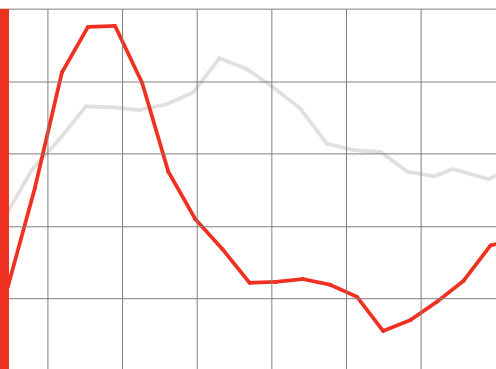


PAYPROP RENTAL INDEX

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



SLOWER GROWTH, HIGHER INFLATION

Tough economic climate takes its toll on homeowners, with renting becoming an increasingly attractive option, index shows

TOUGH economic times are forcing more homeowners to sell their houses and opt for renting instead, as consumers continue battling to “keep the home fires burning”, according to the latest PayProp Rental Index report.

Rental Growth

With about 15% of the population depending at least in part on rental income, their earning potential for the immediate future is looking strained as annual growth in rental income measured lower in June than it's been in two years, at 4.9%. Moreover, this is below the projected inflation rate of around 6%.

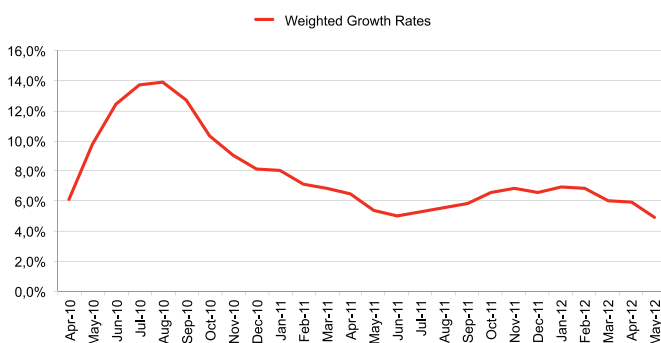


Figure 1 Weighted rental growth rates

Estimated Rental Market Size

According to Mike Schüssler, chief economist at economists.co.za, most developing economies are

propped up by low interest rates, and these are unlikely to rise anytime soon – perhaps not even until 2014. “Very low interest rates seem to be keeping the world going at present,” he said.

In South Africa, Treasury expects inflation to rise to 6,2% and gross domestic product (GDP) growth to slow to 2,7%, but Mr Schüssler projects an inflation figure of about 6% and GDP growth of 2,4%.

“We expect interest rates to stay low for the whole year. The country is fighting a hard battle against a possible recession. We are likely to win, but at a higher debt cost,” he said.

According to his market estimates, more than 2,9 million households rent, of which 1,6 million rent formal structures. Of this number, about 700 000 households rent properties in the formal (suburban) market, up from 675 000 in 2010. And of these, just over 50 000 properties are listed on PayProp with active rental contracts, and a further 15 000 properties without active rentals being processed.

More than 62% of all South African households currently own their lodgings, but this percentage has dropped in the past few years, and is significantly lower than earlier in the decade, when it was around 70%. This indicates that more and more former homeowners are now entering the rental market.



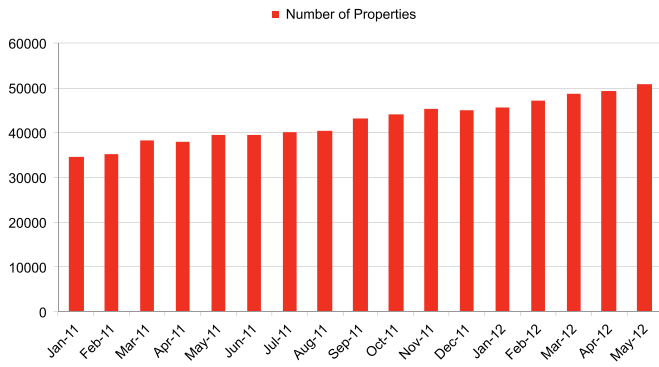


Figure 2 Number of rental contracts on PayProp

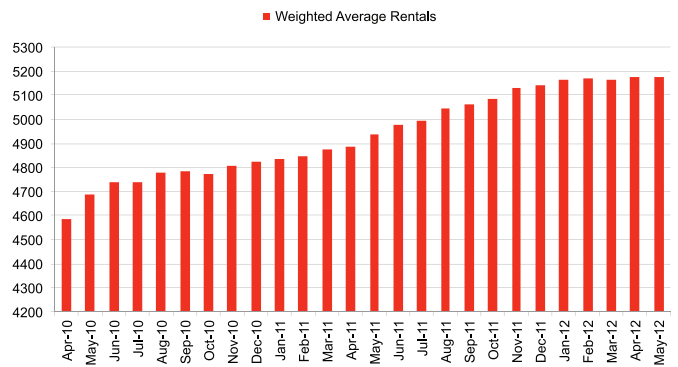


Figure 3 Weighted average national rental

National Averages

But both sides have it tough. As tenants struggle to cope with increasing fuel, electricity and services costs, this puts pressure on landlords to limit rent increases to below inflation to protect rental income – which is not necessarily a luxury.

According to PayProp, the nationwide average rental for June was R5178 per month – which is slightly more than the February figure of R5172. When using that figure to calculate the gross return on a medium house (at Absa's medium price of R968 600), the result is 6.42%.

When using Absa's average small house price (currently R666 900), the answer is 9,32% - putting the average gross rental return between medium and small houses at 7,6%. This average drops to under 6,3% when estimated municipal charges and other minor costs are taken into account.

According to Schüssler, this is at least a little higher than leaving money in the bank. Moreover, rents do improve slowly over time, and one could also get a capital gain.

Provincial Averages

When analysed by province, Limpopo, Mpumalanga and the Northern Cape seem to have driven rental increases between the first two quarters of 2012.

Mpumalanga still leads the rental market, with a year-on-year increase of 9,6%. Limpopo comes in second with 8,9% and Gauteng third with 8,8%. KwaZulu-Natal follows with 6%, followed by the Northern Cape with 4,3% and the Western Cape with 3,3%. The Eastern Cape and North West provinces have again shown negative growth, with declines of 2,1% and 2,3% respectively, the index showed.

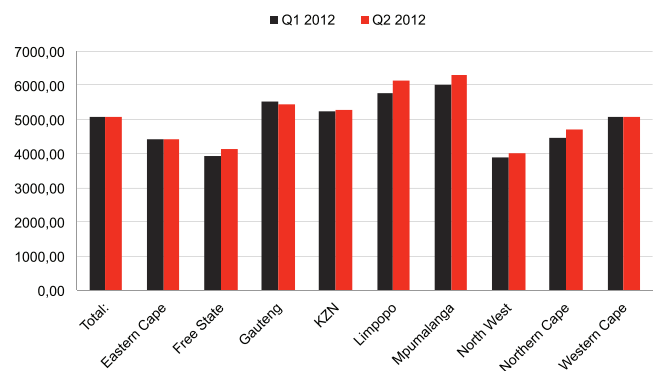


Figure 4 Provincial average rentals per quarter



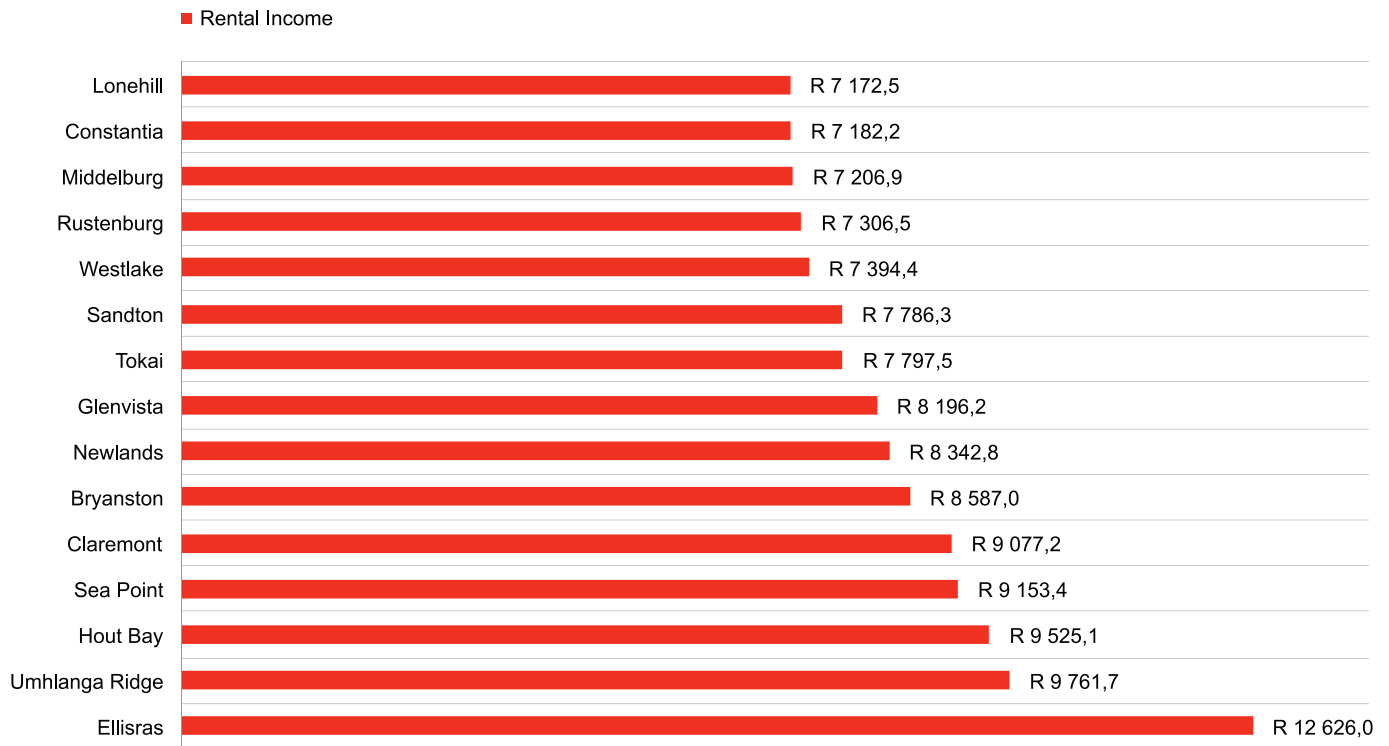


Figure 5 Average rentals by town over the past 9 months

Top Performing Towns

The top 15 towns driving these market dynamics are shown in the chart above. A nine-month averaged rental figure has been used to generate a stable view that eliminates month on month fluctuations.

Ellisras remains the leading town, followed by what would traditionally be considered luxury neighbourhoods.

Rental Price Categories

There is, however, an underlying dynamic in the area of high-end rentals above R15 000 – here, rentals have been declining dramatically over the past nine months, possibly pointing to some strain in obtaining market-related rentals. On the other hand, the lower price segments seem to have gained some momentum, which is in line with the general trend of affordability within the market.

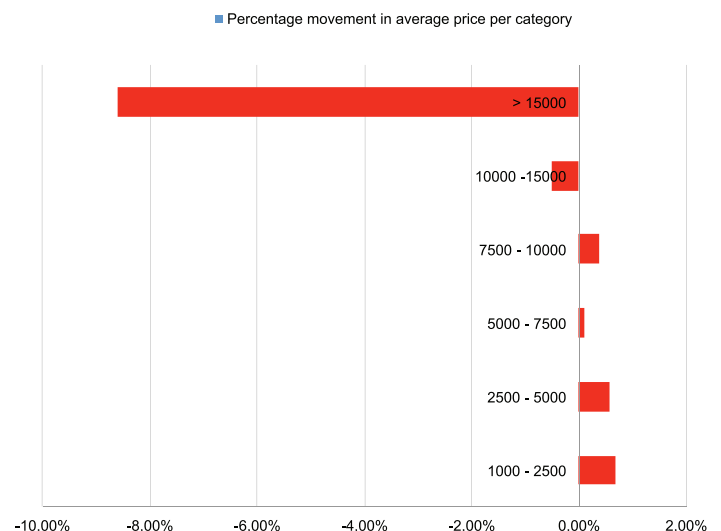


Figure 6 Movement in price categories

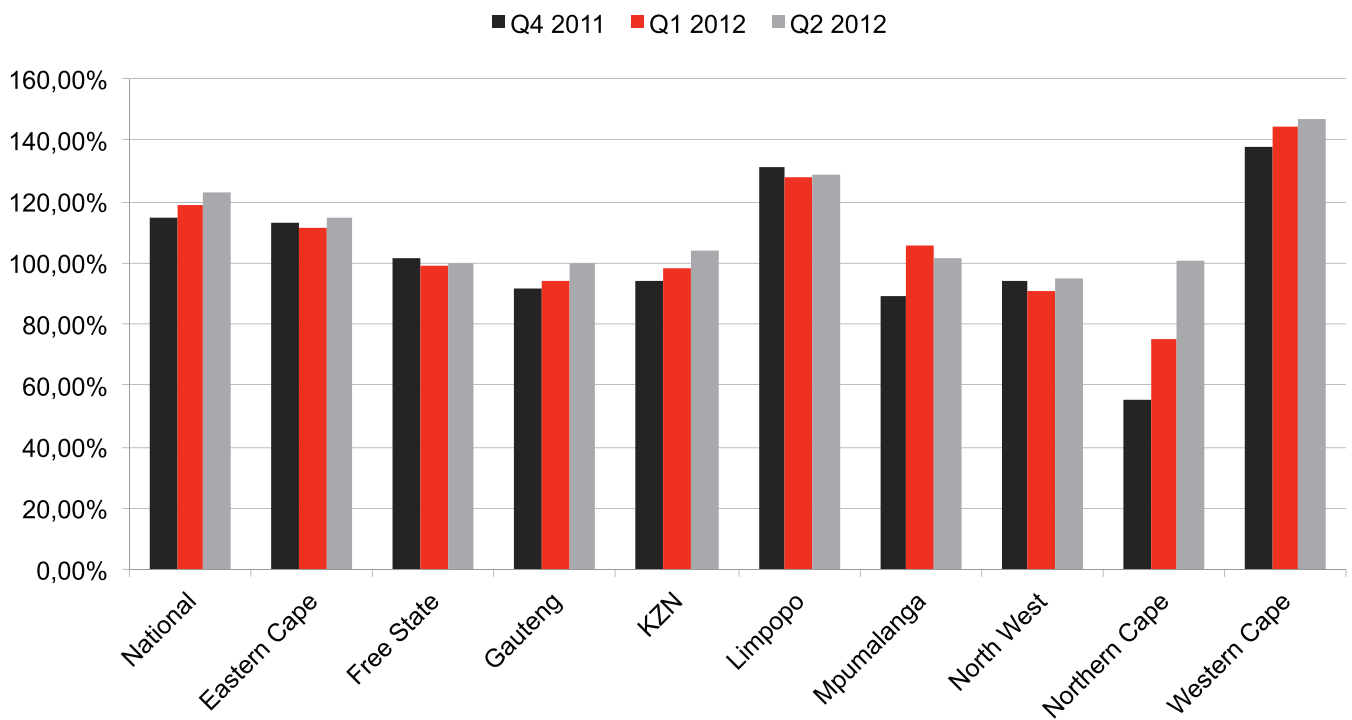


Figure 7 Deposits held as percentage of rental invoiced

Damage Deposits

We have seen a steady increase in the ratio of deposits held to rental invoiced. Currently the national ratio is 122%, up from 114% two quarters ago. The Free State is still lagging behind the rest of the provinces, with not only a

lower than average ratio of 99%, but one that has declined from previous indexes. Coupled with the province's lower than average rentals, it paints a picture of affordability being the dominant driving factor of performance.

PayProp Rental Index

The PayProp Rental Index is a quarterly guide on trends in the South African residential rental market, and is compiled in partnership with Mike Schüssler, one of South Africa's leading economists. This edition details market conditions for the second quarter of 2012 based on information collected from the PayProp database.

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