State of the Johannesburg Inner City Rental Market

Presentation to TUHF- 5th July 2017
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National Association of Social Housing Organisations (NASHO);
TUHF Group of Companies;
Johannesburg Housing Company (JHC)
Extent the Study Area (Urban Development Zone)

- The Inner City of Johannesburg is generally defined by the demarcated area of the Urban Renewal Tax Incentive, otherwise known as the Urban Development Zone (UDZ).

- Over the last two decades these areas have become a significant market for rental housing particularly for low, moderate and a small portion of middle income households.

Source: RebelGroup South Africa
Study Limitations

What we used to conduct this research *(all data collected in 2016/ Q1 2017)*

- Existing household statistical and related research data including Census data, household survey data and tenant satisfaction surveys.

- Existing research / data in respect of landlords, unit numbers, target markets as well as financial data.

- Written and telephonic engagement with JPOMA members to understand key players’ portfolios and the overall size of the inner-city formal rental market.

- Project case studies:
  - Interviews with selected landlords
  - One-on-One interviews with selected

- An online survey administered to clients of the TUHF portfolio.
Some Highlights of the Study

- Supplier Categories and Overall Market Size
- Findings from TUHF survey and JPOMA questionnaire
- Key Findings on Demand-side Characteristics
- Findings on Operations and Project Costs
Supplier Categories (within the UDZ)

- Based on Department of Human Settlements *National Rental Housing Framework*, segmentation.

- Our proposed segmentation provides additional granularity within the context.

**Proposed Segmentation** (by research team)

1. Private Corporate Landlords (PCL) Type-1: REITs and Funds
2. Private Corporate Landlords (PCL) Type-2: Large Companies
3. Medium Private Landlords (MPL)
4. Small Private Landlords (SPL)
5. Individual Landlords (IL)
6. Municipal Social Housing Institutions (MSHI)
7. Private Social Housing Institutions (SHI)
# Overall Market Size

<table>
<thead>
<tr>
<th>Type</th>
<th>Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Corporate Landlords Type 1</td>
<td>The starting point for estimating the size of the market was to survey the membership of the Johannesburg Property Owners Managers Association. Responses from a survey of their membership represent ownership and management of some 18,708 units.</td>
</tr>
<tr>
<td>Type 2 Medium Private Landlords</td>
<td>The TUHF portfolio represents roughly 18,800 units within the Inner City.</td>
</tr>
<tr>
<td>Smaller Private Landlords</td>
<td>Additionally, the purely private side rental of Johannesburg Housing Company represents 2,659 units (in the Inner City).</td>
</tr>
<tr>
<td></td>
<td><strong>Our best estimates are that all of these pieces of information point to a total portfolio under private management of some 48,255 units within the Inner City.</strong></td>
</tr>
</tbody>
</table>

We estimate the JPOMA survey accounts for 75% of the larger market players and 40% of the medium-size market players in the Inner City.

We acknowledge that there is significant overlap of portfolio’s, this has been accounted for within estimates.

*Source: Analysis by RebelGroup South Africa*
Overall Market Size

Estimated Supply within Inner City Market

- Private Social Housing Institutions: 2,225
- Municipal Social Housing Institutions: 2,489
- Private Corporate Landlords (Type 1, Type 2)
- Medium Private Landlords
- Smaller Private Landlords: 48,255

Total Units: 52,969

Note: The above figure assumes only active subsidy units within the JHC portfolio

Source: Analysis by RebelGroup South Africa
Overall Market Size (notes on Informality)

- 52,969 excludes informal provision, a significant market unto itself within the Inner-City. The growth in the informal market is in part due to overwhelming demand for housing provision at the lower-end of the market.

  - Estimates by the most recent census indicate there are roughly 92,010 lower to middle income households within the boundaries of the UDZ, far exceeding the estimated 52,000 formal rental units currently provided.

- The impact and importance of the informal market is further realised when looking at tenant barriers to entry (further discussed in subsequent sections).

- Also, it is important to note that there is quite a high level of sharing (formal or informal). For instance, a 'room' often accommodates two 'households', even if two single people are both sharing the unit.

  - This subletting does push affordability potentially lower down but the study had limited data to analyse this trend.
Findings on Unit Types and Characteristics
Unit Categorisation (Type)

Suppliers are offering a range and mix of products for accommodation within the Inner City.

This mix shows the range of product types in the Inner-city even if it is trending towards standardisation.

<table>
<thead>
<tr>
<th>Unit Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transitional Room</td>
</tr>
<tr>
<td>Double Room</td>
</tr>
<tr>
<td>Room/ Communal</td>
</tr>
<tr>
<td>Bachelor/Studio</td>
</tr>
<tr>
<td>1 Bedroom</td>
</tr>
<tr>
<td>2 Bedroom</td>
</tr>
<tr>
<td>3 Bedroom</td>
</tr>
<tr>
<td>4 Bedroom</td>
</tr>
<tr>
<td>Penthouse</td>
</tr>
<tr>
<td>Live/ Work Studio</td>
</tr>
</tbody>
</table>
Findings on Unit Types and Characteristics
Delivery from JPOMA Respondents

Research conducted by the team saw the majority of JPOMA respondents confirming the delivery of units that were either Rooms, Bachelor/Studios, or 1-3 bedroom units.

**JPOMA Inner City Portfolio by Unit Type, 2016 (Number of Units)**

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communal Room</td>
<td>1,727</td>
</tr>
<tr>
<td>Bachelor/Studio</td>
<td>5,802</td>
</tr>
<tr>
<td>1 Bedroom</td>
<td>5,283</td>
</tr>
<tr>
<td>2 Bedroom</td>
<td>4,473</td>
</tr>
<tr>
<td>3 Bedroom</td>
<td>752</td>
</tr>
</tbody>
</table>

Total units: 18,273

Source: RebelGroup South Africa

Anecdotal data indicates a growing interest in delivery of communal units, but less interest in 3 bedrooms.
Findings on Unit Types and Characteristics

Unit Rental Rates from JPOMA Respondents

Of the 18,000 units represented in the data collection, the lowest price offering was R800 for a communal room. Room type units can go as high as R2,100 per person.

JPOMA Responses Unit Rentals (Rand)

Total Units in Sample: 18, 273

Source: RebelGroup South Africa
Findings on Unit Types and Characteristics
TUHF Portfolio – Unit Rentals

The analysis of the TUHF portfolio shows similar trends to those of JPOMA members. Averages are significantly similar, while the ranges vary to some extent.

TUHF Survey Responses Unit Rentals (Rand)

Source: RebelGroup South Africa
Findings on Unit Types and Characteristics

Rental Rate Additional Notes

• The most critical finding is the very clear lower bound of any rental product at around **R800-R1,000** (between both JPOMA and TUHF) even for communal room units.

• Commercial lettable space not the focus of the study, but it is worth noting many players are dedicating space for such activities.
  
  • This is either because it offers diversification of revenue streams or it helps provide uses for bulk generated in the refurbishment or conversion process identified as ill-fitted for residential application.
  
  • Typically, these commercial applications relate to small-scale retail, laundry facilities providers, or similar service oriented use.
Variability of unit size is significant. Ranges can be incredibly broad, which is a huge influence on price and makes the standardization of unit typology of product per price extremely difficult.

**TUHF Survey Responses Unit Sizes (m²)**

<table>
<thead>
<tr>
<th>Unit Sizes (m²)</th>
<th>Number of respondents: 28</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rooms with Shared Facilities</td>
<td>Source: RebelGroup South Africa</td>
</tr>
<tr>
<td>Bachelor</td>
<td></td>
</tr>
<tr>
<td>1 Bedroom</td>
<td></td>
</tr>
<tr>
<td>2 Bedroom</td>
<td></td>
</tr>
<tr>
<td>3 Bedroom</td>
<td></td>
</tr>
</tbody>
</table>
Findings on Unit Types and Characteristics
TUHF Portfolio – Average Number of Tenants per Unit

Notable that Rooms and Bachelors are averaging slightly more than 2 individuals per unit, suggesting starter families within these units.

TUHF Survey Responses Average Tenants per Unit

Source: RebelGroup South Africa
Distinctly higher variation in the smaller units than in larger. The range of variability of price point for room units is particularly worth noting and suggests that there is much less standardisation of characteristics within this product type.

**TUHF Survey Responses Rental Price per M2**

![TUHF Survey Responses Rental Price per M2 chart]

- **Number of respondents:** 28

*Source: RebelGroup South Africa*
Findings on Unit Types and Characteristics

Inner City at a Snapshot

<table>
<thead>
<tr>
<th>Total Inner City Households</th>
<th>Income Category</th>
<th>Rental Affordability *Assumption: Rental Affordability limited to 30% of HH Income</th>
<th>Rental Amount</th>
<th>Supplier Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>11,065</td>
<td>R13,000 plus</td>
<td>above R4,290</td>
<td>R 14,000</td>
<td>Large Private Landlords (Type 1)</td>
</tr>
<tr>
<td>14,916</td>
<td>R6,400-R13,000</td>
<td>R2,112-R4,290</td>
<td>R 10,000</td>
<td>Sport Private Landlords</td>
</tr>
<tr>
<td>18,860</td>
<td>R3,200-R6,400</td>
<td>R1,056-R2,112</td>
<td>R 5,000</td>
<td>Medium Private Landlords</td>
</tr>
<tr>
<td>16,788</td>
<td>R1,600-R3,200</td>
<td>R528-R1,056</td>
<td>R 3,500</td>
<td>Large Private Landlords</td>
</tr>
<tr>
<td>6,843</td>
<td>R800-R1,600</td>
<td>R264-R528</td>
<td>R 2,500</td>
<td>Individual Landlords</td>
</tr>
<tr>
<td>23,538</td>
<td>&lt;R800</td>
<td>&lt;R264</td>
<td>R 1,500</td>
<td>only limited cases of supplier offerings in these low-end ranges</td>
</tr>
</tbody>
</table>

*Only limited cases of supplier offerings in these low-end ranges
Findings on Demand-side Characteristics
Desirability of Flexible Arrangements

- Research shows migrants (both internal to South Africa and Cross-Border) form a large portion of the low-cost housing market in the Inner City.
  - Economic migrants are looking for specific rental products, often single, low-cost rooms, as opposed to accommodation for a family.
  - They require flexible rental arrangements for reasons including variability of cash flow and lack of job security.
  - Informal letting can better serve their needs whereas more formal arrangements merely serve as increased risk.

- Accommodation choice for many Inner City tenants is not only about income but also influenced by barriers to access...which can lead to choosing informal options:
  - Lack of the necessary documentation (e.g. asylum papers, identification documents, and bank statements); being a non-national (and thus not having access to state grants);
  - Disability (many buildings turn away the disabled or are inaccessible to the disabled);
  - Lack of information regarding informal low-cost accommodation.
Findings on Demand-side Characteristics
Accessibility and Transportation

- Tenants cite that the Inner City’s access to transportation (especially Mini-bus Taxi routes rather than formal public transport) and the comparably cheaper commuting costs as key factor in their accommodation choices.
  
  – Proximity to economic opportunities and accessibility to affordable transportation are two of the Inner City’s greatest attributes.
  
  – In some instances, the difference in transport cost/time between an Inner City unit and one in a peripheral neighbourhood for Johannesburg is double or triple.

- The type of accessible transportation matters
  
  – Despite the advances of public transportation infrastructure, areas that are serviced by dedicated taxi ranks are still seen as best due to cost and ease of transport.
  
  – Research of some properties that are largely comparable in product offering, but differ only in that one has immediate access to a taxi rank, shows that there is a sizable difference in tenant demand.

- Inner City is not only a draw simply because of the transportation costs and times for commuters; but also because of the availability of services and social infrastructure in walking distance,
Findings on Demand-side Characteristics

Other Key Factors

- Change in household formation of Inner City households is dramatically impacting the type of products sought
- Softness in room rentals within last 6 months, suggesting people are actually preferring 1/2 bedroom units – Uptick in sub-letting and sharing
- Reducing barriers to entry - Some JPOMA members are doing month-to-month arrangements and waiving deposits
- Responding to the desire for safety and security
  - Increasing capital investment in access control (biometrics)
  - JPOMA deploying a new operating model in Urban Management
Findings on Operations and Capital Costs

Trends in Project Costs

The range of reported project development costs is difficult to standardize as project costs relate to a host of variables such as time of acquisition, contracting and material costs.

- Significant variability of costs between three types of projects; Greenfield, conversions, and refurbishments.

- Refurbishments clearly lead in project costs when excluding building acquisition but this becomes less clear when considering the cost of acquisition where conversions have an edge as capital values of dilapidated commercial are trending lower than existing residential stock.
Findings on Operations and Capital Costs

Trends in Project Costs

The market is increasingly broadening to include different business models and this is significantly changing the unit mix and operational considerations of projects.

- Private sector focusing on conversion opportunities to get higher yield on lettable area and maximise return on cost of acquisition.

- **Yet**, recent evidence is that the administrative lag time (for approvals by CoJ) and cost of carrying debt is actually making conversions less appealing. – For example recent Liveeasy experience

### Example: Private Sector Development Costs – Conversion

<table>
<thead>
<tr>
<th>Case Study Analysis of Capital Costs for Private Sector Conversion of non-residential to residential use in JHB Inner City</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conversion from Offices or Flats</strong></td>
</tr>
<tr>
<td>--------------------------------------</td>
</tr>
<tr>
<td>Building 1: (JHB Central) – includes bldg. acquisition</td>
</tr>
<tr>
<td>Building 1: (JHB Central) - excludes bldg. acquisition</td>
</tr>
</tbody>
</table>

*Source: All data from Internal research document for NASHO completed by Jacus Pienaar*
Findings on Operations and Capital Costs

Trends in Project Costs

- JPOMA members have indicated unit development costs between R 3,500 to R 6,500 per square meter (with some highlighting average costs per accommodation unit between R 140,000 to R 175,000 excluding land costs.)

  Yet, these responses are not clear on what types of units have been delivered at these costs, when these costs were achieved (should they be inflation-adjusted to present day costs for comparison) and whether it reflects all-inclusive development costs or construction costs only.

  - The growing challenge of municipal recovery is an issue to be addressed (municipal metering)

- TUHF portfolio clients when asked to average their operating costs per unit responded with an overall average of roughly R1,400.

  - This figure is likely due to the sample size of respondents and the significance of outliers, with those removed the trend is closer to R950 (with a lower bound of R400) and many of the large suppliers indicate averages of R500-R600 per unit.
Another interesting aspect to note with regard to operating costs is the variability in what is built into overall operational cost composition. Still there are some trends emerging.

TUHF Portfolio Operational Cost Composition

<table>
<thead>
<tr>
<th>Inclusion in Operation Cost</th>
<th>Supplier Inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>Nearly All</td>
</tr>
<tr>
<td>Rental Collection</td>
<td>Most</td>
</tr>
<tr>
<td>Lease Contracts</td>
<td>Some</td>
</tr>
<tr>
<td>Bad Debt Coverage</td>
<td>Some</td>
</tr>
<tr>
<td>Security</td>
<td>Most</td>
</tr>
<tr>
<td>Upkeep for Common Areas</td>
<td>Nearly All</td>
</tr>
</tbody>
</table>
Findings on Operations and Capital Costs
Service Charges per Unit

- Some feedback from the TUHF survey on averages for the services charges typically related to units. These generally refer to water, electricity, and other municipal charges that might apply.

- Many suppliers are innovating to address operating costs and tenant management. This is in order to stabilise operating costs and maintain margin, normalise tenant experience, while streamlining delivery. For example, some providers are putting automated showering systems in buildings that focus on communal units.

TUHF Survey Responses Average Service Charges per Unit

<table>
<thead>
<tr>
<th>Rooms with Shared Facilities</th>
<th>Bachelor</th>
<th>1 Bedroom</th>
<th>2 Bedroom</th>
<th>3 Bedroom</th>
<th>Penthouses</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZAR 291</td>
<td>ZAR 579</td>
<td>ZAR 760</td>
<td>ZAR 1,040</td>
<td>ZAR 1,586</td>
<td>ZAR 1,200</td>
</tr>
</tbody>
</table>