

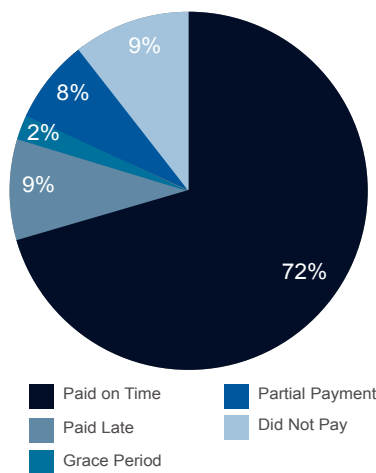
New Category Introduced

It seems the concept of a seven day grace period for payment of rent goes back to past centuries, when people who were habitually on time for their obligations, were allowed some leeway due to funds being transferred by ox-wagon or on horseback, depending on the size of the transaction. Then, due to occasional unforeseen circumstances, on a rare occasion, such a person could avoid a penalty for being late and maintain their reputation for timeliness. As such conditions have long ceased to exist, there is no legal right afforded to the tenant to make his or her rental payment by the 7th of the month.

Common Law states that tenants are required to meet the following obligations: "To pay rent in the right amount, at the agreed place and time, to take care of the property, and on termination of the lease, to ensure the property is in the same order and condition it was when received..."

A lease agreement may be verbal or written. Usually the written version will state the rent must be paid and cleared in the landlord's nominated bank account on or before the 1st of the month. Non-payment by the agreed date therefore constitutes a breach of contract by the tenant. There is no Common Law right which provides for payment of rent until the seventh day of the month. Hence, any payment made after the due date has always been reported by TPN as "Paid Late". Nonetheless TPN recently decided that because there is a real need to better understand the timing and severity of late payments, we would report separately on this type of late payment behaviour - and as a result, the "Grace Payment" category has been created.

Q4 of 2012 is the first quarter where the Grace Payment was initiated, although not all data sources were able to apply the new category to this quarter's information. For now, the effect of the introduction of the Grace Payment rating has seen a movement of tenants out of the "Paid Late" category into the Grace Payment category. TPN expects to see increased movement in 2013 data, when all sources report separately on the Grace Payment and Paid Late categories.



| | Paid on Time | Grace Period | Paid Late | Partial Payment | Did not Pay | Good Standing |
|----------------|--------------|--------------|-----------|-----------------|-------------|---------------|
| Western Cape | 80% | 1% | 8% | 6% | 5% | 89% |
| Kwa-Zulu Natal | 69% | 1% | 14% | 7% | 9% | 84% |
| Gauteng | 69% | 3% | 9% | 9% | 10% | 81% |
| Eastern Cape | 78% | | 9% | 6% | 7% | 87% |
| Mpumalanga | 76% | 2% | 11% | 6% | 5% | 89% |
| Limpopo | 70% | | 16% | 8% | 6% | 86% |

How did tenants perform in 2012?

Overall, tenants in good standing remained unchanged at 83% for the final quarter. The sub-categories highlighted another slight improvement in the Paid on Time category to 72% (up from 71% the previous quarter and 68% year on year). The newly introduced Grace Payment category opened at 2% with Paid Late dropping to 9% (from 12% the previous quarter and 13% year on year).

Taken within the context of continuing consumer credit deterioration in the broader economy, this begs the question why residential tenant payment behaviour has bucked the trend with improved rent collections. This is probably due to the industry's access to quality rental specific credit information, which enables rental agents and landlords to pre-select quality tenants. It therefore follows that the payment trends of better qualified tenants will show improved payment trends.

Encouraging Performance across most Regions

Regionally, all provinces bar the Eastern Cape improved. Western Cape (with 89% of tenants good standing) has the highest percentage of tenants in the Paid on Time category (80%) and only 5% of tenants not paying at all, while Eastern Cape (with 87% in good standing) deteriorated slightly but still managed 78% of tenants Paid on Time and only 7% not paying.

Limpopo (with 86% of tenants in good standing) experienced the slowest payment rate, with 16% in the Paid Late category and 70% Paid on Time. Overall delinquencies were still at a fairly acceptable level of 6%. Mpumalanga also indicated its tenants are 89% in good standing, with 76% Paid on Time and a larger contingent of 2% in the Grace Payment category while 11% Paid Late and only 5% not paying.

Gauteng (with 81% in good standing) and Kwa-Zulu Natal (84% in good standing) continued to fare worst, with both provinces indicating only 69% of tenants Paid on Time and 10% - and 9% respectively of tenants not paying.

Rental Value Brackets expanded

To facilitate more extensive analysis of the rental value categories, TPN has added a further rental price bracket - Over R 25,000 per month. Rental payments are now reported across the following categories: Below R 3,000 per month, R 3,000 - R 7,000 per month; R 7,000 - R 12,000 per month; R 12,000 - R 25,000 per month and above R25,000 per month.

The data highlights unexpectedly delinquent behaviour of tenants in the above R 25,000 rental bracket. It is alarming to note only 54% of these tenants pay on time, with 5% in the Grace Payment category, 10% Paid Late, 16% Partially Paid and 16% Did Not Pay.

The below R3000 rent category also continues to struggle with 16% not paying. However 64% Paid on Time and 2% made Grace Payments, while 9% made a Partial Payment as well as a further 9% who Paid Late.

The R 12,000 to R 25,000 rental category is also performing poorly with 10% of tenants not paying, 69% Paid on Time and 3% making a Grace Payment, while 10% Paid Late and 8% made a Partial Payment.

The R 3,000 - R 7,000 and R 7,000 - R 12,000 value brackets performed best with the latter just squeaking the top spot. The R3000 - R12000 rental bracket had 75% of tenants Paid on Time, 2% Grace Payments, 10% Paid Late, 7% Partially Paid and only 6% Did Not Pay.

| | Paid on Time | Grace Period | Paid Late | Partial Payment | Did not Pay | Good Standing | Improve/Decline | National Average |
|-----------------|--------------|--------------|-----------|-----------------|-------------|---------------|-----------------|------------------|
| < R3000 | 64% | 2% | 9% | 9% | 16% | 75% | -0.6% | 83% |
| R3000 - R7000 | 75% | 2% | 10% | 7% | 6% | 86% | 0.8% | 83% |
| R7000 - R12000 | 76% | 1% | 9% | 6% | 7% | 87% | 0.5% | 83% |
| R12000 - R25000 | 69% | 3% | 10% | 8% | 10% | 82% | 3.1% | 83% |
| > R25000 | 54% | 5% | 10% | 16% | 16% | 68% | | 83% |

Conclusion

Estate agents across the country continue to report rental stock as a constraint. TPN's data indicates 75% of residential rental stock is in the hands of micro investors (1 -10 properties); with fewer buy-to-let transactions taking place causing an imbalance between limited stock and more active tenants, landlords can afford to be a bit more picky about the tenants they contract with.

A recent TPN survey indicates tenants are moving to downscale as well as a high number of first time renters. This is supported by TPN data which shows the official age of a tenant starts at 18 and peaks at 30, historically the peak was at 27 but given the current trend of fewer sales and fewer mortgage transactions tenants are finding they are in the rental market for longer.

Note: Due to rounding, the displayed totals in the tables do not always match the sum of the displayed rows or columns