

TPN Vacancy Survey Report Q1 2024

National vacancy level at lowest
level since 2016



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National vacancies at lowest level since 2016

National vacancies are at historic lows with demand for rental property outstripping supply. More households are renting as high interest rates continue to make home ownership unattainable for many people.

TPN's Vacancy Survey Report for the first quarter of 2024 reveals that more households are renting as home ownership continues to decline. The survey measures the number of vacant full-title and sectional-title residential units, providing the most comprehensive and complete overview of the industry.

The trend towards renting as opposed to home ownership is likely to remain in place given that interest rates remained high in the second quarter of 2024. In May 2024, the South African Reserve Bank (SARB) announced that the repo rate would remain unchanged at 8.25%, meaning the prime lending rate of local commercial banks also remains unchanged at 11.75%. Interest rates, which have remained at a 15-year high for six consecutive quarters, continue to place indebted consumers under pressure.

Although inflation eased in April 2024, at 5.2% it is still well above the SARB's target of 4.5%. The SARB flagged this higher inflation and unusually elevated uncertainty for keeping interest rates on hold, despite a marginally improved inflation outlook.

The property market expected interest rates to start decreasing towards the second half of the year. However, this is looking less likely as the local economy continues to be impacted by both local and international uncertainty.

Sluggish economic growth is reflected in the latest employment numbers released by Stats SA which highlights an economy unable to absorb new entrants into the labour market. Official unemployment increased by 0.8% from the fourth quarter of 2023 to the first quarter of 2024. A total of 32.9% - nearly a third of South Africans are unemployed with the unemployment rate according to the expanded definition (which includes dissuaded job seekers) increasing to 41.9%. The lack of employment opportunities has a direct impact on the formal residential rental market.



High interest rates combined with political and economic uncertainty have seen a decline in the number of households living in a property that they own or are in the process of paying off.

According to Stats SA's latest General Household Survey, 62.9% of households lived in a property that they own or were in the process of paying off in 2023, compared to 64.4% in 2022. In that same period, the percentage of households in the rental market increased from 22.5% in 2022 to 23.9% in 2023. Households occupying properties rent-free remained at 13.2% between 2022 and 2023.

In the first quarter of 2024, the national residential vacancy rate decreased to its lowest number since TPN started its survey in 2016. Nationally, 4.42% of rental properties were vacant in the first quarter of 2024 compared to 6.69% in the previous quarter.



National Residential Vacancy Rate



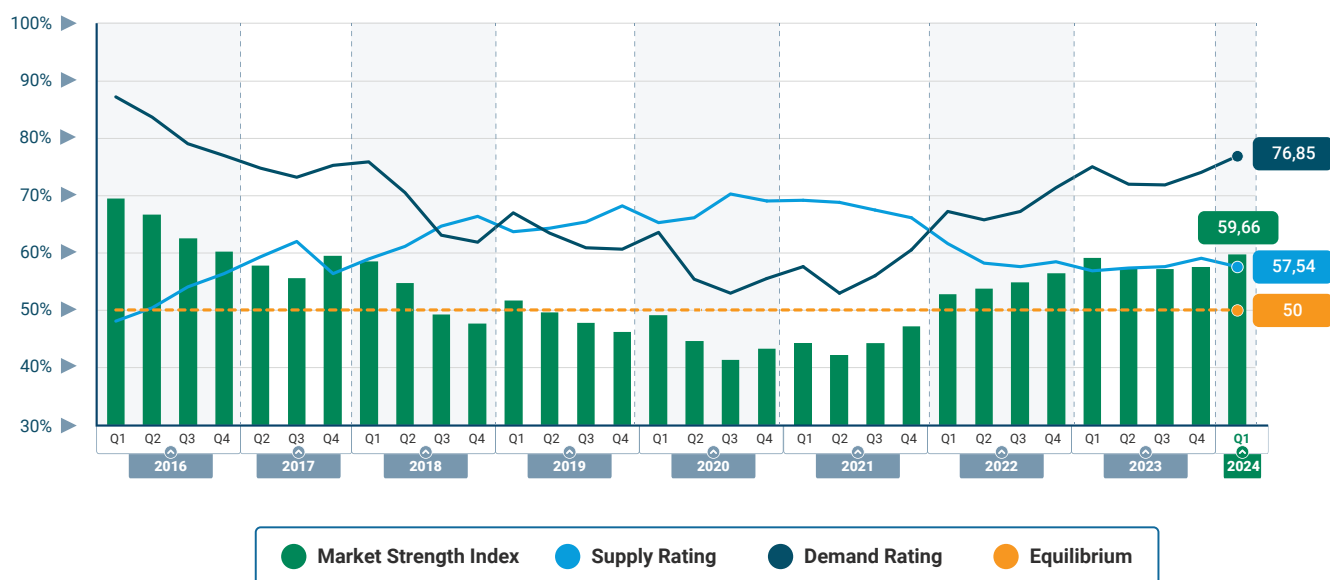
Although national vacancies are at their lowest level on record, the TPN Rental Market Strength Index came in at 59.66 points, lower than 2016's average of 64.73 points. In 2016, the national average vacancy rate was 6.53%. The TPN Rental Market Strength Index measures perceived demand and supply within the rental market. When perceived demand equals supply, the market is at equilibrium at 50 points.

The current rental market is 9.66 points above equilibrium due to higher demand than what is available within the rental market. It is, however, important to note that the overall supply rating in the first quarter of 2024 is at 57.54 points, and demand is at 76.85.

These numbers also indicate the optimistic sentiment within the residential rental market. This is understandable as the rental market continues to see low vacancies and positive rental growth. Still, investors should be cautious as constrained household budgets can result in an increase in the number of tenants defaulting on their rental.



TPN Residential Rental Market Strength Index



Rental demand increases while rental supply remains under pressure

Various factors affect rental stock's overall demand and supply. Property investors must compete for access to capital, with alternative investment opportunities offering reasonable returns, occasionally outperforming that of property returns. In a high interest rate environment, relying on debt to fund new developments comes at a higher price, putting net returns under additional pressure. The low rate of vacancies currently provides investors with improved security and reduces the need to factor in a loss of income due to units standing empty. This, however, should be considered with the location and rental value band in mind.

In the first quarter of 2024, the Rental Market Strength Index improved across all rental value bands. The highest rental value band between R12 000 and R25 000 per month had the highest index at 61.56 points. Residential properties with a rental income of between R7 000 and R12 000 were at 58.5 points for the same period. The mid-level rental value bands recovered from the previous quarter's drop when demand decreased while supply remained strong, negatively impacting the strength index.

Rental stock priced between R4 500 and R7 000 improved from 53.48 points in the fourth quarter of 2023 to 57.14 points in the first quarter of 2024. The rental value band priced between R3 000 and R4 500 per month had the second-best rental strength score at 59.43 points. The lowest rental income units (less than R3 000 per month) improved from 53.24 points to 54.62 points during the same period.

Residential Property Demand and Supply



Increased demand and balanced supply are reflected in the improved occupancy levels of all rental stock. The most noticeable vacancy decrease is within the rental value bands of R3 000 or less a month and R4 500 to R7 000. Vacancies in the rental value band of less than R3 000 per month decreased from 8.46% in the fourth quarter of 2023 to 4.51% in the first quarter of 2024, with demand improving while supply remained stable. Reduced vacancies in the R4 500 to R7 000 rental price bracket are due to increased demand and a decrease of 4 points in supply. Vacancies were reduced in this bracket from 8.17% in the fourth quarter of 2023 to 4.92% in the first quarter of 2024.



Residential Vacancies by Rental Value Band

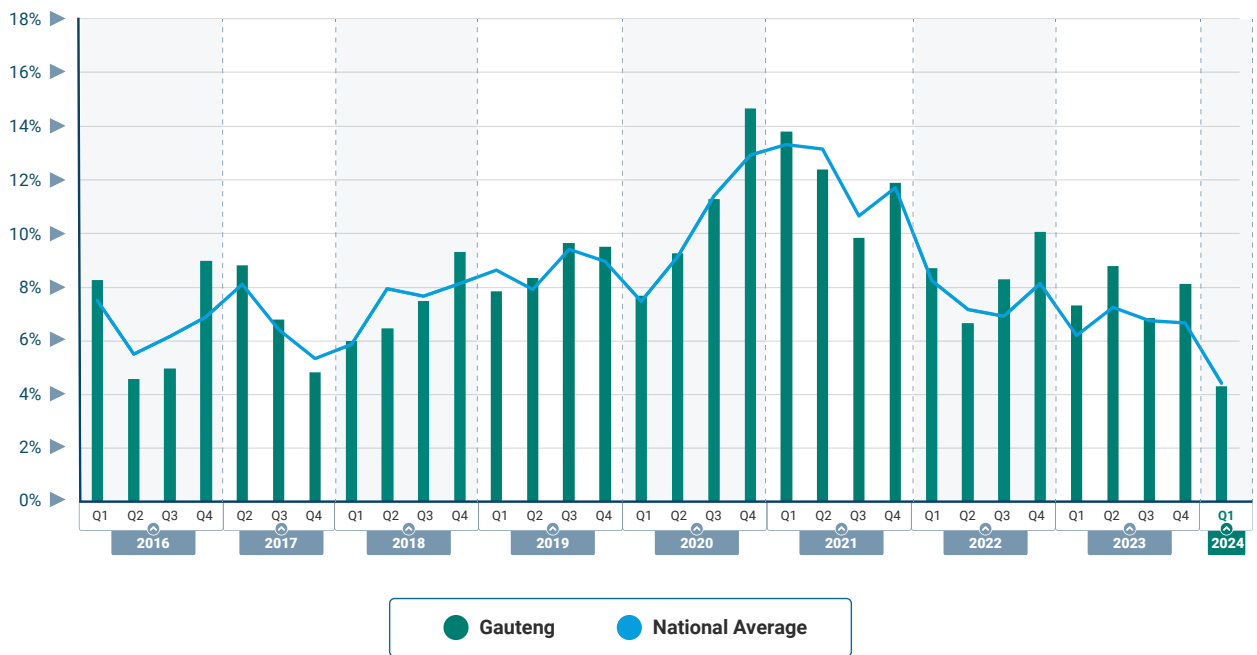


Vacancies by province

Gauteng

Gauteng has the highest percentage of households renting, according to Stats SA's latest General Household Survey. A total of 37.8% of Gauteng households live in rented accommodation compared to 35.9% that live in fully paid, owned properties, 10.5% that live in owned, but not yet fully paid properties, while the balance occupy property rent-free (15.8%). Vacancies in the province reduced from 8.14% in the fourth quarter of 2024 to 4.3% in the first quarter of 2024. This was driven primarily by improved demand while supply had a marginal decrease during the same period, taking the province's Rental Market Strength Index to 51 points, the highest since 2018.

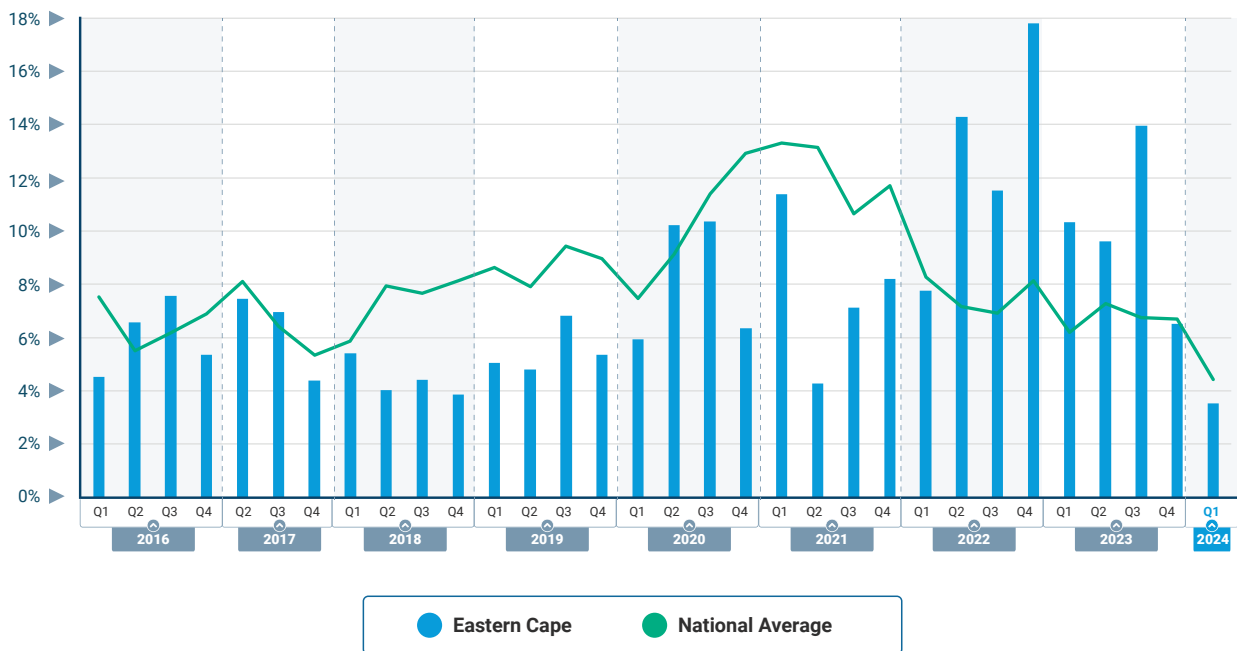
Residential Vacancy Rate by Province: Gauteng



Eastern Cape

The Eastern Cape’s vacancy rate in the first quarter of 2024 decreased to 3.54%. Its improved occupancy is due to higher demand resulting in a Market Strength Index of 58.33 points. The percentage of households that live in rental properties is the lowest of all provinces, with 12.7% relying on rented accommodation, 65.6% living in fully paid and owned properties, while 3.1% are still paying instalments towards ownership and 18.6% living rent-free.

Residential Vacancy Rate by Province: Eastern Cape



TPN Tenant Survey Report 2024

With Over 170 000 tenants surveyed and 19 000 completed responses received, this report has helped provide the property sector with insights into tenant’s needs, wants, aspirations, and challenges. Allowing you to serve your core market more effectively.

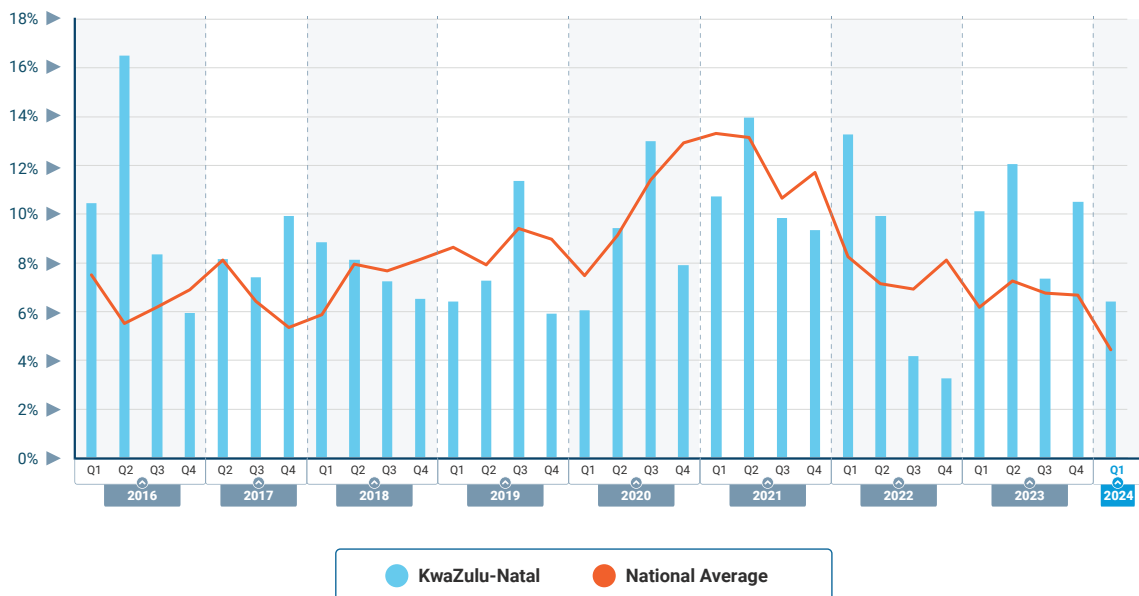
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KwaZulu-Natal

KwaZulu-Natal has the highest percentage of households living in owned properties with 74.6% of people either owning their property outright or in the process of paying off their property. A total of 17.3% pay rent for their accommodation and 8.1% live rent-free. Improved demand and a decrease in supply resulted in vacancies in the province decreasing from 10.5% to 6.41% between the fourth quarter of 2023 and the first quarter of 2024.

Residential Vacancy Rate by Province: KwaZulu-Natal



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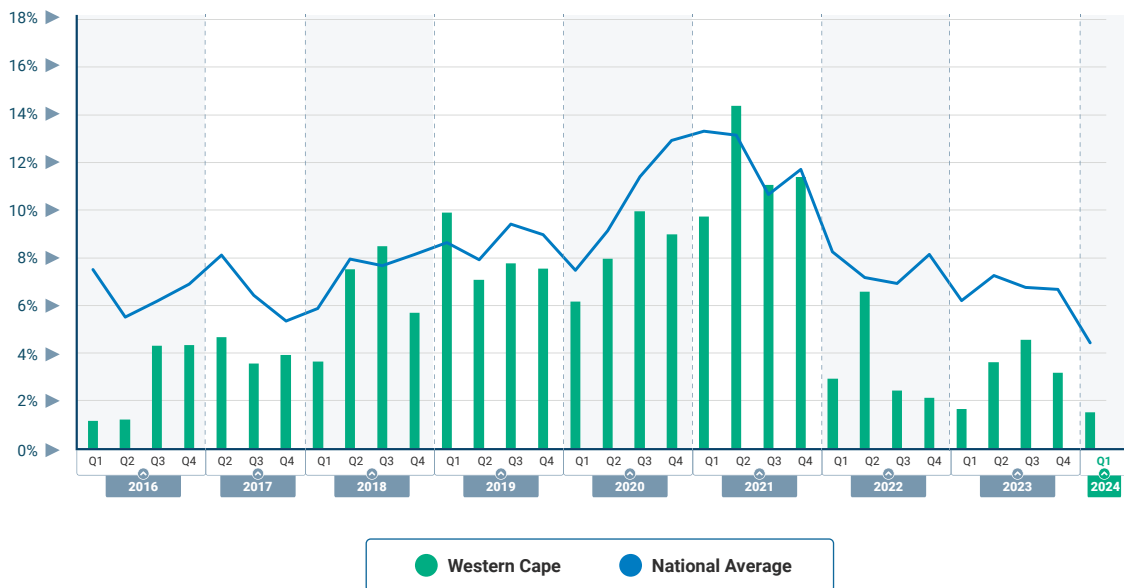


Western Cape

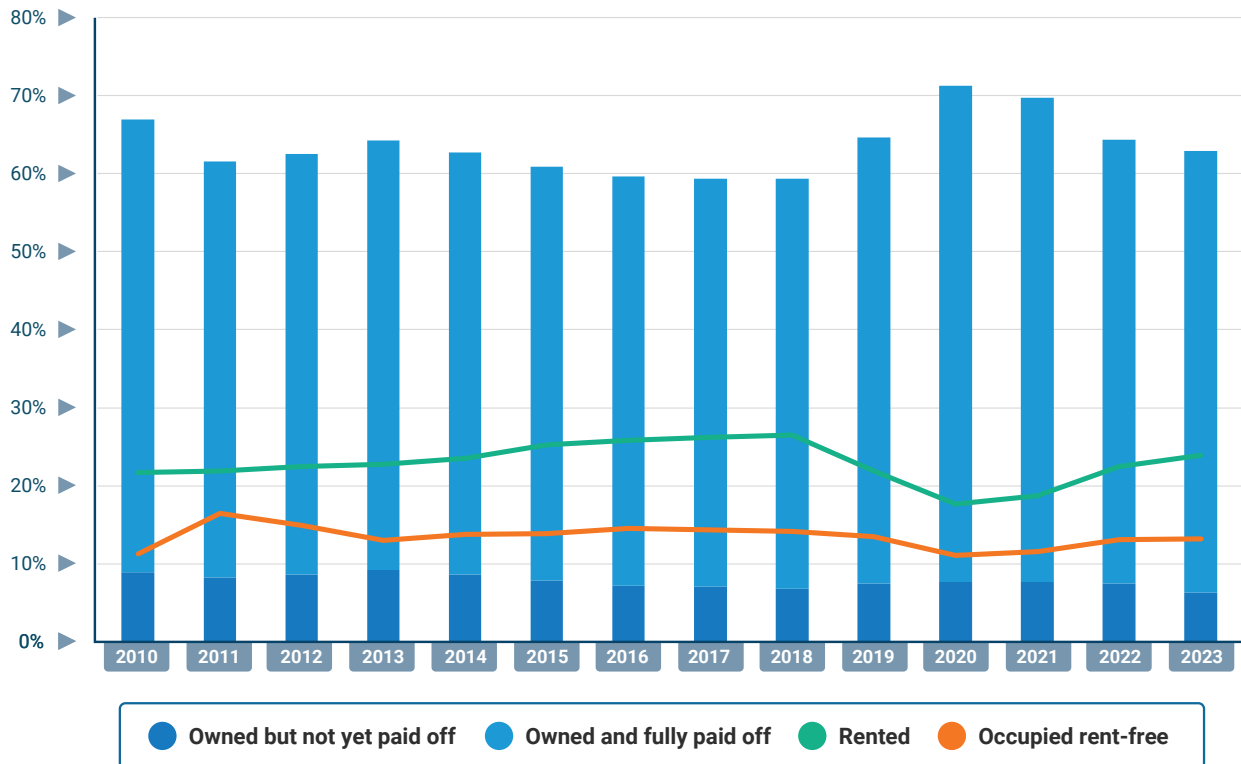
The Western Cape retained its position as the province with the lowest number of vacant rental units in the country. Rental demand increased from 85 points in 2023 to 90 points in 2024. The Rental Market Strength Index increased further to 73 points as the supply rating decreased from the fourth quarter of 2023 to the first quarter of 2024. The lack of supply and strong demand caused residential vacancies to drop to 1.51%.

A total of 27.8% of households rent, while 49.2% live in property that is fully paid off and 14.2% are in the process of paying off their property. The Western Cape has the lowest percentage of households that occupy property rent-free at 8.8%.

Residential Vacancy Rate by Province: Western Cape



Percentage of Households Renting vs Ownership 2023 (Stats SA GHS, 2023)



About TPN from MRI Software:

The only credit bureau globally to specialise in tenant behaviour, TPN from MRI Software created the world's first rental payment profile. Its database has grown to become the most comprehensive and up-to-date authority on tenant behaviour in South Africa, covering both the residential and commercial sectors and transforming the way tenants pay their rent. TPN's unique data is widely used by organisations such as the South African Reserve Bank (SARB), commercial banks and industry bodies.

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