Rate hikes pinching, but homes still more affordable

By Samuel Seeff

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The decision by the South African Reserve Bank to hike the repo rate for a third successive time by 25 basis points to 4.25% (hiking the prime rate to 7.75%) was expected and largely factored into our outlook for the housing market.

Samuel Seeff, chair of the Seeff Property Group

Although we had hoped for a pause by the bank to provide some reprieve for homeowners and buyers who are facing rising costs, we believe the market is now well aware that the rate is stepping up this year to counter inflation and to normalise it after the dramatic rate cuts in 2020.

That said, while the market is taking the hikes in its stride and we continue seeing strong activity as we come out of one of the best summer sales seasons, it is no doubt beginning to pinch and households and homebuyers need to adjust.

As a result of the latest rate hike, and based on a housing bond at the base rate over twenty years, homeowners and property buyers will need to budget for an extra:

Bond amount

- R750,000 – extra R115 (repayment increases from R6,042 to R6,157)
- R900,000 – extra R139 (repayment increases from R7,250 to R7,389)
- R1,000,000 – extra R153 (repayment increases from R8,056 to R8,209)
- R1,500,000 – extra R230 (repayment increases from R12,084 to R12,314)
- R2,000,000 – extra R307 (repayment increases from R16,112 to R16,419)
- R2,500,000 – extra R384 (repayment increases from R20,140 to R20,524)

At 7.75%, the interest rate is still well below the 10% level of early 2020 before we entered the pandemic. It is generally still cheaper to buy than rent and, at the end of the day, you will have a valuable asset and a secure roof over your head.

We are not expecting any dramatic impact on the housing market. Volumes appear to have tapered from the highs of 2021, as most of the pent-up demand has now been absorbed. Nonetheless, the market is still trading above pre-pandemic levels and the outlook remains upbeat.

The interest rate remains an inducement for buyers who can still find favourable bank lending conditions. Mortgage originator ooba notes that qualifying buyers can still find higher loan-to-value mortgages while first-time buyers are still able to secure 100% bonds, with costs in some instances.

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Market remains well-balanced

While there are stock shortages in certain areas, the market remains well-balanced. While it is a good time to sell, asking prices are coming under pressure, especially in the higher price bands. FNB has also pointed to a slowing in house price appreciation to around 3.8% (from last year's 4.1%).

The rental market has also stabilised with rental growth finally edging up marginally from the negative outlook seen in the mid-2020 to 2021 period.

We further welcome the relaxation of the pandemic restrictions as a boost to open the economy further, but consumers must be mindful of potential risks, such as the rising prices and any possible fall-out from geopolitical risks emanating from the Russia-Ukraine war.

ABOUT SAMUEL SEEFF

Samuel Seeff is chairman of the Seeff Group.

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