BetterBond **PROPERTY** BRIEF

JANUARY 2024

HIGHLIGHTS

5.5%

YOY increase in average home purchase price

R1.18m

Average home price for first-time buyers in 2023

4.5%

Average annual real increase in income for ages 31-40, since 2018

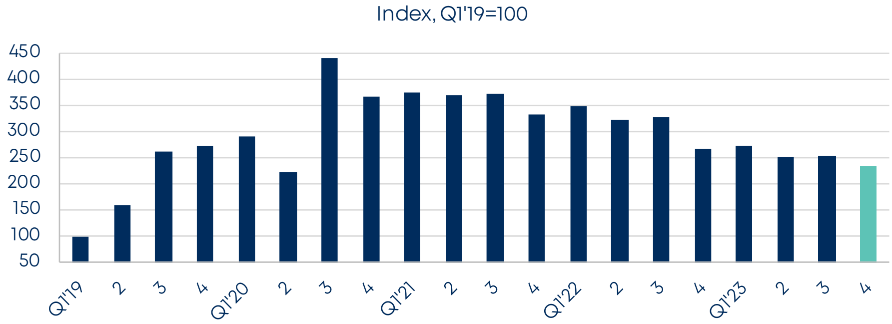
R1.33m

Average home purchase price in Greater Pretoria in 2023

1 Total home loan applications submitted

Q3 2023 saw a marginal increase in home loan applications, followed by a predictable drop between Oct and Dec, traditionally a quieter time for homebuying. At an index value of 233, this key indicator of conditions in the property market dipped by 7.5% QOQ and 12.5% YOY **(figure 1)**. The Consumer Price Index is creeping closer to the mid-point of the Reserve Bank target range (3-6%), so lower interest rates should be on the cards. This could lead to the next upward phase of home loan applications.

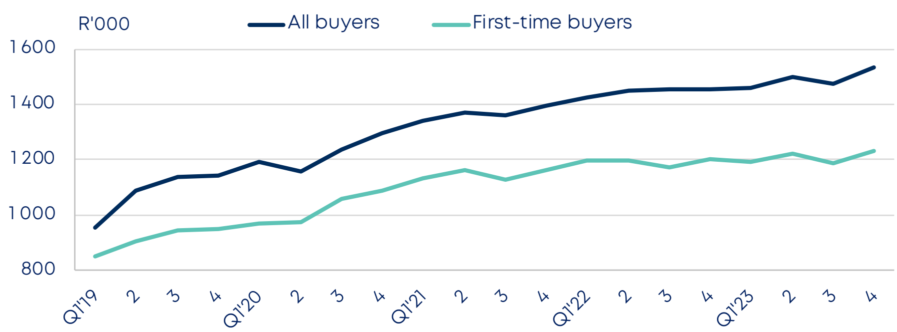
FIGURE 1



2 Average home purchase price

After solid growth in average home purchase prices between 2019 and 2021, the growth trajectory has flattened slightly, especially for first-time buyers **(figure 2)**. This was a result of the Reserve Bank's restrictive monetary policy stance, starting in Nov 2021, which saw interest rates rising to their highest levels in 14 years, dealing a blow to homebuyers' affordability. Against a backdrop of limited housing stock, average home purchase prices have nevertheless kept pace with inflation, recording a 5.5% YOY increase in 2023.

FIGURE 2

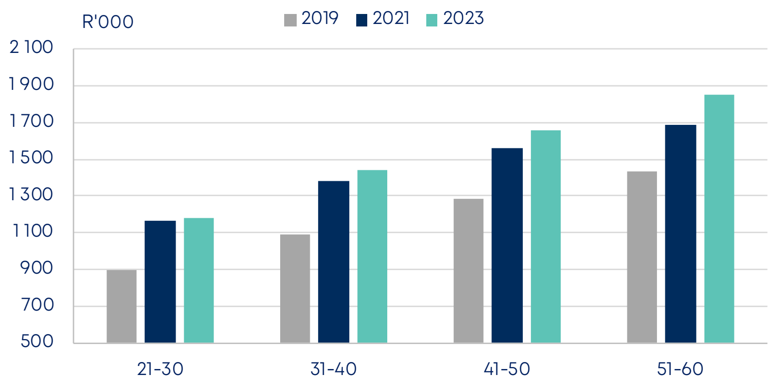


3 Average home purchase price, by age group (2019-2023)

Between 2019 and 2021, average home purchase prices recorded significant growth, especially for the youngest age group (21-30), which is predominantly comprised of first-time buyers **(figure 3)**. For this group, the growth in average home purchase price was almost 30% in the space of only two years. For the oldest age group (51-60), growth was at 18%, also a strong increase.

Between 2021 and 2023, the tables have turned. The growth in average home purchase price for the 51-60 age group managed to outpace inflation, at just under 10%, while there was an increase of only 1.7% for the youngest age group.

FIGURE 3

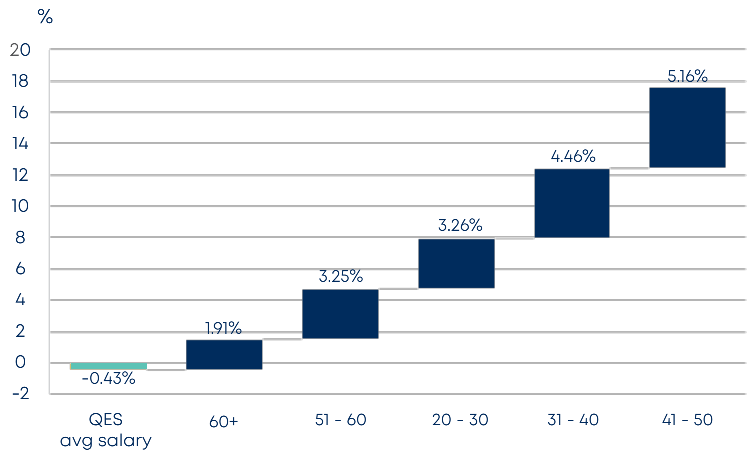


4 Average annual real increase in homebuyers' income, by age group (2018-2023)

Over the past five years, the 41-50 age group has outperformed its counterparts in terms of real income growth **(figure 4)**. This age group traditionally possesses 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 collected, outperformed the average real salary growth for the economy as a whole, as set out in the Stats SA Quarterly Employment Survey. The latter figure declined marginally due to the impact of the Covid-19 pandemic.

FIGURE 4



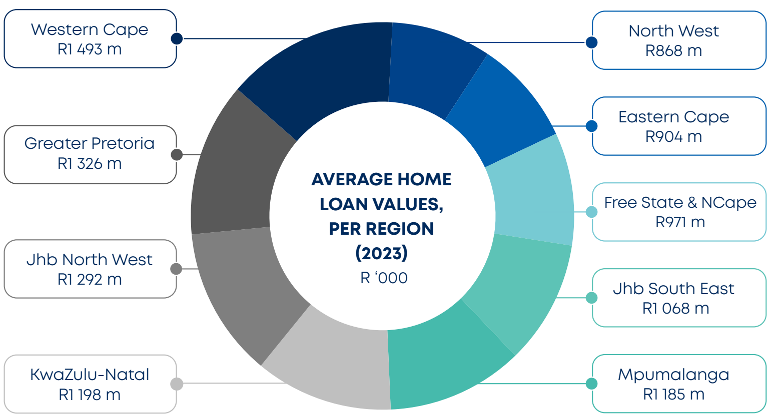
5 Average home loan values, per region (2023)

Between 2016 and 2019, home loan values grew at an impressive 14% per year (on average, in nominal terms). Since then, the average annual growth rate has declined to 6.6%, but this is still higher than the average rate of inflation between 2019 and 2023.

The expectation would be for home loan values to climb again once interest rates start coming down.

Home loan values in the Western Cape are 24% higher than the national average **(figure 5)**.

FIGURE 5



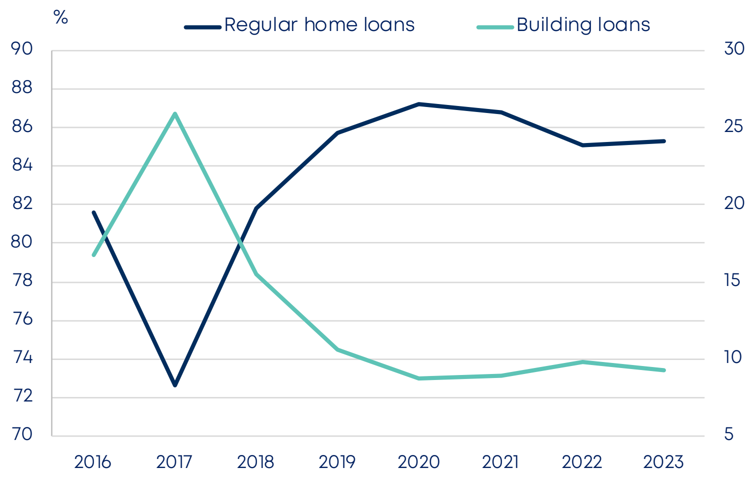
6 Home loan applications, by purpose

There was a significant decline in the share of loans earmarked for new residential buildings since 2017, from a high of more than 25% to only 9.3% in 2023 **(figure 6)**.

Against the backdrop of low levels of business confidence, slow pace of economic growth and the deterioration of public sector service delivery during the state capture era, this trend is not surprising.

It also correlates with the significant decline since 2017 in the value of new building plans passed and buildings completed in the metros and larger municipalities. Since 2021, this downward trend has been strengthened by the Reserve Bank raising interest rates to their highest levels in 14 years.

FIGURE 6



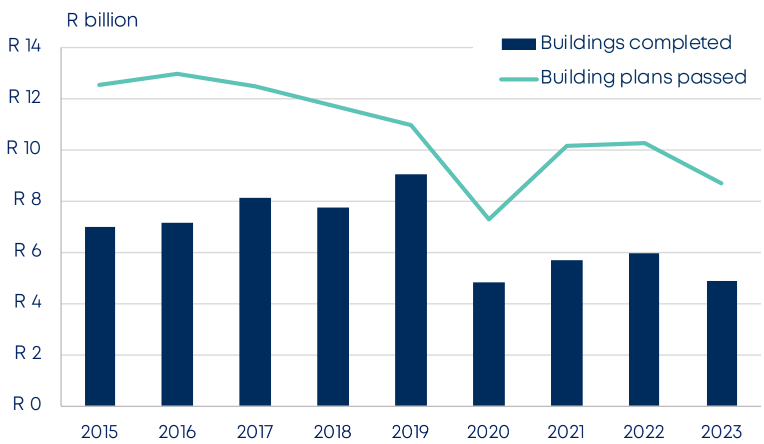
7 Average real monthly value of building plans passed and buildings completed (R billion)

Between 2015 and 2019, the real value of buildings completed in metros and large municipalities rose steadily, recording good growth of more than 28% **(figure 7)**.

The real value of building plans passed declined by 13% over this period, which inevitably contributed to a reversal of the value of new building activity. This trend persisted and was aggravated by the Covid-19 pandemic, later also by the higher cost of servicing debt.

Despite a significant drop last year, the real value of new building plans passed in 2023 remained 18.7% higher than in 2020.

FIGURE 7



18.7% **The real value of new building plans passed in 2023 was 18.7% higher than in 2020.**

Economist's notes

4.6%
Latest Producer Price Index

130
Drop in the bond yield since Oct 2023

1.8%
2024 World Bank GDP growth forecast for South Africa

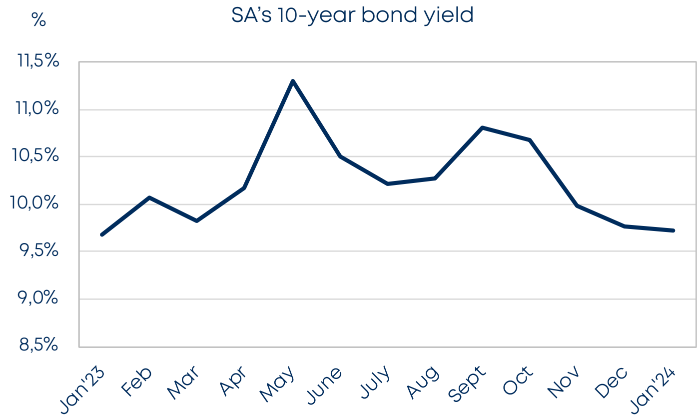
Dr Roelof Botha | Economist

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.

Lower interest rates & fuel prices on the cards

Several potential drivers of higher economic growth have appeared on the horizon. From a residential property perspective, the most important one is the welcome decline in South Africa's long-term bond yield, which could be indicative of an imminent turning point for interest rates. Since early Oct 2023, the 10-year bond yield has shed more than 130 basis points **(figure 8)** – a clear indication that international capital markets are pricing in a lower interest rate scenario for South Africa in 2024.

FIGURE 8



Source: Trading Economics

Homeowners would have been relieved at interest rates holding steady this month. Before that, the Consumer Price Index (CPI) resumed its downward trend, dropping from 5.9% in Oct to 5.5% in Nov. The Producer Price Index (PPI) also came to the party, moving to 4.6% in Nov. PPI is a leading indicator of CPI and if all goes well, the mid-point of the Reserve Bank target range for inflation will be reached soon.

Lower fuel prices have been on the cards since the end of last year, mainly due to a fortuitous combination of lower oil prices and a stronger rand/US dollar exchange rate. Oil prices remain under pressure on the back of uncertainty over demand and clear signs of more than adequate supplies, especially from non-Opec producers.

With a bit of luck, lower fuel prices and a softening of prices for several food items will hasten the inevitable decline of the CPI, which could lead to lower interest rates this year.

Trade surplus rises further

In more quantifiably good news, signs are emerging of a new upward trend in commodity prices, which are crucial to our country's economy and ability to generate foreign exchange. Over the past two years, prices for several of our key export commodities have been volatile and under pressure, resulting in the first trade deficit in 30 months being recorded in Oct 2022.

Fortunately, total exports have managed to continue on a positive trajectory, confirming the absence of any significant balance of payments instability. Chances of maintaining solid export growth in 2024 have improved considerably, with significant price increases for coal (124%), iron ore (74%) and platinum (60%) from pre-Covid levels (March 2020).

It is also encouraging that the Altron Fintech Household Resilience Index (AFHRI) has bottomed out, nearly in line with the country's leading business cycle indicator. Households remain under financial pressure as a result of high interest rates and subdued salary growth in the private sector, but the index managed to record positive growth in Q3 2023, albeit marginal. Increased employment levels boosted the AFHRI, but rising debt costs countered a significant recovery.

Lower interest rates will almost certainly lead to growth in virtually every authoritative barometer of economic activity, including the residential property market. Hopefully this will occur soon.

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