RICS Global Real Estate Weekly

Oct 23rd 2009

Hong Kong mortgage activity to support further price gains

"When seasonally adjusted, the pull back in activity was less stark in August"

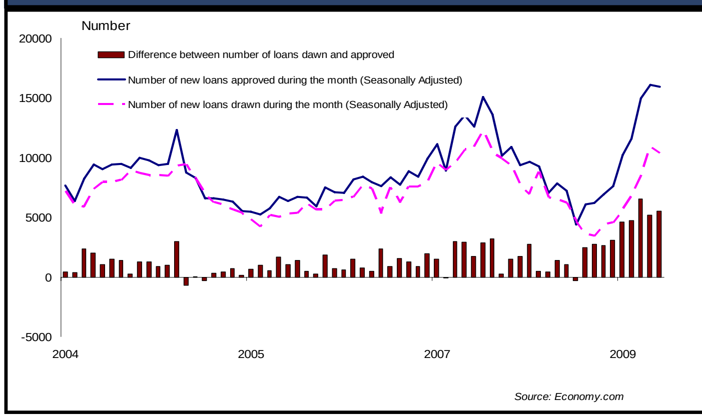
"Next week's RICS survey of Hong Kong agents to provide further clues"

- The latest update on the state of the Hong Kong residential mortgage market is due on Wednesday 28th. The previous survey results from the Hong Kong Monetary Authority (HKMA) for August showed a distinct pullback in mortgage market activity for the first time since February 2009. This follows on from a sharp rebound in mortgage applications since the turn of the year.

- The number of mortgage loans drawn down fell to 9,672 during August representing a 17.3% decline on the previous month. Applications for new loans fell by a lesser 6.5% on the previous month to 15,339. Once seasonal effects are removed from the data, however, the declines in activity appear less stark. Seasonally adjusted, the number of mortgage loans drawn down only fell a monthly 4.7% in August whilst new applications remained relatively stable on the previous month.

- Significantly, there has been a growing divergence between the number of new loans approved and the number of new loans drawn down over the last 9 months. This backlog could add some support to the market into the fourth quarter even if new loan applications start to fall back. Nonetheless, August's data suggests that banks may be pulling back slightly from the housing market. The average loan to value ratio on new loans approved fell to 63.8% in August from 65.9% in June whilst the average loan size approved also fell to HKD 2.23 million from HKD 2.2 million in July. Softer economic indicators like business surveys continue to suggest that momentum in the economy will be maintained into Q4. Indeed, in the commercial property market, next week's release of the RICS global commercial property survey on Thursday 29th should confirm whether the improved economic news flow is filtering into commercial property activity.

Growing divergence between loans approved and drawn



Source: Economy.com

Euro area mortgage lending to remain flat

"Weak euro area economy will temper recovery in mortgage lending..."

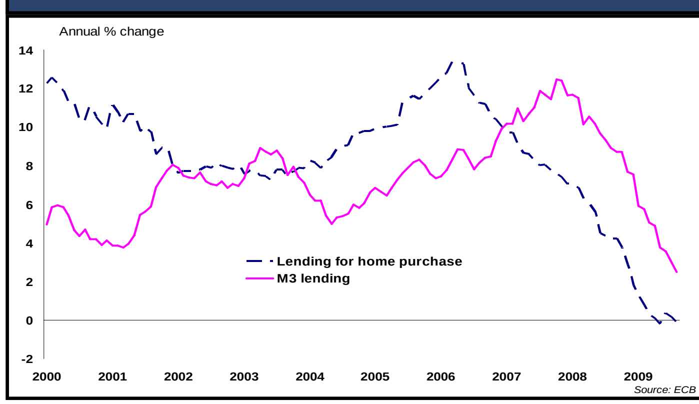
"...stabilisation in mortgage lending is more likely course".

- Euro area M3 lending data for September is due from the ECB on Tuesday 27th. Annual growth in M3 lending is currently running at 2.5%. This compares to the peak of 12.5% in October 2007 and the long run average of 7.4% since January 1981. One of the key components in the M3 release is lending for home purchase. Annual growth in lending for home purchase is currently running at -0.1%. This compares to a peak of 13.2% in March 2006 and the long run average of 8.5% since January 2000.

- The ECB Bank Lending Survey for Q3 is due on Wednesday 28th. This survey has been indicating that the slowdown in mortgage lending growth is mainly due to tightening credit standards and until recently, falling demand. Credit standards have been tightened largely because of a lower level of confidence in the region's economic and housing market prospects rather than difficulty in accessing finance (i.e. the cost of wholesale funds). However, the drag from the worsening economic and housing environment has been diminishing in the past two surveys. In terms of demand, the Q2 survey showed that net demand for mortgages turned positive for the first time since Q2 2006 (with a net balance reading of 4% compared to -30% in Q1).

- Looking forward, annual growth in M3 is likely to slow further in September but remain in positive territory and annual growth in lending for home purchase may even tick up slightly. However, at best we are entering a period of stabilisation in mortgage lending over the next 12-18 months rather than a fully fledged recovery. After all, unemployment is still rising (9.6% in September), consumer confidence remains depressed and mortgage lending standards are still tightening. Indeed, the Q3 ECB Bank Lending Survey is likely to show that mortgage lending standards continued to tighten, but at a slower rate (in line with the expectations series). This survey will also be closely watched to see, amongst other things, if the increase in net mortgage demand in Q2 will be sustained.

Growth in mortgage lending has slowed more than M3



Source: ECB

US housing market recovery will be slow and gradual

"US housing market faces a fitful and gradual recovery"

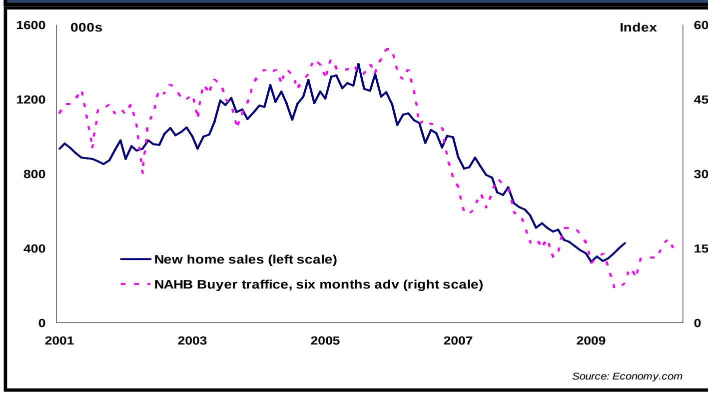
"House prices may have edged back down in August"

- A further update on the US housing market is due next week with the release of the Case-Shiller (CS) house price index on Tuesday 27th followed by new home sales data on Wednesday 28th. Confidence in the housing market has increased over the last couple of months but disappointing data released over the last week has been a timely reminder that the sector is likely to see a fitful and very gradual recovery. In particular, builders' sentiment dropped back in regard to traffic from prospective buyers (from 17 to 14) and in terms of expectations over the next six months (from 29 to 27).

- The subdued tone of this data also suggests that sales activity for new homes will not continue to improve at the same pace seen so far this year ; new home sales have increased by 30% since the start of the year and it would have been surprising if they had continued at that rate. Moreover, growth in new home sales was always going to be difficult given that demand was likely to be drawn to bargains available in forced sales of existing homes. Finally, demand for house purchase (as indicated by the mortgage purchase index) has continued to fluctuate and remains very weak even compared to 2008 levels. Taken all together, this suggests that, over the next few months, new home sales are not likely to make substantial gains from the 426,000 sales (seasonally adjusted and annualised) reported in July.

- The CS index edged up in June and July. But the fall in existing home sales in August, combined with the expected subdued data on new home sales, suggests that some of these recent gains may be reversed. At any rate, it's not yet clear whether house prices have entirely reached a trough or whether we will see some monthly volatility over the next few months. Even the latter would be an improvement from the relentless downward trend in house prices which began in 2006.

Substantial improvement in new home sales looks unlikely



London leading the UK lettings market recovery

"Enquiries and lettings activity up for first time in 2 years.."

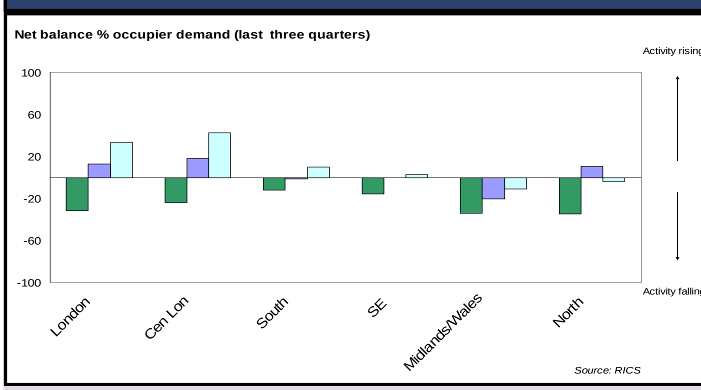
"..with rents expected to fall at a much slower pace into Q4".

- The latest RICS UK commercial property survey released earlier this week shows that a greater number of surveyors in the UK are now reporting rising enquiries and lettings activity for the first time in over 2 years, with London leading the commercial property recovery.

- The London commercial property market is leading the turnaround in tenant activity with retail and office demand moving into expansionary territory at a faster pace than elsewhere. Central and Greater London office markets saw tenant demand rise for the second consecutive quarter and at more than double the pace of the previous survey period. 42 percent more chartered surveyors reported a rise than a fall in lettings activity in Central London compared to 18 percent in the previous quarter, the highest figure since the first quarter of 2007. Across the UK as a whole, the net balance for tenant demand has risen to 8 percent from a negative reading of 11 percent in Q2.

- Despite the improvements in demand, rental expectations have yet to turn positive although the latest survey points to a sharp deceleration in the likely pace of rental declines across all three sectors in the run up to Christmas. The greatest turnaround in sentiment has been amongst surveyors working in the Central London office market where only modest declines in rents are expected into the fourth quarter. For the time being, greater lettings activity continues to be supported by rising levels of inducements which rose at a similarly firm pace across all three sectors in the third quarter. Looking ahead, near term indicators continue to point to an ongoing improvement in the fourth quarter. New enquiries to occupy business space turned positive for the first time since the downturn got underway and it is the first time in five years that enquires have risen in unison across all three sectors.

Greater lettings activity reported in London offices



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