

## US foreclosures preventing price gains in housing market

“HPI shows first year on year increase since 2006”

Existing home sales figures for April are released on Monday 24<sup>th</sup> with the S&P/Case-Shiller House Price Index (HPI) for March due the following day. Existing home sales increased 6.8% in March and RICS suspects the April figures will continue this positive trend on the back of better pending home sales. Meanwhile the February HPI showed both the 10 and 20 city indices recording year on year increases for the first time since December 2006.

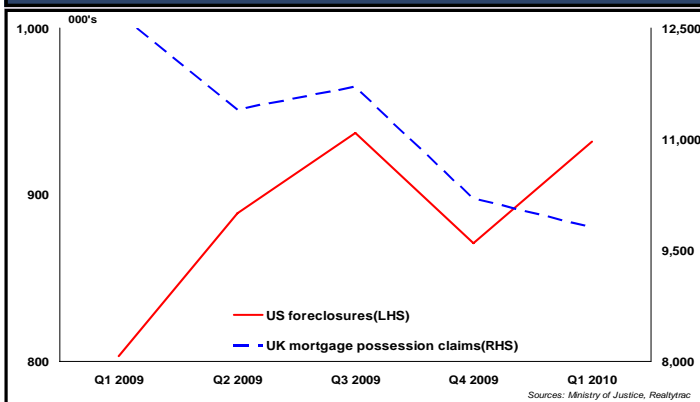
One reason why US house prices have fallen so sharply has been the amount of distressed property coming onto the market. In the first quarter of this year, the number of foreclosures stood at 932,324 which is 7% higher than the number recorded in Q4 2009. The UK provides something of a contrast to this with the latest data from the Ministry of Justice showing the number of mortgage claims issued continuing to drop; they now stand at barely 50% of the high water mark seen in the first quarter of 2008. The current ratio of mortgage claims per 1000 households stands at 0.81 in England and Wales. The ratio for the nearest comparable measure in the US (foreclosures) is 2.6.

This marked difference can be put down not only to the UK government’s ability to coerce lending institutions to find alternatives to foreclosures but also the opaque nature of US programs such as the Home Affordable Modification program (HAMP). This program is designed to assist homeowners whose payments have

increased but who are still employed and able to make payments; it cannot assist unemployed borrowers with no income. Other criticisms levelled against the program include the lack of understanding lenders have of its implementation and that it merely postpones default. Another factor for the US high foreclosure rate are ‘deeds of trust’, which are non-recourse mortgages whereby the borrower can walk away from a home loan without being sued for the full amount when the resulting sale of the property does not fully cover the initial loan.

“Government aid programs have limited impact on preventing foreclosures”

US foreclosures increase in 2010



## Outlook for Spanish housing demand uncertain

“Housing demand has probably been stable since reaching its low in November 2008”

Spanish mortgage approvals data for March are due from the INE on Wednesday 26<sup>th</sup>. Since hitting their low point of 80,535 in November 2008, approvals have staged a modest upward trend and were 9% above this level in February at 87,795. However, it has to be said that the approvals data is volatile and there has been significant variation around this trend; in February, approvals were 12% above their low point, whereas the month before, they were flat. Part of the explanation for the volatility in the data may lie in the way it is presented; the INE releases the data on a non-seasonally adjusted basis, but the data is quite seasonal. Nevertheless, adjusting for this only reduces the variation in the data marginally.

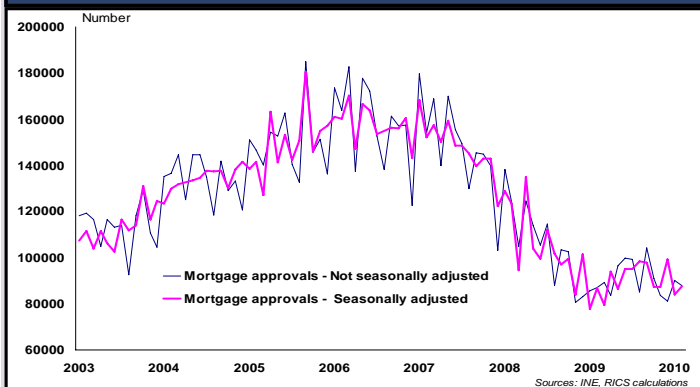
Given the inherent volatility in the approvals data, a better understanding of the state of housing demand can potentially be gauged by looking at other macro indicators as well. These, on balance, suggest a roughly flat rather than positive picture. The labour market is showing tentative signs that it is close to stabilising, but it is deteriorating nonetheless; unemployment increased by 60,000 during Q1 to 4.4m, but this is much smaller compared to the 583,000 increase which took place in Q1 2009. Meanwhile, following seven consecutive quarters of decline, the economy grew by 0.1% in Q1 according to Eurostat’s flash GDP estimate.

Looking forward, housing demand is highly uncertain. If economic growth is sustained, this will eventually feed through to

lower unemployment and in turn stronger housing demand. But forward looking indicators of economic activity paint a mixed picture; the manufacturing PMI fell in April to 50.9, only just signalling positive growth, while the services PMI edged up to 53.3. At the same time, the government’s new package of austerity measures announced last week is unlikely to support housing demand. These include, amongst other things, abolishing the €2,500 birth grant (useful for families in need of more space) at the end of the year and a €6bn cut in public sector investment, which won’t help employment.

“The outlook for the economy and future housing demand is uncertain”

Mortgage approvals are inherently volatile



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## Housing market activity in New Zealand cooling

“Building consents were marginally down month on month in March”

“while the number of sales fell 15.5% over the same period”

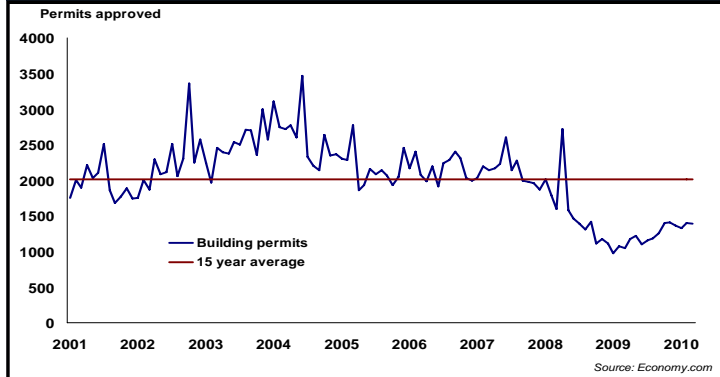
A panoply of property related data have been released in New Zealand over the past fortnight, and more is forthcoming with building permits for April released on Friday 28<sup>th</sup>. The Real Estate Institute of New Zealand (REINZ) published house sales data for April and their house price index for the same period on May 14<sup>th</sup>, while retail sales for March were also released by Statistics New Zealand on the same day. Meanwhile the federal budget for 2010 was released on Thursday 20<sup>th</sup> and, among other things, contained some changes to the way property is taxed.

Building consents for residential properties were marginally down in March, falling 0.7% to 1389 from 1399 in February. Despite this, the recent trend in building permits has been sporadic. The number of permits increased month on month for five consecutive periods up to December, but since then the data has been more volatile; the February figure was up 5.6% on January, whereas it fell from December to January by 2.8%. Housing market activity has cooled in recent months, and this was confirmed when the REINZ house price and transaction data were released on the 14<sup>th</sup>. House prices fell 1.25% in April from NZ\$360,500 to NZ\$356,000, while the number of sales fell 15.5% from 6161 to 5207 over the same period.

To the dismay of property watchers, the federal budget included a measure that could have a further dampening effect on the

housing market. Under the new legislation, property investors will be prevented from offsetting their losses against income and other taxes. Meanwhile, economic news flow from New Zealand has improved of late, with retail sales bouncing back in March, rising by 0.5% after a disappointing drop in February. However, the rebound was below market expectations as other indicators improved; the labour market experienced a boost as the unemployment rate declined from a peak of 7% in Q4 to 6% in Q1. This was the lowest for two quarters.

### Building consents remain below the long run average



## UK construction workloads edge up but outlook still cautious

“RICS Construction Survey shows a modest pick-up in sentiment”

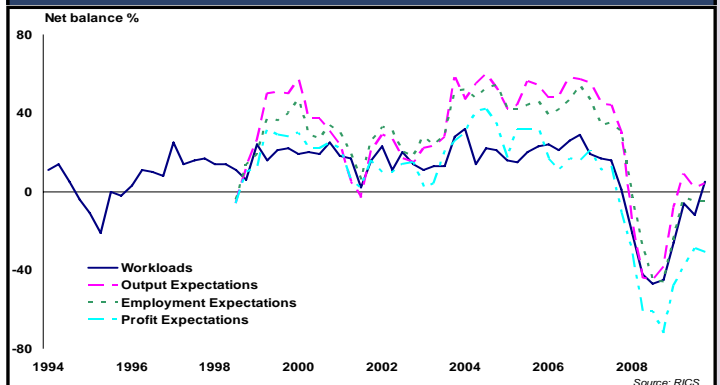
“Housing starts this year will fall well below the best estimates of need”

The latest RICS Construction survey released on Thursday 20<sup>th</sup> shows some tentative signs of a pick-up in sentiment with the net balance for total workloads turning positive for the first time since Q1 2008. The biggest improvement was in the private commercial sector where the net balance swung around from -11 to +17. This area of the industry did, however, suffer particularly acutely during the latter part of 2008 and the early part of 2009. The other sectors showing positive readings during the first quarter were private and public housing. Significantly, the forward looking indicators still suggest that caution is warranted on the prospects for the construction industry. Only 4% more respondents expect output to rise than fall over the next twelve months, and the net balance readings for both employment and profit margins over the next year are still heavily in negative territory.

Official data on housing starts for the first quarter was also released on the 20<sup>th</sup>. It points to a recovery in development with starts climbing to within a whisker of 25,000 in England. Although this represents a meaningful improvement from the 15,400 starts recorded in the same period of 2009, it is significantly down on what is required on the basis of the best available estimates of household formation and migration patterns. RICS suspects that the number of starts this year will amount to no more than 120,000, which is roughly half the likely need.

Turning to the coming week, Tuesday 25<sup>th</sup> sees the release of the second stab at GDP for the first three months of the year. The initial estimate suggested that output growth slackened to 0.2% following a 0.4% gain in the final three months of 2009. Poor weather contributed to the drop in the growth rate between the two periods, but subsequently published higher frequency data indicates that the gap may have been narrower than first thought; we would not be surprised to see the Q1 number revised upwards modestly.

### Profit and employment expectations remain negative



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