

SA returns to stable rental growth - PayProp Rental Index

The average South African rental for Q2 2016 was R6,570.50, a 6.4% increase from the same period in 2015, according to the quarterly [PayProp Rental Index](#). PayProp Group CEO Louw Liebenberg says that the figures show a welcome return to stability after a 1% point drop from the 7.4% measured in Q4 2015.



PayProp Group CEO Louw Liebenberg

“This has been an extremely interesting quarter to watch – one in which we’ve dug deeper into tenancy dynamics than ever before, resulting in our view that the average tenant is far more financially vulnerable than previously thought.”

In the period under review, tenants who earn below R10,000 per month used up more of their available credit than other tenants. But from this point onward the trend line flattens out until the R40,000 pay bracket – which is not as one would expect. The data shows that ‘in-the-middle’ consumers are all equally indebted – and that tenants’ use of available credit only really dips when earning above R60,000 per month.

Considering that tenants earning between R20,000 and R40,000 typically rent for R6,000 to R10,000 per month, and that 89% of all rentals are for less than R10,000 per month, the ‘sweet spot’ of the rental market is where the problem of over-indebtedness occurs.

Measuring tenants' over-extension

Liebenberg says that another way to measure tenants' over-extension is the proportion of debt repayments relative to disposable income.

“Currently, tenants owe on average 40% of their pre-tax income to credit providers. That is up from 33% in March 2015 – a dismal worsening of matters over time.” In addition, the average South African tenant has by now used up 70% of all credit available to them. This leaves an extremely small manoeuvring space for tenants to absorb ‘life shocks’ that may come at them – potentially causing defaults.

Liebenberg says that the index has also produced data in support of the theory that Gauteng residents are ‘migrating’ to the Western Cape. “Rental growth in Gauteng has been declining for some time – and corresponding increases are evident in the Cape. In economic terms, this indicates a decline in demand in Gauteng, relating with an increase in demand in the Western Cape.”

The index shows that rentals above R10,000 are growing at a significantly faster rate in the Western Cape than in Gauteng. Liebenberg says that assuming that there is indeed an underlying ‘migration’ from Gauteng to the Western Cape, this would seem to be driven by high-value rentals.

Liebenberg says that the stabilisation of rental values gives no indication of the underlying movements between the provinces, including the migration to the south, a faltering economy in the Northern Cape, and possible industrial resurgence in Limpopo.

PayProp has published the PayProp Rental Index since December 2011 tracking residential letting trends.

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