

## Chinese real estate activity gaining traction

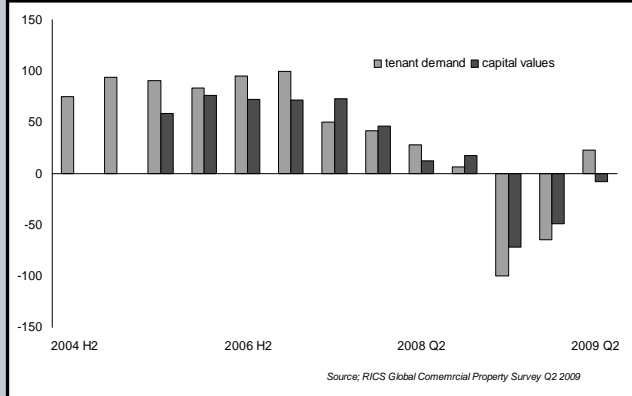
“ RICS survey suggests development activity is no longer falling ”

“...with annual real estate investment likely to return to double digit rates ”

- Next week sees a raft of economic data released in China which should provide an indication as to whether the strong rebound in economic activity has continued into July. The release of the fixed asset investment (FAI) figures on Tuesday 11<sup>th</sup> will provide a guide into how entrenched the upturn in real estate construction activity is becoming. Retail sales and industrial production data are also due on Wednesday 12<sup>th</sup> which will be key barometers for the health of the commercial property market. Kicking off the week, however, will be the latest inflation data on both consumer and producer prices on Monday 10<sup>th</sup>.
- The recent RICS global survey of real estate agents suggests that commercial real estate development activity in China held steady between Q1 and Q2 of this year. Indeed, the survey suggests that development starts edged up in the industrial property sector and stabilised in the office and retail markets having fallen back in the preceding two quarters. Rising industrial starts could be a response to recent reported declines in pipeline development in that sector. This compares to increases in pipeline development in both the office and retail markets. Availability is also rising at a more modest pace in the industrial sector but at a faster pace elsewhere.
- With confidence in the Chinese economy improving, RICS expect that the FAI data will reveal that real estate investment is now growing at double digit rates on an annual basis for the first time since 2008. Retail sales and industrial production should also provide some cheer for real estate agents in these sectors, adding to recent optimism on lettings market activity in the latest RICS survey.

### Capital values are stabilising as lettings demand turns up

% Net balance



## Further falls in store for Canadian house prices

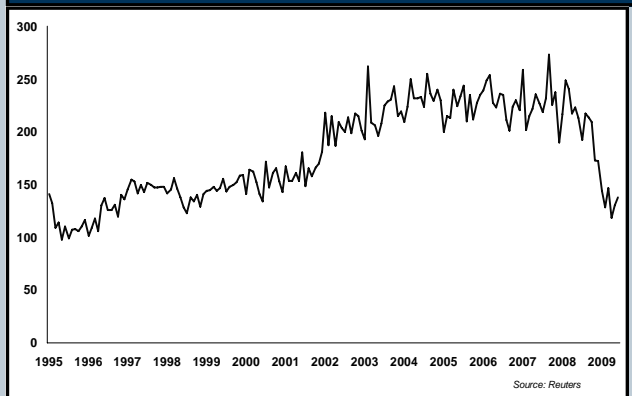
“House prices will fall another 3%-5% in 2009 ”

“Housing starts will remain subdued for several months”

- A further update on the Canadian housing market data is due next week with house price data for June released on Tuesday 11<sup>th</sup>, followed by housing starts for July on Wednesday 12<sup>th</sup>. The latter is a more forward looking indicator that will provide some insight into the strength of the housing sector over the remainder of the year.
- House prices in Canada fell sharply in the first four months of 2009 but a more moderate monthly fall of 0.1% in May left the annual rate of decline unchanged at 3%. At a regional level, the annual rate of decline in Alberta eased for the first time in 11 months. That still left prices 10% lower than 12 months earlier. By contrast, in Quebec, the most recent index reported prices up by 3%/y. Prices in that region have been virtually unchanged in the past three months suggesting that residual strength is starting to fade. Economic weakness and a relative lack of demand has dampened the outlook for the housing market. Further falls of 3% - 5% in the national average house price over the rest of 2009 seem plausible.
- The seasonally-adjusted, annualised rate of housing starts was 138,000 in June 2009, 35% lower than the 213,000 recorded in June 2008. These weaker numbers reflect the subdued state of the residential construction sector. But this is not an unsurprising consequence of a boom in housebuilding that extended from 2002 to 2008, when the rate of housing starts averaged at over 220,000. With that in mind, further falls in housing starts is the most likely outcome for the rest of 2009.

### Canadian housing starts still falling after extended boom

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“ The pace of declines in capital values is easing ”

“...with property derivatives showing greater optimism on prices in recent weeks ”

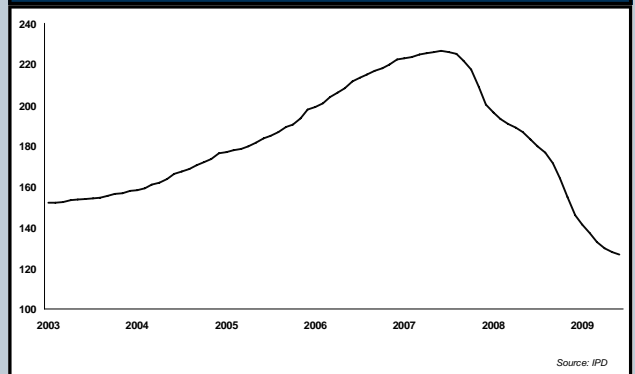
## Declines easing in UK commercial property

- An update on the UK commercial market is due next week when the IPD releases its monthly index for July on Friday 14<sup>th</sup>. This will be closely watched for signs that the downturn in commercial property markets may be easing. Capital values measured on this index have been falling on an annual basis since November 2007 and, in June 2009, were 44% off their peak. Encouragingly, the pace of monthly capital value declines slowed to only 0.9% in June compared to monthly falls of close to 6% back in December.
- Weakness in the occupier markets has led to a 7% drop in rents since their peak. Compared to previous cycles, we remain only a short way into the current rental downturn although there have been some encouraging signs of late that the pace of falls may start to ease. Improvements in the economy should gradually filter through into the labour market although rental declines will continue into next year. Significantly, RICS members were much less pessimistic on rental expectations compared to Q1 in the most recent commercial property report.
- Improvements in the economic outlook have also filtered into expectations towards future values. The property derivatives market is no longer looking for further falls in

capital values between now and Dec 09 suggesting that some recovery in prices may be with us before year end. Falling rents, combined with the lessening in capital value declines, is leading to a stabilisation in the yield index. Between May and June, yields in retail and industrial property were unchanged, at 7.6 and 8.2 respectively and only moved 20 basis points higher to 8.2 for offices.

### Declines in capital values have slowed in recent months

Index level



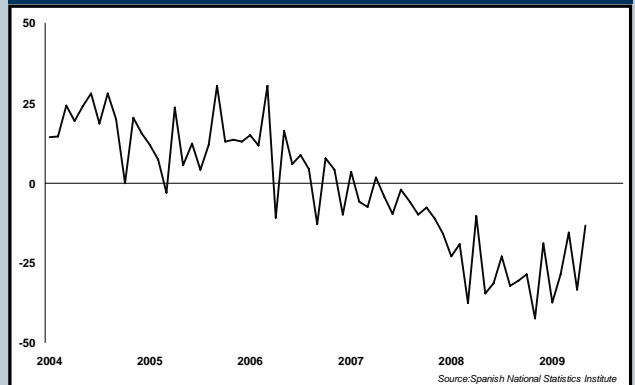
## Spanish residential property activity passes trough

- Recent data from Spain provides tentative grounds for concluding that the worst of the adjustment in the residential property market is nearing the end. Transaction figures, while still pretty gloomy, are now posting rather more modest year-on-year declines. Similarly, the number of mortgages issued also appears to be picking up; at its worst point, the annual drop was close to 40% but the May reading was negative to the tune of around 13%.
- Meanwhile, there are also signs that a gentle turnaround in activity is beginning to feed through to prices. Most indices still suggest that prices are falling but the indications are that they are now doing so at a lesser pace. Probably the best example of this comes from the Housing Ministry. This measure shows that prices fell by 1.9% in the second quarter following a 3% drop in the first three months of the year; the index is now showing house prices at just 8% below their peak. Another series from Tinsa, the property valuation business, tells a pretty similar picture. Many developers suggest, however, that the magnitude of the price decline is actually somewhere between 20% and 30%.
- An improvement in PMI surveys and other confidence measures should be reflected in the flash Q2 GDP release on Friday 14<sup>th</sup>. While this indicator will still post a contrac-

tion in output, possibly of around 0.7%, it will be rather less than was envisaged just a short while ago. However, even if the economy begins to pick-up in the latter part of the year, the high level of unemployment allied to the glut of properties in certain areas and a strong euro suggests the recovery in the property market is likely to be drawn out.

### Spanish mortgage issuance

Annual % change



“ Mortgage issuance appears to be picking up... ”

“...but the recovery in the property market is likely to be drawn out”

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