TPN: Renters paying, escalations slowing

Despite economic challenges and tight household budgets, there is a consistent trend of more tenants paying rent on time, and the number in good standing continues to rise for the third consecutive quarter.

Source: Pexels

Credit Bureau TPN's third quarter *Residential Rental Monitor* reveals that in the first quarter of 2023, 81.86% of tenants were in good standing. This improved to 82.73% in the second quarter and 83.34% in the third quarter.

A tenant is classified as in good standing if all their rental obligations are met by the end of the month. These include tenants that paid on time (POT), paid within a grace period (GP) afforded by landlords, or paid late (PL) but still ensured they covered their rental payment before month end.

Waldo Marcus, industry principal at TPN Credit Bureau says residential property investors are being impacted by the high cost of capital, maintenance, security, municipal charges, and the downward pressure on rental returns. However, although margins are under pressure, the fact that investors have been receiving more of their rental on time will have eased some of their cash-flow strains.

Although the longer-term overall good-standing trend is positive, Marcus says the concern is with the lowest and highest rental value bands which fall short of national averages.

“The highest rental value band - those paying R25,000 or more a month - saw a slight drop in the number of tenants in good standing from 82.15% in the second quarter to 81.94% in the third quarter.

Late payment of rental occurs most frequently in the R3,000 to R7,000 band, with 12.41% of tenants paying late. The next highest percentage of late-paying tenants is the luxury rental-property segment with properties costing more than R25,000 a month where 11.56% of tenants pay late.”

An interesting shift revealed by TPN’s latest *Residential Rental Monitor* is the significant increase in the number of tenants paying R12,000 to R25,000 per month.

Since 2016, the number of tenants in this rental band has almost doubled. This year alone, the percentage of tenants in this rental value band has experienced three consecutive growth quarters. In comparison, the luxury rental market – defined as tenants paying R25,000 or more per month – has seen no noticeable change in the past four quarters.

#BizTrends2023: Let's gird ourselves for rentals in 2023

Matseleng Mogodi 13 Jan 2023

In fact, the luxury rental market has shrunk in recent years. In the first quarter of 2020 it accounted for 1.8% of the rental market but has declined to 1.2% in the third quarter of 2023.

“Low interest rates during the pandemic made it very attractive for these tenants to purchase property,” explains Marcus. “However, given that interest rates are expected to remain high for the foreseeable future, we anticipate growth in this rental band. The big question now is whether cash-strapped consumers can afford these high-end rentals in the current economic environment.”

Rental escalations inch upward

The Monitor reveals that rental escalations continue to be on a slow upward trajectory, growing from 4.8% in the second quarter to 4.84% in the third quarter, albeit that escalations remain slightly below September’s CPI of 5.4%.

“The slowdown in the national average rental-escalation rate indicates that price-sensitive consumers have reached a precarious point within the rental market,” says Marcus. “Property investors need to be cautious when escalating rentals as consumers remain under pressure and vacancies could increase if rentals become unaffordable.”

Vacancies in the Eastern Cape and KwaZulu-Natal have remained high, requiring a balancing act between escalating rentals, and keeping properties occupied.

Buy-to-let demand surges in Western Cape

2 Aug 2023

Gauteng’s vacancy rate has dropped from 8.8% in the second quarter to 6.85% in the third quarter providing property owners with an opportunity to escalate rentals marginally. The Western Cape is the outlier with the lowest vacancy rate of all provinces. Rentals escalated from 6.47% in the second quarter to 6.56% in the third quarter.

Marcus cautions, however, that rental growth in the Western Cape could slow down early next year as vacancies started increasing in the second and third quarters.

Regional tenant performance trends

When it comes to provincial tenant performance, good standing tenants in Gauteng increased from 81.9% in the second quarter to 82.47% in the third quarter with a small decrease in the number of tenants that did not pay.

KwaZulu-Natal's good standing dropped from 76.95% in the second quarter to 76.45% in the third quarter. The Eastern Cape's good standing is above the national average at 84.25%. The Western Cape has the highest good standing rating of all provinces at 86.87%, although this is marginally down from the second quarter's 87.08%.

While TPN's data reveals that tenants are willing to navigate rental escalations for now, there is clearly a fine balance between residential rental vacancies and the ability of property investors to ask for higher rentals.

"The data shows that where higher vacancies exist, lower rental escalations should follow. The alternative is that rental collections will start to suffer as tenants start defaulting on their lease obligations," he concludes.