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Secrets to inner city renting success

While many landlords battle to fill their units and secure the rent at month's end, one urban renewal developer is doing a roaring trade renting apartments in Joburg's inner city. What's the secret to its success?

The rental business has never been a risk free one, but these days, for some landlords, renting has become a business with a lot more risk and a lot less return.

One in five tenants renting in South Africa's major cities did not pay any rent in the first quarter of this year, according to credit bureau TPN (as quoted in *Finweek*). That's a 280% increase over the same period last year, where only 5% of tenants defaulted.

Yet in the heart of Johannesburg's inner city, there is one property company which has not just weathered the economic downturn, but has managed to sail unscathed ahead of the storm.

Aengus Property Holdings is one of the city's foremost urban renewal specialists, converting mothballed commercial blocks into stylish, luxury loft apartments. With 1 500 tenants in 13 buildings in the Joburg CBD, it has an enviable rental record – 100% occupancy, 100% rental collection.

Its buildings generate returns of over 10% per year, and it has been able to maintain rental escalations of 8%, sometimes as often as twice a year.

In a market where other landlords are seeing less and less return on their rental properties, what is the secret to Aengus' success?

Gavin Meskin, MD of Aengus Property Management (APM) which manages Aengus' property portfolio, says it comes down to investing in the right property sector, creating the right offering within that sector, and renting only to the right people.

An irresistible offering

While landlords in the suburbs are taking considerable strain, inner-city developers such as Aengus are sitting pretty. Meskin says there are an estimated one million people who commute to work in the city centre every day. "Even if we had 100 000 apartments, we wouldn't be able to house even 10% of the total," he says.

The city centre represents not just a gap in the property market, but a huge chasm, and Aengus is busy filling it with affordable yet upmarket accommodation.

"We're clearly focused on one target market with the city: young professionals and students," says Meskin. Aengus renovates commercial office space into accommodation which uniquely suits this market's needs: an affordable place to stay that is stylish, safe, and close to work, university or college.

The apartments in an Aengus building are bachelor pads or single-bedroom units, so they meet the first requirement of affordability. To meet the second – stylishness – they come

with all the ultra-modern fittings and finishes associated with luxury living. They have fridge/freezers, built-in stoves, strip wooden floors, ceramic tiled bathrooms, fitted cupboards, window blinds, and even 12-channel satellite TV.

The buildings have access control and 24-hour security, as well as secure parking, making them attractive to female tenants, who make up approximately 70% of the tenant base. Tenants are also offered numerous value-adds, such as on-site laundries, the Aengus Lifestyle Card which gives them discounts at 500 retail and service businesses, and even free daily transport for students to universities and colleges further than 1,5km away. "The Aengus brand has become synonymous with upmarket, contemporary living spaces in the heart of the city," says Meskin. "It is this total package which people looking for safe city living can't get enough of."

This explains why its conversions such as Lofts@66, Tribeca Lofts, Braamfontein Lofts, and the recently completed Fashion Lofts were sold out or fully tenanted shortly after their release to market. "Some buildings are as much as 10 times over-subscribed," he says. "During busy months, our letting team receives more than 100 phone enquiries a day. Demand appears insatiable, despite the economic downturn."

The right tenant, less risk

Aengus then follows a simple rule of renting: if you don't want defaulting tenants, don't let them into your building in the first place. Strict tenant acquisition policies play a significant role in Aengus' impressive no-default record.

"With such high demand for our apartments, we can afford to be picky about who gets to live in our buildings," says Meskin. "And once they're in, tenants don't want to risk losing their place."

All applications go through a three-tiered credit committee overseen by APM's financial manager, which ensures that only the best prospective tenants are selected. APM also has its own in-house professional letting team which consists of eight collecting agents and a leasing manager. Leases are predominantly on a 12-month basis, and the letting team co-ordinates vacancies with its waiting lists to seamlessly replace one tenant with another.

A cornerstone of its letting policy is also to secure corporate and institutional head leases with large employers, tertiary education institutions and government departments, which takes the risk out of renting. Currently, 30% of all Aengus' leases fall into this category. "The current downturn has had little impact on Aengus," concludes Meskin. "We have had to put sales on the backburner as the economic environment has deteriorated, but the rental market has always been core to our business anyway. And the right product and rental policies have ensured that we continue to enjoy good returns with minimal risk."