

Banking sector underpinning residential property market activity

 By [Dr Andrew Golding](#)

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The recent announcement by the Monetary Policy Committee that the repo rate is increasing by a further 75bps will certainly be met with some dismay by consumers having to contend with the rising cost of living coupled with the dampening effect of ongoing load shedding on South Africa's fragile economy.



Dr Andrew Golding, chief executive of the Pam Golding Property group

This seventh consecutive hike in the repo rate, ticking up to 7% means that the prime interest rate rises to 10.5%.

However, while October's inflation rate disappointed, edging up to 7.6% from 7.5% in September, business confidence showed surprising resilience in the final quarter of the year with a reading of 38, marginally below 39 in Q3 2022. While admittedly a slightly weaker reading, there were concerns that recent bouts of prolonged load shedding might have caused a further sharp deterioration in business confidence.

Although both the wholesale and retail sectors' confidence fell sharply in Q4, this was largely offset by a rebound in residential building confidence. The positive upward trend in residential building activity bodes well for fourth-quarter economic activity, as does increased capital spending, particularly on renewable energy projects, as well as a continued recovery in the hospitality industry amidst a rebound in international tourism.

Still favourable lending for home buyers

The banking sector is playing a meaningful role in underpinning residential property market activity as another notably positive development is the sharp improvement in Ooba's average concession below prime which, at -0.54% in October, is the most competitive rate recorded since the final months of the 2008/09 recession.

Applications from first-time buyers also rebounded in October, comprising 50.7% of total applications (according to Ooba), although this percentage is likely to continue to consolidate around the 50% mark amidst the higher interest rates and increased pressure on household finances.

And while 100% bond applications remained subdued at 56.7% of applications in October, the approval rate was buoyant at 84.7% - remaining above 84% for the third consecutive month and at a level last recorded in late-2021. All in all, after declining during the first half of 2022, approval rates (six-month moving average) have risen in recent months, with the overall trailing effective and first-time home buyers rising to 82.9% and 81.5% respectively in October, highlighting the still favourable lending conditions for buyers. (Source of stats: Ooba)

Furthermore, against the backdrop of slower growth in house prices, the rebound in demand for investment or buy-to-let properties continues, led primarily by the Western Cape (Ooba regional data).



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Interest rate close to peaking

While there is general consensus that the local interest rate cycle is close to peaking, a recent survey of market analysts revealed that there is little agreement as to the exact timing of the final rate hike – although the most popular view is January 2023. There is, however, slightly more agreement as to the level at which interest rates are likely to peak – with most analysts forecasting a peak repo rate of between 7% and 7.5%.

Much will depend on the Federal Reserve and whether or not it eases the pace at which it hikes interest rates in the months ahead. Recent evidence that US inflationary pressures are finally beginning to abate has prompted market speculation that the Fed will now hike by 50bps at the December FOMC (Federal Open Market Committee) meeting and not the 75bps hike previously anticipated. This shift in expectations has weighed on the dollar, which had surged to a 20-year high, taking some pressure off emerging market currencies, including the rand.

A slower pace of Fed hikes and a slightly weaker dollar would create a more benign global financial environment for emerging markets, including South Africa.

A stronger rand – as the dollar weakens - would help dampen local inflationary pressures – particularly at a time when global recession concerns are weighing on global commodity prices such as the oil price. This, in turn, would ease pressure on the Reserve Bank to hike aggressively.

Global environment unpredictable

However, the global environment remains volatile and unpredictable and while global inflationary pressures may be easing, the Reserve Bank will remain focused on local inflationary pressures, particularly inflation expectations and wage settlements – both of which are currently hovering around the upper limit (6%) of the bank's inflation target.

Encouragingly however, as the year end approaches, at a time which often heralds buying and selling decisions around lifestyle, finances, career opportunities, schooling/education and retirement, among others, indicators are that South Africa's residential property market will continue to weather the current challenging economic trading conditions.

ABOUT DR ANDREW GOLDING

Dr Andrew Golding, chief executive of the Pam Golding Property group, was originally in private practice as a General Practitioner on the Atlantic Seaboard from 1991 to 1996, after which he joined the family business as MD in 1996, followed by his present position.

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