PROPERTY BAROMETER

FNB HOME BUYING ESTATE AGENT SURVEY – RAND AREA

The FNB Estate Agent Survey supports what our house price indices tell us, i.e. that Namibia's residential market remains the strong point in the Rand Area. Not surprising, after years of superior economic growth.

22 September 2015

FNB HOME LOANS: MARKET ANALYTICS AND SCENARIO FORECASTING UNIT

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KEY POINTS

The Namibian residential market remains stronger overall than South Africa's. This not only comes through in the FNB House Price Index inflation rates, but also in the new FNB Namibia Estate Agent Survey.

This superior performance is to be expected, given Namibia's superior economic growth performance for some years. A significantly higher estimated level of foreigner residential buying in Namibia, compared to South Africa, also suggests greater confidence in that country's longer term future.

- *In the 3rd quarter 2015 survey, The Residential Activity Rating (scale of 1 to 10) for Namibia was 6.4, which was mildly higher than South Africa's 6.14.*
- *However, it is a "tale of 2 regions, with Windhoek recording a very high 7.07 Residential Activity Rating, the highest of all the major regions surveyed in the CMA (Rand Area), while Swakopmund/Walvis Bay recorded a lowly 5.73.*
- *The survey appears to confirm the noises regarding a lack of supply in Namibia. 43% of Namibian survey respondents point to "stock shortages" as an issue influencing their near term expectations. In SA this far lower at 17%.*
- *One indicator of seller pricing realism, or of the balance between demand and supply, is the estimated average time that properties remain on the market prior to sale. Windhoek has one of the lowest estimated average times on the market, to the tune of 9.14 weeks. The Swakopmund/Walvis Bay region, by contrast returned an extremely long 30.57 weeks.*
- *Namibian agents on average perceive homes to be less affordable than those in SA. This may be reflected in 1st time buying levels, with 1st time buyers on average being more financially limited than older repeat home buyers. Whereas SA's agents estimated 25% of home buyers to be 1st time buyers, Namibia's agents estimated a far lower 11%.*
- *Also a noticeable feature of the Namibian residential market is a high level of buy-to-let buying compared to South Africa. Whereas SA's buy-to-let level of buying as a percentage of total home buying was estimated at 8% in the 3rd quarter, Namibia's was a massive 24%.*
- *Namibia's strong residential market arguably reflects Namibia's superior economic growth performance within the Rand Area, as well as greater confidence in Namibia's long term future. This confidence is probably best reflected in the estimated level of foreigner buying of residential property. Whereas South Africa's foreign buying level as a percentage of total home buying generally hovers in single digits, estimated at 5% in the 3rd quarter, Namibia recorded a far higher 16%.*

EXECUTIVE SUMMARY – NAMIBIA ROCKS

For the 1st time, in the 3rd quarter of 2015, the FNB Estate Agent Survey has been expanded into Namibia's major inland and coastal urban regions, namely Windhoek and Swakopmund/Walvis Bay. This now enables us to cover the major regions of the Common Monetary Area (CMA).

The inaugural Namibia survey is supportive of our FNB House Price Index trends, which have for some years told us that Namibia's residential market is stronger than that of South Africa.

This superior performance is to be expected, given Namibia's superior economic growth performance for some years. Even after a multi-year slowing in Namibian Real Economic Growth in recent years, its 2014 rate of 4.5% was significantly higher than South Africa's 1.5%.

However, the survey does tell us that this is not a "blanket strength", but currently very much about strength in Windoek. The coastal Swakopmund/Walvis Bay market by comparison appears to have hit a relatively weak patch, although we will have to see how much of this weakness is due to Winter seasonality, which can impact the more holiday property-driven markets harder.

In the 3rd quarter 2015 survey, The Residential Activity Rating (scale of 1 to 10) for Namibia was 6.4, which was mildly higher than South Africa's 6.14. However, splitting it up into regions, Windhoek recorded a very high 7.07, the highest Activity Rating of all the major regions surveyed in the CMA (Rand Area), while Swakopmund/Walvis Bay recorded a lowly 5.73.

The survey appears to confirm the noises regarding a lack of supply in Namibia that we have heard for some years. It is difficult to gauge the strength of supply of residential stock through asking survey respondents for their opinion. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way. 43% of Namibian survey respondents point to "stock shortages" as an issue influencing their near term expectations. In South Africa this figure is a far lower 17%.

One indicator of seller pricing realism, or of the balance between demand and supply, is the estimated average time that properties remain on the market prior to sale. If demand is indeed slowing, and supply constraints being alleviated, one would expect that ultimately the average time of homes on the market would increase, and vice versa. It is thus not surprising that Windhoek has one of the lowest estimated average times on the market, to the tune of 9.14 weeks. The Swakopmund/Walvis Bay region, by contrast returned an extremely long 30.57 weeks.

Also unsurprising, given far stronger house price growth in Namibia, compared to SA, in recent years, Namibian agents on average perceive homes to be less affordable than those in SA. This may be reflected in 1st time buying levels, with 1st time buyers on average being more financially limited than older repeat home buyers. Whereas SA's agents estimated 25% of home buyers to be 1st time buyers, Namibia's agents estimated a far lower 11%.

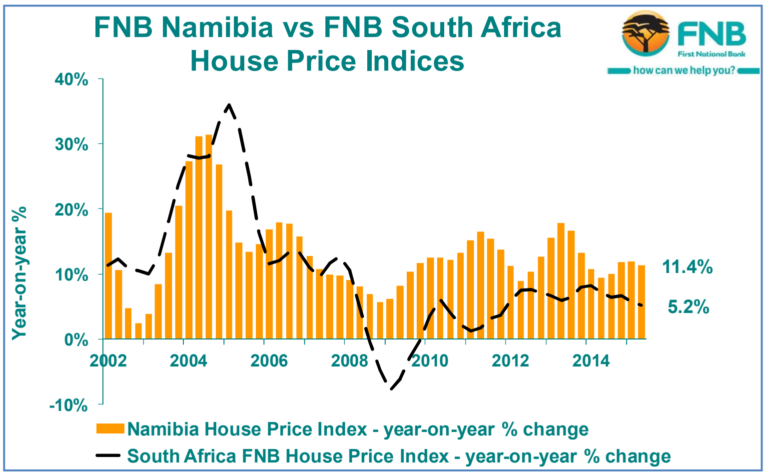
Also a noticeable feature of the Namibian residential market is a high level of buy-to-let buying compared to South Africa. Whereas SA's buy-to-let level of buying as a percentage of total home buying was estimated at 8% in the 3rd quarter, Namibia's was a massive 24%.

Admittedly, rental demand may well be very strong, given low levels of 1st time buying in a very expensive home buying market. This could conceivably make buy-to-let investment lucrative from a rental income stream point of view. However, there exists a risk of "over-investment", because there is normally a significant portion of buy-to-let buyers that are lured by recent years of strong capital growth, and not by income stream. They often have the "flawed" expectation that such strong price growth will continue indefinitely into the future. Such buy-to-let demand can compress yields to "inappropriately" low levels. A high level of buy-to-let buying can thus possibly point to "over-exuberance", and can lead to market overshoots.

But while a strong residential market will probably not be without its challenges, including the affordability challenge, and the possibility of "over-exuberance" and market "overshoots", it does reflect Namibia's superior economic growth performance within the Rand Area, as well as arguably greater confidence in Namibia's long term future. This confidence is probably best reflected in the estimated level of foreigner buying of residential property. Whereas South Africa's foreign buying level as a percentage of total home buying generally hovers in single digits, estimated at 5% in the most recent survey, Namibia recorded a far higher 16% estimate.

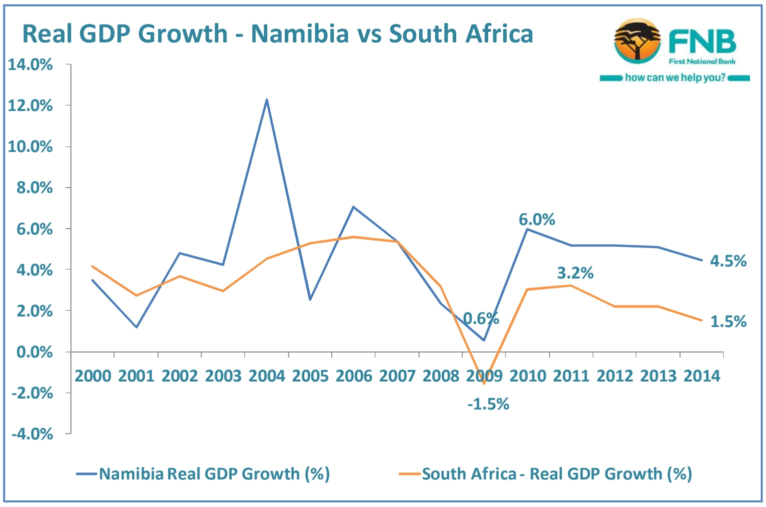
NAMIBIA FOCUS– THE STRONG PERFORMER OF THE RAND AREA'S MAJOR REGIONS IN RECENT YEARS

Since the end of the big property boom years prior to the 2008 recession, Namibia's housing market has outperformed South Africa's market by a considerable margin. Like South Africa, Namibia's house price inflation, according to our own measure, has never again reached that 3rd quarter 2004 year-on-year peak of 31.4%, but is has regularly been inflating at double-digit rates, and has consistently inflated above South Africa's house price inflation rate since early-2008.



This has meant that, since the 1st quarter of 2001 until the 2nd quarter of 2015, the FNB Namibian House Price Index has inflated by an incredible 559%, compared to the FNB South Africa House Price Index's 276.9%.

And as at the 2nd quarter 2014, Namibia's year-on-year house price inflation of 11.4% was still "out-inflating" South Africa's 5.2%.



While the rate of inflation scares some and has led to questions regarding the formation of a price "bubble", it is not entirely surprising, given Namibia's ability to achieve superior levels of Fixed Investment-to-GDP compared to SA, which has helped it to record noticeably faster economic growth than the "ailing" South African economy since 2008..

This doesn't exempt Namibia from the effects of the global and South African economic cycle. South Africa is its largest trading partner, and being part of the Rand area means that its interest rates move similarly to South Africa, and that means "up" as of late. In addition, the country is strongly dependent on commodity exports, and those have fallen sharply since 2011, with China's slowdown not helping.

So, after a post-"Crisis" GDP (Gross Domestic Product) growth peak of 6% in 2010, Namibia's economic growth has gradually slowed to a still healthy 4.5% in 2014, and started 2015 with a 3.3% year-on-year growth rate in the 1st quarter.

But these growth rates are still superior to South Africa's. In addition, we have heard of severe land supply constraints around some of the major centres, most notably the major residential market of Windhoek. The combination of relatively solid economic growth and land supply constraints should largely explain superior house price growth performance compared to South Africa.

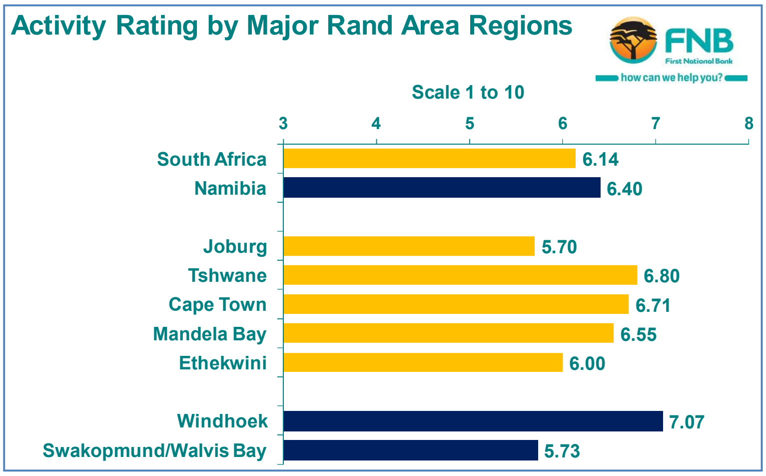
Important, though, is to begin to obtain more detailed insights into the market by means of surveys of industry players such as estate agents. These surveys can be very useful in providing insights into the "market moods", mounting affordability constraints, or "over-exuberance" which can lead to market "overshoots"

To this effect, we have extended our FNB Estate Agent Survey to the 2 major economic regions of Namibia, namely Windhoek and Swakopmund/Walvis Bay, for the 1st time, in the 3rd quarter of 2015. The 1st survey results suggest that the Namibian "boom" is not currently an "across the board" one. Rather, it seems to be a "tale of 2 markets", Swakopmund/Walvis Bay showing signs of weakness, but Windhoek still very much on fire.

NAMIBIA, A TALE OF 2 MARKETS

The FNB Estate Agent Survey is of a sample of estate agents predominantly in South Africa's major metros, and more recently of Namibia's 2 major urban regions. We must emphasise that, when zooming in on individual regions, we prefer to boost sample size by analyzing data on a 2-quarter average basis. However, this is the 1st Namibian survey, so only one data point is available for the time being. One needs to bear this in mind when viewing the results of each region. We believe, nevertheless, that the initial Namibian results are insightful.

The 1st question asked to agents is with regard to their perceptions of residential market activity in their areas, a subjective question on a scale of 1 to 10, with 10 being the strongest level of activity.



The 3rd Quarter Residential Activity Indicator for South Africa was 6.14, while the Namibian Indicator was mildly higher at 6.4. But the contrast between Namibia's 2 major residential markets is noticeable. Whereas Swakopmund/Walvis Bay returned a lowly 5.73, Windhoek remains "on fire", returning a rating of 7.07, higher than any of the major Rand Area regions surveyed.

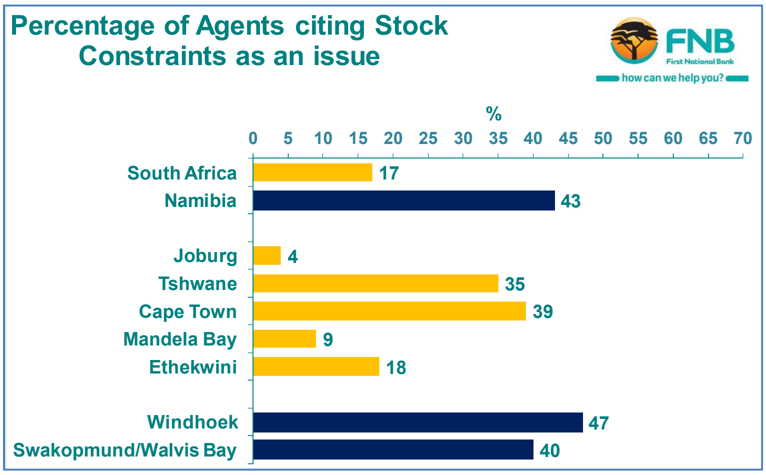
Whereas the Activity Indicator levels of all of the major Rand Area regions were in the "stable" bracket (a level from 4 to 6), Windhoek finds itself in the "Positive" bracket of 7 to 8. The 2 other rating brackets are the "not very active (1 to 3), and "very active (9 to 10).

The Tshwane Activity Rating of 6.8 was the very nearest a South African region came to Windhoek, followed by Cape Town's 6.71.

Important, though, is to wait and see as to how much of the Swakopmund/Walvis Bay Coastal Region's apparent weakness is seasonal. It is a strongly (but not only) holiday driven market, and that can mean that winter months can see more of a dip than the nation's capital of Windhoek.

RESIDENTIAL SUPPLY CHALLENGES DO INDEED "PLAGUE" NAMIBIA

Our 1st Namibian Estate Agent Survey appears to confirm the noises regarding a lack of supply that we have heard for some years. It is difficult to gauge the strength of supply of residential stock through asking survey respondents for their opinion. But when asking agents about their market expectations in the near term, we allow them to provide a list of factors that influence their expectations, both in a positive and a negative way



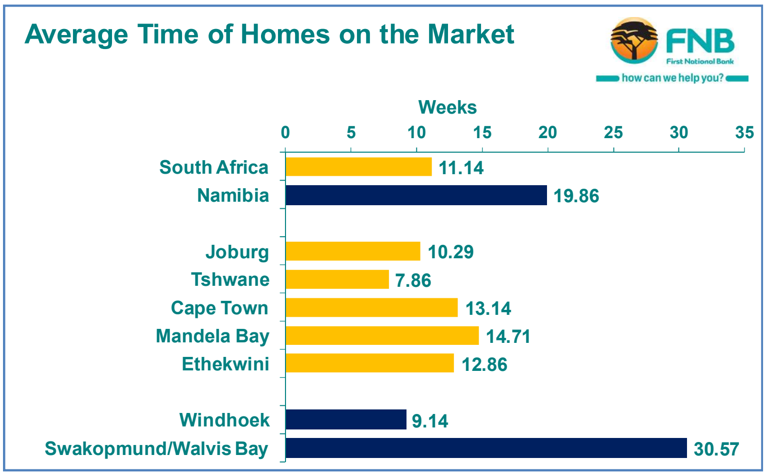
43% of Namibian survey respondents point to "stock shortages" as an issue influencing their near term expectations. In South Africa this percentage is 17%. Despite an apparently slow Coastal market, still 40% of respondents point to the existence of residential stock constraints, not far less than the 47% in Windhoek. Once again, it is the Cape Town (39%) and Tshwane (35%) that are the 2 SA markets not far behind Namibia on this score.

A complaint has long been that Namibian local councils have not been making land available fast enough for the development needed. While we are not clear on whether they do this at the *same pace as South Africa's councils, the reality is that, given Namibia's faster longer term economic, and thus household income, growth, councils would probably have to make land available at a significantly faster rate than SA.*

While residential supply shortages are great for investor returns, slow growth in new supply can ultimately have a negative impact on economic growth, because formal housing can be very supportive of human development.

ON AVERAGE TIME ON THE MARKET, WINDHOEK WAS NOT QUITE TOPS, BUT CLOSE

One indicator of seller pricing realism, or of the balance between demand and supply, is the estimated average time that properties remain on the market prior to sale. If demand is indeed slowing, and supply constraints being alleviated, one would expect that ultimately the average time of homes on the market would increase, and vice versa.

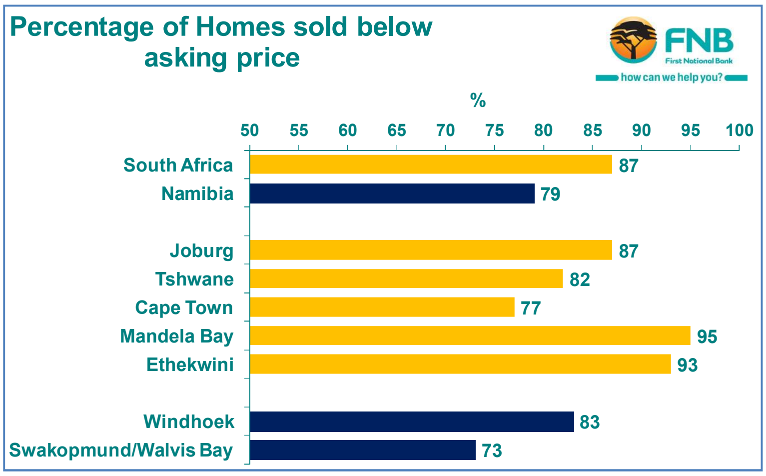


It is thus not surprising that Windhoek has one of the lowest estimated average times on the market, to the tune of 9.14 weeks. Tshwane, however, had the lowest time on the market, in the Rand Area, of 7.86 weeks.

The Swakopmund/Walvis Bay region, by contrast returned an extremely long 30.57 weeks.

Once again, though, we emphasise the potential impact of seasonality, so it is important to wait and see what happens to this Coastal Region when the 4th quarter survey takes place.

NAMIBIA HAS LESS DROPPING OF ASKING PRICES ON AVERAGE



In another important "price realism"-related question, agents have suggest a very mild deterioration (increase) in the percentage of sellers being required to drop their asking price to make a sale since early-2014.

On average, as one would perhaps expect in a stronger market, Namibia reported a lower percentage of sellers being required to drop their asking price, to the tune of 79%, compared to South Africa's 87%.

However, interestingly it was the weaker Coastal Market that had the lowest percentage of sellers dropping, to the tune of 73%, while Windhoek was higher at 83%. What one can deduce from this, perhaps, is that while the Coastal Market is slow "activity-wise", there doesn't appear to be any significant financial pressure which could lead to greater urgency to sell.

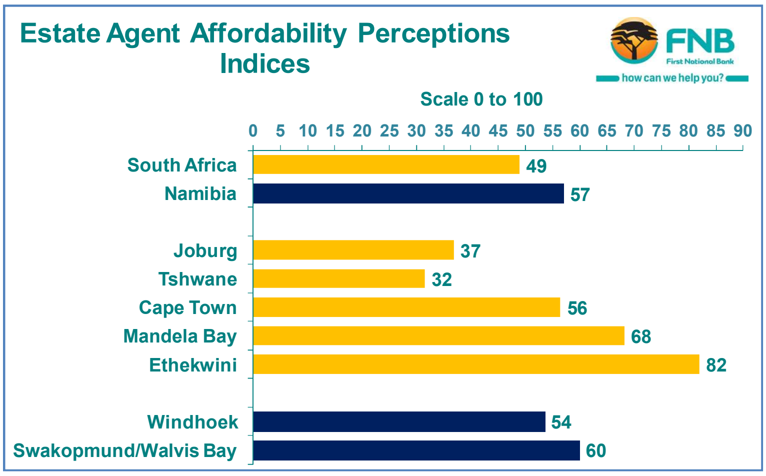
So, while Windhoek appears to have the far stronger market than the Coastal Regions, it also appears to have a significantly greater degree of price realism on the part of the sellers.

We also ask agents to estimate the average percentage asking price drop on those properties where a price drop is required to make the sale. In South Africa, this average estimated drop was -9% in the 3rd quarter survey, while Namibia's estimated drop was a lesser -6%..

AGENT PERCEPTIONS OF RESIDENTIAL AFFORDABILITY

The FNB Estate Agent Survey also asks agents for their general perception of housing affordability, through requesting them to choose one of 3 statement options, i.e. "Income levels have kept up with house prices", "Income levels have got a little behind house price levels" or "Income levels have got far behind house price levels".

In the 3rd quarter 2015 survey, 47% of agents perceived "income levels to be far behind house prices", 20% perceived "income levels to be a little behind house price levels", while only 33% perceived "income levels to have kept up with prices"



From these 3 categories of responses we compile the FNB Estate Agent Affordability Perceptions Indicator. The Indicator is set up on a scale of 0 to 100. If 100% of respondents answer that "income levels have kept up with house prices", the Affordability Perceptions Indicator will be zero. If 100% of them answer that "incomes are a little behind house prices", the Indicator level will be 50. If 100% answer that "income levels are far behind house prices", the Indicator level will be 100. Therefore, the higher the indicator level, the worse the perceptions of affordability.

Namibia's Affordability Perceptions Indicator level was 57, above (worse than) that of South Africa, which measured 49. Swakopmund/Walvis Bay's sample of agents returned a slightly worse rating (60) than that of Windhoek (54).

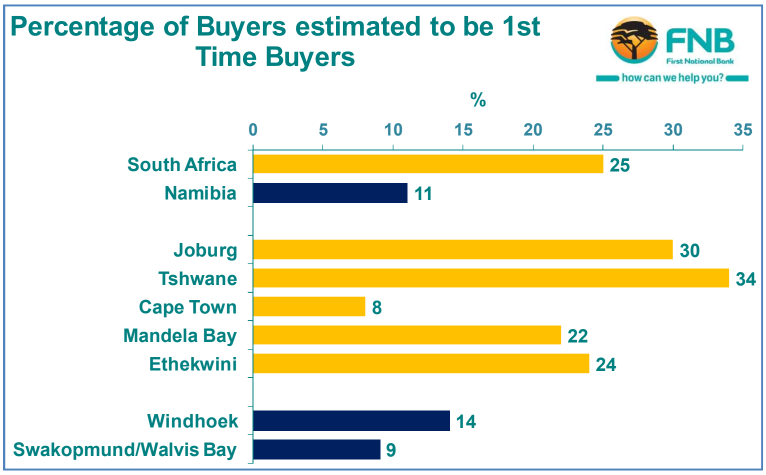
The regions that returned the best perceptions of home affordability were South Africa's 2 Gauteng Metro regions of Joburg and Tshwane.

1ST TIME BUYING ACTIVITY

While Estate Agent Affordability Perceptions in Namibia are not too much worse than South Africa's average, it may be a case of agents having become used to a greater multi-year affordability deterioration as house price inflation in that country outpaced SA.

Therefore, one may not always see the full extent of an affordability deterioration in a subjective question, but rather, one may witness it in a more objective question such as the one regarding the estimated level of 1st time home buyers.

1st time home buyers are on average more financially constrained than repeat home buyers, and thus more sensitive to high house price inflation.



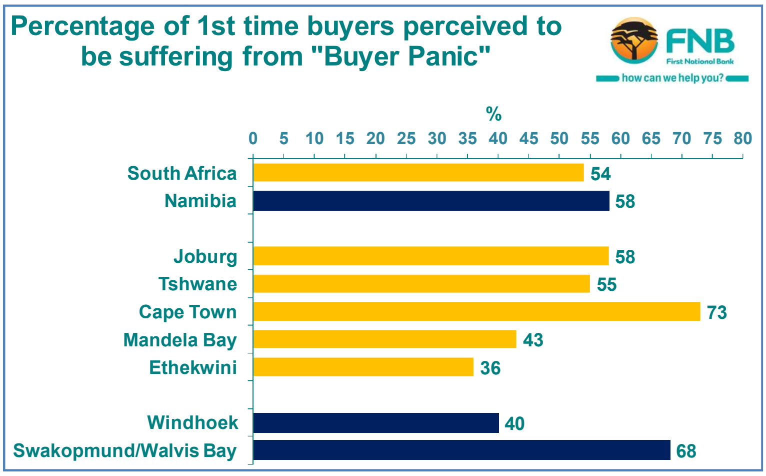
Perhaps not surprisingly, therefore, Namibia's estimate of 1st time buyers as a percentage of total home buyers is 11%, considerably lower than the 25% estimate for South Africa.

Although we emphasise that more than 1 quarter's data is necessary for more confirmation, a low 1st time buyer percentage would make sense after some years of very strong house price inflation in Namibia.

In South Africa, it is the Gauteng Metro Markets of Tshwane and Joburg, whose agents perceive than as by far the most affordable (price levels relative to income), that have by far the highest estimates 1st time buyer percentage of 34% and

30% respectively.

We have a follow-up 1st time buyer question where we ask estate agents to estimate the percentage of 1st time buyers that they believe to be suffering from "buyer panic". Buyer Panic refers to when buyers believe that "if they don't buy now they won't be able to afford a home in future due to price increases".

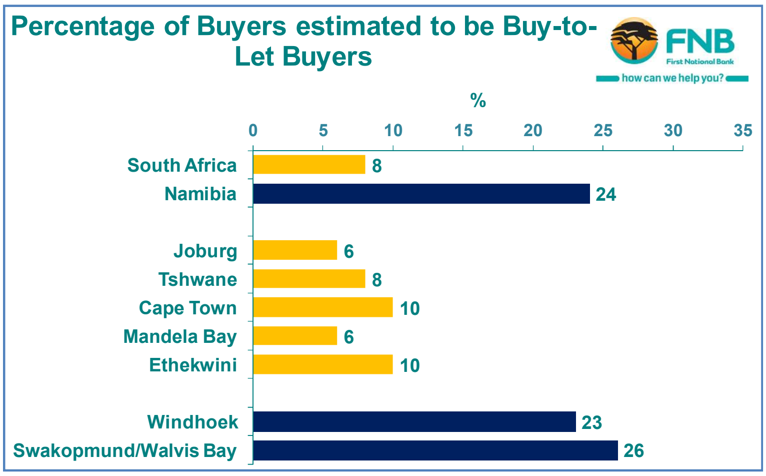


Namibia's overall estimate of buyer panic at 58% is only marginally higher than SA's 54%.

However, the Swakopmund/Walvis Bay market appears significantly more troubled by buyer panic (68%) than Windhoek. In fact, it appears to rival Cape Town in this regard. While this may seem strange to some at a time when the Coastal Namibian Market seems not to be too strong, a high level of buyer panic can be the lagged impact of a market that was very strong in the recent past.

Buyer panic can be dangerous on a large scale, as it can cause hasty buying decisions and financial "over-commitment".

BUY-TO-LET BUYING



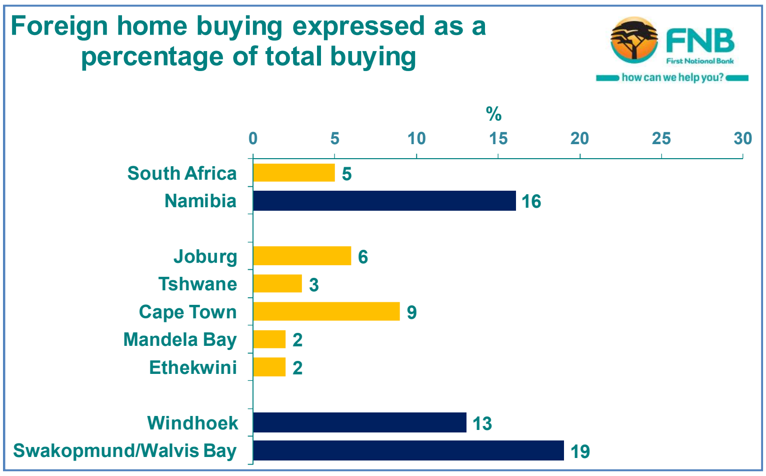
A very noticeable feature of the Namibian residential market is a high level of buy-to-let buying compared to South Africa. Whereas SA's buy-to-let level of buying as a percentage of total home buying was estimated at 8% in the 3rd quarter, Namibia's was a massive 24%.

Both the Windhoek and the Coastal Market have very high percentages of 23% and 26% respectively. No region in South Africa comes close, with Cape Town and Ethekwini the nearest at 10%.

Admittedly, rental demand may well be very strong, given low levels of 1st time buying in a very expensive home buying market. This could conceivably make buy-to-let investment lucrative from a rental income stream point of view. However, there exists a risk of "over-investment", because there is normally a significant portion of buy-to-let buyers that are lured by recent years of strong capital growth and not by income stream. They often have the "flawed" expectation that such strong price growth will continue indefinitely into the future. Such buy-to-let demand can compress yields to "inappropriately" low levels.

A high level of buy-to-let buying can therefore possibly point to "over-exuberance" in a market, and a possible overshoot looming.

FOREIGN BUYING LEVELS – STRONG CONFIDENCE IN NAMIBIA'S LONG TERM FUTURE



Strong economic performance can bring about many things, including greater confidence in a country's future and resultant higher levels of foreign investment in various forms. This includes foreign home buying, by a variety of interested parties, from those expanding their business interests into the country, those bringing their skills to work there, or some buying for lifestyle choices.

Whereas South Africa's foreign buying level as a percentage of total home buying generally hovers in single digits, estimated at 5% in the most recent survey, Namibia recorded a far higher 16% estimate. Swakopmund/Walvis Bay foreign buying was estimated at 19%, while Windhoek also had an impressive (by SA standards) 13%.

CONCLUSION

In summary, the Namibian residential market remains stronger overall than South Africa's. This not only comes through in the FNB House Price Index inflation rates, but also in the new FNB Namibia Estate Agent Survey.

This superior performance is to be expected, given Namibia's superior economic growth performance for some years. A significantly higher estimated level of foreigner residential buying in Namibia, compared to South Africa, also suggests greater confidence in that country's longer term future.

However, the estate agent survey suggests that the market strength isn't an "across the board" one. The Coastal Swakopmund/Walvis Bay market appears to be in a "lull", recording a very low activity rating as well as a very long average time of homes on the market. Important is not to jump to strong conclusions just yet, because the Coastal Market, being partly holiday home-driven, can be more impacted by the slow winter period than Windhoek. In addition, a low percentage of sellers dropping their asking price to make the sale in the Coastal Market suggests that while the market is slow, there is not too much in the way of household financial pressure of stress.

But the initial Estate Agent Survey results do definitely suggest that Windhoek is currently the star performer of the major regions in the Rand Area. And the survey confirms what we have been hearing for quite some time, i.e. that residential stock constraints are very significant.

The strong residential market performance in Namibia doesn't come without some implications, most notably a significant home affordability deterioration. This may well be reflected in relatively low levels of 1st time home buying. The other potential implication of strength in house price growth in recent years can also be the creation of "over-exuberance" which leads to over-investment and market overshoots. While there may be good reasons for strong buy-to-let buying in a time when relative home "in-affordability" may boost rental demand, a very high level of buy-to-let buying in Namibia may conceivably hint at some degree of "over-exuberance", driven by the expectation of strong capital growth continuing indefinitely.

In the near term, Namibia's housing market may run into some constraints. Besides a relative affordability challenge already, interest rates are gradually rising, and we expect a little more of the same, as the Rand Area's central banks attempt to "normalize" interest rates. In addition, we have seen Namibia's economic growth gradually slowing in recent years. With global economic mediocrity having brought about a major commodity price drop, the country's mineral exports could be increasingly under pressure. And next door, South Africa, the country's biggest trading partner nation, whose growth direction Namibia's growth normally tracks, continues to experience anaemic economic growth.