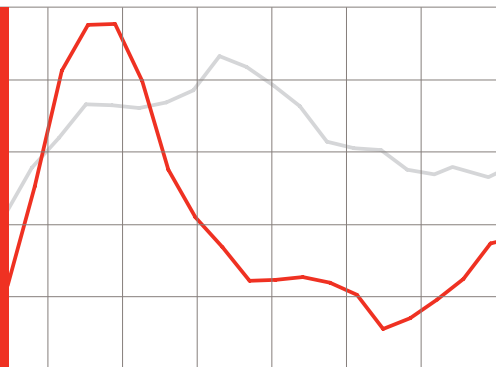


PAYPROP RENTAL INDEX

A comprehensive view of the state of the residential rental market in South Africa



PayProp Rental Index Quarterly

SUSTAINED RECOVERY

Tentative signs of recovery in the rental market during the fourth quarter of 2012 were vindicated in the new year after another quarter of largely positive indicators.

Currently the national weighted average rental stands at R5 473 per month - up from a high of R5 384 in the previous quarter. Better yet, this figure was above R5 400

in all three months of Q1, solidifying the gains made after a worrying decline in the latter half of 2012.

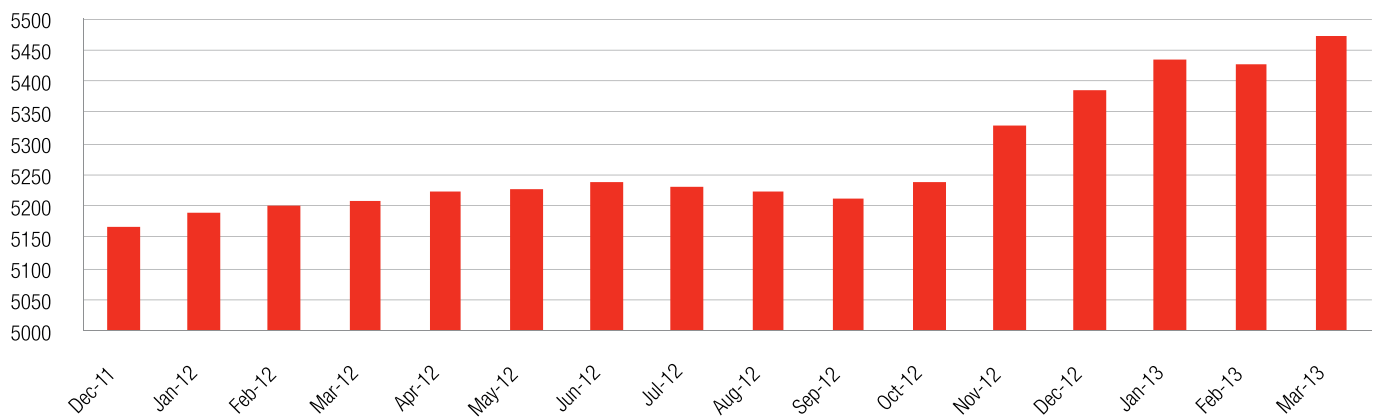


Figure 1: Weighted national average rental
Source: PayProp

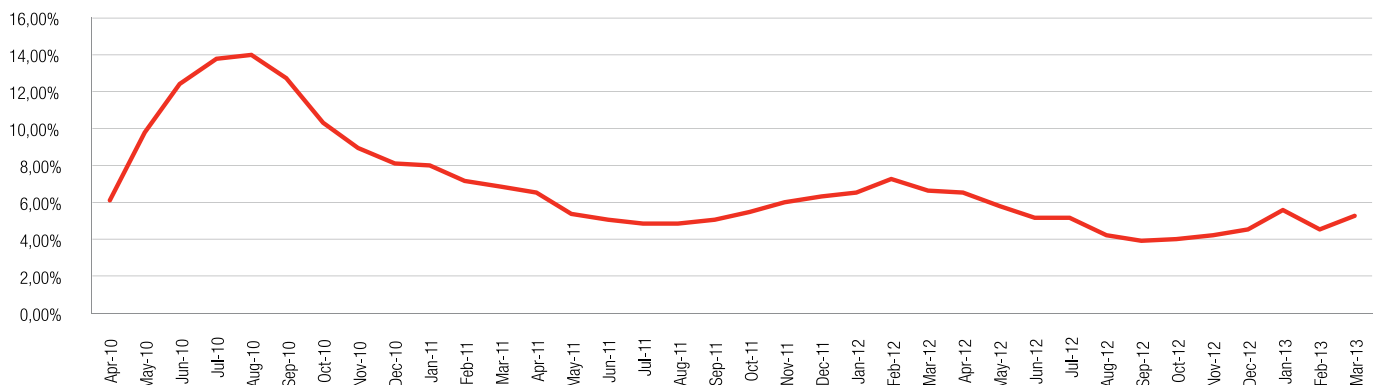


Figure 2: Year-on-year percentage change in rentals
Source: PayProp



Year-on-year changes exceed 5%

The decline in the growth of average rentals started at the beginning of 2012, dropping below 5% towards the middle of the year and remaining flat for the latter half of the year. In the first quarter of 2013, however, we again see an upward trend in average rental increases, with two out of three months exceeding the 5% level. January marked a 5.6% increase, February 4.5% and March 5.27%.

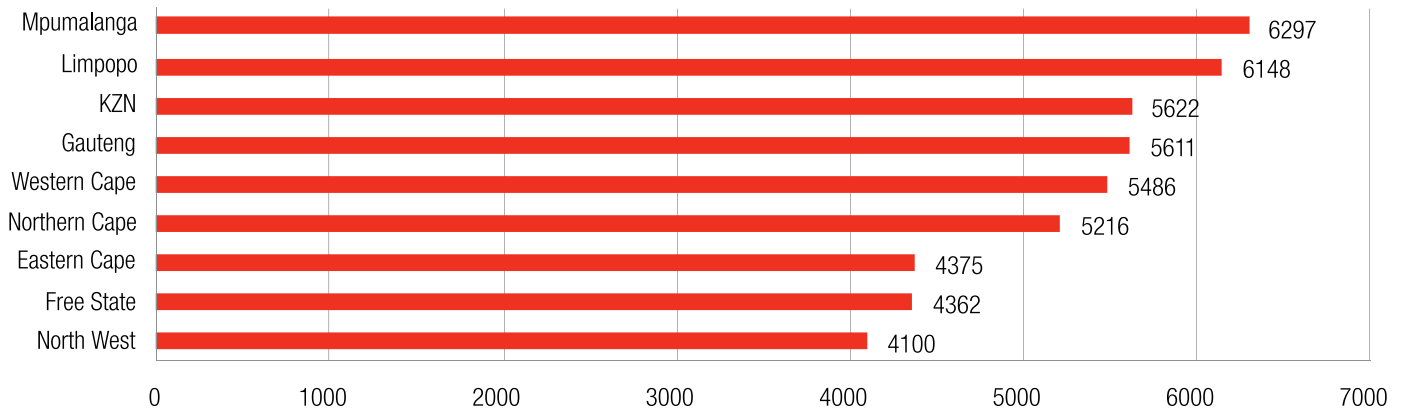


Figure 3: Provincial averages
Source: PayProp

Provincial breakdown

The national rental average continues to be driven by Mpumalanga and Limpopo, with the three main metropolitan areas - KZN, Gauteng and the Western Cape – taking the next three top spots.

Limpopo and Mpumalanga rentals are, however, starting to moderate, with growth rates dropping to the single digits since the last quarter of 2012. Interestingly, we're seeing tremendous growth in the Northern Cape, which could point to a new rental boom area driven by increased industrial development, in turn driving demand for accommodation in towns where supply of rental stock may be limited.

Gauteng rental growth remains flat, while the Eastern Cape continues to experience the decline in average rental values that has been evident for the past 12 months.

When provincial performance is further broken down into individual towns, Lephalale maintains its place at the top

with the highest average rental in the country, but it is slowly being overtaken by the traditionally high rental areas of the Western Cape. An interesting development is the presence of Kuruman on the top 10 list, which, although dropping slightly back this quarter, is largely responsible for driving up average rental values in the Northern Cape.

Ranking	Town	Jan-13	Feb-13	Mar-13
1	Lephalale	R 15 116	R 15 313	R 15 612
2	Sea Point	R 13 495	R 15 188	R 15 133
3	Bryanston	R 12 720	R 12 815	R 13 310
4	Umhlanga Rocks	R 11 977	R 11 832	R 11 535
5	Hout Bay	R 9 212	R 9 764	R 10 314
6	Kuruman	R 11 442	R 10 795	R 10 240
7	Tzaneen	R 9 783	R 9 939	R 10 106
8	Claremont	R 9 315	R 9 265	R 9 276
9	Randpark Ridge	R 9 002	R 8 979	R 9 195
10	Musina	R 7 180	R 7 899	R 8 928



Figure 4: Top 10 towns
Source: PayProp



Month	Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	Northwest	Northern Cape	Western Cape
Mar-12	-6,35%	7,51%	11,68%	5,45%	10,06%	9,40%	-3,11%	2,88%	5,07%
Apr-12	-7,32%	8,81%	10,75%	5,78%	9,81%	10,24%	-1,23%	3,05%	4,80%
May-12	-6,69%	9,79%	8,69%	5,35%	9,11%	9,68%	-0,04%	3,54%	5,29%
Jun-12	-6,81%	9,08%	7,04%	5,39%	10,94%	8,78%	0,34%	4,01%	5,72%
Jul-12	-7,62%	9,21%	5,04%	5,19%	11,84%	7,83%	5,91%	5,03%	6,26%
Aug-12	-7,33%	9,45%	3,07%	4,30%	13,95%	7,78%	6,92%	6,94%	6,82%
Sep-12	-8,46%	10,65%	1,32%	4,21%	12,91%	6,05%	7,19%	7,81%	7,67%
Oct-12	-9,91%	11,72%	0,75%	4,92%	12,11%	10,76%	7,55%	8,45%	7,70%
Nov-12	-10,23%	13,00%	0,56%	6,35%	9,89%	10,48%	9,65%	10,44%	7,55%
Dec-12	-8,30%	12,84%	0,01%	7,37%	6,61%	10,06%	6,09%	12,49%	7,79%
Jan-13	-7,11%	11,55%	0,56%	9,49%	4,72%	9,00%	6,43%	12,11%	7,92%
Feb-13	-3,75%	10,83%	0,23%	10,33%	4,10%	4,14%	9,20%	12,98%	8,00%
Mar-13	-1,58%	8,79%	0,63%	10,48%	7,99%	4,39%	7,96%	14,00%	7,94%



Figure 5: Year-on-year provincial rental changes

Source: PayProp

Middle class rentals growing fast

A more detailed view of rentals shows that interest in the R2 500 – R5 000 price category has levelled off, while rentals in the R7 500 – R10 000 category have been expanding the fastest. The quarter has seen a slight decline in rentals exceeding R10 000. The R7 500 – R10 000 category shows promise for sustained growth at national level, with most stock currently being accessed in this range.

Yield recovery for investors

For this edition of the PayProp Rental Index, we used a revised dataset to calculate rental yield (annualised rental

income before costs, relative to average property value). Our initial yield assumptions were based on Stats SA-provided averages, but some data-delving within the wealth of PayProp transactional information has allowed us to develop a yield model based on the actual costs invoiced nationally within the various expense categories relating to a property.

When analysing actual property expenses incurred in levies, municipal rates and taxes, water and electricity and maintenance, an interesting picture emerges.

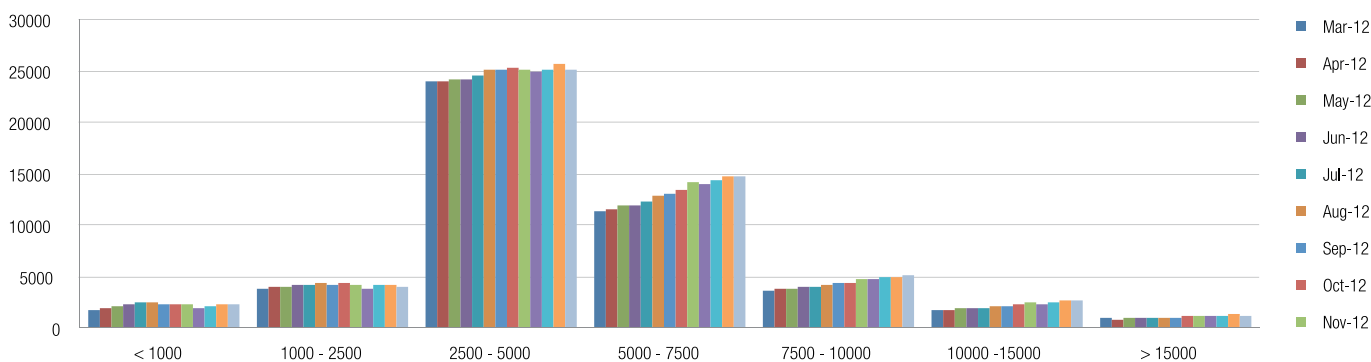


Figure 6: Number of rentals by price category

Source: PayProp



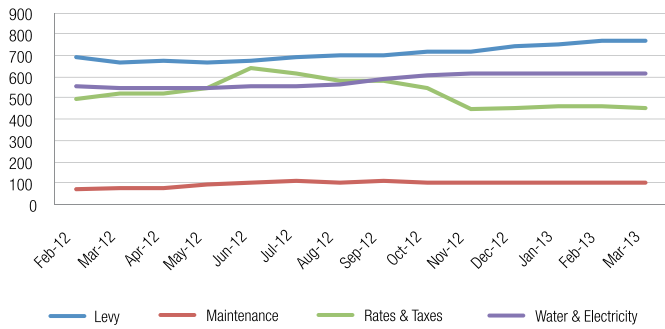


Figure 7: Auxiliary costs over time
Source: PayProp

As expected, the average cost of water and electricity invoiced and paid per property is steadily rising and mirroring nationally published increases. What has not been factored in before, however, is the increase in body corporate levies over the past year. This is significant because it is not only the highest auxiliary cost - currently averaging R764 per property, but also the fastest growing. Notably, we have seen a decline in rates and taxes paid by owners over the same period.

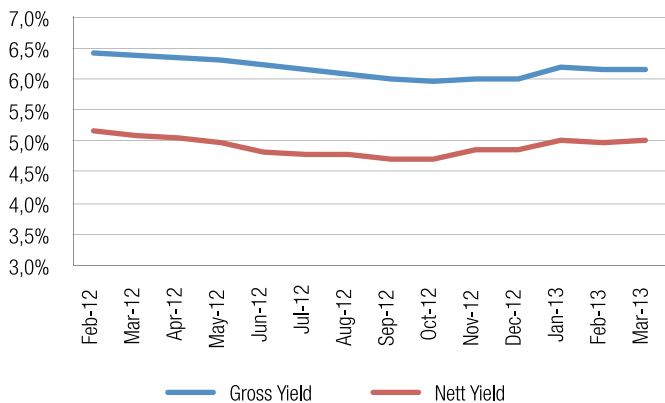


Figure 8: Rental yields
Source: PayProp

In building the revised rental yield model, we took the weighted national average rental received and subtracted the expense categories typically paid by owners, including the aforementioned categories and agent commissions. We continued to use ABSA's monthly house price index for a medium-sized house as a reference point for capital value.

When applying the above, the rental yield before costs is currently 6.2%. It has, however, stayed flat in this quarter. After costs, this figure drops to a net yield of 5% - the first time we've seen net rental yields exceed the 5% level in a year. The narrowing gap between gross and net returns is due to the fact that the cost categories experiencing the most dramatic growth (i.e. levies and water & electricity) are traditionally borne by the tenant. While this provides relief for the landlord, it could over time affect the tenant's ability to absorb higher rental increase levels.

The slowly-increasing yield potential of rental properties also seems to have started luring back buy-to-let investors. Over the past 18 months we have seen the average number of properties per owner increase from 1.34 to just below 1.4 in the last quarter. More important is the steady rise in the curve, which holds potentially good news for estate agents as this portion of the sales market returns.

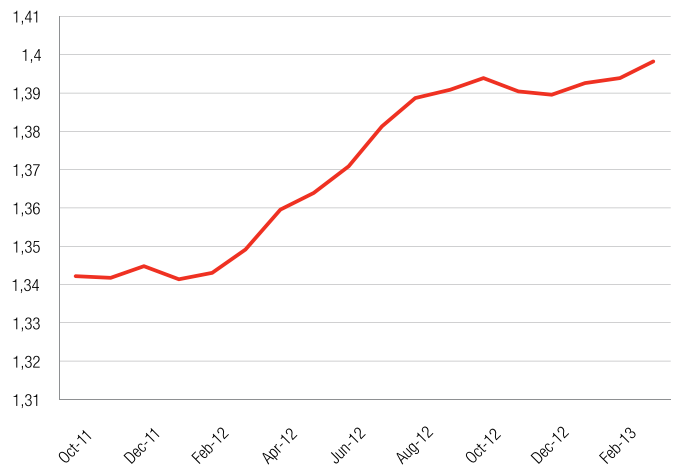


Figure 9: Average properties per owner
Source: PayProp



Province	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13
Eastern Cape	103%	99%	97%	108%	118%	114%	120%	113%	119%	127%	123%	122%	127%
Free State	94%	94%	96%	92%	88%	93%	96%	100%	98%	104%	98%	104%	105%
Gauteng	90%	95%	93%	91%	94%	94%	93%	93%	90%	102%	100%	103%	104%
KZN	93%	94%	98%	101%	100%	98%	103%	103%	107%	112%	114%	111%	115%
Limpopo	112%	112%	122%	120%	119%	101%	116%	127%	115%	117%	117%	123%	122%
Mpumalanga	103%	98%	100%	100%	103%	98%	103%	95%	98%	103%	101%	104%	108%
North West	89%	90%	93%	89%	80%	87%	84%	92%	101%	106%	96%	97%	100%
Northern Cape	86%	97%	90%	95%	98%	91%	99%	89%	96%	100%	101%	99%	98%
Western Cape	137%	142%	137%	141%	142%	145%	142%	141%	142%	142%	147%	146%	156%
National	114%	116%	114%	116%	118%	118%	118%	117%	118%	123%	123%	124%	129%

Figure 10: Damage deposits held as a percentage of rental invoiced
Source: PayProp

Damage deposit requirement continues to grow

Over the past year there has been a steady increase in the level of damage deposits held relative to the value of rentals invoiced. A year ago the national average ratio was 114% of rental value, while at the end of the first quarter the ratio stands at 1.29%. The increase is due to growth in deposits demanded in the Western Cape, Limpopo and the Eastern Cape. Gauteng deposit levels continue to languish just below the 1:1 ratio.

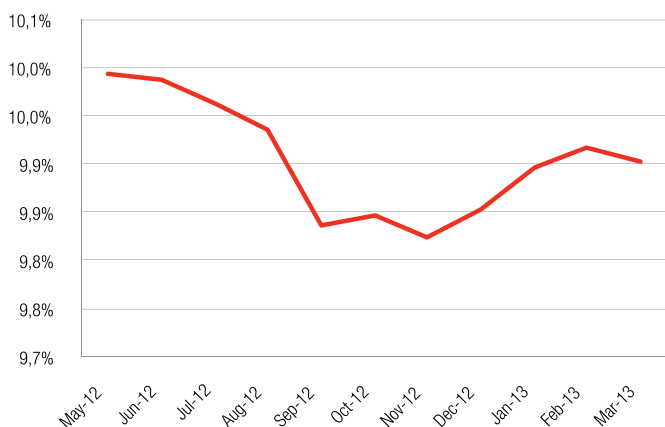


Figure 11: National average commission
Source: PayProp

Recovery in agent commissions

In our last PayProp Rental Index (October – December 2012), we expressed concern over the steadily declining level of agent commissions over time. We are delighted to note signs of a reversal of this trend as two of the three months in this quarter have shown increases in national commissions paid.

PayProp Rental Index just keeps getting bigger

As the largest and most trusted processor of residential letting transactions, PayProp is in the position of being able to publish the most authoritative source of rental information for the industry. PayProp's Rental Index does not rely on projections, samples or opinion, but rather uses the actual transactional data of more than 50 000 active rental properties on the system.



PayProp Rental Index

The PayProp Rental Index is a quarterly guide on trends in the South African residential rental market, and is compiled from actual transactional data collected by PayProp, the largest processor of residential letting transactions in South Africa. This edition details market conditions for the first quarter of 2013.

Contact details

This publication has been produced by PayProp South Africa. For enquiries, please contact:

Louw Liebenberg

CEO: Property Payment Solutions (Pty) Ltd

Email: louw@payprop.com

Telephone: 087 820 7368

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