tpn
from MRI Software

TPN Residential Rental Monitor Q2 2024

Tenants hold steady despite financial constraints as landlords ease rental escalations

MRI REAL ESTATE SOFTWARE

mrisoftware.tpn.co.za | +27 (0)861 876 000 | helpdesk@tpn.co.za

Table of Contents

Page 2: Introduction

Page 3: Tenants in good standing by rental value band

Page 5: The number of squatting tenants rise

Page 6: Declining number of tenants in lower rental value bands

Page 7: Landlords ease escalations to avoid vacancies

Page 8: Provincial performance

Page 10: Balancing vacancies with realistic rental prices

Page 13: Women have surpassed men as individual property investors

Introduction

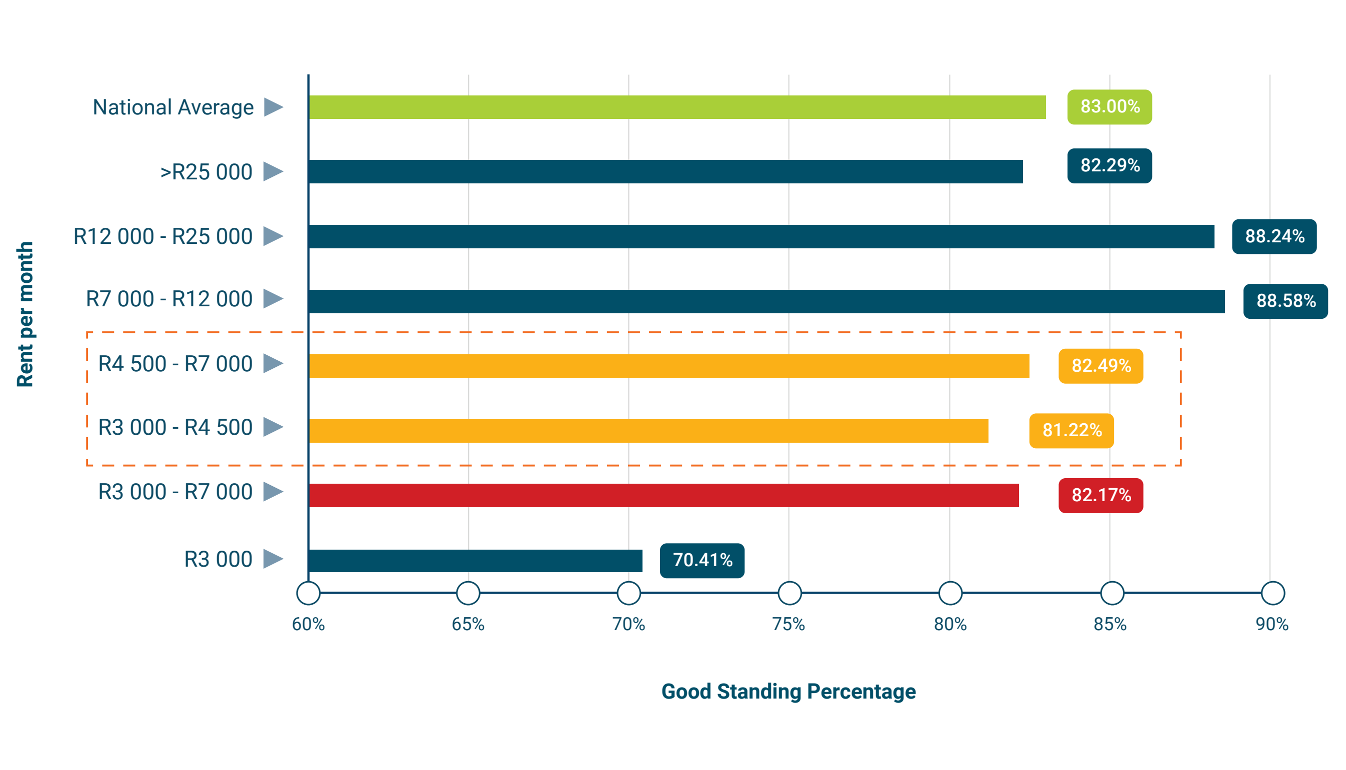
Despite ongoing economic challenges, 83% of tenants in South Africa remained in good standing during the second quarter of 2024. Rigorous tenant vetting and collection processes have enabled landlords to maintain stability, although many continue to face rising operational costs and higher maintenance and security expenses.

Rental escalations slowed across most regions, as landlords tread cautiously to avoid vacancies, with the sharpest slowdowns in the R3 000 to R7 000 rental value band. Meanwhile, individual property investors are shifting towards smaller portfolios and tax-efficient structures, with women now comprising over 50% of individual property investors, a notable increase from 42% in 1996.

Consumers have felt the impact of persistently high interest rates after an interest rate hike to 11.75% in the second quarter of 2023. These elevated interest rates remained in place for 16 consecutive months, raising the cost of credit significantly and putting indebted consumers under further pressure. High interest rates have also dissuaded residential property acquisitions, leading to fewer home loan applications and a decline in transfer of both bonded and unbonded properties.

Despite these challenges - including economic and political uncertainty and high levels of unemployment - tenants have continued to meet their rental commitments, easing pressure on property investors. However, maintaining the number of tenants in good standing in a tough economy requires stringent tenant vetting and collection processes to protect the cash flow of investors facing high capital costs and increased rates and taxes, maintenance, and security expenses.

TPN Residential Rental Good Standing by Rental Value Band

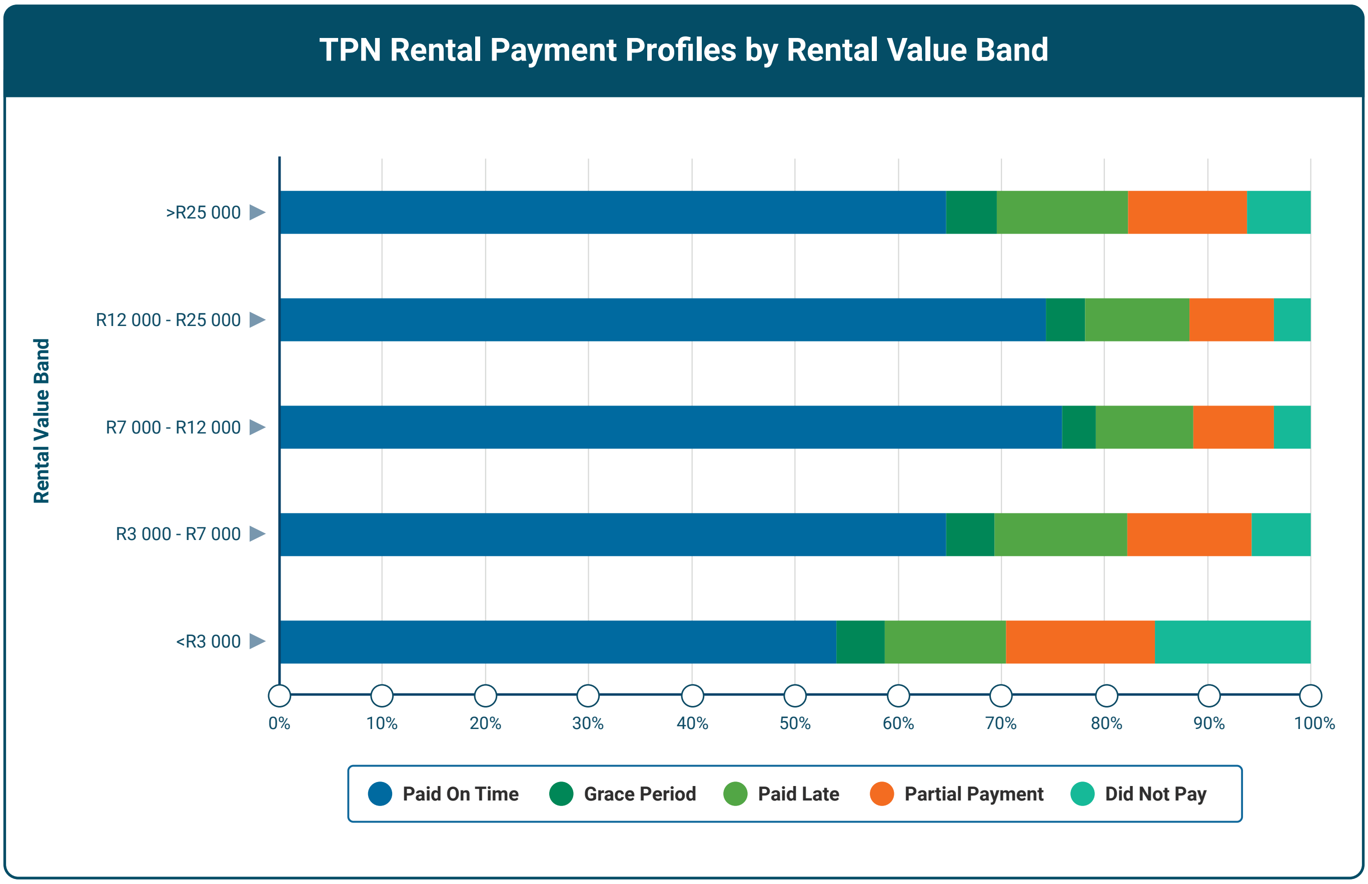


Tenants in good standing by rental value band

The number of tenants in good standing improved slightly between the first and second quarters of 2024 from 82.83% to 83%. Tenants with a lease obligation of less than R3 000 per month exceeded the 70% barrier for the first time since 2021, reaching 70.41% in the second quarter.

This rental band particularly hard-hit by the pandemic, has had good standing rates declining since 2014. Although still well below the national average, the implementation of more robust collection controls appears to be paying off for property investors. However, this band has the highest proportion of tenants who did not make any payment towards their rental obligation at 15.12%, while 14.47% only made partial payment. Just over half (55%) paid their rent on time.

For tenants paying between R3 000 to R7 000 per month, the proportion in good standing slipped below the national average in the second quarter of 2024. While the majority (82.17%) were in good standing, 5.57% did not make any rental payment, and 12% made a partial payment. This group also accounted for the largest number of late payers, with the highest percentage paying late but still meeting their rental obligation at the end of the month. Nearly a third (65%) of tenants are paying on time and in full.

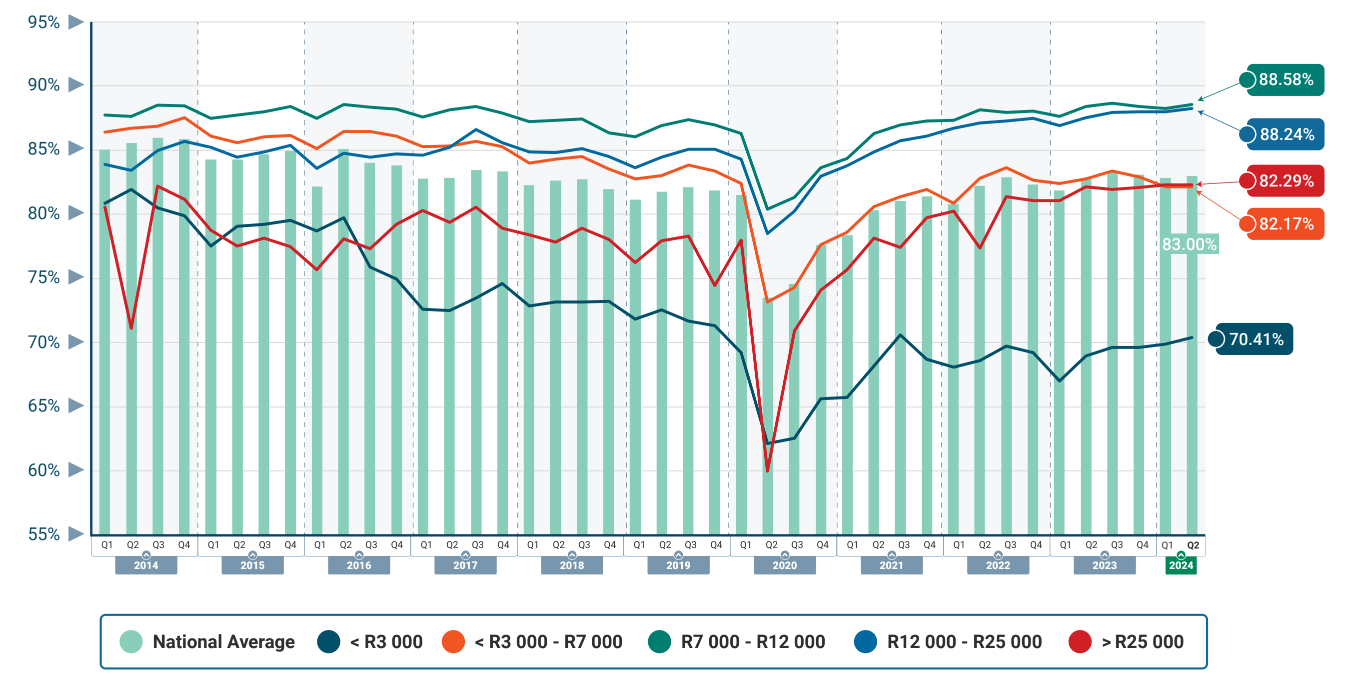


Tenants in the R7 000 to R12 000 rental value band are the best performing when it comes to meeting their rental obligations. The majority (88.58%) are in good standing, boding well for their landlord's cash flow, 75.87% pay their rent on time, and 9.44% pay late. Only 3.56% of tenants in this band failed to make any payment towards their rental in the second quarter.

The second best-performing tenant group are those renting between R12 000 and R25 000 per month. In the second quarter, 88.24% were in good standing, 6.63% made no payment, 10.11% paid late and 8.15% made partial payments.

The luxury rental bracket, with monthly rentals exceeding R25 000 remained stable, with 82.29% of tenants in good standing. Tenants in this rental value band have the second-highest percentage of tenants who did not make any payment towards their rental (6.21%), 11.51% made partial payments and 12.73% paid late, with the remaining tenants paying within a grace period as allowed by their landlord or managing agent.

TPN Residential Rental Good Standing by Rental Value Band

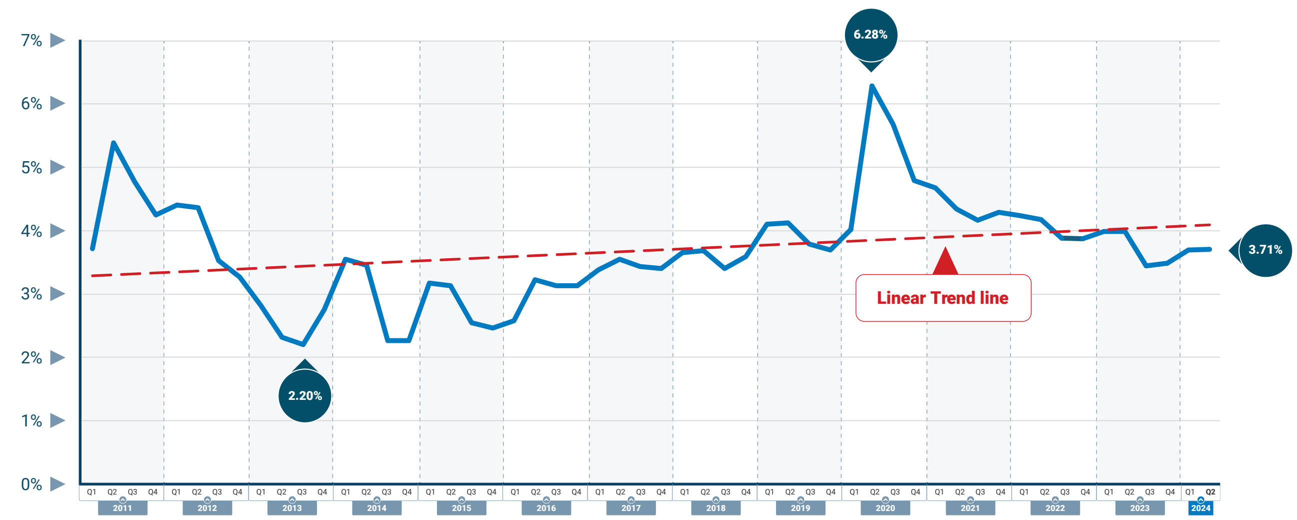


The number of squatting tenants rise

The number of tenants classified as squatting has increased in 2024. The TPN Squat Index rose from 3.48% in the fourth quarter of 2023 to 3.7% in the first quarter of 2024, and 3.71% in the second quarter.

A tenant is classified as squatting if they have not made a rental payment for three consecutive months and are still occupying the property in the fourth month. These tenants pose a real risk to investors and property managers, particularly if action is not taken promptly through the correct channels and within the required regulations.

Percentage of Residential Tenants Classified as Squatting

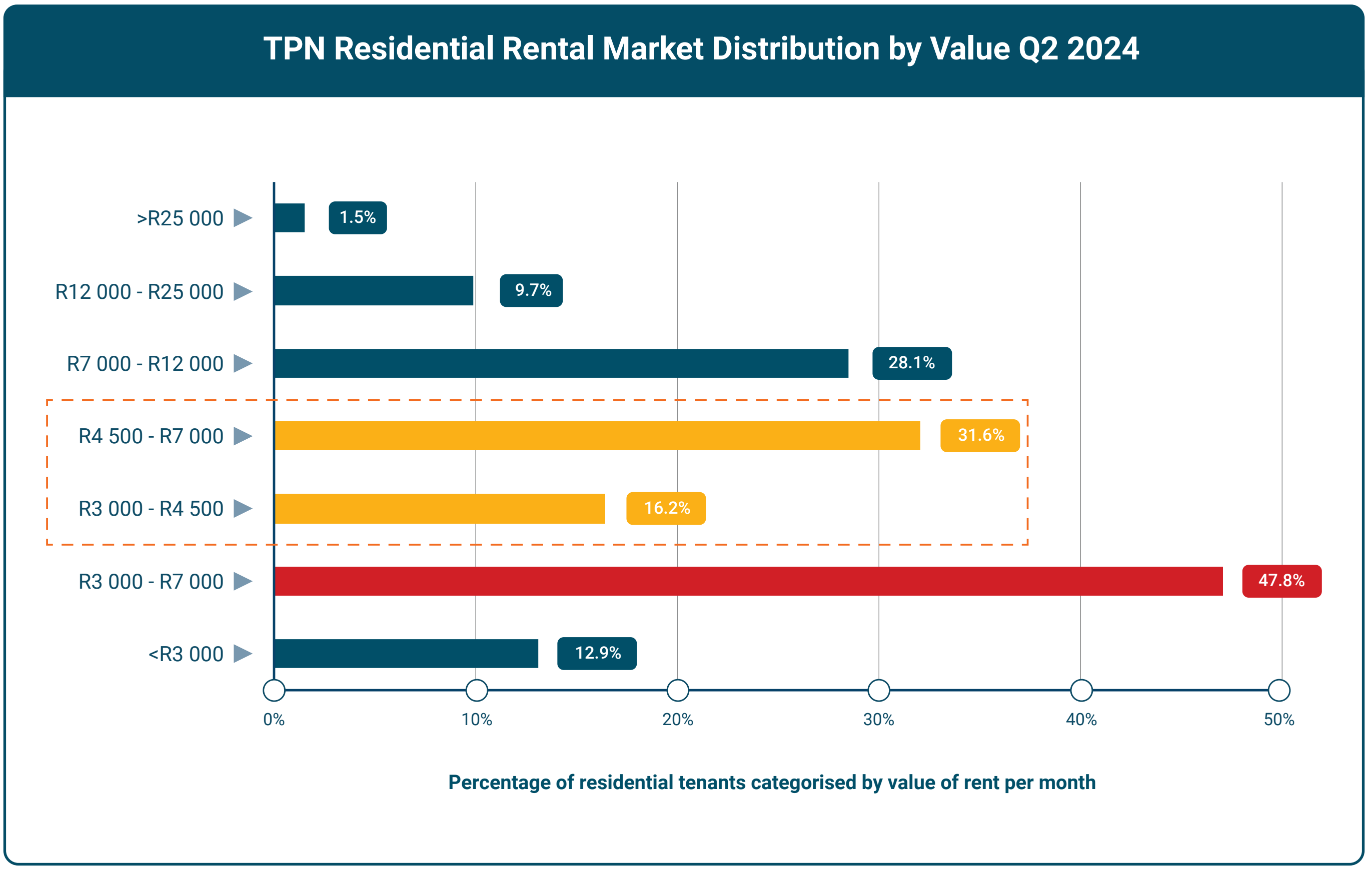


Declining number of tenants in lower rental value bands

There are now fewer tenants in the lower rental value bands compared to a decade ago, even as rental escalations slow down. In the second quarter of 2014, 23.7% of tenants paid less than R3 000 per month. This decreased to 13.1% a decade later. The reason for this is that compounding rental escalations have pushed more tenants into higher rental value bands.

Ten years ago, 61% of tenants paid between R3 000 and R7 000 per month. In the second quarter of 2024, this group accounted for 47.8% of tenants.

- 16.2% of tenants now pay between R3 000 and R4 500.
- 31.6% pay between R4 500 and R7 000, a decline from 2021 levels.
- 28.5% of tenants pay between R7 000 and R12 000, up from just 2.8% a decade ago.
- The luxury market (over R25 000) has tripled in size since 2014, increasing from 0.5% to 1.5% in Q2 2024.



Landlords ease escalations to avoid vacancies

The rental market has not escaped the impact of inflation, and the higher costs associated with owning and maintaining a property. Rental escalations slowed to 4.29% in the second quarter of 2024, down from 4.87% in the previous quarter, as landlords become increasingly sensitive to hiking rentals and running the risk of properties standing vacant. This is reflected in the lower vacancy rates recorded during the same period in the [TPN Vacancy Survey.]

This trend is particularly evident in the low vacancy rate in the less than R3 000 per month rental value band which saw a 7.07% vacancy rate in Q3 2023. More aggressive rental increases in subsequent quarters resulted in double digit vacancy rates in early 2024, illustrating the price sensitivity of this market segment.

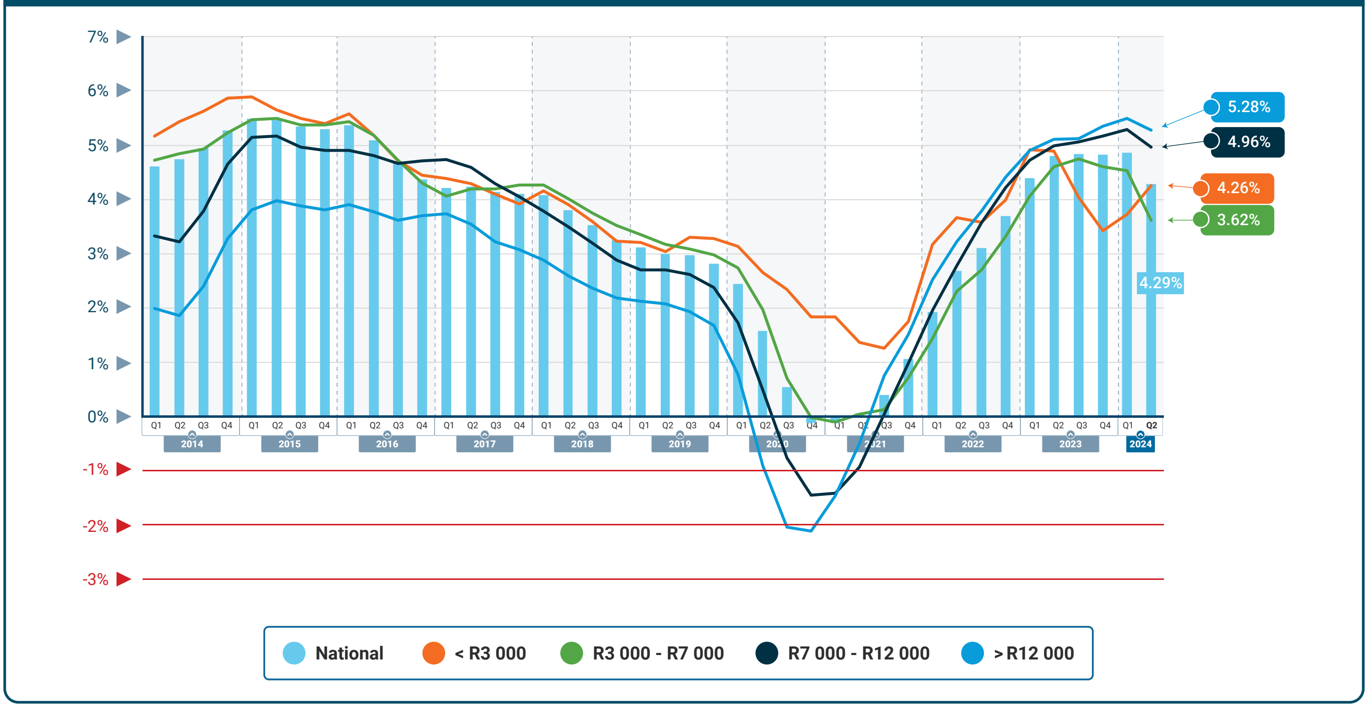
The sharpest slow-down in rental escalations is in the R3 000 to R7 000 rental band. Escalations peaked at 4.75% in the third quarter of 2023 and continued declining to 4.53% in the first quarter, and then 3.62% in the second quarter. Vacancies remain low in this rental bracket.

Rental escalations also slowed for the rental value band between R7 000 and R12 000, dropping from 5.29% in the first quarter to 4.96% in the second quarter of 2024.

The above R12 000 a month rental value band achieved the highest rental growth, although even this figure is slightly down from the previous quarter of 5.49% to 5.28% in the second quarter of 2024.

Landlords and property investors should continue applying escalations with caution as tenants remain under financial pressure while it takes time for them to start feeling the benefits of lower interest rates.

TPN Residential Rental Escalation by Value Band



Provincial performance

The three Cape provinces have the highest good standing rating. **The Northern Cape's** tenants are the most committed to paying their rental with 88.94% in good standing. The province has the smallest number of households in the formal rental market.

The Western Cape has the third highest formal rental population, according to the Stats SA Household Survey 2023. Tenants continue to pay their rental by the end of the month with 88.43% in good standing in the second quarter of 2024, up from 88.36% in the previous quarter. The province also has the highest average rental for both sectional and full title properties.

The Eastern Cape residential rental market has experienced turbulent times as far as vacancies are concerned. However, those units that remained occupied had tenants who were committed to meeting their rental obligations, with 86.01% in good standing.

Mpumalanga's tenants also meet their rental obligations, with 85.5% in good standing, marginally up from the previous quarter. The percentage of tenants that did not make a payment towards their rental remained stable at 4.14%.

Limpopo performed relatively well, although below the national good standing average of 83%, with a provincial good standing of 81.95% declining from 83.43% in Q1. Tenants who did not make payments increased from 5.49% in the first quarter to 5.98% in the second quarter. Historical trends indicate that the third and fourth quarters are harder for landlords to collect rent in this province.

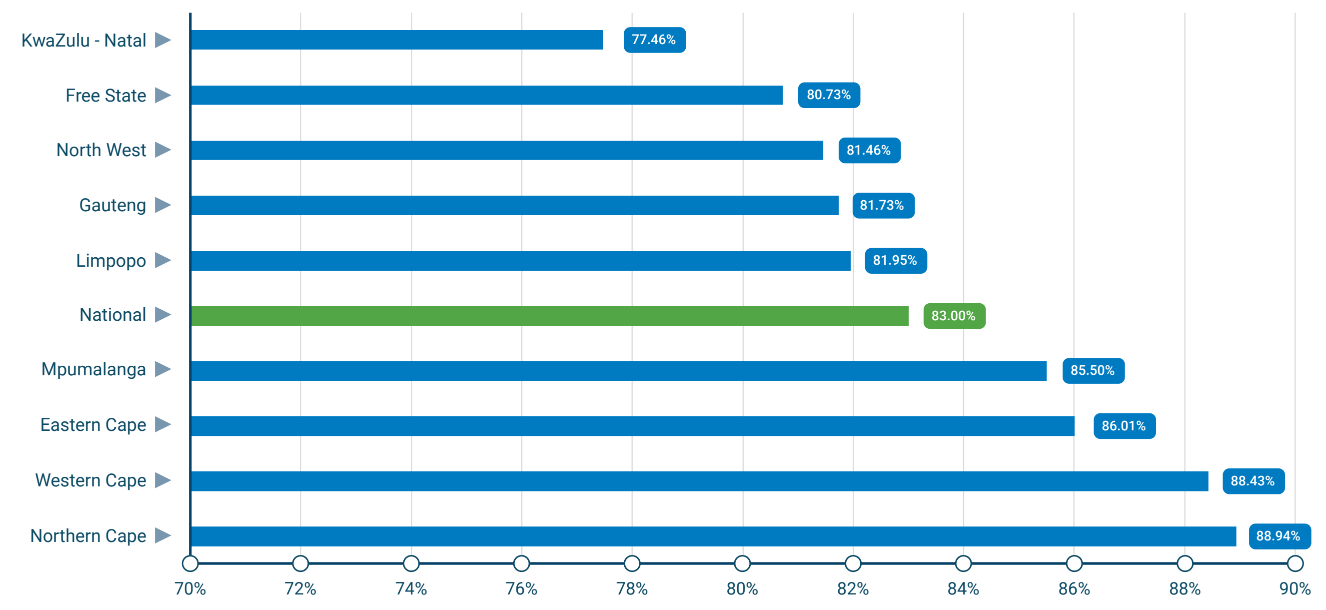
Gauteng, home to the majority of South Africa's tenant population, had a good standing rate of 81.73%, slightly lower than the 81.83% in the first quarter. Although good standing performance weakened, more tenants are paying on time. However, there has been an increase in the number of tenants that only made partial payments.

North West had 81.43% of tenants in good standing, a marked improvement from 77.16% in the previous quarter. The percentage of tenants that did not pay decreased from 7.5% in the first quarter to 5.49% in the second quarter. The province continues to struggle with partially paid and late rental payments.

The Free State struggled with the same issues as the Northern Cape, although more tenants paid on time and there was a small decrease in the number of tenants that did not pay (6.96%), the province had 80.73% of tenants in good standing in the second quarter of the year.

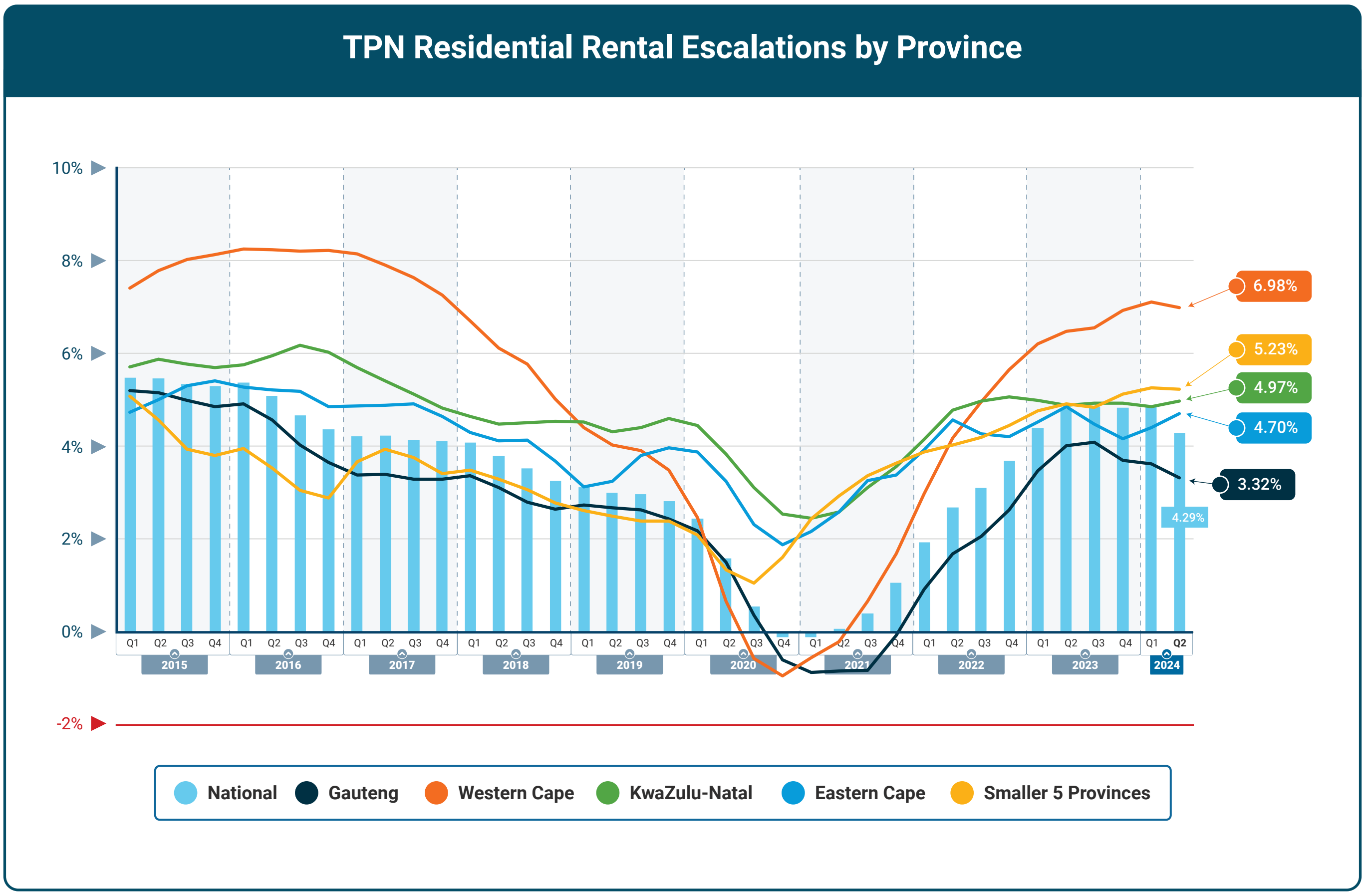
KwaZulu-Natal houses the second-highest number of formal tenants in South Africa according to the 2023 Stats SA Household Survey. Although tenants in good standing improved from 76.35% in the first quarter to 77.46% in the second quarter, the number of tenants in good standing remained well below the national average. Almost 8% of tenants in the province did not make any payment towards their rental obligation, while 14.6% only made partial payment. Historically, KwaZulu-Natal has seen poor rental payment behaviour but recovered well post pandemic until 2022, when good standing figures slipped significantly lower than the other large population provinces. Second quarter data indicates that there is reason to be hopeful that landlords are in for improved rental collections. The average rental in the province remains high for both full-title and sectional-title rental properties.

TPN Good Standing by Province



Balancing vacancies with realistic rental prices

As property investors navigate various economic and social factors, they are being forced to balance vacancies with realistic rental prices given that consumers remain under financial pressure. Nationally, rental prices escalated by 4.29%, down from the previous quarter's 4.87%.



Gauteng has experienced three consecutive quarters of slower rental value growth. Rental escalations recovered well in the first two quarters of 2023 but have since been on a downward trajectory with rentals in the province slowing to 3.32%.

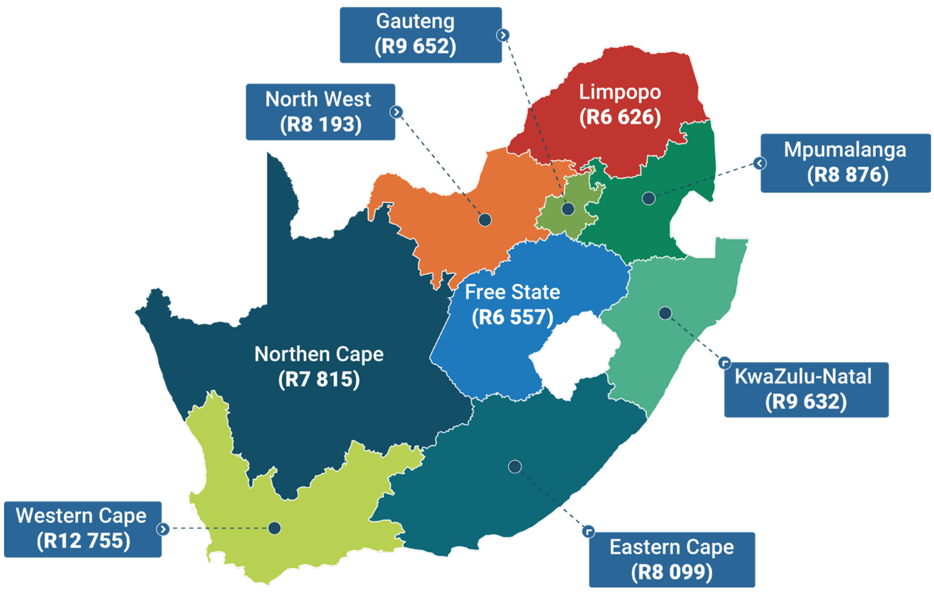
In the **Western Cape**, the rental escalation trajectory has reached a turning point. After robust rental escalations at 7.10% in the first quarter, escalations have now slowed to 6.98% in the second quarter.

KwaZulu-Natal, on the other hand, showed a slight uptick in rental escalations compared to the first quarter (4.86%) to 4.97% in the second quarter. The data indicates that escalations will remain at this level while vacancies continue to be high, forcing investors to focus on collecting rentals on time as their priority.

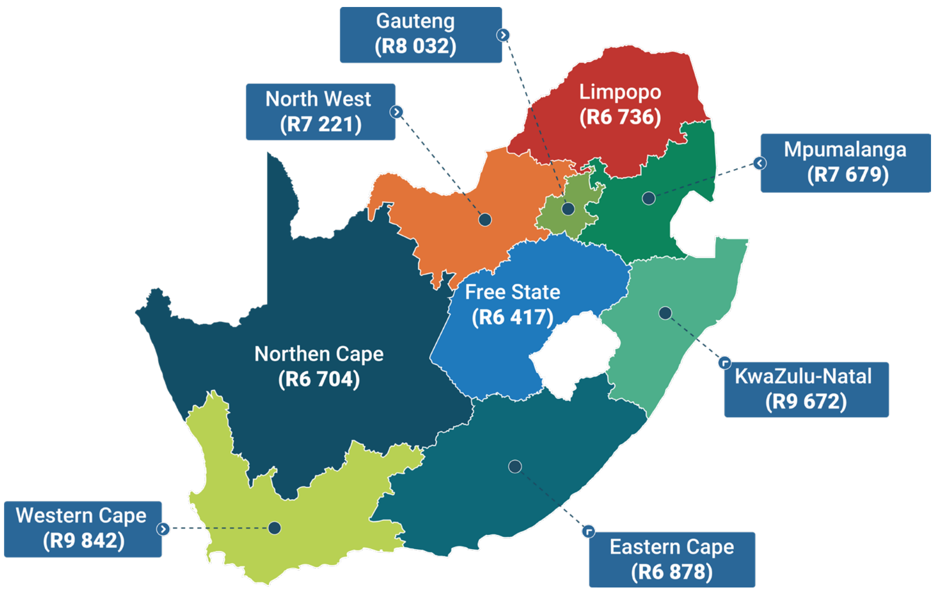
In the **Eastern Cape**, rentals escalated more rapidly quarter on quarter. Rental growth jumped from 4.16% in the fourth quarter of 2023 to 4.41% in the first quarter of 2024 and 4.7% in the second quarter. The Eastern Cape, a province struggling with elevated vacancies, appears to be slower to respond to market demand.

The other five provinces have smaller tenant populations. Combined, they had rental escalations of 5.23%, marginally down from the previous quarter.

Average Rental – Full Title Property

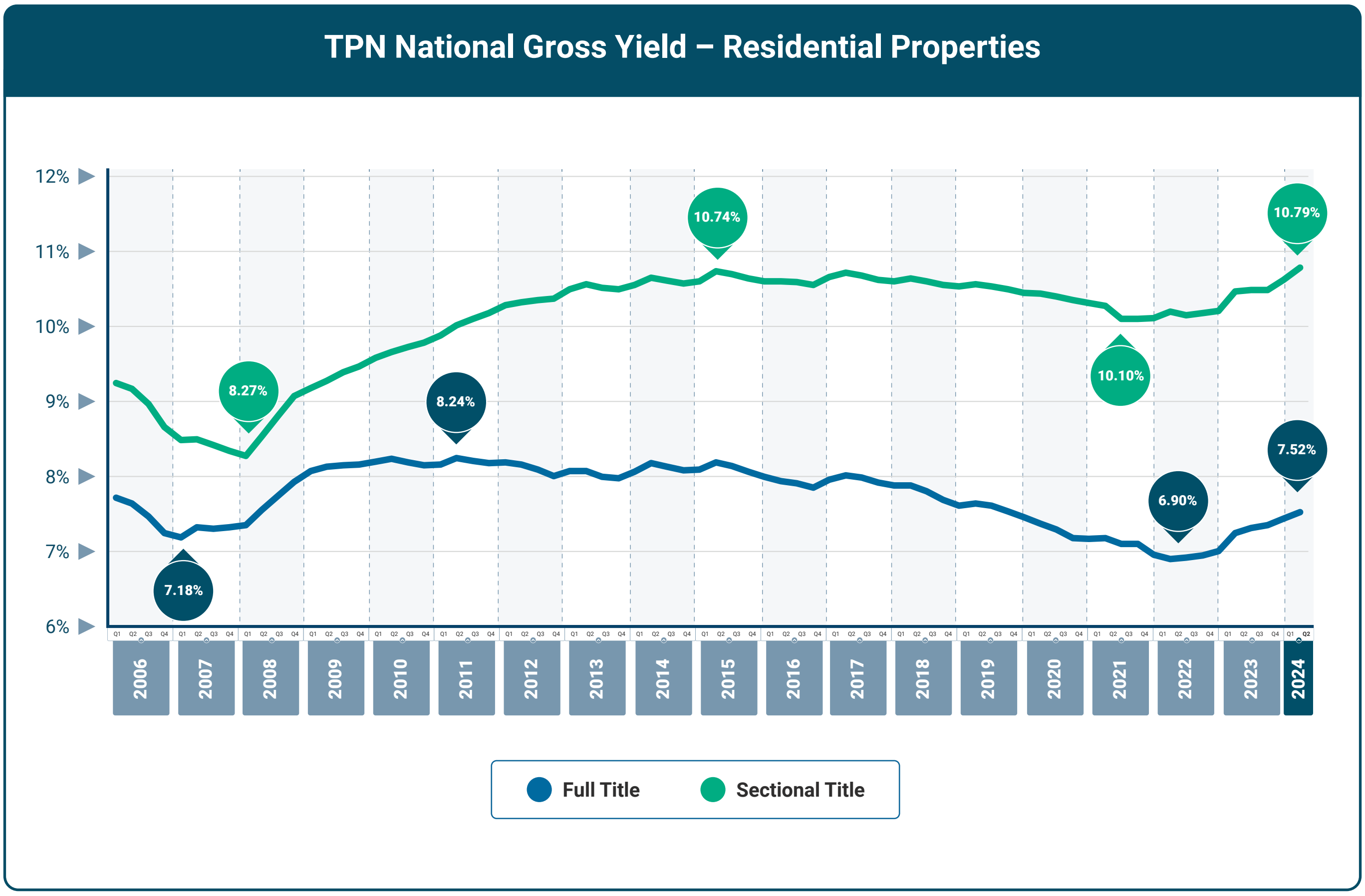


Average Rental – Section Title Property



Property investors have remained hopeful that rental growth would continue its upward trend to keep up with rising costs. A price-sensitive market, however, has seen investors look to good-quality tenants rather than aggressive rental growth with their efforts focused on operational efficiencies and accuracy to keep showing returns.

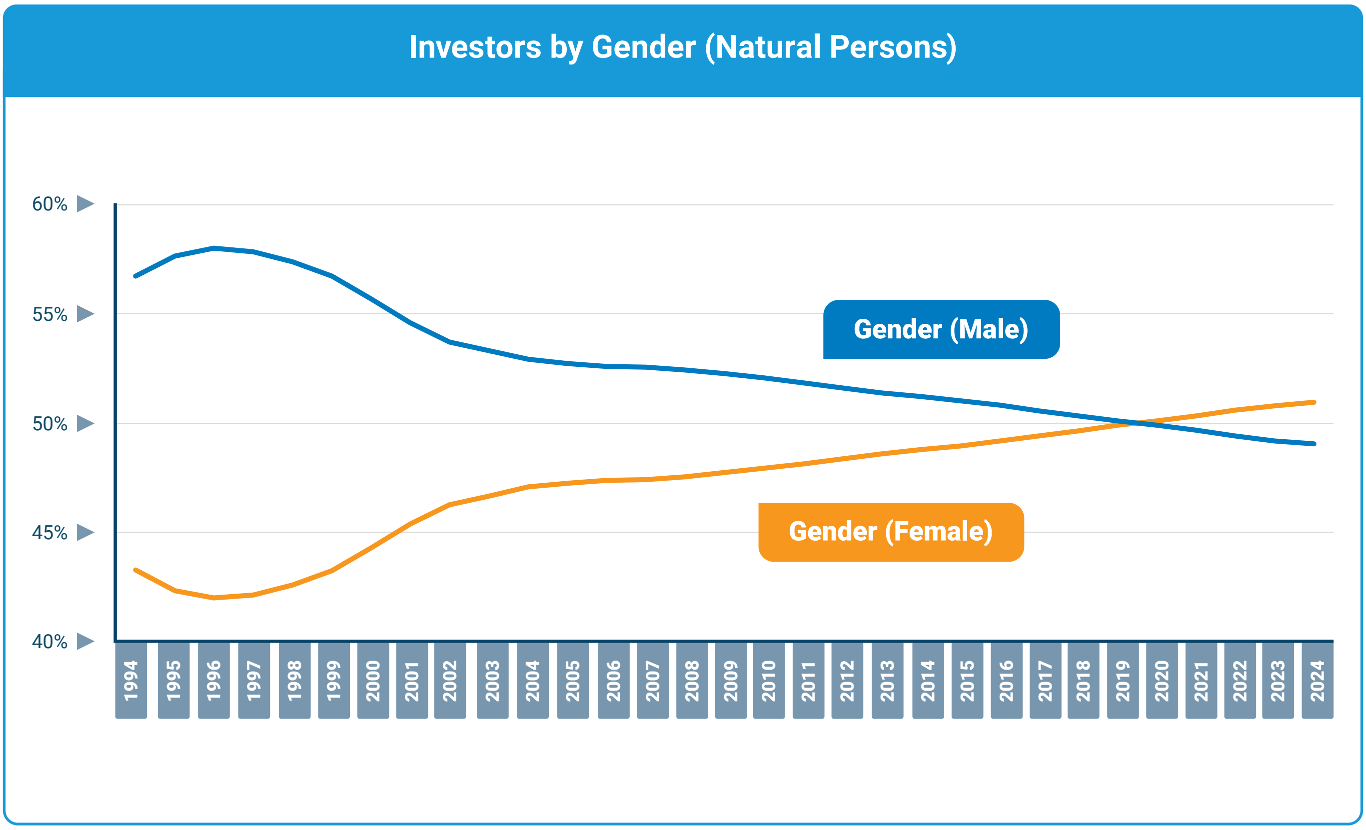
The TPN Residential Gross Yield shows a record return on sectional title properties of 10.79% in the second quarter of 2024. Sectional title properties have historically performed better than full title properties. The demand for sectional title properties remains strong as it offers better security which remains a key consideration for tenants. Having said that, full title rental yields are also improving with the national full title yield increasing from 7.44% in the first quarter to 7.52% in the second quarter.



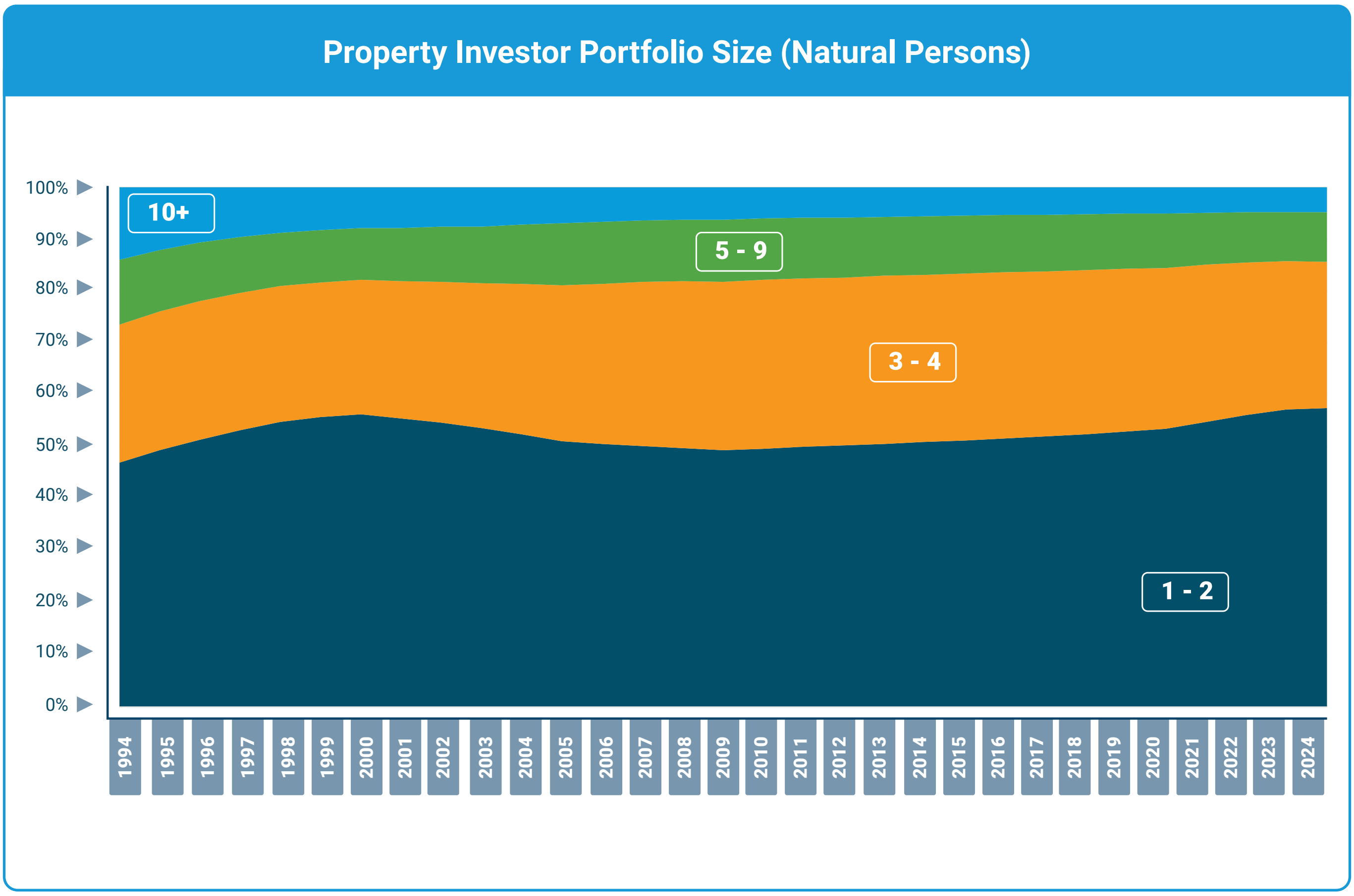
Women have surpassed men as individual property investors

An interesting trend, based on the TPN deeds database, is that individual investors are holding smaller portfolios. The data is based on the number of properties associated with a specific ID or passport number. Individual investors are defined as natural persons with more than one property on their unique identifier. In the last three decades, the percentage of investors with ten or more properties has declined from 14% to 4.8% in 2024. The lowest number of new investment properties were acquired in 2023.

Property investors are increasingly moving their portfolios to more tax-efficient vehicles such as companies and trusts as these options have become available to a broader audience. There are now fewer barriers to entry for holding property in a juristic entity, the latter which offers better protection to grow a property business.



Between 2006 and 2015, we saw more property investors with three to four properties, while portfolios with 10 or more properties decreased. Micro investors, those with only one or two investment properties to their name, started increasing again after interest rates started escalating in 2021, marking a slowdown in larger individual property investment. Since 2020, women have outpaced men in individual property investments, with their share of the market increasing from 42% of the individual investor market in 1996 to over 50% today.



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.

Written by Waldo Marcus, Marketing Director, TPN from MRI Software