

Household rental on the rise, albeit slowly

By  Johette Smuts

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Judging by the current economic climate - which is unlikely to improve over the next year - rent levels will continue to rise in 2018, though probably at a slightly more subdued pace than we've seen over the past two to three years.



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That, at any rate, is the outlook suggested by the growth numbers of the third quarter of 2017.

Of course, supply and demand affect the residential rental market just as much as economic factors, and not all provinces will feel the pressure of an economy that is continually under pressure.

The Western Cape – king of consistency

For that reason, we don't believe rental prices and growth rates in the Western Cape, especially in and around Cape Town, will be affected much.

With the ever-present threat of Airbnb-type short-term letting – which is turning out to be very profitable for owners – there is short supply in long-term rental stock, which in turn means higher rent levels and bigger rental increases. “Semigration” to the region from other parts of the country also puts pressure on house prices and rent levels there, and this is unlikely to change in 2018.

Rent levels in provinces strongly supported by mining, such as Limpopo and the Northern Cape, will continue to be affected by international commodity price movement – and perhaps even more so by overseas investors’ decisions. The International Monetary Fund doesn’t foresee much improvement for the country in 2018 regarding political uncertainties, which does little to restore lost consumer and investor confidence.

Consumers under pressure

We expect a continued migration from the lower rental brackets to the higher ones as rents continue to increase, but rentals between R2,500 and R7,500 should stay in high demand.

The latest PayProp Rental Index revealed that tenants in these bands spend a lower percentage of their income on rent than tenants in the higher bands, and have credit scores that are in line with the average.

Renters in the higher brackets – especially tenants who rent for between R7,500 and R10,000, might be in trouble if income levels continue to stagnate. We might very well see worsening credit metrics and higher debt levels for this group of tenants over the coming year.

Ultimately, indications are that South African tenants and consumers will remain under mounting pressure heading into 2018 – if not from rent growth then from inflation in general. We expect that disposable income levels will remain under pressure – largely due to low job creation and possible tax increases in the near future. All in all, another tough year ahead.

ABOUT JOHETTE SMUTS

Johette Smuts is head of data and analytics at PayProp, a processor of rental payments for the property management industry. In addition to being a CFA charterholder, Smuts is a Stellenbosch University graduate with a BCom honours degree in financial risk management. She is the author of the *PayProp Rental Index* - a quarterly guide that outlines trends in the South African residential rental market.

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