Trafalgar Rental Index shows growth for flats nationally

With an overall rental index increase of 8.01% for the year, residential rentals increased in every major city in the country, but dipped well below the standard 10% annual escalations of the past, according to the Trafalgar Residential Rental Index.

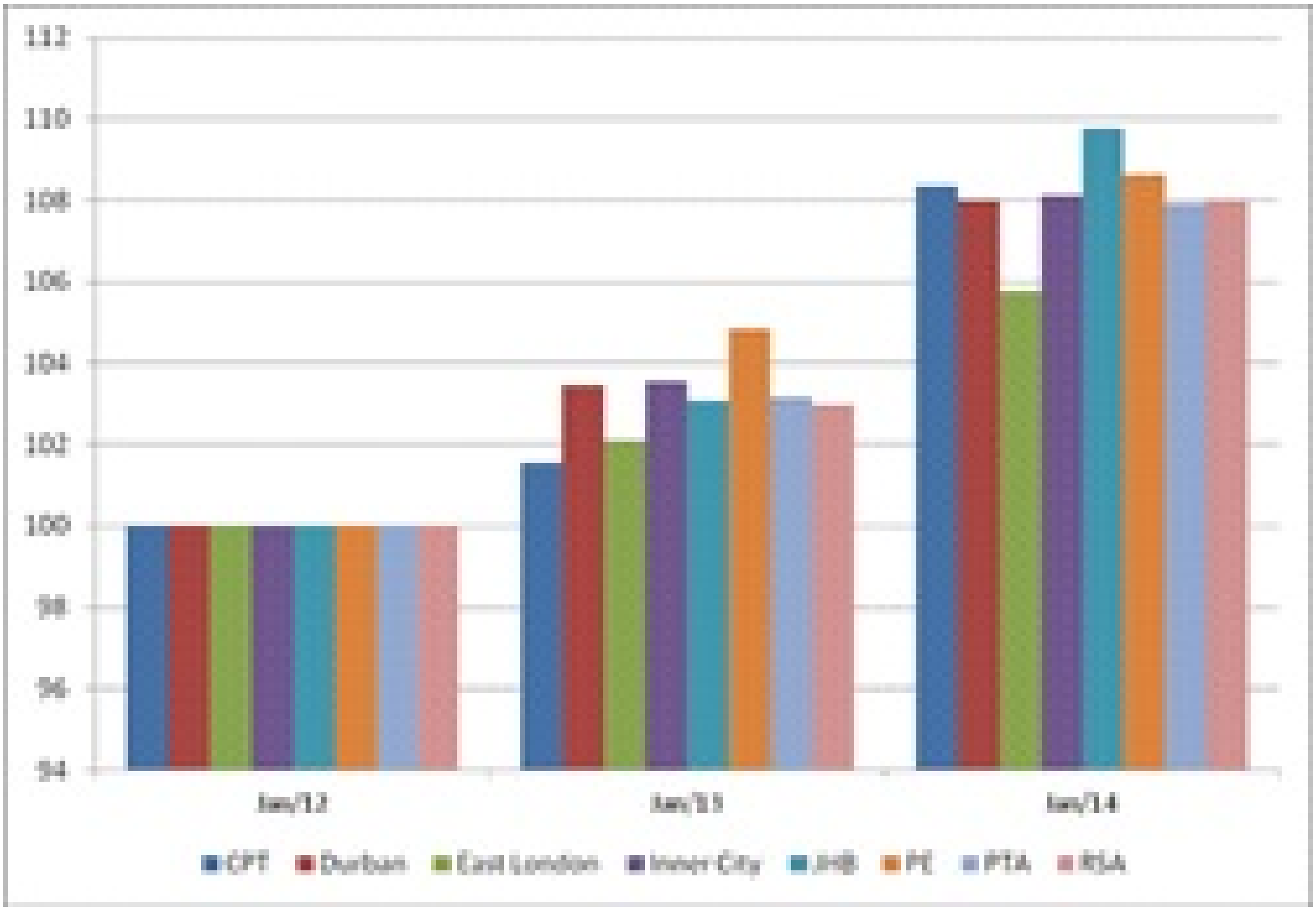
Johannesburg leads the pack at a 9.74% average annual increase up to January 2014, followed by Port Elizabeth at 8.63% in stark contrast to sister-city East London, which lagged with the lowest rental growth in the country at 5.78%. The index is based on a comparison of rentals for unfurnished two-bedroom flats in Trafalgar's residential letting portfolio, which comprises over 10,000 rental units countrywide.

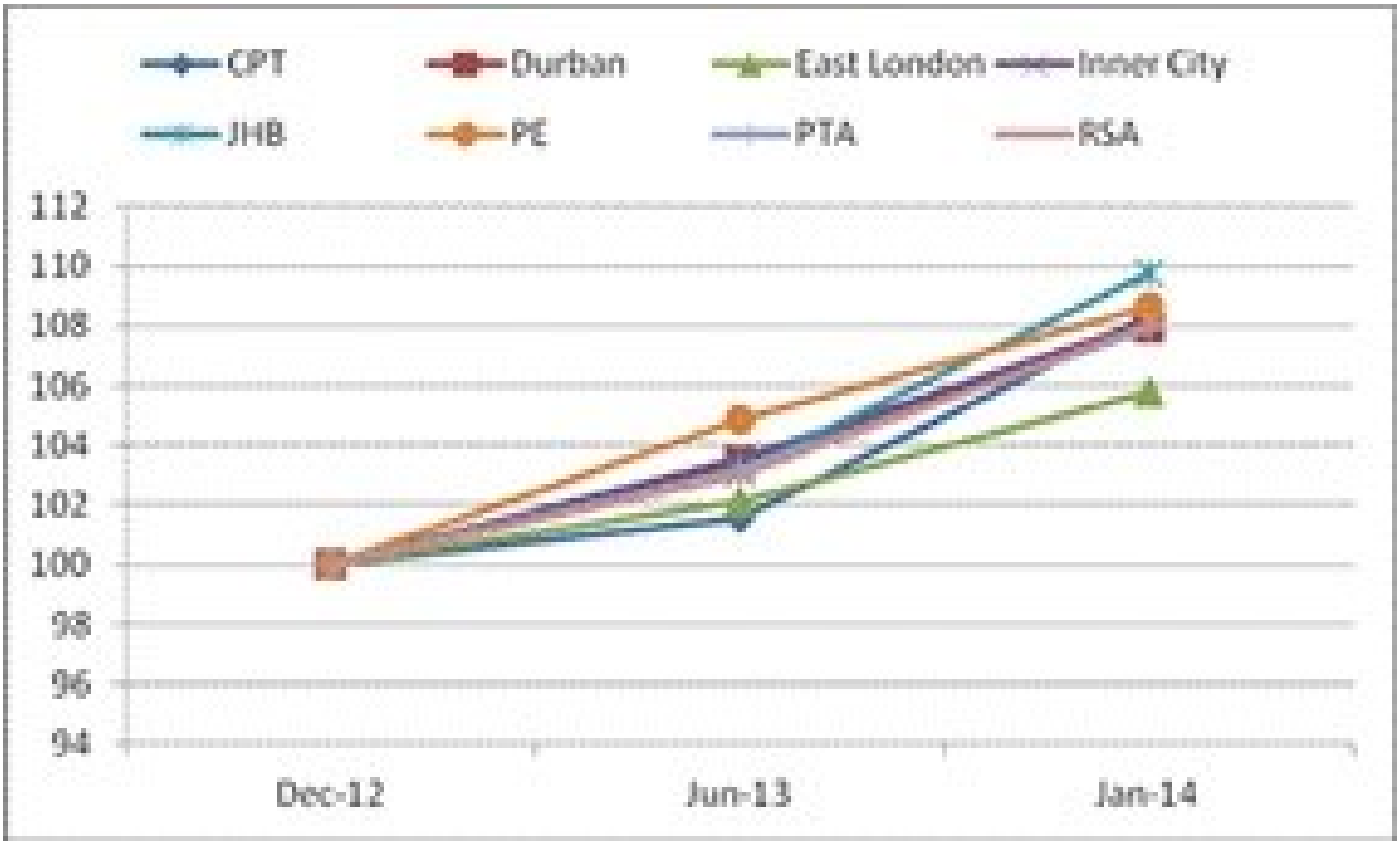
Rental index for June 2013 and January 2014:			
Exercise	**12 December**	**13 June**	**14 January**
Cape Town	100	101.53	108.35
Durban	100	103.45	107.97
East London	100	102.11	105.78
Inner City	100	103.54	108.14
Johannesburg	100	103.08	109.74
Port Elizabeth	100	104.83	108.63
Pretoria	100	103.18	107.90
RSA	**100**	**102.98**	**108.01**

Source: Trafalgar Properties

"It would appear the days of standard 10% rental increases are now past with soaring utility increases imposing significant pressure on tenants and constraining affordable rental increases," comments Andrew Schaefer, MD of Trafalgar.

Nonetheless, Schaefer adds that underlying national trends of urbanisation, particularly towards Gauteng, is driving very strong rental demand accompanied by very low vacancies and growing shortages of rental accommodation in many areas.





Strong rental demand across all major cities is renewing interest for buy-to-let purchases mostly around the R500k mark. Despite this, Schaefer warns that this is not a signal for gung ho buy-to-let investment.

"Landlords are under increased risk with the majority of consumers resisting increases above the 8% mark; the exception being the corporate market where rentals in prime areas can still achieve prior norms of 10%."

There is also a shortage of quality tenants with good credit ratings, coupled with concerns about screening tenant applications as credit amnesty commences this month. He adds that there are already early warnings that over-extended tenants are battling to make their monthly payments in full and on time.

Two to three hikes anticipated this year

The upward trend in the interest rate cycle with two to three hikes anticipated this year is expected to place buying a home out of reach of a growing number of consumers. "The resultant growth in rental demand, plus the pressure imposed on landlords to increase rentals to cover bond payments, will undoubtedly push rentals up. However, increases will be softened by landlords need to retain quality tenants, recognising the risks of a difficult economic climate, rising unemployment, and steep increases in municipal service costs."

According to recent calculations the component of total rental made up of services recoveries has rocketed from less than 25% five years ago to around 60%.

Schaefer adds that municipalities' ongoing inefficiencies around billing accuracy are imposing a significant administrative burden on landlords and owners as well as cash flow shortages when actual meter readings and adjustments are processed.

Given this challenging business environment, Trafalgar is expecting growth in its rental insurance products to safeguard rental collections, to build momentum.

Now outside the January/February seasonal rental peak and with a waning uptake in student accommodation in nodes such as Cape Town's Rondebosch and Johannesburg's Braamfontein, the next critical rental demand period is expected in July.