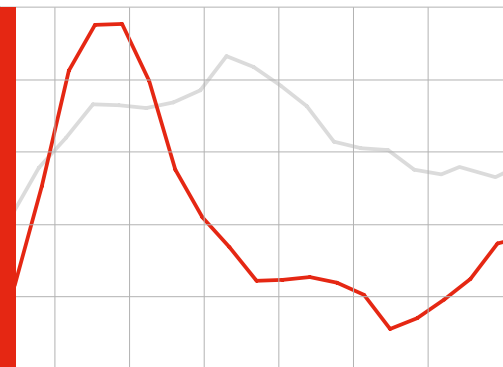


PAYPROP RENTAL INDEX

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



CONTINUED RECOVERY

The theme of the Q1 PayProp Rental Index was one of sustained recovery of a struggling residential letting sector, with the data showing that the first “green shoots” of rejuvenation of the previous quarter had continued.

The upward trend has now established itself firmly with a second consecutive quarter of growth. During this time the

national weighted average rental moved from R5 473 at the end of March to a new high of R5 641 at the end of June.

The true test of this trend will however only come in Q3 (results are due in October), as average rental values have been known to slump towards the latter half of the year.

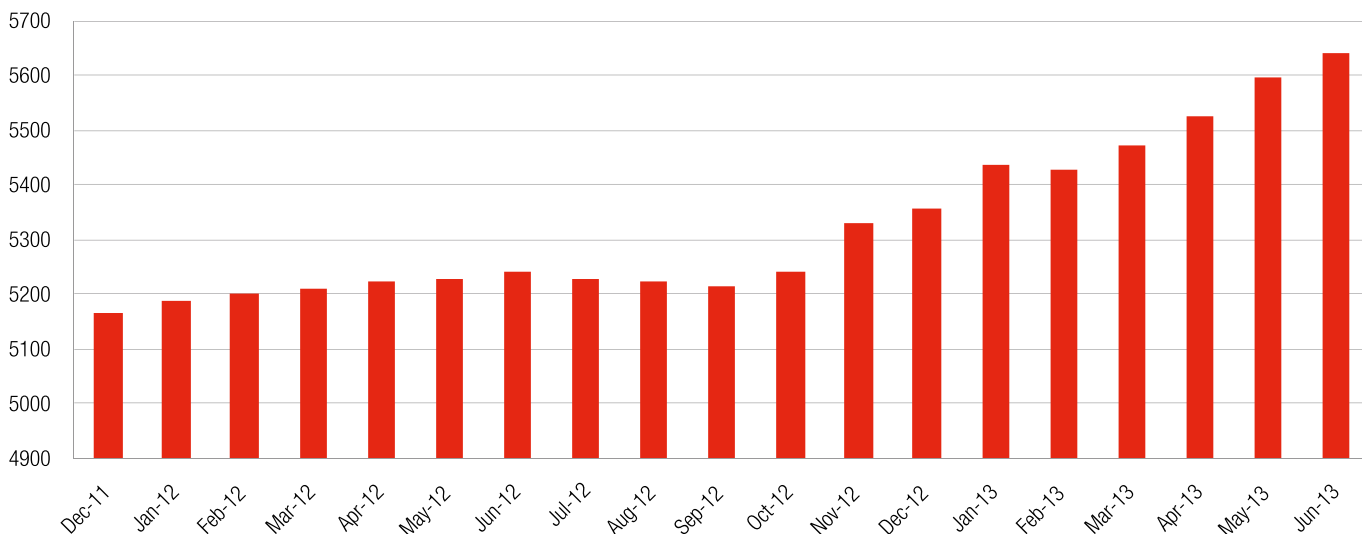


Figure 1: Weighted national average rental
Source: PayProp

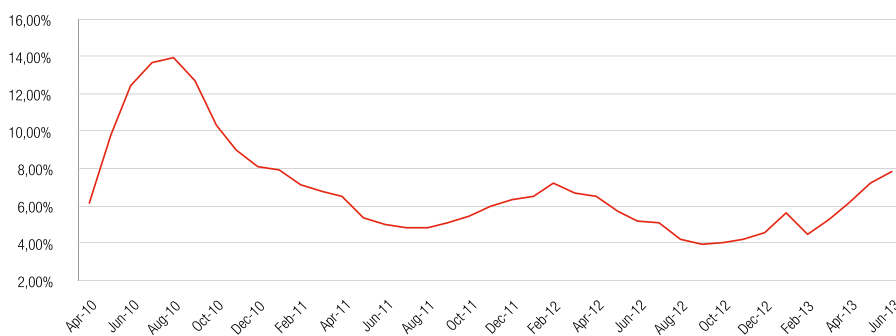


Figure 2: Year-on-year percentage change in rentals
Source: PayProp

The 7% ceiling

The year-on-year growth in rental values exceeded the 7% level for the first time in more than two years, reaching a current high of 7.82%. The last time the PayProp Rental Index showed an increase this high was in January 2011.

The highest growth rate ever recorded was 13.7% in July 2010, during the Soccer World Cup.



Provincial breakdown

As in previous quarters, national growth was driven by the trio of Limpopo, Mpumalanga and KZN. This time, however, we see a change in the top spot, with Limpopo overtaking Mpumalanga as the province with the highest average rental.

Mpumalanga's positional drop was presaged by growth rates slowing over time. Whereas the region regularly notched up year-on-year growth in excess of 10% in recent times, this started to plummet below the 5% level in January 2013, and has not recovered since.

Limpopo, on the other hand, has shown exactly the opposite trend, with growth rates simmering at the 5% level in February 2013 before jumping in successive increases to a high of 13.26% in June.

The growth in Northern Cape rentals remained high, with year-on-year rates above 10% for the past eight months. At

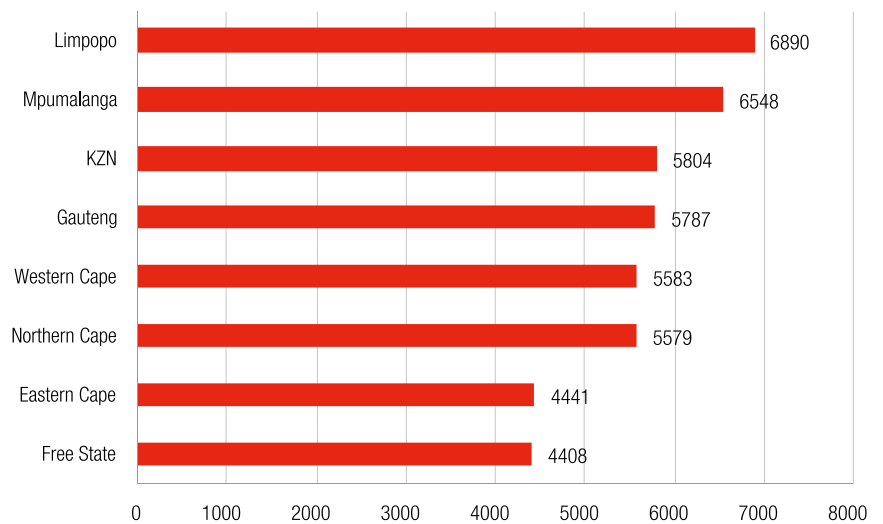


Figure 3: Provincial averages

Source: PayProp

this rate the province is likely to surpass the Western Cape in rental values by Q3. The Western Cape showed a steady return to healthy growth, picking up gradually from 6% a year ago to just over 9% at the latest reading.

The rate in Gauteng, while still well below 5%, also showed recovery, and even the Eastern Cape, which has been plagued by declining growth rates, moved into positive territory, albeit only at 0.8%. In fact, this is the first PayProp Rental Index in more than a year where all provinces are showing positive growth.

| Month | EasternCape | FreeState | Gauteng | KZN | Limpopo | Mpumalanga | Northwest | Northern Cape | Western Cape |
|--------|-------------|-----------|---------|--------|---------|------------|-----------|---------------|--------------|
| 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% |
| Apr-13 | -0,61% | 7,02% | 0,99% | 9,98% | 9,16% | 3,72% | 8,14% | 14,60% | 8,95% |
| May-13 | -0,13% | 6,59% | 2,74% | 10,32% | 12,26% | 3,54% | 7,67% | 14,39% | 9,02% |
| Jun-13 | 0,81% | 6,41% | 3,18% | 11,19% | 13,26% | 4,03% | 7,76% | 15,48% | 9,37% |



Figure 4: Year-on-year provincial rental changes

Source: PayProp



Top towns

This is the first time since the inception of the PayProp Rental Index that Lephalale did not achieve the highest average rental in the country. In the course of the period under review it slipped to third spot, with Umhlanga Rocks jumping to top spot, followed by Musina. The Western Cape has a solid representation with the traditionally affluent areas of Hout Bay, Sea Point and Green Point taking up three of the top 10 spots.

| Position | Town | Apr-13 | May-13 | Jun-13 |
|----------|----------------|----------|----------|----------|
| 1 | Umhlanga Rocks | R 11 175 | R 11 529 | R 14 922 |
| 2 | Musina | R 11 577 | R 13 628 | R 14 862 |
| 3 | Lephalale | R 15 106 | R 15 153 | R 14 303 |
| 4 | Bryanston | R 12 959 | R 12 858 | R 13 031 |
| 5 | Hout Bay | R 11 059 | R 12 450 | R 12 938 |
| 6 | Sea Point | R 12 682 | R 11 438 | R 12 618 |
| 7 | Green Point | R 11 794 | R 11 805 | R 12 067 |
| 8 | Tzaneen | R 10 801 | R 10 763 | R 11 188 |
| 9 | Nahoon | R 8 733 | R 9 035 | R 9 067 |



Figure 5: Top 10 towns

Source: PayProp

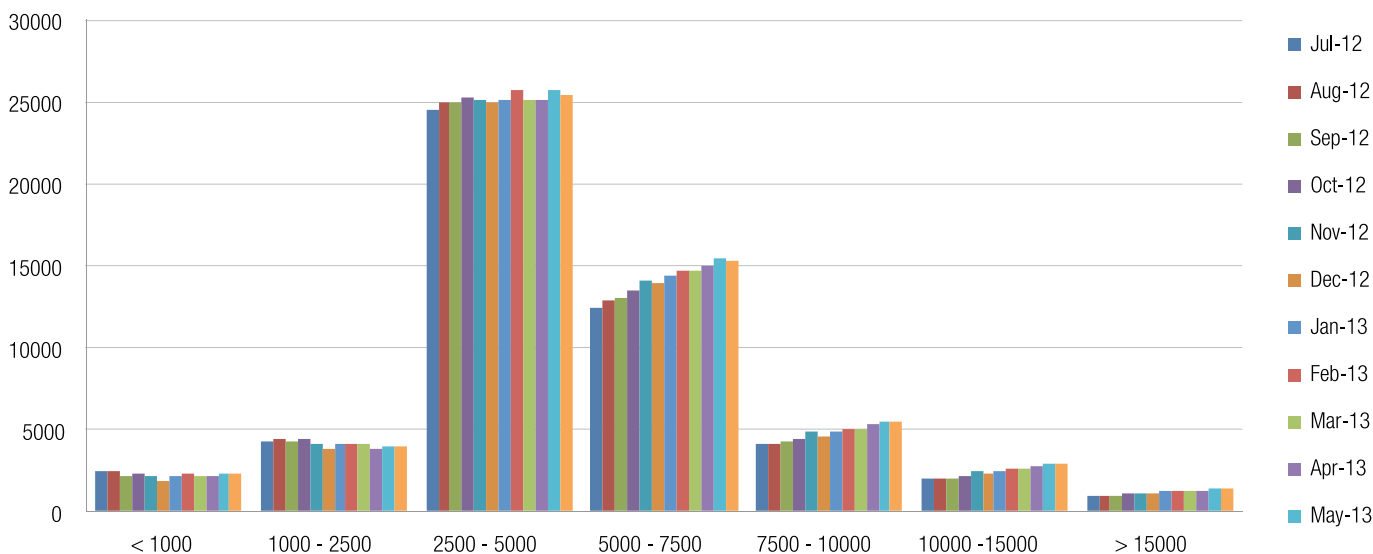


Figure 6: Number of rentals by price category

Source: PayProp

Middle class strength

The R5 000 – R7 500 price category continued to show steady gains, taken mainly from the lower price bands. Despite this, the dominant rental range remained between R2 500 and R5 000, currently accounting for 60% of all active rental contracts on PayProp. The R5 000 to R7 500 price band contribution has grown from 23% in October 2011 to 36% in June 2013.

Yield recovery for investors

In Q1 this year we introduced a revised yield calculation. With the benefit of a significantly longer date range this time around, our initial findings have been confirmed – growing auxiliary costs are putting pressure on net yields for landlords.

When analysing the various cost components we further see a continued rise in levy fees. In fact, the average year-on-year increase for levies this quarter was 15% nationally, which is higher than the 14% rise in water and electricity. Gross yields recorded a slight increase from the previous high of 6.2%, to 6.3%, while net yields also remained fairly stable at 5.1%.



The spread between the two yield figures also remained constant, meaning that whatever gains accrued to landlords as a result of increased rentals were negated by a commensurate increase in the costs of owning and maintaining a rental property.

The growth in net yields, although slow, has been fairly constant over the past 12 months. It may be this stabilisation in yields that is responsible to the slow return of buy-to-let investors. As with the previous index, Q2 marked a slow climb in the average number of properties owned by single investors – from just over 1.3 to a little over 1.4. While small, the uptick confirms the general trend of a steady return of buyers – an important indicator to the real estate industry.

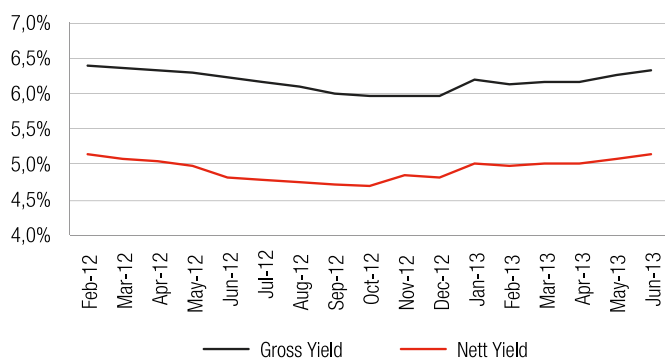


Figure 8: Rental yields
Source: PayProp

Damage deposits

The average quantum of damage deposits relative to rentals invoiced is steadily increasing. In June 2013 this number reached its highest point over the past 12 months at 1.3 times the average rental.

It is important to note that this trend is highly regionally-driven. Three provinces are driving this number upwards, namely the Western Cape (1.54), the Eastern Cape (1.26) and Limpopo (1.22). In the remaining provinces, the norm is a month's rental.

A deposit equal to a single month's rent may make the landlord feel secure, but once the auxiliary costs for which the landlord could be liable are factored in, the picture changes somewhat.

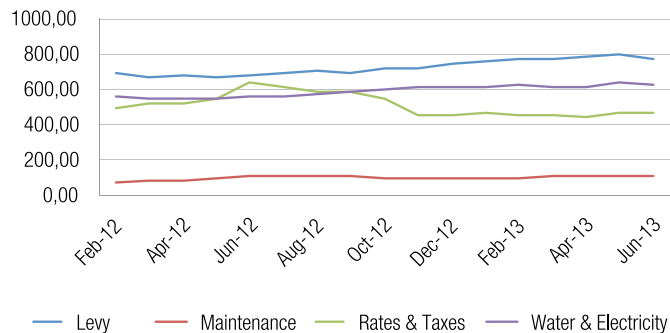


Figure 7: Auxiliary costs over time
Source: PayProp

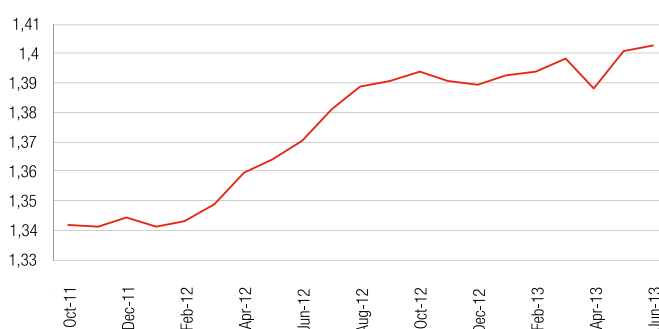


Figure 9: Average properties per owner
Source: PayProp

Analysis of PayProp data shows the average annual spend on rental property maintenance is R1 244, and the average monthly municipal bill around R650. Should the landlord only hold one month's rent as deposit and the tenant neglect to pay the last month's rent (averaged at R5 600), the owner will therefore face a loss of more than R7 500 for the final month. This has the potential to drop the owner's net yield by almost a full percentage point, to 4.3%.

It is this type of scenario that led PayProp to create the DepositGuarantee, an insurance policy against rental losses that provides landlords with cover of up to 2.5 times the monthly rent at affordable rates to the tenant.



| Province | Jul-12 | Aug-12 | Sep-12 | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Eastern Cape | 118% | 114% | 120% | 113% | 119% | 127% | 123% | 122% | 127% | 124% | 125% | 126% |
| Free State | 88% | 93% | 96% | 100% | 98% | 104% | 98% | 104% | 105% | 104% | 104% | 106% |
| Gauteng | 94% | 94% | 93% | 93% | 90% | 102% | 100% | 103% | 104% | 103% | 100% | 110% |
| KZN | 100% | 98% | 103% | 103% | 107% | 112% | 114% | 111% | 115% | 106% | 108% | 112% |
| Limpopo | 119% | 101% | 116% | 127% | 115% | 117% | 117% | 123% | 122% | 129% | 126% | 122% |
| Mpumalanga | 103% | 98% | 103% | 95% | 98% | 103% | 101% | 104% | 108% | 99% | 103% | 112% |
| North West | 80% | 87% | 84% | 92% | 101% | 106% | 96% | 97% | 100% | 102% | 102% | 103% |
| Northern Cape | 98% | 91% | 99% | 89% | 96% | 100% | 101% | 99% | 98% | 93% | 95% | 100% |
| Western Cape | 142% | 145% | 142% | 141% | 142% | 142% | 147% | 146% | 156% | 148% | 148% | 154% |
| Grand Total | 118% | 118% | 118% | 117% | 118% | 123% | 123% | 124% | 129% | 124% | 124% | 130% |



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

Source: PayProp

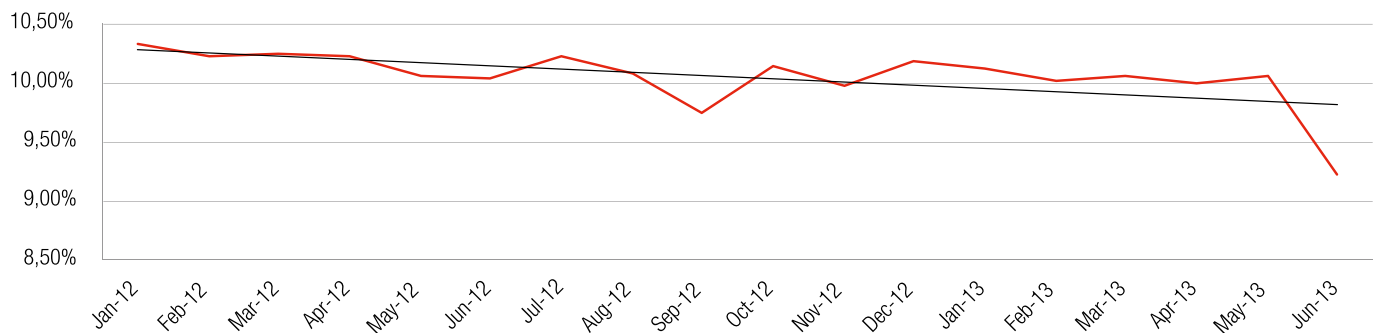


Figure 11: Average agent commissions

Source: PayProp

Recovery in agent commissions

The agent commission graph appears to show a shocking downward trend at the end of June, but the dip is artificial, as the month ended over a weekend and most agents only extracted their commissions in the beginning of the new month. If a manual correction is made, commission percentage levels would remain just above the 10% level, where it has been the past few months.

The rise and rise of the PayProp Rental Index

As the largest and most trusted processor of residential letting transactions, PayProp is the country's most authoritative source of rental information. PayProp's Rental Index does not rely on projections, samples or opinion, but uses actual transactional data of close to 60 000 active rental properties on our 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 second quarter of 2013.

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