

Bucking the Trend

PAM GOLDING PROPERTIES rentals division appears to be bucking the market trend and experiencing ongoing demand and strong rental yield growth.

The statistical picture, as outlined by market analysts, suggests a very mediocre rental market and a sluggish buy-to-let sector. "Not in our market," says Western Cape rentals manager Dexter Leite. "We are very active in Cape Town's City Bowl, Sea Point, Waterfront, Greenpoint and the Atlantic Seaboard. We are also busy in the Southern Suburbs, particularly in Newlands, Claremont and Kenilworth."

Examples of recent Cape Town lets include:

Bishopscourt R60 000, Constantia R35 000 and Newlands R22 000 and R19 000; also 12 upper-end apartments at between R8 500 and R14 000. Fresnaye R60 000, Mouille Point R30 000, Greenpoint R30 000, Waterfront R23,500, City Bowl (house) R35 000, plus several apartments between R8 000-R10 000.

Laurie Wener, PGP's MD for the Western Cape, says rental markets remain excellent. "Effects of the recessionary environment, such as a generally negative sentiment, lack of cash liquidity and job insecurity, coupled with a desire to liquidate assets and reluctance to tie up capital in residential property contribute to a sustained high level of activity and good returns in the rentals market."

Shaun Groves, rentals manager at PGP's Hyde Park office, reports that the market has been relatively buoyant in the past few months, with Morningside, Bryanston and 'The Parks' being particularly popular. "There is strong demand in the 'teens and low twenties," he adds. "The very high end is proving a challenge as corporates are reluctant to spend more than the mid-thirties for luxury accommodation. That said, however, one USA company has rented a luxury house in Sandhurst at R70 000 a month."

Groves says that corporates place security at the top of their list, as well as value for money, proximity to schools and ease of travel. Interestingly, he notes that the buy-to-let market is strong in Morningside provided the price is right. "We've also had a lot of interest lately from African investors," he adds.

Joy Chiang, at PGP's Durban office, reports that

there is a shortage of "bread and butter" stock – R5 000 to R10 000 per month. Properties in the R20k-plus range are plentiful and are not letting quickly due to affordability issues. Chiang adds that the recently introduced Consumer Protection Act has had a negative effect on landlords, some of whom are unhappy with the new notice period regulation (the tenant can give 20 business days' notice). "It is imperative that lease agreements are CPA compliant," she stresses.

The group's regional executive in Pretoria, Retha Schutte, reports that there is big rental demand for properties in security complexes, particularly golf estates, where owners enjoy a higher return.

Nationally, statistical reports tend to paint a contrasting picture. The latest StatsSA home rental survey for the third quarter showed a significant slowing in year-on-year growth to 4,7% from the previous quarter's 5,9%. The most significant decline off the highest level was in flat rentals. These declined from 8,3% growth y/y in June to 5,2% in September. However, there were also small falls in both townhouse and house rental growth.

The Rode Report for the third quarter comments: "When the latest growth in national nominal flat rentals is compared to previous periods, it is evident that although it is outperforming other residential property types, it is still pedestrian – growth is still without momentum."

The fact is that if one then analyses rental growth

on a real basis – that is subtracting the current inflation rate (excluding the housing component) – the implication is that residential rentals have contracted over the first nine months of the year.

Looking at flat rentals in the major cities, Pretoria leads the pack with 6% growth and is the only major city where flat rentals were able to beat inflation. Cape Town followed with 4% growth, Johannesburg 2% and Durban just under 2% – although Durban has the highest flat rentals as tracked by Rode.

Buying-to-let remains weak – the lack of a further interest rate cut disappointing this particular investor segment. According to First National Bank's latest survey of estate agents, the buying-to-let-centage of total home buying is down to 8% – way down from the heady days of 2004 when it peaked at around 25% (see graph).

FNB's property analyst John Loos has long been of the view that the financial pressures forcing people to sell their homes must boost the rentals market, in turn pushing up rental yields – and this did occur to some extent last year. However, he says, the data from StatsSA and Rode suggest that this fizzled out this year. Loos muses: "The explanation? While hazardous to generalise, it is possible that the average rental tenant is not quite as financially solid as the average homeowner (that's not to say that there aren't many financially fragile homeowners too)."

Loos argues that tenants on average are arguably more sensitive to economic events which affect income and their cost of living, feeling the inflation surge and sharp rises in costs such as electricity and travel. According to TPN Credit Bureau, the number of tenants "in good standing" with their landlords, after improving to 82% at the beginning of 2009 has begun to slip back again (to 79%) suggesting gradually increasing financial pressure. This appears to be the worst at the lower end of the market.

Nevertheless, the improved activity and good rents currently being experienced by Pam Golding Properties in the major metros, does suggest that the rentals market has picked up in this fourth quarter of the year. We will have to wait until early in 2012 to get a statistically accurate picture. ■■■

National flat rentals - unweighted average of major cities - year-on-year % change.

