SA rental market faces downturn

South Africa's post-pandemic rental growth recovery, which took increases to their highest leve since 2017, has come to an end. But agents can take matters into their own hands, according t the latest quarterly PayProp Rental Index.

Source: Supplied. Johette Smuts, head of data analytics at PayProp.

Following a leveling off in the final quarter of 2023, national rental growth fell by 0.8% in the first quarter of 2024, the biggest quarter-to-quarter drop seen since the pandemic.

PayProp's flagship data publication reports that year-on-year rental growth in South Africa entered a perioc of sustained decreases in Q1 – slowing to 4.2% in January, 3.8% in February and 3.6% in March. That has produced a quarterly average of 3.8%, the lowest quarterly increase since Q4 2022. The average rent in South Africa stood at R8,654 in Q1, R301 more than a year earlier.

Johette Smuts, head of data analytics at PayProp, says that high inflation and sustained high interest rates (the prime rate has remained at a 15-year high of 11.75% since May 2023), suppressed rental growth.

She also points to the improbability of a rate cut later this year, which took a toll on Q1 results. She caution

that the South African real estate market is likely to get worse before it gets better, but also notes that agencies have dealt with significantly worse before.

“Rental agents have dealt with much lower rental growth in recent years. The quarterly rent inflation figure c 3.8% is below that of any comparable period last year, but higher than at any time during 2021 or 2022,” says Smuts. “The same resilience that served rental agencies well during the pandemic will help them through the challenges of today.”

And while Smuts highlights the disparity between rental growth and inflation, leading to a decline in agencie commission income relative to their costs, she also points out that the gap is smaller than it was in 2021 ar 2022. And with high interest rates dampening the housing sales market, many agencies are turning to managed rentals as a dependable and recurring income source to navigate through lean periods.

A look at provincial figures

While the national rental market is down, that hasn’t spread to every province. Smuts says that landlords ar agents in the Free State are enjoying accelerating, above-inflation rental growth and falling arrears, in stark contrast to SA as a whole.

“Rents grew by 9.1% in the Free State year on year, the second fastest of any province. This was higher than the 8.8% of Q4 2023, making it one of just two provinces with accelerating rental growth.”

She says that the province’s performance is all the more surprising given that, until the end of 2023, it consistently recorded below-average growth.

But just next door, KwaZulu-Natal set an unenviable record in Q1 2024, becoming the first province to experience negative rental growth since the Free State in Q1 2023. Rents shrank by 0.4%, going from a quarterly average of R8,801 in Q1 2023 to R8,770 in Q1 2024.

Further south, the Western Cape recorded below-average rental growth for most of 2023, but in Q1 2024 rents grew 4.3% year-on-year – above the national average of 3.8% and the fifth highest in the country.

Gauteng’s rental growth of 3.5% was below the national average, but still enough to stay ahead of KwaZulu Natal after becoming the third most expensive province for renters in Q3 2023.

The average rent in Gauteng was R8,943 in Q1, and if rental growth can be sustained in the country’s economic powerhouse this year, it could soon be the third province to pass an average rent of R9,000.

A leap in arrears

After declining in the second half of last year, the percentage of tenants in arrears leapt from 17% to 18.3 in Q1 2024 – undoing almost all of the progress made last year. Smuts says that this could be partly due t tenants overspending during the December holidays, but adds that the increase in arrears is significantly larger than that measured in Q1 2023.

The title of the province with the highest percentage of tenants in arrears shifted from the Free State to the North West in Q1 2024. 25.7% of tenants in the North West now owe rent, compared to 22.8% in Q1 202 The other big rises took place in Mpumalanga (18.1% to 19.3%) and KwaZulu-Natal (20.4% to 21.4%).

The share of tenants in arrears fell in just two provinces. In Limpopo, it dipped from 18.8% to 17.5% between Q1 2023 and Q1 2024. Meanwhile, the Free State rental-market resurgence could be seen in arrears figures too: 22% of tenants owe rent, compared to 26.7% a year earlier.

But even in those markets where all the metrics are moving in the wrong direction, agencies can still thrive building resilient managed rental portfolios.

Agents proved their grit during the pandemic, and today's market is still much healthier than it was in 2020 and 2021. With the right processes, plans and technology in place, agencies can always beat the average

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