

# HOUSING INDEX

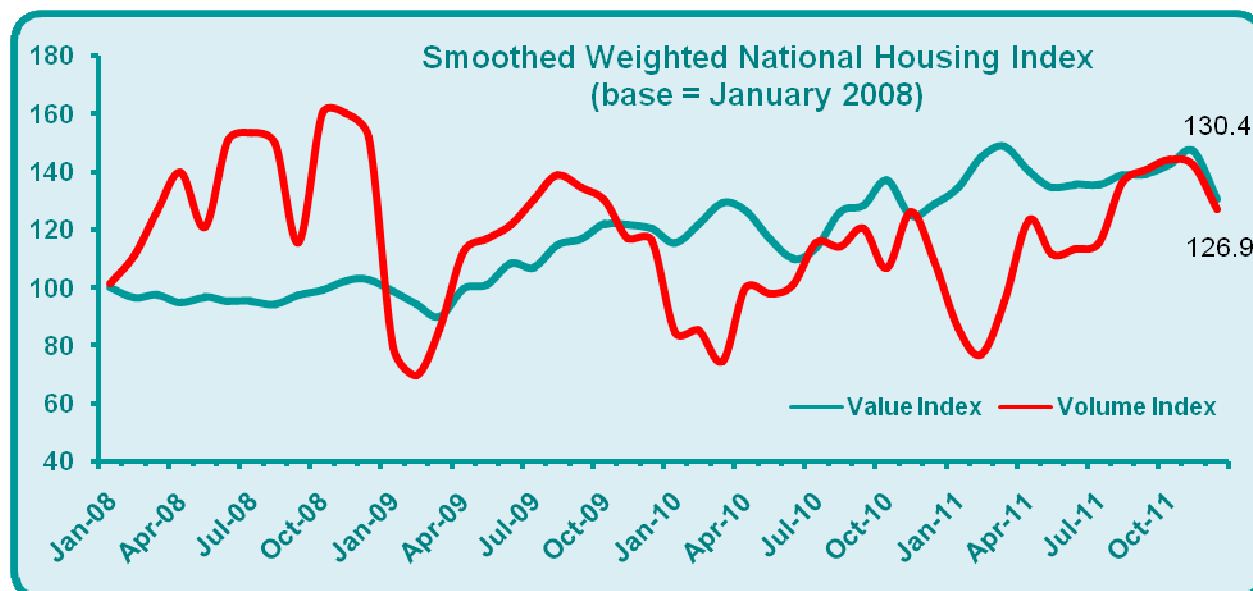
December 2011



**FNB**  
First National Bank

## House Prices Slow Down

how can we help you?



The FNB House Price Index fell 8% through December after very strong volume growth for most of 2011, with the volume index up 16% year on year and by far the best volumes experience since the start of the financial crisis in October 2008. We suspect that there is an over supply and hence sellers have begun dropping their prices to conclude sales in the medium to upper price segments. The influx of NHE houses is putting further downward price pressure in the lower price segment. To this end, overall house prices were down 3.3% year on year in nominal terms. This is the first negative growth number in house prices since July 2010, which was large enough to send the price curve on a downward trajectory. With a median property price of N\$406k for December, less than 14% of the households in Namibia can afford housing, given household income alone. This amounts to 67,000 households in a market where 60,000 households already have mortgages. Land delivery rates fell 19% in the latter half of 2012, with 221 ervens bonded.

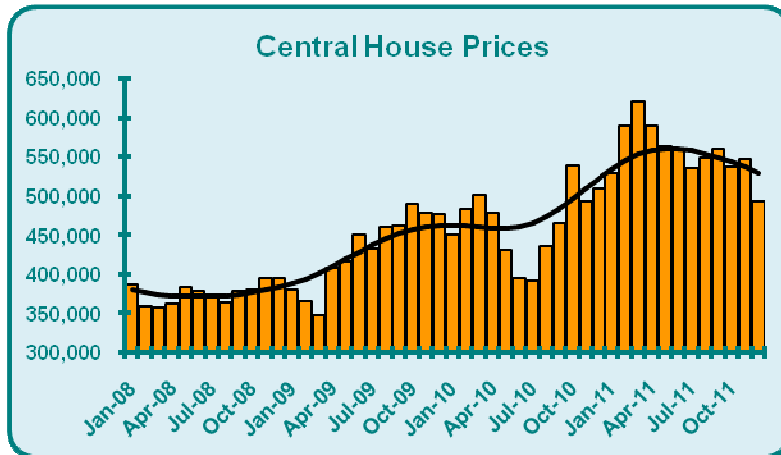
Median House Prices						
	Small		Medium		Large	
Central	271,333	-0.9%	511,833	-2.8%	1,210,000	3.0%
Coastal	284,048	-0.8%	547,833	-3.3%	1,189,167	-6.9%
Northern	255,333	-3.2%	491,167	-3.3%	1,144,433	6.7%
Southern	264,333	38.2%	499,500	-2.7%	1,475,000	14.9%

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**Authored by:** Namene Kalili Tel: +264 61 2992725 Fax: +264 61 225994

**Methodology:** The FNB House Price Index is based on the median house price from Deeds Office data. **Disclaimer:** The information in this publication is derived from sources which are regarded as accurate and reliable, is of general nature only, does not constitute advice and may not be applicable to all circumstances.

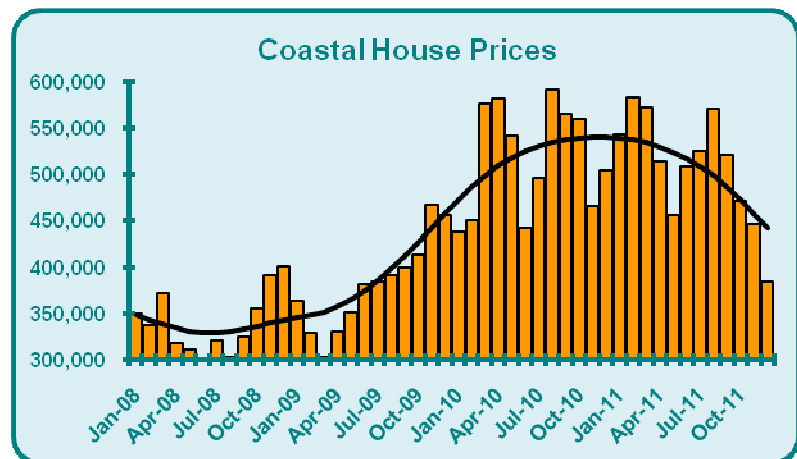
## House Prices



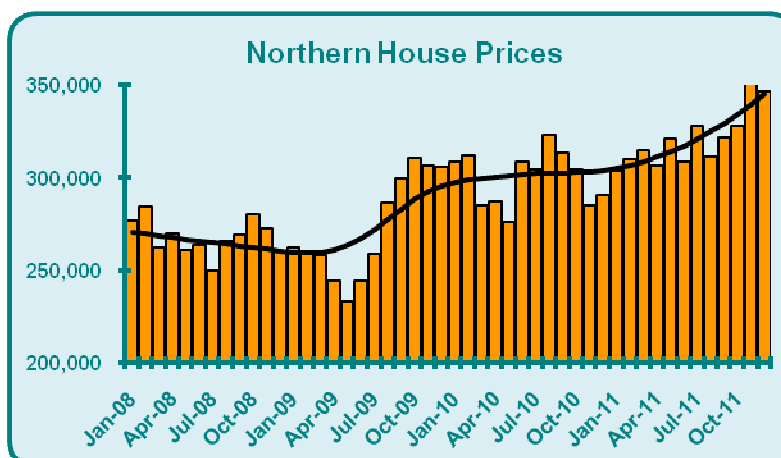
Central property prices rose in October and have since started to decline, with December prices falling a further 10% month on month on the back of strong supply during the third quarter. Price declines are evident in the lower and middle price segment, with house prices falling 1 and 3 percent respectively due to new housing development in Okahandja. Property prices in the upper price segment are up 3% through December and on an annualised basis, large property prices are down

3.5% in nominal terms. Land delivery trickled down to two stands for December with an average price of N\$213 per sqm, which is affordable to 54% of the Khomas households, given historical household income.

Coastal property prices fell 14% in December and 24% over the past 12 months. Strong downward price pressure is building up in the large coastal home market, where prices fell 7% month on month and 9% year on year. Volumes in the lower price segment accelerated by 120% over the past 12 months due to NHE's Kuisebmond development. It is still noteworthy that although the coast has generally the most expensive properties in the lower price segment, these three bedroom, free standing houses on 350 sqm stands are half the price we would expect in Windhoek.



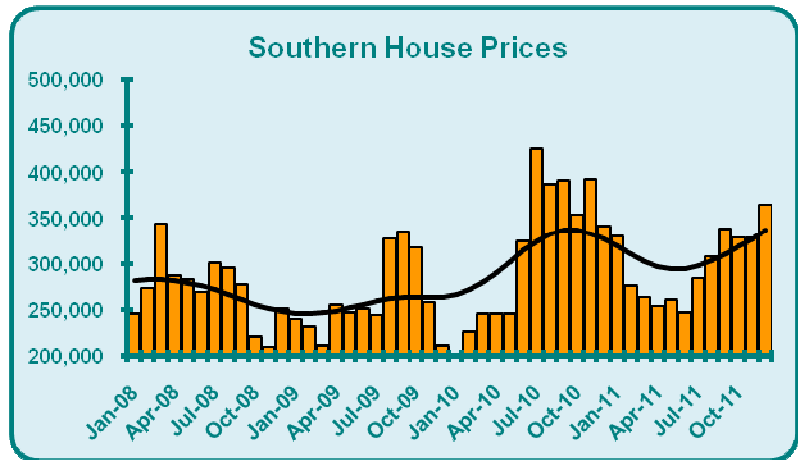
Property prices in the middle price segment fell 3.3% month on month off an abnormally high November base and therefore the annualised number points towards a 6% price increase. Coastal land delivery decelerated to 10 stands after averaging 19 stands per month for most of 2011. At N\$132 per sqm, coastal land price increased 27% and remain affordable for 52% of coastal households.



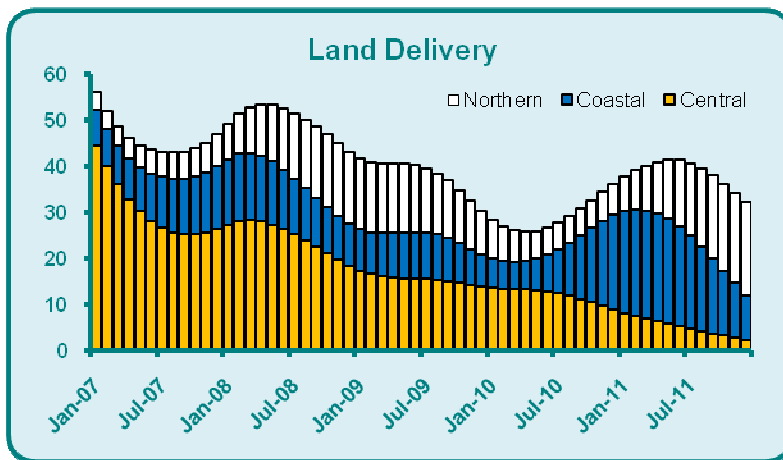
Aggregate northern property prices fell by 4% month on month, but the annualised growth was 19% higher than the same period last year. House prices fell 5% in both lower and middle price segment, while house prices rose 11% in the upper price segment. The Northern property market is however enjoying up to 14% volume growth on an annualised basis, particularly in the middle to upper price segments. This happened while land delivery continued to increase despite average land prices

accelerating by 257% during December. We estimate that a mere 19.7% of the northern population can afford land at the December prices and even at N\$37 per sqm (November average) affordability rises to 24.3% based on historical income trends.

House prices in the southern property market continued to increase in the latter part of 2011 and December was no exception. The median house price was up 11% month on month and 7% year on year. Volumes did however weaken across all price segments.



### Land Delivery

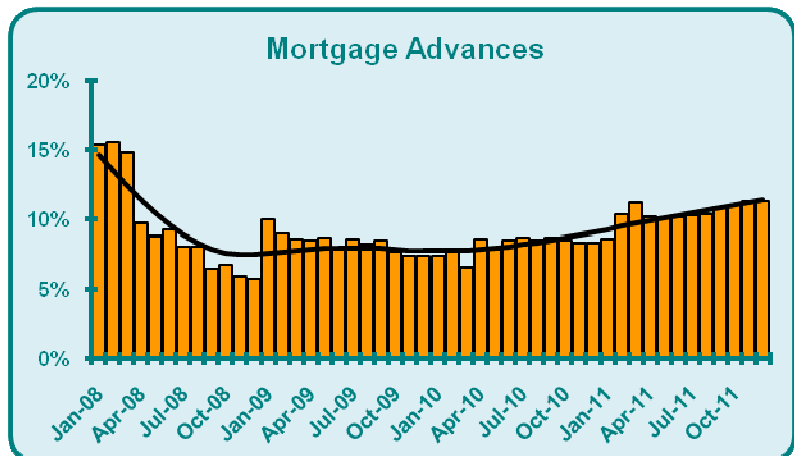


Land delivery peaked in April 2011 and has since declined from 40 stands per month to 20 stands through December. This decline is largely due to the slowdown in land delivery at the coast, where validity of the offer to purchase program is being challenged and thus slowing down land delivery. On the price front, residential land prices increased from N\$10 per sqm to N\$132 per sqm in the northern property market. Residential land prices for the central market declined from N\$241 per sqm to N\$213 per sqm for 2 stands

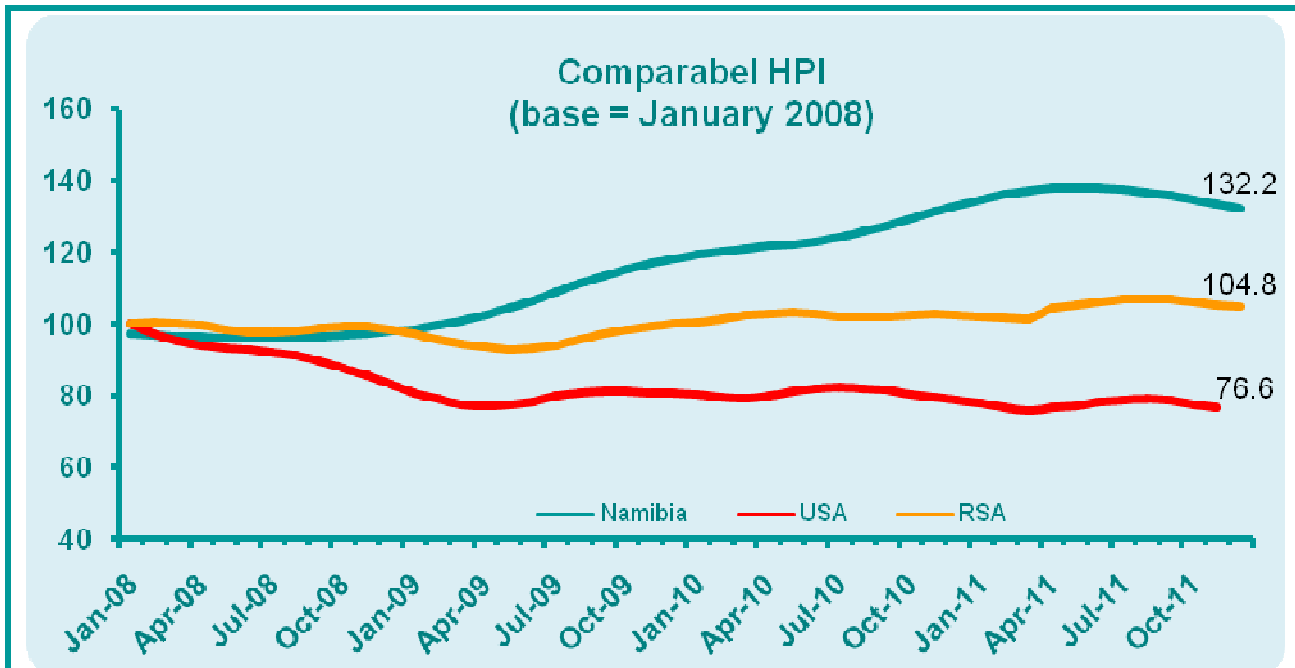
mortgaged in December under the municipality's offer to purchase arrangement for first time buyers only. Coastal land price increased from N\$118 to N\$132 per sqm since July 2011. For 2012, land delivery looks promising with an estimated 750 new stand expected compared to 460 stands in 2011, which may surprise on the upside depending on government's implementation on TIPEEG projects, which was lacklustre in 2011.

### Mortgage advances

Mortgage advances continue to show steady growth since April 2011. Mortgage growth estimated at 11.3% year on year. Deeds data shows that both first bonds in the lower and upper price segments are driving the mortgage credit growth along with further bonds over N\$400k which grew by 131% in December alone. SA mortgage advance growth increased to 2.5% and thus continues to bounce along the bottom as housing demand continued to weaken and economic growth continued to weaken. There is however speculation that SA might see an interest rate cut, but if this does happen, it will be very small.



## Comparable HPI



Source: FNB SA & S&P

Smoothing the FNB House Price Index (HPI) using the HP smoothing function produces an index comparable to RSA and USA. The comparable index suggests that the Namibian property prices have begun to fall and we suspect that there is an over supply and hence sellers have begun dropping their prices to conclude sales in the medium to upper price segments, while the influx of NHE houses is putting downward price pressure in the lower price segment. The SA HPI slowed down in December on the back of weakening demand as economic growth slows in the latter half of 2011. Therefore real house price inflation is expected to print around -1.9% for December 2011 after a mild recovery in 2010. Prospects for a recovery are bleak, with a possible but small interest rate reduction at best; the housing market is expected to deteriorate. Despite the low interest rates and better GDP figures, the US housing market continued to deteriorate, falling by 1.3% in November. Average home prices across the United States are back to the levels where they were in mid-2003 and there are very few signs that the US housing market will improve for the better any time soon.

## Conclusion

Overall property prices have begun showing signs of a deceleration and we expect this trend to continue throughout 2012, with real house price growth expected to be around 7.5% by year end compared to 11.5% for 2011. We are bullish on the volume front where new land delivery is expected to increase by 63% as some TIPEEG projects materialise in Otjomuise, Omuthiya, Oshikuku, Otjiwarongo and Oshakati, while construction at Ellisenheim is expected to drive up volumes by 12%. NHE is also expected to increase supply in 2012 as many of their properties were financed by the banking sector and thus bolstering their cash flow and thus their capacity to build more low cost housing.

## Methodology

This report covers the developments in the national housing market, based on bonds registered for natural persons at the Deeds Office. The median is used as the central measure of tendency and has been smoothed using a 3-month moving average and weighted. Bonds smaller than N\$100,000 and further mortgage bonds are excluded because they may not reflect the true cost of housing and as such may distort the index. Of course, it must be remembered that this index reflects the median price of properties that were traded over this period. This limitation of not being able to get to average prices about the stock of housing is a perennial challenge for housing indices.