

THE PAYPROP

RENTAL INDEX

Q3 2018

Age, debt and credit scores

The risk management imperative

Growth down, inflation up

RENTERS & AGE JUST A NUMBER?

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INTRODUCTION

HOME STRETCH

October is my favourite month: Warmer than September but not yet uncomfortably hot. As C Louis Leipoldt rightly said, it is also the most beautiful month, with new green leaves and flowers to be seen everywhere.

And of course, it is a time of expectation when we rush to tie up any loose ends before some well-deserved end-of-year downtime.

But most importantly, Spring is our annual reminder that there is life after Winter. And that is the point I'd like to make. There's no doubt that the rental market is a tough place to be at the moment, but then, so are most industries in South Africa currently.

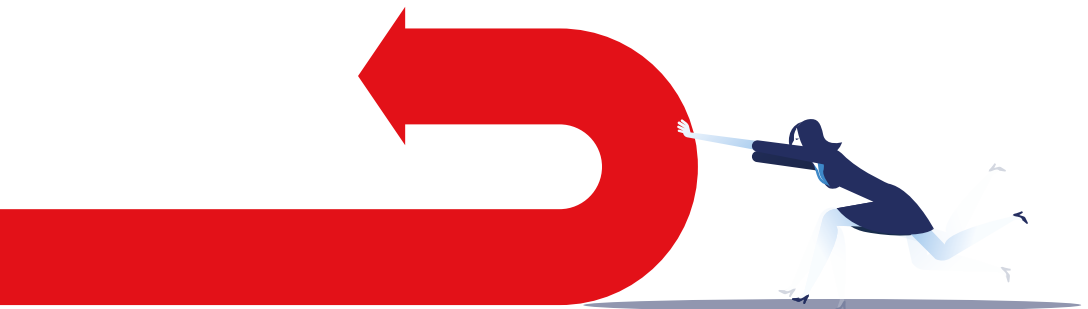
Businesses are struggling and the economic outlook isn't great. Still I believe that next Spring, we'll be writing a new chapter about the start of a market recovery, and things will look a bit rosier.

Martha Stewart once said, "So the pie isn't perfect? Cut it into wedges. Stay in control, and never panic." Sound advice for both the kitchen and the current rental market!

Enjoy this issue of the Rental Index. We'll see you again in 2019.



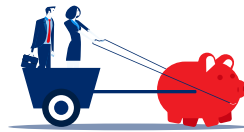
Johette Smuts
Head of Data and Analytics
PayProp South Africa



NATIONAL RENT STATISTICS

BELOW-INFLATION RENTAL GROWTH

The latest quarter's rental statistics do not bring good news – year-on-year growth continued to trend downwards, from 3.92% in Q2 2018 to 3.25% in Q3. In fact, this figure fell to less than 3% in August, before increasing to 3.8% in September.



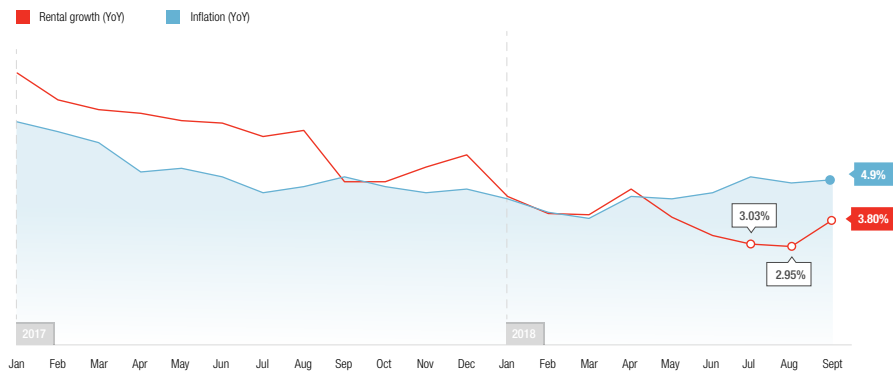
Incomes grew faster than rent for the first time in a year, at 3.73% over the past 12 months.

The higher growth rate for September should be viewed with cautious optimism, as it doesn't necessarily signal the start of a turnaround. As we see from the graph on the next page, there have been other short-lived increases during the general downward trend since the beginning of last year.

One positive development has been that incomes grew faster than rent for the first time in a year, at 3.73% over the past 12 months.

The increasing inflation rate (see next page) is bad news for consumers, who are already under considerable financial strain. Continuous petrol price increases have had a knock-on effect on the price of other goods and services, which has an inflationary effect all of its own that we sometimes forget about.

For 2019, economists expect inflation to continue to rise for most of the year while economic growth is likely to stay slow, meaning consumers won't get a break from their woes for at least the next year. ■



Weighted average national rental growth rate (YoY) vs. inflation – Jan 2017 to Sep 2018

Source: PayProp

For 2019, economists expect inflation to continue to rise for most of the year while economic growth is likely to stay slow.



PROVINCIAL RENT STATISTICS

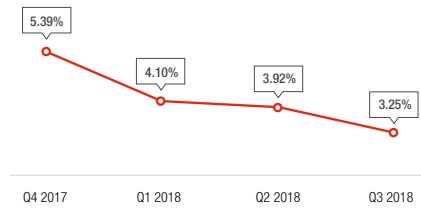
TRENDING DOWNWARD

Which provinces are driving (and bucking) the national growth data?

Only one province showed an increase in rental growth rate compared to the previous quarter – Mpumalanga. It's also the only province with a definite upward trend over the past year. By comparison, the Free State and Kwazulu-Natal saw good growth rates over the past year, but both saw a decrease in growth from Q2 to Q3.

All the remaining provinces – with the exception of the Eastern Cape – showed marked downward trends. We observe this in Gauteng, Limpopo, North West, the Northern Cape and the Western Cape. It's no wonder a general downward trend can be seen in the national average as well.

Only one province showed an increase in rental growth rate compared to the previous quarter – Mpumalanga.



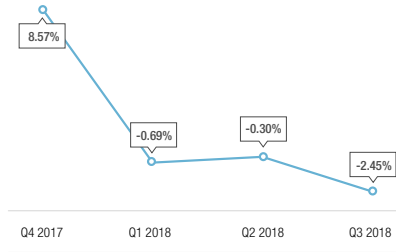
 Weighted average national rental growth (YoY) over four quarters

Source: PayProp

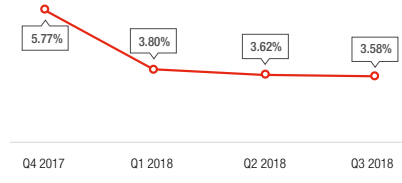
It's worth noting that the 5.2% year-on-year growth recorded in the Western Cape in Q3 is the province's lowest since we started publishing the PayProp Rental Index in 2012. Both the Free State and KwaZulu-Natal beat the celebrated Fairest Cape at its own game. ■

Provincial rental growth (YoY) over four quarters

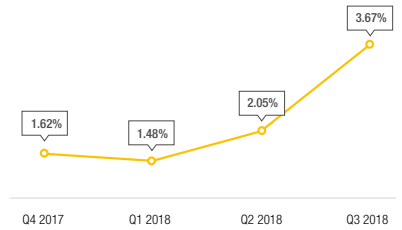
Source: PayProp



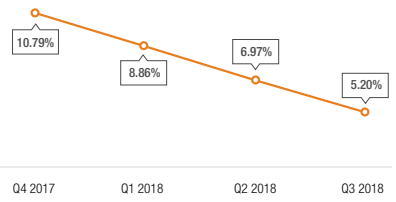
North West



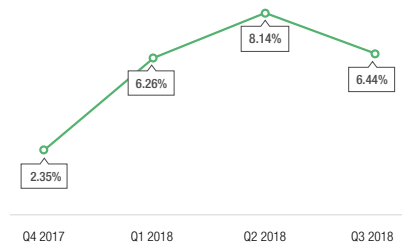
Gauteng



Mpumalanga



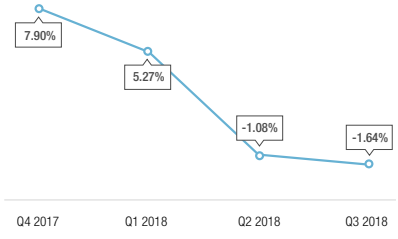
Western Cape



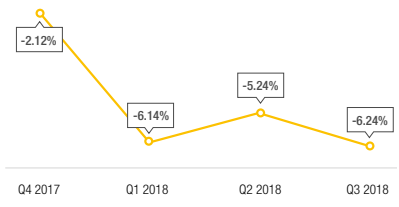
Free State

Provincial rental growth (YoY) over four quarters

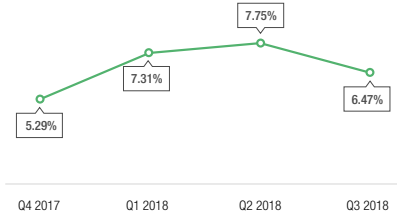
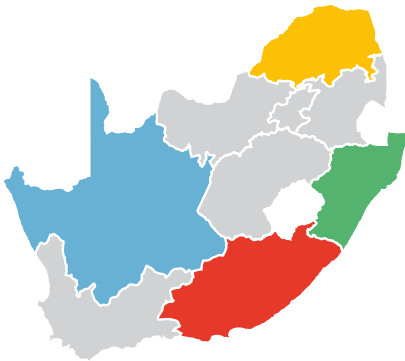
Source: PayProp



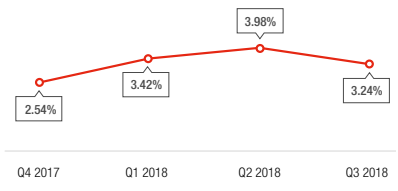
Northern Cape



Limpopo



KwaZulu-Natal



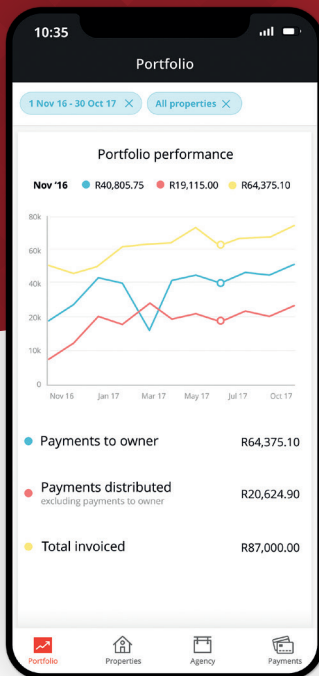
Eastern Cape

All the remaining provinces – with the exception of the Eastern Cape – showed marked downward trends.

PAYPROP IN YOUR LANDLORD'S POCKET

Who paid? When? What are my Property Account and Tenant Deposit balances?

The PayProp Landlord App has everything in one place, so your landlords can access vital information about their property portfolio in real time.



1 May 17 - 30 Jul 17

1 June 2017 R11,925.00

Baker Street 27

Commission	R700.00
Levy	R500.00
Owner	R5,725.00
Total distribution	R6,925.00

Main Street 3

Commission	R500.00
Levy	R200.00
Owner	R4,300.00
Total distribution	R5,000.00

Portfolio Properties Agency Payments

📞 087 820 7368

🌐 www.payprop.co.za



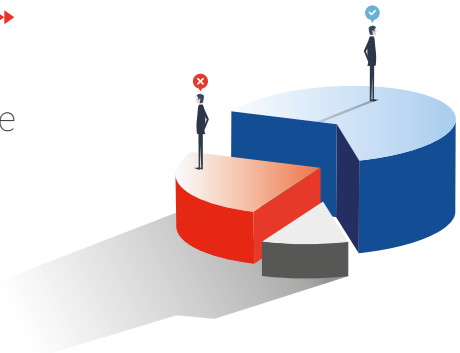
RISKY BUSINESS

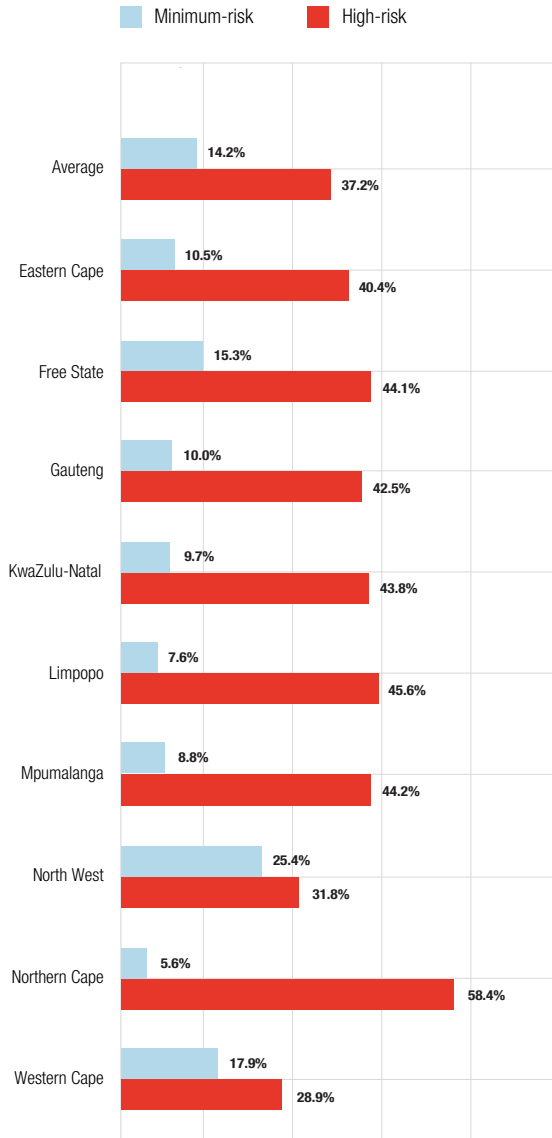
We include two Compuscan credit risk score classifications, high risk and very high risk, when we talk about high-risk or risky tenants.


On average, 14.2% of South African tenants are classified as minimum-risk according to their credit scores, while 37.2% are classified as high-risk. This means nearly two out of every five tenants are risky!

We know from experience that tenant demographics, rent levels and growth can differ significantly between provinces. Does the same apply to provincial tenant risk profiles? ▶▶

Nearly two out of every five tenants are risky.

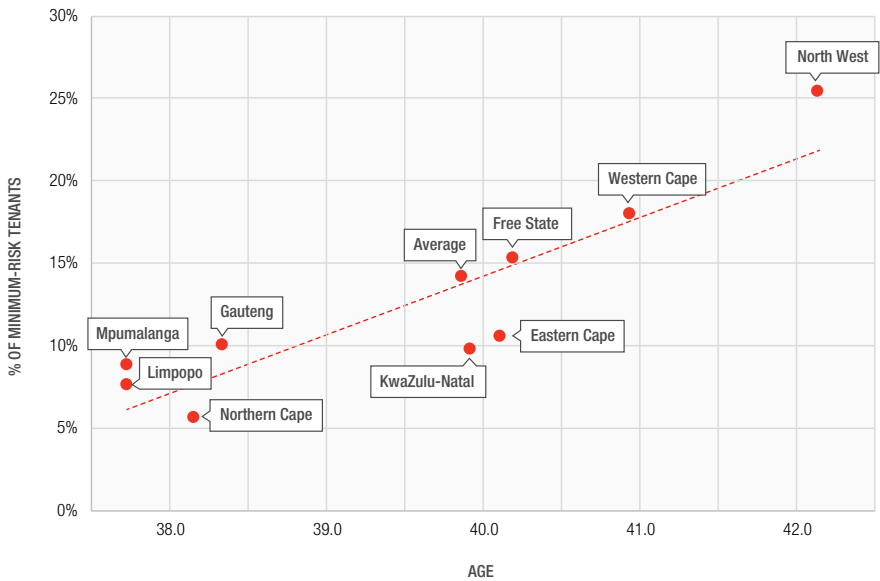





 Percentage minimum- and high-risk tenants per province
Source: PayProp

► Of the provinces, three stand out on opposite ends of the risk spectrum – North West, Northern Cape and the Western Cape.

- The highest percentage of low-risk tenants and the lowest percentage of risky tenants (the ideal combination) can be found in the North West.
- The only other province with a higher-than-average percentage of minimum risk tenants and a below-average percentage of risky tenants is the Western Cape.
- The Northern Cape, sadly, is exactly the opposite. It has the highest percentage of risky tenants and the lowest percentage of minimum-risk tenants – only 1 in 10 tenants are in this bucket, with nearly 6 out of 10 tenants classified as risky.



 Average tenant age per province mapped against % of minimum-risk tenants
Source: PayProp

There is a correlation between the average age of tenants per province and the percentage of minimum-risk tenants per province (more on that in the next section) – this provincial data confirms that older tenants tend to be less risky on average. ■



MANAGE YOUR RENTAL PORTFOLIO

FROM ANYWHERE

PayProp is plugged directly into the banking system so you can unplug, relax and run your rental portfolio wherever you are.

☎ 087 820 7368

🌐 www.payprop.co.za

DOES YOUR AGE DEFINE YOU?

All of us have certain perceptions about age – with age comes wisdom, you are only as old as you feel, age is just a number, and so on. Do these perceptions also apply to the age of tenants or prospective tenants – and are they accurate?

In this section, we unpack the differentiating characteristics of different age groups – both demographic and risk-related. Most feel like common sense but we highlight some telling exceptions. ▶▶

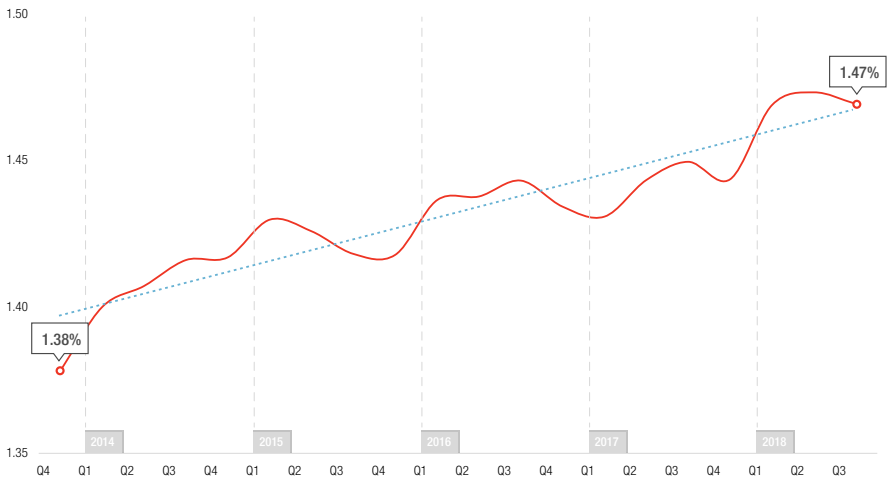
It's important to note that these numbers are based on averages and should not be used as a guideline for placing specific tenants – each applicant must still be diligently vetted before placing them as a tenant.




▶ Landlords

The average age of landlords in the PayProp data set is around 50.5 and this has stayed pretty constant over the years. Provincially, the youngest landlords live in Gauteng (48.4 years of age), and the oldest (52.3) in the Eastern Cape and Free State.

Interestingly, the average number of properties per landlord has been trending upward for years, with the average landlord owning 1.47 properties managed by an estate agent. The graph below shows that landlords have bought more investment properties over time – property portfolios are still seen by many as an attractive investment option. ▶▶



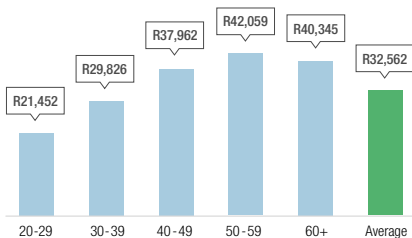
 Average number of rental properties per landlord over the past 5 years
Source: PayProp

▶ Tenants

The average age of tenants has also been virtually unchanged since we first measured age, at 41.4 years. The youngest tenants live in the Northern Cape (37.9) and the oldest in North West (44.2).

Age and income

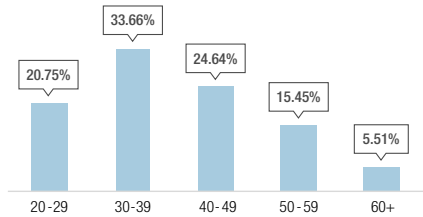
As can be expected, income increases with age and work experience. The dip in average income for the 60-plus bracket is accounted for by retirement (most people have lower retirement incomes than their last income during employment). The average age for tenants in this age category is 65.7.



Average income per age bracket
Source: PayProp

It is also interesting to note that all tenant age groups above 40 have above-average incomes. Note that the aggregate across all age groups is influenced by the percentage of tenants in each bracket – over 54% of tenants are under 40, which has an outside lowering impact on the average income.

Tenants use on average 44% of their net income to repay debt.

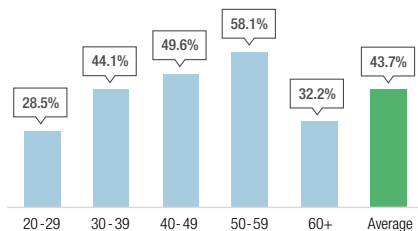


Percentage of tenants per age bracket
Source: PayProp

Age and debt

We have reported before that the average national debt-to-income ratio is around 44% – in other words, tenants use on average 44% of their net income to repay debt every month. It is interesting but not unexpected to see how this is distributed among age groups: The debt-to-income ratio for tenants increases with age as people start families, send their kids to school and university and buy more expensive ‘things’ as they get older.

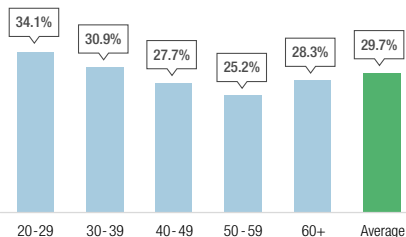
Of course, by the time they retire, the situation is a little different – the majority of their debts will be paid off and their kids will (hopefully) be supporting themselves, causing retiree tenants’ debt-to-income ratio to decrease once again. ▶▶



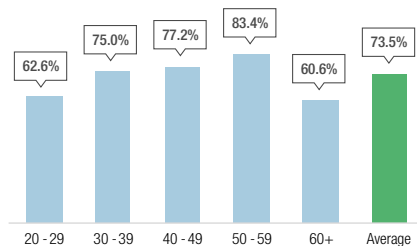
Average rent-to-income ratio per age group
Source: PayProp

▶ Age and rent

The fact that the percentage of income spent on rent decreases as tenants get older is not surprising either, but the reason we're postulating is counter-intuitive. It happens not because incomes increase with age, but because debt levels increase to such an extent that older tenants cut down on rent. This ratio increases again for tenants over 60, as their debt-to-income ratios drop (as seen in the previous graph) and they have more disposable income available to spend on rent.



 Average affordability ratio per age group
Source: PayProp



 Average debt-to-income ratio per age group
Source: PayProp

Age and affordability

The ideal measure then would be one that combines rent and debt payments. Affordability does just that, expressing the percentage of income spent on rent and debt combined. The remaining income is referred to as disposable income.

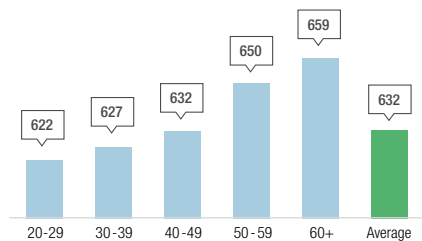
Again, it's no surprise that the affordability measure also trends upward the older a tenant gets. As tenants age, the part of their income spent on debt and rent increases. Once again, this drops considerably once tenants reach their 60s, due to much lower levels of debt. ▶▶



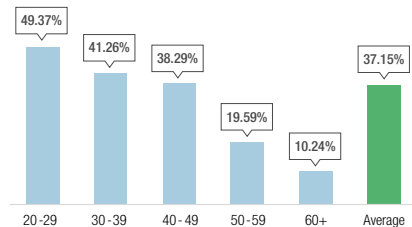
► Age and risk

Even though tenants between 50 and 59 have the highest levels of debt, they also have high credit scores. This is because credit scores combine many different aspects other than indebtedness – it considers the type of accounts a tenant holds, how old these accounts are as well as payment behaviour on these accounts, to name a few. As a result, high levels of debt do not necessarily mean a tenant is high-risk.

On the other end of the spectrum, we see that the group with the lowest relative debt levels – tenants under 30 – have the lowest credit scores. We can debate the other side of the coin here as well – low levels of debt don't necessarily imply lower risk, even if it may seem so from our analysis.



 Average credit score per age group
Source: PayProp



 Percentage of high-risk tenants per age bracket
Source: PayProp

Percentage of high-risk tenants per age bracket

This graph confirms that age groups with higher credit scores have fewer high-risk tenants. Almost half of tenants younger than 30 are high-risk! This average has been stable over the past two years, which, ironically, is good news, considering the economic climate.

Unfortunately, the best tenants (those over 60, boasting the lowest percentage of high-risk tenants) are few and far between. Only 5% of tenants fall in this bracket. For the rest, it is important to check each applicant properly and often. ■

IN SUMMARY

RISK MANAGEMENT IS KEY

In this issue, we saw that:

- Rental growth continues to slow nationally, reaching a level of only 3.25% for the quarter.
- Inflation is rising and predicted to continue to do so over the next 12 months, keeping consumers under pressure.
- Most provinces are feeling the pinch – over the last quarter, only one experienced an increase in rental growth compared to the previous quarter.
- All provinces have more risky tenants than low-risk tenants.
- In our age analysis, we saw that low levels of debt don't necessarily imply low risk, and vice versa.

To best manage the current rental economy, risk management should be your number one priority. A bad tenant will stay in a property even after the market has turned, so don't compromise on tenant placement, recheck before you renew, and diligently chase arrears. ■



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.

Contact details

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