Q4 2018: Global Commercial Property Monitor

Sentiment towards real estate remains firm across much of the globe

- India and Brazil both show uplift in key indicators compared with Q3
- European markets remain firmest in absolute terms
- Growth concerns trim the outlook for commercial property in China and Hong Kong

The overarching picture painted by the results of the Q4 RICS Global Commercial Property Monitor is one of a generally solid real estate market backdrop despite heightened macro risks across much of the world. Both the RICS Occupier (OSI) and Investor (ISI) Sentiment Indices remain in positive territory for around two thirds of countries included in the Monitor. Moreover, in a number of cases, the readings are showing improved momentum compared with Q3.

India is a case in point with increasing evidence that the tone to the real estate market is improving once again after a more subdued period. A modest acceleration in underlying economic activity coupled with the completion of the recapitalisation process for public sector banks should be supportive. The uplift in the series capturing both tenant demand and investor enquiries towards the end of last year is consistent with this picture, while improvement is also visible in forward looking indicators. Capital value expectations for the next twelve months now stand at around 5% compared with 3% previously, with offices envisaged as likely showing the strongest gains. Moreover, respondents continue to view the market as being in the upturn phase of the cycle and, on balance, representing fair value for investors.

Brazil has also seen firmer results in the wake of the presidential election, with the investment enquiries indicator (showing the change compared with the preceding quarter) climbing to its best level since 2013. Occupier appetite to take up space has also risen, albeit a little modestly, and projections for both rents and capital values have also moved higher when compared with earlier in the year. Significantly, the perception from Brazilian respondents is that the market is still very much in the early stages of the upturn, with the overwhelming majority viewing it as either cheap or fair value.

China provides something of a contrast with concerns over the slowing economy visible in a slight loss of momentum across the market. Both the OSI and ISI recorded modestly negative readings for the first time in around two years. This is reflected in a broadly flat outlook for both rents and capital values at the twelve month time horizon. Consistent with much anecdotal evidence, the results are pointing to a material divergence in the mood music between prime and secondary space with the outlook for the latter significantly more downbeat.

Once again, the strongest readings in absolute terms, both as far as the occupier and investor markets are concerned, continue to be found in Europe. Indeed, Portugal, Hungary, Spain and Greece remain amongst the top performers. In terms of the bigger investment markets, the Netherlands and Germany continue to attract considerable interest, although the latter is viewed as being closer to the peak of the cycle and generally more stretched from a valuation perspective. The results for the UK are slightly weaker compared to Q3, with the ISI turning very modestly negative for the first time since the second quarter of 2016 (covering the period of the EU referendum). To be clear, this is still consistent with transaction activity remaining close to current levels but does seem to capture a little more caution as the negotiations around Brexit become more fraught. Although the proportion of respondents seeing enquiries from businesses looking to relocate to elsewhere in the EU was little changed over the quarter, many comments from contributors did highlight uncertainty engendered by Brexit as a challenge for the market.

Turning back to the Asia-Pacific region, Malaysia and Hong Kong both recorded negative readings for the key occupier and investment indicators. In the case of Malaysia, this reflects a continuation of an ongoing trend on the back of oversupply but the shift in Hong Kong marks a departure. To reiterate the point, one negative reading (the first in around two years) is indicative of a slight slowing in the market rather than anything more material. That said, the responses do suggest that Hong Kong real estate is now in a downturn phase and still perceived as being generally quite expensive. The results for Singapore remain a little more resilient for now with both capital values and rents projected to post modest gains over the next twelve months. Meanwhile, the signals from New Zealand are consistent with further gains in market, while a flatter trend is anticipated in Australia.

Feedback to the survey from respondents in the Middle East is showing little sign of improvement as yet. Sentiment in the UAE still appears fairly downbeat in both the occupier and investor markets, with forward looking indicators not providing much encouragement as to the outlook for the rest of this year. Meanwhile, the numbers for Qatar and Saudi Arabia are little better.

The results for the US were, on balance, fairly similar to Q3 with the most closely watched indicators remaining in positive territory although not strongly so. This is also evident in the modest gains projected at a National level for capital values.

Significantly, the Q4 GCPM is continuing to pick-up on underperformance from the retail sector, driven by changes in consumer behaviour. This, understandably, does appear more pronounced in those markets where online spending accounts for a greater proportion of total sales particularly in parts of Europe and Asia.

*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 %

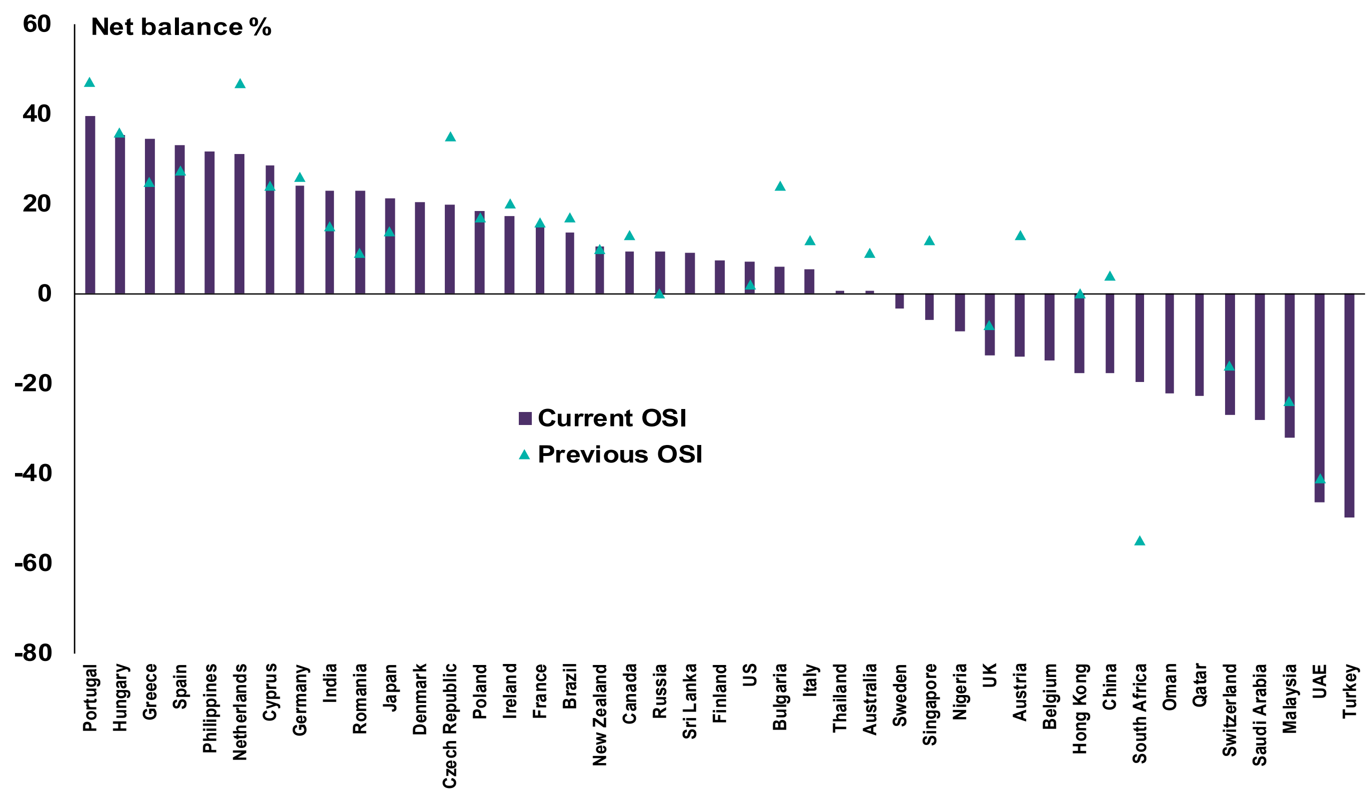


Chart 2 Investment Sentiment Index (change v previous qtr) - Net balance %

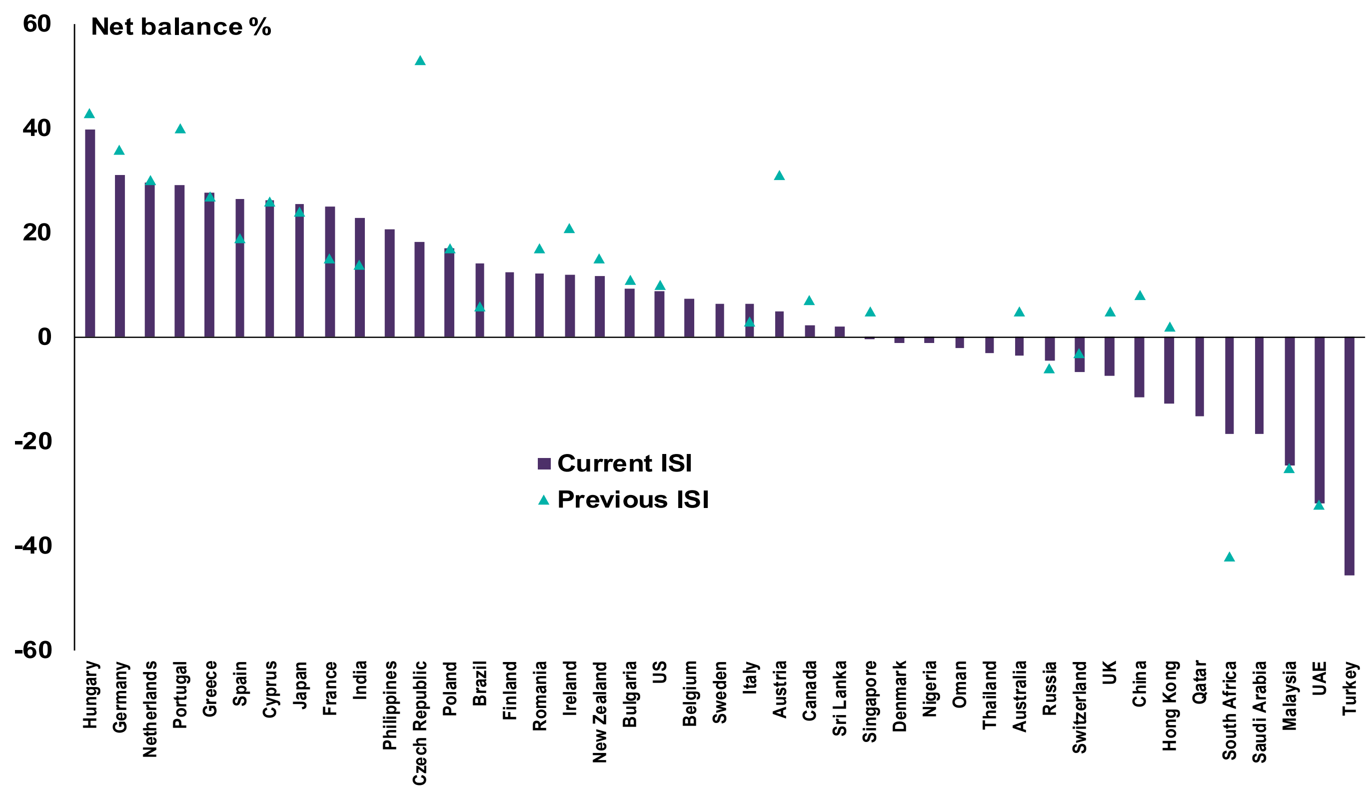


Chart 3 City Level Occupier and Investor Sentiment Indices- All sectors (net balance %)

Indicative of momentum over the previous quarter

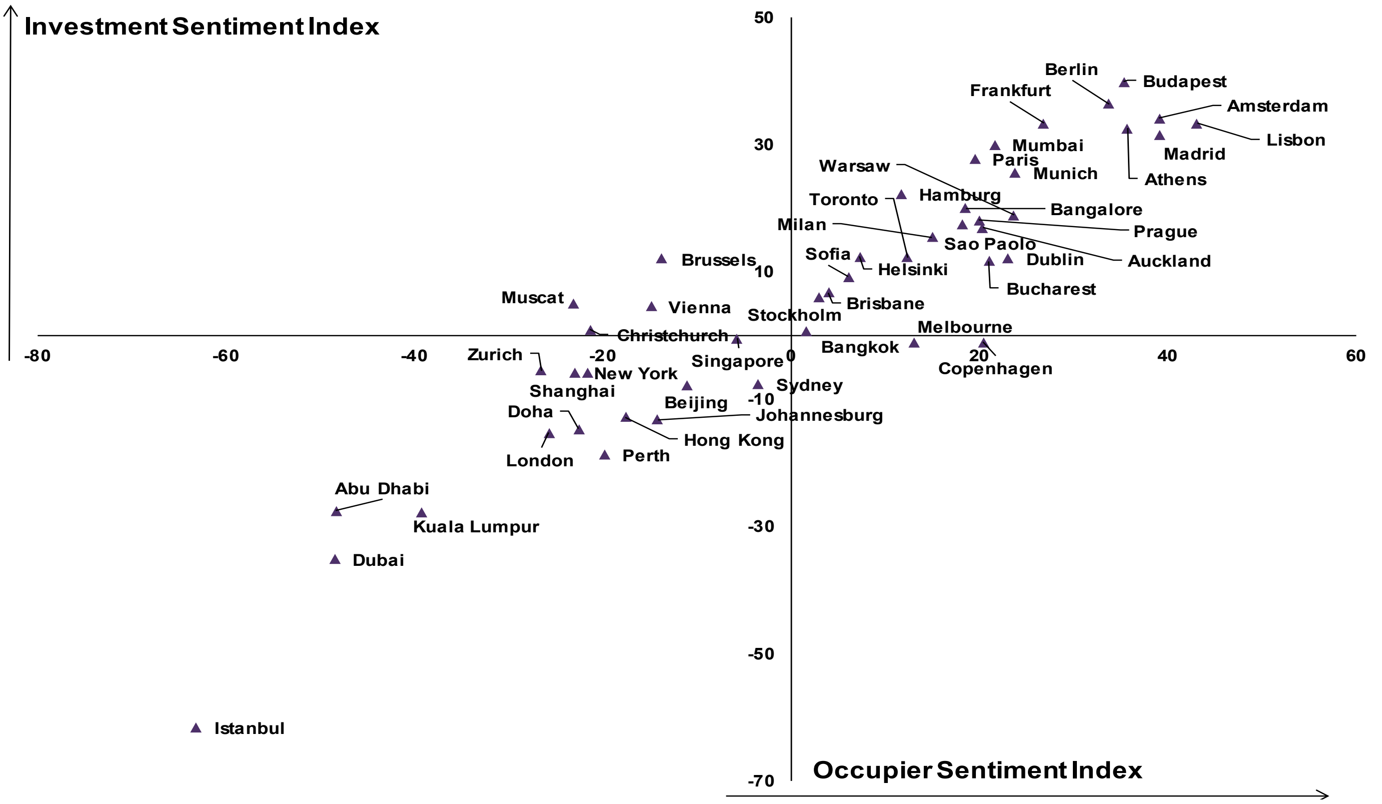


Chart 4 City Level Twelve Month Rental and Capital Value Expectations All sectors (net balance %)

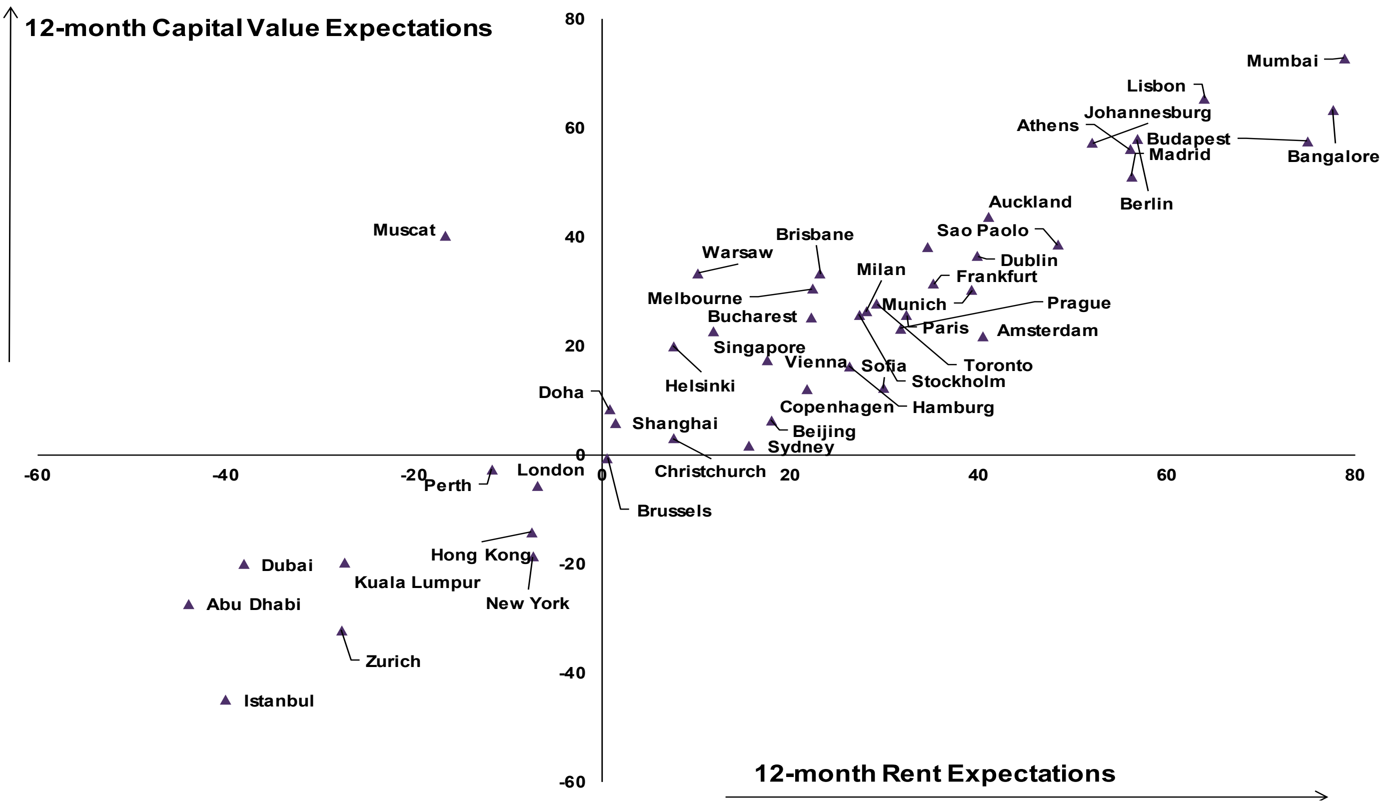
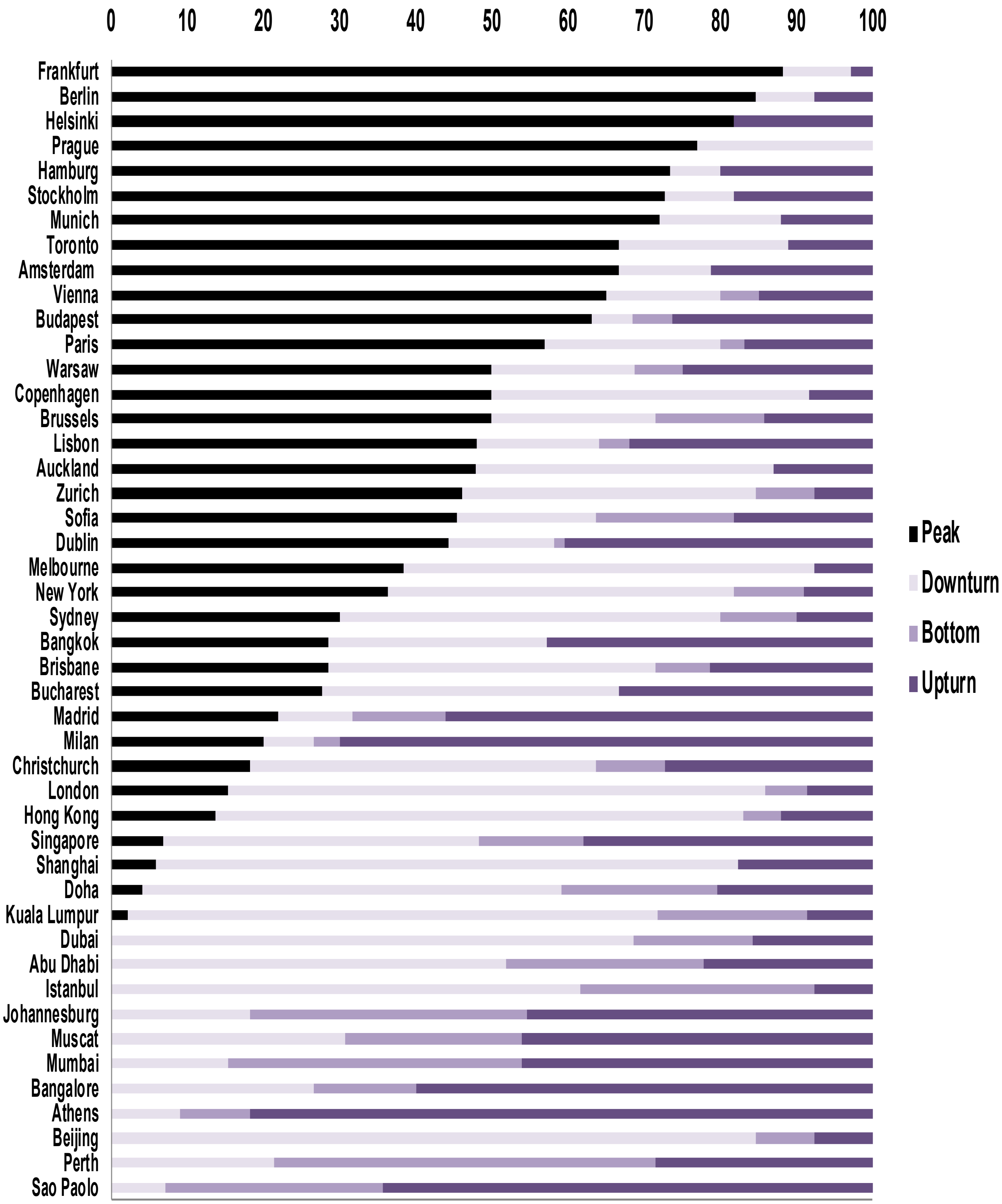


Chart 5 Valuations Perceptions

% 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 13 December 2018 with responses received until 11 January 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 2665 company responses were received, with 692 from the UK. 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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Responses were gathered in conjunction with the following organisations:

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