



First Capital House Building Cost Index

January 2020

Contributors

Milner Siboleka: Research Manager
Clarinda Kavezuva: Research Analyst

Knowledge | Creativity | Solutions



FIRST CAPITAL
NAMIBIA

Disclaimer

This document is issued by First Capital Namibia. While all reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. Opinions, projections, and estimates are subject to change without notice. This document is for information purposes only. It does not constitute any offer, recommendation, or solicitation to any person to enter into any transaction or adopt any hedging, trading, or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. The contents of this document are not made about the specific investment objectives, financial situation, or the needs of any person.

About Us

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.

Table of Contents

Content	Page
List of Figures	4
List of tables.....	4
Acronyms.....	4
Note to the reader.....	5
Methodology	5
1. DOMESTIC BUILDING MATERIALS PRICE TRENDS.....	6
1.1. House Building Cost Index	6
2. SUB-COMPONENTS PRICE ANALYSIS	6
2.1. Building Materials Price Analysis	6
2.1.1. Trend review and Outlook on Building Materials.....	6
2.1.2. Building Materials cost by town	9
2.2. Cost of Land	9
2.2.1. The Price of Land by Town and Price changes over time	9
2.3. Labour Cost	10
3. TOTAL COST OF BUILDING A STANDARD 3-BEDROOM HOUSE	11
4. MORTGAGE CREDIT ANALYSIS	11
5. MONETARY POLICY	12
6. RECENT DEVELOPMENTS AND THEIR IMPACT ON THE HOUSING MARKET	13
7. FACTORS SHAPING BUILDING MATERIALS PRICE OUTLOOK	14
8. CONCLUSION.....	15

List of Figures

<i>Figure 1: House Building Cost Index Trend</i>	6
<i>Figure 2: Building Material Cost by Town</i>	9
<i>Figure 3: Average Price of Land from Local Authority measuring 375 square metres.....</i>	10
<i>Figure 4: The total cost of building a standard residential house using March 2019 prices.....</i>	11
<i>Figure 5: Mortgage Credit growth and House Price trend</i>	12

List of tables

<i>Table 1: Building Material bill on a standard 3 bedroom residential house</i>	8
<i>Table 2: Mortgage Instalments changes due to Interest Rate cuts</i>	13

Acronyms

bp	: Basis Points (1 percentage point=100 basis Points)
Cm	: Centimetres
CMA	: Common Monetary area
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
NSA	: Namibia Statistics Agency
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 publication of the First Capital (FC) House Building Cost report where we monitor trends of the cost of building a house. This report is one of our contributions to research on issues affecting society and the economy. We recognize that housing provision is fundamental for long-term macroeconomic stability, not only does it provide social and economic benefits for families, but also contributes immensely to economic growth. Through this report we provide more insight into previous trends of prices and the impact of price changes on the cost of building a house. Furthermore, the report analyses factors that influence the cost of building a house. Using current information and other leading indicators, we also 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 every agent of the economy will be 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.

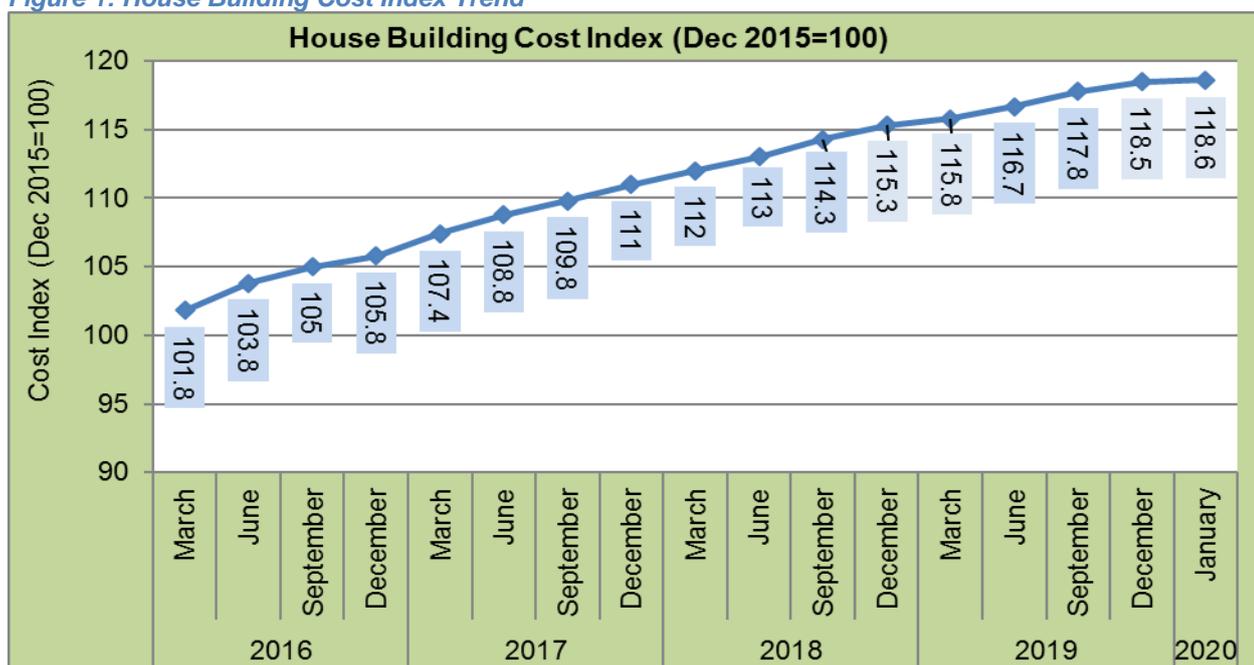
The land cost index is derived from the average unweighted prices of urban land. The standard area of land for price comparison in all towns is 375 square metres. For comparison, the town specific average price of land per square metre is multiplied by the land measuring 375 square metres to derive the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

1. DOMESTIC BUILDING MATERIALS PRICE TRENDS

1.1. House Building Cost Index

The First Capital House Building Cost Index is derived from the cost of building a standard 3 bedroomed house. The cost index reached 119 in January 2020 compared to 115.4 index print in January 2019, representing an increase of 2.8 percent in the cost of building a house. Over a monthly basis, the price index edged up by 0.1 percent (See figure 1). At this rate (2.8 percent annual increase) the index growth is at its lowest since 2016. This further marks the fifth consecutive slowdown in the growth of the price index. The slowdown in the building materials price index growth was mainly due to the marginal decline in the price of cement (With the weight of 23 percent of the building materials bill of quantity) by 2.3 percent (y/y).

Figure 1: House Building Cost Index Trend



Source: First Capital Research

2. SUB-COMPONENTS PRICE ANALYSIS

2.1. Building Materials Price Analysis

Building materials cost 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 new residential house. The following section analyses trends of prices for building materials.

2.1.1. Trend review and Outlook on Building Materials

Cement prices Analysis: Both Semi (32.5) and high (42.5) strength cement recorded marginal price decline of 2.4 and 2.1 percent respectively in January 2020 compared to January 2019. This marks a third year of suppressed cement prices which was initially triggered-by the decline in demand due to the slowdown in construction activities and later in 2019 compounded by the increased competition among suppliers of cement amid the subdued demand in a slowing economy.

On the supply side, the total domestic production capacity of cement remains elevated after it more than doubled to 2.2 million tons per annum in 2019 compared to the 1 million tons per annum in 2018 due to a new entrant (Whale Rock Cement) in the cement production market. Despite that the domestic production capacity increased

to 2.2 million tons per annum, local demand remains subdued at 600,000 tons of cement per annum. With the market that has doubled its production capacity amid the prolonged weak demand, we hold a view that prices will remain depressed throughout 2020. Though a trend analysis indicates that prices could emerge from their two-year consecutive declining trajectory, little suggests that prices could start to rise at historical levels.

Super bricks: Price of super bricks marginally increased by 1.1 percent in January 2020 compared to January 2019 (See *table 1*). The price of bricks is influenced largely by the price of cement, sand and transportation costs. Among the material inputs for super bricks, sand prices went up by 4 percent, while cement prices declined by 2,3 percent. The average increase in fuel cost a proxy indicator of transport inflation was up by 1.1 percent broadly in line with the price change in bricks. Throughout 2020, we do not expect major price shocks of bricks, broadly in line with the price outlook on input materials compounded by weak demand.

Sand: Annual figures of sand prices shows that the price growth of sand has significantly slowed down. The price of sand increased by 4 and 4.2 percent (Year on Year) for building and plastering sand respectively in January 2020 relative to the average 45 percent increase recorded in the first quarter of 2019 when the enforcement of sand mining regulations triggered supply chain disruptions. The subsequent stabilisation of sand prices indicates that the effect of the regulation enforcement on sand mining was short-lived and the price growth trajectory is now returning to its long-run trend.

Electrical goods: In January 2020 the prices of electrical goods were 2.9 percent higher compared to January 2019 (See *table 1*). Given that Namibia imports most of electrical building materials, the local exchange rate will be key to the price outlook. Furthermore, international prices of base metals which are production inputs for most electrical building materials will equally influence the outlook on prices of finished electrical building materials. This research hold a similar view with the consensus outlook including that of World Bank and IMF that commodity prices will continue falling on the backdrop of weak global demand in line with the subdued global growth prospects. Throughout 2020, we expect domestic prices of electrical building materials to remain stable, amid the balanced upside and downside risks to prices.

For detailed building material prices and annual changes, refer to *table 1* below. Overall, prices of building materials were 2.8 percent higher in January 2020 compared to January 2019.

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

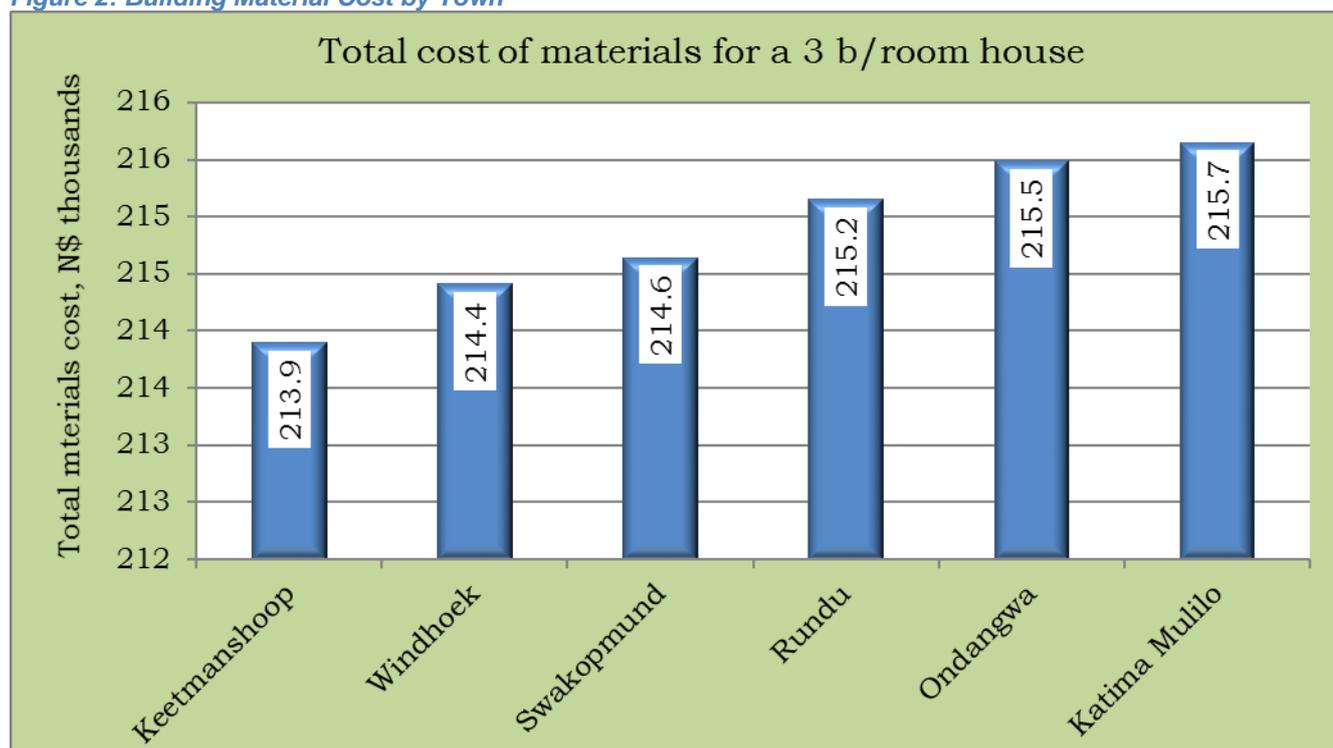
NO	ITEM	Total Quantity Required	Unit Price, N\$	January 2019, Bill of Quantity,	January 2020, Bill of Quantity,	January 2020 y/y increase
1	Brick work Materials(Foundation & Structure)			88,461	89,837	1.6%
	Super Bricks 7mpa	14,239	2.95	40,829	42,005	2.9%
	Cement 42.5 (50KG)	134	101.57	13,899	13,610	-2.1%
	Cement 32.5 (50KG)	130	94.90	12,635	12,337	-2.4%
	Building Sand (10 Cubic meters)	4	2,011.80	7,735	8,047	4.0%
	Plastering Sand (10 Cubic meters)	2	2,129.50	4,086	4,259	4.2%
	Concrete stones 19mm (10 Cubic meters)	2	2,328.00	4,510	4,656	3.2%
	Brick force (150*15*9") Rolls	30	18.10	524	543	3.6%
	Brick force (75*15*4.5") Rolls	10	18.56	180	186	3.1%
	Damp Proof Course,DPC (225mm*40m*250µm) Rolls	2	116.35	228	233	2.1%
	Damp Proof Course,DPC (110mm*40m*250µm) Rolls	2	50.85	99	102	2.7%
	Ant Poisoning, Astor Termite Control (5 L)	1	1,600.00	1,546	1,600	3.5%
	Others			2,190	2,259	3.2%
2	Roof & Ceiling materials			27,295	28,282	3.6%
	IBR Galvanised Roofing Sheet Z275 (0.47mm*4.5m)	28	350.07	9,415	9,802	4.1%
	Galvanised Fascia	1	121.75	117	122	4.2%
	Rafters, Timbers(38mm*114mm*6.6m)	28	154.10	4,118	4,315	4.8%
	Purlin, Timber(50mm*76mm*6.6m)	20	143.99	2,798	2,880	2.9%
	Rhinoboard Ceiling (6.4*2,700*1,200mm)	20	153.00	2,963	3,060	3.3%
	Branding (38mm*50mm*6.6m)	60	63.06	3,691	3,783	2.5%
	Cornice (75mm*3m)	20	40.42	786	808	2.9%
	Rain water Goods: Galvanized Gutters	4	250.99	974	1,004	3.1%
	Down Pipes	4	160.32	620	641	3.4%
	Others (Roofing Screws, Binders e.t.c.)			1,815	1,867	2.9%
3	Doors & Windows materials			13,306	13,773	3.5%
	Outside Doors (Wooden Pinedouble Weather board)	2	986.17	1,907	1,972	3.4%
	Inside Doors (Wooden medium Consult)	4	431.89	1,659	1,728	4.2%
	Outside Door Frames (813mm*2,032mm*230mm*1mm)	2	494.52	948	989	4.3%
	Inside Door Frames (813mm*2,032mm*115mm*0.6mm)	4	251.42	969	1,006	3.8%
	Outside Steel Buglar Doors	2	639.72	1,248	1,279	2.5%
	Steel Window Frames ND11w1800xh1500 (Sitting room)	1	657.53	639	658	2.9%
	Steel Window Frames ND4w1500xh1200 (Bedrooms)	3	248.63	726	746	2.8%
	Steel Window Frames NE2w1200xh600 (Bathroom)	1	254.30	246	254	3.4%
	Steel Window Frames NC1 w900xh900 (Kitchen)	1	256.53	249	257	3.2%
	Windows			2,403	2,490	3.6%
	Others (Concrete Lintels, Curtain Rails, Window buglars, Door handle sets e.t.c)			2,313	2,395	3.5%
4	Plumbing materials			8,770	9,045	3.1%
	Kitchen Sink (1200mm*480mm drop in)	1	915.00	888	915	3.1%
	Basin waste Union (1.25*32mm)	2	361.92	694	724	4.3%
	Kitchen Tap set	1	504.05	486	504	3.8%
	Basin white flair (470mm)	1	278.90	272	279	2.5%
	Basin taps	2	287.49	559	575	2.9%
	Shower components(Shower head, Arm, Trap & 2 Taps)		600.87	584	601	2.8%
	Toilet set (765mm)	1	959.07	927	959	3.4%
	Sewer pipes set			1,246	1,290	3.5%
	Copper pipes set			767	773	0.8%
	Others			2,347	2,425	3.3%
5	Electrical materials			11,826	12,247	3.6%
	Electrical Cables			4,835	4,999	3.4%
	Light Switch(X2 Double & X4 Single Light Switch)			304	312	2.6%
	Electrical Plug Sockets(X2 Double & X3 Single sockets)		458.12	439	458	4.3%
	Light Bulbs & Lamps(X6 Bulbs & X6 Lamps)		347.26	339	347	2.3%
	Distribution Board (DB), 12 Mode Flush	1	253.38	245	253	3.3%
	PVC Pipes			3,639	3,778	3.8%
	Others			2,024	2,099	3.7%
6	Tilling materials			19,473	20,162	3.5%
	Floor tiles, Ivory Nano 2nd Grade (600*600mm)	50	201.00	9,671	10,050	3.9%
	Wall tiles, Mosaic Matt (48*48mm)	60	102.99	5,984	6,179	3.3%
	Tile Adhesive [glue].(20kg)	30	53.00	1,525	1,590	4.2%
	Tile Grout (20Kg)	3	206.00	607	618	1.8%
	Others			1,685	1,725	2.4%
7	Painting materials			10,020	10,340	3.2%
	Primer Paint (20L)	3	593.90	1,739	1,782	2.5%
	Colour Coat Paint (20L) [Creame colour for Interior]	3	1,260.18	3,652	3,781	3.5%
	Colour Coat Paint (20L) [Desert tan colour for Exterior]	2	1,289.50	2,498	2,579	3.2%
	Other materials			2,131	2,199	3.2%
8	Fencing materials			13,838	14,367	3.8%
	Diamond Mash Wire Fence rolls (1.8m high & 25m Long)	15	714.99	10,320	10,725	3.9%
	Econo Gate, 1 Piece (1.8m high & 1m wide)	1	679.00	665	679	2.1%
	Econo Gate, 2 Piece (1.8m high & 3m wide)	1	1,888.00	1,809	1,888	4.4%
	Others			1,044	1,075	3.0%
9	Contigency materials			15,890	16,590	4.4%
	Nails, screws, e.t.c			15,890	16,590	4.4%
	Total materials			208,879	214,643	2.8%

Source: First Capital Research

2.1.2. Building Materials cost by town

Figure 2 below shows a comparison of the cost of building materials in the six towns. The cost of Building materials is higher in Katima Mulilo (N\$215,700) and Ondangwa (N\$215,500). Keetmanshoop, Windhoek and Swakopmund offers the cheapest building materials compared to other towns. The total cost of building materials in Keetmanshoop is N\$1,750 less than the cost of identical materials in Katima Mulilo. The differences in building materials cost by town reflects varying prices due to supply sources that are largely unique to every town. For example, sand, stones, bricks and roofing material prices differ by town.

Figure 2: Building Material Cost by Town



Source: First Capital Research

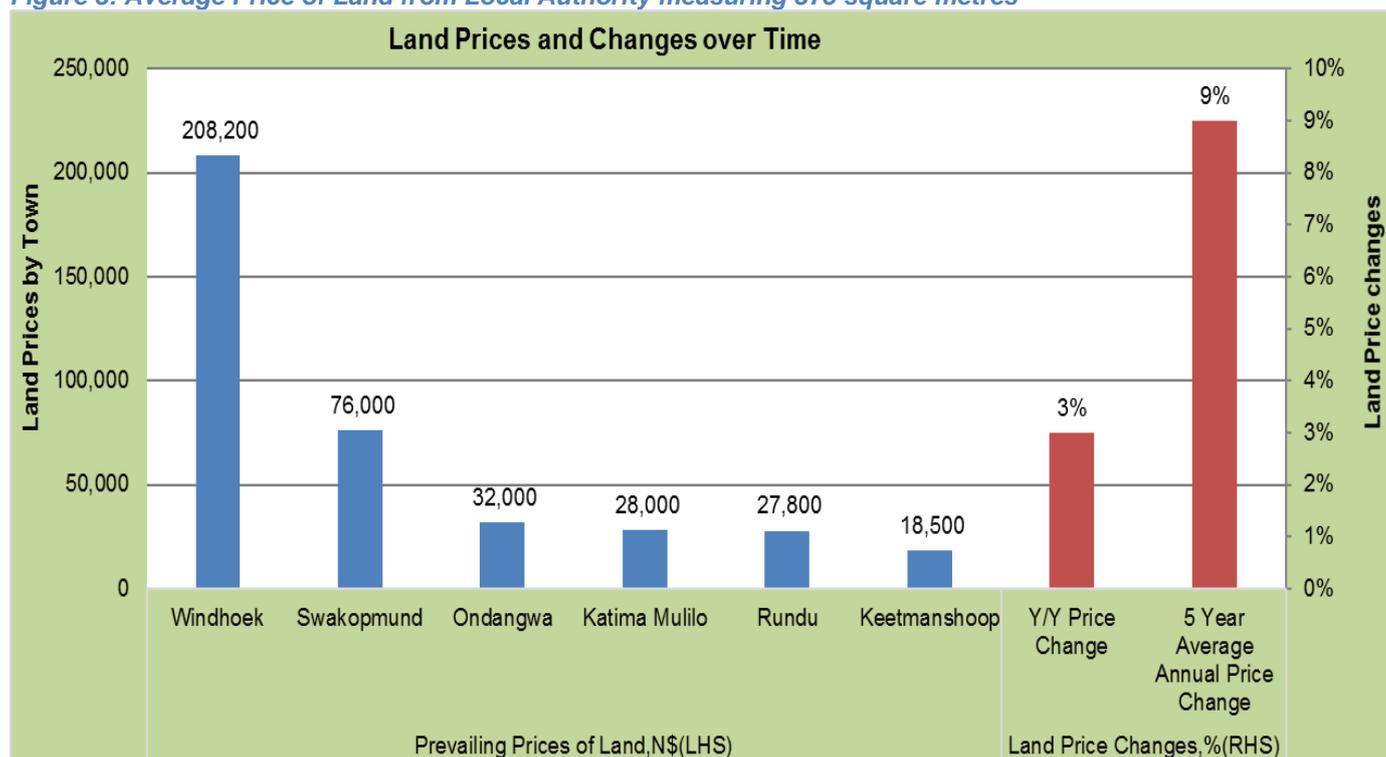
2.2. Cost of Land

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

Figure 3 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 cheapest in Keetmanshoop costing N\$18,500 followed by Rundu costing N\$27,800. The same size of land would cost N\$208,200 in a middle-class location of Khomasdal in Windhoek making it the most expensive, followed by Swakopmund costing N\$76,000.

Though average growth of land prices have declined from the 5-year average of 9 percent to 3 percent Year-to-date, land still remains axobinantly eleveted 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 rising supply deficit in land servicing and delivery continues to put pressure on 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 3: Average Price of Land from Local Authority measuring 375 square metres



Source: First Capital Research

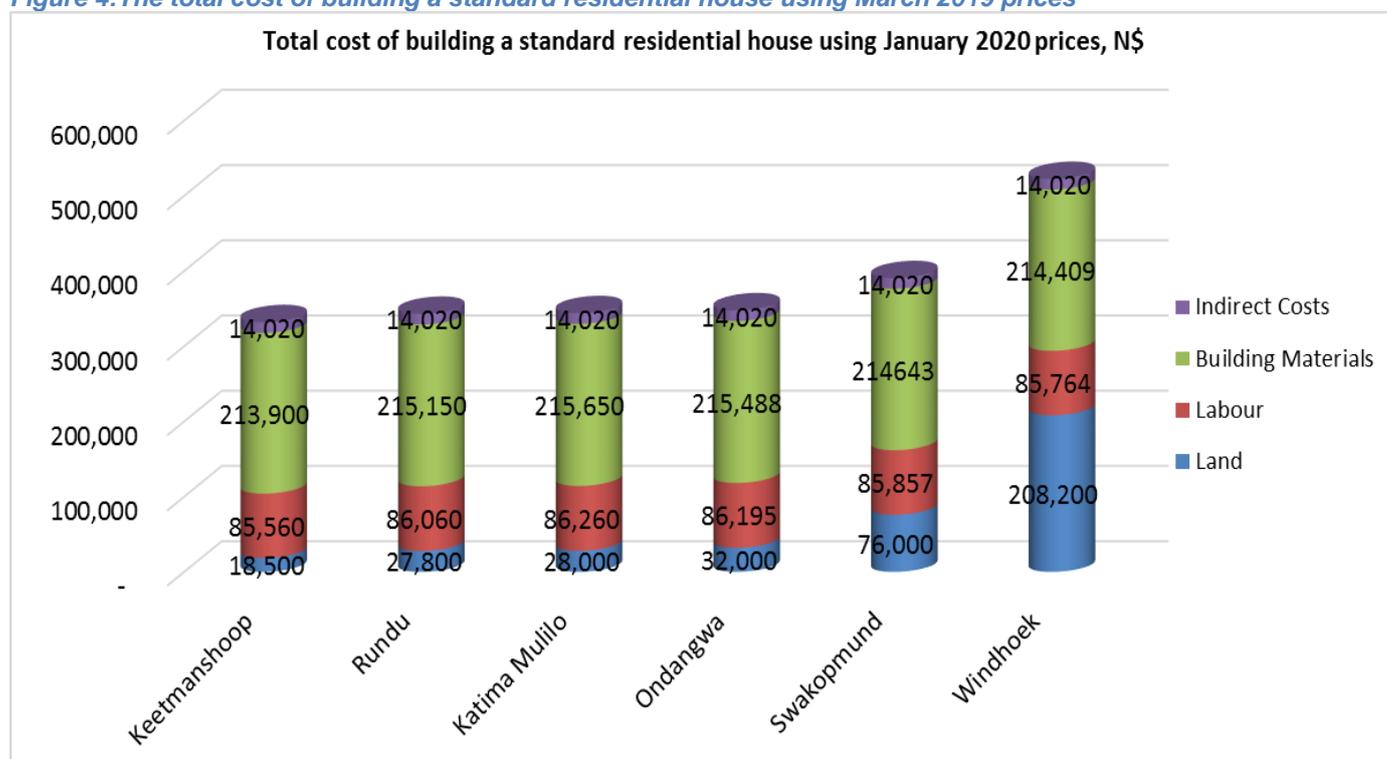
2.3. Labour Cost

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 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\$214,643 using January 2020 prices, labour is estimated to cost N\$85,857. 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 January 2020 prices, construction of a standard three-bedroom house will cost on average N\$522,393 in Windhoek, while in Keetmanshoop it will cost N\$331,980 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 11 times more than the price of land in Keetmanshoop's middle income suburb. Taking into consideration all costs involved in the house construction value chain, land accounts for 6 percent of total cost in Keetmanshoop while in Windhoek it accounts for 40 percent. Building materials remain the most significant cost component in the house construction value chain on average accounting for 63 percent of total cost in Keetmanshoop, Rundu, Katima Mulilo and Ondangwa.

Figure 4: The total cost of building a standard residential house using March 2019 prices

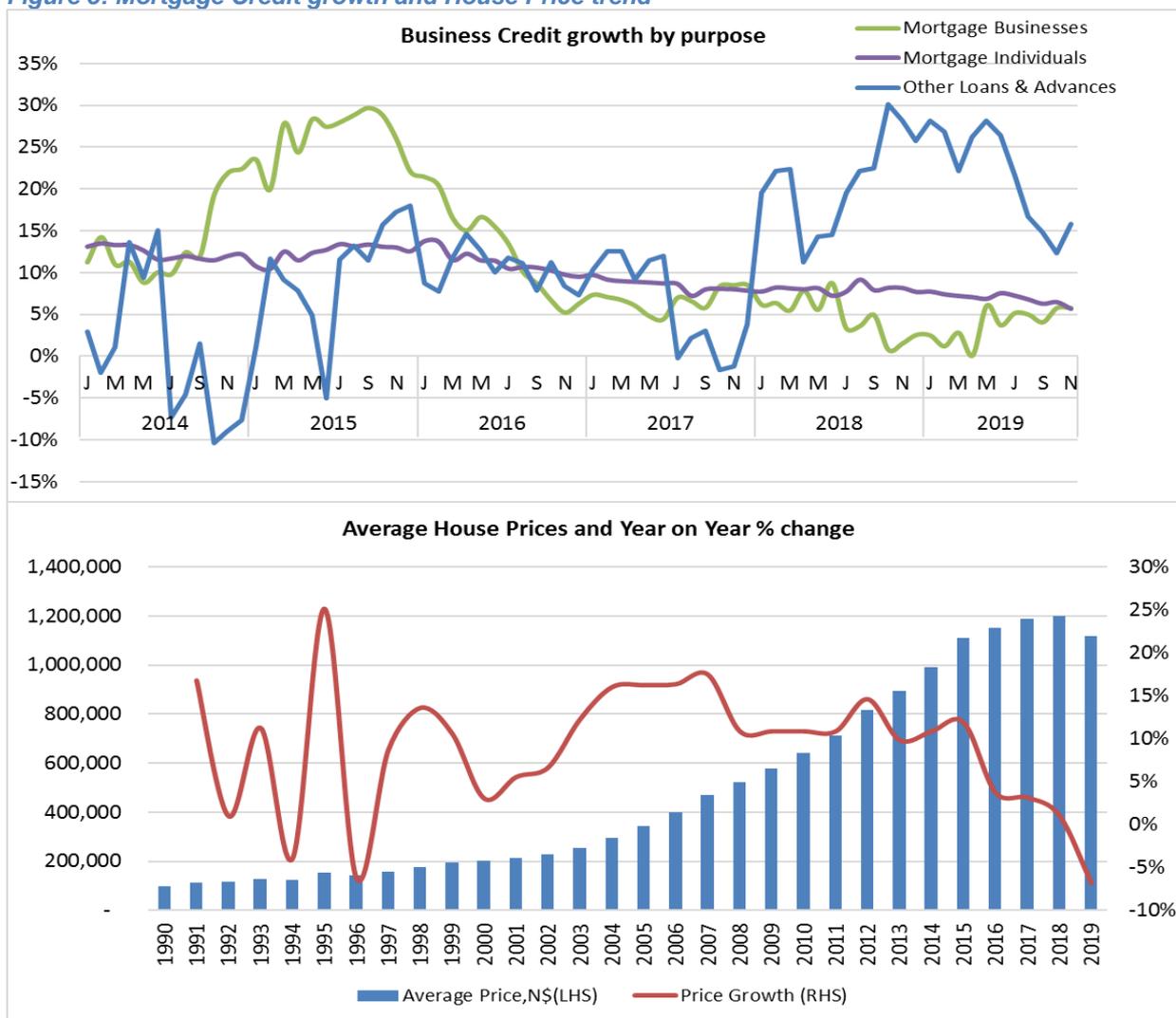


Source: First Capital Research

4. MORTGAGE CREDIT ANALYSIS

The growth of mortgage credit to individual have been steadily stabilising since 2016. However, the growth of mortgage credit to businesses have fallen much faster than that of individual since 2016. Given that mortgage credit to businesses have been rising faster than that of individuals prior to 2016, the sharp decline afterwards indicates that businesses have been retreating from the housing market possibly due to weak market conditions in the housing market. However, data further depicts that businesses are now borrowing more for non-housing purposes which indicates that they are now seeing potential to invest elsewhere than the housing sector.

Figure 5: Mortgage Credit growth and House Price trend



Source: BoN,

FNB & First Capital Research

5. MONETARY POLICY

As expected BoN’s MPC announced a decision to further cut the repo rate by 25 bp to 6.25 percent at its February 2020 meeting after another cut decision in August 2019. This did not come as surprise given the recent prevailing trend of global policy easing, moderating domestic inflation trending at historical low levels (2.1 % in January 2020) with a clear absence of demand pressures on prices and the need to support economic activities. This move brings the repo rate in line with that of the South African Reserve Bank (SARB), which is the anchor of monetary policy direction in the Common Monetary Area (CMA). The central bank forecast a benign headline inflation below 5 percent in 2020 and weaker economic outlook to hold in 2020.

The rate cut is expected to bring a marginal relieve on indebted consumers and only have a somewhat positive impact on investment spending if both consumer and business confidence improves. The fact that most central banks are converging towards the path of monetary policy easing of which the current move to cut domestic rates aligns to, will offset the risk of domestic capital flights. However, the impact of this policy direction should be expected to be minimal in making a significant dent to the economy under the current host of structural challenges which require other policy interventions beyond the scope of monetary policy. Despite the short-lived effect of monetary policy easing on demand, sustaining the growth trajectory requires other policy interventions including fiscal policy to balance multiple objectives which includes among others bolstering growth potential by realigning resources to support structural reforms while ensuring the sustainability of public finances over the medium to long-term.

What a rate cut mean for mortgage instalments: Cumulatively the two rate cuts (25 bps in August 2019 and February 2020) reduces mortgage instalments by 3.3 percent. consumers with high debt will get some relief in terms of reduced monthly payments to service their loans due to lower interest rates. The table below provide scenarios of savings to be realized on servicing cost for mortgage loans. A mortgage loan with a N\$500,000 principle amount will save 3.3 percent or N\$171 compared to a year ago. With a higher loan of N\$1.1 million households will save N\$377 in instalments while on a N\$2.5 million loan, N\$856 will be saved.

Table 2: Mortgage Instalments changes due to Interest Rate cuts

Mortgage Loan with the term of 240 months @ Mortgage Lending Rate			
Principle Amount	Installment in February 2019	Current Installment (After Feb. 2020 Interest rate cut)	Cumulative change based on 25bp rate cuts in Aug. 2019 & Feb. 2020
N\$500,000	N\$5,332	N\$5,161	↓3.3% (N\$171)
N\$1,100,000	N\$11,731	N\$11,354	↓3.3% (N\$377)
N\$2,500,000	N\$26,661	N\$25,805	↓3.3% (N\$856)

Source: First Capital Research

Savers will not be losing as is traditionally viewed when interest rates start falling. Inflation still remain lower and the limited signs of demand pressures would mean that inflation will remain at these low levels in the short to medium term thereby still enabling savers to realize positive real returns. Investors both in bonds and equity would also benefit as bond prices rises and company equity investors to benefit as company valuations rises and operations expand as investments are made to meet the growth in demand.

6. RECENT DEVELOPMENTS AND THEIR IMPACT ON THE HOUSING MARKET

Sand mining regulations

More than a year after enforcement of regulations in sand mining, the market appears to have stabilised from price shocks induced by supply chain disruptions in sand mining after enforcement of regulation. Sand price inflation now trends at an average of 4 percent relative to the 46 percent a year ago.

Elevated domestic cement production capacity vs. competition

Cement production capacity remains highly elevated relative to demand due to entry of Whale rock cement producer in the market. The entry of Whale rock cement has increased the total domestic production capacity of cement to 2.2 million tons per annum compared to 1 million tons per annum when Ohorongo cement was the only supplier. Despite that the domestic production capacity increased, local demand remains fairly low at 600,000 tons of cement per annum. As a result, the prices of both semi and high strength cement has continuously been decreasing since 2018.

Credit extension for mortgage loans

The growth of credit extended for mortgage loans to individuals has been steadily declining dropping from 7.7 percent in January 2019 to 5.7 percent in November 2019. However, the growth of mortgage credit to business has since May 2019 increased though it remains much lower than the levels reaching 28 percent prior to 2016. Overall mortgage credit growth is slowing.

Mortgage Credit risk for Banks

Mortgage loan quality measured by Non-performing loan ration of the stock of mortgage loans in the country has deteriorated further. The Bank of Namibia's Quarterly bulletin reported that this ratio averaged 4.7 percent in Q3 of 2019 relative to 3.4 percent in the corresponding quarter of 2018.

Interest rates

The BoN's MPC decision to cut the repo rate by cumulatively 50 basis points (25bp in August 2019 and 25bp in February) in 5 months time will reduce mortgage instalments by 3.3 percent. In absolute amounts it reduces monthly instalments by N\$173, N\$379 and N\$862 for loans with principle amounts of N\$500,000; N\$1,100,000 and N\$2,500,000 respectively.

7. FACTORS SHAPING BUILDING MATERIALS PRICE OUTLOOK

The cost of Inputs for production of building materials: The price outlook for inputs of building materials suggests stable prices throughout 2020. Stable cost of inputs is expected to transmit through lower producer prices to retail prices in building materials. Equally so, we hold a view that there will be no price shock on electrical and metal building materials based on the outlook of a prolonged slow recovery in commodity metal prices like Aluminium, Copper, Steel and Zinc which are key inputs to the manufacturing of electrical and metal building materials. Both IMF and World Bank projects an outlook of slow recovery on metals commodity prices.

Transport costs: Transport costs are mainly influenced by fuel prices and distance to the intended destination.

Namibia imports all its fuel requirement. As a net importer of fuel, Namibian fuel pump prices are subjected to fuel import cost (influenced by oil price and the exchange rate to the USD). Current projections rule out possibility of significant fuel price increase based on projected stability in the price of crude oil.

Currency exchange rate developments: The NAD exchange rate to the USD (widely used currency in international trade transactions) will be another key factor to the outlook of a significant share of building materials that we import mostly from China, the USA and Europe. On the 29th March 2019 the NAD was 3.7 percent weaker against the USD compared to the exchange rate a year ago. Most international forecasts suggest a stronger USD outlook which poses upside risks on local building material prices.

Demand and Supply trends: The construction sector's prolonged GDP contractions is an indication of the slowdown in demand. Since domestic production of cement is linked to demand, the continuous declining trend of cement output since 2016 is a confirmation that demand has been slowing down. Since 2016, Ohorongo cement output has continuously been declining after reaching a peak of 796,055 tons of cement in 2015. Despite the three years conservative slowdown in output levels of cement, the domestic production capacity of has increased to 2.2 million tons per annum from 1 million tons in 2018. Both the cement producers are producing way below their full capacity. Given a combination of the competition in supply of cement and weak demand we hold a view that prices will remain fairly unchanged through 2020.

8. CONCLUSION

Building material prices are expected to remain stable throughout 2020. Given the dismal economic outlook, demand for cement is expected to remain weak implying that the increased competition between two domestic producers (Ohorongo and Whale Rock) will continue to be based on reducing prices. This has already materialized given the realized three-years continuous decline in prices. Land prices remain persistently high, which continuous to be a limiting factor in acquiring residential properties especially in Windhoek and coastal parts of the country. The average price of land in a middle-income suburb of Windhoek such as Khomasdal is 11 times more than in Keetmanshoop. The cumulative effect of recent monetary policy rate cuts (25 bps in August 2019 and February 2020) will relief household instalments by 3.3 percent (Y/Y). Mortgage credit to businesses have significantly declined since 2016, however borrowing for non-mortgage purposes has increased an indication that businesses are now seeing potential to invest elsewhere than the housing sector.



Contact Us

Research

Milner Siboleka
milner@firstcapitalnam.com

Clarinda Kavezuva
clarak@firstcapitalnam.com

Frieda Amadhila
frieda@firstcapitalnam.com

Lending

Albertina Shoopala
albertinas@firstcapitalnam.com

Jean P Dushimire
johnp@firstcapitalnam.com

Registered Office

No. 124 John Meinert Street
Windhoek West
Windhoek
Tel: +264 61 446700
Fax: +264 61 401353
Email: help@firstcapitalnam.com
Website: www.firstcapitalnam.com

Sales

Lizah Bezuidenhoudt
lizah@firstcapitalnam.com

Claudia Guedes
claudiag@firstcapitalnam.com

Portfolio Management

Martin Mwinga
mwinga@firstcapitalnam.com

Tafadzwa Mashozhera
mashozhera@firstcapitalnam.com

Milner Siboleka
milner@firstcapitalnam.com