PROPERTY BAROMETER – HOME BUYING BY AGE GROUP

Younger age group buying has risen in prominence post-2008 recession, as 1st time buyers make a come back, but watch the "oldies" in the tougher times as an indicator of how tough the times are.

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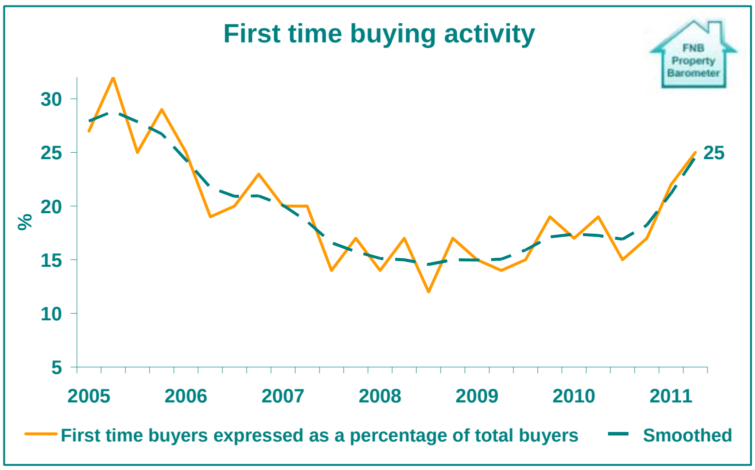
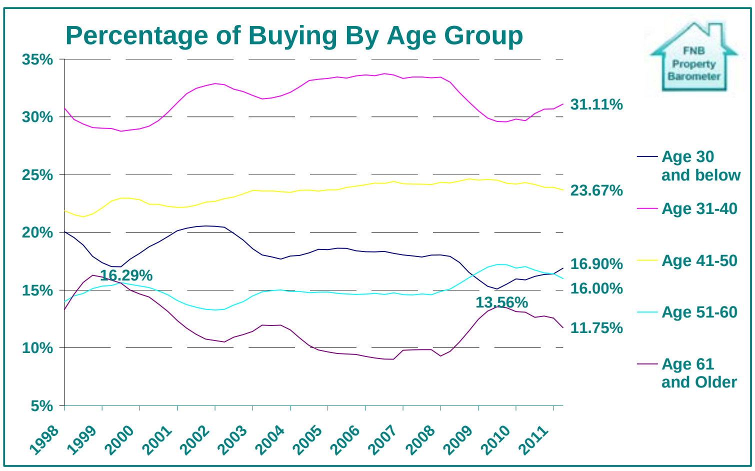
Trends in buyer age groups can be an important indicator of the economic and interest rate environment. Typically, the younger buyers in their 20s and even many in their 30s have more flexibility, often having not yet established a family, and thus possessing more basic residential needs. They can often opt to remain in their parents' home for longer, or alternatively stay in a rented home in tough times.

In addition, young aspirant buyers have accumulated less savings, and are thus arguably more sensitive to deposit requirements by bank,s which come and go at various points in the cycle, and are also more sensitive to house price fluctuations.

One thus tends to find a higher degree of cyclicality in 1st time or in younger age group residential buying in general, with this group staying out of the market in greater numbers than their older counterparts, while entering the market at a more rapid rate off a low base once conditions turn for the better.

Long before banks tightened credit requirements in 2008, younger buyers started to decline in significance due to sharply rising house prices which gave rise to an affordability issue. Estate Agents started to report a declining percentage of 1st time buyers in 2006, while Deeds data of individual buying by age cohort showed the 30 and under cohort peaking as a percentage of total buyers as early as 2001.





But since 2009 there has been evidence of something of a young buyer comeback both in our FNB Estate Agent Survey as well as in Deeds data for property purchases by individuals. In the 2nd quarter of 2011, the sample of agents taking part in the FNB Estate Agent Survey estimated that 25% of buyers were 1st time buyers, up from 22% in the previous quarter and now well higher than the low of 12% reached in the 3rd quarter of 2008 as the recession hit.

Using Deeds data for property purchases by individuals, the evidence also exists to show that since early-2010 the younger age groups have been playing a more prominent role in supporting home buying demand. From a low of 15.1% as at the 3rd quarter of 2009, the 4-quarter moving average percentage of "age 30 and below" buyers rose to 16.9% as at the 2nd quarter of 2010. Simultaneously, the 31-40 year age group's percentage rose from 29.6% to 31.1% of total buying.

What does this tell us about the current economic and property environment? Definitely improvement since the 2008 recession and the *peak in interest rates. However, the percentages of young buyers would also suggest an environment still far more benign than early last decade, where the 20 and under age group reached a 20.6% peak in 2001.*

Examining the less cyclical older age group buyers, whose prominence in the market has declined since 2009, can also perhaps give some perspective as to how tough buying conditions are, with their percentages being higher in tough economic and market times.

The 61 year and older age group is the least cyclical, arguably being far less dependent on credit and having more wealth in store to weather the storms. This group saw its percentage of total buying rise sharply through the 2008 recession as younger age groups felt the pinch and pulled back, peaking at 13.56% for the 4 quarters to the 3rd quarter of 2009.

So how bad was the 2008 recession? Well, no doubt it was tough, but interestingly the 61 and older age group never reached the same high percentage of total buying that it did in 1998 (16.3% for the 4 quarters of that year). That was the year that interest rates spiked to 25.5% prime. That was an extreme shock. It was admittedly short-lived, and interest rates fell dramatically soon thereafter. But for a short time it appears that working age cohorts (i.e. below 60, suffered more than they did in the more recent slump in activity.

The composition of age group buying is thus an important indicator of the general environment, which most importantly includes economic growth, interest rates, inflation, bank lending criteria and home affordability. Right now, we're somewhere "midway between great and bad", with young buyers having increased in prominence since 2008 but not having reached the same high percentages of the boom years. Simultaneously, the less cyclical over 60s have declined in prominence, as they do in better times, but at 11.75% of total buying they are not yet near the low of 9% of total buying reached in 2006..

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