

## French housing starts set to remain firm

**“Building activity is currently running at a healthy clip”**

French housing starts for February are due to be released by INSEE on Tuesday 29<sup>th</sup>. It is probable that they will continue to tell a positive story about house building in France. The starts numbers are by their nature highly volatile on a monthly basis, but taking a six month moving average to get a clearer idea of the underlying trend reveals that building activity is

currently running at a healthy clip; around 29 thousand units a month compared to the long run average of about 27 thousand. The strength of the house building number tallies with general news flow on the French housing market, which has also been quite positive recently. Indeed, mortgage lending in January was up by 8.1% on an annual basis, close to the fastest pace of growth since November 2008. Meanwhile, the latest INSEE data shows that house prices rose by 8.6% on year ago levels which is the highest rate since Q4 2006.

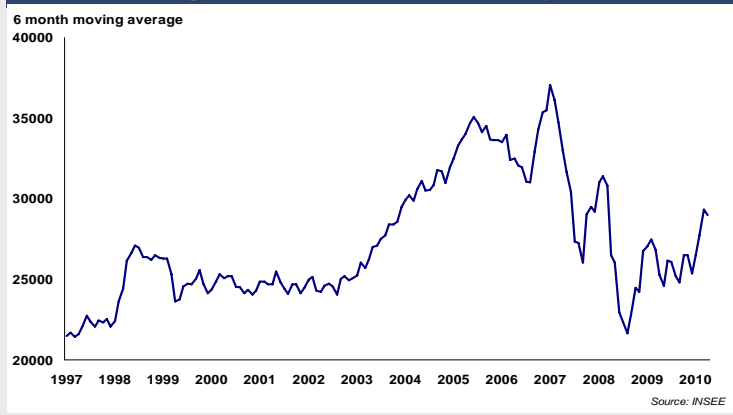
Several factors help explain the recent strength of the French housing market. On the demand side, the labour market is showing some tentative signs of improvement (with the unemployment rate slipping from 10% in November 2009 to 9.6% presently). Meanwhile consumer confidence has rebounded sharply. However, arguably the biggest support to the housing market is being provided by the supply side, in particular the relative undersupply of housing. One crude way of measuring this is by comparing it to the ratio of housing investment to GDP against the long run average. This ratio is currently running at 5.3%, and has been below the long run average of 5.6% since Q3 2009. Although this is by no means perfect – the long run average only

stretches as far back as 1999 because of a break in the series caused during the euro changeover – it provides some evidence that prices and building activity are responding to fundamentals.

**“But our judgement is that there is still an undersupply of housing”**

Meanwhile more evidence on the general state of the French economy will be provided by the release on Friday 1<sup>st</sup> of the PMI sentiment index for the manufacturing sector. Our suspicion is that the recent run of upbeat numbers will continue with the March reading possibly moving above 56.

### French housing starts have rebounded smartly from the crisis



## Will Singapore government measures be enough to suppress house prices?

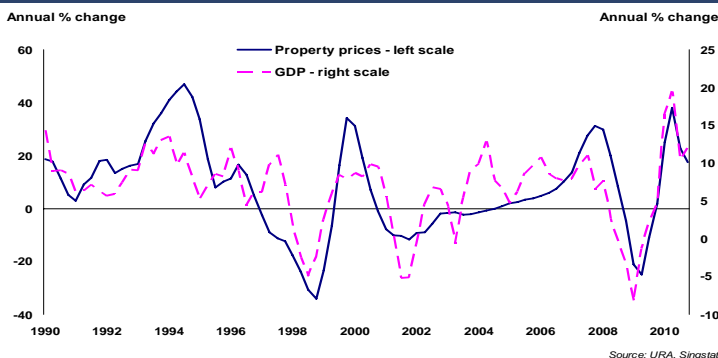
**“Home prices rose 17.6% in 2010”**

House prices for the first three months of the year are released on Friday 1<sup>st</sup> by the Urban Redevelopment Authority (URA). It will be the first indication of how well (if at all) measures taken by the Singapore government to cool the property market have worked. After home prices rose 17.6% in 2010, officials announced in January new measures aimed at maintaining “a

stable and sustainable property market”. The measures were due to take affect as of the 14<sup>th</sup> January, so should be reflected to some extent in the Q1 figure.

Following policies designed to take the edge of house price inflation in both February and August of last year, the URA Property Index showed that home prices increased to record highs in Q4, although the pace eased for the fifth quarter in succession. The pick up of 2.7% in Q4 was enough to warrant further action taken by government, who have set tougher borrowing limits by lowering LTV's and introducing a higher rate of sellers stamp duty. This is being extended from 3 to 5 years and is designed to provide a strong disincentive for investors looking to make short term gains. The authorities acknowledge that the low interest rate environment is likely to drive demand for residential property and are mindful, when policy tightens, borrowers could become overextended. The extent of excess liquidity available in Singapore is evident in the latest bank lending figures for January. Annual growth in bank lending jumped 16.1%, the highest growth rate since the global financial crisis.

### Property prices have tracked GDP of late



Interestingly, the strong performance of both the domestic economy and residential property market is matched by that of the commercial property sphere. Recently, Jones Lang Lasalle reported that an office block in the central business district had been sold for S\$227m, the highest per square foot price this year. This sentiment was identified by property professionals in the Q4 RICS Global Commercial Property Survey, who expected capital values to increase at a greater pace in the first three months of 2010.

**“The strength of domestic GDP is matched by the property market”**



**RICS**

the mark of  
property  
professionalism  
worldwide

rics.org/economics

## US construction sector looks set for moderate growth in 2011

**“Construction spending in January declined by 0.7%”**

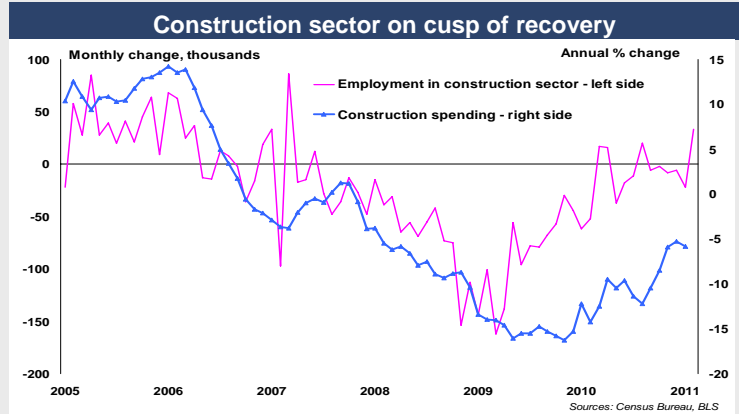
The coming week sees the release of construction spending (February) on Friday 1<sup>st</sup> as well as employment (March) on the same day. Construction spending fell more than expected in January to its lowest level in five months, dropping 0.7% on the month to an annual rate of \$791 billion. However, one component of this, private

residential construction spending, actually increased 5% in January, likely reflecting a pickup in the construction of multifamily homes as demand for rentals continued to increase. However, it still remains 7% below year ago levels. During 2010, construction spending fell 10%, while the residential component stayed fairly flat thanks mainly to a 23% rise in public residential construction. Additionally, housing starts plunged in January, falling 22.5% to an annualised rate of 479,000, the second lowest level on record. Indeed, with construction spending 35% below its peak achieved in early 2006, the recovery will be a drawn out affair. On a more positive note, the dearth in house building activity will help support house prices, which have been falling mainly due to a large supply overhang in the housing sector.

Turning to employment, the construction sector has been one of the hardest hit in terms of job losses, with 2.2 million jobs shed during the recession (25% of the total losses in the US economy). After five consecutive months of job losses, January recorded positive growth in the construction industry, with 33,000 jobs added. This is significant, considering that in the past 37 months, there have been only four months in which jobs were added within the construction sector.

Looking ahead, the NAHB housing market index showed that home builders' sales expectations increased from 25 to 27, suggesting a slightly more optimistic view on the coming year. Indeed, we anticipate that in the coming months the first signs of increased activity in overall construction will become evident, with the very weak activity of 2010 becoming the final year of a protracted decline in construction.

**“33,000 jobs were added in the construction sector in January”**



## UK Budget sticks to austerity line but offers some relief for the property sector

**“This was a fiscally neutral budget low”**

The latest Budget Statement from Chancellor George Osborne was framed within the context of the approach that was established in the two packages of measures announced last year. Notwithstanding some eye catching headlines, this was a fiscally neutral budget. That said, given the limited scope for manoeuvre, the Chancellor was able to provide a tonic for business

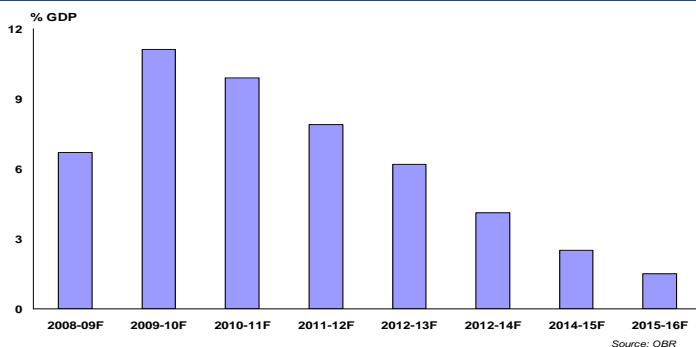
most notably through cutting the rate of corporation tax by more than had been expected. In addition, a raft of measures were introduced with direct relevance to the property sector.

Particularly significant given the problems in the UK housing market was the change in the rule for applying stamp duty on the bulk purchases of property and the dropping of the conversion cost for REITs. The hope is that this will provide the incentive for institutions to invest in the residential lettings market. The First Buy scheme will undoubtedly help the new build sector by offering a uniform and simple shared equity product. Changes to the Use Classes Orders may also help address on-going problems although the risk is that this could in due course lead to further challenges in commercial property as the empty property rate regime undermines speculative development. Other measures also worthy of note are the proposals for Land Auctions and the consideration of a 'build now pay later' scheme.

On the macro front, the near term growth prospects were revised downwards to 1.7% and 2.5% for this year and next. Meanwhile, the improvement in the public finances is also projected to come through rather more slowly than previously envisaged. Significantly, however, even if GDP growth falls short of the newly reduced estimates as the cuts in government spending bite, the knock on impact on public borrowing is unlikely to be sufficient to imperil the generally positive perception amongst investors about the state of the UK's public finances. Critically, this should help gilt yields to remain close to European lows even if the Bank of England begins pushing up interest rates.

**“Gilt yields should remain close to European lows”**

### Public sector net borrowing on course to decline



**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.



**RICS**

the mark of  
property  
professionalism  
worldwide

rics.org/economics