

FNB Residential

Property Report



Fourth Quarter 2019

Key Highlights

- The overall House Price Index posted an average quarterly contraction of 5.1% y/y in Q4 of 2019
- Central House Price Index show signs of recovery in the face of shrinking demand
- Coastal House Price Index rebounds from negative territory towards an average quarterly growth of 8.6% y/y
- The Northern Volume Index returns an average single digit growth of 6.8% y/y in Q4 of 2019
- National average residential property price is now at N\$ 1 155 468

Regional snapshots

Central	N\$1 520 000 (3.3% y/y)
Coastal	N\$1 128 000 (8.6% y/y)
Northern	N\$833 000 (-0.1% y/y)
Southern	N\$769 000 (-8.6% y/y)

FNB housing segments

Small	N\$0.5mn to N\$1.5mn
Medium	N\$1.5mn to N\$3.4mn
Large	N\$3.4mn to N\$6.5mn
Luxury	N\$6.5mn and higher

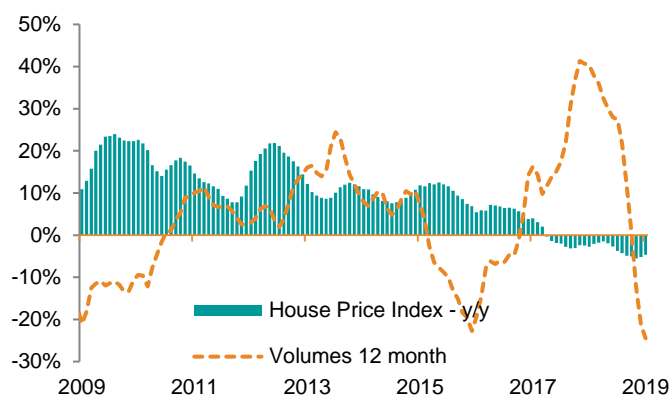
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Figure 1: FNB House Price Index (Prices and Volumes)

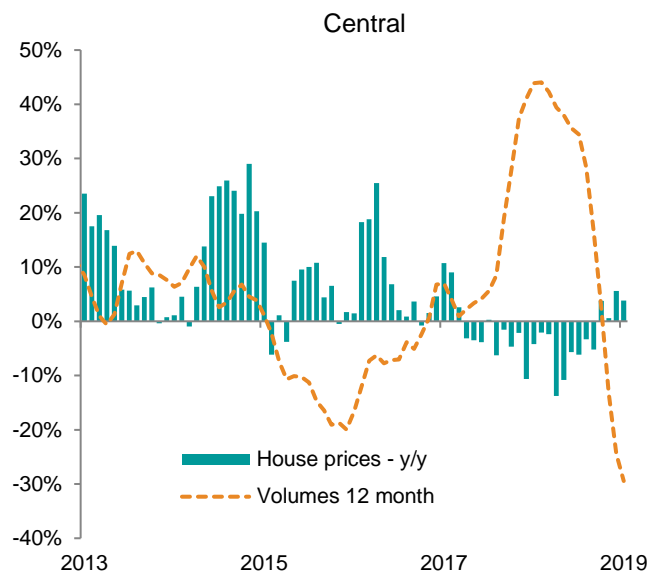


Fourth quarter residential property prices dampens

The FNB House Price Index stood at -4.7% y/y as at December 2019 compared to 0.5% y/y recorded over the same period of the preceding year. On a quarterly basis, the house price index growth has averaged -5.1% y/y in Q4 of 2019 compared to -2.4% y/y realised over the same period of 2018. This brought the average national house price to N\$1 155 468 at the end of 2019. The relative deeper contraction witnessed in the fourth quarter continues to point towards demand side risks emanating from weakening economic conditions, subdued real wage growth and high level of households' indebtedness. Evidently, residential property transactions have been largely skewed towards the small segment – a trend that can be traced back to early 2016. For instance, the small segment contributed 70.0% of transaction volumes in 2016 and has gradually increased to 80.9% in 2019, while the market shares for the medium, large and luxury segments have consistently declined from 24.5%, 4.8% and 0.8% to 16.8%, 1.9% and 0.4% respectively over the corresponding period.

As a result, the volume index growth continues to disappoint on the downside, reaching historic record lows of -24.5% y/y as at December 2019 and averaging -19.4% y/y for the quarter.

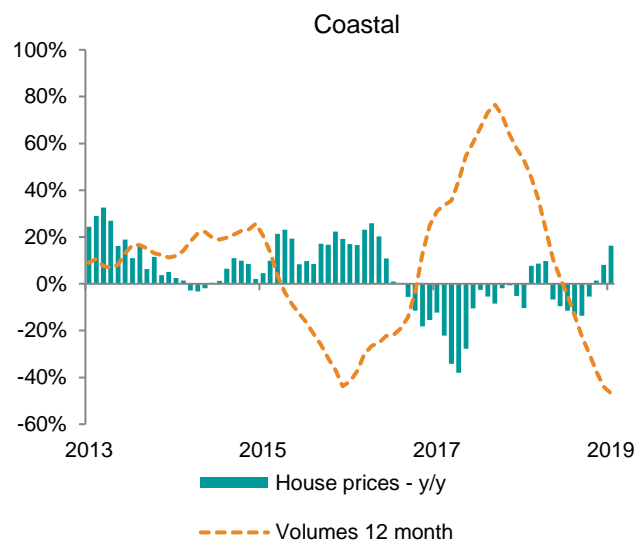
Figure 2: Central house prices remain buoyant despite shrinking demand



In the Central part of the country, residential property prices have sustained growth in the face of shrinking demand, with the House Price Index posting an average quarterly price growth of 3.3% y/y compared to a contraction of 5.6% y/y recorded over the same period of the preceding year. A house in the Central region is now priced at N\$1 520 000, up from N\$1 464 000 in the corresponding quarter of 2018 and reflecting major price increases in Okahandja. Windhoek had the highest average house price of N\$1.2 million followed by Okahandja at N\$954K and Gobabis at N\$637K during the reviewed period.

The Central Volume Index, however, entered negative territory for the first time since September 2017, averaging -22.3% y/y in the fourth quarter of 2019. The small segment, which has largely carried over the residential property market in this region since mid-2017 slipped into negative territory, averaging -10.0% y/y in Q4 of 2019. Meanwhile, demand in the medium, large and luxury segments continues to dissipate in lieu of housing costs that are generally rising faster than income, thereby posting contractions of 37.8% y/y, 34.1% y/y, and 14.8% y/y, respectively.

Figure 3: Coastal residential property prices rebounds

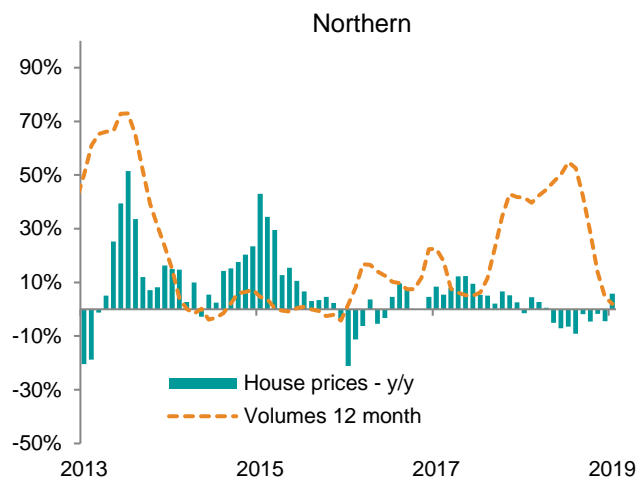


The Coastal House Price Index rebounded from a negative territory, reaching average growth of 8.6% y/y in Q4 of 2019 compared to -10.4% y/y in the prior quarter and -5.4% y/y recorded in the same quarter of 2018. The average house price in the Coastal region is now N\$1 128 000, compared to N\$1 041 000 recorded in the prior quarter and N\$970 000 realized in same quarter of 2018. Henties Bay had the highest average house price in Q4 of 2019 of N\$ 915K, outperforming Swakopmund and Walvis Bay which recorded average house prices of N\$ 793K and N\$ 729K over the same period, respectively.

Although house prices have improved somewhat in this region, demand continues to dampen, with the Coastal Volume Index recording an average contraction of 42.8% y/y in the fourth quarter, compared to -22.2% y/y in the prior quarter and growth of 58.3% y/y in the same period of 2018. The poor growth is largely explained by contractions in the small, medium and large segment of 38.0% y/y, 59.8% y/y and 19.0% y/y respectively. Meanwhile, since mid-2016, the Coastal region recorded no transactions in the luxury segment.

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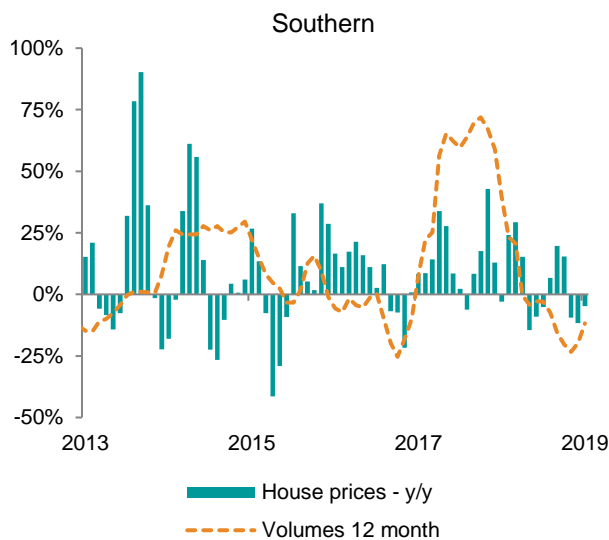
Figure 4: Northern transaction volumes trend downwards



The Northern house prices have moderately improved towards the end of 2019, with the House Price Index registering an average contraction of 0.1% y/y in Q4 of 2019 compared to -5.2% y/y recorded in the prior quarter. The average house price in the Northern regions is now at N\$833K compared to N\$787K recorded during the same period of 2018. When disaggregating by towns, the average price for a house in Ongwediva now stands at N\$864K followed by Rundu, Oshakati and Ondangwa at N\$696K, N\$681K and N\$696K, respectively.

The Northern Volume Index returns a single digit average quarterly growth of 6.8% y/y, last seen in the second quarter of 2018. The significant drop in demand is largely explained by the medium and luxury segments, which contracted by 29.3% y/y and 46.7% y/y, respectively. Even so, the small and large segments have continued to carry-through the residential property market in this region recording average growth of 8.8% y/y and 35.8% y/y in the fourth quarter, respectively.

Figure 5: Southern house prices and volumes contract

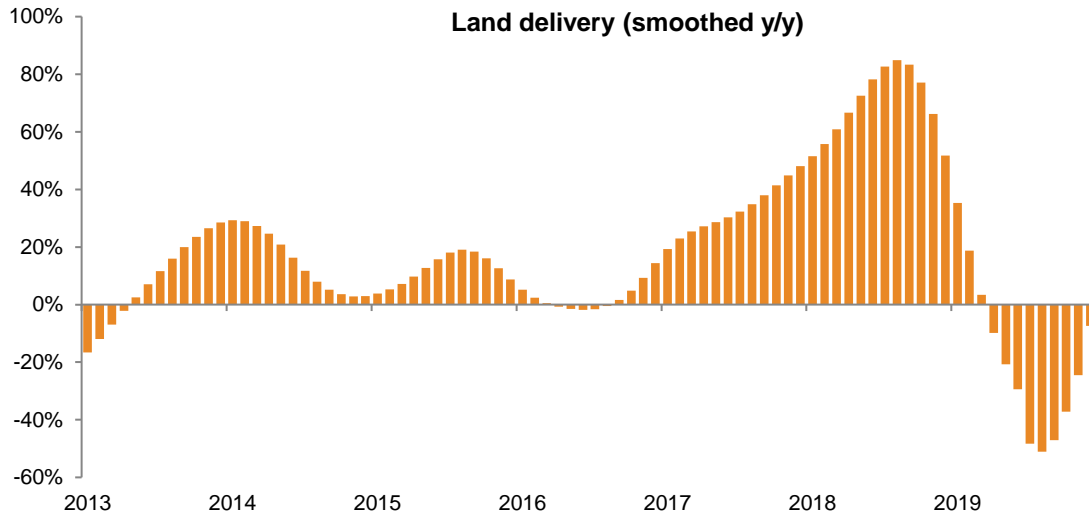


The Southern House Price Index registered an average quarterly contraction of 8.6% y/y in Q4 of 2019. The average house price in the Southern region is now N\$769 000 compared to N\$925 000 recorded in the prior quarter and N\$807 000 registered during the same quarter of 2018.

It must however be noted that the Southern region has historically recorded thin trading volumes, accounting for only 2% of total transactions over the reviewed period. This makes the price and volume dynamics highly volatile. In effect, the Southern Volume Index slipped deeper into negative territory, averaging -18.2% y/y in the fourth quarter of 2019 from -14.4% in the prior quarter. This was driven mainly by continued shrinking of the small segment by -15.0% y/y, while no transactions have been recorded for the large and luxury segments since 2013 and 2009, respectively. Furthermore, the medium segment, which spurred an average quarterly growth of 10.0% y/y has recorded one transaction for the quarter, which is insignificant in a grand scheme of things.

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Land Delivery



The delivery of serviced land for housing is a longstanding issue across all four regions despite featuring highly amongst the policy imperatives of government. At the national level, land delivery remains in contraction, recording -23.0% y/y in the fourth quarter of 2019 compared to an average of -48.8% y/y in the prior quarter. In view of the diminishing purchasing power in the housing market against the backdrop of the slowing economy, we continue to maintain our view that land delivery is an important element in stabilising the housing market in Namibia. This is particularly true for the low to middle income segment of the population.

Conclusion

The current dynamics in the housing market are largely a manifestation of an “economic story” and demand side constraints induced by a low growth environment that has dragged on since 2016. As a result, growth in disposal income has been under immense pressure, further creating affordability issues in the housing market. This is evident in the shift in activity towards the small segment across the four regions, although this trend is also seen to be slowly dissipating as economic hurdles lingers.

While we believe that the decision by the Bank of Namibia 's MPC to reduce the repo rate from 6.50% to 6.25% and the resultant adjustments by commercial banks is a welcome development to support domestic growth, the pass-through effects of the reduced interest rates may be minimal to the already indebted households. Henceforth, reviving demand in the residential property market may require a structural shift in the extent of land delivery for housing. This will bring about a new state of equilibrium that responds to purchasing power of the economy. Looking ahead, we retain our view that downside demand risks will continue to dominate due to the erosion of household spending power. As such, property prices will remain in the red, particularly in the medium to upper end of the market.

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Appendix: QUARTERLY AVERAGE HOUSE PRICES

	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019	Q/Q Growth	Y/Y Growth
Arandis		435 581	563 738	523 959			
Eenhana	505 198	991 107	723 649	613 875	635 415	3.5%	25.8%
Gobabis	702 633	1 077 240	488 580	620 427	610 508	-1.6%	-13.1%
Grootfontein	481 465	691 554	585 902	605 400	559 253	-7.6%	16.2%
Helao Nafidi		406 674					
Henties Bay	658 833	434 111	1 016 722	669 191	915 267	36.8%	38.9%
Katima Mulilo	462 810	529 116	479 137	698 144	708 692	1.5%	53.1%
Keetmanshoop	473 135	566 279	463 878	639 657	531 076	-17.0%	12.2%
Luderitz		580 643	508 667		330 427		
Mariental	522 125	1 146 184	843 925	526 207	630 150	19.8%	20.7%
Okahandja	788 906	806 307	765 364	801 998	953 178	18.9%	20.8%
Okahao	625 536	925 762	672 336	883 200	607 020	-31.3%	-3.0%
Omaruru	500 903	549 862	478 798	554 756	498 281	-10.2%	-0.5%
Omuthiya	1 787 378	605 375	805 896	550 214	659 634	19.9%	-63.1%
Ondangwa	757 361	690 687	701 783	885 431	769 293	-13.1%	1.6%
Ongwediva	781 442	706 600	867 399	718 640	864 295	20.3%	10.6%
Oshakati	527 683	743 836	666 374	649 224	681 229	4.9%	29.1%
Oshikuku	513 222	654 992	635 425	376 553	753 688	100.2%	46.9%
Otavi	190 040	388 516	390 141	486 368	566 667	16.5%	198.2%
Otjiwarongo	652 103	632 760	632 620	734 819	768 454	4.6%	17.8%
Outapi	583 672	606 991	619 637	607 745	781 436	28.6%	33.9%
Outjo	609 974	533 333	438 583	534 339	1 272 608	138.2%	108.6%
Ruacana	556 243	453 250	508 844	932 307	426 089	-54.3%	-23.4%
Rundu	633 874	692 064	673 846	651 719	696 230	6.8%	9.8%
Swakopmund	748 552	728 438	832 294	765 083	793 460	3.7%	6.0%
Tsumeb	613 520	933 225	930 448	808 263	1 023 599	26.6%	66.8%
Usakos	480 000	2 800 000	157 450		561 225		16.9%
Walvis Bay	666 621	684 838	743 355	803 942	729 276	-9.3%	9.4%
Windhoek	1 168 262	970 725	1 185 269	1 243 094	1 226 095	-1.4%	5.0%
Namibia	1 112 730	1 071 317	1 066 908	1 120 805	1 154 468	3.0%	3.8%

Methodology

This report is based on bonds registered in the names of natural persons at the Deeds Office and as such excludes all bonds registered in the names of juristic persons such as Close Corporations, Private Companies and Trusts. Rehoboth properties (Rehoboth has its own Deeds Office), farms, properties over 100,000m² and properties in industrial areas, are excluded, as these may not always be residential properties. Outliers below N\$100,000 (2007 prices adjusted annually) are also excluded, along with further bonds (second, third, fourth, etc. bonds over the same properties). Exclusions were rigorously tested using existing data, to filter out as much noise as possible. Cash transactions are too, excluded due to a lack of data. Sectional bonds have been excluded into the housing index.

Bond values are used as a proxy for house prices, since there are no consistent records for house prices in Namibia and therefore prices shown should only be used as a general guide to property values. These values are aggregated by way of the mean value as the central measure of tendency to resist the fluctuation between different prices. Average house prices are smoothed using a twelve-month moving average, with the national value computed as a weighted average of regional prices. Whilst the information provided has been obtained from a credible source, the values quoted are indicative, and past performance should not be taken as a guarantee of future performance.

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