

RENTAL MARKET RECOVERY IN SIGHT - 2007/04/02 PROPERTY 24

Investors can expect to see healthy income growth on their buy-to-let properties over the next 12 months as demand for lower and middle priced rental accommodation starts to outstrip supply.

First National Bank's (FNB) quarterly Residential Property Barometer released this week indicates that there is a growing shortage of rental stock priced below R6 000/month in most cities.

Until recently, landlords were struggling to pass on rental increases to tenants when leases came up for renewal as an oversupply of townhouses and flats to let kept a lid on rental growth.

FNB Home Loans CEO Ed Grondel says it now appears that less rental stock is coming onto the market as potential buy-to-let investors adopt a wait and see attitude on the back of lower income yields and rising interest rates.

FNB figures show that in first quarter 2007 the proportion of properties bought for buy-to-let purposes dropped to 16%, down from 19% in fourth quarter 2006. Grondel says at the same time, affordability issues are forcing potential first time buyers to put homeownership on hold, fuelling demand for rental accommodation. So rental properties, particularly in the lower and middle price ranges, are snapped up quickly when leases come up for renewal.

Anecdotal evidence even suggests that rentals are being pushed higher as tenants start fighting over available properties. However, Grondel says higher priced rental properties - usually those costing more than R900 000 - often still remain unoccupied for a number of months between rental contracts.

The only exception is high-end rental stock in security complexes in the northern suburbs of Johannesburg where a growing number of corporate tenants is driving demand. Grondel says the trend is influenced by the Gautrain development, which is creating plenty of rental demand from overseas contractors. Corporate rental demand has also been created by Old Mutual's head office moving from Cape Town to Johannesburg. Corporate tenants are generally quite demanding, seeking spacious accommodation in high security complexes. But Grondel says these tenants are willing to pay up to R35 000/month for the right property.

FNB property strategist John Loos confirms that there is a number of indicators pointing to the long-awaited recovery in the rental market. Loos says the boom in major infrastructure projects and commercial property development is getting under way along with 2010 preparations, placing constraints on building capacity in the residential market. Says Loos: "It will therefore not be easy to create an oversupply of residential stock and this is a great recipe for good returns on residential property." - Joan Muller