

Sound strategy essential for rental investors in the Western Cape

The Western Cape rentals market, renowned for its historically record-breaking returns, has raised eyebrows with an uncharacteristically severe decline over the last three years. With market strength plummeting from 85.57 to 45.32 since 2016 (TPN Rental Monitor Residential Sector Q2 2019), many rental investors are feeling justifiably pessimistic.



© Nolre Lourens – [123RF.com](https://www.123RF.com)

However, the Western Cape rental market is far from a sinking ship. In fact, recent indicators suggest the market is reaching an important equilibrium that could herald the beginning of a slow recovery soon.

In the meantime, investors should employ the following strategies to make the most of their rental investments despite current conditions.

Seek advice when planning rental escalations

Average rental escalation in the Western Cape may be the highest in the country at 4.5%, but growth is still slowing, having dropped from 2.96% in Q1 2019 to 2.51% in Q2. As a result, landlords should seek professional advice before implementing a rental increase to avoid overestimating the current rental value of a property based on outdated information.

Depending on your property type, price band and area, the rental that you achieved twelve months ago may not be relevant by today's standards. Rather consult a professional for a current rental assessment, and add a clause in your lease to renegotiate an increase in six months' time. That way, you won't miss out if the market takes a turn for the better, but you'll remain competitive in the short term and hopefully avoid an empty property.

Prioritise tenant retention over short-term returns

Vacancy rates in the Western Cape have increased from 1.2% in 2016 to 7.08% in 2019 – the second lowest in the country, but a disturbing trend for landlords, nonetheless. To avoid expensive vacant periods, investors should prioritise the retention of reliable, long-standing tenants over short-term returns.

A decrease in demand together with ongoing development has put the Western Cape rental market into an oversupply situation. That means there's a lot of competition for good tenants – if you have one, do what you can to hang onto them, even if it means taking a small knock on rental income.

Recheck credit records before renewing a lease

While tenant reliability has been declining nationwide, the Western Cape still boasts 87.7% of tenants in good standing. However, increasing economic pressure in what remains the most expensive province for renters in South Africa may see more and more households falling into financial difficulties over time.

It's really essential not to take the financial health of any tenant for granted, regardless of how reliable they have proven in the past. Performing another credit check before approving a lease renewal may seem like an unnecessary inconvenience, but it has saved many an investor from a nasty surprise down the line.

Monitor rental investment returns and portfolio risks

The rental situation may be less than ideal at present, but Western Cape investors are still in a strong position to make solid returns with the right strategies in place. To achieve this, however, active asset management is essential.

It can be easy for landlords to adopt a passive role in the management of their rental asset, leaving day-to-day operations to a rental manager and paying little attention to the returns or growth their investment is delivering. While this may suffice when the market is strong, it's never going to achieve results above average. For that to happen, you either need to vigilantly observe and respond to macro and micro market conditions, or partner with a rental agent able to monitor, advise, plan and deliver on both management and investment strategies.

For more, visit: <https://www.bizcommunity.com>