



FNB
First National Bank



FNB Residential Property Monthly July, 2018

Highlights for the month

- House prices drop 4.1% y/y
 - Luxury -64.6% yoy.
 - Upper -6.1% mom.
- Volumes accelerated to 17.9%
 - Lower 28.8%
 - Coastal 32.7%
- Land delivery remains elevated
- Further downward pressures expected

Regional Snapshots

Southern:

Average price: N\$643,000 (-6.2% y/y)

Northern:

Average price: N\$862,000 (+4.8% y/y)

Coastal:

Average price: N\$1,098,000 (-5.6% y/y)

Central:

Average price: N\$1,274,000 (-6.6% y/y)

House prices remain under pressure on the back of falling housing demand

The residential property market continued to struggle, after July sales indicated that property prices contracted by 4.1%. This means that property prices have contracted in six of the first seven months of 2018, to bring the average property price to N\$1.29m in July. Price pressures were felt mostly at the top end of the market, after the luxury price segment was decimated by 9 consecutive quarters of economic decline. Prices for luxury properties contracted by 64.6% yoy in July, and with limited demand at N\$10.229m (down from N\$18.298m in Dec 2017), we believe there is still more pain to come. As the luxury segment re-prices, this downward price pressure has begun to trickle down to the upper price segment, where we are starting to see more and deeper month on month price contractions, as prices slumped to N\$3.625m in July.

On a more positive note, property prices in the middle to lower price segment drifted 3.1% and 5.3% higher on an annualised basis, supported by robust volume growth in the lower price segment, as government ramps up affordable housing delivery. Consequently, overall volumes have increased by 17.9% yoy, on the back of robust volume growth in the lower price segment, where volumes increased by 28.8% yoy. Volume growth was concentrated in the coastal market, where the supply of mass housing units drove volumes higher. As for the rest of the market, volumes contracted by 3.1% and 40% in the middle and upper price segments, whilst drying up completely in the luxury segment. The higher volume growth was sufficient to drive up overall mortgage advances, but this is only limited to the lower price segment.



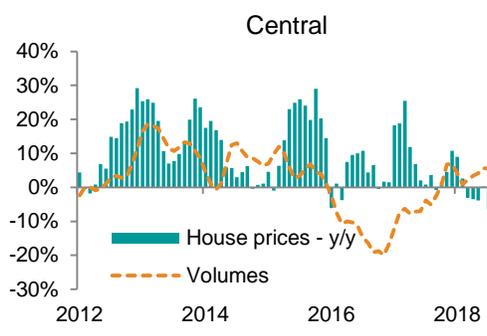
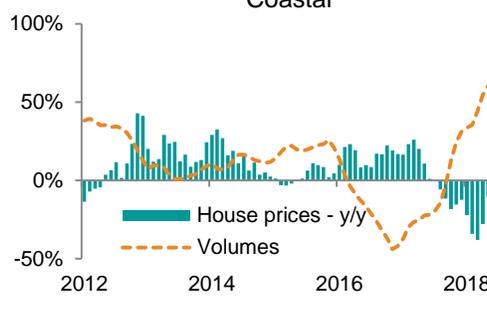
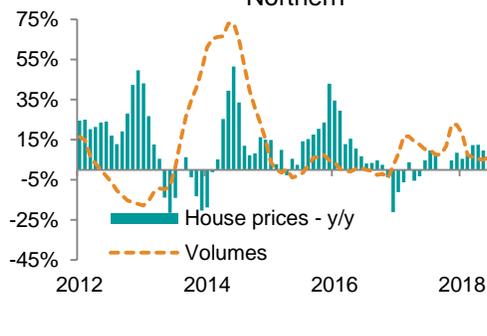
Namene Kalili: Group Economist

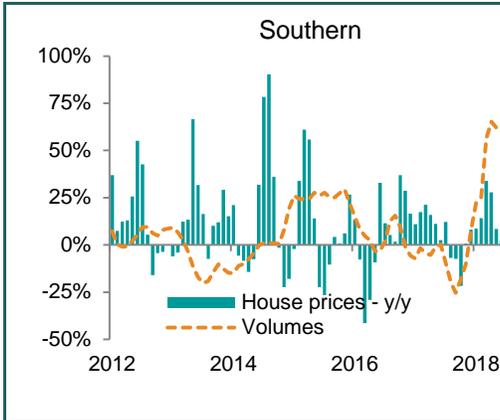
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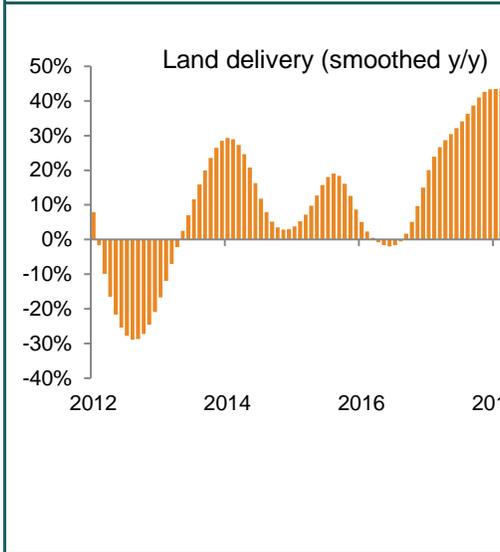
FNB House Price Index



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|--|--|
|  <p style="text-align: center;">Central</p> | <p>Central property prices contracted by 6.6%, to bring the average price to N\$1.274m, down from the November 2017 peak of N\$1.605m. The downward price pressure came from the luxury segment, where prices contracted by 13.1%. The middle price segment experience mild contraction of 0.2%. The downward price pressures are most evident in Windhoek, where year to date, property prices have contracted by 1.2%, while both Gobabis and Okahandja continue to post price increases of 12.0% and 10.3% respectively. Although volumes are on the increase, the medium to long term prognosis remains weak based on the dismal land delivery numbers.</p> |
|  <p style="text-align: center;">Coastal</p> | <p>Coastal property prices contracted by 5.6%, to bring the average house price to N\$1.098m. Price pressures could be felt across most price segments, with the luxury segment down 4.9%, upper price segment down 5.8% and the lower price segment down 4.7%, while the middle price segment somehow escaped the pressures, and posted 8.3% price growth. In Swakopmund and Walvis Bay, house prices fell by 12.0% and 6.3% respectively while Henties Bay bucked the trend with 6.5% house price growth. Mass housing and the aggressive land delivery continue to push prices lower as volumes soared 32.7% and climbing. With more affordable land in the pipeline, coastal property prices have nowhere to go but down, with price resistance expected around the N\$1.051 level.</p> |
|  <p style="text-align: center;">Northern</p> | <p>Northern property prices increased by 4.8%, to bring the average house price to N\$862k, and thus maintaining the upward trend. While property prices in the middle segment rose 19.4%, they had some support from both the lower and upper price segment, where prices rose 4.4% and 7.8% respectively. 9 out of 17 towns enjoyed higher property prices, and since volumes continue to increase (16.4% yoy), there is still demand to support further price increases as land delivery tapers. Therefore price may drift higher, with the next resistance level expected around the N\$940k mark.</p> |



Southern property prices contract by 6.2%, to bring the average house price to N\$643k. The contraction was due to price weakness in the middle price segment, where property prices contracted by 18.4%. Whilst the moderate improvement in the lower price segment of 3.5% helped to soften the fall. At these price levels, there is still limited demand, and therefore further declines can be expected, with land delivery receding, we prices to continue contracting towards the next support level, around the N\$550k mark. But since the volumes are already thin, caution must be taken when interpreting these figures.



Land delivery looks promising
 Land delivery remained elevated with 116 stands delivered nationwide. This has bought the cumulative land delivery 795 for the first seven months, and already surpassing the 10 year average. Further analysis shows that it's the northern and coastal property markets which continue to push land delivery higher, accounting for 85% of the new land delivery and all of the volume growth. Despite the higher land delivery, land prices continued to increase, with the July print 31.5% higher than a year ago. This has pushed the average cost of land to N\$780/m², symptomatic of the pervasive housing shortage. Residential land is most expensive in the central property market, where prices average N\$1036/m², followed by northern property market (N\$863/m²) and coastal property market (N\$774/m²). In these markets, a 300m² stand would cost anywhere between N\$232k and N\$310k, hardly affordable for a country with an average household income of N\$150k.

Conclusion

With economic growth stagnating, consumer confidence waning, increased affordable housing delivery, increased land delivery, rising interest rates, rising home ownership costs and the economy still shedding jobs, the stage is set for lower housing demand. We remain particularly concerned about price developments in the luxury price segment, where properties are selling well below valuations, and we would even argue below replacement costs. With these price pressures trickling down to the upper price segment, property is no longer the standout investment asset class it used to be. Additionally, the negative wealth effects amongst high net worth individuals, will prolong the economic recovery as the top 5% income earners account for 36% of National consumption, and as long as they are not spending, the Namibian economy will not grow and housing demand will remain weak.

We therefore expect house prices to shed 5.8% of their value in 2018, and to start seeing some price resistance in 2019, as housing becomes increasingly affordable to a select few. This will reduce the price contraction through 2019 to 1.2%, before turning positive in 2020, at which stage we believe property prices will have corrected and thus maintain inflation related price increases going forward.

APPENDIX: YEARLY AVERAGE HOUSE PRICES

| Town | 2014 | 2015 | 2016 | 2017 | 2018 | YTD | 3Yr | 5Yr |
|---------|---------|---------|---------|---------|---------|-------|--------|--------|
| Arandis | 494 000 | 456 000 | 532 000 | 640 000 | 947 000 | 48.0% | 107.7% | 216.7% |

| | | | | | | | | |
|----------------|----------------|------------------|------------------|------------------|------------------|--------------|-------------|--------------|
| Eenhana | 553 000 | 700 000 | 798 000 | 770 000 | 883 000 | 14.7% | 26.1% | 66.0% |
| Gobabis | 839 000 | 889 000 | 1 119 000 | 908 000 | 1 999 000 | 120.2% | 124.9% | 186.0% |
| Grootfontein | 647 000 | 736 000 | 645 000 | 812 000 | 767 000 | -5.5% | 4.2% | 37.2% |
| Helao Nafidi | 909 000 | 1 002 000 | 425 000 | 607 000 | 607 000 | 0.0% | -39.4% | 5.6% |
| Henties Bay | 929 000 | 1 115 000 | 1 103 000 | 1 190 000 | 1 141 000 | -4.1% | 2.3% | 34.1% |
| Katima Mulilo | 737 000 | 791 000 | 893 000 | 673 000 | 864 000 | 28.4% | 9.2% | 45.2% |
| Keetmanshoop | 610 000 | 863 000 | 632 000 | 686 000 | 897 000 | 30.8% | 3.9% | 78.0% |
| Luderitz | 509 000 | 584 000 | 829 000 | 811 000 | 869 000 | 7.2% | 48.8% | 64.9% |
| Mariental | 685 000 | 736 000 | 913 000 | 1 336 000 | 773 000 | -42.1% | 5.0% | 49.2% |
| Okahandja | 820 000 | 922 000 | 856 000 | 937 000 | 923 000 | -1.5% | 0.1% | 47.9% |
| Okahao | 492 000 | 491 000 | 611 000 | 568 000 | 787 000 | 38.6% | 60.3% | 68.9% |
| Omaruru | 954 000 | 767 000 | 1 092 000 | 1 111 000 | 840 000 | -24.4% | 9.5% | 49.5% |
| Omuthiya | 540 000 | 612 000 | 640 000 | 750 000 | 1 637 000 | 118.3% | 167.5% | 239.6% |
| Ondangwa | 683 000 | 720 000 | 836 000 | 910 000 | 938 000 | 3.1% | 30.3% | 70.2% |
| Ongwediva | 755 000 | 1 009 000 | 944 000 | 951 000 | 1 150 000 | 20.9% | 14.0% | 96.6% |
| Oshakati | 1 163 000 | 974 000 | 679 000 | 785 000 | 771 000 | -1.8% | -20.8% | 34.8% |
| Oshikuku | 569 000 | 580 000 | 634 000 | 635 000 | 719 000 | 13.2% | 24.0% | 34.9% |
| Otavi | 611 000 | 531 000 | 560 000 | 647 000 | 517 000 | -20.1% | -2.6% | -3.0% |
| Otjiwarongo | 825 000 | 967 000 | 1 021 000 | 1 069 000 | 1 062 000 | -0.7% | 9.8% | 32.3% |
| Outapi | 553 000 | 579 000 | 785 000 | 738 000 | 1 215 000 | 64.6% | 109.8% | 166.4% |
| Outjo | 739 000 | 925 000 | 928 000 | 809 000 | 540 000 | -33.3% | -41.6% | -28.5% |
| Ruacana | 855 000 | 898 000 | 968 000 | 875 000 | 789 000 | -9.8% | -12.1% | 11.6% |
| Rundu | 630 000 | 684 000 | 780 000 | 727 000 | 739 000 | 1.7% | 8.0% | 57.9% |
| Swakopmund | 993 000 | 1 096 000 | 1 334 000 | 1 348 000 | 1 161 000 | -13.9% | 5.9% | 13.9% |
| Tsumeb | 750 000 | 966 000 | 1 162 000 | 1 222 000 | 1 089 000 | -10.9% | 12.7% | 47.0% |
| Usakos | 427 000 | 657 000 | 445 000 | 617 000 | 660 000 | 7.0% | 0.5% | -7.7% |
| Walvis Bay | 1 042 000 | 992 000 | 1 156 000 | 1 079 000 | 916 000 | -15.1% | -7.7% | 7.3% |
| Windhoek | 1 209 000 | 1 440 000 | 1 514 000 | 1 614 000 | 1 556 000 | -3.6% | 8.1% | 35.1% |
| Namibia | 972 000 | 1 110 000 | 1 151 000 | 1 187 000 | 1 159 000 | -2.4% | 4.4% | 29.5% |

Methodology

This report is based on bonds registered in the names of natural persons at the Deeds Office and as such excludes all bonds registered in the names of juristic persons such as Close Corporations, Private Companies and Trusts. Rehoboth properties (Rehoboth has its own Deeds Office), farms, properties over 100,000m² and properties in industrial areas, are excluded, as these may not always be residential properties. Outliers below N\$100,000 (2007 prices adjusted annually) are also excluded, along with further bonds (second, third, fourth, etc. bonds over the same properties). Exclusions were rigorously tested using existing data, to filter out as much noise as possible. Cash transactions are too, excluded due to a lack of data. Sectional bonds have been excluded into the housing index.

Bond values are used as a proxy for house prices, since there are no consistent records for house prices in Namibia and therefore prices shown should only be used as a general guide to property values. These values are aggregated by way of the mean value as the central measure of tendency to resist the fluctuation between different prices. Average house prices are smoothed using a twelve month moving average, with the national value computed as a weighted average of regional prices. Whilst the information provided has been obtained from a credible source, the values quoted are indicative, and past performance should not be taken as a guarantee of future performance.

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