Rental property market to remain subdued heading into 2022

By Michelle Dickens

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The Covid-19 pandemic and subsequent lockdown imposed in 2020 resulted in the already struggling construction sector to crash even further with significantly constrained building activity. The number of completed residential properties slashed in half from 45,342 new houses developed in 2019 to 24,178 new houses in 2020.

Michelle Dickens, chief executive officer of TPN Credit Bureau

Construction remains the least recovered of all sectors. New builds in 2021 remain under-developed, with a mere 22,270 new houses delivered in the first nine months of the year.

Residential housing sales shrank by 18% in 2020 compared to the average annual deals that occurred in the preceding decade. Recovery in the residential housing market remains elusive. Between 2010 and 2019, on average 255,000 transfers per annum took place. This figure weakened to 212,000 in 2020 and only 118,000 in the first ten months of 2021.

Decline in number of buy-to-let properties

Cash buyers are exiting the market. More alarming, however, is that the number of buy-to-let properties declined for the first time as investors sold off more rental properties than they acquired. Buy-to-let landlords with portfolio sizes ranging anywhere between three to more than ten properties are all losing confidence and selling up, leaving those investors with only one or two rental properties to prop up the market.

The FNB house price index slipped to 3% in October 2021. In real terms, house prices remain in negative territory.

Record-high unemployment is scuppering any hope of a real recovery in 2022. The cost of home ownership is fast becoming unaffordable as a result of municipal costs which have outpaced inflation for over a decade. The consumer price index is up 68%, municipal costs are up 118%, electricity is up 177% and water is up 213%.

The financial cushion of low interest rates is ebbing away as the first of many predicted interest rate hikes took hold in November 2021. Paying the mortgage just got a little more expensive.

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Vacancies remain stubbornly high

Landlords banking on rental income are negotiating negative to flat escalations while at the same time battling high vacancies which are cutting profit off the bottom line. TPN Credit Bureau data indicates rental escalations of 0.4% in Q3 2021 while vacancies remain stubbornly high at 11.7%.

The magnitude of the unemployment crisis is masked in percentages. An unemployment rate of 34.9% indicates that jobs are desperately required. A total of 2.1 million jobs have been lost since the beginning of the pandemic, with 660,000 jobs lost during the "looting" quarter between July and September 2021. The economy contracted 1.5% in the third quarter of 2021, largely as a result of the July riots and social unrest.

Business confidence declined in the third quarter and has failed to show any signs of recovery in the fourth quarter, according to the RMB/BER Business Confidence Index.

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The expectation is that the rental property market will remain subdued heading into 2022. Property wealth is not guaranteed and although some property investors have made millions, others have lost fortunes. The reality is that building wealth requires intentional investment and wise money management.

Homeowners are motivated by emotion. Property prices are affected by the perceived quality of the neighbourhood, the schools in the area and the condition of the property. Equally important are factors such as the administered costs of municipal rates, levies and the cost of repairs and maintenance.

As increasing interest rates gain momentum, it's critical to factor in home loan repayments based on higher interest rates –

as much as 2% higher than the current rate.

The unseen impact of loan-to-value, in other words paying a deposit rather than maximising finance at 100% of the purchase price, can have a powerful impact on reducing the cost of finance, ultimately decreasing the overall cost of the property.

Given the state of the economy, the expectation is that the rental market will continue to be under pressure in the year ahead while residential property prices will start to level out. Property investors wanting to take advantage of the current market need to be aware that tenants are likely to remain price sensitive in the year ahead. They will be on the lookout for safe, secure and well-maintained properties.

ABOUT MICHELLE DICKENS

Michelle Dickens co-founded TPN Credit Bureau in 2000 and is now its CEO. TPN Credit Bureau is a registered credit bureau which specialises in the education and property markets.

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