

Growth in Chinese real estate prices to ease further on stimulus withdrawal

“Property prices in China have moderated over the past three months”

A raft of economic data is due in China next week amid some tentative signs that the economy is cooling following the gradual withdrawal of stimulus. On Thursday 10th the latest trade data is due whilst on Friday 11th the bulk of the week's macroeconomic indicators are released including retail sales, inflation and industrial production. Shedding some light on real estate construction activity

will be the fixed asset investment data also due on Friday although the week's highlight will be the urban house price index released on Thursday 10th. RICS expects growth in real estate prices and construction activity to start to ease back over the second half of 2010 as tighter monetary policy raises risk premiums on lending and development activity.

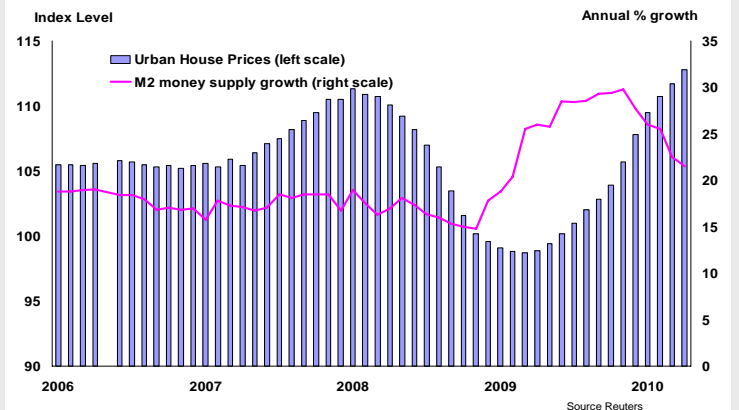
Property prices in China rose at their fastest pace in 5 years in the year to March climbing by 14%. That said, the headline results masked some moderation in the more recent price trend and could suggest that measures to clamp down on speculation are starting to take hold. The house price index which has been running since July 2005 and covers 70 urban centres has seen growth in prices ease to around 1% in the three months to April, which compares to 1.8% in the three months to January.

The slowing trend follows on from a series of property specific regulations rolled out over the last few months such as raising the deposit requirements and lending rates for property purchases amongst other microeconomic policy measures. Concerns over loose monetary policy feeding into higher inflation is being tackled on several fronts with the authorities withdrawing stimulus via the banking sector in recent months. Having surged over the last year, annual growth in M2 money supply is

now running at around 21% down from around 30% breached in November last year. The authorities are targeting a rate of close to 17% and appear to be achieving this in an orderly fashion, so far. The big question remains as to how property prices will respond in an era of liquidity withdrawal. With some RICS agents reporting that yields on commercial property already appear thin, measures to raise the cost of money are likely to limit yield compression without a robust pick up in rental levels.

“further measures to remove stimulus are likely to raise risk premiums”

M2 slowdown points to slower house price growth



Brazilian interest rates likely to move higher again

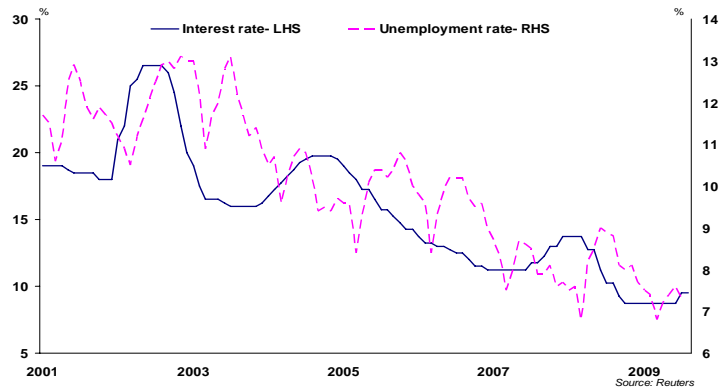
“Unemployment close to record lows with wages also continuing to increase”

The monetary policy committee of Brazil (COPOM) will be meeting on Tuesday 8th. Their last meeting held in April resulted in a higher than expected increase in the Selic rate to 9.5%. RICS believes the coming meeting will result in another hike in the Selic rate of about 75bp as signs of continuing inflationary pressures persist in the economy.

Brazil's inflation quickened slightly in April, pressured by higher food and clothing prices, as annual inflation reached 5.26% in April, up from 5.17% in the 12 months to March and further above the central bank's inflation

target for 2010 of 4.5%. Although inflation compares favourably to the earlier half of the decade where it averaged 8%, loose monetary policy in a historical perspective alongside continued expansion of domestic demand is raising some concern over potential overheating. Add to this historically low unemployment (7.2%) and manufacturing utilization rates running at just a percentage point below their historical high then it would appear that the degree of market slack in the Brazilian economy is slim. Indeed, the continued inflationary pressures in the Brazilian economy are reflected in the latest RICS Global Property Survey where rental expectations are rising at the fastest pace of any of the 40+ countries included in the report.

Interest rate well below long run average



In the housing market, Caixa Economica Federal, Brazil's largest mortgage lender, increased its forecast for lending growth in 2010 to 40% from 35%, a further sign of support for transaction activity in the coming months. A likely hike in the Selic rate should not have an adverse effect on the property market as borrowing costs such as mortgage rates are linked to the nation's reference rate, known as the TR and not the Selic rate. A recent study by Credit Suisse Group AG estimates that if the central bank increased the Selic rate by 2.5 percentage points, the reference rate would rise by only 0.4 percentage points. Hence long term loans are not being overly affected by what are increases in short term interest rates. That said, should inflation expectations become dislodged then a more pronounced rise in longer term borrowing costs could result, a situation which the central bank will be keen to avoid.

“Inflationary pressures will continue to weigh on the minds of policymakers”



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Canada lifts interest rates as house price recovery continues

“Canadian GDP rose at its fastest pace in Q1 since 1999”

Several pieces of key housing data are released in Canada next week. On Tuesday 8th the latest housing construction numbers are due whilst on Thursday 10th, the April figures for new house prices will be released. The imminent housing data follows ongoing improvements in the Canadian economy which appears to be supporting more activity in the real estate sector. Indeed, following on from strong GDP growth numbers on Monday, the

Canadian Central Bank was the first of the G7 countries to lift interest rates this week, a move that was widely expected given the turnaround in economic performance. RICS expects next week's construction figures to continue to trend higher as strengthening labour markets shore up confidence and demand in the sector.

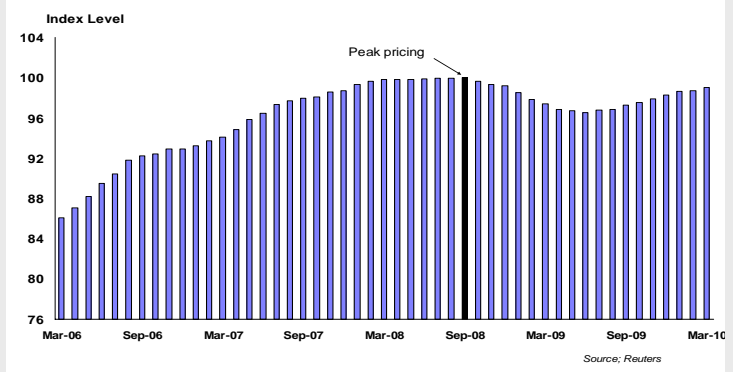
Canadian GDP rose by 6.1% on an annualised basis in the first quarter. This was the largest increase on this measure since 1999 and followed on from 4.9% growth in Q4 2009. Indeed house prices in Canada, having fallen a mere 3.5% in the 9 months to June 2009 have retraced earlier declines and now sit only 1% below the September 2008 market peak. Accompanying the improvements in the pricing backdrop has been a recovery in construction activity. Housing starts climbed by 1.3% to 201,700 on an annualised basis in April. This was only the second time that housing starts have breached the 200,000 mark since November 2008.

A breakdown of the figures show some variation among the type of property being built despite the overall headline rises. The multi-dwelling category which includes flats rose by 27% to around 98,000 units

(annualised) although the single family home category actually fell by 12.7%, which were the first falls in 11 months. Lower interest rates appear to be helping to cushion the sector from a prolonged period of price declines such as those which were seen in the aftermath of the previous correction in March 1990. On that occasion it took 12 years before prices had returned to their earlier highs having fallen by 10% in the year to February 1991.

“indeed the housing market is already close to peak pricing of 2008”

Canadian house prices have recovered quickly



New Zealand's housing market showing signs of moderation

“Housing transaction activity slowed during April”

House price data for May is released in New Zealand on Monday 7th and is followed by the Reserve Bank of New Zealand (RBNZ) meeting to decide the official cash rate on Thursday 10th. Having fallen during 2008 and the first half of 2009, house prices have recovered most of their earlier falls over the last year. Residential property price data, published by Quotable Value (QV), a government agency, reported that values had risen 6.1% in the year to April. This was reinforced by data released by the Real Estate Institute of New Zealand

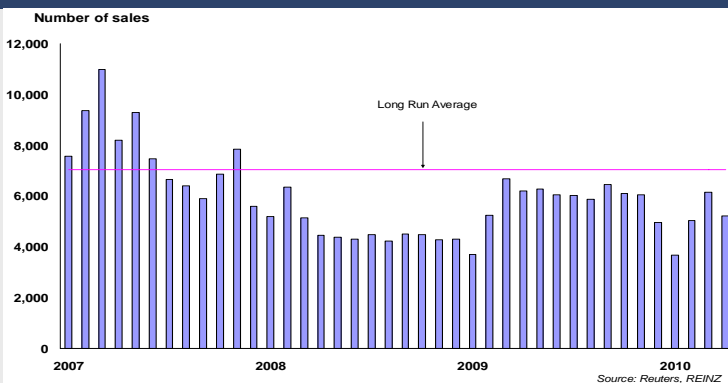
(REINZ) in mid May, as their monthly house price index showed a broadly similar trend, with prices improving by 4.7% over the last year. The overall improvements have lifted the construction sector; building consents for April continue to show a marked improvement, picking up by 8.5% month on month.

Despite the improvements to the QV headline reading, prices still remain 3.9% off the market peak in late 2007. Significantly, recent months have seen a turnaround to this generally upward trend. The number of transactions per month declined in April, dropping from 6,161 in March to 5,207. Furthermore, the latest REINZ data showed that prices fell from March to April by 1.2%. The slowing in housing activity could be down to monthly volatility although other indicators of the economy are also easing back. Despite the government raising its growth forecast for 2010/11 in the recent budget to 3.2% (up from 2.4% previously) data on the economy remains mixed. The latest NBNZ business confidence survey which was released on Monday 31st showed business confidence retreated slightly in May, with sentiment amongst respondents falling to 48.2% from 49.5% in March.

Whilst the economic picture remains clouded RICS expects the RBNZ to exercise caution when it meets next week given recent turbulence in world stock markets . As a result, we expect no change in the cash rate at next week's meeting.

“Whilst prices also fell back slightly on some measures”

House Sales remain below the long run average



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