

RENTAL INDEX

QUARTERLY SOUTH AFRICAN RESIDENTIAL RENTAL MARKET DATA

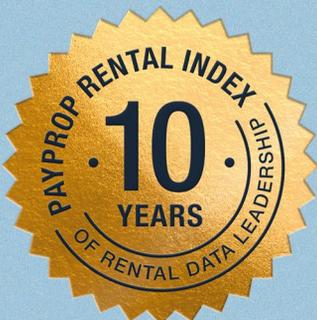
ANNUAL MARKET REPORT 2021

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A brighter outlook for 2022?

Gauteng bumped off the winners' podium

Consumers, watch your spending!



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A brighter 2022





ROADSHOW

2022

We're excited to announce that live, in-person PayProp events are making a comeback this year!

We've missed connecting face-to-face and we've got lots of exciting updates to share with you.

By **registering your interest now**, you'll receive an early access invitation to the PayProp Roadshow 2022.

Register your interest

discover.payprop.com/sa-roadshow-2022



INTRODUCTION

Twenty-twenty-D0

2021 has come and gone. After a tumultuous 12 months, we can only hope that the new year will bring more stability.

In this new year, we'll likely see more glimpses of recovery in the rental market as the economy begins to restabilise after the hard hits caused by the pandemic.

But before we focus on the future, we need to discuss last year's rental data. In this annual Market Report we focus on rent, rental growth, arrears and credit metrics for each province as well as the respective national averages.

We include some photos from one of our own 2021 highlights, the inaugural PayProp Awards that took place in June.

This year also marks the 10th anniversary of the PayProp Rental Index. We're proud to celebrate a decade of data leadership in the rental space and look forward to taking the publication to new heights over the next 10 years.

For now, sit back, relax and enjoy this issue. Then go and conquer 2022! ■



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NATIONAL RENTAL GROWTH

Rent vs inflation

The rental growth over the last quarter of 2021 was promising compared to the rest of the year. In December, the average rent increased by 1.5% year on year (YoY) – the fastest rise since July 2020. Rental growth of 0.3% and 0.6% was recorded in October and November respectively.

Inflation continued to climb in Q4, peaking at 5.9%. This was a far cry from the 3.2% seen in January, and very near the top end of the South African Reserve Bank's 3-6% inflation target.

Much of the sustained rise in prices is due to increasing input costs being passed on to consumers. Forecast interest rate increases could help to slow down inflation to an extent, but they will do little to address the underlying factors – or to reduce the financial pressure on consumers. ■

DEFINITION



To prevent the geographical distribution of PayProp clients from skewing our national figures, we weight them using each province's contribution to GDP.



Weighted average national rental growth rate (YoY) vs. inflation, 2020-2021
Source: Stats SA and PayProp

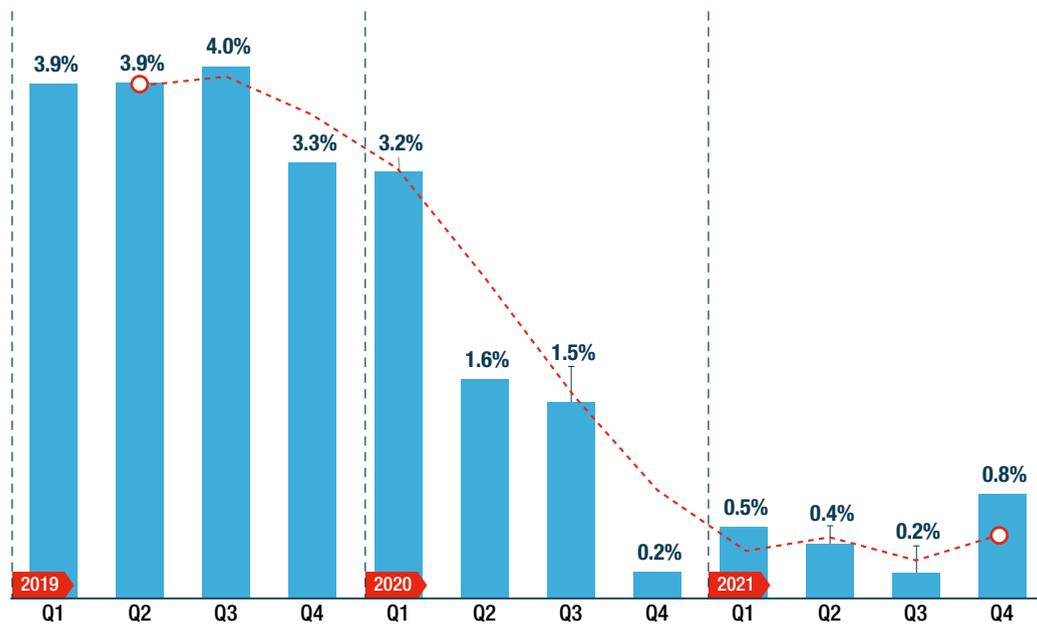
NATIONAL RENTAL GROWTH

Q4 rebound

Quarterly rental growth statistics reveal a clear upward movement in Q4. The average rent increased by 0.8% year on year, from R7 854 per month in Q4 2020 to R7 906 in Q4 2021.

Granted, an increase of R52 per month doesn't seem like a lot, but the uptick is nevertheless a positive sign.

However, with high levels of inflation and a slow economic recovery, tenants remain financially strained. We will most likely not see rents increasing at 2019 rates anytime soon, but a rebound could be on the cards for 2022. ■

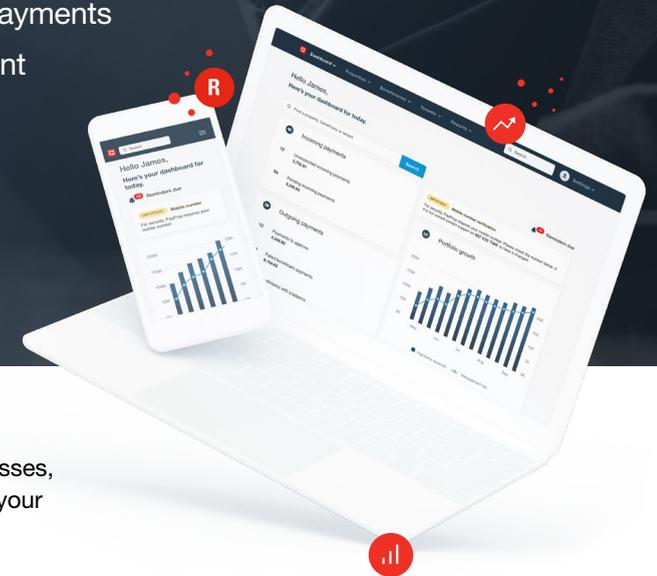


Quarterly rental growth rate (YoY) with a moving average trendline, 2019 to 2021
Source: PayProp

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Freeing up your rental agency for more.

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- ✓ Real time rental management
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- ✓ Real time security



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RENT AND THE REPO RATE

Correlated movements

During the early months of the pandemic, the South African Reserve Bank (SARB) dramatically lowered the repo rate to stimulate the stalling economy.

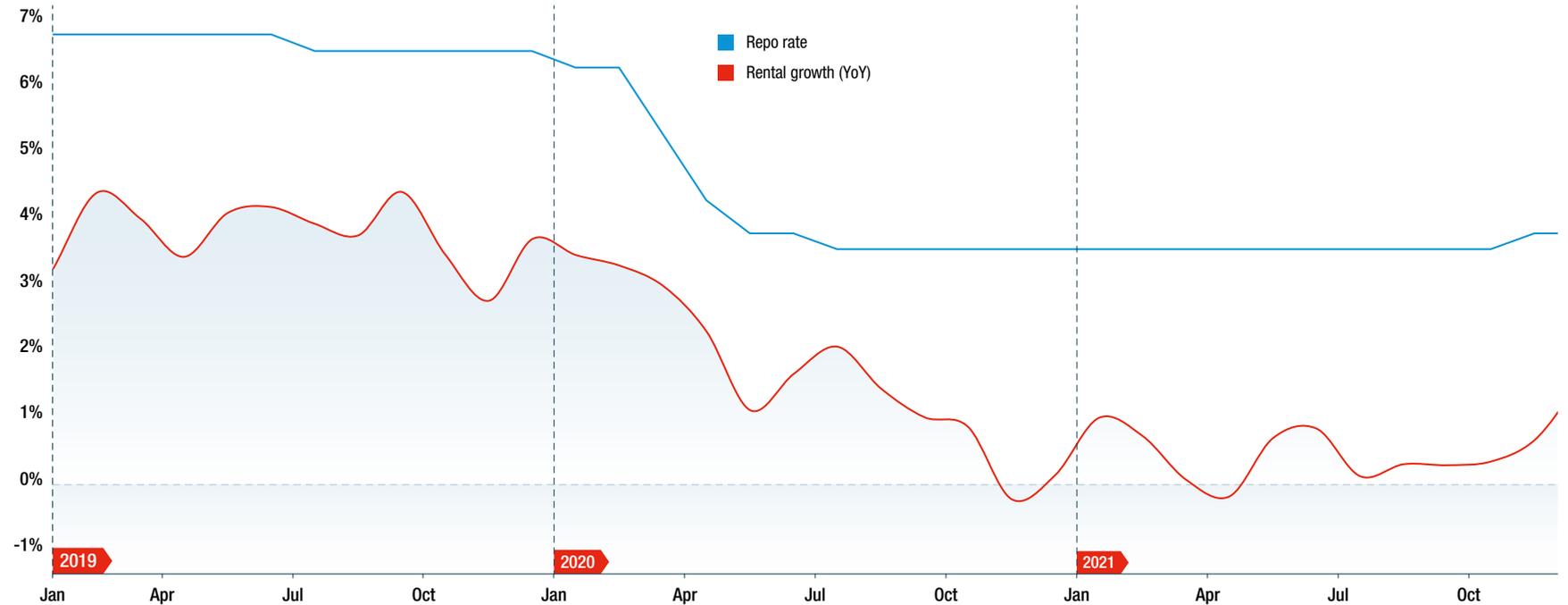
Back in February of 2020, the repo rate was flying high at 6.25%. But by the end of July – five months and four rate adjustments later – it sat at 3.5%, the lowest it has been in decades. Following suit, the prime lending rate changed from 9.75% to 7% over the same period. ■

DEFINITION

Prime rate = repo rate (%) + 3.5%

Why is this important?

The repo rate affects many aspects of the economy, such as exchange rates and money supply. Ultimately, the aim of lowering the interest rate was to increase spending to counteract the negative economic impact of the pandemic. The lower rate meant it was cheaper to borrow money, which incentivised consumers and investors to borrow and spend more.



Repo rate and YoY rental growth, 2019 to 2021
PayProp, South African Reserve Bank

But such a tactic can drive up prices, causing inflation to rise. To curb this, central banks often raise interest rates again, as prolonged high levels of inflation can have a negative impact on the economy. For this and other reasons, the SARB chose November to announce its first interest rate hike since before the pandemic. It is widely expected that interest rates will continue to rise in small increments throughout 2022 and beyond.

But as mentioned before, much of the country's high inflation has been due to high input costs being passed on to the consumer. In such cases, a higher interest rate might not be as effective in curbing inflation.

How might a higher repo rate affect rental growth?

To answer this, we plotted the rental growth rate against the repo rate over the last three years and calculated the correlation between the two.

DEFINITION

Correlation measures the interdependence between two variables. A positive correlation (between 0 and 1) means that they tend to move in the same direction. A correlation of zero means that there is no relationship. A negative correlation (between 0 and -1) means that they tend to move in opposite directions.

For each of the three years individually (in the graph above), we see positive correlations ranging from 0.23 (in 2019) to 0.84 (in 2020). However, the calculation over the full three-year period yields a figure of 0.94, indicating a very strong correlation between the repo rate and rental growth over the period, which confirms the 'gut feel' we get when looking at the graph above.

What does this mean for the rental market?

It is easy to conclude from such a strong correlation that one variable causes the other or vice versa. This is not true – economics is never that simple! It is more likely that the same underlying factors cause both rent increases and interest rate hikes. Either way, the strong correlation indicates that we could see a rebound in the rental growth rate if the repo rate increases in 2022 and beyond. ■

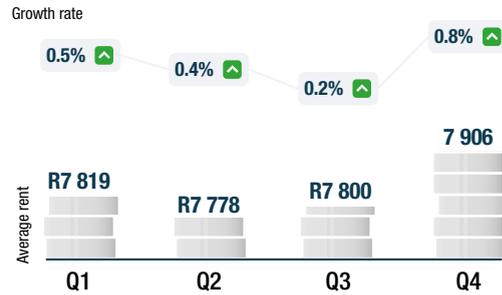
2021 IN REVIEW

The national picture

In this section, we examine the average rent, rental growth and arrears metrics for the country as a whole throughout 2021. We also take a look at the credit metrics of prospective tenants over the four quarters.

Rent and rental growth

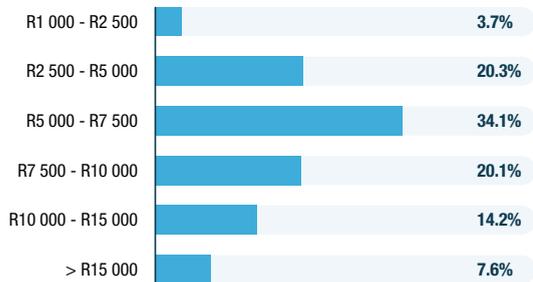
As mentioned before, rents increased by 0.8% year on year during the last quarter of 2021 to end Q4 at R7 906 – an increase of R52 over the year before.



National average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

In Q4 2021, more than a third of properties managed by PayProp-powered agencies fell within the R5 000 - R7 500 price range and just over 20% fell within the R2 500 - R5 000 and R7 500 - R10 000 brackets, respectively.



National rent distribution, Q4 2021
Source: PayProp

Damage deposit ratio

The average damage deposit ratio was 1.25 in the last quarter of 2021. Historically, this ratio has been very stable, ranging between 1.25 and 1.29 over the last four years. Provincially, it also tends to be quite static.



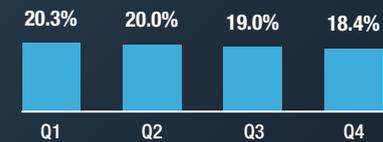
At the end of 2021, only 18.4% of tenants were in arrears – even lower than the pre-pandemic level of 19.4% seen in Q1 2020.

Arrears

In 2021, both arrears metrics showed consistent improvement, dropping to more “normal” rates after peaking in the middle of 2020. (The increase in 2020 was, of course, the result of the lockdown.)

At the end of 2021, only 18.4% of tenants were in arrears – even lower than the pre-pandemic level of 19.4% seen in Q1 2020.

The average arrears percentage also improved during the year, except for a slight increase in Q4 – a situation mirrored in several provinces. A possible explanation could be that tenants withheld some of their December rent to spend during the festive season. This metric measured 82.7% in Q4, still above the 78.5% seen in Q1 2020.



National percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp

ARREARS METRICS

We consider two arrears metrics:

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 expresses the average amount of arrears owed 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.



National average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp



CREDIT METRICS



For our calculations we consider net monthly income, i.e. the salary reported by rental agents as being paid into a tenant's bank account each month. This is captured 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, and we assume that this sample is reflective of the tenant pool.

All credit checks are provided by Experian, PayProp's credit bureau partner.

Income, spending and credit risk

Income

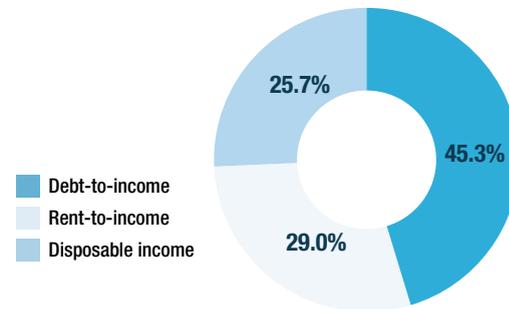
The average income for Q4 2021 was R34 812, up 0.8% from the same quarter the previous year. While any increase in income is welcome for employees across South Africa, when measured against inflation (5.9% in Q4 2021) it means the average worker has seen their purchasing power shrink.

Spending

Nationally, tenants spent 45.3% of their income on debt repayments in Q4 2021, up from 40% the year before. A further 29% was spent on rent, in line with the position the year before. Overall, this left tenants with 25.7% of their take-home pay as disposable income to cover everyday expenses, down from 30.9% the year before – largely due to increased spending on debt repayments.

Consumers would also be well advised to look out for the effects of the interest rate.

The lower interest rate might have given tenants a false sense of financial optimism. With the lower cost of credit, it might be that the increase in the debt-to-income ratio is due to tenants taking on more debt – something that could soon prove problematic in the rising interest rate environment. Tenants might see their disposable income dwindle as servicing their debt becomes more expensive.

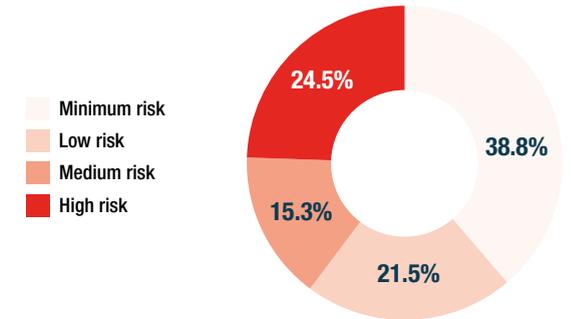


National share of income spent on debt and rent, Q4 2021
Source: PayProp

Credit risk

Almost a quarter of tenants were labelled as high-risk during the last quarter of the year, slightly better than 25.8% of the year before. 38.8% of tenants fell in the minimum risk category, with another 21.5% classified as low-risk.

The average credit score improved by one point between Q4 2020 and Q4 2021, from 645 to 646.

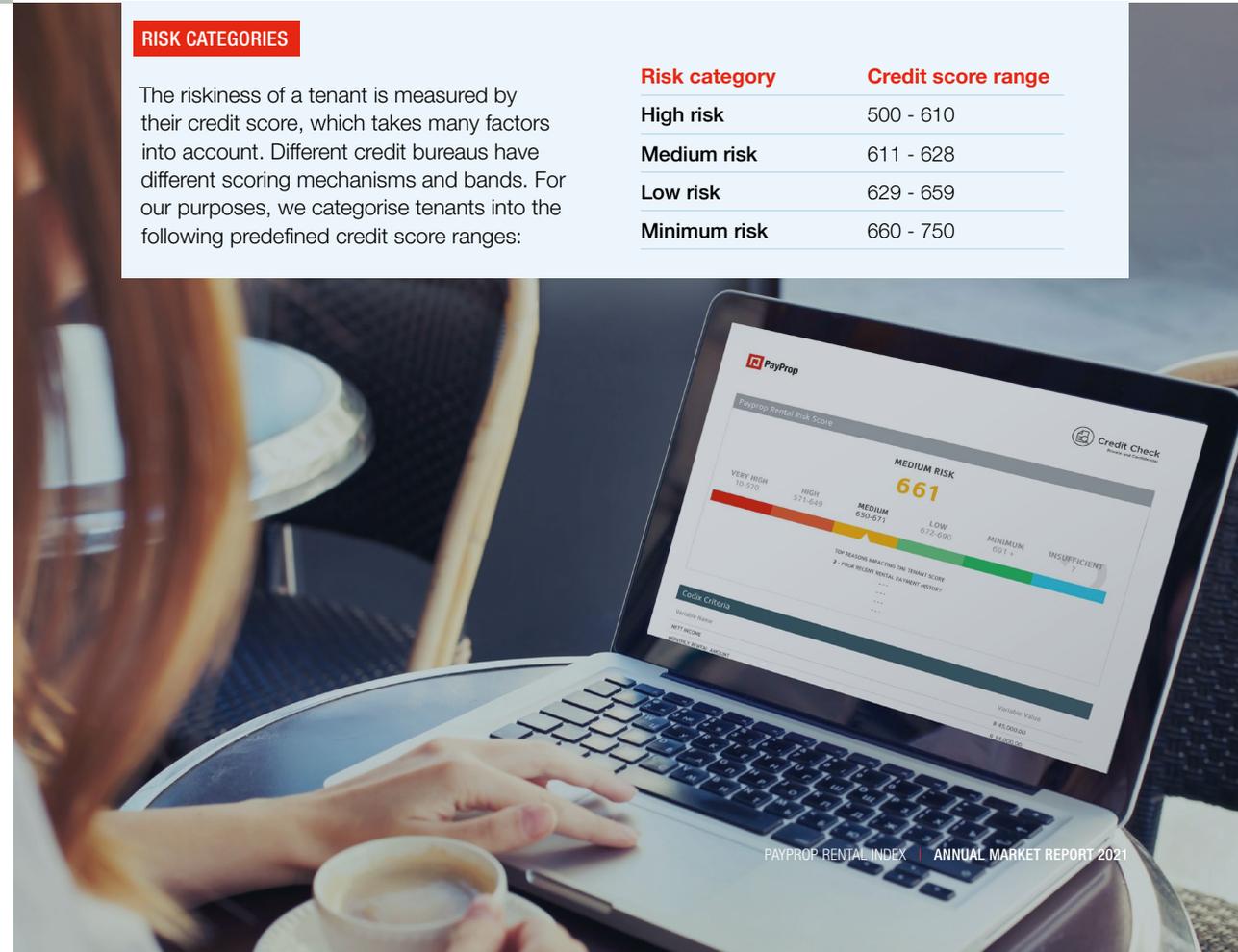


National credit risk distribution, Q4 2021
Source: PayProp

RISK CATEGORIES

The riskiness of a tenant is measured by their credit score, which takes many factors into account. Different credit bureaus have different scoring mechanisms and bands. For our purposes, we categorise tenants into the following predefined credit score ranges:

Risk category	Credit score range
High risk	500 - 610
Medium risk	611 - 628
Low risk	629 - 659
Minimum risk	660 - 750



PROVINCIAL STATISTICS

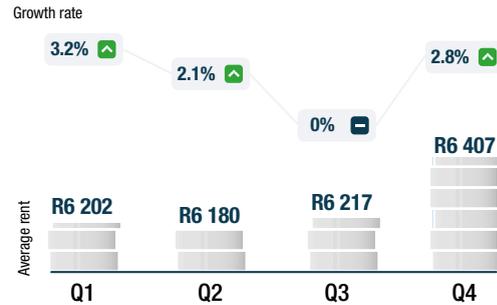
Eastern Cape



Rent and rental growth

The average rent in the Eastern Cape increased by 2.8% between Q4 2020 and Q4 2021, outperforming, as it did in Q1 and Q2, the national average (0.8%).

Nevertheless, the average rent in the area was still just R6 407 at the end of 2021 – the second lowest after the North West.

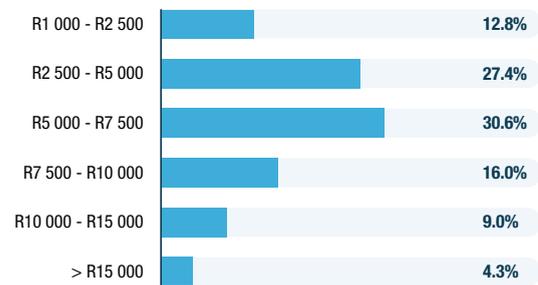


Eastern Cape average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

The Eastern Cape houses the country's highest percentage of tenants renting for R1 000 to R2 500 pm. One in eight rentals in the province falls within this price bracket, and nationally, more than a third of all rentals managed through PayProp in this price bracket are in the Eastern Cape.

As is the case nationally, the R5 000 to R7 500 price range is the most populous in the province, with 3 in 10 rentals falling in this bracket.



Eastern Cape rent distribution, Q4 2021
Source: PayProp

Damage deposits

The average damage deposit ratio in the province was 1.4, meaning that agents hold on average 1.4 times the monthly rental amount in tenant deposits. This was higher than the national average of 1.25, and the second highest out of all the provinces after the Western Cape.

Damage deposit ratio

1.4 times monthly rent

This was higher than the 1.25 nationwide average



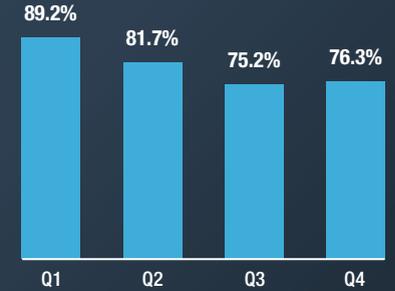
Arrears

The percentage of tenants in arrears improved during the year and was 20.6% in Q4. This was slightly lower even than the pre-pandemic level of 20.9% in Q1 2020.

The average tenant in arrears owed 76.3% of one month's rent in Q4 – a significant improvement from the 89.2% seen at the beginning of 2021.



Eastern Cape percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp



Eastern Cape average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

Income

The average income in the province was R29 954, up 5.5% from the year before.

The Eastern Cape had the third-lowest average income out of all the provinces, almost R5 000 lower than the national figure.

Credit risk

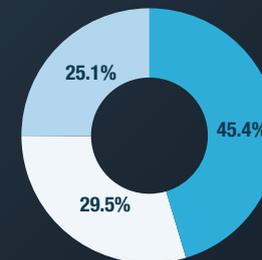
The Eastern Cape is one of just two provinces where high-risk tenants outnumber minimum-risk tenants: 31.2% in Q4 2021, compared to 30.6%. The percentage of high-risk tenants is well above the national average of 24.5%.

The average credit score in the province was 638, below the national average of 646.

Spending

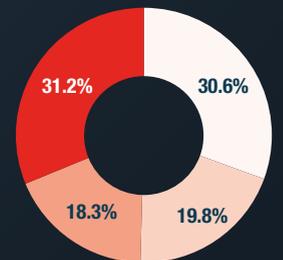
Tenants in the Eastern Cape spent 45.4% of their net income on debt in Q4 2021 – in line with the national average, but quite a bit higher than the 38.1% seen the year before. Just under 30% was spent on rent, leaving 25.1% as disposable income.

- Debt-to-income
- Rent-to-income
- Disposable income



Eastern Cape share of income spent on debt and rent, Q4 2021
Source: PayProp

- Minimum risk
- Low risk
- Medium risk
- High risk



Eastern Cape credit risk distribution, Q4 2021
Source: PayProp

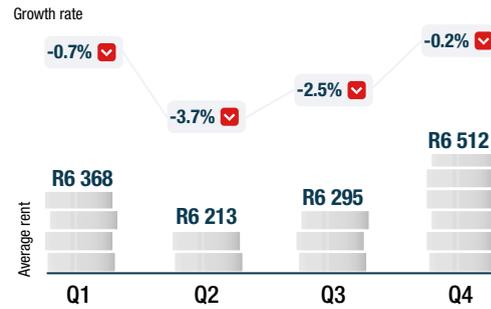
PROVINCIAL STATISTICS

Free State



Rent and rental growth

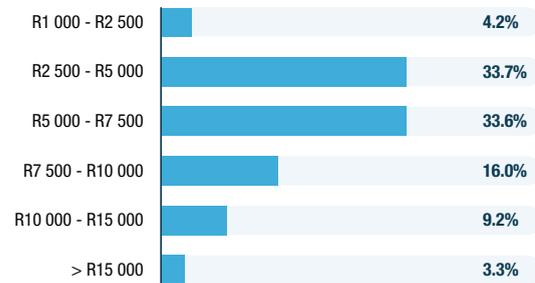
Rents in the Free State declined by 0.2% from Q4 2020 to Q4 2021. The province experienced four quarters of negative year-on-year growth (even though the average rent increased on a quarterly basis between Q1 and Q4, as shown in the graph). The average rent in the final quarter of 2021 was R6 512 per month.



Free State average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

Over two thirds of the Free State's rental contracts were for between R2 500 and R7 500, split evenly between the two price categories included in this range.



Free State rent distribution, Q4 2021
Source: PayProp

Damage deposits

The average damage deposit ratio in the province was 1.19 during the fourth quarter – in line with what we've seen historically, and slightly below the national average of 1.25.



Arrears

The Free State saw increases in both arrears metrics during the second quarter of the year, after which both improved. Some 23.7% of the province's tenants were in arrears in Q4, the most out of all the provinces but in line with the pre-pandemic figure of 23.3% in Q1 2020.



Free State percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp

Tenants in arrears owed on average 86.6% of one month's rent, more or less in line with the 85.9% seen in Q1 2020.



Free State average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

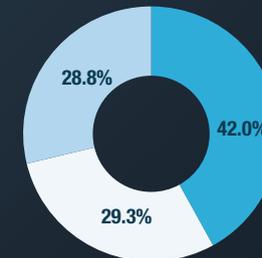
Income

Average net income in the province was R29 278 during the final quarter of 2021. Although the average income was more than R5 500 below the national average, it was 5.7% up on the same quarter the year before. Tenant income in the Free State was the second lowest out of all the provinces after the Northern Cape.

Spending

Free State tenants spent 42% of their take-home pay on servicing debt, which was lower than the national average during Q4. A further 29.3% was spent on rent, leaving 28.8% as disposable income to cover tenants' living costs.

- Debt-to-income
- Rent-to-income
- Disposable income



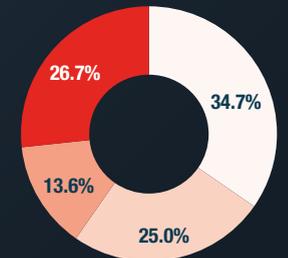
Free State share of income spent on debt and rent, Q4 2021
Source: PayProp

Credit risk

There was a decrease in the percentage of high-risk tenants in the province during 2021, from 30.1% in Q4 2020 to 26.7% in Q4 2021. Some 34.7% and 25% of tenants were classified as minimum-risk and low-risk respectively.

The average tenant risk as indicated by the average credit score worsened by only one point, from 642 in Q4 2020 to 641 in Q4 2021. This was worse than the national average of 646.

- Minimum risk
- Low risk
- Medium risk
- High risk



Free State credit risk distribution, Q4 2021
Source: PayProp

PROVINCIAL STATISTICS

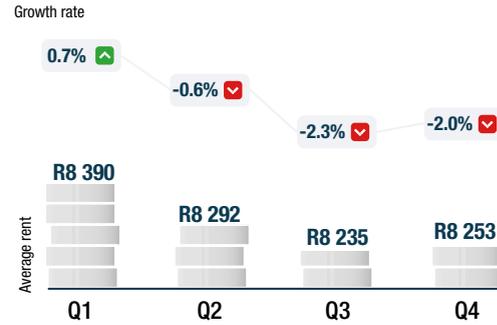
Gauteng



Rent and rental growth

Gauteng rents declined by 2% year-on-year in Q4 2021 – the third consecutive quarter of negative YoY growth in the province, and the lowest growth recorded in any province during the quarter.

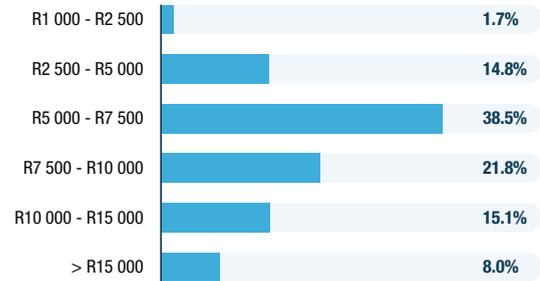
The average rent during the last quarter of 2021 was R8 253, still above the national average of R7 906. Gauteng dropped from the second most expensive province in Q4 2020 to fourth in Q4 2021.



Gauteng average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

38.5% of rentals in Gauteng were priced between R5 000 and R7 500. The province has the highest density of rentals in this price band of any province. 45% of rents were above R7 500 in Q4 2021.



Gauteng rent distribution, Q4 2021
Source: PayProp

Damage deposits

The average damage deposit ratio in the province exceeded the monthly rent by a factor of 1.21 – in line with the ratios seen during the rest of the year, and below the national ratio of 1.25.



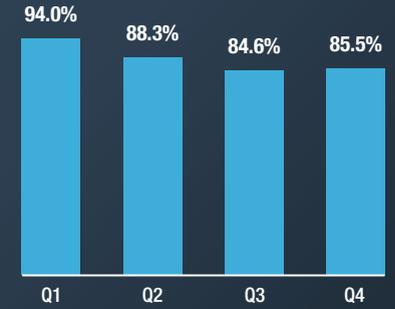
Arrears

Only 17% of tenants were in arrears during the last quarter of the year, an improvement from the 18.5% seen at the beginning of 2021 and below the 18% seen in Q1 2020, before the first lockdown. The province had the second lowest percentage of tenants in arrears in the country after the Western Cape.

The average arrears percentage also improved during 2021, although there was a slight increase in Q4 to 85.5%. This was above the national average of 82.7% of one month's rent.



Gauteng percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp



Gauteng average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

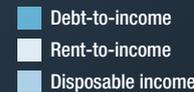
Income, spending and credit risk

Income

The average income in Gauteng in Q4 was R35 481, slightly above the national average of R34 812. Gauteng residents also enjoyed higher-than-average income growth, taking home an extra 1.4% in 2021 compared to the national figure of 0.8%.

Spending

Despite their higher-than-average incomes, Gauteng tenants are also spending more on debt than the national average of 45.3%. Debt repayments currently account for 47.4% of net monthly income, much higher than the 39.6% seen in the same quarter last year. Spending on rent took up a further 28.6%, leaving 24% as disposable income to cover other expenses.

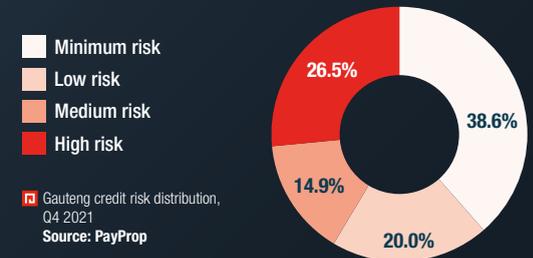


Gauteng share of income spent on debt and rent, Q4 2021
Source: PayProp

Credit risk

The number of high-risk tenants in the province, 26.5%, was slightly higher than a year ago (25.5%) and also higher than the national average (24.5%). The number of minimum-risk tenants came in at 38.6%, in line with the year before, and another 20% of tenants were classified as low-risk.

The riskiness of tenants also increased slightly. The average credit score in the province was 644 in Q4 2021, down from 646 in Q4 2020.



Gauteng credit risk distribution, Q4 2021
Source: PayProp

PROVINCIAL STATISTICS

KwaZulu-Natal



Rent and rental growth

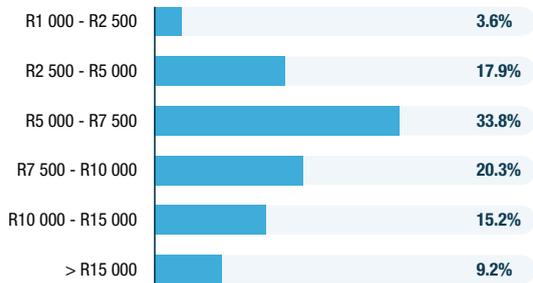
Good news for landlords in KwaZulu-Natal: the average rent in the fourth quarter hit R8 386, overtaking Gauteng to claim the spot of second most expensive province after the Western Cape. Average rents increased by 1.9% year on year, comfortably higher than the national average of 0.8%.



KwaZulu-Natal average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

The province's rent distribution closely matched the national pattern in Q4. Just over a third of rents fell within the R5 000 - R7 500 price range, with 17.9% and 20.3% falling in the categories below and above respectively. KwaZulu-Natal is also a hotspot for luxury rental properties: 9.2% of the province's rentals cost over R15 000 per month, the second highest percentage in this price bracket after the Western Cape.



KwaZulu-Natal rent distribution, Q4 2021
Source: PayProp

Damage deposits

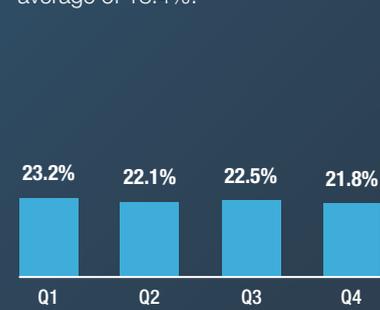
The average damage deposit ratio in KwaZulu-Natal was pegged at 1.18 times the value of one month's rent in Q4 – in line with the rest of the year and below the average national ratio of 1.25.



Arrears

In the last quarter of 2021, 21.8% of tenants were in arrears. This was consistent with the pre-pandemic level of 21.7% seen in Q1 2020, but still higher than the national average of 18.4%.

However, tenants in arrears are repaying their debts. The average arrears percentage started the year at 92.6% but fell to 80.1% in Q4. In this metric, the province outperformed the national average.



KwaZulu-Natal percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp



KwaZulu-Natal average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

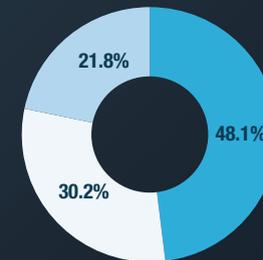
Income

Tenants in KwaZulu-Natal earned a net income of R34 840 per month in Q4 2021, which was R29 more than the average national net income, despite a year-on-year decrease of 5.6%.

Spending

48.1% of tenants' income went towards debt repayments during the quarter – significantly more than in Q4 2020, when this figure was only 38.2%. A further 30.2% of income was allocated to rent, leaving tenants with 21.8% of their net income to cover other expenses, compared to 31.9% in the same quarter the year before – and lower than the national average of 25.7%.

- Debt-to-income
- Rent-to-income
- Disposable income



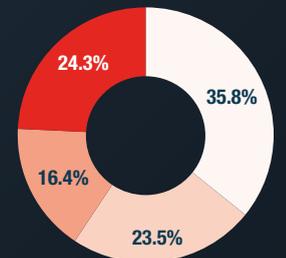
KwaZulu-Natal share of income spent on debt and rent, Q4 2021
Source: PayProp

Credit risk

When it comes to risk profiles, 35.8% of tenants were listed as minimum-risk, another 23.5% as low-risk, and 24.3% as high-risk. This figure compared favourably with the same quarter the year before (28.8%) and with the 24.5% measured nationwide in Q4 2021.

Overall, the average credit score for tenants in KwaZulu-Natal increased by one point from the year before to 644, two points below the national average of 646.

- Minimum risk
- Low risk
- Medium risk
- High risk



KwaZulu-Natal credit risk distribution, Q4 2021
Source: PayProp

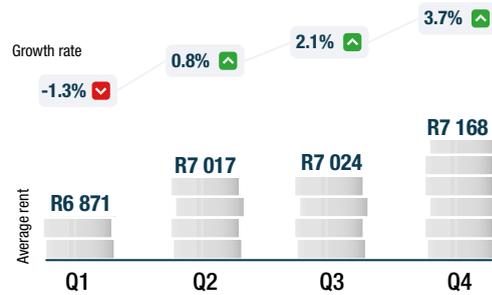
PROVINCIAL STATISTICS

Limpopo



Rent and rental growth

Rental growth in Limpopo has shown a remarkable turnaround in 2021. After fourteen consecutive quarters of year-on-year declines, the province posted positive growth from Q2 onwards. During the last quarter of 2021, rents were up 3.7% from the same quarter the year before, the second highest year-on-year growth rate across all provinces after Mpumalanga.

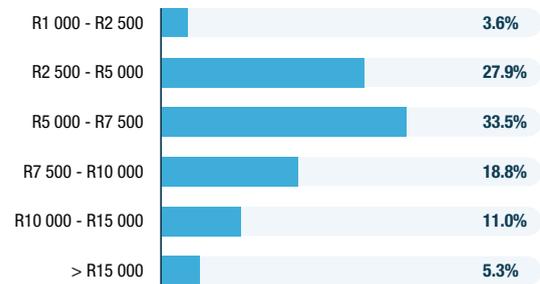


Limpopo average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

In absolute terms, however, Limpopo still has some catching up to do. Its average monthly rent of R7 168 was more than R700 below the national average in Q4.

Rent distribution

Just over a third of rents in the province were priced between R5 000 and R7 500 per month. Another 27.9% fell between R2 500 and R5 000.



Limpopo rent distribution, Q4 2021
Source: PayProp

Damage deposits

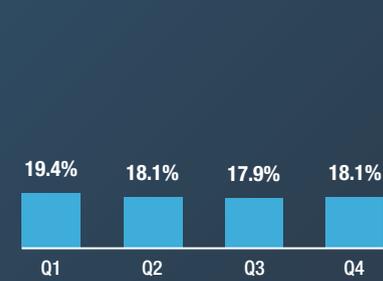
In the final quarter, the average damage deposit ratio in the province was 1.22 times the value of one month's rent. This was lower than the 1.27 seen in Q1 2021, and below the national average of 1.25.



Arrears

In Q4, 18.1% of tenants in Limpopo were in arrears compared to 19.4% in Q1. The final quarter's figure was therefore lower than it was before the first lockdown, when 18.9% of tenants were in arrears.

At the start of 2021, the average tenant in arrears furthermore owed just over one month's rent – the highest out of all the provinces. This figure dropped during the year but worsened slightly to 86.7% in Q4, the third highest of any province.



Limpopo percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp



Limpopo average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

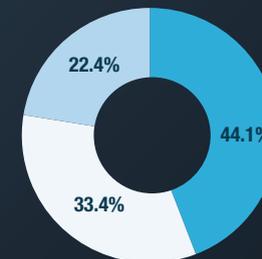
Income

The average income in Limpopo dropped by 10.1% between Q4 2020 and Q4 2021, with tenants earning a net income of R31 576 pm during the last quarter of the year.

Spending

On average, tenants in Limpopo spent 44.1% of their income on servicing debt in Q4 2021. Despite the fall in average incomes this was lower than the year before, when this figure was 48.2%. Tenants here spent the highest percentage of their income on rent out of all the provinces (33.4%), leaving them with just 22.4% of their take-home pay as disposable income.

- Debt-to-income
- Rent-to-income
- Disposable income



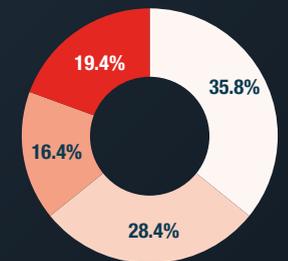
Limpopo share of income spent on debt and rent, Q4 2021
Source: PayProp

Credit risk

Less than 20% of tenants in Limpopo were categorised as high-risk during Q4 – better than the national average of 24.5%. A further 35.8% were seen as minimum-risk tenants, and 28.4% as low-risk.

The average credit score increased from 643 in Q4 2020 to 646 in Q4 2021, ending the year in line with the average national credit score.

- Minimum risk
- Low risk
- Medium risk
- High risk



Limpopo credit risk distribution, Q4 2021
Source: PayProp

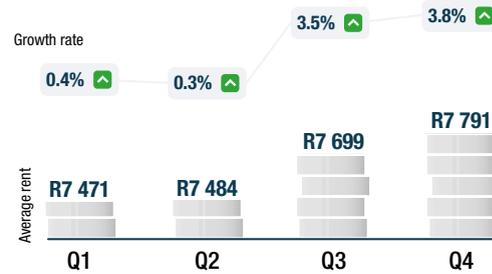
PROVINCIAL STATISTICS

Mpumalanga



Rent and rental growth

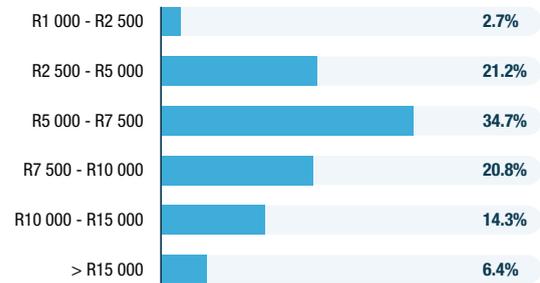
The average Mpumalanga rent in Q4 2021 was R7 791 – 3.8% more than the same quarter the year before. Although this was still below the nationwide figure, the province enjoyed the highest year-on-year growth out of all nine provinces, with positive growth in all four quarters.



Mpumalanga average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

The most populous price band for the quarter was R5 000 – R7 500, with 34.7% of rents falling into this category. 21.2% of rents were priced between R2 500 and R5 000, and another 20.8% between R7 500 and R10 000.



Mpumalanga rent distribution, Q4 2021
Source: PayProp

Damage deposits

The damage deposit ratio recorded in the province was 1.08 times the value of one month's rent – in line with the ratio seen throughout the rest of the year but below the national average of 1.25.

Damage deposit ratio

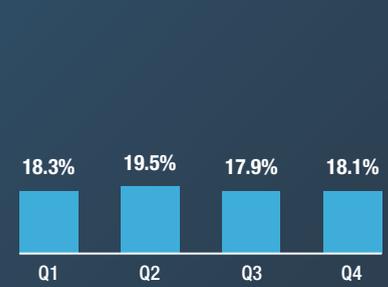
1.08

times monthly rent

Below the 1.25 nationwide average

Arrears

The percentage of tenants in arrears improved slightly during the year, from 18.3% in Q1 to 18.1% in Q4. This was just below the national level of 18.4%.



Mpumalanga percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp

The average arrears percentage also improved. In Q1, tenants in arrears owed on average 87% of one month's rent, compared to 78.1% in Q4. This metric was also better than the national average of 82.7%.



Mpumalanga average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

Income

Tenants' average net monthly income for the quarter was R34 877, up 3.4% from the corresponding quarter in 2020. This compared favourably with the national average of R34 812.

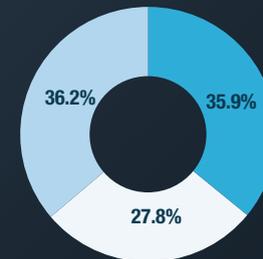
Spending

During Q4 2021, tenants spent only 35.9% of their income on debt repayments – the lowest percentage out of all provinces and a significant improvement from 50% the year before. This compared favourably with the national figure of 45.3%.

27.8% of their income went towards rent, leaving 36.2% as disposable income compared to 25.7% nationally. Due to the low debt-to-income ratio, tenants in the province had the largest portion of disposable income in the country.

- Debt-to-income
- Rent-to-income
- Disposable income

Mpumalanga share of income spent on debt and rent, Q4 2021
Source: PayProp



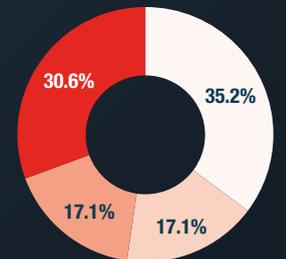
Credit risk

In Mpumalanga, 30.6% of tenants were classified as high-risk, which was more than the nationwide average of 24.5%. Minimum-risk tenants made up 35.2% of the tenant pool during Q4, and another 17.1% were classified as low-risk.

While the average credit score of 638 was below the national 646 in Q4, it was an improvement of 2 points from the same quarter the year before.

- Minimum risk
- Low risk
- Medium risk
- High risk

Mpumalanga credit risk distribution, Q4 2021
Source: PayProp



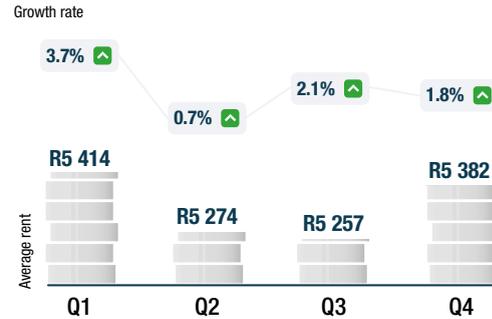
PROVINCIAL STATISTICS

North West



Rent and rental growth

Rents in the North West increased by 1.8% year on year to R5 382 in Q4 2021 – still the lowest in the country, but with the large number of student rentals in the province, this is not surprising.

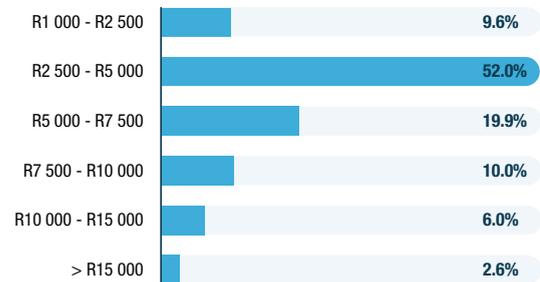


North West average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

A large number of the properties managed through PayProp in the North West are student housing. Students' parents often pay the rent in these properties, and accordingly credit checks are often done on the parent, not the student. For this reason, the data from these tenancies may contradict trends in "normal" tenancies – for example, rents tend to be low while incomes are high and tenant risk is low.

Rent distribution

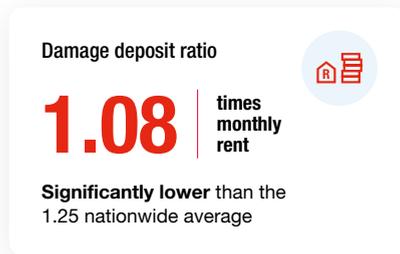
Thanks to the large proportion of student housing in our figures, this metric also skews low. More than half of the rentals in the province were priced between R2 500 and R5 000. Just under 20% were in the R5 000 – R7 500 band – the second most populous price category in the province.



North West rent distribution, Q4 2021
Source: PayProp

Damage deposits

The damage deposit ratio in the province was 1.08 times the monthly rent. This was in line with the ratio in the other three quarters of the year but significantly lower than the 1.25 nationwide average damage deposit ratio.



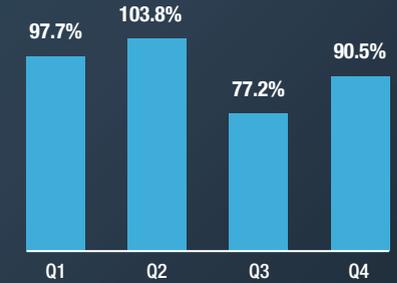
Arrears

The province's percentage of tenants in arrears improved significantly during the year, from 28.3% in Q1 to just 18.2% in the last quarter – even lower than the already low national average of 18.4%. The North West has historically had the highest percentage of tenants in arrears – in Q1 2020, pre-pandemic, 26.6% of tenants were behind on rent.



North West percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp

The average arrears percentage fluctuated during the year and ended at 90.5% in Q4 – lower than the 91.8% measured before the first lockdown, but much higher than Q3's 77.2%.



North West average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

Income

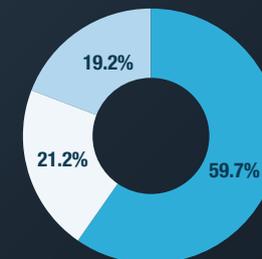
Net monthly income recorded during Q4 was R36 025 – the second highest in the country after the Western Cape. The high income is understandable since many of the North West's statistics are based on parents with children in tertiary education and thus presenting an older (and more financially successful) demographic. Income increased by 8.3% from the same quarter the year before.

Spending

In Q4, almost 60% of tenants' net income was spent on servicing debt. As mentioned before, credit checks for student housing are often done on the applicant's parents, which means their debt repayments probably include a bond repayment for their primary residence.

Rent made up 21.2% of net income, leaving less than 20% of take-home pay as disposable income.

- Debt-to-income
- Rent-to-income
- Disposable income



North West share of income spent on debt and rent, Q4 2021
Source: PayProp

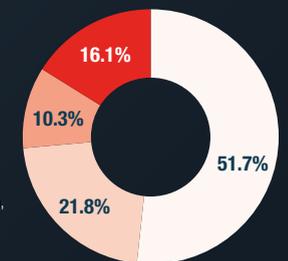
Credit risk

Despite the high debt-to-income ratio mentioned, most tenants (or their parents) are classified as minimum-risk. This shows that financial discipline – a characteristic of a more mature parent cohort (with the "right" type of debt, paying accounts on time and in full) is more important than debt levels when it comes to determining credit risk.

Only 16.1% of tenants were labelled as high-risk – the lowest in the country.

The average credit score during Q4 was 660, an increase of 7 points from the year before and above the national average of 646. This was also the highest average score out of all the provinces.

- Minimum risk
- Low risk
- Medium risk
- High risk



North West credit risk distribution, Q4 2021
Source: PayProp

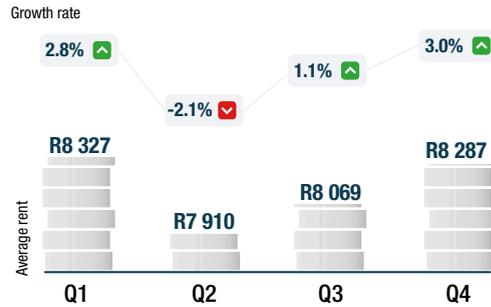
PROVINCIAL STATISTICS

Northern Cape



Rent and rental growth

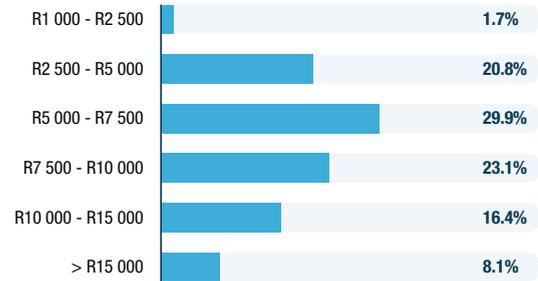
The Northern Cape leapfrogged Gauteng to claim the spot of third most expensive province in the country in Q4 2021. The average rent in the province rose 3% year on year to R8 287, R381 more than the nationwide average.



Northern Cape average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

The Northern Cape's most populous (median) rental price band was R5 000 – R7 500, with just under 30% of rentals in this category. The province also skews on the expensive side: 47.6% of all rentals there cost at least R7 500 per month, while just 1.7% cost less than R2 500.



Northern Cape rent distribution, Q4 2021
Source: PayProp

Damage deposits

The average damage deposit ratio in the Northern Cape was 1.03 – the lowest ratio seen in the country.



Arrears

At the end of the year in Q4, 20.6% of tenants in the province were in arrears, just lower than the 20.8% observed in Q1.

The Northern Cape was the only province where the average arrears percentage increased during 2021. In Q1, a tenant in arrears owed on average 84.2% of a month's rent. In Q4, this figure was 93.4%. This was also the highest arrears percentage in the country.



Northern Cape percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp



Northern Cape average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

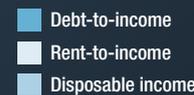
Income

Northern Cape tenants took home an average of R29 093 per month in job remuneration. This was the lowest net income out of all the provinces, and the worst performing income in the country – income fell 12% from Q4 2020 to Q4 2021, and is now the lowest of any province.

Spending

Tenants spent almost half of their income on debt repayments, up from 37.2% the year before. This was driven by falling incomes as well as taking on more debt.

After spending a further 29.2% on rent, tenants had only 21% of their take-home pay left as disposable income to cover their day-to-day expenses, compared to the nationwide figure of 25.7%. This squeeze on incomes could potentially limit rent increases in 2022.



Northern Cape share of income spent on debt and rent, Q4 2021
Source: PayProp

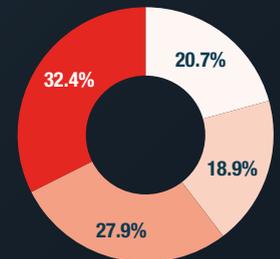
Credit risk

Although a hefty 32.4% of Northern Cape tenants were classified as high-risk – the highest proportion of any province. This was still an improvement from the year before when this figure was 35.3%. Only 20.7% of tenants were minimum-risk, and 18.9% low-risk.

The average credit score, measuring 626 in Q4 2021, was the lowest in the country and 7 points lower than the 633 seen in the same quarter the year before.



Northern Cape credit risk distribution, Q4 2021
Source: PayProp



PROVINCIAL STATISTICS

Western Cape



Rent and rental growth

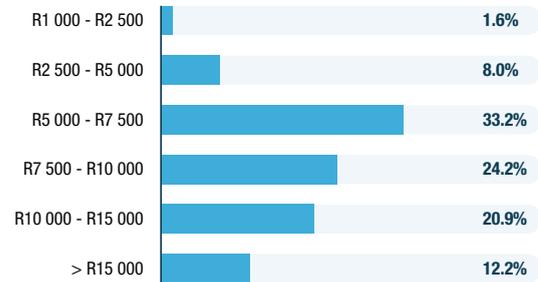
Rents in the Western Cape increased by 1.7% from Q4 2020 to Q4 2021. The Western Cape remained the most expensive province with an average rent of R9 413 in Q4 2021.



Western Cape average rent and rental growth (YoY), Q1 2021 to Q4 2021
Source: PayProp

Rent distribution

A third of rents in the province were priced between R5 000 and R7 500, with 12.2% of rentals more expensive than R15 000 – the highest concentration of high-priced rentals in this bracket in the country. 47.1% of all properties in this price band were in the Western Cape.



Western Cape rent distribution, Q4 2021
Source: PayProp

Damage deposits

The Western Cape had the highest damage deposit ratio in the country, at 1.6 times the value of one month's rent. This tracked relatively consistently throughout the year and is significantly higher than the national average of 1.25.

Damage deposit ratio

1.6 times monthly rent

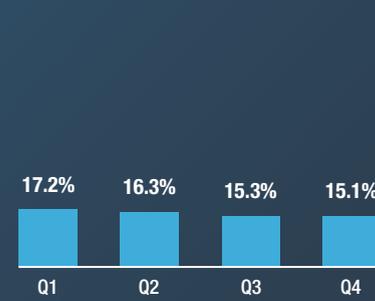
Significantly higher than the 1.25 nationwide average



Arrears

Despite high rents, the Western Cape outperformed all other provinces in both arrears metrics. Just 15.1% of tenants were in arrears in Q4 2021, down from 17.2% in Q1, and coming in below the 18.4% of tenants nationwide.

In Q4, tenants in arrears owed on average 75.7% of one month's rent, down from 90.9% measured in Q1 and below the national average level of 82.7%.



Western Cape percentage tenants in arrears, Q1 2021 to Q4 2021
Source: PayProp



Western Cape average arrears percentage, Q1 2021 to Q4 2021
Source: PayProp

Income, spending and credit risk

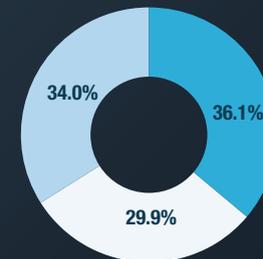
Income

Tenants in the Western Cape took home on average R39 742 per month during the last quarter of the year, almost R5 000 more than the national average and the highest income in the country. Average net income also increased by 6.1% year-on-year.

Spending

Western Cape tenants spent 36.1% of their income on servicing debt, and another 29.9% on rent during Q4 2021. That left 34% as disposable income to cover their day-to-day expenses – down slightly from 34.9% the year before.

- Debt-to-income
- Rent-to-income
- Disposable income



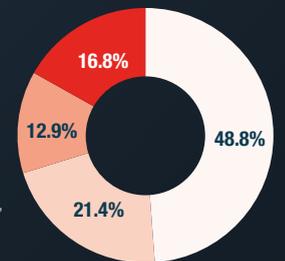
Western Cape: share of income spent on debt and rent, Q4 2021
Source: PayProp

Credit risk

Only 16.8% of Western Cape tenants were classified as high-risk in Q4, the second lowest after the North West. Almost 50% of tenants were classified as minimum-risk, and another 21.4% were low-risk.

The average credit score in Q4 2021 was 656 – up two points from the same quarter the year before, and higher than the national average of 646.

- Minimum risk
- Low risk
- Medium risk
- High risk



Western Cape credit risk distribution, Q4 2021
Source: PayProp

METRIC SUMMARY

Fourth quarter statistics

All our rent, arrears, income and credit figures – national and provincial – for Q4 2020 and Q4 2021.

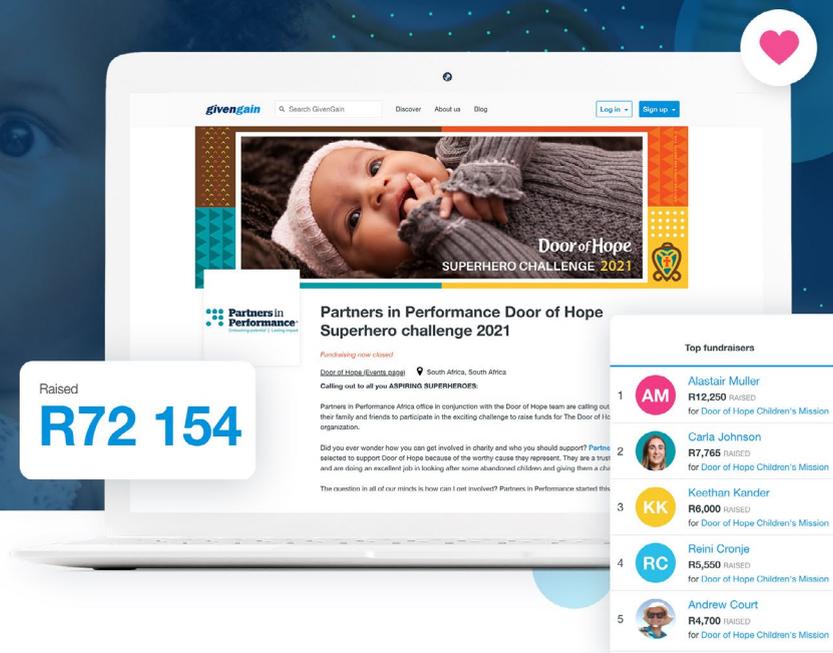
	Rent		Rental growth		Damage deposit ratio		% tenants in arrears		Average arrears %		Income		Income growth		Debt-to-income ratio		Rent-to-income ratio		Disposable income		% of high-risk tenants		Average credit score	
	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021
Eastern Cape	6 234	6 407	3.9%	2.8%	1.41	1.40	22.6%	20.6%	89.2%	76.3%	28 383	29 954	1.7%	5.5%	38.1%	45.4%	29.0%	29.5%	32.9%	25.1%	28.6%	31.2%	639	638
Free State	6 525	6 512	1.6%	-0.2%	1.18	1.19	25.1%	23.7%	94.6%	86.6%	27 706	29 278	-9.3%	5.7%	40.2%	42.0%	28.8%	29.3%	31.0%	28.8%	30.1%	26.7%	642	641
Gauteng	8 421	8 253	0.7%	-2.0%	1.22	1.21	19.6%	17.0%	94.0%	85.5%	34 975	35 481	6.2%	1.4%	39.6%	47.4%	30.6%	28.6%	29.7%	24.0%	25.5%	26.5%	646	644
KwaZulu-Natal	8 232	8 386	-0.9%	1.9%	1.20	1.18	23.0%	21.8%	92.6%	80.1%	36 921	34 840	2.9%	-5.6%	38.2%	48.1%	29.9%	30.2%	31.9%	21.8%	28.8%	24.3%	643	644
Limpopo	6 909	7 168	-3.3%	3.7%	1.26	1.22	20.0%	18.1%	103.6%	86.7%	35 110	31 576	20.3%	-10.1%	48.2%	44.1%	25.7%	33.4%	26.1%	22.4%	25.2%	19.4%	643	646
Mpumalanga	7 504	7 791	1.4%	3.8%	1.09	1.08	19.5%	18.1%	87.0%	78.1%	33 722	34 877	1.6%	3.4%	50.2%	35.9%	27.8%	27.8%	22.0%	36.2%	30.0%	30.6%	636	638
North West	5 286	5 382	-0.6%	1.8%	1.07	1.08	25.4%	18.2%	97.7%	90.5%	33 279	36 025	-7.8%	8.3%	40.0%	59.7%	22.0%	21.2%	37.9%	19.2%	20.4%	16.1%	653	660
Northern Cape	8 042	8 287	-2.9%	3.0%	1.17	1.03	21.7%	20.6%	84.2%	93.4%	33 047	29 093	13.3%	-12.0%	37.2%	49.8%	28.1%	29.2%	34.6%	21.0%	35.3%	32.4%	633	626
Western Cape	9 253	9 413	-0.5%	1.7%	1.58	1.60	18.0%	15.1%	90.9%	75.7%	37 451	39 742	2.1%	6.1%	34.7%	36.1%	30.4%	29.9%	34.9%	34.0%	18.7%	16.8%	654	656
National	7 854	7 906	0.2%	0.8%	1.26	1.25	20.9%	18.4%	93.2%	82.7%	34 531	34 812	3.7%	0.8%	40.0%	45.3%	29.1%	29.0%	30.9%	25.7%	25.8%	24.5%	645	646

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PAYPROP AWARDS

Winning clients

In 2021, PayProp hosted its first annual PayProp Awards. This event recognised outstanding performance in several categories across our entire client base of franchised and independent agencies, including processing volume, portfolio growth, and usage of PayProp's full set of platform features.

Clients who have been with PayProp for at least 15 years were also honoured with the PayProp Masters Award to recognise our record of success together.

Following a virtual awards ceremony in June, hosted by CEO Jan Davel and group co-founder Johannes Van Eeden, we delivered framed certificates to successful agencies across the country.

Here are a few of our proud winners.

We look forward to our 2022 event! ■



Howes Real Estate



Fine & Country Franschhoek



Coetzenberg Eiendomme



Century 21 Southern Suburbs



Rawson False Bay



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YOUR RENTAL BUSINESS

Tips to manage tenant risk in uncertain times

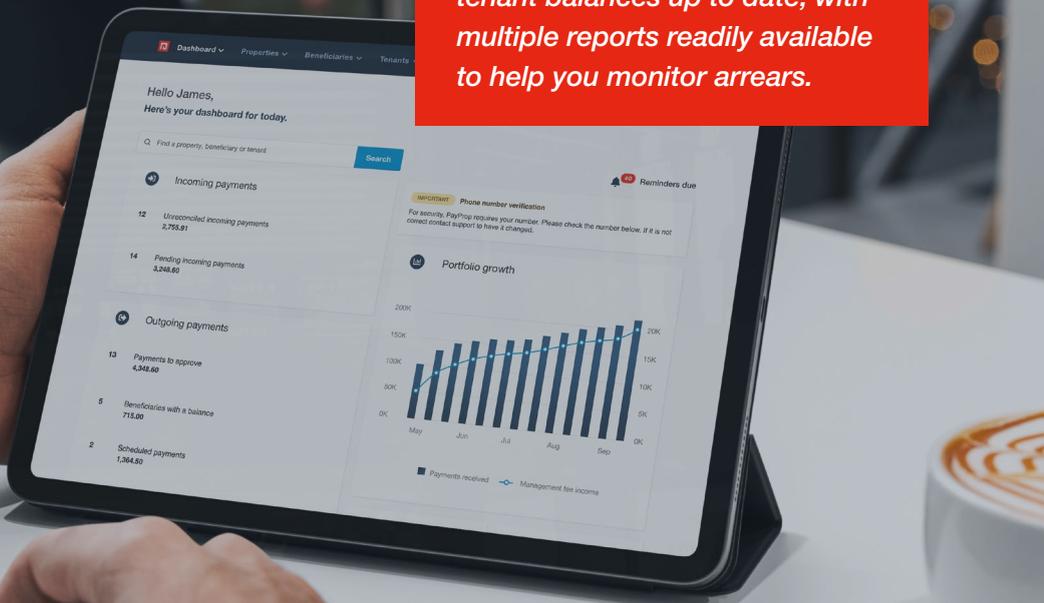
Despite our optimism about the year ahead, we also realise that our industry is not out of the woods yet. While we expect rents to recover in 2022, growth will most likely be slow and pressures on tenants' finances are set to continue.

There are a few steps that rental agencies can take to support their tenants while protecting landlords' rental income. Below, we discuss a few.

Be aware of tenants' current arrears situation

It's no secret that South Africans remain under tremendous financial strain. While arrears improved during 2021, many tenants are still further behind than before the pandemic.

One way for agents to mitigate this risk is to be aware of their tenants' arrears situation. This doesn't mean you have to spend hours calculating balances and looking for payments on your bank statements. PayProp automatically reconciles payments in real time and keeps tenant balances up to date, with multiple reports readily available to help you monitor arrears.



Deal with arrears swiftly but kindly

The quicker action is taken, the better the chance that arrears will be settled. As our data demonstrates, smaller amounts are much more likely to be paid in full than large amounts, and puts less strain on tenants when flagged early on.

PayProp's automated reminders help agents to chase payments faster and more efficiently, requiring less time and effort from internal resources. If necessary, agents can also escalate arrears recovery by sending automated letters of demand from the PayProp platform.

Stay front-of-mind with professionally branded invoices and statements

All agencies, but especially smaller ones, should take every opportunity to present a professional image of their company and punch above their weight class – and where better than on the invoicing that is sent to tenants each month?

A branded invoice and statement of accounts is far more likely to grab a tenant's attention than a file that doesn't set out all the information clearly. With PayProp, this too can be delivered automatically every month.

Give your tenants a variety of payment options

When collecting rental payments, it's ideal to offer your tenants as many payment options as possible. Examples of this might include paying in-store at leading retailers, online via instant EFT, debit order or EFT payment/bank transfer. With PayProp, all these options are available.

Vet future tenants

As we saw in the recently published State of the Rental Industry Survey report, finding good tenants is one of the biggest challenges for rental agents – and the price of getting it wrong can be very high.

PayProp's unique Tenant Assessment Report, specifically designed for rental agents, lets you approach tenant risk in a data-driven way instead of playing the tenant lottery. Check up-front if an applicant has a good credit score, what their rental payment record is like and if they have enough monthly disposable income – both to pay the rent comfortably and to front up a damage deposit.



We also suggest checking an existing tenant's financial health by performing a credit check upon lease renewal.

As we know, a lot can happen in a year – and knowing a tenant's credit health can be a powerful tool to mitigate risk.

IN CLOSING

A brighter 2022

2021 might have been a tough year, but it was not without its highlights.

Here are a few reasons to be cheerful this year:

- Rental growth ticked up in the last quarter, hopefully paving the way for a stronger performance in 2022.
- Overall, tenants' financial health seems to be good. After the economic shock of COVID-19, the percentage of tenants in arrears has recovered to pre-pandemic levels. However, the rising interest rate might leave tenants with high levels of debt feeling the pinch.

Property professionals will nevertheless need to be vigilant as rising inflation puts further pressure on tenants' finances – but with the right tools, the job need not be hard.

As always, we wish you and your business all the best this year, and we will keep you updated on the market's performance with another PayProp Rental Index in three months' time. ■

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Q4 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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The PayProp Rental Index is available on the PayProp website at www.payprop.co.za.

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experience with PayProp. Friendly,
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helpful at all times.**

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