TPN Vacancy Survey

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Double digits but a definite downward trend in vacancies

In This Edition:

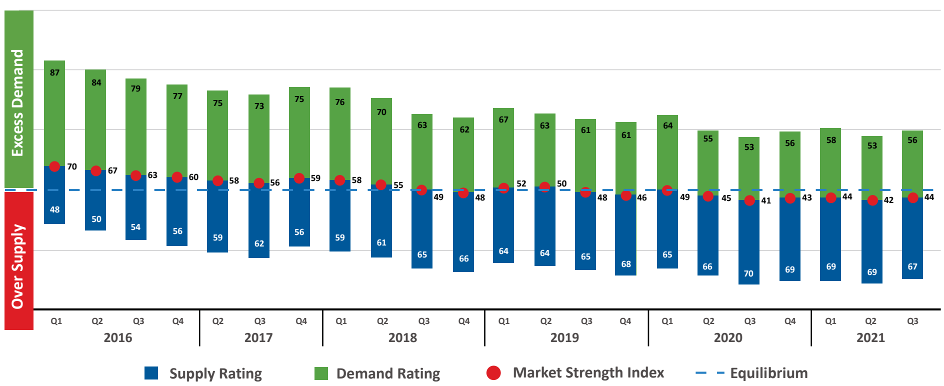
Housing costs, water, gas, and other fuels account for 15.9% of household expenditure, add another 13.5% for miscellaneous goods and services, aka rent, and that is thirty percent of your tenant's salary spent.

Factor in another 15.6% for transport costs, and close to half their pay check is spent on just housing and transport. A powerful incentive driving tenant behaviour towards cost saving - downscaling, co-habitating or moving in with friends and family.

Tenant demand for rental property in the third quarter of 2021 remains weak, hovering at a demand rating of 56, a reflection of the pandemic job loss carnage. The hard lockdown wiped out 14% of all jobs in a single quarter. After some initial job recovery, the unemployment situation remains dire at 34.4%, meaning 1.4 million pre-pandemic jobs lost. In fact, the unemployment situation deteriorated again in the latest quarter - worryingly 375,000 more jobs were lost in the formal sector in Q3 2021.

Property practitioners report that the supply of rental property also remains at pre-pandemic highs with a rating of 67. This weak tenant demand coupled with supply highs translate into a Market Strength Index of 44, in short an over supplied residential rental market.

TPN RENTAL MARKET STRENGTH INDEX
NATIONAL



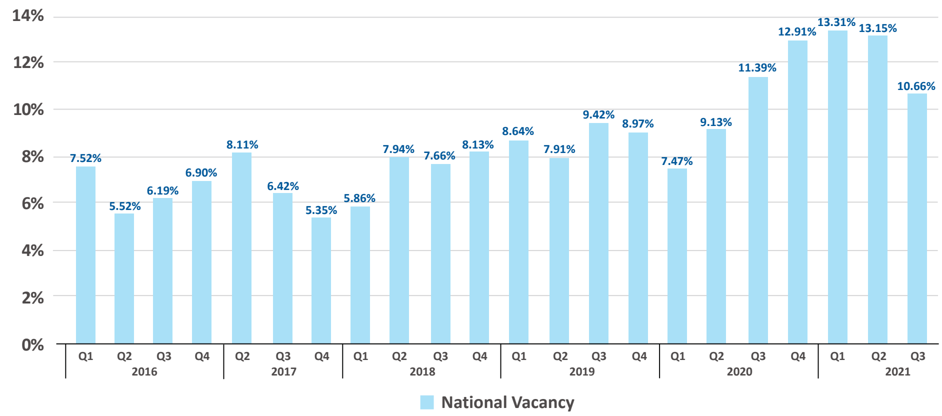
The TPN Market Strength Index is the perception of estate agents and landlords' experience of the residential rental market. Participants are asked to rate whether the demand by tenants looking for rent in their town is strong (100), average (50) or weak (0). A similar question is posed for their perception of whether supply of rental properties in their town is strong (100), average (50) or weak (0). Data is aggregated to provide a Demand Rating, Supply Rating and the difference is the market Strength Index where a result of 50 would suggest a market in equilibrium.

Vacancy Rate Recovery

An over supplied rental market with weak tenant demand has played out in high vacancy rates. And although unemployment remains stubbornly high at 34.3%, the average monthly earnings paid to employees in the formal sector increased 9.7% year-on-year in May 2021 (Quarterly Employment Statistics).

Encouragingly, vacancy rates may have peaked and have dipped to 10.66% in Q3 2021. Still double digits, but at least trending downward from 13.15% the previous quarter.

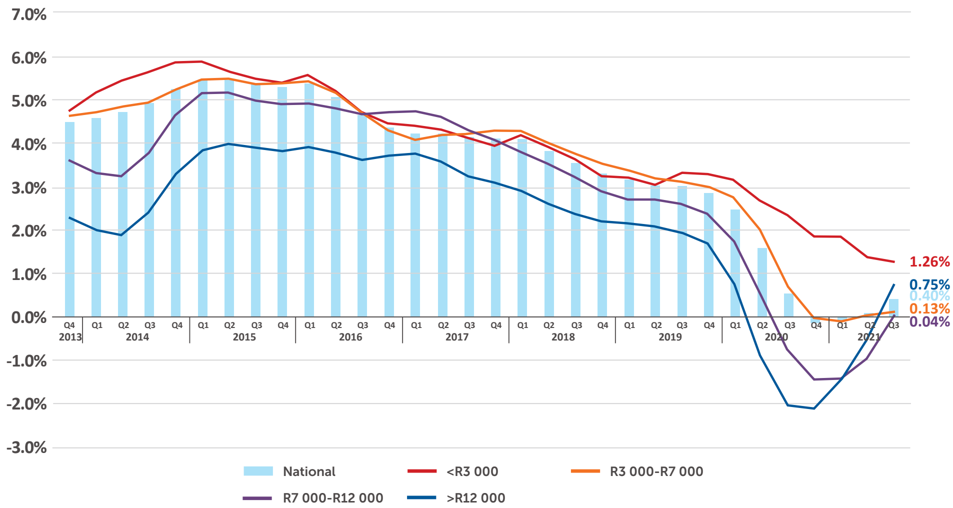
VACANCY RATE NATIONAL



Higher salaries do not always translate into more disposable income, CPI is on the increase at 4.9% and creeping upwards. And now consumers must also factor in the higher cost of interest, the first 25 basis points increase took effect last week with a predicted upward cycle of increases due in 2022/23.

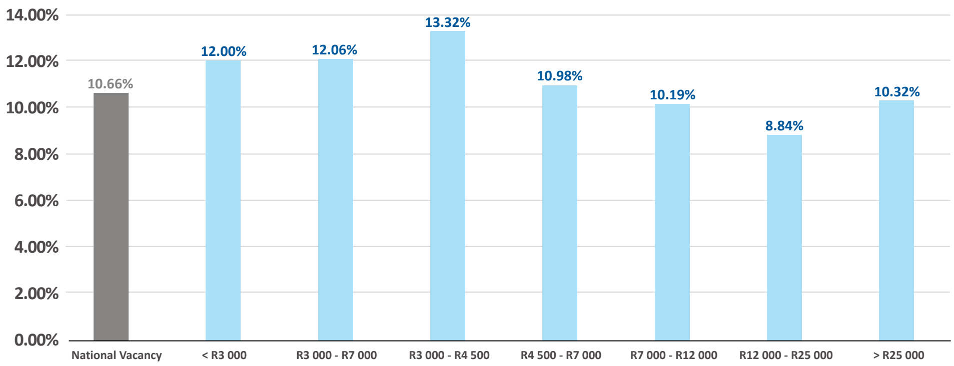
Residential rentals have also reached the bottom of negative escalation, starting to rise into positive territory at 0.4% in Q3 2021.

TPN RENTAL ESCALATION BY RENT VALUE



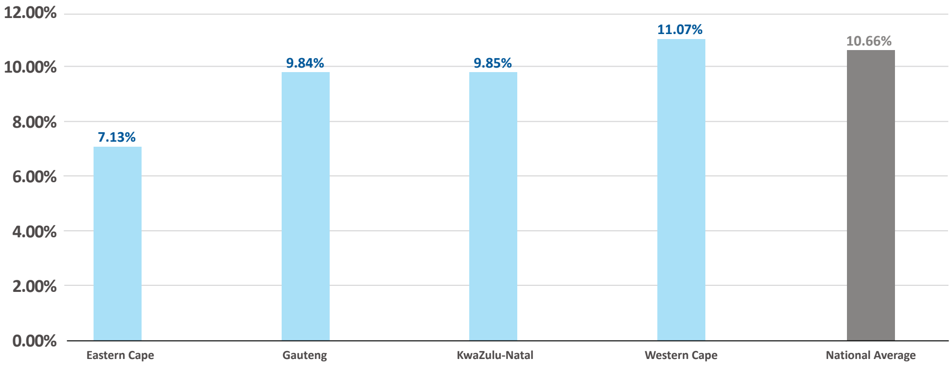
Rental escalation across all the rental values charted back into positive territory. The one segment of the market which escaped negative escalation are the low value rentals below R3,000 per month, with a current escalation of 1.26% but on a downward slope.

TPN VACANCY RATE 2021 Q3 RENTAL VALUE



Low value rentals are most affected by persistent high vacancies, rentals below R3,000 per month experiencing 12% vacancies and those between R3,000 to R4,500 are 13.32% vacant.

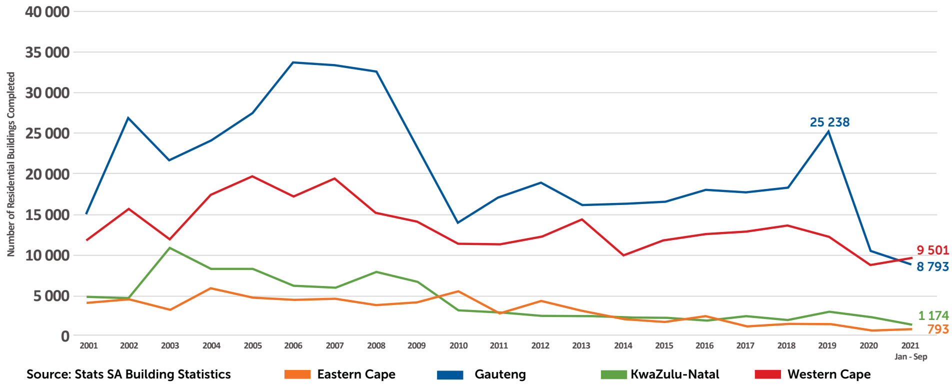
VACANCY RATE 2021 Q3 BY PROVINCE



Of the large four provinces, only the Western Cape remains in double digit vacancy at 11.07%, Gauteng, KwaZulu-Natal and Eastern Cape at 9.84%, 9.85% and 7.13% respectively.

Residential building activity nearly halved year-on-year from 45,342 completed flats and houses in 2019 to 24,178 in 2020. And, only 22,270 completed properties in the first 9 months of 2021. All provinces experiencing a delayed uptick in building activity barring Western Cape which has outperformed 2020 numbers in the 2021 year to date.

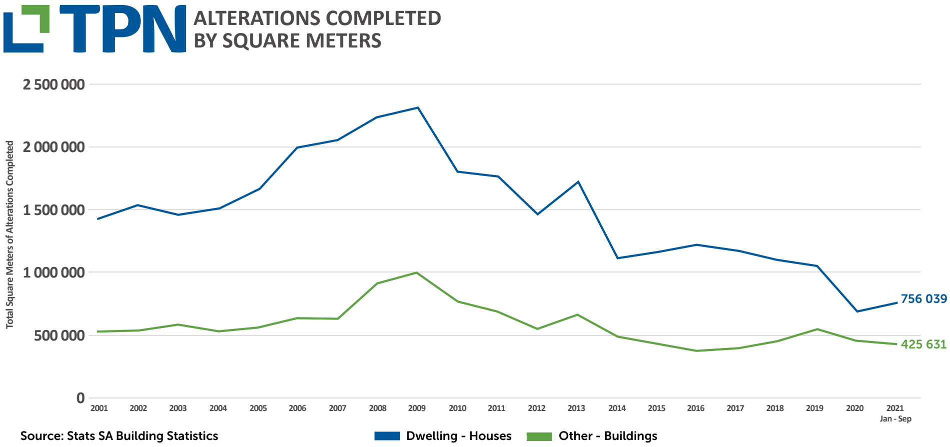
RESIDENTIAL BUILDINGS COMPLETED BY PROVINCE



Gauteng building activity surged in the 2019 period with 25,238 residential flats and houses completed. The lockdown year of 2020 slashed residential buildings completed to 10,373, and 2021 so far only recording 8,793. In fact, Western Cape now outperforming Gauteng in the number completed.

Fewer new buy-to-let properties may be a welcome relief for struggling landlords, burdened with high vacancies while having to compete against larger players with highly available price-reduced rental portfolios.

Activity in alterations also subdued, post the global financial crisis there has been a long slow decline in the number of square meters added to residential housing. The data fails to provide insight on office to residential conversions as changes to the interior of buildings are not recorded.



Conclusion

The interest rate hiking cycle will put pressure on tenants in good standing in the next 6 to 9 months. Vacancies, escalation and delinquency remain the key metrics for landlords to weigh up while seeking to maximise profitability.