

Singapore property price declines to ease

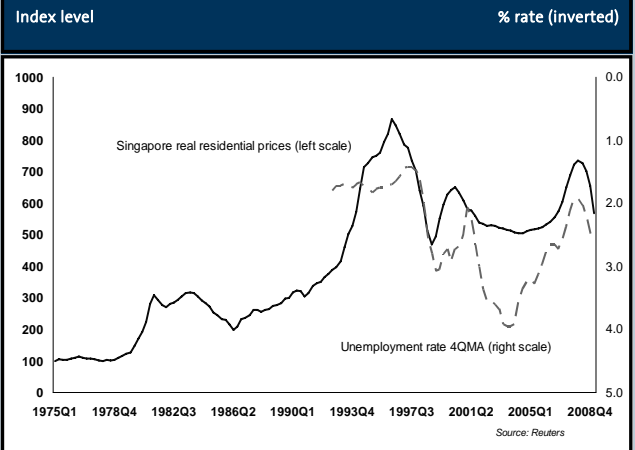
“Price falls to ease ...”

“ although rising unemployment will prevent a rapid price recovery ”

- The flash estimate for Singapore residential property prices during the second quarter is released next week. This should confirm that there has been some easing in the pace of property price declines compared to the dramatic fall of 14% seen in Q1. Since peaking, residential property prices in Singapore are now down by 20% as the downturn in global trade has taken its toll on economic activity in the region.
- GDP when seasonally adjusted has now contracted for four consecutive quarters in the city-state which is likely to weigh on the labour market for some time to come. Historically, the unemployment rate has tended to display a high degree of correlation to house prices and continues to point to further near term price falls. Whilst improvements in business sentiment surveys have emerged in recent months, it may be too early to expect any firming in employment conditions. As a result, the labour market is unlikely to offer sustained support to house prices until 2010 at the earliest.
- That said, RICS expects some improvements in transaction volumes in the coming months as a more stable economic backdrop emerges. However, it may be wrong to believe that a return to sustained price growth in the housing

market is imminent. A review of the last two property downturns, show that a pick up in transaction volumes does not necessarily lead to a rebound in prices. Interestingly, the downturn following the Asian financial crisis saw a relatively quick rebound in volume and prices, whilst the wider global downturn in 2001 saw a more muted price recovery despite improved sales volumes.

Unemployment set to rise further weighing on house prices



German construction orders rise strongly in April

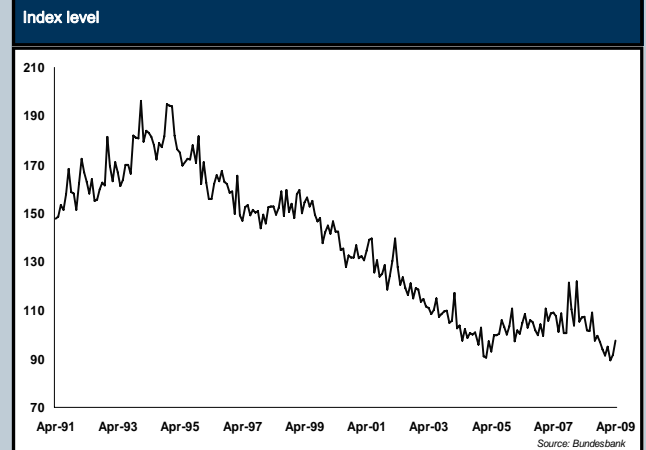
“Total construction orders increased by 6.3% on the month...”

“... the sector appears to be stabilising”

- German monthly construction orders data for April were released by the Bundesbank on Thursday 25th. Total orders increased by 6.3% on the month, pushing the annual growth rate up to -9.1% (from -14.4% previously). By sector, the strength in orders was driven by housing and civil engineering, up by 16.9% and by 10.7% on the month respectively. The other two sectors are structural engineering and non-residential construction, up by 1.9% and down by 4.7% respectively.
- The reasons for the improvement in the housing sub-sector are not immediately obvious. New home prices, a key determinant of home starts, are broadly flat (according to Hypoport). Meanwhile, the news flow on consumer confidence remains quite downbeat. The most recent European Commission’s monthly survey of consumer sentiment, shows both the headline confidence reading, as well as unemployment expectations, both deteriorating to their worst ever levels in April and Again in May.
- Looking forward, construction orders in the near term are unlikely to grow as strongly as in April, and may even reverse some of the latest gains given their exceptional strength. Instead, the overall trend is likely to be one of stabilisation from a very low base (orders touched a record

low in February). This is in keeping with other leading indicators of German economic activity, such as the current situation sub-component of IFO survey, which has been broadly stable since March.

Construction orders pick up but from very low base



“Private construction spending increased in April”

“There are few signs that the declines in the commercial property sub-sector are easing”

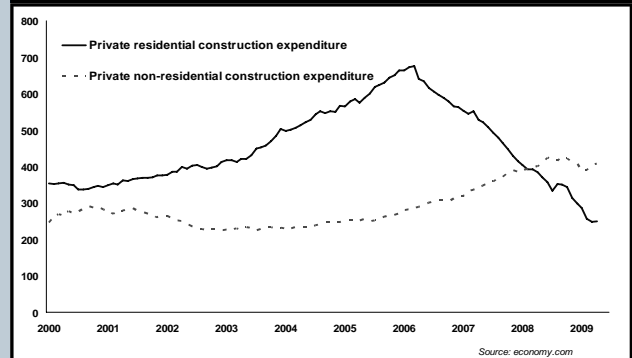
US construction sector weak but may be improving

- An update on the US construction sector is due with the release of construction spending data on Wednesday 1st, followed by construction employment on Thursday 2nd. This information is divided into residential and non-residential sectors, and provides valuable insight into the health of the construction industry.
- Private construction spending (which accounts for almost 70% of the total) increased by 1%/m/m in April. Interestingly, the data reported a modest improvement in residential construction, although this was largely attributed to spending on home improvements. Housing starts and building permits surged in May and that may be reflected by another small rise in next week's data. Put in context though, the residential construction sector still looks weak with expenditure 35% below 12 months earlier. By contrast, spending in private non-residential construction has actually continued trending upwards. However, the strength is mainly concentrated in manufacturing and infrastructure construction. Commercial property construction spending has been falling since early 2008 and there are few signs that the pace of declines are easing.
- The downturn in the sector has also seen a shakeout in construction employment. Between May 2008 and May

2009, employment in the sector fell by 14% (almost a million jobs). Residential construction has been particularly badly hit, falling by 17%/y. However, the pace of declines has eased slightly in recent months. That trend should continue in next week's data.

Private residential construction has suffered most

\$ bn, annualised and seasonally adjusted



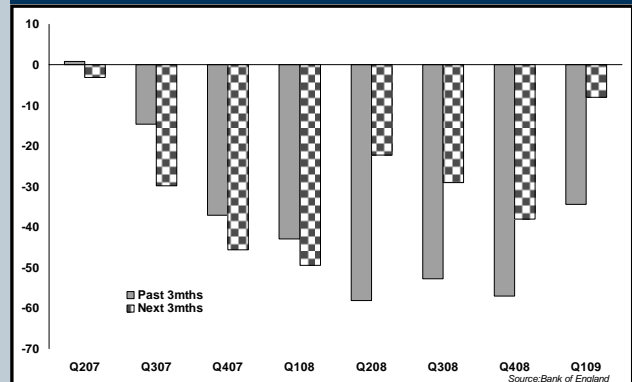
Credit conditions in the UK only modestly easier

- The Q2 Bank of England Credit Conditions Survey is due for release on Thursday 2nd. This provides a timely insight on how the appetite for credit is changing in the light of the slightly better news flow on the economy and the pick-up in activity in the residential property market. The previous report, released in April, suggested that borrowers had been scaling back their demand for secured loans both for house purchase and remortgaging and that lenders anticipated this trend would continue. At the same time, loan officers indicated the availability of secured credit to households could actually begin to increase a little after the sharp contraction over the past year.
- The Q1 report also suggested that availability of credit to business would rise modestly with the notable exception of commercial real estate sector. Significantly, the exposure of banks' balance sheets to commercial property has never been greater. Moreover, it is estimated something in the region of two-fifths of outstanding loans are in breach of LTV covenants. As a result, it would be a surprise if lenders had become any more inclined to make finance more readily available to the commercial property market.
- The June construction PMI report is also published on Thursday 2nd. The headline index in May climbed to its best level since April 2008 although it remained some way

below the 50 mark that separates expansion in the sector from contraction. The latest improvement has been driven by a marked turnaround in sentiment in the housing sector. The likelihood is that June number will suggest the pace of decline in construction output is continuing to ease but that a genuine increase in building activity is still some way off.

Availability of finance for commercial property

% net balance



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