

Weak economy hits house prices in Singapore

“Further house price falls likely in 2009”

“...prime areas most at risk.”

- Forthcoming releases on retail sales for November (Thursday 15th) and exports for December (Friday 16th) will provide a further update on the plight of the Singapore economy. Advance estimates of Q4 GDP show the recession to be deepening with growth contracting at an annualised pace of more than 12%. If that picture is borne out in the final numbers, it will represent the third consecutive quarter in which the economy has shrunk. For the time being, however, the unemployment rate still remains relatively low at 2.2%.
- Recently published figures from the Urban Redevelopment Authority demonstrate that the deterioration in the economic climate is now clearly having an impact on the property market. Residential property prices dropped a hefty 5.7% in the final three months of 2008 following a 2.4% decline in the previous quarter. The latest data is a flash estimate based on transaction data lodged during the first ten weeks of the period. However, the final number, when it is announced on Friday 23rd, is unlikely to be materially different. Disaggregating the data a little further show the price falls were most modest in Outside Central Region and greatest in (the prime) Core Central Region. This, to a large extent, reflects the outsize gains in the latter area over the past few years.

- Further house price declines are likely over the balance of 2009 with a disproportionate amount of pain continuing to be felt in Core Central Region. This will in part reflect a further drop off in interest from foreign investors who have played an important role in driving up prices in prime areas; in 2007, they accounted for about a half of all purchases.

Residential property prices in Singapore have now fallen for two consecutive quarters

% quarterly change



House price falls to continue during 2009 across NZ

“House price falls to date have been modest...”

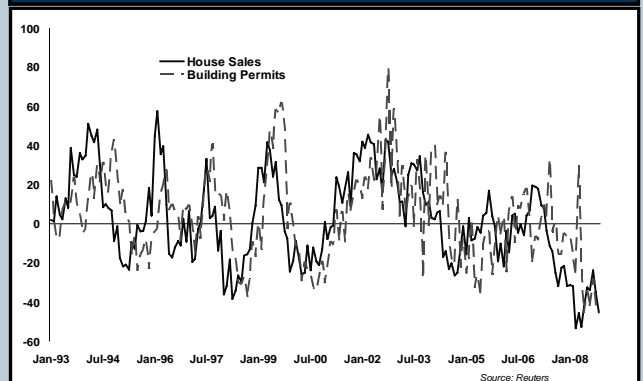
“..although transaction declines suggest further falls likely”

- Next week sees the release of several pieces of data which will provide the latest insight into the New Zealand housing market. On Tuesday 13th, building permits figures will be released, whilst on Friday 16th house price statistics are due from a government appraisal based agency, QV Ltd. Having already recorded three quarters of contracting output, recent economic data continues to point to weakness with little sign of any near term recovery across both housing and construction. Unemployment will rise through 2009 whilst the credit environment will remain challenging adding further downward pressure on house prices
- On the two major measures of house prices, registered falls to date have been modest when compared to many other developed countries. Median house prices based on the REINZ (Real Estate Institute of New Zealand) measure were down a mere 4.1% in the year to November, which appears mild given a much larger 45% decrease in transaction levels and credit rationing in the banking system. Based on the appraisal based measure carried out by QV Ltd, a 6.8% decline was reported over the same period.
- Whilst both of these measures appear to show fairly limited declines to date, what appears certain is that further falls are in the pipeline as the New Zealand economy, with

its high exposure to global trade moves deeper into recession. Consumer confidence is coming under renewed pressure with the latest Westpac survey slipping back in Q4. As house sales continue to fall building permits will remain subdued despite fiscal stimulus plans to accelerate infrastructure spending and December's 150 basis point reduction in interest rates to 5%.

House sales tend to lead building permits

% annual change



ECB likely to ease next policy week

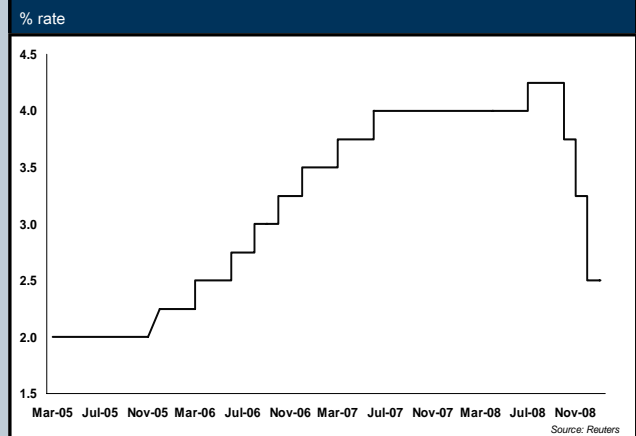
“Further rate cuts likely as soon as next week”

- The ECB is due to announce its next interest rate decision on Thursday 15th. The key refinancing rate currently stand at 2.5% following last month's 75bp point cut.
- The sharp reversal in the headline rate of inflation in recent months has enabled the ECB to act far more aggressively against the backdrop of a weaker economy. Indeed, at 1.6% y/y on the latest reading – due to the collapse in energy prices – inflation in the euro area is now below the ECB's 2% medium term target. This, coupled with the fact that the euro area is now in 'technical recession', which in all likelihood will deepen substantially in the coming quarters, paves the way for further easing. On this latter point, key lead indicators (including the PMI surveys) of economic activity continued to weaken during Q4 and German manufacturing orders have collapsed.
- Given the dire state of the euro zone economy it is not surprising that construction activity within its two largest economies- Germany and France - is falling. What is interesting, however, is that this adjustment process appears to have been so far well managed in the sense that the falling trend in output has kept pace with the falling trend in orders. This suggests that builders have not been surprised with deterioration in the wider economy and have

been quick to react by scaling back their production plans. However, the latest official construction data so far only relates to October. When one considers how poor the more timely wider macroeconomic data flow has been, it is clear that the challenges facing the French and German construction sectors will be even greater than in the recent past.

“Major challenges face the German and French constructions sectors”

ECB policy has been loosened in the wake of falling inflation



Gloomy outlook for Canada in 2009

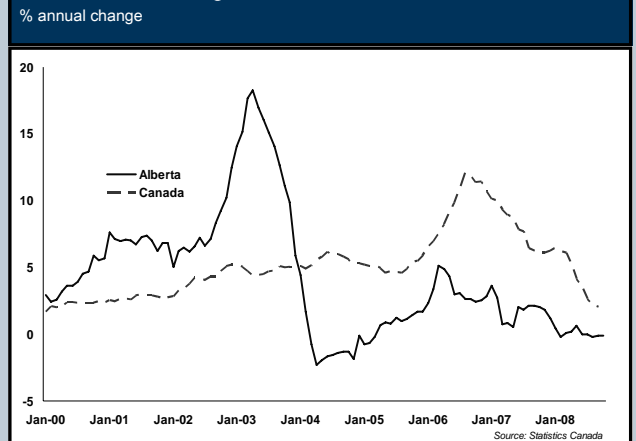
“Cost of borrowing remains high...”

- The Canadian economy was showing real signs of weakness by the end of 2008. The latest GDP release (for October) showed a small fall in output and the last two months of the year are likely to have been weaker still. In addition, unemployment is rising, adding to downward pressure on domestic demand while the housing market is showing growing signs of suffering under the strain of the economic downturn.
- As elsewhere, interest rates have been slashed in the last few months but the cost of both interbank lending and lending to private customers remains relatively high. This has been reflected in the Bank of Canada Senior Loan Officer survey which assesses perspectives on the business lending environment. The third quarter report suggested that lending conditions (both pricing and non-pricing) were the tightest since the survey began in 1999. The fourth quarter survey, to be released on Monday 12th, is unlikely to point to any easing in the credit environment.
- The outlook for the Canadian housing market has continued to deteriorate. Housing starts collapsed in November, falling by 18% compared with October, and are expected to remain weak for the foreseeable future. So far, house prices have held-up better than in the US – October's data showed house prices remained marginally (1.5%) higher

than prices in October 2007. Admittedly, there is considerable variation across the country with house prices in Quebec proving most resilient while those in Alberta have fallen by almost 5% compared with a year ago. It would not be surprising if the next release, also on Monday 12th, showed that house price growth has turned negative at a national level for the first time since January 1997.

“...Housing market shows further signs of weakness”

House price growth weakest in Alberta but will soon turn negative at a national level



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