TPN VacancySurveyReport

2023 Q3

Buoyant demand for **residential rental property** means a **national decline in vacancies**

TPN from MRI Software

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Buoyant demand for residential rental property means a national decline in vacancies

TPN Credit Bureau's Vacancy Survey Report for the third quarter of 2023 reveals that demand for residential rental properties remains strong with national vacancies declining to 6.76% in the third quarter, the lowest for the quarter since 2017.

Despite a constrained economy, tenants have been meeting their rental obligations, according to the recently published TPN Residential Rental Monitor. The monitor revealed that tenants in good standing improved overall in the third quarter with relatively healthy escalations being enjoyed by investors and property practitioners. We expect this positive sentiment to improve even further as we head into the festive season given the trajectory evident in the most recent key economic indicators. Residential rental vacancies are primarily influenced by demand and supply which has leaned more towards higher demand and slower supply.

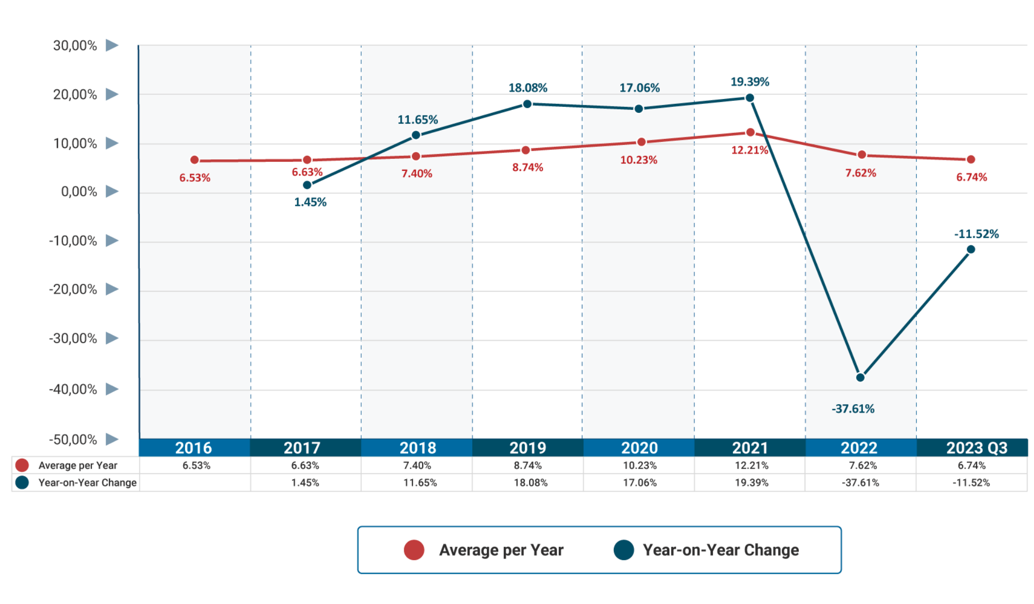
Demand remains strong as evidenced by the TPN Rental Market Strength Index, which was at 57.15 points in the third quarter, marginally down from the second quarter's 57.3. The slight decline from the previous quarter was due to a small drop in the overall demand rating. However, while perceived demand has deteriorated slightly, the supply rate has improved slightly from 57.37 points to 57.54 points. In short, what this means is that there is slightly more residential supply, but demand is still higher than what is available.

The residential rental market is in equilibrium when demand and supply are equal at 50 points. A healthy rental market strength index offers property investors the space to grow their rental while enjoying lower vacancies.

Employment figures improved in the third quarter with almost 400 000 more people employed compared to the second quarter, according to Statistics South Africa's latest Quarterly Labour Force Survey. South Africa's employment numbers are now at the same levels as prior to the pandemic, although they remain stubbornly high as a percentage of the total population. According to the expanded definition of unemployment — this figure includes people without a job, willing and able to work, but not actively searching for a job — 11.7 million South Africans are unemployed.

Youth unemployment remains the biggest challenge with those aged between 25 to 34 still struggling to find work. A total of 38.3% of the youth are unemployed. This impacts the residential rental market negatively as these individuals normally enter the lower rental value band bracket as they start their career journeys. Without employment, many either remain in their family households or enter the informal rental market.

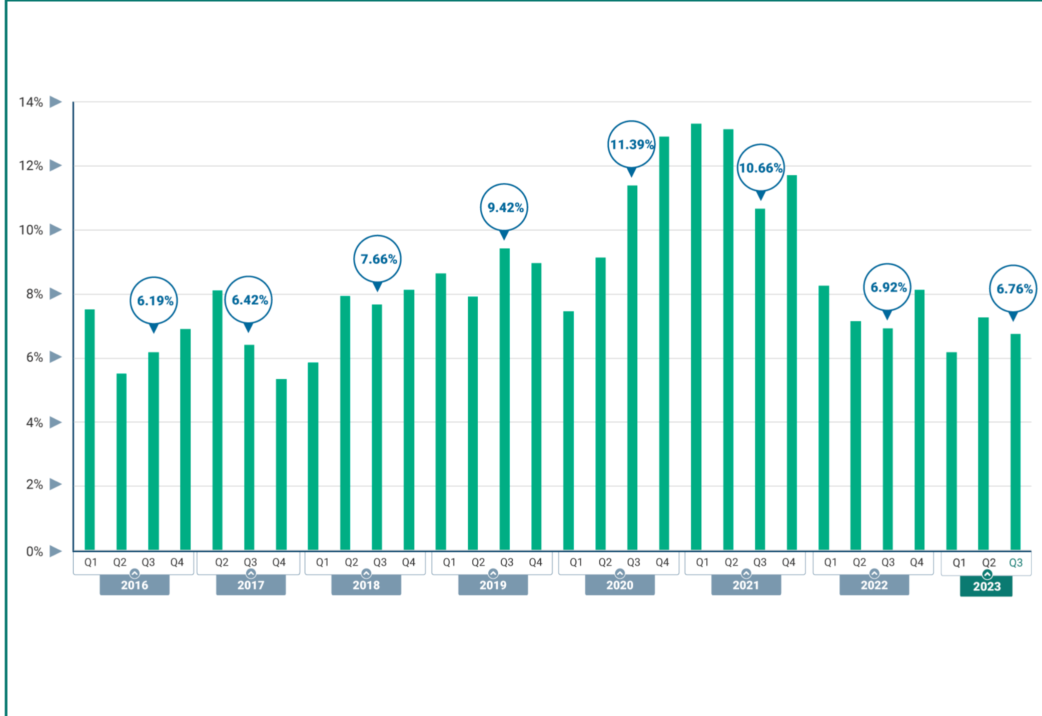
Average Vacancy Rate Change per Year



High interest rates have dissuaded many people from purchasing homes due to the high cost of debt which has benefitted the rental market. Investors are feeling the impact on their cash flow and it is therefore important to ensure a rental unit is not vacant. The South African Reserve Bank's inflation outlook is that inflation will remain towards the higher part of their target range, which makes it unlikely that interest rates will come down in the early part of 2024, leaving the rental market as a viable alternative for more affordable housing.

The average vacancy level in the first three quarters of 2023 is 6.74%, which remains below 2022's average of 7.62%. Year-on-year, overall vacancies have decreased 11.52%. However, as we have seen in the past, higher vacancies are usually reported in the fourth quarter which means 2023 could end with a slightly higher annual vacancy level. Even if it goes higher, it should remain below the 2018 annual average vacancy rate.

National Residential Vacancy Rate



Vacancies by rental value band

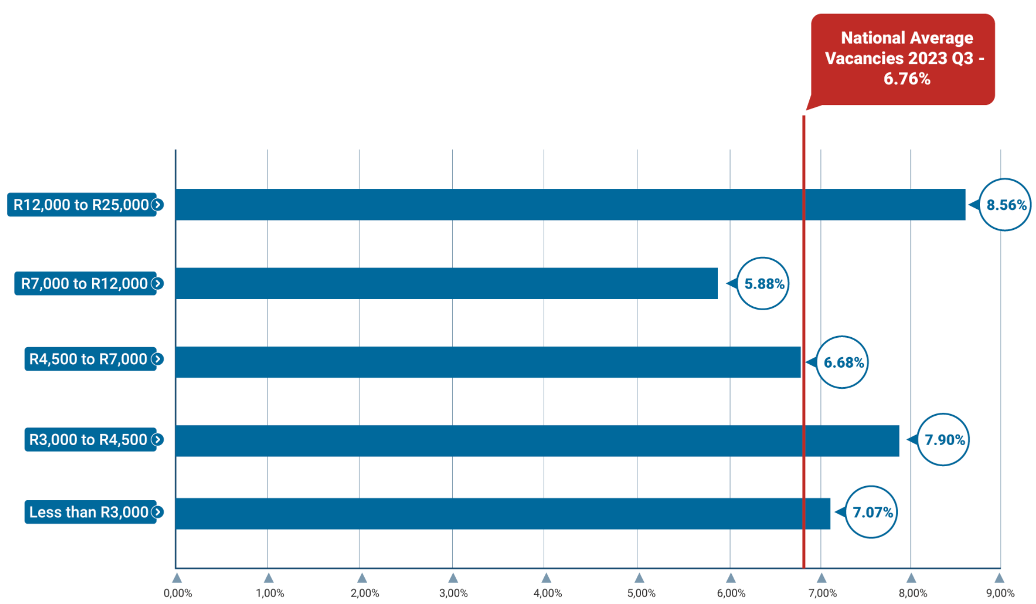
Rental units with a rental of R3 000 or less a month have seen a sharp decrease in vacancies between the second and third quarters. Vacancies of almost 14% in the second quarter improved to 7.07% in the third quarter. We've seen this trend in the past with a spike in at least one quarter in a calendar year, but which then recovers well but remains above the national vacancy rate.

A similar trend took place in the rental value bands between R3 000 and R4 500 with rental vacancies decreasing from 11.02% in the second quarter to 7.9% in the third quarter.

Residential Vacancy rate by Rental Value Band

Period		National	Less than R3,000	R3,000 to R4,500	R4,500 to R7,000	R7,000 to R12,000	R12,000 to R25,000
2020	Q1	7.47%	8.33%	7.43%	7.78%	6.23%	10.07%
	Q2	9.13%	10.89%	9.38%	8.37%	8.59%	10.77%
	Q3	11.39%	17.01%	11.20%	10.31%	10.34%	14.91%
	Q4	12.91%	16.02%	15.86%	12.14%	10.32%	11.30%
2021	Q1	14.08%	18.45%	14.93%	14.35%	10.23%	11.71%
	Q2	12.97%	15.19%	12.60%	13.04%	12.39%	11.93%
	Q3	11.57%	12.00%	13.32%	10.98%	10.19%	8.84%
	Q4	12.57%	14.42%	15.19%	11.67%	10.26%	10.23%
2022	Q1	9.88%	9.04%	12.80%	9.17%	7.32%	7.77%
	Q2	7.35%	7.44%	6.91%	8.23%	6.51%	7.39%
	Q3	7.46%	7.74%	8.68%	7.21%	5.94%	7.83%
	Q4	8.13%	12.02%	9.43%	7.93%	5.03%	5.35%
2023	Q1	6.19%	6.73%	6.87%	6.23%	5.07%	7.16%
	Q2	7.27%	13.90%	11.02%	6.52%	5.55%	6.49%
	Q3	6.76%	7.07%	7.90%	6.68%	5.88%	8.56%

Residential Vacancies by Rental Value 2023 Q3



Lower rental value bands have seen decreases in the rental population as escalations migrate lower revenue units upwards. It's for this reason that there has been an increase in the number of rental units with a rental of R4 500 to R7 000 per month. Vacancies in this rental value band have increased for three consecutive quarters but continue to remain below the national average. In the first quarter, 6.23% of rental properties in this band were vacant. This increased to 6.52% in the second quarter with a further rise to 6.68% in the third quarter.

A similar trend has developed in the R7 000 to R12 000 rental value band with 5.07% of units being vacant in the first quarter, increasing to 5.55% in the second quarter and 5.88% in the third quarter.

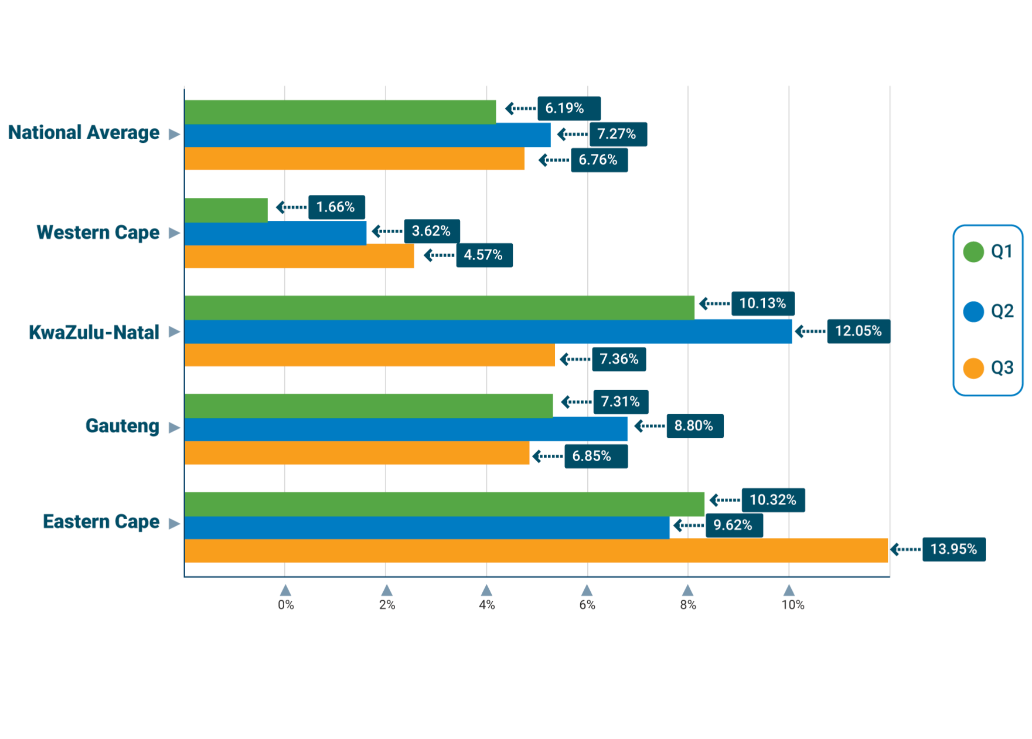
Although vacancies are increasing in the mid to higher value bands, they remain below the national average and boast the lowest vacancies overall. The luxury rental value band — rental stock that achieves a rental of between R12 000 and R25 000 — has the highest vacancy rate with 8.56% of rental stock standing empty in the third quarter.

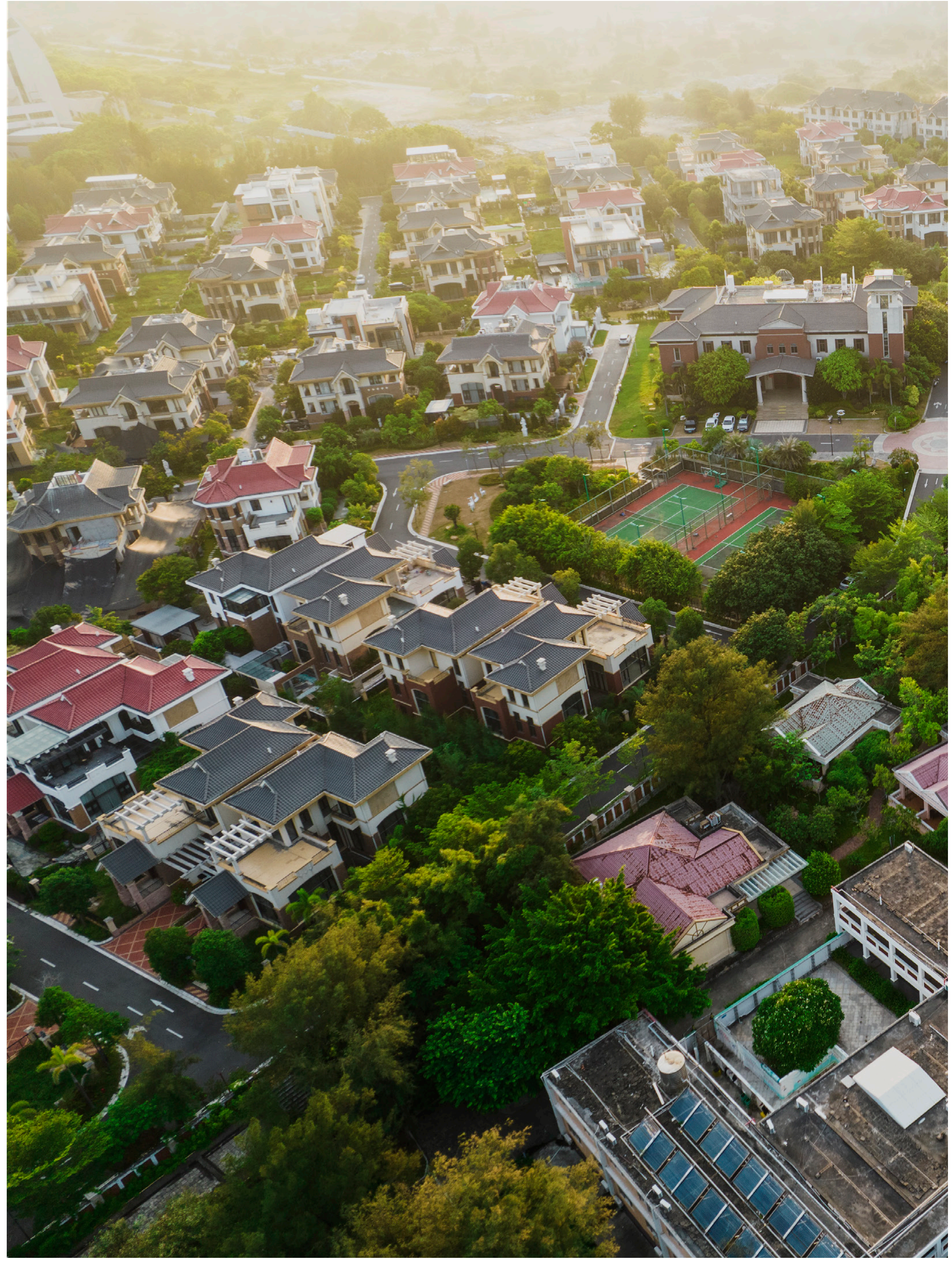
This rental value band recorded better occupancies in the second quarter with only 6.49% vacant but a deterioration back to 8.56% in the third quarter. It's worth noting that this bracket had the lowest vacancies on average for 2022 and 2023, compared to previous years going back as far as 2016 when vacancies, on average, remained in the double digits. Taking this into consideration, the luxury rental value band is performing relatively well compared to all previous years since TPN Credit Bureau started compiling the Residential Vacancy Survey Report.

Performance by province

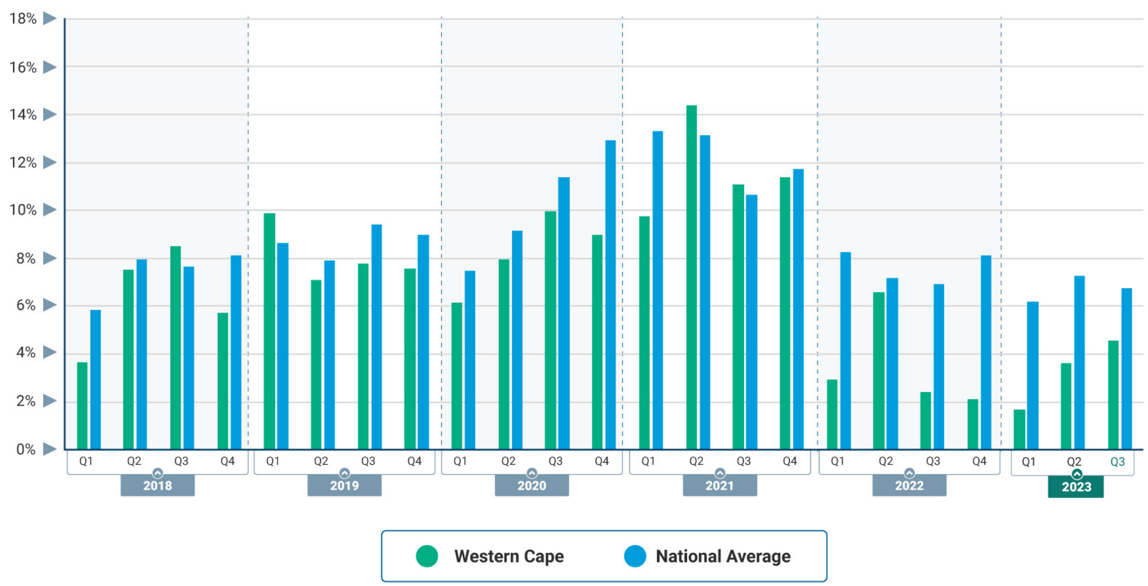
Key rental provinces saw varied vacancy rates which is reflected in the TPN Rental Market Strength Index

Residential Vacancies by Province 2023





Western Cape Residential Vacancy Rate Compared to National



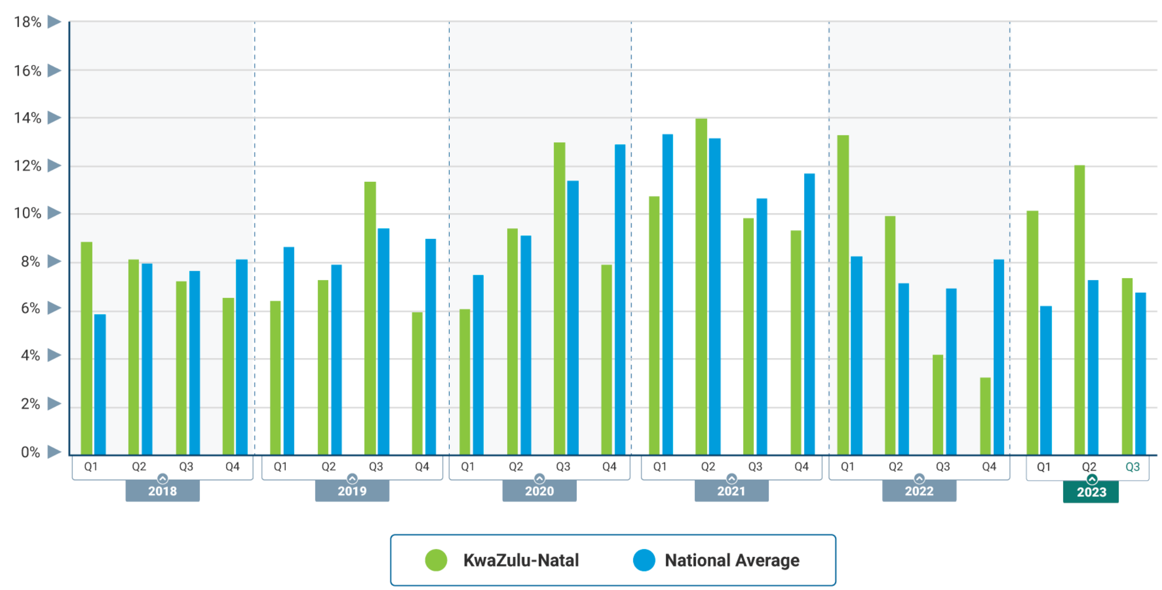
Western Cape: The Western Cape experienced its third consecutive quarter of increased vacancies. In the first quarter of 2023, the province recorded its lowest vacancy rates since 2016 with only 1.66% of units in the province vacant. This figure increased in the second quarter to 3.62% and to 4.57% in the third quarter.

Despite the increase in its vacancy level, the province continues to have the highest TPN Rental Market Strength Index of all provinces at 70.3 points, which is well above the national average of 57.15. Property practitioners and investors in the Western Cape are bullish, indicating that the province has an undersupply of rental stock and a very high demand at 84.46 points, compared to a supply rating of 43.86. Higher vacancies, however, may see the demand rating coming down and, combined with more supply coming online, weakening the Market Strength Index in the latter part of 2024.

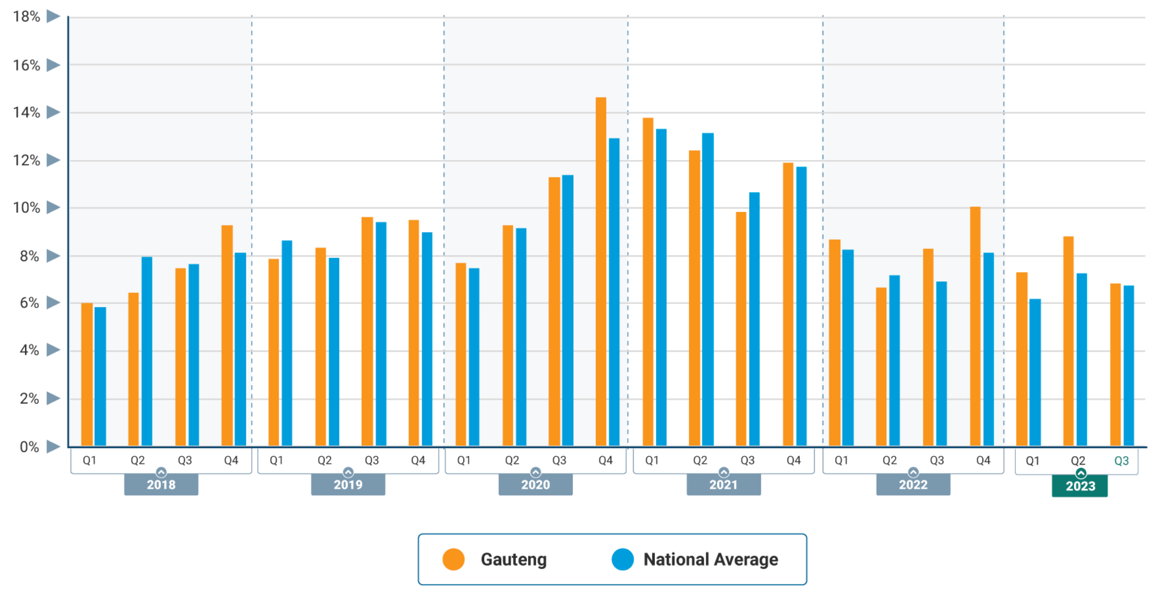
KwaZulu-Natal: The number of vacant rental units in KwaZulu-Natal has dropped from 12.05% in the second quarter to 7.36% in the third quarter. The province has seen vacancies emulate its erratic demand and supply rating with various economic, civil and climate factors playing a significant role in the overall market perception. The demand and supply ratings in the third quarter of 2023 are equal in the province. This means that the demand for rental stock is equal to the supply available. Supply ratings have traditionally increased during the festive season which correlates with an increase in demand.

This trend is carried into the first quarter of a new year as investors make their inventory available for the festive season. During the fourth quarters of 2020 and 2021, the province's TPN Rental Market Strength Index dropped below equilibrium as a result of travel bans and the flooding that took place in parts of the province.

KwaZulu-Natal Residential Vacancy Rate Compared to National



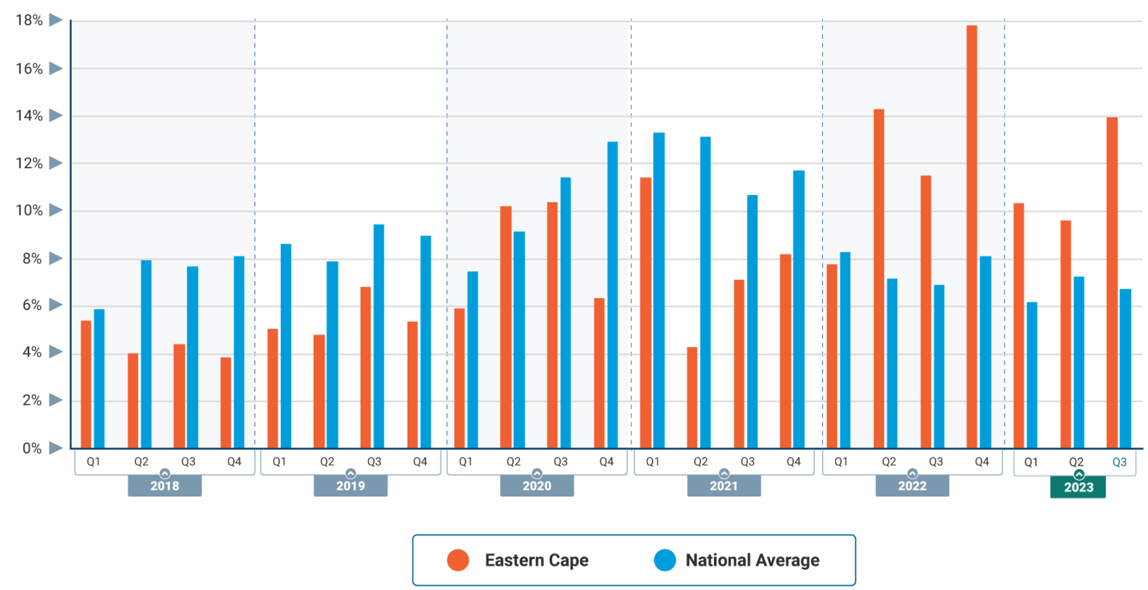
Gauteng Residential Vacancy Rate Compared to National



Gauteng: Home to the highest number of formal renters and rental units, vacancies in Gauteng decreased from 8.8% in the second quarter of 2023 to 6.85% in the third quarter. The province has historically experienced a marginally higher vacancy rate compared to the national average vacancy rate. Since the second quarter of 2018, the perceived supply has been higher than the perceived demand, which means that Gauteng's rental market has not been in equilibrium for some time.

The province's Rental Market Strength Index decreased from 49.05 points in the second quarter of 2023 to 47.9 points in the third quarter. The imbalance in the province's rental market has also impacted on rental growth. Lower vacancies, however, are a green shoot although supply remains high compared to demand.

Eastern Cape Residential Vacancy Rate Compared to National



Eastern Cape: The Eastern Cape, very much like KwaZulu-Natal, has seen a high perceived demand rating, but accompanied by a high supply rating. This means that property practitioners are experiencing demand for rental property and there is sufficient supply, but vacancies remain high. Although vacancies decreased in Q1 and Q2 of this year, we saw vacancies increase again to 13,95% in Q3. The Eastern Cape has had lower than national average vacancies since 2018 until the second quarter of 2022 when it recorded vacancies almost double the national average.

Vacancies in the province are driven by higher supply rather than a low demand. The increased supply is reflecting in the value of passed and completed building plans, according to Statistics South Africa. A slowdown of completed residential buildings in the third quarter of 2023 could reduce the supply rating, although this does usually take time to filter into the provincial rental market to potentially reduce vacancies.

Lowest residential rental vacancies in six years despite persistent challenges

The residential rental market has demonstrated resilience and positive trends with a notable decline in vacancies during the third quarter. Despite a slight drop in the demand rating, the TPN Rental Market Strength Index remains relatively high at 57.15 points, showcasing a market in equilibrium with slightly more supply but persistent high demand. The increase in employment numbers contributes to the overall positive sentiment.

However, challenges persist in the residential rental market, most notably in high rates of youth unemployment which negatively impacts lower rental value band brackets. While high interest rates have deterred home purchases, they have benefited the rental market, although investors face cashflow challenges due to the high cost of debt and escalating maintenance costs. The expectation of sustained inflation makes it unlikely that interest rates will be coming down which is in the residential rental market's favour, ensuring the rental market remains an affordable housing alternative. Despite a potential uptick in vacancies in the fourth quarter, the overall trend for 2023 points to a decrease in vacancies, reaching the lowest level since the third quarter of 2017.