

Chinese property construction continues to accelerate

“Housing construction and GDP growth will be published next week”

A raft of economic data is released next week in China. The most pertinent to the property and construction sectors is the fixed asset investment report due on Thursday 15th. On the same day, a plethora of additional economic stats are due including first quarter GDP, retail sales, industrial production and inflation data. The latest money supply and property price figures are also due next week. Combined, the strength of the upcoming data will help investors gauge the likely extent to which the Chinese authorities may accelerate the programme of reversing current stimulus measures.

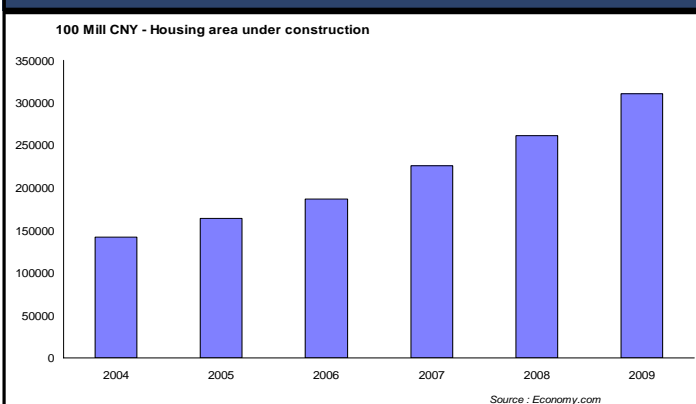
“... which could reignite talk of a near term interest rate hike or stronger yuan appreciation”

The latest numbers coming from the property sector continue to show strong expansion. Having risen 36% during 2009, new construction in value terms was running 29% higher in the year to February 2010 than during the same month in the previous year. A breakdown of the fixed asset investment numbers shows that the upturn in the first month of the year has been even more marked in construction of residential dwellings. Housing area under construction rose by close to 50% in January 2010 when compared to the same period a year earlier. Indeed this compares to overall growth of around 19% for 2009 as a whole.

Whilst these numbers may appear remarkably strong at first sight, caution is warranted in reading too much into economic data in China at the turn of the year. The timing of the Chinese new year

will have had a distortionary effect on the previous year’s data and will have accordingly served to artificially boost the recent growth comparisons. As a result, it is likely that the February outturn for fixed asset investment may well show much more muted growth reflecting the impact of the holiday. Whilst fixed asset investment may take a pause for breath, the upcoming GDP figures are likely to show the highest annual growth in GDP since the third quarter of 2007, a result which could reignite talk of a near term interest rate hike.

Housing area under construction continues to grow



German house price outlook is brighter but scope for big rises is limited

“Relative undersupply of homes and an improving labour market picture will provide some support to house prices....”

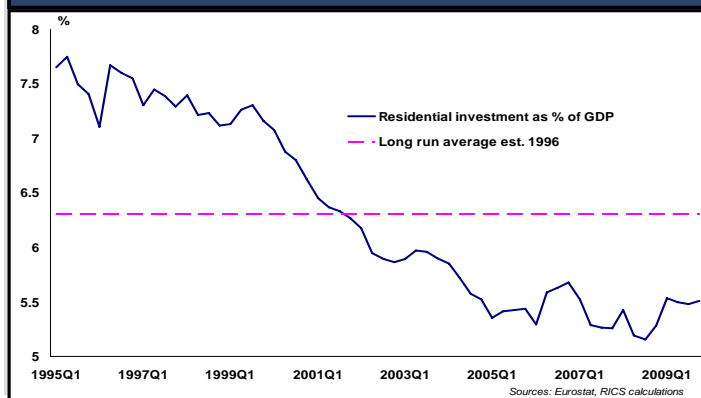
German house price data for March is due from Hypoport next week. The headline index is more or less flat on year ago levels (down 0.9% y/y). This contrasts with Spain, where house prices are down by 4.4% on the same basis and by 10.2% from their Q3 2007 peak, according to the official INE data.

There are several factors that help shed light on this divergence in performance. First, on the supply side, the degree of over building in Spain has been huge, whereas in Germany there has been a major lack of building. Indeed, Spanish residential investment as a share of GDP (currently 4.8%) remained consistently above the long run average (6.3% since 1995) between Q3 2001 to Q3 2008. However, in Germany, this figure (currently 5.5%) has remained consistently below the long run average (6.3% over the past 15 years) since Q1 2002. Second, on the demand side, Spanish unemployment has surged from a trough of 8% in May 2007 to a current peak of 19%. But in Germany, the unemployment rate has only edged up slightly from a trough 7.1% in December 2008 to 7.5% presently, where it has been since September. German unemployment has only picked up modestly thanks to the government’s short time workers scheme, which involves full time workers agreeing to work part time in return for not being made redundant, with the government compensating the shortfall in their earnings.

“...but the low degree of home ownership will limit the impact”

Looking forward, the relative undersupply of homes and improving labour market picture are likely to provide some support for house prices. Indeed, the short time workers scheme has been extended to the end of 2010 and unemployment has stabilised. However, a cautionary note: any eventual feed through on house prices from the labour market to the housing market during 2010 is likely to be mitigated to some degree by Germany’s low rate of homeownership (42% vs. 82% in Spain).

German house building is relatively low



RICS

the mark of
property
professionalism
worldwide

rics.org/economics

Canadian house prices to edge closer to all time high

“the residential sector is a key engine of the wider recovery now under way”

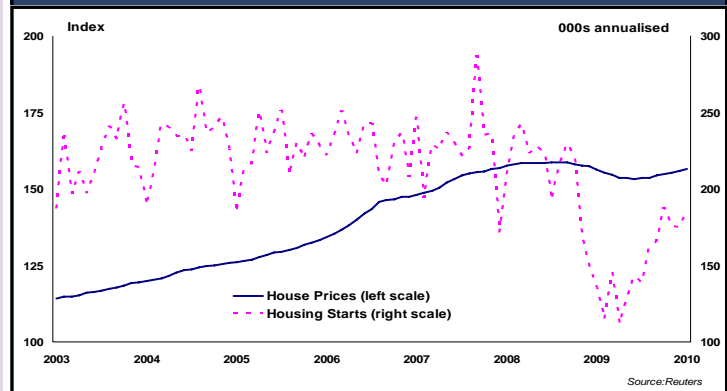
The coming week promises to be a busy one for both property and macro economic data releases. The numbers and surveys due out are likely to reinforce the encouraging picture painted by the surprisingly strong January GDP figure which, on a year on year basis, moved into positive territory for the first time in sixteen months. The generally more upbeat economic climate is, meanwhile, also being reflected in a pick up in inflation with the core rate moving above 2% in February for the first time since the back end of 2008. Nevertheless, the expectation is still that the Bank of Canada will stick with its pledge to hold policy steady until July; interest rates currently remain at just 0.25%.

“the headline house price index is just 1.3% away from the all-time high”

Monday 12th sees the publication of March housing starts figures as well as both the Q1 Business Outlook Survey and the Senior Loan Officers Survey from the Bank of Canada. The February housing starts data provided further convincing evidence that the residential sector is a key engine of the wider recovery now underway. On an annualised basis, new starts jumped to 196,700 which was the best level since the tail end of 2008. Although the firm upward momentum may persist in the near term, new rules are coming out on April 19th which could have some impact on the new build sector. These rules will require, amongst other things, borrowers to have the resources to qualify for a five year fixed rate mortgage even if they would prefer to purchase a lower cost variable rate product.

On Tuesday 13th, house price data for February is published and this will be followed on Thursday 15th by March existing homes sales and Q1 non-residential construction numbers. House prices rose by 0.4% in January, the sixth consecutive monthly gain. There continues to be a significant divergence between the trend in western Canada where prices are still falling, albeit less rapidly than was previously the case, and the rest of the country. The January numbers showed the first year on year increase in national house prices since December 2008 and left the headline index just 1.3% away from the all-time high.

House prices near high as housing starts rebound



UK commercial property yields continue to drop

“The initial yield on All Property has dropped from 7.9 to 6.8%...”

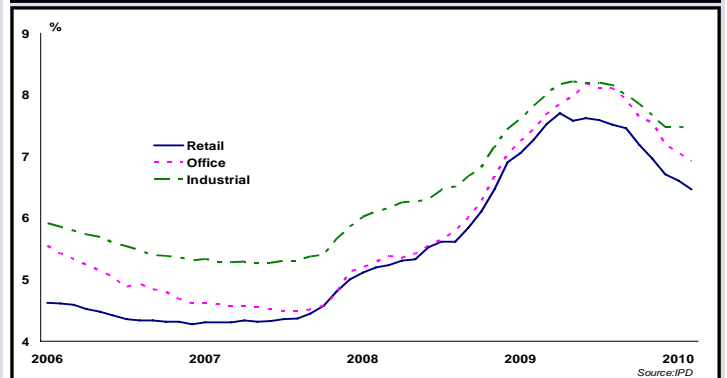
The March IPD data monitoring developments in the commercial property market are released on Friday 16th. This is likely to show a continuation in the improving trend in the sector after a particularly horrendous couple of years. Following a 44% decline in capital values between June 2007 and July 2009, the IPD numbers suggest that prices have subsequently rebounded by just over 11%. As a result of this recovery, the initial yield on All Property has dropped from 7.9 to 6.8%. The office sector has seen the sharpest compression of yields but that partly reflects the scale of the earlier sell-off. The fall in retail yields has been a little more modest having moved out less initially while the industrial sector has been lagging in the cycle.

“...but rents are continuing to fall albeit only marginally”

It is perhaps not surprising that the IPD numbers suggest that rents are continuing to slip, albeit very marginally now. Better news on the economy is feeding through into the labour market but the recovery in activity is still fairly tentative and concerns persist that any withdrawal of the various stimulus packages could seriously undermine the firmer tone to the data. The RICS' UK Commercial Property Survey is due for release in the next fortnight and this may shed further light on both the expectation for rents and the scale of inducement packages being required to encourage occupiers to take up space.

Alongside the pick-up in pricing there has also been an increase in transaction activity. Provisional estimates from Property Data suggest, however, that after a strong end to 2009, activity has eased off somewhat. The Q4 number for the value of investment in the sector was put at almost £9.7bn which was the highest figure since the third quarter of 2007. At £4.7bn in Q1, however, the weaker number appears in part, to reflect more modest investment from overseas.

Initial yields are falling in all sectors



RICS UK
T +44 (0) 20 7695 1682
pressoffice@rics.org

RICS Europe
T +32 2 733 1019
ricseurope@rics.org

RICS Americas
T +1 212 847 7400
ricsamericas@rics.org

RICS Oceania
T +61 2 92162333
ricsoceania@rics.org

RICS Middle East & Africa
T +971 4 375 3074
ricsmiddleeast@rics.org

This newsletter contains economic and property news and analyses, edited by RICS. It should not be relied upon as professional advice and RICS accepts no liability for reliance on its contents.



RICS

the mark of
property
professionalism
worldwide

rics.org/economics