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TPN Residential Vacancy Survey Report Q2 2024

Rise in national vacancies as demand declines

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Introduction

Vacancy rates have increased across all provinces and rental value bands, reflecting a shift in market dynamics driven by various factors, including fluctuating supply and demand, economic pressures, and evolving consumer behaviour. While persistently high interest rates previously bolstered the rental market, the latest data suggests a potential turning point, with vacant properties rising in every area and across all rental segments.

The latest TPN residential vacancy survey has shown a notable rise in national vacancies between Q1 to Q2 of 2024. Rental vacancies have been gradually increasing since 2018, even during periods of stable interest rates, this trend has been driven by a growing supply of rental properties which continued to expand until 2020. More recently, rental market supply has started to decline due to rising interest rates and decreasing consumer and business confidence.

For the first half of 2024, the average annual vacancy rate is 5.57%, a reduction of 17.21% compared to the previous year. Despite the uptick in vacancies during Q2, the first half of 2024 still maintains the lowest average annual national vacancy rate since 2016. Q1 of 2024 even recording the lowest national vacancy rate since the survey began in 2016, with market sentiment suggesting that low vacancies could continue for the rest of the year.

However, residential vacancy rates increased from 4.42% in Q1 to 6.72% in Q2. An increase from Q1 to Q2 is not uncommon as it reflects properties under shorter-term leases being occupied during the end of the festive season and student accommodation starting in Q1 temporarily boosting occupancy rates in the lower rental value bands. Yet, some property owners have reported students vacating early due to financial or academic challenges, leaving units empty. Higher rental escalations earlier in the year also negatively impacted occupancy rates, especially in the lower rental value bands.

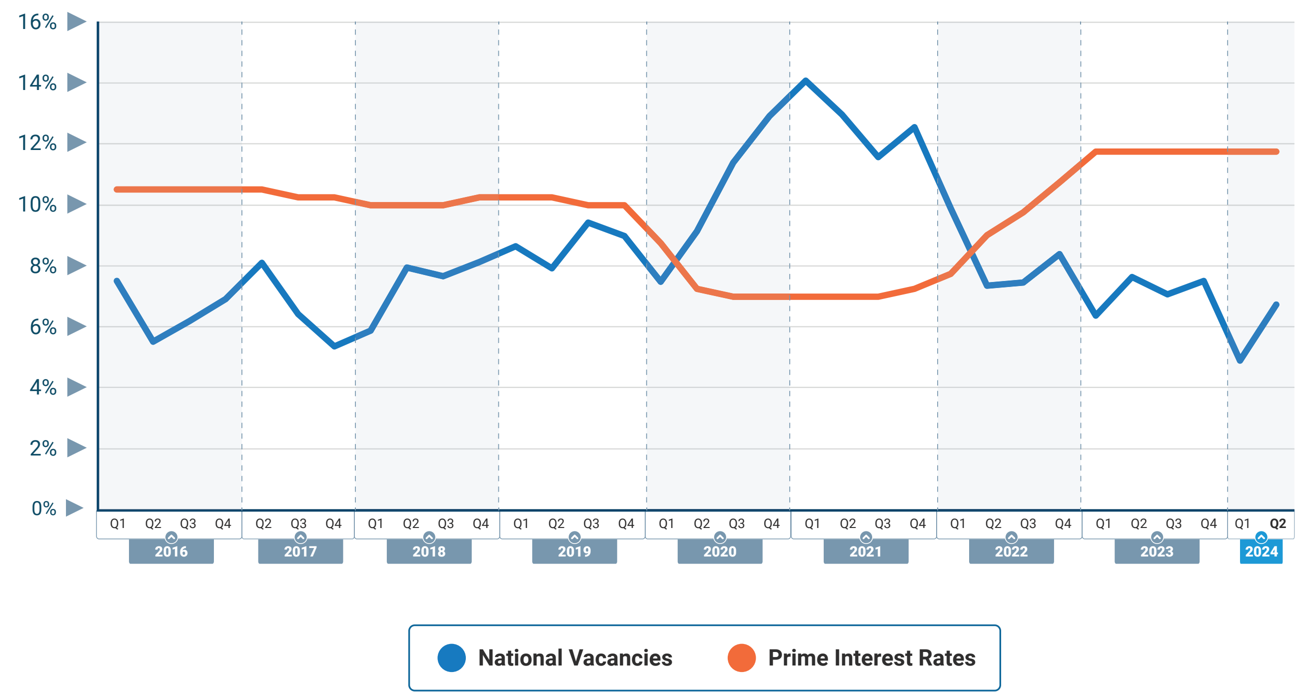
National Residential Vacancy Rate

Economic outlook for rental investments

There are growing expectations that the South African Reserve Bank (SARB) will begin cutting interest rates as inflation trends toward its target midpoint of 4.5%. As of May 2024, inflation stood at 5.2%, still above the target range, with the Consumer Price Index (CPI) projected at 4.9% for the year. This figure is slightly below the previous projection of 5.1% by the Monetary Policy Committee (MPC). Additionally, consumer confidence has shown signs of improvement, rising from -15 to -12 points, the highest level seen in 18 months, according to the Bureau for Economic Research.

If interest rates are reduced and consumer confidence continues to strengthen, the property market could experience increased purchasing activity. This shift could have a dual effect: an increase in rental property supply due to more investments in the market, and a potential decline in rental demand as more consumers shift from renting to buying. Both scenarios will influence residential vacancy rates in the long term. In the short to medium term, well-managed rental properties are expected to remain occupied and in demand.

National Residential Vacancies Compared to Prime Interest Rate

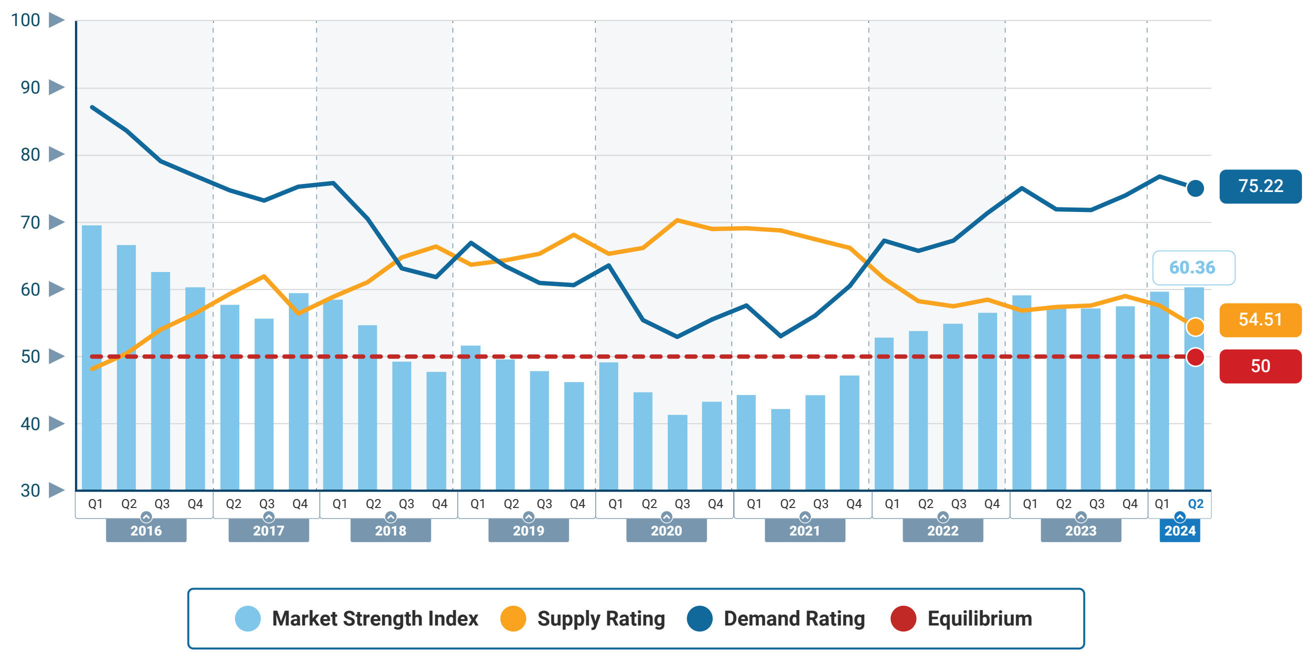


TPN Market Strength Index

Since the SARB initiated its interest rate hike cycle in 2021 to control consumer price inflation, the rental market has experienced increased demand against a backdrop of shrinking supply. This has benefited property investors, resulting in lower vacancies overall.

The TPN Market Strength Index, which measures perceived supply and demand in the rental market, showed a slight increase from 59.66 points in Q1 to 60.36 points in Q2 2024. A reading above 50 points indicates that rental demand is still outpacing supply. This improvement in the quarterly index is primarily driven by a decrease in the overall supply rating, which fell from 57.54 to 54.51 points from Q1 to Q2. Meanwhile, rental demand saw a slight dip from 76.85 points in Q1 to 75.22 points in Q2. Overall, despite the higher vacancy rates in Q2, the demand for rental properties remains strong.

TPN Residential Rental Market Strength Index



Two coastal provinces jump to double digit vacancy rates

The TPN Vacancy Survey for Q1 has shown that all four provinces measured - KwaZulu-Natal (KZN), the Eastern Cape, Gauteng, and the Western Cape - had an increase in the number of vacant rental units compared to the previous quarter. Among these, KZN and the Eastern Cape experienced the most significant increases, with both provinces seeing vacancy rates return to double digits.

Comparing year-on-year (Q2 2023 and Q2 2024) vacancies rose in KZN and the Eastern Cape, while Gauteng and the Western Cape reported fewer vacancies to align with the national average vacancy trend, which declined from 7.27% in Q2 2023, to 6.72% in Q2 2024.

Eastern Cape

The vacancy rate in the Eastern Cape reached 12.94%, marking an increase of 9.4 percentage points from the previous quarter. This rise is attributed to a combination of increased supply and decreased demand in the market. The province's rental market strength index dropped from 58.33 to 56.9 points, reflecting a weakening market.

KwaZulu-Natal

KZN displayed a similar trend, with an increase in supply and weakened demand, leading to an 11.2% rise in vacant units from Q1 to Q2 2024. In Q2, 17.61% of residential units in KZN were vacant. The rental market strength index fell from 58.33 to 55.42 points, underscoring the impact of reduced demand and increased supply driving vacancies up in the province.

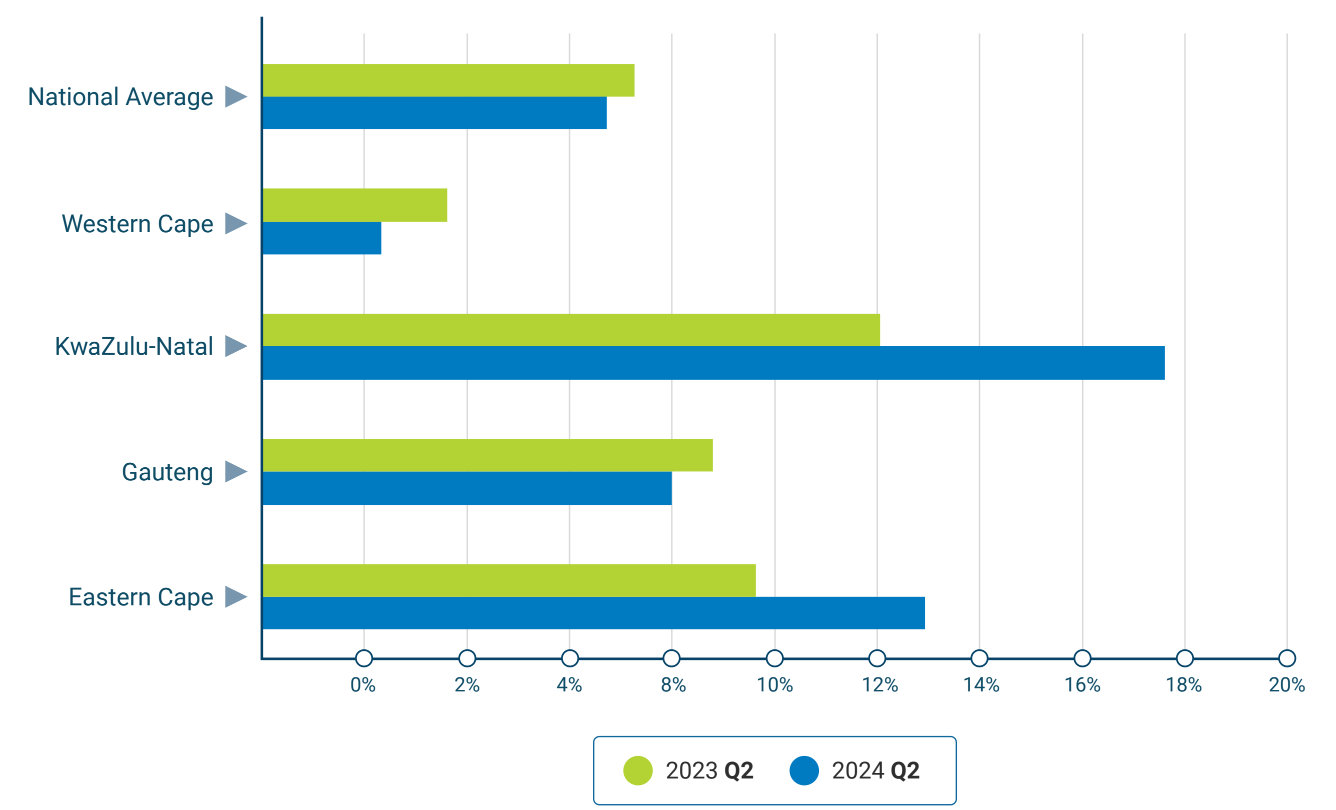
Gauteng

The vacancy rate in Gauteng climbed to 7.99%, up from 4.3% in Q1 2024. This figure places the economic hub of South Africa above the national average vacancy rate of 6.72%. The rental market strength index remained stable at 51.03 points, as both supply and demand decreased at the same rate with a supply rating at 64.58 and demand at 67.63. Notably, demand for rental properties in Gauteng has outstripped supply for two consecutive quarters, indicating some positive momentum in the market.

Western Cape

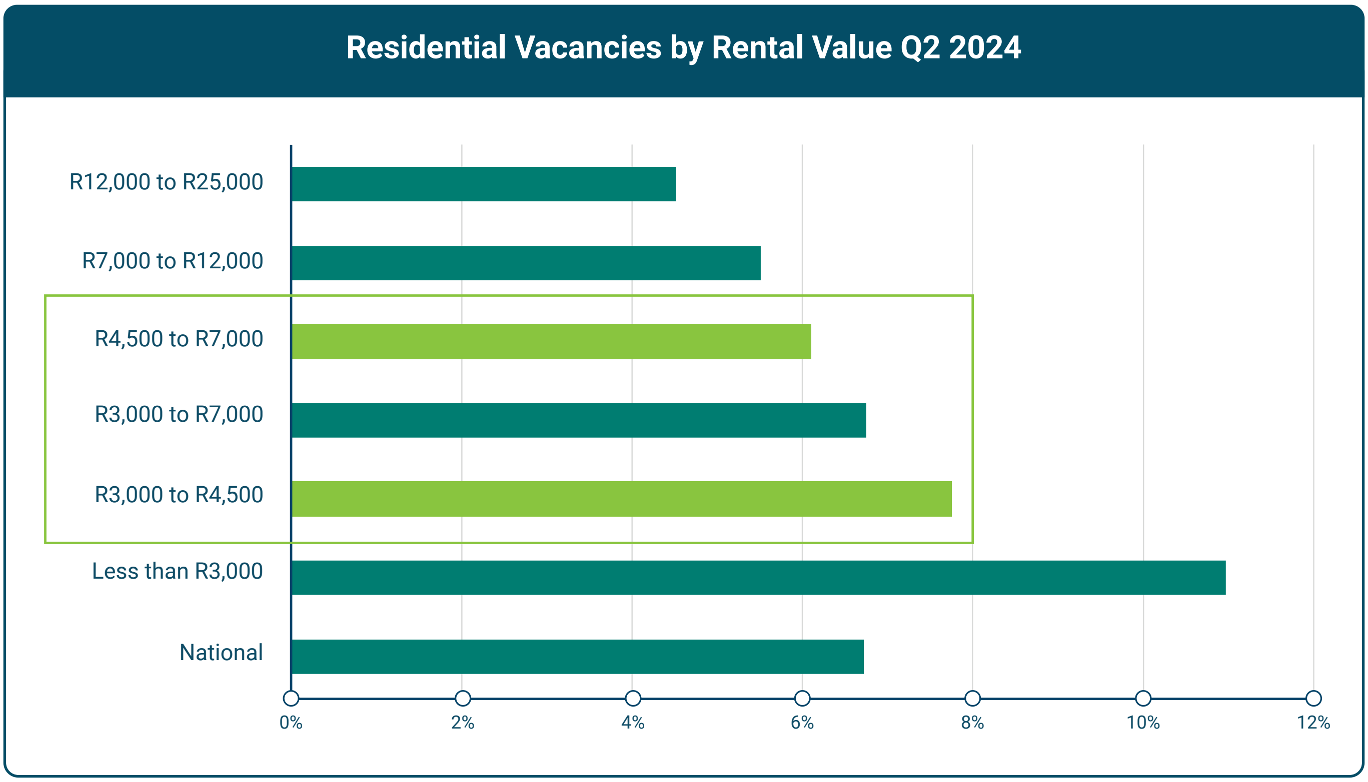
In the Western Cape, investors saw vacancies increase from a low of 1.51% in Q1 to 2.33% in Q2. The aggregated supply rating dropped from 44.46 to 41.46 points, indicating a reduction in supply compared to the previous quarter. Demand also decreased slightly, from 90.48 in Q1 to 88.07 in Q2, although there was a marginal improvement in the rental market strength index by 0.29 points.

Residential Vacancies by Province



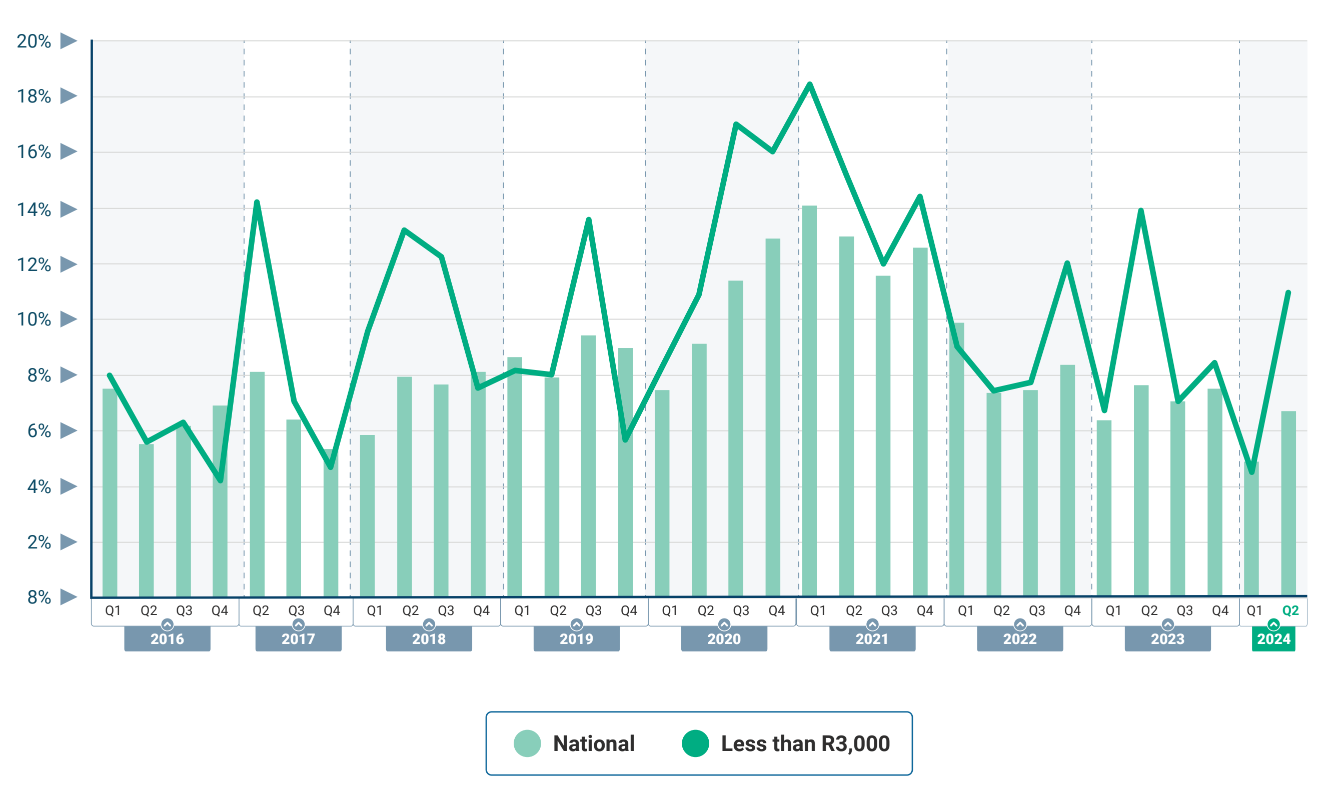
Vacancies increase across all rental value bands

Vacancy rates increased across all rental value bands in Q2 2024, with the most significant shifts in the lower segments due to reduced demand and economic pressures. While vacancies rose sharply in the R3 000 or less and R3 000 to R4 500 bands, they remained below the national average in the R4 500 to R12 000 range, where demand held steady. The luxury rental market (R12 000 to R25 000) maintained the lowest vacancy rates, supported by strong demand and limited supply. Overall, the rental market reflects varying degrees of resilience across the different segments.

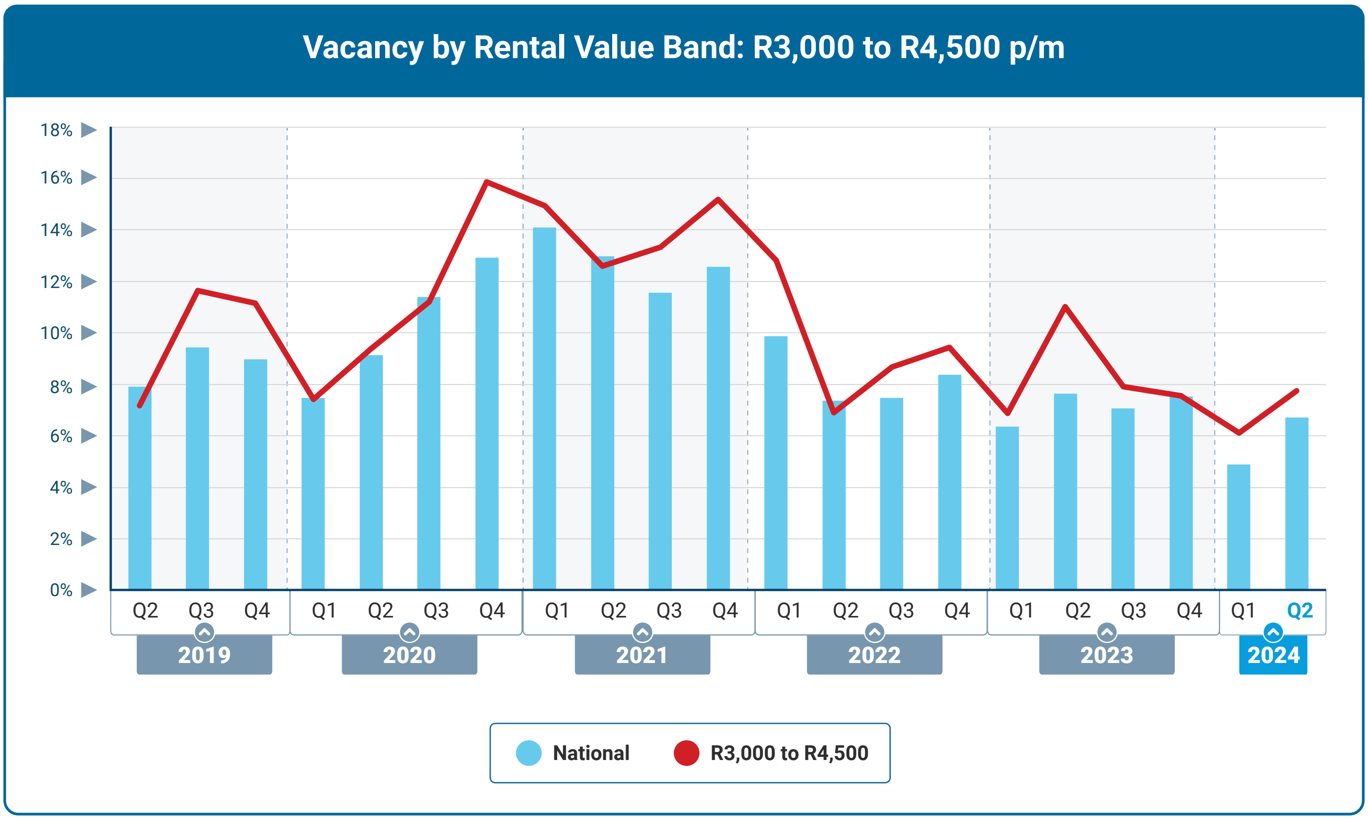


R3 000 or less: Vacancies jumped from 4.51% in Q1 to 10.97% in Q2, despite a decrease in perceived supply from 64.67 to 54.36 points. This increase can be attributed to factors such as reduced student occupancy and the impact of unemployment and workforce migration on the lower end of the market. The supply of rentals in this value band is expected to continue shrinking as rental growth (escalations) pushes more properties into a higher rental value band.

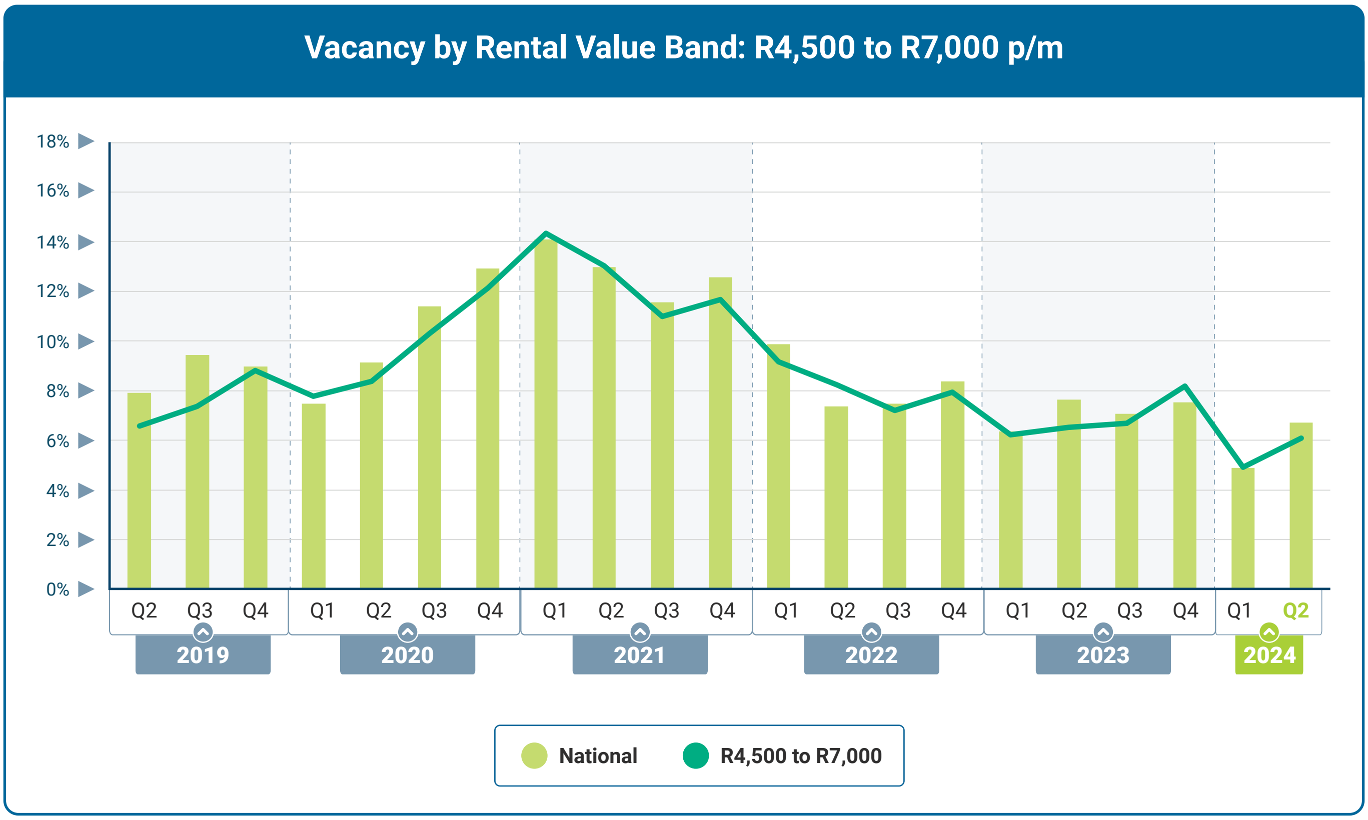
Vacancy by Rental Value Band: Less than R3,000 p/m



R3 000 to R4 500: Properties in this segment experienced a drop in demand from 74.77 to 70.51 points, while supply increased, resulting in a rise in vacancies from 6.11% in Q1 to 7.75% in Q2 2024. The rental market strength index weakened to 56.54 points, highlighting the segment's vulnerability to economic and employment fluctuations.

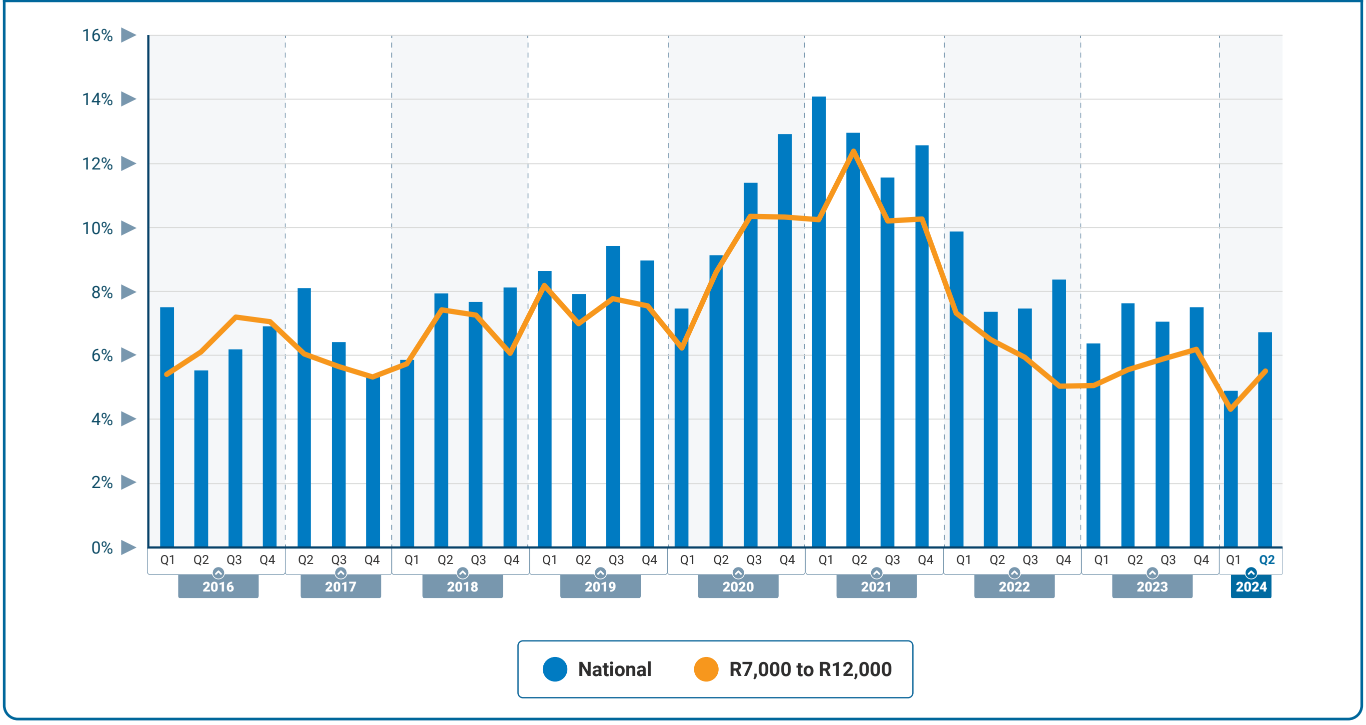


R4 500 to R7 000: The rental market strength index in this band saw a slight decrease from 57.14 to 56.78 points. Despite marginal improvements in demand and a reduction in supply, vacancies increased from 4.92% in Q1 to 6.1% in Q2, though they remain below the national average.



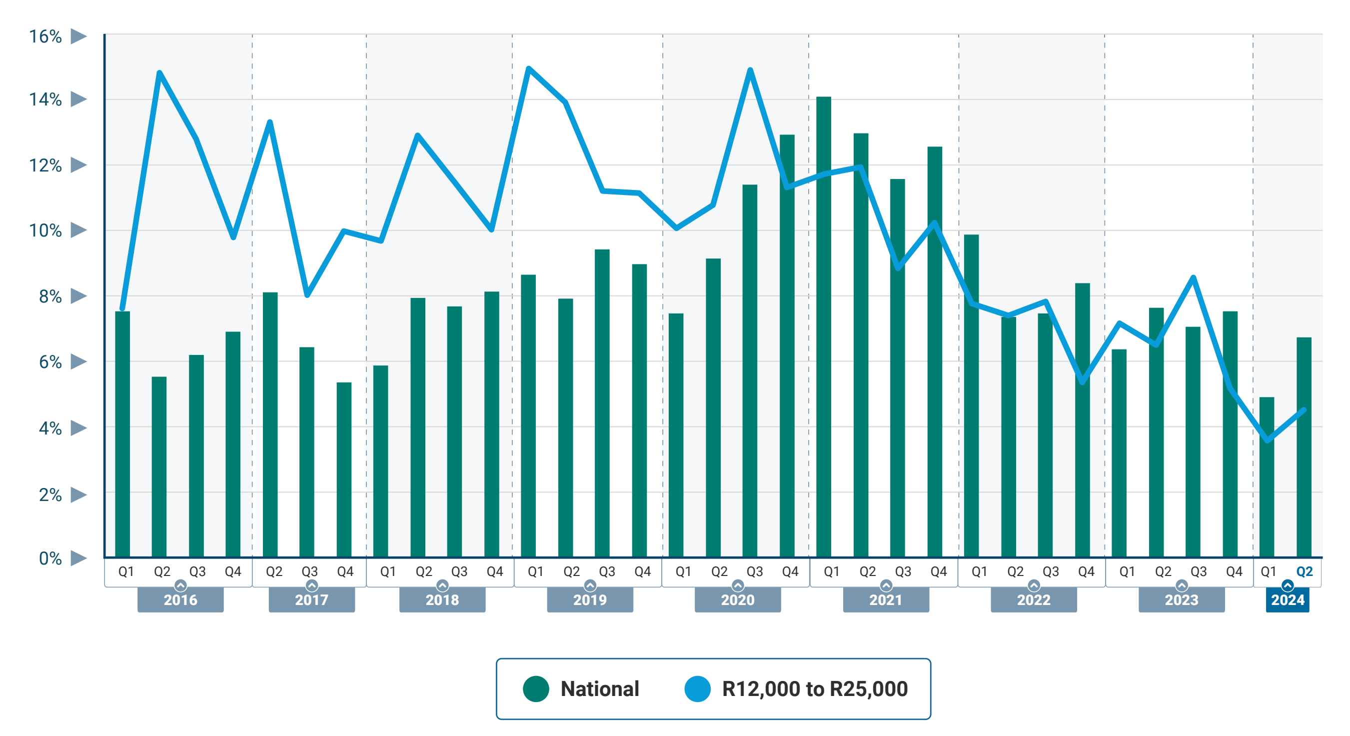
R7 000 to R12 000: Vacancies rose from 4.31% in Q1 to 5.51% in Q2 as both demand and supply declined equally. Despite the increase, the vacancy rate remains below the national average, with demand still strong and less supply available compared to previous years.

Vacancy by Rental Value Band: R7,000 to R12,000 p/m



R12 000 to R25 000: The luxury rental market continued to have the lowest vacancy rate for the third consecutive quarter, rising from 3.57% in Q1 to 4.52% in Q2 2024. The rental market strength index improved slightly from 61.57 to 61.78 points, largely due to a reduction in supply.

Vacancy by Rental Value Band: R12,000 to R25,000 p/m



Residential Vacancies by Rental Value Band: Q1– Q2 2024

Rental Value Band	Vacancy Rate Q1	Vacancy Rate Q2	Change in Supply	Key Factors
R3,000 or less	4.51%	10.97%	Decreased from 64.67 to 54.36 points	Reduced student occupancy, unemployment, workforce migration and aggressive rental escalations
R3,000 to R4,500	6.11%	7.75%	Increased while demand dropped from 74.77 to 70.51 points	Economic and employment fluctuations
R4,500 to R7,000	4.92%	6.1%	Reduced slightly, market strength index decreased from 57.14 to 56.78 points	Slight demand improvement and supply reduction
R7,000 to R12,000	4.31%	5.51%	Declined equally with demand	Strong demand with limited supply
R12,000 to R25,000	3.57%	4.52%	Reduced, market strength index improved from 61.57 to 61.78 points	Continued lowest vacancy rate due to reduced supply, high interest rates

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.

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