

Activity in the Hong Kong residential market rebounds

“Dramatic collapse in activity beginning to reverse”

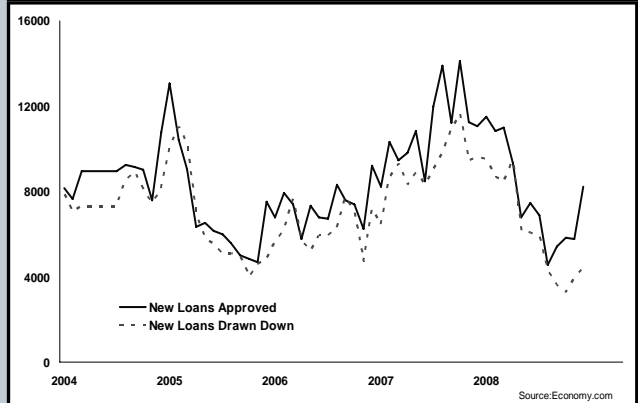
- The next update on residential mortgage lending in Hong Kong is due for release on Thursday 28th. Recent data has shown some signs that the dramatic collapse in activity in the sector during the latter part of last year is beginning to reverse. New mortgage loans drawn down during March rose to 4,462 from 3,295. Meanwhile, new loans approved jumped to 8,213 from 5,765 with all sectors (primary, secondary and refinancing) participating in the recovery. Because the data is not seasonally adjusted, monthly comparisons need to be treated with some level of caution. Significantly, although the year on year changes are still in negative territory the trend is one of improvement.
- Alongside the evidence of renewed appetite for property are signs that the deteriorating picture regarding negative equity is easing. As recently as the first quarter of last year the Hong Kong Monetary Authority estimated that just 953 loans (0.2% of the total) were in negative equity. This ratcheted up to almost 11,000 in the final three months of 2008 (2.3%). The latest figures relating to the first quarter of this year show the number of loans in this situation slipping to 9,553 (2%). This is broadly consistent with data from the Rating and Valuation Department showing residential prices starting to stabilise.

“Incidence of negative equity becomes less marked”

- Economic news flow, it has to be said, remains pretty grim with Q1 GDP falling a massive 16.1% on an annualised basis. However, the recently announced fiscal package worth HK\$10bn (following the HK\$50bn programme outlined in the budget) could pave the way for a modest pick-up in economic activity over the balance of the year.

New loans approved and drawn down are now picking up

Number per month



US housing market stalls at low levels

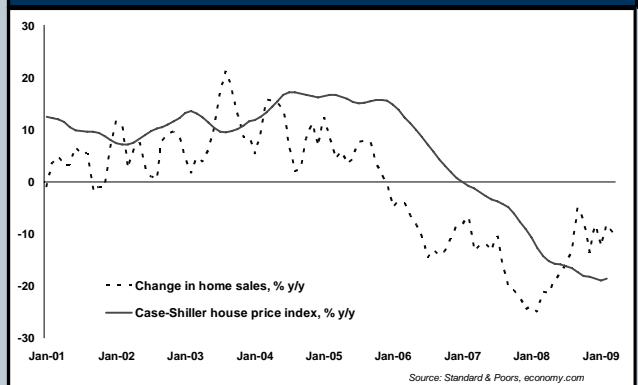
“Low demand will limit recovery in home sales”

- Even if the US housing market is moving past its trough, a full-blown recovery still remains some way off. Smoothing over monthly volatility, the trend in housing market data is towards stabilisation rather than significant upward movements. A raft of new housing market data to be released next week will provide the latest update on the saga. The Case-Shiller (CS) house price index for March will be released on Tuesday 26th, followed by FHFA house prices and existing home sales on Wednesday 27th and new home sales on Thursday 28th.
- After increasing in February, existing and new homes sales fell by 3% and 5% respectively in March. Looking ahead, there have been mixed signals coming from lead indicators on housing market activity. The pending home sales index, an indicator of real estate contracts signed, has shown two consecutive monthly rises, pointing to some improvement in home sales data over the next month or two. However, mortgage purchase applications have been subdued through April and May so far and that low demand will limit any further recovery in home sales over the next few months.
- So far, activity has shown more signs of stabilising than house prices. Admittedly, the FHFA data has posted four consecutive monthly increases and was showing just a 6%

decline in prices between February 2008 and February 2009. But the CS index, which covers a smaller geographical sample, has fallen by 12% in the last six months alone and 19% in the last year. News that foreclosures surged in the first few months of 2009, with an increase in forced sales, will weigh on house prices with further falls in both indices over the next few months almost inevitable.

Sales activity stabilises but house prices continue to fall

% Annual change



“Further falls in house prices are almost inevitable”

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“Next week’s GDP data may temper euphoria”

“Although confidence for industrial property has improved”

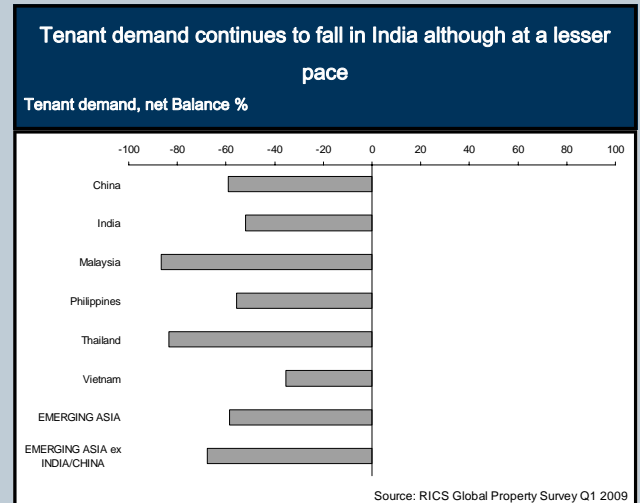
“Improved expectations have lifted the IFO survey”

“The German bank rescue plan is a positive”

India: improved optimism for Industrial property

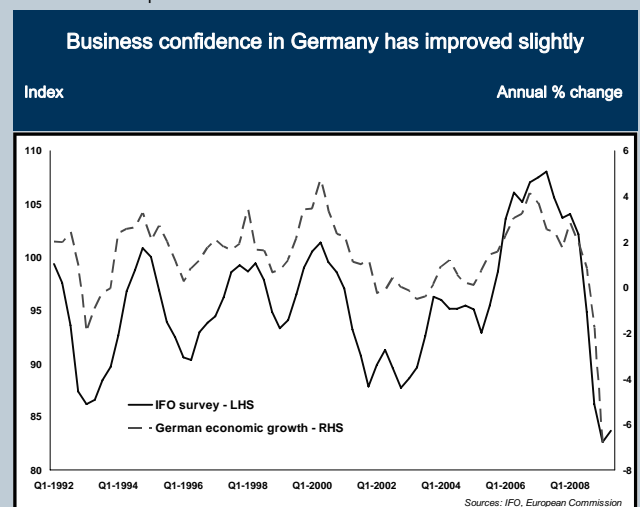
- The strong majority gained by the winning party (Congress Alliance) in India’s recent election has helped to boost sentiment towards the property market. This week’s rally in the Indian stock market which saw a near 20% rise off the back of the election results reflects hopes that a new government with a firm mandate can lay the foundations for lasting reform. Indeed, India’s Realty index has seen one of the strongest rallies in recent months up by over 150% since March 2009.
- Next Friday’s release of GDP data will serve as a reminder amidst the euphoria that challenges remain in the real economy. One such challenge is addressing chronic infrastructure needs alongside rapid urbanisation trends. A recent study by Goldman Sachs has estimated a mammoth undersupply of affordable homes in the region of 30 million units. The property and construction sectors could therefore benefit from any government measures to address these shortfalls. The here and now remains challenging, however, with the commercial property sector having suffered in the face of the global dearth in construction finance.
- The latest Global Commercial Property Survey from RICS shows that construction activity fell back in Q1 2009 for

the third consecutive quarter across office, retail and industrial sectors. The Indian real estate market continued to see activity declines across both the occupier and the investment market although the pace of falls in activity moderated. This has lifted confidence among agents across all three sectors with the industrial market expected to outperform in the coming months.



Business confidence rising in Germany

- The May release of the German IFO business survey is due on Monday 25th. This survey tends to lead economic growth in Germany, so it is helpful when assessing the prospects for the commercial property market. The headline number rebounded in April to 83.7, the highest level since November 2008.
- The improvement in the IFO index has been driven mainly by the 7-point rebound in the expectations sub-component since January. This has come on the back of improved financial market conditions; interbank spreads have come down sharply and the equity markets have rallied in recent months. Renewed confidence in the German economy was also echoed in the RICS Q1 2009 Global Commercial Property Survey (released this week). Indeed, capital value expectations in Germany, whilst still negative, are now the least bad in Europe, and surpassed at a global level in the survey only by Brazil and Argentina. By contrast, the current situation sub-component of the IFO survey has been weighed down by the still dire state of the economy. Q1 GDP fell by 3.8% on the quarter (and by 6.9% on the year) and the unemployment rate currently stands at 9.1%, which is the highest since January 2008. This too is reflected in the RICS survey, with Germany mid-ranked at a global level in terms of rental expectations which remain quite negative.
- Looking forward, the IFO survey is likely to recover further in May. The expectations subcomponent in particular should continue to rebound following last week’s announcement establishing a ‘bad bank’ in order to remove toxic assets from the financial system. A better functioning banking system should in turn support real economic activity and the commercial property market, but this will be a slow process.



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