2023Q1

TPN VacancySurvey
from MRI Software

Residential vacancies down as consumers prefer predictability

Demand increases as households struggle to stay afloat

IN THIS EDITION

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Previously strong preferences for ownership have shifted to increased demand for rental properties

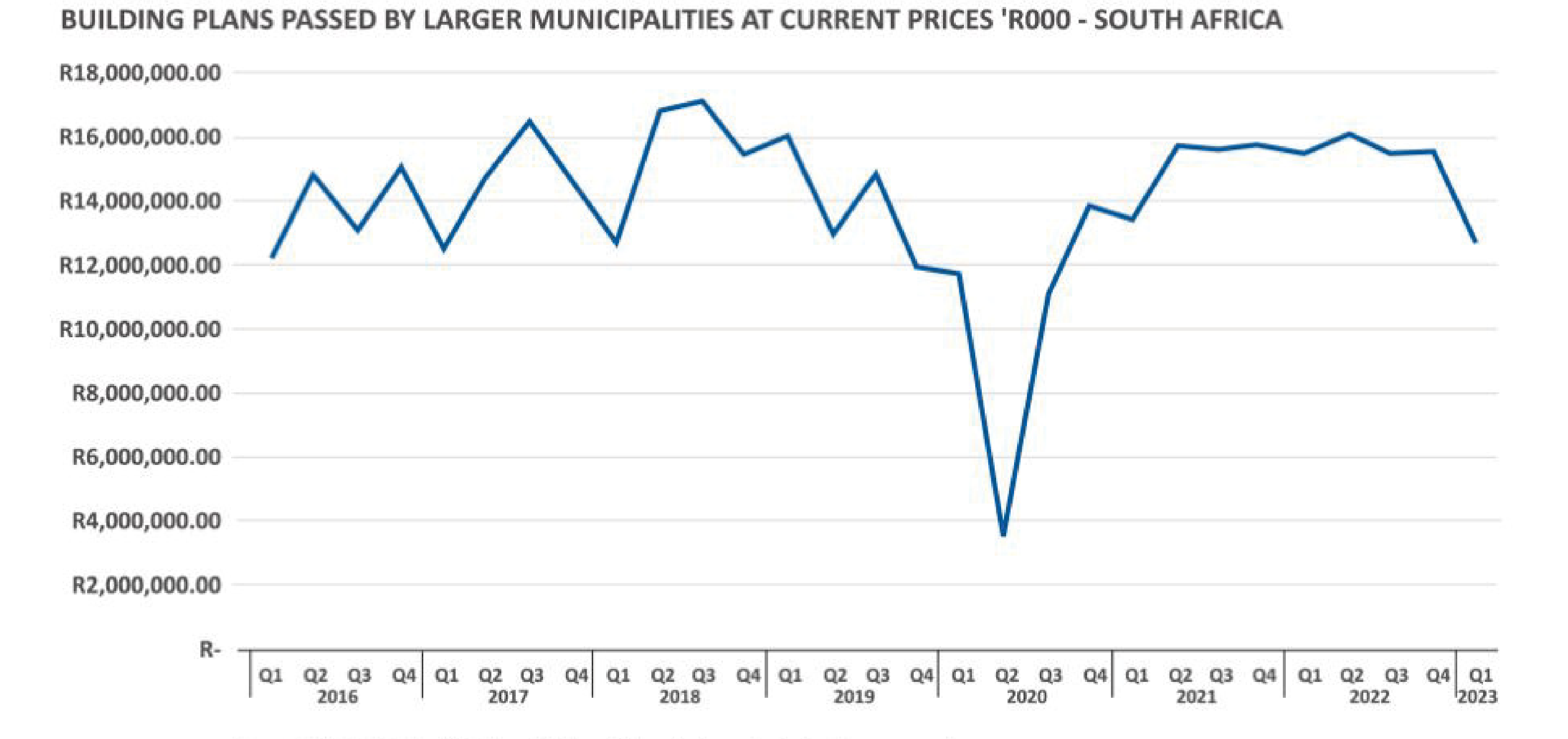
National OVERVIEW

Given rampant inflation, the imminent likelihood of another interest rate hike, and the cost of mitigating the effects of load shedding - the latter which is potentially the most taxing of all - and it's clear that consumers are buckling under increased financial pressure. Added to that, stagnant economic growth has resulted in fewer jobs. This in turn means households will have to navigate income constraints for the foreseeable future and prefer predictability over previously certain investment potentials in the residential property market.

In the first quarter of 2023, unemployment increased 0.2% to 32.9% compared to the fourth quarter of 2022 (Stats SA 2023 Q1 QLFS). The number of those unemployed in the first quarter was 7.9 million, further solidifying South Africa's unemployment rate amongst the highest globally. Considering the various intensifying shocks suffered by the economy, including persistently high levels of load shedding, this is not surprising. The biggest job losses were recorded in private households, reflecting just how constrained household budgets have become.

The overall number of employed individuals increased by 258 000 people in the first quarter of 2023, taking the total number to 16.2 million, while the number of discouraged workers decreased by 87 000. An additional 209 000 previously Not Economically Active individuals sought employment in the first quarter. The combination of the increase in employed, unemployed and the additional movement from previously Economically Active resulted in the increased number of unemployed.

Property purchases are slowing down due to high interest rates and poor consumer confidence. In addition, there has been a drop in the number of new building plans being submitted for approval to the larger municipalities. An uncertain economic and political landscape, coupled with severe financial constraints, means that owning new residential property is not a priority. In fact, the previously strong demand for property ownership shifted to increased demand for residential rental properties.



Source Stats SA: Selected building statistics of the private sector by local government.
March 2023 estimated by applying 6-year average (actual data not available from source at publication of this report).

Nationally the number of vacant units declined, while escalations rose as demand for rental properties continued to improve

National OVERVIEW Continued

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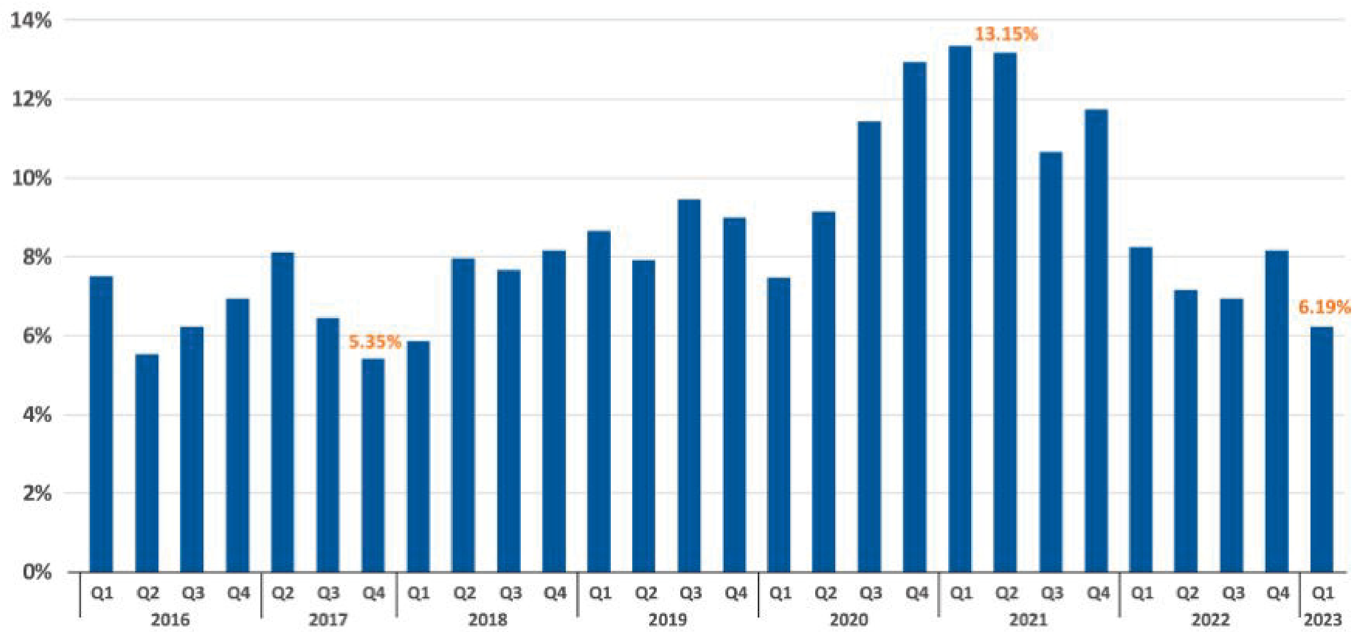
TPN NATIONAL VACANCY RATE



The residential rental market continues to see positive signs of growth with vacancies dropping to 6.19%, levels last seen in 2017 when vacancies were slightly under the 6% mark. Overall, vacancies decreased 37.61% between 2021 and 2022 (noting a market adjustment post the hard lock-down in 2020). This trend is expected to continue in 2023, but at a slower pace.

The annual average vacancy rate is declining as consumers opt for more predictable accommodation expenditure. The cost of renting with set escalations, limitations in terms of repair and maintenance costs and protection against interest rate fluctuations, provides some sense of predictability. Interest rate increases, for example, are variable costs carried by the property owner in exchange for improved rental returns in the form of escalations.

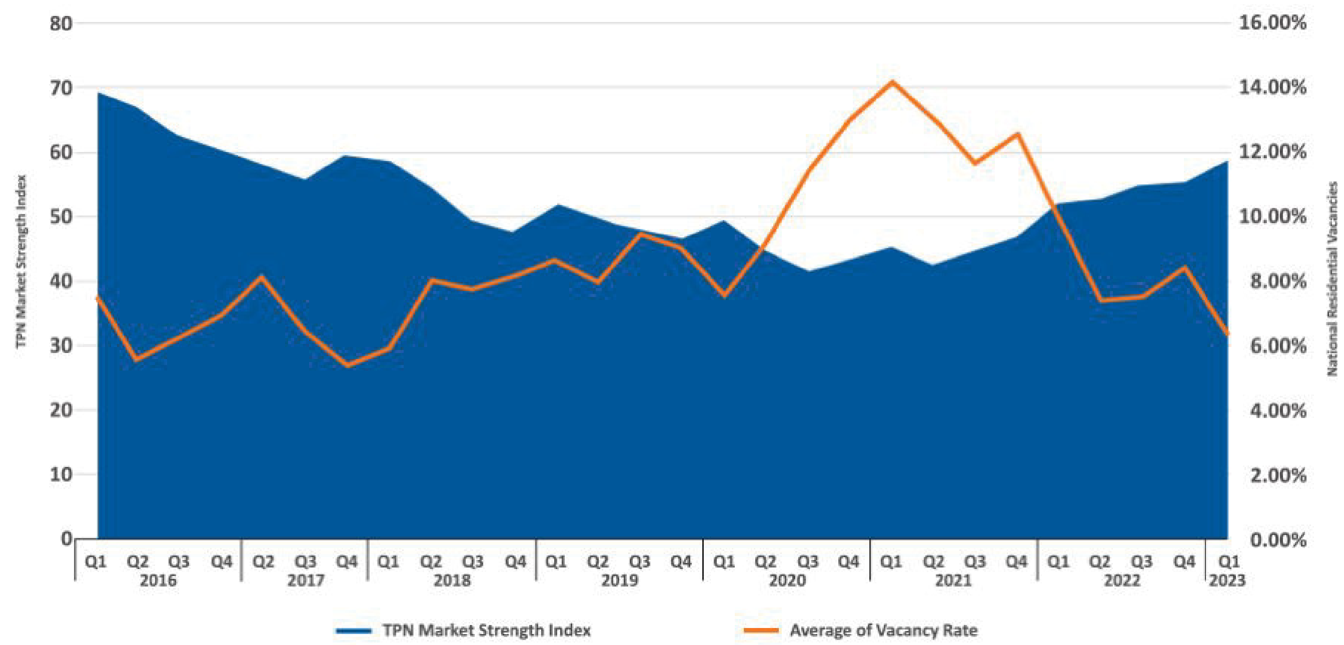
Across the country, the number of residential units standing vacant has declined while rental escalations rise as demand for rental properties continues to improve.

POSSIBLE HIGHER RISK OF DELINQUENCY

Overall, the TPN Rental Market Strength Index improved 2.68 points in the first quarter of 2023 compared to the fourth quarter of 2022. This means that demand outweighs the current supply and with the immediate outlook of additional supply not entering the market, average annual vacancies should remain below the 6% to 7% mark.

However, the risk for property owners has increased as far as rental collections are concerned as consumers battle with juggling the increased cost of living and stagnant income growth. Landlords are cautioned against imposing aggressive rental hikes and need to be aware of the potential rise in the risk of delinquent tenants. The residential rental market demand rating was 75 points in the first quarter, with the perceived supply dropping to 56.8 points, down from a high of 70 in the third quarter of 2020.

TPN RESIDENTIAL RENTAL MARKET STRENGTH INDEX vs NATIONAL VACANCIES



Although improved demand for rental accommodation is driving vacancies down currently, if unemployment remains stubbornly high, the economic climate negatively impacts mid to lower income earners and consumers remain in financial distress, this demand is likely to slow down as inflation and interest rates absorb the little disposable income that is available to households.

Regional PERSPECTIVES

Coastal provinces continue to see higher demand for rental properties

GAUTENG

Demand and supply strength differ in each province. Gauteng is struggling with a market strength of 50.05, compared to KwaZulu-Natal and the Western Cape which is in a much stronger position. Although the perceived demand in Gauteng remains high, the number of units available is also high. However, considering that the number of new building plans approved this year is much lower compared to previous years, market strength and demand has improved slightly.

KWAZULU-NATAL

KwaZulu-Natal, while still showing erratic demand and supply behaviour, remains well above the equilibrium mark of 66 points. Perceived supply in the province has dropped while demand has increased. Despite its healthy rental market strength, vacancies have increased to above 10% which could slow rental growth.

EASTERN CAPE

Eastern Cape experienced growth in the value of new building plans approved in 2021 and 2022 compared to previous years which resulted in an improved supply rating for 2021 and 2022. However, in the first quarter of 2023, the improvement in the supply rating has slowed. The province maintains a high demand rating of 77.78 points, up from 73.77 in the previous quarter. Vacancies decreased from a record high at the end of last year to 10.32%. One in 10 properties in this province remains vacant.

WESTERN CAPE

For the third consecutive quarter, the Western Cape maintains the lowest vacancy rate at 1.66% as the province responds to continued high demand. According to Stats SA, the province had the highest value of new building plans approved. Given continued strong demand and a lack of supply, investors will continue investing in this province to meet demand. However, this investment will come at a cost to the tenant with escalations expected to accelerate, placing the lower rental bracket and income households under pressure to meet expectations.

OTHER PROVINCES

The smaller five provinces have all maintained a very high demand rating in the past three quarters. A perceived lack of supply has ensured a healthy TPN Market Strength Index at 62 points. Despite strong demand, many consumers in these provinces cannot afford to enter the formal rental market.

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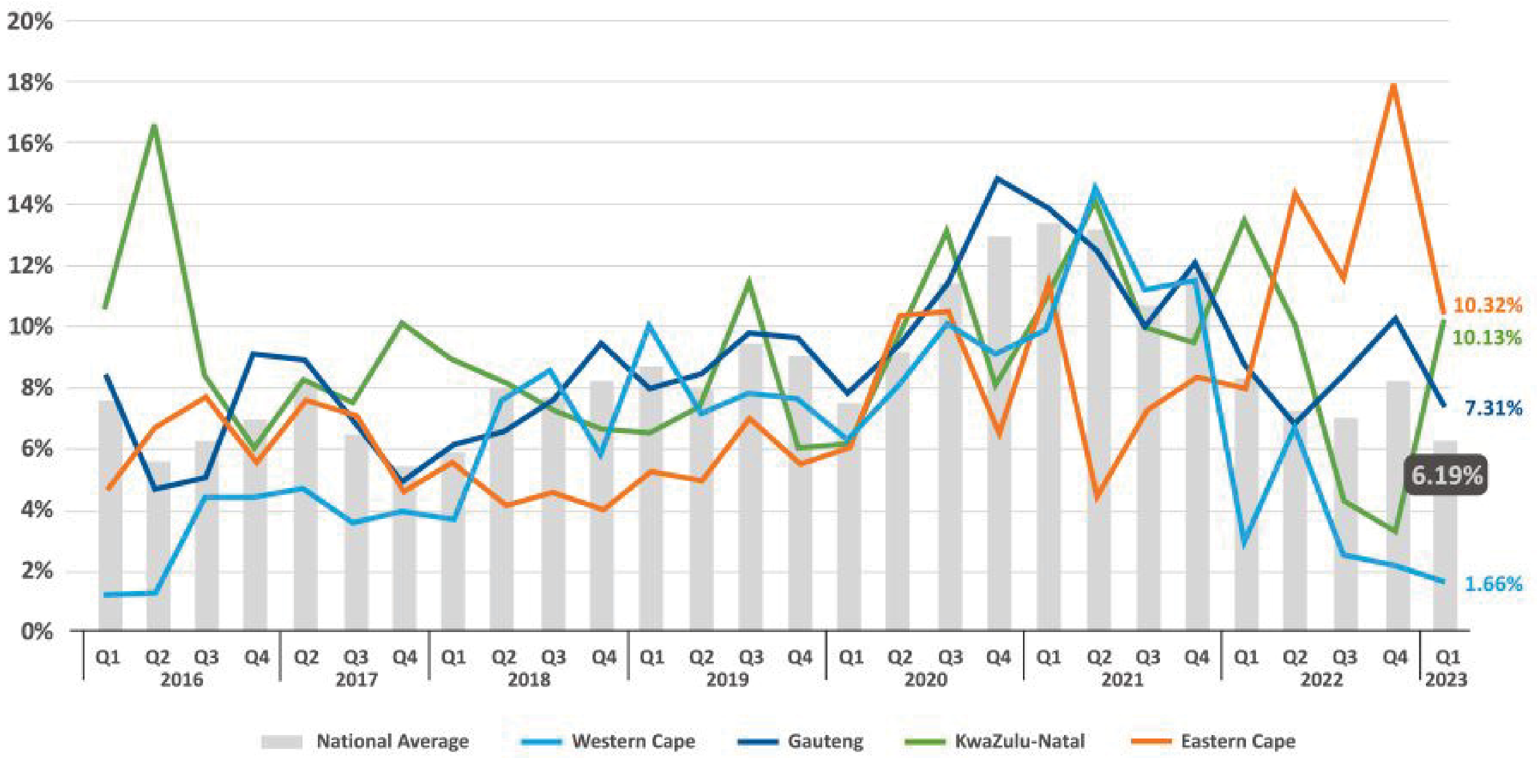
RESIDENTIAL VACANCY RATE BY PROVINCE



Coastal provinces are seeing stronger demand with the Western Cape leading the market with the highest Market Strength Index.

VACANCIES
By Rental Value

Rental properties priced between R7 000 and R12 000 per month have the lowest vacancies

Vacancy Rates: By Rental Value Band

Period		National	Less than R3.000	R3.000 to R4.500	R3.000 to R7.000	R4.500 to R7.000	R7.000 to R12.000	R12.000 to R25.000	More than R12.000
2020	Q1	7.47%	8.33%	7.43%	7.55%	7.78%	6.23%	10.07%	10.65%
	Q2	9.13%	10.89%	9.38%	8.83%	8.37%	8.59%	10.77%	11.32%
	Q3	11.39%	17.01%	11.20%	11.02%	10.31%	10.34%	14.91%	16.30%
	Q4	12.91%	16.02%	15.86%	13.30%	12.14%	10.32%	11.30%	12.55%
2021	Q1	14.08%	18.45%	14.93%	14.52%	14.35%	10.23%	11.71%	12.42%
	Q2	12.97%	15.19%	12.60%	13.00%	13.04%	12.39%	11.93%	12.20%
	Q3	11.57%	12.00%	13.32%	12.06%	10.98%	10.19%	8.84%	9.02%
	Q4	12.57%	14.42%	15.19%	13.34%	11.67%	10.26%	10.23%	9.86%
2022	Q1	9.88%	9.04%	12.80%	10.73%	9.17%	7.32%	7.77%	9.12%
	Q2	7.35%	7.44%	6.91%	7.61%	8.23%	6.51%	7.39%	7.96%
	Q3	7.46%	7.74%	8.68%	7.84%	7.21%	5.94%	7.83%	8.17%
	Q4	8.72%	12.02%	9.43%	8.44%	7.93%	5.03%	5.35%	5.89%
2023	Q1	6.19%	6.73%	6.87%	6.54%	6.23%	5.07%	7.16%	7.84%

Best Worst

The vacancy rates for most rental brackets are very similar. The rental bracket with the lowest vacancies is properties priced between R7 000 and R12 000 per month with a vacancy rate of 5.07%. This is followed by properties in the R3 000 to R7 000 price category which has a vacancy rate of 6.54%. The lower sub-section of the market (rentals between R3 000 and R4 500) is seeing slightly higher vacancies with a 0.11% difference. Rental stock with rentals above R12 000 has a vacancy rate of just under 8%.

Vacancy Rates: Year on Year

Period		National Vacancy Rate
2016	Q1	7,52%
	Q2	5,52%
	Q3	6,19%
	Q4	6,90%
2017	Q2	8,11%
	Q3	6,42%
	Q4	5,35%
2018	Q1	5,86%
	Q2	7,94%
	Q3	7,66%
	Q4	8,13%
2019	Q1	8,64%
	Q2	7,91%
	Q3	9,42%
	Q4	8,97%
2020	Q1	7,47%
	Q2	9,13%
	Q3	11,39%
	Q4	12,91%
2021	Q1	14,08%
	Q2	12,97%
	Q3	11,57%
	Q4	12,57%
2022	Q1	9,88%
	Q2	7,35%
	Q3	7,46%
	Q4	8,13%
2023	Q1	6,19%

Best Worst

Overall, it appears that most rental brackets have recovered to pre-pandemic vacancy levels, and fewer units are standing vacant than prior to the pandemic lockdown.

CONCLUSION

Meeting tenants' needs for predictablity can help attract and keep quality tenants

A deepening energy crisis, a weakening Rand, and inflation outside of the South African Reserve Bank's target range of 3-6% in the second quarter of 2023 make further interest rate hikes highly likely. Demand for residential rental property is expected to remain high as consumers choose rental accommodation as opposed to buying. As consumer spending remains constrained, landlords who implement aggressive price hikes could experience more delinquent tenants. Meeting tenants' need for predictability will help to attract and retain quality tenants. Landlords who provide a small UPS to keep the internet on during power cuts, inverters or solar energy will position their properties more competitively. It is particularly important in this environment that landlords vet every applicant thoroughly for affordability and fraud prevention. In addition, they should keep communication channels open in the event that a tenant's situation changes given these unpredictable economic and political times.

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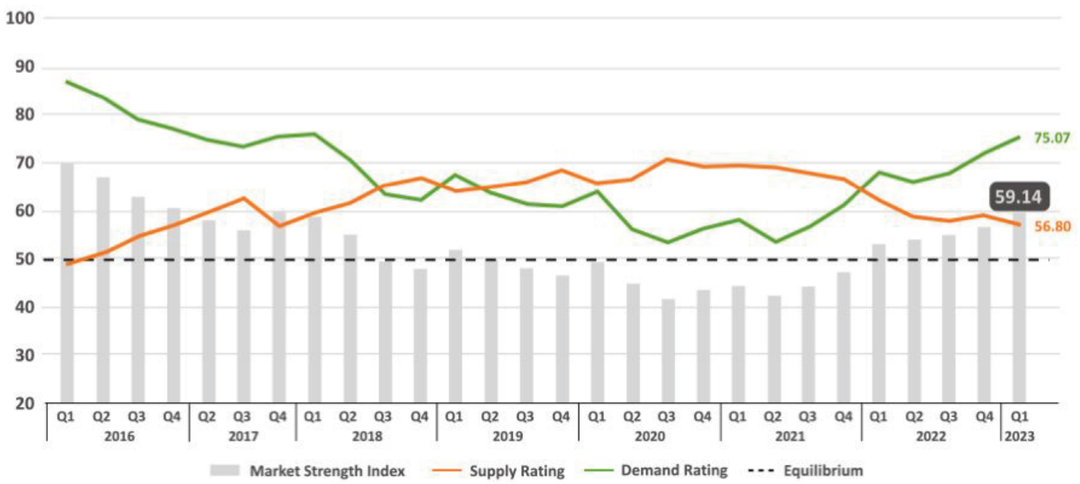
RESIDENTIAL MARKET STRENGTH INDEX - NATIONAL



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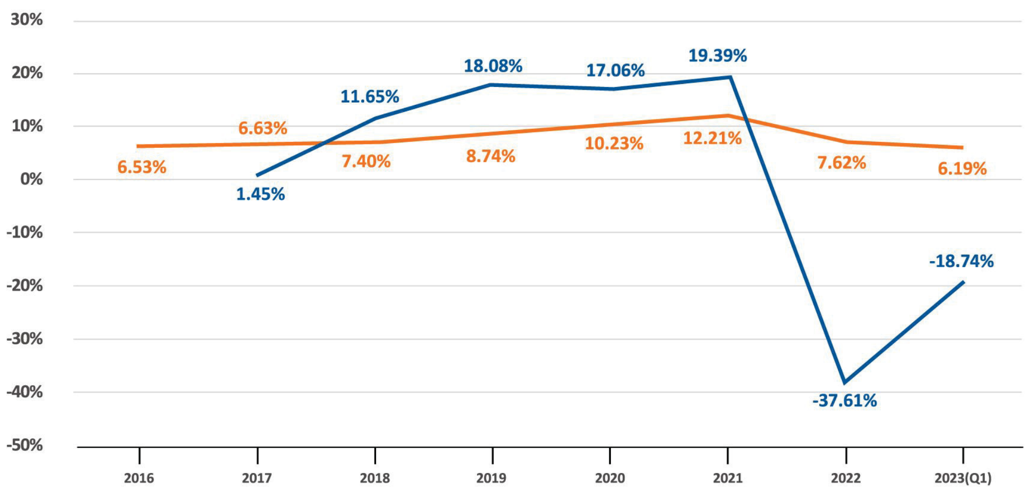
AVERAGE RESIDENTIAL VACANCY RATE CHANGE YEAR-ON-YEAR



	2016	2017	2018	2019	2020	2021	2022	2023(Q1)
Average per Year	6.53%	6.63%	7.40%	8.74%	10.23%	12.21%	7.62%	6.19%
Year on Year Change		1.45%	11.65%	18.08%	17.06%	19.39%	-37.61%	-18.74%

Average per Year — Year on Year Change

The residential rental market has seen year-on-year growth in the number of units standing vacant since 2017, even when considering a correction for the pandemic's impact. This has changed in the past two years. Further decreases can be expected as demand remains strong and new stock is slow to enter the market.