

Housing affordability key in weak economy



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The strengthening in national house price inflation during the first half of 2016 has been somewhat surprising, given that economic growth remains sluggish and interest rates have risen gradually.

After averaging 5.7% during 2015 as a whole, the [Pam Golding Properties \(PGP\) Index](#) has strengthened steadily during the first half of 2016, reaching a level of 6.4% in June 2016.

Two key market segments are behind the rebound in house prices, namely the Western Cape housing market and the lower price band (<R1 million).

House price inflation in the lower price band averaged 9.6% during the second quarter, well above the average of 6.4% in the overall housing market.

The outperformance of this segment of the housing market is attributable in part to South Africa's relatively young population. According to ooba, the average age of first-time property buyers in South Africa is 34 years, while the average purchase price for first-time buyers was R813 000 thus far this year.

With two thirds of the national population currently under the age of 34 years, and first-time buyers accounting for 52.5% of all mortgage applications received by ooba thus far this year, it seems likely that new homeowners will remain a dominant force in the national housing market for the foreseeable future.

So, with a steady increase in the number of first-time buyers, coupled with still subdued levels of building activity in the wake of the 2008/09 recession, it is little surprise that the lower price band continues to register robust levels of house price inflation.

While persistent weakness in local economic activity may dampen first-time buyer demand in the near-term, the longer-term trend remains one of strong growth in activity in the lower price band housing segment.

A second factor which is undoubtedly further fuelling the strong performance of the housing market is the lower price band is the subject of affordability – an issue that is becoming increasingly important as the economy enters its sixth consecutive year of subdued growth and as rising inflationary pressures and higher interest rates continue to erode household purchasing power.

There are a range of indices in the local market which measure house price inflation in the more affordable sector. In addition to the PGP Index lower price band, there are the *FNB Former Township Index* (average price of R356 000) and the *Lightstone Affordable Index* (average price of R250 000 or below).

While the PGP Index lower price band (<R1m) registered average house price inflation of 9.6% during the second quarter, the *FNB Former Township Index* recorded an increase of 9.85% while the *Lightstone Affordable Index* increased by 24.4%.

What these price trends reveal is that, as the economic growth rate continues to deteriorate, property buyers are shifting their focus to more affordable housing – increasing demand in the lower price bands. Stock shortages in these more affordable housing markets may also be contributing to the strong growth in house price inflation.

The dominant role of first-time buyers in the housing market and the growing emphasis on affordability also goes some way towards explaining the continued outperformance of sectional title properties.

This is perhaps best illustrated by the robust growth in house price inflation for small sectional title properties (less than two bedrooms) which rose by 13.7% in the second quarter of 2016, compared to the marked slowdown in house price inflation for large freehold properties (four or more bedrooms) which registered an increase of just 4.1% from year earlier levels in the same quarter.

The house price inflation for smaller properties has been outperforming growth in house prices for larger freehold homes since late-2013.