

RENTAL INDEX

ANNUAL REVIEW 2019

**Stability is
the name
of the game**

Improved credit metrics

Our first ever State of the
Rental Industry Survey results



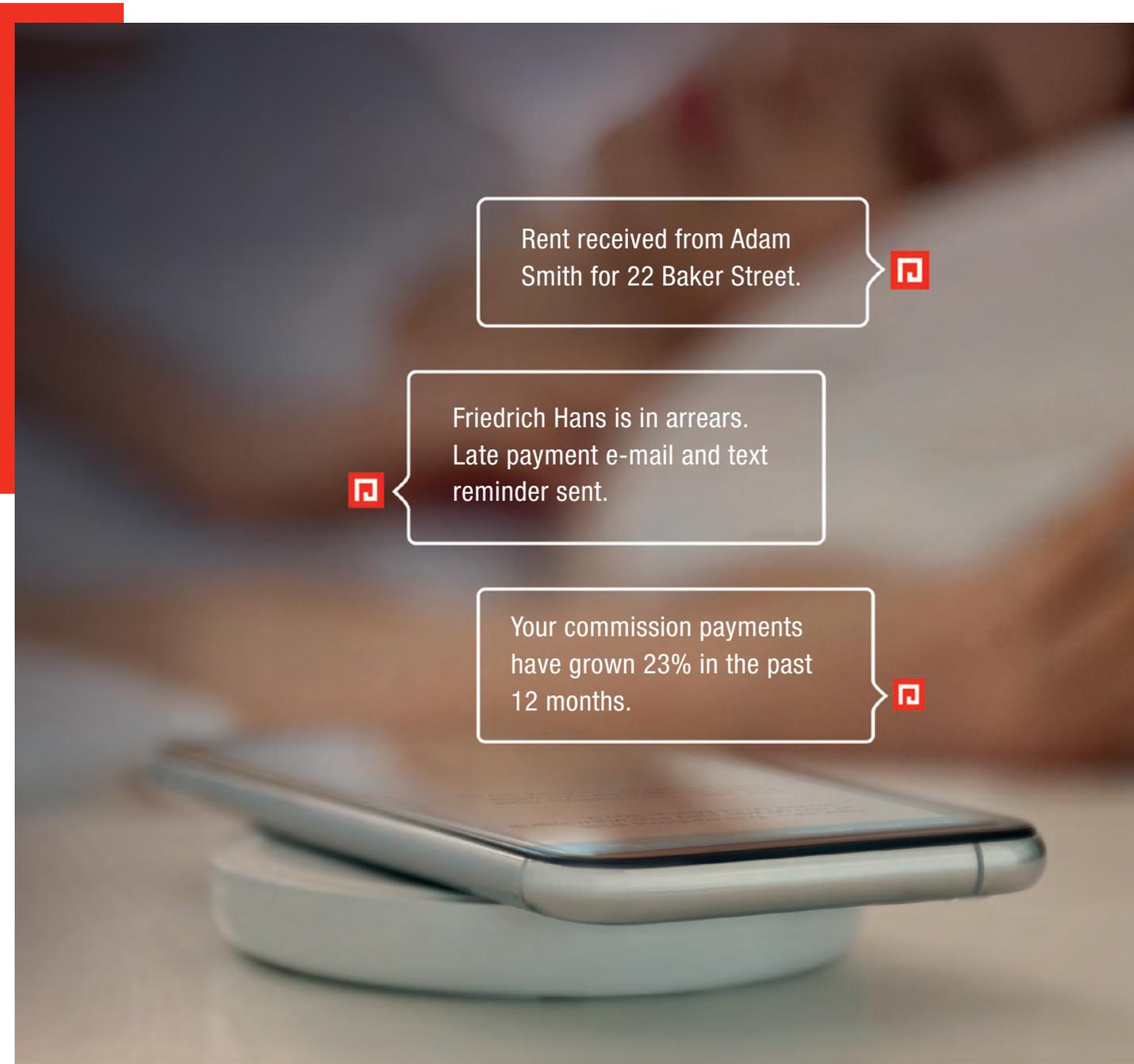
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Rent received from Adam Smith for 22 Baker Street.

Friedrich Hans is in arrears. Late payment e-mail and text reminder sent.

Your commission payments have grown 23% in the past 12 months.

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PayProp Rental Index: The national picture

National rental growth in the final quarter of 2019 was at its lowest for the year.

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State of the Rental Industry Survey

In 2019, we conducted our first ever PayProp State of the Rental Industry Survey.

61 Glass half full



“No-one knows what the industry will look like at the end of this decade, but one thing is certain – it won’t look anything like today.”

INTRODUCTION

New year, new decade



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I will refrain from any 20/20 vision clichés, but I will say this: it’s been 20 years since Gladiator received the Oscar for Best Motion Picture!

Russell Crowe might look much the same now as he did then, but the same can’t be said for the property industry. Twenty years ago, properties were still advertised in the newspaper, and few could have dreamed of the possibilities of the Internet and solutions like PayProp.

How things change.

No-one knows what the industry will look like at the end of this decade, but one thing is certain – it won’t look anything like it does today. If we are to thrive, we must keep adjusting to those changes and embrace them.

In this issue we analyse another quarter of flat growth and share our thoughts about the year ahead.

I am also very excited to share with you the highlights of our very first State of the Rental Industry survey. A more in-depth analysis will follow in the near future.

I hope you enjoy this Annual Review for 2019. As always, feel free to share your thoughts with me. ■

NATIONAL RENT STATISTICS

Another year of subdued growth

Rental growth figures continued their sideways trend in 2019 – and, as they did for most of 2018, remained below the rate of inflation.

MOVING SIDeways

By 'sideways trend' we mean there is no definitive direction (up or down) over the longer term – the overall line movement is horizontal.

Weighted average national rental growth rate (YoY) vs. inflation – 2018 to 2019
 Source: PayProp



The 4.2% year-on-year (YoY) rental growth rate measured for September was marginally higher than the corresponding YoY inflation number of 4.1%, but the last three months of the year saw rental growth rates fall back to sub-inflationary levels. Average rents in the last three months increased by 3.2%, 2.5% and 3.6% respectively (measured year-on-year).

In 2020, we predict that the factors behind low rental growth – including over-supply of housing, lack of affordability and slow economic growth – will persist. We do not expect rental growth to surpass this year's projected 4.5% inflation rate. ■

QUARTERLY RENTAL TRENDS

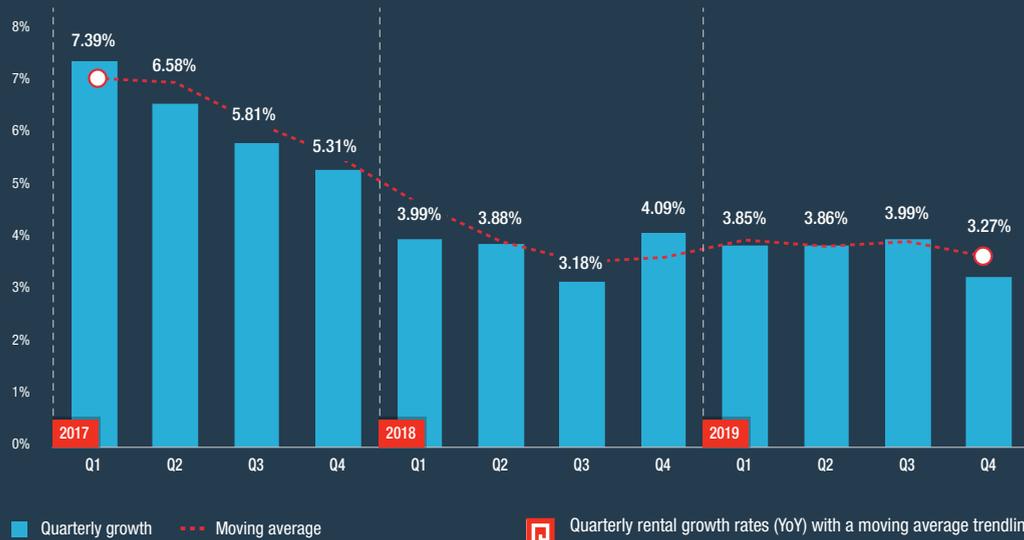
Steady as she goes

Adding a moving average to growth figures confirms the flat growth of recent years. Quarterly rental growth (measured YoY) was between 3% and 4% for seven of the past eight quarters, and we don't foresee any significant changes in this pattern in the next few quarters.

MOVING TARGET

We use a moving average trendline, which tracks the average of the most recent and preceding data point on a rolling basis, as this smooths short-term price movements slightly to make longer-term trends clearer.

While rental growth is far below the peak of 7.39% seen just three years ago, the trend is at least continuing sideways and not declining further. ■



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

DAMAGE DEPOSITS

One man's protection is another's affordability

Damage deposits are crucial for protecting your landlords against possible damage to their properties, but tenant affordability must also be taken into account.

DAMAGE DEPOSITS EXPLAINED

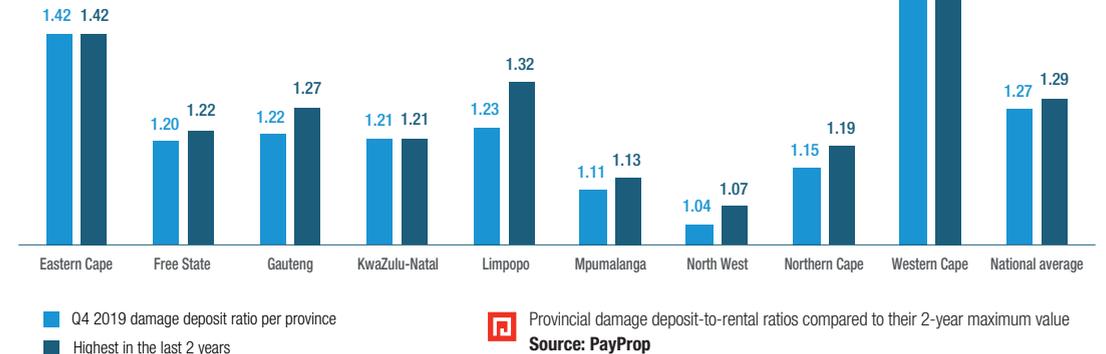
To calculate the damage deposit ratio (or damage deposit-to-rental ratio), we express the size of the average damage deposit held as a ratio of the average rent. A ratio of 1.5 means that, on average, a damage deposit equal to one and a half months' rent is required.

Damage deposit levels differ somewhat between provinces, but the national ratio of deposit to monthly rent has been very stable over the longer term. Here we look at the current damage deposit ratio for each province and for South Africa as a whole, compared to the highest ratio for any quarter in each instance over the last two years.

current national average stands at 1.27 – also somewhat below its historic peak.

It is interesting to note that the cheapest province for tenants, the North West, has the lowest ratio at 1.04 – equating to an average deposit value of R5 531. At the other end of the scale, the Western Cape, the most expensive province, also demands the highest ratio from renters, equating to an average deposit value of R15 156 – a difference of over R9 600! ■

While most provinces' current ratios are slightly lower than their historic peaks, none show a noteworthy deviation, while the

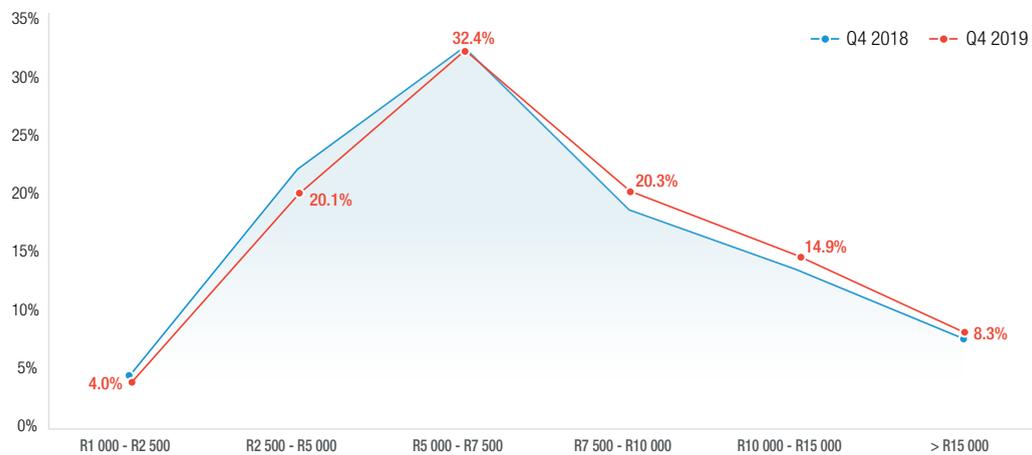


Provincial damage deposit-to-rental ratios compared to their 2-year maximum value
Source: PayProp

NATIONAL STATISTICS

Even-handed rent distribution

As the average rental amount increases year after year, one would expect the distribution of properties across the different price bands to change over time.



 The distribution of properties across price bands for Q4 2019
Source: PayProp

Here, we look at the changes in distribution across different price bands in Q4 2019 vs. Q4 2018. Not surprisingly, a smaller percentage of people has been renting in the lower price bands over that period, while the percentage of tenants in the higher price brackets has increased.

However, the percentage of tenants in the middle brackets has changed very little over the past year – in the last quarter, 32.4% of tenancies fell within this bracket, versus 32.9% the year before.

The distribution on either side of this bracket is also more symmetrical than a year ago. Both the R2 500 – R5 000 band and the R7 500 – R10 000 bands now contain just over 20% of tenants. The year before, this was slightly more uneven, at 22.2% and 18.8%. This means the higher of the two price bands (R7 500 – R10 000) experienced the biggest increase in tenant distribution over the past year. Interestingly, the average national rent for the fourth quarter of 2019 stands at R7 844, placing it within this bracket. ■



The average national rent for the fourth quarter of 2019 stands at R7 844.

PROVINCIAL STATISTICS

A deep dive into rent and credit metrics

In this section, we analyse each province according to a wide-ranging set of rent and credit metrics and highlight the most important changes over the past year.

We've split the stats up into four broad categories – rent and deposits, credit scores, income and spending, as well as accounts and payment behaviour.

		Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	North West	Northern Cape	Western Cape	National (weighted)	
RENT AND DEPOSITS	Rent	Q4 2018	5 703	5 942	8 064	8 129	7 173	7 248	4 986	8 153	9 124	7 610
		Q4 2019	6 001	6 421	8 360	8 303	7 146	7 398	5 318	8 281	9 299	7 844
	Rental growth	Q4 2018	3.39%	8.25%	4.84%	7.25%	-4.01%	4.74%	-0.09%	-0.70%	3.96%	4.09%
		Q4 2019	5.23%	8.05%	3.66%	2.14%	-0.38%	2.07%	6.67%	1.57%	1.91%	3.27%
	Damage deposit ratio	Q4 2018	1.34	1.19	1.23	1.15	1.26	1.11	1.04	1.14	1.61	1.26
		Q4 2019	1.42	1.20	1.22	1.21	1.23	1.11	1.04	1.15	1.63	1.27
CREDIT SCORES	Credit score v3	Q4 2018	637	644	640	641	643	642	653	634	653	643
		Q4 2019	638	648	643	643	636	643	655	641	653	645
	% high risk v3	Q4 2018	31.4%	24.1%	28.9%	28.7%	25.8%	24.6%	20.2%	32.1%	18.3%	26.4%
		Q4 2019	30.6%	23.4%	26.7%	27.0%	32.9%	24.9%	19.1%	26.5%	18.5%	25.6%
	* Credit score v2	Q4 2018	627	632	629	631	631	629	640	623	639	631
		Q4 2019	629	636	632	632	624	630	641	628	640	633
	* % high risk v2	Q4 2018	45.4%	37.7%	42.3%	37.7%	33.7%	42.4%	30.4%	48.4%	29.2%	38.5%
		Q4 2019	42.6%	33.1%	37.3%	38.7%	46.6%	35.8%	28.2%	44.2%	28.6%	36.6%
* Version 3 will be used on its own in future issues of the Rental Index.												
INCOME AND SPENDING	Income	Q4 2018	27 125	31 796	31 962	33 954	28 457	32 036	31 917	31 509	35 815	32 177
		Q4 2019	27 903	30 542	32 922	35 876	29 184	33 200	36 090	29 176	36 698	33 297
	Debt-to-income ratio	Q4 2018	43.7%	37.6%	46.3%	45.6%	43.0%	46.8%	67.8%	35.0%	40.2%	45.7%
		Q4 2019	45.9%	42.2%	45.9%	42.2%	55.7%	36.6%	54.0%	62.6%	37.8%	44.9%
	Rent-to-income ratio	Q4 2018	29.5%	26.9%	29.6%	30.4%	27.1%	29.7%	22.1%	27.3%	29.8%	28.9%
		Q4 2019	29.5%	26.7%	30.1%	28.4%	30.5%	27.1%	21.9%	28.9%	30.4%	28.9%
	Affordability ratio	Q4 2018	73.1%	64.5%	75.9%	76.0%	70.1%	76.5%	89.9%	62.3%	70.0%	74.6%
		Q4 2019	75.4%	69.0%	76.0%	70.6%	86.2%	63.7%	75.8%	91.5%	68.2%	73.8%
ACCOUNTS & PAYMENT BEHAVIOUR	NLR accounts	Q4 2018	1.9	2.0	2.2	1.4	2.1	2.8	1.8	2.6	1.5	2.0
		Q4 2019	2.5	2.2	2.0	2.1	2.7	1.9	1.8	1.8	1.5	2.0
	CPA accounts	Q4 2018	8.0	8.0	8.6	8.6	8.9	9.2	9.5	8.9	8.1	8.6
		Q4 2019	7.7	8.4	8.3	8.2	8.7	7.8	8.7	8.1	7.7	8.2
	Major delinquencies	Q4 2018	22.2%	22.3%	19.0%	21.4%	15.7%	26.1%	17.9%	26.1%	13.7%	19.4%
		Q4 2019	18.5%	21.5%	17.2%	18.3%	21.9%	24.2%	16.5%	23.9%	13.2%	18.1%
	Months since 3 months in arrears	Q4 2018	7.8	8.2	7.8	9.0	9.5	8.9	8.3	7.6	8.9	8.4
		Q4 2019	7.0	8.2	8.4	8.4	5.2	8.4	8.2	5.8	9.0	8.1
	Highest months in arrears	Q4 2018	4.3	3.5	4.0	3.8	3.9	4.0	3.5	4.3	3.0	3.8
		Q4 2019	4.2	3.8	3.9	4.1	4.1	4.1	3.5	4.1	3.0	3.8

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With the PayProp Owner app your landlords can view their entire property portfolio's finances in one place, in real time! Owner statements, payment notifications, payment history and more.



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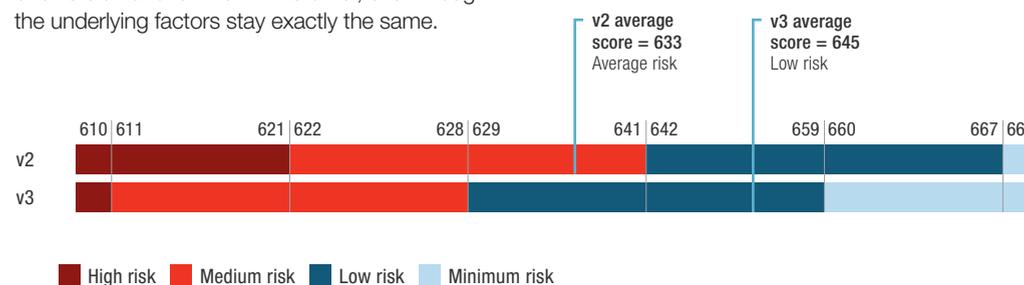
A tale of two versions

In the middle of 2018, we started using a new version of our credit bureau partner's credit scoring methodology, version 3 (v3). The new version is better suited to a more representative sample of consumers, and considers a wider variety of parameters in determining overall credit risk.

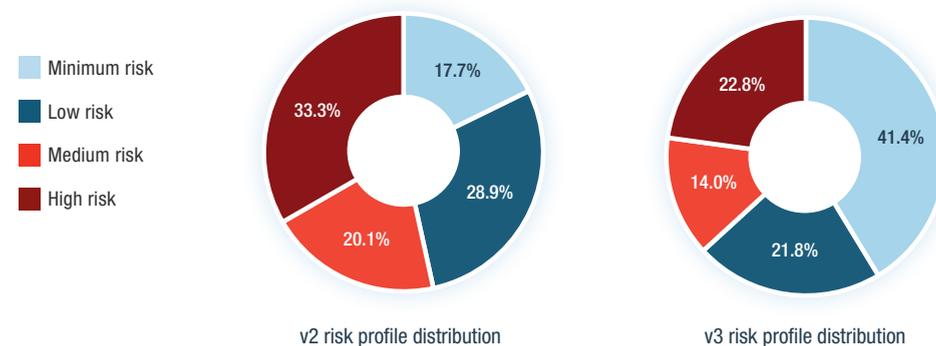
NOTE
Because we have historically reported on version 2, we included it in this Rental Index to enable us to collect enough data to compare the two versions. Version 3 will be used on its own in future issues of the Rental Index.

The risk bands for the two versions are also different – a 636 average score would be classified as indicating average risk under v2, but low risk when using v3.

The two scoring methodologies use the same credit records, but different scoring variables. So the same tenant can be classified as medium risk in one version and low risk in the other, even though the underlying factors stay exactly the same.



Divergent risk profile distributions for the two versions are evident below for Q4 2019.



The national picture



First, let's discuss national averages.



Rent and deposits

National rental growth (measured YoY) in the final quarter of 2019 was 3.27%, the lowest figure for the year. The average rent increased from R7 610 in Q4 2018 to R7 844 in Q4 2019.

The average damage deposit ratio for the quarter was 1.27, slightly up from Q4 2018 (1.26). This means that, on average, tenants paid a damage deposit equal to 1.27 times the monthly rent.

WEIGHT-WATCHING

All average statistics are weighted according to each province's contribution to GDP, in order to remove the potential for individual provinces' metrics to skew national averages.

R7 844 

Rent amount

The average rent increased from R7610.

3.27% 

Rental growth rate

Registering the lowest figure for the year.

1.27 

Damage deposit ratio

Went up slightly from Q4 2018 (1.26).



Credit scores

There was a slight improvement in the average credit score over the past year. Under version 3, it increased from 643 to 645 and a decrease was measured in the percentage of high-risk tenants, from 26.4% to 25.6%.



Credit score

The average credit score (v3) increased. 

25.6% 

Proportion of high-risk tenants

A decrease was measured.

The national picture

▶ cont.



Income and spending

Nationally, we saw an increase in net monthly income (i.e. take-home pay) of 3.5% to R33 297, which was higher than the percentage rental increase – creating some extra breathing space for renters.

In the past quarter, tenants spent an average of 44.9% of their net income on debt repayments (down from 45.7%) while the average rent-to-income ratio remained at 28.9%. Because of the decrease in the debt-to-income ratio, the affordability ratio decreased to 73.8%, leaving 26.2% of net income after rent and debt repayments.

NOTE

Affordability ratio = debt-to-income ratio + rent-to-income ratio

R33 297



Net monthly income

Net monthly income (i.e. take-home pay) rose by 3.5%.

44.9%



Debt-to-income ratio

Dropped from Q4 2018.

28.9%



Rent-to-income ratio

Remained the same as Q4 2018.

73.8%



Affordability ratio

Tenants were left with 26.2% of disposable income after rent and debt repayments.

GOOD DEBT AND BAD DEBT

Payment behaviour is a big predictor of credit health, and so is the type of credit that a tenant has – as we've said before, there is good debt (which includes CPA accounts) and bad debt (which includes NLR accounts).



Accounts and payment behaviour

Overall, the number of NLR accounts held by the average tenant remained unchanged for the year at an average of 2. The average number of CPA accounts per tenant fell from 8.6 to 8.2.

Regarding consumers' payment behaviour, there was an overall improvement from Q4 2018 to Q4 2019. Only 18.1% of tenants had a major delinquency in Q4 2019, compared to 19.4% in Q4 2018.

While the highest number of months in arrears for the average consumer remained at 3.8 months in Q4 2019, the average time since the average consumer were 3 months in arrears on any account worsened to 8.1 months – down from 8.4 months a year previously. ■

2.0



NLR accounts

The number of NLR accounts held by the average tenant remained unchanged for the year.

18.1%



Tenants with major delinquencies

Registered an overall improvement from Q4 2018 to Q4 2019.

8.1 months



Since tenants were last 3 months in arrears

The average time since the consumers were 3 months in arrears on any account worsened.



Up from last year



Down from last year



No change

Eastern Cape



Rent and deposits

With an average rent of R6 001 in Q4 2019, the Eastern Cape was the second-cheapest province to rent in after the North West province. Rents increased by 5.23% from Q4 2018 to Q4 2019, higher than the average national increase of 3.27%.

The average damage deposit ratio for the province was 1.42, up from 1.34 the year before and much higher than the national average of 1.27.

R6 001 ↑

Rent amount

Ranked as the second-cheapest province to rent in after the North West province.

5.23% ↑

Rental growth rate

Exceeded the average national increase of 3.27%.

1.42 ↑

Damage deposit ratio

This came in much higher than the national average of 1.27.



Credit scores

The average credit score and percentage of high-risk tenants were both worse than the national average, but the province experienced an improvement in both over the past year. The average credit score was 638 in Q4 2019, up from 637, while 30.6% of tenants were classified as high-risk, down from 31.4%.



Credit score

Trailed lower than the national average, but improved over the past year. ↑

30.6% ↓

Proportion of high-risk tenants

Came in above the national average, but improved over the past year.

Eastern Cape

▶ cont.



Income and spending

The Eastern Cape was once again the province with the lowest average income at R27 903, 2.9% higher than in the same quarter in 2018. While the rent-to-income ratio remained at 29.5%, tenants now spend 45.9% of their net income repaying debt (up from 43.7%). The affordability ratio in Q4 2019 was therefore 75.4%, leaving tenants with only 24.6% as disposable income after payments.

R27 903

Net monthly income

The province features the lowest average income.

45.9%

Debt-to-income ratio

Net income spent on debt repayments was up from Q4 2018.

29.5%

Rent-to-income ratio

Remained the same as Q4 2018.

75.4%

Affordability ratio

Tenants are left with only 24.6% of their pay as disposable income after payments.

2.5

NLR accounts

Tenants in the Eastern Cape now hold more NLR accounts than a year ago.



Accounts and payment behaviour

Tenants in the Eastern Cape now hold more NLR accounts than a year ago, going from 1.9 to 2.5 on average. However, the percentage of tenants with major delinquencies decreased to 18.5%. The time since tenants were last 3 months in arrears decreased (worsened) to 7 months from 7.8 months, which is also worse than the national average of 8.1 months. ■

18.5%

Tenants with major delinquencies

The position has improved significantly and is approaching the national average of 18.1%.

7 months

Since tenants were last 3 months in arrears

This is worse than the national average of 8.1 months.



Up from last year



Down from last year



No change

Free State



Rent and deposits

The Free State showed impressive rental growth during 2019 and the last quarter was no exception – rents increased from R5 942 to R6 421, a year-on-year growth rate of 8.05%. The average growth rate over the four quarters under review was 7.55% – impressive compared to the national figure of 3.27%.

The province's damage deposit ratio was 1.2 times the monthly rent, below the national ratio of 1.27.

R6 421 ↑

Rent amount

The Free State showed impressive rental growth during 2019.

8.05% ↓

Rental growth rate

Posted excellent growth compared to the national figure of 3.27%.

1.20 ↑

Damage deposit ratio

Trailed below the national average of 1.27.



Credit scores

Average credit scores in the Free State improved over the 12 months, up from 644 in Q4 2018 to 648 in Q4 2019. This is higher than the national average of 645. The percentage of tenants classified as high risk improved from 24.1% to 23.4%, and is better than the national average.

Credit score

Average credit scores in the Free State improved over the 12 months. ↑

23.4% ↓

Proportion of high-risk tenants

The percentage of tenants classified as high risk improved and was lower than the national average.

Free State

► cont.



Income and spending

The Free State was one of two provinces in which incomes fell – average income there was R30 542 in the last quarter of 2019, down 3.9% from R31 796 the year before.

In part because of this decline, the debt-to-income ratio increased from 37.6% to 42.2% in Q4 2019 (lower than the national average of 44.9%). In rand terms, this was an added burden of almost R1 000 per month in debt repayments.

Despite rising indebtedness, the relatively low rent-to-income ratio of 26.7% kept the province's affordability ratio below the national average, at 69%.

R30 542



Net monthly income

The Free State was one of two provinces in which incomes fell.

42.2%



Debt-to-income ratio

In rand terms, this was an added burden of almost R1 000 per month.

26.7%



Rent-to-income ratio

Despite rising indebtedness, the rent-to-income ratio was relatively low.

69%



Affordability ratio

The rent-to-income ratio of 26.7% kept the province's affordability ratio below the national average.

2.2



NLR accounts

The average Free State tenant accumulated more NLR accounts over the past year.



Accounts and payment behaviour

The average Free State tenant accumulated more CPA and NLR accounts over the past year, but the province still experienced a drop in the percentage of tenants with major delinquencies, from 22.3% to 21.5%. This was higher than the national average of 18.1%, while accounts in arrears were more in line with national figures. ■

21.5%



Tenants with major delinquencies

This was higher than the national average of 18.1%.

8.2 months



Since tenants were last 3 months in arrears

Accounts in arrears were more in line with national figures.



Up from last year



Down from last year



No change

Gauteng



Rent and deposits

Rents in Gauteng overtook those in KwaZulu-Natal and the Northern Cape during the past year. With an average rent of R8 360, it is now the second-most expensive province in which to rent after the Western Cape. Rent increased by 3.66% from Q4 2018 to Q4 2019, slightly faster than the national average of 3.27%, while the average damage deposit ratio of 1.22 came in slightly lower than the national ratio.

R8 360



Rent amount

It is the second-most expensive province in which to rent after the Western Cape.

3.66%



Rental growth rate

Slightly outperformed the national average of 3.27%.

1.22



Damage deposit ratio

Slightly lagged the national ratio.



Credit scores

While both the average credit score and the percentage of high-risk tenants were worse than the national averages in Gauteng, both measures improved from Q4 2018. The former was 643, up from 640 the year before, and the latter fell from 28.9% to 26.7%.



Credit score

The average credit score was slightly below the national average.



26.7%



Proportion of high-risk tenants

The percentage of high-risk tenants fell.



Up from last year



Down from last year



No change

Gauteng

► cont.



Income and spending

Average tenant income in the province increased by 3% from Q4 2018 to R32 922 a year later. The rent-to-income ratio also increased slightly from 29.6% to 30.1% (above the national average of 28.9%). However, the debt-to-income ratio decreased slightly to 45.9%, down from 46.3% the year before.

Accordingly, the net effect on the affordability ratio was very small – a rise from 75.9% to 76% over the year.

R32 922

Net monthly income

Average tenant income in the province increased by 3% from Q4 2018 to R32 922.

45.9%

Debt-to-income ratio

The debt-to-income ratio decreased slightly.

30.1%

Rent-to-income ratio

This was above the national average of 28.9%.

76%

Affordability ratio

The net change in the affordability ratio was very small.

2.0

NLR accounts

On average, tenants in Gauteng held fewer NLR accounts compared to the previous year.



Accounts and payment behaviour

On average, tenants in Gauteng held fewer NLR and CPA accounts compared to the previous year, and the percentage of tenants with major delinquencies decreased from 19% to 17.2%. The time since the average tenant was last 3 months in arrears on any account increased from 7.8 months to 8.4 months, leapfrogging the national average. ■

17.2%

Tenants with major delinquencies

Percentage of tenants with major delinquencies decreased.

8.4 months

Since tenants were last 3 months in arrears

An increase from 7.8 months to 8.4 months, leapfrogging the national average.



Up from last year



Down from last year



No change

KwaZulu-Natal



Rent and deposits

The 2.14% rental growth rate measured in Q4 2019 in KwaZulu-Natal was the province's lowest quarterly growth rate for the year, pulling its average rate for the four quarters down to 4.31%. The phenomenal growth that the province experienced during 2018 – an average of 7.19% over the four quarters – now looks like a distant memory. At an average rent of R8 303, the province is now only the third-most expensive to rent in for Q4 2019, having been overtaken by Gauteng.

The average damage deposit ratio was 1.21, up from 1.15 the year before, but still below the national average of 1.27.

R8 303 

Rent amount

The province is now only the third-most expensive to rent in for Q4 2019.

2.14% 

Rental growth rate

The province's lowest quarterly growth rate for the year, pulling its average rate for the four quarters down to 4.31%.

1.21 

Damage deposit ratio

Increased from 1.15 over the year before but still lagged the national average of 1.27.



Credit scores

The average credit score improved slightly from 641 to 643 in Q4 2019, still two points below the national average of 645. The same was true of the percentage of high-risk tenants – while the province experienced an overall improvement from 28.7% to 27%, it was worse than the national average of 25.6%.



Credit score

Average credit score improved slightly in Q4 2019 but was still two points below the national average of 645. 

27% 

Proportion of high-risk tenants

Below the national average of 25.6%.

KwaZulu-Natal

► cont.



Income and spending

KwaZulu-Natal saw an average income increase of 5.7% during the year to R35 876, up from R33 954 the year before and above the national average of R33 297. The debt-to-income ratio dropped from 45.6% to 42.2%. Expressed in rand terms, this represents a decrease in the average monthly debt bill of about R360.

The rent-to-income ratio also decreased to 28.4%, below the national average. Because of these two improvements, the affordability ratio decreased from 76% to 70.6%, leaving tenants with almost 30% of their net income after rent and debt payments.

R35 876

Net monthly income

Increased from R33 954 over the year before and exceeds the national average of R33 297.

42.2%

Debt-to-income ratio

In rand terms, the average monthly debt bill decreased by about R360.

28.4%

Rent-to-income ratio

This measured below the national average.

70.6%

Affordability ratio

Tenants were left with almost 30% of their net income after rent and debt payments.

2.1

NLR accounts

Tenants had on average more bad debt accounts and fewer good debt accounts.



Accounts and payment behaviour

While tenants had on average more bad debt accounts and fewer good debt accounts, there was an improvement in the number of tenants with major delinquencies, down to 18.3% from 21.4% in Q4 2018.

The highest number of months in arrears on any account worsened to 4.1 months for the average tenant, while the number of months since tenants were last 3 months in arrears deteriorated to 8.4 – still better than the national average of 8.1 months. ■

18.3%

Tenants with major delinquencies

There was an improvement in the number of tenants with major delinquencies.

8.4 months

Since tenants were last 3 months in arrears

The position deteriorated but is still better than the national average of 8.1 months.



Up from last year



Down from last year



No change

Limpopo



Rent and deposits

Limpopo was the only province to experience negative rental growth between Q4 2018 and Q4 2019. The average rent of R7 146 was lower than a year previously (R7 173), albeit by only 0.38%. The province experienced negative rental growth in all four quarters of 2019, with an average quarterly change of -1.4%.

It also experienced a reduction in the damage deposit ratio to 1.23 times the monthly rent, below the national average of 1.27.

UNDERSTANDING MOVEMENT

Because relatively few rentals are managed through PayProp in Limpopo, data movements are often subject to more pronounced spikes and dips. In such cases, the direction a metric is moving in often says more than the rate of change does.

R7 146 

Rent amount

The average rent of R7 146 was lower than a year previously.

-0.38% 

Rental growth rate

Limpopo was the only province to experience negative rental growth between Q4 2018 and Q4 2019.

1.23 

Damage deposit ratio

The province also experienced a reduction in the damage deposit ratio, below the national average of 1.27.



Credit scores

Alongside falling rents, Limpopo was also the only province with a deteriorating average credit score, down from 643 to 636 – quite a few points below the national average of 645.

The percentage of high-risk tenants increased markedly from 25.8% to 32.9% – in other words, 1 in 3 tenants in Limpopo is classified as high-risk.



Credit score

Trails quite a few points below the national average of 645. 

32.9% 

Proportion of high-risk tenants

1 in 3 tenants in Limpopo is classified as high-risk.

Limpopo

► cont.



Income and spending

The average income in Limpopo increased by 2.6% to R29 184 in Q4 2019. The province is one of only three with an average income below R30 000.

Nonetheless, the average debt-to-income ratio worsened substantially from 43% to 55.7% of net income. In rand terms, this equates to a massive R4 000 in debt repayments per month!

Increased indebtedness caused the affordability ratio to worsen to 86.2%, leaving the average tenant in the province with less than 15% of their net income after debt and rent payments.

R29 184

Net monthly income

The province was one of only three with an average income below R30 000.

55.7%

Debt-to-income ratio

The average debt-to-income ratio worsened substantially.

30.5%

Rent-to-income ratio

Exceeded the national average.

86.2%

Affordability ratio

The average tenant in the province was left with less than 15% of their net income after debt and rent payments.

2.7

NLR accounts

Tenants on average had more NLR (bad debt) accounts than the year before.



Accounts and payment behaviour

Limpopo was also the only province that saw an increase in the percentage of tenants with major delinquencies on their credit record, up to 21.9% from 15.7% the year before.

Tenants on average also had more NLR (bad debt) accounts than the year before (2.7 vs. 2.1), fewer CPA accounts (8.7 vs. 8.9), and fared worse in both of our arrears metrics than they did a year ago. ■

21.9%

Tenants with major delinquencies

It was the only province seeing an increase in the percentage of tenants with major delinquencies.

5.2 months

Since tenants were last 3 months in arrears

Languishes below the national average of 8.1.



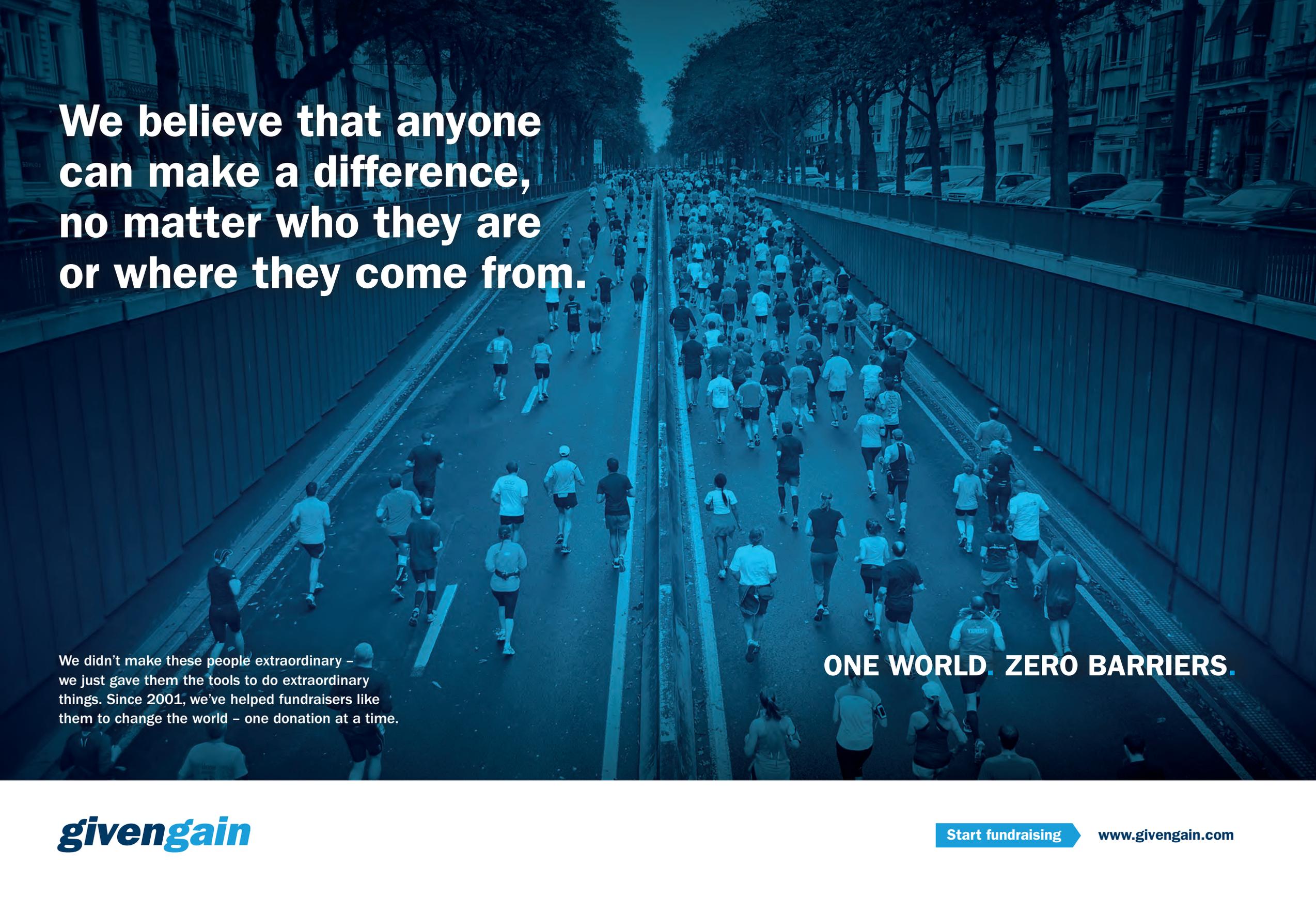
Up from last year



Down from last year



No change



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Mpumalanga



Rent and deposits

Rent in Mpumalanga reached R7 398 in Q4 2019, up 2.07% from the year before. This was below the national average rent of R7 844, as was the province's damage deposit ratio, which remained unchanged at 1.11 from Q4 2018.

R7 398 ↑

Rent amount

Was up 2.07% from the year before but below the national average rent of R7 844.

2.07% ↓

Rental growth rate

The province experienced below-average rental growth over the past year.

1.11 →

Damage deposit ratio

This remained unchanged from Q4 2018.



Credit scores

Average credit scores and the percentage of high-risk tenants changed only marginally from Q4 2018 to Q4 2019 – credit scores improved by one point to 643, while 24.9% of tenants were classified as high-risk, up from 24.6%.



Credit score

Average credit scores changed only marginally from Q4 2018.

24.9% ↑

Proportion of high-risk tenants

A slight increase, but still trailed behind the national average.

Mpumalanga

► cont.



Income and spending

Average Mpumalanga tenant income increased by 3.6% over the year, from R32 036 to R33 200. The biggest change, though, was the improvement in the debt-to-income ratio – from 46.8% to 36.6%. Converted to rands, tenants spent almost R3,000 less on debt than in Q4 2018.

The rent-to-income ratio also decreased from 29.7% to 27.1%, leaving it below the national average of 28.9%. Consequently, the affordability ratio improved from 76.5% in Q4 2018 to 63.7% in Q4 2019. As a percentage of net income, Mpumalanga tenants now enjoy the highest disposable incomes in the country.

R33 200



Net monthly income

Average Mpumalanga tenant income increased by 3.6%.

36.6%



Debt-to-income ratio

Converted to rands, tenants spent almost R3 000 less on debt than in Q4 2018.

27.1%



Rent-to-income ratio

The rent-to-income ratio also decreased, leaving it below the national average of 28.9%.

63.7%



Affordability ratio

As a percentage of net income, Mpumalanga tenants now enjoy the highest disposable incomes in the country.

1.9



NLR accounts

Tenants in the province had fewer NLR accounts compared to the same quarter in the previous year.



Accounts and payment behaviour

Tenants in the province had fewer NLR accounts (1.9 vs. 2.8) and fewer CPA accounts (7.8 vs. 9.2) compared to the same quarter in the previous year. The province experienced an improvement in the number of tenants with major delinquencies, but still had the highest percentage of any province at 24.2% – down from 26.1% the year before. ■

24.2%



Tenants with major delinquencies

Still had the highest percentage of any province.

8.4 months



Since tenants were last 3 months in arrears

This metric deteriorated in Mpumalanga over the last year.



Up from last year



Down from last year



No change

North West



Rent and deposits

The North West experienced the second-highest rent growth in Q4 2019 at 6.67%, but was still the cheapest province in which to rent with an average rent of R5 318. The province showed stellar growth in all four quarters, with an average growth rate of 8.07%. The province also had the lowest damage deposit ratio at 1.04, unchanged from the year before.

R5 318 ↑

Rent amount

Was still the cheapest province in which to rent.

6.67% ↑

Rental growth rate

The North West experienced the second-highest rent growth in Q4 2019.

1.04 →

Damage deposit ratio

The province had the lowest damage deposit ratio.

THE STUDENT FACTOR

With a large number of student houses in the North West being managed through PayProp, atypical credit and financial variables are at work in the province, making it a bit of an anomaly. For example, credit checks are often done on parents rather than student tenants themselves, while rents are low.



Credit scores

The province further had the highest average credit score in the country, up two points from 653 to 655 – 10 points above the national average of 645.

The percentage of high-risk tenants in the North West improved from 20.2% to 19.1%, the second-lowest percentage out of all the provinces.



Credit score

Boasting the highest average credit score in the country. ↑

19.1% ↓

Proportion of high-risk tenants

Registered the second-lowest percentage out of all the provinces.

North West

► cont.



Income and spending

Average income jumped by an incredible 13.1% (more than R4 000) from R31 917 to R36 090 – the highest income figure in the country after the Western Cape.

Meanwhile, a significant drop took the average debt-to-income ratio from 67.8% to 54%. In pure rand value, debt repayments fell from R21 631 to R19 471 – a decrease of over R2 000.

The rent-to-income ratio also decreased slightly from 22.1% to 21.9%, the lowest ratio out of all the provinces.

Despite the decrease in the debt-to income ratio, 54% is still well above the national average of 44.9%. The affordability ratio of 75.8% is likewise above the national average of 73.8%.

R36 090

Net monthly income

Tenants here reported the highest income figure in the country after the Western Cape.

54%

Debt-to-income ratio

In pure rand value, debt repayments fell from R21 631 to R19 471 – a decrease of over R2 000.

21.9%

Rent-to-income ratio

North West tenants paid the lowest ratio out of all the provinces.

75.8%

Affordability ratio

The province ranked worse than the national average of 73.8%.

1.8

NLR accounts

The number of NLR accounts remained unchanged since Q4 2018.



Accounts and payment behaviour

On average, consumers in the North West had an average of 1.8 NLR accounts (unchanged from Q4 2018) and 8.7 CPA accounts (down from 9.5 the year before). The percentage of consumers with major delinquencies decreased from 17.9% to 16.5% – below the national average of 18.1%. ■

16.5%

Tenants with major delinquencies

This is below the national average of 18.1%.

8.2 months

Since tenants were last 3 months in arrears

Registered a slight deterioration from the year before.



Up from last year



Down from last year



No change

Northern Cape



Rent and deposits

Rents in the Northern Cape rose by 1.57% in Q4, from R8 153 to R8 281. However, this came after drops in the other three quarters of 2019 over the previous year.

The average damage deposit ratio was almost unchanged at 1.15 times the monthly rent.

R8 281 ↑

Rent amount

The increase came after drops in the other three quarters of the year over the previous year.

1.57% ↑

Rental growth rate

Rents in the Northern Cape grew in Q4.

1.15 ↑

Damage deposit ratio

This was almost unchanged from last year.

BEWARE SPIKES

Because relatively few rentals are managed through PayProp in the Northern Cape, the movements in the data are often subject to more pronounced spikes and dips. In such cases, the direction in which a metric is moving is often a better indicator than the rate of change.



Credit scores

The average credit score in the province improved by 7 points to 641 between Q4 2018 and Q4 2019. It also experienced a dip in the percentage of tenants classified as high-risk, down from 32.1% to 26.5%. However, this was still slightly above the national average of 25.6%.



Credit score

The average credit score in the province improved by 7 points. ↑

26.5% ↓

Proportion of high-risk tenants

Despite a drop in high-risk tenants, this figure was still slightly above the national average of 25.6%.

Northern Cape

► cont.



Income and spending

The Northern Cape was one of two provinces, along with the Free State, in which incomes fell in 2019. The average income recorded for tenants in the province plunged by 7.4% from R31 509 to R29 176, making it the worst-performing province in terms of income growth.

While the rent-to-income ratio increased only slightly to match the national average at 28.9%, the debt-to-income ratio rocketed to 62.5%, up from a low 35% the year before. This translated to an increase in monthly debt repayments of over R7 000.

Because of the high debt-to-income ratio and falling incomes, the affordability ratio was measured at 91.5% in Q4 2019, the highest of all the provinces. All in all, an unhappy year for property owners and tenants.

R29 176



Net monthly income

The Northern Cape was one of two provinces, alongside the Free State, in which incomes fell in 2019.

62.5%



Debt-to-income ratio

The debt-to-income ratio rocketed to 62.5%, up from a low 35% the year before.

28.9%



Rent-to-income ratio

The province matched the national average.

91.5%



Affordability ratio

This figure came in the highest of all the provinces.

1.8



NLR accounts

Northern Cape tenants on average reported fewer NLR accounts in Q4 2019.



Accounts and payment behaviour

Northern Cape tenants on average reported fewer NLR accounts (1.8 vs. 2.6) and fewer CPA accounts (8.1 vs. 8.9) in Q4 2019 versus the year before. Despite a reduction in the share of tenants with major delinquencies, from 26.1% to 23.9%, the province had the second-highest percentage of delinquent tenants after Mpumalanga.

Both metrics concerning accounts in arrears were worse than the national average – consumers were last 3 months in arrears only 5.8 months ago (down from 7.6 months), and the highest number of months in arrears on any account was 4.1 on average – a slight improvement from 4.3 months the year before. ■

23.9%



Tenants with major delinquencies

The province had the second-highest percentage of delinquent tenants after Mpumalanga.

5.8 months



Since tenants were last 3 months in arrears

This metric worsened alarmingly.



Up from last year



Down from last year



No change

Western Cape



Rent and deposits

The Western Cape remained the most expensive province in which to rent – the average for Q4 2019 reached R9 299, up 1.91% from the year before.

The 1.91% growth measured in the fourth quarter was the slowest of all four quarters in 2019. Average growth measured 2.65% over the four quarters.

The Western Cape still had the highest damage deposit ratio at 1.63, up slightly from 1.61 the year before.

R9 299 ↑

Rent amount

The Western Cape remained the most expensive province in which to rent.

1.91% ↓

Rental growth rate

The 1.91% growth measured in the fourth quarter was the slowest of all four quarters in 2019.

1.63 ↑

Damage deposit ratio

The Western Cape still had the highest damage deposit ratio.



Credit scores

The average credit score in the Western Cape remained unchanged at 653, the second highest after the North West. The percentage of high-risk tenants increased marginally from 18.3% to 18.5%, still the lowest in the country.



Credit score

Credit scores are the second highest after the North West. →

18.5% ↑

Proportion of high-risk tenants

This remained the the lowest in the country.

Western Cape

► cont.



Income and spending

Western Cape tenants enjoyed the highest income, R36 698 – up 2.5% from the year before.

Because of the high rent levels, the rent-to-income ratio increased to 30.4%, above the national average of 28.9%. However, Western Cape tenants experienced a drop in the average debt-to-income ratio, from 40.2% to 37.8% – well below the national average of 44.9%.

The affordability ratio for the Western Cape was 68.2% in Q4 2019, leaving tenants with 31.8% of their net income after debt and rent payments.

R36 698



Net monthly income

Western Cape tenants enjoyed the highest income.

37.8%



Debt-to-income ratio

Tenants experienced a drop in the average debt-to-income ratio, well below the national average of 44.9%.

30.4%



Rent-to-income ratio

This was above the national average of 28.9%.

68.2%



Affordability ratio

Tenants were left with 31.8% of their net income after debt and rent payments.

1.5



NLR accounts

Tenants in the province had the fewest NLR or bad debt accounts.

13.2%



Tenants with major delinquencies

The province also had the fewest delinquent tenants.

9 months



Since tenants were last 3 months in arrears

The Western Cape boasts the highest number of months since the average tenant was last 3 months in arrears.



Accounts and payment behaviour

Tenants in the Western Cape had the fewest NLR or bad debt accounts at 1.5 (unchanged from the year before), and they averaged 7.7 CPA or good debt accounts, down from 8.1 in Q4 2018.

The province also had the fewest delinquent tenants, just 13.2% – an improvement from 13.7% the year before.

Looking at arrears metrics, the Western Cape was top of the class, with the highest number of months since the average tenant was last 3 months in arrears on any account (9 months ago). Its highest number of months in arrears on any account averaged 3, below the national average of 3.8 months. ■



Up from last year



Down from last year



No change

Survey snapshot

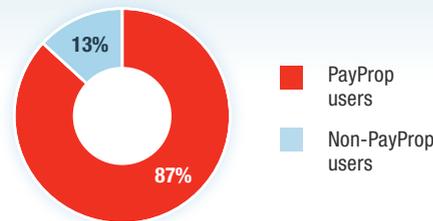
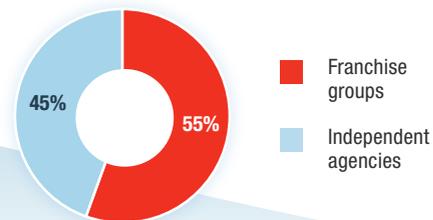
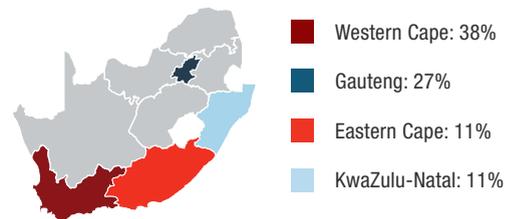
In 2019, we conducted our first ever PayProp State of the Rental Industry Survey. The aim was to discover rental and property professionals' perceptions of the current state of the rental market.

Our survey covered a wide range of topics including technology, arrears management, and the future of the rental sector in South Africa. In this section, we discuss some of the most important findings.

Who took part?

The entire PayProp database was invited to take part, but 87% of participants were PayProp users. The split between franchised and independent participants was fairly even.

The majority of participants came from four provinces – Western Cape, Gauteng, Eastern Cape and KwaZulu-Natal – and the rest were dispersed throughout the country.



Technology

We often hear that technology is a disruptive force in the rental industry, but our respondents' view of tech was in fact very positive. Of those polled, 89% use property technology at work on a daily basis, and 90% agreed that property technology could enhance their jobs and businesses. However, 10% still believe that technology could have a negative impact on their work.

10% still believe that technology could have a negative impact on their work.

Property technology could enhance my job/business

90% agreed



I often use property technology in my business

89% agreed



Property technology could have negative implications for my job/business

10.6% agreed



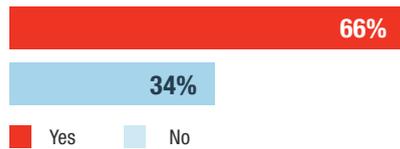
Rent and commission

Unless you've been living off the grid for the past few years, you've probably noticed that South Africa's economic climate has been pretty dismal.

Rental agents have not been spared the bad news. Two-thirds of respondents noticed an increase in the number of vacancies during 2019.

This has suppressed rental growth – 62% of participants admitted that they passed lower-than-normal rental increases last year, with only 8% saying their increases were higher than normal. In this climate, retaining clients is more important than ever – 58% of respondents admitted to lowering their commission to keep a landlord.

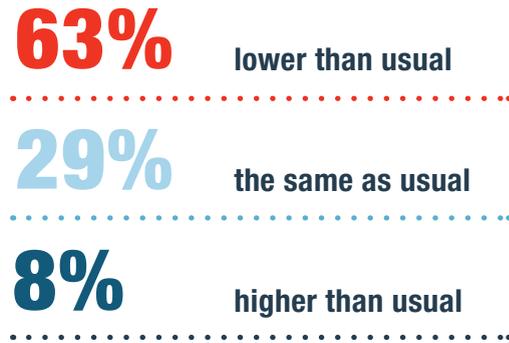
Has your number of vacancies increased over the past year?



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



This year, the rental increases that I have implemented have been:



Keeping commissions and rents down to retain mandates and tenants is understandable, but hard to swallow. Lower rental increases mean the base on which commission is earned grows at a slower pace, and a lower resulting commission decreases your main source of income on your rental book.

The effect 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.

Arrears and evictions

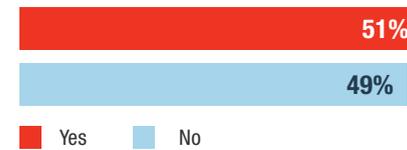
Agents have not been the only ones to suffer from South Africa's sluggish economy. Tenants have also been hit by less-than-favourable conditions over the past few years – low income growth and high unemployment lead to affordability challenges, made worse by the high increases in living costs like petrol and medical care.

It is no surprise, then, that almost 70% of participants agreed that arrears are now a bigger problem than a year ago – or that 51% had at least one tenant evicted in 2019.

Are payments in arrears a bigger problem now than a year ago?

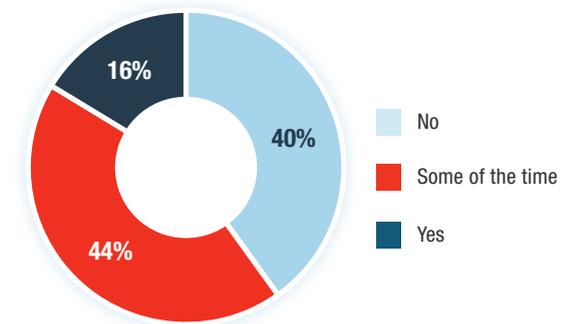


Have you had tenants evicted in the past 12 months?

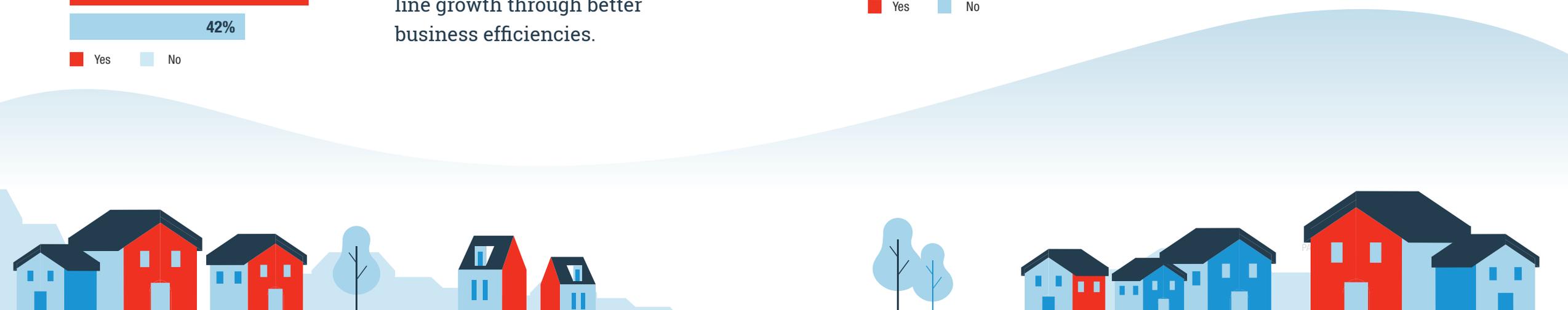


What is somewhat worrying, though, is that only 40% of agents (rightly) believe they cannot spot a bad tenant without a credit check.

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



Routinely running tenancy credit checks could uncover hidden affordability issues and reduce the eviction rate.



Administration and growth

There is no avoiding it – property rental will always be an admin-heavy business, even with all the automation technology available. Over a third of our survey participants spent more than two hours a month on admin per property, with an additional 20% spending one to two hours on it per property per month.

Still, agents understand property technology's potential to help with that – which is why they agreed that increasing productivity through technology is the best way to increase profits after increasing the size of their rental books.



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

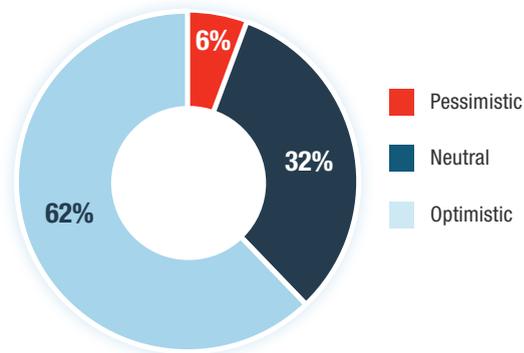


20% of survey participants spend between **1 and 2 hours** on admin per property a month.

The future of the industry

Even with the challenges presented by current market conditions, it is encouraging to see that most survey participants are optimistic about the future of the rental industry. The sector will look very different at the end of this decade from what it does today, especially from a technological standpoint.

How optimistic are you about the future of the rental industry?



Happily, it looks like most agents are already embracing the technologies that are currently available and are optimistic about the possibilities that future advancements will bring. ■

PAYPROP RENTAL INDEX HIGHLIGHTS

Glass half full

- ▶ We have reported on flat rental growth for a few quarters now, and the trend continues. We don't see this trend as likely to change over the short term, as most of the factors inhibiting price increases are relatively inelastic.
- ▶ Some good news – most provinces experienced improvements in their credit metrics (with the exception of Limpopo), and income growth was also higher overall than a year before.
- ▶ If current trends persist, rental growth will remain below the year's projected 4.5% inflation rate for most of 2020.
- ▶ It is evident from our survey results that agencies are struggling to keep mandates and that issues with tenants in arrears have worsened.
- ▶ A third of all tenants still spend between R5 000 and R7 500 on rent, even though the average rent of R7 844 falls outside this bracket.

The industry as a whole seems optimistic about the future of the rental industry and the importance of utilising the technology available. ■

ANNUAL REVIEW 2019

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

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