TPN Vacancy Survey

Summer season setback as international travel ban locks out holiday tourists

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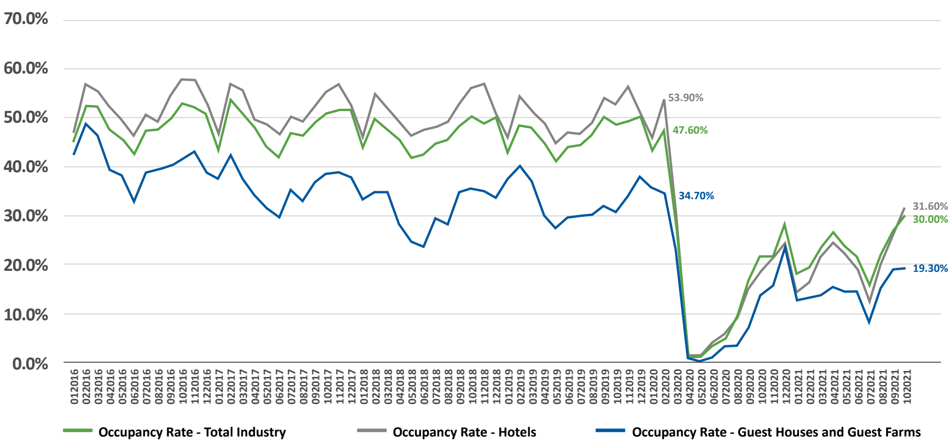
The December drama continues as hotels and guest houses face a second year of tourist restrictions. Holiday occupancy rates will again be curtailed and as a result, short term rentals will be converted into long term rentals. The residential rental market should brace for higher vacancies.

TPN TOURIST ACCOMMODATION OCCUPANCY RATES



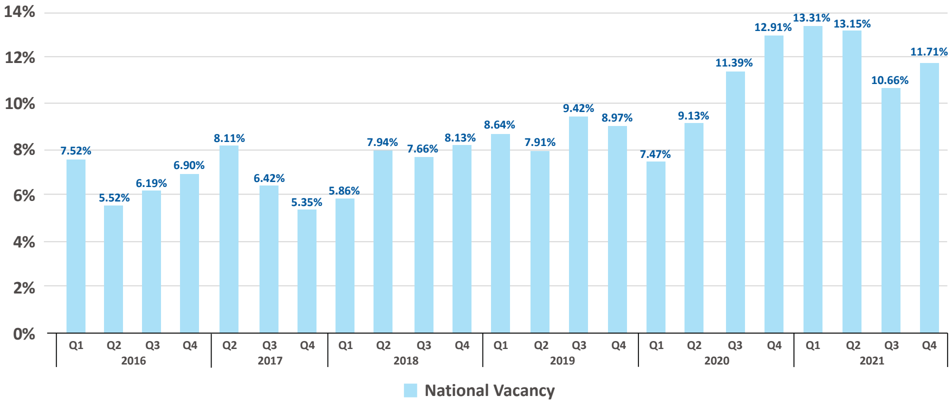
Source: StatsSA

The tourist industry usually operates at fifty percent capacity. In February 2020, the month preceding the hard lockdown, the total occupancy rate was 47.60%, effectively dropping to zero in the Easter Holiday month, with a mere 1.2% occupancy. The road to recovery is elusive as total occupancy levels remain weak at 30% in October 2021.

The lifting of the three-week international travel ban in mid-December provided welcome relief to the tourism industry. The damage of business disruption in the height of their busiest month will be devastating for some operators.

Residential rentals have also come under pressure with higher vacancy rates during the pandemic period. Landlords lived with limited vacancies at 7.47% prior to the pandemic. As unemployment ballooned to 34.9%, an additional 2.1 million people were left jobless since the declaration of the State of National Disaster.

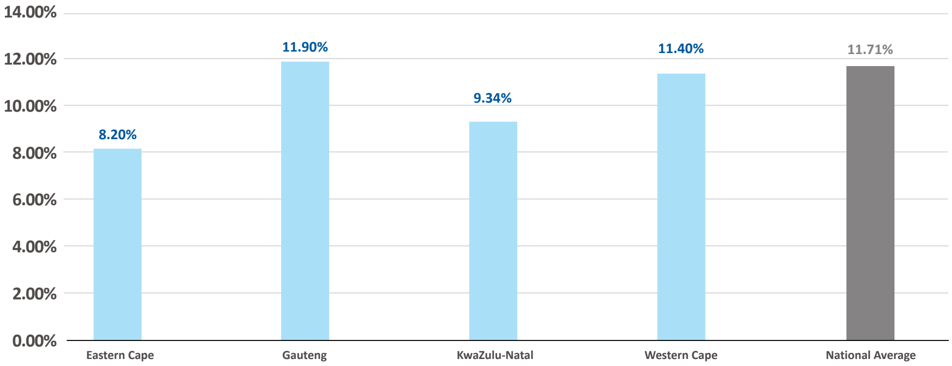
VACANCY RATE NATIONAL



The height of the pandemic saw vacancy rates top out at 13.31% ranging in the thirteen percent band for December holidays in quarter 4 of 2020 and the first half of 2021. Finally, in the preceding quarter, the vacancy rate dropped to 10.66%. The mass unrest in July fed into a sharp increase in unemployment, the 660,000 jobs lost translating into less demand for rental property. And with that, the December international travel ban translates into an increase in long term rental property stock. Less tenant demand coupled with additional properties available, has led to landlords feeling the impact of an increased vacancy rate of 11.71% in the last quarter of 2021.

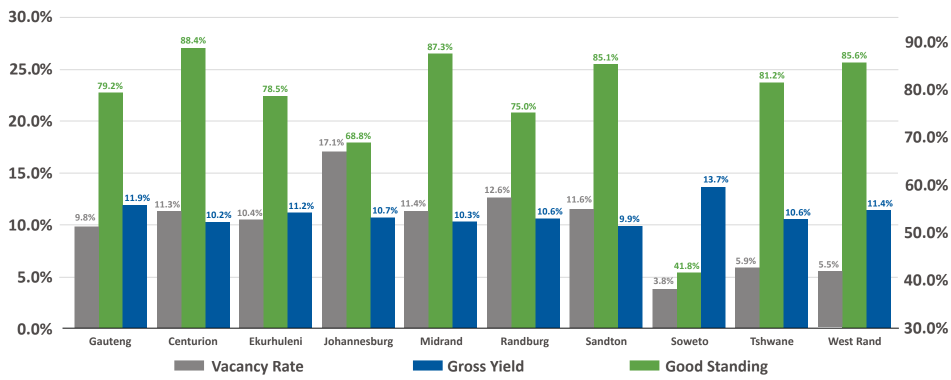
LOCATION, LOCATION, LOCATION

VACANCY RATE 2021 Q4 BY PROVINCE



Gauteng is home to nearly half of all tenants in South Africa, 2.8 million households rent in this booming province. Tenant demand for rental property in Gauteng is back to pre-pandemic levels at 57.21, supported by 66% of households who receive a salary as their main source of income. Supply of rental property in Gauteng remains stubbornly high with a supply rating of 74.77. For Gauteng landlords, this translates into an over supplied rental market with a Market Strength Index of 41.22, and although this is an improvement from 39.31 in the previous quarter, an over supplied market means the vacancy rate remains high at 11.9%.

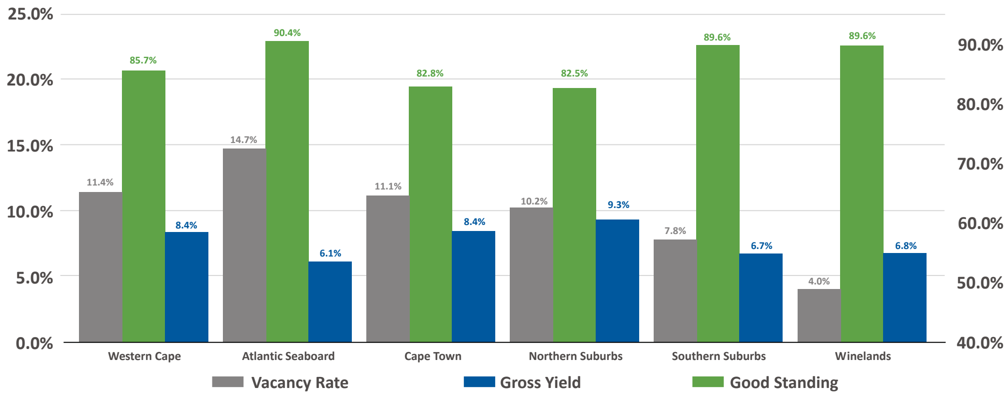
TPN **GOOD STANDING, VACANCY RATE AND GROSS YIELD: GAUTENG**



WESTERN CAPE

Western Cape is the second largest province hosting 738,000 tenanted households. Western Cape also boasts the highest level of salaried households at 68%. Tenant demand in Western Cape is improving at a rating of 63.01 coupled with an improved supply rating of 59.16, this puts Western Cape back in the pleasant position of excess demand for rental property with a Market Strength Index of 51.93. Although we must caution that this survey was performed prior to the December international travel restrictions and we expect some deterioration in demand as tourists did not arrive on planned vacations, forcing short term rentals back into the long term rental market. Western Cape landlords benefited from the improvement in tenant demand and the vacancy rate declined from its high of 14.38% in Q2 to 11.4% in last quarter of 2021.

TPN **GOOD STANDING, VACANCY RATE AND GROSS YIELD: WESTERN CAPE**



KWAZULU-NATAL

The third most populous province for tenants is KwaZulu-Natal with 664,000 households in rented accommodation. Households rely equally on salaries and social grants. 9.34% of rental properties are vacant, driven by a deteriorating demand rating of 56.34 and slightly increased supply rating at 57.04, causing the Market Strength Index to slip into a tenant market of excess supply with a Market Strength Index of 49.65.

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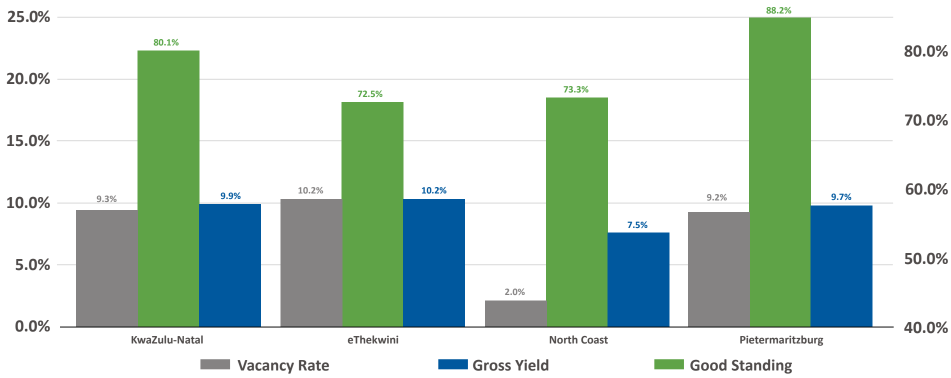
GOOD STANDING, VACANCY RATE AND GROSS YIELD: KWAZULU-NATAL



EASTERN CAPE

The last of the four major provinces is the Eastern Cape, home to 427,000 tenanted households. Eastern Cape supports 64% of households with social grants, highlighting the desperate reality that only 46% of Eastern Cape households receive a salary. This is penultimate only to Limpopo with 45% of their household population receiving a salary. A lack of property development leaves this province with a low supply rating of 53.17 coupled with a demand rating of 62.70 which translates into a Market Strength Index of 54.76. High demand means lower vacancies of 8.20%.

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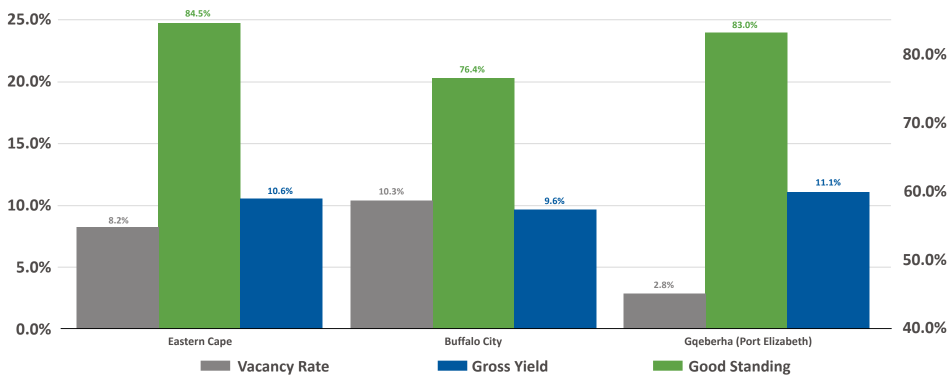
GOOD STANDING, VACANCY RATE AND GROSS YIELD: EASTERN CAPE



CONCLUSION

Tenants remain price sensitive, although landlords will feel a measure of relief as rental escalations turned positive in quarter 3 to 0.4%. Half a percent increase in rent per annum is insufficient to cover the inflation based and higher property expenses on top of interest rate increases, the first 25 bps increase in November with more increases expected in 2022.

The Market Strength Index strengthened to 47.2, which is still a tenant market but one that is clawing its way back to 50 - a market in equilibrium - where we see sufficient supply to meet demand.