

Canada introduces measures to curb mortgage activity

“The Bank of Canada left rates on hold at its March meeting.”

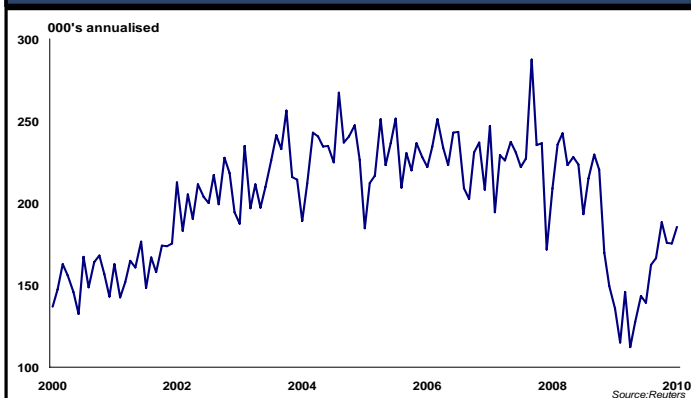
Recently released data shows that growth in the Canadian economy accelerated dramatically in the final three months of last year. After edging up by just 0.2% in the third quarter of 2009, the fourth quarter saw GDP increase by a whopping 1.2% (5% annualised). Although this sharp pick-up in activity was driven by exports, it is significant that investment in housing posted its first quarterly gain since 2007. Despite this, the Bank of Canada decided to leave interest rates on hold at its March meeting. While it removed references to downside risks in the statement, it reiterated that a tightening in policy would not be sanctioned until the third quarter of the year.

“..despite house prices moving close to their previous peak”

An update on the state of the house building sector in Canada will be provided by the February starts numbers released on Monday 8th. The January number came in stronger than expected at an annualised rate of 186,000, the second best reading since the back end of 2008. The Canada Mortgage and Housing Corporation, the national housing agency, has suggested that the recovery in new developments is likely to stabilise over the course of 2010 partly in response to the new mortgage rules announced by the federal government. The changes that come in on April 19th will, amongst other things, require borrowers to have the resources to qualify for a five year fixed rate mortgage even if they would prefer to purchase a lower cost variable rate product.

On Thursday 11th, the January house price index will be published. Prices at an aggregate level have risen in each of the last six months and are now less than 2% away from the previous peak. Despite this and the imminent introduction of measures to calm the market, both Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney have stated that they do not see any evidence of a housing bubble. The likelihood is that prices will edge up over the coming months as homeowners seek to make purchases ahead of the rule changes.

Canadian housing starts have rebounded sharply



2010 European Housing Review launched

“The worst performing markets form an unlucky horseshoe around the edges of Europe”

The 2010 RICS European Housing Review was released on Tuesday 2nd. It shows that a significant number of European residential markets began picking up from the spring of last year and suggests that a further improvement is expected over the course of this year. Low interest rates and a recovery in economic activity helped to avoid a meltdown in residential property across much of Europe the report states. Consequently, the fall-out from this recession looks likely to be more limited than that experienced in the 1990s.

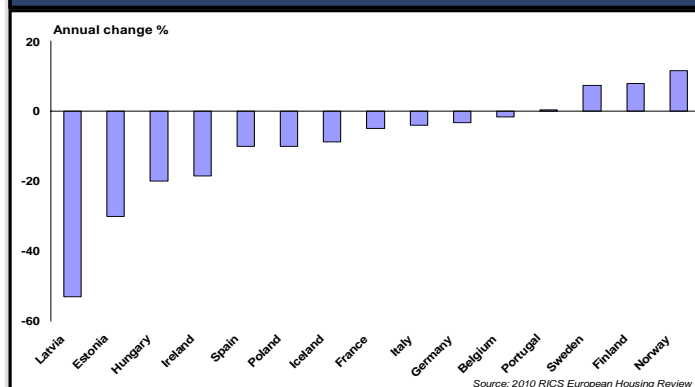
“European housing markets generally able to avoid the fate of the US”

The author, Professor Michael Ball, notes that some countries have already experienced a strong rebound in prices. In Norway, for example, prices rose by 12% in 2009, in Finland they rose by 8% and in Sweden by 7%. In the UK, prices rose by just 1% last year. In Germany, Italy, Netherlands and France, last year's falls were relatively moderate (between -4% to -6%) and these markets are now starting to stabilise. Indeed, in some cases, there are signs that prices are beginning to edge upwards. The worst performing markets of 2009 were Ireland, Spain, Greece, most central and eastern European countries, and especially the Baltic States where prices declined between -27% to -53% in 2009. Geographically, together they form an unlucky horseshoe around the edges of Europe.

The report suggests that, in aggregate, European residential property has been able to avoid the fate of the US for a number of

reasons. First, the economies of Europe have better built-in stabilisers preventing a more severe downturn in activity. Second, there has been less emphasis on trying to draw lower income households into home ownership. Third, the penalties for failing to keep up with mortgage payments are lower in the US leading to a larger number of foreclosures. And finally, with a few notable exceptions, the level of house building prior to the downturn was relatively modest across Europe leading to less oversupply.

Scandinavia tops the house price table in 2009



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Chinese real estate building investment to moderate in 2010

“The strength of this week’s inflation figures will be closely watched...”

“...with tighter policy likely to temper real estate investment in 2010”

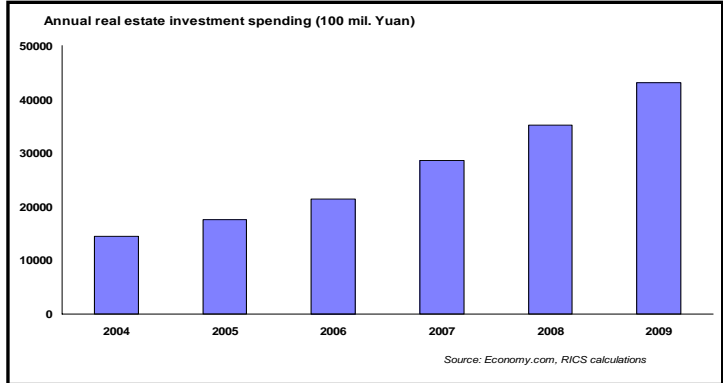
Several pieces of economic data are released in China next week which will provide an insight for property market watchers. On Wednesday 10th, the latest trade data is due, whilst on Thursday 11th retail sales, industrial production and inflation data for February will be released. A key barometer for real estate construction will also be published on Thursday 11th when the latest fixed asset investment data covering urban centres are released.

Fixed asset investment on a year to date measure fell back in December for the third consecutive month at a headline level having shown some strong gains over the course of 2009. The real estate component to the overall figures however continues to move higher and hit a monthly high in December 2009 with investment expanding by 57% on the previous month. Indeed, monthly growth in fixed asset investment in real estate is now growing at three times the pace of 2004 and at close to double the pace of the 2007. It would not be a surprise, however, to see this trend moderate somewhat in 2010 as attempts to rein in monetary stimulus gain traction.

Indeed, the strength of next week’s inflation figures could be a key event in dampening risk appetite in global financial markets. The most recent Chinese inflation data surprised on the downside although any signs of a monthly inflation surge could renew jitters that Chinese monetary policy tightening may start to ac-

celerate. The rhetoric coming from the central bank in recent weeks has been stepped up a gear with talk of a normalisation of policy rates in some quarters and a focus towards watching the monthly changes in inflation as opposed to annual comparisons which are deemed to be hampered by base effects. Recent data suggests that monetary stimulus is already being reined in with annual growth in M2 money supply falling back over the last two months to 25% having touched 30% in the year to November.

Real estate fixed investment continued higher in 2009



US and Japan expect most distressed properties in Q1 2010

“..real estate professionals continue to expect a rise in distressed properties reaching the market..”

“..agents in Brazil, India, Australia and Hong Kong are more optimistic..”

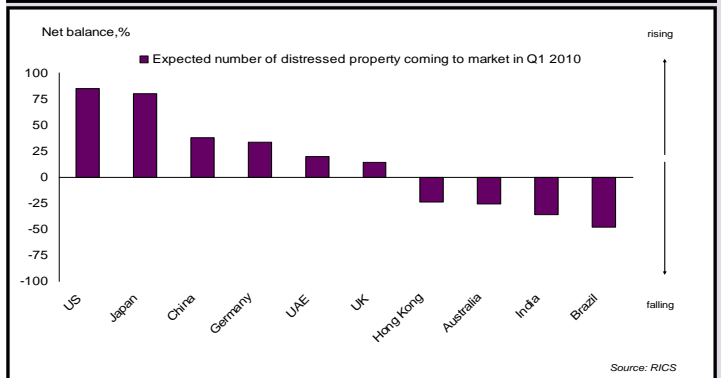
The Q4 RICS Global Distressed Property Monitor was released on Monday 1st, the results of which suggest that the number of distressed properties coming to market continues to rise globally. Of the 25 countries surveyed, 18 reported a pick-up in the number of distressed properties on the last three months, but at a generally slower pace than previously reported.

Indeed, though most surveyors are still reporting more distressed property listings, the pace of increase has moderated on the previous quarter. However, there were a handful of countries where opinion was contradictory to this; surveyors in Spain, Ireland, Scandinavia and Japan reported distressed property listings at a faster pace than in Q3. Interestingly, agents in China reported an increase in the number for the first time, following two quarters of declining activity. In contrast to this, Brazil, Hong Kong, Australia and India reported a drop in the number of distressed property listings compared to three months earlier, and there were also marginal declines in Malaysia and Canada.

Our survey, which measures economic sentiment, broadly coincides with data from the Real Capital Analytics quarterly data release. This highlights that distressed sales increased across all zones in Q4, but particularly in the Americas. Looking ahead to

Q1 and the rest of 2010, real estate professionals continue to expect a rise in distressed properties reaching the market, but across slightly fewer countries than we have seen previously. The US and Japan expect to see the fastest pace of growth in distressed assets in Q1 2010, with China, Germany and the UAE next in line. Conversely, the agents in Brazil, India, Australia and Hong Kong are more optimistic and expect that fewer distressed assets will be listed in Q1 2010.

US leads Japan on expected distressed property



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