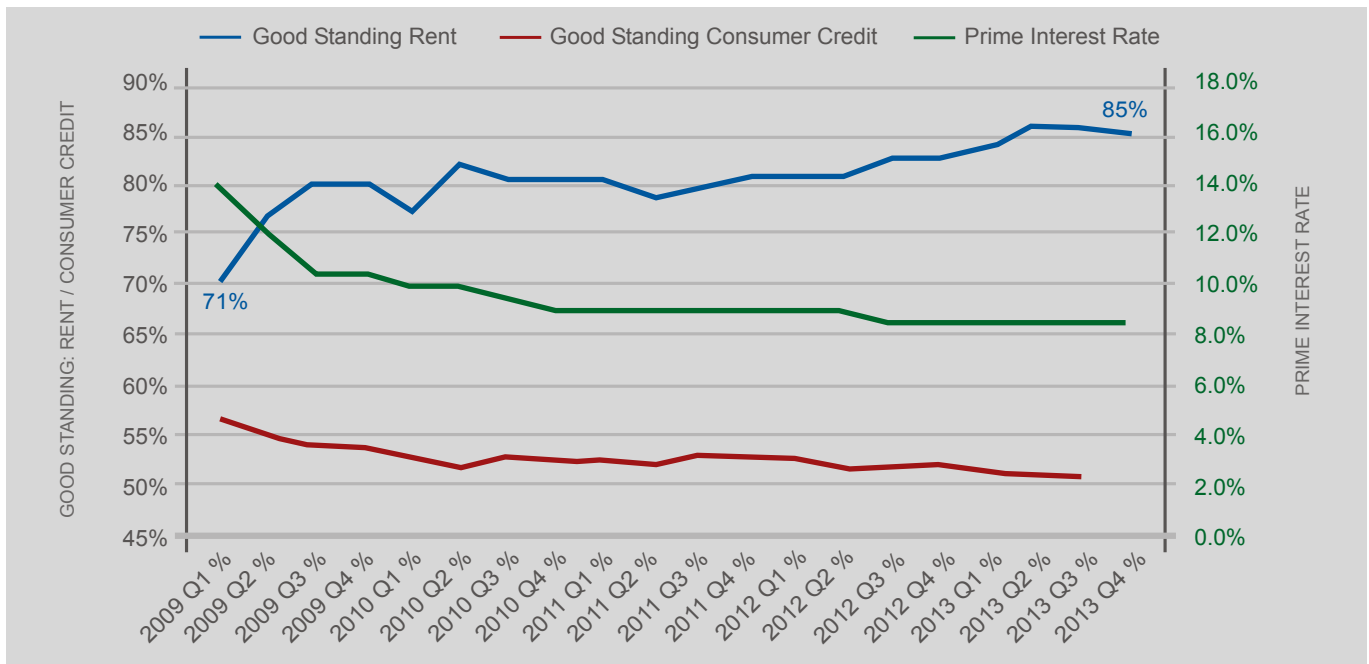
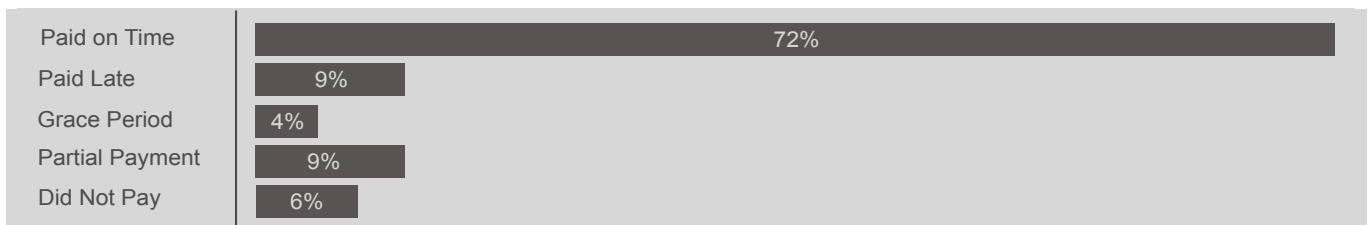


## First rental performance dip in years

The final quarter of 2013 saw a worsening in residential rental performance, marking a worrisome change in tenant payment behaviour for the first time in nearly three years. This reversal is a sudden change for landlords and property managers who have been enjoying an unusually long period of improving rental payments, culminating in Q2 and 3 of 2013 with 86% of tenants deemed to be in good standing.



## Over indebtedness causes concern



While this figure slipped in Q4 2013 to 85%, it is noteworthy that 72% of tenants remained in the Paid on Time category. Tenants who Paid Late dropped slightly from 10% to 9% - with a consistent 4% remaining in the Grace Period. The deterioration is however reflected in the movement of tenants who Paid Late to the Partially Paid segment, highlighting a growing multitude of over-indebted consumers who find themselves unable to make full and timeous payments on their credit and monthly living expenses. The decline may be slight, but nonetheless could be seen as an early warning sign of trouble ahead.

Worth mentioning is that Partially Paid tenants, although not categorised in the good standing category, showed an effort to make some kind of payment for the month. Furthermore, tenants in the Did not Pay category have remained unchanged at 6% for the past 3 quarters, also the lowest on record.

# Rental Payment Monitor

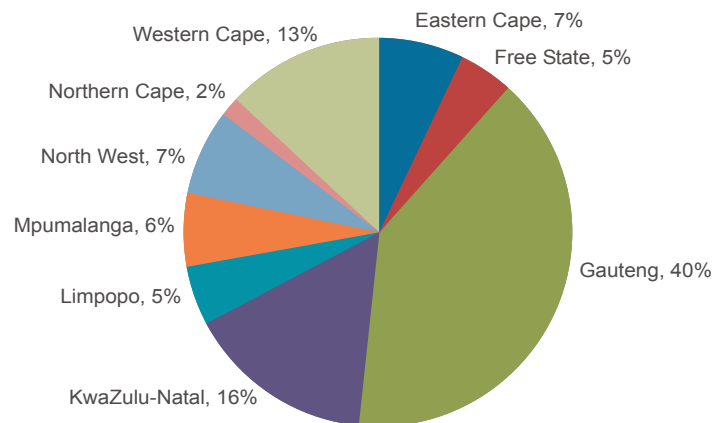
The South African Rental Market Quarter 4 of 2013

## Key provinces decline

Three of the major rental provinces deteriorated, namely Gauteng, KwaZulu Natal and Eastern Cape, with only Western Cape remaining flat.

It is prudent to recognise that \*Gauteng which houses 40% of all South African tenants, slumped most by 2% to 84% in good standing. Interestingly \*KwaZulu Natal, the second most populous province for rentals and housing 16% of all South African tenants, also dipped by 0.5%.

Significantly, these 2 provinces combined are home to 56% of all South African tenants - highlighting their relevance in the overall market.



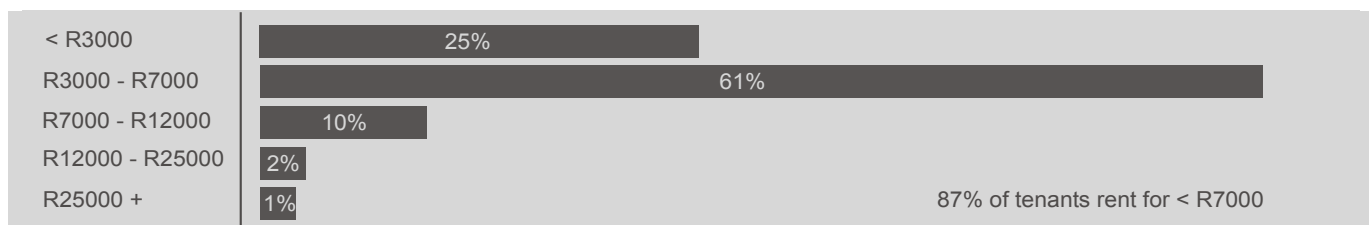
\*Source: StatsSA Census 2011

## Marked shift in value categories

	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	Improve/Decline	National Average
< R3000	65%	5%	10%	10%	10%	80%	-0.7%	85%
R3000 - R7000	74%	4%	9%	8%	5%	87%	-0.6%	85%
R7000 - R12000	76%	3%	9%	7%	4%	88%	-0.1%	85%
R12000 - R25000	71%	4%	10%	9%	6%	85%	0.7%	85%
R25000 +	60%	6%	16%	11%	7%	81%	-4.9%	85%

A similar trend was noted in observing the rental value situation, with all rental brackets deteriorating and the segment below R3000 monthly slipping to worst-performing, overtaking even the top end of the market, above R25,000 per month.

TPN continues to monitor the trend of tenants looking for more affordable properties. For instance 87% of tenants now rent for less than R7,000 p.m. - an increase from 6 months previously when 85% of tenants rented below this figure. And a similar shift is taking place at the lowest end of the market, where 23% of tenants increased to 25%.



A key feature of the market is that 61% of tenants rent between R3,000 and R7,000 p.m. - where landlords achieve better than average rental collections. However a word of caution to be reiterated is this bracket, like all but one of the others, has also deteriorated. Only the R 12,000 to R25,000 per month category improved, though this is virtually insignificant as it only makes up 2% of the rental market.



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## Amnesty may cause confusion

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In conclusion, landlords and property managers have been treated to 3 years of high and improving tenant payment behaviour. We have seen the first shift in declining behaviour - and a brief look into 2014 raises warning flags, of which the first was an unexpected increase in interest rates. Although this may not have an immediate or direct bearing on the rental amount paid, it does impact on tenants' overall financial budgets, resulting in a 6 to 9 month lag in deteriorating rent collection.

In February the second flag became evident when Parliament adopted the Credit Amendment Bill, paving the way for a second credit amnesty. The impact of such an amnesty, which could potentially remove all defaults (high probability) and all judgements (unlikely – but still possible) of both paid and unpaid records, which could result in a confusing similarity amongst many consumers' credit profiles. Hence making it difficult to differentiate between quality potential tenants, and tenants who “look the part” only because they benefited from the amnesty.

It is extremely important for landlords and property managers to understand that rental payment profiles do not form part of the amnesty and tenant's monthly payment flags will not be deleted. It is therefore vital that TPN members continue to load their full tenant debtors book, monthly, for all their tenants, to ensure proper tenant assessment - and even more so now that the credit amnesty is imminent.