

PROPERTY BAROMETER – 1ST TIME BUYING

The pace of growth in new household establishment appears to be slowing, perhaps unsurprisingly given a slower pace of employment growth these days

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While population growth rates tend to change only gradually over the long term, the growth rate in the number of households can show shorter term cyclical fluctuations, with tougher economic times causing many to delay their departure from their family home to establish a new household, and good times having the opposite effect. Added to this, young households can choose between renting, and many can delay buying in the bad times, biding their time in the rental market.

And so it is that the level of 1st time buying, and younger generation home buying in general, is more “pro-cyclical” than that of older generations of home buyers who are more of the “repeat buyer” type.

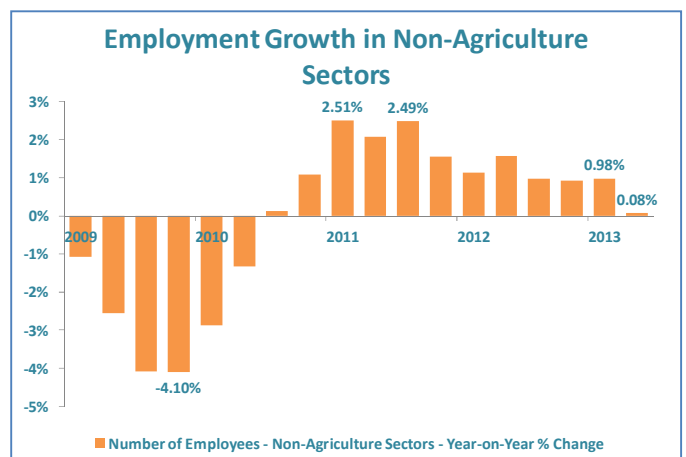
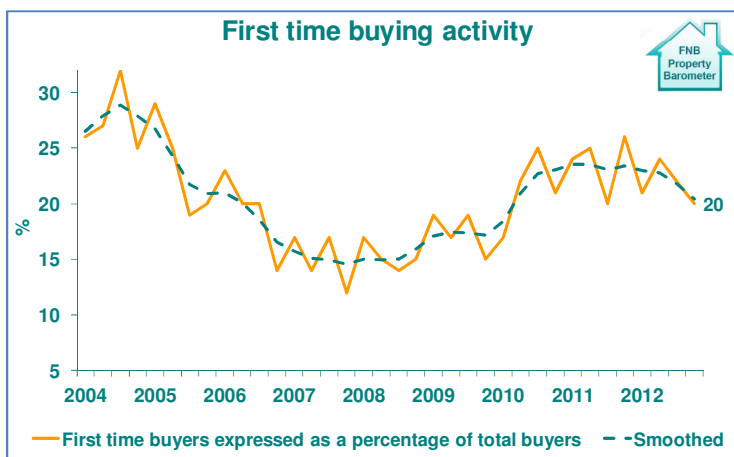
New entrants to the residential market are an important part of the market, because they are the ones that influence overall residential demand. By comparison, repeat buyers have less effect as they often merely sell one home to buy another, thus often leaving the national supply and demand balance little changed.

To this effect, access to affordable credit is crucial for many credit-dependent young home buyers who have yet to accumulate savings. However, affordability of credit is partly determined by income, thus implying that employment creation is very important in driving this access to credit. Therefore, a higher pace of new entrants to the labour market should translate into a boost for new entrants into the housing market.

Trends in 1st time buying can thus be strongly reflective of the combination of interest rate levels, economic and employment trends.

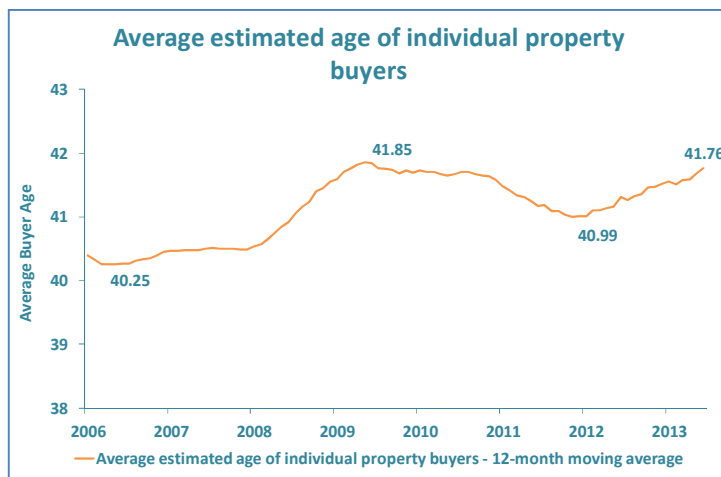
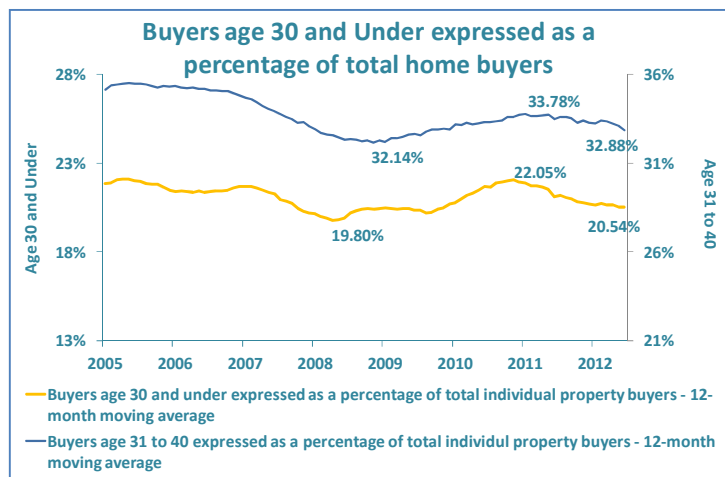
The FNB Estate Agent Survey still points to relatively high levels of 1st time buying relative to total home buying. Expressed as a percentage of total buying, our sample of agents estimated that 20% of total buyers were 1st time buyers in the 3rd quarter of 2013, still well up on the 12% cyclical low point reached at a stage of 2007. However, it is also down from the previous quarter’s 24%, and although quarter to quarter moves can be volatile, the smoothed trendline appears to have shown a peak around 2011, and more recently seems to have started moving gradually lower.

A decline in this percentage of 1st time buyers would not be out of place. Economic growth has broadly tapered since 2010, translating into slowed employment growth too. Non-Agriculture Employment growth peaked in early-2011 at 2.5% year-on-year, and has since slowed to a snail’s pace of 0.08% year-on-year by the 2nd quarter of 2013. In addition, the big interest rate cutting stimulus should be wearing thin, with unchanged rates for over a year now



The apparent trend change in 1st time buying appears supported by our own separate Deeds data estimates of individual property buying by age group. The youngest age band, i.e. 21 to 30 years old, which is believed to have the highest proportion of 1st time buyers, has seen its percentage of total buying decline from a 22.05% peak as at November 2011 (12-month moving average) to 20.54% for the 12 months to June 2013. The older 31 to 40 year age group, also a big source of 1st time buying, has also seen its percentage of total buying decline from 33.78% at the beginning of 2012 to 32.88% for the 12 months to June 2013.

And so, as the pace of new household establishment slows in what are now economically tougher times than 2-3 years ago, the average age of home buyer creeps gradually higher. For the 12 months up until November 2011, the average age of individual property buyers was estimated to be 40.99. By June 2013, the average buyer age had crept up to 41.8 years (on a 12 month moving average basis).



CONCLUSION

While the residential market remains in a very “stable and comfortable” space currently, there are signs that the major part of the residential demand growth stimulus, in the form of aggressive interest rate cutting and economic growth acceleration back around 2009/10, has been wearing thin. This does not mean that there has not been growth in residential activity in recent times. Indeed, through 2012 and early-2013 there was growth. But if we zoom in on a more cyclical source of residential demand such as the 1st time buyer component, it would appear that this group’s growth momentum has been dwindling relative to the overall market, since around late-2011.

This is not too surprising, given a slowdown in employment growth since about that time. Slower pace of growth in new entrants into the labour market should contribute to a slower pace of growth in entry into the residential market, given little in the way of interest rate changes over this recent period.

There are some that may believe the cause to be lending institutions who are too conservative in their lending practices. However, it is doubtful that these institutions as a group have tightened up on credit criteria in the past year-and-a-half. If anything they may have relaxed slightly further in this period. But we do know that there has been slower economic and employment growth since 2011, implying that a key part of the solution to achieving more rapid growth in home ownership lies in introducing more “pro-growth” economic policies.

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