

Substantial drop seen in rental property vacancy rate - TPN survey

According to TPN Credit Bureau's latest Vacancy Survey, there has been an increased demand for residential rental property, with the national vacancy rate dropping to levels last seen in 2017.



Source: Gallo/Getty

The survey found that overall, vacancies decreased 37.61% between 2021 and 2022, even taking a market adjustment post the hard lockdown in 2020 into account. The residential rental market continued to see positive signs of growth in the first quarter of 2023 with the national vacancy rate at 6.19%, down from 8.13% in the fourth quarter of 2022. This recovery trend is expected to continue in 2023, but at a slower pace, says Waldo Marcus, head of marketing at TPN Credit Bureau.

“The annual average vacancy rate is declining as consumers opt for more predictable accommodation expenditure,” he explains. “The cost of renting with set escalations, limitations in terms of repairs and maintenance costs, and protection against interest rate fluctuations, provides some sense of predictability for tenants.”

Property purchases have slowed

TPN's Vacancy Survey reveals that rental escalations have increased as demand for rental properties continues to improve. Property purchases, on the other hand, have slowed down due to high interest rates and poor consumer confidence. This is reflected in the drop in the number of new building plans being submitted for approval to larger municipalities.

Marcus explains that an uncertain economic and political landscape, coupled with severe financial constraints, means that owning new residential property is not a priority.

“The previously strong demand for property ownership has shifted to increased demand for residential rental properties,” he says.

Overall, the TPN Rental Market Strength Index improved 2.68 points in the first quarter of 2023 compared to the fourth quarter of 2022. “This means that demand outweighs the current supply and with additional supply not entering the market in the short term, average annual vacancies should remain below the 6% to 7% mark,” says Marcus.



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Dynamics differ by province

Interestingly, demand and supply strength differ in each province with coastal provinces typically seeing stronger demand. The Western Cape leads the market with the highest Market Strength Index and the lowest vacancy rate of all provinces. Given persistently strong demand and a lack of supply, investment is expected to continue in the province to meet demand. However, this investment will come at a cost to tenants with escalations expected to accelerate, placing lower income households under greater pressure.

KwaZulu-Natal, although it displays erratic demand and supply behaviour, remains well above the equilibrium mark of 66 points. Perceived supply in the province has dropped while demand has increased. However, despite its healthy rental market strength, vacancies have increased to above 10%, which could ultimately slow rental growth.

Growth in the value of new building plans approved in 2021 and 2022 in the Eastern Cape resulted in an improved supply rating. In the first quarter of 2023, the supply rating slowed with vacancies decreasing from their previous highs. One in ten properties in this province remains vacant.

Gauteng continues to struggle with poor market strength. Although the perceived demand in Gauteng remains high, the number of units available is also high.



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A cautionary note for landlords

Although improved demand for rental accommodation is driving vacancies down currently, high unemployment and a poor economic climate could result in more consumers in financial distress, warns Marcus, adding that the current demand is likely to slow down as high inflation and interest rates absorb the disposable income of households.

“As consumers grapple with the increased cost of living and stagnant income growth, the biggest risk for landlords is likely

to be around rental collections. Landlords who implement aggressive price hikes could experience more delinquent tenants,” he says.

“In the current environment, meeting tenants’ need for predictability will help to attract and retain quality tenants. As an example, landlords who provide a small UPS to keep the internet on during power cuts, inverters or solar energy will position their properties more competitively.”

He advises landlords to vet every applicant thoroughly for affordability and fraud prevention and to keep the lines of communication open so that they are alerted should the tenant’s situation change for any reason.

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