

## Namibian Housing Market Nosedives in 2007

This report presents a review of house price developments for 2007. 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 towns. Only towns with regular valuations are presented in this report, although data is collected on a monthly basis for all towns where FNB valuations are done.

We have recently adjusted the methodology to obtain consistency in how the individual average weights of towns are reflected in the National Index. As a result we are restating the Windhoek and the National Index for consistency, bearing in mind that the ultimate objective of the FNB index is to provide an indicative overview of what is currently taking place in the housing market. In this connection we believe that the revised Index will continue to be an indispensable reference material for all stakeholders.

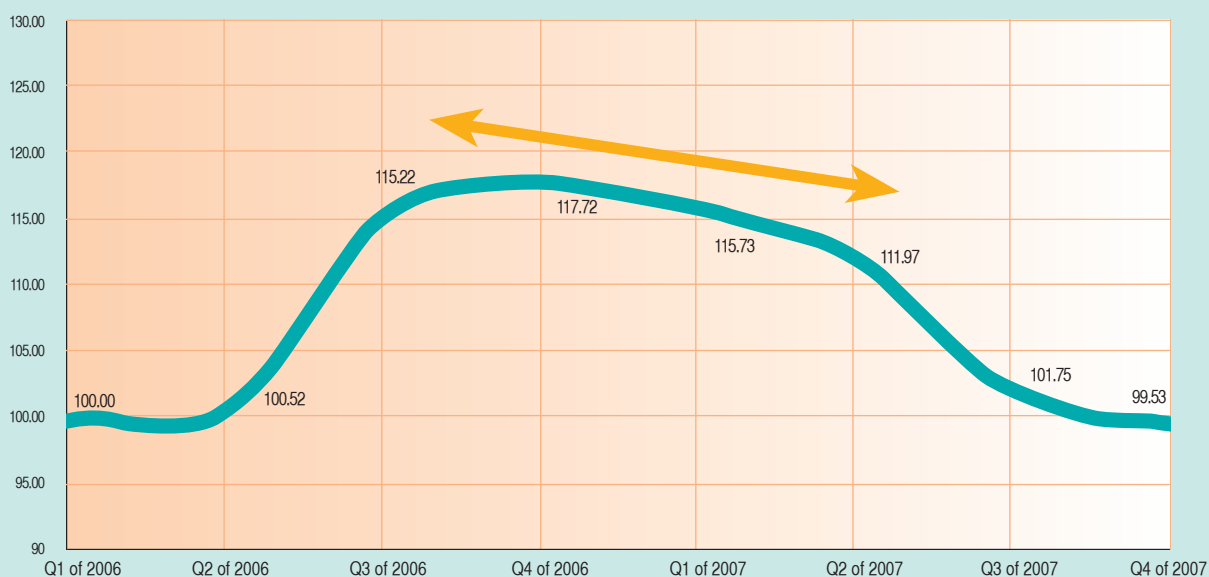
### National Housing Index Signals Major Trend Reversal

Figure 1 shows that 2007 presented an uncharacteristically tough trading environment to the local residential market. After increasing by 17% between the first and last quarter of 06, average valuations fell by 15% between the last quarter of 06 and the corresponding quarter of 07 in line with developments in interest rates as shown later in this report. As a result, the weighted average index for FNB valued houses in Namibia<sup>1</sup> fell to 99.53 – suggesting that average valuations are back to levels of first quarter 06.

Of course, this does not mean that the stock of housing became cheaper between 06 and 07. Instead, what should be inferred from the declining indices is that the residents in relatively expensive areas (such as Windhoek and Swakopmund) saw limited trading opportunity, and as a

Figure 1: National Quarterly House Price Index

(Base: Q1 of 2006)



Source: FNB Namibia Valuation Data

<sup>1</sup> The National Index covers FNB valuations for the following towns: Eenhana, Gobabis, Henties Bay, Okahandja, Ondangwa, Ongwediva, Oshakati, Otjiwarongo, Outapi, Rehoboth, Swakopmund, Tsumeb, Walvis Bay and Windhoek.

**Table 1: Monthly mortgage repayment (calculated over a period of 240 months)**

Loan Amount (N\$)	Repayment schedule at different rate of interest					Increase in repayment from 13.25% to 15.25%
	13.25% (Oct 06)	13.75% (Dec 06)	14.25% (June 07)	14.75% (Aug 07)	15.25% (Oct 07)	
50,000	594.72	612.70	630.86	649.18	667.65	72.93
100,000	1,189.43	1,225.41	1,261.72	1,298.36	1,335.30	145.87
200,000	2,378.86	2,450.81	2,523.44	2,596.71	2,670.60	291.74
400,000	4,757.72	4,901.62	5,046.88	5,193.42	5,341.19	583.47
500,000	5,947.15	6,127.03	6,308.59	6,491.78	6,676.49	729.34
750,000	8,920.02	9,190.54	9,469.89	9,737.66	10,014.74	1,094.01
900,000	10,704.88	11,028.65	11,355.47	11,685.20	12,017.69	1,312.81
1,000,000	11,894.31	12,254.05	12,617.19	12,983.55	13,352.99	1,458.68

Source: FNB Namibia Valuation Data

result did not value their properties. Conversely, because of the relatively high demand for properties in the lower price segments (typically the below N\$500,000) more of those properties were valued and thus were actively sold in the residential market, whereas properties in upper price segments had an ambivalent trading environment. In fact, higher interest rates have a higher absolute impact on expensive properties as shown below. For example, a house of N\$50,000 bought in Oct 06 would have seen an absolute increase in the installment of N\$72.93, whereas a property of N\$1 million would have seen N\$1,458.68, after the 200 basis points adjustments in core interest rates between Oct 06 and Oct 07 – the relative increase is the same for both properties.

In terms of the sub-index decomposition, it is noteworthy that towns like Eenhana, Henties Bay, Ondangwa and Rehoboth saw significant increases in the valuation indices, compared to dearer areas such as Windhoek and Swakopmund. The average valuation index for Ondangwa grew by 35% between the third and fourth quarter of 07, whereas Windhoek's index fell by 10% over the same period. Figure 2 depicts developments in the restated Windhoek index (see next page). The difficult trading environment in the local property market is confirmed by our discussion with several estate agents. According to surveyed Estate Agents it took longer to sell properties during 2007. About half of the estate agents that were contacted said that it took more than two than months, if not longer to dispose of property.

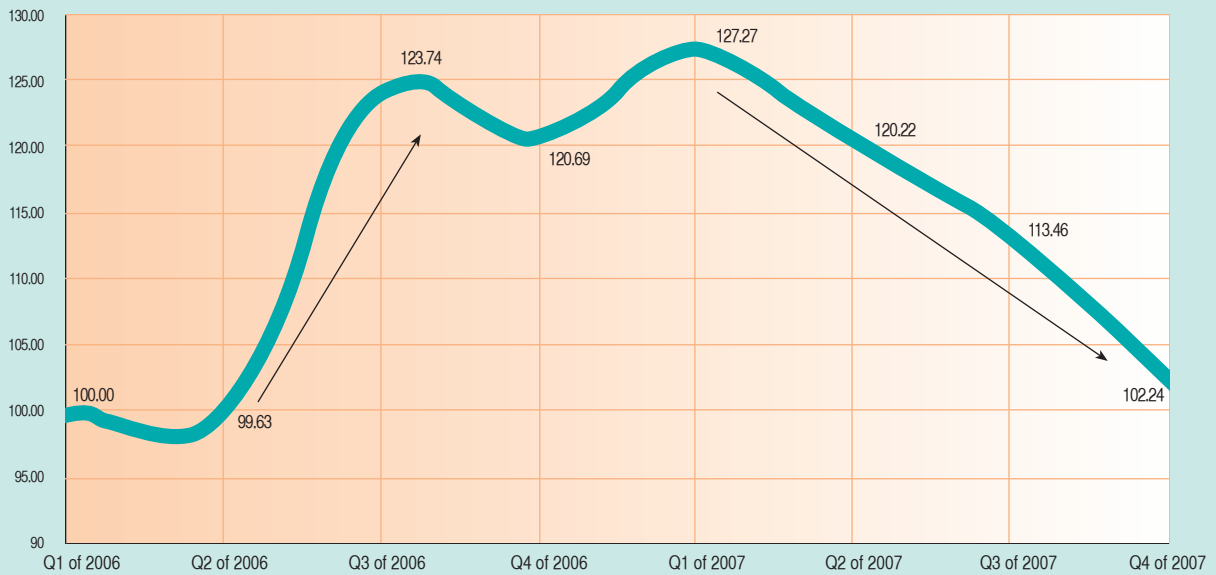
**Table 2: Quarterly Changes in House Valuations Indices by Town**

	Quarter 1 of 2006	Quarter 2 of 2006	Quarter 3 of 2006	Quarter 4 of 2006	Quarter 1 of 2007	Quarter 2 of 2007	Quarter 3 of 2007	Quarter 4 of 2007
Eenhana	100.00	108.13	71.34	109.63	129.53	74.83	94.17	132.43
Gobabis	100.00	63.57	67.42	107.91	61.32	61.38	54.62	65.97
Henties Bay	100.00	118.99	112.06	115.78	128.62	100.27	107.56	111.68
Okahandja	100.00	126.13	129.81	150.40	146.26	126.07	153.95	210.06
Ondangwa	100.00	109.79	123.27	111.45	131.92	187.39	135.57	183.61
Ongwediva	100.00	112.48	120.76	128.90	117.72	148.05	149.56	155.57
Oshakati	100.00	127.61	129.22	137.58	202.84	125.50	161.32	155.93
Otjiwarongo	100.00	114.67	116.80	115.95	98.79	93.76	79.30	82.30
Outapi	100.00	100.50	97.07	117.41	126.06	90.37	113.24	117.45
Rehoboth	100.00	92.77	107.43	118.52	106.77	130.30	93.34	118.00
Swakopmund	100.00	96.83	103.71	112.61	91.45	109.60	76.23	86.62
Tsumeb	100.00	124.00	116.36	218.18	145.77	164.73	182.56	126.82
Walvis Bay	100.00	99.16	116.15	125.83	73.29	87.50	95.12	85.61
Windhoek	100.00	99.63	123.74	120.69	127.27	120.22	113.46	102.24

Source: FNB Namibia Valuation Data

**Figure 2: Windhoek Quaterly House Price Index**

(Base: Q1 of 2006)



Source: FNB Namibia Valuation Data

For Windhoek, the weighted average valuation prices of residential properties fell from a high of N\$1.3 million in the first quarter of 07 to a mere N\$1 million by the fourth quarter of 07. This suggests that the demand for houses in the higher price range diminished over 2007. Again this is confirmed by the subdued activity rates of estate agents operating in the upper price segments. Therefore it is evident that areas like Windhoek are on average much sensitive to interest rate movements. In fact, a quick survey among a limited number of Windhoek based estate agents confirmed that the number of transactions were lower in the middle to high income suburbs of Windhoek for 2007.

Figure 3 below shows the distribution of sales volumes across the various segments for Windhoek. For the purpose of easy segmentation, all areas with an average valuation greater or equal to N\$ 1million are classified as high income, whereas those that lie on the average valuation across Windhoek of N\$840,000 are classified as middle income areas. Naturally, the areas with an average valuation less than Windhoek average are classified as lower income. These classifications

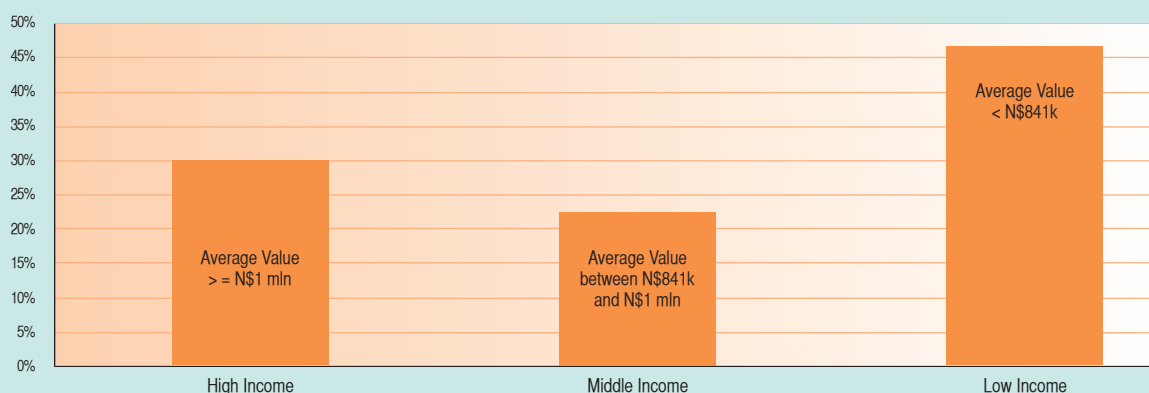
are simply done to illustrate that the number of transaction have slowed significantly in the high income areas as discussed above.

### Private Sector Credit Extension

Bank of Namibia data continues to show that there has been a marked deceleration in private sector credit extension since June 06 as interest rates started to peak. A similar trend is visible with respect to the year on year growth in mortgage loans. Both private sector credit extension and mortgage advances stagnate at 13% and 17% in terms of y-o-y growth rates in December 07.

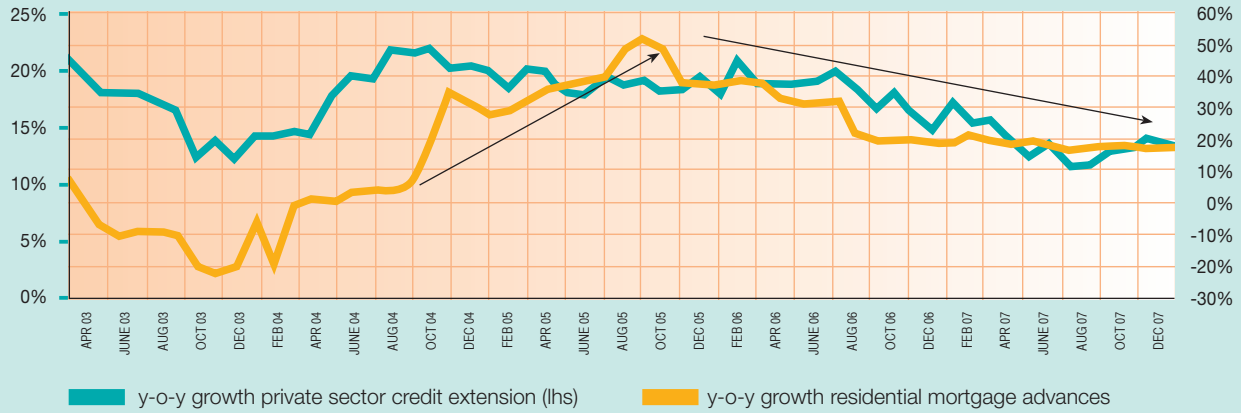
A closer comparison of the interest rate cycle and the y-o-y growth in mortgage advances shows a strong inverse relationship between rising interest rates and the demand for housing finance as discussed earlier. A recovery in the demand for housing finance, especially in the dearer areas, will only materialise gradually as confidence increases and expectations of further interest rates hikes diminishes.

**Figure 3: The Distribution of Transaction Volumes for 2007**



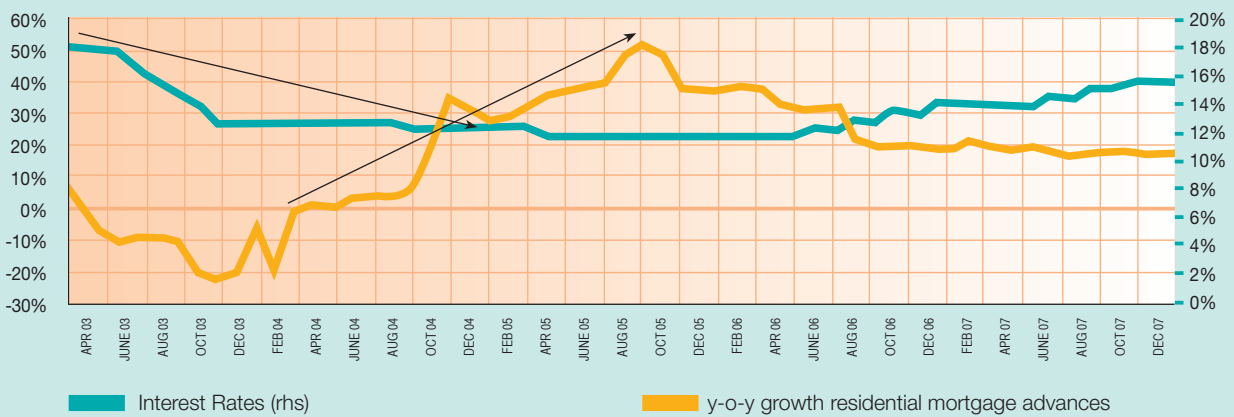
Source: FNB Estate Agents Survey 2008

Figure 4: Private Sector Credit Extension and Mortgage Advances (y-o-y growth)



Source: Bank of Namibia

Figure 5: Interest Rates and Mortgage Advances



Source: Bank of Namibia

### Conclusion

The restated indices shows that the high interest rate environment of 2007 had a much greater impact on the demand and supply of residential property than previously anticipated. With current expectations that interest rates in both Pretoria and Windhoek will remain more or less at current levels for the better part of 08, the outlook for first time buyers is not positive. However, for those with enough cash a buying opportunity beckons as interest will start declining towards 2009 if not earlier.



## FNB Housing Index - Report for 2007

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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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