

PayProp Rental Index

Q3 2014

The only comprehensive report on the state of the residential rental market in South Africa

JULY – SEPTEMBER 2014

Remodelled PayProp Rental Index gets thumbs up from Stats SA

The PayProp Rental Index, published by PayProp since December 2011, has gained a serious following in its three short years of tracking residential letting trends in South Africa.

In the early days, well-known economist Mike Schüssler helped us gain a foundational understanding of how to analyse the masses of data that we collect each year to compile the Index. As the largest processor of residential letting transactions in the country, PayProp automates more than 2 million trust account transactions annually – and it is these transactional values that inform the PayProp Rental Index.

With this excellent basis, the Index became a valuable source of information to the industry over time, also attracting the attention of a number of high-profile organisations. One of these is the august Statistics SA, which will start using PayProp Rental Index data from this month onwards as a reliable indicator of the major trends concerning one of the largest expense categories of normal households.

As part of ensuring that our data set meets Stats SA's strict criteria, we have taken additional advice on how to improve the way we interpret and analyse our data.

The result, we're happy to announce, is a new and much more robust data set that we're extremely excited about having – and, of course, sharing! Along with the remodelling of the Index, we have re-drawn all data – from day one – and re-analysed everything from scratch.

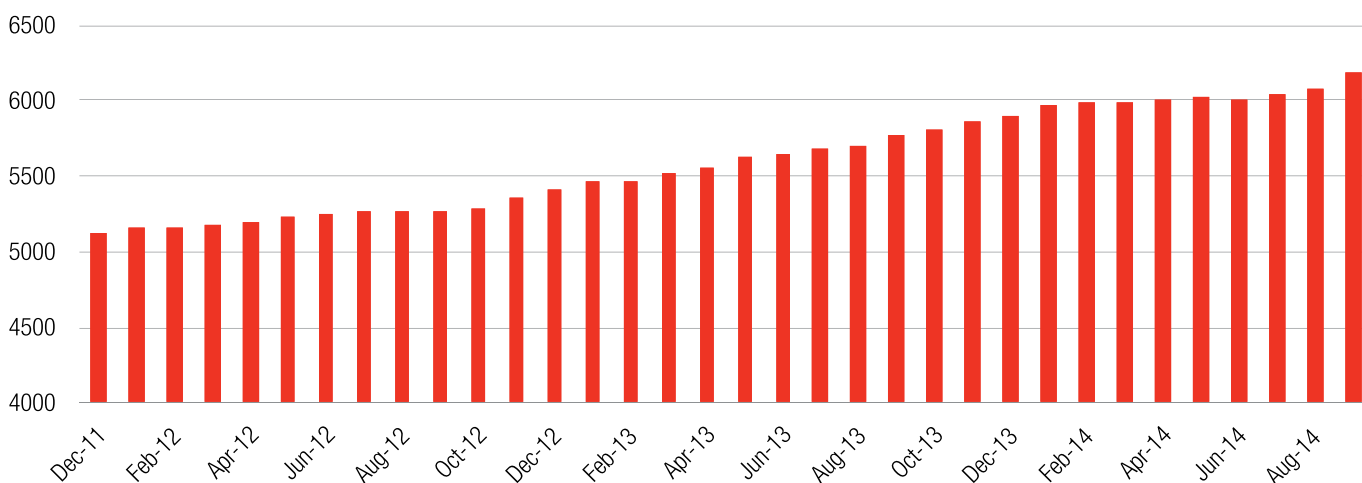
The result is marginal changes to some of the numbers and some interesting new data dimensions that we were not able to track previously. Enjoy!

A brief dip outside the bracket

The weighted average national rental is currently R6 192, and has been above the R6 000 mark for six months.

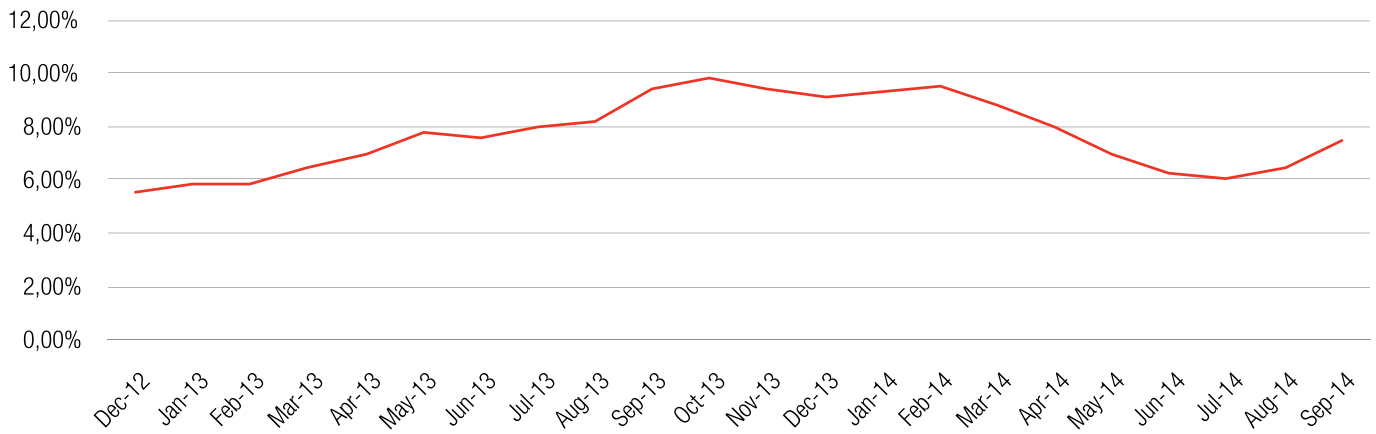
Of additional note here is the rate at which rentals are growing – and our prediction at the beginning of the year that this would stay within the 8% - 10% bracket. For the most part, this has held true, with some deviation in the period between May and August 2014, when it dipped briefly to between 6% and 7%. At the end of the current quarter, this figure bounced back to 7.5%, and we expect it to be back above the 8% bracket by the end of the next quarter.

“The weighted average national rental is currently R6 192, and has been above the R6 000 mark for six months.”



Weighted national average rental

Source: PayProp



Year-on-year growth in rentals
Source: PayProp

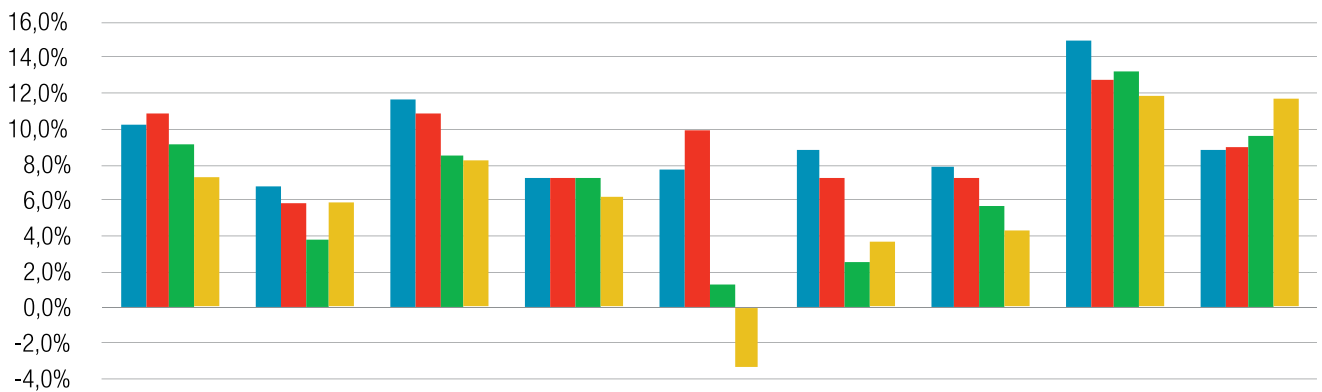
Limpopo falls back and Northern Cape rentals rocket

In the previous PayProp Rental Index we noted the slow-down in the growth of rental values in Limpopo. When we launched the PayProp Rental Index we were surprised that this province had the highest average rental in the country, with demand for rental properties far exceeding availability.

Our view at the time was that, as developers continued to rush new stock into the market, rental values would eventually normalise – and this is exactly what has shown up in the numbers. In fact, the end of

this quarter is the first time that average rentals in Limpopo have dipped below levels seen around the same time last year.

At the other end of the scale, rapid industrial expansion in the Northern Cape continues to drive up average rentals there. Significantly, it is one of only two provinces showing growth above 10% at this point – the other being the Western Cape, which has had an extremely good quarter.



	Eastern Cape	Free State	Gauteng	KZN	Limpopo	Mpumalanga	North West	Northern Cape	Western Cape
■ Q4 2013	10,1%	6,7%	11,5%	7,1%	7,6%	8,6%	7,8%	14,8%	8,6%
■ Q1 2014	10,7%	5,7%	10,8%	7,2%	9,9%	7,2%	7,2%	12,6%	8,9%
■ Q2 2014	9,1%	3,7%	8,4%	7,2%	1,1%	2,5%	5,5%	13,1%	9,5%
■ Q3 2014	7,2%	5,7%	8,1%	6,0%	-3,3%	3,6%	4,1%	11,6%	11,5%



Average provincial growth rates
Source: PayProp

The effect of the above-tabled growth rates on the provincial leader board has been to pull Limpopo back into fifth place. Mpumalanga, a long-time contender for the top spot, has now cemented its position as the region with the highest average rental in the country.

Based on its extremely high growth rates, the Northern Cape is shooting up the rankings and is currently placed third.

The North West Province and Free State remain at the bottom of the rankings, and based on their well-below-average growth, are likely to stay in this position for a while. The Eastern Cape has shown some progress over the last year, but has fallen back slightly again over the past two quarters.



Provincial average rentals
Source: PayProp

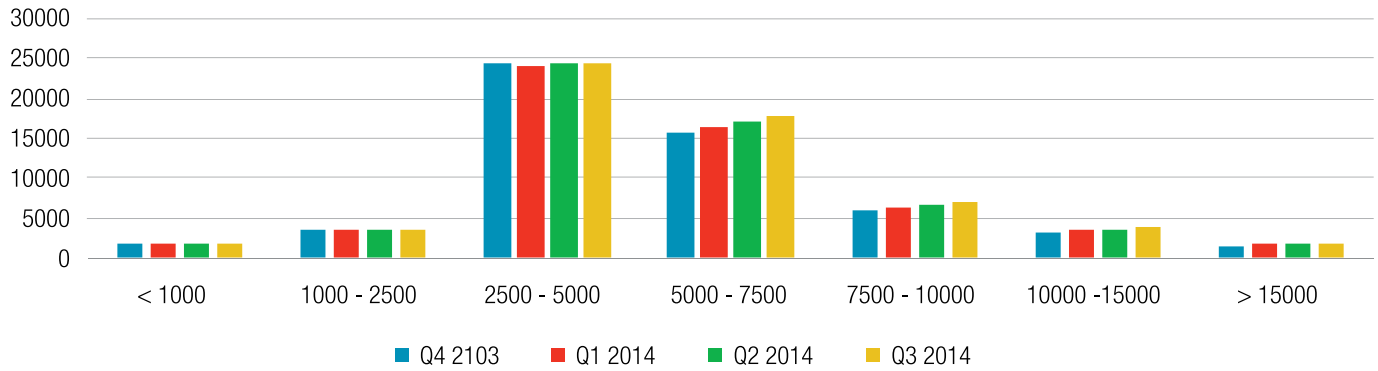
Price brackets and top towns

Growth continues to be driven by rising numbers of rentals in the R5 000 - R 7 500 category, combined with flat growth in the number of rentals in bands below this. Interestingly, there is also strong growth in the R7 500 - R10 000 band, and we expect it to become an even more prominent price bracket.

Despite the flagging fortunes of landlords in our northernmost province, Lephalale still remains the most expensive town to rent a property. However, here too we've seen a reduction in average rentals for each consecutive quarter over the past year.

Bryanston and Sea Point continue to remain bastions of high rentals, but an interesting new entry on this list is Musina – a town on which we have only been able to obtain data recently. Also located in Limpopo, Musina is joined on the top 20 list by a relatively little-known town called Burgersfort (located on the border of the Limpopo and Mpumalanga provinces).

“Despite the flagging fortunes of landlords in our northernmost province, Lephalale still remains the most expensive town to rent a property.”



Number of rentals by price category

Source: PayProp

Top Towns	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Lephalale	R 21 284	R 23 139	R 19 951	R 19 986
Bryanston	R 16 655	R 19 402	R 20 955	R 19 016
Sea Point	R 16 332	R 16 249	R 17 656	R 17 898
Musina	R 16 052	R 16 621	R 14 901	R 15 574
Camps Bay			R 16 039	R 13 988
Umhlanga Rocks	R 10 846	R 12 174	R 11 556	R 13 680
Hout Bay	R 12 266	R 12 616	R 13 444	R 11 871
Franschoek	R 10 935	R 11 568	R 11 804	R 11 811
Hillcrest	R 8 579	R 9 722	R 9 675	R 10 870
Green Point	R 10 145	R 10 208	R 10 203	R 10 267
Sandton	R 8 403	R 9 252	R 9 015	R 9 907
White River	R 10 641	R 10 914	R 10 212	R 9 898
Gardens	R 10 504	R 8 428	R 8 810	R 9 804
Nahoon	R 9 252	R 9 373	R 9 463	R 9 723
Belfast	R 12 431	R 12 372	R 10 042	R 9 691
Claremont	R 9 566	R 9 923	R 9 809	R 9 623
Glenvista	R 8 384	R 8 641	R 8 811	R 9 488
Burgersfort	R 8 794	R 8 603	R 9 103	R 9 376
Mowbray	R 9 744	R 10 737	R 9 774	R 9 305
Wierda Valley	R 8 676	R 8 837	R 8 801	R 9 039



Top towns

Source: PayProp

* We've only recently been able to generate enough data on Camps Bay rentals to confidently report on this area.

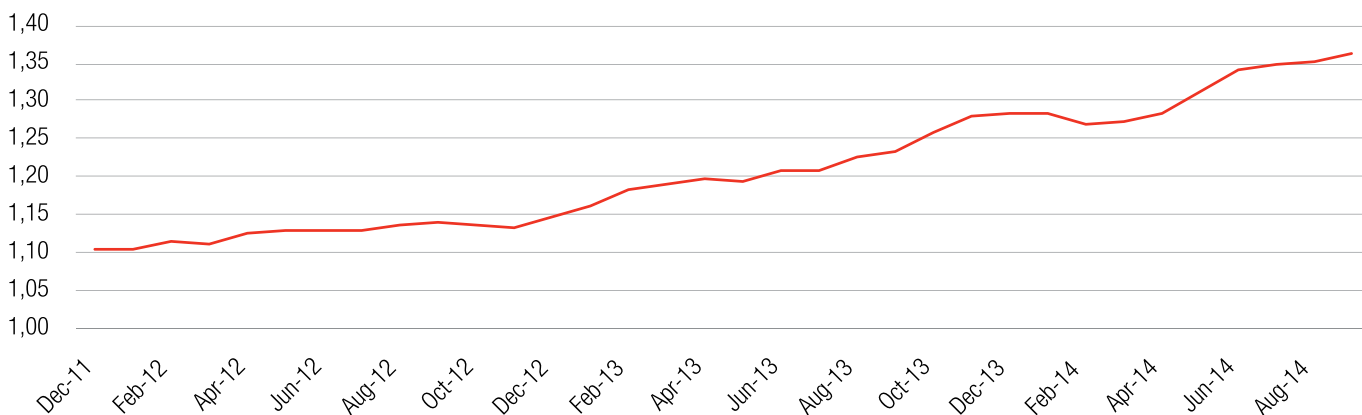
Damage deposits

The ratio of damage deposits relative to rentals continues to increase at a national level. Currently at 1.36 times the value of the average rental, damage deposits require tenants to fork out an average of R8 297.28 upfront. If added to the customary one month's rental in advance, a tenant must have as much as R14 489.28 on hand to rent an average property in South Africa.

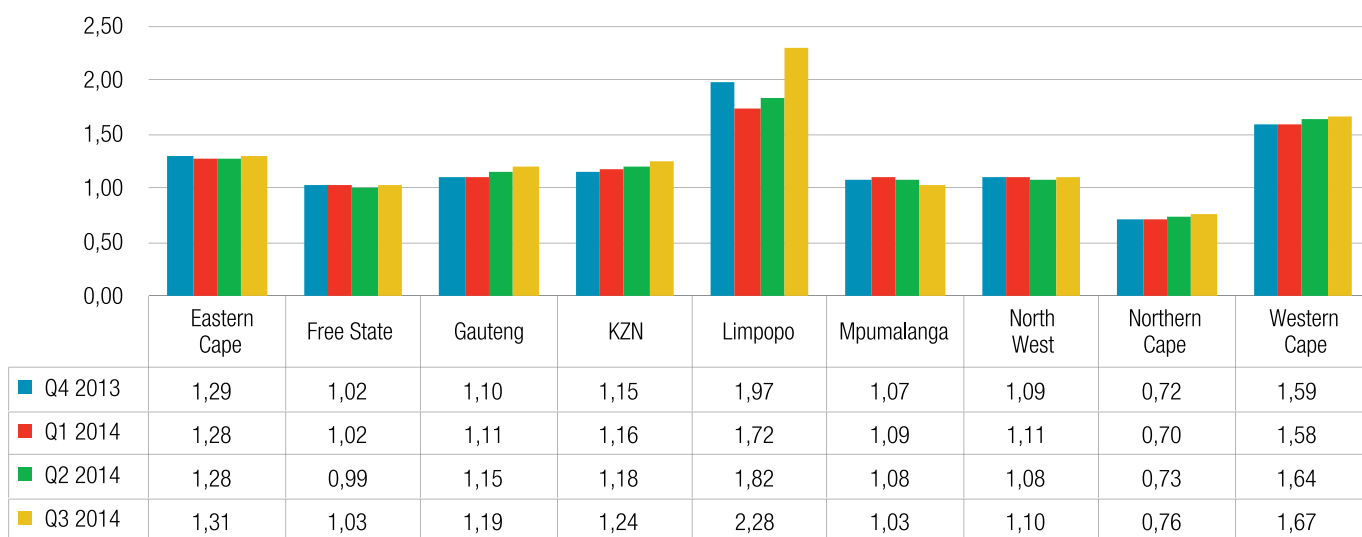
No matter how familiar you are with these sorts of figures, there's no way to see them without hurting anew on behalf of cash-strapped consumers. This is why deposit replacement products like the PayProp Deposit Guarantee continue to have success, as they reduce the upfront capital requirements for tenants. The DepositGuarantee requires an average upfront premium of around R2 100 and a monthly premium of just over R75 per month for an average (R6 000) rental. Over a 12-month

period, the tenant will therefore pay a total of R3 000 in premiums – however, if he or she looks after the property and no damages are claimed, a 40% cash back payment (amounting to R1 026) is made to the tenant protected by the PayProp DepositGuarantee – meaning the effective cost is R1 974 per year – much better protection on affordable cash flow terms.

The impact of the traditional damage deposit on the consumer is even more severe when one goes beyond the national average into provincial variations. The Western Cape (at 1.67 times the value of the rental) has been replaced by Limpopo (at 2.28 times the rental value) as the province that achieves the highest damage deposit ratios. Thankfully, as the market normalises, we expect the Limpopo figure to drop back over time.



National damage deposit ratio
Source: PayProp



Provincial damage deposit ratios
Source: PayProp

What do tenants and owners look like?

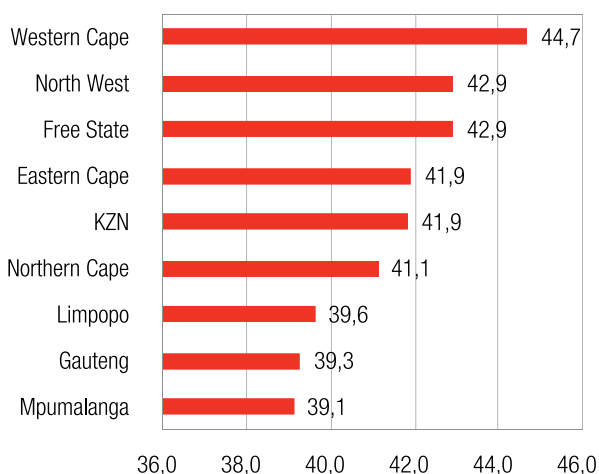
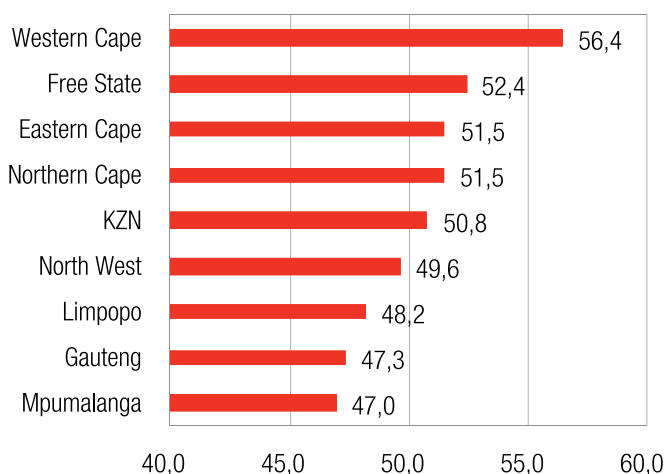
As noted at the beginning of the Index, all the above sections (and those below) have benefited from a reconstituted data set and analysis, leading to subtly different findings. In addition, new data dimensions have also been unearthed.

For the first time, for example, we have included the age profile of tenants and landlords – a move in the direction of collecting more behavioural data. The impetus for this has been the launch of the PayProp Tenant Assessment Report last month – an industry first that not only represents a tenant’s credit history, but also interrogates raw credit data with a series of rental-specific questions, to understand if a tenant will be able to pay the rental he or she is applying for. With a significant number of reports having already been drawn in the first month, we will soon be able to match key characteristics of tenants to rental data.

However, for now it is interesting to note that the average landlord in the Western Cape is almost a decade older than in Mpumalanga, where the average is only 47 years of age.

Overall, tenants are almost a decade younger than the owners of the properties they are renting. And again the Western Cape has the oldest tenants.

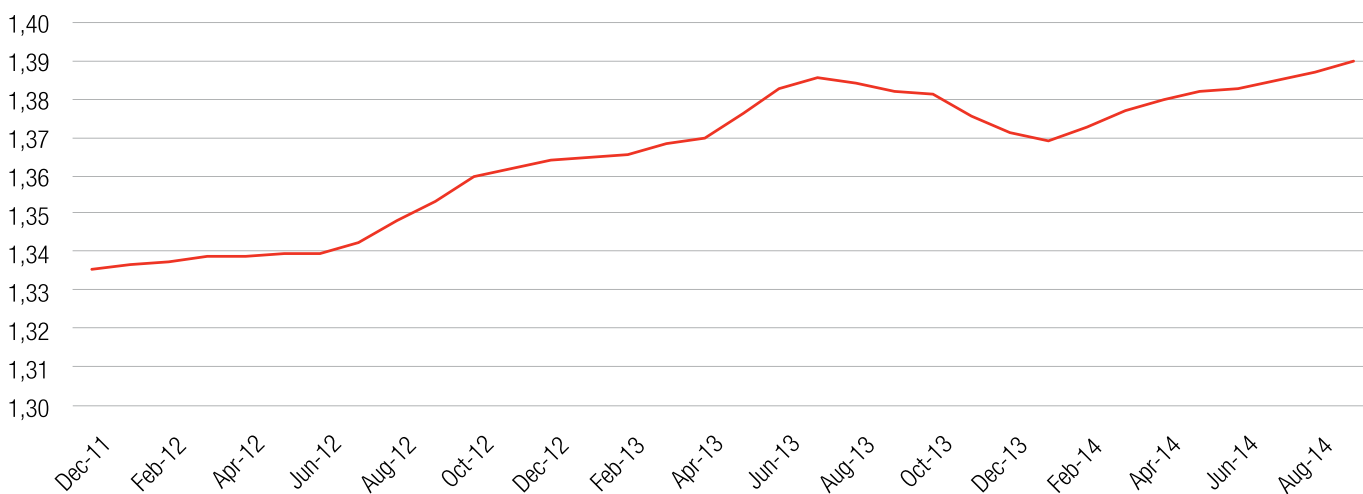
We’re also seeing a continuation of the trend of landlords owning more properties over time. Since December 2011, the average number of properties per owner has increased from 1.33 to 1.39. To put this into perspective, an average of 1.39 properties per owner means 2 100 fewer owners now own the total PayProp portfolio than in December 2011.



Average age of property owners
Source: PayProp



Average age of tenants
Source: PayProp



Average properties per owner
Source: PayProp

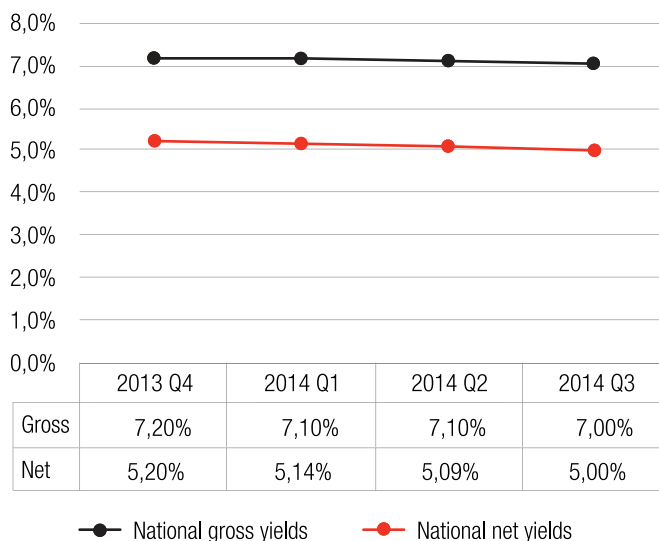
Show me the money...

Ultimately, second-property buyers buy an investment property to generate a return on investment. At a national level, the average property currently generates a gross yield of 7% and a net yield of 5%. This 2% gap between gross and net yields has been very consistent over the past year, and represents the cost of owning the property.

Once the cost of ownership is deducted the owner retains 5% – which is roughly equivalent to a fixed deposit at a bank. In effect, the 5% net return therefore represents the opportunity cost of investment – i.e. what an owner could have done with the money instead of buying a property.

This leaves the realisation of investment return up to long-term growth in the value of the property.

In this regard it should be noted again that the yield calculation is based on a moment in time. Over time, as the asset price remains fixed and rental values grow, the yield value will likewise increase, offering the owner a growing long-term investment. It is, however, encouraging that on average a new entrant into the buy-to-let market should at least recover their cost of ownership and opportunity cost from the start.



National gross and net yields

Source: PayProp

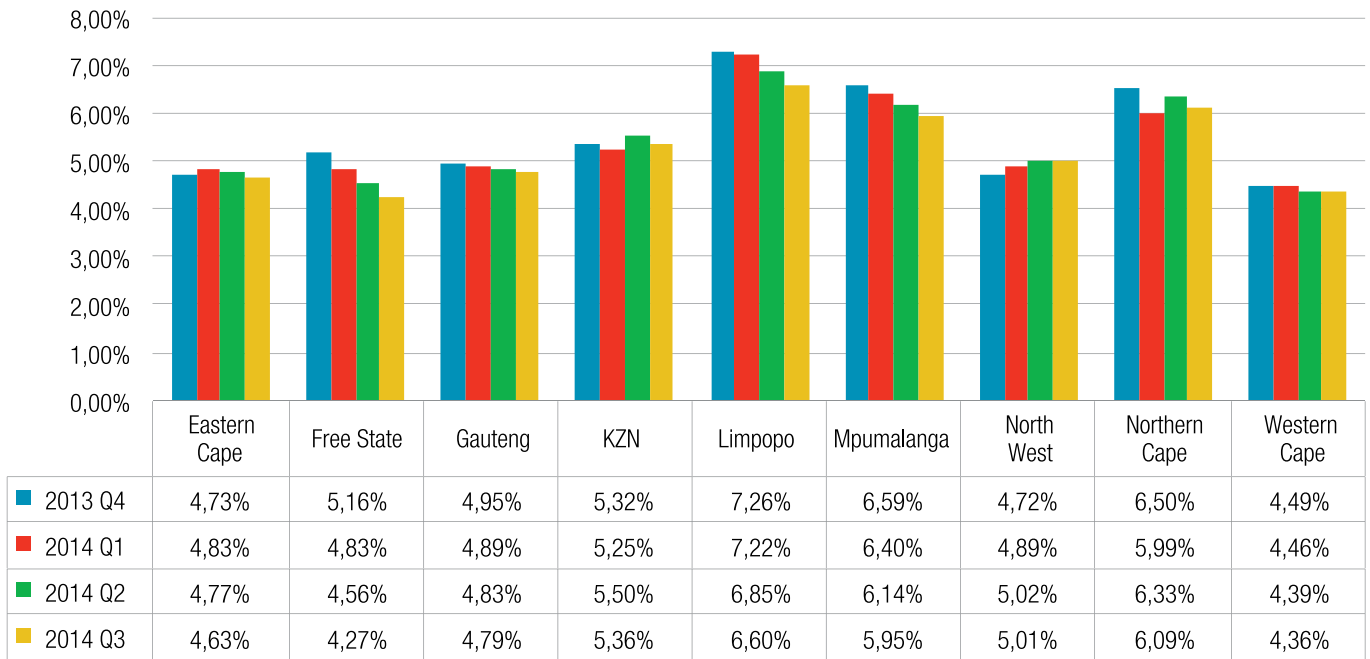
The usual suspects lead the investment return pack

Unsurprisingly, Limpopo, Mpumalanga and the Northern Cape continue to provide owners with the highest net yields in the country.

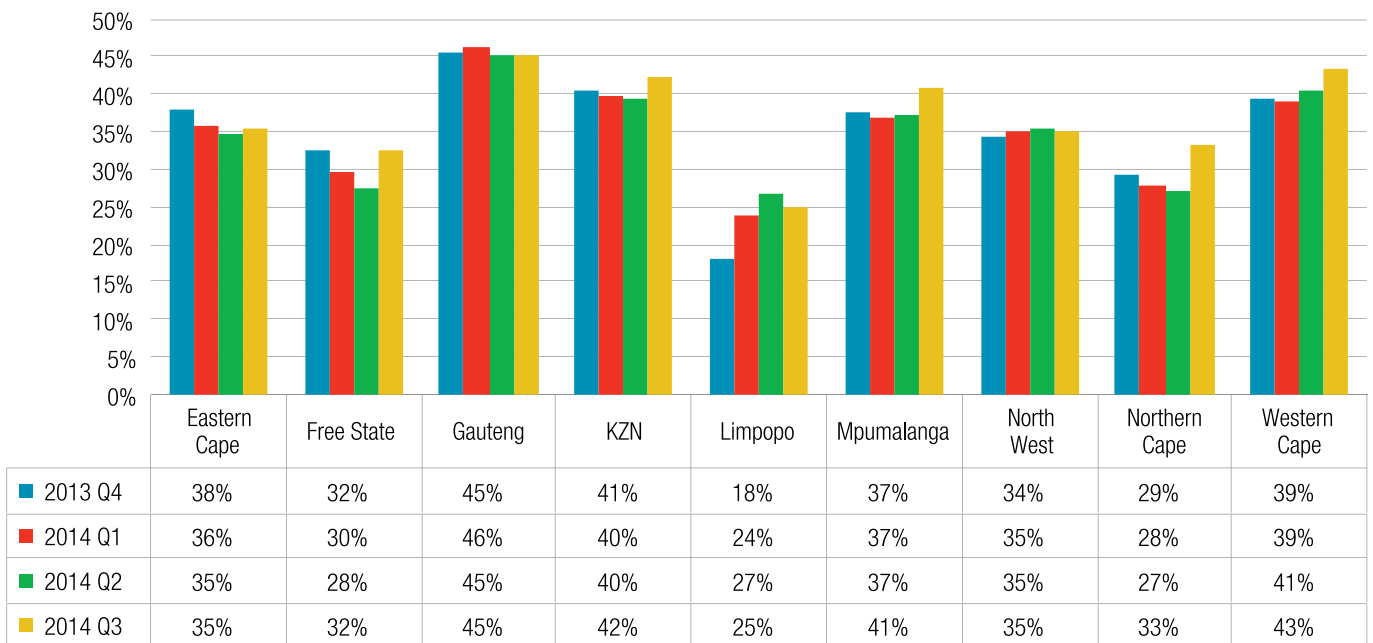
Part of the calculation concerns the cost of owning a property in a particular province, represented by the combined effect of rates and taxes, repairs, special levies etc. that owners of properties have to pay. Gauteng tops the list as the most expensive area to own a property, followed by the Western Cape and Mpumalanga.

Sensationally, besides being one of the highest-grossing provinces for landlords, Limpopo is also one of the cheapest provinces to own a property in, explaining the high levels of return generated in this area.

At a national level, the average property currently generates a gross yield of 7% and a net yield of 5%.



Provincial net yields
Source: PayProp



Provincial cost of ownership (percentage of rent)
Source: PayProp

More about you – the agent

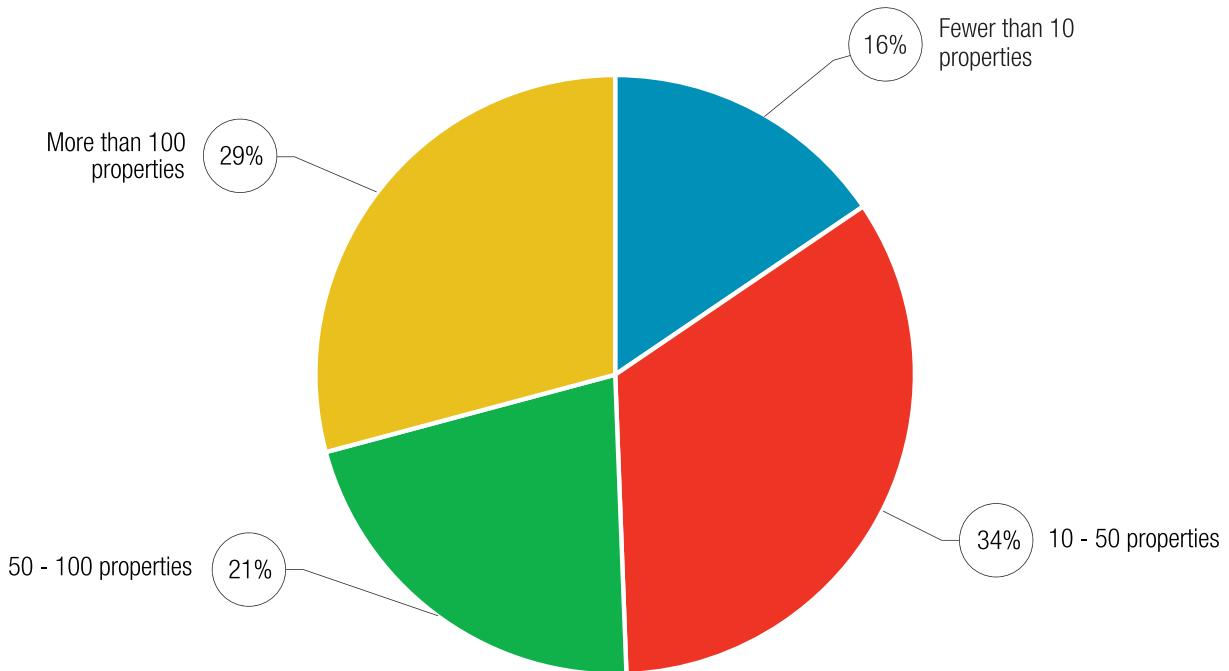
The last piece of the property puzzle is the agent who manages the property on behalf of the owner. PayProp recently ran a national survey of more than 7 000 real estate businesses to understand roughly how big their rental portfolios are.

Based on this data, we extrapolate that 53% of the more than 10 000 registered estate agencies in the country manage a rental portfolio. The diagram below shows the distribution of portfolio sizes within this group of agents (just over 5 000 agencies with an average portfolio size of 69 properties per agency).

If the above values are used to extrapolate the market, we arrive at a hypothetical total market size of just under 400 000 rental properties managed by roughly 5 000 estate agents. This is two thirds of our previous estimates of 600 000 agent managed properties.

As Stats SA further reports, there are 1.6 million households staying in rental properties, meaning only a quarter of all rental properties are managed by estate agents.

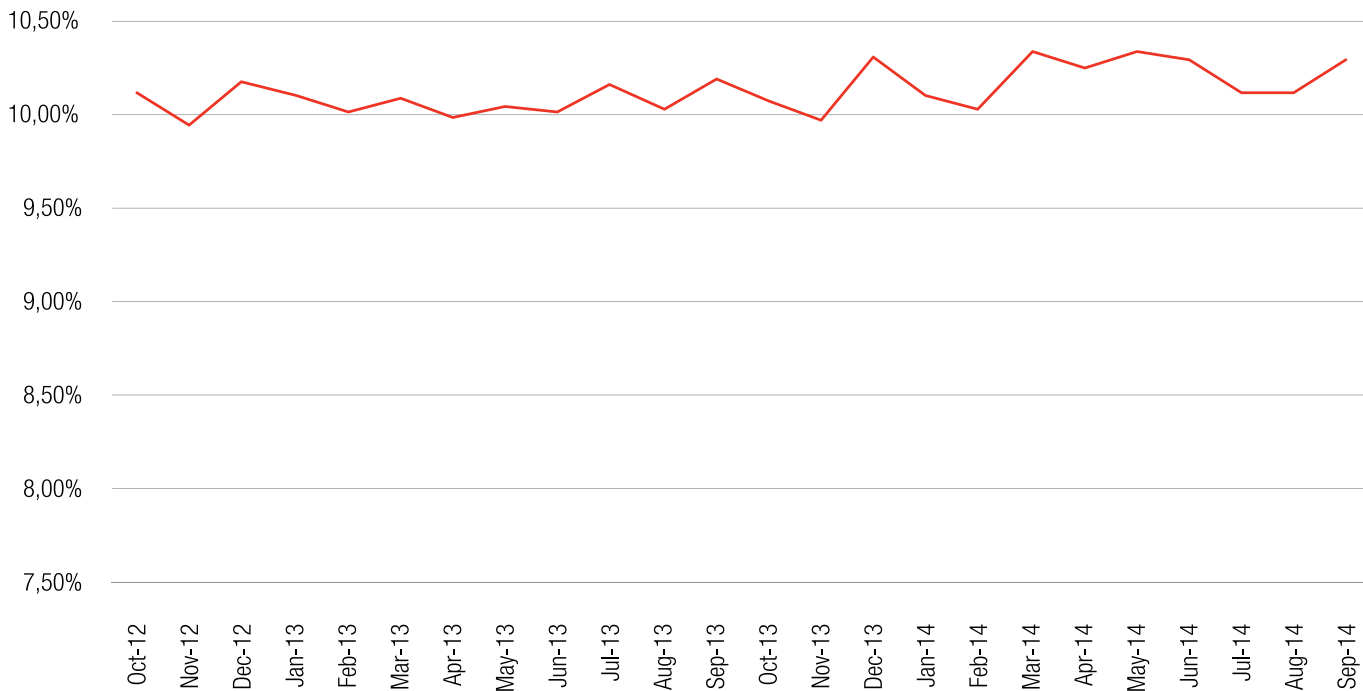
It also means that PayProp currently processes the rental transactions of 16% of the 400 000 agent-managed properties in South Africa – giving us an extremely reliable sample base size to work from.



Distribution of the market

Source: PayProp

What do agents earn on average for their efforts? The answer remains a stable 10% in commission, varying only between provinces. Currently, estate agents in the Free State collect the lowest commissions (8.1% on average) compared to their colleagues in KZN, who earn on average just under 11%.



Average agent commission

Source: PayProp

PayProp works for you

As the market holds steady in key respects for the time being, the PayProp Rental Index keeps a close watch to bring you actionable intelligence for your business and clients. Until next time!

About the 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 third quarter of 2014.

Contact details

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The PayProp Rental Index is available from the PayProp web site at www.payprop.co.za.

Sign up for PayProp

If you would like to know more about using PayProp to manage your rental portfolio, please visit www.payprop.co.za.

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The benefits of PayProp



GROWTH

Computerise all your back office admin so that your team can focus on signing new landlords and growing the business.



ALERTS

Receive notifications when tenants haven't paid rent. PayProp warns you 2 months before tenancies end, so you can advertise early and avoid losses.



ACCOUNTS

Your accountant will love PayProp as it provides detailed accounting records including contractor invoices.



AUTOMATIC

Forget spreadsheets and bank statements, PayProp automatically reconciles all rent payments, clearly showing who has and hasn't paid rent.



ACCURATE

Reduce errors with ring-fenced funds. Only when money has been paid into a property can it be paid out.



EFFICIENT

Once set up, PayProp runs on its own, invoicing tenants every month and paying money to landlords on collection, freeing you to focus on your business.



TRANSPARENT

Get clarity on the trust account status with bank data that is refreshed every 30 minutes.



TEAM

Create unlimited free users, set their permissions to ensure control and track their performance.



CLOUD-BASED

No new servers or hardware needed, easy setup and friendly contract and notification terms.



FAST

On receipt, collected rent can automatically be paid to landlords in 24 hours.



SIMPLE

Monthly invoices are automatically sent by email & SMS to tenants, reducing arrears. Landlords receive automatically generated rental statements every month.



SUPPORT

Receive unlimited free support from a locally-based specialist team.



ORGANISE

Set reminders, tagged by property and date, to help stay organised and schedule work.



SECURITY

Your files, documents and information are safely backed up, easily accessible and protected by bank-level security



NEXT STEP

To trial PayProp get in contact by emailing support@payprop.co.za

Since when did running a responsible rental portfolio mean making EFT payments until midnight?

PAYMENT SCHEDULE

INCORRECTLY PAID!

why no Balance? (Tenant short pd)

Prop #	Property	Rent	Other	Total owed	Received?	Balance	Pay	Amount	Comment	Paid?
122	Church str 3	R 3 500	R 1 200	R 4 700	R 3 295		Landlord	R 2465.50	← owner pd	26/09
							Commission	R 329.50	short pd	26/09
							Plumber	R 500.00		26/09
								R 2 065.00		30/09
								R 285.00		30/09
								R 500.00	No INVOICE!	30/09
123	Essenwood 2b	R 2 350	R 500	R 2 850	R 2 850	R 285	Landlord	R 8 900.00	MR. Smith	26/09
							Commission	R 950.00		26/09
							Deposit top-up			26/09
124	Essenwood 2b	R 9 730	R 150	R 9 880	R 9 500	R 380	Landlord	R 500.00	← only pay	26/09
							Commission	R 150.00		26/09
							Refund for overcharge			26/09
							Window-repair			26/09
124	Essenwood 2b	R 2 350	R 500	R 2 850	R 3 500	R 650	Landlord	R 2 650.00	Mrs. vd Merwe	26/09
							Commission	R 350.00		26/09
							Carpets	R 500.00	Cardinal	26/09
125	Essenwood 2b	R 2 350	R 500	R 2 850	R 3 500	R 0	Landlord	R 7 741.73	✓ DONE	26/09
							Commission	R 908.30	✓ DONE	26/09
							Water & Electricity	R 432.97	✓ DONE	26/09
126	Derp Str 33	R 8 650	R 433	R 9 083	R 9 083	R 0	Landlord	R 550.00	pd from balcony	26/09
							Commission	R 0.00		26/09
							Levy	R 550.00		26/09
127	Bain's Ave 134	R 7 453	R 550	R 8 003	R 8 003	R 0	Landlord	R 4 538.07	← incorrect payment	26/09
							Cleaners	R 123.23		26/09
							Plumber (geyser!)	R 888.00		26/09
							Commission	R 677.70		26/09
							Levy	R 550.00		26/09
128	Baden Powel 22	R 5 555	R 1 222	R 6 777	R 6 777	R 0	Landlord			26/09
							Commission			26/09
							Levy			26/09

Remember to do deposit top-ups allocated

short paid

NB: Payment not to be made on 21/09

PLEASE make all payment before 12:30pm TODAY!!!

4181 / 8036

PayProp clients simply click 'submit' and all their payments are made, with the funds available on the same day (all banks). What's more, all tenant and landlord statements are updated with the actual payment result, improving transactional accuracy and saving precious time. Best of all, only PayProp clients have the peace of mind of knowing that after all these payments, their trust accounts are automatically reconciled each day.

To find out how PayProp can help you run a safer and more efficient rental portfolio, visit www.payprop.co.za or call 087 820 7368.

