

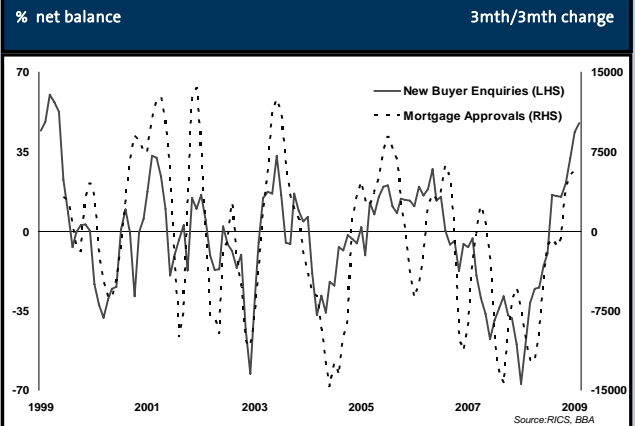
UK mortgage approvals set to rise again in May

“Latest RICS new buyer enquiries data points to higher mortgage approvals”

- The first detailed indication of mortgage activity in May will be released by the British Bankers Association on Tuesday 23rd. Since hitting a low in November, BBA figures show the number of mortgage approvals for house purchase has climbed from 18,000 to just short of 28,000. To put this in some perspective, the BBA mortgage approvals averaged 63,000 per month in 2005, 57,000 in 2006 and 69,000 in 2007. Meanwhile, the amount of refinancing of existing mortgages has continued to slip in recent months and now stands at its lowest level since December 1999.
- The RICS ‘new buyer enquiries’ series, which measures the change in buyer interest compared with the previous month, continued to rise in May; it has now recorded seven consecutive increases. The latest reading of +48 suggests that the BBA data for mortgage approvals for house purchase should post a further gain; indeed, it would not be a surprise if the May figure climbs back above 30,000 for the first time since April last year. Despite this, it would be misleading to view the improvement in activity levels as symptomatic of a return to normality in the housing market. First time buyers are still struggling to find mortgages while the recent support for prices has, at least in part, been driven by a dearth of properties for sale.

- Increases in the cost of some fixed rate mortgages following the rise in gilt yields also provides a timely warning about the sustainability of the better tone to the housing market. Latest numbers from the Council of Mortgage Lenders shows that in April, 69% of new borrowers took out fixed rate products. This trend is gradually likely to reverse over the coming months.

Mortgage approvals set to follow buyer enquiries higher



“First time buyers are still struggling to access mortgage finance”

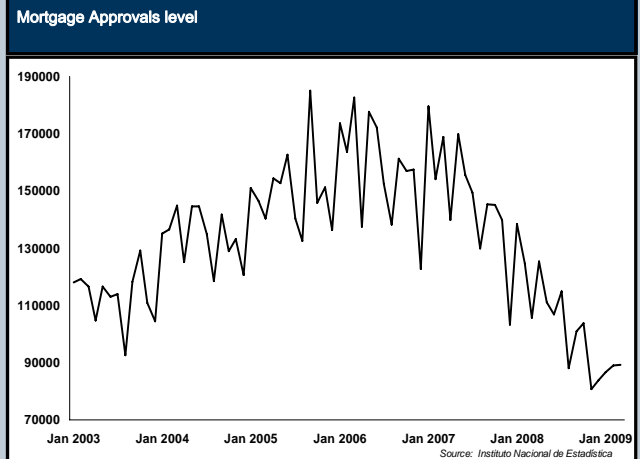
Spanish mortgage approvals - light at the end of the tunnel

“More falls in approvals likely in the short term...”

- The official Spanish mortgage approvals data for April is due on Friday 26th. In March, monthly approvals continued to edge up slightly from their December 2008 low of 80,684 to reach 89,229. However, activity is still 50% below the 179,612 reached in January 2007.
- Several factors have underscored the downturn in approvals. For a start, mortgage interest rates nearly doubled between August 2005 and October 2008 (from 3.15% to 6.1%). Rates have subsequently fallen sharply but other reasons have likely taken over more recently i.e. falling house prices (through their effect on consumer psychology) and rising unemployment. House prices have been falling since Q2 2008 and were officially down by 6.5% in Q1 2009. This is partly because of significant oversupply, estimated by Banco Santander this month to be around 700,000 homes. As a result of this oversupply, the construction sector is rapidly shedding workers. This has contributed to a surge in unemployment to 17.4% in Q1 2009, up from its Q2 2007 low of 8%.
- In the near term, the rebound in mortgage approvals may well prove temporary. Unemployment is likely to continue to increase in the coming months and house prices probably have further to fall. However, the medium term outlook has improved. Mortgage lending rates now stand at

3.5% and will stay there for a considerable period as the ECB tackles the deflationary threat in the euro area. Meanwhile, the construction sector has already undergone a considerable adjustment; at 5.7%, the ratio of housing investment to GDP is at the lowest since Q1 1999 and now stands below the long run average of 6.3% (since 1995).

Spanish housing market activity has fallen sharply



“... but the medium term prospects have improved”

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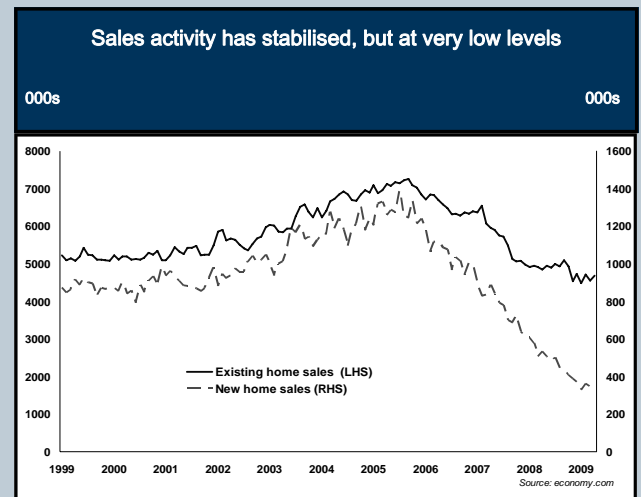
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Little momentum to improvements in US housing market

- Next week, the Federal Housing Finance Association (FHFA) house price index for April and existing home sales data for May are both due out on Tuesday 23rd, followed by new home sales data on Wednesday 24th. Data continues to suggest that the economic downturn is moving past the worst point. The ISM manufacturing index posted back-to-back increases in April and May, while the pace of job losses has slowed. In the housing market, there have been signs of improvement in pending home sales, building permits and housing starts. As yet, however, there has been little momentum to any recovery.
- In March, after showing consecutive monthly increases, the FHFA index edged down by 1%. This may partly reflect the fact that an increase in foreclosures boosted the number of properties for sale while buyer demand, measured by mortgage application data, remained weak. Mortgage demand has weakened further as interest rates have started edging up again so some further declines in the FHFA index are likely in the coming months.
- In April, new home sales were virtually unchanged while existing home sales edged up by 3%, undoing the previous month's decline. More generally, both series seem to have stabilised at low levels. Looking forward, the NAHB survey

indicates that buyer interest has been limited, with the 'traffic of prospective buyers' index holding steady at 13 for the past three months. Combined with weak mortgage applications data, this suggests house sales may be subdued in the coming months. However, as the pending home sales index has posted three consecutive monthly increases, another collapse in sales is unlikely.



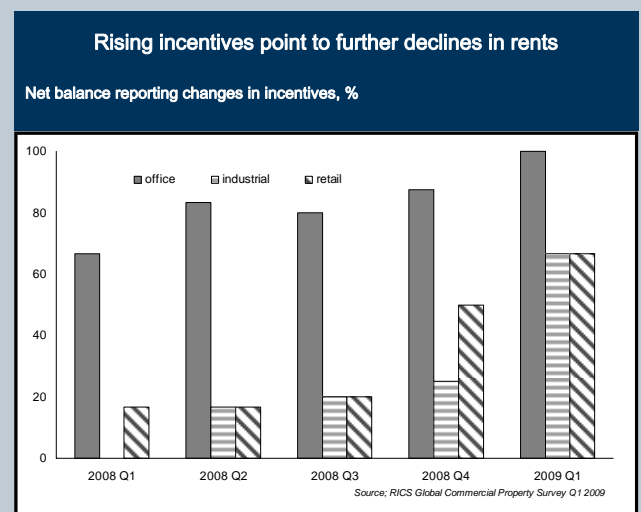
“There have been signs of improvement in the housing market...”

“...but weak demand will limit sales activity”

Japanese commercial rents to continue slipping

- The latest survey of Japanese business confidence for Q2 is released by the Ministry of Finance on Monday 22nd. The business outlook is key for the commercial real estate sector as it will underpin how quickly business expansion resumes in the overall economy and thus feed into the demand for business space. Other data to watch in the coming week include the trade balance on Wednesday 24th and core CPI data on Friday 26th.
- Recent figures have provided some hope that the sharp rate of contraction in the economy seen in the first quarter may be abating. Exports rose for a second month in April and by 1.9% on March on a seasonally adjusted basis. Some improved signs in the global trade data have prompted the Japanese government and the Bank of Japan to upgrade their view on the economy for the first time in over 3 years. However, some have suggested that the current improvement in activity indicators reflect nothing more than a restocking process in response to the global inventory cycle.
- Indeed, any sustained pick up in demand for Japanese exports will require a rebound in spending from both businesses and consumers around the world as the current Government led boost is unlikely to be maintained in the medium term. Kick-starting business confidence is a first

and the signs have been mildly encouraging to date. Commercial property trends in Japan are unlikely to see any near term improvement however as rationalisation strategies continue to weigh on rental growth prospects. That said, the industrial sector may be first to benefit, should global demand show some signs of life.



“Kick-starting business confidence is a first step...”

“...although a sustainable recovery will require a pick up in investment”