

## Q3 '23: Muted loan volumes; strong approvals

The latest oobarometer (Q3 '23) from ooba Home Loans is now out, providing valuable insights into the current state of the housing market. This quarterly report offers a comprehensive overview of the trends and developments that have shaped the real-estate landscape in the third quarter of 2023.



Source: [Pexels](#)

Statistics for the third quarter of 2023 (Q3 '23) show that new home-loan lending volumes remain muted, but approval rates are strong.

Lenders continue to ease access to home finance in an effort to further aid homebuyers in a more challenging property market.

The key market indicators illustrate ongoing subdued property-price growth providing affordable opportunities for homebuyers to acquire property and the continued upward trend in deposits.

“Despite the decision by the Reserve Bank to leave interest rates unchanged at the past two MPC meetings, an increase in the average deposit-value signals that homebuyers have adopted a cautious approach when taking up elevated levels of debt,” comments Rhys Dyer, chief executive officer of ooba Home Loans.

### **Banks continue to lend competitively**

“The banks’ willingness to continue to offer competitive rates, with an average rate below prime, paints a positive outlook for the property sector at the peak of the interest rate cycle,” he adds.

Good news for buyers is that the average interest rate awarded to ooba customers in Q3 '23 was recorded at 14 basis points cheaper than Q3 '22 – now at -0.44% below prime. “This should assist buying activity in the market - particularly among homebuyers with a good credit score and a deposit-backed application,” adds Dyer.

In addition, the average bank approval rate for ooba Home Loan applicants continues to hold steady at 82.9% for Q3 '23 – marginally lower than the 83.6% recorded in Q3 '22.

The average approved bond size for Q3 '23 remains relatively static, coming in at R1,285,772 (up by 0.9% from Q3 '22) and R1,002,349 for first-time homebuyers (up by 0.3% from Q3 '22).

“This slowing growth is attributed to slowing property-price growth, to particularly first-time homebuyers choosing to put down higher deposits and to customers choosing properties that they can afford in a higher interest rate- and loan-repayment market,” Dyer comments.

## **Market contraction dents home-loan demand**

While approval rates and interest-rate concessions remain resilient, there is a significant reduction in home-loan applications year-on-year. This is largely attributed to lower demand for property due to weakening economic conditions, higher costs of living and increased interest rates.

The volume of home-loan applications recorded in Q3 '23 has declined by 25% year-on-year, and down by 28% from Q3 '21, before the start of the rate hiking cycle.

## **Subdued house-price inflation favours homebuyers**

The average purchase price paid by homebuyers is beginning to show nominal year on year growth - up by 1.5%, now at an average of R1,423,663, compared with R1,402,408 in Q3 '22. Growth in the average purchase price paid by first-time homebuyers is up 2.7% year-on-year, now at R1,116,672.

“While subdued house-price inflation is a symptom of the contraction of the property market, it does provide more affordable opportunities for homebuyers to acquire property,” says Dyer.

## **Impact on Instalments**

The effects of a high interest-rate environment are clearly depicted in the increase in instalments as a percentage of gross income – up from 18.4% at the start of 2021 to 20.7% in Q3 '23.

For joint homebuyers, proposed instalments have risen from 16.4% of gross income to 18.0%. “This represents an increase of 230 basis points for individuals and 160 basis points for joint homebuyers,” says Dyer.

He does however note that the silver lining here is that instalment payments remain comfortably below the industry benchmark of 30%, suggesting that homebuyers applying for a mortgage are not as financially stretched as some would anticipate.



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## **Deposits trend upwards – once again**

“Homebuyers understand that in a high interest-rate environment, bigger deposits help to reduce your monthly repayment and secure a better interest rate on your home loan.”

Dyer notes that this is evident in the continued growth of deposits among both first-time and second-time homebuyers.

“The average deposit for Q3 '23 was recorded at 9.7% of the purchase price (R137,891) - up by 6.6% year-on-year from Q3 '22 to Q3 '23. The first-time homebuyers' segment also recorded a major increase in deposits - up a staggering 25.9% year-on-year from Q3 '22 to Q3 '23, now at R114,323 - 10.2% of the average purchase price.”

Dyer notes that applications for zero-deposit bonds continue to decline, now accounting for 53.7% of ooba Home Loan's total application intake – a drop of just over 10% from Q3 '22.

“However, approval rates for these applications remain strong.”

## **First-time homebuyer activity**

Applications from the more interest-rate sensitive first-time homebuyers have reduced from 54% of total applications in Q3 '20 – now accounting for 48% of all applications processed by ooba during Q3 '23. This indicates that at present, first-time homebuyers in this market segment who are challenged with affordability constraints are placing their home-buying plans on hold.

“First-time homebuyers do still make up over half of the applications received in the Free State, KwaZulu Natal, Mpumalanga and Gauteng South and East Rand - a clear sign that they're still keen to get a foot on the property ladder,” explains Dyer.

Interestingly, the first-time homebuyers who are buying, are in fact spending more. “The average purchase price has increased year-on-year – up from R1,087,089 in Q3 '22 to R1,116,672 in Q3 '23.”

ooba Home Loan's data also shows that first-time homebuyers are getting older – now at 36, up from 35 in Q3 '22. “This figure comes as no surprise,” comments Dyer. “Homebuyers who continue to prioritise their financial wellbeing may take longer to enter the property market as they continue saving to build up a healthy deposit.”

## **The creation of generational wealth**

More than just a buzzword, generational wealth provides long-term financial security through the purchase of assets such as real estate, investments and businesses.

Today, many South Africans are investing in property as a means of creating generational wealth, and a clear indicator of this is the continued growth in home-loan applications for investment properties.

“This segment continues to yield robust demand – up by 34% from Q2 '23 – and largely driven by the demand for properties in the Western Cape.”

Looking ahead, Dyer comments that while levels of demand have reduced significantly we believe we are almost 'out of the woods', with home-loan demand expecting to increase in the new year as we see some softening of interest rates.

“However, homebuyers should continue to shop around for the best deals on their home loans as well as saving for deposits to curb the effects of interest rate fluctuations” he concludes.

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