BetterBond

PROPERTY BRIEF

OCT 2024

HIGHLIGHTS

11.5%

New prime lending rate

6%

YOY increase in average nominal home purchase price

10%

YOY decline in average deposit required for first-time homebuyers

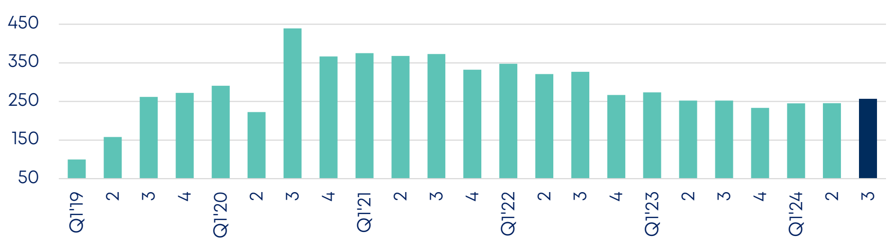
R1.12 million

Average home purchase price for buyers younger than 30

1 BetterBond index of home loan applications

Following a declining trend in home loan activity that lasted for 13 quarters, mainly because of a restrictive monetary policy, the BetterBond index of home loan applications started a modest recovery during the beginning of 2024. During Q3, the number of home loan applications increased by 4.5% (QOQ) and by a more modest 1.6%, compared to Q3 2023 **(figure 1)**. Prospective homeowners have been confronted by the highest prime lending rate in 14 years, which is not conducive to any meaningful expansion of residential property market activity. As a result, the number of home loan applications have declined by 31% since Q3 2021. During the two years prior to this period, home loan activity was brimming, with an increase in loan applications of 43%. Now that interest rates have started a downward cycle, 2025 may well turn out to be a bumper year for the home loan industry.

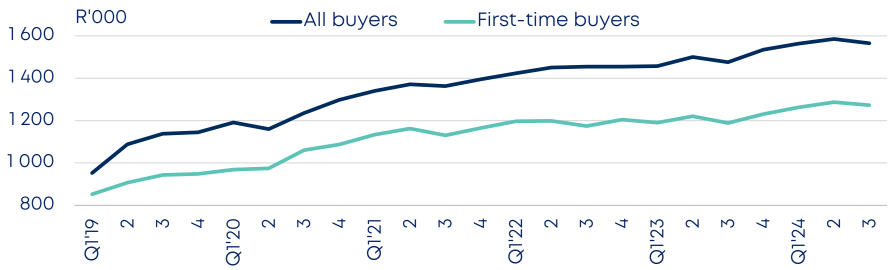
FIGURE 1



2 Average home purchase price

The widely anticipated decline in the prime overdraft rate only amounted to 25 basis points, which was met with a measure of disappointment by the property market in general and prospective homeowners in particular. At a level of 11.5%, the benchmark lending rate is still 150 basis points above the 10% level just before the Covid pandemic and a full 450 basis points higher than in November 2021, when the monetary authorities started a relentless rate hiking cycle. The September rate cut was insufficient to lead to a raise in average home prices, although the YOY performance was quite impressive at 6% for all buyers and 7% for first-time buyers (FTBs) **(figure 2)**. With inflation now below the mid-point of the Reserve Bank's target range of 3% to 6%, a further rate cut is widely expected in November. With a bit of luck, it will take the prime rate down to 11%.

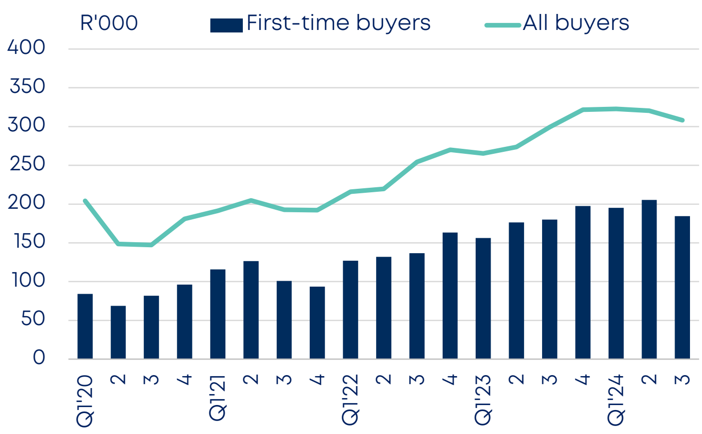
FIGURE 2



3 Average deposit for home purchase

A welcome lowering of the deposits required for access to home loans occurred during Q3, with a QOQ decline of 3.8% for all buyers and an impressive YOY % decline of 10% for FTBs, on average **(figure 3)**. The YOY rate of increase in deposits for home loans remains in positive territory, but only marginally so, with FTBs and all buyers having to fork out 2.4% and 3% more, respectively, than a year ago. Since the onset of the rate hiking cycle, the average deposit required for FTBs has virtually doubled, while it has increased by 60% for all buyers. Little doubt exists that further declines in the ratio between deposits and home purchase prices are in the offing, as this ratio is positively correlated with interest rates. This should act as an additional driver of residential property market activity in 2025.

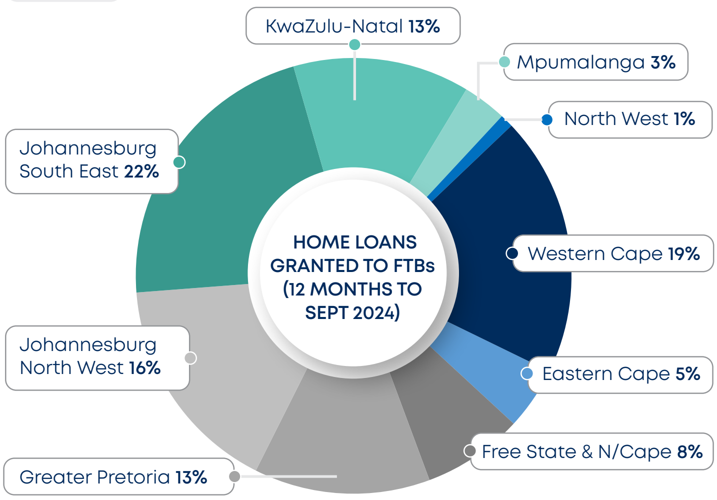
FIGURE 3



4 Regional composition of home loans granted to FTBs (12 months to Sept 2024)

During the 12 months to September 2024, Gauteng remained the most popular province for FTBs, with Johannesburg's South-Eastern suburbs retaining the number one spot **(figure 4)**. Over the past 12 months, Gauteng was responsible for 51% of home loans granted to FTBs. Compared to a mere four months ago, there have been some noticeable changes in the rankings. The Western Cape has moved up a notch and now holds the second spot on its own, followed by Johannesburg's North-Western suburbs. KwaZulu-Natal was another mover and shaker and has progressed from fifth place to joint-fourth with the Greater Pretoria region. Due to the presence of a variety of so-called "propulsive industries or sectors" that are present in large metros, these regions will tend to attract most of the attention of prospective homeowners.

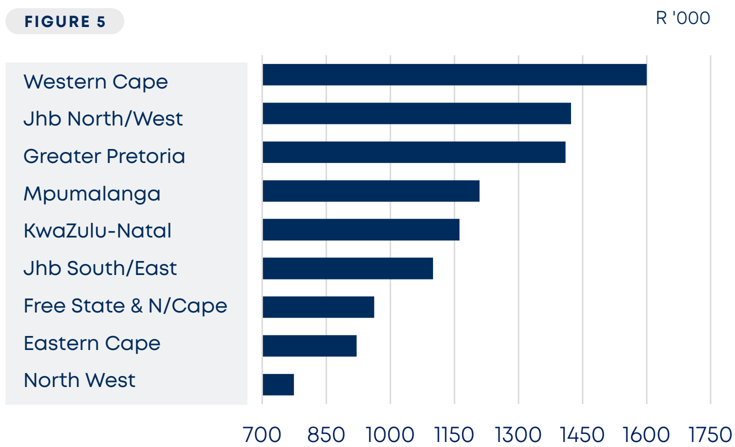
FIGURE 4



5 Regional composition of average bond value (12 months to Sept 2024)

During the past 12 months, the Western Cape maintained its number one position as the region with the highest home loan value, but a change has occurred for the silver medal position, namely an ousting of the Greater Pretoria region by Johannesburg's North-Western suburbs. South Africa's administrative capital is now in third position **(figure 5)**. Mpumalanga retains position number four, having recently overtaken KwaZulu-Natal and also opening up a larger gap in terms of the average home loan value. Except for KwaZulu-Natal and North West, all the regions increased their average home loan values marginally.

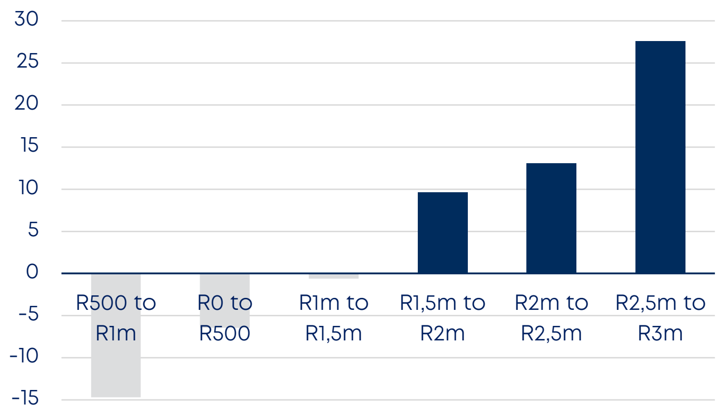
FIGURE 5



6 YOY % change in the share of home loans per home price bracket (Sept 2024)

It is clear that the relentless rise in interest rates took a heavy toll on prospective homebuyers 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 September, the number of approved home loans in these two categories declined by more than 6.4% and 14.7%, respectively – a significantly steeper contraction than for the 12 months ended August 2024. Conversely, the YOY change in the share of home loans for the two highest price brackets (R2 million to R2.5 million and R2.5 million to R3 million) increased by a substantially higher margin, namely 13.1% and 27.6%, respectively. The latter may be an indication of prospective homebuyers taking advantage of the current seller's market, in anticipation of price increases when interest rates have dropped further.

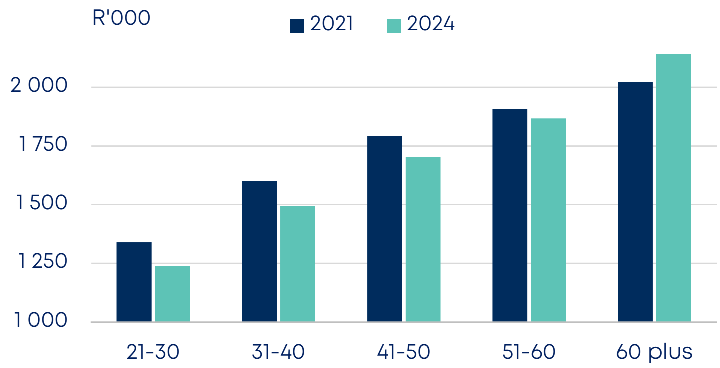
FIGURE 6



7 Average home purchase price by age group at constant 2024 prices (12 months to Sept 2021 & 2024)

Compared to three years ago, average home purchase prices have declined, in real terms, for all the age groups below 60 years, although only marginally so in average annual terms **(figure 7)**. Fortunately, homebuyers above 60 years of age have managed to stabilise the national percentage change at zero (after an adjustment for inflation), with an average home purchase price of R2.14 million. In contrast, the average home purchase price for the youngest age group (21 to 30 years) now stands at R1.24 million – 7.5% less, in real terms, than the figure in 2021. With interest rates on their way down again, it is anticipated that real house prices will start to increase again, possibly quite early in 2025.

FIGURE 7



HIGHLIGHTS

2.8%

Producer price index for August

R1.86 TRILLION

Total value of outstanding mortgage loans in SA

Economist's notes

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Economist

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Economist's notes (continued)

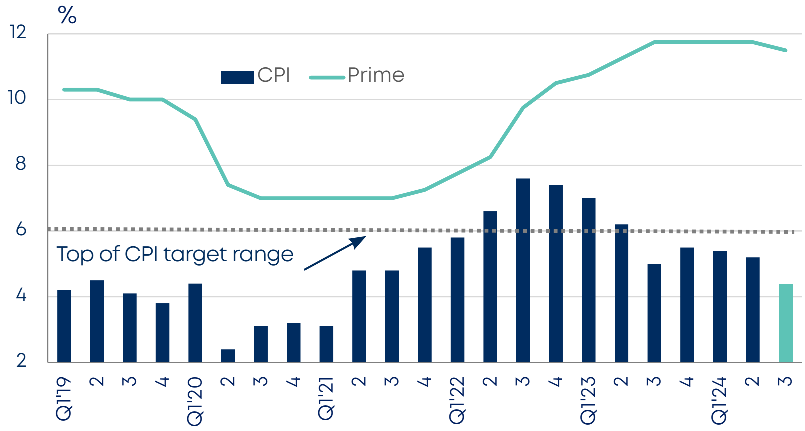
Interest rates on their way down

As predicted in last month's BetterBond Property Brief, homeowners with home loans have now received some pleasant news in the form of the first interest rate cut since 2020. Indebted South Africans have had to live with a double-digit prime rate for 23 successive months. Although the widely anticipated decline in the prime overdraft rate turned out to be only 25 basis points, the sound prospects for even lower inflation in the months ahead could lead to a further cut of 50 basis points in November.

With the value of total loan advances in the economy standing at R1.86 trillion, it is fairly obvious that every interest rate cut translates into significant aggregate savings for households and businesses. It also leads to higher levels of affordability for prospective homebuyers, which the residential property market has anxiously been waiting for.

The recent drop in the producer price index (PPI) to merely 2.8% is exceptionally good news, as the PPI is a leading indicator of consumer inflation **(figure 8)**. With the consumer price index (CPI) likely to continue a declining trend, interest rate cuts in November and into 2025 are virtually guaranteed – just the right medicine for the economy and the real estate sector!

FIGURE 8 Prime lending rate and the consumer price index (CPI)



(Note: CPI = y-o-y change; Sources: Stats SA; SARB)

Construction activity bounces back

A strong QOQ recovery of the Afrimat Construction Index (ACI) occurred during Q2 2024. The ACI improved by almost 9%, outperforming the GDP, which only increased by 3.1% (QOQ). This recovery was predictable, following a poor Q1 reading, when all the ten constituent indicators comprising the index had negative readings. During Q2 however, seven of the ten indicators turned positive, with the value of wholesale sales of building materials once again one of the star performers with QOQ growth of 9.2%.

Other indicators that performed well were the volume of building materials produced, the sales values of building materials and retail hardware sales. Although the values of building plans passed and of buildings completed recovered exceptionally well QOQ, the YOY changes in these two indicators are still in negative territory.

Hopefully, the imminent further lowering of lending rates will provide renewed impetus to these key indicators of conditions in the construction sector and the property market in general.

JSE keeps on breaking records

The FTSE/JSE Africa All Share Index (ALSI) is enjoying its strongest rally in more than a decade, with no sign of any cooling off. Several fund managers believe that room exists for further gains, especially due to attractive valuations for a number of high-quality companies. Over the past six months, no global stock exchange of note (except for China) has been able to match the performance of the JSE ALSI, which increased by more than 16% over the past six months (the recent Chinese stock market rally has been fuelled by abnormal stimulus measures and may not be sustainable).

Manufacturing sales continue to expand

South Africa's manufacturing sector continues to perform well, with the sales figures for the seven months of the year hitting a new record (in real terms). The cumulative figure for 2024 of just below R2 trillion was marginally higher than last year, but 4% higher than in 2019, confirming a full recovery from the Covid lockdowns, as well as solidifying a new growth trend.

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