BetterBond PROPERTY BRIEF

JULY 2024

HIGHLIGHTS

5.6%

YOY increase in average home price for all buyers

R320,000

Average deposit for home purchase by all buyers

6.9%

YOY increase in the construction input cost index

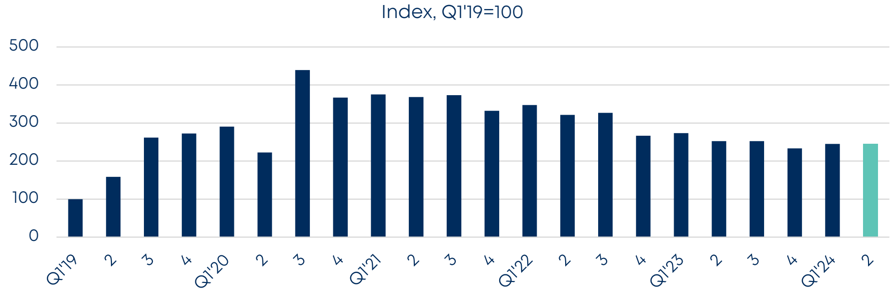
35%

Share of loans granted to homes valued between R1 million and R2 million

1 BetterBond index of home loan applications

The modest improvement in new home loan activity that started during Q1 2024 was halted in its tracks during Q2, with zero growth recorded **(figure 1)**. This was no surprise, as the uncertainty over the outcome of the national elections negatively affected a range of key economic indicators, including the Absa/BER purchasing managers' index (PMI) and the Afrimat construction index. Fortunately, the election outcome has been well received by global capital markets and domestic business leaders, with the new government of national unity (GNU) committed to preserving the country's constitution and maintaining the principle of private property rights. A further recovery of activity in the residential property market is on the cards, with the chances of an interest rate cut in July improving by the day.

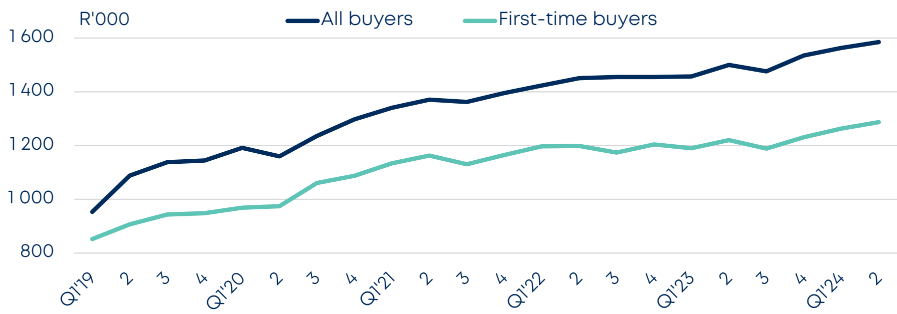
FIGURE 1



2 Average home purchase price

During Q2 2024, the YOY increases in home prices for first-time buyers and repeat buyers both increased at a marginally higher rate than inflation **(figure 2)**. The increase of 5.6% in home prices for all buyers compares favourably to the annualised increase in the consumer price index (CPI) of 5.2% in May. The QOQ increase of 1.4% for all buyers is marginally lower than the average QOQ increase of 1.7% over the past 17 quarters, but this figure has been negatively impacted by the highest lending rates in 14 years. A meaningful recovery of the demand for residential property is on the cards when interest rates start declining again, most likely during Q3.

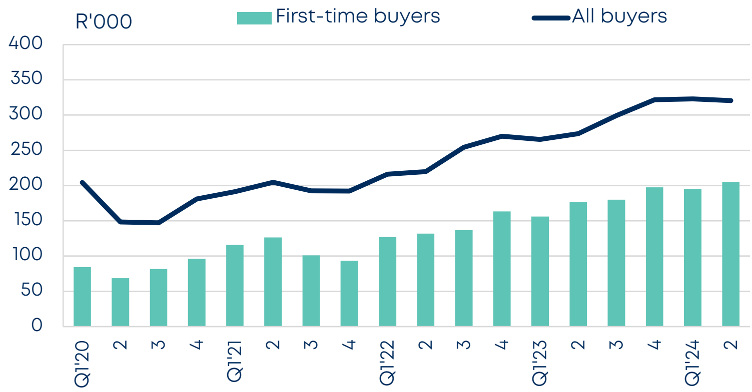
FIGURE 2



3 Average deposit for home purchase

During Q2 2024, the value of deposits required for repeat homebuyers managed to record a marginal QOQ decline **(figure 3)**, pointing to a more accommodating stance by financial institutions. Unfortunately, the rising trend in this key indicator of residential property market activity was 17% higher than a year ago for all buyers and more than 16% higher for first-time buyers. During Q2, the average deposit required for first-time buyers went above the R200,000 level for the first time. The rising trend for home loan deposits is likely to be reversed once interest rates start declining.

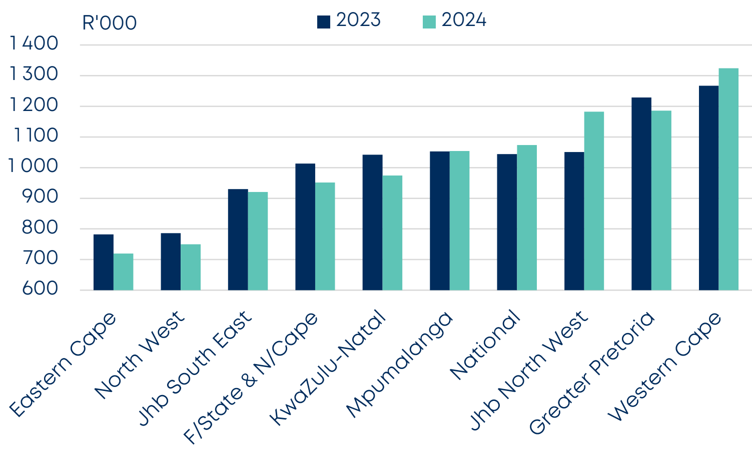
FIGURE 3



4 Average home loan value for FTBs by key region (12 months to June)

During the 12 months to June 2024, the average value of home loans awarded to first-time buyers increased by 2.9%, which is significantly lower than the current annualised rate of increase in the consumer price index (CPI). Although the average YOY home price for first-time buyers managed to beat inflation (only just), the difference between these two rates of increase is explained by the relentless rise in the value of deposits required by first-time buyers. During the 12 months to June, only Johannesburg's north-western suburbs and the Western Cape managed to record meaningful YOY increases in average home loan values **(figure 4)**, which was sufficient for a positive average national value.

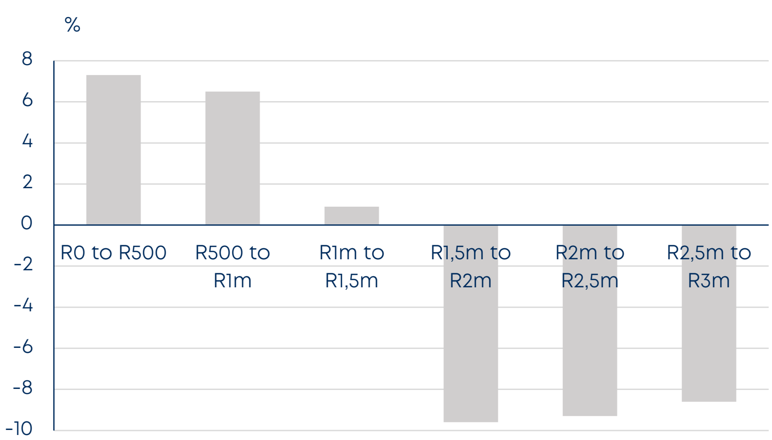
FIGURE 3



5 Percentage share of formal grants per home price bracket (April to June 2024)

Since the beginning of the year, home loan activity has increasingly become more prevalent for homes valued at below R1 million **(figure 5)**. This trend is due mainly to affordability limits imposed on the housing market by the highest interest rates in 14 years, as well as sluggish economic growth in general, which has not witnessed any increase in formal sector jobs thus far in 2024. Once interest rates start declining and the new government starts to incentivise higher economic growth, the market for homes above R1 million is bound to take off. Average home prices will, however, be inclined to increase at a more pronounced rate, due to a pending shortage of residential properties as demand starts improving, while new home building activity remains very subdued.

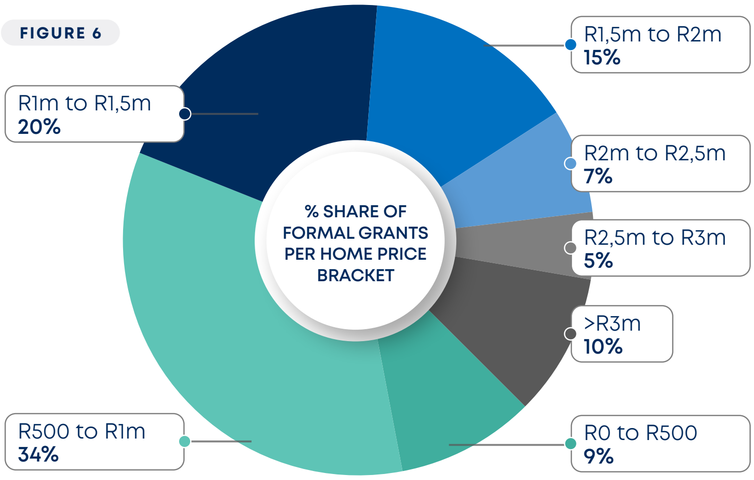
FIGURE 5



6 Percentage share of formal grants per home price bracket (12 months to June 2024)

During the past 12 months to the end of June, the share of home loans for home prices below R1 million has continued to dominate residential property market activity, representing 43% of total home loans awarded **(figure 6)**. Since the beginning of the year there has nevertheless been an uptick in the share of loans for properties valued at between R1.5 million and R2 million, as well as the top-end of the market (houses valued at above R3 million). With building costs running at well above inflation and lower interest rates in the near future, a further shift towards higher priced properties may occur in the second half of the year.

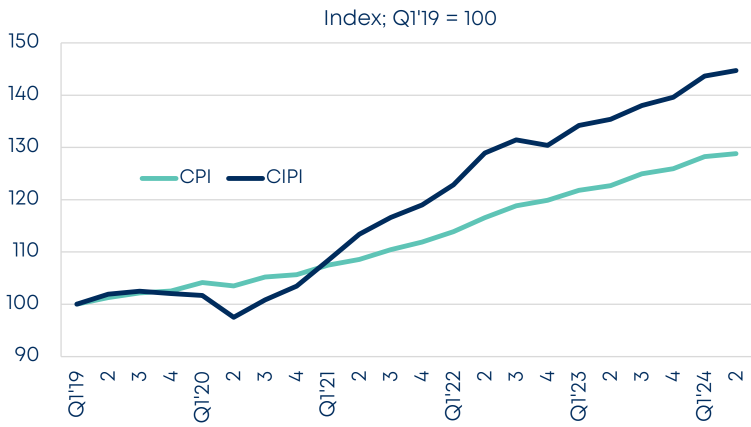
FIGURE 6



7 Construction input cost index (CICI) and CPI

Ever since the end of the worst of the Covid pandemic, the gap between the CICI and consumer inflation has been widening **(figure 7)**. The former index is a proxy for the replacement cost of a home and the current trend confirms the existence of a so-called buyers' market, which won't be reversed until lending costs have returned to much lower levels. Fortunately for the prospects of lower price levels, the Q2 increases in these two indices were both below 1%. For the CICI, the QOQ increase in Q2 2024 was the lowest in six quarters and the recent YOY decline in the production price index to 4.6% suggests that the CICI will stabilise at a lower level of increase during the rest of 2024.

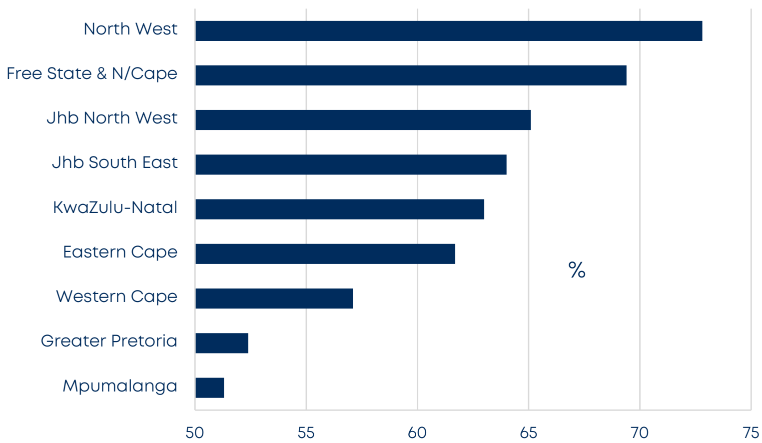
FIGURE 7



8 FTB share of total home loan applications (12 months to June 2024)

During the 12 months to June 2024, home loan applications from first-time buyers was the most prevalent in the North-West province **(figure 8)**, but this region only represented 2.1% of all applications. The Free State and Northern Cape had the second most home loan applications for first-time buyers, followed by the region with the highest level of activity (22% of all applications), namely Johannesburg's South-Eastern suburbs. Over the past 12 months, only 3 regions managed to increase their share of loan applications for first-time buyers, namely, Free State and Northern Cape, KwaZulu-Natal and Johannesburg North West, with the biggest decline emanating from Johannesburg's North-Western suburbs (-6.1%).

FIGURE 8



Economist's notes

5.5%

Strengthening of the rand against the US dollar between 1 March and 30 June

100
plus basis points

The decline in South Africa's long-term bond yield since end 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.

GNU promises to kick-start the economy

After a month of intense speculation over the composition of South Africa's second government of national unity (GNU), it finally transpired that the two parties with the largest political support would be the key drivers of national public sector governance over the next five years. The ANC, DA and eight smaller parties have all been accommodated in the enlarged cabinet, with the GNU firmly committed to the principles of free enterprise and private property rights – comforting news for the business sector, especially agriculture.

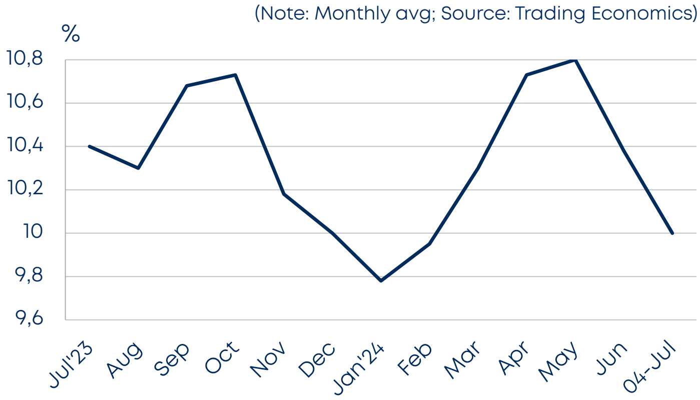
It has been made clear by Cyril Ramaphosa that the GNU will focus on policies designed to lift South Africa's growth rate and create jobs, which is the most effective way to combat poverty, reduce economic inequality, while also broadening the tax base. The road ahead will be full of bumps and some patience will be required before results become visible. Conflicting opinions over economic versus ideological priorities are likely to slow down progress with the removal of unnecessary regulatory impediments to the expansion of private sector business activity. Nevertheless, if the GNU remains committed to close cooperation with the private sector, especially in improving the efficiency of transport logistics, a higher level of economic growth beckons for South Africa.

Welcome decline in long-term interest rate

The decline of more than 100 basis points in South Africa's 10-year bond yield **(figure 9)** in the aftermath of the recent elections holds the promise of an imminent lowering of the Reserve Bank's repo rate. The chances of an easing of lending rates happening sooner rather than later have also improved, mainly because of further declines in the producer price index and the food price index, both of which act as leading indicators of the consumer price index (CPI). The latter has been comfortably within the inflation target range for a year and millions of indebted South Africans are eagerly awaiting a departure from an excessively restrictive monetary policy approach.

FIGURE 9 South Africa's 10-year government bond yield

(Note: Monthly avg; Source: Trading Economics)



Global capital market approval of GNU

Several other key economic indicators are also reflecting an improved outlook for higher growth, most likely because of the perception that the GNU will pursue market-friendly economic policies designed to encourage both domestic capital formation and inward foreign investment. These include the Absa/BER purchasing managers' index (PMI) for business expectations in manufacturing in 6 months' time, which has reached its highest level since February 2022, namely 68.1 index points, a YOY increase of 30%.

Further proof of the new-found mood of optimism in the economy is the recent performance of the rand. Between the first of March and the end of June, the rand strengthened by 5.5% against the US dollar. None of the sixteen key currencies monitored by Currencies Direct outperformed the rand against the greenback, with even the euro, the Chinese yuan and the Japanese yen taking a hit against the world's dominant currency.

This time around, rand strength was not based on any relative weakness in the US dollar's value, as the dollar index (DXY) strengthened by almost 2% to 105.9 over the past four months, leaving most of the world's key currencies floundering. Although the rand is likely to remain volatile against the dollar, several leading financial institutions are predicting a value of below R18 by the end of the year.

Economist
Dr Roelof Botha

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