

RENTAL INDEX

QUARTERLY SOUTH
AFRICAN RESIDENTIAL
RENTAL MARKET DATA
Q2 2024



RENTAL GROWTH – BACK WITH A BANG!

| 7-year growth high | Outpacing inflation | Do damage deposits right

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INTRODUCTION

Embracing change and *new beginnings*



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I can't believe it's been more than 7 years since I became the author of the PayProp Rental Index – and as with all things, that time is now coming to an end.

During my time caretaking this important data project, PayProp has cemented itself as a leading voice in the rental market, giving trusted insights into rental pricing, growth, arrears, affordability and other key residential rental sector numbers. We were also privileged to feature a number of guest articles by some incredible thought leaders.

The PRI for Q2 brings you the latest in average rents and rental growth figures, provincial statistics, arrears metrics, as well as our analysis of market trends. We also look at changes in risk and spending patterns by income category, to see how the market has affected tenants across different income levels. Lastly, we discuss the importance of damage deposits, and examine how they compare to monthly rents.

This Rental Index is my 30th and last one before I hand over the reins to André van Rooyen, PayProp's charismatic Head of Sales, an award-winning estate agent, and an influential thought leader. With the help of the rest of the team behind the success of this publication, I know that the PayProp Rental Index will evolve into something even better!

This has been an incredible journey, not least thanks to the unwavering support of our amazing readership. I want to express my deepest thanks to each and every one of you who followed along. ■

NATIONAL RENTAL GROWTH

Rent and inflation

Sometimes the rental market surprises you.

In the Q1 Rental Index, we reported that rental growth had fallen for three consecutive months, and forecast that South Africa's post-COVID rental recovery was over.

And then the market rallied. Year-on-year rental growth bounced back to 4.9% in April, from 3.6% in March.

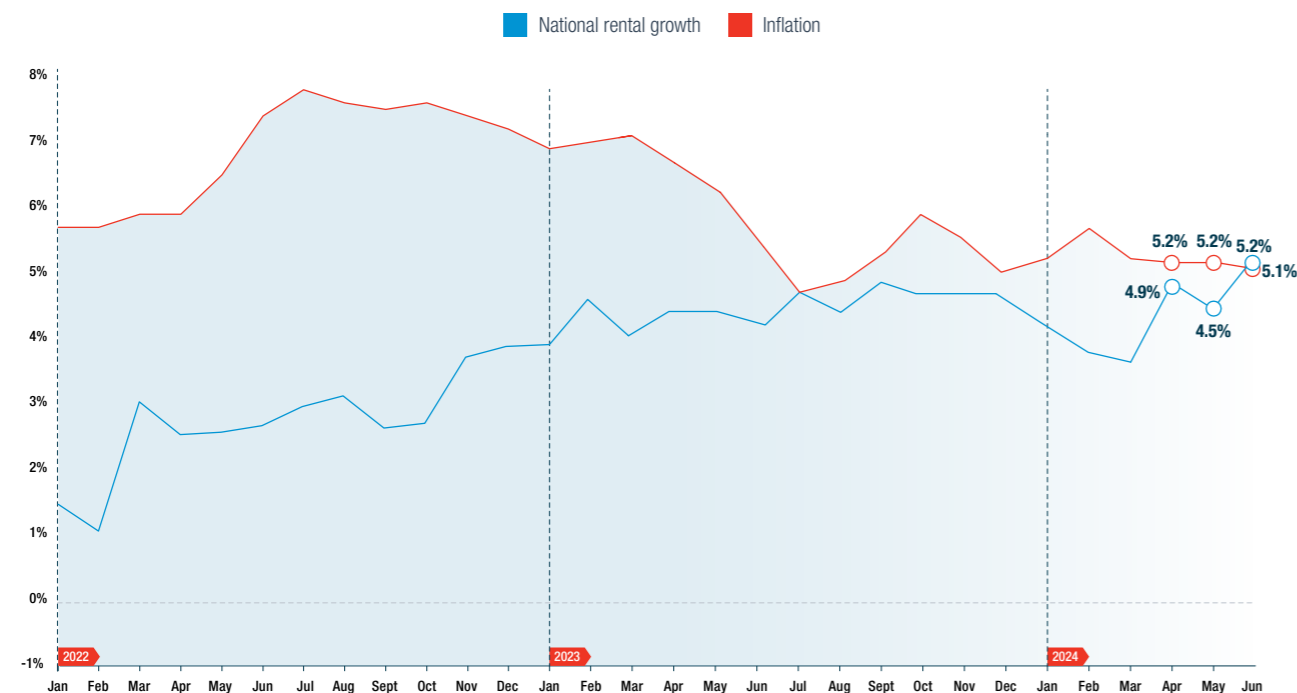
Followed by a small dip in May, it then climbed to 5.2% in June. That's not only a new post-pandemic high, it's also the fastest monthly rental growth measured in the Rental Index since December 2017. Plus, it's been driven by growth in some surprising provinces! More on that further along.

June 2024 was also the first time that rental growth has outpaced inflation since September 2019, which will be exceedingly welcome news for landlords and agents. Inflation fell to 5.1% in June and has been trending downwards in South Africa and worldwide.

Economists are hopeful that on-target inflation figures mean that interest rate cuts can start as early as September, although it remains to be seen whether the South African Reserve Bank will agree. Rate cuts would lower bond payments and potentially draw more first-time homebuyers back to the market, reducing demand for rental properties. The same resilience that served rental agencies well during the pandemic will help them through today's challenges. ■

REPORTING METHODOLOGY

To prevent the unique geographical distribution of PayProp clients from skewing our national figures, we use Stats SA's published provincial weightings as applied to CPI.



Weighted average national rental growth rate (YoY) vs. inflation, Jan 2022 – Jun 2024
Source: PayProp

NATIONAL RENTAL GROWTH

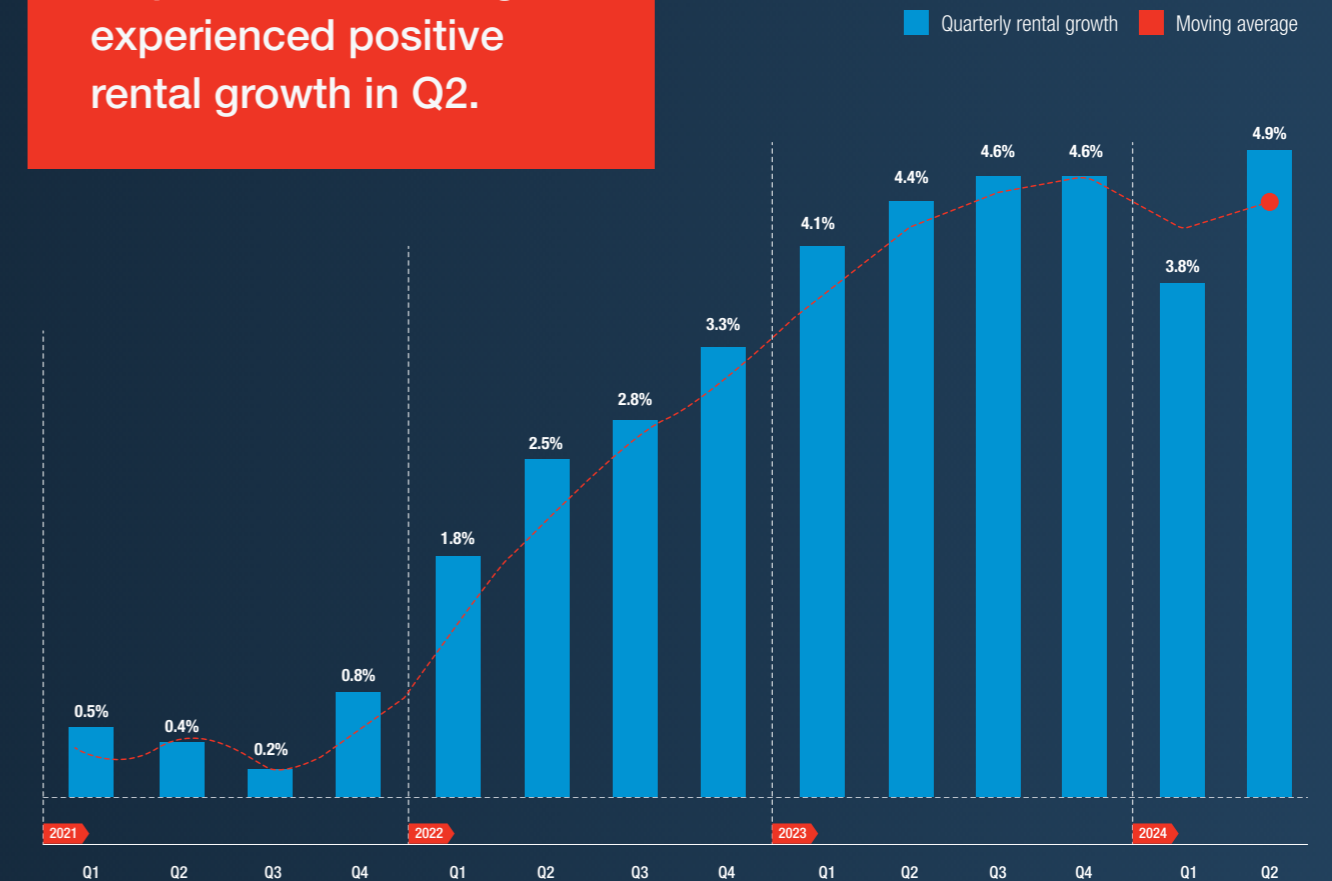
Quarterly trends

Higher year-on-year rental growth in April, May and June took rental growth in Q2 to 4.9%, up from 3.8% in the previous quarter. This was the highest since Q4 2017.

At the end of the quarter, the average national rent in South Africa stood at R8 785 – R410 more than in Q2 2023.

And after KwaZulu-Natal's negative growth blip in Q1 2024, all provinces once again experienced positive rental growth in Q2. ■

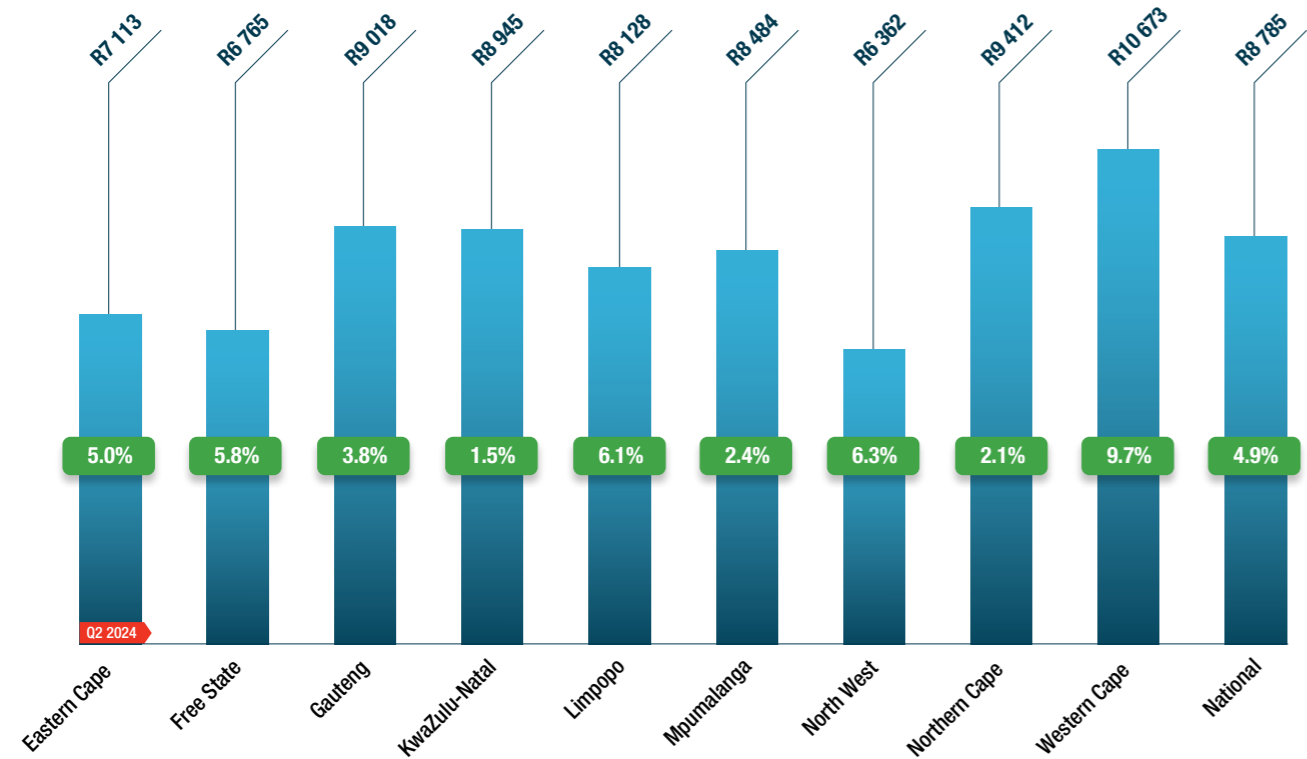
All provinces once again experienced positive rental growth in Q2.



Quarterly rental growth rate (YoY) with a moving average trendline: Q1 2021 – Q2 2024
Source: PayProp

PROVINCIAL RENT AND RENTAL GROWTH

A surprise leader



National and provincial rent and rental growth (YoY): Q2 2024
Source: PayProp

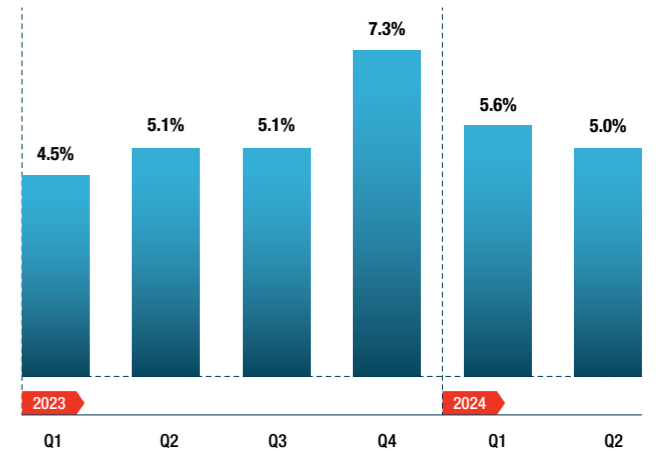
Average rent Q2 2024 Rental growth

The Western Cape has had the highest rents in South Africa since 2016.

Eastern Cape – running out of steam

Rental growth in the Eastern Cape came in just above the national average in Q2, at 5.0%. That's the fifth highest in the country, down from the third highest in Q1, and it means that growth has now fallen for two consecutive quarters.

The average rent in Q2 2024 was R7 113, up from R6 777 a year earlier. It's also up R92 from the previous quarter, much stronger quarter-to-quarter growth than we recorded in Q1. But rents in the Eastern Cape remain the third lowest in the country, and the province with the fourth lowest rents, Limpopo, is pulling away.

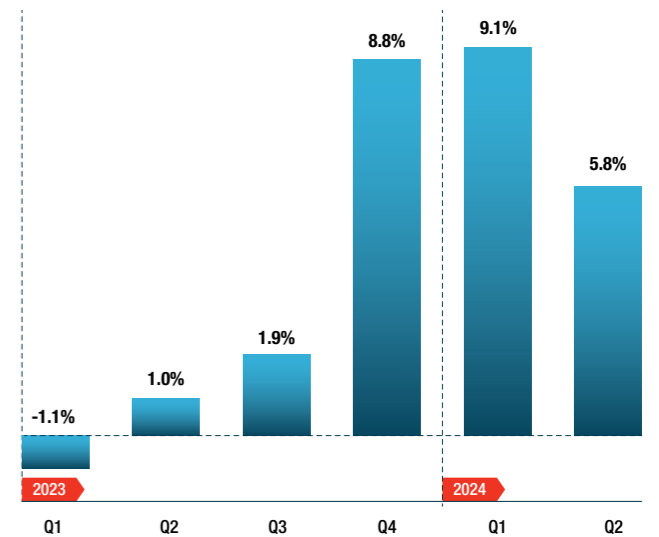


Rental growth in Eastern Cape (YoY): Q1 2023 – Q2 2024
Source: PayProp

Free State – a sudden drop

Normally, having the fourth highest rental growth in the country at 5.8% wouldn't be cause for concern. But it follows a quarter in which rents grew by a massive 9.1% YoY, and rents are still well short of the national average. The Free State experienced extremely rapid rental growth in the two most recent quarters after a long period of sluggish performances, and local rental professionals will hope that the falloff in Q2 isn't the start of a return to the bad old days of low growth.

The average rent in the province was measured at R6 765 in Q2 2024, up R374 year on year but R167 lower than in Q1. If that holds, we are likely to see a further drop in year-on-year rental growth this year.

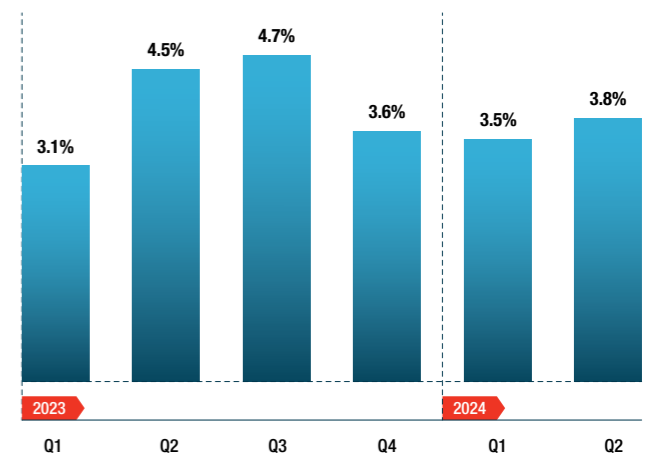


Rental growth in Free State (YoY): Q1 2023 – Q2 2024
Source: PayProp

Gauteng – over R9 000

Gauteng recorded a third consecutive quarter of below-average rental growth, but the 3.8% measured in Q2 2024 was an improvement on the previous two quarters.

Last quarter, we predicted that the average rent in the province could pass R9 000 very soon, and they have now done just that, reaching R9 018 from R8 691 a year previously. Gauteng is also strengthening its position as the province with South Africa's third highest rents. Rental growth was once again higher than in KwaZulu-Natal, which Gauteng overtook more than a year ago, and the gap to the second-placed Northern Cape is closing.

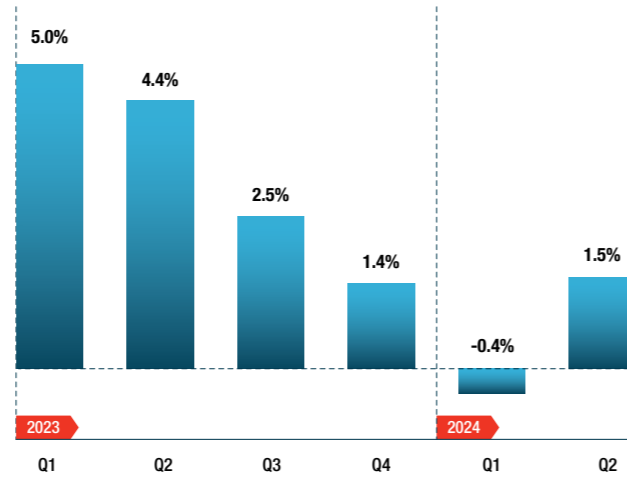


Rental growth in Gauteng (YoY): Q1 2023 – Q2 2024
Source: PayProp

📍 KwaZulu-Natal – better than it looks?

At first glance, the KwaZulu-Natal residential rental market performed poorly in Q2 2024 with 1.5% in rental growth, the lowest of any province. Rents grew by just R128 year on year, reaching R8 945. KZN has been one of the net losers from South Africa's semigration trend, reducing demand for rental homes.

But consider that in Q1, KZN rents decreased by 0.4%, making this the second-best quarter-to-quarter swing in the country. This quarter's low growth is still higher than in either of the previous two quarters. And quarter to quarter, average rents grew by R175. Don't celebrate yet, but this could be the start of a recovery.

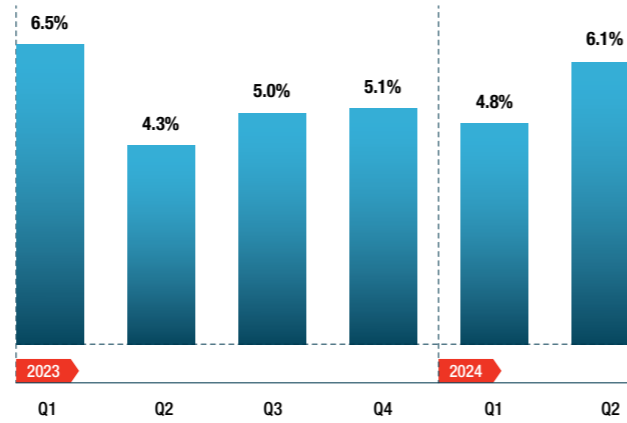


Rental growth in KwaZulu-Natal (YoY): Q1 2023 – Q2 2024
Source: PayProp

📍 Limpopo – still growing steadily

Limpopo has been one of the residential rental market's success stories of the past couple of years. Rental growth hasn't hit the heights sometimes achieved by other provinces, but it was consistently above average through 2023 and into 2024 – and that stability is excellent news for local landlords and agents.

Rent inflation in this province was 6.1% in Q2 2024, the third highest in the country. The average rent reached R8 128, an increase of R465 year on year and R101 quarter on quarter.

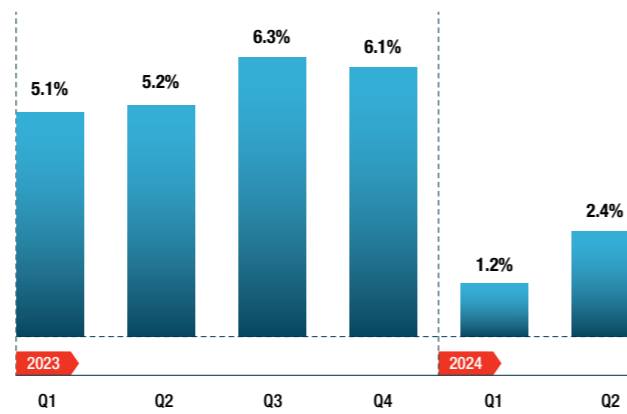


Rental growth in Limpopo (YoY): Q1 2023 – Q2 2024
Source: PayProp

📍 Mpumalanga – better, but still not great

In Q1, YoY rental growth in Mpumalanga crashed to just 1.2%. It recovered to 2.4% in Q2, but that is still the third slowest of any province and less than half the national average.

Mpumalanga remains South Africa's middle province in terms of average rent. Its average now stands at R8 484, up from R8 281 in Q2 2023, and a quarter-on-quarter increase of R114.

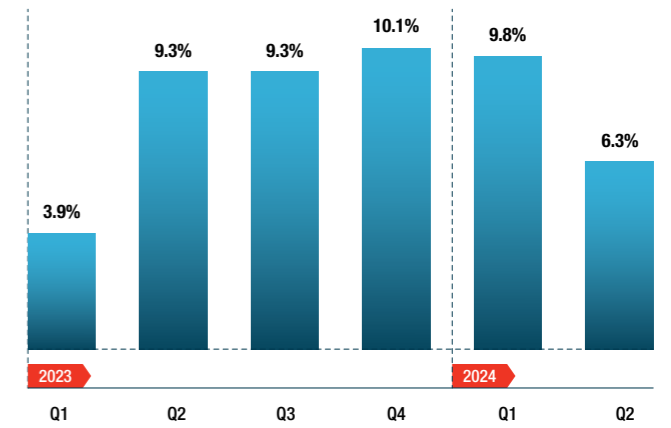


Rental growth in Mpumalanga (YoY): Q1 2023 – Q2 2024
Source: PayProp

📍 North West – levelling off

The North West was the fastest-growing province in the last two quarters, with rents increasing at around 10%. But this quarter, this figure has fallen to 6.3% – and while that's still very respectable, it's only enough for second place.

The falloff in rental growth also cements the North West's position as the province with the lowest rents in South Africa. The average rent there is currently R6 362, up from R5 985 a year before (and R6 301 in the previous quarter), and R403 below the Free State.

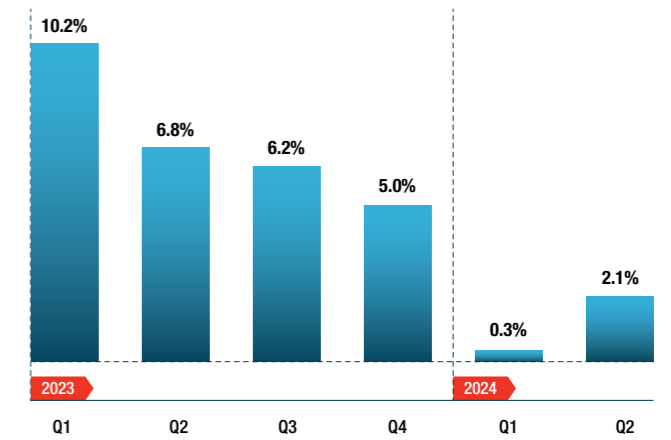


Rental growth in North West (YoY): Q1 2023 – Q2 2024
Source: PayProp

📍 Northern Cape – a difficult year

Rental growth in the Northern Cape was the second lowest in the country at just 2.1%, but it remains the second most expensive province for tenants with an average rent of R9 412. That's an improvement on the previous quarter, when it barely stayed in positive territory at 0.5%, but it continues a year of sluggish growth.

The year's troubles have come in contrast to previous years. The Northern Cape enjoyed above-average growth throughout 2022 and 2023, reaching double figures in Q1 2023. But it then declined throughout that year before collapsing completely in Q1 2024, and its recovery is no sure thing.

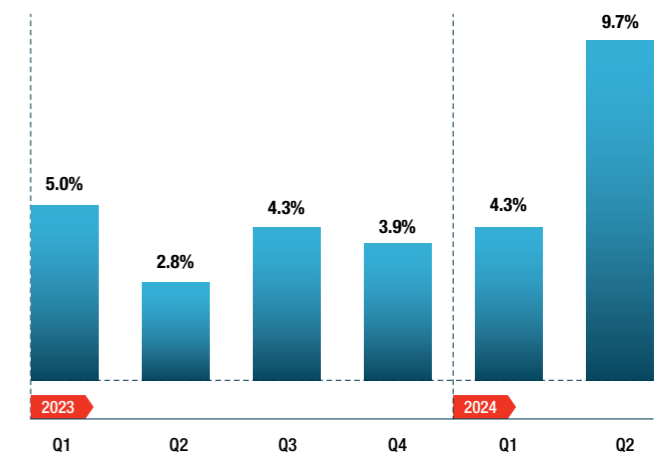


Rental growth in Northern Cape (YoY): Q1 2023 – Q2 2024
Source: PayProp

📍 Western Cape – a surprise leader

The Western Cape has had the highest rents in South Africa since 2016, and in Q2 2024 the average rent stood at R10 673. This puts it more than R1 450 ahead of the runner-up, a gap that has widened significantly since Q1 thanks to the Northern Cape's slow growth this year.

But in recent years, the province has also experienced average or below-average rental growth. Against this background, the province's Q2 growth rate of 9.7% comes as a real surprise. In fact, year-on-year growth now appears to be accelerating, reaching 11.7% in June – the fastest recorded in the Western Cape since December 2017. The average rent is now almost R1 000 more than in Q2 2023. ■



Rental growth in Western Cape (YoY): Q1 2023 – Q2 2024
Source: PayProp

NATIONAL ARREARS

Good *behaviour*

Last quarter, we speculated that the slight uptick in arrears might be due to overspending during the holiday season. We saw a slight decrease in both arrears metrics this quarter (see the information box alongside for more on those). This could indicate that tenant spending is back to normal and that those in arrears have made progress in paying them off.

But it could also be because of improved economic performance. Several indicators have moved in the right direction over the last quarter, including inflation. While economic growth figures for Q2 2024 won't be released for several months, Statistics SA reports improved performances in April after a tough Q1.

No matter what the cause is, the share of tenants in arrears fell to 18.1% in Q2 2024, down from 18.3% in the previous quarter. That's higher than in either of the final two quarters of 2023, but in line with long-term norms.

The average arrears percentage also fell from 77.5% in Q1 to 76.8% in Q2. ■

DATA METHODOLOGY

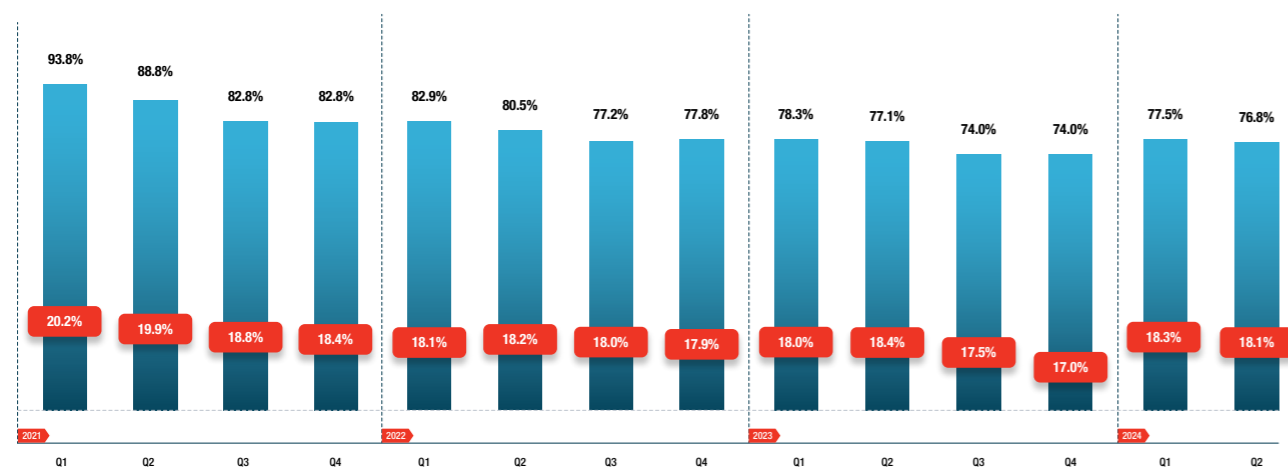


We consider two arrears metrics:

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.

The average arrears percentage also fell from 77.5% in Q1 to

76.8% in Q2



Percentage of tenants in arrears: 2021 to present
Source: PayProp

Average arrears % % tenants in arrears

FEATURE ARTICLE

The importance of managing deposits *with care*

Rental agents require a damage deposit from almost all tenants, to protect the landlord against non-payment or damage caused by the tenant while living in the property. This money belongs to the tenant but is retained by and managed on behalf of the landlord, so managing it responsibly is complex but crucial. Accordingly, deposit management is an integral part of PayProp's offering.

Holding damage deposits

Property practitioners manage damage deposits on behalf of the landlord, and funds must by law be invested in an interest-bearing account with a financial institution. Interest earned must be paid to the tenant when they vacate.

PayProp makes this easy – our platform enables (and requires) each deposit to be linked to a specific tenant, landlord and property, which means deposits can't ever get mixed up. Any payments into or out of a deposit account are visible in real time, and balances can't be altered fraudulently or accidentally – what you see is always correct and up to date. Whatever withdrawals, payments or deposits are made are always visible in a permanent, unchangeable audit log, and PayProp offers rigorous built-in permissions such as segregation of duties, authorised signatories, dual permissions and automated system alerts, so only nominated agents can release deposit funds.

Furthermore, PayProp's transparent reporting makes it easy to spot tenants with no deposits in a flash, as well as tenants with inadequate deposits, deposits held after the tenant moved out, deposit payouts, and other movements.

Inspections, repairs and deposit payouts

Rental agents are required to have an incoming and outgoing inspection as proof of the property's condition before and after the tenant occupied it. If a joint inspection is not carried out, the landlord cannot deduct the cost of any repairs from the damage deposit. PayProp makes it easy for agents to load invoices and set up payments for any repairs transparently, and to easily refund the balance within the required 14 days if any damages had to be repaired (or within 7 days if there were no damages).

Of course, fair wear and tear is to be expected and is for the landlord's account. PayProp's Property account can come in handy here – agents can set up payment rules to help landlords put some money from their rent payments aside automatically, which can then be used to repair worn items. These repairs don't have to come directly from the landlord's pocket as an unplanned expense (or prematurely or unlawfully from a deposit), and on top of that, the funds in the Property account earn interest.

DAMAGE DEPOSIT RATIOS



The correct damage deposit ratio is crucial. It is calculated as the value of the damage deposit divided by the rental amount. E.g. if you require a R15 000 damage deposit for a property with a monthly rent of R10 000, the damage deposit ratio is 1.5.

Damage deposit ratios

What is the ideal damage deposit ratio? It depends. Nationally, the (weighted) damage deposit ratio is currently 1.3, and has historically ranged from 1.25 to 1.3 for years. Provincially, it ranges from 1.08 in the Northern Cape to 1.68 in the Western Cape.

Why the discrepancy? A few factors can affect the damage deposit ratio:

- ▶ **Local demand:** Where demand for properties in the area is low, agents may advertise a lower deposit amount to attract applicants without reducing rent.
- ▶ **Affordability:** In lower-income areas, applicants may not be able to afford a large up-front deposit, and agents might have to weigh the cost of a vacant property against the risk of holding a smaller deposit.
- ▶ **Standard practice in the area:** Aligning with damage deposits advertised by other agencies in the area will prevent pricing yourself out of the market.
- ▶ **Unattended extended tenure:** If tenants stay longer in a property, the ratio will decrease if deposits are not topped up as rent increases.

More than just landlord security

Having the tools to properly manage damage deposits has many benefits for estate agencies. Not only are landlords' properties protected, but well-managed damage deposits are a sign of a healthy rental book – something that is a sellable service or portfolio disposal asset.

Ratio	Q2 2024
Eastern Cape	1.39
Free State	1.18
Gauteng	1.23
KwaZulu-Natal	1.19
Limpopo	1.27
Mpumalanga	1.15
North West	1.18
Northern Cape	1.08
Western Cape	1.68
National weighted DD ratio	1.30

To top up or not to top up?

It's a good idea to maintain a consistent damage deposit ratio as the monthly rent increases (annually or when tenants renew their lease) – it helps to keep landlords protected as the cost of repairs also tends to rise over time. Agents can do this by applying the initial ratio to the new monthly rental amount. Note that the deposit top-up requirement must be stipulated in the lease agreement, so if your agency isn't already doing this, you may need to review your leases for future tenants.

While the damage deposit should not be used during the period of the lease, many agents resorted to doing so as partial rent payments during the initial stages of the pandemic. This was an outlier event, but hardship notwithstanding, the same principle as above applies – when the situation normalises, tenants should ideally top up any depleted deposits to the desired ratio as stipulated in the lease agreement.

For all eventualities, PayProp streamlines deposit accounting and reporting and has processes that ensure the safety of deposit funds so that rental agents can focus on doing what they love. ■



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CREDIT STATS

Income, risk and spending

Income distribution

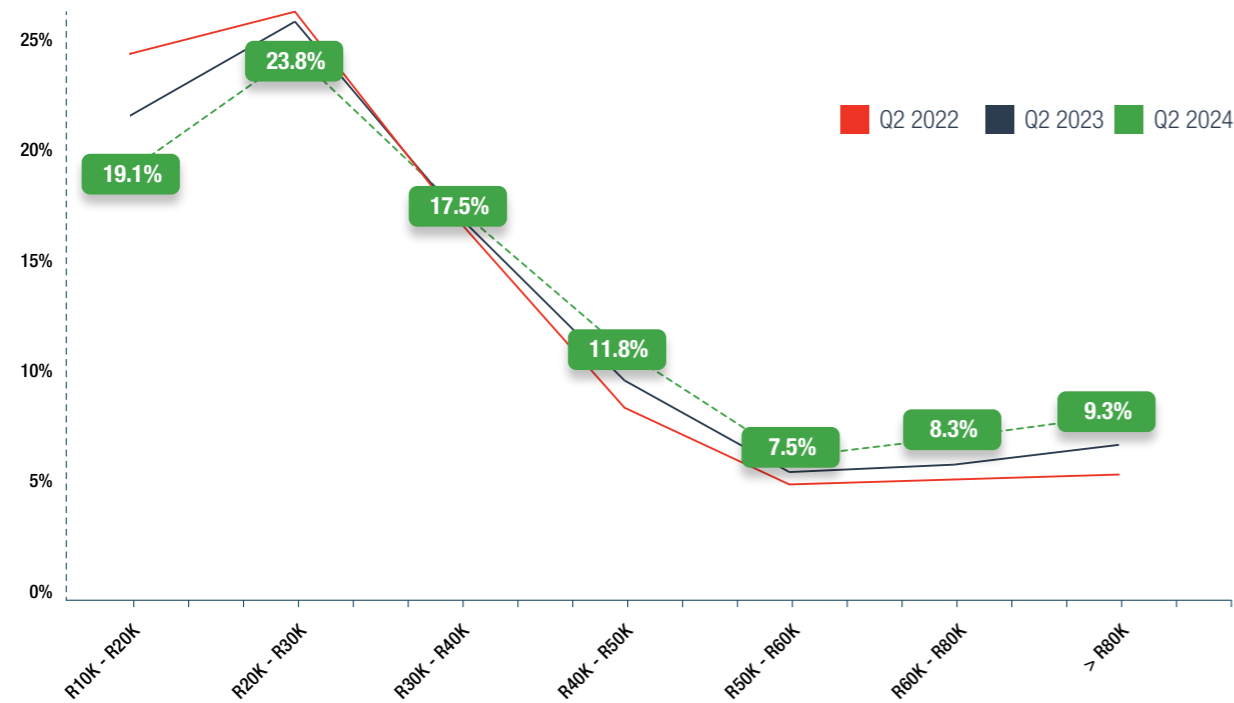
When considering income distribution, we see that almost a quarter of applicants earn R20K - R30K, making this the biggest bracket – as it has been in the previous two years.

However, there has been a shift towards the upper income brackets since 2022. The share of tenants earning between R10K and R40K has decreased from 66.4% in Q2 2022 to 60.3% in Q2 2024. In fact, all brackets earning above R30K have seen an increase in their share of applicants.

Income growth merits further analysis: South Africans aren't earning much more on average than they were in 2022. But high interest rates are deterring first time buyers, meaning more high-earning tenants are staying in the rental market for longer. And at the lower end of the income range, rental growth and inflation may have priced some tenants out of the formal residential rental sector completely. The combined effect of this is that growth in average renters' salaries may not be as high as it seems, as the current renting population may exclude those aspiring to private rental and include those who want to be homeowners instead.

CREDIT METRICS

For our income and affordability calculations, we consider net monthly income, i.e. the monthly salary of the tenant after tax – as reported by rental agents. This is calculated on a national aggregate basis, without provincial weighting. The analysis takes into account credit checks done via PayProp during each quarter and represents a sample of rental applicants who are not necessarily tenants in situ, 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.



Income distribution: Q2 2022 – Q2 2024
Source: PayProp

Income and spending

In Q2 2024, the average tenant in South Africa spent 46.7% of their income on debt repayments and 30.3% on rent, leaving them with 23.0% of their income to cover all of their other expenses.

But these spending metrics vary greatly between the lowest- and highest-income tenants. Tenants earning between R10 000 and R20 000 have almost the entirety of their income taken up by rent and debt repayments (especially the latter), with just 6.2% left over. Meanwhile, those earning R80 000 or more had a much more comfortable 54.1% disposable income in Q2 2024.

The stats further reveal a clear salary breakpoint below which South Africans spend more than half of their salary on debt. That number is R40 000 per month.

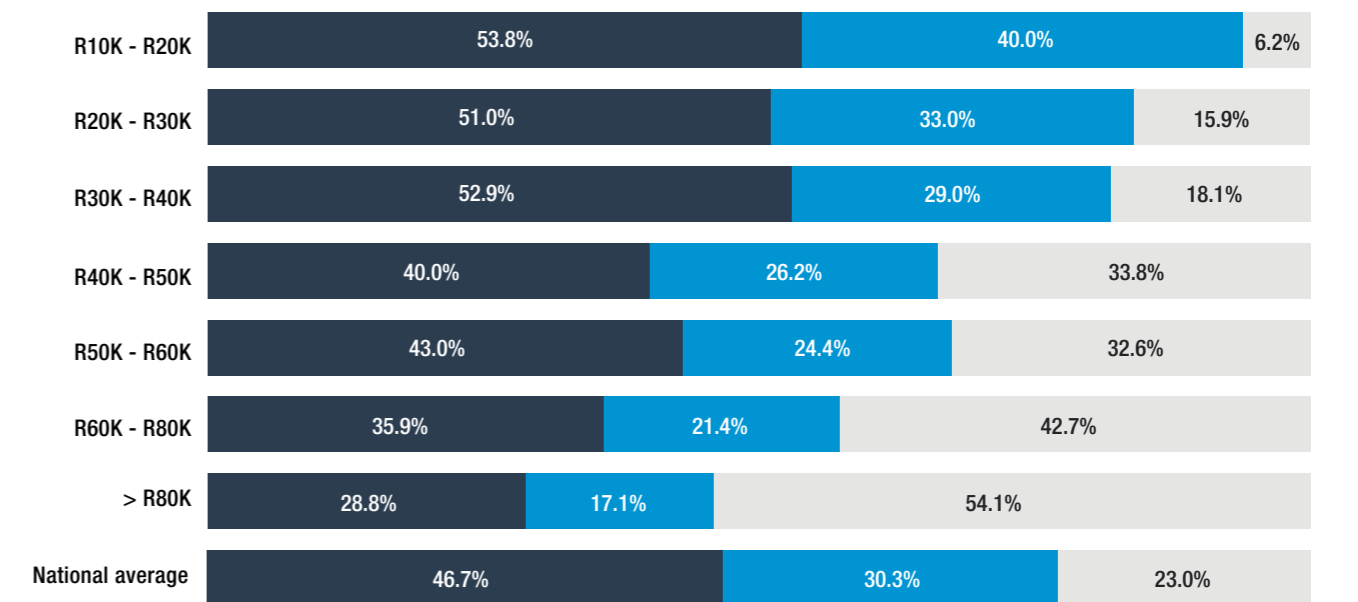
Once tenants start earning over R40 000, they enjoy significantly more breathing room. Those earning between R40 000 and R50 000 pay 40% of their income towards debt repayments. In the highest income bracket we measure, R80 000-plus, that falls to just 28.8%.

The percentage of income that tenants spend on rent falls more consistently in correlation with rising incomes. Those in the R10 000 to R20 000 bracket spend 40% of their income on housing, with each higher income bracket spending less than the one before. Tenants earning R60 000 to R80 000 put just 21.4% of their income towards rent.

One common rule of thumb for rental affordability is that tenants shouldn't spend more than 30% of their income on rent. The South African average of 30.3% is just a hair above that, but those earning below R30 000 per year spend significantly more than this recommended maximum on average.

However, with smart budgeting, rental share of wallet higher than this can be sustainable. Tenants in hot rental markets are often used to paying more, and some estate agents have already set more generous affordability ceilings when vetting applicants for their rental properties.

Even so, agents and landlords should be very careful not to put tenants under financial stress. Tools like PayProp's management reports can be used to benchmark against local rents and find sustainable prices for your market.



Income and spending: Q2 2024
Source: PayProp

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

Tenant spending

Debt repayments and rents have both risen as a share of income since Q2 2023. Debt spending took up 43.0% of income in Q2 2023 compared to 46.7% in Q2 2024, while rents rose more slowly from 29.8% of income to 30.3%. Disposable income has correspondingly fallen from 27.2% in Q2 2023 to 23.0% in Q2 2024.

It's clear that tenants are under more pressure than they were a year earlier, perhaps due to ongoing inflation and high interest rates. But this hasn't translated into higher arrears, which is good news for the tenants themselves as well as their landlords and agents.

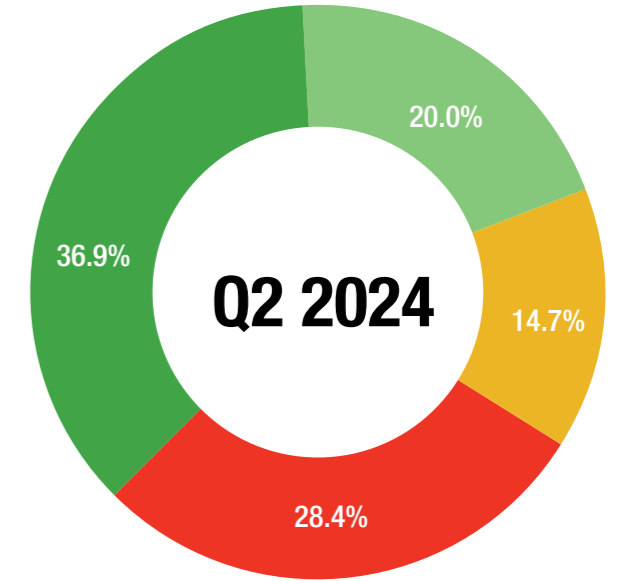
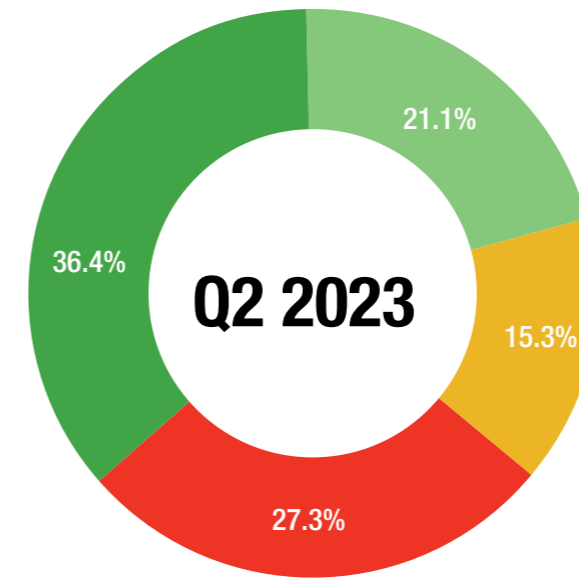
Income and risk

Risk distribution is as expected, both generally speaking and over the reporting period. Tenants on higher incomes are, on average, significantly less risky, a truism borne out by the latest numbers. In the R10 000 - R20 000 income bracket, 39.8% of tenants were classed as high risk compared to 22.1% minimum risk, while the R60 000 - R80 000 bracket contained just 18.7% of tenants at high risk and a healthy 53.2% at minimum risk.

But the share of high-risk tenants also rose, from 27.3% in Q2 2023 to 28.4% in Q2 2024.

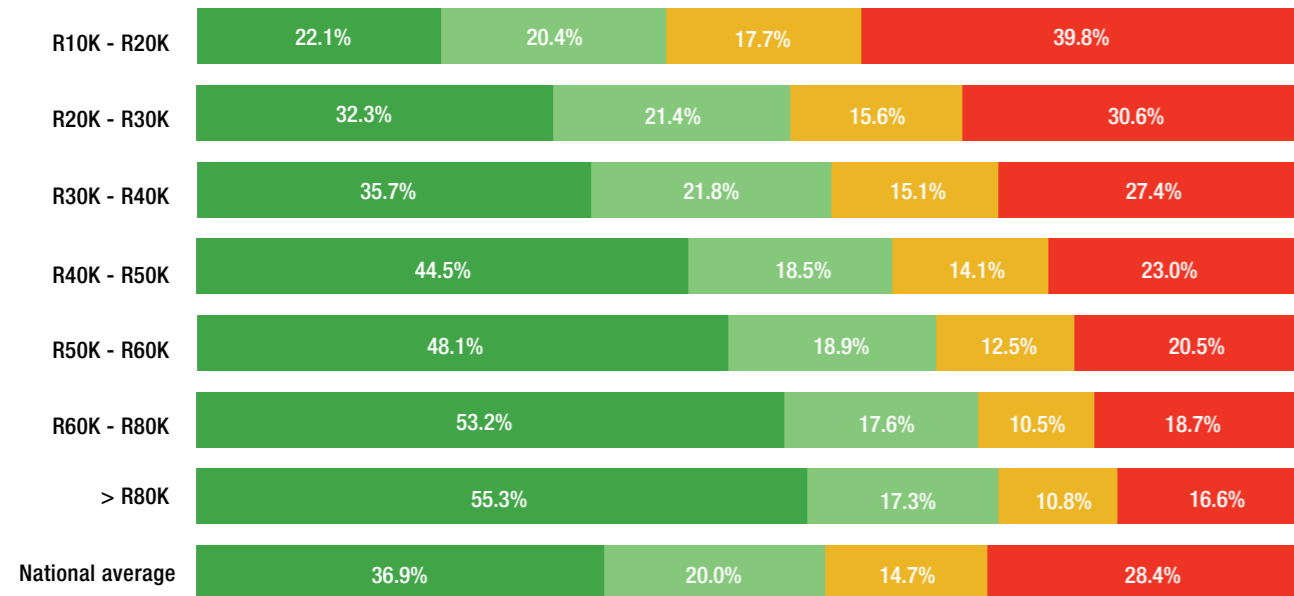
The increasing share of high-risk tenants is a reminder to agents of the importance of thorough vetting and setting rents in line with local markets, which can be tracked using tools like PayProp's management reports. Advanced tenant screening options like the PayProp Tenant Assessment Report help agents to place the most reliable tenants as they track rental payment history as well as traditional credit scores.

Across all income groups, risk distribution has diverged slightly over time. In Q2 2024, 36.9% of all tenants were classed as minimum risk, compared to 36.4% in Q2 2023.



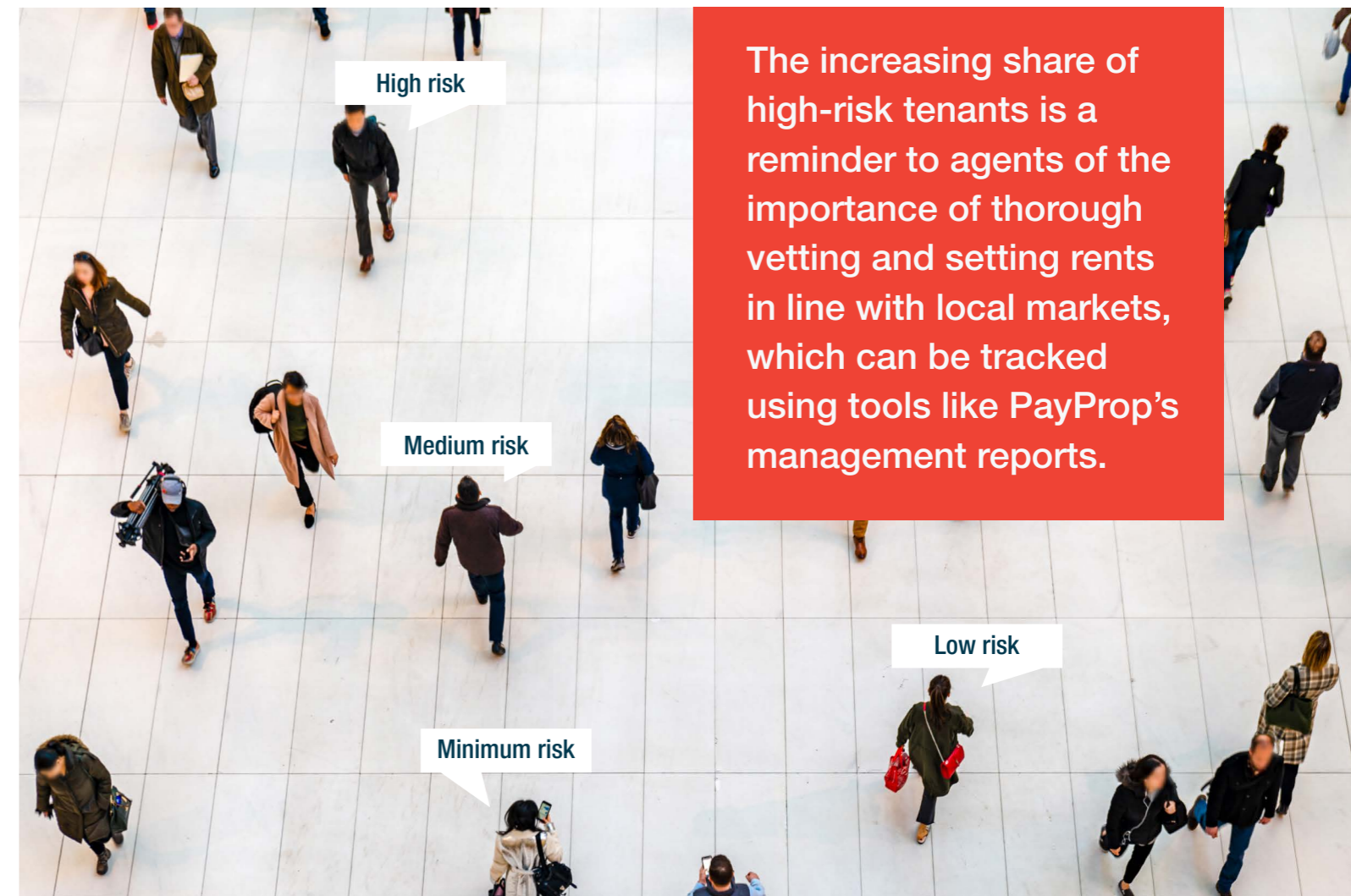
Tenant risk distribution: Q2 2023 vs Q2 2024
Source: PayProp

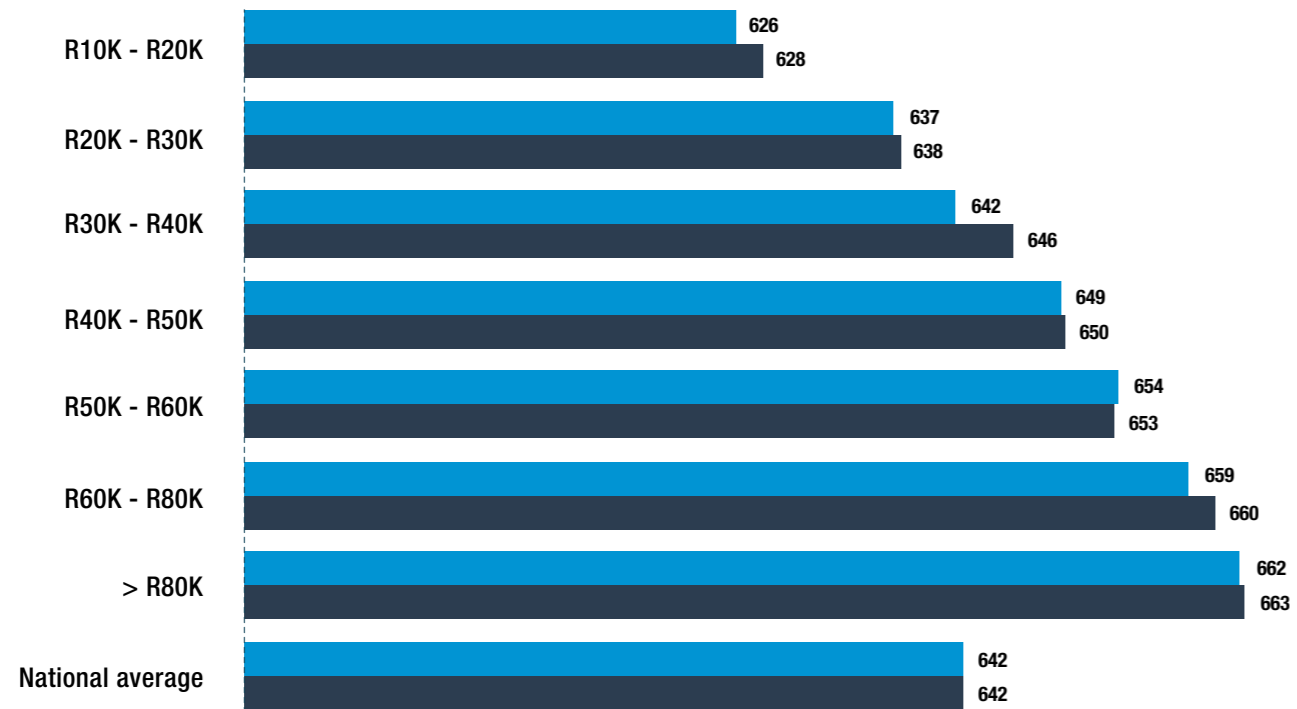
Minimum risk Low risk Medium risk High risk



Income and tenant risk: Q2 2024
Source: PayProp

Minimum risk Low risk Medium risk High risk





Credit scores: Q2 2023 vs Q2 2024
Source: PayProp

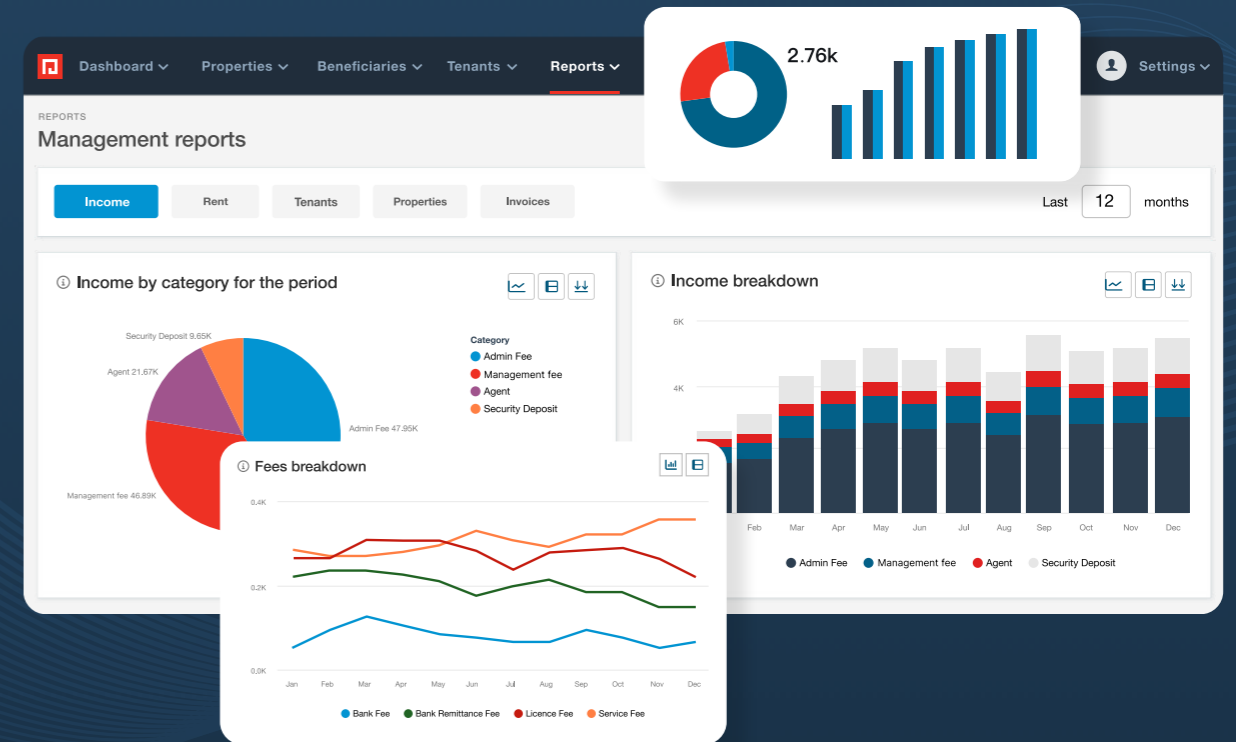
■ Q2 2024 ■ Q2 2023

Credit scores remained relatively stable between Q2 2023 and Q2 2024, with higher-income tenants having better ratings. The biggest year-on-year move was seen in the R30K - R40K bracket, with a deterioration of 4 points. ■



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IN CLOSING

Growth – *but not as we know it*

The sudden uptick in rental growth in Q2 2024 is a surprise piece of good news for rental agents and landlords after the previous quarter's drop. The quarterly rate of 4.9% is a new post-pandemic high, and the best performance seen since 2017. Arrears have also moved in the right direction, while inflation appears to be under control still.

The other big surprise has been the source of that national rental growth. Provinces that performed well in Q1 – the North West, Free State and Eastern Cape – all saw growth fall off in Q2. Meanwhile, the poor performers from last quarter – KwaZulu-Natal,

the Northern Cape and Mpumalanga – rallied somewhat, although they remained the bottom three in terms of rental growth.

But while most provinces converged on the average, it's the Western Cape that will really grab headlines this quarter after just missing out on double-digit rental growth. That's a stunning figure for one of South Africa's most mature and high-priced rental markets, and we will report on whether that continues in Q3.

Once again, thank you for being a loyal reader of the PayProp Rental Index. As my colleague André van Rooyen says, use it to be the smartest, most data-driven person in the room. Read the PayProp Rental Index and wear that badge with pride! ■

The sudden uptick in rental growth in Q2 2024 is a surprise piece of good news for rental agents and landlords after the previous quarter's drop.



Q2 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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