

Vacancy Survey Report Q4 2023

Low vacancies an indicator of strong residential rental sector performance



Table of Context

Pages

2

Introduction

3

Average Residential Vacancy Rate Change per Year

4

TPN Residential Rental Market Strength Index

5

National Residential Vacancy Rate

6

Residential Vacancy Rate by Rental Value Band

8

Residential Vacancies by Rental Value

9

Residential Vacancy Rate by Province

- Gauteng
- Eastern Cape
- Western Cape
- KwaZulu-Natal

13

Conclusion



Introduction

The residential rental sector continued to perform strongly with low vacancies in the fourth quarter of 2023, continuing its recovery trend of the previous three quarters. One of the reasons for this strong performance was higher interest rates and low consumer confidence which deterred many South Africans from home ownership and saw a shift to the more secure and predictable alternative of renting residential property.

Consumer confidence was at an all-time low in the fourth quarter of 2023. The FNB/BER Consumer Confidence fell to -17 points in the fourth quarter, from -16 points in the previous quarter, the worst fourth quarter reading in 23 years amid ongoing concerns over the country's economic situation.

The South African Reserve Bank embarked on an interest rate hiking cycle in November 2021, which saw ten consecutive interest rate hikes. It is unclear when – and by how much – interest rates will start decreasing. In January 2024, the Reserve Bank left rates unchanged for a fourth consecutive quarter but said it needed more evidence that inflation would anchor at the 4.5% target 'sustainably'. These interest rate hikes have put increased financial pressure on consumers and encouraged a more frugal approach to household expenditure, including strictly managing accommodation costs.

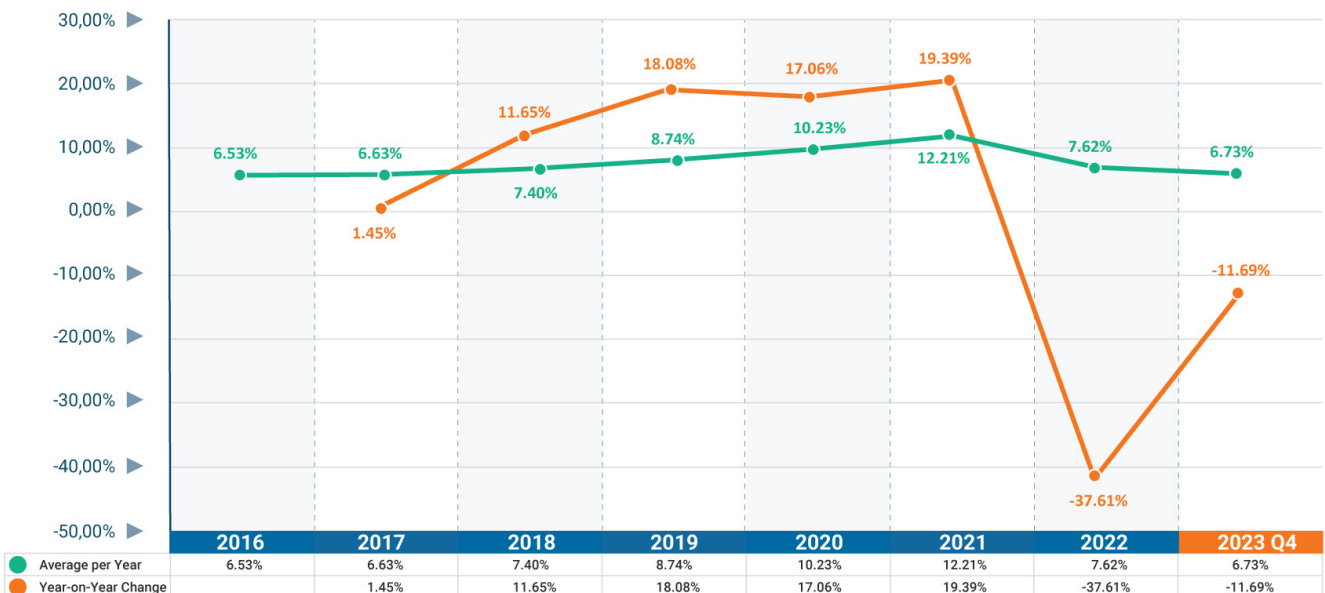
Constrained household income has exacerbated uncertainty and risks in the run-up to a hotly contested election in May 2024. The combination of sluggish economic growth, high unemployment, and strained municipal service delivery has made many South Africans extremely sensitive to location risk. This has been amplified in areas where coalition governance has delivered more obstacles than progress.



When considering where to live, consumers are prioritising safe and well-serviced locations in order to exploit the limited opportunities available. Their list of considerations is long and includes access to decent schools, amenities, retail, security, healthcare, and employment, amongst others. Increasingly, extended family and friends are cohabitating to save costs. Many employers have continued pushing employees to return to the office, a trend we expect to see continue. This is important for the rental market as transport remains costly and volatile at best. This is expected to elevate some demand for rental accommodation in close proximity to commercial hubs.

The many challenges currently facing consumers, including the increased cost of living, has benefited the residential property investor and the various industries that support the overall residential rental market ecosystem. Rentals continue to grow, and tenants are committed to paying their rent. The latest TPN Residential Vacancy Survey reveals that vacancies remain low across the country. At the end of 2023, the national vacancy rate was 6.69%, a further decline from the third quarter at 6.76%. The national average vacancy rate for 2023 was 6.73%, an impressive 11.69% down from 2022.

Average Residential Vacancy Rate Change per Year



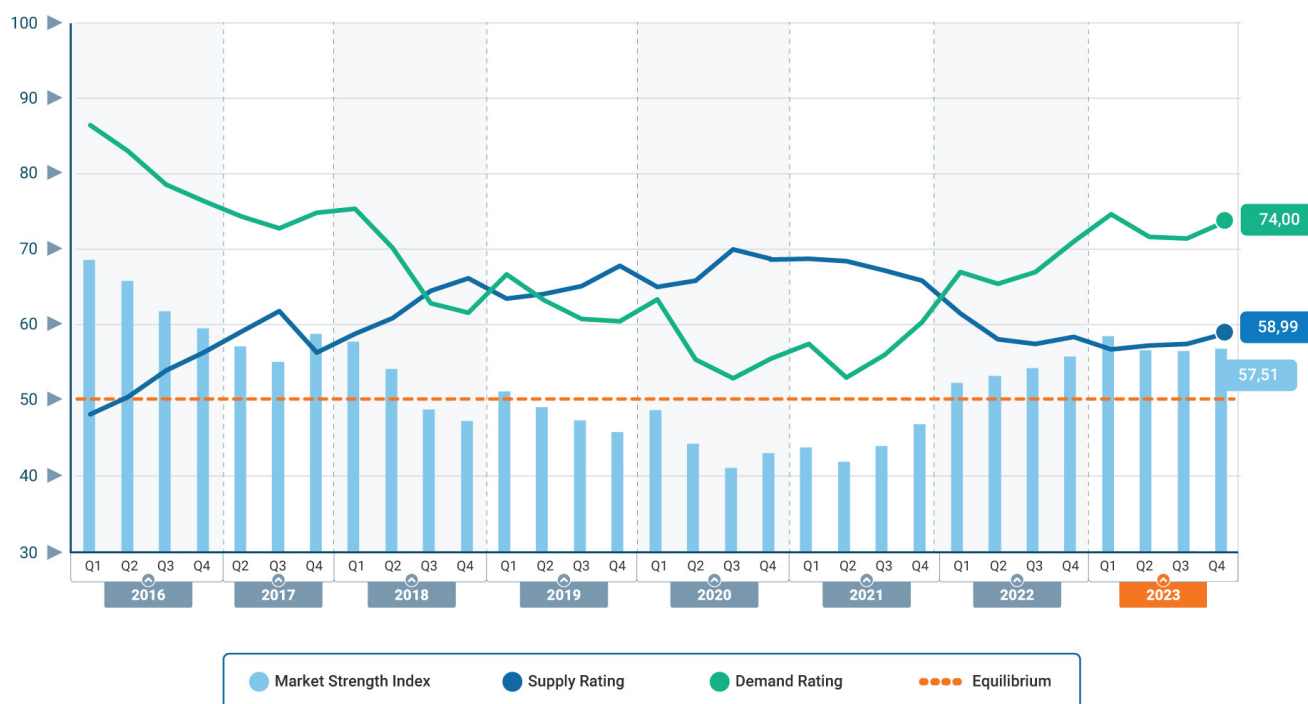
● Average per Year ● Year-on-Year Change

However, the constrained economy requires that property investors and practitioners continue to navigate stressed consumers carefully, implementing reasonable escalations and ensuring good payment behaviour whilst keeping their premises occupied.

One of the most interesting trends revealed by TPN's vacancy data is that the South African rental market remained in equilibrium in the fourth quarter of 2023, with a strong demand rating of 74 points, a further improvement from the second and third quarters of the year



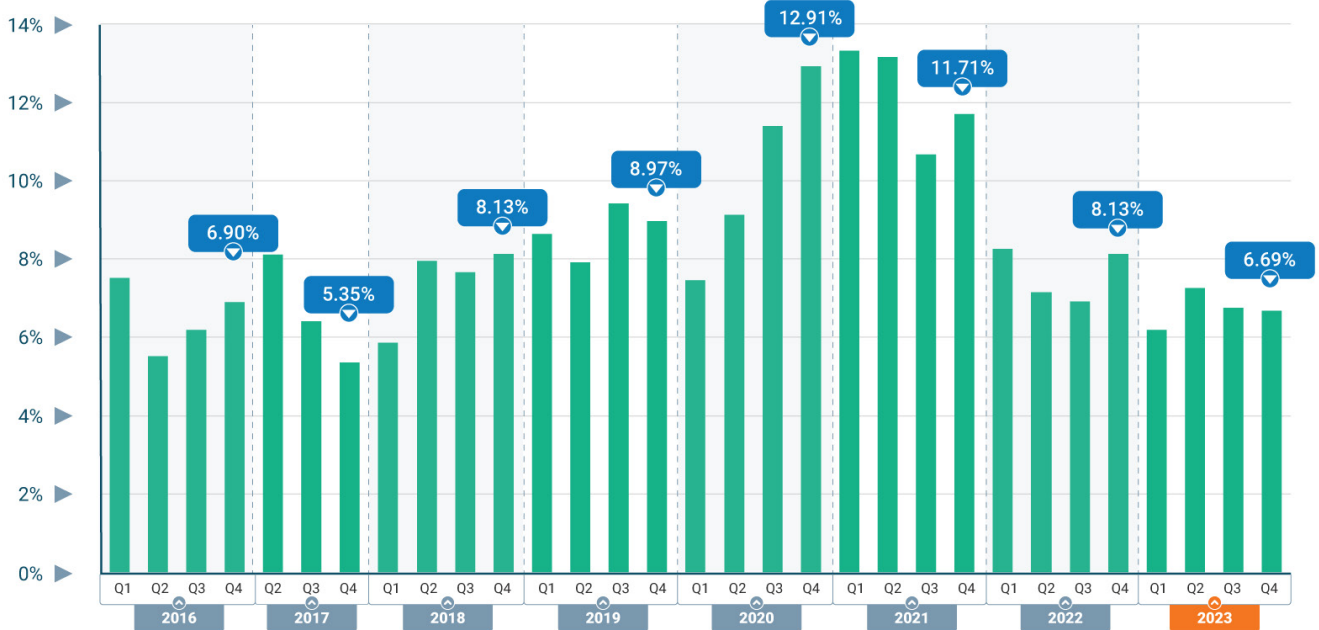
TPN Residential Rental Market Strength Index



On the back of a strong demand rating, there has also been a gradual but slow improvement in the TPN supply rating ending 2023 at 58.99 points, illustrating a positive reaction to the increased demand. However, supply growth remains slower than the growth in perceived demand, resulting in the improvement of the TPN Rental Market Strength Index to 57.51 points at the end of 2023. The data continues to paint a positive outlook for the immediate future where residential units remain occupied.



National Residential Vacancy Rate

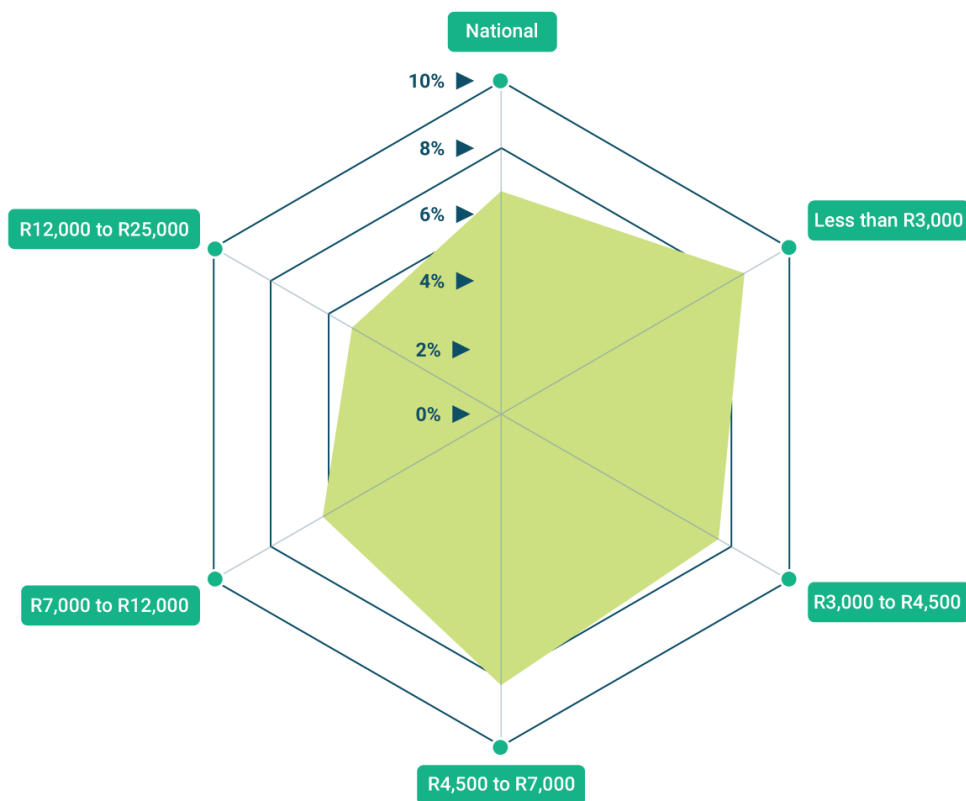


Residential Vacancy Rate by Rental Value Band

The latest census data released by Stats SA clearly shows a growing population with limited economic means. Joblessness remains one of the rental property sector’s biggest medium and long-term challenges, with youth unemployment preventing growing rental demand, especially for smaller, well-located, and serviced residential stock. Stats SA’s quarterly employment survey showed that unemployment increased in the fourth quarter of 2023, from 31.9% in the third quarter to 32.1% in the fourth quarter, trending above pre-pandemic levels. The job losses were driven primarily by the formal sector which will directly impact investor’s lease covenants.

The youth unemployment rate rose 0.9% to 44.3% in the fourth quarter. Student accommodation, however, has seen continued healthy demand across the country, supported by new private and public funding initiatives. In a growing economy and booming job market, the natural order of things would be that these students would take up rental property after graduation, helping to drive demand for rental properties overall. Unfortunately, many graduates will struggle to find employment on completion of their studies and, rather than taking up rental property, will return home.

Residential Vacancies by Rental Value Band Q4 2023



Vacancies for rental properties with a value of R3 000 or less per month declined sharply between the second and third quarters of 2023. These gains were reversed in the last quarter of 2023, and vacancies increased from 7.07% to 8.46%. Property investors in this rental value band should remain cautious of vacancy risk as the Rental Market Strength Index fell from 56.42 points in the third quarter to 53.24 points in the fourth quarter. Property investors and practitioners attribute these vacancies to the high supply within this rental value band.

Rental properties priced between R3 000 and R4 500 improved their occupancy slightly but remained above the national average. Property investors and practitioners saw vacancies decrease from 7.90% in the third quarter of 2023 to 7.55% in the fourth quarter. This rental value band performed well, considering the high vacancies between 2021 and 2022.

Rental stock priced between R4 500 and R7 000 did not enjoy the same good performance and saw more units standing vacant in the fourth quarter compared to the third quarter. Property investors and practitioners reported that 8.17% of these units were vacant at the end of 2023. The Rental Market Strength Index also slipped from 54.14 points in the third quarter to 53.48 points in the fourth quarter.

Lease agreements for tenants

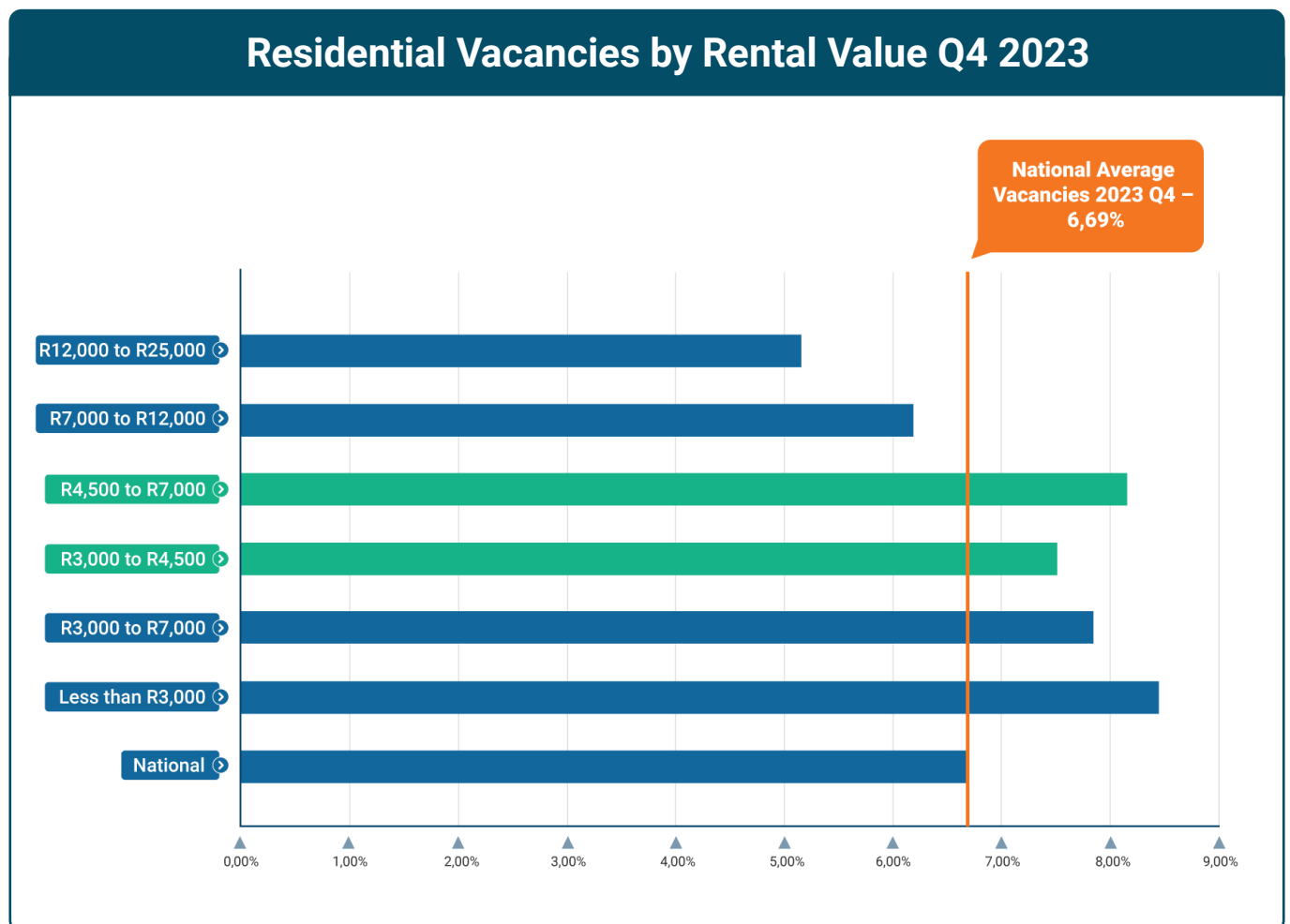
Residential LeasePack is an indispensable tool for any agent or landlord actively engaged in the residential leasing market. Crafted and regularly updated by TPN's panel attorneys every two months, the pack incorporates a diverse range of documents crucial for various situations. Whether you require an Application Form or a Notice to Vacate, the pack delivers clear and concise legal documents.

[BUY NOW >](#)



The rental value band between R7 000 and R12 000 continued its relatively strong performance, with 6.2% of rental stock not occupied in the last quarter of 2023. This is an uptick from the previous quarter when only 5.88% was vacant. At the start of 2023, the rental value band between R7 000 and R12 000 had the lowest vacancies of all rental value bands but has since increased quarter on quarter. It maintains a healthy Rental Market Strength Index at 55.68 points, a marginal improvement from the third quarter of 2023.

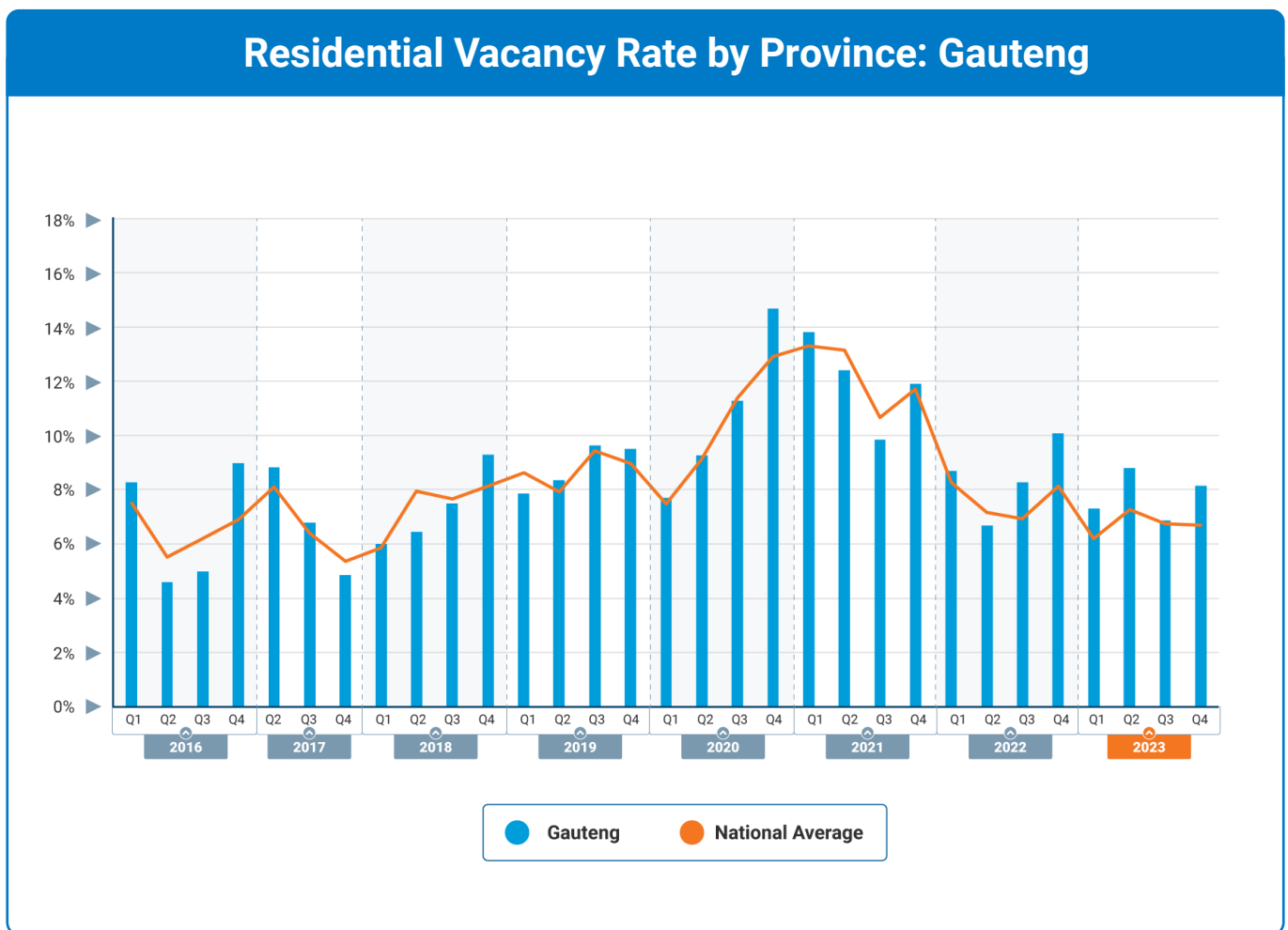
The last quarter of 2023 has seen a strong performance from **rental stock priced between R12 000 and R25 000**, decreasing vacancies from 8.56% in the third quarter to 5.17% in the fourth quarter. This excellent performance is also reflected in the overall Rental Market Strength Index exceeding the 60-point mark, due to a high demand rating of 76 points. In comparison, perceived supply remains under the 60-point mark.



Residential Vacancy Rate by Province

Gauteng

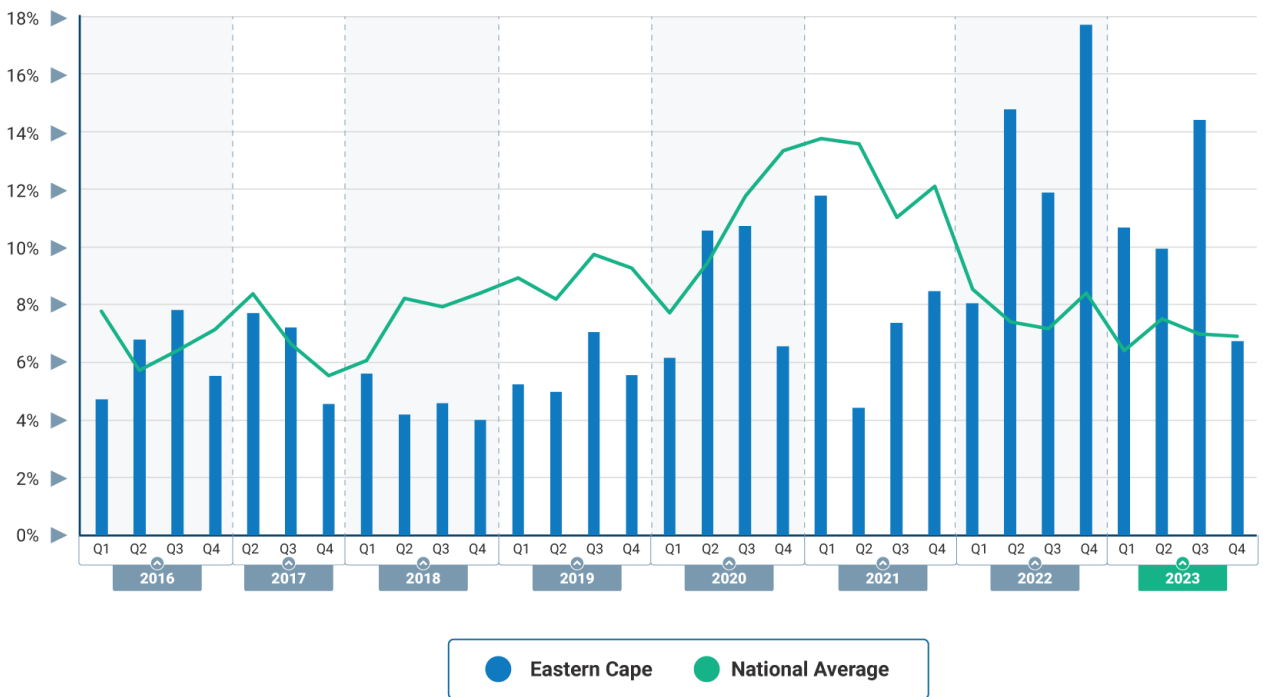
The latest census data shows that Gauteng, home to almost a quarter of South Africa’s 62 million population, remains the most populace province. In recent years the province has struggled to keep its residential stock occupied with slightly more supply than demand, resulting in a Market Strength Index of 49.56 points, an improvement from the third quarter but still below market equilibrium and the national average. The percentage of vacant units at the end of 2023 was 8.14%, up from the preceding quarter. Investors continue to monitor the Gauteng rental market closely which is evident in the decline of residential building plans passed by larger municipalities for the third consecutive quarter.



Eastern Cape

The Eastern Cape is home to 11.6% of South Africa's population, a decrease from 2016 when 12.6% called this province home. Although supply remains strong, demand dropped slightly from 69.62 points to 69 points between the third and fourth quarters. Investors and practitioners remain optimistic, however, providing a Rental Market Strength Index rating of 57.5 points, which is slightly above the national average. Vacancies decreased to 6.69% at the end of 2023, but as we continue seeing quarter on quarter fluctuations, investors should factor in continued demand changes for rental stock in the province and note that quarter four is traditionally impacted by holiday rentals, particularly in coastal towns.

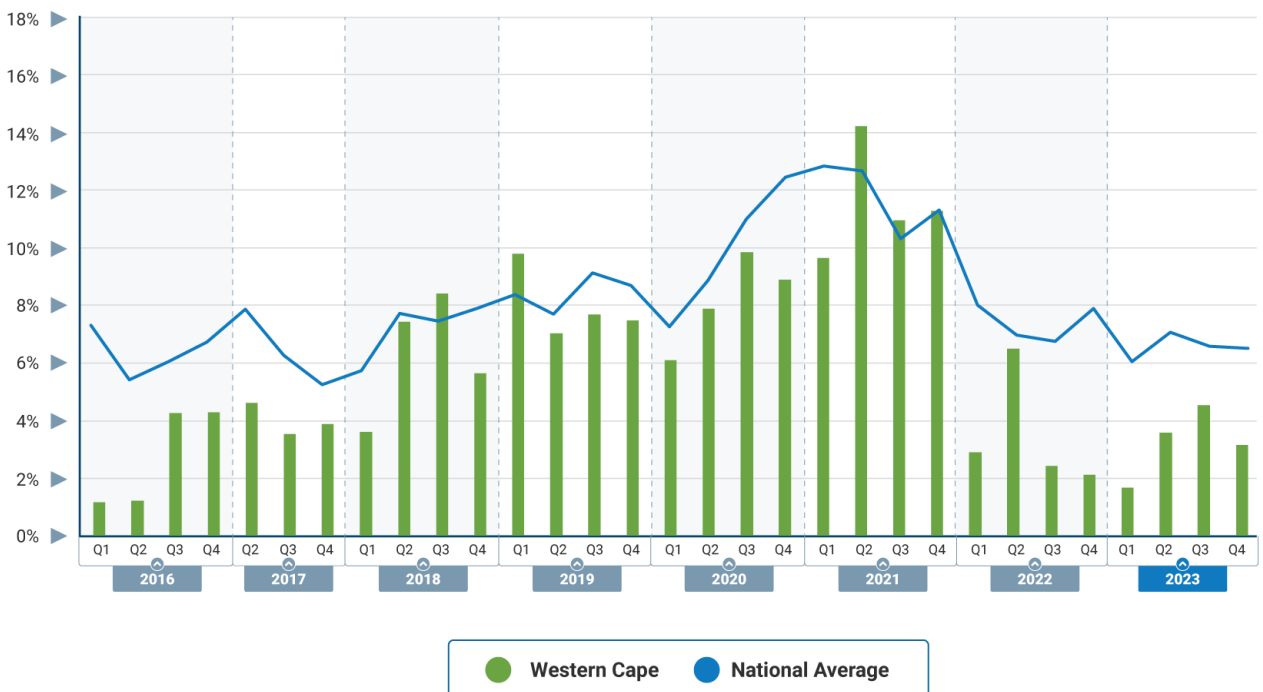
Residential Vacancy Rate by Province: Eastern Cape



Western Cape

The Western Cape maintains the lowest vacancy rate in the country with only 3.18% of residential stock vacant at the end of 2023. Although vacancies increased in the second and third quarters of 2023, robust demand has kept rental stock occupied while supply remains weak compared to other provinces. It is likely that future supply will also be slow to come online as the value of building plans passed in the province continues to slow. As a prime holiday destination for local and international tourists, the Western Cape enjoys lower vacancies during the festive season, which also drives lower vacancies into the first quarter of the new year. A great deal has been written about the semigration trend towards the Western Cape. The province's population has increased from 11.3% in 2016 to 12% in 2022. This population growth has created a higher demand for rental properties valued above R12 000 in the province.

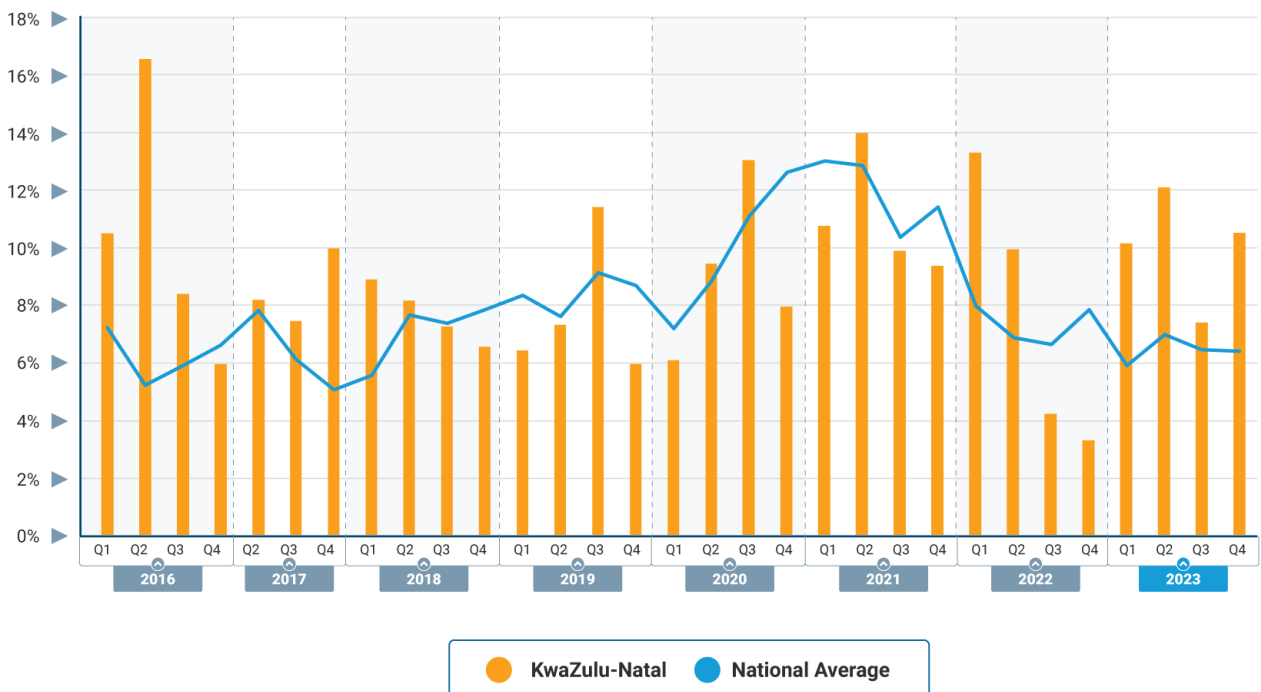
Residential Vacancy Rate by Province: Western Cape



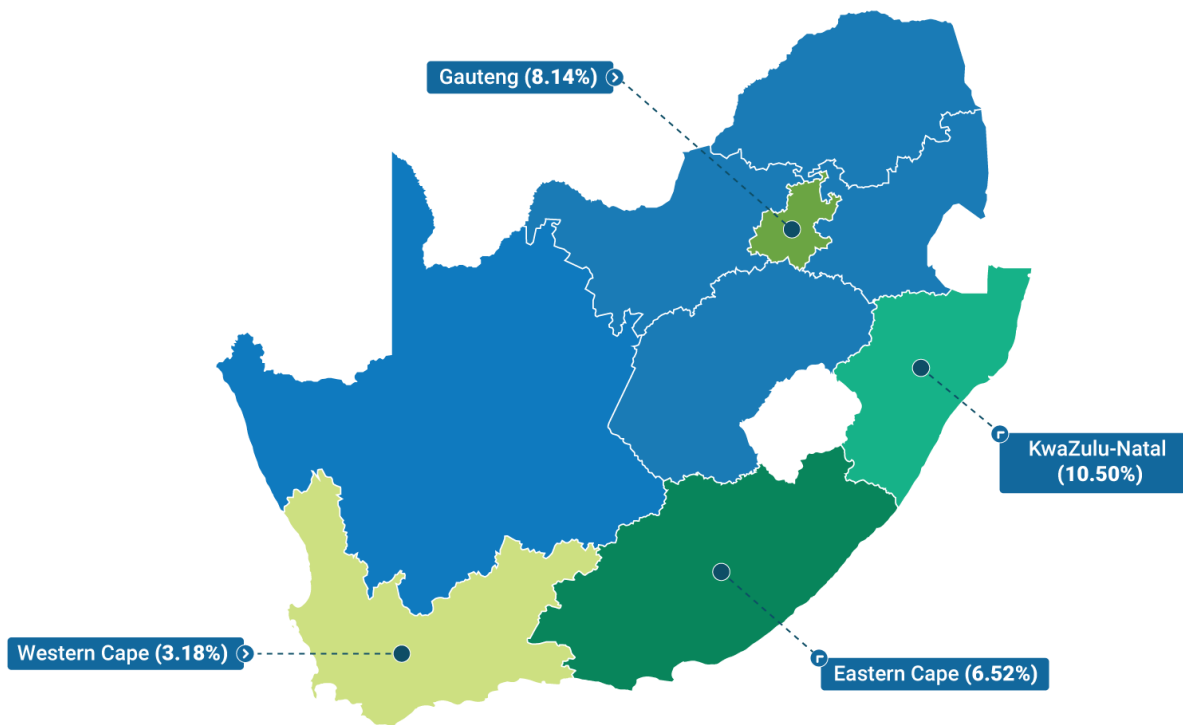
KwaZulu-Natal

KwaZulu-Natal has seen only a marginal increase in population, increasing from 19.9% in 2016 to 20% in 2022 based on the latest census data. However, this increase did not impact the rental market positively. Although the province's demand rating remained strong at 64.44 points at the end of 2023, it has weakened considerably since 2016 where the average demand rating was at 76 points. Supply has also increased to 63 points, the highest since 2021. In contrast to the positive performance that the Eastern Cape and Western Cape experienced at the end of 2023, KwaZulu-Natal saw an increase in vacancies in the last quarter of 2023, breaking the 10% mark, after a confident performance in the third quarter of 2023. The province continues to be challenged by extreme weather and poorly maintained infrastructure, especially inland, whilst closed beaches have not provided a substantial influx of tourists to take up shorter-term holiday rentals.

Residential Vacancy Rate by Province: KwaZulu-Natal



Residential Vacancy Rate by Province Q4 2023



Conclusion

The 2024 National Budget, announced in February 2024 by Finance Minister Enoch Godongwana failed to make inflationary adjustments to personal income tax brackets. Described as a 'stealth tax', this is likely to put further pressure on already financially constrained consumers. This, added to persistently high interest rates and the increased cost of living, augers well for the residential rental market. However, landlords will need to manage rental increases carefully as they balance tenant affordability with supply and demand.

Report by Waldo Marcus, Industry Principal at TPN from MRI Software