

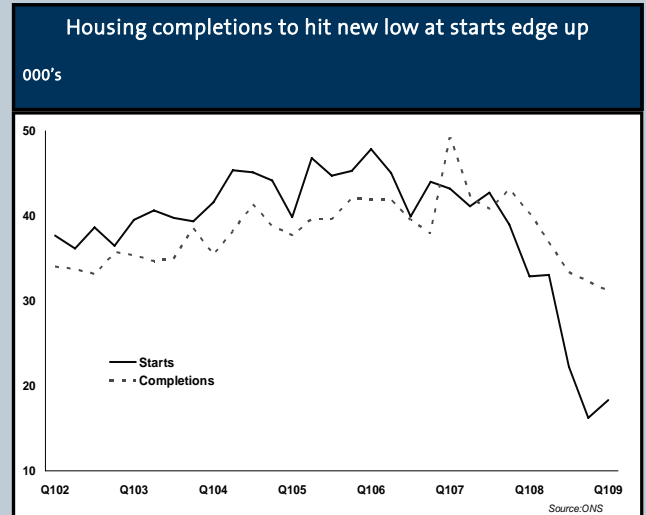
UK housing starts to rise for second successive quarter

“Land value writedowns have run their course...”

“...but starts will remain well short of NHPAU targets”

- Second quarter figures on house building in England will be released on Thursday 20th. These will be closely watched for confirmation that the dramatic scaling back in the number of housing starts in the midst of the credit crunch has run its course. In the first quarter of the year, the total number of starts in England climbed to 18,270. This was above the nadir touched in the final three months of last year (of just 15,900) but it amounted to less than 40% of the total number of starts undertaken in the best quarters of 2005 and 2006. Completions are likely to continue falling for the rest of 2009.
- Recent anecdotal evidence suggests that the forthcoming figures will show a further, albeit modest, improvement. In the past few weeks, Persimmon, Barratt, Taylor Wimpey and Bellway have all suggested that write downs of their land values have run as far as they are going to go. Moreover, there have been indications that, with inventory gradually being depleted, a number of house builders are actually looking at restarting some mothballed projects. This has also been reflected in the monthly survey from the Home Building Federation.
- Updated analysis from the National Housing Planning and Advice Unit (NHPAU) has slightly raised the estimated

number of new homes required to keep pace with demand over the next two decades. Against this backdrop, the comment from Taylor Wimpey Chief Executive, Peter Redfern, that it will be at least five years before house building returns to pre-recession levels is telling. This is particularly significant given that even this level of output was insufficient to meet the target set by the NHPAU.

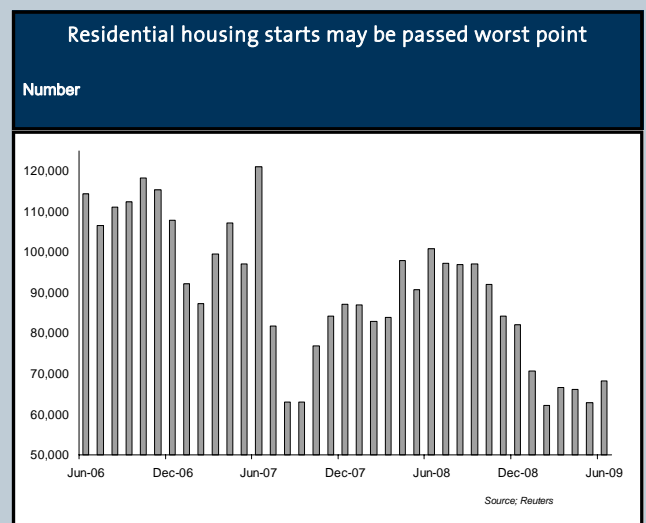


Construction spending declines in Japan to ease

“The Japanese economy may have grown for the first time in 15 months ...”

“...with construction spending likely to benefit”

- Several pieces of key economic data are released next week in Japan. Kicking off the week on Monday 17th is the first estimate of second quarter GDP which may show that the economy grew for the first time in 15 months. Released on the same day is the latest construction spending data. RICS expect that construction spending may show some improvement as activity declines in both the residential and commercial property markets start to ease. A further boost to construction spending is likely to come from the infrastructure sector which has shown some notable pick-up in recent months in response to policy stimulus efforts.
- The Development Bank of Japan has recently released its semi-annual survey of business investment plans for the coming fiscal year. This survey draws on 2400 large firms which have capital exceeding 1 billion yen. Significantly, the survey revealed that the general investment climate remains severely downbeat with firms planning to cut their investment by 9.2% in the coming fiscal year—that is the worst reading since 1974. The headline figure was driven by large expected cutbacks in the manufacturing sector to the tune of 20%. Significantly however, this was counterbalanced by fairly large increases in infrastructure investment plans which supported a generally flat picture in the overall non manufacturing component at -0.1%.
- Improvements in new construction starts were also apparent in the latest RICS Survey of global agents. Development starts for office and retail space edged up in Q2 2009 for the first time in a year. Industrial starts remained in decline, albeit at a lesser pace.



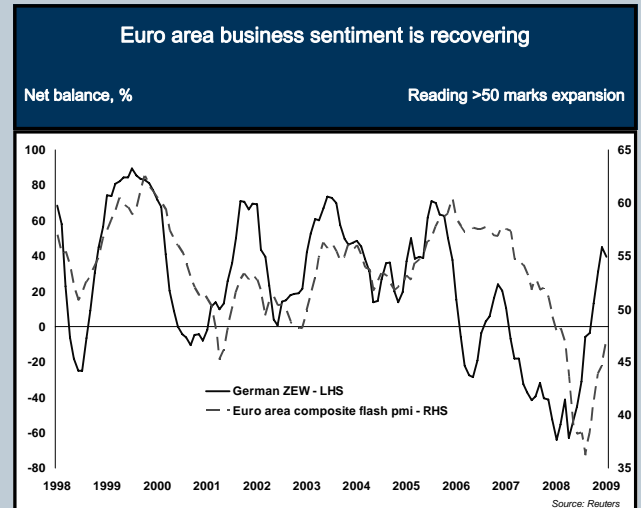
“Business confidence is recovering in the euro area...”

“... this is feeding through to the commercial property market”

Euro area business sentiment is improving

- The German ZEW investor sentiment survey and euro area flash PMI survey for August are due out on Monday 18th and Friday 21st respectively. The ZEW survey has improved from -63 last October to +39.5 in July, but that reading was slightly below June's (+44.8). Likewise, the PMI survey has also recovered somewhat after reaching +36.2 in February 2008, but at 46.8 in July it suggests that economic activity is still contracting, albeit at a slower pace.
- The turnaround in business sentiment in the euro area is not restricted to the above two indicators. Indeed, sentiment is beginning to recover lost ground according to a range of measures including the French INSEE business climate index and the Italian ISAE business confidence index. And, this Thursday, the recent pick up in sentiment was reflected in actual activity, with the French and German Q2 GDP prints in the Eurostat flash estimate unexpectedly showing positive growth which was likely to have surprised the ECB. For the euro area as a whole, GDP fell by 0.1%.
- The commercial property arena within the euro area is also beginning to benefit from the general recovery in business sentiment. The Q2 2009 RICS Global Commercial Property Survey showed that, in Western Europe, although

both occupier and investor demand continued to fall, it did so at a slower rate. The survey also showed that capital values continued to fall at just below the pace recorded in Q1. Further declines are expected in occupier demand and capital values but the moderation in the pace of these declines is expected to continue.



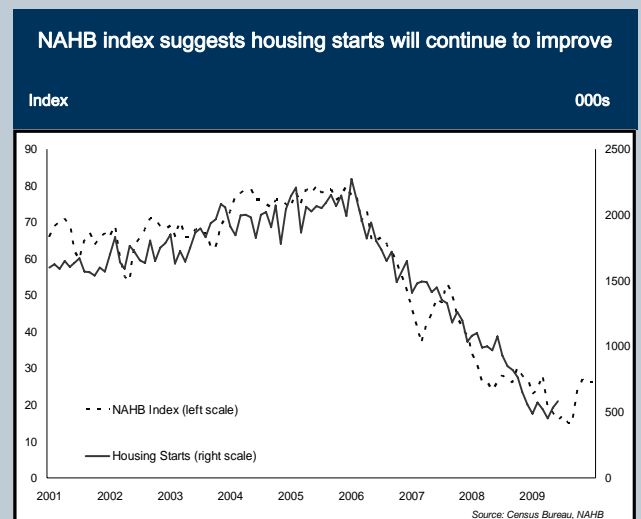
“The NAHB index probably edged up again in August”

“Improvements in sentiment have in part been boosted by rising home sales”

US housing market improving very gradually

- The closely watched NAHB housing market index is due for release on Monday 17th. Although the survey has shown that builders' sentiment has improved from the lows at the start of 2009, little further progress has been made in the past four months. The headline index has moved from 14 to 17 between April and July while the forward looking component has moved between 24 and 27 over the same period. Given other signs that the economy is stabilising – for example, residential construction spending has improved marginally and the pace of job shedding has eased – the NAHB index probably edged up again in August.
- Following from this, housing starts data will be published on Tuesday 18th. Historically, the NAHB forward looking index has been a relatively good lead indicator of housing starts in the coming six months. That relationship suggests that housing starts will hover between 450,000 and 600,000 per month (seasonally adjusted and annualised) for the next few months. Admittedly that still means that housing starts are near historic lows – but the 582,000 starts reported in June was the highest level since November last year. Strength in recent building permit numbers (including a 10% m/m increase in June) suggest that housing starts should continue to increase, albeit gradually, from here.

- This improvement in sentiment has in part been boosted by rising home sales. Existing home sales jumped by 4% between May and June. Pending home sales also posted a fifth consecutive monthly rise (of 5% in June) suggesting that recent improvements will be sustained when the next round of existing home sales data are released on Friday 21st.



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