Centre for Affordable Housing Finance in Africa

Aligned interests

The case for long-term institutional investment in multifamily residential rental in South Africa

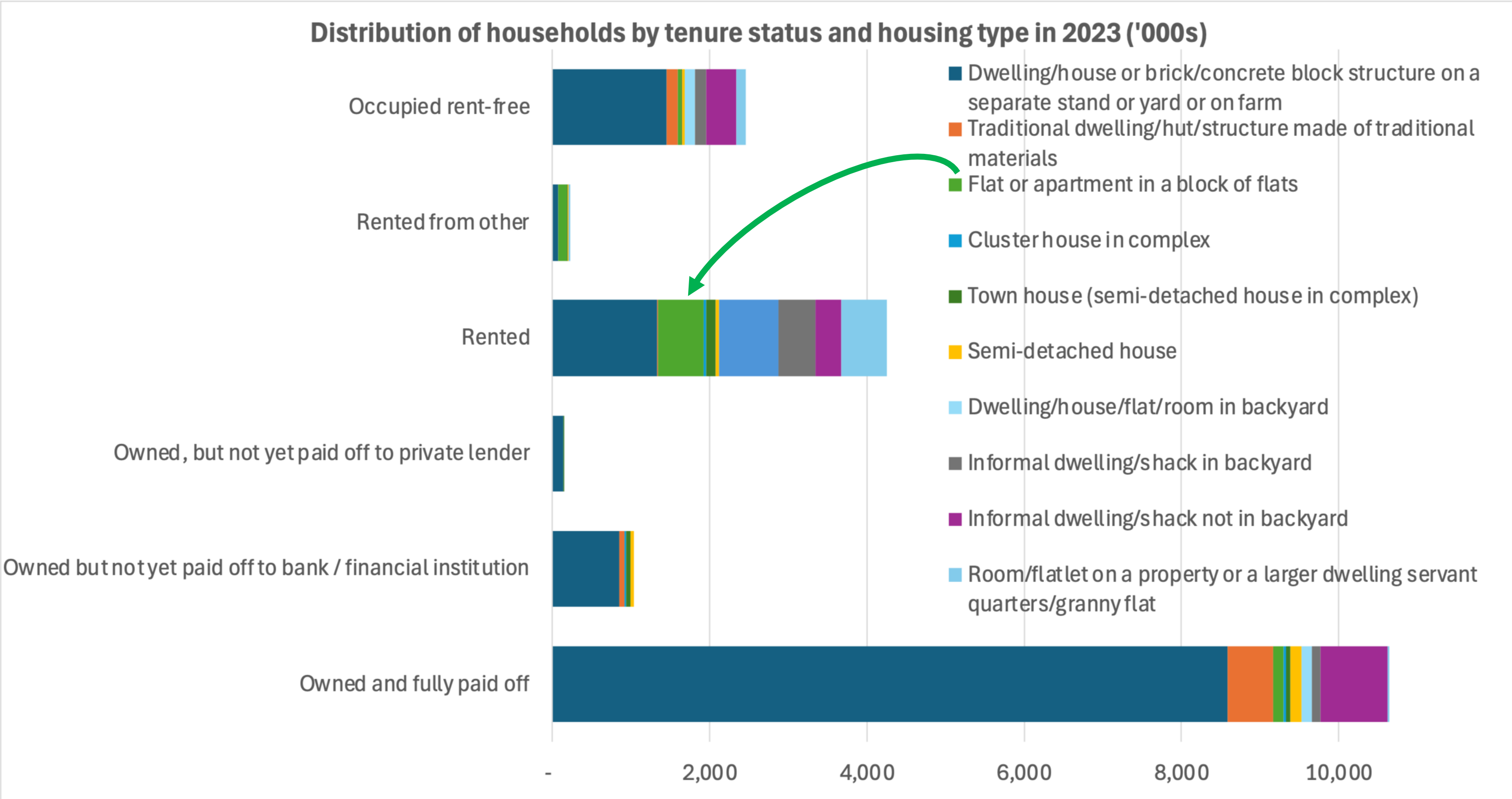
Kecia Rust

Gauteng Property Investment Showcase Engagement

12 February 2025

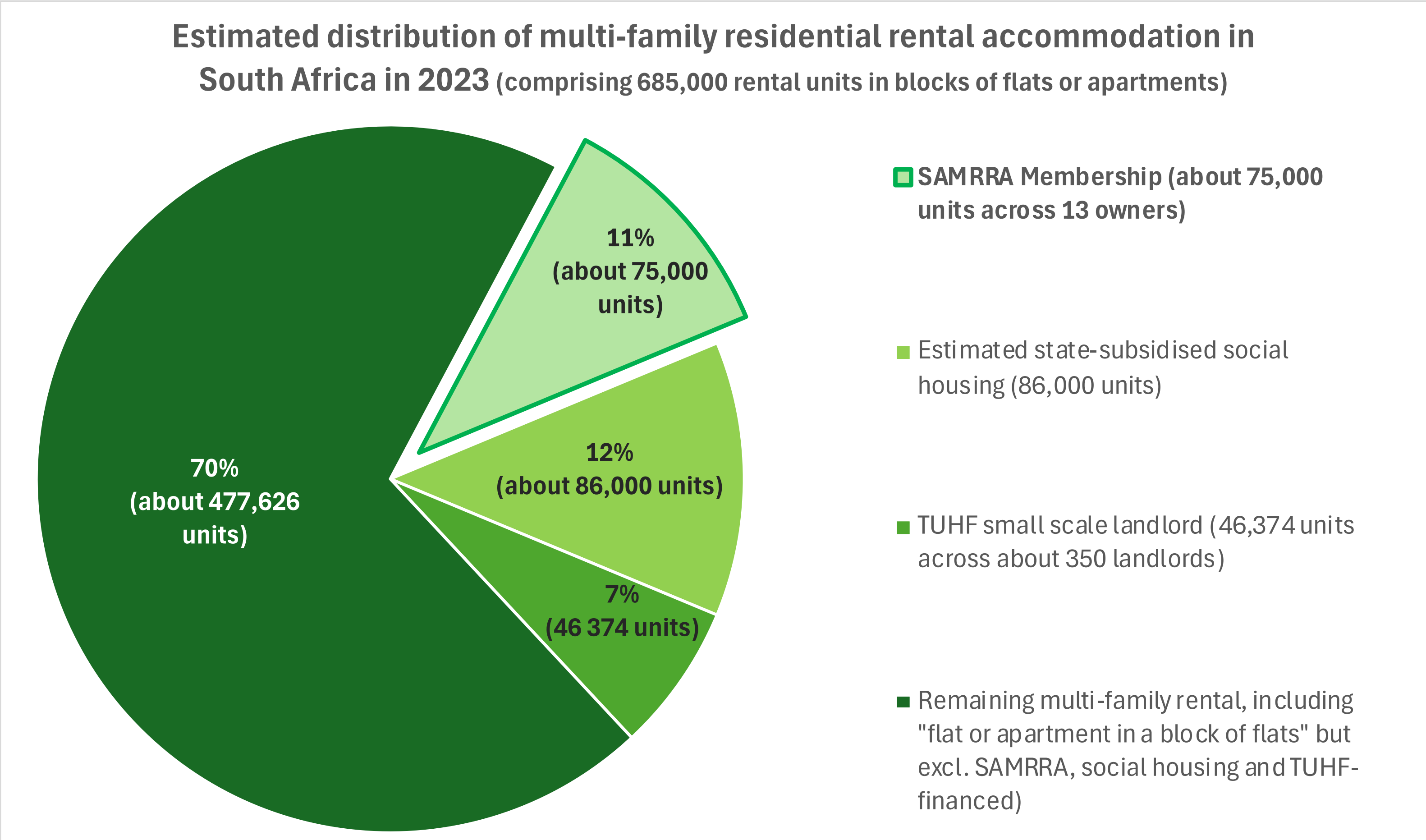
Multi-family residential rental is a small part of the wider residential rental property market.

According to Stats SA, 23% of the population (4.5 million households) rent the homes they live in. Of these, 685,000 households say they rent their homes in a block of flats or apartments



Source: Own analysis with data from Stats SA GHS 2023

South Africa's multifamily residential rental market segment is likely included in the 685,000 households who say they rent their homes in a block of flats or apartments



This is about 15% of the total rental market in South Africa.



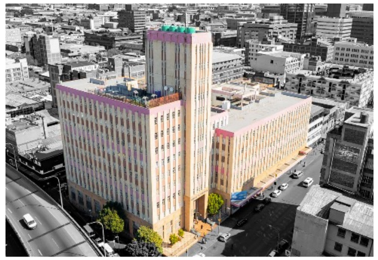



Multifamily Residential property represents privately owned residential stock, designed specifically for renting rather than for sale. Properties are typically owned by institutional investors and managed by specialist operators. This asset class is a property classification characterized by large-scale residential property rental supply, which provides consistent long-term income for investors.

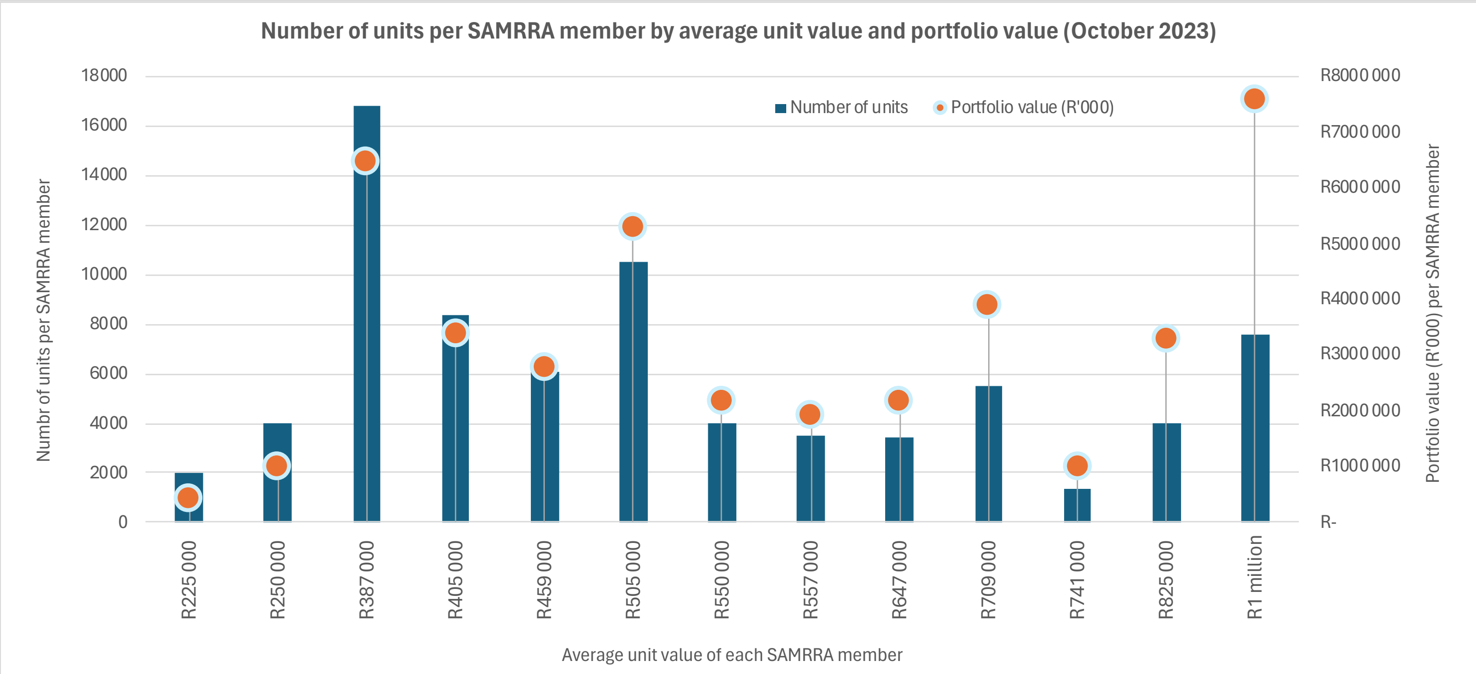

Multifamily Residential assets commonly include apartment buildings: multiple separate housing units for residential inhabitants, contained within one or several buildings within a single complex/estate. Units can be next to each other (side-by-side units) or stacked on top of each other (top and bottom units).



SAMRRA
South African Multifamily Residential Rental Association



SAMRRA members have diverse portfolios



- 13 members
- portfolios between 3,500-10,000 units each
- units valued between about R350,000 and R1mn

SAMRRA member data

NOI Quartile	Net operating income psqm	Gross Rental Range per unit #
Top quartile	94	R8,800-R11,500
Second quartile	64	R6,200-R7,600
Third Quartile	44	R4,300-R5,600
Bottom quartile	23	R2,200-R3,432
Total	60	

Rentals ranging between R2200 – R11 500.

See page 25 of MSCI (2024) Residential Property: Quantitative Analysis of an Emerging Asset Class. Analysis of residential property investment and fundamental performance in a Global and South African context. https://samrra.co.za/wp-content/uploads/2024/03/MSCI-Residential-Final-Print.pdf (Accessed 14 August 2024).

What does Multi Family Residential Rental look like?

Africrest

https://www.africrest.co.za/

Owns more than 4,200 apartments with a portfolio value of over R3bn – set to expand to over 7,000 apartments within the next 18 months. Africrest's residential estate appeals to a high LSM tenant. The company specializes in both greenfield developments as well as converting office buildings into residential apartments, with resort-style facilities and amenities.

The Apollo
Suburban conversion office to residential rental.
Sunninghill, Johannesburg, Gauteng

Studios from R5890
1-bed R6490
2-bed R8890

What does Multi Family Residential Rental look like?

Cosmopolitan / Central Developments

https://www.centraldevelopments.co.za/

Specialises in developing affordable housing, apartment complexes, secure lifestyle estates, and retirement estates. Established in 1992, it has delivered more than 80,000 units to own or rent.

East on 82
Urban infill newbuild
Johannesburg, Gauteng

Rentals from R6800

What does Multi Family Residential Rental look like?

Divercity

https://www.divercity.co.za

Property investor, developer and property manager established in 2017, specialising in well-located, amenity rich affordable rental. Portfolio comprises more than over 9,000 residential units and a disclosed asset value of R4.5bn.

Jewel City
Inner city urban infill newbuild and conversion Johannesburg CBD, Gauteng

Bachelor from R3299
1-bed from R4299
2-bed from R4899

What does Multi Family Residential Rental look like?

First Mile Properties

https://www.firstmileproperties.com/

Property developer, investor and asset management company established in 2004, specializing in creating affordable living spaces in mixed-use spaces. Portfolio comprises around 4,000 units.

Greatermans, *220 Commissioner Street*
Inner city refurbishment Johannesburg CBD, Gauteng

Rentals from R3200

CAHF

But investors are still worried. Why?

Investors think of rental as coming with unmanageable, non-commercial risks, inner city concentrations, low-income tenants with fickle tenancy that together combine to deliver low returns and low values, especially sensitive to wider macro-economic and city factors that ultimately affect the entire investment market.

1. Scale & Track Record

Investors look for scale to diversify and strengthen their investments so that they can weather market shocks or niche market fluctuations. To make such large investments, investors need evidence of the opportunity. Institutional investors seek investment opportunities that have already proven their potential with verifiable metrics.

2. Yield

Yield is the annual rental income received from a property divided by the property's value. Yield provides insight into the immediate return on investment from renting out a property.

3. Value

Value in real estate, is what a buyer would agree to pay for a property. It is shaped by factors such as location, improvements, economic conditions, and underpinned by management. An assessment of value considers the potential for capital growth or capital appreciation; as well as the income profile the property generates.

Scale & Track Record

What investors say…

1. Insufficient scale to attract large-scale capital?

- Too few landlords
- Limited track records
- Insufficient data

2. International experience is irrelevant

- SA units are of poorer quality
- South Africans don't want rental
- SA has a weak regulatory framework

3. Property itself is not a stable investment

- More volatile over 10-20 years than other asset classes

When actually …

- SAMRRA membership is growing: **13 property owners / operators** hold **75,000 units** with a combined value of **ZAR41,6 billion**.
- This is 11% of the multi-family residential rental sector in SA
- Significant pipeline: SAMRRA aims to hit 100,000 units by 2026-27
- Opportunity to get in early

- Within this particular asset sub-class, excellent building quality and a sophisticated offering
- Increasing demand for rental expressed in low vacancies
- The Rental Housing Act in South Africa does not allow for rent control

- Globally and locally, the multifamily residential rental market is the least volatile of all property sectors

Yield

What investors say…

1. Residential rental is not a commercial opportunity

- Really only targeted at the affordable market
- Unlikely to realise good returns

When actually …

- The multifamily residential sector behaves like commercial property – owned by professional landlords with strong and tight management
- Good management improves payment, limits vacancies, and accelerates occupancy so there is little default
- The breadth of tenants diversifies the risk, which creates stability across the portfolio.
- MSCI has shown that residential rental performs ahead of office, but behind industrial. Over the Covid-19 pandemic, it bounced back more quickly

2. It costs more to manage residential properties than commercial properties

- The portfolio approach in multifamily residential means that landlords and property agents realise economies of scale in their management.
- Developments in technology have improved efficiencies & reduced costs

Yield

What investors say…

3. Statutory & infrastructure costs have been rising faster than rent, putting pressure on yield

When actually …

- This is true, but affects all property asset classes & not just residential
- PayProp reports that rental increases are close to cost increases.
- MSCI data shows that residential property was the only sector to record improved NOI yield in 2022.

- **It is true that suburban assets perform better than inner city assets – this requires attention.**

- **JPOMA usefully reports that its biggest trading partner is the City of Johannesburg, noting that 40% of its members' operational costs are paid to the City. This data is critical for negotiating with the city to deliver services for this income received.**

Value

What investors say…

1. Asset quality is poor and **area-based risks especially in the inner city further undermine asset values**

This extends into insurance – either the landlord cannot get insurance for their building or the premium is set very high.

2. There is a wide gap between listing prices of properties and their "Net Asset Value" – this demonstrates inherent risks

When actually …

- Asset quality differs dramatically across the sector, with different income segments being targeted. Investment in refurbishment and conversions has leveraged existing infrastructure and delivered quality more cost effectively.
- **Landlords and agents are increasingly experienced in managing area-based risks themselves**

- MSCI believes the market is ready for a repricing as investors become more familiar with risks and understand better how landlords & agents are managing them. Similar gaps have existed in other property markets – this is part of how markets mature.

5 reasons to invest in multi-family residential rental and the build-to-let market

1. **Demand**: The units attract quality demand with low levels of default and low vacancies that are themselves easily filled with an established waiting list.
2. **Supply**: Multifamily residential developers and landlords are trailblazing a new form of rental that has been gaining popularity in the United States, Australia, Europe and the UK – leveraging off the latent value in South Africa's wider real estate market and the improved performance of residential over office and commercial property.
3. **ESG**: Multifamily scores high across all ESG metrics both in terms of risk management and impact, offering investors comfort that they will be able to themselves fulfill their ESG goals.
4. **Experience**: With over 75,000 units currently under management among the SAMRRA membership, property management expertise is developing, leveraging the benefits of evolving technology, maximizing economies of scale.
5. **Quality, track record and pipeline**: MSCI reports that the multifamily residential rental sector consistently outperforms office and commercial real estate and is second only to industrial real estate primarily on a risk relative return basis. While cap rates are somewhat higher than for other asset classes, MSCI believes this suggests the need for a re-pricing, offering further opportunities for new investors. A pipeline of developments suggests that the sub-sector is only growing, honing its experience and building a new style of urban living across South Africa.

But we need better data

Not all multifamily residential rental developments, landlords, investors, and managers are the same. The differences between them, and the specialties understood about each must be tracked if investors are to understand the investment opportunity.

The residential rental market is segmented in other countries, by:

- single-family vs. multifamily
- inner city vs. suburban
- metro vs. non-metro
- development approach: new build, conversion, refurbishment, etc.
- management approach, …

This allows for a more nuanced & informed analysis of potential.

- SAMRRA could develop a classification mechanism to distinguish between landlord and building types on the basis of various factors: location; building quality; management quality, tenant profile, etc.

- Data on payment trends, incidence, time and cost of eviction and so could then be collected on the basis of that classification.

- Data on costs per unit: statutory, infrastructure, overall management, facilities – and the impact of these on yields & value

Centre for Affordable Housing Finance in Africa

THANK YOU!

https://samrra.co.za/2025/02/05/aligned-interests-the-case-for-long-term-institutional-investment-in-multifamily-residential-rental-in-south-africa/

https://samrra.co.za/wp-content/uploads/2024/03/MSCI-Residential-Final-Print.pdf

Kecia Rust
Kecia@housingfinanceafrica.org