BetterBond
PROPERTY BRIEF

MARCH 2024

HIGHLIGHTS

R1.3 mil

Average home loan for first-time buyers in the Western Cape

R50.4 bn

Value of residential building plans passed in 2023

17%

Increase in average homebuyer income in 2023

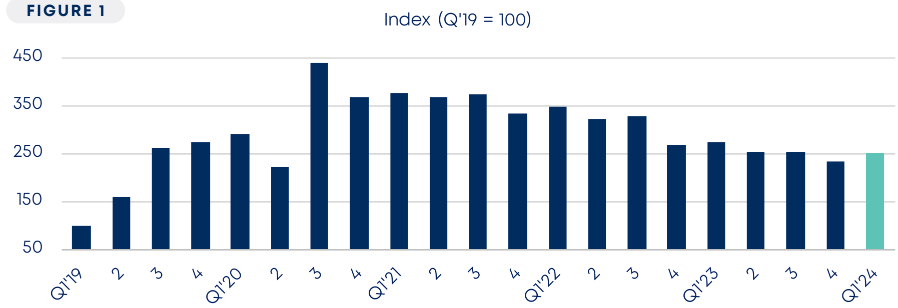
7.8%

QOQ increase in home loan applications

1 BetterBond index of average monthly home loan applications

New home loan activity has started the first quarter of 2024 on an improved note, with a QOQ increase of 7.8% in the number of home loan applications submitted **(figure 1)**. Unfortunately, high interest rates continue to impact negatively on the residential property market, with the YOY increase still down by 8%. With the Q1 2024 level on par with Q2 2023, it does suggest a measure of new-found stability in the residential property market, probably influenced by lower inflation and speculation that interest rates may start declining soon.

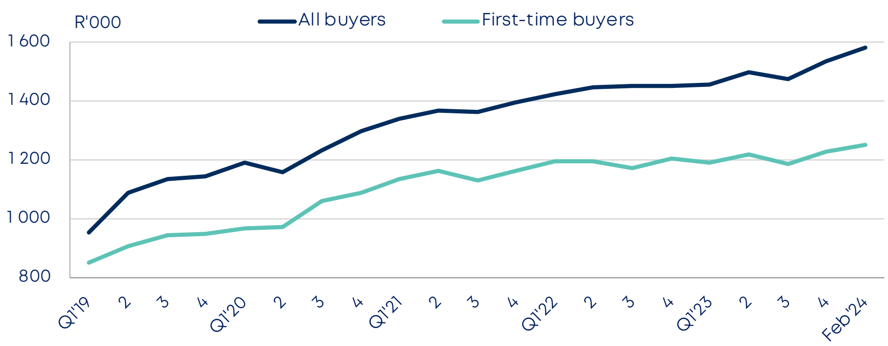
FIGURE 1



2 Average home purchase price

Another indication that activity in the residential property market may be close to a turning point is provided by the impressive YOY increase of 8.5% **(figure 2)** in the average home purchase price for all buyers, which is also positive in real terms after an adjustment for inflation. This welcomed development was made possible by a strong QOQ increase of 3.1%. For first-time buyers, the YOY increase was 5.2%, which is just about on the button of the latest consumer price index reading. Average home prices seem to have started a new upward trend, following the disappointing dip during Q3 of 2023 and generally lacklustre performance since the Monetary Policy Committee (MPC) of the Reserve Bank started to raise interest rates at the end of 2021.

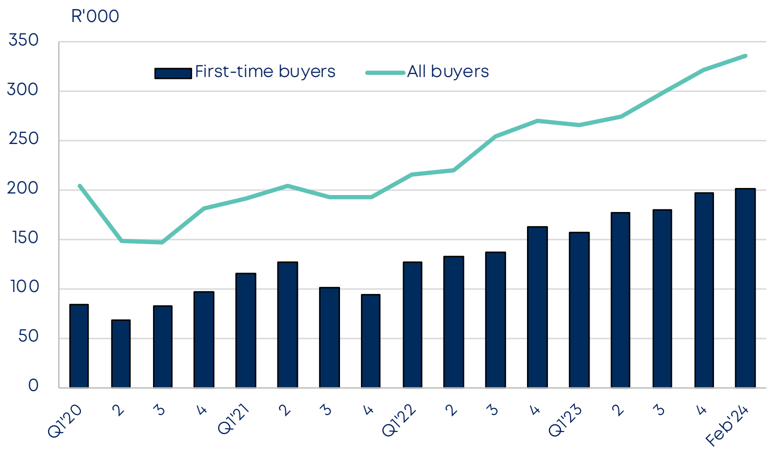
FIGURE 2



3 Average deposit for home purchase

The sharp increase in the average value of deposits required for home purchases that accompanied the Reserve Bank's restrictive monetary policy may be on the verge of flattening out. After increasing by a whopping 56% for all buyers between Q1 of 2022 and February 2024, the increase in February was only 4.4%, compared to Q4 of 2023 **(figure 3)**. As a direct result of higher interest rates, home loan lenders have been confronted by increases in non-performing loans, with credit impairments by the banking sector having risen markedly during 2023. With a bit of luck, March may witness a decline in the Reserve Bank's official repo rate, which could spark a more accommodating environment for homebuying.

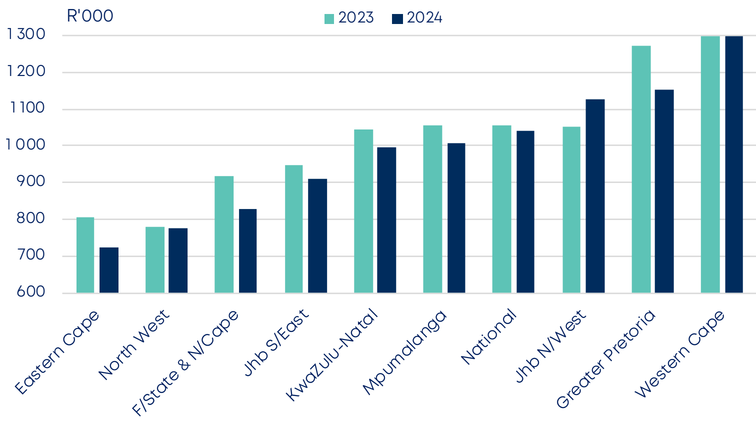
FIGURE 3



4 Average FTBs home loan value by region (12 months to Feb 2023 & 2024)

The relentless rise in the average deposit required for home loans has predictably led to a decline in the average bond value. For first-time buyers (FTBs), lower bond values have been especially prevalent in the Eastern Cape, the Free State and Northern Cape, and Greater Pretoria, with YOY declines of between 9% and 11% **(figure 4)**. The Western Cape is the only region that has managed to hold its own for average home loan values and is also the region with the highest value for first-time buyers (R1.3 million). The average deposit for a home loan for all buyers now represents 21% of the average home purchase price, and it would require significantly lower interest rates to lower this ratio to the level of 16% three years ago.

FIGURE 4

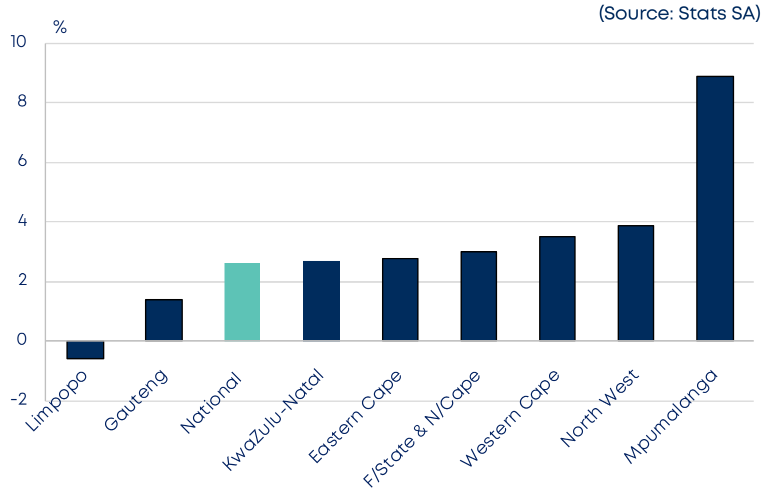


5 YOY increase in residential property price index by region – Q3 2023

Stats SA monitors data on the value of residential property prices (RPP) but does not distinguish between different financing mechanisms for those property prices. Despite this difference, the trend for the Stats SA RPP Index is closely correlated to BetterBond data on the average value of homes. The Stats SA data is dated, with the figures for Q3 of 2023 only recently released. According to the RPP Index, the average price of residential properties increased by 2.6% YOY **(figure 5)**. The BetterBond home price increase for this four-quarter period was 1.5%. Considering the enhanced upward momentum in the average BetterBond home price, it is realistic to expect a similar pattern for the RPP Index for Q1 of 2024.

FIGURE 5

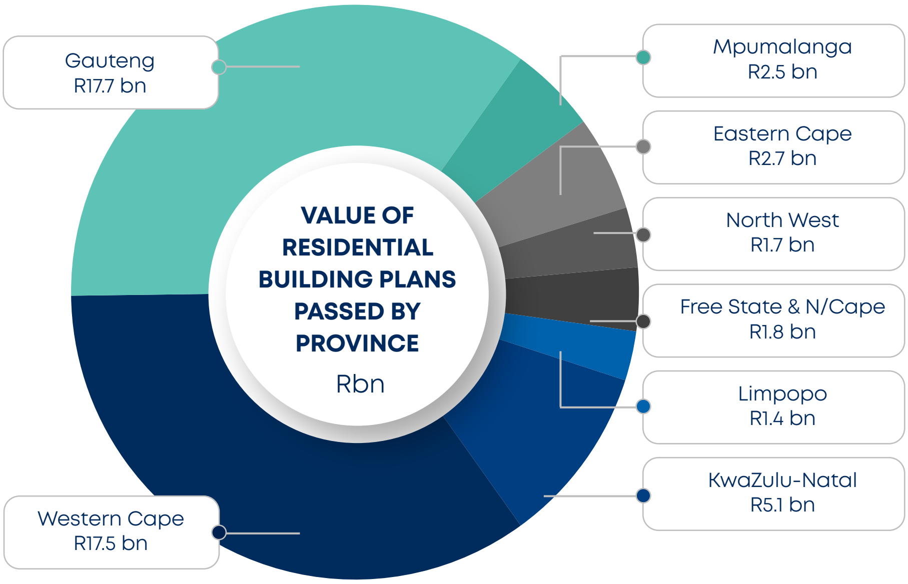
(Source: Stats SA)



6 Value of residential building plans passed by province – 2023

Since the decision by the SA Reserve Bank to raise interest rates to their highest level in 14 years, the value of residential building plans passed has plummeted to R50.4 billion in 2023 – a drop of more than 19% over the figure for 2022 at current prices **(figure 6).** In real terms, this decline is close to 25%, which will act as a constraint to the supply of new homes once interest rates have declined to levels that are compatible for the expansion of residential property market activity. An interesting phenomenon of the Stats SA data is the threat that the Western Cape is now posing to Gauteng as the top-ranked province for the value of building plans passed – a trend associated with relatively superior municipal service delivery and lower unemployment than other provinces.

Total R50.4 bn

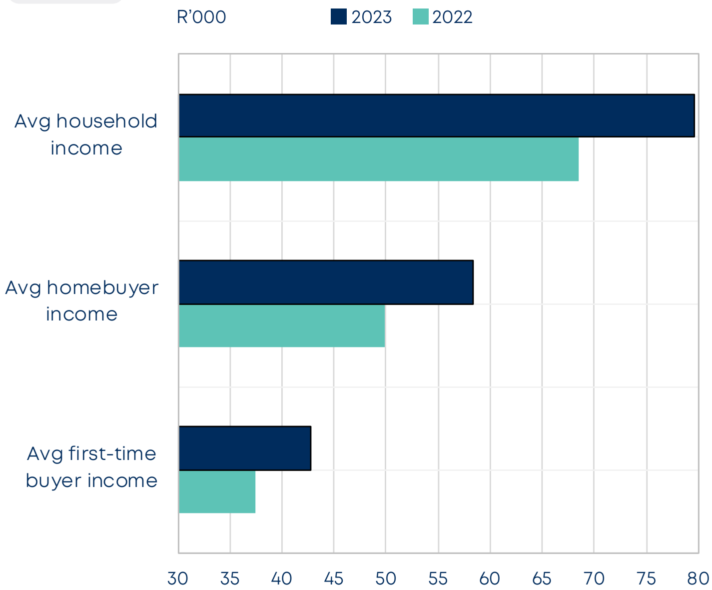


(Source: Stats SA)

7 Average homebuyer and household incomes

The incomes of homebuyers are considerably higher than the average salary of formal sector employees in South Africa. According to the latest Quarterly Employment Statistics published by Stats SA, the latter was at around R26,000 per month during Q3 of 2023, while the average homebuyer using BetterBond's services was earning more than double this figure (R58,400). This is not surprising because there are 46 job categories surveyed by Stats SA that pay more than the average, including in the electricity sector (R58,700), computer services (R53,000) and financial intermediation (R51,400). A feature of the BetterBond data is the substantial increase in average homebuyer incomes over the past year, namely 17%, which can partly be attributed to scarcities in some high-level skills categories **(figure 7).**

FIGURE 7



Economist's notes

140,000

New private sector jobs in Q4 of 2023

8.5%

YOY increase in the average home purchase price

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.

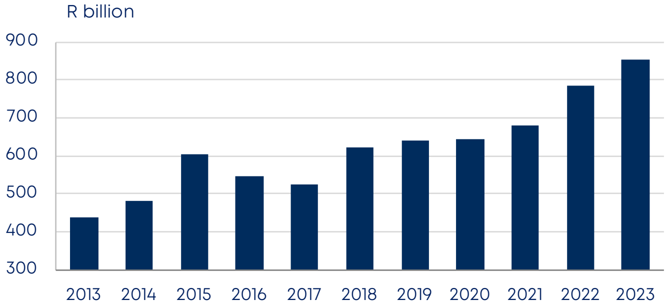
2024/25 budget gets the thumbs up

In February every year, two important events take place that provide an indication of the shape of South Africa's medium-term socio-economic policy initiatives. The first is the State of the Nation Address (Sona) by the head of state, and the second is the tabling of the annual national budget in Parliament, which is National Treasury's responsibility.

Although this year's Sona received a lukewarm reception, it once again made mention of the need to intimately involve the private sector in the future management and expansion of energy, harbours and railways. The latter was subsequently confirmed by the minister of finance in the 2024 budget address delivered to Parliament. Although much confusion and even some furore erupted over National Treasury's intended use of a portion of the country's foreign exchange reserves **(figure 8)** to ease the pressure on the public finances, this practice is not uncommon. Furthermore, the origin of South Africa's foreign exchange reserves is, in fact, a transfer from National Treasury.

FIGURE 8

South Africa's foreign exchange reserves



Note: Excluding IMF Special Drawing Rights; Source: SARB)

The acid test for a national budget at the time of its reading is the reaction of the capital markets. With South Africa's 10-year bond yield remaining virtually unchanged during the subsequent fortnight, National Treasury seems to have passed the test.

Although the rand/US dollar exchange rate took a hammering at the end of February, it was in good company, as a resurgent greenback took its toll on most currencies of note. Since the beginning of March, the rand has clawed its way back to a much stronger position.

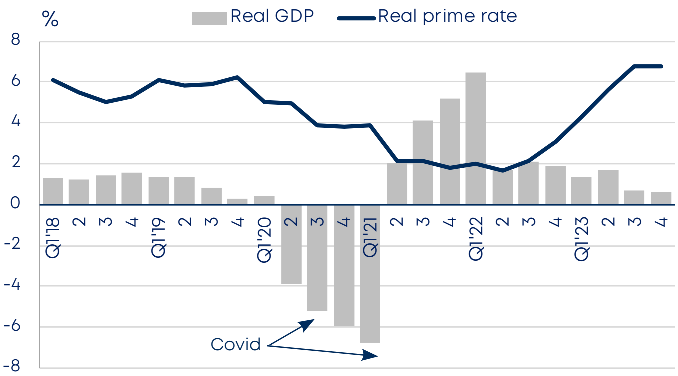
Recession avoided

Early in March, South Africa's GDP figures for Q4 of 2023 and for the year were announced by Stats SA, confirming that economic growth remains in place, albeit at a snail's pace. According to Stats SA, the YOY real growth rate in the country's GDP amounted to 1.2% in Q4 of 2023, following a decline of 0.7% in Q3 **(figure 9)**. The economy has now grown at real positive rates for 10 of the past 11 quarters and will hopefully start to gain some traction during 2024.

The lacklustre rate of economic expansion is mainly due to restrictive monetary policy, which has led to the highest interest rates in 14 years, despite a glaring absence of demand inflation. With some luck, the Monetary Policy Committee of the Reserve Bank will appreciate the dire need for a resurgence of growth and lower the official interest rate post-haste.

FIGURE 9

YOY real GDP growth and the real prime rate



(Note: GDP = 4Q average; sources Stats SA; Economist's calculations)

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