

## US commercial property prices looking for some traction

**“Q4 2010 RICS Global Commercial Property Survey shows capital values declining”**

The coming week sees the release of construction spending in the US on Tuesday 1<sup>st</sup> while non-farm payrolls come out on Friday 4<sup>th</sup>. Employment has been dragging its feet of late, and is well behind the general improvement of most activity indicators. Indeed, the consensus target of around 120,000 - 150,000 monthly jobs that need to be

created on a consistent basis to bring down the unemployment rate (9%) has not crystallised as of yet. The impressive drop of 4 percentage points in the unemployment rate in January was mostly due to the decline in the labour participation rate, possibly indicating a rise in the structural rate of unemployment, as more and more long term unemployed make the choice of leaving the labour force.

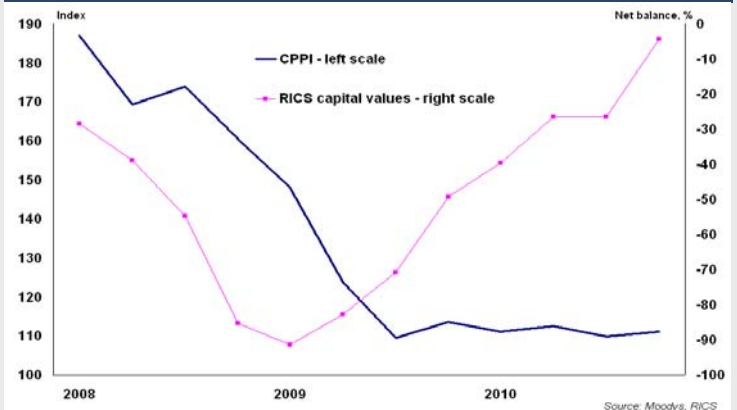
Turning to construction spending, the December figures showed levels still depressed, down 6% on the year. In the sub-components within construction spending, office building and commercial construction in general have seen the largest falls of 26% and 19% on the year respectively. This is also reflected in the latest RICS Global Commercial Property Survey (GCPS), which showed new development starts within the US falling for the twelfth consecutive quarter in Q4 2010.

The lack of non-residential construction is not surprising given the depressed price levels of commercial property, which are still 42% below their pre-recession peak. The latest Moody's/Real Commercial Property Price Index (CPPI), showed prices fell 1% during December

(the first monthly fall since August) and 2.1% on the year. 2010 has been a story of scraping the bottom of the barrel, with an equal number of months recording price falls as rises. Significantly, the Q4 RICS GCPS showed strong tenant and investment demand, with both rising during the quarter, which could support prices. Looking ahead, capital value expectations are positive for the first time post-recession, with respondents believing the worst is behind them.

**“Commercial property fell by 2.7% over the year”**

### Commercial property prices remain depressed



## Russian commercial property market is strong but uncertainties are emerging

**“Capital value and rent expectations are elevated according to RICS data”**

The Russian Services PMI survey for February is due Thursday 3<sup>rd</sup> and February CPI is due the following day. In January, the services PMI headline reading fell from 56.4 to 54.2, marking the fifth consecutive month of expansion, but at a weaker pace than previously. Meanwhile, headline CPI accelerated further in January from 8.8% to 9.6%, the highest since October

2009. Overall, the activity picture has been positive though not exceptional – the manufacturing PMI for January was unchanged at 53.5 – but the central bank is looking increasingly behind the curve on inflation. Indeed, the policy rate was widely expected to be hiked at the

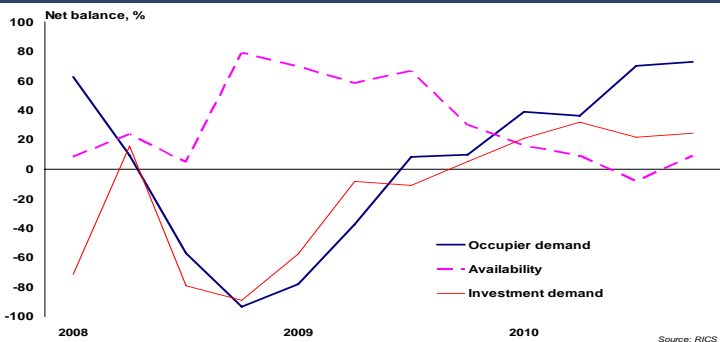
last meeting, but it was kept on hold at 2.75%.

Against this backdrop of moderately strong economic activity but accelerating inflation, the Russian commercial property market appears to be benefiting as revealed by the latest RICS Global Commercial Property Survey (GCPS). Indeed, the survey results indicate that rent and capital value expectations picked up sharply during Q4 and are now particularly elevated. To some extent this improvement in sentiment is also being driven by favourable supply conditions within the commercial property market itself, with strong demand only being matched by moderately rising availability.

Looking forward, there are a number of uncertainties that cloud the outlook for the Russian commercial property market i.e. the prospect of rising interest rates and accelerating inflation. It seems likely that inflation will continue to accelerate in the near term, bolstered further by rising food and energy prices, but the central bank seems reluctant to tighten policy aggressively. Therefore, against falling real interest rates, capital values should find further support from investors. However, the picture is not clear cut, since the GCPS results show that demand for commercial property is being driven largely by the occupier side. It is unclear at this stage how accelerating inflation will feed through to the occupier market; it may well hit the retail sector by squeezing real incomes, but more broadly, potential occupiers could be more hesitant and less willing to commit.

**“Accelerating inflation and the prospect of rising interest rates cloud the outlook”**

### Commercial property demand is outpacing supply



**RICS**

the mark of property professionalism worldwide

[rics.org/economics](http://rics.org/economics)

## Singapore budget highlights downside risks for 2011

**“The outlook seems to be that the pace of growth will moderate in H2 2011”**

The announcement of the 2011 national budget last Friday confirmed the strong performance of the Singapore economy through FY2010. After two weak years in 2008 and 2009, when GDP growth was close to zero, annual growth reached 14.5% in Q4 2010, a record rate. Meanwhile, unemployment has retreated back to pre-crisis levels.

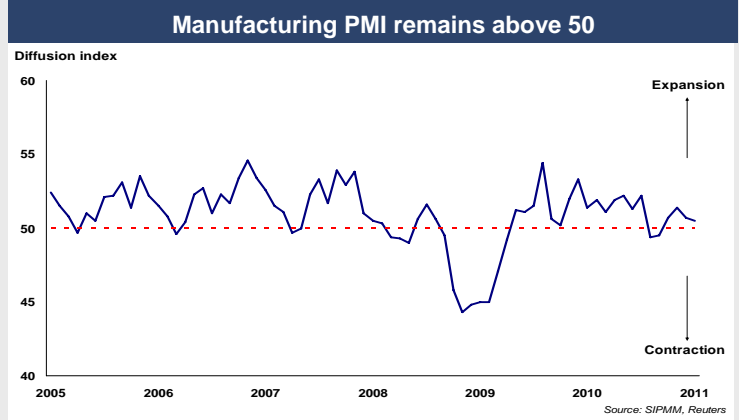
Against these developments in the economy, the official house price index increased by a further 3% in Q4 2010, although the annual growth rate slipped back to 18% due to base effects.

On the whole, the broad tone of the budget was positive. The outlook for 2011 seems to be that the economy will slow, especially in the second half of the year, but will still grow at a greater rate than forecast in the 2010 budget. There was, however, an acceptance of downside risks, most notably inflationary pressures. The current events in the Middle East are forcing oil prices up and before this inflation in Asia as a whole was on the rise; food and other commodity prices have climbed sharply and pushed CPI above its target in some countries. Indeed, January CPI rose to 5.5%, beating December's figure of 4.6% and was the highest reading since December 2008. Significantly, housing costs (which make up 25% of the CPI basket in Singapore) rose by 5.3% on year ago levels as a result of energy cost increases.

Another noteworthy point in the budget was that business investment has restarted and manufacturing activity is strengthening. This will be

seen in the upcoming February reading of the manufacturing PMI survey, released on Tuesday 1<sup>st</sup> by the Singapore Institute of Purchasing & Materials Management. The January survey showed that the manufacturing economy expanded for the 4<sup>th</sup> consecutive month after 2 months in decline. The reading of 50.5 was down on the previous month's 50.7, but still represents an improvement (any reading greater than 50 indicates expansion while any number less than 50 indicates contraction).

**“There was an acceptance of downside risks, most notably growing inflationary pressures”**



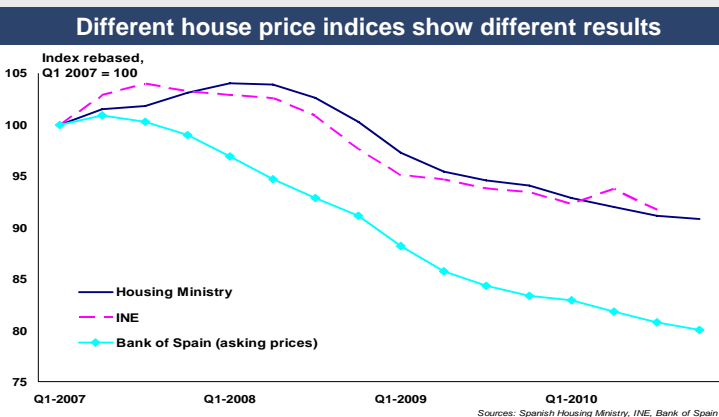
## Spanish housing market has yet to find bottom

**“Mortgage approvals are about 64% below their peak”**

With the release of Spanish mortgage approvals data this week, its time for a more general update on the state of the market. The bottom line is that according to the data, there has been no material improvement in pricing or activity. Starting with mortgage approvals, the data is choppy, but the monthly count is currently running at just over 64k. This is close to the lowest

level on record (the series began in January 2003) and around 64% below the January 2007 peak.

On the pricing front, there are three published official measures and they all indicate a deteriorating picture, of between 12% and 21% from their peak levels. The quarterly INE (national statistics agency) index is the most accurate, as it is based on actual transactions, but it is the least timely. By Q3 2010, the headline index was 12% below its Q3 2007 peak, while the new homes sub-index was down by 8% and that for existing homes was down by 18%. The quarterly MdV (housing ministry) index is more timely, but as it is based on valuations, it is not as accurate. Having said that, by Q4 2010, the headline index was 13% below its Q1 2008 peak, which is not that different from the INE measure. Finally, the Bank of Spain produces a monthly index based on asking prices for existing homes only and on the last reading, this was 21% below its June 2007 peak.



Looking forward, there is little ground for optimism in the housing market, at least over the near term. Although the economy exited from recession in Q1 2010, the pace of expansion has since been very lacklustre. Indeed, the economy grew by only 0.2% in Q4 according to Eurostat's flash estimate, following a flat reading in Q3. As a result, the labour market is unlikely to recover meaningfully over the coming quarters, which is a problem as the rate of unemployment is still hovering above 20%. Until the labour market starts to recover, the housing market in Spain is unlikely to find much traction.

**“House prices are between 12% and 21% below their peak, depending on which measure is used”**

**RICS UK**  
T +44 (0) 20 7695 1682  
pressoffice@rics.org

**RICS Europe**  
T +32 2 733 1019  
ricseurope@rics.org

**RICS Americas**  
T +1 212 847 7400  
ricsamericas@rics.org

**RICS Oceania**  
T +61 2 92162333  
ricsoceania@rics.org

**RICS India**  
T +91 124 459 5400  
ricsindia@rics.org

**RICS Middle East & Africa**  
T +971 4 375 3074  
ricsmiddleeast@rics.org

This newsletter contains economic and property news and analyses, edited by RICS. It should not be relied upon as professional advice and RICS accepts no liability for reliance on its contents.