

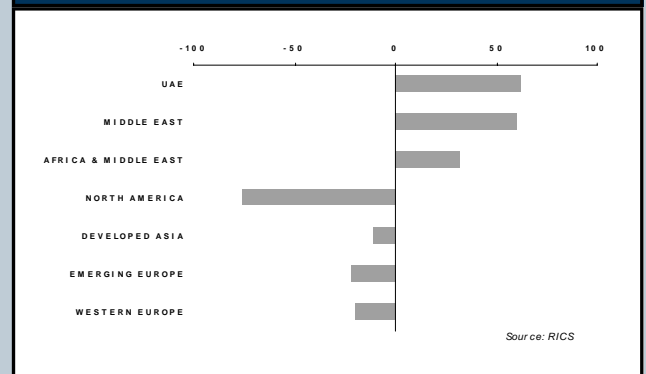
## The party is over for Dubai's property markets

**“Banks and investors are now feeling the strain”**

- When the Atlantis Hotel in Dubai opened with a \$20 million party, it seemed as though Dubai was less affected by the credit crunch. Indeed, Gulf banks avoided most of the toxic assets that caused havoc with the global financial system. But events increasingly suggest that the region will not escape the global downturn altogether.
- For a start, although annual consumer price inflation is still estimated at above 10%, the UAE central bank cut interest rates by 50 basis points to 1% in January. The cut was intended to foster domestic activity and reduce the cost of liquidity supporting facilities. Lending activity is restricted at the moment but the central bank has capped local banks' loan growth at 10% in 2009 to prevent unsustainable credit growth should market conditions ease.
- The property market downturn poses another threat to the Dubai economy. An exuberant property development programme led to half the population being employed in construction, development and real estate. But mass redundancies and a diminishing expat population mean that the city now faces a huge oversupply problem. Residential prices are estimated to have fallen by 25% from their peak, with further falls expected. Commercial property is not expected to fare much better. While the prop-

erty boom unwinds, demand and investor interest will remain subdued. The 2008Q3 RICS Global Property Survey indicated high levels of pipeline development in the UAE. But since then several large scale building projects have been abandoned or suspended. Our next survey, due in late February, is expected to show a bleaker picture.

**Strength in pipeline development from 2008Q3 unlikely to be repeated in next GPS**  
(% net balance)



**“Residential and commercial property prices still have further to fall”**

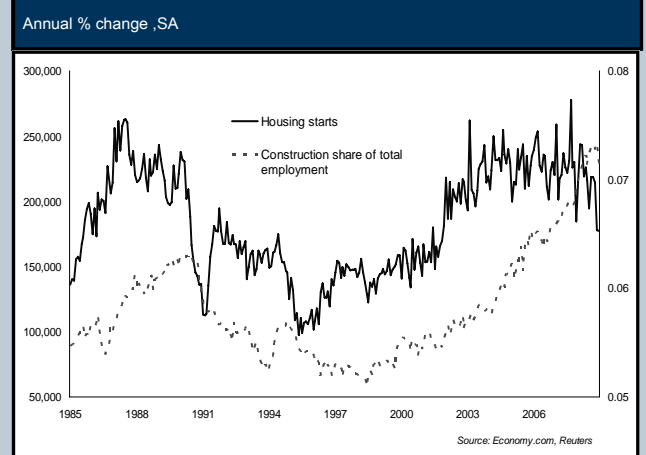
## Canadian housing starts set to fall further

**“Starts have plunged 35% from high”**

- Housing starts data will be released in Canada on Monday 9<sup>th</sup>. This will be followed on Wednesday 11<sup>th</sup> by the latest snapshot of price movements in the residential market. Recent numbers have highlighted a sharp drop in the volume of new housebuilding projects. The December reading of 177,300 (a figure which is both seasonally adjusted and annualised) was the lowest since the tail end of 2001. From the high watermark in September 2007, the number of starts has plunged by more than 35%. Although a striking figure, this decline appears relatively modest compared with both the 75% fall in starts seen in the US to date and the collapse in building activity (more than 60%) during the last housing market downturn in Canada.
- The most recent figures on new residential building permits have been extremely downbeat dropping by more than 25% over the last four months. This suggests that the housing starts numbers are likely to soften further over the balance of this year. The issuance of non-residential permits has also fallen back of late although at this stage, the underlying trend is more of a gentle downturn. Whether this remains the case will in part depend on how the Canadian economy fares and in this regard, the omens are not encouraging. The November GDP data (-0.7% m/m) clearly demonstrates that the recessionary grip has intensified.

Employment in the construction sector has begun to slip over the last few months; it has dropped by 42,000 since September. This accounts for disproportionately large share (roughly half) of the loss of jobs in Canada from the recent high. The likelihood is that the sector will see further significant redundancies as the worsening economic climate takes its toll on real estate.

**Housing starts are falling sharply with employment following**



**“Jobs are now being lost in the construction sector”**

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## Rate cuts will not support Korean Property market in 2009

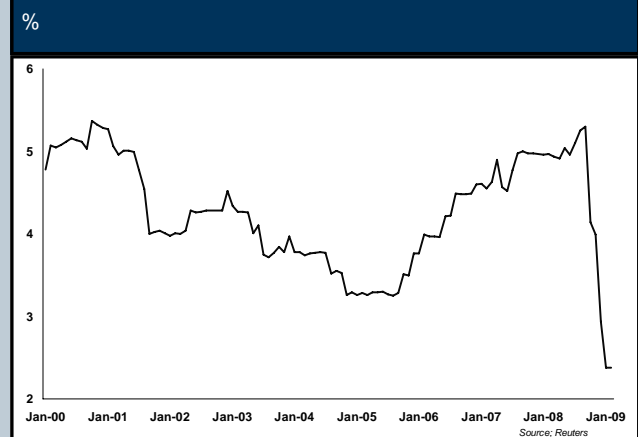
“Rising unemployment will weigh on housing demand through 2009...”

- The Korean central bank's next interest rate decision on Thursday 12<sup>th</sup> will come as mounting evidence of a sharper than expected slowdown in the economy is emerging. Waning global demand has hit exports and industrial production. The release of unemployment data on Wednesday 11<sup>th</sup> could also steer the hand of policy-makers in a more aggressive fashion, should a loosening in the labour market gather pace.
- The Korean economy is heavily reliant on manufacturing which makes up around 30% of GDP. Industrial output has fallen for the last 6 consecutive months with a drop of more than 20% in November and December alone as the global slowdown began to bite. Exports are also collapsing with a record 33% fall in December when compared to a year earlier. Whilst the latest sentiment surveys of business and consumers improved in January, RICS expect rates to be cut by 50 basis points at the meeting.
- The central bank Governor has recently warned that economic growth is likely to miss its earlier 2% growth forecast which would mark the slowest growth in eleven years. Aggressive action from the central bank has already seen interest rates more than halve in the space of four months taking them to 2.5%. Despite these moves, RICS

expect the Korean economy to fall into recession during 2009 which will add to downward pressure on the housing market as the lagged rise in unemployment weigh on confidence towards the sector.

“..with global trade key to economic outlook”

Rate cuts will not prevent recession in Korea



## German housing market will not stay immune forever

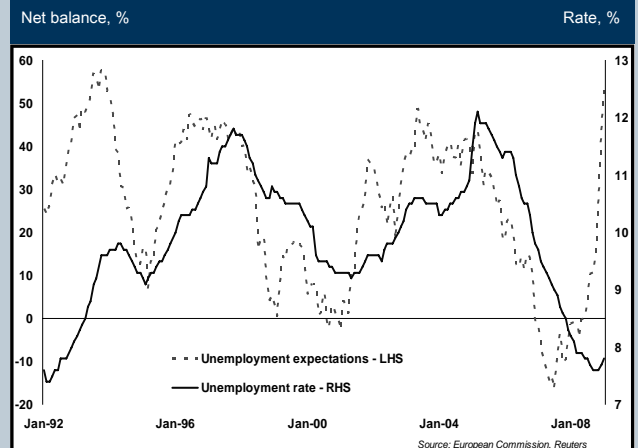
“Falling exports will result in heavy job losses...”

- German house price data for December is due for release by Hypoport on Tuesday 10<sup>th</sup>. In November, the headline index was up by 2.5% y/y (the highest in its two year history). However, momentum has clearly slowed with the 3m/3m annualised rate falling for the fourth consecutive month (it is now barely positive). Still, it remains the case that the German housing market has so far avoided a downturn akin to the UK experience, where prices fell by 17% y/y in January according to the Nationwide index.
- This divergence in performance can largely be attributed to the UK's relatively heavy reliance on external mortgage finance and Germany's comparatively heavy dependence on exports. In the former case, the global financial shock is being transmitted directly through the financial sector, resulting in a 76% drop in the volume of new mortgage lending and, as a result, a sharp fall in house prices. Germany's under reliance on external finance has so far prevented such a downturn in mortgage lending. However, its heavy dependence on exports is currently having a disastrous effect on real economic activity.
- German exports have collapsed in recent months and factories have responded in kind with aggressive cuts in production. As a result, unemployment expectations have jumped sharply, and if past relationships are anything to

go by, it is only a matter of time before these expectations crystallise into actual job losses. Such job losses could put downward pressure on house prices. However, Germany's lower homeownership rate (43% compared to the UK's 68%) and historically more generous social welfare system, will prevent a downturn in house prices as severe as the UK's.

“...and this could put downward pressure on house prices”

Rising unemployment expectations signal a pickup in job losses



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