FNB Rental
Index Report

FNB

Second Quarter 2020

HIGHLIGHTS

- National weighted average rent moderated downwards to N$7022 at the end of June 2020 from N$7404 in June 2019
- Average rent prices in the 2-bedroom and more than 3 bedrooms segments grew by 0.8% and 4.4% y/y respectively
- The deposit to rent ratio deteriorated further to a new record low of 5.5% - last seen in December 2009
- Average rental yields slowed to 7.9% at the end of June 2020 from 8.2% recorded 12 months ago

FNB'S RENTAL INDEX SEGMENTS

1-bedroom	**N$3 557**	▼	**-1.6% y/y**
2-bedroom	**N$6 903**	▲	**0.8% y/y**
3-bedroom	**N$9 419**	▼	**-0.3% y/y**
More than 3 bedrooms	**N$19 034**	▲	**4.4% y/y**

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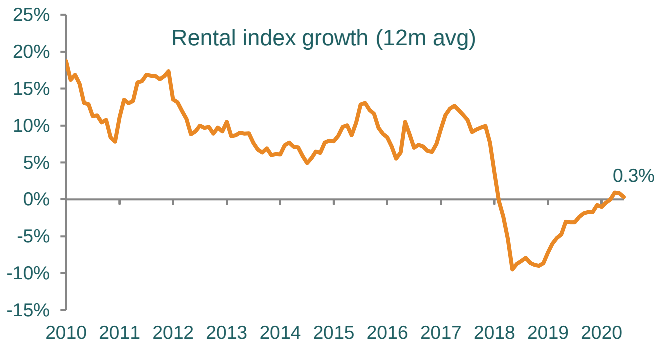
Figure 1: Rental index growth



Rent prices staggers in the wake of COVID-19

Namibia has seen an unprecedent spike in the number of new COVID-19 cases over the last three months - signaling that the worst economic effects of the pandemic are yet to come. This economic weakness is reflected in our rental data. The FNB Rental Index posted a 12-month average growth of 0.3% y/y at the end of June 2020 after the short-lived growth momentum of 0.9% and 0.8% y/y seen in April and May 2020 respectively. This brought the national weighted average rent price to N$7022 at the end of June 2020 from N$7404 in June 2019. While the rental index growth of 0.3% may seem robust by annual comparison – recorded at -3.1% in June 2019, the national rent price is the lowest ever recorded in five years over the corresponding periods. This is reflective of the financial hardship and shifting housing preferences being imposed by the pandemic. In effect, rent prices for the 2-bedroom and "more than 3-bedrooms" segments increased by 0.8% and 4.4% y/y, respectively at the end of June 2020 – pointing to improved rental opportunities in these markets. Conversely, the 1-bedroom and 3-bedroom segments witnessed a contraction in rent prices of 1.6% and 0.3% y/y respectively, on the back of weak tenancy demand.

The mounting economic consequences of the pandemic appear to force many households to seek more affordable housing options, while property owners are beginning to respond to these new realities by offering low prices in order to fill vacancies. In earnest, prices are responding much more rapidly in the parts of the country most heavily impacted by COVID-19. Walvis Bay saw the biggest contraction in rent prices of 29.6% y/y, followed by Ondangwa (-27.4% y/y), Rundu (-25.5% y/y), Oshakati (-15.5% y/y), Ongwediva (-5.7% y/y) and Windhoek (-3.4% y/y). The biggest gainers were Katima Mulilo with 10.0% y/y growth in rent prices followed by Okahandja (8.0% y/y) and Swakopmud (1.3% y/y) (Appendix A).

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Rental breakdown

Rental advertisement volumes contracted in the second quarter by 46.6% q/q and 48.6% y/y to 2824 units. The demand and supply dynamics in the 2-bedroom and more than 3-bedrooms rental segments seem to have fared out well as reflected by a more uniform representation in advertisement volumes over time (Figure 3). This observation is further justified by the fact that these are the only segments that have consistently maintained positive price growth overtime due to relative affordability and their agility to cater for a broader market class (Figure 2).

Figure 2: Rental growth by segment (12m Avg)

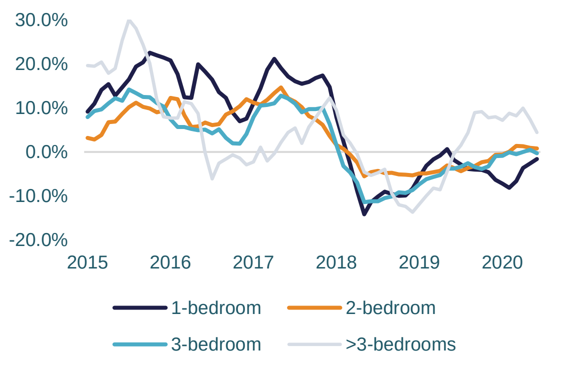
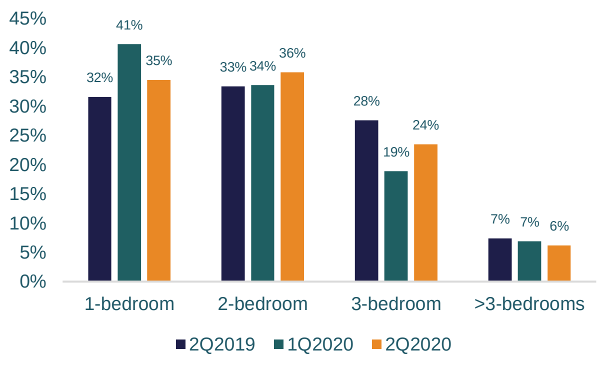


Figure 3: Share of advertisement volumes per segment



Deposit to rent ratio

Overall deposits charged by landlords contracted by 30.6% y/y at the end of June 2020 compared to a contraction of 25.6% 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 44.8% and 35.4% y/y respectively, compared to contractions of 28.0% and 3.6% y/y realized a year ago. This once again affirms the growing participation of rental activity in these segments as landlords continue to grapple with occupancy issues. As a result, the deposit to rent ratio deteriorated further to new record low of 5.5% - last seen in December 2009 (Figure 4).

Figure 4: Deposit to rent ratio

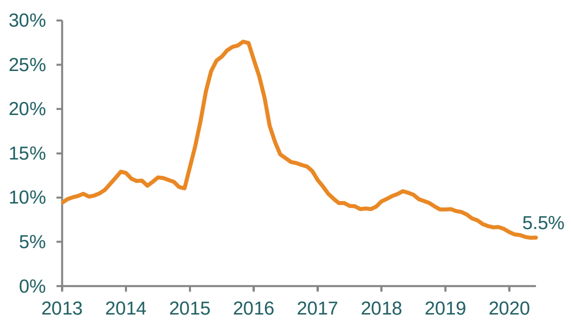
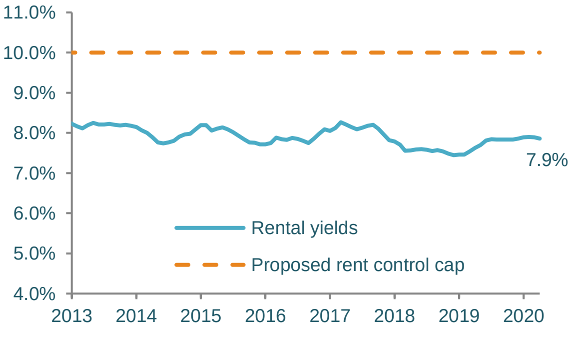


Figure 5: Rental yields



Rental yields

Rental yields slowed to 7.9% at the end of June 2020 from 8.2% recorded 12 months ago. As a generally accepted norm, a rental yield of 7% and more is considered good enough for long term sustainability of the rental market. This implies that the rental yield of 7.9% remains attractive despite the challenging business environment induced by the COVID-19 pandemic. Although weak tenancy demand and elevated house prices in the middle to high-end market segments present a downside risk for the stability in rental yields, interest rates on mortgages are currently at historic lows, which could provide some cashflow respite to landlords.

Conclusion

The halt in normal rental activity by about 49% witnessed over the second quarter was foreseeable as COVID-19 related job losses had a direct material impact on the rental market. While we do not see any significant rent reductions at the national level yet, rents have declined rapidly in the most heavily impacted towns such as Walvis Bay and the northern towns.

Looking ahead, the impact of COVID-19 on rent prices should further be seen through two lenses. Firstly; how soon the COVID-19 cure is found and secondly; how quickly the economy is able to recover. In the event of a more drawn-out economic recovery, which is very likely, we may see a slowdown in new household formation and a shift towards a multifamily renting culture to save on housing costs. These dynamics could also mean that competition will remain tight for rental units at the middle and lower ends of the market, while luxury vacancies may become harder to fill. Furthermore, as the culture of remote work gains traction, we could also start to see a switch in residential preference - away from inner-city locations towards more affordable suburbs.

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 FNBs 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.

APPENDIX A: AVERAGE RENT (N$) (12M AVG)

Towns	2Q2019	1Q2020	2Q2020	Q/Q Growth	Y/Y Growth
Arandis	-	4 500	4 500	0.0%	-
Gobabis	-	6 000	6 000	0.0%	-
Henties Bay	-	5 500	5 500	0.0%	-
Katima Mulilo	5 000	5 500	5 500	0.0%	10.0%
Keetmanshoop	4 500	-	-	-	-
Kransneus	-	15 000	15 000	0.0%	-
Okahandja	5 000	5 350	5 400	0.9%	8.0%
Omuthiya	1 500	1 500	-	-	0.0%
Ondangwa	4 750	4 200	3 450	-17.9%	-27.4%
Ongwediva	5 300	4 950	5 000	1.0%	-5.7%
Oshakati	4 750	4 300	4 000	-7.0%	-15.8%
Oshikango	6 500	-	-	-	-
Otjiwarongo	3 800	5 300	-	-	-
Outapi	-	1 800	2 700	50.0%	-
Rehoboth	4 000	3 650	3 800	4.1%	-5.0%
Rundu	5 100	3 800	3 800	0.0%	-25.5%
Swakopmund	7 700	8 250	7 800	-5.5%	1.3%
Tsumeb	2 950	6 500	6 000	-7.7%	103.4%
Usakos	5 250	-	-	-	-
Walvis Bay	7 600	6 550	5 350	-18.3%	-29.6%
Windhoek	7 250	7 100	7 000	-1.4%	-3.4%