

Impact of Covid-19 pandemic reflected in latest Payprop Rental Index

The PayProp Rental Index for the second quarter of 2020 reflects the first clear indication of the effects of lockdown on rent levels, rental growth and arrears in South Africa. The data shows sub-inflationary rental growth rates for April, May and June at 2.3%, 1.1% and 1.6% respectively (year on year). This is despite inflation dipping to its lowest level in years.



Weighted average national rental growth rate (YoY) vs inflation – January 2019 to June 2020
Source: PayProp

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According to PayProp head of data and analytics Johette Smuts, affordability has been an important driving force behind the dramatic slowdown due to loss of income from pandemic-related redundancies. “Many tenants have taken a reduction in their monthly income or lost their source of income completely, forcing them to reassess their rental situation or to downscale,” says Smuts.

Another key factor negatively influencing long-term rental growth is the return of properties that were previously let to the tourism market via short-term letting platforms like Airbnb. “With the travel restrictions, owners have been flooding the long-term rental market with these properties, thereby suppressing prices,” she says.



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Provincial results

Provincially, the year-on-year rental growth rate declined from Q1 to Q2 in all but two provinces. In the North West, rental growth measured 3.9% in Q2, compared to 3.8% in Q1, and in the Northern Cape, growth of 3.7% was measured in Q2 vs 3.6% in Q1.

Three provinces experienced negative year-on-year rental growth in Q2 – meaning rental properties were cheaper there in Q2 2020 than in Q2 2019: Limpopo rental prices decreased by 3.7%, KwaZulu-Natal by 1.6%, and the Western Cape, once the darling of the rental market, by a small 0.04%.

The biggest change from Q1 to Q2 was in KwaZulu-Natal where growth rates went from a positive 3.3% year-on-year to a

negative 1.6% year-on-year – a change of almost five percentage points.

The average national rent for Q2 was R7,746, up R115 from R7,631 in 2019. The Western Cape is still the most expensive province in which to rent, with an average rent of R9,022, down from R9,025 a year ago. It is also still the only province where the average rent is more than R9,000 per month.



Johette Smuts, head of data and analytics, Payprop



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KwaZulu-Natal, the second most expensive province a year ago, moved to fourth position after experiencing negative growth of 1.6% over the year. Gauteng is now the second most expensive province, followed by the Northern Cape. The Eastern Cape's average rent crossed the R6,000 mark in Q4 2019, leaving the North West as the only province with an average rent below R6,000.

The North West's average rent of R5,235 is heavily influenced by student accommodation with low-rent apartments and dorm rooms. In Limpopo, rent levels crossed the R7,000 mark, albeit in the wrong direction. Rent levels decreased from R7,227 in Q2 2019 to R6,962 in Q2 2020 – a 3.7% decrease. The Free State had the highest growth rate of all the provinces at 4.7%, which saw the average rent increase from R6,166 a year ago to R6,455 this past quarter.

Finally, Mpumalanga, the province with rent levels closest to the national average, saw rent levels increase from R7,381 in Q2 2019 to R7,463 in Q2 2020.



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Where to from here

At 2.1% year-on-year, inflation reached its lowest point since September 2004 in May 2020. "Inflation figures over the second quarter were the lowest in 15 years, fuelled by a drop-off in demand from consumers, who were likely bracing themselves for tough times ahead and facing increased affordability issues," says Smuts.

"The damaging effect of Covid-19 on the rental market is clear, as was to be expected. Rental growth over the last quarter was extremely low, and we don't expect it to pick up anytime soon," says Smuts.

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