

## Residential Prices Outrun Rentals

Residential rentals have not remotely kept up with house-price growth over the last few years.

According to surveys conducted by Rode & Associates, rentals of flats, townhouses, and houses generally grew at a compound rate of roughly 4–8% over the last three years. This should be contrasted with a compounded national house-price growth rate of 19,3% p.a. over the same period. The result of this divergence in growth rates is, of course, the low net-income yields of 4–6% that residential investors currently face.

On the positive side, however, residential rentals did generally beat consumer inflation, which averaged about 4,5% p.a.

Some of the better-performing markets included the Durban house market where rentals grew by 12,9% p.a., Port Elizabeth's flats (11,2%), and Bloemfontein's townhouses (10,4%).

Rode's surveys suggest that, in general, townhouses delivered the weakest relative growth in the respective metros. In Cape Town, for example, townhouse rentals grew by only 2,6% p.a. during the last three years, which is much lower than house-rental (8,2% p.a.) and flat-rental growth (6,6% p.a.). The relatively poorer performance of townhouses makes intuitive sense, as this was probably the favourite investment amongst buy-to-let investors.

During the next few years, we expect average national rental growth to notch up slightly, while house-price growth is set to continue decelerating. As a result, net residential income yields should — unlike their non-residential counterparts — start creeping up.