

Australian housing finance commitments to rise again

- Figures on housing finance for February are released on Wednesday 8th. They are likely to show that borrowings for residential property increased for the fifth consecutive month. This follows a sharp decline through the course of much of 2008. The monthly value of (new) dwelling commitments at the beginning of last year exceeded A\$22bn but over the next nine months, the total slipped to less than A\$18bn. Since that low point, it has climbed back towards A\$19bn.
- Significantly, much of the improvement in the demand for housing finance has been due to the increased appetite from first time buyers (FTB). The number of FTB commitments as a percentage of total owner occupied housing finance commitments increased from 25.7% in December 2008 to 26.5% in January 2009 and now stands at its highest level since the series commenced in 1991. A key reason for this is the expansion of the first home buyers grant back in October allied to the lower cost of borrowing resulting from the interest rate cuts sanctioned by the Reserve Bank of Australia (RBA). Under the scheme, first home buyers who purchase an existing home can have their grant doubled to \$14,000 while those who build a new home can get \$21,000.

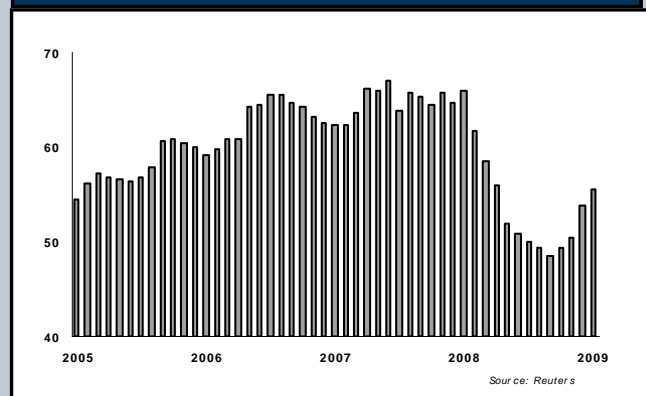
- The RBA actually meets again on Tuesday 7th and despite the more positive signs emanating from the housing market, it is likely to sanction a further cut in interest rates. Significantly, the vote at the March meeting to leave the cash rate on hold at 3.25% was actually a closer call than generally anticipated.

“First-time buyers are driving increased demand for property”

“RBA to cut rates again”

Mortgage commitments have grown since grant extension

000's



Bank of Korea to cut rates further

- The Bank of Korea (BOK) meets on Thursday 9th against a backdrop of a slightly better tone to recent macro news flow. Most significantly, industrial output jumped almost 7% in February having posted a peak to trough decline of more than 22% in the period up to December. Manufacturing sentiment, meanwhile, picked up to its best level in five months and there was also an improvement in the March export data. Although the year on year fall remained in excess of 20%, there was an 11% increase compared to export levels in February. This turnaround in the numbers prompted the Ministry of Knowledge Economy to claim that the economy touched the bottom between January and February.
- The weakness in the South Korean economy in the latter part of last year has begun to spill over into the commercial property market. The latest RICS Global Property Survey suggests that both investment and occupier demand have been hit. The number of bidders per property has declined as capital values have slipped. Meanwhile, rents have slipped back as interest has waned forcing owners to consider providing more generous inducements to take up space. Predictably, the results suggest that the development pipeline has been dealt a blow as available space has increased.

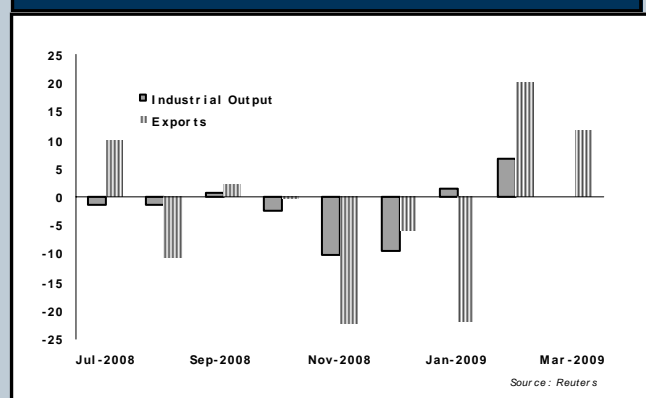
- RICS suspects that the BOK may choose to cut interest rates a little further at its forthcoming meeting despite the better run of recent economic numbers. It is significant in this regard that the central bank recently abandoned its official view that the South Korean economy would record 2% growth in 2009, replacing it with the expectation that the economy will now contract.

“Industrial output jumped almost 7% in February...”

“...but commercial property is still under pressure”

Both industrial output and export growth are rebounding

Monthly % change



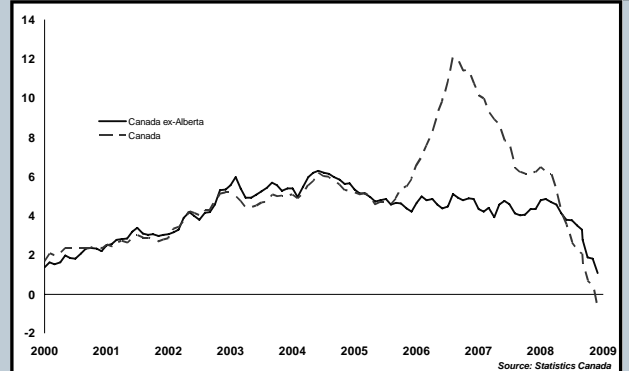
Canadian housing market downturn continues

- An update on the Canadian housing market will be provided when building permits data for February are released on Monday 6th, followed by housing starts (Wednesday 8th) and a snapshot of house prices (Thursday 9th). The recent numbers highlight a sharp drop in building activity and a continued deterioration in house prices. Given the weakening economic backdrop (January's GDP showed a 0.7% monthly fall and the outlook for Q1 is pretty weak), this trend is likely to continue.
- The downward movement in new residential building permits that began in April 2008 has intensified in recent months. At 6,585, the number of permits issued in January was the lowest since February 1995 and a sharp 45% drop on 12 months earlier. Perhaps an indication of builders' anticipation of a softening market, annualised housing starts have dropped from a recent high of 248,700 in February 2008 to 134,000 in February 2009. February's data for building permits may tick up but the sustained period of weakness suggests that housing starts numbers will soften further, perhaps to around 100,000, over the next few months.
- For the first time since 1997, January's data showed an annual fall in average house prices. The weakness is con-

centrated in Alberta where prices are down by 8% y/y. Canada seems better equipped to ride out the downturn than the US as their banks did not enter the sub-prime sector with the same enthusiasm, nor did the housebuilding sector reach the same level of exuberance. But prices will continue to edge downwards – a fall of 5%-8% at the national level over 2009 seems plausible.

Annual house price growth turns negative at national level

Annual % change



“Building permits have dropped by 45% in 12 months”

“First negative annual house price growth since 1997”

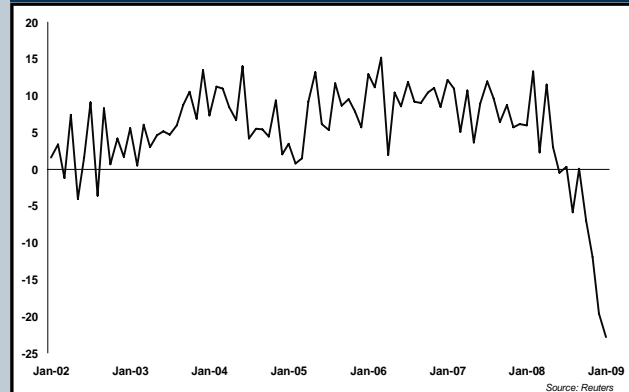
Hungarian commercial property woes to continue

- Hungarian industrial output data for February is due on Tuesday 7th. In January, industrial output fell by 4% on the month on a not seasonally adjusted basis taking the annual decline down to 22.9% (industrial output is now 34.2% below its November 2007 peak).
- Industrial output is not only being hit by a collapse in export demand; at the same time, rising unemployment, tightening credit conditions and a horrendous currency mismatch on household balance sheets is impacting on domestic sales. Weaker domestic and external conditions are in turn driving developments in Hungary's commercial property market. Indeed, the latest RICS Global Commercial Property Survey shows that occupier demand has collapsed in all three sectors of the market, as have rents, while inducements are rising and lease lengths are shortening. On the investment side, the sharp deterioration in the Forint has done little to generate overseas interest, whilst the domestic investor base is finding little support at home given the restrictive borrowing environment. Falling capital values are putting the brakes on all new construction activity in the sector.
- Looking forward, Hungary's commercial property market downturn probably has further to run. Expectations are sharply lower across the board in the RICS Global Com-

mercial Property Survey and a sharp contraction in economic growth is widely expected in 2009 (the government estimates 3.5% in 2009 as a whole, but private estimate are even more pessimistic). Moreover, since the Hungarian central bank, the NHB, is now more focussed on preventing further currency depreciation than spurring economic growth, the commercial property market is unlikely to be supported by monetary policy.

Hungarian industrial output has collapsed

Annual % change



“External and domestic economic conditions are deteriorating...”

“...this is being reflected in Hungary's commercial property market”

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