

Tenant arrears: Do agents and owners need to worry?

With South Africans currently battling high inflation and rising interest rates, not to mention increased load shedding exacerbating trading conditions in recent weeks, it's not surprising that residential agents and owners worry that the increasing pressure on tenants could lead to non-payment.



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But while it seems likely that this would lead to further economic pressure, and potentially also to defaulting tenants, Johette Smuts from PayProp says that any effect of the cost-of-living squeeze and other factors on tenant payment has been marginal.

The data

The PayProp Rental Index for Q2 reported a slight increase in residential rental arrears – the first increase in this metric since the peak seen in Q2 2020, the start of the worldwide pandemic.

However, Smuts says fewer tenants are in arrears now than in Q1 2020. In the most recent quarter, 18.5% of tenants were in debt to their landlords, compared to 18.4% in Q1 2022.

“While the quarterly uptick is small, it could still be indicative of rising financial pressure on tenants,” says Smuts. She says the onus is on landlords and property professionals to keep a close eye on tenant arrears within their portfolios and work with their tenants to find solutions together.

PayProp also considers another arrears metric: Besides the percentage of tenants in arrears, which records the number of tenants in arrears as a percentage of the total number of tenants managed by the company’s clientele, the PayProp Rental Index also keeps an eye on the average arrears percentage, which expresses the average amount in arrears as a percentage of the average monthly rent. An average arrears percentage of 80%, therefore, means that on average, a tenant in arrears owes 80% of one month’s rent.

Smuts says that this metric peaked in Q3 2020 and has been slower to recover than the percentage of tenants in arrears, suggesting that fewer tenants owing significantly more are finding it difficult to get themselves out of debt. The metric currently sits at 80.8%, 2% higher than that seen before the pandemic.



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So who are these tenants at risk?

PayProp data shows that tenants who spend less on rent tend to be at higher risk of defaulting, mostly because they usually fall within a lower income bracket. In the rent bracket of R1,000 to R2,500, 46.6% of tenants were labelled as high-risk in Q2 2022, while only 11.2% of tenants fell in the minimum-risk category.

Moving up to rents between R5,000 and R7,500, the most populous of the six rent brackets tracked by the index, 34.2% of tenants were classed as high-risk. In the R7,500 - R10,000 bracket, 24.7% were deemed high-risk and just under 40% were classed as minimum-risk. Only 12.7% of tenants who spent more than R15,000 on rent per month were flagged as high-risk during the most recent quarter.



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Tenant expenditure

In the most recent index, the data shows that tenants with higher levels of income tend to spend more on rent, both in rand terms and as a percentage of their income. In the more affordable rental brackets, tenants spend on average 21.8% of their take-home pay on rent. In the most expensive bracket, 34.4% of tenants’ income went towards rent.

Smuts says that while tenants in the lower rental brackets spend proportionately less of their income on rent, they spend a much greater percentage than higher income cohorts on debt repayments. The opposite is true for tenants in the higher rent brackets.

“This further illustrates the point that lower-income tenants are more likely to be affected by rising inflation and interest rates as the cost of servicing debt goes up,” says Smuts.

“It’s important for rental agents to understand specific tenants’ spending behaviours. Not all tenants’ expenditures will look the same as the averages in this index. In the current economic climate where prices are rising rapidly and debt is becoming more expensive, a good agent should understand the potential effects of this on a tenant’s expenditure and, in

turn, their ability to pay rent,” says Smuts.

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