



# TPN Rental Monitor

**Rental property indicators appear stable and seem likely to improve**





Published by  
**TPN Credit Bureau**  
 Bradenham Hall, 1st Floor  
 7 Mellis Road, Rivonia 2128  
 Gauteng, South Africa  
 Telephone: 0861 876 000  
 Website: www.tpn.co.za  
 Email: info@tpn.co.za

## IN THIS EDITION

### Page 2

- Encouragingly, key national property indicators reveal the property sector is through the worst of the economic storm and, based on the current trajectory, should be seeing signs of recovery during 2022.

### Page 3

- One of the consequences of the low interest rate environment in the past two years was a perception of cheap capital and artificial demand.
- The property market needs to adapt to a changing consumer

### Page 4

- Rental property indicators appear stable and seem likely to improve

### Page 5

- Gauteng has not broken through the 80% good standing mark and is struggling with the highest did not pay percentage of all provinces

### Page 6

- The Free State's good standing is just above the national average at 83.3% as at the end of 2021.

### Page 7

- The rental market may see an increase in risk as more consumers come to rely on part time income streams to address the rising cost of living.

## Residential sector shows some signs of renewal

National  
 OVERVIEW

The long overdue end to the state of disaster in South Africa in early April 2022 was a welcome announcement. Unfortunately, the general optimism elicited by the announcement was over-shadowed by the war in Ukraine which is resulting in a rate of inflation in a number of major economies last seen four decades ago.

As the South African economy continues to struggle to recover from the devastation wrought by the Covid-19 pandemic, the impact of the July 2021 unrest in KwaZulu-Natal and parts of Gauteng, rising interest rates and fuel costs, it was dealt a further blow by the April 2022 flooding in KwaZulu-Natal which saw significant loss of life and infrastructure including roads, bridges and residential buildings.

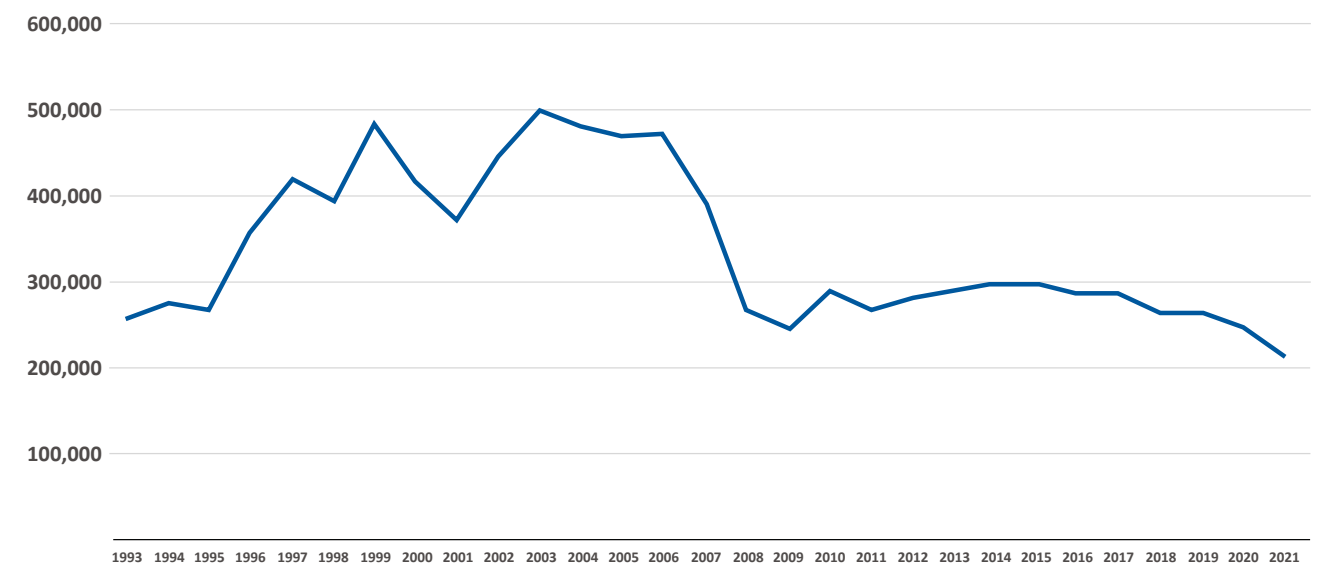
Encouragingly, key national property indicators reveal the property sector is through the worst of the economic storm and, based on the current trajectory, should be seeing signs of recovery during 2022.

Low inflation and the need to stimulate a fragile local economy during the pandemic resulted in historically low prime interest rates – between 7% and 7.25% in 2020 and 2021. The South African Reserve Bank (SARB) has since embarked on a rates hike cycle in an attempt to keep inflation in check. In March 2022 the SARB hiked interest rates by 25 basis points with expectations of further increases this year.



REGISTERED  
 CREDIT BUREAU  
 NCRCB08

TOTAL NUMBER OF RESIDENTIAL PROPERTY TRANSFERS IN SOUTH AFRICA



Source: SA Deeds Data

National Overview | Continued

## Over-supply of property as a consequence of low interest rates

**One of the consequences of the low interest rate environment in the past two years was a perception of cheap capital and artificial demand.**

This, combined with an increased number of distressed estates and human capital migration created an over-supply of property in some areas and, in complete contrast, hyped demand in previously ignored locations of South Africa. As historical trends have shown, this imbalance will have to correct itself in time.

Not surprisingly considering the severe interruptions and uncertainty caused by the pandemic, the number of overall property transfers in 2020 were low. Although the expectation was that more property transfers would occur in 2021, this did not materialise. In fact, 2021 recorded the lowest number of property transfers since 1993, excluding the 2009 Financial Crises.

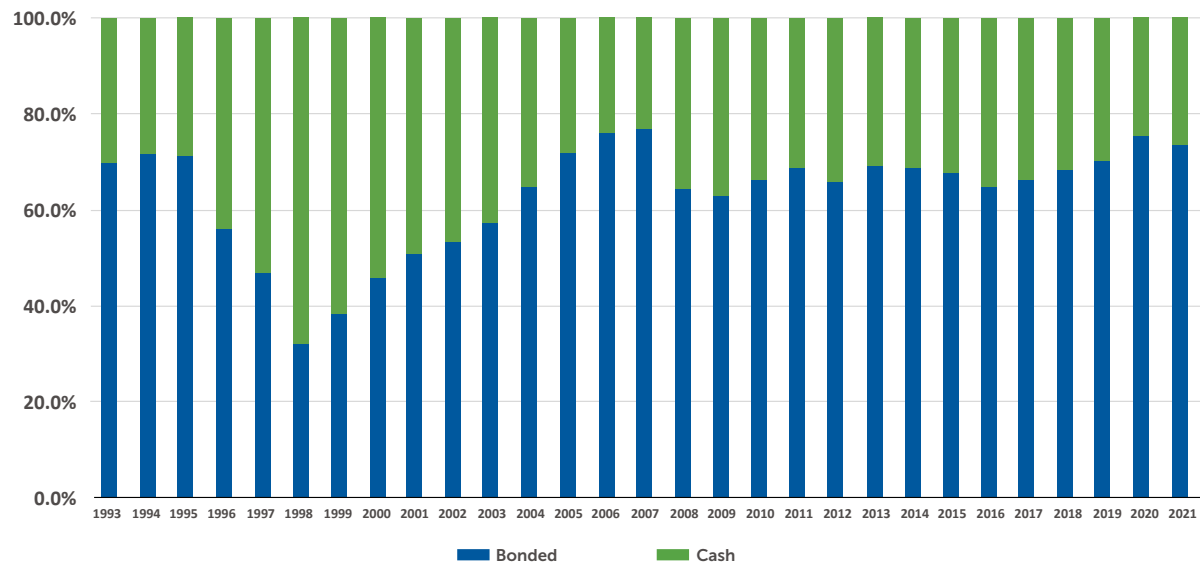
A particularly concerning trend is the continued decline of the ratio between bonded and cash purchases. While financial institutions are still providing home loans, cash purchases are on the decline.

Given that interest rates will continue to increase for the foreseeable future, heavily geared property investors will feel the squeeze. With property sales down and interest rates embarking on an upward trajectory, can we cautiously expect better returns for those invested in property?

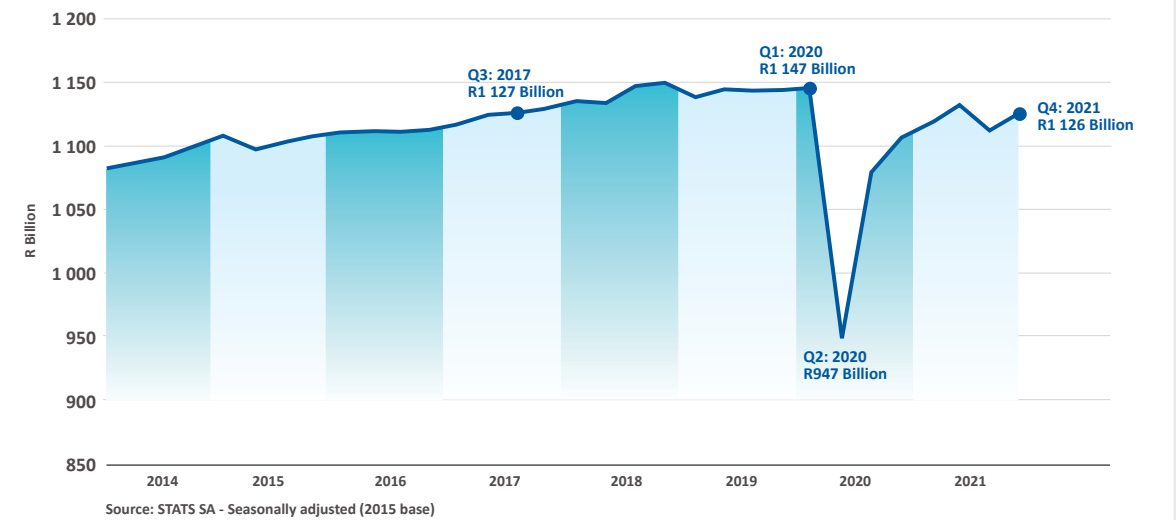
Although national property indicators show that we can expect growth, the key to successful property investments will be to select the right location, find the right tenant and ensure they remain prompt payers, while at the same time managing and minimising costs as far as possible.



RESIDENTIAL PROPERTY TRANSFERS: BONDED VS CASH



GROSS DOMESTIC PRODUCT (2021 Q4)



**Despite economic growth in 2021, the South African economy is 1.8% smaller than before the start of the pandemic.**

## The property market needs to adapt to a changing consumer

The South African economy grew 1.2% in real terms during Q4 of 2021, taking the annual growth for 2021 to 4.9%. This growth was primarily driven by consumer spend, personal services, trade, manufacturing and agriculture.

Of concern is the fact that economic growth did not translate to job creation. Unemployment – the biggest challenge facing South Africa – was at a record high of 35.3% in Q4 of 2021, according to Stats SA.

The expanded definition of unemployment, which includes people who have stopped looking for work, is even higher at 46.2%. Full time employment decreased by 0,1% between December 2020 and December 2021, a loss of 12 000 jobs. In this same period however, part time employment grew by 16.5%, resulting in 16 600 part time jobs.

The shift in formal full employment type is particularly noticeable over the longer term. Full time employment (excluding agriculture) shrank 3.6% between 2018 and 2021. In this same period, part time, formal sector jobs increased 14.8%.

Consumers are being further stretched as interest rates have started their upward hike while inflation is reducing consumer spending capability.

The rental market may well experience an increase in risk as the number of tenants with secure income starts to diminish and more tenants come to rely on a part time income. It will be increasingly difficult to rely solely on employment status to determine tenant risk as people are finding different and innovative ways to make and supplement their incomes and address the spiralling cost of living.



# Rental property indicators appear stable and seem likely to improve

National Overview | Continued

### Nationally, the number of tenants in good standing continued to improve.

At the end of 2021, 81.4% of tenants were in good standing. This means that 8 out of 10 residential tenants were up to date with their rental payments. On average, the percentage of tenants in good standing has been improving since the hard lockdown low of Q2 in 2020.

However, the rental bands below R4 500 continued to struggle to break through the 80% good standing mark. Just 68.72% of tenants in the below R3 000 per month rental category were in good standing at the end of 2021. The number of tenants that paid their rental on time in Q4 of 2021 was 66.34% while 10.8% of tenants paid late. Partial payment and paid late categories make up 22.28%, while the balance of tenants paid in a grace period.

### Some rental bands are not yet on the road to recovery.

The number of tenants renting in the below R3 000 category are struggling to make any sort of rental payment with the number of tenants who made no payment remaining stubbornly high at just under 17%.

In addition to the lower rental collection, units below R3000 are also standing vacant with a recorded vacancy rate of 14.42% in Q4 of 2021.

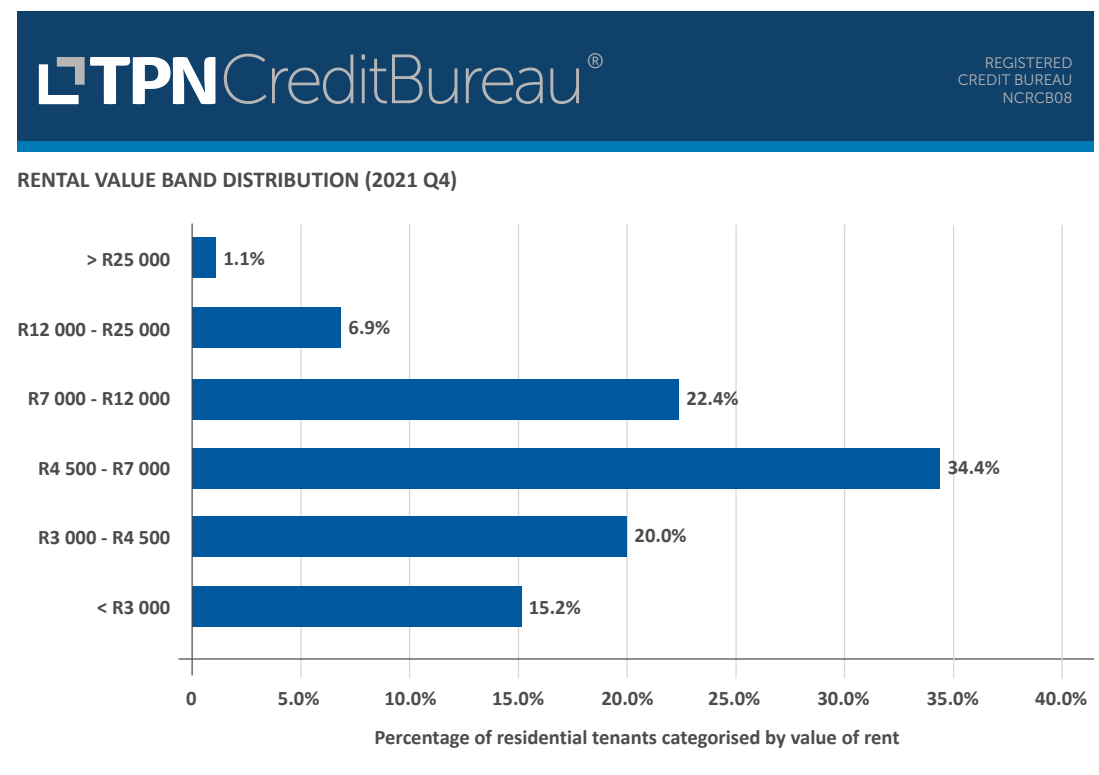
Tenants who did not pay in the below R3 000 rental band have been increasing steadily since 2014. Although this rental band broke through the 70% good standing mark in Q3 of 2021, it dropped back below 70% towards the end of the year.

### Highest percentage of tenants in good standing.

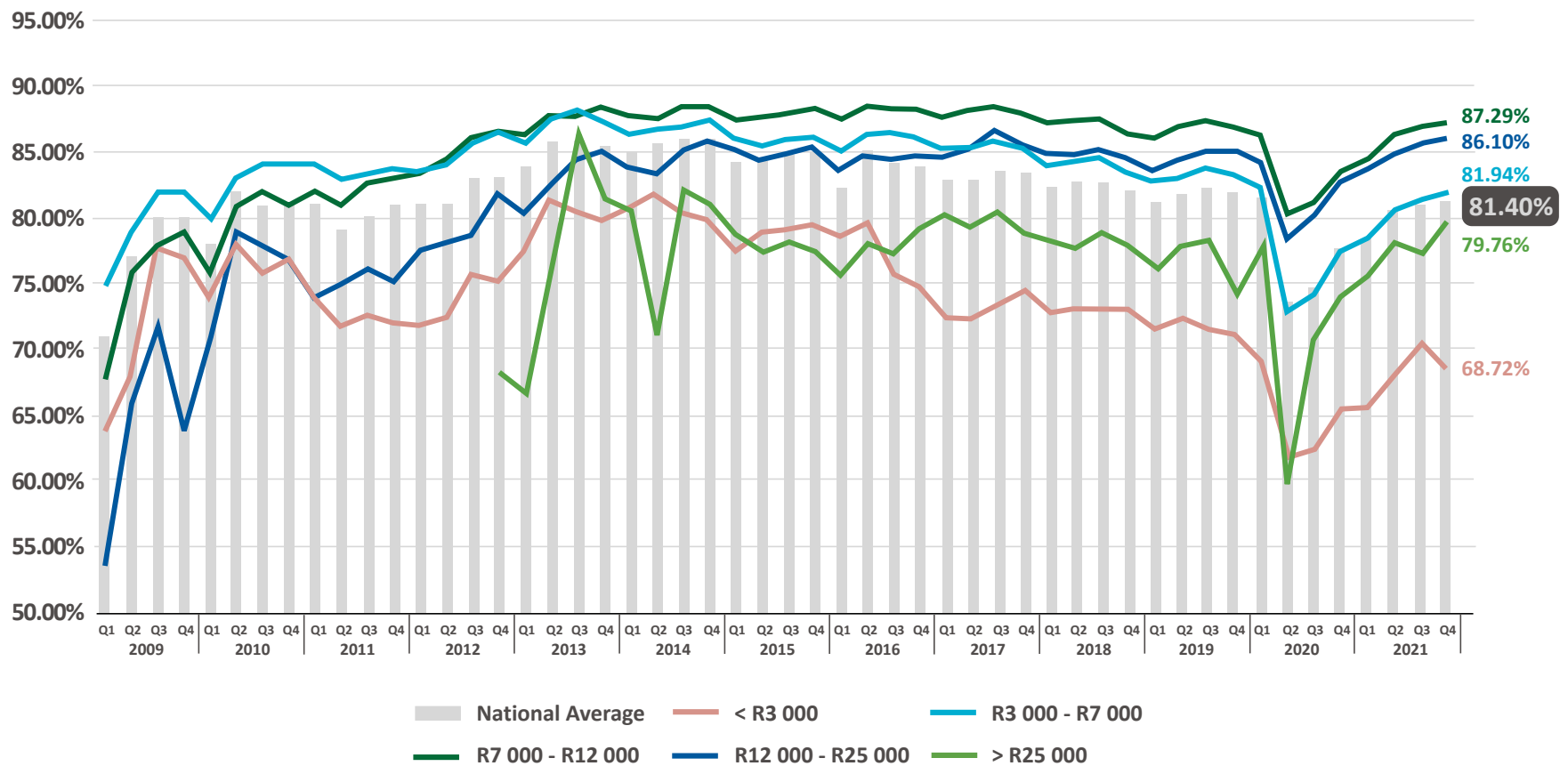
The best performing rental segment are those renting for R7 000 to R12 000 per month with 87.29% in good standing. This rental band also boasts the lowest did not pay number with just 4.2%. That translates to just 4 out of every 100 tenants not paying their rent in this rental band. This segment has a lower vacancy rate compared to other segments, with only 1 in 10 properties reported vacant. Tenants paying a monthly rental of between R12 000 and R25 000 are the second best performers with 86.10% in good standing and only 4.71% falling into the did not pay category. This sector of the rental market has the lowest vacancy rate of all rental bands at just 10.23%. Luxury property rentals above R25 000 per month have a good standing of just under 80%. However, this category has the highest percentage of tenants who paid in a grace period at 5.81%.

## RENTAL VALUE BAND DISTRIBUTION IS MADE UP AS FOLLOWS

- The ultra-luxury property market - with rentals above R25 000 per month - makes up only 1.1% of the entire rental property market
- The luxury rental market - with rentals between R12 000 and R25 000 per month - constitutes 6.9% of the market
- The main rental market - with rentals ranging between R4 500 and R12 000 per month - represents 56.8% of the market
- Rental units below R4 500 per month make up 35.2% of the formal rental market



## RENTAL GOOD STANDING: BY RENT VALUE



# Investment indicators by province

Regional PERSPECTIVES



## GAUTENG

**Gauteng has not broken through the 80% good standing mark and is struggling with the highest did not pay percentage of all provinces.**

Combined with a high vacancy rate of 11.9% (2021 Q4) and escalations at -0,08%, South Africa’s economic hub continues to experience the after-effects of the pandemic, hard lockdown and high unemployment. There are, however, areas that are performing well in terms of capital growth as well as effective yield.

Tshwane is achieving the highest average rental in Gauteng and boasts the highest average property value for sectional title. Tshwane also has the highest average full title rental in Gauteng. It is the City of Johannesburg however that takes the top spot when it comes to the average full title property value.

Merapong City has the best paying sectional and full title tenants in Gauteng with 84.91% of tenants in good standing.

Sandton has been undergoing a property sector transformation and interest has peaked around the performance of the area. The average gross yield of sectional title in Sandton is 9.9% while full title is 6.13%. Sandton’s good standing is above the national average at 83.62% for Q4 of 2021.

The average full title rental is just over R16 000 per month, while sectional title rentals average at R10 000 per month. Banks are however less likely to grant bonds over 100% of the property value in Sandton. TPN estimates that 41% of properties in Sandton can be classified as investment properties.

## WESTERN CAPE

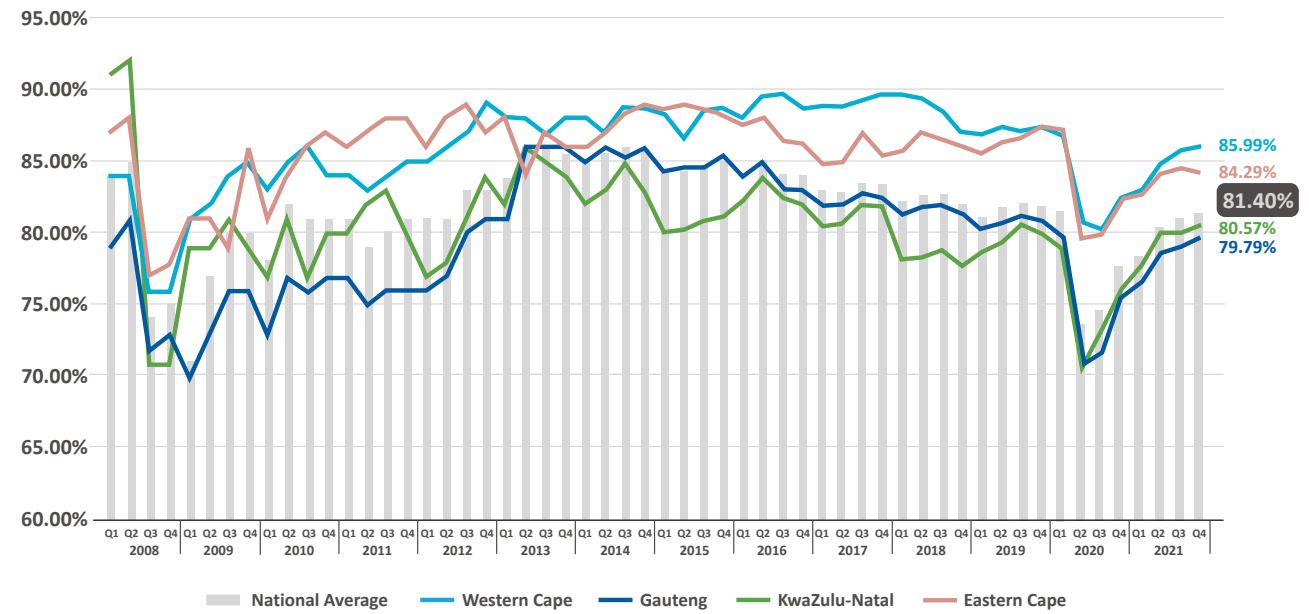
**Western Cape is performing well and has the second best number of tenants in good standing at 85.99%.**

Escalations are also back in positive territory at 1.68% for Q4 of 2021. Property prices in the province are healthy. The average price of a full title property is R1.85 million while the average value of a sectional title property is R1.4 million. The average rental for a full title property in the City of Cape Town is just over R13 000 per month, followed by Stellenbosch with an average full title rental of R9 583 per month.

Knysna boasts the highest average sectional title gross yield at 10.84%, compared to a national yield of 10.1%. The average full title yield is 6.19%, which is slightly lower than the national average yield for full title of 7.1%. Interestingly, only 13% of the total number of properties in Knysna are bonded.

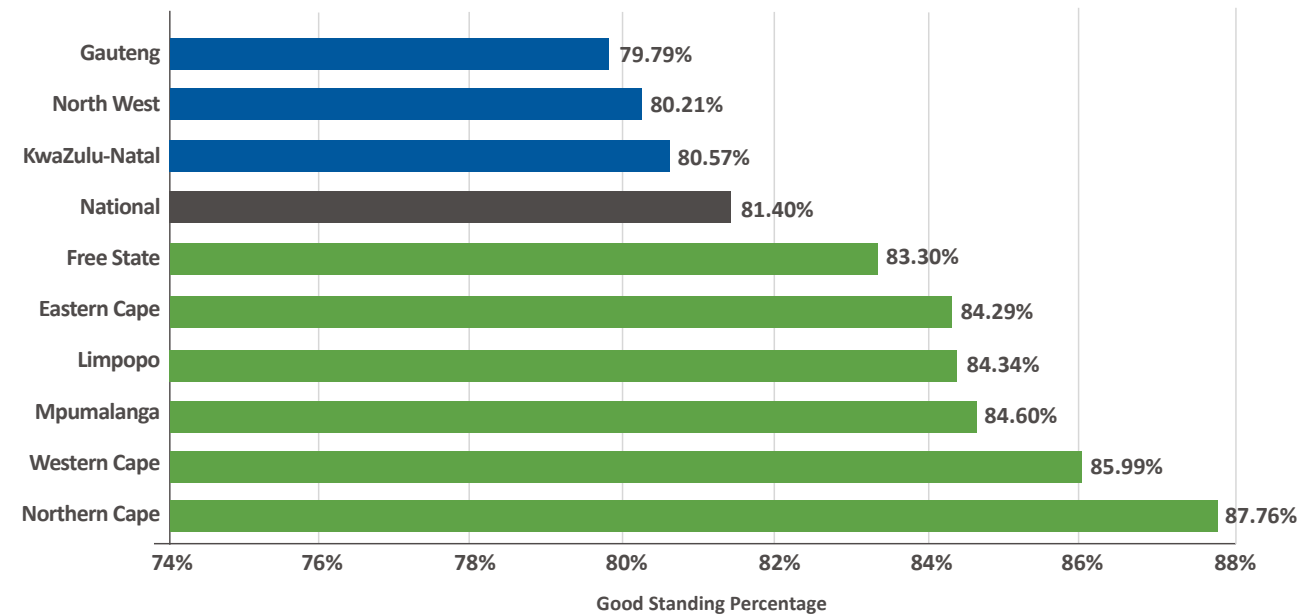
**TPN CreditBureau**<sup>®</sup> REGISTERED CREDIT BUREAU NCRCB08

RENTAL GOOD STANDING: BY PROVINCE



**TPN CreditBureau**<sup>®</sup> REGISTERED CREDIT BUREAU NCRCB08

RENTAL GOOD STANDING BY PROVINCE (2021 Q4)



Regional Perspectives | Continued

## Rental payments in Bloemfontein are the healthiest of the major cities at 84.26%

### KWAZULU-NATAL

**KwaZulu-Natal achieved the second highest average residential rental per square metre for sectional title and the second highest average sectional title property value, second only to the Western Cape.**

However, the province's full title average rental and average property value both drop to third place after the Western Cape and Gauteng. When it comes to average gross yield on sectional title properties, KwaZulu-Natal is slightly below the national average at 9.82% compared to the national average of 10.1%. It's a similar picture for full title with the average gross yield for rental properties at 6.88% at the end of 2021, below the national average of 7.1%.

The average sectional title property value in Durban was R964 150 at the end of 2021, dropping from its high of R995 452 at the end of 2020. The average gross yield in Durban is still a healthy 11.34%, higher than Johannesburg's 10.7%, Cape Town's 8.36% or Bloemfontein's 8.67%.

An indication of just how hard hit the province was as a result of the unrest is that KwaZulu-Natal has the third highest percentage of residential rental tenants who did not pay any rent of all nine provinces. Only 80.57% of tenants were in good standing with their landlords at the end of 2021, compared to a national average of 81.4%.

Full title property values in Durban have dropped significantly in the last few years. At their peak at the end of 2018, the average full title property value was R1.88 million. This dropped to R1.62 million at the end of 2021 while gross yield was 5.7%.

Although full title property values have been declining since 2019, a faster decline after the second quarter of 2021 was in all likelihood fuelled by the July riots.

In Umhlanga, the average market value for full title residential properties at the end of 2021 was R4.14 million while the average sectional title property is valued at an estimated R2.63 million. Despite this yields for both property types are well under the national average at 3.83% and 7.43% respectively. Interestingly, rental yields for full title properties in Umhlanga is the highest in the area at 5.25%.

### FREE STATE

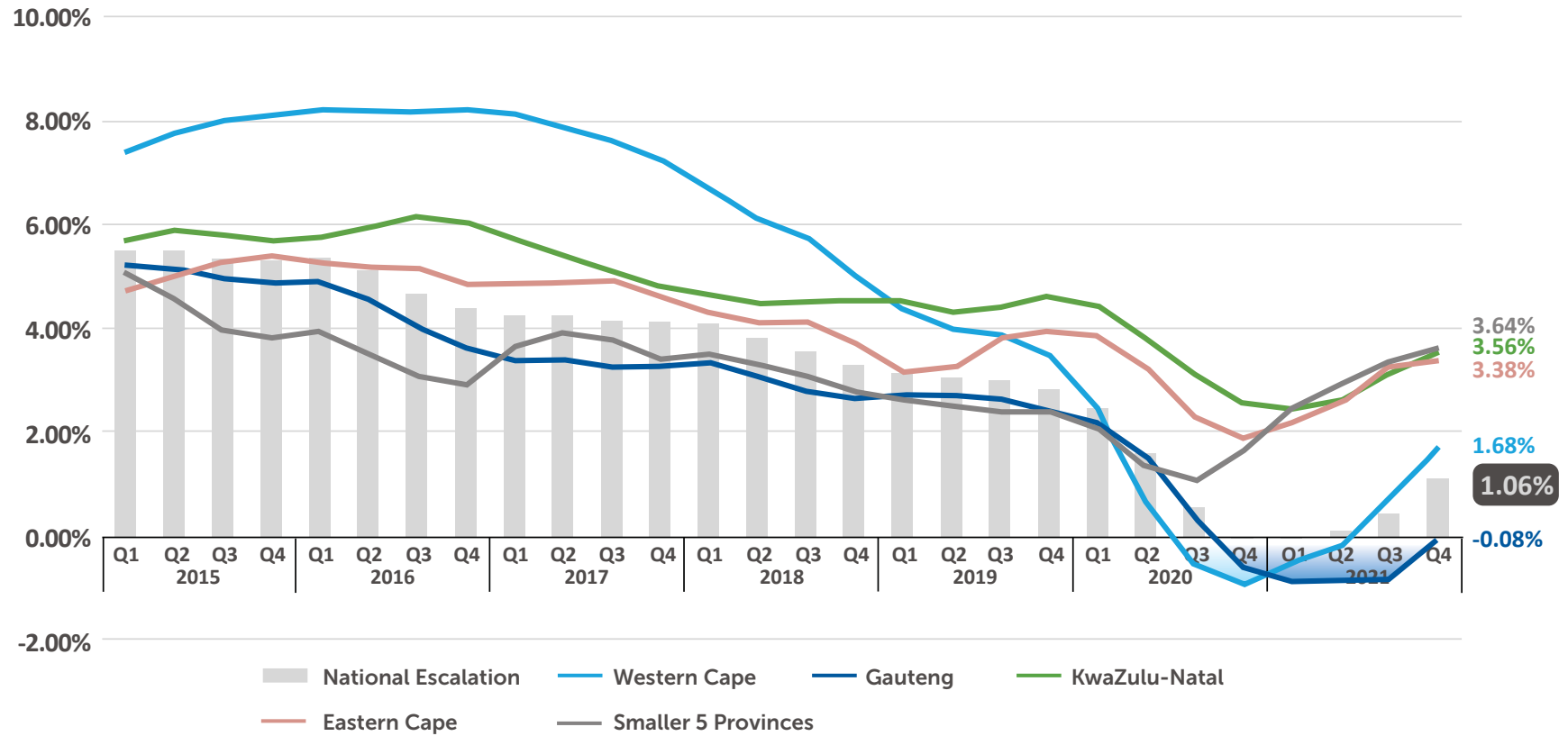
**The Free State's good standing is just above the national average at 83.3% as at the end of 2021.** In Bloemfontein, average yields are relatively low compared to other national major cities, averaging below the national average, although they remain higher than Cape Town at 7.46%.

Rental payments in Bloemfontein are the healthiest of the major cities at 84.26% while full title property yields are the lowest of the major cities at 5.17%. Sectional title average rentals in Harrismith are R7 800 with average yields of 8.93%. Kroonstad and Virginia are both achieving average sectional title yields of over 12%, while Welkom's yield is 8.51%.

Full title property values in the province have remained flat since 2017. The average full title property value in Harrismith is just over R1 million. Welkom is seeing healthy full title yields at 9.53%.



### RENTAL ESCALATION BY PROVINCE





# It will become increasingly difficult to rely solely on employment status to determine tenant risk

## EASTERN CAPE

Although the Eastern Cape has yet to recover to its pre-pandemic good standing levels of 86.88% (Q1, 2020) the province is a consistent good performer when it comes to good standing and achieved a good standing percentage of 84.29 at the end of 2021. Since 2008, the province has consistently maintained a good standing above the national average.

The average sectional title yield in the province is 10.53% while the average full title yield is 7.57% - both of which are above the national average yield. The average yield in the Nelson Mandela Bay district for sectional title was 11%. Full title also performed well at 8.03%. Rental growth has been positive, particularly sectional title properties with two or more bedrooms which generated average rentals of R8 302 per month.

However, full title properties did not enjoy the same level of growth in 2021 as they did in 2020. The slight contraction in average rentals for this asset class is particularly noticeable for rental properties with three or more bedrooms which saw a 7% year on year rental decrease.

Property transfer volumes in Nelson Mandela Bay were very active in 2021, with the highest number of sectional title transfers recorded since 2005. Although full title transfers by volume are almost double that of sectional title, they have failed to revert back to the volumes last seen prior to the pandemic. Average property purchase prices continue to grow with the average sectional title property valued at R733 403 while the average full title property is valued at R846 208.

Buffalo City Municipality achieves a good standing of 85.49% which is above the national average. The average sectional title rental is R6 716. TPN estimates that a quarter of properties in the municipality are bonded with the highest average value for full title properties found in Gonubie where the average value is estimated at R1.239 million.

King William's Town achieved the highest sectional title yield of 10.84% at the end of 2021 while the average rental is R6 406. Full title properties achieved an average rental of R7 641 and an average yield of 9.26%.



## NORTHERN CAPE

The Northern Cape is a star performer with the best good standing ratio in the country at 87.76%, almost 9 out of 10 tenants are up to date with their rental payments at the end of the month.

The province boasts the lowest did not pay category in the country at only 3.29%.

Although home to only 2% of all formal tenanted or rented households in South Africa, a quarter of all households in the province are rented (Stats SA GHS).

The average yield for sectional title in the province is 9.4% while the average full title yield is 6.51%.

## CONCLUSION

The rental market may see an increase in risk as more consumers come to rely on part time income streams to address the rising cost of living.

It will become increasingly difficult to rely solely on employment status to determine tenant risk in the foreseeable future as tenants require innovative new ways to make and supplement their incomes.

The key to successful property investments will be to select the right location, find the right tenant and ensure that they remain prompt payers while at the same time managing and minimising costs as far as possible.

## LEASE IN PEACE

Residential LeasePack  
WORD + PDF VERSION



32 DOCUMENTS READY FOR USE



COMPREHENSIVE LEGISLATION COMPLIANT DOCUMENTATION

Ideal for Landlords, Property Managers and Estate Agents

The TPN Residential LeasePack is essential to any agent or landlord and contains a variety of documents drafted and updated regularly by TPN's panel of attorneys.

Whether you need an Application Form or a Notice to Vacate, you'll find clear and concise legal documents for every possible situation. Including residential Lease Agreements for individuals or companies as well as three more specific Lease Agreements that can be used for Holiday, Student or Month-to-Month leasing.

When using TPN Lease Agreements, Mandates and additional documentation you can be certain your agreements are in line with the Rental Housing Act, Consumer Protection Act and the very latest developments in legislation that apply to residential leasing.

Buy Now / Visit TPN Shop