BIZCOMMUNITY

Emerging developments in the home loan landscape

By Rhys Dyer

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Last year could have been defined as the 'financial tipping point' for many South Africans, but experts still believe that 2024 will bring some much-needed relief in the form of interest-rate cuts from the second quarter onwards.

Source: Supplied. Rhys Dyer is the chief executive officer of ooba Home Loans.

And while consumer affordability cannot simply be repaired overnight, the residential property sector hopes that some financial reprieve will reignite the demand for homes.

Looking at the year that was 2023 saw significantly reduced demand for home-loan applications, largely driven by financial pressure and constraints as a result of the high interest rate and inflationary environment. Nevertheless, some clear trends that helped define the home-loan market in 2023 would have to be:

- The banks easing access to home-loan finance through competitive lending (at attractive rate discounts).
- The rise of co-buying.
- The ongoing semigration movement.
- Worsening financial constraints on consumers resulting in those buying saving for bigger deposits.
- A surge in investment buying as a means to create wealth for the future generations - especially in the Western Cape.

First-time homebuyers continued to retreat from their peaks in 2020 and 2021, once again confirming that they are the most rates-sensitive segment of the homebuying market.

Bond applications from first-time homebuyers have shrunk by 12% since Q3 '20, now only accounting for around 47.5% of our customer base. However, what was positive to see in 2023 was that first-time homebuyers were putting down bigger deposits – up by 25.9% and are spending more on homes – up by 2.7%.

But, despite the rising cost of living, first-time homebuyers are still able to set aside savings for property deposits in this tough climate. They understand that putting down a deposit will help lower their monthly repayments and assist in securing a better interest rate on a home loan. When examining affordability, the golden rule is that your monthly home-loan repayment should not exceed 30% of your monthly gross income.

While monthly instalments have increased to 20.7% of our customers' gross income in Q3 '23 – up from 18.4% in 2021, it's still well below the 30% mark. This is highly commendable as it shows that homebuyers are making savvy financial investments that align to what they can realistically afford.

Looking ahead

The five key trends that will shape the residential property sector in 2024 are:

- **Interest-rate reductions to restimulate homebuying activity:** Leading economic indicators suggest that we are now at what seems to be the peak of the interest-rate cycle. And while we do understand that consumers' affordability will improve slowly, we expect that the start of a rate-cutting cycle will help to stimulate homebuying and improve market sentiment.

  The banks continue to come to the party with favourable interest rates and consumers are keen to take advantage of the affordable price of properties in today's climate. As the interest rate eases off, savvy investors will come to the fore, and we do believe that this will translate into greater demand for property and in turn home-loan volumes.

  Given the uncertainty of interest-rate fluctuations in the past two years, we may also see an uptick in homebuyers opting for fixed, rather than variable interest rates. This is advantageous for those who want to budget with 100% accuracy but will likely result in the homebuyer paying a higher rate over time than if they were to elect a variable rate of interest.

- **Co-buying continues:** This trend continues to gain ground as an effective way to split the cost of an investment between two or more parties. In addition to increasing the affordability of the home's purchase price, co-buying also enables homebuyers to put down a larger deposit, split the upfront transfer costs, and share property taxes and maintenance costs further down the road.

  Our statistics continue to support a rise in the number of co-buyers, and we see this trend gaining more ground in 2024.

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- **Adding solar finance to your home loan - no longer a nice to have:** While in the past some may have accessed solar finance after buying a home, I believe that in 2024, it will be requested upfront and as part of one's home loan.

  Financing a solar system through a home loan works out to be one of the most cost-effective options in the long run. Here, your interest rate is significantly lower than that of asset finance (generally Prime + 5%), the government buyback scheme (Prime +2%) and the escalating rental model where you never actually own the system, so it doesn't add any value to your home.

While in the past green features were largely viewed as a fringe luxury, today they're non-negotiable. Properties that are fitted out with water tanks and solar systems (and/or alternative energy sources) are yielding a higher price tag come sale time.

- **Sectional title on the rise:** Contrary to popular belief, free-standing homes or full-title homes are still most in demand – now accounting for around 70% of ooba Home Loans most recent intake. However, the move to sectional-title homes is fast evolving and it's certainly one to watch.

  Many homebuyers are on the hunt for increased security, lower home maintenance costs, amenities, and community living. While in the past some opted for more space, in many cases, security now takes preference. Another key driver for sectional-title homes is their affordability which is largely driven by demand from first-time homebuyers.

  At present, sectional-title properties account for a growing percentage of total homes sold each year in South Africa, and developers are responding to increased demand by further focusing on sectional-title developments (as seen in the increased percentage of sectional-title homes in building plans passed in 2023).

- **First-time homebuyers rear their heads:** South Africa's young population plays a key role in shaping its residential property trends. As the economy begins to recover in 2024, we do anticipate that it will further aid employment opportunities among our youth and increase their ability to purchase a home.

  In addition, as the interest rates begin to reduce, the demand for homes by first-time homebuyers will gain momentum. A lot of this segment now opts to 'buy-to-let' rather than 'buy-to-live', and they are currently in search of homes that can yield profits in the long run. Banks will continue to incentivise first-time buying with easier access to finance through zero deposit and cost-inclusive loans.

With real property prices at some of the lowest experienced in the past decade, it makes sense to invest in a property that might not have been as affordable in the past. In addition, banks continue to compete for home-loan business so it's important that one works with a bond originator to secure the best deal on your home loan.

ABOUT RHYS DYER

Rhys Dyer is the chief executive officer at ooba Home Loans.

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