2022 Q4

TPN Vacancy Survey

from MRI Software

Waning confidence drives renewed opportunity for residential rentals

Low business confidence filters down to affect economically active consumers

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IN THIS EDITION

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Note:
The TPN Tenant Survey is the largest independent survey of its kind in South Africa which is conducted annually to provide the residential market with key insights into what is important to tenants. This allows the market to make informed decisions and act on emerging market trends.

Business and consumer confidence both affect residential rentals

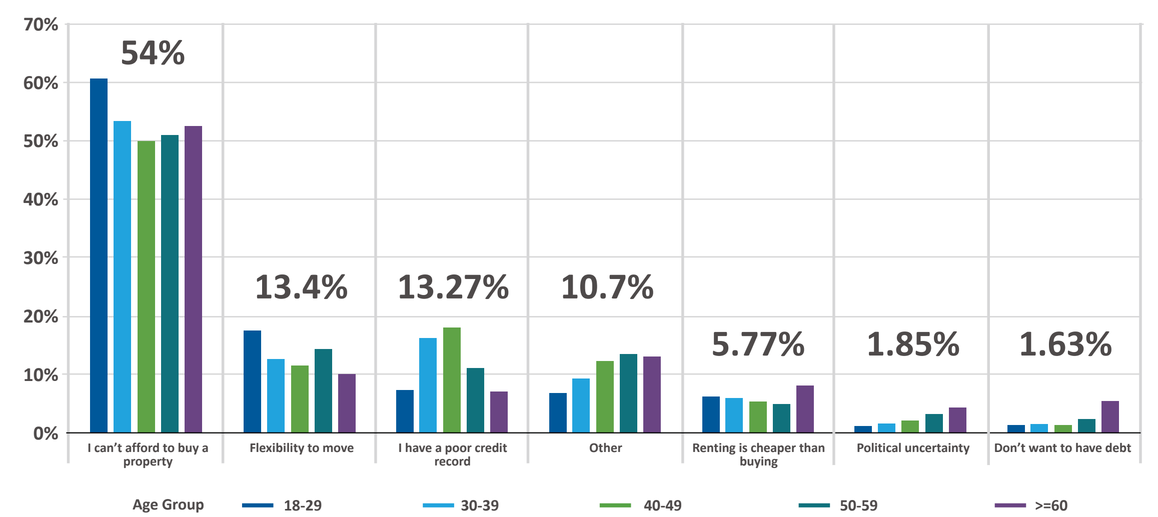
National OVERVIEW

Business confidence plays a critical role in the performance of the residential property sector and when combined with ever-rising interest rates and stagnant salaries, it is inevitable that more and more consumers turn to rental properties than home ownership in uncertain economic times.

In fact, the TPN Tenant Survey conducted in 2022 to provide insight into the rental consumer market indicated that the majority of tenants rent because they simply cannot afford to buy, with 54% rating affordability as the number one reason for not purchasing a property.

The flexibility to move that renting affords is rated as the second biggest reason - 13,4% of tenants list this as the main reason for renting, showing confidence in and an ongoing commitment to the rental market.

WHY ARE CONSUMERS RENTING PROPERTY?



13% of respondents reported the main reason they rent to be their history of poor credit repayment which still haunts them in the form of an impaired credit record today. These high-risk consumers are turning to the rental market for accommodation, transferring the inherent risk from credit institutions to property owners and investors.

While consumers continue to be placed under burgeoning pressure for the foreseeable future, salaries are not keeping up with inflation. With that, rental demand is set to grow but a sensitivity to rental price will continue to play a decisive role in whether a unit is occupied or remains vacant.

Low business confidence filters down to affect economically active consumers

The FNB/BER Consumer Confidence Index rose by 5 points in the third quarter of 2022 to -20 from -25 in the second quarter. It improved further to -8 in the fourth quarter, the highest since lockdown restrictions were eased. Whilst there has been an improvement in consumer sentiment, the impact of loadshedding at extreme levels has not fully been determined. Despite the improvement, the index remains in negative territory for the 14th consecutive quarter, indicating persistently depressed consumer sentiment. Traditionally optimistic and supremely resilient, South Africans have been tending towards lower confidence in the past decade as consumers brace for the knock-on effect of a struggling economy and battle with the daily practicalities of that. Business confidence, on the other hand, has been deteriorating since July 2021. In the fourth quarter of 2022, business confidence fell from 39 to 38, according to the RMB/BER Business Confidence Index with more than 60% of respondents saying they were not satisfied with prevailing business conditions.

This is not expected to improve in the current economic and political environment given the slow pace at which structural economic reforms are being announced and more importantly implemented, the high unemployment rate and a failure to address crime and corruption. Inevitably, low business confidence filters down to affect economically active consumers.

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National Overview | Continued

Vacancies rise but remain improved from the previous year

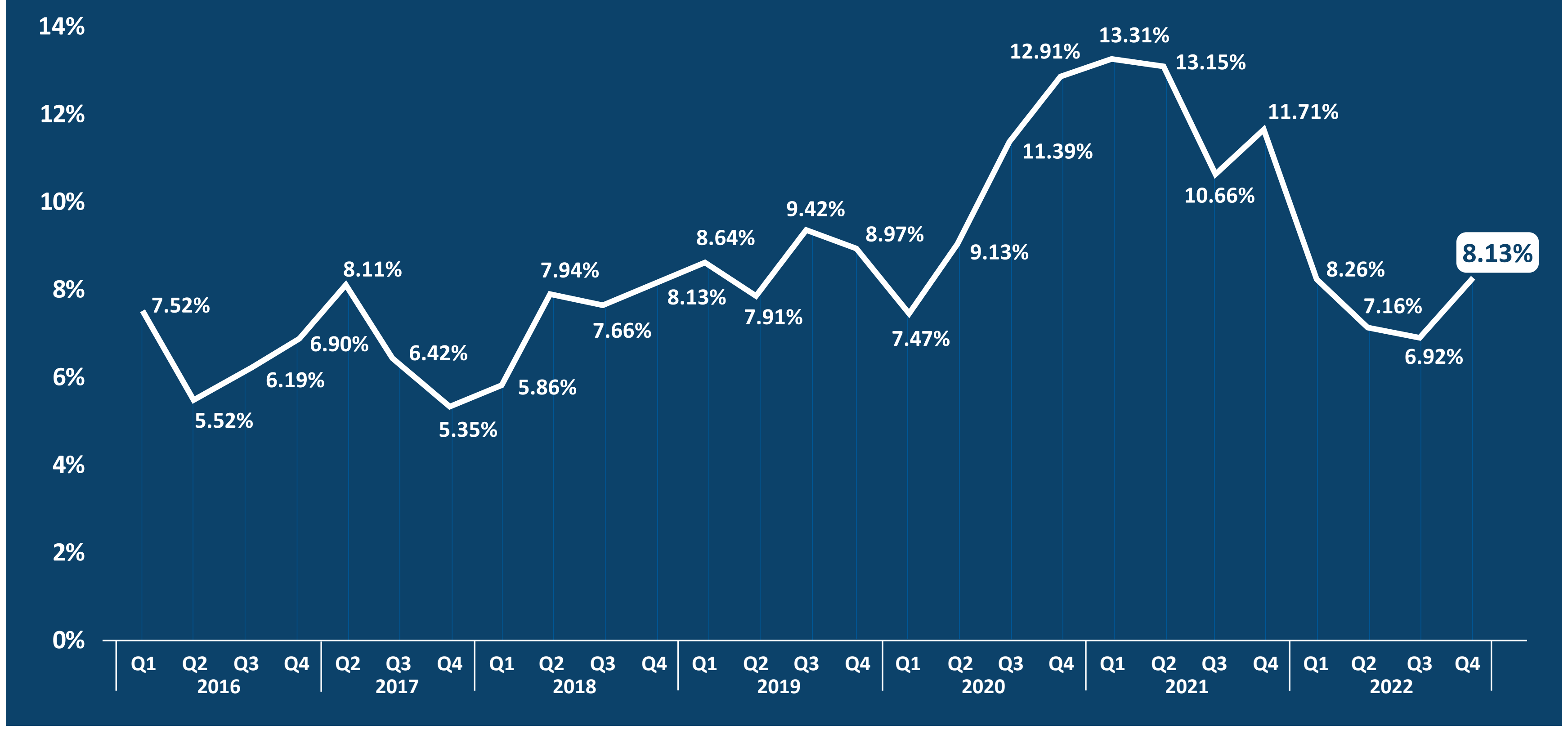
The national vacancy rate - the number of properties standing vacant - dropped down to a low of 6.92% in the third quarter of 2022, rising to 8.13% in the fourth quarter. The increase in vacancies was the result of delayed supply and inventory coming onto the market with the supply rating showing a marginal uptick from 57.53 in the third quarter, to 58.47 in the fourth quarter.

At the same time, the demand rating increased from 67.24 points to 71.38 from the third quarter to the fourth quarter, indicating an overall confidence in the residential rental market's ability to absorb supply and keeping the sector in positive territory with regards to market strength equilibrium.

National Vacancy Rate Year on Year

2021Q4	2022Q4
11.71%	8.13%

VACANCY RATE - NATIONAL



Regional PERSPECTIVES

Vacancy rates by province

Provincially, vacancy rates vary as each province cultivates a unique set of factors that drives its economy and rental market. Semigration, property prices and career opportunities differ vastly from province to province to influence rental occupancy per province.

Gauteng saw an increase in vacancy rates in the last six months of 2022 and ended the year with 10% of properties in the economic hub of the country without tenants. This is well above the national average of 8.13%. Notably, there has been a net outflow of consumers from this province.

Western Cape continued its positive trajectory in the fourth quarter, reflecting its lowest vacancy level since 2016. This is seen in a low supply rating compared to an extremely high demand rating which is expected to accelerate rental escalation. However, as price remains the key consideration for prospective tenants, property owners will have to strike a deliberate balance between occupancy and price. Failing to achieve the right balance could result in a damaging increase in defaulting tenants in the current economic environment.

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Regional PERSPECTIVES Continued

KZN property professionals are confident that the province can absorb its rental stock

KwaZulu-Natal defied traditional market factors and influences which could pose challenges for landlords trying to determine the right rental price in an extremely unpredictable, bordering on erratic, market. The province decreased its vacancy rate, ending the year at a mere 3.26%, well below the national average.

Interestingly, the TPN Market Strength Index showed a demand rating of 72 points while the supply rating improved from 37 points in the third quarter to 57 points in the fourth quarter. Prior to this supply rating improvement, KZN had a slow decline in the perceived supply available in the market. Although the riots in 2021 and floods in 2022 impacted both supply and demand, KwaZulu-Natal property market professionals are confident in the ability of the market to absorb new and newly repaired rental stock. Medium-term provincial performance will provide greater insights into whether this confidence is misplaced, it is specific to certain areas in the province or whether the growing trend of consumers are choosing KZN as a more affordable alternative to Western Cape as a semigration destination.

In the Eastern Cape, vacancies enjoyed a short reprieve in Q3 of 2022 when the vacancy rate dropped from an all-time high in Q2 of 14.29% to 11.51% in Q3 of the same year. The province continued to see the number of vacant properties increase and in Q4 recorded the highest vacancy rate to date at 17.82%. Although the market remains in equilibrium, with demand just above supply, the province continues to grapple with high unemployment, officially at 42.2%. As a result, despite the perceived demand, many consumers are not signing lease agreements as they are unable to afford formal accommodation.

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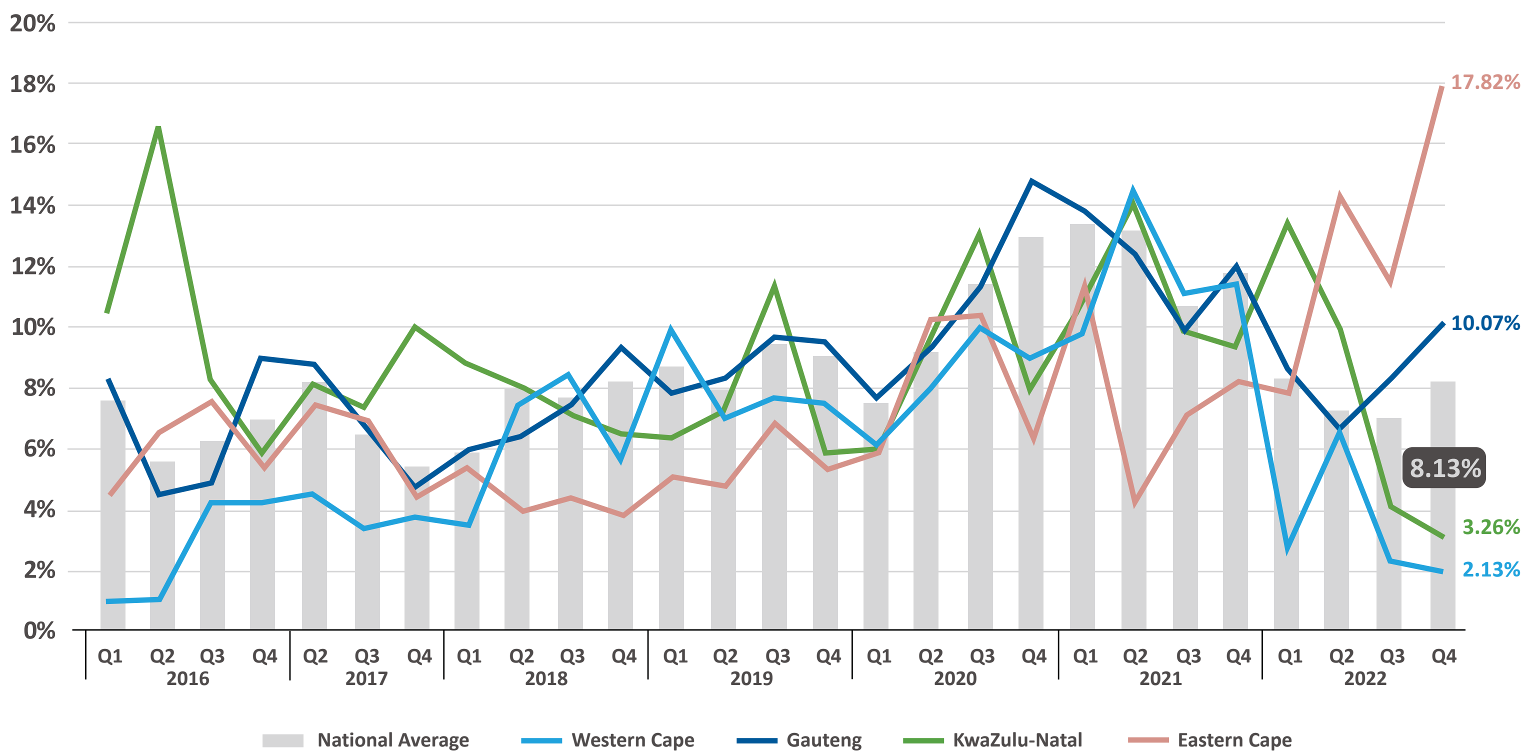
VACANCY RATE - PROVINCE



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VACANCIES
By Value Band

Lower value rental stock struggles with higher vacancies

The lower rental brackets – properties with a rental value of R7 000 or less per month – experienced an increase in vacancies in the last six months of 2022. In contrast, properties with rental values above R7 000 continued to see a decrease in vacancies.

Tenants paying R3 000 or less did not readily commit to leases resulting in a 12.02% vacancy rate in the last quarter of 2022, this was followed by properties priced between R3 000 – R4 500 which experienced a vacancy rate of 9.4%. In the R4 500 – R7 000 bracket, the vacancy rate grew from 7.2% in the third quarter to just under 8% in the fourth quarter.

On the other end of the price spectrum, the R7 000 – R12 000 rental bracket enjoyed the lowest vacancies at a rate of 5%, the lowest rate recorded since the start of the TPN Vacancy Survey in 2016. The R12 000 – R25 000 price bracket reduced vacancies to 5.4%. Overall, the upper-end of the market, classified as above R12 000 or more monthly rental, recorded an aggregated vacancy rate at just under 6%.

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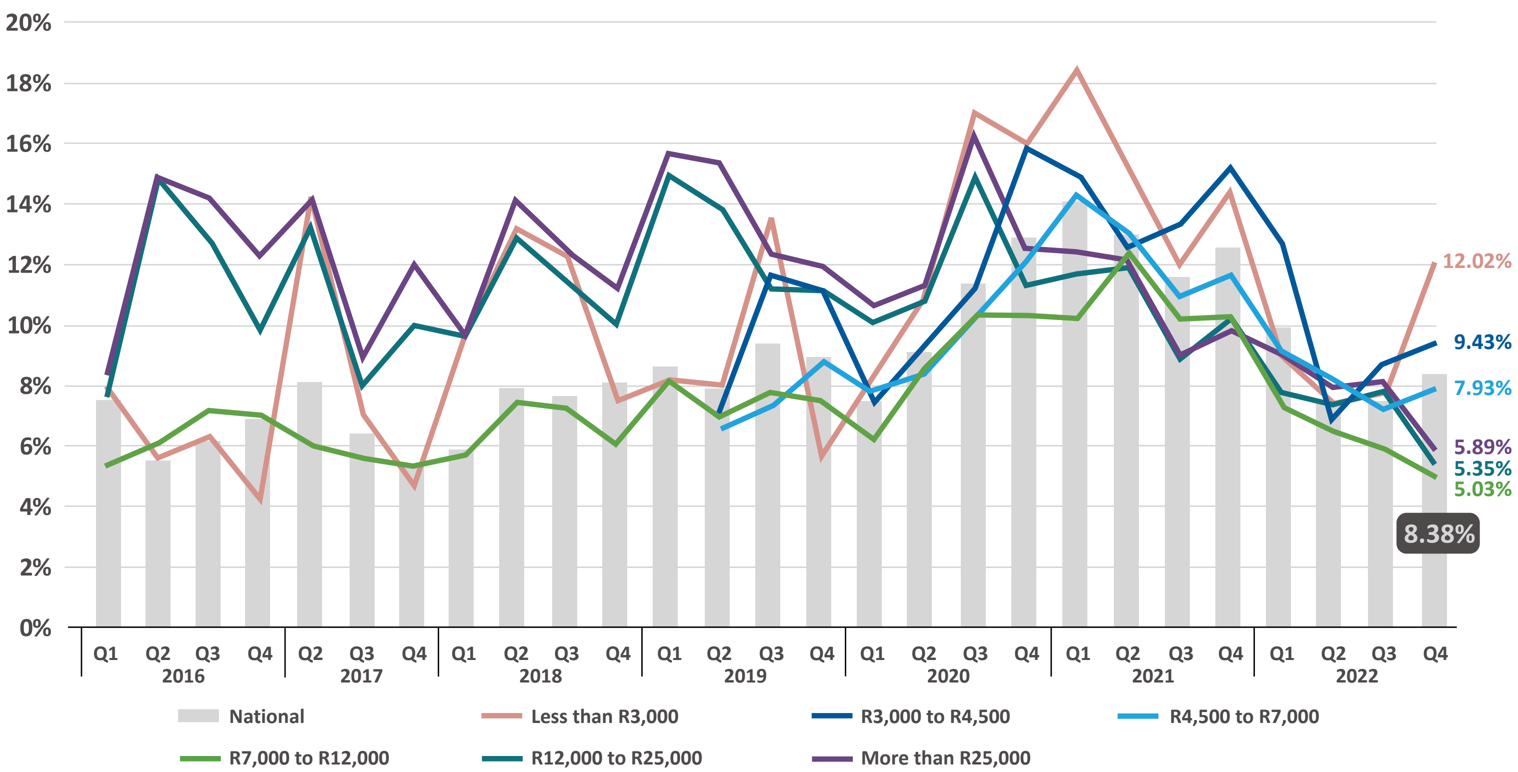
VACANCY RATE - RENTAL VALUE



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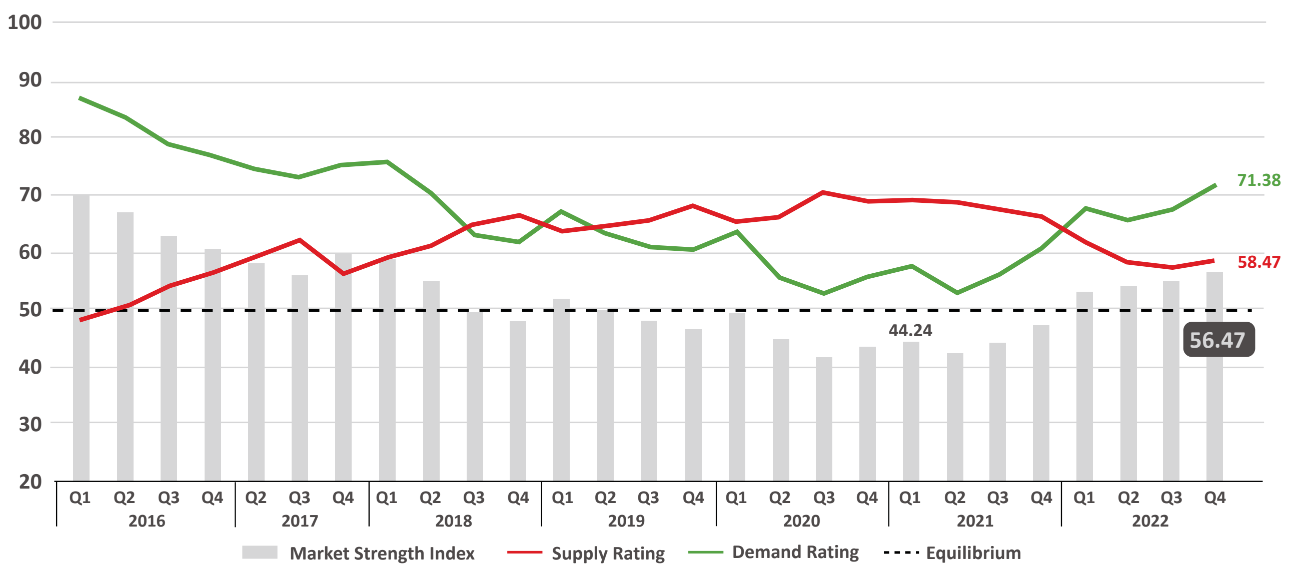
RENTAL MARKET STRENGTH INDEX - NATIONAL



Market Strength Index maintains its positive position

The TPN Market Strength Index, a measure of market supply and demand of residential rental property, continues to remain in positive territory at 56.47. Market equilibrium is achieved at 50 points where demand and supply will be on an equal footing, indicating the potential for escalation and reduced vacancy rates.

The Market Strength Index returned to positive territory in the first quarter of 2022 and remained in equilibrium for the duration of the year. As the renewed and concentrated activity of investors and developers began to spring to life and rental stock entered the market in the latter half of 2022, a strengthening in the supply rating has emerged.

Supply strength is determined by how property professionals perceive the availability of stock in the current market. While demand strength represents the overall perception of the same property professionals on the need perceived for rental stock in the market.

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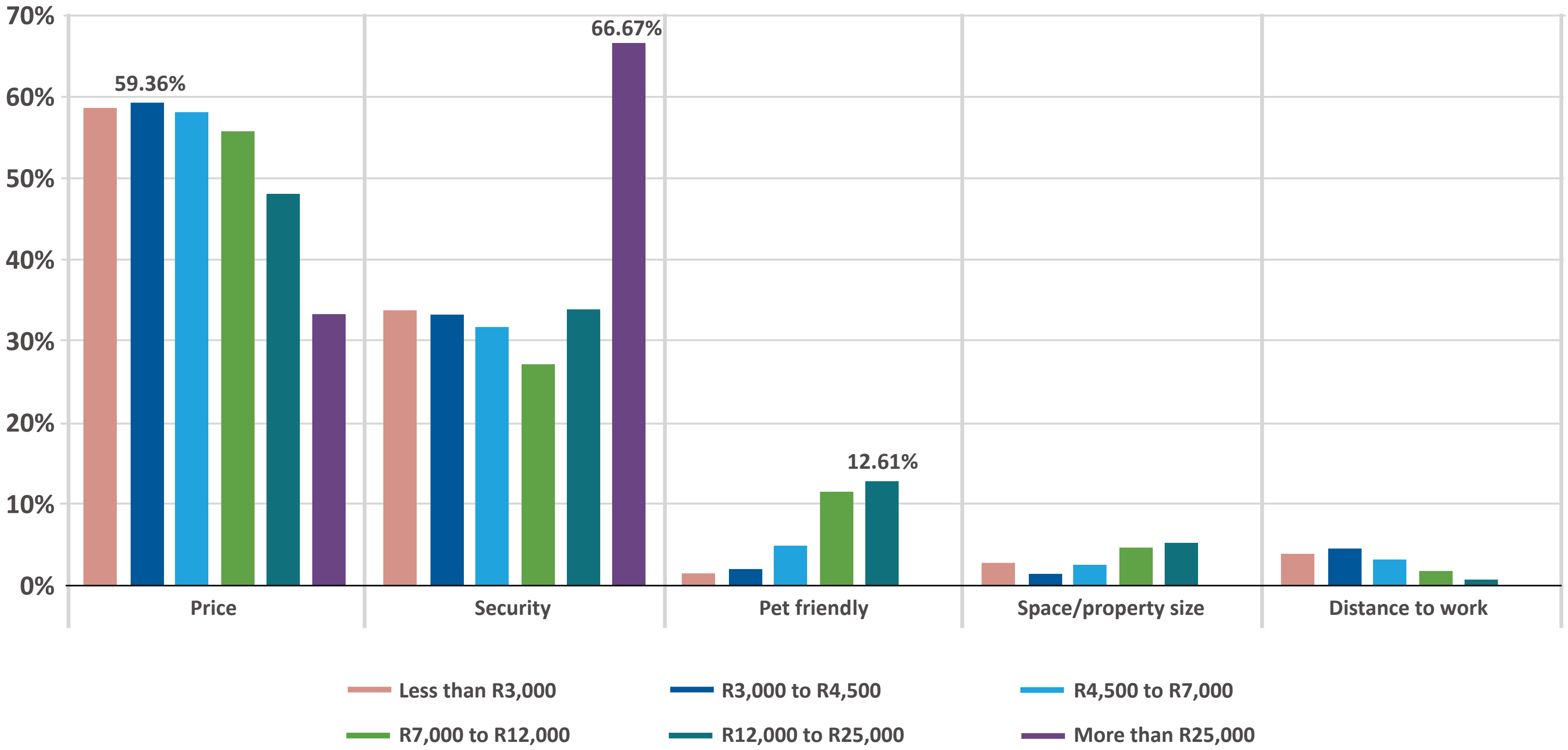
PRIMARY FACTOR THAT TENANTS CONSIDER WHEN LOOKING FOR A RENTAL PROPERTY, BY RENTAL VALUE



Price is paramount

TPN's annual Tenant Survey asked tenants what factors they consider when looking for a rental home in the current market. By far the number one consideration reported was price (57%) followed by security (37%). From there, tenants ranked a pet friendly property, the size of the property and distance from work in descending order of importance to them.

The Tenant Survey data clearly indicated that as the rental increases, the price of the rental property becomes less important to tenants. At the same time, the higher the rental bracket, the more important security and a pet friendly home becomes.

In the luxury rental band - above R25 000 a month - security ranked as the number one tenant consideration with two-thirds of this affluent market choosing security as their primary concern.

Early Risk Notification:
Current and historic performance coupled with lack of infrastructure development and maintenance is indicating a lack of secure and reliable water supply. Property investors should consider how to solve a highly probable water supply crisis especially for high density urbanised, sectional title properties.

Rental demand is expected to grow

CONCLUSION

When deciding whether to rent or buy, low business and consumer confidence, the steep gradient interest rate hikes experienced and loadshedding means that the potential buyer has turned to the rental market.

As a result, rental demand is expected to grow but only if landlords remain sensitive to rental market particularly price and risk.

Rental stock with lower price points is pulling national vacancies up, illustrating and highlighting a widening gap between income groups and areas.

Prime properties are likely to remain in demand although at the lower end of the market, the increased cost of living will continue to weigh on the rental consumer with higher vacancy levels expected.

For landlords looking to fill current vacancies, investing in alternative energy source as a way for tenants to assimilate the rampant cost of electricity will elevate property above the average rental stock in an area.

The most utilised residential lease agreements in South Africa

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