

# Home buyers responding to interest rate cuts



By [Dr Andrew Golding](#)

24 Jul 2020

The further reduction of the repo rate by 25 basis points to an all-time low of 3.5% takes the prime interest rate down to 7%.



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

Having already slashed the repo rate by 275 bps to soften the effects of Covid-19, the Reserve Bank had room to adjust the rate, given that the consumer inflation rate slumped to 2.1% in May - the lowest in almost 16 years (since September 2004). Furthermore, price pressures have been subdued for some time now, with the inflation rate at, or below, the midpoint of the 3-6% target for 18 consecutive months.

From an overall residential housing market and Pam Golding Properties perspective, we've seen the meaningful reduction in the repo rate for the year to date having a positive impact on demand – particularly in the lower price band below R2m, where we are experiencing a high uptake among first-time and other buyers and investors. However, we are also successfully concluding sales in the middle to upper price bands, especially from R2m to approximately R5m.

## Interest from local, international buyers

Apart from a pent-up demand as a result of the lockdown, home buyers are responding well, not only to the significantly reduced interest rates, but also to the opportunity to capitalise on the zero transfer duty payable on properties selling for up to R1m. As a result, ooba reports that home loans extended to first-time buyers remained elevated at 54.7% in June.

We have also seen some international buyers investing in property in South Africa, taking advantage of the weaker currency.

Encouragingly, financial institutions continue to demonstrate an appetite to extend credit to home buyers. Deposits continue to decline as a percentage of purchase price, according to ooba, with May (at 6.7%) and June (at 8.1%) the lowest percentages on record (series started in May 2007). Positively, applications for 100% bonds received by ooba surged to 67.5% in June, with an approval rate of 79.9% during the same month.

## Revised GDP forecast

While inflation may rebound in the months ahead, as a result of the rebound in international fuel prices, there is currently little price pressure in the economy due to demand destruction as a result of the lockdown. The Reserve Bank's initial GDP forecast of -7% in 2020 may well prove to be too conservative and may, therefore, be revised to show a larger decline, thereby creating space for further rate cuts over the next 12 months – as will the fact that both consumer and business confidence are at, or near, record lows, while renewed load shedding and recent stricter lockdown measures will further depress economic activity.

With national house price inflation continuing to decelerate, easing to 2.4% in June from 2.6% in the first quarter of 2020, we are optimistic that savvy home buyers and investors will continue to take advantage of the access to finance and value for money on offer in what is currently a buyer's market.

## 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.

- SA's young population, changing lifestyles drive shift to sectional title homes - 7 Aug 2023
- Steady repo rate encouraging new s for existing, aspiring mortgage holders - 21 Jul 2023
- Series of unfortunate events precipitate further repo rate hike - 26 May 2023
- #Budget2023: Increase in threshold for transfer duty exemption good new s for home buyers - 23 Feb 2023
- Banking sector underpinning residential property market activity - 28 Nov 2022

[View my profile and articles...](#)

For more, visit: <https://www.bizcommunity.com>