



SEPTEMBER 2023

HIGHLIGHTS

**4.7%**

Latest Consumer Inflation Rate

**10%**

YOY increase in average home prices in the Western Cape

**154,000**

Jobs created in Q2 2023

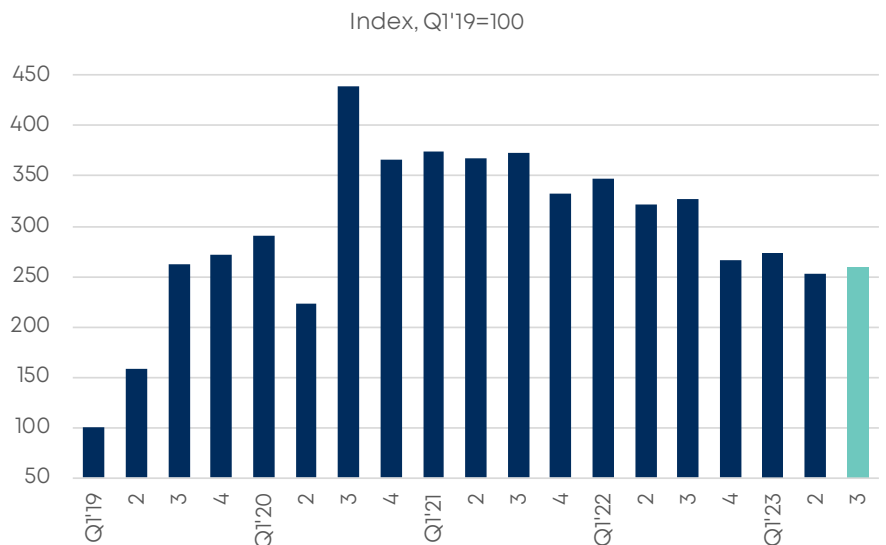
**R993,000**

Average approved home loan value for first-time buyers

## 1 Total bond applications submitted

A marginal but very welcome increase in the number of home loan applications occurred during the first two months of Q3 2023. At an index value of 260, this key indicator of conditions in the property market is on par with Q3 2019, but still below the level of around 370 index points recorded in 2021 (figure 1). Now that the rate of inflation is coming down, there is increased likelihood of lower interest rates and this could propel the number of home loan applications higher.

FIGURE 1



## 2 Average home purchase price

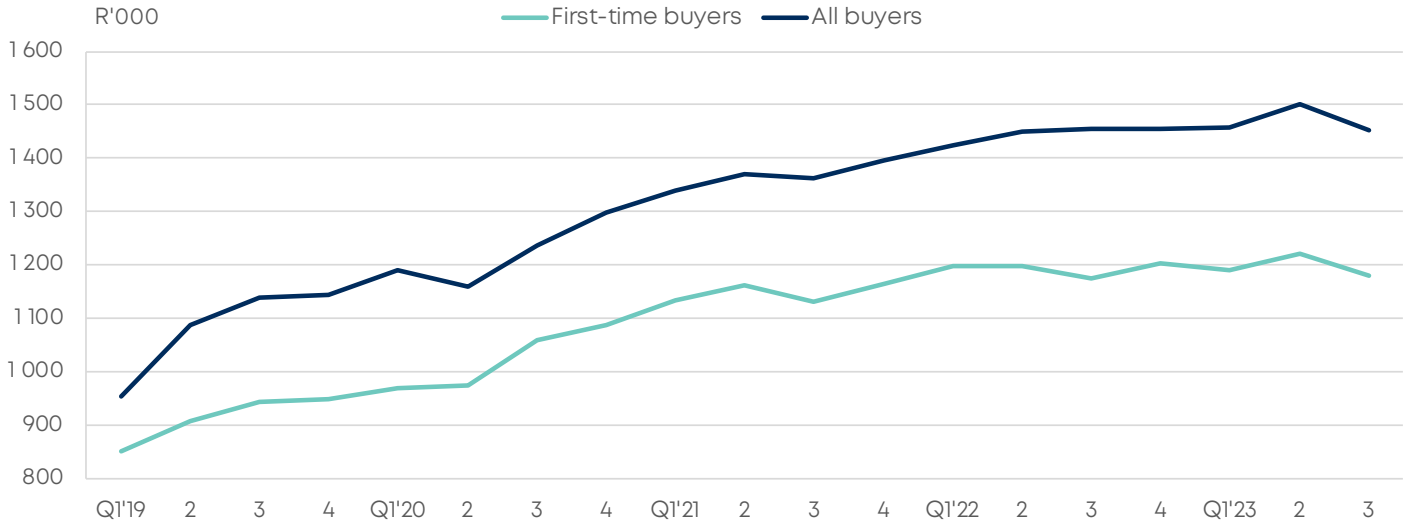
Following solid growth in average home purchase prices in 2019 and 2020 (despite the Covid-19 pandemic), the growth trajectory started to flatten slightly, especially for first-time buyers. In November 2021, the Reserve Bank started raising interest rates and since then home purchase price increases have been even more muted.

Owing to the resilience of the residential property market, we nevertheless witnessed record average home purchase prices in Q2 2023 for all buyers and first-time buyers (figure 2, on next page).

With interest rates at 15-year highs, however, something had to give and a modest drop in average home purchase prices therefore occurred over the past two months. Compared to the same period last year, average home purchase prices are virtually unchanged, however, so any lowering of interest rates could spark expansion of this market.

FIGURE 2

Average home purchase price

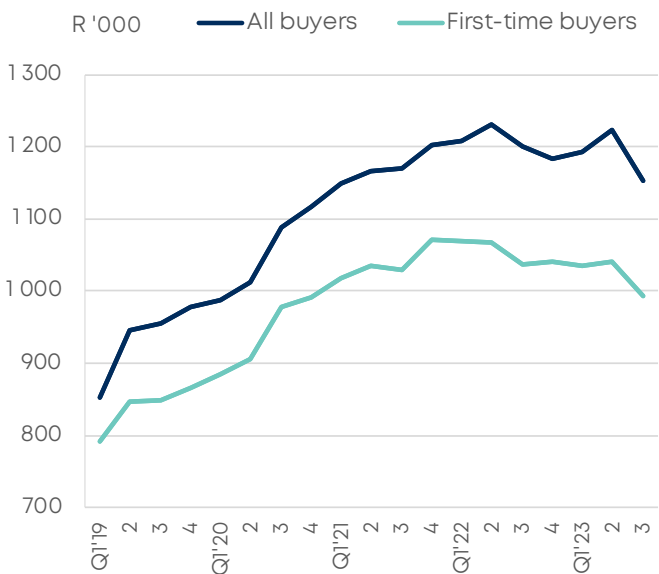


3 Average approved home loan value

In line with slower home price growth (figure 2, above) and as a result of higher interest rates, it is no surprise that average approved home loan values have dipped (figure 3).

This is closely associated with the increase in average value of deposits required for home purchases, which increased by more than 26% in the 12 months ending August 2022, and August 2023.

FIGURE 3



4 Average deposit for home purchase

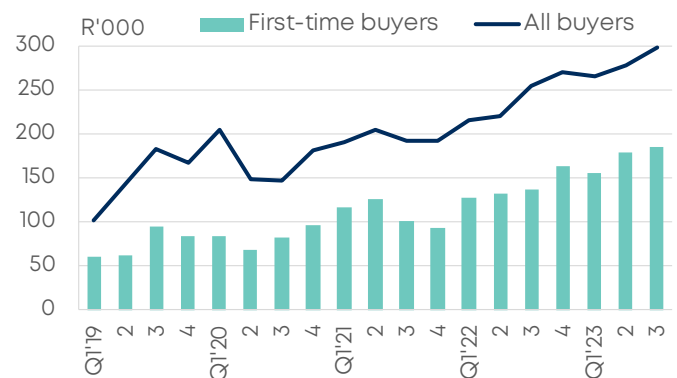
South African banks have weathered the storm caused by hawkish monetary policy quite well, but their credit impairments have started rising in tandem with the Reserve Bank's decision to try and combat supply-side inflation with higher interest rates.

In Q2 2023, credit impairments of all banks stood at more than R180 billion, up by almost 8% year on year.

As a percentage of the average home purchase price, the average deposit has increased from 14.2% to 18.6% over the past year (figure 4).

Hopefully, this will stabilise and possibly decline once interest rates start coming down.

FIGURE 4



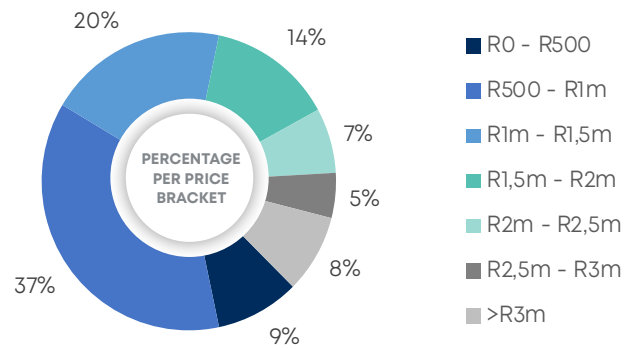
## 5 % share of formal home loan grants per price bracket (12 months to Aug 2023)

In the 12 months to August 2023, the share of formal home loans granted in the three lowest price brackets (below R1.5 million) continued to account for the majority of residential property market activity, securing almost two-thirds of formal home loan grants (figure 5).

A marginal increase was recorded for formal home loan grants in the R2 million to R2.5 million price bracket.

The R500,000 to R1 million bracket comfortably outperformed all its counterparts, recording a 37% share of formal home loan grants.

FIGURE 5



## 6 % change in average home price, by region (12 months to Aug 2022 & Aug 2023)

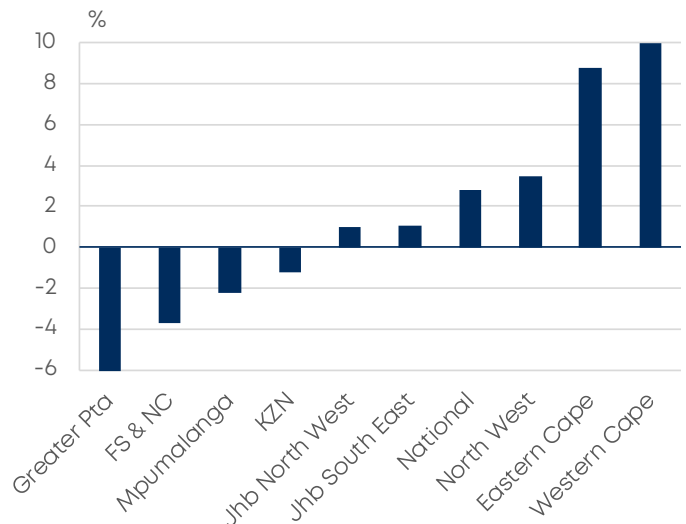
One of the outstanding features of the residential property market over the past year has been the variance in average home prices between different regions in our country.

When comparing the 12 months ending August 2022, with the 12 months ending August 2023, the percentage spread amounts to 1,600 basis points. This shows the stress that South African consumers have been under in the face of higher inflation and higher interest rates.

Two regions have absorbed significant semigration from the rest of the country – the Western Cape and Eastern Cape – experiencing notable increases in average home prices.

The Eastern Cape recorded the second-highest increase year on year, but did so from a relatively low base. The Western Cape performance has been quite remarkable – showing the largest increase (figure 6). Its average home price is also 35% higher than the national average.

FIGURE 6



## 7 Value of building plans passed and buildings completed

After a sharp decline in Q2 2020 (induced by Covid-19 restrictions), the values of building plans passed and buildings completed in metropolitan areas and larger municipalities recovered swiftly. However, these key indicators of property market activity have still not recovered to pre-pandemic levels (figure 7).

There was progress by way of a marginal increase in values, but it was swiftly halted in its tracks by interest rate hikes that commenced November 2021.

Fortunately, there has been new life in the market during Q2 2023 and there is a modicum of optimism that this movement could gather momentum towards the end of this year, and into next year.

FIGURE 7



# House(s) of the Rising Sun

South Africa has an abundance of solar resources. It has seen a surge in popularity of solar systems given the increased frequency and intensity of loadshedding.

A solar installation at home provides uninterrupted power, lowers energy costs, improves quality of life, boosts the marketability and resale value of a property, reduces the carbon footprint, and more.



## Tax breaks

In the 2023 National Budget, the government announced solar tax breaks valid for a year from 1 March 2023:

- **Households** can claim back 25% of the value of new solar panels, up to a maximum of R15,000
- **Businesses** can deduct 125% of the cost of a solar project from their tax bill



## Solar panel imports

The value of solar panel imports into SA reached an all-time high of R3.6 billion in Q1 2023.



## Investment & employment

PwC South Africa expects investment in solar power to reduce loadshedding and increase employment growth in 2024.

## Did you know?

- The efficiency of solar panels decrease slightly at hotter temperatures. On a 26°C day with clear skies solar panels will perform slightly better than on a 36°C day. [SOURCE: Hohm Energy & News24]
- Inland homes in areas like Gauteng generally have a higher Solar Score than their coastal counterparts in areas like the Western Cape. [SOURCE: Standard Bank LookSee]

## A breakdown of power in SA

- Loadshedding and the price of electricity are projected to double over the next 5 years.
- Loadshedding in 2023 is already 50% more than in 2022. Between 2021 and 2022 the hours of loadshedding tripled.
- South Africa's **peak demand** is 32,000MW; its **peak supply** is ±27 000MW
- Peak demand occurs from 17:00 to 19:00 in summer and from 18:00 to 20:00 in winter
- 80% of SA's installed capacity is from ageing coal power stations
- During peak demand, SA's electricity sources are:



**67%**  
coal



**7%**  
hydro &  
storage  
dams



**6%**  
diesel via  
open-cycle  
gas turbines



**5%**  
international  
imports



**4.4%**  
nuclear



**2.85%**  
wind



**1.25%**  
solar



**0.15%**  
battery  
storage

- SA's oldest 5 power stations – Hendrina, Camden, Arnot, Grootvlei, Kriel – with a combined capacity of 7,885MW, will be coming offline over the next 5 years as they near their 55-year end of life. The average age of SA's coal power stations is 41.
- Illegal connections cost Eskom R22 billion per year, which is 15% of its annual revenue.
- Eskom Distribution has a R70-billion backlog of infrastructure maintenance and refurbishment.

SOURCE: Hohm Energy

# Economist's notes



**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.

**August provided an array of good news on the economics front.**

## Labour market data

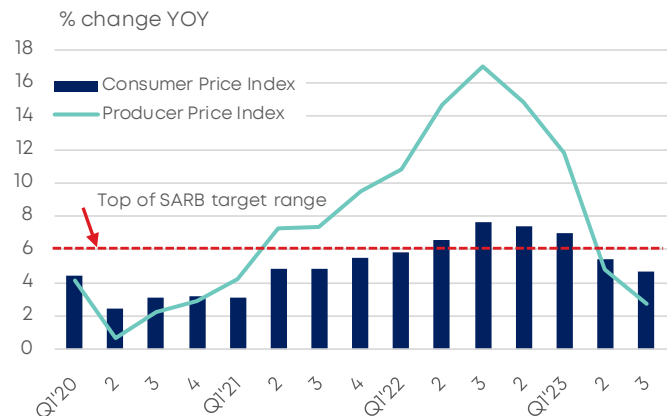
The latest labour market data released by Statistics SA confirms the resilience of the South African economy, despite slow growth and the highest cost of capital in more than a decade.

During Q2 2023, employment creation continued unabated, with total employment rising by 154,000 to within a whisker of the pre-Covid level of 16.4 million people. This increase follows on the Q1 2023 employment gain of more than 250,000 jobs and is encouraging against the backdrop of muted economic growth in most of South Africa's key trading partners.

## Inflation declines further

From a property market perspective, there was more good news in the shape of a further decline in the Consumer Price Index (CPI) and a further sharp drop in the Producer Price Index (PPI), which is a leading indicator of consumer inflation.

The CPI has now declined to well within the Reserve Bank target range of 3% to 6%, which means there is no reason for the Reserve Bank to continue its hawkish monetary policy.



SOURCE: Stats SA

Given the current state of the economy, it is imperative to start fostering higher growth now, via a lowering of interest rates. Hopefully, this month's meeting of the Monetary Policy Committee will mark the beginning of a more accommodating policy stance, something that indebted households, in general, and the residential property market, in particular, need desperately.

## Positive GDP growth in Q2

With the continued rise in formal sector employment during Q2 2023, higher economic growth was on the cards.

- Statistics SA reports that the economy expanded by 5.2% in nominal terms between April and June, compared to Q1 2023.
- When adjusting this figure by the average producer and consumer inflation, it yields an impressive real GDP growth rate of 4.7%.

Key growth drivers that have come to the fore during Q2 2023 are:

- Record harvests of key agricultural products, which also feed into food processing industries
- Growth in exports of manufactured goods
- All-time record imports of machinery and equipment

The increased imports of machinery and equipment are associated with the exponential growth in renewable energy installations, with rooftop solar photovoltaic (PV) capacity in South Africa having quadrupled in the past year from just over 1,000MW to 4,400MW.

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