BetterBond PROPERTY BRIEF

NOVEMBER 2023

HIGHLIGHTS

3.7%

Increase in home loan applications from Sept to Oct 2023

5.4%

YOY increase in average home purchase price

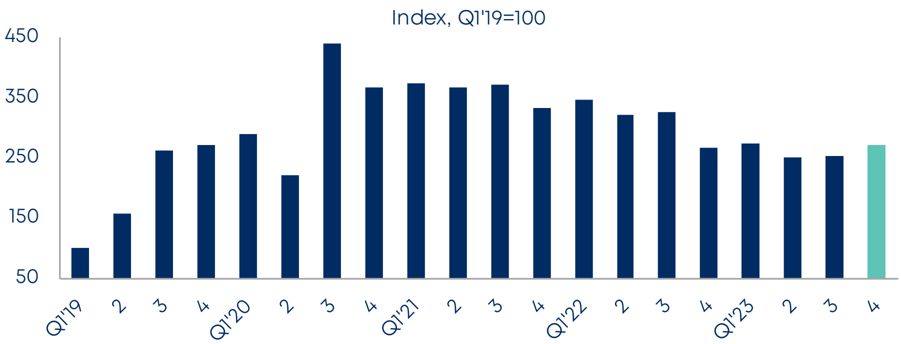
R338,000

Average deposit for all buyers in Oct 2023

1 Total home loan applications submitted

New home loan applications started Q4 2023 with a positive 7.6% QOQ increase **(figure 1)**. The YOY increase was more muted at 2%, but nonetheless signals some stability returning, and the resilience of the residential property market. This follows the steep drop in activity since the SA Reserve Bank embarked on its restrictive monetary policy stance in November 2021. Compared to Q4 2021, the number of new home loan applications is down 18%. Prospective homebuyers will be hoping for lower interest rates in 2024.

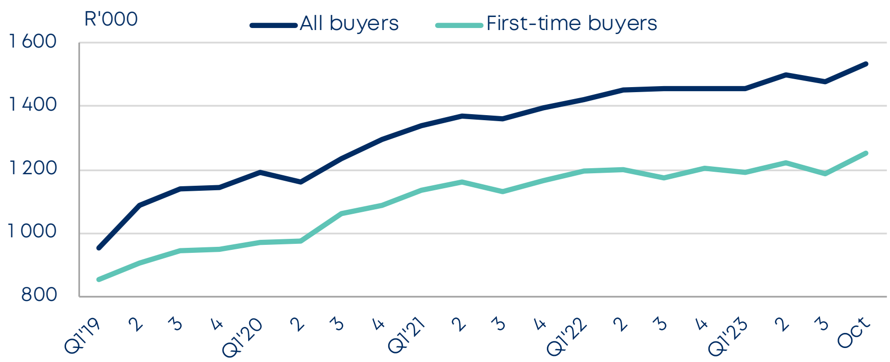
FIGURE 1



2 Average home purchase price

More proof of the resilience of the residential property market is evident in the solid 5.4% YOY increase in average home purchase prices **(figure 2)**. For first-time buyers, this number is 4.1%. QOQ there was also growth, while the average home price has increased by 10% since Q4 2021. This trend is especially encouraging when viewed against a backdrop of declining home price trends in Q3 2023 and is in line with recent increases in home loan applications **(figure 1, above)**. A further recovery of the demand for residential property is on the cards when interest rates start coming down.

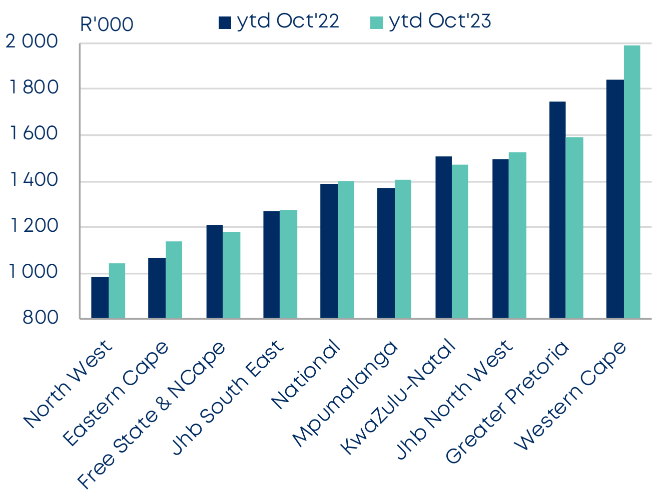
FIGURE 2



3 Average home prices, per region

During the 12 months to October 2023, the Western Cape has consolidated its position as top-priced region for residential properties **(figure 3)**. It came within a whisker of breaching the R2 million mark for average home prices and increased the gap to the second-placed BetterBond region of Greater Pretoria. The average price of a home in the Western Cape is now 25% higher than in Pretoria, 56% higher than in Johannesburg South East and 75% higher than in the Eastern Cape.

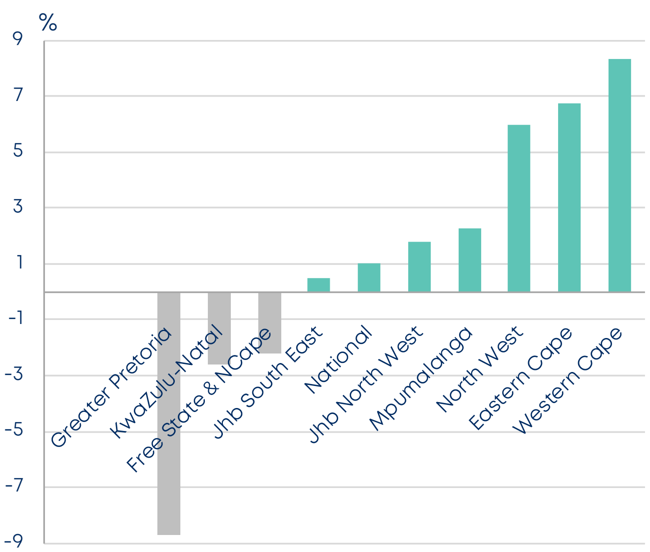
FIGURE 3



4 Change in average home prices, per region

Six of the nine BetterBond regions recorded YOY increases in average home prices for the 12 months to October 2023 **(figure 4)**, again underlining a trend that confirms a measure of stability in the residential property market. The Western Cape recorded an increase of 8.3%, significantly higher than current inflation at 5.4%. The Eastern Cape and North West provinces also managed price increases in real terms, but in KwaZulu-Natal and the Greater Pretoria region home prices were down.

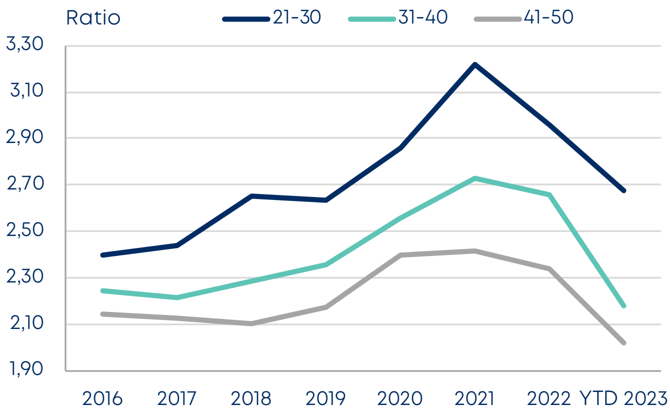
FIGURE 4



5 Ratio of average home price to average annual income, by age group

The upward trend in the ratio of home price to buyers' annual income was stopped in its tracks by the SA Reserve Bank's hawkish monetary policy commencing in November 2021. When considering the relative stability of average home prices – despite higher interest rates – it is clear that household incomes have also been under pressure on a wider front, due to increases in inflation and the cost of servicing debt. Fortunately, the Consumer Price Index (CPI) is now comfortably within the Reserve Bank target range, which may soon spell the end of the current rate-hiking cycle. Interestingly, the youngest age group (21-30) has not felt the pinch quite as much as older age groups **(figure 5)**, with a ratio that is still higher than in 2016.

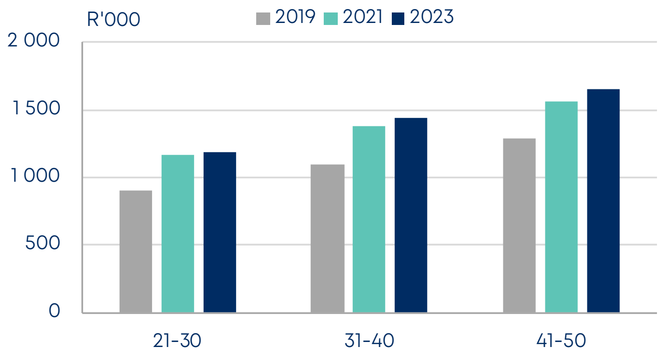
FIGURE 5



6 Average home purchase price, by age group

If we compare average home prices in two-year intervals from 2019 to 2023 **(figure 6)**, we see that all three of the most active age groups in the residential property market have faced average price increases of between 29% and 32%. Since the decision by the SA Reserve Bank to raise interest rates to 14-year highs, growth in average home prices has dropped to 1.6% (age group 21-30), 4.3% (age group 31-40) and 6% (age group 41-50). The superior home price performance of the highest age group can be attributed to higher incomes and credit records that span longer timeframes than those of younger age groups. Between 2019 and 2023, the average premium of 43% paid for homes by the 41-50 age group has dropped marginally to 40%.

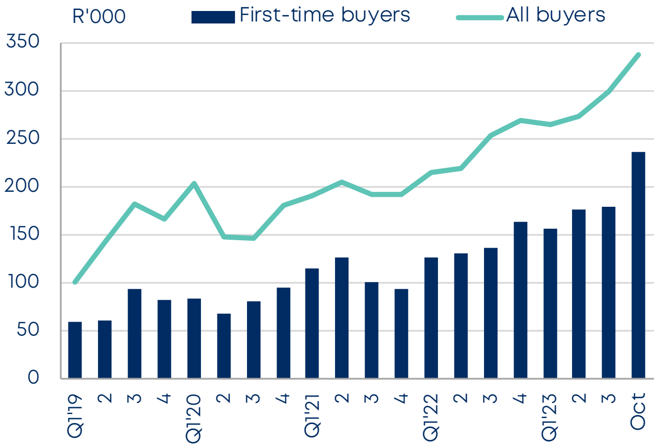
FIGURE 6



7 Average deposit for home purchase

Interest-rate rises have led to increases in the average value of deposits required for home purchases, both for first-time buyers and repeat buyers **(figure 7)**. As a direct result of higher interest rates, lenders have seen more non-performing loans, with credit impairments in the banking sector rising to R187 billion at the start of Q3 2023. This represents an increase of 44% since Q1 2020 (prior to the Covid-19 pandemic) and an increase of 10% over the past four quarters. The increase in the average deposit for purchasing a mortgaged home has been significant for first-time buyers, with the required R237,000 in October 2023 being 153% higher than just two years ago.

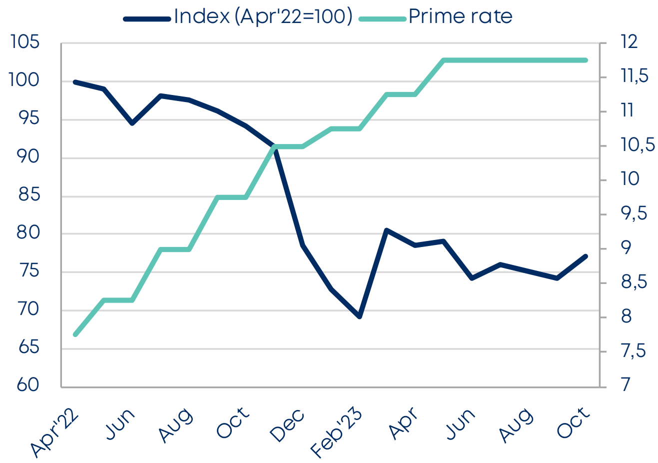
FIGURE 7



8 Total home loan applications, per month, and the prime rate

There is traditionally an inverse relationship between home loan applications and interest rates and since last year this trend has been quite pronounced **(figure 8)**, due to the Reserve Bank's hawkish approach, despite no evidence of demand inflation. The decline in home loan applications may nevertheless have reached a trough in early-2023, with a measure of stability returning, including a slight improvement in October 2023. The return of the Consumer Price Index to within the Reserve Bank target range for inflation should end the rate-hiking cycle and breathe some life into the residential property market in 2024.

FIGURE 8



2023 what a year!

In this, our final Property Brief of 2023, we take a brief look back at the year that was before wrapping up and looking forward to 2024.

Interest rates

The Reserve Bank Monetary Policy Committee continued its rate-hiking cycle in 2023, having started to hike rates in November 2021. These were the movements in the Prime Interest Rate this year:

- **January** – increase 0.25% from 10.5% to **10.75%**
- **March** – increase 0.5% from 10.75% to **11.25%**
- **May** – increase 0.5% from 11.25% to **11.75%**
- **July** – remained unchanged at **11.75%**
- **September** – remained unchanged at **11.75%**
- **November** – not yet announced, at time of writing

Key growth drivers in 2023 have included:

- All-time record imports of machinery and equipment thanks in large part to the demand for solar panels due to exponential growth in renewable energy installations.
- Record harvests of agricultural products, which also feed into food-processing industries.
- Growth in exports of manufactured goods.
- Significant rise in employment – see figure 9 on Economist's Notes (next page).

Trends to watch in 2024

- Emerging technologies, such as AI, including the impact on how we buy and sell homes.
- Changing demographics of an increasingly nomadic global population and its impact on local job markets in many countries, including South Africa.
- Continued shift from fully remote to hybrid work patterns, and what that means for where – and how – we live.
- Impact of environmental factors, including climate change and extreme weather, creating the demand for building more sustainable houses that create less waste.
- Sustained semigration and continued urbanisation creating higher demand for housing in cities and exerting pressure on service delivery in popular metros, like the City of Cape Town.
- Homeowners' investment in back-up power and water solutions.
- Communal homebuying where multiple people pool their financial resources to share the costs of homeownership and avoid the uncertainty of rental costs to provide financial security in uncertain times.

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.

Spring rains and a Rugby World Cup to boot!

South Africa's natural splendour always comes to the fore in Spring and this year was no exception. A bumper Summer tourism season is also on the cards. But this year, October was extra special, due to the spirit of national cohesion and resilience that was rekindled by our all-conquering Springboks, who are the incontestable champions of the rugby world!

Lower rates beckon in 2024

On the economic front, October brought some good news, especially the drop in the oil price, which seems to be on a welcome downward trajectory, mainly because of lower global demand and increased supply of a variety of oil-based products. This has led to lower petrol and diesel prices in South Africa – welcome news for consumers on the eve of the summer holidays, when many will travel.

Combined with a significant strengthening of the rand exchange rate early in November, inflation could remain comfortably within the Reserve Bank target range, paving the way for interest rate drops in 2024 – just what the property market needs!

Electricity situation improves

There are signs that South Africa has turned a corner as far as loadshedding is concerned, with its levels and frequency likely to be reduced during Q4 2023 and into 2024. Eskom generation improved during October, resulting in loadshedding being suspended for nine days.

There are several reasons for the progress in addressing the energy crisis:

- The rapidly growing capacity of embedded generation by private households and businesses, which has caused a structural decline in the demand for electricity.
- Eskom has managed to increase the availability of power from the grid, with 550MW more supplied in October 2023 than a year ago.
- Improved maintenance at most power stations, a programme initiated by former Eskom CEO, André de Ruyter.
- The return of generation units at the Kusile power station. Kusile 1 resumed production in October, using a temporary flue a few days short of a year of having been rendered inoperable by the collapse of its flue duct. It was returned a month and a half ahead of schedule. Kusile 2 is officially scheduled to resume production on 30 November 2023.

Employment recovery continues

The rise in employment is a candidate for best economic news of the year, with 2023 having continued in the same vein as last year.

- Total employment is now virtually at pre-pandemic levels.
- Government's policy of switching to reliance on public-private partnerships in the quest to repair and rebuild our infrastructure promises to sustain job creation.

FIGURE 9

Fixed investments surge

A new Statistics SA survey among private sector firms confirmed high growth in the value of capital expenditure, especially for plant, machinery and equipment. According to the survey, total capital expenditure increased by 29% YOY in Q2 2023, a sign of renewed business confidence and an upward trend for investment in productive capacity.

Economist
Dr Roelof Botha

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