PayProp

RENTAL INDEX

QUARTERLY SOUTH AFRICAN RESIDENTIAL RENTAL MARKET DATA

ANNUAL MARKET REPORT 2020

In this issue:

2020 – a year in lockdown

Growth hits three straight record lows

—

First negative national rental growth in Index history

—

Arrears recovery – slow but steady

2020

Contents

Even amid so much uncertainty, agents rose to the challenge, finding new ways to run their businesses.

INTRODUCTION

The year in review

I'm sure 2020 will be remembered for a long time.

Last year was challenging for individuals, households and industries. Due to lockdown, parents had to cope with home-schooling children while also adapting to working from home. Students had to switch to online learning and living at home again. Businesses suffered financial losses and some had to permanently close their doors. We all had to deal with the fear of the unknown.

Yet we also saw more acts of kindness and humanity in 2020 than seemingly ever before. Countless people around the world travelled less but connected more. Mother Earth took a deep breath, too – the Himalayan mountains were visible from India for the first time in decades due to lower levels of pollution.

In this issue, we focus on the effects of lockdown on the rental market during the year we were glad to leave behind. Like many other industries, residential rentals were negatively affected by the economic consequences of lockdown. See how rent, arrears and financial metrics were affected on page 9.

Even amid so much uncertainty, agents rose to the challenge, finding new ways to run their businesses and continue serving clients. Read how PayProp helped our clients adapt to remote working on page 46.

Enjoy our jam-packed annual market report! We'll chat again soon. ■

Johette Smuts
Head of Data Analytics
PayProp South Africa

johette.smuts@payprop.co.za
linkedin.com/in/johettesmuts
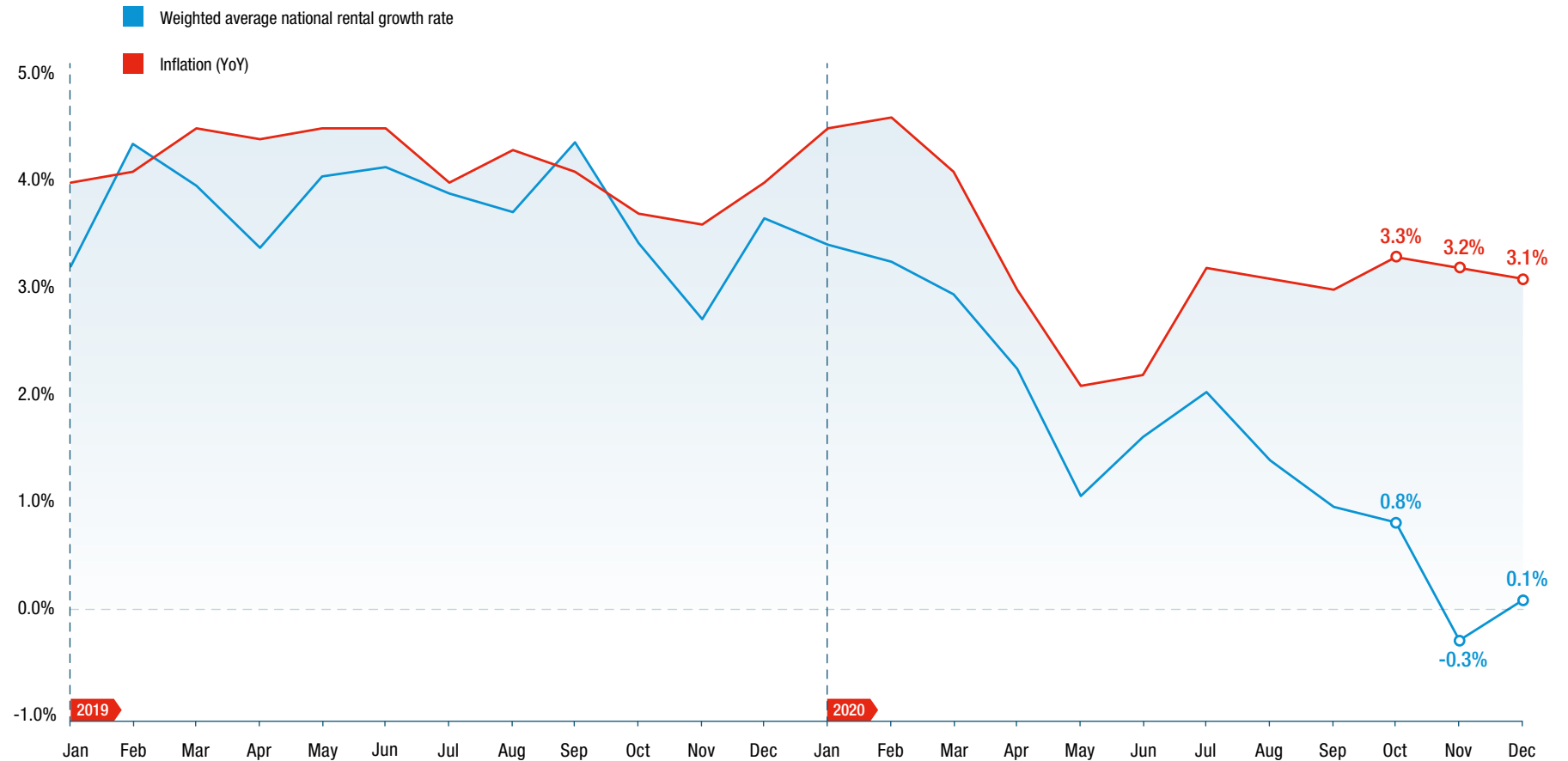
NATIONAL RENTAL GROWTH

Negative territory

In previous issues of the Rental Index, we wrote extensively about the dampening effect lockdown has had on rental growth. This continued into Q4 2020, when growth (measured year on year) was even lower than in Q2 and Q3.

In fact, in November 2020, for the first time since the PayProp Rental Index launched in 2012, growth was negative, meaning the average rent in November 2020 was cheaper than in November 2019.

Rental prices grew by 0.8% in October, when compared with the same month in 2019, and in December, a meagre 0.1%. Rent also continues to increase at a much slower pace than inflation, and the difference between the two figures (which can be visualised as the distance between the two lines in the graph) widened further during the last quarter of 2020.

Unfortunately, current lockdown regulations continue to restrict economic growth, which means many consumers will continue to feel financial pressure. Affordability will remain an important consideration for prospective tenants in 2021, and rental growth is likely to stay muted. ■

■ Weighted average national rental growth rate

■ Inflation (YoY)

Weighted average national rental growth rate (YoY) vs. inflation
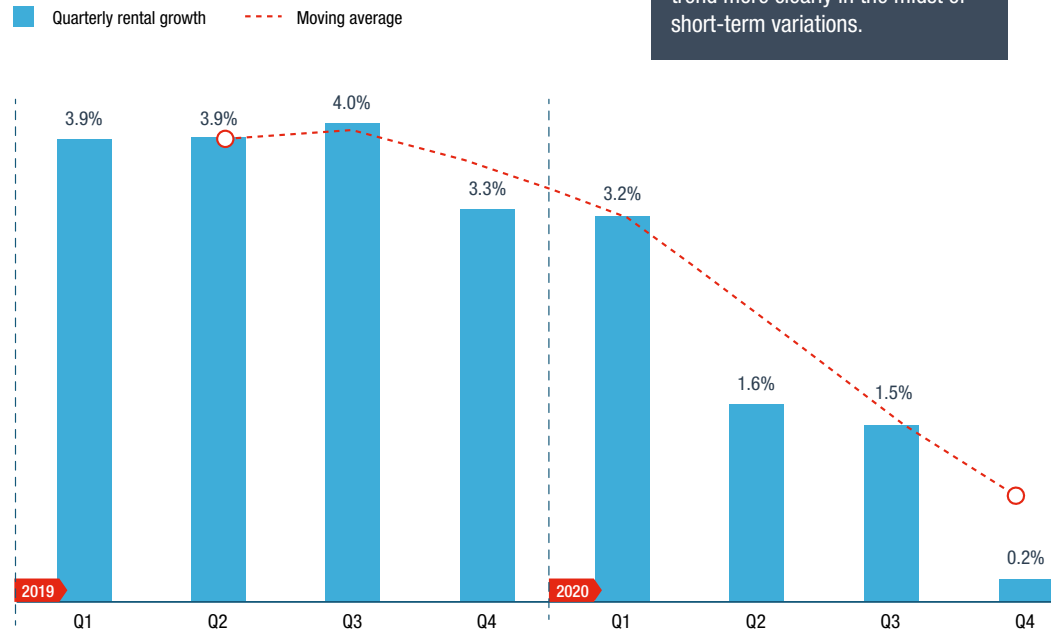**Source: PayProp**

NATIONAL RENTAL GROWTH

Quarterly update

Quarterly growth (measured year on year) hit three consecutive record lows during 2020 in Q2, Q3 and Q4. The average rent increased by only 0.2% between Q4 2019 and Q4 2020, the lowest year-on-year quarterly growth rate recorded since 2012.

It is worth noting that growth in the average rent was already slowing before the pandemic – in fact it was under pressure even before 2020. ■

MOVING AVERAGE TRENDLINE

We use a moving average trendline as it reveals the underlying growth trend more clearly in the midst of short-term variations.

■ Quarterly rental growth   - - - Moving average

Quarterly rental growth (measured YoY) with a moving trendline
Source: PayProp

2020 IN RETROSPECT

The bigger picture

In this section, we examine the average rent, rental growth and arrears metrics for the country as a whole throughout 2020. We also take a look at the credit metrics of prospective tenants over the four quarters.

In the next section, we break it down per province and highlight the most noteworthy data points.

For the purposes of this section, **quarterly rental growth** is measured year on year. For example, rental growth of 0.2% in Q4 2020 means that the average rent over the quarter increased by just 0.2% compared to Q4 2020.

% tenants in arrears looks at the total number of tenants in arrears and expresses that as a percentage of the total number of tenants.

Average arrears % expresses the average arrears amount as a percentage of the average rent. For example, average arrears of 80% means the average tenant in arrears owes 80% of a month's rent.

Average rent vs rental growth (YoY): national
Source: PayProp
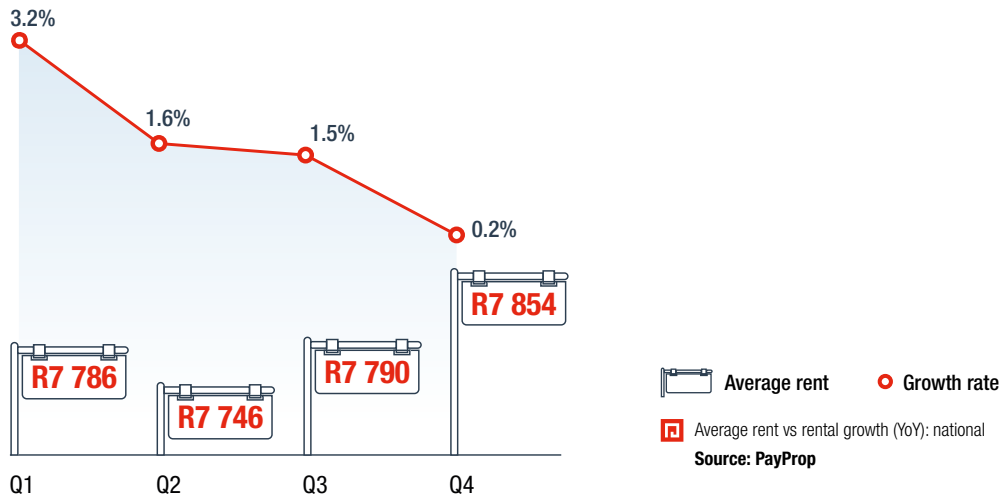
Rent and rental growth

Four years ago, at the start of 2017, rental growth rates were in excess of 7%. Since then, growth trended downward and then sideways (neither speeding up nor slowing down) between 3% and 4% for most of 2018 and 2019. Rental growth in the first quarter of 2020 still followed that trend, clocking in at 3.2%.

From Q2 2020 onward, the impact of lockdown was clear. Year-on-year rental growth dropped from 3.2% in Q1 to 1.6% in Q2, 1.5% in Q3 and just 0.2% in Q4. This is the third consecutive record quarterly low since the start of the Rental Index.

Expressed in Rand terms, the average rent increased from R7 844 in Q4 2019 to R7 854 in Q4 2020 – an increase of barely R10 over the year.

A few factors impeded growth: First, many households suffered a loss of income during 2020, lowering affordability. Tenants simply can't afford higher rent. With cooling demand for higher-priced properties, landlords had no choice but to curb their expectations when setting their asking price.

Second, with many short-term lets moving onto the long-term rental market in 2020, an oversupply of housing put further downward pressure on rental prices.

Third, many tenants chose to take advantage of low interest rates by purchasing their own homes instead of renting. By leaving the rental market, these new homeowners contributed to the oversupply of rental properties. Meanwhile, the tenants who remained tended to be the ones with lower and less stable incomes – potentially making it harder for agents to find suitable tenants.

Arrears

The two arrears metrics we track followed slightly different paths during the course of the year, but we can safely say with both that we are over the worst – arrears are looking distinctly better now than a few months ago.

We can assume that arrears in the first quarter – both tenants in arrears and arrears levels – were 'normal'. Since then, the announcement of lockdown and its financial consequences left many tenants in greater arrears.

The **percentage of tenants in arrears** peaked during the second quarter of the year, increasing from 19.4% in Q1 to 24.9% in Q2. That meant one in four tenants were in arrears! The initial uncertainty regarding the length of the strict lockdown meant that many tenants didn't know when they would be able to go back to work. As a result, many chose to pause rental payments temporarily.

However, shortly thereafter the government announced that the majority of South Africans could return to work in June. Tenants could resume their rental payments and pay off some of their arrears, which explains why this metric continued to improve throughout the rest of the year.

The pattern in the **average size of arrears relative to rent** was a little different.

From the first to the second quarter, we saw an increase in this figure. As with tenants in arrears, this can be explained by the initial lockdown – many tenants suffered a loss of income, either partially or fully, and stopped paying their rent temporarily, often after agreeing repayment plans or temporary rent reductions with their agents and landlords.

But in the third quarter of the year, average arrears increased even further, despite a drop in the percentage of tenants in arrears.

The explanation for this could be purely mathematical. If tenants with low levels of arrears repaid them quickly on returning to work, the percentage of tenants in arrears would decrease. However, the remainder would be tenants with higher levels of arrears – meaning the average arrears percentage would increase.

While it is encouraging to see a decrease in the average arrears size from Q3 to Q4, it is clear that tenants are still worse off than they were at the beginning of 2020. After all, for average arrears to fall, tenants would have to keep up with their current rental payments while also paying extra to reduce arrears – not easy in the current economic climate.

% tenants in arrears
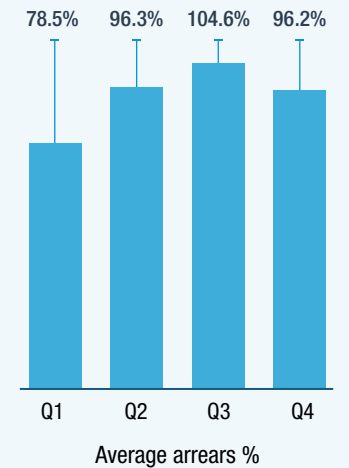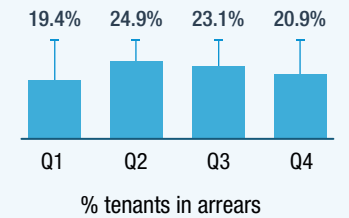
Average arrears %

Percentage tenants in arrears and average arrears percentage: weighted average
Source: PayProp

Credit metrics

National	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%
Major delinquencies	18.4%	20.2%	19.9%	18.5%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%
Affordability	77.5%	75.3%	75.1%	69.1%
Disposable income	22.5%	24.7%	24.9%	30.9%
Credit score	642	641	642	645

All national figures are weighted averages, adjusted by each province's contribution to national GDP.

CREDIT METRICS

Credit metrics must be read with due attention to the details of each credit report rather than making assumptions about a prospective tenant's financial behaviour based on a single credit score.

Considering all that happened in 2020, the credit metrics we tracked throughout the year look surprisingly good. While some worsened during the second quarter, most recovered well and even showed improvement compared to Q1.

Interpretation

When interpreting credit metrics for 2020, it is important to keep in mind that they are taken from credit checks done each quarter via the PayProp system. By definition, this represents the pool of applicants looking to rent property, and hence does not track the same pool of tenants throughout the year.

It is also important to consider that in general, lower-income renters were hit harder by job losses and pay cuts in the early stages of the lockdown. Many prospective tenants had to move in with relatives, while others opted to stay in their current properties for longer instead of applying for new ones. If a large number of tenants with lower incomes (and hence worse credit metrics) fell out of the reckoning in this way, this could have skewed the average credit metrics across the board.

Against that backdrop, let's look at these metrics in more detail:

Income and income growth

Despite a shrinking economy, income increased by 3.9% from Q4 2019 to Q4 2020. Net monthly income at the end of 2020 was R34 531.

At first glance, the year-on-year increase for Q2 seems very high. But as mentioned above, lower-income tenants might not have applied for rental properties at all due to financial difficulty, inflating the average income of the pool thus monitored.

Major delinquencies

DEFINITION

Major delinquencies recorded against a prospective tenant can include legal judgements, adverse accounts, debt restructuring, defaults, notices, and accounts in arrears for 90 days or more in the past 12 months.

In the last quarter of 2020, 18.5% of prospective tenants had at least one major delinquency compared to 18.4% in Q1. This number worsened slightly to 20.2% and 19.9% in Q2 and Q3 respectively, but recovered in Q4.

Affordability ratio and disposable income

DEFINITION

Rent-to-income ratio + debt-to-income ratio = affordability ratio

100% (of income) - affordability ratio = disposable income

The **rent-to-income ratio** seen throughout the year varied between 30.4% and 29.1% – in line with historic percentages.

The **debt-to-income ratio**, however, followed quite a different trend. Before lockdown in Q1, the average debt-to-income ratio was 47.9%. By comparison, the highest level seen in 2019 was 46.9%. The average debt-to-income ratio then improved substantially between Q1 and Q4 2020. At the end of 2020, it was 40% – the lowest level recorded in the last three years.

Because of the sharp fall in debt-to-income ratios observed in 2020, the affordability ratio also improved throughout the year. The decrease in the rent-to-income ratio between Q3 and Q4 (from 30.2 to 29.1%) further contributed to the improvement, and by the end of the year, the affordability ratio had fallen below 70% for the first time in years.

Of course, when tenants spend less of their income on rent and debt repayments, they have more disposable income. During 2020, tenants went from having 22.5% of their income left after rent and debt to having over 30% left as disposable income.

Again, keep in mind that these figures could be skewed for the reasons outlined in the Interpretation paragraph above.
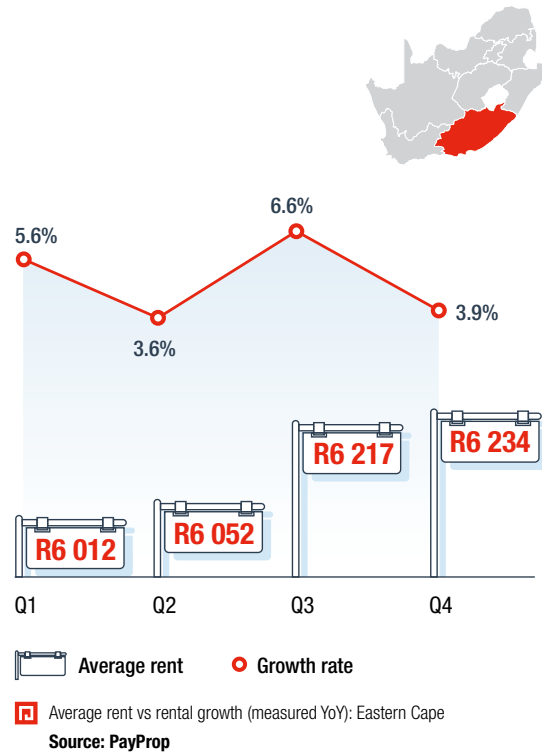
Credit score

Lastly, let's consider the credit score movement over the year. In Q1, PayProp credit checks recorded an average credit score of 642. During Q2, it worsened by 1 point, before improving again to 642 in Q3 and recovering to 645 in Q4 – equal to the average credit score observed in Q4 2019.
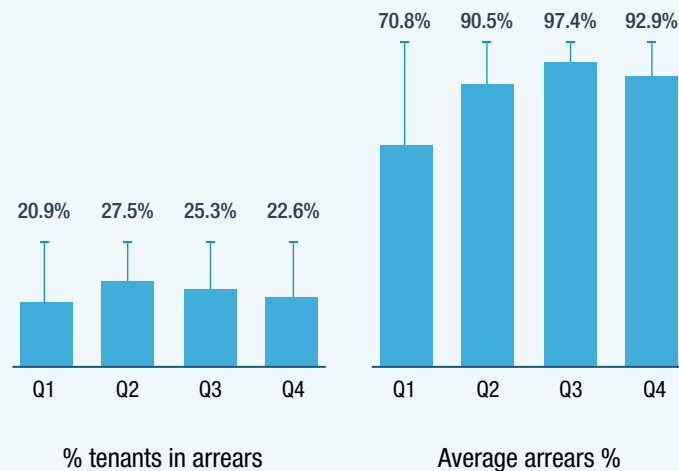
Eastern Cape

Rent and rental growth

The Eastern Cape's average rent, R6 234 in Q4 2020, was the second lowest out of all the provinces. However, the province's rental growth was a nation-leading 3.9%.

Average rent vs rental growth (measured YoY): Eastern Cape
Source: PayProp

- ▬ Average rent
- ○ Growth rate

5.6%
3.6%
6.6%
3.9%

R6 012
R6 052
R6 217
R6 234

Q1 Q2 Q3 Q4

Arrears

The Eastern Cape experienced the same broad arrears fluctuations as the country overall. However, at the end of the year, 22.6% of tenants were in arrears – higher than the national average of 20.9%. By contrast, the average arrears percentage of 92.9% was lower than the national average of 96.2%.

Percentage tenants in arrears and average arrears percentage: Eastern Cape
Source: PayProp

20.9% 27.5% 25.3% 22.6%

Q1 Q2 Q3 Q4
% tenants in arrears

70.8% 90.5% 97.4% 92.9%

Q1 Q2 Q3 Q4
Average arrears %

Credit metrics

The Eastern Cape's average income of R28 383 in Q4 was the second lowest in the country above the Free State, and more than R6 000 below the national average. The year-on-year income growth of 1.7% was also lower than the national figure of 3.9%. In Q3, the province even experienced negative income growth compared to Q3 2019.

The province had more delinquent tenants at the end of the year than in Q1, and also saw the average credit score decline from 642 to 639 throughout the year.

The province's debt-to-income ratio increased during the year and ended up at 38.1%, slightly better than the national average of 40%.

Thanks to a low and falling debt-to-income ratio, the affordability ratio of 67.1% was also better than the national figure. Tenants in the province had 32.9% of their income left after rent and debt repayments, beating the national average of 30.9%. ■

Q4 average income
R28 383
▌ The second lowest in the country

Q4 income growth
1.7%
▌ Worse than the national average (3.9%)

Q4 rent-to-income ratio
29%
▌ In line with the national average (29.1%)

Q4 disposable income
32.9%
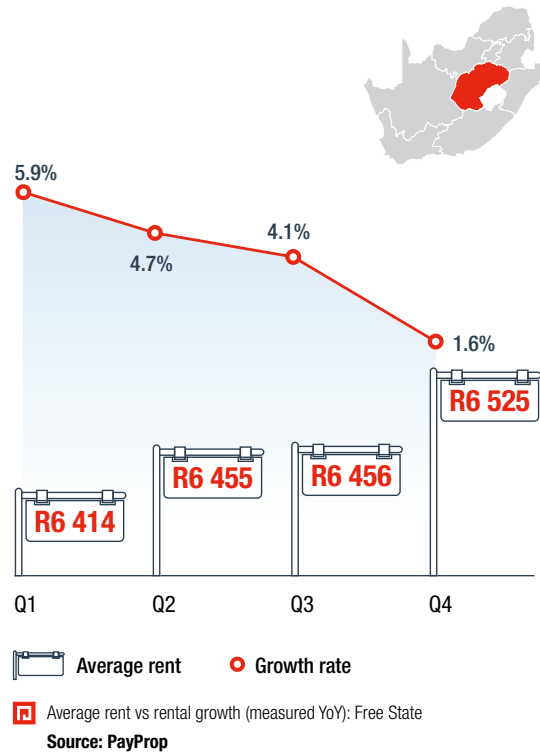▌ Better than the national average (30.9%)

	National				Eastern Cape			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	28 158	27 208	25 723	28 383
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	0.4%	4.1%	-3.8%	1.7%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	18.6%	20.5%	20.2%	20.1%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	46.5%	52.2%	43.8%	38.1%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	28.1%	29.4%	30.1%	29.0%
Affordability	77.5%	75.3%	75.1%	69.1%	74.6%	81.6%	73.9%	67.1%
Disposable income	22.5%	24.7%	24.9%	30.9%	25.4%	18.4%	26.1%	32.9%
Credit score	642	641	642	645	642	634	635	639

Credit metrics: national vs Eastern Cape
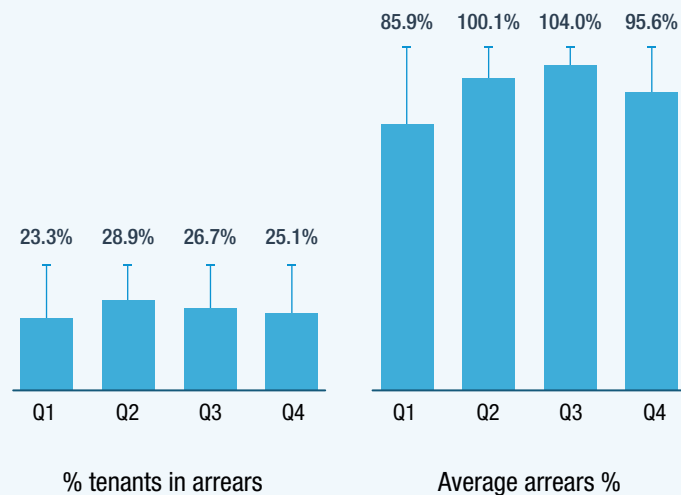**Source: PayProp**

Free State

Rent and rental growth

At R6 525 in Q4, the Free State average rent is currently the third lowest in the country, but showed great growth throughout the year. The last quarter's growth of 1.6% was the second highest in South Africa (after the Eastern Cape) and well above the national figure of 0.2%.

5.9%
4.7%
4.1%
1.6%

R6 525
R6 455
R6 456
R6 414

Q1   Q2   Q3   Q4

Average rent   Growth rate

Average rent vs rental growth (measured YoY): Free State
Source: PayProp

Arrears

The Free State had the second-highest percentage of tenants in arrears, sitting at 25.1% at the end of 2020. On average, tenants owed 95.6% of one month's rent at the end of the year – a big improvement from the 104% seen in the previous quarter.

23.3%   28.9%   26.7%   25.1%

Q1   Q2   Q3   Q4

85.9%   100.1%   104.0%   95.6%

Q1   Q2   Q3   Q4

Percentage tenants in arrears and average arrears percentage: Free State
Source: PayProp

% tenants in arrears

Average arrears %

Credit metrics

Comparing income between Q1 and Q4 of 2020 revealed little change. Year-on-year income comparisons, however, showed that the average income fell by 9.3% between Q4 2019 and Q4 2020. The Free State had both the worst income growth and the lowest income out of all the provinces.

While the percentage of applicants with major delinquencies increased in Q2 and Q3 to a high of 27.4%, it recovered to 23.3% in Q4 – a big improvement, but still worse than the national average of 18.5%. The average credit score also ended the year at 642, a little below the national average of 645.

The debt-to-income ratio in the Free State improved remarkably throughout the year. In Q1, applicants were spending 61.2% of their income on debt repayments, compared to only 40.2% in Q4. Between this and a slightly lower rent-to-income ratio, the affordability ratio ended the year at 69%, in line with the national average. ∎

Q4 average income
R27 206
| The lowest income out of all the provinces

Q4 income growth
-9.3%
| The worst out of all the provinces

Q4 rent-to-income ratio
28.8%
| Lower than the national average (29.1%)

Q4 disposable income
31%
| Better than the national average (30.9%)

|	National				Free State			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	27 693	28 058	30 882	27 706
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	5.3%	-0.4%	-1.9%	-9.3%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	19.7%	25.8%	27.4%	23.3%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	61.2%	54.3%	41.3%	40.2%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	29.0%	29.2%	29.6%	28.8%
Affordability	77.5%	75.3%	75.1%	69.1%	90.2%	83.4%	70.9%	69.0%
Disposable income	22.5%	24.7%	24.9%	30.9%	9.8%	16.6%	29.1%	31.0%
Credit score	642	641	642	645	645	643	634	642

Credit metrics: national vs Free State
**Source: PayProp**

Gauteng

Rent and rental growth

Gauteng rents remained high throughout the year, and at R8 421 were only beaten by the Western Cape. Rental growth trended downward during the course of the year, mirroring the trend seen in national rental growth. In Q4 this figure was 0.7% – sluggish, but still higher than the national average of 0.2%.

Average rent vs rental growth (measured YoY): Gauteng
Source: PayProp
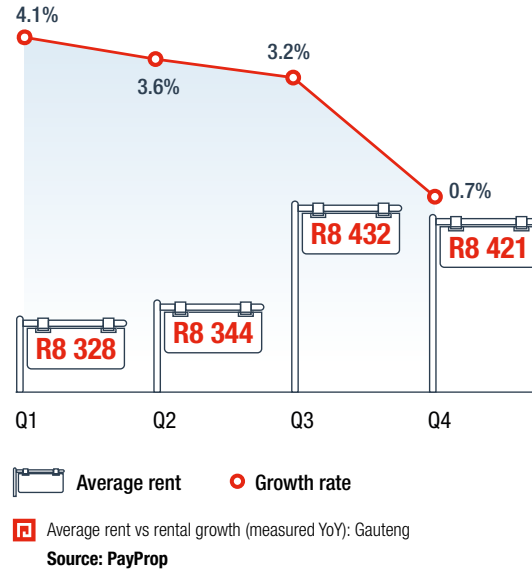
Arrears

Gauteng ended the year with a lower-than-average percentage of tenants in arrears (19.6% vs 20.9% nationally), but those tenants in arrears had a higher-than-average arrears percentage. Tenants in arrears owed on average exactly one month's rent versus 96.2% nationally.

Percentage tenants in arrears and average arrears percentage: Gauteng
Source: PayProp

% tenants in arrears

Average arrears %
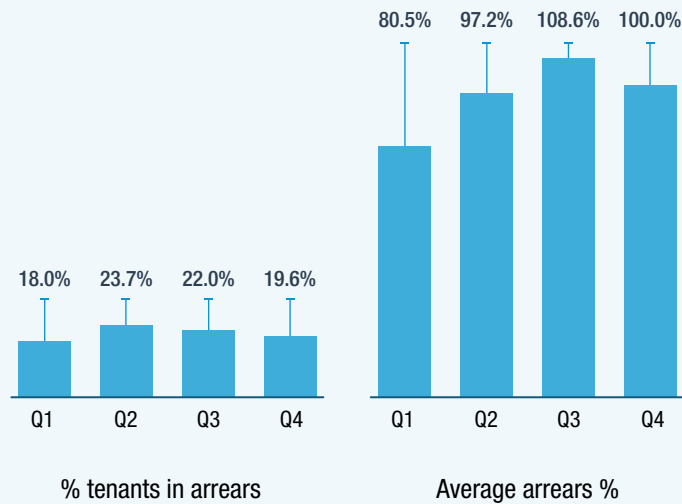
Credit metrics

Prospective tenants in Gauteng had an income slightly above the national average and showed great year-on-year growth in all four quarters.

While the percentage of delinquent tenants was slightly higher in Q4 (17%) than in Q1 (16.3%), it was better than the national average of 18.5%.

As was the case with the national metric, the debt-to-income ratio for the province improved between the first and last quarters of the year. Tenants spent on average 39.6% of their income on debt repayments in Q4.

The rent-to-income ratio ended the year slightly better – tenants spent 30.9% of their income on rent in Q1 vs 30.6% in Q4.

Improvements in both these metrics meant that the affordability ratio also improved. At the end of the year, tenants spent 70.3% of their income on debt and rent, leaving them with a disposable income of 29.7% of their monthly net income.

As with the trend seen nationally, the average credit score improved from 643 to 646 over the year, despite a slight dip in the second quarter. ◼

Q4 average income
R34 975
| Slightly above the national average (R34 531)

Q4 income growth
6.2%
| Better than the national average (3.9%)

Q4 rent-to-income ratio
30.9%
| Higher than the national average (29.1%)

Q4 disposable income
29.7%
| Lower than the national average (30.9%)

|	National				Gauteng			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	33 644	33 108	34 572	34 975
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	8.7%	6.4%	8.1%	6.2%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	16.3%	17.0%	16.8%	17.0%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	46.4%	48.2%	44.3%	39.6%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	30.9%	31.6%	31.4%	30.6%
Affordability	77.5%	75.3%	75.1%	69.1%	77.3%	79.9%	75.7%	70.3%
Disposable income	22.5%	24.7%	24.9%	30.9%	22.7%	20.1%	24.3%	29.7%
Credit score	642	641	642	645	643	642	644	646

Credit metrics: national vs Gauteng
Source: PayProp
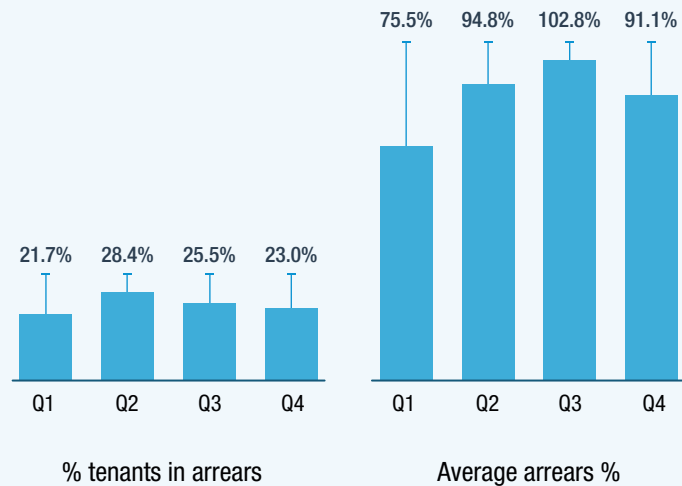
KwaZulu-Natal

Rent and rental growth

Rent in KwaZulu-Natal became slightly cheaper between Q1 and Q4 of 2020, albeit only by R9 a month. But even after three consecutive quarters of negative year-on-year rental growth, the province is still the third-most expensive in which to rent.

3.3%

-1.6%

-0.9%

-0.9%

R8 241

R8 037

R8 123

R8 232

Q1 Q2 Q3 Q4

▭ Average rent ⊙ Growth rate
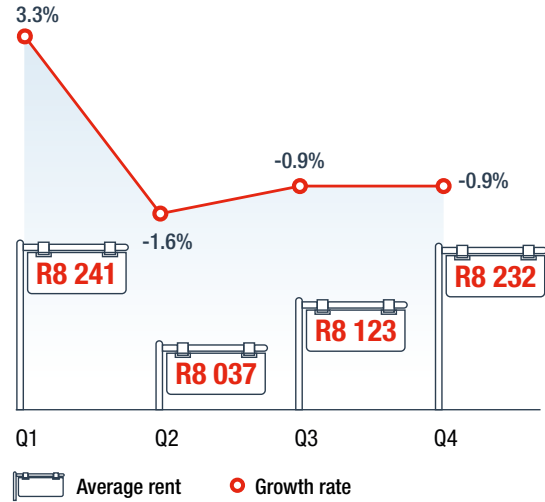
Average rent vs rental growth (measured YoY): KwaZulu-Natal
Source: PayProp

Arrears

KwaZulu-Natal had the third-highest percentage of tenants in arrears at the end of the year at 23%, worse than the national average of 20.9%. On the flipside, it also had the third-lowest average arrears relative to rent in the province, ending the year at 91.1%.

Percentage tenants in arrears and average arrears percentage: KwaZulu-Natal
Source: PayProp

21.7% 28.4% 25.5% 23.0%

Q1 Q2 Q3 Q4

% tenants in arrears

75.5% 94.8% 102.8% 91.1%

Q1 Q2 Q3 Q4

Average arrears %

Credit metrics

The province had the second-highest average income in Q4. Year-on-year income growth measured 2.9%, lower than the national average of 3.9%.

The percentage of tenants with major delinquencies increased in the second and third quarters of the year but recovered to 18.1% in Q4, the same percentage as in Q1. This was marginally better than the national average of 18.5%.

The debt-to-income ratio improved from Q1 to Q4 in spite of a spike in Q3, to a level slightly above 50%.

The lower debt-to-income ratio, coupled with a marginally lower rent-to-income ratio, improved the affordability ratio as well. After spending 68.1% of net income on rent and debt, prospective tenants had 31.9% of their income left – slightly more than the national average of 30.9%.

Overall, the credit score improved during the course of the year and ended at 643 – two points lower than the national average at 645. ■

Q4 average income
R36 921
Higher than the national average (R34 531)

Q4 income growth
2.9%
Lower than the national average (3.9%)

Q4 rent-to-income ratio
29.9%
Higher than the national average (29.1%)

Q4 disposable income
31.9%
More than the national average (30.9%)

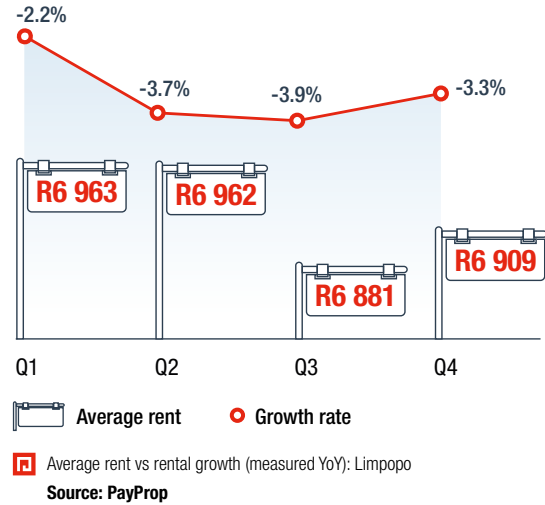|	National				KwaZulu-Natal			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	33 425	38 792	34 722	36 921
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	-0.2%	18.6%	-2.6%	2.9%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	18.1%	23.9%	24.6%	18.1%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	46.4%	35.4%	50.9%	38.2%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	30.4%	29.1%	30.3%	29.9%
Affordability	77.5%	75.3%	75.1%	69.1%	76.8%	64.5%	81.2%	68.1%
Disposable income	22.5%	24.7%	24.9%	30.9%	23.2%	35.5%	18.8%	31.9%
Credit score	642	641	642	645	640	642	642	643

Credit metrics: national vs KwaZulu-Natal
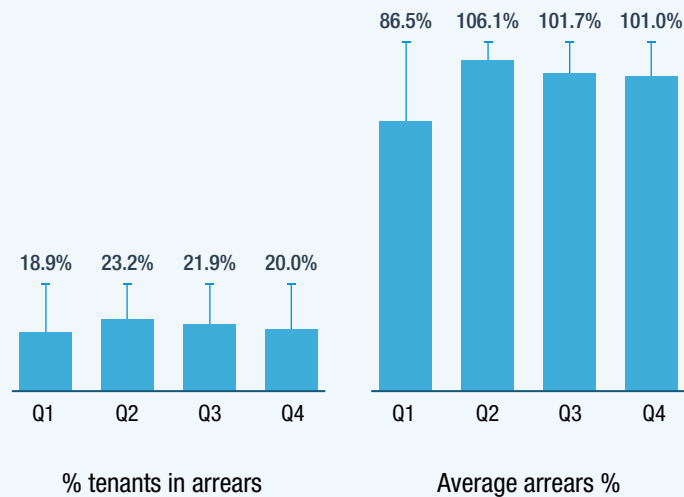**Source: PayProp**

Limpopo

Rent and rental growth

In Limpopo, rents continued to fall over the year when compared to the year before. The province experienced four quarters of negative rental growth (measured year on year) – and the same was true for 2019. Average rent of R6 909 in Q4 was down 3.3% over the same quarter the previous year, making it the worst-performing province in terms of rent growth.

-2.2%
-3.7%
-3.9%
-3.3%

R6 963   R6 962   R6 881   R6 909

Q1   Q2   Q3   Q4

■ Average rent   ○ Growth rate

Average rent vs rental growth (measured YoY): Limpopo
Source: PayProp

Arrears

The percentage of tenants in arrears in Q4, 20%, was slightly better than the national average of 20.9%. However, at 101%, Limpopo had the second-highest average arrears relative to rent.

Percentage tenants in arrears and average arrears percentage: Limpopo
Source: PayProp

18.9%   23.2%   21.9%   20.0%

Q1   Q2   Q3   Q4

% tenants in arrears

86.5%   106.1%   101.7%   101.0%

Q1   Q2   Q3   Q4

Average arrears %

Credit metrics

The average income of prospective tenants in Q4 was higher than the national average, and that can largely be attributed to a massive 20.3% increase in income between Q4 2019 and Q4 2020.

Limpopo had 22.3% prospective tenants with delinquencies in Q4 – lower than the 23.8% measured in Q1 but higher than the national average of 18.5%.

Even though the province's debt-to-income ratio showed some improvement during the course of the year, it still had the second-highest ratio in Q4, at 48.2%.

The rent-to-income ratio was the second lowest and driven downward by rising incomes and falling rents.

Both ratios being lower had a positive effect on the affordability ratio too. After spending 73.9% of their net income on debt and rent payments, prospective tenants in the province had 26.1% of their income left – less than the national average of 30.9% but an improvement from Q1, when tenants only had 19% disposable income.

The average credit score improved from Q1 to Q4 and ended at 643, only two points lower than the national average. ■

Q4 average income
R35 110
▌ Higher than the national average (R34 531)

Q4 credit score
643
▌ Two points worse than the national average

Q4 rent-to-income ratio
25.7%
▌ The second lowest in the country

Q4 disposable income
26.1%
▌ Lower than the national average (30.9%)

|	National				Limpopo			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	32 025	34 417	32 513	35 110
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	5.9%	-1.4%	2.8%	20.3%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	23.8%	30.7%	23.6%	22.3%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	51.7%	47.3%	44.4%	48.2%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	29.3%	30.6%	27.8%	25.7%
Affordability	77.5%	75.3%	75.1%	69.1%	81.0%	77.9%	72.2%	73.9%
Disposable income	22.5%	24.7%	24.9%	30.9%	19.0%	22.1%	27.8%	26.1%
Credit score	642	641	642	645	637	643	634	643

Credit metrics: national vs Limpopo
Source: PayProp
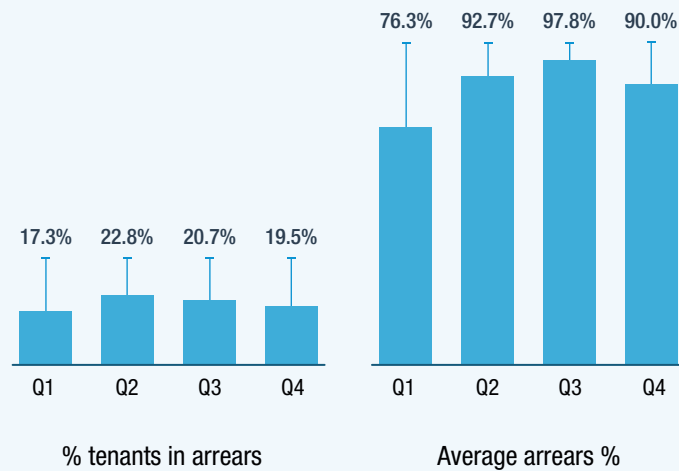
Mpumalanga

Rent and rental growth

Average rent in Mpumalanga in Q4 was R7 504, below the national average of R7 854. By contrast, rental growth was higher than the national average of 0.2% at 1.4%.
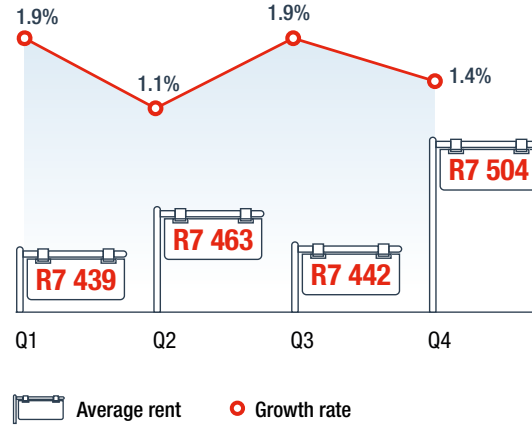
Average rent vs rental growth (measured YoY): Mpumalanga
Source: PayProp

1.9%   1.9%   1.1%   1.4%

R7 439   R7 463   R7 442   R7 504

Q1   Q2   Q3   Q4

Average rent ○ Growth rate

Arrears

Both of the province's arrears metrics were second best out of all the provinces. At the end of the year, only 19.5% of Mpumalanga tenants were in arrears (better than the national average of 20.9%), and late-paying tenants in the province owed only 90% of a month's rent on average.

Percentage tenants in arrears and average arrears percentage: Mpumalanga
Source: PayProp

17.3%   22.8%   20.7%   19.5%

Q1   Q2   Q3   Q4

% tenants in arrears

76.3%   92.7%   97.8%   90.0%

Q1   Q2   Q3   Q4

Average arrears %

Credit metrics

The average income of prospective tenants in Mpumalanga came in below the national average in Q4. Income also increased more slowly than in other provinces – by 1.6% between Q4 2019 and Q4 2020, compared to a 3.9% increase in income over the same period seen nationally.

The province experienced an increase in the percentage of tenants with major delinquencies during the year, starting at 24.2% in Q1 and ending at 27% in the last quarter.

While the debt-to-income ratio in Q4 was lower than in Q1, it was the highest in the country. Prospective tenants spent a little more than half of their net income on debt repayments alone.

The lower-than-average rent-to-income ratio helped matters slightly, but the province still had the highest provincial affordability ratio at the end of the year. Tenants spent 78% of their income on rent and debt repayments, leaving only 22% as disposable income.

Mpumalanga tenants also had the second-lowest average credit score in the last quarter – at 636, it was 9 points lower than the national average of 645. ∎

Q4 average income
R33 732
▏ Below the national average (R34 531)

Q4 income growth
1.6%
▏ Worse than the national average (3.9%)

Q4 rent-to-income ratio
27.8%
▏ Lower than the national average (29.1%)

Q4 disposable income
22%
▏ Worse than the national average (30.9%)

	National				Mpumalanga			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	30 765	33 359	30 643	33 722
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	-8.0%	17.4%	8.2%	1.6%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	24.2%	19.1%	22.4%	27.0%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	56.2%	42.7%	48.4%	50.2%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	27.4%	28.2%	28.3%	27.8%
Affordability	77.5%	75.3%	75.1%	69.1%	83.6%	70.9%	76.7%	78.0%
Disposable income	22.5%	24.7%	24.9%	30.9%	16.4%	29.1%	23.3%	22.0%
Credit score	642	641	642	645	635	640	635	636

Credit metrics: national vs Mpumalanga
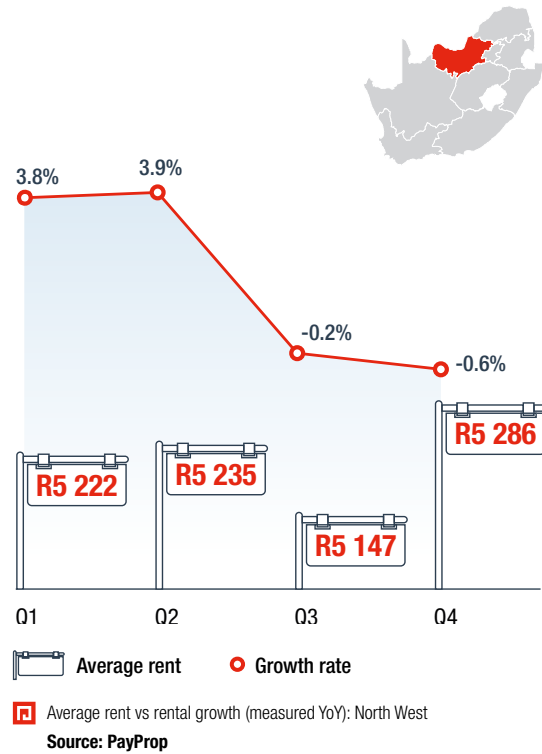**Source: PayProp**

North West

Rent and rental growth

North West's average rent remained the cheapest out of all the provinces at R5 286 in Q4. This is mostly due to the lower pricing of student housing. Between Q4 2019 and Q4 2020, average rent declined by 0.6%.

The North West province continues to be an anomaly. Because of the high concentration of student housing in the province managed through PayProp, the trends often differ from what we see nationally.

Credit checks are done on parents, not on students, while rents are linked to the pricing of student housing. Arrears metrics are also affected by this.

3.8%   3.9%   -0.2%   -0.6%

R5 222   R5 235   R5 147   R5 286

Q1   Q2   Q3   Q4

Average rent   ○ Growth rate

Average rent vs rental growth (measured YoY): North West
Source: PayProp

Arrears

The North West had both the highest percentage of tenants in arrears (25.4%) and the highest average arrears relative to rent (101.3%) in the country at the end of 2020.

Even so, at 25.4% in Q4, the percentage of tenants in arrears was below that of Q1 (26.6%).

Percentage tenants in arrears and average arrears percentage: North West
Source: PayProp

26.6%   28.9%   27.2%   25.4%

Q1   Q2   Q3   Q4

% tenants in arrears

91.8%   103.7%   107.8%   101.3%

Q1   Q2   Q3   Q4

Average arrears %
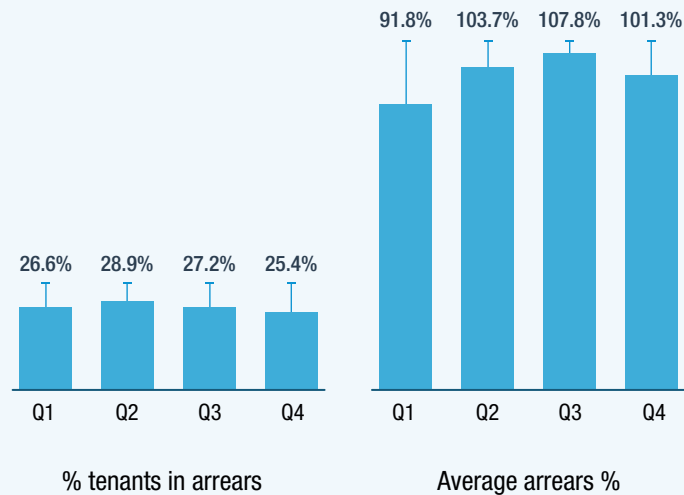
Credit metrics

Average income of R33 279 in the last quarter was only slightly lower than the national figure of R34 531, but that gap is growing. Between Q4 2019 and Q4 2020, income in the province declined by 7.8%.

North West had the second-lowest percentage of tenants with major delinquencies at 14.2%. Keep in mind that credit checks are usually done on students' parents, who tend to have better credit records than students. This can also be seen in the significantly-above-average credit score of 653 for the province.

The province's debt-to-income ratio improved during the year and ended 2020 in line with the national average of 40%. Because of the low rents in the province, the rent-to-income ratio was 22% in Q4, the lowest in the country.

This brought the affordability ratio to 62%, leaving tenants (or their parents) with 38% of their net income as disposable cash. ■

Q4 average income
R33 279
| Below the national average (R34 531)

Q4 income growth
1.6%
| Worse than the national average (3.9%)

Q4 rent-to-income ratio
22%
| The lowest in the country

Q4 disposable income
38%
| Higher than the national average (30.9%)

|	National				North West			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	28 423	28 399	34 741	33 279
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	12.5%	-1.9%	0.2%	-7.8%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	19.8%	23.6%	18.9%	14.2%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	52.7%	47.3%	47.0%	40.0%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	22.7%	27.2%	24.2%	22.0%
Affordability	77.5%	75.3%	75.1%	69.1%	75.4%	74.5%	71.2%	62.1%
Disposable income	22.5%	24.7%	24.9%	30.9%	24.6%	25.5%	28.8%	37.9%
Credit score	642	641	642	645	643	631	643	653

Credit metrics: national vs North West
Source: PayProp

Northern Cape

Rent and rental growth

Even though average rents in the Northern Cape contracted by 2.9% between Q4 2019 and Q4 2020, they were still higher than the national average of R7 854.
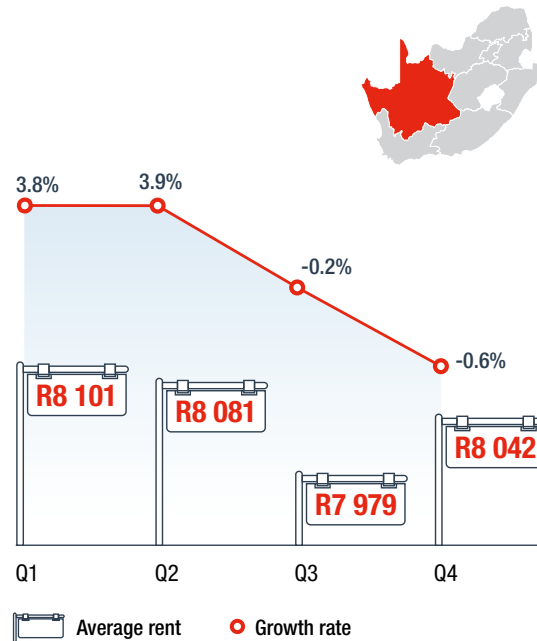

Average rent vs rental growth (measured YoY): Northern Cape
Source: PayProp

Arrears

At the end of the year, 21.7% of tenants in the Northern Cape were in arrears – only 0.5% more than in the first quarter, but higher than the national average of 20.9%.

Unusually, the province's average arrears percentage peaked in the second quarter while all the other provinces (except Limpopo) saw this figure peak in Q3. In Q4, the Northern Cape had the lowest average arrears relative to rent, at 86.3%.
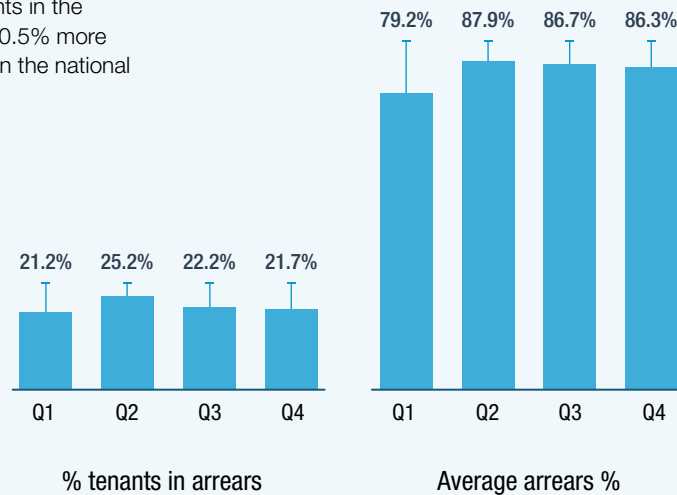
Percentage tenants in arrears and average arrears percentage: Northern Cape
Source: PayProp

% tenants in arrears   Average arrears %

Credit metrics

Prospective tenants in the Northern Cape enjoyed an increase in income of over R4 000 between the first and last quarters of the year, but still lagged the national average. Income growth of 13.3% was recorded between Q4 2019 and Q4 2020 – the second-highest year-on-year growth after Limpopo.

Despite this and the percentage of delinquent tenants dropping slightly from the beginning to the end of the year, 30.1% of Northern Cape tenancy applicants had at least one major delinquency in Q4. This was substantially higher than the national average of 18.5% – and the highest in the country.

As with most other provinces, the debt-to-income ratio in the Northern Cape improved between Q1 and Q4 (despite increasing in Q2 and Q3). At 37.2% in Q4, the province had the lowest debt-to-income ratio in the country. The rent-to-income ratio also improved throughout the year.

These lower ratios combined to lower the affordability ratio – from 78.1% in Q1 to 65.4% in Q4 – leaving 34.6% of prospective tenants' net income as disposable cash.

The average credit score in the Northern Cape also improved throughout the year, ending at 633. However, this was still 12 points lower than the national average and the lowest score seen across all provinces – perhaps thanks to all those major delinquencies affecting credit records. ■

Q4 average income
R33 047
| An increase of over R4 000 between Q1 and Q4

Q4 income growth
13.3%
| The second-highest year-on-year growth

Q4 rent-to-income ratio
28.1%
| Lower than the national average (29.1%)

Q4 disposable income
## 34.6%
| Better than the national average (30.9%)

	National				Northern Cape			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	28 906	29 347	31 351	33 047
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	-7.4%	-3.6%	3.4%	13.3%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	32.6%	20.9%	26.1%	30.1%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	46.3%	53.0%	55.6%	37.2%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	31.8%	31.1%	30.0%	28.1%
Affordability	77.5%	75.3%	75.1%	69.1%	78.1%	84.1%	85.6%	65.4%
Disposable income	22.5%	24.7%	24.9%	30.9%	21.9%	15.9%	14.4%	34.6%
Credit score	642	641	642	645	629	625	629	633

Credit metrics: national vs Northern Cape
Source: PayProp

Western Cape

Rent and rental growth

Rent in the Western Cape decreased by R45 or 0.5% between Q4 2019 and Q4 2020. The province is still the most expensive in which to rent, with tenants paying an average of R9 253 – over R800 more than in Gauteng, the second-most expensive province for tenants.

R9 171
R9 022
R9 041
R9 253

1.6%
0%
-0.4%
-0.5%

Q1   Q2   Q3   Q4

Average rent   Growth rate
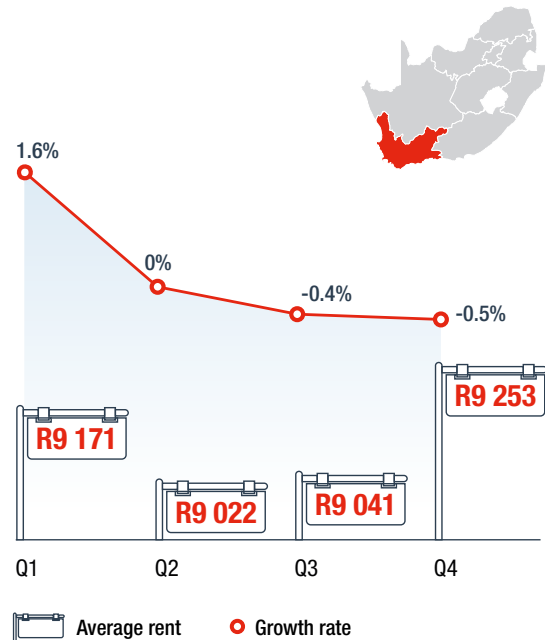
Average rent vs rental growth (measured YoY): Western Cape
Source: PayProp

Arrears

The Western Cape ended the year with 18% of tenants in arrears – lower than the national average of 20.9%, and the lowest out of all nine provinces.

However, those tenants found themselves in significantly more debt over the course of the year. In Q4, the average arrears percentage was 94.1% – only slightly better than the national average of 96.2%, after being the lowest in the country in Q1.

68.7% 92.1% 106.8% 94.1%

15.3% 21.1% 20.2% 18.0%

Q1 Q2 Q3 Q4   Q1 Q2 Q3 Q4
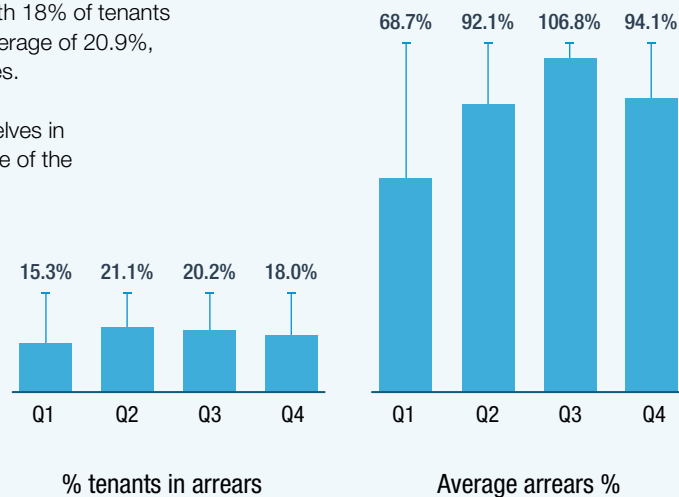
Percentage tenants in arrears and average arrears percentage: Western Cape
Source: PayProp

% tenants in arrears   Average arrears %

Credit metrics

The Western Cape boasted the highest average income in Q4, at R37 451. However, that was only 2.1% higher than in Q4 2019 – lower than the 3.9% increase seen nationally.

The province experienced a decrease in the percentage of delinquent tenants, starting the year at 14.6% and ending at 13.5% – the lowest out of all the provinces.

The Western Cape also saw debt-to-income ratios fall during 2020, ending the year with the lowest level in the country at 34.7%.

However, high rents meant the province had the second-highest rent-to-income ratio in Q4 at 30.4% despite the high average income.

The affordability ratio came in at 65.1%, leaving prospective tenants with 34.9% of their income after debt and rent payments.

Western Cape tenants had the highest average credit score in the last quarter of the year, at 654. ■

Q4 average income
R37 451
The country's highest average Q4 income

Q4 income growth
2.1%
Worse than the national average (3.9%)

Q4 rent-to-income ratio
30.4%
Above the national average (29.1%)

Q4 disposable income
34.9%
Higher than the national average (30.9%)

	National				Western Cape			
	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Income	32 356	33 288	33 359	34 531	35 307	34 861	35 357	37 451
Income growth (YoY)	4.4%	7.6%	2.9%	3.9%	4.6%	8.2%	-0.3%	2.1%
Major delinquencies	18.4%	20.2%	19.9%	18.5%	14.6%	14.9%	15.3%	13.5%
Debt-to-income ratio	47.9%	44.9%	44.9%	40.0%	40.6%	37.4%	36.9%	34.7%
Rent-to-income ratio	29.6%	30.4%	30.2%	29.1%	30.8%	32.7%	32.2%	30.4%
Affordability	77.5%	75.3%	75.1%	69.1%	71.4%	70.1%	69.1%	65.1%
Disposable income	22.5%	24.7%	24.9%	30.9%	28.6%	29.9%	30.9%	34.9%
Credit score	642	641	642	645	650	649	651	654

Credit metrics: national vs Western Cape
Source: PayProp

CLIENT SPOTLIGHT

How Century 21 uses PayProp to master rentals through 2020 and beyond

National

900+
Properties managed

2012
Joined PayProp

Harry Nicolaides
CEO,
Century 21 South Africa

Eva August
National Operations Manager,
Century 21 South Africa

Savas Nicolaides
Principal Broker,
Century 21 East Rand, Johannesburg

**Gena Felizardo**
Rental Manager,
Century 21 East London

As a well-established global property brand, Century 21 has over 12 000 offices – including 50 franchises in South Africa that stretch from Hoedspruit down to Cape Town.

Like the rest of the industry the company has battled ferociously through the pandemic, but thanks to PayProp's bank integration they could track the live impact of rent arrears on the business throughout.

Together with PayProp's advanced rental payment automation, this data helped provide the decision support for Century 21 to plan an ambitious expansion to 200 franchises.

Building business resilience

While 2020 floored many others with COVID-19-related challenges and lockdowns in South Africa and around the world, the Century 21 team was prepared. Thanks to the company's culture of embracing PropTech innovation, the majority of Century 21 branches had already been using PayProp, some since 2012.
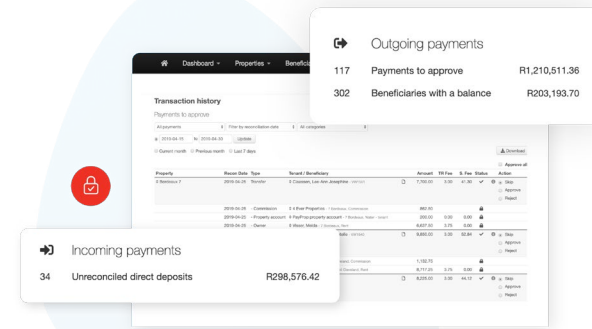
BANK-INTEGRATED
Your client account balances are live and 100% accurate.

To see how this helped the business throughout 2020, we spoke to some of the biggest rental portfolio managers and the senior leadership team from the South African business.

South African CEO Harry Nicolaides, who is based in the Johannesburg head office, says Century 21 came out of the first lockdown eager and raring to go.

"Importantly, we had the right tools and systems in place to take advantage of the massive upswing that we experienced in market demand."

As Harry explains, using PayProp across the majority of the network has allowed the company to run its rental business effectively and remain resilient in the face of market dips and rises. Cloud-based automation makes Century 21 more efficient and profitable, he says.

"We are not technical or financial people," he adds. "We deal with property and therefore want to use the best technology available to make our day-to-day lives easier."

Harry also emphasises the importance of accurate data when selecting a technology partner.

"We need accurate information that is always available on tap – to be referred back to in case of a dispute or audit."

Future-proofing their portfolio

While a long history of success in property sales has carried the 50-year-old brand through other difficult periods, Century 21 has seen a surge in demand for property rentals in recent years. At present, around 60% of its local franchises manage a rental portfolio in addition to sales, operated through a growing network of 420 rental agents.

Eva August, National Operations Manager, explains how Century 21 – like so many of its competitors – has realised the golden opportunity for recurring revenue offered by the rental market, supporting buyers and sellers in the long term.

"We have seen that success in sales comes with success in rentals. There's definitely huge room for growth in our rental business – and my role focuses on supporting this growth through monitoring performance. PayProp's reporting provides me with valuable insights about where we are sitting as a group."

PORTFOLIO OVERVIEW

See your portfolio health at a glance.

"PayProp is a life saver if you're interested in building, growing and managing a rental portfolio," she adds.

"Efficiency is everything as time can kill deals – something I preach a lot at work. I'm always in a rush to get results and PayProp keeps up with my demand for quick and accurate numbers."

Century 21 has also benefited from using digital technology as a selling point when approaching new business prospects. Landlords in particular show significant interest in the platform's security features which protect all aspects of how their money is handled.

"We talk about PayProp during our sales process to reassure landlords that their money is safe and secure – and this includes managing their property deposits. We also see huge benefits in automating payment reminders on our trust account, both of which show our landlords that we are always one step ahead," says Savas Nicolaides, Principal Broker.

Immediate impact at all levels

As well as enhancing the productivity of management across the company's franchises, adopting PayProp across the majority of its property rental branches has made a huge difference from day one. The Century 21 office based in East London is just one of many success stories.

"When I started four years ago, it used to take us four days to process payments manually for 57 properties. It was impossible to grow at the same time. We can now manage payments for our current 261 properties as soon as they come in – and have much more time to focus on everything else," explains Gena Felizardo, Rental Manager.

Aside from the visible timesaving, improved accuracy and smoother running of the office, Gena praises PayProp's ease of use and onboarding process – a crucial part of introducing any new technology.

"It's an easy and user-friendly platform that prompts you throughout. And we could get in touch with the PayProp team as much as we needed until we had everything up and running."

In her team, some of their most important features include the letters of demand and the daily reports. "PayProp is everything we expected it to be. Sometimes we look at each other and say we could never do without it."

Gena also has the unique position of experiencing PayProp from a customer perspective too.

"I personally rent from an agency that uses PayProp, and as a tenant I get the same high level of service and information that we deliver to our clients."

Staying connected and informed

As the Century 21 network in South Africa covers such a wide geographical area, both staff and clients have become accustomed to communicating at a distance.

Eva August explains how the company had to pivot at pace and find better ways of connecting that allowed new sales and rentals to continue, even when physical viewings were not taking place. "As the first lockdown started easing, we found that new systems of connecting would now be a permanent way of working. We're very grateful that systems like PayProp – which facilitate automation remotely – allow us to continue connecting with clients, whether we can travel to work or not."

"PayProp is one of the few providers really invested in our success, and always checking in on us. That's something we appreciate a lot, taking the time to reach out and offer help."

PROFESSIONAL SUPPORT AND TRAINING

Our friendly South African-based team of platform experts are ready to help you and your agency thrive.

▣ CLIENT SPOTLIGHT

How Rose Eedes Properties transformed their rental business with PayProp

ROSE EEDES
PROPERTIES

📍 **Cape Town**   🏠 **200+** Properties managed   📅 **2006** Joined PayProp

Rose Eedes
Principal

Rose Eedes Properties is one of PayProp's earliest adopters. When founder Rose Eedes signed up to the platform in 2006, her business was one of PayProp's first 100 clients – but the way she tells it, she almost didn't make the leap at all.

"In the end the salesperson said 'just try it out for a couple of months'," Rose recalls. "Fourteen years later, my agents say they can't do without it."

Today, the three-decades-old business manages around 200 rented homes in the Cape Town area, alongside a thriving residential and commercial sales arm that operates both in South Africa and abroad. Rose says payment automation was a big factor in that success – above all because it let them use their time more productively.

Moving to quicker, easier admin

Bringing in PayProp changed the rental payment administration process at Rose Eedes Properties almost overnight. PayProp sent a support team member to help the agents navigate the new system, and after a short onboarding process they were up and running.

"Some of my agents were worried about using PayProp at first," says Rose. "But it's pretty user-friendly. Within a couple of weeks, they were doing well and actually quite enjoying it."

Instead of painstakingly matching rental payments to the correct tenants and landlords by hand, the team could let the system do it for them automatically – and then reconcile all transactions in just a couple of clicks. Suddenly they had hours more to work with every week.

"Comparing PayProp to what we were having to do on the old program, it's chalk and cheese. I still spend a few hours on PayProp, but it's so much easier," says Rose. "I just have to quickly check and authorise."

PayProp also creates a complete and accurate record of every transaction and automatically generates reports and invoices, making it easier for the team when the auditors come knocking – and helping them to field client requests.

"We have so many landlords who phone us every February asking for a one-year statement for their accountants, and we can e-mail it to them within minutes. And then the tenants, sometimes they want a statement from three years back. Who can do that unless they've got a package like PayProp?"

COMMUNICATIONS

Automate all your payment communications and account statements at the push of a button.

Getting what they're owed

When COVID-19 hit the pause button on much of the property industry activity in South Africa, having a cloud-based system meant that Rose Eedes Properties could easily take care of their rental clients during a challenging time.

"It didn't really affect our rental business in any way except the viewings. We just carried on. Luckily all our information is online, so anybody could just work from anywhere."

However, the pandemic still came with some challenges for the Rose Eedes Properties team – and for rental agencies across South Africa. As lockdown measures were introduced and the economy took a turn for the worse, many tenants reduced or withheld their rental payments. According to platform data from PayProp, more than a quarter nationwide were

in arrears in May and June 2020, owing around a month's rent on average.

To help agents recover missed or delayed rent payments, PayProp reveals the financial position of any property, identifies tenants in arrears, and enables e-mail or SMS payment reminders. The company encourages agents to arrange, record and monitor affordable repayment plans with tenants, and when all else has failed, facilitates Letters of Demand directly from the platform.

PayProp South Africa has integrated Letters of Demand into its arrears chasing offering in partnership with law firm Koegelenberg Attorneys since 2016. According to Rose, it gets results – as has been evident both before and during the pandemic.

"Sometimes tenants don't respond at all when you're trying to recover arrears from them. With the Letter of Demand, though, it's amazing – people really react to it. The attorneys are very good."

LIVE ARREARS MANAGEMENT

Send proactive reminders via e-mail and SMS to prompt tenants to pay their rent.

Tenants
9   Tenants in arrears   R8,903.34
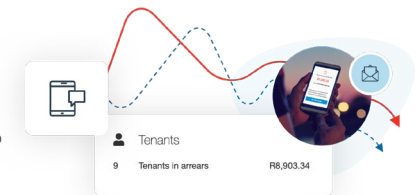
An indispensable advantage

Today, Rose says that efficient, automated payment admin is an advantage that her business can't do without – and after more than a decade of success with the system, she looks forward to continued portfolio growth and payment innovation with PayProp.

"Without PayProp we never would have been able to expand the way we have. Why change something that's working really well for us?" ▪

How Realty Atlas built a resilient rental business with PropTech

REALTY ATLAS
PROPERTY GROUP

Cape Town	220+ Properties managed	2013 Joined PayProp

Foti Sousalis
Principal

"I think 2021 is going to be a very challenging year," says Foti Sousalis, Group Director of Realty Atlas Property Group. "Property is always at the forefront when a recession hits, it's always the first industry to take a knock."

That being said, hard financial times were the reason Foti got into residential rentals in the first place. Today, he believes, his agency is well-positioned to withstand those ups and downs thanks to that very decision, as well as superior client service and smart technology.

"During the 2007-08 recession, I realised that sales had dropped dramatically but rentals had picked up," he says. "When I decided to go out on my own, it was important to me to build a business that was recession-proof."

As he explains it, it was a two-part plan. First, build a large base of landlord clients. Second, give them a high-quality, all-around service, helping them to build and manage their property investment portfolios in order to drive both sales and rental activity.

Today, PayProp helps Realty Atlas on both sides of that equation thanks to best-in-class rental payment automation and a suite of service-boosting features. The agency now carries out residential sales and rentals across the Cape Town region, and also helps international investors to purchase properties in Cyprus.

A bigger book

When Realty Atlas signed up with PayProp in September 2013, they were managing around 80 properties – and cracks were starting to show in their admin processes with the resource overhead. Foti had already brought in other software platforms to help him and his agents look after the rentals, but the team was still having to put in a lot of manual effort.

"I remember one Sunday I came in at 9 o'clock in the morning to reconcile the accounts. I left at 6 that evening and realised I'd lost an entire Sunday that I was never getting back. A few months later, I was with PayProp."

PayProp takes the manual work out of rental reconciliation by intelligently matching all incoming payments to the correct properties, automatically deducting fees and allowing rental agents to distribute the rest of the money according to rules set by the agent – in just a couple of clicks.

Foti explains that he saw the difference immediately. Work that had previously taken a full day could now be wrapped up in 20 minutes.

TIME SAVING

Do your rental payment admin in the time it takes to have a coffee!

"It was phenomenal. The amount of time we saved with PayProp was just next-level."

By saving themselves all that admin, the Realty Atlas team now had more time to recruit new clients – and they had also kicked away the biggest administrative brake on their growth. Today, Foti and four agents manage around 220 properties between them.

Delivering better

But just because the Realty Atlas team saved so much time on rental admin doesn't mean they can sit around. According to Foti, rental clients today demand higher levels of service than they did when he was starting out in the industry. Even so, technology once again helped them to meet those expectations.

"You have to be on it in rentals," he explains. "You can't just turn your phone off on a Sunday because it's not going to work, you'll lose clients. They expect an instant response, and it's important to have the right technology in your business to meet that demand."

PayProp has been invaluable in enabling that kind of around-the-clock service. Instead of having to be physically in the office to access their files, agents can log into the platform from anywhere on any device – a feature that enabled Realty Atlas agents to work from home extensively even before COVID-19.

Once logged in, they can also access complete, accurate payment records and stored rental contracts for any property under their management, making it easy to help clients check on their investments.

"If a client calls on a Saturday night and says, 'I need a copy of my lease agreement', it's right there. We can download it and send it through."

Perhaps the biggest win for Realty Atlas's clients, though, has been PayProp's well-known reputation for payment security.

As rental agents, the Realty Atlas team have a huge responsibility towards their clients as they are entrusted with their most valuable assets. And as Foti explains, it's easier to help investors make good financial decisions when they know their money will be safe.

"We also leverage PayProp when it comes to the security deposits. Landlords and tenants prefer to keep their deposits invested with PayProp because they can see where it is and monitor the interest earned. It gives them peace of mind knowing that their money is safely invested."
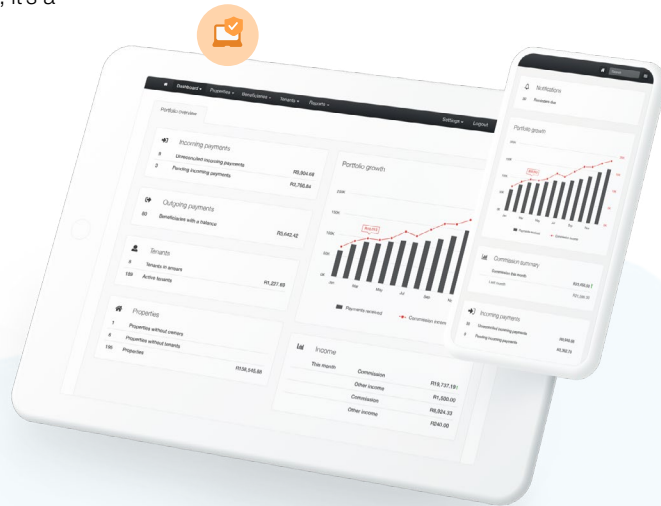
A solid foundation

PayProp has become integral to Realty Atlas's work – but in the end, its features are only half the reason why. Because rent collection and reconciliation is such an important daily task for agents, the PropTech they rely on has to be easy and comfortable to use. According to Foti, it's a hurdle that PayProp clears easily.

BANK-GRADE SECURITY

We take your security seriously. All your data is encrypted and backed up in multiple different locations.

"Other companies have all kinds of bells and whistles, but what stands out to me with PayProp is that it's intuitive," says Foti. "If you read Steve Jobs's autobiography, he says that software needs to just work. The moment it starts becoming clunky or cluttered, it starts to put you off."

"PayProp just works. It's got everything you need, but it's easy to use. If you can use Facebook, you can use PayProp." ◼
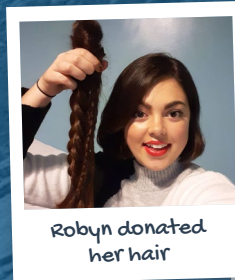
Want to find out more?

Since 2004, PayProp has provided peace of mind to thousands of rental agents. Join us today to start sending automated statements, invoices and arrears reminders at the click or tap of a button.
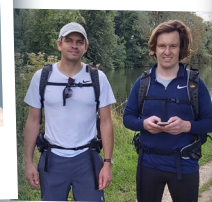
Book a demo

🌐 **www.payprop.co.za**   📞 **087 820 7368**
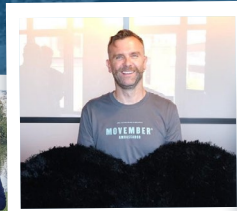
Absa's Homeowner Sentiment Index ends 2020 on a high

The Absa Homeowner Sentiment Index (HSI) tracks the consumer confidence level in the property market in South Africa. In addition to this important overall reference point, Absa also runs various consumer sub-indices tracking sentiment around buying, selling and investing in property.

2020 saw the pressure piling up on consumers – first with discretionary spending and savings taking a knock, and then with a boom in short-term credit vehicles such as personal loans. Macroeconomic data from the Census and Economic Information Centre (CEIC) showed that the local gross savings rate (as a percentage of GDP) contracted by 5.1 percentage points to a mere 10.7% in June 2020 – a record low for the country.

Subsequently, a McKinsey survey into consumer sentiment (September 2020) showed that a majority of South Africans responded by tightening their belts. Many said they expected to continue this frugal behaviour into the future, with luxuries and entertainment being among the most frequently cited expenses.

Naturally, this pressure found its way into the property sector, as job and income losses affected the ability of tenants and homeowners to maintain bond and rental payments.

Relief had the desired effect

Along with most other major banks and credit providers, Absa responded by offering various relief options to customers struggling to make ends meet. Mbuyiselo Khumalo, Absa Home Loans Head of Collections, says a total of 135 000 home loan accounts received relief under the first three-month Absa Payment Relief Programme, and a further 42 000 did so under the programme's extension.

" The uptake was significantly higher than our initial projections, but surprisingly, the customers' ability to rehabilitate their situations after the expiry of payment relief has exceeded our expectations."

ABSA HOMEOWNER SENTIMENT INDEX SCORE, Q4 2019 TO Q4 2020

Remarkably, confidence in the property sector throughout this volatile time also exceeded market expectations. The latest Absa Homeowner Sentiment Index (HSI) shows this number improved by 4% year on year to end Q4 2020 at 80%.

Sentiment in favour of buying property had its third consecutive quarter of improvement, ending the year at 78% – the highest since the introduction of the HSI in 2015.

This can largely be attributed to the ability of property not only to maintain its value, but also to create wealth over time, to the low interest cycle, and to property process, which have definitively shown themselves to be a driver of selling sentiment.

Lower interest, low prices beat uncertainty

Over the course of 2020, the South African Reserve Bank substantially lowered interest rates from 10.5% to 7% in a bid to stimulate the economy. This led to a significant increase in buoyancy within the residential property sector, as some people could for the first time afford to buy their own home, and investors have quickly moved to take advantage of these low rates.

As a result, 78% of respondents considered it an appropriate time to buy property – the highest pro-buying sentiment recorded since the index was launched in 2015 and an increase of 7% since the beginning of 2020.

Respondents did acknowledge negative factors, such as the uncertainty caused by COVID-19 and their discomfort at the lack of economic stability, but low property prices and interest rates continue to play the most prominent role in driving up sentiment in favour of buying property.

Drilling down

The age group most in favour of investing in property was the 18-24 cohort (87%), compared to 84% for 25-34 year-olds and 83% for 35-44 year-olds. The remaining age groups all averaged below 78%.

Investors also applied for larger loans in 2020, with the average loan value increasing by 13% to R1 300 000. This may be due to investors considering higher-value property investments due to the positive impact of lower interest rates on affordability.

The overall risk profile of investors applying for finance remained healthy during 2020, indicating that the investor segment as a whole was able to manage any rental default stress. Of course this is an aggregated view, with isolated pockets of investors unable to handle the cashflow stress due to non-payment of rentals or extended payment vacancies.

The average age of Absa investors stayed constant at 42, indicating that most investors take some time to purchase their first property investment after their primary home. This more experienced and wiser investor was able to better weather the cashflow challenges that lockdown may have placed on them.

The biggest turnaround trend was seen in the seller's perspective, where sentiment in favour of selling property increased by 4%. Here, the main drivers of positive responses included an expectation to obtain a good price for the property (57%) and that selling would alleviate financial pressures (40%). Negative factors cited by respondents included poor economic performance (53%) and the detrimental effects of COVID-19 on the economy (52%).

Some 80% of respondents considered it an appropriate time to buy rather than rent, showing a 3% improvement in sentiment, driven by increased affordability due to lower interest rates.

Moreover, 73% considered it an appropriate time to renovate or make alterations, an increase of 8% – the main driver being that renovating increases the value of property (65%) and yields better returns when selling (61%).

The crystal ball

Continued lower interest rates will be key in allowing the market to stay at what could be a new level of balance between buyers and sellers, where sellers have been increasingly satisfied with the price level of properties and buyers have been able to access low-cost funding to afford purchases.

"Lower interest rates have made it possible for many of our customers to start their journey on the property ladder, and a good portion of these were investors," says Ewald Kellerman, Chief Risk Officer at Absa Home Loans. "With historically lower rates, together with lower-priced properties in some sections of the market, investors are moving to make use of this opportunity."
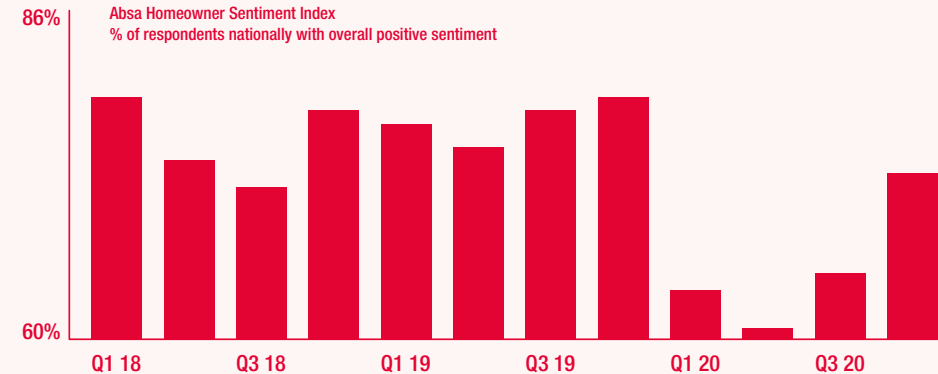
But buyers need to be cautious – current low interest rates will not last forever. Various market experts predict that rates will start rising again as early as the end of 2021 or early 2022. That being said, the rise is expected to be gradual and interest rates may not recover to pre-lockdown levels before the end of 2023.

> " Lower interest rates have made it possible for many of our customers to start their journey on the property ladder, and a good portion of these were investors."

Appendix

Absa Homeowner Sentiment Index % of respondents nationally with positive sentiment by sub-index						
Period	Buying property	Selling Property	Investing in property	Renovating property	Buy rather than rent	Overall sentiment
Q1 2016	60%	38%	77%	72%	67%	73%
Q2 2016	64%	39%	79%	79%	67%	78%
Q3 2016	72%	46%	85%	79%	75%	83%
Q4 2016	71%	48%	83%	76%	73%	81%
Q1 2017	60%	42%	77%	77%	66%	75%
Q2 2017	64%	34%	78%	75%	68%	74%
Q3 2017	68%	37%	82%	79%	74%	81%
Q4 2017	70%	41%	83%	79%	74%	82%
Q1 2018	70%	46%	81%	79%	73%	75%
Q2 2018	61%	43%	77%	74%	68%	73%
Q3 2018	57%	37%	75%	72%	67%	72%
Q4 2018	72%	41%	80%	78%	72%	77%
Q1 2019	67%	40%	79%	77%	68%	73%
Q2 2019	69%	39%	82%	75%	73%	77%
Q3 2019	69%	37%	81%	78%	72%	75%
Q4 2019	70%	40%	79%	79%	72%	76%
Q1 2020	62%	23%	67%	64%	69%	73%
Q2 2020	71%	20%	71%	61%	73%	74%
Q3 2020	71%	29%	78%	65%	77%	76%
Q4 2020	78%	33%	78%	73%	80%	80%

Absa Homeowner Sentiment Index
% of respondents nationally with overall positive sentiment

86%

60%

Q1 18   Q3 18   Q1 19   Q3 19   Q1 20   Q3 20

A NEW WAY OF WORKING

Work-from-home considerations

In 2020, businesses around the world had to adapt to remote working overnight. While there are many benefits to more flexible hours and remote work, the sudden change also highlighted a few crucial questions for businesses – especially those that handle third-party funds.

A few stand out.

1) Visibility
Having visibility of how employees perform daily tasks is crucial for any business owner. Being able to see who approved a certain payment or updated a bank account helps agents to answer queries from tenants or landlords – and it can also reduce the possibility of fraud in a business. However, with the right systems and processes, this does not require physical proximity.

2) Separation of duties
Even with a small team, every process should have checks and balances in place. No single person should be able to complete all stages of a payment process from beginning to end. Segregating duties ensures that mistakes are easier to spot, promotes a clear process for tasks, and limits opportunities for wrongdoing.

3) Security
With business dealings and payments moving increasingly online, IT security is becoming more and more vital. Unfortunately, what should be an absolute priority is often ignored until it is too late.

Payment, e-mail and user permission protections are just a few of the security factors to consider.

4) Downtime
Rental agencies don't have downtime. There is always rent to process, payments to approve, contractor appointments to set up and inspections to carry out.

Your rental management system shouldn't be any different. Every minute you spend waiting for payments to finish processing is time you could have used for something else – and if the worst happens and your system goes down, it can take your hard-earned reputation with it.

There is no doubt that a new way of working brings about unique challenges, and your rental payment processes should be equal to the task.

Does your rental payment provider prepare you for all of the above, and more? ■

SUMMARY

An unusual year

2020 was a peculiar year, and one that generations to come will read about in history books. The COVID-19 pandemic and the subsequent lockdown in South Africa – and many other countries in the world – left no industry untouched, and the rental market was no different.

Negative year-on-year rental growth was experienced for the first time since the start of the Rental Index in 2012.

Rental growth continues to track below inflation – even as inflation levels drop.

The effects of lockdown will be felt by the economy for a long time, placing future rental growth under continued pressure.

The effects of lockdown could also be seen on arrears. Luckily, both the percentage of tenants in arrears and the average arrears amount (relative to rent) seem to have peaked – but recovery has so far been slow.

Credit metrics seemingly improved throughout the year, but these statistics must be interpreted correctly – and may disguise a growing group of people that cannot afford to rent at all.

Rental agencies have had to adapt to changing circumstances just as landlords and tenants have. The sudden shift to remote work emphasised the importance of many factors in a rental business – especially security, visibility, downtime and the segregation of duties.

We will see how these trends develop over the course of this year – and as always, we'll bring you the latest data and analysis in future issues of the PayProp Rental Index. Thank you for subscribing, and we'll be in touch again soon. ■

> The effects of lockdown will be felt by the economy for a long time, placing future rental growth under continued pressure.

Q4 2020

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.

Contact details
This publication was produced by PayProp South Africa. PayProp South Africa is operated under licence from Humanstate. PayProp and the PayProp logo are registered trademarks of Humanstate.

For all business and media enquiries, please contact:

Johette Smuts
Head of Data Analytics
E-mail: johette.smuts@payprop.co.za
Tel: 087 820 7368

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

Join PayProp
If you would like to know more about using PayProp to manage your rental portfolio, please visit:

www.payprop.co.za

"

PayProp is one of the few providers really invested in our success, and always checking in on us. That's something we appreciate a lot, taking the time to reach out and offer help.

"

EVA AUGUST

National Operations Manager,
Century 21 South Africa

087 820 7368

support@payprop.co.za

www.payprop.co.za