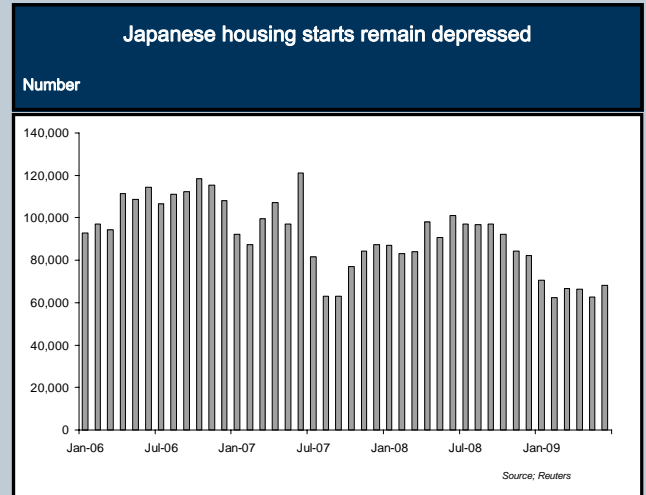


## Japanese housing starts to continue edging higher

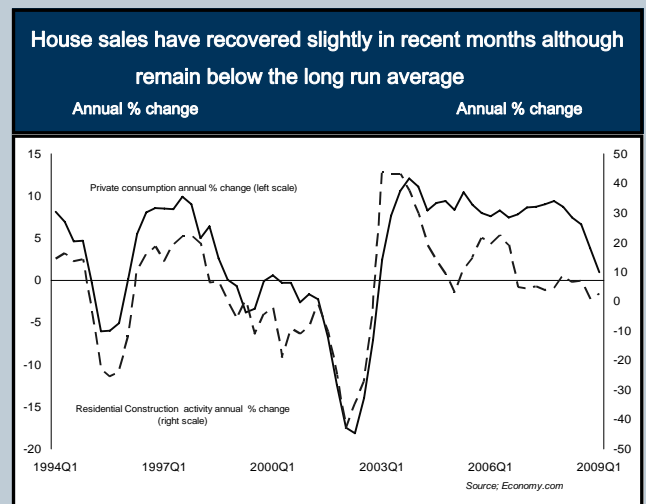
- Next week sees a raft of economic data released in Japan which will provide key indications to the near term health of the real estate market. Kicking off the week is the publication of housing starts and construction orders on Monday 31<sup>st</sup>. Released on the same day are the latest retail sales data, nominal wages and preliminary industrial production numbers. An assessment on the rental outlook for the office sector may be made clearer with the release of the latest PMI business survey of the services industries which is due on Thursday the 3<sup>rd</sup> of September.
- RICS expect housing starts to have edged up further in July following on from the 8% increase recorded in June. At 68,000 in June however, housing starts remain around 40% below the long run average since 1979 of 110,000 starts a month. Even compared to the deflationary era, Japanese housing starts are currently 30% below the average for that decade. With some improvement in housing starts and generally less pessimism in the wider economy, RICS expect a pick up in construction orders which are currently running around 30% below year ago levels.
- Retail sales and nominal wage data will be key barometers to gauge the health of the Japanese labour market. Unemployment is rising rapidly in Japan following the huge loss

of output in the wake of the downturn in global trade. At 5.4% in June, the unemployment rate is set to surpass a thirty year high in the coming months. Any indication that wages are coming under pressure alongside continued rises in unemployment may weigh heavily on residential property pricing into 2010, despite indications that the worst of the global downturn has passed.



## Argentine construction activity to continue its recovery

- Construction activity data for June in the Argentine economy is released on Monday 28<sup>th</sup>. The latest figures will give a snapshot on how the impact of sharply slowing growth and strained access to credit have fed into one of the most vulnerable sectors of the economy. RICS expect that annual growth in construction activity may move back into positive territory for the first time in three months as favourable base effects lift the comparative figure. That said, consumer spending appears to be slowing sharply which would historically point to a generally weak residential construction sector going forward.
- A similar trend has occurred for commercial construction activity which is largely flat compared to September 2007. It is still 12% below a recent peak in September 2008 although has improved in recent months averaging 3% m/m growth since March. With oil prices on the rise again and the near term outlook for the global economy having perked up, construction should gain some support.
- Construction activity has held relatively steady in Argentina at the headline level since the onset of the credit crunch in September 2007. However this flat picture has masked sharp variations in the sub components of construction activity. Sharp declines in Petroleum and "other" infrastructure categories, which have contracted by 33% and 5% respectively, have been offset somewhat by rising activity elsewhere. Indeed, in the residential property sector, construction activity is now marginally higher than where it stood back in September 2007 although it is still 8% below a recent peak hit prior to the Lehman Brothers collapse in September 2008.



“Housing starts remain 30% below the decade average...”

“...with rising unemployment likely to weigh on residential property prices into 2010”

“The biggest declines in construction have been in the petroleum infrastructure ...”

“...with residential and commercial showing more resilience”

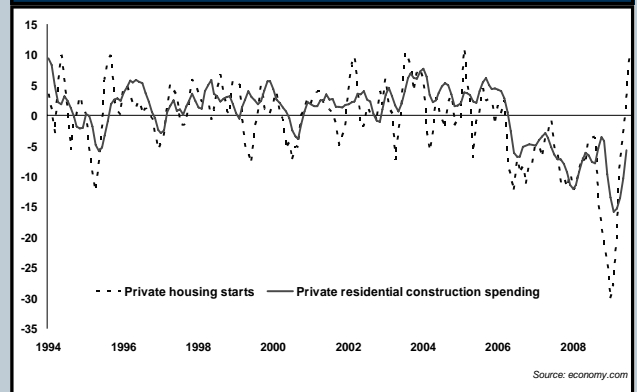
## US residential construction recovery to continue

- An update on the US construction sector is due next week with the release of construction spending data for July on Tuesday 1st. Total construction sector spending has shown modest signs of stabilisation in recent months although the 0.3% monthly increase recorded in June was not enough to reverse the 0.8% fall in May. Smoothing over monthly volatility, the 3m/3m rate of decline has eased slightly but construction spending is still 10% lower than in June 2008.
- The prolonged downturn in the residential construction market has made a marked impact on the composition of the construction sector in general. At the peak of the residential construction boom, private residential construction accounted for 56% of total construction expenditure. Since then, spending on residential construction has fallen by two-thirds and it now makes up just 25% of the total. In June, private residential construction increased by 0.5%, suggesting that recent improvements in housing starts are now feeding through into construction activity. On the strength of that, a further increase in construction spending in July seems likely.
- Consistent with reports that commercial construction activity is drying up, private non-residential construction fell (by 0.5%) for the third consecutive month. Even manu-

facturing construction spending, generally the strongest sub-sector, was virtually unchanged between May and June. Given that the commercial property downturn in the US has lagged behind the residential downturn, subdued levels of spending are likely to continue over 2009.

### Private residential construction spending expected to increase

3m/3m % change



“Private residential construction spending should continue to improve”

“Subdued activity is expected in the non-residential sector”

## Australian building approvals will rise further

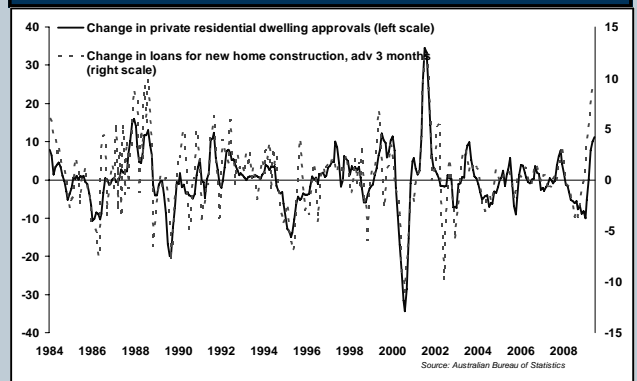
- Next week, the latest update on the Australian property market will come from building approvals data for July, to be released on Tuesday 1st. These numbers should reflect that building activity has continued to thrive in the private residential sector. Total building approvals rose by 10% on the month in June, offsetting most of the 11% fall reported in May. That weak number, however, was largely a reflection of a sharp drop in non-residential building.
- By contrast, the steady upward trend in approvals for private residential house building continued with a 4% rise in June. That continued improvement can be attributed, at least in part, to the First Home Owner Boost scheme, which offers first home buyers up to AUS\$21,000 for purchase of a new home. Consistent with the growth in housing finance loans for new home construction, which have averaged around 4% a month over the last three months, building approvals are likely to have increased further in July.
- As many potential buyers will be anxious to purchase before the Boost scheme is rolled-back from the end of September, residential construction activity is likely to continue to prosper over the next few months. Although a downturn in the subsequent period cannot be ruled out, it does appear that Australia will avoid a collapse in residen-

tial construction that has been experienced in other countries during the global financial crisis. It is also encouraging that the Boost scheme, combined with low interest rates, has contributed to increasing levels of supply in the Australian housing market. In the future, that may help to ease the upward price pressures in the Australian housing market.

### Housing finance data suggest that building approvals will rise further

3m/3m % change

3m/3m % change



“There has been a steady upward trend in approvals for house building...”

“...and will continue to increase before the Boost is rolled-back”

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