

Q1 Euro area GDP growth likely to exceed Q4 2009

“Q1 GDP growth is likely to exceed Q4 2009 but Q2 is looking much stronger...”

“...this is beginning to be reflected in the commercial property market outlook”

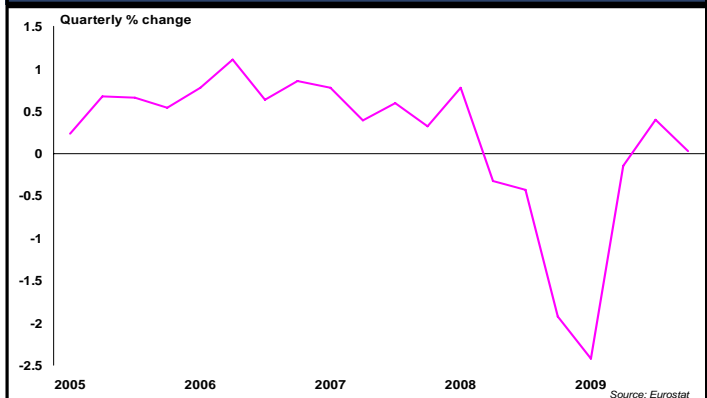
The flash estimate of Q1 Euro area GDP is due on Wednesday 12th. In Q4 GDP was flat (lifting the annual growth rate from -4.1% in Q3 to -2.2% in Q4). Although there was a positive net trade contribution, investment and government spending declined, while household consumption remained unchanged. At the country level, Q4 GDP fell by 0.3% in Italy and by 0.1% in Spain, while in Germany it was flat and in France it increased by 0.6%.

The manufacturing recovery continued apace during Q1 (the average monthly increase in industrial production was 0.5%) but the hard data suggests this hadn't materially fed through to the labour market and higher consumer spending. Indeed, the unemployment rate increased continuously during Q1 (from 9.8% to 10%), while retail sales fell during January and February, before stabilising in March (the average monthly fall during Q1 was 0.2%). It has to be said, however, that the weakness in consumer spending is likely to have been exacerbated by the adverse weather that hit much of northern Europe during January and February.

Now that the extreme weather conditions have passed, the timelier business and consumer sentiment surveys point to a much stronger Q2. This, moreover, is beginning to be reflected in a more buoyant outlook for commercial property in the region. Indeed, the results of the recently released Q1 RICS Global Commercial Property Survey show expectations for Q2 have turned more buoyant.

Sectorally, the investment market outlook is stronger than the occupier market, with capital values now expected to rise in some countries including France and Poland. From a regional perspective, emerging Europe and developed Europe have both experienced a continued rebound in sentiment. However, the survey results indicate that in the latter area, this improvement has been more even; by contrast, emerging Europe was home to some of the best (Poland and the Ukraine) and worst performers (Bulgaria and Hungary) in Europe.

Euro area GDP growth has rebounded from its lows



Chinese property activity already responding to cooling measures

“The Chinese authorities want to bring M2 down to 17% this year”

“...with a moderation already underway in the commercial property market”

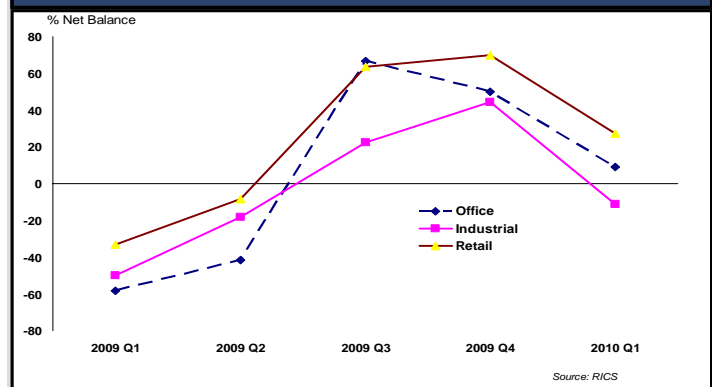
A raft of economic data is due in China next week which will shed further light on whether measures aimed at cooling the property market are having an impact on domestic demand in the economy. On Monday 10th the latest trade data is due whilst on Tuesday 11th a plethora of macro economic indicators are released. Strong retail sales figures alongside any upside surprise in the inflation data come Tuesday could prompt some renewed risk aversion and intensify the debate on the need for further tightening measures. The key property barometer to watch, however, on Tuesday will be the urban fixed asset investment data which tracks real estate construction activity on a year to date measure. RICS expect that annual growth in fixed asset investment will continue to trend downwards over the course of 2010 as the removal of stimulus measures and policy tightening kick in.

It appears that policy tightening is gaining traction. The Chinese central bank raised the proportion of deposits that banks must hold on reserve on Sunday, for the third time this year in a further sign that the prevention of overheating is a key priority. These measures follow on from a series of specific property regulations rolled out in recent weeks raising deposit requirements and lending rates in addition to lowering loan to value ratios on property lending.

In addition, the surge in money supply growth seen last year is being reined in by the authorities who are looking to reduce an-

nual M2 growth to around 17% in 2010 from a peak of 30% hit in November last year. There are already some signs that these measures are starting to impact upon activity in the Chinese real estate market. The latest Global Commercial Property Survey from RICS suggests that investment bidders per property rose at a more modest pace in Q1 compared to Q4 with the industrial sector in particular seeing slight falls. Of further note, development starts have stabilised across all three sectors suggesting that some moderation in fixed asset investment is already underway.

Investment bidders per property is easing



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Canadian house prices close in on previous high

“House prices have risen for eight successive months”

The coming week will see several housing related data releases in Canada. On Monday 10th housing starts data for April are published. Although starts in March were slightly down on the February reading, the trend has been broadly upwards since the spring of last year. Indeed, from the credit crunch induced low point of 2009 the volume of housing starts have pretty much doubled although they still remain lower than the numbers recorded prior to the downturn. Following on from this, on Wednesday 12th the March house price index is released. House prices have risen for eight successive months and are now within a whisker of the all-time high. Finally on Friday 14th, the latest numbers on existing home sales are announced.

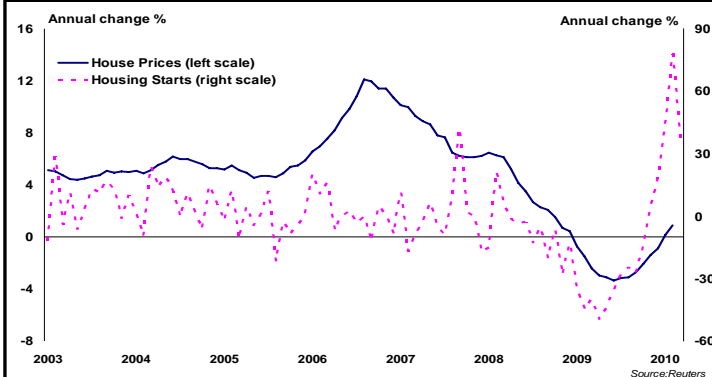
“The Bank of Canada is likely to begin raising interest rates when it next meets in early June”

A key issue for the housing market going forward is the likely impact of the tightening in mortgage lending rules announced in February. All borrowers now need to be able to meet the payments on a five year fixed mortgage rate even if they choose a variable mortgage with a lower rate. In addition, the maximum amount Canadians can withdraw when refinancing their mortgages has been lowered and finally there is a requirement for a minimum down payment of 20% to qualify for CMHC insurance on investment properties.

Alongside this, the Bank of Canada (BoC) is likely to begin raising interest rates when it next meets in early June. Economic

news flow has been strong with the monthly GDP data recording six successive increases. At its previous meeting, the statement accompanying the no change decision removed the conditional rate commitment to hold rates steady until the second quarter of the year. The BoC governor has subsequently attempted to play down the inference that this points to an imminent rate tightening. However, it would be a surprise if the authorities do eschew this opportunity to begin the process of pulling back on the extreme level of monetary accommodation.

Canadian house prices are following the rebound in starts



Commercial property investment recovery continues in Malaysia

“RICS results suggest that sentiment amongst surveyors in Malaysia is improving”

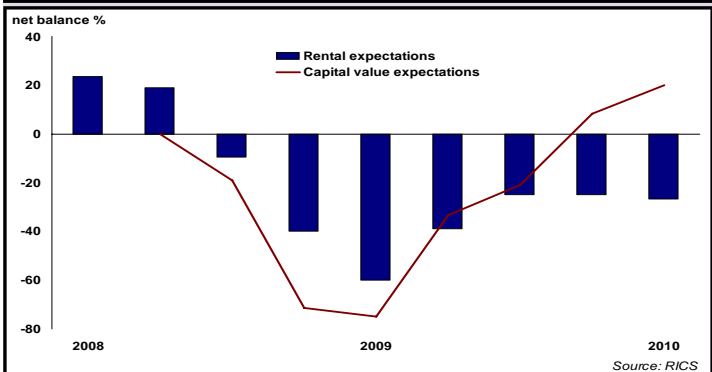
Thursday 13th will bring about the latest monetary policy decision from the Central Bank of Malaysia, who will be meeting to discuss the outlook for interest rates. Economic indicators of late have been positive, and signs of a real estate recovery are backed up by the latest results from the RICS Global Commercial Property Survey (GCPS). The survey suggests that sentiment amongst surveyors in Malaysia is improving, with indicators showing more positive results than last quarter.

Survey results show both occupier demand and enquiries increased at a faster pace than seen in Q4. Despite this, rising available space for occupation has resulted in rents and rental expectations remaining negative. Indeed rental expectations have been falling since Q3 2008, but the pace of decline has moderated since the net balance nadir of -60 in Q1 2009. In the investment market, purchasing activity continues to recover, with the number of investment bidders per property and demand transactions both increasing at a greater pace than last quarter; the investment bidders net balance improved to +33 from 0, showing the greatest turnaround of any indicator. Looking forward, capital value expectations increased at a greater pace also, suggesting that the outlook for the transaction market is positive.

“Despite this, rents and rental expectations were both negative”

In the economy at large, rising exports and a strong bounce in Asian trade is likely to force the hand of the central bank (BNM) when it meets next week. The BNM raised rates for the first time since the downturn last month, when it hiked by 25 basis points to 2.25%. The minutes suggest that the policy committee are keen to remove stimulus from the economy. RICS expects a further rise of 25 basis points to occur next week due to ongoing improvements in the economic climate.

Capital value expectations have recovered smartly



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

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