RICS Global Real Estate Weekly

Nov 20th

Hong Kong house prices rebound fuelling renewed bubble worries

> **"The pick up in mortgage activity will support prices in the coming months.."**

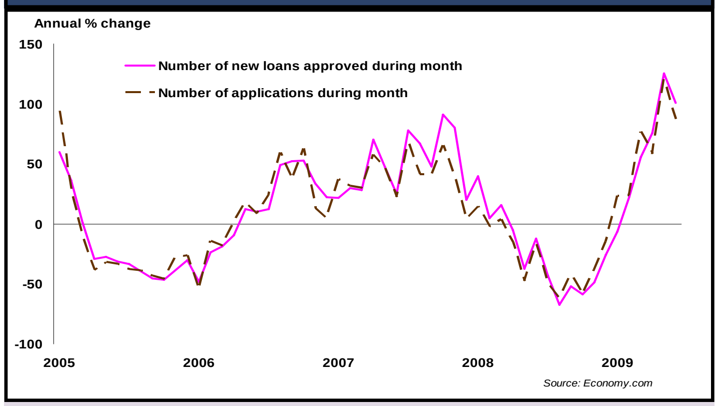
> **"..posing renewed problems for policy makers''**

- The latest update on residential property market activity in Hong Kong is due in the coming week as the Hong Kong Monetary Authority publishes October's results of the residential mortgage survey. The survey covers both mortgage applications and loans approved. As such, it is widely watched as a key leading indicator of future house price trends. Typically, activity leads house price movements by several months with the latest uptick in demand for mortgages likely to fuel further price growth into the year end.

- Mortgage applications have seen a huge rebound with monthly demand hovering around the 20,000 mark over the last 6 months. This compares to only around 12,000 applications in the equivalent 6 month period a year earlier and a low of only 7,436 touched in November 2008. Recent months have also seen a divergent trend between loans drawn down and loans approved. This backlog of latent demand is likely to add further support to activity even if the number of approvals starts to ease back, as we expect, from recent highs.

- Fuelling the pick up in property prices in the Hong Kong territories has been the ultra loose monetary conditions imported from the US as a result of the economic policy of pegging the Hong Kong Dollar to the Greenback. Worries are resurfacing over the impacts of a renewed house price bubble in some Asian markets where macro economic policies to maintain currency pegs are fuelling greater capital inflows than may otherwise have been the case. Some central bankers in the region have started to raise the possibility that additional measures, such as raising bank reserve requirements, may be necessary to prevent renewed asset booms from destabilising the long term health of the economy. With the HK labour market now on the mend, measures to address these concerns may not be a long way off.

Housing activity has rebounded strongly on a year ago



Housing activity in the UK to show further increase

> **"RICS new buyer enquiries points to further increase in mortgage activity..."**

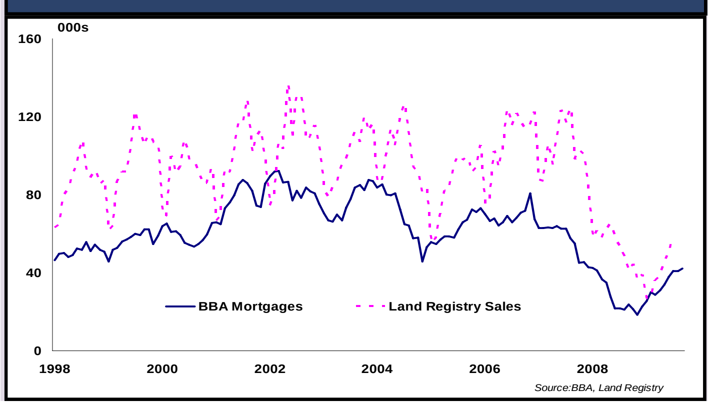
> **"…with the Land Registry showing prices continuing to rise"**

- The October lending figures from the British Bankers' Association (BBA) are due for release on Tuesday 24th. The continuing strength of the RICS new buyer enquiries series suggests that the volume of new mortgage approved last month will be a little higher than the 42,088 sanctioned by the major banks in September (the Bank of England releases more complete data the following week). The year on year comparison will be helped by the fact that October 2008 was close to the nadir for activity in the housing market. By way of contrast, the volume of remortgaging is likely to remain relatively subdued. Meanwhile, loans to businesses working in construction are likely to have continued to be reined in by banks. The BBA data has recorded nine consecutive monthly declines in the change in lending to this troubled sector.

- It will also be interesting to see whether the sharp fall in lending to commercial real estate in September has continued. Despite much anecdotal evidence highlighting the reluctance of lenders to continue to finance this sector, the BBA numbers actually show a somewhat more mixed picture; over the previous six months, lending to commercial real estate on average increased by just over £60m. This could in part reflect the heavy flow of re-financings that have been taking place.

- Meanwhile, the Land Registry updates its data on Friday 27th. The previous release indicated that the average house price in England and Wales, based on the repeat sales methodology, rose by 0.9% in September and is now just 14% off the high water mark recorded in January 2008. This is close to the latest results from the Nationwide Building Society which show current prices 13% off the peak. The increase in mortgage activity recorded in the BBA data is, moreover, likely to be reflected in a further rise in the number of sales completed. Figures for July, the latest available month on the Land Registry database, put transactions at 57,579. This represented the highest volume of activity since June 2008.

Mortgage activity and completed sales to rise further



French housing construction has rebounded smartly

"French housing starts are now in line with the long run average"

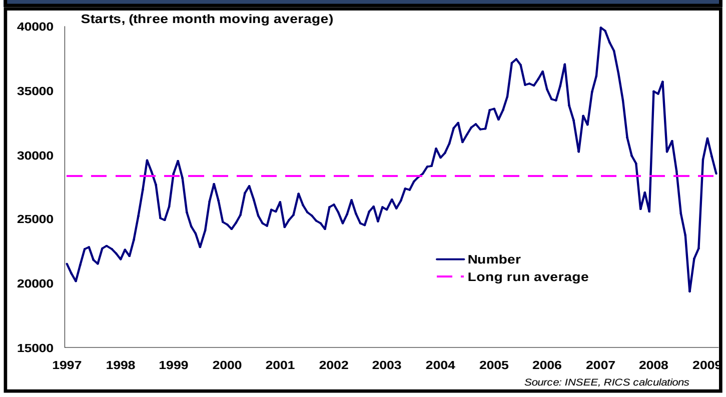
"Starts look set to rise further over the next 12 months"

- French housing starts for October are due for release by INSEE on Tuesday 24th. In September, starts on a not seasonally adjusted basis totalled 25,720. Taking a three month moving average to smooth out the volatility, starts totalled 28,519 in September. Although this is 9% below July's reading (31,289) and 29% below the July 2007 peak (39,899), it is 47% above its March 2009 trough (19,378). Moreover, September's figure is now in line with the long run average (28,336 since 1997).

- The rebound in housing starts is good news for the French economy. First, it provides additional evidence that while mortgage lending conditions remain tight, credit is now flowing a little bit more freely. This confirms the recent trend in the French M3 lending data which showed borrowings for home purchase accelerating (from 0.6% in June to 5.8% in September on a three month on three month annualised basis). Second, spending in the construction sector tends to result in greater benefits to the wider economy than spending in other sectors. This is because the construction sector has a relatively large value chain i.e. a large number of firms.

- Looking forward, the recovery in housing starts may well have further to run. The Bank of France's Bank Lending Survey showed that demand for mortgage lending surged in Q3 (the net balance reading increased from 18 to 38). In addition, consumer confidence is gradually recovering and it is now at its highest level since June 2008 (the net balance reading stood at -21 in October according to the European Commission, up from its trough of -37 in March). And finally, at 85,181, the stock of unsold new property on the market stood at its lowest level since Q1 2007. All this, combined with another positive reading in GDP growth in Q3 (0.4% q/q) suggests that the residential construction sector remains well supported.

French housing starts are 47% above their July 2009 trough



Extension of tax credit to provide further support for US housing

"The tax credit for first time buyers has been extended to April ..."

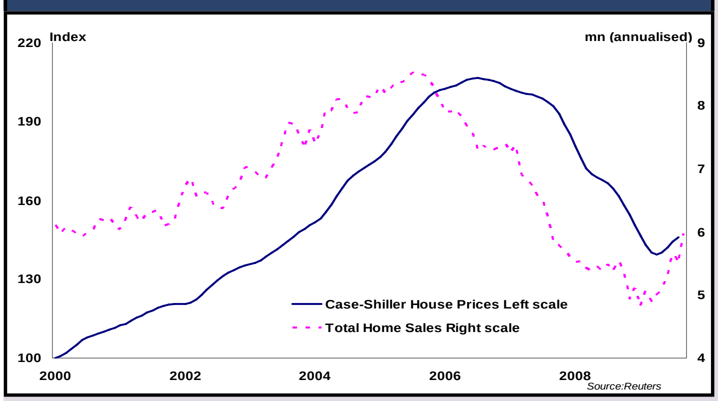
"planned layoffs by US business appear to be moderating"

- The coming week should provide a little more clarity as to the current state of the US housing market with key data on both prices and transactions due for release. Figures on existing home sales will be published on Tuesday 24th with the new home sales numbers released two days later. The September data showed existing sales climbing to a two year high but a small drop in new home sales. The planned expiration of the government's $8,000 tax credit for first-time buyers at the end of November is likely to have contributed to the firmer tone in transaction activity. Existing sales have climbed from a low of 4.49m (annualised) in January to 5.57m. In addition new home sales, despite disappointing in September, have risen from 329,000 (annualised) at the start of the year to 402,000.

- Meanwhile, the closely watched S&P Case-Shiller home price index is released on Wednesday 25th. It has now risen for four consecutive months lifting the twenty city index almost 5% off the floor touched in April. Even so, the broader index still remains around 30% off the high water mark reached in the middle of 2006. It is encouraging that the better trend in the market is reasonably broadly based with sixteen out of the twenty cities posting price increases in August. San Francisco led the way with a 2.8% rise although prices in the city are still 12.5% lower than a year ago.

- The improvement in both home sales and prices over recent months is likely to persist in the New Year thanks in part to the decision to extend the tax incentive for the first-time buyers until the end of April. However the worsening labour market picture remains a challenge. Although planned layoffs by US business appear to be moderating according to the latest Challenger survey, a reluctance to increase hiring could push unemployment towards 10.5% in the near term.

Signs of a tentative recovery in US residential property



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