

Lowest prime rate in decades driving tenants towards home ownership

Currently at 7%, the prime rate is at its lowest level in decades, driving more South African tenants to consider property ownership. PayProp head of data and analytics Johette Smuts cautions, however, that while real estate is a much desired asset, it is important to remember that home ownership is a long-term commitment, often going hand-in-hand with a 20-year mortgage bond that needs to be repaid, while one can safely assume that interest rates will not remain at the current low levels.



Johette Smuts, head of data and analytics, PayProp

Good tenants getting scarcer

“Good tenants are hard to come by in this economy, and those that meet the banks’ lending criteria are now using the opportunity to purchase properties at a lower price due to an over-supply of available sales stock and a lower effective lending rate,” Smuts explains.

She says that further interest rate cuts are unlikely in 2020, given that the base rate has already been cut by 300 basis points in total to support an economy in shock from the pandemic. “Consumers purchasing properties are probably aware of the likelihood of rate increases in the foreseeable future, but are moving ahead anyway having factored in lower purchasing prices.”

Weighing up the greater risk

“With some good tenants moving out of the rental arena, the biggest challenge for rental agents will be finding the remaining good tenants,” says Smuts. “By that we mean those with acceptable credit scores, sufficient funds for a once-off damage deposit and sufficient monthly disposable income to pay the rent. The tenants that remain also have far greater bargaining power when it comes to rental prices as the oversupply of stock affects the rental market too.”

Smuts says estate agents and property owners may need to debate where the biggest risk lies: a prospective tenant with a low credit score and a double deposit versus a tenant with a good credit score but without the full deposit – or no tenant at all.



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Residential rental arrears reach their peak

Smuts says the most recent arrears figures are looking marginally more positive than those from the height of the lockdown period. “The average size of arrears relative to rent increased substantially from March to June this year, but then stabilised over the last few months. For June through August, the average arrears amount for tenants in arrears was at 105% of rent, or just over one month’s rent. Before lockdown, this figure was below 80%,” says Smuts.

She adds that the number of tenants in arrears also increased significantly from March (19%) to May (26%). The increase in this figure means that tenants who were not in arrears previously started falling behind during lockdown – either because

they couldn't afford to pay any rent or because they could pay only partially. "Many people returned to work again in June, so we see that this number dropped slowly from June to August – but there are still more tenants in arrears than before lockdown."

"The higher a tenant's outstanding balance, the less likely the money will be collected in full. It's therefore imperative that agents and landlords handle arrears with care. All repayment arrangements should include specific due dates and amounts, and must be set out in writing in a formal addendum to the original lease agreement."



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Changing circumstances

Smuts says that some tenants' requirements have also changed dramatically since before the lockdown period, and some of these changes appear to be long term. "We've seen that with the lockdown-imposed work-from-home situation, tenants are now less likely to be driving into an office even after lockdown. This means that they can consider renting in suburban areas, further from the city, where rental properties are often priced more affordably. In addition, their new work-from-home status means that they'll likely need a study or additional bedroom for a home office."

The rental property landscape has changed significantly over the past six months, and Smuts says that - as with many other industries - some of these changes are here to stay. Property professionals can win the race to attract the safest remaining tenants by adapting to their changing needs and understanding their risk profiles.

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