

Rebound in Canadian home prices and construction to continue

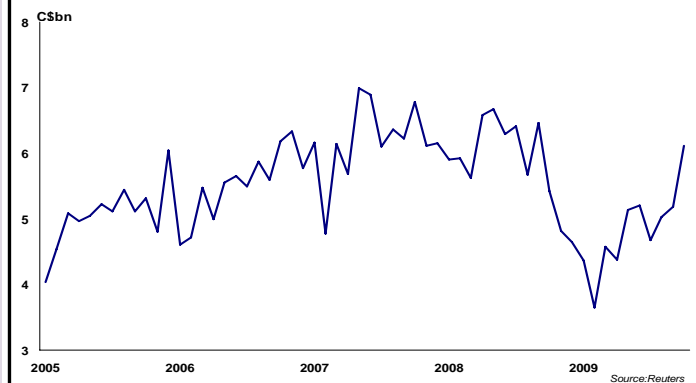
“In November, housing starts climbed to their best level for the year”

“Home prices are barely 2% away from the September 2008 high”

- A raft of data relating to Canadian real estate is due for release over the next week. On Monday 11th, figures on housing starts and building permits are published. This will be accompanied by the latest Bank of Canada Senior Loan Officers Survey. Following on from this on Tuesday 12th, the November new home price index is due to be published. In November, housing starts climbed to their best level for the year providing further evidence that the residential construction sector is now clearly on the mend after the collapse in activity in the latter part of last year and the first half of 2009. Indeed the December data could see the seasonally adjusted annualised number of starts climb back above 160,000 for the first time since the tail end of 2008.
- Building permits have rebounded even more smartly with the last number (for October) hitting the highest level since September 2008. Significantly, non-residential permits have been climbing particularly strongly lending further weight to the argument that the recession is over. Permits for non-residential buildings jumped over 40% in the latest release. Meanwhile, the Senior Loan Officers Survey for Q4 is likely to show that lending conditions have finally begun to ease in a modest way.
- The November new home price index should register a fifth consecutive monthly increase when it is published the following day. This will leave house prices less than two per cent away

from the high reached in September 2008. Quebec was the strongest performer rising more than one per cent over the month; supply scarcity has pushed prices in the province up more 7% over the past year in stark contrast to the generally more downbeat tone elsewhere, where prices still remain below the level of a year ago. The Bank of Canada remains committed to holding interest rates at just 0.25% until at least the end of the second quarter of 2010 which should help the more positive trend in home prices to be sustained in the near term.

Building permits have sprung back particularly sharply



Chinese data pointing to ongoing recovery

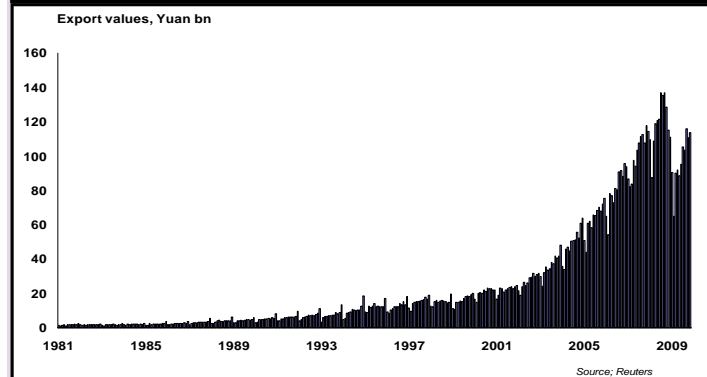
“The upturn in real estate prices has been supported by monetary stimulus”

“...and ongoing caution on tightening should support prices in the coming 6 months”

- Several pieces of economic data is released next week in China which will be critical for the outlook for the real estate sector. On Monday 11th, December readings for fixed asset investment, inflation, retail sales and industrial production are released. RICS expect the numbers will confirm that the economy continues to gain momentum with further improvements across the board. The inflation number will be the most critical one to watch in the list, as a further upside surprise could intensify the debate as to when monetary tightening will need to be stepped up more aggressively. The strength of Chinese exports will also be gauged on Monday as trade balance data is released with further improvements expected.
- The onset of the financial crises prompted an accelerated shift in Chinese economic policy towards stimulating domestic demand which may now need to be reversed in a measured way. The massive monetary stimulus fuelled a sharp rebound in real estate prices in both the commercial and residential sectors. Despite worries over a renewed asset bubble, central bankers in the emerging Asia region have been keen to temper optimism. Indeed, the emphasis has been on highlighting the fact that notwithstanding the recent recovery in Chinese GDP, exports across the region remain some way below their pre-crisis peaks.
- Chinese export levels are around 15% below their 2008 high in nominal terms. With the strength and duration of the global

economic recovery still open to question, it remains to be seen whether the degree of interest rate tightening currently priced into markets will transpire. Erring on the side of caution should support ongoing asset price rises in the coming 6 months. A further complication for policy makers remains the importation of loose US monetary policy through management of the exchange rate which has been held steady during 2009. That said, renewed upward pressure on the Yuan is likely during 2010 which may also reduce the need to tighten policy as aggressively.

Exports remain below 2008 highs even in nominal terms



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Australian housing finance set to rise again in November

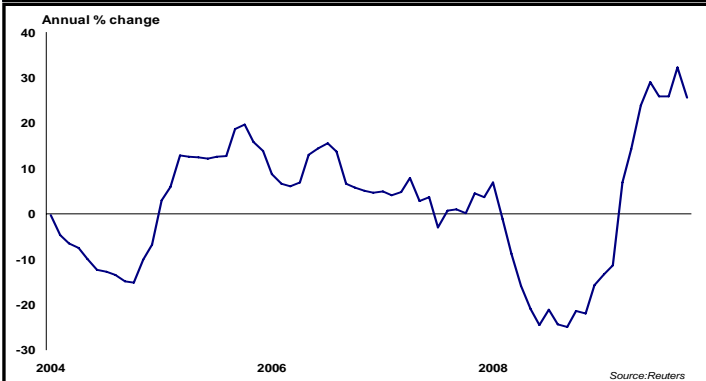
“November housing finance commitments will have benefitted from the decision to extend the Boost”

“Approvals to build new homes have been surprisingly robust”

- A further update on the state of the Australian residential property market will be provided by the release of housing finance data for November on Tuesday 12th. Later in the week (on Thursday 14th), unemployment data for December will also be closely watched particularly given that the Reserve Bank is now in the process of reversing its accommodating monetary stance. Although the value of housing finance slipped back a little in October, it still stands within 4% of the January 2008 high. Government policy has played a key role in underpinning the property market which has helped to limit the downside to house prices, in marked contrast to developments in the US and the UK. Indeed, the Q3 figures showed the headline house price index moving to a new all time high.
- The November housing finance data could recover much of the previous month's 1.4% decline as it will have benefitted from the decision of the authorities to extend the First Home Owners Boost until the end of the year. Significantly, numbers released in the first week of the new year for approvals to build new homes were surprisingly robust. The 5.9% rise in November lifted the level of activity to its highest point since April 2008. This is likely to provide some comfort for the Reserve Bank of Australia which has noted in the recent past that it would be 'disturbed' if low interest rates only led to higher home prices and not more new development.

- More positive news is likely with the publication of the December labour market release. Unemployment currently stands at its lowest point since April last year with the total number of jobs rising for three consecutive months. Although consumer interest rates are rising somewhat faster than the official interest rate structure, helping the Reserve Bank to achieve its goals more quickly, the likelihood is that a further modest tightening in policy will be sanctioned when the authorities meet in February.

Australian housing finance commitments



Brighter outlook for German housing market

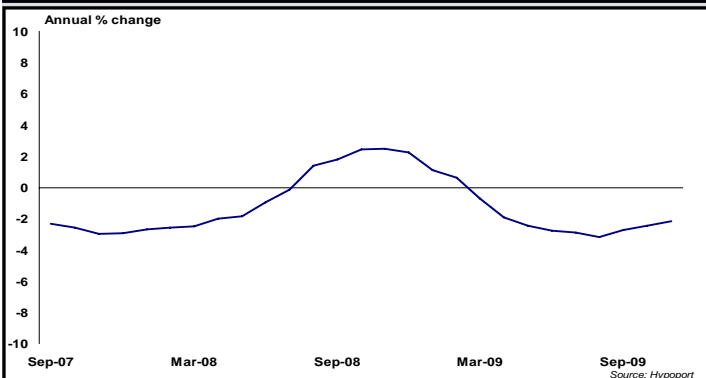
“The economy is recovering...”

“...and worker productivity is falling”

- German house price data for December is due from Hypoport next week. The November headline index was down by 2.2% y/y but prices are currently rising by 2.7% on an annualised basis (three month on three month).
- The stability of German house prices since the financial crisis is due, in part, to the following factors. First, mortgage lending has been stable, both ahead of and following the global financial crisis (it is currently flat on year ago levels). Second, there was no building boom. Residential investment as a share of GDP currently stands at 5.5% and has been below its long run average (6.5% since 1991) since Q1 2001. Finally, government emergency measures to support the economy i.e. the short time workers scheme, have limited the rise in unemployment, which is now falling (currently 7.5% down from its June peak of 7.7%). The scheme involves full time workers agreeing to work part time in return for not being made redundant with the government compensating the shortfall in their earnings.
- The 2010 outlook for the German housing market is brighter. This is partly due to recent the extension of the short time workers scheme until the end of 2010 (it was previously due to expire at the end of 2009). It is also partly due to improving labour market and macro economic fundamentals. Indeed, the

December Markit EU productivity PMI showed that German output per head increased at the fastest pace since February 2006, due to the recovery in the manufacturing sector (the manufacturing PMI reached 52.4). The rebound in the economy is also coinciding with a fall in unemployment expectations, which in December slipped to their lowest level since December 2008 according to the European Commission. Renewed policy support, improving fundamentals and confidence are likely to be supportive for the housing market.

German house prices has been relatively stable



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