BetterBond PROPERTY BRIEF

MAR 2025

HIGHLIGHTS

6.7%
QOQ increase in home loan applications

R1.3 million
Average house price for first-time buyers

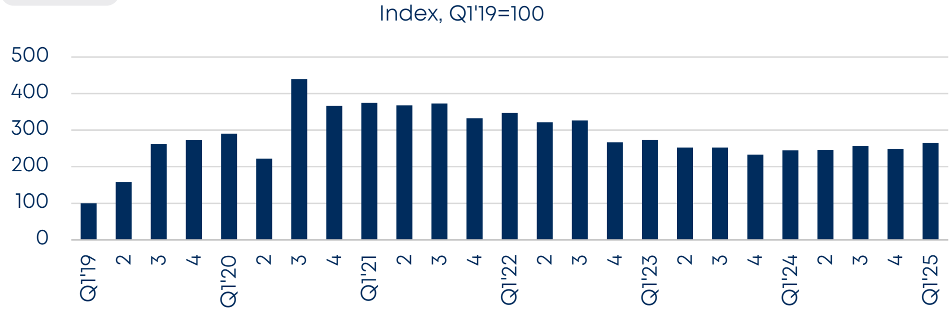
8.2%
YOY increase in total home loans granted

R2.1 million
Average house price in the Western Cape

1 BetterBond index of home loan applications

The first two months of 2025 witnessed a meaningful improvement in homebuying activity, with the BetterBond home loan index increasing by 6.7% QOQ and by 8.3% YOY **(figure 1)**. This uptick is most welcome and follows a sideways pattern that lasted for the seven prior quarters. No doubt the latest 25 basis points drop in the repo rate has played its part in a mild stimulation of residential property market activity. The prime lending rate now stands at 11%, which is still a full percentage point higher than just before the Covid pandemic, suggesting that considerable leeway exists for further rate cuts in 2025. The number of home loan applications during January and February was virtually on par with Q4 2020 (pre-Covid), but still 23.6% lower than three years ago, just before the relentless rise in interest rates started to bite.

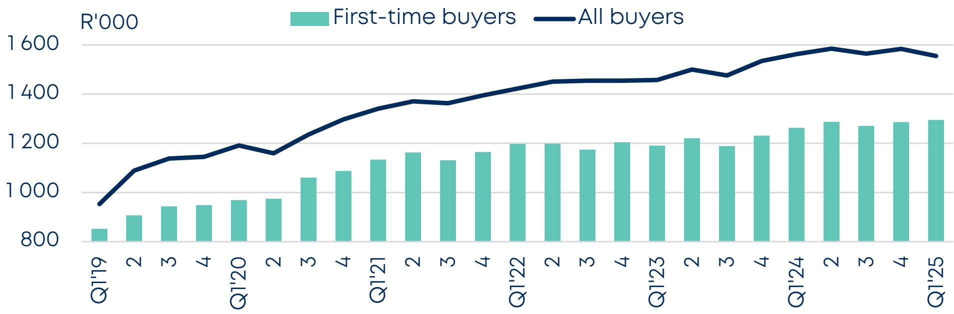
FIGURE 1



2 Average home purchase price

Since September 2024, the prime lending rate has declined by 25 basis points three times, but the marginally lower cost of servicing home loan debt has yet to filter through to a more egalitarian supply and demand environment. This is confirmed by the YOY decline of 0.5% and QOQ decline of 1.8% in average house prices during Q1 2025 **(figure 2)**. For first-time buyers, the situation is different, with a YOY increase of 2.5% in average house prices as well as a marginal QOQ increase. Despite the relatively subdued level of activity induced by record high interest rates, investing in residential property remains attractive, with house prices having increased at an average annual rate of 5.5% for all buyers and 6% for first-time buyers over the past five years – considerably higher than the current inflation rate of 3.2% and also higher than the dividend yield of 2.4% on Satrix (a proxy for listed companies on the JSE).

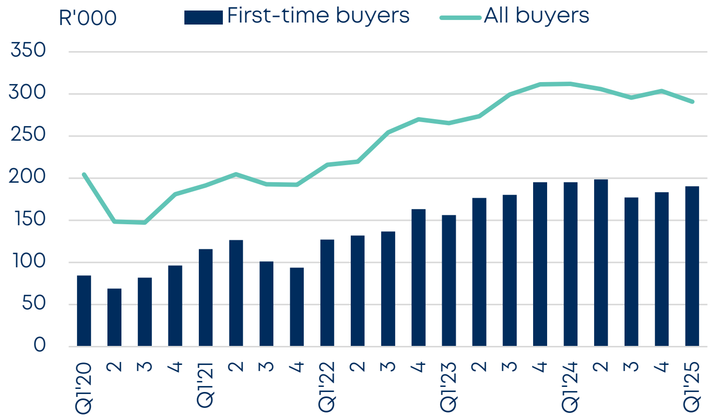
FIGURE 2



3 Average deposit for home purchase

The temporary lowering of the deposits required for access to home loans that occurred in Q3 of 2024 resumed during Q1 of 2025 **(figure 3)**. If this trend is sustained, it is good news for prospective homebuyers, as a higher deposit requirement by the banks acts as a barrier to entering the housing market. During January and February 2025, deposits for all buyers declined by 4.2% QOQ and by an even larger margin YOY, namely 6.8%. For first-time buyers, the average deposit requirement increased marginally QOQ, but also declined YOY, from R183,000 to R190,000. Significantly, the gap between deposits for all buyers and first-time buyers also declined during Q1 2025 to a level of exactly R100,000, which is 16% lower than the all-time high recorded in Q4 2024.

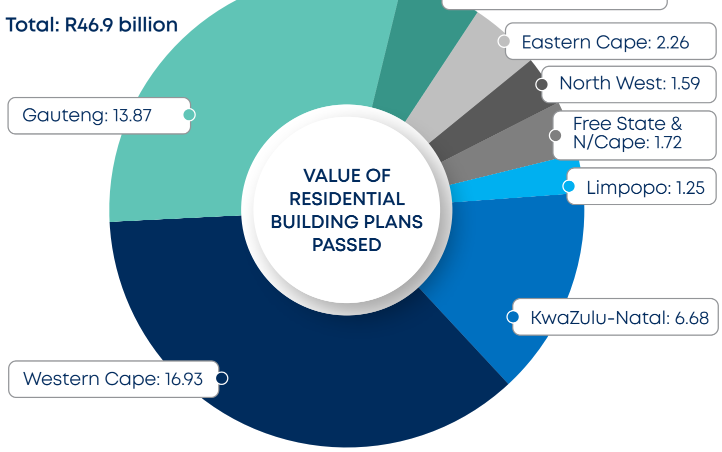
FIGURE 3



4 Value of residential building plans passed by province (2024)

As predicted in a previous issue of the BetterBond Property Brief, the Western Cape moved into the number one position for the value of residential building plans passed in 2024, swapping places with Gauteng, which recorded the largest YOY drop of all the provinces, namely a decline of 21.7% **(figure 4)**. KwaZulu-Natal consolidated its position as the third most popular province for residential building activity, with an impressive YOY increase in the value of building plans passed of 31.5%. Mpumalanga was the only other province to record growth for this key indicator of housing stock supply. The absence of real growth in the value of building plans passed in South Africa over the past two years remains a point of concern, as any significant future increase in the demand for houses is bound to lead to an escalation of prices.

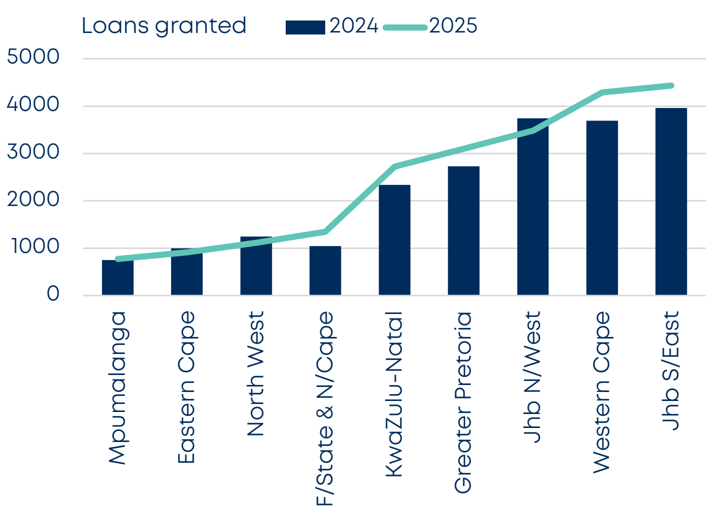
FIGURE 4



5 Regional composition of total home loans granted (12 months to Feb 2024 & 2025)

During the 12 months to the end of February 2025, Johannesburg's South-Eastern suburbs have witnessed a substantial increase in homebuying activity, consolidating the position as the top region for the number of home loans granted **(figure 5)**. Six of the nine regions analysed by BetterBond recorded increases in the number of home loans granted, with the Free State & Northern Cape (combined) recording the highest YOY gain, namely 29%. In the process, this region has moved up one notch in the rankings, at the expense of the North West. KwaZulu-Natal and the Western Cape recorded the second and third largest YOY increases in home loans granted, at 16.5% and 16.2%, respectively. In total, 8.2% more home loans were granted during the 12 months to February 2025 than in the previous 12-month period.

FIGURE 5

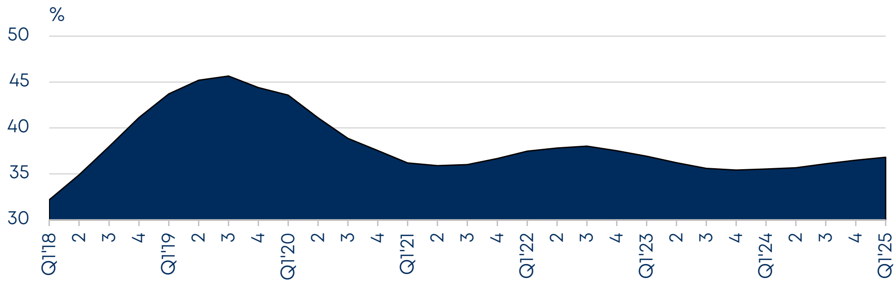


6 Percentage formal grants that went to first-time buyers (4-quarter average)

Since Q3 2019, the share of home loans that went to first-time buyers (FTBs) has been under pressure **(figure 6)**. This downward trend has mainly been due to the negative impact on employment levels induced by the Covid lockdowns and, subsequently, a restrictive monetary policy stance that led to the highest interest rates in 14 years.

Since just before the Covid pandemic, the share of home loans that went to FTBs has declined by more than 19%. Since Q3 2022, when higher interest rates started to erode the disposable income of households, this share has dropped by another 3.2%. This ratio has nevertheless started a new upward trend, albeit modest, with a YOY increase of 3.6% recorded in Q1 2025.

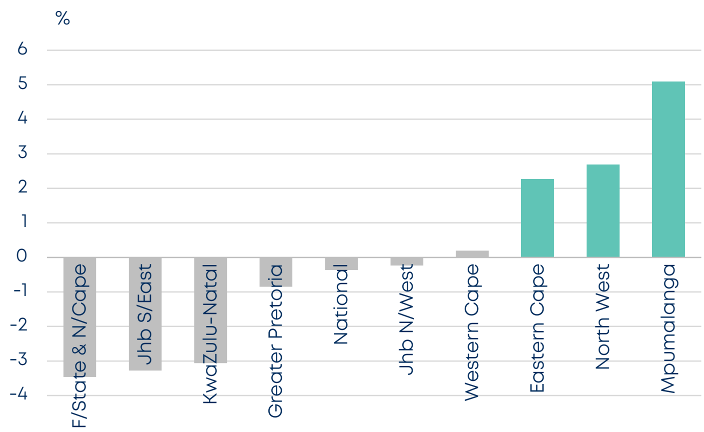
FIGURE 6



7 Percentage change in average real home purchase price by region (12 months to Feb 2024 & 2025)

A measure of stability has returned to home prices, with the nominal average price during the past 12 months having increased by 2.8% – only marginally below the latest consumer price index of 3.2% **(figure 7).** A total of seven of the nine regions analysed by BetterBond recorded growth in average nominal home purchase prices during the 12 months to the end of February 2025, but only four of them managed to record real increases (adjusted for inflation). Mpumalanga was the best performing region, with a YOY increase in average home prices of 5.1%, in real terms. The other regions that experienced higher prices in real terms were the North West, Eastern Cape and Western Cape. The latter province retained its number one position for the highest average house price, at a tag of R2.1 million.

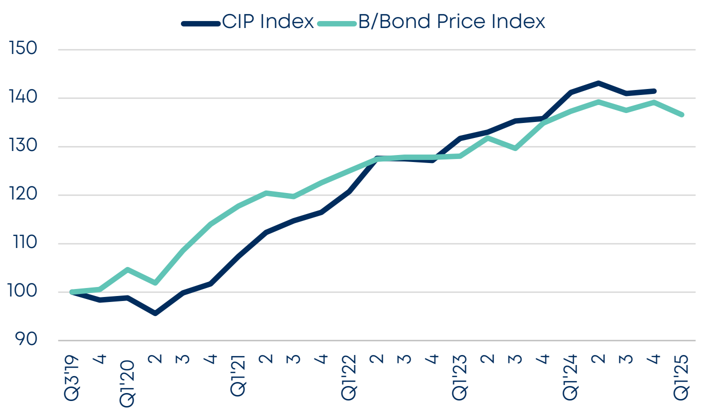
FIGURE 7



8 Construction input price index and the BetterBond home price index

Until the negative effect of record high interest rates kicked in towards the end of 2022, home prices were rising at a marginally higher rate than building costs. This trend has now been reversed, with a declining trend also having become evident for both the construction input price index (CIPI) and the BetterBond home price index (BHPI) **(figure 8)**. The upshot of the reversed differential between these two key indicators of residential property values is the existence of a buyers' market. Further interest rate cuts would be necessary before average house prices can start edging towards the level of replacement costs again. Hopefully, the monetary policy authorities will start to prioritise economic growth over combating inflation during 2025 by continuing with the rate-cutting cycle.

FIGURE 8



Economist's notes

8.7%
Unemployment rate for graduates

300,000
Jobs created in finance and real estate in 2024

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.

Ever since the relentless rise in interest rates, the cost of building a house has started to exceed the rate of increase in average house prices, with both these indicators of residential property values taking a negative turn in mid-2024. It seems clear that the rate-cutting cycle has not yet progressed to the point of a significant new growth phase in homebuying activity. Although retail trade sales recovered well during the second half of last year, the real value of new car sales is also on a downward trajectory, as pointed out by the latest Drive.co.za Motor Index. Hopefully, the monetary policy authorities will appreciate the dire need for incentivising demand in the economy and continue to cut rates.

Postponement of budget

The first ever postponement of the tabling of South Africa's national budget occurred on 19 February – the very day that it was scheduled for – evoking wide-ranging commentary from the full spectrum of society. However, the clinical capital market reaction provided a sobering reflection on the implications of the postponement (which was due to the DA's refusal to approve the proposed 2% hike in the VAT rate).

During the two weeks following the postponement of the budget, the rand exchange rate versus the US dollar strengthened by 1.2% and the country's ten-year bond yield declined by 15 basis points – a clear confirmation of the positive undertone of this (non-) event. In fact, the commentary from business leaders was overwhelmingly positive, as it demonstrated the effectiveness of the government of national unity (GNU) in preserving truly democratic principles relating to the country's fiscal affairs.

Job creation expands in 2024

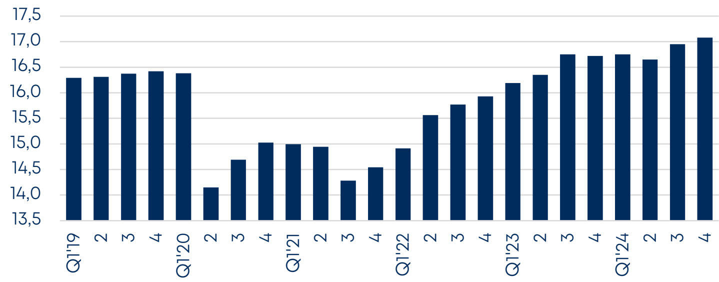
Following a welcome jump in employment creation during the second half of 2024, the total number of jobs in the South African economy ended the year on a high note, breaching the 17 million level for the first time **(figure 9)**. The sector for financial intermediation, insurance, real estate and business services was responsible for most of the employment created in 2024, adding more than 300,000 new jobs.

Although Gauteng, the Western Cape and KwaZulu-Natal continue to occupy the top-three position in terms of total employment, the Eastern Cape took the honours last year with employment growth of more than 100,000.

A predicable finding in the latest quarterly employment statistics published by Stats SA is the relatively low unemployment rate for graduates and people with other tertiary education, namely 8.7% and 19.3%, respectively (at the end of 2024). In both cases these rates declined marginally during last year.

FIGURE 9 Total employment

Million (Source: Stats SA)



Imminent removal from grey listing

South Africa is well on its way to meeting the requirements for South Africa's removal from the so-called grey list. The Financial Action Task Force (FATF), an international standard-setting body, added South Africa to this list three years ago, due to perceived gaps in domestic legislation aimed at compliance with anti-money laundering and counter financing of terrorism rules. National Treasury recently announced that South Africa is now deemed to have addressed 20 of the 22 action items in the action plan and delisting from the FATF grey list could occur in October 2025.

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