BIZCOMMUNITY

First-time home buyers should act sooner rather than later

The average home loan instalment has gone up by almost R700 a month – despite the fact that buyers are currently also paying much bigger deposits than they did a year ago.

Shaun Rademeyer, CEO of BetterLife Home Loans

“This represents a clear decline in affordability for first-time buyers, who we believe should make a decision as soon as possible because it is only going to become increasingly difficult for them to become homeowners in the next 12 to 18 months, even if there are no further interest rate increases,” says Shaun Rademeyer, CEO of mortgage originator BetterLife Home Loans.*

“Our latest statistics show that while the average first-time buyer home price has risen by 5.7% in the past 12 months, the average percentage of purchase price being paid as a deposit by such buyers has risen from 11.1% to 12.3%, taking the actual rand amount of the average deposit in this sector from R79,000 to R92,000.”

Interest rate hikes

Intuitively, he notes, one would expect this to have lowered the average monthly bond repayment for first-time buyers, “but, unfortunately, there were also three interest rate increases in the past 12 months which caused the variable home loan rate to move from 9.5% to 10.5%, and the result has been an increase of almost R700 in the average instalment.

“At the same time home prices have continued to rise, albeit slowly, and at this stage are set to keep rising, especially now that SA has escaped a ratings downgrade and consumer and business confidence is staring to rise again.

“And what this means, plainly speaking, is that prospective buyers are going to need bigger household incomes to qualify for home loans in the coming months. As it is now, the average first-time buyer who pays a deposit requires a household after-tax income of at least R22,000 a month to qualify – or almost 13% more than was needed a year ago, and obviously most people are not getting salary increases of this magnitude in the current economic climate.”

Insufficient discretionary income

What is more, says Rademeyer, even if they did, it might not be enough. “The rising costs of food, transport, electricity and other necessities have really eaten into household disposable incomes in the past year, leaving many aspirant buyers without savings and without sufficient “discretionary” income, in terms of the National Credit Act, to afford a monthly home loan repayment.

“In addition, SA consumers have been warned that they will be paying more tax in 2017, while banks are likely to apply even stricter credit granting criteria in light of the rising unemployment numbers and the increased risk of default.”

The clear message, he says, is that first-time buyers should not wait any longer to make the leap into home ownership, even if they have to downscale their aspirations and buy a smaller, less expensive home to start with. “And by the looks of things, many people have got it, or are being prompted to consider it as rentals continue to rise across the board.

Percentage of home loans granted constant

“Our figures show that while repeat buyers are still in the majority, the percentage of home loan applications submitted by first-time buyers has actually risen slightly in the past 12 months – although due to the decline in affordability, the percentage of home loans granted to such buyers has remained constant at round 35% of the total.”

Rademeyer notes that for those who are still preparing to buy, there will really only be one way to counter declining affordability in the coming months, which will be to aggressively lower household debt levels by cutting spending to the bone and diverting every spare rand into paying off high-interest rate store and credit card balances, vehicle loans and above all, any personal loans, as soon as possible.

**The BetterLife Home Loans statistics represent 25% of all residential mortgage bonds being registered in the Deeds Office.*