BetterBond PROPERTY BRIEF

DEC 2024

HIGHLIGHTS

22.6%

YOY increase in home loan applications in Q4

50 basis points

Reduction in the prime rate since September

R1.28 million

Average home purchase price for first-time buyers

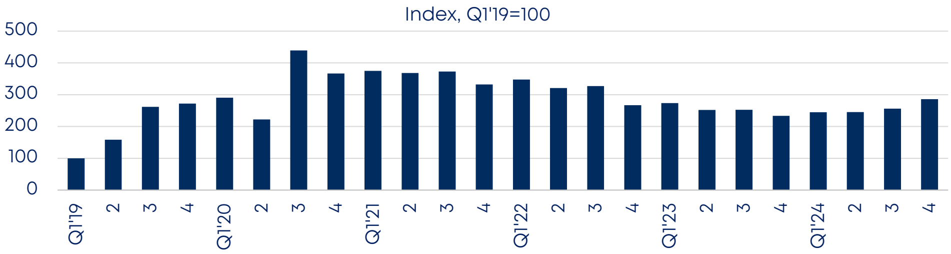
8.1%

Increase in average house price since Q4 2019 (pre-Covid)

1 BetterBond index of home loan applications

The declining trend in home loan activity seems to have turned the corner, with the average number of home loan applications during October and November increasing by 11.5% (QOQ) and by an impressive 22.6% YOY **(figure 1)**. It is particularly encouraging that the BetterBond home loan index was 5% higher during the first two months of Q4 2024 than Q4 2019, just before the sharp contraction induced by the Covid lockdowns. Following a sound recovery of home loan applications immediately after the lockdowns were lifted, the residential property market started feeling the pinch of a monetary policy approach with a singular focus on lowering inflation, despite the absence of any excess demand in the economy. The downturn in the BetterBond index of home loan applications lasted nine quarters, stabilised during the first half of 2024 and then started picking up on the anticipation of an imminent relaxation of the monetary policy. The prospects for a further recovery have been boosted by two successive repo rate declines of 25 basis points each.

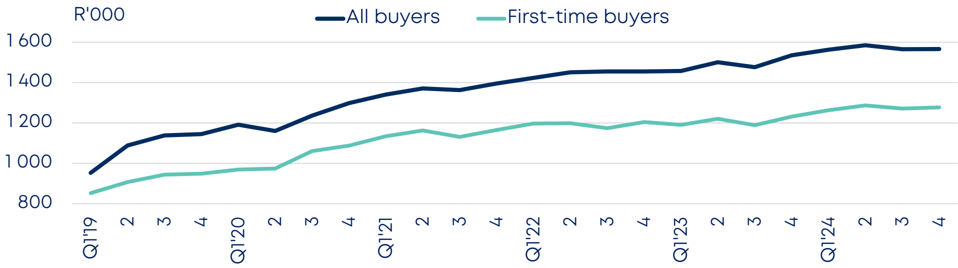
FIGURE 1



2 Average home purchase price

The drop in the prime lending rate of 25 basis points in November was not sufficient to create any significant upward momentum in house prices, but a measure of stability has been evident during October and November. The average house price for all buyers amounted to R1.57 million, virtually unchanged from the average price during Q3 2024 **(figure 2)**. The same trend occurred for first-time buyers (FTBs), with a marginal increase in the average house price of 0.5% to a level of R1.28 million. The YOY increases in house prices for all buyers remained below the latest rate of inflation, namely 2%. Although house prices are still lower in real terms than before the restrictive monetary policy kicked in, it is encouraging that the average purchase price has risen by 8.15 since Q4 2019 (pre-Covid). Interest rates are expected to drop further in 2025, which should provide some momentum to house price increases.

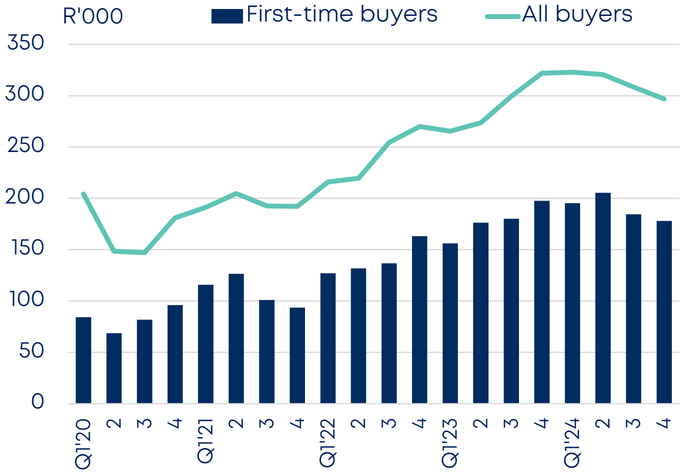
FIGURE 2



3 Average deposit for home purchase

The welcome lowering of the deposits required for access to home loans that occurred in Q3 2024 gained some traction during October and November, when the average amount required for all buyers dropped to below the R300,000 level for the first time since Q3 2023, with a QOQ decline of 3.8% for all buyers and a decline of 3.5% for FTBs **(figure 3)**. The YOY rates of decline in deposits for home loans are more impressive, namely 7.8% for all buyers and 10% for FTBs. Unfortunately, prospective homebuyers are still faced with the negative effect of the high interest rates over the past three years. For FTBs, the average deposit remains 90% higher than three years ago and for all buyers it is still 54% higher. Any further interest rate declines will almost certainly narrow the ratio between deposits and home purchase prices, a prospect that is likely to materialise in 2025.

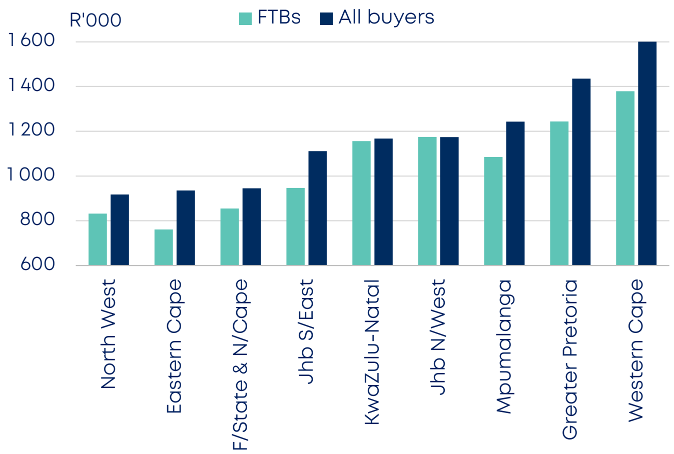
FIGURE 3



4 Regional composition of average bond value – all buyers and FTBs (12 months to Nov 2024)

For all buyers, a spread of 54% exists between the ratio of average bond values to the national average in the different regions. The Western Cape enjoys the highest average bond value, namely R1.6 million, with North-West, the Eastern Cape, Free State and the Northern Cape still not having breached the R1 million mark **(figure 4)**. The Eastern Cape has the largest differential between FTBs and repeat buyers, followed by Johannesburg's North-Western suburbs and KwaZulu-Natal. Five regions have managed to increase the value of average home loans granted over the past two years, with two having recorded double-digit growth, namely Johannesburg North-West and Mpumalanga.

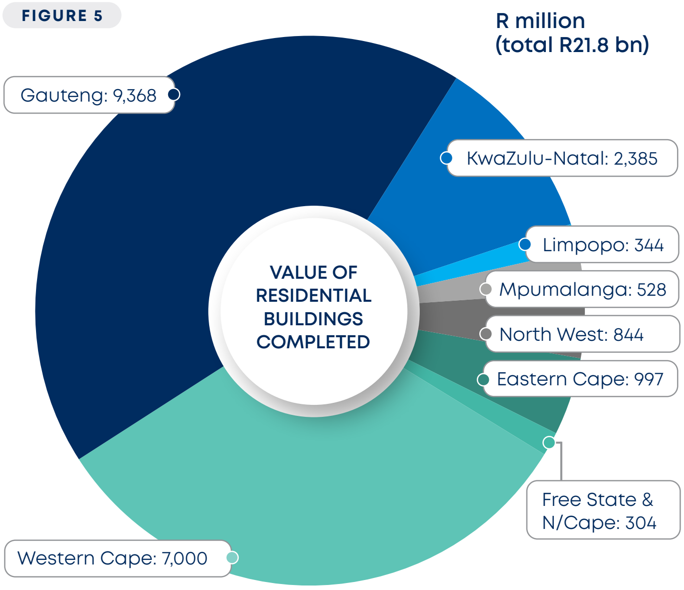
FIGURE 4



5 Value of residential buildings completed by province – Jan to Sep 2024

Gauteng and the Western Cape continue to dominate the residential property development market in South Africa, with the lion's share of houses and flats that have been built during the first three quarters of the year. Gauteng leads the pack with a share of 43%, followed by the Western Cape at 32% and KwaZulu-Natal in third place with a share of 11% **(figure 5)**. The presence of large manufacturing industries with diversified value chains constitutes one of the major reasons for high levels of property market activity in these provinces. They also house the country's largest metros and offer a substantial variety of educational opportunities at primary, secondary and tertiary level. With a growing number of highly skilled people now being able to work remotely, however, other provinces could also witness a higher future level of demand for houses from people that prefer a less congested urban environment.

FIGURE 5



(Source: Stats SA)

Economist's notes

HIGHLIGHTS

176,00

Number of new jobs in construction in Q3

11.25%

Prime lending rate at the end of November

2.8%

Consumer price index in October

205 basis point

Decline in the 10-year bond yield since April

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.

South Africa's economy is ending the year on a much higher note than it started. In January, the prime overdraft rate was still at 11.75%, retail sales were declining in real terms, and uncertainty surrounding the outcome of the national elections also placed a damper on the expansion of business activity.

Construction sector lethargy

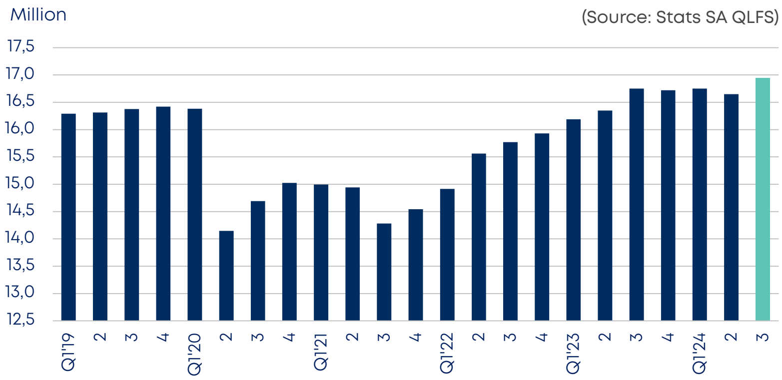
Although the Afrimat Construction Index (ACI) improved on a QOQ basis during Q3 2024, the general lethargy in construction sector activity has persisted, with the ACI declining by 1.3% YOY and half of the ten constituent indicators also in negative territory. Little doubt exists over the depressing effect that record high interest rates have exerted on the construction industry and the residential property market, as also confirmed by several other key economic indicators, most notably exceptionally high debt-servicing ratios and a persistent decline in the real value of credit extension.

During Q3 2024, South Africa's real GDP only managed a 0.3% increase YOY and declined from the level recorded in Q2, while the latest Absa/BER purchasing managers' index (PMI) for manufacturing has again slipped to below the neutral level of 50. Furthermore, the Altron Fintech index of household financial resilience remains at a lower level than just before the Covid pandemic, while no new jobs were created during the first half of the year.

Resumption of job creation

During Q3 2024, however, the economy provided exceptionally good news in the form of the creation of 294,000 new jobs **(figure 6)**, each one of which will be contributing to the broadening of the taxation base – thereby assisting National Treasury's fiscal ability to upgrade and expand the country's infrastructure.

FIGURE 6 Total employment



The construction sector was the shining star of the employment boost, with employment in the sector rising by 176,000. Construction represents the most labour-intensive sector of the economy and the Government of National Unity's (GNU) new-found commitment to cooperate with the private sector in repairing and expanding the country's logistics infrastructure seems to be bearing fruit. More progress with job creation can be expected in 2025 once the latest measures to combat the so-called "construction mafia" are implemented.

Historic elections

The May elections, during which the ANC could not manage to secure the majority of the vote for the first time in 30 years, has dramatically changed the nature of public administration in South Africa. A brand-new era in the democratic history of South Africa has now dawned, with the two largest political parties and several smaller ones joining hands to form a new GNU, which is essentially a coalition government – as exists in most of the world's mature democracies. Business leaders and international capital markets have welcomed the multiparty arrangement, which has declared a firm commitment to business-friendly policies and the stimulation of economic growth and job creation.

Economist's notes (continued)

The timing for a new era where emphasis shifts from ideological objectives to creating employment opportunities at pace is good. The world economy is expected to grow at more than 3% over the next couple of years and all of South Africa's key trading partners are likely to experience improved macroeconomic stability. Signs are already emerging that the country may soon enter a new era of higher investment in capital formation and higher growth, aided by the new-found abundance of electricity supply.

Interest rates on their way down

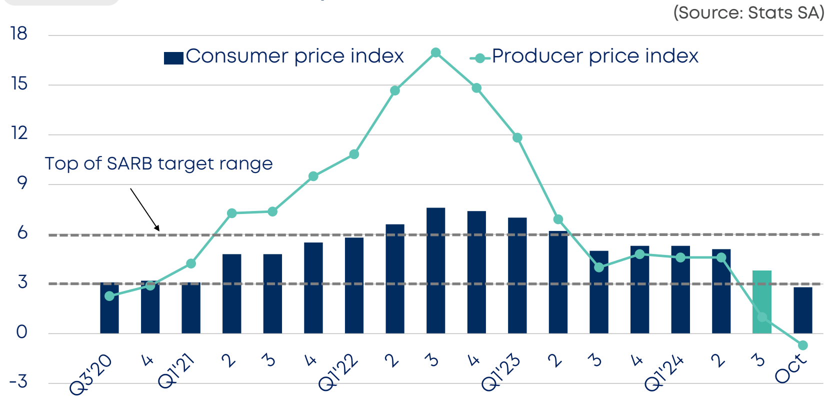
For millions of indebted South African households, especially homeowners with bonds, September was a turning point in their financial disposition. The monetary authorities finally started to loosen the stranglehold on debt costs via a 25 basis points lowering of the official repo rate (which is set at 350 basis points below the prime overdraft rate). This was followed by another reduction of 25 basis points in November – resulting in a new prime rate of 11.25%. Although there was substantial scope for a larger reduction of the repo rate, the prospects remain good for further interest rate cuts in 2025.

Consumer and producer inflation continue to drop

The sharp drop in the consumer price index (CPI) arguably represents the best news on the economics front during 2024 **(figure 7)**. Inflation has followed a decisive downward trend, with the October CPI reading of 2.8% being the lowest in 53 months. The fact that the CPI has been comfortably within (or below) the Reserve Bank's target range of 3% to 6% for 17 consecutive months has raised questions over the hesitance of the monetary authorities to lower interest rates more aggressively.

FIGURE 7 Consumer and producer inflation

(Source: Stats SA)



Fortunately, the dramatic decline in the producer price index (PPI) from a double-digit figure in March 2023 to negative territory in October has probably guaranteed further declines in lending rates early in 2025. Lower interest rates, albeit only marginally so, should serve to encourage consumer spending over the festive season, which will boost fourth quarter GDP.

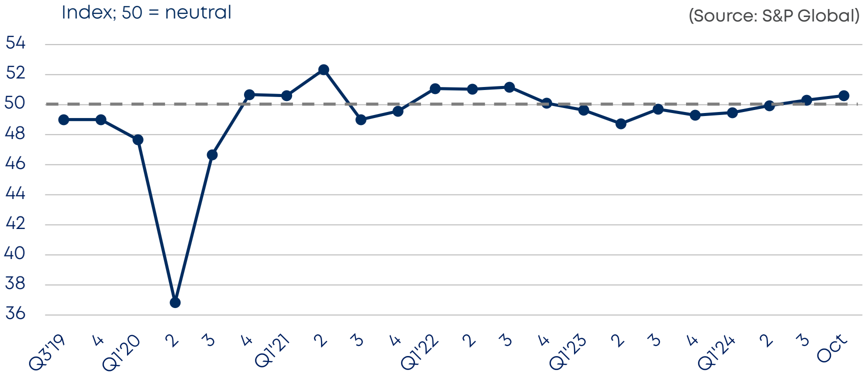
Upgrade in South Africa's credit rating outlook

The uptick in S&P Global's Purchasing Managers' Index (PMI) for South Africa for October was a welcome forerunner of the decision on 15 November by S&P Global Ratings to revise its outlook on South Africa's sovereign debt from stable to positive **(figure 8)**. The ratings agency has also upgraded Eskom's 'B' long-term global-scale foreign and local currency ratings from stable to positive.

FIGURE 8 S&P Global purchasing managers' index (PMI) for South Africa

Index; 50 = neutral

(Source: S&P Global)



Key findings included in the October PMI include signs of improving demand and falling cost levels, supported by a robust level of business confidence. A majority of firms surveyed expect output to continue rising, with anecdotal comments suggesting that lower interest rates, political stability and reduced load shedding contributed to positive growth predictions.

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