



Third Quarter 2020

HIGHLIGHTS

- The national weighted average rent came in at N\$7 091 at the end of September 2020 from N\$7 164 in September 2019.
- The 1-bedroom and 2-bedroom segments registered growth in rent prices of 1.0% and 0.5% y/y respectively.
- The deposit to rent ratio deteriorated to 5.2% - last seen in December 2008.
- Average rental yields remain stable at 7.8% despite a challenging economic environment.

FNB'S RENTAL INDEX SEGMENTS

Segment	Rent Price	Change	Y/y Change
1-bedroom	N\$3 600	▲	1.0% y/y
2-bedroom	N\$7 006	▲	0.5% y/y
3-bedroom	N\$9 937	▼	-1.5% y/y
More than 3 bedrooms	N\$16 657	▼	-8.2% y/y

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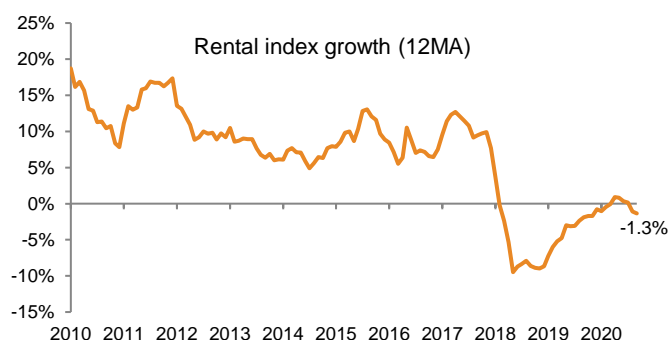
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Figure 1: Rental index growth



Rent prices slip back into negative territory

The FNB Residential Rental Index shows that the 12-month moving average growth in rent prices took a dip of -1.3% at the end of September 2020. This brings the national weighted average rent to N\$7 091 at the end of September 2020 compared to N\$7 164 recorded over the same period in 2019. The sudden return of the rental index growth into negative territory affirms the pass-through effects of COVID-19 pandemic on the rental market. This is unsurprising given the notable job losses and reduced income for the most part of the workforce as the country implemented COVID-19 containment measures during this period. The Government reported that 8 000 employees were dismissed during the first two quarters of 2020 compared to 950 employees dismissed over the same period of 2019. The demand dynamics remain highly skewed towards the lower end of the market as affordability becomes increasingly challenging. In effect, the annual average rent price for a 1-bedroom and 2-bedroom unit grew by 1.0% and 0.5% y/y, respectively to N\$3 600 and N\$7 006 as at September 2020. Conversely, the 3-bedroom and more-than-3 bedrooms units recorded annual contractions in rent price of 1.5% and 8.2% y/y respectively to N\$9 937 and N\$16 657 at the end of September 2020. Generally, tenants tend to move in with family or share with friends in tough economic times, and this reduces the overall demand for rental units. This results in landlords offering reduced rents, not only to retain quality tenants but also to achieve the desirable level of occupancy to remain afloat. We see the emergence of this theme playing out in the Namibian rental market particularly in the high-end segment.

Looking at the regions, growth in rent prices has remained bleak in towns where COVID-19 induced retrenchments have been reported – mainly due to the relative dominance of industrial and hospitality related sectors. More specifically, Walvis Bay continues to bear the brunt of a deeper contraction in rent prices of 43.9% y/y, followed by Ondangwa (-30.3% y/y), Rundu (-20.5% y/y), Oshakati (-17.0% y/y), and Windhoek (-2.0% y/y). The only towns that have spurred growth in rent prices are Ongwediva and Okahandja with 5.2% and 4.3% y/y, respectively (Appendix A).

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Rental breakdown

Rental advertisement volumes have almost doubled on the quarterly basis, increasing by 80% q/q to 5 058 units in the third quarter of 2020. This could partly be attributed to cancellations of rental contracts due to affordability issues and the advent of the narrative that owning a property instead of renting is increasingly seen to be gaining traction as house prices tumble. Consequently, the 1-bedroom and 2-bedroom were the most sought after in the market. In fact, these are the only segments that have sustained growth in rent prices during the period under review, and arguably the only segments where tenants appear to have limited bargaining power and scope to negotiate for reduced rents.

Figure 2: Rental growth by segment (12MA)

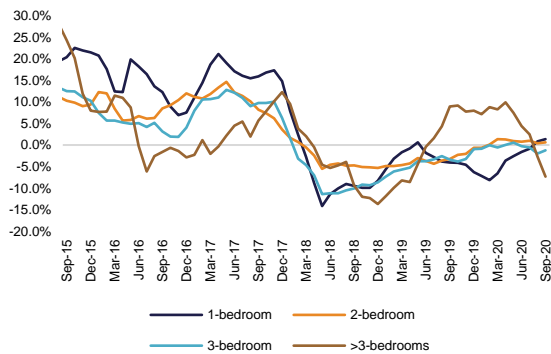
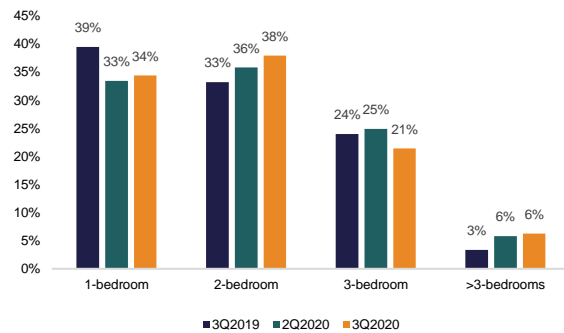


Figure 3: Share of advertisement volumes per segment



Deposit to rent ratio

Overall deposits charged by landlords contracted by 23.8% y/y at the end of September 2020 compared to a contraction of 30.8% y/y recorded during the same period of 2019. This was more pronounced in the 2-bedroom and more-than-3-bedrooms segments which contracted by 45.5% and 32.4% y/y respectively, compared to contractions of 28.8% and 29.5% y/y realized a year ago. This highlights an oversupply in rental properties on the back of weak tenancy demand and the growing relevance of a multi-family renting culture. As a result, the deposit to rent ratio worsened to record lows of 5.2% - further pointing to a deteriorating state of the Namibian economy.

Figure 4: Deposit to rent ratio

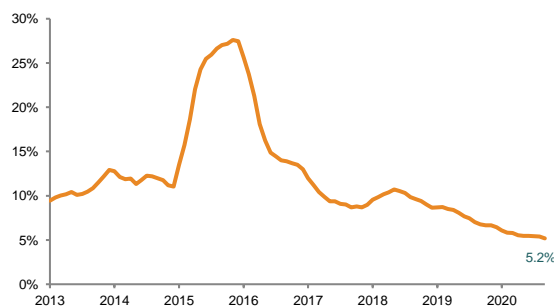
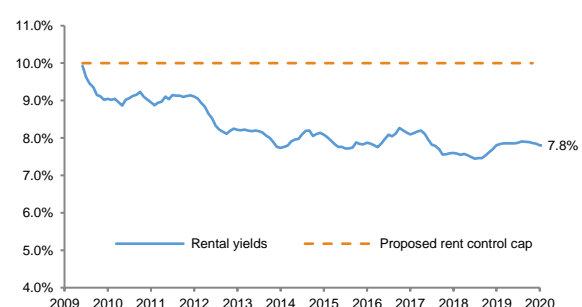


Figure 5: Rental yields



Rental yields

Rental yields refer to what the landlord expect as return on an investment property before maintenance fees, tax and other costs are deducted. Despite a challenging economic environment, rental yields have fared out well in the recent past, settling at 7.8% at the end of September 2020. This remains well above the prevailing inflation rate - by 5.4 percentage points more. We expect rental yields to remain stable in the short to medium term particularly in the 1-bedroom and 2-bedroom segments on account of unabated housing backlog compounded by a high level of income inequality.

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Conclusion

Looking ahead, the shortage of quality tenants is likely to remain an issue as the economy continues to grapple with the protracted economic recession. This signifies the dawn of a renter's market - one that would compel landlords to offer competitive rates, especially in the upper market areas. That is to say, offering a discount of between 15% - 20% of the advertised rent. Meanwhile, we retain our view that the dynamics around the adoption of remote working and multi-family renting cultures are likely to be one of the key defining features of demand and supply forces in the rental market as the global community anticipates the resurgence of the second wave of COVID-19 pandemic.

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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APPENDIX A: AVERAGE RENT (N\$) (12MA)

TOWNS	3Q2019	2Q2020	3Q2020	Q/Q	Y/Y
Arandis	-	4 500	4 500	0.0%	-
Gobabis	-	6 000	6 600	10.0%	-
Henties Bay	5 500	5 500	-	-100.0%	-
Karibib	-	-	-	-	-
Katima Mulilo	5 250	5 500	-	-	-
Keetmanshoop	4 500	-	-	-	-
Kransneus	-	15 000	15 000	0.0%	-
Okahandja	4 950	5 400	5 200	-3.7%	5.1%
Omuthiya	1 500	-	-	-	-
Ondangwa	4 450	3 450	3 100	-10.1%	-30.3%
Ongwediva	5 200	5 000	5 500	10.0%	5.8%
Oshakati	4 650	4 000	3 850	-3.8%	-17.2%
Oshikango	6 500	-	-	-	-
Oshikuku	-	-	-	-	-
Otjiwarongo	5 100	-	-	-	-
Outapi	-	2 700	2 700	0.0%	-
Rehoboth	3 800	3 800	3 750	-1.3%	-1.3%
Rundu	4 650	3 800	3 700	-2.6%	-20.4%
Swakopmund	7 600	7 800	7 600	-2.6%	0.0%
Tsumeb	2 850	6 000	6 000	0.0%	110.5%
Usakos	5 250	-	-	-	-
Walvis Bay	8 000	5 350	4 450	-16.8%	-44.4%
Windhoek	7 150	7 000	7 050	0.7%	-1.4%

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