

Banks still bullish on real estate

According to Rudi Botha, CEO of bond originator BetterBond, there has been a 4.2% increase in the number of bond approvals over the past 12 months, despite a 2.9% decline in the number of home loan applications.



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"This speaks very clearly to the increased appetite that banks have been showing for the home loans market – especially in the R500,000 to R1m price category, which currently accounts for 42.5% of loans granted, compared to 38.7% a year ago," says Botha.

"What is more, our latest statistics show that the number of bonds formally granted has also risen (by 3.9%) and that the value of those bonds has increased by almost 11%. This not only shows that the take-up rate of the bonds that have been approved is better than it was 12 months ago, but also that the average size of those bonds is bigger."

Indeed, he notes, the latest Reserve Bank figures show a year-on-year increase of 3.6% in household mortgage balance growth at the end of June (compared to 3.1% in June 2017), while the BetterBond figures show that the average bond granted has risen 7.6% to R941,000 in the year to end-July, and that the average bond granted to first-time buyers has risen 11.3% to R749,000.

Rise in average home purchase price

"At the same time, the average home purchase price has risen 6% to R1.16m, and the average first-time buyer price has risen 9.9% to R838,000, but the average deposits being paid by home buyers have shown almost no change. In other words, the banks are sufficiently enthusiastic about the real estate market at this stage to make up the difference by granting bigger bonds."

Nevertheless, says Botha, home buyers across the board continue to commit large sums of their own money to their home purchases (see table), which bodes well for the future of the market.



Benefits of paying a deposit

“Paying a deposit is also important for their own financial future, because it will lower their monthly bond repayments and thus make their home more affordable while also providing protection against future interest rate increases and helping them to pay their homes off more quickly.

“Many people don’t know this but paying a deposit also gives home buyers a better chance of having their home loan approved in the first place, and then improves their chances of being able to negotiate a lower interest rate – and save many thousands of rands on the total cost of their home over the 20-year life of their bond.”

However, he says, such rate concessions are certainly not automatically offered, which is why it is always best to apply for a home loan through a reputable bond originator, which will individually motivate each application to multiple lenders and secure the lowest interest rate possible – at no cost to the borrower.

“The effectiveness of this approach is evident from the fact that we are currently able to obtain approval for more than 80% of the bond applications we submit to the lenders.

“In addition, we are currently finding a variance of at least 0.5% between the best and worst rate concessions being offered on the average application submission – which translates into a potential interest saving of almost R120,000 for the borrower with a 20-year loan of R1.5m, plus an annual saving of R6000 on their home loan instalments.”