

“The latest RICS global commercial property survey shows deterioration across all sectors”

“..with worries over financial stability likely to weigh on investment”

“Squeezed profit margins in the residential construction sector have weighed on house building activity”

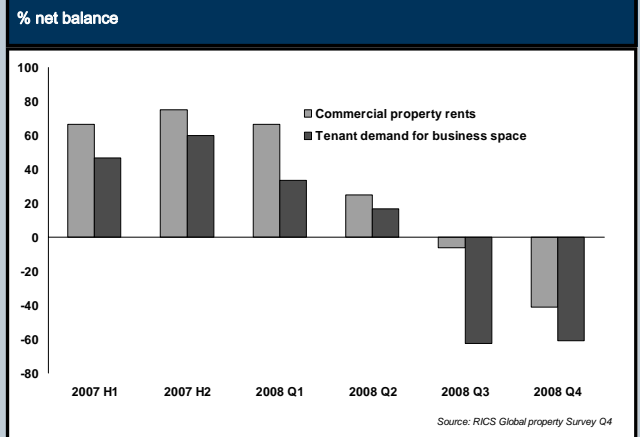
“Labour market weakness will further weigh on activity”

South Korean property activity declines accelerate

- The South Korean property market has been hit hard from the downturn in global trade with early indications from the latest RICS Survey showing declines in activity across all sectors of the market. Tenant demand fell for the second consecutive quarter in the three months to January and at a faster pace, as a slump in export orders and domestic demand weighed on business investment.
- Manufacturing generates around a third of South Korea's annual gross domestic product with the economy particularly sensitive to export demand. The difficulties surrounding trade credit alongside a collapse in confidence have weighed heavily on monthly demand for Korean exports which have plummeted by close to 50% in value terms since August 2008. The most recent surveys of business sentiment (which provide lead indicators of economic activity) have reinforced the gloom with both manufacturing and service sector indicators plumbing new lows.
- Lettings demand for business space has moved into reverse, weighing on rent expectations. Declines in rents are anticipated outside of the office market despite further reports across all sectors that available space is falling. Office values fell in Q4 for the first time in this cycle with rapid declines expected to continue into Q1. Worries over

financial stability and the depth of the current recession are mounting. The won has fallen close to 20% this year prompting the central bank to speak out about its ability to weather any speculative attacks. A dearth of global credit and increasing scramble for cash as property owners look to deleverage is sure to weigh on commercial real estate prices through the rest of 2009.

Tenant demand has fallen further in Korea

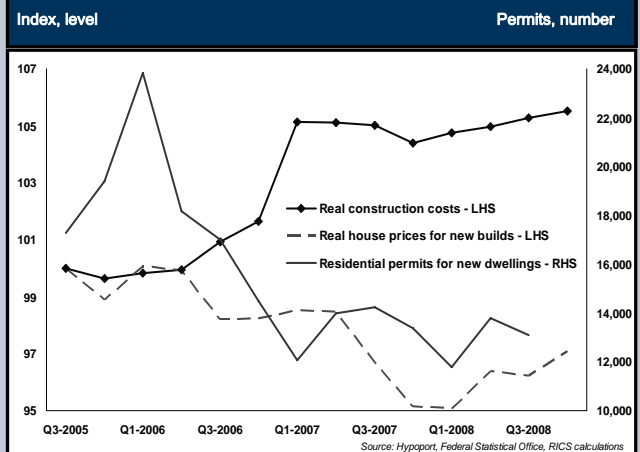


German residential building activity to fall further

- German residential building permit data for December is due for release on March 2nd by the Federal Statistical Office (FSO). The FSO series for new dwellings, which began in January 2005, peaked in January 2006 at 24,743 following the removal of the “Eigenheimzulage” housing tax subsidy. However, since then residential permit issuance has fallen by 56% and in November alone, the number fell by 17% to 10,835 (the lowest on record).
- The decline in German residential building activity since Jan 2006 largely reflects two factors; falling real house prices and rising real construction costs. Indeed, real house prices for new builds have fallen by 3% according to Hypoport, while construction costs for new residential buildings are up by 5.7%. As a result, profit margins have been squeezed and this has inevitably weighed on residential building activity.
- It is plausible that the permits number could rebound in December, following November's particularly sharp fall. Over the medium term, however, residential building activity is likely to come under further pressure given the outlook for demand. Although the current manufacturing slowdown (industrial production is down by 13% y/y) has yet to translate into a sharp rise in unemployment (currently 7.8%), consumer confidence has been shattered.

Unemployment expectations, in particular, have jumped sharply in recent months and now stand at the highest level since December 1993 according to the European Commission's monthly sentiment survey. If past relationships are anything to go by, it is only matter of time before the unemployment rises sharply. In this environment, the residential construction industry will find little support.

Falling profit margins have hit residential building activity



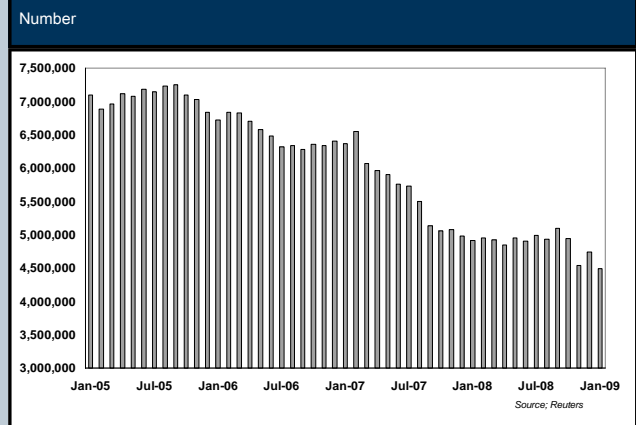
US property indicators showing little respite

“ The latest data on activity in the housing market has proved disappointing ”

- A barrage of data key to the US real estate market are released in the coming week with both construction and consumer spending due on Monday 2nd. Other real estate highlights for the week include the pending homes sales figures on Tuesday 3rd with Wednesday 4th seeing the release of some key mortgage indicators. Also due next week is the latest release of the RICS global commercial property survey with US indicators likely to reveal an acceleration in price declines during the three months to January as credit strains paralysed activity in the investment market.
- RICS expect US construction spending data to confirm the continued slide in activity across the sector. Few indicators are yet to point to any significant improvement in the besieged property sector. The latest data on activity in the housing market has proved disappointing with existing home sales plunging in January sending prices to a six year low. Existing home sales fell 5.3% to an annual rate of only 4.49 million units during January.
- Significantly, supply conditions remain extremely loose with sales falling off at a faster rate than the current supply of new homes. As such, the months taken to clear the existing supply of unsold homes rose to 9.6 months in

January, up from 9.4 in December. Despite some cheer for the construction industry with the Obama stimulus plan gaining approval, other pressures on the sector may mount in the coming year. Commercial construction activity is likely to feel the strain from increasing availability and accelerated declines in capital values in 2009 as rental markets plummet.

Existing home sales fell back again in January



“ ..with price declines likely to accelerate in the commercial sector ”

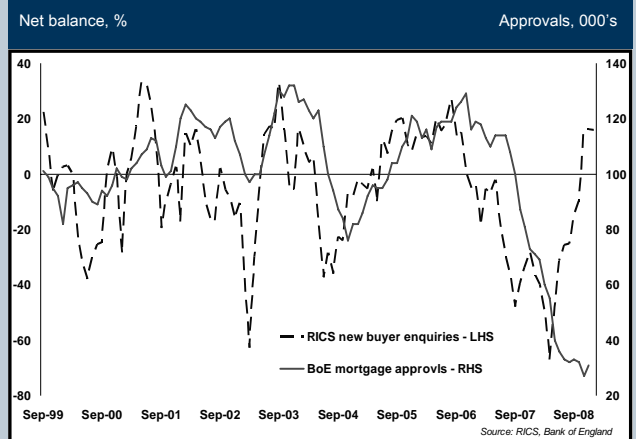
UK mortgage lending to remain subdued

“ Buyer interest has improved lately... ”

- UK mortgage approvals data for January is due for release on Monday 2nd by the Bank of England. In December, the number of approvals edged up slightly to 31,000 but they are still 58% below year ago levels.
- The sharp fall in UK mortgage lending can largely be attributed to the UK's relatively heavy reliance on external mortgage finance. Indeed, two-thirds of new mortgage issuance in the UK was financed by Residential Mortgage Backed Securities (RMBS) in 2007. As a result of this dependence on outside money, UK mortgage lending collapsed following the US sub-prime crisis (which prompted a shift in global investor liquidity preferences away from RMBS). Recently however, some indicators have pointed to a recovery in home buyer activity. The RICS new buyer enquiry series, which historically has led changes in mortgage approvals, has improved markedly and is now back in positive territory. Falling mortgage lending rates and an already sharp adjustment in house prices appear to have partly reinvigorated buyer interest. This is likely to be reflected in higher transactions levels over the next few months although the lack of availability of mortgage finance will continue to limit the access to first time buyers.
- One risk to a sustained improvement in buyer interest is the deteriorating labour market picture. Unemployment is

rising now that the economy is in recession. To date, the rise in unemployment to 6.5% (from its recent low of 5.3% in February 2008) has been modest. However, given that the labour market tends to lag economic activity, further increases in the unemployment rate are a near certainty.

Mortgage lending in the UK has fallen sharply



“ ...but rising unemployment is likely to dampen the mortgage lending outlook ”

All rights reserved, copyright 2008 RICS. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means without prior permission of RICS.

RICS makes no representation, express or implied, with regard to the accuracy of the information contained in this publication and cannot accept any responsibility in law for any errors or omissions. The information in this publication contains general guidelines or estimates, and does not purport to be advice on any particular matter or project. No reader should act on the basis of information contained in this publication without first taking professional advice appropriate to their particular circumstances.

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.