

# Rental Payment Monitor

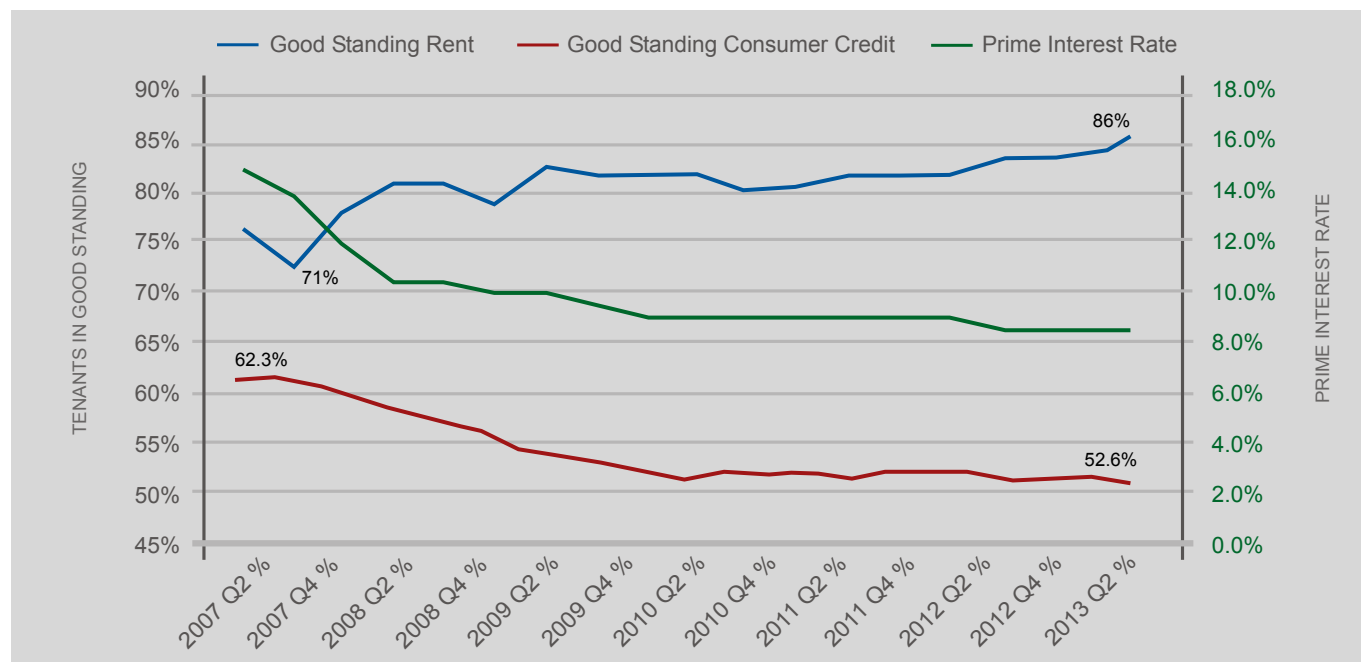
The South African Rental Market

Quarter 2 of 2013

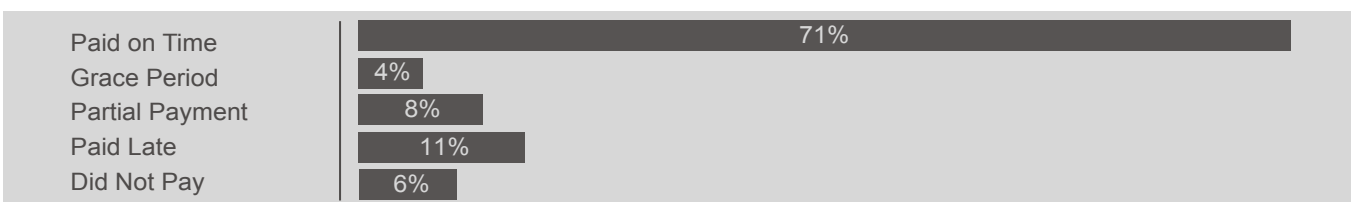
## Tenants improve while consumer credit deteriorates

The second quarter of 2013 manifested little in the way of bad news for the majority of South Africa's residential landlords and property managers. In fact the period showed the highest percentage of tenants in Good Standing since the inception of TPN's Rental Monitor in 2007. By comparison though, the continuing decline of consumer credit in good standing points sombrely to the need for ever-increasing diligence in identifying quality tenants, which can never be emphasised enough.

Nationally 71% of tenants paid their rent on time and in full, 4% during the Grace Period, and 11% are in the Paid Late bracket. The combined result is 86% of tenants are in Good Standing – a fact worth repeating, as the highest in 5 years – with another equally pleasing feature of Q2 indicating that tenants in the Did not Pay category are down to a mere 6%.



## Look before you lease



In Q1 2013 rental agents voiced their concern over a growing scarcity of stock, suggesting an oversupply of tenants. Nonetheless, the challenge on the ground is still a noteworthy shortage of reliable and/or qualified tenants. In reality good quality rental stock still takes time to rent, as a result of the proper due diligence process in placing a suitable tenant: A factor that should not be discounted by discerning landlords. For the most part though, agents and landlords are becoming more meticulous about the long-term view and are contracting with better qualified tenants, consequently rejecting the lure of simply signing the first deal with cash in hand.

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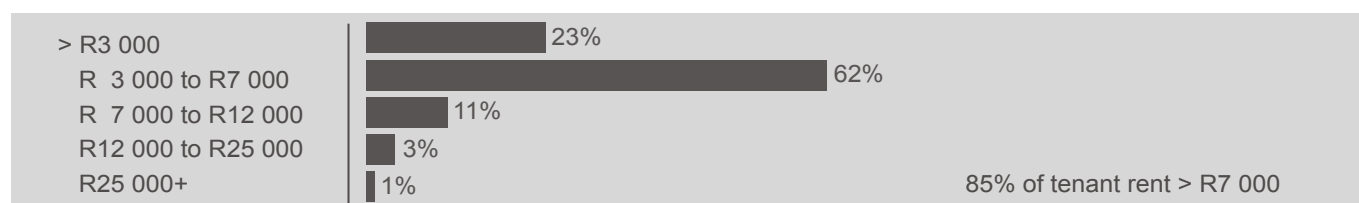
## Look before you lease (continued)

The cost of a delinquent tenant far outweighs the operational cost of the tenant take on process. Legal costs aside, the average loss of rent is 2 months, and in severe cases 2% of tenants squat. By TPN definition of the data this is a tenant who remains on the property for a minimum of 4 months in a row without paying any rent. Add to this the potential cost of damages or unpaid utilities.

It is also relevant to note in Q2 2013 the Supreme Court of Appeal in its judgement handed down on 22nd May 2013 in the matter of City of Tshwane Metropolitan Municipality v T Mathabathe & another found that any outstanding municipal charges enjoyed a lien over the property. In short, Municipal debt as far back as 30 years remains due and landlords ultimately foot the bill if their tenants run up arrear water or electricity costs and vacate without paying.

## High and low performing brackets

TPN data indicates 85% of tenants rent for below R7,000 per month; where 23% of these tenants rent for below R3,000 per month and 62% pay between R3,000 and R7,000 per month. Importantly the R3,000 to R7,000 rental bracket currently and consistently remains the best performing.



With nearly a quarter of tenants renting below R3,000 per month, this rental bracket reveals the highest non-payment rate of 9%. A further stress indicator is the value of arrears as a percentage of rent, on letter of demand to this category of tenant. Average letters of demand delivered to tenants are 140% of the monthly rent, while for tenants in the below R3,000 category this percentage increases to 171% of rent.

## Risks and rewards

|                 | Paid on Time | Grace Period | Paid Late | Partial Payment | Did not Pay | Good Standing | Improve/Decline | National Average |
|-----------------|--------------|--------------|-----------|-----------------|-------------|---------------|-----------------|------------------|
| < R3000         | 64%          | 5%           | 12%       | 9%              | 9%          | 81%           | 3.9%            | 86%              |
| R3000 - R7000   | 73%          | 4%           | 10%       | 8%              | 5%          | 88%           | 1.8%            | 86%              |
| R7000 - R12000  | 75%          | 3%           | 10%       | 7%              | 5%          | 88%           | 1.5%            | 86%              |
| R12000 - R25000 | 66%          | 4%           | 13%       | 10%             | 8%          | 83%           | 2.1%            | 86%              |
| > R25000        | 57%          | 6%           | 15%       | 14%             | 9%          | 77%           | 10.2%           | 86%              |

Only landlords in the above R25,000 per month category fare worse: These tenants also have a 9% non-payment profile with only 57% paying on time – and demand for overdue rent letters signal a staggering 176% of rent on average. With the majority of tenants in the R3,000 to R7,000 rental category it is pleasing to note an 88% Good Standing ratio. Only 5% are in the Did Not Pay category, and letters of demand reflect a less alarming 133% of rent.



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## Gauteng shows improvement

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According to the Census 2011 25% of households are in rented accommodation. Different provinces experience higher or lower levels of rentals with the highest number of tenants in Gauteng where 37% of households are in rented accommodation in comparison with 29% in the Western Cape, 22% in KwaZulu-Natal and only 15% in Eastern Cape. Another take of the data shows 41% of all households in rented accommodation are in Gauteng. It is therefore quite pleasing to note that Gauteng tenants in Good Standing are on par with the National Average for the first time since inception of the Rental Monitor.

|               | Paid on Time | Grace Period | Paid Late | Partial Payment | Did not Pay | Good Standing |
|---------------|--------------|--------------|-----------|-----------------|-------------|---------------|
| Western Cape  | 78%          | 2%           | 8%        | 8%              | 4%          | 88%           |
| Eastern Cape  | 70%          | 2%           | 12%       | 9%              | 7%          | 84%           |
| Gauteng       | 69%          | 5%           | 12%       | 9%              | 5%          | 86%           |
| KwaZulu-Natal | 69%          | 3%           | 14%       | 8%              | 8%          | 85%           |

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## Credit amnesty can erode credibility

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In conclusion, Credit Bureaus provide historical data of a factual account of how consumers (and tenants) pay their monthly credit and rental accounts as well as any civil judgements or defaults. This valuable information enables landlords or their agents to place the best qualified tenant and limit the risk of non-payment and other damages. The proposed Credit Amnesty will have an effect on such defaults and judgements – and potentially result in less desirable tenants making the grade – in the event of no Rental Payment Profile data being available to rely on.

The proposed Credit Amnesty will have no effect on Rental Payment Profile data as the monthly payment ratings are a factual account of how the rent was paid and cannot be deleted as such. It is relevant, necessary and in fact fair and equitable for quality tenants to have their Paid on Time status reflected for the length of their lease, enabling these tenants to secure future leases post the credit amnesty.