RICS GLOBAL REAL ESTATE WEEKLY

Jan 29th 2010

Investment led recovery broadens in global commercial property market

"Rental expectations have become broadly less negative across the globe"

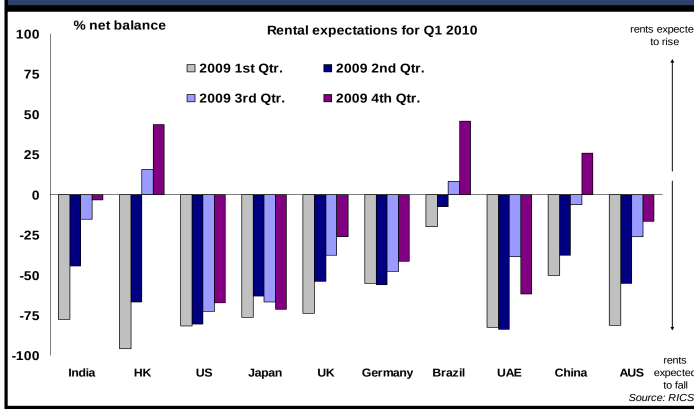
"Capital value expectations turned positive in Latin America, and some Asian and commodity rich countries"

- The RICS Q4 Global Commercial Property Survey was released this week. It confirms that an investment led property recovery has spread to a wider number of real estate markets. Indeed, investor transactions are now rising across 70% of markets up from 40% in Q3 with Brazil and China topping the table. In the occupier market, a more positive tone is particularly evident across the leading emerging economies, notably the BRICs. This is now filtering across Latin America, Emerging Europe and most of Asia. However, exceptions include Japan, South Korea and Thailand, where these markets suffered a setback.

- Rents appear to have bottomed out in most of Latin America, Hong Kong and some parts of Africa and the Middle East. Meanwhile, available space increased across more than 90% of the global property markets surveyed. However, there were some notable exceptions, with agents in Brazil reporting mild declines as was the case in Austria, Hong Kong and Singapore. Looking ahead, the development pipeline continues to weaken across most markets outside of Emerging Asia and Latin America.

- In terms of the occupier market outlook, the generally weaker global development pipeline has lifted rental expectations, which have broadly become less negative. Significantly, rental expectations have turned strongly positive in China and Brazil whilst rental declines are no longer anticipated in India. Russian property agents continue to expect rental decreases in early 2010 but at a lesser pace than previously was the case. In terms of the outlook for capital values, the most positive responses came from Latin America and some Asian countries including China, Hong Kong and Singapore. Positive readings were also recorded in commodity exporting countries such as South Africa, Australia and Nigeria. However, the outlook for capital values deteriorated in Japan, UAE, USA and Germany.

Q1 2010 rental expectations generally improve



Australian building approvals to show ongoing improvements

"The labour market recovery has been much more rapid..."

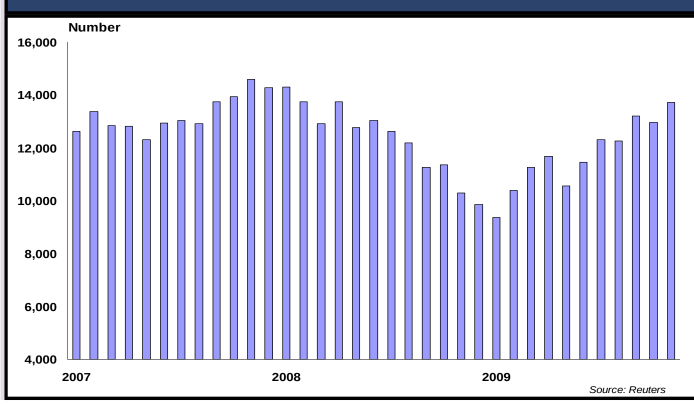
"...this should add support to housing in 2010"

- Thursday 4th sees the release of the latest building approvals numbers in Australia, which should confirm that the recovery in the property market is gaining traction. Recent economic news flow has been strong with labour market indicators showing an economy that is rapidly returning back to health. Indeed, many analysts have raised their outlook as to the likely extent of future interest rate hikes despite some comments, back in December by Central Bank officials which had initially tempered expectations. RICS expects the Reserve Bank of Australia to raise interest rates a further 25 basis points when they meet on Tuesday 2nd as the focus of policy switches towards bringing interest rates up to a more neutral level.

- Building approvals showed strong gains during November rising 5.9% on the previous month after seasonal adjustments. A breakdown of the numbers show that approvals for apartment blocks, one of the most volatile sectors, rose a massive 32 percent. Improvements were not confined to the residential sector however, with non-residential approvals rising up an even more staggering 53% on the previous month, as government stimulus on schools building has lifted activity. Indeed, bank lending numbers in November could indicate that investors are returning to the property market. The latest data shows that lending to investors rose 1.4% in November, double the pace recorded in September and up by 11.5% on the previous year.

- The real support for the property market in the coming year however should come from the dramatic improvements in the labour market. Last week's employment market report showed that a robust recovery remains on track with the jobless rate falling to 5.5% down from 5.8% in October. The turnaround in the labour market contrasts starkly to projections of unemployment hitting 8.5% only 6 months earlier by the government. With skills shortages being reported across some sectors such as construction, wage growth and inflation may need to be reined in before long.

Building approvals have recovered smartly



Canadian housebuilding continues to improve

"Housing construction rebounded in late 2009"

"A sustained housing market recovery will require support from the economic backdrop"

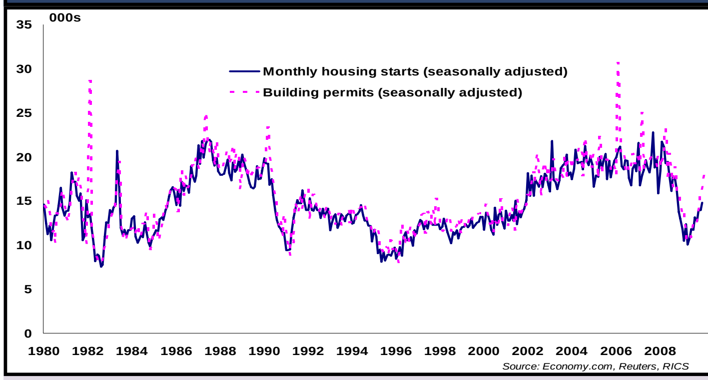
- An update on the Canadian housing market comes next week with the release of building permits data for December due out on Thursday 4th. Housing construction rebounded in late 2009 after collapsing in late 2008 and early 2009. Indeed, residential building permits rose to almost 18,000 in November, the fifth consecutive monthly increase and the highest level since mid-2008. However, these data are released on a not-seasonally adjusted basis and so a more subdued number in December seems likely, reflecting the holiday season if nothing else.

- The recent upturn in building permits should also be reflected in continued improvements in housing starts into 2010. In December, housing starts hit 177,800 (on a seasonally adjusted and annualised basis), the highest level since October 2008. Housing starts have now moved back in line with the long run average back to 1979, although they remain below the levels seen in the recent prolonged boom from 2002-2008. In other areas, the housing recovery does still seem somewhat tentative. For example, although house prices have stopped falling, they have only increased by about 1% since June 2009.

- While the construction side may be improving, a sustained housing market recovery will also require support from housing demand. In that regard, the Canadian economic backdrop provides some indication of the outlook over the rest of 2010.

The Canadian economy edged out of recession in 2009Q3, after contracting by more than 3% in the previous three quarters. Moreover, at 0.1% q/q, economic growth was still fairly anaemic. Similarly, improvements in the labour market will underpin any recovery in housing demand. Although unemployment has edged down from a 10 year high of 8.7%, it has hovered around 8.5% for the last three months. The release of Canadian employment data on Friday 5th will therefore provide some further insight into the health of the wider economy and the prospects for the housing market in the coming months.

Existing home sales improve faster than for new homes



Source: Economy.com, Reuters, RICS

French construction outlook is improving

"The weather may affect upcoming data..."

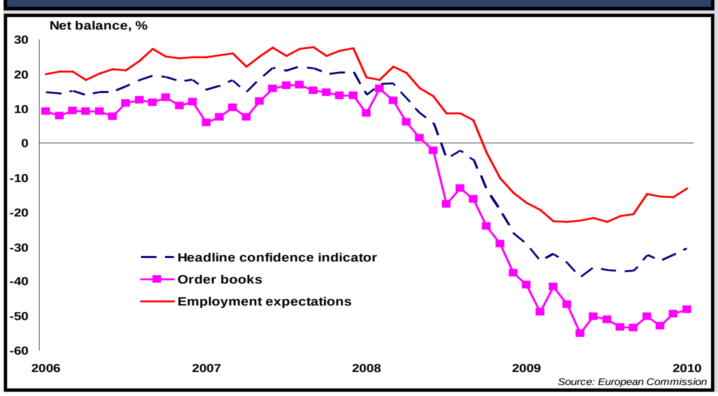
"...but builders' confidence is improving"

- The French manufacturing and services final PMI's for January are due respectively on February 1st and the 3rd. The manufacturing flash PMI was 54.7 (unchanged from December) and the services flash PMI was 57.0 (58.7 in December). Although both indices are slightly below their recent highs (55.6 for manufacturing in October and 60.9 for services in November), with readings above 50, they still signal expansion.

- This recovery in activity is now showing early signs of taking place in the construction sector. Some evidence of this was provided this week with the official release December data on housing starts and permits. Adjusting this data for seasonality, starts increased by 3% on the month (taking the annual growth rate to 12.8%) and permits increased by 2% on the month (taking the annual growth rate to 3.8%). Nevertheless, the recent improvement in activity remains tentative and has yet to show up in the construction output data; output fell by 0.4% on the month in November (and by 5.6% on year ago levels).

- Looking forward, the construction activity and output data may well deteriorate over the next month or so. However, this is likely to reflect temporary factors i.e. the weather, rather than the underlying health of the sector. This is indicated in European Commission's January monthly sentiment survey on the construction sector. Indeed, the proportion of respondents sighting the weather as a factor limiting production jumped from 3% in December to 7% in January. However, beyond these temporary factors, the outlook for the sector is gradually improving. The headline measure of confidence reached a net balance -31 in January (from -33 in December), the highest level in twelve months. This figure was mainly boosted by the employment expectations net balance from -16 to -13.

French construction confidence indicators are off their lows



Source: European Commission

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