

Outlook for euro area mortgage lending is turning bleaker

“Annual growth in mortgage lending is positive across all but one country in the euro area”

Euro area M3 lending data for May is due from the ECB on Monday 28th. M3 lending increased by 0.7% in April, but annual growth is still slightly negative at 0.1% (compared to the peak of 12.5% in October 2007 and the long run average of 7.2% since 1981). One of the key components of the M3 release is lending (outstanding) for home purchase. At the euro area level, this increased by 0.2% in April (marking the twelfth consecutive monthly increase), pushing the annual growth rate up to 3%, the highest since October 2008.

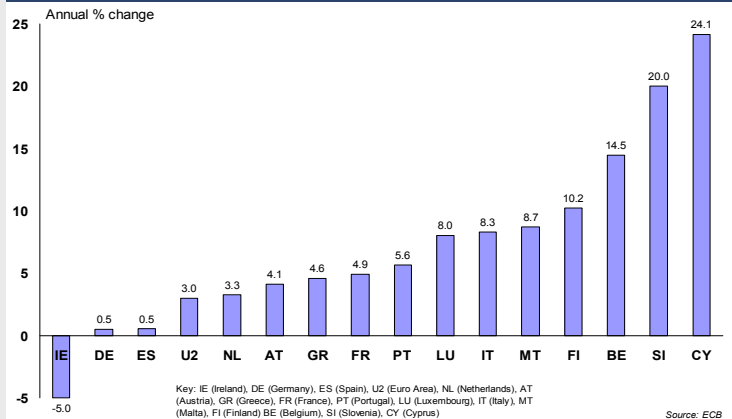
Within the euro area there is marked and in some cases, surprising country variation in mortgage lending. Indeed, Ireland is currently the only country within the single currency bloc where annual growth in mortgage lending is still negative (-5%). This is surprising because other candidates one might have expected to be showing a similar trend in mortgage lending such as Spain, Greece and possibly even Portugal, are actually showing the opposite (at 0.5%, 4.6% and 5.6% respectively). However, it has to be said that in Greece and Spain, monthly growth in April was flat. In Germany, annual mortgage growth is currently anaemic (0.5%), while in France and Italy, it is growing firmly (at 4.9% and 8.3% respectively).

Renewed financial market turbulence and the recently announced fiscal austerity measures across the euro area will have only partly been reflected in the latest mortgage lending data. However, the May business and consumer confidence data is already reflecting the negative news flow and is signalling that the risks to the mortgage lending outlook are shifting to the downside. Indeed, the European Commission's economic sentiment index for the euro area fell back from its post-crisis April peak of 100.6 to

98.4 in May, while the euro area headline consumer confidence net balance reading fell back from its post-crisis high of -15 in April to -18 in May. The detail of the May consumer confidence survey showed the net balance for the expected general economic situation (over the next 12 months) deteriorated sharply from -12 to -21. Declines of a similar magnitude took place amongst the euro area's largest economies Germany, France, Italy and Spain. As a result, the outlook for mortgage lending is turning bleaker.

“But the May survey data signals the risks to the outlook are shifting to the downside”

Marked country variation in euro area mortgage lending



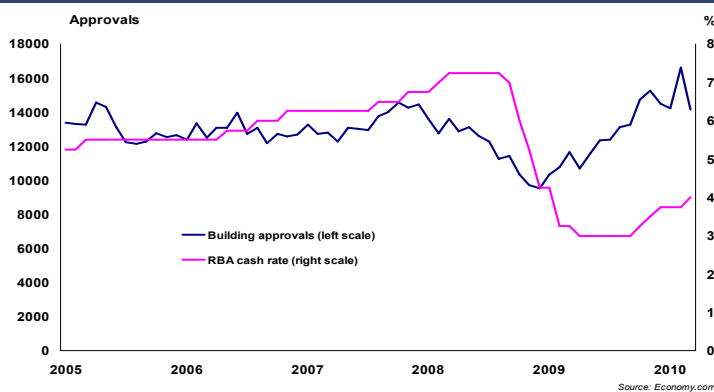
Australian housing market moderates

“Approvals to build new homes sank 14.8% in April”

The Australian Bureau of Statistics releases the retail sales numbers for May on Thursday 1st alongside the latest building approval numbers on the same day. Australian retail sales rose by a firm 0.6% in April, while the March figure was revised higher to show a 0.8% q/q improvement, suggesting consumption is holding up well so far in the face of higher interest rates.

Approvals to build new homes sank 14.8% in April to 14,144, unwinding almost all the previous month's 16.8% jump. Much of the weakness came

Tightening policy is affecting building approvals



in the core private house sector which dropped by 13.5%. Six rate hikes in eight months by the Reserve Bank of Australia (RBA) appear to be dampening demand for dwellings. Indeed, increasing interest rates and the removal of fiscal stimulus, such as the first home buyers grant on January 1st, has seen the approval figures fall three times in the first four months of 2010. Recent home sales data released by the Housing Industry Association showed that, had it not been for specific top up grants for new homes in Victoria, national home sales would have declined in May. In the construction industry residential workloads should pick up in the second half of 2010 as the positive numbers of approvals in the final quarter of 2009 filter through.

Indeed, the RBA held rates steady at the start of the month and indicated in the minutes of their meeting a willingness to take a 'wait and see' approach to further raises. This should provide support to the ongoing recovery in the building sector. RICS expects that, whilst slowing further in 2010, home approvals are unlikely to fall much below their long run average of 13,013 as the economy remains relatively firm. Despite the tightening of monetary policy, the Australian economy still seems to be performing well compared to many other developed G20 countries. The manufacturing PMI survey grew solidly, but eased by 3.5 points to 56.3 in May. However, the result was significantly above the 50 point level separating expansion from contraction. Employment growth was also evident in May, as 27,000 jobs were added, while hours worked also picked up by 2.9%. Stronger labour markets should support a housing recovery in the face of rising interest rates.

“retail sales rose by a firm 0.6% in April while the March figure was revised higher”



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Korean commercial property rents to gain some support from growing employment

“Unemployment dropped sharply in May”

Several pieces of economic data are released in South Korea next week, important to the outlook for the real estate sector. On Wednesday 30th industrial production figures for May are due alongside the latest business survey results for both manufacturing and services. On Thursday 1st inflation and trade data will be released which should give a strong steer as to the potential scope for policy tightening in the coming months.

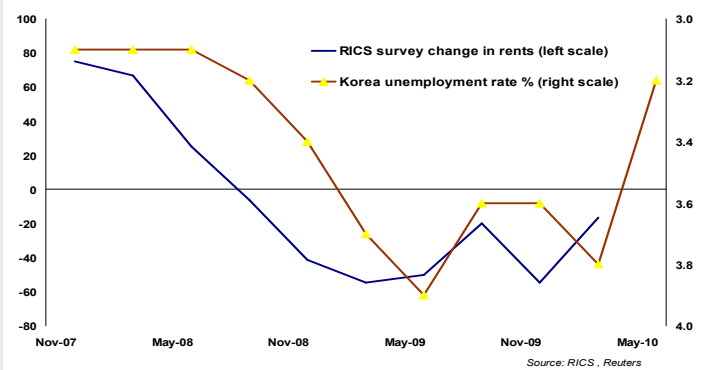
The economic data has been somewhat mixed in South Korea in recent weeks. Industrial output was relatively flat in April on a seasonally adjusted basis, growing by a disappointing 0.2% on the previous month. This was below consensus estimates of 0.5% and follows near 1.7% growth in March. Other indicators which continue to point to a slowdown in the economy include the latest money supply figures and retail sales data. Annual growth in the L2 broad money supply measure was 10.1% in May which was the slowest reading in 8 months. Retail sales fell by a seasonally adjusted 1.7% in April with consumer durables, in particular, slowing further.

Not all indicators are moderating however. Export performance picked up during May with exports to the USA rising at their fastest pace in 6 years. Furthermore, recent sharp falls in the unemployment rate and mounting inflationary pressures at the factory gate have renewed calls in some camps for more immediate action with regard to interest rate hikes. Unemployment fell to 3.2% during May which marks a sharp reversal from the recent peak of 4.8% breached in January. Indeed, commercial property rents are likely to gain some support from the turnaround in the

employment climate in the coming months having witnessed 5 quarters of general declines since Q1 2009 according to the RICS Global survey of real estate agents. RICS feel that on balance, current concerns over the European debt crisis will be the deciding factor in encouraging the central bank to stay its hand with regard to interest rates in the coming months. This should add some further support to the real estate sector and the construction market which has bounced back from earlier declines. Construction output in real terms returned to its earlier peak in Q1 2010.

“..which should support property rents in the coming months”

Unemployment tends to track commercial property rents



US housing price recovery stuttering

“Case-Shiller HPI has remained constant through 2010”

The S&P/Case-Shiller HPI for April will be released on Tuesday 29th. Both the 20 city and 10 city index has flatlined in 2010, with the 20 city index staying around the 146 mark in March, even though 10 cities in the index showed declines, while 8 increased and 2 stayed constant. The 20 city index is 29% below its May 2006 peak, and is currently at late 2003 levels. In the S&P/Case-Shiller National HPI, the Q1 2010 results showed a 3.2% drop from the previous quarter. The removal of government subsidies in April has shown how precarious the current state

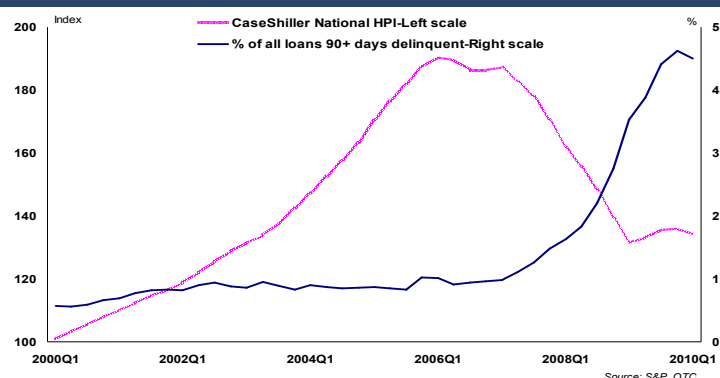
of the housing market is. This was reflected in US new home sales for May, which plummeted to a record 32.7% m/m, falling to a 300,000 unit annual rate, the lowest level since the series started in 1963.

The recently published Mortgage Metrics report by the Office of the Controller of the Currency and Office of Thrift Supervision shows that while seriously delinquent mortgages declined 7.7 % q/q the rate of foreclosures in process increased 8.2% q/q. This led the Treasury department to announce this week that five of the states hit hardest by the slump in U.S. housing prices will soon begin receiving money from a special \$1.5 billion fund intended to head off some foreclosures. State housing agencies in Arizona, California, Florida, Michigan and Nevada can use the money for foreclosure mitigation. The current negative sentiment was also mirrored in the National Association of Homebuilders housing market index for June, which recorded a 5 point drop to 17, snapping a two month gain. This is a timely gauge for future sales and homebuilding, and reflects homebuilders' continuing concern about the stiff competition from existing homes coming onto the market due to distressed sales.

RICS believes that this is a temporary blip in the housing recovery, and that in the coming months, an improving economy, rising employment, low mortgage rates and stabilizing home values should translate into less foreclosures coming onto the market. This, in turn could feedback and support some growth in home prices.

“New government initiatives to tackle foreclosures”

Case-Shiller National HPI declines in Q1



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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