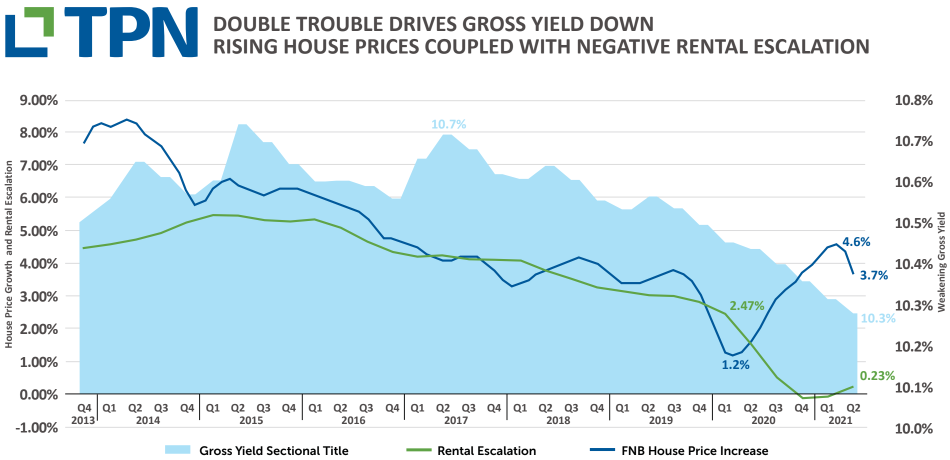
TPN Rental Monitor

By Michelle Dickens
Chief Executive Officer
TPN Credit Bureau

In This Edition:

Double Trouble Drives Gross Yield Down

The hard lockdown early in the pandemic created a perfect storm of pent up demand for property ownership, with the FNB House Price Index (HPI) escalating noticeably from 1.2% in April 2020 to 4.6% a year later, before tapering off to 3.7% currently. Tenants, on the other hand, hard hit by loss of income, sought refuge with friends and family. Consequently the rental market faced 'double trouble' in the form of rising house prices, coupled with negative rental escalation.



Cycles soar and crash. It's inevitable. Easy money, like the 2004 to 2006 property boom, saw property profits peak according to the FNB HPI at 35.4% p.a. Fast forward a couple years and as many as 28% of property investors were selling their assets at a loss. The FNB House Price Index turned negative, as low as -5.8% p.a.

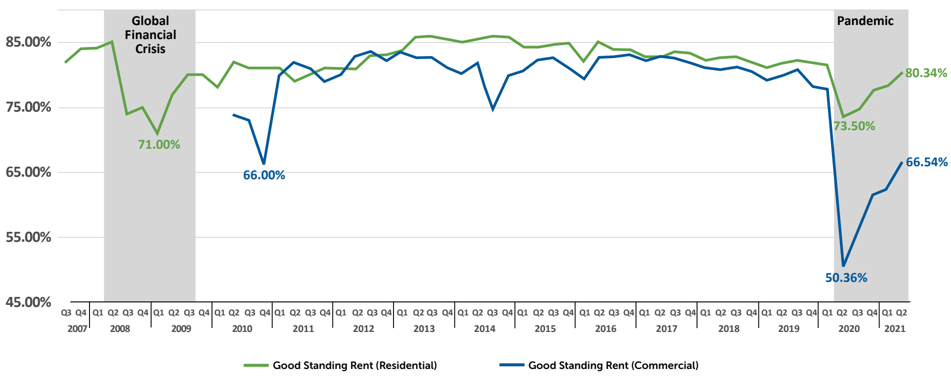
TPN uses gross yield as the common metric to gauge property returns and benchmark performance. The national gross yield for sectional title properties has been under pressure for the previous four years, slowly eating away returns from 10.7% in the second quarter of 2017 to the current rate of 10.3% in Q2 2021.

Gross yield is calculated by quantifying the annual rent divided by the market value. As the value of rent increases, so too does the gross yield. But when rental escalations are negative, gross yield weakens as well.

Somewhat counter-intuitively, when property prices increase and rental prices remain flat, gross yields deteriorates too. Income yield is another important metric as vacancies and non-paying tenants mean rental income lost, with less profit in the pocket for landlords.

Tenants in good standing took a significant tumble during the 2008-09 global financial crisis, eventually recovering eighteen months later. The pandemic produced a similar shock, as tenants in good standing dropped to 73.5% in Q2 2020, slowly improving quarter-on-quarter to squeak back into eight out of ten tenants in good standing by Q2 2021 at 80.34%.

TPN GOOD STANDING
RESIDENTIAL vs COMMERCIAL RENT



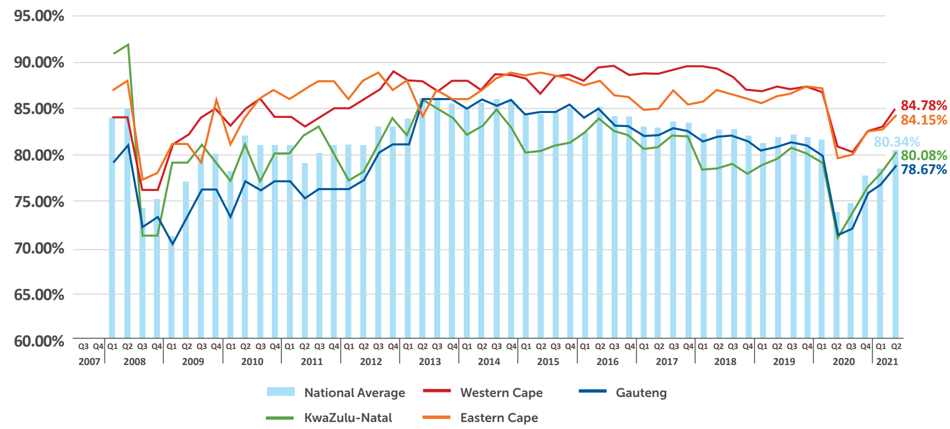
The definition of good standing includes tenants who have paid in full and on time (65.38), paid in the grace period or paid late, 4.58% and 10.38% respectively. Importantly, a tenant's account in good standing is fully settled with no arrears balance.

Delinquent tenants are those who only make a partial payment (12.57%) or those tenants who have not paid any rent at all (7.08%).

Location location location

Most of the major provinces have experienced improved tenant payment behaviour above eighty percent.

TPN RENTAL GOOD STANDING
BY PROVINCE



Gauteng, however, is still lagging with 78.67% of tenants in good standing. Vacancy rates have improved quarter-on-quarter from 13.8% to 12.4% in the second quarter. Negative escalation continued for the third consecutive quarter at -0.55%, despite showing some improvement from -0.86% in the previous quarter. If delinquent tenants and negative rental growth are risk indicators, then gross yield is the reward, and Gauteng takes top honours here at 11%.

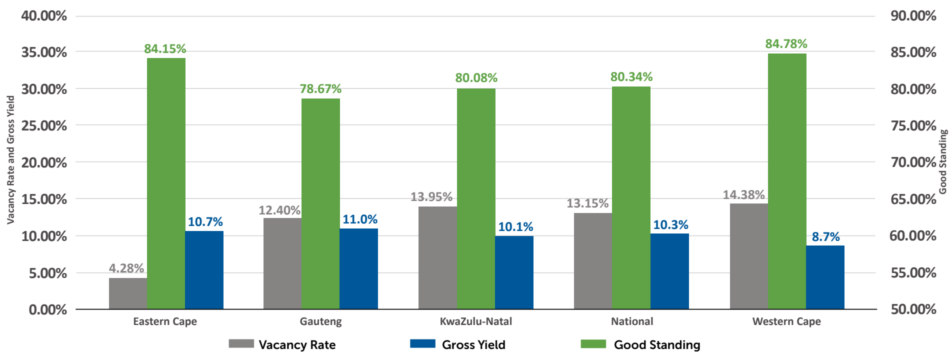
Both Western Cape and Eastern Cape landlords show signs of being risk-averse as Cape tenants continue to remain ahead of the curve with 84.78% and 84.15% in good standing.

The Western Cape has nevertheless been impacted by rising vacancies at 14.38% and a year of negative rental escalation, now at 0.1% for 2021 Q2. In addition, Western Cape property prices historically outperform the rest of the country, and with rental prices unable to keep up, this has left landlords with 8.7% gross yield.

Conversely, Eastern Cape is now the province with only 4.28% vacancies, and coupled with strong demand, is maintaining positive rental escalation of 2.09%. As a result, its gross yield of 10.7% is punching above the national average of 10.3%.

KwaZulu-Natal remains a mixed bag with tenant payment performance improving to 80.08%. Regrettably its vacancy rate has jumped to 13.95%, hence barely clinging to a double-digit gross yield at 10.1%.

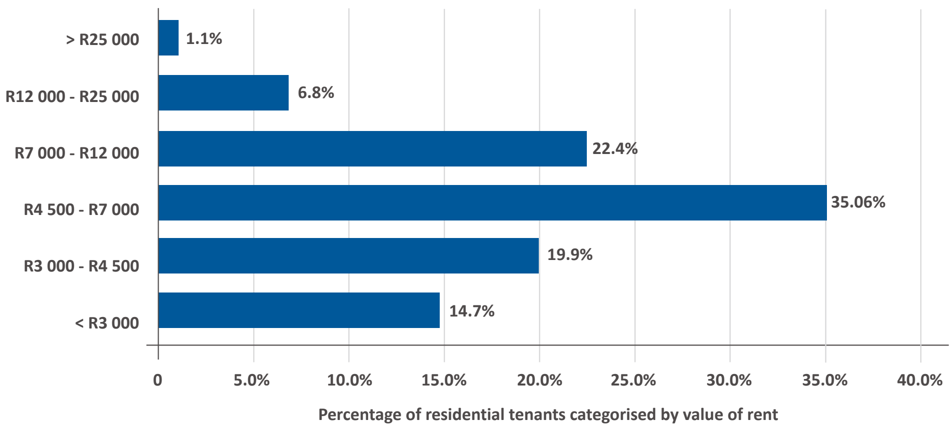
TPN RENTAL METRICS 2021 Q2:
GOOD STANDING, VACANCY RATE, GROSS YIELD



Price performance

The majority of tenants, at around 70%, rent for less than R7,000 per month. The most popular properties compete in the R4,500 to R7,000 segment, making up a third (35%) of all lease agreements.

RENTAL DISTRIBUTION BY VALUE (2021 Q2)



At the low end of the market with monthly rent below R3,000, landlords are still struggling with 16.08% of tenants unable to pay rent and a further 15.72% of tenants making only a partial payment. Scarcity of quality tenant applications remains a key contributor to the high vacancy rate of 15.19%, indicating landlords ongoing lower appetite for risk of defaults.

The 'in-demand' segment, with monthly rentals between R4,500 – R7,000 experienced only 4.94% of non-payment by tenants. Although 82.76% of these tenants are in good standing, they were slower to pay with 67.67% paid on time and 10.58% paid late, indicating that cash flow management is key.

The sweet-spot segment, with monthly rentals between R7,000 – R12,000 performed well, with 86.32% of tenants in good standing, and nearly three-in-four tenants paid on time. Nevertheless affordability remains a key constraint, alongside negative escalation affecting rental prices for a full year. Despite showing signs of returning to positive territory, escalation remains at -1.03% for 2021 Q2 in this bracket.

TPN RENTAL GOOD STANDING: BY RENT VALUE

2021 Q2	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average	Market Share
< R3 000	52.27%	5.23%	10.70%	15.72%	16.08%	68.20%	80.34%	14.7%
R3 000 - R7 000	64.84%	4.72%	11.07%	13.24%	6.13%	80.63%	80.34%	55.0%
R3 000 - R4 500	*59.85%*	*5.10%*	*11.94%*	*14.88%*	*8.22%*	*76.89%*	*80.34%*	*19.9%*
R4 500 - R7 000	*67.67%*	*4.51%*	*10.58%*	*12.30%*	*4.94%*	*82.76%*	*80.34%*	*35.06%*
R7 000 - R12 000	73.77%	3.83%	8.72%	9.44%	4.24%	86.32%	80.34%	22.4%
R12 000 - R25 000	71.38%	4.23%	9.28%	10.41%	4.69%	84.89%	80.34%	6.8%
> R25 000	58.84%	6.57%	12.74%	14.54%	7.31%	78.15%	80.34%	1.1%
National	65.38%	4.58%	10.38%	12.57%	7.08%	80.34%		

Conclusion

Residential rentals remain a top priority payment for tenants. Ominously though, tenants' affordability will remain under pressure. Notwithstanding that overall rental escalation is back to a positive 0.23% for the second quarter, increases in utilities and municipal charges exceeding the Consumer Price Index will continue to exacerbate tenant affordability and consequently drive yields down.