PayProp

RENTAL INDEX

QUARTERLY SOUTH AFRICAN RESIDENTIAL RENTAL MARKET DATA

Q1 2024

HOW TO GROW RENTALS IN TOUGH TIMES

Rental growth cycle ends as bigger arrears return

Tenant risk improves despite ongoing pressure

Build resilience with managed rental growth

INTRODUCTION

Turn adversity into *opportunity*

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Dieter F. Uchtdorf was onto something when he said "It's your reaction to adversity, not adversity itself, that determines how your life's story will develop".

Estate agents are no strangers to adverse market conditions. Property sales are currently slow in many areas due to high interest rates and election season uncertainty and the rental market is also cooling. Luckily, PayProp is here to help you weather the storm.

In a PayProp first, we launched a new series of Masterclass webinars for property practitioners, to help you navigate the world of residential rentals with a full deck of cards. On page 26 we share excellent advice from our recent Masterclass by André van Rooyen, PayProp's Head of Sales, who talked about building resilience by growing your managed rental book.

Elsewhere in this issue, we look at national and provincial rental growth, and analyse the changes in rent price distribution over the past year. As usual, we also track arrears metrics (national and provincial), and revisit tenant spending – an important indicator while interest rates and inflation remain stubbornly high.

And on page 20, Gerhard Kotze and Chantelle Aarloo of RealNet Properties explain how PayProp helped grow their innovative rental agency and maintain their trademark excellence.

Keep an eye on your inbox to register for more upcoming webinars – we have an exciting line-up for the rest of the year!

I hope you enjoy this issue of the PayProp Rental Index. Feel free to share your thoughts with me! ■

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NATIONAL RENTAL GROWTH

Rent and *inflation*

REPORTING METHODOLOGY

To prevent the unique geographical distribution of PayProp clients from skewing our national figures, we weight each province's contribution to the national figure using Stats SA's published provincial weightings.

In the previous PayProp Rental Index, we reported that quarterly rental growth had slowed after eight quarters, and surmised that it could be the start of a plateau.

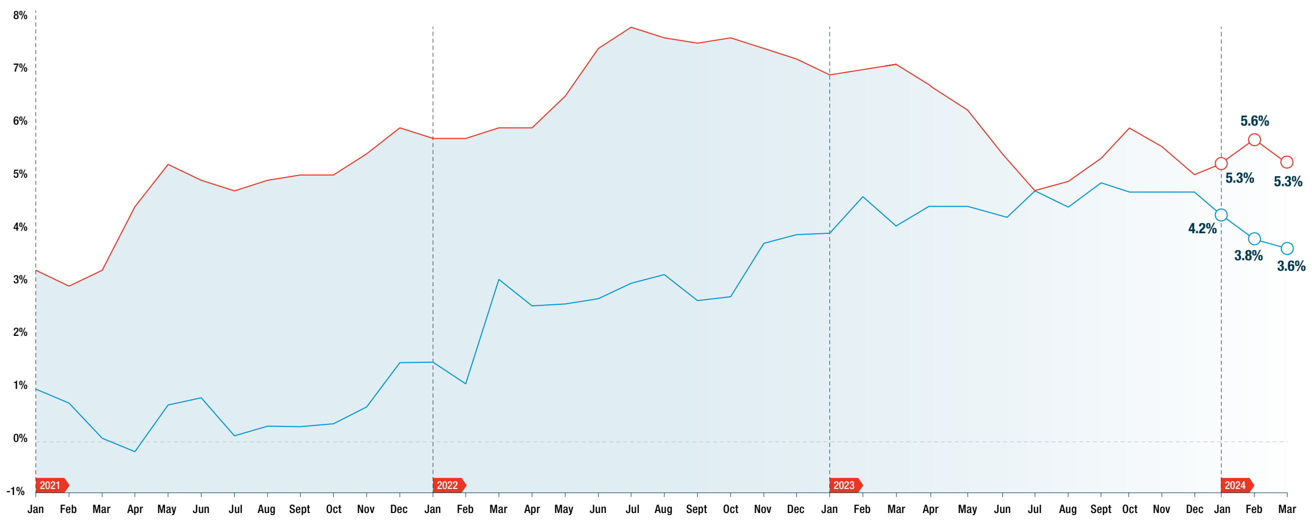
In the event, rental growth entered a period of sustained year-on-year decreases in recent months – slowing to 4.2% (January), 3.8% (February) and 3.6% (March). That has produced a quarterly average of 3.8% – the lowest quarterly increase since Q4 2022, suggesting that the post-pandemic rental growth recovery is well and truly over.

Falling tenant affordability could be part of the issue. Central banks around the world, including the SA Reserve Bank, have struggled to rein in inflation. In South Africa, the Consumer Price Index shows inflation within the 3-6% target range, but remains stubbornly at the top end despite a prolonged period of high interest rates. It has also consistently outpaced rental growth.

That creates a dilemma for the SARB: an interest rate cut would make borrowing cheaper and reduce downward pressure on economic growth, but it could also boost consumer demand and fuel higher rises in inflation. It now looks as though the Bank will not make previously anticipated reductions this year, and could even raise interest rates further. The SARB will also continue to keep an eye on other central banks, especially the US Federal Reserve – and the signs are that the Fed won't make near-term interest rate cuts either.

Agency leaders will need to manage their finances carefully. The growing gap between rental growth and inflation means that agencies' commission income is falling further behind their costs, while high interest rates also suppress the housing sales market.

The key is not to panic. Rental agents have dealt with much lower rental growth in recent years. The quarterly rent inflation figure of 3.8% is below that of any comparable period last year, but still higher than 2021 or 2022. The same resilience that served rental agencies well during the pandemic will help them through today's challenges. ■

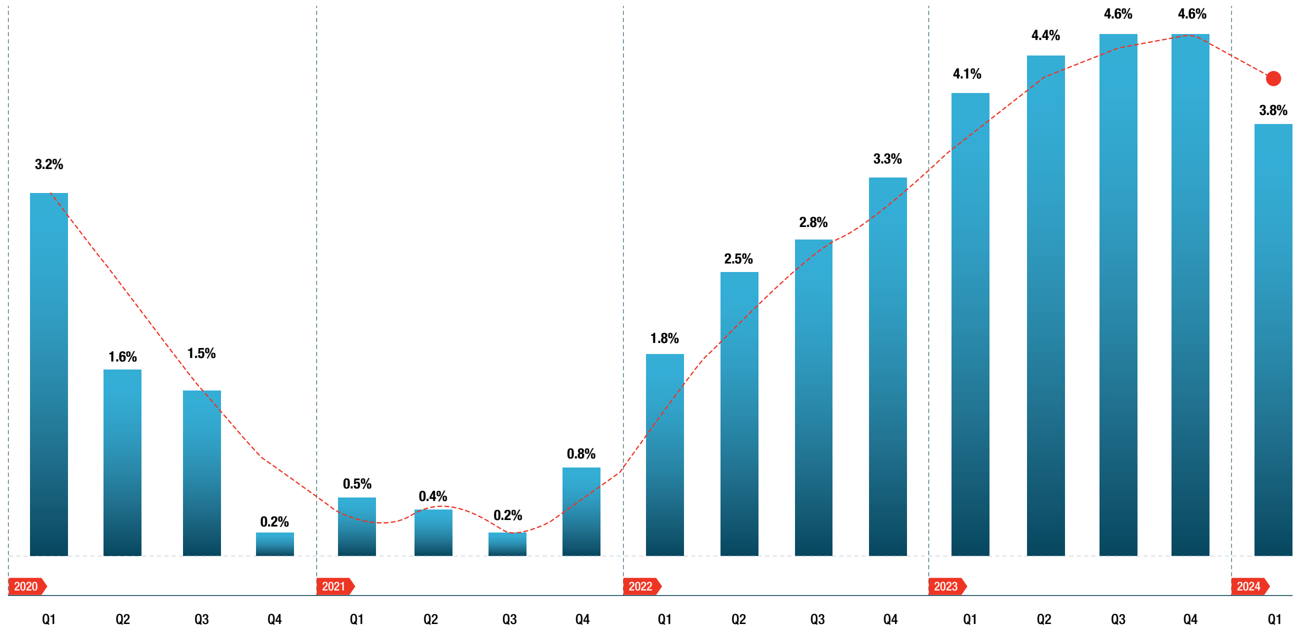


Weighted average national rental growth rate (YoY) vs. inflation, Jan 2021 - Mar 2024
Source: PayProp

Inflation (YoY) Weighted average national rental growth rate (YoY)

NATIONAL RENTAL GROWTH

Quarterly *trends*



Quarterly rental growth rate (YoY) with a moving average trendline: Q1 2020 - Q1 2024
Source: PayProp

Rental growth fell to

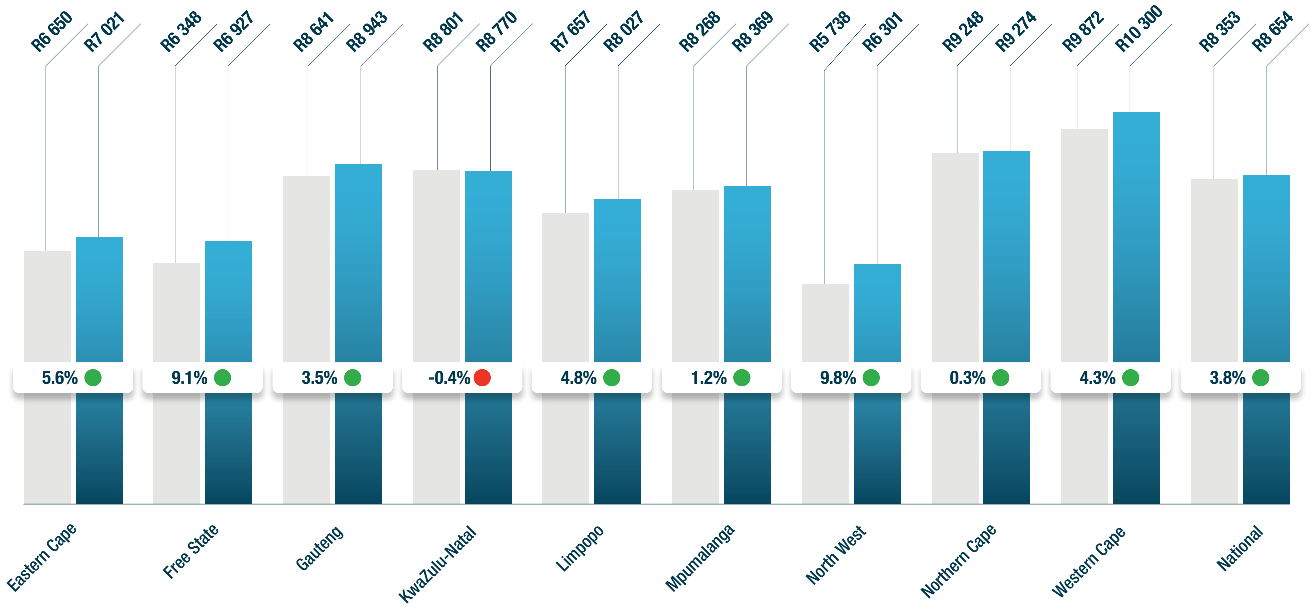
3.8%

in Q1 2024, 0.8% below the previous quarter. That is still a healthier growth rate than in the corresponding quarters in 2021 and 2022, but the size of the quarter-to-quarter fall is cause for concern.

The average rent in South Africa stood at R8 654 in Q1 – just R301 more than a year earlier.

PROVINCIAL RENT AND RENTAL GROWTH

Slow growth better than *no growth*



Average rent Q1 2023 Average rent Q1 2024

Provincial rent and rental growth (YoY): Q1 2024
Source: PayProp

Eastern Cape – slowing down

The Eastern Cape once again returned the third-fastest rental growth of any province, although this quarter's 5.6% year-on-year growth was slower than Q4 2023's 7.3%.

The average rent in the province now stands at R7 021, still the third lowest in the country but R371 more than a year previously. However, rents were up by just R3 quarter on quarter, which could suggest further slowdowns later in the year.

Free State – bucking the trend

Rents grew by 9.1% year on year in the Free State, the second fastest of any province. This was higher than the 8.8% of Q4 2023, making it one of just two provinces with accelerating rental growth. The province's performance is all the more surprising given that, until the end of last year, it consistently recorded below-average growth.

The average rent in the province was R6 927, R579 more than a year earlier. That still makes it the second lowest in South Africa, but the gap up to the Eastern Cape is now less than R100.

Gauteng – nearing R9 000

Gauteng's rental growth of 3.5% was below the national average, but still enough to stay ahead of KwaZulu-Natal after taking third place in Q3 2023. Growth slowed down slightly from last quarter's 3.6%.

The average rent in Gauteng was R8 943 in Q1 2024. If rental growth can be sustained in the country's economic powerhouse this year, it could soon be the third province to pass an average rent of R9 000.

KwaZulu-Natal – *going backwards*

KZN set an unenviable record in Q1 2024, becoming the first province to experience negative rental growth since the Free State in Q1 2023.

Rents shrank by 0.4%, going from a quarterly average of R8 801 in Q1 2023 to R8 770 in Q1 2024. Having been the third most expensive province for renters until Q3 2023, the gap between KZN and the top three is widening.

Limpopo – *another solid performance*

Limpopo enjoyed above-average rental growth throughout 2023, and has continued that streak into 2024, recording 4.8% growth in Q1. This was well below the quarter's top-end performers, but still the fourth highest in South Africa.

The average rent in the province reached R8 027 – a R370 year-on-year increase that took average rents past R8 000 for the first time. However, that's only the sixth highest in the country, and still quite a long way off Mpumalanga's figure, which puts the latter in fifth place.

Mpumalanga – *slamming on the brakes*

Like Limpopo, Mpumalanga experienced above-average growth in 2023, achieving 6.1% in Q4 – but that's where the similarities end. Rental growth crashed to just 1.2% in Q1 2024, possibly as a result of falling tenant income and pressured spending metrics. Tenants in Mpumalanga spend more on debt repayments as a proportion of income than anywhere else in South Africa.

The province still has the fifth most expensive rents in South Africa, at an average of R8 369.

North West – *rents still rocketing*

Rental growth in the North West didn't quite make it into double digits as it did last quarter, but at 9.8%, it was still the highest in South Africa – as it has been for each of the last four quarters.

The average North West rent reached R6 301, still the lowest of any province. And the gap to 8th isn't closing: despite lower percentage growth, rents in the Free State rose slightly faster in Rand terms. Even so, local landlords and agents can be pleased with another strong quarter.

Northern Cape – *still sliding*

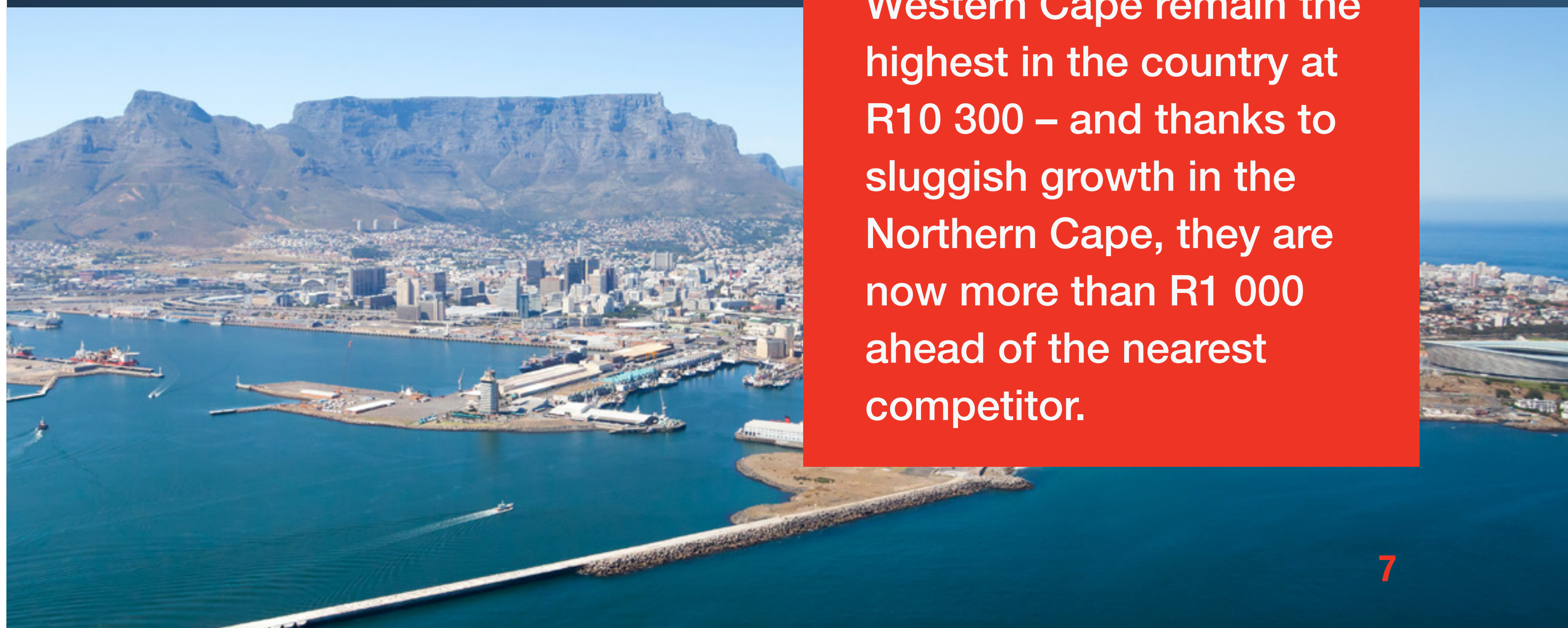
Last year, rental growth in the Northern Cape declined from double digits in Q1 to 5.0% in Q4. In Q1 2024 it suffered another sharp drop, just barely staying positive at 0.3%, despite strong tenant income growth recorded last year. It's the first time growth in the province has been below the national average since Q1 2022.

Rents in the province stood at an average of R9 274, a quarter-to-quarter fall of over R100 and just R26 more than a year earlier. While this is still the second highest in the country, the province could be at risk of being overtaken by Gauteng if current trends continue.

Western Cape – *looking up*

The Western Cape recorded below-average rental growth for most of 2023, but in Q1 2024 rents grew 4.3% year-on-year – above the national average of 3.8% and the fifth highest in the country. ■

Average rents in the Western Cape remain the highest in the country at R10 300 – and thanks to sluggish growth in the Northern Cape, they are now more than R1 000 ahead of the nearest competitor.



RENT DISTRIBUTION

Movement beneath *the surface*

Recording average national and provincial rents tells us a lot about how South Africa's rental markets are performing, but they're just the tip of the iceberg. A lot more becomes evident when we track how properties are distributed across different rental brackets.

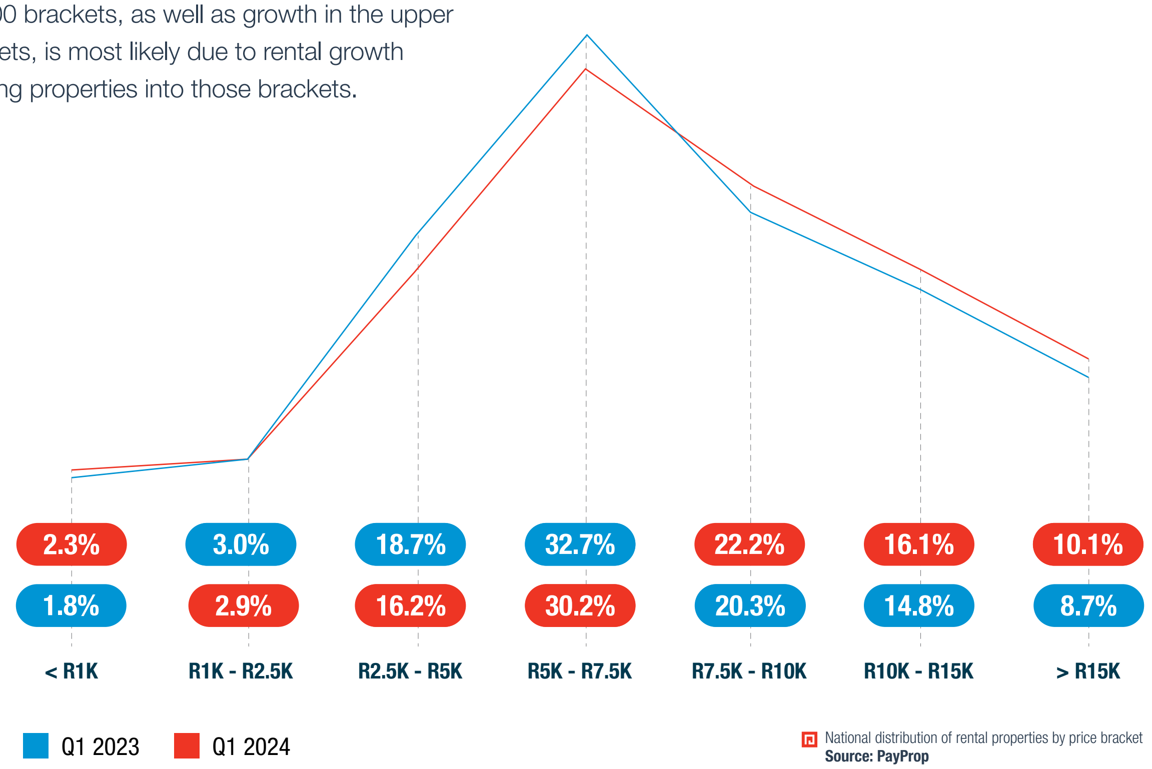
DATA METHODOLOGY AND DISCLAIMER

The PayProp Rental Index exclusively tracks rental data as transacted by our clients – and specifically residential rents. While it is likely that some rentals below R1 000 may actually be other types of property, such as storage units, we do, for the sake of consistent reporting, include them as part of our complete dataset.

Additionally, national statistics for 2023 may look different to those originally published. This is because we have since updated our provincial weightings in line with StatsSA's inflation reweighting to more accurately reflect their contribution to the national economy.

National distribution

Nationally, rental distribution has not changed dramatically over the past year. The slight shrinkage in the R2 500 - R5 000 and R5 000 - R7 500 brackets, as well as growth in the upper brackets, is most likely due to rental growth pushing properties into those brackets.



National distribution of rental properties by price bracket
Source: PayProp

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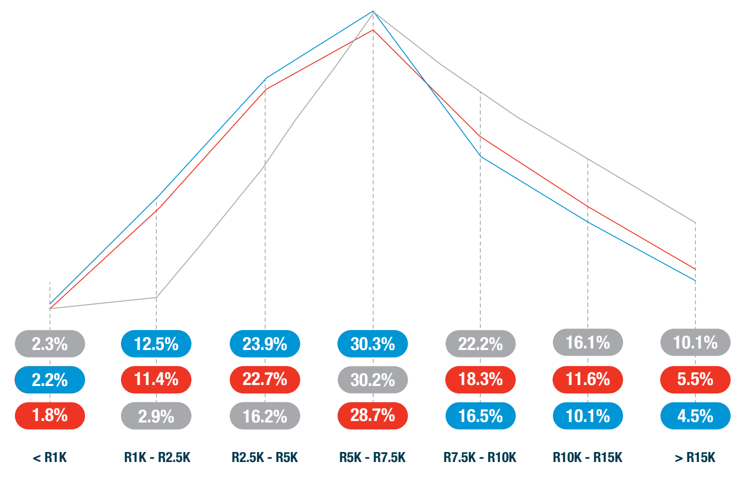
Eastern Cape

Similar to the national picture, rental distribution in the Eastern Cape has not changed dramatically since Q1 2023. Again, we see shrinkage in the lower brackets and growth in the upper brackets – most likely due to overall rental growth pushing properties into higher brackets.

But the province's distribution of rents is still very different to the national average. The lower brackets are represented much more here – 11.4% of Eastern Cape rentals fall into the R1 000 - R2 500 price range, compared to just 2.9% nationally.

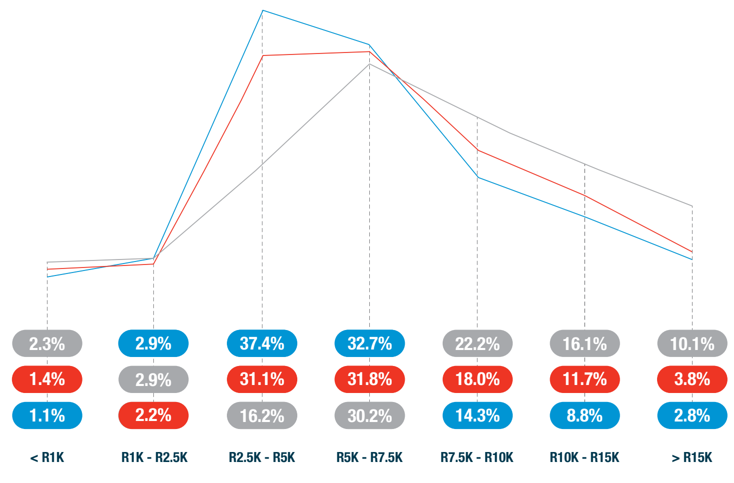


Eastern Cape distribution of rental properties by price bracket
Source: PayProp

Free State

The Free State has the fewest high-end rentals of any province, with just 3.8% falling within the R15 000+ bracket compared to 10.1% nationally. Meanwhile, the R2 500 - R5 000 grouping is almost double the size it is nationally, comprising 31.1% of properties compared to 16.2%.

But over the past year, rental distribution has approached that of the nation as a whole. Shrinkage in the R2 500 - R5 000 bracket means that the R5 000 - R7 500 group is now the largest in the province, just as it is nationally. And significant growth in the R7 500 - R10 000 and R10 000 - R15 000 brackets has also put them closer to the national averages.

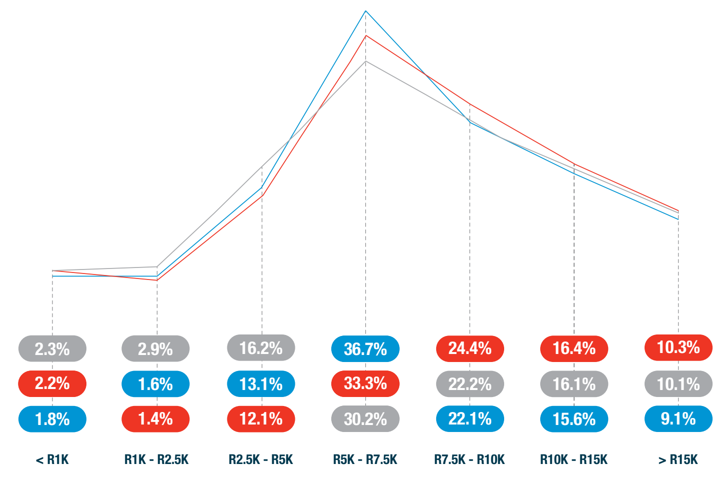


Free State distribution of rental properties by price bracket
Source: PayProp

Gauteng

Rental distribution in Gauteng has changed in the same way as the national distribution over the past year: the lower and middle brackets have shrunk slightly, while the rental brackets starting at R7 500 have all grown.

Gauteng has the smallest share of properties between R1 000 and R2 500 at just 1.4%, compared to 2.9% nationally. Meanwhile, the R5 000 - R7 500 bracket is larger than the national average at 33.3%.

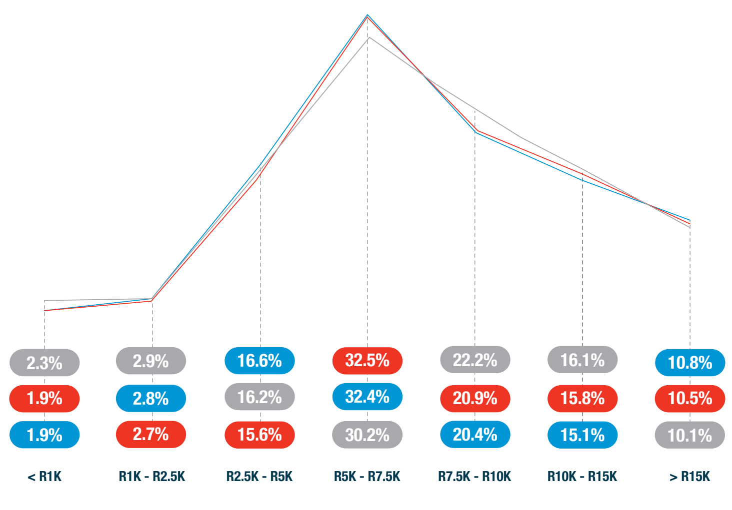


Gauteng distribution of rental properties by price bracket
Source: PayProp

KwaZulu-Natal

KwaZulu-Natal's rental distribution has barely changed over the past year, which is unsurprising as average rents only increased by 0.4% since Q1 2024. However, the share of properties in the R15 000+ bracket actually shrank slightly, from 10.8% to 10.5%.

Rental distribution is almost exactly in line with national averages, just as it was a year earlier.

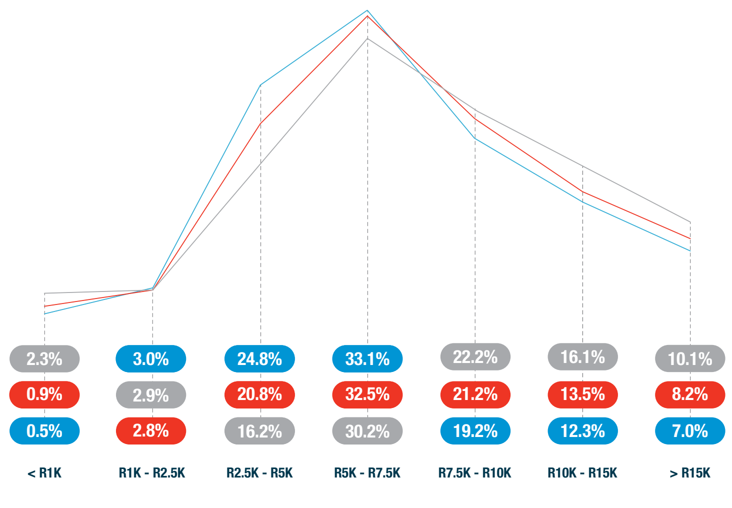


KwaZulu-Natal distribution of rental properties by price bracket
Source: PayProp

Limpopo

Rental distribution in Limpopo trends towards the low-middle brackets. The R2 500 - R5 000 bracket currently contains 1 in 5 properties, while the R5 000 - R7 500 bracket is also slightly larger than the national average.

But, as with most other provinces, rental distribution has shifted towards the upper brackets since Q1 2023. Both of the abovementioned brackets shrank, while all of the higher brackets grew.

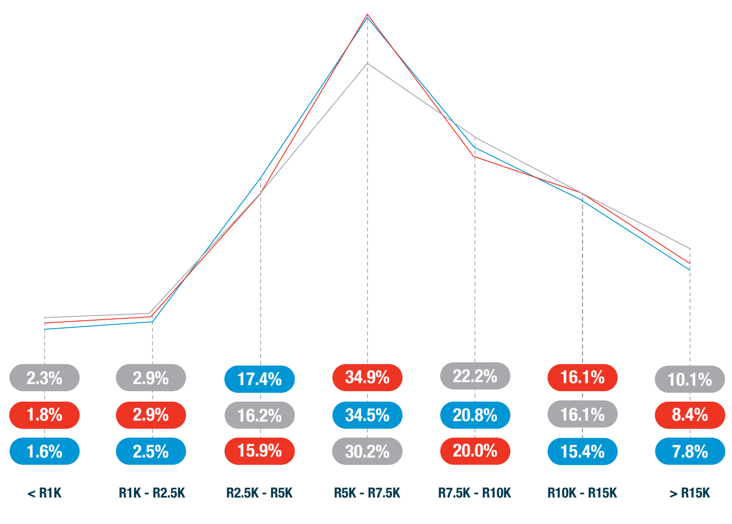


Limpopo distribution of rental properties by price bracket
Source: PayProp

Mpumalanga

Mpumalanga has more mid-priced rental properties than any other province. 34.9% of homes fell into the R5 000 - R7 500 bracket, and atypically this share grew slightly since Q1 2023.

Otherwise, rental distribution in the province is very close to the national average. It also hasn't changed much since Q1 2023, perhaps due to sluggish (1.2%) rental growth, with the only significant shift being a fall in the share of R2 500 - R5 000 properties.



Mpumalanga distribution of rental properties by price bracket
Source: PayProp

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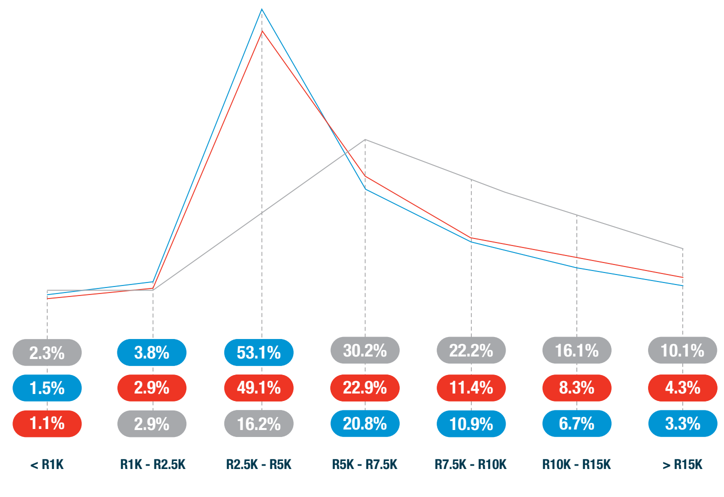
North West

North West rental distribution is very different from the national average. Around half of all rental properties fall in the R2 500 - R5 000 price bracket, due to the large concentration of student housing managed through PayProp in the province. It also has the lowest shares of R7 500 - R10 000 and R10 000 - R15 000 properties, around half the national average.

Otherwise, rental distribution has changed in line with national movements over the past year. All brackets from R5 000 and up have grown slightly, while all three of the lower brackets have shrunk.

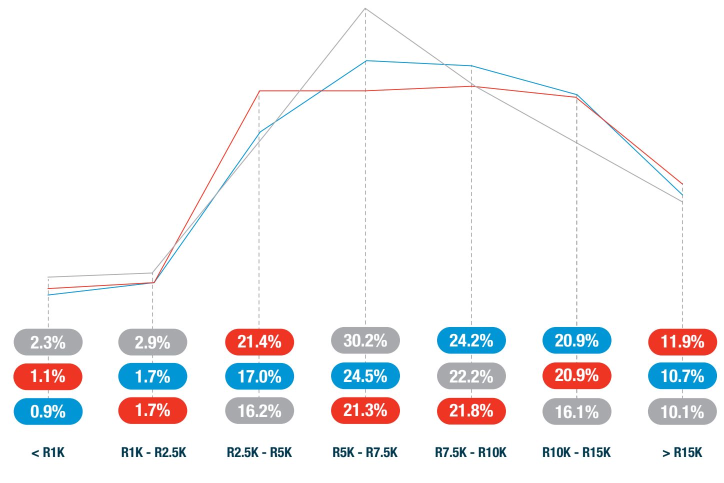


North West distribution of rental properties by price bracket
Source: PayProp

Northern Cape

The Northern Cape has a very flat rental distribution. The R2 500 - R5 000, R5 000 - R7 500, R7 500 - R10 000 and R10 000 - R15 000 brackets each contain around 21% of the province's rental properties, while the R15 000+ bracket is also larger than the national average at 11.9%.

Unusually, the biggest growth over the past year has been in the lower brackets. The R2 500 - R5 000 bracket went from 17.0% to 21.4% of properties, while the R5 000 - R7 500 and R7 500 - R10 000 brackets both shrank.

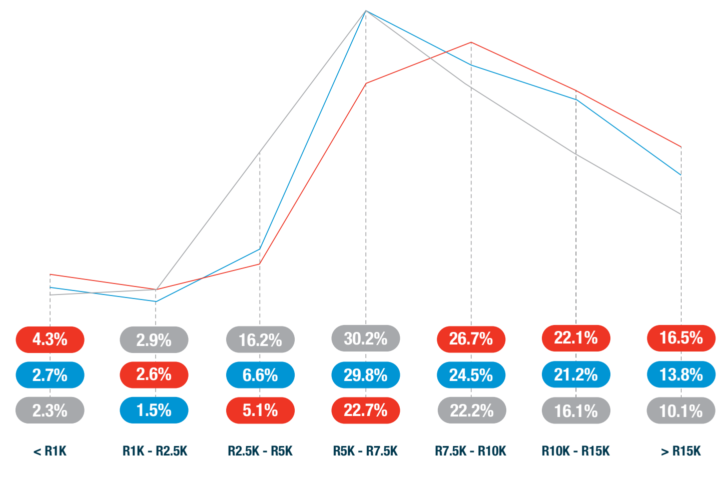


Northern Cape distribution of rental properties by price bracket
Source: PayProp

Western Cape

Average rents in the Western Cape are the highest in South Africa, and that's reflected in the province's rental distribution. The three most expensive brackets contain a greater share of rental properties here than in any other province, while the R2 500 - R5 000 bracket is much smaller than the national average at just 5.1% (compared to 16.2% nationally).

Rental distribution also shifted further towards the upper brackets over the past year. The R5 000 - R7 500 bracket fell from 29.8% of properties to 22.7%, while the R7 500 - R10 000 bracket became the largest in the province at 26.7% of all rentals. 16.5% of properties now fall within the R15 000+ bracket, compared to 10.1% nationally. ■



Western Cape distribution of rental properties by price bracket
Source: PayProp

ARREARS UPDATE

National *arrears*

After declining in the second half of last year, the percentage of tenants in arrears leapt to 18.3% from 17.0% in Q1 2024 – undoing almost all of the progress made last year. That could be due to tenants overspending during the December holidays, but the increase in arrears is significantly larger than the one measured in Q1 2023.

Alternatively, it could be a sign that the same affordability pressures that are suppressing rent increases are also causing more tenants to miss payments.

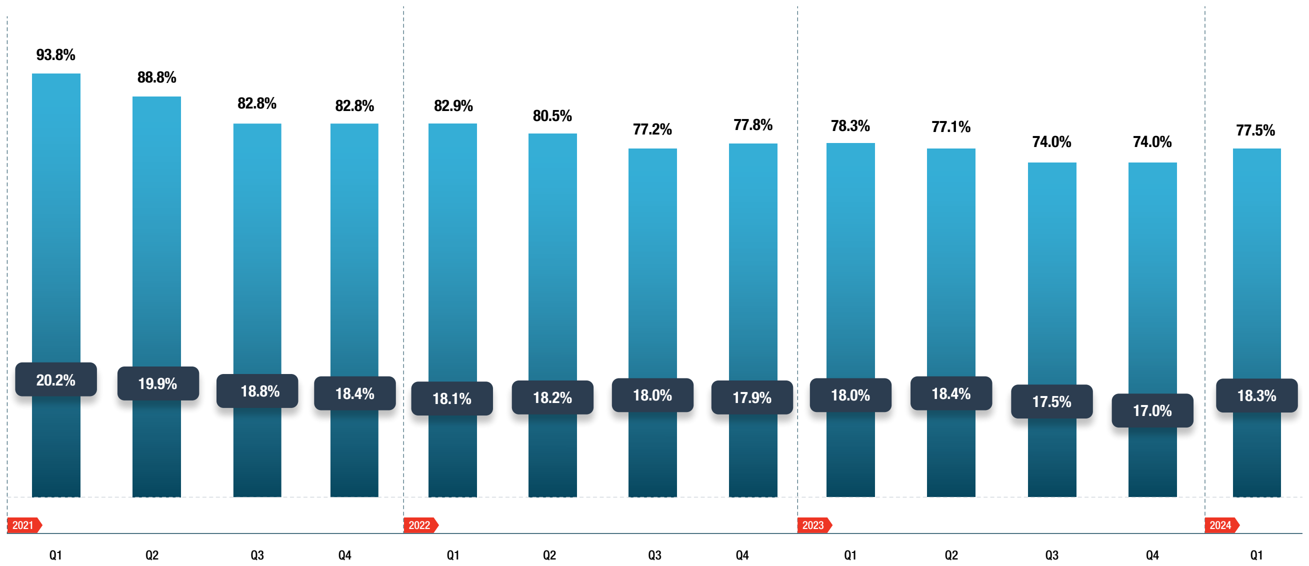
The average arrears percentage also grew from 74.0% in Q4 2023 to 77.5% in Q1 2024. That's still below where it was a year previously (and well below pandemic levels), but the rise may be a cause for concern.

DATA METHODOLOGY

We consider two arrears metrics:

1. The percentage of tenants in arrears, which records the number of tenants in arrears as a percentage of the total number of tenants.

2. The average arrears percentage, which expresses the average amount in arrears as a percentage of the average rent overall – an average arrears percentage of 80% therefore means that on average, a tenant in arrears owes 80% of one month's rent in a particular province.



Percentage of tenants in arrears & average arrears percentage
Q1 2021 - Q1 2024
Source: PayProp

Average arrears % | % tenants in arrears

The Free State no longer has the highest percentage of tenants in arrears. That unfortunate title now belongs to the North West.

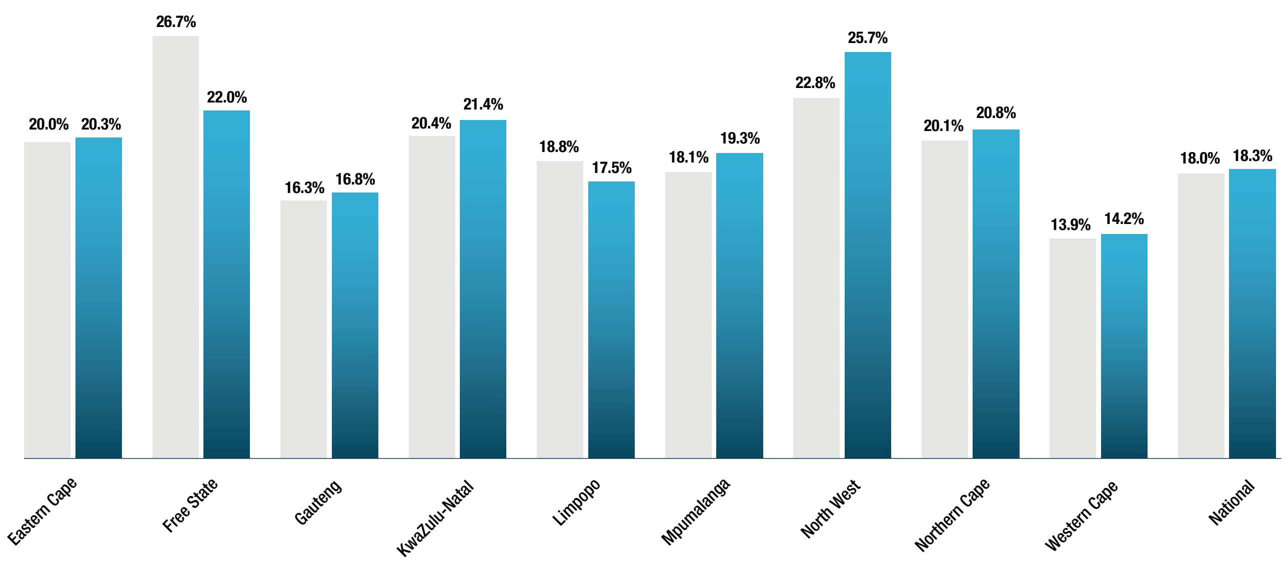
PROVINCIAL ARREARS

Year-on-year *changes*

The share of tenants in arrears grew in all but two provinces.

In **Limpopo**, 17.5% of tenants owe rent, down from 18.8% a year earlier. Meanwhile, the share in the **Free State** fell from 26.7% to 22.0%. This means the Free State no longer has the highest percentage of tenants in arrears.

That unfortunate title now belongs to the **North West**, which also experienced the biggest rise in the share of tenants in arrears. 25.7% of the province's tenants now owe rent, compared to 22.8% in Q1 2023. The other big rises took place in **Mpumalanga** (18.1% to 19.3%) and **KwaZulu-Natal** (20.4% to 21.4%).



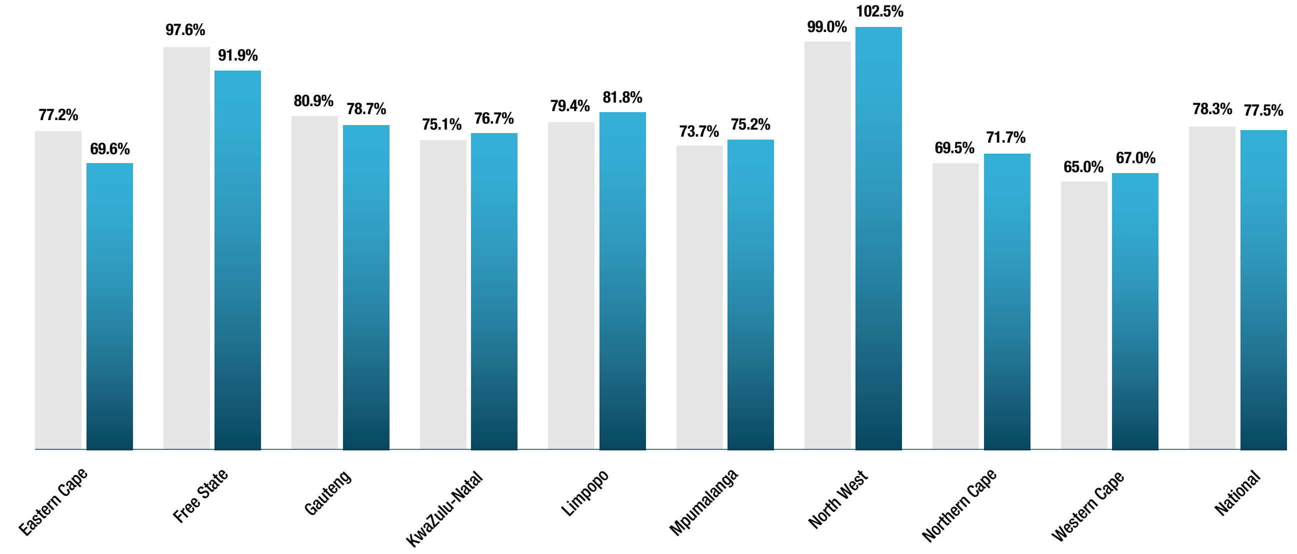
Percentage of tenants in arrears: Q1 2023, Q1 2024
Source: PayProp

% tenants in arrears: Q1 2023 | % tenants in arrears: Q1 2024

The average arrears percentage improved in just three provinces from Q1 2023 to Q1 2024, despite a small year-on-year national fall.

In the **Eastern Cape**, it fell from 77.2% to 69.6% – the second lowest in the country. The **Free State** also saw a fall, from 97.6% to 91.9%, while in **Gauteng** there was a small drop from 80.9% to 78.7%.

Most other provinces saw small rises in their average arrears percentage. In the **Western Cape**, it rose from 65.0% to 67.0%, but is still the lowest in the country despite the province's nation-leading average rent. Meanwhile, the **North West** still has higher average arrears than any other province despite having the lowest rents. The rise from 99.0% to 102.5% also means that it is the only province with average arrears of more than one month's rent. ■



Average arrears percentage by province
Source: PayProp

CREDIT STATS

Which provinces have the *riskiest tenants?*

Despite an increase in the share of tenants in arrears, overall tenant risk improved between Q1 2023 and Q1 2024. The share of minimum-risk tenants increased from 38.5% to 39.2%. Meanwhile, 25.0% of tenants were classed as high-risk, compared to 25.2% in Q1 2023.

The **Western Cape** continues to have the least risky tenants: 46.9% were classed as minimum-risk, well ahead of runner-up **Gauteng** with 37.6%. Meanwhile, just 18.3% of Western Cape tenants were judged to be high-risk. Rounding out the top three provinces with the least risky tenants was the **North West**, with 34.3% of tenants classed as minimum-risk – potentially due to lease signatories of student rentals being typically students' parents.

On the other hand, four provinces had more high-risk tenants than minimum-risk tenants. The **Free State** just edged into this group, with 32.2% judged minimum-risk while 32.5% were judged high-risk. Joining it, **Mpumalanga** had 29.3% minimum-risk and 30.2% high-risk tenants.

Limpopo had a bigger gap. 32.8% of tenants – the second most of any province – were classed as high-risk, while 29.8% fell into the minimum-risk group. But the province with the biggest share of risky tenants was the **Northern Cape**. Four in 10 tenants (40.3%) were high-risk in this province, while just 17.0% were considered minimum-risk – the highest and lowest in the country respectively. ■

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

The province with the biggest share of risky tenants was the Northern Cape.

SPENDING

Metrics improve, *but are tenants really financially healthier?*

Tenant spending metrics look slightly healthier than they did a year ago. The percentage of income spent on debt repayments has fallen across all tenant risk brackets compared to a year earlier. Except for the minimum-risk group, tenants are also spending less on rent as a percentage of their income, and the rise in rent spending for the minimum risk group was just 0.3%. All that adds up to growing disposable incomes across all brackets, with those in the worst financial positions gaining the most in percentage terms.

But that raises an obvious question: if spending on rent and debt repayments is down, even among high-risk tenants, why are more of them falling behind on their rent?

It's important to note that the debt-to-income ratio only includes contractual, recurring expenses like car loans, mobile phone bills and so on, so disposable income has to cover most everyday expenses like food and transportation. According to the South African Reserve Bank, the prices of these necessities have risen faster than inflation as a whole.

In fact, the fall in debt-to-income ratios (despite persistently high interest rates) may indicate that tenants are cutting unnecessary expenses (and avoiding taking on new debts) to pay for food, fuel, rent and other essentials. Even after these measures, a growing number may not have enough disposable income left to cover their rapidly increasing costs.

There's one factor we can rule out. It's clear from the fall in rent-to-income ratios that rent increases are not to blame for the increase in arrears. Apart from minimum-risk tenants, all groups are spending less on rent than they did in Q1 2023, when the percentage of tenants in arrears was slightly lower at 18.0%. ■

CREDIT METRICS

For our calculations, we consider net monthly income, i.e. the monthly salary of the tenant after tax as reported 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 current 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 service provider.

How do tenants spend their money?

Q1 2023	Debt-to-income	Rent-to-income	Disposable income
High risk	53.3%	32.2%	14.5%
Medium risk	49.2%	30.1%	20.7%
Low risk	44.1%	28.5%	27.4%
Minimum risk	36.8%	26.3%	36.9%

Q1 2024	Debt-to-income	Rent-to-income	Disposable income
High risk	50.4%	31.4%	18.2%
Medium risk	47.5%	29.7%	22.9%
Low risk	42.3%	28.4%	29.3%
Minimum risk	36.3%	26.6%	37.0%

It's clear from the fall in rent-to-income ratios that rent increases are not to blame for the increase in arrears.

PayProp

RealNet PROPERTIES

CASE STUDY

How PayProp facilitates RealNet Properties' ambitious goals

An interview with

Gerhard Kotze
CEO

Chantelle Aarloo
Letting Manager (realLET)

For over two decades, RealNet Properties has practised a forward-thinking culture that drives low-risk, cost-effective solutions for its franchisees' business growth. And for the last decade, PayProp has supported and enabled RealNet's successes with its flexible, powerful, trusted payment platform.

At the same time, RealNet's CEO Gerhard Kotze won't throw away what works in the real estate industry, and he firmly believes in the foundational principles of rental management.

Pretoria
South Africa

2 200+
Properties managed

2010
Joined PayProp

Thousands of property businesses worldwide are powered by PayProp.

Meeting unique business needs

According to Gerhard and Letting Manager Chantelle Aarloo, PayProp is the best choice for RealNet's distinctive operating model.

PayProp's browser-enabled, mobile-friendly platform makes it easy for RealNet's on-the-road and remote staff to collaborate and serve clients – a lifesaver during the pandemic, and still a big benefit today. "We were able to operate as if nothing happened," Gerhard says, highlighting the platform's adaptability and reliability.

And the benefits don't stop there – all RealNet property practitioners have access to PayProp's complete suite of features.

Instead of expecting its franchisees to juggle software costs and hiring staff while hustling to grow their portfolio, RealNet's centralised rental admin team (realLET) can take care of franchisees' PayProp accounts on their behalf. That means both big and start-up franchises can focus on strengthening their core business model and boosting their bottom line stress-free.

Gerhard knows that, as an agency's portfolio grows, they'll have more resources to employ a dedicated rental administrator of their own to take ownership of their fully-automated PayProp account.

Best of all, PayProp helps RealNet attract and retain top property practitioners by offering them the best rental management technology available in the market.

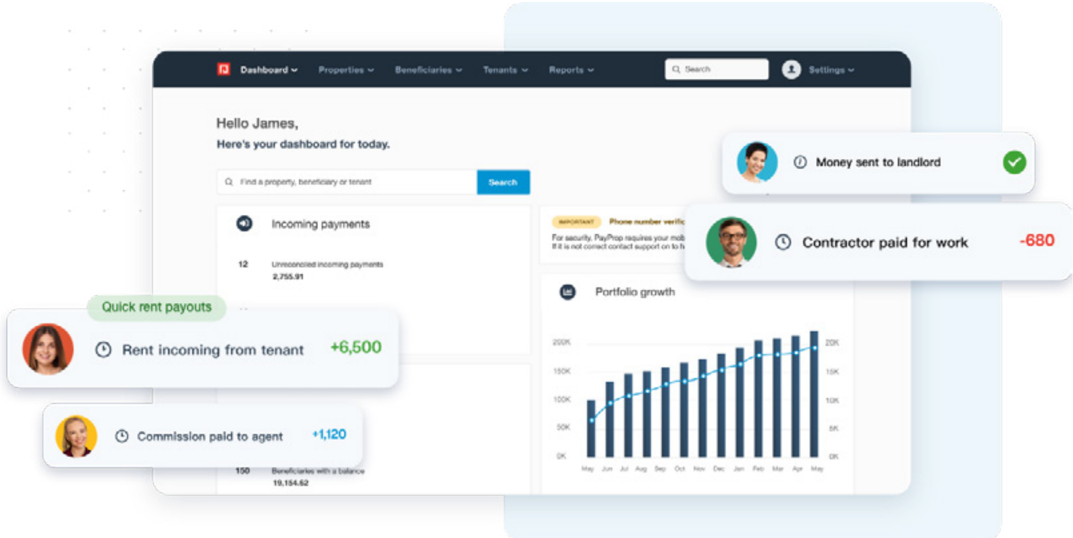
Property practitioners want to know they're dealing with a company that has the best tech available to make their lives as convenient as possible, and to deliver the best experience to their clients. For RealNet, that tech is PayProp.

Streamlining back-office processes

With time, RealNet's reputation for industry-leading service and compliance assurance demanded a rental administration system that could support their growth at minimum risk. The company now manages 2 200+ rentals, which would be a crushing administrative burden and custodial risk for any company not empowered by bank-integrated trust account integrity and effortless automation.

If we didn't have PayProp, we wouldn't have done rentals. You just cannot safely scale a business without trusted control mechanisms in place. With PayProp, we trust that every single account is properly reconciled every single night, and that our clients' monies are safe.

PayProp automates and streamlines the entire rental payment life cycle, allowing RealNet administrators and property practitioners to process rent payments on the same day their bank receives the payment, rather than doing lengthy, cumbersome bank reconciliations themselves at month-end. Real-time bank integration and automated reconciliation allow property practitioners to quickly and accurately match payments to the correct tenants, no matter how they choose to pay – in a few clicks, for their entire portfolio.

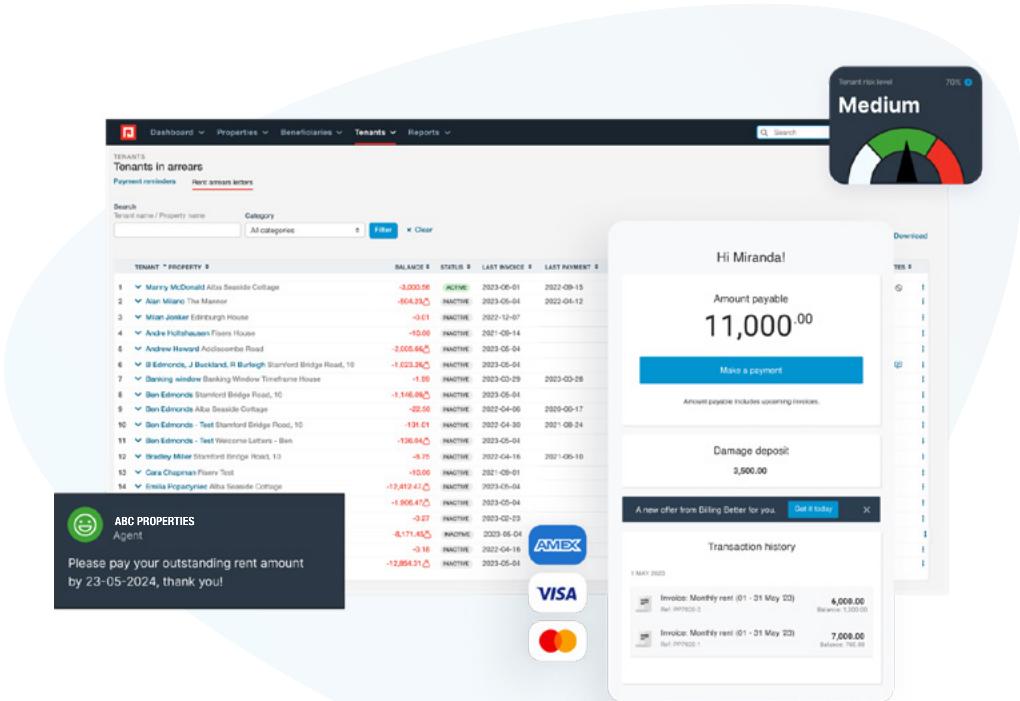


WWW.PAYPROP.COM

Chantelle, who fell in love with PayProp from day one of onboarding, was quick to call its powerful automation her favourite feature:

When I think back to my first admin jobs, we used Excel. I was going in manually every month, creating invoices and e-mailing them one by one. Now with PayProp, I load the information on the platform once and I don't have to think about it again. The automation really minimises my workload.

A close second favourite is the arrears interest billing feature. Before this feature was introduced, RealNet relied on an Excel formula to calculate each tenant's interest, followed by manually creating an invoice for each rental statement. Now, interest is automatically calculated and applied on overdue rent payments, at the click of a button.



ARREARS MANAGEMENT

Catch arrears before they become a problem with live payment status views. Send proactive reminders via e-mail and SMS to prompt tenants to pay their rent.

Peace of mind

Compliance is non-negotiable for RealNet, and PayProp delivers.

The platform itself complies with residential rental and general banking laws, meaning property practitioners automatically comply as well, while auto-fill functionality bypasses error-prone manual entry, guaranteeing all platform-generated documents are completed fully and accurately.

Chantelle also relies on the permanent, uneditable audit log to keep tabs on her team's activities on the platform, maintaining RealNet's high standards of accountability and transparency for itself and its clients.

RealNet is all about doing things right the first time around when it comes to protecting its clients' assets. That's why, in addition to their own stringent rental application criteria and a keen eye for falsified documents, they swear by PayProp's Tenant Assessment Report. It goes above and beyond a traditional credit score by adding rental payment data from previous PayProp-powered tenancies, giving property practitioners rent-relevant insights to be able to thoroughly vet tenants – and landlords even more peace of mind.

Beyond its standout features of automation, stringent financial controls and bank-grade accuracy, PayProp distinguishes itself with exceptional customer service. Both Chantelle and Gerhard praise the support team's responsiveness and friendliness.

> **As a business, you want to work with people that you feel have got your best interests at heart. Everyone at PayProp, from senior management straight through to support staff, makes us feel comfortable, makes us feel like we matter and that PayProp is 100% committed to delivering a good product.**

With PayProp as its trusted ally, RealNet Properties has not only mastered efficiency and industry compliance but also fostered a unique culture of growth and empowerment for property practitioners.

GROW YOUR MANAGED RENTAL BOOK

PayProp *Masterclass*

Presented by
André van Rooyen
Head of Sales

Our recent PayProp Masterclass showed agents how to survive sales market storms with annuity rental income.

Estate agents did a lot of soul-searching in 2023 as property sales slumped. Almost 1 in 5 owners considered selling their agencies, according to PayProp's yearly State of the Rental Industry survey – more than twice as many as in 2022. But would that be jumping the gun?

> *"I spent a lot of time thinking about innovative ways of injecting stability in a tough industry," says André van Rooyen, Head of Sales at PayProp South Africa and an award-winning former estate agent. "And the answer is building annuity income, stable income in your business. Building a managed rental book should be a big priority."*

In April's PayProp Masterclass Series presentation, he shared his top strategies for managed rental growth with an audience of more than 300 property practitioners – and showed how agencies of any size can put the plan into action.

> *"The question I often get is, am I able to compete in the market because I have a smaller book?" said Van Rooyen. "And the answer to that is yes. I'm very happy to say that at our recent PayProp Awards ceremony, the smaller books saw some great growth. Don't be intimidated by bigger competitors – you're still able to build from a low base."*

Make the most of your existing book

The first place to look when signing new managed rentals is among your existing placement-only mandates. The State of the Rental Industry report revealed that a lot of agencies have significant room for growth on this score: 17% of agencies had 50% or more of their landlords as placement-only, and according to Van Rooyen, they're missing out on low-hanging fruit.

> *"If you are able to get the mandate to do a placement, and if you are able to place the tenant, it should be a very easy sell for you to get the managed rental as well," he said. "There's a very simple test: if you walk into your office and you find agents cold calling, ask that agent if they can upsell your managed rental service. Empower your agents to also sell your managed rental services."*

Building your rental service to sell

Van Rooyen advises agencies to support their rental agents by developing services and marketing materials to convert placements into managed rentals. As he points out, they already know all about presenting to prospective clients on the property sales side of the business, and can apply the same skills to growing their rental books.

At the moment there's still room for improvement in this regard. In the State of the Rental Industry report, almost half of agents said that they didn't have a tailor-made sales presentation for negotiating rental mandates, and fewer than 1 in 3 have a specific budget for growing their managed rental book.

Additionally, Van Rooyen says that agencies can tailor the services they offer to make full management more appealing for landlords. This could mean tiered rental management services at different rates instead of a one-size-fits-all approach, or adapting a vanilla management service to meet the needs of the local market.

Pricing is a smart counter-punch to a race to the bottom

One major obstacle to the growth of managed rentals is that they're traditionally seen as a cost centre, not a source of annuity income. As a result, many agencies haven't put much thought into their managed rental pricing structure.

> *"How did we decide as an industry that we should charge a flat rate of 10% management commission?" asks Van Rooyen. "I don't think we've really thought about our pricing as managed rental agents because we haven't realised how big of an impact it's going to have on our businesses." Or indeed the value to landlords.*

Almost all agencies charge a procurement fee, but less than half charge for incoming and outgoing inspections, despite the considerable time and effort (and peace of mind) that comes with ensuring a rental property is fit for purpose. Van Rooyen adds that agencies should be charging tenants an application fee to cover the cost of credit checks – only about two thirds do this at the moment.

But the biggest area of confusion for agents is monthly administration fees, billed to tenants. These are rare, and often mistakenly thought to be illegal: 36% of PayProp Masterclass attendees thought they couldn't charge them.

In fact, says Van Rooyen, administration fees are completely above board as long as they are included in the lease agreement. Agencies that include it in their fee structure typically charge R80 to R120 per tenant per month, although he points out that agents should always set a fee that's appropriate for the rental amount.

> *"If your average monthly rental is about R4 500, you don't want to charge R100 in monthly fees. You want to charge about R40, R50."*

Secure your agency's future

Sales market conditions are shaping up to be better in 2024 than they were in 2023, but meanwhile Van Rooyen says it's the perfect time to grow your rental business.

> *"If you have that managed rental book sustaining your business, when tough times come again – and we know they will – you won't be desperate. And if you're coming to the end of your career and want to sell, the asset you're really selling, that keeps on giving, is your managed rental book."*

He sets out three questions for agencies.

> *"Is your rental budget sufficient for the level of growth you want to achieve? Are your agents and agency focused enough to achieve your growth targets? How can you diversify or adapt the services you offer to change placements into managed rentals? The answers you come up with will set your business up for success in managed rentals."* ■

IN CLOSING

What goes up *must come down*

South Africa's post-pandemic rental growth recovery, which took rent increases to their highest level since 2017, now seems to have ended.

National rental growth fell by 0.8%, the biggest quarter-to-quarter drop seen since the pandemic. KwaZulu-Natal's negative rental growth is also the first time any province has experienced falling rents since Q1 2023, while the Northern Cape just barely escaped negative territory.

Stubborn inflation and the slimming chance of a rate cut this year mean that the pressure on tenant affordability and housing sales is unlikely to let up either. A lot can change in a quarter, but the real estate market is likely to get worse before it gets better.

But, as always, local and provincial rental markets can perform very differently to the nation as a whole. Landlords and agents in the Free State, for example, are currently enjoying accelerating, above-inflation rental growth and falling arrears.

And agencies looking to build resilience can look to reliable, recurring income from managed rentals to get them through lean times. André van Rooyen's managed rental growth strategies might be the most important thing you read in this quarter's PayProp Rental Index. ■

A lot can change in a quarter, but the real estate market is likely to get worse before it gets better.

Q1 2024

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.

This publication was produced by Property Payment Solutions (Pty) Ltd, trading as PayProp South Africa.

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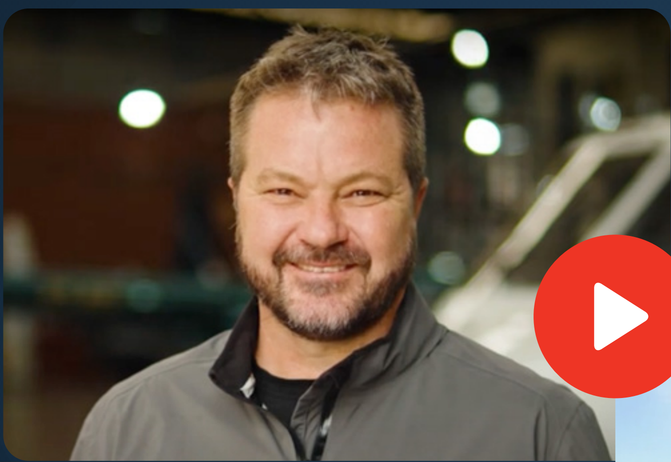
The PayProp Rental Index is available on the PayProp website at **www.payprop.com**

Join PayProp
If you would like to know more about using PayProp to manage your rental portfolio, please visit: **www.payprop.com**

PayProp | Client stories

“Since signing up with PayProp my company has grown exponentially.”



Jaco Truter
Jaco Truter Real Estate

Watch the testimonial

- Real-time payments
- Real-time reconciliation
- Real-time rental management

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