BetterBond **PROPERTY** BRIEF

**NOV** 2024

## HIGHLIGHTS

**30%**
**YOY increase in the number of home loan applications**

**4.1%**
**YOY increase in average home purchase price for FTBs**

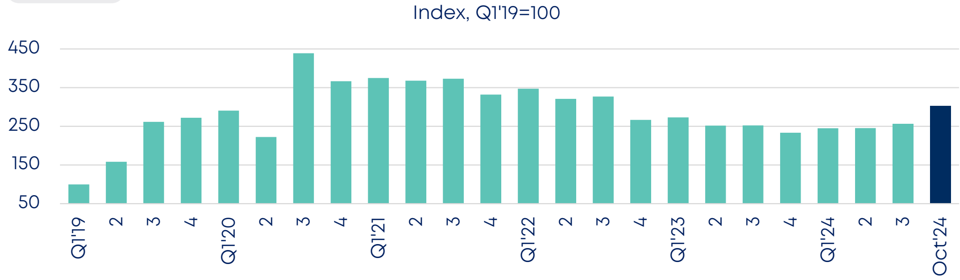
**39%**
**Nominal increase in average home prices since Q3 2019**

**R18.6 billion**
**Value of residential buildings completed Jan to Aug 2024**

## 1 BetterBond index of home loan applications

The first interest rate cut since the start of a restrictive monetary policy stance at the end of 2021 may have managed to cement a recovery in residential property market activity. Following a declining trend in the number of home loan applications that lasted for 13 quarters, the BetterBond index of home loan applications started a marginal recovery at the beginning of 2024, which gained some traction in October **(figure 1)**. Compared to Q4 of 2023, home loan applications jumped by 30%, while the QOQ increase was also impressive at 18%. Importantly, the BetterBond index was 11% stronger in October than Q4 of 2019, just before the Covid pandemic. With the consumer price index (CPI) and the producer price index (PPI) declining sharply during 2024, further interest rate cuts are more or less guaranteed, with several economists predicting a drop of 50 basis points at the next rate announcement.

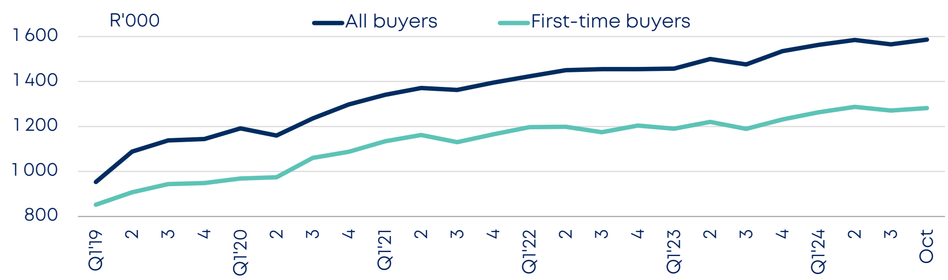
**FIGURE 1**




## 2 Average home purchase price

The recent decline of 25 basis points in the prime overdraft rate was sufficient to reverse the marginal downward trend in average house prices during Q3 of 2024. Over the past five years, house prices have been exposed to a highly volatile trend, firstly because of the Covid pandemic, which prompted a substantial lowering of the Reserve Bank's repo rate (and, as an inference, also the prime overdraft rate) and thereafter due to the relentless increase in the prime rate. Although October's QOQ increase in average house prices was marginal, the YOY recovery was quite solid, with an increase of 4.1% for first-time buyers (FTBs) and 3.3% for all buyers **(figure 2)**. Compared to Q3 of 2019 (pre-Covid), houses are now 39% more expensive, on average. In nominal terms, the average annual rate of house price increases is 5.9%. With consumer inflation at 3.8%, there is a strong likelihood that house prices will start increasing in real terms.

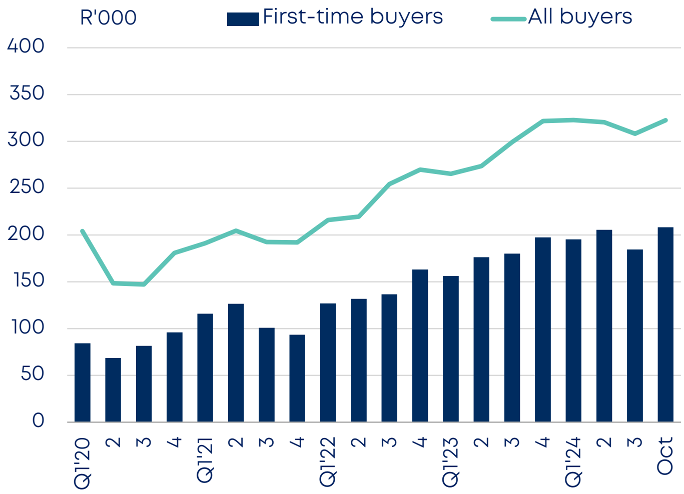
**FIGURE 2**



## 3 Average deposit for home purchase

The welcome lowering of the deposits required for access to home loans that occurred during Q3 came to an abrupt halt in October, with a new record high of R208,000 for FTBs. Apart from the prevailing mortgage lending rate, these deposits are crucially important to the level of activity in the residential property market and any increase in deposits leads to the exclusion of some prospective homebuyers. For all buyers, the QOQ decline of 3.8% recorded in Q3 has been reversed into a 4.7% increase **(figure 3)**. The plight of prospective FTBs is even worse, with a 13% QOQ increase in the average required value of deposits. Since the onset of the relentless rate hiking cycle at the end of 2021, the average deposit required for FTBs has more than doubled, while it has increased by 68% for all buyers. With credit impairments by the banking sector having risen by 19% over the past two years, it seems that substantial interest rate declines would be required before the rising trend in home loan deposits can reach a turning point.

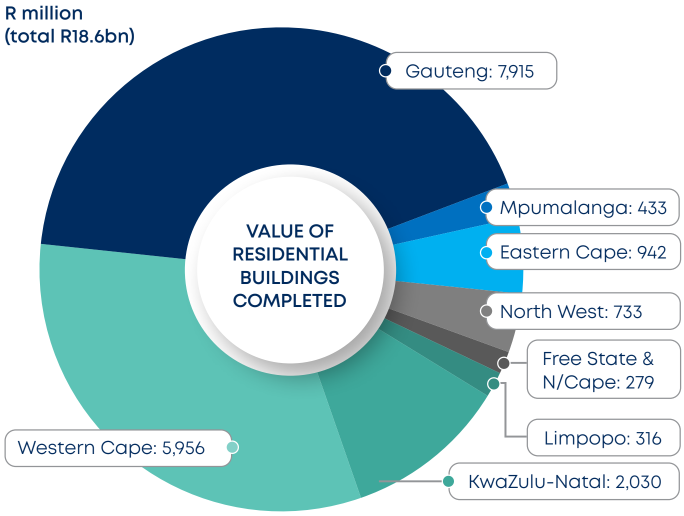
FIGURE 3




## 4 Value of residential buildings completed by province: Jan to Aug 2024

Residential building activity during the first eight months of the year has remained muted, with an overall decline of 13.6% in the value of new residential buildings completed. The main culprit for this decline has been the Reserve Bank's restrictive monetary policy stance, which has dealt a blow to the residential property market in general. In contrast to comparable provincial data on the value of new building plans passed, Gauteng has retained its top spot for new houses and flats that have been completed **(figure 4)**. The total value of residential buildings completed during the first eight months of the year is R18.6 billion. Differences exist between the preferences for the type of dwelling units between the three provinces with the largest metros. Houses represent 64% of dwelling units built in KwaZulu-Natal, followed by the Western Cape with 58% and Gauteng with 56%. Since last year, a modest shift has occurred in favour of houses (rather than flats) in the Western Cape and in KwaZulu-Natal, with the opposite trend in Gauteng.

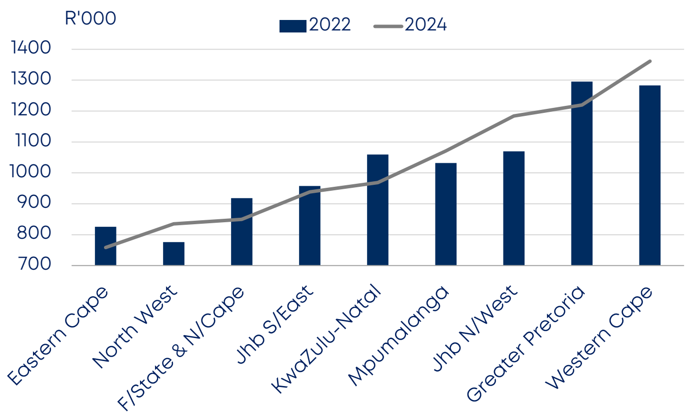
FIGURE 4




## 5 Regional composition of average bond value for FTBs: 12 months to Oct 2022 & 2024

During the past 24 months, average home loan values for FTBs managed to increase in four of the nine regions covered by BetterBond, which is quite impressive considering the high interest rates and the sharp increases in deposits required for home loan approvals. Three regions with metros and large urban populations recorded declines, with KwaZulu-Natal at the bottom of the standings **(figure 5)**. The other two regions with metros fared well, with Johannesburg's North-Western suburbs on top, recording an increase of 10.7%. During the 12 months to October 2024, average bond values of more than R1 million were recorded in four regions, namely the Western Cape, Greater Pretoria, Johannesburg North West and Mpumalanga.

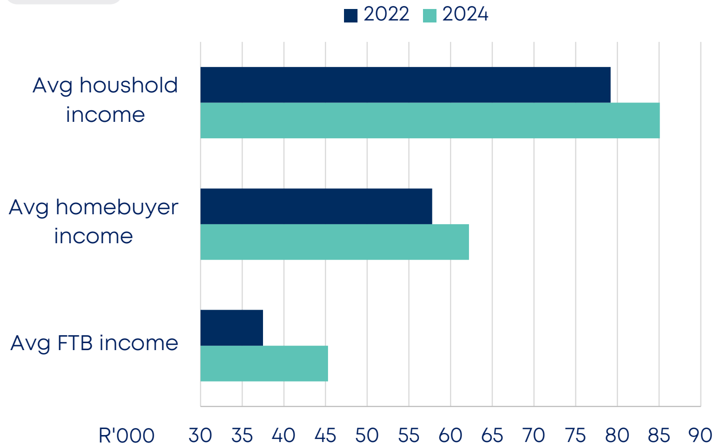
FIGURE 5



## 6 Average monthly homebuyer incomes: 12 months to Oct 2022 & 2024

An outstanding positive feature of home loan activity over the past two years has been the consistent increases in average incomes earned by prospective homebuyers **(figure 6)**. During the 12 months to October 2024, the average income of prospective homebuyers increased by 7.6% over the same period two years ago to reach a level of just above R62,000 per month. This is more than double the average monthly salary for the formal sectors of the economy. 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.

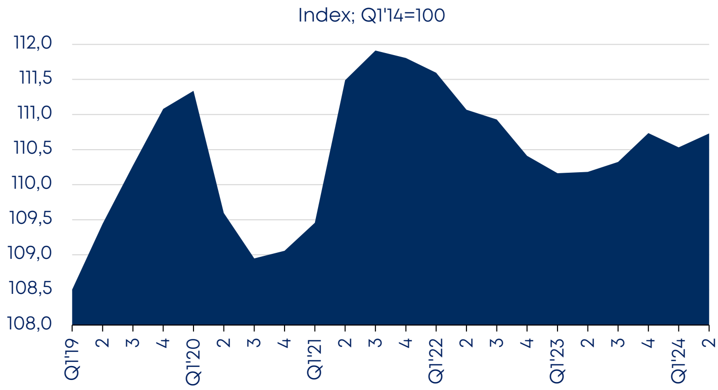
FIGURE 6




## 7 Altron FinTech Household Resilience Index: Q2 2024

The results of the most recent Altron FinTech Household Resilience Index (AFHRI) were released in October, confirming the continued financial pressure on South African households, mainly due to the high interest rates over the past two years **(figure 7)**. Fortunately, the AFHRI recovered marginally in Q2, mainly on the back of increased private sector employment and higher levels of labour remuneration in the private sector (in real terms). With interest rates on their way down and the government of national unity engaged in much closer cooperation with the private sector, the financial disposition of households should improve further during the rest of the year.

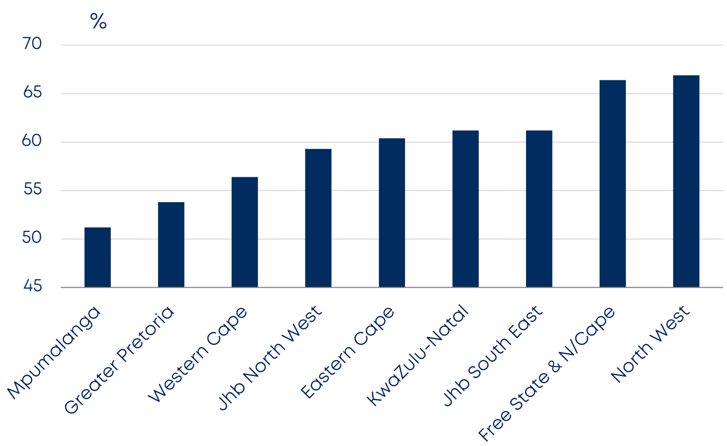
FIGURE 7




## 8 FTBs' share of home loans granted: 12 months to October 2024

In contrast to data on the value of new residential buildings completed in the different provinces, a more buoyant level of property market activity exists outside of regions with large metros, especially for FTBs. The two regions with the highest share of home loans granted to FTBs are the North West and the combined region of Free State and the Northern Cape **(figure 8)**. This trend is associated with more affordability in regions that do not possess large metros with propulsive industrial and commercial sectors (such as the Western Cape, Greater Pretoria and Johannesburg. The North West is on top of this list, with FTBs enjoying a 67% share of loans granted, followed closely by the Free State and the Northern Cape. In Mpumalanga, the share of FTB loans granted has been the lowest over the past 12 months, namely 51%.

FIGURE 8



# Economist's notes

**1%**
**YOY increase in producer prices (to September)**

**3.1%**
**Increase in the US dollar index during October**

**Mini-budget emphasis on infrastructure**

**Dr Roelof Botha** | Economist

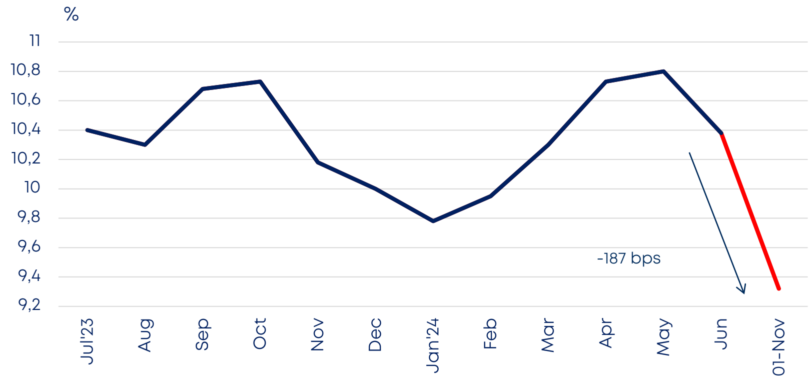
Affiliated with the Gordon Institute of Business Science (GIBS), Dr Botha is a seasoned commentator on economic issues, long-time advisor to the Optimum Investment Group and Currencies Direct, and former advisor to the National Treasury.

## Welcome decline in the bond yield

Over the past six months, the yield on South Africa's 10-year bonds has taken a nosedive, dropping by almost 190 basis points as a result of the Reserve Bank not following the lead of the country's benchmark long-term interest rate **(figure 9)**. Although the repo rate was lowered by 25 basis points in September, this cannot be regarded as a relaxation of restrictive monetary policy, as the real prime rate has increased from 7.1% two months ago to 7.7% (by virtue of the decline in the consumer price index from 4.6% to 3.8%).

**FIGURE 9**

South Africa's 10-year government bond yield




(Note: Monthly avg; source Trading Economics)

A positive medium- to long-term relationship exists between money market rates and long-term interest rates. Should the declining trend in the long-term bond yield continue, it would serve as a clear signal that the repo rate and commercial lending rates are falling significantly behind market expectations.

Other excellent news on the inflation front is the dramatic decline in the producer price index (PPI) from a double-digit figure in March 2023 to merely 1% in September, which has probably guaranteed a hefty decline in lending rates in November. The PPI serves as a leading indicator for consumer prices and further declines in the CPI and interest rates are firmly on the cards.

## Mini-budget emphasis on infrastructure

October witnessed the traditional tabling of National Treasury's Medium Term Budget Policy Statement (often referred to as the "mini-budget"), which provided enough information for cautious optimism over fiscal stability and future economic growth prospects. An entire chapter was dedicated to infrastructure development reforms, which focus on partnerships with the private sector, some of which may eventually lead to a derivative investment platform for infrastructure projects. South Africa's fiscal debt to GDP ratio is not expected to deter increased expenditure on infrastructure, as the country is now enjoying a primary budget surplus (when tax revenue exceeds non-interest expenditure). Substantial public sector spending on infrastructure is a prerequisite for higher economic growth.

## US dollar takes revenge on key currencies

The fourth quarter of the year started on a high note for the US dollar, with the so-called "Dixie" ending October 3.1% higher than at the end of September. The "Dixie" is an index that measures the value of the US dollar relative to a basket of foreign currencies and is widely regarded as an accurate gauge of the dollar's value against most stable currencies.

Predictably, the greenback has taken revenge on most key currencies around the globe, with no currency monitored by Currencies Direct managing to escape the dollar's wrath in October. The South African rand found itself in the middle of the 16 currencies monitored and was only marginally undervalued at the end of October (in terms of its real effective exchange rate – REER). Despite a measure of uncertainty over the long-term impact of the Republican Party capturing the presidential and senate elections in the US, a stronger dollar is likely to persist over the short term, placing pressure on emerging market currencies.

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