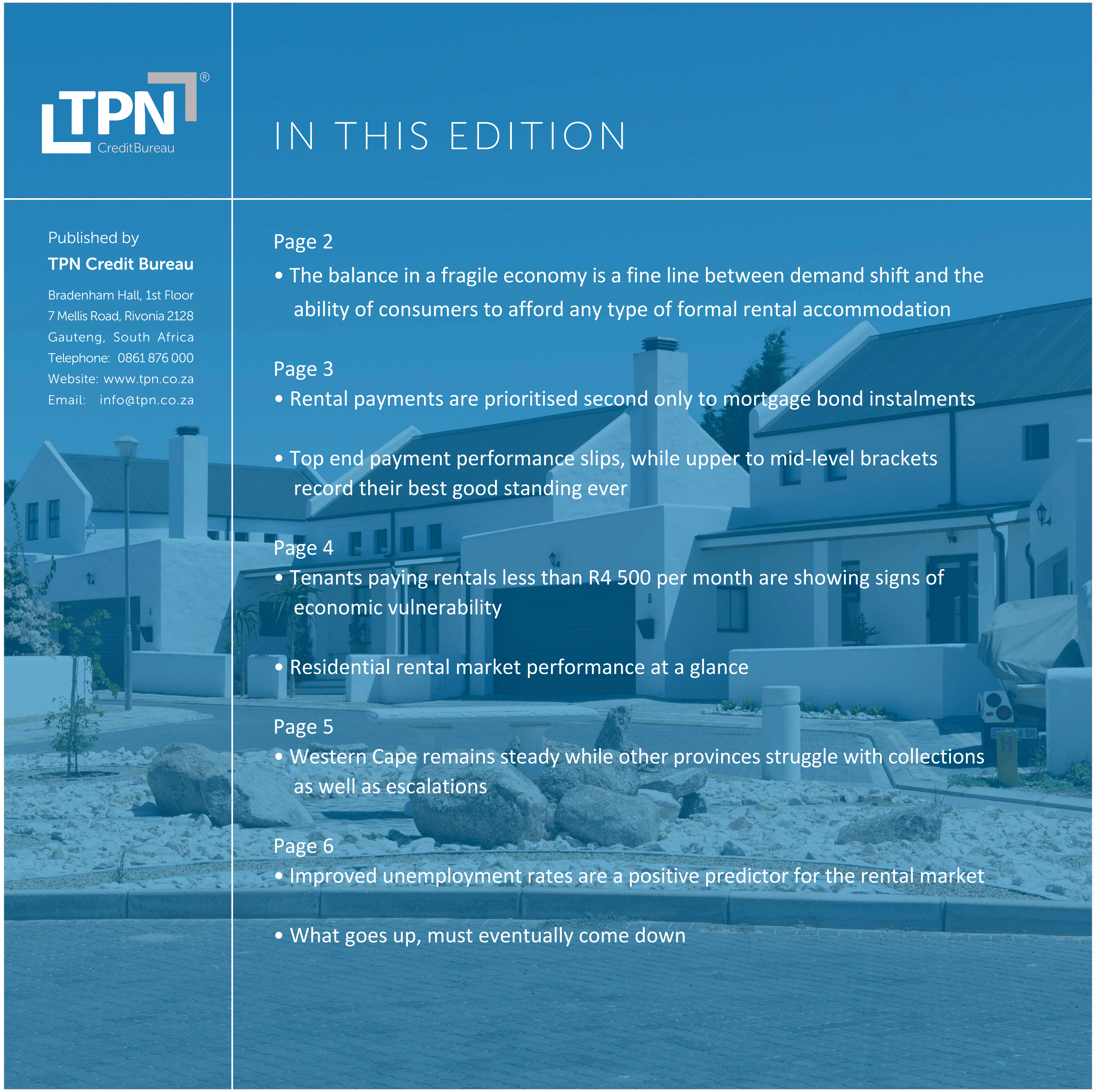
2022Q2

TPN Rental Monitor

Residential rental market shows resilience despite rising interest rates



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IN THIS EDITION

Rental payments remain a high priority despite the economic challenges faced by tenants

The South Africa Reserve Bank (SARB) has not held back on its intention to push inflation back to within its targets, increasing the main repo rate by 75 basis points to 6.25% in September 2022.

This, however, is not just a South African phenomenon. Emerging market central banks are under pressure to keep up with the US Federal Reserve's monetary tightening which also recently increased rates by 75 basis points. The UK has increased rates by 50 basis points while the European Central Bank increased its rates by 75 basis points for its 19 member countries.

Recently released GDP numbers indicate that South Africa's economic recovery is slowing down. In the second quarter of 2022 the economy grew by just 0.7%, constrained by load shedding and higher fuel prices. Although fuel prices have come down, the reality is that the value chain has already built these higher prices into the existing cost.

Higher interest rates have traditionally resulted in improved demand for rental property. However, the balance in a fragile economy is a fine line between demand shift and the ability of consumers to afford any type of formal rental accommodation. The South African Reserve Bank's recent repo rate hike to 6.25% is expected to slow residential property sales down, although prices in certain areas are expected to continue to climb as demand for well-serviced areas remains an attractive asset.

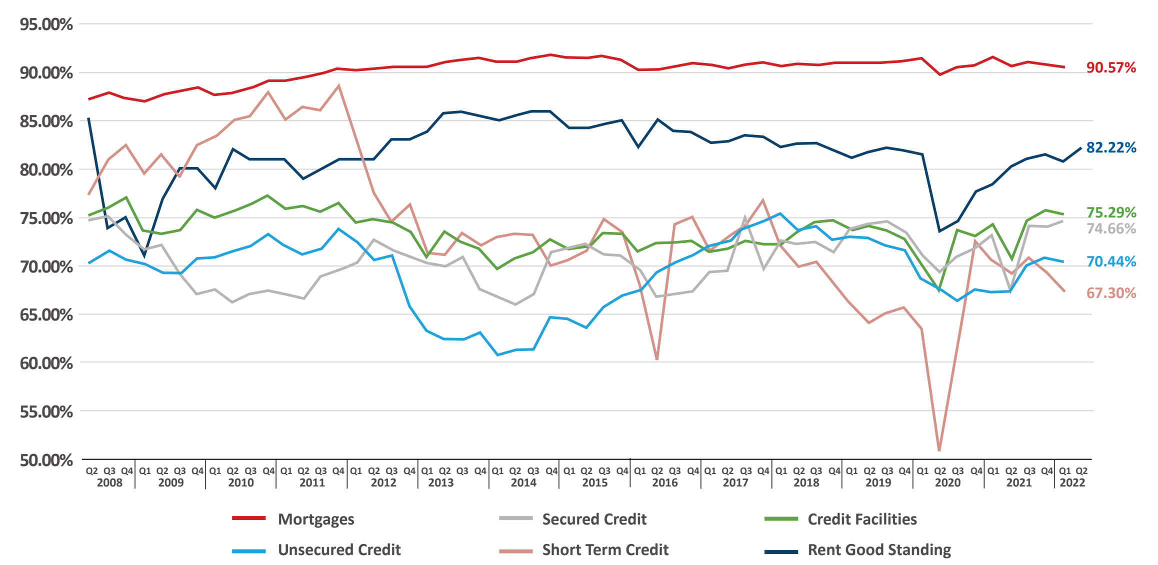
Despite the economic challenges, consumers are paying their rentals. Overall, the number of tenants in good standing with their monthly rental obligations improved from 80,78% in the first quarter to 82.22% in the second quarter.

Top end payment performance slips, while upper to mid-level brackets record their best good standing ever

National OVERVIEW

National Credit Regulator data indicates that South Africans rank their mortgage and rental payments ahead of other monthly credit repayments

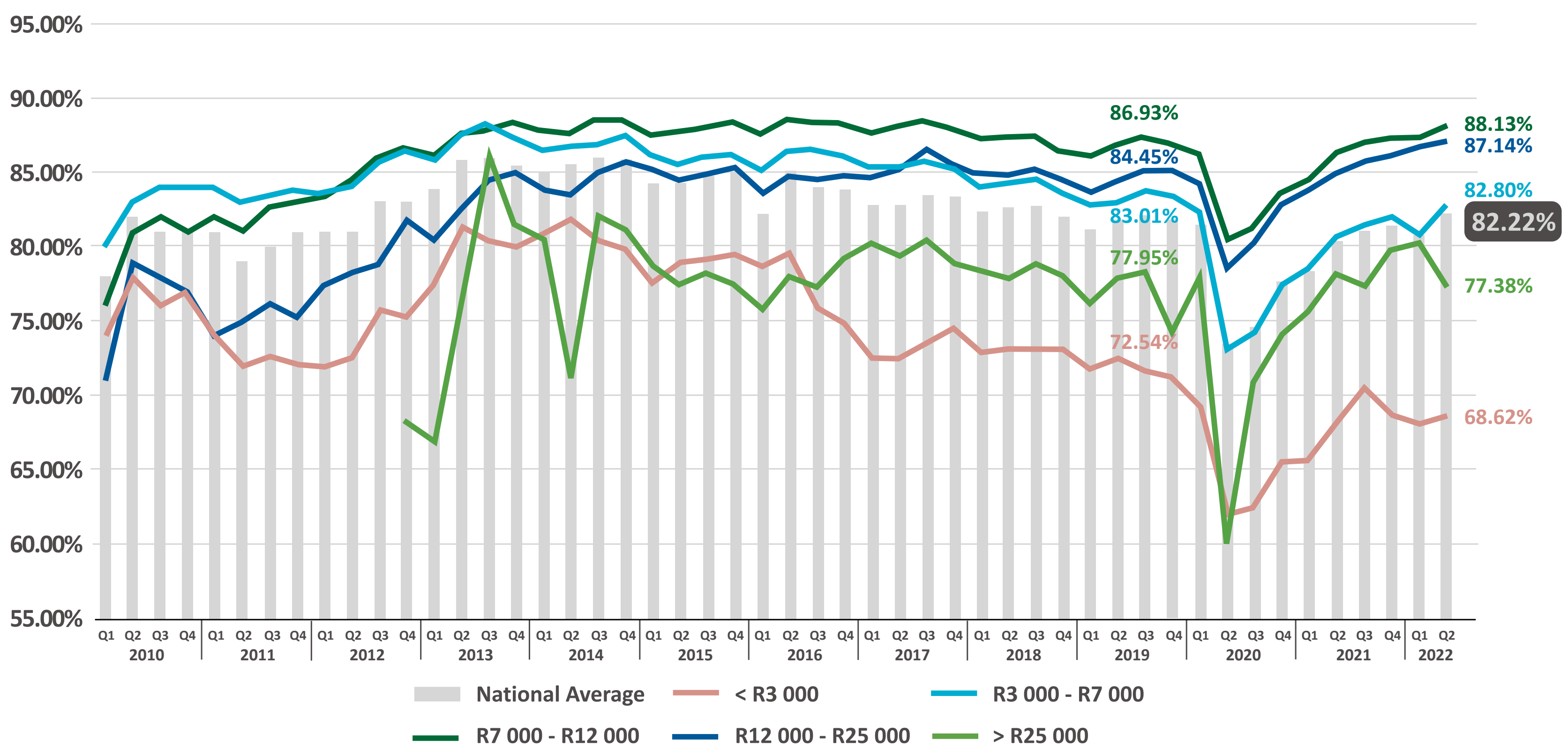
GOOD STANDING: RENT VS CATEGORIES OF CONSUMER CREDIT



Source: NCR age analysis of number of accounts in "current" categorised by type of consumer credit

Rental payments are considered the second most important household budget credit priority, second only to mortgages or bond repayments which have a good standing of 90.57%, followed by credit cards with a good standing of 75.3% and secured credit at 74.7%. Short term credit is still struggling to recover from the pandemic with a good standing of 67.3% while unsecured credit has a good standing of 70.4%.

RENTAL GOOD STANDING: BY RENT VALUE



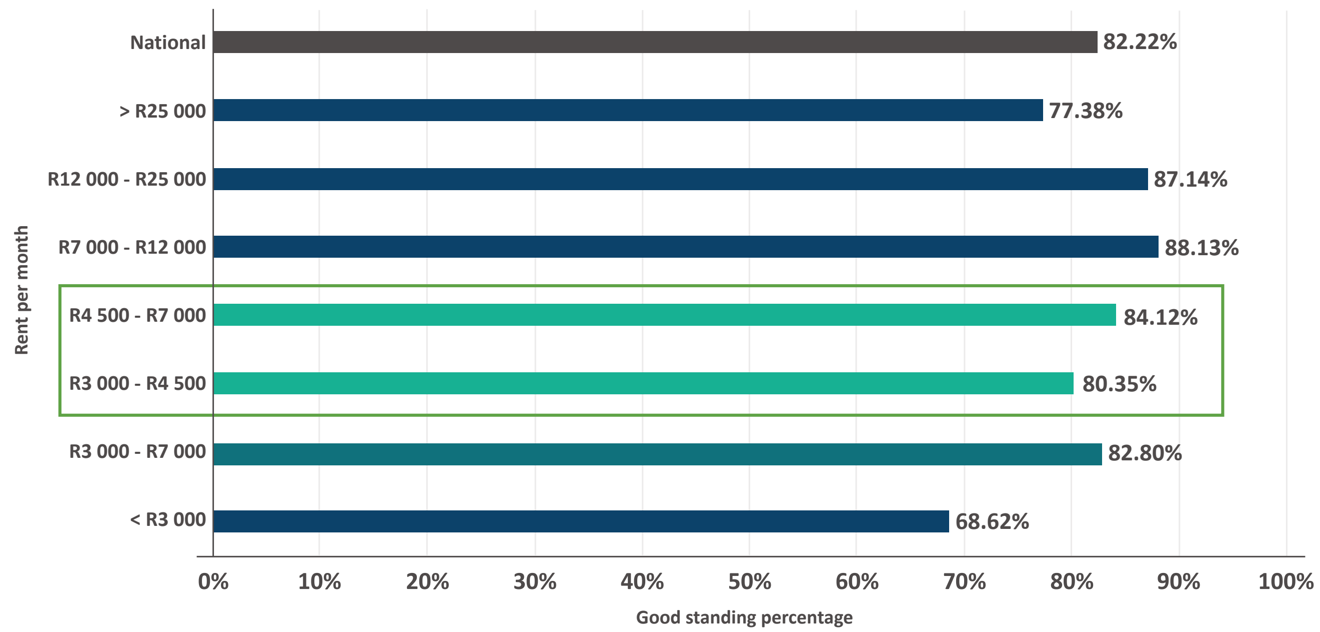
Breaking down the different categories of tenants, there has been a noticeable deterioration in good standing in the rental bracket above R25 000 which dropped to 77.38%. This rental bracket traditionally experiences a drop in the second quarter of the year – with the exception of the second quarters in 2019, 2020 and 2021– but strengthens again in the third quarter. This is partly attributable to the cyclical nature of tourism, particularly in the coastal regions. This decline correlates to the slowdown in the Western Cape's good standing figures and partially explains the reduction in KwaZulu-Natal's good standing for the second quarter.

The rental bracket R12 000 to R25 000 has recorded its best ever good standing to date with a healthy 87% in good standing. Those paying between R7 000 and R12 000 are even more committed to maintaining their good standing with 88% up to date with their rental payment, exceeding pre-pandemic levels in both 2018 and 2019. It is safe to assume that this rental category has fully recovered from the pandemic.

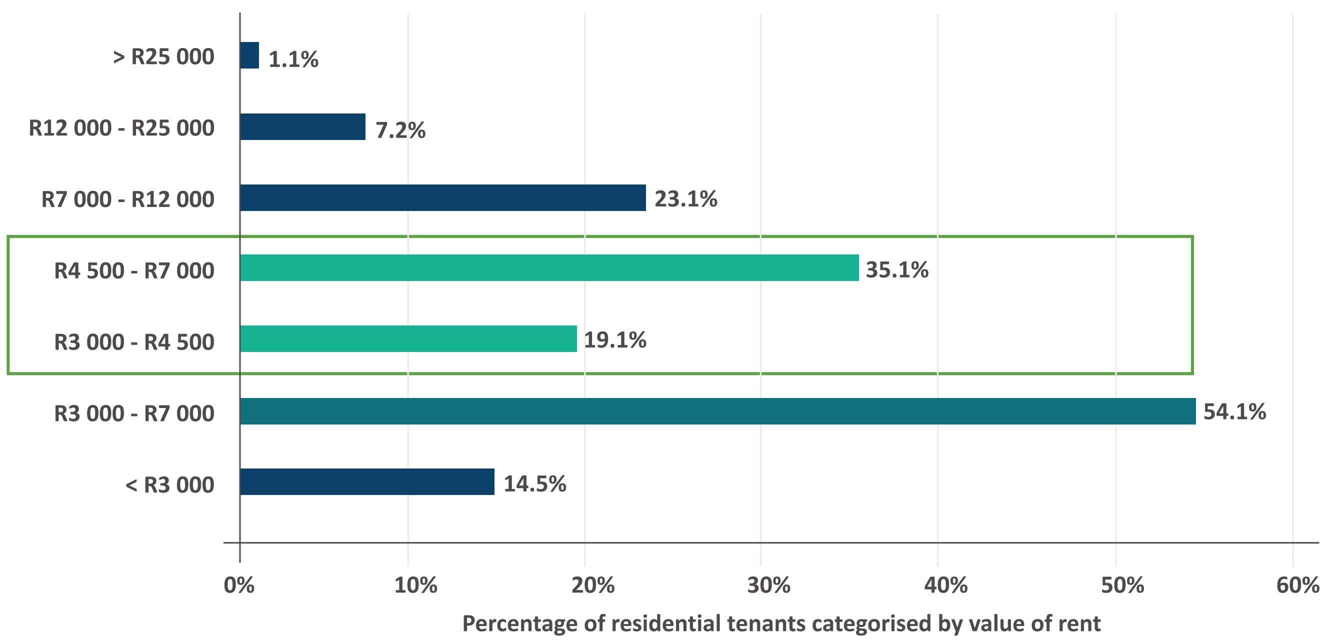
Tenants paying less than R4,500 monthly are clearly experiencing increased economic pressure

National OVERVIEW

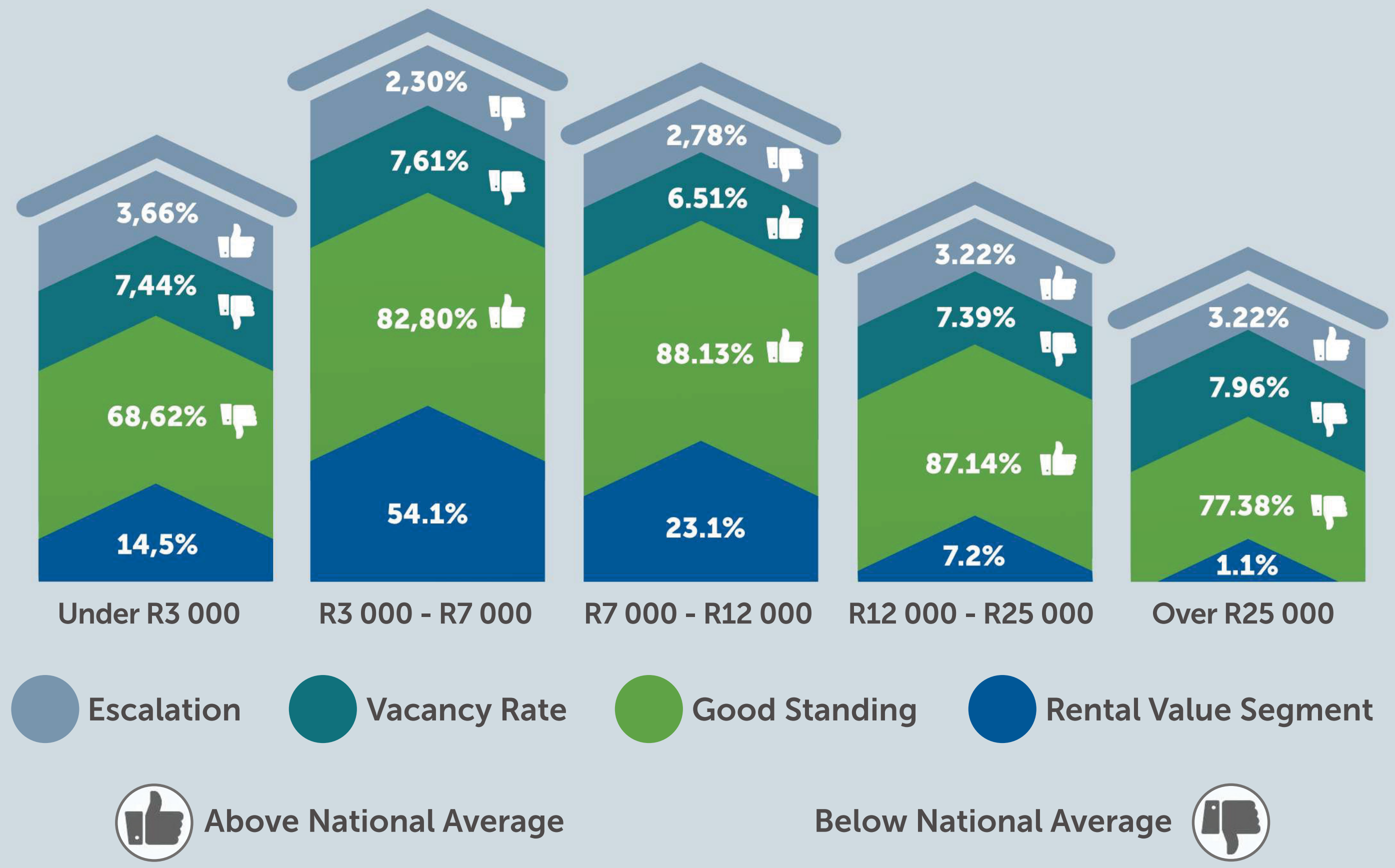
RENTAL GOOD STANDING 2022 Q2: BY RENTAL VALUE



RENTAL MARKET DISTRIBUTION BY VALUE (2022 Q2)



The Residential Rental Market: Performance at a Glance



Tenants paying between R3 000 to R7 000 – a rental bracket which makes up more than half the market – increased their good standing by 2% to 82.8%. This rental segment has still not recovered to pre-pandemic levels, but is heading in the right direction. If we split this segment further, those paying R3 000 to R4 500 (which constitutes 19.1% of the market) have a lower collection rate, with just over 80% in good standing. Those paying R4 500 to R7 000 representing 35% of the market, on the other hand, have a better collection rate with a good standing of 84.12%.

Regional PERSPECTIVES

Western Cape remains steady while other provinces struggle with collections and escalation rates

KWAZULU-NATAL

The flooding that occurred in KwaZulu-Natal in April and May 2022 and the slow repairs to infrastructure affected the ability of landlords to collect rent. As a result, KwaZulu-Natal's good standing figure dropped to 80.16% in the second quarter of 2022. Vacancies remained high at 9.91% although this was an improvement on the first quarter. The province continues to have the highest escalation rate of all provinces at 4.78%.

GAUTENG

Gauteng continued to struggle to achieve higher escalations with rentals only growing 1.69% year-on-year. At 6.67%, Gauteng's vacancies are the second lowest of all the major provinces, but vacancies are expected to increase as supply is added. Landlords have been easing rentals to ensure higher occupancies and this strategy is starting to pay off as reflected in the data. However, Gauteng still struggles to collect rental payments on time with only 80.96% of tenants in good standing.

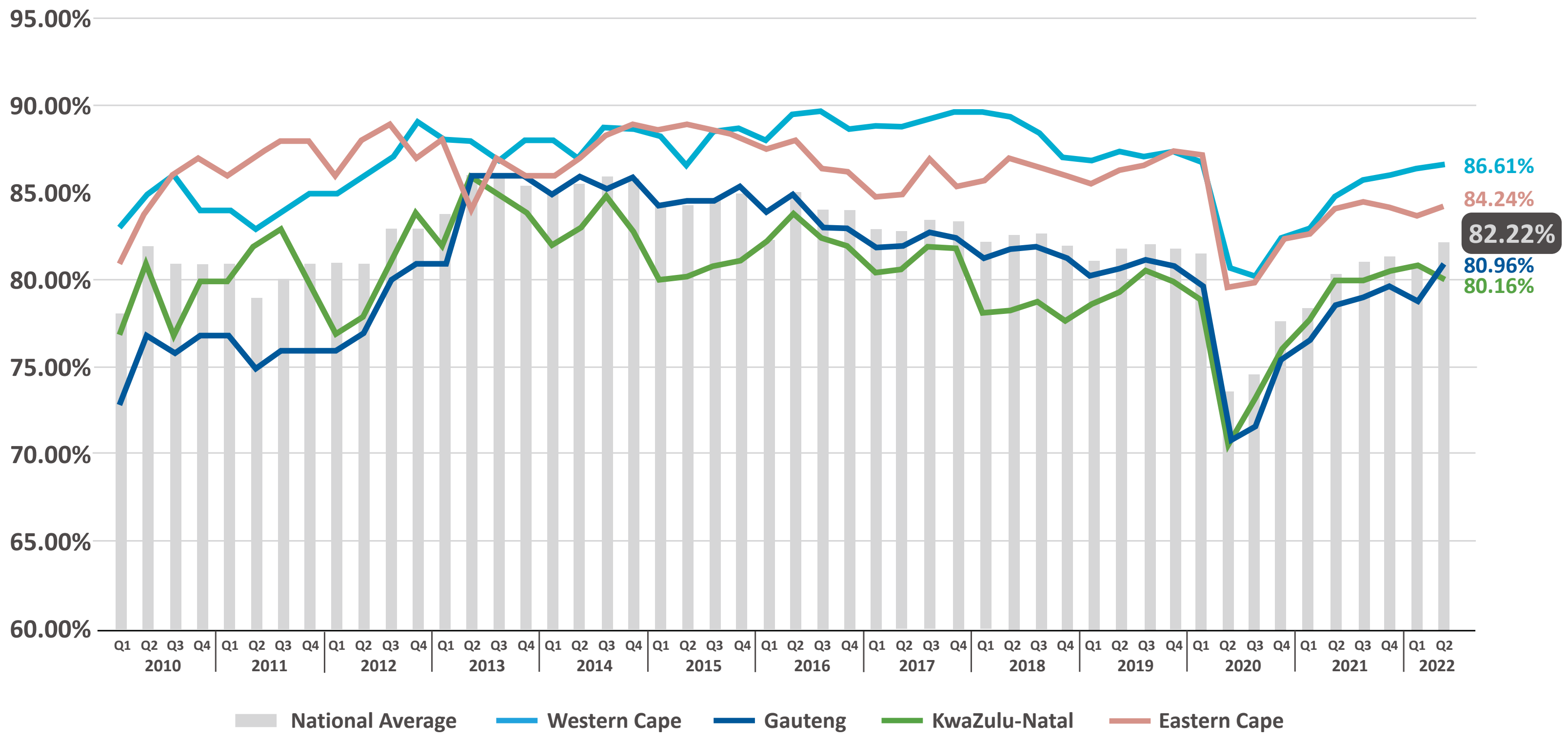
WESTERN CAPE

The Western Cape's steep rental increases of 4.17% in the second quarter have not dented landlords' ability to collect rentals, with the province's good standing figure at 86.61%. The province's vacancy rate remains stable as demand strengthens. This is not surprising as the province has the lowest unemployment rate even according to the expanded definition of all provinces at just 31.3% (source: Stats SA).

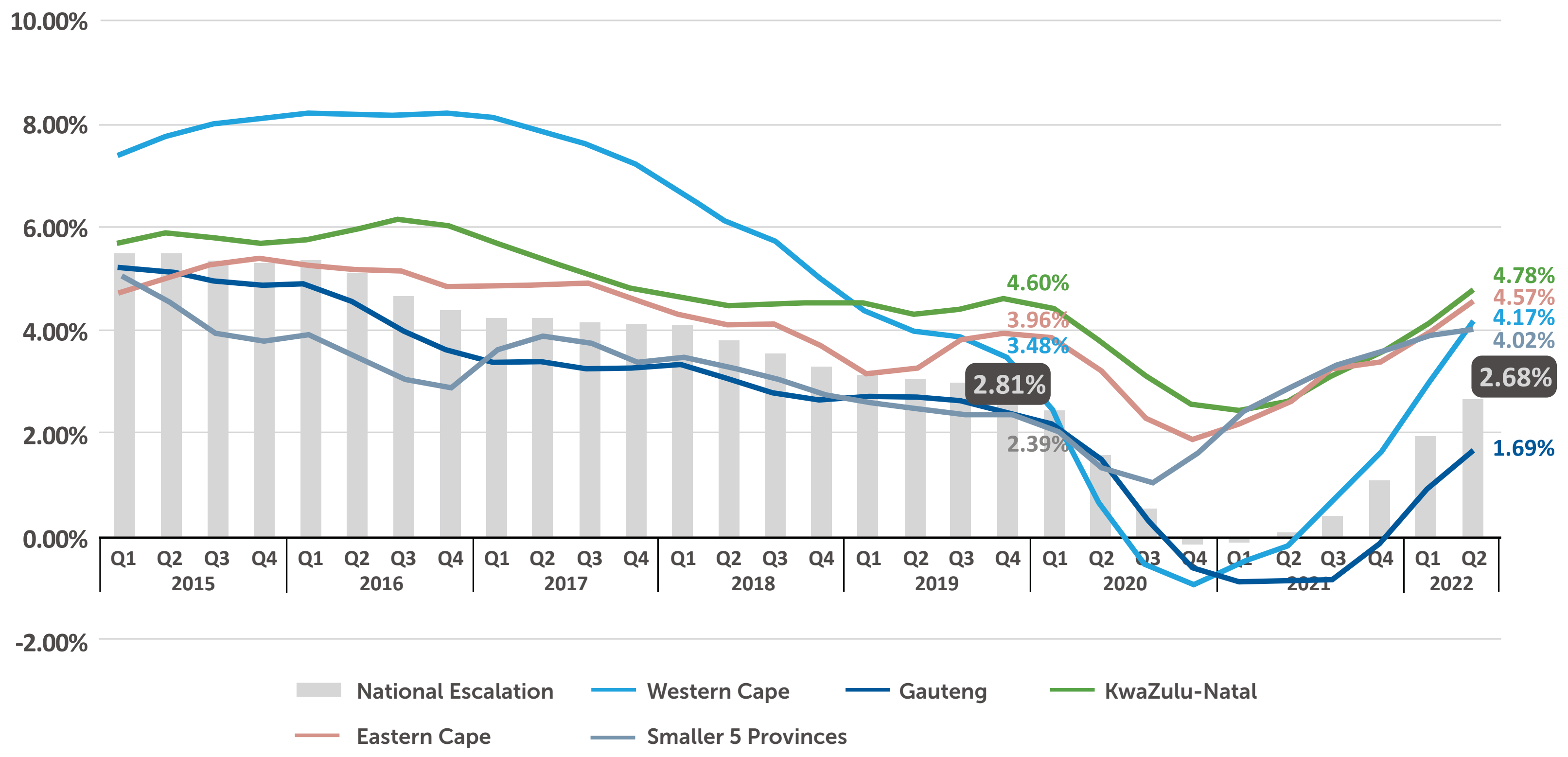
FREE STATE AND NORTH WEST

The Free State and North West are both struggling with rental collections brought on by high unemployment of 40.3% and 49.2% respectively, according to the expanded definition (source: Stats SA).

RENTAL GOOD STANDING: BY PROVINCE



RENTAL ESCALATIONS BY PROVINCE



Improved unemployment figures a positive predictor for the rental market

Employment figures typically correlate with the formal rental market, with improved employment figures combined with higher interest rates - currently at 9.75% - tending to drive demand for rental properties. Stats SA's Quarterly Labour Force Survey, which measures the unemployment rate, showed a small decline in the number of unemployed people in the second quarter. The number of discouraged job seekers reduced by 183 000 as well, indicating a sense of hope for further improvement in the rental sector.

What goes up must eventually come down

The Consumer Price Index (CPI) eased during the pandemic, providing an opportunity for the SARB to cut interest rates to help the economy deal with the fallout. Lower interest rates, combined with the work-from-home trend encouraged certain segments of the market to purchase property or upgrade their properties. This fuelled a property inflation blaze. However, an energy crisis and hyperinflation from over-stimulated global economies put an end to the lower interest rate party.

Residential property rentals are mirroring this trend and landlords are passing their higher costs on to tenants which is making it more and more expensive to rent.

Our long-term data indicates that consumer strain is almost always shared with property owners, reflecting either in vacancies, lower returns or late payments. For now, TPN Credit Bureau data indicates that tenants are still prioritising their rentals.

> "Our long term data indicates that consumer strain is almost always shared with property owners"

RENTAL ESCALATIONS VS CPI