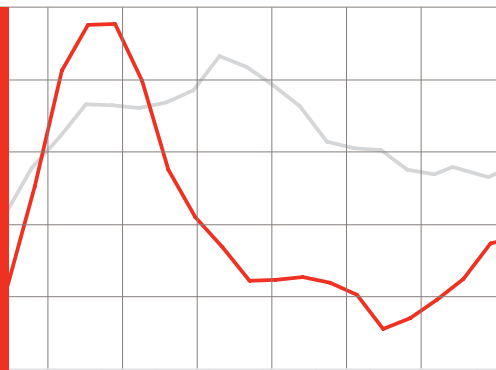


# PAYPROP RENTAL INDEX

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



# PayProp Rental Index Quarterly

## EARLY SIGNS OF RECOVERY

After a few months of flat growth, the residential rental market is starting to show signs of recovery.

The pace at which the national average rental increases, has been slowing steadily since February 2012, when the PayProp Rental Index pegged it at a 12-month high of 7%.

But there's cause for optimism as the latest PayProp Rental Index shows some 'green shoots' of recovery. The national figure of 4.5%, although still below inflation, is a substantial improvement on the 3.9% recorded in September - the lowest growth level since the launch of the index.

While the increase has been buoyed partly by increases in rents in the coastal provinces over the festive season, the trend started as early as November - pointing to a possible longer-term recovery.

The weighted average national rental now stands at R5 357. It has been above the R5 300 threshold since November 2012, and represents an increase of R231 above the R5 126 recorded for the same period in 2011.

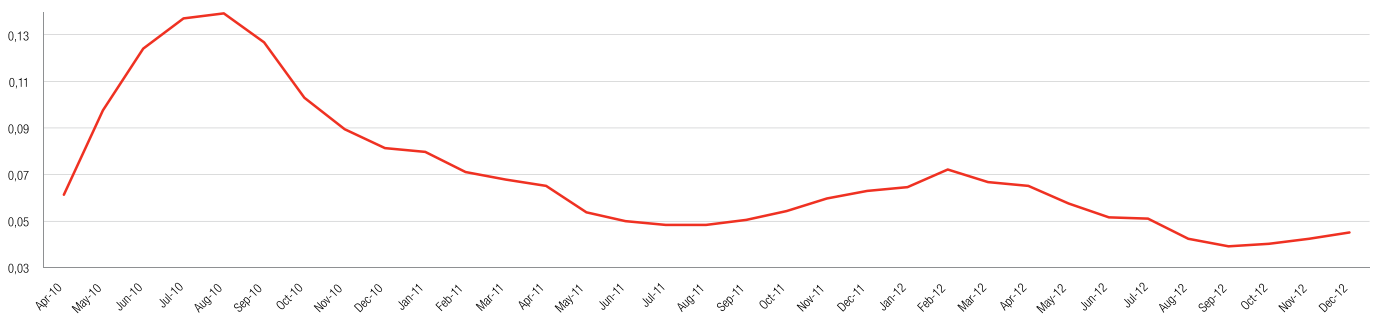


Figure 1: Percentage change in rents on a year ago basis.

Source: PayProp and Economists.co.za

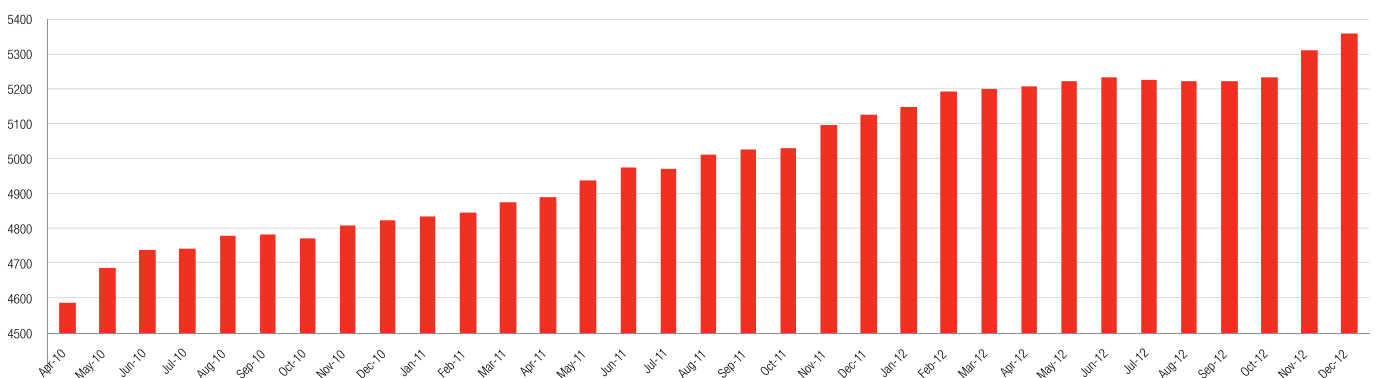


Figure 2: South Africa weighted average.

Source: PayProp and Economists.co.za



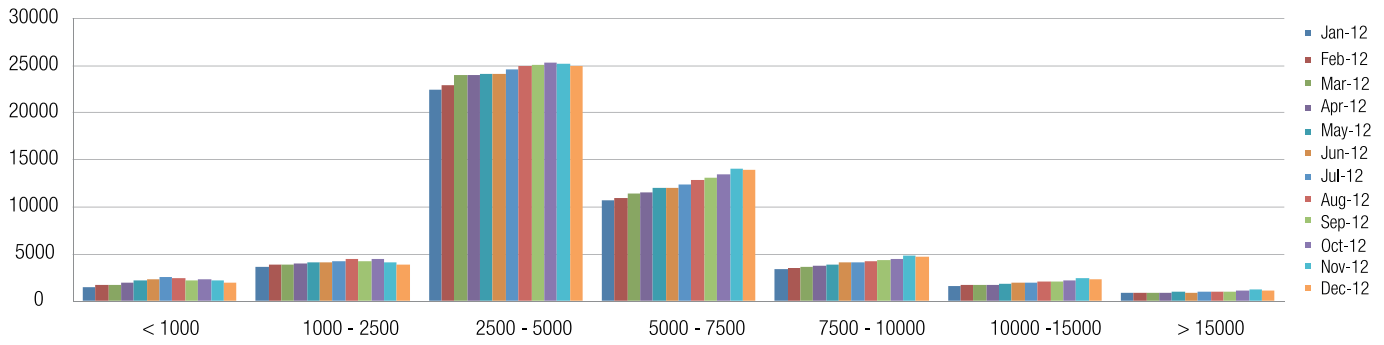


Figure 3: Number of rentals per price category  
Source: PayProp and Economists.co.za

## Rentals by price band

To better understand how we arrive at the average rental value, it is interesting to note the weighting of different price bands within the pool of 54 000 active rentals on the PayProp system used in the index. The largest contributing price band – the one within which most rentals fall – is the R2 500 – R5 000 range, followed by the R5 000 – R7 500 category.

While things have remained fairly stable over the past year, we are starting to see a slight decline in the R2 500 – R5 000 level, which is being picked up by the R5 000 – R7 500 price band. This migration is the single most important driver behind the increase of rentals above the R5 300 level.

## Rental yields stabilise

Using ABSA-determined medium-sized house prices, PayProp has developed a Gross Rental Yield Index (annualised rental income before costs, relative to average property value). The gross return yield has remained stable at 6.0% for the month of December. While these gross yields have remained in the 6.0 – 6.4% band for most of the past two years, our previous index (Q3) indicated a downward trend – from a high of 6.4% in March 2012 to a low of 5.9% in October 2012.

The last two months of 2012 thus indicate a welcome stabilisation of returns, indicating that rental income is increasing marginally faster than the growth in average house prices.

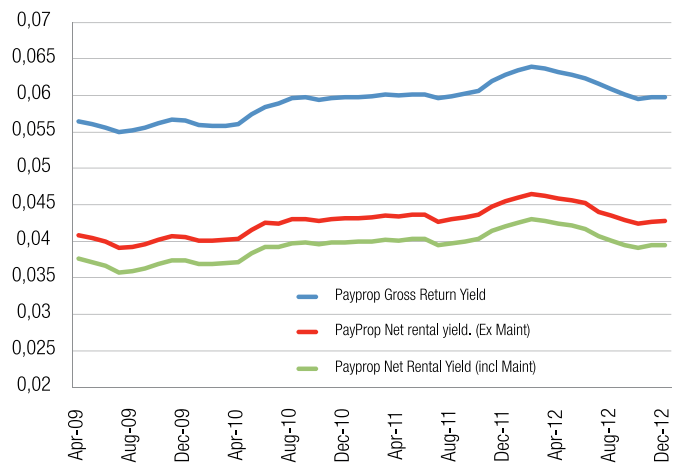


Figure 4: Rental yields  
Source: PayProp and Economists.co.za

However, gross yields ignore the impact of costs such as property rates, refuse collection and so forth, which the landlord is typically liable for. To arrive at a more accurate yield figure, PayProp calculates net yields by deducting weighted values for these expenses from the gross yield.

For the three months to December, estimated expenses on an average property came in at R1 513 per month - up 1.7% from the R1 488 recorded in the previous quarter. This means that after deductions, the average landlord



receives R3 787 in income from his property before any maintenance costs.

If maintenance costs are further taken into account, the average landlord retains R3 552 of the average rental received, or 66.3% of the full amount. Within the context of other investment avenues, an investment property provides a landlord with a net return of 4% - which is still marginally above what cash in the bank will earn. Another consideration is that the return excludes capital appreciation on the property, which provides additional earning potential in the long term.

## Provincial data

### Mpumalanga still in the lead

Mpumalanga is still ahead of the other provinces in average rental levels. Considering that rentals in the province are still showing the third-fastest growth rate overall, this state of affairs will likely persist for a while yet. Limpopo still comes in second, with R6 038, but its growth rate (although still well above the national average), has slowed down to 6.6%. KZN, by contrast, has picked up the pace, with average rentals increasing by 7.4%. In the process the province has taken third spot from Gauteng, where rentals have stayed relatively flat at R5 494 per month.

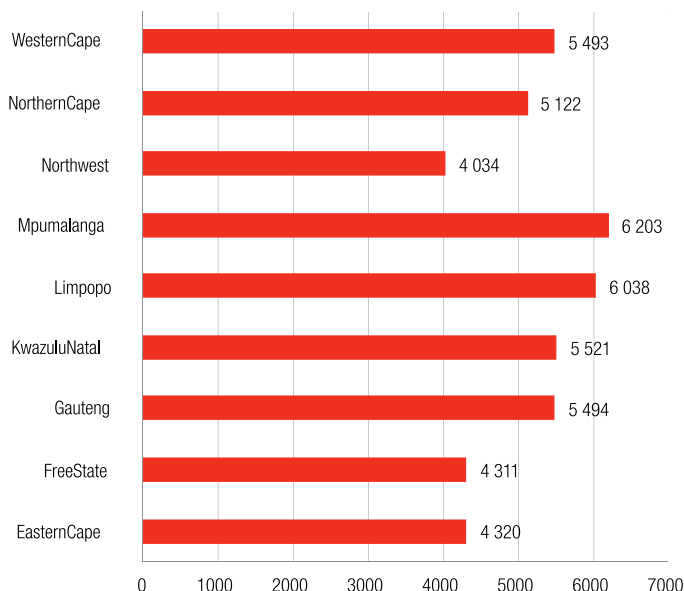


Figure 4: Provincial rentals  
Source: PayProp and Economists.co.za

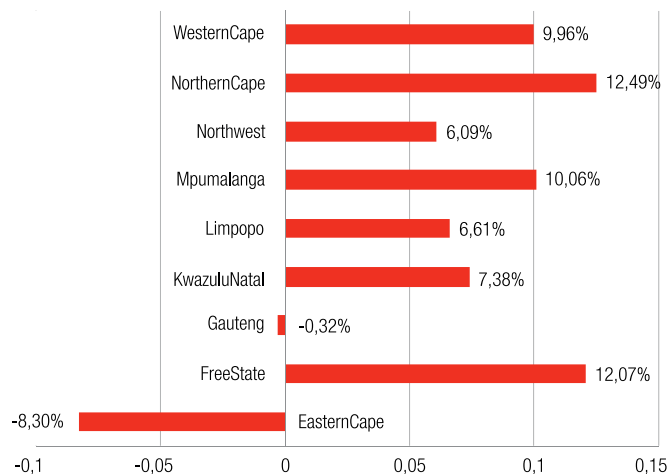


Figure 5: Percentage provincial change  
Source: PayProp and Economists.co.za

### Free State recovery and Eastern Cape decline

While its rental value is still relatively low at R4 311, the Free State is showing promise as it continues to grow faster than most other provinces. A 12.1% growth rate has been recorded for the province - up from the third quarter, when it was 10.8%.

The Eastern Cape, on the other hand, registered a 8.3% decline, which is slightly lower than the 8.5% decline of the previous quarter. While in real terms average Eastern Cape rentals are still above those of the Free State and Northwest, it is likely that by the next quarter the Free State will have overtaken it.

“  
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RETURN OF 4%  
”



## Agent commission data

Because PayProp records all financial transactions associated with a rental property, we can extract data on the average commissions earned by rental agents. Our Q3 report showed a worrying trend in declining commissions over time. We are pleased to see that this trend has been reversed in the last quarter, with commissions ending at 9.93% after an all-time low in September of 9.7%. Overall, however, the long-term trend is downward from a high of 10.05% in October 2011.

An explanation for this may be found in the results of a recent telephone-based survey conducted by PayProp, which showed the percentage of estate agents managing rental portfolios has increased to 55% from just below 50% a year ago. As more agents enter the rental industry, increased competition has encouraged many to reduce their commission in order to protect and grow their share of the market. This typically points to a market dynamic where the number of players in the market is growing faster than the market itself.

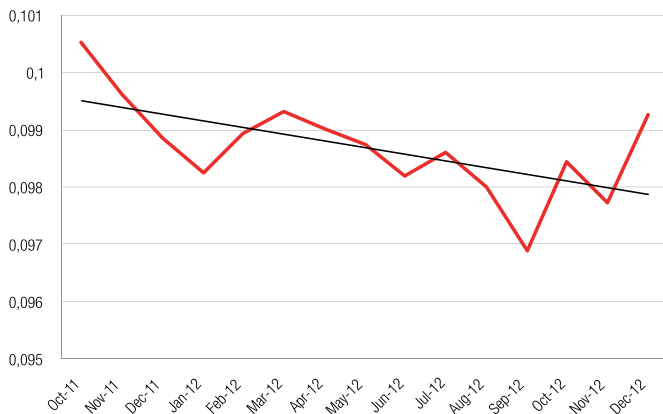


Figure 6: National Commissions  
Source: PayProp

## Provincial commissions

On a provincial scale, KZN agents still extract higher commissions from owners than in the rest of the country. They are closely followed by the Western Cape and Gauteng, which both show commission rates above the national average - an indication that in the three metro hubs agents have not had to discount their fees at the same rate as other areas to attract more landlords.

Province	3 month Average
Eastern Cape	9,13%
Free State	7,86%
Gauteng	9,81%
KZN	11,26%
Limpopo	9,80%
Mpumalanga	9,15%
North West	9,26%
Northern Cape	8,65%
Western Cape	10,13%
Grand Total	9,93%



Figure 7: Percentage commission charged by province  
Source: PayProp



% Deposits held	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
National	117,0%	118,7%	119,1%	119,5%	118,5%	120,1%	126,7%
Eastern Cape	109,3%	120,0%	115,1%	121,7%	114,6%	120,9%	130,0%
Free State	93,6%	89,1%	94,5%	97,4%	101,9%	100,4%	107,2%
Gauteng	92,0%	95,0%	94,8%	94,6%	94,6%	92,2%	105,1%
KZN	101,6%	101,3%	99,5%	104,7%	104,4%	109,2%	114,0%
Limpopo	119,5%	119,0%	100,8%	116,4%	127,0%	115,5%	117,6%
Mpumalanga	100,5%	103,6%	99,9%	108,8%	99,2%	102,9%	108,8%
Namibia	101,2%	98,0%	105,8%	107,0%	102,1%	102,4%	110,8%
North West	89,4%	80,5%	87,5%	84,6%	93,1%	102,4%	107,7%
Northern Cape	96,9%	99,1%	92,4%	100,1%	89,9%	97,0%	103,2%
Western Cape	142,5%	144,1%	146,4%	143,9%	142,2%	145,4%	146,6%



Figure 8: Damage deposits held as a percentage of rental invoiced

Source: PayProp

## Damage deposits

Damage deposit levels relative to rental values invoiced continue to grow. This ratio has been largely driven by increases in the Western Cape, where agents are able to extract 146.6% of the rental value as a deposit. On a national basis the current figure of 126.7% is the highest that the PayProp Rental Index has yet recorded.

The table shows that many landlords have inadequate protection against rental losses. In most provinces, the average damage deposit is marginally above one month's rental amount, leaving many landlords exposed to significant rental losses, especially if the tenant skips the last month's rent.

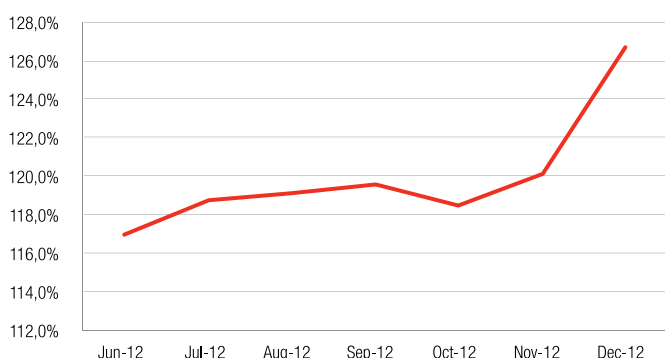


Figure 9: Damage deposit levels

Source: PayProp

## Deposit Guarantee

In view of this, PayProp has introduced a new feature on the PayProp platform, offering landlords comprehensive protection against rental losses by replacing the damage deposit arrangement with an insurance solution that is underwritten by RMB Structured Insurance. Called PayProp Deposit Guarantee, landlords receive rental protection of up to 2.5 times the value of the monthly rent, and tenants pay reduced policy premiums rather than the higher amounts of a damage deposit.

The policy is designed to give protection for up to one month's unpaid rental, as well as any other outstanding contractual liabilities of the tenant (such as the costs to repair damages to the property, utility costs, legal fees etc.) – up to the 2.5 times monthly rental value limit.



# 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 fourth quarter of 2012 based on information collected from the PayProp database.

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The PayProp Rental Index is available from the PayProp web site at [www.payprop.com](http://www.payprop.com).

## Sign up for PayProp

If you would like to know more about using PayProp to manage your rental portfolio, please visit [www.payprop.com](http://www.payprop.com).

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