

RENTAL INDEX

Q3 2019

What's gender got to do with it?

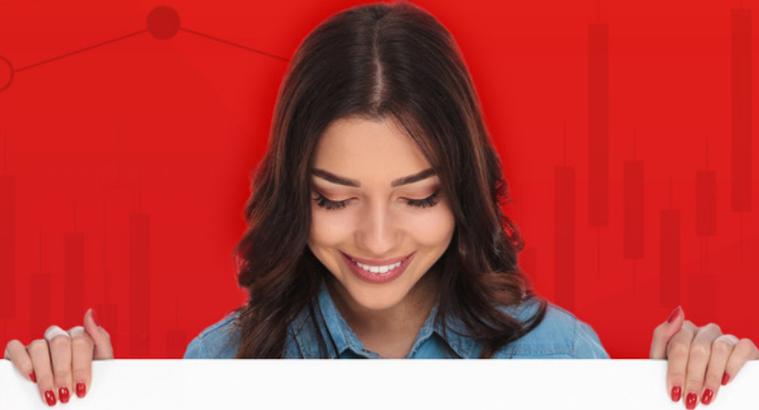
How men and women compare across various credit metrics

Flat growth belies provincial volatility

Don't suffer arrears gladly



We're looking for your insights



Take part in our survey

We're fleshing out the hard financial data of the PayProp Rental Index with insights from property industry professionals in our first ever PayProp State of the Rental Market survey.

Want to take part? Click below to share your thoughts on the state of the industry.

[Start survey](#)

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Introduction

IT'S A WRAP

Every October, like clockwork, Christmas decorations start to appear in the shops. And every year, seeing tinsel for the first time makes me panic just a little, because there is always so much left to do before the year is out.

It is only when I remind myself that I still have about 10 weeks to get everything done that I can breathe a little easier. But the tinsel is always the sign that another year is drawing to a close.

So, with the end of 2019 approaching, let's look at what has happened this year so far.

This year, the rental market has been quite uneventful, with consistently low levels of rental growth that stayed below inflation

every month so far, except for one. Luckily, September brought some good news – the highest monthly growth rate of the year, at 4.2%. Could spring be bringing the first green shoots of recovery?

We hope you enjoy this year's final issue of the PayProp Rental Index. We'll chat again in 2020. ■



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Could spring be bringing the first green shoot of recovery?

National rent statistics

FLAT GROWTH IS GOOD NEWS

Monthly rental growth figures – measured year on year (YoY) – were very flat for the first nine months of 2019, following on from similar performance in 2018. Figures fluctuated between 3.1% and 4.2% each month and remained below the inflation rate (4.1%) through August.

September brought the year's first good news – the highest YoY growth rate of the year (4.2%), and the first time the monthly growth rate exceeded inflation since April 2018. This could signal the beginning of a (slow) recovery in the rental market.

Because of this year's slow growth, the average national rent increased only marginally, from R7,544 in January to R7,727 in September – a difference of less than R200.

September brought the year's first good news - the highest rental growth rate of the year so far.



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



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

Rents keep edging sideways

Looking at quarterly growth over a longer period, we see a slight uptick in the last quarter, albeit a somewhat insignificant one.

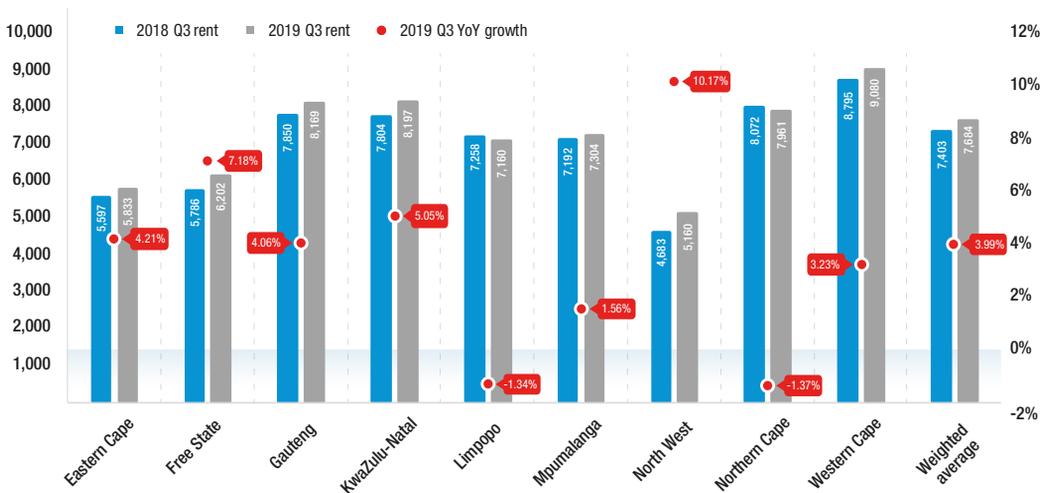
Growth of 3.99% in Q3 is far below the 7.39% recorded at the peak of the growth cycle in early 2017. While rental growth is at least flat now (and not further downward), we don't expect it to reach those heights again in the near future.

As to the causes of this, we note ongoing financial pressure on consumers and the surplus of housing in many metro areas – tenants are both willing and able to move rather than accept rent increases. ■

Provincial rent statistics

TAKEAWAYS AND BREAKAWAYS

On the graph below, we plot current rental growth against current rents and rents in Q3 2018. This lets us see a few things:



 Provincial rent levels in Q3 2018 and 2019, plotted with Q3 2019 rental growth rates
Source: PayProp

- Two provinces, Limpopo and the Northern Cape, experienced negative rental growth over the 12 months.
- Two other provinces had below-average rental growth – the Western Cape and Mpumalanga.
- Despite low rental growth in the Western Cape over the last 12 months, it remains the most expensive province in which to rent.
- Rents in Gauteng, KwaZulu-Natal and the Northern Cape are also higher than the national average.
- North West is still the cheapest province for renters, but it also notched up the highest annual rental growth of any province at over 10%. ■

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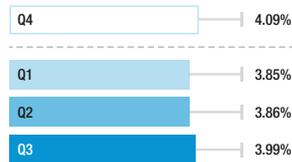
Provincial rent statistics

FLAT ON THE SURFACE, CHOPPY AT THE BOTTOM

In comparing provincial year-on-year (YoY) growth rates over the last four quarters, we see a few emerging trends.

When we look at weighted average rental growth rates for South Africa as a whole, it is pretty clear that movement has been flat – but the outlook can look quite different at the provincial level:

National average



□ Q4 2018 □ Q1 2019 □ Q2 2019 □ Q3 2019

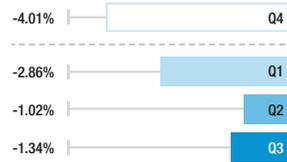
Quarterly growth measured year-on-year is the difference between average rents in a specific quarter over the corresponding quarter the year before. If it is 3.99% for Q3 2019, that means the average rent has increased by 3.99% from Q3 2018.



While **Limpopo** returned negative growth for all four quarters under review, the rate is diminishing. If the trend continues, positive growth could return in 2020.



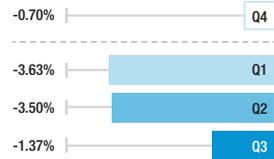
Limpopo



The **Northern Cape** followed suit, with a noteworthy improvement from Q2 2019 to Q3 2019.



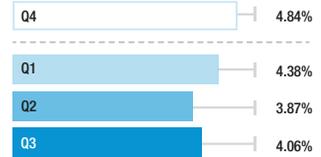
Northern Cape



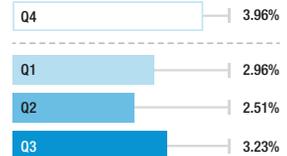
Both **Gauteng** and the **Western Cape** saw downward-trending (positive) growth rates for the first three quarters, rebounding in the last quarter.



Gauteng



Western Cape



 Quarterly provincial growth rates (measured YoY) for the last four quarters
Source: PayProp



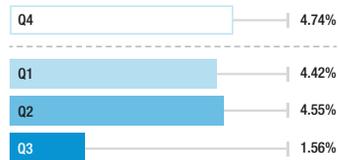


□ Q4 2018
 □ Q1 2019
 □ Q2 2019
 □ Q3 2019

Mpumalanga exhibited the third-lowest rental growth in the last quarter but performed better than average during the previous three. Hopefully this is a blip and not the start of a downward trend.



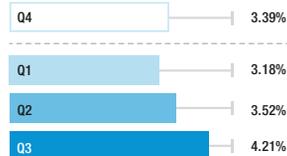
Mpumalanga



The **Eastern Cape** mounted a slow recovery, returning to above-average rental growth in the last quarter.



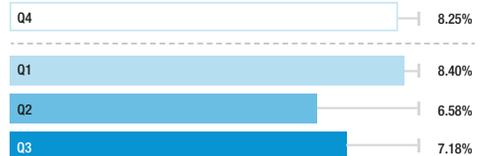
Eastern Cape



Even after impressive growth of between 6.5% and 8.5% in each of the last four quarters, the **Free State** is still the third-cheapest province in which to rent.



Free State

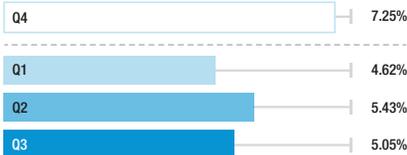




■ Q4 2018
 ■ Q1 2019
 ■ Q2 2019
 ■ Q3 2019

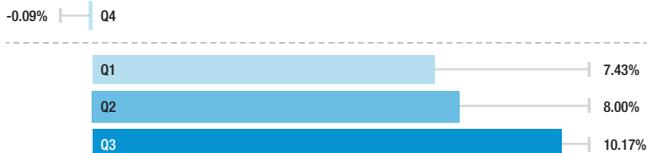
KwaZulu-Natal recorded rapid rental growth in the last quarter of 2018, but then dipped to between 4.5% and 5.5% for the last three quarters. However, the slowdown did not prevent rents in the province from overtaking those in Gauteng and the Northern Cape – KZN is now the second most expensive province for renters, behind only the Western Cape.

KwaZulu-Natal



The **North West** province is still the cheapest for tenants, but saw nation-leading rental growth for the last two quarters. Could rents there overtake those in the Free State or the Eastern Cape next year?

North West



Quarterly provincial growth rates (measured YoY) for the last four quarters
Source: PayProp

As the data demonstrates, different provinces follow different cycles – rental growth is influenced by local as well as national factors. ■

Tenant health

WHAT'S GENDER GOT TO DO WITH IT?

As the American comedian George Carlin once said, “Men are from earth, women are from earth. Deal with it.”

But do they live in the same world when it comes to their finances? In this article, we dig into our data to revisit how men and women compare across various credit metrics.

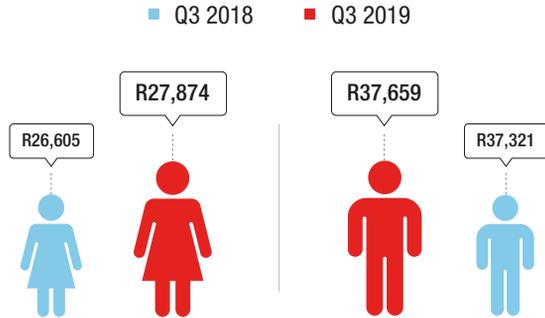
We also examine how credit metrics have changed for both men and women over the last twelve months.



Income

While men still earned 35% more than women in Q3 2019, women at least experienced a higher percentage earnings increase than men over the last year – 4.77% vs 0.9% for men.

(All income figures are net income, i.e. after tax.)



 Average income
Source: PayProp

Delinquencies

Despite their lower incomes, women tend to have a slightly lower percentage of delinquencies than men. Encouragingly, the overall percentage of tenants with major delinquencies is falling.



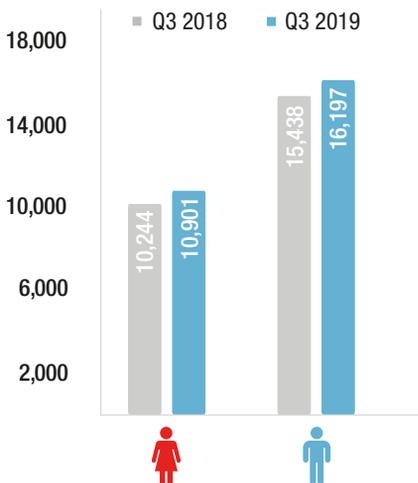
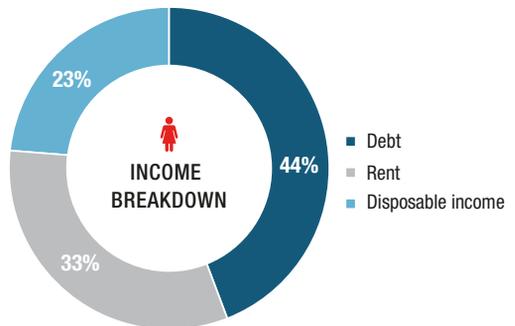
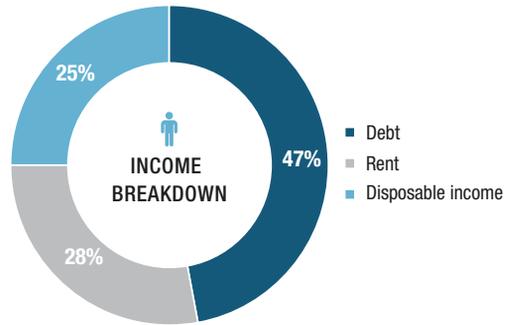
 Tenants with major delinquency
Source: PayProp

A 'major delinquency' can include various types of negative entries on an applicant's credit record, such as judgements, notices, adverse accounts, high levels of indebtedness, etc.

Unequal spending

The most striking difference between men's and women's spending is the percentage of income they spend on rent. On average, women part with a third of their income, while men spend only around 28%. With the difference in income, however, men still spend more in absolute terms – on average, women pay just over R7,500, while men spend just under R8,500 on the same expense.

It is also notable that men spend a higher percentage of their income on debt despite earning substantially more. This could perhaps be attributed to the fact that certain household costs included in debt repayment figures – insurance, cellphone contracts, DSTv, etc. – are usually carried by the household member with the highest income.



Average debt repayment
Source: PayProp

Income breakdown by gender
Source: PayProp

While men and women spend similar proportions of their income repaying debt, the rand amounts tell a different story. On average, men spend over R5,000 a month more on debt repayments than women – around R16,200 compared to only R10,900.

Disposable income

Generally speaking, could unequal responsibility for debt types effectively cancel out inequalities in income between men and women?

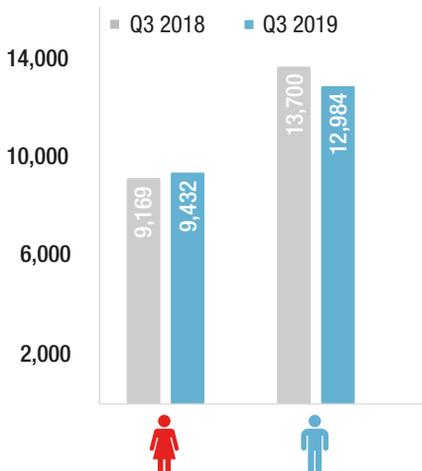
In the previous graph, we saw that men spend 47% of their income on debt and 28% on rent, leaving 25% as disposable income.

Women, on the other hand, spend 44% of their income on debt and 33% on rent, leaving 23% as disposable income.

So how does that translate into rand terms?

While the average woman has only around R9,400 of her salary left after debt and rent payments, men have just under R13,000 to spend.

However, while women saw an increase in their disposable income compared to a year ago, men's average disposable income has fallen by over R700 since Q3 2018.



 Disposable income
Source: PayProp

Hidden inequalities

Of the metrics discussed, the single biggest difference between men and women is income – which points to further inequality, as it is a very important consideration when calculating affordability.

On average, men spend a larger percentage of their income on debt repayments than women, but a smaller percentage on rent.

Men and women have essentially identical credit scores on average, indicating equal levels of risk.

Credit scores

Despite the differences in credit metrics it is interesting to note that men and women have essentially identical credit scores on average, indicating equal levels of risk – in the last quarter, the average was 633 for men and 632 for women, both unchanged from the year before.

We recommend thorough vetting of all applicants before placement to assess affordability as well as propensity to pay. ■

PayProp feature facelift

LETTER OF DEMAND

How great would it be if your tenants always paid their rent on time and in full? Unfortunately, we all know that isn't realistic.

The real-life tenants often pay late, or worse, not at all. Missed payments are among the biggest headaches for rental agents and landlords – tenants in arrears are expensive to have and difficult to get rid of. And if the tenant doesn't pay rent, you don't earn commission!

To lessen worries about non-payment, PayProp has for some time offered an integrated letter of demand service* to help you manage arrears – and this now includes a seven-day demand period.

And the best part? It's free! The cost of the letter is rebilled to the tenant automatically.

Recovering arrears couldn't be easier.

Want to know more? Give us a call on 087 820 7368. ■



PayProp statistic

90% of tenants pay their arrears in full within 25 business days of receiving a letter of demand.**

**In partnership with Koegelenberg Attorneys*

***Based on PayProp data for letters of demand sent from July 2018 to June 2019*

In summary

GOOD NEWS STORIES

While rental growth has stayed flat this year, there are definitely a few positive highlights:

September had the highest rental growth this year so far, at 4.2% – beating inflation.

Both the Western Cape and Gauteng saw a slight recovery in rental growth this quarter compared to the previous three quarters.

Six provinces experienced higher rental growth in this quarter than last quarter.

The average credit score – arguably the most important widely-available credit metric – remained unchanged from a year ago for both men and women. ■

The average credit score – arguably the most important widely-available credit metric – remained unchanged from a year ago for both men and women.



The PayProp Rental Risk Rating



PayProp, together with our credit bureau partner Compuscan, bring you a revolutionary tenant risk measure – the PayProp Rental Risk Rating. It combines rental payment data with a tenant's credit profile to give you a more accurate predictor of future rental payment behaviour than a credit score.

Quarter 3 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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