PayProp

RENTAL INDEX

QUARTERLY SOUTH AFRICAN RESIDENTIAL RENTAL MARKET DATA

Q3 2020

In this issue:

Where's the growth?

Trendsetters and outliers

Weathering the storm

Contents

In this issue we delve deeper into the effects of lockdown on the South African residential rental market.

INTRODUCTION

Last but not least

As we slowly approach the end of the year, many will breathe a sigh of relief. I don't know about you, but it somehow feels like both the longest and shortest year ever! Either way, the shops are already lit up with festive decorations, which means it's time for the **last PayProp Rental Index of 2020**, covering market activity over the third quarter.

In this issue we delve deeper into the effects of lockdown on the South African residential rental market.

It is not at all surprising to see low rental growth continuing and high levels of arrears (both tenants in arrears and quantum of arrears) due to the impact of national restrictions on tenants' pockets.

If we consider rental price growth and tenant arrears together, it's clear that while the worst might be over, it will take some time for the market and economy as a whole to recover.

In other news, we are currently conducting our second annual **State of the Rental Industry Survey**. I would really appreciate your input – it should only take a few minutes. You'll find a link to the survey on page 19.

I hope you enjoy the final issue of 2020. We'll catch up again in 2021! ■

Johette Smuts
Head of Data and Analytics
PayProp South Africa

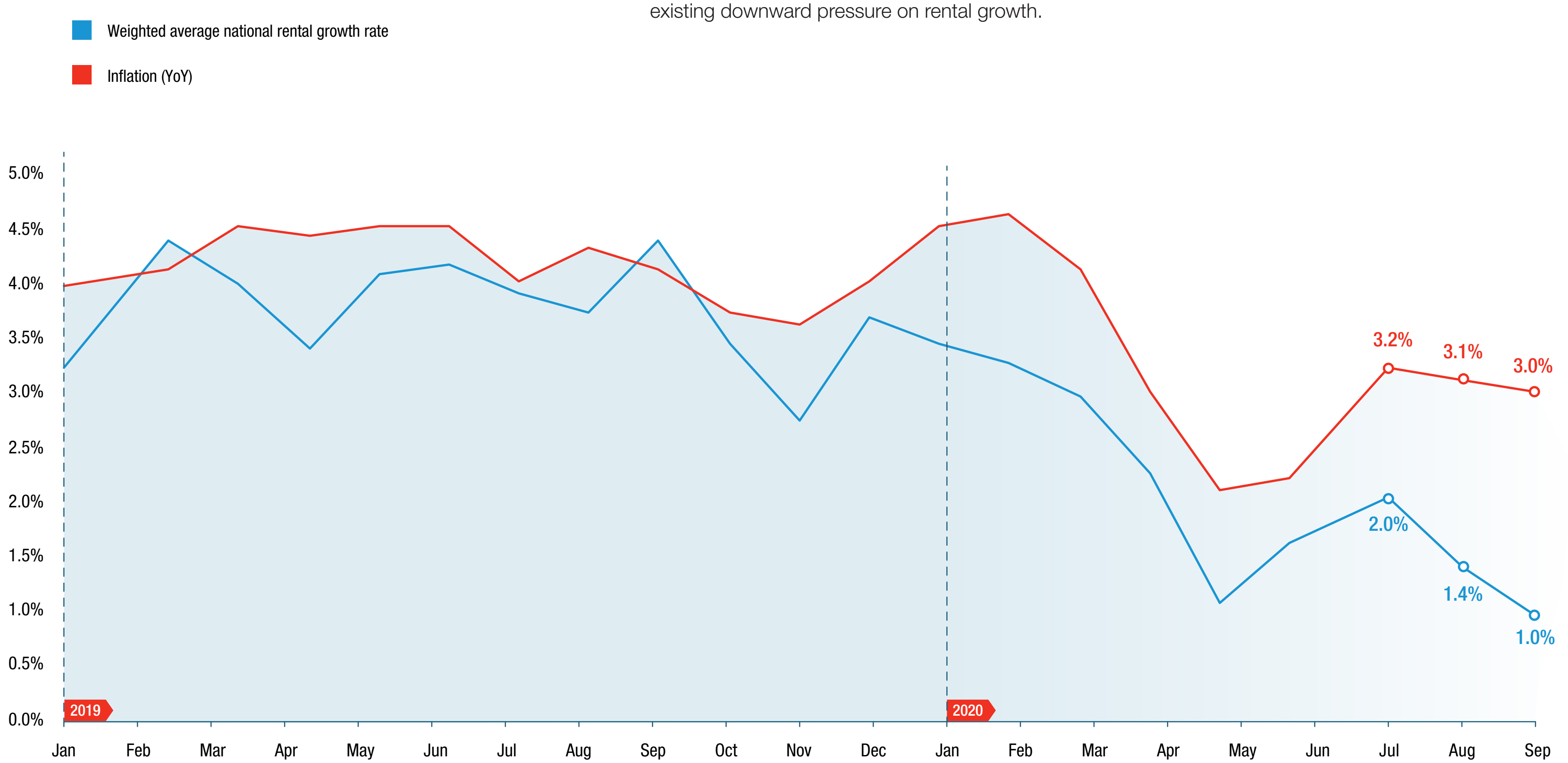
johette.smuts@payprop.co.za
linkedin.com/in/johettesmuts

NATIONAL RENT STATISTICS

The price crash continues

For the second consecutive quarter, year-on-year (YoY) rental price growth hit an all-time low in Q3 2020. This follows a general downward trend for the year, with May and September being the worst months.

In May, YoY growth compared to May 2019 came in at only 1.1% – the lowest this figure had fallen since the start of the Rental Index in 2012. In September, the market plumbed fresh lows when rental growth measured just 1% over the same month the year before.



Weighted average national rental growth rate (YoY) vs. inflation
Source: PayProp

Lacklustre growth continued even after most South Africans returned to work ('most' referring to those who were still employed). Because so many households suffered a partial or total loss of income this year, many are worse off financially compared to the beginning of the year, when economic pressures were already in effect. In the circumstances, affordability continues to be a major factor in persistent low rental growth.

With many short-term lets reallocated to the long-term rental market (to avoid standing empty while travel restrictions were in place), the market has essentially been flooded with supply, adding to existing downward pressure on rental growth.

Meanwhile, inflation has rebounded after the hard lockdown and is now in the 3% range. (As demand for goods is one of the main drivers of inflation, the restrictions on the purchase of goods during hard lockdown explains low inflation levels during April and May.)

QUARTERLY RENTAL TRENDS

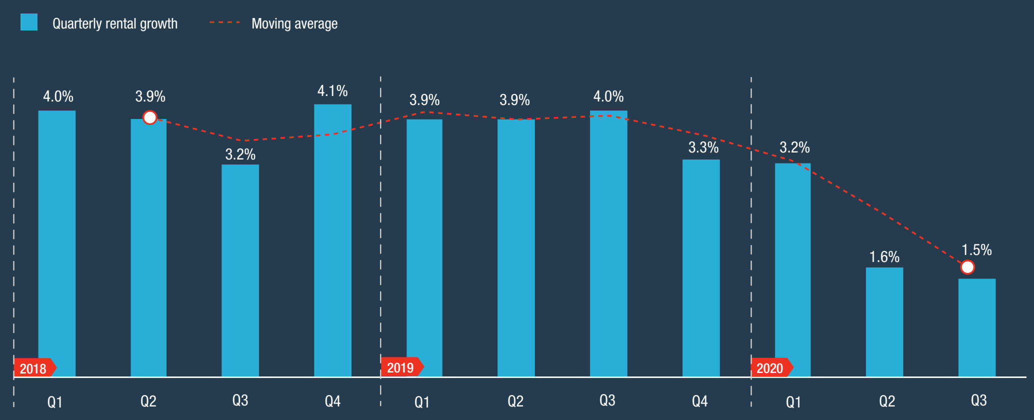
Impact on quarterly rental growth

The downward trend observed in quarterly rental growth (measured year-on-year) is a clear illustration of the effect of lockdown on the residential rental market.

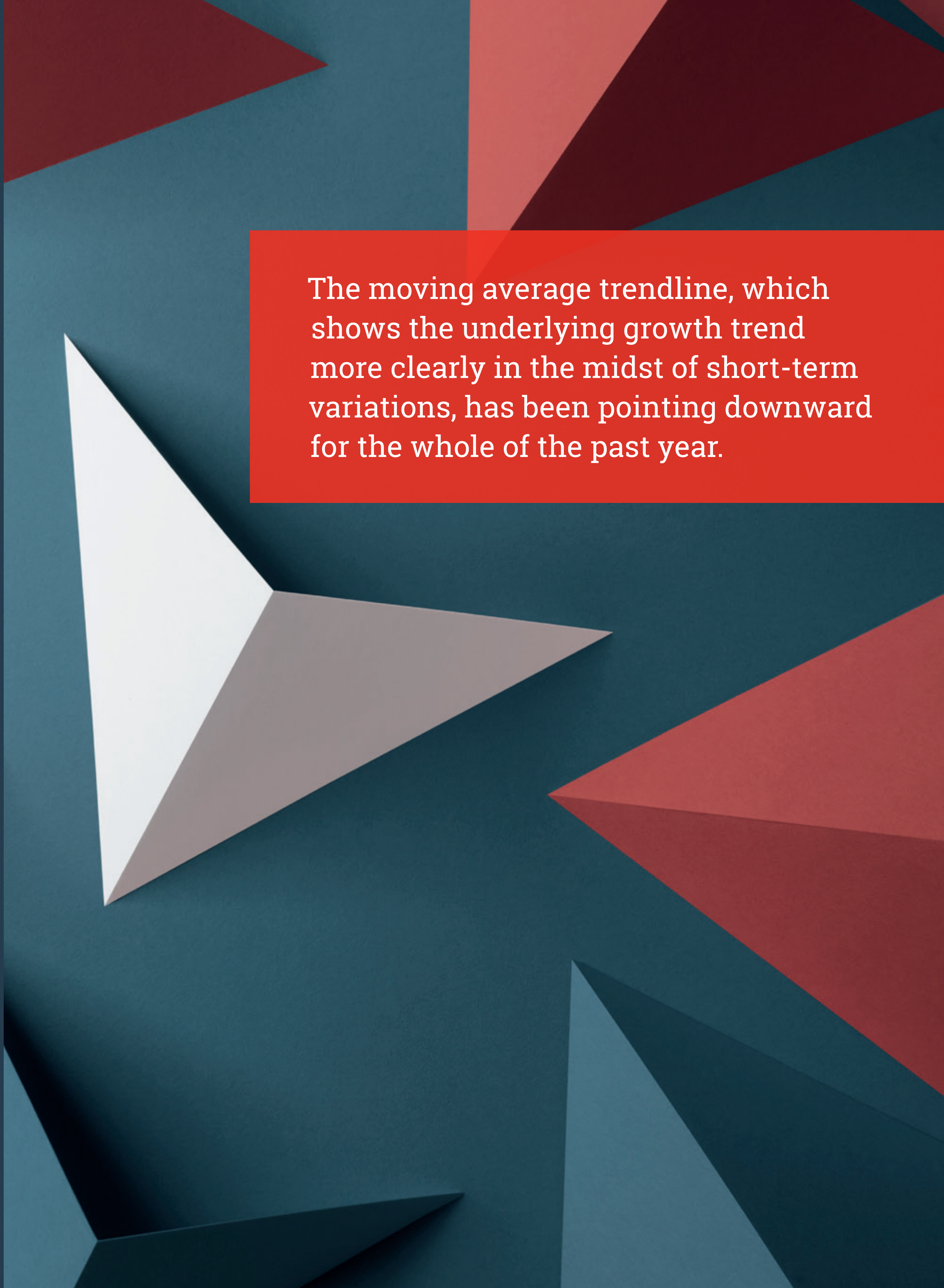
In Q3, it measured just 1.5% – the lowest quarterly year-on-year (YoY) growth rate since the Index was launched in 2012.

The moving average trendline, which shows the underlying growth trend more clearly in the midst of short-term variations, has been pointing downward for the whole of the past year. Before that, rental growth mostly trended ‘sideways’ – that is, neither up nor down – since the beginning of 2018.

We don’t expect to see growth rates recover within the next year, since both the economy and the rental market will need time to bounce back. ■



Quarterly rental growth (measured YoY) with a moving trendline
Source: PayProp

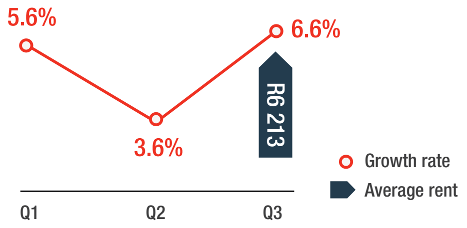


The moving average trendline, which shows the underlying growth trend more clearly in the midst of short-term variations, has been pointing downward for the whole of the past year.

PROVINCIAL RENTS AND RENTAL GROWTH

Following the trend

We can now take a closer look at how closely (or not) most provinces followed the national trend, experiencing further downward pressure on rental growth.

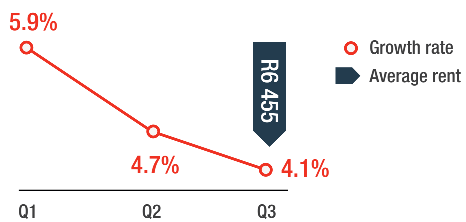


Eastern Cape provincial growth rates (YoY) – Q1 to Q3 2020

Source: PayProp

The Eastern Cape's rental growth rate bounced back in Q3. The province had the highest growth rate of all at 6.6%, but the average rent in the province came in at just R6 213, the second lowest in the country for that quarter.

The Free State reached the second highest growth rate in the country at 4.1% for the quarter – albeit 2.5 percentage points behind the Eastern Cape. The province has endured three consecutive quarters of falling growth rates. It's hard to believe that, just nine months ago (Q4 2019), it achieved YoY growth of 8%.

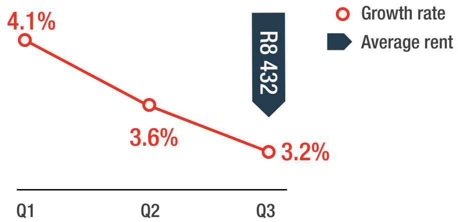


Free State provincial growth rates (YoY) – Q1 to Q3 2020

Source: PayProp

FALLING GROWTH VS. FALLING RENT

A dip in growth rate doesn't necessarily mean rent is getting cheaper – it is merely increasing at a slower pace than before. Negative YoY growth, on the other hand, means rent is lower now than a year ago.

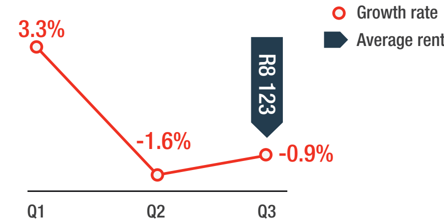


Gauteng provincial growth rates (YoY) – Q1 to Q3 2020

Source: PayProp

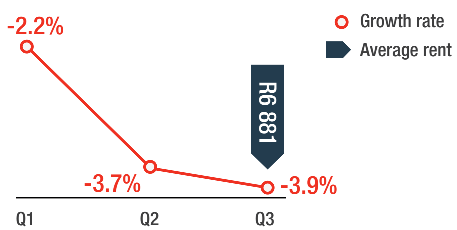
Gauteng growth rates have been decreasing over the past two quarters, measuring 3.2% in Q3. This was the third-highest growth rate observed in the country. At R8 432, the average rent in the province ranked second highest of all the provinces.

KwaZulu-Natal rental growth rates picked up in Q3, but at -0.9% (vs. -1.6% in Q2), growth was still negative. The average rent came in at R8 123, down from R8 197 the previous year.



KwaZulu-Natal provincial growth rates (YoY) – Q1 to Q3 2020

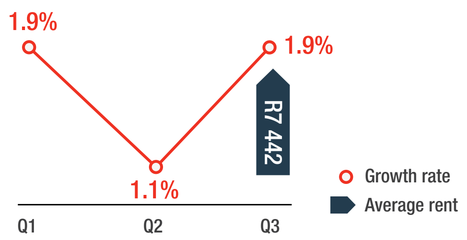
Source: PayProp



Limpopo provincial growth rates (YoY) – Q1 to Q3 2020

Source: PayProp

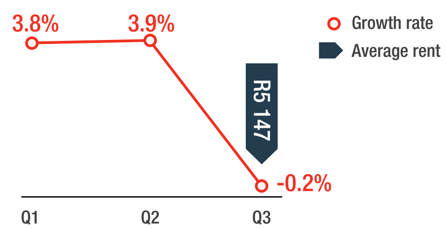
Limpopo has been experiencing negative growth for more than two years. YoY rent levels declined by 3.7% in Q2 and 3.9% in Q3 2020 – dragging the province to the bottom of the growth charts in South Africa. Average rent in Q3 was R6 881, down from R7 160 the year before and R7 741 in Q3 2017.



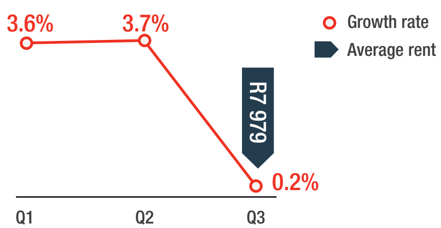
Mpumalanga provincial growth rates (YoY) – Q1 to Q3 2020
Source: PayProp

Mpumalanga was one of three outlier provinces achieving a higher growth rate in Q3 than Q2. Third-quarter rents increased by 1.9% compared to the previous year – making it the fourth and final province with above-average rental growth. Overall, the province recorded an average rent of R7 442.

North West province maintained the cheapest average rent in the country at R5 147. In Q3, the province experienced negative rental growth for the first time in seven quarters, even if it was a minimal decline (-0.2%). The previous quarter's growth came in at 3.9%, compared to a rental growth rate of over 10% in Q3 2019.



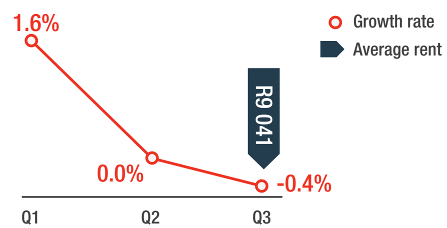
North West provincial growth rates (YoY) – Q1 to Q3 2020
Source: PayProp



Northern Cape provincial growth rates (YoY) – Q1 to Q3 2020
Source: PayProp

Northern Cape – as the fourth most expensive province to rent a home in the country, the Northern Cape had an average rent of R7 979 in Q3 2020. That was up just a fraction (0.2%) over the year before – less than R20.

The Western Cape is still the most expensive province in South Africa for renting a property, with an average rent of R9 041. With a decrease in rental prices of 0.4% from the year before, the province has now had its second consecutive quarter of negative growth (rent decreased by 0.04% in Q2 2020, or R3. ■



Western Cape provincial growth rates (YoY) – Q1 to Q3 2020
Source: PayProp

ARREARS

Over the worst

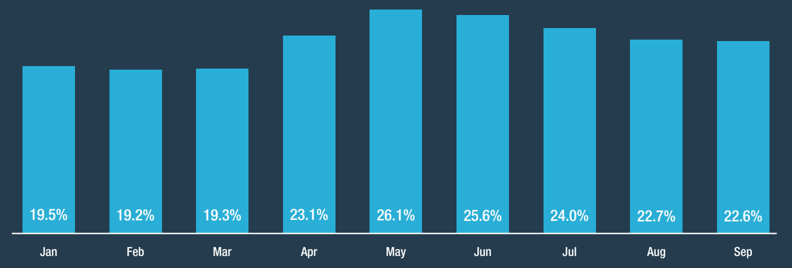
In this section, we look at two arrears metrics: the percentage of tenants in arrears and the proportion of the average arrears amount relative to the average rental amount.

From March onward, both these metrics increased as tenants struggled to meet their financial obligations. Both have now peaked and are slowly reversing, but following slightly different trends.

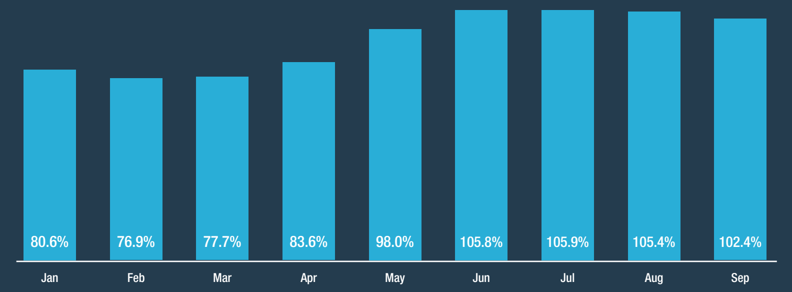
The percentage of tenants in arrears peaked as long ago as May. In March, about 19.3% of South Africa's tenant population were in arrears, and in May that number hit a high of 26.1%.

It is worth noting that most tenants pay rent in advance – for example, paying April's rent with their March income. From the data it is possible to surmise that many tenants expected to run into financial difficulty when lockdown was first announced, and opted not to pay their rent in preparation for that, or perhaps only paid partially.

The subsequent government announcement in May (that people could return to work in June) may in turn have led those tenants to start paying their rent in full again, with some having even made good on their arrears since then. This would explain why the overall percentage of tenants in arrears has decreased. At the end of September, only 22.6% of tenants were in arrears – a significant recovery from May but not quite a return to pre-lockdown levels.



The percentage of tenants in arrears per month in 2020
Source: PayProp



The size of arrears relative to rent per month in 2020
Source: PayProp

Changes in the size of arrears relative to rent happened more sluggishly. In March, a tenant in arrears owed an average of almost 77.7% of one month's rent. The slow pace of increase in this metric can be explained by the number of tenants newly in arrears – who were not in arrears in March but fell behind on their rent during April and May. As a group, they very likely had a lower average level of arrears, which explains why overall arrears relative to rent did not increase as quickly.

Since June, many tenants who could afford to pay their arrears have done so successfully, which explains why the percentage of tenants in arrears has dropped relatively quickly.

Tenants who were still in arrears from June onward are struggling to chip away at the remaining amount they owe, which is why we see the graph levelling off slowly.

The amount in arrears relative to rent peaked in July, at 105.9%. From July to September, this metric dropped by only 3.5 percentage points to 102.4%, and it will take some time to reach a figure close to 80%, last seen in March.

Join in globally. Give locally.

Start a #GivingTuesday corporate fundraiser on GivenGain today!

The GivenGain Foundation, the global non-profit fundraising platform affiliated with PayProp, has partnered with Giving Tuesday in South Africa – an international day of giving on 1 December 2020. Has there ever been a better opportunity to hit your end-of-year charity drive out of the park?

With the global day of generosity fast approaching, GivenGain is ready to power South African companies' online charity fundraisers – in the run-up to Giving Tuesday, on the day itself, and in the weeks thereafter leading up to Christmas.

The online fundraising platform says all successful fundraising depends on repeated appeals and social sharing. "Rental agencies wanting to make a difference should start now and set an end date for mid-December, to have the best possible chance to make their Giving Tuesday count," says Jannie Smith, GivenGain's Regional Manager in Sub-Saharan Africa and Global Head of Support.

"Using the month at your disposal, you can quickly ramp up your contribution to your chosen cause – or causes – firstly by enlisting the help of your employees to crowdfund within their social, personal and professional networks, and secondly, by matching their efforts with a lump sum of your own."

Enough of a good thing

Happening right after the spend-fests of Black Friday and Cyber Monday, Giving Tuesday makes a refreshing break from indulgence to social responsibility, focusing people's inherent generosity towards those who need it the most.

Last year, a record-breaking $511 million was raised from online donations alone as part of Giving Tuesday globally.

"Every year this global day of giving attracts local support from some of the biggest brands and organisations spreading the 'live here, give here' message", says Smith.

Why fundraise through GivenGain?

- Achieve extraordinary things for your favourite causes with the help of a global leader in fundraising.
- Give your corporate fundraiser more meaning with the power of employee fundraising.
- Get the best possible fundraising tools and service, backed by the technology, infrastructural and financial support of PayProp, owned by the founders of GivenGain.

Employee engagement

Giving Tuesday is also a powerful way of uniting colleagues, connecting with communities and offering employees at all levels a chance to give back – without being out of pocket, adds Smith.

"As part of this seasonal celebration, we are urging the property industry to seize this opportunity to automate their support for charity with the help of smart online fundraising tools and the power of crowdfunding."

As an official Giving Tuesday partner in South Africa, GivenGain has a range of free downloadable fundraising resources. These include tips and ideas for employers or individuals planning a #GivingTuesdaySA campaign – such as encouraging staff to teach a class, hold a quiz night, take part in a dance-a-thon or give up their favourite treat for a set time.

"We are very proud to support Giving Tuesday and be part of this global generosity movement. It really does unleash the power of people and organisations to transform communities in South Africa and much further afield," says Smith.

Power of participation

Charities supported through GivenGain received 300% more in donations on Giving Tuesday than the average day last year. This was thanks to a collective effort from businesses, individuals and charities. The great news is that there are hundreds of brilliant South African causes to support.

One of the local charities in South Africa to benefit from Giving Tuesday last year is the Endangered Wildlife Trust, who raised an incredible R24 000 in just one day with a 24-hour fundraising sprint.

Who will you support on your year-end charity drive? ■

givengain + GIVINGTUESDAY

Join up with your colleagues and raise funds for your chosen charity. Visit www.givengain.com or www.givingtuesdaysa.org today to get started as part of #GivingTuesdaySA, or get in touch with the Giving Tuesday team at GivenGain at givingtuesday@givengain.com.

CASH FLOW

Strengthening business resilience

One shouldn't examine low rental growth and increased arrears in isolation – i.e. without also considering the impact it has on a rental business – and the real estate business as a whole.

Many agencies offering property sales as well as rental services spend the majority of their time and energy on trying to increase sales. And while this is perfectly acceptable, one should not ignore the potentially dire effects of the current rental market on your entire business and revenue. In other words, invest in well-managed rentals.

BELOW-INFLATION RENTAL GROWTH

Inflation is the speed at which prices rise over time, which means that in theory, if your income grows with inflation, you will always be able to buy the exact same 'basket' of goods and services – and your money retains the same purchasing power over time.

Because commission is usually calculated as a percentage of rent, and rent is increasing slower than inflation, the commission income earned on a rental book can't keep up with inflation. That means that your money has less purchasing power, and you are essentially becoming a little worse off financially.

High arrears and payment arrangements

In the current climate, it is understandable that arrears levels rose. Many tenants who suffered a loss of income were consequently not able to pay their rent, and will struggle to reduce their rental arrears.

Fortunately, we have also seen rental agents make arrangements with tenants in numerous cases to pay off their outstanding rent over time. But whether a tenant pays their rent later or not at all, the agent will not earn commission before it is collected. And the fact is businesses still have to cover their costs, but with a smaller pot of income.

It is therefore vital for all rental businesses to know how low rental growth and high arrears can affect their cashflow so that they can deal with any consequences proactively.

How? Keep arrears under control by chasing payments before they get out of hand, place better tenants, and cut costs where possible to offset lower commission income. ■

TREND SETTER

Cutting interest rates

As you are aware, interest rates have dropped by 300 basis points (bps) this year alone. The South African Reserve bank lowered the repo rate five times – 25 bps in January, 100 bps in March, 100 bps in April, 50 bps in May and 25 bps in July.

Starting at 6.5% at the beginning of the year, rates went into free-fall, hitting 3.5% in July. But what does this actually mean?

Entering the year at 10%, the prime rate is currently 7%. With such low prevailing interest rates, many tenants will now consider buying their first property. In some cases, it may work out even cheaper to buy than to rent.

PRIME RATE

Prime rate = repo rate + 350 basis points

The prime rate is a measurement banks use to determine the interest they charge their customers. In simple terms, it is the cost to consumers and businesses of borrowing money.

WHY LOWER RATES?

Central banks lower interest rates to stimulate

economic growth. When it is cheaper to borrow money, more people will theoretically do so, pouring more money into the economy and stimulating growth.

What does that mean for the rental market?

Generally speaking, it is easier for consumers with good credit records to qualify for a bond. This means many tenants with good credit scores ('good tenants') are exiting the rental market. As a result, agents are left struggling to find good tenants to replace them in rental properties. ■

CLIENT SPOTLIGHT

How Harcourts and PayProp formed a 14-year PropTech partnership

Anton Jansen van Vuuren
COO, Harcourts

Nationwide

4,700+
Properties managed

2006
Joined PayProp

Harcourts South Africa franchises have been using PayProp to automate their residential rental payments since 2006, making PayProp one of the company's longest-standing partners.

Today, the company is made up of 143 franchises spread across the country.

Anton Jansen van Vuuren, Harcourts COO, joined Harcourts 14 years ago and has been using PayProp for his entire time with the company.

"We've got a motto at Harcourts. 'Partner with the right people.' If you partner with the right people, your business will benefit."

Innovative culture

Harcourts, like many businesses around the world, has had to re-examine and adapt traditional ways of working this year – a process made much easier by the technology they have in place, and by having a company culture that values innovation.

"When COVID-19 struck, we realised there was a lot of work to be done – and we learned a lot of lessons," says Anton. "The one thing I would really say I've learned is how strong our company is in a crisis like this, and which of our partners really fit in with our way of working."

"Because we had all our systems Web-based, we could, within a day, move all our people home. There was no downtime. It's one of the big lessons I've learned from this – you need to give each person the ability to work from anywhere in the world."

"Everyone has had to be more flexible," agrees Richard. "I think it was a good lesson for them. Up until lockdown, there were a lot of people who had steered away from technology. Once they were stuck at home and still trying to run their businesses, they had no choice but to embrace it."

"It was amazing to see so many people have that lightbulb moment and going 'wow, I wish I'd been doing this the whole time'. Not just payment processing, but also technology like electronic signatures."

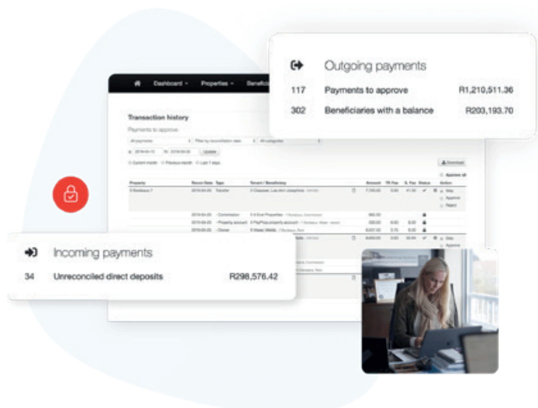
As Harcourts continues to adapt to this new way of working, PayProp remains a key part of the company's profitability and growth strategy in South Africa.

"We've got a motto at Harcourts. 'Partner with the right people.' If you partner with the right people, your business will benefit," says Anton.

"We are represented everywhere in the country, all the major metros and a lot of the smaller towns as well," says Harcourts CEO Richard Grey. "We have a truly national footprint. We are certainly among the top five real estate companies in the country in terms of size and volume."

And the company isn't just a major player in South African real estate, it is an international giant – the head office is in Australia, and Harcourts also operates in New Zealand, the US, Canada, China and Hong Kong, among other territories.

"I can honestly say we've not had one bad experience in 14 years," says Anton. "I haven't seen any other PropTech that competes with PayProp, in sales or in rentals, and believe me I've looked. The product is quality, the people are quality, and those are the things that build the brand and build loyalty. To me, PayProp is really number one." ■



BANK-INTEGRATED

Your client account balances are live and 100% accurate.

WRAP-UP

Glimmer of light

Even though lockdown measures have been relaxed substantially since March, the devastating effects on the economy will be felt for years to come. However, as we approach the end of 2020, there may be a faint glimmer of light at the end of the tunnel.

One hopes that the worst is over and our country's economy will slowly but surely be able to rebuild and recover.

- Rental growth continues to be subdued, with new record lows observed in the past quarter. We don't foresee a recovery anytime soon – in fact, it is possible that we will see even lower rates in Q4 this year.
- Affordability continues to help lower growth rates, as many tenants have suffered income losses and other financial difficulties.
- Arrears have peaked and seem to be recovering slowly. The position is still far from levels seen before lockdown, as tenants struggle to pay off arrears due to continued financial pressure.
- Rental agencies should be aware of the negative effect that low rental growth and high arrears can have on their cashflow.
- Lower interest rates may encourage good tenants to buy a property instead and exit the rental market, making it harder for rental agents to find good tenants. ■

> Arrears have peaked and seem to be recovering slowly.

Q3 2020

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.

Contact details

This publication was produced by PayProp South Africa. PayProp South Africa is operated under licence from Humanstate. PayProp and the PayProp logo are registered trademarks of Humanstate.

For all business and media enquiries, please contact:

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

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

Join PayProp

If you would like to know more about using PayProp to manage your rental portfolio, please visit:

www.payprop.co.za

I can honestly say we've not had one bad experience in 14 years, I haven't seen any other PropTech that competes with PayProp, in sales or in rentals. To me, PayProp is really number one.

ANTON JANSEN VAN VUUREN

Harcourts

087 820 7368

support@payprop.co.za

www.payprop.co.za