

Singapore residential price recovery still outpacing commercial sector

“Preliminary data shows house prices are now 4% above their 2008 peaks”

Singapore's Urban Redevelopment Authority (URA) provide their latest update on the state of the real estate market on Friday 23rd. The Q2 real estate statistics will confirm price and transaction trends over the last three months in both the residential and commercial property markets. The preliminary headline release showed that residential property prices increased by

5.2% in Q2 which followed on from a rise of 5.6% and 7.4% in the previous two quarters. The detail of next week's statistics will shed further light on the breakdown of the price changes. In Q1, prices of detached, semi detached and terraced houses rose by 9.6%, 7.5% and 7.4% respectively.

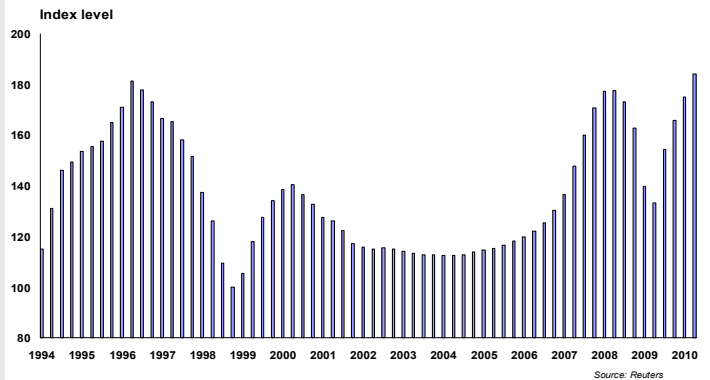
Singapore house prices, having fallen by 25% in the year to June 2009, have rebounded by 38% over the last year. This has left house prices in cash terms around 4% above the previous high recorded in June 2008 with little sign as yet, that momentum is easing. On the economic front, support for the housing market looks set to continue in the near term. The latest labour market statistics showed unemployment falling back further to 2.2% in Q1 down from 3.3% 6 months earlier. The employment turnaround also appears to be adding some support to the commercial property sector. Rental levels for office space in Singapore increased marginally by 0.4% in the first quarter which compared with a decrease of 3.3% in Q4 2009.

A breakdown of the commercial property figures shows some divergent trends. The overall rise in office rents was driven by the non prime sector. "Category 1" rent per square foot actually fell to S\$8.25 in Q1 from S\$8.76 in Q4, while "Category 2" office rents (which make up 80% of all office space) rose modestly perhaps as companies are still focussing on reducing

costs. The URA data also shows that the recovery is filtering to the retail and industrial market where rents are no longer falling. Indeed, capital values have also turned a corner and are now rising but at a much more modest pace than in the residential sector. Office and shop prices rose by 1.8% in Q1 and 1.5% for industrial property. RICS expects next week's release to confirm that commercial price rises are gaining momentum. However, worries over available supply overhanging the market may keep the investment recovery in check.

“...although the recovery in the commercial sector has been more sluggish”

Singapore house prices have surpassed previous highs



Demand for loans from Japanese households no longer falling

“Despite sentiment in the first quarter of the year remaining broadly negative, it showed an improvement on Q4..”

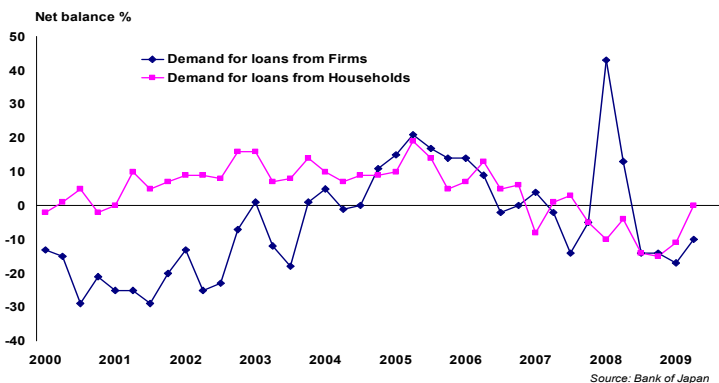
The Q2 Loan Officers Survey is due for release by the Bank of Japan (BoJ) on Wednesday 21st. The results of the Q1 survey suggested that, while demand for loans continued to weaken, there are some signs that the economy is gradually beginning to recover, albeit at a tentative pace. Despite sentiment amongst loan officers in the first quarter of the year remaining broadly negative, it showed an

improvement on the Q4 results. The balance of opinion on loan demand for firms was negative to the tune of 10 percent, while it moderated for

households to stand at 0. The demand for loans from local government increased, with the net balance improving from -1 in Q4 to +15 in Q1.

Of particular interest from the Q1 survey was the demand for loans from firms working in the construction and real estate industry. The responses were, on average, less negative than those from manufacturing and non manufacturing firms. Within the property sector, the balance of opinion appeared to be that small and medium sized firms were faring better than larger firms. The net balances for medium and small sized firms moderated to 0 from -10 and -5 from -11 respectively. For larger firms, demand for loans is still contracting and at a greater pace than last quarter; 16 percent more loan officers reported that demand for loans fell, as opposed to 11 percent in the previous quarter. Demand for housing loans continued to fall in Q1, but at a slower pace.

Loans to households show signs of stabilising



There have been growing signs that global GDP for Q2 will moderate, but Japan's recovery has broadly remained on track. The economy has been recovering modestly in 2010, boosted by exports to Asia. Unemployment appears to have peaked in 2009 and as a lagging indicator, is likely to improve over the second half of 2010. The June BoJ Tankan survey indicated a rise in sentiment for the fifth consecutive month; indeed it was the highest level in two years. Given the positive news flow, RICS expects the Q2 Loan Officers Survey to show further modest improvements to the headline net balances for loan demand from businesses and households.

“The firms working in the construction and real estate industry were, on average, less negative..”



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UK housing data to show flat lending and price trends

“Forward looking indicators from the latest RICS report point towards modest falls in prices”

A busy week for data releases in the UK begins on Monday 19th with the publication of the July house price numbers from Rightmove. This series measure ‘ask’ prices so captures sentiment at an early stage in the home buying process. That said, its recent numbers have been pretty consistent with the picture painted by most other housing market indices and, indeed, the RICS Housing Market Survey. The key theme is that the momentum of price gains

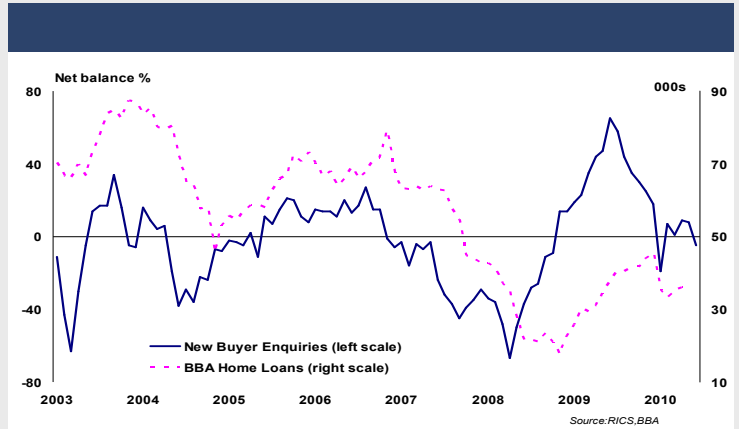
appears to be slackening; Rightmove suggests that ‘ask’ prices rose just 0.3% in June following increases of 0.7% and 2.6% in the preceding two months. Significantly, the forward looking indicators from the latest RICS report point towards modest falls in prices during the second half of the year although there are important regional differences with London, the South East and Scotland expected to buck the national trend.

On Tuesday 20th, the latest figures for public borrowing are released. The following day, the minutes of the July MPC meeting are released. A speech from Andrew Sentence this week suggests that he, once again, voted for a tightening in policy. The more interesting issue will be whether he managed to persuade any other members of the committee to support him. Following this, Friday 23rd sees the preliminary estimate of Q2 GDP which should show that growth in the economy picked up to around 0.5%.

Also on Friday, the British Bankers Association will release its latest lending data. Loans for house purchase have edged up in recent months but the May number, just shy of 37,000, is still way down on the volume of activity at the back end of last year, as the chart shows, let alone the scale of lending prior to the onset of the credit crunch. Although the latest

initiative on stamp duty designed to specifically help first time buyers is providing some support for the market, the uncertainty engendered first, by the general election and more recently by the emergency budget is, in all probability, having a more powerful influence on potential home buyers. Significantly, the RICS New Buyer Enquiries indicator turned negative in June suggesting that more estate agents saw a fall rather than a rise a buyer interest compared with May.

“BBA loans for house purchase remain way down on levels seen at the end of last year”



US housing sales stumble after homebuyer tax credit expires

“NAHB index falls back to February levels”

The National Association of Home Builders (NAHB) release their monthly housing market index for July on Monday 19th and on the following day the Census Bureau publishes housing starts data for June. Also, the National Association of Realtors releases their June existing home sales figures on Thursday 22nd.

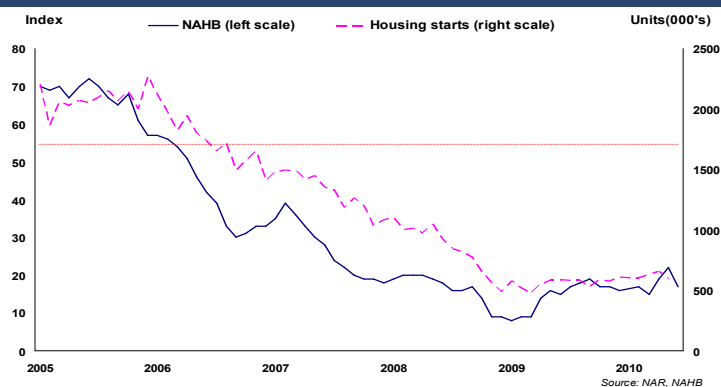
Following the expiry of the homebuyer tax credit in April, the NAHB index decreased by 5 points in June to 17. This reversed two consecutive monthly gains for the index, with builder

confidence in the market for newly built single family homes falling back to February levels. Housing starts in May fell 10% to an annual rate of 593,000 new units, the largest such decline since March 2009. But these numbers should be treated with caution, since the comparison month was over-inflated due to the ending of the tax credit; housing starts are still almost 8% higher than May 2009. Indeed, the effects of the tax credit can still be felt in existing home sales, which fell 2% in May but are still at elevated levels and 20% higher y/y. This is due to the fact that homebuyers have until June to finalise contracts on home purchases to take advantage of the tax break; hence the tax credit will keep boosting existing home sales through June.

Recent data on mortgage applications shows that they have started to slip again despite the 30 year mortgage rates being at multi-decade lows (4.57%). This suggests that increased affordability of homeownership is still not sufficient to over-ride continuing concerns about the weak economy for potential homeowners. A contrast to this is provided by the trend refinance mortgage applications which are already 40% higher than H1 2010, reflecting homeowners desire to lock in the historically low mortgage rates. Looking ahead, the ending of the tax credit will likely lead to fewer new sales for the remainder of the year. With the economy slowing in mid-year and a lack of finance available for homebuilders and consumers, housing sales will most likely stay close to current levels for the remainder of the year.

“Housing starts decreased by 10% m/m”

Post tax credit falls in house builder confidence



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