

Canadian housing market downturn continues

“Weak demand and risk of forced sales will weigh on house prices”

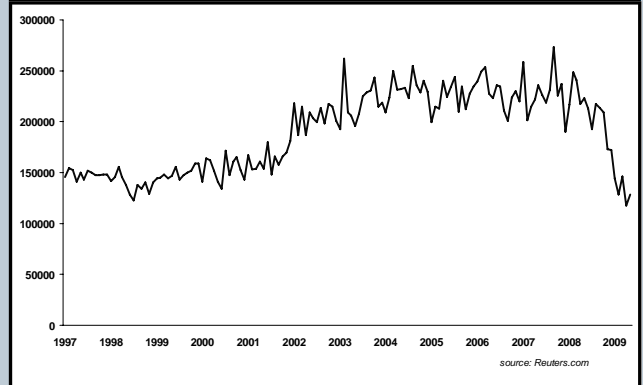
“Subdued construction activity is expected for the rest of 2009”

- A comprehensive update on the Canadian housing market is due next week with the release of building permits data for May on Tuesday 7th, housing starts for June on Thursday 9th and the new house price index for May on Friday 10th. In Canada, the downturns in the housing market and the wider economy have occurred with remarkable synchronicity. Since late 2008, house prices and GDP have fallen for nine consecutive months while unemployment has risen from 6.3% to 8.4% and is expected to rise further.
- The weaker demand and risk of forced sales that are associated with rising unemployment point to further falls in house prices in the coming months. At a national level, the pace of the downturn to date has been relatively mild – house prices are down by 3% y/y but the three month on three month rate of decline has deteriorated. Prices are falling the fastest in Alberta and British Columbia (by 11% y/y and 9% y/y respectively) while prices in Quebec continue to grow at a rate of near 4% y/y.
- General weakness in the housing market outlook is also being reflected by weaker construction activity. Building permits remain about 47% lower than a year earlier, although they seem to have recovered from the near record low of 6,389 in January. Correspondingly, housing starts

(measured on an annualised basis) have really plummeted in recent months, falling from 209,400 in October 2008 to 117,600 in April 2009. A small rebound in May, to 128,400, still leaves housing starts 42% lower than May 2008 and well below the long run average or 178,000. Subdued levels of activity are expected to continue over the course of 2009.

Housing starts still nudge up but remain historically weak

Number of housing starts



Indian budget could offer help for real estate sector

“Little to be announced to rein in budget shortfall in near term”

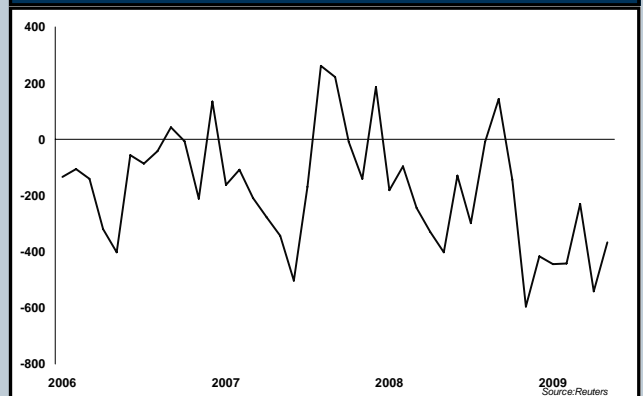
“statement to help address lack of affordable housing”

- The Indian budget for the year ending March 2010 is due to be held on Monday 6th. This statement will be made against a backdrop of slightly more encouraging news flow on the economy. The June PMI remained above 55 even if it was a little down on the May reading; this compares with a low of just 44 touched in December. Other high frequency indicators including industrial output and money supply are also suggesting that the worst is over. As a result, RICS believes the economy may grow by around 6% this year and 6.5% in 2010.
- The budget is unlikely to contain any short term measures to rein in the worsening fiscal position. This year’s overall shortfall could amount to around 10% of GDP with the bulk of it (around 6% of GDP) accounted for by central government. Some narrowing in the gap between expenditure and revenues will be pencilled in with greater emphasis placed on a renewed fiscal responsibility act to guide the numbers down over the medium term. Previously, the aim was for the fiscal deficit to be brought down to 3% of GDP by 2009/10.
- The real estate sector is likely to be a beneficiary of the budget given the government’s commitment to improving infrastructure and housing facilities. Amongst the incentives that may be provided to boost the affordable homes

agenda are increases in the housing loan deduction limit and lower interest rates for loans of specific sizes. Meanwhile, to help finance low cost housing development, a dedicated fund may be established with concessions under section 801B of the Income Tax Act reintroduced to encourage the construction of small units at affordable prices.

Indian Fiscal Balance

Bn Rupees



German building activity to remain weak

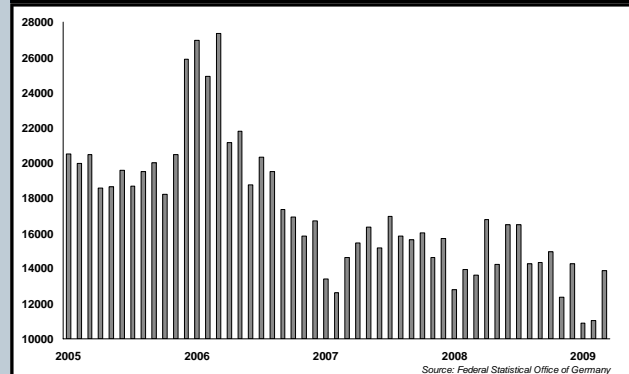
“Residential building activity has been weak...”

- Official German residential building permit data for April is due for release on Friday 10th. In March, the number of permits issued surged by 25% on the month to 13,878. However, since January 2007 the trend has been broadly flat, with permits averaging about 14,500 a month.
- The trend in building permits since January 2007 is partly due to fiscal distortions and also the result of the subdued trend in new home prices. On the former point, the abolition of the ‘Eigenheimzulage’ housing subsidy during 2006 and the increase in VAT on new housing from 16% to 19% in 2007 caused many consumers to bring forward their home purchases. This is because both changes to the tax regime were signalled by the government well in advance. On the latter point, even in nominal terms, annual growth in new home prices has only averaged about 1% since January 2007 (according to Hypoport). However, the trend in house prices looks even weaker once inflation is taken into account, with annual growth in real new home prices averaging about -1% over the same period. Clearly, in an environment where a lot of demand has already been frontloaded due to fiscal distortions, and where real home prices are falling, building activity is going to be weak.

- Looking forward, a sustained recovery in residential building activity throughout the balance of this year is unlikely. Although the impact from the fiscal distortions mentioned above will fade, rising unemployment (currently at 9.2%), and sinking consumer confidence is not conducive to an increase in demand for new homes.

Residential building activity has been flat

Building permits, number



“...and it is unlikely to recover strongly in the near term”

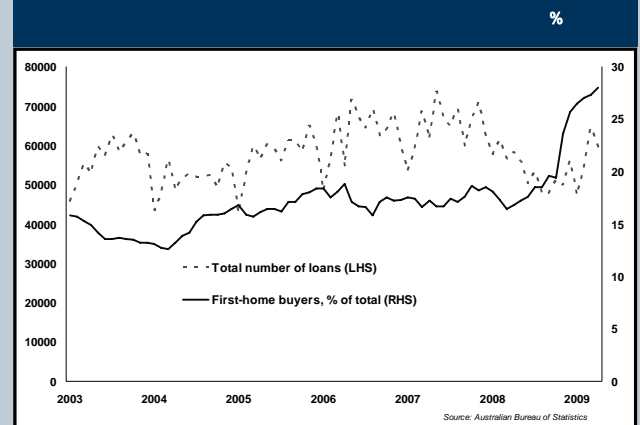
Government grants help Australian first home buyers

“Fall in house prices mild in global context”

- At their most recent meeting, the interest rate setting committee at the Reserve Bank of Australia indicated that, with the cash rate at 3%, there is no pressing need for further easing. However, a strong currency (which may hurt exports) and the fact that the domestic economic recovery may still be fragile have led a counter-argument that further cuts may be needed in the coming months. Even so, it seems most likely that rates will stay on hold when the RBA meets on Tuesday 7th.
- In some quarters, weak house prices have added to the argument for another rate cut. House prices have fallen for the last four quarters, including a sharp 2.3% drop in Q1 of this year. The cumulative decline to date amounts to almost 7% - the largest fall in prices since the series began in 2003. But it looks mild when put in a global context. House prices in the US and UK are 33% and 16% below their peak respectively.
- Small improvements in housing finance may limit further weakness in house prices. Although the total number of loans fell in April, it maintained most of the recovery made since the end of 2008. The majority of housing finance was for existing home sales with purchase of new dwellings and construction of new dwellings accounting for 4% and 9% of total lending respectively. In spite of concerns

about stretched affordability, first home buyers have continued to account for a growing proportion of new lending. The next release of housing finance data is due on Wednesday 8th and the growing demand from first home buyers will probably continue as buyers take full advantage of Government grants.

Proportion of first-home buyers has risen sharply



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