



Slower contraction in rental prices in May

FNB Rental Index report

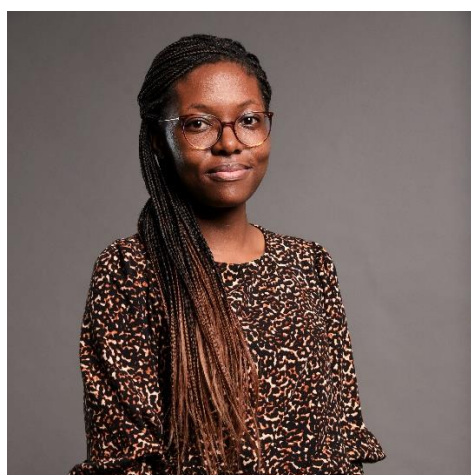
May - 2019

Key to FNB's Rental Index Segments

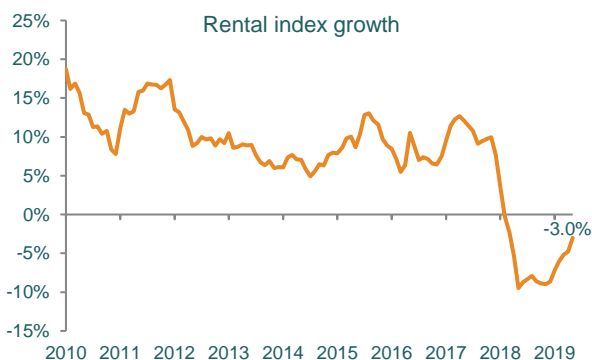
- 1-bedroom
- 2-bedroom
- 3-bedroom
- more than 3 bedrooms

Highlights

- Average national rental price across the country stood at N\$7387.00
- Average national deposit charged continues to contract
- Rental yields remain unchanged at 7.4%



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The FNB Rental Index, that tracks advertised rental prices across the country, recorded a slower contraction of 3.0% y/y at the end of May 2019. This contraction, the slowest recorded since March 2018, comes on the back of a 0.6% y/y price growth in the 1-bedroom segment. Contractions of 3.0% y/y, 3.8% y/y and 4.5% y/y in the 2, 3, and 3+ bedroom segments, however, contained any further acceleration in prices. The overall national mean rent price now stands at N\$7387.00 compared to N\$7346.00 a year ago.

The growth in deposits charged has not reversed the downward trend that started in August 2018. The average deposit charged at the end of May contracted sharply by 22.0% y/y compared to a contraction of 11.8% recorded in March. While deposits charged in the more than 3 bedrooms segment remain positive at 2.0% y/y, this was counteracted by significant contractions in the deposits charged in the 1, 2- and 3-bedroom segments of 15.4%, 25.3% and 28.5% respectively. This severe contraction clearly illustrates the willingness by landlords to bargain downwards on deposit levels to attract and secure tenants. This is further substantiated by the growth in the deposit-to-rent ratio which has slowed down to 8.1%, the lowest recorded since August 2011. Lower charges of rental deposits are archetypal of fragile economic conditions and strained consumer demand for rental units, which puts landlords under immense pressure.

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Figure 1: Rents based on bedroom number

Monthly rental based on bedroom number

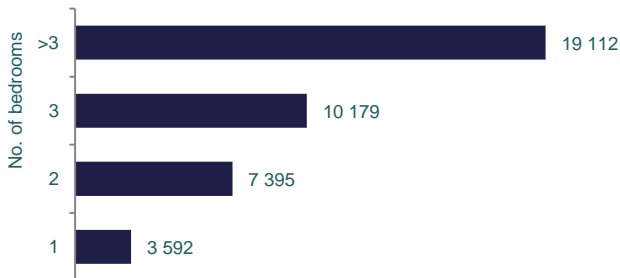


Table 1: Mid-year rent prices by town

Town	Monthly Rent	Town	Monthly Rent
Arandis	4 000	Otjiwarongo	5 088
Gobabis	4 500	Outapi	2 250
Henties Bay	4 375	Rundu	4 250
Okahandja	5 357	Swakopmund	7 826
Ondangwa	4 621	Tsumeb	2 850
Ongwediva	4 959	Walvis Bay	8 171
Oshakati	4 779	Windhoek	6 804

Rental breakdown

The monthly rental price for a 3-bedroom unit stands at N\$10179, while that of 2-bedroom unit stands at and N\$7396. A single bedroom unit has a monthly rent price of N\$3592. Lastly, the price for rental units with more than 3 bedrooms stands at N\$19112.

After having reached its inflection point in December 2018, the average rent charged per room has continued to post smaller contractions. The average rent per room now stands at N\$3539.05 which is a contraction of 3.4% y/y.

Comparison of rent prices across towns

Table 1 provides a further disaggregation of rental prices and illustrates how they vary across towns. When compared to the same period last year, advertised rent prices remain the highest in Walvis Bay with the monthly rent now at N\$8171. This is, however, a 6.9% y/y decline from the previously recorded rent price of N\$8775. Outapi once again remains the town with the lowest rent at N\$2250. This large differential is likely an outcome of stark differences in the level of economic activity between the two towns, which has resulted in a higher concentration of the rental population in Walvis Bay.

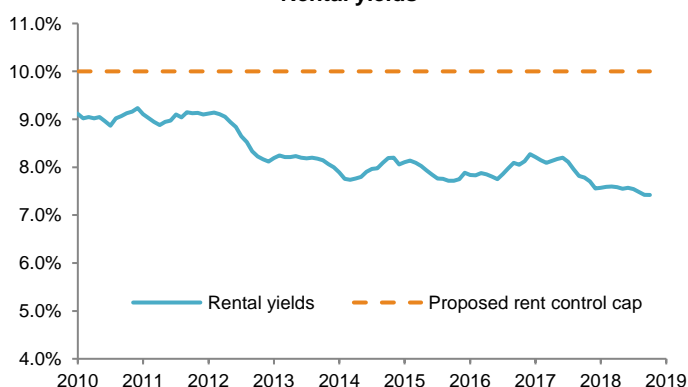
We have noted a significant increase in the monthly rent in Oshakati with the average rental price now at N\$4779 compared to N\$2382 recorded over the same period last year. On the other hand, rental prices in Tsumeb saw the largest decline, from N\$6600 recorded over the same period last year to N\$2850.

¹Rental yields across the country

At 7.4%, rental yields – a proxy for return on investment – remain below the price ceiling proposed in the rent bill.

When looking at yields across towns, the Coastal region provide the most favourable returns. Walvis Bay offers the highest yields of 9.9% followed by Swakopmund and Arandis. Which offer yields of 8.8% and 8.2% respectively. The rental yield in Windhoek is still below the average yield, at 5.1%. Tsumeb offers the lowest yield of 3.0% while Outapi offers a yield of 3.4%

Rental yields



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

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Conclusion

The weaker contraction in rent prices corroborates our earlier suggestion that the rental prices seem to be showing signs of bottoming out. However, with a slew of real sector data pointing towards immense pressure on the economy, consumer confidence and disposable incomes, we expect any recovery in prices to be a slow and gradual process. Furthermore, the smaller contraction was driven solely by an increase in prices in the 1-bedroom segment and not across all segments. The increase in this segment is likely a direct consequence of weak affordability in the housing market which has resulted in consumers moving into the rental space. This is validated by data showing slowing extension of mortgage loans to households. As growth concerns persist, we expect rental prices across the country to remain in the red and for recovery in the market to occur at a slow pace.

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 Republikein. 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 FNB's 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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