RICS GLOBAL REAL ESTATE WEEKLY

May 29th 2009 www.rics.org

Japanese rental slide to gather pace

> "Some hope that stimulus plans are having an early impact"

> "although little optimism displayed by surveyors in the retail market"

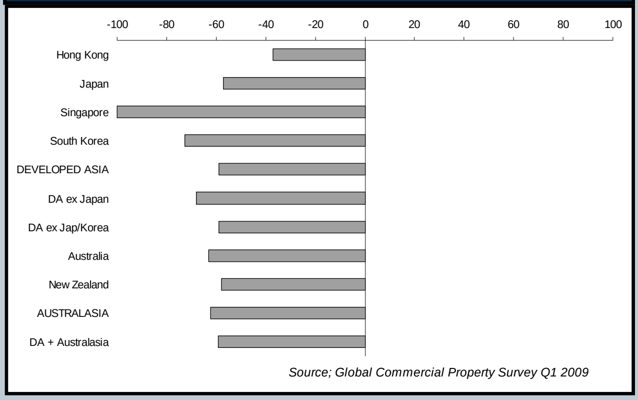
- Several key pieces of economic data are released in Japan next week which may provide a steer on the near term outlook for both the residential and commercial property markets. The health of the labour market and consumer spending may be gauged on Monday 1st from the release of nominal wage data and auto registration figures respectively. With the strength of the labour market underpinning demand for residential property, any signs that a deflationary spiral in wages is gathering pace will bode ill for the outlook for both consumer spending and residential house prices.

- The potential for domestic demand to respond to the current 27 trillion yen stimulus package (5% of GDP) will take centre stage in the coming months. The extent to which the household sector responds could provide some much needed impetus to the economy. Early signs have been mildly encouraging. Japanese retail sales rose in April for the first time since the collapse of Lehman Brothers sent the world economy into a tailspin in September 2008.

- Two key barometers for the commercial market are also due next week. The latest service sector report from PMI (Wednesday 3rd) and corporate survey by the Ministry of Finance (Thursday 4th) should provide a lead on near term investment and employment intentions. Last week's findings in the RICS Global Commercial Property Survey suggested a glum mood with a weakening in tenant demand activity across all sectors in the first quarter, and at a faster pace in both the retail and industrial markets. Sharply rising availability is weighing on the rental outlook which was most negative in the retail sector.

Business property demand has fallen across the entire region

% Net balance



Australian building approvals may improve slightly

> "Building approvals data seem to have hit a trough in late 2008"

> "So far, the housing market is holding up much better than in the US and the UK"

- Next week, the latest update on the Australian property market will come from building approvals data for April, to be released on Tuesday 2nd. The data provides the number of dwelling approvals for public and private dwellings with private residential house building accounting for 70% of the total. The buildings approvals data hit a turning point in late 2007 and were trending downwards for most of 2008. After seeming to hit a trough in November 2008, both residential and non-residential building approvals rose by 3% m/m in March, although they remain about 16% lower than twelve months earlier.

- The First Home Owner Schemes have been credited with boosting both the housing and construction market. Indeed, the latest data for March showed a sharp increase (of 14% m/m and 24%y/y) in housing finance loans for new home construction. With that in mind, another rise in building approvals in April seems on the cards.

- The First Home Owner Boost scheme may also be propping up new home prices – project (new) homes across Australia were still increasing up until the end of 2008 and only edged down slightly in the first quarter of this year. Even existing home prices, which peaked in March 2008, fell by only 7% over the following 12 months. There is, of course, a possibility that any emerging downward trend will be exacerbated by a weaker economic outlook or higher unemployment. But so far, the data confirm that the Australian housing market is holding up much better than in the UK and US where house prices have fallen by around 20% over the last year.

Approvals edge up in March but still lower than a year ago

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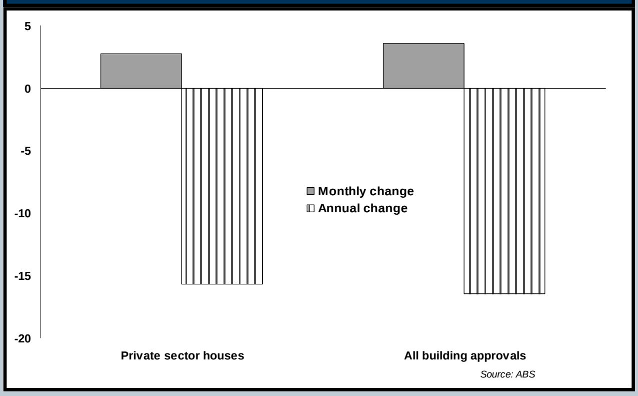

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Russian house price declines to accelerate

“ Rising unemployment will add to downward pressure on house prices ”

“..surveyor incentives rising at faster pace points to faster rental declines”

- An update on the state of the Russian housing market is due next week. The Federal State Statistics Service will release its quarterly house price series for Q1 2009 on Tuesday 2nd. Economic indicators have been mixed in recent months. Some truly shocking official statistics have been combined with some improvements in the more timely forward looking survey indicators.

- Residential house prices per square metre on the official measure have shown little movement since the onset of the global economic turmoil. Prices fell by a mere 0.5% on the previous period in Q4 2008 for primary market apartments with secondary market apartment prices down by a similarly mild 1%. In real terms, however, prices are already falling at double digit rates as inflation has accelerated over the last year to close to 15%. In recent months, a more stable Rouble and a reduction in food price inflation has eased pressures somewhat.

- The latest industrial production and unemployment figures suggest little support for the housing market in the coming months. Industrial output fell by a record 16.9% in the year to April while unemployment is already rising sharply and shot up to 10.2% last month. With over three million job losses since August 2008, it is unsurprising that the commercial property sector is also feeling the pain. The latest Global Commercial Property from RICS suggests that all sectors are witnessing a sharp contraction in tenant demand with rents falling rapidly and surveyor incentives rising at a faster pace in Q1. Capital values also fell at a faster pace in Q1 with the mood towards future prices also increasingly gloomy.

Rising surveyor incentives in Russia point to an acceleration in rental declines

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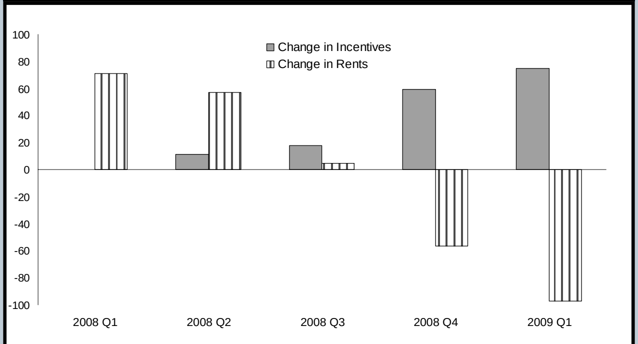

Source: RICS Global Commercial Property Survey Q1 2009

US construction spending stabilises but remains weak

“The headline level of expenditure was flat between February and March”

“Beneath the surface, the trends in residential and non-residential diverged”

- Recent data that has suggested some stabilisation in the US housing market has been offset by the fact that construction expenditure has continued to fall and builders’ sentiment, although improving, is still very downbeat. The next insight into the current situation will be the release of construction expenditure data for April on Monday 1st followed by pending home sales data on Tuesday 2nd.

- The pending home sales index, based on contracts signed in April, is a forward looking indicator of sales activity in the housing market. Following a sharp fall in January, the index has since shown two consecutive monthly rises and is now roughly in line with levels seen at the start of 2008 (but still significantly lower than those seen in 2007). Further substantial gains are unlikely as the housing market in general remains weak – mortgage purchase applications show that demand is still subdued and the Case-Shiller house price index reported another 2% monthly fall this week.

- The headline level of private construction expenditure (which is almost 70% of total expenditure) was virtually flat between February and March. Beneath the surface, the trends in residential and non-residential expenditure diverged. There was another fall in residential construction (of 4% m/m), leaving it 34% lower than 12 months earlier and a massive 62% off its peak. By contrast, expenditure on non-residential construction in March actually rose by 3% on the month and was 1% higher than in March 2008. The fact that employment in both residential and non-residential construction actually rose slightly in April suggests that this month’s expenditure may also show a small rise in both sub-sectors.

Private residential construction expenditure now 62% off peak

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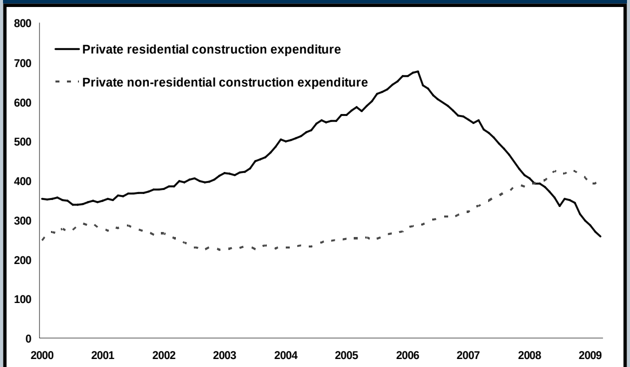

Source: economy.com