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Building Cost Index
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Contributor:

First Capital Research Team

Knowledge | Creativity | Solutions



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First Capital Namibia is a financial services company specialized in providing treasury and asset (investment) management services. Established in August 2009, First Capital have in-depth, personal knowledge of the Namibian capital markets and the resulting insight enables us to manage Namibian assets across different spectrum including cash management, equity, fixed income, specialist agriculture and property mandates. We are licensed to manage money for private investors, pension funds, insurance groups, public (government) sector, and charities.

Our credibility as asset managers is tightly governed by the Namibia Financial Institutions Supervisory Authority (NAMFISA). We are a Namibian based investment team and focus exclusively on the Namibian market and we add value to portfolios through offering specialized Namibian mandates.

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Acronyms

bp	: Basis Points (1 percentage point=100 basis Points)
Cm	: Centimeters
CPI	: Consumer Price Index
FC	: First Capital
IMF	: International Monetary Fund
Kg	: Kilogram
L	: Litres
MPC	: Monetary Policy committee
P/mt	: Per Metrictonne
m	: Meters
N\$/NAD	: Namibia Dollar
SARB	: South Africa Reserve Bank
USD	: United States Dollar
y/y	: year on year change
ZAR	: South Africa Rand

NOTE TO THE READER

We welcome you to our first publication of the First Capital (FC) House Building Cost report for 2022 where we monitor trends of the cost of building a house. This is an important publication with the aim of informing you on recent developments in the Namibian housing market in 2022 as the global economy recovers from the impacts of the Covid-19. Through this report we provide an insight into the trend of prices of building materials and the impact of price changes on the cost of building a house in the country. Equally, we provide an overview of the impact of imported building materials on house prices particularly because of the ongoing conflict between Russia and Ukraine which can easily affect the whole world due to globalization. Using current information and other leading indicators, we present our view on the likely scenarios of costs in the short to medium term. This report is published every quarter. Through this publication we believe, policy makers, contractors, mortgage lenders, investors and citizens will be highly informed.

METHODOLOGY

This report estimates the building cost over time which includes cost of building materials and labour. Furthermore, the report also estimates the price movement of urban land. The Building Cost Index is derived from weighted prices of building materials and labour including the contractors profit margin. This report highly acknowledges the varying building costs on a house due to size and specifications, hence, for comparison we are using a standard 3 bedroomed residential house structure measuring 76 square metres, with 220mm double bricks external wall, 110cm single bricks internal wall, average wall plate height of 3 metres with ceiling height of 2.7 metres, corrugated/IBR pitched roof. The house under review is colour coated with desert tan colour on the exterior and cream colour for the interior walls. It is also fenced with diamond mesh wire measuring 1.8m high with a 1-piece (1.8m high & 1m wide) and 2 piece (1.8m high & 3m wide) Econo Gates. Prices are collected from six different towns in Namibia (Windhoek, Keetmanshoop, Swakopmund, Ondangwa, Rundu and Katima Mulilo) with a fair geographical representation for the country. Some construction materials covered include super bricks (by quality), sand (for coarse, medium, and fine variants), cement (high and semi strength quality), crushed stones, and various other raw materials, including iron, steel sheets (by dimension), and plumbing materials.

Labour cost is traditionally charged based on the rate per time taken to complete a task. This report recognises the international standard of benchmarking the total cost of labour on a given construction project. According to international benchmark, the cost of labour should not exceed 35 percent of the total cost of building materials. Based on domestic experience, labour costs exceed 35 percent benchmark, hence this report adjusts labour to 40 percent of the total material costs inclusive of the profit margin for a building contractor.

The land cost index is derived from the average unweighted prices of urban land. The standard area of land for price comparison in all towns is 375 square metres. For comparison, the town specific average price of land per square metre is multiplied by the land measuring 375 square metres to derive the cost of land which is used in making comparisons.

1. DOMESTIC BUILDING MATERIALS PRICE TRENDS

1.1. House Building Cost Index

The First Capital Building Cost Index is calculated from the cost of building a standard three bedroomed house. Accordingly, figure 1 below indicates that the building cost index rose to 7.7% in June 2022. This is an indication that building materials costed 7.7% more year on year (y/y) in June 2022 in comparison to the previous year. This is the highest price rise since 2016. Noticeable price increases were recorded among plumbing materials (20%), cement (0.89%), Sand (2%), Super bricks (0.7%) and concrete stones (0.9%). First and foremost, Namibia imports most of its requirements for plumbing materials from South Africa and the domestic price is therefore imported plus any other additional costs incurred to bring these goods to final consumers in the country. Fuel prices are therefore a crucial factor to the outlook of the cost of building materials through their impact on transport and production costs.

Figure 1: House Building Cost Index Trend



Source: First Capital Research

2. SUB-COMPONENTS PRICE ANALYSIS

2.1. Building Materials Price Analysis

The cost of building materials accounts for the highest share in the total cost of building a house. On average building materials account for more than 60 percent of the total cost for building a house. The following section analyses trends of prices for building materials.

2.1.1. Building Material bill on a standard 3-bedroom residential house in Namibia

In the table below we present the materials required to build a standard three bedroomed house in Namibia. The total bill of quantities for June 2022 and the average prices using prices of building materials in Windhoek, Keetmanshoop, Swakopmund, Ondangwa, Rundu and Katima Mulilo are also provided. This method is deemed superior to using price levels from a single town due to its ability to fully capture the price of materials country wide. Equally important, materials are divided by category to fully reflect materials needs at each stage of the construction process. The first category is that for materials used for brick work and the foundation and structure of a house, these are then followed by roof and ceiling materials in the second category. Doors and materials used for windows, plumbing materials, electrical materials, tilling materials, fencing materials and contingency materials follow in the third, fourth, fifth, sixth, seventh, eighth and ninth categories respectively (See table 1 below).

Table 1: Building Material bill on a standard 3-bedroom residential house

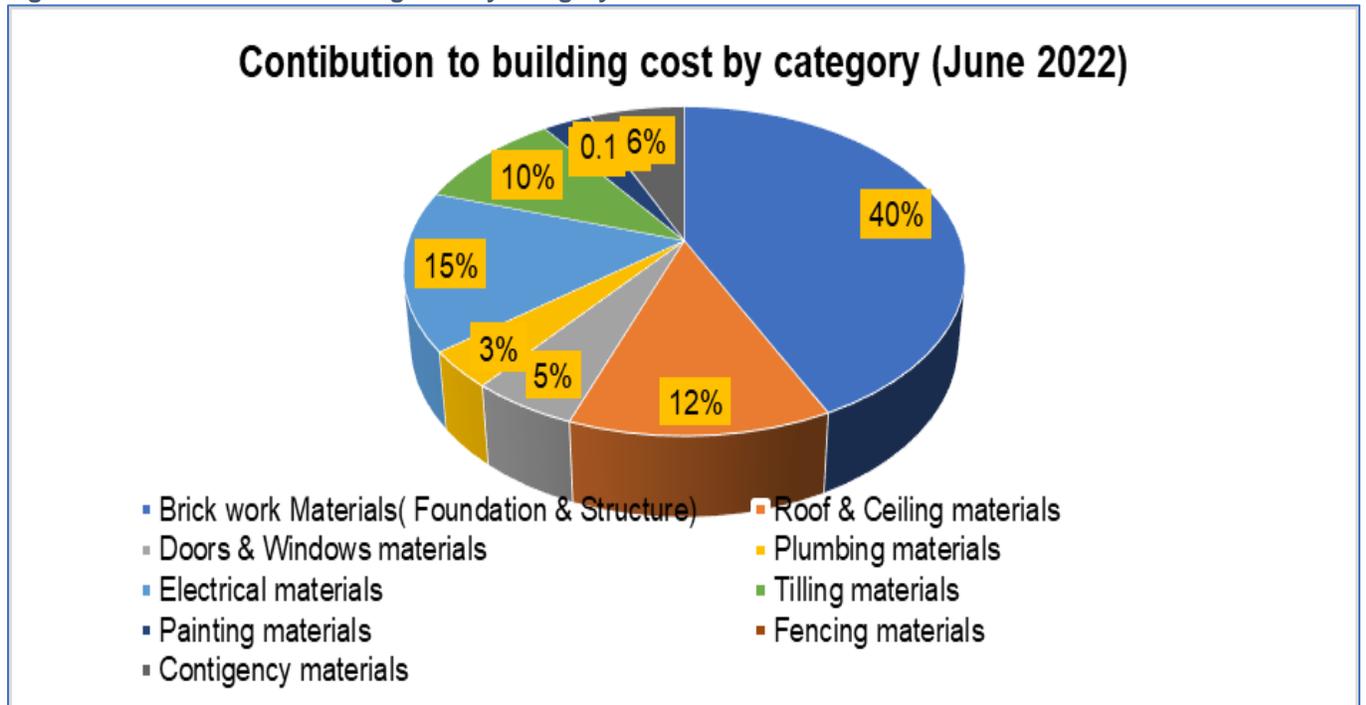
No	ITEM	Quantity	Unit Price N\$	June 2022 Bill
1	Brick work Materials(Foundation & Structure)			104794.68
	Super Bricks 7mpa	14239	3.22	45883.75
	Cement 42.5 (50KG)	134	104.10	13949.20
	Cement 32.5 (50KG)	130	100.98	13127.49
	Building Sand (10 Cubic meters)	4	2600.64	10402.57
	Plastering Sand (10 Cubic meters)	2	2387.64	4775.27
	Concrete stones 19mm (10 Cubic meters)	2	2609.09238	5218.18
	Brick force (150*15*9") Rolls	30	26.05	781.50
	Brick force (75*15*4.5") Rolls	10	26.05	260.50
	Damp Proof Course,DPC (225mm*40m*250µm) Rolls	2	129.40556	258.81
	Damp Proof Course,DPC (110mm*40m*250µm) Rolls	2	69.5	139.00
	Ant Poisoning, Astor Termite Control (5 L)	1	2098.39	2098.39
	Others			7900.00
2	Roof & Ceiling materials			31087.67
	IBR Galvanised Roofing Sheet Z275 (0.47mm*4.5m)	28	376.9825	10555.51
	Galvanised Fascia	1	130.5646	130.56
	Rafters, Timbers(38mm*114mm*6.6m)	28	175.75	4921.00
	Purlin, Timber(50mm*76mm*6.6m)	20	156.62	3132.40
	Rhinoboard Ceiling (6.4*2,700*1,200mm)	20	165.12	3302.40
	Branding (38mm*50mm*6.6m)	60	72.51	4350.60
	Cornice (75mm*3m)	20	45.73	914.60
	Rain water Goods: Galvanized Gutters	4	243.15	972.60
	Down Pipes	4	155.5	622.00
	Others (Roofing Screws, Binders e.t.c.)	1	2186	2186.00
3	Doors & Windows materials			12628.28
	Outside Doors (Wooden Pinedouble Weather board)	2	856.52	1713.04
	Inside Doors (Wooden medium Consult)	4	401.92	1607.68
	Outside Door Frames (813mm*2,032mm*230mm*1mm)	2	456.5	913.00
	Inside Door Frames (813mm*2,032mm*115mm*0.6mm)	4	238.92	955.68
	Outside Steel Buglar Doors	2	622.95	1245.90
	Steel Window Frames ND 11 w1800xh1500 (Sitting room)	1	590.87	590.87
	Steel Window Frames ND 4w1500xh1200 (Bedrooms)	3	242.57	727.71
	Steel Window Frames NE 2w1200xh600 (Bathroom)	1	265	265.00
	Steel Window Frames NC 1 w900xh900 (Kitchen)	1	249.3	249.30
	Windows	1	2175.1	2175.10
	Others (Concrete Lintels, Curtain Rails, Windowbuglars, D	1	2185	2185.00
4	Plumbing materials			8804.17
	Kitchen Sink (1200mm*480mm drop in)	1	890.3	890.30
	Basin waste Union (1.25*32mm)	2	348	696.00
	Kitchen Tap set	1	487	487.00
	Basin white flair (470mm)	1	272.9	272.90
	Basin taps	2	280.2	560.40
	Shower components(Shower head, Arm, Trap & 2 Taps)	1	586.21	586.21
	Toilet set (765mm)	1	930.23	930.23
	Sever pipes set	1	1220	1220.00
	Copper pipes set	1	553	553.00
	Others	1	2167.5	2608.13
5	Electrical materials			38248.95
	Electrical Cables	1	10890	10890.00
	Light Switch(X2 Double & X4 Single Light Switch)	1	15410	15410.00
	Electrical Plug Sockets(X2 Double & X3 Single sockets)	1	6857	6857.00
	Light Bulbs & Lamps(X6 Bulbs & X6 Lamps)	1	3856	3856.00
	Distribution Board (DB), 12 Mode Flush	1	455	455.00
	PVC Pipes	1	440.5	440.50
	Others	1	340.45	340.45
6	Tiling materials			24682.46
	Floor tiles, Ivory Nano 2nd Grade (600*600mm)	50	255	12750.00
	Wall tiles, Mosaic Matt (48*48mm)	60	102.04	6122.40
	Tile Adhesive [glue],(20kg)	30	51	1530.00
	Tile Grout (20Kg)	3	260.02	780.06
	Others	1	3500	3500.00
7	Painting materials			8033.64
	Primer Paint (20L)	3	580.9	1742.70
	Colour Coat Paint (20L) [Creame colour for Interior]	3	1220.18	3660.54
	Colour Coat Paint (20L) [Desert tan colour for Exterior]	2	203.2	406.40
	Other materials	1	2224	2224.00
8	Fencing materials			14382.50
	Diamond Mash Wire Fence rolls (1.8m high & 25m Long)	15	689.1	10336.50
	Econo Gate, 1 Piece (1.8m high & 1m wide)	1	667	667.00
	Econo Gate, 2 Piece (1.8m high & 3m wide)	1	1817	1817.00
	Others	1	1562	1562.00
9	Contingency materials			16185.98
	Nails, screws, e.t.c	1	16041.61	16041.61
	Total Materials			258848.34

Source: First Capital Research

2.1.2. Categorical contributors to the June 2022 building cost index

As expected, Brick work materials contributed the most (40%) to the price of building materials followed by electrical materials (15%), roof and ceiling materials (12%), contingency materials such as nails and screws (6%) and then materials for doors and windows (5%) (See figure 2).

Figure 2: Contribution to building cost by category

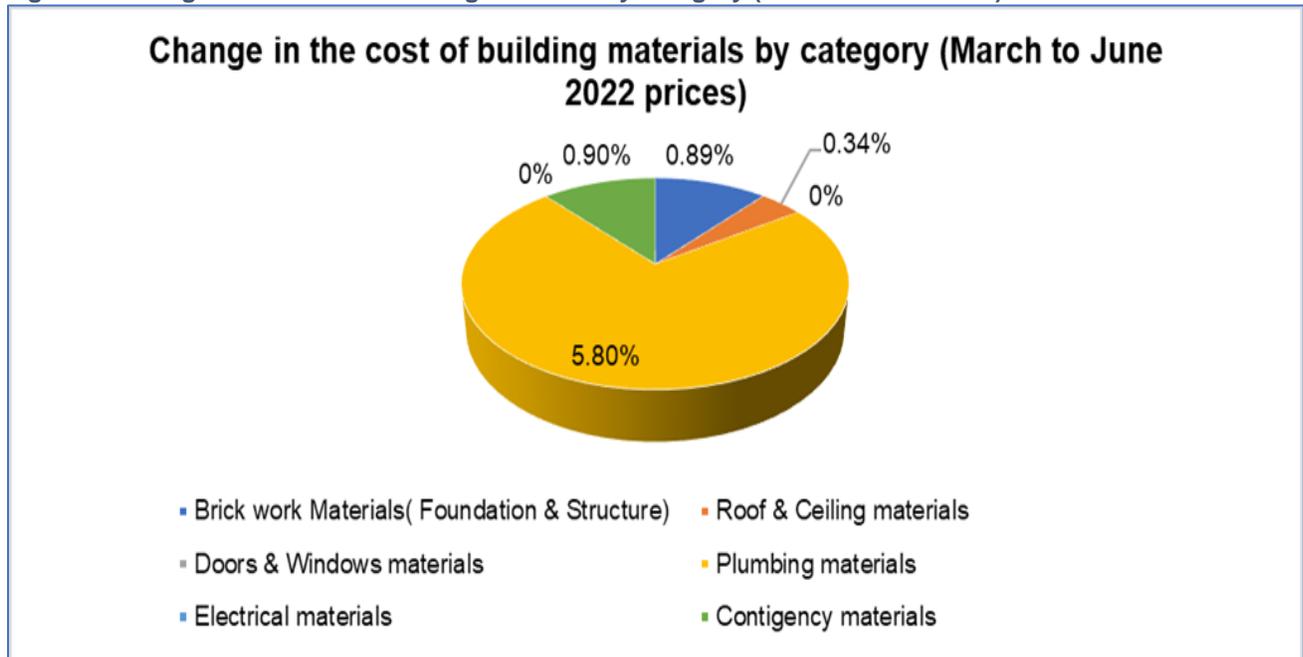


Source: First capital research

2.1.3. Change in the cost of building materials by category (March to June 2022)

A thorough analysis of building materials shows that, although materials used for brick work and foundation accounts for 40% of the total cost of building a house, the cost of these materials only increased by 0.89% between March and June 2022. However, a notable rise of 5.8% was recorded in the category for plumbing materials, while contingency and roof and ceiling materials rose by 0.9 and 0.34 percent respectively (See figure 3).

Figure 3: Change in the cost of building materials by category (March to June 2022)



Source: First Capital Research

2.1.4. Drivers of the cost of building materials in June 2022

Cement prices Analysis: Cement prices of both 42.5kg and 32.5kg increased by 0.89% in the June of 2022 (year on year). The increase in the number of capital projects in the 2022/2023 financial year increased the demand for cement in the country and put pressure on the price level (See table 2). The table below presents the capital project for the 2022/23 financial year. The highest portion of the development budget was allocated to the upgrading of the Walvis Bay railway network (N\$ 969 919 000), followed by the upgrading of the railway network in Otjozondjupa (N\$727 100 000) and then the construction of water supply infrastructure (N\$ 660 101 000) (see table 2)

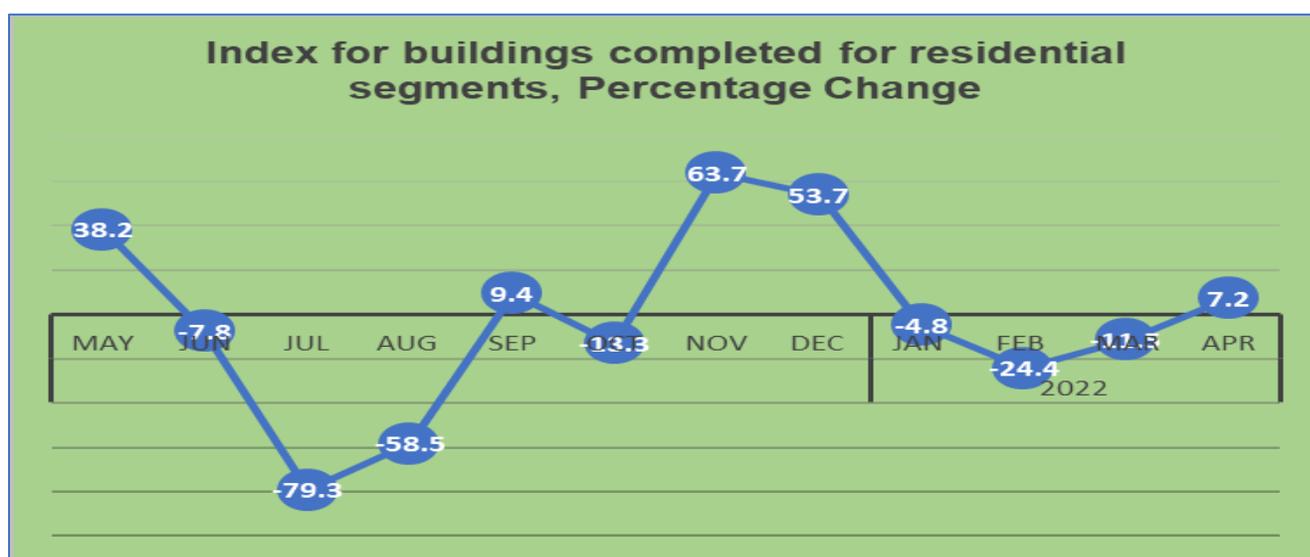
Table 2: Major capital expenditure 2022/23 -2024/25

No.	Implementing Agency	Project Name	Area of Implementation	(2022/23 -2024/25) Budget (N\$ '000)
1	Works Transport and	Upgrading of Walvis Bay - Kranzberg Railway	Erongo	969,919
2	Works Transport and	Railway Network Upgrading	Otjozondjupa	727,100
3	Works Transport and	Upgrading of MR91 Gobabis - Aminius & MR 40 Aminius - Aranos (245Km) to bitumen standard	Hardap	719,632
4	Agriculture, Water, and land reform	Construction of Water Supply Security Infrastructure (TCE)	Oshana, Kavango East	660,101
5	Works Transport and	Upgrading of the MR 44: Swakopmund -Walvis Bay Road (44 km)	Erongo	567,635
6	Works Transport and	Upgrading the TR9/1: Windhoek-Hosea Kutako Road to a dual carriage (44km)	Khomas	563,280
7	Works Transport and	Rehabilitation of the TR 1/16: Windhoek - Okahandja Road (67km)	Khomas, Otjozondjupa	561,158
8	Works Transport and	Construction of Swakopmund - Henties Bay - Kamanjab Link (412 KM).	Erongo, Kunene	441,921
9	Defense	Research and Development	Khomas	273,000
10	Agriculture, Water, and land reform	Northern Railway Line Extension	Oshana	250,540
11	Agriculture, Water, and land reform	Construction of Large Dams, Desalination and Provision of Water to larger Settlements	Karas	243,342
12	Works Transport and	Rehabilitation of the Southern Railway Line Section Sandverhaar-Buchholzbrunn	Karas	242,250
13	Defense	Upgrading of Leopards Valley Military Base	Khomas	235,836
14	Education, Arts and Culture	Establishment of Hostels at Schools Nationwide	Karas	142,200
15	Home affairs, Immigration, Safety and Security	Construction of Housing Accomodation at border posst and Outpost	Omusati	63,012
16	Higher Education, Training and Innovation	Upgrading and and Renovation of old power station for NUST Satelite Campus in Luderitz	!Karas	58,166
17	Urban and Rural Development	Extension of Ohangwena Regional council Office	Ohangwena	55,000
18	Health and social services	Upgrading and Renovations of Oshakati Intermediate Hospital	Oshana	52,000
19	Sport, Youth and National Service	Upgrading and Renovations of the Independence Stadium	Khomas	50,000
20	Home affairs, Immigration, Safety and Security	Construction of correctional facility at Evaristus Shikongo	Oshikoto	32,120
21	Industrialisation and Trade	Construction of Site and Premises Industrial Estate	Hardap	30,849
22	Urban and Rural Development	Establishment of a Rural Development Centre in Kavango West	Kavango West	30,500
23	Gender Equalit, Poverty Eradication and Social Welfare	Construction of Keetmanshoop Community empowerment Centre	!Karas	22,436
24	Fisheries and Marine Resources	Renovation and Upgrading of Keetmanshoop Fonteintjie Fish farm community project	!Karas	13,125

Source: Ministry of Finance

Equally, improved certainty with regards to COVID-19 among investors and constructors increased the level of construction activities in the country during the first quarter and second quarters of 2022 through projects such as the Windhoek waterfront Development and Ongos Valley project. Evidently, the index for completed residential buildings increased by 7.2 percent in April 2022 in comparison to the same period the previous year (please see figure 4). Correspondingly, the number of permits issued for completed buildings with residential units stood at 74 in April 2022 which is more than 69 permits issued in March 2021 according to data from Namibia Statistics Agency. The figure below shows the index for the percentage change for residential buildings completed between April 2021 and May 2022. This index is used as a proxy for the demand for building materials during the first quarter of 2022.

Figure 4: Index for the percentage change for completed residential buildings



Source: Namibia Statistics Agency

Super bricks: In June 2022, a super brick costed 0.7 more year on year. Price changes of bricks largely reflect the price trend of sand and cement which are key inputs in their production. The average cost of fuel a proxy indicator for transport inflation continues to rise. This puts an upward pressure on the price of sand. Equally so, transport inflation from the NCPI exhibits a similar trend. Going forward inflationary risks for bricks remain tilted to the upside largely due to expected inflationary pressures on sand, cement, and transport costs.

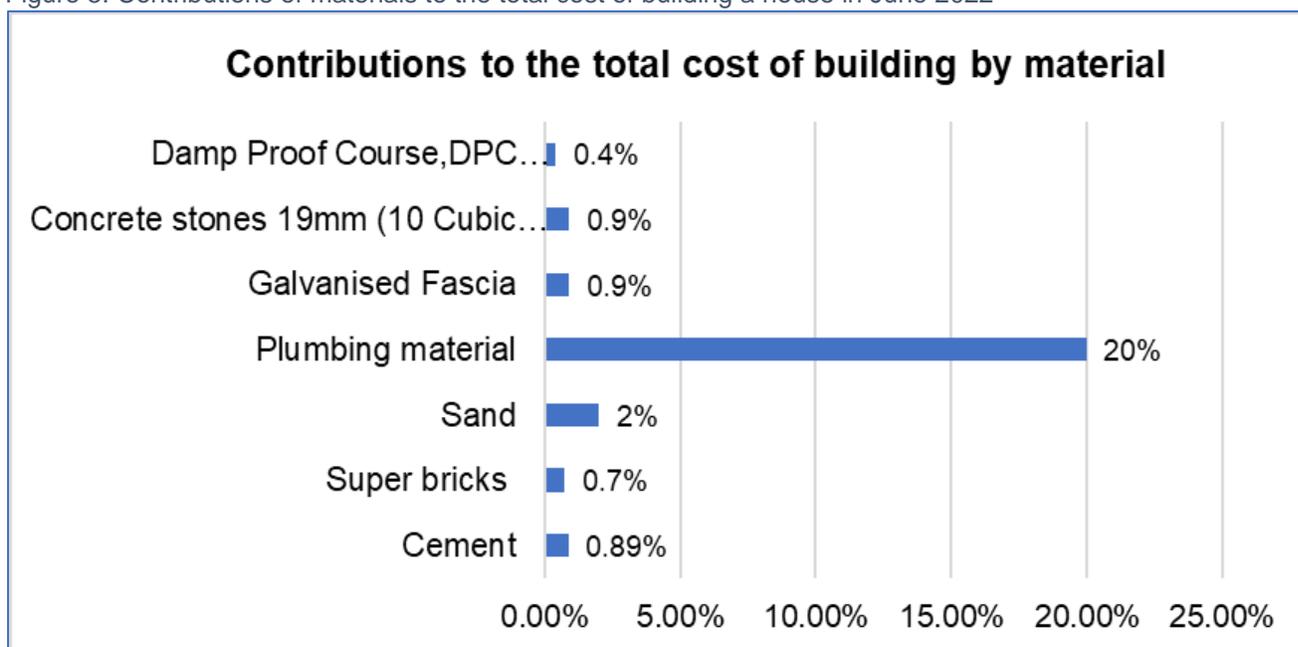
Sand: The price of sand increased by 2 percent during the second quarter of 2022. This increase was on both building and plastering sand. Environmental-related enforcement of sand mining regulations continue to trigger supply chain disruptions and remain key upside risk to sand price inflation. All in

all, the possibility of seeing a pass-through effect in terms of increased sand price inflation cannot be ruled out entirely.

Electrical goods: Prices of electrical goods remained stagnant during the second quarter of 2022. Electrical goods are mostly imported, and their prices are a combination of both domestic and international factors. Global production costs continue to rise due rising labour cost commodities and raw materials prices as well as rising labour costs.

Plumbing Materials: Plumbing materials are predominantly imported from the republic of South Africa. Their price is greatly influenced by the exchange rate and fuel prices. During the second quarter of 2022, the Namibian dollar slowly depreciated against major trading currencies. Coupled with higher fuel prices, the price of plumbing materials increased by 20% (see figure 4).

Figure 5: Contributions of materials to the total cost of building a house in June 2022



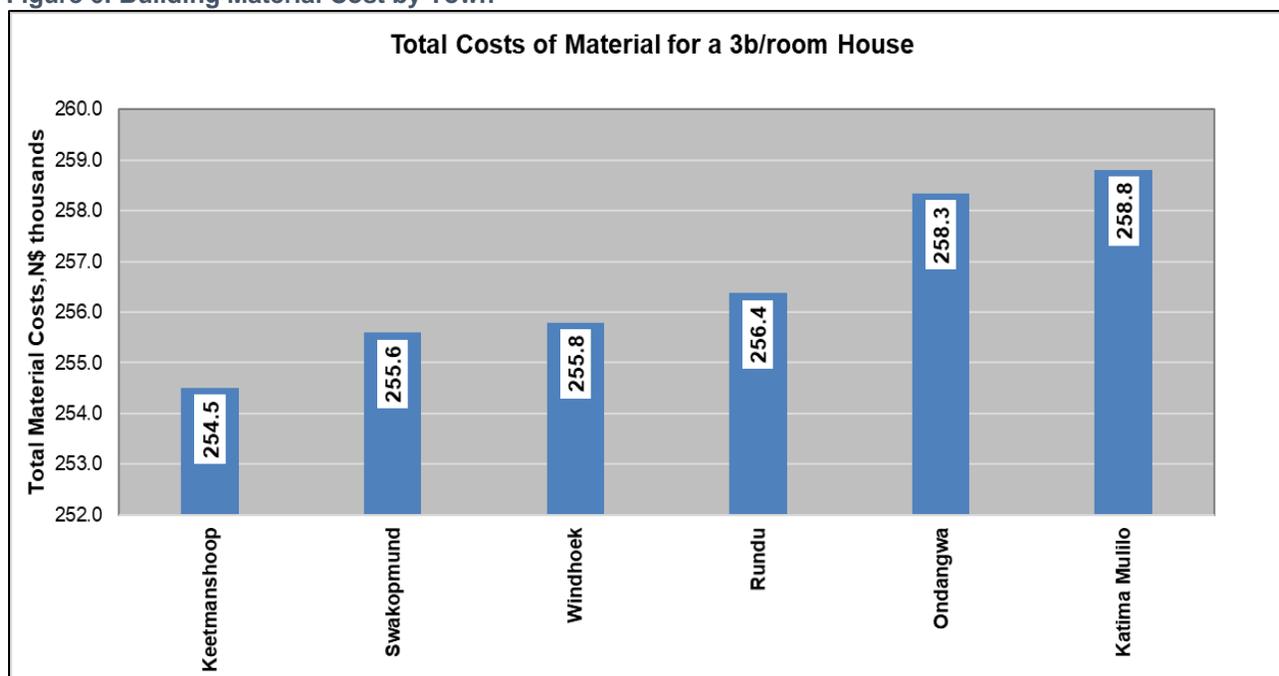
Source: First capital research

2.1.5. Building Materials cost by town

Figure 6 below, shows a comparison of the cost of building materials in the six major towns. The cost of Building materials remains higher in northern parts of the country relative to central and southern parts. The bill of quantities for building materials of a 3-bedroomed standard house using March 2022 prices recorded a combined average of N\$257,835 in Katima Mulilo, Ondangwa and Rundu while the same materials averaged N\$255,295 in Keetmanshoop, Windhoek and Swakopmund representing a variance of N\$ 1,672 in the cost of building materials within these two geographic locations. The total cost of building materials in Keetmanshoop is N\$4,300 less than the cost of identical materials in

Katima Mulilo. The differences in the cost of building materials by town reflects varying prices due to supply sources that are largely unique per town. The price increase of building materials was lower in Swakopmund and Keetmanshoop relative to the central and northern parts of the country a trend that reflects the impact of transport costs (in conjunction with the continual increase of fuel prices) on geographic areas distant from major entry points for imports (Southern borders with South Africa and the coastal port of Walvis Bay).

Figure 6: Building Material Cost by Town



Source: First Capital Research

2.2. Cost of Land

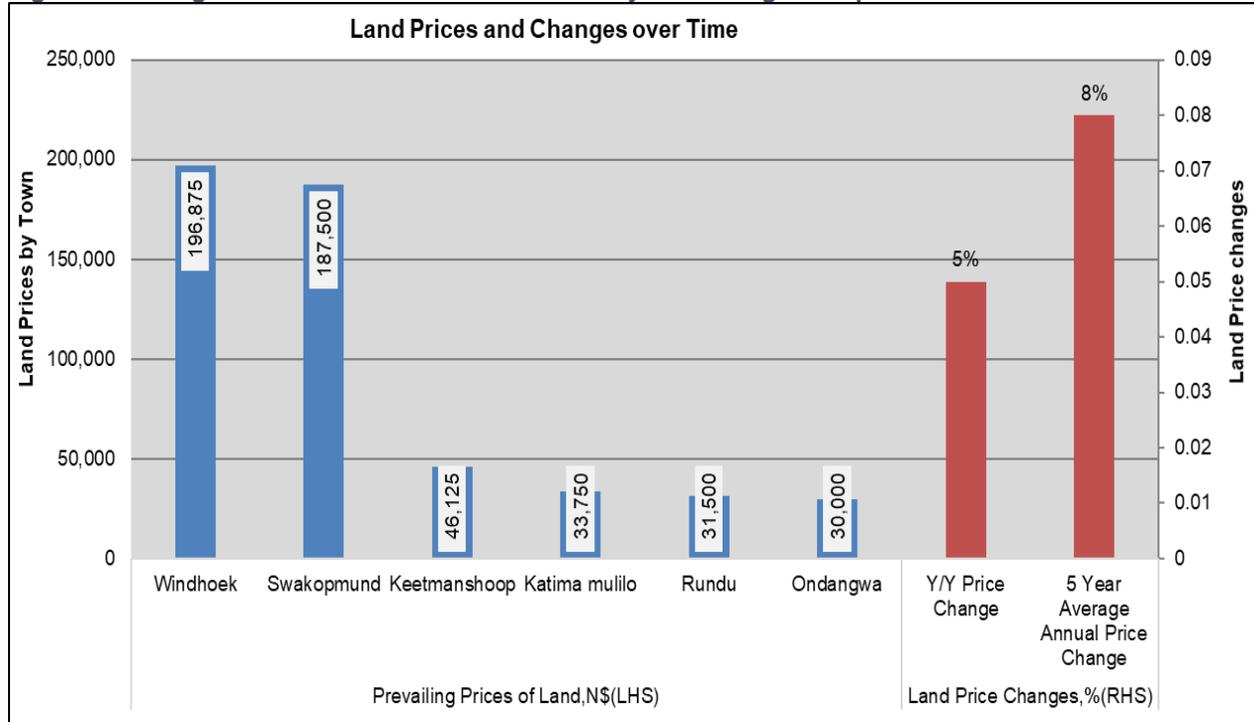
2.2.1. The Price of Land by Town and Price changes over time

Figure 7 below indicates, the average prices of serviced land collected from recent transactions of local authorities with residents and the overall annual price changes. For comparison, the price per square meter of serviced land for each town is multiplied by the standard erven size of 375 square meters which this research finds an ideal area for a standard urban residential erven. Amongst the towns presented below, the cost of serviced land for an erven measuring 375 square meters is highest in Windhoek and cheapest in Ondangwa costing N\$30,000 followed by Rundu costing N\$31,500. The same size of land would cost N\$196,875 in a middle-class location of Khomasdal in Windhoek making it the most expensive, followed by Swakopmund costing N\$187,500

Even though the average growth of land prices have declined from the 5-year average of 8 percent to 5 percent, land remains axobinantly elevated especially in Windhoek and costal towns. High prices

of land in Windhoek and coastal towns can be explained by the higher demand as opposed to the supply of land in these towns. Other than land being costly in these towns, the increasing supply deficit of serviced land puts pressure on land prices. However, this research concludes that other than the mismatch between demand and supply of land, inefficiencies in servicing of land as well as speculative motives among private developers equally contributes to high urban land prices.

Figure 7: Average Price of Land from Local Authority measuring 375 square metres



Source: First Capital Research

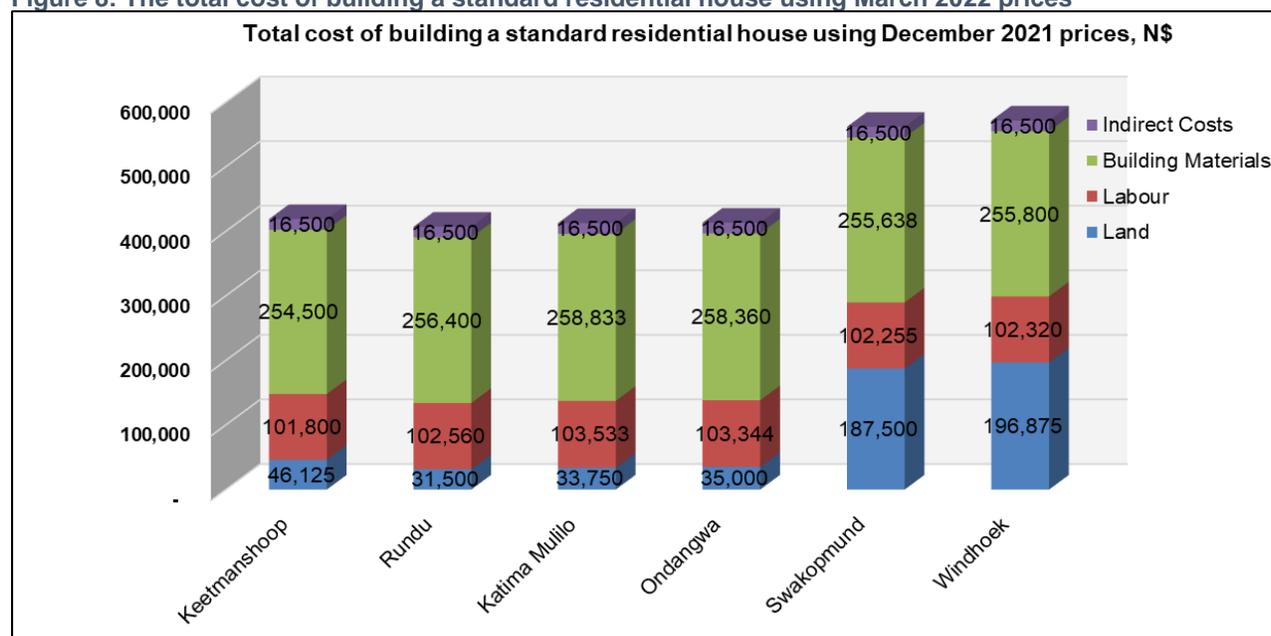
2.3. Labour Cost

Labour cost is traditionally charged based on the rate per time taken to complete a task. In this report we however recognise and complement that framework with an international standard of benchmarking the total cost of labour on a given construction project. According to the international benchmark, the total cost of labour should not exceed 35 percent of the total cost of materials. Based on domestic experience, labour costs exceed 35 percent benchmark, hence this report adjusts labour to 40 percent of the total material costs inclusive of the profit margin for a building contractor. Using the model of a 3-bedroom standard house as presented in this report, with an average bill of quantity of N\$256,703 using June 2022 prices, labour is estimated to cost N\$102,681. This report recognizes that labour cost in some towns like Windhoek could slightly be expensive due to extra workload in excavation of rock surface ground to make foundation for construction as compared to soft surface for foundation excavation in other towns.

3. TOTAL COST OF BUILDING A STANDARD 3-BEDROOM HOUSE

Using June 2022 prices, construction of a standard three-bedroomed house should cost an average of N\$571,495 in Windhoek, while in Keetmanshoop the estimated cost is N\$418,295 due to varying land prices (see figure 4 below). Land measuring 375 square meters in Windhoek's Khomasdal suburb (considered a middle-income suburb) costs 10 times more than the price of land in Keetmanshoop's middle income suburb. Taking into consideration all costs incurred in the construction of a house, land accounts for 5 percent of the total cost in Keetmanshoop and 28% in Windhoek. Building materials remain the most significant cost component in the house.

Figure 8: The total cost of building a standard residential house using March 2022 prices



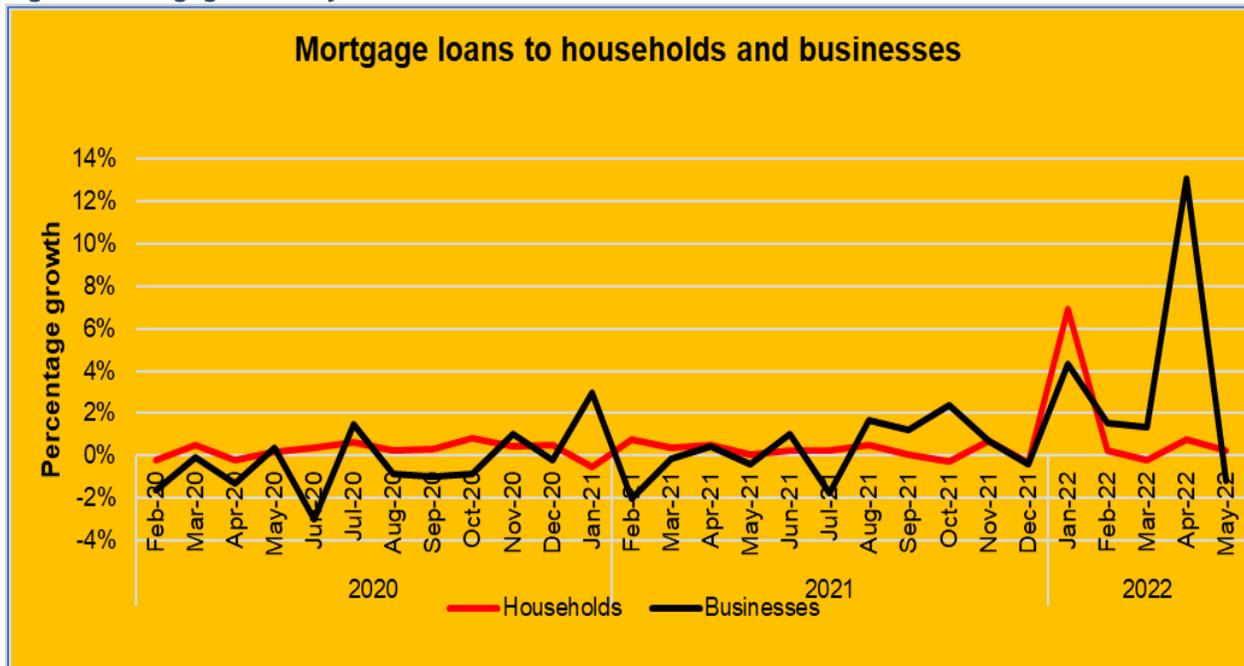
Source: First Capital Research

4. PRIVATE SECTOR CREDIT ANALYSIS

4.1. Mortgage credit extension to households and businesses

An analysis of private credit extension revealed that mortgage credit to businesses fluctuates more than that to households. This means that businesses are more responsive to changes in interest rates than households. Mortgage credit extended to households grew by 0.2% (y/y) in May 2022 compared to a growth of 0.1% (y/y) during the same period in 2021. An improvement of 0.1% of mortgage credit extended to households is attributed to improved market conditions and certainty particularly due to lower cases of COVID-19. Due to the above, banks are more willing to lend to households. However, mortgage credit extended to businesses fell by 1.2% (y/y) in May 2022 which is much higher than the fall of 0.4% (y/y) recorded during the corresponding period (see figure 9 below).

Figure 9: Mortgage loans by Businesses and Households

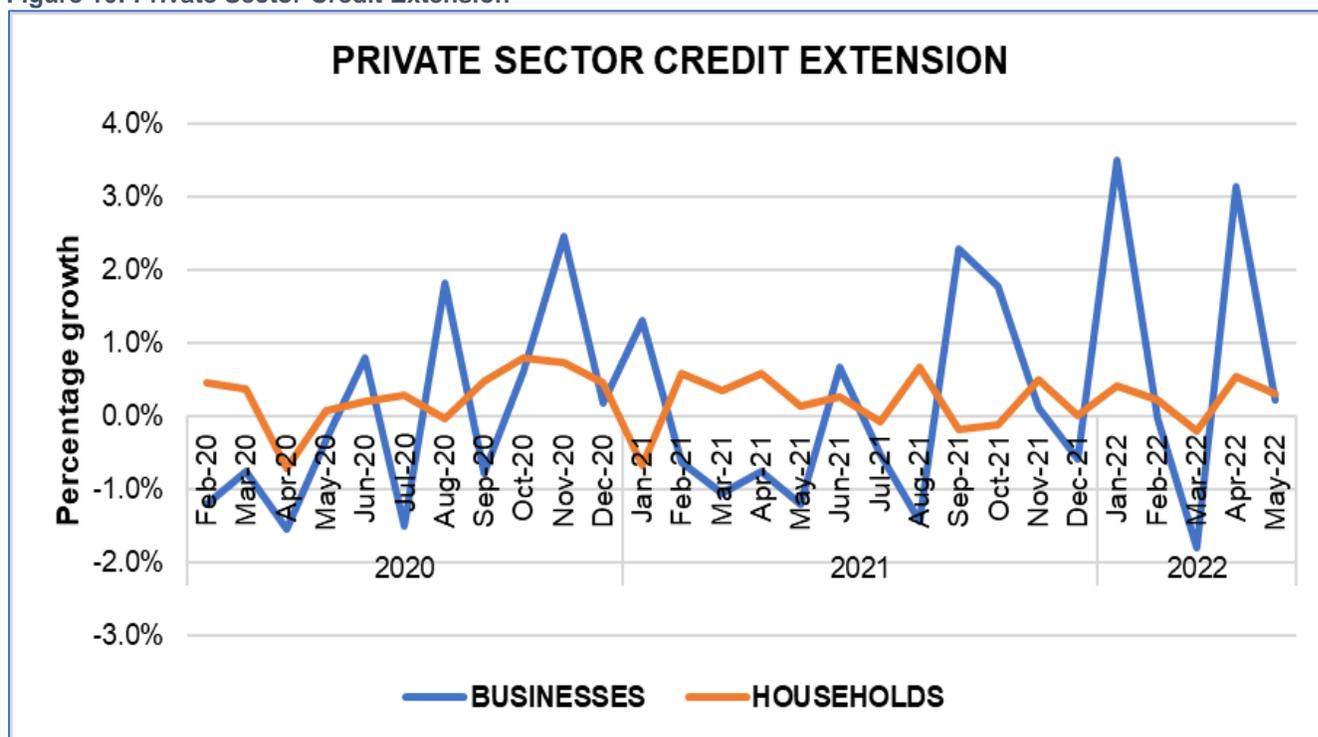


Source: BoN

4.2. Private Sector Credit Extension

Like above, figure 10 below shows that the elasticity of credit extended to businesses is greater than that extended to households. For instance, in May 2022, credit extended to businesses improved considerably by 0.2% year on year and by 5.3% month on month. On the other hand, credit extended to households grew by 0.3% in May 2022 (y/y) and by 2.4% (m/m). During the same period in 2021, credit extended to businesses fell by -1.2% (y/y) and grew by 23.4% (m/m) while that extended to households grew by 0.1% (y/y) and by 19.8% (m/m). Evidently, both businesses and households' borrowing decisions are influenced by the rate of interest rates in the economy which determines the cost of credit. They borrowed more when the repo rate was at 3.75% and less when the repo rate is at 4.25%.

Figure 10: Private Sector Credit Extension



Source: BoN

5. MONETARY POLICY

5.1. Monetary Policy developments during the first quarter of 2022

On the 13th of April 2022 Bank of Namibia raised the repo rate by 25 basis points from 4.0% to 4.25%. Consequently, prime lending rates for local commercial banks also increased from 7.75% to 8.0%. The increase equally applies to all other interest rates in the economy, including interest rates on fixed and time deposits as well as saving accounts. Due to the above, consumers are encouraged to save rather than consume due expectations of higher returns. It is for that reason that higher interest rates are believed to significantly reduce inflation.

5.2. Monetary Policy developments during the second quarter of 2022

On the 15th of June 2022, the bank of Namibia raised the repo rate by 50 basis points from 4.25% to 4.75%. As a result, prime lending rates charged by local commercial banks increased from 8.0% to 8.5%. Even though the decision by the Bank of Namibia was necessary to prevent capital outflows, it has serious implications for consumers already faced with higher prices. Thus, consumers will pay more on loans unless they have fixed interest rate agreements. Households looking to buy houses through banks or borrow from banks are expected to pay more than they could have paid a year ago

when the repo rate was at 3.75%. Going forward, we expect the Bank of Namibia to raise the repo rate by 25 basis points at the next MPC meeting.

6. RECENT DEVELOPMENTS AND THEIR IMPACT ON THE HOUSING MARKET

6.1. Windhoek Waterfront Development - Goreangab

The supply of houses looks promising for middle class residents in the capital over the medium to long term due to an increase in construction activities. Amongst others, the Windhoek waterfront development wants to build 300 free standing houses in Windhoek with an average erf size of 300 square meters each. The project expects to complete 21 houses by the end of July 2022. These houses are for middle income citizens, their prices range from 950 000 for 2 bed roomed houses to 1.2 million for three bed roomed houses. All the two bed roomed houses are semidetached while the 3 bed roomed houses are standalone homes.

6.2. Ongos valley project

In the same vein, the construction of houses by Ongos valley is expected to significantly increase the supply of houses in the medium to long term. Currently, 250 houses have been completed and 100 more towards the end of 2022. Most importantly, the company website indicates that the project expects to complete 5,000 houses in 5 years and 28,000 houses in 20 years. In addition, more than 20 schools, numerous malls, and service stations, as well as institutions and businesses will be constructed.

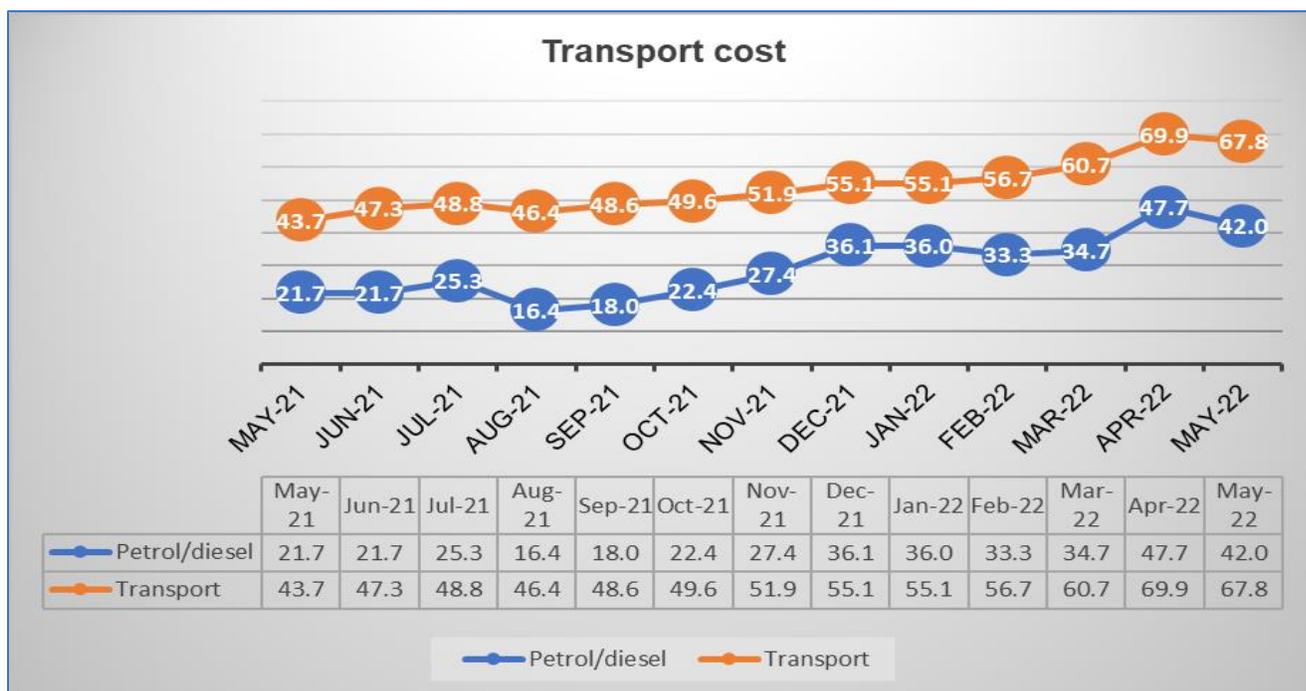
7. FACTORS SHAPING BUILDING MATERIALS PRICE OUTLOOK

The cost of Inputs for production of building materials: The price outlook for inputs of building materials has tilted to the upside as broad-based inflationary pressures gathers pace. The rising cost of inputs will always transmit through to higher retail prices in building materials. Equally so, the ongoing recovery in commodity metal prices like Aluminium, Copper, Steel and Zinc which are key inputs in the manufacturing of electrical and metal building materials could add another layer on the prices of building material. Both IMF and World Bank projects metals commodity prices would recover in 2022.

Transport costs: There is a direct positive association between the cost of transport and the price of fuel (please see figure 10 below). Higher costs of fuel are associated with higher transport costs. In May 2022, the price of petrol per litre stood at N\$ 18.35, which is an increase of 71% (y/y). Moreover, the price of diesel per litre stood at N\$ 20.39 in May 2022, which is an increase of 91% (y/y). Fuel is a major economic input, therefore, a rise in fuel prices instantly raises inflation. Most important, increases in fuel prices significantly increases transport costs which are inevitably transferred to consumers. Figure 11 below presents the transport and the fuel price indices for Namibia. Accordingly,

transport costs were 67.8% higher in May 2022 both year on year and month on month they were in 2021. Both fuel and transport costs are expected to continue rising going forward which is expected to put a further upward pressure on building materials.

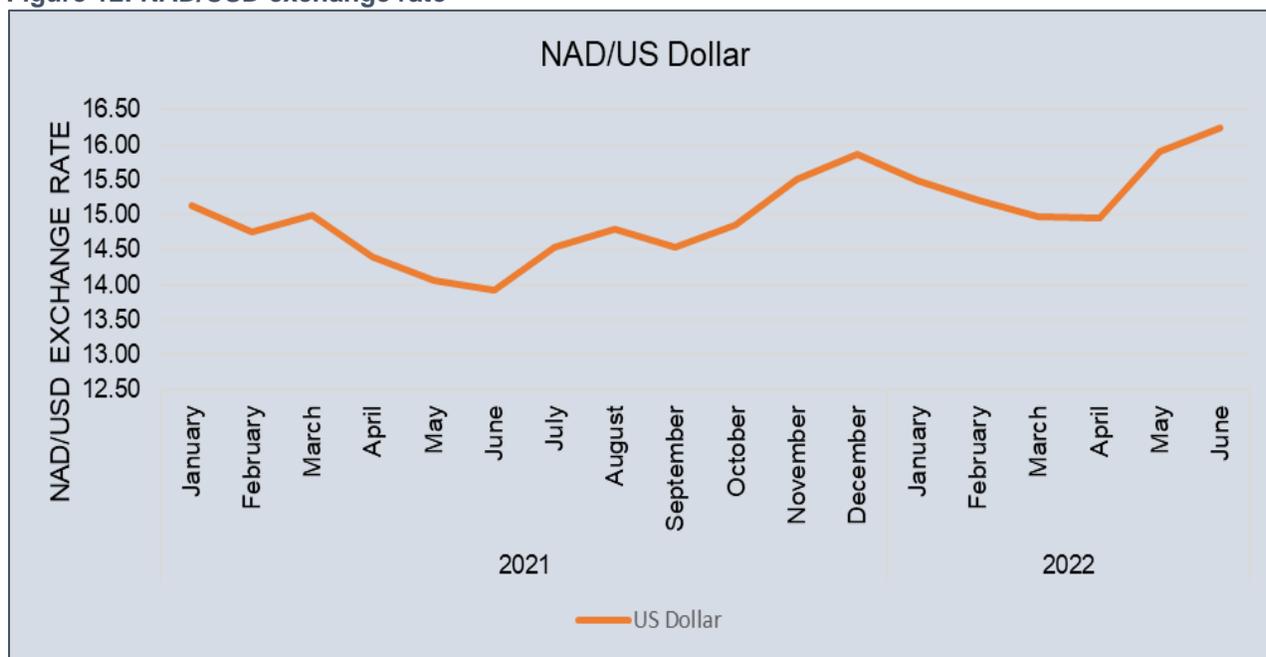
Figure 11: Transport cost



Source: Namibia Statistics

Exchange rate developments: The NAD exchange rate to the USD is a critical factor to the outlook of building materials since Namibia imports most of its building materials from China, South Africa, USA, and Europe. The USD is the widely used currency on international markets. It therefore has a significant impact on the value of exports and imports. An appreciation makes imports relatively cheap and exports expensive. Recent currency developments show that the Namibia Dollar depreciated against the USD monthly from April 2022 (see figure below). The NAD depreciated by 11% (quarter on quarter) and by 17 % (month on month) in contrast to similar periods in 2021. Moreover, between May and June 2022, the Namibian dollar depreciated by 2% (Figure 11 below). Going forward, the Namibian dollar is expected to depreciate further against foreign currencies, a situation which is likely to put pressure on the price building materials.

Figure 12: NAD/USD exchange rate



Source: BON

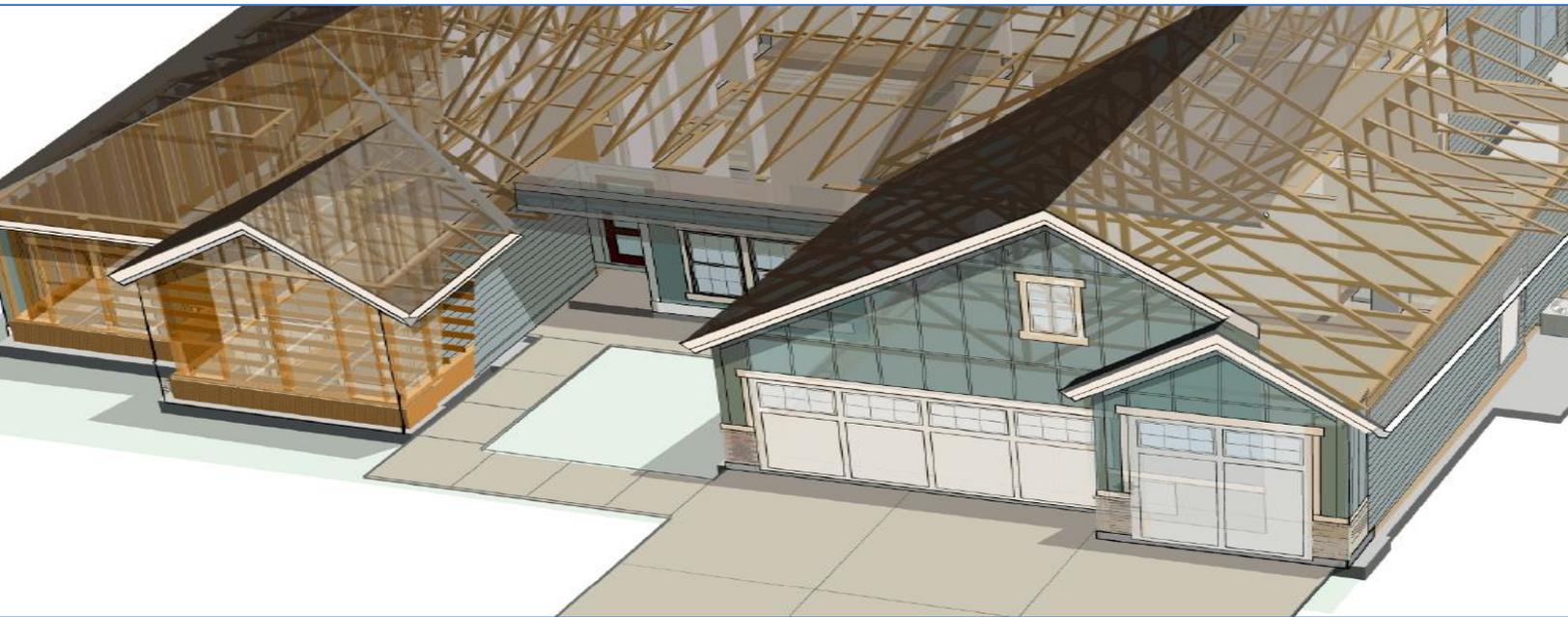
Demand and Supply trends: The construction sector is expected to pick up in 2022 owing to major construction activities in 2022 compared to previous years. We believe, that Ohorongo and Cheater cement with production capacities of 700 000 and 500 000 respectively can cater for increased demand for cement in the country. Unfortunately, the rising fuel prices poses a risk to the level of prices going forward.

Impact of Russia and Ukraine war building materials: invasion into the Ukraine by Russian troops on 24 February 2022 will cause serious problems for the whole world. Russia is the world's third largest oil producer behind the United States and Saudi Arabia. In January 2022, Russia's total oil production was 11.3 mb/d, of which 10 mb/d was crude oil, 960 kb/d condensates and 340 kb/d Natural gas liquids. About 60% of Russia's oil exports go to OECD Europe, and another 20% go to China. Be that as it may, prices rose by USD 8 per barrel to USD 105 per barrel following the news, on expectations that sanctions against Russia would cripple energy exports.

Crude oil is a basic input to production and increases of oil prices have a noticeably impact on production costs. As a result, prices of building materials and other commodities are expected to continue rising globally. This will reduce demand, construction, and economic activities.

8. CONCLUSION

In the final analysis, the price pressures on building materials remain elevated due to a combination of rising input and transportation costs as well as the war between Russia and Ukraine. The choice by consumers is limited as both inflationary pressures are getting more pronounced locally and internationally. An upward price trend is observed on building materials and expected over the medium term. Given the increase in construction activities in 2022, the demand for cement is expected to increase and match the increased supply by Cheater and Ohorongo cement companies. Land prices remain persistently high, which continues to be a limiting factor in acquiring residential properties especially in central and coastal parts of the country. The Bank of Namibia is expected to hike the repo rate throughout 2022 to prevent capital outflows to the neighbouring South Africa which has embarked on an interest rate hiking cycle. Since January 2021 mortgage credit to businesses started to recover while credit extended to individuals have continue to households show a long-term steady decline suggesting effect of interest rates and inflation over the medium term.



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