

## Indian budget provides no help for real estate

“A reduction in excise duty on steel and cement was hoped for”

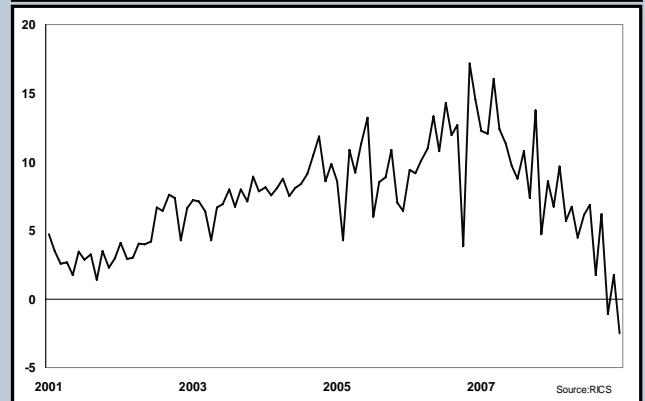
“Further aggressive interest rate cuts are likely”

- An interim budget was announced by the acting Indian finance minister, Mr Pranab Mukherjee, on Monday 16<sup>th</sup>. Traditionally, interim budgets tend not to be associated with major policy shifts. However, on this occasion the weakening economic backdrop had raised hopes that the government would take this opportunity to announce another round of stimulus measures. As it turned out, this was not to be. There was an acknowledgement that more fiscal stimulus will be required but this would have to wait the formation of the new government.
- The speculation surrounding possible additional fiscal measures had extended to the real estate sector, reflecting the sharp downturn in the property market. Amongst the policy changes being advocated ahead of the interim budget were a reduction in excise duty on steel and cement, an increase in the income tax rebate on home loan interest payments and the possible abolition of the service tax on sale of units and rentals. There was also talk of a more general reduction in the corporate tax rate.
- Advance estimates for GDP put projected growth for the current fiscal year (ending March 2009) at 7.1% which was rather higher than expected. Further clarification of this data will be published on Friday 27<sup>th</sup> with the release of

Q4 GDP. Nevertheless, recent numbers on industrial production indicate that a sharp downturn is now under way. Growth could slip below 5% this year. As a result, RICS expects the Reserve Bank of India to announce further aggressive interest rate cuts over the coming months. The next meeting is scheduled for the latter part of April but policy is likely to be eased before this point.

### Indian manufacturing output is now falling

Annual change %



“Lower capacity utilisation rates will reduce the need for new commercial premises”

“Rising inventories of unsold houses will dampen residential building activity”

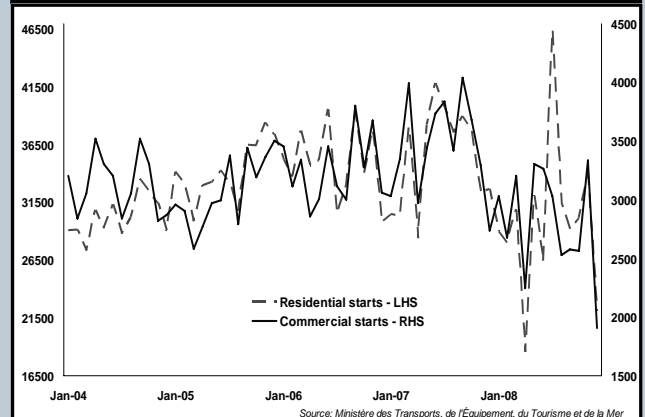
## French building activity has further to fall

- French data due on Thursday 26<sup>th</sup> will provide an update on commercial and residential building activity during January. Both areas have seen significant falls in activity since the onset of the credit crunch.
- On the commercial side, the volume of floor space for which permits have been granted are now 32% below the March 2007 peak, although there was a small increase in December to a total of 3,320,000 sqm. Meanwhile, the volume of floor space actually started fell to 1,908,000 sqm, which is the lowest level since the series began in January 2004. Part of this fall is probably down to seasonal fluctuations and volatility in the data. However, given the wider economic context, the sheer scale of the fall on the month (42%) also suggests that many permitted building projects are now being put on hold until the economic environment improves. On the residential side, the number of permits fell to 32,643 (39% below their March 2007 peak), while the number of starts fell to 22,234 (the lowest level since August 2001). This fall in building activity has broadly coincided with stagnating house prices. Plummeting sales levels (down 44% y/y) are pushing up inventories of unsold new houses and house price growth has come to a standstill (prices are down by 0.3% y/y).
- Commercial building activity is likely to suffer further during the course of 2009. Capacity utilisation rates are falling and this will discourage companies from investing in new premises. Meanwhile, with consumer confidence just shy of its 1985 low, the housing market will remain subdued and that will drag further on residential building activity.

### Residential and commercial building activity is falling

Number

Sqm, 000's



Source: Ministère des Transports, de l'Équipement, du Tourisme et de la Mer

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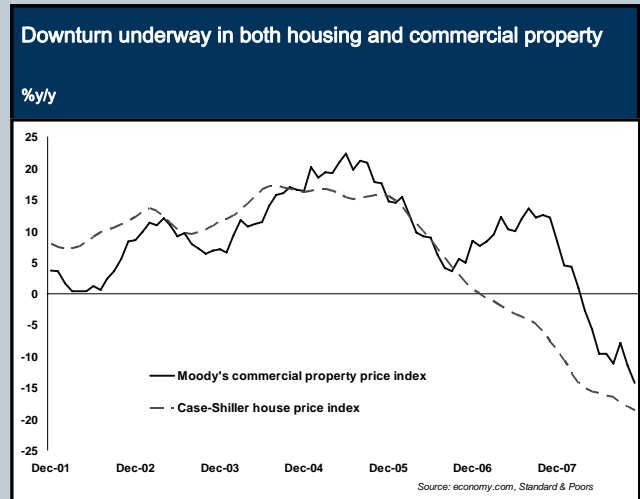
## Downturn in US property markets to continue

“House prices won’t stabilise for several months”

“Commercial property market could deteriorate sharply”

- The scale and duration of the downturn in the residential property markets has been well documented and shows few signs of abating. Now commercial property markets are coming under increasing pressure and could deteriorate sharply in the months ahead.
- House prices are unlikely to stabilise for several months yet, especially as activity remains weak. Existing home sales for January (released on Wednesday 25<sup>th</sup>) may have edged up again, after rising by 6.5% m/m to 4.74 million (annualised) in December. But new home sales (released on Thursday 26<sup>th</sup>) are likely to remain near the historic low of 331,000 (annualised) reported in December. The low levels of transactions seen in the last few months of 2008 will be reflected by further falls in the Case-Shiller house price index. December’s data (to be released on Tuesday 24<sup>th</sup>) is expected to show that prices fell by around 20% over the whole of 2008. If the Homeowner and Affordability plan announced this week is successful then fewer foreclosures will, to some extent, reduce downward pressure on house prices incoming months. But buyer activity will remain constrained as economic uncertainty threatens job security and keeps confidence weak.
- The downturn in commercial property markets has so far been less severe. However, prices have fallen sharply since

August 2007. In November 2008, they were down by 14% y/y. The outlook is pretty bleak as the economic downturn will see vacancy rates rise and limit rental growth. More worryingly, refinancing problems could lead to forced sales and that will push prices down even further.

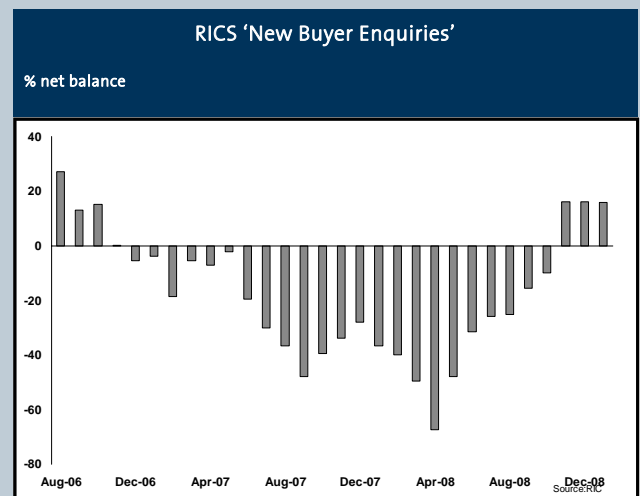


## Lower UK house prices drive increase in buyer enquiries

“Owner-occupiers drive up-surge in interest”

“Sterling weakness boosting appetite of foreign buyers”

- The closely watched RICS ‘new buyer enquiries’ series has now posted its highest reading since late 2006. Given that this series historically has been a reliable lead indicator of transactions in the housing market, it is not altogether surprising that the latest mortgage approvals data (for December) actually registered a modest gain. But they still remain close to 75% down on the high for the cycle.
- According to the RICS survey, three-quarters of chartered surveyors responding cited ‘lower prices’ as the reason for the rise in ‘new buyer enquiries’. The perception that the ‘bottom of the market was now in sight’ was viewed as important by almost half of all respondents. By way of contrast, the lower cost of finance was seen as less relevant. Overwhelmingly, it is existing owner occupiers who appear to be showing most interest in the market at the present time. Some way behind this group are investors and then first-time buyers. Interestingly, almost one in ten respondents suggested that overseas buyers were looking to get back into the market benefiting, as they are, from favourable currency movements. The fact that most chartered surveyors found relatively little interest from first-time buyers is not altogether surprising given the problems they currently face accessing mortgage finance.
- The final question referred to type of property that is now being sought. Existing houses were predictably cited by very nearly all respondents. Existing flats attracted rather fewer mentions but still compared favourably with the new build sector. New build flats were highlighted by just over 5% of respondents.



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