BetterBond PROPERTY BRIEF

FEB 2025

HIGHLIGHTS

7.5%

YOY increase in loan applications

4.1%

YOY increase in average house price

R1.58 million

Average home purchase price

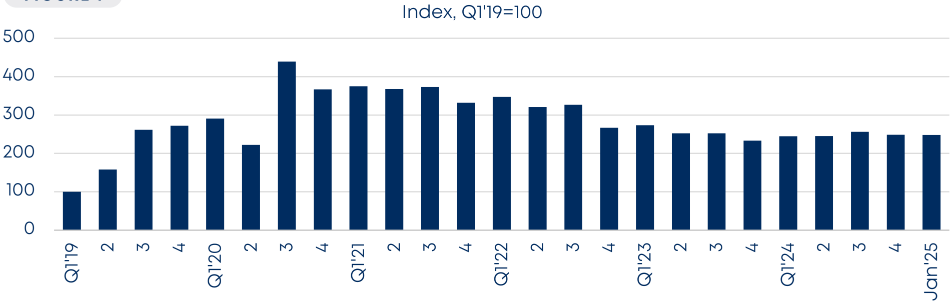
8.7%

YOY increase in homebuyer income

1 BetterBond index of home loan applications

January witnessed a further stabilisation of home loan activity, which seems to have turned the corner ever since interest rates started to decline **(figure 1)**. Although the number of home loan applications during the first month of the year was on par with the average for Q4 2024, it was 7.5% higher than in the same month last year. This is a significant upward trend which eliminates seasonal influences. It is also encouraging that the BetterBond home loan index was 1.3% higher in January 2025 than two years earlier. The latest decline in the Reserve Bank's repo rate has now lowered the prime lending rate to 11%. Although this is still 100 basis points higher than in January 2020 (prior to the Covid pandemic), substantial leeway exists for further interest rate declines. The residential property market is well poised to start a new, sustained growth phase during the first half of 2025.

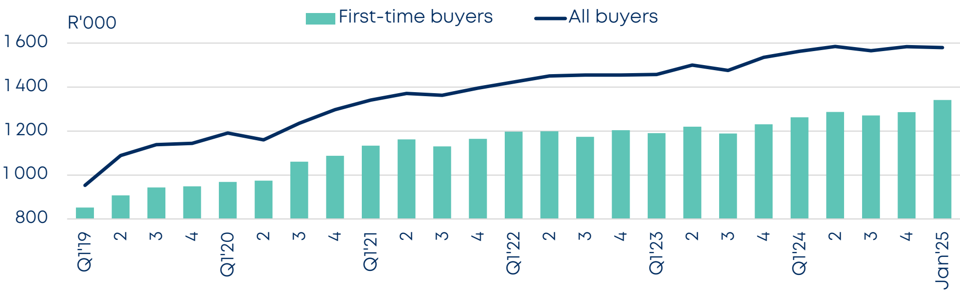
FIGURE 1



2 Average home purchase price

The latest decline in the prime overdraft rate of 25 basis points occurred towards the end of January and its impact on average home prices will only be visible in February and March. The average home purchase price in January of R1.58 million was nevertheless unchanged from the average price recorded during Q4 2024 **(figure 2)**. Significantly, it was 4.1% higher than in January 2024, which embodies a real increase of more than 1% (after adjustment for inflation). First-time homebuyers have experienced a steeper increase in average home prices, with the average price of R1.34 million in January 7.3% higher than a year earlier and 4.3% higher than the average for Q4 2024. There is little doubt that pent-up demand for home ownership exists at the more affordable segments of the market and the latest interest rate cut should provide further impetus to average home prices in the months ahead.

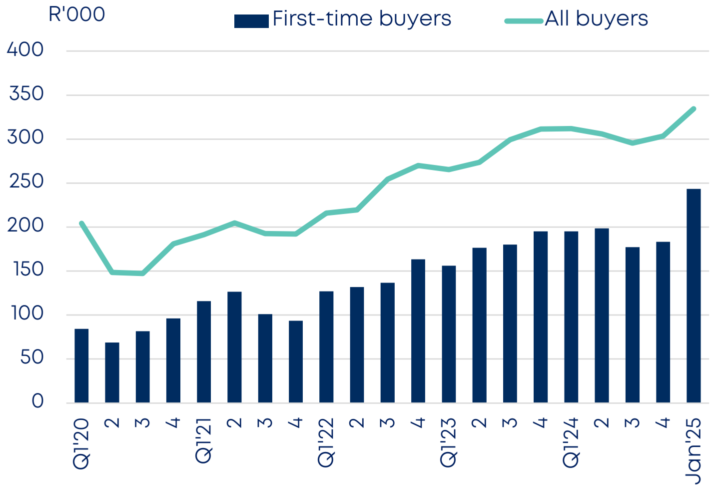
FIGURE 2



3 Average deposit for home purchase

Unfortunately, the lowering of the deposits required for access to home loans that occurred in Q3 2024 has not been sustained, with fairly sharp increases recorded during January 2025. Fist-time buyers have been particularly disadvantaged, with the average deposit for January representing an increase of 29% over the same month in 2024 and a 33% increase over the average deposit during Q4 2024 **(figure 3)**. Apart from the lingering negative effects on household finances emanating from a three-year period of record high interest rates, banks have also been obliged to adopt a more conservative stance towards credit provision due to rising levels of credit impairments. During last year, total bad debts of the banking sector rose to above R200 billion per quarter. Although South Africa is in a rate-cutting cycle, this needs to be pursued in haste to provide more spending power for indebted households.

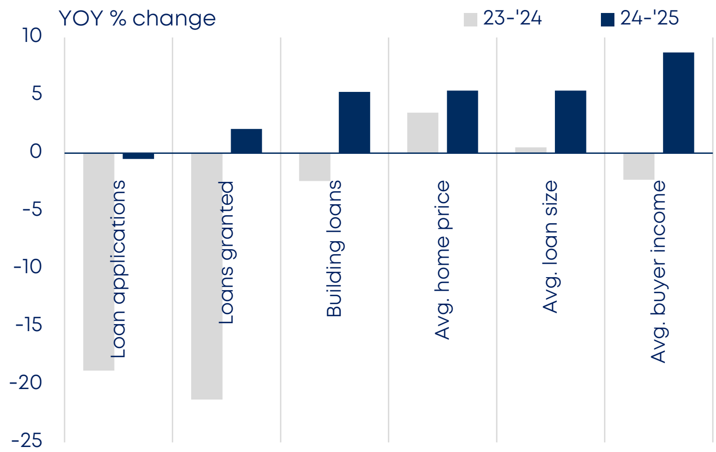
FIGURE 3



4 Key residential property market metrics confirm recovery

An analysis of a number of key indicators of residential property market activity captured by BetterBond provides ample evidence that the market has turned the corner. Following the fairly sharp contraction that occurred during 2023, last year saw an improvement of virtually all of the key indicators, although these improvements were not evenly spread on a geographical basis. The most significant improvement is the return to positive growth for the number of home loans granted **(figure 4)**, which has staged a remarkable recovery from the sharp drop in 2023, induced by restrictive monetary policy and, as an inference, an increase of 36% in the debt servicing costs of households. Fortunately, a rise in homebuyer incomes of 8.7% has played a key role in stabilising the homebuying market.

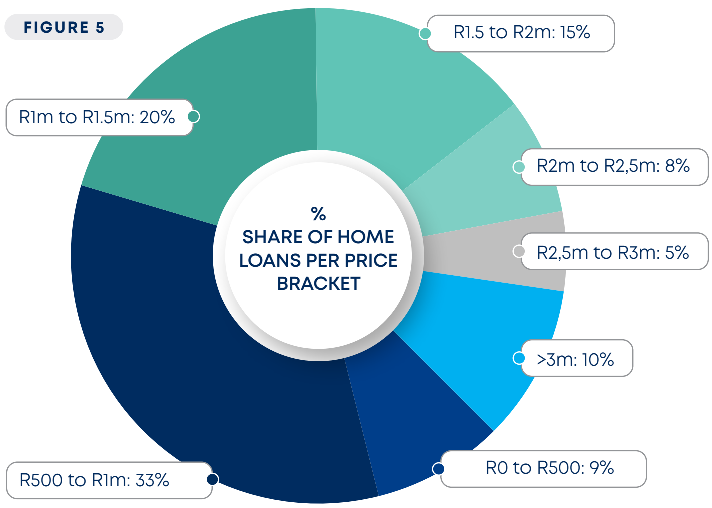
FIGURE 4



5 Percentage share of home loans per home price bracket (12 months to Jan 2025)

During the 12 months to the end of January 2025, the share of home loans for home prices below R1 million has continued to dominate residential property market activity, representing 42% of total home loans awarded **(figure 5)**. When compared to January 2019 (pre-Covid), however, it is clear that lower-priced houses have sacrificed a substantial portion of their market share. Over the past six years, this share has declined by 29%, while the share of home loans for houses priced at above R2.5 million has jumped by 93%. The job losses that were caused by Covid, combined with declining economy-wide average salaries since 2020 and record-high interest rates have contributed to sluggish activity at the lower end of the housing market.

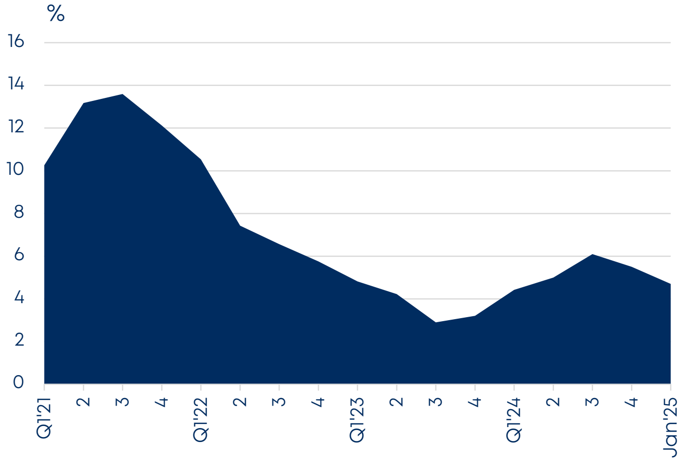
FIGURE 5



6 YOY percentage change in average home purchase price

After the annualised growth in the average home purchase price slumped to a low of 2.9% in Q3 2023 (which was negative in real terms), it became clear that inflation was subsiding at a healthy rate and that interest rates would be lowered at some stage **(figure 6)**. Unfortunately, indebted households (and prospective homebuyers) had to wait a full year before the first interest rate cut occurred in September 2024. The prospect of further cuts in the prime lending rate contributed to a recovery of the rate at which house prices were increasing. However, a dip occurred again in Q4 2024 – probably due to a wait-and-see approach among prospective homebuyers that loan repayments would become cheaper after the January 2025 meeting of the MPC. This has now occurred and a YOY increase in the average house price of 4.7% was recorded in January, which is also positive in real terms.

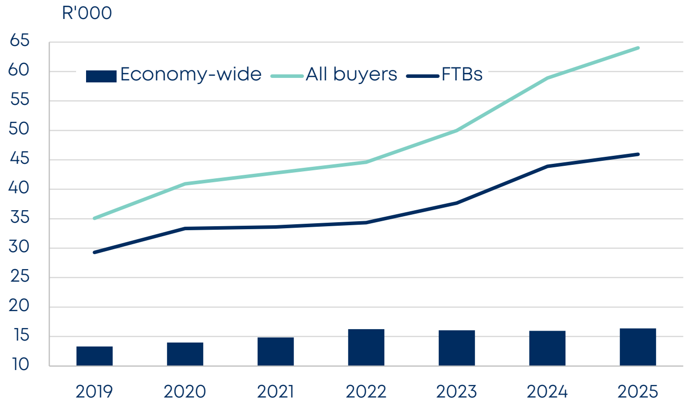
FIGURE 6



7 Average monthly incomes – all buyers and FTB (12 months ended Jan 2025)

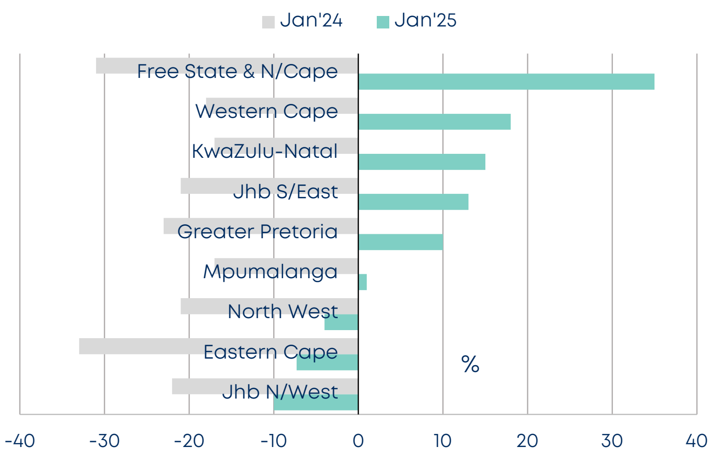
During the 12 months ended January 2025, the average incomes earned by prospective homebuyers continued to increase at a healthy pace **(figure 7)**. Between the 12-month periods ending in January 2019 and January 2025, the average annual increase in the incomes of first-time buyers (FTB) amounted to 7.8%. For all buyers, the annual increase hit double-digit territory, namely 10.5%, which is exactly three times higher than the average annual increase in labour remuneration per worker for the economy as a whole. The healthy growth rates for incomes earned by prospective homebuyers have been a stabilising force in the residential property market during a tough period where the cost of credit soared to their highest levels in almost two decades.

FIGURE 7



8 YOY percentage change in home loans granted (12 months to Jan 2024 & 2025)

A comparison between the percentage change in the number of home loans granted for the 12-month periods ending January 2024 and January 2025 confirms the extent of the turnaround in the residential property market. Although three regions have not yet fully recovered from the debilitating effect of record high interest rates, the majority of them have posted significant increases in homebuying activity. The Free State & Northern Cape region has outperformed the rest in the recovery stakes, with the Western Cape in second position with a YOY increase of 35% in the number of home loans granted **(figure 8)**. A total of five regions recorded double-digit growth during the past 12 months.



Economist's notes

11%
New prime rate

2.1%
Real increase in the Altron Fintech Household Resilience Index

$2,800
Gold price per ounce on 31 January

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.

Two events overshadowed January's property market news. The first was the welcome lowering in the repo rate by 25 basis points, the third cut since September 2024, which translates into a prime rate of 11%. The second was the signing into law of the new Expropriation Act, which has caused a furore that has even evoked the (apparent) wrath of US President Donald Trump. Although some concern will remain over the implications of this update of the 1975 Expropriation Act, it is important to note the following:

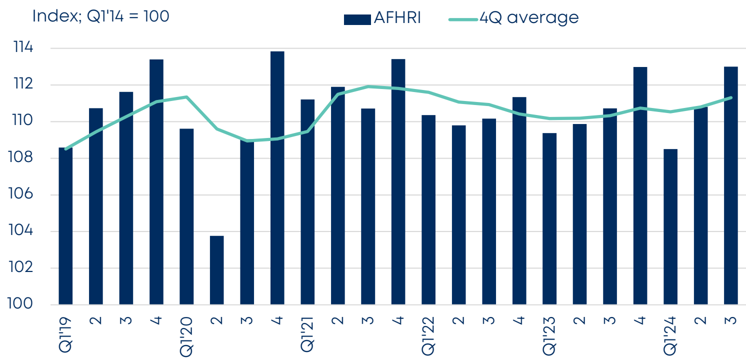
- One of its main objectives is to prevent unnecessary delays with public works programmes.
- Its provisions are subject to section 25 of the Constitution, which has not been amended.
- Expropriation can only be used as a last resort, when all other attempts to purchase property in question have failed.
- Jurisprudence regarding the interpretation of the concepts of just and equitable compensation will only develop after substantial litigation has occurred and may take decades.

For now, property ownership in South Africa is secure and protected by a democratic Constitution that enshrines free enterprise principles. The bottom line is 'business as usual'.

Improvement in household finances

The results of the Altron FinTech Household Resilience Index (AFHRI) for Q3 2024 were released in January **(figure 9)**. Although households are not out of the woods yet, due to a lengthy period of record high interest rates, the YOY improvement of 2.1% in this index is welcome. The most significant positive trend among the indicators that comprise the AFHRI is the welcome increase in private sector employment and the increase in average salaries paid by private sector firms. Any further decline in the cost of credit and of capital is likely to lead to a larger measure of financial resilience among South African households in the months ahead.

FIGURE 9 Altron Fintech Household Resilience Index (AFHRI) Q3 2024



Global currencies hit hard by resurgent US dollar

The dollar continues to benefit from expectations that President Trump will levy tariffs on most of the major trading partners of the US, hurting currencies around the globe. Although January witnessed an element of dollar weakness due to uncertainty over the timing and extent of the new tariffs on goods exported to the US, global currencies were hit hard by the resurgent greenback, with the Indian rupee dropping to an all-time low, while the euro could drop to parity against the dollar again soon.

Underpinning the strength of the US dollar is the assumption that President Trump's America First vision will fuel demand in the country and halt the downward trend in the consumer price index, while delaying further interest rate cuts.

Mining sector on the march

Thanks mainly to YOY price increases of 38% and 7%, respectively, for gold and platinum, South Africa's export revenues from precious metals ended 2024 on a high note, contributing R377 billion to an eighth successive annual trade surplus. Gold's status as a so-called safe haven has been boosted by nervousness over the trade policies of the US under President Trump and geo-political conflict. The precious metal was at a new all-time high of $2,800 per fine ounce on 31 January.

Economist
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Contact us
Taryn Curtis | BetterBond Marketing Manager | taryn.curtis@betterbond.co.za

www.betterbond.co.za