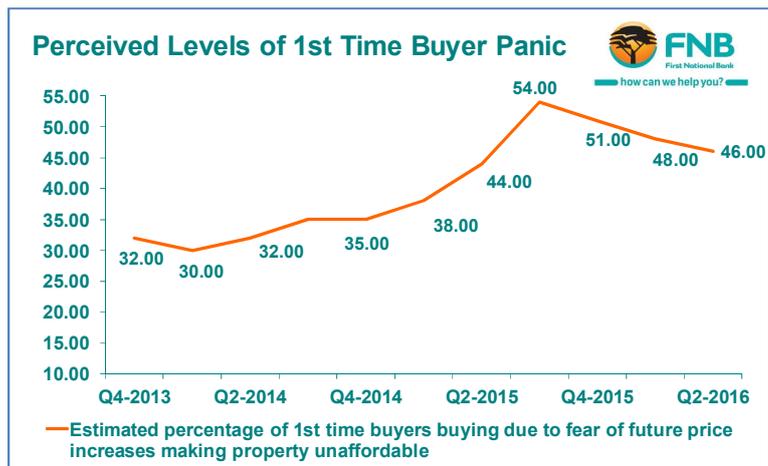


That region’s low percentage may in part have to do with affordability challenges for young buyers that may have arisen due to recent strong house price inflation.

BUYER PANIC SUBSIDING

In a follow up question, we attempt to ascertain the agents’ perceptions regarding the level of “1st time buyer panic” in the market. 1st time buyer panic refers to when 1st time buyers become concerned with house price inflation, worrying that “if they don’t buy now they will never be able to afford a home in future”. This is important, because widespread buyer panic can cause a housing market’s price levels to “overshoot”, contributing strongly at times to house price “bubbles”.

The sample of agents' surveyed has pointed to a significant percentage of 1st time buyers suffering from "buyer panic" in recent surveys. However, this percentage has begun to subside over the last 3 quarters, from a high of 54% in the 3rd quarter of 2015 to 46% of 1st time buyers by the 2nd quarter of 2016.

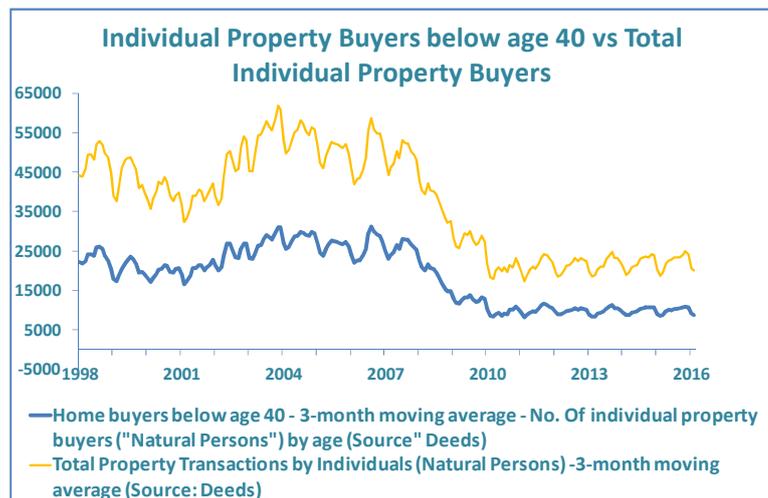


This should be expected, given a market whose inflation remains in single-digit territory, and has broadly softened since 2014, the brief early-2016 "bump up" aside.

As it was, the still-relatively high 1st Time Buyer Panic percentages of recent quarters have probably given an inflated impression of how widespread this problem was, because it must be borne in mind that ever since the end of the pre-2008 residential boom period, overall transaction volumes levels as well as 1st time buying transaction levels have been relatively low.

AGE GROUP BUYING

Overall young buyer transaction volumes remain modest



Using Deeds Data, we identify property transactions by "Individuals", or "Natural Persons" in Deeds Office language. On a 3-month moving average basis (for smoothing purposes), we identified an average 20,604 such transactions per month for the 3 months up to February 2016. This level is only around 41.5% of the boom time peak volumes early in 2004.

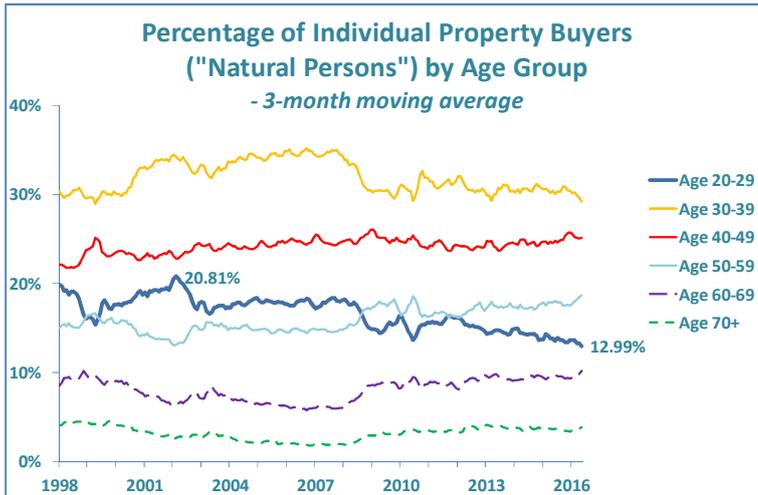
Therefore, this translates into a far lower absolute number of young buyers and, most likely, of 1st time buyers today compared to back in the boom times, even though as a percentage of total volumes they may look reasonably strong.

Examining the total number of individual buyers below the age of 40, of which a sizeable portion would be 1st time buyers. Their numbers by early 2015 were only about 34.4% of those in early-2004.

One must therefore not view only the percentages of totals. That could be misleading. Given low overall volumes of transactions, as well as the 1st time buyer component these days, we do not perceive 1st time buyer panic to be a widespread issue, despite perhaps reaching a significant percentage of what is transacted.

Much of this weakness in transaction volumes, that has persisted even despite some small improvement following the end of the 2008/9 recession, has to do with affordability matters, after a massive house price boom last decade. High price and transaction costs mean high overall total transaction values but low transaction volumes.

High real property values keep the average buying age relatively high

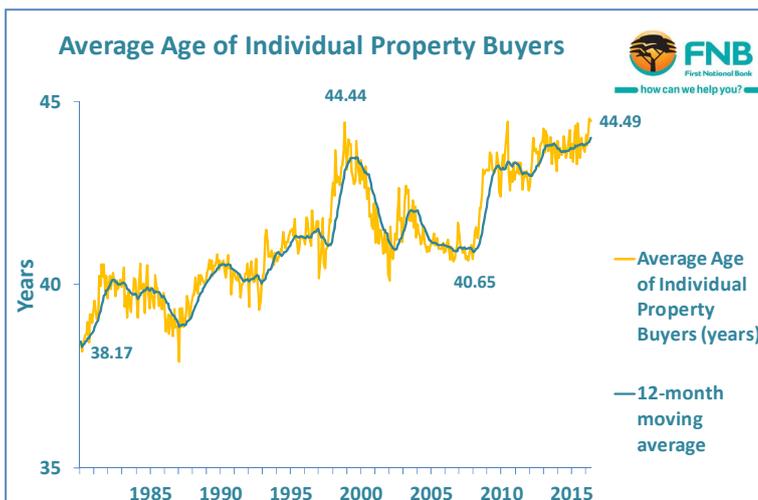


Not only are 1st time buyers likely to be far less in number today than back in the pre-2008 boom (despite their percentage of total buying recently having been similar to the percentage back around 2003/4), but on average they are probably significantly older than back then.

Young aspirant home buyers are highly sensitive to economic changes and affordability changes. They are also driven by sentiment, and are highly sensitive to changes in bank lending criteria, being heavily dependent on credit as a group. For many, the response to a deterioration in home affordability, brought about either by rising real home values or by interest rates, or a weaker

economy with slower job creation, is to wait for longer to buy a home.

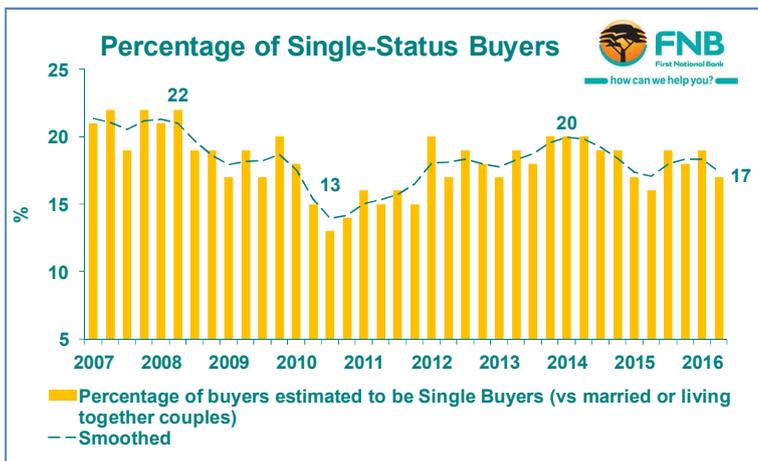
Indeed, in recent times this appears to have been the case. A relatively strong market period through 2012 to 2014, and thereafter rising interest rates, appeared to contribute to a decline in the percentage of individual property buyers between the age of 20 and 29, from 16.34% of total buyers in the 3rd quarter of 2011 to 12.99% for the 3 months to May 2016. This percentage is now sharply down on last decade's 20.81% high of February 2002. Back then, real house prices were far lower than today.



And so the rising trend in the average age of individual property buyers continues, now above 44 years (44.49 years old as at May 2016), which represents a significant rise from the 40.65 years estimated at the end of 2007, right at the end of the boom period.

SINGLE-STATUS HOME BUYERS

Also tapering off as interest rates rise and affordability challenges mount has been the level of single-status home buyers (versus couples) expressed as a percentage of total home buying. Many of these may also be 1st time buyers.



In the 2nd Quarter 2016 Estate Agent Survey, the estimated percentage was 17% of total buying, down from the price quarter's 19% and below the multi-year high of 20% reached early in 2014.

Like younger 1st time buyers, single-status buyers are often more constrained financially due to not being able to combine 2 incomes to be able to afford a home. In times of mounting affordability challenges, they can choose to remain out of the buying market for a longer time.

CONCLUSION

The FNB Estate Agent Survey continues to suggest a decline in the phenomenon of 1st Time Buyer “Panic”, which may not only be reflected in the declining agent percentage estimate of the prevalence of such panic, but also in part in a decline in the 1st Time Buyer percentage.

In the near term, a slow economy, rising interest rates and a slowing residential market, are expected to lead to further broad slowing in 1st time buying both as a percentage of total buying and in total volume terms, as well as leading to a further rise in the average age of home buyers. 1st Time Buyer Panic, too, is expected to diminish in significance. This is normal in toughening economic and interest rate times, with 1st time buyers normally being more cyclical as a group than the overall market, waiting on the sidelines in larger numbers in the tougher times, and growing in number more strongly than the repeat buyer group as times improve.

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