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The Household Sector Economy

Housing Market Outlook 2026/27 - House price growth expected to peak in 2026, but Middle East conflict poses a key forecast risk

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Economic growth is forecast to be stronger in 2026 than in 2025, and mild further interest rate reduction is still projected. This, along with the lagged stimulus impact of 2025 interest rate cuts, is expected to lead to stronger average house price growth in 2026, compared to the average in 2025. But the current Middle East conflict, and its link to global oil prices, poses a key forecast risk.

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   - Scope for small further interest rate reduction
   - House price growth has been accelerating through 2025
   - House price growth expected to peak in 2026
   - Mortgage lending environment appears stable
   - New residential building activity appears to be showing some renewed growth off a very low base
   - A key forecast risk is the Middle East conflict, via the impact it can potentially have on oil prices, economic growth, inflation and interest rates.

EXECUTIVE SUMMARY - 2026 LOOKS SET TO BE A STRONGER HOUSING MARKET YEAR, BUT MIDDLE EAST CONFLICT POSES A KEY RISK

HOUSE PRICE GROWTH PEAK EXPECTED IN 2026

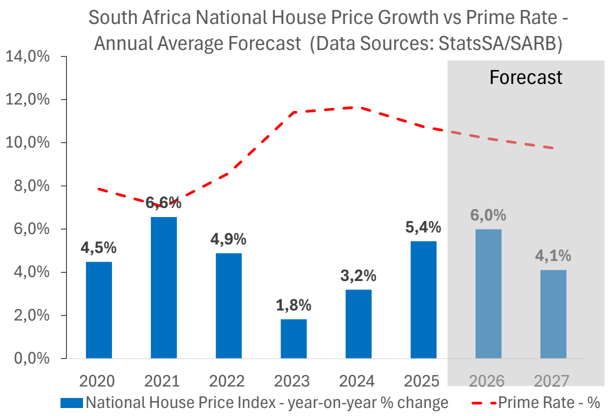
Economic Backdrop – Mild improvement in 2026

South Africa started the year with CPI (consumer price index) inflation very much "under control" at a 3.5% rate in January. This has led me to expect that the SARB (South African Reserve Bank) could mildly further reduce interest rates, and I've penciled in two further 25 basis point repo rate cuts, one in the second-half of 2026 and the other early in 2027.

In addition, it is believed that the full impact of last year's series of interest rate reductions has yet to feed through fully into the economy's performance. This, along with a reasonable global economic growth outlook for 2026, contributes to the expectation of mildly stronger economic growth of 1.6% this year, up from an estimated 1.4% 2025.

Outlook for National House Price Growth

I estimate that the StatsSA House Price Index (with 3 months' worth of data still outstanding) likely averaged growth of around 5.4% in 2025.



2026 is expected to represent the peak in the short-term cycle, in terms of the pace of average house price growth, with average house price growth this year expected at 6.0% before slowing to 4.1% in 2027.

The reasoning behind expecting 2026 to be the peak, with slowdown in price growth as 2027 approaches, is due to an expected slowdown in the pace of Reserve Bank interest rate cutting. After having cut the repo rate by 25 basis points four times last year, only one such cut is expected in the 2nd half of this year, and possibly one final 25 basis point cut in the current cycle early next year. Should this interest rate expectation prove true, it would mean a diminishing credit demand growth stimulus in 2026 and 2027.

Typically, the demand-side response to interest rate movements is swift. And indeed, growth in the value of new residential mortgage loans approved grew quite solidly in 2025, reaching 18.2% year-on-year in the 3rd quarter (the most recent SARB data available), on the back of the interest rate cuts.

However, given the sensitivity of residential mortgage demand to interest rate moves, a slowing pace of interest rate cutting is likely to lead to this growth rate in new mortgage lending tapering too, as 2026 progresses.

With a lag, it is expected that the house price growth rate will then slow towards 2027. A slower 4.1% average house price growth rate in 2027 would be nearer to expected CPI inflation, which is expected to hover in the 3-4% range. This would reflect a settling in the market at a new demand-supply equilibrium level, after a period where demand has been exceeding supply of homes on the market.

Mortgage lending environment appears stable

The mortgage lending market appears stable. Mortgage originator Ooba's data points to high mortgage lender loan approval rates and competitive pricing, new loans having been priced at an average of around -0.65 of a percentage point below prime rate early in 2026.

New residential building activity showing some renewed signs of life off a very weak base

Recently, off a very low base, StatsSA building stats have pointed to some growth strengthening in residential building planning and completions.

But the latest Middle East flare-up does pose a significant risk to the forecasts

However, a key risk to the 2026 forecast, that has emerged strongly in recent days, has got to be global oil prices, given a particularly volatile situation in the Middle East at present. In the buildup to the US and Israeli attacks on Iran we did see the crude oil prices rising. On the 7th of January, Brent crude touched below $60.00 a barrel. By time of writing this note, it had moved to above $77/barrel. A significant portion of this rise had to do with the initial US military buildup in the Middle East, and more recently the start of the actual conflict.

It is not possible to predict events in the Middle East, or how they may disrupt fuel supply to the globe, but they do bring upside risk to the South African inflation rate via potential upward pressure on fuel prices. This can have implications for interest rates, due to the SARB's inflation targeting policy. And that is not to mention the potentially negative impact on global/local economic and household income growth

This implies a certain degree of "downside" risk to our forecast for the highly credit-dependent residential property market. However, to date, the surge in oil prices has not been severe. The $150/barrel spike in 2008 was an example of a shock that could be called "severe" for the housing market at the time, and the hope must be that this time around it remains far more mild and short-lived.

FOCUS POINT: HOW THE LATEST MIDDLE EAST CONFLICT POSES A RISK TO THE HEALTH OF SOUTH AFRICA'S HOUSING MARKET

While not having any "direct" connection with South Africa's residential property market, this weekend's escalation in conflict in the Middle East does pose a significant risk to local property markets. The risk comes via "indirect" channels, i.e., via its potential to drive oil prices higher, which in turn can impact South Africa's economic growth, inflation and interest rates.

We started 2026 with South Africa looking forward to mildly improved economic growth, and with CPI (Consumer Price Index) inflation still low at 3.5% in January, there exists the possibility of further mild SARB interest rate cutting. This, in turn, has led to the expectation of stronger average residential demand in 2026, resulting in a projection of mildly faster average house price growth in 2026 than in 2025.

This scenario remains my most likely expectation.

However, Events in the Middle East in recent days, including an Israeli/US attack on Iran and a major Iranian response, place such forecasts at risk.

Risk to SA housing market due to link to oil price

The future path of this conflict are virtually impossible to predict. However, the risk is that the impact becomes significant on South Africa's housing market due to the link to oil markets.

The conflict is unfolding in a major oil producing region, and the Strait of Hormuz in the region is an important strait through which it is reported that around 20 million barrels of oil pass per day en route to the rest of the world. This strait, off the coast of Iran, is thus an important "choke" point for global oil supply, and there have been reports of disruption to shipping through the strait over the weekend.

Any actual, or even significant fear of an oil supply disruption, risks sending oil prices spiralling upwards, as has happened in certain prior Middle East conflicts.

Already, oil prices have indeed risen, albeit not yet extreme at time of writing. Brent Crude Oil Price was near $77/barrel at time of writing, significantly higher than near $70/barrel at a stage late last week.

The potential impact paths are as follows:

Firstly, in this energy-intensive world, oil supply shortages can have a negative impact on global GDP (Gross Domestic Product).

Secondly, oil price surges feed into global supply chain prices, and an oil price surge can mean a broader price inflation shock.

For South Africa, with its very open economy, it is easy to see how an oil-driven global economic slowdown can lower demand for a range of its commodity and manufactured exports, curbing economic growth, and thus its employment and household income growth.

Then comes the inflationary impact. Oil price surges lift SA's domestic fuel prices, having a direct impact on the transport cost component of the CPI, as well as moving through the supply chain to lift prices of a wide array of goods and services.

Any consumer price inflation surge can then do 2 things. Firstly, it eats into nominal disposable income, translating into a negative impact on "real" (inflation-adjusted) disposable income growth.

Negative impacts on real disposable income growth, be it due to consumer price inflation or economic slowdown, are effectively constraining the growth in purchasing power for residential property.

But it goes further. Given that the SARB (South African Reserve Bank) has an inflation target of 3%, any oil and petrol price-driven inflation surge can quickly translate into a "premature" end to interest rate cuts, or even the onset of hiking, depending on how far it goes. For credit-dependent markets such as the residential market, this would likely imply a cooling impact on residential demand, and slower house price growth than would otherwise have been the case.

Has an oil price shock ever contributed significantly to weakening SA's housing market? Yes, in 2008.

Back in 2008, Brent Crude oil price peaked at above $150/barrel to be a major contributor in bursting SA's housing bubble at the time. Fears at the time that oil prices would cause a surge in ethanol planting, thereby possibly crowding out food crop production, partly caused global food prices to spike too.

The twin oil and food price spike drove SA's CPI inflation briefly into double-digits, contributing to a total of 5 percentage points' worth of SARB interest rate hiking from mid-2006 to mid-2008. It was all accompanied by global and local recession, and the housing market's mortgage stress and weakness was severe.

Do I foresee a significant oil price impact happening again this time around? Not at this stage. These conflict-related events are impossible to predict. So far, a $70-80/barrel oil price is still far more moderate than the $150 peak of 2008. In addition, South Africa's household sector is less vulnerable than in 2008, due to it having lower levels of overall indebtedness relative to income level compared to back then.

But the potential importance of oil prices in the local residential market's fortunes mean that the latest Middle East conflict does pose a risk, and much will depend on how long it lasts and the level of disruption that it causes to global oil supply.

HOUSING MARKET OUTLOOK, ENVIRONMENT AND RISK

2026 is expected to be a stronger housing market year as a whole, but growth momentum expected to peak as the pace interest rate cutting slows. However, Middle East conflict and oil prices pose a significant forecast risk currently.

THE ECONOMIC GROWTH ENVIRONMENT

Two months into 2026, a stronger year for the housing market, compared to 2025, is still believed to be on the cards.

Faster expected economic growth in 2026, compared to 2025, is expected to translate into slightly higher employment and household income growth this year, which represents, of course, potential additional purchasing power for residential property.

From an estimated 1.4% in 2025, GDP (Gross Domestic Product) growth is expected to accelerate to 1.6% in 2026. Supportive of this growth is the expectation by the IMF (International Monetary Fund) for global economic growth of 3.3% this year, holding up at the same rate estimated for 2025.

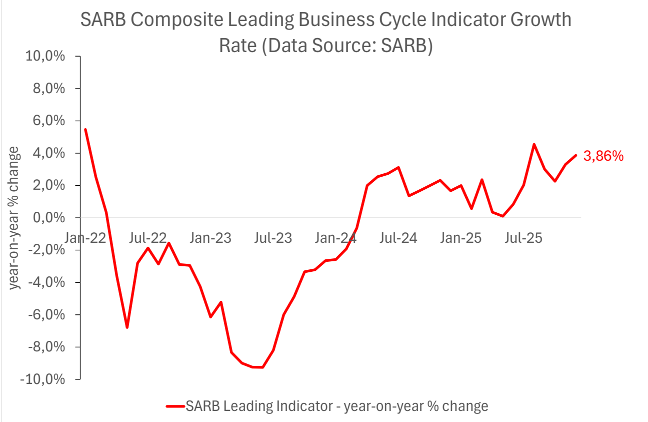
While not unaffected by US-initiated import tariff "wars", South Africa breathed something of a sigh of relief when the US recently decided to include SA in its 2026 extension of the AGOA (Africa Growth and Opportunity Act). In addition, a US court ruled against the Trump administration's 30% tariffs via its using of "emergency powers", with a lesser broad import tariff being imposed instead.

While much uncertainty remains around future US trade policy, a less severe US import tariff regime, than was earlier the case, at least appears likely for now.

Domestically, while much structural reform is needed to improve economic growth more significantly, electricity supply is far more stable than a few years ago, efforts to involve private sector in logistics and transport to a greater extent are under way in Transnet's sphere, and improved management in battling local councils are also on Government's radar.

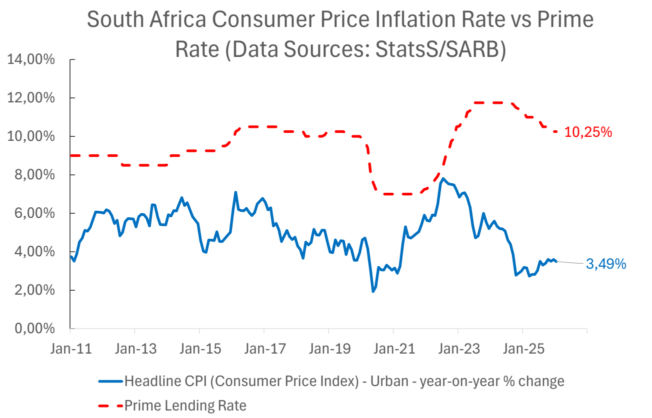
What do leading indicators of near-term economic activity point towards? The SARB Leading Business Cycle Indicator, an often-useful indicator of near term economic growth, has been pointing towards a possible mild near term economic growth improvement in the initial stages of 2026.

While its month-on-month growth rate is volatile, its December year-on-year growth rate was positive in the final months of 2025, reaching a rate of 3.9%, the 2nd consecutive month of acceleration.



DOMESTIC INFLATION AND INTEREST RATE ENVIRONMENT

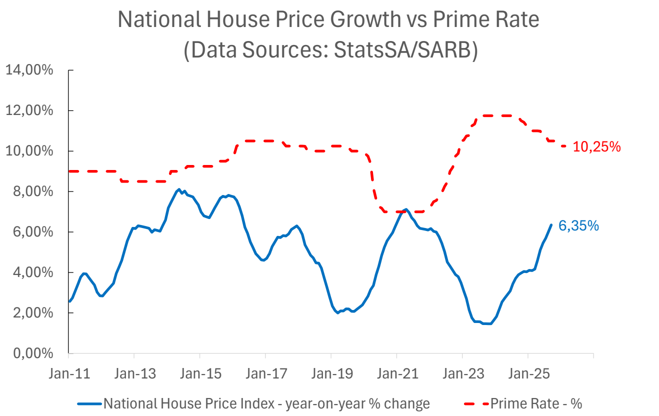
Perhaps the most significant contributor to slightly stronger near-term economic growth will be the mild interest rate cutting cycle that has been in progress since late-2024. 2025 started with prime rate at 11.25% and ended the year on 10.25%. With CPI (Consumer Price Index) inflation at a lowly 3.5% in January, lower than the 3.6% of December and not far above the SARB's (South African Reserve Bank) new 3% point target, I believe it plausible that a further two 25 basis point interest rate cuts could be implemented later in 2026 and early-2027, lowering prime rate to a high single-digit 9.75%.



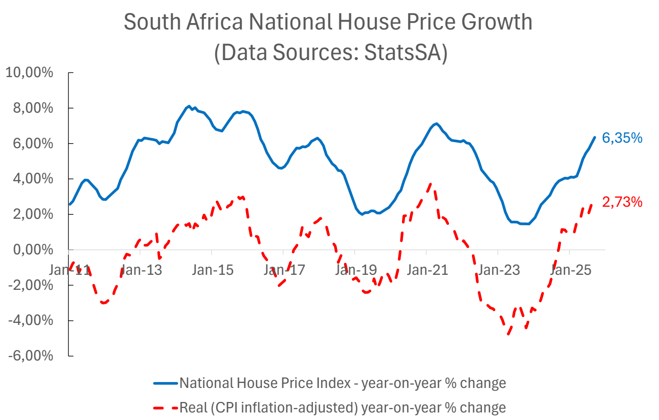
While lower interest rates can be expected to impact on short term economic growth, and thus on household disposable income, they also noticeably on demand in a highly credit-dependent market such as the housing market.

NATIONAL HOUSE PRICE PERFORMANCE

Already, since the start of gradual interest rate cutting by the SARB back in September 2024, we have seen significant residential demand strengthening, which in turn has translated into an acceleration in national house price growth. From around a lowly 1.5% year-on-year late in 2023, house price growth had accelerated to 6.35% by September 2025, according to StatsSA's house price data.



In real terms, when adjusted for CPI inflation, the rate had turned positive to the tune of 2.73% by September 2025, after a negative period through 2023/24.



OUTLOOK - HOUSE PRICE GROWTH PEAK EXPECTED IN 2026

I estimate that the StatsSA House Price Index (with 3 months' worth of data still outstanding), likely averaged growth of around 5.4% in 2025, having started last year at a far slower pace.

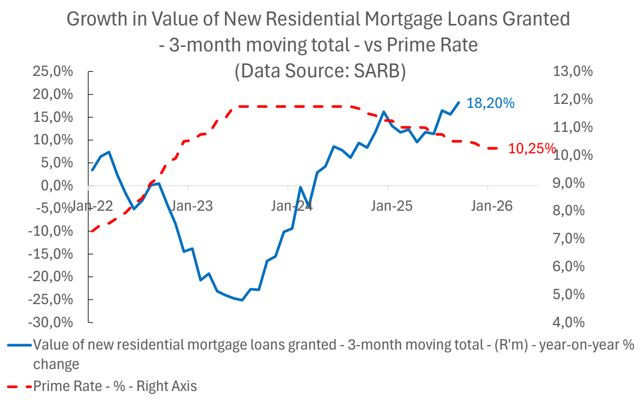
Looking at 2026, it is expected to be the peak of the current short cycle in terms of the pace of average house price growth, averaging 6.0% for the year as a whole, before slowing to 4.1% in 2027.

The reasoning behind expecting the slowdown as 2027 approaches is due to an expected slowdown in the pace of Reserve Bank interest rate cutting. After having cut the repo rate by 25 basis points four times last year, only one such cut is expected in the 2nd half of this year, and possibly one final 25 basis point cut in the current cycle early next year. Should this interest rate expectation prove true, it would mean less of a credit demand growth stimulus in 2026 and still less in 2027.

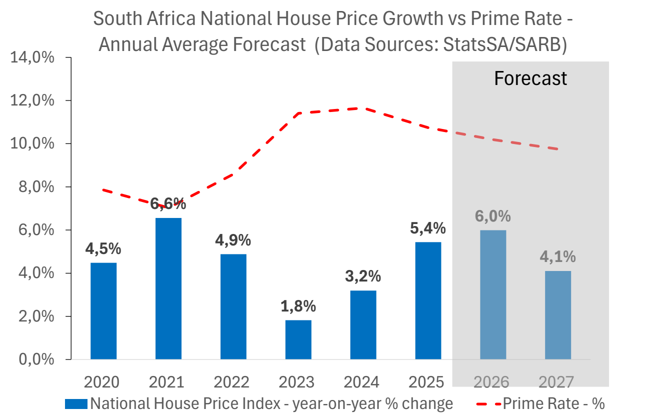
Typically, the demand-side response to interest rate movements is swift. In fact, viewing the inverse correlation between prime rate movements and growth in the value of new residential mortgage loans granted, using a 3-month moving total for smoothing, we saw growth in new mortgage loans actually turn positive and start to accelerate even before rates started to come down in 2024. This was seemingly on the news alone that interest rates had begun to move sideways at the time.

By the 3-months to September (we still await the data release for the 4th quarter of 2025) this growth had accelerated to a solid 18.2% year-on-year, as interest rates declined.

Given the sensitivity of residential mortgage demand to interest rate moves, a slowing pace of interest rate cutting is likely to lead to this growth rate slowing too, as 2026 progresses.

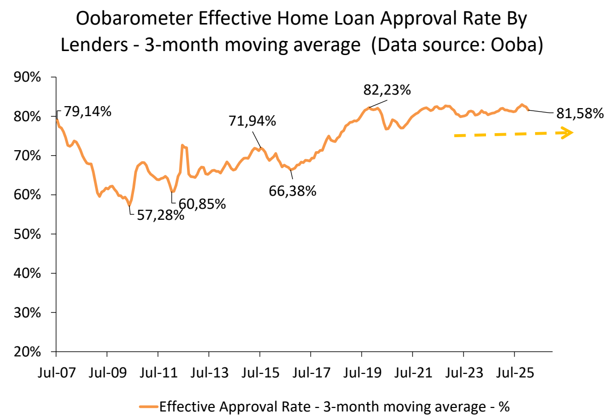


With a lag, it is expected that the house price growth rate will slow too. A slower 4.1% house price growth rate in 2027 would be nearer to expected CPI inflation, which is expected to be in the 3-4% range, reflecting a settling in the market near to a demand-supply equilibrium, after a period where demand has been exceeding supply of homes on the market.

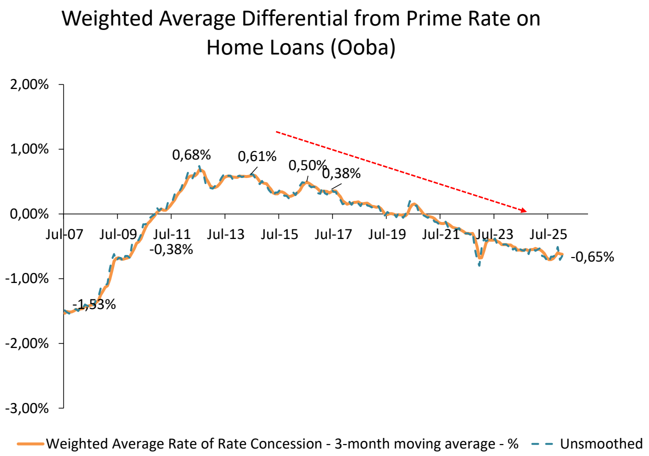


MORTGAGE LENDING ENVIRONMENT APPEARS STABLE

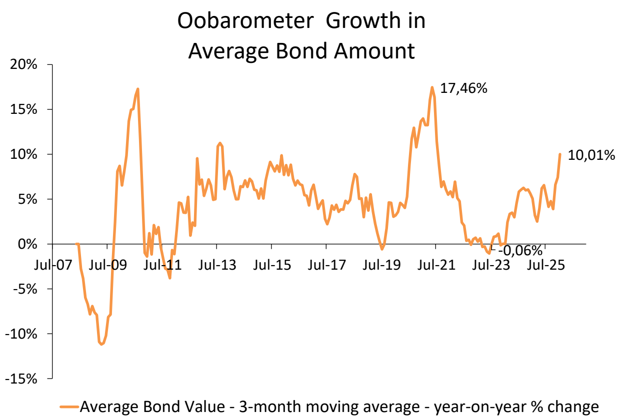
There is little to suggest any noticeable change in mortgage lenders lending "appetite". At 81.58% for the 3 months to January 2026, mortgage originator Ooba's data shows the effective loan approval rate near 2019 multi-year highs.



Banks' pricing on new home loans, too, appears to be as competitive as it ever been in the past decade-and-a-half. The average interest rate quoted on new home loans was estimated by Ooba at -0.65 of a percentage point below prime rate in January 2026, having gradually shifted from being above prime rate to the tune of +0.68 of a percentage point back around mid-2012.



The Oobarometer also points to an acceleration in growth in the average bond value granted, reaching 10,01% year-on-year for the 3 months to January 2026 (using the 3-month moving average for smoothing purposes), up from a lowly -0.06% around mid-2023 when interest rates were peaking.

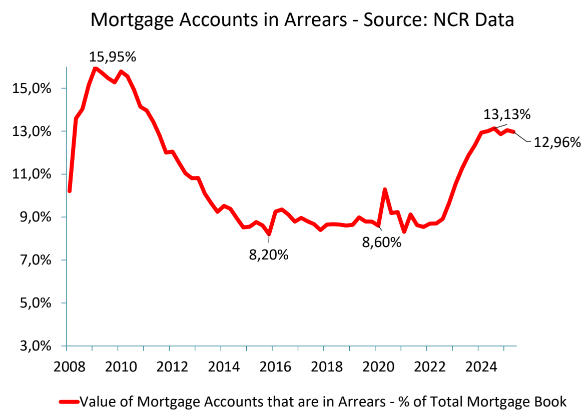


MORTGAGE ARREARS APPEARED TO HAVE PEAKED IN 2025

The significant degree of financial stress in the residential mortgage market appeared to have been peaking as at mid-2025 (the most recent National Credit Regulator data available).

The percentage of total value of household mortgage advances in arrears peaked at 13.13% of total household mortgage advances outstanding around mid-2024, after interest rates had peaked after the most recent hiking phase.

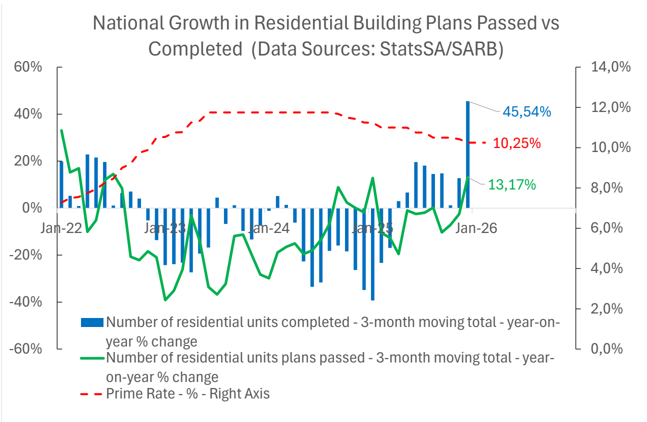
By the 2nd quarter of 2025 the percentage in arrears was slightly lower than the peak at 12.96%. The peak followed a sharp rise through late-2022 to 2024, from an earlier single-digit percentage.



NEW RESIDENTIAL BUILDING ACTIVITY ON THE RISE…. BUT OFF A VERY LOW BASE

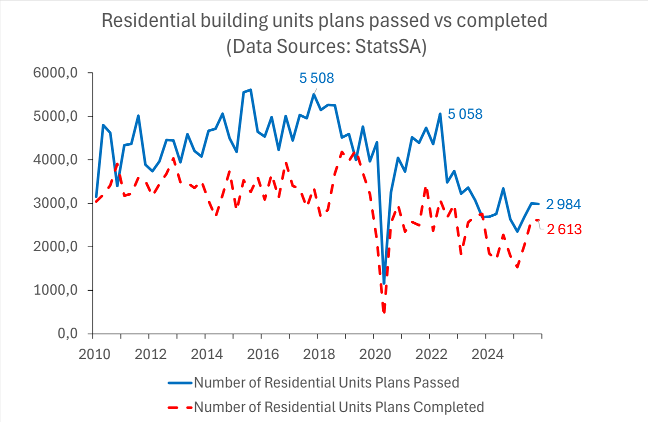
In lagged response to interest rate cutting, we have seen some mild recovery in new residential building planning and activity. After having spent much of the period from 2023 to early-2025 in year-on-year decline, new units completed for the 3 months to December 2025 rose year-on-year by a strong 45.54%

Number of residential units' plans passed emerged from negative territory to record 13.17% year-on-year growth in the 3 months to December 2025, having briefly last been in positive territory late in 2024 and early in 2025.



However, despite recent growth, to date it appears safe to say that the pace of new supply coming into the market is "constrained". At 2,984 units in the final quarter of 2025, the number of units' plans passed remains sharply down on the post-Covid 19 lockdown quarterly high of 5,058 back at a stage in 2022, and also well below the levels of the pre-lockdown years.

The picture is similar in the case of residential units completed.



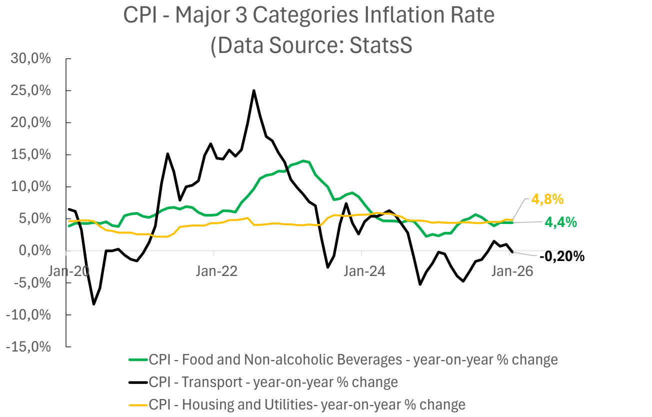
BUT THE MIDDLE EAST CONFLICT POSES A KEY RISK TO THE OUTLOOK

A key forecast risk is oil prices, given the current Middle East uncertainty fueled by US/Israel-Iran conflict.

A key risk to our 2026 forecast, that has emerged strongly in recent days, has got to be global oil prices, given a particularly volatile situation in the Middle East at present. In the buildup to the US and Israeli attacks on Iran we did see Brent crude oil price rising. On the 7th of January, Brent crude touched below $60.00 a barrel at a stage. As the past weekend began, just prior to the attacks, it had risen considerably to above $70 per barrel. A portion of this rise had to do with the US military buildup in the Middle East and the rising tensions between the US/Israel and Iran. And indeed the feared conflict is now fully under way at time of writing.

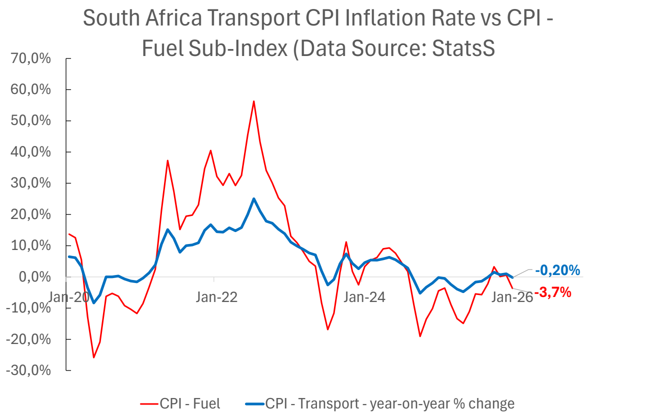
A higher oil price emanating from this volatility in the Middle East is an indirect risk to our South African housing market forecast. The main reason for this is that one of the positive contributors to low recent CPI inflation in South Africa, and thus to interest rate cutting, has been subdued global oil prices, which in turn has contributed to significant domestic fuel price deflation since 2023.

The graph below shows the largest 3 main sub-indices of the CPI in terms of their weighting in the overall index. While the CPI's for Food and Non-Alcoholic Beverages, as well as for Housing and Utilities, remain above 4%, thus exerting mild upward pressure on the overall inflation rate, it has been the deflation in the CPI for Transport that has contributed positively to the CPI inflation rate remaining low, near 3.5%.



And within the Transport CPI, the CPI sub-index for fuel showed deflation of -3.7% year on year in January, contributing to the overall transport CPI deflation of -0.2%. Any significant and sustained upturn in global oil prices can quickly turn the Transport CPI inflation rate positive, contributing to higher CPI inflation, scuttle hopes of further interest rate cuts, and even raise the risk of rate hikes.

It is not possible to predict events in the Middle East, or how they may disrupt fuel supply to the globe, but they do bring upside risk to the South African inflation rate, and by implication interest rates, due to the SARB's inflation targeting policy. This implies a certain degree of risk to our forecast for the highly credit dependent residential property market.



CONCLUSION

With interest rate cutting by the SARB expected to slow in 2026/7, average annual house price growth is forecast to peak at 6% in 2026, thereafter slowing.

New mortgage loans granted surged in 2025, mortgage arrears appear to have peaked last year, and lending appetite and pricing of loans by banks appears to be stable and competitive.

However, much depends on the US/Israel/Iran conflict being short-lived, and oil prices quickly being subdued once more. This a key forecast risk.

Disclaimer

About John Loos: Independent Economist

John started his career as an economist in the National Treasury in the 1990s. Thereafter, he became the Southern African Macroeconomist for Globalinsight (now S&P Global). From 2000 to 2005, he was at Absa Bank, as a senior macroeconomist working on the group's economic forecasting process.

In 2004, he was named Reuters Economist of the Year.

From 2006 to 2018 he pursued an acquired passion for housing market analysis at First National Bank (FNB), where he produced some of the leading housing market analysis in SA at the time. His analysis of the pre-2008 housing bubble taught him how "irrational" economic decision-making can be, when greed and over-exuberance take hold of a market, and how painful the aftermath can be.

From late in 2018 to early-2026, he spent the remainder of his time with FNB at the bank's Commercial Property Finance Unit, undertaking commercial property analysis.

New Beginnings, New Purpose…Independent Economist with a Household Sector, Consumer and Housing Market Focus

In March 2026, John began a new and exciting phase of his career, returning to focusing on the economics of the Household Sector, in which his Housing Market analysis once more became one of the key focus areas, along with the financial health, mindset and well-being of the Household Sector.

Additionally, he promotes the Economics of Hope, Motivation and Well-Being. He believes that South Africa has the ingredients for a far more successful economy and society right under its nose, with ample pockets of excellence and "winners" who can be studied, learnt from, and whose winning principles can be replicated in the broader economy. He believes that this is slowly starting to happen, and that the South African Economy can ultimately prosper to a far greater extent.

Many people in the Property Market will know John, who has addressed to them on the economy, the property market, and his talks themed around "Hope, Optimism, what Winners do and WHY.

John believes in the importance of sport, not only for physical health benefits, but also because of the mental and economic lessons that it brings. Describing himself as a "social endurance sport junkie", he has done a list of events and adventures that include the Comrades Marathon, the Ironman Triathlon, ultra mountain running races, a myriad of ultra-unsupported cycling races and adventures that span the length and breadth of beautiful South Africa, ans well as a walk up Africa's highest mountain.

John's experience as an economist, along with his broader life experiences have been combined to build a compelling and entertaining offering as an economist, strategist, keynote speaker, and event MC.