

Rebound in permits won't push up Canadian house prices

“Declines in Canadian house prices have been most evident in Alberta”

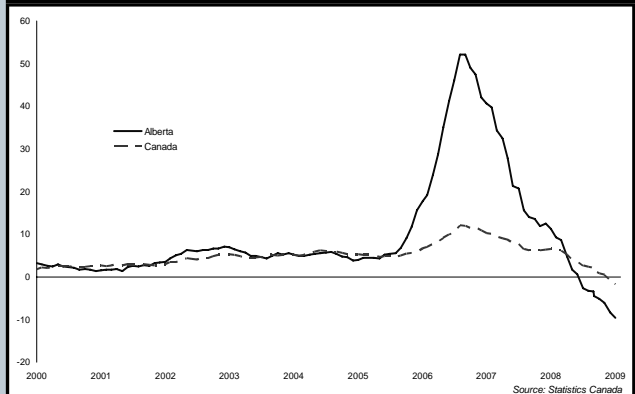
“At a national level, house prices seem likely to fall by 5%-8% over 2009”

- The next snapshot on the Canadian housing market will be the house price index for March, to be released on Monday 11th. Further falls in house prices are expected. Although GDP fell sharply in December and January, the pace of declines moderated in February with a 0.1% m/m fall. But the housing market seems to be contracting faster than the wider economy - spending on residential structures fell by 6% m/m in February.
- The gloomy outlook for the housing market was exacerbated by very weak figures for building permits, which are released not seasonally adjusted and fell by 41% in January. But the series rebounded in February and then in March permits increased by a massive 50% m/m. However, the strength of these numbers was concentrated in the multiple family homes sector. Permits for single family homes continue to fall. Moreover, activity remains historically weak as the total number of residential building permits in March was still 36% lower than 12 months earlier.
- The declines in Canadian house prices have been most evident in Alberta, where prices are already down by 9.5% y/y and there is no sign that the pace of declines is slowing. However, Alberta also saw the most exuberant market on the way up with house price growth peaking at

52% in August 2006. By contrast, prices in Ontario and Quebec continue to slowly edge up, with annual growth of 1% and 4% respectively reported in February. However, it seems unlikely that those areas will be entirely resilient to the wider economic weakness. At a national level, house prices seem likely to fall by 5%-8% over 2009.

House prices in Alberta falling faster than national average

% annual growth



Property market in China shows signs of bottoming

“Real estate investment is beginning to pick-up”

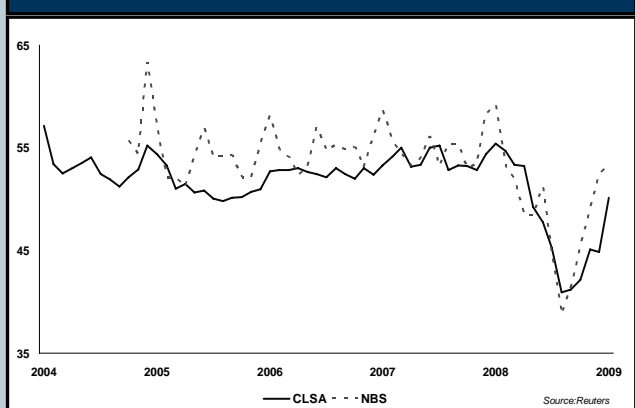
“Residential transactions have surged in the first quarter”

- Further evidence that the Chinese economy is showing renewed signs of life has been provided by the latest run of PMI surveys (relating to March). The official (NBS) index climbed to its best level since April 2008 while the CLSA index moved back into positive territory for the first time since July last year. Significantly, the sub-indexes for key components including new orders and employment also climbed above 50 (signalling expansion). Following on from this more encouraging news, data on urban investment (Tuesday 12th), and retail sales and industrial production (Wednesday 13th) will be closely watched.
- The March urban investment release suggested that capital spending was picking up in response to the massive fiscal and monetary stimulus. More relevantly, it also provided the first signs that the beleaguered real estate sector was beginning to benefit. In the first two months of the year, investment in this part of the economy was running just one per cent above the level in the comparable period of 2008 but the pace of increase jumped to 4% in March. That said, the growth rate of floor space under construction in the residential sector continued to slow.
- Meanwhile, the number of residential property transactions have increased sharply in recent months. During the first quarter, they jumped almost 25% on a year on year

basis (excluding social housing). Anecdotal reports suggest that this reflects a genuine pick-up in interest from households benefiting from various government incentives rather than a revival of demand from speculators. Against this backdrop, it is not surprising that urban property prices as measured by the NBS rose in March for the first time in seven months.

Chinese PMI's have rebounded smartly in recent months

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“Rising unemployment is depressing house prices...”

“... unemployment is likely to rise further in the near term”

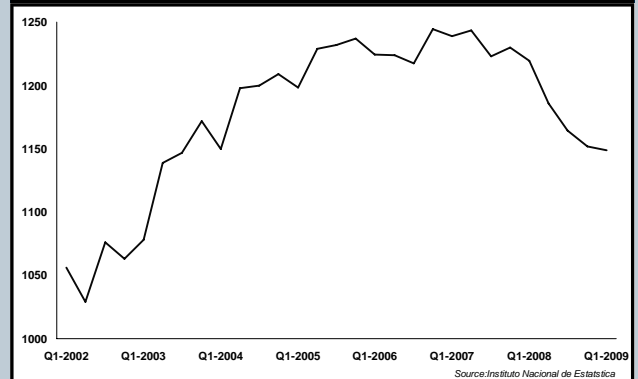
Portuguese house prices to fall further

- Official Portuguese house price data for Q1 2009 was released on Thursday 28th. House prices fell by 0.3% on the quarter resulting in a slight improvement in the annual growth rate to -5.8% (compared to -6.4% in the previous quarter). Since their peak in Q4 2006, house prices are down by 7.7%. The official house price data is based on bank valuations rather than actual transactions, so it is likely to be prone to some inertia.
- The main factor behind the current trend in house prices has been rising unemployment rather than excess supply. Indeed building activity has been falling more or less consistently since 2002. The number of new residential building completions in Q4 2008 was 26% down on the year and 63% lower than in Q1 2002 (when the series was first introduced). Meanwhile, unemployment has been rising steadily from a low of 3.8% in December 2000 to the current level of 8.5% in March 2009. This partly reflects structural factors, such as labour market rigidities. Latterly however, the rise in unemployment has been exacerbated by deteriorating conditions in the global economy.
- Looking forward, resolving the unemployment situation will be key to stabilising house prices. Structural reforms such as the new Labour Code (approved by Parliament last

January) will improve matters in the long run but they will take time get going. In the meantime, Portugal's heavy dependence on its main trading partners, Spain, France and Germany (which alone account for more than 50% of Portugal's total exports), does not bode well and this may even push the unemployment rate higher.

House prices in Portugal peaked in Q4 2006

Average values of bank evaluation on Housing, (euros/m², NSA)



Rental declines to accelerate for UK business property

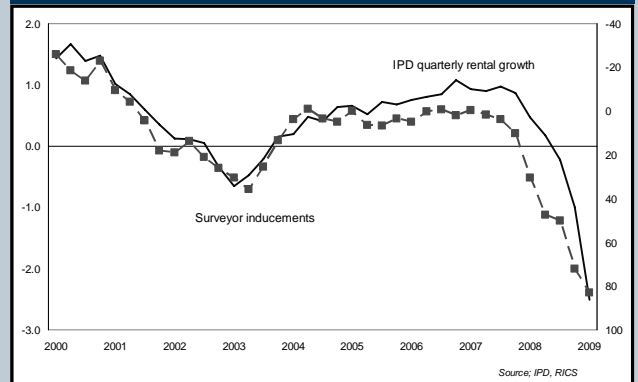
- Data on the state of the UK commercial property market is due on Friday 15th when the IPD publish their results for April. Recent months have seen an easing in the pace of price falls with monthly declines at around 3% in March, compared to more than 5% in December 08. All eyes will now turn towards the lettings market to see how pronounced the downturn in rents is becoming.
- April's figures will confirm that rents have been in decline for a year as the recession has weighed heavily on demand for business space. The pace of the rental declines has accelerated in recent months registering a 1.3% drop in March. On an annualised basis, these declines have jumped to 15% in March compared to only 9% three months earlier. Of the sectors, the office market is seeing the steepest falls. Rents have fallen by 6% since December and are now declining at a 27% annualised pace. Over the equivalent period, rents in the retail sector are down 2% with the industrial market only registering a 1% fall in rents.
- This week's release of the RICS UK Commercial Property Survey for Q1 2009 showed that the mood has turned increasingly gloomy amongst surveyors operating in the lettings market. Rental confidence has been dampened

further as indicated by the balance of surveyors reporting a rise in the amount of available space for occupation. Use of inducements (a good lead indicator of rental trends) suggest that the pace of decline in rents is likely to accelerate. On a positive note, purchasing activity is likely to start rising by year end on improved relative valuation metrics and increased numbers of distressed sellers enter-

Rising surveyor inducements show a weaker rental trend

IPD rents, quarterly % change

Net balance % (inverted)



“The office market is seeing the steepest rental declines”

“with rising inducements indicating further downward pressure on rents”

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