Let's gird ourselves for rentals in 2023

By Matseleng Mogodi

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Yes, the rental market is improving, but we still have to contend with the realities of who is running the rental market. Are the tables turning, allowing more people to have a say?

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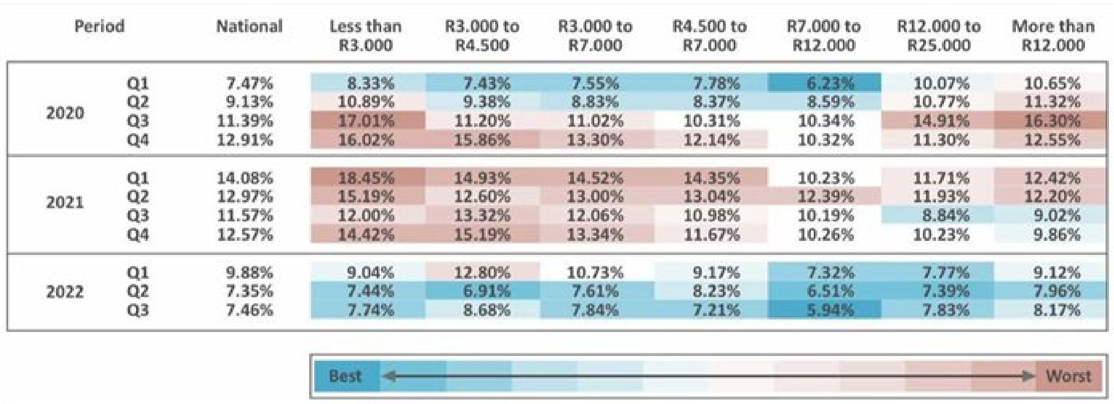
The aftermath of the Covid pandemic continues to rule some markets more than others. The rental market had seen its worst times in the 2020/21 period, and as it starts to lift its head, we see some provinces like Gauteng experiencing difficulties is stabilising rentals.

A report from TPN Credit Bureau indicates the worst vacancy rates experienced in the rental market in the third and fourth quarters of 2020, right into 2021, and in 2022 all rental bands show improvement. The great news is that the R7,000 to R12,000 rental band seems to be doing well generally. However, we also know that there has been a lot of downgrades to smaller apartments and even small flatlets and backrooms, making the under R3,000 market also very appealing.

The difficulty is that property owners want less challenges when renting out their properties. A small flatlet requires the same effort as a bigger rental, but with the higher rental bands doing so poorly, it forces landlords to take drastic decisions to either pull out or reduce their rentals. At the same time, a landlord from a higher band may find it challenging to now accept a lower rental when they know their property to be worth more.



Period		National	Less than R3.000	R3.000 to R4.500	R3.000 to R7.000	R4.500 to R7.000	R7.000 to R12.000	R12.000 to R25.000	More than R12.000
2020	Q1	7.47%	8.33%	7.43%	7.55%	7.78%	6.23%	10.07%	10.65%
	Q2	9.13%	10.89%	9.38%	8.83%	8.37%	8.59%	10.77%	11.32%
	Q3	11.39%	17.01%	11.20%	11.02%	10.31%	10.34%	14.91%	16.30%
	Q4	12.91%	16.02%	15.86%	13.30%	12.14%	10.32%	11.30%	12.55%
2021	Q1	14.08%	18.45%	14.93%	14.52%	14.35%	10.23%	11.71%	12.42%
	Q2	12.97%	15.19%	12.60%	13.00%	13.04%	12.39%	11.93%	12.20%
	Q3	11.57%	12.00%	13.32%	12.06%	10.98%	10.19%	8.84%	9.02%
	Q4	12.57%	14.42%	15.19%	13.34%	11.67%	10.26%	10.23%	9.86%
2022	Q1	9.88%	9.04%	12.80%	10.73%	9.17%	7.32%	7.77%	9.12%
	Q2	7.35%	7.44%	6.91%	7.61%	8.23%	6.51%	7.39%	7.96%
	Q3	7.46%	7.74%	8.68%	7.84%	7.21%	5.94%	7.83%	8.17%

Best ← → Worst

Source: TPN Credit Bureau

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There are many factors that could potentially impact vacancy rates, and even though certain bands are doing well, for now, it is imperative that we look at the bigger picture, of the reality South Africa is finding itself. It would be absolutely amazing to continue on this current trajectory, but when we look around, we know that we are unfortunately dependent on what the South African oligarchy does in 2023 with regards to the challenges we face as a country.

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The impact of the macro environment on the rental market

Political and legal forces

Due to a lot of red tape in how things are done in provinces, the rental market could face a huge challenge of supply in areas like the Western cape where demand is high, pushing prices higher. Areas like Gauteng, on the other hand, that have high supply but want to restructure or build afresh, may experience challenges related to plan approvals and property development like billing and rezoning.

There are also influences on funding vehicles which may deter potential property investors from entering the market. Our democracy has also bred litigious landlords and tenants who are ready to utilise legal routes to resolve disputes.

The Zondo Commission has also revealed the pillage of state resources, which has contributed largely to the decay of services and progress, confirming the recovery of stolen assets will not all happen in 2023. More resources may be poured into court cases, taking away from the much needed funds for infrastructure, which in turn boosts the rental market, both residential and commercial.

Economic forces

After the pandemic, a lot of adjustments had to be made - most people's disposable income became scant, many lost their jobs and have not recovered, and by the looks of the current state of affairs, South Africa may find itself with more significant job losses if the utility issues do not get resolved.

Many businesses are barely making it, and consequently, if employees lose their jobs, the rental market may also suffer in 2023, despite the potential for growth even when looking at the rising interest rates that are making new buyers cautious and rather opting to rent.

Stats SA, however, has reported a decrease in unemployment, which could boost the rental market in 2023.

Socio-cultural factors

People have been forced to learn how to work from home and most businesses have adapted. This has promoted intentional rental spaces that accommodate the ability to work from home. In 2023, landlords that are not willing to adapt and offer a product relevant to the tenant's needs may find themselves with high vacancy rates.

Technology

Even though most rental companies have refined their systems, there's still a huge gap which has an impact on efficiencies. Knowledge is king - the more people understand systems, the more it will help with identifying rental challenges and disseminating information in the future.

Global buyers and semigration

The Western Cape has had many global buyers taking up rental stock. This trend may persist into 2023 if interest rates continue to rise.

Much semigration is also occurring between provinces. Ironically, many people go to Gauteng for better economic opportunities, but supply still exceeds demand - the market is flooded with rental properties.

Other smaller provinces, like the North West and Free State have low demand, while KwaZulu-Natal has seen an increase in rental demand, which may be due to the recent devastating floods.

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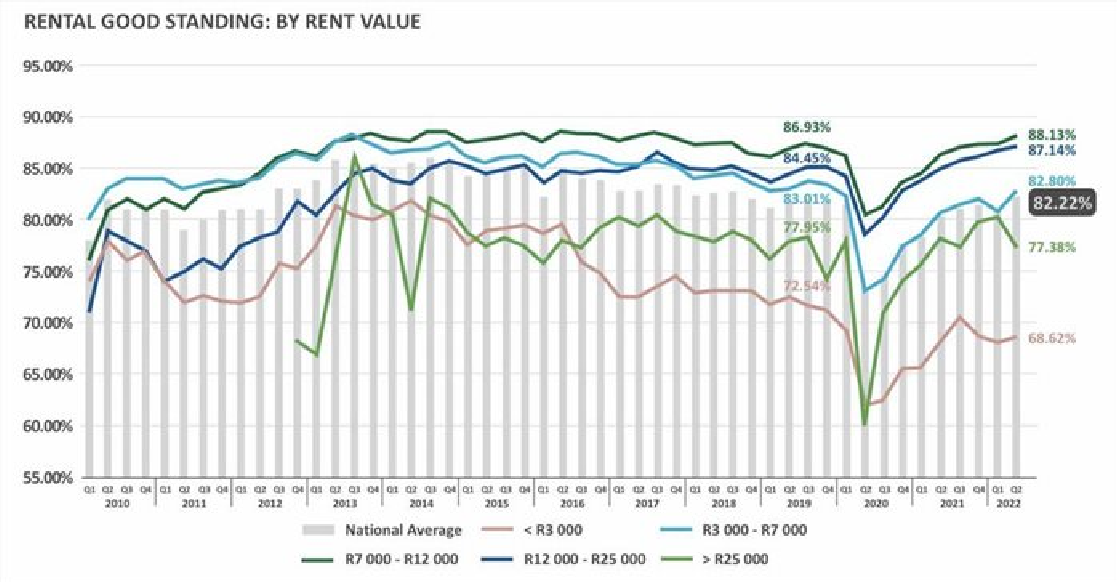
The rental market in numbers

Nationally, the R7,000 to R12,000 band shows consistent improvement, which could be attributable to shared rental spaces. There's also an improvement in the R3,000 to R7,000 band which currently sits at 82.88%, above the national average of 82.22%.



Source: TPN Credit Bureau

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This indicates that the rental market may grow in the lower bands, but due to instability in the country, the larger impact will continue to be felt in the upper band. The increase in employment has been linked to the manufacturing industry, therefore the rental market may survive through the lower rental bands.

Where are rentals heading in 2023?

- The interest rate may continue to rise, providing an opportunity for more rentals due to new buyers being cautious about buying.
- People in smaller provinces may start to build the rental space more vigorously because more businesses can operate online, therefore no big need to rent in Gauteng.
- More intentional competition by landlords to attract and retain great tenants, and more innovation in plans for shared spaces.
- Municipality mismanagement may continue to impact the speedy delivery of housing.
- Climate change impacts may continue to damage property and leave both tenants and landlords aggrieved.
- There’s still a toehold for new entrants into the rental market business, with greater transparency and support from government.
- The true nemesis for the rental market in 2023 will be government and the decisions it takes.

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Matseleng Mogodi, founder and principal, Snooks Estates

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