



UK Economy & Property Market Chart Book

February 2012

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RICS Market Surveys

- RICS **market surveys** are available for free from the RICS web site - www.rics.org/economics covering residential housing & lettings, commercial property, construction activity and the farmland market.
- To subscribe to the underlying data, please contact Marianne Chowdhury at 020 7695 150 or email: mchowdhury@bcis.co.uk

WHAT CAN RICS DO?

RICS CAN HELP GOVERNMENT TO DELIVER A VIBRANT AND SUSTAINABLE PROPERTY MARKET

- **Committed to standards and professionalism and drawing on our members' expertise around the globe, RICS is well placed to advise on the contribution that a well functioning property sector can make to the national and global economy**
- **RICS members operate in every aspect of property and can deliver practical market-based solutions to challenges facing government**
- **RICS' internationally recognised standards in valuation of real property can underpin the maintenance of a sound economy**
- **RICS members have a leading role to play in delivering the market transformation required to move towards a low carbon economy**

- **UK economy set to remain flat in the near term**
- **Key to an improvement in confidence is resolution of euro crisis and lower inflation**
- **Real estate to remain under pressure**

News that the economy may have contracted in the final three months of last year according to preliminary analysis of the official data has revived fears of a double-dip recession. In truth, the expectations for the latter part of last year and the first half of 2012 were pretty downbeat so the concerns now being expressed should not have come as a surprise. Business confidence has been badly affected by the turmoil in the euro area which resulted in the sector scaling back investment plans while household spending continues to be undermined by high inflation squeezing the value of real incomes.

A gradual recovery in the economy is likely as the year progresses but the nature of any upturn will be dependant on both how the euro crisis pans out and the extent of the decline in inflation. In both cases, there are significant risks of disappointment. Even if an agreement can be reached on the rescheduling of Greek debt over the next week, the acid test of the sustainability of the euro in its current form and the avoidance of default will probably come later in the year as the pain of further austerity begins to bite. This will be the case not only in Greece but also in Portugal, Spain and Italy. Meanwhile, the key challenge on the inflation front is likely to be presented by the prospect of an embargo on oil exports from Iran and what this might mean for energy prices.

Our suspicion is that the huge degree of uncertainty regarding the economic outlook will prompt the Bank of England to announce a further round of quantitative easing at its forthcoming meeting. This, if nothing else should provide further support for long term (ten year) interest rates which continue to hover around the 2% area.

Against this market backdrop, it is not surprising that the newsflow emanating from the real estate sector remains generally quite disappointing. The recently released RICS Commercial Market Survey was pretty clear in highlighting the ongoing risks to both the occupier and investment markets.

Indeed, it continues to show falling occupier demand and rising availability,

which is leading to an increasingly negative rental outlook. Furthermore, surveyors expect the market to stagnate as finance remains tight and tenants become increasingly cautious. In particular, respondents are continuing to express concern regarding economic prospects.

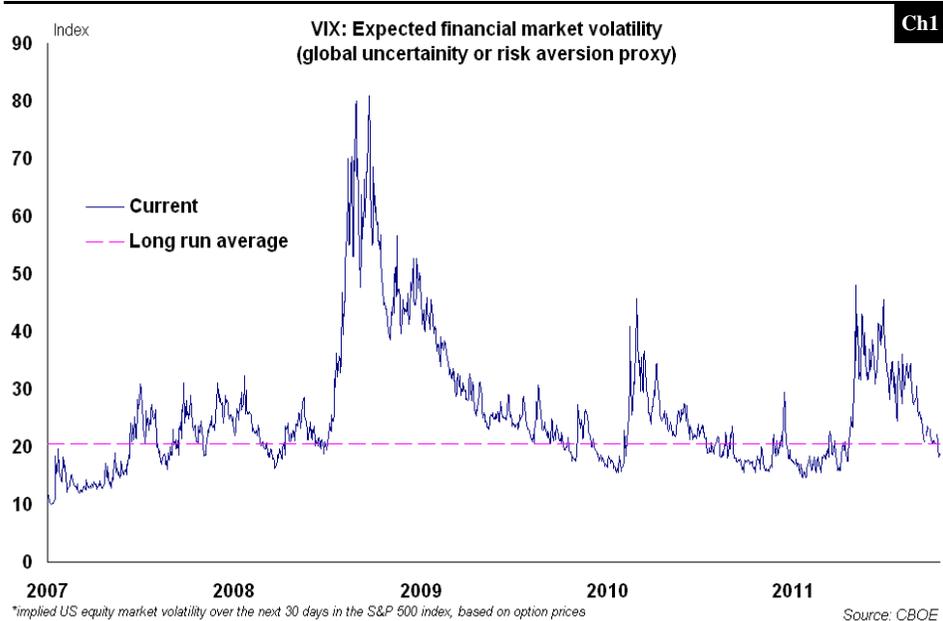
In the construction sector, sentiment is also generally cautious. Finance is once again a key issue with anything resembling speculative development well off the agenda. Although the government has raised the prospect of institutional funding for major infrastructure projects, even if successful this is something for the future and will provide precious little relief in the near term.

Finally, in the housing market there has been some evidence of a little more money becoming available and this has been reflected in the number of mortgages approved climbing to their best level since March 2010 according to the British Bankers Association. Even so, the actual level of transaction levels still remains at historically low levels and high deposits are still being demanded of first time buyers.

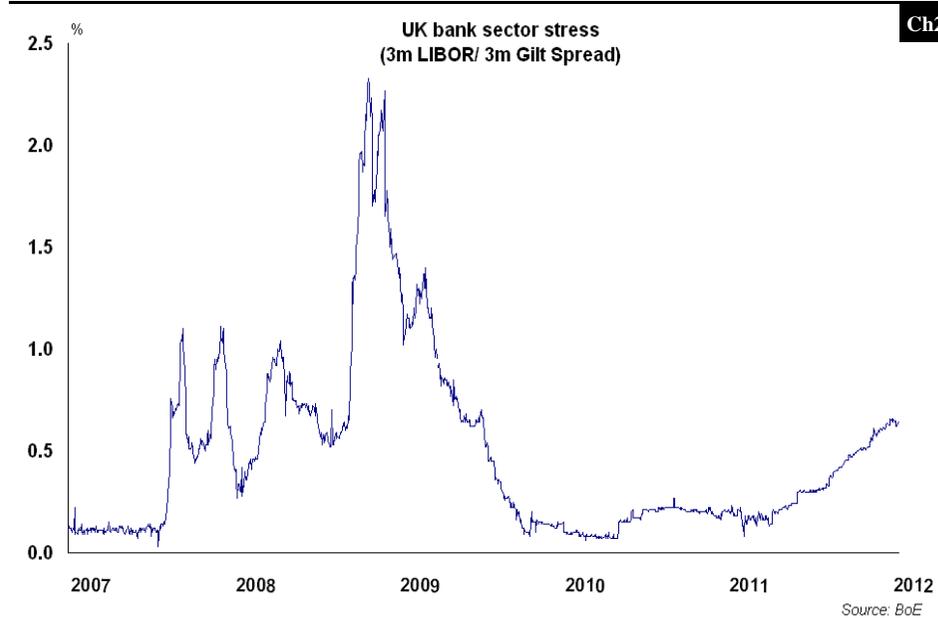
A bright spot in the global economy is the apparent decoupling of the US and European economies, with dataflow in the former turning increasingly positive. That said, with unemployment in the UK reaching a 16 year high and further government fiscal retrenchment in the coming year, growth forecasts for 2012 are very subdued.

	Forecasts		
	2011	2012(f)	2013(f)
GDP (y/y % avg)	0.8	0.3	1.5
CPI (y/y % avg)	4.6	3.0	1.8
Base Rate (q4)	0.5	0.5	0.5
Unemployment rate (q4) %	8.3	9.0	8.8
Nationwide House Prices (q4/q4 %)	-3.0	-3.0	0.0
Housing Transactions (000s)	850	880	900
IPD Com Prop Cap Values (q4/q4 %)	0.0	-2.0	2.0
IPD Rents (q4/q4)%	0.0	-4.0	3.0
Construction Output (y/y % avg)	0.0	-3.0	2.0

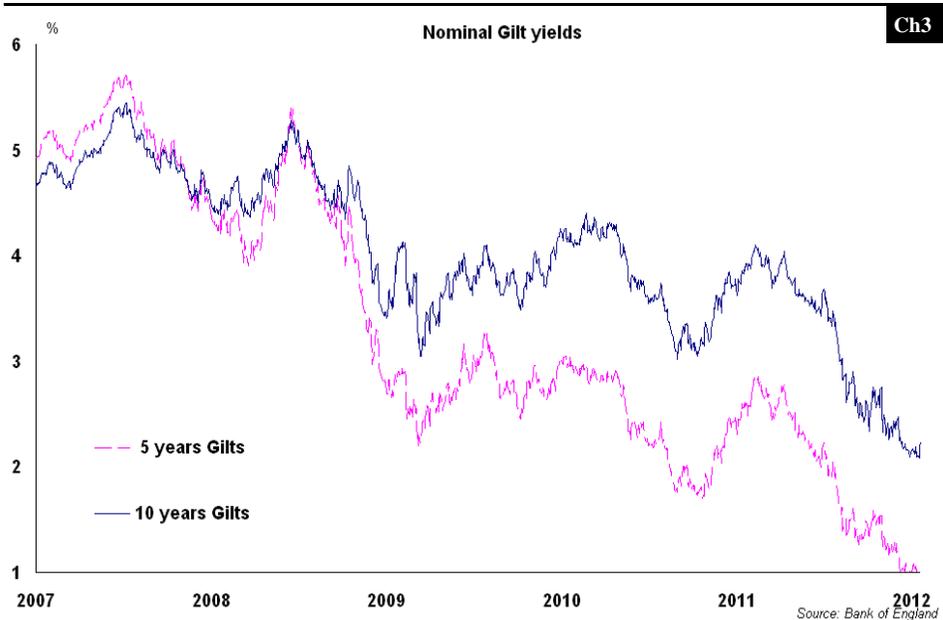
Global uncertainty has returned to 'normal' levels



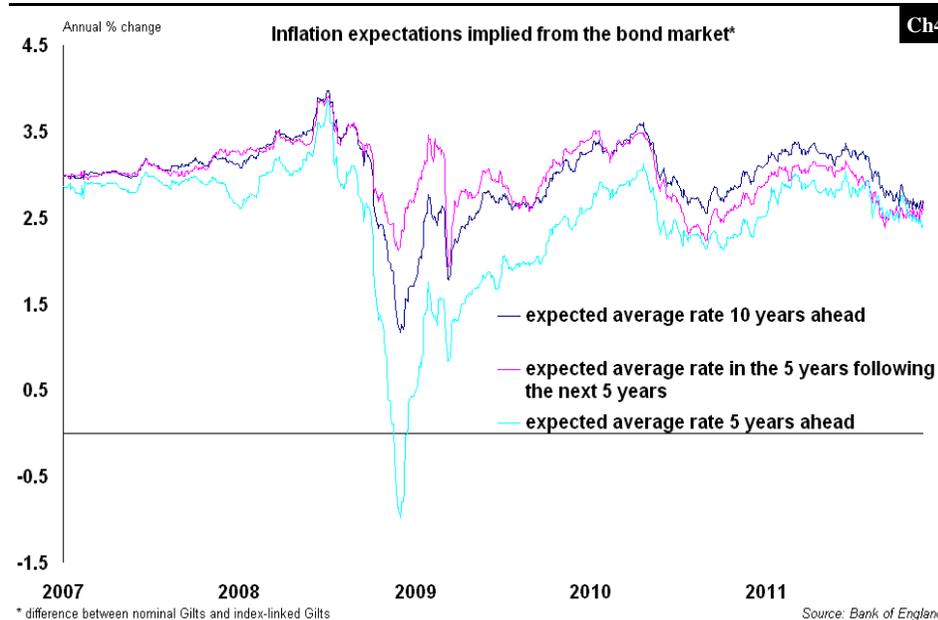
UK banks' access to wholesale funding continues to deteriorate



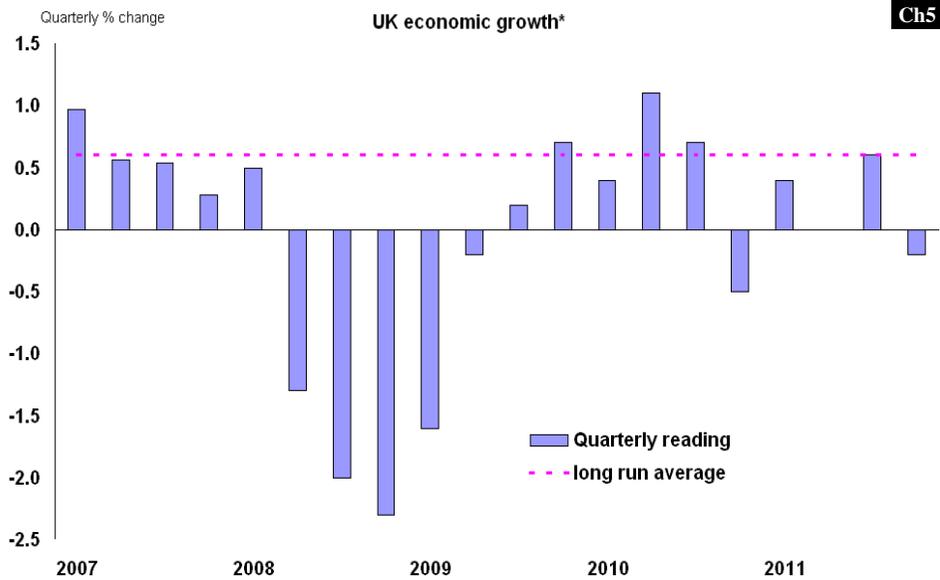
Safe-haven flows are driving down government bond yields



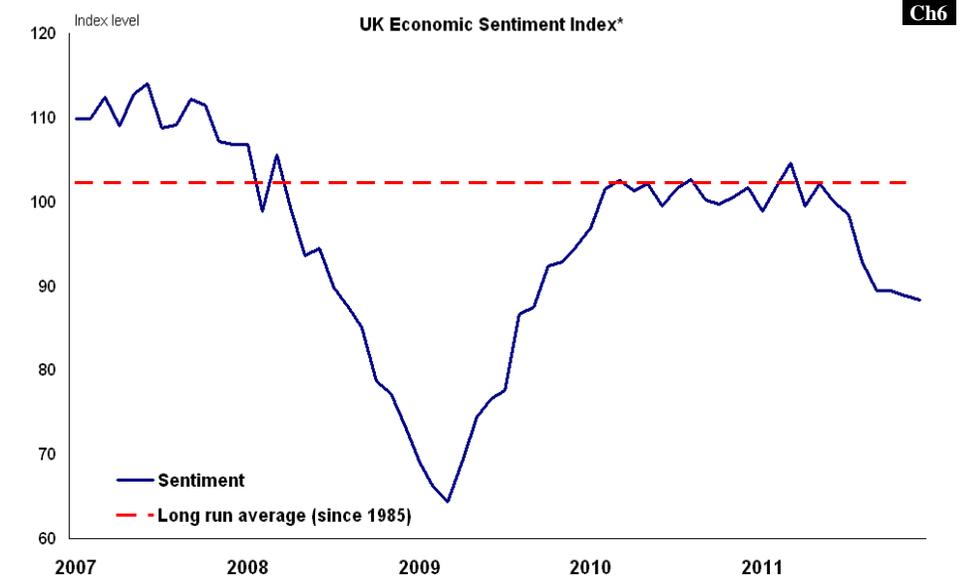
Inflation expectations are converging around the 2% CPI target rate



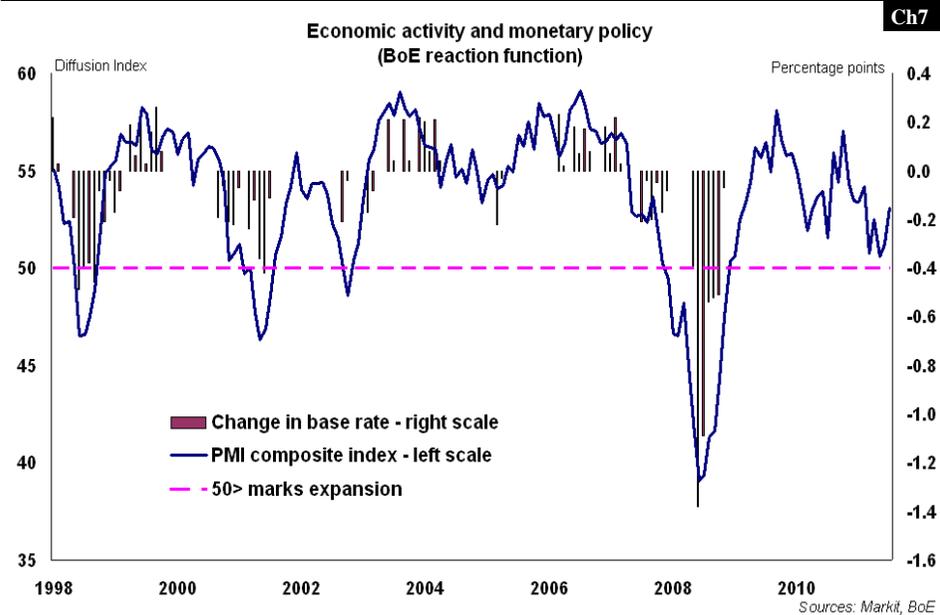
Q4 GDP showed the economy contracting by 0.2%



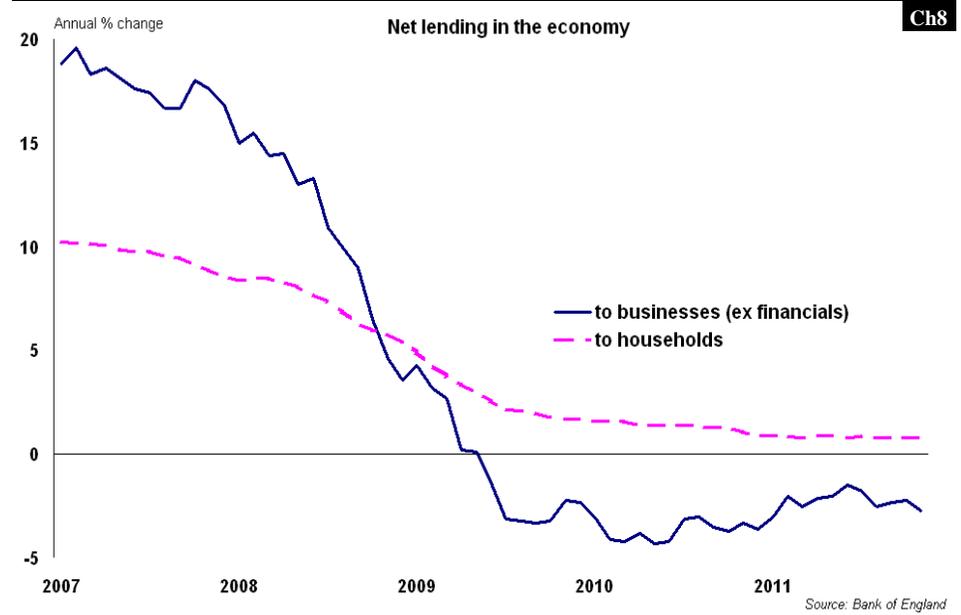
Economic sentiment continued to decline



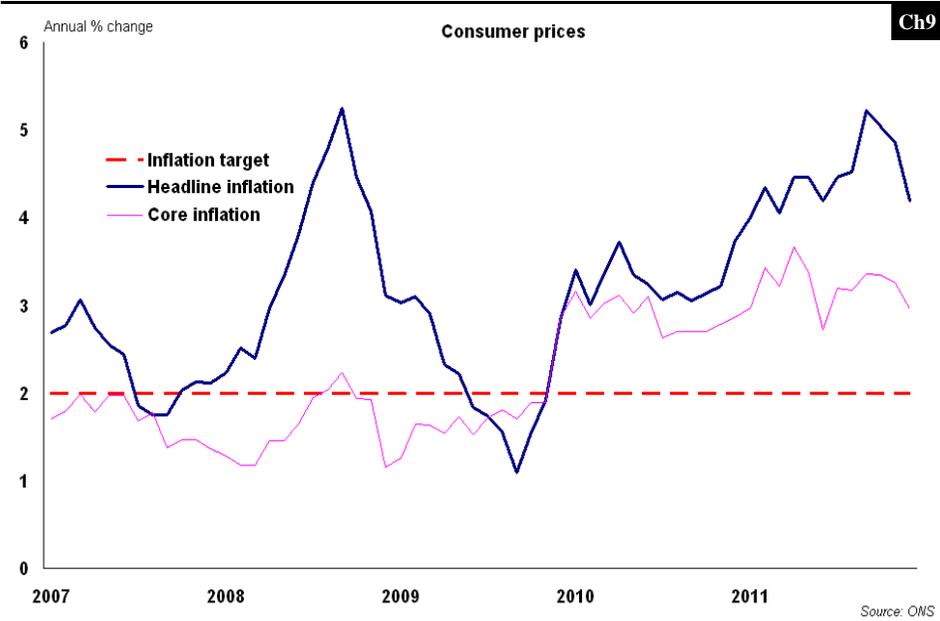
PMIs improve, although still at a level consistent with monetary easing



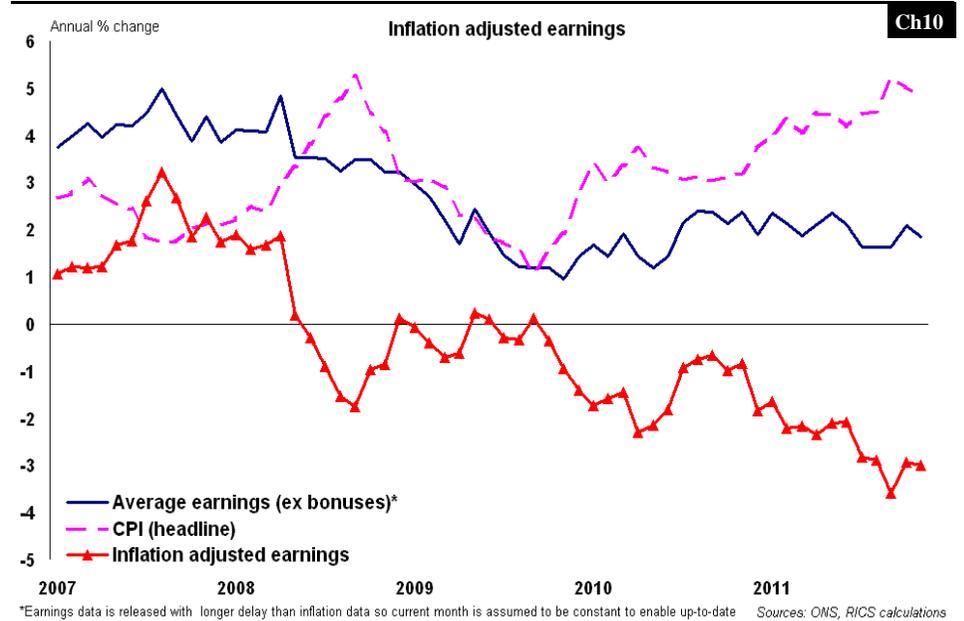
The overall lending picture remains very weak



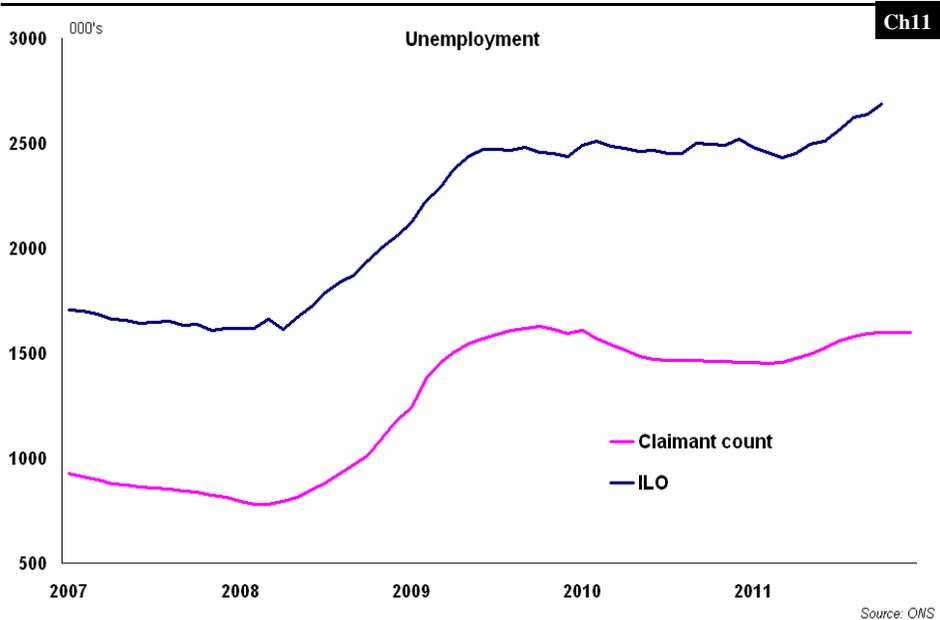
Inflation declined in December, and is likely to do so in 2012



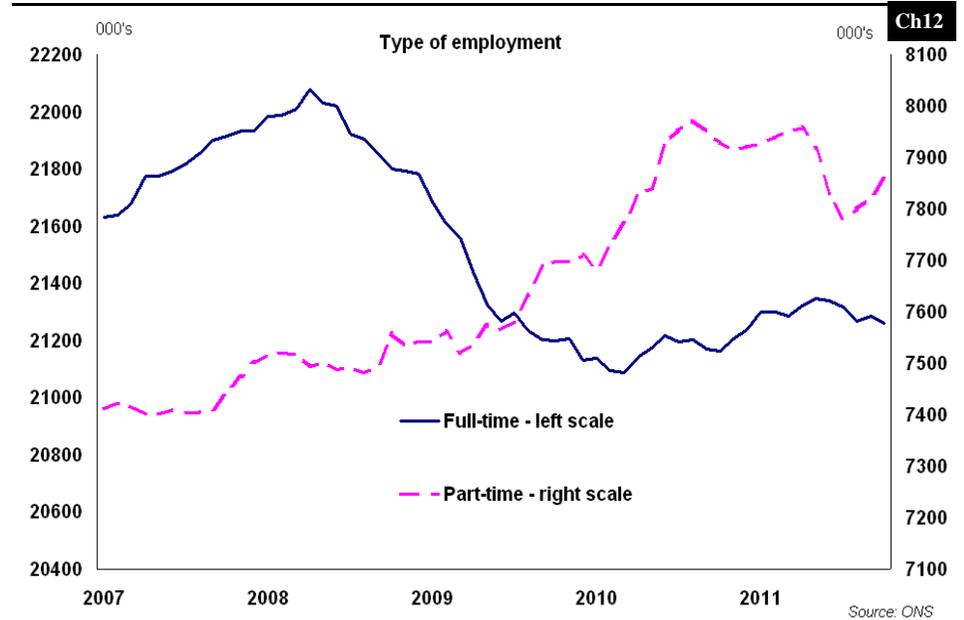
Annual wage growth is negative in real terms



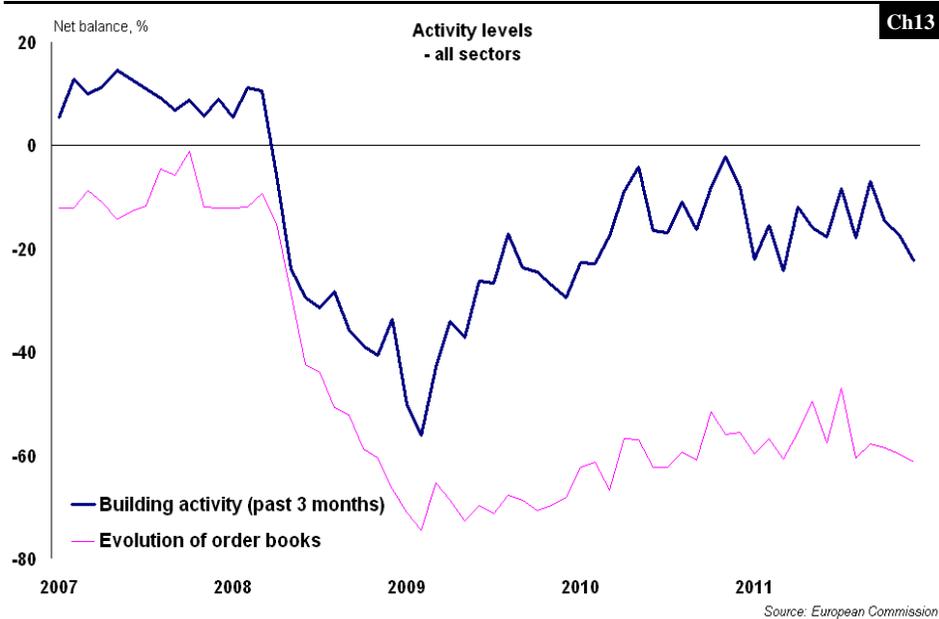
Unemployment increased to its highest level in 16 years



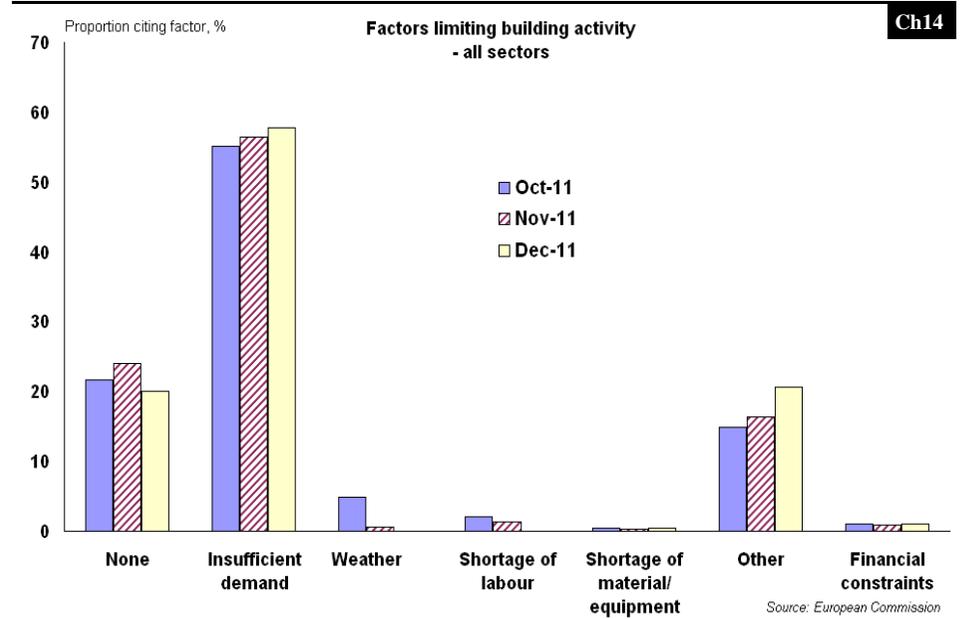
Job insecurity - reflected in increasing numbers in part time roles



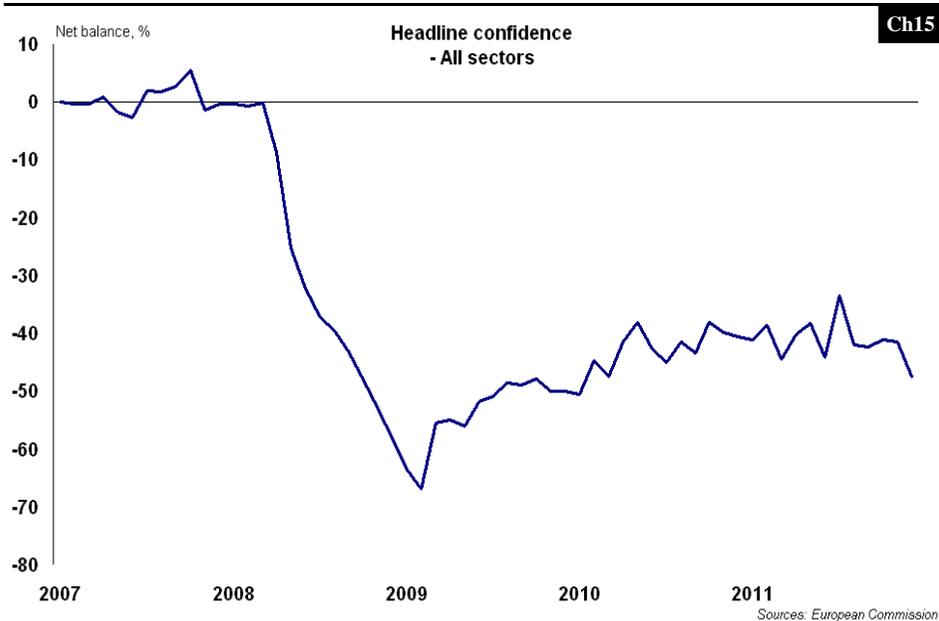
Activity levels continue remain depressed



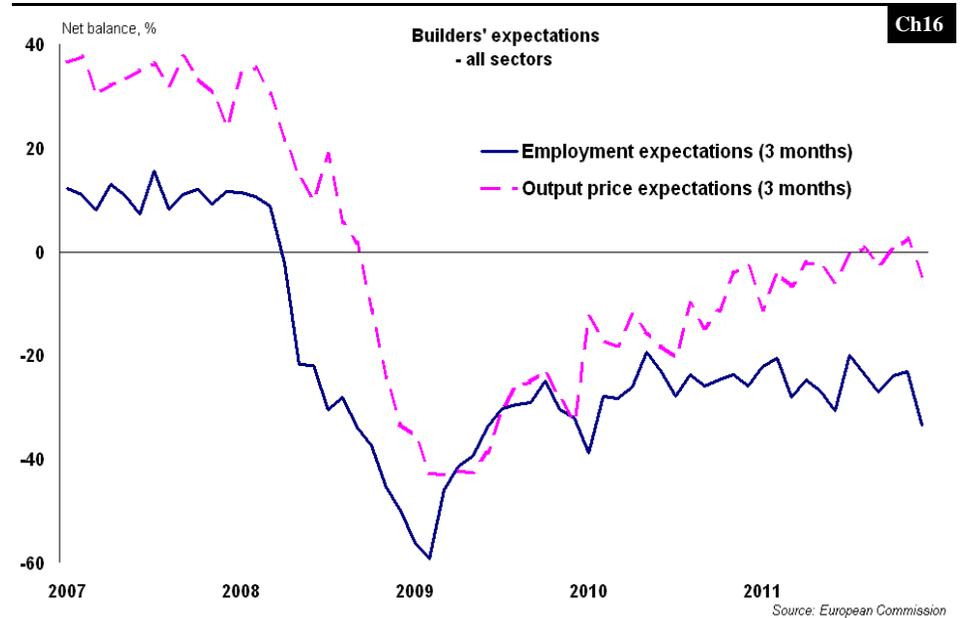
Weak demand is the main factor limiting building activity



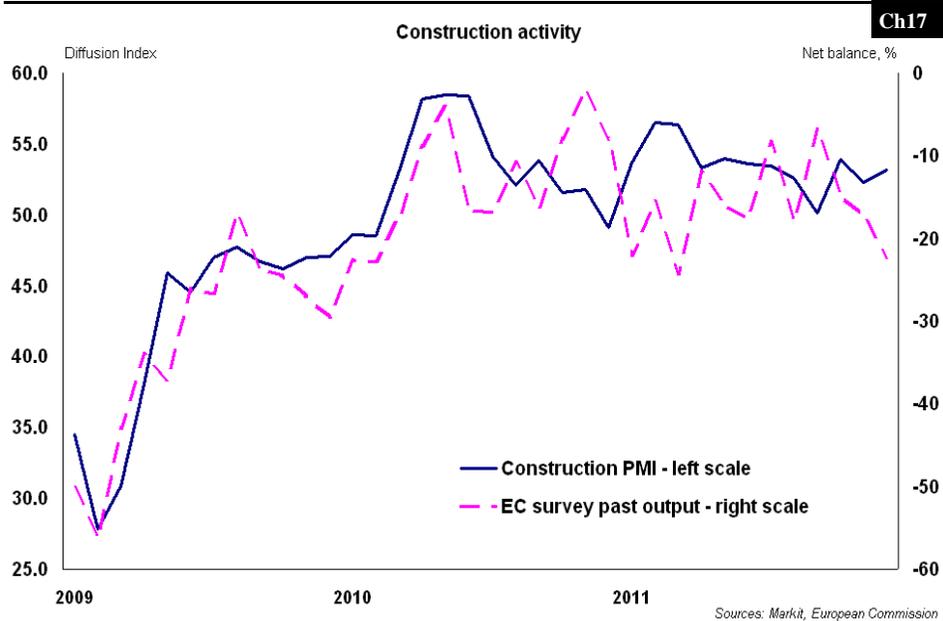
Confidence remains deeply negative



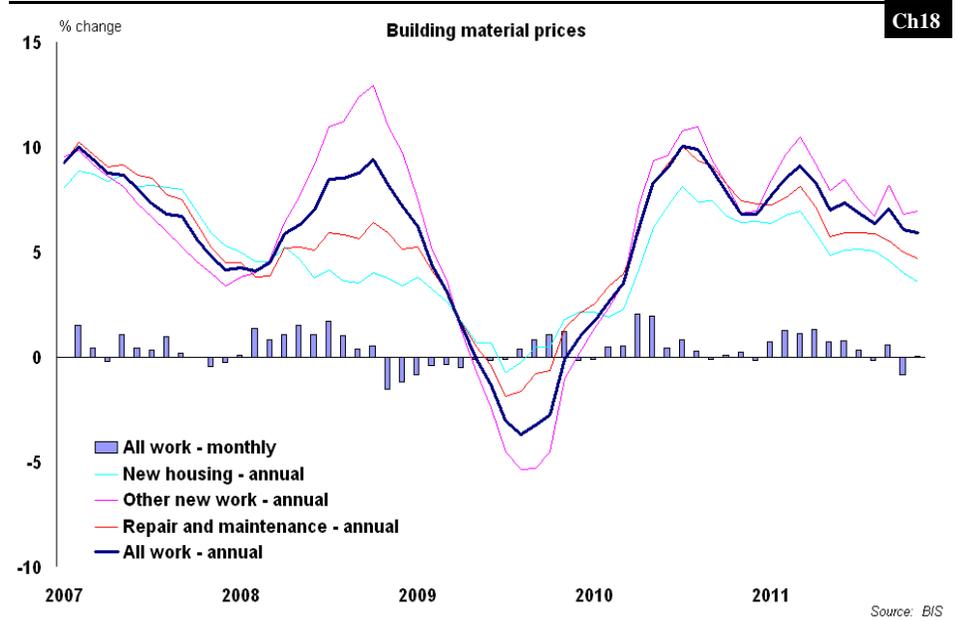
Output price expectations turn negative



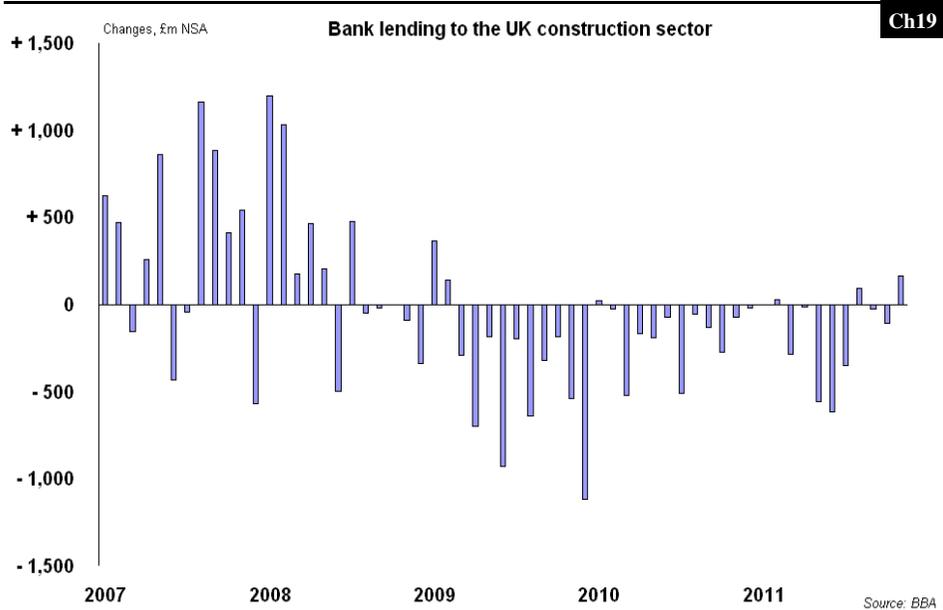
Construction PMI remains above 50



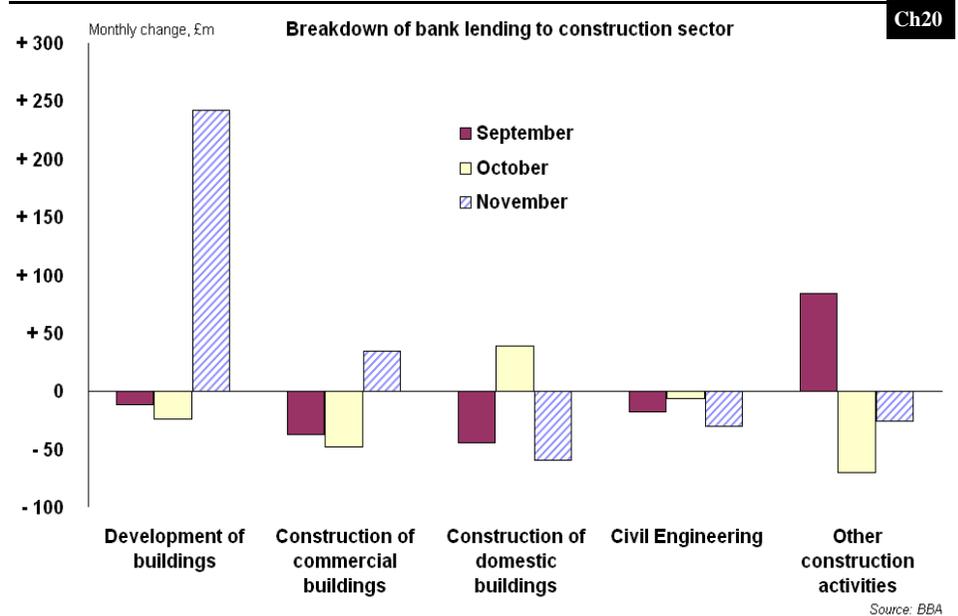
Rising prices squeezing profit margins



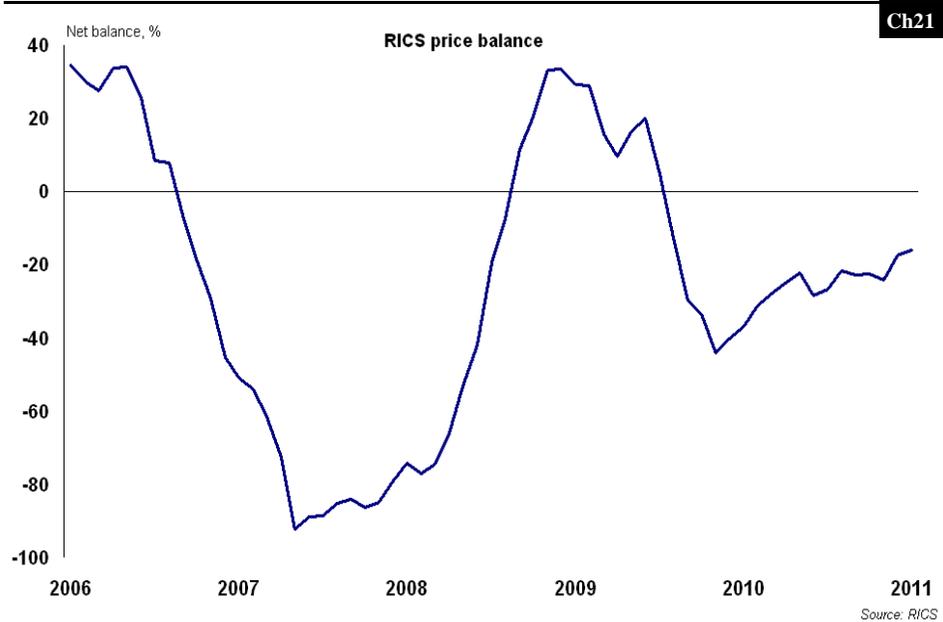
November showed a rise in lending to the construction industry



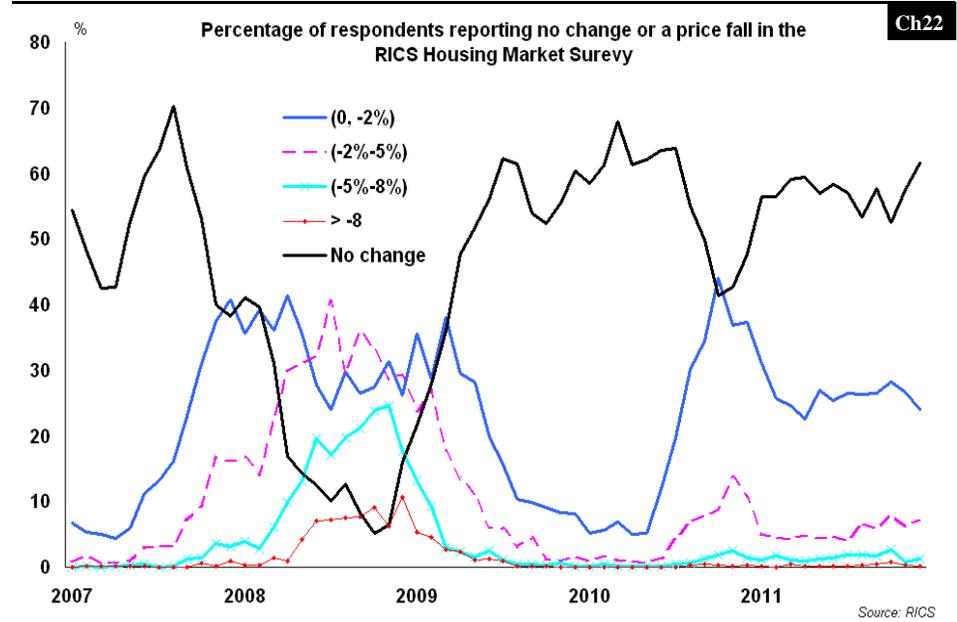
Development of buildings rebounded strongly



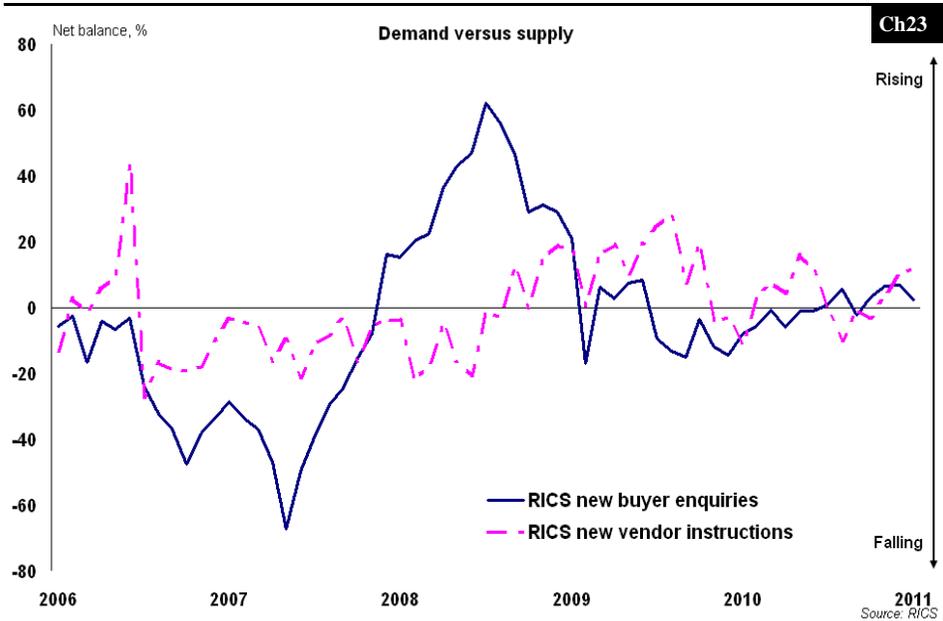
The RICS survey showed prices continuing to fall in October



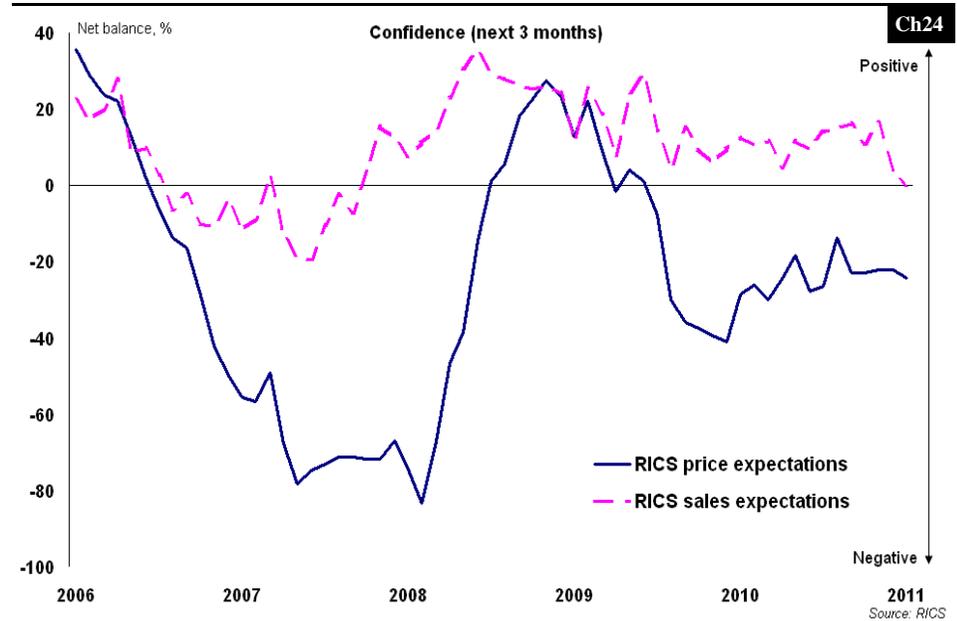
But majority of respondents reported 'no change'



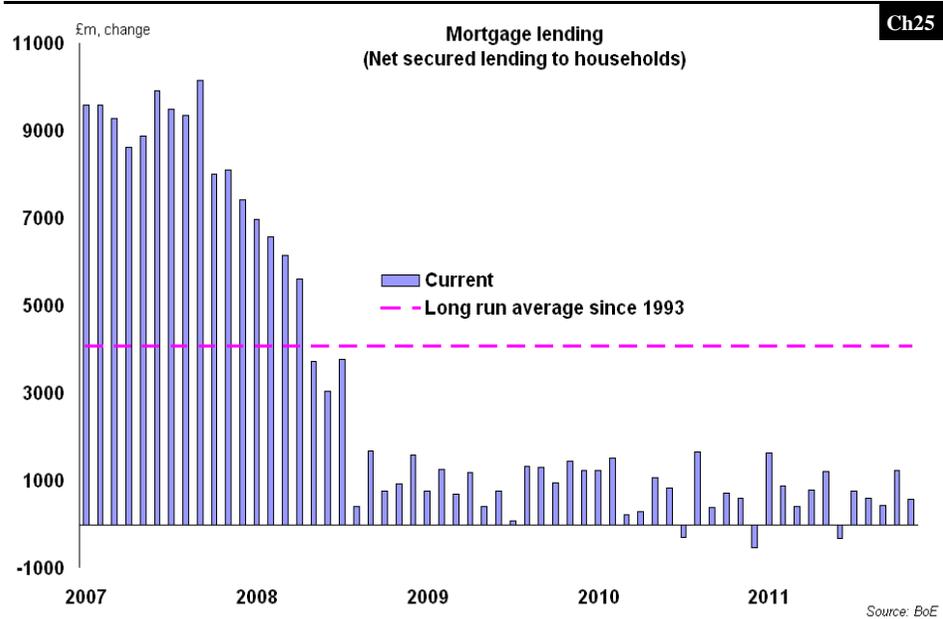
New instructions continues to tick up



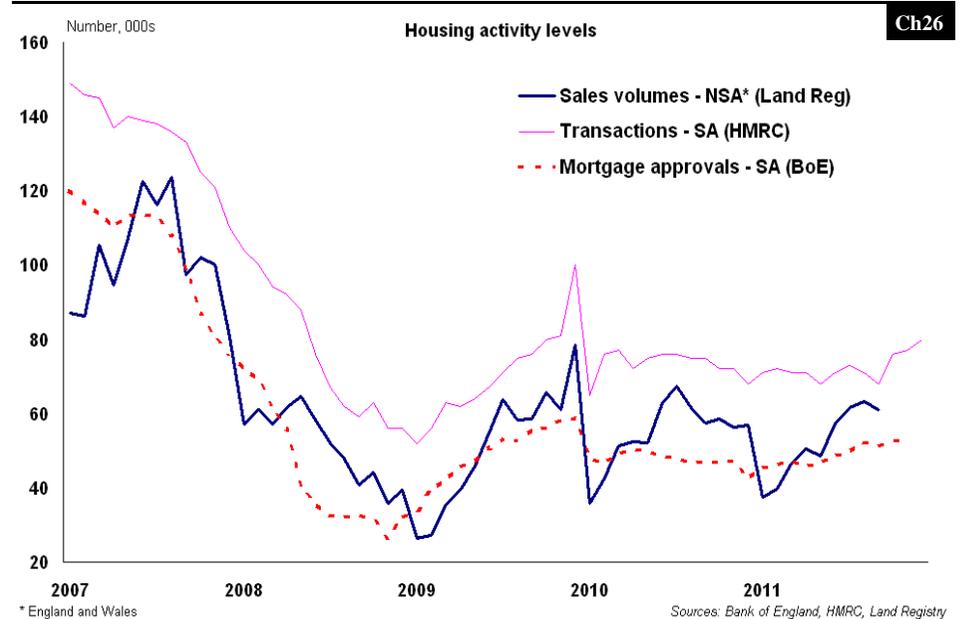
Sales expectations are now flat



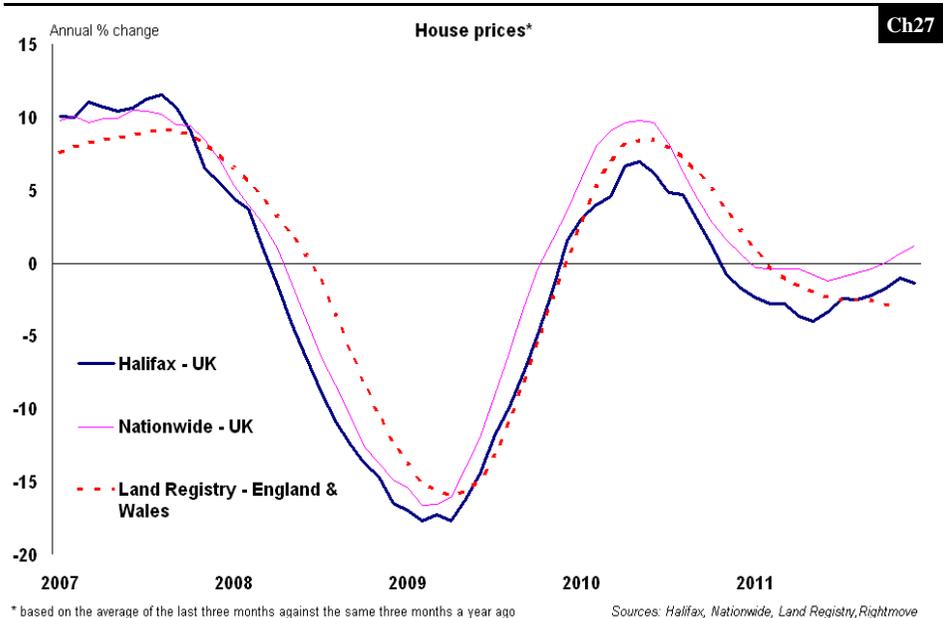
The mortgage lending picture remains very weak relative to average



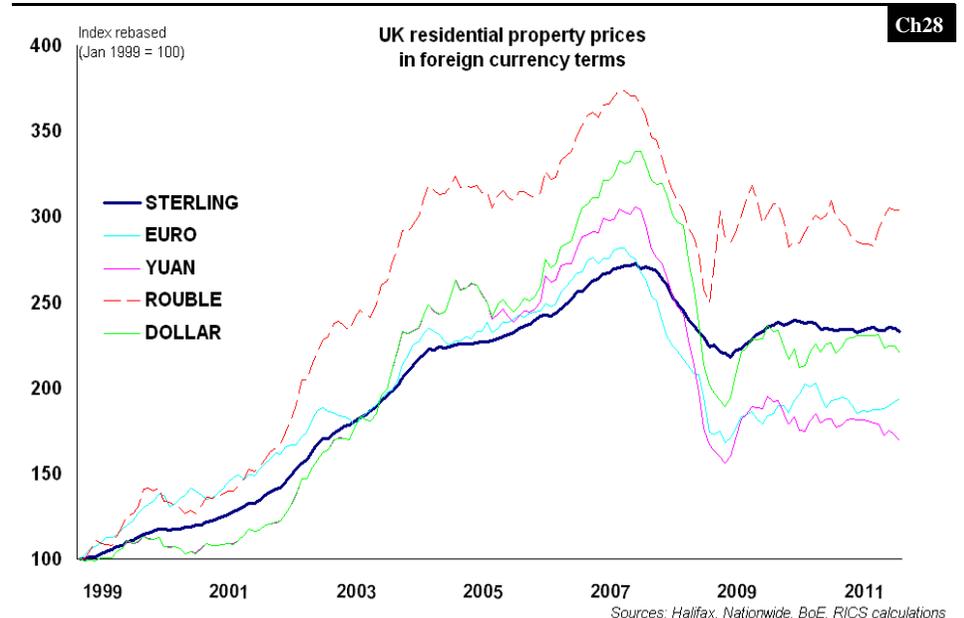
HMRC transactions rise to 2 year high



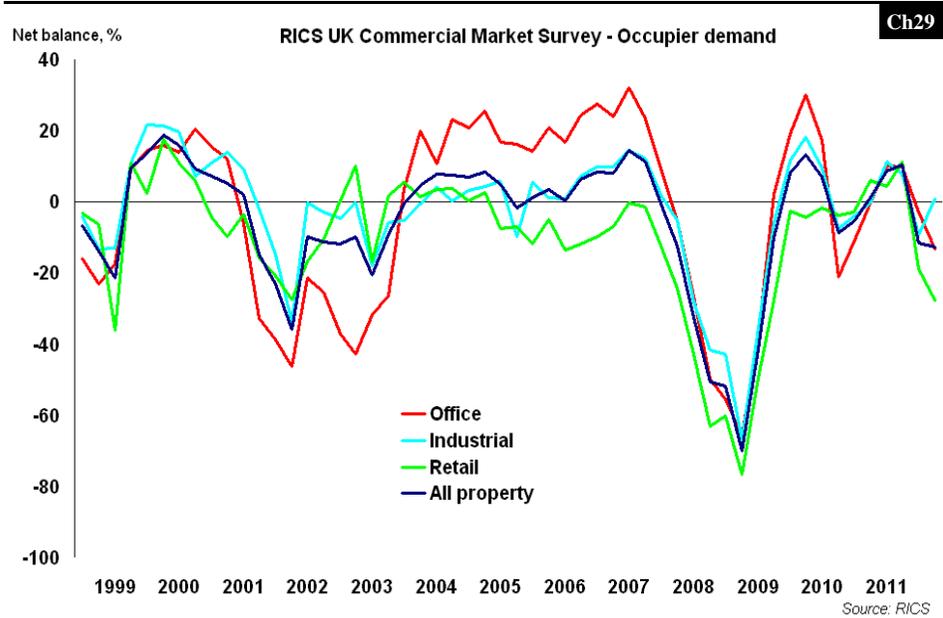
House price indices reflect a mildly negative picture



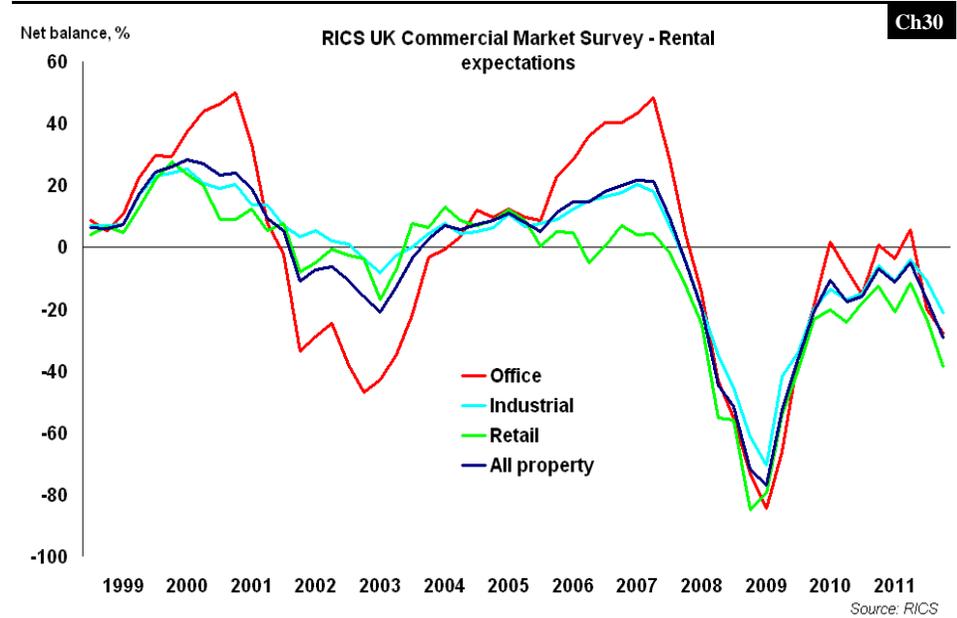
Euro investors continue to benefit from the favourable exchange rate



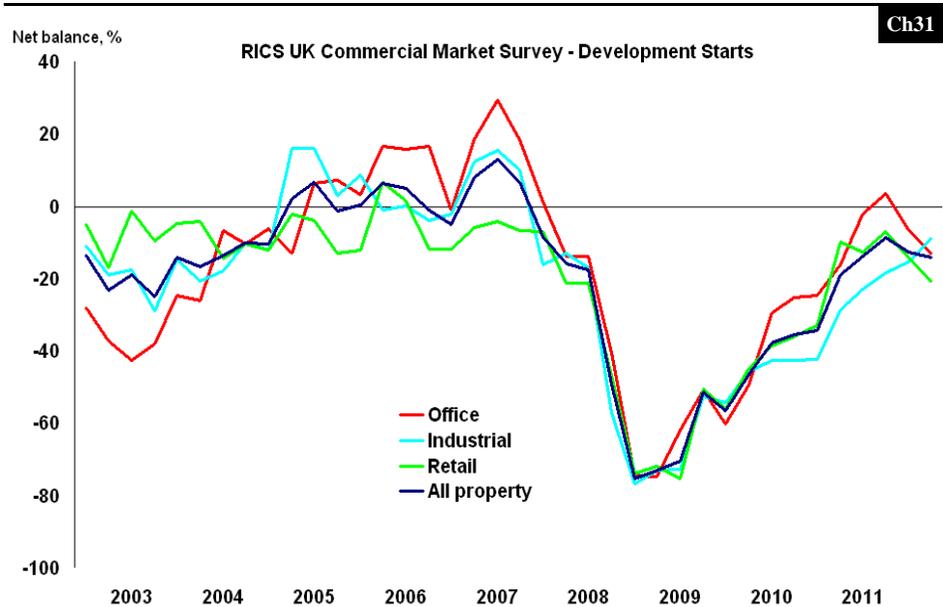
Occupier demand ends 2011 on a weaker note



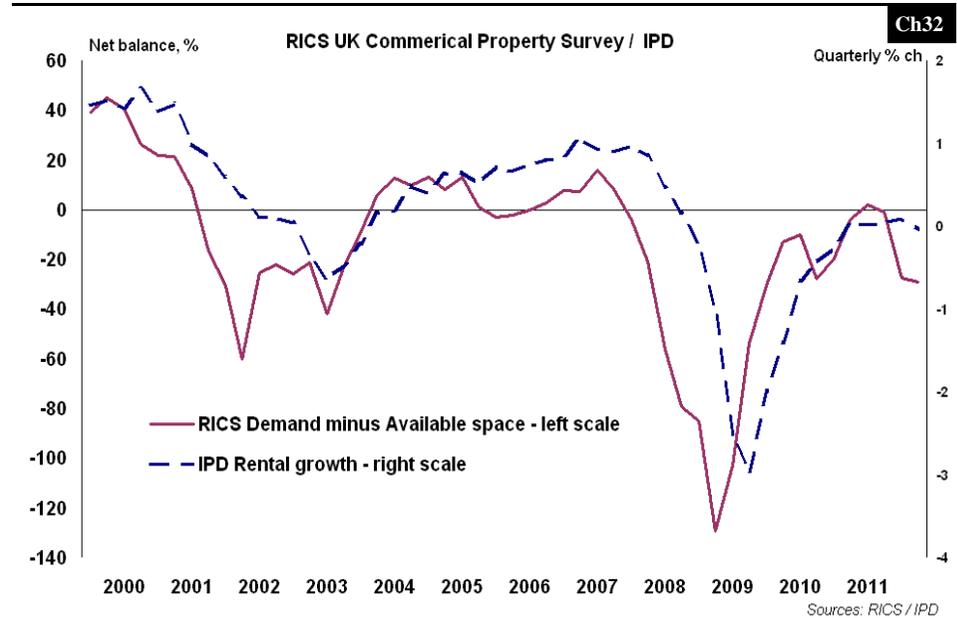
Rental expectations turn more negative



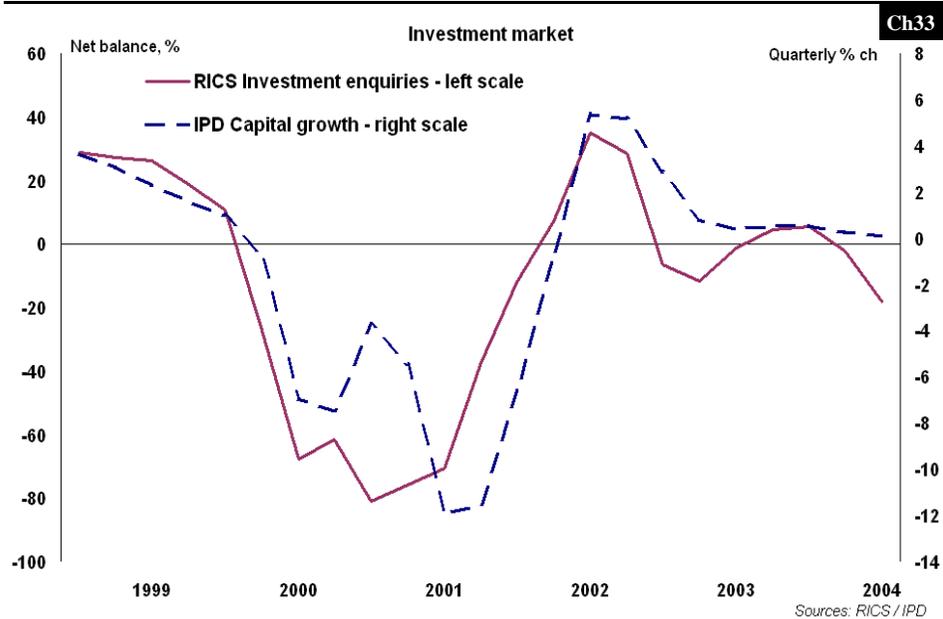
Development starts declining for all three sectors



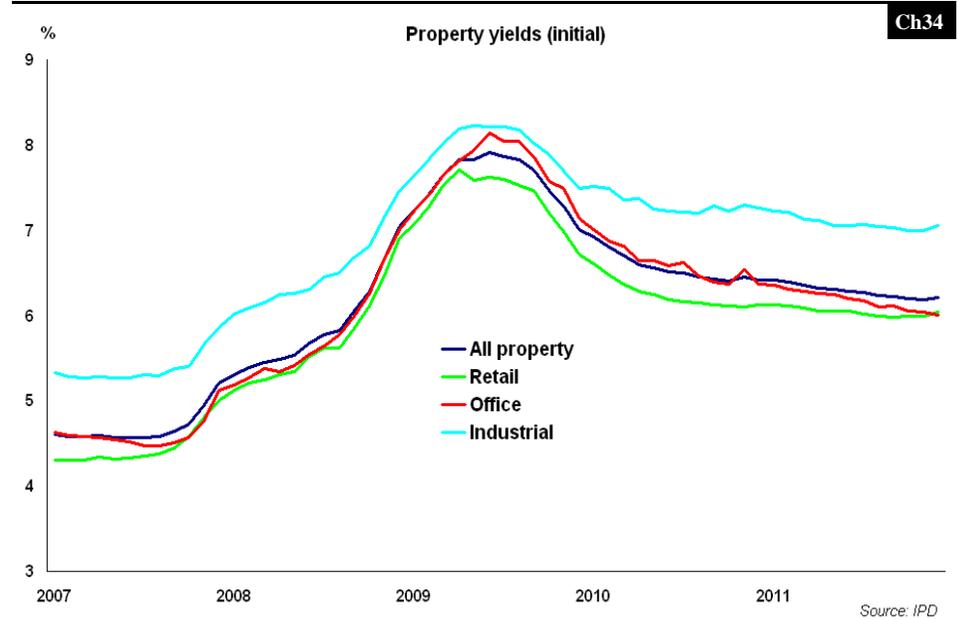
RICS indicator suggests rental growth to fall in near term



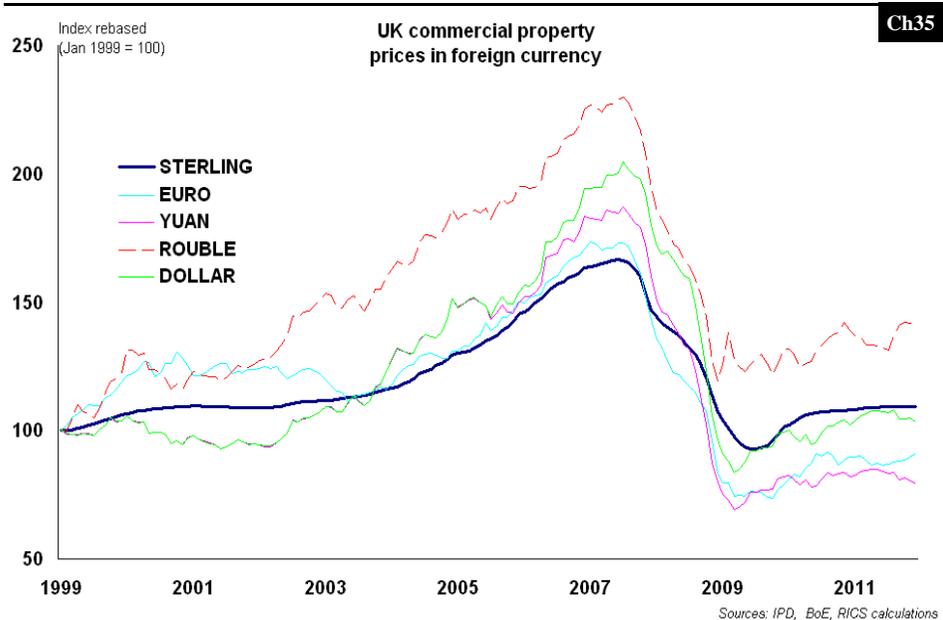
Capital value growth broadly flat in December



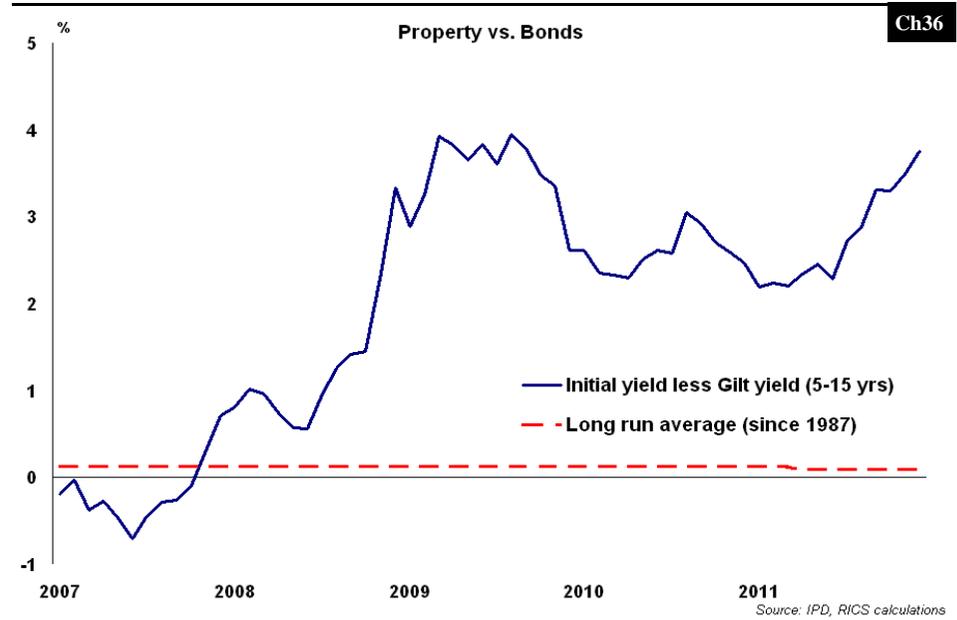
Industrial yields remain elevated compared to other sectors



Some investors getting an additional discount due to exchange rates



Commercial property an attractive asset class compared to bonds



Key property data release dates

Frequency	Body	Period covering	Release date
M	Land Registry House Price Index	December	30-January-12
M	BERR Monthly Statistics of Building Materials and Components	January	01-February-12
M	Halifax House price index	January	02-February-12 p
Q	RICS Construction Market Survey	Q4 2011	03-February-12 p
M	BoE Monetary Policy Committee Meeting and Announcement	February	07-February-12
Q	MoJ Mortgage and Landlord possessions	Q4	09-February-12
Q	Output in the Construction industry	Q4/ December	10-February-12
Q	BoE Inflation Report	Q1	12-February-12
M	RICS Housing Market Survey	January	14-February-12
M	Consumer Price Index	January	14-February-12
M	IPD UK Monthly Property Index	January	14-February-12
M	CLG House Price Index	November	14-February-12
Q	ONS House building statistics	Q4	16-February-12
M	Retail sales	January	17-February-12
M	CML Gross lending	January	20-February-12
M	BoE Minutes of the Monetary Policy Committee Meeting	February	22-February-12
M	HMRC Property Transactions	January	22-February-12
M	BBA High street banking	January	23-February-12
M	ONS 2nd estimate of GDP	Q4	24-February-12
M	BSA Lending Statistics	January	29-February-12
M	BoE Lending to Individuals	January	29-February-12
M	BoE Trends in Lending selected data sets	January	29-February-12
M	Nationwide Housing Market Index	January	01-March-12 p

RICS is the world's leading qualification when it comes to professional standards in land, property and construction. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining RICS status is the recognised mark of property professionalism.

Over 100 000 property professionals working in the major established and emerging economies of the world have already recognised the importance of securing RICS status by becoming members.

RICS is an independent professional body originally established in the UK by Royal Charter. Since 1868, RICS has been committed to setting and upholding the highest standards of excellence and integrity – providing impartial, authoritative advice on key issues affecting businesses and society.

RICS is a regulator of both its individual members and firms enabling it to maintain the highest standards and providing the basis for unparalleled client confidence in the sector. RICS has a worldwide network. For further information simply contact the relevant RICS office or our Contact Centre.

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