

PROPERTY BAROMETER – Residential Demand Conditions – 1ST Time Home Buying

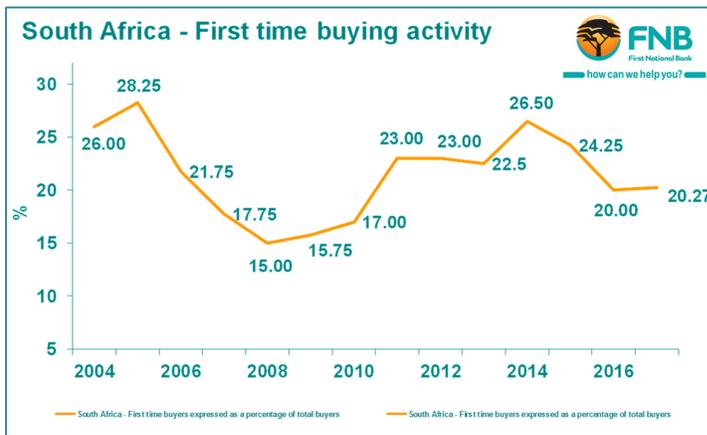
1st time home buying remains reasonably solid nationally, but a closer look at 1st time buying regionally reveals some major divergences, Gauteng seeing very strong levels and Cape Town at the weakest end of the spectrum

18 January 2018

NATIONALLY, THE 2017 AVERAGE 1ST TIME HOME BUYING PERCENTAGE STABILISED, AFTER 2 PRIOR YEARS OF DECLINE

According to the FNB Estate Agent Surveys through 2017, the estimated average 1st time home buyer level was 20.27% of total home buying for the year. This is at almost the same level as the 20% average for 2016, a more-or-less sideways move last year, after noticeable declines in the prior 2 years. This “stabilization” in the 1st time buyer rate has much to do with a strong 1st time buyer rate in Gauteng, reflecting that region’s superior home affordability levels compared to other major metropolitan regions.

Going back a few years, following the onset of interest rate hiking early in 2014, we saw the highly cyclical group of 1st time home buyers diminishing in significance relative to the total home buying market. This is typical, given that on average, younger aspirant home buyers should be far more dependent on credit to enter the home buying market, and thus more sensitive to interest rate changes than older repeat home buyers.



So, after 1st time buyers reached a multi-year high at an estimated 26.5% of total home buying in 2014, they fell back to an estimated 20% of home buyers by 2016, according to the average of the FNB Estate Agent Surveys that take place quarterly.

But in 2017, the interest rate cycle turned ever so slightly, with a lone interest rate cut of 25 basis points in July, after a long sideways interest rate move since early-2016, and this mild turn in the cycle appears to have been just enough to have stabilized the 1st time buyer percentage,

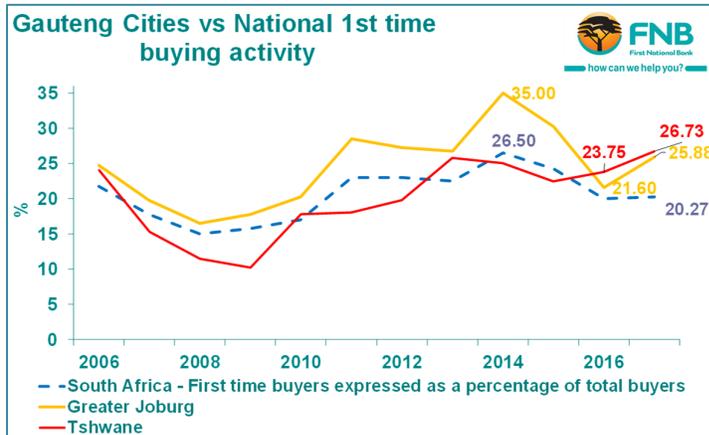
which at an average of 20.27% of total home buying in 2017 was very slightly higher than the 2016 average.

A stable interest rate environment in 2018 could see this percentage moving more-or-less sideways again, or even slightly upward should interest rates decline further.

But while the national average move was more-or-less sideways at a reasonably solid level near 20%, some major divergences have opened up on a Major Metro Region level, and these divergences, within the same interest rate environment for everyone, appear strongly reflective of major home affordability differences by region.

GAUTENG OUTPERFORMS SIGNIFICANTLY

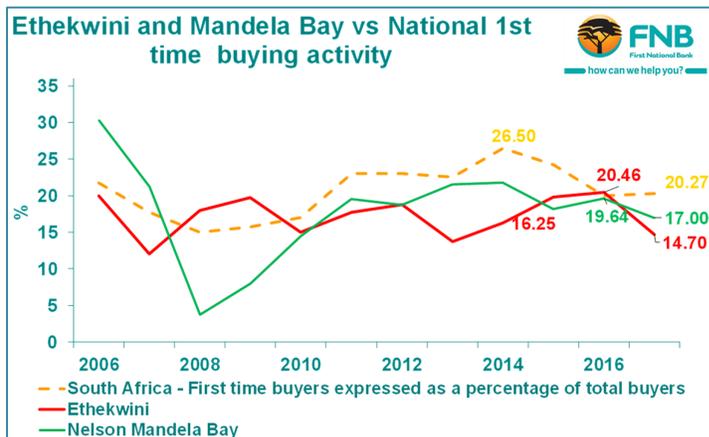
Gauteng is the driver of the slight national average 1st time buyer percentage increase in 2017, with both of the province's major metropolitan regions seeing increases in their percentages.



Greater Johannesburg saw an increased average 1st time buyer percentage, from 21.6% in 2016 to 25.9% in 2017, while Tshwane region went from 23.75% to 26.7% over the same period.

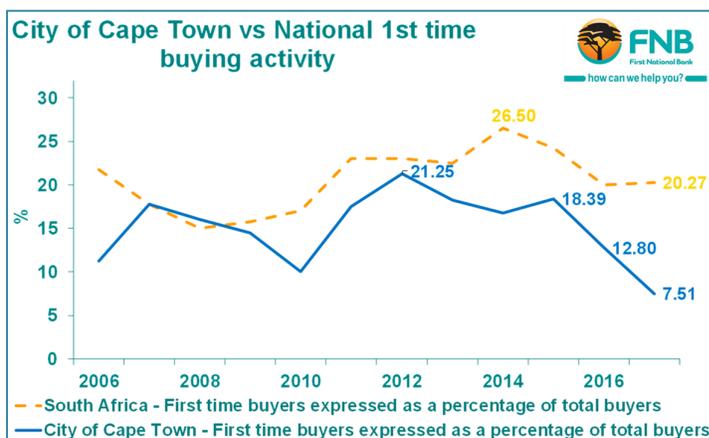
These percentages, both strong and above the national average estimate, we believe are due to Gauteng being the most affordable major residential region, when affordability is considered as average house price relative to average household income. The province has had low house price growth (often negative in

real terms) in recent years, enabling it to achieve further affordability improvements. It is this superior home affordability in Gauteng which, we believe, may make the region the relative "outperforming" housing market in 2018.



In the coastal metros, the 1st time buyer picture appeared less positive in 2017.

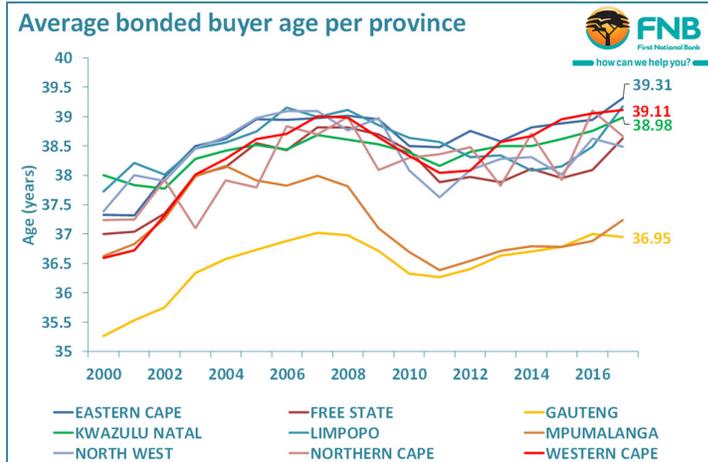
Although not weak in the extreme, both Ethekwini and Nelson Mandela Bay saw declines in their average estimated 1st time buyer percentages, Mandela Bay from 19.6% in 2016 to 17% in 2017, and Ethekwini from 20.5% to 14.7% over the same period, both thus undershooting the national average.



However, the most severe decline in estimated 1st time buying levels took place in the City of Cape Town. That region's strong house price growth in recent years has been well-documented, and with such superior house price growth has come a significant home affordability deterioration, it would appear. We believe that a sharp decline in its estimated 1st time home buying percentage is strongly reflective of this affordability deterioration.

The region's annual 1st time buying percentage has been below the national average for 9 consecutive years, but has diverged far more significantly from the national average since 2016, after it fell sharply from 18.39% in 2015 to 12.8% in 2016, and then further to a mere 7.5% in 2017.

AVERAGE BONDED BUYER AGE ALSO APPEARS TO REFLECT A MORE AFFORDABLE GAUTENG



Estimates by province of the average age of bonded home buyers (using deeds office registration data) appear supportive of the notion of superior Gauteng home affordability. The estimated average age of a bonded home buyer was 36.95 years in Gauteng, the lowest average age of any of the 9 provinces, with only Mpumalanga coming close to that average. The 3 major coastal provinces continued to show significantly higher average ages for bonded home buyers, 39.3 years in the case of the Eastern Cape, 39.1 years in the

Western Cape, and 39 years in the case of KZN.

In short, 1st time home buying levels appear to have achieved some stability in 2017, after some prior years of weakening. This 2017 stabilisation, we believe, has much to do with a gradual turn in the interest rate cycle after prior hiking from early-2014 to early-2016. The most significant feature, however, is a large regional divergence between the top performing Gauteng Metro regions, on the one hand, and very weak 1st time buyer levels in the City of Cape Town, which we believe reflects a significant home affordability deterioration in Cape Town in recent years. Strong 1st time buyer levels in Gauteng could be a contributing factor to that region's residential market becoming the relative "outperformer" in 2018.

JOHN LOOS:
HOUSEHOLD AND PROPERTY SECTOR STRATEGIST
PROPERTY MARKET ANALYTICS: FNB HOME FINANCE
Tel: 087-328 0151
John.loos@fnb.co.za

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