

RENTAL INDEX

QUARTERLY SOUTH AFRICAN RESIDENTIAL RENTAL MARKET DATA

Q3 2021

In this issue:

Battle of the sexes: Earnings, spending and risk

Slim pickings:
National rent up by R10

Rent-inflation gap widens

KZN gains on Gauteng

Tenant arrears bounce-back continues



Contents

- | | |
|--|--|
| <p>03 Introduction
Finish strong</p> <hr/> <p>04 National rental growth
Inflation gap widens</p> <hr/> <p>06 Rents under pressure</p> <hr/> <p>08 Provincial rents
Rental growth patterns</p> <hr/> <p>14 Rent arrears
Slow and steady wins the race</p> | <p>16 Credit metrics
Gender and risk</p> <hr/> <p>22 PayProp client spotlight
How Ponelepele Realty added rentals to its business, powered by PayProp</p> <hr/> <p>26 In closing
Glimmers of hope</p> |
|--|--|

INTRODUCTION

Finish strong

I love this time of year – the weather is changing, the days are getting longer and warmer, and everyone seems a bit more cheerful. December is upon us, and we're all looking forward to a well-deserved end-of-year break.

It also means that it's time for the last issue of the PayProp Rental Index for the year! This quarter we discuss the continued slow growth in the rental market and look at updated arrears statistics.

Next, we update our analysis of the differences between men and women when it comes to credit risk, tracking how their metrics have changed over the past two years.

We also talk to Mbulelo James, founder of Ponelepele Realty in Bloemfontein, to find out how PayProp helped him build a trusted real estate agency in a formerly underserved area.

The finish line of 2021 is in sight. To quote Robin Sharma, "Starting strong is good. Finishing strong is epic." Finish strong, and we'll chat again in 2022! ■



Johette Smuts
Head of Data Analytics
PayProp South Africa

johette.smuts@payprop.co.za
[linkedin.com/in/johettesmuts](https://www.linkedin.com/in/johettesmuts)

NATIONAL RENTAL GROWTH

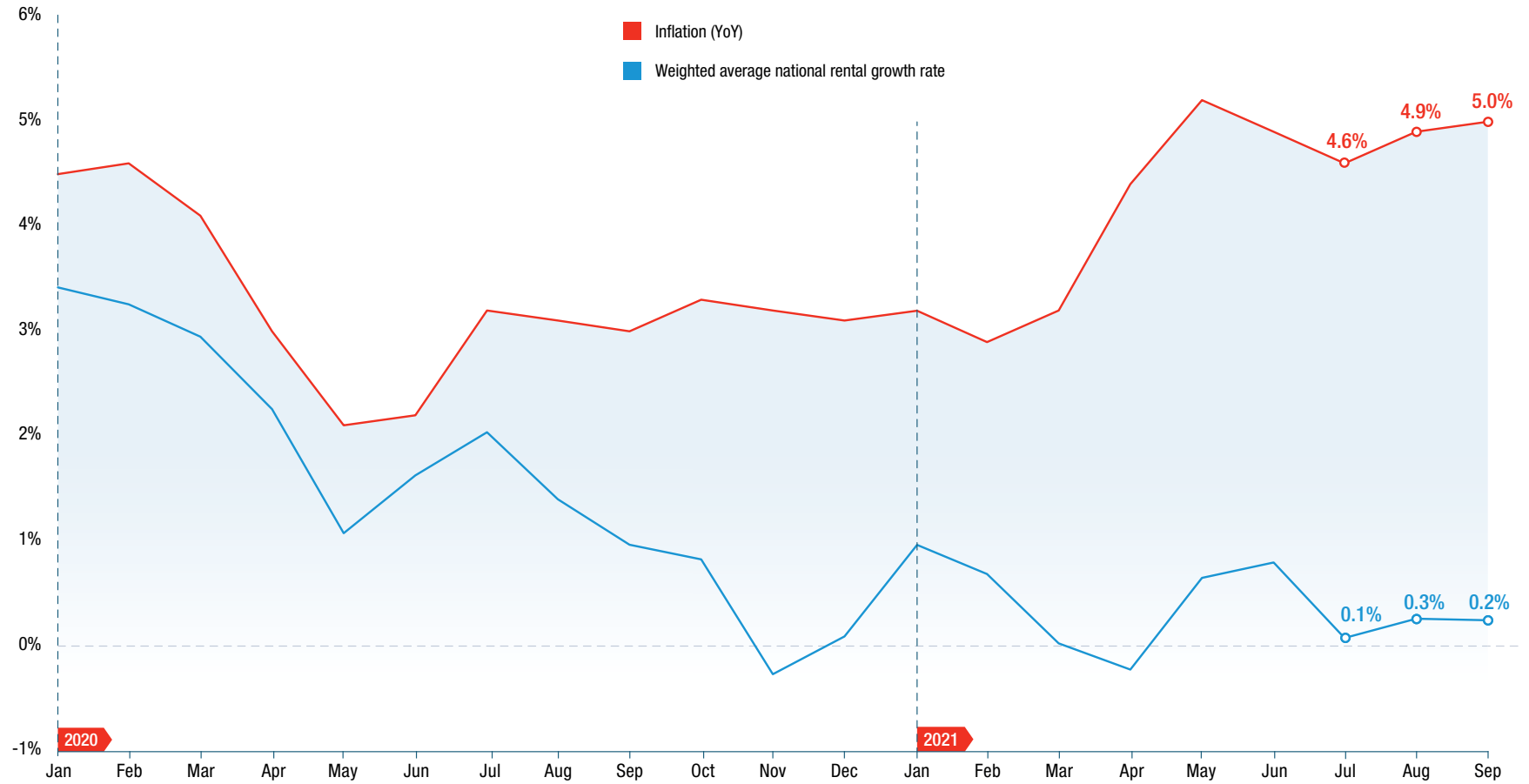
Inflation gap widens

The subdued rental growth we've seen over the last year continued into the third quarter of 2021, as predicted previously.

Year-on-year rental growth barely moved the needle, measuring 0.1%, 0.3% and 0.2% in July, August and September respectively.

Meanwhile, high levels of inflation continued during the quarter. Transport costs are a major driver of this – the price of petrol increased by almost 20% over the last year alone!

Combined low rental growth and high inflation have a double-barrel impact on rental businesses – commission income grows more slowly than costs, which leads to a drop in income in real terms. ■



Weighted average national rental growth rate (YoY) vs. inflation, Jan 20 – Sep 21
Source: PayProp

DEFINITION

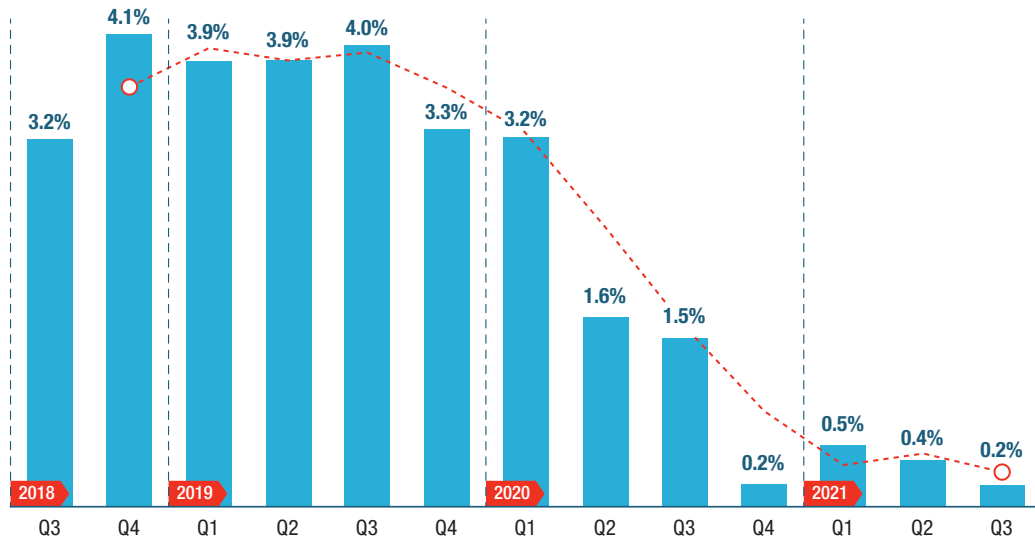
National statistics throughout the PayProp Rental Index are weighted using the provinces' contribution to GDP.

NATIONAL RENTAL GROWTH

Rents under pressure

Nationwide quarterly rental growth over the last 18 months stands in stark contrast to previous years, as the graph shows.

Tenant affordability continued to put downward pressure on rents. Add in a record-high unemployment rate and an economy that is slow to improve, and we can't foresee a recovery in the rental market anytime soon. Rent increases are likely to remain subdued over the short- and medium-term. ■



Quarterly rental growth rate (YoY) with a moving average trendline, Q3 2018 – Q3 2021
Source: PayProp

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PROVINCIAL RENTS

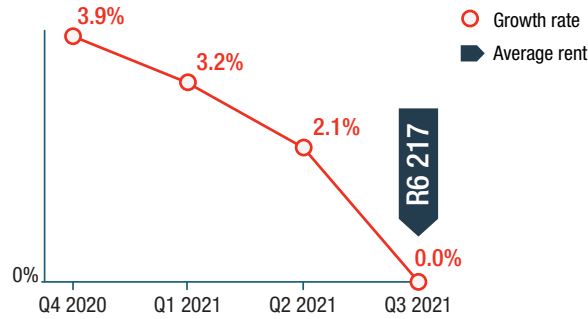
Rental growth patterns

National rental growth has been below 1% for four consecutive quarters – average rent increased by just R10 between Q3 2020 and Q3 2021. How did the provinces fare?

Eastern Cape

The Eastern Cape outpaced all other provinces in rental growth through most of 2021. It topped the leaderboard in Q4 2020 with a year-on-year increase of 3.9%, and again in Q2 2021, notching up 2.1%.

That came to an end in the latest quarter, however, when the average rent in the province remained unchanged at R6 217 – the second lowest rent after North West.

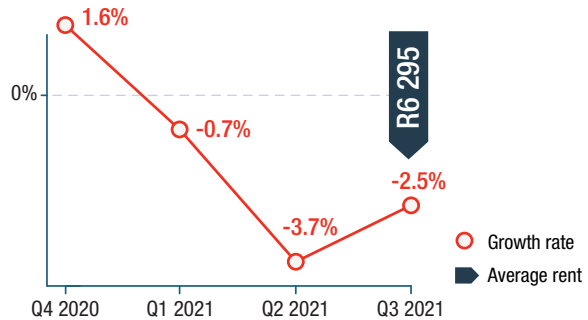


Rental growth in Eastern Cape (YoY): Q4 2020 – Q3 2021
Source: PayProp

Free State

In Q4 2020, Free State rents increased by 1.6% year on year – the second highest growth rate after the Eastern Cape. However, the province has suffered three consecutive quarters of negative rental growth since then, with rent tumbling by 2.5% in the latest quarter. This was the worst performance across all provinces.

The average rent in Q3 was R6 295, down from R6 456 the year before.

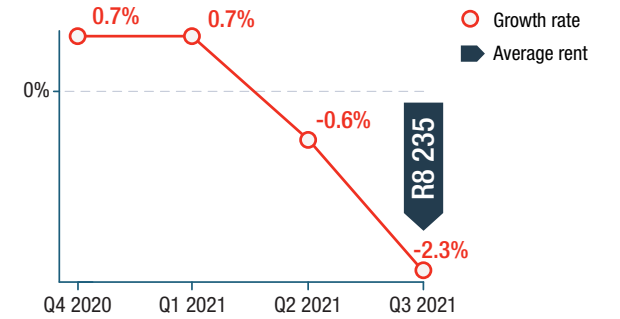


Rental growth in Free State (YoY): Q4 2020 – Q3 2021
Source: PayProp

Gauteng

Gauteng recorded its second consecutive quarter of negative rental growth with a decrease of 2.3% – the second worst performance of any province. The quarter before, rent decreased by 0.6% year on year, after two quarters in which rent increased by 0.7% each time.

The average rent in Q3 was down to R8 235 from R8 432 a year ago. While Gauteng just about remains South Africa's second most expensive province for renters, it now leads KwaZulu-Natal by only R3.

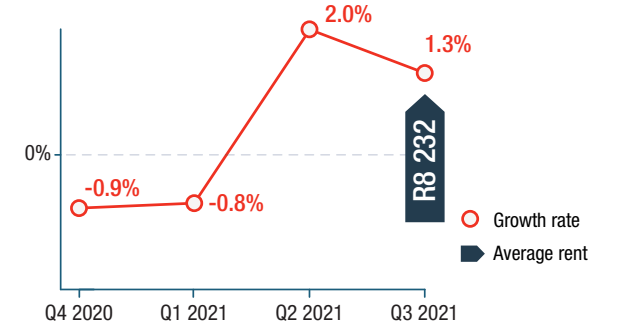


Rental growth in Gauteng (YoY): Q4 2020 – Q3 2021
Source: PayProp

KwaZulu-Natal

Rental growth in KwaZulu-Natal bounced back in Q2 and Q3 this year after two quarters of declining rent.

The average rent increased 1.3% year on year in the most recent quarter, bringing this figure to R8 232 – up from R8 123 the year before. If the rebound continues, KwaZulu-Natal could overtake Gauteng to have the second highest rents in South Africa next quarter.

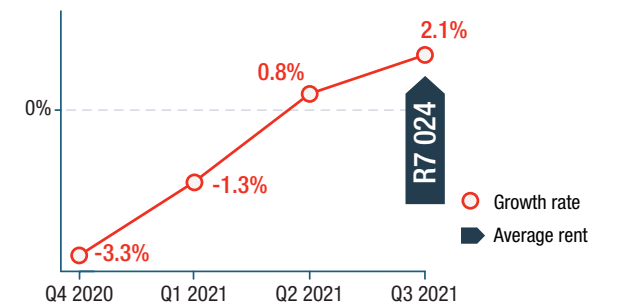


Rental growth in KwaZulu-Natal (YoY): Q4 2020 – Q3 2021
Source: PayProp

Limpopo

Limpopo clocked a second quarter of positive rental growth after a three-year slump that ended in Q2 2021.

The average rent in the province increased by 2.1% in the most recent quarter to R7 024 – up from R6 881 the year before.

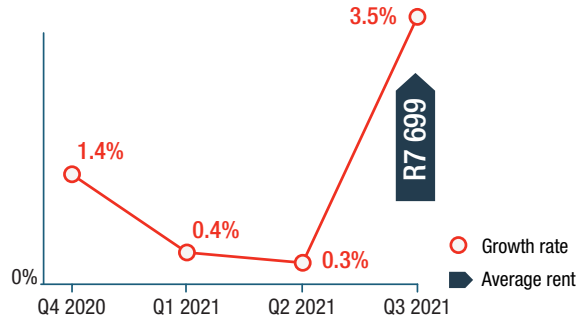


Rental growth in Limpopo (YoY): Q4 2020 – Q3 2021
Source: PayProp

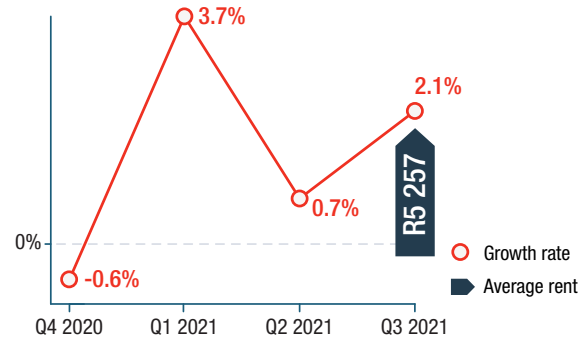
Mpumalanga

A round of applause for Mpumalanga, the only province to experience positive year-on-year rental growth in each of the past four quarters. It also enjoyed the fastest rental growth of any province in the most recent quarter.

In Q3, average rents increased by 3.5%, up R257 from R7 442 to R7 699. Rent is now just R101 cheaper in this province than the national average of R7 800.



Rental growth in Mpumalanga (YoY): Q4 2020 – Q3 2021
Source: PayProp



Rental growth in North West (YoY): Q4 2020 – Q3 2021
Source: PayProp

North West

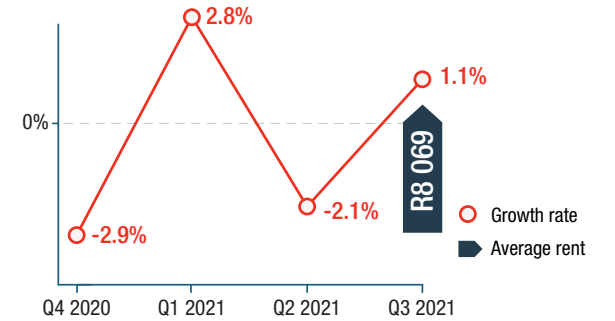
North West has not seen rents fall since Q4 2020. In the two following quarters rents increased year on year by 3.7% and 0.7% respectively. Q1 2021's 3.7% was the highest out of all the provinces.

In the most recent quarter, rental growth measured 2.1%. Average rents reached R5 257 in Q3 2021, up from R5 147. However, the province still has the lowest average rent in the country.

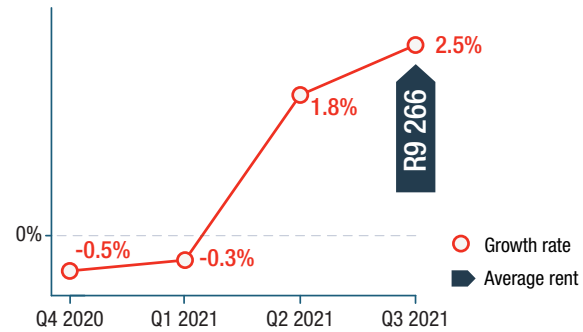
Northern Cape

The Northern Cape experienced a few more ups and downs than most provinces over the past year. Rents increased by 1.1% in the most recent quarter after negative year-on-year growth the quarter before.

The average rent in the province stood at R8 069 in Q3 2021, up from R7 979 the year before and still above the national average of R7 800.



Rental growth in Northern Cape (YoY): Q4 2020 – Q3 2021
Source: PayProp



Rental growth in Western Cape (YoY): Q4 2020 – Q3 2021
Source: PayProp

Western Cape

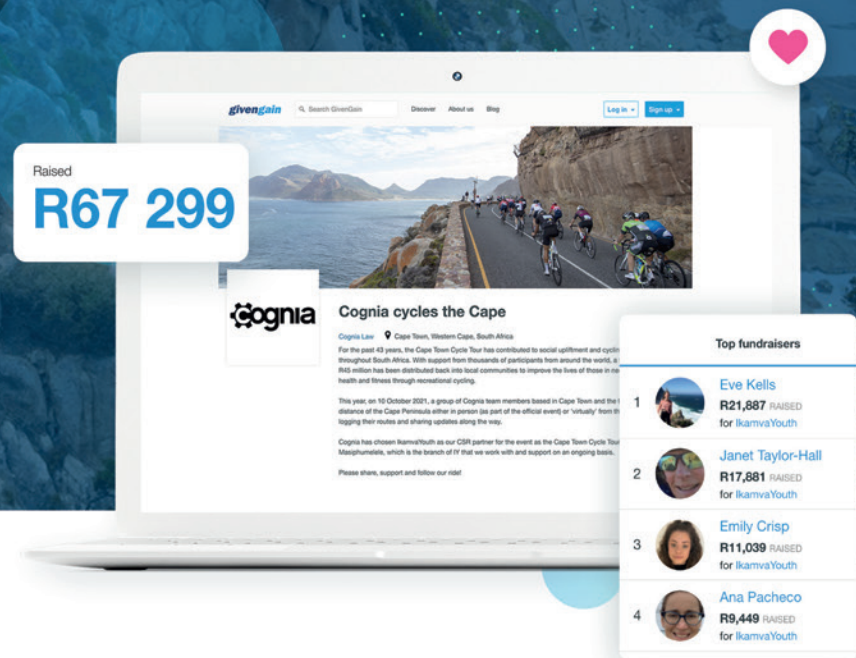
The Western Cape had Q3's second-highest rental growth after Mpumalanga, at 2.5%. Before the 1.8% year-on-year increase seen in Q2 2021, the province had experienced four consecutive quarters of negative rental growth.

Average rent in the province increased from R9 041 a year ago to R9 266 in the most recent quarter. It is still the most expensive province in which to rent.

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RENT ARREARS

Slow and steady wins the race

The start of the pandemic devastated the South African economy, impacting businesses and consumers alike. Many tenants experienced a loss of income, whether temporarily or through permanent job loss, and the effects of this can be seen in our arrears figures.

WE CONSIDER TWO ARREARS METRICS:

Both are weighted according to provinces' contribution to GDP.

- 1) The **percentage of tenants in arrears** records the number of tenants in arrears as a percentage of the total number of tenants.
- 2) The **average arrears percentage** is the average amount owed by tenants in arrears as a percentage of the average rent. An average arrears percentage of 80% therefore means that on average, a tenant in arrears owes 80% of one month's rent.

The percentage of tenants in arrears has been improving steadily since it peaked in Q2 2020. In fact, in Q3 2021, it was down to 19.1% – lower than before lockdown!

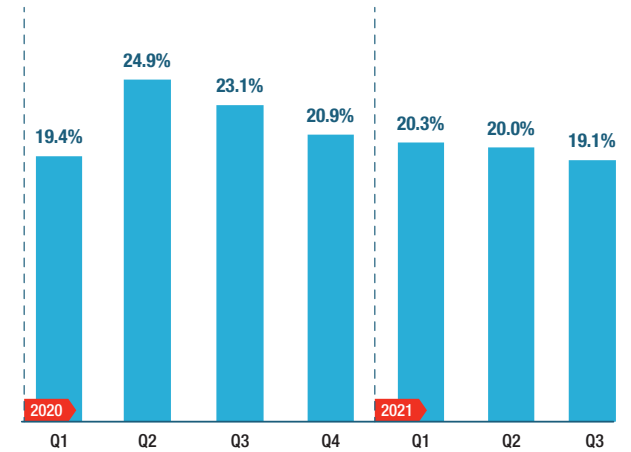


Tenants in arrears

The loss of income that many tenants experienced at the beginning of lockdown caused the percentage of tenants in arrears to increase from 19.4% in the first quarter of 2020 to 24.9% in the second.

Fortunately, many of these tenants were able to return to work from June and resumed their rental payments.

Accordingly, the percentage of tenants in arrears has been declining steadily since it peaked in Q2 2020. In fact, in Q3 2021, it was down to 19.1% – lower than before lockdown!



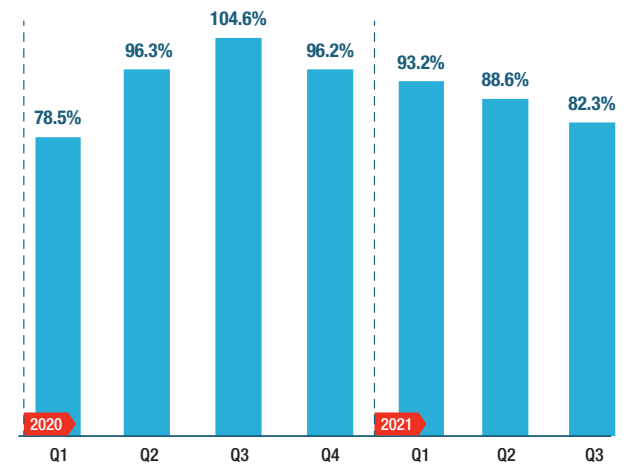
Percentage of tenants in arrears: Q1 2020 to present
Source: PayProp

Average arrears

For tenants in arrears, the average arrears percentage has also declined each quarter since its peak in the third quarter of 2020. In Q1 last year, tenants in arrears owed on average 78.5% of one month's rent. That increased to 96.3% in Q2 (the first quarter in lockdown) and further to 104.6% in Q3.

For this metric to improve, tenants in arrears have had to pay their full rent plus an additional amount towards their debt each month – not an easy feat in the current economic climate. For this reason, the average size of arrears appears a bit more stubborn in coming down.

In the most recent quarter, tenants in arrears owed on average 82.3% of one month's rent – still slightly above the 78.5% seen before the pandemic. However, the improvement in this metric over the past year is encouraging.



Average arrears percentage: Q1 2020 to present
Source: PayProp

CREDIT METRICS

Gender and risk

Author and cartoonist Ashleigh Brilliant once said, “There are no important differences between men and women, but the unimportant ones are sometimes very interesting.”

For us rental professionals, of course, credit metrics are both important and interesting – and it turns out there are still big differences in how male and female tenants earn and spend. We take a look at those below, and highlight changes in the metrics over the last two years.

CREDIT METRICS

For our calculations we consider **net monthly income**, i.e. the amount that gets paid into a tenant’s bank account each month. This number is provided by rental agents.

The analysis takes into account credit checks done via PayProp during each quarter, and represents a sample of rental applicants who are not necessarily existing tenants or successful applicants. However, we refer to all applicants as ‘tenants’ throughout the analysis.

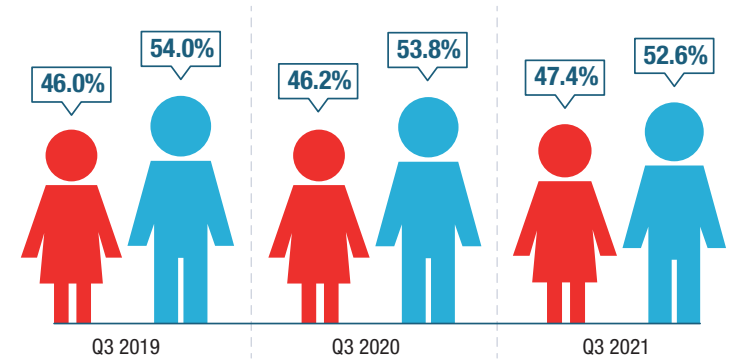


It turns out there are still big differences in how male and female tenants earn and spend.



Tenant split

In the most recent quarter, just under half of applicants (47.4%) were female. This is slightly higher than the figure seen in the same quarter two years ago, which was 46%.

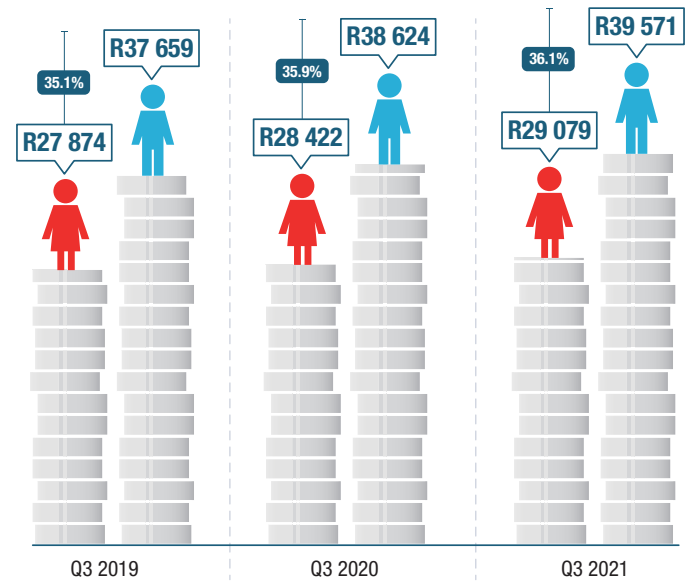


Percentage of tenancy applicants by gender: 2019 to present
Source: PayProp

Income

In Q3 2021, men earned over R10 000 more per month than women on average, a difference equal to 36.1% of the average female salary. Women earned just over R29 000, while men brought home over R39 500 per month.

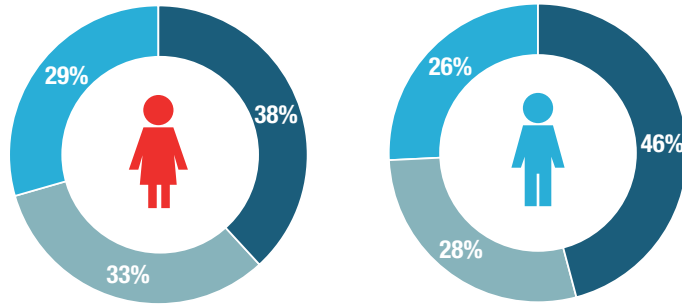
Both genders have seen their incomes increase over the last two years, but this may not have done much to improve affordability. In the last year, men’s income grew by 2.5% and women’s by 2.3% – higher than rental growth, but still below inflation.



Female vs. male applicant income: 2019 to present
Source: PayProp

Income breakdown

Not only do men and women earn different amounts, they spend their money differently too.



Income breakdown by gender: Q3 2021
Source: PayProp

■ Debt-to-income ratio
■ Rent-to-income ratio
■ Disposable income

Debt

In the most recent quarter, women spent 38% of their income on debt repayments (including cellphone payments, insurance, etc.). This is significantly lower than the 44.1% this cohort spent on debt in 2019 – no doubt due in part to falling interest rates.

In contrast, men spent 46.1% of their income on debt repayments in Q3 2021 – not much lower than the 47.2% seen two years ago. In rand terms, men spent over R7 000 per month more than women on debt repayments in the most recent quarter.

Rent

Women spent 32.5% of their income on rent in Q3 2021, while men spent 28.3%, and this hasn't changed much over the past two years. Women might spend a larger percentage of their income because they earn less.

Women spent **38.0%** of their **income on debt** repayments in Q3 2021

Men spent **46.1%** of their **income on debt** repayments in Q3 2021

Women spent **32.5%** of their **income on rent** payments in Q3 2021

Men spent **28.3%** of their **income on rent** payments in Q3 2021

Women had **29.5%** of their **income left** after debt and rent payments

Men had **25.6%** of their **income left** after debt and rent payments

Disposable income

After debt and rent payments, women had 29.5% of their income left in the most recent quarter of 2021, compared to men's 25.6%.

Since women spent substantially less on debt repayments now than 2 years ago, their disposable income increased from 23.3% in Q3 2019. Men also saw a slight increase in their disposable income, which was 24.8% in Q3 2019. In rand terms, however, men had more income left over – R10 139, compared to women's R8 572.

DEFINITIONS

Disposable income = income - debt repayment - rent payment

Accounts and enquiries

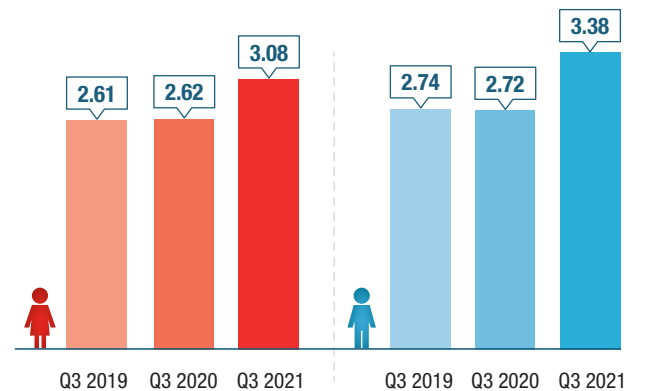
There has been a slight decrease in both the average number of CPA and NLR accounts over the last two years for both genders, and the number of accounts does not differ significantly between men and women.

However, we've seen an increase in the number of credit enquiries for both men and women in the last year. This means that tenants are applying for more credit, which could mean that they are struggling to make ends meet on their current income – certainly plausible in the current economic climate.

DEFINITIONS

Credit Provider Association (CPA) accounts include insurance policies, cellphone contracts, retail store accounts and vehicle finance agreements. These are the types of account you can reasonably expect someone to have, and are hence seen as 'good debt'.

National Loan Register (NLR) accounts, on the other hand, are not a welcome sight on credit reports. These include short-term loans from micro-lenders, usually with very high interest rates, and are seen as 'bad debt'.



Number of credit enquiries by gender: 2019 to present
Source: PayProp

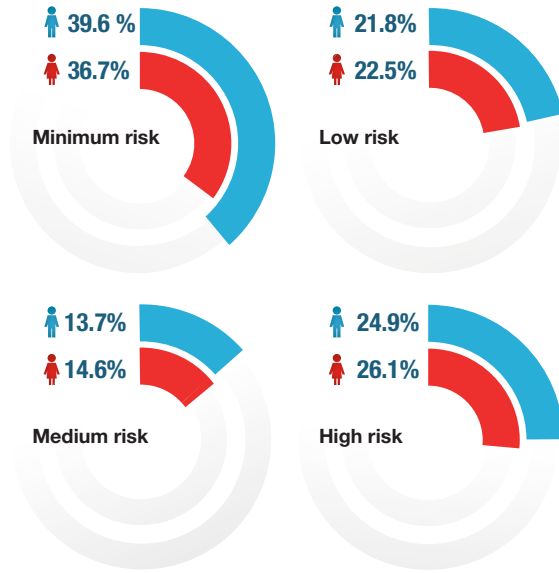
Default risk

There are only slight differences when it comes to the risk profiles of the two genders.

In the most recent quarter, 24.9% of male applicants were classified as high risk, compared to 26.1% of female applicants. This was slightly lower than in 2019, when 25.2% of men and 26.5% of women were classified thus.

Only 17.4% of women and 17.9% of men had a major delinquency against their name in Q3 2021.

At the low-risk end, 39.6% of men and 36.7% of women fell in the minimum risk category during the most recent quarter.



% tenants per risk category by gender: Q3 2021
Source: PayProp



Conclusion

As we can see, the biggest differences between male and female tenants are in their incomes, and the way in which their incomes are spent. However, both men and women have similar levels of risk. ■

ADVICE

Credit checks are a necessary step when vetting tenants, but they don't reveal all potential risk factors. Each tenant should be vetted thoroughly using a combination of credit checks, references, proof of income and spending habits.

PAYPROP STATE OF THE RENTAL INDUSTRY SURVEY

Take part in the 2021 survey



Your input will help us gauge the industry's perception of the rental market, and it won't even take 10 minutes of your time.

[Complete survey](#)

The survey closes on 10 December.



 CLIENT SPOTLIGHT

How Ponelepe Realty added rentals to its business, powered by PayProp



Bloemfontein

2018
Joined PayProp

An interview with



Mbulelo James
Principal

Ten years ago, Mbulelo James was just starting out at the very bottom of the real estate industry. Today, he is the Principal at Ponelepe Realty, responsible for a rapidly expanding list of rental properties supporting a thriving real estate sales business.

And much of that is thanks to PayProp, Ponelepe Realty's rental business in a box.

"I started in real estate as an intern in 2010, which is where my interest in the industry started," he says. "I did all the board exams and ultimately registered as a principal to start my own agency in 2015."

Mbulelo's experience working for other agents did a lot to shape Ponelepe Realty. He still has the same drive to learn new things: in addition to the time he invests in building his business, he is also doing a Master's in maintenance management and studying property valuation.

More than that, it also showed him some of the areas where other rental agencies were falling short of the standard he wanted to set.

"Honesty was a big one," he explains. "There were certain companies that didn't do things in a good way. I talked to owners who complained that there was no transparency or there was financial mismanagement. Some wanted to manage their own portfolios because of that."

So when Mbulelo opened his business, he did so with a clear goal in mind: to build a professional real estate agency that landlords and tenants could

trust to look after their best interests. The name Ponelepe even means "to have vision".

Earning trust with transparency

Overcoming the trust gap in the industry was Mbulelo's biggest concern when launching the rental side of his real estate business. He knew that he would have an uphill battle to prove to sceptical local landlords that he would look after their investments well.

"I was a bit worried about how we could help our clients to feel comfortable that we were handling their money correctly," he says.

Fortunately, a solution soon presented itself. Mbulelo's first contact with PayProp came when a sales representative visited his newly-opened office in Bloemfontein. After talking it through, he quickly realised that its tech-enabled transparency was exactly what he needed to sign property investors up as clients. On top of that, he knew he could rely on a market-leading rental payment platform with a long record of exceptional customer care.

Leading edge innovations ensure all sorts of benefits over other platforms, including real-time visibility of the financial position on any property or the entire portfolio. PayProp is directly integrated into the South African banking system, allowing agents and even landlords to check in on the financial position of their properties in real time – either through the Web portal or via the PayProp Owner app.

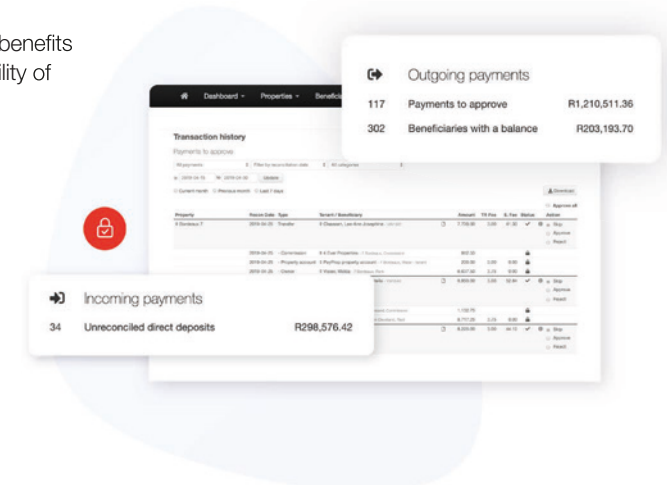
To back up this clarity and visibility, PayProp offers iron-clad access control and a permanent, unalterable log of all transactions. "When I looked at the level of owner access with PayProp, it spoke to our vision as a company in terms of running things in a transparent way and winning trust," says Mbulelo.

"I like the automated payments that exhibit on the system, the bank integration and the automated communication."

Backed by the best property technology, his efforts to build bridges with local investors have earned the best possible vote of confidence: signups. Ponelepe Realty now looks after a large and diverse portfolio of residential rentals, plus sectional titles and commercial properties.

In fact, some of them belong to Mbulelo himself – and he couldn't be happier with the service he receives as a landlord.

"It's really awesome. I manage my own portfolio through the system and I can always check if things are going according to plan."



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Your client account balances are live and 100% accurate.

PORTFOLIO OVERVIEW

Detailed dashboards show the properties under your management, money flows, high-risk tenants and much more in one place.



Day-to-day admin savings

With PayProp handling the admin automatically, Mbulelo has had room to focus on the overall growth and direction of his business. Nowadays he mostly uses the platform to get a bird's eye view of Ponelepe Realty's fast-growing rental portfolio at the end of the month, confident that his team has the tech-enabled superpowers to handle the day-to-day admin.

Mbulelo describes PayProp as a three-way catalyst that made it possible to grow the business fast through automation, handing over much of the work to the team thanks to its ease of use, and getting the work done more quickly. The magic ingredient is of course PayProp's bank integration, which allows it to intelligently automate the core financial side of a rental business – rent collection, reconciliation, distribution, client communication and portfolio reporting.

It couldn't be easier to add a healthy stream of recurring revenue!

"Because of the growth we've experienced since signing up with PayProp, we hired a financial manager to run the system."

"I'm no longer running the show in terms of payment administration, so I can focus on the people side of the business. I just get the reports at month-end to check how we are performing."

"At the end of the month, the first thing I normally look at is our arrears status. After that, it's all about our overall performance – how are we growing as a business?"

Growing wider and deeper

Ponelepe Realty initially brought in PayProp to solve the problem of transparency, but the system is also enabling them to achieve longer-term goals with administrative time savings and the ability to work from anywhere.

"As a business we have our five-year and 10-year plans, but when COVID-19 hit, acceleration kicked in. Some of the things we said we would do in the future, we are actually doing right now."

Part of that plan is geographical expansion. Because PayProp is Web-based, users can work on the platform from any device with a browser.

Not only did this make it easy for rental agents to work remotely during the pandemic, clients also got more comfortable with remote communication. For the first time, Ponelepe Realty has started taking on properties outside the Free State.

"We hope that we will soon be able to have satellite offices in other provinces," says Mbulelo. "Who knows, maybe we'll even manage internationally in a couple of years."

As well as extending their reach, Mbulelo and the Ponelepe Realty team are also expanding the range of services they offer – using the power of PropTech and the time they saved on admin to deliver greater value for clients.

"We're increasing the momentum in terms of making sure that most of our processes are digital – right now we're working on a way to do inspections remotely. We already have an in-house debt collector who uses PayProp to keep track of arrears well in advance."

Since PayProp opened up its API to clients and third-party platforms in 2021, building integrated PropTech systems has been easier than ever. The API is available on request to any PayProp-using agency, allowing them to access and interact with platform data directly from other apps and save even more time on admin. PayProp also has

pre-existing integrations with other leading market suppliers including e-mail platform Mailchimp and maintenance software Fixflo.

Vision accomplished

For Mbulelo, setting up Ponelepe Realty was never just about growth – although with PayProp handling time-consuming admin, he has achieved plenty of that. From the beginning, he wanted to do rental management the right way, with security and transparency for property owners. On that score, he couldn't be happier with PayProp.

"PayProp absolutely exceeded our expectations, most of the rental management platforms out there leave some gaps in terms of transparency and accurate financial management, but PayProp talks directly to our vision. Between the owner access, the automated communication and the assistance with bookkeeping, I think the functionality is excellent."



Mbulelo James
founder and CEO



INTEGRATIONS

Connect with and share data from our platform with the tools and apps your business relies on, saving you time and reducing human error.

IN CLOSING

Glimmers of hope

Unsurprisingly, rental growth is still under pressure. The main factors behind this – affordability on the demand side and a sluggish economy – won't change in the short- to medium-term, and we expect to see low rental growth continue nationally.

On a positive note, only two out of the nine provinces saw average rent levels decline this quarter, compared to four provinces a year ago, and five in the last quarter of 2020.

Arrears continued to improve, and there is now a smaller percentage of tenants in arrears than in the first quarter of 2020, just before lockdown was first announced.

And finally, while income differences between men and women still exist, their credit risk profiles are almost identical, and haven't deteriorated over the past two years. Over a third of both genders fall into the lowest risk category. ■

Only two out of the nine provinces saw average rent levels decline this quarter.

Q3 2021

PayProp Rental Index

The PayProp Rental Index is a quarterly guide outlining trends in the South African residential rental market and is compiled from transactional data collected by PayProp, the largest processor of residential rental transactions in South Africa.

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Contact details

For all business and media enquiries, please contact:

Johette Smuts
Head of Data Analytics
E-mail: johette.smuts@payprop.co.za
Tel: 087 820 7368

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087 820 7368

support@payprop.co.za

www.payprop.co.za

