

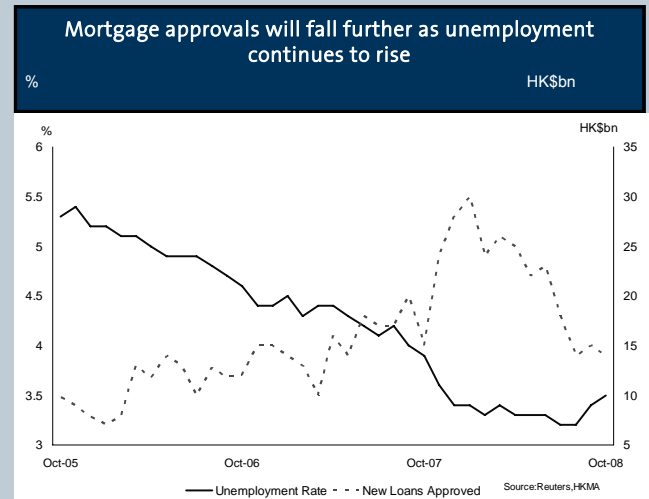
Hong Kong job losses to increase pressure on property market

An update on the state of the residential property market in Hong Kong will be released in the final week of the year. It is likely to make for fairly gloomy reading with a further drop in mortgage approvals probable in the face of a continuing scaling back in loan to value ratios by lenders. So far there has not been any worsening in the mortgage delinquency rate or the rescheduled loan ratio. Together these two measures of household stress still stand at a record low of just 0.18%.

The likelihood is, however, that both indicators will begin to edge up over the coming months as home prices fall and transactions continue to slow. Hong Kong, as one of the world's most open economies, is particularly susceptible to the current global downturn and, predictably, with the publication of third quarter GDP figures is now officially in recession. Significantly, the downturn is now being felt in the labour market. Unemployment jumped from 3.5 to 3.8% in November, its highest level in a year, while employment fell 13,500. So far most of the job losses have been in the financial and manufacturing sectors. The risk post Christmas and the Chinese new year is that attention will turn to the retail arena.

The Hong Kong administration has announced plans to

stimulate the economy which include expanding the SME loan guarantee scheme, accelerating fiscal spending and encouraging job creation in the public sector. Despite this, GDP is likely to continue to contract over the next couple of quarters with unemployment moving significantly higher. This will put further pressure on the residential property market.



“Mortgage delinquency rate remains low”

“But it will be pushed higher as job losses mount”

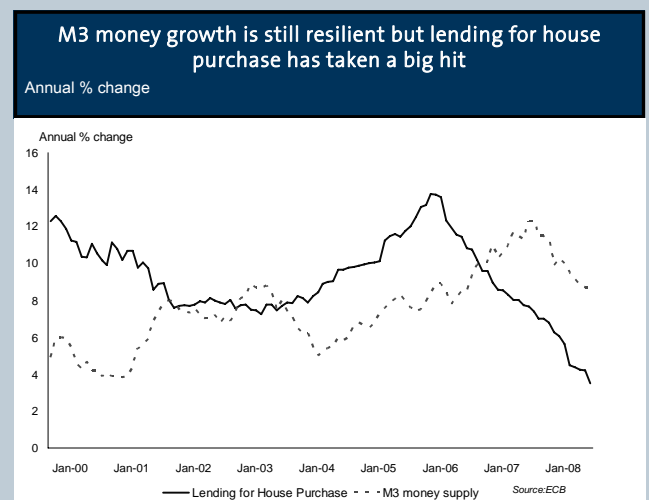
Euro area lending growth to continue to slow

Data for M3 money supply in the euro area (covering the month of November) will be published on Tuesday 30th. The previous release showed growth edging down from 8.9% to a still respectable 8.7%. The relative resilience of this indicator helps to explain why the ECB President, Jean-Claude Trichet, was recently moved to suggest that the money numbers were ‘not substantiating a credit crunch’ in the euro area. The likelihood is, however, that the downward trend in the growth rate (from the high of 12% in the latter part of last year) will become more pronounced over the coming months.

The steepest drop in lending over the past twelve months has been to non-resident banks. Lending for house purchase has, however, also been hard hit with the growth rate down at just 3.5%, its lowest level since the formation of the euro area in 1999. Growth in consumer credit has slackened but in a rather more modest way. By way of contrast, the value of outstanding loans to non-financial corporations is still showing a healthy year-on-year rate of increase; the latest figure was 11.9%.

The last euro area bank lending survey indicates that credit standards for both corporate and household borrowing are expected to tighten further while demand for finance is projected to soften. In the case of lending for residential property, it is concerns over the outlook for the housing market as well as the general economic situation which appear to be weigh-

ing most heavily on loan officers. This coupled with the pronounced deterioration in labour market conditions points to further weakness in housing markets across the euro area in 2009. Indeed, with expectations for economic activity continuing to be downgraded more bad news in the commercial real estate sphere also looks likely.



“Lending for house purchase has been hard hit”

“Credit standards for borrowers will continue to tighten”

No Christmas cheer for the US housing market

While much of the US will wind down over the next few weeks for Christmas and the New Year celebrations, the gloomy data on the housing market will keep on coming. Indeed, action from the Treasury and the Fed has so far had little impact on the property market or the wider economy – the glimmer of hope from an increase in mortgage applications has not been reflected in any other data.

The next insight into the housing market will be new and existing home sales data for November to be released on Tuesday 23rd and Tuesday 30th respectively. Home sales in the US peaked in mid-2005 but, over the last 12 months, sales of existing homes have begun to stabilise and may be bottoming out (at around 30% below their high). By contrast, sales of new homes have continued to plummet. In the first 10 months of this year, sale of new homes were 36% lower than the same period last year.

The collapse in housing activity has weighed heavily on house prices so the release of the Case-Shiller index for October, also due on the 30th, is likely to confirm a further drop in prices. On this index, house prices are around 24% below their peak, and fell almost 2% between August and September this year. The

next release is expected to show that house prices have fallen 18% |

in the past 12 months. It's unlikely that the full extent of intervention policies has yet been reached. But any new schemes will take some time to take effect. As a result, there will still be a fair few months of downbeat data to come.

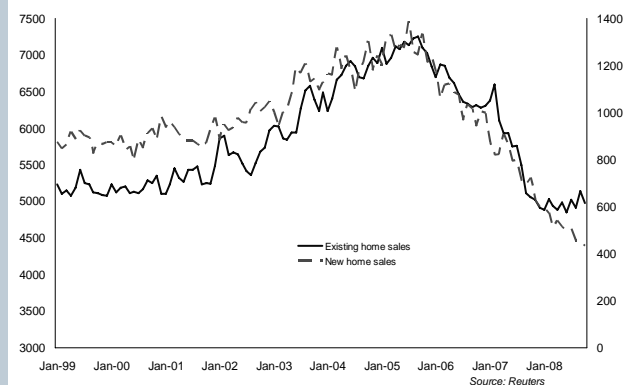
“Existing home sales may be bottoming out”

“But house prices still have further to fall”

New home sales fall while existing home sales stabilise

Existing home sales (thous)

New home sales (thous)



Japanese housing and construction set to weaken in 2009

A raft of Japanese data are to be released next week with housing starts and construction orders coming on Thursday 25th, followed by a range of economic indicators including the manufacturing PMI, the CPI and the unemployment rate on Friday 26th. Relative to most economies, the Japanese housing market has passed through 2008 relatively unscathed – but that is largely because it did not endure the same property boom experienced in many other countries.

Indeed, housing starts data, at first glance, look relatively healthy. In October, they were 20% higher than in the same month in 2007. But these favourable figures are largely due to a bottleneck after a regulatory change led to a dramatic drop in housing starts at the end of last year. In fact, the most recent figures were actually 5% below the 10-year average. By contrast, construction activity overall has held up better. In the first 10 months of this year, construction orders were actually up by 6% compared to the same period in 2007.

However, it seems inevitable that weaker data will follow in 2009. Indeed, the wider Japanese economy has deteriorated along with the rest of the world. The recent Tankan survey showed a sharp drop in manufacturing conditions – that is likely to be reflected in the next release of the PMI on the 26th. The sector will be especially hard hit by the current strength of the yen. Moreover, unemployment is likely to continue rising

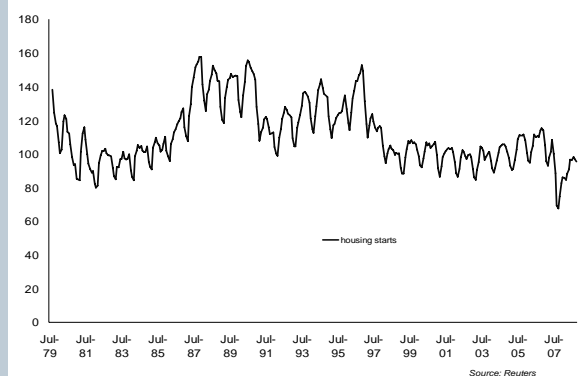
and a weaker financial climate and uncertain outlook will hit confidence for both consumer and corporate investment. Economic weakness looks set to continue and GDP will contract further. The longer that looks likely to drag on, the worse the prospect for the Japanese housing market and construction sector in 2009.

“Construction orders holding up relatively well so far”

“Economic weakness will hit construction and housing in 2009”

Housing starts rebound after blip in 2007 but are likely to look relatively weak in 2009

Housing starts (thousands—3m moving average)



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