

Positive outlook for Greek house prices

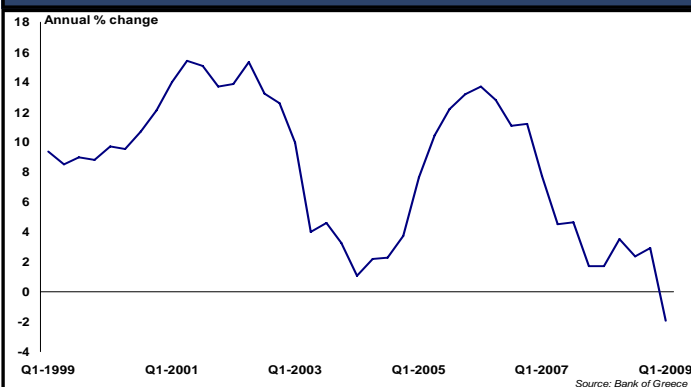
- The Q2 release of the Bank of Greece home price index is likely due next week. Annual house price growth peaked at 13.9% in Q1 2006 and then moderated gradually until Q1 2009, at which point it turned negative at 1.9% (due to a 3.9% fall on the quarter).
- The resilience of Greek house prices can be explained, in part, by the following factors. First, Greece has experienced a relatively mild economic downturn and this in turn has prompted only a modest labour market adjustment. Indeed, GDP only fell in Q1 2009 (by 1.2%) and recovered in Q2 (rising 0.3%). As a result, the unemployment rate has only increased slightly from its low of 7.5% in June 2008 to 8.7% presently. Second, the volume of mortgage lending has levelled off rather than actually contracting. The ECB M3 data shows Greek lending for home purchase actually increased by 2.3% y/y in July. Thirdly, average mortgage lending rates have fallen sharply from 5.35% in October 2008 to 3.86% presently. Finally, to the extent that there was any overbuilding of new homes in Greece, this process is now being reversed. Indeed, residential investment as a share of GDP rose above its long run average (7.4% since Q1 2000) between 2005 and 2007, reaching as high as 9.2% in Q3 2006. However, it has fallen in every quarter since then to its current level of 5%.

“Greek house prices have only fallen modestly...”

“...further falls are likely to be limited in magnitude and duration”

- Looking forward, house prices may well fall further. However, such price falls are likely to be limited in magnitude and duration given the improvements in the hard data (mentioned above) as well as in the soft data. On this latter point, Greek consumer confidence is recovering (currently -45 compared to -57 in October 2008) and unemployment expectations in particular are receding (currently -62 compared to -74 in February), according to the European Commission’s monthly sentiment survey.

House prices have only fallen slightly in Greece



Canadian property market outlook still weak

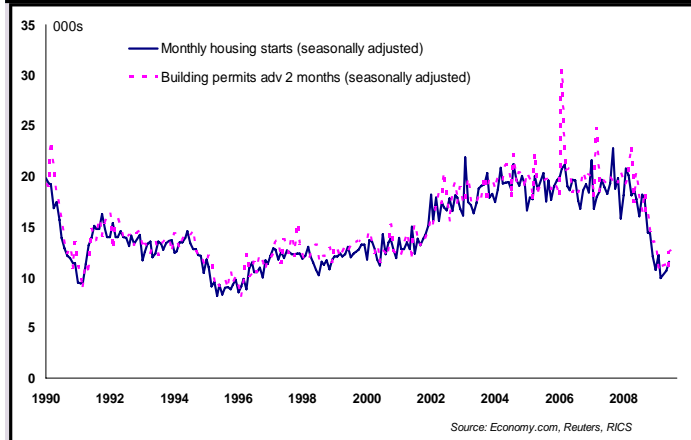
- A comprehensive update on the Canadian property market is due next week with the release of data on building permits for July on Tuesday 8th, followed by housing starts for August on Wednesday 9th and house price data for July on Friday 11th. The house price data provide a review of how the housing market has fared in recent months while data related to housing construction are good indicators of sentiment towards the housing market in 6-12 months time.
- In July, Canadian housing starts stood at 134,200 (seasonally adjusted and annualised) – that was 2.5% lower than June 2009 and 30% lower than 12 months earlier. Moreover, although housing starts have increased by 13% from their low in April, they remain about 25% below the long run average. 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. A combination of economic uncertainty and high levels of existing homes for sale is likely to keep housing starts subdued over the rest of 2009. That said, recent improvements in building permits data suggest that the August number will show that housing starts were still around 135,000 or slightly higher.
- High levels of residential property for sale with only limited transactions are weighing on house prices in what is essentially

“Housing starts may edge up slightly...”

“...but house prices have further to fall”

a buyers’ market. At a national average, Canadian house prices fell by 0.2% in June, leaving them 3.3% lower than twelve months earlier. A similar trend is likely over the next few months and house prices still look likely to end the year 5% - 8% lower than where they started it.

Building permits point to further rise in housing starts



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Australian housing finance to increase before Boost deadline

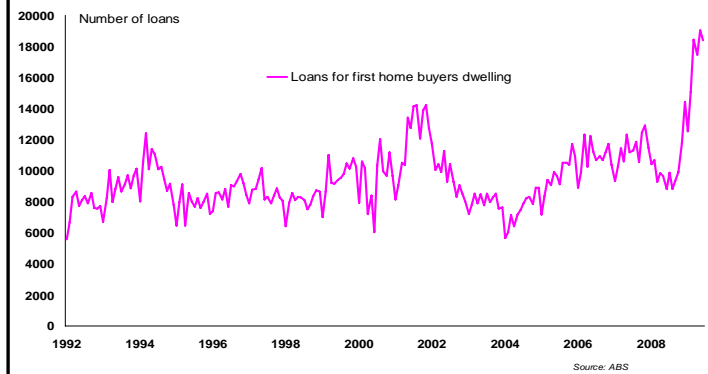
“Resilience in the housing market is helped by Government support”

“There are still signs that the market risks overheating”

- The resilience of the Australian housing market is likely to continue, at least for the next few months. That will provide further evidence for the story that, to date, house prices in Australia have held up remarkably well. Part of that resilience has been attributed to support from the federal Government for first home buyers – in the form of saving schemes and cash-subsidies of between AUS\$14,000 and AUS\$21,000 for home purchases.
- Indeed, the proportion of new finance for house purchase that is attributed to first home buyers hit a series high (since 1991) of 28.5% in May, before edging down to 27% in June. Even in June, the total number of first home buyers obtaining finance (18,400) had more than doubled since June 2008. The next update in this series will come when housing finance data for July is released on Wednesday 9th. With the First Home Buyer Boost scheme being rolled back from the end of September, the number of first home buyers is likely to edge up to near 20,000 over the next few months while the total number of new loans is likely to hover between 65,000 and 70,000 a month.
- But there are still signs that the housing market is in danger of overheating. The ratio of median house prices, as measured by the HIA-Commonwealth Bank index, to average income is still at 6.5 – although that is an improvement from the 7.3 hit at the

end of last year, affordability is still stretched compared to a long run average ratio of 4.5. Moreover, a recent survey has suggested that 20% of homeowners would struggle to meet higher repayments if lenders increase interest rates – something that looks increasingly likely as the RBA has indicated that it may soon have to lift base rates.

First home buyers at record highs



Korean interest rates on hold as real estate market rebounds

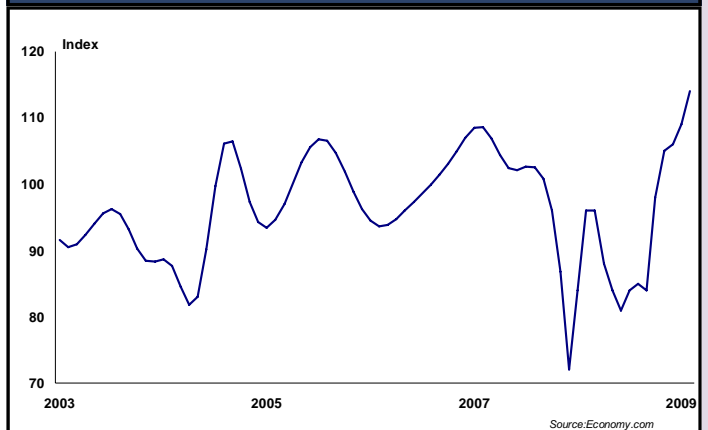
“Mortgage loans growing at fastest rate since Q107”

“A tightening policy is likely before the year end”

- The Bank of Korea monetary policy committee meets again on Thursday 10th against the backdrop of a further improvement in the economic news flow. Over the past month, there have been gains in the key indices measuring both business and consumer sentiment with the latter climbing to its best level since the middle of 2002. Meanwhile the recovery in exports continues to gain traction. In the three months to the end of August, exports increased by 34.9% (compared with the previous three month period). Significantly, imports have also begun to pick up in line with the firmer tone to domestic demand.
- The rebound in the Korean economy has also been reflected in the property market. Second quarter data shows that mortgage loans outstanding were 10.9% higher than a year earlier; this is the fastest rate of growth since the first quarter of 2007 and compares with an annual rise of 10.3% at the end of March. In addition, national house prices rose 0.3% in July (compared with June). This was the fifth consecutive monthly increase.
- The minutes of the last policy setting meeting of the central bank reveal some concern amongst decision makers about the impact of an ultra loose monetary policy on the real estate market. The latest inflation data, which saw the headline number rise to 2.2%, is also likely to keep the central bank on guard

(although it still remains below the 2.5 to 3.5% target). If the recovery in the economy continues to gain traction, a tightening in policy is likely before the year end but the authorities are likely to sit on their hands at the forthcoming meeting.

Consumer sentiment has rebounded strongly in Korea



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