THE PAYPROP

RENTAL INDEX

ANNUAL REVIEW 2018

First quarterly growth uptick in 2 years

Average rent hits higher bracket

Free State growth spurt

Rental market green shoots?

INDEX

Introduction

A FRESH START

Whether you believe in resolutions or not, there's something to be said for a new year. It's an opportunity to start afresh, learn from past mistakes and transform yourself and your business. In short, a chance to keep the things that worked and change the ones that didn't!

That being said, not all change is positive. 2019 is an election year and we can expect fresh political uncertainty, which in turn could create continued economic uncertainty and volatility. Just how much that could affect rental prices we'll have to wait and see.

But it's pointless talking about the unknowns of 2019 without reflecting on what happened in 2018:

At PayProp, we relaunched the Tenant Assessment Report and introduced the PayProp Rental Risk Rating – a unique score that more accurately predicts bad tenant behaviour than a credit score, because it combines credit data with rental data.

We also launched the PayProp Owner App, putting our clients another step ahead of their competitors with a great tool for landlords to view their rental portfolios.

And lastly, we travelled the country with the ever-popular PayProp Academy, raising awareness about the need to embrace business-enhancing technologies in the property sector – an industry ripe for disruption.

As you'll see from the PayProp Annual Review for 2018, the market continued its gradual slowdown last year, although some provinces have started to see improvements. Read more about that in this issue.

Until our next quarterly issue in April! ■

Johette Smuts
Head of Data and Analytics
PayProp South Africa

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

As you'll see from the PayProp Annual Review for 2018, the market continued its gradual slowdown last year, although some provinces have started to see improvements.

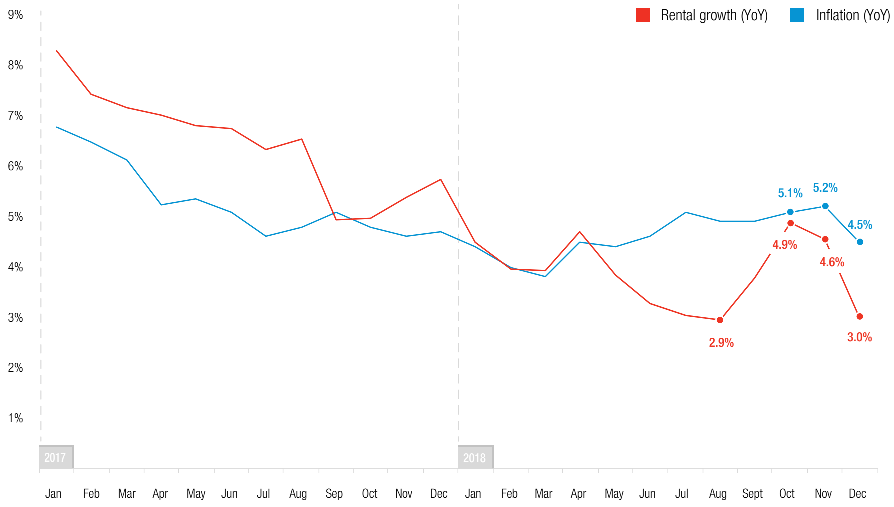
National rent statistics

BELOW-INFLATION RENTAL GROWTH

Throughout 2018 we saw a continuation of the downward trend in national rental growth, trailing inflation for most of the year. In fact, the average monthly rental growth rate, measured year on year (YoY), halved, ending the period on 3.9%, compared to 6.4% in 2017.

The South African Reserve Bank forecasts that inflation will average around 5.5% in 2019, so it will likely continue to outstrip rental growth if current rental trends continue. However, judging from rental cycles in past years, we expect growth to recover somewhat during 2019.

The average monthly rental growth rate, measured year on year, halved to 3.9%.

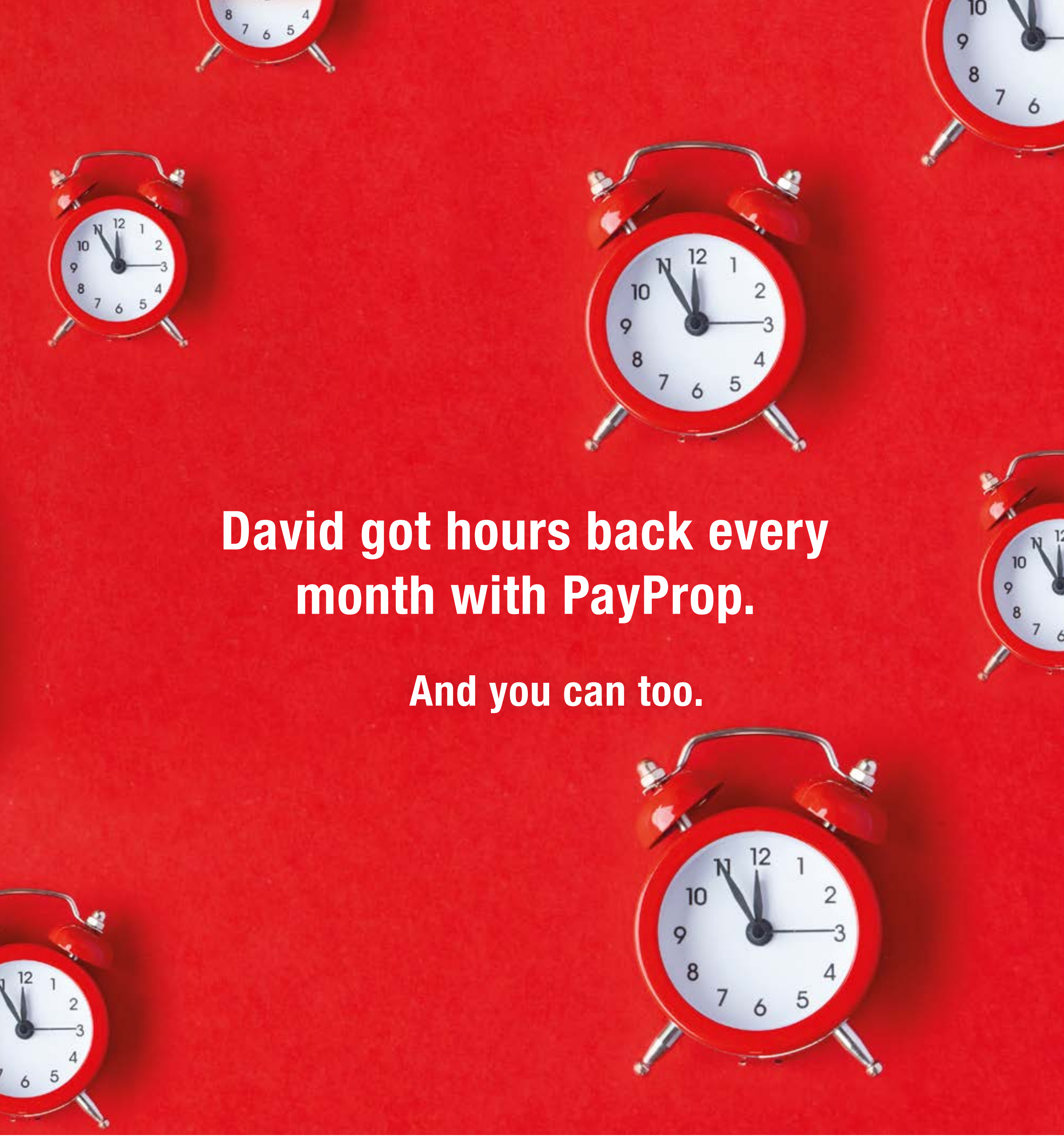


Weighted average national rental growth rate (YoY) vs. inflation – 2017 and 2018
Source: PayProp

David Summerton

Owner at Harcourts Summerton

"Processing with PayProp is far easier and less labour intensive than it was with our old system."


David got hours back every month with PayProp.
And you can too.

PROVINCIAL STATISTICS 2018

In this section we compare provincial rent and credit metrics for Q4 2018 to the same quarter in 2017 and the national average.

First, let's have a look at the national picture:

National statistics

We've noted increasing consumer and rental market pressure for some time, and it shows in the numbers.

Nationally, rental growth slowed to 4.14% in the last quarter of 2018, vs. 5.39% over the same period in 2017. Nevertheless, it was the first quarterly uptick in the rental growth rate in two years, and also the highest quarterly year-on-year growth for 2018. But whether or not it is the start of a slow recovery remains to be seen.

Affordability ratio

The affordability ratio is calculated by adding a tenant's monthly debt repayments to their monthly rent and expressing the total as a percentage of their net monthly income. The lower the affordability ratio, the higher the percentage of disposable income left to the tenant after costs.

Credit metrics

Credit metrics are pulled from credit checks performed via the PayProp system. Note that we use net income figures provided to agents by tenants, and that this figure affects multiple ratios that we report on.

At R7,610, the average national rent moved into a higher rental bracket in Q4, from the R5,000 – R7,500 category to the R7,500 – R10,000 category. The R5,000 – R7,500 bracket is still the most populous in South Africa, comprising about a third of all rentals, and we don't expect this to change soon.

Net income levels have stagnated, increasing by only 1.56% between Q4 2017 and Q4 2018. With rent and inflation increasing at higher rates, consumers are struggling to keep up. This only partly explains the YoY increase in tenants' debt-to-income ratios – in Q4 2017, tenants paid R13,756 on their monthly debt repayments vs. R15,031 in Q4 2018. The increase in debt-to-income ratios, in turn, affects affordability ratios. And as incomes have grown more slowly than rents, the slight increase in the rent-to-income ratio was to be expected. ■

It was the first quarterly uptick in the rental growth rate in two years, and also the highest quarterly year-on-year growth for 2018.

Provincial rent statistics

THE NATIONAL CONTEXT

We've noted increasing consumer and rental market pressure for some time, and it shows in the numbers.

		2017
Average rent	R7,610	**R7,308**
Rental growth	4.14%	**5.39%**
Average income	R33,037	**R32,531**
Average credit score	634	**635**

Debt-to-income ratio

45.5%

2017
42.3%

Rent-to-income ratio

28.9%

2017
28.0%

Affordability ratio

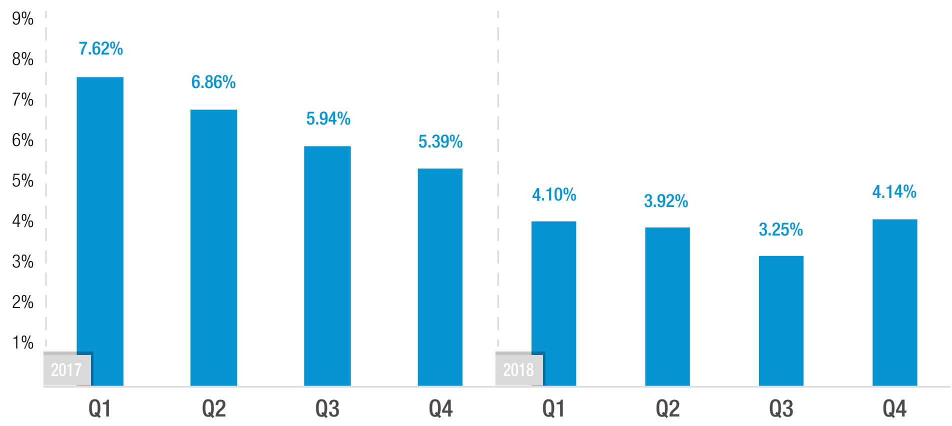
74.4%

2017
70.2%

Risky tenants

36.3%

2017
35.3%



Average rental growth rate per province - 2017 and 2018
Source: PayProp

Provincial rent statistics

EASTERN CAPE
— MIXED BLESSINGS

Average income in this province is the lowest of all the provinces, but it is also the second cheapest province to rent in.

It is encouraging to see an increase in the Eastern Cape's rental growth rate from 2.54% in Q4 2017 to 3.39% in the same quarter in 2018, but growth is still subdued in the province and below the national average of 4.14%.

The Eastern Cape is one of two provinces where income fell year on year (YoY) (the other is North West). Average income in this province is the lowest of all the provinces, but as it is also the second cheapest province to rent in, the rent-to-income ratio has stayed below 30%, despite an increase from 28.7%.

And while the debt-to-income ratio increased slightly, it is better than the national average. The fact that tenants in the Eastern Cape spend a smaller-than-average percentage of their net income on servicing debt has had a knock-on effect on its affordability ratio. At 73.1%, it is also better than the rest of the country (74.4%).

Provincial rent statistics

EASTERN CAPE

Tenants in the Eastern Cape spend a smaller-than-average percentage of their net income on servicing debt.

Average rent
R5,703
2017 **R5,516**
Worse than national average (R7,610)

Rental growth
3.39%
2017 **2.54%**
Worse than national average (4.14%)

Average income
R27,125
2017 **R28,330**
Worse than national average (R33,037)

Average credit score
627
2017 **629**
Worse than national average (634)

Debt-to-income ratio

43.7%

2017
40.1%

Better than national average (45.5%)

Rent-to-income ratio

29.5%

2017
28.7%

Worse than national average (28.9%)

Affordability ratio

73.1%

2017
68.8%

Better than national average (74.4%)

Risky tenants

45.4%

2017
44.1%

Worse than national average (36.3%)

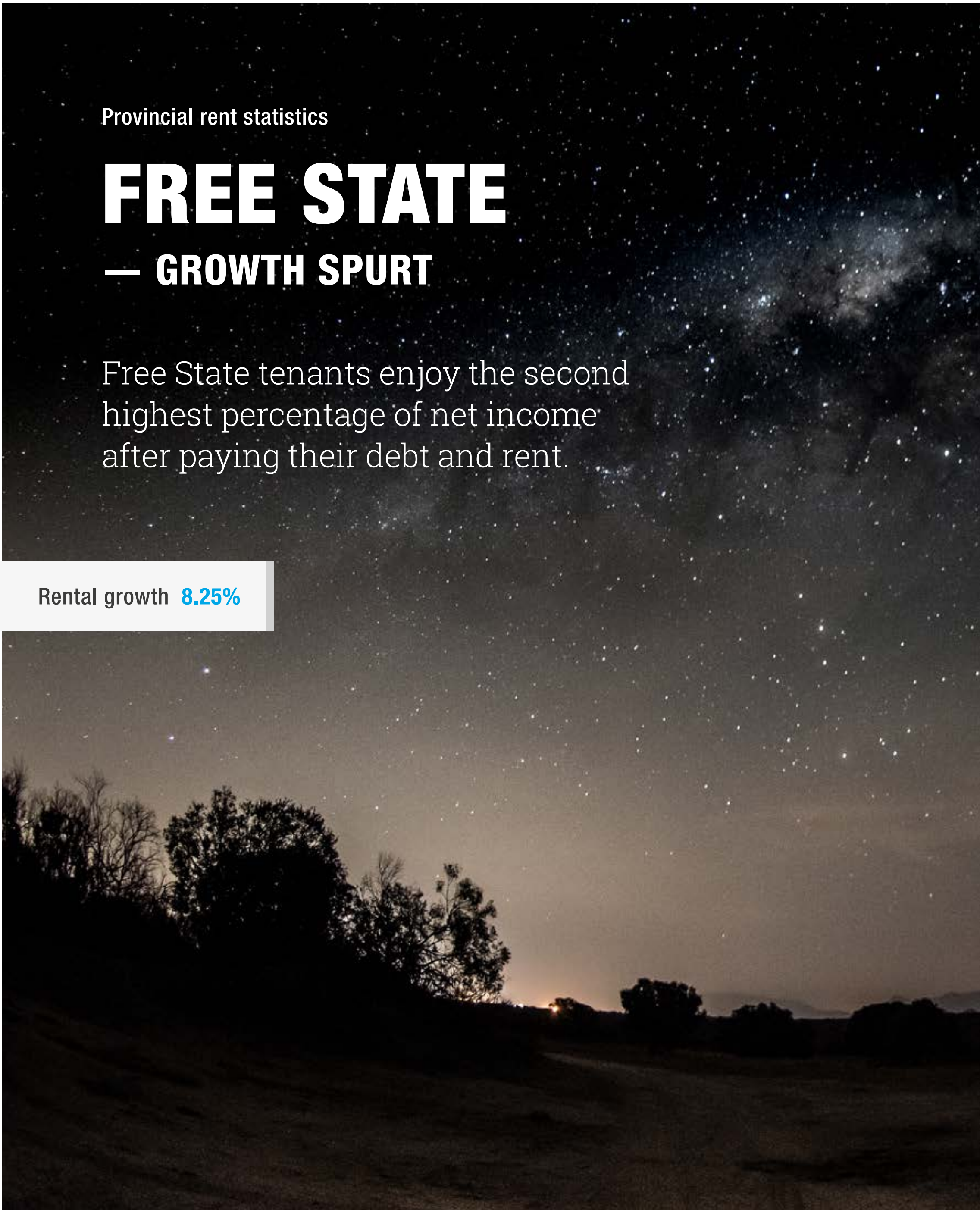
Provincial rent statistics

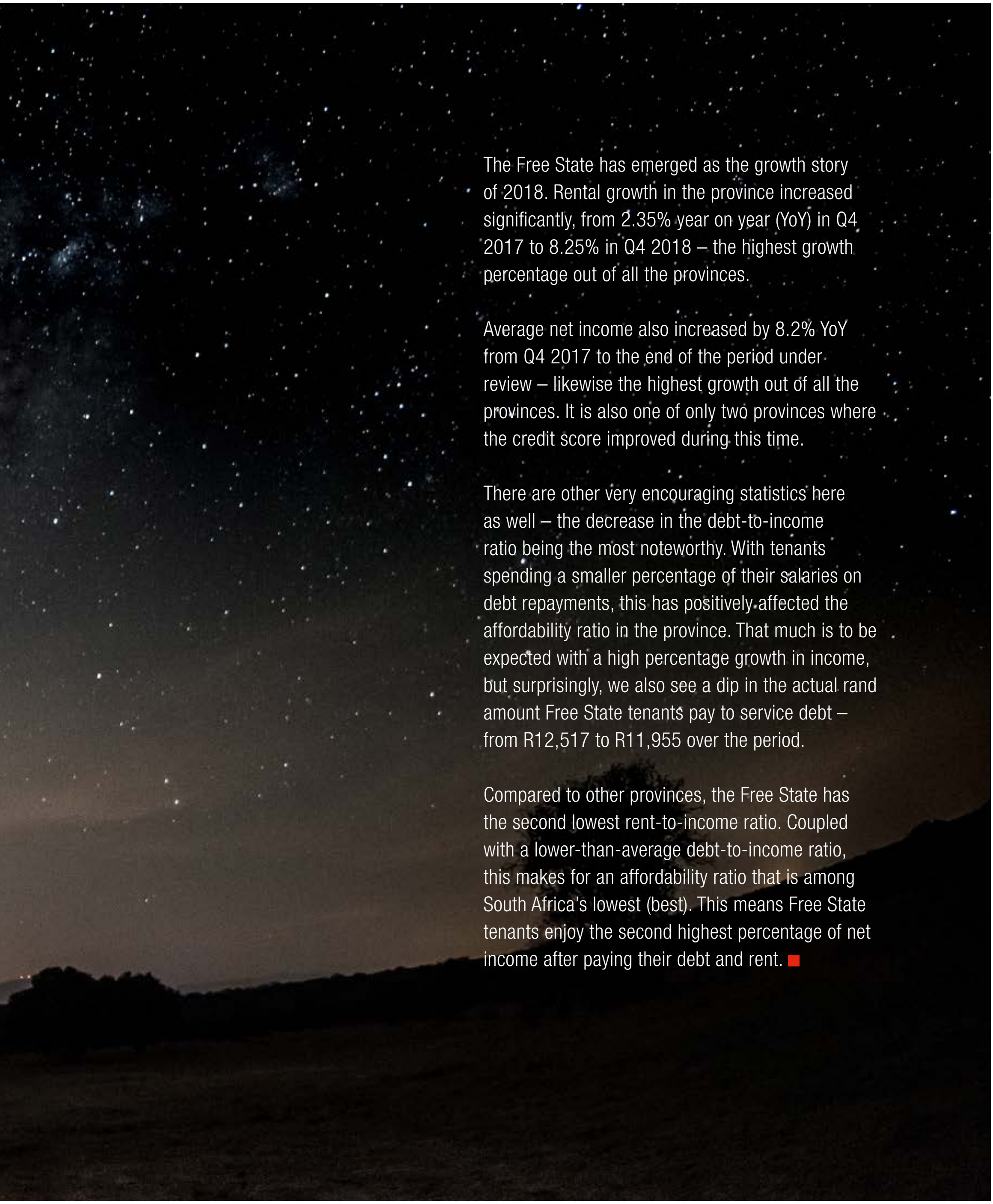
FREE STATE

— GROWTH SPURT

Free State tenants enjoy the second highest percentage of net income after paying their debt and rent.

Rental growth 8.25%





The Free State has emerged as the growth story of 2018. Rental growth in the province increased significantly, from 2.35% year on year (YoY) in Q4 2017 to 8.25% in Q4 2018 – the highest growth percentage out of all the provinces.

Average net income also increased by 8.2% YoY from Q4 2017 to the end of the period under review – likewise the highest growth out of all the provinces. It is also one of only two provinces where the credit score improved during this time.

There are other very encouraging statistics here as well – the decrease in the debt-to-income ratio being the most noteworthy. With tenants spending a smaller percentage of their salaries on debt repayments, this has positively affected the affordability ratio in the province. That much is to be expected with a high percentage growth in income, but surprisingly, we also see a dip in the actual rand amount Free State tenants pay to service debt – from R12,517 to R11,955 over the period.

Compared to other provinces, the Free State has the second lowest rent-to-income ratio. Coupled with a lower-than-average debt-to-income ratio, this makes for an affordability ratio that is among South Africa's lowest (best). This means Free State tenants enjoy the second highest percentage of net income after paying their debt and rent. ■

Provincial rent statistics

FREE STATE

Coupled with a lower-than-average debt-to-income ratio, the Free State's low rent-to-income ratio makes for an affordability ratio that is among South Africa's lowest.

Average rent
R5,942

2017
R5,490

Worse than national average (R7,610)

Rental growth
8.25%

2017
2.35%

Better than national average (4.14%)

Average income
R31,796

2017
R29,383

Worse than national average (R33,037)

Average credit score
632

2017
630

Worse than national average (634)

Debt-to-income ratio
37.6%

2017
42.6%

Better than national average (45.5%)

Rent-to-income ratio
26.9%

2017
24.8%

Better than national average (28.9%)

Affordability ratio
64.5%

2017
67.4%

Better than national average (74.4%)

Risky tenants
37.7%

2017
41.0%

Worse than national average (36.3%)

Rental growth **4.84%**

Provincial rent statistics

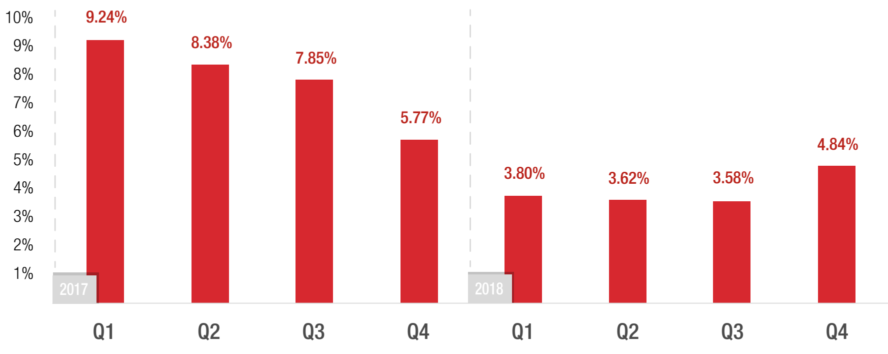
GAUTENG

— SIGNS OF RECOVERY?

The average Gauteng rent breached R8,000 for the first time in Q4 2018. It was the province's first increase in quarterly growth in two years.

The average Gauteng rent breached R8,000 for the first time in Q4 2018. This is 4.84% more than the year before and the third highest growth rate in the country for the quarter. While this rate was lower than the year before, it was the province's first increase in quarterly growth in two years, which might signal the beginning of a recovering rental market in the province.

But before we get too excited about growth, let's balance the discussion out with a look at credit metrics. We saw a rise in the debt-to-income ratio in the province in addition to a slight decrease in the rent-to-income ratio. Both these scores are worse than the national average, which means the affordability ratio for Gauteng (75.9%) is also worse that the national average. Consequently, Gauteng tenants have less than a quarter of their net income left after paying debts and rent. Even so, the average credit score in the province is the same as the year before, at 629.



Year-on-year growth rates for Gauteng – 2017 and 2018
Source: PayProp

Provincial rent statistics

GAUTENG

The affordability ratio for Gauteng (75.9%) is worse than the national average.

Average rent
R8,064

2017
R7,692

Better than national average (R7,610)

Rental growth
4.84%

2017
5.77%

Better than national average (4.14%)

Average income
R31,962

2017
R30,327

Worse than national average (R33,037)

Average credit score
629

2017
629

Worse than national average (634)

Debt-to-income ratio
46.3%

2017
43.5%

Worse than national average (45.5%)

Rent-to-income ratio
29.6%

2017
30.5%

Worse than national average (28.9%)

Affordability ratio
75.9%

2017
74.0%

Worse than national average (74.4%)

Risky tenants
42.3%

2017
41.0%

Worse than national average (36.3%)

Provincial rent statistics

KWAZULU-NATAL

— ON THE REBOUND

Rentals grew faster than income in the province.

Rental growth 7.25%

KwaZulu-Natal (KZN) achieved the second highest rental growth for Q4 2018, at 7.25%. This marks a good recovery from the low growth seen during 2017. At current levels – R8,129 – rents in this province are the third highest in the country.

While we see an increase in KZN tenants' debt-to-income ratio (from 37.9% to 45.6% in Q4 2018), it's encouraging to see the percentage of risky tenants decreasing to 37.7% – although it is still slightly higher than the national average of 36.3%. The average credit score stayed unchanged at 631 versus the year before, indicating that tenants are still managing their finances responsibly, even with higher levels of debt.

We also saw a slight increase in the rent-to-income ratio to 30.4%, the highest in the country. This makes sense as rentals grew faster than income in the province. This increase, together with the increase in the debt-to-income ratio, means the affordability ratio increased (worsened) significantly to 76%, up from 65.8% a year before.

Provincial rent statistics

KWAZULU-NATAL

While we see an increase in KZN tenants' debt-to-income ratio (from 37.9% to 45.6% in Q4 2018), it's encouraging to see the percentage of risky tenants decreasing to 37.7%.

Average rent
R8,129

2017
R7,580

Better than national average (R7,610)

Rental growth
7.25%

2017
5.29%

Better than national average (4.14%)

Average income
R33,954

2017
R33,699

Better than national average (R33,037)

Average credit score
631

2017
631

Worse than national average (634)

Debt-to-income ratio
45.6%

2017
37.9%

Worse than national average (45.5%)

Rent-to-income ratio
30.4%

2017
27.9%

Worse than national average (28.9%)

Affordability ratio
76.0%

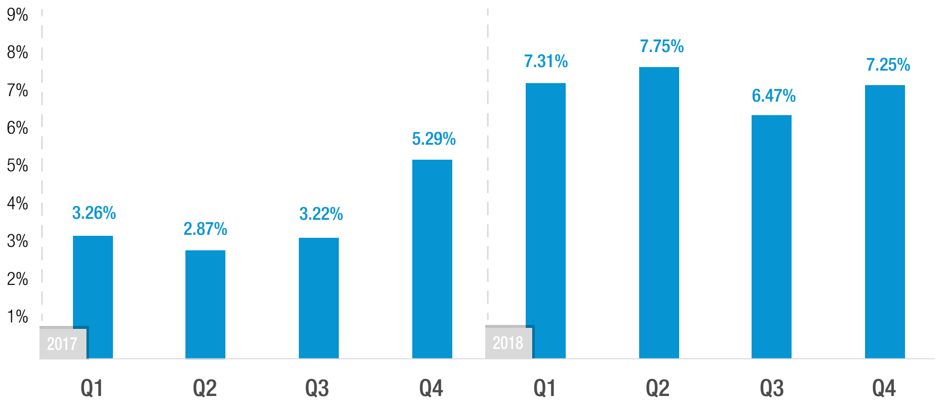
2017
65.8%

Worse than national average (74.4%)

Risky tenants
37.7%

2017
38.4%

Worse than national average (36.3%)



Year-on-year growth rates for KwaZulu-Natal – 2017 and 2018
Source: PayProp

Rental growth **-4.01%**

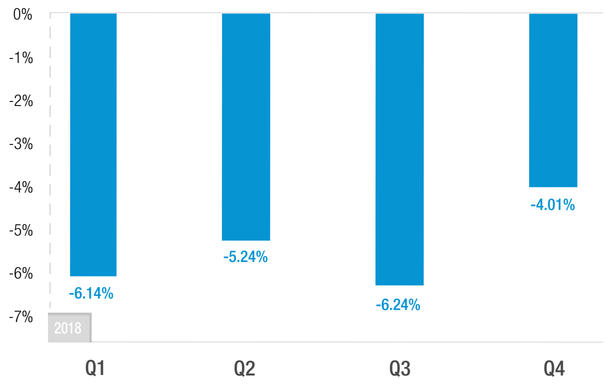
Provincial rent statistics

LIMPOPO
— NEGATIVE GROWTH

The province suffered negative growth in all four quarters.

2018 came with the nearly unthinkable for Limpopo – a reduction in rentals over the previous year. The province suffered negative year-on-year (YoY) growth in all four quarters, causing its average rent to slip from R7,472 in Q4 2017 to R7,173 a year later – the worst rental performance of the provincial markets.

No, the graph is not upside down!

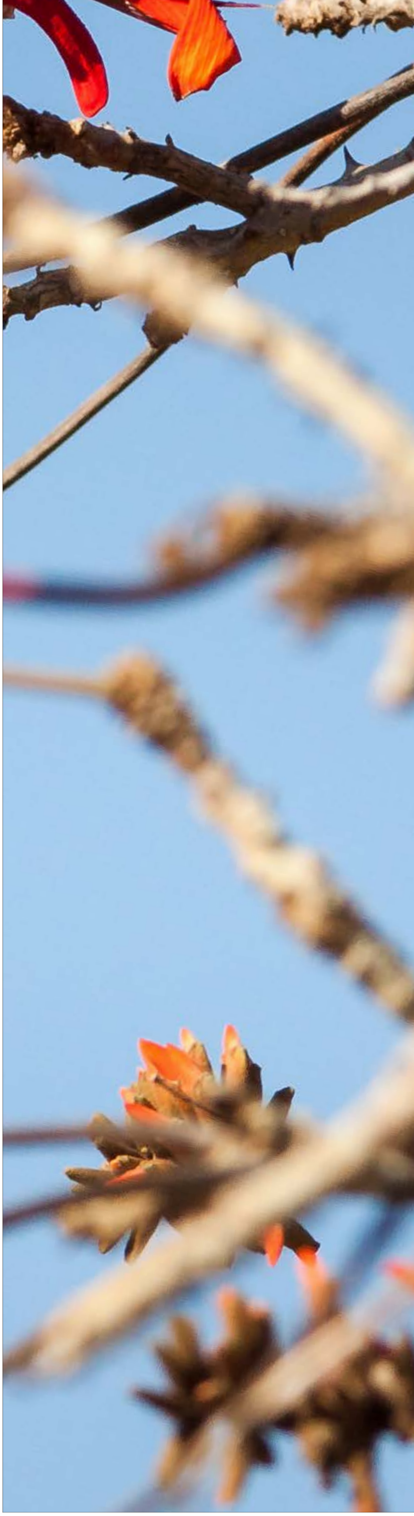


Year-on-year growth rates for Limpopo in 2018
Source: PayProp

But it's not all bad news. Lower rents in turn lowered the rent-to-income ratio to 27.1%, resulting in a decrease (improvement) in tenants' affordability ratio to 70.1% – better than the national average.

Limpopo tenants now have more of their income after paying their rent and monthly debt commitments, despite being the second lowest earners in the country.

Notwithstanding this, the percentage of risky tenants in the province increased to 33.7% in Q4 2018, which is nonetheless still below the national average of 36.3%.



Provincial rent statistics

LIMPOPO

Lower rents lowered the rent-to-income ratio to 27.1%, resulting in a decrease in tenants' affordability ratio to 70.1%.

Average rent
R7,173

2017
R7,472

Worse than national average (R7,610)

Rental growth
-4.01%

2017
-2.12%

Worse than national average (4.14%)

Average income
R28,457

2017
R28,132

Worse than national average (R33,037)

Average credit score
631

2017
631

Worse than national average (634)

Debt-to-income ratio

43.0%

2017
44.0%

Better than national average (45.5%)

Rent-to-income ratio

27.1%

2017
33.2%

Better than national average (28.9%)

Affordability ratio

70.1%

2017
77.2%

Better than national average (74.4%)

Risky tenants

33.7%

2017
30.9%

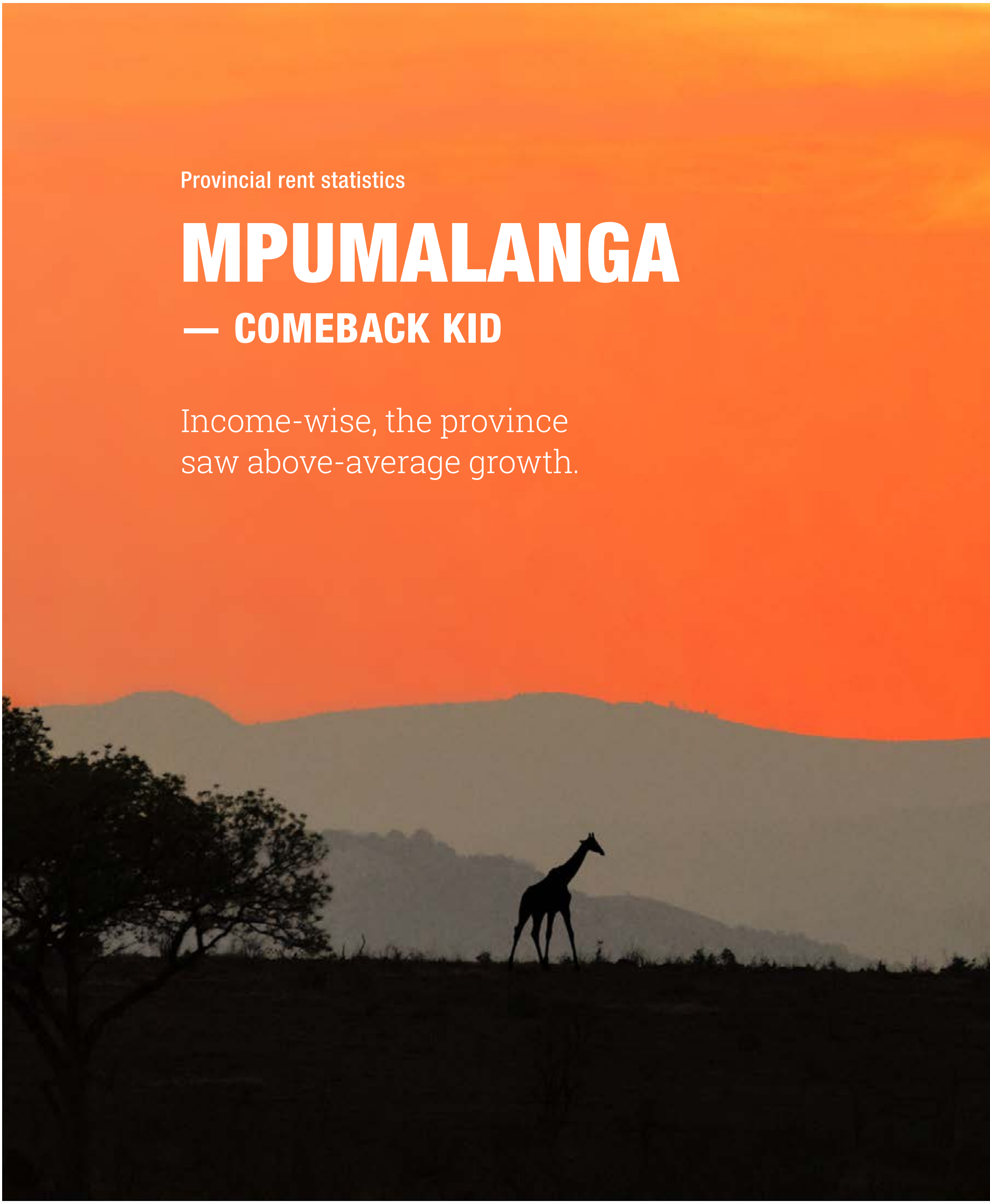
Better than national average (36.3%)

Provincial rent statistics

MPUMALANGA

— COMEBACK KID

Income-wise, the province saw above-average growth.



Rental growth **4.74%**

2018 was something of a comeback year for Mpumalanga. Between Q4 2017 and Q4 2018, every measure but one improved.

Income-wise, the province saw above-average growth. The average monthly salary in the province is now only about R1,000 less than the national average.

The average credit score moreover improved by 5 points, but at 629 in Q4 2018, it is still below the national average (634).

In addition, the increase in income measured in Q4 2018 was largely responsible for an improvement in the debt-to-income ratio, but at 46.8% the ratio is still above the national average (and the highest in the country after North West). This, combined with a higher-than-average rent-to-income ratio, has affected the affordability ratio, which is currently at 76.5%. In a similar vein to the debt-to-income ratio, the affordability ratio is the second highest ratio seen in the country, after North West.

Lastly, there has been a big improvement in the percentage of risky tenants, but at the current level of 42.4% it is still one of the highest in the country after the Northern and Eastern Cape.

Provincial rent statistics

MPUMALANGA

The average credit score improved by 5 points, but at 629 in Q4 2018, it is still below the national average (634).

Average rent

R7,248

2017
R6,919

Worse than national average (R7,610)

Rental growth

4.74%

2017
1.62%

Better than national average (4.14%)

Average income

R32,036

2017
R29,724

Worse than national average (R33,037)

Average credit score

629

2017
624

Worse than national average (634)

Debt-to-income ratio

46.8%

2017
50.8%

Worse than national average (45.5%)

Rent-to-income ratio

29.7%

2017
29.1%

Worse than national average (28.9%)

Affordability ratio

76.5%

2017
79.9%

Worse than national average (74.4%)

Risky tenants

42.4%

2017
48.2%

Worse than national average (36.3%)

Provincial rent statistics

NORTH WEST

— THE EXCEPTION THAT PROVES THE RULE

The North West has the country's lowest rents, but because of the high debt-to-income ratio, it also has the worst affordability ratio, at 89.9%.

While rent levels in the North West came to a standstill between Q4 2017 and Q4 2018, the same can't be said for other metrics.

A year ago, the province had the second highest average income after the Western Cape. But after a decrease in average income, it slumped to 5th place on the income ladder.

The fall in earnings only partly explains the increase in the debt-to-income ratio from 54.3% to 67.8%. In Q4 2017, North West tenants spent R18,965 per month on debt. This number increased by almost R2,700 in Q4 2018, to R21,639.

Lower income levels not only affected the debt-to-income ratio, but also the rent-to-income ratio, pushing it up to 22.1%. The North West has the country's lowest rents, but because of the high debt-to-income ratio, it also has the worst affordability ratio, at 89.9%.

Accompanying lower income levels, we note a decrease in the average credit score from 645 to 640 – which is nevertheless still the country's highest. ■

Rental growth -0.09%

Student housing

As we know from previous indices, the North West is a bit of an anomaly – because of the large proportion of student housing, credit checks are done on parents for student-level rents. This has the effect of throwing various credit metrics out of kilter for that region, ranging from credit scores, income and average age to debt- and rent-to-income ratios.

Provincial rent statistics

NORTH WEST

The fall in earnings only partly explains the increase in the debt-to-income ratio from 54.3% to 67.8%.

Average rent
R4,986

2017
R4,990

Worse than national average (R7,610)

Rental growth
-0.09%

2017
8.57%

Worse than national average (4.14%)

Average income
R31,917

2017
R34,927

Worse than national average (R33,037)

Average credit score
640

2017
645

Better than national average (634)

Debt-to-income ratio
67.8%

2017
54.3%

Worse than national average (45.5%)

Rent-to-income ratio
22.1%

2017
19.0%

Better than national average (28.9%)

Affordability ratio
89.9%

2017
73.4%

Worse than national average (74.4%)

Risky tenants
30.4%

2017
24.0%

Better than national average (36.3%)

Rental growth **-0.70%**

Provincial rent statistics

NORTHERN CAPE

— MOVING INTO NEGATIVE TERRITORY

The province's rent-to-income ratio is the lowest in the country, and the same can be said about its affordability ratio.

Between Q4 2017 and Q4 2018, the Northern Cape experienced slightly negative rental growth of 0.7%. Even so, the region still has the second highest rents after the Western Cape at R8,153.

Lower rent and higher income levels explain a decrease in the rent-to-income ratio, but it is great to also see a decrease in the debt-to-income ratio. At 35%, this metric is the lowest in the country, and the same can be said about the province's affordability ratio (62.3%).

Unfortunately, we also measured a decrease in the average credit score, coupled with an increase in the percentage of high-risk tenants in the province, indicating that tenants are not managing their finances well. Factors such as sporadic payments and short-term loans can have a big impact on credit scores. ■

Provincial rent statistics

NORTHERN CAPE

We also measured a decrease in the average credit score, coupled with an increase in the percentage of high-risk tenants.

Average rent
R8,153

2017
R8,211

Better than national average (R7,610)

Rental growth
-0.70%

2017
7.90%

Worse than national average (4.14%)

Average income
R31,509

2017
R30,683

Worse than national average (R33,037)

Average credit score
623

2017
628

Worse than national average (634)

Debt-to-income ratio
35.0%

2017
40.4%

Better than national average (45.5%)

Rent-to-income ratio
27.3%

2017
29.2%

Better than national average (28.9%)

Affordability ratio
62.3%

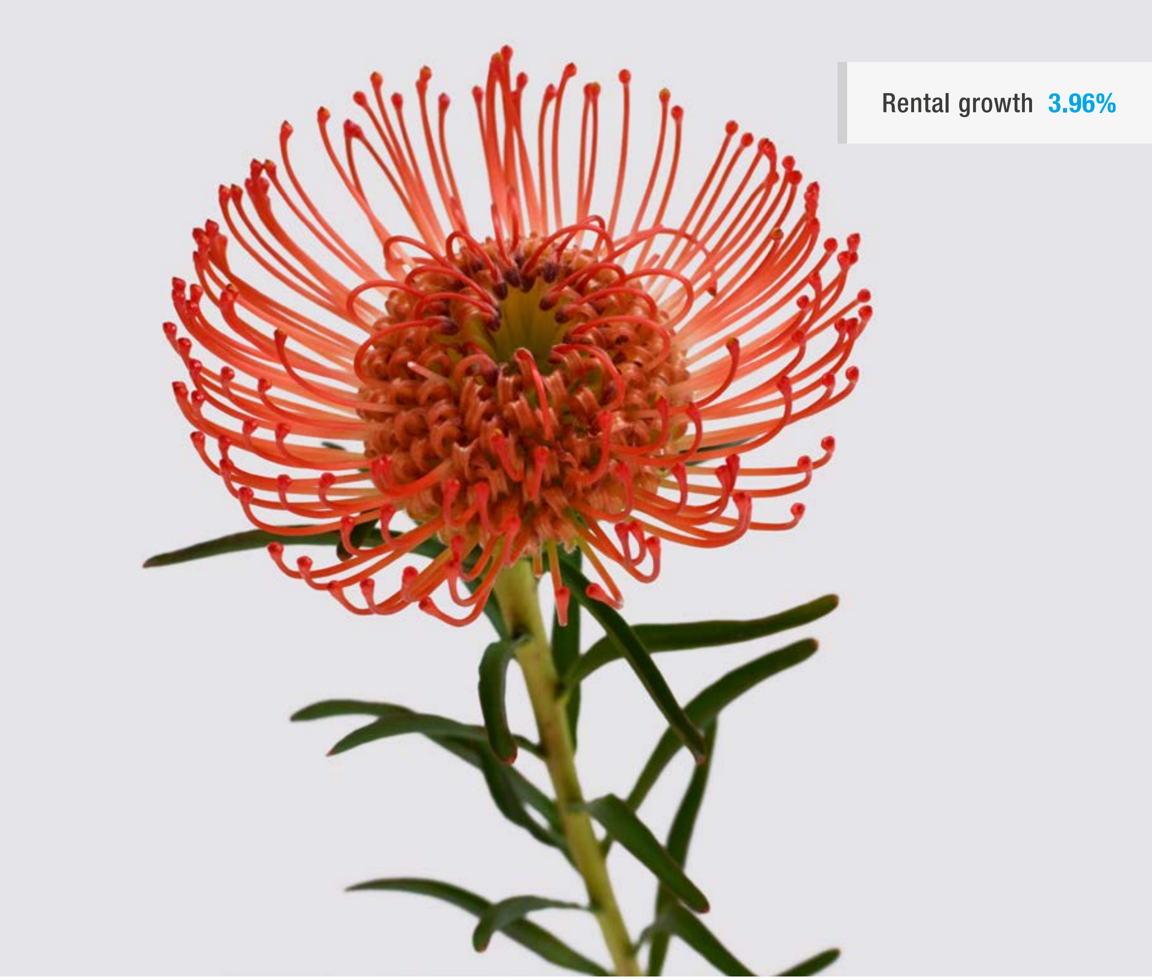
2017
69.6%

Better than national average (74.4%)

Risky tenants
48.4%

2017
45.7%

Worse than national average (36.3%)



Provincial rent statistics

WESTERN CAPE

— HOW THINGS CHANGE

2018 yielded the lowest growth figures for the province since the launch of the Rental Index in 2012.

In its current situation, it's hard to believe that the Western Cape experienced four consecutive quarters of 10% year-on-year (YoY) growth in 2017. By comparison, 2018 yielded the lowest growth figures for the province since the launch of the Rental Index in 2012.

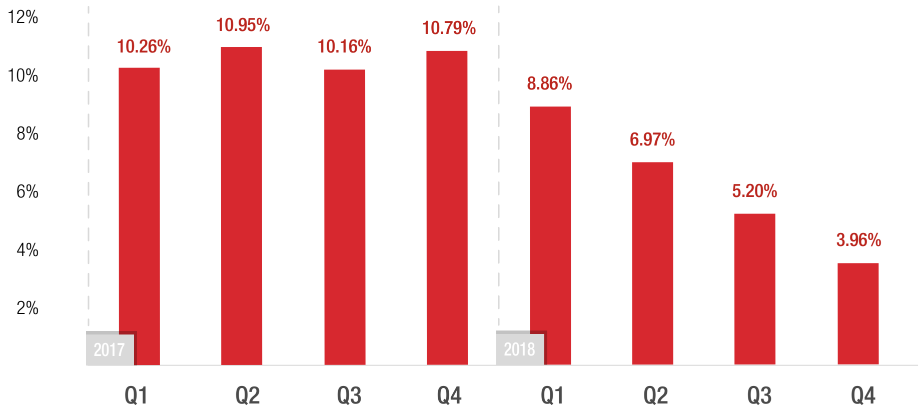
At its lowest point of the year, growth in the Cape slowed to just 3.96% in Q4 2018. (The YoY figure for December was only 0.4%!)

Even so, the average Western Cape rent surpassed the R9,000 mark during the year, still making it the most expensive province to live in with an average price differential of nearly R1,000 compared to the second most expensive province.

But don't be too concerned for Western Cape tenants, as they are better off than most – enjoying the highest income levels, second highest credit scores and featuring the lowest percentage of risky tenants. Because of high rents, the average rent-to-income ratio in the province is slightly higher than the national average, but that is offset by better-than-average debt-to-income and affordability ratios. The average Cape tenant has 30% of their net income left after paying rent and debt obligations, which is the third best level out of all the provinces.

When looking at long-term rental cycles, rental growth in the Fairest Cape could possibly start to pick up again towards the latter half of 2019. ■

The average Cape tenant has 30% of their net income left after paying rent and debt-obligations.



Year-on-year growth rates for the Western Cape – 2017 and 2018
Source: PayProp

WESTERN CAPE

The average Western Cape rent surpassed the R9,000 mark during the year, still making it the most expensive province to live in.

Average rent
R9,124

2017
R8,777

Better than national ave (R7,610)

Rental growth
3.96%

2017
10.79%

Worse than national ave (4.14%)

Average income
R35,815

2017
R35,080

Better than national ave (R33,037)

Average credit score
639

2017
639

Better than national ave (634)

Debt-to-income ratio

40.2%

2017
37.2%

Better than national ave (45.5%)

Rent-to-income ratio

29.8%

2017
29.2%

Worse than national ave (28.9%)

Affordability ratio

70.0%

2017
66.4%

Better than national ave (74.4%)

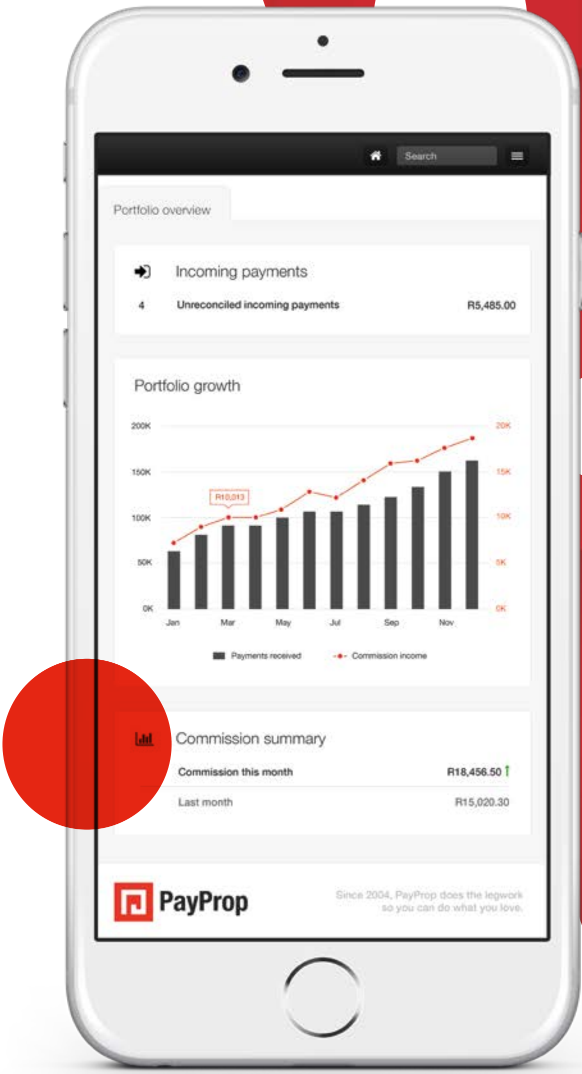
Risky tenants

29.2%

2017
29.6%

Better than national ave (36.3%)

www.payprop.co.za



Risky business

LOWEST-RISK RENTERS

We see a correlation between a tenant's risk level (determined by their credit score) and the percentage of income they spend on rent.

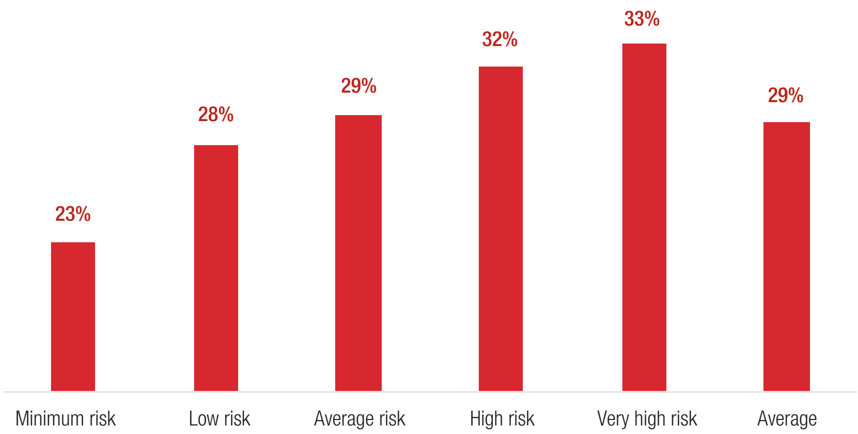
A widely accepted rule of thumb holds that a tenant shouldn't spend more than 30% of their net income on rent. Many tenants follow this rule to good effect, and many rental agents use it as a general measure of affordability.

And while this figure was indeed just below 30% in the fourth quarter of 2018 (and had been, more or less, for two years), the true measure of appropriate rent-to-income levels is slightly more nuanced. In addition, we see a correlation between a tenant's risk level (determined by their credit score) and the percentage of income they spend on rent.

Generally speaking, financially savvy tenants, who have higher credit scores (and therefore lower risk ratings), spend less of their income on rent than high-risk and very high-risk tenants. The figure for lower-risk tenants is less than 30%, with the lowest-risk ones spending just 23% of their income on rent – 20% less than the average tenant!

On the other end of the spectrum, the riskiest tenants spend about 33% of their income on rent.

Herein lies good advice for tenants looking to increase their credit scores – rent a cheaper place and use the money you save to pay off your debts. In this way, you will reduce the portion of your income going on servicing your debts, and you'll lower your overall cost of living, making you less dependent on debt in the future. ■

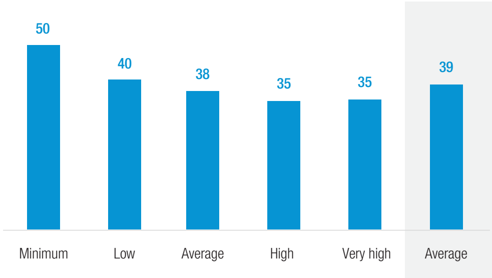


Rent-to-income ratios per risk category for the Western Cape – 2017 and 2018
Source: PayProp

Better than the rest

WHAT DOES LOW-RISK LOOK LIKE?

The average age for minimum-risk tenants is 50, the highest average age for any risk category and more than 25% higher than the average age overall.



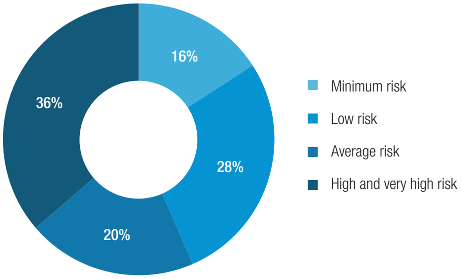
Average age per risk category – Q4 2018
Source: PayProp

In the previous PayProp Rental Index, we saw that older tenants tend to have better credit scores and therefore pose lower risk to agents and landlords. The average age for minimum-risk tenants is 50, the highest average age for any risk category and more than 25% higher than the overall average age. This affirms the correlation between age and risk.

But how big is the minimum-risk category? Our data shows that only 16% of tenants fall into this cohort. By contrast, 28% of tenants fall into the low-risk category, presenting a bigger opportunity to delve into what a low-risk tenant looks like and how they compare to tenants in other categories.

While the ratios don't hold too many surprises, a few things are worth noting concerning rand values.

Compared to the average tenant, low-risk tenants have higher incomes and average rent-to-income ratios but lower debt ratios – which is seemingly the key.



Percentage of tenants per risk category
Source: PayProp

Surprisingly, minimum-risk tenants have higher-than-average debt-to-income ratios. However, given the type of debt these older tenants usually have, the length of their payment history and their higher incomes, their credit ratings do not suffer as a result.

When we convert these groups' debt ratios into rand amounts, we see a few interesting things: Minimum-risk tenants earn more than R10,000 per month more than low-risk tenants, but spend almost all of it on debt repayments.

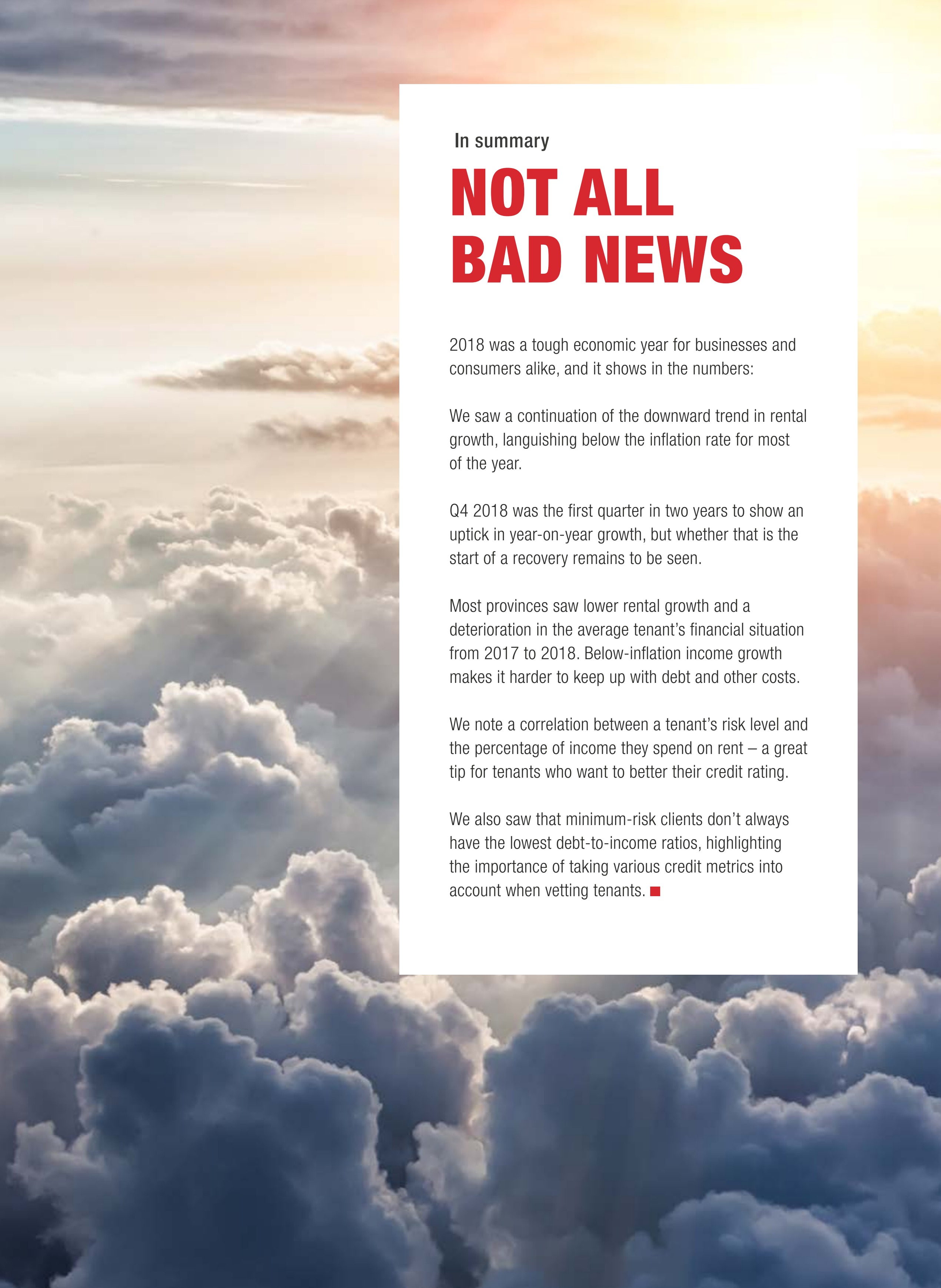
Low-risk tenants have the highest disposable income after debts and rent. Minimum-risk tenants have R11,445 left, while low-risk tenants are left with R11,763.

Low-risk tenants spend the same amount of money on repaying debt as the average tenant (but slightly more on rent). The difference in disposable income is therefore mostly due to a difference in income.

Again, we see that one of the easiest ways for tenants to improve their credit scores is to rent for cheaper and use the extra disposable income to repay debt. In the long run, cheaper rent lowers a tenant's cost of living and reliance on debt.

	Average tenant	Low-risk tenant	Minimum-risk tenant
Age	39	40	50
Credit score	634	655	678
Rent-to-income ratio	29%	28%	23%
Debt-to-income ratio	45.5%	40.6%	53.4%
Affordability ratio	74.4%	68.2%	76.0%
Net income	R33,036.86	R37,026.96	R47,786.89
Rent in Rand	R9,532.76	R10,218.59	R10,804.90
Debt in Rand	R15,039.86	R15,045.68	R25,536.62
Disposable income	R8,464.25	R11,762.68	R11,445.38

Average national credit metrics for selected risk categories – 2018
Source: PayProp



In summary

NOT ALL BAD NEWS

2018 was a tough economic year for businesses and consumers alike, and it shows in the numbers:

We saw a continuation of the downward trend in rental growth, languishing below the inflation rate for most of the year.

Q4 2018 was the first quarter in two years to show an uptick in year-on-year growth, but whether that is the start of a recovery remains to be seen.

Most provinces saw lower rental growth and a deterioration in the average tenant's financial situation from 2017 to 2018. Below-inflation income growth makes it harder to keep up with debt and other costs.

We note a correlation between a tenant's risk level and the percentage of income they spend on rent – a great tip for tenants who want to better their credit rating.

We also saw that minimum-risk clients don't always have the lowest debt-to-income ratios, highlighting the importance of taking various credit metrics into account when vetting tenants. ■

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 letting 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 and 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