Rate hikes add to financial pressure for property owners, tenants

Stilling grappling with the economic pressures brought on by the Covid-19 pandemic and associated lockdown restrictions, residents of Durban, Cape Town and Johannesburg are now also feeling the impact of municipal rate hikes introduced last month.

Starting 1 July, residents were hit with steep tariff increases to the price of:

- Electricity (+ 14.6% in Jhb, 13.5% in CT and 14.59% in Dbn)
- Refuse removal (+ 4.3% in Jhb, 3.5% in CT and 4.9% in Dbn)
- Water and sanitation (+ 6.8% in Jhb, 5% in CT and 8.5% in Dbn)
- Property rates (+ 2% in Jhb, 4.5% in CT and 4.9% in Dbn)

Grant Smee, director of Only Realty Group

Officials from these municipalities have emphasised that these increases are a necessity to improve and repair crucial infrastructure. Echoing statements made by representatives from Durban and Cape Town, City of Joburg's MMC for Finance Jolidee Matongo has stated that "they're trying to meet residents halfway", by implementing lower rates than what was originally proposed.

"Well-intentioned platitudes from city officials aside, these increases are steep and could have devastating financial implications on both homeowners and tenants in this current economic landscape," says Grant Smee, director of Only Realty Group.

Owners take strain and tenants bear the brunt

While Smee does not believe that the increase in rates will deter prospective buyers from purchasing a home, he does believe that the cumulative costs of these increases will have a significant impact on their monthly budget once the transaction is concluded.

"We have enjoyed some of the lowest interest rates in history, but the effects of increased tariffs are expected to see substantial increases in property ownership costs depending on the size of the household," adds Smee. "Taking the overall ownership costs associated with a home - including rates increases - is critical when budgeting for a home and prospective homeowners need to keep monthly affordability in mind when they start their search."

In the case of residential landlords - many of whom have faced a tough year of tenant non-payment and a rise of vacancies – they're stuck between a rock and a hard place. Do they absorb additional costs they can ill-afford, or do they risk alienating badly-needed tenants by raising the rent?

"Unfortunately, landlords need to make a living from their rentals, and so tenants often bear the brunt of poor municipal planning and strained budgets," says Smee. "While some landlords may resort to rent increases to cover their costs, they should first look for ways to support tenants as much as possible in this challenging climate."

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Smee's suggested cost-saving measures include:

Tenants and landlords need to work together: "Landlords who have tenants with financial troubles must keep the lines of communication open. Plan and budget in a way that benefits both parties and be sure to put this in writing."
Become energy-efficient: "While you can't control everything, you can control your consumption. Make sure that you are working wisely with electricity by opting for LED bulbs and switching off large appliances and smaller devices when not in use."
Don't be a drip! "Check your toilet and all the taps around your house for leaks. Upgrading your dishwasher and washing machine to newer, more energy-efficient models might require an initial investment but will save on water and electricity costs."
Use heating sparingly. "Only heat rooms that you are currently in, insulate as much as possible and opt for an electric blanket rather than a heater. If you must use a heater, make sure that it is an infrared electric heater as these are the most energy-efficient."
Make WFH work for you. "Tenants who are working from home may be able to request an allowance from electricity and Wi-Fi from their employer."

Smee says that while these energy-saving tips sound straightforward, a surprising number of tenants and landlords are unaware that making these simple changes can help to significantly keep costs down for both parties, before drastic steps like raising rent need to be taken.

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Understanding the rebates on offer

While these benefits are applicable to a very small percentage of the population, homeowners in certain age and income brackets do qualify for conditional rates rebates that might relieve some of the pressure.

"In Durban, residential properties valued at less than R230,000 are exempt from paying rates. Properties valued between R230,000 and R500,000 but where the total household income is less than R3,760 are also exempt, as are pensioners, child-headed households, disability grant recipients and medically boarded people whose rates do not exceed the maximum rebate of R5,290."

Cape Town and Johannesburg homeowners who meet certain conditions are similarly entitled to rebates.

Cape Town homeowners who own a property with a municipal value of less than R300,000 can apply for indigent rates relief and not pay rates, as can those who earn less than R4,000. "Rebates or rates discounts are also available to those earning between R4,000 and R7,500, and pensioners and handicapped people with a household income of less than R17,500 also qualify," Smee adds.

Johannesburg rates rebates are reserved for pensioners – but with varying levels of relief.

- Pensioners over 70 who own a property valued at less than R2,5m qualify for 100% rates relief regardless of income.
- Pensioners between 60-69 who own a property valued at less than R2,5m qualify for 100% rates relief if their monthly household income is less than R10,230.
- Pensioners between 60-69 who own a property valued at less than R2,5m qualify for 50% rates relief if their monthly household income is between R10,230 and R17,585.

"While these rates rebates by no means address the very real financial needs of the majority of South Africans, I do encourage those that fall into these categories to ensure that they are benefitting from the discounts and relief that they are entitled to – in times like these every cent counts," Smee concludes.