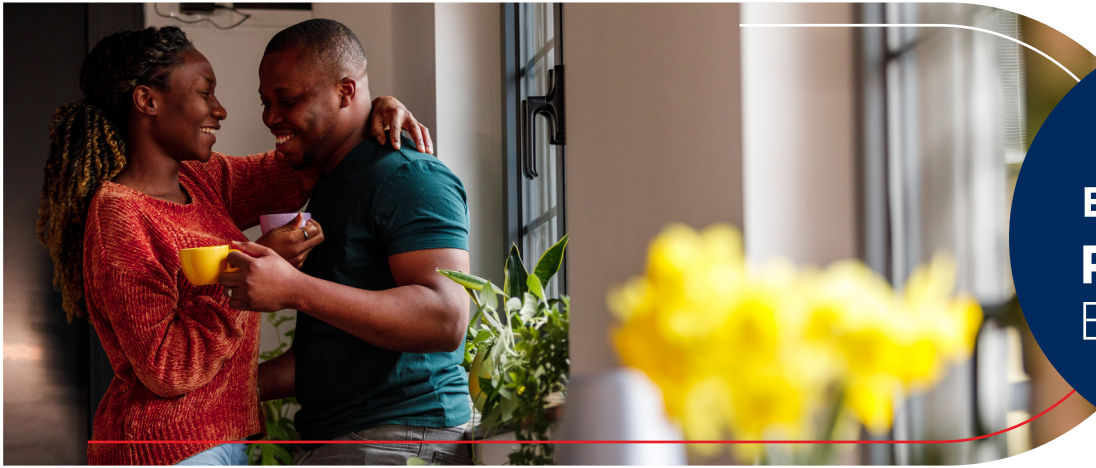




Economist's notes

AUGUST 2025



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July ended on a high note for millions of indebted South Africans, with the monetary policy authorities slowly but surely starting to appreciate the need for substantially lower borrowing costs. Although the prime lending rate remains 50 basis points higher than pre-Covid, the latest reduction of the prime rate (via the repo rate) should start to breathe new life into private consumption expenditure, which is the key driver of aggregate demand and GDP growth.

Interest rate cut welcomed

During the last week of July, the Reserve Bank's Monetary Policy Committee (MPC) cut the repo rate by another 25 basis points – the fifth cut since the modest easing of restrictive monetary policy that commenced in September last year. A hawkish policy approach has been in place for the better part of three years, during which the South African economy could not muster a GDP growth rate of more than 1%. The latest rate cut has been welcomed by all and sundry and relieves the debt servicing burden of millions of households.

The official bank rate is now 7%, with the prime lending rate at 10.5% (figure 1: CPI and prime lending rate), which is still 50 basis points higher than pre-pandemic. With the consumer price index (CPI) at 3% (at the bottom point of the inflation target range) and the producer price index (PPI) remaining at record low levels (0.6% in July), the decision by the MPC was not surprising.

HIGHLIGHTS



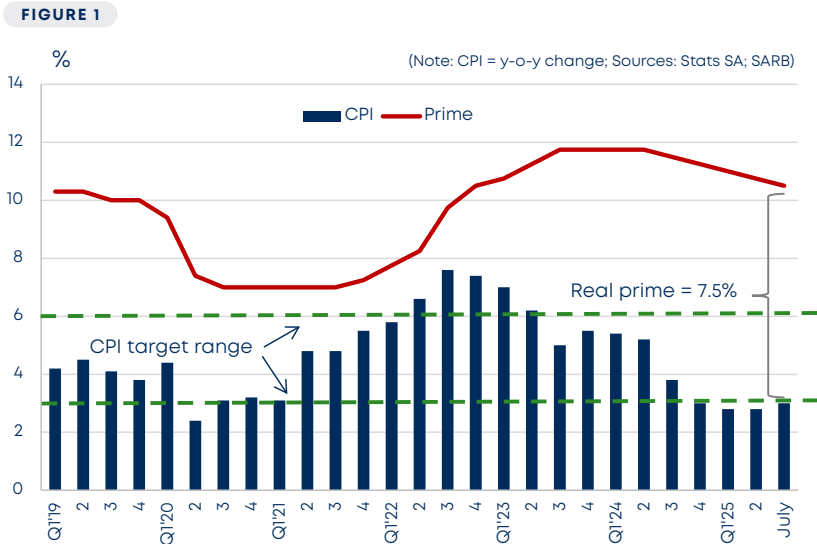
10.5%

Prime lending rate



#1
NUMBER ONE

South Africa's position
in the 2024 MSCI
Property Index



South Africa's residential property market is bound to gain some traction because of the latest interest rate cut, although some real estate firms canvassed by Property24 have noted that more rate cuts would be required to lift the sector to the activity levels achieved prior to the start of the restrictive monetary policy stance between 2022 and the end of 2024.

The further lowering of the cost of credit is a welcome step towards reinvigorating economic activity and restoring consumer confidence. It is also likely to serve as a much-needed catalyst for transaction volumes for homebuying, particularly in the affordable and mid-market sectors and is widely expected to assist in unlocking pent-up demand in the housing market.

SA tops in MSCI Property Index

South Africa's commercial property market has outperformed the other 23 countries included in the annual MSCI/Absa Global Property Index, achieving a total return of 11.9% for the 12 months ending December 2024. The index posted a third consecutive year of capital growth and its best total returns since 2015. The sustained recovery of commercial property in South Africa reflects strengthening property fundamentals, diminishing political uncertainty following the formation of the Government of National Unity, the easing of loadshedding and the onset of an interest rate cutting cycle.

Manufacturing PMI expands

The seasonally adjusted Absa Purchasing Managers' Index (PMI) for manufacturing moved into expansionary territory in July, after spending ten successive quarters below the neutral mark of 50 (a reading above 50 indicates increased activity and below 50 equates to decreased activity). The increase in the PMI to 50.8 in July 2025 was mainly due to a recovery in demand and new sales orders, which suggest a positive response to the modest easing of restrictive monetary policy.

HIGHLIGHTS

14%

QOQ increase in home loan applications

5.8%

YOY increase in average deposit for FTBs

7%

YOY increase in the share of loans for houses above R3 million

R4.4 billion

Value of houses and flats built in the Western Cape from Jan to July 2025

2 BetterBond index of home loan applications

Following a disappointing Q2, when the number of home loan applications declined marginally on a QOQ basis, July surprised somewhat on the upside, with a hefty QOQ increase of 14% and a YOY increase of 12% (figure 2). In the process, the number of home loan applications reached its highest level since Q3 2022, when the high interest rates were starting to limit the affordability of buying a home. The BetterBond index of home loan applications is now only 8% lower than in Q3 2022. Although the latest interest rate cut will only influence the August data, it seems clear that the demand for investment in residential property is picking up on the back of a lowering of the prime rate from 11.75% in September last year to 10.5% at the end of July.

FIGURE 2

Period	Index (Q1'19=100)
Q1'19	100
2	150
3	250
4	260
Q1'20	280
2	220
3	430
4	360
Q1'21	370
2	360
3	370
4	320
Q1'22	340
2	310
3	320
4	260
Q1'23	260
2	240
3	240
4	220
Q1'24	240
2	240
3	250
4	240
Q1'25	260
2	250
July	290

3 Average home purchase price

During July, the average home purchase price for all buyers reached a new record high, breaching the R1.6 million mark for the first time and recording a YOY increase of 2.1% (figure 3). The interest rate cutting cycle is playing a key role in the resurgence of property market indicators, with the average home price for first-time buyers (FTBs) also reaching a new record high in July, namely R1.3 million. Significantly, both the QOQ and YOY increases in home prices for FTBs managed to outpace the current inflation rate of 3% during July. Average home prices are still below the levels recorded in 2022, before interest rates rose to a 15-year high, but any further lowering of the prime rate will undoubtedly start shifting the homebuying activity towards a sellers' market.

FIGURE 3

Period	First-time buyers (R'000)	All buyers (R'000)
Q1'19	800	900
2	850	1050
3	900	1100
4	900	1100
Q1'20	900	1150
2	950	1100
3	1050	1200
4	1050	1250
Q1'21	1100	1300
2	1150	1350
3	1100	1300
4	1150	1350
Q1'22	1200	1400
2	1200	1450
3	1150	1450
4	1200	1450
Q1'23	1200	1450
2	1250	1500
3	1200	1450
4	1250	1550
Q1'24	1250	1550
2	1300	1600
3	1250	1550
4	1300	1550
Q1'25	1300	1550
2	1300	1550
July	1300	1600

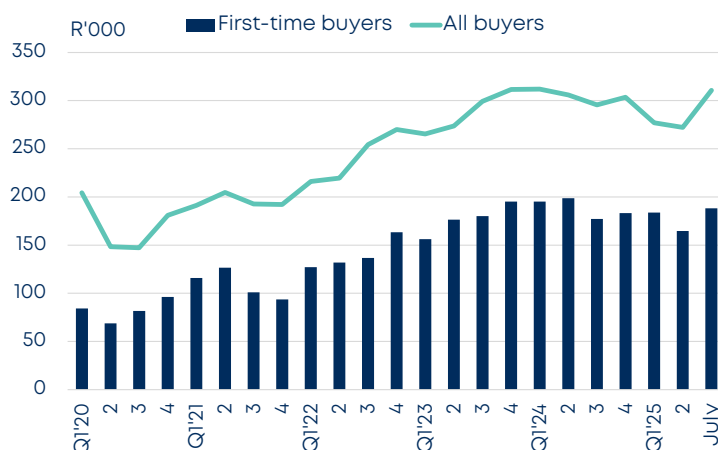
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4 Average deposit for home purchase

One of the few downsides emanating from the homebuying activity in July was the sudden reversal of the downward trend in the deposits required by the banks. After declining by 17% YOY during Q2 2025, the average deposit for FTBs increased to R188,000 in July, representing a YOY increase of 5.8% (figure 4). For all buyers, the average deposit during July amounted to R311,000, which was a hefty increase of 14% from the level required during Q2 2025. Fortunately, the average deposit requirements for July remained below the record highs recorded at the beginning of 2024. Hopefully, the recent drop in the prime rate will help slow the growth of credit impairments at South African banks and curb the recent rise in deposit requirements.

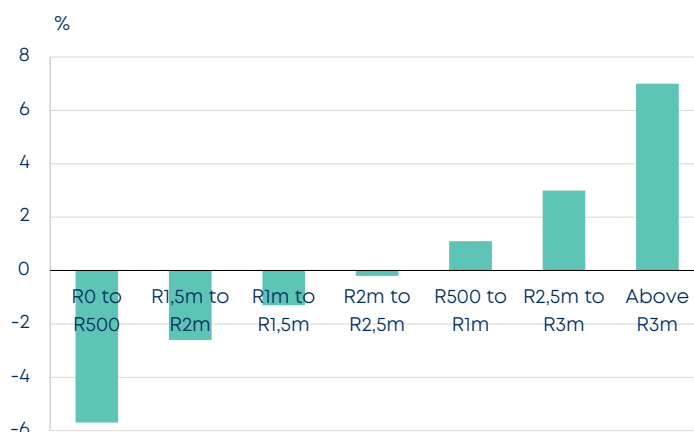
FIGURE 4



5 YOY percentage change in the share of home loans per home price bracket (12 months to July 2024 & 2025)

It is concerning that demand for lower-priced homes is not matching the activity seen in higher-priced segments, as reflected in shifts in the share of home loans granted across price bands. During the past 12 months, the share of the lowest price bracket (below R500,000) declined by 5.7%, while the share of loans awarded to houses priced above R3million increased by 7% (figure 5). During the past 12 months, the most active price bracket was for homes costing between R500,000 and R1 million, with the next level (priced between R1 million and R1.5 million) in second place. Combined, these two price brackets accounted for 54% of all home loans awarded.

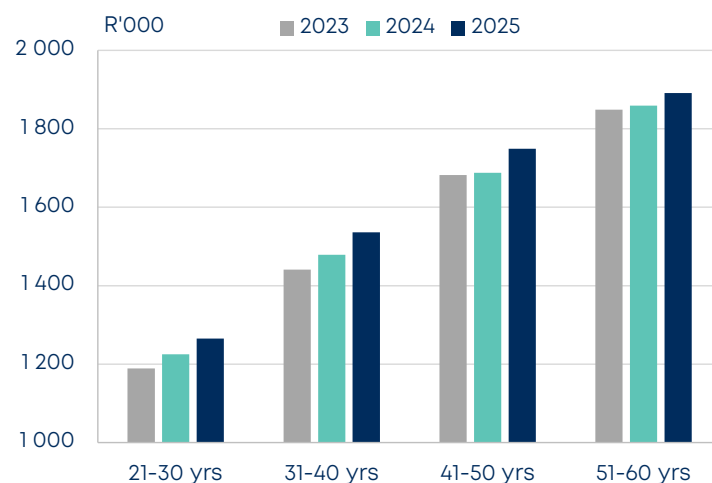
FIGURE 5



6 Average home purchase price by age group (12 months to July)

During the past 12 months, two price barriers have been broken for average house prices within different age groups (figure 6). For people in their 30s, the average house price moved decisively above the R1.4 million mark to reach a level of R1.54 million. For homebuyers in their 40s, the average price rose to above R1.6 million for the first time to reach R1.75 million. For the 12 months ending July 2025, the age group between 31 and 40 years recorded the strongest YOY increase, namely 3.9%, which was sufficient to beat inflation by a small margin. Average real house price growth for the age group 51 to 60 years was the only one that remained in negative territory during the past 12 months, confirming the gradual demise of the buyers' market in the residential property sector.

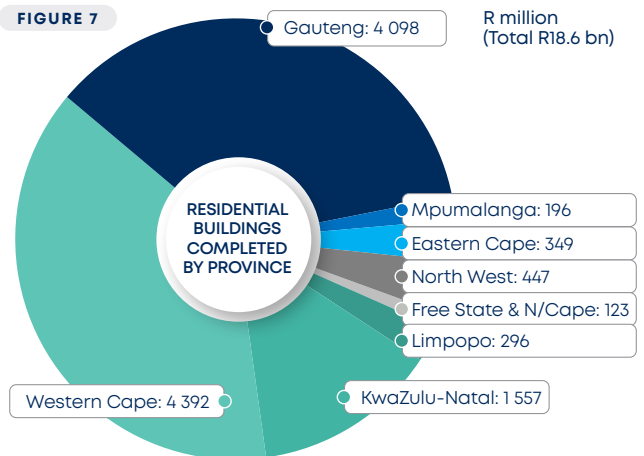
FIGURE 6



7 Value of residential buildings completed by province (January to May 2025)

An exceptionally varied regional growth performance was recorded for the value of residential buildings completed during the first five months of the year, with Limpopo in pole position for YOY growth, but this feat occurred from a very low base (figure 7). Unsurprisingly, the Western Cape was in the number one position for the total value of houses and flats built, namely R4.4 billion, representing an impressive YOY growth rate of 20% (off a high base). Gauteng was second, with a value of R4.1 billion, followed by KwaZulu-Natal at R1.6 billion. The Eastern Cape and Mpumalanga disappointed during the January to May period but will hopefully play catch-up during the rest of the year, aided by the lower prime rate. In the meantime, these trends point to an imminent shortage of housing stock, especially in sought-after locations.

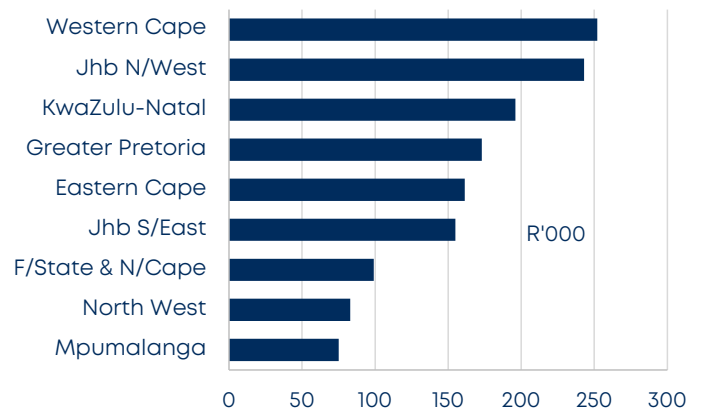
FIGURE 7



8 Regional composition of the difference in average bond values between all buyers and FTBs (12 months to July 2025)

During the 12 months ending July 2025, FTBs in the Western Cape were faced with the highest discount for average home loans, compared to the loan values for all buyers, namely R252,000 (figure 8). This region also recorded the highest average home loan value for FTBs, namely R1.4 million. The average home loan gap was the smallest in Mpumalanga, namely R75,000. FTBs in Johannesburg's North-Western suburbs also enjoyed a sizeable discount over home loan values for all buyers, namely R243,000, with the difference in these values (between all buyers and FTBs) in two other regions amounting to less than R100,000 (North West and Free State/Northern Cape). Apart from the latter two regions, the only other region with an average home loan value of less than R1 million was the Eastern Cape.

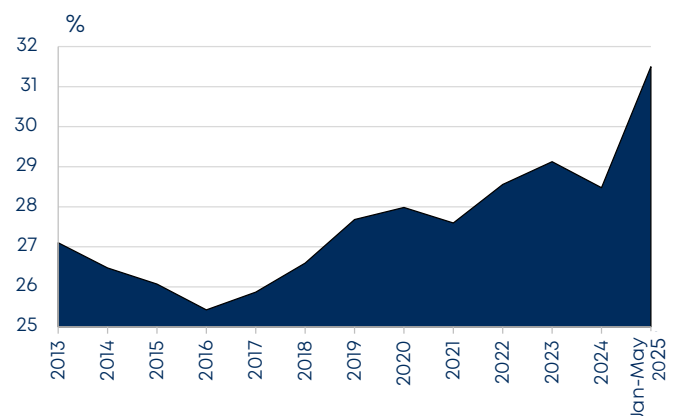
FIGURE 8



9 Value of building plans passed for alterations and additions as a percentage of total building plans passed

The residential property market has taken a hefty blow because of the high interest rates that kicked in during 2022. Likewise, new investment in commercial property has also suffered, with two other effects contributing to a downward trend in activity levels, namely remote working (induced by the Covid-19 pandemic) and the rapid growth of online shopping. The combination of restrictive monetary policy and these structural phenomena have been largely reflected in a rising trend for building plans approved for alterations and additions as a percentage of total building plans, namely from 25.4% in 2016 to 31.5% during January to May 2025 (figure 9). Many homebuyers that were planning on selling to move to more upmarket areas or simply to buy a larger house, seem to have decided to rather upgrade their existing homes.

FIGURE 9



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