

## Indian budget key for property sector

“ Agents suggest that residential property prices have rebounded since March 2009.. ”

“..and RICS agents report prices in the commercial property sector moved higher in Q4 2009”

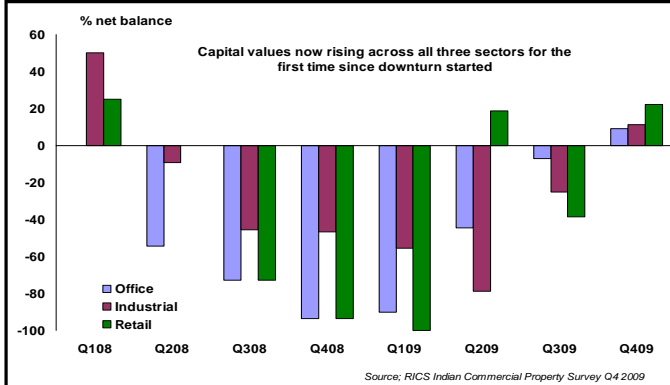
- The Indian budget takes place on Friday 26th which will be closely watched for its implications for the property sector. Indian house prices rose rapidly between 2003 to 2007 as strong economic growth, buoyed by a booming global economy and ongoing urbanisation trends, supported activity. The onset of the global credit crunch had a dramatic impact on house prices with declines of between 30-40% recorded in some areas of the market during 2008 as reported by the National Housing Bank.

- That said, anecdotal evidence from agents suggests that residential property prices rebounded by between 15-20% from their lows in March during the second half of 2009, in step with a recovery in global stock markets. A rigid planning system and delays in bringing forward land for residential development has been suggested as one of the major drivers of a boom in Indian land prices. Indeed, land costs are often higher than dwellings construction costs, a scenario which has contributed to a rapid deterioration in affordability levels across many metropolitan areas.

- On crude measures of investment value, Indian house prices appear stretched. Yields in the region of 3-5% for residential property, compared to prime lending rates at over double this rate, suggest that the investment case for debt-backed development appears limited. RICS believe that more needs to be done to address the blockages in the planning system which have contributed

to the run up in land prices. This is even more pertinent given that by 2012, according to property consultant Knight Frank, India will be facing a shortage of about 26 million houses. Furthermore, global interest rates are set to move higher in the coming years whilst a shortage of global development finance (as global banks look to repair balance sheets) is likely. Against this backdrop, RICS have put forward a series of budget proposals in a submission to the Indian government to tackle the impending affordability problems.

### Indian commercial property prices have also moved higher



## Hong Kong housing price growth to ease

“Mortgage approval activity in Hong Kong has eased back since the summer..”

“...as loan to value ratios have been tightened”

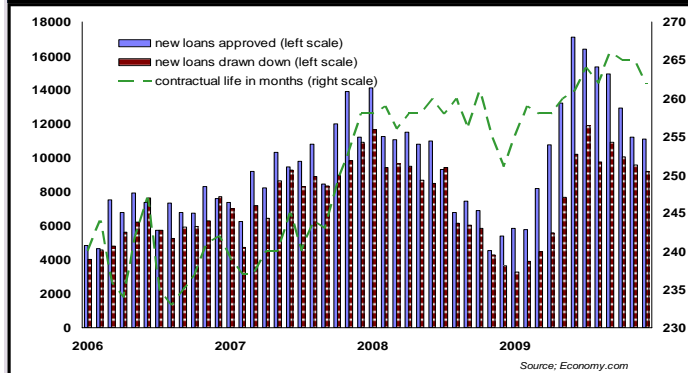
- Several key pieces of economic data are released next week in Hong Kong. The latest inflation numbers for January are due on Tuesday 23rd whilst GDP figures for Q4 are released on Wednesday 24th. Also due next week are trade data on Thursday 25th with the latest residential mortgage survey from the Hong Kong Monetary Authority (HKMA) released on Friday 26th. RICS expect residential property price growth to ease in the coming months following a period of gradual decline in activity since the summer.

- The most recent release from the HKMA provided some interesting findings. The data showed that new loans approved have fallen back to around 11,000 in December since hitting a recent peak at 17,000 in June 2009. Indeed, the latest figures for December showed a decline in approvals of 1% compared to the previous month. Indeed, even after adjusting for seasonal effects loans approved fell back in the fourth quarter by around 16%. Whilst such declines may appear dramatic at first, it is important not to read too much into the data as it brings the monthly loan approvals figures back into line with the average since 2004.

- That said, RICS expect house price growth to ease in the coming 6 months as a result of the moderation in activity levels. Significantly, loan to value ratios on new mortgages have tightened since the summer falling from a recent peak of 66% in June to around 62% in December. Worries over the sustainability of the

current house price boom could be making banks more cautious with regard to lending criteria. One affordability metric appears to be suggesting that affordability in the territories remains stretched. The contractual life of new mortgages approved has generally risen since the beginning of 2006. Indeed, having fallen back in the most recent release it will be interesting to see if this trend is set to continue in the coming week.

### HK mortgage approvals have eased back since June



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## Spanish housing market activity to remain subdued

“Ask prices fell by 1.2% in December”

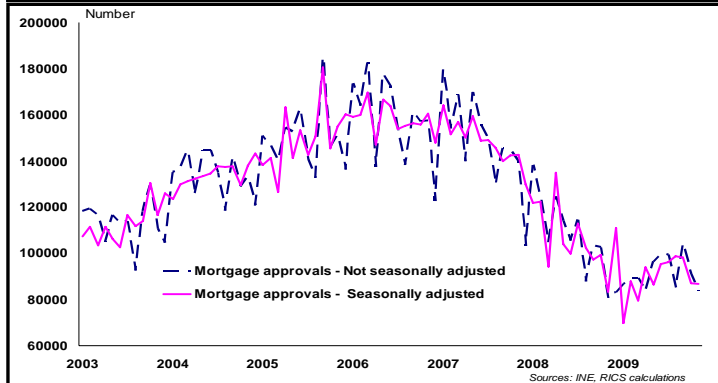
“.. taking the peak to trough fall to 17.7%”

- Spanish mortgage approval data for December is due from the INE on Thursday 25<sup>th</sup>. In November, approvals were 83,532, which is 55% below their September 2005 peak (184,939) and 35% below their long run average (129,305 since January 2003). Having gradually recovered since their November 2008 trough of 80,535, approvals have fallen by 20% over the last two months and are now only 4% above their low point. Part of the explanation for the recent trend in the approvals data may lie in the way it is presented. The INE releases the data on a non-seasonally adjusted basis, but the data is quite seasonal. Adjusting for this, pushes the November figure up to 86,635. However, part of the explanation is likely to turn on the state of the labour market which impacts demand; the unemployment rate reached a new high of 19.5% according to the latest data.

- Other data on the Spanish housing market shows that prices continue to fall, but slightly less rapidly than hitherto. Indeed, house prices fell by 0.5% over the quarter in Q4 according to the housing ministry (taking the peak to trough fall to 9.5%), but encouragingly, this is the slowest pace of decline since Q2 2008. Perhaps more reflective of the true state of the market is the monthly ask price index produced by the Bank of Spain. Ask prices fell by 1.2% in December on a rolling quarterly basis (taking the peak to trough fall to 17.7%), but this is the slowest pace of decline since October 2007.

- Looking forward, mortgage approvals are unlikely to recover meaningfully during the course of 2010 and may well fall further. After all, the economy contracted by a further 0.1% during Q4 2009 and forward looking indicators of economic activity such as the PMI surveys suggest that economic growth is unlikely to turn positive during Q1. Moreover, even if the economy stabilised by mid-year, the labour market usually lags activity, so unemployment is likely to continue rising for some time to come. Given these conditions, the outlook for activity, as well as prices, remains weak.

### Spanish mortgage approvals have slipped back



## Snow knocks UK mortgage approvals in January

“RICS survey showed a drop in buyer enquiries”

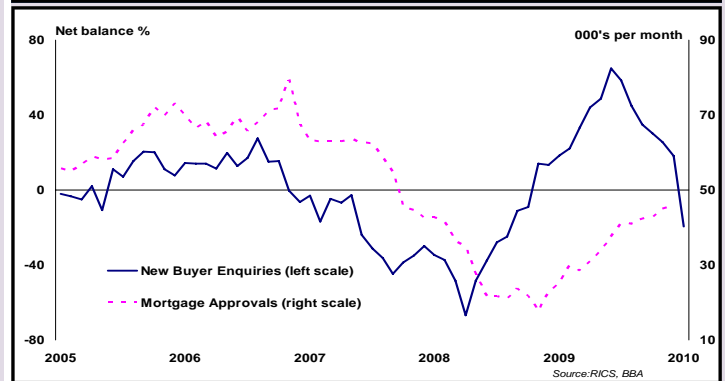
“Total debt outstanding in the construction sector has fallen by 30% over the past year”

- For the real estate sector, the most relevant data release in the UK over the next week will be lending numbers from the British Bankers' Association (BBA) on Tuesday 23<sup>rd</sup>. Alongside this, however, the CBI will publish the February Distributive Trades survey which will give a feel for how the retail sector is faring in the wake of the rise in VAT. Then on Friday 26<sup>th</sup>, the second estimate of GDP in Q4 will be announced. The first stab suggested that the economy had finally emerged from recession after six consecutive quarterly falls in output albeit only just; the revision could see the number revised upwards modestly.

- As far as the BBA data is concerned, the January figure may disappoint reflecting the unusually poor weather experienced in the early part of the month. The RICS Housing Market survey found that, when measured on a seasonally adjusted basis, there was a sharp fall in both new buyer enquiries and new instructions to estate agents in January. The number of mortgages approved climbed steadily during the course of 2009 to reach just shy of 46,000 in December. While this is way down on the highs seen earlier in the decade, it represents a significant recovery from the low of just 17,797 in November 2008. However, it would not be a surprise if the next figure comes in close to the 30,000 mark. That said, by the end of 2010 we are looking for mortgage approvals to be nearer 70,000.

- The other interesting element of the BBA release will be the data on lending to other parts of the real estate sector. Whether because of a lack of demand for development finance or because lenders view this area of their loan book as relatively high risk, borrowing by the construction sector is at present continuing to drop. Indeed, over the past year the total amount of debt outstanding to the construction industry has fallen by close to 30%.

### Mortgage approvals look set to dip in the January data



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