

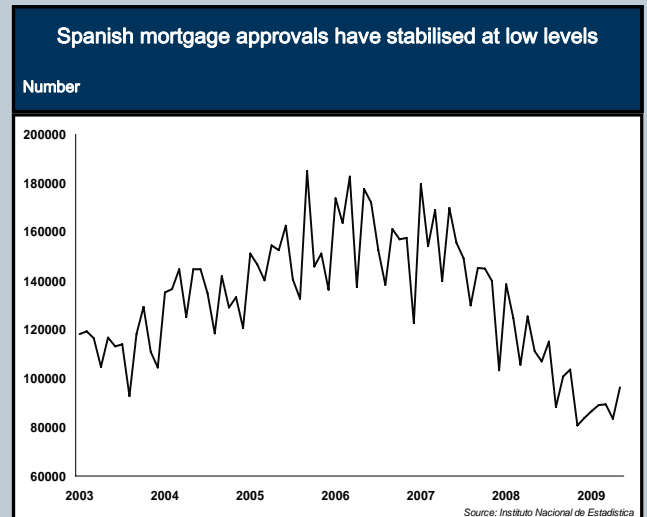
Spanish housing market activity shows signs of stabilisation

“Spanish mortgage approvals are 19% above their low...”

“...but earlier than expected ECB tightening could choke Spanish mortgage demand”

- Official Spanish mortgage approvals data for June is due on Wednesday 26th. Approvals increased to 96,397 in May, 19% above the series low point reached in November 2008. However, this is still 27% below the long run average for this series (132,087 since January 2003) and 48% below its peak (184,936 reached in September 2005).
- The stabilisation in approvals can be explained, at least in part, by three factors. Firstly, Spanish consumer confidence has risen from its low of -48 reached in February to -20 in June. One of the main factors driving this improvement is significantly lower unemployment expectations. Secondly, the (weighted) average mortgage lending rate halved from 6.1% in October 2008 to 3.1% in June 2009. Finally, the correction in house prices that has already taken place is resulting in improved affordability. According to the Spanish housing ministry, house prices were 8.3% below their peak in Q2. The Q2 release from the INE due in September will probably show an even larger fall. As a result, the Bank of Spain's house price to earnings ratio has fallen from 7.7 in Q4 2007 to 6.8 in Q2 2009 (although this is still above the long run average of 5.1 since Q1 1995).
- Looking forward, the above three factors are likely to further reinforce the recent trend in mortgage approvals.

However, one possible downside risk is that with an earlier than expected recovery in the euro area (quarterly GDP growth was -0.1% in Q2), the ECB might raise interest rates sooner as well. Since around 90% of Spanish mortgages are tied to short term interest rates, any such move by the ECB would directly impact Spanish mortgage demand.



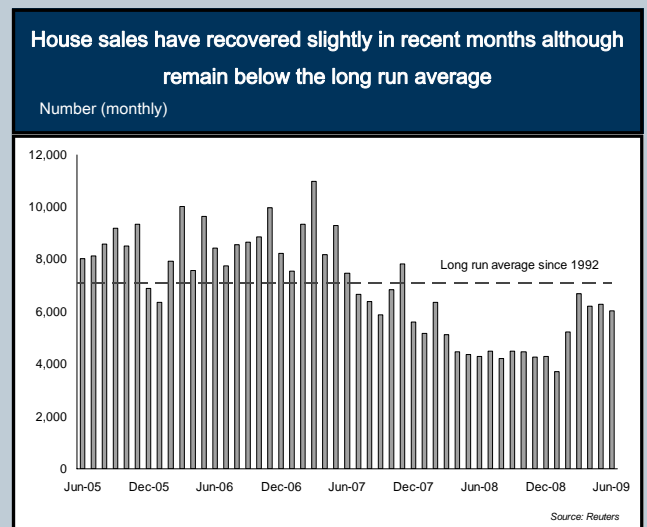
“Housing activity has recovered recently...”

“...although rising mortgage rates and higher unemployment pose renewed risks to the market”.

New Zealand housing recovery to meet renewed headwinds

- Next week sees the release of the latest construction activity indicator in New Zealand. Building permit figures are due on Friday 28th and come off the back of some mixed signals on the economy in recent weeks. RICS expects a marginal improvement in the building numbers but a strong recovery is unlikely.
- There have been some improved signs in the residential property market of late. The Real Estate Institute of New Zealand (REINZ) have reported that house prices and sales were flat in July from the previous month. Sales volumes held steady at just over 6000 properties, representing a rise of over 30% on the previous year. Average prices edged up to NZ\$ 340,000 which is only 3% below the market peak in November 2007 at NZ\$ 351,000. Other data also confirms that price declines have eased in recent months. Quotable Value, a data provider, reported that house prices are down by 5% in the year to July but the rate of decline has slowed for four consecutive months.
- Whilst activity declines may have eased in recent months, sales volumes remain 45% below their peak of close to 11,000 back in March 2007. Any suggestion that the market has found the foundations for a sustainable recovery must be treated with caution. Recent labour market data has been very gloomy. Unemployment rose sharply to a

six year high of 6% in June with employment surveys also pointing to a further easing in wage growth and hours worked. Significantly, mortgage interest rates are now on the rise after falling sharply since mid-2008 after the base rate was cut by almost 6%. A second down-leg in the market cannot be ruled out against this backdrop.



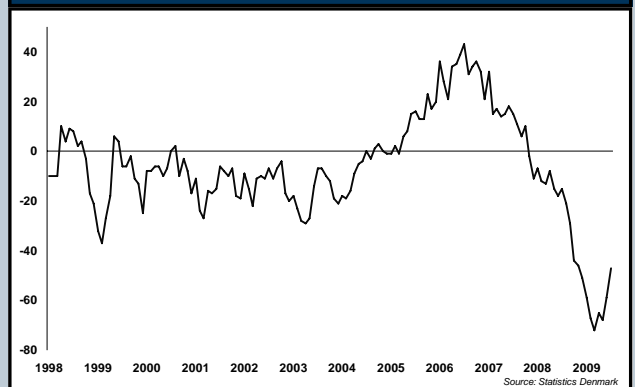
Danish homebuilders' sentiment to remain weak

- Official data on Danish building sentiment for August is due on Friday 28th. One of the components of this data release is homebuilders' sentiment. This has improved for the third consecutive month to reach the highest level since last December. However, at -47 in July, sentiment amongst homebuilders remains very depressed and well below the long run average of -7 (since January 1998).
- In part, the lower sentiment is a response to an oversupply of new homes from a homebuilding boom in recent years. One way of crudely estimating the degree of oversupply of new homes is by looking at the ratio of residential investment to GDP. This reached a high of 7% in Q3 2006 and although it has come down since then, at 5.7%, it is still well above the long run average (of 4.6% since 1990). This suggests there is still considerable excess supply of new homes. In addition, the housing market has been subdued by lower levels of mortgage lending. According to the Association of Danish Mortgage Banks, gross lending fell by 40% between Q4 2007 and Q1 2008. By the end of 2008, it was still about 25% lower than 12 months earlier.
- Looking forward, a recovery in homebuilders' sentiment is likely to depend on working-off excess inventories of new homes and a resumption of new mortgage lending. On the first issue, this will be a slow process at best but made

even slower given sharply rising unemployment (currently 6.2%, double the level 12 months ago). On the second issue, the volume of mortgage lending is likely to benefit from lower mortgage rates (5.2% in Q2 2009 compared to 7.4% in Q4 2008) and a resumption of new lending but a return to pre-credit crunch levels is unlikely anytime soon.

Homebuilders' sentiment will probably remain weak

Net balance, %



“Homebuilders sentiment is weak...”

“...because of oversupply of new homes and low levels of mortgage lending”

Activity improves but prices fall in US housing market

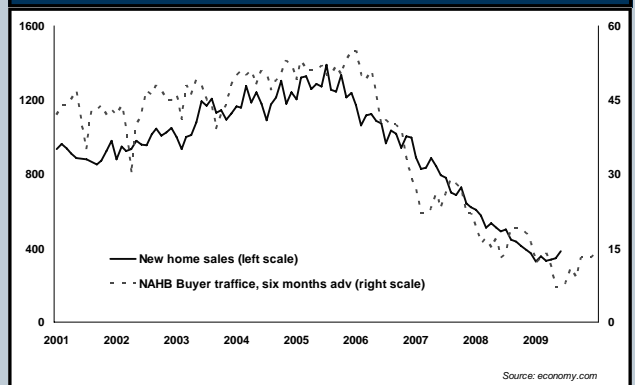
- Another update on US house prices is due next week when both the Federal Housing Finance Agency (FHFA) and Case-Shiller (CS) house price indices for June are released on Tuesday 25th. Recent data has suggested that the housing market is stabilising but this relates more to housebuilding and transaction levels than house prices.
- The FHFA index reported a 0.9% increase in May. Monthly volatility since the start of the year left house prices in line with their level in December 2008 and 5.6% lower than 12 months earlier. The CS index, which covers 20 major cities, reported that prices fell by 0.2% in May – that was the smallest fall since February 2007. It still left house prices 17% lower than in May 2008. Higher mortgage interest rates and a weak labour market will continue to weigh on house prices although government measures, such as the first homebuyers' tax credit, may help counter this to some extent. Nevertheless, the downward trend in house prices is expected to continue over the rest of this year.
- The update on house prices is followed by a release of new home sales data for July on Wednesday 26th. Three consecutive monthly rises in new homes sales (including an 11% jump in June) have reversed the collapse in home sales seen at the start of 2009. But at 384,000 (seasonally adjusted and annualised), they were still 21% lower than

June 2008 and 44% below the long-run average (since 1963). Given the magnitude of last month's rise, new home sales may well have fallen back slightly in July. But the recent modest improvement in buyer traffic, reported in the National Association of Home Builders survey, suggests that new home sales should hover around their current level, or improve slightly, over the next few months.

Builders' survey suggests new home sales are past the worst

000s

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“The downward trend in house prices is expected to continue”

“New home sales could improve further in the months ahead”

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