RICS Global Real Estate Weekly

April 23rd 2010

HK residential activity may get post Chinese new year boost

"Mortgage approvals are still running over 20% above the 5 year average…"

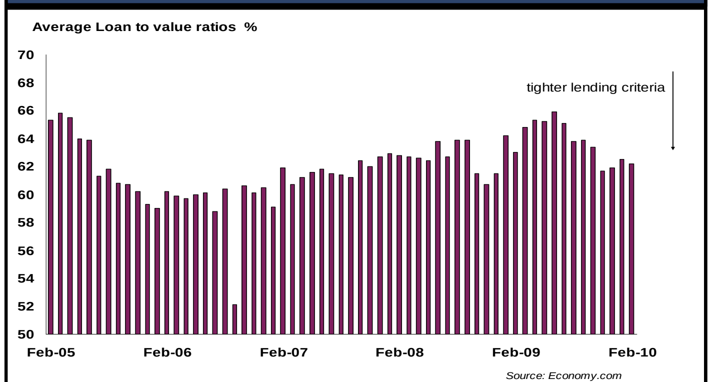
"and should support further price growth in the coming quarter"

An update on the state of the residential property market in Hong Kong is due at the end of next week when the Hong Kong Monetary Authority releases its monthly snapshot of mortgage activity for March. There have been some signs of late that the robust turnaround in the market over the last year is beginning to be reined in as worries grow over potential overheating in the property sector. Nevertheless, RICS believe that recent improvements in the labour market and the still elevated levels of mortgage activity are likely to foster further price gains albeit at a more modest rate in the coming quarters.

The number of mortgage approvals fell 10% to 12,037 in February from 13, 316 in January. The fall in approvals marks a nine month period where approvals activity has been generally trending down from a high watermark of 17,105 hit in June 2009. Despite this moderation ,however, activity levels remain elevated from a historical perspective and since November have been running at over double the levels of volume seen last year. Indeed, the timing of the Chinese new year which fell in February this year may have served to delay some property market activity during that month, which may result in a rebound in the March data.

With transaction activity typically leading price growth, recent upward pressure on prices looks set to continue in the coming quarter. DTZ, a global property consultancy, report that residential property prices in HK rose by 7.1% in the first quarter of the year. This represents a 31% rise compared to a year ago with prices now bouncing back across all sectors of the market to above pre-crisis highs. However, banks are slowly reacting to this rapid price growth with average loan to value ratios falling in February to 62% down from 66% in June. Furthermore, this slightly more cautious stance from lenders has also been reflected in a greater number of mortgage applications being turned down in recent months.

Mortgage lending criteria slowing tightening



Source: Economy.com

Euro area mortgage related data likely to show improvement

"Euro area mortgage lending is improving, but there are significant country level differences''

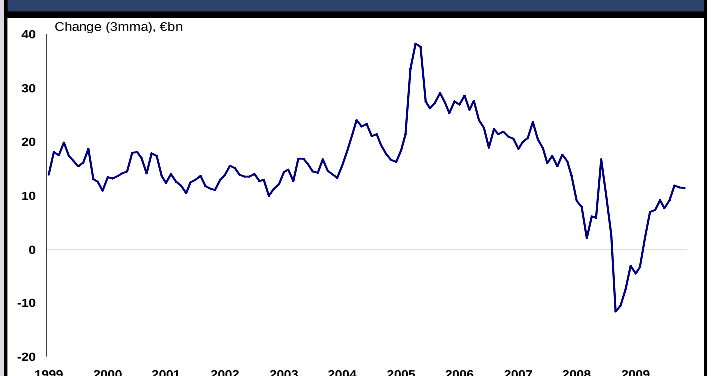
"Survey indicators of mortgage demand have also picked up"

Euro area M3 lending data for March is due from the ECB on Thursday 29th. M3 lending was 0.4% below year ago levels in February. This was the weakest reading on record (the series began in January 1980) and compares to the peak of 12.5% in October 2007. One of the key components of the M3 release is lending (outstanding) for home purchase. This was 2.1% above year ago levels in February and constitutes the fifth successive improvement since the low point of -0.3% last September. However, this figure masks interesting differences at the country level. In February, annual growth was up by 8.1% in Portugal and Italy, 4.4% in Greece, 4.1% in France, flat in Spain and Portugal and it was down by 5% in Ireland.

On the same day as the M3 release, the Q1 ECB Bank Lending Survey is due. The Q4 survey showed the net percentage of banks reporting a tightening in mortgage lending standards declining to 3% (compared with 14% in Q3 and 22% in Q2). This was mainly driven by a lower perception of risk surrounding general economic activity (13% in Q4 2009 compared with 19% in Q3) and, in particular, housing market prospects (8% in Q4 compared with 14% in Q3).

The other key indicator to watch in the ECB survey is mortgage demand. So far, this has mirrored the trend in the hard data on lending for home purchase. The net percentage of banks reporting an increase in demand rose to 16% in Q4 2009 (compared with 10% in Q3 and 4% in Q2). This is mostly explained by the contribution of housing market prospects, which turned positive (from -8% in Q3 2009 to +8% in Q4) for the first time since 2006. The results in the Q1 ECB survey are likely to confirm respondent expectations in Q4; a continued improvement in mortgage lending standards and mortgage demand. This more upbeat tone is also to some degree likely to be reflected in the hard data on mortgage lending, which could show annual growth pushing into the 3% range.

New mortgage lending has picked up since late 2009



Sources: ECB, RICS calculations

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Tentative signs of recovery in Hungarian economy but real estate lagging

"The MNB may well be minded to sanction a further cut in rates"

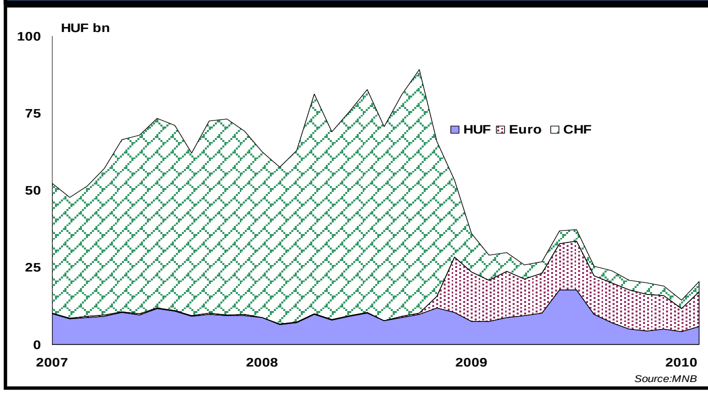
"Construction output is still trending down and is currently more than 35% away from its peak"

The Hungarian central bank (MNB) meets again on Monday 26th to assess whether it needs to take further action to support the economy after lowering the base rate to 5.5% in March. On that occasion, the MNB considered the case for a more substantive easing in monetary policy but decided to stick with the gradualist approach. Significantly, the forint has continued to hold steady around 264 against the euro since that decision was taken; as recently as mid December, it was trading close to 280. In a further sign that financial markets are increasingly comfortable with the actions of the authorities, Hungarian CDS spreads have remained remarkably stable in the face of the turmoil in Greece at around 180bps. Little more than a year ago when risk aversion was at its height, the spreads comfortably exceeded 600bps. As a result of this positive market response, the MNB may well be minded to sanction a further cut in rates.

The improvement in the Hungarian economy is to date largely being driven by the external sector with both exports and industrial production numbers reflecting this improvement. By way of contrast, domestic demand still remains quite subdued. Critically, with something in the region of four-fifths of exports destined for the EU, the sustainability of the recovery in Hungary over the balance of this year and into 2011 rests heavily of the performance of the euro area economy.

Despite the somewhat more positive economic picture, significant challenges facing the real estate sector continue to be evident in the news flow. Most recently, construction data for February was released showing the volume of output still trending down; it currently stands more than 35% away from its peak reached back in the middle of 2005. Meanwhile, credit conditions for housing loans are continuing to be tightened. Indeed, new lending for housing (measured on a monthly basis) is still bouncing around recent lows with the value of finance granted for this purpose little more than a quarter of its level at the back end of 2008.

New housing loans remain close to lows



Source:MNB

UK Commercial Property Survey shows further gain in letting activity

"Surveyors are now expecting rents to pick up next quarter for office property in central and greater London"

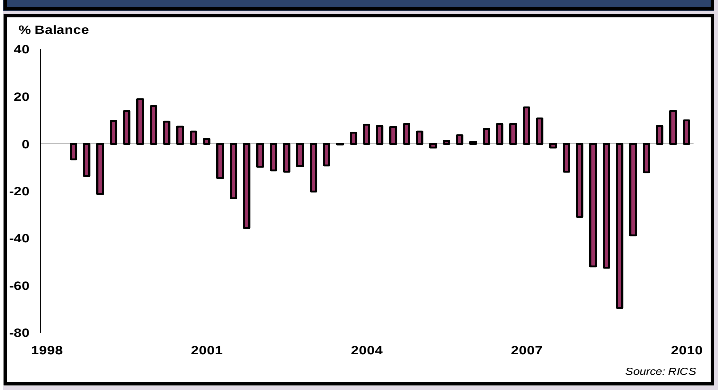
"Elsewhere across the country rental expectations continue to decline"

The latest RICS UK Commercial Property Survey (CMS) was released Thursday this week and indicates that lettings activity for business property continued to pick up in Q1, albeit at a marginally slower rate than was evident in Q4. Surveyors reported that occupier enquiries rose at a generally faster pace across most regions and sectors with the exception of London retail, where the mood remains downbeat. As a result, confidence towards future lettings activity continues to grow outside of the London retail sector. In the investment market, growth in investment activity moderated outside of London consistent with recent transactional data which showed that purchasing activity eased off in Q1 2010.

Recent data from the IPD broadly mirrors that of the RICS CMS, which shows the decline in the occupier market easing slightly over the past three months. Indeed, rents are now decreasing at a third of the pace at the height of the downturn. Last month, retail and industrial rents fell by 0.2% and 0.3% respectively, while the office sector showed the first month on month increase in rents since March 2008 and were up 0.1%.

Surveyors are now expecting rents to pick up next quarter for office property in central and greater London. Indeed, the net balance of 57% for central London office property is the highest since Q3 2007, and the first time more RICS surveyors have reported an anticipated rise in rents for two years. Greater London office rental expectations also showed a robust turnaround with a net balance of 41% compared to 0 in the previous quarter. Elsewhere across the country rental expectations continue to decline, but the mood is generally less pessimistic across all sectors. Investment demand rose at a slightly slower pace at +28% compared to +35% in Q4 2009 due to a general slowdown in activity across all sectors and regions outside London.

Surveyors have reported rising lettings since Q3 2009



Source: RICS

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