Lower percentage of first time home buyers expected in 2016

By Rhys Dyer

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The home loan market is still being driven by first time home buyers. 54% of applications are currently from first time home-buyers. This has an impact on loan-to-value (LTV) ratio, with 51% of applicants requesting a loan at 100% LTV.

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The percentage of final grants at 100% LTV however drops to 37%. We have already started to see the impact of interest rate increases as well as general increases in cost of living expenses on the consumer. Our approval rate has dropped from 76% in the first quarter of 2015, down to 72% now.

This is driven almost exclusively by a greater percentage of affordability declines, where consumers sign an offer to purchase on a property that they simply cannot afford. Decline rates on average across banks are up from 42% to 45% now. The importance of being pre-qualified before putting in an offer on a property is highlighted in these stats.

Banks are building in interest rate increase buffers into their affordability calculations; so even if you have sufficient surplus income now to make the bond repayment, banks will test in the affordability calculations what room you have to continue to afford the repayment should interest rates continue to rise.

Purchase within means

New home-buyers are encouraged to purchase within their means (and not at their affordability limit) and to be pre-qualified before they go out their looking for property. Bank competition for loans is very strong, with all the banks home loan divisions showing strong profitability. As a result we have seen improvement in interest rate pricing on loans, with the average rate across our new business having reduced from prime plus 0.48% a year ago to now prime plus 0.27%.

We have also seen a strong increase in the percentage mix of black applicants through our business over the year, with black applicants representing 48% of buyers now from 41% a year ago. Self-employed applicants remain at about 10% of our total applicants, down from a peak of 20% in 2006 and 2007.

The residential property market is still driven almost exclusively by South Africans buying primary residences. The second home and buy to let market remain a very small percentage of buyers, as does the foreign buyer component. The number of property transactions year on year are not showing any significant growth, with calendar year 2014 only showing a 2% growth in number of properties sold over 2013, and with 2015 sales on 2014 also looking pedestrian.

According to FNB data, 44% of buyers are currently below the age of 40 years. This is compared to 56% in 2002. The current average age of buyers is 43.6 years, as compared to 40.7 years in 2007. This seems to imply that the younger buyers are more financially constrained than was historically the case driven by economic factors as well as the average level of real house prices being at multi-decade highs - the result being that home buyers are delaying their home buying decision until later.

Increased demand

Sectional title properties in the R750,000 to R1.5m band continue to show increased demand - given the relative affordability, convenience and security of these properties, together with a need to contain household costs, including municipal rates, utilities and maintenance, the trend towards sectional title properties, specifically close to CBD's is a key trend.

This increased demand for sectional title properties will drive price growth of this segment, and this sector of the market is expected to continue to outperform freehold price appreciation as demand consistently exceeds supply. "And as densification in major metro areas continues, with housing demand increasingly focused around public transport infrastructure, home-owners are likely to be willing to sacrifice space for the convenience of location, further underpinning demand for sectional title properties close to the CBD's.

In terms of the property market outlook, we do not expect to see a significant change in the market dynamics in 2016. The residential property market is still constrained in terms of supply, with insufficient stock levels added to the market over the past 7 or 8 years to meet demand of the growing population and increasingly migrant population to the economic hubs of the country. The result being that our market remains fairly well balanced in terms of supply and demand, which is likely to continue into 2016.

Supply level

There have been increases in the level of supply of properties in the first half of this year, with residential buildings completed stats growing in excess of 20% in the first half of the year (this has since dropped to 8% in the last quarter), this coupled with reducing demand as a result of slow economic growth, interest rate increases, cost of living increase and buyer job uncertainty will likely bring about a market slow down during 2016. We don't however believe we will see any significant changes in property price growth over the year.

Prices are currently growing at between 6% and 7%, and we expect this to continue with some slight deterioration. Given likely inflation increases however, we expect to see some worsening in real house price growth over 2016.

As exchange rates continue to deteriorate we would expect to see the percentage of foreign buyers increase over time, given the relative affordability of SA property - this sector however remains no more than 3% to 5% of the market and is unlikely to be a significant driver of overall demand

Off the back of what is expected to be a fairly flat level of property market sales volumes as compared to 2015, and with home loan lenders continuing to compete strongly for business, we don't expect to see any significant changes in the home loan lending environment in 2016.

Affordability pressure

Having said that, given the expected poor economic growth position - which will place pressure on job security - coupled with an increasing inflation environment off the back of the decline in the rand, the consumer will no doubt come under increased affordability pressure.

This is likely to result in increased decline rates across banks resulting in lower approval rates. We would also expect to see the mix of home loan applicants changing, with a lower percentage of first time home buyers in the market, as these consumers delay their home buying decisions until the economic position improves.

We would also expect to see buyers buying within their affordability constraints, at lower levels, and banks incentivising buyers to put down larger deposits. Banks will remain hawkish, and will tailor the lending approaches, both in terms of the home buyer and the property itself to contain risk, should poor economic growth position continue.

ABOUT THE AUTHOR

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