

HOUSING INDEX

March 2011



FNB
First National Bank

Increasing House Prices

how can we help you?

This report covers the developments in the national housing index for March 2011. The data is based on bonds registered for natural persons at the Deeds Office. Data 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.

FNB National Housing Index

The FNB House Price Index decelerated to 148.8 basis points in March as volumes improved. However, volumes remained weak due to thin volumes recorded in the

central market, where persistent under delivery of entry level housing units continued to send central house prices through the roof and thus depress volumes nationwide. So much so, that first time buyers are becoming fewer and fewer and are resorting to the rental market. Rental inflation was up 12% year on year, with more inflationary pressure from rising utilities prices down the line.

Median House Prices			
	Small	Medium	Large
Central	260,333	592,500	1,250,000
Coastal	288,333	600,833	1,275,000
Northern	269,917	499,433	1,293,000
Southern	233,925	491,218	1,325,000

Smoothed Weighted National Housing Index (base= January 2008)



Central House Prices

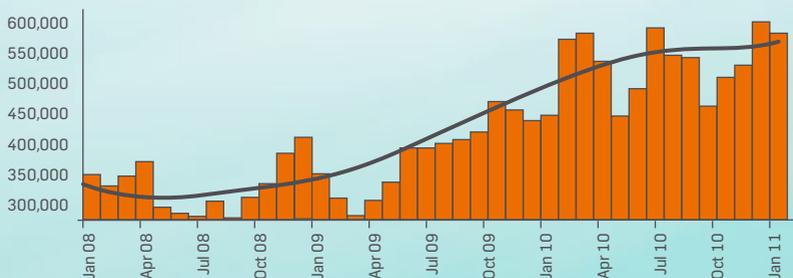


House Prices

Central median house prices continued to shoot through the roof. Volumes in the central market have battled to gain any form of momentum since December 2008, monthly volumes have fallen from 160 units per month to a mere 90 units a month over the past three years. No where is this trend more evident than the lower price segment, where volumes have fallen 20% year on year, to the extent that houses in the lower price segment now account for 29% of the volumes in this market, where the average for the rest of the country is closer to 60%. As for

the middle price segment, strong volume growth over the past year has ensured that price increases have remained below inflation along with strong supply of new housing stock – which dominates the building stats. There was also an increased supply of properties in the upper price segment, so much so that prices declined 9% year on year. Overall, the prices of small properties have simply accelerated out of this price segment and their share of the new builds have plummeted to 8% of total new builds.

Coastal House Prices



Coastal property prices continued to increase in March, because of strong housing supply in the middle price segment, which grew 33% month on month and 49% year on year. House prices in the lower price grew 20% year on year as supply numbers weakened in both Swakopmund and Henties Bay. This trend is not expected to last very long with meaningful improvements expected in the second half of 2011 and further impetus from strong

land delivery with Walvis Bay adding to the land delivery frenzy. Prices in the middle price segment increased moderately due to very strong supply numbers alluded to earlier, while large coastal homes have gone into their seasonal slump, with both prices and volumes falling as is the case until July/August. Therefore coastal properties are expected to moderate.

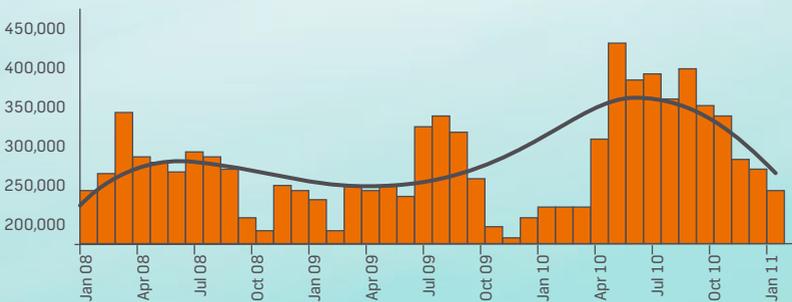
Northern House Prices



Northern property prices continued to increase despite a 43% increase in volumes, which suggests that demand continued to outgrow supply as house prices have begun accelerating, particularly in the lower price segment. Interestingly, flood prone towns of Ondangwa and Oshakati didn't feature much in the index, with Outapi featuring much more than usual and across all price segments and substantial developer activity in Onethindi. Prices for small northern properties increased 15%, despite volumes increasing 47% year on year, with Katima, Otjiwarongo, Ongwediva, Outapi and Tsumeb driving the trend. Prices for middle priced properties fell over the past year due to strong growth in the supply numbers across

a vast number of towns in Northern Namibia. Demand for large northern properties appears to be increasing, with supply skyrocketing 88% off a very low base, along with a modest increase in house price. Ondangwa's Extension 1 stood out in this regard and is beginning to emerge as a high income residential area, where Geographic Information System imagery suggests that this area is less prone to flooding. It is therefore not surprising that there are more residential ervens in the pipeline for this neighbourhood. Overall, developer activity increased substantially in the north with 100 to 130 ervans in the pipeline in Katima Mulilo, Tsumeb, Oshikango, Onethindi and Ondangwa's Extension 1.

Southern House Prices



Southern property prices continued to nose dive as volumes in the small price segment grew from strength to strength and approach the 190% mark, due to strong

growth in the Keetmanshoop and Luderitz housing markets. As for the middle to upper segments, the volumes were too thin to warrant further analysis.

Land Delivery



Land Delivery

The graph above illustrates the bonded land delivery rates for Windhoek, Swakopmund and the rest of the country. Although these figures exclude cash transaction, thus underestimating the contributions of small local authorities, the graph highlights the deterioration of land delivery over the past 5 years. Although there is some improvement, it is hardly enough to sustain population growth. Land delivery in Windhoek continued to deteriorate, with very few properties from the July 2010

auction filtering through to the mortgage market, which suggests that these properties have not been mortgaged 8 months after the auction, alternatively they could be financed with unsecured debt which attracts higher repayments which ultimately delay actual construction work, which would explain the low construction numbers, which ultimately contribute towards the escalating house prices. Walvis Bay stepped up land delivery along a few towns in northern Namibia.

Mortgage Advances

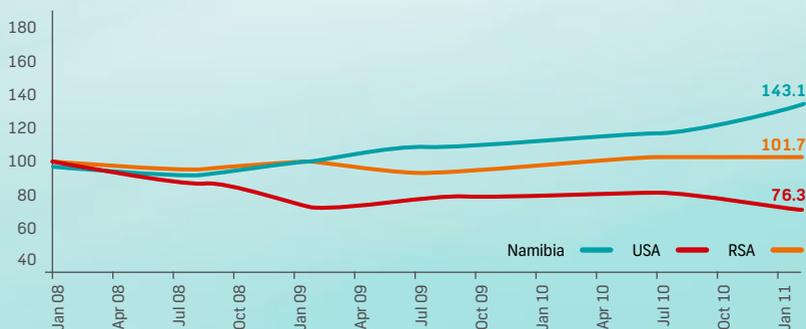


Mortgage advances

Mortgage advances accelerated further to 11.2% in March, pulling the longer term trend upwards. This suggests that consumers appetite for debt has begun to increase, thus hinting towards consumer confidence in the in the medium to large price segment segments

despite the seasonal slowdown at the coast. SA market on the other hand, continued to battle with mortgage advances, with growth slipping even further to 2.9% year on year, while US default rates fell moderate.

Comparable HPI (base = January 2008)



Source: FNB SA & S&P

Comparable HPI

Smoothing the FNB House Price Index (HPI) using the HP smoothing function produces an index comparable to RSA and USA. The comparable index suggests that the Namibian HPI continued to diverge from RSA and USA numbers on the back of markedly different market fundamentals. The RSA HPI accelerated mildly, an event which is believed to be the lagged result of a brief flurry of interest rate cutting late in 2010. But expectation for interest rate hikes later in

2011 sustains the possibility of renewed house price decline down the line. In the US, April numbers beat March, but this is the result of warmer weather as the market enters the spring-summer housing boom. US banks have tightened lending conditions over the past year thus resulting in a small decline in the pace of new defaults.

Conclusion

Median prices are expected to remain upwardly sticky around N\$495k in April before falling to the N\$430k

price range in May and June on the back of increased supply.