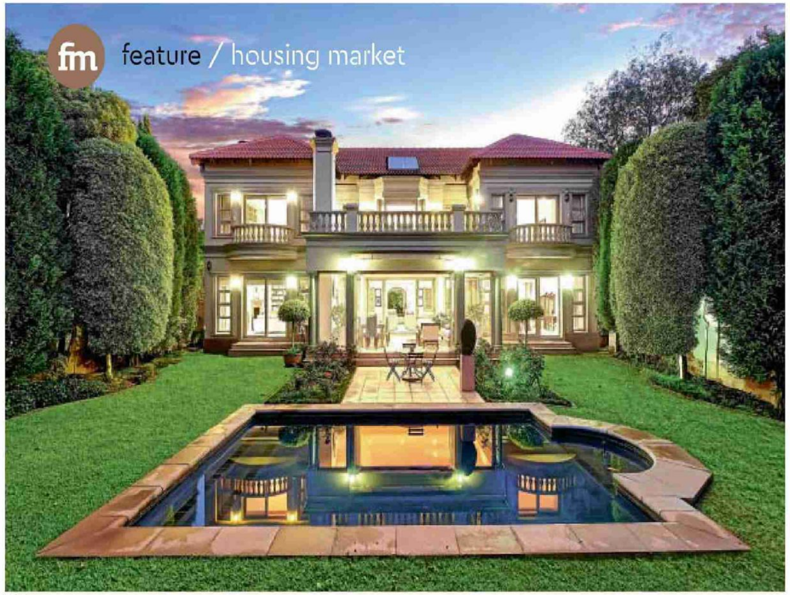

Cost of luxury: This home in Sandhurst is available to rent for R45,000 a month Seeff

BARGAINS ABOUND

Residential rental prices have fallen by as much as 40% in some areas, amid a growing oversupply of housing stock as more and more tenants struggle to pay rent

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Anyone looking to rent an apartment over the next few months is likely to be in the pound seats, as a flood of rental properties is expected to come to the market. Stock levels have already risen in most cities across SA as Airbnb, holiday property owners and "aparthotel" operators make their units available for long-term rental in a bid to secure an income while SA's tourism and travel industry remains in lockdown.

Houses that were for sale before Covid-19 hit SA – and which haven't yet sold – are also increasingly being placed in the rental pool.

A quick search on online portal Property24 reveals that no fewer than 1,662 apartments are on the market in Cape Town's city centre, at rentals of up to R25,000 a month. In nearby Sea Point, another Cape Town rental and holiday hotspot, prospective tenants have close to 800 flats to choose from.

There's an equally large array of apartments and townhouses to let in Joburg's northern suburbs. Property24's sectional-title rental listings in Fourways come close to 900, while there are 380 units available in Bryanston.

Seeff Property Group chair Samuel Seeff says rental agents are gearing up for a busy few months as the lockdown-induced recession prompts tenants to downgrade to cheaper rentals – or to move in with parents or friends. "Landlords will look to execute evictions that they couldn't do during lockdown level 4 and 5, which will add further stock and movement to the market," he says.

Rising financial pressure on households will no doubt also force many homeowners into the rental market. The upshot is that there will probably be increased pressure on already softer rentals over the next few months.

That's bad news for landlords. But it will mean tenants have greater negotiating power in terms of pricing and more stock to choose from.

In a sobering message to buy-to-let owners, Seeff says: "Landlords will need to be flexible with rental rates or they could face increased vacancies and risk financial losses."

The oversupply of rental properties is particularly pronounced in Cape Town's upper-end suburbs, where tenants would typically pay more than R15,000 a month.

Seeff agent Barbra-Ann Briner expects rentals on Cape Town's swish Atlantic seaboard to drop by 20% this year. That's on top of the 20%-30% decline of the past two years, which means rates in many cases will be at their lowest levels in many years. Briner cites an example of a luxury house in Fresnaye's Top Road that rented for R100,000 a month 18 months ago, which is now fetching R75,000 a month.

Samantha Murphy, rental agent for Seeff's city bowl office, is seeing a similar trend. For instance, a fully furnished two-bedroom abode in Higgovale that is currently letting at R50,000 a month will be available from July 1 at R30,000 a month.

"We have seen a huge amount of rental stock coming onto the market, with many properties offering similar rental specs," says Murphy. "So landlords are facing more competition."

In Constantia, the asking rental for a fully furnished home in a sought-after security estate was reduced from R110,000 to R80,000 a month. And in Hout Bay, a four-bedroom house that fetched R33,000 four months ago has just been re-let at R22,000.

At aparthotel operator Totalstay's Elements Luxury Suites in upper Sea Point, fully furnished two-bedroom apartments can now be rented from R19,500 a month – including parking, Wi-Fi and DStv – against the pre-pandemic rate of R10,000 a day.

The rental discounts in Sandton seem somewhat lower. Seeff Sandton agent Rochelle Holland estimates that rates for flats and townhouses in Sandton are down about 10%. However, there is already an uptick in movement in the rental market as tenants are forced to downgrade due to financial pressure, she says.

The latest data from credit bureau TPN confirms that the number of tenants who can no longer afford to pay their rent is reaching worrying proportions. Company MD Michelle Dickens says preliminary figures on tenant payment behaviour show that rental arrears have risen sharply since the government imposed a shutdown of all nonessential businesses from March 27 – from 19% in the first quarter to nearly 35% in May.

That means at least one in every three tenants is no longer paying rent or paying only partially.

Dickens notes that arrears figures for May are the highest on record, and well ahead of the previous high of 29%, recorded by TPN in 2009, following the global financial crisis and subsequent recession (see graph).

A survey by online rental platform Flow paints a more dire picture: nearly two-thirds (63%) of the company's database of 80,000 tenants were struggling to pay their rent in May due to the lockdown's financial impact.

Flow co-founder and CEO Gil Sperling says while most tenants are finding creative ways to continue paying their rent (or a portion of it), many will be pressed to move now that lockdown restrictions have been eased.

He notes that the high end of the rental market (R12,000-plus a month) as well as the low (R2,000-R4,000 a month) have been affected. "That suggests that no-one has escaped affordability damage."

Though many landlords have agreed to waive or reduce rental payments during lockdown, Sperling warns that "there is a risk that landlords who are receiving partial payments could see tenants stop paying rent altogether over the next month or two as savings are depleted and credit lines maxed out".

Rental processing firm PayProp SA's latest quarterly rental index shows that rental growth across the country (in all price categories) remained in positive territory in the first quarter – up 3.2% year on year, to an average R7,786 a month. The Western Cape was commanding the highest rentals, at an average R9,171, while North West tenants were paying the least, at R5,222.

But Johette Smuts, head of data and analytics at PayProp, says rental growth was already slowing month on month from December. She expects rentals to come under rising pressure over the next few months.

"While we previously speculated that we might see a rebound in rental growth later this year, the more likely scenario post-lockdown is that rental growth will be under continued pressure as millions of South Africans could lose their jobs," she says.

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Johette Smuts

There is a flipside: rental growth could eventually be supported by increased demand if consumers put off buying property due to uncertainty and a weaker economy. Smuts adds that rental demand could be further stimulated if more homeowners are forced to sell and become tenants instead.

However, FNB property strategist John Loos says the rental market won't recover overnight, given that SA is likely to enter a much deeper recession this year than that of 2009. FNB forecasts a GDP contraction of 4.5% for 2020, versus -1.5% in 2009.

Moreover, SA was already in recession from the second half of 2019. "So the impact will be felt long past lockdowns are phased out."

Loos predicts that it could take at least 3½ years for rental payment levels to recover to 2013-2015 peaks, when the percentage of tenants in good standing – those who paid on time and in full – was at about 85% (see graph). In addition, Loos expects rentals to drop by 3% on average this year, and by a further 4% in 2021.

Unlike the 2009 recession, when lower-income tenants were better protected than their wealthier and highly-indebted counterparts, this time the lower end of the rental market, typically priced below R4,000 a month, may take more strain. That's because the less-skilled, lower-paid segment of the labour force could be hardest hit by job losses.

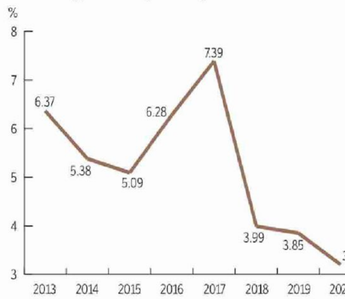
Says Loos: "It's likely that the relative pressure of the deepening economic fallout caused by Covid-19 will be greater at the lower end of the rental market, where financial positions are already significantly more fragile than at the upper end." **x**

Exclusive living: A rental in Fransche Hoek Estate for R45,000 a month Seeff

Price negotiable: A Langebaan rental for R25,000 a month Seeff

SLIPPERY SLOPE

Rental growth Q1 year on year



Source: PayProp SA

A THIRD OF TENANTS NO LONGER PAYING RENT

Source: TPN Credit Bureau