

Hong Kong Monetary Authority announce new measures to cool market

“On Friday 19th the HKMA suddenly tightened purchasing regulations...”

Conditions in the Hong Kong housing market have come under the microscope in the last week, with officials concerned that asset prices are continuing to rise on the back of speculative purchases. In light of this, on Friday 19th the Hong Kong Monetary Authority (HKMA) suddenly tightened purchasing regulations by

announcing further measures aimed at stifling the boom in property. Significantly in view of this, the October mortgage survey from the HKMA is due for release in the coming week.

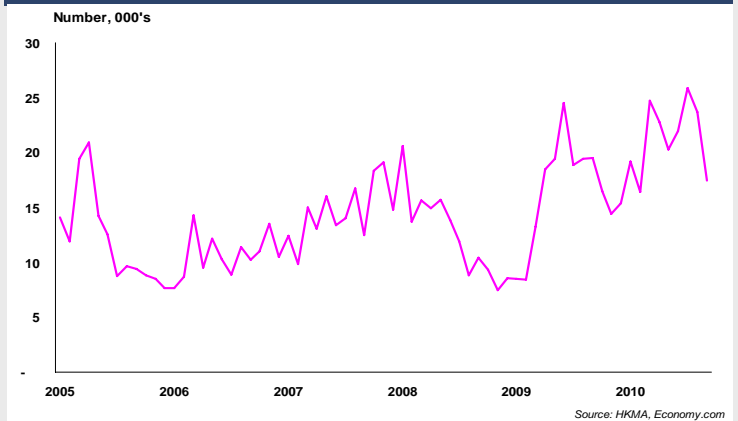
September's mortgage survey results indicated a slowing in activity, as both the number of loan applications and loans approved fell sharply from the August results. The number of applications fell 26% from August to 17,459, while new loans approved dropped 19% to 13,893. Despite these seemingly large declines, the September figures for both are still some way above their long run average (the averages since April 2004 are roughly 14,000 and 10,000 respectively).

So far, the HKMA has been not totally impressed by the impact on the property market of the measures announced in late August. Despite the downturn in activity, a series of additional steps have now been announced. These are: 1) lowering the LTV ratio for properties with a value of HK\$12m or above from 60% to 50%. 2) Lowering the LTV ratio for properties with a value at or above HK\$8m and below HK\$12m from 70% to 60%, with the maximum loan amount will be capped at HK\$6m. 3) Maintaining the LTV ratio for properties with a

value below HK\$8m at 70%, but the maximum loan amount will be capped at HK\$4.8m. 4) Lowering the LTV ratio for all non-owner-occupied residential properties, properties held by a company and industrial and commercial properties to 50%, regardless of property values. The effects were immediate as Centaline Property reported that second hand property sales fell 83% over the weekend.

“...the effects were immediate as property sales fell 83% over the weekend”

Loan applications have reversed increases of early 2010



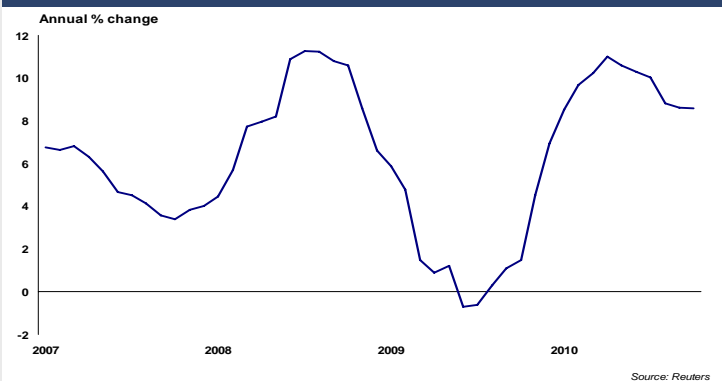
India rate hikes on hold but not for long

“RBI have suggested no rate hikes in December”

Indian GDP data for the third quarter is due for release on Tuesday 30th which should provide some focus as to whether the ongoing recovery in the Indian economy is losing momentum. The Reserve Bank of India (RBI) has raised the repo rate by 150 basis points since mid-March in their battle against high and sticky inflation. Recent comments however from the RBI

suggest that a slowdown in some key economic data such as industrial production and export orders of late are likely to prompt a pause in the monetary tightening cycle in the immediate future.

Indian inflation remains stubbornly high



Indeed, RICS expect no further increase at December's meeting as the RBI monitor the effects of previous monetary tightening.

The RBI face dual challenges in the coming months as the recovery in the economy has yet to kick start the investment cycle. Indeed, non-oil imports have been declining in recent months suggesting that the importation of capital goods, a lead indicator for business investment remains tepid. Despite worries over weaker growth, as previous interest rate hikes filter through the economy, the inflation picture remains far from benign.

Wholesale price inflation has remained high and sticky in recent months with survey evidence suggesting that price pressures at the start of the production chain are currently being absorbed in company profit margins. Significantly, food inflation remains a concern due to its more pertinent potential to spill over into rising inflation expectations. With trade data and manufacturing surveys also released on Wednesday 1st, any sign that non-oil import growth is starting to recover could be the signal of yet more tightening in early 2011. This would be consistent with the commitment to bringing inflation down to the targeted 5-6% range by fiscal year end. As such, despite the RBI's recent comments regarding interest rates, the property market may yet feel more strain from further rate hikes in early 2011.

“although high inflation could see rate hikes in early 2011”



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European sovereign debt crisis poses challenges for Europe

“European sovereign debt crises poses growth risks for the region as a whole”

The manufacturing PMI surveys for Germany, France, Italy and Spain are due on Wednesday 1st with the service sector readings out on Friday 3rd. These surveys have been highlighting two features of the recent activity trend. First, the pace of activity is strengthening in the manufacturing sector, but slowing in the services sector. Second, activity is

principally being driven by the regions core economies Germany and France; it remains subdued in the peripheral countries, Spain, Ireland, Portugal and is already contracting in Greece.

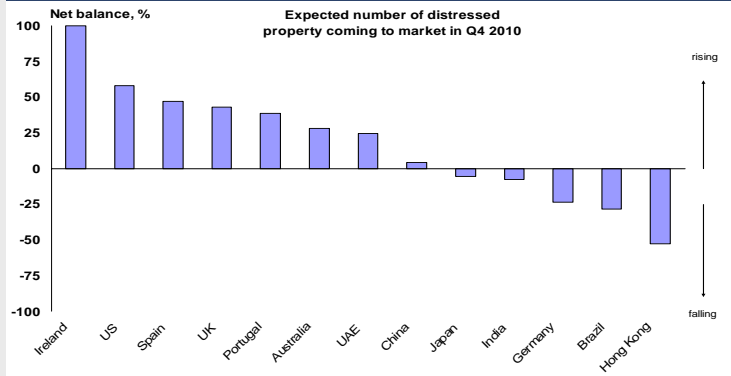
The re-intensification of the sovereign debt crisis in Europe in recent weeks has put further strain on these economies. The proximate cause was Germany's coalition government backing proposals to make bond holders pay for any future euro zone crisis. In the event, peripheral government bond yields rose sharply, culminating with Ireland turning to the IMF/EU for financial assistance. However, contagion risks remain highly elevated, with the market's focus increasingly turning to Portugal.

The speed and severity of the recent crises increases downside growth risks for the region as a whole. Indeed, renewed uncertainty, if sustained, is likely to be a drag on business and consumer spending. Additionally, the core European economies have large direct and indirect exposure to the peripheral economies through their bank sector's holdings of government bonds and local lending operations. Large scale losses incurred directly or indirectly, will ultimately reduce

their capacity to lend in the region as a whole. The RICS Q3 Global Distressed Property Survey sheds some light on which countries any potential losses are likely to be concentrated in from a commercial property angle. In Q3, Portugal ranks top of the list globally, followed by Spain and then Ireland. Moreover, the forward looking component of the survey indicates the level of distress in these markets is likely to intensify in Q4, though most acutely in Ireland.

“Commercial property losses are likely to be concentrated in Ireland, Portugal and Spain”

Commercial property distress expected to worsen in Ireland



US housing market recovery likely to take longer than anticipated

“Case-Shiller house price index up 1.6% on the year”

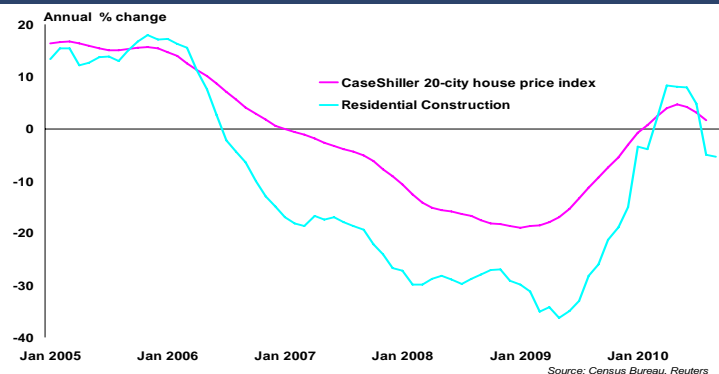
The coming week sees the release of the September Case-Shiller house price index (HPI) on Tuesday 30th. The following day the Census Bureau publishes construction spending for October. After a strong second quarter, which saw the 20-city HPI climb over the period, house prices have been inching downwards, with July and August recording falls bringing the annual

growth rate to 1.7%. Residential construction spending paints a similar picture, with strong mid-year growth and a downturn in the last couple of months. With October's new and existing home sales data showing

falls, we agree with the recent minutes of the Federal Reserve's monetary policy meeting that the still-low level of demand suggests that the payback for the earlier boost to sales from the homebuyer tax credit has not yet faded.

Another factor holding back demand is employment, or rather the lack of it. With the unemployment rate broadly unchanged from the start of the year at 9.6%, non-farm payrolls data for November released next week will give us an indication as to whether October's improvement (159,000 private sector jobs added) is sustainable. The consensus view is that 125,000 jobs need to be created on a monthly basis just to keep the unemployment rate constant, which currently translates into 14.6 million people out of work.

House prices stagnant



Indeed, the minutes from November's meeting underlies the Fed's concern about the housing market with the majority of participants anticipating a more drawn out recovery in the residential property sector. Significantly, the minutes contained details of an unscheduled meeting in October, where the Fed discussed the potential costs and benefits of setting a target for a long-term interest rate. This could possibly indicate the future direction of monetary policy in the case that the current quantitative easing (\$600 billion) will not sufficiently stimulate economic activity.

“Unemployment rate remains broadly unchanged from start of the year”

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