RICS Global Real Estate Weekly

Feb 26th 2010

US construction spending continues to trend lower

" Construction spending in the US is at its lowest level since 2003 "

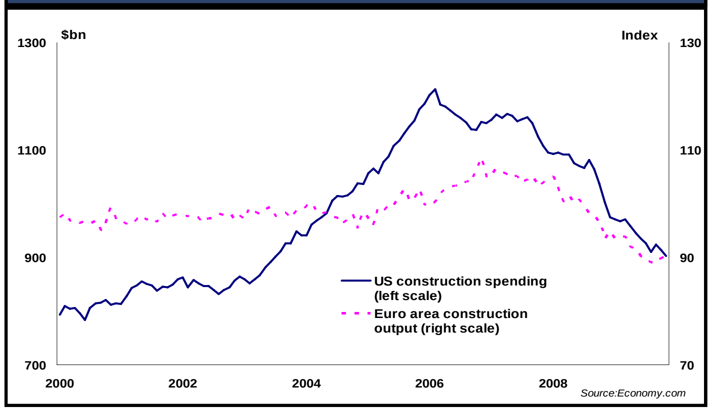
"In Europe, the drop in construction output has been a little less severe"

- The January data for US construction spending is due for release on Tuesday 2nd. The December number was significantly weaker than expected dragging the headline level of spending in the industry to its lowest point since 2003. From the high water mark in the early part of 2006, construction spending has dropped by just over one quarter. Within this, (private) residential spending has declined by close to two thirds while (private) non-residential spending, which peaked much more recently, has fallen by just shy of 20%. That said, over the past twelve months spending on the former has shown some signs of stabilising while the latter area has come under more pressure.

- The recent trend in the AIA Architecture Billings Index suggests that construction spending could begin to edge upwards in 2010 with both the Inquiries and Billings series off the lows seen in the early part of last year. The figures on housing starts are also a little more encouraging with the headline level of activity in January at a six month high. However in the commercial sphere, the latest RICS Global Property Survey shows that sentiment towards the development pipeline is still heavily negative. In the fourth quarter of last year, 45% more respondents to the survey thought that the development pipeline had worsened rather than improved compared with three months earlier.

- In the euro area, the fall-out from the recession onto the construction sector, while severe, has not been anywhere near as harsh as in the US. Output has fallen by just over 15% from the peak point reached at the back end of 2006. However as in the US, recent data is still heading lower even though sentiment does appear to have become a little less downbeat. The January confidence reading for the European Commission's survey of the building sector stood at -29%. This compares with -34% in the spring of 2009.

Construction has been worse hit in the US than Euro area



Surveyors more pessimistic on South Korean commercial property

"The commercial property market underperformed the wider region in Q4 2009..''

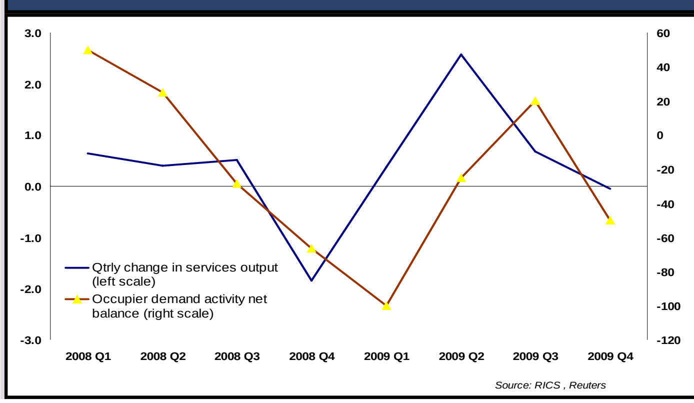
"..with offices expected to see the weakest activity in Q1 2010 "

- A raft of economic data is released next week in South Korea which will provide some backdrop for near term activity in the commercial property sector. On Tuesday 2nd, the latest trade and inflation data are due whilst on Wednesday 3rd, industrial production and service sector activity figures are released. Global economy watchers will be closely eyeing the data for any signs that the economic recovery across the region may be moderating. Significantly, South Korea tends to act as a leading indicator for economic momentum in the Asian region with its data generally released before other economies.

- The commercial property market in South Korea underperformed the wider region in the fourth quarter of 2009 according to the latest Global Property Survey from RICS. Occupier demand slipped back across all three sectors (office, industrial and retail) having stabilised during Q3 2009. The weakening in activity compares to generally improved trends in other Asian markets outside of Japan, where activity remained sluggish. Declines in occupier demand have impacted on rents with the net balance falling at a faster pace compared to Q3. Indeed, respondents turned increasingly pessimistic on future rents and capital values in Q4 with the greatest level of pessimism expressed towards the office sector.

- The recent RICS data is disappointing although it correlates closely with the moderating trend seen in quarterly service sector output in South Korea. Given the previous relationship between service sector output and office demand, next week's service activity release should provide a clearer steer as to how lettings activity may pan out in the coming quarter. For the industrial market, Tuesday's trade data may also confirm whether initial steps by the Chinese authorities to rein in stimulus measures have impacted on South Korean export activity. Indeed, signs of a slowing in South Korean export demand could presage wider global concern over the strength of the economic recovery.

Service sector output has been moderating in Korea



UK base rates and quantitative easing to remain on hold

> "Sentiment surveys show construction activity to still be contracting"

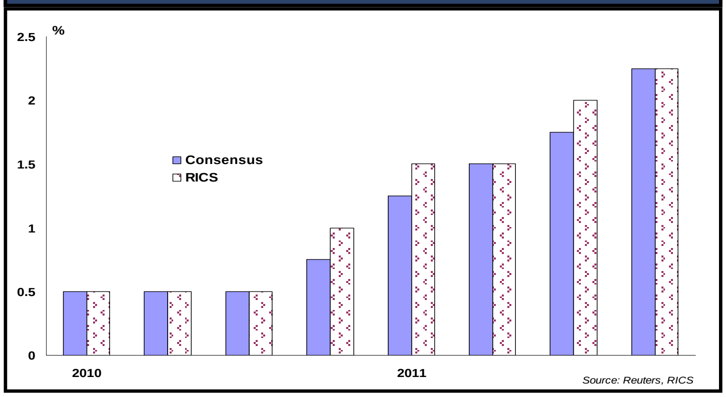
> "Further gilt purchases are possible if the economy threatens to slip back into recession."

- Data on mortgage lending in January are released by the Bank of England on Monday 1st. If the picture painted by the RICS Housing Market survey is anything to go by, the poor weather experienced during the early part of the month will have had a material impact on activity. Transaction levels may have also been distorted by the ending of the stamp duty benefit on properties valued between £125k and £175k which could have advanced some sales into December. Numbers already published by the BBA, which covers the bulk of lending in the UK, showed that the number of mortgages issued by its members dropped by more than 10,000 between December and January.

- The latest snapshot of sentiment in the construction sector will be provided by the CIPS survey on Tuesday 2nd. The January report showed total activity to still be contracting with both new orders and employment also falling. One area of relative strength according to this survey is the housing sector which posted it's fifth consecutive monthly reading above 50, implying a rising level of output. The recently released RICS Construction survey was also downbeat about current workloads in the industry and detected rather less optimism about the prospects for the next year than was the case in the Q3 survey.

- The March MPC meeting will conclude on Thursday 4th with the outcome of the deliberations announced at midday. According to the latest Reuters poll of economists, there is virtual unanimity in anticipating no change either in the quantitative easing (QE) programme or the level of base rates at this stage. The median expectation is that interest rates will begin to be raised in the final quarter of this year, a position in line with our own view. For the time being, most commentators are continuing to bank on QE remaining on hold at £200bn through the course of 2010. However, Mervyn King's comments this week raise the possibility that further gilt purchases are a distinct possibility if the economy threatens to slip back into recession.

Base rates expected to gradually edge upwards



Australian building approvals continue to improve in 2010

> "The recovery experienced is supporting a stronger labour market.."

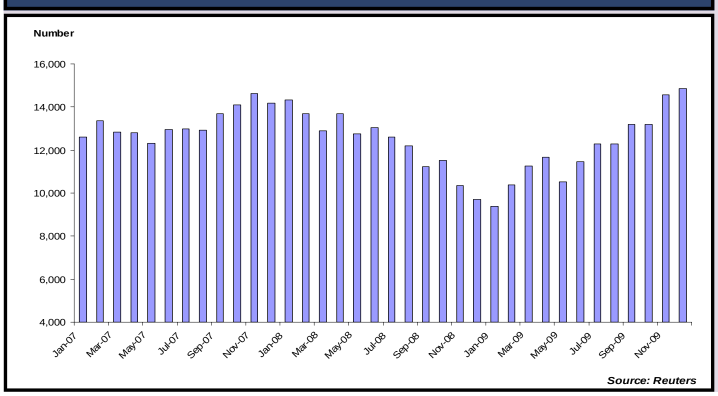
> "...it is possible that interest rates could be held until April ''

- Next week sees several developments of relevance for the Australian property sector. Building approvals figures for January are released on Tuesday 2nd with the latest meeting of the Reserve Bank of Australia (RBA) taking place on the same day.

- December's building approvals number showed a 2.2% rise on the November figure, up to 14,869 from 14,555 and was the second straight month of growth, albeit at a slower rate than the previous month. RICS expects a continuation of the recent trend in activity as the number moves towards the long run average. Indeed, this increase could potentially act as a spur to Australian GDP over the next 6 months, as strong consumer confidence returns to an already recovering economy. This is perhaps why the Reserve Bank of Australia's decision to keep interest rates at 3.75% in January surprised many commentators. Following consecutive rate hikes in the closing 3 months of 2009, it was expected that rates would be raised by another 25 basis points. However, the board stated that a lack of information on how households have reacted to the recent increases meant that they felt it was best to hold off on raising rates any further at this stage.

- The recovery experienced by Australia is supporting a stronger labour market, with other indicators of economic sentiment showing encouraging signs for 2010. January's employment figures surged past all expectations for the fifth month in a row, while unemployment was the lowest for 11 months. Despite this, it is possible that interest rates could be held until April, as the RBA extends its period of reflection..

Building approvals edge up further in the new year



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