

## 5 things keeping landlords and agents up at night

According to PayProp's *Rental Index* report for Q3 2023, South Africa has now achieved eight successive quarters – two whole years – of positive rental growth, but the market hasn't turned the corner yet.



Source: [Pexels](#)

While this is a huge relief for residential rental professionals and landlords after several years of challenging market conditions, there are still some hurdles facing the rental market's ongoing recovery.

At the recent PayProp roadshow, Transcend Residential Property Fund chief executive officer Myles Kritzing and Just Property Prosper principal Pieter van den Berg unpacked a few rental market trends that might be giving landlords and agents sleepless nights.

According to Van den Berg, the *Rental Index* numbers are positive, but they do differ slightly from province to province and between market segments, with some cashing in more than others. Just because the market is up, doesn't mean consumers are flush with cash.

Meanwhile, Kritzing said, "It's no surprise that the average consumer is dealing with a fair deal of financial stress due to the high cost of living and escalating interest rates. Right now, times are tough, and it continues to get harder and harder for consumers to enjoy the lifestyle they enjoyed just a few years ago."

But, he added, the reality is that people will always need a place to live, so there will always be a strong market for property.

- **Supply not keeping up with demand:** Perhaps the most obvious hurdle right now is a massive shortage of stock, notes Van den Berg. While a lot of new real-estate developments are in the pipeline, supply still hasn't kept up with demand for housing – and some market segments are more affected than others.

“The imbalance between what people want and what is available is perhaps most felt across the low to middle income bracket where a small increase in price can be the difference between a property being affordable or unaffordable,” said Kritzinger.

- **Hitting the affordability ceiling:** In a market where demand outstrips supply, it's understandable that landlords might be tempted to dramatically hike their prices, explained Kritzinger – especially as their own bond repayment and other costs have gone up. “But you've got to be cognisant of what people can afford, at the end of the day.”

Similarly, if there's a lot of demand for a property, owners might think that they can advertise and manage everything on their own without contracting a rental agency. This is where agencies and agents have to bring a lot to the table to really showcase the value they add, noted van den Berg.

Finding a tenant is just the start of an agent's involvement in making a tenancy run smoothly, so it will be critical for agencies to show how they can help with invoicing, payment collection, maintenance and more.



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- **Payment issues:** While defaults have decreased this year (the share of tenants in arrears fell to 17.5% in Q3, according to the PayProp *Rental Index*) the average tenant is still under pressure financially and the economy as a whole is struggling.

“We see this when people put in applications for a property,” said van den Berg. “You'll get a pile of applications for a single property but when you start to dig a little deeper and assess things like bank statements and credit history, it's fairly easy to weed out the tenants that don't qualify.”

That being said, he stressed that current market conditions mean most people will have experienced some sort of financial ‘hiccup’ in the past, so one really needs to do a lot of homework and screen tenants very carefully to get a clear picture of their situation. However, with demand outstripping supply, agents can afford to be choosy.

If possible, look at applicants' rental payment history alongside their credit scores to get the clearest picture of their likelihood of paying rent – which you can with PayProp's *Tenant Assessment Report*.

**Rising council and municipal charges:** “Across some municipalities, we are experiencing overinflated municipal service costs with very little service delivery or reliability,” commented Kritzinger. “In some cases, the tariffs that get charged by the different councils and cities can make rentals and ownership unaffordable,” he continued.

“The City of Johannesburg, for example, charges a blanket sewer tariff of R600, whether you live in Soweto or Sandton. If you stay in a flat and your rent is just R3 500, this charge – as a percentage of your total rental cost – is huge and can be prohibitive. With this in mind, agents and landlords need to be strategic around how they carry these costs.”

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Depending on who covers the cost, runaway charges could put further pressure on tenants' ability to pay rent, or squeeze landlords' profit margins and encourage them to raise rent further.

- **Surprise maintenance issues:** Landlords face squeezed profit margins as bond repayments and other costs rise, and a big repair bill can easily put them into the red.

"Regular maintenance and ongoing inspections are a must," said van den Berg. "If the agent does an inspection when the tenant moves into a property but doesn't visit the property again until that same tenant moves out five years later, chances are high that the one-and-a-half-month deposit is not going to be enough to cover damage or even just general wear and tear.

"When it comes to maintenance, agents and landlords need to be proactive rather than reactive," he added.

PayProp-powered agencies can help landlords prepare for maintenance costs using the PayProp Property Account. This secure account allows landlords to set aside money – either all at once, or by saving part of the rental payment each month. Landlords get full visibility of payments into and out of the Property Account and receive interest on their balance daily.

"In all of this," noted van den Berg, "the best thing agents and landlords can do is keep abreast of what's happening in the market and take the time to understand market trends.

"You really need to be an area expert and must know everything that's going on in your area. This is the best way that we can serve the tenants and property owners with whom we work."

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