

Signs of activity firming in the Australian housing market

“Australian housing market has fared better than the US and UK markets”

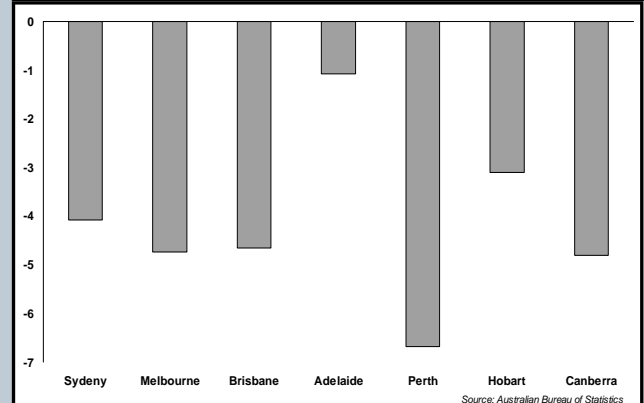
“RBA will hold rates steady next week”

- First quarter data on Australian house prices are released on Monday 4th. The fourth quarter of 2008 posted a 0.8% decline leaving the drop in the headline price index from the high water mark at just 4%. This is a relatively small adjustment compared with the picture in many other economies around the world. In the US, the fall in prices is approaching one-third while in the UK and Ireland (see below) it is not far off 20%. Within Australia, there are widely differing trends in the housing market. While prices have fallen by close to 7% from the peak in Perth, in Adelaide they have only dropped by just over 1% and they are still rising in Darwin.
- Significantly, there are anecdotal reports that the national house price index may have actually firmed during the first three months of this year, the first increase after three consecutive quarterly declines. The recently published RP Data-Rismark National Dwelling Value Index rose by a healthy 1.6 per cent over this period. Meanwhile, stronger housing finance numbers suggests that activity has been picking up on the back of the collapse in mortgage rates and the first home owner grant. Indeed, new home sales leapt by 14% in March according to the Housing Industry Association, taking them to their highest level since the middle of 2003.

- The Reserve Bank of Australia (RBA) meets on Wednesday 5th. The minutes of the last meeting indicate that the authorities did have some reservations as to whether it was right to go ahead with a further quarter point reduction in the cash rate. Although the threat of recession remains, the likelihood is that the RBA will hold steady next week.

There are widely differing house price trends within the country

Peak to trough decline in prices, % change



Irish house prices have further to fall

“The housing market is still plagued with excess supply...”

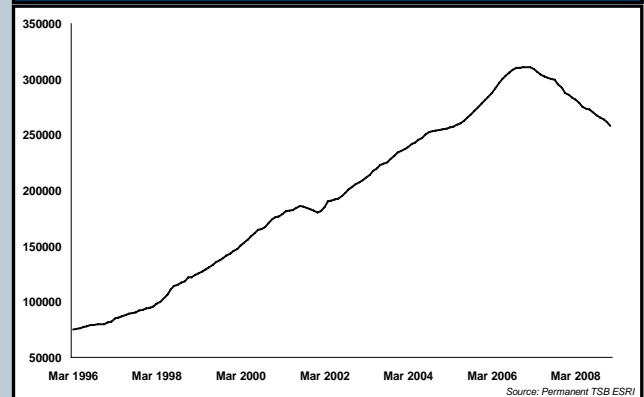
“...and mortgage lending is contracting rapidly”

- Irish house price data for April is due for release on Monday 4th. Average house prices have fallen every month since March 2007 and, at €253,546, they are now 18.5% below their peak.
- The principal factor initially driving the housing market downturn in Ireland was excess housing supply. In terms of crudely estimating this, the number of private dwellings completed per quarter began to exceed the long run average in Q3 2002 and remained above it until Q1 2008. Taking 2003-2007 as a whole, some 370,000 private dwellings were completed. Although the total population increased by nearly the same amount during this period, the first time buyer (FTB) cohort (age 24-34) only increased by 130,000. Roughly speaking, that suggests an excess supply of around 250,000 houses at the start of the downturn. Admittedly, that doesn't account for shared houses, second home owners, immigration effects etc. At any rate, continued growth in the FTB cohort may have reduced the supply overhang, but not that dramatically.
- Latterly, price falls have been exacerbated by rapidly slowing, and then contracting, mortgage lending. At its peak in March 2006, annual growth in lending for house purchase was running at 30%. However, it has slowed rapidly since then with the annual growth rate turning sharply nega-

tive in November and running at -8.9% in March. In terms of the outlook, GDP contracted by 7.1% in Q4 2008 alone and the unemployment rate is rising sharply, currently at 10% (more than double the level twelve months ago). Against this deteriorating macroeconomic backdrop, the Irish housing market is unlikely to find much support in the near term.

Average house prices in Ireland are 18.5% below their peak

Prices, Euros



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Indian property demand to ease further despite rate cuts

- The Indian real estate market has seen a sharp re-pricing since the autumn. The forthcoming RICS Global commercial Property Survey (GPS) is likely to provide clues as to whether this downward trend accelerated into the first three months of 2009. India was one of the worst performing countries within the Emerging Asian region during the previous survey period, with available space rising sharply.
- The Q4 2008 GPS showed that declining demand was impacting on rents and also weighed heavily on rental expectations, which were already the most pessimistic of any country in the region. It remains to be seen whether the series of aggressive interest rate cuts by the Reserve Bank of India have offered any support for the ailing property market. Indeed, rates have been slashed to 4.75% with six cuts in the last seven months. However, the size of the most recent move in April was only 25 basis points compared to more aggressive cuts in prior months which have taken policy rates down by 425 points since October.
- The latest economic data, however, reveal that the Indian economy is not yet out of the woods and RICS expect further rate cuts to be sanctioned. Business surveys for March point to further contraction in the manufacturing sector, in spite of some improvement since hitting a recent low in

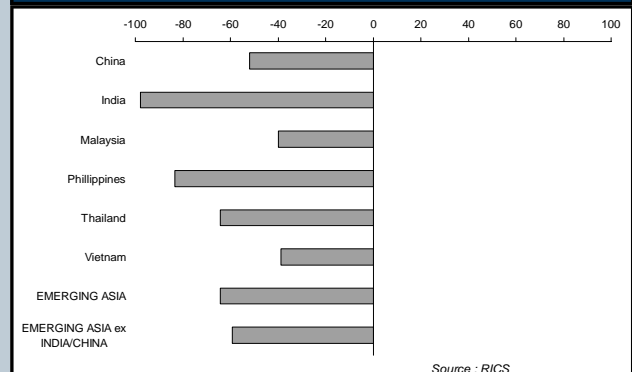
December. Should global growth conditions gain further momentum then the industrial property sector may be first to show some improvement.

“India was one of the worst performing countries in Q4 ...”

“... with further weakness expected in the forthcoming global property survey”

India displayed the weakest rental expectations in Q4

% Net balance



Weakness remains in US construction sector

- The next insight into the US construction and property markets will be from data on construction expenditure and pending home sales for March, both released on Monday 4th. Recent good news has not been convincing enough to suggest the start of a sustained recovery.
- If anything, the construction sector has deteriorated further since the start of the year. Towards the end of 2008, there were signs that the downturn in private residential construction spending (the sector that has suffered the most) was easing. That proved not to be the case – in February, the 3m/3m growth rate fell to -14.6%, the worst level since the series began in 1993. Further, the private non-residential construction sector, which now accounts for around 40% of all construction spending, has also deteriorated markedly. Annual spending growth in that sector turned negative in January 2009 and edged down further in February. Construction spending for manufacturing and health remain the only two sub-sectors that have continued to grow while the most recent reading showed private construction spending on commercial property was down by 23% y/y.
- The pending home sales index, based on contracts signed in March, is a forward looking indicator of sales activity. Following a sharp fall in January, February’s index showed

a 2% increase. That was a result of increases in the North-east, Midwest and South, offset by a fall in the West. Further substantial improvements are unlikely as the housing market remains weak. House prices are still falling and economic and employment uncertainty will continue to limit buyer’s confidence. Although the market must be nearing a bottom, the outlook is still fairly subdued.

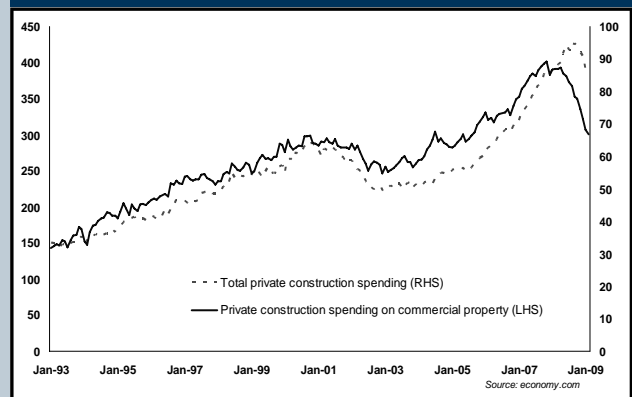
“The construction sector has deteriorated further in recent months”

“substantial improvements in pending home sales are unlikely”

Construction spending on commercial property has fallen sharply

000s

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