BetterBond

PROPERTY BRIEF

JAN 2025

HIGHLIGHTS

6.6%

YOY increase in the number of home loan applications

8.1%

YOY increase in home loans granted for all buyers

4.5%

YOY increase in the average home price for FTBs

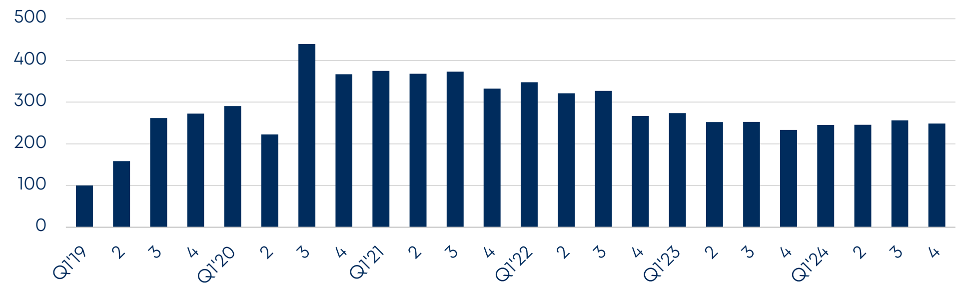
JHB SOUTH EAST

Number 1 ranking for home loans granted

1 BetterBond index of home loan applications

Despite a slight dip in the number of home loan applications during December, last year witnessed a turning point in the downward trend of home loan activity, with YOY growth in the BetterBond home loan index of 6.6% – substantially higher than the current inflation rate of 2.9% **(figure 1).** The index trend since 2019 confirms the negligible negative effect of the Covid lockdowns, with a sharp recovery in home loan applications within merely one quarter. In contrast, the restrictive monetary policy that kicked in during 2022 took the wind out of the sails of the residential property market, with the Q4 home loan index still 28% shy of the reading in Q1 2022. With interest rates likely to continue declining during 2025, the prospects of a new, sustained growth phase in the housing market is on the cards.

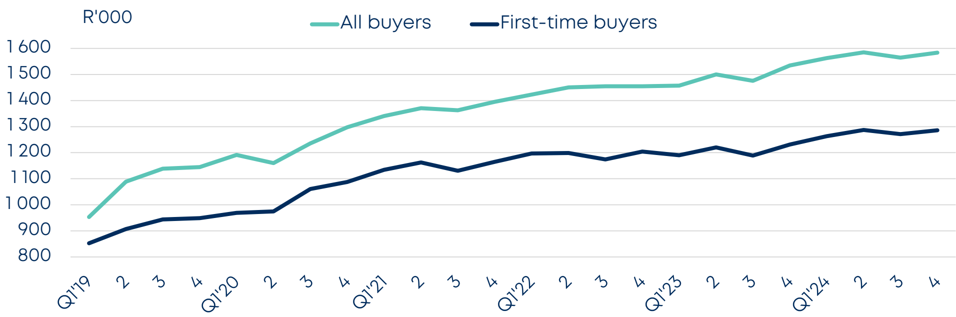
FIGURE 1



2 Average home purchase price

Two successive declines of 25 basis points in the prime lending rate towards the end of 2024 assisted a marginal rise in average home prices during 2024 **(figure 2)**. During Q4 2024, average home prices increased by 1.2% QOQ for first-time buyers and repeat buyers alike. Compared to Q4 2024, the increases were 3.2% for all buyers and 4.5% for first-time buyers, both of which managed to beat inflation. In real terms, house prices remain at a discount to those that existed before the relentless rise in interest rates that commenced at the end of 2021. Compared to Q4 2019 (pre-Covid), however, the average house price for all buyers has increased by 9.5% in real terms and by 38.4% in nominal terms – a clear sign of the investment potential in real estate. Any further lowering of interest rates will continue to squeeze the current buyers' market.

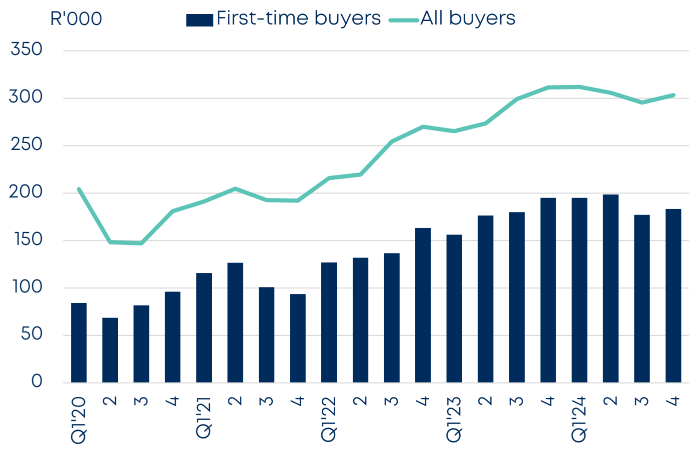
FIGURE 2



3 Average deposit for home purchase

The lowering of the average deposits required for access to home loans that occurred in Q3 2024 was halted during Q4, with increases of 2.7% and 3.4%, respectively, for all buyers and for first-time buyers **(figure 3)**. Fortunately, the YOY declining trend in the average deposit requirement remains intact, with first-time buyers now having to raise 6% less to qualify for a home loan. The lengthy presence of a rate-hiking cycle that took the prime rate to a 14-year high has predictably led to more caution among banks, with the current average deposit for all homebuyers 58% higher than three years ago. The slight uptick in average deposits at the end of last year is not surprising, as traditional year-end bonuses serve to boost the cash flow of many prospective homebuyers.

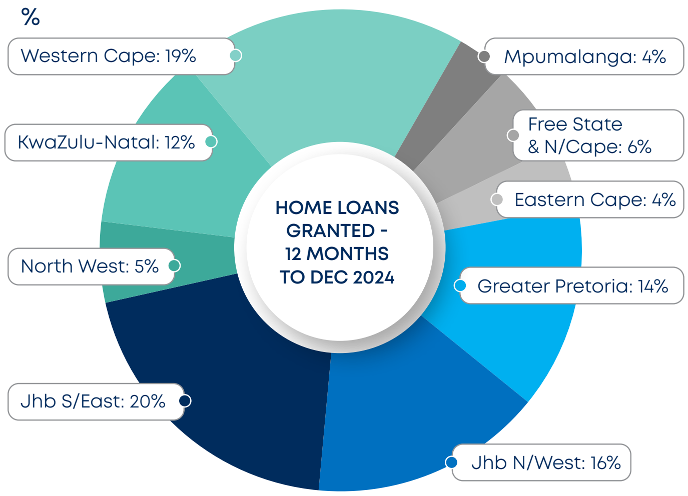
FIGURE 3



4 Regional composition of home loans granted – all buyers (12 months to Dec 2024)

During 2023, no region in the country escaped the negative impact of a combination of record-high interest rates and sharp increases in the deposits required for home loans, with double-digit YOY declines having been recorded for home loans granted. Fortunately, the tide turned decisively during 2024, with an increase of 8.1% in the total number of home loans granted. In the process, a shake-up has occurred among the regional rankings. The number two region, Johannesburg North West, has slipped to third position, swapping places with the Western Cape, while Johannesburg South East has consolidated its position at the top **(figure 4)**. The smaller regions of the Eastern Cape and North West are still battling to get back to 2022 levels, while the Free State & Northern Cape region recorded the highest YOY gain in loans granted, namely 36%.

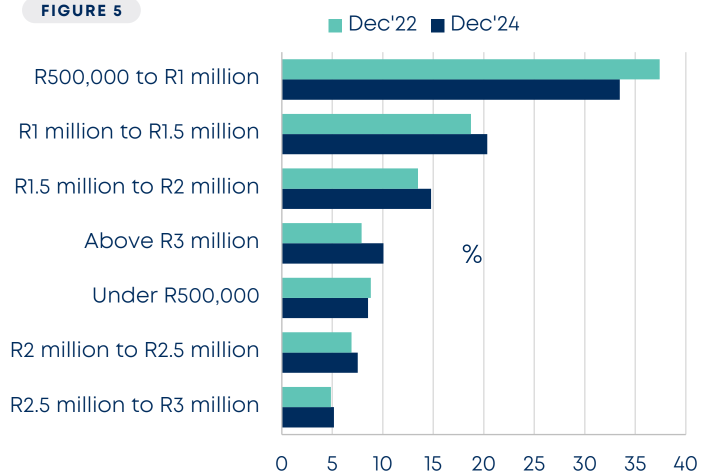
FIGURE 4



5 Percentage home loans granted per home price bracket (12 months to Dec 2022 & 2024)

The two lowest home price brackets (below R1 million) were hit the hardest by the high interest rates that have existed since mid-2022 **(figure 5)**. During the 12 months to the end of December, the share of the number of approved home loans in the house price category below R500,000 declined by 3.2%, while the price category between R500,000 and R1 million declined by 10.5%. The price categories that correspond with average house prices for first-time buyers and for repeat buyers both increased their share of total home loans granted, but the strongest relative gain was evident in the highest price bracket, namely above R3 million. This trend corresponds to some extent with the robust residential property market in the Western Cape, where average house prices are the highest of any region.

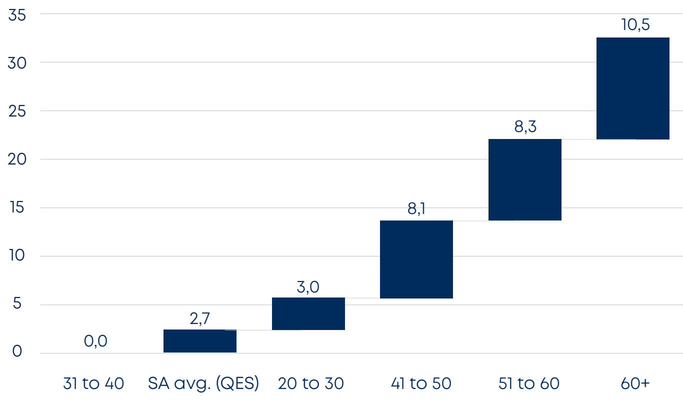
FIGURE 5



6 YOY change in average monthly homebuyer incomes (12 months to Dec 2024)

During 2024, the average incomes earned by prospective homebuyers continued to increase at a healthy pace, except for the age group between 31 and 40 years **(figure 6)**, which remained static. A feature of the homebuyer income data for 2024 is the significant shift in fortunes towards the two eldest groups, namely 51 to 60 years and over 60. Compared to mid-2024, the latter age group has jumped from ranking number four in mid-2024 to pole position, while the 51- to 60-year age group has moved up from number three to number two. The latter age group nevertheless remains the one with the highest average salary, namely R87,000, which is more than double the average income of the youngest age group – demonstrating the value of vocational experience. During Q4 2024, the average income of first-time buyers was R46,000.

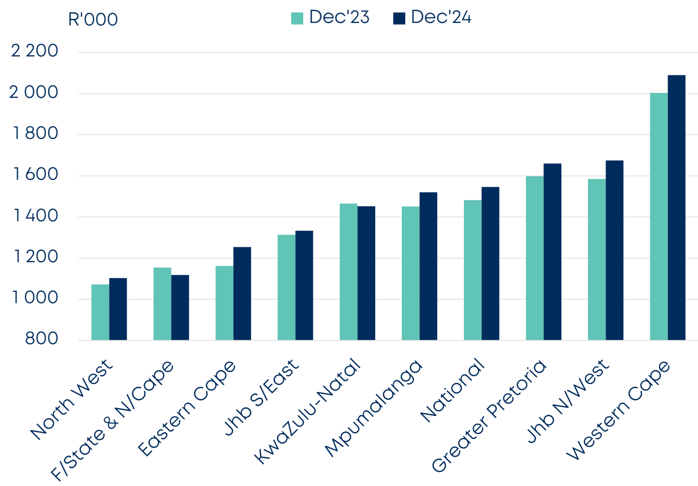
FIGURE 6



7 Regional composition of average home price (12 months to Dec 2023 & 2024)

Following a disappointing performance in 2023 (from a seller's perspective), when average house prices declined in real terms in six of the regions covered by BetterBond, 2024 marked a significant improvement. The average house price for the country as a whole increased by 4.3% in nominal terms (and by 1.4% in real terms). Last year also witnessed a significant divergence in average regional price trends **(figure 7)**, with two provinces failing to record an increase – KwaZulu-Natal and Free State/Northern Cape. The star of the show was the Eastern Cape, with an increase of 7.9%, followed by Johannesburg North West at 5.7% and Mpumalanga at a 4.8% increase. With employment having increased during the second half of 2024 and interest rates likely to decline consistently during 2025, increases in average home prices can realistically be expected during the new year.

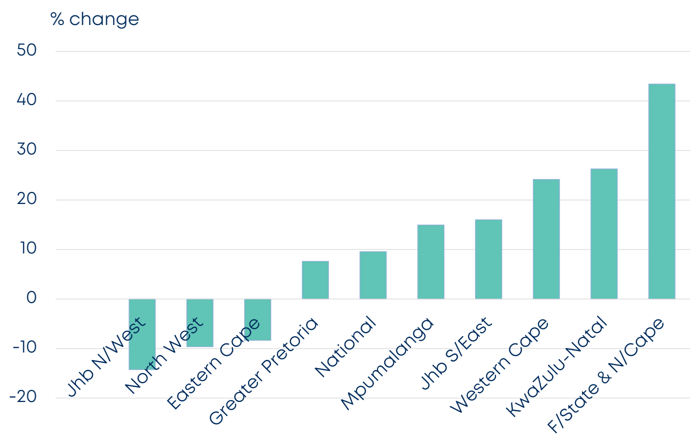
FIGURE 7



8 Percentage change in home loans granted to first-time buyers (2023 to 2024)

First-time buyers developed an improved appetite for residential properties in 2024, with the number of home loans granted for the country as a whole rising by 9.6% **(figure 8)**. During last year, a characteristic of homebuying activity in this group was the large divergence in regional preferences, with the relatively sparsely populated region of the Free State and Northern Cape coming out tops in terms of growth in home loans granted, recording a YOY increase of 43.4%. Four other regions also managed to record double-digit YOY increases in home loans granted, namely KwaZulu-Natal, the Western Cape, Johannesburg South East, and Mpumalanga. Johannesburg's North-Western suburbs appear to have become less attractive to first-time buyers, with a decline of 14.2% in the number of home loans granted to this group.

FIGURE 8



HIGHLIGHTS

23%

QOQ increase in value of buildings completed (Q3 2024)

10%

Increase in the SACCI confidence index since May 2024

Economist's notes

Dr Roelof Botha | Economist

Affiliated with the Gordon Institute of Business Science (GIBS), Dr Botha is a seasoned commentator on economic issues, long-time advisor to the Optimum Investment Group and Currencies Direct, and former advisor to the National Treasury.

Several key economic indicators are pointing to prospects for substantially higher economic growth in 2025. The most recent Afrimat Construction Index is on an upward trajectory, with an exceptionally strong expansion for the following indicators during Q3 2024 (QOQ rates of increase in parentheses):

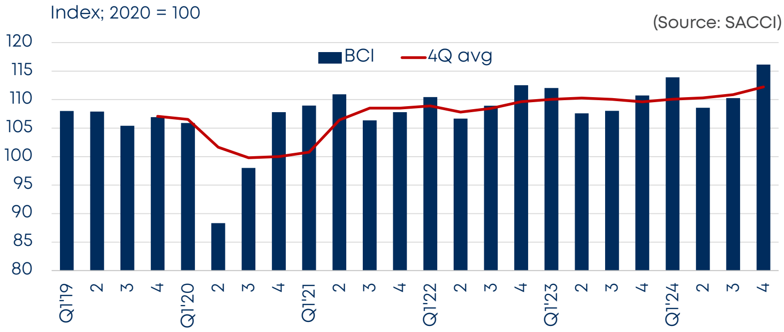
- Value of buildings completed in the metros and larger municipalities (23.3%)
- Employment in construction (14.6%)
- Value of building material sales (5.9%)

Other indicators that recorded meaningful improvements on a QOQ basis were the value of building plans passed, the volume of building materials produced and remuneration of construction sector employees.

Business confidence continues to improve

During November, the Business Confidence Index (BCI), compiled by the SA Chamber of Commerce and Industry (SACCI), continued with an upward trend that kicked in during the last quarter of 2023 **(figure 9)**. The November reading of 118.1 was the highest since the damage inflicted on the country's infrastructure during state capture became visible. Business confidence has improved in leaps and bounds since Q3 2024, with the BCI improving by more than 10% since the May elections.

FIGURE 9 SA Chamber of Commerce & Industry Business Confidence Index (BCI)



It is clear that the broader political representation in the national government has facilitated a more positive assessment of economic prospects by the private sector. Inward bound tourism and the higher volume of merchandise exports had a notable positive effect on the November reading of the BCI.

No doubt the prospect of zero load shedding in 2025 will serve to further enhance business confidence, a scenario that seems realistic now that the Koeberg nuclear power plant's unit 2 has been connected to the national grid. Following a significant refurbishment of the unit, Eskom announced the welcome addition of 930 MW of power to the grid on 31 December.

Producer inflation at historic low

Year-on-year price increases at the factory gate are at their lowest levels since the Reserve Bank started publishing this data in its current format (from 2009). In November, the producer price index (PPI) recorded a negative reading for the second consecutive month – confirming the need for shifting the country's economic policy priority from curbing inflation to encouraging demand via lowering the cost of credit and of capital investment.

Consumer prices are also in check, with the November reading of the consumer price index (CPI) remaining below the bottom level of the Reserve Bank's target range for the second month running. Other reasons for the monetary policy authorities to shift the focus to stimulating economic growth include the fact that South Africa currently has the highest real commercial lending rate of any stable middle- to high-income country in the world. The real prime rate is currently at 8.5%, compared to real lending rates of 3% in France, 2% in Australia, and 1.1% in Chile.

The dramatic decline in both the PPI and the CPI has probably guaranteed further declines in lending rates early in 2025. Lower interest rates, albeit only marginally so, should serve to stimulate the demand for residential properties, while also boosting GDP growth in 2025.

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