



FNB
First National Bank



FNB Rental Index report

July - 2019

Key to FNB's Rental Index Segments

- 1-bedroom
- 2-bedroom
- 3-bedroom
- more than 3 bedrooms

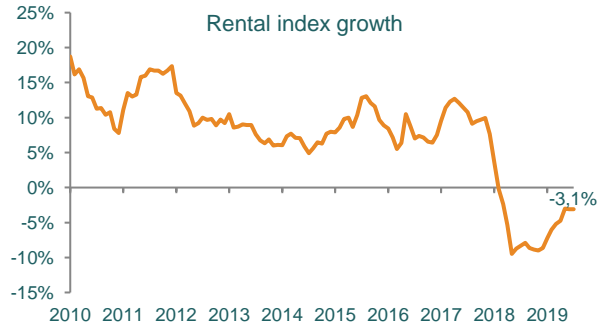
Highlights

- The average national rent price is recorded at N\$7 219.98
- Year-on-year growth in the more than 3-bedroom segment reverses its downward trend, growing by 1.6%
- Average deposits charged contracting across all Rental Index segments



Ruusa Nandago
Market Research Manager
Ruusa.Nandago@fnbnamibia.com.na
+264 61 299 8340

Rental prices continue to regain ground



Advertised rental prices have continued to show signs of recovery, with the FNB Rental Index recording a smaller contraction of 3.1% y/y at the end of July 2019 compared to a contraction of 8.3% y/y recorded over the same period last year. This improvement was supported by the *more than 3-bedroom* segment which has reversed its downward trend, recording growth of 1.6% y/y compared to a contraction of 4.8% y/y in July 2018. Furthermore, prices in the *1* and *3-bedroom* segments are still contracting, but at slower rates of 2.8% y/y and 3.3% y/y respectively, while prices in the *2-bedroom* segment remain unchanged from July 2018 at 4.3% y/y. The average rental price now stands at N\$7 219.98.

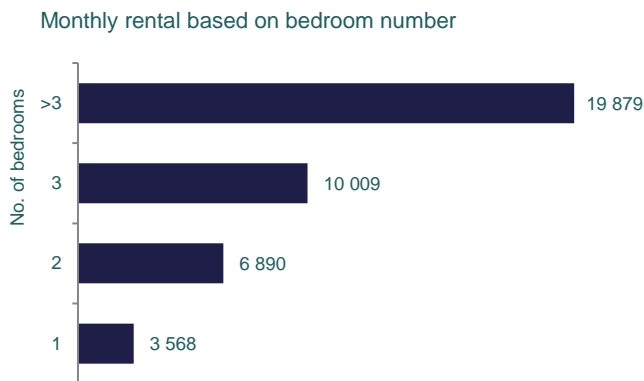
While a smaller contraction was observed in rent prices, the growth in average deposits charged continues to lose ground. A severe contraction of 28.6% y/y was recorded at the end of July 2019 compared to growth of 15.7% y/y recorded over the same period last year. This is the largest contraction recorded since December 2017 and is observed across all Rental Index segments. The growing trend of landlords charging lower deposits or no deposits at all could be an indication that there is an excess supply of rental properties available in the market due to the low demand for rental units. In lieu of weakening purchasing power, charging a lower deposit or no deposit allow is a means by which to make rental properties more attractive to buyers.

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Authored by: Ruusa Nandago Tel: +264 61 299 8340

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Figure 1: Rents based on bedroom number



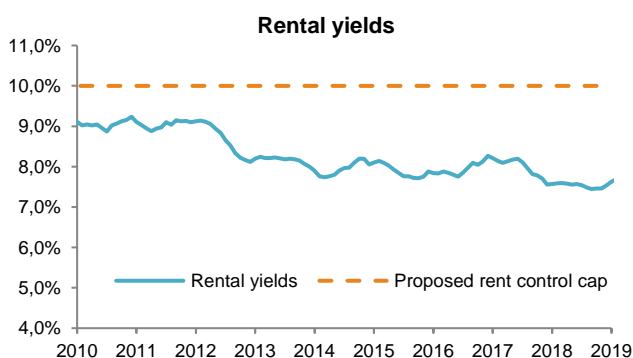
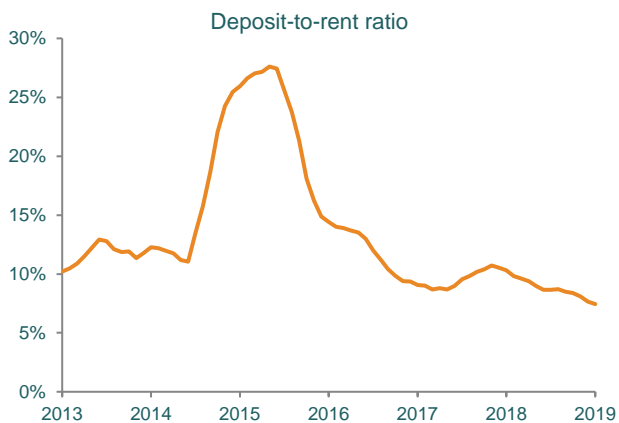
Rental breakdown

The monthly rental price for a 1-bedroom unit is N\$ 3 568.00, N\$6 890.00 for a 2-bedroom unit and N\$10 009.00 for a 3-bedroom unit. The average rent for a more than 3-bedroom unit is N\$19 879.00. Except for the more than 3-bedroom segment, the prices across all segments are lower than those recorded over the same period last year. The average rent price per room at the end of July was N\$3 523.09. This is equivalent to a contraction of 2.3% y/y compared to a contraction of 10.6% y/y recorded in July 2018.

36.4% of all activity was observed in the 1-bedroom segment, 30.9% in the 2-bedroom segment, 29.0% in the 3-bedroom segment and 3.7% in the more than 3-bedroom segment.

Deposit to rent ratio

The deposit-to-rent ratio has come down to 7.4%, the lowest it has been in 9 years. The declining trend in the ratio is an indication of weak demand for rental units. In an environment where demand is weak, landlords are likely to lower the deposit amount required to attract tenants. Conversely, a high demand for rental property incentivises landlords to request higher deposits, such that the tenant who is willing to pay this price secures the lease. The ratio reached its peak in November 2015, showing growth of 27.6% y/y during a time where demand was bolstered by a growing economy with growth during this period averaging 5.3% y/y. It has subsequently decreased significantly, in tandem with the slowdown in the overall economy.



Rental yields

Rental yields provide an indication of the return that is likely be achieved from renting out a property. The rental yield at the end of July 2019 ticked up slightly to 7.7%, the highest recorded since March 2018. This market determined yield is, however, still far below the rental yield ceiling of 10% proposed in the Rent Control Bill. The increase in the rental yield comes on the back of an improvement in rental prices combined with weaker property prices. The rental yield is likely to continue increasing albeit at a slow pace, given our expectations that house prices will remain weak.

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Conclusion

Prices in the rental market have shown some improvement compared to a year earlier but remain in a contractionary environment. With the House Price Index recorded at a 9-year low of -3.7% and the associated transaction volumes decelerating, the improvement in rental prices could be an indication that individuals are opting to stay in rental accommodation longer, as opposed to purchasing a home. This is likely due to wage growth which has not kept up with inflation, thus putting a severe strain on consumer purchasing power. Furthermore, consumers are highly indebted and this, combined with low wage growth, presents affordability issues which make renting a more attractive option. Should the status of the consumer not improve through broad based economic growth and the backlog in affordable housing not be addressed, Namibia is likely to turn into a renter's market where individuals choose to rent over purchasing a home. Thus, we expect a continuous but slow annual increase in prices in the rental market moving forward. We are of the view, however, that growth in rent prices is unlikely to enter positive territory over the remainder of the year and likely to settle at -3.3% by the end of the year.

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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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