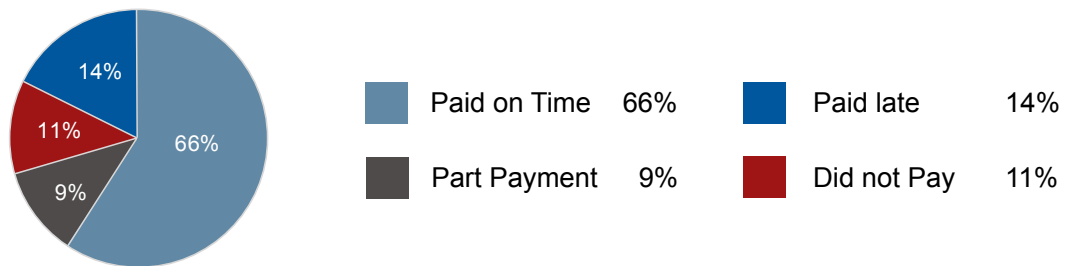


## Danger signs ahead

Residential rental payment trends remained stable again during Quarter 3 of 2011, as they have done for the past 18 months. Obviously welcome news, but there are many warning signs that the present situation is becoming increasingly fragile. Amongst others is the possibility of a 2012 European recession, coupled with South Africa's downgraded sovereign debt ratings, a weakening Rand, increased CPI (specifically food) electricity and transport costs. Inflationary pressure on interest rates is inevitable, signalling trouble ahead for many consumers with high debt and little or no savings.

South African consumers are feeling more financially vulnerable, particularly in the areas of income and savings, according to Q2 2011 data from the Consumer Financial Vulnerability Index (CFVI) developed by the Bureau of Market Research at UNISA. The bureau's Professor Carl van Aardt has cited high unemployment and the lack of conditions conducive to creating jobs in South Africa as factors that will keep consumers feeling wary. The CFVI tracks rental payment data as part of its debt servicing vulnerability index.

	'08 Q1 %	'08 Q2 %	'08 Q3 %	'08 Q4 %	'09 Q1 %	'09 Q2 %	'09 Q3 %	'09 Q4 %	'10 Q1 %	'10 Q2 %	'10 Q3 %	'10 Q4 %	'11 Q1 %	'11 Q2 %	'11 Q3 %
Good Standing: Rent	84	85	74	75	71	77	80	80	78	82	81	81	81	79	80
Good Standing: Consumer Credit	62.4	61.6	60.4	59.5	58.4	57.6	55.9	55.1	54.7	54.0	53.1	53.7	53.5	53.6	53.3
Prime Interest Rate	14.5	15.5	15.0	15.0	14.0	12.0	10.5	10.5	10.0	10.0	9.5	9.0	9.0	9.0	9.0



## Rental performance echoes prime rate

This year, landlords and tenants alike have benefited from the flat trend in interest rates, currently the lowest they have been in 30 years. However with historical data showing a clear correlation between tenants in good standing and fluctuations in interest rates, rental payment profiles are set to dip when interest rates rise.

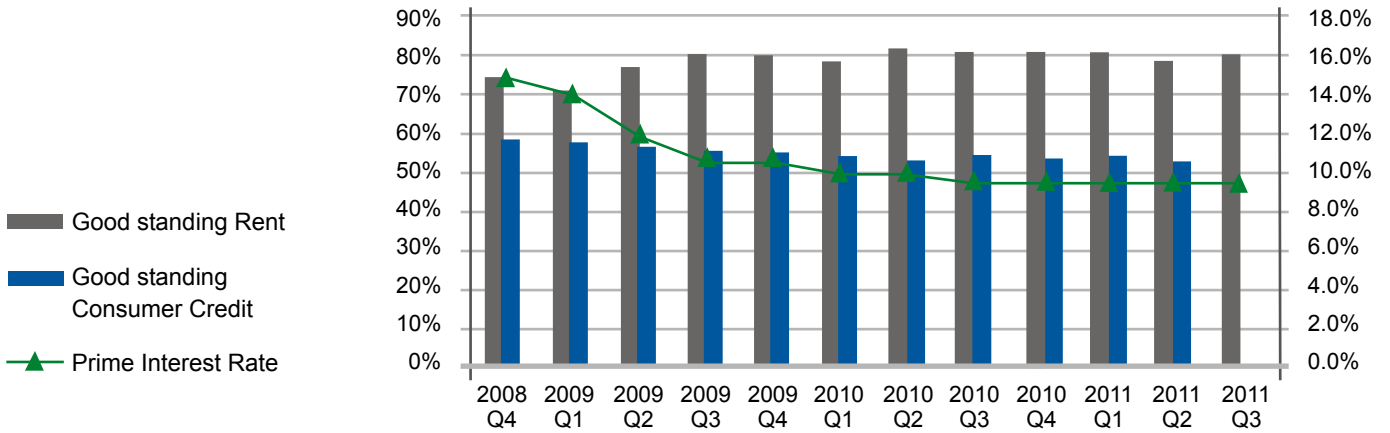
Tenants occupying higher value properties in the rental category over R12 000 per month are most affected by the cost of borrowing money – and yet even in the current low interest rate environment perform relatively poorly (76%) in comparison to the national average (80%) of tenants in good standing. Should interest rates increase, landlords will need to brace themselves for a deterioration in rental payments, albeit with a 9 month lag period during which to adjust.

	'09 Q1	'09 Q2	'09 Q3	'09 Q4	'10 Q1	'10 Q2	'10 Q3	'10 Q4	'11 Q1	'11 Q2	'11 Q3
Western Cape	81%	82%	84%	85%	83%	85%	86%	84%	84%	83%	84%
Kwazulu Natal	79%	79%	81%	79%	77%	81%	77%	80%	80%	82%	83%
Gauteng	70%	73%	76%	76%	73%	77%	77%	77%	77%	75%	76%
Eastern Cape	81%	81%	79%	86%	81%	84%	86%	87%	86%	87%	88%

## Low-rent tenants hit by inflation

For the second quarter in succession, tenants in the rental category below R3 000 have fared worst (73%) versus the national average (80%) of tenants in good standing. These tenants are affected most by inflation and the significant decline in this rental value bracket should be viewed as a conspicuous indicator that raises a flag for investors to consider.

Since the market has experienced two years of stability in terms of rentals and low interest rates, it may be expected that wise investors will have had the time and foresight to leverage a reasonable margin across their portfolios in order to provide for interest rate increases and a possible slide in rental payment behaviour.



## Rental Market Observations

During the third quarter, the number of tenants in good standing at regional levels was similar to Q1 and Q2 of this year in the Eastern Cape, Western Cape, KZN and Gauteng, with the latter province remaining consistently below the national average of 80% (77%, 75% and 76% respectively).

Nationally the number of tenants in good standing (tenants who paid on time plus those who paid rent late but in full) has remained consistently at around 80% since quarter 3 of 2009, in line with the stability of the prime interest rate.

Rental value categories between R3 000 to R7 000 and between R7 000 to R12 000 were steady, while tenants in the category over R12 000 per month continued to perform below the national average. The higher number of defaults in the category below R3 000 per month also remained similar to the previous quarter.

