Q1 2018: Global Commercial Property Monitor

Investor appetite for real estate undiminished

- European markets continue to lead the way despite some concerns over valuation
- Sentiment in India, China and Brazil remains positive but it deteriorates further in Dubai and Doha
- Retail results in aggregate remain flat with offices and industrial positive on balance

The feedback from professionals working around the world for the Q1 2018 RICS Global Commercial Property Monitor (GCPM) indicates sentiment in the real estate sector remains generally positive. This is despite ongoing concerns about stretched valuations in a number of markets and some worries about the potential implications for the global economy of the rise in protectionist trade policies.

Significantly, the headline reading for the Investment Sentiment Index* (ISI) is in positive territory, to a greater or lesser degree, in 27 out of the 34 countries reported on in the survey (chart 2) which is unchanged from the Q4 2017 results. By way of contrast, the comparable figure for the Occupier Sentiment Index* (OSI) has slipped to 24 (out of 34) - the detail is highlighted in chart 1. This is down from 28 last quarter and reflects, in part, slightly less robust readings for conditions regarding tenant demand in a number of markets.

Alongside this, it is also noteworthy that there is marked difference between the current mood of property practitioners and their expectations for the next twelve months. This is demonstrated most clearly at a city level in charts 3 and 4. In the former, nine cities are in the bottom left quadrant of the scatter which reflects negative readings compared with the preceding quarter, that is, sentiment is less positive than it was. The latter, which is based on forward looking responses, has just two cities in that quadrant. This pattern is not unusual but it is more marked this quarter than previously which again would appear consistent with the near term concerns.

Once again, the momentum for the key indicators covered by the GCPM remains strongest in Europe. Well established markets such as Berlin, Amsterdam, Munich, and Dublin continuing to be most attractive to investors and tenants alike. Lisbon and Madrid are also performing strongly as are some of the smaller CEE markets with cities such as Budapest and Sofia recording firm results.

Although the development pipeline does slowly appear to be responding to market conditions in a number of these cities, contributors to the survey continue to highlight a lack of supply of good quality space as a key issue. This appears to be a factor underpinning expectations for rental growth particularly on, what may be judged, prime real estate. Significantly, supportive occupier trends appear to be sustaining positive sentiment in the investment market notwithstanding ongoing concerns about valuation; around 80% of contributors from Germany perceive the market as being expensive or very expensive with the proportion from France taking the same view only slightly less than this.

While the results from Europe remain upbeat, the contrast continues to be provided by the Middle East with the feedback from Dubai and Doha particularly downbeat. Indeed, the Q1 results from both centres are weaker than for the preceding quarter with secondary locations most notably likely to see further pressure on rents and capital values. Macro and political risks are very much to the fore in fueling risk aversion which is most visible in the negative readings for tenant demand as businesses seeks to recalibrate space requirements.

The US results continue to show disparity between the feedback from New York and the rest of the country. Both the OSI and the ISI remain in positive territory for the latter while for the former, they are in negative territory, albeit only to a limited degree. Moreover, the majority of respondents away from New York still view real estate in general as being priced around fair value. The picture in the UK is not dissimilar with sentiment away from London generally more positive and concerns over valuation most acute in the capital. That said, investment enquiries in the latter remain resilient.

The real estate picture in many emerging markets appears little changed from the final quarter of last year with a positive trend in global trade volumes remaining supportive despite sabre rattling around protectionism. For example, the results for India, China and Brazil are all broadly similar in the latest survey; significantly, Bengaluru, NCR, Mumbai and Beijing all score particularly highly in the forward looking indicators with Shanghai not far behind. The majority of respondents from India continue to view real estate as, broadly speaking, still close to fair value with the market remaining in the upturn phase of the cycle.

The backdrop across the rest of Asia-Pac is more mixed. Feedback from Singapore at a headline level appears to be improving with capital value expectations recording a second successive positive reading although the rental outlook is still flat for the time being. Meanwhile the results for Sydney, Tokyo and Hong Kong all remain in positive territory albeit with momentum in the investment market proving, once again, more resilient than the occupier market.

In terms of sector trends, the GCPM continues to highlight the challenges facing retail with the results, in aggregate, showing a broadly flat trend. Offices and industrials in contrast have, on average, more positive readings, both from an occupier and investor perspective.

*The Occupier and Investment Sentiment Indices are both composite measures capturing overall market momentum, encompassing variables on supply, demand, and expectations

Chart 1 Occupier Sentiment Index (change v previous qtr) - Net balance %

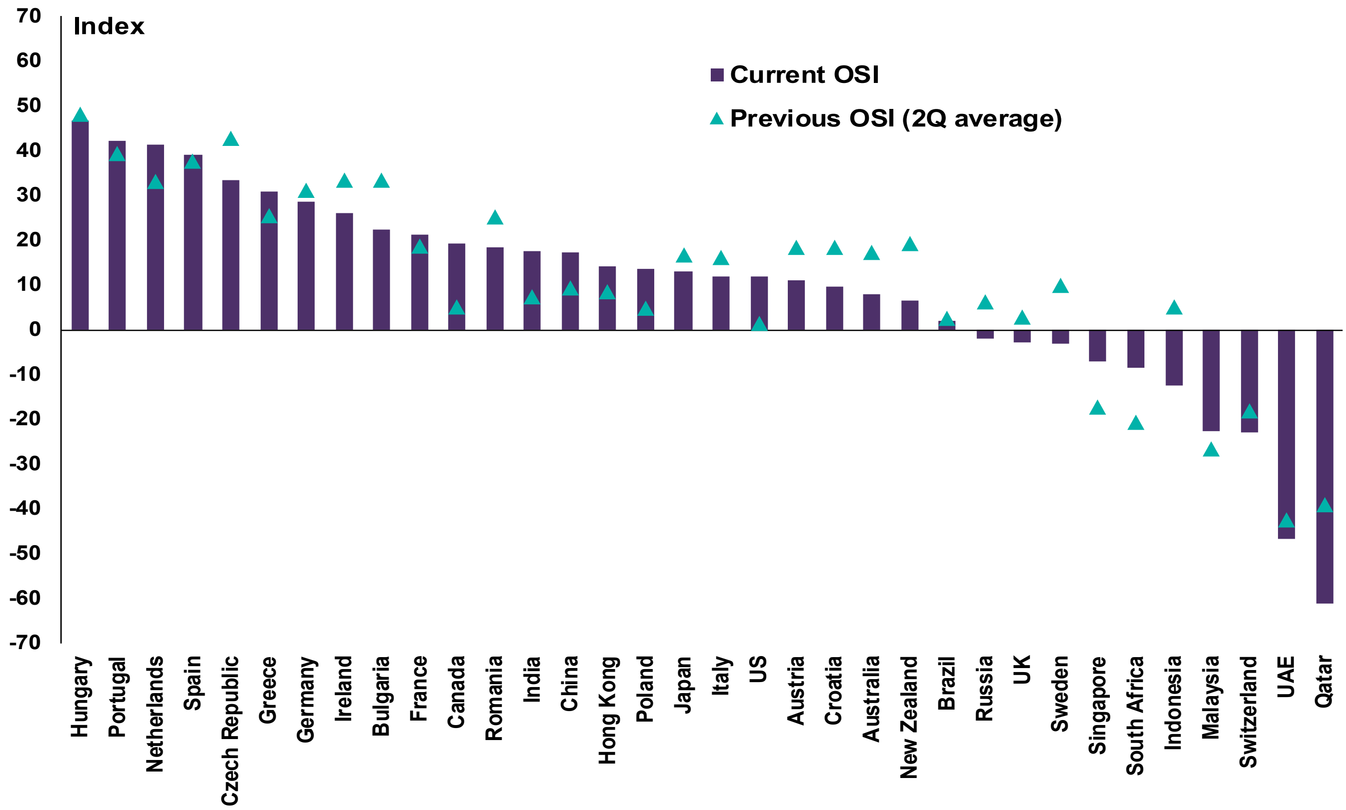


Chart 2 Investment Sentiment Index (change v previous qtr) - Net balance %

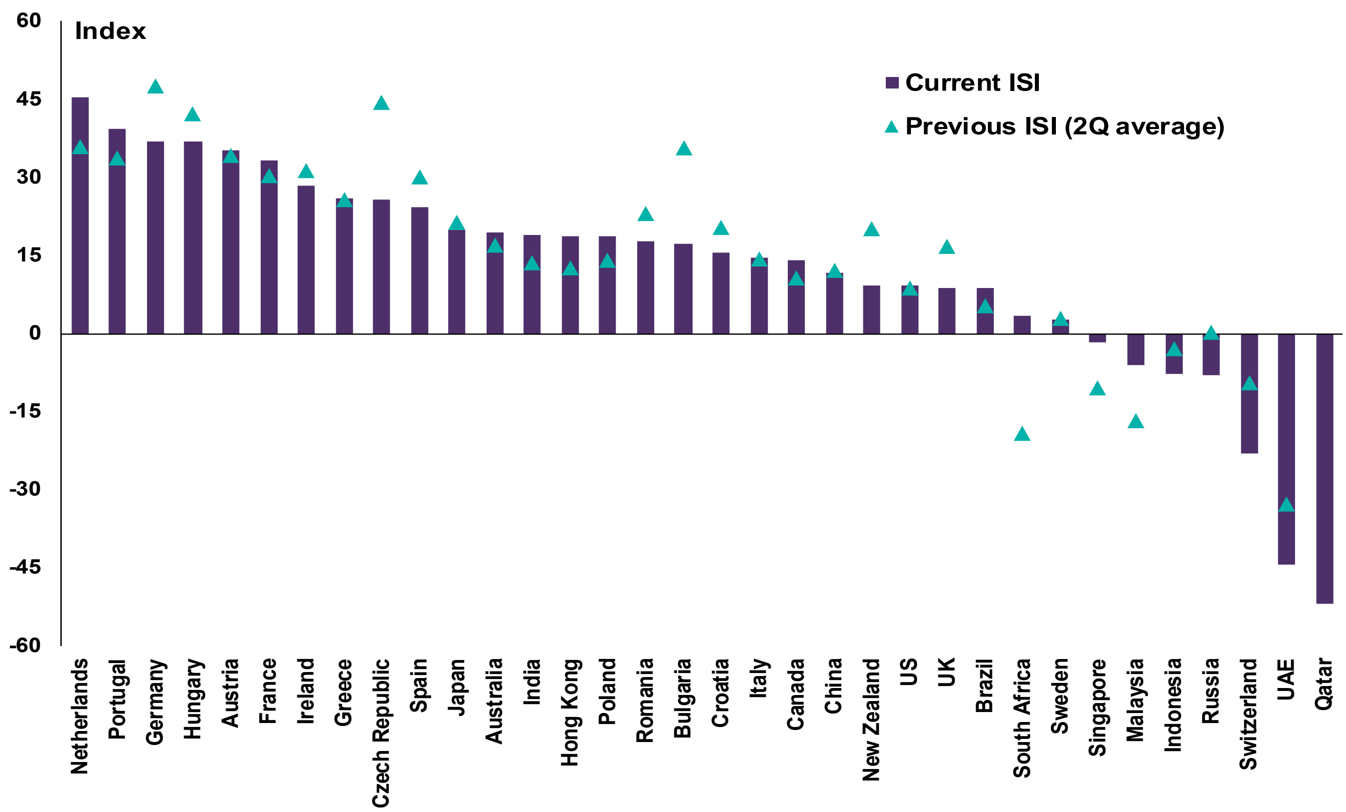


Chart 3 City Level Occupier and Investor Sentiment Indices- All sectors (net balance %)

Indicative of momentum over the previous quarter

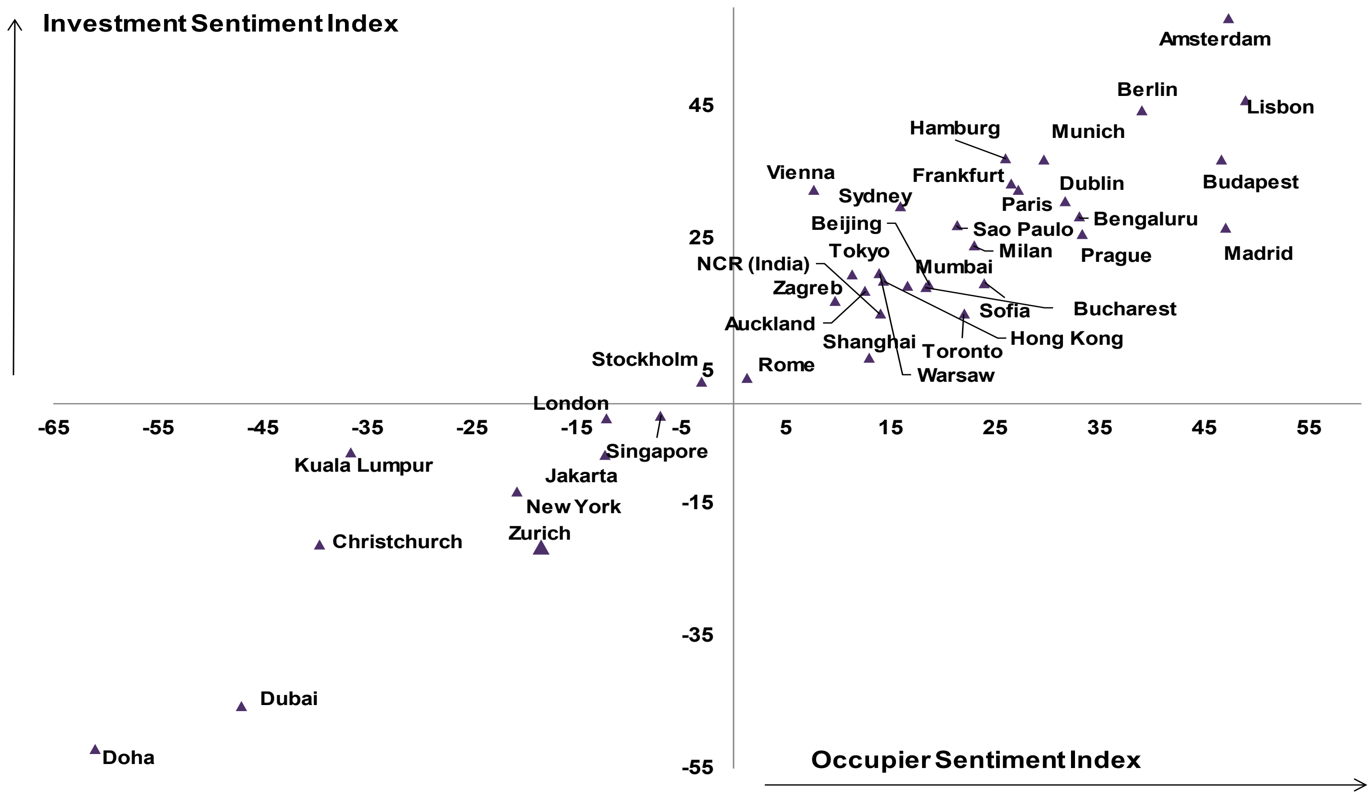


Chart 4 City Level Twelve Month Rental and Capital Value Expectations All sectors (net balance %)

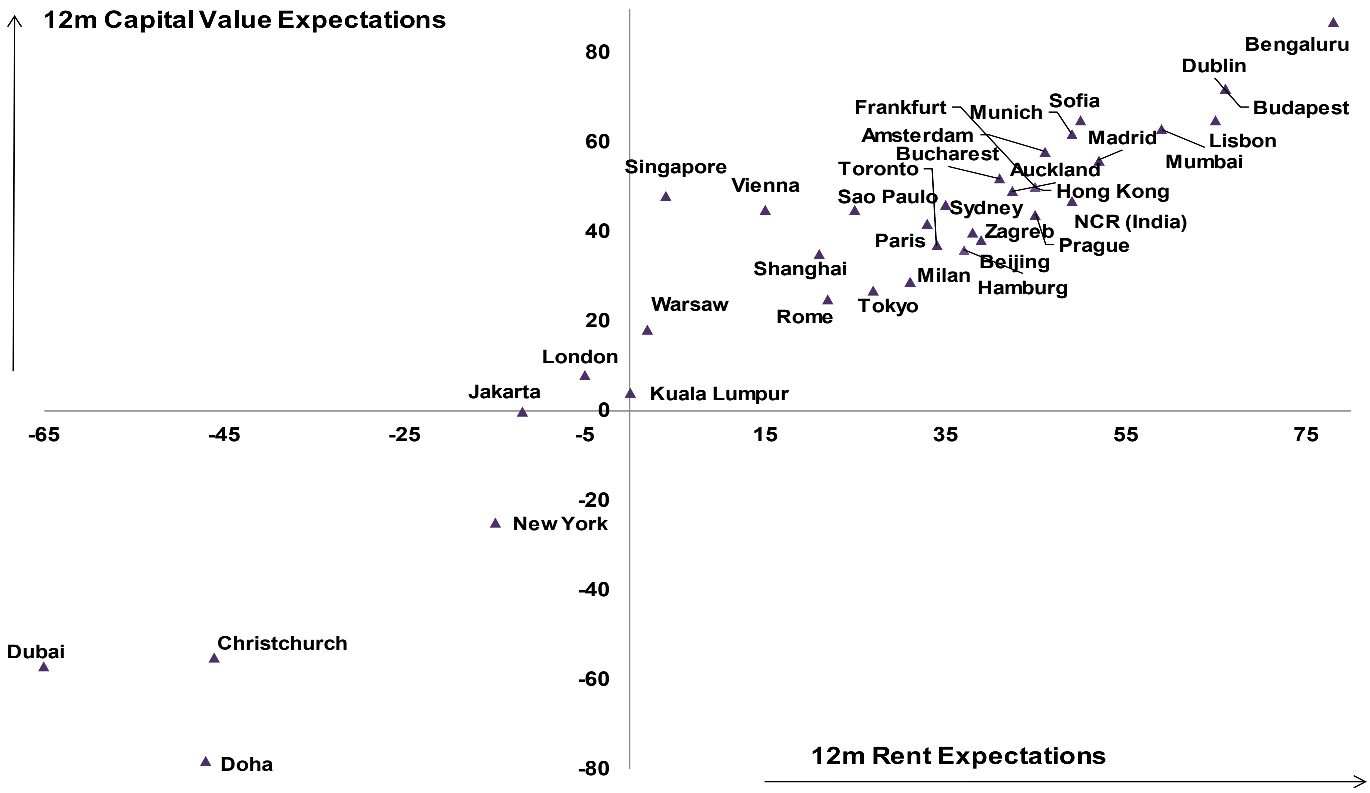


Chart 5 Valuations Perceptions

% of respondents viewing their local market as cheap, fair value or expensive

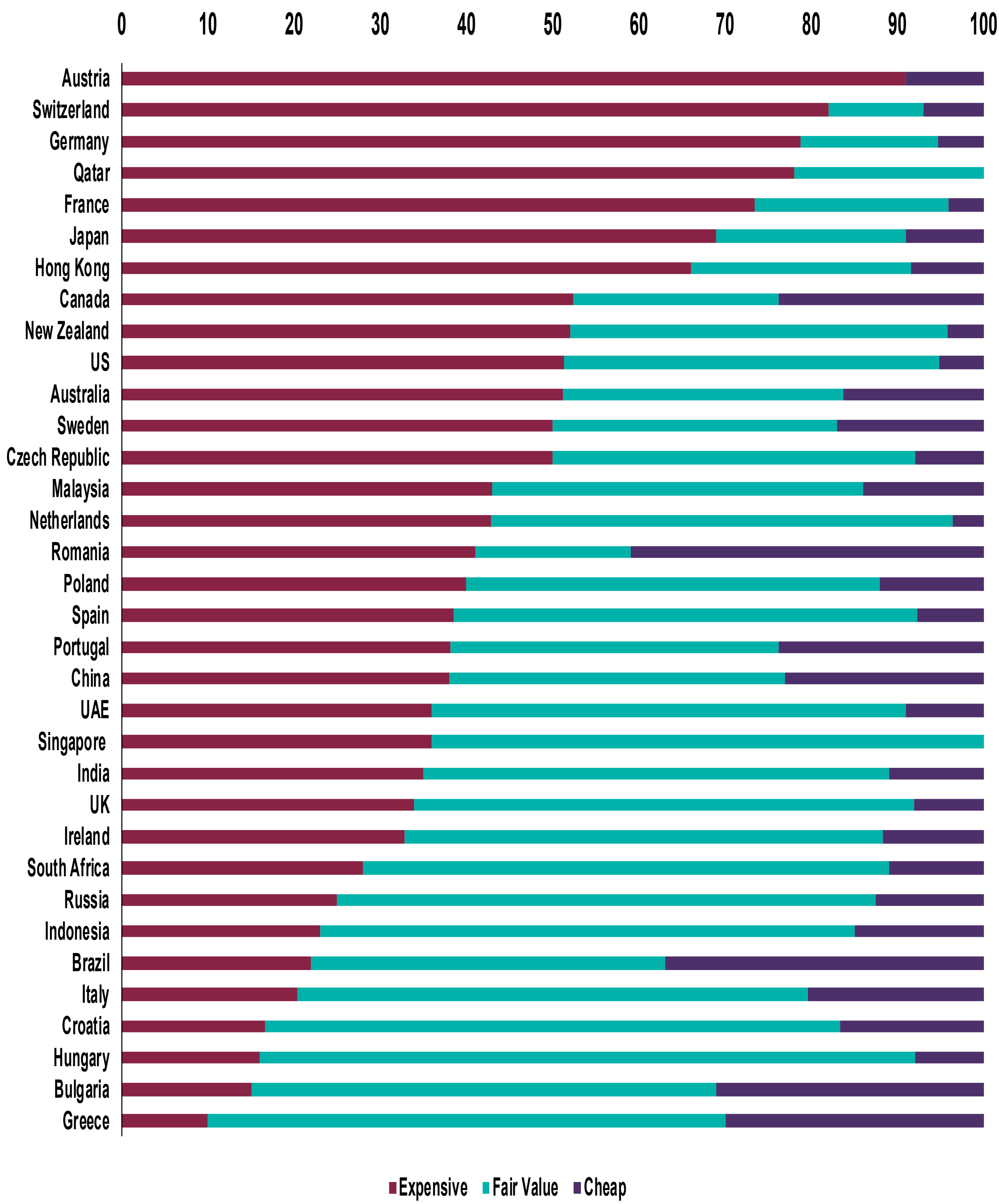
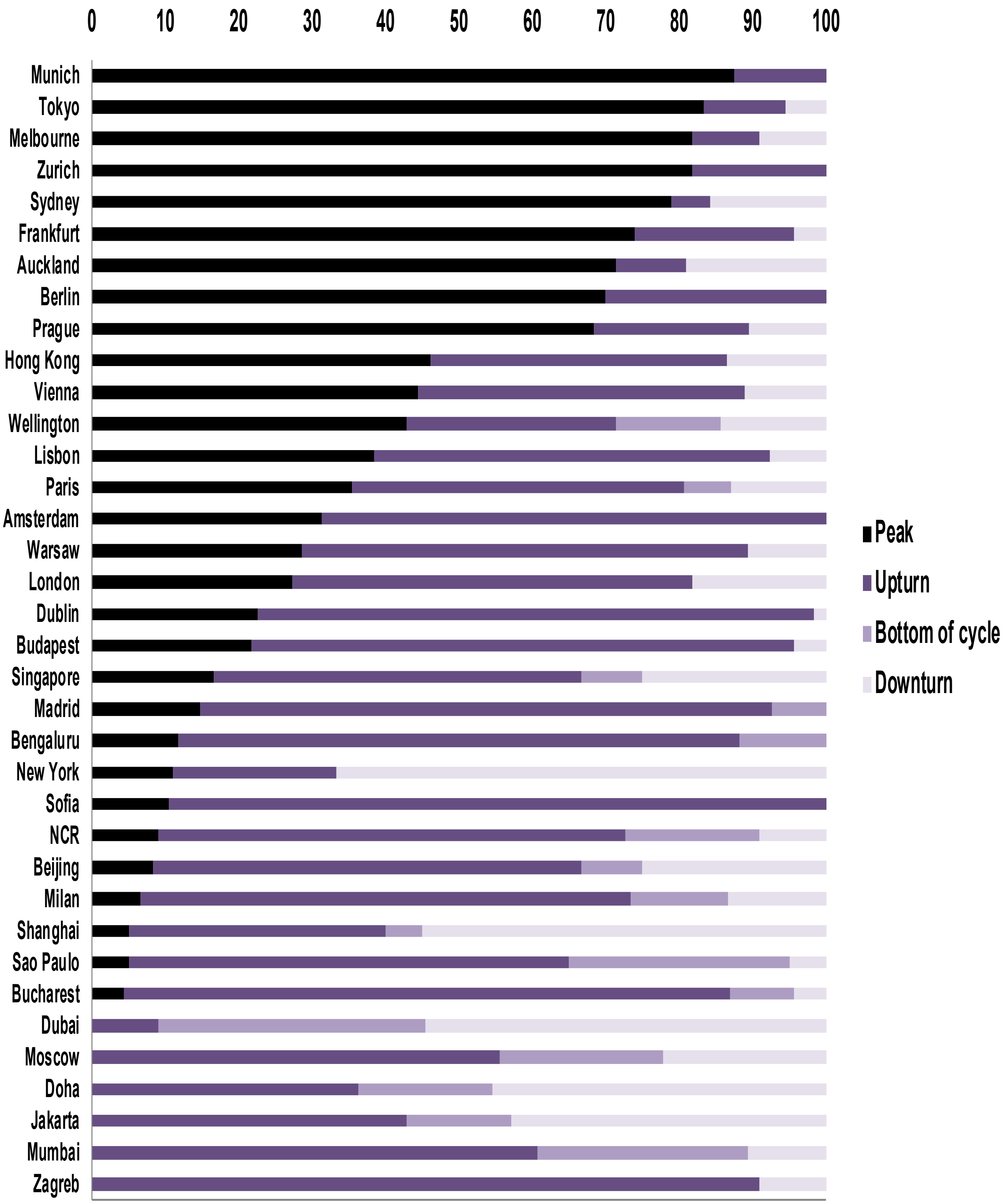


Chart 6 Property Cycle

% of respondents perceiving market conditions to be in various stages of the cycle



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 14 March 2018 with responses received until 11 April 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1748 company responses were received, with 385 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

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