

## China announces a raft of new measures to tackle house price growth

“Property prices rose by 11.7% on an annual basis in March...”

Recent weeks have seen the announcement of multiple economic measures aimed at cooling the Chinese residential property market. Property prices based on the NBS urban price index of 70 city centres rose by 11.7 % on a year on year basis in March. This represented the biggest year on year increase for a single month since the NBS index was established in July 2005. As a result the State Council issued a policy statement introducing measures to tackle price rises and indeed speculation in the residential property market. This could set the scene for a post bubble era of regulation in some developed markets.

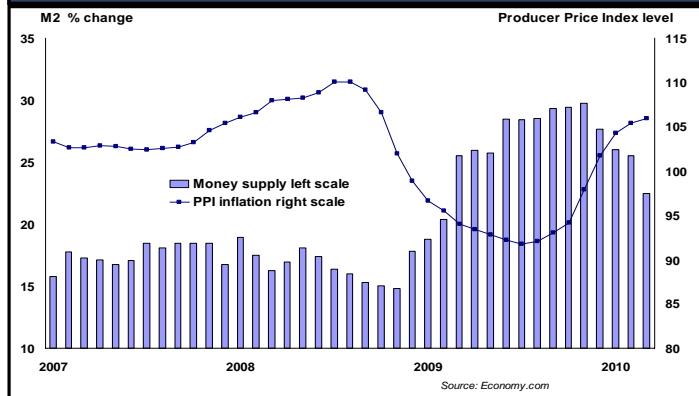
“...although new regulation is likely to slow or even reverse some of the recent gains”

The first of these measures concerns attempts to tighten loan to value ratios. The down-payment for first time home buyers of units over 90 sq metres has been raised from 20% to 30%. For second homes, the deposit requirements have been tightened even further and raised to 50% up from 40% with the mortgage rate set to be no less than 10% over the standard rate. For third or additional homes, the policy statement stipulates that both the down-payments and mortgage rates should be “substantially higher” than these minimum benchmarks.

In another notable change to regulation, local governments will now be able to impose special and temporary policies to curb property price speculation. This added flexibility could have a disproportionate impact on those cities where house price growth

has been most acute to date, particularly as provincial governments are expected to take overall responsibility for stabilising house prices and ensuring housing supply. Indeed, the overall tone of the statement indicated that regional governments have not done enough to date and will be expected to do more in the coming year. That said, the additional inclusion of a housing supply mandate should ensure that even if prices moderate or fall in 2010 any accompanying drop in construction activity could be partially offset somewhat.

### Inflation indicators are concerning despite slowing in M2



## Sentiment in Russian commercial property market turns positive

“The Russian economy is struggling to make headway”

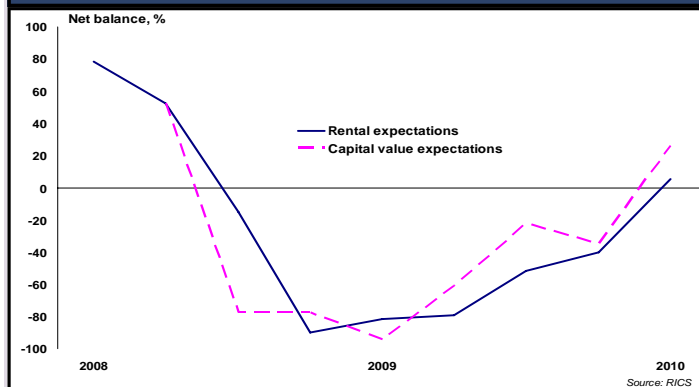
The Russian manufacturing PMI survey for April is due on Tuesday 4<sup>th</sup>. Although activity in the manufacturing sector stabilised in the middle of 2009, it has struggled to make much headway since. The March reading was unchanged at 50.2, indicating sluggish albeit marginally positive growth (a reading greater than 50 indicates expansion). On Thursday 6<sup>th</sup>, the Russian services PMI survey for April is due. Output growth slowed during the back end of 2009, but activity has fared slightly better in Services than in the manufacturing sector and in March the headline index increased from 51.0 to 53.6.

“..but the commercial property market is rebounding strongly”

Despite the real economy’s lacklustre performance, which prompted the latest cut in interest rates, the commercial property market is now showing signs of a rebound. Indeed, the Q1 results of the RICS Global Commercial Property Survey point to Russia as one of the top performers in Europe. In the occupier market, the survey shows rents increasing for the first time since Q4 2008 while inducements to tenants are rising far more moderately. This appears to be because demand is now growing faster than supply; the occupier demand net balance increased from +10 to +39, while the availability net balance fell from +30 to +16. In the investment arena, the Q1 results show transaction activity and capital values both growing strongly. Indeed, the investment demand net balance increased from +5 to +21 while the capital values net balance turned around from -30 to +32.

Looking forward, the recovery in the Russian commercial property market is expected to continue, as indicated by the Q1 RICS survey. In the occupier market, rental expectations turned positive, with the net balance swinging from -40 to +5. To put this into perspective, the only other European country where rental expectations are more positive is Austria (where the net balance increased to +24). In the investment market, capital value expectations also turned positive, with the net balance increasing sharply from -30 to +32. The only other countries in Europe where investor optimism is higher are Poland and France.

### Russia occupier market is strengthening



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## Brazilian interest rates on the rise as the real estate market booms

“Both the occupier and investment markets are booming...”

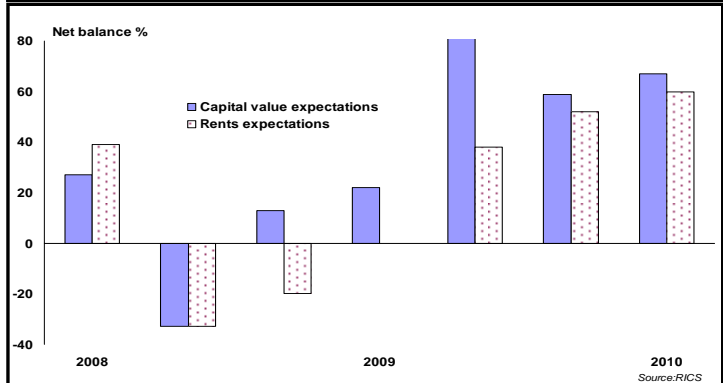
“...but further interest rate hikes are probable as the year wears on”

The decision to raise Brazilian interest rates this week was largely expected. The scale of the move was not quite so widely anticipated with the central bank’s monetary policy committee, COPOM, voting unanimously to raise the benchmark interest rate from 8.75% to 9.5%. The aggressive response from the authorities is a reflection of the recent positive run of economic data and increasing concerns over the inflation outlook. The latest industrial output numbers show the year on year increase approaching 20%. Meanwhile, inflation remains around 5% which is above the centre of the government’s inflation target of 4.5 per cent for 2010.

Further evidence of the underlying strength of the economy is provided by the latest results from the RICS Global Commercial Property Survey which was released on Thursday 29th. These show both the occupier and investment markets to be booming in Brazil. A net balance of 70% of responses expect rents to continue rising over the next three months on the back of healthy demand for space from tenants. Significantly, a majority of respondents to the survey actually suggested that the level of inducements necessary to attract occupiers has begun to fall for the first time since the third quarter of 2008. Alongside this, capital values are projected to continue rising (the positive net balance anticipating such an outcome increased from 59% in the fourth quarter of 2009 to 67% in the first three months of this year).

The generally robust macro picture is likely to be underscored by the release of April PMI data on Monday 3<sup>rd</sup> and capacity utilisation figures on Wednesday 5<sup>th</sup>. Further tightening by the central bank will almost certainly follow over the coming months. Indeed, it would not be a surprise if the key Selic rate is pushed back up above 12% before the end of the year.

### Sentiment towards Brazilian real estate is strongly positive



## Australian real estate sector feels effects of interest rate rises

“Recent Q1 CPI data for Australia confirmed inflation was at the top end of the target rate”

“...consensus in the market is that the cash rate will be raised”

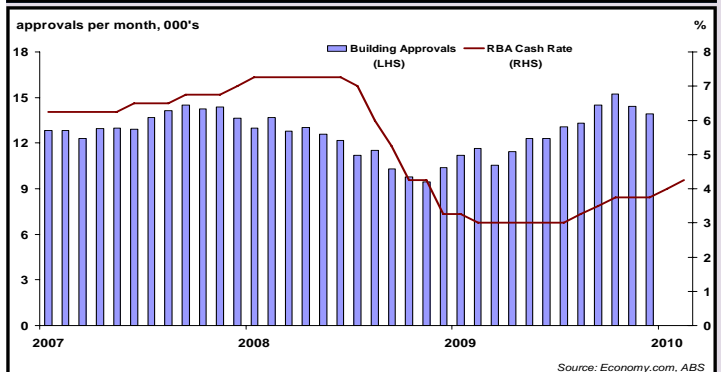
The Reserve Bank of Australia (RBA) meets again on Tuesday 4<sup>th</sup> to assess whether it will take further action and raise the cash rate for the sixth time since October, continuing with its ‘normalisation’ policy. Since the turn of the year, RBA board members have stressed how Australia has survived relatively unscathed from the downturn, with growth on trend and unemployment peaking at a lower rate than expected. Whatever the decision, it is likely to be of interest to property watchers, who will want to assess the implications for the property market. Moreover, they will also take an interest in the building approvals numbers for March, which are due on Wednesday 5<sup>th</sup>.

Recent Q1 CPI data for Australia confirmed what many predicted and showed that inflation was at the top end of the target band, standing at 2.9% on an annual basis. The strength of growth in commodity prices resulting from strong demand in China and rising fuel and food prices continue to contribute to the upturn. Consequently, the consensus in the market is that the cash rate will be raised by another 25bp to 4.50% as the RBA try to reverse the latest move in inflation.

Higher interest rates continue to weigh on the mind of those in the real estate sector who are seeking credit from lenders, and this, in turn, appears to be affecting construction firms in particu-

lar. Indeed, building approvals appear to have peaked at the end of last year and have been in decline since. Interestingly, the government’s first home owner ‘boost’ ended in December, and it is possible that this not only stunted growth on the demand side but also quickly affected the supply side. February’s approvals were down on January by 3%, the second consecutive month that approved dwelling units have fallen. Despite this, the numbers are up significantly on 12 months ago, with the February 2009 to 2010 change being +34%.

### Building approvals appear to have peaked



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