



FNB
First National Bank

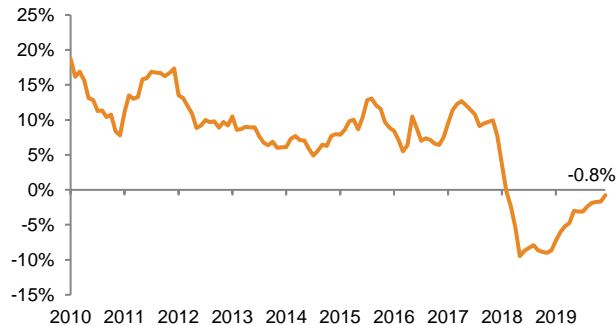


FNB Rental Index report

Figure 1: Rental index growth

December - 2019

- Key to FNB's Rental Index Segments**
- 1-bedroom
 - 2-bedroom
 - 3-bedroom
 - more than 3 bedrooms



Highlights

- The national average rent price up by 3.6% y/y to N\$6 992 per month
- The 2-3-bedroom segments gaining traction as houses become unaffordable
- Average rental yields up by 0.4 percentage points to 7.9% y/y

The rental market continues to bottom-out although at a moderate pace. In effect, the FNB Rental Index as at December 2019 shows a contraction of 0.8% y/y - reflecting a steep improvement from a contraction of 8.6% y/y recorded over the same period in 2018. The continued recovery in the rental index growth is supported by price pressures stemming from the 2-3-bedroom segments, which registered growth of 6.6% and 16.2% y/y, respectively, compared to corresponding contractions of 10.2% and 11.7% y/y realized over the same period of the preceding year.



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The growing participation in the 2-3-bedroom segments and the resultant price pressures has brought the average national rent price to N\$6 992 as at December 2019. This translates into an annual growth of 3.6%. On a quarterly basis, Swakopmund recorded the highest rental prices in the fourth quarter of 2019, with the average rent recorded at N\$9 274 per month. This reflects a significant growth of 26.6% y/y due to high volumes of rental activity executed under the 3-bedroom segment, whilst it also points to deteriorating affordability of houses in the coastal towns. Meanwhile, Windhoek is the second highest with respect to rental prices, with an average rent of N\$6 545 per month, and reflecting a contraction of 2.5% y/y. Furthermore, the annual contraction in rental prices in the fourth quarter of 2019 was witnessed across other major populated towns such as Ondangwa (-34.7%), Rundu (-22.4%), Ongwediva (-17.1%) with an exception of Oshakati, which saw growth of 6.7% y/y.

Rental breakdown

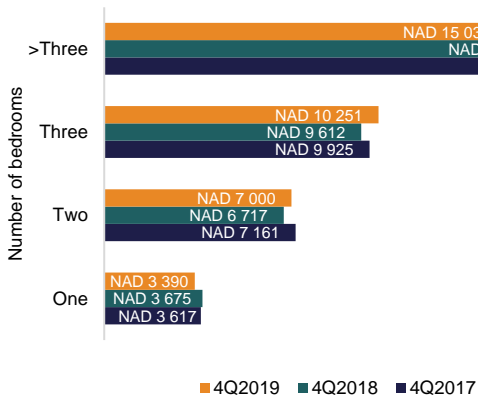
The average monthly rental prices for a 1-bedroom unit and for a more than 3-bedrooms unit, which accounts for 39.4% and 3.3% of rental transactions, continue to decelerate in the fourth quarter of 2019, reaching N\$3 390 and N\$15 034, respectively as shown in figure 2.

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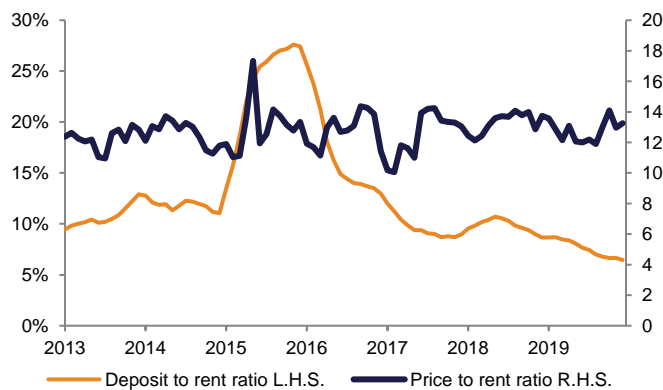
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Figure 2: Average monthly Rents based on bedroom number



In contrast, the 2-3-bedroom segments have once again gained traction with the monthly average rent recorded at N\$7,000 and N\$10,251 in the fourth quarter of 2019. This is marginally higher than the N\$6,717 and N\$ 9,612 recorded in the same quarter of 2018, respectively. Given that the 2-3-segments make up a significant weight of 36.7% and 20.6% in respect of rental transactions, respectively, the notable price pressures are indicative of an increase in demand for these type of rental units as houses become unaffordable on the back of subdued real wage growth.

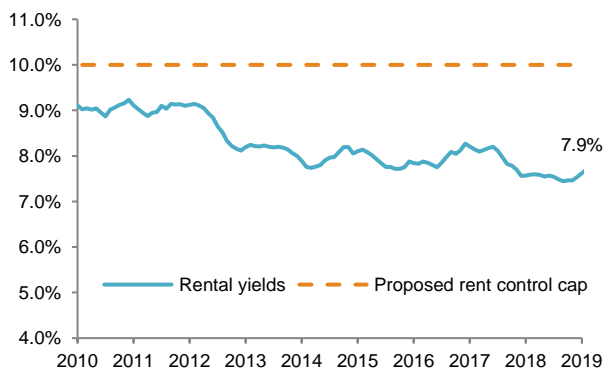
Figure 3: Deposit to rent ratio vs Price to rent ratio



Deposit to rent ratio

The growth in deposits charged by landlords contracted by 28% y/y at the end of December 2019 compared to a growth of 6.4% y/y recorded during the same period of 2018. This brought the deposit to rent ratio to a 10-year record low of 6.5%. The deterioration in deposit to rent ratio was observed in all segments, with the largest observed in the 2-bedroom segment and the lowest notable in the 1-bedroom segment. The persistently declining ratio continues to highlight the bargaining power the potential tenants have in the rental market on the back of a weak economy. Henceforth, we continue to maintain our view that Namibia has moved to a renter’s market, allowing potential tenants to negotiate lower rental deposit charges or no deposit charges at all.

Figure 4: Rental yields



Price to rent ratio

The price to rent ratio is the ratio of home prices to annualized rent in a given location and is used as a benchmark for estimating whether it is cheaper to rent or own a property. As a general rule of thumb, a price to rent ratio of 1 to 15 indicates that it is much better to buy than rent; 16 to 20 indicates that it is better to rent than buy, where else 21 or more indicates that it is much better to rent than buy. By interpretation, the price to rent ratio of “13” as at December 2019 implies that the Namibian housing market is still relatively stable. However, the risk of households opting to hold onto to renting than to owning a house is starting to emerge as houses are becoming unaffordable.

Rental yields

Rental yields, which are an indication of the return a landlord is likely to earn on the rental of a property, have shown a moderate increase of 7.9% y/y as at December 2019 compared to 7.5% y/y realized over the same month in 2018. The uptick in rental yields is unsurprising given the continued improvement in the rental index, which is a good indicator of where the rental market is headed. By and large, the Namibian rental market remains competitive compared to other jurisdictions in sub-Saharan Africa including Kenya, South Africa and Zambia where rental yields are 6.7%, 3.9% and 0.14% respectively.

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Conclusion

The rebound in rental prices since May 2018 has continued its upward trajectory, although growth remains in negative territory. The notable growth in rental activity for the 2-3-bedroom segments and the resultant price pressures has brought the national average rent price to N\$6 992 as at December 2019, reflecting growth of 3.6% y/y. This is indicative of an increase in demand for these type of rental units as houses become unaffordable on the back of subdued real wage growth. Nonetheless, the price to rent ratio of “13” means that the national average house price is 13 times the national average rent that could be earned per annum on a residential property. This implies that the Namibian housing market is still in a stable state and could improve further along with the expected improvement in economic conditions. We therefore expect rental prices growth to mark a positive territory in the first quarter of 2020 before it stabilizes along its long-term sustainable growth path.

Methodology

The rental index is based on average advertised prices in the residential property market across the country. These advertised prices are restricted to those advertised across print media – specifically the Namibian and Republikien. To ensure consistency, continuity and representativeness, the above-named databases were found to provide a realistic picture of asking price within the rental data. Other newspaper outlets were eliminated based on frequency on rental ads on their platforms. Subsequently, the data should be interpreted within these bounds and is therefore subject to the frequency and relevance of rental ads across these platforms.

Rental ad data is collected daily but aggregated and averaged monthly. The average figures are further weighted depending on the number of rooms available in an establishment. One and two-bedroom properties are given higher weights within the index versus three-bedroom properties. Town data is analyzed on a six-month basis to ensure sufficient observations to support the average price. This allows the inclusion of smaller towns that may not post frequent data. Furthermore, rental yield figures are calculated based on the average rent advertised and the average bonded property prices in the same area (bond property figures are sourced from FNBs Housing index data).

Notably, the FNB Rental Index differs starkly with the methodology utilized to calculate rental inflation as produced by the Namibia Statistics Agency. Therefore, the two data sources are not comparable with NSA data capturing actual rent versus FNB Rental index capturing advertised rent. These differences in methodology explain the subsequent differences observed between the two indices.

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