

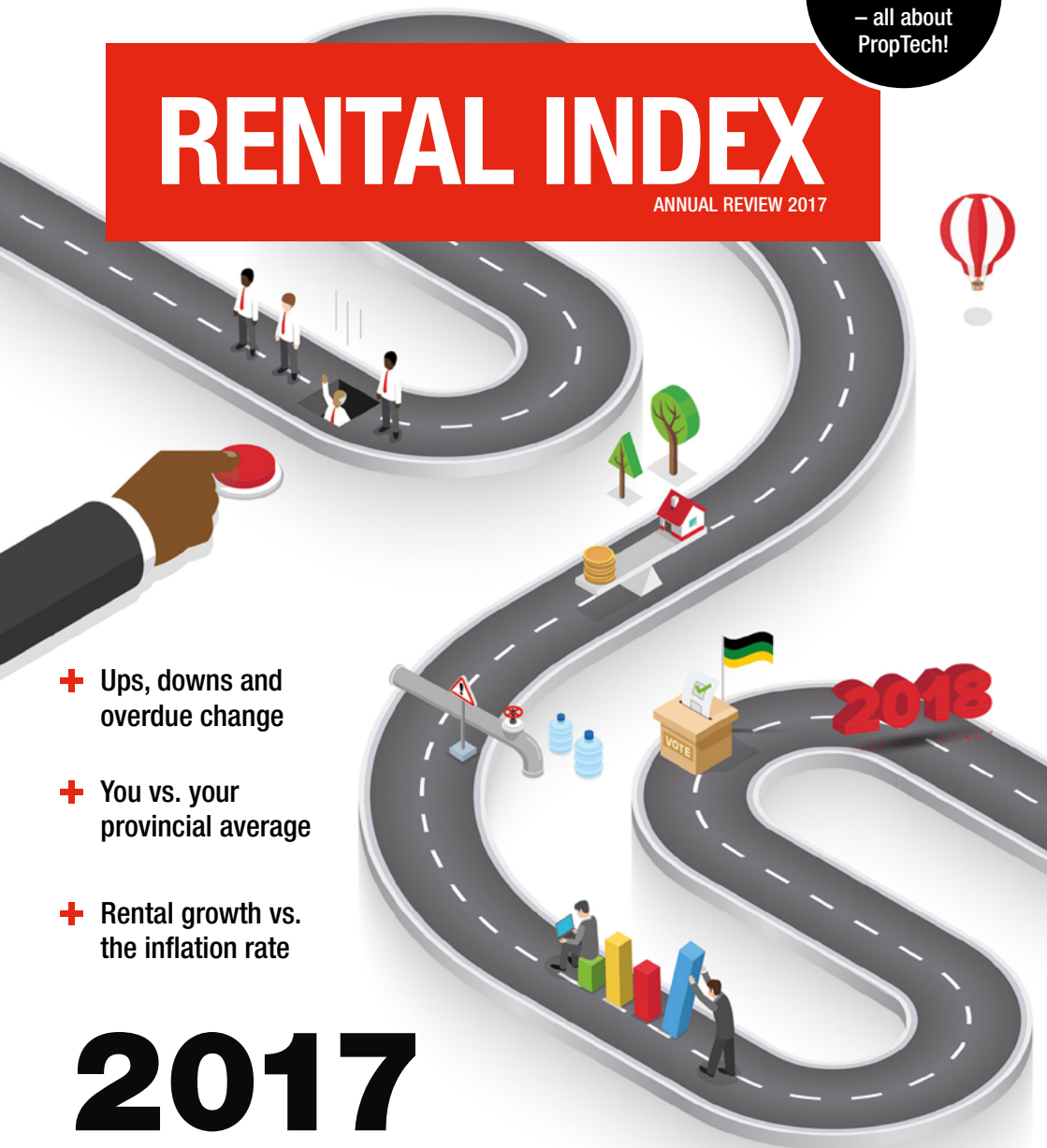
RENTAL INDEX

ANNUAL REVIEW 2017

- + Ups, downs and overdue change
- + You vs. your provincial average
- + Rental growth vs. the inflation rate

2017

IN REVIEW





PayProp

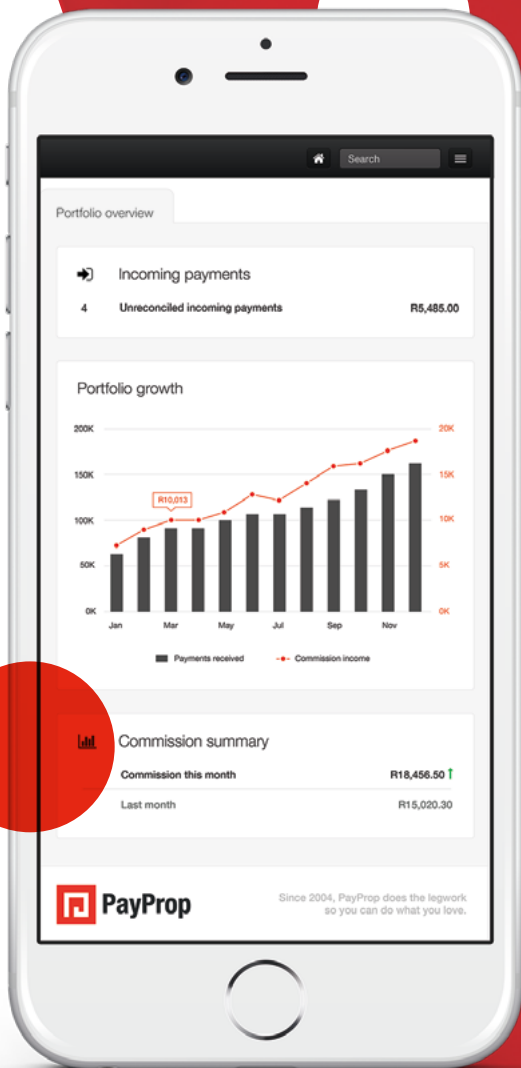
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ANNUAL REVIEW 2017

Index

Brand new things	04
2017 in review – a bumpy ride	06
Baby steps to better days	10
All your provincial data at a glance	14
Detailed data by province	18
How to get to 100% of value	54
All about PropTech	56
Onwards and upwards	57



Brand new things



I don't think anyone can say 2017 was a dull year for South Africans – whether the topic of discussion is our currency, economy or politics!

PayProp, too, had an eventful year. We travelled all over the country to take the PayProp Academy to seven different cities, broadening our clients' knowledge about the inherent risks in estate agency businesses – legal, business, market and fraud risk, to name just a few.

We also established a team of client relationship managers to help our clients get maximum value from our platform by educating them on the various features on offer (but more on that later in the Index).

And we introduced our Unit Management product to help managing agents collect levies, send statements and make payments with the same peace of mind that our system has been offering single-dwelling rental agents for years.

For South Africans, long-overdue change is in store.

For South Africans, long-overdue change is in store. The ANC has a new president, and all around I get the sense that people are waiting with bated breath to see the effects on their lives and livelihood.

Commentators agree that the positive market indicators since then have taken the news on board: the stronger rand and lower inflation rate have economists talking about a possible rate cut, which will boost not just the economy, but also the rental and housing markets. But really, all we can do is wait and see. Nothing is set in stone and – as we all know – things can ‘reshuffle’ in a heartbeat.

So let’s turn our attention to the main focus of this report – what happened in the rental market in the past year. In this issue, we break down rental and tenant statistics per province in greater detail than ever, so you’ll be able to compare your performance to your provincial average.

We hope you enjoy our Annual Review for 2017.
Have a great 2018!



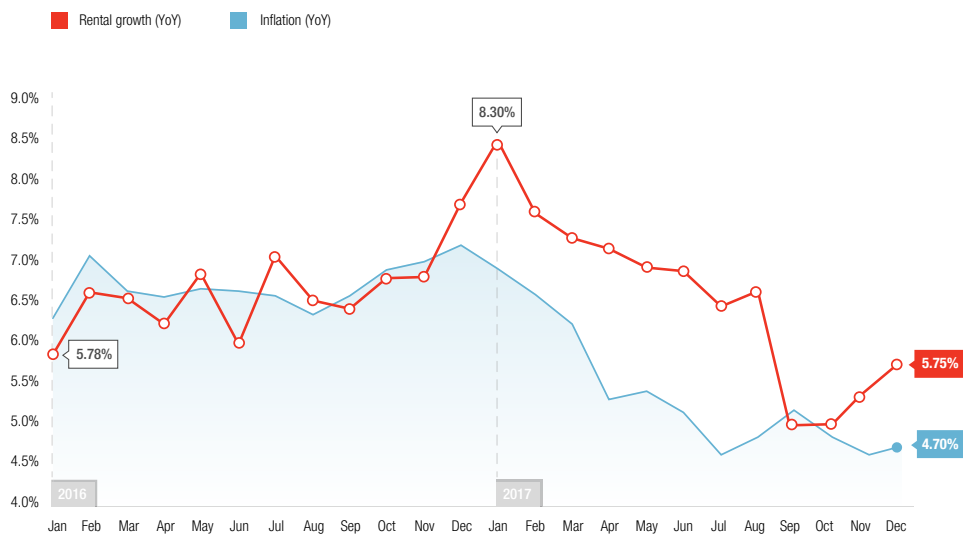
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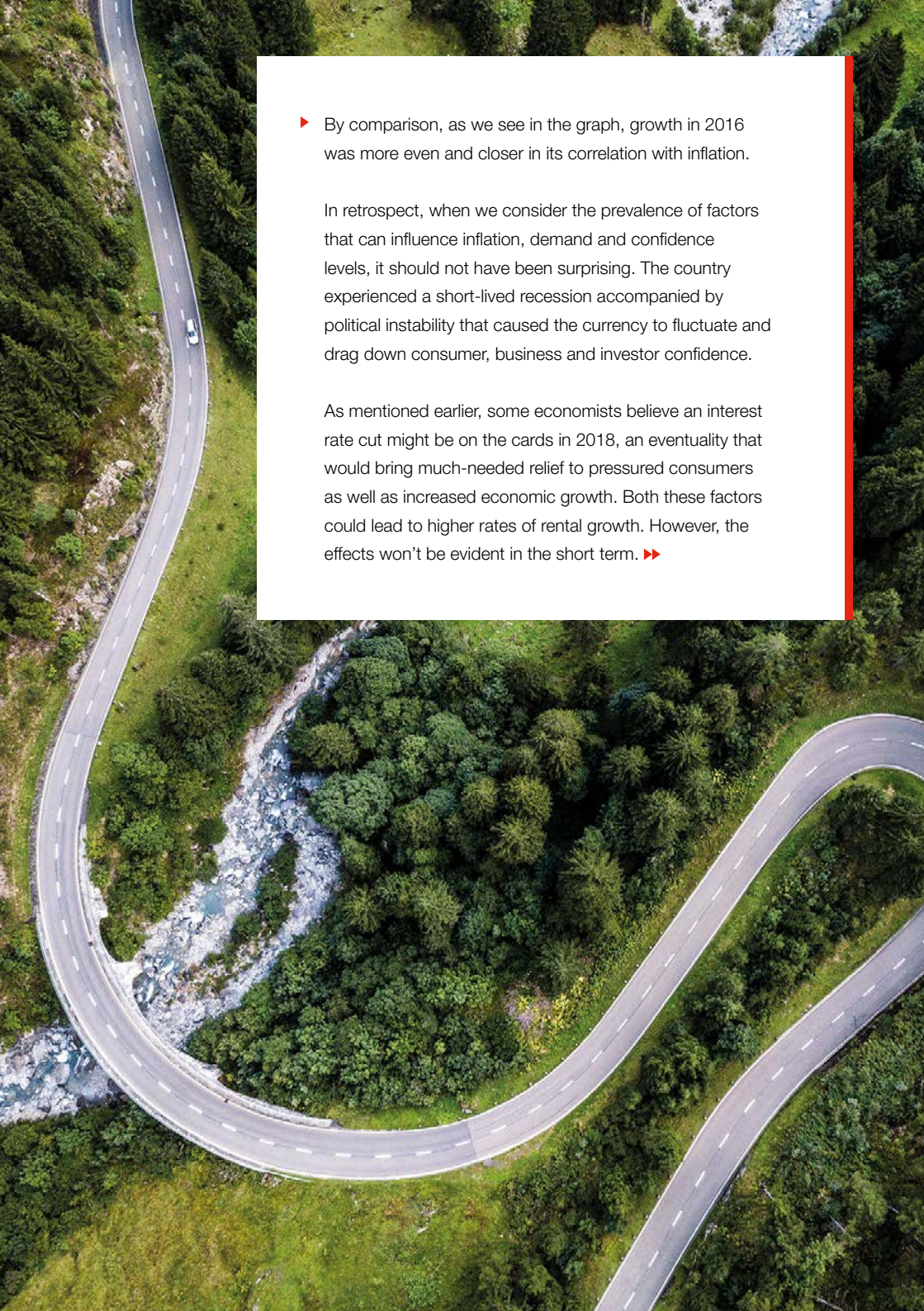
2017 in review – a bumpy ride

The year started off with rental growth spiking in January to see weighted year-on-year (YoY) growth peaking at 8.3% before dropping slowly to 6.34% in July. September brought a big decline in YoY growth to less than 5% (dipping below the official inflation rate of 5.1% for the first time since November 2016). In the last quarter, however, growth recovered to some degree, ending the year at 5.75% in December. ►►

The year started off with rental growth spiking in January, while September brought a big decline.



 Monthly growth rate in national rent (YoY): 2016 & 2017

- 
- An aerial photograph of a winding asphalt road with white dashed lines, curving through a lush green forested valley. A small white car is visible on the road. A river flows through the valley, and the surrounding area is densely wooded with green trees.
- By comparison, as we see in the graph, growth in 2016 was more even and closer in its correlation with inflation.

In retrospect, when we consider the prevalence of factors that can influence inflation, demand and confidence levels, it should not have been surprising. The country experienced a short-lived recession accompanied by political instability that caused the currency to fluctuate and drag down consumer, business and investor confidence.

As mentioned earlier, some economists believe an interest rate cut might be on the cards in 2018, an eventuality that would bring much-needed relief to pressured consumers as well as increased economic growth. Both these factors could lead to higher rates of rental growth. However, the effects won't be evident in the short term. ►►

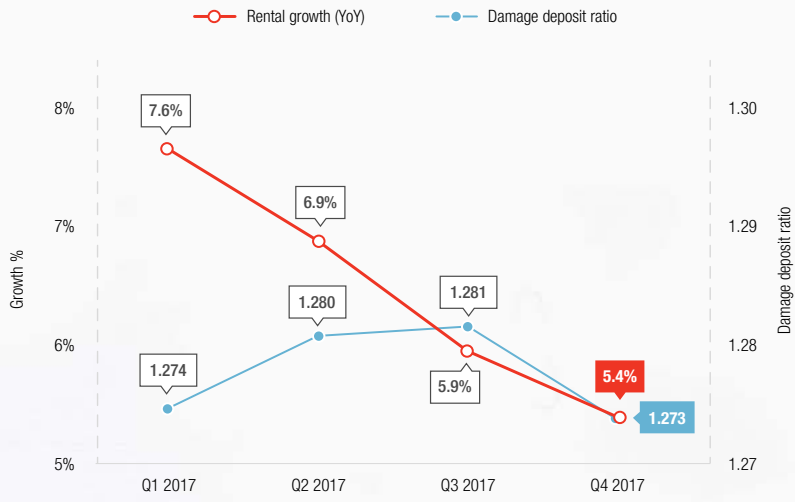
Rent and damage deposit statistics are weighted using each province's contribution to GDP. The reason for this is that the concentration of our rental data from the Western Cape and Gauteng exceeds those provinces' contribution to GDP, and this skews average statistics – especially damage deposits.


► Quarterly break-down

As we can see in the monthly rental growth graph on a previous page, there was a downward trend in rental growth for most of the year, with a slight increase occurring only in the last two months. In the end, however, the YoY growth rate for the final quarter was still below that of Q3 2017, as we can see from the graph on the next page.

The weighted average national rent for the fourth quarter of 2017 was R7,308 – up from R6,934 a year before.

The weighted average national damage deposit ratio was stable throughout the year, staying between 1.27 and just above 1.28 times the average monthly rent. This is in line with what we've seen in previous years – since 2015, this number has varied between 1.25 and 1.29. ■



 Average national rental growth rates and damage deposit ratios



Baby steps to better days

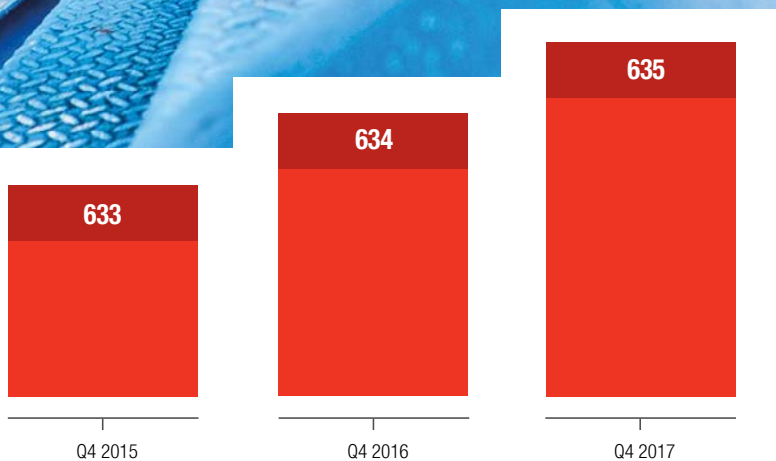
Tenant information is obtained from credit checks requested within the PayProp system, and we depend on our clients to verify tenants' monthly income. Net income levels are used.

The aforementioned slowdown in rental growth was great news for tenants, if not for landlords, but as we keep saying, this is because consumers are under pressure due to slow economic growth and high levels of inflation. Is this still true, and how are they handling it? As it turns out, slightly better in Q4 2017 than a year before.

Income levels increased YoY by over 4% – a sizeable improvement from the 3% decrease seen over the same period last year. Average income for the last quarter of the year came in at R32,523.

For its part, the **average credit score** improved marginally over the last two years, from 633 in the fourth quarter of 2015 to 635 in the last quarter of 2017. (On a credit check, this score translates to “average risk”.) The percentage of tenants with major delinquencies remained stable at 36% in 2017 – an improvement from two years before, when the number was 40%. ▶▶

Major delinquencies include judgements, defaults, notices, debt counselling and accounts outstanding for three months or more.



 Average national credit scores over three years

Affordability combines debt repayments and rent and expresses the total as a percentage of net income. The lower the percentage of net income left to cover daily living expenses, the higher the affordability ratio.

- We determine the average tenant's **affordability** profile by tracking the average debt and rent obligation against average income.

The average debt-to-income ratio increased from 41.9% at the end of 2016 to 42.3% at the end of 2017, due to low income growth.

Thankfully, in most provinces rent-to-income ratios are still below a level considered manageable (the unwritten rule is 30% of income).

The national average for Q4 2017 was 27.9%.

By combining debt and rent and comparing it to income levels we're able to calculate an affordability ratio of 70.3% over the past year. This ratio has worsened since 2015, when it was 67%.

Overall, an improvement in income (although lower than inflation) and lower rental growth provided much-needed relief to stretched consumers.

Credit scores improved, indicating that tenants are on average a little more financially savvy when it comes to managing their debt and living within their means. ■

Credit scores improved, indicating that tenants are on average a little more financially savvy.



Manual reconciliation, bank statements, unpaid invoices, Internet banking, spreadsheets, reports and never-ending calculations?











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All your provincial data at a glance


With this Index we decided to put each province under the microscope and compare it to the national average. After all, people don't care about the Western Cape's great rental growth when they're struggling to keep a landlord happy in Mpumalanga. They'd rather compare themselves to their fellow Mpumalanga agents and the national norm.

		National average	Eastern Cape	Free State
	Rent	R7,308	R5,516	R5,490
	YoY rental growth	5.4%	2.5%	2.3%
	Damage deposit	1.27	1.33	1.20
	Income	R32,523	R28,320	R29,383
	Age	41	41	40
	Credit score	635	629	630
	Tenants with delinquencies	36.2%	42.3%	43.0%
	Debt-to-income ratio	42.3%	40.1%	42.6%
	Rent-to-income ratio	27.9%	28.7%	24.8%
	Affordability	70.3%	68.8%	67.4%











 Summary provincial and national rental data: Q4 2017

As with the national section, we look at rent statistics, damage deposit ratios and how tenants fared in 2017 compared to the year before (and sometimes two years before). ►►

Gauteng	KwaZulu-Natal	Limpopo		
R7,692	R7,580	R7,472	Rent	
5.8%	5.3%	-2.1%	YoY rental growth	
1.22	1.23	1.27	Damage deposit	
R30,327	R33,681	R28,132	Income	
38	40	40	Age	
629	631	631	Credit score	
40.1%	40.6%	41.5%	Tenants with delinquencies	
43.5%	37.9%	44.0%	Debt-to-income ratio	
30.5%	27.9%	33.2%	Rent-to-income ratio	
74.0%	65.7%	77.2%	Affordability	











 Summary provincial and national rental data: Q4 2017


All your provincial data at a glance

		National average	Mpumalanga
	Rent	R7,308	R6,919
	YoY rental growth	5.4%	1.6%
	Damage deposit	1.27	1.13
	Income	R32,523	R29,724
	Age	41	37
	Credit score	635	624
	Tenants with delinquencies	36.2%	46.5%
	Debt-to-income ratio	42.3%	50.8%
	Rent-to-income ratio	27.9%	29.1%
	Affordability	70.3%	79.9%



Summary provincial and national rental data: Q4 2017

North West	Northern Cape	Western Cape		
R4,990	R8,211	R8,777	Rent	
8.6%	7.9%	10.8%	YoY rental growth	
1.06	1.02	1.61	Damage deposit	
R35,013	R30,683	R35,021	Income	
46	38	42	Age	
645	628	639	Credit score	
31.7%	40.2%	29.9%	Tenants with delinquencies	
54.4%	40.4%	37.5%	Debt-to-income ratio	
19.0%	29.2%	29.2%	Rent-to-income ratio	
73.4%	69.6%	66.6%	Affordability	

 Summary provincial and national rental data: Q4 2017

Detailed data by province



PROVINCIAL RENT STATISTICS

Eastern Cape

Eastern Cape rents are both at the lower end of the scale and growing slower than the national average.

Rent and rental growth

The average rent in the Eastern Cape was at the lower end of the scale at R5,516 in Q4 2017. It increased only 2.5% over the course of the year, compared to growth of 5.4% in the weighted national average for the same period.

Average national rent

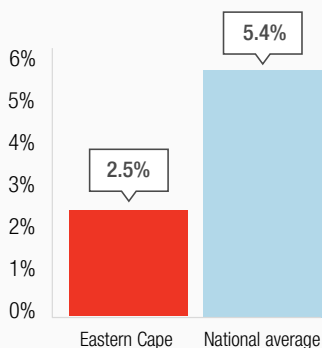
R7,308



Eastern Cape rent

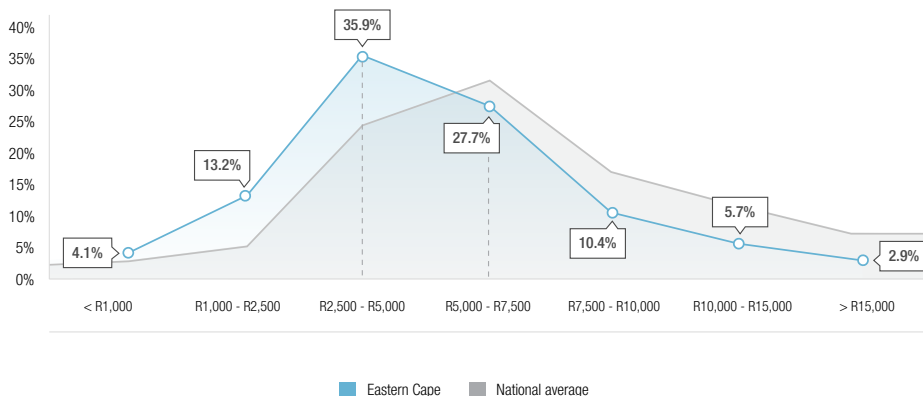
R5,516

Rental growth



Rent distribution

A third of rentals in the Eastern Cape are between R2,500 and R5,000 a month. The province has a lower-than-average percentage of rentals in the more expensive rental categories.



Income

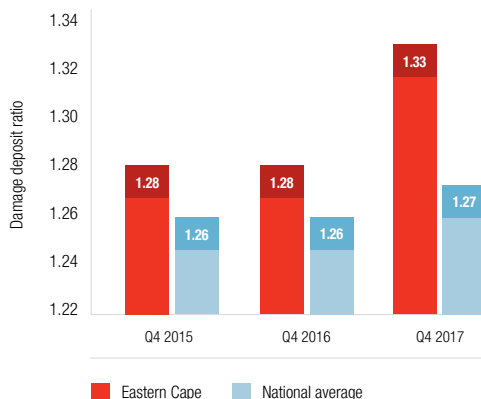
The Eastern Cape's average income has seen rapid growth over the past two years, but is still below the average national income, by roughly 13%.

Average national income
R32,523



Eastern Cape income

R28,320

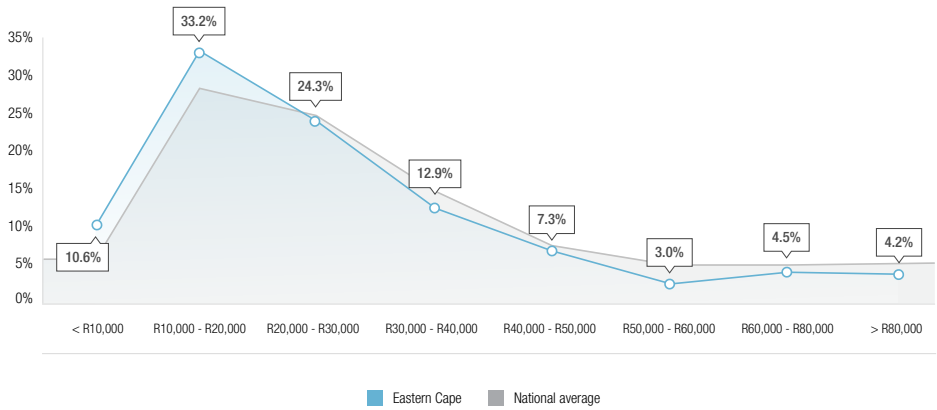


Damage deposit ratio

Two years ago, the damage deposit ratio for the Eastern Cape was slightly above the national average, and this figure increased to 1.33 times the average rent in 2017, compared to the national ratio of 1.27. This gave the Eastern Cape the second-highest damage deposit ratio of all provinces, after the Western Cape.

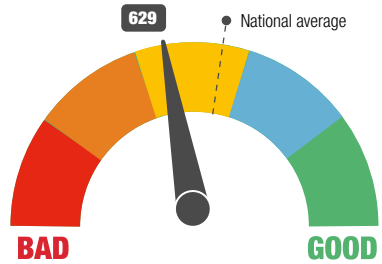
Income distribution

The Eastern Cape is also the province with the highest percentage of incomes under R10,000 – 10.6%. A third of tenants in the Eastern Cape earn between R10,000 and R20,000 per month.



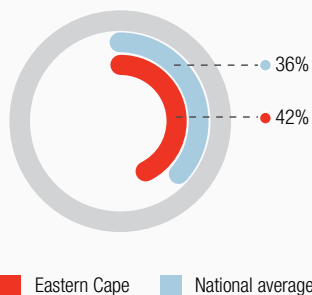
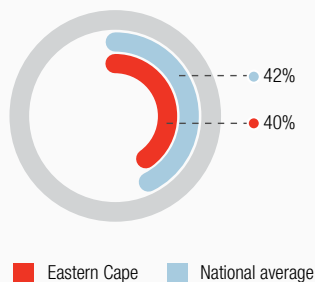
Credit health

While the average credit score for tenants in the Eastern Cape is below the national norm, it remained stable in 2017. And although a bigger-than-average share of tenants has major delinquencies, the percentage has decreased over the past two years. The debt-to-income ratio also decreased over the past year, while the national debt ratio remained the same. Tenant credit health improved marginally over the past year.

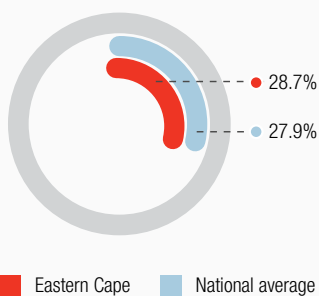
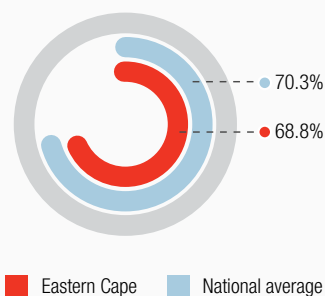


Average national credit score
635

Eastern Cape credit score
629

Delinquent tenants**Debt-to-income ratio****Rent and affordability**

Low rental growth and high income growth have in addition improved matters for tenants in the province, causing the rent-to-income ratio to decrease to 28.7% in 2017, down from 30.7% in Q4 2016. Adding up debt and rent payments to look at affordability, we see that the Eastern Cape has a better-than-average ratio. Affordability improved substantially throughout the year from 72.8% to 68.8%, mostly due to higher income levels.

Rent-to-income ratio**Affordability risk**



PROVINCIAL RENT STATISTICS

Free State

Income levels in the Free State dropped by almost 7% during 2017, from around R31,500 to R29,383, and is currently 9.7% below the national average of R32,523.

Rent and rental growth

The Free State has the second-lowest average rent – R5,490. From Q4 2016 to Q4 2017, rents increased by just 2.3%, compared to the weighted national average rent increase of 5.4% for the same period.

Average national rent

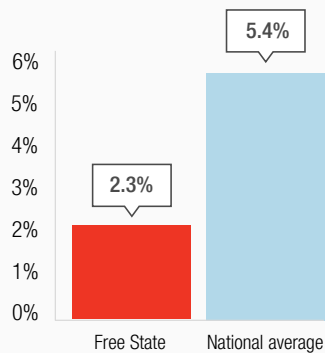
R7,308



Free State rent

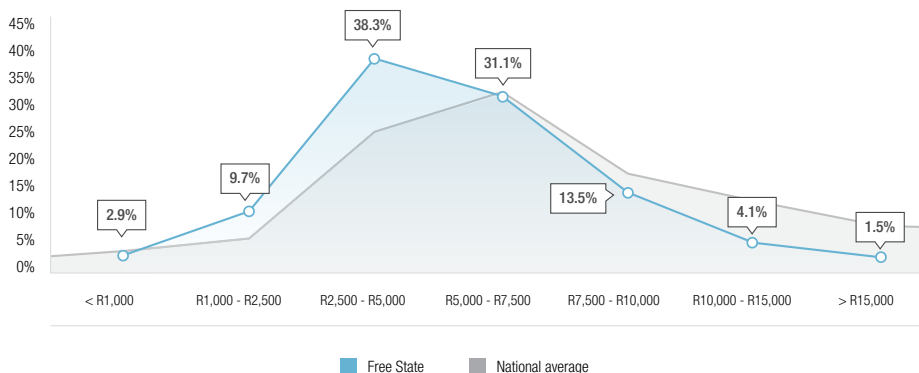
R5,490

Rental growth



Rent distribution

With lower rent levels, it stands to reason that a higher-than-average percentage of Free State rentals will fall in the lower bands. Half the rentals in the province are below R5,000. The percentage of tenants who rent in the upper three brackets is below average.



Income

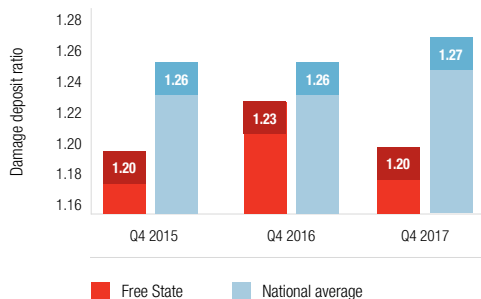
Income levels in the Free State dropped by almost 7% during 2017, from around R31,500 to R29,383, and is currently 9.7% below the national average of R32,523. This could explain the low rent increases and lower damage deposit ratio – tenants simply can't afford to pay higher rents and deposits.

Average national income
R32,523



Free State income

R29,383

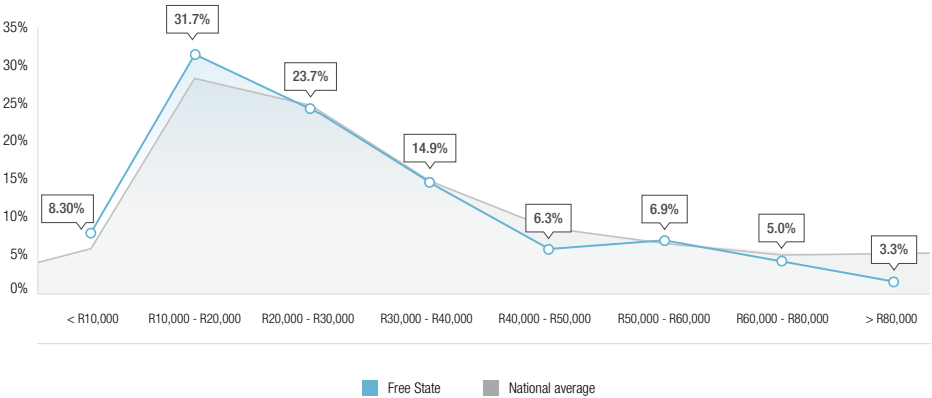


Damage deposit ratio

Currently, the Free State's damage deposit ratio is slightly below the national average and declined slightly throughout 2017. The current ratio is equal to the damage deposit ratio seen in Q4 2015.

Income distribution

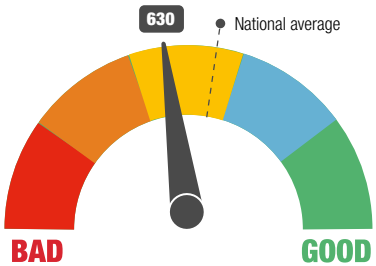
Around 32% of tenants have a net monthly income between R10,000 and R20,000. The percentage of tenants earning R20,000 to R30,000 decreased from 19.1% in Q4 2016 to 14.9% in Q4 2017 in the Free State, which is now in line with the national average.



Credit health

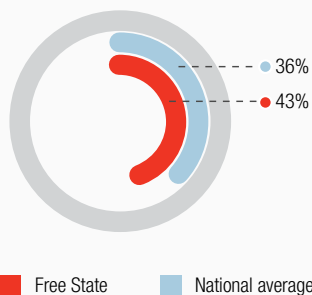
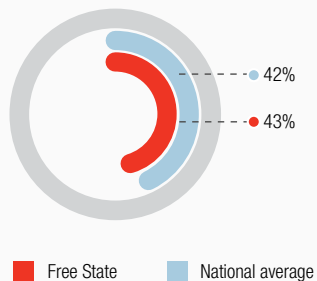
Overall, the credit health of the average Free State tenant was worse than the national average and declined further during the year. However, tenants were slightly better off than two years before.

The average Free State credit score fell from 634 to 630 in 2017 – below the national average, and 43% of tenants had a major delinquency (up from 42% a year before) versus the national average of 36%. Debt-to-income ratio also worsened slightly from 42% to 43% between Q4 2016 and Q4 2017.

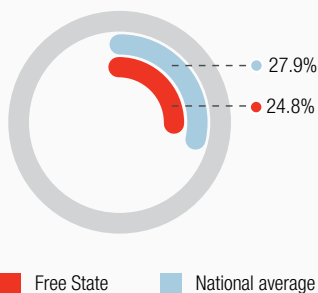
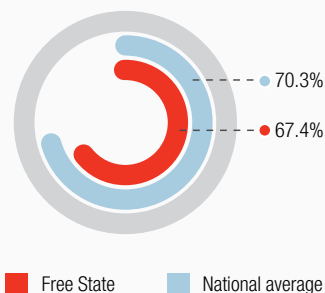


Average national credit score
635

Eastern Cape credit score
630

Delinquent tenants**Debt-to-income ratio****Rent and affordability**

Rent as a percentage of income is lower in the Free State than the national average. Even with declining income levels, the rent-to-income ratio has been hovering around the 25% mark for the past two years, which is below the national average of around 28%.

Rent-to-income ratio**Affordability risk**



PROVINCIAL RENT STATISTICS

Gauteng

Because of the higher average rent in the province, it is no surprise that a lower-than-average percentage of rental contracts falls in the R2,500 to R5,000 band and a higher-than-average percentage falls within the R7,500 to R10,000 band.

Rent and rental growth

Gauteng's average rent has consistently been above the national average and has also been growing faster than the average, as mentioned in the last few Indices.

Average rent in the province in Q4 2017 was R7,692 and grew by R5.8% YoY compared to the national average of R7,308 and national rental growth of 5.4%.

Average national rent

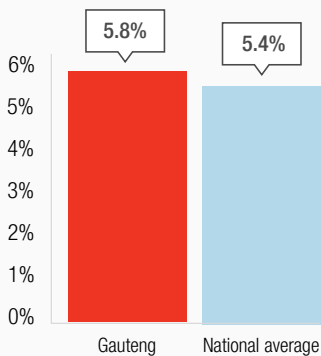
R7,308



Gauteng rent

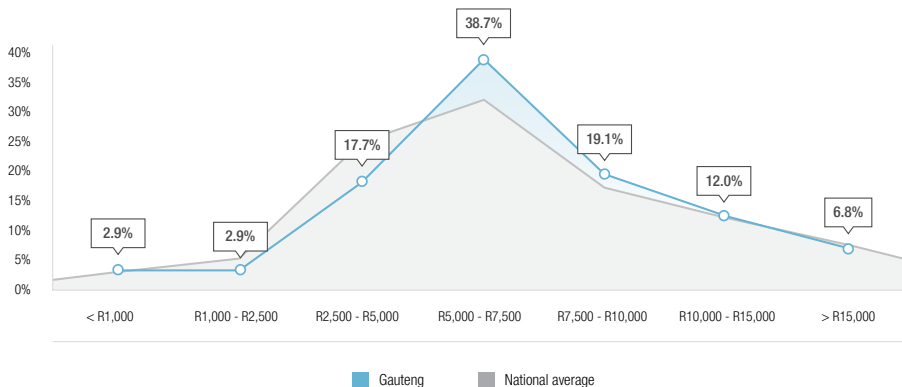
R7,692

Rental growth



Rent distribution

Almost 40% of rentals in Gauteng fall within the R5,000 to R7,500 band. Because of the higher average rent in the province, it is no surprise that a lower-than-average percentage of rental contracts fall in the R2,500 to R5,000 band and a higher-than-average percentage fall within the R7,500 to R10,000 band.



Income

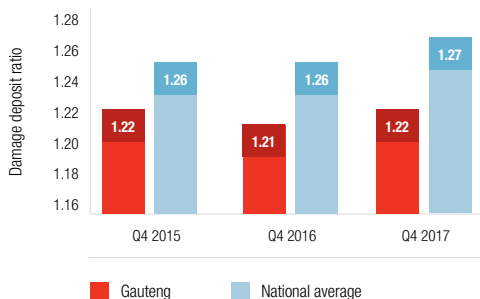
Average income of R30,327 in Gauteng is somewhat below the national average of R32,523, and underwent a slight increase of 1.5% between Q4 2016 and Q4 2017, versus national income growth of 4.3%.

Average national income
R32,523



Gauteng income

R30,327

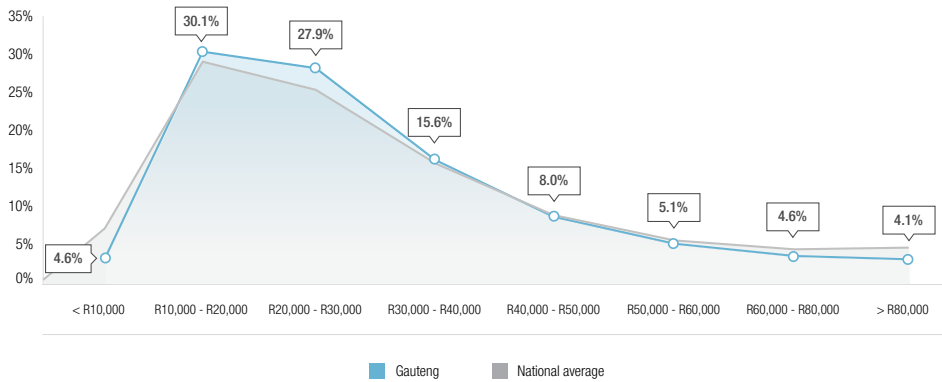


Damage deposit ratio

Gauteng's damage deposit ratio has been relatively stable over the past two years and is only slightly below the national average.

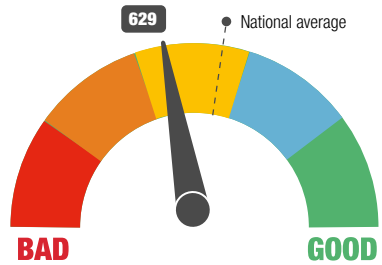
Income distribution

Some 58% of tenants in Gauteng earn between R10,000 and R30,000 per month. However, 37.4% earn more than R30,000, and there has been a slight increase in the five upper-income bands over the past year. This is in line with what we've seen on a national level as well.



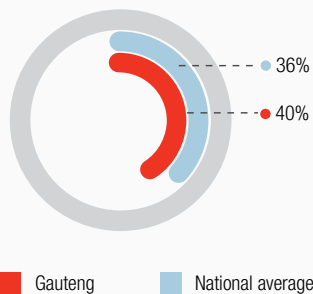
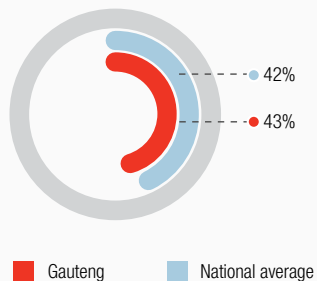
Credit health

At 629, the average credit score in the province remained stable but below the national average of 635 in 2017. The percentage of tenants with major delinquencies was above average but stabilised during the year to average out lower than two years before, when it was 43%. The debt-to-income ratio also remained relatively stable over the past two years. Overall, we didn't see any noteworthy changes in tenants' credit health in 2017, but an improvement was evident from the previous two years.

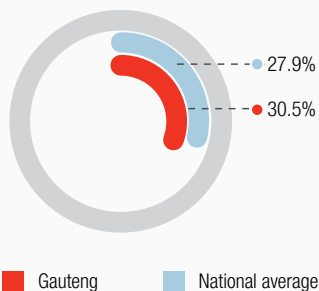
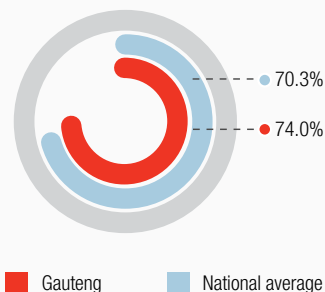


Average national credit score
635

Gauteng credit score
629

Delinquent tenants**Debt-to-income ratio****Rent and affordability**

Due to high and fast-growing rent levels, the rent-to-income ratio in the province is above average and has increased from 26% in Q4 2015 to 30.5% in Q4 2017. This means affordability risk levels are also on the high side and increasing slowly.

Rent-to-income ratio**Affordability risk**



PROVINCIAL RENT STATISTICS

KwaZulu-Natal

KwaZulu-Natal's rent distribution is very much aligned with the national average, with the percentage of tenants renting in the upper three brackets increasing slightly over the past year.

Rent and rental growth

Average KZN rent levels for Q4 2017 were R7,580 – up 5.3% from R7,200 the year before. This is slightly above the weighted national average of R7,308, which grew at a similar rate during the year.

Average national rent

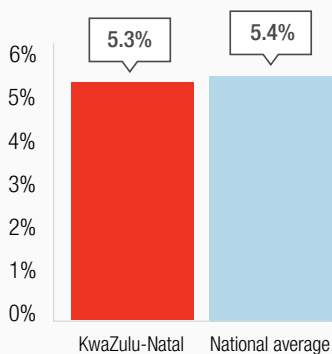
R7,308

KwaZulu-Natal rent

R7,580

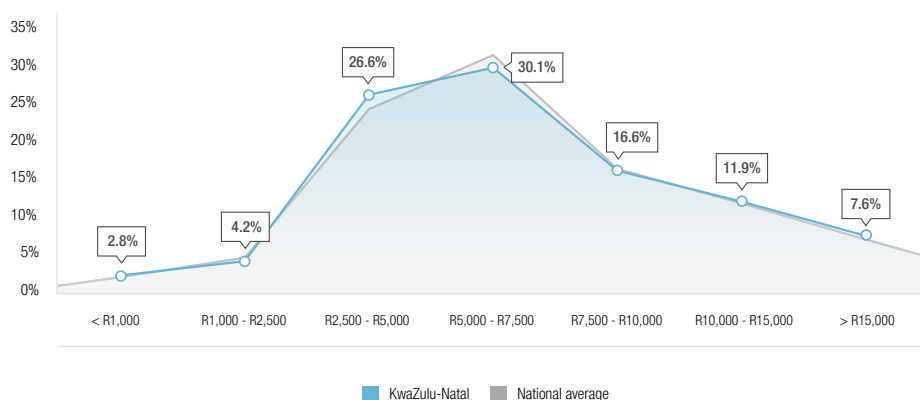


Rental growth



Rent distribution

KZN's rent distribution is closely aligned to the national average. As with the national rental distribution, the percentage of tenants renting in the top three brackets increased slightly during 2017.



Income

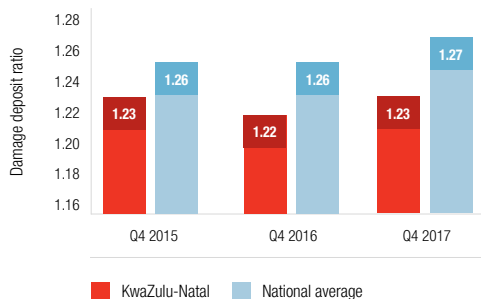
The province had an average income level of R33,681, the third-highest in South Africa and above the national average of R32,523. However, income decreased slightly during the year, from R34,061 in Q4 2016.

Average national income
R32,523



KwaZulu-Natal income

R33,681

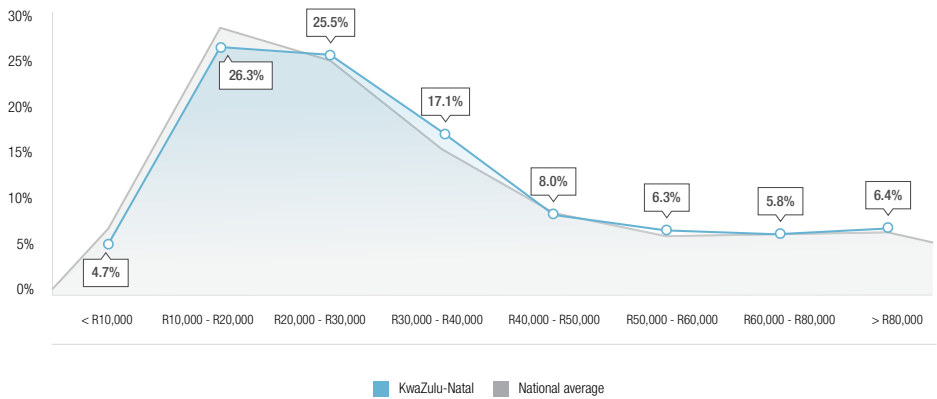


Damage deposit ratio

There was no noticeable change in the province's damage deposit ratio since 2015, and it remained slightly below the national average.

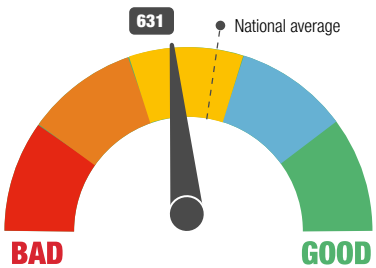
Income distribution

As with rent distribution, KZN's income distribution is closely aligned to the national average. Over 50% of tenants earn between R10,000 and R30,000, and the percentage of tenants earning R30,000 to R40,000 is above average at 17.1% and up from 15.8% the year before.



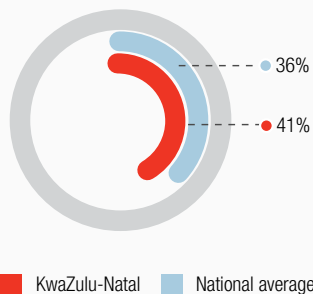
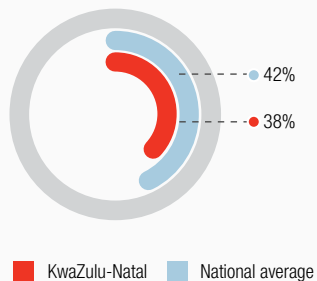
Credit health

Credit health in the province deteriorated during 2017 but is still better than two years before. KZN tenants' credit score decreased from 633 in Q4 2016 to 631 in Q4 2017, seeing out the year at a level below the national average. The percentage of tenants with delinquencies increased from 37% a year before to 41%, but this figure is still below the 44% seen in Q4 2015. The 38% debt-to-income ratio is below the national average of 42%.

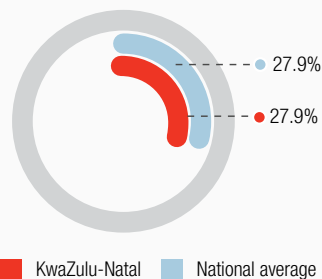
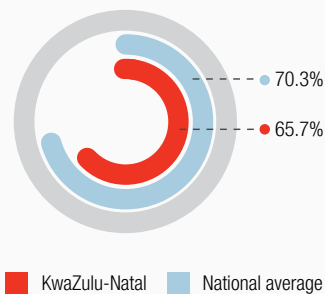


Average national credit score
635

KwaZulu-Natal credit score
631

Delinquent tenants**Debt-to-income ratio****Rent and affordability**

The rent-to-income ratio for KZN moved more or less with the national average during 2017 and stayed equal to the average national ratio in Q4 2017 (27.8%). However, the province's affordability improved due to a lower debt ratio. KZN tenants enjoyed the highest percentage of income after debt and rent obligations were paid.

Rent-to-income ratio**Affordability risk**



PROVINCIAL RENT STATISTICS

Limpopo

More than 35% of rentals in Limpopo were between R5,000 and R7,500, but the percentage of rentals in the four upper brackets increased from Q4 2016 to Q4 2017.

Since less than 1% of PayProp's credit check information originates in Limpopo, it is important to remember that this province's data is vulnerable to statistical anomalies.

Rent and rental growth

The average rent in Limpopo in Q4 2017 was R7,472 – above the national average of R7,308. However, Limpopo has the dubious distinction of being the only province that experienced a slight decrease in average rent from a year before.

Average national rent

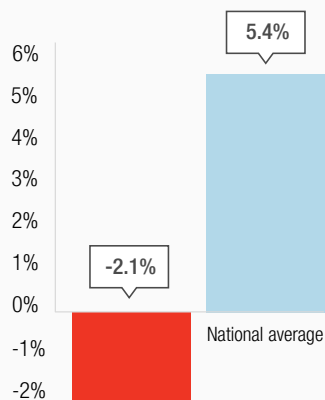
R7,308



Limpopo rent

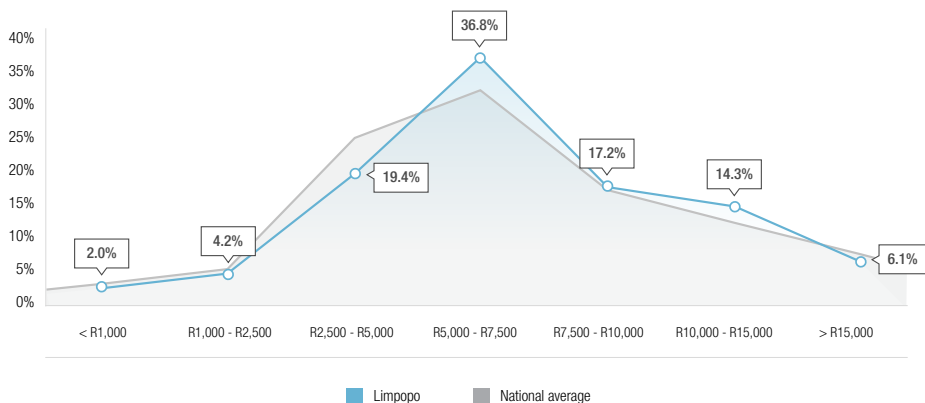
R7,472

Rental growth



Rent distribution

More than 35% of rentals in Limpopo fell in the R5,000 to R7,500 range over the last quarter of the year. The percentage of rentals in the upper four brackets increased between Q4 2016 and Q4 2017.



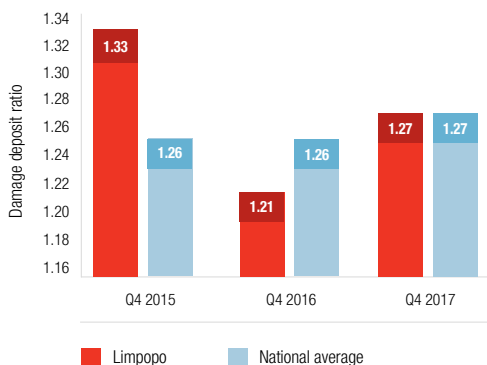
Income

Limpopo had the lowest average income of all the provinces at the end of 2017, and it's getting worse – at R28,132, average income in Q4 was 2.8% down from R28,934 a year before. National income was 13.5% higher than the province's.

Average national income
R32,523

Limpopo income

R28,132

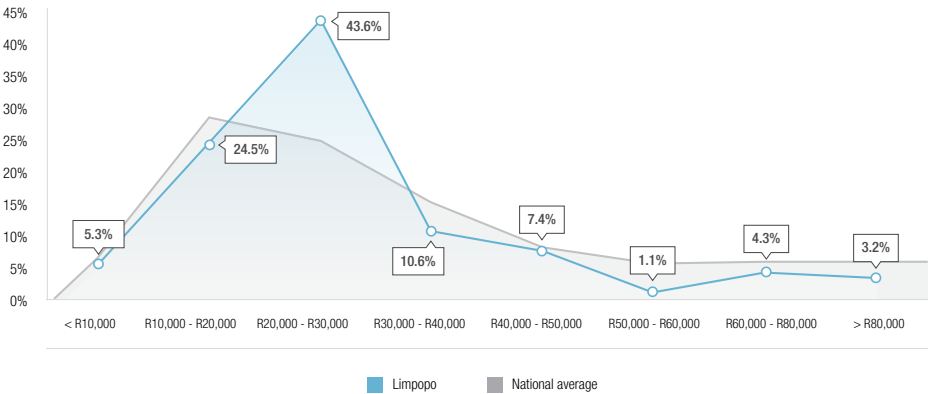


Damage deposit ratio

The damage deposit ratio for the quarter was in line with the national average. (The ratio was subject to volatility due to the small sample size.)

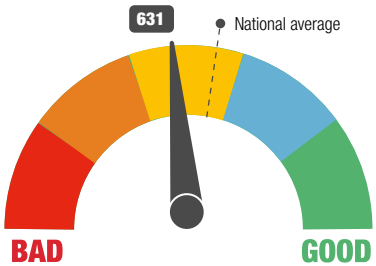
Income distribution

Almost 44% of the province's tenants earned between R20,000 and R30,000 in the fourth quarter, compared to the national average of just 25%. It is curious that the percentage of tenants in this bracket increased over the past year while the percentage of tenants in the R30,000 to R40,000 bracket decreased – the opposite of what we would normally expect to see over time.



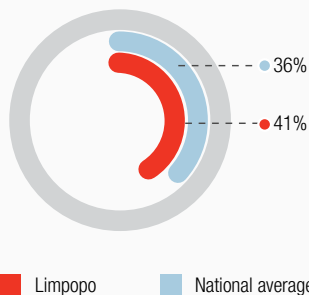
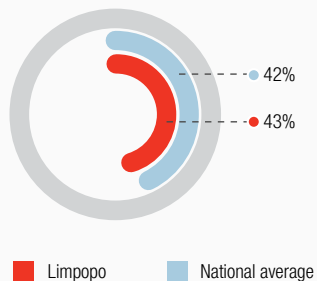
Credit health

The overall credit health of Limpopo tenants improved during 2017, with credit scores reaching 631 – up from 621 in Q4 2016. The percentage of delinquent tenants was above the national average of 36% but had gone down to 41% from 44% the year before. The debt-to-income ratio also decreased slightly and moved closer to the average.

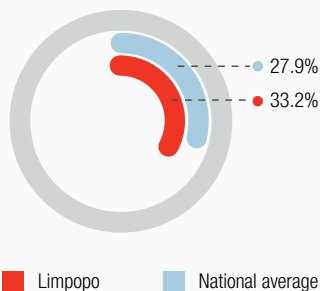
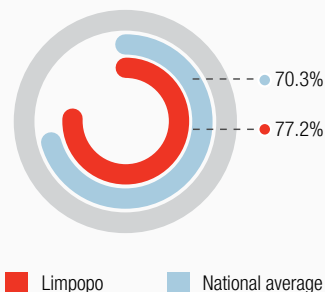


Average national credit score
635

Limpopo credit score
631

Delinquent tenants**Debt-to-income ratio****Rent and affordability**

Because of low income levels, Limpopo residents endured a higher-than-average rent-to-income ratio in 2017, leaving them with the highest affordability percentage of all nine provinces and hence the smallest percentage of their salary after paying debts and rent.

Rent-to-income ratio**Affordability risk**



PROVINCIAL RENT STATISTICS

Mpumalanga

The rental distribution in Mpumalanga is quite concentrated in the middle three brackets, with more than 82% of tenants renting between R2,500 and R10,000, compared to 73.5% nationally.

Rent and rental growth

The average rent in Mpumalanga was R6,919 in the last quarter of 2017, compared to the national average of R7,308. Rents increased by only 1.6% over the year, lagging national growth of 5.4% and representing the second-lowest YoY growth for that quarter after Limpopo.

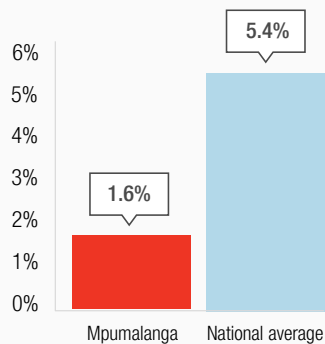
Average national rent
R7,308



Mpumalanga rent

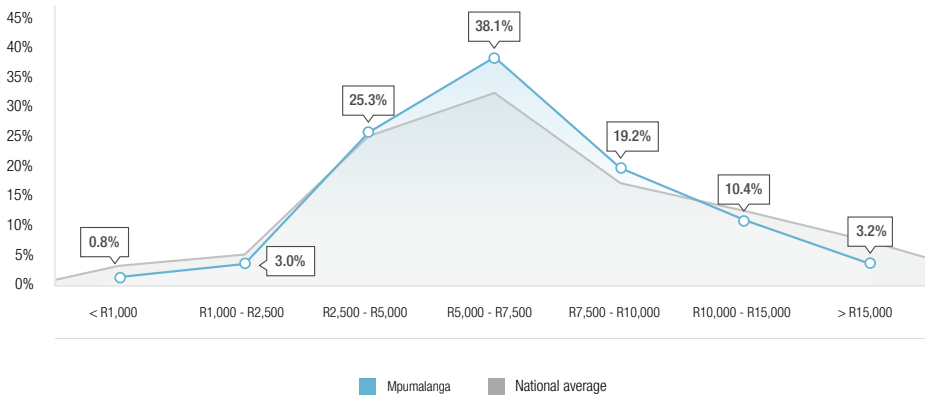
R6,919

Rental growth



Rent distribution

The rental distribution in Mpumalanga is concentrated primarily in the middle three brackets, with more than 82% of tenants renting for between R2,500 and R10,000, compared to 73.5% nationally. Just over 38% of tenants pay between R5,000 and R7,500 – up from 37.4% the year before.



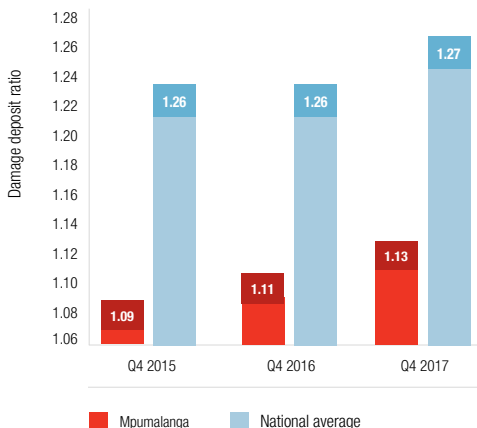
Income

Average income for Mpumalanga was R29,724 during the fourth quarter of 2017, below the national average of R32,523. Provincial incomes moreover decreased during the course of the year, leaving tenants increasingly hard pressed to cover all their costs.

Average national income
R32,523

Mpumalanga income

R29,724

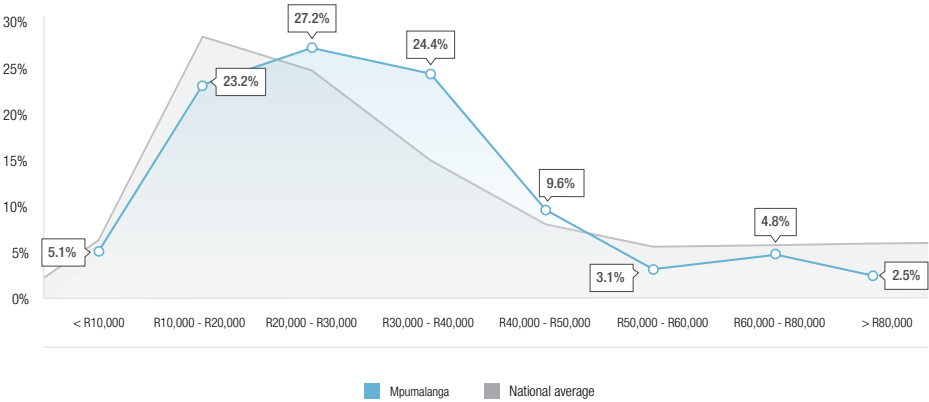


Damage deposit ratio

The damage deposit ratio in the province has been moving up over the past two years to end at 1.13 at the end of 2017, but it is still below the national average of 1.27.

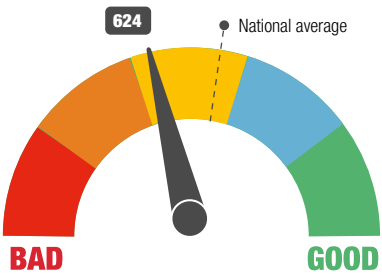
Income distribution

As with Mpumalanga’s rent distribution, its tenants’ incomes are concentrated primarily over three brackets. Some 75% of tenants in the province earn between R10,000 and R40,000 per month, compared to 68% nationally. However, Mpumalanga has fewer tenants earning above R50,000 than the national average.



Credit health

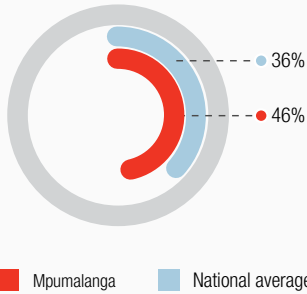
The average credit score in Mpumalanga improved slightly from 622 in Q4 2016 to 624 in Q4 2017, but it still has some way to go to return to Q4 2015 levels (630). The province had the highest percentage of tenants with major delinquencies at the end of 2017 (though this number decreased from 49% to 46% during the course of the year). The debt-to-income ratio is also very high – more than half of tenants’ income is used to repay debt obligations every month. But while the credit health of the average tenant in the province is not great, there were at least some improvements during the year.



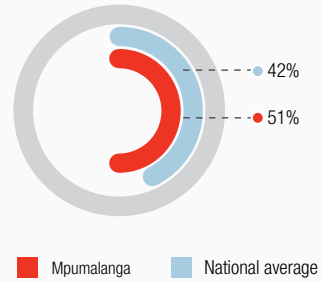
Average national credit score
635

Mpumalanga credit score
624

Delinquent tenants



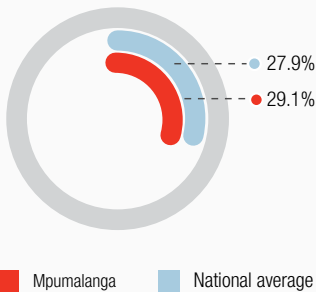
Debt-to-income ratio



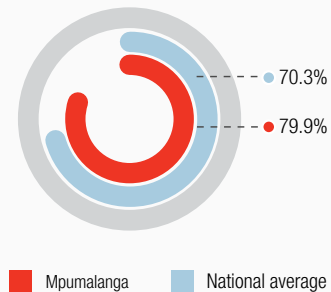
Rent and affordability

With lower-than-average rent and income, Mpumalanga's rent-to-income ratio ended the year not too far off the national average, and it is currently still below 30%. However, a decrease in income over the course of the year caused this ratio to rise from 26.1% to 29.1%. The high debt ratio means affordability pressure is on – tenants have only 20% of their income left after debt and rent obligations.

Rent-to-income ratio



Affordability risk





PROVINCIAL RENT STATISTICS

North West

The current average rent in the North West is the lowest of all the provinces – R4,990 – despite an 8.6% increase from Q4 2016 to Q4 2017.

Rent and rental growth

The average rent in the North West was the lowest of all the provinces in Q4 2017, at R4,990 – despite an 8.6% increase from Q4 2016. Growth strongly outpaced national growth of 5.4% over the same period.

Average national rent

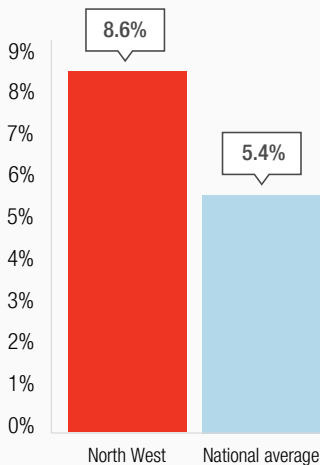
R7,308



North West rent

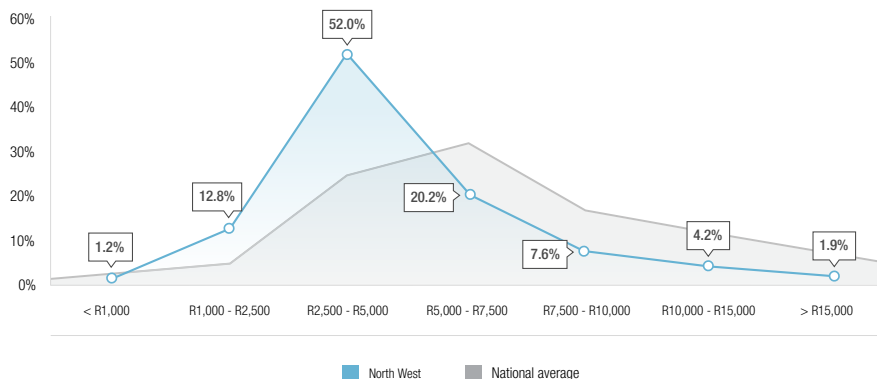
R4,990

Rental growth



Rent distribution

At the end of 2017, 52% of rentals in the North West province were priced between R2,500 and R5,000. Rental distribution in the province hadn't changed much over the previous two years and differed from the national distribution in that more than half of all rentals in the province fell within one category.



Income

The North West province had the second highest average income in the country – R35,013 (see note on the next page for clarification). This figure increased by more than 9% in 2017, compared to an increase of 4.3% in the national average.

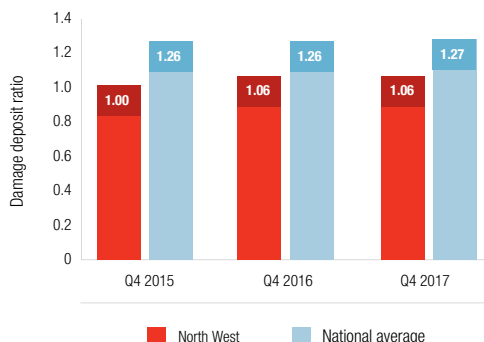
Average national income

R32,523



North West income

R35,013

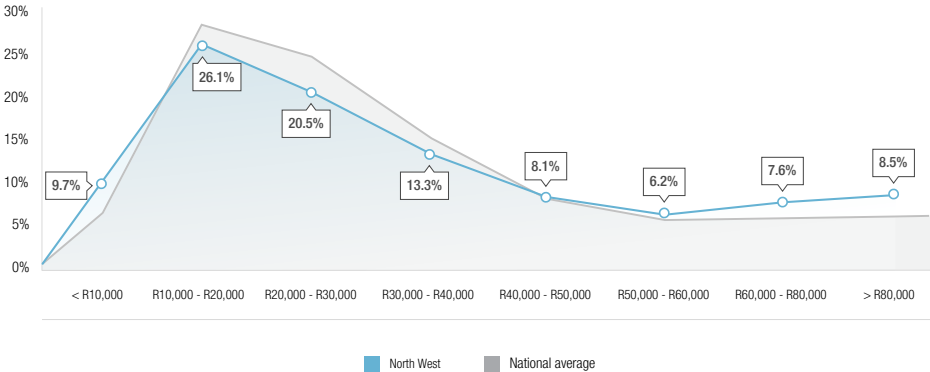


Damage deposit ratio

The province had the second-lowest damage deposit ratio after the Northern Cape, at 1.06. This ratio remained stable throughout the year, which means damage deposits increased in line with the big rental increases.

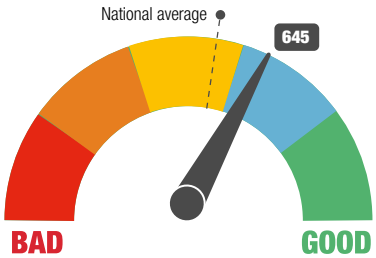
Income distribution

The North West has a higher-than-average percentage of incomes in the higher bands (R40,000 and up). Some 30% of incomes captured were above R40,000 in Q4 2017, up from 26.7% in Q4 2016.



Credit health

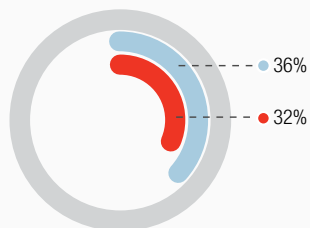
The North West province also boasted the best average credit score – 645 for the fourth quarter of 2017, compared to the national average of 635. The province had the second-lowest percentage of delinquencies, but the highest debt-to-income ratio of all the provinces. The cost of having kids in university, perhaps?



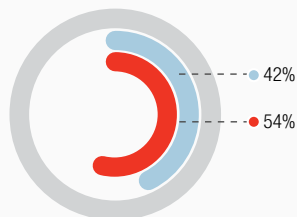
PayProp data for the North West province is influenced by the substantial amount of student housing in Potchefstroom that is administered through PayProp. Credit checks for student housing are typically carried out on parents (who have higher incomes), as they pay the rent, but rent levels are low.

Average national credit score
635

North West credit score
645

Delinquent tenants

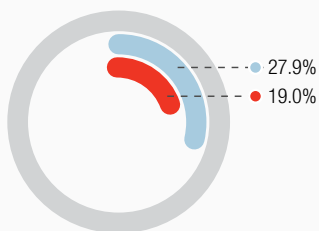
■ North West ■ National average

Debt-to-income ratio

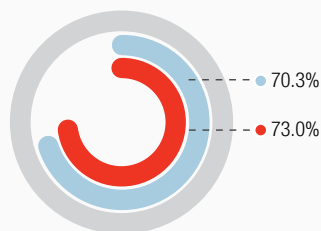
■ North West ■ National average

Rent and affordability

While high incomes and low rents made for a low rent-to-income ratio in the province, high debt levels negatively affected affordability. Currently, debt and rent payments together make up 73% of net income in the province, compared to 70% on a national level.

Rent-to-income ratio

■ North West ■ National average

Affordability risk

■ North West ■ National average



PROVINCIAL RENT STATISTICS

Northern Cape

The Northern Cape had the second-highest average rent after the Western Cape at R8,211 in the fourth quarter of 2017.

As with Limpopo, the pool of data that we have for the Northern Cape is small. It is important to keep in mind that data from small sample sizes can be skewed more easily.

Rent and rental growth

Northern Cape tenants closed out the year paying the second-highest average rent after the Western Cape – R8,211. Rent grew by 7.9% from Q4 2016 to Q4 2017, compared to average national growth of 5.4% over the same period.

Average national rent

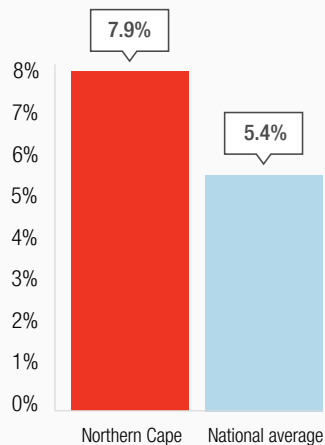
R7,308



Northern Cape rent

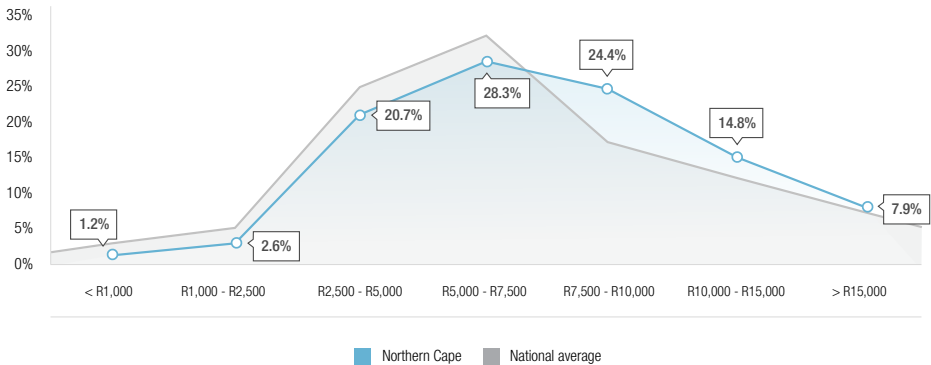
R8,211

Rental growth



Rent distribution

The Northern Cape was one of two provinces with a higher percentage of rentals in the R7,500 to R10,000 bracket than in the R2,500 to R5,000 bracket (the other one was Gauteng, by a smaller margin). The higher-than-average distribution in the three most expensive categories contributed to high average rent levels in the province.



Income

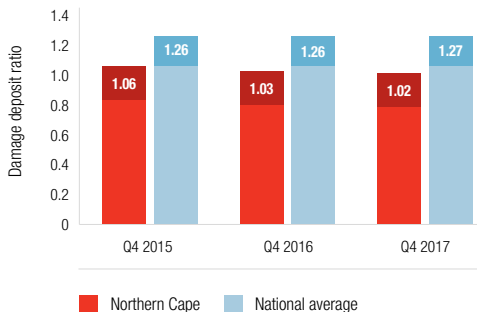
Income in the Northern Cape was R30,683 in the last quarter of 2017 – slightly lower than the year before, when it was R31,327. Income levels were below the average of R32,523.

Average national income
R32,523



Northern Cape income

R30,683

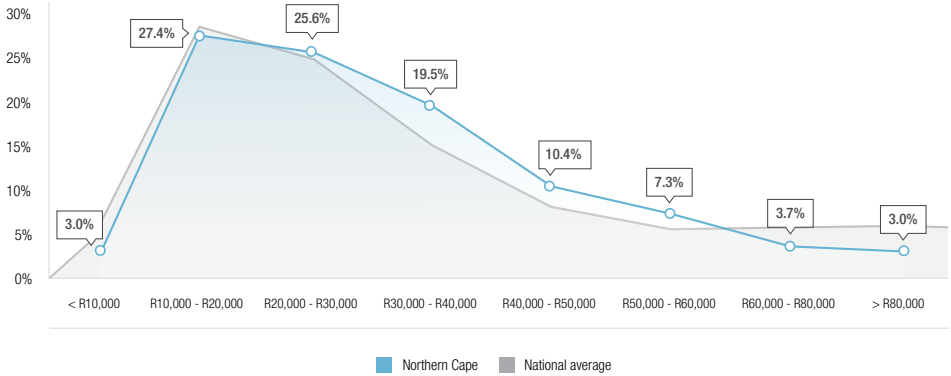


Damage deposit ratio

The province had the lowest damage deposit ratio in South Africa, a figure that had been slowly decreasing over the previous two years to end 2017 at 1.02 times the monthly rent, compared to the national average of 1.27.

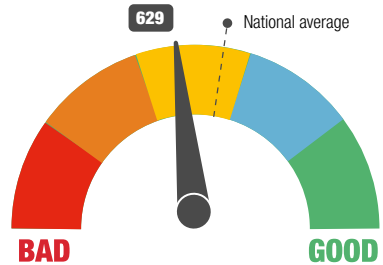
Income distribution

While 27.4% of tenants in the Northern Cape earned between R10,000 and R20,000 by the end of the year, 37.2% earned between R30,000 and R60,000 – compared to 28.7% of tenants nationally. There are, however, fewer tenants earning more than R60,000 a month than the national average.



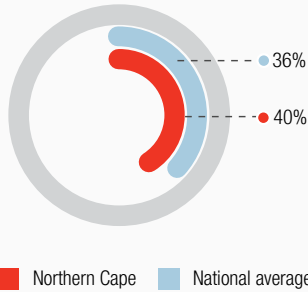
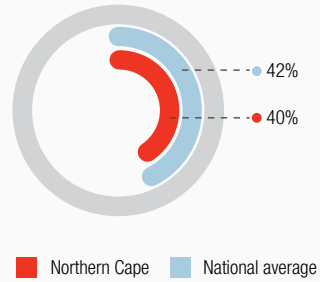
Credit health

Overall, tenant health in the province improved during 2017. The average credit score increased from 623 in Q4 2016 to 628 in the last quarter of 2017. While the percentage of tenants with major delinquencies was above the national average, the number improved greatly from 47% the year before. The debt-to-income ratio was also slightly below the average.

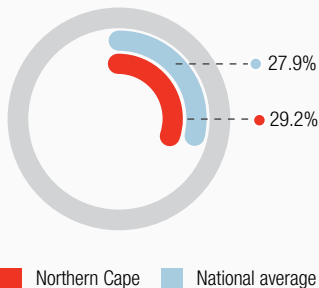
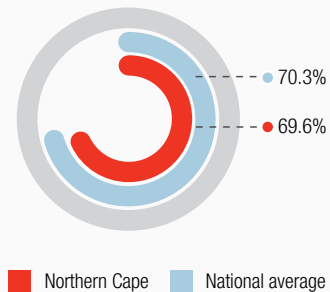


Average national credit score
635

Northern Cape credit score
628

Delinquent tenants**Debt-to-income ratio****Rent and affordability**

The rent-to-income ratio in the Northern Cape rose to 29.2% in Q4 2017 – still below the magic 30% mark but coming close. Due to increased rent levels and slightly lower incomes, this ratio increased from 27% the year before. Affordability was in line with the national average.

Rent-to-income ratio**Affordability risk**



PROVINCIAL RENT STATISTICS

Western Cape

The average rent in the Western Cape was R8,777 in Q4 2017 (up 10.8% from the previous year), compared to national rent levels of R7,308 (up 5.4% over the same period).

Rent and rental growth

The Western Cape has been the most expensive province to rent in and the one with the highest rental growth rate for some time now, and this continued to be the case in 2017. Rent averaged at R8,777 in the fourth quarter, up 10.8% from the previous year and far above the national average (R7,308, growing at 5.4% over the same period).

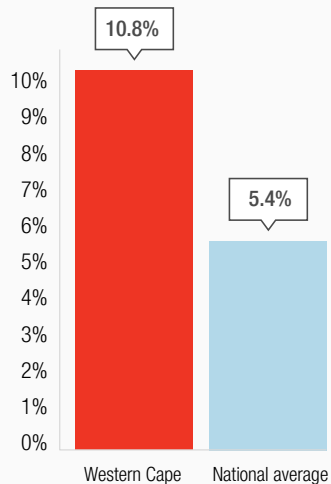
Average national rent
R7,308



Western Cape rent

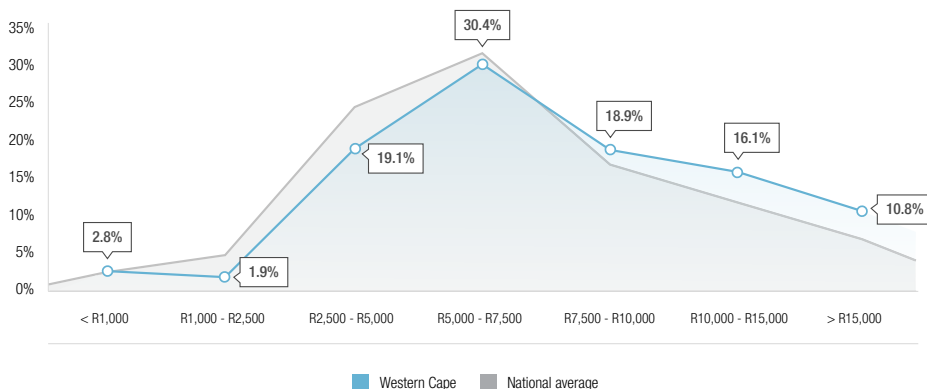
R8,777

Rental growth



Rent distribution

From the graph we see there were more rentals over R7,500 in the Western Cape than the average in 2017. In fact, 45.8% of rentals fell within the three most expensive brackets in the province, compared to 35.9% nationally. A year before, the distribution of rentals in these three brackets was at 37.6%.



Income

The Western Cape had the highest average income at the end of 2017 – R35,021 compared to the national average of R32,523. Income in the province increased by 6.8% against national income growth of 4.3% over the year.

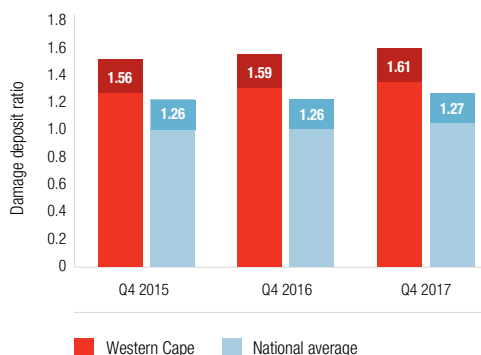
Average national income

R32,523



Western Cape income

R35,021

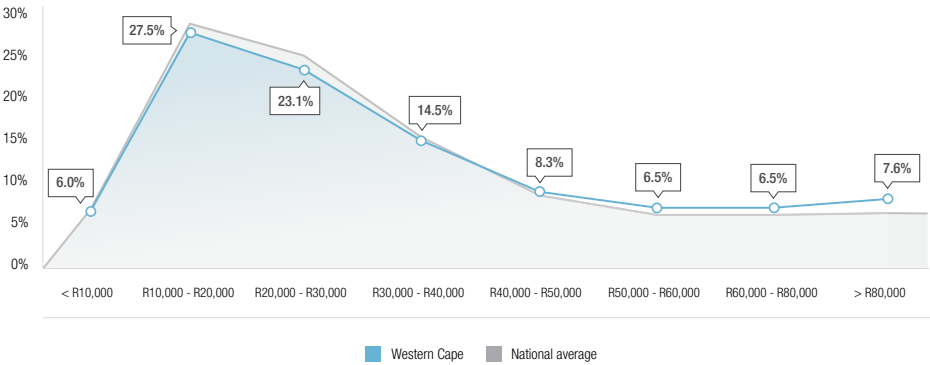


Damage deposit ratio

The Western Cape also continued to demand the highest damage deposit ratio of all provinces by a large margin. The second-highest was that asked by Eastern Cape landlords, at 1.33. Due to high demand and low supply of rental properties, landlords can set higher-than-average damage deposits to protect themselves.

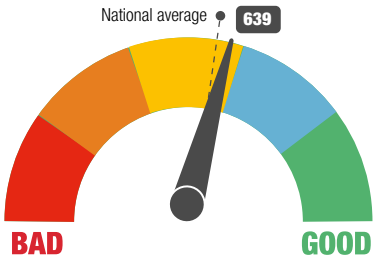
Income distribution

Income distribution for the Western Cape, like its rent distribution, had a higher-than-average concentration around the top end. A larger percentage of tenants there earned high incomes, while just over 50% reported earnings in the lower brackets of R10,000 to R30,000, compared to 53.2% nationally.



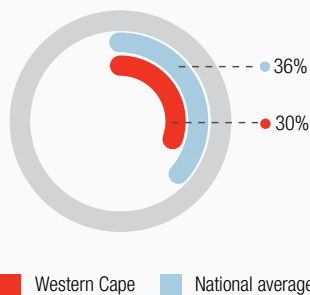
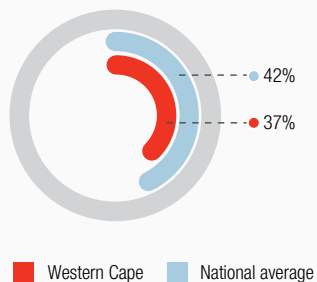
Credit health

The credit score of the average tenant in the Western Cape was 639 at year-end 2017 – above the national average but unchanged from a year before. In general, tenants seemed to maintain good credit habits, with only 30% burdened by major delinquencies (the lowest nationally) and the lowest debt-to-income ratio (37%).

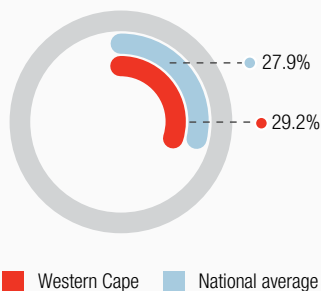
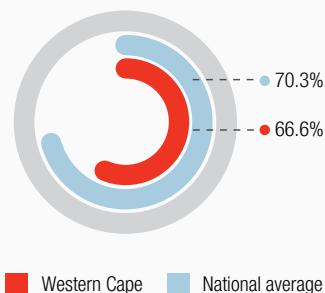


Average national credit score
635

Western Cape credit score
639

Delinquent tenants**Debt-to-income ratio****Rent and affordability**

Finally, the Western Cape had a rent-to-income ratio of 29%, unchanged from Q4 2016. This was slightly above average, but the below-average debt ratio meant affordability risk was below the average.

Rent-to-income ratio**Affordability risk**


How to get to 100% of value

We've always done our best to improve PayProp in ways that give you more time to do the important stuff while we automate the everyday nitty-gritty. In the last year, we've introduced the long-awaited Cc: field in our communications, so that statements can now be sent to multiple recipients. We've also given you the ability to lower your banking fees by billing charges like failed debit orders and cash fees directly to tenants.

Our clients recovered over R46 million in arrears at no cost to their business.

Recently, we've also looked at the usage levels of some of our favourite PayProp features – from deposit management to credit reports and data sharing – to see how extensively our clients are using the system to their maximum benefit. In the process, we realised that a number of clients can extract more value from PayProp and improve their level of service to landlords with little effort and at no extra cost!

For example, one of our most effective agent resources is our letter of demand. In 2017 alone, our clients recovered over R46 million in arrears at no cost to their business. Our data shows that three in four tenants pay arrears in full once a letter of demand has been sent. This means that a rental agent who uses the feature can decrease the number of tenants in arrears by three quarters while collecting overdue commission income! ▶▶

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- ▶ But our favourite feature is our new tenant payment data sharing ability. Every month, agents submit tenants' behavioural profiles to a data pool for PayProp's clients' exclusive use. Our clients will soon be able to tell how well-paying the tenant they're dealing with really is, using metrics that are much better at predicting rental defaults than the normal credit score.

Not sure how a feature works? See the training manuals under Resources for step-by-step guidance. ■

All about PropTech

PayProp's annual PayProp Academy for property managers is all about PropTech this year. From 20 to 23 February, we will host four PropTech events in beautiful locations in Port Elizabeth, Durban, Sandton and Stellenbosch to talk about the enabling power of technology in property. PayProp will also make two very exciting PropTech announcements.

What is PropTech, and how can you use it in your business? The success of Airbnb, online agents, listing portals and a huge variety of apps and platforms show just how diverse and dynamic this sector has become. But while many estate agents fear its disruptive potential, PropTech provides exciting prospects for streamlining and growing property businesses.

For the lucky ones who booked early, we've lined up a range of experts in digital marketing, credit scoring and information technology and systems to help attendees understand how technology can support their business. ■

PropTech provides exciting prospects for streamlining and growing property businesses.



Onwards and upwards

Is it too soon to put the ups and downs of 2017 behind us?

- Average rental growth has been much more volatile during 2017 than the previous year. However, this was to be expected in a volatile economy.
- This volatility will in all probability continue into 2018, with economic and political uncertainty expected to increase leading up to the national elections in 2019.
- Tenants seem to be in better shape than they were two years ago. However, economic growth for the coming year is predicted to be low, so tenants can expect to stay under pressure during 2018. ■





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PAYPROP RENTAL INDEX

PayProp Rental Index Annual Review is a yearly 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.

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

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

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choosing PayProp we have certainly
made the correct choice.”**

**ARNOLD EKSTEEN,
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