

Stronger H2 in store for French builders, but downside risks mount for 2011

“Strong economy is lifting construction orders...”

An update on French builders' sentiment during August is due from INSEE on Thursday 23rd. The July data had conveyed a tone of very weak, but slowly improving confidence in the sector. Indeed, the headline business climate index picked up slightly from 92 to 94, but this is only 4 points above its crisis low point (90

reached in June 2009) and well below the pre-crisis peak of 114 (in February 2008).

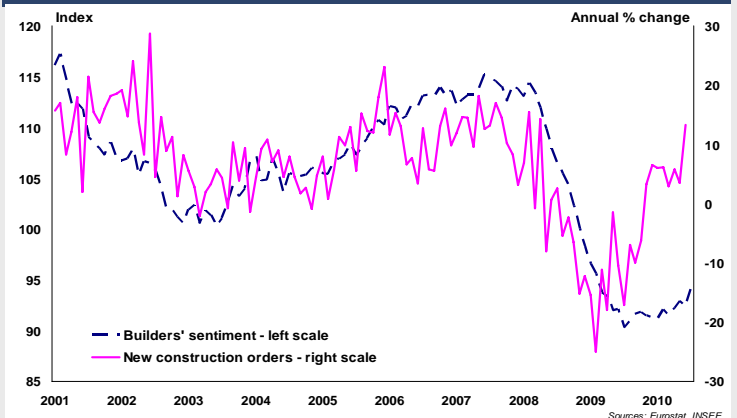
It is not surprising that confidence remains downbeat given that construction output remains close to the lowest level in over a decade and has only just stabilised in recent months. However, new orders, an early indicator of building activity, have been rising strongly over the last year or so (they are 13% above year ago levels), and this is behind the most recent uptick in the confidence index. New orders in the sector have been boosted by a stronger economy and the day after the builders' sentiment data is release, INSEE is due to publish its second estimate of Q2 GDP. The first estimate showed GDP increasing by 0.6% over the quarter (following an increase of 0.2% in Q1) and the breakdown was healthy, with strong growth in private sector investment and spending.

This kind of growth momentum is likely to continue at least into the third quarter, given the strength of more timely indicators of activity, such as the PMI surveys. However, the fact remains that the global economy is already slowing. Therefore, the outlook for the French

economy - and by extension the construction sector - beyond the second half of this year, is more uncertain. The most likely scenario is that construction orders will continue to rise throughout the rest of this year, in lagged response to the strong domestic backdrop. This in turn should eventually feed through to output and lift builders' confidence in the process. Beyond the second half, the picture is less clear; downside risks are building.

“...but beyond 2010, outlook is more uncertain”

French builders' confidence set to rebound



Singapore economic data points to mixed recovery for commercial property

“Industrial activity appears to be slowing ...”

Several key pieces of economic data are released in Singapore next week important to the outlook for the real estate sector. On Thursday 23rd the latest update on inflation is released, whilst on Friday 24th industrial production data for August is due. The latest numbers come off the back of survey evidence which is suggesting that a cooling in industrial activity

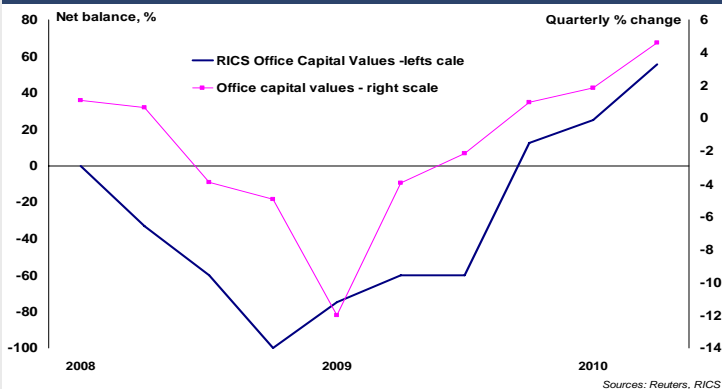
continued into August.

The latest PMI survey of manufacturing fell to 49.4 in August which was the first time that this indicator has breached the 50 mark since April 2009. Any reading below 50 indicates that the manufacturing sector is contracting rather than expanding with the downward shift in this index posting its biggest decline in a year. Significantly, new export orders contracted for the first time in 10 months which could point to a softer global trade environment as the impact of large scale US stimulus start to wear off. Not all sectors of the economy appear to be moderating however. Retail sales in July posted their first monthly gain since January providing some comfort that the export led recovery is filtering through to the domestic economy.

In the property sector, whilst the recovery in residential property is showing some signs of moderating, pricing in the commercial property sector sprang to life in the second quarter. The market had been lagging the turnaround in pricing in the residential sector although witnessed acceleration in price growth during the second quarter. Office, retail and industrial capital values rose by 5%, 4% and 6% respectively on the previous quarter, compared to 2% growth in Q1. This compares with the residential sector which saw prices rise by 5%, in Q2 a slowdown from the 12% average seen in the second half of 2009. Ongoing improvements in domestic demand will be vital to support the nascent recovery in the commercial property sector should the global economy continue to show signs of faltering in the coming quarters.

“...although retail sales growth turned positive for the first time since January”

Office prices doubled in Q2 in line with RICS survey



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Upturn in Cypriot economy not yet strong enough to underpin the property market

“Prices have slipped further across much of the island”

The latest RICS Cyprus Property Price Index has just been released and shows further weakness across much of the island. Residential prices on average fell by a further 2.5% during the second quarter with Paphos posting the largest drop amongst the main centres (4%). The declines in the commercial real estate sector were generally more modest. The office segment was the biggest loser dropping just over 2%; warehouses were something of an exception with the sector actually posting an increase of 0.4%. The report also shows that, in general, rents are continuing to retreat with houses and offices suffering the most marked declines. From a city perspective, Nicosia is proving most resilient in terms of the rental picture.

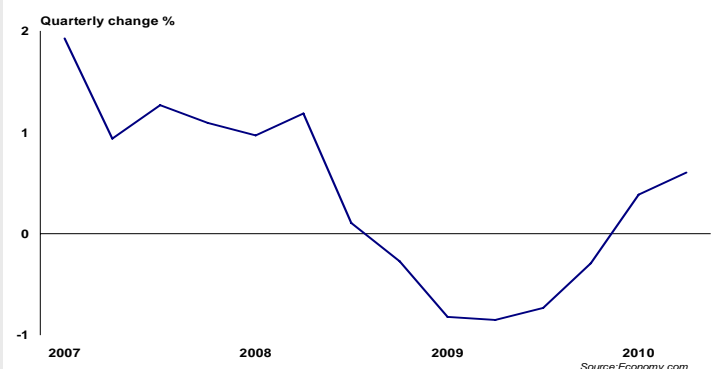
The generally downbeat tone to the property data reflects both the economic woes of the island and the continuing absence of overseas buyers. Together, these factors have resulted in a significant drop in transaction activity. Although price declines, especially in the residential sector, have in recent months encouraged a little more local interest, a further tightening in bank credit conditions is not making it any easier to access mortgage finance.

Notwithstanding this, some signs of an improvement in the underlying economy are now beginning to emerge. GDP actually increased by 0.6% in the second quarter of the year following a 0.4% rise in the first three months of 2010; as a result, the annual change in GDP has now turned positive for the first time since the back end of 2008. Meanwhile

the latest economic and business sentiment indicators have edged upwards in recent months. However, the high level of unemployment could remain a drag on the real estate market for a little while to come. The jobless total at 23,725 remains around peak levels and is a hefty 27% higher than it was just a year ago. This is largely a reflection of the continuing pressure on both the construction and tourism sectors.

“but GDP is now growing again after five consecutive negative readings”

The Cypriot economy has grown for two quarters in a row



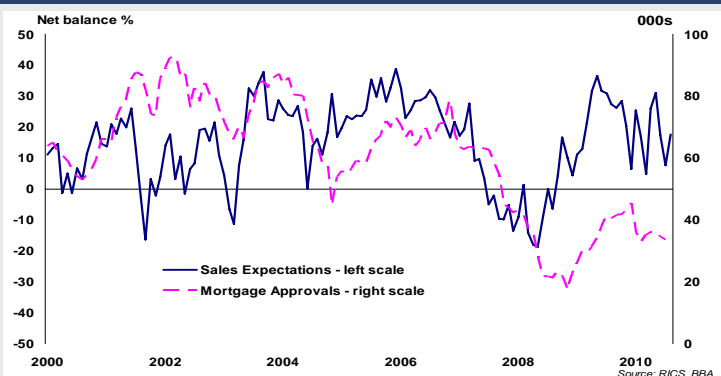
UK mortgage market stable but could show improvement

“Approval numbers are largely stable..”

August lending figures are released by the British Bankers' Association (BBA) on Thursday 23rd, providing the latest update on mortgage approvals from high street banks. The number of approvals for home purchase in July was 33,698, marginally down on the June figure of 34,575. Notwithstanding this, approval numbers are largely stable, having averaged roughly 34,000 since January

after picking up in the second half of 2009 thanks to the stamp duty holiday; the six month average to year end was 42,000 approvals.

Sales expectations have picked up ahead of approvals



Despite this period of stability, current levels remain subdued in the context of the long run average which stands at 60,000.

Significantly, the RICS Housing Market Survey for August suggests that, whilst buyer enquiries are continuing to fall, new instructions to sell and sales expectations showed increases on the month. According to surveyors, economic uncertainty (fears over a double dip) alongside ongoing problems regarding accessibility to mortgage finance is continuing to discourage potential buyers. Indeed, it was the third consecutive month that buyer enquiries showed a fall, and the pace of decline accelerated to the fastest since January, the first month after the end of the stamp duty holiday. Meanwhile, the July data shows private sector firms are continuing to rein in their borrowing as demand for finance remains downbeat. Lending to companies in the real estate sector dropped further whilst construction firms scaled back their lending by £500 million after actually increasing the value of their borrowing in June.

The pick up in RICS sales expectations comes on the back of government's decision to abolish HIPs, therefore leading to an increase in the number of homes on the market. Although this has not yet affected approvals data, the outlook for the mortgage market may improve as transaction expectations feed through to buyer enquiries.

“the mortgage market may improve as transaction expectations translate into buyer enquiries”

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