

## PROPERTY BAROMETER – Residential Demand Conditions – 1<sup>ST</sup> Time Home Buying

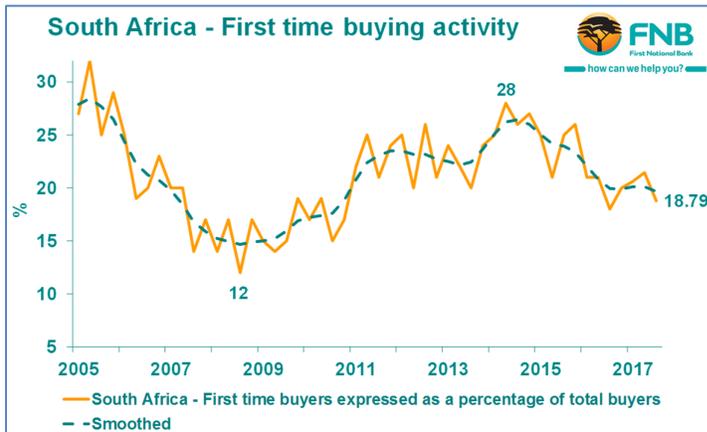
*1<sup>st</sup> time home buying remains under some pressure, having slowed in the 3<sup>rd</sup> quarter. Gauteng remains tops in 1<sup>st</sup> time buyer activity, while the Western Cape’s aspirant young buyers have major affordability challenges*

4 October 2017

### ESTIMATED NATIONAL 1<sup>ST</sup> TIME BUYER PERCENTAGE DECLINES IN THE 3<sup>RD</sup> QUARTER

1<sup>st</sup> time buyers are highly sensitive to economic and interest rate cycles, especially the latter. This we believe is largely because of the high dependence of this younger group of aspirant buyers on credit to buy homes. The result is that young aspirant home buyers tend to be more cyclical than older repeat home buyers on average, remaining out of the market in larger numbers in tougher economic and interest rate times, and vice versa.

Given South Africa’s severe weakness in consumer confidence in recent years, the result of near zero economic growth, prior interest rate hiking from 2014 to early-2016, and heightened future political uncertainty, it is thus to be expected that 1<sup>st</sup> time home buying should be well off best levels of a few years ago. And indeed, the 3<sup>rd</sup> quarter FNB Estate Agent Survey continued to show this.



After 2 prior quarters of mild increase in the estimated level of 1<sup>st</sup> time buying, expressed as a percentage of total home buying, the 3<sup>rd</sup> quarter estimate declined to 18.79% of total home buying, down from the 2<sup>nd</sup> quarter’s 21.41.

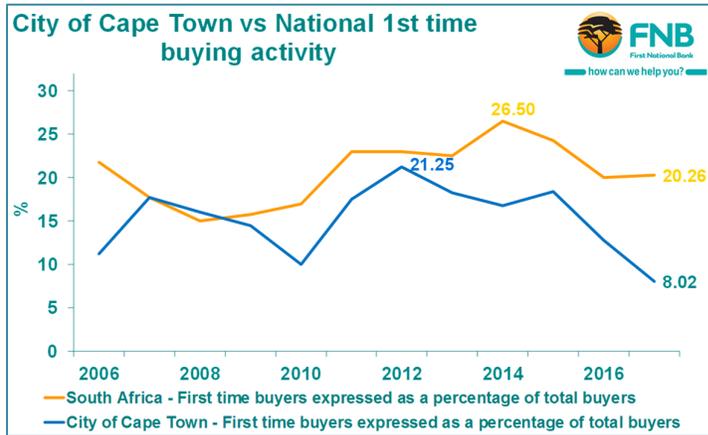
This 3<sup>rd</sup> quarter level is over 9 percentage points lower than the post-2008/9 recession high of 28% reached in the 2<sup>nd</sup> quarter of 2014.

Some may have expected some increase in 3<sup>rd</sup> quarter 1<sup>st</sup> time home buying estimates, given an interest rate cut in

July. But one lone rate cut of 25 basis points would not seem likely to have a significant impact on household/consumer confidence in a time where SA society has major concerns regarding the country’s economic and political future, where a near-zero percent growth economy does little to create new jobs for new labour market entrants, and negative news such as the spectre of possible further sovereign ratings downgrades remains ongoing.

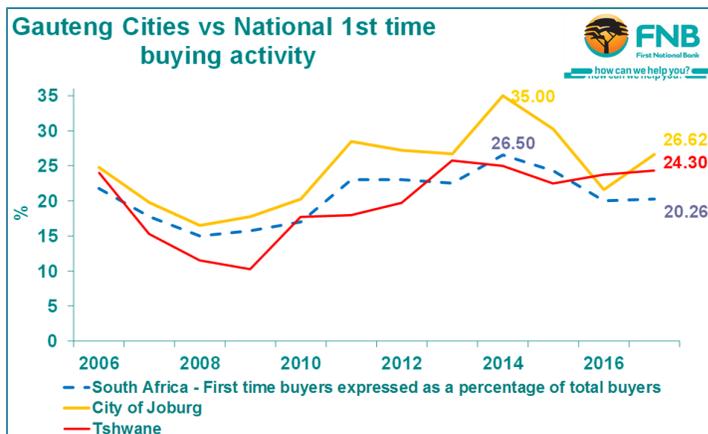
## 1<sup>ST</sup> TIME BUYING BY REGION – GAUTENG REMAINS WAY AHEAD IN TERMS OF 1<sup>ST</sup> TIME BUYING

Examining estimated 1<sup>st</sup> time buyer percentages by major regions, we believe that the differences between regions in 2017 are reflective of the divergent affordability trends between certain regions in recent years, caused either by house price growth divergence or by economic performance divergence.



A stark contrast between Gauteng's Major Metros and the City of Cape Town Metro remains apparent. For the 2017 year to date, Cape Town's 1<sup>st</sup> time buyer percentage has averaged a lowly 8.02%.

This is down on its 2016 average of 12.8%.

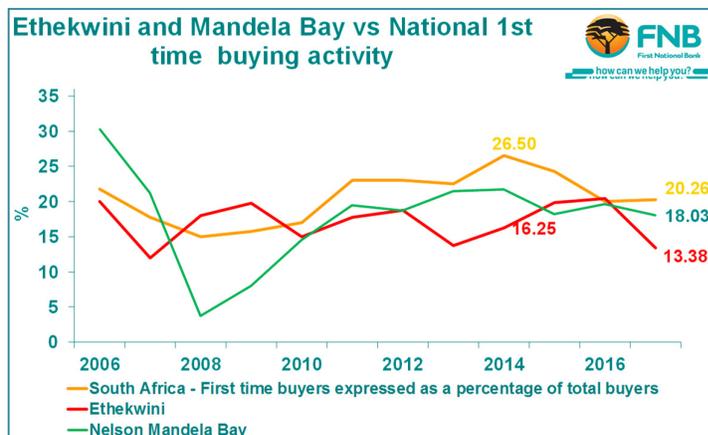


By comparison, Joburg's 28.62% and Tshwane's 24.3% year-to-date average 1<sup>st</sup> time buyer estimates for 2017 reflect a relatively affordable and price realistic Gauteng residential market.

This divergence comes as little surprise, given that the Western Cape has experienced 53.7% house price inflation over the past 5 years, from mid-2012 to mid-2017, whereas Gauteng has only achieved 24.7% house price growth.

The 2 Gauteng Metros have actually even seen an improvement in their 2017 year-

to-date 1<sup>st</sup> time buyer averages, Tshwane rising from an estimated 23.75% for 2016 as a whole to 24.3%, and Greater Joburg from 21.6% in 2016 to 26.62% in 2017.



Ethekwini and Nelson Mandela Bay have had relatively low house price inflation rates, similar to Gauteng, in recent years.

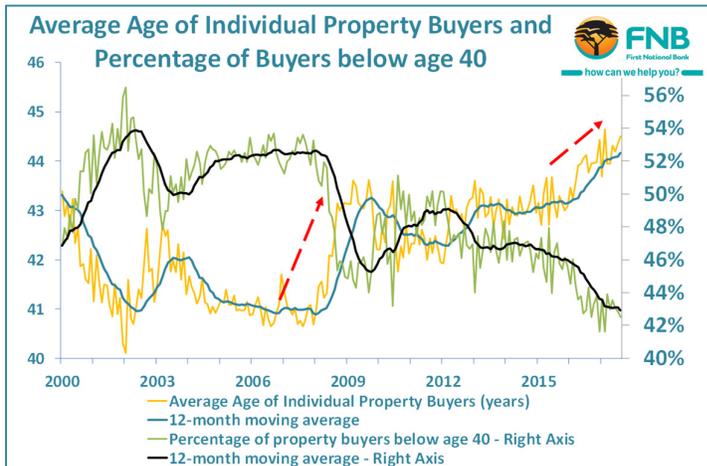
However, unlike Gauteng they have 1<sup>st</sup> time buying estimates looking weaker and below the national average in 2017 to date.

Ethekwini's 2017 year-to-date average has declined quite sharply from 20.46% in 2016 to 13.38%, while Mandela Bay has declined from 19.64% in 2016 to 18.03%.

It is possible that these 2 regions, with their heavy dependence on the beleaguered Manufacturing Sector, may be starting to see their 1<sup>st</sup> time buying estimates reflect economies that are more under pressure than is possibly the case in Gauteng.

### BUYING ESTIMATES BY AGE

Using deeds data transactions by individuals (“natural persons”), we estimate buying trends by age group. The results appear to support what the estate agents have seen in terms of a weakening in 1<sup>st</sup> time buying since 2014.



While a rising average age of home buyer is a longer term structural change, we do see a strong shorter run cyclicity in the data too. The average age of individual property buyers began to increase steadily from around 2014.

After averaging 43.05 years in 2014, the average age of individual buyer has risen to 44.16 for the 12 months to August 2017.

The percentage of total buyers that are below the age of 40, from where most 1<sup>st</sup> time buyers emanate, has declined from a 12-month average age of 49.1 years for

the 12 months to March 2012, to 42.94% by the 12 months to August 2017. This decline comes after a prior increase in the percentage of below-40 buyers from 2009 to 2011, as interest rates were cut dramatically at that time and the economy emerged from the 2008/9 recession.

**In short, 1<sup>st</sup> time buyer levels remain under some pressure compared to levels of a few years ago, which is reflective of a stagnant economy along with some interest rate hiking from 2014 to 2016, and generally weak Household Sector confidence levels. Gauteng, arguably the most realistically priced housing market, still shows strong 1<sup>st</sup> time buyer levels. However, down in Cape Town it could be major affordability challenges affecting 1<sup>st</sup> time buyer levels, after a strong housing market run in that region. Weaker 1<sup>st</sup> time buyer levels in Ethekwini and Mandela Bay Metros could reflect relative economic weakness in those metros impacting to a greater extent on employment and incomes than in the case of Gauteng.**

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