# An economic success story: How interest rate cuts grew the demand for property by 35%

By Carl Coetzee

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The surprise turnaround of the residential property market is possibly the greatest economic highlight of the past year.

Carl Coetzee, CEO of BetterBond

A year ago, many sectors of the economy were forced to close as governments around the world imposed lockdown restrictions to limit the spread of Covid-19. Real estate experts predicted that the economic shutdown and ensuing uncertainty would see house prices plummet, further stalling the residential housing market. Thankfully, these predictions could not have been more wrong.

The exact opposite has happened. The total value of home loans granted to homebuyers is up by 35% and has increased 26% in terms of the number of bonds registered at the deeds offices (excluding cash deals, year-on-year for the six months ending January 2021). BetterBond's home loan business grew in value by 46% over this period, underlining how low interest rates have made owning their dream home a reality for many more South Africans.

In terms of house price growth, the residential property market ended the year stronger than at the end of 2019, when house price inflation was at just below 2%. Instead of the expected price drop of between 5% and 14.5%, house prices increased on average 2.7% year-on-year from January to November 2020, and ended at close to 3% at the end of the year, well above property research company Lightstone's forecast for the year.

## Repo rate cuts driving unexpected rebound

The South African Reserve Bank's aggressive approach to lowering interest rates to stimulate the economy - with five consecutive repo rate cuts - has been a strong driver of the housing market's unexpected rebound.

BetterBond's bond application volumes increased significantly after June, once hard lockdown restrictions eased, hitting a record 53% year-on-year increase in December, which is usually a quiet period for home buyers. The upward trajectory has continued into 2021, with our applications volumes up 41% year-on-year for March so far. This proves unequivocally that the significant uptick in bond applications is not only a result of pent-up demand.

In fact, the Standard Bank Group says new home loans reached "record levels" last year, with most borrowers turning to bond originators as historic-low interest rates stimulated renewed interest in the housing property market. With this improved affordability, our average bond size has increased by 11% for repeat buyers, and by 12% for first-home buyers for February, year-to-date. Also encouraging is that six out of 10 BetterBond clients secure a 100% bond, with no deposit required.

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## Will the centre hold?

Of course, the question on everyone's lips now is whether the centre will hold? While we don't have a crystal ball, the good news is that the South African Reserve Bank has assured consumers that the interest rate will remain in single digits into 2022. It's likely that the Monetary Policy Committee will decide to hold the repo rate steady, yet again, at 3.5%, when it meets on 25 March.

Furthermore, the repo rate is expected to inch up by not more than 50 basis points towards the end of the year, based on the Reserve Bank's projection models, which means that any changes to the interest rate in the second and third quarter of 2021 are unlikely to have any significant impact on the property market. Property research company Lightstone is optimistic that the market will continue to hold steady, with house price inflation at between 2.1% and 4% this year.

There is clearly still time to make the most of the current favourable lending environment.

## ABOUT THE AUTHOR

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