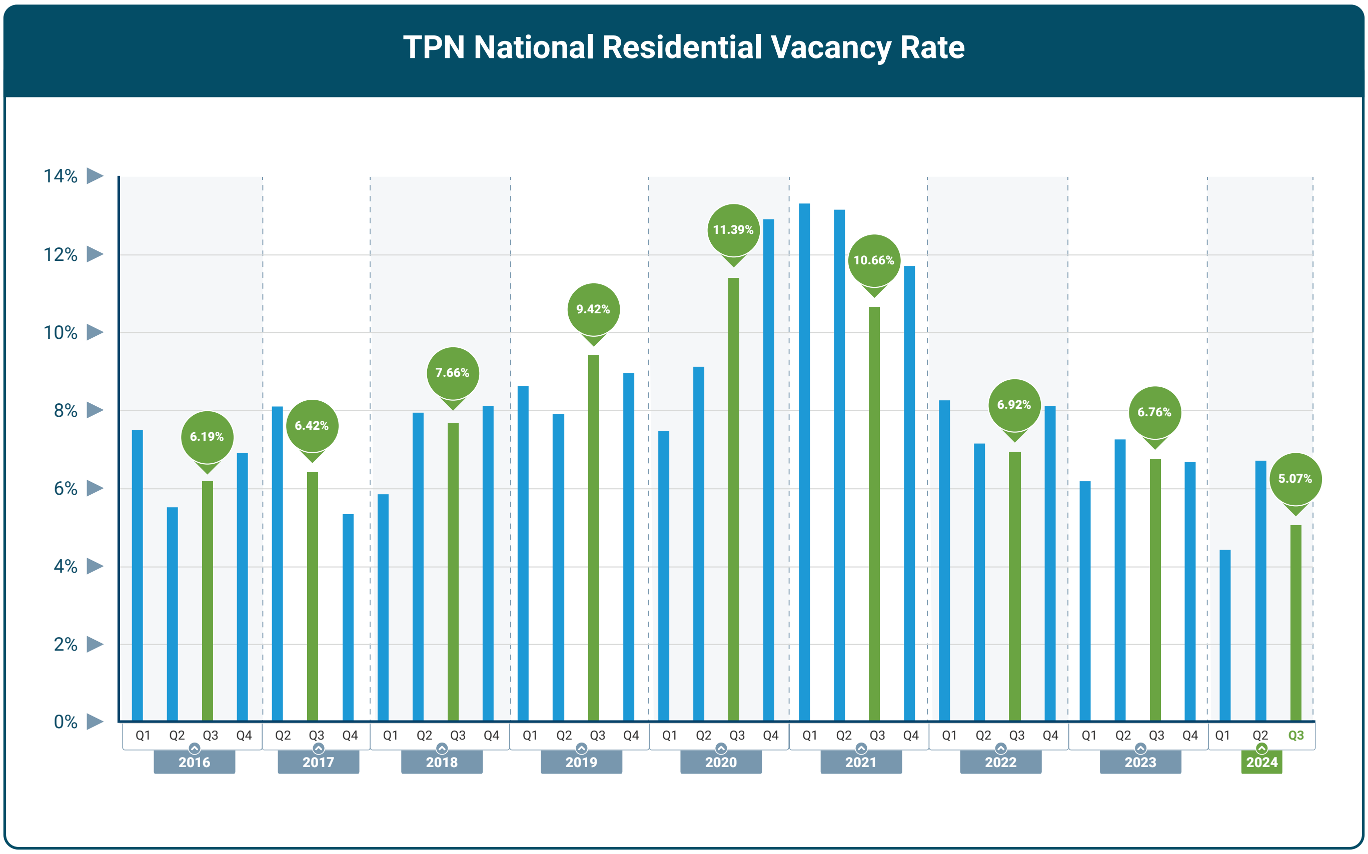
TPN Vacancy Survey Report Q3 2024

Cautious investments prevent rental bubble as vacancies hit a low of 5.07%

Table of Contents

Higher demand than supply is reflected in lower residential vacancies

Residential rental vacancies decreased between the second and third quarters of 2024, resulting in a national vacancy rate of 5.07%, down from 6.72% in the second quarter. The residential rental market continues to perform strongly with rental properties still in high demand as new supply is slower to come online.



The overall economic sentiment after the national elections in May 2024 is positive, with improved consumer and business confidence and economic indicators leaning in a positive direction. The second interest rate cut in November 2024 adds to the positive outlook, providing much-needed relief to tenants and property owners who have been navigating high inflation combined with slow household income and revenue growth.

The rating agency S&P Global recently upgraded its outlook for South Africa from stable to positive. While it is still too early to draw definitive conclusions, it appears that structural reforms may lead to a decrease in government borrowing costs. This, in turn, could stimulate economic growth, which is urgently needed to help reduce unemployment in South Africa.

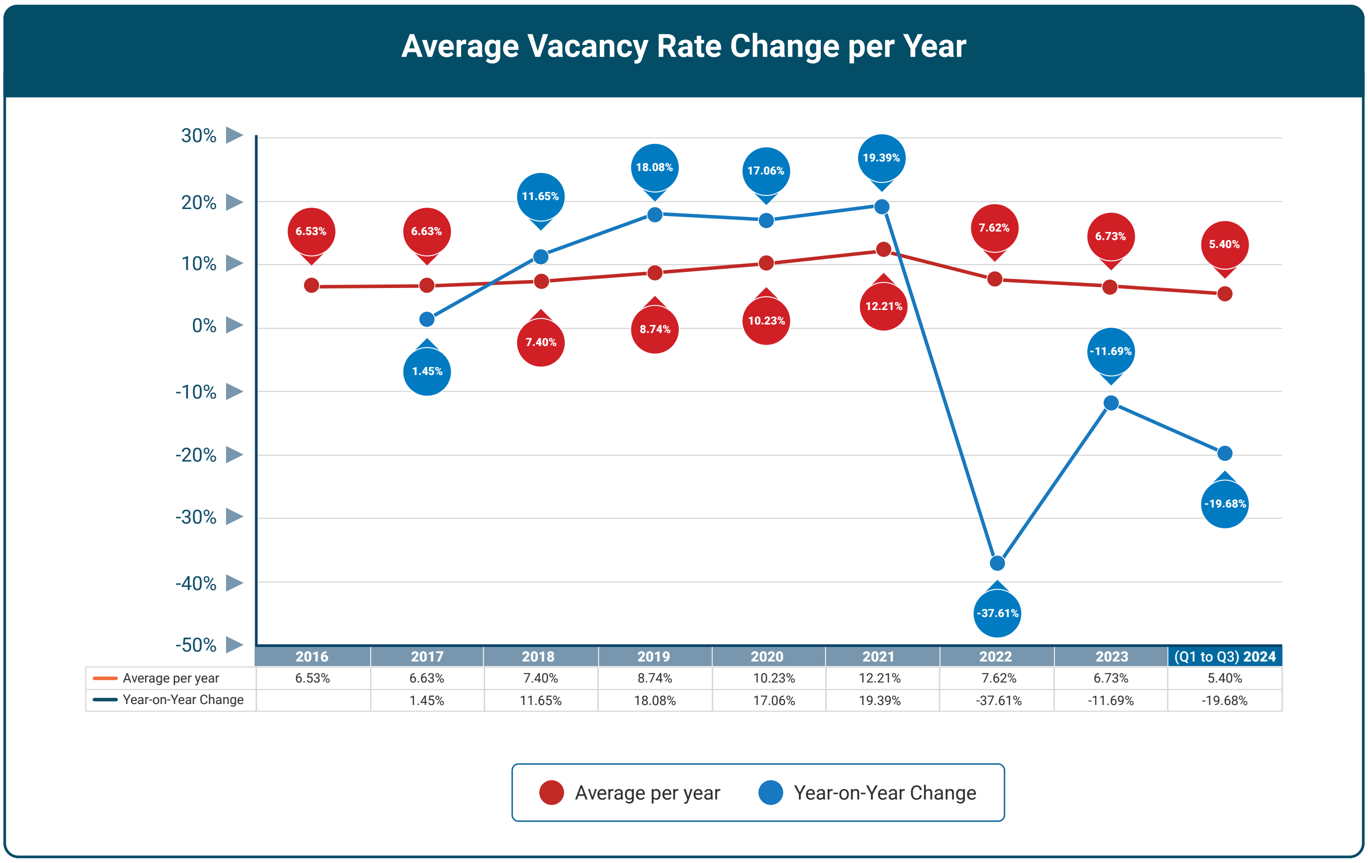
Stats SA's Quarterly Labour Force Survey (QLFS) for the third quarter of 2024 shows that unemployment reduced from 33.5% in the second quarter to 32.1% in the third quarter. Despite a net increase of approximately 300 000 employed individuals in the third quarter, the number of discouraged workers surged by 160 000, leaving 8 million working-age individuals without employment. A robust and secure job market is essential for the long-term health of the residential rental market.

Gauteng, the most populous province, shed 66 000 jobs between the second and third quarters of 2024. KwaZulu-Natal lost 2 000 jobs, while the Western Cape employed 75 000 more people. The Eastern Cape had the highest number of new jobs, with 83 000 people indicating they now have a job.

Stable employment is essential for property investors to keep vacancy rates low. Although high interest rates discourage consumers from purchasing property, they also have a negative impact on property owners. These owners may need to compromise on high rental growth to ensure that tenants stay in their properties and pay their rent promptly.

Given the second interest rate cut by the South African Reserve Bank, it is worth factoring in the potential migration of some consumers from tenants to property owners, which could cause residential vacancies in the higher rental value bands to increase. However, it will likely take some time before consumers adequately recover from the recent volatile economic and political landscape. Property investors will be keen to start growing rental incomes, which could hinder tenants from saving to enter the property market as owners.

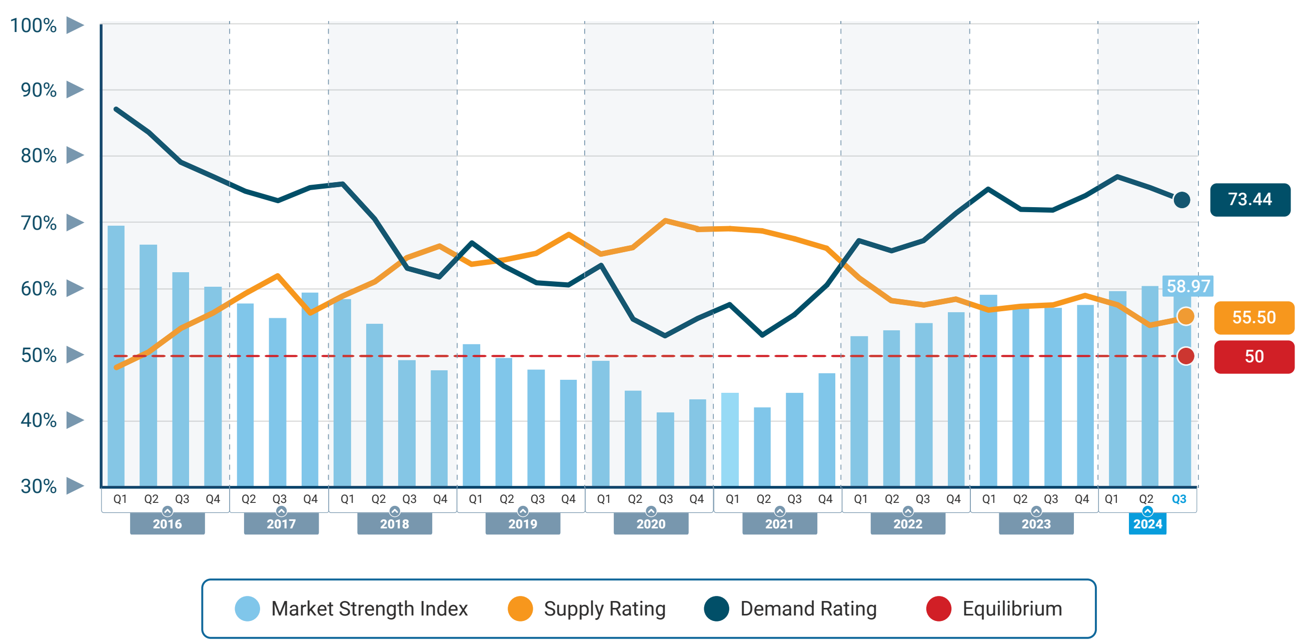
The average residential vacancy rate is 5.4% for the first three quarters of 2024, the lowest since the TPN Vacancy Survey was first published in 2016. Year-on-year vacancies decreased by 19.68% from the previous full year - calculated on the 2023 national average vacancy rate compared to the first three quarters of 2024. The overall positive performance is expected to remain in the mid 5% mark for the rest of the year, with rental growth accelerating in the fourth quarter.



The TPN Rental Market Strength Index measures the market's perceived demand and supply of residential rental stock across various property types, values, investors and portfolio sizes. The index has declined from 60.36 points in the second quarter to 58.97 points in the third quarter of this year. The market is in equilibrium at 50 points. An index above 50 points means that demand is stronger than supply. The residential rental market remains above the 50-point mark and this is reflected in the lower vacancies.

Although demand continues to outweigh available supply in the rental market, the index reveals a slight decrease in demand and an increase in supply. Demand has decreased for three consecutive quarters. Supply also showed a downward trend until the third quarter, when the supply rating increased from 54.51 points to 55.5 points.

TPN Residential Rental Market Strength Index



Vacancies by rental value band

A well-located property priced appropriately will consistently be in demand and yield good rental returns, along with relatively high occupancy rates. While it has widely been discussed that rental increases have not kept pace with inflation, this is a critical element for maintaining low vacancy rates and retaining reliable tenants who pay their rent on time.

Property investors and managers who maintained active engagement with tenants during economic hardships experienced higher occupancy rates in lower-rent units. In contrast, higher-rent units faced rising vacancies. Additionally, declining interest rates may contribute to sustained vacancy levels in higher-value rental properties, as households in this segment increasingly opt for home ownership.

Rental stock with a rental value of **R3,000 or less** a month decreased from 10.97% in the second quarter to 6.89% in the third quarter. The Rental Market Strength Index for this rental value band strengthened to 60.11 points, up from 59.95% in the previous quarter.

Vacancies also decreased in the **R3,000 to R7,000** rental value band, from 6.75% to 5.8% in the third quarter. A marginal decline of 1.25 points in Market Strength Index was driven by an increase in the supply rating and a small drop in the demand rating. Demand remains strong in this segment, even though more rental units are now available in this segment.

Taking a closer look at the two sub-categories in this rental value band shows that lower-value units, priced **between R3,000 and R4,500** per month, have slightly higher vacancies than those priced between **R4,500 and R7,000**. Vacancies decreased from 7.75% in the second quarter to 6.14% in the third quarter for units priced between R3,000 and R4,500. These rental units remain in demand, with a demand rating of 72.41 points in the third quarter, up from the previous quarter. The supply rating for these rental assets is marginally down from the previous quarter.

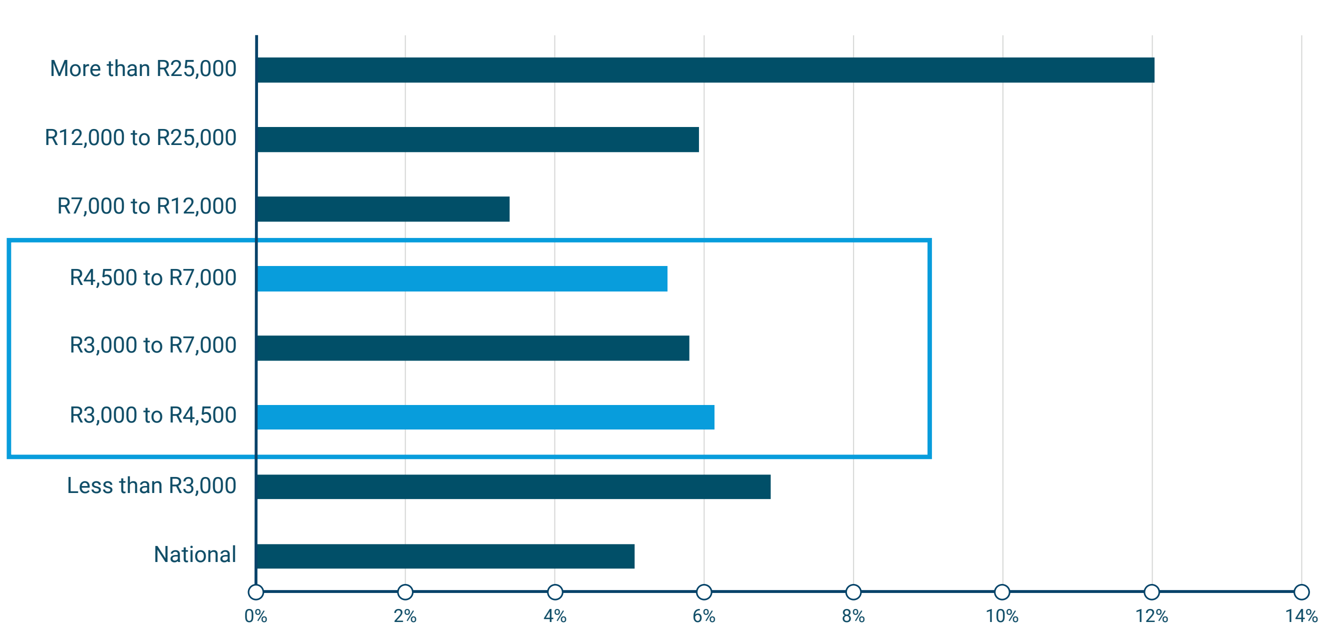
Properties in the **R4,500 to R7,000** rental value band decreased in vacancies, from 6.1% in the second quarter, to 5.51% in the third quarter. This value band followed a similar demand and supply trend with a slight drop in demand at 70.4 points, while supply improved from 58.12 points to 60.76 points in the third quarter.

The **R7,000 to R12,000** rental value band recorded the lowest vacancies. Vacancies dropped from 5.51% in the second quarter to 3.4% in the third quarter. The overall demand for these properties decreased slightly from 72.7 points to 71.27 points. Supply increased from 56.34 points to 59 points, resulting in an overall Market Strength Index of 56.13 points, slightly below the overall national average of 58.97 points.

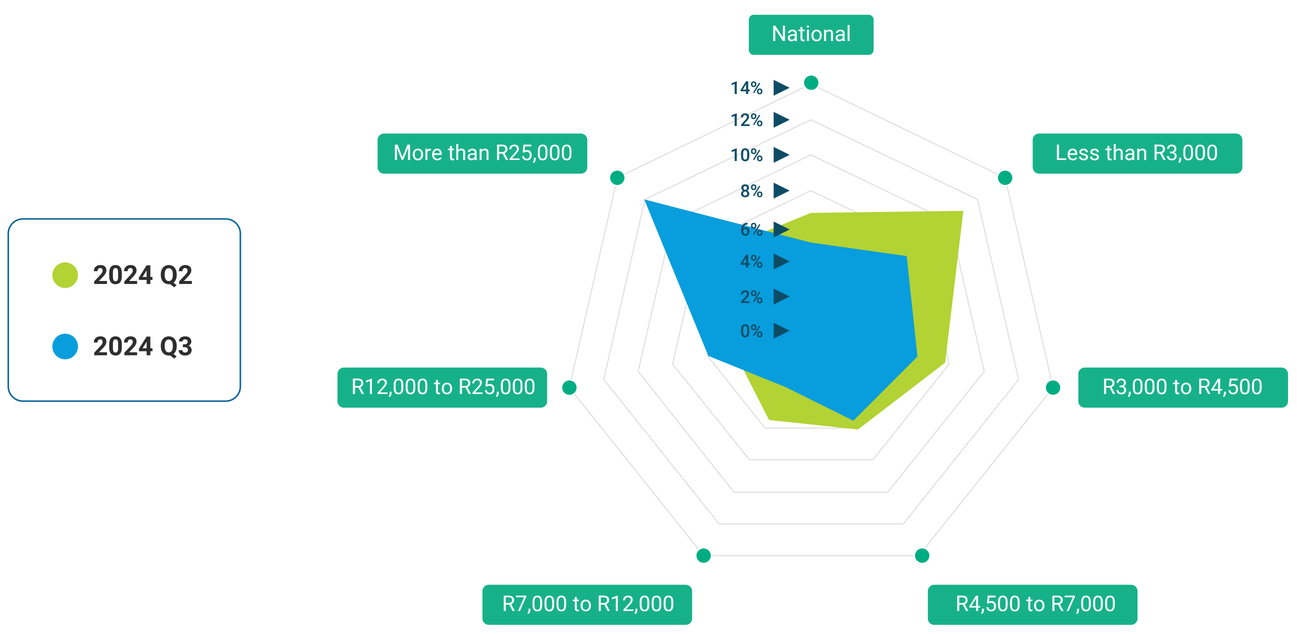
Higher recorded vacancies indicate that the luxury rental market is under pressure. Rental properties with a monthly rental price of **R12,000 to R25,000** saw more vacant units than in the previous quarter. Vacancies increased from 4.52% to 5.93%. This is due to declining demand but consistent supply. Demand for these units decreased from 76.01 points in the second quarter to 75.12 points in the third quarter. The overall Market Strength Index moved from 61.78 points to 61.47 points during the same period. While this segment continues to show strong demand, increased vacancies could indicate early signs of market migration.

At the top end of the market, residential units with a price tag of **R25,000 or more** a month saw a sharp increase in vacancies from 7.16% in the second quarter to 12.03% in the third quarter. Interestingly, supply decreased from 52.46 points to 50.63 points, indicating that less luxury stock is available to meet the waning demand, which dropped from 84.15 points in the second quarter to 77.22 points in the third quarter.

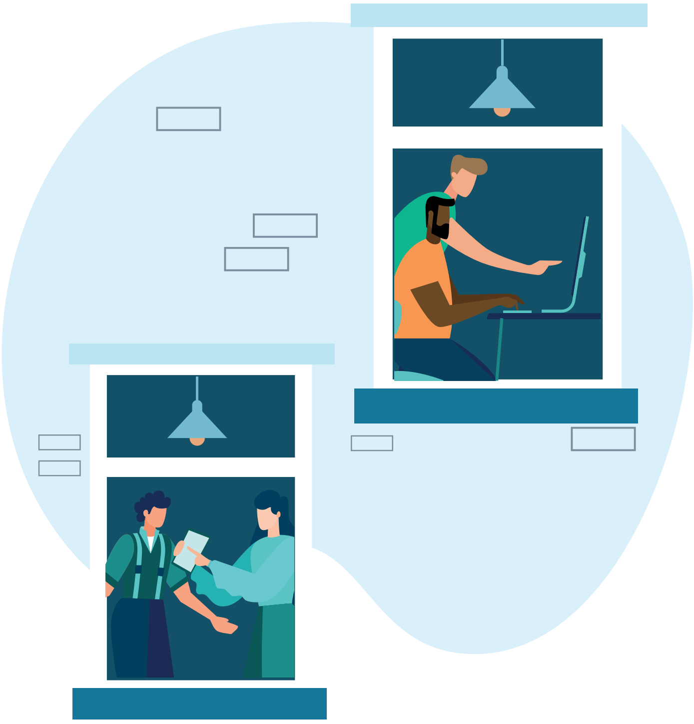
Residential Vacancies by Rental Value Band - Q3 2024



Residential Vacancies by Rental Value Band



Rental demand and supply



Residential rental property investors have seen strong demand for assets due to high interest rates, an unpredictable economic and political environment and low consumer confidence. These factors have also influenced overall supply as investors adopt a cautious approach to new and future investment plans. Consequently, despite robust demand, there is little eagerness for aggressive investments to increase supply.

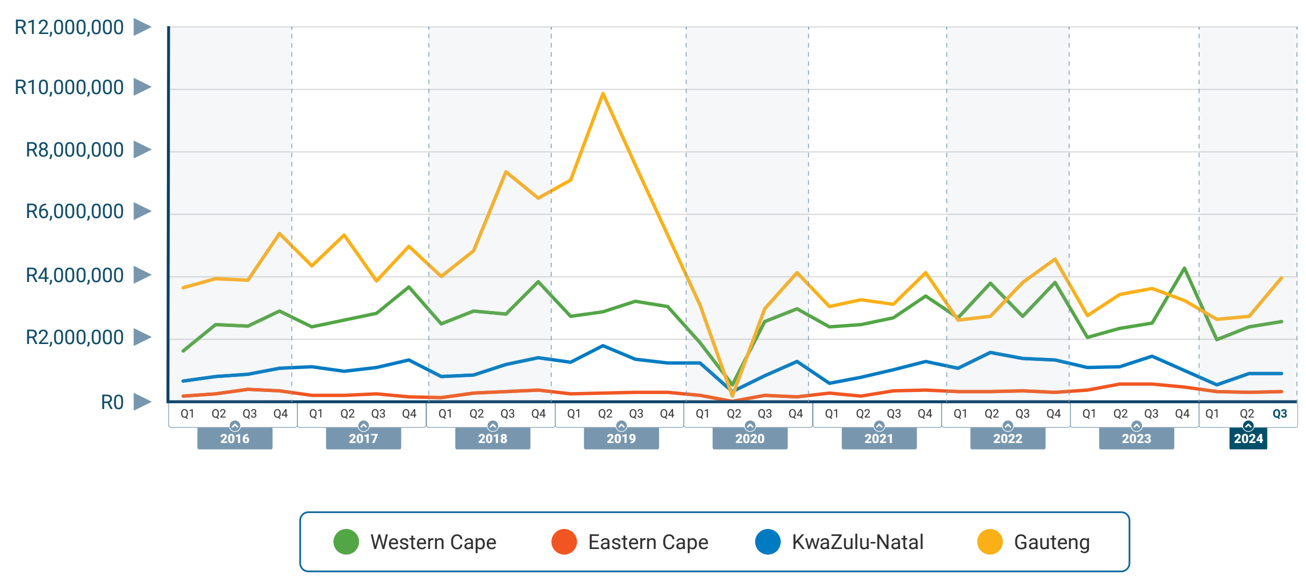
This cautious strategy has helped prevent a potential rental bubble which could have arisen if investors had significantly increased supply to match the growing demand. However, the downside of this approach is that it might lead to even lower rental increases, along with higher vacancy rates and an increase in tenants defaulting on payments.

Demand for residential rental property remains high compared to the period between 2019 and 2021. Supply has been slightly depressed, which is reflected in the downward linear trend in the value of completed residential buildings as reported by major municipalities.

According to Stats SA, fewer residential properties have been completed at current values. Although the buildings that have been completed do not only include rental properties, they provide a good indication of the new residential stock available for purchase or rent. This is concerning in a market that is already facing a shortage of affordable housing in key areas.

In terms of provincial performance, the Western Cape and Gauteng have seen the highest value of completed residential buildings. However, since 2020, these two provinces have been vying for the top position. Previously, Gauteng had the most significant investment in completed residential buildings.

Residential Buildings Reported as Completed by Larger Municipalities 'R000 - Provincial Breakdown



Rental vacancies by province

Western Cape

The Western Cape has recorded its lowest vacancy rate to date in the third quarter, with vacancies dropping to 1.07%. The previous record low was 1.16% in the first quarter of 2016. This extremely low vacancy rate is attributed to a very low supply rating of 38.37 points, compared to the national average of 55.5 points, and a high demand rating of 88.12 points. This results in a Market Strength Index of 74.88 points. The high demand has led to greater rental increases than those observed in other provinces, resulting in current and prospective tenants having to face higher rental increases and elevated rental amounts. While this is a positive indicator for property investors, it could pose challenges for lower-income households, potentially pricing them out of the market.

Gauteng

In the third quarter, Gauteng experienced a decrease in vacant properties. As occupancy rates improved, the vacancy rate fell to 5.81%. However, the Rental Market Strength Index stood at 49.92 points, which is below the market average and indicates that supply is slightly higher than demand in the province. As a result, Gauteng will continue to face challenges with lower rental escalations due to its weaker Market Strength Index.

Kwa-Zulu-Natal

In KwaZulu-Natal, the vacancy rate has decreased to 7.12%, which is slightly lower than the 7.36% recorded during the same period last year. The province has a Market Strength Index of 45.31 points, which is below the national average and below the equilibrium level. Since 2021, both demand and supply have fluctuated significantly, making it challenging for investors and managers to predict market movements.

Eastern Cape

The Eastern Cape's vacancy rate has once again fallen below 10% to 9.05%, with a Market Strength Index of 59.38 points. This decrease in vacancies is attributed to a consistently low supply of available rental properties. The supply rating dropped from 56.9 points in the second quarter to 50 points in the third quarter of 2024.

Smaller 5 provinces

The smaller five provinces had an average vacancy rate of 6.13%, down from 7.78% in the previous quarter. Demand for rental properties in these provinces remains strong at 73.15 points, although slightly lower than the last quarter, while supply has increased from 46.72 points in the second quarter to 49.07 points in the third quarter, resulting in a Market Strength Index of 62.04 points.

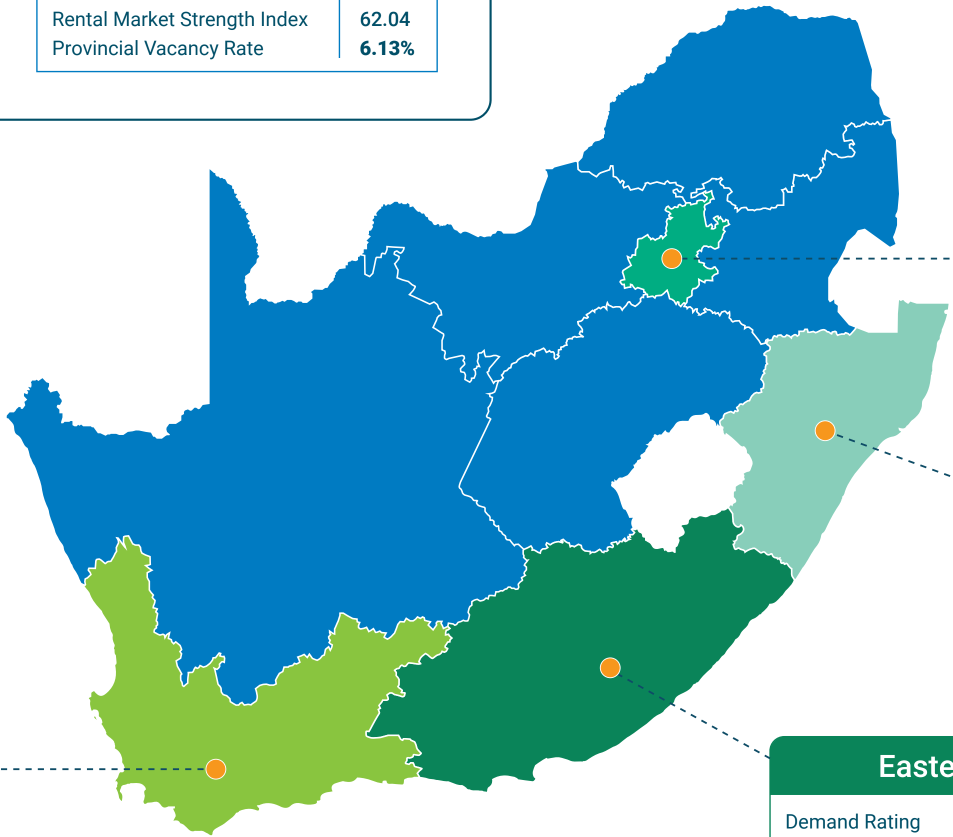
TPN Residential Rental Performance Summary by Province - Q3 2024

National

Demand Rating	73.44
Supply Rating	55.50
Rental Market Strength Index	58.97
Provincial Vacancy Rate	**5.07%**

Smaller 5 Provinces

Demand Rating	73.5
Supply Rating	49.07
Rental Market Strength Index	62.04
Provincial Vacancy Rate	**6.13%**



Gauteng

Demand Rating	66.06
Supply Rating	66.21
Rental Market Strength Index	49.92
Provincial Vacancy Rate	**5.81%**

KwaZulu-Natal

Demand Rating	62.50
Supply Rating	71.88
Rental Market Strength Index	45.31
Provincial Vacancy Rate	**7.12%**

Western Cape

Demand Rating	88.12
Supply Rating	38.37
Rental Market Strength Index	74.88
Provincial Vacancy Rate	**1.07%**

Eastern Cape

Demand Rating	68.75
Supply Rating	50.00
Rental Market Strength Index	59.38
Provincial Vacancy Rate	**9.05%**

Proactive strategies drive rental returns

The residential rental market seems set for growth, although there are some important considerations to be aware of. Lower interest rates may prompt certain tenants to move toward home ownership, which could affect the demand for higher-end rental properties. Property investors and managers who implement proactive strategies are more likely to navigate economic fluctuations successfully and achieve sustainable returns.

About TPN from MRI Software:

The only credit bureau globally to specialise in tenant behaviour, TPN from MRI Software created the world's first rental payment profile. Its database has grown to become the most comprehensive and up-to-date authority on tenant behaviour in South Africa, covering both the residential and commercial sectors and transforming the way tenants pay their rent. TPN's unique data is widely used by organisations such as the South African Reserve Bank (SARB), commercial banks and industry bodies.

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