

Residential Sector Q1 2018



Did somebody mention a 5% decline in rental payment behaviour over the past year?

By Michelle Dickens, managing director, TPN Credit Bureau

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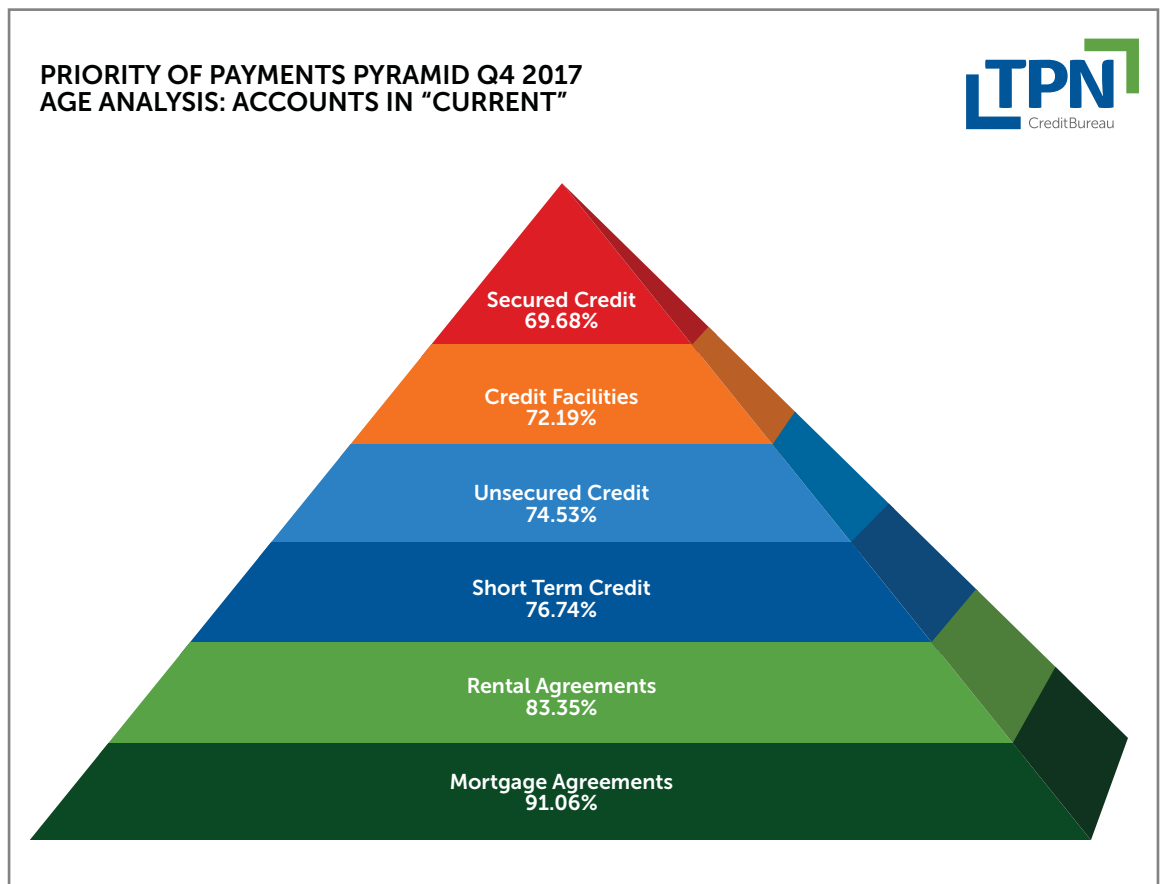


Did somebody mention a 5% decline in rental payment behaviour over the past year?

TPN is South Africa’s largest aggregator of tenant rental payment behaviour and our numbers confirm that far from falling off any cliff, tenants in good standing declined a marginal 0.47% year on year for the first quarter of 2018. Of course tenant collection capabilities do differ between property service providers as do credit reports, so property managers and landlords who actively work the TPN system might simply be reaping the rewards of quality tenants placed using quality credit reports which equals quality rental collection and so thankfully have not experienced the reported 5% decline in tenant behaviour. It is also true that the first quarter of each year does suffer from the traditional “Januworry” holiday hangover syndrome and so the 'paid on time' status of a relatively higher number of tenants may shift to grace or late payment status as a result.

Let’s talk about the good news...

Fortunately the residential rental market environment has experienced no sudden shift in trends, with two interest rate reductions of 25 basis points each, in Q1 2018 and Q3 2017, having brought modest but still welcome relief during the past 12 months. To some extent this may have contributed to the National Credit Regulator’s (NCR) most recent report indicating a 1% improvement of consumers in good standing year on year. Tenant rental payment continues to enjoy the same status as a mortgage repayment – confirming the basic human need to “provide for roof over your head” being equally important for a tenant as it is for a home owner. The NCR’s report highlights the consumer’s priority of payments by the number of accounts paid in “current”.





Highlights from the NCR Report

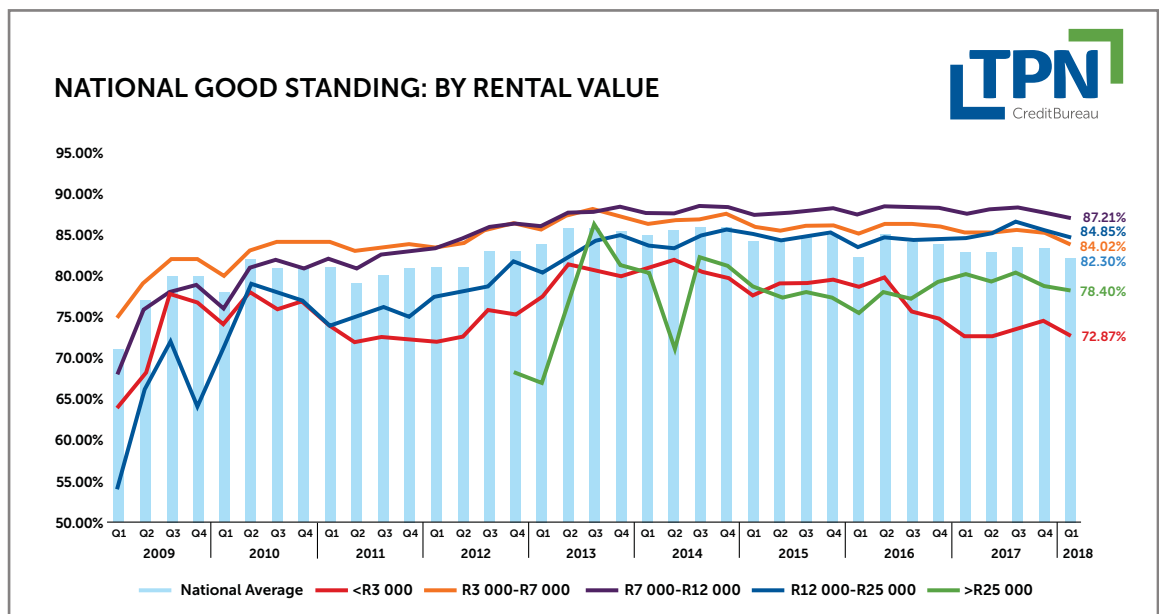
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The NCR’s comparison of the age analysis of accounts in “current” indicates that mortgage agreements with 91.06% of accounts in “current” are the best performing category of credit. Critically, rental good standing for the same period was 83.53%. Noticeably lagging behind the importance of paying for the roof over your head, was the repayment of short term credit (76.74%), unsecured credit (74.53%), credit facilities (72.19%) and secured credit (69.68%).



Tenants in good standing

Nationally, 82.30% of tenants were deemed to be in good standing in good standing during the first quarter of 2018. This is made up of tenants who paid their rent in full by the end of the month. While 63.65% of tenants paid on time, 6.28% of tenants paid during the grace period and 12.37% of tenants paid late. Delinquent tenants are the 11.11% who made a partial payment, as well as the 6.58% of tenants who made no rental payment at all.



Tenant behaviour by rental value

The analysis of good standing segmented by rental value bands clearly indicates that price is one of the most noticeable differentiators for collection.

Tenants in the below R3,000 rent per month bracket are hardest hit by transport costs (read fuel price increases), cost of living increases (read Vat increase), not to mention the imminent municipal and electricity increases. It is clear that tenants in this segment are significantly financially constrained, where 53.92% or just 1 in 2 tenants are able to pay their rent on time.




Tenant behaviour by rental value

(continued)

Of increasingly serious concern for investors is the fact that 13.45% of these tenants are currently recorded as did not pay. It is worth noting that tenants in the rental category below R3,000 per month comprise a considerable 20% market share.

By comparison, tenants in the above R25,000 per month rental segment only comprise 1.6% market share, but similarly face a nearly 1 in 2 paid on time challenge. The resulting problem for landlords in this bracket is the pressure applied to cash flow from the property during the period represented by a combined 22.78% of grace and late payment.

The best paying tenants are in the R7,000 to R12,000 rent per month segment with a good standing percentage of 87.21%. Investors will be impressed with the 71.91% of tenants paid on time and the limited number of non-paying tenants at just 4.21%.

GOOD STANDING: RENT BY VALUE BANDS								
	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average	
< R3,000	53.92%	6.60%	12.35%	13.69%	13.45%	72.87%	82.30%	20.0%
R3,000 - R7,000	64.48%	6.66%	12.88%	11.00%	4.98%	84.02%	82.30%	54.8%
R7,000 - R12,000	71.91%	4.78%	10.52%	8.57%	4.21%	87.21%	82.30%	17.6%
R12,000 - R25,000	66.50%	5.87%	12.48%	9.90%	5.25%	84.85%	82.30%	6.0%
> R25,000	55.62%	7.69%	15.09%	14.68%	6.92%	78.40%	82.30%	1.6%



Rental performance by major province

While we see some cooling off in the market strength of the Western Cape and a slowing down of escalations (7.5%), this has not had any effect on the impressive 89.60% of tenants in good standing. Most remarkably only 2.88% of tenants in this province are non-payers. Another feather in the cap for being the province with the lowest vacancy rate at 3.6%.

KwaZulu Natal on the other hand has declined further since the previous Quarter, with only 59.85% of tenants paying on time. Due to the deteriorating credit profile of tenants in this province, vacancy rates have climbed to 8.9%, the highest of all the provinces. In order to mitigate the rising vacancies, property escalations are now negative at -0.95%.


Gauteng however, with a significant portion of the market share, may be showing signs of improvement. Escalations are now rising (5.81%), vacancies have stabilised at 6% and the market strength index at 51 shows a province in almost perfect supply / demand equilibrium. What is not improving though, is the number of tenants in good standing, having deteriorated to 81.32%. In addition, at 20.37% combined, the grace period and late payment situation is becoming a serious problem.



Rental performance by major province


(continued)

GOOD STANDING: RENT BY PROVINCE



	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average
Eastern Cape	69.80%	4.29%	11.56%	9.57%	4.78%	85.65%	82.30%
Free State	56.34%	5.07%	15.59%	12.01%	10.99%	77.00%	82.30%
Gauteng	60.95%	7.25%	13.12%	11.93%	6.75%	81.32%	82.30%
Kwazulu Natal	59.86%	5.59%	12.73%	13.83%	7.99%	78.18%	82.30%
Limpopo	60.23%	7.20%	14.74%	10.91%	6.91%	82.17%	82.30%
Mpumalanga	64.41%	5.33%	13.89%	10.43%	5.94%	83.63%	82.30%
Northern Cape	70.30%	5.80%	11.20%	7.99%	4.69%	87.30%	82.30%
North West	64.32%	4.23%	12.69%	12.28%	6.48%	81.24%	82.30%
Western Cape	76.25%	4.56%	8.79%	7.52%	2.88%	89.60%	82.30%

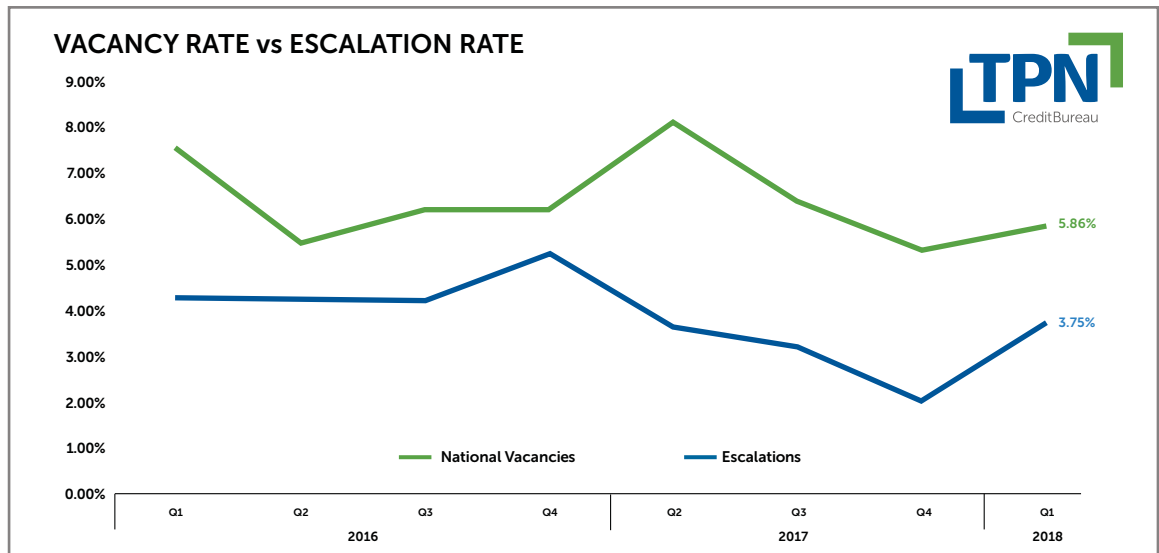
AVERAGE RENT BY PROVINCE



Quarter	National Average Rental	Western Cape	Gauteng	Kwazulu Natal	Eastern Cape	Northern Cape	Mpumalanga	Free State	Limpopo	North West
2010Q1	4,127.16	4,478.88	4,682.96	4,293.95	3,776.18	3,802.75	4,956.44	3,515.73	4,163.74	3,473.78
2010Q2	4,192.85	4,508.73	4,757.49	4,386.13	3,828.83	3,998.07	4,941.25	3,509.51	4,241.11	3,564.50
2010Q3	4,253.42	4,583.81	4,788.52	4,434.15	3,887.16	4,112.19	4,964.56	3,518.51	4,316.05	3,675.88
2010Q4	4,320.86	4,694.13	4,830.57	4,505.23	3,942.23	4,242.03	4,975.41	3,549.95	4,409.15	3,739.08
2011Q1	4,337.28	4,778.06	4,880.20	4,511.52	3,982.51	4,091.65	5,045.49	3,444.99	4,476.16	3,824.91
2011Q2	4,409.00	4,849.65	4,954.16	4,486.11	4,027.91	4,214.50	5,198.10	3,469.46	4,562.27	3,918.84
2011Q3	4,526.11	4,963.61	5,054.27	4,573.00	4,126.41	4,329.84	5,305.50	3,593.65	4,743.27	4,045.43
2011Q4	4,612.89	5,040.16	5,141.38	4,669.91	4,167.15	4,348.85	5,360.84	3,687.44	4,916.01	4,184.28
2012Q1	4,709.31	5,074.53	5,206.39	4,740.39	4,052.06	4,544.10	5,330.32	3,802.79	4,963.89	4,669.28
2012Q2	4,776.09	5,207.21	5,258.70	4,825.04	4,000.96	4,657.93	5,361.98	3,840.47	5,064.20	4,768.34
2012Q3	4,820.58	5,345.90	5,322.27	4,879.92	3,988.30	4,696.70	5,376.34	3,843.88	5,168.00	4,763.92
2012Q4	4,892.45	5,491.50	5,356.13	5,027.82	4,103.02	4,700.11	5,443.36	3,924.08	5,247.76	4,738.24
2013Q1	5,057.12	5,621.12	5,492.68	5,185.27	4,359.52	4,966.64	5,579.94	3,995.03	5,448.88	4,865.02
2013Q2	5,118.21	5,710.36	5,552.71	5,258.48	4,311.65	5,153.96	5,672.61	4,038.72	5,636.08	4,729.36
2013Q3	5,222.03	5,797.45	5,649.42	5,286.45	4,309.44	5,360.75	5,760.78	4,180.77	6,013.98	4,639.24
2013Q4	5,377.35	5,877.29	5,742.21	5,413.48	4,455.26	5,538.37	5,881.67	4,307.35	6,433.01	4,747.55
2014Q1	5,523.55	5,942.28	5,821.33	5,543.63	4,707.63	5,619.10	6,029.76	4,266.18	6,658.48	5,123.54
2014Q2	5,579.57	6,000.30	5,908.05	5,593.01	4,756.99	5,865.30	6,101.62	4,273.58	6,646.62	5,070.66
2014Q3	5,655.10	6,073.99	5,997.83	5,766.47	4,817.27	5,996.91	6,156.93	4,400.65	6,537.84	5,148.04
2014Q4	5,772.15	6,152.74	6,115.96	5,840.85	5,007.02	6,624.18	6,144.12	4,586.81	6,283.83	5,193.86
2015Q1	5,838.94	6,289.81	6,234.94	5,958.57	5,140.46	7,346.22	6,110.56	4,609.89	6,026.86	4,833.19
2015Q2	5,873.23	6,469.04	6,313.41	6,110.72	5,223.21	7,405.79	6,113.39	4,580.31	5,874.09	4,769.09
2015Q3	5,924.04	6,606.16	6,381.74	6,162.91	5,262.40	7,646.72	6,144.34	4,652.30	5,804.16	4,655.62
2015Q4	5,950.18	6,876.97	6,442.50	6,281.67	5,247.82	7,594.66	6,140.83	4,632.71	5,642.46	4,692.03
2016Q1	6,089.49	7,086.13	6,578.44	6,281.51	5,381.43	7,225.96	6,274.38	5,068.05	5,591.47	5,318.00
2016Q2	6,123.32	7,311.54	6,661.66	6,294.83	5,387.95	6,946.32	6,490.11	5,103.26	5,523.32	5,390.85
2016Q3	6,174.07	7,541.23	6,741.59	6,410.24	5,427.19	6,780.31	6,529.63	5,056.88	5,516.94	5,562.59
2016Q4	6,263.05	7,739.24	6,802.94	6,524.26	5,601.60	6,975.98	6,567.47	4,990.73	5,602.32	5,562.86
2017Q1	6,316.59	7,980.17	6,887.74	6,585.58	5,724.85	6,858.71	6,612.61	4,878.94	5,665.75	5,654.97
2017Q2	6,345.48	8,104.60	6,904.93	6,564.09	5,671.83	6,883.69	6,754.11	4,801.68	5,792.54	5,631.89
2017Q3	6,372.61	8,233.26	6,928.15	6,576.40	5,672.83	7,006.55	6,727.46	4,883.37	5,797.46	5,527.96
2017Q4	6,388.26	8,392.86	7,015.93	6,537.14	5,783.16	6,910.75	6,658.93	4,937.25	5,830.01	5,428.32
2018Q1	6,553.61	8,578.40	7,287.93	6,522.86	5,988.71	6,894.30	6,670.18	5,571.87	5,955.05	5,513.18



Average rent and escalations



RENT ESCALATIONS BY PROVINCE

Quarter	Rent Escalation	Western Cape	Gauteng	Kwazulu Natal	Eastern Cape	Northern Cape	Mpumalanga	Free State	Limpopo	North West
2010Q1	6.17%	1.18%	5.18%	2.52%	10.04%	18.63%	4.88%	11.00%	1.62%	5.61%
2010Q2	6.14%	1.39%	4.96%	2.56%	8.24%	18.48%	1.44%	10.78%	5.71%	6.89%
2010Q3	6.23%	3.27%	4.28%	3.37%	8.09%	12.99%	0.61%	10.04%	7.62%	10.16%
2010Q4	6.65%	5.85%	4.06%	5.43%	6.76%	15.23%	0.18%	8.97%	7.91%	9.04%
2011Q1	5.09%	6.68%	4.21%	5.07%	5.46%	7.60%	1.80%	-2.01%	7.50%	10.11%
2011Q2	5.16%	7.56%	4.13%	2.28%	5.20%	5.41%	5.20%	-1.14%	7.57%	9.94%
2011Q3	6.41%	8.29%	5.55%	3.13%	6.15%	5.29%	6.87%	2.14%	9.90%	10.05%
2011Q4	6.76%	7.37%	6.43%	3.66%	5.71%	2.52%	7.75%	3.87%	11.50%	11.91%
2012Q1	8.58%	6.20%	6.68%	5.07%	1.75%	11.06%	5.65%	10.39%	10.90%	22.08%
2012Q2	8.33%	7.37%	6.15%	7.55%	-0.67%	10.52%	3.15%	10.69%	11.00%	21.68%
2012Q3	6.51%	7.70%	5.30%	6.71%	-3.35%	8.47%	1.34%	6.96%	8.95%	17.76%
2012Q4	6.06%	8.95%	4.18%	7.66%	-1.54%	8.08%	1.54%	6.42%	6.75%	13.24%
2013Q1	7.39%	10.77%	5.50%	9.38%	7.59%	9.30%	4.68%	5.06%	9.77%	4.19%
2013Q2	7.16%	9.66%	5.59%	8.98%	7.77%	10.65%	5.79%	5.16%	11.29%	-0.82%
2013Q3	8.33%	8.45%	6.15%	8.33%	8.05%	14.14%	7.15%	8.76%	16.37%	-2.62%
2013Q4	9.91%	7.03%	7.21%	7.67%	8.59%	17.83%	8.05%	9.77%	22.59%	0.20%
2014Q1	9.22%	5.71%	5.98%	6.91%	7.99%	13.14%	8.06%	6.79%	22.20%	5.31%
2014Q2	9.01%	5.08%	6.40%	6.36%	10.33%	13.80%	7.56%	5.82%	17.93%	7.22%
2014Q3	8.29%	4.77%	6.17%	9.08%	11.78%	11.87%	6.88%	5.26%	8.71%	10.97%
2014Q4	7.34%	4.69%	6.51%	7.89%	12.38%	19.61%	4.46%	6.49%	-2.32%	9.40%
2015Q1	5.71%	5.85%	7.11%	7.48%	9.19%	30.74%	1.34%	8.06%	-9.49%	-5.67%
2015Q2	5.26%	7.81%	6.86%	9.26%	9.80%	26.26%	0.19%	7.18%	-11.62%	-5.95%
2015Q3	4.76%	8.76%	6.40%	6.87%	9.24%	27.51%	-0.20%	5.72%	-11.22%	-9.57%
2015Q4	3.08%	11.77%	5.34%	7.55%	4.81%	14.65%	-0.05%	1.00%	-10.21%	-9.66%
2016Q1	4.29%	12.66%	5.51%	5.42%	4.69%	-1.64%	2.68%	9.94%	-7.22%	10.03%
2016Q2	4.26%	13.02%	5.52%	3.01%	3.15%	-6.20%	6.16%	11.42%	-5.97%	13.04%
2016Q3	4.22%	14.15%	5.64%	4.01%	3.13%	-11.33%	6.27%	8.70%	-4.95%	19.48%
2016Q4	5.26%	12.54%	5.59%	3.86%	6.74%	-8.15%	6.95%	7.73%	-0.71%	18.56%
2017Q1	3.73%	12.62%	4.70%	4.84%	6.38%	-5.08%	5.39%	-3.73%	1.33%	6.34%
2017Q2	3.63%	10.85%	3.65%	4.28%	5.27%	-0.90%	4.07%	-5.91%	4.87%	4.47%
2017Q3	3.22%	9.18%	2.77%	2.59%	4.53%	3.34%	3.03%	-3.43%	5.08%	-0.62%
2017Q4	2.00%	8.45%	3.13%	0.20%	3.24%	-0.94%	1.39%	-1.07%	4.06%	-2.42%
2018Q1	3.75%	7.50%	5.81%	-0.95%	4.61%	0.52%	0.87%	14.20%	5.11%	-2.51%



Average rent and escalations

(continued)

There appears to be a correlation between escalations and vacancy rates. The good news for investors is that as vacancy rates start to rise, price sensitive tenants are easily attracted by a lower escalation. And most landlords would agree to having a quality tenant at a lower rent than a vacant property. Or even worse, a delinquent squatter with a higher - but nonetheless unpaid rent.



In closing:

You reap what you sow: TPN has always worked on the premise that the foundation of a successful property investment is the quality of the tenant. And as the adage goes, a leopard rarely changes its spots. TPN data clearly links historical delinquent rental payment profiles to future rental defaults.

Fortunately for the rental market, the estate agents and landlords supported by 25 property management and accounting systems - and the principal of reciprocity of data - our clients now have over 1.8 million lease agreements on which their decisions to place quality tenants can be based.