



FNB
First National Bank



FNB Rental Index report

March - 2019

Highlights

- Average rental price across the country stood at N\$7346
- Average national deposit charged contracts by 11.8%
- Rental yields show resilience at 7.4%

Key to FNB's Rental Index Segments

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



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Rental prices take a knock

As a leading indicator of rental prices, the FNB Rental Index ended March 2019 in negative territory at -5.2%. Capturing advertised rental prices, the index growth has been stymied by sluggish economic conditions – specifically weak disposable income that has been a systemic problem of the current recession. Prices dropped across the various segments with one, two and three-bedroom apartments declining by -1.7%, -4.6% and -5.7% y/y respectively. Prices seemed to have started their decline as early as the first quarter of 2017 with current prices suggesting that the market is bottoming out.

The standard practice of requesting deposits from renters as a gauge of affordability and commitment has loosened in the market. Average deposits charged contracted by 11.8% at the end of March 2019. A better indication from the market, however, is the deposit-to-rent ratio which serves as a good measure of demand at a given point in time with the assumption that a higher deposit to rent ratio denotes higher demand. The latest indicator shows that the ratio has tapered to 8.5%y/y with the highest growth in the series experienced in 2015 when growth was 27.4%y/y.

Overall trend in the market points to a slowdown which should bode favorably for new renters who can negotiate better rents. Rental property supply is harder to gauge given the nature of current data collection. Therefore, the FNB Volumes Index will serve as a proxy for potential rental market volumes. Given its sturdy growth over the past year (+50% y/y) one would surmise that a comfortable level of supply underpins the rental market currently.

In terms of investment, rental yields continue to wane amidst both lower rents charged and declining property prices. Under normal instances, declining property prices would push consumers to rent resulting in higher average rents ergo higher yield. However, with disposable income declining, overall prices have muted resulting in yields dropping to 7.4% y/y at the end of March 2019.

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Figure 1 Rents based on bedroom number

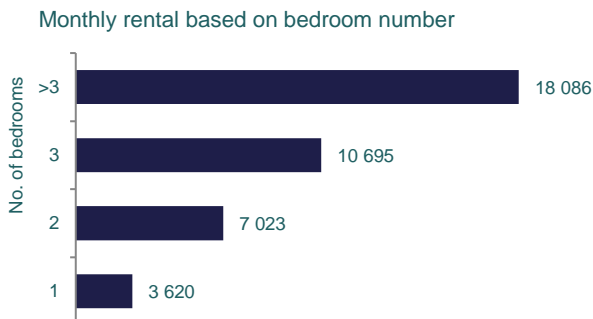
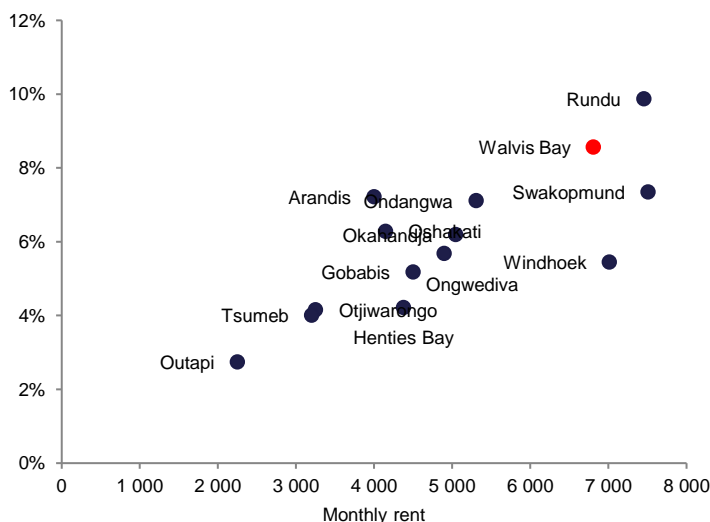


Table 1 Rents based on towns and areas (N\$)

Town	Monthly Rent	Town	Monthly Rent
Arandis	4 000	Otjiwarongo	3 250
Gobabis	4 500	Outapi	2 250
Henties Bay	4 375	Rundu	7 453
Okahandja	5 042	Swakopmund	7 505
Ondangwa	5 305	Tsumeb	3 200
Ongwediva	4 898	Walvis Bay	6 809
Oshakati	4 144	Windhoek	7 011

Figure 2 Monthly rent vs. Rental yields



Rental breakdown

A three-bedroom property rents for N\$10,695 per month, while a two-bedroom property rents for N\$7,023 per month. The average price for a single room unit is currently N\$3,620 per month. Interestingly, three-bedroom apartments/houses were on average more than N\$11,000, showing mounting pressure in that domain. Properties with more than three bedrooms averaged N\$18,086 per month at the end of March 2019.

The calculated rent per room value decreased from N\$3783 to N\$3581 over the past year. Implicitly, it appears that growth in the calculated rent per room value has passed its inflection point, contracting by -5.3% y/y compared to the largest contraction recorded of -11.6% y/y in June 2018. This is a crucial figure given the rise of charges per room versus traditional house/apartment.

Across the country, stark ranges exist in terms of rental prices. Coastal town prices are but an example of these idiosyncratic differences with prices at Walvis bay (on average) coming in 9.3% lower than Swakopmund yet 55.6% higher than Henties Bay. Rental market in Otjiwarongo and Tsumeb seems to be one of the lowest advertised within the past year, while the northern towns of Ongwediva, Oshakati and Ondangwa tend to have prices ranging between four to five thousand Namibian dollars.

¹Rental yields across the country

Traditionally, the rental yield has served as a proxy for investment and according to our data, Rundu offers the highest yields followed by Walvis Bay and Swakopmund. Windhoek's rental yield is below the overall national level coming in at 5.5% at the end of 2018. Henties Bay, Tsumeb and Outapi have some of the lowest rental yields nationally implying relative poor rental market environments from an investor perspective.

¹ This section uses data that is recorded bi-annually in June and December

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Figure 3: Rental yields

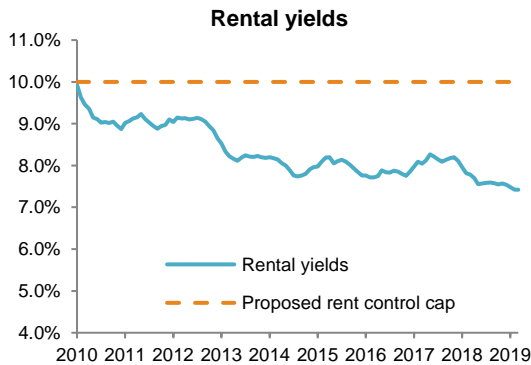


Figure 4: Rent per square meter

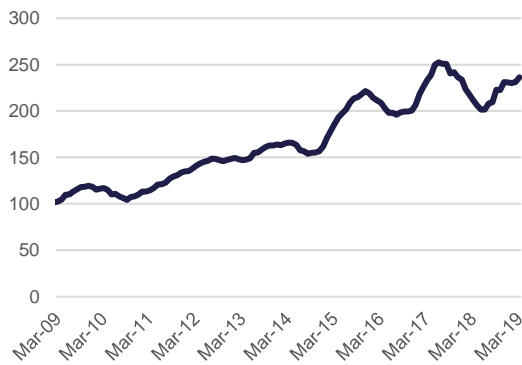


Figure 2: Rental prices versus Property prices (% growth)



Rent control under the Rent Bill – is it practical?

The proposed rent bill provides guidance on the natural ceiling that would be enforced on the leased property. Based on current data, rental yields are much lower than the proposed ceiling which would mean that landlord would have room to push prices higher if the bill is instituted in its current form. Intrinsically, the average property in Windhoek would move from current number of N\$7011 to N\$12853, a staggering 83.3% increase. This would gravely disrupt the rental market and as such serves as an impractical guideline or means of controlling the property market.

Rent bill – is it affordable?

In terms of the current rent bill, drastic revisions would have made for it to be enforceable. While the presence of rental boards is a step in the right direction in terms of improving transparency, and allowing legal protection to both lessors and lessees in the case of complaints, the practical cost of implementing an effective system would be costly to state. The administrative costs and potential pressures it will place on tax payers who would have to carry the wage costs of the rental board members and property inspectors across the nation would be unjustifiable given the current economic conditions.

Rent bill - Lessons learnt

A local reference rent system might be a better guideline for charging rent. Under this system, landlords are expected to charge rent in an area relative to the average rent of the area with a standard deviation of +20% or -20%. This system would allow rental costs to remain relative to market.

Conclusion

With the property market easing, rental prices have started to follow a similar trend, however, at a much slower pace as consumers' disposable incomes remain under strain. Consequently, consumers are expected to substitute for affordable rental stock due to affordability issues and effectively reduce rental demand and price for high-income rental units. Furthermore, our rent per square meter indicator shows that overall rent prices have continued to increase despite the decrease in size of stand across the country. This is a common trend in developed countries where land availability is constrained.

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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 Republiken. 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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