

Malaysian commercial property rents no longer falling

“Malaysia’s economy is expected to expand by around 6% in 2010 following a 2% contraction in 2009”

Next week sees the release of the latest trade data for Malaysia. On Tuesday 3rd the trade balance is due which may give some indication as to whether the economy remains on a recovery path, despite concerns over the spill over impact of the European debt crisis on global trade. Malaysia’s economy is officially expected to

expand by around 6% this year which follows on from a contraction of 2% during 2009. The recovery in Malaysia has however been underway since mid 2009. GDP, having fallen by 11% in the 6 months to Q1 2009, has regained 9% in the subsequent 9 month period to Q4 2009. As a result, the Central Bank of Malaysia (BNM) has been lifting interest rates in recent months to bring them to a more “normal” level.

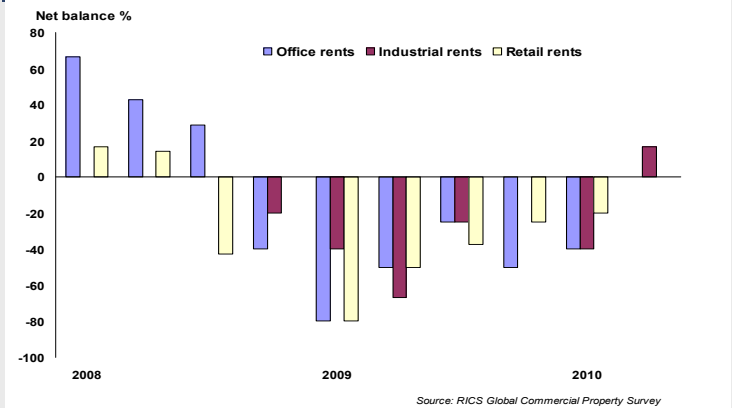
Having cut interest rates by 150 basis points from 3.5% to 2% during the worst of the financial crisis, the BNM has hiked rates 3 times this year by a total of 75 basis points taking interest rates back to 2.75%. Despite this, RICS expects the ongoing recovery in the Malaysian economy to support the commercial property market in the second half of 2010 as greater lettings activity starts to exert upward pressure on rents.

Last week’s results of the RICS Global Commercial Property Survey show that the recovery in the Malaysian lettings market continued into the second quarter, with surveyors indicating that rents are no longer falling for the first time in 2 years. Indeed a modest upturn in rents was reported in the industrial sector with rents for offices and retail

premises now stabilising. Despite the improved activity in the lettings market, the rise in interest rates and worries over the strength of global economic activity may have tempered some investment transaction activity in Q2. Investment demand fell back modestly across all three sectors during Q2 2010 although capital values continued to move higher.

“The recovery in the economy is underpinning a commercial property recovery”

Rents are no longer falling across all three sectors



Russian commercial property market robust, but uncertainty lies ahead

“The Russian economy is performing well at the moment, which has supported the property market”

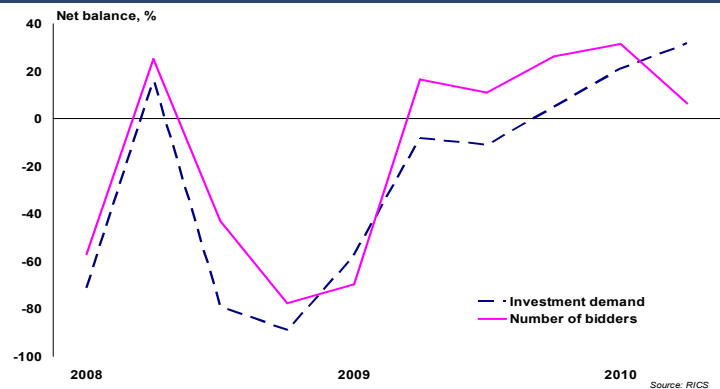
The Russian manufacturing PMI survey for July is due on Monday 2nd. In June, it rose to 52.6 from 52 in May, indicating the fastest rate of expansion in over two years. The detail of the survey revealed that manufacturing output is being driven by strong domestic demand; external demand has stagnated, as indicated by the new export orders sub-index reading of 50.1. On Wednesday

4th, the services PMI survey for July is due. The June reading fell to 55.4 from 55.9, indicating the service sector continues to expand, but

at a slightly less vigorous pace.

The robust pace of expansion in the Russian economy has fed through to the commercial property market during the first half of the year. However, there are some signs now emerging that the occupier as well as the investment market may be starting to cool, as indicated by the Q2 results of the RICS Global Commercial Property Survey. New development completions increased in Q2, which may partly explain the slowdown in rental growth and pickup in tenant inducements. Meanwhile, growth in the number of investment bidders decelerated sharply which, combined with the increase in development completions, explains the slowdown in capital value growth.

Russian investor sentiment looks like it is cooling



Looking forward, the Russian commercial property market will depend upon the outlook for the economy. The PMI data suggest that GDP will increase by 1.2% in the second quarter alone, which helps explain why rental expectations, according to the RICS survey, are amongst the highest in Europe. However, there are louder calls that fiscal consolidation plans need to be brought forward, although these plans are facing mounting political resistance because of the parliamentary elections in late 2011 (and presidential elections in early 2012). In all probability, significant fiscal consolidation will be postponed until after the elections, but the uncertainty during the interim is likely to weigh on sentiment in the investment market.

“But talk of fiscal consolidation and upcoming election uncertainty poses risks to the outlook”



the mark of property professionalism worldwide

rics.org/economics

US construction sector bottoming out

“Tax credits have had the same effect on construction activity as they had on home sales”

The US Commerce department publishes its June construction spending figures on Monday 2nd. Total US construction spending lost some of the gains it made in April, by falling slightly by 0.2% in May. Residential construction tells a similar story, with earlier gains being eroded with a 0.4% drop in May, although still 11.2% higher than a year ago. In describing the outlook as

‘unusually uncertain’ the Chairman of the Federal Reserve may also have been referring to the construction sector.

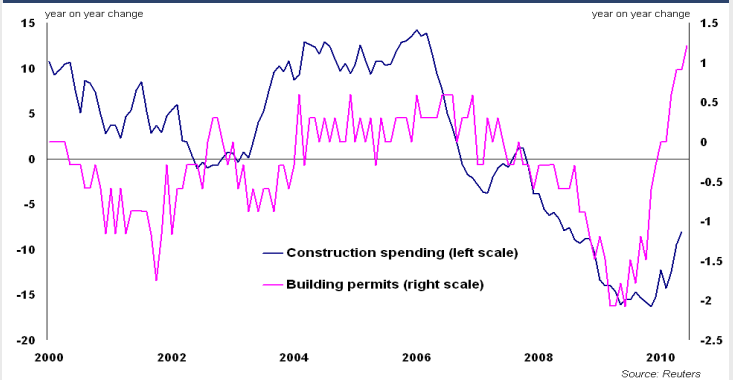
Indeed, housing starts dropped 5% m/m in June to 549,000 units, an 8 month low. This was the second consecutive fall in housing starts after the May figures were revised downwards to a 15% m/m drop. While housing starts increased 15.7% between the end of 2009 and April 2010, they dropped below the Q4 2009 average level in both May and June. This clearly suggests that the homebuyer tax credit has had the same effect on homebuilding activity as it has had on sales.

Although building permits did rise in May by 2.1%, this was mainly due to the surge in the highly volatile multi-family component. Single family permits actually fell 3.4% and are running below single family housing starts, a negative signal for near-term construction activity. One factor that should provide some support is that new starts have been consistently below new home sales. Hence, new home inventory has been falling, and now stands at multi-decade lows of about 7 months. This should stimulate modest construction activity in new housing

starts. But with the latest National Association of Home Builders index declining to 14, the lowest reading since February, builder confidence is still low. This reflects home builders’ continued caution due to the large number of foreclosures still coming onto the market. We view the recent flow of data as indicative of the residential construction market finding a bottom after the expiry of the tax credit.

“Builders confidence still low due to large number of foreclosures coming onto the market”

US Construction spending declines



Australian real estate sector cools

“The cash rate decision will likely be determined by the recent Q2 CPI inflation data”

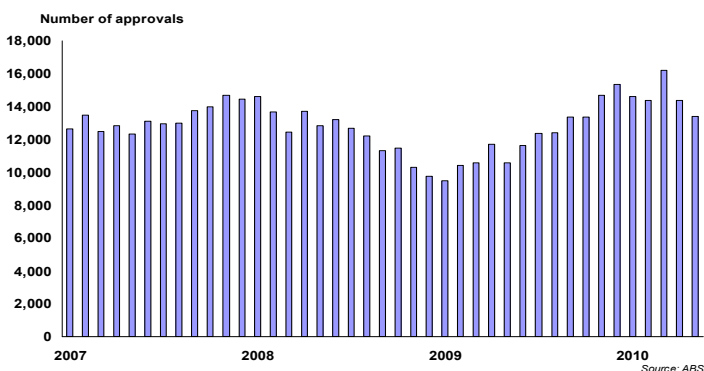
A busy week in Australia approaches as the Australian Bureau of Statistics (ABS) release both building approvals and retail sales for June on Tuesday 3rd. On the same day the Reserve Bank of Australia (RBA) meets to decide the cash rate, and finally the Q2 house price index is published by the ABS on Thursday 5th. The cash rate decision is likely to be determined by the recent Q2

CPI inflation data; inflation in the year to June 2010 increased by 3.1%

which, while being above target, was below most economists’ expectations. Indeed, in the minutes of the last meeting Governor Stevens indicated that a rise above 3% would not trigger an automatic hike in rates, and a rise in prices would likely be attributed to a jump in food and tobacco prices. Given this RICS do not anticipate a rise in August, but hikes before the year end could yet materialise.

Recent data suggests that the six increases between October and May have been felt in the housing market where home prices have cooled and dwelling construction has also suffered. The ABS house price index showed prices rose by 4.8% in Q1, but the pace is moderating; growth was down from 5.1% in Q4 2009, while building approvals in May fell 6.6% to 13,412, following an 11.4% fall in April. Despite this, building approvals remain above their long run average (of roughly 13,000) and RICS still expect approvals to remain above this in each month for the rest of 2010.

Building approvals have been falling



The retail sales figures have been subdued of late with monthly growth of 0.2% in May, down from a 0.6% increase in April and 0.8% in March. Consumers seem to be reacting to rate hikes by holding back on spending and taking advantage of higher interest rates to save. RBA officials hope this could offset the inflationary impact of higher utility and food prices.

“Building approvals in May fell 6.6% to 13,412, following an 11.4% fall in April”

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

This newsletter contains economic and property news and analyses, edited by RICS. It should not be relied upon as professional advice and RICS accepts no liability for reliance on its contents.



RICS

the mark of
property
professionalism
worldwide

rics.org/economics