



FNB
First National Bank



FNB Rental Index report

September - 2019

Key to FNB's Rental Index Segments

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

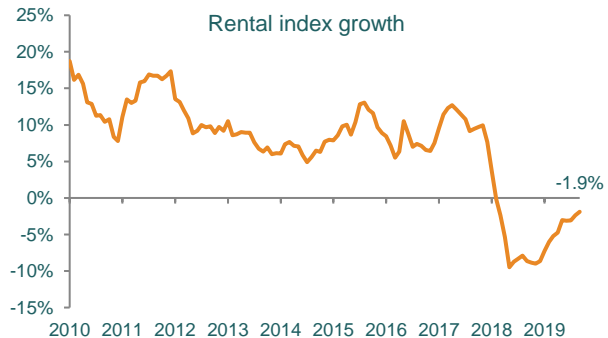
Highlights

- The average national rent price is recorded at N\$7 163.94
- Year-on-year growth in the more than 3-bedroom segment still supporting smaller contractions, growing by 9.4%
- Slight uptick in rental yields – recorded at 7.8%



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Rental prices



Growth in rental prices remains in contractionary territory with the FNB Rent Price Index recording a contraction of 1.9% at the end of September 2019, compared to a contraction of 8.6% over the same period last year. The smaller contraction was once again supported by price pressures in the more than 3-bedroom segment whose growth stood at 9.0% y/y compared to a contraction of 9.4% at the end of September 2018. In addition, pressures continue to build in the 1, 2 and 3-bedroom segments which have resulted in smaller year-on-year contractions of 4.0%, 3.2% and 3.4% respectively. The price dynamics in the rental market have brought the national rent price at the end of September to N\$7163.94 per month. The rental market remains overall negative owing to the persistent weak domestic economy.

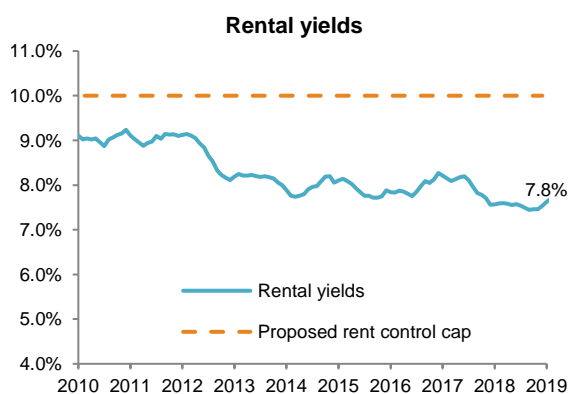
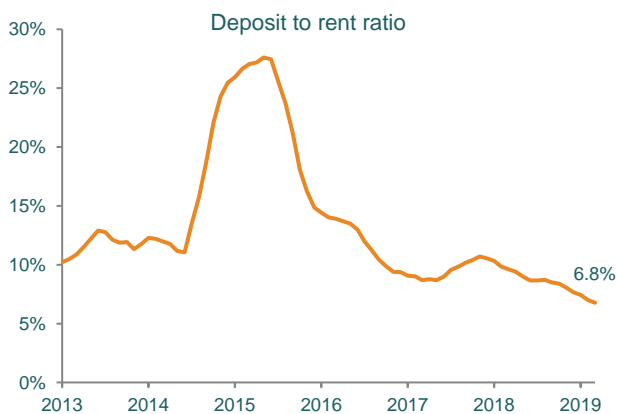
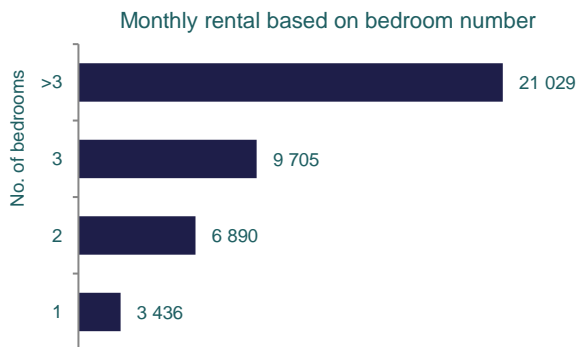
Windhoek recorded the highest rental prices at the end of September with the average rent in this town at N\$6 674.03 per month. This is, however, a 5.0% contraction compared to the same period last year. The lowest rental prices were recorded in Rehoboth at N\$3000 per month. The low rental prices in this town are indicative of a smaller population and weaker economic activity and consequently thinner volumes in rental transactions compared to Windhoek. Prices in Walvis Bay recorded the highest growth in rental prices of 66.7% y/y. Other towns where rental growth was in positive territory include Ongwediva at 9.1% y/y, Okahandja at 3.0% y/y and Ondangwa at 1.5% y/y.

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Figure 1: Rents based on bedroom number



Rental breakdown

The monthly rental price for a 1-bedroom unit is N\$ 3 436.00, while a 2-bedroom unit rents for N\$6890. 3-bedroom and more than 3-bedroom units now rent for N\$9 705.00 and N\$21 029.00 respectively. Overall, the average rent price per room at the end of September was recorded at N\$3515.79, a 2.7% y/y compared to a contraction of 9.6% recorded in July 2018.

When looking at shares of total rental activity, 39.4% of all activity took place in the 1-bedroom segment, followed by the 2-bedroom segment which accounts for 36.7% of all transactions and the 3-bedroom segment whose share was 20.6%. The more than 3-bedroom segment accounted for 3.3% of all rental activity.

Deposit to rent ratio

The growth in deposits charged continues to trend lower with the reading at the end of September recording a contraction of 30.8% y/y compared to 13.8% y/y. This is the lowest reading recorded since 2017 with contractions in deposit growth rates observed across all Rental Index Segments. Furthermore, the deposit-to-rent ratio has continued to trend lower and now stands at 6.8%, the lowest the ratio has been since April 2010. The deterioration in deposit to rent ratio was observed in all segments with the largest observed in the 3-bedroom segment. The persistently declining ratio continues to highlight the bargaining power potential tenants have in the rental market. We 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.

Rental yields

Rental yields, which are an indication of the return a landlord is likely earn on the rental of a property, have shown a moderate increase from 7.6% recorded at the end of September 2018 to 7.8% recorded at the end of September 2019. This is the highest-level rental yields have been since February 2018 and still below the 10% cap on yields proposed in the Rent Bill. The increase in the rental yield is a consequence of increasing price pressures in the rental space and declining house prices. The Namibian rental market provides much higher yields when 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 erosion in rental prices which started in early 2018 because of the recessionary environment seems to be gradually reversing. Prices in the 1-3-bedroom segments are showing smaller contractions, while prices in the more than 3-bedroom segment are in positive territory. The housing market remains under pressure with very low levels of buying and selling activities resulting in houses staying on the property market for 31 weeks before they are eventually sold. We thus maintain our earlier view that rental affordability has not necessarily improved, but rather that rental property prices will be buoyed by an increasing number of participants opting to move into the rental market in the face of affordability issues in the housing market. This will likely continue to push up prices and lead to smaller year-on-year contractions in growth. We expect rental price growth to remain in contraction for the remainder of the year and to move into positive territory early next year, likely settling in the range of 1-2%.

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 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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