RICS Global Real Estate Weekly

Jan 22nd 2010

RICS UK Commercial Property survey shows further improvement

> "Tenant demand has increased for the second consecutive quarter"

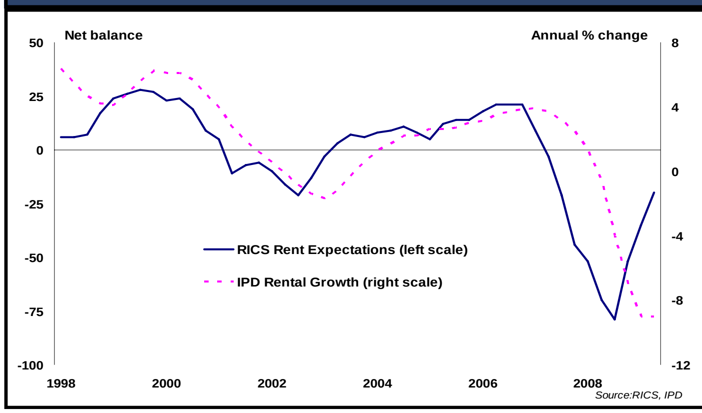
> "Available office space in London fell for the first time since Q4 2007"

- The Q4 RICS UK Commercial Property survey was released on Thursday 21st. The results of the report are broadly consistent with much of the other anecdotal evidence surrounding the real estate sector. According to the survey, tenant demand in aggregate has increased for the second consecutive quarter with offices leading the way. Interestingly, a small majority of surveyors are still suggesting that demand for retail property is falling albeit rather more modestly than was the case in the first half of 2009. The improvement in the demand picture is also being reflected in the much smaller increases in space availability in all sectors. Indeed, more surveyors actually reported a fall than a rise in available office space in London for the first time since the fourth quarter of 2007.

- The shift in the balance between demand and supply in the commercial property arena has also been reflected in a number of the other key indicators in the report. The net balance of respondents seeing an increase in the size of inducement packages to take up space, while still positive, pretty much halved from 64 to 34 between the third and fourth quarters of last year. Meanwhile, although rents are still expected to decline over the next three months, the majority of surveyors anticipating such an outcome has slipped from 35 to 20 with London again leading the way. The December IPD report suggests that All Property rents have dropped by around 8.5% over the past year. The latest RICS survey points to the pace of decline easing over the coming months.

- On the investment side, the survey notes that transactions rose at a faster pace in the fourth quarter in all three sectors. The increase in investment demand was particularly evident in offices and this was also reflected in a pick-up in capital values in this area. By way of contrast, the retail sector is continuing to lag behind..

RICS rent expectations no longer so negative



India set to tighten monetary policy

> "Recent economic news flow has been increasingly positive"

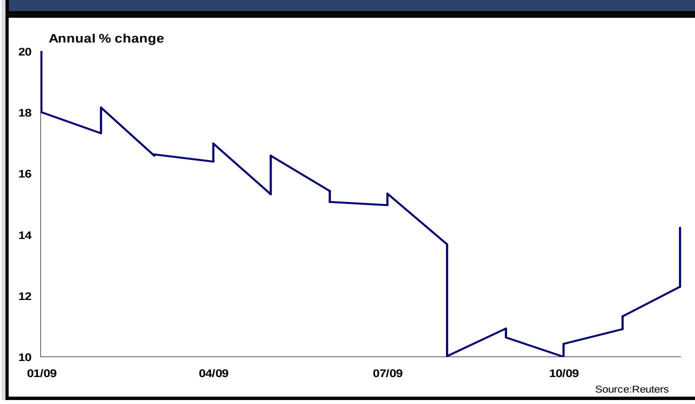
> "Fears of an asset price bubble have been growing "

- The Reserve Bank of India meets on Friday 29th to consider whether it needs to take another step in the process of reversing the current accommodating monetary stance. Back in October, it began to address this issue by prematurely withdrawing some of measures designed to boost liquidity which were due to expire at the end of March this year. In addition, it also announced an increase in the general provisioning requirement for real estate loans to 100 basis points from the previous level of 40 basis points. The likelihood is that it will now look to supplement these measures with either an interest rate hike, a rise in the Cash Reserve Ratio (CRR) or a combination of the two.

- Recent economic news flow has been increasingly positive. Industrial production data for November comfortably beat expectations with the year on year growth rate climbing to 11.7%, the best reading since October 2007. Meanwhile, the December HSBC Markit PMI showed a sharp increase in the headline index on the back of a firm tone to the new orders component. Alongside this, inflation as measured by the Wholesale Price Index has jumped to a one year high to stand at 7.31%.There is, meanwhile, also some evidence of an acceleration in credit growth with the annual increase in the final month of last year surging to more than 14%; this jump has in part been fuelled by lending for both mortgages and car purchases, although it could also reflect higher demand for finance from industry in the face of the steep rise in input costs such as steel and oil.

- Fears of an asset price bubble have been growing at the RBI and this is likely to encourage it to follow the lead provided by the People's Bank of China which recently raised its reserve requirement. An increase in the CRR of 50 basis points is in our view the most likely outcome to the forthcoming RBI meeting. If the authorities decide to hold the interest rate steady this time around rather than sanctioning a quarter point increase, it will only be a stay of execution with a rise almost inevitable over the coming months.

Indian loan growth picks up sharply in December



US sales activity weak in spite of recent price increases

"Existing home sales have fared better than new home sales"

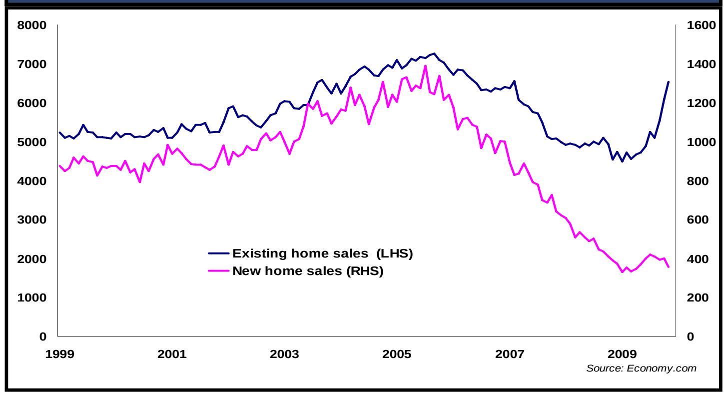
"While house prices improved in the second half of 2009, the outlook is fairly subdued"

- An update on sales activity in the US housing market data is due next week with data on existing and new home sales for December released on Monday 25th and Wednesday 27th respectively. In between, the Federal Housing Finance Agency (FHFA) and Case-Shiller (CS) release their house price indices for November on Tuesday 26th. The outlook for the housing market remains fairly fragile. Indeed, the NAHB survey of builders' sentiments has reported that sentiment actually deteriorated further in January with the overall index edging back from 16 to 15. Weak sentiment, combined with recent news that the FHA is increasing mortgage interest rates as well as deposit requirements, is likely to dampen housing market activity over the next few months.

- The weakness in NAHB sentiment can partly be attributed to the continuing low levels of new home sales. In spite of improving in the middle of 2009, new home sales dropped by 11% in November to 355,000 (seasonally adjusted and annualised) after just a 1.8% rise in October. The volatile nature of the data means that there may be another monthly rise in December but sales are likely to remain at low levels over the next few quarters. The tax credit scheme for first time buyers is believed to have been more benefit to existing home sales. November's figure of 6,540,000 (annualised) was the highest level of transactions since February 2007.

- Although house price data are released with some lag, with November's numbers being published next week, recent data do indicate that the relentless downward trend seen since 2006 has started to ease. In fact, on the FHFA index, house prices have been virtually unchanged since May 2009. Over the same period the CS index actually increased by 4.5%. But the initial recovery is likely to stall in the face of further mortgage interest rate increases and still high unemployment. House price growth at the start of 2010 is likely to be subdued at best.

Existing home sales improve faster than for new homes



Spanish mortgage activity to remain subdued

"Mortgage issuance is almost 9% off the low point seen last April"

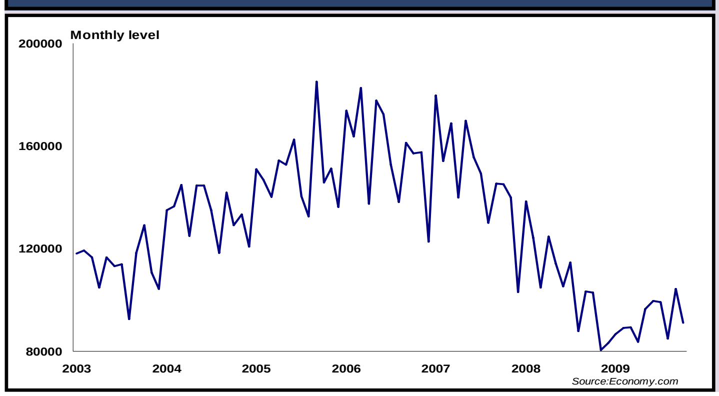
"Economic news flow remains generally downbeat"

- The November data on mortgage issuance in Spain are due to be published on Tuesday 26th. The October numbers were a little disappointing but that followed a sharp rise in the preceding month. Even after the drop in activity in October, mortgage issuance is almost 9% off the low point seen last April. That said, it is still 10% lower than where it was twelve months earlier and roughly half of where it was at the high water mark back in 2006.

- Meanwhile recently released data from the Ministry of Housing for the fourth quarter suggest that residential property prices are still falling. The headline numbers indicate that prices were just over 6% lower than a year earlier and around 10% off the all-time high. This appears somewhat out of kilter with most other attempts to reconcile price developments in the market. INE data for the fourth quarter have yet to be released but it suggests that prices have already seen a decline of 16% from the peak while real estate portals such as Fotocasa point to an even larger drop.

- Economic news flow remains generally downbeat. Both the service and manufacturing sectors are continuing to shrink according to the latest PMI surveys while the November industrial output data were still almost 6% down on a year on year comparison. Meanwhile, the Q4 unemployment numbers are due for release on Friday 29th. Although the unemployment rate was unchanged at 17.9% in Q3, the likelihood is that the next set of numbers will be a little more disappointing. Against this challenging macro backdrop, mortgage activity is likely to remain fairly steady over the coming months.

Mortgage activity in Spain is off the lows



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