



JUNE 2024

HIGHLIGHTS



QOQ increase in new home loan applications



YOY increase in average home price for first-time buyers



YOY increase in the average home loan value in JHB NW

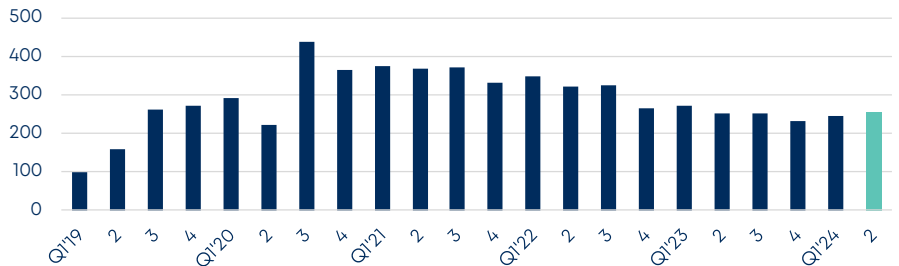


Increase in the ratio between average home prices and income for the 31 to 40 year age group

1 BetterBond index of home loan applications

New home loan activity has started Q2 2024 on a modestly improved note, with a QOQ increase of 4.2% in the number of home loan applications submitted (figure 1). The YOY increase was more muted at 1.2%, but nevertheless signals a measure of stability that has returned to the residential property market, following the steep decline in activity since the SA Reserve Bank embarked on a restrictive monetary policy stance at the end of 2021. Compared to Q2 2022, the number of new home loan applications was still down by 20%. Hopefully, the consistent decline in the consumer price index (CPI) will lead to lower interest rates in Q3 2024.

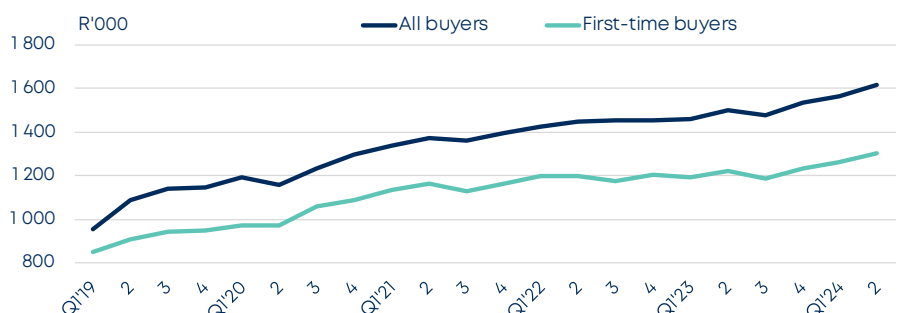
FIGURE 1 Index, Q1'19=100 (Note: Q2'24 includes April & May)



2 Average home purchase price

Signs have emerged that point to an imminent new growth phase in residential property market activity, with a return to real YOY increases in home prices. During April and May, average home purchase prices increased by 7.6% for all buyers, compared to Q2 2023 and by 6.9% for first-time buyers (figure 2). Inflation is currently just above 5%, which translates into a decent real price increase and provides evidence of an uptick in the demand for homes. The QOQ increase in average home prices for all buyers of 3.3% has been matched by the figure for first-time buyers and is double the average QOQ home price increase recorded over the past 17 quarters. A further recovery of the demand for residential property is on the cards when interest rates start declining again, possibly during the second half of the year.

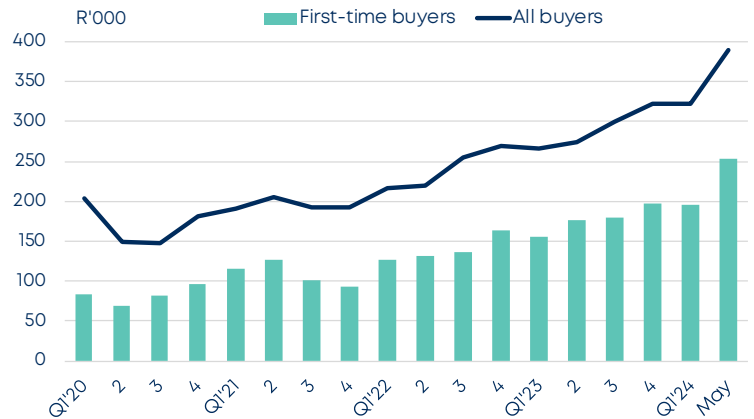
FIGURE 2 R'000



3 Average deposit for home purchase

The relentless rise since the end of 2021 in the prime overdraft rate to just below 12% has predictably led to a sharp increase in the average value of deposits required for home purchases, both for first-time buyers and repeat buyers. As a direct result of the highest interest rate in 14 years, banks have been experiencing increases in credit impairments, which have risen to more than R193 billion at the end of last year. The increase in the average deposit on a home loan has been especially severe for first-time buyers, with the level of R253,000 recorded in May 2024 being 44% higher than a year ago (figure 3). Any future lowering of interest rates is likely to eventually reverse the rising trend for the deposits required for home loans.

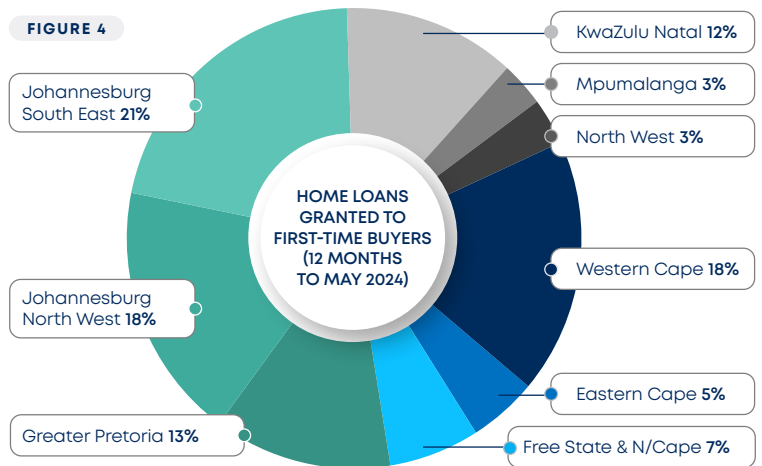
FIGURE 3



4 Regional composition of home loans granted to first-time buyers (12 months to May 2024)

During the 12 months to May 2024, Johannesburg's South-Eastern suburbs were the most popular region for first-time homebuyers, with Johannesburg's North-Western suburbs in joint second position with the Western Cape (figure 4). Two other regions that are home to metros came in at numbers four and five. These five regions represented 82% of all home loans granted during the past 12 months – an indication of the relentless phenomenon of urbanisation, which is a common characteristic of middle-income and upper middle-income developing countries.

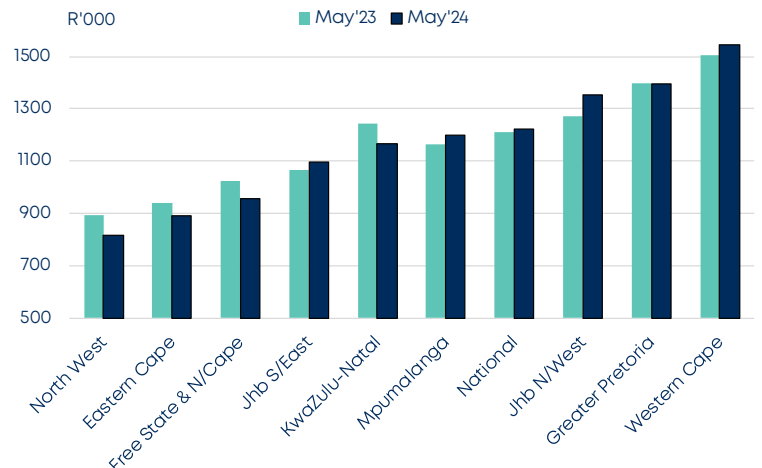
FIGURE 4



5 Regional composition of average home loan value (YTD May 2023 to May 2024)

During the past 12 months, the Western Cape has maintained its number one position as the region with the highest home loan value, followed by the Greater Pretoria region and Johannesburg's North-Western suburbs (figure 5). The latter region was the top performer for the YOY increase in average home loan values, namely an impressive 6.5% gain – higher than the inflation rate. Other regions that managed to increase their average home loan values were Johannesburg South East, the Western Cape and Mpumalanga. The others recorded declines, with Mpumalanga ousting KwaZulu-Natal from the fourth highest value to fifth position.

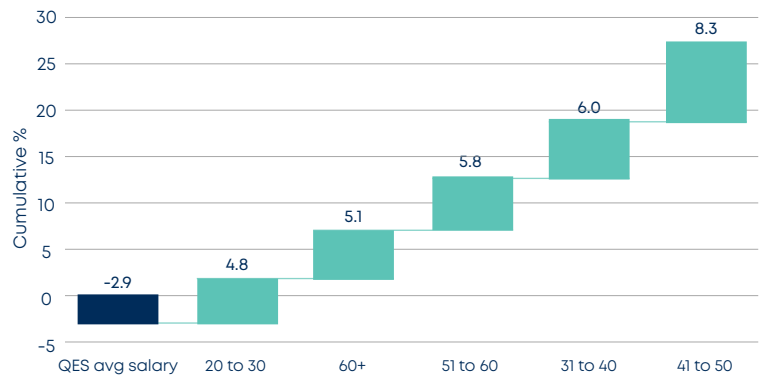
FIGURE 5



6 YOY real increase in average homebuyer incomes by age group

Over the past year, the age group between 41 and 50 years continued to outperform the other age groups in terms of real income growth (figure 6). This age group traditionally possesses skills related to a combination of theoretical knowledge and practical experience that is always in demand, especially in an emerging market economy like South Africa. All five age groups for which income data is captured by BetterBond managed to outperform the average real salary growth for the whole of the formal economy by a hefty margin. The latter is determined by Stats SA's Quarterly Employment Survey (QES), which has witnessed a declining trend, due to the impact of the Covid pandemic and low economic growth.

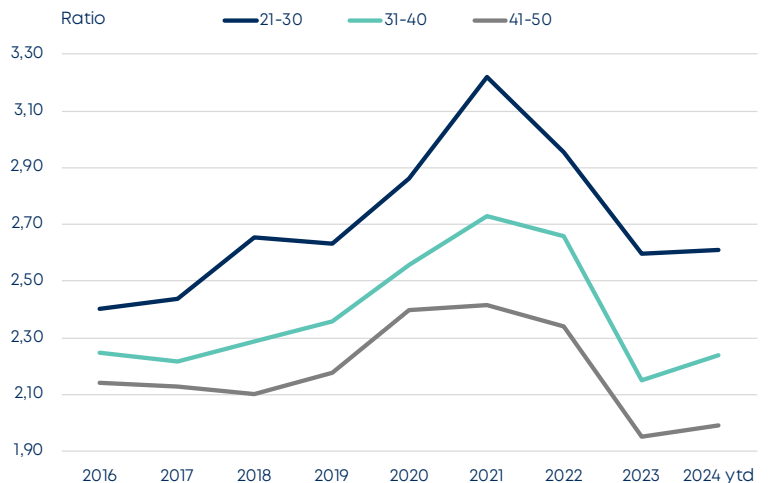
FIGURE 6



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

Between 2016 and the end of 2021, the ratio of home prices to the annual incomes of buyers continued to increase, but the Reserve Bank's hawkish monetary policy has reversed this trend, with the ratio declining to lower levels than 2016 for the income groups between 31 and 50 years of age (figure 7). Now that home prices are showing signs of growth in real terms (i.e. after adjustment for inflation) the trend has resumed an upward momentum for all three age groups of under 50 years. If this trend gains momentum, it will signal a shift towards higher levels of demand among potential homebuyers. The fact that average home prices became cheaper relative to the incomes of homebuyers over the past two years can be regarded as a growth driver for residential property market activity, especially once interest rates have declined.

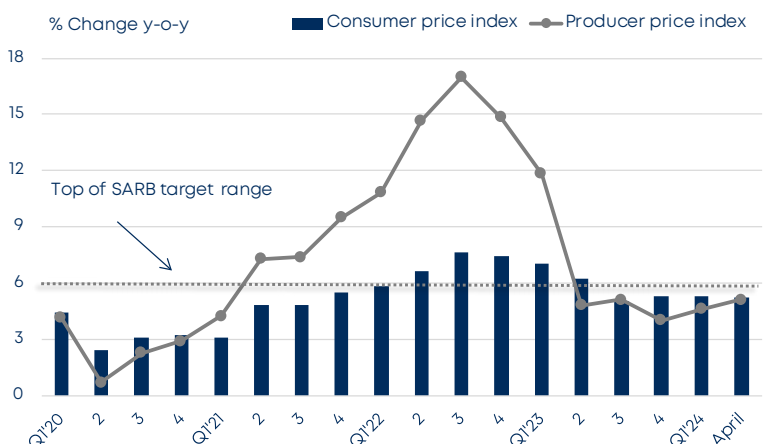
FIGURE 7



8 Average quarterly CPI and producer price index (PPI)

The prospects for higher levels of residential property market activity have been boosted by the latest data on inflation, with the CPI having resumed a downward path and the PPI remaining below 6% (figure 8). The fact that food inflation has dropped to below 5% is of particular importance, as this item, combined with beverages, constitutes more than one-fifth of the consumption expenditure basket. The chances have improved for the CPI to decline further, which could witness an interest rate decline in July. A rate cut is long overdue, as there is no sign of demand inflation in the economy and the CPI has been comfortably within the Reserve Bank's target range since June 2023.

FIGURE 8



Economist's notes



63

Cape Town's ranking out of 1,200 cities for popularity of global conferences



2.4%

YOY first quarter growth in value added by the sector for real estate, financial and business services

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Historic election outcome

On 27 April 1994, South Africa became a democracy with the principles of free enterprise and private property ownership firmly embodied in a constitution that drew acclaim from the rest of the democratic world – it is, after all, premised on the United Nations' Declaration on Human Rights. It was a proud moment indeed and one that befitted the ascendancy to the head of state of a Nobel Peace Prize winner, Nelson Mandela.

Now, 30 years later, South Africa's national elections have made headlines again – mostly for good reasons. The ANC's monopoly over socio-economic policy has been broken. Most of the world's democratic nations are governed by coalitions, with two countries jointly holding the record for the largest number of political parties involved, namely Brazil and North Macedonia – with 13 each. Coalitions and governments of national unity have the common characteristic of forcing two or more political parties that represent different expectations from the voting public to work together in public sector service delivery and economic policy.

South Africa has now joined this club, which is an indication of a maturing democracy. Even though the ascendancy of a new party with populist views may be of some concern for the preservation of socio-economic freedom, it is abundantly clear that the two largest political parties are both committed to maintaining the constitution and the principle of private property rights.

South Africa shines in key tourism indicator

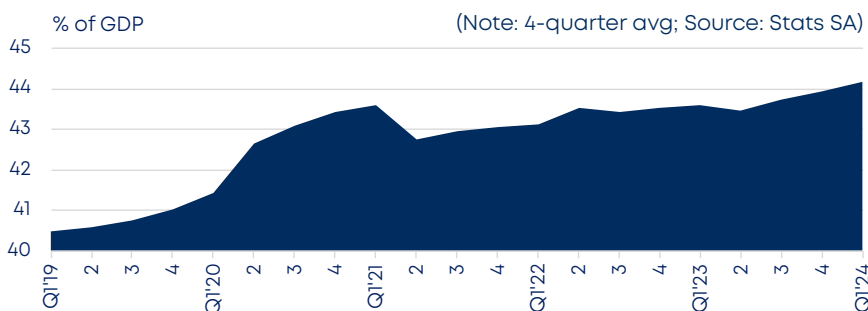
Apart from the achievement of another full month without loadshedding, South Africans would have been proud of the country's standing in a key international index on tourism. South Africa fared exceptionally well in the latest annual global rankings for the popularity of hosting conferences, published in May by the International Congress and Convention Association (ICCA). For countries, South Africa was ranked number 41 out of 180 countries that hosted at least one meeting. For cities, Cape Town was ranked number 63 out of more than 1,200 cities, placing the mother city within the top 6% in the world. Cape Town was a more popular convention venue than cities such as Rio de Janeiro, Washington, Miami, Los Angeles, New Delhi, Frankfurt and Las Vegas.

Marginal GDP growth secured in Q1 2024

According to Stats SA, the YOY real growth rate in the country's Gross Domestic Product (GDP) amounted to 0.5% in Q1 2024. The economy has now grown at real positive rates for 11 of the past 12 quarters, despite the lingering after-effects of the Covid pandemic, weak prices for several key export commodities and, since 2022, the restrictive monetary policy stance of the SA Reserve Bank's Monetary Policy Committee.

Financial, business, real estate and personal services share of GDP

FIGURE 9



The largest sector of the economy, which encompasses financial & business services and real estate, managed to record a nifty YOY real growth rate of 2.4% in Q1 2024 (figure 9). Together with personal services, which embody a multitude of small entrepreneurial businesses, these two sectors have consistently expanded their share of GDP. In Q4 2018, their combined share of GDP at basic prices (value added) was below 40% but has now reached a level of almost 46%.

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