BetterBond PROPERTY BRIEF

JUNE 2025

HIGHLIGHTS

4%

YOY increase in home loan applications

R1.6 million

Average house price in April and May

2.8%

Consumer price index in April

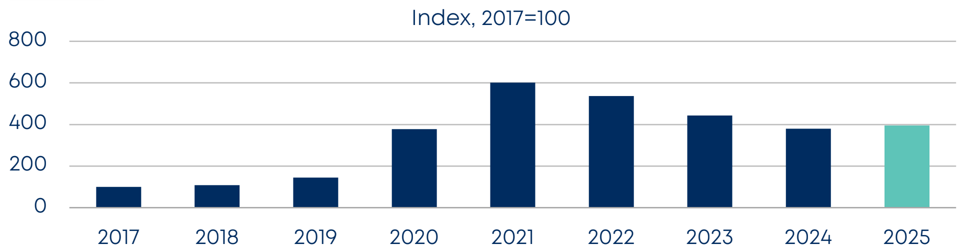
8.4%

Increase in share of home loans for house prices above R3 million

1 BetterBond index of home loan applications

During the 12 months to May, homebuying activity improved marginally, with a YOY increase of 4% in the number of home loan applications **(figure 1)**. Any doubts over the negative effect of high interest rates on the residential property market are easily dispelled by taking a glance at the data on home loan applications. Following an explosive average annual growth trend of 77% in home loan applications for the 12-month periods between 2018 and 2021 (ending in May), the BetterBond index of home loan applications started a fairly sharp declining trend, due to the relentless rise in the prime rate to its highest level in 15 years. The index for the 12 months ending in May 2025 is now 34% lower than four years ago. Fortunately, the monetary authorities resumed the rate-cutting cycle towards the end of May, which is bound to lead to an acceleration of property market activity during the second half of 2025. An exceptionally strong rand exchange rate is expected to aid the switch to a more accommodating monetary policy during the rest of 2025.

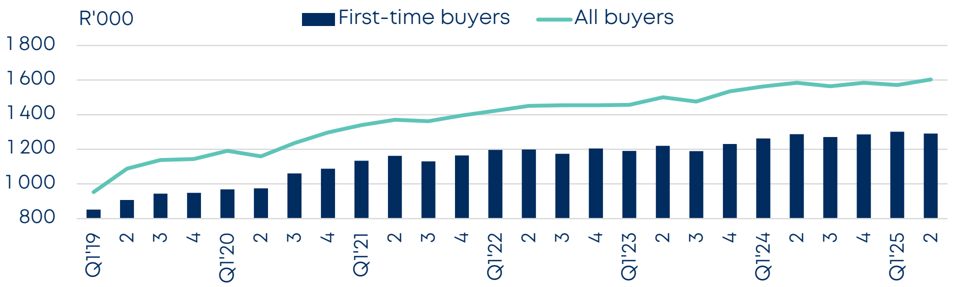
FIGURE 1



2 Average home purchase price

During April and May, the average house price for all buyers reached a new record high of R1.6 million, representing a YOY increase of 2.1%, marginally below the latest consumer price index reading of 2.8%. For first-time buyers (FTBs), the average dropped by 0.8% from the level achieved during Q1 2025 **(figure 2)**. These trends confirm the continued presence of a buyer's market for residential properties, especially against the background of declines of 4.6% and 7%, respectively, for real house prices since Q1 2022. During this period interest rates were marching towards a new record high, and the debt service costs as a percentage of household income moved rapidly from 6.7% to 9.1%. Fortunately, the latter has started to decline and is now 8.9%, which has assisted with the stabilisation of homebuying activity. The decision by the monetary authorities to resume the rate-cutting cycle late in May is likely to lead to stronger growth in house prices during Q3 2025.

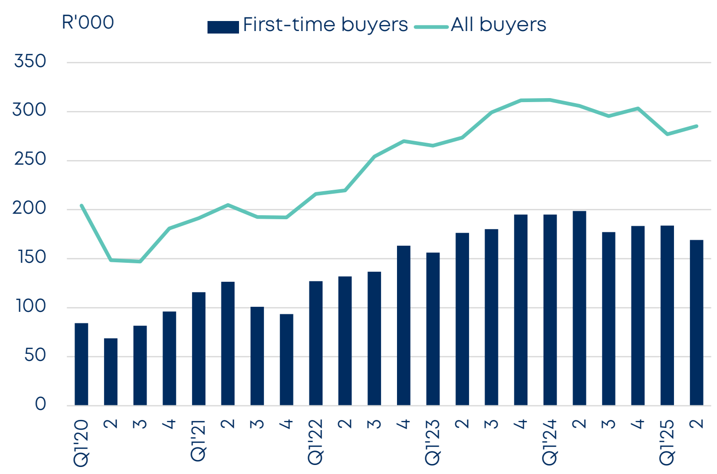
FIGURE 2



3 Average deposit for home purchase

One of the most encouraging features of the latest BetterBond home loan data is the declining trend for average deposits required for home loan approval **(figure 3)**. After briefly breaching the R300,000 mark for the average deposit required by all buyers since the end of 2023, this value dipped to an average of R285,000 for April and May 2025. The news is even better for FTBs, with a decline from just below R200,000 a year ago to an average of R169,000 for the past two months. The YOY declines in the average deposits for all buyers and for FTBs are 6.7% and 14.8%, respectively – a most welcome development. These trends are in line with some of the findings of a recent BDO report on the South African banking sector, which found that banks are demonstrating effective credit risk management as evidenced by a deceleration in impairment growth.

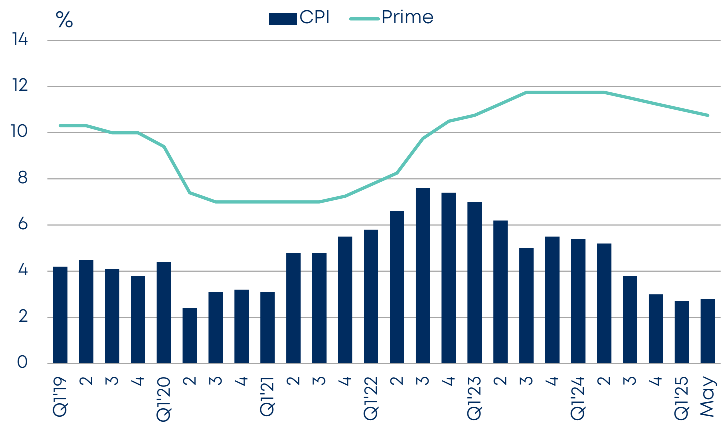
FIGURE 3



4 Prime lending rate and the consumer price index (CPI)

After halting the rate-cutting cycle in March, the Reserve Bank's Monetary Policy Committee (MPC) lowered the repo rate by 25 basis points at its May policy meeting. The prime lending rate of commercial banks now stands at 10.75%, which is 75 basis points higher than prior to the Covid-19 pandemic, when the consumer price index (CPI) was around 4.4% – virtually on the nose of the mid-point of the inflation target range (3% to 6%). The CPI is currently below the bottom of the inflation target range (2.8%) and has been below or within the target range for seven successive quarters **(figure 4)**. The property sector will welcome the news of a rate cut, as the BetterBond index of home loan applications remains lower than before the restrictive monetary policy kicked in at the end of 2021.

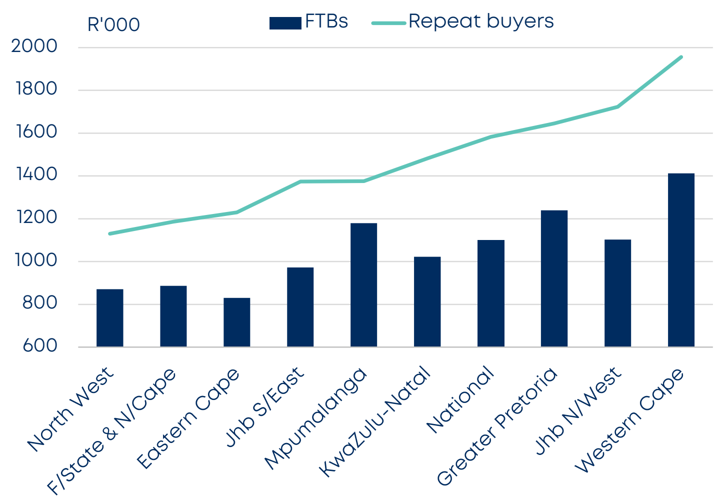
FIGURE 4



5 Regional composition of average bond value (12 months to May 2025)

A significant gap exists between the average home loan value for FTBs and repeat buyers. For the country, this difference amounted to R483,000 during the 12 months ended May 2025 **(figure 5)**. Although the Western Cape has the highest average loan value for repeat buyers, at R1.96 million, FTBs in the suburbs of North-West Johannesburg enjoy the highest discount relative to repeat buyers, namely R620,000. Rather predictably, the Western Cape also has the highest average loan value for FTBs, namely just more than R1.4 million. Greater Pretoria is in second place, with an average value of R1.24 million, followed by Mpumalanga at R1.18 million. As a rule, the average income of a first-time buyer is considerably lower than for the average repeat buyer, which serves as an explanation for these variances in home loan values.

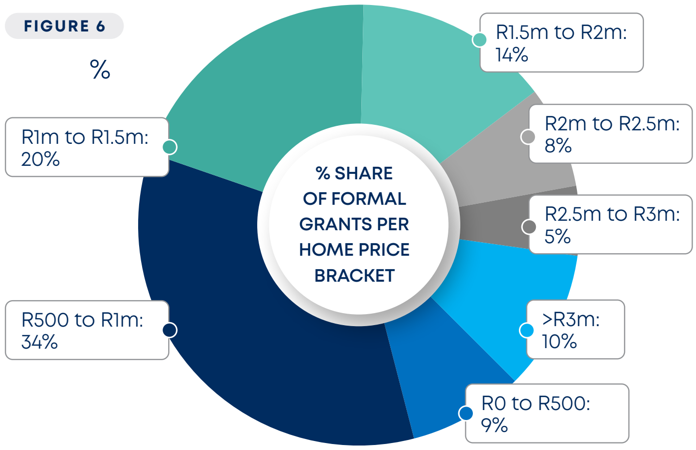
FIGURE 5



6 Percentage share of formal grants per home price bracket (12 months to May 2025)

The record high interest rates of the past three years have exerted a more pronounced negative effect on lower income groups. Proof is provided by the fact that the share of home loans awarded to the three lowest home price groups (all below R1.5 million) have continued to decline, while the share of home loans for homes priced at more than R1.5 million have continued to increase **(figure 6)**. In addition, an exponential effect is visible at both ends of the scale, with the top home price bracket (above R3 million) enjoying a YOY increase in its share of home loans awarded of 8.4% (during the 12 months ended May 2025). At the other end of the scale, the share of loans for homes priced at below R500,000 has diminished by 7.2%.

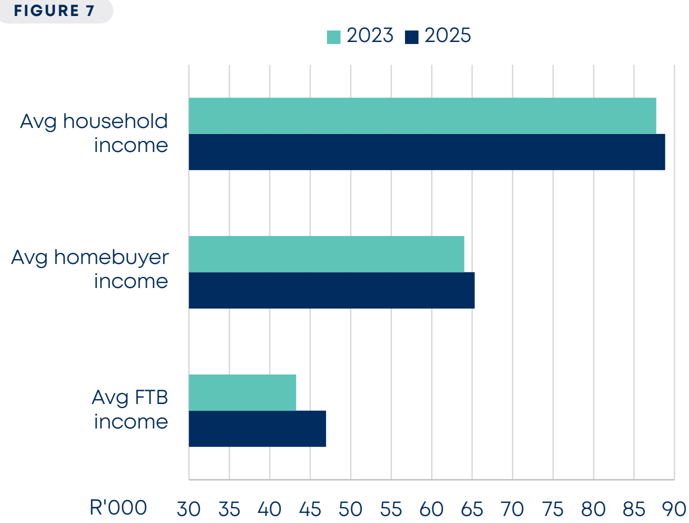
FIGURE 6



7 Average monthly homebuyer incomes (12 months to May 2023/25)

Over the past three years, consistent increases in average incomes earned by prospective homebuyers have assisted in softening the blow to the residential property market caused by high interest rates. During the 24 months to May 2025, the average income of all prospective homebuyers increased by 2% but for FTBs, the increase was considerably higher, namely 8% **(figure 7)**. The value of the average FTB monthly income during the past 12 months was R47,000 and for all buyers it was R65,000, which is considerably higher than the average monthly salary for the formal sectors of the economy of just above R28,000. For FTBs, the increase has been even more pronounced, namely 21%. In the process, the differential between the incomes of all buyers and FTBs has shrunk from 54% to 37%. Although total household incomes have declined marginally in per capita terms over the past year, many people in the upper income levels have remained in the market for homebuying.

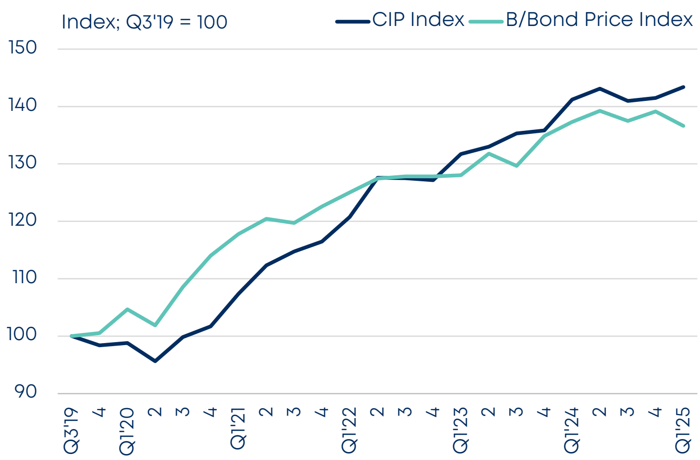
FIGURE 7



8 Construction input price index (CIPI) and the BetterBond home price index

Between the end of 2019 and Q1 2022, average home prices were rising at a marginally higher rate than building costs. Parity in the annualised rate of change in the construction input price index (CIPI) and the BetterBond home price index was achieved in Q2 2022, due to the negative effect of high interest rates on the residential property market **(figure 8)**. Since then, the trend has been reversed, with both the CIPI and the BetterBond home price index increasing at lower rates than the consumer price index (CPI). At the end of Q1 2025, the YOY increase in house prices was marginally negative, with the CIPI increasing by merely 1.5%, which is negative in real terms. Looking ahead, the depressed state of new residential building plans passed in most of the country's larger municipalities is likely to lead to a meaningful recovery of house prices as soon as demand recovers on the back of lower interest rates.

FIGURE 8



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.

HIGHLIGHTS

ZAR▲ 3.1%

Strengthening of the rand in May

R351 billion

Retail sales in Q1 2025

As predicted in the May edition of the BetterBond Property Brief, the monetary authorities have resumed the rate-cutting cycle, with a lowering of the repo rate by 25 basis points. Several economists and mainstream media publications were recommending a cut of 50 basis points but, unfortunately, only one member of the Monetary Policy Committee (MPC) voted for this option. Nevertheless, it seems that the MPC has become more aware of South Africa's most pressing economic policy objective, namely, to stimulate growth and employment creation.

To shed some light on what may be expected at the July MPC meeting, it is useful to reflect on the sterling performance of the rand. In its regular monetary policy statements, the MPC invariably addresses the issue of currency weakness, which leads to higher rand-denominated imports and adds to inflationary pressures – both directly and indirectly via the higher cost of intermediary inputs in manufacturing and other industries.

Rand in pole position

During May, most key currencies took advantage of the lethargic performance of the US dollar, with the bulk of the 16 currencies monitored by Currencies Direct strengthening against the greenback. The South African rand was the star performer during May, leaving all other emerging markets in its wake. Compared to the trade-weighted average appreciation of 0.7% against the dollar by a core group of 11 key emerging market currencies, the rand gained 3.1%.

Other good news on the forex front is the relentless rise in the value of the real effective exchange rate (REER) of the rand, which is at its highest level in 14 years (the REER is the trade-weighted average exchange rate against the country's 20 largest trading partners, adjusted for inflation differentials - see figure 9).

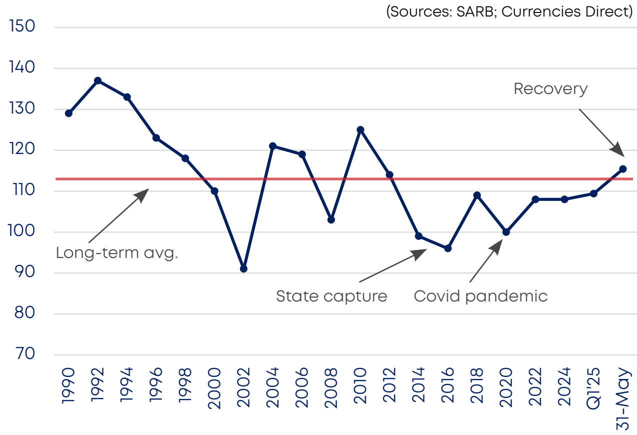
With both the nominal and real exchange rates of the rand exhibiting exceptional strength, it is clear that domestic inflation is not being threatened by currency weakness, which should lead to further interest rate cuts in 2025.

FIGURE 9

Real effective exchange rate (REER) of the rand – 31 May

Foreign currency unit/R; Index; 2020 = 100

(Sources: SARB; Currencies Direct)



Positive news from S&P Global

The Purchasing Managers' Index (PMI) for South Africa's private sector, compiled by S&P Global, rose to the neutral mark of 50 in April, after spending four consecutive months in negative territory. Increases in new orders, output and employment are driving the recovery. Further good news from S&P Global Ratings is the affirmation of South Africa's long-term foreign and local currency debt ratings, while also maintaining its positive outlook for the country's finances. The National Treasury would have been delighted at the latter decision, as it provides a *de facto* stamp of approval for the 2025 National Budget, which has finally been tabled in Parliament (at the third attempt).

Bumper first quarter for retailers

Retail trade sales have been the shining light of an otherwise disappointing macroeconomic performance during Q1 2025, posting a real year-on-year increase in sales values of 4.1%. In value terms, South African shoppers spent a whopping R351 billion between January and March, with the four-quarter average reaching an all-time record high of R357.3 billion. On a sobering note, it is clear that retail sales are playing catch-up, as the annual average real increase since Q1 2020 is merely 0.6%.

Economist
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