

Economy Limits Housing Market Correction

This report presents a review of house price developments for the first quarter of 2008. The index tracks changes in average house price valuations on a quarterly basis. The index is calculated from a weighted average of the monthly FNB valuation data of various suburbs. Only suburbs with regular valuations are presented in this report. The objective of the FNB housing index is to provide an indicative overview of what is currently taking place in the housing market.

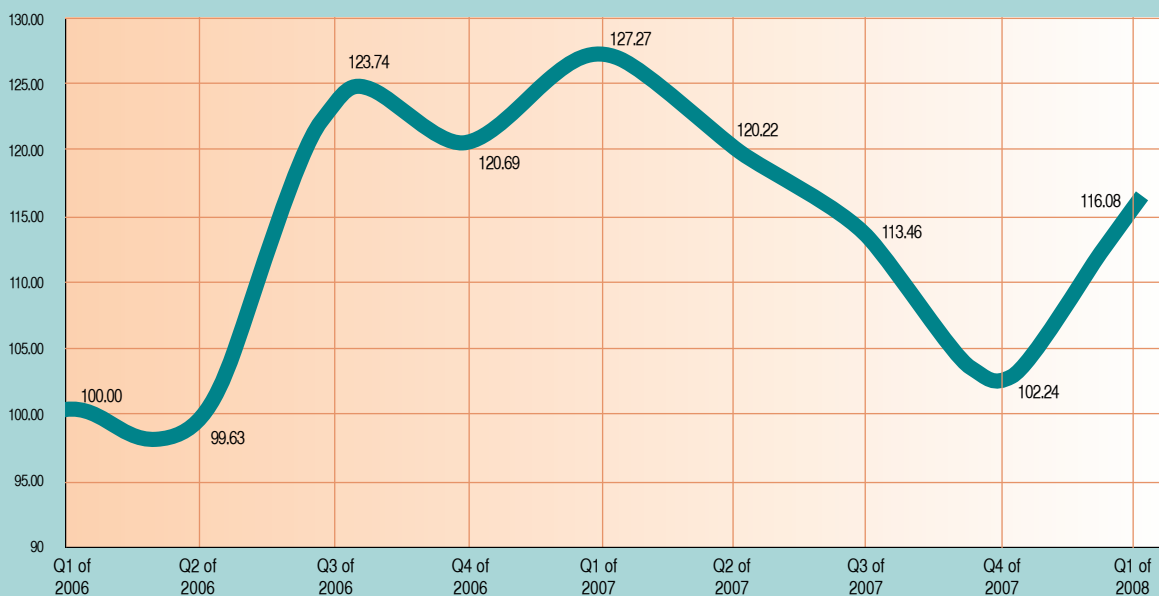
Figure 1 shows that the index recovered in the first quarter of 2008 after falling aggressively since the second quarter of 2007. Between first quarter of 2006 and the latest quarter

the index grew by 16%. However, the index grew by 13.54% between the last quarter of 2007 and the first quarter of 2008, after falling by nearly 10% between the third and final quarter of 2007. This shows that some confidence is returning to the housing market, although it is early days and therefore we should not as yet read a lot into the latest trend reversal.

The fact that Bank of Namibia did not adjust interest rates recently, unlike SARB has provided some financial relief to potential buyers. Data from the Deeds Office also indicate, although we have only data for first three months of 2008, that there is some resurgence in the housing market in 2008, following a near dismal performance last year. Of the 685 residential bonds registered for the first quarter of 2008, 154 were for January, with a further 275 registered in February, with the balance in March.

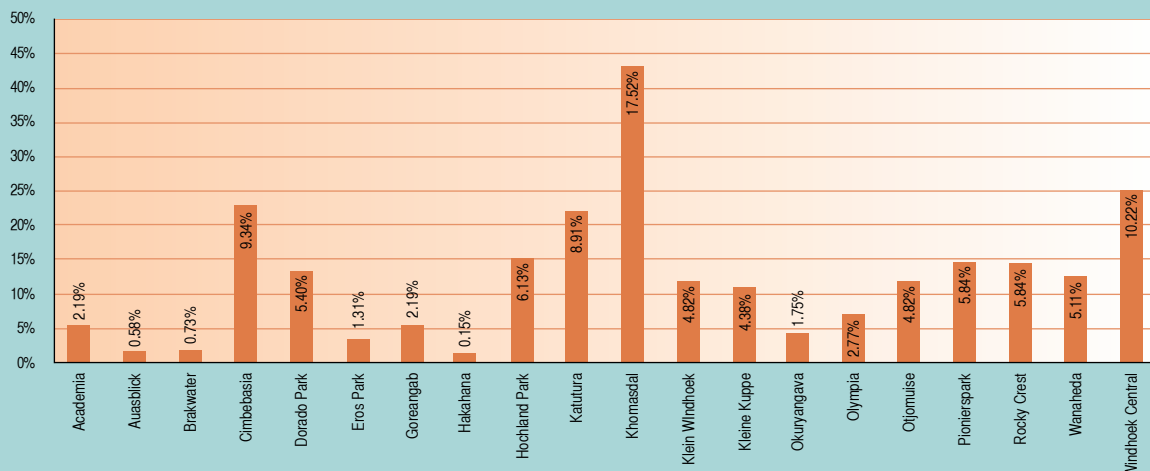
Figure 1: Windhoek Quarterly House Price Index

(Base: Q1 of 2006)



Source: FNB Namibia Valuation Data

Figure 2: The distribution of house sales for Windhoek for first quarter of 2008



Source: Deeds Office and FNB Research

However, as we speculated in previous editions of the index most of the transactions are taking place in the lower end of the market as confirmed by the Deeds Office data. In fact, Khomasdal accounts for nearly 18% of residential deeds registrations for January to March 2008, followed by Windhoek Central and Cimbebasia (see above).

However, in line with the current economic environment the Deeds Office data show that quite a significant amount of the bond registrations were for the refinancing of existing

property. In fact, of the 120 bonds registered for Khomasdal, nearly 45% were for refinancing purposes as owners are delving into their house equity. For Hochland Park the ratio of refinancing was 52% over the same period. This tendency explains the ambiguity in the housing index – i.e. the index starts to increase even as the economic environment deteriorates as a result of the rising cost of living. Home owners are increasingly valuating their properties to assess the level of equity and not necessarily to dispose of their houses.

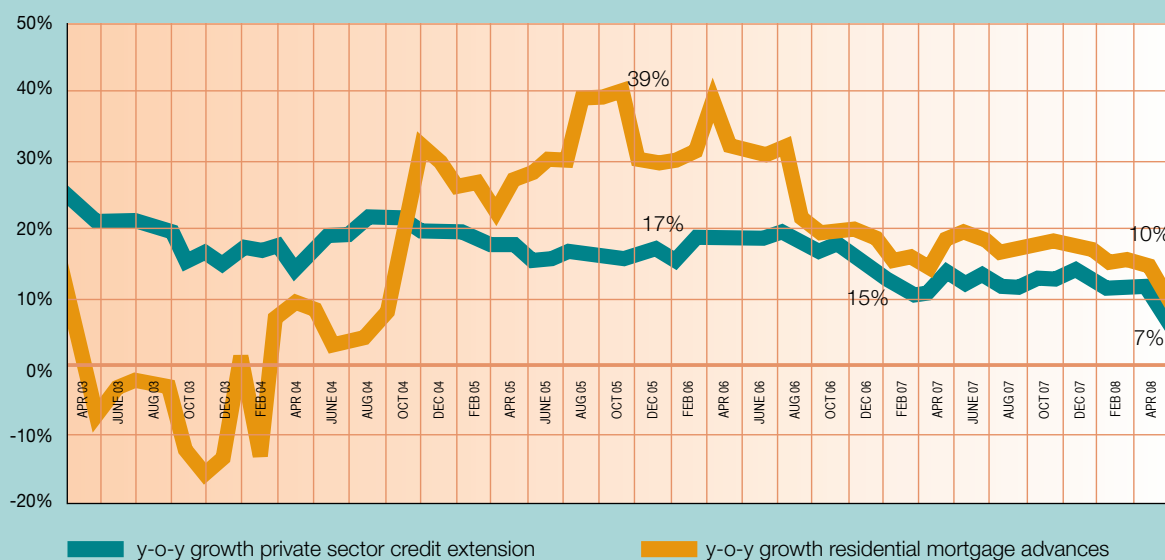
Table 1: Quarterly Changes in House Valuations Indices by Suburb

Suburbs Indexes	Quarter 3 of 2007	Quarter 4 of 2007	Quarter 1 of 2008	Percentage change from Q4-07 to Q1-08
Academia	145.59	146.72	143.46	-2.2%
Auasblick	-	63.53	112.94	77.8%
Brakwater	-	90.38	106.22	17.5%
Cimbebasia	114.29	109.85	115.57	5.2%
Dorado Park	116.59	123.06	132.82	7.9%
Eros Park	126.09	108.68	127.53	17.3%
Goreangab	147.41	138.58	156.46	12.9%
Hochland Park	106.06	112.82	122.43	8.5%
Katutura	122.88	121.86	129.19	6.0%
Khomasdal	127.87	136.99	145.95	6.5%
Klein Windhoek & Ludwigsdorf	124.56	101.57	109.58	7.9%
Kleine Kuppe	107.14	118.31	110.05	-7.0%
Okuryangava	153.03	148.53	168.69	13.6%
Olympia	141.80	123.96	117.93	-4.9%
Otjomuise	130.78	138.64	147.88	6.7%
Pionierspark	114.77	110.72	114.98	3.9%
Rocky Crest	126.02	128.59	133.78	4.0%
Wanaheda	115.56	123.87	130.59	5.4%
Windhoek Central *	141.39	130.21	149.24	14.6%

Source: FNB Namibia Valuation Data

* Windhoek Central includes Windhoek North & West, Suiderhof, Rhino Park and Ausspannplatz.

Figure 3: Private Sector Credit Extension and Mortgage Advances (y-o-y growth)



Source: Bank of Namibia

The table showing the developments in residential indices shows that most of the suburbs experienced more and perhaps better average valuations since the last quarter of 07, except for Kleine Kuppe, Olympia and Academia. Overall the demand for residential property is slowing down. Bank of Namibia data on mortgage advances shows a serious deceleration in the demand for credit for residential property. As at the end of April, mortgage advances grew by 10% y/y compared to annualized growth rates in excess of 20% not so long ago. Similarly, total private sector credit extension is slowing down with an annualized growth rate of 7% as at the end of April 2008.

Conclusion

First quarter data for 2008 shows that the economic environment is increasingly pushing home owners to extract equity through refinancing as oppose to actually selling their houses. This may suggest that the residential property market is tight. The fact that Bank of Namibia has not followed SA in increasing their interest rate to dampen inflation expectations has provided some relief to home-owners and potential buyers. However, the growth in residential mortgage loans is starting to slow further which may suggest that the housing market is very much linked to what is happening in the rest of the economy, particularly as the cost of living is going up on a monthly basis. Therefore, the trend of equity extraction by Windhoek residents will continue for some time.



FNB Housing Index - First Quarter 2008

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Methodology: The FNB House Price Index is based on a weighted average of residential valuations done by the FNB Valuations Division.
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