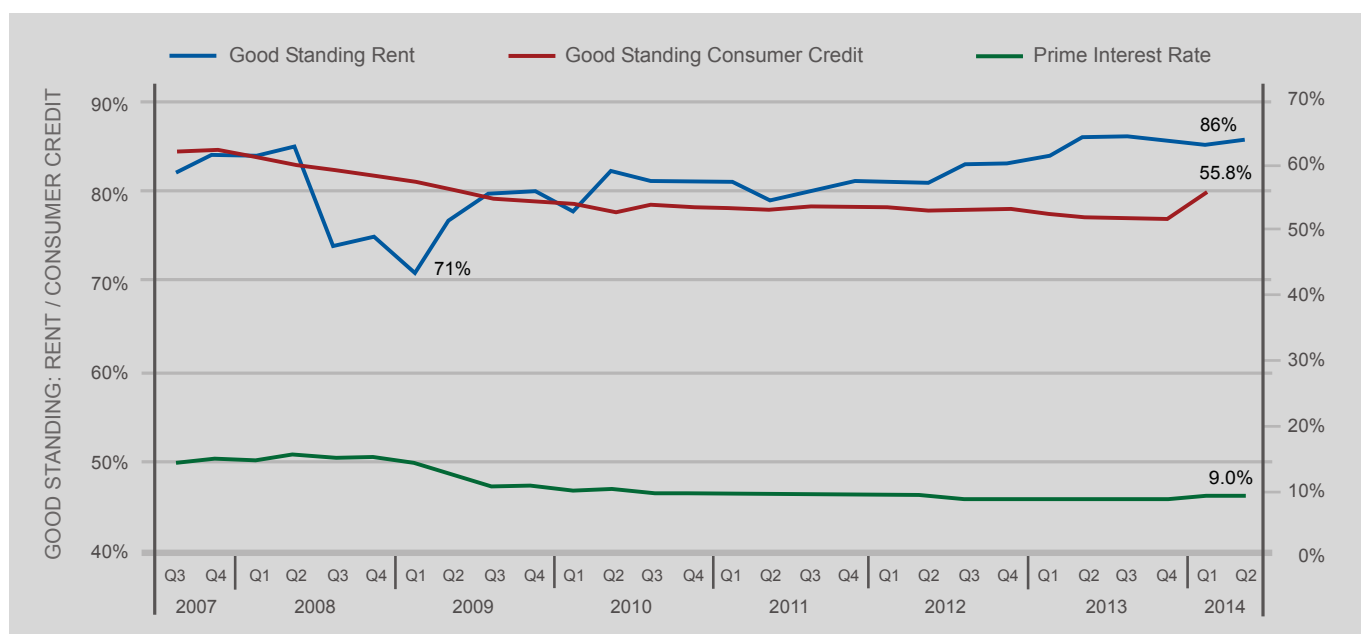


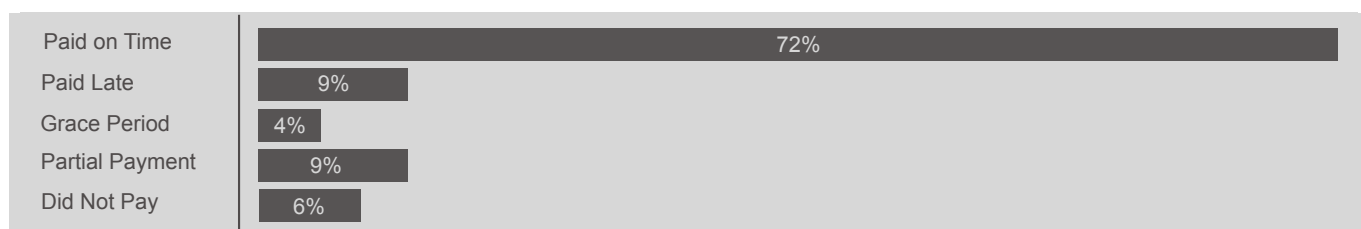


Rental performance stable amidst rising concerns

Bearing in mind the tensions that have characterised South Africa's economic year to date, residential rental payment behaviour was relatively stable - and even slightly positive for Q2 of 2014. Signs of weakening have however started appearing, predictably in the upper value bracket - traditionally the first segment of the rental market to experience deterioration after an interest rate hike.



Increased number of Tenants in Good Standing



Nationally 86% of tenants are in good standing and investors can take heart from the fact that more tenants have been paying on time and full. Nationally, 72% paid on time, clocking up a welcome increase from 69% in the previous quarter. Typically though, as Q1 of each year is generally hampered by slow January collections resulting from the holiday period. Q2 data indicated a further 4% of tenants settled their rent during the grace period, while 9% paid late, with a further 9% making a part payment - and 6% not paying their rent at all.

It is interesting to note the effect of the credit amnesty that has manifested itself in the National Credit Regulator's Credit Bureau Monitor for Q1: Credit Bureaus were required to mask adverse information from 31 March and delete all adverse information on 1 June 2014. Prior to the amnesty, some 15.4% of credit active consumers had an adverse listing. Sadly though, the net outcome thus far has been a paltry 4% improvement of consumers in good standing to 55.8% - up from 51.9% the previous quarter.

Top end tenants scramble

January saw the first interest rate hike in 6 years; the after effect of which would usually take 6 to 9 months to filter through into rental payment performance. Currently however, TPN can report an already marked effect on rentals in the R25,000 plus value category. This bracket showed a significant slide from 81% in Q1 to just 71% of tenants in good standing during Q2 2014.

Although rental payments as such are not subject to interest rate fluctuations, tenants in this upper-tier rental bracket are generally more credit active - and hence first to feel the pinch of increasing interest rates on overall budgets. Alarming only 51% of these top-end rentals are paid on time, leaving 19% of investors in this segment to receive a partial payment, as their tenants scramble to re-organise their budgets. Despite these rentals being high, payment performance should be viewed in context as in reality only 1% of the national rental population actually pays R25,000 plus per month.

The bulk of rental stock falls below R7,000 per month, while 24% of tenants rent for less than R3,000 per month and 61% of tenants rent between R3,000 to R7,000 per month.

	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	Improve/Decline	National Average
< R3000	66%	6%	10%	9%	9%	82%	1.1%	86%
R3000 - R7000	73%	4%	9%	9%	5%	87%	0.3%	86%
R7000 - R12000	75%	4%	9%	7%	5%	88%	-0.1%	86%
R12000 - R25000	68%	4%	11%	10%	7%	83%	-0.5%	86%
> R25000	51%	7%	13%	19%	10%	71%	-9.4%	86%

Calm before the storm?

Towards the lower end of the market, tenants who rent below R3,000 face numerous challenges, with food inflation, transport costs and other living expenses contributing directly to the payment behaviour of the category. Investors may well experience worsening collections in Q3 when municipalities implement the Eskom price increase in July. But for now 82% of these tenants are in good standing; with 66% paid on time and 6% in the grace period, while 10% paid late.

Reassuringly the R3,000 to R7,000 per month rental bracket remained solid. With 61% of the tenant population recorded in this price bracket, it is relevant to note that their payment performance will have the most pronounced impact on the majority of investors. Currently 87% of these tenants are in good standing. 73% paid on time, 4% were in the grace period and 9% paid late. Nevertheless, the interest rate increase warning-bell has sounded and investors are cautioned to perform thorough affordability assessments.

Best performing value category

There has been a slight shift of tenants moving into the R7,000 to R12,000 value bracket. At present 12% of tenants are renting in this segment, up from 11% in the previous quarter. Overall this is the best performing category where 88% of tenants are in good standing. 75% paid on time with respectively 4% and 9% in the grace period and paid late categories.



Rental Payment Monitor

The South African Rental Market

Quarter 2 of 2014

Enlightening new insights

Regionally the Western and Eastern Cape remained the top performing provinces. However TPN's RentReports are providing enlightening new insights with further drilled-down details into certain metropolitans and suburbs. Interestingly the Northern Suburbs of the Western Cape outperform the Southern Suburbs and Cape Town CBD. Brackenfell South as an example, records a coveted 97% of tenants in good standing, with only 1,18% in the did not pay category, compared to Cape Town CBD and surrounds, with 87% in good standing.

Eastern Cape tenants as a group have long performed above par, but the disparity between Nelson Mandela Bay and Buffalo City is quite remarkable. Nelson Mandela Bay records a 90% good standing rating with only 4% of its tenants in the did not pay category - vastly different to Buffalo City where just 78% of tenants are in good standing and a sizable 10% are in the did not pay category.

Handle investments with care

Examples of mixed results such as the data uncovered by TPN's RentReports should be viewed by property investors as a reminder to 'proceed with extreme caution'... It's no secret the global economy is expected to underperform for some time to come, while downward revisions of South Africa's economic growth outlook by the national treasury in line with international rating agencies, confirms the need for increased vigilance across all markets. TPN's advice in this regard remains simple: Reduce risk by identifying areas with measurable yields, while sticking to the process of screening potential tenants more thoroughly than ever.