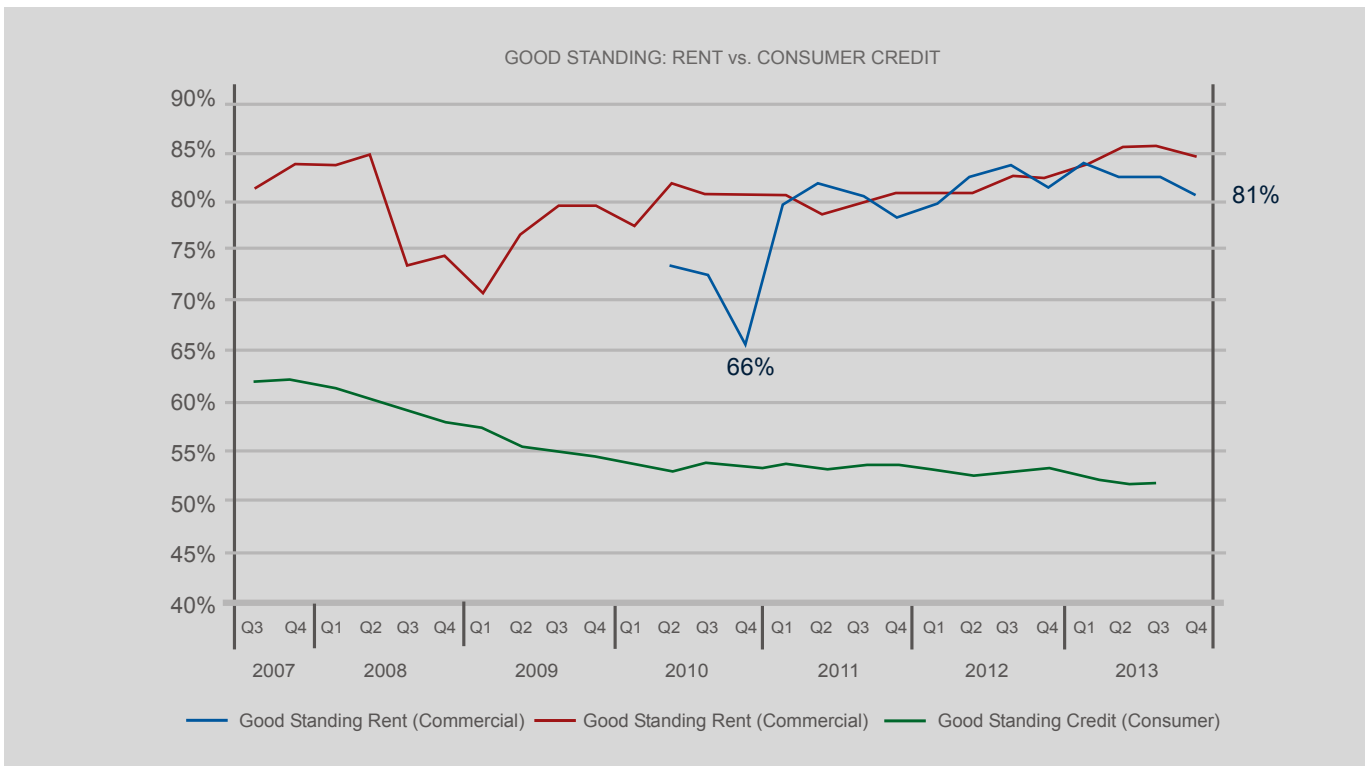


### Late payments pose a challenge

Property owners, landlords and investors in the commercial sector will probably not be surprised that the numbers for Q4 of 2013 indicate a drop-off in rent paid on time and in full. After all, the last quarter of every year seems to be traditionally a more testing time for commercial rent collection everywhere. TPN's Commercial Rental Monitor, which covers office, retail and industrial rentals across South Africa, showed 81% of commercial tenants in good standing for this period. Good standing refers to the grouping of tenants combined from the following categories: Paid on time (57%), paid in the grace period (8%) and paid late (15%). Overall, late payments continue to pose a challenge nationally, as nearly 1 in 4 tenants paid rent after the due date, with the most negatively affected regions being the Eastern Cape and KwaZulu Natal where more than 1 in 3 tenants are consistently late payers.



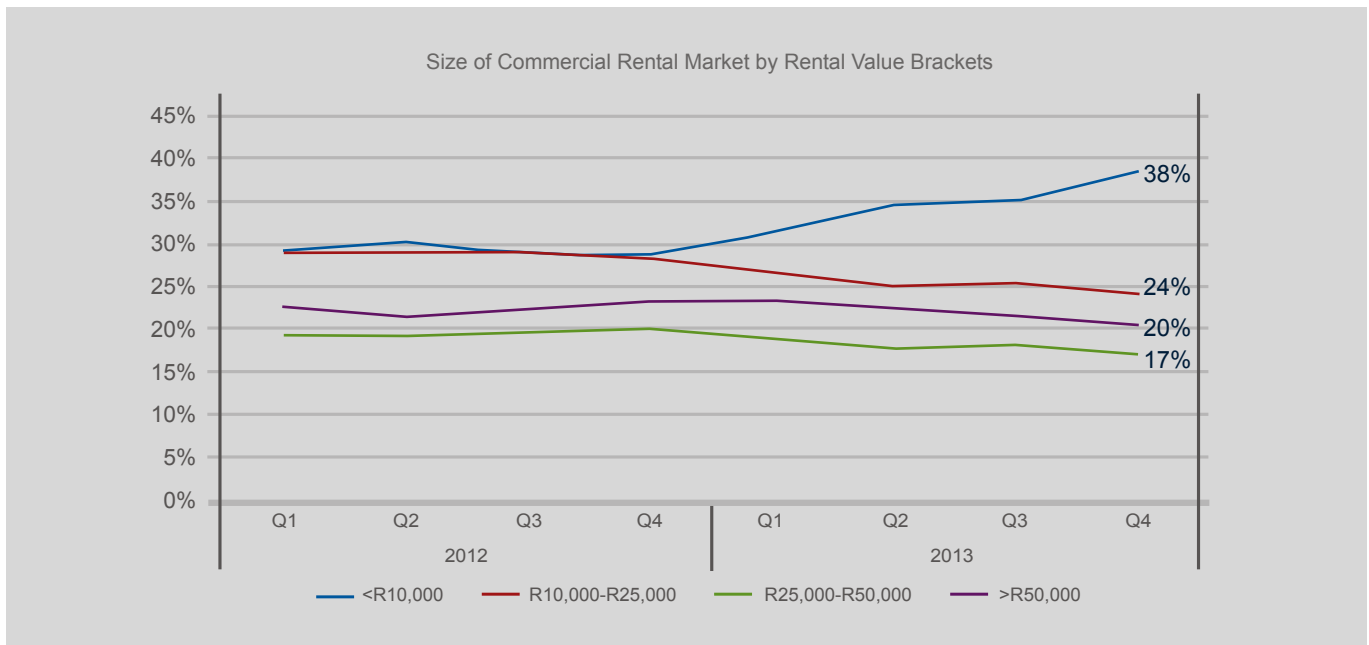
### Seasonal complications

Over and above the current pressure of generally tough economic conditions and volatile currency issues, a variety of more seasonal challenges probably also featured in the Q4 mix. For instance, StatsSA employment data shows a consistent annual decrease for unemployment in the fourth quarter of each year - indicating a rise in temporary work for the period and consequently, additional wage expenses for many businesses. Bonus payments still bring about extra cash-flow stress for most companies during this time, while the December holiday shut-down period exacerbates matters further. On the positive side though, it is also customary for commercial rent collections to recover in quarter 1 of each year.

### Affordable rentals more sought after

The trend of tenants migrating toward more affordable rentals continues. TPN has noted that 38% of commercial tenants now rent for less than R10,000 per month, an increase from 35% in the previous quarter and 29% two years previously. As this more affordable segment of the market continues to grow, it is important that landlords and property managers take cognizance of the fact it is now the most challenging segment in which to collect rent. Currently 8% of these tenants are in the did not pay category versus only 2% in the R50,000 plus rental bracket.

	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	Improve / Decline	National Average
< R10,000	57%	7%	15%	13%	8%	79%	-2.6%	81%
R10,000 - R25,000	56%	9%	17%	12%	6%	81%	-1.3%	81%
R25,000 - R50,000	60%	10%	15%	11%	5%	84%	0.4%	81%
R50,000 +	60%	8%	16%	14%	2%	84%	-1.6%	81%

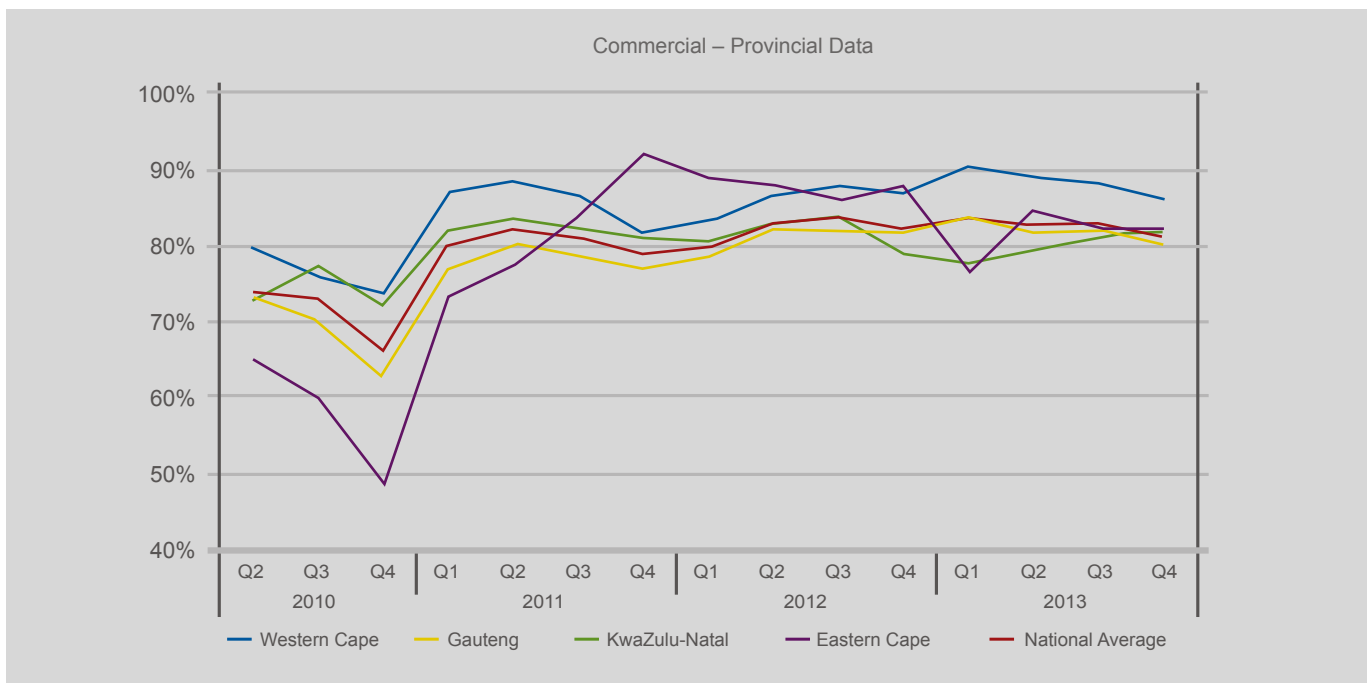


### Will commercial echo residential?

Although it is still rather early in the data collection process to consistently establish whether residential data provides certain early warning signs for commercial tenant performance, the sharp decline of 2008/9 in residential data was clearly followed by the 2010 commercial data drop-off. In addition, the latest Eastern Cape trends have interesting similarities with residential data.

### Regional performance indicators

Provincially, commercial and residential tenant behaviour has remained remarkably similar: Western Cape continues to lead in payment performance, with an overall 86% of its tenants in good standing. Interestingly the Eastern Cape, which generally enjoys above average rental collection trends, exhibited a sharp decline in Q2 - but recovered well in Q3 and 4 while also displaying a similar spike in vacancies\* during the same Q2 period. The residential rental payment data for Eastern Cape showed a similar trend, albeit one quarter earlier, in Q1.



### Rental Data still reliable

When placing tenants in the "post CreditAmnesty" dispensation, it is important to bear in mind that credit bureaus treat commercial data (information on businesses) and consumer profiles (information on natural persons) in exactly the same manner. As a result, recently gazetted regulations requiring credit bureaus to delete adverse information and paid-up judgements will be applied across commercial and consumer credit bureau databases simultaneously. This in itself, without rental payment profile data, would be alarming for all landlords. It is therefore important to emphasise that rental payment profile data, which provides a monthly payment account of tenants' payment status (paid on time, paid late, paid partially or not paid) will not be affected. Hence landlords and their property managers will still be able to rely on this vital data for tenant take-on decisions.

\* Source: SAPOA