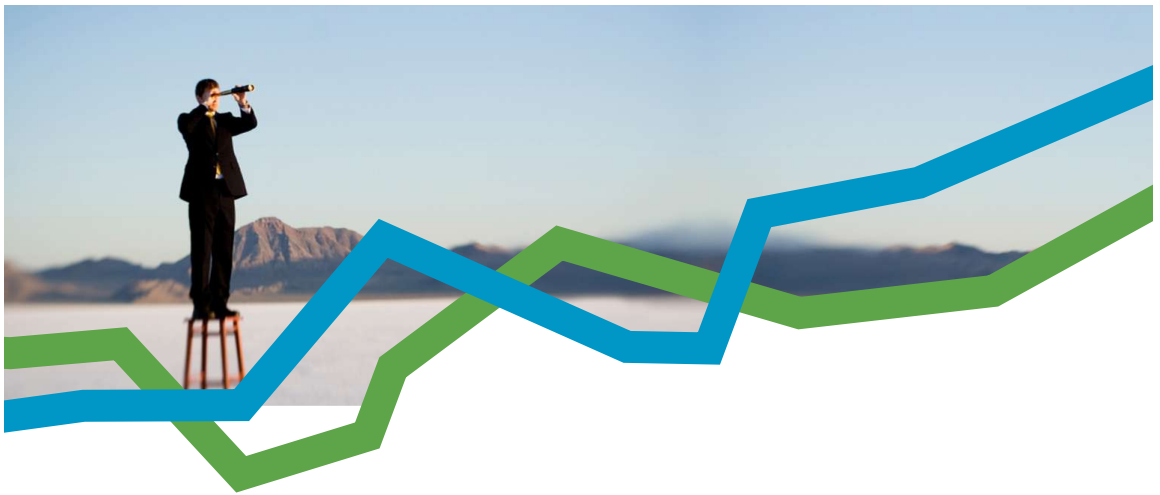


Rental Monitor

Residential Sector
Q3 | 2016



Tenant Monitoring looks to provide early warning signals of possible financial distress

In This Edition:

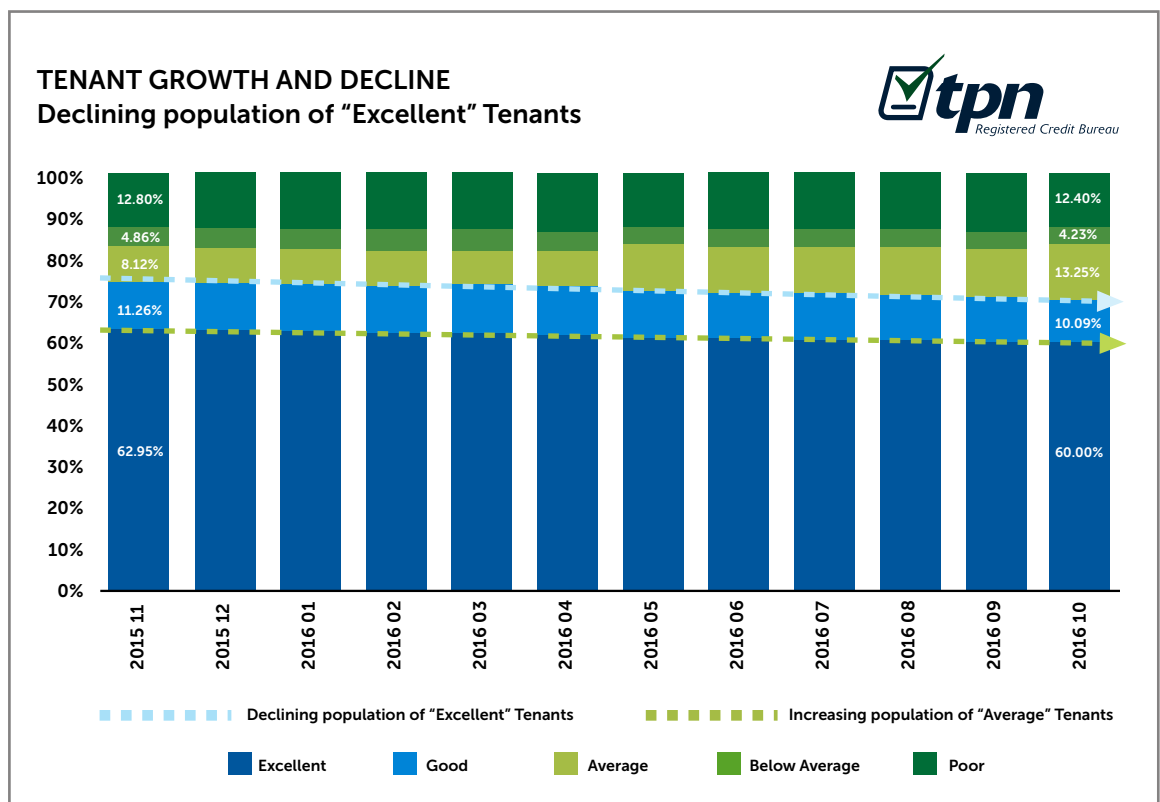
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Interesting trends are emerging from TPN's data analysis of tenants' overall credit health.

In addition to its continued analysis of rental performance and rental market data, TPN has for the past 12 months been analysing the full credit profile of every active tenant, every month.

The purpose of incorporating this level of detail in its Tenant Monitoring is to provide landlords and property managers with early-warning indicators of their tenants' financial stress. TPN has long documented that rental payments are a priority payment and tenants are more inclined to default on short-term credit, unsecured and secured credit, or other credit facilities before defaulting on rent.



Consequently, rental good standing continues to perform well when observed in isolation. One might also argue that as landlords have become more fastidious in tenant selection, there is a related increase in placement of better quality tenants who ultimately pay well.

This is substantiated by the fact that tenants in good standing for the third quarter of 2016 remain favorably positioned at 84.01%, made up of 66.57% who paid on time, 6.24% paid during the grace period and 11.20% paid late.

But beneath the surface, the overall credit profiles of many tenants are deteriorating. Unless this trend stabilises, it is simply a matter of time before rental payments will be negatively affected.

Importantly, TPN notes that active tenants have shifted 4.2% from an excellent / good overall credit profile into an average credit profile. Nonetheless, one positive observation is that there has been no substantial increase in the size of the group of tenants with below average / poor credit profiles.

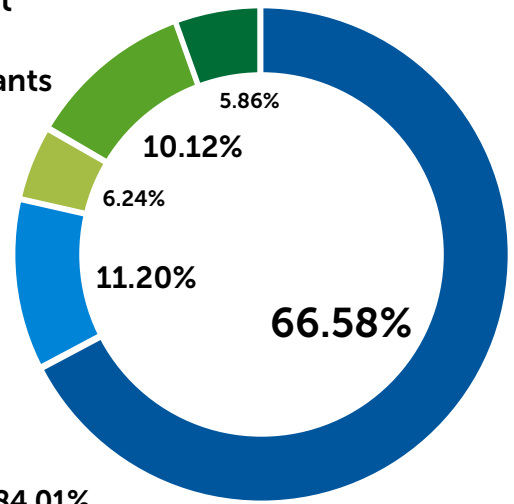


Payment Performance:

Residential Rentals National Averages

Rental payment behaviour of residential tenants

- Paid on Time
- Paid Late
- Grace Period
- Partial Payment
- Did Not Pay



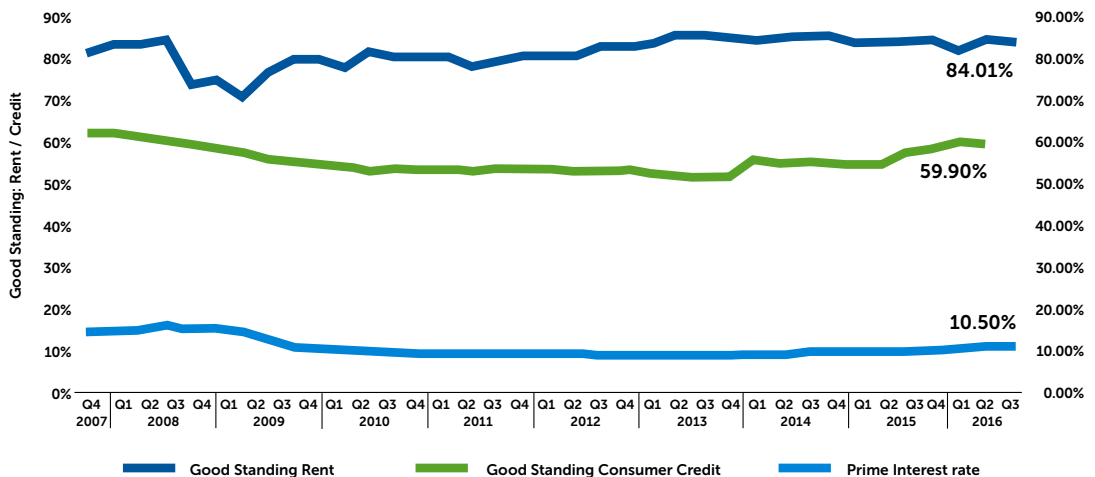
Tenants in Good Standing: 84.01%

GOOD STANDING: RENT BY VALUE BANDS



	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average
< R3,000	57.70%	6.50%	11.67%	12.60%	11.52%	75.87%	84.01%
R3,000 - R7,000	68.77%	6.42%	11.28%	9.61%	3.92%	86.47%	84.01%
R7,000 - R12,000	73.52%	5.11%	9.74%	7.77%	3.86%	88.37%	84.01%
R12,000 - R25,000	66.73%	5.93%	11.78%	10.08%	5.48%	84.44%	84.01%
> R25,000	53.27%	8.83%	15.21%	14.67%	8.02%	77.31%	84.01%

GOOD STANDING: RENT vs CONSUMER CREDIT

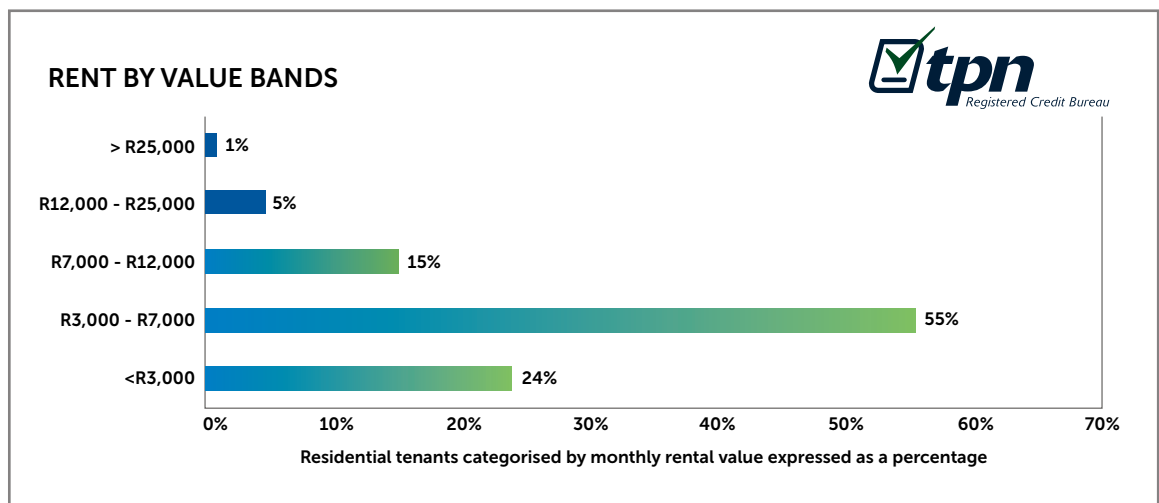




Tenant Behaviour by Rental Value

Monthly rentals between R7,000 to R12,000 remain the best performing category.

A considerable proportion of the tenant population (79%) rent for below R7,000 per month, with the majority of these tenants (55%) renting between R3,000 and R7,000 per month. Nevertheless, there has been a slow growth of tenants migrating into the R7,000 to R12,000 per month category. These tenants remain the best performing in terms of rental payment, with 88.37% in good standing and more importantly 73.52% who paid on time.



Payment performance weakened at both the top and bottom ends of the market.

Rental payment performance in the below R3,000 per month category has deteriorated conspicuously with 11.52% of tenants not paying rent in Q3 - and only 57.70% paying on time. Although tenants in the exclusive property rental bracket also remain a challenge with only 53.27% paying on time, an even bigger problem is represented by the 14.67% in this category who only make partial payments.


Value Band	Market Share	Partial / Non-Payment	Vacancy Rate
National Average		15.98%	5.37%
< R3,000	24%	24.12%	2.75%
R3,000 - R7,000	55%	13.53%	4.52%
R7,000 - R12,000	15%	11.63%	6.36%
R12,000 - R25,000	5%	15.56%	8.68%
> R25,000	1%	22.69%	23.32%



Payment Performance by Region


In addition to achieving the highest provincial average rent of R7,463 per month, Western Cape continues to improve with 89.64% of tenants in good standing, and a double-digit escalation of 13.15%. All in all, this remains a very enticing market for buy-to-let investments, dampened only by a subdued Gross Yield of 7.71% in the Cape Town Metro.

GOOD STANDING: RENT BY PROVINCE



	Paid on Time	Grace Period	Paid Late	Partial Payment	Did not Pay	Good Standing	National Average
Eastern Cape	71.87%	4.31%	10.32%	9.16%	4.34%	86.50%	85.08%
Free State	62.37%	4.93%	12.61%	11.36%	8.73%	79.91%	85.08%
Gauteng	63.57%	7.48%	12.09%	10.94%	5.92%	83.14%	85.08%
Kwazulu Natal	64.05%	5.88%	12.57%	9.55%	7.94%	82.50%	85.08%
Limpopo	65.00%	6.65%	13.05%	9.95%	5.34%	84.70%	85.08%
Mpumalanga	64.16%	7.59%	13.04%	10.07%	5.14%	84.79%	85.08%
Northern Cape	68.85%	4.99%	12.59%	9.78%	3.79%	86.43%	85.08%
North West	69.55%	4.06%	10.68%	9.82%	5.89%	84.29%	85.08%
Western Cape	78.24%	3.71%	7.69%	7.41%	2.96%	89.64%	85.08%

AVERAGE RENT BY PROVINCE



Quarter	National Average Rental	Western Cape	Gauteng	Kwazulu Natal	Eastern Cape	Northern Cape	Mpumalanga	Free State	Limpopo	North West
2010Q1	4,129.31	4,484.20	4,685.49	4,289.71	3,780.59	3,810.64	4,956.44	3,517.55	4,165.08	3,474.12
2010Q2	4,195.99	4,514.79	4,763.80	4,383.95	3,835.69	4,000.68	4,941.25	3,516.92	4,242.04	3,564.76
2010Q3	4,259.05	4,589.51	4,798.11	4,430.28	3,893.90	4,111.87	4,964.56	3,549.73	4,317.39	3,676.05
2010Q4	4,328.04	4,696.94	4,844.18	4,499.93	3,943.97	4,240.30	4,975.41	3,602.53	4,409.62	3,739.45
2011Q1	4,346.95	4,779.14	4,899.60	4,506.61	3,982.64	4,079.11	5,045.60	3,528.21	4,475.69	3,825.92
2011Q2	4,422.71	4,850.14	4,981.28	4,484.12	4,025.70	4,203.58	5,198.46	3,576.93	4,561.78	3,922.41
2011Q3	4,539.21	4,964.26	5,086.16	4,571.95	4,124.69	4,318.10	5,305.83	3,695.43	4,742.04	4,044.40
2011Q4	4,626.19	5,040.65	5,173.74	4,671.59	4,166.64	4,343.39	5,361.08	3,787.65	4,914.62	4,176.30
2012Q1	4,729.56	5,076.62	5,245.16	4,743.03	4,052.51	4,545.51	5,328.81	3,961.50	4,957.64	4,655.21
2012Q2	4,795.16	5,203.83	5,305.61	4,827.95	4,003.59	4,668.49	5,356.94	3,985.26	5,053.57	4,751.24
2012Q3	4,838.79	5,335.15	5,368.18	4,879.88	3,992.00	4,716.92	5,371.17	3,976.94	5,159.87	4,748.96
2012Q4	4,912.06	5,484.61	5,404.47	5,024.62	4,104.15	4,733.72	5,440.52	4,057.38	5,240.11	4,718.98
2013Q1	5,067.41	5,619.53	5,538.85	5,175.73	4,360.67	4,979.36	5,576.01	4,069.22	5,437.95	4,849.37
2013Q2	5,122.48	5,707.28	5,585.17	5,248.02	4,312.55	5,152.17	5,670.48	4,080.31	5,627.35	4,718.99
2013Q3	5,219.80	5,796.91	5,662.88	5,278.02	4,308.51	5,358.02	5,757.55	4,200.47	5,987.66	4,628.22
2013Q4	5,370.66	5,871.33	5,745.18	5,409.60	4,451.78	5,542.26	5,878.83	4,307.89	6,390.73	4,738.36
2014Q1	5,524.03	5,935.24	5,813.04	5,548.03	4,701.67	5,614.78	6,028.18	4,359.63	6,606.22	5,109.45
2014Q2	5,583.55	5,997.28	5,901.78	5,594.07	4,749.84	5,851.70	6,100.03	4,387.66	6,616.01	5,053.55
2014Q3	5,663.19	6,071.27	5,996.76	5,754.56	4,810.87	5,984.22	6,157.33	4,533.34	6,528.30	5,132.08
2014Q4	5,780.41	6,148.18	6,111.73	5,819.47	5,003.40	6,610.05	6,130.90	4,743.57	6,281.29	5,175.08
2015Q1	5,841.18	6,282.04	6,225.16	5,929.63	5,153.13	7,350.92	6,077.22	4,720.23	6,019.71	4,812.52
2015Q2	5,872.78	6,456.41	6,297.51	6,069.30	5,232.98	7,425.44	6,073.22	4,705.97	5,847.21	4,747.01
2015Q3	5,921.43	6,595.90	6,361.82	6,124.04	5,256.78	7,646.43	6,119.90	4,795.06	5,751.81	4,641.10
2015Q4	5,941.33	6,871.52	6,411.06	6,266.74	5,223.54	7,570.00	6,128.74	4,757.51	5,569.97	4,672.88
2016Q1	6,076.44	7,090.71	6,494.58	6,325.02	5,338.91	7,044.18	6,268.23	5,273.10	5,524.82	5,328.43
2016Q2	6,115.91	7,277.44	6,563.51	6,341.66	5,358.63	6,721.59	6,471.28	5,368.59	5,511.57	5,428.94
2016Q3	6,172.80	7,463.04	6,618.44	6,377.81	5,451.10	6,674.95	6,555.21	5,346.43	5,477.61	5,590.62



Payment Performance by Region

(CONTINUED)

Gauteng remains attractive despite below average escalations and a slight dip in good standing.

With the obvious lion's share of the rental market population, and the highest Gross Yields of 9.51% in Johannesburg, Gauteng remains an attractive segment, despite sliding beneath the national average of tenants in good standing to 83.14% and also experiencing below average escalations of 4.03%.

Diligent research into specific areas can reveal strengths or weaknesses obscured by the bigger picture.

It would be remiss not to mention Eastern Cape and how aggregated data can hide stark truths. Overall, the province performed exceptionally well with 86.50% of tenants in good standing. However, delve deeper and one finds that only 62.04% of tenants in East London are in good standing versus 84.61% in Port Elizabeth. Consequently highlighting the importance of diligent research into specific areas - as contained in TPN's highly detailed suburban RentReports.

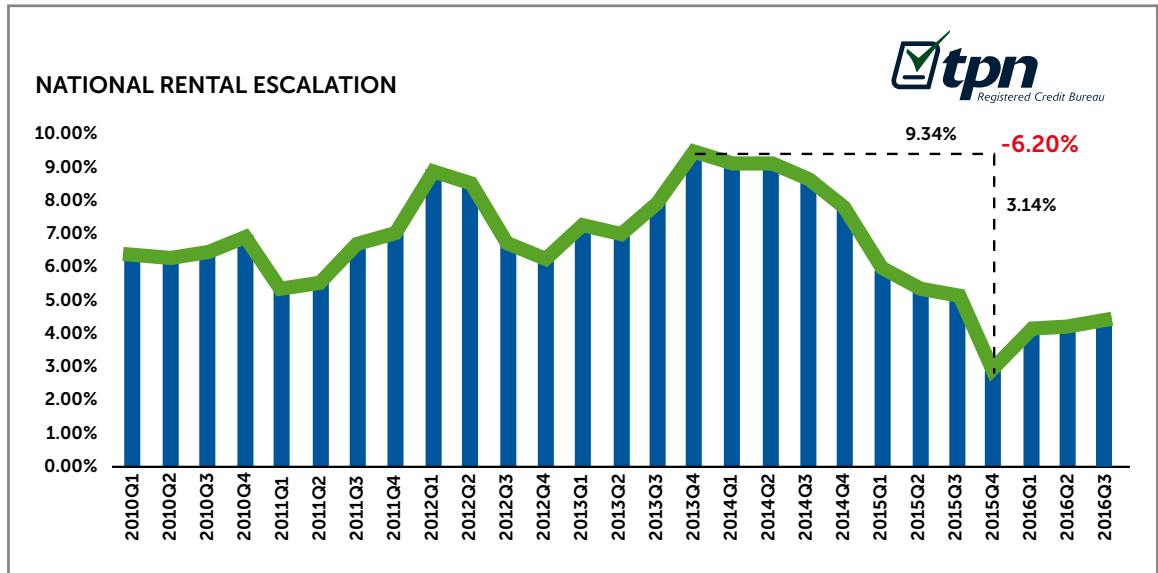
RENT ESCALATIONS BY PROVINCE



Quarter	Rent Escalation	Western Cape	Gauteng	Kwazulu Natal	Eastern Cape	Northern Cape	Mpumalanga	Free State	Limpopo	North West
2010Q1	6.23%	1.28%	5.28%	2.48%	10.16%	18.88%	4.88%	11.03%	1.65%	5.60%
2010Q2	6.22%	1.52%	5.14%	2.56%	8.43%	18.56%	1.44%	10.99%	5.75%	6.89%
2010Q3	6.38%	3.37%	4.52%	3.38%	8.24%	12.98%	0.61%	11.03%	7.67%	10.15%
2010Q4	6.82%	5.83%	4.34%	5.44%	6.71%	15.10%	0.18%	10.62%	7.94%	9.03%
2011Q1	5.27%	6.58%	4.57%	5.06%	5.34%	7.05%	1.80%	0.30%	7.46%	10.13%
2011Q2	5.40%	7.43%	4.57%	2.28%	4.95%	5.07%	5.21%	1.71%	7.54%	10.03%
2011Q3	6.58%	8.17%	6.00%	3.20%	5.93%	5.02%	6.87%	4.10%	9.84%	10.02%
2011Q4	6.89%	7.32%	6.80%	3.81%	5.65%	2.43%	7.75%	5.14%	11.45%	11.68%
2012Q1	8.80%	6.22%	7.05%	5.25%	1.75%	11.43%	5.61%	12.28%	10.77%	21.68%
2012Q2	8.42%	7.29%	6.51%	7.67%	-0.55%	11.06%	3.05%	11.42%	10.78%	21.13%
2012Q3	6.60%	7.47%	5.54%	6.74%	-3.22%	9.24%	1.23%	7.62%	8.81%	17.42%
2012Q4	6.18%	8.81%	4.46%	7.56%	-1.50%	8.99%	1.48%	7.12%	6.62%	12.99%
2013Q1	7.14%	10.69%	5.60%	9.12%	7.60%	9.54%	4.64%	2.72%	9.69%	4.17%
2013Q2	6.83%	9.67%	5.27%	8.70%	7.72%	10.36%	5.85%	2.38%	11.35%	-0.68%
2013Q3	7.87%	8.66%	5.49%	8.16%	7.93%	13.59%	7.19%	5.62%	16.04%	-2.54%
2013Q4	9.34%	7.05%	6.30%	7.66%	8.47%	17.08%	8.06%	6.17%	21.96%	0.41%
2014Q1	9.01%	5.62%	4.95%	7.19%	7.82%	12.76%	8.11%	7.14%	21.48%	5.36%
2014Q2	9.00%	5.08%	5.67%	6.59%	10.14%	13.58%	7.58%	7.53%	17.57%	7.09%
2014Q3	8.49%	4.73%	5.90%	9.03%	11.66%	11.69%	6.94%	7.92%	9.03%	10.89%
2014Q4	7.63%	4.72%	6.38%	7.58%	12.39%	19.27%	4.29%	10.11%	-1.71%	9.22%
2015Q1	5.74%	5.84%	7.09%	6.88%	9.60%	30.92%	0.81%	8.27%	-8.88%	-5.81%
2015Q2	5.18%	7.66%	6.71%	8.50%	10.17%	26.89%	-0.44%	7.25%	-11.62%	-6.07%
2015Q3	4.56%	8.64%	6.09%	6.42%	9.27%	27.78%	-0.61%	5.77%	-11.89%	-9.57%
2015Q4	2.78%	11.77%	4.90%	7.69%	4.40%	14.52%	-0.04%	0.29%	-11.32%	-9.70%
2016Q1	4.03%	12.87%	4.33%	6.67%	3.61%	-4.17%	3.14%	11.71%	-8.22%	10.72%
2016Q2	4.14%	12.72%	4.22%	4.49%	2.40%	-9.48%	6.55%	14.08%	-5.74%	14.37%
2016Q3	4.25%	13.15%	4.03%	4.14%	3.70%	-12.71%	7.11%	11.50%	-4.77%	20.46%



Payment Performance: National Escalation



Although supply and demand can affect escalation from one suburb to another, the average national rate has been declining since 2013 Q3

The most common misconception is that the standard rental escalation is 10 % across the country. According to TPN data, the highest the national escalation rate has ever been is 9.35% which was seen in Q3 of 2013. Since then, there has been a steady national decline.

Rental increases per year are dependent on the suburb and this is based on the fact that supply and demand is different in each area. The latest escalation figures are; National: 4.25%; Gauteng: 4.03%, KZN: 4.14% and the Western Cape: 13.15%.



Closing Observations

Prudence takes precedence: Your Tenant Monitoring Report can provide early warning of financial distress.

Remember that landlords and property managers are eligible to receive their FREE TENANT MONITOR REPORT on the 10th of each month provided that their tenants' rental payment behaviour is loaded on the TPN Credit Bureau system by the 8th of the month. This is particularly relevant because TPN re-scores all active tenants every month to categorise them into high risk, average risk and low risk ratings.