

The 'Waiting Game' continues - property industry to practise patience

Yesterday's Monetary Policy Committee (MPC) announcement leaves the repo and prime lending rates unchanged for a fifth consecutive meeting at 8.25% and 11.75% respectively.



Source: Supplied.

Contextualising the South African Reserve Bank's decision, ooba Group chief executive officer Rhys Dyer notes that both the American Federal Reserve and the European Central Bank (ECB) have indicated that they are close to cutting rates, but "that they're awaiting more data – particularly wage data - to confirm that now is the right time to adopt this course of action."

He adds that, "there remain real fears of a resurgence of inflation, so the world's major central banks are going to err on the side of caution until they receive additional data to indicate that inflation will recede into target ranges, ensuring that the decision to cut rates is a considered one."

However, both have hinted that rate cuts will likely begin in June, increasing the likelihood of South Africa following a similar course from mid- 2024.

In addition to this global outlook of risk-mitigation, the Reserve Bank's rate hold comes in the wake of the surprise increase in CPI again in February 2024 (up to 5.6%), with inflation now well above the mid-point of the target range of 4.5% that the Reserve Bank is targeting.

Five successive rate-hold decisions have helped property industry regain some ground

While the property industry is still holding out hope for a rate cut in May or July 2024, the decision to keep the prime lending rate at 11.75% since May 2023 has helped South Africa's residential property market regain some of the momentum lost in the 2021-2023 extended rate-hiking cycle.

"National House Price Inflation (HPI) is starting to show a more positive growth trajectory, with the average purchase price paid by ooba Home Loans' customers in January and February 2024 showing a +4.8% increase from the same period last year," says Dyer.



ooba Home Loans data has also shown a significant increase in national demand for investment and buy-to-let properties – a positive economic indicator and sign of renewed investor confidence in the local property market.

“Applications for investment/buy-to-let properties rebounded to 12.8% of all applications processed in February ’24, significantly up from 8.5% in February ’23. This increase reinforces the ongoing surge in demand from investors since the stabilisation of interest rates mid-2023.”

Rate and lending influence

Dyer does however emphasise that the decision to postpone rate cuts, in combination with rising petrol costs and food inflation, has had a negative impact on the first-time homebuyer market segment in particular.

“Applications from first-time homebuyers (FTHB) dipped to 44.6% in February ’24 – the lowest levels seen since March 2017. This is a clear indicator that the rates-sensitive FTHB segment is choosing to delay its property purchases until interest rates are cut, a decision that is dampening property demand across the country,” he says.

Buying activity levels continue to be supported by strong bank appetite for home loans with approval rates still strong and positive shifts in the form of both the average loan-to-value ratio and interest-rate concession relative to prime improving last month.”

He notes that ooba Home Loans has still managed to achieve a 83.3% approval rate for its customers in the first two months of 2024.

Pre-qualification a useful tool

In the current lending environment, getting pre-qualified is an effective way to boost one's chances of receiving a successful home-loan application.

“Our data shows that the approval rate for home-loan applications linked to a pre-qualification remains steady at 91.2%, while those not linked to pre-qualifications currently sit at 80.2%,” says Dyer.

He concludes saying: “In these challenging economic times, where interest rates are continually in flux, it's essential to budget carefully when pursuing a home-ownership dream and consider the long-term costs involved in a bonded property.

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