

## German commercial property market remains weak

“German commercial property market is still flagging...”

“..but provided the economy continues to grow during 2010, the market may stabilise by year end”

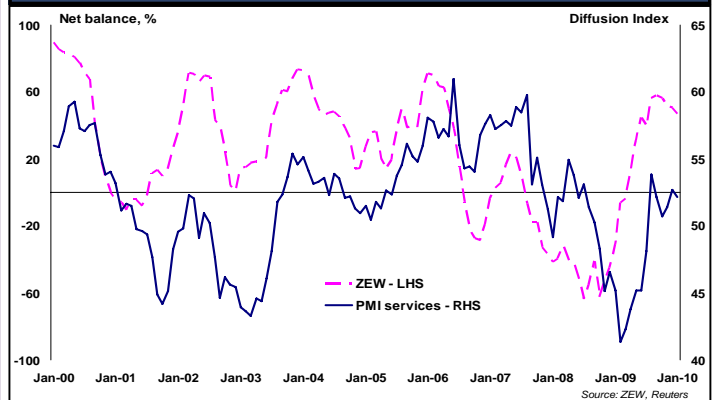
- A series of business surveys are due next week which will provide the latest snapshot on the state of the German economy. The ZEW Indicator of Economic Sentiment for February is released on Tuesday 16<sup>th</sup>, and the ‘flash’ readings of PMI manufacturing and service sectors for February are due on Friday 19<sup>th</sup>. The headline ZEW index fell in January from a net balance of 50.4 to 47.2. The ‘final’ PMI readings in January were 53.7 for manufacturing (up from 52.7) and 52.2 for services (down from 52.7).

- Significantly, all three of the aforementioned surveys indicated continued expansion in the economy, although the falls in the ZEW and services PMI surveys suggests the pace of growth may be moderating. This chimes with the January unemployment and consumer confidence data; the former increased from 8.1% to 8.2% and the latter fell from a net balance of -16 to -18 in the European Commission’s monthly sentiment survey. The still fragile state of the German economy was also underlined in the recently released Q4 RICS Global Commercial Property Survey. It showed that tenant demand continues to fall and inducements offered to tenants are becoming more generous; the former net balance was -14 and the latter was 45.

- The near term outlook for the German commercial property market remains a little downbeat. Capital values and rents are expected to continue edging lower according to the RICS survey,

with the former net balance at -37 and the latter at -41. However, the economy should continue growing during 2010 given still very loose monetary policy (the ECB refinancing rate is 1%), a third fiscal stimulus package (the Growth Acceleration Act was recently announced worth 8.5 bn Euros or 0.25% of GDP) and a stronger external environment. This, in turn, is likely to result in a gradual improvement in the underlying climate for both commercial property rents and capital values.

### German economy is expanding



## Housing starts in England to remain way short of need

“Housing starts probably increased a little further in the final three months of last year”

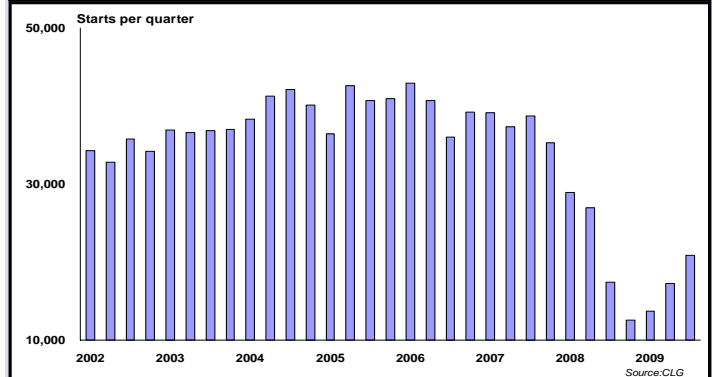
“Builders continue to see the lack of mortgage finance as a strong disincentive to development”

- Figures on housebuilding in England for the fourth quarter of last year are released on Thursday 18<sup>th</sup>. The data are likely to show a further modest increase in the number of starts; they have been gradually creeping up after slipping to a low of just over 16,000 in the final three months of 2008. For the whole of 2009, RICS estimates that the total number of starts will have amounted to around 93,000. This compares with 105,000 in 2008, 166,000 in 2007 and a recent high water mark of close to 177,000 (in 2006). Over the past year, private housing starts have rebounded most sharply while the increases in activity from both Registered Social Landlords and local authorities have been more modest. However, this turnaround to a large extent reflects the nature of the preceding downturn.

- The body charged with assessing the probable demand for new housing over the medium term, the National Housing and Planning Advice Unit (NHPAU), re-examined its estimates of ‘need’ in November in the light of the latest ONS population projections. Assumptions in the latter include both lower migration but longer life expectancy than previously envisaged. On the basis of this, the NHPAU concluded that a minimum of 240,000 new housing units (per annum) is required to be delivered by 2016 and that this must translate into 3 million additional homes in total by 2020. Significantly, this is described as the ‘bottom of the proposed supply range’. The ‘upper end’ seeks another half a million units on top of this.

- Although this target is set in terms of units, the vast bulk of the additional homes required inevitably will be new build rather than refurbishments or divisions of existing properties. Reflecting this, it is clear that the current level of starts is way short of what is necessary. Housebuilders continue to point to the lack of mortgage funding as a strong disincentive to a more material rebound in output. The shortage of development finance is arguably also contributing to the muted recovery. In any event, housebuilders are likely to tread warily after the events of the last few years.

### Housing starts are beginning to recover



**RICS**

the mark of  
property  
professionalism  
worldwide

[rics.org/economics](http://rics.org/economics)

## Japanese construction recovery remains fragile

“Housing starts are still running 40% below historic norms..”

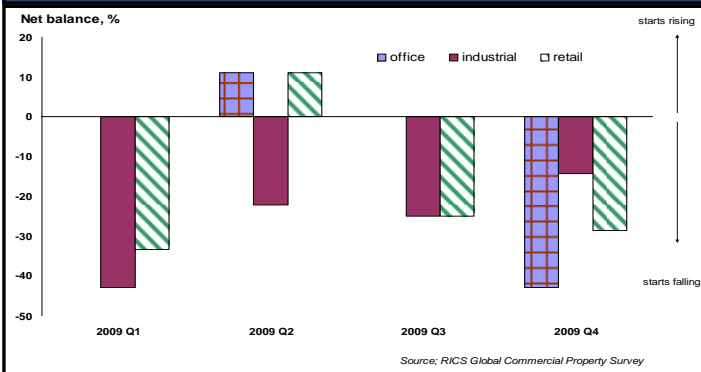
“..while commercial construction activity suffered a setback in Q4 2009”

- Several pieces of data are due next week in Japan key to developments in the Japanese construction market. Preliminary Q4 GDP data is due on Monday 15th. Consensus opinion is for a relatively strong quarterly growth figure of around 0.8% , which would mark the strongest pace of growth in 2 years. On Wednesday 17th, the latest construction spending figures are due coinciding with the start of the monthly monetary policy meeting. RICS expect some improvement in the construction spending data in step with more upbeat economic indicators. However , the outlook for construction activity in the second half of the year remains mixed as the removal of government stimulus measures to support infrastructure activity could weigh on workloads.

- Housing starts in Japan are showing a sluggish recovery from the recent downturn. Having hit a nadir in August at 59,749, they have edged higher and are now running around 16% above their low point. However at 69,298 in December, housing starts remain some 40% below the long run average. The drop in activity can be mostly attributed to the lingering effects of the global credit crunch and its impact on consumer sentiment and labour market dynamics. With the Japanese labour market on the mend however and global credit conditions slightly less restrictive, RICS expect an ongoing pick up in housing starts during 2010.

- Unemployment has edged lower over the last 6 months whilst the jobs to applicants ratio has edged higher. However, the recovery in other areas of construction activity may remain fragile during the course of 2010. The reining in of government stimulus measures is likely to impact on infrastructure spending whilst the latest global commercial property survey from RICS shows ongoing weakness in construction activity. Development starts fell back at a faster pace in Q4 2009 for both office and retail sectors whilst sentiment towards future pricing and rents suffered a setback.

### Commercial project starts declined at a faster pace in Q4



## US home builders' gloom overdone

“ Home builder sentiment appears to have deteriorated...”

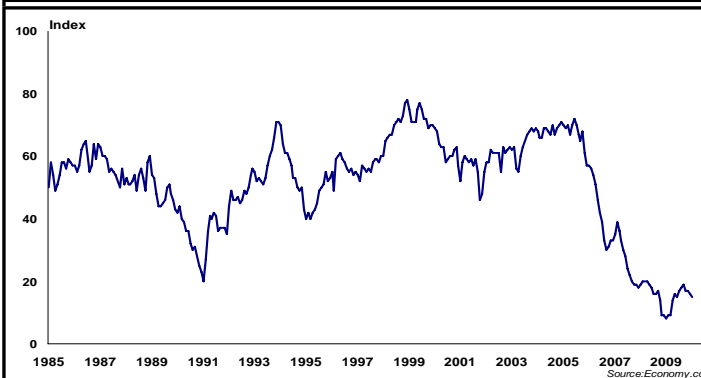
“...leading to renewed talk of a double dip in the housing market”

- The February NAHB sentiment survey is released on Tuesday 16th to be followed by the January housing starts numbers on Wednesday 17th. The former, which measures the mood amongst US home builders, hit a recent high of 19 in September but has since suffered something of a relapse. Indeed, the January reading dipped to just 15. The last time the headline index was lower than this was in April last year. Significantly, the weaker tone has been evident in the four broad regions covered by the survey. Last month, the more negative tone was particularly visible in the ‘west’ which saw sentiment slip from 19 to 16.

- Housing starts data also slipped back in the latest release but the underlying trend has, in truth, been a pretty stable one since the number began to pick-up from the low touched in the spring of 2009. Significantly, the number of building permits granted actually jumped by more than 10% during December to reach their highest level in fourteen months. Typically, this would be seen as providing a positive omen about the prospects for future development. However, the negative turn in sentiment coupled with disappointing data on both new and existing home sales casts some doubt on whether the leap in permits will actually translate into a meaningful increase in the number of new starts.

- This has led to increased talk of a double dip in the housing market. RICS is inclined not to overplay this theme. Some of the push given to the market by the first-time homebuyer tax credit scheme does seem to be unwinding. That said, it would not be a surprise if there was another rush to complete purchases in the spring before the tax credit finally expires. Crucially, affordability has materially improved and alongside this, the economic fundamentals are improving.

### The NAHB sentiment index has retreated in recent months



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