How the latest interest rate hike will affect your bond repayment

By Samuel Seeff

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While a rate hike is never welcome news, the latest 25bps increase to 7.25% (base home loan rate to 10.75%) was largely expected and factored in by the property market. That said, perhaps the South African Reserve Bank (Sarb) could have paused as a reprieve to the economy and consumers, especially in view of the growing Eskom energy crisis.

Source: William Perugini © 123RF.com

Inflation (down again in January to 7.2% from 7.4% in December) appears to have stabilised here as in many global markets, including the US where there is some expectation that the FED may now halt rate hikes as a reprieve to the economy.

Global energy prices have also settled while the rand has stabilised. At the very least, the interest rate should now stabilise and support stability in the economy and property market. Hopefully, it seems that we could perhaps again start seeing the rate come down towards the latter part of the year.

The residential market has come off two very successful years as a result of the Covid-induced low interest rates. Despite the accelerated rate hikes since mid-2022 and the expected slowing in sales volumes, the market still ended the year on a solid foundation, and we enter 2023 with a stable market.

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Market to remain stable

While there is no doubt that the higher interest rate will weigh on the market and there will be slightly fewer buyers, the market will remain stable, and we should still see good activity.

People always need a roof over their heads, lifestyle needs change, and for a variety of other reasons, we will continue seeing demand in the market. We are also likely to continue seeing strong migration to the coastal areas, especially in view of the growing service delivery challenges and Eskom energy crisis.

We are still seeing strong support from the banks, with mortgage lending remaining favourable for the market. Buyers should, therefore, not hesitate to get into the market, but they must now factor in the higher costs.

Asking prices will increasingly come under pressure, and sellers will need to heed the advice of local agents if they want to take advantage of the demand in the market.

As a guideline, due to the latest interest rate hike, home loan repayments over twenty years at the prime/base rate are likely to increase as follows:

- R750,000 bond – extra R126 (repayment increase from R7,488 to R7,614)
- R900,000 bond – extra R152 (repayment increase from R8,985 to R9,137)
- R1,000,000 bond – extra R168 (repayment increase from R9,984 to R10,152)
- R1,500,000 bond – extra R252 (repayment increase from R14,976 to R15,228)
- R2,000,000 bond – extra R337 (repayment increase from R19,968 to R20,305)
- R2,500,000 bond – extra R421 (repayment increase from R24,960 to R25,381)

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Samuel Seeff is chairman of the Seeff Group.
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