

Singapore commercial property prices to show stronger gains

“Singapore commercial price recovery has been lagging residential”

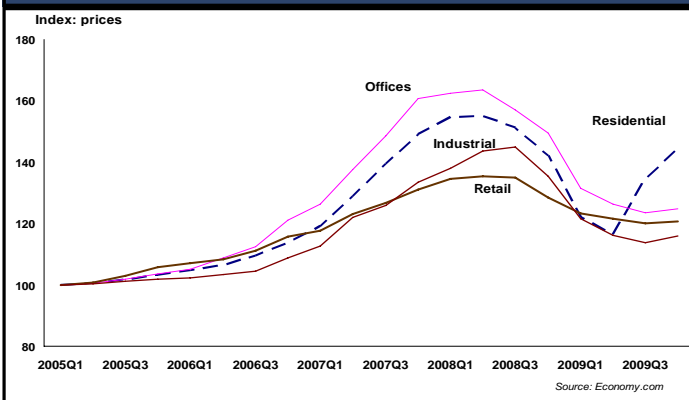
“..although commercial prices are now set to pick up”

The latest real estate data from Singapore is due next week with the release of the Urban Redevelopment Authority’s (URA) latest results for the first quarter. URA tracks property price developments across residential and commercial properties and some divergent trends having emerged since Q3 2009. According to the official data, there has been a huge rebound in prices in the residential market, although pricing has barely moved ahead in the commercial property sector following large declines of over 20% in office and industrial sectors and around 11% in the retail market.

This divergence poses interesting questions over the drivers of pricing amongst different segments of the real estate market. It may be that international capital and relative yield attraction play a bigger role in dictating the recovery in commercial asset prices when compared with residential property which has not, historically, been on the radar of international property fund managers. Quite clearly, local developments in the real economy in terms of output and the labour market have played a more immediate and significant role in propelling residential house prices back towards pre crisis peaks. This has been partially aided by the huge monetary boost in China which has filtered into confidence in the Asian region as a whole since early 2009.

A similar although less severe trend in pricing has also been apparent in the UK market since March 2009. Here the recovery in residential property led the commercial property recovery by around six months driven, to some extent, by the supply side. RICS surveys pointed to a lack of product for sale in both residential and commercial sectors. Interestingly, Singapore agents had reported sharply rising availability in the commercial sector during 2009, although this trend is now abating. As such, prices are now likely to pick up in the commercial sector.

Commercial prices have yet to pick up



French housing starts likely to remain stable but downside risks remain

“Housing starts have stabilised”

“..but the labour market provides downside risks”

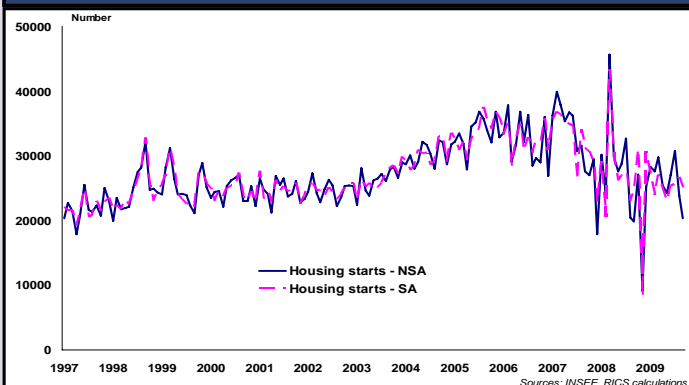
French house building data for February is due on Tuesday 30th. The official data shows the total number of starts for ordinary residences was about 2.3% lower in the three months to January compared to the previous three month period, at 20,343. However, the data is presented by INSEE on a non-seasonally adjusted basis. Adjusting for this pushes the January figure up by 6% on the same (rolling three month) basis to 25,110. Overall, the starts data seems to have stabilised.

The relatively flat performance in house building coincides with two developments. First, home prices at the national level have stabilised according to the latest official data (they were up by 0.2%). Second, there appears to be little over/under supply of residential properties. One rough measure of this is the ratio of residential investment as a percentage of GDP compared to the long run average. This ratio fell to 5.7% in Q4 2009, which is equal to the average over the last decade. Given stabilising house prices and, at least the appearance of balance in the relative scale of house building, it is not altogether surprising that housing starts have begun to level off.

Moreover, starts are unlikely to rebound very much over the balance of the year; our forecast is for starts to hover around current levels, but downside risks remain given the growth and employment outlook. Significantly, forward looking indicators of economic activity point to positive but weaker GDP growth in Q1

(GDP increased by 0.6% in Q4 2009) following the release this week of the March flash composite PMI index, which fell to 55.2, a six month low. This drop in the composite index was driven by the service sector, which is struggling to make headway in the face a continued adjustment in the labour market. Unemployment has been rising consistently since May 2008 (when it was 7.6%) and reached 10.1% on the latest reading (or 2.9 million). Without any signs of stabilising, the labour market presents the biggest threat to the outlook for homebuilding.

French housing starts have stabilised



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Recovery in Japanese house building hits the rocks

“..housing starts experienced a sluggish recovery, reaching an all time low in August 2009”

“..confidence improved amongst Japanese firms over the quarter as an export led recovery gathers pace”

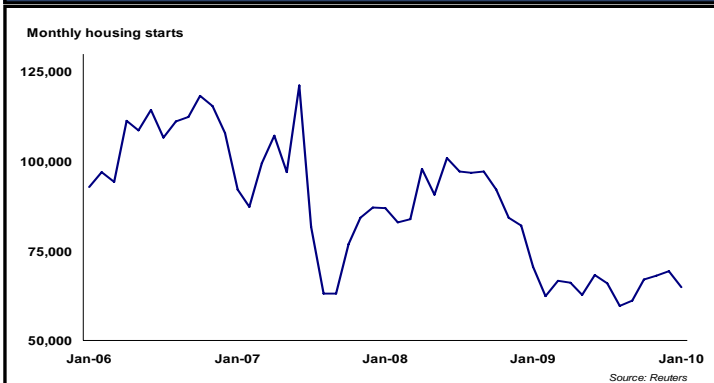
Over the next week, there are several data releases coming from Japan that will give an indication of the outlook for the property market. Housing starts figures are published on Wednesday 31st, while the Bank of Japan (BoJ) will release its Q1 tankan business survey on April 1st. The closely watched tankan is likely to be of particular interest, as it is expected to show that confidence improved amongst Japanese firms over the quarter as an export led recovery gathers pace.

The housing starts figure is likely to attract similar interest. Following the downturn, housing starts experienced a sluggish recovery, reaching an all time low in August 2009. However, after picking up towards the back end of 2009 with gradual month on month increases, January's figure was disappointing. Housing starts fell by 6% from the December number. This latest decline now means they're running at 40% below the 30 year average of 110,000, and coincides with a fall in construction orders for January. Orders were down 25% on the December figure, but 15% higher than 12 months earlier. That said, this indicator is notoriously volatile, and only in September 2009 there was a massive 115% jump in orders, followed by a fall of 58% in October.

Economic news flow suggests that the results from the Bank of Japan's tankan survey, which measures sentiment within the

manufacturing sector, are expected to show confidence is increasing. Confidence in the sector hit an all time low in March 2009, with a net balance negative to the tune of 58% as Japan was in the midst of its worst recession since World War Two. The patchy recovery experienced in the second half of last year was driven by exports increasing from a January low, and this fed through to a small decline in unemployment by the end of 2009. RICS expect the results of the Q1 tankan to show a further increase in confidence.

Housing starts still low despite pickup in Q4 2009



UK Credit Conditions Survey to show further modest improvement

“Although credit conditions have eased a little or home buyers, large deposits are still required”

“BBA data points to a further drop in lending to the commercial real estate sector”

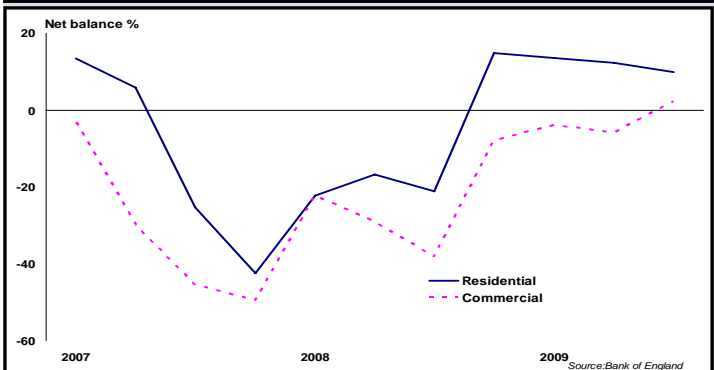
Following the somewhat disappointing figures released by the British Bankers' Association (BBA), the Bank of England will publish comprehensive data on mortgage lending for February on Monday 29th. The BBA suggested that the number of mortgages approved last month by its members was little changed from January when activity had been badly affected by both the ending of the stamp duty holiday on properties valued between £125k and £175k and the adverse weather conditions. Reflecting this, it seems probable the Bank will report that the total number of approvals for new mortgages from all lenders was still below 50,000 in February.

Meanwhile, on April 1st the Bank of England publishes the Q1 Credit Conditions Survey. In the previous report, a net balance of lenders had reported that they had increased the availability of secured credit to households, driven in part by improvements in the economic outlook. They also implied that this more positive trend would continue. We expect this to have been borne out in the latest report and suspect that the survey will contain more references to a further easing in credit conditions for home buyers as the year progresses. That said, the deposit required by first-time purchasers is still likely to remain elevated.

One other property related theme in the survey concerns the

availability of finance to the commercial real estate sector. The last report showed a slight easing in credit conditions in this area for the first time since the second quarter of 2007 but respondents were relatively cautious in their assessment as to whether this improvement could be sustained. Significantly, the BBA data shows lending to real estate to have fallen by a further £700m in the first two months of 2010 and while property yields have dropped sharply particularly in London, the improvement in transactions levels has been rather more modest.

How is the availability of finance likely to change?



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