



**NOW WITH
ARREARS
DATA!**

RENTAL INDEX


Q1 2018

HIT BY THE HOLIDAY EFFECT

- + Western Cape slowdown cools rental market
- + Tough times leave tenants in arrears worse off
- + All eyes on inflation, interest rates and VAT

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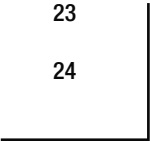
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Make way for 2018!

It feels like we blinked and the first quarter was done! As they say, time flies when you're having fun.

For us, the highlight was the PayProp Academy in February – our annual roadshow to Port Elizabeth, Durban, Johannesburg and Cape Town (read more on page 22). It was without a doubt the PropTech event of the year!

We've also been working hard on two new game-changing products, which we'll launch soon: the PayProp owner app for landlords and the revamped Tenant Assessment Report.

Externally, a few significant events of the past quarter are sure to affect the trading environment in the real estate market. Firstly, a higher VAT rate came into effect on 1 April, putting more pressure on stretched consumers. However, inflation, which fell to a seven-year low, is likely to cushion the blow somewhat, as will the 25-basis-point interest rate cut that happened in March.

With Cyril Ramaphosa furthermore taking over as the country's president, the rand strengthened overall, piquing foreign investors' interest. However, looming elections and the issue of land expropriation should dampen their enthusiasm.

If you take just one thing away from this Rental Index, it's the importance of choosing good tenants – and we all know they're increasingly hard to find.

Against that background, we bring you the latest rental statistics – including never-before-seen arrears data! If you take just one thing away from this Rental Index, it's the importance of choosing good tenants – and we all know they're increasingly hard to find.

So sit back, relax, and enjoy this issue of the PayProp Rental Index. I hope our brand-new data will add some value to your business going forward.



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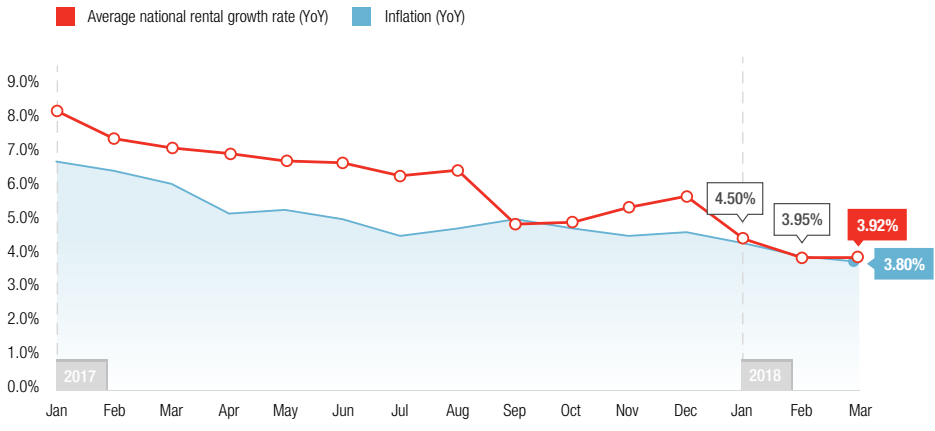
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Subdued rental growth


In January 2017 we recorded a massive jump in rental inflation: Year-on-year growth in the national weighted average came in at 8.3% – up from 7.6% in December 2016.

Since then, it's been downhill. Throughout the first few months of this year, we've seen a continuation of that downward trend. Year-on-year growth in January 2018 was just 4.5% – slightly more than half the rate measured a year earlier. ▶▶

Rental growth and inflation have been trending downward since January 2017.



National rental growth rate (YoY) vs. inflation: 2017 and Q1 2018

- 
- An aerial photograph of a city, likely Santiago, Chile, featuring a prominent tall tower on the left. A white text box with a red border is overlaid on the right side of the image. The text box contains three paragraphs of text. The first paragraph is a bullet point. The second and third paragraphs are standard text. The background shows a dense urban landscape with various buildings and a clear sky with some clouds.
- ▶ Growth slowed even more during February and March 2018, with both months registering rates below 4%.

And yet this is not such a big surprise if we compare rental growth to the trend in the inflation rate. In March, the latter figure came in at 3.8% – the lowest year-on-year growth recorded in seven years!

The graph on the previous page shows that inflation has also been trending downward since January 2017 and, importantly, that the rent-inflation differential (the difference in growth rates between rent and inflation) disappeared almost completely over the last quarter. ■

PROVINCIAL RENT STATISTICS

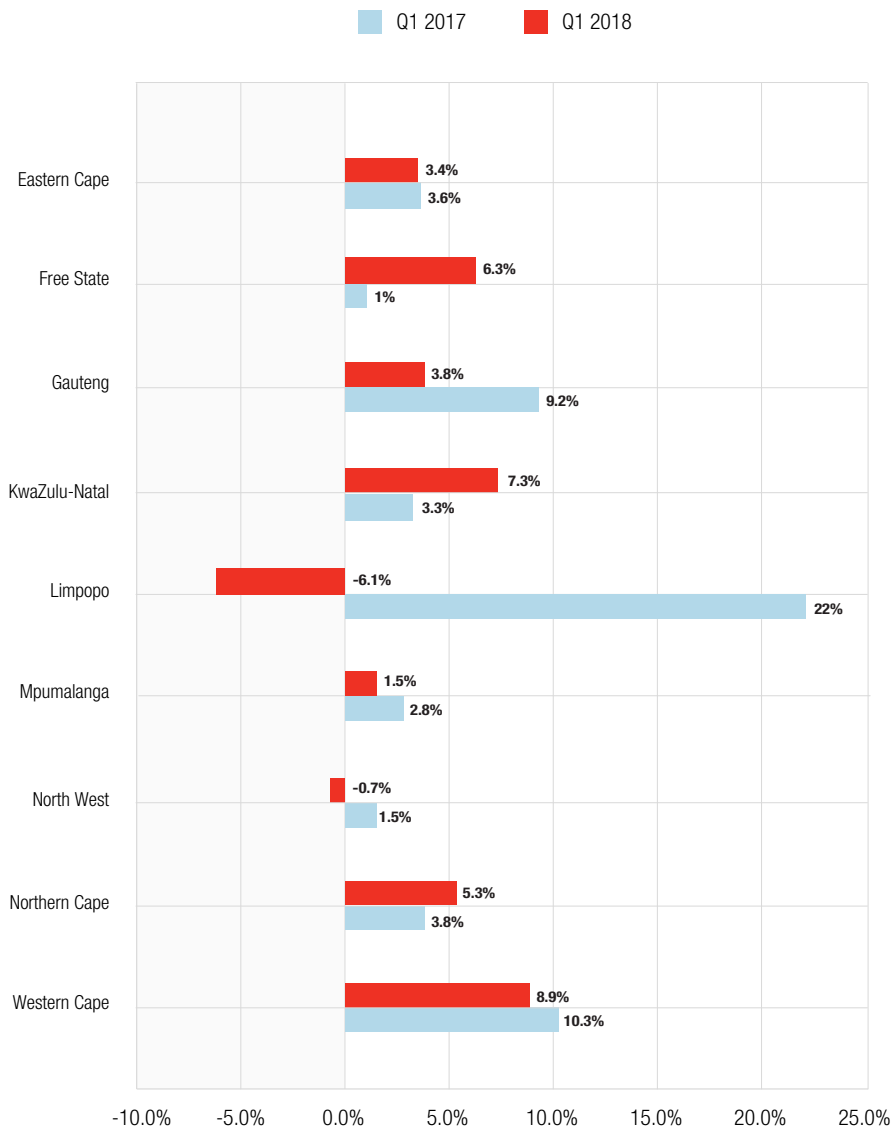
Western Cape growth dips into single digits


Provincially, we're seeing the same: Between Q1 2017 and Q1 2018, growth rates fell in all but three provinces – the Free State, KwaZulu-Natal and the Northern Cape.

This is also the first quarter since Q3 2016 that the Western Cape – the darling of the rental market – saw the average rent increase at less than 10% year-on-year. ■

It's worth mentioning that lower concentrations of PayProp-administered properties in provinces like Limpopo, Mpumalanga and the Northern Cape can lead to data being more easily skewed by outlier events. In Limpopo, this effect was evident for most of 2017, largely due to the impact of one client administering rentals with above-average rental values. Even after controlling for this, Limpopo's rental growth was still around 14% for most of 2017.





 Provincial rental growth rates: Q1 2017 vs Q1 2018

The holiday effect

Following the launch of our data-sharing feature in 2017, PayProp clients can now submit rental payment statistics and other tenant data to Compuscan, our credit bureau partner. Under our agreement with Compuscan, it (Compuscan) processes this data and shares its findings exclusively with our users.¹

It's often said that December's paycheck must stretch further than any other and that January is the longest month of the year. As we tend to spend more than our normal monthly budget on holidays, festive foods and Christmas gifts, we frequently find there's not much money for anything else!

When we look at arrears data, we consider two things – the percentage of tenants in arrears (i.e. the opposite of tenants in good standing), and average arrears relative to rent.

But surely consumers will not neglect their most important bills or fail to budget for rent, right?

As it turns out, this has not been the case. We note a definite spike in January, in both the percentage of tenants in arrears and the average arrears-to-rent percentage. However, while the 'holiday effect' reared its head, it is encouraging to see that both arrears measures returned to normal levels in February. ■

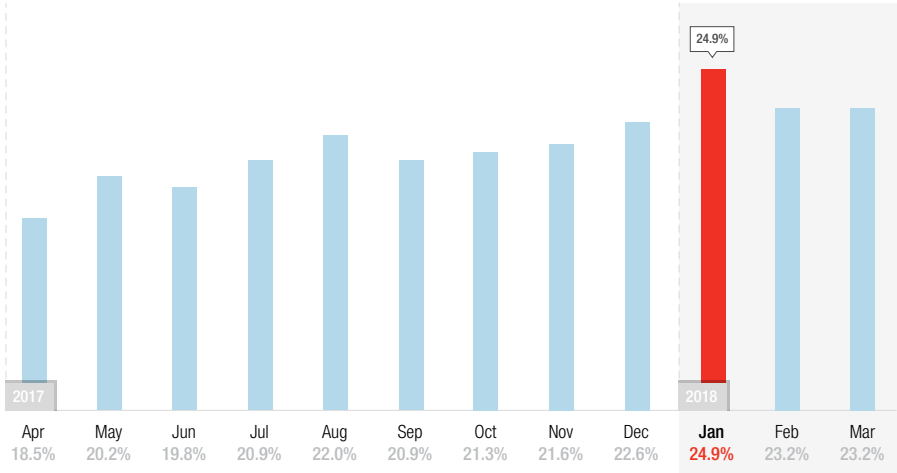
¹ We only analyse arrears data from portfolios on which the data-sharing feature has been activated. A snapshot of portfolios is taken on the 7th of each month and the underlying data is analysed. PayProp cannot guarantee the correctness of individual portfolios' tenant balances.



We note a definite spike after the December holiday, in both the percentage of tenants in arrears and the average arrears-to-rent percentage.

ARREARS DATA

The holiday effect

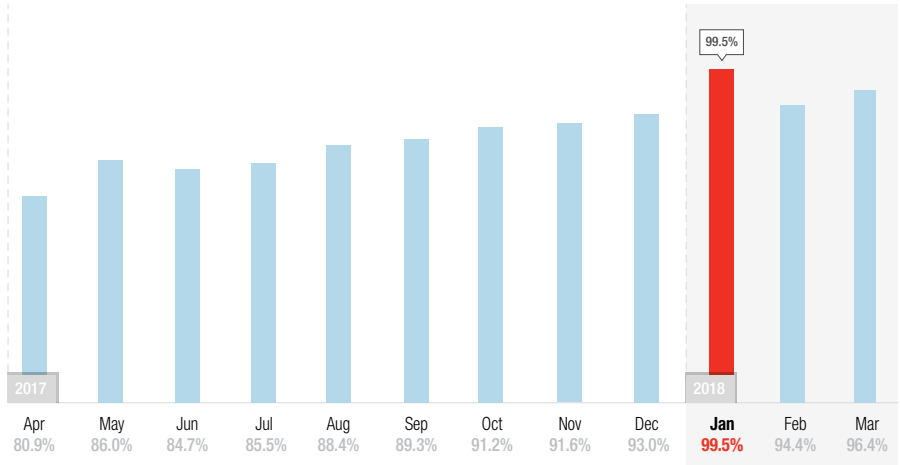


National percentage of tenants in arrears over 12 months



ARREARS DATA

The holiday effect



 National arrears relative to rent over 12 months



Trending the wrong way

An important trend emerging from the previous graphs is the worsening of both measures of arrears over the past 12 months. Nationally, we measured an increase in the percentage of tenants in arrears from 18.5% in April 2017 to 23.2% in March 2018. This means that only 76.8% of tenants pay their rent in full every month – and one in four doesn't. What makes it worrying is that these are tenants who have been vetted and approved by estate agents!

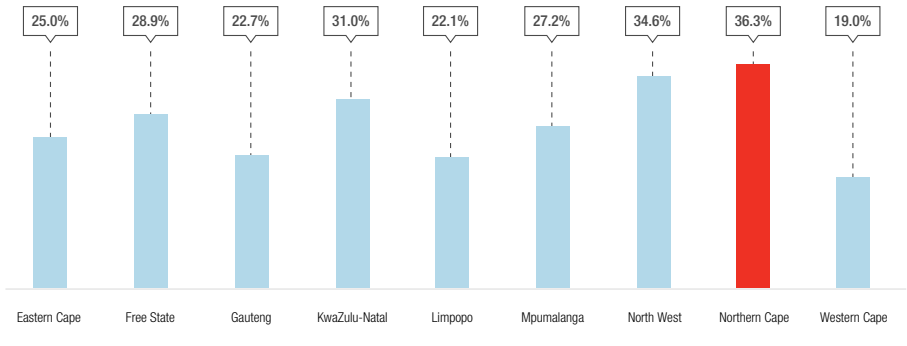
Only 76.8% of tenants pay their rent in full every month – and one in four doesn't.

The average arrears percentage relative to rent is also increasing over time. In April 2017, the average tenant in arrears was just over 80% in arrears. In March 2018, this number was much closer to 100% (96.4%, to be exact), meaning the average tenant in arrears is almost one full month behind with their rent. Unfortunately, this is the trend we see for every province.

For the first quarter of 2018, the Northern Cape sported the highest percentage of tenants in arrears, followed closely by North West. The Western Cape had the lowest incidence at 19%, leaving 81% of tenants in good standing. Sadly, we note a decrease in tenants in good standing (tenants who are not in arrears) in all provinces over the past year. ▶▶

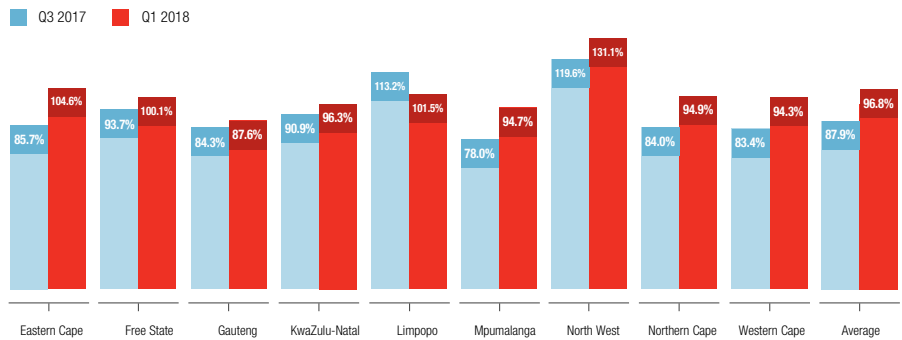
- ▶ When we track the average percentage of tenants in arrears from Q3 2017 to Q1 2018, we note an increase in all provinces except for Limpopo (see note).

As with our other data on Limpopo, arrears data is prone to skewing, due to the small number of rentals processed through PayProp in this province.



Provincial percentage of tenants in arrears: Q1 2018

This worsening in arrears over the past six months can be attributed partly to the tough economic times all over the country. Consumers are quite simply failing to keep up with their rental payments. ■



Provincial arrears percentage: Q3 2017 vs Q1 2018

Rental categories and arrears

For our more detailed analyses we tend to break rental data down into pricing brackets. In this Index we followed this approach for our arrears data, with surprising results.

For example, we mentioned in previous Rental Indices that tenants who earn more also pay more rent (which makes intuitive sense). The converse is also broadly true – tenants who pay higher rents earn more. But can we further assume that they have more disposable income to pay their rent, and that fewer of them tend to be in arrears?

Looking at this question in the light of our two measures of arrears, the answer is not that clear-cut. While the most expensive rental bracket (over R15,000) had the lowest percentage of arrears relative to rent (78.4% in Q1 2018), it didn't have the lowest percentage of tenants in arrears.

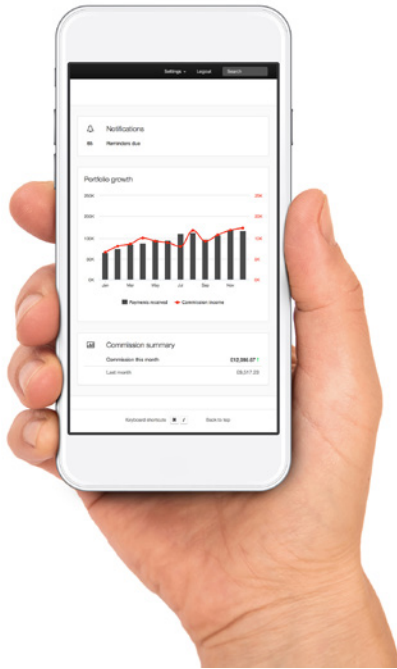
We also know from previous Indices that most tenants rent for between R5,000 and R7,500. This is still the case nationally with 31% of tenants renting in this bracket in Q1 2018, so it's good to see that the proportion of tenants in arrears here was at the low end of the scale at 22.4%.

We also know from previous Indices that most tenants rent for between R5,000 and R7,500. This is still the case nationally, with 31% of tenants renting in this bracket in Q1 2018.

It is perhaps unsurprising – but sad nonetheless – that the lowest rental bracket (R1,000 - R2,500) has the lowest percentage of tenants in good standing and the highest percentage of arrears relative to rent. Over the past six months, however, the arrears percentage decreased slightly, while increasing for every other rental bracket. ■



**You can save time or you
can make money.**



**Or you can do both
with PayProp.**

Why choose when you don't have to? Match tenant payments and pay your entire rental portfolio in a couple of clicks. And like PayProp clients, you could grow on average 23% per year.

Rental brackets and arrears by province

Combining rental brackets and arrears data for the provinces creates the same opportunity to slice and dice data in the abovementioned two ways. Firstly, in which brackets do most tenants rent at a provincial level, and how many tenants are in arrears in those? And secondly, in which brackets are arrears the worst provincially, and how big is the problem (i.e. how many tenants rent in these brackets)? Looking at all these measures together, we're able to paint a more nuanced picture of rentals and arrears risk in your business and province.

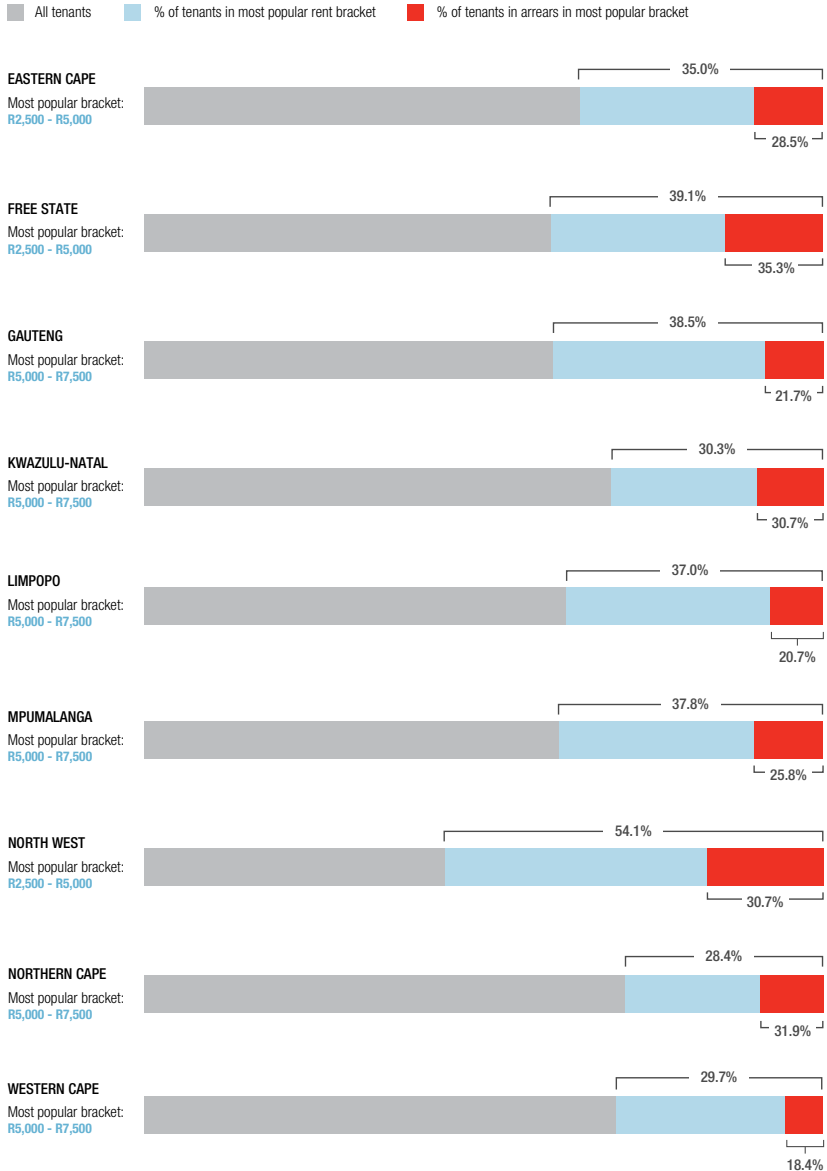
A big chunk of properties managed through PayProp in the North West falls within the student housing category, which explains why the R2,500 to R5,000 rental band is so popular. Often parents pay for accommodation, but as is clear from our data, they can't always keep up.

For most provinces, brackets with a high percentage of tenants in arrears make up a small part of the total tenant population. The exceptions are the Eastern Cape, Northern Cape and Western Cape, where a more substantial portion of the tenant population rents in high-arrears brackets.

The North West additionally presents an interesting challenge: More than half of its tenants rent in the R1,000 to R2,500 price bracket, and of those, almost a third (30.7%) are in arrears. This is clearly a challenged cohort, and special care should be taken when placing tenants from it. ■



The North West additionally presents an interesting challenge: More than half of its tenants rent in the R1,000 to R2,500 price bracket, and of those, almost a third (30.7%) are in arrears.



How to read this graph:

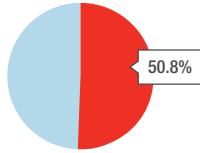
In the Eastern Cape, the rental band with the highest percentage of tenants is R2,500 - R5,000, with 35% of tenants renting for that much. Of that percentage, 28.5% are in arrears.

EASTERN CAPE

Bracket with most tenants in arrears:
R1,000 - R2,500

Tenants in this bracket:

13.2%

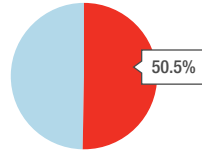


FREE STATE

Bracket with most tenants in arrears:
R1,000 - R2,500

Tenants in this bracket:

3.8%

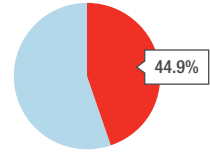


GAUTENG

Bracket with most tenants in arrears:
R1,000 - R2,500

Tenants in this bracket:

3.0%

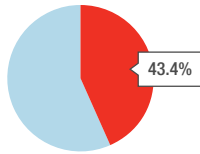


KWAZULU-NATAL

Bracket with most tenants in arrears:
R1,000 - R2,500

Tenants in this bracket:

3.8%

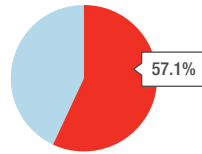


LIMPOPO

Bracket with most tenants in arrears:
R1,000 - R2,500

Tenants in this bracket:

4.7%

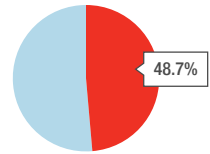


MPUMALANGA

Bracket with most tenants in arrears:
R1,000 - R2,500

Tenants in this bracket:

3.2%

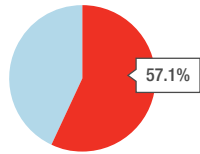


NORTH WEST

Bracket with most tenants in arrears:
> R15,000

Tenants in this bracket:

1.6%

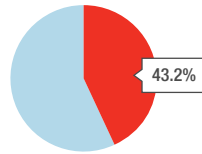


NORTHERN CAPE

Bracket with most tenants in arrears:
R10,000 - R15,000

Tenants in this bracket:

15.3%

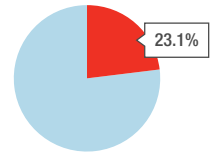



WESTERN CAPE

Bracket with most tenants in arrears:
R5,000 - R7,500

Tenants in this bracket:

17.6%



 How to read these charts:

In the Eastern Cape, the rental bracket with the highest percentage of tenants in arrears is R1,000 - R2,500, with more than 50% of tenants fitting that description. 13.2% of all tenants in the Eastern Cape rent for R1,000 - R2,500.

Arrears vs. credit



As mentioned earlier in this Index, tenants' rental payment behaviour deteriorated over the brief six-month period between Q3 2017 and Q1 this year. In fact, it's been trending downward for the past year. This is true for all the angles from which we analysed our data – the number of tenants in arrears and the average percentage of arrears in relation to rent for different provinces and rental brackets.































But how do arrears relate to tenants' credit profiles?

When it comes to overall credit health, we typically look at tenants' credit scores and debt-to-income ratios, and to judge tenant affordability risk, we add rent and debt repayments into the mix. Interestingly, though, there is no correlation with arrears data. When we combine credit score, debt-to-income ratio and affordability ratio, we see slight improvements in all three on a national level between Q3 2017 and Q1 2018, despite deteriorating trends in rental arrears. ■

No correlation with arrears






















When we break it down per province, this lack of correlation between arrears and credit profile is abundantly clear:


 Better  Worse

	CREDIT SCORE	DEBT-TO-INCOME	AFFORDABILITY
Eastern Cape			
Free State			
Gauteng			
KwaZulu-Natal			
Limpopo			
Mpumalanga			
North West			
Northern Cape			
Western Cape			
Average			

 Provincial credit and arrears profile: Q3 2017 - Q1 2018

We see the same thing when we break it down by rental brackets.

	CREDIT SCORE	DEBT-TO-INCOME	AFFORDABILITY
R1,000 - R2,500			
R2,500 - R5,000			
R5,000 - R7,500			
R7,500 - R10,000			
R10,000 - R15,000			
> R15,000			
Average			

 Credit and arrears profile across rental brackets: Q3 2017 - Q1 2018



► What does this mean?

The short answer is that credit scores and credit data are not great at reflecting and predicting a tenant's rental payment behaviour. What they excel at is giving us an idea of the overall financial health of tenants and prospective tenants.

To determine whether an applicant will be a reliable tenant, credit scores should be used in combination with arrears data. We only need to look at the importance (and difficulty) of placing good tenants to understand why access to both sets of metrics remains key to an estate agent's success. ■

INTRODUCING THE PAYPROP RENTAL RISK RATING



PayProp, together with our credit bureau partner Compuscan, developed a revolutionary new tenant risk measure – the PayProp Rental Risk Rating. It combines tenant payment data with credit data as a more accurate predictor of future tenant behaviour than a credit score.

**Coming soon with the revamped
PayProp Tenant Assessment Report**

The PropTech event of the year

In February this year, the annual PayProp Academy focused squarely on PropTech, showcasing speakers from different fields and specialisations to talk about the enabling power of technology in property.

During our roadshow we welcomed more than 450 guests at four exquisite locations: Spier in Stellenbosch, The Oyster Box in Durban, The Venue in Sandton and the Radisson Blu in Port Elizabeth.

As with all Academy events, the drawcard at the year's biggest PropTech event was the speakers, including the following two:

Adriaan Grove, CEO at real estate technology platform Entegral, discussed what PropTech means in a fast-developing solution landscape, and how you can use it in your business. The successes of Airbnb, online agents, listing portals and a huge variety of apps and platforms show just how diverse and dynamic this sector has become!

Marius Maré, Business Development Manager at online charitable fundraising platform GivenGain, explained that digital marketing is nothing to be scared of, and can in fact be a great and cost-effective source of lead generation.

But by far the best news to come out of the Academy was that PayProp will soon launch its first ever app for landlords – great news for you, as it is a convenient way to show business transparency! Your landlords will now be able to view their property income, expenses and statements – all from the convenience of their mobile device.

If you missed the Academy this year and would like to know more, please get in touch at support@payprop.co.za. We look forward to seeing you at the next event in 2019! ■

The best news to come out of the Academy was that PayProp will soon launch its first ever app for landlords – great news for you, as it is a convenient way to show business transparency!



IN CONCLUSION

All things considered

A number of developments in the first three months of 2018 will have (mixed) longer-term effects on the rental market:

- the interest rate was lowered,
- inflation is the lowest it's been in years,
- VAT increased by 1 percentage point, increasing pressure on consumers in the short run.

As concerns industry metrics, rental growth is trending lower and the rent-inflation differential disappeared during the first quarter of 2018.

And when it comes to tenants, our first-ever analysis of arrears data showed an increase in the percentage of tenants in arrears, as well as an increase in the average percentage of arrears relative to rent.

Credit data does not show the same trends, highlighting the fact that credit scores are not the most reliable measure or predictor of future rental payment behaviour, even though it is still an important way of measuring a tenant's overall credit health. If tenant placement is a concern, be sure to avail yourself of tenants' arrears history!

In coming months, it will be interesting to see the combined effects of the lower inflation rate and interest rate cut on rental growth, as these are usually competing forces with opposite effects on broader economic indicators. ■



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 letting transactions in South Africa.

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[**www.payprop.co.za**](http://www.payprop.co.za)

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PayProp we have certainly made the
correct choice.”**

**ARNOLD EKSTEEN
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