

Volume 6: 2019



**FIRST CAPITAL**  
TREASURY SOLUTIONS  
(Pty) Limited

# First Capital House Building Cost Index

March 2019

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## Acronyms

<b>Cm</b>	: Centimetres
<b>CPI</b>	: Consumer Price Index
<b>EU</b>	: European Union
<b>FC</b>	: First Capital
<b>IMF</b>	: International Monetary Fund
<b>Kg</b>	: Kilogram
<b>L</b>	: Litres
<b>P/mt</b>	: Per Metrictonne
<b>m</b>	: Meters
<b>NSA</b>	: Namibia Statistics Agency
<b>N\$/NAD</b>	: Namibia Dollar
<b>USD</b>	: United States Dollar
<b>USA</b>	: United States of America
<b>y/y</b>	: year on year change
<b>ZAR</b>	: 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 220cm 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.

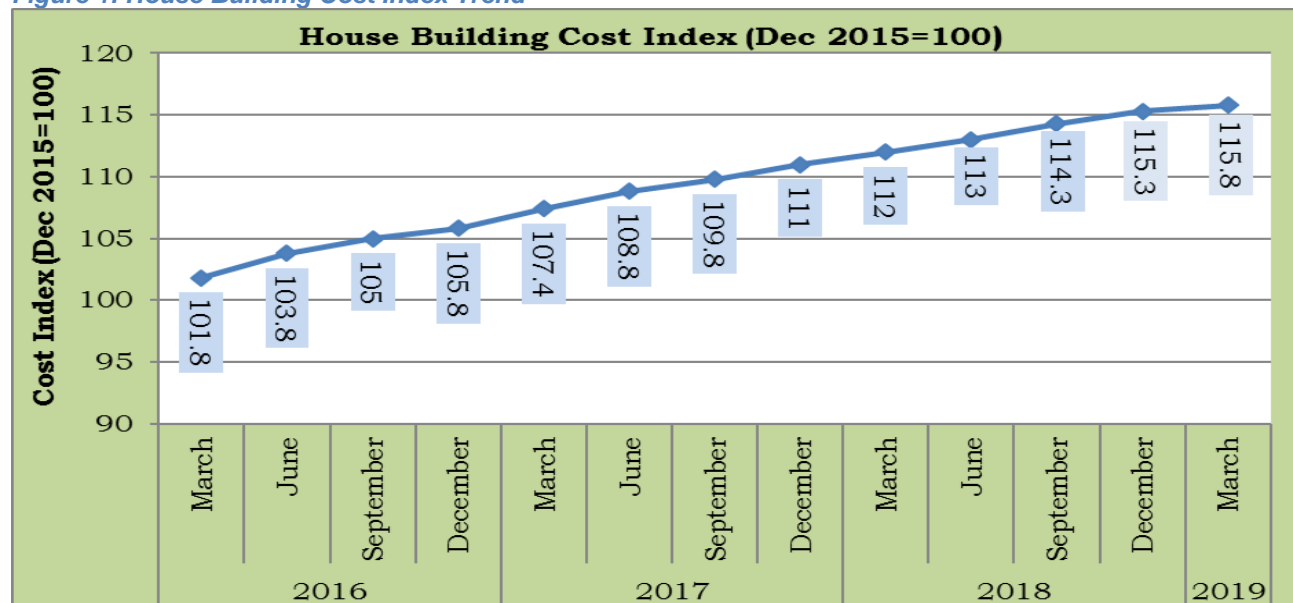


## 1. DOMESTIC BUILDING MATERIALS PRICE TRENDS

### 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 115.8 in March 2019 compared to 112 index print in March 2018, representing an increase of 3.4 percent in the cost of building a house. Over a 3 months period, between January and March 2019, the price index edged up by 0.4 percent (See figure 1). The slowdown in the building materials cost was mainly due to the sharp decline in the price of cement by 10 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 saw a decline in prices of 10.4 and 10.1 percent respectively in March 2019 compared to March 2018. The decline is attributed to the increase in competition amid the subdued demand in a slowing economy. On the supply side, the total domestic production capacity of cement has more than doubled to 2.2 million tons per annum in March 2019 compared to the 1 million tons per annum in recorded in March 2018 as a new player (Whale Rock Cement) entered the cement production market. Despite that the domestic production capacity increased to 2.2 million tons per annum, local demand remains fairly low 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 weaken further throughout 2019.

**Super bricks:** Price of super bricks marginally increased by 3.1 percent in March 2019 compared to March 2018 (See *table 1*). The price of bricks is influenced largely by the price of cement, sand and transportation costs. In line of the major inputs of super bricks, the price of sand surged up by 46 percent in March 2019(y/y) while cement prices declined by 10 percent over the same period. Despite a huge price increase in sand, the decline in cement prices and the slowdown in demand were the main offsetting factors for the price increase of super bricks. Throughout 2019, we do not expect major price shock of bricks, as slow demand should be a limiting factor for producers to increase prices. Competition among brick suppliers will also be key in keeping prices stable as of recent competition in the market of supplying bricks has peaked up. However, the high price outlook for sand remains an upside risk to brick prices though this would likely be offset by the slowing prices of cement.

**Sand:** Annual figures show an increase of 46 and 47.2 percent for building and plastering sand respectively in March 2019 as compared to a year ago (See *table 1*). As the last publication of this research predicted, the surge in sand prices is largely due to the recent move towards regulating sand mining, given the environmental impact it poses in areas where sand is mined. This has reduced competition in the market while the regulation further means informal sand suppliers which are mostly not subjected to any tax payments are phased out of the market. With regulation based on environmental considerations, most sand mining activities within the reach of residential areas are closed leaving those operating some distance from the residential areas which translates into high transportation costs.

**Electrical goods:** In March 2019 the prices of electrical goods were 4.7 percent higher compared to March 2018 (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. Despite increasing upside risks for base metal prices due to recent global trade tensions targeting tariffs mostly on base metals, we hold a similar outlook with that of World Bank and IMF that the effect of tariffs on base metal prices will be weighed down by the strong United States Dollar (USD) which has a negative relationship with commodity prices. Throughout 2019, we expect domestic prices of electrical building materials to remain stable, though upside risks remain elevated due to the underperformance of the local currency against the USD.

For detailed building material prices and annual changes, refer to *table 1* below. Overall, prices of building materials were 3.4 percent higher in March 2019 compared to March 2018.



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

NO	ITEM	Total Quantity Required	Unit Price, N\$	March 2018, Bill of Quantity,	March 2019, Bill of Quantity,	March 2019 y/y increase
1	<b>Brick work Materials( Foundation &amp; Structure)</b>			<b>94,286</b>	<b>97,290</b>	<b>3.2%</b>
	Super Bricks 7mpa	14,239	3.30	45,565	46,989	3.1%
	Cement 42.5 (50KG)	134	103.39	15,410	13,854	-10.1%
	Cement 32.5 (50KG)	130	98.56	14,300	12,813	-10.4%
	Building Sand (10 Cubic meters)	4	2,190.00	6,000	8,760	46.0%
	Plastering Sand (10 Cubic meters)	2	2,208.00	3,000	4,416	47.2%
	Concrete stones 19mm (10 Cubic meters)	2	2,820.00	5,380	5,640	4.8%
	Brick force (150*15*9") Rolls	30	17.75	518	533	2.9%
	Brick force (75*15*4.5") Rolls	10	18.25	177	183	3.3%
	Damp Proof Course,DPC (225mm*40m*250µm) Rolls	2	114.70	224	229	2.2%
	Damp Proof Course,DPC (110mm*40m*250µm) Rolls	2	49.81	97	100	3.2%
	Ant Poisoning, Astor Termite Control (5 L)	1	1,575.20	1,515	1,575	4.0%
	Others			2,100	2,200	4.8%
2	<b>Roof &amp; Ceiling materials</b>			<b>26,158</b>	<b>27,378</b>	<b>4.3%</b>
	IBR Galvanised Roofing Sheet Z275 (0.47mm*4.5m)	28	337.25	8,963	9,443	5.4%
	Galvanised Fascia	1	117.18	111	117	5.8%
	Rafters, Timbers(38mm*114mm*6.6m)	28	147.50	3,980	4,130	3.8%
	Purlin, Timber(50mm*76mm*6.6m)	20	140.34	2,605	2,807	7.7%
	Rhinoboard Ceiling (6.4*2,700*1,200mm)	20	148.60	2,963	2,972	0.3%
	Branding (38mm*50mm*6.6m)	60	61.70	3,506	3,702	5.6%
	Cornice (75mm*3m)	20	39.40	750	788	5.1%
	Rain water Goods: Galvanized Gutters	4	244.15	970	977	0.7%
	Down Pipes	4	155.50	560	622	11.1%
	Others (Roofing Screws, Binders e.t.c.)			1,750	1,820	4.0%
3	<b>Doors &amp; Windows materials</b>			<b>12,866</b>	<b>13,346</b>	<b>3.7%</b>
	Outside Doors (Wooden Pinedouble Weather board)	2	956.52	1,901	1,913	0.7%
	Inside Doors (Wooden medium Consult)	4	415.92	1,604	1,664	3.7%
	Outside Door Frames (813mm*2,032mm*230mm*1mm)	2	475.50	925	951	2.8%
	Inside Door Frames (813mm*2,032mm*115mm*0.6mm)	4	242.92	950	972	2.3%
	Outside Steel Buglar Doors	2	625.95	1,181	1,252	6.0%
	Steel Window Frames ND11w1800xh1500 (Sitting room)	1	640.87	634	641	1.0%
	Steel Window Frames ND4w1500xh1200 (Bedrooms)	3	242.57	702	728	3.6%
	Steel Window Frames NE2w1200xh600 (Bathroom)	1	246.65	230	247	7.5%
	Steel Window Frames NC1 w900xh900 (Kitchen)	1	249.30	239	249	4.5%
	Windows			2,300	2,410	4.8%
	Others (Concrete Lintels, Curtain Rails, Window buglars, Door handle sets e.t.c)			2,200	2,320	5.5%
4	<b>Plumbing materials</b>			<b>8,514</b>	<b>8,796</b>	<b>3.3%</b>
	Kitchen Sink (1200mm*480mm drop in)	1	890.30	882	890	0.9%
	Basin waste Union (1.25*32mm)	2	348.00	650	696	7.1%
	Kitchen Tap set	1	487.00	474	487	2.7%
	Basin white flair (470mm)	1	272.90	268	273	1.8%
	Basin taps	2	280.20	551	560	1.7%
	Shower components( Shower head, Arm, Trap & 2 Taps)		586.21	573	586	2.3%
	Toilet set (765mm)	1	930.23	895	930	3.9%
	Sewer pipes set			1,200	1,250	4.2%
	Copper pipes set			750	769	2.5%
	Others			2,270	2,354	3.7%
5	<b>Electrical materials</b>			<b>11,325</b>	<b>11,862</b>	<b>4.7%</b>
	Electrical Cables			4,650	4,850	4.3%
	Light Switch(X2 Double & X4 Single Light Switch)		305.00	289	305	5.6%
	Electrical Plug Sockets(X2 Double & X3 Single sockets)		440.50	420	441	4.8%
	Light Bulbs & Lamps(X6 Bulbs & X6 Lamps)		340.45	325	340	4.6%
	Distribution Board (DB), 12 Mode Flush	1	246.00	225	246	9.5%
	PVC Pipes			3,466	3,650	5.3%
	Others			1,950	2,030	4.1%
6	<b>Tiling materials</b>			<b>18,768</b>	<b>19,531</b>	<b>4.1%</b>
	Floor tiles, Ivory Nano 2nd Grade (600*600mm)	50	194.00	9,315	9,700	4.1%
	Wall tiles, Mosaic Matt (48*48mm)	60	100.04	5,761	6,002	4.2%
	Tile Adhesive [glue],(20kg)	30	51.00	1,486	1,530	3.0%
	Tile Grout (20Kg)	3	203.02	597	609	2.1%
	Others			1,610	1,690	5.0%
7	<b>Painting materials</b>			<b>9,852</b>	<b>10,044</b>	<b>2.0%</b>
	Primer Paint (20L)	3	580.90	1,710	1,743	1.9%
	Colour Coat Paint (20L) [Creame colour for Interior]	3	1,220.18	3,637	3,661	0.7%
	Colour Coat Paint (20L) [Desert tan colour for Exterior]	2	1,250.50	2,460	2,501	1.7%
	Other materials			2,045	2,140	4.6%
8	<b>Fencing materials</b>			<b>13,426</b>	<b>13,869</b>	<b>3.3%</b>
	Diamond Mash Wire Fence rolls (1.8m high & 25m Long)	15	689.10	10,046	10,337	2.9%
	Econo Gate, 1 Piece (1.8m high & 1m wide)	1	667.00	650	667	2.6%
	Econo Gate, 2 Piece (1.8m high & 3m wide)	1	1,817.01	1,732	1,817	4.9%
	Others			998	1,048	5.0%
9	<b>Contingency materials</b>			<b>15,600</b>	<b>15,900</b>	<b>1.9%</b>
	Nails, screws, e.t.c			15,600	15,900	1.9%
<b>Total materials</b>				<b>210,793</b>	<b>218,016</b>	<b>3.4%</b>

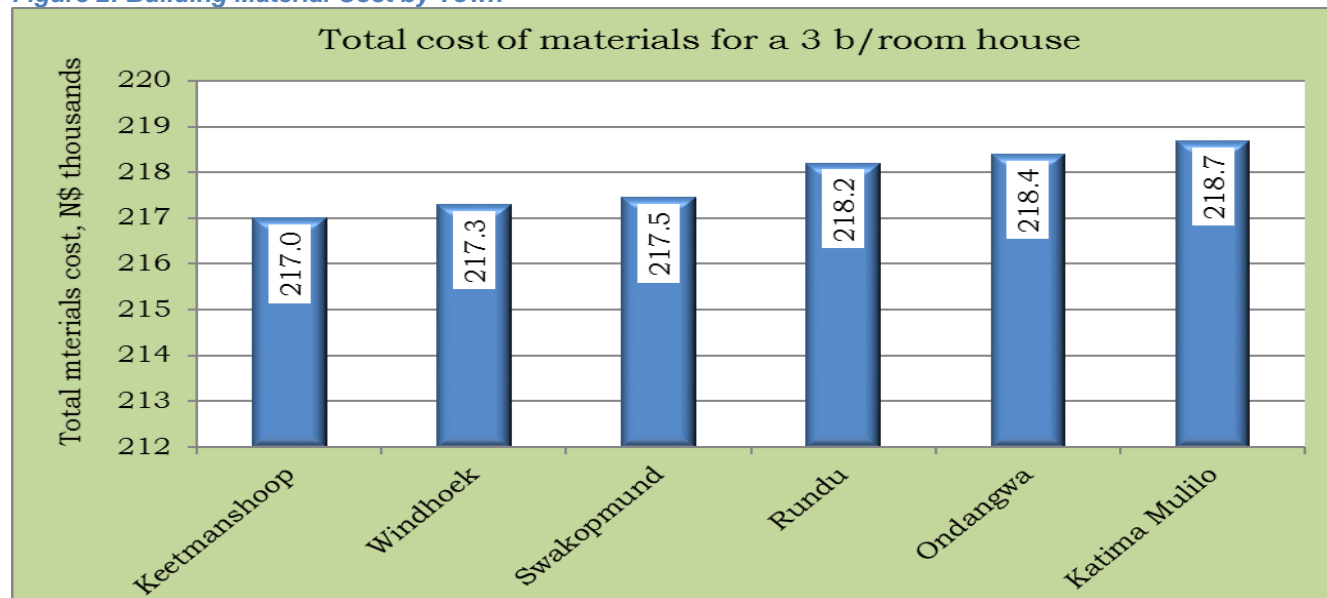
Source: First Capital Research



### 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\$218,700) and Ondangwa (N\$218,400). Keetmanshoop, Windhoek and Swakopmund offers the cheapest building materials compared to other towns. The total cost of building materials in Keetmanshoop is N\$1,690 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

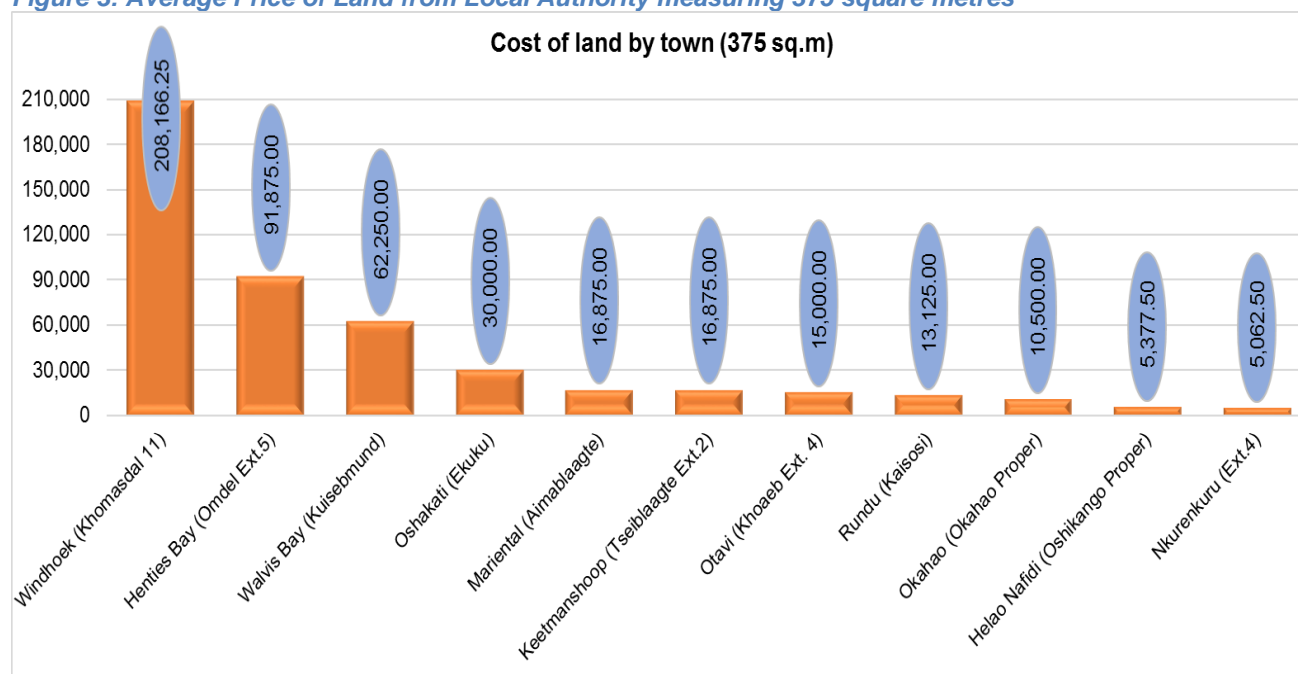
### 2.2.1. The Price of Land by Town

Figure 3 below indicates, the average prices of serviced land collected from recent transactions of local authorities with residents. 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 cheapest in Nkurenkuru costing N\$5,063 followed by Helao Nafidi costing N\$5,378. The same size of land would cost N\$208,166 in a middle-class location of Khomasdal in Windhoek making it the most expensive, followed by Henties Bay and Walvis Bay with N\$91,875 and N\$62,250 respectively. 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\$218,016 using March 2019 prices, labour is estimated to cost N\$87,206. 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.

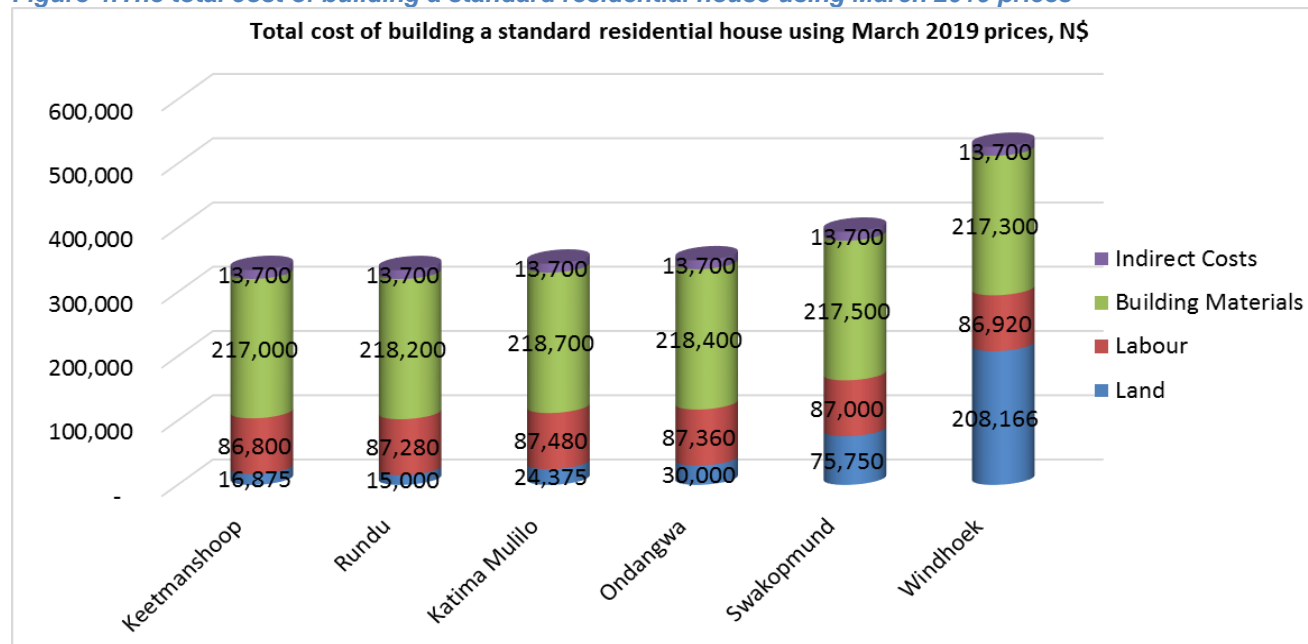
### 3. TOTAL COST OF BUILDING A STANDARD 3-BEDROOM HOUSE

Using March 2019 prices, construction of a standard three-bedroom house will cost on average N\$525,946 in Windhoek, while in Keetmanshoop it will cost N\$334,235 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 12 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 5 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 64 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**



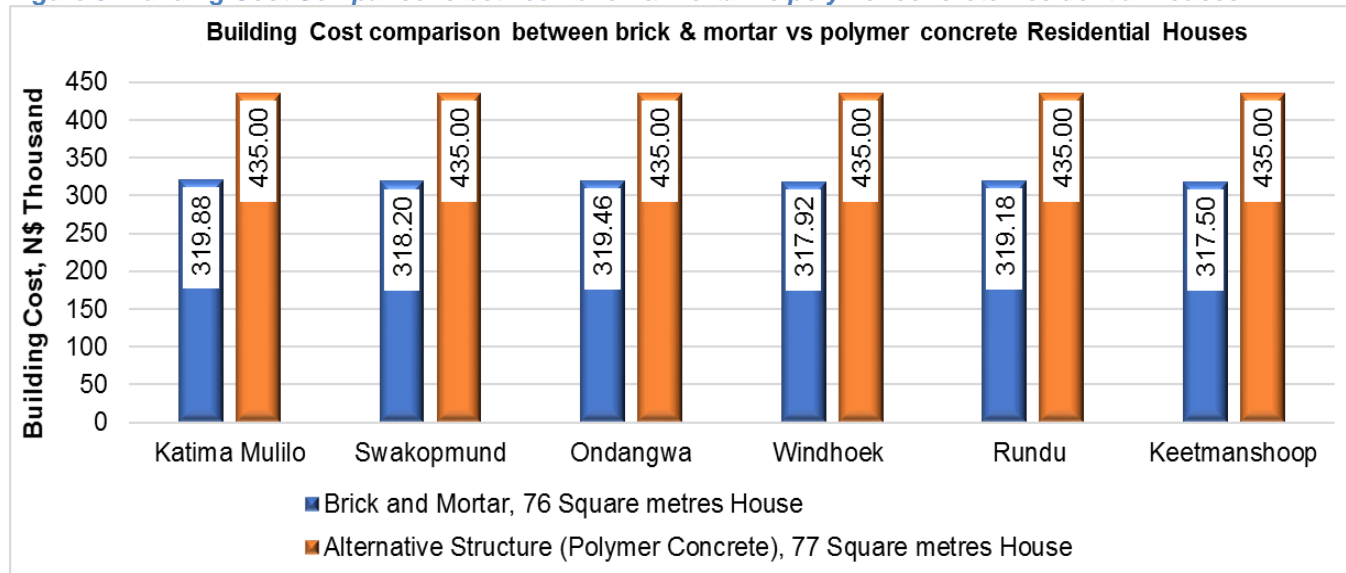
Source: First Capital Research

#### 4. COST COMPARISON OF BRICK & MOTAR VS. ALTERNATIVE (POLYMER CONCRETE) STRUCTURES

Recently, the housing market saw the introduction of alternative housing structures which uses polymer concrete for the wall and sandwich panels for the roof. Furthermore, this model uses desert sand, resin and makes no use of water. The model has been approved by City of Windhoek as a permanent house structure. Moreover, polymer concrete houses can be constructed within a period of two weeks. Brick and mortar have always been the single dominant housing structure in Namibia. As a result, this research has looked at the cost comparison between the cost of building a brick & mortar (76 square metres) and alternative house structure using polymer concrete (77 square metres). *Figure 5* below illustrates the outcomes of the comparison. As per *figure 5*, brick & mortar structures appear to be cost effective compared to Polymer concrete structures. However, from the duration perspective polymer concrete houses takes a much shorter period to construct a house (two weeks for polymer concrete houses vs three months for brick & mortar houses). It would cost 27 percent more on average to construct a house using polymer concrete than using brick & mortar. However, given the inefficiencies due to frequency of defects and delays in completing the construction work as well as speculative pricing strategy by contractors, brick and mortar houses have generally been costly.



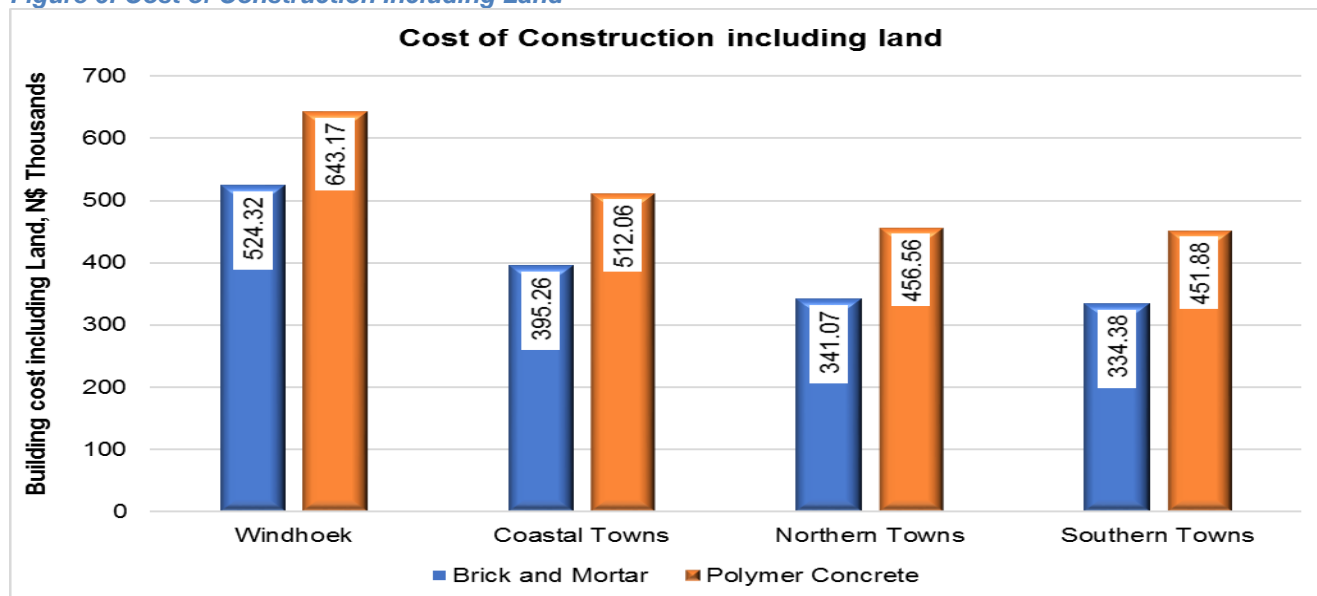
Figure 5: Building Cost Comparisons between brick &amp; mortar vs polymer concrete Residential Houses



Source: First Capital Research

Figure 6 below indicates the cost comparison between the cost of building including land for polymer concrete and brick & mortar housing structures. In Windhoek where land is most expensive, the cost of building a house including land is N\$643,166 for polymer concrete while with brick & mortar it would cost N\$524,320. In southern parts of the country where land is cheaper the cost of building a house including land is N\$334,380 for brick & mortar and N\$451,875 using polymer concrete. Overall, the cost of building including land for polymer concrete housing structures is on average 29 percent higher than the cost of building a brick & mortar housing structure.

Figure 6: Cost of Construction Including Land



Source: First Capital Research



## 5. HOUSING AFFORDABILITY ASSESSMENT

### 5.1. Housing deposit gaps

The Housing deposit gap is an indicator used to measure the level by which the prevailing price of acquiring a house exceeds the general or average affordable price in line with average income levels of households. The average affordable house prices in this study were calculated using data of housing affordability among government employees who accounts for 38 percent of the total employees with formal employment in the country.

According to table 2 below, on average government employees can afford a house costing N\$495 000. House prices above the average affordable price of N\$495 000 would mean an average employee would not qualify and a deposit in line with the excess amount above the affordable amount will be required. The brick & mortar building structure which this study found that it cost N\$397,500 to build remains affordable to an average income employee without a deposit required. However, the cost to build a polymer concrete house structure exceeds the cost considered affordable to an average income earner by N\$20,917 which implies that a deposit of the same amount would be required to acquire the house. Furthermore, average prices of houses built under NHE's Mass housing project and prices of houses in Osona area of Okahandja exceeds the affordable price to an average income earner by N\$125,000 and N\$255,000 respectively meaning that deposit amounts equivalent to the respective excess amounts would be required to acquire the respective houses. The average national price of houses in Namibia of N\$1.159 million exceeds the affordable amount by an average income earner by N\$664,000.

**Table 2: Housing Deposits Gap**

<b>Housing Deposit Gap on the average cost of construction (Brick and Mortar)</b>	
Average Mortgage Loan Qualifying Amount	495,000
Less: Market Average Construction cost including land	397,499
<b>Deposit Gap</b>	<b>97,501</b>
<b>Housing Deposit Gap on the average cost of construction (Alternative Structure)</b>	
Average Mortgage Loan Qualifying Amount	495,000
Less: Market Average Construction cost including land	515,917
<b>Deposit Gap</b>	<b>-20,917</b>
<b>Housing Deposit Gap on NHE Mass Houses</b>	
Average Mortgage Loan Qualifying Amount	495,000
Less: Market Average Selling Price	620,000
<b>Deposit Gap</b>	<b>-125,000</b>
<b>Housing Deposit Gap on Osona Village Houses</b>	
Average Mortgage Loan Qualifying Amount	495,000
Less: Market Average Selling Price	750,000
<b>Deposit Gap</b>	<b>-255,000</b>
<b>Housing Deposit Gap on Prevailing Houses Prices (FNB House Price Index)</b>	
Average Mortgage Loan Qualifying Amount	495,000
Less: Market Average Selling Price	1,159,000
<b>Deposit Gap</b>	<b>-664,000</b>

Source: First Capital Research



## 6. RECENT DEVELOPMENTS AND THEIR IMPACT ON THE HOUSING MARKET

### *Sand mining regulations*

The move of intensifying the environmental assessments and regulating sand mining activities has resulted in many suppliers closing due to non-compliance with environmental standards. In some cases, most mining activities which previously operated within the reach of construction sites were closed and/or shifted to distant areas far from these respective sites. Because of the scaled up regulatory requirements, entry in the market has become difficult and lengthy. All these factors have reduced competition and the transportation cost has increased due to long distances to sand mining sites. In March 2019, the prices of both building and plastering sand were on average 46 percent higher compared to March 2018, indicating the impact of the regulation on prices.

### *Increase in domestic cement production competition*

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 decreased by 10.4 and 10.2 percent on average.

### *Increased National development expenditure budget*

The development budget was increased by 42 percent in 2019/20. In terms of demand for cement and other building materials, we do not see any significant change as the increase in national capital budget allocation is likely to be offset by the continuous declining trend in private investments. As far as land servicing is concerned, government has revised down the 2019/20 budget allocation from N\$850,2 million to N\$697,8 million, indicating that land servicing within local authorities could scale down. This in the wake of high demand for urban serviced land would mean less subsidy for land servicing which could result into high urban land prices.

### *Credit extension for mortgage loans*

The growth of credit extended for mortgage loans to private sector has significantly slowed down from 6.4 percent in February 2018 to 1.2 percent in February 2019 (y/y). Equally, non-performing loans on mortgage payments have increased. As banks continue to face increased credit risk on mortgage loans, less mortgage lending activities are expected. The prolonged recessionary economic environment remains an upside risk to increased credit risk for banks and lower mortgage lending activities.



## 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 2019. The current trend and outlook of increased domestic magnetite production, which is used in the manufacturing of cement, could be a key factor for stable cost of producing cement. 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). In the budget statement of 2019/20, it was announced that the fuel levy will increase by 25 cent per litre of on fuel. This would mean an increase in domestic pump prices which implies high transportation cost, an upside risk factor to building material prices.

**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 29<sup>th</sup> March 2019 the NAD was 1.7 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 GDP contraction 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 a year ago. 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 2019.



## 8. CONCLUSION

Building material prices are expected to remain stable in the throughout 2019. 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 be on reducing prices. This has already materialized given the realized 10 percent decline of cement prices in March 2019 (y/y). Owing to the ongoing regulation of sand mining activities, it is expected that sand prices will further increase as competition declines and mining activities are moved to places far from construction sites implying high transportation costs. Land prices remain persistently high, which is a limiting factor to 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 12 times more than the in Keetmanshoop. The downward revision of government budget for land servicing in 2019/20 from N\$850,2 million to N\$697,8 million indicates that land servicing within local authorities could scale down. Less subsidy in the wake of high demand for urban serviced land would mean less subsidy for land servicing could result into high urban land prices.



## 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.

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