

European debt crisis to impact property

“European sovereign debt crisis is bad news for property in peripheral markets”

The sovereign debt crisis in peripheral Europe has re-intensified over the last week. The market's attention is primarily focused on Ireland (see chart), but contagion risks are spreading to other countries, most notably Portugal. Given these developments, a pertinent question is what the likely impact will be on

property within these markets.

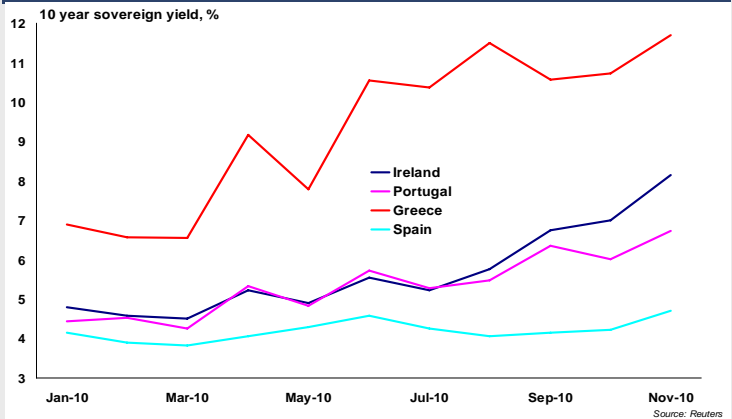
There are at least three channels through which the latest bout of financial stress is likely to pass. First, it is likely to be transmitted directly to the property market through the banking system, culminating in both a reduction in the demand for, and supply of, credit. On the one hand, the sharp increase in risk premia is likely to be reflected in higher lending rates and at the same time, is likely to reduce banks' balance sheets and therefore weaken their capital ratios. Beyond this direct impact, the additional fiscal measures, in terms of more tightening and/or the front-loading of tightening measures already announced, are likely to further restrain household and business spending. Such measures are likely to be delivered irrespective, either as the conditions of any eventual bail-out or the cost of doing business with the markets. Finally, the combination of an impaired financial system and additional fiscal measures is likely to weigh heavily on business confidence, hiring and therefore, demand for property. Not only does less hiring/more firing imply weaker occupier demand in the commercial property sphere, but it also means weaker housing demand. Interestingly, the Q3 results of the RICS

Global Commercial Property Survey continue to highlight weak sentiment in Ireland, Portugal and Greece.

Over the remainder of this month, there are several data releases worth watching. The monthly M3 lending data, due Friday 26th, will give a feel for levels of household and corporate borrowing. Following this, the economic sentiment surveys published by Eurostat, which also contain national breakdowns, are due Monday 29th.

“Less bank lending, more fiscal austerity and weak confidence will hold bank spending”

Sovereign stress in some countries has intensified



Inflation concerns in Brazil

“Unemployment hits a new low”

The coming week sees the unemployment rate for October released on Thursday 25th. The previous month saw the unemployment rate drop from 6.7% to 6.2%, the lowest value since the series started in 2002. The better than expected labour figures also showed a surge in real wages, which will increase calls for the central bank to resist inflationary pressures building in the

economy. Indeed, the IPCA (CPI) accelerated in October to 5.2% from 4.7% in September, while core CPI is at its highest rate since May 2009 (5.15%). However, even if Banco Central do Brasil raise interest

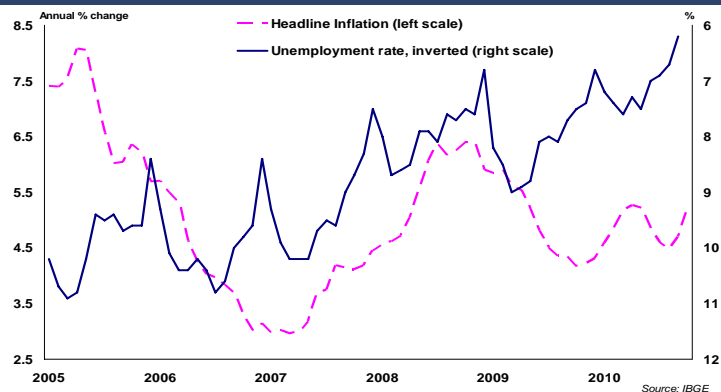
rates, it is debatable how much this will slow domestic inflation, given that it is being driven by high commodity prices and a major public spending programme (two factors unlikely to be directly affected directly by monetary policy). On this, the Finance Ministry appears unwilling to shoulder some of the responsibility for the current inflation picture; Finance Minister Guido Mantega recently indicated that tighter fiscal policy should go hand in hand with tighter monetary policy to bring inflation back under control. Given these two bodies remain at odds on this issue, inflation is likely to remain elevated for some time.

Moreover, hiking interest rates is unlikely to slow the commercial property market given current momentum in capital values, the strength of the underlying economy and the large inflows of foreign capital attracted to the region. Indeed, the Q3 RICS Global Commercial Property Survey (GCPS) highlighted Brazil as having the strongest capital value expectations in the world and close to the strongest rental expectations.

Looking ahead, the Brazilian commercial property market is likely to continue to boom in the near term. Not only is the prospect of strong capital inflows unlikely to dissipate anytime soon – on the contrary it may even intensify – but with diminishing slack in both the economy and the commercial property arena, the market looks well supported. Indeed, the RICS GCPS also highlighted that availability continues to fall sharply.

“Inflation on the rise, with October CPI at 5.2%”

Unemployment at record lows



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Singapore residential property cooling on targeted measures

“Residential property price growth is slowing”

An update on the Singapore economy is due next week with the release of the latest inflation and industrial production data on Tuesday 23rd and Friday 26th respectively. The data will provide an opportunity to gauge the likelihood that more cooling measures will be enacted in the property sector to prevent any further signs of overheating in the

economy. As one of the most open economies in the world, the Monetary Authority of Singapore (MAS) manage the Singapore dollar to effectively tighten or loosen monetary policy. At October's meeting, MAS decided to widen the currency band, citing growing concerns over the potential for financial market volatility in the coming months. Targeting the residential property sector in particular, it appears that earlier specific measures to increase down payments, decrease loan to value ratios and the extension of stamp duty are having an impact.

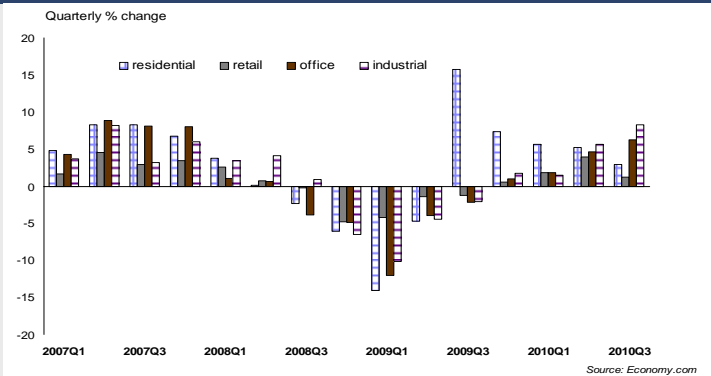
The latest property market report from the Urban Redevelopment Authority showed that quarterly growth in residential prices eased to 3% in Q3 which was half the pace of the previous two quarters. The slowdown is not visible across all sectors of the property market however. In the commercial market, office and industrial sectors saw an acceleration in capital value growth during Q3 rising 6.2% and 8.3% respectively although in the retail market price growth eased to 1.6%.

The latest price developments mirror the mood reported in the most recent survey of Singapore property agents by RICS in the Q3 Global

Commercial Property Survey. Capital value expectations going into Q4 are strongest for offices followed by industrial and retail. Interestingly, it appears that improvements which have been slow to come through on the occupier side to date have bolstered expectations towards both rents and capital values into Q4. Available space to occupy, which had been rising consistently since Q2 2008 stabilised for the first time in over 2 years in Q3 2010.

“although commercial prices are picking up on improvements in the occupier markets”

Industrial property was the strongest price growth in Q3



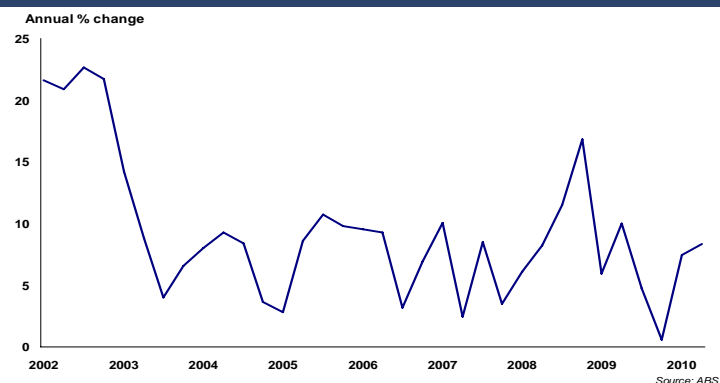
Construction activity in Australia likely to moderate

“The total value of construction work rose 3.5% to \$42bn in Q2 2010”

Construction data is released on Wednesday 24th as the Australian Bureau of Statistics publishes construction work completed for Q3. The release is likely to draw interest as it is set to give a good indication of Q3 GDP, which is released the following week. Indeed, construction contributed 0.3 percentage points towards the 1.2%

growth in output between Q1 and Q2. The total value of construction work rose 3.5% to \$42bn in Q2, which amounted to a new high. Compared to a year earlier, the pick up in work completed was 8.3%.

Construction work completed has risen sharply in 2010



In Q2, the private sector picked up where government stimulus programmes left off as total private construction spending climbed 4.7% to \$16bn; meanwhile the value of public sector building projects appears to have reached a plateau. Indeed, the contribution of total building work completed made up over 50% of the value of all construction. Interestingly, residential construction made up the bulk of completed workload. New residential construction and new house construction increased by 8.7% and 6.7% respectively, while other new residential construction picked up by 13.4% in the three months to June.

Despite the pickup in activity, the Q3 result is likely to be tempered by less positive news-flow since the end of June. Since June, the Performance of Construction Index has trended below the critical 50 point level that separates expansion from contraction. Meanwhile, the number of dwelling approvals not yet commenced, which can be seen as a proxy for future activity, has been steadily in decline. The number of building approvals not yet commenced for all territories declined 3.6% in Q2 to 43,799; the lowest since Q3 2003. This is in line with the latest dwelling approvals data which has been trending downwards of late. Incidentally, October's figures are released Tuesday 30th. Looking ahead, the decline in activity has moderated since September, but it remains unlikely that the growth in construction work done will be as strong as that seen in Q2.

“Moreover, the construction index remained below the critical 50 points level that separates expansion from contraction”

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