RICS GLOBAL REAL ESTATE WEEKLY

July 17th 2009 www.rics.org

French business confidence up; home building still falling

"French business confidence is rising…"

"… this has yet to feed through to higher residential building activity"

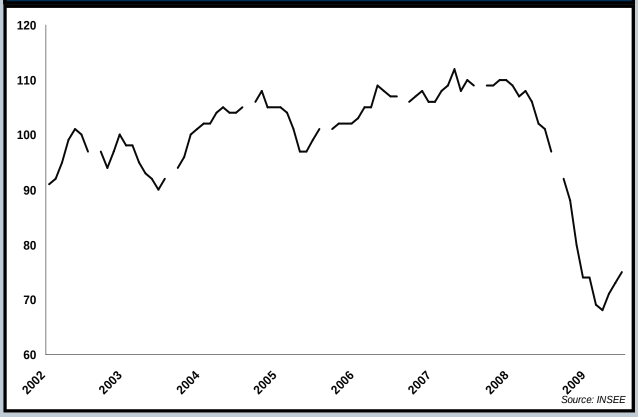
- The July release of the official French industrial business confidence index is due from INSEE on Thursday 23rd. The index has recovered since its March low of 68 and, at 75 in June, is around the level seen at the beginning of the year.

- The general turnaround in sentiment is beginning to help stabilise confidence in the residential construction sector (albeit at very depressed levels). However, it has yet to feed through to actual home building activity. The monthly data on residential starts and permits is volatile and not seasonally adjusted. Adjusting for both factors, however, shows that home building activity continues to fall (data starts and permits are down by 42% and 34% from their respective peaks). This is due to sharply rising unemployment (currently 9.3%) and rapidly slowing growth in mortgage lending (currently 4% y/y). On this latter point credit conditions still remain tight but, according to the Banque de France Q1 Bank Lending Survey, this is down to weaker economic and housing market expectations, rather than funding constraints. Meanwhile, on the supply side, residential construction investment as a share of GDP (currently 5.5% in Q1 2009) has been below the long run average (6% since 1980) for more than a decade, indicating little in the way of over building.

- Given flagging demand for new property, house prices are likely to fall further in the near term. They are currently down by 6.6% y/y (and peak to trough), but such falls gathered momentum in Q1, with prices down by 3.4% q/q. However, the ultimate size of the peak to trough fall is likely to be limited by the continued relatively low level of residential construction investment.

French business confidence has improved in recent months

Index (level)



Japanese survey to signal weak appetite for housing loans

"Housing starts in Japan are close to thirty year lows"

"…although upward pressure on house prices will remain muted"

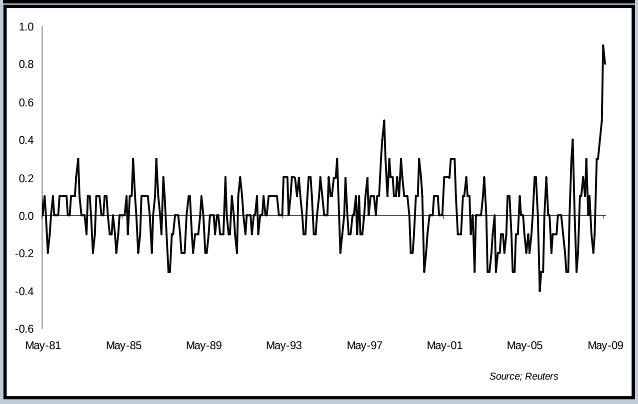
- The latest update on the state of bank lending in Japan is released on Wednesday 22nd with the publication of the Senior Loan Officer Survey. This survey breaks down lending between firms, local governments and households but also identifies lending trends in the construction and real estate sectors. The imminent survey will cover the three month period to July and uses a diffusion index methodology (where a positive number suggests that indicators such as demand for loans have increased).

- Lending officers at banks identified that a decrease in lending for housing investment was the most significant reason why demand for loans from households had fallen off in the previous quarter. Another key indicator in the report to watch is the demand for loans from large construction companies. This fell into negative territory, registering -1 in the last quarter, compared to 26 previously. Consistent with these results, housing starts in Japan fell back in the three months to May with only 63,000 homes built. This is on par with the lowest level in 30 years.

- RICS expect lending data to continue to point to a reluctance of households to borrow for residential housing investment in next week's release. The hard economic data suggests that the fundamentals underpinning a recovery in housing demand remain elusive. Unemployment rose to 5.2% in May which was the fastest pick up in over 30 years on a 3 month basis. As such, looser labour market conditions are likely to weigh on housing demand into 2010. As such , upward pressure on house prices will remain muted in the coming year , even if global economic growth gathers momentum.

Unemployment has surged on a 3 month basis

3 month change in u/e rate, percentage points



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Further price falls likely in US housing market

"The total number of homes for sale in May was the lowest since June 2006"

"But improvements in existing home sales in June will be limited"

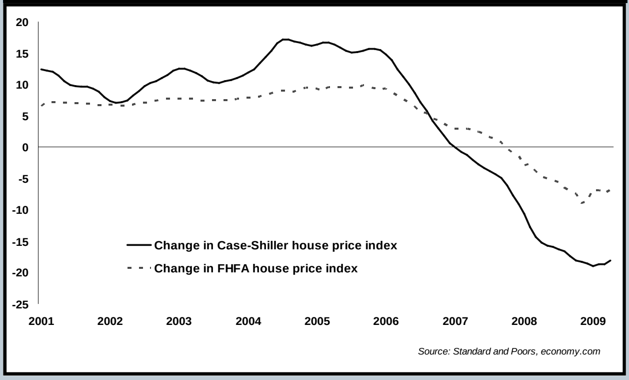
- Next week sees the release of another round of housing market data, with the FHFA house price index for May due out on Wednesday 22nd, existing home sales for June on Thursday 23rd, followed by housing vacancies data for Q2 on Friday 24th. Activity may have moved past the worst in the US housing market but the general theme in Q3 2009 will be that activity remains relatively weak and prices continue to fall. Given all the turmoil in the housing market, it is somewhat surprising that the Q1 vacancy data showed that home ownership rates and owner vacancies have been relatively unchanged since Q1 2008.

- The FHFA house price index has reported two consecutive monthly falls although April's was only a modest drop of 0.1% on the month. Interestingly, some regions actually reported monthly increases, for example, the Mountain region and New England reported that prices edged up by 1.3% and 0.9% respectively. However, this series continues to show a more moderate view of the housing market than the Case-Shiller price index which most recently reported prices were down by 18%y/y (as opposed to 7% on the FHFA series).

- In May, the existing home sales series reported that only a third were from distressed sellers (as opposed to about a half in previous months), pushing the total number of homes for sale to the lowest level since June 2006. If that trend continues, it is good news for house prices. Meanwhile the number of homes sold edged up by 3%. But as pending home sales were virtually unchanged between April and May, improvements in existing home sales in June will be limited.

FHFA suggests moderate price falls, Case –Shiller presents bleaker picture

% annual change



BBA data to show further rise in UK mortgage approvals

"RICS 'new buyer enquiries' points to a further rise in mortgage approvals"

"Real estate sector continues to drawdown existing loan facilities"

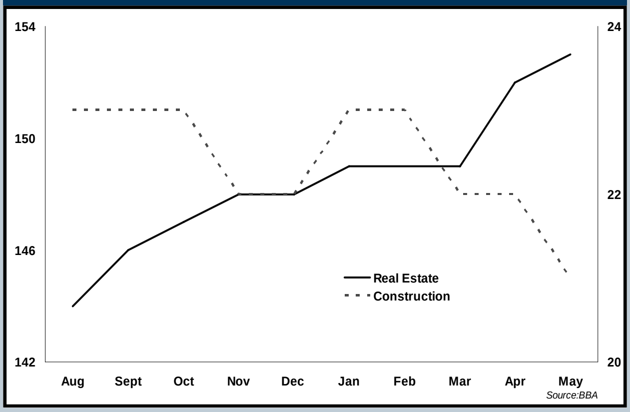
- The British Bankers Association (BBA) will release its monthly figures for the main high street banks on Thursday 23rd. Most attention will be paid to the mortgage approvals number. In May, BBA mortgage approvals for house purchase rose above 31,000 for the first time since April last year. As recently as last November, they amounted to less than 18,000. On the basis of the evidence provided by the RICS 'new buyer enquiries' series, it is likely they will have climbed to around 33,000 in June. Remortgaging activity, in contrast, may have fallen further, partly due to higher fixed term mortgage rates.

- In the press release, the BBA will also publish its latest corporate lending data. It is significant that the real estate sector in May was one of the few areas of business, stripping out the financial sector, seeing an increase in net borrowing. Although the monthly figures tend to be quite volatile, the BBA numbers show loans to the real estate sector rising in every month over the past year with the exception of March. At one level this may seem at odds with much other news flow emanating from the commercial property market. In particular, there has been much concern over covenant breaches and the huge volume of re-financings due over the coming years. However, it is likely to reflect the continuing drawdown of previously committed facilities.

- By way of contrast, lending to the construction sector has fallen sharply in recent months as developers have dramatically scaled back activities and new orders have collapsed. BBA data shows debt outstanding to this sector has dropped by close to 10% since the beginning of the year.

Loans outstanding to real estate and construction sectors

£bn £bn



RICS (Royal Institution of Chartered Surveyors) is the leading organisation of its kind in the world for professionals in property, land, construction and related environmental issues. As part of our role we help to set, maintain and regulate standards – as well as providing impartial advice to Governments and policymakers. RICS members operate in 146 countries, supported by an extensive network of regional offices located in every continent around the world. To ensure that our members are able to provide the quality of advice and level of integrity required by the market, RICS qualifications are only awarded to individuals who meet the most rigorous requirement for both education and experience and who are prepared to maintain high standards in the public interest. With this in mind it's perhaps not surprising that the letters RICS represent the mark of property professionalism worldwide.