



Q1 2019: Global Commercial Property Monitor

Supportive central banks continue to underpin real estate sentiment

- European markets still showing strongest momentum
- India and Japan record the most positive readings in APAC once again
- Soft landing still envisaged for those real estate markets now in downturn phase of cycle

The feedback provided to the Q1 RICS Global Commercial Property Monitor remains generally quite upbeat despite ongoing macro concerns as highlighted by the IMF in its latest forecasts for the global economy. Significantly, for around two-thirds of countries covered in the survey both the headline RICS* Occupier (OSI) and Investor (ISI) Sentiment Indices are still in positive territory (these series capture momentum in the market rather than levels of confidence); this is little changed from the final three months of 2018. Moreover, this pattern is broadly replicated in the proportion of markets perceived to be in the downturn phase of the cycle; a significantly larger share are still viewed as being in the upturn or peak phase.

European sentiment remains firm for now

Although there has been much discussion about slowing growth in (mainland) Europe in recent months, there is little evidence of this feeding through into the insight from contributors to the survey. The fact that the ECB was quick to amend interest rate guidance, offer new TLROs and effectively shift to a 'lower for longer' stance may have contributed to the resilience of sentiment amongst property professionals working in the region.

Amongst the countries with the strongest OSI and ISI readings are Hungary, Germany, Czech Republic, Portugal and the Netherlands. Expectations for further capital gains generally remain firm across much of the region although there are significant divergences between segments of the market. So while the crude average projection (excluding the UK) is 2%, this masks much more positive views regarding prime offices and industrials.

Brexit impasse continues to cloud the UK

We thought that it was worth separating the UK from the rest of Europe because of the very different dynamics driving the market at the moment. The failure to reach agreement with the EU and the subsequent extension of Article 50 is very much reflected in the anecdotal feedback from respondents to the survey but for now at least, the key RICS indicators are only marginally negative. Indeed, the stronger message emanating from the data at the current time is the pressure on the retail sector in the wake of structural changes in consumer behaviour which appear more advanced in the UK than elsewhere.

APAC sentiment slightly more upbeat

One more encouraging macro development over the quarter has been the easing in trade tensions between the US and China. This coupled with the latest round of government

support has helped settle the Chinese real estate market according to RICS indicators; the OSI has improved from -18 to -2 and the ISI from -12 to -2. Meanwhile, the results from India point to continuing positive momentum in that real estate market helped by the Reserve Bank lowering the repo rate during the quarter. At a headline level, contributors are signalling that capital values could rise by a further 5% over the next twelve months which could be underpinned by a similar increase in rents; prime offices are viewed as being the strongest performer but gains are envisaged, to a greater or lesser degree, across the market.

Although only one-quarter of Indian respondents to the GCPM suggested that the real estate sector was in the downturn/bottom phase of the cycle, this perception was more widespread in a number of other markets across the region. In China, Singapore, Australia and New Zealand, around one-half of contributors took this view with the share rather higher in Malaysia and Indonesia. That said, in virtually all of these markets capital values are still expected to post gains, albeit only modestly, over the next twelve months. For Australia where the projection at a headline level is for no change, this again masks greater resilience in the office sector and the emerging challenge facing retail. Japan remains a notable exception with the lionshare of respondents still seeing the market as being in the peak phase of the cycle.

No easing in pressure in the Middle East

Hopes that some light may be emerging in Middle Eastern markets appears premature if the feedback received to the survey is anything to go by. The readings for the OSI and ISI in the UAE at -52 and -37 were actually a little worse than in the previous survey with a similar pattern noted in the feedback from Qatar and Oman. Comments from respondents largely reflected this downbeat mood.

Americas modestly positive

The results for the US have been little changed for the past few quarters with positive single digit readings for both the OSI and the ISI. The majority of contributors continue to view the market as being in the mid upturn or peak phase of the cycle with capital values perceived likely to post small increases over the next twelve months away from retail and secondary offices. The responses from Canada point to a slightly more upbeat picture. Meanwhile, the improved tone to the Brazil market in the wake of the presidential election (highlighted in the Q4 report) has just about been maintained although capital and rental value growth projections have eased somewhat over the quarter to a little closer to where they were earlier in 2018.

*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 Indicator

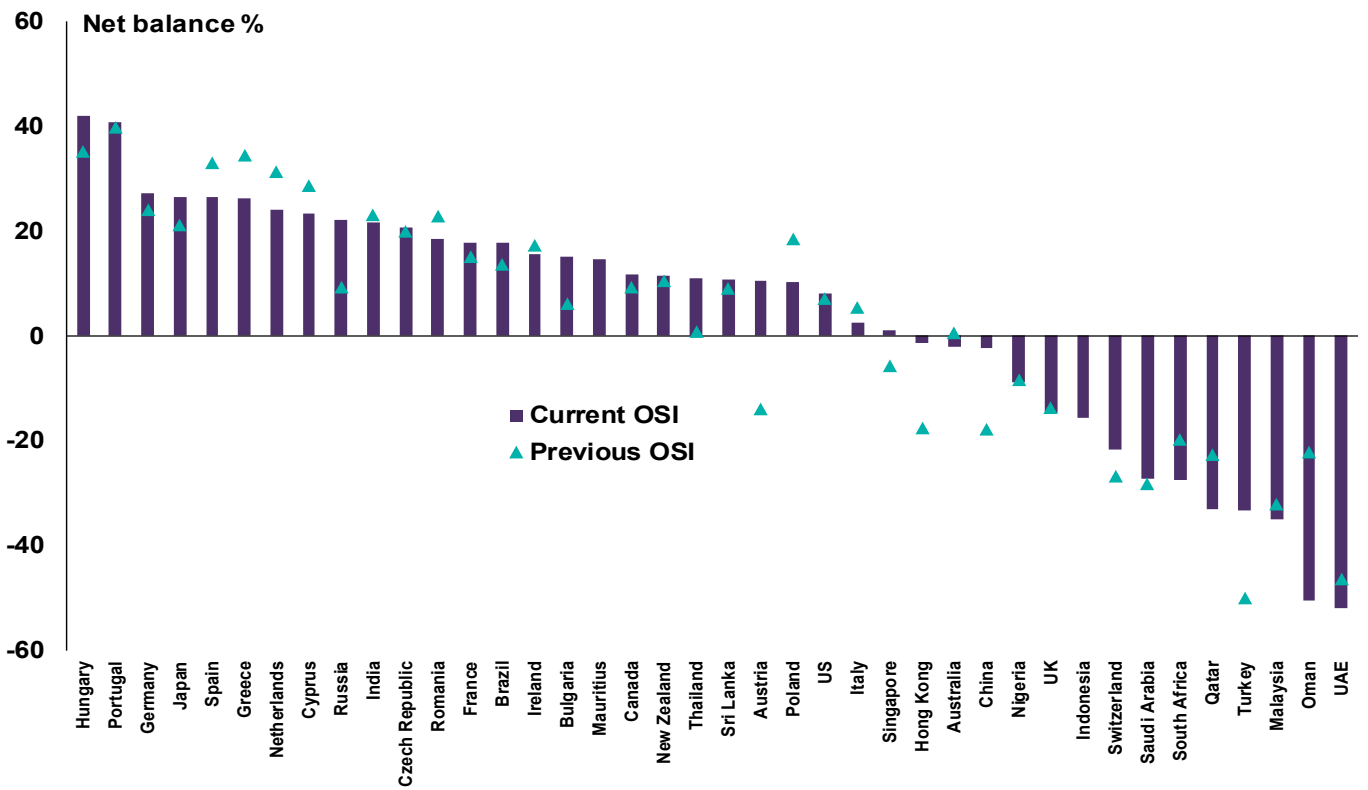


Chart 2 Investment Sentiment Indicator

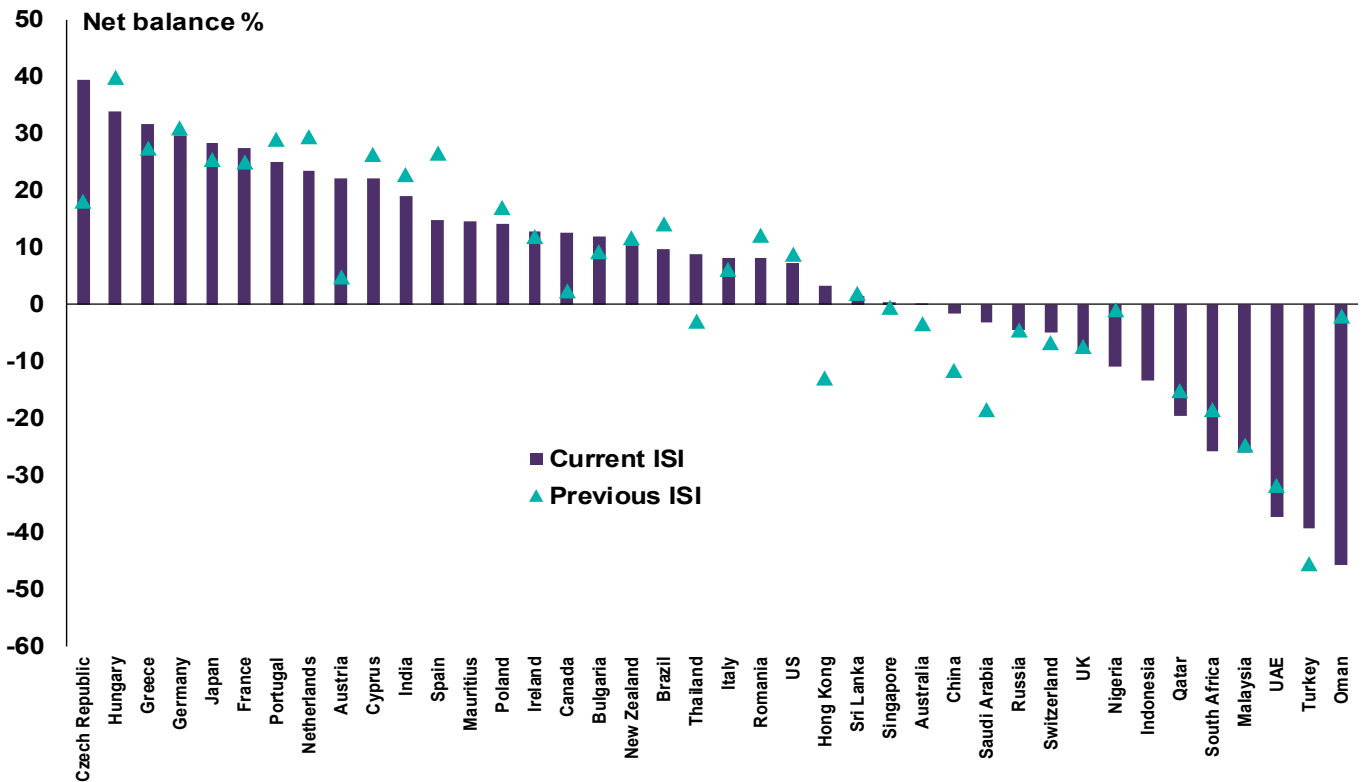


Chart 3 Occupier and Investor Sentiment Indices- All sectors (net balance%)
Indicative of momentum over the previous quarter

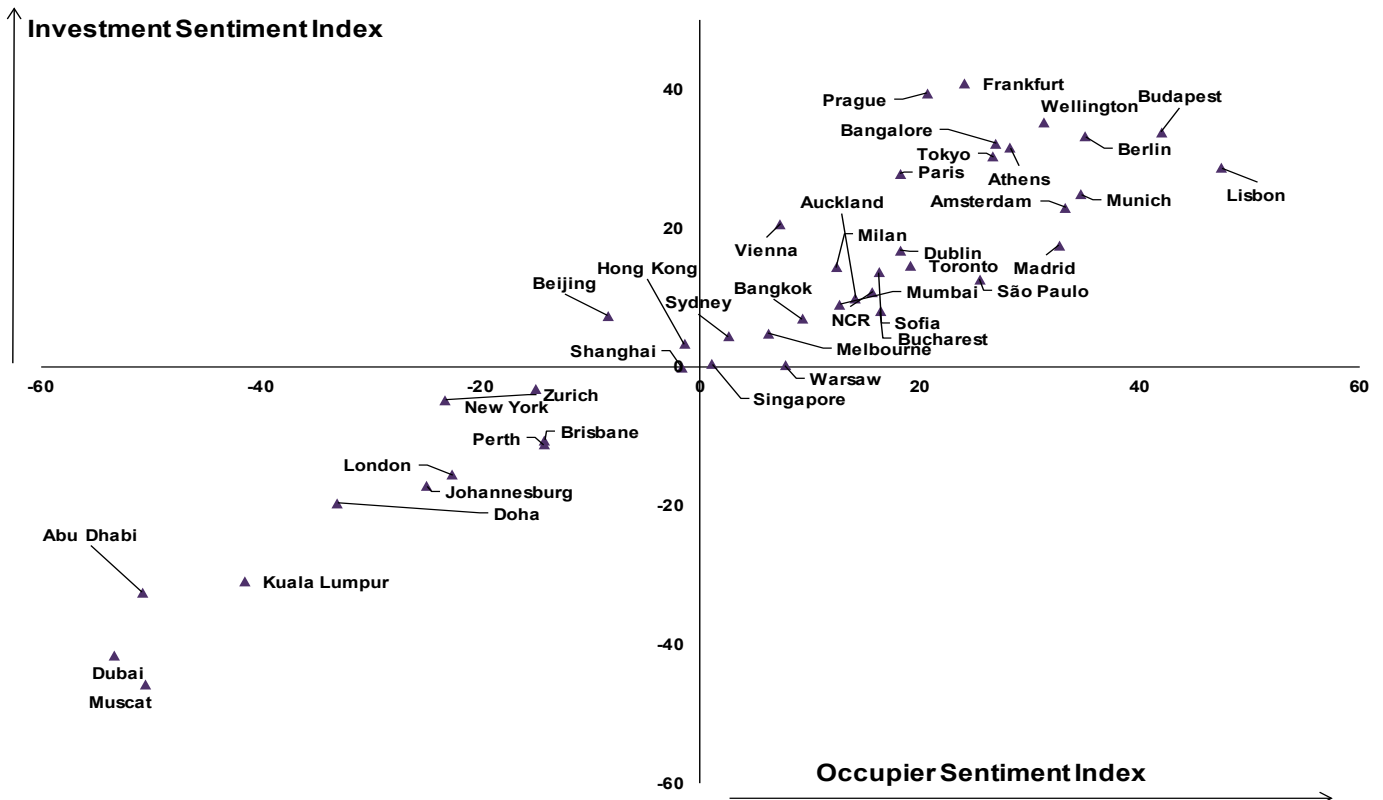


Chart 4 Twelve Month Rental and Capital Value Expectations - All sectors (net balance %)

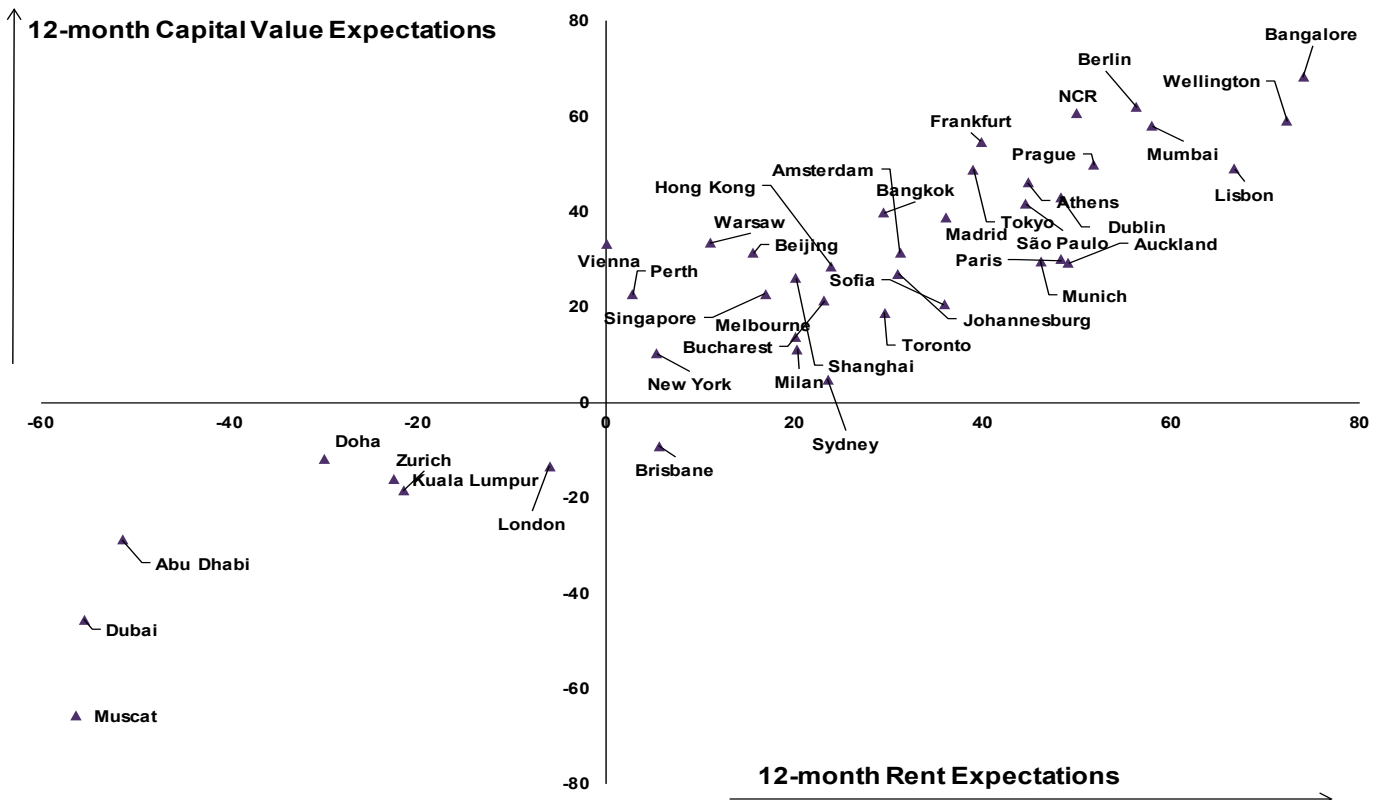


Chart 5 Valuations Perceptions

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

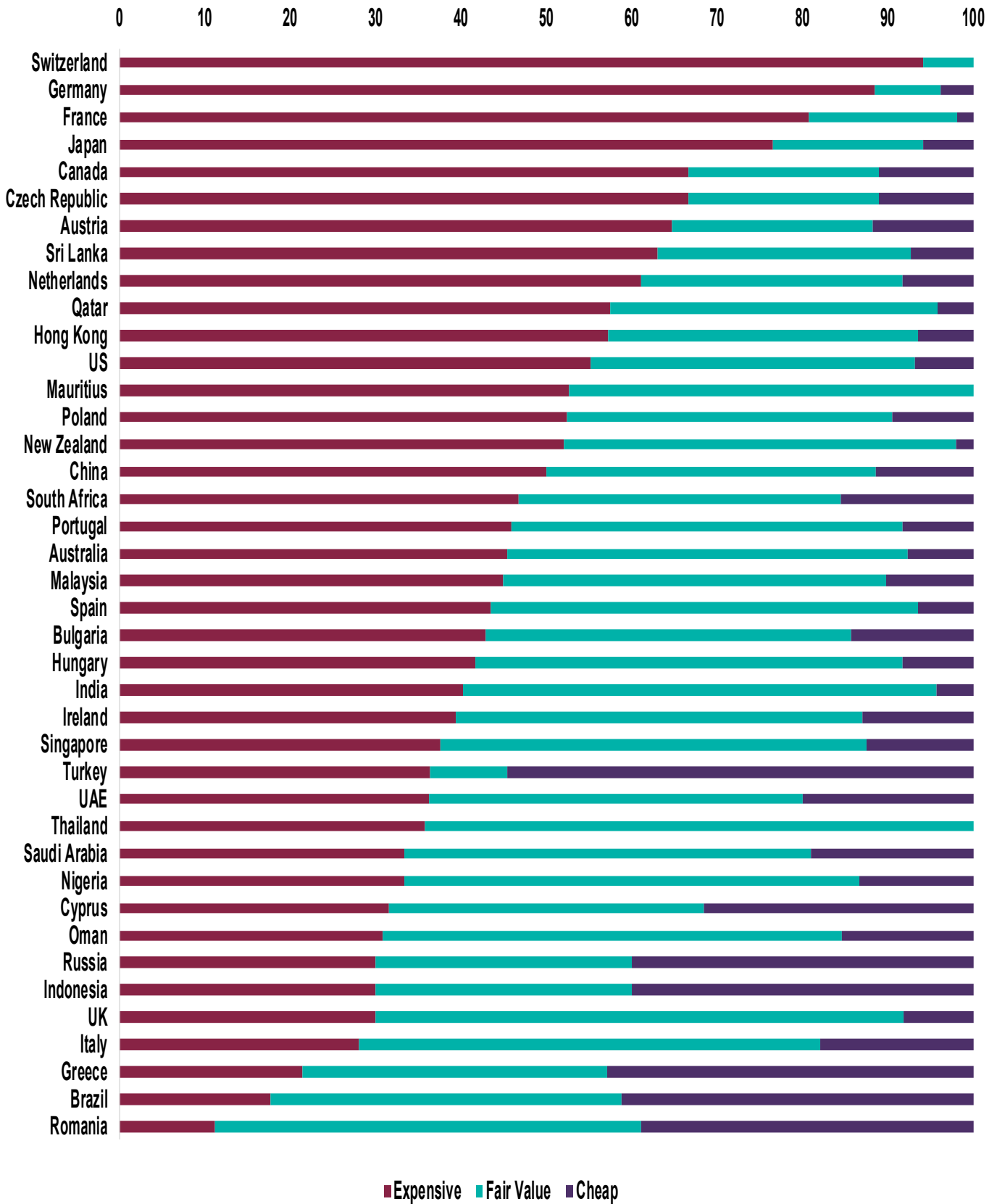
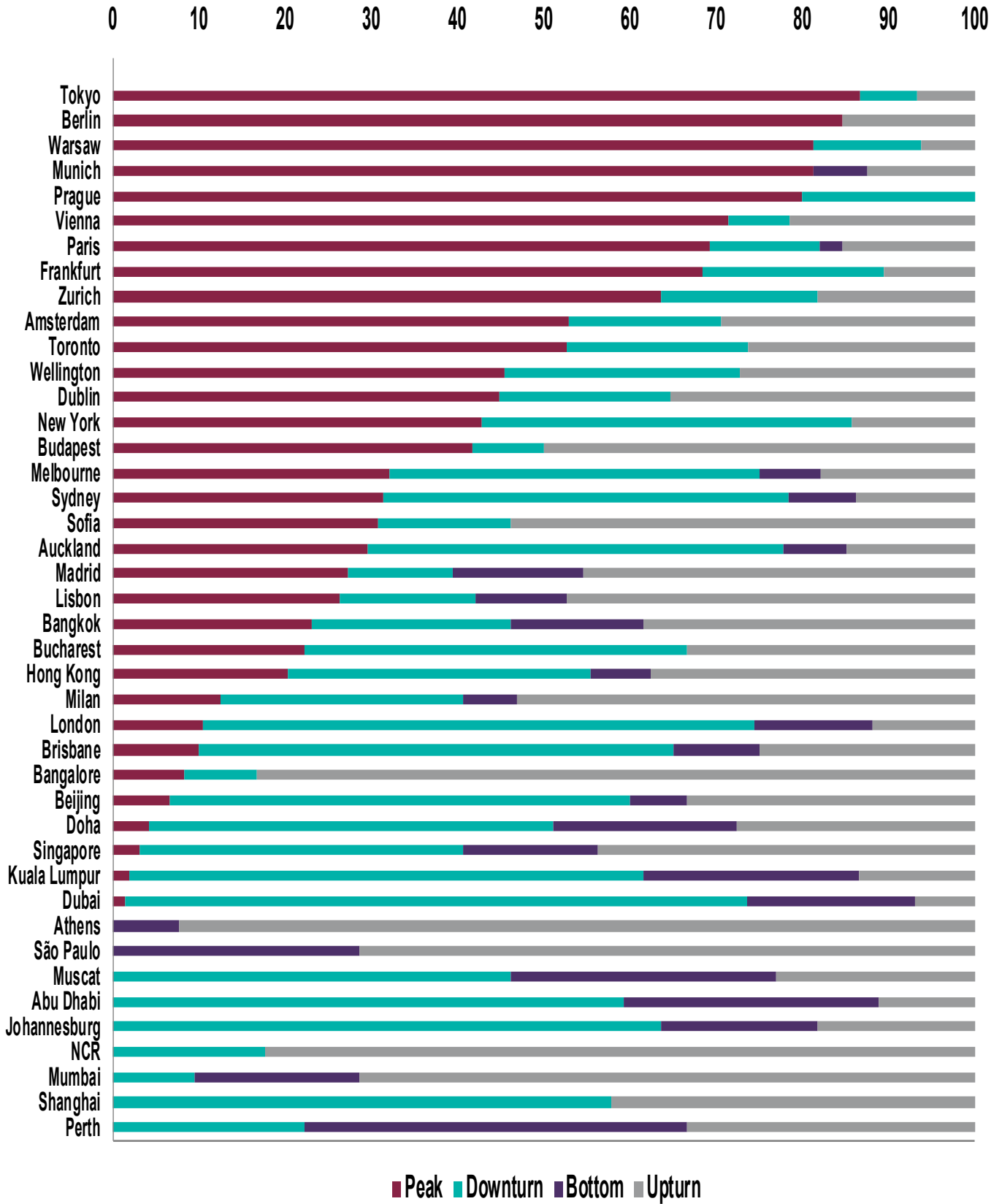


Chart 6 Property Cycle

% 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 13 March 2019 with responses received until 14 April 2019. 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 2901 company responses were received. 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.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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