

Prices stabilise as demand picks up

This report covers the developments in the national housing price index for 2008 and the first two months of 2009. The data is based on bonds registered at the Deeds Office. We exclude bonds smaller than N\$100,000 and secondary bonds, which do not reflect the cost of housing and as such may distort the index. Of course, it must be remembered that this index reflects the median price of properties that were traded over this period. This limitation of not being able to get to average prices about the stock of housing is a perennial challenge for housing indices. We use weighted indices to counter disparities between areas.

At a national level the volume index was volatile, even though prices were relatively stable in the current economic climate. There was a general growth trend for the first nine months, peaking in October with 537 units sold. By December this figure dropped to 172 units and the decline spilled over into

2009 with a mere 75 houses sold and registered in January across the country. Volumes did pick up in February however, with 197 units sold.

National house prices started the year 2008 at a level of N\$327k. After meandering around this level for most of the year and peaking in September at N\$380k, they closed the year at N\$334,500 – an increase of 2% in 2008. According to ABSA house price index, South African house prices appreciated by 5% during 2008. Nonetheless, Namibian prices dropped 10.5 points in January to N\$300k, only to recover 3 points in February when interest rates were cut by a further 100 basis points, with median prices closing off at N\$318k. Luxury houses (N\$1.5m+) showed robust growth during 2008 growing by 4.4%/month, followed by small houses (N\$100k – N\$400k) which appreciated by 0.4%/month.

Table 1: Weighted National Housing Index (base = January 2008)

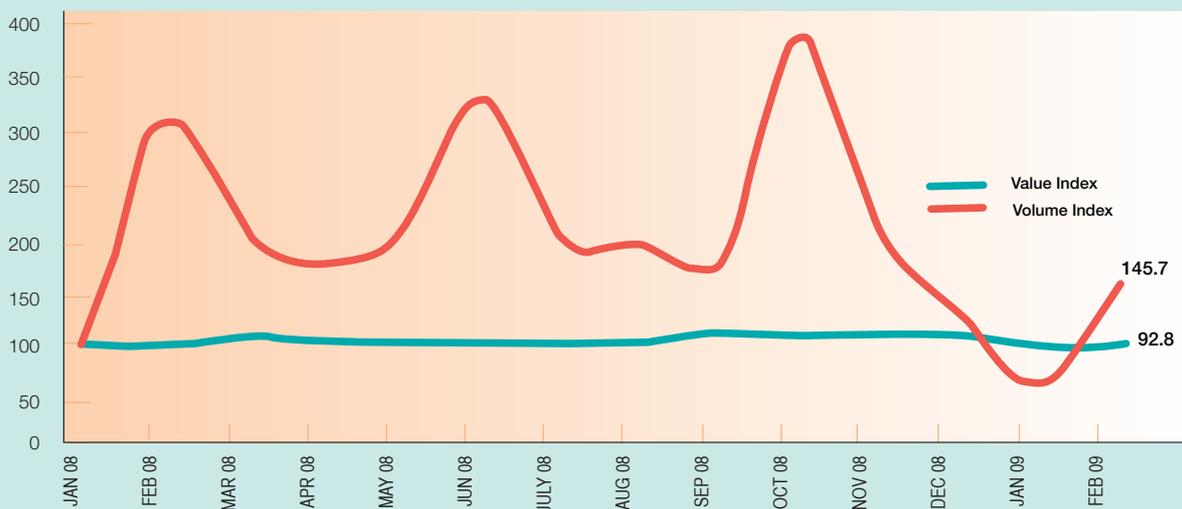
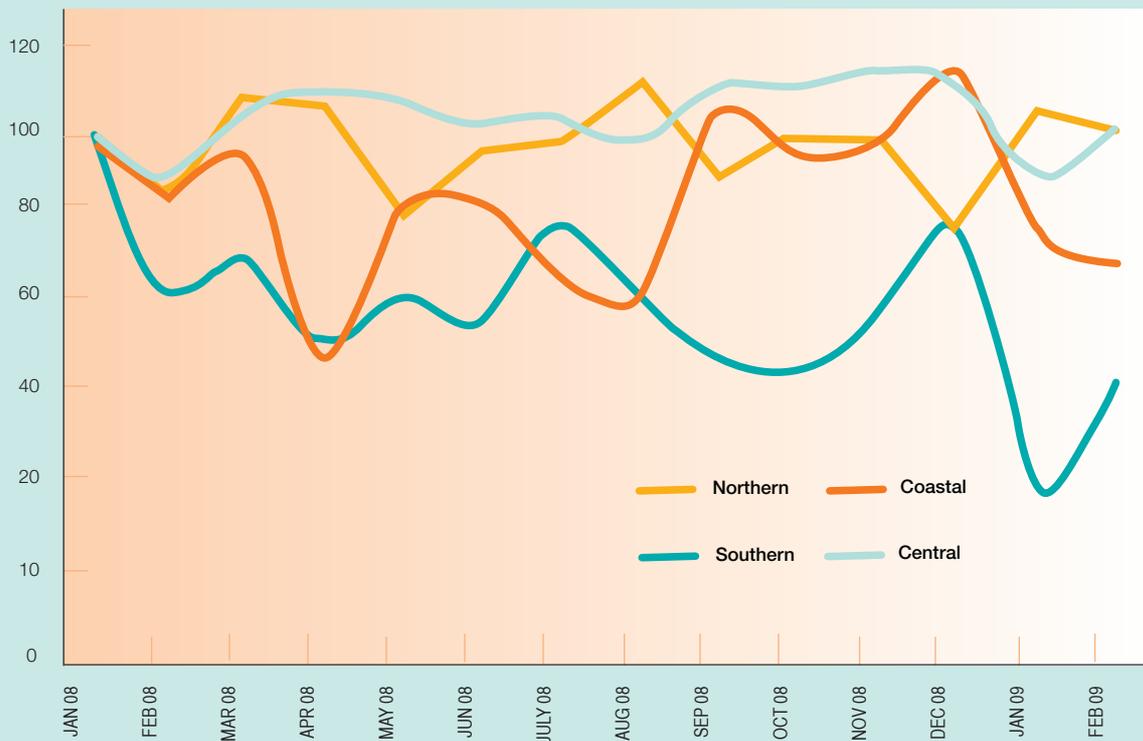
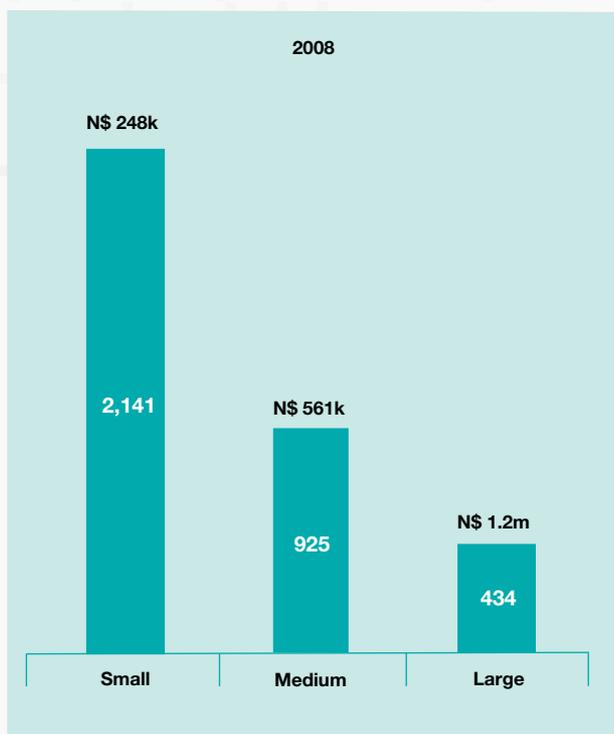


Table 2: Housing Price Index



Median prices for small houses (N\$100k – N\$400k) remained unchanged for 2008 at N\$248k, medium houses (N\$400k – N\$800k) shed 0.2% at N\$561k, and large houses (N\$800k – N\$1.5m) appreciated 20%, to close the year off at N\$1.2m.

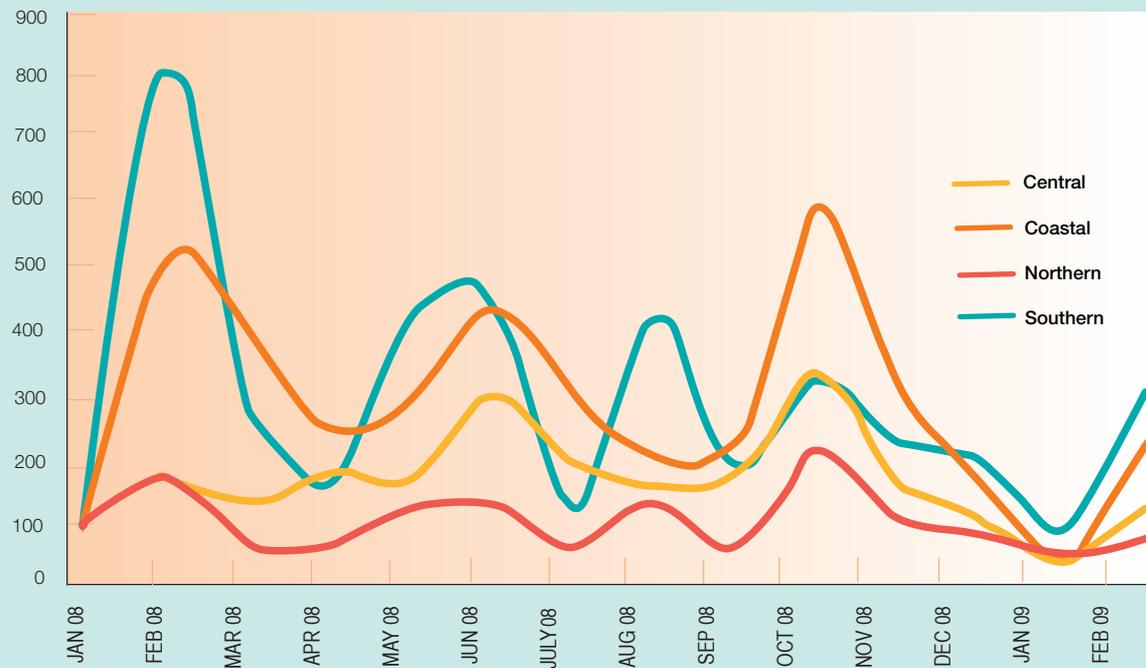


House prices in the central part of Namibia (Windhoek and Okahandja) appreciated by 7% during 2008, with median prices increasing from N\$375k to N\$400k. As for 2009, prices fell in January to N\$336k before recovering to N\$366k by February. Small houses in the central parts gained 7% in value; medium houses gained 4%, while large houses shed 9% of their value.

House prices at the coast showed strong growth towards the end of 2008, appreciating by 10% during 2008, from N\$400k in January to N\$440k in December before falling to N\$300,000 by February. Prices at the coast peaked in December due to the low proportion of small and medium houses traded in December, while the number of large houses traded at the coast in December was average. Due to the low numbers in the lower price segments, the luxury house contribution was abnormally high at 30% of traded volumes.

Houses in the northern and southern parts of Namibia depreciated by between 13 and 19 percent respectively, during 2008. This was driven by medium houses that declined by 14%, while small and large houses appreciated by 11 and 5 percent respectively. Prices in the northern part did however recover in 2009, while southern house prices continue on their downward spiral.

Table 3: Housing Volume Index



Demand recovers in 2009

A total of 3,500 houses were traded in Namibia in 2008, of which 55% were in the central region of Windhoek and Okahandja, 20% at the coast, 21% in the north and the remaining 4% in the south. This is indicative of the growing housing market outside Windhoek. There was strong demand for housing in the central region, ending the year 12% higher, before falling in January and recovering again in February. Demand for housing at the coast ended 2008 67% higher compared to January 08. On a m-o-m basis,

volumes registered at the Deeds Office faded in January and recovered in February 34% higher than the base month. While housing demand in the north is declining, a lot of vacant erven are being sold and developed in the North Central regions, which are excluded from our housing index because they fall below N\$100,000. As for 2009, all regions recovered moderately compared to the same period last year, despite lower interest rates. Going forward we expect demand to grow to 160 – 175 points as prices come under pressure.

Table 4: Residential Mortgage Advances



Residential Mortgage Advances

Mortgage advances were relatively flat in the fourth quarter of 2008 on a m-o-m basis, even with a 50 bpts rate cut in mid-December 08. Given the 8-10 week lag to register bonds, the effects began to trickle into the economy towards the end of February, where a 6% m-o-m increase in mortgage advances was noted. Although y-o-y mortgage advances are growing, they are growing at a much slower pace than the same period last year. Interest rates have since been cut by a further 100 bpts in February and 100 bpts in April. The latest interest rate developments have made consumers cautiously optimistic, going forward.

Transfer Duties

The Finance Minister adjusted transfer duties on residential properties for the new tax year. The threshold was increased from N\$100k to N\$400k. 1% transfer duty is applicable to the portion between N\$400k and N\$800k, 5% for the portion between N\$800k and N\$1.5m and 8% is payable for the portion over N\$1.5m. Therefore transfer duties will fall away for all small

houses - a welcome relief for potential first time home owners, whose income growth has lagged housing appreciation.

Conclusion

In our view, we expect house prices to stabilize, with an increase in housing demand, in spite of a deceleration of economic growth. A number of factors support our view. First and foremost is the favorable interest rate outlook, which will make repayment more affordable. Interest rates have been cut by 250 basis points in the past four months, with more interest rates cuts expected. Secondly, wages for civil servants have been increased significantly and they have already started shopping around for property to take advantage of the buyers market. Thirdly we expect 30% of the N\$600mil income tax breaks to be ploughed into housing. Finally, the adjustment of transfer duties will introduce pricing flexibility in the market. With the receiver reducing transfer duties on all residential properties, sellers will most certainly try to maintain valuation prices, while buyers negotiate aggressively for lower prices, and with time on their hands, buyers are expected to maintain the upper hand.



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Methodology: The FNB House Price Index is based on the median house price from Deeds Office data.

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