BetterBond
PROPERTY BRIEF

MAY 2024

HIGHLIGHTS

R1.21 million

Average national home loan for all buyers

R1.57 million

Average home purchase price for all buyers

75%

Share of Gauteng and Western Cape in the value of homes completed (Jan & Feb)

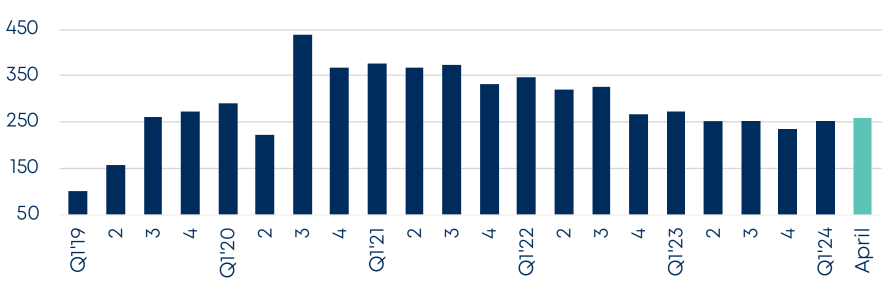
5.2%

YOY increase in average home loan value in JHB's North-Western suburbs

1 BetterBond index of home loan applications

New home loan activity has started the year on a modestly improved note, with April building on the solid QOQ improvement recorded for January to March. Although the April index value for new home loan applications was 2.3% higher than Q1 2024, the number of new applications for the 12 months to April 2024 remains 15% lower than the previous 12-month period **(figure 1)**. The decline in the level of activity in the residential property market has been caused mainly by the steep increase in the prime overdraft rate, which is linked to the Reserve Bank's official bank rate (the so-called repo rate). Hopefully, a further decline in the consumer price index (CPI) will eventually lead to lower interest rates – perhaps even during the first half of the year.

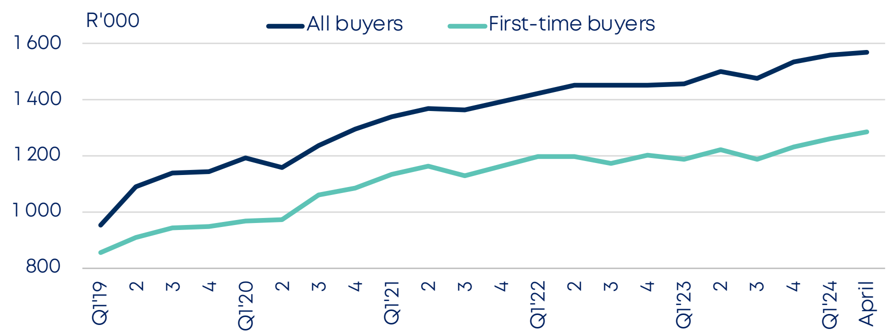
FIGURE 1



2 Average home purchase price

A measure of resilience in the residential property market can be found in the ongoing upward trend for average home prices, although at a much smaller rate of increase than prior to the start of the Reserve Bank's restrictive monetary policy stance, which has seen interest rates rise to their highest levels in 14 years. For the 12 months ended April 2024, the average home price for all buyers increased by 4.5% and for first-time buyers by 3.3% **(figure 2)**. Both increases were below the inflation rate over this period, which translates into the continued existence of a buyers' market. A relaxation of monetary policy, which may occur in May, will almost certainly lead to an acceleration of average home prices.

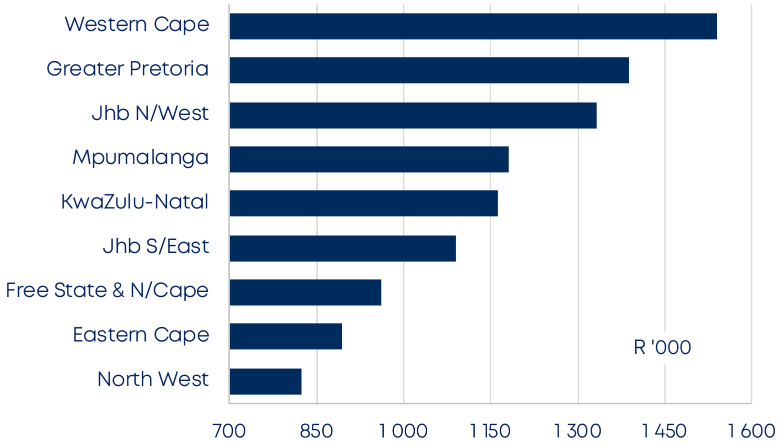
FIGURE 2



3 Regional composition of average home loan value (12 months to April 2024)

During the 12 months ended April 2024, average home loan values managed to increase in five of the nine regions covered by BetterBond, which was an improvement over the previous 12-month period, when only four regions recorded increases. The national average home loan value amounted to R1.25 million, which was 1.2% higher than the 12 months to April 2023 **(figure 3)**. These trends confirm that the slowdown in the residential property market over the past two years has bottomed out. The strongest YOY growth in average bond values occurred in North-West Johannesburg, followed by Mpumalanga, which has overtaken KwaZulu-Natal as the region with the fourth largest average home loan value. After a period of decline, average home loan values in the Greater Pretoria region have stabilised.

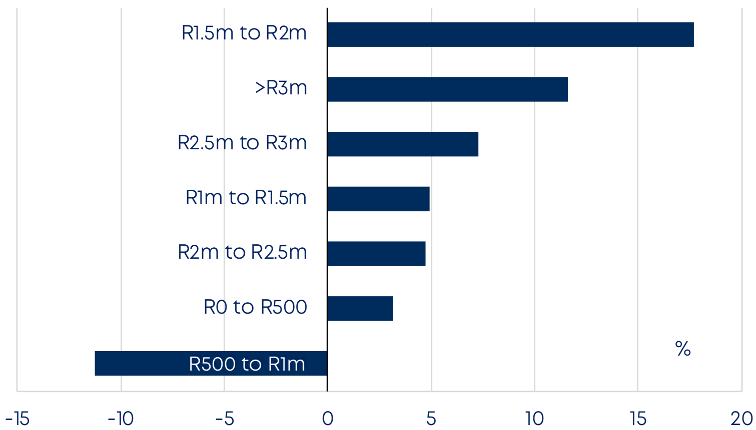
FIGURE 3



4 YOY % change in approved home loans by home price bracket

The damage inflicted on the residential property market by high interest rates is particularly evident in the two lowest home price brackets, namely below R500k and between R500k and R1 million **(figure 4)**. Over the past 12 months, the number of approved home loans in the latter category declined by more than 11%, while the number of home loans for houses costing less than R500k only increased by 3.1% – a negative rate when adjusted for inflation. In contrast, the number of home loans for higher priced homes have increased at a brisk pace, with three of these categories recording impressive YOY increases – also in real terms. It is encouraging to note that the number of home loans granted in April 2024 was 20% higher than a year ago.

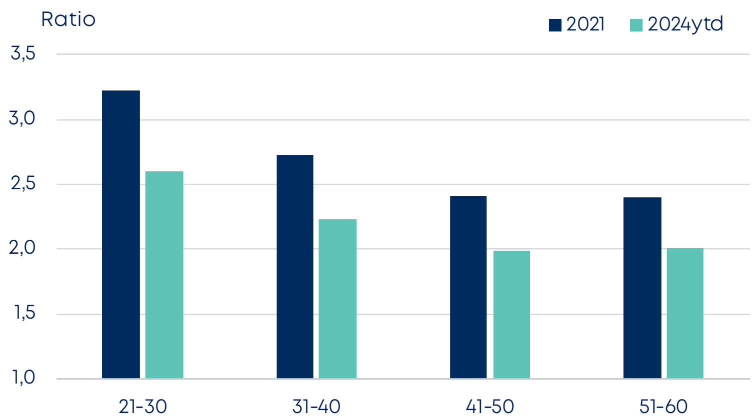
FIGURE 4



5 Ratio of average home price to average annual income by age group

A feature of mortgaged residential property market activity since 2021 has been the sharp decline in the ratio of average home prices to the average annual incomes of home buyers. It is apparent from data captured during the home loan application process that average incomes have increased at a much faster pace than average home prices, with younger age groups facing a more daunting challenge with affordability **(figure 5)**. The steepest decline in this ratio was for the age group 21 to 30 years (19.3%), followed by the next age group (31 to 40 years), with a decline of 18.4%. To some extent, this trend can be explained by prospective home buyers having become more cautious and many of them being prepared to wait until interest rates come down.

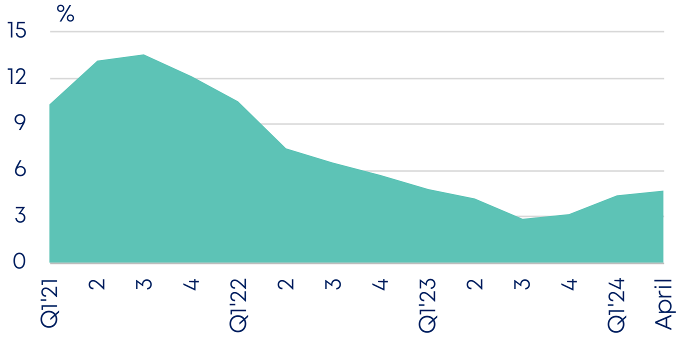
FIGURE 5



6 YOY % change in average home purchase prices

Viewed from the perspective of the declining rate of change in average home purchase prices (due to high interest rates), a turning point was seen in mid-2023. During Q3 2023, the YOY increase in average home purchase prices dropped to a multi-year low of 2.9%, significantly lower than inflation. Since then, however, the trend has been reversed, with April's 4.7% increase – the highest since Q1 2023 **(figure 6)**. Lower interest rates during 2024 should return this rate of increase to positive real growth territory – hopefully soon.

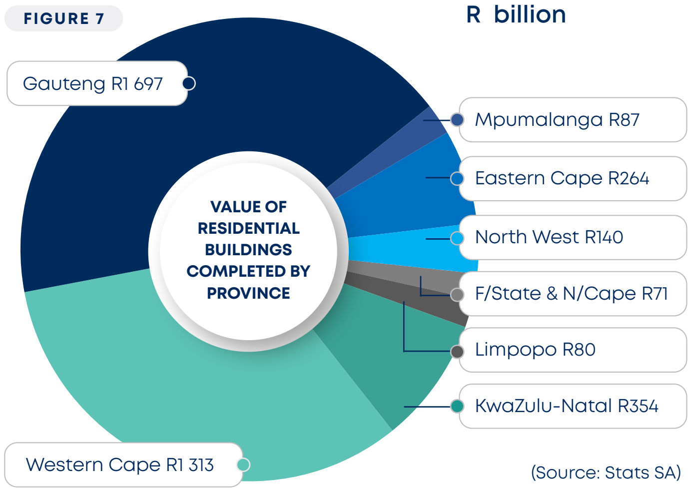
FIGURE 6



7 Value of residential buildings completed by province: Jan and Feb 2024

Residential building activity during the first two months of the year has been at a low ebb in regions without metros. At a combined level of R3 billion, Gauteng and the Western Cape have dominated the value of residential buildings completed during January and February, representing 75% of the total for the country **(figure 7)**. KwaZulu-Natal and the Eastern Cape were in third and fourth spots. At a level of R4 trillion for the first two months of the year, the total value of buildings completed represents merely 2,550 new homes (based on the average home price in April). This is a fraction of the demand for home loans and points to the build-up of a supply shortage once interest rates have declined. It is also a point of ongoing concern that the real value of building plans passed has been in decline ever since the Reserve Bank decided to raise interest rates to their highest level in 14 years.

FIGURE 7



(Source: Stats SA)

HIGHLIGHTS

5.3%

Consumer price index for March (down from 5.6%)

20%

YOY increase in number of home loans granted in April 2024

Economist's notes

Dr Roelof Botha
Economist

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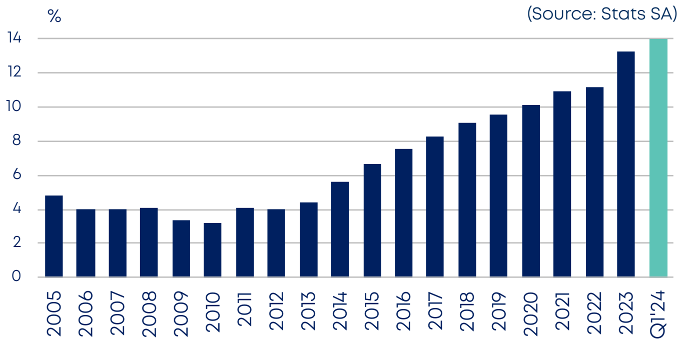
Economist's notes (continued)

A literally brighter month in April

Many South Africans have probably been humming "what a difference a month makes" (to the tune of the hit song for which Dinah Washington won a Grammy award in 1959). The difference, of course, was a full month without load shedding.

Contrary to all kinds of conspiracy and other theories, this was made possible by a combination of lower demand via rooftop solar installations by the private sector **(figure 8)**, improved coal stability, higher levels of battery storage and progress with planned maintenance at several power stations (initiated by André de Ruiter). The battle for a permanent restoration of electricity supply stability continues, however, with the expansion of grid capacity and the removal of unnecessary constraints on independent power producers as the most important issues to be addressed.

FIGURE 8 Share of electricity produced by the private sector



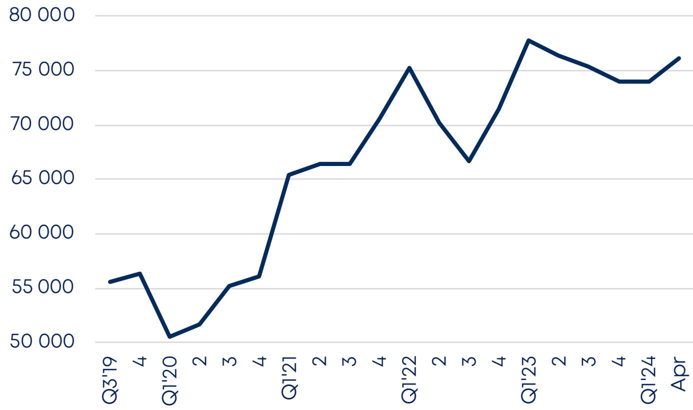
The role of private sector participation in electricity supply has become substantial and will likely continue on a solid growth path for many years to come, from major independent power producers (IPPs) to households with rooftop solar installations.

Interest rate decline now overdue

Frustration is growing over the continuation of restrictive monetary policy, which has seen a sharp increase in the debt cost burden of households, while also keeping the cost of working capital unnecessarily high and acting as a constraint to activity in the residential property market. Fortunately, the consumer price index (CPI) has resumed its downward trajectory, dropping from 5.6% in February to 5.3% in March, mainly due to the steep and persistent drop in the food price index over the past 18 months.

April was the second month in succession that the rand outperformed most other currencies in the ongoing tussle with a rampant US dollar, which should assist in reducing inflation even further. With a bit of luck, interest rates will start to drop at the MPC's next meeting (at the end of May).

FIGURE 9 JSE All Share Index (Alsi)



(Note: Value at month-end; Source: JSE)

Sound performance by JSE

Following a poor start to 2024, the All Share Index (Alsi) on the Johannesburg Stock Exchange (JSE) has rebounded strongly, ending April at above 76,000 – a gain of more than 9% over the index value in September last year **(figure 9)**. The April Alsi value was 71% higher than at the end of the disastrous first quarter of 2020, when the uncertainty over the extent of the Covid pandemic and lockdown regulations decimated share prices in bourses (organised marketplaces for the trade of securities, commodities, derivatives, or other financial instruments) all over the world.

A recent survey among domestic fund managers in South Africa has indicated a renewed appetite for local equities. Since the end of March 2020, the JSE Alsi has increased by an annual average of 13.7%, significantly higher than the average interest rates on money markets and capital markets over this period. With relatively stable global economic growth being foreseen over the medium term and the most populous country in the world, India, expected to grow its GDP by more than 7% in 2024, the future for several resource stocks on the JSE looks rosy.

Economist
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