

RENTAL INDEX

SPECIAL EDITION: MAY 2020

Including:

Rental market data for Q1 2020

The calm before the storm

**State of the Rental
Industry at year-end 2019**
Full survey results

**Leading industry experts
on life after COVID-19**
Prepare for increasing arrears



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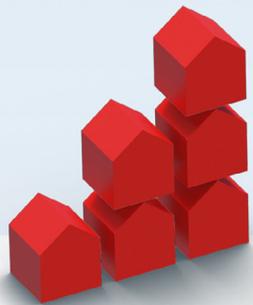
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“Let’s face it – the current state of play bears no resemblance to the market of the first quarter – it is quite unlike anything any of us have seen in our lifetime.”



INTRODUCTION

Unlike anything we’ve ever seen

So much has changed since the last time I wrote one of these introductions. Little did I suspect then that we’d be confined to our homes while putting the first quarter’s Rental Index together, but here we are.



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Lockdown and the current restrictions on movement have hit the property industry particularly hard. Tenants are unable to move and struggling to pay their rent, and sales agents cannot finalise sales or earn commission.

Let’s face it – the current state of play bears no resemblance to the market of the first quarter – it is quite unlike anything any of us have seen in our lifetime.

For that reason, we’ve changed our usual approach to the Index, dividing it into three sections of which the usual market update is just one. We lead with PayProp’s State of the Rental Industry survey as at the end of 2019, before briefly analysing Q1 rental statistics, and lastly, we ask several leading industry experts about their views on the lockdown and their predictions

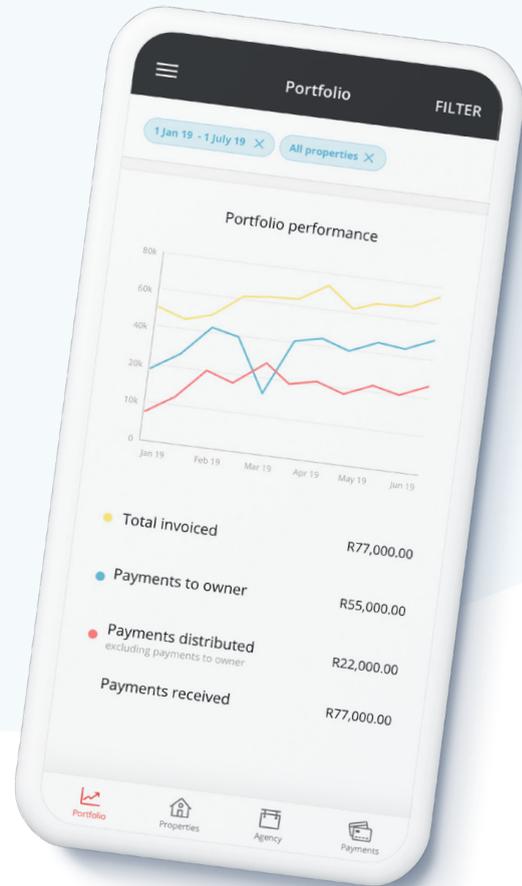
for the rental market in months to come.

The outcome is a much more representative picture of the present situation, which contrasts starkly with prevailing views of the industry just months ago and casts a whole new light on Q1 as the calm before the current storm.

I hope you find guidance in the exhaustive views and data in this special edition of the Rental Index, as we do. As always, feel free to share your thoughts with me.

Stay safe and strong for when we inevitably emerge from this. ■

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PAYPROP STATE OF THE RENTAL INDUSTRY SURVEY

Survey results

In the previous Rental Index, we provided a summary of the results from PayProp's first State of the Rental Industry survey, conducted at the end of 2019.

Here we include a broader selection of the survey results for a more in-depth look into the rental industry's perceptions at the end of 2019.

Most participants work in the rental industry and the majority are either business owners, rental agents or administrators. ■



Technology in rental businesses

We often hear that technology is a disruptive force in the rental industry and our respondents seem to share our view that this is a positive thing.

Of those polled, 89% use property technology at work on a daily basis, and 90% think it enhances their jobs and businesses. On the flip side, 10% still believe technology could have a negative impact on their work!

Only two thirds of participants feel the property industry is keeping up with technology, while three quarters think the reverse – technology isn't keeping up with the industry and can be improved to serve it better. ▶

Suggestions for improving technology ranged from updating municipality systems to cheaper virtual tours for property advertising.

Moreover, “automation” and “integration” appeared numerous times in respondents’ requests for system improvements – value drivers that form the bedrock of PayProp’s market proposition.

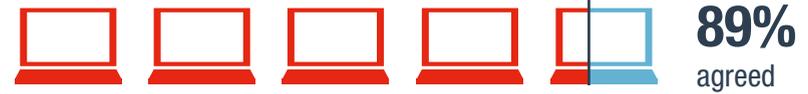


Repeatedly, respondents suggested technology had to become more user-friendly and simpler.



In general, business owners were (even) more positive about technology than rental agents and administrators. ■

I often use technology in my business



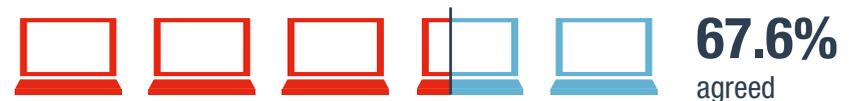
Property technology could enhance my job/business



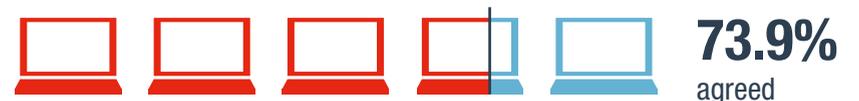
Property technology could have negative implications for my job/business



I feel that the property industry is keeping up with technology



Technology can be improved to better serve the property rental industry



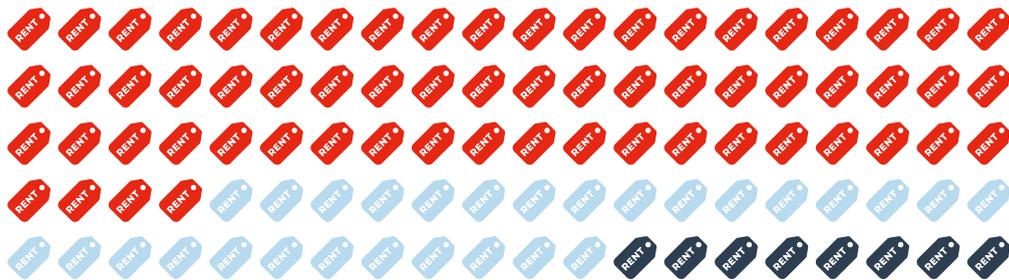
■ Agree ■ Disagree

Rent and commission

No-one will deny that the misfiring South African economy has put businesses and consumers under immense pressure over the past few years.

Slow economic and income growth in 2019, coupled with sporadic oversupply of rental properties, kept rental growth under pressure.

In 2019, the rental increases that I implemented have been:



Rental agents have not been spared the bad news. Two thirds of respondents noticed an increase in vacancies during 2019. This has suppressed rental growth – 63% of participants admitted implementing lower-than-normal rental increases last year, with only 8% saying their increases were higher than normal.

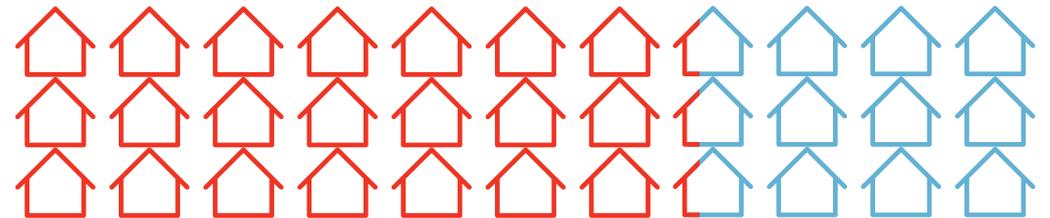
Have you lowered your commission in the last year to keep a landlord as a client?

In this economic climate, retaining clients is more important than ever. 58% of respondents report having lowered their commission to keep a landlord.



58%
have lowered commission

Has your number of vacancies increased over the past year?



Keeping commissions and rents down to retain mandates and tenants is understandable, but a bitter pill to swallow. Lower rental increases mean the base on which commission is earned grows at a slower pace, and a lower resulting commission decreases the main source of income on your rental book. The effects of both will most likely be felt for years to come, so it is worth looking into tools that allow for top- and bottom-line growth through better business efficiencies.

Do you think that landlords have a good understanding of the current rental market?

While rental agents are aware of the effects of the economy on their own businesses and on tenants' pockets, it would seem that owners are less informed.



74%
say no

Almost three quarters of respondents said landlords don't have a good understanding of the current rental market, which means they might still be expecting high rental increases and properties that are occupied all the time. ■

Arrears and evictions

Agents are not the only ones to suffer in South Africa's sluggish economy. Tenants have been hit by low income growth and high unemployment, leading to affordability challenges – made worse by high increases in living costs such as petrol and medical care.



It is no surprise, then, that almost 70% of participants said arrears were a bigger problem at the end of 2019 than a year before – or that 51% had at least one tenant evicted in 2019. ▼

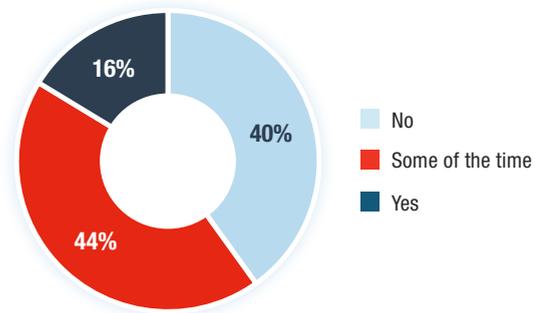
Were payments in arrears a bigger problem in 2019 than a year before?



Did you have tenants evicted in 2019?



Do you think you can spot a bad tenant without running a credit check?



Worryingly, only 40% of agents concede they cannot spot a bad tenant without a proper credit check. Running routine credit checks on tenants can uncover hidden affordability issues and reduce the eviction rate. ■

Business and administration

There's no avoiding it – property rental will always be an admin-heavy business – but automation can make all the difference.



Over a third of survey participants spend **more than 2 hours** a month on admin per property.



20% of survey participants spend between **1 and 2 hours** on admin per property per month.

The biggest pain point in this regard is chasing tenants for payment, said 27% of respondents. Finding quality tenants is a close second, (24%), with inspections (23%) rounding out the top 3 biggest challenges. ■

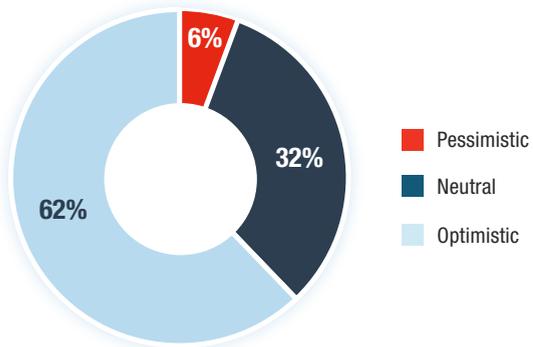


The future of the industry

Despite the challenges of current market conditions, it is encouraging to see that most survey participants are optimistic about the future of the rental industry. Only 10% said they don't see themselves working in the industry in five years.

That being said, the industry will look very different at the end of this decade than it does today, especially from a technological standpoint. Happily, most agents are already embracing currently available technologies and feel optimistic about the possibilities of future advancements. ▼

We can safely predict that, when we repeat the survey in 2020, the results will look very different from what we have seen here! ■



The full results can be found on our website.

[View results](#)



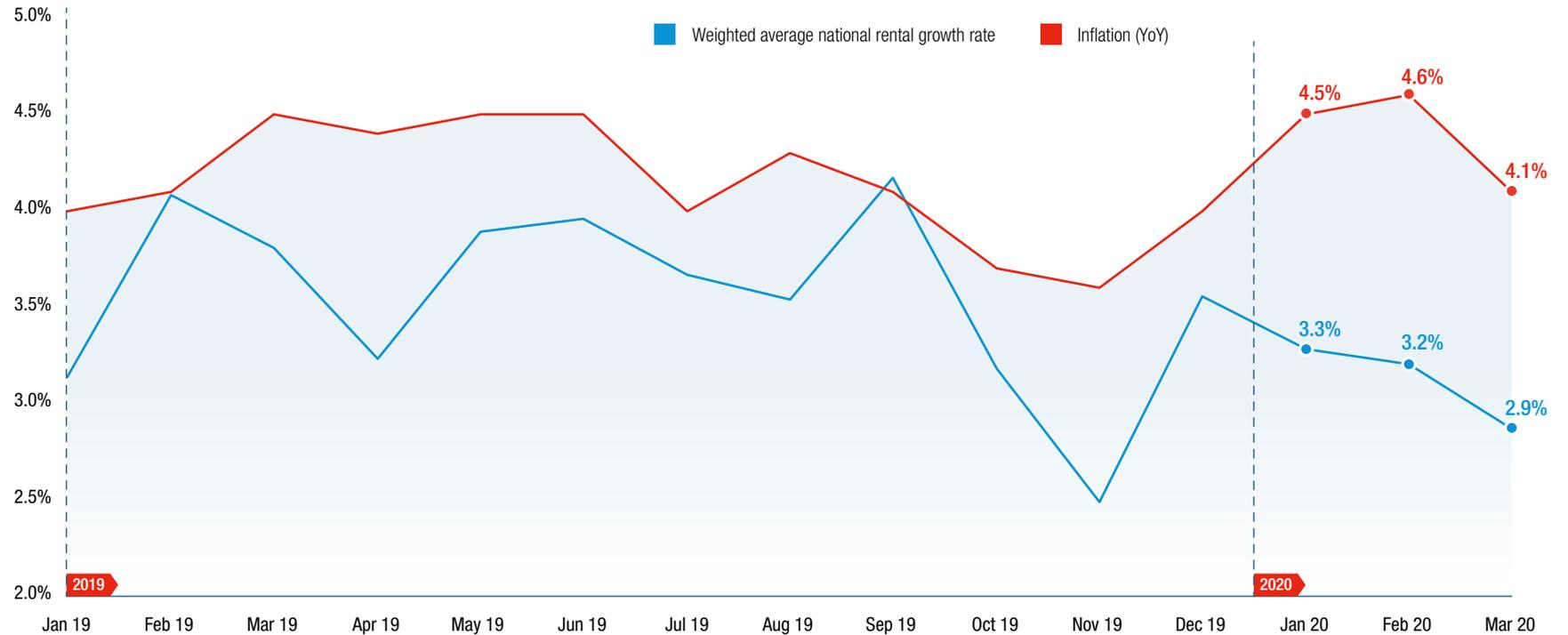
NATIONAL RENT STATISTICS

Subdued growth continues into 2020

It is useful to look at the past quarter's monthly national rental growth rates (measured year-on-year) in context over the previous year. This metric fell in each of the three months of the first quarter of 2020, effectively trending downward from December 2019. Rental growth for March measured 2.9%, the lowest for the first quarter.

SLOWING DOWN
 Note that the downward trend over the last three months of 2019 means the average rent increased at a slower pace – not that rental prices have dropped.

Weighted average national rental growth rate (YoY) vs. inflation – January 2019 to March 2020
 Source: PayProp



At the same time, inflation came in at 4.5%, 4.6% and 4.1% respectively, causing the differential between the inflation rate and rental growth rate to increase. This figure peaked at 1.4% in February.

While we previously speculated that we might see a rebound in rental growth later this year, the more likely scenario post-lockdown is that rental growth will be under continued pressure as millions of South Africans are now expected to lose their jobs.

That being said, if consumers put off buying property due to increased uncertainty and a still weaker economy, increased demand for rental properties might cushion the blow. ■

QUARTERLY RENTAL TRENDS

An extension of what went before

Looking at Q1 2020's growth rate in the same historic context, we see that it is merely a continuation of the growth trend seen in the previous quarter.

Coming in at 3.2%, this figure was at its second lowest since the start of 2018. But more to the point, one look at the moving average trendline (red dotted line) shows a definite downward trend.

With the current market uncertainty, it is hard to say if this trend will continue, but we won't be surprised if it does, sending rental growth rates still lower over the coming months. ■

MOVING AVERAGE EXPLAINED

A moving average trendline effectively tracks the average of two datapoints on a rolling basis, smoothing the data slightly in order to reveal longer-term trends.



■ Quarterly growth - - - Moving average

■ Quarterly YoY growth rates with a moving average trendline
Source: PayProp

PROVINCIAL RENT STATISTICS

How are things in your region?

As we saw in the previous section and the above graph, the average national rent came in at R7 786 over the first quarter – up 3.2% year on year (YoY) from Q1 2019.

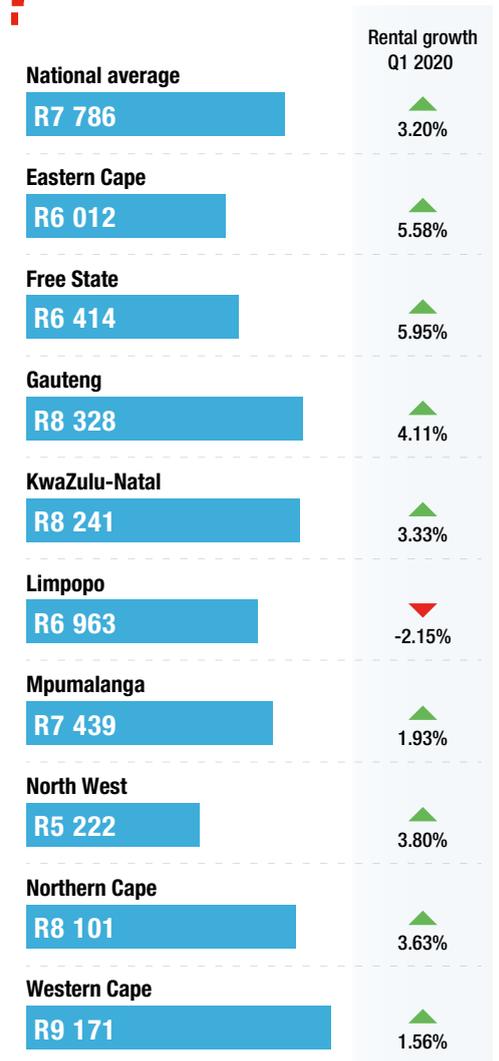
Provincially, **Western Cape** rental properties again commanded the highest rents at an average of R9 171, but the province experienced the second-lowest YoY growth at just 1.56% (after **Limpopo's** negative growth of 2.15%).

The **Free State** returned the highest provincial rental growth at 5.95% YoY, down from 8.05% the quarter before.

In **North West**, tenants can still find the cheapest homes to rent at an average of R5 222, and the quarterly growth rate of 3.8% is a long way off the double digits (10.2%) measured just two quarters ago.

On the plus side, the **Eastern Cape** saw rents increase by 5.58% in Q1 – up from 5.23% in Q4 2019.

Other provinces with higher growth rates versus Q4 2019 were **Gauteng** (4.11%, up from 3.66%), **KwaZulu-Natal** (3.33%, up from 2.14%) and the **Northern Cape** (3.63%, up from 1.57%). ■



■ Provincial growth and rent levels Q1 2020
Source: PayProp

2020 ARREARS SO FAR

Arrears increasing as more lean times expected

As expected, tenants' ability to pay their rent due to a reduction or loss of income during lockdown has been a big challenge for all rental agencies and tenants – and it's expected to get worse before we turn the corner.

In this section, we look at emerging trends in arrears and include April's data as it is the first month that will be affected by COVID-19. The next Rental Index will include a more detailed analysis.

We analysed two different arrears parameters: First, we considered the percentage of tenants in arrears relative to the total number of tenants under management, and second, we calculated the average value of arrears of these tenants relative to their average rent.

Some 73% of PayProp clients experienced an increase in the percentage of tenants in arrears from March to April, and 63% saw the average arrears percentage increase during this time.

As we can see from the graphs, there was a spike in both these numbers in April.

ARREARS CRITERIA

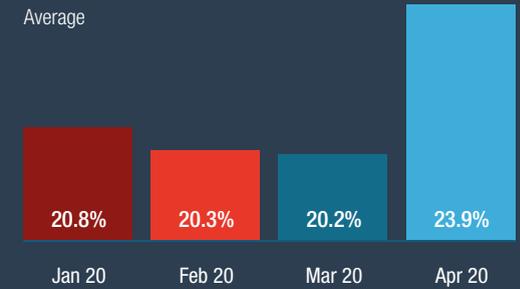
For our arrears analysis, we only considered residential letting agencies that had more than 10 properties under management at the beginning of 2020 and processed rents during all four months under consideration.

Tenants' arrears positions were determined on the 7th of each month, and only active tenants were taken into account.

During March, just over 20% of tenants were in arrears, increasing to 23.9% in April. ▶

% of tenants in arrears

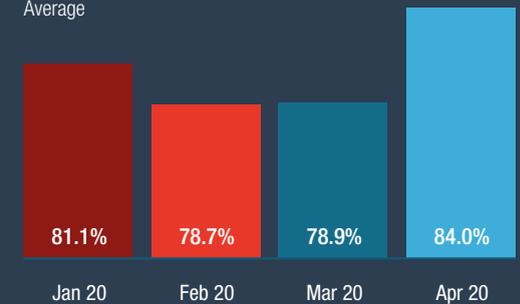
Average



The average size of tenants' arrears increased as well, jumping from 78.9% in March to 84% in April. ▶

Arrears %

Average



While we have already seen an increase in both arrears metrics in April, we expect May and June to be worse. The position and recovery in months to come will be influenced by how long the different levels of lockdown will stay in place. ■

INDUSTRY WEIGHS IN

A post-COVID world

We asked a sample of real estate agents in our client base about the impact of COVID-19 on their businesses so far, as well as their views on the outlook for the industry over the next few months. Together, this group of eight property practitioners have more than 130 years' industry knowledge.

As is our experience across our client base, most have already started seeing an increase in rental arrears and expect it to worsen over the next few months. As PayProp clients, they have all embraced technology (also in other areas of their businesses) and view it as an enabler. In addition, they all believe technology can help improve their businesses, but feel that not all interactions (such as showings and inspections) can be replaced.



Sakkie van Rooyen

Pam Golding Properties Nelspruit
Years in the industry: 23

Sakkie reports already seeing an increase in arrears, and says he believes that tenants will gradually be paying less rent over the next three months – especially in cases where tenant income is affected.

While he thinks it will take about 12 months for tenants' payment behaviour to normalise, he doesn't foresee COVID-19 having any permanent impact on the rental industry.

COVID-19 and the lockdown affected his team positively, even though some employees struggle to work remotely. His team is much closer, communicate more frequently, and give each other more support than usual.

Sakkie finds it helpful to personally hear about the frustrations of landlords and tenants by attending to all phone enquiries himself, and is making some operational improvements on the back of this.



Deon de Swardt

RE/MAX Oaktree
Years in the industry: 11

While Deon didn't see much change in arrears during April, he expects it to worsen over the next few months. His agency manages student housing and expects many relief requests from this market, since most students don't currently occupy these properties. At the time of writing, many parents have said they'd have to cancel lease agreements if students weren't allowed back to university or college soon.

Deon is of the opinion that the lower interest rate environment will push more consumers to buy property, which means fewer will rent. "Lower interest rates have always been a stimulus to growth in our market. With the announcement of a drop of 200 basis points and the expectation of a further drop of 100 basis points, more buyers will come to the fore."

His advice to newcomer agents in this market? Hustle!

Good advice that we can all take to heart.



Frans Stapelberg

Accommodation Galore
Years in the industry: 12

Frans acknowledges that COVID-19 will cause landlords with bonded rental properties in particular to struggle financially. That being said, he believes that the best course of action is not to increase the rental amount by more than 3%, and thereby to minimise the impact on tenant arrears.

He offers the same advice to newcomer agents, since most landlords' bond repayments will have decreased after the interest rate reduction. Coupled with low inflation, this means landlords are in a position to help tenants and their own arrears position by not drastically increasing rent. "This thing of 10% increases per annum is hurting the rental market," he says.

Like many others, Frans believes technology is a great enabler. He says employers can save on expensive office space if fewer employees work from the office, since many functions, such as rent collection, can be done from anywhere.



Gena Felizardo

Century21 East London
Years in the industry: 33

Like others we asked (borne out by our platform data) Gena has already seen an increase in arrears since the start of lockdown. She says that tenants who are lucky enough to still be receiving salaries will continue to pay, but self-employed tenants and those who were retrenched face a big risk of falling behind on their rent.

Century21 East London is proactively encouraging landlords to ask their banks for payment holidays where tenants can't pay their rent. While landlords have on the whole been understanding so far, Gena is afraid that this will change as lockdown approaches the three-month mark. "Most landlords depend on the rental income for their monthly expenses."

Gena and her team are using this time to update the processes that were already in place before lockdown. Their rental department has an accountability system that has worked well for them during the time that they are working remotely, but they have been forced to continuously improve it during the lockdown period.



Rochelle Holland

Seeff Sandton
Years in the industry: 14

Rochelle echoes Gena's observation about landlords. "Most are very understanding – I have not yet had a landlord deny a payment plan," she says. However, if lockdown continues for longer than three months, some landlords will struggle and may be forced to sell their rental properties, she adds.

Rochelle thinks the impact on the economy will lead to more consumers renting and fewer buying property. Fewer will qualify for bonds as they struggle to keep up with their debts due to loss of income.

With years of experience in the rental industry, she has the following advice for newcomer agents: "I have seen increases and decreases in demand, and one thing is for sure – rentals will always be a profitable business in any market."

Wise words, Rochelle!



Denise McGladdery

Pam Golding Properties
Pietermaritzburg
Years in the industry: 18

Denise also reports an increase in arrears. She expects that at least 30% of the agency's tenants won't be able to pay rent in May, with another 30% expected to pay only partially. Depending on how many businesses will be allowed to operate during the different levels of lockdown, she believes that these figures will further increase in June and July.

The company is mitigating landlord and commission income risk by asking tenants for proof of loss of income before making payment arrangements. At the same time, it ensures all payment plans to catch up on arrears are put in writing.

The lockdown is forcing businesses across all industries to rethink the way they do business. Denise says going digital is the way forward, and that "enabling landlords and tenants to sign documents digitally will be the norm".



RE/MAX

Beatrix Joubert

RE/MAX Helderberg
Years in the industry: 22

Beatrix has likewise seen arrears worsen in her business and expects this trend to continue over the next few months, but adds that tenant payment performance should normalise in three months' time.

Even though rental agencies could not have seen this coming, there isn't much they can do to minimise tenants' increasing arrears, she says. However, one step agencies can take is to vet tenants better in future, ensuring that they place low-risk tenants.

She says her team is as productive as ever at this time of working remotely, while their communication has improved. She is hoping that improved communication will continue long after lockdown.

We're with you on that!



Seeff

PG van der Linde

Seeff Pretoria East
Years in the industry: 5

PG is of the opinion is that arrears will worsen further in May and peak in June. Further down the line, he thinks tenant payments will normalise after that.

PG's team will take proactive steps to arrange for rental payment deferrals and payment plans in order to manage the increase in arrears as effectively as possible. Luckily, banks offering bond payment holidays will bring some relief to landlords.

Because of the current market uncertainty, he believes that limited cash flow will affect buyers' decisions over the short term, leading to more consumers renting and fewer buying property.

He advises newcomers to the industry to accumulate stock in areas where investors focus, as they are more likely to purchase buy-to-let properties during this time.

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A BRAND NEW PRIVATE PROPERTY

New purpose, new vision

After 21 years in the real estate industry, Private Property is rebranding. We spoke to them about the future of their brand, getting closer to consumers and how the company will continue to revolutionise real estate marketing.

Launching a new brand has given the company a renewed purpose as it aspires to be better in every way, providing consumers with intuitive solutions throughout their property journey.

“Over the past 12 months, we have developed a strategy that will be more relevant to a wider audience,” says Amasi Mwela, CEO of Private Property. “As part of this, we are expanding beyond digital and adopting a multichannel approach that includes a variety of physical, print, digital and face-to-face touch points to bring us closer to consumers.”

Private Property has taken the time to develop inspiring content, empowering information and the practical tools consumers need to make more informed property decisions. It is committed to walking every step of the way with them and giving them the utmost confidence as they navigate what is likely to be one of the most important financial decisions of their lives.



The FOUR elements

To reflect its changing approach, Private Property's new logo is designed to symbolise its new purpose. The company divided its logo into four elements to represent the different aspects of how its brand provides consumers with the inspiration, tools and information to live well.

Two Ps in a POD

In the spirit of keeping its strong, bold name, the company chose the two Ps from its name to form the basis of its new logo, and created a new look from one of its most powerful features.

In the FRAME

Once overlapped, the Ps created a whole new space. Pulled apart, they form a frame, which accurately represents how the brand is framing important property conversations in South Africa and giving consumers a brand-new view on property.

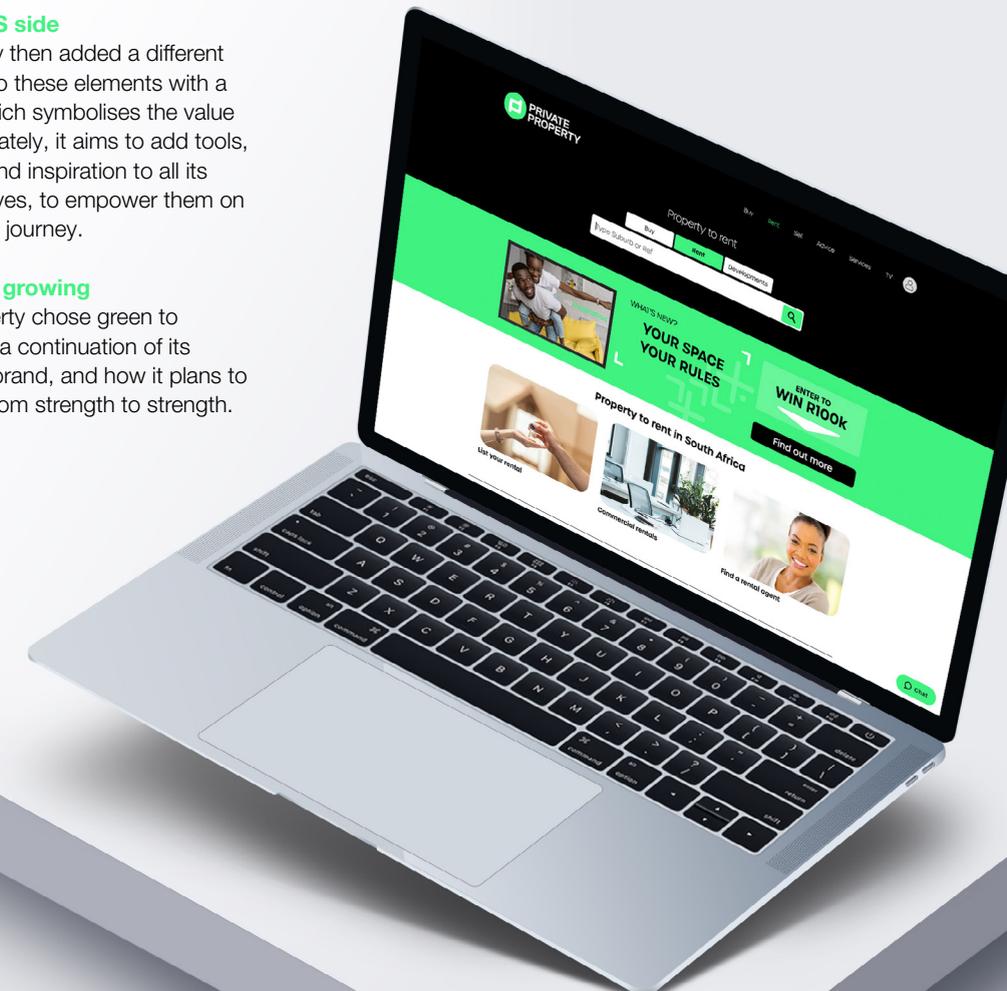
“We are expanding beyond digital and adopting a multichannel approach that includes a variety of physical, print, digital and face-to-face touch points to bring us closer to consumers.”

On the PLUS side

The company then added a different perspective to these elements with a plus sign, which symbolises the value it adds. Ultimately, it aims to add tools, information and inspiration to all its customers' lives, to empower them on their property journey.

GREEN and growing

Private Property chose green to demonstrate a continuation of its growth as a brand, and how it plans to keep going from strength to strength.



WRAP-UP

Uncertain times

- ▶ There is no doubt that COVID-19 has influenced our lives, livelihoods and industry in a way that few of us could imagine just a few months ago.
- ▶ The South African economy will be hit hard by this pandemic and the effects will be felt for months, if not years to come.
- ▶ The rental market will most likely experience subdued rental growth for longer than previously thought.
- ▶ Arrears will worsen and take time to normalise, as tenants lose income and are unable to pay their rent and service their other obligations, which will in turn cause landlords to struggle financially.

That being said, some industry players are using the proverbial lemons they've been handed to make lemonade – improving their current processes, increasingly using PropTech to their advantage, and bettering their communication skills, both internally and externally. We should all follow their example! ■



SPECIAL EDITION: MAY 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 letting transactions in South Africa.

Contact details

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“

If you find you're spending too much time, particularly in the rental environment, doing a lot of the remedial stuff yourself, get the right technology. We did – we chose PayProp. It worked for us and for our group. We know that our reputation is well-kept.

”



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