

TPN Squat Index sees increase over last two quarters

While the residential rental property market has remained resilient in recent quarters, the number of tenants in good standing deteriorated in the first quarter of 2023 in all provinces. This is according to TPN's latest *Residential Rental Monitor* report.



Waldo Marcus, industry principal at TPN Credit Bureau. Source: Supplied

Waldo Marcus, industry principal at TPN Credit Bureau, says the resilience has been driven by high interest rates which has dissuaded potential buyers. The expectation of further interest rate hikes will serve to retain a healthy demand for residential property.

However, although rental growth continues to improve, Marcus says property investors need to keep a close eye on the financial health of consumers and their ability to keep paying their rentals.

The *Residential Rental Monitor* report reveals that vacancies were at 6.19% in the first quarter of 2023. TPN's Market Strength Index, which measures the perceived demand and availability of supply within the residential rental market, remains strong at 9.14 points above equilibrium, a figure last seen in 2017.

"Traditional market factors indicate that the residential rental market is buoyant, with improved returns and lower vacancies. A further interest rate hike before the end of the year is expected to further deter property purchases and retain healthy demand for residential rental property," he says.

Economic challenges filter into households

However, TPN's data reveals that tenants in good standing have declined slightly for three consecutive quarters as economic challenges continue to filter into households. This mirrors the result of the National Credit Regulator's age analysis which indicates that almost all consumer credit types in good standing deteriorated slightly in the same time period. TPN's Squat Index, defined as the number of tenants who on a monthly basis fall into a category of non-payment, has also

seen an increase in the last two quarters.

Marcus points out that a decrease in credit good standing is typically a predictor of rental payment rates. “Although overall sentiment in the sector remains positive, property owners need to consider how a tenant’s late or no payment will impact them. Tenants classified as squatting pose a severe risk to the ability of landlords to collect and recover rental due. Landlords, therefore, need to act proactively and utilise the various legal tools available to them to collect the outstanding rental.”



Rental demand on the rise, but landlords should note the risks

31 Jul 2023



Escalations should be considered cautiously

He further advises that escalations should be considered cautiously given that consumers are under extreme and ever-increasing pressure. “Landlords need to take advantage of the current market strength but bear in mind that there is an upward trend in the number of tenants classified as squatting. They, therefore, need to ensure that adequate tenant risk monitoring is implemented to mitigate the risk of an increase in defaulting tenants.”

The residential market recovered faster than most property sectors post-Covid-19, with reduced vacancy rates and steadily recovering rental escalations. The sector’s recovery was assisted by an aggressive interest rate hike cycle which dissuaded potential buyers from entering the property market.

FNB’s House Price Index, which peaked in the first quarter of 2021 to 5.1%, dropped to 2.3% in the first quarter of 2023 as a result of interest rate hikes and is expected to remain around this number for the balance of 2023.

Rental escalations have been recovering since mid-2021 as demand for residential rental property grew, providing property owners with an opportunity to play catch-up with the consumer price index (CPI) which, at the end of March 2023, was 7.1%.

“A pause in the interest rate hiking cycle by the South African Reserve Bank (Sarb) in July 2023 for the first time since November 2021 will have provided some relief to a severely stretched consumer base,” says Marcus. “We expect residential rentals to continue their gradual climb but to slow towards the end of 2023 as the balance between rental growth and vacancies becomes a finer balancing act.”

Buy-to-let demand surges in Western Cape

2 Aug 2023





Western Cape tenants most committed to paying rental

The TPN report found that tenants in the Western Cape are the most committed to paying their rental while tenants in KwaZulu-Natal have the highest number of squatting tenants, up from 4.67% in the fourth quarter of 2022 to 5.09% in the first quarter of 2023. Gauteng is only marginally behind in the number of squatting tenants at 4.58%.

When it comes to rental payment performance by the rental band, tenants paying R3,000 or less a month – the lowest rental band – continue to struggle to pay their rental with a continued deterioration of tenants in good standing. Tenants paying between R7,000 and R12,000 have been the best-performing category of tenants since 2014, with the highest proportion of tenants in good standing of all rental bands, followed by tenants paying between R12,000 and R25,000 per month. The luxury market – defined as rental properties costing more than R25,000 per month – has the highest vacancy rate.

Marcus explains that although a lower vacancy rate and higher escalations are a move in the right direction, a successful property investment ultimately relies on the ability of tenants to pay their rent.

Risk of defaulting tenants more likely

“Early signs indicating that consumer credit repayments are slipping, combined with lacklustre economic growth, cloud the positive outlook for the residential rental market for the rest of the year. The current economic landscape means that the risk of defaulting tenants is more likely, making proper background checks and vetting more important now than ever before. Needless to say, the right tenant in the right rental bracket is gold right now,” he concludes.

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