RICS Global Real Estate Weekly

Dec 11th 2009

US home builders sentiment to benefit from tax credit extension

"The NAHB report is likely to imply that home builders face another challenging year ahead..."

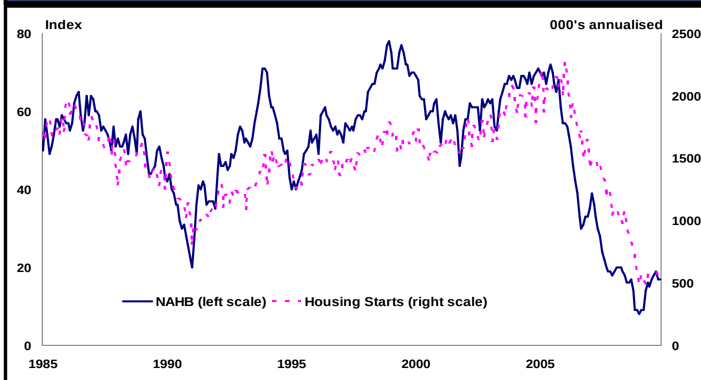
"the inventory of homes currently being built stands at a record low ..."

- The coming week will provide a further update on the state of the US house building sector with the release of the NAHB survey for December on Tuesday 15th and November housing starts data on Wednesday 16th. The last NAHB report came in below expectations with the headline index remaining unchanged at 17. Although this is someway above the low point seen at the start of the year, it is down on the summer high and remains way below the historical trend as demonstrated in the chart. RICS expects the December survey to have a more positive tone if only because it will capture the recent decision to extend the tax credit for first time homebuyers. However, this closely watched measure of sentiment is still likely to imply that home builders face another challenging year ahead.

- Meanwhile, the actual level of housing starts continues to hover close to historic lows. The 10.6% drop in October was the biggest monthly fall since January. More ominously, new building permits also slipped back by 4%. While this does not mean that there won't be a modest rebound in the November starts data, the weakness in permits does indicate that future home construction will remain relatively subdued. Significantly, the inventory of homes currently being built now stands at a record low of just 560,000. This casts some doubt over whether residential investment, which contributed to growth in the third quarter of the year for the first time since 2005, will continue to be source of support for the economy.

- The other important event next week will be the FOMC meeting. This also takes places on Wednesday 16th. The Fed is likely to reiterate its slightly more positive view on the economy while remaining sanguine about inflation. It will continue to conclude that these circumstances warrant maintaining the exceptionally low level of the federal funds rate for an extended period.

Both the NAHB index and housing starts remain weak



Source:Reuters

Rebound in New Zealand house price increases prospect of a rate hike

"Since bottoming out , house prices have climbed by 9% to reach a new record high"

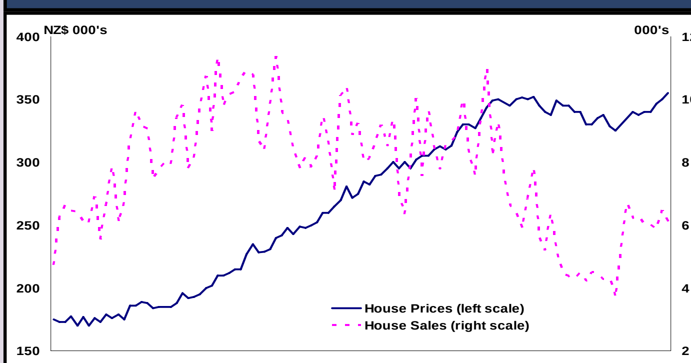
"Interest rates could be raised as soon as March"

- Data on the New Zealand residential market is published on Monday 14th. The figures from the Real Estate Institute of New Zealand (REINZ) are likely to provide further evidence that the recovery in house prices is continuing after the turbulence of last year. Between November 2007 and January 2009, the REINZ numbers suggest that residential property prices fell by close to 8%. Although a bigger drop than in Australia where the peak to trough adjustment was just over 5%, the decline is relatively modest in comparison with the retracement seen in both the US and the UK. Since bottoming out at the beginning of this year, prices in New Zealand have climbed by 9% to reach a new record high.

- Sales activity, despite slipping back a little in October, has also picked up from the lows but remains way down on the high water mark touched in 2007. The improvement in turnover has also been reflected in a drop in the number of days it is taking to sell a typical house; this currently stands at 31 days compared with 47 a year ago. A key reason why the rebound in the level of transactions has been relatively muted is the continuing cautious stance from lenders to providing finance to households.

- Significantly, although the Reserve Bank of New Zealand (RBNZ) left interest rates unchanged at 2.5% at its December meeting, it did draw specific attention to the strengthening in the housing market. Indeed, it noted that residential prices are likely to move higher in the near term on the back of low mortgage rates and relatively strong net immigration into the country. This, coupled with more positive developments on the wider economy, actually encouraged Alan Bollard, the RBNZ Governor, to suggest in the latest Monetary Policy Statement that some policy tightening is likely around the middle of next year. Indeed, it is not inconceivable that the first interest rate hike could be sanctioned as soon as March.

House prices rebound more smartly than transactions



Source:Reuters

Singapore residential prices outperforming commercial

"House prices rose a massive 15.8% in Q3"

"...although commercial values fell a further 1-2%"

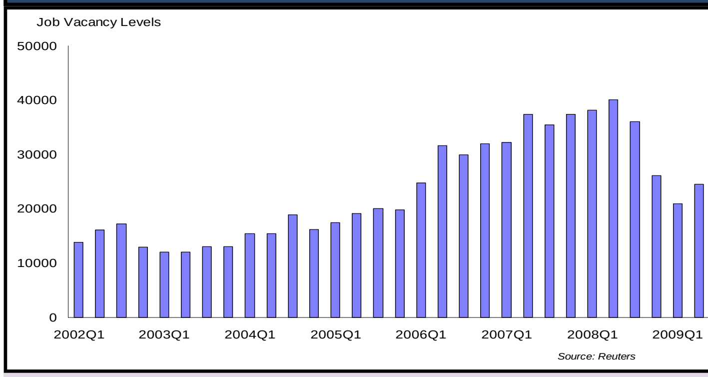
- Several pieces of key economic data are released in Singapore next week with retail sales figures due on Tuesday 15th and exports data released on Thursday 17th. The Singapore economy has witnessed a sharp turnaround over recent quarters and improvements in the global economy should filter into both exports and domestic demand. Indeed, the extent of the rebound in the residential property market has been so pronounced that some policymakers have raised concerns that additional measures to slow the market need to be enacted.

- House prices rose a massive 15.8% in the third quarter, retracing over half of the lost ground which saw peak to trough falls of 27%, since the global economic crises got underway. Interestingly, similar price growth has not occurred in the commercial property arena. Office property fell a further 2% in Q3 as was also the case for industrial properties, whilst prices for retail shop space fell by 1% in value. Overall this takes the peak to trough declines to 27% for offices 12% for shops and 23% for industrial properties.

- One explanation for the divergence in pricing trends could be the fact that the commercial property sector operates as an investment market and is priced in accordance to its appeal on a global basis. On a relative basis, property yields in Singapore remain low when compensating for the risk of income voids.

- One other factor weighing on the commercial sector appears to be on the supply side. The latest survey from RICS of commercial property agents in Singapore shows that availability has been picking up at a generally faster pace since Q2 2008 impacting heavily on rental expectations. The greatest pessimism has been in the office sector, followed by industrial and then retail with the trend for surveyor inducements telling a similar tale. With job vacancies now rising and housing loans up 2.4 % in October, residential price increases seem inevitable.

Singapore job vacancies have started to pick up



Eurozone construction sector could see uplift in H2 2010

"Construction output has fallen further in the UK and than in the Euro-zone…"

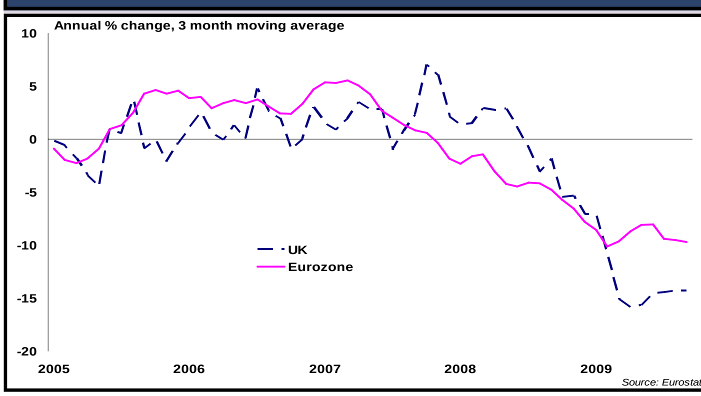
"…but the UK is likely to be closer towards stabilisation"

- Eurozone construction output data for October is due on Thursday 17th. Taking a three month moving average to smooth out the monthly volatility, output is down 9% y/y (and 16% below its December 2006 peak). However, this masks considerable variation between member states; output in Spain is down 16% y/y, whist in France and Germany, it is down by 9% y/y and up by 3% y/y respectively.

- In the UK by way of contrast, the construction sector has been hit harder than the Eurozone's (in aggregate). There is, however, evidence to suggest that the worst is nearly over. Indeed, the Eurostat data for the UK shows that output is down by 14% y/y, but crucially, indicators of momentum suggest that output is now only falling at a 3% annualised rate (on a three month on three month basis). This chimes with the quarterly RICS Construction Market Survey, which showed continued but subdued falls in workloads during Q3 (the net balance improved to -6 compared to its trough of -47 in Q4 2008).

- 2010 is likely to witness a stabilisation in UK construction output. Indeed, workload expectations over the next 12 months in the RICS Construction Market Survey turned positive in Q3 for the for the first time since Q1 2008, although only moderately so with net balance of +9. At the Eurozone level, the outlook is less certain. Indicators of momentum suggest that the pace of contraction is accelerating in Germany, France and Spain. But such indictors are inherently short term and do not reflect recent positive developments in the economy, which may feed through to the construction sector later on in the year. Indeed, German and French GDP expanded for the second consecutive in Q3 (at 0.7% and 0.3% respectively, q/q), whist in Spain, GDP continued to fall but at a much slower pace than in Q2 (-0.3% q/q vs. -1.1% in Q2).

UK and Eurozone construction output has suffered



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