2022Q1

TPN Vacancy Survey

Sharp decline in national vacancies points to a residential market in normalisation

IN THIS EDITION

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National OVERVIEW

Improved confidence is reflected in lower vacancies

While 2021 was the year for double digit vacancies, encouragingly, national vacancies have seen a sharp decline from their highest rates in the first quarter of 2021 (13.31%) and the fourth quarter of 2021 (11.71%) to 8.26% in the first quarter of 2022. However, this figure has yet to return to the pre-pandemic level of 7.47% achieved in the first quarter of 2020.

The first quarter of 2022 revealed a small uptick in business confidence with the Business Confidence Index, compiled by the Bureau of Economic Research, increasing to 46 in the first three months of 2022, from 43 in the previous quarter. However, slow economic growth and financially constrained households continue to be a challenge in the property sector.

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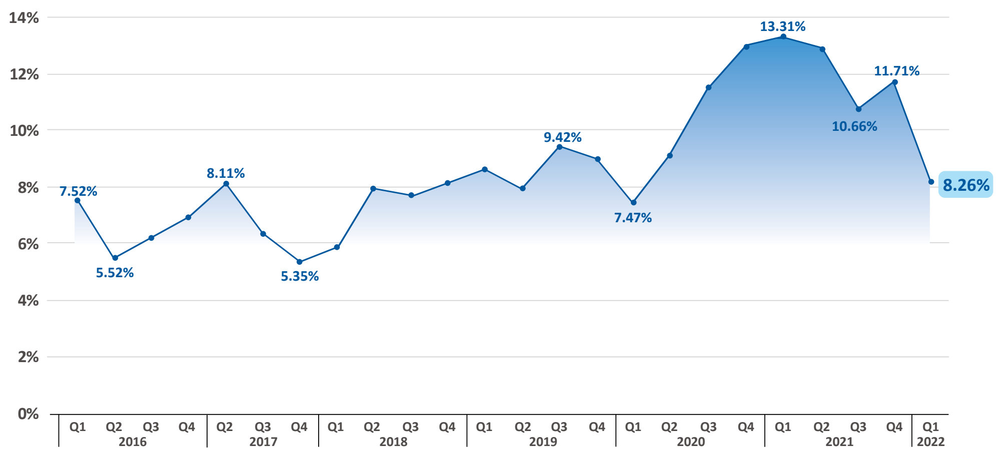
NATIONAL VACANCY RATE



The rental housing market is also seeing continued growth in supply, particularly in Gauteng where the formal rental housing market increased from 40% in 2015 to 48% in 2020 according to the most recent General Household Survey results published by Stats SA. Almost half of all Gauteng households are now rental properties.

In the Western Cape, the percentage of rental properties relative to the percentage of total households in the province has remained stable at 38%, indicating an increase in owner occupied properties. This is confirmed by the addition of 239 000 new households to the province.

National Overview | Continued

Market Strength Index back in positive territory

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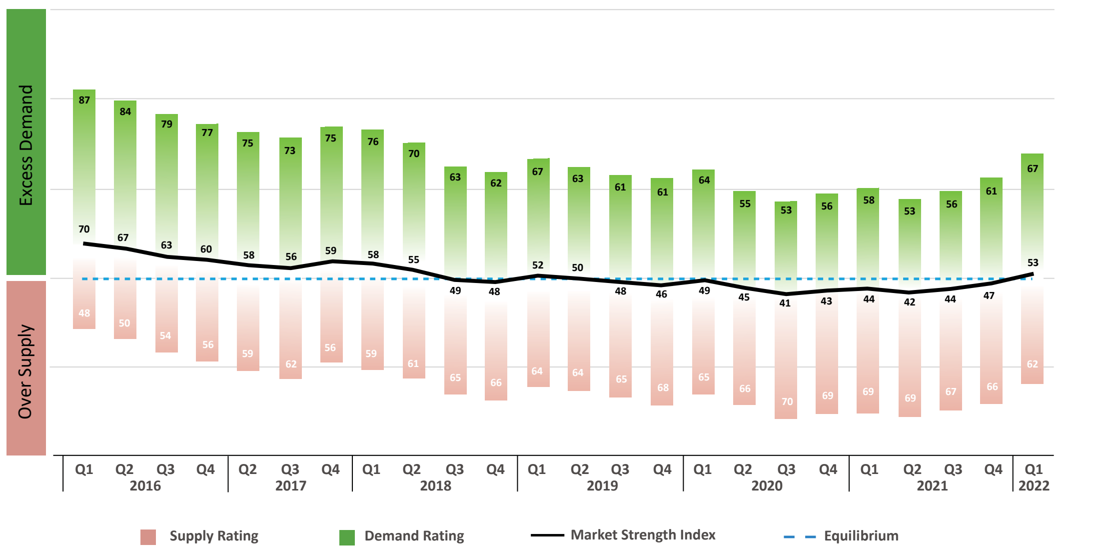
MARKET STRENGTH INDEX - NATIONAL



The TPN Market Strength Index, a measure of market supply and demand of residential rental property, is finally back in positive territory after an almost three-year dry spell.

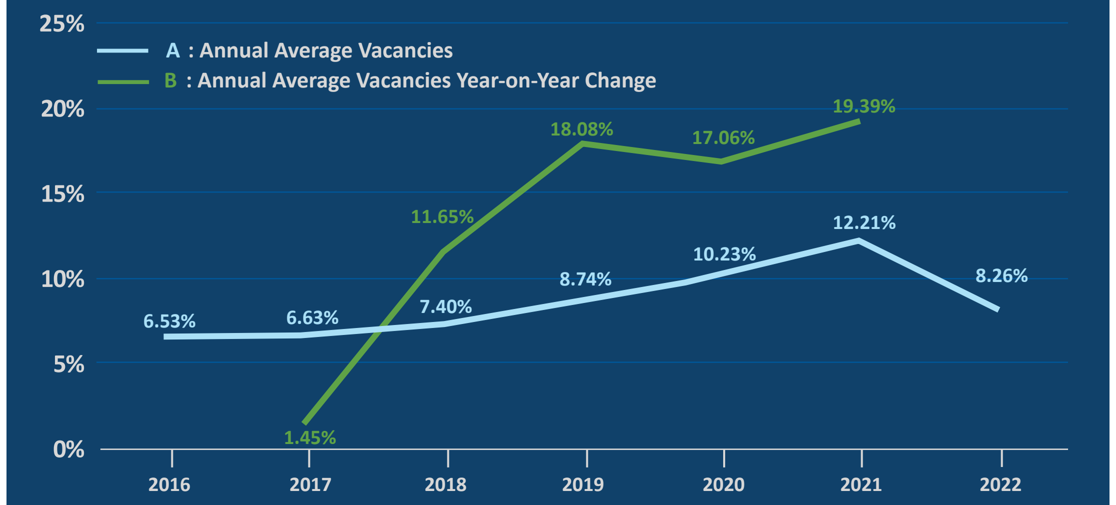
The index, at 52.9 points, illustrates a positive recovery which is heading back to levels last seen in 2018.

Market equilibrium is achieved at 50 points. At this point, demand and supply will be on an equal footing, indicating the potential for escalation and reduced vacancy rates.

Although demand for residential rental property has been waning since 2016, the pandemic coupled with various other economic shocks have resulted in a depressed Market Strength Index for 11 consecutive quarters, from Q2 in 2019 to Q4 in 2021.

The upward trend in Demand Strength is likely to assist landlords and property professionals to recover from below inflation escalations that have negatively impacted returns in recent years.

ANNUAL AVERAGE VACANCY RATE AND YEAR-ON-YEAR CHANGE



A	6.53%	6.63%	7.40%	8.74%	10.23%	12.21%	8.26%
B		1.45%	11.65%	18.08%	17.06%	19.39%	

Provincial vacancy rates vary while key regions stabilise

Regional PERSPECTIVES

GAUTENG

Gauteng continues to be home to nearly half of all tenants in South Africa. The province's vacancy rate peaked at 14.66% in Q4 of 2020.

It has recovered well from this high, hovering slightly above the national average vacancy rate of 8.26% at 8.69%. However, a surplus of additional rental housing stock is slowing Gauteng's vacancy rate recovery.

The slower rate of recovery is being exacerbated by the fact that commercial real estate remains under pressure leading to a higher rate of office buildings and complexes being converted into rental housing accommodation.

Encouragingly, negative rental escalations that have been a trend in the province for the past five consecutive quarters are back in positive territory.

WESTERN CAPE

Tenant demand in the Western Cape continues its positive trajectory, reverting back to historically-low levels last seen in 2016 and 2017.

After peaking at 14.38% in Q2 of 2021, the province's vacancy rate reduced from 11.4% in Q4 of 2021 to 2.9% in Q1 of 2022.

Rental escalations have been under pressure in the Western Cape since 2019. Interestingly, the Western Cape was one of the only two provinces that experienced de-escalation for the more than four consecutive quarters from Q3 in 2020 to Q2 2021. However, in Q1 of 2022, rental escalations are back in positive territory at 2.74%.

8.69%

Gauteng vacancies decreased from 14.66% to 8,69%

Western Cape vacancies decreased from 11.4% to 2.91%

2.91%

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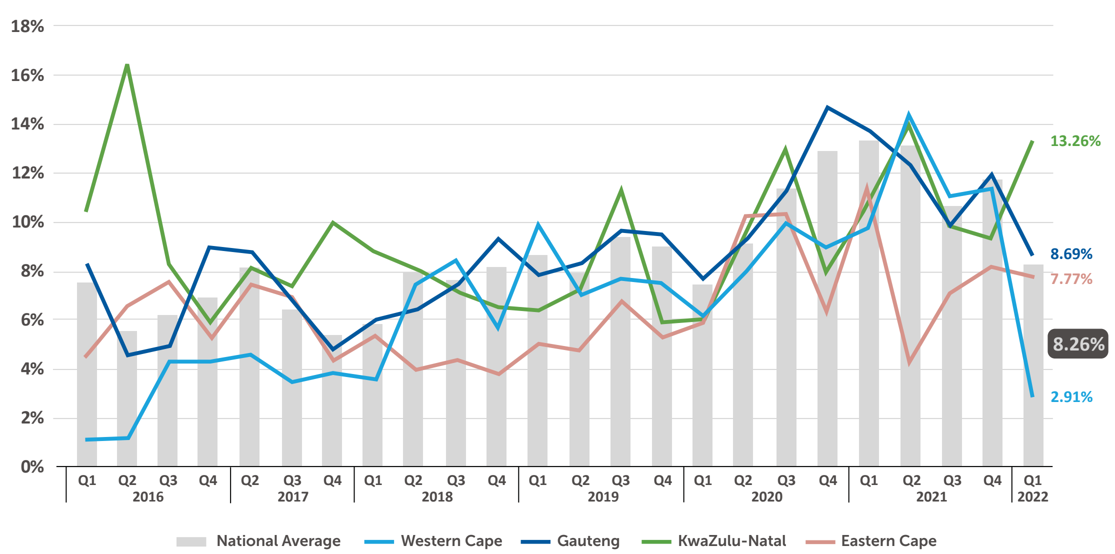
VACANCIES BY PROVINCE



Regional PERSPECTIVES Continued

KwaZulu-Natal vacancies increase at an alarming rate while Eastern Cape remains a star peformer

KWAZULU-NATAL

Despite deminishing percentages of vacant rental properties in other provinces, KwaZulu-Natal varies from the national and provincial trends with a sharp increase in vacancies.

KZN has gone from 9.34% in Q4 of 2021, to 13.26% in Q1 of 2022. Between 2015 and 2021, the province's average vacancy rate was 9.05% compared to a national average of 8.62%.

KZN has faced the added economic complication of business owners leaving the province abruptly after damages suffered in the riots of July 2021.

The knock-on effect of this is reported to be experienced by tenants who are still recovering from sudden job losses and are now faced with a cumulative rise in the cost of living on top of that.

13.26%

KwaZulu-Natal vacancies increased from 9.34% in 2021 Q4 to 13.26% in 2022 Q1.

6.3%

Eastern Cape has maintained the lowest average vacancy rate of all provinces for the past 6 years.

EASTERN CAPE

The Eastern Cape's vacancy rate has remained largely static compared to Q4 in 2021, coming in at 7.77% in Q1 of 2022.

However, over the past six years, the province remained a star performer, maintaining the lowest average vacancy rate of all provinces at 6.3%, which is 2.26% below the national average for the same period. This lower vacancy rate can partially be attributed to a reduction in the number of total households forming part of the formal rental property market which declined from 8% in 2015 to 7% in 2020 according to Stats SA's recent GHS update.

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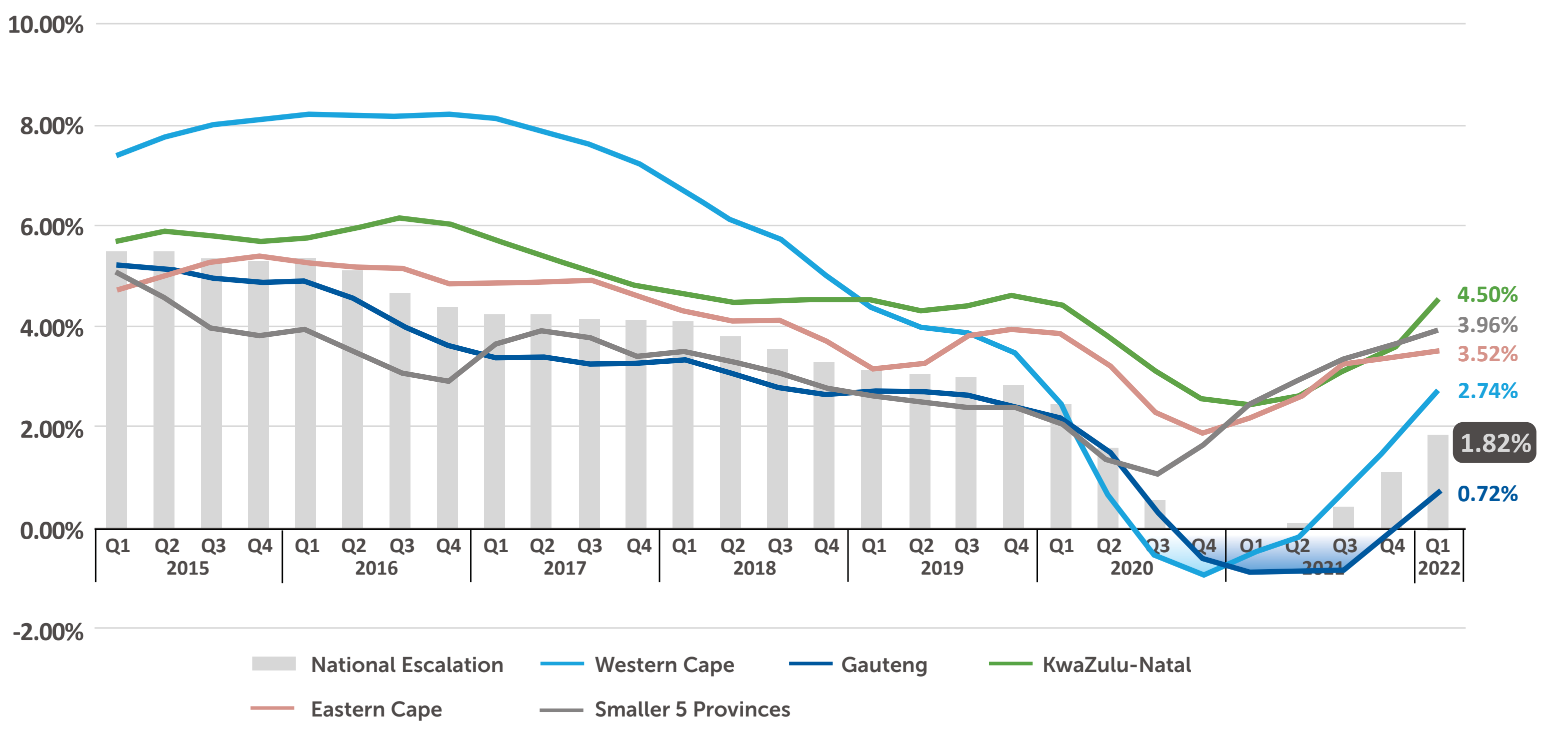
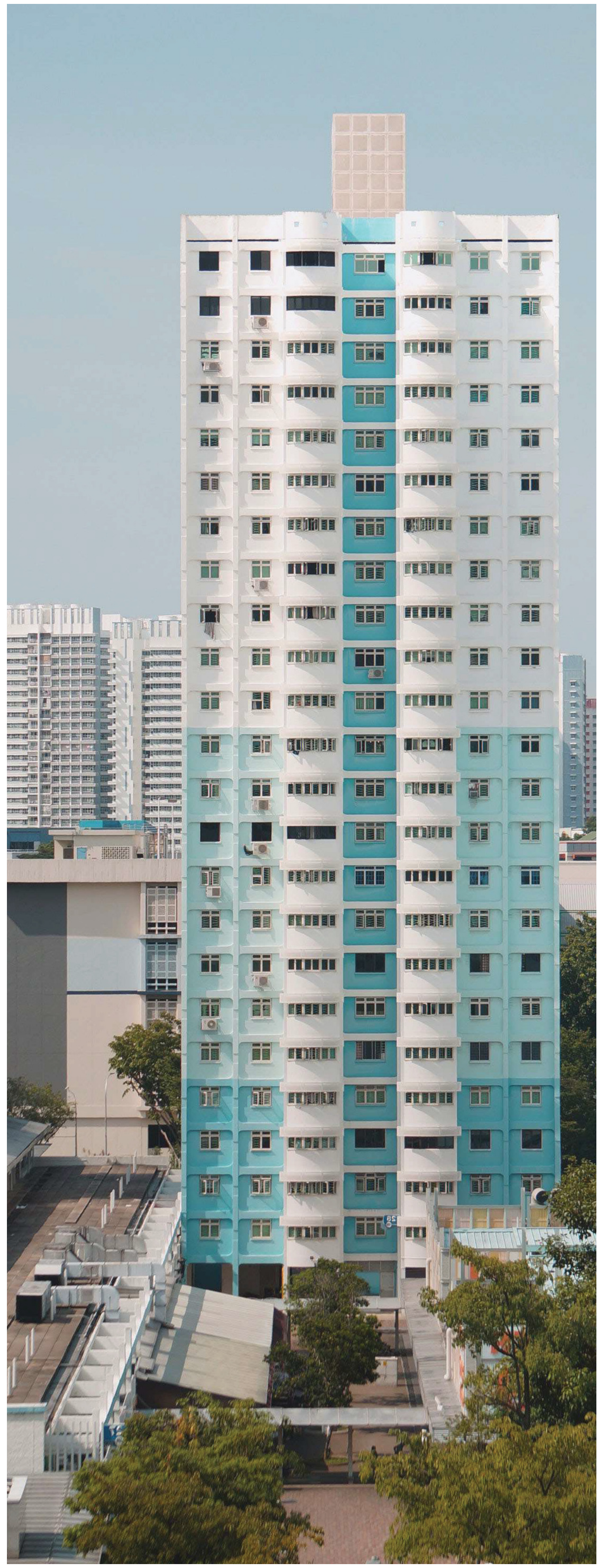
RENTAL ESCALATION BY PROVINCE





Tourism vacancies continue to impact on provincial normalisation

A comparison of residential vacancies with the vacancies in tourist accommodation reveals tourism vacancies in the Western Cape and Gauteng to continue to be higher than the residential vacancy rate in each province.

Prior to the pandemic, short term rentals and tourism kept residential vacancies in the Western Cape low but as tourism declined, so did demand and we saw vacancies increase at a dramatic rate. Gauteng's tourist accommodation continues to be impacted by a slowdown in business travel.

Travel bans imposed on South Africa during the pandemic have had a devastating impact on the tourism sector. The travel ban imposed as a result of the discovery of the Omicron variant in South Africa in Q4 of 2021 further slowed recovery of the tourism accommodation sector, particularly in tourism dominated provinces such as the Western Cape and KwaZulu-Natal.

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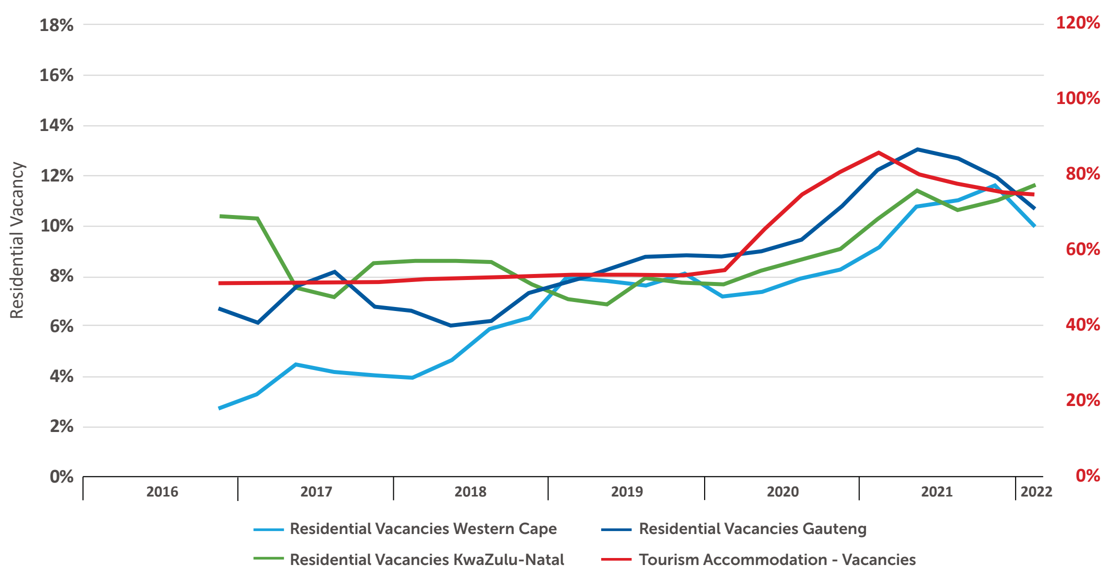
RESIDENTIAL VACANCIES COMPARED TO TOURISM ACCOMMODATION VACANCIES



TPN® **RENTAL PROPERTIES - AS A PERCENTAGE OF TOTAL RENTAL PROPERTIES**

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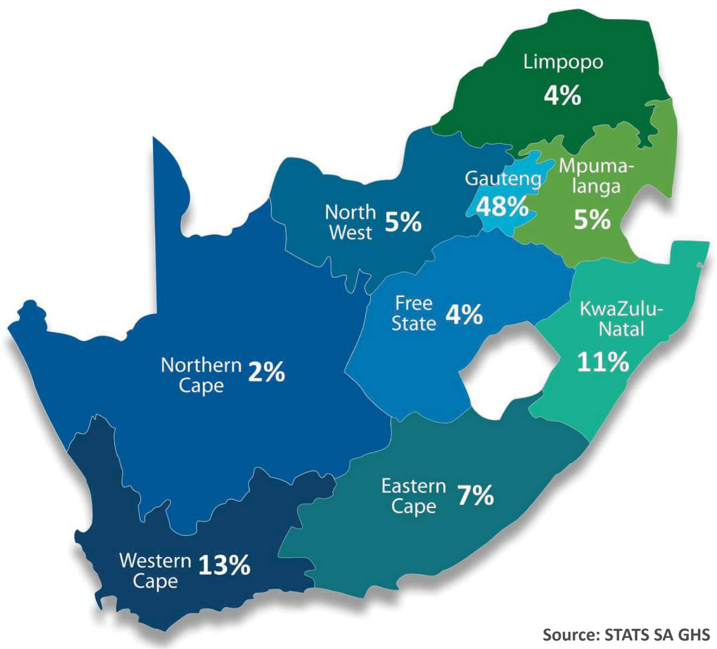

Source: STATS SA GHS

CONCLUSION

Rising costs remain a challenge to landlords' ROI

The good news is that the residential rental market is back in escalation and pointing towards keeping up with inflation.

Consecutive quarters of de-escalation eroded the base which means that above inflation escalations will be needed to make up for the past two years of strained escalations and rapidly increasing property costs such as rates, taxes, maintenance and utilities.

Given the expected continued increases in interest rates, investors relying on borrowings will either have to pass these increases on to tenants or see a further reduction on their return on investment. At the same time, as electricity tariff increases hit together with consecutive fuel price hikes, tenants continue to be price-sensitive and cautious in their economic outlook.

The expectation is that prime, high demand areas will achieve above average rental growth, while other areas of the rental market will see higher levels of vacancies due to either high supply or a lack of demand that is linked to the unusual economic stressors of the times.