Vacancy Survey

Residential Sector
Q2 | 2019

Vacancy Rates improving slightly but the Residential Rental Market still presents its challenges

In This Edition:

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Market Strength Index

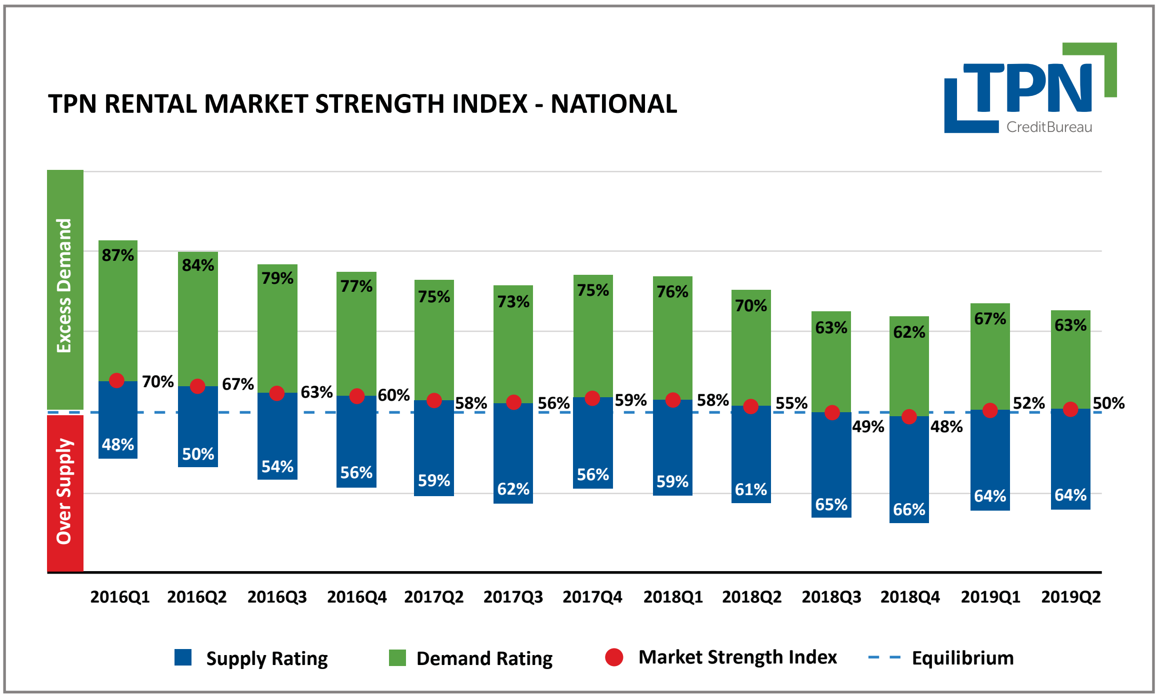
To gauge the strength of the residential rental market, the TPN estate agent and landlord survey asked respondents to rate supply and demand in their area.

Respondents simply indicate whether demand is strong (100), average (50) or weak (0), and whether supply is strong (100), average (50) or weak (0). The data is aggregated to provide a Demand Rating and Supply Rating. The difference is the Market Strength Index where a result of 50 would suggest a market in equilibrium.

Importantly the strength of the market drives the vacancy rate and the escalation rate.

The TPN Vacancy Survey recorded a National Market Strength value of 49.6. This is slightly below the equilibrium point of 50 where the level of demand and the level of supply are equal. Also slightly down from 51.7 recorded the previous quarter but essentially the index has been somewhat stable over the last four quarters recording no major deterioration or improvement.

The state of equilibrium has been driven by a declining Demand Rating of 87 at the start of 2016 to the current level of 63; coinciding with the increase in the Supply Rating from 48 at the start of 2016 to the current level of 64.



Market Strength Index
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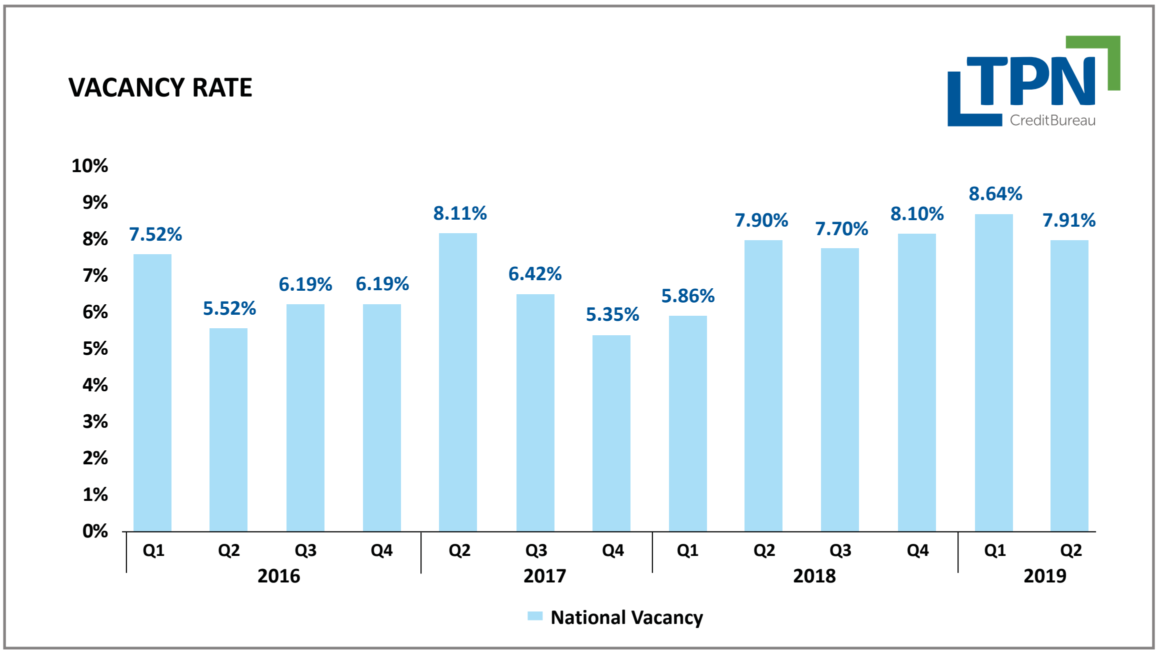
Referencing the Stats SA building statistics, there has been relatively strong building activity for the latter half of 2018 increasing noticeably into the first half of 2019, a significant 56% year-on-year growth rate recorded in May 2019. Such impressive growth of new units built and completed lending itself to the improved Rental Supply Rating.

On the Demand Rating TPN notes an increasing trend of the average length of lease where tenants currently reside in the same property for 21 months. This longer average length of lease has dampened demand as tenant churn is subdued.

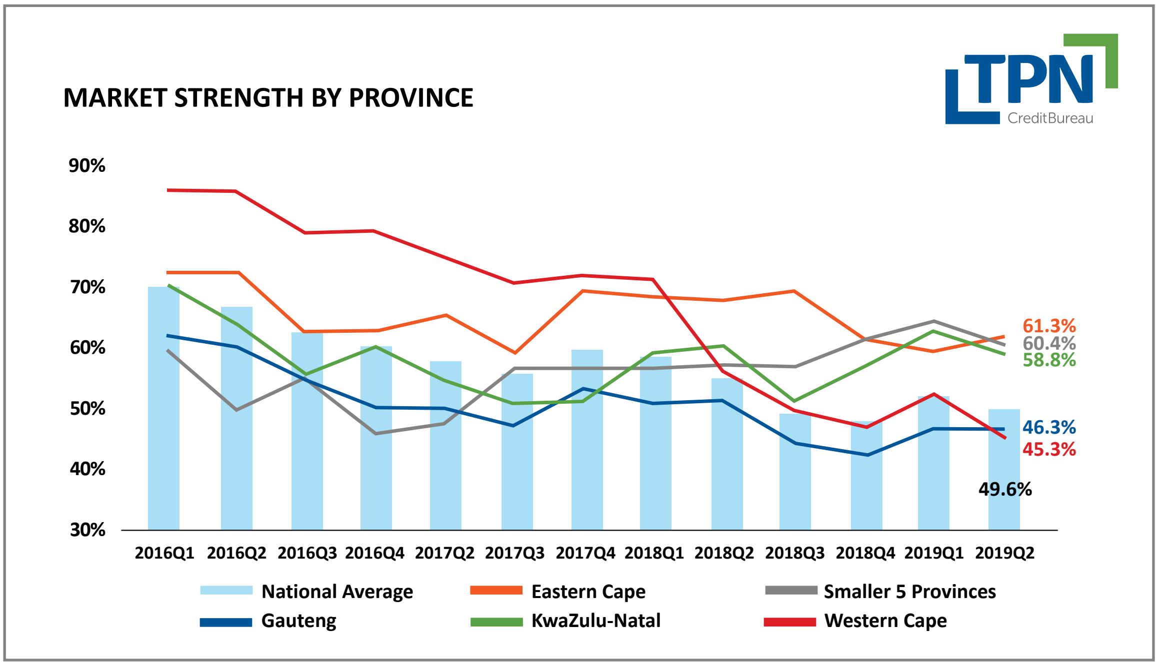
Vacancy Rate

The vacancy rate continues to hover round the eight percent mark. The TPN Vacancy Survey recorded a National Vacancy Rate of 7.91% for the second quarter of 2019. Looking at a quarter-on-quarter basis, the vacancy rate declined by 0.73% from 8.64% in the previous quarter. Although on a year-on-year basis, the vacancy rate remained flat at 7.90%.



Location, location, location

Noticeable regional difference abounds between the provinces. The shine of the Western Cape has dulled to below equilibrium to deliver the worst performing market strength at 45.3. A decline from 51.9 in the previous quarter - a massive knock off its perch of 85.6 three years ago. The Western Cape story of decline has developed through three converging factors: a decline in foreign buying, a decline in migration from other parts of South Africa and a decline in house price growth.



The deteriorating Western Cape market strength has been driven by both a declining Demand Rating coupled with an increasing Supply Rating, resulting in an increasing vacancy rate currently recorded at 7.1%. Not discounting the improvement from the 9.9% vacancy rate the previous quarter, it is never-the-less significantly worse than the 1.2% vacancy rate enjoyed three years ago.

Gauteng not fairing much better recorded 46.3 on the Market Strength Index in the second quarter of 2019 which is slightly lower than the value of 46.8 recorded in the previous quarter. It is worth noting that the declining market strength in Gauteng has been driven predominantly by a 22% decline in the Demand Rating, whereas the Supply Rating has only increased by 8% over the same 3 year period.

Location, location, location

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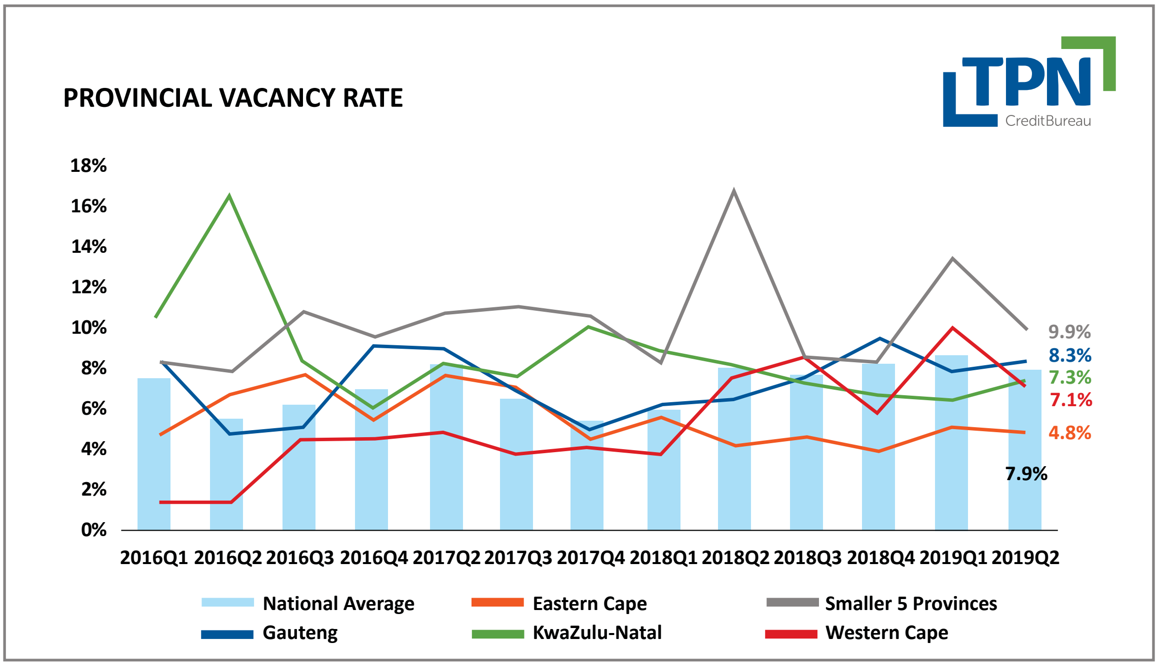
The Gauteng Vacancy Rate increased to 8.3% although this is still below the 9.3% recorded two quarters before.

Kwazulu Natal Supply Rating climbed steadily from 38.29 indicating the limited supply 3 years ago to the current level of 51.15, this coupled with a current Demand Rating of 68.5 means that there is still more demand than supply in this province with the second quarter market strength sitting at 58.8. The vacancy rate having fallen to a low of 6.4% in the previous quarter, is up slightly in quarter 2 to 7.3%.

The Eastern Cape faired best in terms of market strength at 60.4 with a pleasingly low vacancy rate of 4.8%.



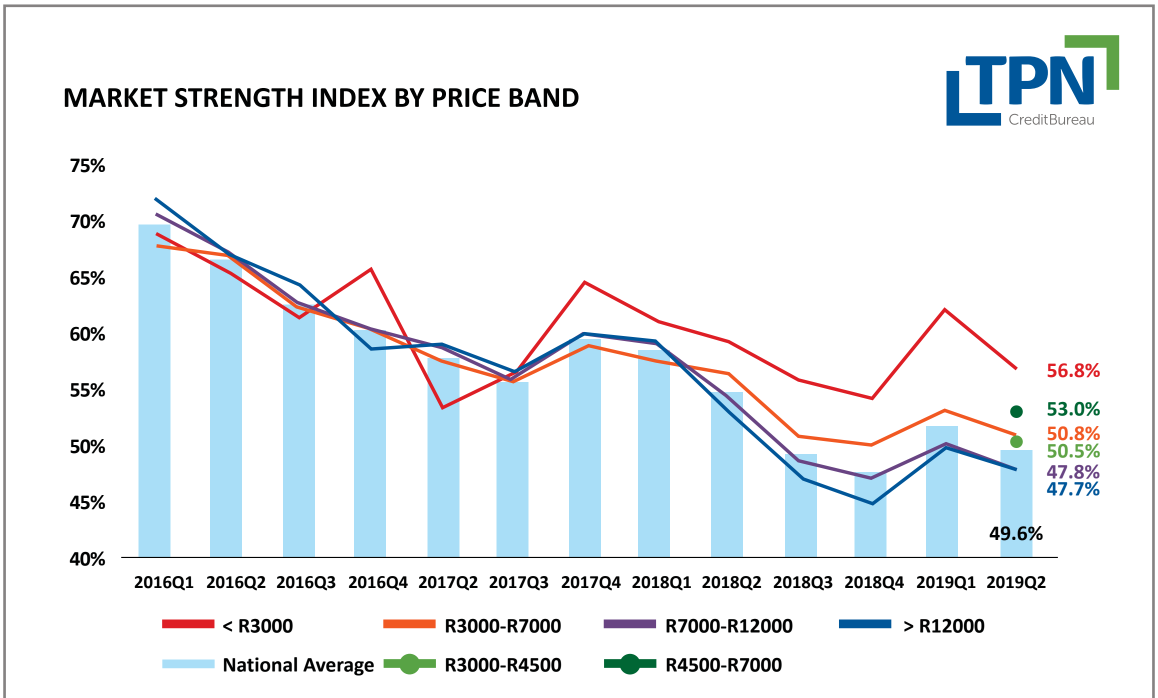
It's all about the Value

TPN records tenant behavior across 5 rental value categories:

- Below R3 000
- R3 000 – R7 000
- R7 000 – R12 000
- R12 000 – R25 000
- Above R25 000

We have identified a split in behavior in the R3 000 – R7 000 tenant bracket and as such have segmented the category in to two sub-categories R3 000 – R4 500 and R4 500 – R7 000.

The TPN Market Strength Index for quarter 2, 2019 recorded a quarter-on-quarter decline across all rental value categories with the lower income segment still indicating the strongest markets.



At the low end of the market, rent below R3 000 per month continues to produce the highest market strength currently 56.8. Clearly under supplied, but suffering from the difficulty in collecting rent with only 73% of tenants in good standing, it remains a risky segment, thus resulting in a high vacancy rate of 8.0% as landlords prefer vacancy over placing a risky tenant.

It's all about the Value

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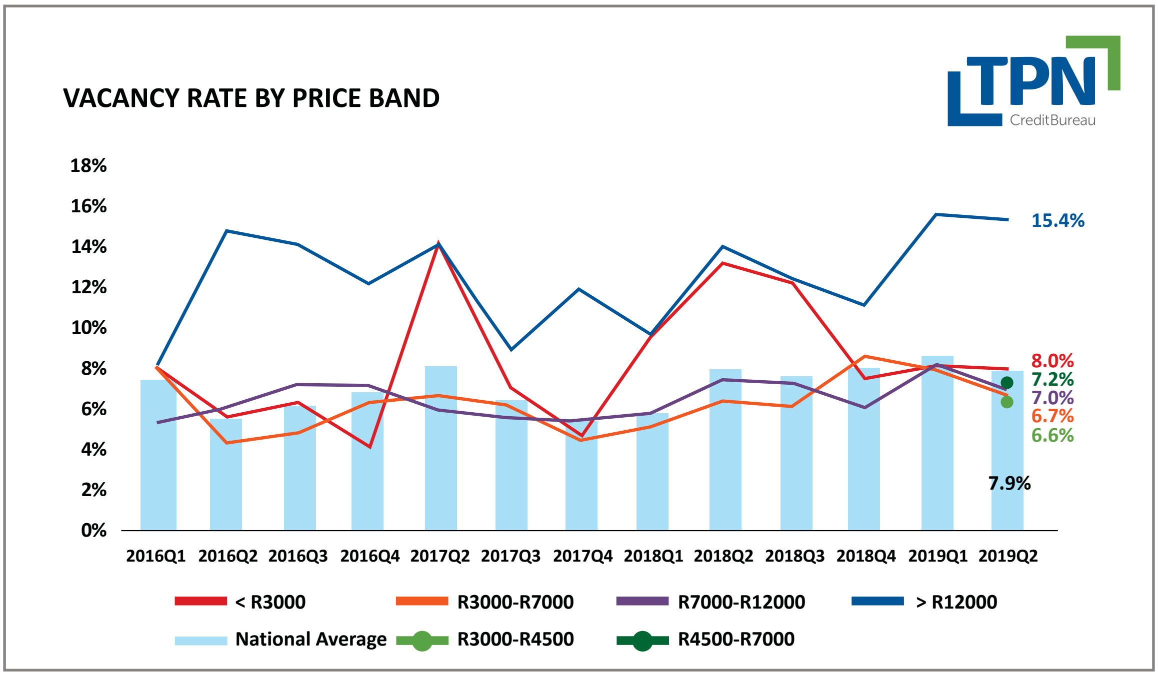

Tenants in the new R3 000 to R4 500 rent per month segment seem to behave similarly to the below R3 000 segment. Good demand and the lowest vacancy rate at 6.6% but in contrast, rent collection faired more favourably with 81% of tenants in good standing.

Tenants in the new R4 500 – R7 000 rent per month bracket performed better than the previous two lower rental categories; the market strength is closer to equilibrium at 50.5 but enjoys the best vacancy rate at 6.6% and an above average good standing of 84%

The R7 000 – R12 000 category is certainly the most over-supplied category with market strength dipping below 50 to 47.7; never-the-less vacancies are still only 7%. The good news for investors in this rental value category is that 87% of tenants are in good standing.

Conclusion

The trends remain challenging. Overall, consumers are financially stretched; the TransUnion Consumer Credit Index highlights an increase in both credit defaults and distressed borrowing. Stats SA data shows the South African economy contracted by 3.2% in quarter 1 and unemployment increased to 29% in the second quarter up from 27.6% the previous quarter.

	Good Standing	Vacancy Rate	Good Standing	Market Strength
Less than R3 000	73%	8.0%	56.8%	19%
R3 000 to R4 500	81%	7.2%	53.0%	19%
R4 500 to R7 000	84%	6.6%	50.5%	33%
R3 000 to R7 000	83%	6.7%	50.8%	52%
R7 000 to R12 000	87%	7.0%	47.7%	20%
More than R12 000	82%	15.4%	47.8%	8%
National Average	82%	7.9%	49.6%	100%

There is little room for forgiveness in the current market. Investors can remain focused on solutions within their control: the quality of their asset in terms of maintenance and up keep; the quality of tenants placed; their continuous monitoring and a quick response to default and lease cancellation where necessary.

Notes

The TPN Vacancy Survey asks estate agents and landlords to submit quarterly feedback on how many properties they manage and how many of those managed properties are currently vacant. For the purpose of this survey, a vacant property is defined as a property which is unoccupied and on the market for immediate occupation. In other words, a property which has not been held back for a reason such as maintenance.

Respondents are also asked to indicate whether demand in their area is strong (100), average (50) or weak (0), and whether supply is strong (100), average (50) or weak (0). The data is then aggregated to provide a Demand Rating and a Supply Rating.

The Market Strength Rating is calculated by adding 100 to the demand rating and subtracting the supply rating. The result is then divided by 2 which would produce a Market Strength Rating that ranges between 0 and 100 with zero being an extremely weak market and 100 an extremely strong market. A Market strength index of 50 would suggest a market where the level of demand is equal to the level of supply market also known as a market in equilibrium.