

## Further moderate house prices falls in France

**“Further moderate price falls likely...”**

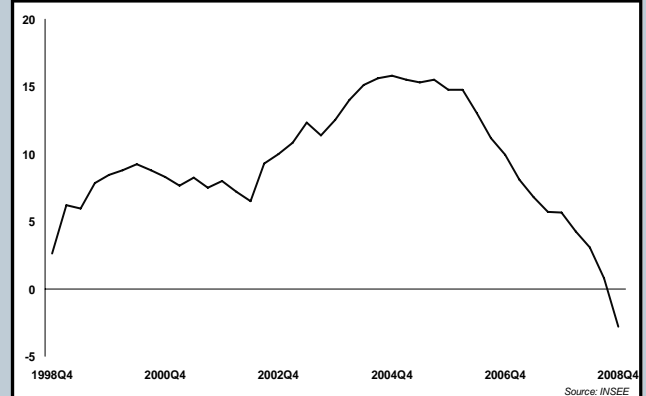
- Official French house price data for Q1 is due on Tuesday 9<sup>th</sup>. House price growth has slowed sharply from its Q4 2004 peak of 15.8% y/y, but outright price falls have been relatively modest to date with the headline index down by only 2.8% y/y in Q4 2008. However, there are signs that downturn is gathering momentum; on a quarter on quarter basis, prices fell 1.8% in the final three months of last year (an annualised rate of 6.9%). FNAIM data already released for the first quarter of this year show that prices slipped a further 1.7%.
- There are a number of factors that have been weighing on the housing market. However, the same factors also suggest that a dramatic market downturn is unlikely. First, new house building significantly exceeded the long run average (since 1997) from Q2 2004 to Q1 2009. While this has weighed down on house price growth, the fact that residential investment as a percentage of GDP remained well below the long run average (since 1980) over the last decade suggests that excess supply is not on the scale comparable with Ireland or Spain. Likewise, growth in mortgage lending has been slowing since March 2006 in response to slowing house prices rather than the global financial crisis. However, the fact that growth in mortgage lending is still positive (running at 5% y/y in April) also

suggests that access to the mortgage finance has not evaporated as it has in the UK for example.

- Looking forward, further moderate price falls are likely throughout the balance of this year reflecting the adjustment in the labour market now underway. Unemployment reached 8.9% in April, the highest since December 2006.

House price growth has slowed sharply

Annual % change



Source: INSEE

## Downtrend in Canadian housing starts to persist

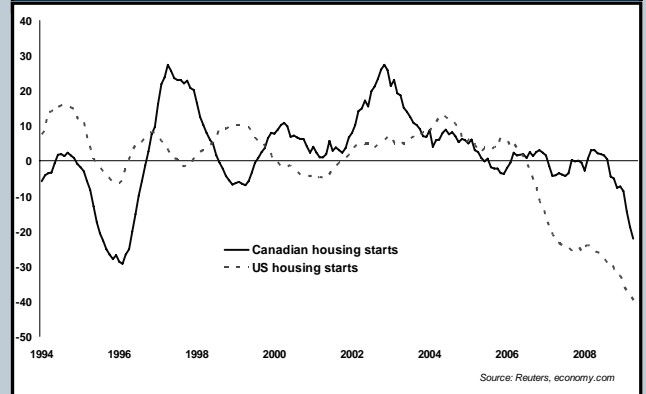
**“Canadian housing starts fell by 20% between March and April...”**

- There are increasing signs that the downturn in the Canadian housing market is becoming more entrenched in the face of the grim economic news flow. GDP contracted by 1.4% in the first quarter of this year following the 0.9% drop in the final three months of 2008. That has been reflected both in the unemployment rate (which has risen from 6% to 8% between April 2008 and April 2009) and weaker consumer confidence. As a result, there has been drop of interest in home purchases.
- This picture has also been visible in weaker construction activity. Canadian housing starts fell by 20% between March and April and are 45% down on the year. At 117,600 (annualised), they currently stand at the lowest level since 1996. The next update, due on Monday 8<sup>th</sup>, will be another soft number. Given the magnitude of April's fall, there may be a modest rebound in the May data but the downward trend is likely to continue beyond this.
- So far, the weakness has been most noticeable on condominiums which fell by 33% m/m in April. Single family home starts dropped by 9% over the same period. In part, this correction reflects a return to normality after an exceptionally strong house building boom since 2000. Moreover, it is understandable that builders are looking to run-down stocks in the current environment. Significantly, the

Canadian housing market remains in better shape than the US where housing starts have been falling since mid-2006 and builders' sentiment still remains low. Nevertheless, with house prices likely to drop by a further 5% or so over 2009, weak housing starts data is likely to persist for the foreseeable future.

House starts still falling more sharply in the US than Canada

3mth on 3mth % change



Source: Reuters, economy.com

**“...and will continue to weaken for the foreseeable future”**

## Chinese real estate investment set for further increase

- Recent surveys suggest that the rebound in the Chinese economy remains intact. The CLSA PMI edged up to 51.2 from 50.1 in May while the official NBS index slipped back from the 53.5 level recorded in April but still stands comfortably in expansionary territory. Bank lending has slowed sharply raising concerns but this, to a large extent, reflects some degree of normalisation after the policy-driven jump in the early part of the year. There is also a strong seasonal pattern to bank activity in China with a disproportionately large share of new loans typically created in the first few months of the year.
- The Q1 RICS Global Commercial Property Survey captured the downturn in real estate investment spending highlighting a material shift in the development pipeline. The results showed the net balance of respondents noticeably more gloomy about the prospects than was the case three months earlier. However, the likelihood is that the next survey will reflect the more recent rebound.

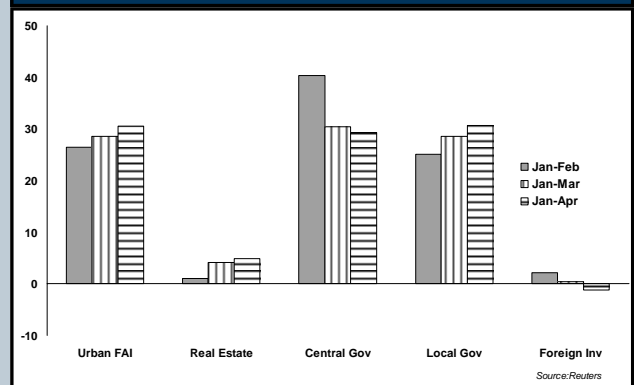
“Rebound in the Chinese economy remains intact”

“real estate investment now showing growth of close to 5%”

- The latest data on urban investment is due for release on Thursday 11<sup>th</sup>. The April numbers showed the pace of growth of fixed asset investment in urban areas quickened to 30.5% in the first four months of the year driven in part by the stimulus package announced by the government. There was also a noticeable pick-up in real estate spending; in the early part of 2009, this had been virtually flat but it is now showing annual growth approaching 5%. The slowdown in loan growth is unlikely to act as a drag on investment in the near term partly because many of the lending facilities now in place have yet to be drawn on.

### Chinese urban investment is continuing to rebound

Annual % change



## UK construction orders and commercial values to fall further

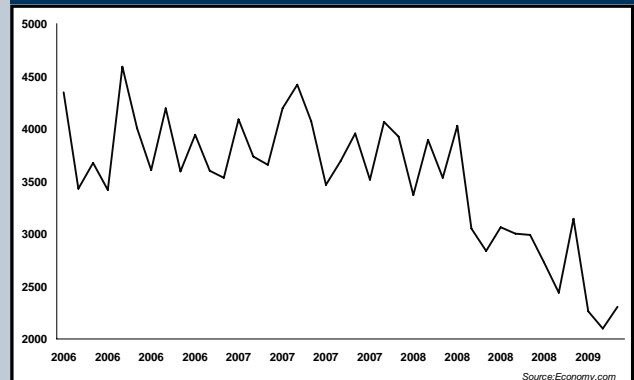
- A raft of property related data is due for release in the UK over the coming week. Arguably the most significant piece of news will be the RICS Housing Market Survey due out on Tuesday 9<sup>th</sup>. This will provide an update of a number of closely watched series including ‘new buyer enquiries’ and the ‘sales to stock ratio’ which tend to lead mortgage approvals and house price inflation respectively. On the same day, DCLG will publish its April house price index. Despite the better tone to both the (May) Nationwide and HBOS indices, this series is likely to post a further drop reflecting the fact that it is reflecting developments a month earlier and also capturing movements at a later stage in the process (mortgage completions rather loan approval).
- Following on from this on Thursday 11<sup>th</sup>, April numbers on new construction orders are released. The recent CIPS Construction Survey provided some mildly encouraging news for the beleaguered sector but was still signalling a further contraction in output. Although new construction orders did edge up in March, they remain close to recent lows. The likelihood is that they will suffer a further relapse over the coming months despite the support being provided by the acceleration in public spending capital programmes.
- Finally on Friday 12<sup>th</sup>, the May commercial property numbers are announced by IPD. The April All Properties capital index fell a further 2.2% and now stands almost 43% off the 2007 high. Recent anecdotal evidence points to a gentle pick-up in activity but this is unlikely to have been sufficient to prevent a further drop in valuations. Meanwhile rents in all sectors look to have some way further to fall.

“new construction orders remain close to recent lows”

“slight pick-up in commercial activity will not prevent further drop in values”

### Construction orders remain close to recent lows

£bn (2005 prices)



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