SEPT 2024

HIGHLIGHTS

6.5%

QOQ increase in home loan applications

38%

Increase in average home prices since Q3'2019 (pre-Covid)

-14%

YOY decline in the value of residential building plans passed in SA

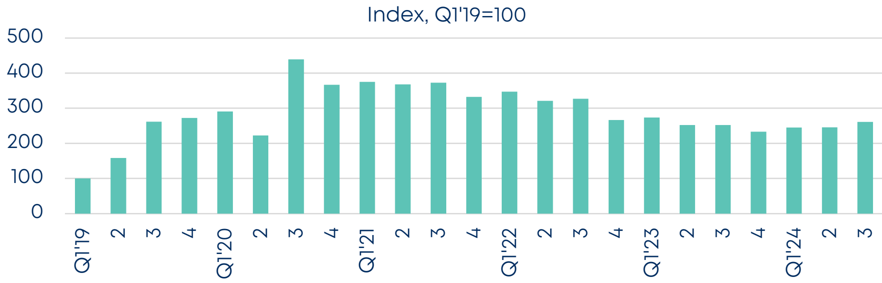
15%

YOY increase in loans for homes valued at more than R3 million

1 BetterBond index of home loan applications

The consolidation of home loan activity that commenced at the beginning of the year has subsequently gained some traction, with a 3.5% YOY increase **(figure 1)** in the number of home loan applications during July and August (on average). The QOQ increase in home loan applications is even more impressive, at 6.5%. A combination of positive economic growth in Q2 2024 (albeit marginal) and expectations of higher growth under the new Government of National Unity (GNU) may have contributed to the upward trend in home loan applications that kicked in during Q1. Prospective homeowners may also have taken note of the consistent decline in the consumer price index, which is bound to lead to lower interest rates during the rest of the year. It is encouraging that the BetterBond index of home loan applications is currently on par with the level achieved five years ago, despite the negative impact of the Covid pandemic and the highest interest rates in 14 years.

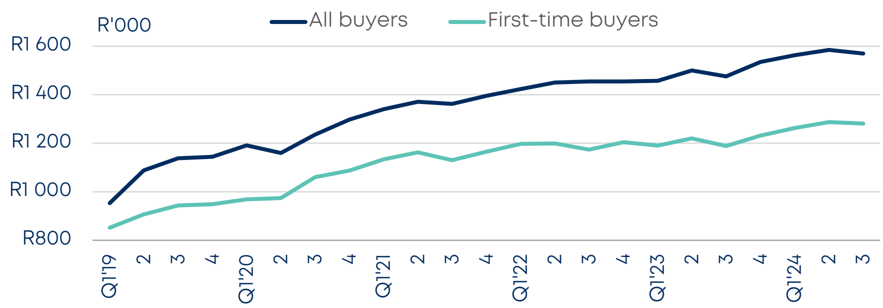
FIGURE 1



2 Average home purchase price

During July and August, home prices took a slight knock, compared to Q2 2024, but the YOY movement remained positive at 6.4% for all buyers and 7.7% for first-time buyers, both of which are above YOY inflation. Compared to Q3 2019 (pre-Covid), average home prices for all buyers have increased by 38% **(figure 2)**. The imminent relaxation of monetary policy (which should occur in September), is likely to lift average home prices to new record levels, especially in the metropolitan areas. Several financial institutions and economic research agencies have recently lifted their growth forecasts for 2025, which bodes well for the recovery of the residential property market.

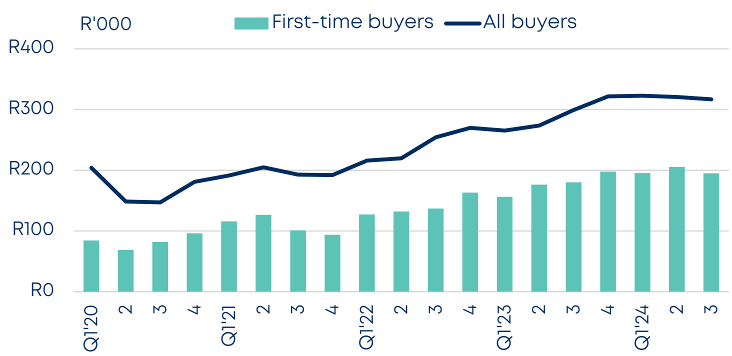
FIGURE 2



3 Average deposit for home purchase

The first two months of the third quarter witnessed a welcome halt to the relentless increase in deposits required for access to home loans, with a QOQ decline of 1.1% for all buyers and a 5% decline for first-time buyers, on average **(figure 3)**. Compared to Q3 2019, the average deposit required for home loans by first-time buyers increased by a whopping 139% to a current level of R195,000. A combination of drawdowns under the new two-pot retirement fund system and lower interest rates will undoubtedly lead to less nervousness among lending institutions over the financial disposition of prospective homebuyers, which should soon start reversing the upward trend in the deposits required for home purchases.

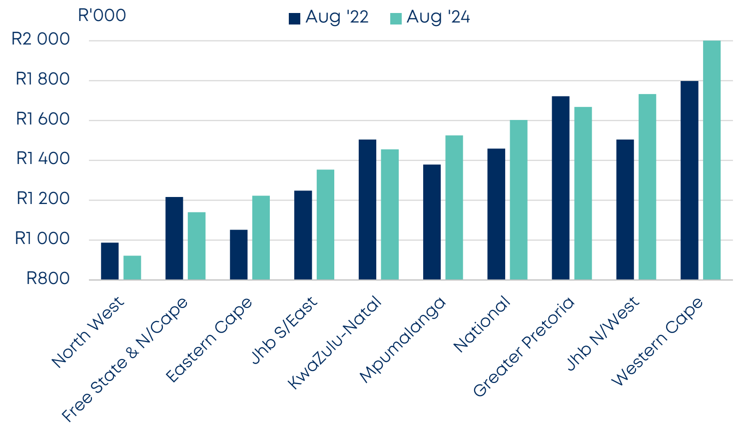
FIGURE 3



4 Regional composition of average home price (12 months to Aug 2022 & 2024)

Over the past two years, homebuyers have become significantly more selective in their preferred locations for home purchases, which has led to a wide differential between the regional changes in average home prices. Average home prices in the Western Cape, Eastern Cape and Johannesburg's North-Western suburbs have outperformed the other provinces by a healthy margin **(figure 4)**. The Western Cape was in pole position, with an increase in the average house price of 16.4%, followed closely by the Eastern Cape (16.3% increase) and Johannesburg North-West (15.2% increase). Traditionally, metropolitan areas experience higher rates of increases in house prices, as they offer a larger variety of employment opportunities and educational institutions.

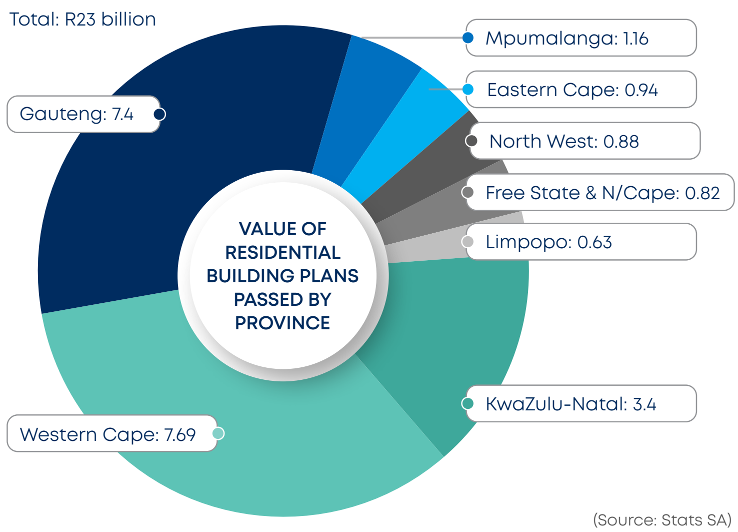
FIGURE 4



5 Value of residential building plans passed by province (Jan to June 2024)

One of the most disturbing aspects related to the property market in general is the consistent decline in the value of building plans passed and buildings completed – a trend that kicked in shortly after the Reserve Bank's monetary policy committee (MPC) started to raise interest rates to their highest level in 14 years (despite the absence of demand inflation in the South African economy). During the first half of 2024, the value of residential building plans passed for the country as a whole was 14% lower than for January to June last year, with Gauteng taking the biggest knock among the provinces with the largest municipalities, namely a 25% YOY decline **(figure 5)**. The only two provinces to have expanded activity in this area were North-West and KwaZulu-Natal. The latter occurred as a result of major new developments for flats and townhouses, which saw an increase in the approval of plans from 542 units in the first semester of 2023 to 1,229 units – an increase of 127%.

FIGURE 5

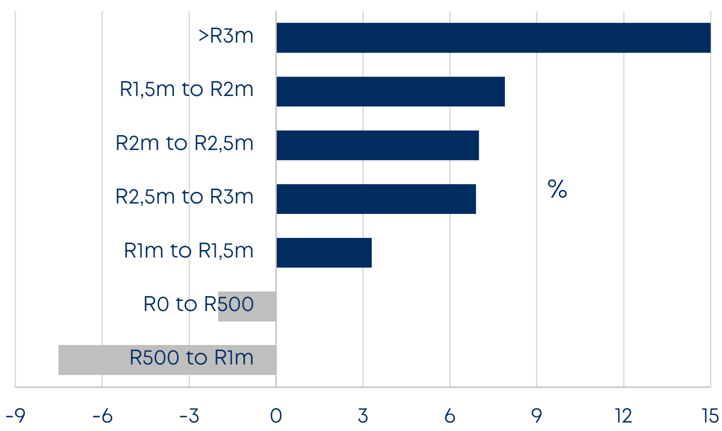


(Source: Stats SA)

6 YOY % change in approved loans by home price bracket (12 months to Aug 2024)

The damage inflicted on the residential property market by high interest rates remains evident in the two lowest home price brackets, namely below R500k and between R500k and R1 million **(figure 6)**. During the 12 months to the end of August, the number of approved home loans in these two categories declined by more than 2% and 7.5%, respectively – a reflection of the affordability challenges being faced by lower income earners. In contrast, the number of home loans for higher priced homes have continued to increase, with an impressive YOY increase of 15% for homes valued at more than R3 million. Furthermore, it is encouraging to note that the total number of home loans granted in July and August 2024 was 5% higher than for the same two months last year.

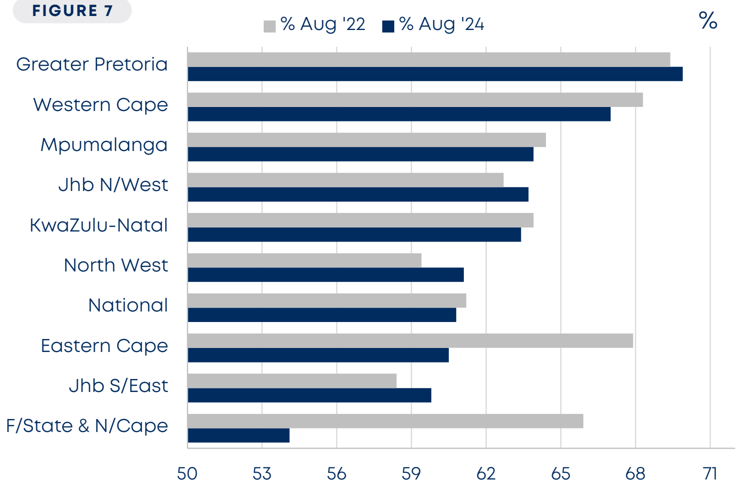
FIGURE 6



7 Loan approval ratio by region (12 months to Aug 2022 & 2024)

For the 12 months ended August 2024, the average loan approval ratio stood at 60.8% – virtually the same level as two years ago, another welcome indication of a bottoming out of activity in the residential property market. The Greater Pretoria region took the lead, with an approval ratio of just below 70%, followed by the Western Cape at 67% and Mpumalanga at 63.9% **(figure 7)**. The Free State & Northen Cape only managed an approval rate of 54%, with only four regions having increased their home loan approval ratios over the past two years. With inflation down to 4.6%, lower interest rates should be just around the corner, which may pave the way for improvements in loan approval rates during the second half of the year.

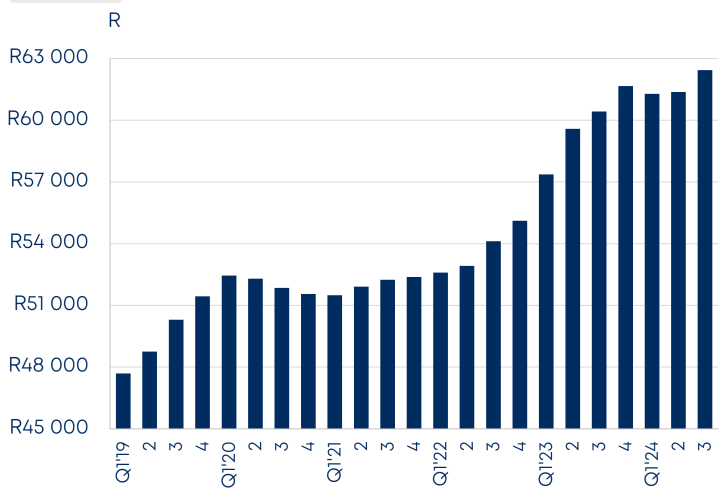
FIGURE 7



8 Average homebuyer income at constant 2024 prices

The average homebuyer income continues to rise at rates well above inflation, confirming the wide gap between the different income groups in South Africa **(figure 8)**. The main reasons for the inequality of income in the formal sectors of the economy are work experience and skills levels. As an inference, age also plays a role, with a steady progression in the average salary being earned by higher age groups. During the first two months of Q3 2024, the average homebuyer income increased by 3.3%, in real terms. Over the past three years, the average homebuyer income outpaced inflation by 20%, with the main drivers being the age group above 50 years. In a future environment of lower interest rates and higher economic growth (as is widely expected), the average homebuyer income is bound to continue rising at healthy rates.

FIGURE 8



Economist's notes

4.6%

Consumer inflation for July 2024

ZAR USD **6%**

YOY strengthening of the rand/US dollar exchange rate

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.

Lower interest rates around the corner

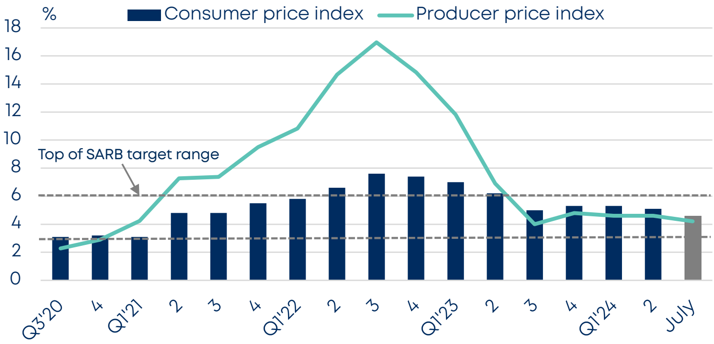
August turned out to be a bumper month for good news on the economic front. From a residential property market perspective, the most important development was the further decline in the consumer price index (CPI) to 4.6% **(figure 9)** – just above the mid-point of the Reserve Bank's target range, which is exceptionally good news for debt-laden households.

Fortunately, the producer price index (PPI), which is a leading indicator of consumer prices, is at an even lower level than the CPI, namely 4.2%. The CPI has now been comfortably within the target range of 3% to 6% for 14 successive months, signalling the strong likelihood of an interest rate cut in September.

Consumer & producer inflation remain comfortably within the SARB's target range

FIGURE 9

(Source: Stats SA)



In fact, the debate is now shifting from whether the repo rate will be cut to what the scope of the reduction will be. A cut of 50 basis points has become a reality – especially against the backdrop of low economic growth, rising unemployment and households facing the highest ratio of debt costs to disposable income in 15 years (9.2%).

Underpinning the optimism over sizeable rate cuts over the next 12 months is the sharp decline in South Africa's 10-year bond yield. Since the end of April, the country's benchmark long-term interest rate has dropped by almost 200 basis points – suggesting that the Reserve Bank's Monetary Policy Committee has been caught napping, due to the positive long-term correlation between lending rates and bond yields.

Rand recovery on track

South Africa's currency continued to flex its muscles during August, ending the month at R17.82 against the US dollar – more than 6% stronger than a year ago. A strong currency will aid the quest for lower inflation and, ultimately, a relaxation of restrictive monetary policy (which is overdue). Apart from having been significantly undervalued until the beginning of 2024, the recovery of the rand has been facilitated by a fairly steep decline in the US dollar index (DXY), which shed no less than 500 basis points during the nine weeks ended on 28 August. Although the rand, like the currencies of its emerging market peers, will remain in choppy waters, its recovery has already helped to facilitate a significant reduction in fuel prices.

Retail trade sales bounce back

A welcome recovery in the value of retail trade sales occurred at the end of the second quarter, with a real YOY growth rate of 4.1%, taking the figure to a new record for the month of June (R117 billion at current prices). Except for hardware, paint and glass retailers, all the other key types or retailers managed to record YOY growth rates during Q2 2024, with general dealers leading the pack at a sales value of just below R170 billion, followed by textiles, clothing and footwear at R56.7 billion.

GDP improves in Q2 2024

Although South Africa's Q2 2024 GDP only managed a marginal YOY growth rate of 0.4%, the QOQ growth of more than 3% was quite welcome, especially against the backdrop of the highest interest rates in 14 years. Several authoritative research agencies are expecting significantly higher economic growth in 2025, when the cost of credit is likely to be lower and the promise of closer cooperation between government and the private sector starts to bear fruit.

Economist
Dr Roelof Botha

Contact us
Taryn Curtis | BetterBond Marketing Manager | taryn.curtis@betterbond.co.za

www.betterbond.co.za

BetterBond, a subsidiary of BetterHome Group Limited.
Disclaimer: BetterHome Group Limited and its affiliates (being entities in which BetterHome Group Limited has a financial interest) shall not be liable for any errors, omissions and/or inaccurate information contained herein nor shall any of them be liable for any loss, damages or costs whatsoever arising from the use, dissemination or publication of this document. Recipients may not sell or otherwise profit from the dissemination of the information contained herein. This document is intended for information purposes only and is not intended to constitute advice nor is it intended to constitute an offer of any nature. You should accordingly seek advice from a professional advisor before making any financial decisions to ensure that your specific financial needs have been assessed.

BetterBond