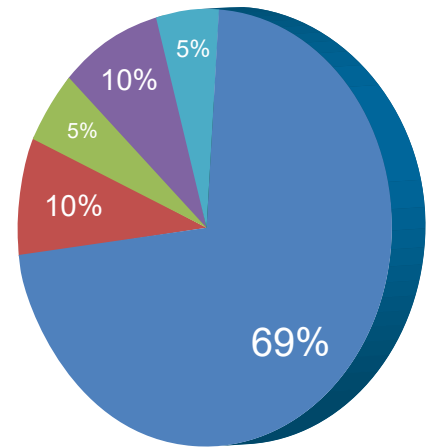




No unwelcome surprises

The majority of landlords in the residential sector may well consider themselves fortunate to have enjoyed a lengthy period of stability, characterised by predictable rental payment behaviour - and demonstrated by tenants in good standing remaining between 84 to 86% for some years now. In this respect Q3 of 2015 delivered no unwelcome surprises, even showing a slight improvement in the number of tenants in good standing rising to 84,7%. This was the result of a two percent shift in tenants paying rent on time, up to 69,4%, while 10,4% of tenants paid late and 5% settled their rent during the 'grace period'. Tenant delinquencies contracted slightly to 9,9% who made partial payments and 5,4% of tenants not making any payment at all.

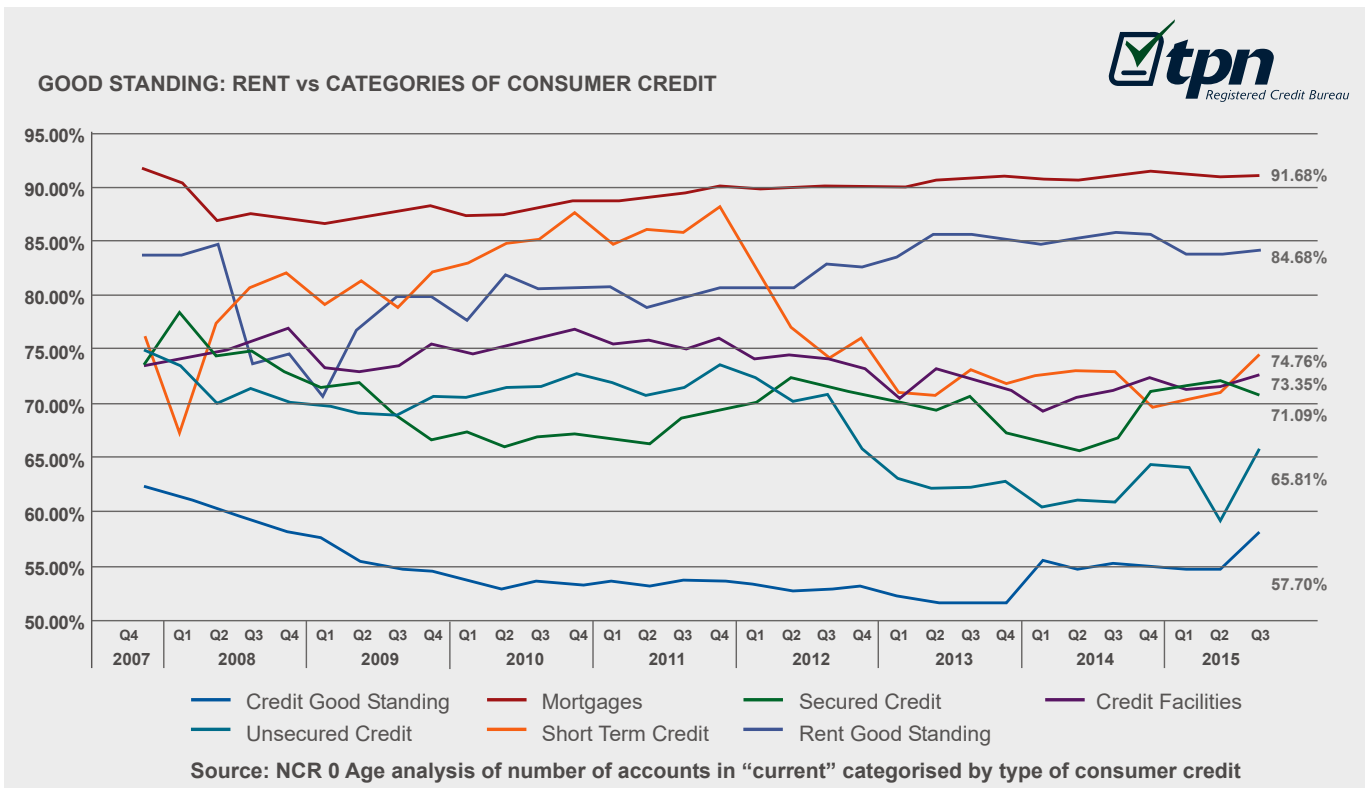


Pressure on profitability

Municipal tariff increases which occur every year during Q3 are known to impact on landlords' operating costs and accordingly, the yield on their properties. Tenants are also affected as many of these increases are passed on. Although rates and taxes increased by a CPI-related 6%, many of the additional charges that are

Rental payment behaviour of residential tenants

- Paid on Time
- Partial Payment
- Paid Late
- Did Not Pay
- Grace Period





Pressure on profitability continued...

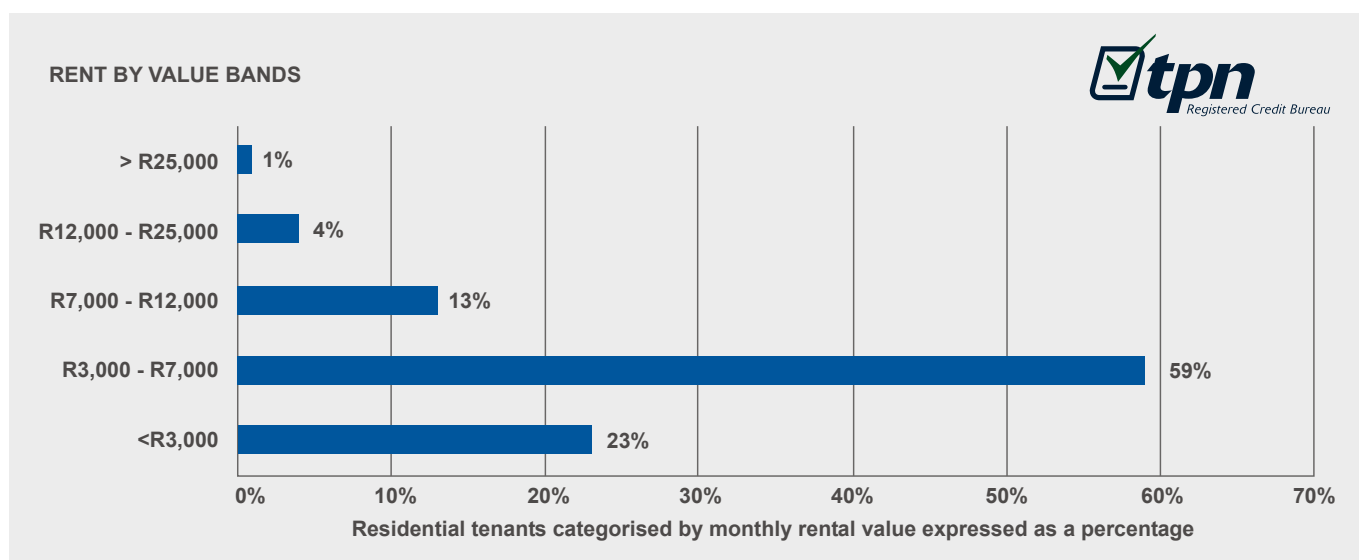
passed on to the tenant came in substantially higher: Electricity rose by 12%, water by 11 - 17% and both sewerage and refuse removal increased by 17%. It can be argued that these double-digit municipal price hikes are crowding out the landlord's ability to increase rentals, possibly accounting for low escalations, currently averaging just 5,1%.

According to the National Credit Regulator's third quarter figures, overall consumer credit health remains stubbornly low with only 57,7% of consumers in good standing, while rejections of applications for credit are up to 52,74%. TransUnion credit bureau also reported a deterioration of consumer confidence in Q3. Hence it's hardly suprising that landlords and rental agents expressed similar frustrations with tenant application rejections - which may also have influenced lower rental escalations, with landlords favouring quality tenant placement over higher increases.

Rental Performance by value


Nationally, 82% of tenants pay rent under R7,000 per month - comprising 23% of tenants who rent for less than R3,000 per month and 59% in the R3,000 to R7,000 pm range. However these two rental bands perform significantly differently, with those who rent below R3,000 being amongst the most challenging tenants to collect rent from. They are most sensitive to increases in additional operating costs due to a higher percentage of their income being allocated to rent, and double-digit increases in electricity, water and services will have a greater impact on their budgets.

Whereas tenants paying R3,000 to R7,000 per month make up the biggest rental population, they are also one of the better paying categories. Demand is high and rent collection is above average – so they generally represent the emerging “sweet spot” for investors. As far as pure rent collection is concerned though, tenants in the R7,000 to R12,000 category continue to lead the way with 88.1% in good standing and a mere 4.1% in the did not pay category. Tenants in the affordable rental category (below R3,000 pm) and tenants in the high income category (above R25,000) are the most challenging brackets - and quite shockingly only 55% (one in two tenants) in the over R25,000 per month segment pay rent on time... meaning reserve cash flow to carry property expenses remains a costly imperative.





Rental Performance by value continued...


 **tpn**
Registered Credit Bureau

GOOD STANDING: RENT BY VALUE BANDS

	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average
< R3,000	63.2%	5.5%	10.5%	12.1%	8.7%	79.2%	84.7%
R3,000 - R7,000	70.7%	5.0%	10.4%	9.5%	4.5%	86.1%	84.7%
R7,000 - R12,000	74.8%	3.7%	9.6%	7.9%	4.1%	88.1%	84.7%
R12,000 - R25,000	68.6%	4.6%	11.7%	9.7%	5.5%	84.9%	84.7%
> R25,000	55.0%	6.9%	16.2%	14.4%	7.5%	78.1%	84.7%

Payment performance by region

Eastern and Western Cape have long remained the best performing provinces in terms of rental payments. Western Cape enjoys the added benefit of high average rents around R6,531 - spurred on by increasing annual escalation currently at 7,85% - while Eastern Cape's escalation has slowed to 6.9% and an average rent of R5,094. Gauteng has clawed its way up from one of the worst performing rental payment provinces to achieve an only-just below average of 84,6% in good standing. The "cost" of this improvement is probably linked to the relatively low escalation of 4,37% and the fact that Gauteng has reduced its overall credit exposure from 48,14% of the national debt in 2014 Q3 - to 44.32% in 2015 Q3 (Source: National Credit Regulator).

 **tpn**
Registered Credit Bureau

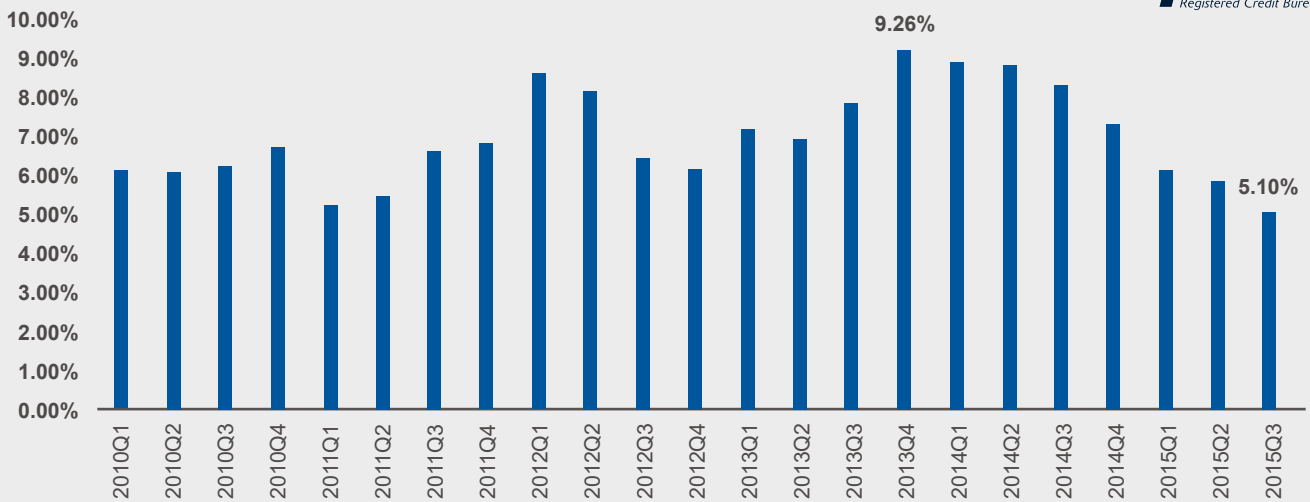
GOOD STANDING: RENT BY PROVINCE

	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average
Eastern Cape	76.3%	3.2%	9.2%	7.6%	3.8%	88.7%	84.7%
Free State	66.1%	3.6%	13.6%	11.6%	5.2%	83.3%	84.7%
Gauteng	67.1%	6.3%	11.2%	10.1%	5.3%	84.6%	84.7%
Kwazulu Natal	64.5%	4.4%	12.0%	11.6%	7.5%	80.9%	84.7%
Limpopo	69.0%	3.9%	11.4%	8.6%	7.1%	84.3%	84.7%
Mpumalanga	66.9%	5.4%	12.6%	10.2%	4.9%	84.9%	84.7%
Northern Cape	71.1%	4.2%	11.1%	9.6%	4.0%	86.4%	84.7%
North West	71.4%	3.3%	10.5%	9.3%	5.5%	85.2%	84.7%
Western Cape	78.3%	2.8%	7.4%	8.0%	3.5%	88.5%	84.7%



Payment performance by region continued...

NATIONAL RENTAL ESCALATION



AVERAGE RENT BY PROVINCE

Quarter	National Average Rental	Western Cape	Gauteng	Kwazulu Natal	Eastern Cape	Northern Cape	Mpumalanga	Free State	Limpopo	North West
2010Q1	4,127	4,484	4,667	4,293	3,775	3,811	4,957	3,534	4,164	3,460
2010Q2	4,192	4,514	4,741	4,381	3,826	4,001	4,943	3,529	4,241	3,555
2010Q3	4,255	4,588	4,776	4,427	3,885	4,116	4,963	3,557	4,316	3,665
2010Q4	4,326	4,696	4,825	4,501	3,937	4,244	4,974	3,615	4,407	3,734
2011Q1	4,346	4,777	4,887	4,504	3,981	4,079	5,045	3,538	4,472	3,831
2011Q2	4,424	4,848	4,974	4,485	4,031	4,213	5,195	3,584	4,558	3,928
2011Q3	4,539	4,962	5,080	4,585	4,129	4,331	5,304	3,701	4,730	4,032
2011Q4	4,623	5,040	5,168	4,675	4,161	4,354	5,358	3,792	4,900	4,161
2012Q1	4,723	5,076	5,239	4,746	4,046	4,557	5,326	3,968	4,943	4,608
2012Q2	4,787	5,202	5,300	4,826	3,994	4,673	5,356	3,992	5,038	4,703
2012Q3	4,834	5,334	5,367	4,878	3,982	4,728	5,371	3,981	5,153	4,708
2012Q4	4,911	5,484	5,407	5,028	4,094	4,742	5,441	4,062	5,244	4,693
2013Q1	5,064	5,620	5,543	5,178	4,346	4,985	5,574	4,075	5,427	4,833
2013Q2	5,121	5,705	5,594	5,255	4,299	5,160	5,667	4,085	5,614	4,707
2013Q3	5,216	5,788	5,669	5,290	4,294	5,365	5,752	4,205	5,962	4,618
2013Q4	5,366	5,858	5,747	5,418	4,438	5,559	5,875	4,322	6,353	4,719
2014Q1	5,518	5,917	5,803	5,553	4,687	5,626	6,027	4,403	6,593	5,056
2014Q2	5,575	5,978	5,885	5,586	4,716	5,859	6,104	4,442	6,601	5,004
2014Q3	5,650	6,056	5,957	5,730	4,765	5,969	6,157	4,603	6,511	5,106
2014Q4	5,761	6,143	6,067	5,802	4,957	6,587	6,088	4,815	6,246	5,145
2015Q1	5,861	6,281	6,125	5,905	5,081	7,325	6,047	5,144	5,986	4,851
2015Q2	5,904	6,443	6,168	6,013	5,124	7,455	6,024	5,254	5,843	4,809
2015Q3	5,939	6,531	6,217	6,008	5,094	7,635	6,059	5,363	5,787	4,752



Payment performance by region continued...

RENT ESCALATIONS BY PROVINCE



Quarter	Rent Escalation	Western Cape	Gauteng	Kwazulu Natal	Eastern Cape	Northern Cape	Mpumalanga	Free State	Limpopo	North West
2010Q1	6.19%	1.28%	4.83%	2.32%	10.08%	18.88%	4.99%	11.33%	1.64%	5.56%
2010Q2	6.13%	1.49%	4.70%	2.19%	8.26%	18.56%	1.58%	10.98%	5.73%	7.02%
2010Q3	6.29%	3.33%	4.20%	3.01%	8.08%	13.09%	0.65%	10.84%	7.64%	10.29%
2010Q4	6.78%	5.80%	4.21%	5.20%	6.66%	15.19%	0.18%	10.36%	7.89%	9.41%
2011Q1	5.30%	6.53%	4.70%	4.91%	5.46%	7.04%	1.76%	0.11%	7.39%	10.73%
2011Q2	5.53%	7.39%	4.91%	2.37%	5.37%	5.31%	5.11%	1.56%	7.47%	10.51%
2011Q3	6.69%	8.16%	6.37%	3.56%	6.26%	5.24%	6.88%	4.07%	9.58%	9.99%
2011Q4	6.87%	7.33%	7.10%	3.86%	5.69%	2.60%	7.72%	4.90%	11.18%	11.45%
2012Q1	8.68%	6.26%	7.21%	5.37%	1.63%	11.72%	5.57%	12.18%	10.53%	20.26%
2012Q2	8.20%	7.31%	6.54%	7.61%	-0.93%	10.91%	3.09%	11.38%	10.52%	19.73%
2012Q3	6.48%	7.48%	5.65%	6.39%	-3.54%	9.16%	1.26%	7.56%	8.95%	16.77%
2012Q4	6.21%	8.82%	4.63%	7.53%	-1.62%	8.92%	1.54%	7.12%	7.04%	12.78%
2013Q1	7.23%	10.71%	5.80%	9.11%	7.42%	9.39%	4.66%	2.69%	9.79%	4.89%
2013Q2	6.97%	9.66%	5.55%	8.89%	7.63%	10.44%	5.81%	2.35%	11.44%	0.07%
2013Q3	7.91%	8.52%	5.63%	8.44%	7.82%	13.47%	7.09%	5.63%	15.71%	-1.90%
2013Q4	9.26%	6.82%	6.29%	7.77%	8.41%	17.23%	7.98%	6.40%	21.13%	0.55%
2014Q1	8.96%	5.29%	4.70%	7.23%	7.86%	12.87%	8.12%	8.05%	21.49%	4.62%
2014Q2	8.87%	4.78%	5.19%	6.29%	9.70%	13.55%	7.72%	8.73%	17.57%	6.31%
2014Q3	8.33%	4.63%	5.08%	8.32%	10.98%	11.25%	7.04%	9.46%	9.20%	10.56%
2014Q4	7.37%	4.86%	5.56%	7.07%	11.70%	18.48%	3.63%	11.40%	-1.68%	9.04%
2015Q1	6.20%	6.15%	5.53%	6.35%	8.41%	30.19%	0.34%	16.83%	-9.21%	-4.06%
2015Q2	5.90%	7.78%	4.82%	7.64%	8.65%	27.24%	-1.31%	18.27%	-11.49%	-3.90%
2015Q3	5.10%	7.85%	4.37%	4.85%	6.90%	27.91%	-1.58%	16.53%	-11.12%	-6.92%