

Tenants face tough economic conditions

South Africans breathed a sigh of relief when the South African Reserve Bank (SARB) announced that the [repo rate was going to stay at 7%](#). However, the predicted 0% economic growth figure casts a shadow of anxiety over the country's economic future.



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Property investors need to be vigilant when it comes to not only managing their rental income, but have to take steps to maintain it. Stefan du Plessis, a managing member at Rent Protect, an insurance company that offers rental income protection, says, “When it comes to managing personal finances, people can generally follow a ‘rule of thirds’.

Approximately 30% of an individual’s monthly budget should be allocated to housing, 20% to their transport expenses and the remaining 50% to their cost of living, such as school fees, groceries, and savings to name a few.”

Cost of living

Du Plessis believes that the weak rand, despite its recent steps towards recovery, and the additional economic pressures such as the prolonged drought, are driving up the cost of living to a point where consumers and therefore, tenants, are having a tough time prioritising and changing their spending habits.

According to the last Old Mutual Savings & Investment Monitor, only 46% of those employed in major metropolitan areas actually have a personal budget, even less have a household budget in place. The report also revealed that 2016 has been the worst year for [personal saving](#) since the 2008/9 global economic crisis.

TPN's latest residential payment monitor shows that [one in ten tenants default](#) on their rental payments which obviously has a knock-on effect on property owners/landlords and managing agents.

Tough lifestyle choices

“Essentially tenants are now in a position where they are forced to either make tough lifestyle choices or juggle debt as they try to keep their heads above water,” du Plessis observes. “Some defaults can be explained due to poor financial planning, but there are unforeseen circumstances that can leave a good tenant in a tight squeeze. No-one can control retrenchments or illness and these instances are tragic, most parties involved want to avoid a lengthy and expensive eviction process.”

As any good investor knows, nothing is risk-free, but du Plessis believes that this does not mean tenants, property owners and managers cannot take steps to protect themselves. For tenants, the first step is drawing up a budget that highlights principle expenses like housing and saving. Landlords and property managers should do extensive credit checks on potential new tenants. There are also insurance-based safeguards such as unemployment and health insurance offerings and rental insurance options.

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