

Spanish housing market is showing tentative signs of recovery

“Spanish mortgage approvals have recovered from their lows...”

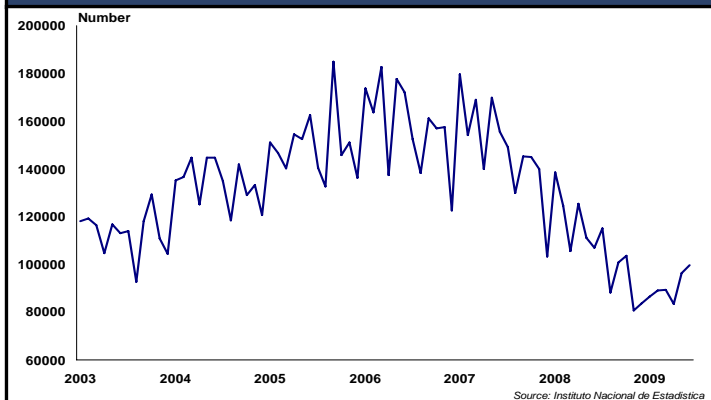
“...and house price falls are moderating”

- Spanish mortgage approvals data for July is due on Monday 28th from the INE. At 99,713 in June, mortgage approvals were 46% below their September 2005 peak but 24% above their November 2008 trough. The turnaround in approvals can mostly be explained by three factors. First, Spanish consumer confidence has recovered significantly from its low of -48 in February to -20 in August. Second, the (weighted) average mortgage lending rate has more than halved from 6.1% in October 2008 to 3% in July. Finally, affordability has improved given the 8.3% peak to trough fall in house prices in Q2 (according to the housing ministry data). Indeed, the Bank of Spain's house price to earnings ratio has fallen from 7.7 in Q4 2007 to 6.8 in Q2 2009.
- House price data for Q2 is due from the INE on Wednesday 30th. Prices on the INE index were 7.6% below year ago levels in Q1 (and 8.6% below their Q3 2007 peak). However, there are indications that the pace of decline is slowing, with the three month on three month annualised growth rate moderating to -10.3% Q1 2009, from -12% in Q4 2008. This trend of slackening price falls is broadly reflected in the two other official sources of Spanish house price data. The Bank of Spain's monthly ask price index shows that prices fell at a 7.8% annualized rate in August, compared to 12.4% in March. And the housing ministry index shows that prices fell at a

7.3% annualised rate in Q2, down from 11.5% in Q1.

- Looking forward, price falls are likely to moderate further during the balance of this year. This is consistent with the current turnaround in mortgage approvals and a more modest rate of housebuilding. However, outright price increases before 2010 are highly unlikely, particularly with the unemployment rate (currently 18.5%), still rising.

Mortgage approvals are 24% above their lows



Hong Kong residential activity continues to rebound

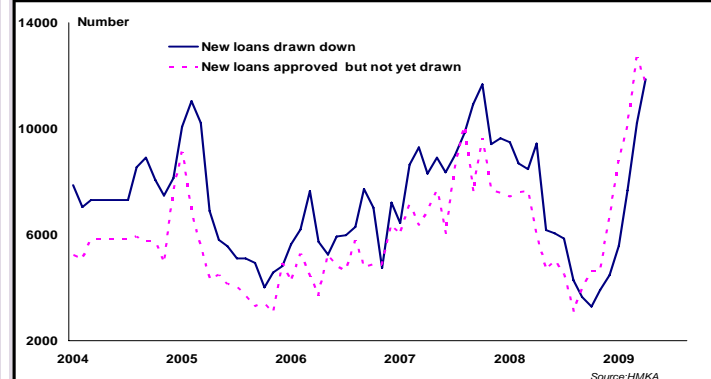
“New loans drawn down rose above the high recorded in January 2008”

“This improvement in activity is feeding through into prices”

- Next week sees the release of the Hong Kong residential mortgage survey. This is expected to show a continuing improvement in activity in the residential property market. New loans drawn down in July rose from 10,219 to 11,873 taking the number above the high recorded in January 2008. Both the number of applications and new loans approved but not drawn down slipped back compared with June. However, they remain at elevated levels by historic comparison and some 58% and 95% up on year ago levels respectively. Significantly, this strengthening in activity has also fed through into prices with a sharp move upwards from the lows recorded in the latter part of last year.
- The mortgage approvals data suggests that the turnaround in sentiment in residential property has been visible in both the secondary and new build markets. The former has been particularly buoyant but the latter has also shown a much more positive trend having almost ground to a halt in 2008. The improvement in sentiment towards residential property reflects, in no small measure, the firmer tone to the economy. It is also a function of lenders becoming a little less risk averse with the typical loan to value ratio climbing from 60% to 65%.
- Hong Kong pulled out of recession in the second quarter of the year with GDP growing 3.3% over the previous three month

period, the first positive reading for four quarters. The labour market already appears to be gaining some support with the unemployment rate steady at 5.4% for three consecutive months. This suggests that the shake out in the jobs market may be nearing a close. One other positive signal on the economic front is the retail sales data which showed a big pick-up in spending in July (rising 8% compared with June). Improvements in both the labour market and the household consumption trend should provide some assistance to rents in the commercial property sector in the coming quarters.

Mortgage activity has rebounded strongly



Japanese outlook is improving

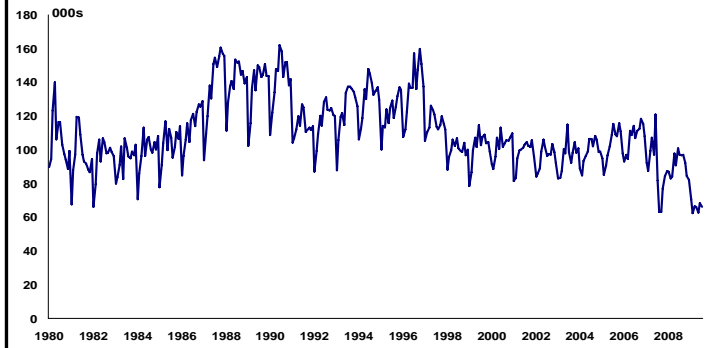
“Housing starts and construction orders should edge up”

“But a weak labour market and consumer sector will weigh on retail and office property”

- Next week sees a raft of economic data released in Japan which will provide an update on the outlook for the real estate sector. Housing starts and construction orders for August will be released on Wednesday 30th and provide an indication of sentiment in the sector over the medium term. Released on the same day are preliminary industrial production numbers and nominal wages data. These are followed by retail sales data for August on Thursday 1st and the latest unemployment data on Friday 2nd which, together, will give an insight into the rental outlook for the retail and office sectors over the coming months.
- Housing starts fell by 3% in July, partly reversing the 8% increase recorded in June. However, housing starts have not recovered the 24% drop recorded at the start of the year and remain near historic lows. Construction orders in total have been even more volatile recently. After a massive 91% jump in June, construction orders fell by 24% in July and were still around 30% lower than twelve months earlier. Given their current low level, some signs of a burgeoning economic recovery and generally less pessimism in the economy, it seems quite likely that both series will have posted small increases in August.

- The initial signs of improvement in the economy have largely been led by improving exports and the fiscal stimulus package. But the expected seasonal improvement in retail sales has been fairly weak, even relative to recent years. In addition, unemployment is likely to continue to push upwards, from 5.7%, to a peak of around 6%. That will maintain downward pressure on both wages and retail sales. Combined, rising unemployment and weak sales activity will subdue demand for office and retail commercial property space, weighing on the rental growth outlook over the rest of 2009.

Housing starts still near historic lows



UK mortgage approvals set to stabilise in August

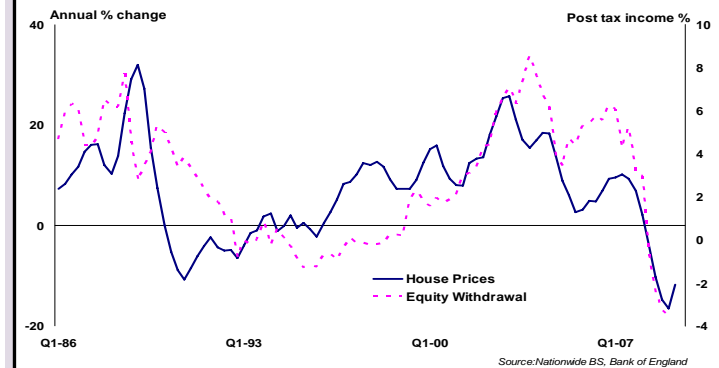
“Mortgage approvals likely to have stabilised in August”

“Housing Equity Withdrawal is once again likely to have been heavily negative”

- Recent figures released from the British Bankers Association suggest that mortgage activity levelled off in August after picking up sharply from the November low. This picture is likely to be confirmed by the more complete data due to be published by the Bank of England on Tuesday 29th. Alongside the headline number for mortgage approvals for new house purchase, which could come in close to 50,000, attention will also be paid to the gross and net secured lending figures. In July, the latter turned negative for the first time despite the resilience of the gross number. Interestingly, repayments of mortgage principal soared during the month.
- Friday 2nd sees the publication of the Bank of England’s Q3 Credit Conditions Survey and the Q2 Housing Equity Withdrawal (HEW) data. The Credit Conditions Survey is likely to show a further modest improvement in the financing climate for households; more interesting may be the attitude of lenders to the commercial real estate market. In the Q2 survey, this was the one area that stood out as facing the prospect of a further squeeze on credit. However since then capital values have begun to stabilise. Meanwhile the HEW figure is once again likely to be heavily negative although the extent of the drop will probably not be significantly larger than the £8bn recorded in the first three months of the year.

- Finally the CIPS Construction Survey is also published on the 2nd. This may show a further gain in the headline activity indicator although it is likely to remain below 50, the level consistent with a flat trend in output. New orders may, however, have moved into positive territory for the first time in a year and a half.

Mortgage equity withdrawal probably fell again in Q2



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