

FNB Residential

Property Report



First Quarter 2020

KEY HIGHLIGHTS

- House Price Index was down 5.9% from the first quarter of 2019 to the first quarter of 2020
- Volume index growth in the northern region, outperforms - registered an astounding growth of 26.8% y/y
- National average property price is now recorded at N\$ 1 038 577
- Overall delivery of serviced land improved by 44% y/y at the end of March 2020 compared to 3% recorded a year ago

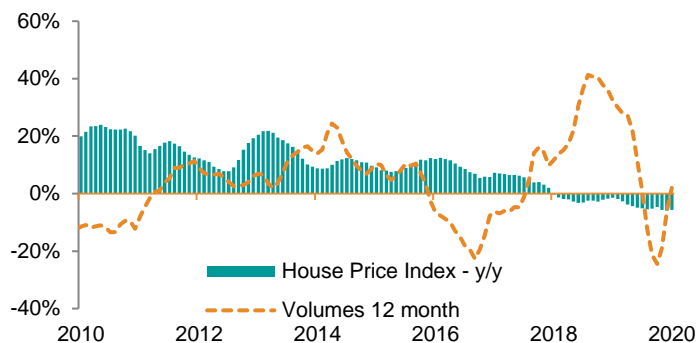
REGIONAL SNAPSHOTS

Central	N\$1 353 000	▲	8.2%
Coastal	N\$1 119 000	▲	7.2%
Northern	N\$749 000	▼	-18.7%
Southern	N\$811 000	▼	-13.6%

FNB HOUSING SEGMENTS

Small	N\$0.5mn to N\$1.5mn
Medium	N\$1.5mn to N\$3.4mn
Large	N\$3.4mn to N\$6.5mn
Luxury	N\$6.5mn and higher

Figure 1: FNB House Price Index (Prices and Volumes)



First quarter house prices tumble further

The FNB House Price Index posted a contraction of 5.9% y/y at the end of March 2020 compared to a contraction of 1.5% recorded over the same period of 2019. This brought the average national house price to a 5-year record low of N\$1 038 577 as at March 2020. Although overall house prices in the central and coastal regions have remained buoyant, registering growth of 8.2% y/y and 7.2% y/y over the first quarter respectively, this was overshadowed by steep contractions of 18.7% y/y and 13.6% y/y recorded in the northern and southern regions respectively. House price contractions in the northern and southern regions were observed in the small housing segment, while the small and medium housing segments were responsible for price growth in the central and coastal regions. While we continue to view affordability of houses in the large and luxury segments as a stumbling issue, we see deferment in buying decisions in anticipation of a further drop in prices and an improvement in the delivery of land as some of the themes shaping the outlook for the residential property market.

The overall volume index also rebounded significantly by 2.0% y/y from -24.4% y/y in the prior quarter. However, this remains much lower than the 37.9% y/y growth recorded over the same period of 2019. We view the increasing concentration of transaction volumes in the small and medium segments and the emerging inverse relationship between overall price and volume growth as indicative of properties selling at prices below valuation.

Frans Uusiku

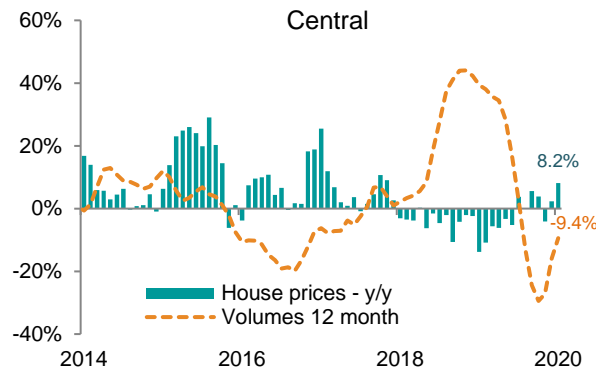
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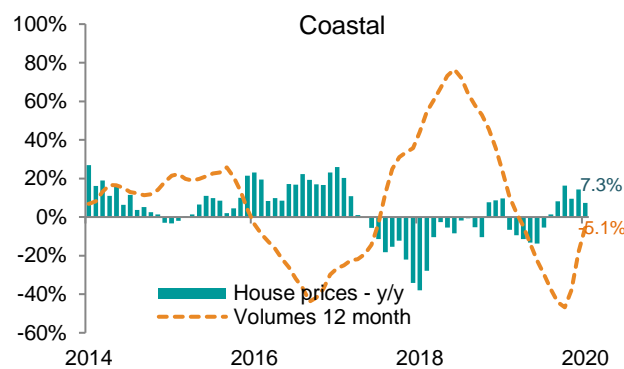
Figure 2: Central property prices sustained growth



Central residential property prices grew by 8.2% y/y in the first quarter of 2020 compared to a contraction of 13.8% y/y recorded over the same period of 2019. A house in the central region is now priced at N\$1 353 000. On a 12-month rolling average, a house in Windhoek is now priced at N\$1.2m, having contracted by 0.4% q/q and 15.9% y/y. Alongside, a house in Okahandja and Gobabis is now priced at N\$709K and N\$679K, respectively.

Demand in the central region has rebounded albeit at a slow pace, with the volume index showing a contraction of 9.4% y/y in 1Q2020 compared to a contraction of 15.9% y/y in the prior quarter and growth of 39.4% y/y in 1Q2019. This was largely driven by the medium segment which registered a volume index growth of 8.2% y/y compared to a contraction of 40.0% recorded in the prior quarter and 10.0% y/y over the same period of 2019. Meanwhile, demand in the small, large and luxury housing segments underperformed, posting contractions of 10.7%, 0.1% and 2.1% y/y, respectively.

Figure 3: Coastal property prices improves

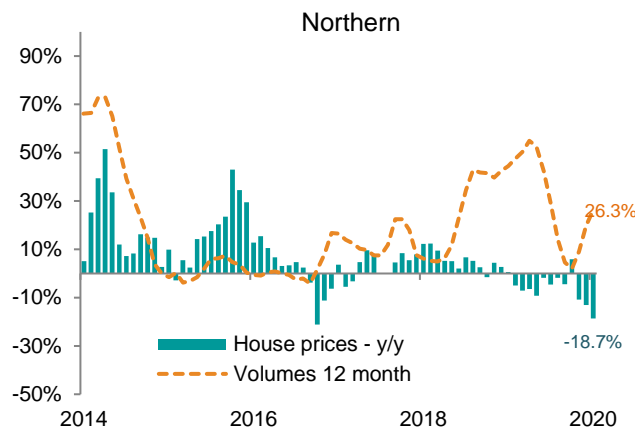


The coastal region recorded house price growth of 7.3% y/y in the first quarter of 2020 compared to 9.7% y/y recorded a year ago. The average house price in the coastal region is now recorded at N\$1 119 000. Although overall property prices in this region remains in positive territory, the average annual house prices in Swakopmund and Walvis Bay have been on a downward slope, with the first quarter price recorded at N\$790k, N\$740K compared to N\$1.1M and N\$879K recorded over the same period in 2019, respectively.

As observed in the central region, the medium housing segment has sustained overall price growth in the coastal region, advancing a 5-year record growth of 25.6% y/y in the volumes. Anecdotally, this is indicative of home owners opting to sell their properties at prices below valuation as demand dwindles against the backdrop of a depressed economy.

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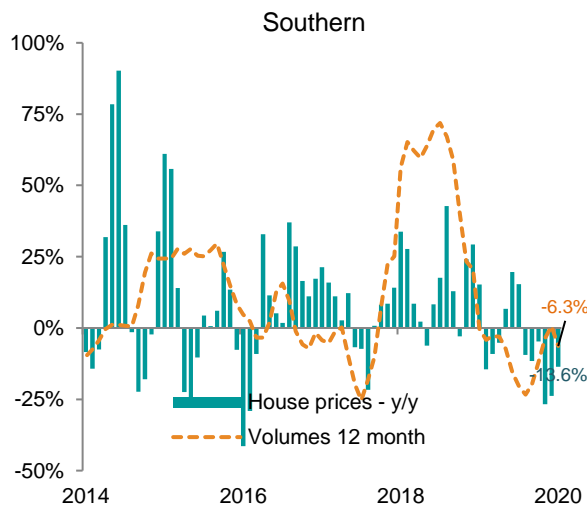
Figure 4: Northern transaction volume growth rebound



Northern house prices have continued to weaken, posting a 4-year record contraction of 18.7% y/y at the end of March 2020. The average house price in the Northern regions is now at N\$749K. The significant drop in prices were more evident in Ongwediva, Oshakati and Ondangwa, which contracted by 15.8%, 15.0% and 8.2% y/y, respectively.

Although demand in the northern region seems to have fallen off the cliff as of mid-2019, this has since been reversed at the start of 2020. In effect, the volume index grew by 26.3% y/y. This is the only region that has registered growth in trading volumes. This was nonetheless accounted for by the small housing segment, which recorded a staggering growth of 36.8% y/y and making up about 65% of overall transaction volumes in this region. Hence, the net effects on overall price growth continue to disappoint on the downside. The large housing segment also registered a sizeable growth of 14.2% y/y in volumes traded. However, this segment constitutes only a very small fraction (3%) of overall transactions recorded in this region. Conversely, transaction volumes recorded under the medium and luxury housing segments contracted further by 33.1% and 50.0% y/y, respectively – a trend that has sprawled out since mid-2019.

Figure 5: Southern prices and volumes contract

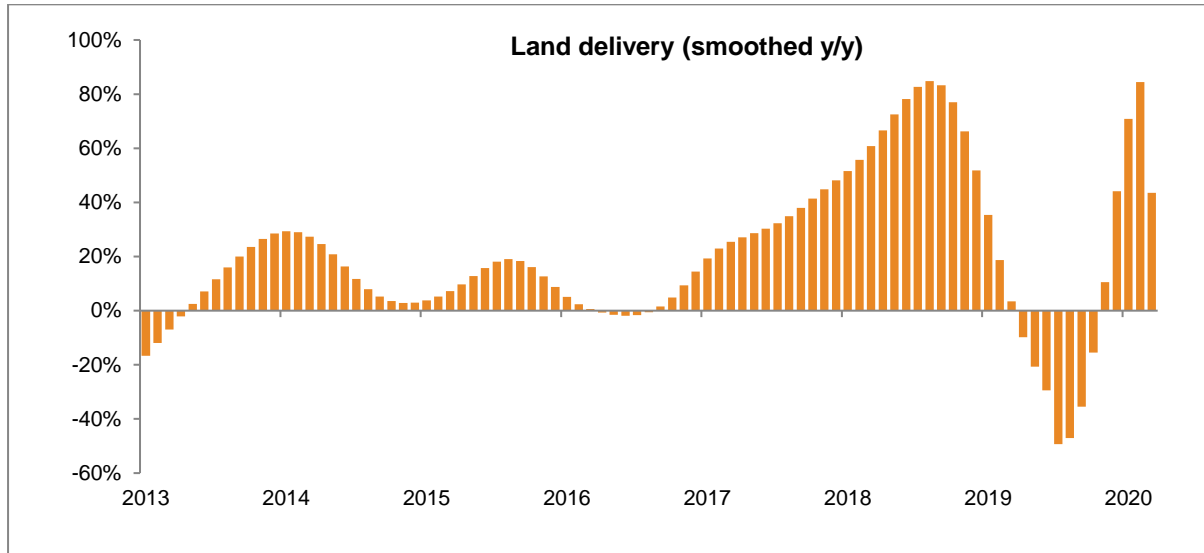


The southern region which is predominantly characterized by the small housing segment recorded a contraction in house prices of 13.6% y/y compared to a growth of 15.9% y/y recorded a year ago. The observed large variations in price and volume growth over the years in this region appears to signify a slow pace of development and minimal trading activity in the region. In effect, the southern index posted a contraction of 6.3% y/y at the end of March 2020 compared to a contraction of 0.3% y/y recorded over the same period of 2019. However, given the notable acceleration of land delivery in the region (see Appendix B), the southern residential property market may be poised for advancement when viewed from a long-term perspective.

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Land Delivery

The number of ervens made available in urban areas have improved drastically over the first quarter across all the regions (see appendix B), with overall growth in trading activity increasing by 44% y/y at the end of March 2020 compared to 3% y/y realised as at March 2019.



While we view the current monetary policy environment as accommodative as far as easing financial pressure on existing mortgage bond holders is concerned, this may not be sufficient to effectively address the affordability and housing backlog in the country. In essence, this will likely drag the already indebted households into unsustainable debts under the current economic and property market conditions. Further acceleration of land delivery, therefore, remains a critical policy imperative in bringing about stability in the market.

Conclusion

The flurry of trading activity in the small and medium housing segments is becoming a new normal in the Namibian residential property market. This could be ascribed to affordability issues and inherent high levels of income inequality that are compounded by a smaller population. Henceforth, whether property investment is still regarded as Safe Haven in the context of current economic conditions is becoming a recurring theme. The outlook for property prices looks bleak from a market perspective as widespread job losses and income uncertainty induced by COVID-19 do not bode well for demand. Although data contained within this report is unlikely to reflect the economic impact of COVID-19, second quarter activity will likely print lower home sales figures, which may exert further downward pressure on price growth. This is because of sales cancellations experienced due to lockdown and subsequent closure of the Deeds Office in April. Furthermore, the notable improvement in land delivery for housing is poised to keep residential property prices at bay as potential new house owners sees a penetrative market opportunity through purchasing of land.

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APPENDIX A: ANNUAL AVERAGE HOUSE PRICES (N\$)

TOWNS	1Q2019	4Q2019	1Q2020	Q/Q Growth	Y/Y Growth
Arandis	435000	426000	416000	-2.3%	-4.4%
Eenhana	935 000	717 000	717 000	0.0%	-23.3%
Gobabis	930 000	742 000	699 000	-5.8%	-24.8%
Grootfontein	1 092 000	600 000	611 000	1.8%	-44.0%
Henties Bay	801 000	716 000	759 000	6.0%	-5.2%
Katima Mulilo	737 000	604 000	604 000	0.0%	-18.0%
Keetmanshoop	651 000	665 000	679 000	2.1%	4.3%
Luderitz	745 000	583 000	583 000	0.0%	-21.7%
Mariental	705 000	671 000	704 000	4.9%	-0.1%
Okahandja	849 000	832 000	806 000	-3.1%	-5.1%
Omuthiya	605 000	660 000	871 000	32.0%	44.0%
Okahao		607 000	1 207 000	98.8%	
Omaruru	549 000	498 000	579 000	16.3%	5.5%
Ondangwa	821 000	757 000	754 000	-0.4%	-8.2%
Ongwediva	924 000	824 000	778 000	-5.6%	-15.8%
Oshakati	812 000	686 000	690 000	0.6%	-15.0%
Oshikuku	743 000	586 000	586 000	0.0%	-21.1%
Otjiwarongo	947 000	791 000	805 000	1.8%	-15.0%
Opuwo		494 000	571 000		15.6%
Outapi	864 000	658 000	658 000	0.0%	-23.8%
Outjo	533 000	1 272 000	805 000	-36.7%	51.0%
Raucana	453 000	426 000	349 000	-18.1%	-23.0%
Rundu	848 000	677 000	677 000	0.0%	-20.2%
Swakopmund	1 111 000	813 000	779 000	-4.2%	-29.9%
Tsumeb	936 000	901 000	924 000	2.6%	-1.3%
Walvis Bay	897 000	746 000	740 000	-0.8%	-17.5%
Windhoek	1 420 000	1 209 000	1 156 000	-4.4%	-18.6%
NAMIBIA	1 071 317	1 154 468	1 038 577	-10.0%	-3.1%

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APPENDIX B: REGIONAL DELIVERY OF SERVICED LAND

Figure 6: Central land delivery (smoothened y/y)

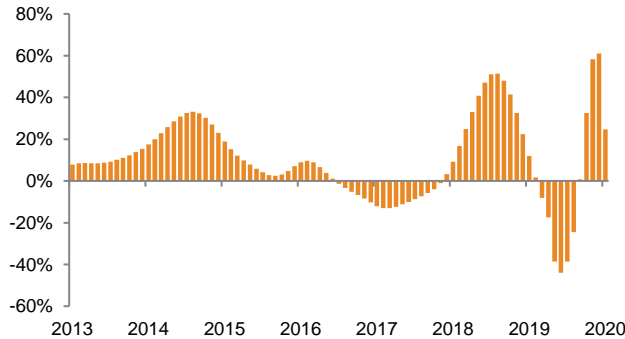


Figure 7: Coastal land delivery (smoothened y/y)

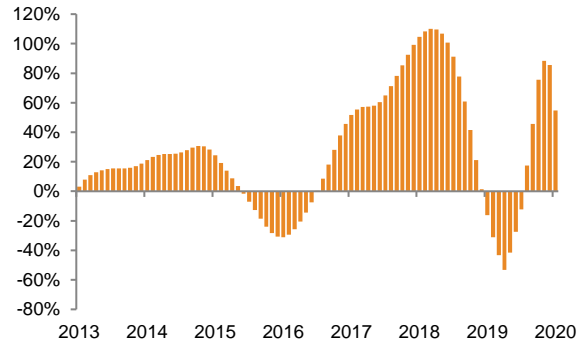


Figure 8: Northern land delivery (smoothened y/y)

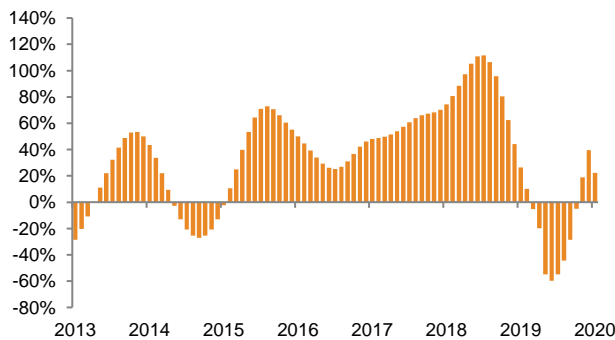
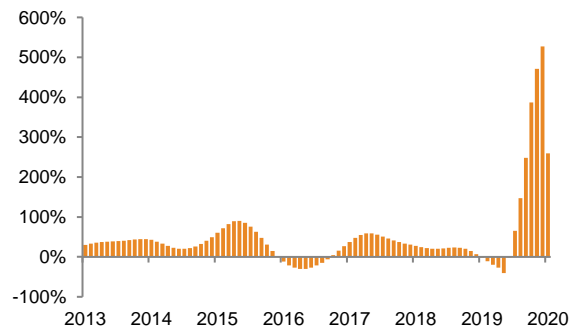


Figure 9: Southern land delivery (smoothened y/y)



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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