

Rental boom looms: Tips to secure good-standing tenants

According to Grant Smee, property entrepreneur and managing director of Only Realty Group, while the market experienced a surge in homebuyers due to a low interest rate and favourable lending criteria by the banks, there is now a high demand for rental properties.



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“The residential property sector tends to ebb and flow. While the past 18-months saw a notable buyers’ market coming to the fore, landlords can now breathe a sigh of relief as the rental market starts to gain momentum,” says Smee.

Why the shift?

While homeownership was previously viewed as a marker of ‘adulthood’ and independence’, South Africans are now prioritising quality of life, flexibility, and cash flow. “Tenants get to enjoy the perks of a home without being tied into a long-term commitment and unforeseen costs. In many cases, tenants can live in homes that they may not be able to finance through a home loan.”

Smee adds that homeownership is still out of reach for many, largely due to unforeseen costs, potential repo rate increases, high levies, and escalating rates and tariffs.

Increase in demand amongst good-standing tenants

“The latest statistics indicate a shift in demand with rentals up by 1.4% (13.8%) in quarter two of 2021 according to the TPN Rental Monitor.”

Another factor plaguing landlords has been finding tenants who are in 'good standing'. "The term good standing is used a lot in our industry. It refers to tenants with a good credit record and track record who pay their monthly rentals on time each month," says Smee.

Tenants in good standing dropped to 73.5% in Q2 of 2020 but rates are now up to 80.34% over the same period in 2021. "Based on the unemployment statistics, this trend indicates that existing tenants in good standing are either 'scaling up' or potential homebuyers with good credit records who are opting to rent rather than buy."

A notable trend in renting is that of house sharing. "Tenants who are spending more time at home are in search of bigger properties and are splitting the costs with family and/or friends to improve their quality of living."

The latest figures also indicate increases in the average rental price in provinces such as KwaZulu-Natal, North West, Western Cape, Mpumalanga and Limpopo. "Gauteng, Free State and the Northern Cape have experienced a decrease in the average price of rentals. This is largely driven by excess supply and landlords lowering their prices to secure a good tenant."



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1 Sep 2021



If the price is right

Smee notes that the mid-market (middle price bracket) is currently enjoying sustained demand for rental properties. "Here, quality and affordability are two key factors and landlords are urged to adjust their rental expectations in the short term to secure a good tenant."

The TPN data shows that the Western Cape has been impacted by rising vacancy rates reaching 14.38%, and negative annual rental escalation (0.1%) in Q2 2021.

However, despite this, Smee adds that they are seeing healthy, sustained demand for rental properties in the price bracket of R7,000 – R10,000 per month. "This puts pressure on Cape Town CBD and the Atlantic Seaboard areas where rentals are significantly higher, and yields (returns) are under major pressure."

He adds that sectional title properties are currently experiencing the highest yields. "East Rand, West Rand and Johannesburg North continue to generate some of the highest yields with areas such as Port Elizabeth, the Dolphin Coast, Northern Cape Town suburbs and the Helderberg proving to be popular areas for investment.

Tips for landlords to secure good-standing tenants

- **Patience is a virtue:** "So often, landlords are so desperate to find a tenant that they sign on the first application that they receive. Take the time to do your due diligence – work with a trusted real estate agent to perform all the relevant checks. Weigh up the pros and cons and be sure to call their references."

- **Be selective in your strategy:** Smee urges landlords not to list their property with too many agents. “If you look desperate, you will fall prey to chancers and low rental offers.”
- **Short-term losses, long-term gains:** “With the number of properties on the market, it’s best to do your research before listing your rental property. Find out what other homes are being leased out for to ensure that your listing is competitive. In many cases, we are encouraging landlords to drop their price ever so slightly for the right tenant – especially a tenant willing to sign a longer lease-term.”
- **React quickly:** “If you have secured a good tenant, then the key to keeping them is staying on the ball. If a tenant has a maintenance query, communicate, and get it sorted out as quickly as possible. This also ensures better upkeep in your home.”
- **Communicate:** “Keep the lines of communication open. If a tenant is struggling to pay their rent on time, structure a plan that works for both of you. Checking in on the tenant every few months also goes a long way to promoting an open, fair relationship.”
- **Stern but fair:** “In a tough economic climate, tenants can take advantage of landlords. Be sure to lay down the ground rules from the get-go and share any relevant documentation with regards to complex rules and regulations.”
- **Offer renewal incentives:** “If your tenant’s lease renewal is coming up and they are worth keeping, be sure to negotiate an incentive to make sure that they stay on. This could be something as small as a discount or modifications to the home, i.e., new countertops, floors, painting of the home etc.” he concludes.

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