



FNB
First National Bank



FNB Residential Property Report

June 2019

Key Highlights

- House price index recorded at -3.7%
- Price contractions recorded in all four regions
- Growth in volumes eases – recorded at 27.4%
- National average property prices at N\$ 1 066 908

Regional snapshots

Central:	N\$1 404 000	(-6.1%)
Coastal:	N\$1 025 000	(-11.4%)
Northern:	N\$822 000	(-6.5%)
Southern:	N\$832 000	(-5.1%)

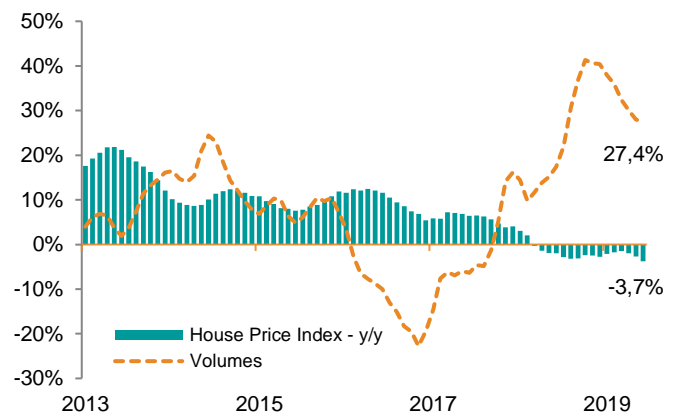
FNB Housing Segments

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)



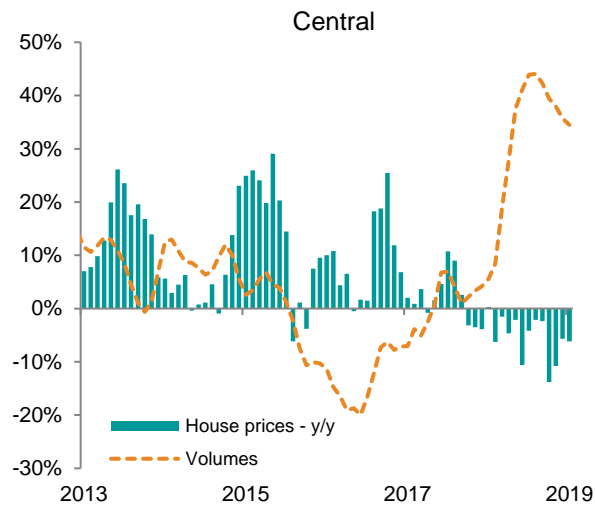
Annual growth in property prices reaches 9-year low

The subdued economic environment has continued to cast a pall on house prices, with the FNB House Price Index contracting by 3.7% y/y at the end of June 2019 compared to a contraction of 2.0% over the same period last year. The poor showing in the index is the worst performance recorded since 2009 and comes on the back of price contractions across all four regions in the country. The contraction brings the average national house price at the end of June 2019 to N\$ 1 066 908, which is similar to the mean price recorded in February 2016.

The Volume Index recorded growth of 27.4% y/y at the end of June 2019, driven solely by growth in the small housing segment. While this is an improvement from the growth of 17.4% recorded over the same period last year, we have noted that growth in transaction volumes has been decelerating over the course of the year.

The slowing activity and declining prices in the property market reflect weak demand and a deteriorating outlook with regards to state of the overall economy. We thus expect property prices to show little growth as risks to the economy remain tilted to the downside.

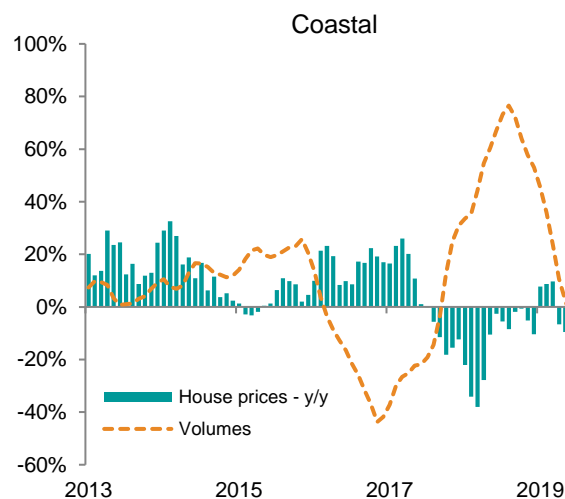
Figure 2: Central property prices contract, while volumes accelerate



Central property prices showed a contraction of 6.1% y/y at the end of June 2019 compared to a growth of 0.3% y/y observed over the same period last year. This contraction brings the average house price down to N\$1.4 million compared to N\$1.5 million recorded over the same period last year. The negative growth was driven by slowdowns across all segments. The small, medium and luxury segments of 1.9% y/y, 0.1% y/y and 27.0% y/y. Furthermore, growth in the large segment slowed down significantly to 4.9% y/y.

The Central Volume Index stood at 34.5% y/y compared to 5.6% y/y recorded at the end of June 2018, driven by increased transaction volumes in the small segment where growth was recorded at 60.9% y/y. Growth in the medium segment on the other hand slowed to 7.5% y/y, while demand for properties in the large and luxury segment remain mute with recorded contractions of 29.5% y/y and 6.9% y/y respectively.

Figure 3: Coastal property prices record largest contraction

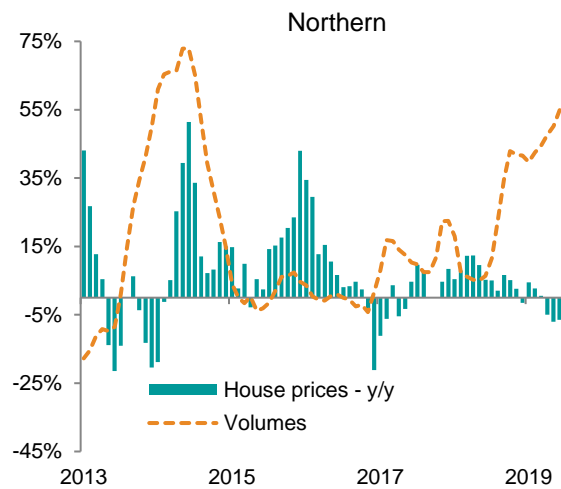


The Coastal region is the weakest performer with property prices showing a deeper contraction of 11.4% compared to a contraction of 2.6% over the same period last year. While the small, medium and large segments record growth of 2.3% y/y, 0.7% y/y and 4.8% y/y respectively, this was counteracted by the lack of activity in the luxury segment in which no transactions have taken place since November 2017. Henties Bay recorded the biggest price contraction of 37.5%, followed by Swakopmund which recorded a contraction of 15.8% and Walvis Bay which recorded a contraction of 14.8%. The average house price in the Coastal region has consequently come down to N\$1 025 000 compared to N\$1 157 000 recorded in June 2018.

The Coastal Volume Index stood at -4.7% y/y, further corroborating substantial weakness in the demand for property in this region. Demand seems to be concentrated in the large and medium segments where growth of 10.1% and 29.1% was observed respectively. This growth was, however, not adequate to counteract the contraction recorded at 31.7%. The contraction in the Coastal Volume Index was further exacerbated by the previously mentioned lack of activity in the luxury segment.

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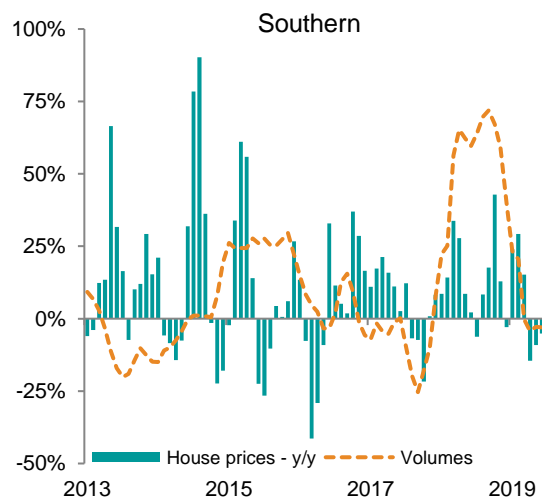
Figure 4: Northern transaction volumes remain robust



Northern property prices have also continued to retreat, contracting by 6.5% y/y, compared to a growth of 5.3% recorded over the same period in 2018. This contraction is driven by price contractions in the small segment of 1.9%, which offset growth in the medium and large segments of 3.0% y/y and 9.8% y/y. The average house price in the Northern region is now N\$822 000, the lowest it has been this year. The average house price over the same period last year was recorded at N\$879 000.

Transaction volumes continue to pick up in the Northern region with the Northern Volume Index reaching its highest level this year at 54.9% y/y. The increase was mainly observed in the small and large segments where transaction volumes picked up by 53.6% y/y and 33.3% y/y respectively. The medium and large segments also recorded growth of 18.7% y/y and 11.7% y/y. The largest increase in transaction volumes were observed in Oshakati and Eenhana, with growth in these towns recorded at 189% and 50% respectively.

Figure 5: Southern prices and volumes contract



The price index for the Southern region showed the smallest contraction of 5.1% y/y compared to growth of 2.2% recorded over the same period last year. The average house price in the Southern region is now N\$832 000 compared to N\$877 000 recorded in June 2018 with this decline driven solely by a contraction in the small housing segment.

The Southern Volume Index remains in the red at -3.0% y/y at the end of June 2019 after dipping into negative territory during the first quarter. The contraction was driven by poor growth in the medium segment of -16.7% y/y. The Southern region which is characterised by a low number of transactions also recorded no activity in the large and luxury segments.

We once again emphasise that housing transactions in the South are characterised by thin and volatile trading volumes. Therefore, all growth figures should be carefully interpreted within this context.

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Accommodative monetary policy to support property market

Bank of Namibia announced a 25-basis point cut in the Repo rate at its recent monetary policy meeting, bringing the repo rate down to 6.50%. Table 1 shows the impact of a 25-basis point to the FNB Home Base Loan Rate on the monthly repayment amounts for a bond valued at N\$1 100 000 taken over a period of 20 years. Ordinarily, the effects of a lower interest rate on the uptake of mortgage credit would be observed in the market after 12 months. However, we do not expect these dynamics to play out in the property market given that a 25bps cut is unlikely to provide sufficient stimulus to induce a turn in the property market. The interest rate cut will, however, offer marginal relief to already indebted consumers.

In addition to the repo rate cut, Bank of Namibia announced changes to Loan-To-Value (LTV) regulations implemented in 2017 as shown in table 2. These ratios were initially implemented to curb excessive uptake in mortgage credit which was seen to be fuelling the overheating of the housing market and thus posing a threat to the stability of the overall financial system. Given that the property market has since started to lose ground, the central bank took the decision to review these ratios as a stimulus measure to curb the slowdown in the housing market. Much like the changes to the repo rate, the new LTV ratios will provide some support in terms of affordability but will not spur a significant improvement in the overall property market.

We maintain our view that a significant overall improvement in the property market will largely depend on higher disposable incomes through increases in real wages. We do not see the situation in the property market improving given the depressed economic environment, the precarious unemployment situation and anaemic consumer spending. We therefore expect the housing market to remain in the red, with any improvements are likely to be slow and gradual. We are of the view that a turnaround in the economy that will bolster real wage growth and consumer spending is the vital catalyst that is will place growth in the property market on a stronger footing.

Table 1: Impact of repo rate cut on home loan repayment

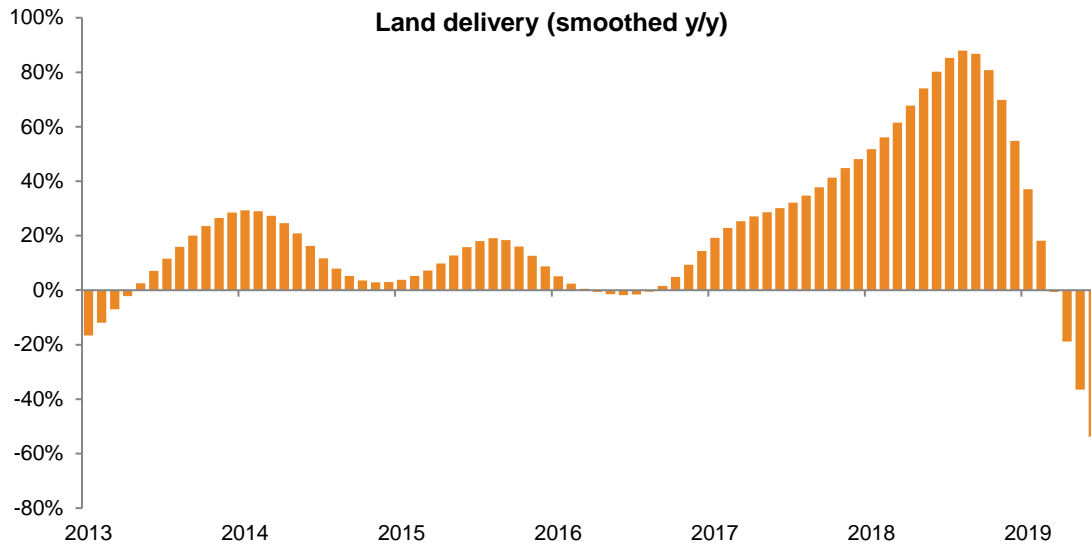
Old interest rate		New interest rate	
Loan amount	N\$ 1 100 000	Loan amount	N\$ 1 100 000
Annual interest rate	11.5%	Annual interest rate	11.25%
Loan term	240 months	Loan term	240 months
Repayment amount	N\$11 729.19	Repayment amount	N\$11 540.34

Table 2: Changes to Loan-To-Value regulations

	Current Maximum LTV %	New Maximum LTV
Primary Home	N/A	N/A
Non-primary residences:		
Number 1	80%	90%
Number 2	70%	80%
Number 3	60%	80%
Number 4 & further	50%	80%

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Land Delivery



The backlog in land delivery currently being experienced across the country does not seem to be easing any time soon. The pace of land delivery remains in the doldrums, with a contraction of -53.7% y/y recorded at the end of June 2019. The slow pace of land delivery has been attributed to high costs involved in servicing land as well as administrative and legal bottlenecks.

Conclusion

The continued contraction in housing prices is not a surprising outcome given the severely depressed economic environment. Our view is therefore that the risk of further declines in house prices remains elevated, as risks to the macroeconomic outlook remain on the downside and disposable income growth comes under pressure. While the rate of uptake in mortgage credit is still positive – recorded at 7.6% y/y at the end of June – we have noted that the overall trend in mortgage credit extension has been slowing. With consumer demand waning, we do not expect that the recently announced repo rate cut and the change in LTV regulations will turn the property market around.

Several municipalities in the Northern, Coastal and Central region have indicated their intention to address the ever-increasing housing backlog through the phasing out and formalisation of informal settlements in the Northern, Coastal and Central regions. The Swakopmund municipality, for example, intends to build 1590 low-cost and debt-financed houses through the 40/40 housing initiative for low income earners over the next two years. In addition, the governor of the Erongo region in his State of the Region Address announced an infrastructural and housing project that will construct 61 000 houses over the next 5 years. In the Central region, phase 1 of the Ongos Valley project will construct 4500 housing units over the next 5 years. We thus maintain our view that housing market activity will most likely remain concentrated in the small segment. These landings are, however, only expected to make their way into the property market over the next 2 to 5 years. We do not expect the high-end market to regain momentum as the dynamics in this market are currently in favour of buyers, who are well positioned to bargain prices downwards.

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Appendix: ANNUAL AVERAGE HOUSE PRICES

Town	2013	2014	2015	2016	2017	2018	2019	YTD %Δ	3Yr %Δ	5Yr %Δ
Arandis	299 000	494 000	456 000	532 000	640 000	664 223	913 132	37.5%	71.6%	84.8%
Eenhana	532 000	553 000	700 000	798 000	770 000	884 080	824 616	-6.7%	3.3%	49.1%
Gobabis	699 000	839 000	889 000	1 119 000	908 000	1 041 947	804 229	-22.8%	-28.1%	-4.1%
Grootfontein	559 000	647 000	736 000	645 000	812 000	679 531	811 282	19.4%	25.8%	25.4%
Helao Nafidi	575 000	909 000	1 002 000	425 000	607 000	607 000	-	-	-	-
Henties Bay	851 000	929 000	1 115 000	1 103 000	1 190 000	1 242 714	974 389	-21.6%	-11.7%	4.9%
Katima Mulilo	595 000	737 000	791 000	893 000	673 000	1 076 965	872 861	-19.0%	-2.3%	18.4%
Keetmanshoop	504 000	610 000	863 000	632 000	686 000	819 361	762 042	-7.0%	20.6%	24.9%
Luderitz	527 000	509 000	584 000	829 000	811 000	711 800	946 095	32.9%	14.1%	85.9%
Mariental	518 000	685 000	736 000	913 000	1 336 000	1 041 857	1 895 000	81.9%	107.6%	176.6%
Okahandja	624 000	820 000	922 000	856 000	937 000	976 097	882 842	-9.6%	3.1%	7.7%
Okahao	466 000	492 000	491 000	611 000	568 000	739 952	783 686	5.9%	28.3%	59.3%
Omaruru	562 000	954 000	767 000	1 092 000	1 111 000	737 470	599 240	-18.7%	-45.1%	-37.2%
Omuthiya	482 000	540 000	612 000	640 000	750 000	1 138 340	1 327 330	16.6%	107.4%	145.8%
Ondangwa	551 000	683 000	720 000	836 000	910 000	894 783	866 296	-3.2%	3.6%	26.8%
Ongwediva	585 000	755 000	1 009 000	944 000	951 000	1 033 958	1 092 641	5.7%	15.7%	44.7%
Oshakati	572 000	1 163 000	974 000	679 000	785 000	791 197	846 847	7.0%	24.7%	-27.2%
Oshikuku	533 000	569 000	580 000	634 000	635 000	750 415	724 829	-3.4%	14.3%	27.4%
Otavi	533 000	611 000	531 000	560 000	647 000	701 872	514 405	-26.7%	-8.1%	-15.8%
Otjiwarongo	803 000	825 000	967 000	1 021 000	1 069 000	936 829	858 089	-8.4%	-16.0%	4.0%
Outapi	456 000	553 000	579 000	785 000	738 000	983 147	768 924	-21.8%	-2.0%	39.0%
Outjo	755 000	739 000	925 000	928 000	809 000	918 706	874 667	-4.8%	-5.7%	18.4%
Ruacana	707 000	855 000	898 000	968 000	875 000	788 945	649 370	-17.7%	-32.9%	-24.1%
Rundu	468 000	630 000	684 000	780 000	727 000	905 202	724 435	-20.0%	-7.1%	15.0%
Swakopmund	1 019 000	993 000	1 096 000	1 334 000	1 348 000	1 224 611	1 139 680	-6.9%	-14.6%	14.8%
Tsumeb	741 000	750 000	966 000	1 162 000	1 222 000	957 641	1 131 511	18.2%	-2.6%	50.9%
Usakos	715 000	427 000	657 000	445 000	617 000	660 000	2 800 000	324.2%	529.2%	555.7%
Walvis Bay	854 000	1 042 000	992 000	1 156 000	1 079 000	954 716	953 547	-0.1%	-17.5%	-8.5%
Windhoek	1 152 000	1 209 000	1 440 000	1 514 000	1 614 000	1 542 364	1 525 272	-1.1%	0.7%	26.2%
Namibia**	895 000	972 000	1 110 000	1 151 000	1 187 000	1 199 179	1 068 644	-10.9%	-7.2%	9.9%

****Namibia number in above table does not indicate the whole country but rather the average prices across the towns indicated within the table.**

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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