BetterBond

PROPERTY BRIEF

OCTOBER 2023

HIGHLIGHTS

3%

Quarter-on-quarter increase in home loan applications

1.3%

Year-on-year increase in average home prices for FTBs

80%

Four largest metros' share of home loans granted to FTBs

8%

Quarter-on-quarter increase in Deeds Office registrations

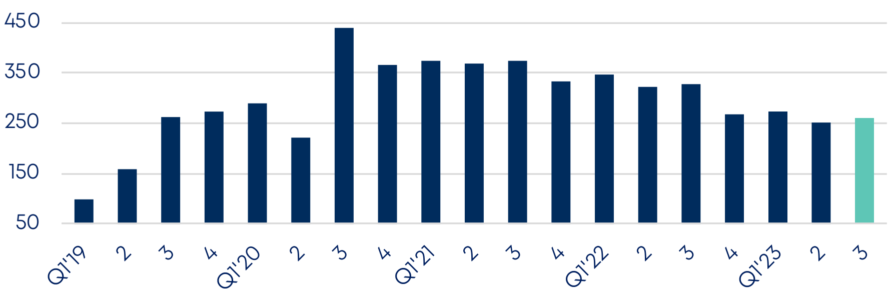
1 Total home loan applications submitted

The positive quarter-on-quarter increase of 3% in the number of home loan applications between July and September 2023 **(figure 1)** could signal a bottoming out of the downward trend that kicked in Q4 2021, when the Reserve Bank Monetary Policy Committee (MPC) embarked on its restrictive approach.

Although the year-on-year figure is down 20%, inflation is now firmly under control and close to the mid-point of the Reserve Bank target range. The MPC is therefore running out of reasons to keep interest rates at 15-year highs and higher than pre-pandemic levels.

Should interest rates start coming down, it could herald an upswing in the residential property market.

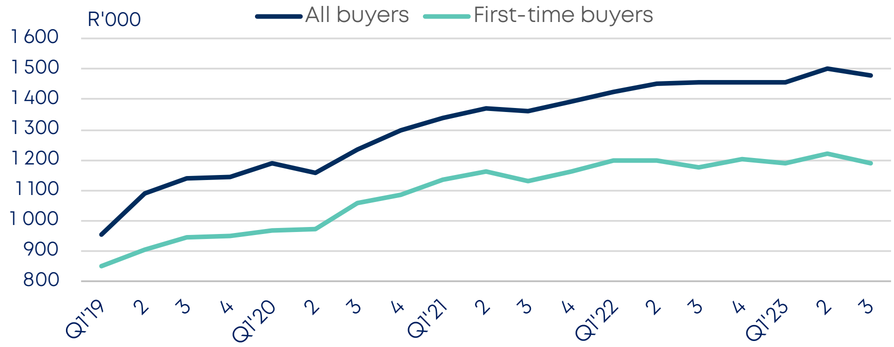
FIGURE 1



2 Average home purchase price

While Q3 2023 saw year-on-year increases in average home purchase prices for all buyers (1.5%) and first-time buyers (1.3%), there was a marginal quarter-on-quarter decline **(figure 2)**, confirming the persistence of tough trading conditions in the residential property market. Average home purchase prices are only expected to start increasing at meaningful rates once the Reserve Bank relaxes its hawkish monetary policy.

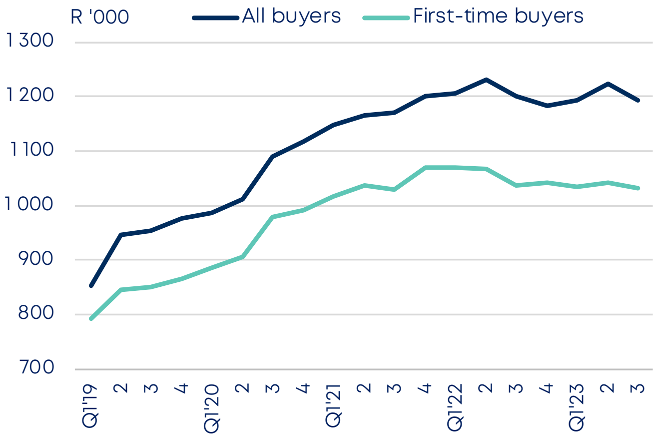
FIGURE 2



3 Average approved home loan value

In line with the trends for the number of new home loan applications and average home purchase prices, the average approved home loan values continue to be subdued, with negative quarter-on-quarter and year-on-year numbers recorded in Q3 2023 **(figure 3)**. Further downward pressure is being exerted on average approved home loan values by increases in deposits required for home purchases, both for first-time buyers and repeat buyers.

FIGURE 3

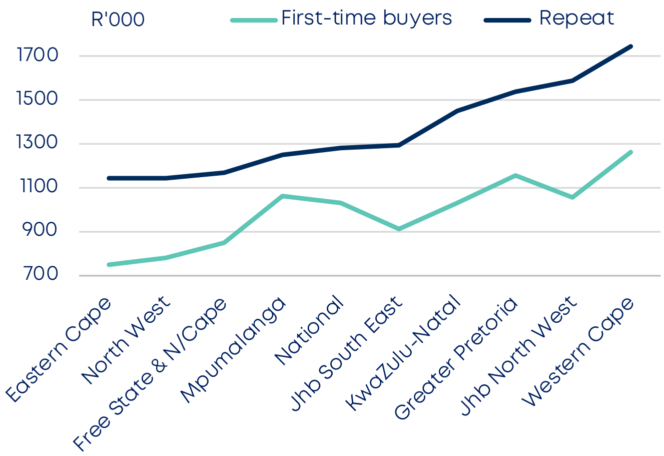


4 Average home loan value, per region

During the 12 months to September 2023, average home loan values for repeat buyers were significantly higher than for first-time buyers **(figure 4)**. The largest differences were recorded in the Eastern Cape, followed by the north-western suburbs of Johannesburg, and the North West province (specifically Rustenburg).

One of the reasons for this is most likely that repeat buyers enjoy larger collateral security and might have made a profit on previous homes, providing a larger measure of financial security when buying again. By contrast, first-time buyers are often more dependent upon financing their property purchase and therefore more prone to negative impacts from interest-rate rises like the ones experienced over the past two years.

FIGURE 4



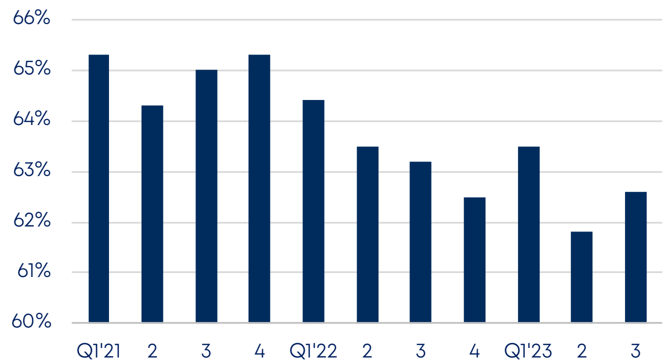
5 % of home loan applications from first-time buyers

First-time buyers have managed to retain a share of more than 60% of all home loan applications. While the Q3 2023 figure of 62.6% marks a slight decline from 65.3% in early-2021, the quarter-on-quarter increase of 1.3% **(figure 5)**, albeit marginal, is a positive sign for this important segment of homebuyers.

First-time buyers' affordability has been eroded through increased home loan repayments due to interest rates being at 15-year highs, and remuneration levels in most sectors of the economy struggling to keep pace with inflation over the past 18 months.

Fortunately, formal sector job creation has continued positively in 2023 and a relaxation of monetary policy by the Reserve Bank could see renewed activity from first-time buyers.

FIGURE 5



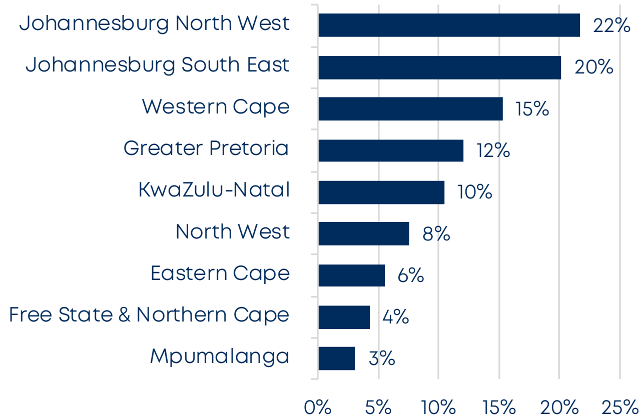
6 Home loans granted to first-time buyers, per region

During the 12 months to September 2023, first-time homebuyers were most active in the regions that are home to the largest metropolitan municipalities.

The BetterBond regions of Greater Pretoria, Johannesburg, Western Cape and KwaZulu-Natal accounted for 80% of home loans granted to first-time buyers **(figure 6)**.

Apart from demographics, urban areas often contain a larger diversity of economic sectors and therefore attract people with higher-paid skills.

FIGURE 6



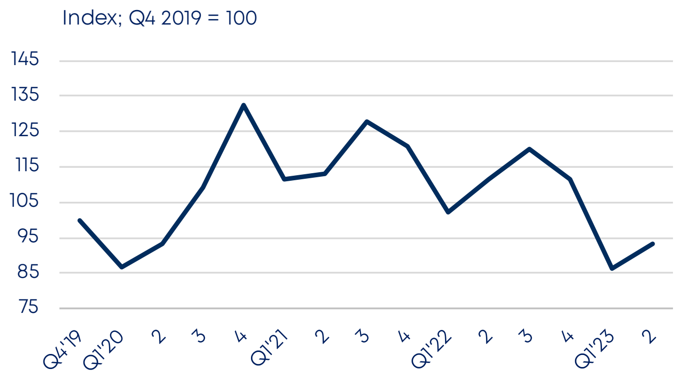
7 Deeds Office registrations

Deeds Office registrations have understandably declined as a result of interest-rate hikes, but these numbers took a positive turn during Q2 2023 **(figure 7)**, rising more than 8% quarter on quarter. Year on year, this number is still down by more than 16%, with lower interest rates required for a meaningful and lasting recovery.

Despite fewer Deeds Office registrations year on year, BetterBond has managed to increase its share by 7.3% for the two years ending July 2023.

Once the Reserve Bank brings an end to its hiking cycle, it should soon lead to an uptick in this key indicator of property market activity.

FIGURE 7



Home, sweet home in KZN

The KwaZulu-Natal residential property market has shown remarkable resilience in bouncing back from the Covid-19 pandemic and natural disasters.

Since opening in 2010, King Shaka International Airport has provided major stimulus for development along the KZN North Coast. The Ballito area has been one of the biggest beneficiaries.

Lightstone reports that 44.6% of Ballito's 8,812 homes are located in estates and 60.3% of Ballito homes are Sectional Title properties. According to BetterBond data, the average home loan value for repeat buyers in KZN is R1.45 million.

The KZN South Coast boasts 7 Blue Flag beaches: Hibberdene, Umzumbe, Southport, Lucien, Ramsgate, Marina and Trafalgar.

The Port of Durban is sub-Saharan Africa's largest shipping terminal and the fourth-largest container terminal in the southern hemisphere. It handles 60% of South Africa's container traffic.

800,000 people visit uShaka Marine World every year.

The Maloti-Drakensberg Park is a UNESCO World Heritage Site and home to rock paintings made by the San over a period spanning 4,000 years.

SOURCES: kzntransport.gov.za; sasa.org.za; dlca.logcluster.org; mg.co.za; News24; IOL; UNESCO

The sugar economy

1. Sugar was first milled in South Africa 175 years ago.
2. Sugarcane is a strategic crop and the South African sugar industry generates around R20 billion annually.
3. Sugar is one the most important agricultural sectors of the national economy and an essential part of the KZN economy.
4. The industry supports about 1 million livelihoods, employs 65 000 people directly and 270 000 indirectly.
5. A crop of around 20 million tons of sugarcane is produced annually, yielding about 2 million tons of sugar.
6. Annual turnover is about R6 billion, depending on rainfall.
7. Approximately 80% of the South African industry is located in KZN and 20% in Mpumalanga.
8. Sugar growers suffered losses in excess of R200 million when more than 2 500 hectares of cane fields were damaged during devastating floods in 2022.
9. Since 1994, the South African sugar industry has transferred 21% of freehold land under cane from white to black owners, off a base of 5%.

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.

Prospective homebuyers would be wise to keep an eye on the rand exchange rate, as any significant currency depreciation always leads to higher import prices, which then feeds into domestic inflation. The Reserve Bank has a reputation for being very cautious about any lingering fears over higher prices and a weak currency may thwart chances of cuts to interest rates before the end of the year.

Rand knocked by relentless US dollar

A currency cannot be weak on its own, only relative to other currencies. The good news for South Africa is the fact that the rand has outperformed the bulk of key global currencies during the five weeks ended 9 October, depreciating by less against the US dollar than the mighty Euro, and faring better than the Great British pound, the Japanese yen and most emerging market currencies of note around the globe.

Key currencies against the US dollar (% change 1 Sept – 9 Oct 2023)

Best performers	%	Worst performers	%
Chinese yuan	-0.3	British pound	-3.7
Indian rupee	-0.7	Turkish lira	-3.7
Singapore dollar	-1.2	Brazilian real	-4.2
Australian dollar	-1.8	Russian ruble	-4.4
South Korean won	-1.9	Polish zloty	-4.9
South African rand	-2.3	Thai baht	-5.6
Japanese yen	-2.5	Mexican peso	-7.5
Euro	-2.6	Chilean peso	-7.6

Sources: X-Rates Exchange Rates & Economist's calculations

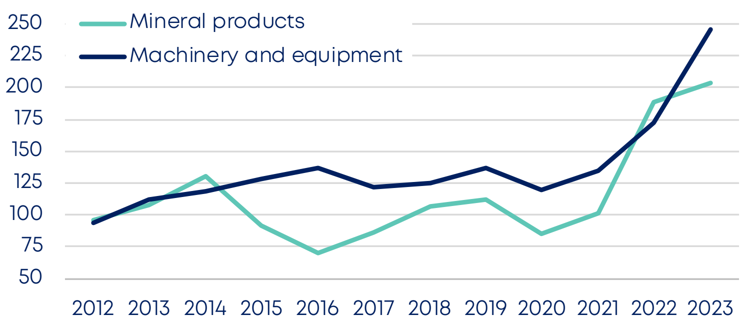
The renewed surge of the US dollar has taken its toll on every notable global currency and the explanation for the latest rally of the greenback is not difficult to find. Early in October, the yield on 10-year US Treasury bonds reached a 16-year high of 4.8%, representing an increase of more than 45% over the yield that existed a mere six months ago. Combined with lower growth in several commodity exporting countries, the attractiveness of US Treasury yields has led to risk aversion amongst many global fund managers as investment funds are pumped into the dollar. Fortunately, this cannot last, as the US balance of payments is in bad shape (due to cheap imports and lower export competitiveness). When the dollar eventually loses steam, domestic inflation may decline further, which raises the prospects of an end to the Reserve Bank's hawkish monetary policy and lower interest rates.

Fixed investments on track

One of the brightest pieces of data to surface this year has been the value of imports of machinery and equipment, which rose dramatically during the first six months of 2023 to reach a level of almost R250 billion **(figure 8)**. This category of imports is the largest of all and is crucial to the expansion of productive capacity and economic growth.

Imports of mineral products, machinery and equipment (Jan to June 2023)

FIGURE 8



R246 billion
Value of machinery imports Jan-June 2023

This stellar performance is also closely associated with higher investment in renewable energy by small and large businesses. Confirmation of the new growth phase in fixed investment has been provided by the latest Statistics SA quarterly survey on capital expenditure, which shows a year-on-year increase of more than 29% in Q2 2023.

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