

# *Property Valuations And Its Impact On Housing Prices In Namibia*

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**FNB**  
First National Bank

how can we help you?

# OUTLINE

- Background & Introduction
- Perceptions on a Value of a Property
- The Basics - Role of valuations in the pricing of housing
- Basic Concepts/Terms in Property Valuations
- Types of property values
- Property Valuation Methods & Analytical Techniques
  - Market Analysis
  - Sale Price Adjustments
- Reasons & Extent for inaccurate valuations in Namibia
- Conclusion

# Foundational Statement

## Housing as a Basic Human Right

Access to adequate housing has long been viewed as a basic human right and is considered to be an integral factor for the enjoyment of other economic, social and cultural rights.

## United Nation's take on what consists satisfactory Housing

According to the United Nations (UN) Committee on Economic, Social and Cultural Rights, satisfactory housing consists of: legal security of tenure; availability of accessible services, facilities and infrastructure; habitability; accessibility (e.g. access to employment, health services, schools, etc.); cultural adequacy; and affordability. Karamujic, M.H. (2015). *Housing: Why Is It Important?*. In: *Housing Affordability and Housing Investment Opportunity in Australia*. Palgrave Macmillan, London.

## **Candidly, housing is a consumable economic good and therefore has a price!**

Correct pricing or mis-pricing, property valuations have a role to play







# Introduction

- Houses are often regarded as a good investment, considering that a property does not depreciate.
- Fluctuations in housing prices/values have a bigger wealth effect on the economy.
- The Namibian housing market experienced a substantial increase in house prices - the second highest after Dubai.
- “Abnormal” increase rate may not be sustainable in the long term – can result in price bursts.
- Many stakeholders have roles to play.
  - Valuation mainly plays an advisory role
  - Helps with stability in housing prices.



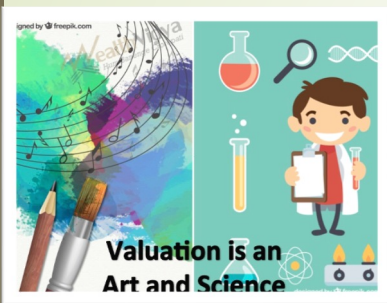
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# Perception...

		
YOU	BUYER	VALUER
Your home value as seen by...		
BANK	MUNICIPAL INSPECTOR	SARS
		

# Basic Concepts/Terms in Property Valuations

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## - A valuation :

- A determination of the monetary worth of a property at a specific date using various methodologies – e.g. cost, market and income approaches.
- one's opinion of value based on analysis of significant observable and sometimes unobservable input data –
  - “Unobservable inputs are inputs for which there is no market data available. - developed using information available on assumptions that market participants would use when pricing the asset.
- It is probably 40% art and 60% science

## - Value:

- the worth, usefulness or utility of an object to someone for some purpose.
- Value is **NOT same or equal to cost or price**
- Different valuers may arrive at a different value estimate for the same property

## - Cost:

- the amount of money required to construct, produce, replace or reproduce a property.
- Cost is not price. Neither is it value.



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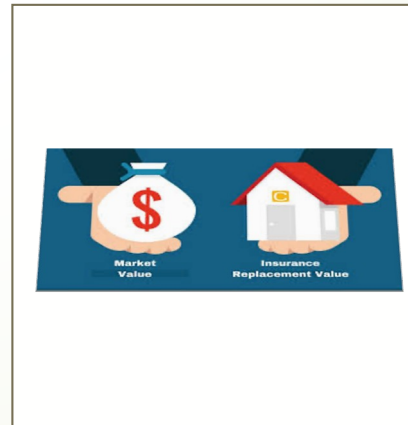
## Types of property values

- Market Value
- Insurance Value
- Rental Value, etc.

### - The Market Value -

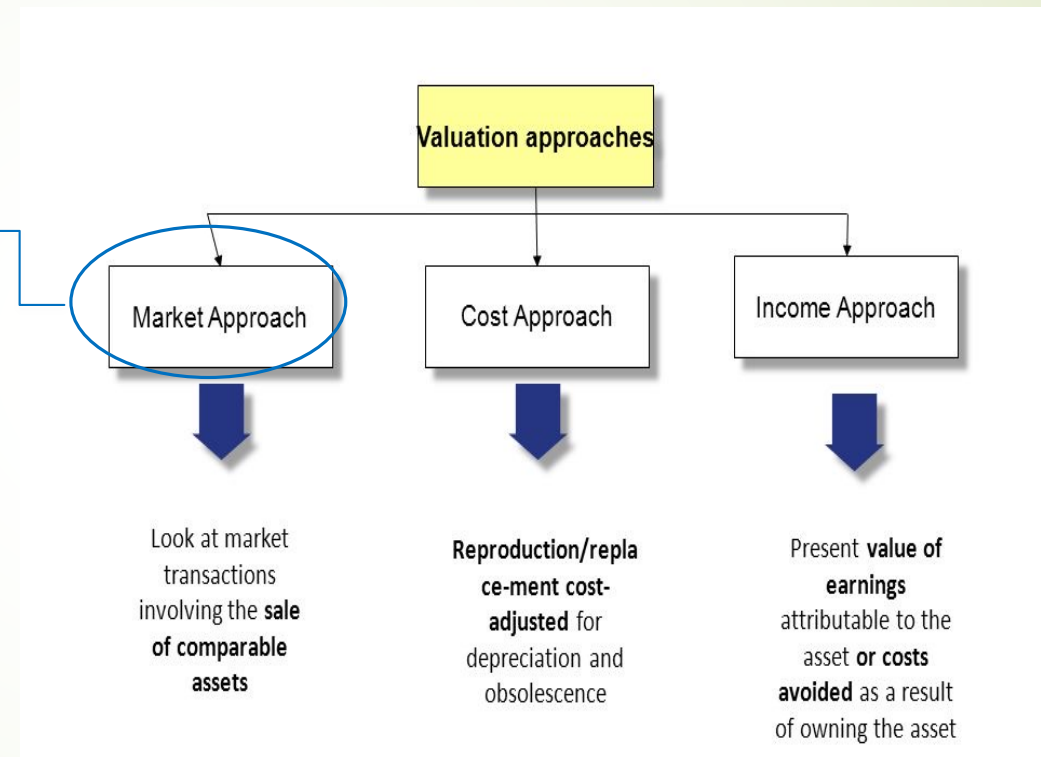
*“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.” [IVS, 2011].*

- **‘Market value’ and selling price** are often, but not always the same.
- The price may not reflect the true market value if special circumstances are present



# Property Valuation Methods

- \* Selection of comparable
  - ✓ Sources
    - Deeds Office,
    - Agents / property practitioners
    - Current listings e.g. Property24,
    - FNB valuation records
- \* Adjustments made
  - ✓ physical characteristics
  - ✓ location
  - ✓ **time lapse**





# Market Analysis



- Empirical sales analysis
- Expert and objective analysis.
- Comparative market analysis,
  - Elimination and indeed comparability takes place between the subject property and the comparisons.
  - Consideration of both macro and micro factors (Location & Physical attributes, legal factors, externalities e.g. health endemics, pandemics, global market linkage factors, etc.).

# Sale Prices Time Adjustments

- ▶ Price indexes
  - National CPI
  - FNB Housing price Index
- ▶ Sales ratios (market assessments vs actual concluded sale prices data)
- ▶ Multiple regression analysis,
- ▶ Re-sales Analysis

## Re-Sale Time Adjustments

### Formular:

$$\frac{\text{Sale price 2} - \text{Sale Price 1}}{\text{Sale Price 1}} = \text{Time Adjustment factor for the Entire period}$$

$$\frac{\text{Time Adjustment Factor}}{\text{Time Period}} = \text{Time Adjustment factor Per Time Unit}$$

### Example:

A 2 bedroom house sells twice during a year.

Sale Date 1: Jan-2021 for sale Price 1: N\$250 000

Sale Date 2: Sep-2021 for sale Price 2: N\$280 000

$$\frac{\text{N\$280 000} - \text{N\$250 000}}{\text{N\$250 000}} = \frac{\text{N\$ 30 000}}{\text{N\$250 000}} = 0.12 \text{ or } 12\%$$

Time period between sales is 8 months

Time Adjustment factor:  $0.12/8 = 0.015$  or 1.5% per month

# Valuation Accuracies - Implications on Housing prices

- Unstable housing prices
- Distorted house market
- Risks to investors/buyers and lenders
- Economic/financial difficulties.
- Embarrassment to the integrity with consequent disregard of valuations

## Reasons & Extent for inaccurate valuations in the Namibian Property Market

Reasons for inaccuracy	Extent
Use of incorrect data/valuation methodology	<b>Moderate.</b> For most part, the Market Approach is used. The Cost approach has challenges in a buyers' market where supply outstrips demand
Failure to rigorously weight external factors/risks.	<b>Severe.</b> E.g. the incidence of Covid-19 created uncertainties about making projections
Unethical behaviors	<b>Moderate.</b> Banks now have internal mitigation processes.
Lack of adequate market data	<b>Severe.</b> There is a big gap in availability of data especially for smaller towns
Lack of valuation knowledge and market experience.	<b>Moderate.</b> Namibia is only getting towards self-sufficiency in training of valuers via NUST
Lack of common valuation standards and standardization of the valuation process.	<b>Severe.</b> Although the Valuer's Act was enacted in 2012 it has not been operationalized yet.



# Conclusion

- The extent to which valuations affect the pricing or value of houses is a function of:
  - How active the housing property market is and the input data that is available at a given time,
  - The assumptions, analysis of the input data and valuation approach adopted to arrive at the value; and
  - The standardisation of the valuation process, qualification and the experience of the valuer!
- In my view, Namibia is generally above moderate in this regard.