TPN VacancySurvey

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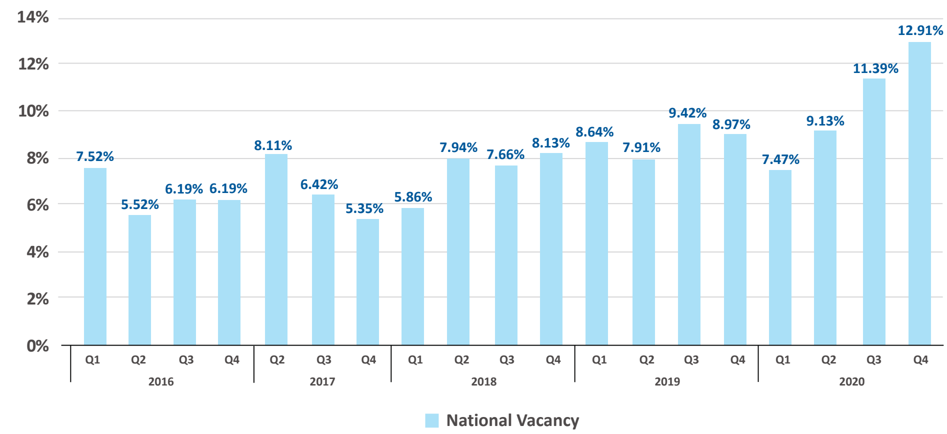
The numbers are exploding and not all in the right direction.

In This Edition:

South Africa, with a total population of 17.2 million households, rapidly rising by 29% over 10 years. Tenants increasing to 3,7 million households renting – a growth of 33% over 10 years. And yet, out on the streets, landlords are experiencing increased vacancies, pushing up to 12.91% in the final quarter of 2020.

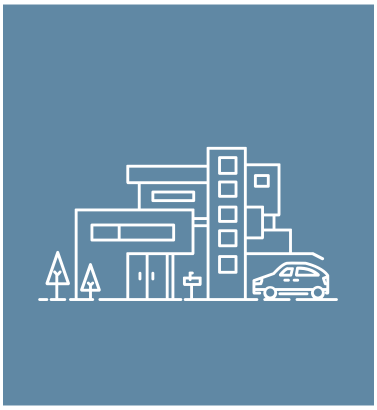
TPN VACANCY RATE NATIONAL



Let's take a closer look at the latest Stats SA General Household Survey released in December 2020. A quick tally of the numbers shows that 3.7 million households live in rented accommodation with 3 million households renting formal housing.

Two million households rent a house, flat, apartment, cluster, townhouse or semi-detached dwelling; and just under 1 million households rent a backyard house, flat or room, granny flat or SQ. Leaving 762 thousand households who rent traditional or informal dwellings.

To put it bluntly, there is no shortage of demand for housing.



Vacancy Variables

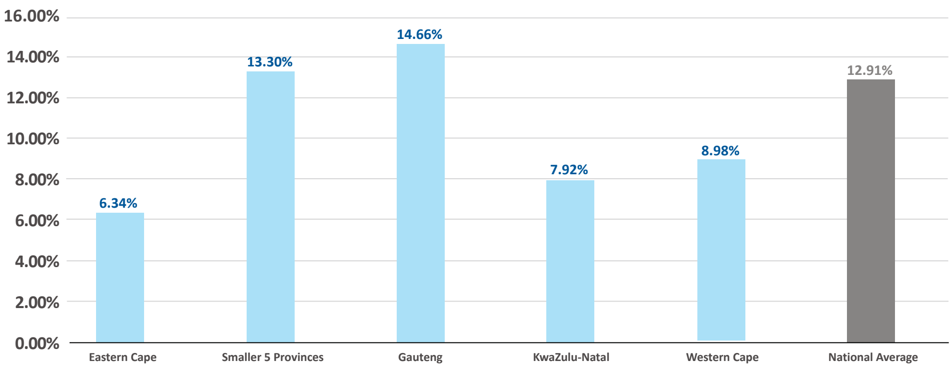
Income, or rather the lack thereof, definitely a major contributor to tenants' early cancellation of lease agreements, the drying up of demand in 2020 and pushing up vacancies.

BankservAfrica Take-home Pay Index confirming that 10.4% less workers were paid a salary in October 2020 compared with October 2019. Ultimately less people earning salaries means less households participating in the rental market.

Fortunately, the trend is improving, 10.4% less salaries in October is not as bad as the 34% less salaries paid in July 2020 when compared to July 2019. Also, real monthly salaries are increasing again post the hard lockdown salary adjustments.

Overall, leaving landlords with a 12.91% vacancy rate to compete against.

TPN VACANCY RATE 2020 Q4 BY PROVINCE



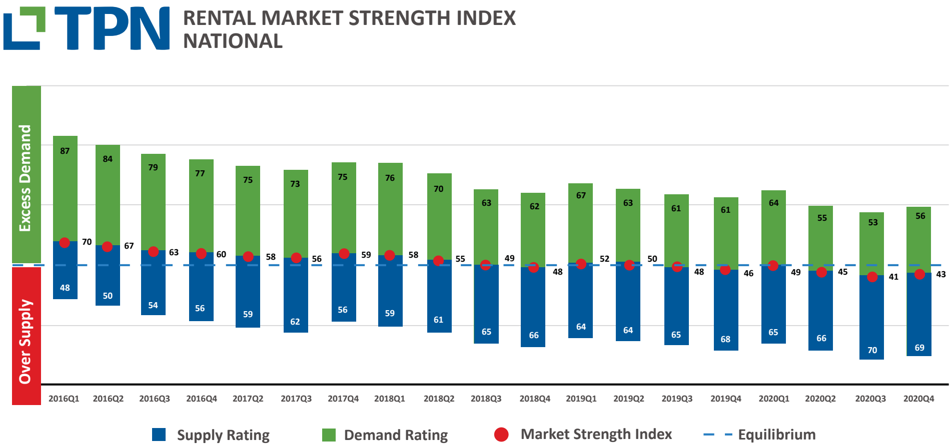
Market Strength Index

Market Strength is a balance between supply and demand.

The Demand Rating bottomed out at 53 in Q3, but has shown signs of recovery to 56 in this last quarter, nothing exciting, but a positive shift in trend in the right direction.

The Supply Rating topping out at 70 in Q3, but holding relatively flat at 69 in quarter four.

The result is a Market Strength Index of 43; meaning excess supply of rental stock, another variable driving up vacancies. A result of 50 is market equilibrium; any result below 50 indicates excess supply and a result above 50 indicates excess demand.



Regional Results

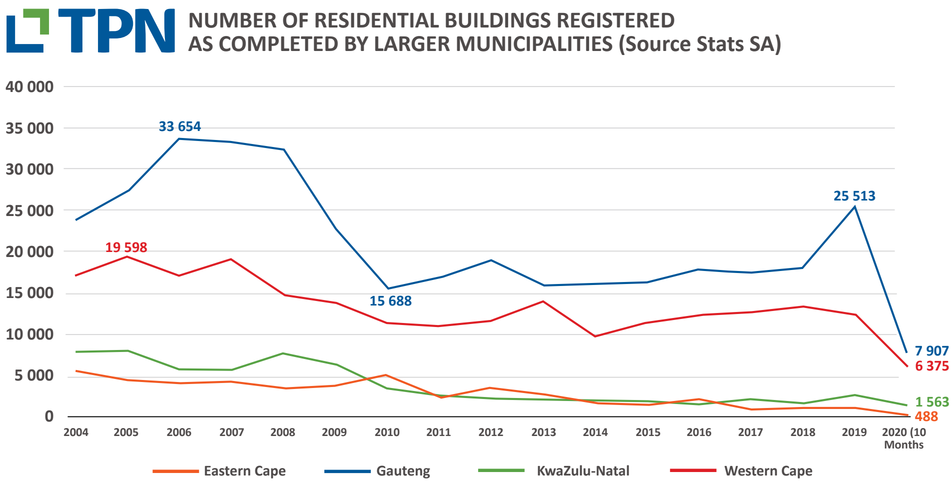
Vacancy rates have started to recover in three of the four main provinces: Western Cape, Eastern Cape and KwaZulu-Natal; but Gauteng continues to deteriorate with 14.66% vacancies in Q4 of 2020.

A quick review of the latest Building Statistics might provide helpful insight to the dramatic increase in residential housing stock completed in the prior year.

Noticeably, the Gauteng province stands out, surging with 25,513 residential houses and flats completed in 2019. No doubt adding to the increased rental supply. 2020 was a tough year for construction with only 7,907 residential units completed in the 10 months reported to-date (January to October).

Whereas Western Cape residential construction remains fairly flat post the boom years, there is consistent new development year-on-year helping to filter in rent stock without flooding the market.

In comparison, KwaZulu-Natal and particularly the Eastern Cape suffering from very little residential construction with a mere 1,563 and 488 new builds in the first 10 months of 2020.



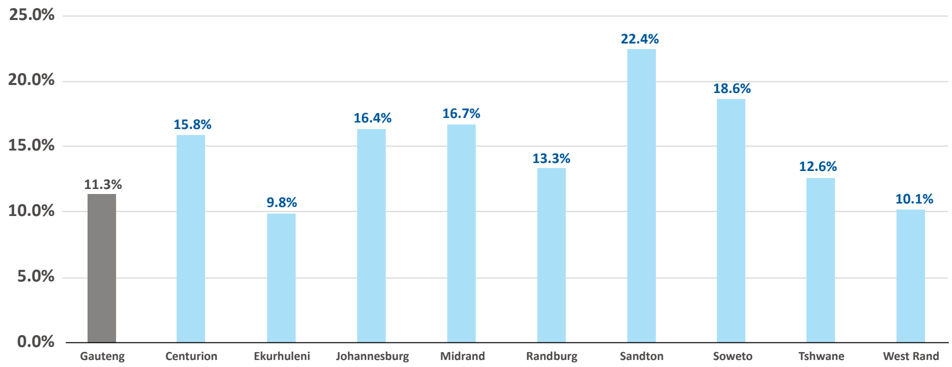
Gauteng – the home of half of the South African tenants

Yes, as reported in the latest General Household Survey, 47% of all tenants reside in Gauteng. These numbers are similarly reflected in the TPN tenant database.

Sandton stands out with the highest vacancy rate of 22.4%, a deterioration of four percent quarter-on-quarter, but hardly unexpected as tenants continue to downscale looking for more affordable rentals. Soweto also noticeable at 18.6%, encouragingly flat from the previous quarter, tenants in the low earners and casual workers most affected by loss of earnings.

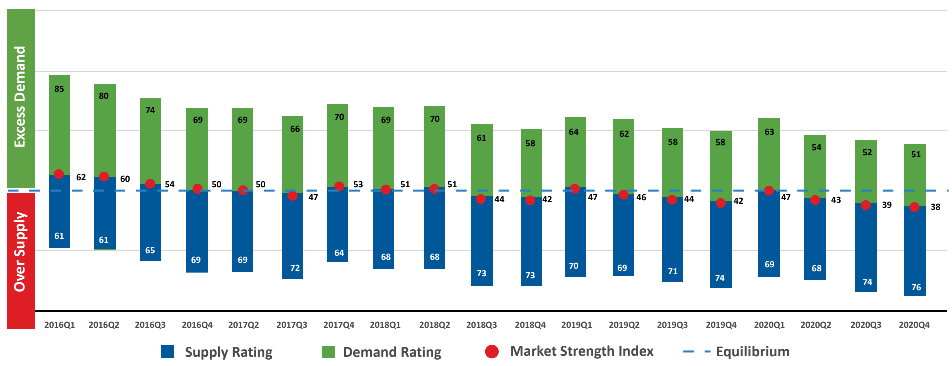
Overall, all but one metro produced double digit vacancies, with only Ekurhuleni in single digits at 9.8%.

TPN VACANCY RATE 2020 Q4
GAUTENG



Gauteng recovery hampered by deteriorating Demand Rating, dropping to 51, the lowest on record. And a shift in Supply Rating to 76, the highest on record. A gloomy outcome producing a Market Strength Index of 38, also the worst on record, pointing to a market of extreme excess supply.

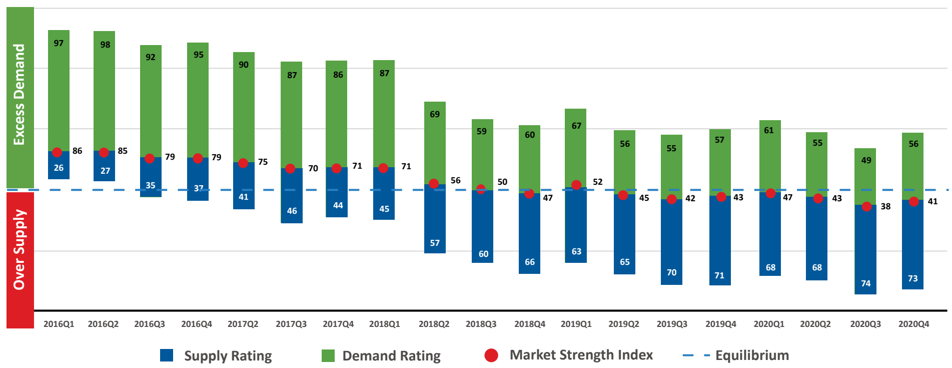
TPN RENTAL MARKET STRENGTH INDEX
GAUTENG



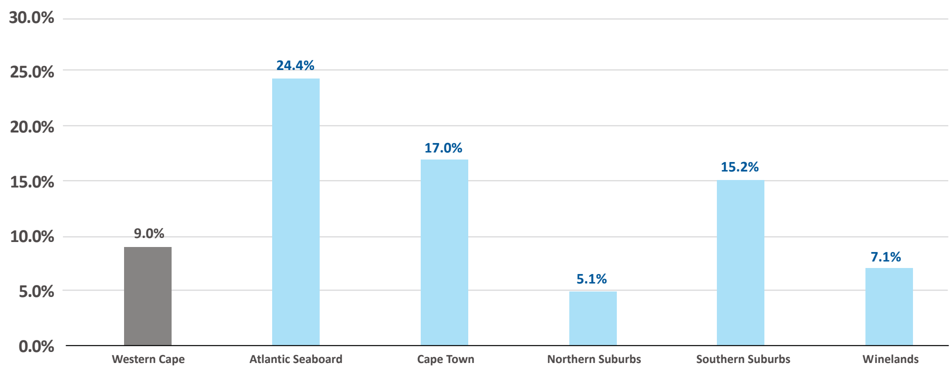
Western Cape – the home of negative escalation

Western Cape had a market adjustment in 2018, which probably helped soften their lockdown year. The Market Strength Index provides a strong visual aid to reflect the impact of the draught and the end to the dominant semigration. From mid-2018, demand started deteriorating and supply slowly increasing spurred on by the fallout of the short-term rentals at the time. Tenants were finally treated to decelerating rental escalation, and for the first time, negative escalation (-0.62%) in quarter three with further negative escalation in the preliminary data for Q4.

**RENTAL MARKET STRENGTH INDEX
WESTERN CAPE**



**VACANCY RATE 2020 Q4
WESTERN CAPE**



To the relief of most landlords, Western Cape has an acceptable vacancy rate of 9%. The more affordable Northern Suburbs which give more "bang-for-your-buck" properties will be delighted with the low 5.1% vacancies.

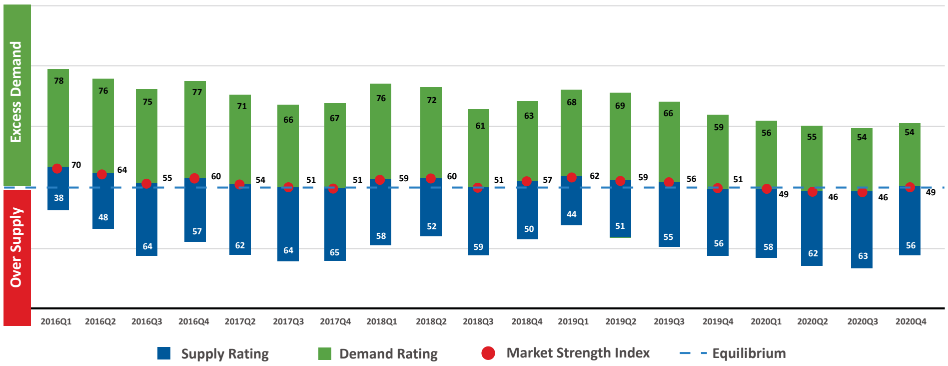
It is not surprising that the luxury end of the market, the Atlantic Seaboard, where one in four properties are vacant has been affected by limited international travel and affordability.

KwaZulu-Natal – the home of the rising star

KwaZulu-Natal is host to the second biggest tenant base – 507,000 tenants.

The market is stable with a Market Strength Index of 49, almost back to equilibrium. Demand Rating at 54 and Supply Rating at 56.

RENTAL MARKET STRENGTH INDEX KWAZULU-NATAL

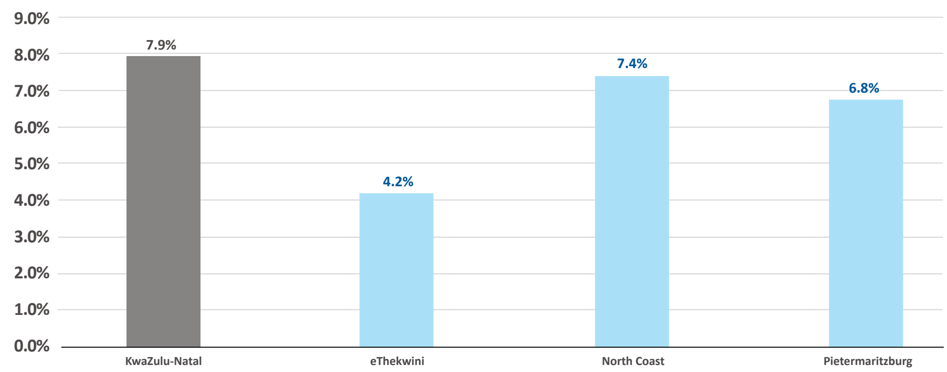


Vacancy Rates all single digits; overall KwaZulu-Natal vacancies are at 7.9% with eThekwini a mere 4.2% and even the luxury North Coast only 7.4% vacant.

But let's not forget KwaZulu-Natal also holds the record for worst performing rental payment behaviour, only 73.55% of KZN tenants are in good standing.

There is a careful balance that exists between an empty property versus low vacancies filled with non-paying delinquent tenants.

VACANCY RATE 2020 Q4 KWAZULU-NATAL



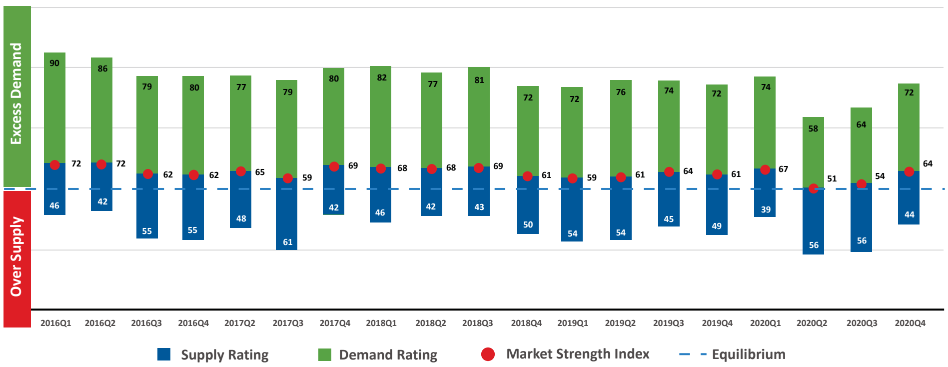
Eastern Cape – the home of social grant recipients

Salaries are the primary source of income for 61.2% of South African Households, and social grants are the second most important source of income for 45.5% of households nationally.

But for the Eastern Cape the numbers are reversed; the majority, 61.1% rely on social grants as their primary source of income versus 49.7% who receive salaries.

A quick reflection of the Building Statistics, only 488 new residential houses and flats were reported as complete in the first 10 months of 2020; and in the previous 3 years not ever breaching 1,500 new builds in any year. Even in the property boom period, Eastern Cape municipalities reported a maximum of 5,767 new builds in 2004.

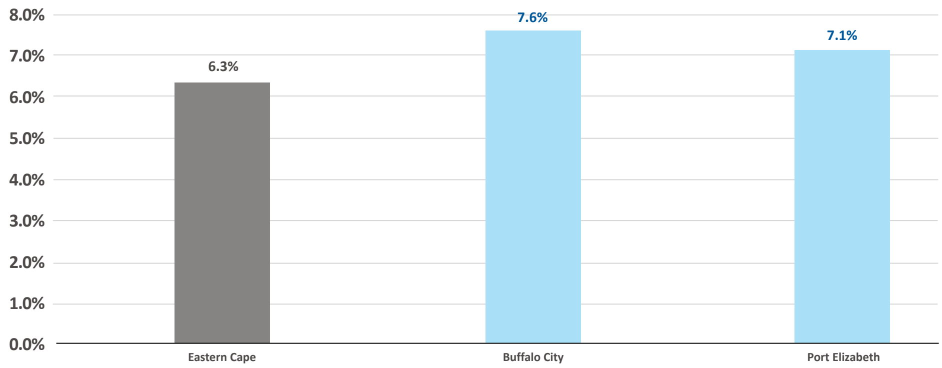
TPN RENTAL MARKET STRENGTH INDEX EASTERN CAPE



It is hardly surprising that this province has insufficient supply, even in the hard lockdown quarter two, with the Market Strength Index of 51 squeezing into excess demand. Now in the final quarter of 2020, the Demand Rating of 72 indicates high demand coupled with a very low Supply Rating of 44, the result being a Market Strength of 64. Landlords have a strong selection of tenants.

It does not come as a surprise then that the vacancy rate is a low 6.3% with Buffalo City and Port Elizabeth at 7.6% and 7.1% respectively.

TPN VACANCY RATE 2020 Q4 EASTERN CAPE



Funding the flat

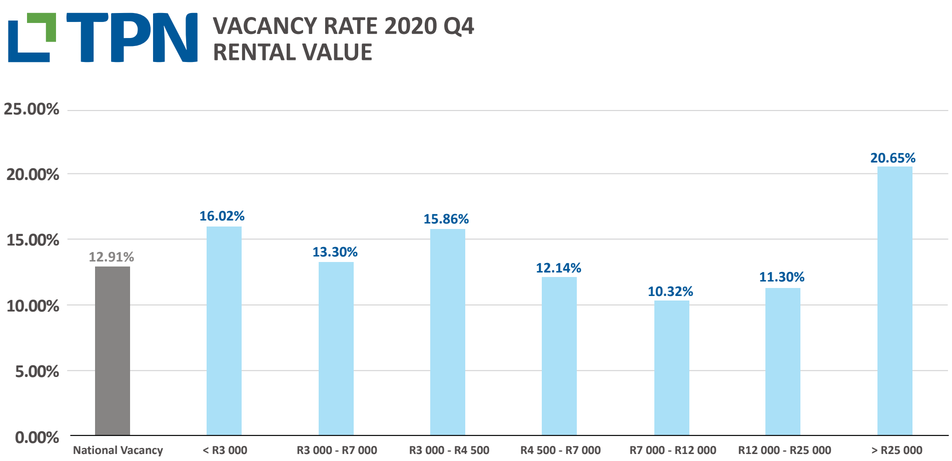
The ‘thirty percent of income for housing’ rule reaches far and wide. Local home loans have a 30% of income affordability cap.

And in the US, the post subprime legislation was designed to reduce the monthly mortgage payments of eligible home owners to no more than 31% of income.

Similarly, tenant affordability applies the same 30% rule; providing appropriate comfort for the affordable and mid-market value bands.

In the low-end of the market of properties priced below R4,500, it is not uncommon for incomes to have to stretch to cover up to 42% of rent expense and as a result often causing tenants to default. As reflected in the TPN Rental Monitor where only 62.5% of tenants who rent for less than R3,000 per month are in good standing with their rent.

A reminder that the BankservAfrica Take-home Pay Index noted that the low end of workers, weekly wage earners and casual workers, were most affected by loss of income. The demand for housing is significant in this segment of the market and for landlords, the quality of tenant application is weak and this impacts the vacancy rate where 16% of low-end properties are vacant.



The affordable and mid-market rentals between R7,000 – R25,000 range between 10 to 11.4%, while in the luxury market, rentals above R25,000 per month, one in five properties sit vacant.

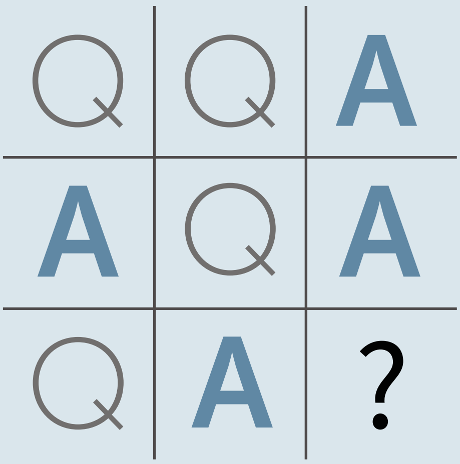
Conclusion

Shelter is the first of Maslow's hierarchy of needs and security the second.

Tenants agree, as reported in the recent TPN Tenant Survey where price was the number one factor and security the second most important factor for choosing where to rent.

Residential property is an asset that will always have a market, but the market shifts. Today's market requires a careful balancing of price, affordability, maintenance, security and rising municipal expenses.

Careful planning and consistent management of these variables wins in the end.



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