

Singapore house prices to show further signs of slowing

“The q/q growth in prices has slowed consecutively for the last 6 quarters”

Singapore house prices are released next week as the Urban Redevelopment Board (URA) publishes the residential property index flash estimate for Q2. Released on Friday 1st, the data will be closely watched by policy makers at the Monetary Authority of Singapore (MAS), as they ponder whether or not further cooling measures are

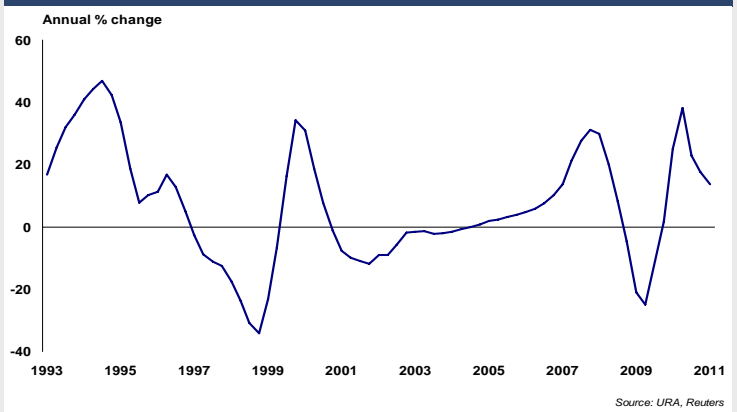
warranted for the exuberant housing market. The flash estimate is primarily based on data from the first 10 weeks of the quarter and while it is likely to be revised at a later date, it is usually an accurate estimate of activity over the quarter.

Indeed, like in many other high growth economies, the authorities in Singapore introduced tighter lending criteria in mid January to try and suppress house price inflation in the city-state. The lowering of maximum LTV ratios and increases in stamp duty by the MAS were aimed at curtailing speculative purchasing and maintaining a stable and sustainable property market. The results of such measures were evident, albeit only slightly, in the first quarter release; prices in the opening three months of the year grew at 13.8% annually, down from the rate seen in the last quarter of 2010 (17.6%). Perhaps more tellingly, the quarter on quarter rise in prices has slowed consecutively for the last six quarters; the Q1 rise was 2.2%. While this quarter on quarter trend is more promising, the latest Consumer Price Index data demonstrates that significant pressures still exist in the residential market with the housing cost component growing by 3.1% on the month after easing considerably between January and April.

Meanwhile, private home sales fell 13% in May from a month ago, signalling greater caution among buyers amid new government measures to cool the housing market. Only a fortnight ago officials indicated the supply pipeline is strong and if upward pressures on prices persist they will make more land for private housing available in the second half of this year. Despite this, bank lending to individuals in April increased at 22%, the fastest pace since October 2008.

“As authorities aim at maintaining a stable and sustainable property market”

House prices are responding to tightening measures



Euro area mortgage lending outlook is weakening

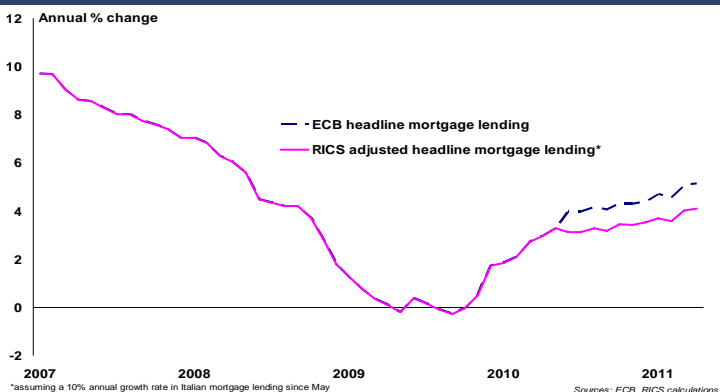
“The ECB headline mortgage lending annual rate is probably being overstated by about 1 percentage point”

Euro area M3 lending data for May is due from the ECB on Thursday 30th. M3 lending was unchanged in April, but the annual growth rate edged down from 2.3% to 2% due to base effects. One of the key components of the M3 release is lending (outstanding) for home purchase, which accounts for 21% of total lending in the euro area (EA). The headline figure increased by 0.3% in

April, pushing the annual growth rate up to 5.1%, the highest since May 2008 but below the long run average of 7.7% (since January 2000).

The country breakdown reveals some interesting trends. In Spain and Germany - which account for 18% and 26% of the outstanding EA mortgage stock respectively - annual growth is essentially flat. According to the data, the key drivers of the headline growth rate are France and Italy, which account for 21% and 10% of the total stock respectively. Indeed, annual growth in French mortgage lending is currently running at 8.5%, while in Italy it is running at just over 24%. However, we have doubts over the quality of Italian numbers; there was a large jump in the series last June, which pushed the annual rate up from 9% to around 25% thereafter. Given the relative size of the Italian mortgage stock, we estimate the headline EA annual rate could be overstated by as much as 1 percentage point. Assuming a more believable 10% growth rate since May, the headline EA figure would now be closer to 4.1% rather than the reported 5.1% i.e. a somewhat flatter trend.

Euro area mortgage lending is probably being overstated



Looking forward, May's mortgage lending release may well show the headline rate picked up further. However, the June release is likely to post a marked slowdown in the rate of growth because the one-off jump in the Italian series will fall out of the annual comparison. Beyond June this slowdown is likely to continue. This may reflect the slightly weaker pace of economic activity now underway (as signalled by the latest Euro zone PMI survey) and the increase in downside risks stemming from tighter ECB monetary policy and heightened uncertainty related to the European sovereign debt crisis.

“Mortgage lending is likely to slow over the course of the year”



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Brazilian credit growth in the spotlight

“Mortgage lending has risen 48% in the 12 months to April”

The coming week sees the release of the Central Bank of Brazil’s (BCB) credit report for May. Amid speculation of a potential credit bubble forming in the Brazilian economy, the forthcoming report will be highly anticipated. Indeed, last month’s report showed a continued surge in credit expansion, with overall credit expanding 1.3% on the month and 21% annual growth. Government

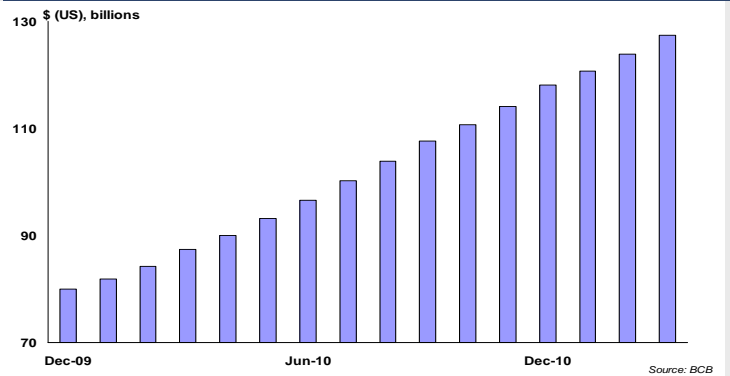
sponsored lending institutions are playing a major role in this rise, with the government’s main lending arm, the Brazilian development bank recording a 23% rise in the twelve months to April. Housing credit in particular has seen significant gains (48% annual growth) with government backed programs such as ‘My house, my life’ providing low-interest mortgages to low income families being a major factor for this high growth in house purchase loans.

It is not only home financing that is showing significant growth; other parts of the real estate sector are also benefiting from the government’s aim of building a million affordable homes. Construction financing recorded a 38% annual increase in April, with rising property prices in Brazilian metro areas also encouraging increased activity from developers. Indeed, some areas of Rio de Janeiro have recorded 80% price gains in the last 3 years according to estate agents. This massive property boom is being driven not only by greater availability of mortgages, but also by a large increase in household formation in the country, with the number of Brazilians making at least 10 times the minimum wage rising by 50% to 18 million in the past 8 years.

That said, talk of a credit bubble sounds premature, especially if credit outstanding to individuals is measured as a share of GDP, which in Brazil is just 15%; this is much less than developed countries such as the UK, where outstanding household debt is around 100% of GDP. However, there are considerable downside risks, such as the prospect of rising default rates in response to sustained interest rate hikes by the BCB. Indeed, recently published minutes from the main monetary policy setting committee suggests a prolonged monetary tightening cycle.

“Continued housing boom sees construction finance increasing 38% on the year”

Housing finance continues to post significant gains



Japanese housing starts holding up following earthquake

“The construction sector should see stronger numbers as rebuilding gets under way”

A raft of data is due for release in Japan over the coming week including, most notably for the real estate sector, housing starts and construction orders on Thursday 30th and the Bank of Japan’s (BOJ) quarterly Tankan on Friday 1st July. The former numbers are likely to be particularly closely watched for further signs that the building industry is shrugging off the impact of

the earthquake which took place on March 11th and, indeed, some initial indications that it is beginning to benefit from the rebuilding effort. On a year on year comparison, housing starts were actually just

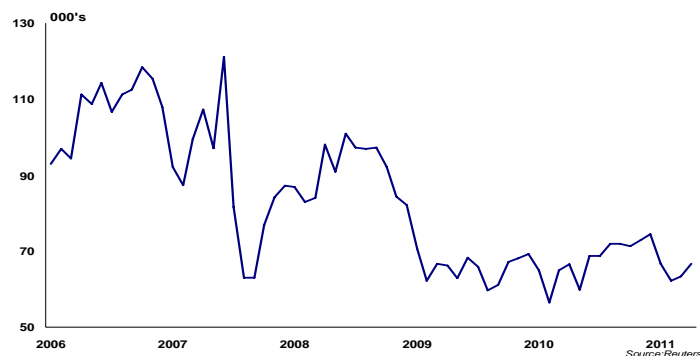
in positive territory in April after a negative reading in March; significantly, the level of new starts is currently little different from where they were in the early part of 2009.

Meanwhile, the BOJ’s Tankan report could well show that business turned a little more cautious in the second quarter of the year as the natural disaster took its toll on supply chains and depressed output. Our suspicion is, however, that the more disappointing tone is likely to prove temporary. Indeed, the expectation series should remain a little more upbeat. More specifically, the headline readings for the construction and real estate sectors are also likely to have been affected by the earthquake although the net balance reading may also in part reflect the size of the businesses responding; the first quarter showed rather more positive numbers from larger organisations.

Significantly, the Bank of Japan is continuing to seek out innovative ways of encouraging more bank lending to help underpin the economy. In the latest scheme, it will provide 0.1% interest loans to financial institutions that extend asset based loans and investments to new companies. Part of the rationale for this is that the existing scheme is running close to its Y30 trillion limit. Financial markets have given the new programme a cautious welcome reflecting the suspicion that it is a poor substitute for a more radical strategy of quantitative easing.

“Attempts to raise bank lending unlikely to counter deflationary environment”

Housing starts resilient but still way down on 2008 levels



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