Cape Town's short-term rental market has become saturated

The demand for short-term property rentals, specifically in Cape Town's Atlantic Seaboard and City Bowl area, is expected to rise considerably as many holidaymakers flock to the coast.

© kho – 123RF.com

However, despite this demand, it is not likely that property owners and investors will obtain as high a return as they may be expecting this holiday season.

This is according to David Rebe, CEO of Sandak-Lewin Property Trust, who says that the short-term letting market has become extremely saturated since retail distribution channels such as Airbnb, an online rental portal, have gained popularity in South Africa.

"In the past, short-term letting provided property owners with higher rental returns than long-term rentals. However, since Airbnb and similar platforms have grown in popularity, the holiday rental pool in the region has grown substantially, providing holiday-makers and tourists with a range of options across all price ranges. This has resulted in an oversupply, and property owners having to decrease rental prices in order to stay competitive - therefore not making as much of a return as a couple of years ago."

Lager pool of renters

"Although these platforms have created a larger pool of potential renters for property owners, it has also created a definite oversupply in the holiday rental market. All it takes is one search of the Atlantic Seaboard or City Bowl on Airbnb and over 200 properties come up. There are now so many options to choose from, and more space for renters to negotiate the price that they pay," Rebe says.

He provides an example based on the current property values in Cape Town. "Last year owners were getting up to 50% more profit by letting a property over the short-term. Take a two bedroom, two bathroom flat in the Atlantic Seaboard worth R3m from January to December last year, annual rental was R310,000, which works out to R25,000 a month.

"However, the owner is not likely to obtain the same rental with a short-term lease. Realistically a tenant would last year pay up to R18,000 for the month for a similar property in the short-term. This year, due to the oversupply, the owner is only likely to earn R220,000 per annum on a short-term lease, therefore earning R90,000 less than R310,000."

Incentive is diminishing

He says that suddenly, as a result, purchasing a property for short-term letting periods is not as attractive as it was before. "The incentive for people to invest in short-term investment property is diminishing, as owners are not obtaining the return that they were a few years ago. Therefore, as the gap between returns on short-term and long-term letting diminishes, many investors may consider letting out property on a long-term lease, as less management and effort is required.

"Gone are the days that the demand for short-term rentals outweighs the supply in and around Cape Town city centre. Property owners are simply not able to charge above average rates and make strong returns as long as there is this much of a surplus in the market.

"Property investors should therefore carefully analyse the short-term letting market before purchasing property based purely on the estimated return of short-term letting," concludes Rebe.