



JUNE 2023

HIGHLIGHTS

 250,000+

New jobs created during Q1 2023

1.9 million+

New jobs created between Q3 2021 and Q1 2023

 52%

Gauteng share of home loan applications from first-time buyers

R1.3 million+

Average home loan for all buyers during 12 months ended May 2023

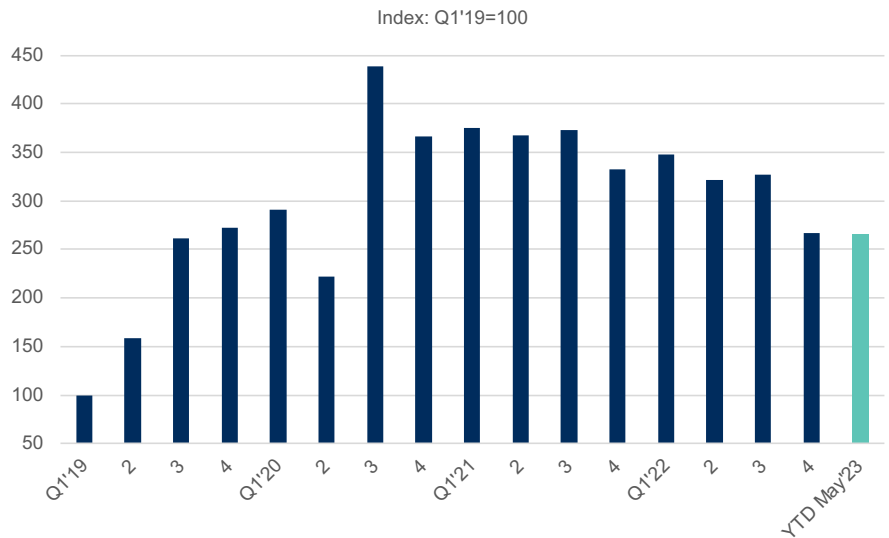
1 Total home loan applications submitted

Home loan applications have remained comparatively steady during the 12 months to end-May 2023, and similar to levels seen in Q4 2022 (figure 1).

Despite evidence that South Africa's inflation rate has peaked and started a downward trajectory, the Reserve Bank raised the repo rate by another 50 basis points in May, the tenth rise in a row.

South Africans will be hoping that the latest decline in the Consumer Price Index, to below 7%, will end the current rate-hiking cycle. This could pave the way for an uptick in the property market later this year and into 2024.

FIGURE 1

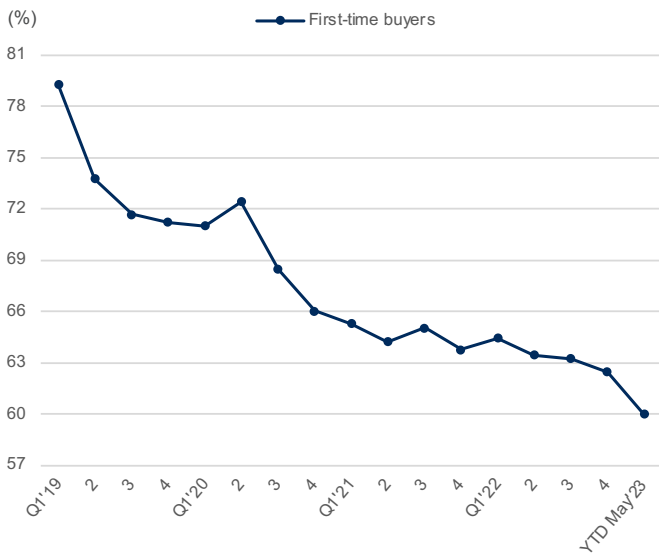


2 % home loan applications from first-time buyers

The decline in new home loan applications, in general, and for first-time buyers, in particular (figure 2, on next page), should be seen against the backdrop of a 68% increase in the cost of servicing debt since November 2021 when the Reserve Bank commenced its current rate-hiking cycle. During this period, the prime interest rate, which determines so much of aspirant buyers' home loan affordability, rose from 7% to 11.75% at present.

A combination of substantial formal sector job creation during Q1 2023 and the new downward trend in the inflation rate, could herald relief for homebuyers and a consolidation in the property market over the coming months.

FIGURE 2



3 Average home purchase price

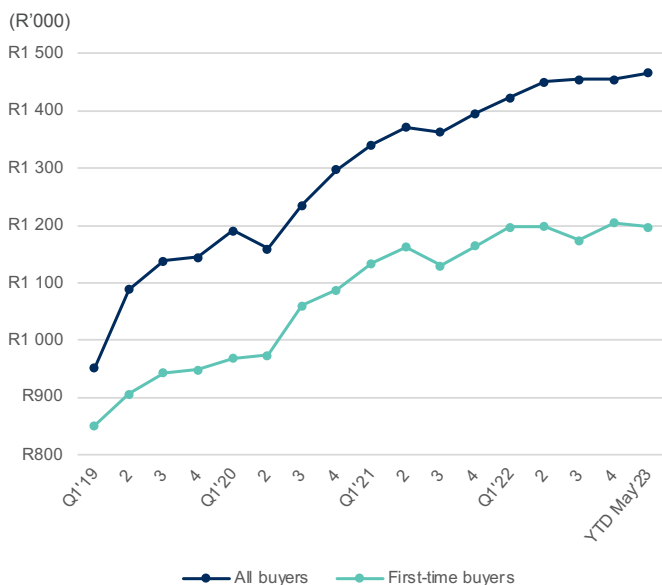
We are in a buyer's market for home prices (figure 3, below).

For all buyers, the average home price continued to climb and was 3% higher, on average, during the first five months of 2023 than during Q1 2022.

Although the average home price for first-time buyers declined marginally during the 12 months to May 2023, it remained roughly on par with the average YOY.

When adjusted for inflation, however, home prices have declined marginally since the onset of rising interest rates. Shrewd buyers will conclude that in the current environment – high inflation, subdued home prices – there are buying opportunities that will be difficult to come by once interest rates start going down again.

FIGURE 3

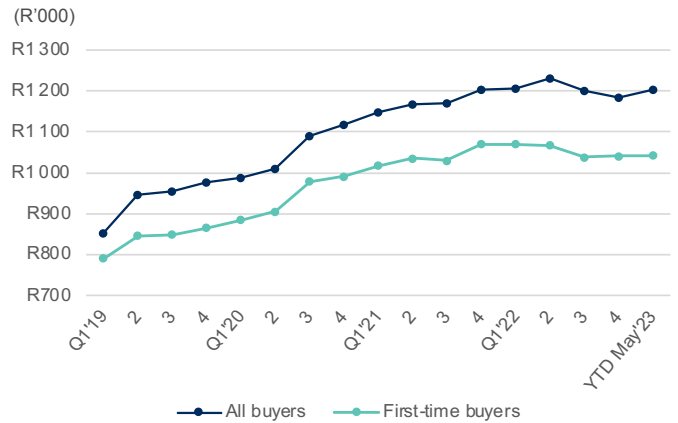


4 Average approved home loan value

While average home prices have continued a steady rise in nominal terms, the values of approved home loans have dipped slightly since interest rates started rising in Nov 2021.

The average home loan for first-time buyers has remained above R1 million, and for all buyers it has stayed above R1.3 million during the 12 months ending May 2023 (figure 4). While the decline applies to all buyers, it has been marginal.

FIGURE 4



5 Average homebuyer income

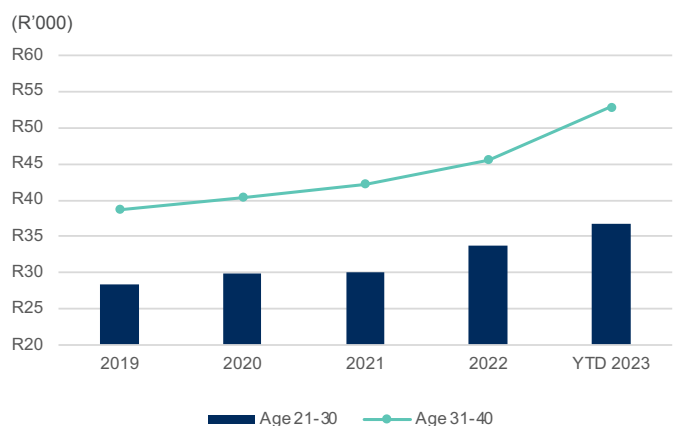
There is a clear upward trend in the income levels for all ages of homebuyers (figure 5, below).

This is explained by scarcity of high-level skills in South Africa, especially since the economy started recovering from the Covid-19 pandemic.

In real terms, South Africa's GDP is higher now than before the pandemic. The lure of lucrative overseas labour markets – US and UK, especially – has also resulted in a shrinking pool of highly qualified and experienced experts locally.

Rising income levels in BetterBond homebuyer data is therefore in sync with national labour market trends.

FIGURE 5

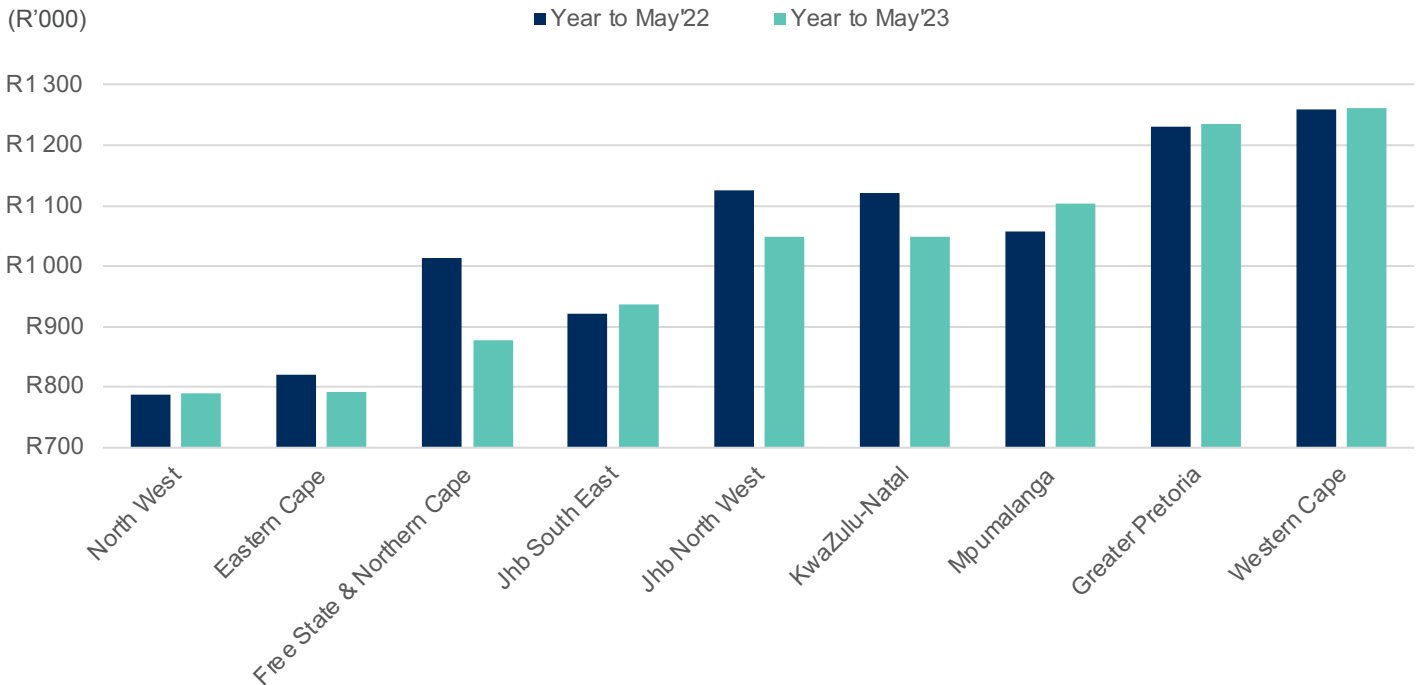


6 First-time buyers' average home loan value, per region

The top 3 areas in South Africa, in terms of average home loan value for first-time homebuyers, over the past 12 months have been the Western Cape, Greater Pretoria and Mpumalanga, according to BetterBond data (figure 6).

Notable that Mpumalanga has overtaken KZN and the north-western suburbs of Johannesburg during this time, in a trend that could indicate semigration is spreading farther and wider than only to coastal provinces.

FIGURE 6

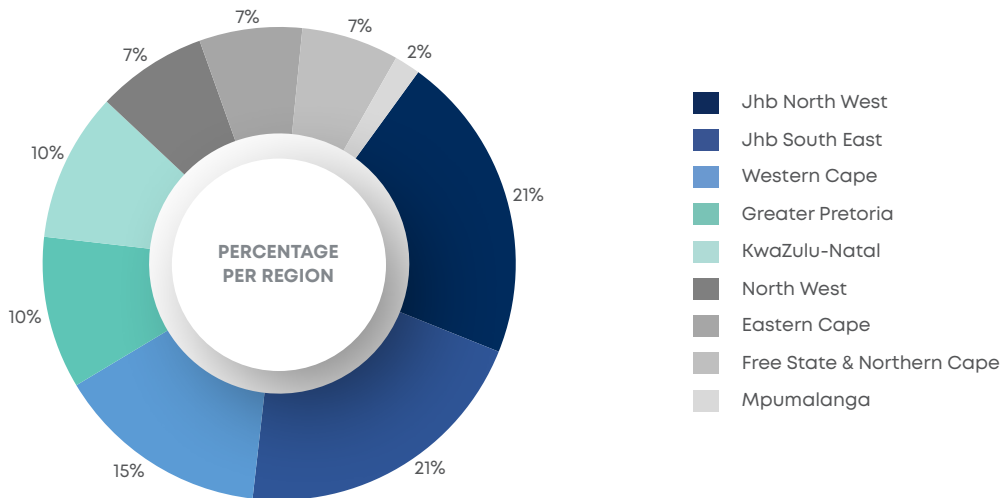


7 First-time buyers' home loan applications, per region

Gauteng accounts for more than half (52%) of all home loan applications from first-time buyers, handled by BetterBond, in the 12 months to May 2023. This covers the regions of Jhb North West, Jhb South East and Greater Pretoria (figure 7).

The Western Cape is at a healthy 15% although properties in this province are more expensive, on average, than in Gauteng.

FIGURE 7



Millennial & Gen-Z homebuyers

June is Youth Month in SA. In terms of homebuying, the youngest homebuyers are often Millennials (born 1981-1996) and Gen-Z (born 1997-2012). Here, we consider how they think about property.

For these homebuyers, in their 20s and 30s, the research and data often centre on the USA, but there are several insights that also illuminate the South African picture.



How they engage

- Gen-Z is the first **fully digital** generation.
- Millennials and Gen-Z are the **most ethnically and racially diverse** generations in history and they want to live in communities that look like them.
- They live **24/7 lives** and **technology** shapes every aspect of daily life – communication, education, shopping, travel, socialising, relationships and entertainment.
- They have **eight-second attention spans** and expect websites to load at lightning speed – if yours doesn't, they move on.
- They are not fans of phone calls. They want fully **digital processes** – forms, applications, submissions, payments – and if yours is not, you will be largely invisible to them.
- They hardly respond to email or online marketing. If it isn't on **social media**, they are unlikely to notice it.
- They are swayed by **other customers' reviews** and **testimonials** so put your happy customers on show.

How they buy homes

- For Millennial and Gen-Z buyers, the biggest **hurdles to homebuying** include:
 - Youth unemployment in South Africa (62.1% in Q1 2023 for job seekers aged 15-24)
 - Student debt
 - Lack of credit history
 - Unstable jobs
- They still want to buy homes, however, and look at homeownership as a way of **building equity**.
- Not being able to **save a deposit** is not a deal-breaker, however, as some banks offer 105% and 110% bonds. (In the UK, 35-year mortgages are at record highs as lenders go all out to attract young homebuyers into the market amidst interest-rate rises.)
- They do their **research online**, including listening to real estate **podcasts** and looking at property-related **Instagram** feeds.
- After price, space is the biggest consideration.
- They look for properties with the **highest-speed connectivity** – for entertainment and so that they can work from home.
- They are keenly interested in properties with **alternate sources of power**, like solar, already installed.
- They are increasingly opting for **'house hacks'** whereby they buy a property and then rent it out in part, to help pay for it.

Lessons from history

The oldest of **Gen-Z** took advantage of historically low interest rates during the pandemic to become homeowners.

The oldest **Millennials** started working during the 2001 recession. Then, with many of them in their first or second jobs, came the 2008/9 global financial crisis.

What comes after Millennials and Gen-Z?

That would be Generation Alpha (born 2012-2025). The oldest among them might be only 13 years old right now, but considering how tech savvy and world wise these digital natives are, it won't be long before they become the next wave of digitally savvy first-time homebuyers!



SOURCES: FORBES; BUSINESS INSIDER; HOMMATI

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.

Employment growth continues

More than 250,000 new jobs were created in South Africa during Q1 2023.

It is encouraging that the total number of employed people in our country is now in excess of 2 million higher than during the super-challenging times of Q2 2020 when Covid lockdowns were at their harshest. This is perhaps even more significant, when viewed against the backdrop of subdued economic activity in several sectors, and constant electricity rationing.

The momentum of job creation might have stalled during the first half of 2021 (pandemic induced), but since then the tempo of labour market recovery has been impressive. More than 1.9 million new jobs have been created between the dip of Q3 2021, and Q1 2023.

This is the sixth successive quarterly gain of noteworthy proportions. The top five sectors, year on year, for new job creation are:

- Community & Social Services **357 000**
- Finance, Business Services & Real Estate **335 000**
- Trade & Hospitality **275 000**
- Construction **128 000**
- Manufacturing **75 000**

8 New employment, per age group, between Q1 2022 & Q1 2023

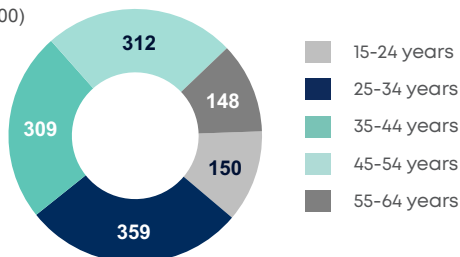
More than 1.2 million new employment opportunities were created between Q1 2022 and Q1 2023 (figure 8).

From the property market's perspective, and with an eye to the future, it is encouraging to see that the two age groups that usually yield the highest numbers of first-time homebuyers (25-34 and 35-44) placed first and a close third, respectively.

The age group that is generally associated with trading up to larger homes, as well as property investment (45-54), was in second place.

FIGURE 8

(Number'000)



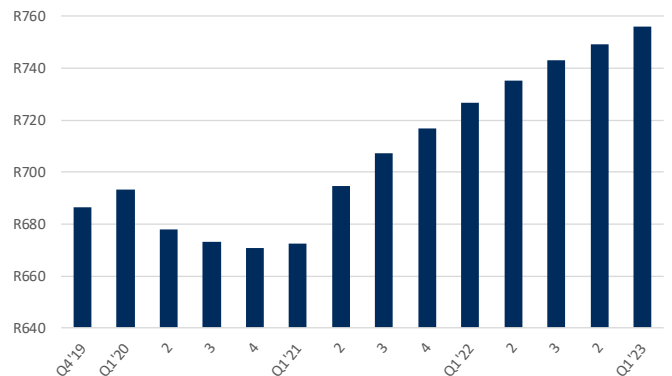
SOURCE: STATS SA

9 Total salaries & wages at current prices (4-quarter average)

There has been a consistent increase in homebuyers' income levels across all age groups, in line with the upward trend in the compensation of employees, as recorded by Statistics SA (figure 9). Compensation traditionally shows annual increases, except during the worst four quarters of the Covid-19 pandemic.

FIGURE 9

(R billion)



SOURCE: STATS SA

Economist
Dr Roelof Botha

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