

RENTAL INDEX

QUARTERLY SOUTH AFRICAN RESIDENTIAL RENTAL MARKET DATA

ANNUAL MARKET REPORT 2022

In this issue:

Rental growth returns to normal – but for how long?

Affordability worries hit landlords and tenants

Trends shaping the property market in 2023



Contents

05

Introduction

06

Rent and inflation

08 Quarterly trends

10 The rental market at a glance

14

Provincial statistics

14 Eastern Cape

16 Free State

18 Gauteng

20 KwaZulu-Natal

22 Limpopo

24 Mpumalanga

26 North West

28 Northern Cape

30 Western Cape

32

**Trends shaping the
property market in 2023**

34

PayProp client spotlight

**How two Fine & Country
licensees use PayProp to run
their businesses their way**

40

In closing



Tenants, landlords and businesses alike are all feeling the unrelenting pinch of broader economic circumstances

INFLATION



INTRODUCTION

2022 in review

2022 felt like a long-overdue return to normality from COVID-enforced business restrictions – and we couldn't be happier! We jumped on the opportunity to host our first live events since 2019, and what a delight it was to see our valued clients and associates in person again. We look forward to doing more of these soon.

The rental market's continued recovery is another key ongoing trend that brought a collective sigh of relief last year, as rental growth rates continued to improve along with tenant arrears.

However, broader economic circumstances were less favourable, with rising interest rates and high levels of inflation putting the brakes on a return to better times for the industry. Tenants, landlords and businesses alike are all feeling the unrelenting pinch.

In this PayProp Rental Index, we offer you a national and provincial overview of rents, arrears and credit metrics throughout last year. Then, on page 32, PayProp's Deputy CEO Michelle Dickens goes through the key market trends that we expect to see in 2023.

Lastly, we also share the success story of how PayProp helped two quite different Fine & Country licensees manage their rental books the way they wanted – without excess admin holding them back. You can find that on page 34.

I hope you enjoy this information-packed Annual Rental Index for 2022. May the year ahead be good to you and your business! ■



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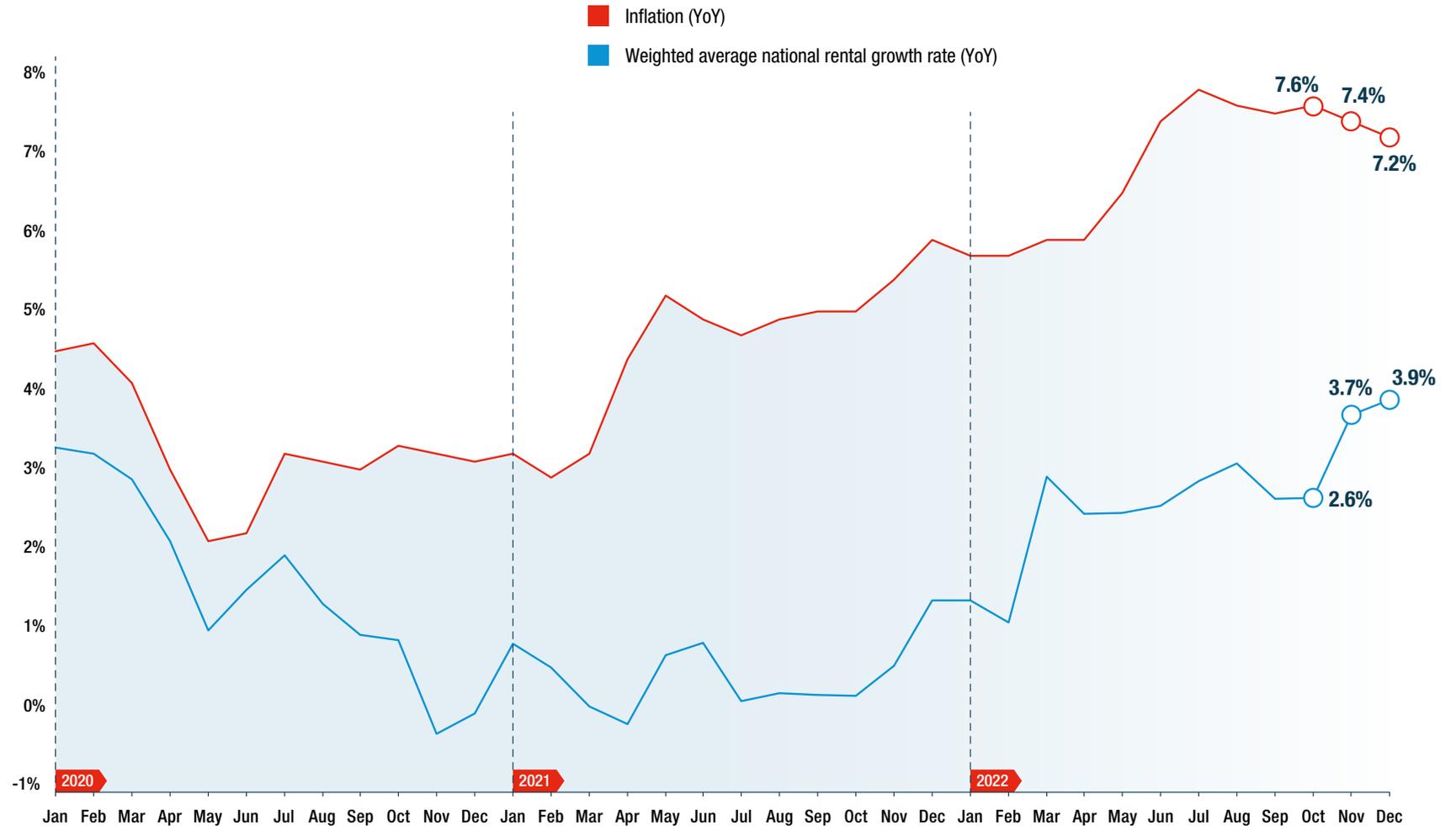
NATIONAL RENTAL GROWTH

Rent and inflation

In 2022, the rental market continued to recover from the low rental growth rates recorded in most of 2020 and 2021 as a result of the global pandemic.

However, ongoing recovery and rising rental growth rates can't be guaranteed as we move into 2023, as higher interest rates, persistently high levels of inflation and a struggling economy all affect tenants' ability to pay higher rents. Although interest rate increases are commonly used to curb inflation, other factors – like the high price of globally-traded commodities – are keeping prices stubbornly high. More interest rate increases are forecast for this year, as is a possible recession.

That being said, higher interest rates make it less affordable for tenants to buy properties, which increases the demand for (and prices of) rental properties. ■



REPORTING METHODOLOGY



To prevent the geographical distribution of PayProp clients from skewing our national figures, we weight each province's contribution according to its contribution to GDP.

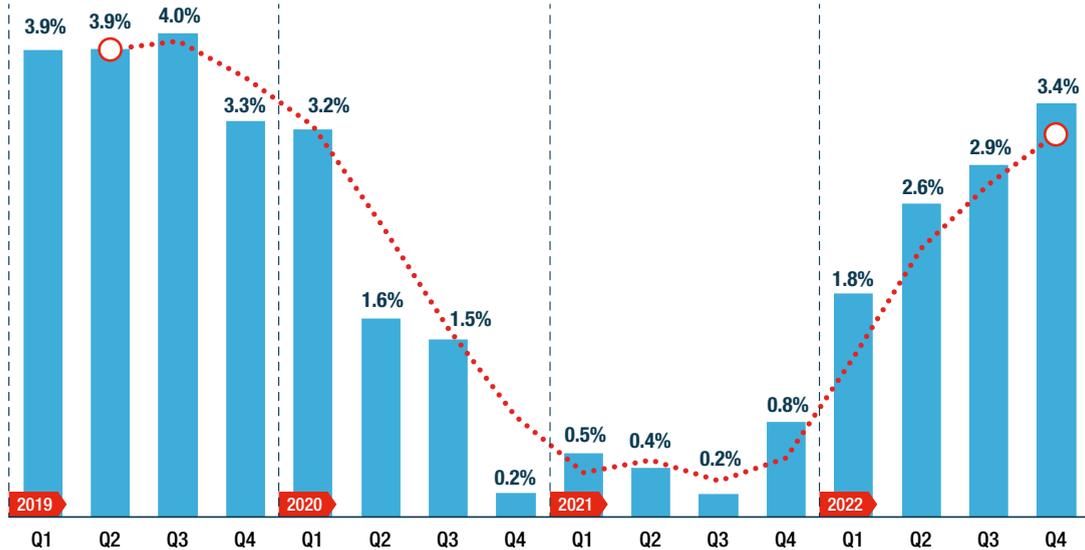
Weighted average national rental growth rate (YoY) vs. inflation, 2020 – 2022
Sources: Trading Economics and PayProp

NATIONAL RENTAL GROWTH

Quarterly trends

Nationally, the average rent increased by 3.4% from Q4 2021 to Q4 2022. This was an average increase of R268 to R8 175 over the year.

Rental growth has rebounded impressively over the last 5 quarters since Q3 2021, when we recorded YoY growth of just 0.2%. It has now recovered to pre-pandemic levels – rental growth of 3.2% was last recorded in Q1 2020. ■



Quarterly rental growth rate (YoY) with a moving average trendline, 2019 – 2022
Source: PayProp

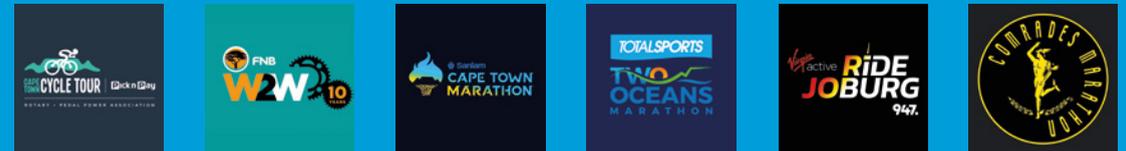
givengain

Fund (race) as a team in 2023

Take on the ultimate team-building challenge and fundraise as a team for a great South African charity!

Thousands of runners, cyclists and swimmers like you have used GivenGain's online fundraising platform to help raise over R15 million at sport events in South Africa.

Simply visit any GivenGain-registered event or charity page and create an individual or corporate fundraising project page, then share your new page with your personal network for donations.



Got a question or need to get your preferred charity or sport event registered on GivenGain?
E-mail fundraising@givengain.com and we'll get you started.

*GivenGain is a leading global online fundraising platform for charity. Set up by South Africans Johannes and Jaco van Eeden, GivenGain is a non-profit foundation dedicated to promoting global philanthropy.

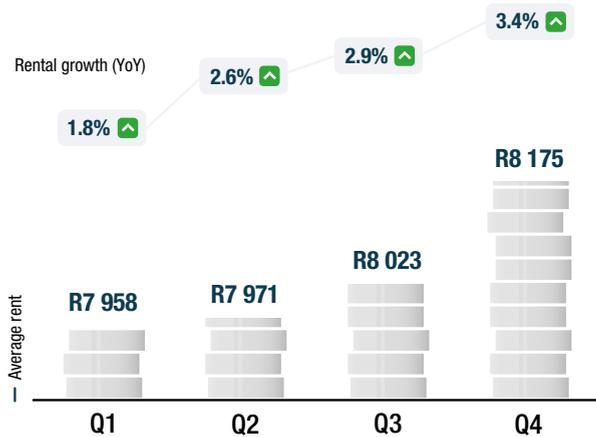
RENT AND CREDIT STATISTICS

The rental market at a glance

In this section, we take a look at national and provincial performance across our usual selection of rent, arrears, income, spending and risk metrics.

Rent and rental growth

Nationally, rent increased by 3.4% year on year during Q4, the highest YoY growth rate observed during the year. Average rent was R8 175, up R268 from the same quarter the year before.



National rent and rental growth (YoY): Q1 2022 – Q4 2022
Source: PayProp

In Q4 2022, only 18.1% of tenants were in arrears, lower than the pre-lockdown level of 19.3%.



Arrears

The percentage of tenants in arrears continued to improve nationally since it peaked at 24.9% in Q2 2020, right after lockdown was first announced. In Q4 2022, only 18.1% of tenants were in arrears, lower than the pre-lockdown level of 19.3%.

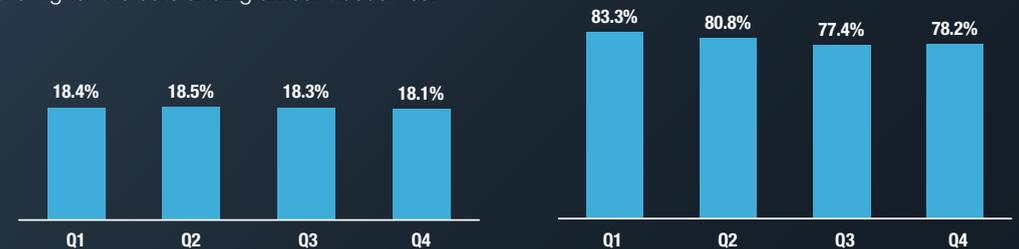
Although the average size of tenant arrears as a percentage of one month's rent declined during the year, there was a slight increase again towards the end of the year, from 77.4% in Q3 to 78.2% in the last quarter. This was still slightly lower than the pre-lockdown figure of 78.7% recorded in Q1 2020.

Agents should proactively monitor and manage arrears, as the probability of collecting rent (and therefore earning commission) becomes smaller the higher the outstanding amount becomes.

ARREARS METRICS

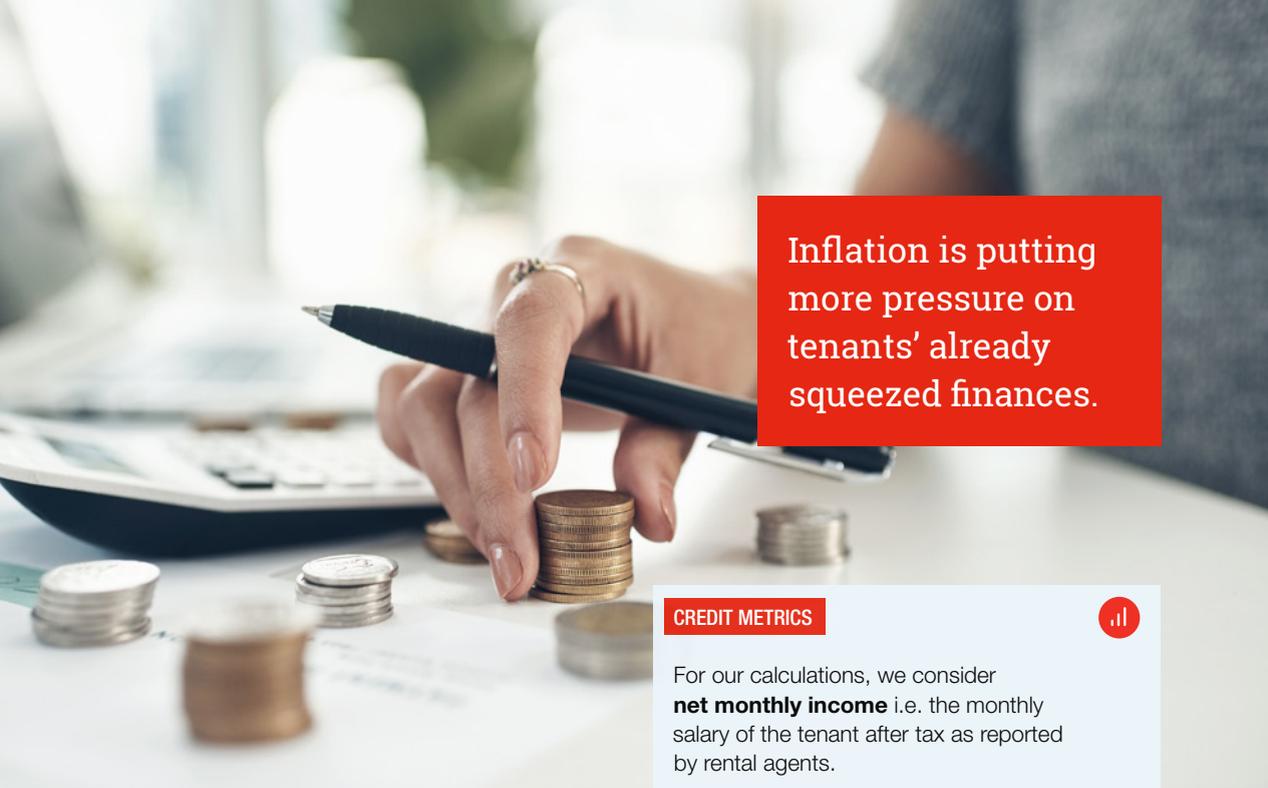
We consider two arrears metrics:

1. The percentage of tenants in arrears records the number of tenants in arrears as a percentage of the total number of tenants managed by PayProp-powered agencies.
2. The average arrears percentage of this group expresses the average amount of arrears owed by tenants in arrears as a percentage of the average rent in question. An average arrears percentage of 80% therefore means that, on average, a tenant in arrears owes 80% of one month's rent.



National percentage of tenants in arrears, Q1 2022 – Q4 2022
Source: PayProp

National average arrears relative to one month's rent, Q1 2022 - Q4 2022
Source: PayProp



Inflation is putting more pressure on tenants' already squeezed finances.

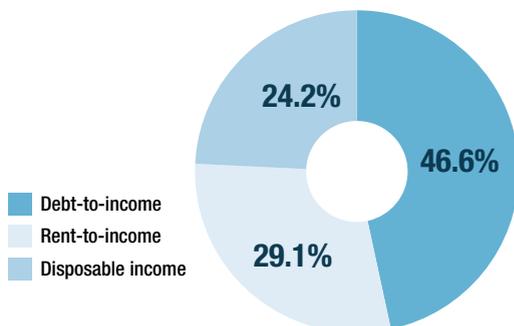
CREDIT METRICS



For our calculations, we consider **net monthly income** i.e. the monthly salary of the tenant after tax as reported by rental agents.

The analysis takes into account credit checks done via PayProp during each quarter and represents a sample of rental applicants who are not necessarily existing tenants or successful applicants. However, we refer to all applicants as 'tenants' throughout the analysis, and we assume that this sample is reflective of the tenant pool.

All credit checks are provided by Experian, PayProp's credit bureau service provider.



National share of income spent on debt and rent, Q4 2022
Source: PayProp

Income and spending

Income

Nationally, net monthly income increased by 4.2% from Q4 2021 to Q4 2022, or by R1 476, to R36 288. While any increase in income will be welcomed by tenants, it has not kept up with inflation which puts more pressure on tenants' already squeezed finances.

During the last quarter of the year, tenants across the country spent an average of 46.6% of their net income on debt repayments (including subscriptions such as cellphones). This was slightly higher than the 45.3% recorded in Q4 2021. Another 29.1% was spent on rent (29.0% in Q4 2021), leaving tenants with only 24.2% of their income to spend on food, school fees, entertainment and the like – despite the rising prices of all of those things. This was down from 25.7% the year before.

Risk

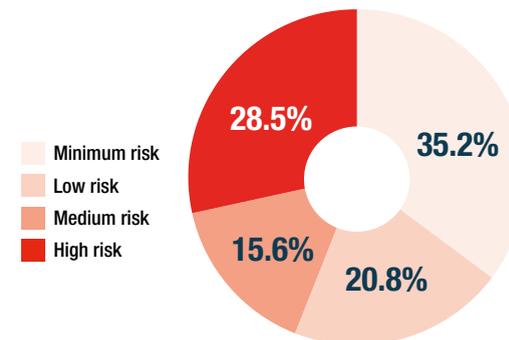
Nationally, 28.5% of tenants were labelled as presenting a high risk during Q4 2022. That was an increase of 4% from 24.5% the year before. On the flip side, 35.2% of tenants were classified as posing a minimum risk, with another 20.8% in the low-risk category.

In Q4 2022, 18% of tenants had a major delinquency against their name, compared to 16.8% in the same quarter the year before.

The average credit score worsened slightly from 646 in Q4 2021 to 641 in Q4 2022.

These could be signs that tenants are struggling to keep up with the rising cost of living and the increasing cost of servicing debt. As always, we encourage agents to vet tenants properly by assessing the information on credit checks carefully. In addition, questioning tenants when in need of clarity, and using supporting documentation such as bank statements and salary slips before placing tenants.

Since tenants' financial and credit risk can change over the course of the tenancy, it is also recommended to perform a credit check on them when they renew – especially as the average tenant's financial position is currently getting worse. ■



National credit risk distribution, Q4 2022
Source: PayProp

RISK CATEGORIES

The riskiness of a tenant is measured by their credit score, which takes many factors into account. Different credit bureaus have different scoring mechanisms and bands. For our purposes, we categorise tenants into the following predefined credit score ranges:

Risk category	Credit score range
High risk	500 - 610
Medium risk	611 - 628
Low risk	629 - 659
Minimum risk	660 - 750



PROVINCIAL STATISTICS

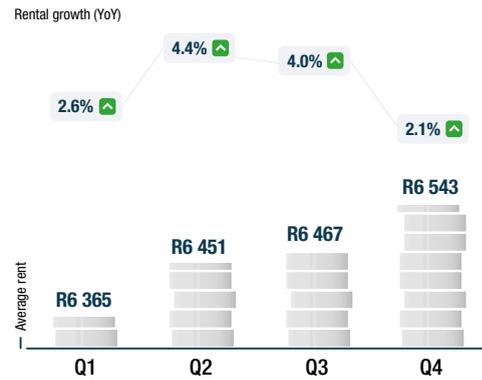
Eastern Cape



Rent and rental growth

In the fourth quarter, average rent in the Eastern Cape increased by 2.1% YoY, from R6 407 in Q4 2021 to R6 543 in Q4 2022. This was the lowest growth rate observed in the province throughout the year.

Rental growth in Q4 was below the national average of 3.4%. Rent in the Eastern Cape was the third lowest out of all the provinces.

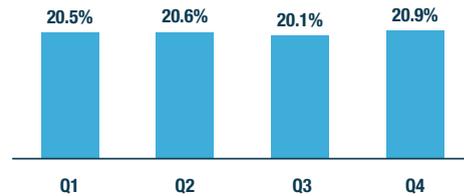


Rent and rental growth (YoY): Eastern Cape, Q1 2022 – Q4 2022
Source: PayProp

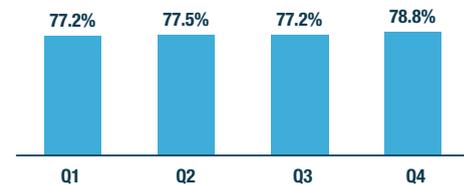
Arrears

The percentage of tenants in arrears in the Eastern Cape trended relatively flat during 2022, deteriorating only slightly from 20.5% in Q1 to 20.9% in Q4. This was above the national average of 18.1% measured in Q4.

The average arrears size also remained quite flat, worsening slightly from 77.2% of one month's rent in Q1 to 78.8% during Q4 – slightly above the national average of 78.2%.



Percentage tenants in arrears: Eastern Cape, Q1 2022 – Q4 2022
Source: PayProp

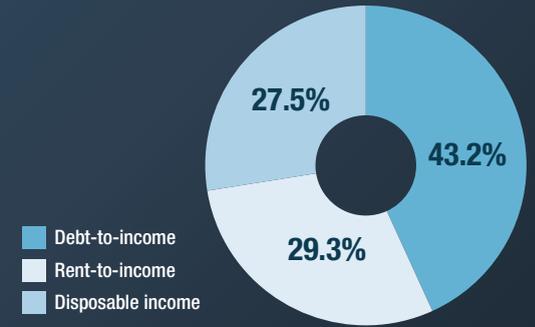


Average arrears relative to one month's rent: Eastern Cape, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

Average income in the Eastern Cape increased by 5.8% year on year to R31 702, up from R29 954 the year before. This was higher than the average national increase of 4.2%. Income in the Eastern Cape was the third lowest out of the provinces, and income growth was below the inflation rate recorded during the period.

In Q4 2022, Eastern Cape tenants spent 43.2% of their net income on debt repayments, lower than the 45.4% in the same quarter the year before and also lower than the national average of 46.6%. Another 29.3% was spent on rent, leaving tenants with 27.5% as disposable income.



Share of income spent on debt and rent: Eastern Cape, Q4 2022
Source: PayProp

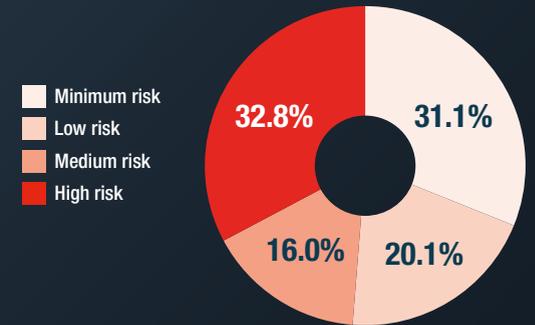
Risk

The Eastern Cape had the third highest percentage of high-risk tenants countrywide in Q4 2022, at 32.8%. This was above the national average of 28.5%, and higher than the 31.2% observed in the same quarter the previous year.

On the other hand, the percentage of minimum-risk tenants also increased slightly, from 30.6% in Q4 2021 to 31.1% in Q4 2022.

The percentage of tenants with major delinquencies against their names remained relatively flat, at 19.4% of tenants in Q4 2022 compared to 19.3% in the same quarter in 2021. This was nevertheless higher than the national average of 18%.

While the average credit score of 636 was only 5 points lower than the national average, the province still had the third lowest average credit score in the country.



Credit risk distribution: Eastern Cape, Q4 2022
Source: PayProp

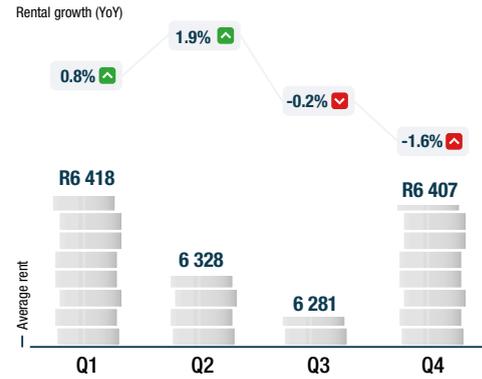
PROVINCIAL STATISTICS

Free State



Rent and rental growth

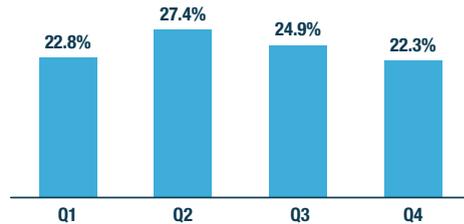
2022 rental growth in the Free State peaked at 1.9% in Q2 and declined from there. The fall of 1.6% in Q4 resulted in the lowest growth rate out of all the provinces for the quarter. Average rent decreased by R105 YoY, from R6 512 in Q4 2021 to R6 407 in Q4 2022. Average rent in the province was the second lowest out of all the provinces.



Rent and rental growth (YoY): Free State, Q1 2022 – Q4 2022
Source: PayProp

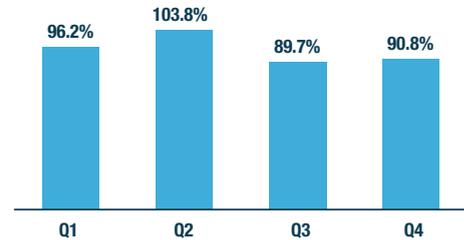
Arrears

The percentage of tenants in arrears in the Free State spiked to 27.4% in Q2 before improving to 22.3% in Q4. This was well above the national average of 18.1%, as has been the case since before the pandemic. The province has the highest percentage of tenants in arrears in the country.



Percentage tenants in arrears: Free State, Q1 2022 – Q4 2022
Source: PayProp

Arrears as a percentage of rent spiked in the same quarter, with tenants in arrears owing 103.8% of one month's rent on average. This improved to 90.8% in Q4 – but was still the worst figure out of all the provinces and far above the national average of 78.2%.

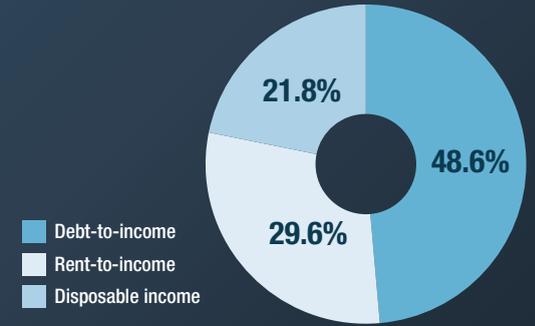


Average arrears relative to one month's rent: Free State, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

In the Free State, average income increased by 1.2% YoY in Q4 2022, the third lowest out of all the provinces. An average net monthly income of R29 636 was recorded, the second lowest in the country. Average national net monthly income was R36 288 during the same period.

Tenants spent on average 48.6% of their net salary on debt repayments, higher than the year before (42%) and also more than the national average (46.6%). They also spent 29.6% of their income on rent, leaving only 21.8% as disposable income, compared to 28.8% in the same quarter in 2021.



Share of income spent on debt and rent: Free State, Q4 2022
Source: PayProp

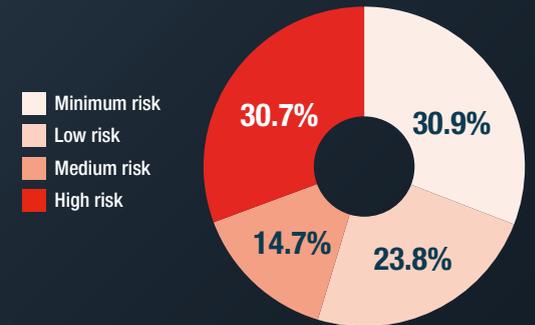
Risk

In the province, 30.7% of tenants were classified as high-risk during the most recent quarter, up from 26.7% in Q4 2021 and above the national average of 28.5%.

The share of minimum-risk tenants was 30.9% in Q4 2022, down from 34.7% in the same quarter in 2021.

Meanwhile, the percentage of tenants with a major delinquency increased from 15.9% in Q4 2021 to 22.2% in Q4 2022, the third highest countrywide. This was also worse than the national average of 18% observed during the quarter.

The average credit score also deteriorated slightly from 641 in Q4 2021 to 638 in Q4 2022 – only 3 points lower than the national average of 641.



Credit risk distribution: Free State, Q4 2022
Source: PayProp

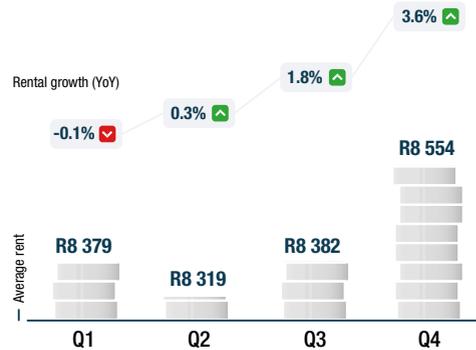
PROVINCIAL STATISTICS

Gauteng



Rent and rental growth

The average rent in Gauteng increased by 3.6% during Q4 – the highest YoY growth rate observed during the year, and slightly above the average national growth rate of 3.4%. Rent increased by R301 to R8 554 in Q4 2022 from R8 253 in the same quarter the year before. The province has the fourth highest average rent in the country.



Rent and rental growth (YoY): Gauteng, Q1 2022 – Q4 2022
Source: PayProp

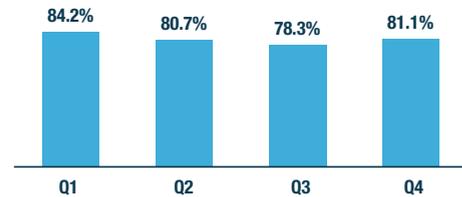
Arrears

The percentage of tenants in arrears increased slightly from 16% in Q1 to 16.5% in Q4 2022. Still, the province had the third lowest percentage of tenants in arrears in the country at the end of the year, outperforming the national average of 18.1%.



Percentage of tenants arrears: Gauteng, Q1 2022 – Q4 2022
Source: PayProp

The average arrears size relative to rent improved from 84.2% of one month's rent in Q1 to 81.1% in Q4. However, this was still the third highest arrears figure in the nine provinces, and above the national average of 78.2%.

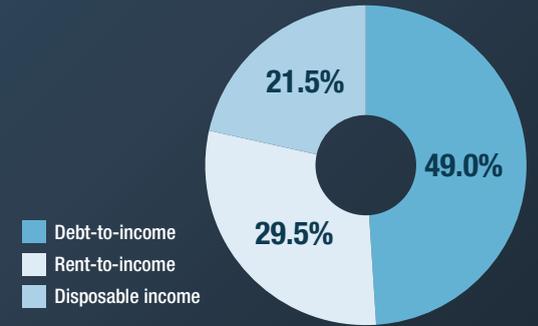


Average arrears relative to one month's rent: Gauteng, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

Gauteng tenants' average income increased by 2.4% YoY from Q4 2021 to Q4 2022 and amounted to R36 338 in the most recent quarter. This was slightly above the average income measured nationally, R36 288, and the fourth highest out of the provinces.

During Q4, tenants spent 49% of their net monthly income on debt repayments – the second highest percentage out of all the provinces (behind North West), up from 47.4% in the same quarter the year before. Another 29.5% was spent on rent (Q4 2021: 28.6%), leaving Gauteng tenants with 21.5% of their net income to spend on food, fuel and other necessities. This was below the 24% of net income available in 2021.



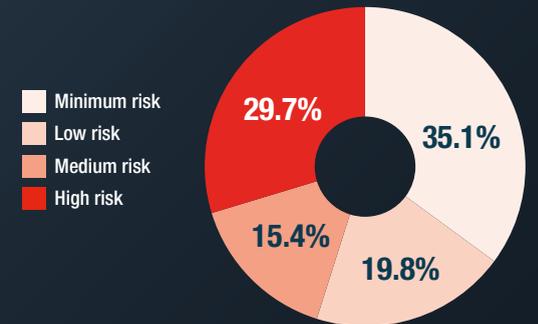
Share of income spent on debt and rent: Gauteng, Q4 2022
Source: PayProp

Risk

Gauteng's share of high-risk tenants in Q4 2022 (29.7%) was slightly above the national average of 28.5% and up from 26.5% the year before.

Although the percentage of minimum-risk tenants decreased from 38.6% to 35.1% over the same period, the province had the third highest share of minimum-risk tenants in the country.

Gauteng experienced a slight improvement in its share of tenants with major delinquencies, from 17.7% in Q4 2021 to 17.4% in Q4 2022. This was better than the national average of 18% and the third lowest overall.



Credit risk distribution: Gauteng, Q4 2022
Source: PayProp

The average credit score was also the third best in the country, with 640 recorded during Q4 2022. This was one point below the national average of 641 and 4 points below the average recorded in Q4 2021.

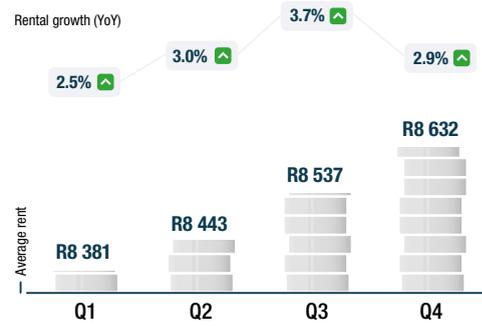
PROVINCIAL STATISTICS

KwaZulu-Natal



Rent and rental growth

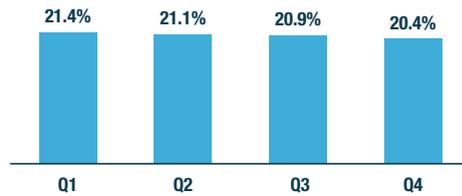
KwaZulu-Natal's rental growth rate followed an upward trajectory during the first three quarters of the year before dipping to 2.9% YoY in Q4 – below the national average of 3.4%. Rent increased by R246 to R8 632 over the same period, the third highest out of the nine provinces.



Rent and rental growth (YoY): KwaZulu-Natal, Q1 2022 – Q4 2022
Source: PayProp

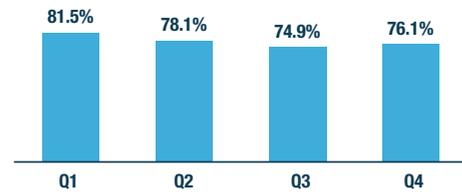
Arrears

The average percentage of tenants in arrears across the province improved from 21.4% in Q1 to 20.4% in Q4. Although this is good news, KwaZulu-Natal still lags behind the national average of 18.1%.



Percentage tenants in arrears: KwaZulu-Natal, Q1 2022 – Q4 2022
Source: PayProp

The average arrears total as a percentage of the average rent in the province also improved during the course of the year, from 81.5% to just 76.1%, the second lowest in the country. This was also better than the national average of 78.1%.

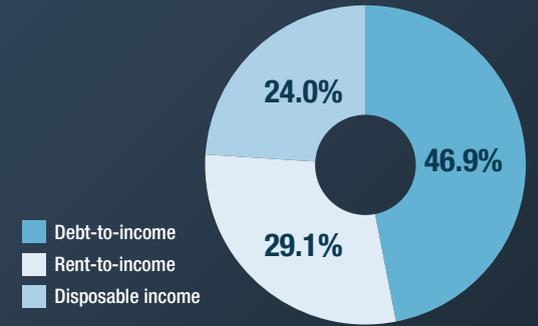


Average arrears relative to one month's rent: KwaZulu-Natal, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

The average net income for KwaZulu-Natal tenants in Q4 was R35 903, up 3% from the same quarter the year before. This lagged the national growth rate of 4.2% and income of R36 288.

Tenants in the province spent a smaller percentage of their income on debt in the last quarter than the year before, with 46.9% spent on repayments in Q4 2022 compared to 48.1% in Q4 2021. After spending a further 29.1% of their income on rent, tenants were left with disposable income of 24% of their take-home pay to cover monthly expenses – more than the 21.8% they had available the year before.



Share of income spent on debt and rent: KwaZulu-Natal, Q4 2022
Source: PayProp

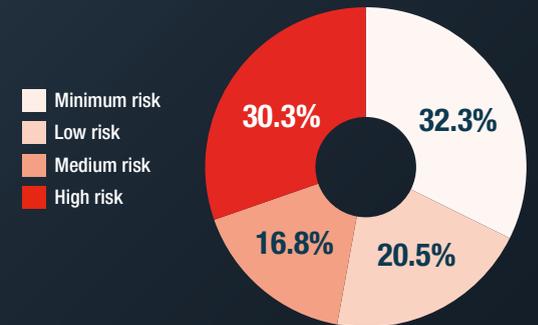
Risk

During the most recent quarter, 30.3% of tenants in KwaZulu-Natal were classified as high-risk, compared to only 24.3% the year before. This was also higher than the 28.5% recorded nationally.

Another 32.3% of tenants were classified as minimum-risk, with 20.5% considered low-risk.

The percentage of tenants in KwaZulu-Natal with major delinquencies increased from 17.4% in Q4 2021 to 18.5% in Q4 2022. This was worse than the national average of 18%, but the fourth lowest out of all the provinces.

The average credit score in the province in the last quarter of 2022 was 638, 3 points lower than the national average of 641, and a decrease from the 644 observed in the same quarter in 2021.



Credit risk distribution: KwaZulu-Natal, Q4 2022
Source: PayProp

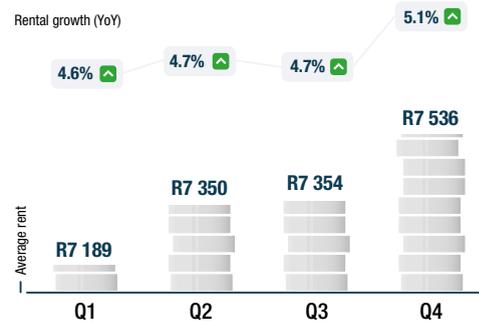
PROVINCIAL STATISTICS

Limpopo



Rent and rental growth

Limpopo has seen an incredible rental market rebound over the past few years. Rents continued to increase well above the average national growth rate during 2022, with rental growth of 5.1% recorded in Q4 – the third highest growth rate seen during the quarter.

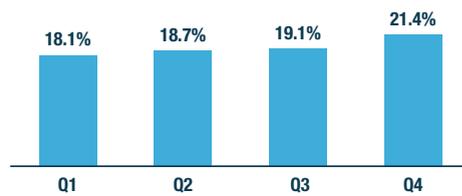


Rent and rental growth (YoY): Limpopo, Q1 2022 – Q4 2022
Source: PayProp

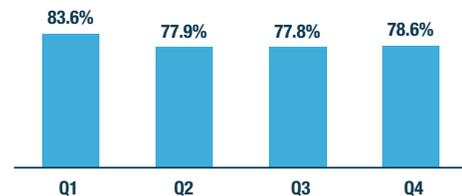
Arrears

It isn't all good news, though. The percentage of tenants in arrears increased steadily throughout the year, from 18.1% in Q1 to 21.4% in Q4. This was the second highest figure in the country.

By contrast, the relative arrears size showed improvement, with tenants in arrears owing 78.6% of one month's rent in Q4, just slightly above the national average of 78.2%.



Percentage tenants in arrears: Limpopo, Q1 2022 – Q4 2022
Source: PayProp

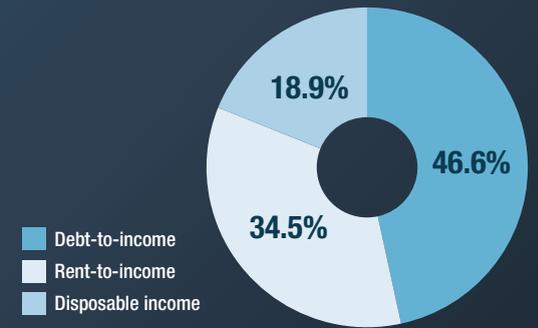


Average arrears relative to one month's rent: Limpopo, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

Tenants earned an average net monthly income of R31 747 during the last quarter of 2022 – a dismal 0.5% increase, or less than R200, from the same quarter the year before. It was the lowest income growth rate seen across the provinces, and far from the national growth rate of 4.2% recorded during Q4 2022.

Limpopo tenants spend 46.6% of their take-home pay on debt repayments – up from 44.1% in Q4 2021 and in line with the national average – and another 34.5% on rent, the highest percentage observed across the provinces. That leaves Limpopo tenants with only 18.9% of their net income left to buy monthly necessities, down from 22.4% the year before.



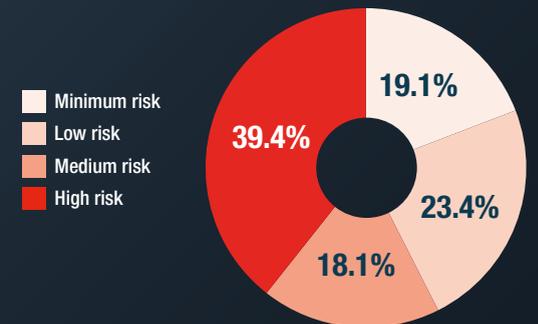
Share of income spent on debt and rent: Limpopo, Q4 2022
Source: PayProp

Risk

Limpopo had both the highest percentage of high-risk tenants and the lowest percentage of minimum-risk tenants in the country in Q4 2022. High-risk tenants increased from 19.4% in Q4 2021 to 39.4% in Q4 2022, while minimum-risk tenants decreased from 35.8% to just 19.1% during the same period.

The percentage of tenants with major delinquencies in Limpopo almost doubled between Q4 2021 and Q4 2022, increasing from 11.9% to 21.3% in the most recent quarter.

A similar deterioration is reflected in the average credit score which decreased by almost 20 points, from 646 in Q4 2021 to 627 in Q4 2022. This was the lowest recorded for any province in that quarter.



Credit risk distribution: Limpopo, Q4 2022
Source: PayProp

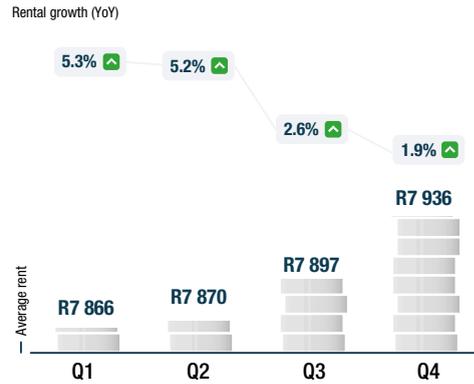
PROVINCIAL STATISTICS

Mpumalanga



Rent and rental growth

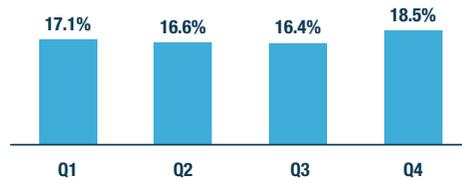
Mpumalanga had a year of two halves. Rental growth rates (YoY) went above 5% in the first two quarters of the year before slipping to 1.9% in Q4 – below the national average of 3.4%. This equated to an increase of R145 year on year, with the average rent in the province measuring R7 936 in Q4.



Rent and rental growth (YoY): Mpumalanga, Q1 2022 – Q4 2022
Source: PayProp

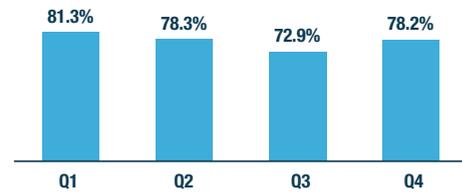
Arrears

The percentage of tenants in arrears in Mpumalanga increased from 17.1% in Q1 to 18.5% in Q4 2022, although the figure did improve briefly during Q2 and Q3. Despite this, the province still had the fourth lowest percentage of tenants in arrears in the country, just above the national average of 18.1%.



Percentage tenants in arrears: Mpumalanga, Q1 2022 – Q4 2022
Source: PayProp

During 2022, the average arrears relative to rent improved from 81.3% in Q1 to 78.2% in Q4, in line with the national average. The province holds the fourth-best spot for this metric as well.

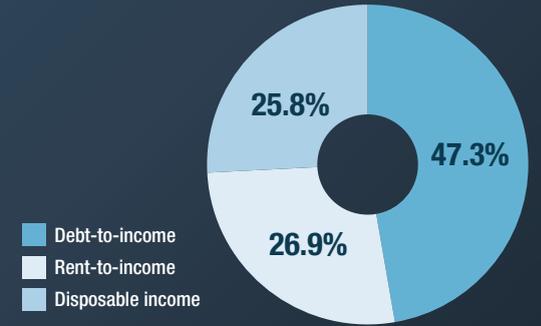


Average arrears relative to one month's rent: Mpumalanga, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

Average income in the province during the fourth quarter of 2022 was recorded as R37 837, the third highest income out of all the provinces. Income increased by 8.5% from Q4 2021 – the second highest increase measured after the Western Cape.

Mpumalanga tenants' share of income spent on debt increased as well – they spent an average of 47.3% servicing debt in Q4 2022, up from a low 35.9% during the same quarter the year before. However, they spent only 26.9% of their income on rent, below the national average of 29.1%, leaving an average of 25.8% disposable income to cover other monthly expenses. While this is substantially lower than the 36.2% disposable income tenants had available in Q4 2021, it was still the second highest in the country during the quarter.



Share of income spent on debt and rent: Mpumalanga, Q4 2022
Source: PayProp

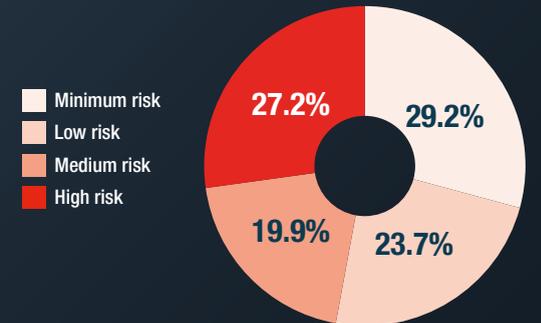
Risk

The province had the most even spread of tenants across risk categories in Q4 2022 and the third lowest percentage of high-risk tenants at 27.2%, lower than the national average of 28.5%. It was also the only province experiencing a decrease in this metric, which improved from 30.6% the year before.

29.2% of tenants were classified as minimum-risk, below the national average of 35.2%.

In Mpumalanga, 24.7% of tenants had a major delinquency listed against their name in Q4. This was the second highest percentage in the country, and worse than the 20.1% it recorded in Q4 2021.

The average credit score was 637 during the last quarter of 2022 - a one point drop from Q4 2021, and slightly worse than the national average of 641.



Credit risk distribution: Mpumalanga, Q4 2022
Source: PayProp

PROVINCIAL STATISTICS

North West



Rent and rental growth

Rental growth rates increased throughout the year in the North West province, ending the year with an impressive quarterly growth rate of 7% YoY – more than double the national average but still only the second highest rate in the country after the Northern Cape.

Average rent increased by R377 YoY to R5 760 in Q4. Despite the high rental growth, the province remains the cheapest in which to rent.

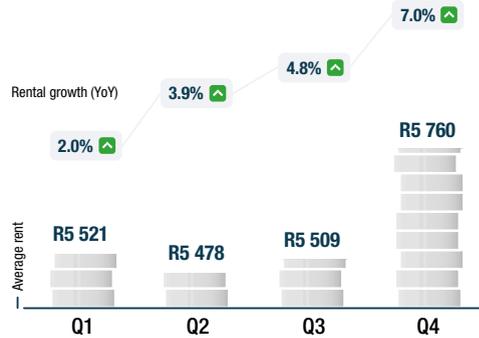
A large number of the properties managed through PayProp in the North West are student housing. Students' parents often pay the rent in these properties, and accordingly credit checks are often done on the parent, not the student. For this reason, the data from these tenancies may contradict trends in "normal" tenancies – for example, rents tend to be low while incomes are high and tenant risk is low.

Arrears

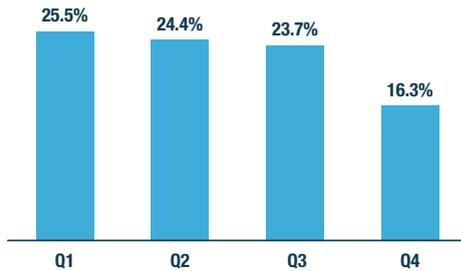
The percentage of tenants in arrears improved remarkably from Q3 to Q4 2022, with only 16.3% of tenants in this position during the last quarter of the year – the second lowest after the Western Cape.

This is especially impressive considering that the province had the country's highest percentage of tenants in arrears (25.9%) in Q2 2021, as well as the highest average arrears relative to rent (108%) in the same quarter.

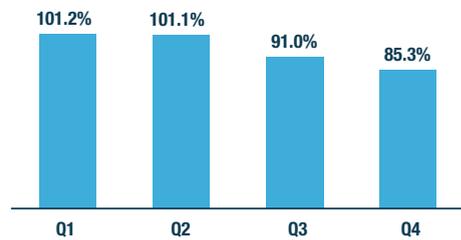
The latter metric also improved during the year, with tenants in arrears owing 'just' 85.3% of one month's rent during Q4 – down from 101.2% at the beginning of 2022. However, this was still the second highest relative arrears out of all the provinces, and higher than the national average of 78.2%.



Rent and rental growth (YoY): North West, Q1 2022 – Q4 2022
Source: PayProp



Percentage tenants in arrears: North West, Q1 2022 – Q4 2022
Source: PayProp



Average arrears relative to one month's rent: North West, Q1 2022 – Q4 2022
Source: PayProp

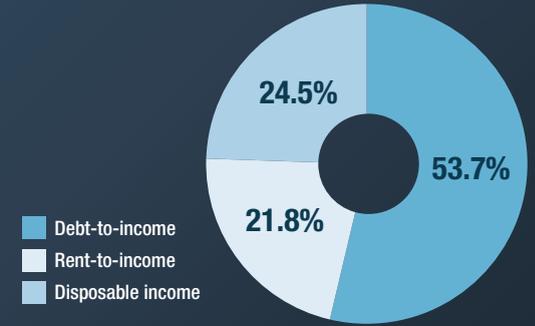
Income and spending

The anomaly explained in the note on the opposite page is clearly observable in the income and spending data of the province.

In the North West province, the average income in Q4 was R38 225, up 6.1% from the same quarter the year before. Both the income level and increase were above the national average – the province enjoyed the second highest average income and third highest income growth in the country in Q4 2022.

Tenants in the province spent more than their peers elsewhere on debt repayments, at 53.7% of their take-home pay during Q4 2022. Still, this was an improvement from Q4 2021, when the figure was 59.7%.

With the lowest average rents in the country, North West tenants spent only 21.8% of their income on rent – the lowest in the country. That left them with 24.5% of their income to cover monthly expenses.



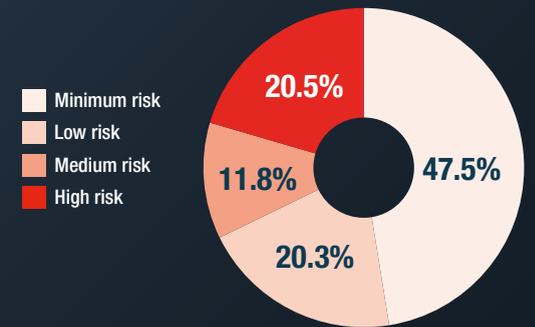
Share of income spent on debt and rent: North West, Q4 2022
Source: PayProp

Risk

Even though the percentage of high-risk tenants in the province increased from 16.1% in Q4 2021 to 20.5% in Q4 2022, it still had the second lowest percentage of this cohort after the Western Cape. It also had the second highest percentage of minimum-risk tenants, 47.5%, during Q4 2022.

Only 13.2% of tenants in the province had a major delinquency against their name, an improvement from 14.2% in Q4 2021. This was the second lowest in the country.

The average credit score in North West decreased from 660 in Q4 2021 to 654 in Q4 2022 – above the national average of 641 and the second highest in the country, only 2 points behind the Western Cape.



Credit risk distribution: North West, Q4 2022
Source: PayProp

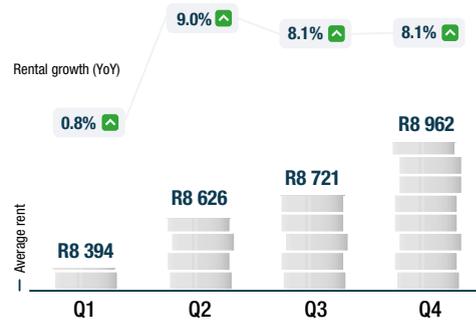
PROVINCIAL STATISTICS

Northern Cape



Rent and rental growth

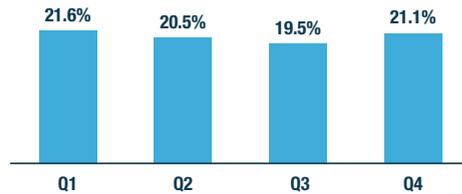
The Northern Cape had the highest YoY rental growth out of all the provinces in Q4, at 8.1%. The province returned strong rental growth figures last year, leading the rest of the pack over the last three quarters. Average rent measured R8 962 in the last quarter, up R675 from R8 287 in Q4 2021.



Rent and rental growth (YoY): Northern Cape, Q1 2022 – Q4 2022
Source: PayProp

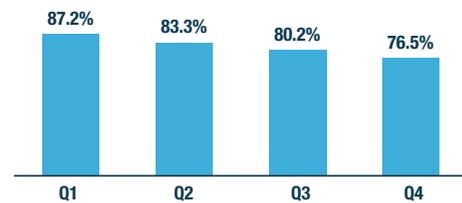
Arrears

Even though the percentage of tenants in arrears increased from 19.5% in Q3 to 21.1% in Q4, it was still a slight improvement from Q1, when 21.6% of tenants were in arrears. Nevertheless, the province had the third highest percentage of tenants in arrears in the country.



Percentage tenants in arrears: Northern Cape, Q1 2022 – Q4 2022
Source: PayProp

In contrast, arrears as a percentage of rent saw a dramatic improvement during the year, with tenants in arrears owing on average only 76.5% of one month's rent in Q4, compared to 87.2% in Q1. The average arrears percentage was also lower than the national figure of 78.2% in Q4, and the third lowest in the country.

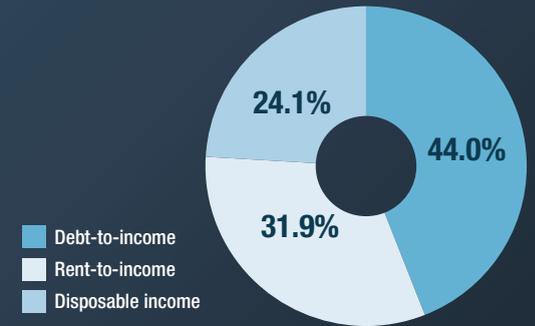


Average arrears relative to one month's rent: Northern Cape, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

Northern Cape tenants' average income, at R29 241 in Q4 2022, was the lowest in the country – almost R7 000 less than the national average income recorded. What's more, the increase in income from Q4 2021 was only 0.9% – the second lowest increase seen across the nine provinces.

Tenants spent an average of 44% of their monthly income on debt repayments, lower than the national average of 46.6%, and also lower than the 49.8% recorded in the province in Q4 2021. Another 31% was spent on rent, leaving tenants with 24.1% of their income to cover monthly expenses – in line with the 24.2% observed nationally.



Share of income spent on debt and rent: Northern Cape, Q4 2022
Source: PayProp

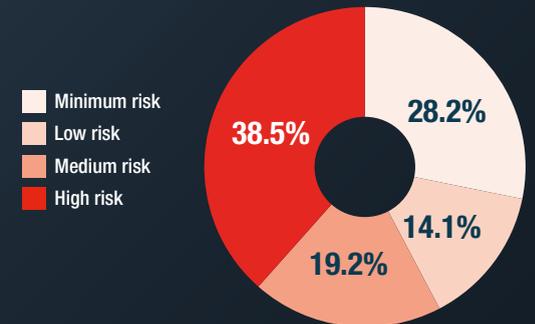
Risk

Provincially, 38.5% of tenants were classified as high-risk in Q4 2022 – above the national average of 28.5% and worse than the 32.4% it recorded in the same quarter the year before.

The share of minimum-risk tenants improved from 20.7% in Q4 2021 to 28.2% in Q4 2022, but the province had the second lowest percentage of minimum-risk tenants in the most recent quarter.

In the Northern Cape, 32.1% of tenants had a major delinquency against their name in Q4. Even though this improved slightly from Q4 2021 (33.3%), this was the highest in the country by far, and almost double the national average of 18%.

The average credit score in the province improved to 629 during the last quarter of 2022 from 626 in Q4 2021. This was the only province that experienced an improvement in credit score this year. However, its average credit score was below the national average of 641, and the second lowest in the country.



Credit risk distribution: Northern Cape, Q4 2022
Source: PayProp

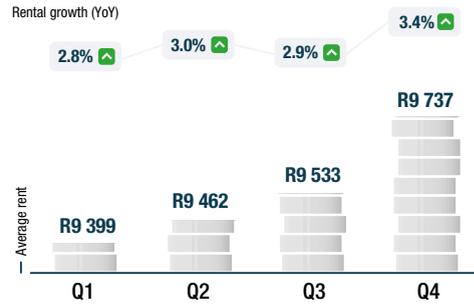
PROVINCIAL STATISTICS

Western Cape



Rent and rental growth

Year-on-year rental growth in the Western Cape remained modest during the year, ranging from 2.8% in Q1 to 3.4% in Q4, which was in line with the national average. The Western Cape remains the most expensive province in which to rent, with average rent increasing by R323 year on year to R9 737 in Q4 2022.



Rent and rental growth (YoY): Western Cape, Q1 2022 – Q4 2022
Source: PayProp

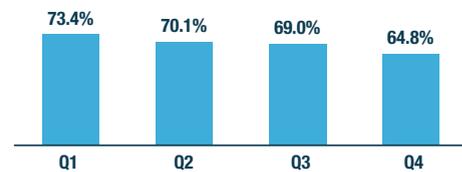
Arrears

The percentage of tenants in arrears in the Western Cape decreased slightly during the year, from 14.9% in Q2 to 14.6% in Q4. The province had the lowest percentage of tenants in arrears in the country.

The average arrears size also decreased during the year, with tenants in arrears owing only 64.8% of one month's rent in Q4, down from 73.4% in Q1. This was also the lowest out of all provinces during the last quarter.



Percentage tenants in arrears: Western Cape, Q1 2022 – Q4 2022
Source: PayProp

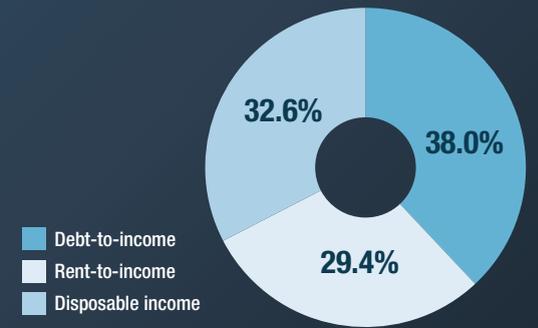


Average arrears relative to one month's rent: Western Cape, Q1 2022 – Q4 2022
Source: PayProp

Income and spending

Tenants in the Western Cape enjoyed the highest income levels observed nationally – in Q4 2022, average income in the province was R43 263, after an increase of about R3 500, or 8.9%, from Q4 2021 – the highest growth rate of all provinces and more than double the national average of 4.2%.

Western Cape tenants spent only 38% of their income on debt repayments – the lowest in the country, albeit an increase from 36.1% in the same quarter the year before. After spending 29.4% on rent, tenants were left with 32.6% of their take-home pay to cover their monthly expenses. This was the highest share of income left after debt and rent payments in the country.



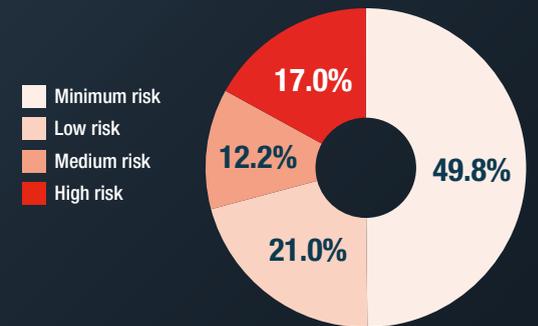
Share of income spent on debt and rent: Western Cape, Q4 2022
Source: PayProp

Risk

The Western Cape had both the highest percentage of minimum-risk tenants at 49.8% and the lowest percentage of high-risk tenants at 17% countrywide. A year before these percentages were 48.8% and 16.8%, respectively.

Only 11% of tenants had a major delinquency listed against their name in Q4 – a decrease from 12.3% in Q4 2021, and well below the national average of 18%.

The average credit score in the province remained flat at 656 between Q4 2021 and Q4 2022. This was also the highest average credit score out of all nine provinces.



Credit risk distribution: Western Cape, Q4 2022
Source: PayProp

TRENDS IN 2023

Trends shaping the property market in 2023



Michelle Dickens,
Deputy CEO, PayProp South Africa

Price sensitivity remains top of the agenda for landlords and property managers in 2023, due to high inflation and steadily rising interest rates.

This trend will compound in future years as tenant income growth remains weak, unemployment levels remain high, interest rates continue to creep upwards, and inflation – particularly utility and municipal expenses – outpaces rental escalations.

However, savvy rental agents will see the opportunities in 2023. By providing stellar service to landlords using PropTech to enhance their offering, they can attract the best properties and the most financially secure tenants.

Here are the two main trends that we can expect over the next year:

1. Landlords affected by mismatch between rent escalation and inflation

The pandemic period had a dramatic effect on rental growth, which briefly turned negative (-0.3% YoY in November 2020). Meanwhile, inflation (Consumer Price Index or CPI) bottomed out at 2.1% in May 2020.

Inflation has fallen back from its high but is still soaring at 7.2%. Meanwhile, rental growth has now recovered to pre-pandemic levels, but even with growth of 3.4% in Q4 2022, landlords are still being left behind.

Landlords are also feeling the effects of increasing interest rates, while property expenses like levies and municipal charges continue to increase at higher-than-inflation rates. Continued rental growth escalation could give landlords more breathing room, but may be difficult to achieve while tenants' affordability is also being squeezed.

2. Rising interest rates worsen tenants' debt-to-income ratio and drive down rental escalation

While most tenants are receiving below-inflation rent increases, each interest rate hike has put tenant affordability under increasing pressure as their debt obligations to credit providers increase. The average tenant now spends 46.6% of their net income on debt repayments, up from 45.3% in Q4 2021. The increasing cost of other essentials has also taken a bite out of tenants' ability to pay rent.

All that is putting downward pressure on rents. In the most recent PayProp State of the Rental Industry Survey, 85% of agents reported "moving to a more affordable property" as one of tenants' top three reasons for moving, up from 58% last year.

Prior to the COVID pandemic, SA tenants' debt-to-income ratio hovered between 42% and 48%. The low interest rate cycle of 2020 and 2021 helped bring this ratio down to 37%, giving tenants the chance to save on interest-related repayments.

But as inflation started to rise in mid-2021 and interest rates did the same in November 2021, so too did the tenant debt-to-income ratio, which breached 48% by the beginning of 2022.

This reinforces the overarching trend of affordability as the real driver behind the real estate market in 2023.

How PropTech can help alleviate the affordability crunch

Now more than ever, landlords and tenants will want to know that they are getting value for their money and that their payment collections, accounting and distribution are being handled securely and professionally.

Property managers will have the vital role of keeping rental income flowing even as affordability is being squeezed. Not only do they have a fiduciary responsibility to ensure accuracy and transparency of the reconciliation of money between the parties, but they are also uniquely well placed to reach out to tenants and check on their ability to afford rent, recover late payments and, if necessary, agree and monitor repayment plans.

The PayProp Tenant Assessment Report, which uniquely combines traditional credit scoring with rental payment behaviour, also helps rental agents to match landlords with tenants who pay reliably.

Your friend in need

In the final analysis, PropTech and FinTech can help real estate businesses to keep clients onside despite inflationary pressure.

Landlords, like tenants, will become increasingly price-sensitive as their rents fall behind inflation. Rental agents who want to stop their clients from switching to lower-priced rivals or to self-management will need to deliver a high level of service without increasing their headcount.

PropTech-driven efficiencies will be key to achieving this in 2023. ■

85% of agents reported "moving to a more affordable property" as one of tenants' top three reasons for moving, up from 58% last year.





How two Fine & Country licensees use PayProp to run their businesses their way

An interview with:



Lorraine Webb, Operations Director, Fine & Country False Bay



Sarah Crossman, Sales & Rentals Director, Fine & Country False Bay

PayProp client since: August 2022
Properties managed: 44



Tom Clode, Owner Principal, Fine & Country Franschoek

PayProp client since: July 2012
Properties managed: 15

According to the PayProp State of the Rental Industry Survey 2021, 54.8% of participating rental agents were part of a franchise group at the time of entering the survey – enjoying the reputation and marketing of a big brand while still having a lot of flexibility in how they run their businesses.

One of the few international real estate brands in South Africa, Fine & Country has around 30 licensees in South Africa, and more than 300 in total around the world focusing on high-value property sales and rentals.

“The way Fine & Country is set up is that we’re all licensees running businesses without all the rules and regulations of being franchisees. It suits us very well,” explains Lorraine Webb, Operations Director of Fine & Country False Bay.



PORTFOLIO OVERVIEW

Detailed dashboards show the properties under your management, money flows, high-risk tenants and much more in one place.

In line with that philosophy, Fine & Country recommends PropTech platforms like PayProp to its licensees without obliging them to accept it – and according to Lorraine, they’ve introduced her to some exciting solutions.

However, several licensees in South Africa have of their own accord recognised the potential of PayProp to slash time-consuming admin and help them get more out of work and more out of life – and they often share PropTech recommendations and other best practices with each other. For this interview, we spoke to the heads of two quite different Fine & Country franchises who chose to automate their rental payments with SA’s rental payment market leader.

Build the business they want

As Tom Clode, head of Fine & Country Franschoek, points out, properties in his picturesque part of the country have an instant appeal to investors.

“People fall in love with the dream of having a property here. We have overseas buyers who bought years ago and have never lived in the house. Their aspiration is to come here one day, but in the meantime they rent it out as an investment, and we look after it.”

Now, 13 years after it was founded, Fine & Country Franschoek is the definition of a boutique rental agency. Operated by a team of four – Tom, his wife Heidi, sales agent Terry, and office manager Jeneveve – it manages a handful of high-value properties, many of them for overseas investors. And according to Tom, that’s the way they like it.

“What we’ve chosen to do is focus on only the higher-value properties. You get better tenants and generally better landlords as well. They’re more understanding of the business and how rentals are never as smooth a ride as you would hope.”

Meanwhile, at Fine & Country False Bay, Lorraine already had the job she wanted: running the sales side of the business while her husband handled rentals, as he had done up to that point. But when he passed away, she was suddenly responsible for running the rental administration as well – and the systems she had inherited weren’t easy to navigate, especially for someone without a rental admin background.

When admin gets in the way

As Lorraine explains, suddenly having to manage a rental portfolio without the benefit of PropTech was like being dropped in at the deep end.

“I somehow had to take over all of the rental admin. At the time we were using Excel. For certain things I think it’s fantastic, but not when you’re having to open up four or five spreadsheets at a time. I knew I needed technological help after a very short time. Tenants and landlords weren’t going to wait while I learned the system. I tried it for six months and then I decided to come to PayProp.”

At the same time, Tom and Heidi were finding that excessive rental admin was preventing them from getting to productive tasks that would help build their new business.

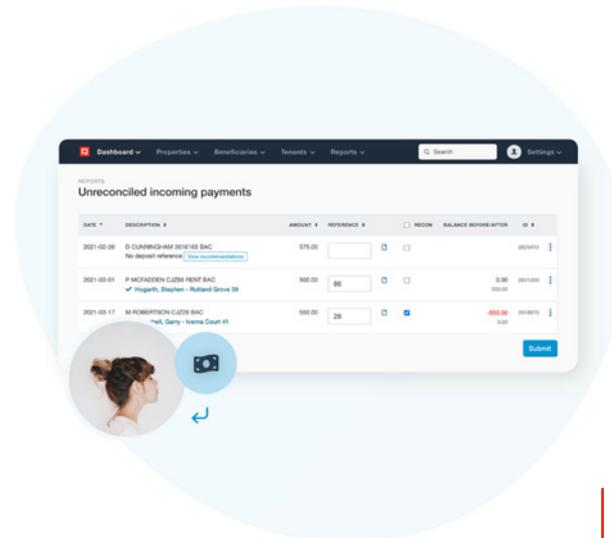
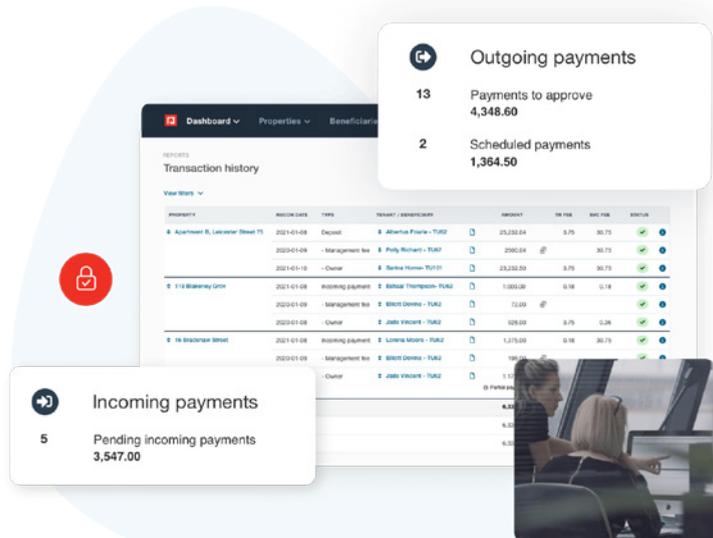
To begin with, they had a fully manual system in place, but realised very quickly that it wasn’t helping them deliver the consistent service they and their clients expected.

As Tom points out, the extra admin also had a way of creating even more follow-up admin.

“The manual system was time-consuming, and no matter how hard you focused there was always scope for human error. And errors lead to queries from your tenants and unhappiness from your landlords, and that in itself leads to more admin to correct it. It wasn’t just bad for our time efficiency, it was bad for our reputation.”

BANK-INTEGRATED

PayProp is integrated into the South African banking system, so your landlord and tenant account balances are regularly updated throughout the day and accurate to the cent.



AUTOMATED RECONCILIATION

Match payments to the right tenants in a few seconds - no matter how your tenants choose to pay.

Problem solved

With excessive admin threatening to derail their businesses, both Tom and Lorraine decided to automate the repetitive tasks and focus on the ones that needed human involvement – and the solution backed by Fine & Country was PayProp.

PayProp helps rental agents focus on growing their businesses by automating rental payment reconciliation. When the rent comes in, the platform automatically matches it to the correct tenant and property, calculates their commission and any payments to contractors, and allows them to pay the landlord, themselves and all contractors in just a couple of clicks – all on the same day. All transactional data is taken directly from the bank in real time, so agents can be confident that their trust accounts are always up to date.

The Franschhoek team were early adopters of rental payment automation, and Tom was so pleased with the results that he actually recommended it to Lorraine in False Bay.

“I explained that it would save her time and stress and enhance her relationship with her landlords,” he says. “The system was sophisticated enough to solve our issues, but also simple enough for us to understand and work with almost immediately. It’s like they say: ‘simplicity is the greatest sophistication.’”

And if Tom’s team run into anything they didn’t understand, PayProp’s support team is always just a phone call or e-mail away.

“We don’t need help often,” says Tom. “But when we do, Jeneveve is quick to contact the support centre and they’re always quick to respond.”

The False Bay team have had a similar experience, leaning on PayProp’s support team, ever-friendly and ready to help, during their onboarding. PayProp offers unlimited free support for all clients for as long as they use it. However, the platform is simple and streamlined enough that clients get to grips with it very quickly. When interviewed, Lorraine had been using PayProp for around three months and was already comfortable with using it for day-to-day admin.

OWNER APP

Say goodbye to once-a-month statements – give landlords a complete overview of all their properties and payments with the PayProp Owner App on iOS and Android.

**Selling point**

Both agencies chose PayProp for its behind-the-scenes benefits in rental payment reconciliation, administration and accounting, but both discovered customer service pluses too.

Tom says that his overseas investors tend to open bank accounts in South Africa for their rental income, so he doesn't need to make international payments. But no matter where they are in the world, investors on the go can use the PayProp Owner app to check in on their portfolios, giving them peace of mind that their investments are being looked after.

And PayProp's anytime, anywhere accessibility is a big plus for rental agents too. Agents can log in to PayProp securely from any Internet-enabled device, so it's as convenient (and quick, thanks to automation) to work from the garden as it is from the office.

"One of the challenges of this business is that it doesn't respect hours or holidays. That just goes with the territory," says Tom. "But what's nice with a system like PayProp is that you can actually work from anywhere."

Meanwhile, in False Bay, getting rental payment admin under control has given this coastal Fine & Country licensee time to focus on growth and client retention in an increasingly competitive market.

"Sales are booming. We had one of our best financial years this year. Rentals would be booming if we had enough stock," says Sarah Crossman, Sales & Rentals Director at Fine & Country False Bay. "It's very competitive in terms of finding properties to rent, and when we do get a mandate, it's renting within two weeks. Where we benefit is keeping our current clients. That ongoing renewal effort is very important to us."

No going back

With PayProp in place, the teams in Franschhoek and False Bay can focus on running their businesses the way they want – without time-consuming admin holding them back. Tom has now been using the platform for over a decade, and he's sticking with what works for him.

"I couldn't go back to life before PayProp," says Tom. "There'd be no reason to."

The False Bay team haven't spent as long with PayProp as Tom has, but they've also seen incredible admin savings.

"Before, at the end of the month we found 25-30 payments coming in on the same evening. And then I had to work either through the night or spend the next couple of days handling all of them. Now the payments come in and off PayProp goes. It's easy."

Spend less time on rental admin. Spend more time signing landlords.

- ✓ Real time reconciliation & payments
- ✓ Real time rental management
- ✓ Real time bank integration
- ✓ Real time communication
- ✓ Real time security



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REAL TIME. REAL ESTATE.

IN CLOSING

That's a wrap on 2022

2022 brought a lot of good news for the rental industry and there were strong signs of an ongoing recovery in the market:

- Rental growth rates continued to climb and reached levels last seen before the pandemic – although there were some big differences between provinces.
- Arrears metrics continued to improve, albeit slightly, throughout 2022 on a national level, and are still below levels observed in Q1 2020.

Nonetheless, affordability challenges could curb a stronger recovery in 2023:

- Interest rates increased by 350 basis points, or 3.5%, between November 2021 and December 2022, with more rate hikes forecast for 2023.
- Inflation remains stubbornly high both nationally and globally despite rising interest rates.
- Slow economic growth, partly due to unreliable electricity supply, will mean weak income growth.
- These factors are stretching tenants financially, the effects of which can be seen in the deterioration of their credit profiles in most provinces. ■

Agents should continue to proactively manage tenant arrears and vet applicants to ensure that landlords' risks are mitigated as best as possible.

ANNUAL MARKET REPORT

PayProp Rental Index

The PayProp Rental Index is a quarterly guide outlining trends in the South African residential rental market and is compiled from transactional data collected by PayProp, the largest processor of residential rental transactions in South Africa.

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The PayProp Rental Index is available on the PayProp website at www.payprop.co.za.

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“

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”



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