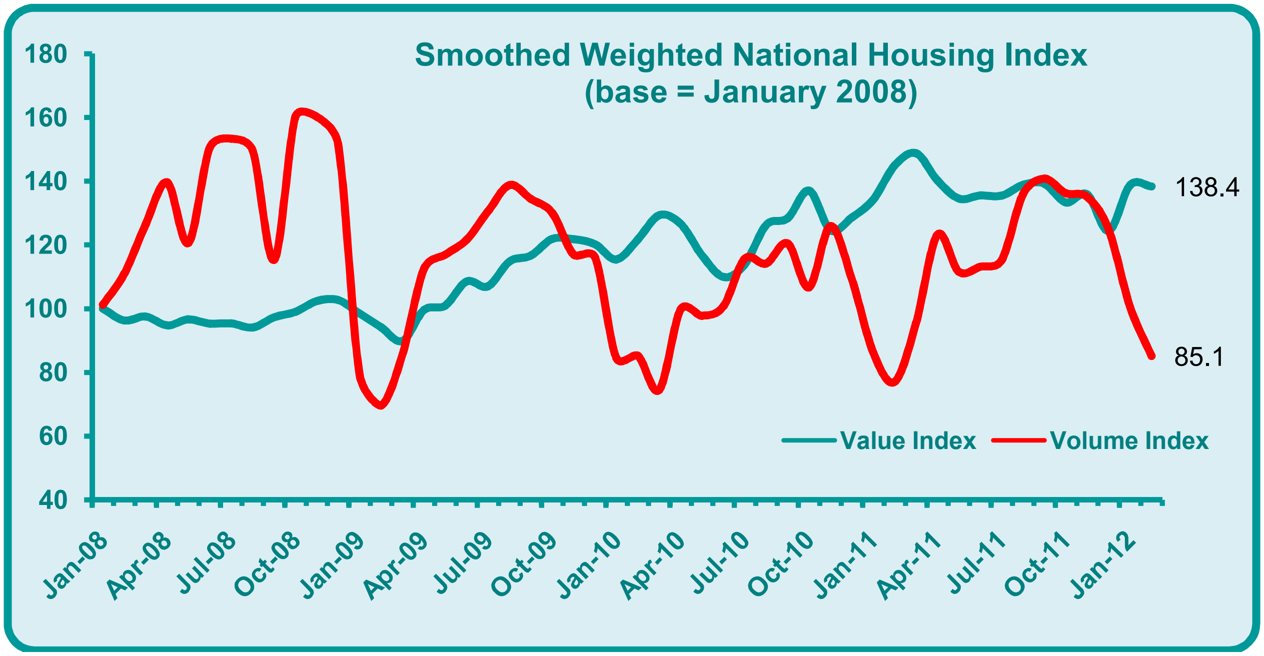
HOUSING INDEX

February 2012

House Prices Fall Marginally



The FNB House Price Index fell 4.5% year on year in February, with house prices weakening in the central and coastal property markets. These are the two largest housing markets, resulting in a noticeable deceleration in the overall mortgage advances as reported by Bank of Namibia. Although volumes fell a further 15% month on month, this is seasonal and the annualised volumes show an increase from the same period last year and is the highest February volume measured since the start of the financial crisis. Therefore volumes are expected to increase in March and April, while the central market begins to address its structural supply shortages since municipal areas are large enough to accommodate 3.6 million houses.

Median House Prices						
	Small		Medium		Large	
Central	261,667	2.2%	541,900	1.9%	1,290,000	3.6%
Coastal	277,371	-0.8%	573,333	0.6%	1,042,167	-6.5%
Northern	245,833	-1.3%	507,167	-2.4%	1,334,600	10.3%
Southern	316,783	0.1%	515,000	4.3%	1,350,000	-6.9%

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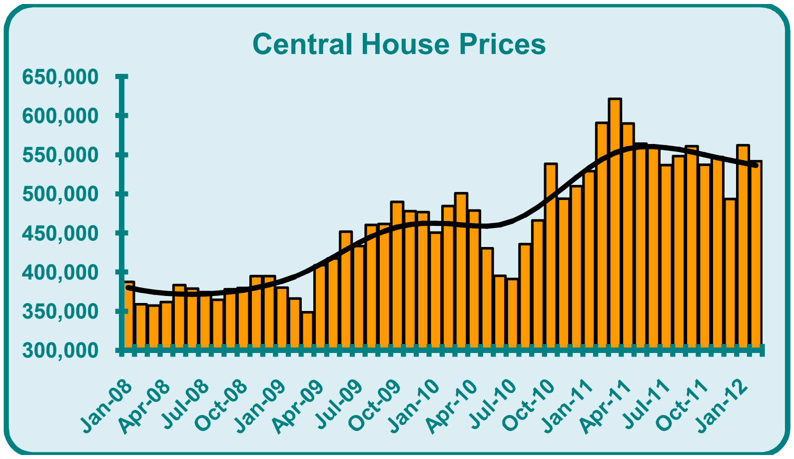
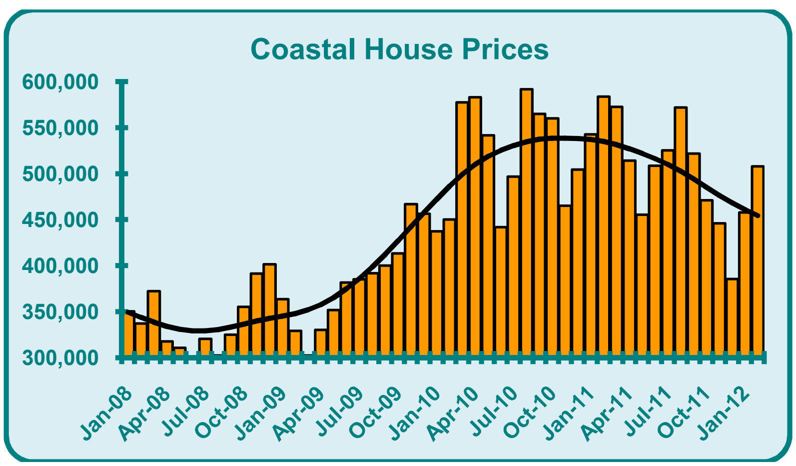
Methodology: The FNB House Price Index is based on the median house price from Deeds Office data. **Disclaimer:** The information in this publication is derived from sources which are regarded as accurate and reliable, is of general nature only, does not constitute advice and may not be applicable to all circumstances.

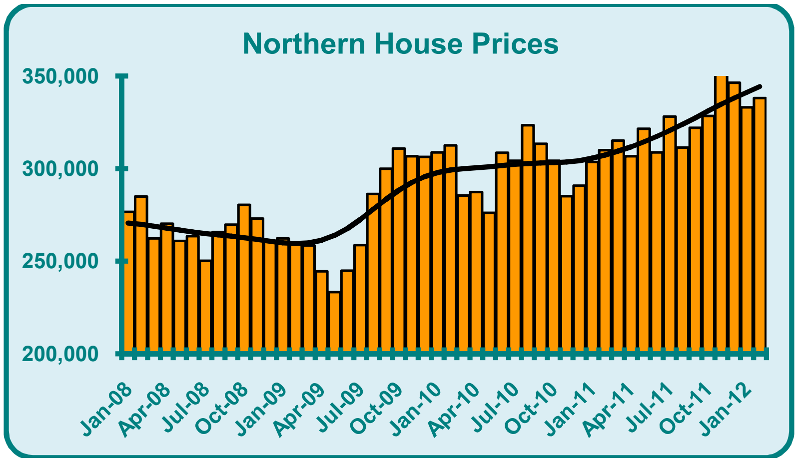
House Prices



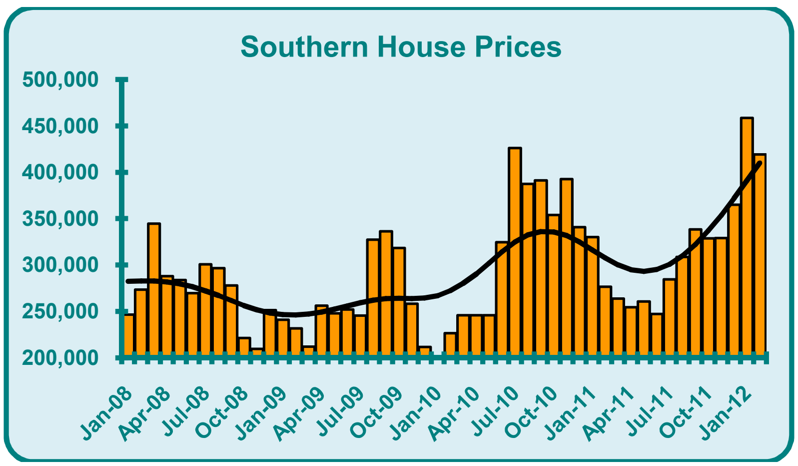
Central property prices stabilised during February. House prices fell 4% month on month and are down 8% from February last year, which reflects the falling house prices in the small and middle price segments. New housing in Okahandja is largely responsible for this trend, while Windhoek (716km²) continues to battle structural supply shortages even though its municipal area is roughly half the size of Johannesburg before the city boundaries were extended. House prices in the large price segment were up 7% year on year, with strong growth in home improvements adding to the higher prices. The value of home improvements in February exceeds the value of new houses completed. Land delivery remained dismal with 5 stands mortgaged although current municipal land in the central market can accommodate 1.5 million houses. But delivery remains a far cry from the 300 stands required each month to house the central market's population growth. At N$190 per sqm, land was 33% cheaper than the January average, where one stand was mortgaged. The extension of Windhoek's boundaries increases the housing potential by 1.6 million houses – not bad for a city with 83,000 houses!



Coastal property prices continued to improve from their December low, with an 11% month on month increase. Over the past 12 months coastal house prices remained 13% lower than the same period last year, but the price situation is improving. Coastal properties in the middle to large price segments battled to sell and sellers dropped prices accordingly. Meanwhile prices in the lower price segment increased by 5% over the past 12 months. Coastal land delivery was stagnant at 7 stands after averaging 19 stands per month for 2011. Land price increased by 43% to N$105 per sqm from the January average. We estimate that municipal areas at the coast total 500km², with a potential to accommodate 300,000 houses at the average stand size. We expect land delivery to pick up in the third quarter as both Swakopmund and Walvis Bay are busy servicing new residential extensions.

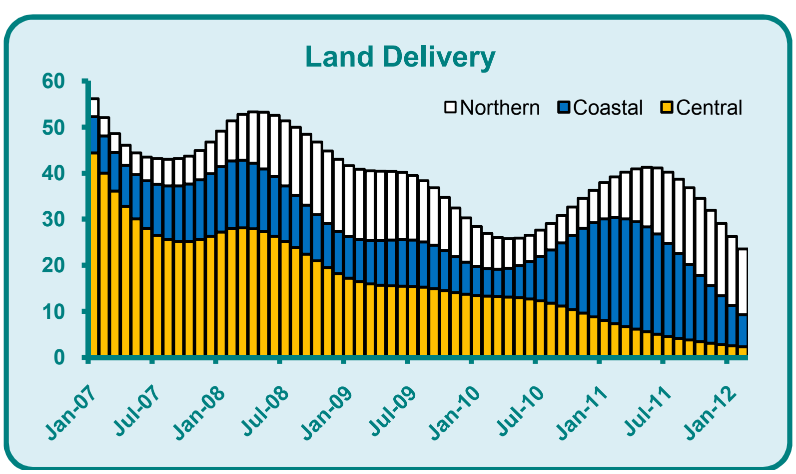


Northern property prices continued on an upward trajectory, gaining a further 2% in February bringing the year on year growth figure up to 9%. Price movements in the market were driven by the middle price segment, where house prices increased 9%. House prices in the lower price segment continued fall, largely due to above average land delivery rates, where 14 stands were mortgaged during February at an average price of N$70 per sqm, up 34% from the January average. Current municipal areas in the northern market can accommodate 1.3 million houses, but supply remains very low.



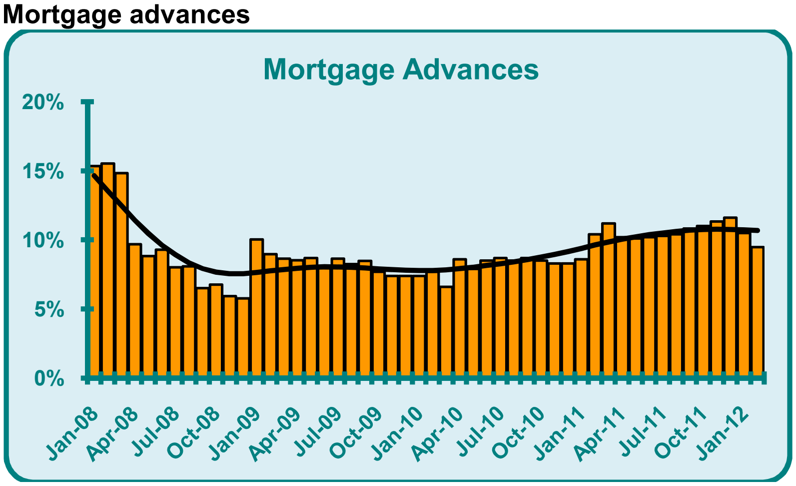
House prices in the southern property market continued to increase on the back of very thin volumes. Although house prices were down 9% month on month, the longer term trend points towards rising house prices, which are 52% higher than the same period last year. But once again we must warn that this is on the back of very thin volumes. Current municipal areas in the southern market can accommodate 545,000 houses.

Land Delivery



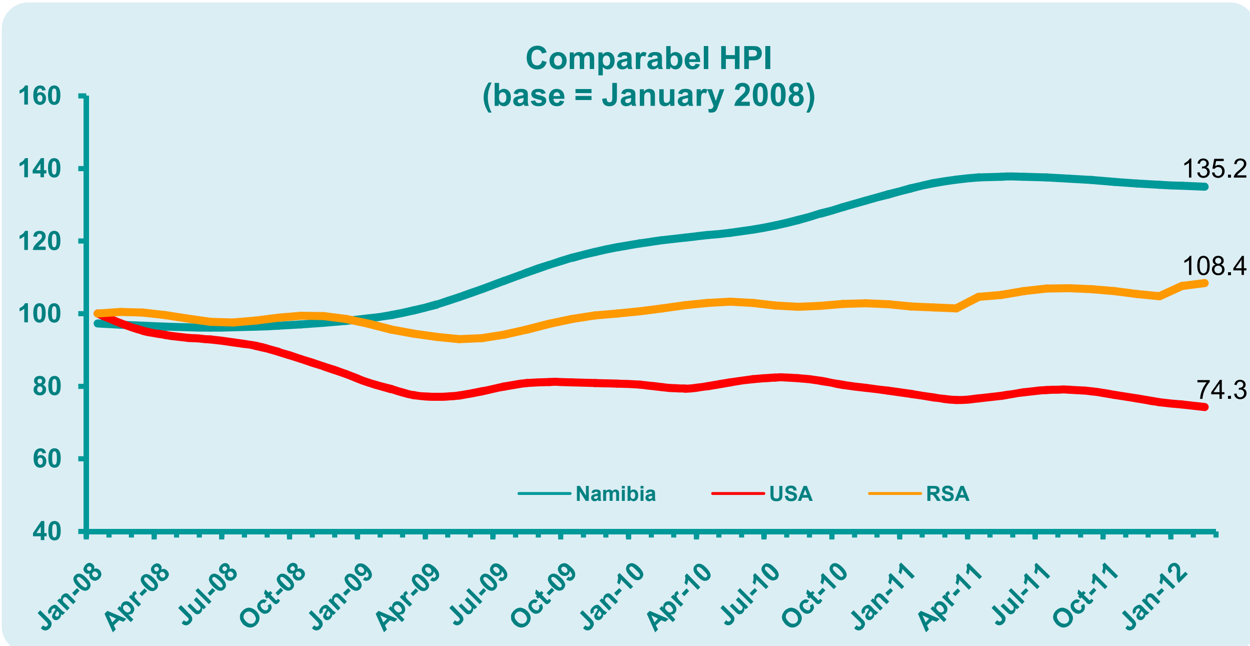
The census results show that Namibia has massive municipal areas in excess of 4,500km², capable of housing 3.6 million houses, yet structural supply shortages persist year after year. With this in mind, land delivery remained dismal through February. Coastal land delivery has lost its momentum and central land delivery remains non-existent. There was however increased land delivery in the northern property market, but this was no where near the demand for land. These persistent structural supply shortages are fuelling house prices as the market is starved of new housing stock, which is generally cheaper than the existing housing stock. In the meantime average land prices continue to increase in the northern and coastal markets 34% and 43% respectively, while falling by 33% in the central property market. For 2012, an estimated 750 new stand are expected compared to 460 stands in 2011. This is really insignificant considering municipals areas can accommodate 3.6 million houses as at August 2011, but at the current land delivery rate, it would take 1,800 years to exhaust the available municipal land across Namibia.

Mortgage advances



February saw a weakening of the mortgage growth numbers as mortgage advance growth decelerated to 9.5%, which reflects the movement in the overall index and the low volumes traded during the month. Most notable change was in the mortgage advances for undeveloped land, which was down 52% year on year due to the structural supply shortages in the market. Mortgage advances for existing homes were down 12% on the back of weak volumes as reflected in the volume index. With that said, volumes generally bottom out in February and we therefore expect credit extension numbers to bounce back in March and average 12% growth for 2012.

Comparable HPI



Source: FNB SA & S&P

Smoothing the FNB House Price Index (HPI) using the Hodrick-Prescott smoothing function produces an index comparable to RSA and USA. The comparable index shows that the Namibian property prices continue to fall, albeit at a slower rate. We suspect that there is an over supply in the upper price segment and properties are beginning to pile up and hence sellers are dropping prices to conclude sales.

The SA HPI showed a further increase in February, up 6.6% year-on-year and is the highest year-on-year growth since July 2010. This improvement in South African house prices is attributed largely to a better than expected 4th quarter GDP numbers. The US housing prices fell a further 3.5% to 2002 price levels, thus confirming that home prices continued to decline in the early months of the year and their house prices are looking rather bleak and its eroding consumer confidence, while generating negative wealth effects and delaying prospects for economic recovery in the US.

Conclusion

House prices fell due to price movements in the central housing market, where new developments in Okahandja drove the trend. Although volumes were weak, this was the best February number since the start of the financial crisis. Overall volumes are expected to increase over the coming months and yield higher numbers than 2011. But land delivery remains a challenge, despite massive undeveloped municipal areas lying idle, while informal settlements continue to mushroom across the country. Furthermore households are upgrading and extending existing properties to the extent that the value of extensions to homes now exceeds the value of new houses built - which is probably the single biggest contributor to rising house prices.

Methodology

This report covers the developments in the national housing market, based on bonds registered for natural persons at the Deeds Office. The median is used as the central measure of tendency and has been smoothed using a 3-month moving average and weighted. Bonds smaller than N$100,000 and further mortgage bonds are excluded because they may not reflect the true 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.