

South Africa: Growing importance of first time buyers

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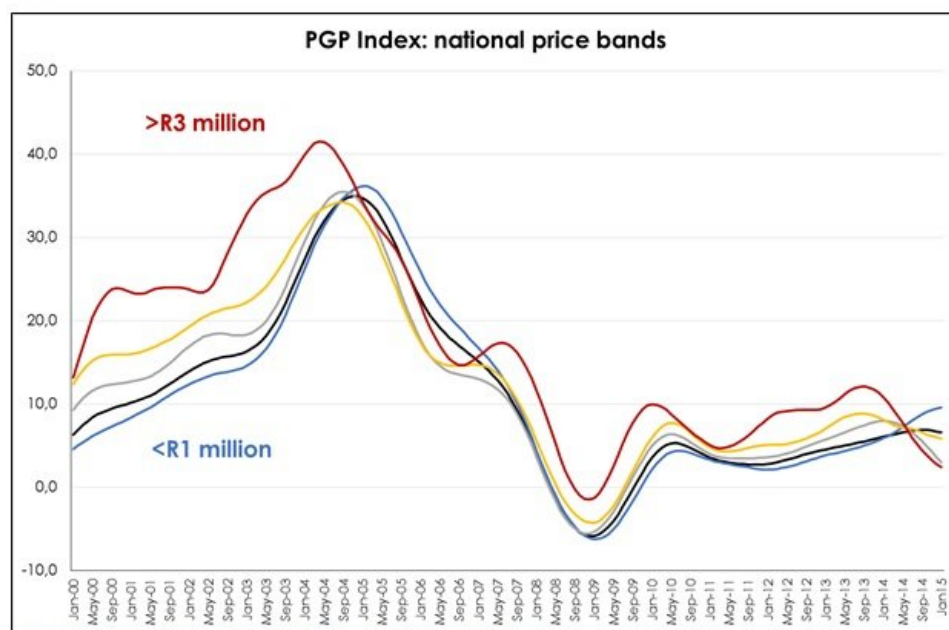
House prices in the lower price bands are gathering momentum, despite a gradual slowing in the pace of growth in house prices nationally.

"The relative outperformance of the lower price band may reflect the growing importance of the first-time house buyer in the local residential market."

It seems growing numbers of first-buyers, coupled with the recent raising of the threshold at which transfer duties become payable, will underpin performance in this sector during 2015.

The domestic residential property market emerged from a painful recession-induced slump in late 2009. After a temporary set-back in 2011, the recovery in house prices has steadily gained momentum. Throughout this period, growth in national house prices in the upper price band (over R3 million) has outperformed all other price bands by a comfortable margin (see figure). For example, in 2013, the upper price band registered an average annual increase of 11%, which was more than double the national average that year of just 5.1%.

Figure One



SOURCE: Pam Golding Residential Property Index

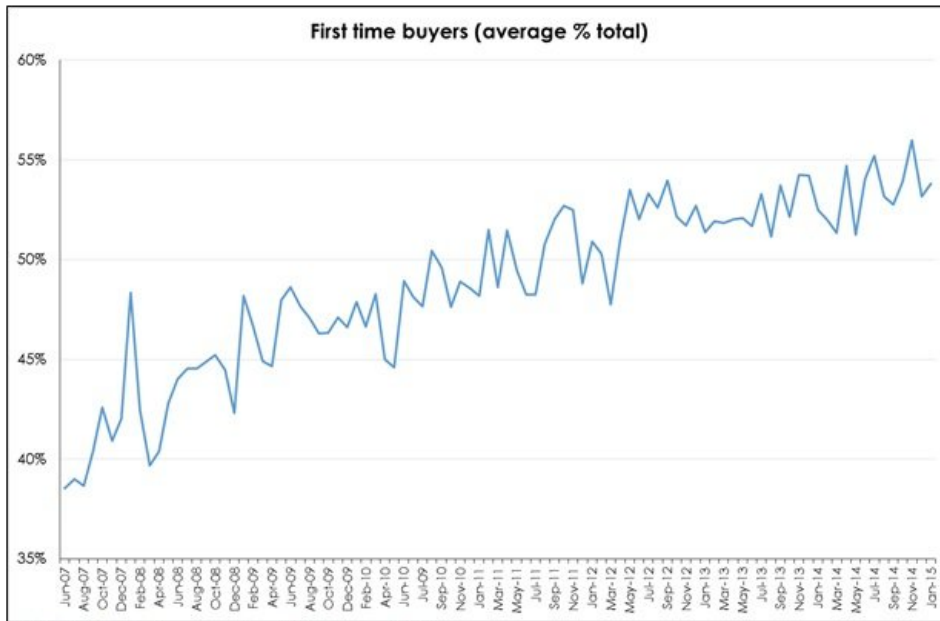
However, growth in this upper income band peaked at just over 12% in late 2013 and has since rapidly lost momentum – registering an average annual increase of 6.5% last year, broadly in line with the overall national increase of 6.9%. This trend has continued into the new year, with an average increase in prices in the upper price band of just 2.4% in January - well below the increase in overall house prices of 6.6%.

Price outperformance shifts from upper to lower price bracket: While the higher price bands registered above-average price increases during much of the economic recovery, the lower price band (under R1 million) has been the relative underperformer – consistently recording below-average price increases during this period. Between 2010 and 2013, prices in the lower band grew by an average 3.4% while prices in the upper band (over R3 million) increased by around 8.5%. However, in late-2013, these trends began to shift and, in early 2015, it is now the lower price band where prices are performing best while the higher price bands, notably the top band, are performing below the national average.

Indeed, even as the rate of growth in national house prices loses momentum, the trend in house price growth in the lower-price band continues to strengthen. By January 2015, the rate of increases in the national residential property market had slowed to 6.6%, while prices in the lower-price band continued to strengthen – registering an increase of 9.6%. This is the strongest price growth recorded in the lower-price band since the 2008/09 recession.

First-time buyers play increasingly important role: The relative outperformance of prices in the lower price band is undoubtedly at least partially attributable to the growing importance of the first-time home buyer in the local residential market. According to data released by ooba, South Africa's largest bond originator, first-time home buyers – whose purchases fall within the lower-priced category with an average price of almost R760 000 – accounted for a record 54% of new bond approvals recorded during the final quarter of 2014. In contrast, in mid-2007 - the earliest data available from

Figure Two



SOURCE: Oobarometer, February 2015

Within the lower price band, the performance of house prices within each of the three major regions varies significantly. KwaZulu-Natal, which is currently enjoying a broad-based revival in its residential property market, is leading the recovery in this price band. While prices in the lower price band are accelerating in all three provinces, the increase is most pronounced in KZN, with an increase in house prices of 18.5% recorded in January this year. While the Western Cape registered a still healthy increase of 13.5% at the start of the year, price increases in this category in Gauteng is lagging, with an increase of just 8.9% in January.

According to data from Ooba, the average age of first-time buyers applying for a mortgage bond last year was 34 years – unchanged from the first available data in mid-2007. South Africa has a relatively young population profile, which means that the new generation of potential buyers – the millennials who are currently aged between 18 and 33 years – which is currently entering the property market is larger than the preceding generation.

There is already evidence of the millennials making their presence felt in selected residential areas around South Africa. Millennials appear to be making a particularly large impact in the property market in areas with large concentrations of sectional title units and homes within the entry-level price bands. In areas like Lonehill in Gauteng and Woodstock in Cape Town, statistics from Lightstone reveals that more than half of recent buyers were aged between 18 and 35 years.

Raising threshold on transfer duties positive for first-time buyers: The 2015/16 Budget was generally viewed as a negative for the residential property market in general. When implemented, the budget will result in an increase in the overall personal tax burden, which suggests that the anticipated recovery in household disposable incomes, which was expected to provide a crucial underpinning for the residential property market, is likely to be more subdued than initially anticipated.

Anything that erodes the spending power of households poses a headwind for the local housing market, as the affordability of housing depends on the growth of house prices relative to the increases in disposable income. With household disposable income under pressure, homeownership becomes less affordable to many potential first-time buyers.

However, there was also some good news for the property market in the Budget. Finance Minister Nene announced that the threshold at which transfer duties become payable would be raised from current levels of R600 000 to R750 000. As noted previously, the average price of first-time buyers apply for bonds through ooba during the course of last year was almost R760 000, suggesting that the majority of future first-time buyers will not be liable for transfer duty. This is confirmed by Lightstone data, which show that over the past 12 months approximately 70% of freehold and 63% of sectional title residential properties sold were valued at under R800 000. The recent Budget announcement can be expected to make it more affordable for first-time buyers to purchase their first home.

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