Q4 2015: Global Commercial Property Monitor

Investment builds across Europe while emerging markets remain downbeat

- Investor confidence rises across several European markets with Germany and Spain now frontrunners
- Occupier market dynamics improving fastest in Hungary, Ireland and Japan
- Conditions remain challenging across China and other key emerging markets with India an exception

The Q4 2015 RICS Global Commercial Property Monitor shows the sector remains generally firm across the majority of advanced economies, with activity in both occupier and investment markets continuing to increase smartly. However, the backdrop in emerging markets remains more challenging, with the widespread effects of a slowdown in China seemingly contributing to a somewhat cautious outlook regarding the performance of commercial real estate.

According to data gathered in the latest monitor, Germany and Spain exhibit the strongest investment market momentum at present. Indeed, on a global comparison, these two nations recorded the fastest rate of improvement in investment market conditions over the quarter, as captured by the RICS Investment Sentiment Index (a composite indicator covering developments in the investment market). With Spain's economy expanding at an annual pace in excess of 3% and the German economy robust, investors appear to have judged these markets as likely to deliver strong returns. Consequently, both prime and secondary assets are expected to post solid gains over the next twelve months.

Likewise, respondents to the survey are particularly confident of seeing robust capital value growth in Ireland, the UK, New Zealand and Japan during 2016. In each case investment enquiries continue to outstrip the supply of properties coming onto the market, placing upward pressure on prices. What's more, strong investor interest is being underpinned by favourable occupier market fundamentals as strong job creation propels occupier demand across these locations. As a result, each of these nation ranks highly on the RICS measure of overall occupier market conditions (OSI). Looking ahead, this is expected to translate into firm rental growth over the next twelve months and beyond.

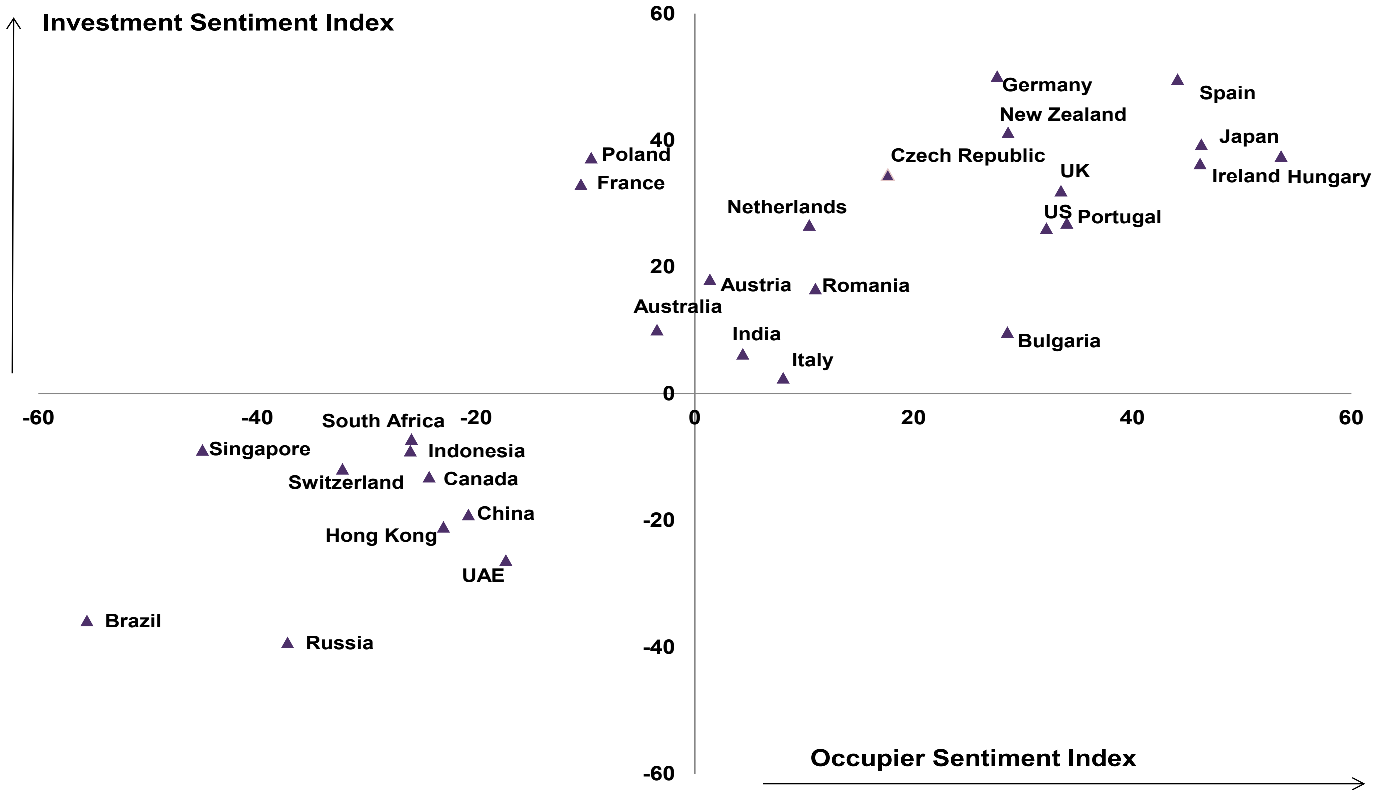
In total, 17 of the 28 countries covered by the survey are projected to chalk up solid growth in both rents and capital values in the coming year. This compares to 13 national markets in which positive rental and price expectations were returned last quarter. Forward looking indicators improved notably in the Netherlands and the Czech Republic where, as a result of the economic recovery feeding through to the real estate sector, rents are now expected to rise modestly and provide further support to a strengthening investment market outlook. UAE, on the other hand, has seen a consistent deterioration in market dynamics over recent quarters. Indeed, anecdotal evidence suggests the collapse in oil prices and macro uncertainty are weighing heavily on sentiment.

Meanwhile, a number of emerging markets continue to struggle with China, Brazil, Russia and South Africa all posting negative readings for both OSI and ISI measures. In fact, India is the only member of the 'BRICS' to buck this trend, recording marginally positive values for each index as it did in Q3. In China, demand from investors has now declined in each of the last four quarters according to the RICS indicator (and for the last six across foreign buyers), while the supply of property continues to rise. Nevertheless, over the next twelve months, rents and capital values are projected to hold more or less stable. Feedback across other parts of Asia also remains downbeat for the time being as Hong Kong and Singapore are faced with tightening credit conditions and contracting investment demand. As a result, capital values are anticipated to decline in the near term (albeit the Hong Kong office market is expected to prove more resilient).

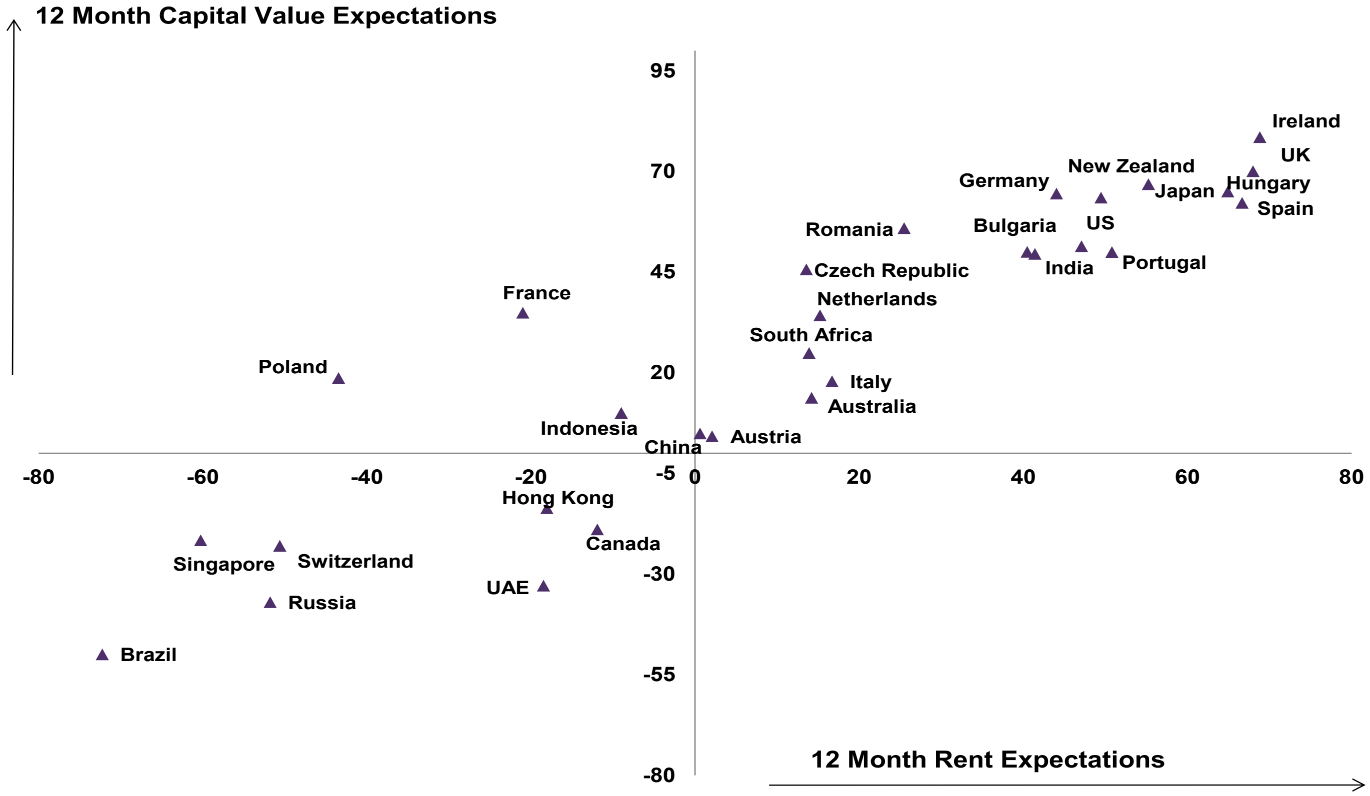
In France a significant divergence between strong investment market performance and poor occupier trends has left around 85% of respondents sensing commercial real estate to be overpriced to some extent currently. Alongside France, a significant proportion of respondents also feel prices are above fair value in Japan (80%), Germany (72%), Switzerland (71%) and UAE (69%). With the exception of Switzerland, the percentage of contributors perceiving values to be overpriced has increased relative to last quarter across all these nations. By way of contrast, Bulgaria (93%), Romania (92%) and Italy (88%) display the highest proportion of respondents who feel commercial property is either at or below fair value at present. Elsewhere, 61% of US respondents feel commercial property prices are stretched with regards to fundamentals, while all contributors were of this view in New York.

In terms of perceptions on the property cycle, New Zealand returned the largest share of respondents (46%) who believe conditions are close to peaking (up from 40% in Q3). Meanwhile 42% took this view in Germany (broadly unchanged from last time). At the other end of the spectrum, Brazil (89%) and Russia (67%) exhibit the highest proportion of respondents reporting the market to be stuck in the middle stages of a downturn, although 20% do now sense conditions have stabilised in Russia (up from 14% last time).

Occupier Sentiment Index and Investment Sentiment Index (net balance %)

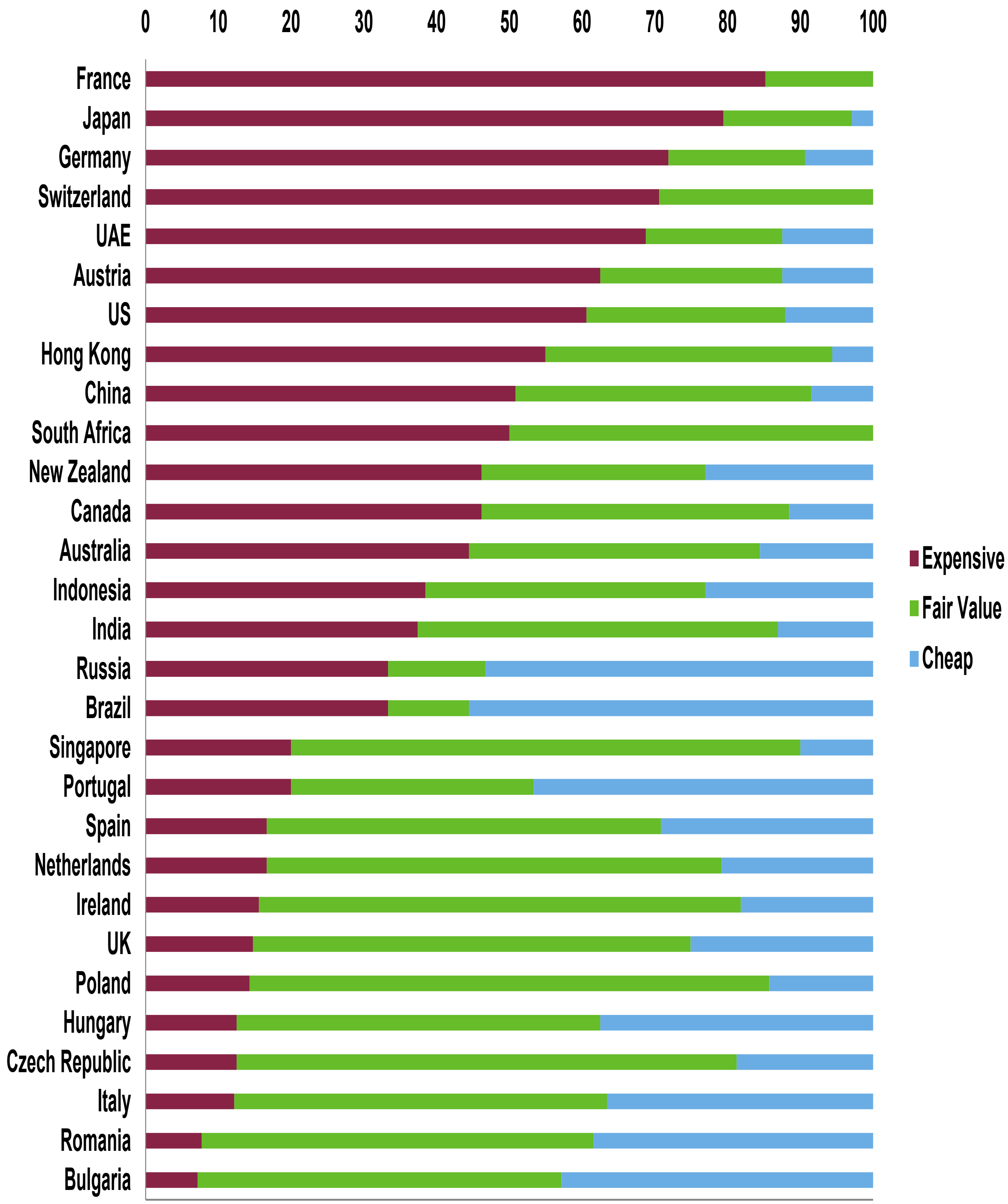


Twelve Month Rent and Capital Value Expectations (net balance %)



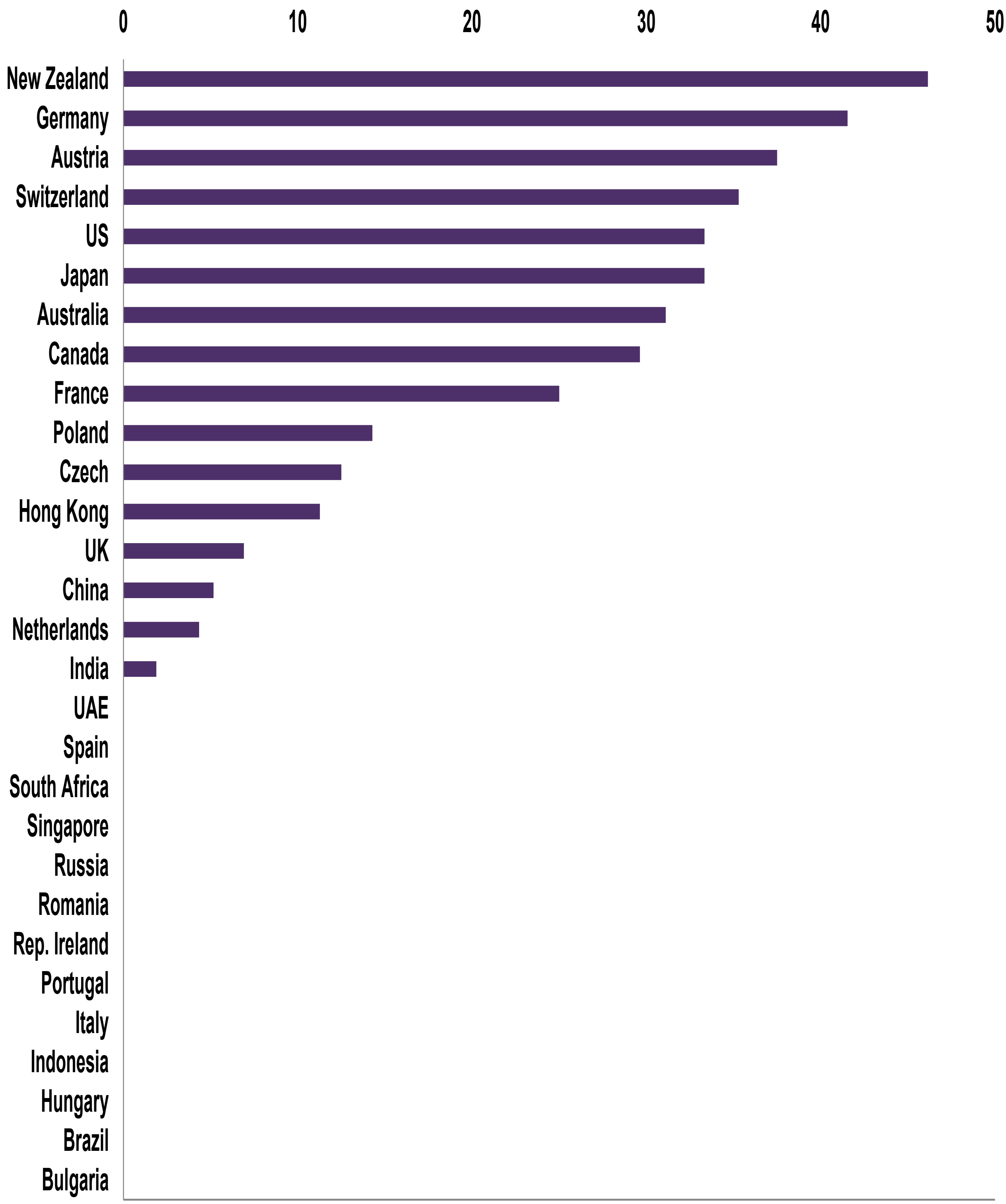
Valuations Perceptions

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



Property Cycle

% of respondents viewing conditions in their local market as approaching the peak



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 Global Commercial Property Monitor 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 1 December 2015 with responses received until 7 January 2016. 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 1288 company responses were received, with 291 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland.

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

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Disclaimer

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We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

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