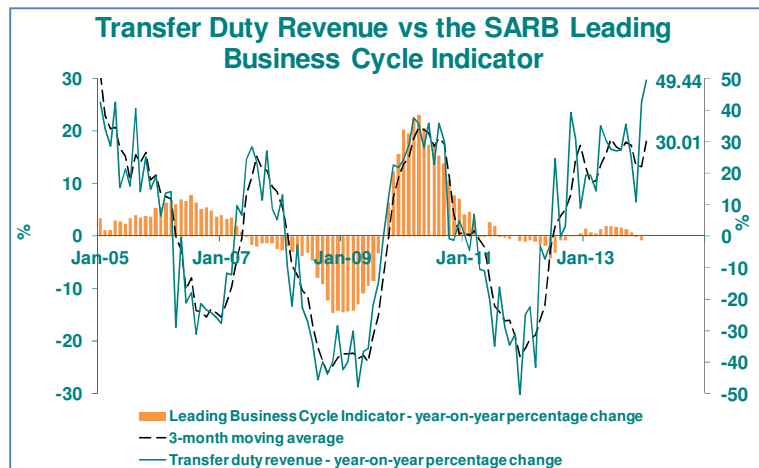


## PROPERTY BAROMETER – JANUARY TRANSFER DUTY REVENUE

*A strong rate of transfer revenue growth reflects a solid property market, but also a weak economy with tax revenue pressure and rising effective tax rates*

28 February 2014

January SARS (South African Revenue Services) revenue data was released today, and the property transfer duty revenue component confirms various other data which still points to a solid property market of late. This source of



revenue grew by a massive 49.44% year-on-year in January, a further increase from the previous month's 42.5%.

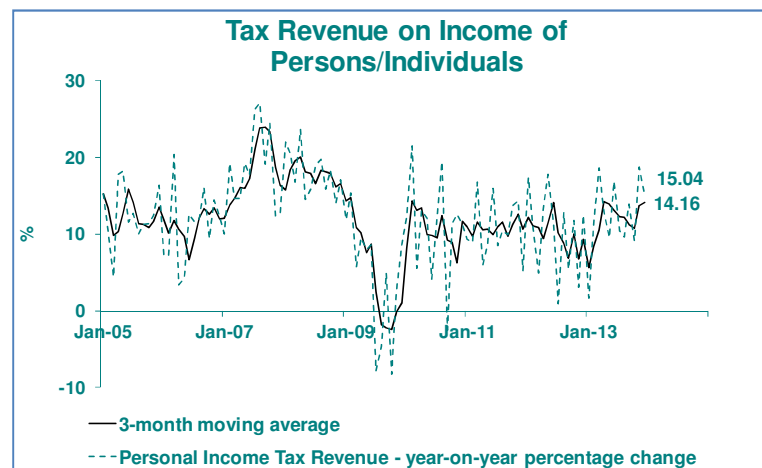
The large residential component of the market contributes strongly to this revenue growth in 3 ways, i.e. through a recent period of high single-digit house price growth, solid transaction volume growth, and transfer duty bracket creep towards higher duty brackets as prices inflate.

In addition, recent market strengthening on the higher priced end more so than at the lower end may also served to have boosted the average size of transaction and thus of transfer duty paid.

However, despite the most recent 2 months' "spike", it would still appear as if a growth peak has been slowly forming. The less volatile 3-month moving average growth rate in transfer duty revenue was 30% year-on-year for the 3 months to January, not far from similar growth rates through much of the period since mid-2013. In addition, the coming months' data will begin to reflect the 1<sup>st</sup> interest rate hike, in what we expect to be the hiking phase of the cycle, and that could mean a looming slowdown in growth in this source of revenue.

Nevertheless, for the time being, transfer duty revenue growth continues to reflect what has in recent times been a well-balanced and buoyant property market.

However, it also in part reflects a rising effective transfer duty rate due to no recent adjustments for property inflation



bracket creep. Such a bracket creep effect also applies to personal income tax revenue, where double-digit year-on-year growth of 15% as at January is well out of line with wage bill growth hovering between 8 and 9% late last year.

This strong growth is largely the result of raising of the effective tax rate at last year's budget, achieved through not fully adjusting tax brackets for inflation bracket creep. This year's budget brings "more of the same. Therefore, fiscal policy is currently mildly constraining on residential property purchasing power via both transfer duty and income tax bracket creep

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