BetterBond
PROPERTY BRIEF

AUG 2024

HIGHLIGHTS

R1.48 million

Average home purchase price for buyers aged 31 to 40 years

R1.57 million

Average home purchase price for all buyers

52%

Gauteng's share of total home loans granted

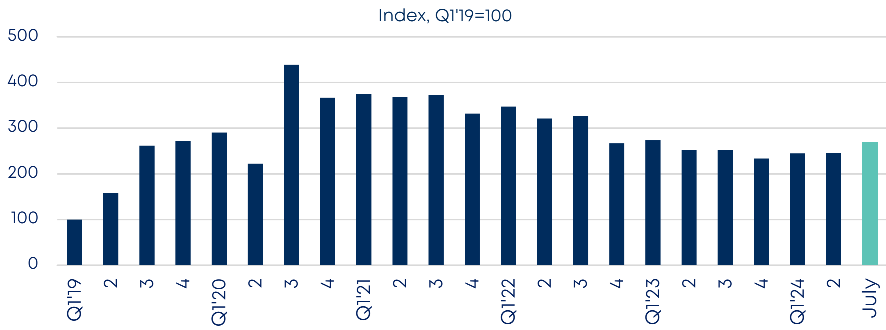
29.4%

Increase in loans granted for building purposes

1 BetterBond index of home loan applications

The encouraging and swift recovery in property market activity after the relaxation of the Covid lockdowns did not last long. South Africa did not escape the higher global inflation that was caused mainly by a 700% increase in ocean freight charges and a 270% increase in the price of Brent crude oil. Monetary policy became restrictive, taking South Africa's prime overdraft lending rate from 7% to 11.75%, its highest level in 14 years. Predictably, the sharp increase in debt-servicing costs led to a decline in the number of new home loan applications, with the relevant BetterBond index having declined by 19% since the repo rate started to increase. Fortunately, the consumer price index has been comfortably within the Reserve Bank's target range for a year and the anticipation of an imminent lowering of interest rates has now seen a 10.3% YOY increase in home loan applications **(figure 1)**.

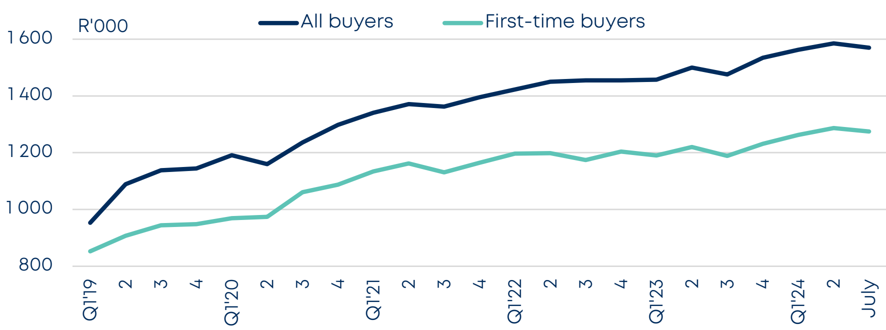
FIGURE 1



2 Average home purchase price

Following a nifty YOY increase of 5.6% in the average home purchase price for all buyers during Q2 2024, July's average price was virtually static **(figure 2)**, most likely due to prospective buyers waiting for a relaxation of interest rates. During Q1 2022, when the effect of the rising interest rate cycle started to kick in, home prices for first-time buyers was R226,000 less than the overall average. This discount has now increased to R295,000. It is encouraging to note that in July, the YOY increase in the average home purchase price for all buyers amounted to 7.5%, considerably higher than the current inflation rate of 5.1%.

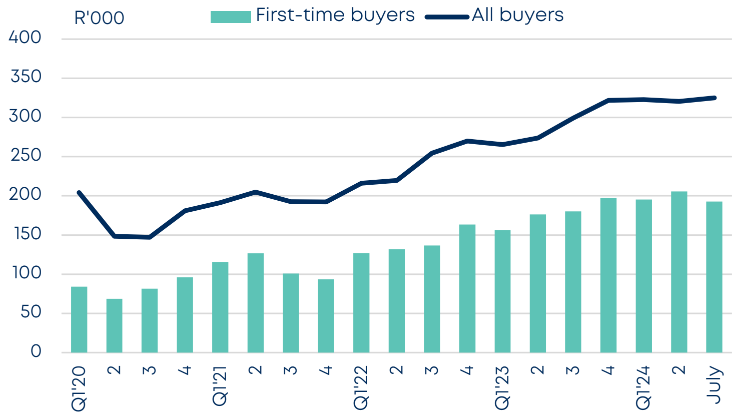
FIGURE 2



3 Average deposit for home purchase

The relentless increase in deposits required for access to home loans continued in July, with a new record high of R325,000, on average for all buyers **(figure 3)**. Fortunately for first-time buyers, the average deposit for home purchases declined marginally from R206,000 in Q2 to R193,000 in July. The YOY increase in the average deposit for all buyers amounted to more than 11% in July, while the increase over the previous month was a whopping 16%. This is a clear reflection of continued nervousness among lending institutions over the financial disposition of prospective homebuyers. Any lowering of interest rates, which may become a reality in September, is bound to start reversing the upward trend in the deposits required for home purchases.

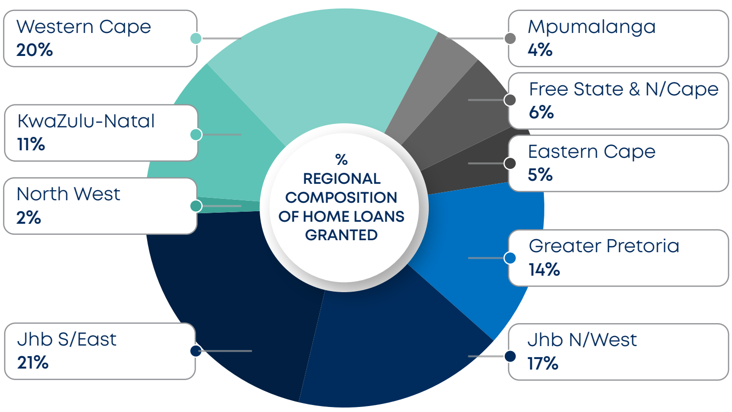
FIGURE 3



4 Regional composition of home loans granted (12 months to July 2024)

During the 12 months to July 2024, Gauteng was once more the dominant region for residential property market activity, with Greater Pretoria and Johannesburg accounting for 52% of home loans granted **(figure 4)**. The Western Cape also remained active, with a 20% share of the market for new home loans, followed by KwaZulu-Natal with 11%. Urbanisation remains an unstoppable global phenomenon and South Africa is no exception, with metropolitan areas acting as a magnet for job seekers and students that flock to the array of educational institutions that are absent in rural areas.

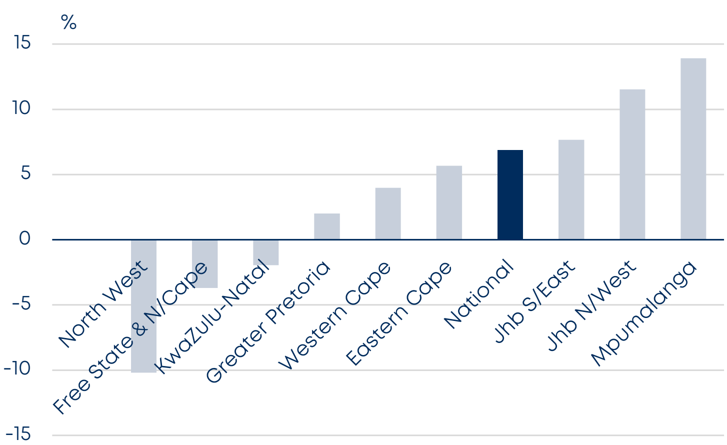
FIGURE 4



5 Percentage change in average home purchase price by region (12 months to July 2023 & 2024)

A large degree of regional home price volatility has been a feature of the home price data during the 12 months to July 2024, with a range of more than 24 percentage points between the best and worst performing regions **(figure 5)**. Although only three of the nine regions covered by BetterBond experienced declining home prices, only four of them managed to record price increases in real terms (above inflation). Mpumalanga won the gold medal for this indicator, followed by the two Johannesburg regions. North West suffered a double-digit decline in the average price for homes sold during the past 12 months, most probably due to relatively depressed prices for several of the region's export commodities in the mining sector, as well as the recent drought, which has exerted a negative impact on the agriculture value chain.

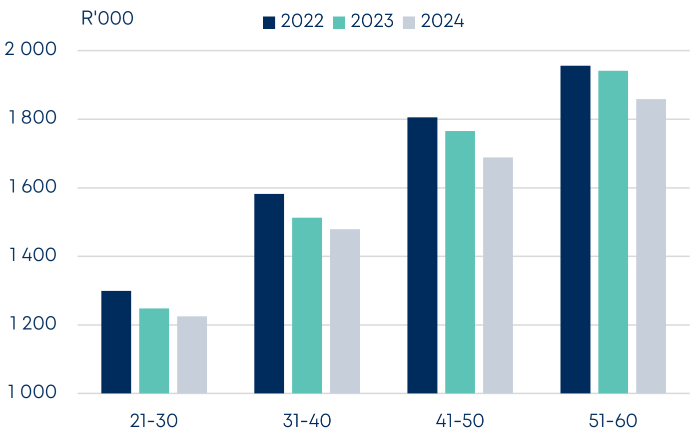
FIGURE 5



6 Average home purchase price by age group at constant 2024 prices (12 months to July)

In real terms, average home purchase prices continued to decline during the 12 months to July 2024, with homes purchased by people in the age group 41 to 50 years taking the biggest hit **(figure 6)**. Against the background of very high interest rates, it is no surprise that nominal price increases for homes purchased by those in the youngest age group (21 to 30 years) fared the best, recording an average YOY rate of increase of 3% (minus 1.9% in real terms). Residential property prices are bound to decline in real terms when interest rates are at a 14-year high and when the real benchmark lending rate is one of the highest in the world. Fortunately, the sharp drop in the consumer price index over the past year is bound to start reversing this trend during Q4 2024.

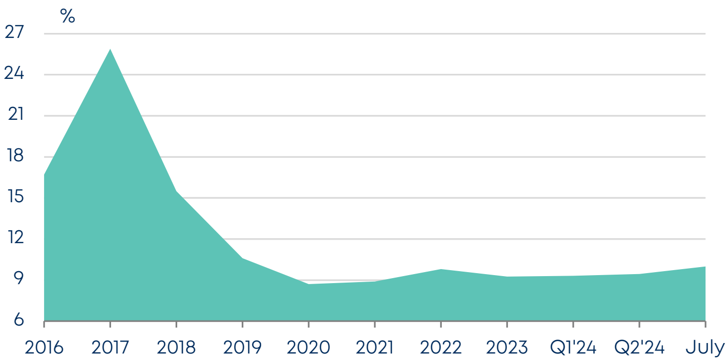
FIGURE 6



7 Percentage of loans granted for building purposes

After peaking at a level of almost 26% during 2017 **(figure 7)**, the percentage of home loans granted for building purposes declined to a low of 7.7% in March 2023. This declining trend seems to have been halted, with the July ratio standing at 10%. This is an increase of more than 29.4% over the March 2023 figure, but still quite low by historical standards. Unless new residential property developments start taking off soon, the imminent supply shortages may become even worse during 2025, when lower interest rates should start attracting homebuyers back again.

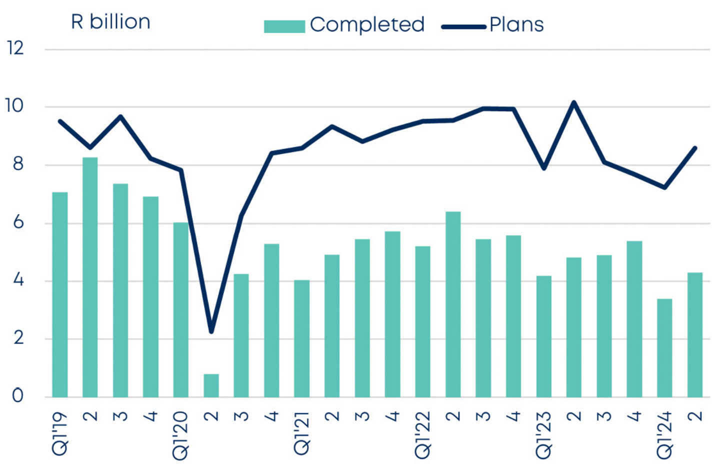
FIGURE 7



8 Average monthly value of building plans passed and buildings completed (R billion)

One of the most encouraging aspects related to the property market in general during Q2 2024 was the QOQ increase of almost 19% in the value of building plans passed by the metros and larger municipalities in South Africa **(figure 8)**. Although the QOQ increase in the value of buildings completed was even higher (27%), this value of R4.3 billion was exactly half of the value of building plans passed. The YOY declines of 15.4% and 10.5%, respectively, for plans and completions, nevertheless spells trouble ahead for the supply-side of the residential property market. Once interest rates start to decline, which could happen quite soon, a shortage of properties is bound to develop, which is highly likely to translate into significant price increases from Q4 2024 onwards.

FIGURE 8



Economist's notes

ZAR/USD 5.4%

Strengthening of the rand/US dollar exchange rate between 1 March & 31 July

PMI 69.4

July's Absa PMI reading for business conditions in six months' time (50 = neutral)

Dr Roelof Botha | Economist

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Monetary policy intransigence remains

During July, the Reserve Bank's Monetary Policy Committee (MPC) dashed the hopes of millions of indebted South African households and businesses by maintaining the highest lending rate in 14 years. In the process of the refusal to depart from an overly restrictive monetary policy stance, the ratio of debt costs to disposable income has now reached a level of 9.2% – the highest in 15 years.

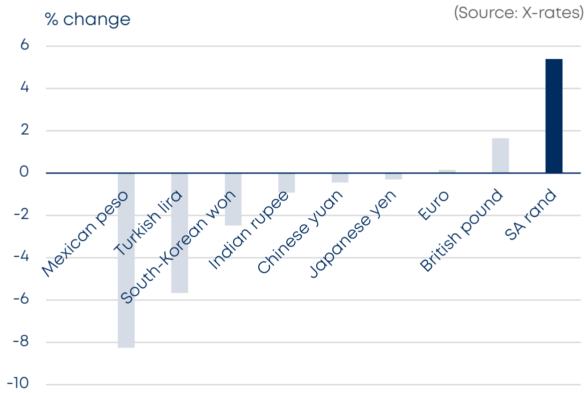
It is no surprise, therefore, that an array of key indicators of economic activity (in real terms) remain in a declining mode. These include the Afrimat Construction Index, retail trade sales, the Altron Fintech Household Resilience Index and the YOY value of new building plans passed.

The apparent deviation by the MPC from a flexible approach towards the inflation target range of 3% to 6% is particularly concerning. The consumer price index (CPI) has been comfortably within the target range for over a year, but the MPC continues to cling to a policy approach that is inflicting considerable harm on our economy. Fortunately, inflation may soon edge closer to the mid-point of the target range, aided by the resilience of the rand exchange rate, which was the best-performing currency in the world against the US dollar over the past five months, strengthening by 5.4% **(figure 9)**.

The chances of an easing of lending rates happening sooner rather than later have also improved for other reasons, mainly because of further declines in the producer price index (PPI) and the food price index, both of which act as leading indicators of the consumer price index (CPI). A lowering of the repo rate is firmly on the cards in September.

Selected currency movements against the US dollar between 1 March and 31 July

FIGURE 9



New cabinet to prioritise growth

The appointment of South Africa's first cabinet under the new government of national unity has been met with overwhelming positive response by business leaders, while also receiving a thumbs-up from global capital markets – mainly due to its declared commitment to market-friendly policies.

In the economic cluster of the cabinet, the reappointment of Enoch Godongwana as Finance Minister and David Masondo as deputy was most welcome, especially due to the steadfast way National Treasury has been managing the country's public finances. Visible signs of the new policy approach have appeared, with the new Minister of Transport announcing the formation of a private sector participation (PSP) unit, aimed at harnessing private sector support for repairing and expanding the country's transport infrastructure.

New life in Absa PMI

The Absa Purchasing Managers' Index (PMI), compiled by the Bureau for Economic Research at Stellenbosch University, has started Q3 2024 on a solid footing, returning to well above the neutral 50 index point level. Q1 and Q2 2024 were disappointing, mainly due to a combination of high interest rates and political uncertainty over the national election outcome.

The increase in the business activity index was supported by new sales orders rising by an impressive 17.5 points to a level of 55.4. It is particularly encouraging that respondents to the PMI survey were notably more optimistic about business conditions in six months' time, with this sub-index increasing to 69.4 points in July from 68.1 in June – reflecting the highest level of confidence about business conditions since early 2022.

Economist
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