

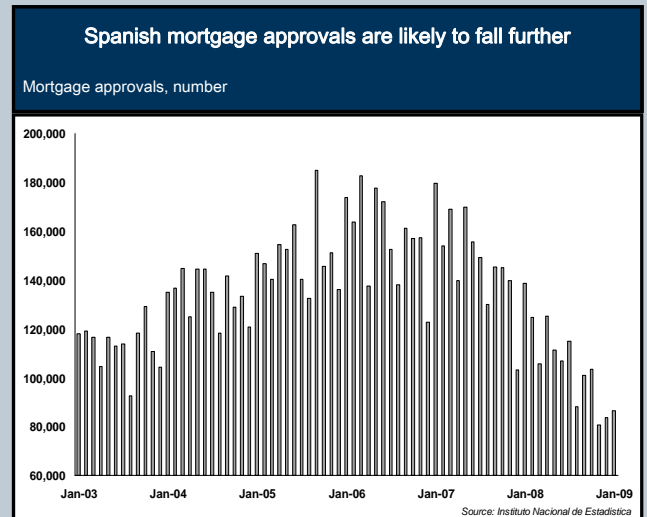
## Negative outlook remains for the Spanish housing market

- Spanish mortgage approvals data for February are due for release on Tuesday 28<sup>th</sup>. In January, approvals rose by 3.4% on the month to 86,617 but they are still down by 38% y/y (and by 53% from their September 2005 peak).
- The collapse in Spanish mortgage approvals has contributed to a fall in house prices. Indeed, on our favoured measure – the INE index – house prices fell by 5.4% y/y in Q4 2008 (new home prices are still up by 0.8% y/y, while second hand home prices are down by 10.7% y/y). The index produced by the Spanish housing ministry paints a far less gloomy picture, with house prices only down by 2.8% y/y in Q4 2008. However, the INE index is based on actual transactions where as the index produced by the housing ministry is based on valuations and is therefore prone to considerable inertia.
- Looking forward, the outlook for Spanish house prices and mortgage approvals remains negative. Unemployment is rising sharply (15.5% according to the latest data) along with the rate of non-performing mortgages (2.39% in Q4 2008 compared to 0.72% a year earlier). Combined with falling collateral values, that will inevitably discourage new mortgage lending, exerting further downward pressure on house prices. This is likely to be compounded by

the huge inventory overhang of new houses that has yet to be fully digested. Indeed, residential investment as a share of GDP has only just fallen below the long-run average (6.3%), having been above it for the past seven years.

“House price and mortgage lending are likely to suffer...”

“...in the wake of rising unemployment, and oversupply”



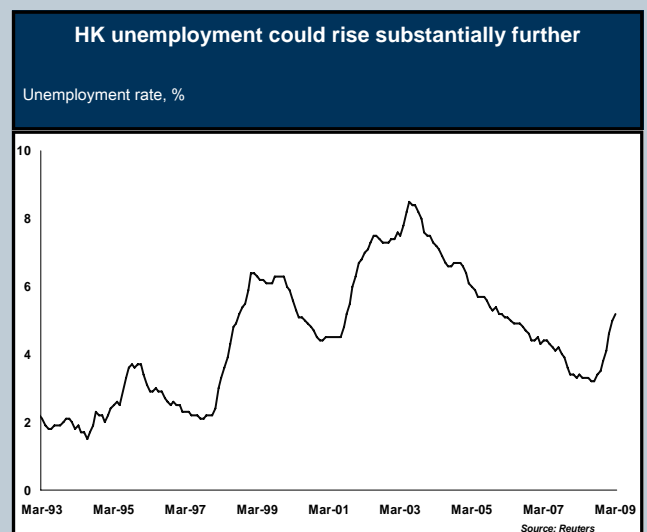
## Hong Kong mortgage activity to continue to edge higher

- Several pieces of data are released next week which should provide some clues about the near term outlook for the Hong Kong residential property market. The monthly survey of residential mortgage trends is due to be published on Wednesday 29<sup>th</sup>. This will indicate whether the housing market is seeing any ‘green shoots’ following some improved pieces of economic newsflow across the region in recent weeks.
- New loans approved for mortgage purchase increased to HK\$11.5 billion in February, up by 1.5% on January’s figure. Compared to a year earlier, to eliminate for seasonal effects, loans are still down by around 50%. This compares to a 60% fall in the equivalent period to January 2009. Such a sharp drop off in volumes will inevitably lead to further price declines in the near term. However, the pace of declines could be mitigated should the economy gain some support from any improvement in global activity.
- All eyes will be on the latest trade data which is due for release on Monday 27<sup>th</sup>. The previous figures showed a higher than expected 22% fall on a year earlier even when combining both January’s and February’s data to account for the Chinese new year. This was the worst outturn since May 1954 and if continued bodes ill for the employment outlook across the territories. Indeed, the latest un-

employment data points to further weakness in demand for housing with this week’s release showing a rise to 5.2%. As unemployment rises further through 2009 the Hong Kong Authorities will be hoping for a sharp turnaround in China to add some support to the weaker external picture.

“New loans approved were down around 50% in February on a year earlier”

“With external demand crucial to any recovery in volume”



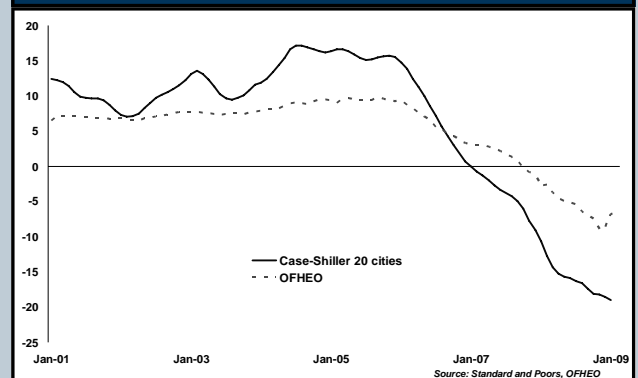
## US house prices may be reaching a floor

- After a prolonged downturn, the housing market seems to be at or near a bottom. There is some good news, such as increases in home sales and an improvement in builders' sentiment. And last week's house price data from the OFHEO showed that house prices have risen for two consecutive months (by around 1%/m). There are, however, indications that recent gains have not been sustained - mortgage permits fell by 5% this week (but remain above February's low) and housing starts fell back in March after making small gains in February.
- Some of the recent improvements could be reflected in the Case-Shiller house price index (CS) for February, due for release on Tuesday 28<sup>th</sup>. This index, which covers a smaller geographical sample than the OFHEO, has fallen sharply - by 6% in the last three months and 19% in the last twelve. The CS index tends to be more extreme than the OFHEO so may remain weaker for longer. But a small tick up in prices over the next few months could be a positive sign that the market is passed the worst.
- The recovery depends not only on the demand for houses but also the number of homes available for sale. Data on home vacancy rates, due on Monday 27<sup>th</sup>, will provide another insight into that side of the market. Although this

data doesn't include foreclosures, they do indicate a trend in vacancy rates edging down towards the end of 2008. Government intervention and lower interest rates will also help by keeping homeowners in their homes. Together that means a limited supply of houses for sale. That will be a crucial factor in placing a floor under falling house prices.

### Both existing and new home sales will continue to fall

Annual % change



“A pick up in the Case-Shiller index would be a positive sign...”

“... but the recovery also depends on a limited supply”

## UK mortgage approvals to continue modest recovery

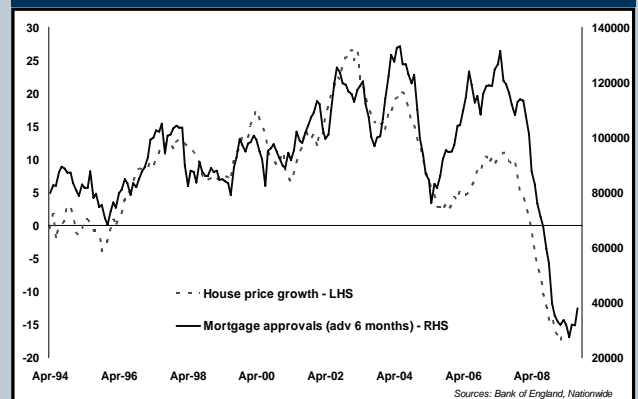
- Data released by the British Bankers Association (BBA) on Monday 27<sup>th</sup> will provide the first estimate of mortgage lending in March. The February figures showed the number of mortgage approvals climbing for the third consecutive month; from (an upwardly revised) 24,277 in January to 28,179 - the highest level since April 2008. The BBA data provides a good guide to the more complete numbers published by the Bank of England (BoE), also released next week on Friday 1st.
- The RICS 'new buyer enquiries' series, a reliable lead indicator of mortgage activity, has continued to strengthen. The latest positive net balance reading of 31 in March is the best since September 2003. It seems that the drop in house prices and the lower cost of borrowing has created a stronger appetite to buy. So next week's data from both sources are likely to show a further increase in the number of mortgages approved. Nevertheless, in an historic context, mortgage approvals are still very weak and will have to rise considerably further before they point to any reversal in recent house price falls.
- Of course, the biggest news in the UK this week has been the release of the 2009-2010 Budget. That acknowledged the importance of the housing market to the wider economy and noted several priorities - including limiting fore-

closures through mortgage support schemes and introducing government guarantees for mortgage backed securities. The latter should help to unblock the mortgage finance markets. Over the next six to twelve months, that could help allow the recent increase in buyer enquiries translate into an increase in sales and that may help to lift the market out of its depressed state.

### Mortgage approvals still too low

Annual % change

Number



“RICS new buyer enquiries points to increased mortgage activity”

“An end to falling house prices still a way off”

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.