

Middle Eastern market sees steep turnaround

“The latest RICS global commercial property survey shows deterioration across all sectors”

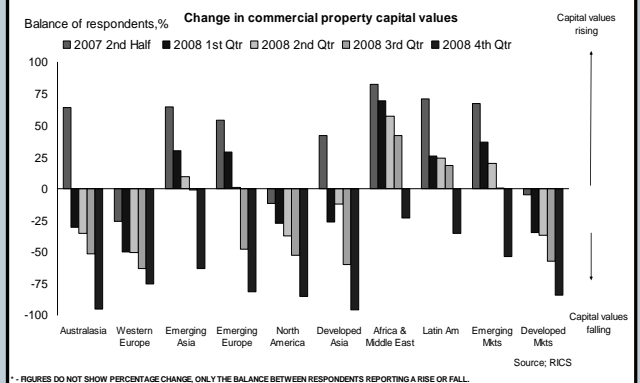
“..with capital values likely to fall further in Q1 2009”

- The latest global commercial property survey from RICS shows that no real estate markets have been able to escape the worsening economic climate with capital values now plummeting across many emerging markets.
- The Middle East has seen a sharp fall from grace in the most recent survey period, with the previously top ranked UAE echoing the fortunes of the oil price. Similar pessimism has also been expressed in Russia where additional worries over macro stability have weighed on investor sentiment. The UAE saw capital values plummet from a positive balance of 65 percent to a negative balance of 83 percent. The outlook for future performance has in consequence turned very gloomy.
- 85 percent more Chartered Surveyors across the UAE expect capital values to fall compared to a positive balance of 45 percent in the previous quarter. In Dubai, 96 percent more Chartered Surveyors expect capital values to fall even further over the next three months, a drop from a positive balance of 22 percent in the previous quarter. Other countries that previously displayed some measure of resilience such as China, Turkey and Brazil have succumbed to a sharp turnaround in lettings activity which has dampened confidence towards the outlook for both

capital values and investment interest. Rents are falling across more than 90% of the countries surveyed by RICS with the greatest downward pressure occurring in parts of Asia. Taiwan, Hong Kong, Singapore and India were all ranked in the bottom five for rental performance as the collapse in world trade has smashed export earnings and business confidence.

Capital values fell for first time in the Middle East

% Net balance



Chinese property to gain some support

“Chinese stimulus appears to be taking effect”

“although with rents now falling in China capital values may see sharper declines”

- Next week sees the release of several pieces of Chinese economic data which should provide an insight into whether the acceleration of fiscal stimulus packages are taking effect. Inflation and the closely watched trade data, will be due on Monday 10th and Tuesday 11th respectively. Retail sales and industrial production data are due on Thursday 12th. This week’s address to the national congress in the annual work report disappointed markets in that it did not confirm any additional spending measures on top of the already announced 4 trillion yuan package. The extension of lending and acceleration of real estate investment programmes could go some way to offset the rapid turnaround in real estate conditions which have emerged since the autumn.
- This week’s release of the RICS Global Commercial Property Survey shows that the Chinese real estate market turned down sharply in the last quarter of 2008 with both the lettings and investment market floundering. The majority of surveyors reported that capital values and rents had fallen in the most recent quarter which proved a sharp turnaround on the previous survey period. 72 percent more Chartered Surveyors reported a fall than a rise in capital values compared to a positive 18 percent in the previous quarter with over 50% of surveyors also reporting rental declines.
- Some encouragement can be taken from recent business survey’s of manufacturers which have recovered some ground, having fallen sharply during Q4 2008. Furthermore, the surge in money supply growth in the first 2 months of 2009, suggest some early success is already being achieved which could offer support to the struggling property sector.

Chinese commercial property values turned in Q4

% Net balance



Swiss real estate suffers as economy contracts

“ GDP dropped 0.3% in Q4 ”

- The Swiss National Bank (SNB) meets on Thursday 12th against the backdrop of a worsening economic climate. The recently released Q4 GDP number came in below expectations posting a drop of 0.3% over the previous three month period. So far much of the downturn has been concentrated in capital expenditures, including construction, and exports but the risk is that the household sector could also start to feel the pain as the labour market picture begins to deteriorate. The January unemployment rate climbed to a two year high of 3.3%. February data, announced on Monday 9th, is likely to show a further jump in the number of people without jobs.

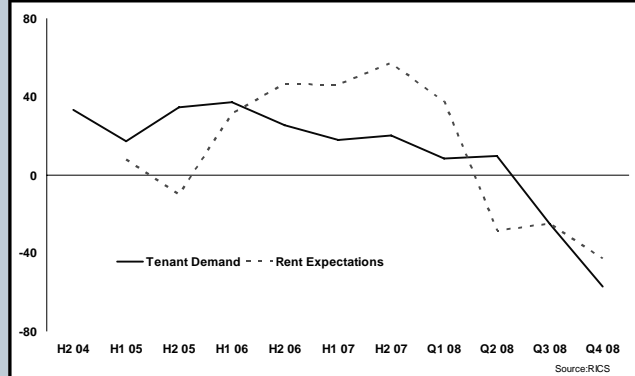
result, rent expectations have moved further into negative territory, capital values are sliding and yields are thought likely to continue rising. The widespread belief that the Swiss economy will contract by at least 2% this year is consistent with the downbeat forward looking indicators for the commercial property market.

“..commercial rents are expected to continue falling”

- On the back of this, it would not be a surprise if the SNB takes the opportunity to lower the three month Libor target to a new range of between 0 and 0.75% with a specific target of 0.25%. However, the more important issue may prove to be whether there is any further clarity on possible unconventional measures for Swiss monetary policy.
- The latest RICS Global Commercial Property Survey demonstrates that the real estate market in Switzerland is now suffering on the back of the softer economic climate and tighter liquidity conditions. Tenant demand has fallen sharply while available space has increased markedly. As a

Weaker tenant demand will lower business rents

% Net balance



Green shoots in Australian housing market

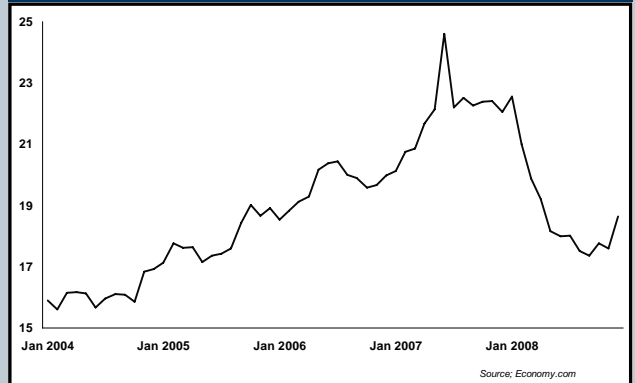
“ First time buyers account for record share of new mortgage loans ”

- The Australian central bank (RBA) somewhat surprisingly chose to leave interest rates unchanged at 3.25% at the March meeting. Glenn Stevens, the RBA Governor, drew attention to the significant cut in rates already sanctioned as well as the substantial fiscal measures that have been introduced to help underpin the economy. However, he did leave the door open to further easing by stating that the macro picture would be fully reviewed in April.
- House prices have fallen for the last three quarters although it is noteworthy that the cumulative decline to date only amounts to around 4%. Interestingly, however, the housing finance data is showing encouraging signs improving in October, November and December. The January figures are due to be released on March 11th and will be closely watched to see whether this positive trend is extended. Particularly impressive has been sector breakdown of the approvals data. First-time buyers have been driving the turnaround with 20%+ increases in mortgage demand for the last two months on the back of the lower cost of finance, reduced prices and increased grants. As a result, approvals for first-time buyers made up a record high of 37% of new established loans in December.
- Significantly, the December data also showed a pick-up in investor loans as well as a strong rise in new construction

loans; the latter jumped almost 10% over the previous month. While it is premature to believe that a meaningful improvement in activity in the construction sector is imminent, it is likely that there will be some evidence of a stabilisation in the negative trend in building approvals before too much longer.

Housing finance commitments rise sharply

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