

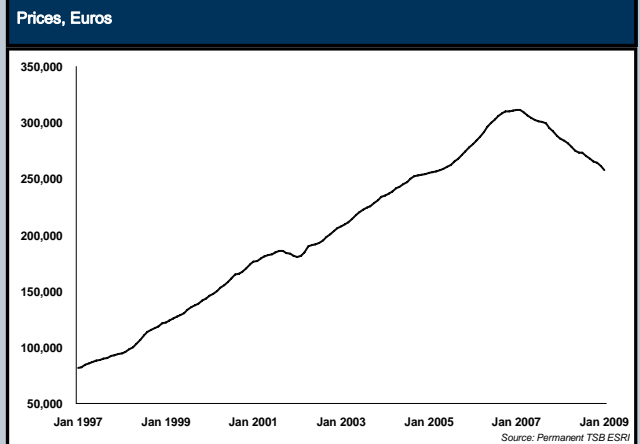
## Irish house price correction has further to run

- Irish house price data for February is due for release on Monday 16<sup>th</sup> (by permanent tsb and the Economic and Social Research Institute). Average house prices have been falling in every month since March 2007 and at €258,005, they are now 17.1% below their peak.
- The principal factor initially driving the housing market downturn in Ireland was massive excess supply. In terms of crudely estimating the degree of oversupply, the number of private dwellings completed per quarter began to exceed the long run average in Q3 2002 and remained above it until Q1 2008. Taking 2003-2007 as a whole, some 370,000 private dwellings were completed. Although the total population increased by nearly the same number during this period, the first time buyer cohort (age 24-34) only increased by 130,000. So, roughly speaking, there is an excess supply currently of about 240,000 houses. Latterly, price falls have been exacerbated by rapidly slowing, and then contracting mortgage lending. At its peak in March 2006, growth in lending for house purchase was running at a 30% annual pace. However, it has slowed rapidly since then and in November the annual rate turned sharply negative. Indeed, lending for home purchase fell by 7.6% in January. But the scale of decline has been so rapid over the last few months that the

3m/3m annualised growth rate is now running at -23.7%.

- Looking forward, rising unemployment is likely to weigh further on house prices. The unemployment rate currently stands at 8.6% (4 percentage points above the level twelve months ago) and given the Irish economy's bloated construction sector, it is likely to continue rising.

Average house prices in Ireland are 17% below their peak



**“The housing market is still plagued with excess supply...”**

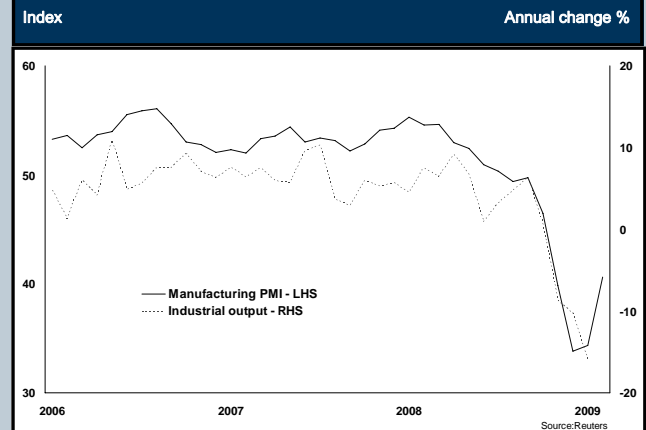
**“...and mortgage lending is contracting rapidly”**

## Russian downturn takes its toll on property development

- A further indication of how the Russian economy is faring in the face of the deepening global crisis will be provided by the release of industrial production data for February on Wednesday 18<sup>th</sup>. The January data showed output falling by around one-fifth over the month. This series is not seasonally adjusted so it can tend to be volatile. That, however, is only part of the story. Analysts had been looking for a fall in production but a much milder one. The telling fact was that the contraction in output in January was sufficient to push the year-on-year drop to 16% which compares to the December number of 10.3%. Within this figure, manufacturing accounted for the lion's share of the decline dropping a remarkable 24%.
- The February figures look set to show further weakness although the latest PMI report was, significantly, a little less negative: the headline index bounced from 34.4 to 40. The increasing pressure on the real estate sector was visible in the January numbers with output of construction related materials slumping (they were down 40% relative to a year earlier). This is broadly consistent with the results of the latest RICS Global Commercial Property Survey which showed a dramatic fall in pipeline development of new projects. This survey also picked up the turnaround in investment demand for real estate with a steep decline in the number of investment bidders per property.

- Given the deteriorating economic climate, it is likely that pressure will gradually increase on the authorities to reverse the February interest rate hike. Officials have indicated that the timing of any move will, in part, depend on the extent to which currency weakness feeds through into inflation.

Manufacturing output in Russia has collapsed



**“Manufacturing output has fallen 16% over the past year”**

**“Dramatic drop in the pipeline for commercial development”**

## Hong Kong commercial property enters “double dip”

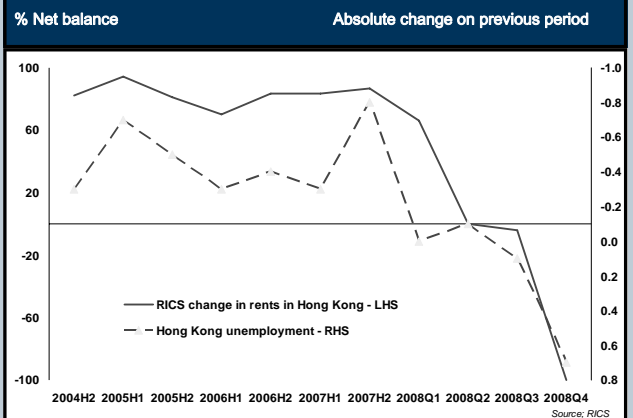
“Rising unemployment will weigh on commercial rents through 2009”

“..with inflation heading lower on rising capacity”

- The latest figures on the Hong Kong economy are due next week with the release of both unemployment data on Tuesday 17<sup>th</sup> and inflation on Friday 20<sup>th</sup>. The release of the unemployment rate is a key indicator for the commercial property market. Labour market figures tend to move in tandem with rental developments across the commercial property market.
- It is widely expected that the pace of deterioration in the labour market has accelerated further in the three months to February, having shown a rapid weakening in the previous release. Unemployment jumped in the three months to January from 4.1% to 4.6%. RICS expecting this trend to continue through 2009 as a global trade recession and rationalisation pressures across the global financial services industry weigh heavily on the labour market.
- Indeed, the latest RICS Global Commercial Property Survey suggests that the Hong Kong commercial property market has been one of the most affected by the downturn in the global economy in Q4. Lettings demand for property plummeted across all three sectors of the market, sending availability higher for the second consecutive quarter. The value of inducements rose for the second consecutive quarter and most markedly in the office and industrial

sectors. The deterioration in the occupier market has led to greater pessimism in terms of property pricing. Respondents expect prices to fall at a faster pace in the coming months compared to 6 months earlier as declines in rents accelerate in pace. With the economy expected to slow by up to 5% in 2009, inflation pressures will continue to subside as spare capacity builds.

### Rising unemployment will continue to see rents head lower



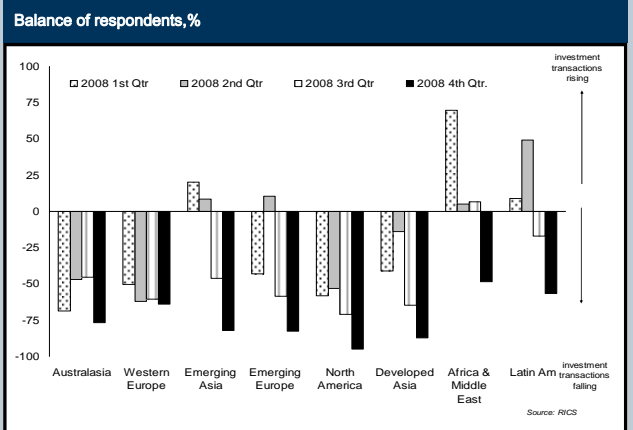
## Credit not the only problem for US commercial property

“More surveyors expect rents to fall rather than rise”

- There’s no doubt that the Fed has its work cut out preventing a complete collapse in economic growth. At the next meeting, on Tuesday 17<sup>th</sup> and Wednesday 18<sup>th</sup>, they are likely to reiterate their commitment to “employ all available tools” to aggressively fight the current downturn. Next Tuesday also sees the launch of the new Talf (term asset-backed securities loan facility) which aims to generate up to \$1,000bn in loans to support the flow of credit to areas including commercial mortgages.
- But an increase in credit is unlikely to be enough to stimulate the market. For a start occupier demand is still very weak. The most recent RICS Commercial Global Property Survey (GCPS) for 2008Q4 highlights that, across all three main commercial property sub-sectors in North America, the balance of surveyors reporting an increase in available space has risen sharply in spite of the greater use of inducements. As a result, rental expectations are gloomy – in the retail, office and industrial sectors respectively, 87%, 84% and 62% more surveyors expect rents to fall rather than rise over the next three months.
- It seems that the downturn has much further to run as developer and investor confidence has all but evaporated. The 2008Q4 GCPS also showed that North America was the weakest regions for investor demand for offices. And

commercial pipeline development plans are still being scaled back rapidly. That is consistent with data from the US Census Bureau showing expenditure on private wholesale and retail building fell by 19% during the course of 2008. Meanwhile, spending on private office construction, which has been more resilient, also turned negative in January 2009.

### Investor demand for offices the weakest in North America



All rights reserved, copyright 2008 RICS. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means without prior permission of RICS.

RICS makes no representation, express or implied, with regard to the accuracy of the information contained in this publication and cannot accept any responsibility in law for any errors or omissions. The information in this publication contains general guidelines or estimates, and does not purport to be advice on any particular matter or project. No reader should act on the basis of information contained in this publication without first taking professional advice appropriate to their particular circumstances.

RICS (Royal Institution of Chartered Surveyors) is the leading organisation of its kind in the world for professionals in property, land, construction and related environmental issues. As part of our role we help to set, maintain and regulate standards – as well as providing impartial advice to Governments and policymakers. RICS members operate in 146 countries, supported by an extensive network of regional offices located in every continent around the world. To ensure that our members are able to provide the quality of advice and level of integrity required by the market, RICS qualifications are only awarded to individuals who meet the most rigorous requirement for both education and experience and who are prepared to maintain high standards in the public interest. With this in mind it's perhaps not surprising that the letters RICS represent the mark of property professionalism worldwide.