



Q1 2015: Global Commercial Property Monitor

Easier credit drives positive real estate sentiment

- Increasing number of respondents view real estate as expensive
- But easier credit still expected to underpin commercial property markets going forward
- Prime space to continue outperforming but improving sentiment gradually spreading to secondary assets

The results for the Q1 RICS Global Commercial Property Monitor suggest that sentiment amongst respondents remains generally positive in most parts of the world, with a few notable exceptions, despite the ongoing concerns about the underlying strength of the macro economy. One reason for this highlighted by contributors to the survey continues to be the generally accommodating stance of monetary policy.

Indeed, the latest data provides further evidence that credit conditions are becoming more relaxed; only in four of the countries surveyed at the end of Q1 2015 did more contributors report that credit conditions had tightened (than eased) in the real estate sector and in just two of them, Brazil and Russia, was the net balance of responses strongly negative. Meanwhile in the case of Hong Kong and Singapore, which had modestly negative net balances, the largest number of respondents perceived credit conditions to actually be unchanged compared with the preceding three month period.

Significantly as regards Brazil and Russia, these two countries not only continue to have poor readings for both the occupier and investor sentiment indices (the OSI and ISI effectively capture momentum compared with the preceding quarter) but are also expected by respondents to post further declines in rents and capital values over the next twelve months.

At the other end of the spectrum, New Zealand has particularly strong readings in terms of both occupier and investment sentiment helped by a combination of relatively strong economic growth and a further easing in credit conditions. The suspicion, from respondents to the survey, is that this market will continue to perform well through the course of 2015. Other markets which are also projected to deliver above average returns include the 'recovery bloc' in Europe of Ireland, Spain and Portugal as well as the UK and the US where economic growth is likely to be relatively healthy going forward.

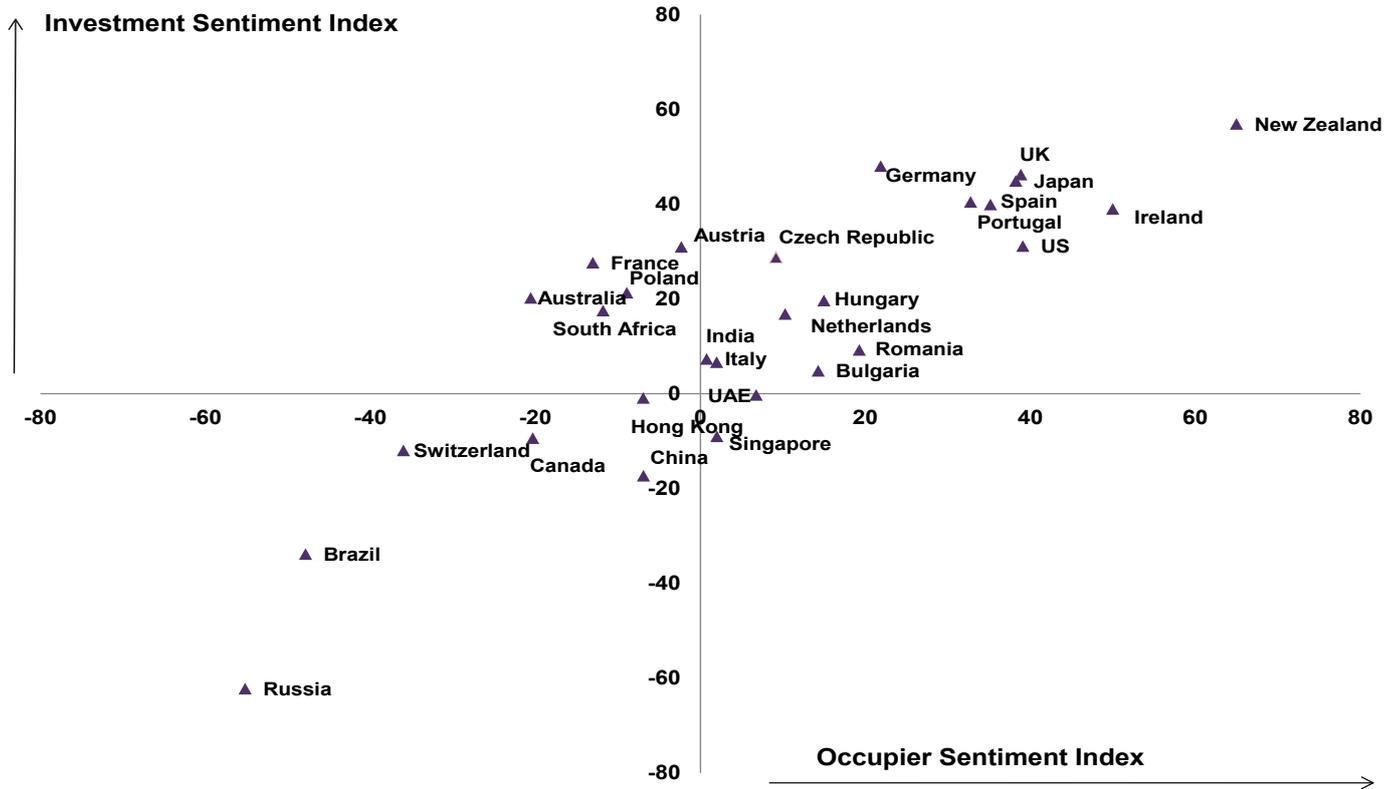
Sentiment and expectations also remain upbeat in Germany and Japan and while the OSI and ISI readings are little changed this quarter for India, South Africa and the UAE, the feedback is in all three cases more positive with regards to the twelve month view.

Perhaps, not altogether surprisingly, given the nature of the rebound in the real estate sector in many parts of the world, more respondents in the majority of markets now believe that commercial property in their locality can be categorised as either expensive or very expensive rather than cheap. This is particularly the case in Switzerland where close to three-quarters of contributors took this view. It was also strongly felt in Brazil despite the recent poor performance of this market (64%) and in Germany (59%), Hong Kong (57%), Japan (53%) and the US (52%). On the other hand, more than half of the contributors from Romania and Portugal and large majorities in Hungary, Bulgaria and Spain believe that those markets are either extremely cheap or cheap. Interestingly, more respondents from Russia are now taking a similar view.

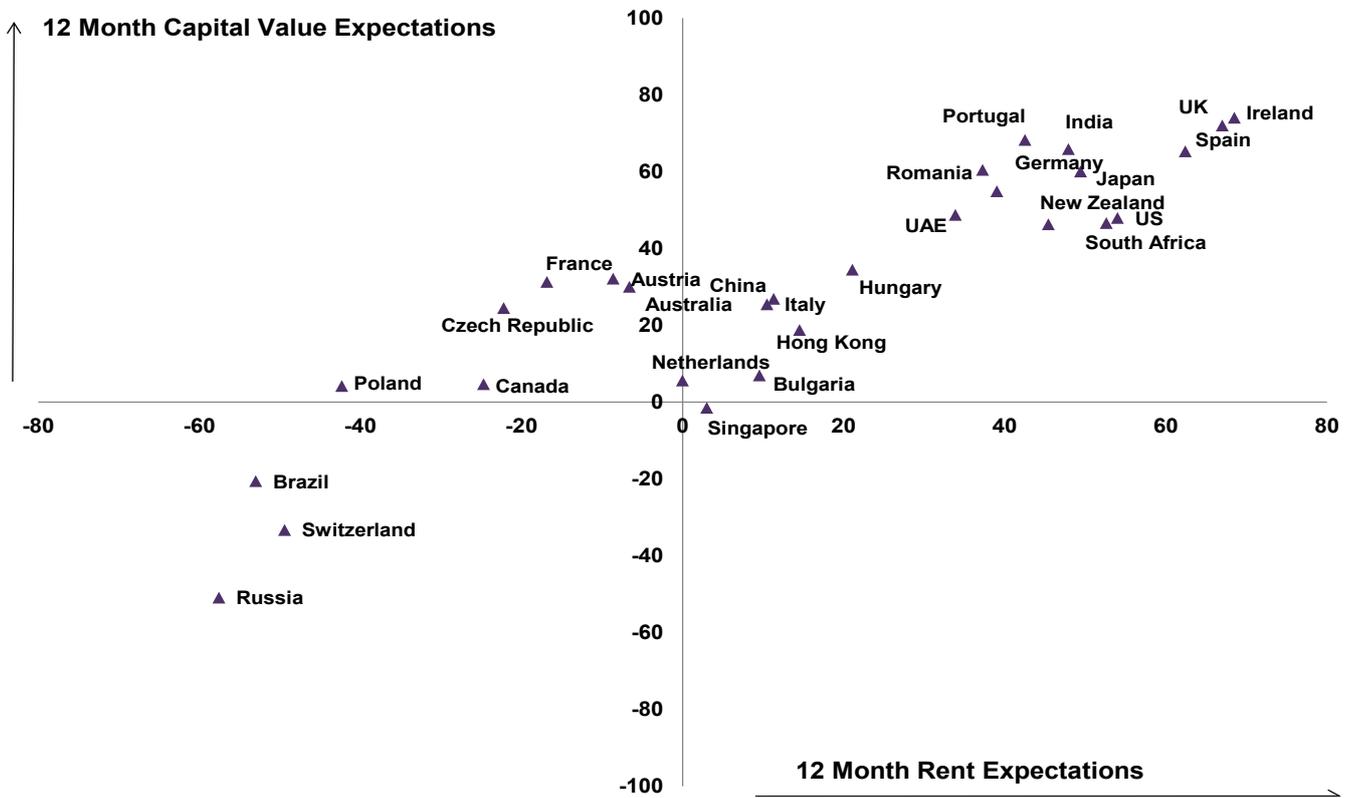
Meanwhile, prime real estate is expected to continue to deliver larger increases in capital values (or fall more modestly in those cases where declines are anticipated) than secondary space in all countries surveyed for this report. That said, the results indicate that the latter could produce relatively strong returns in India, Ireland and Spain in particular while coming under further pressure in Russia, Brazil and the Netherlands.

Reflecting a combination of expectations for future gains, perceived value in individual markets and, arguably, recent policy developments, the Q1 report show the appetite of foreign buyers picking up most notably across Europe with particularly strong responses from Spain and Portugal followed by Germany, France, the Czech Republic and Austria. In all these markets, the increased overseas interest is visible across sectors.

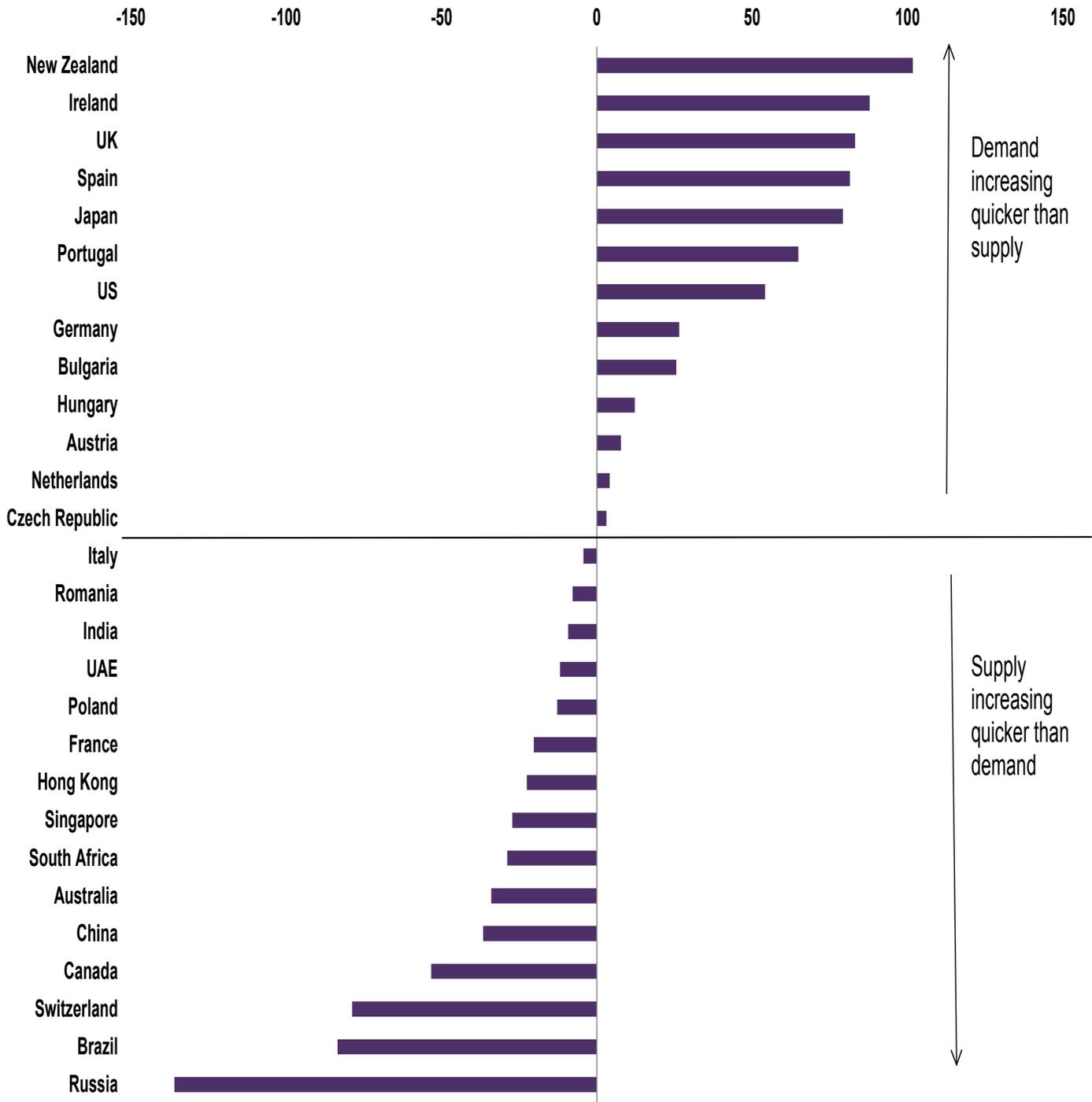
Occupier Sentiment Index and Investment Sentiment Index [net balance %]



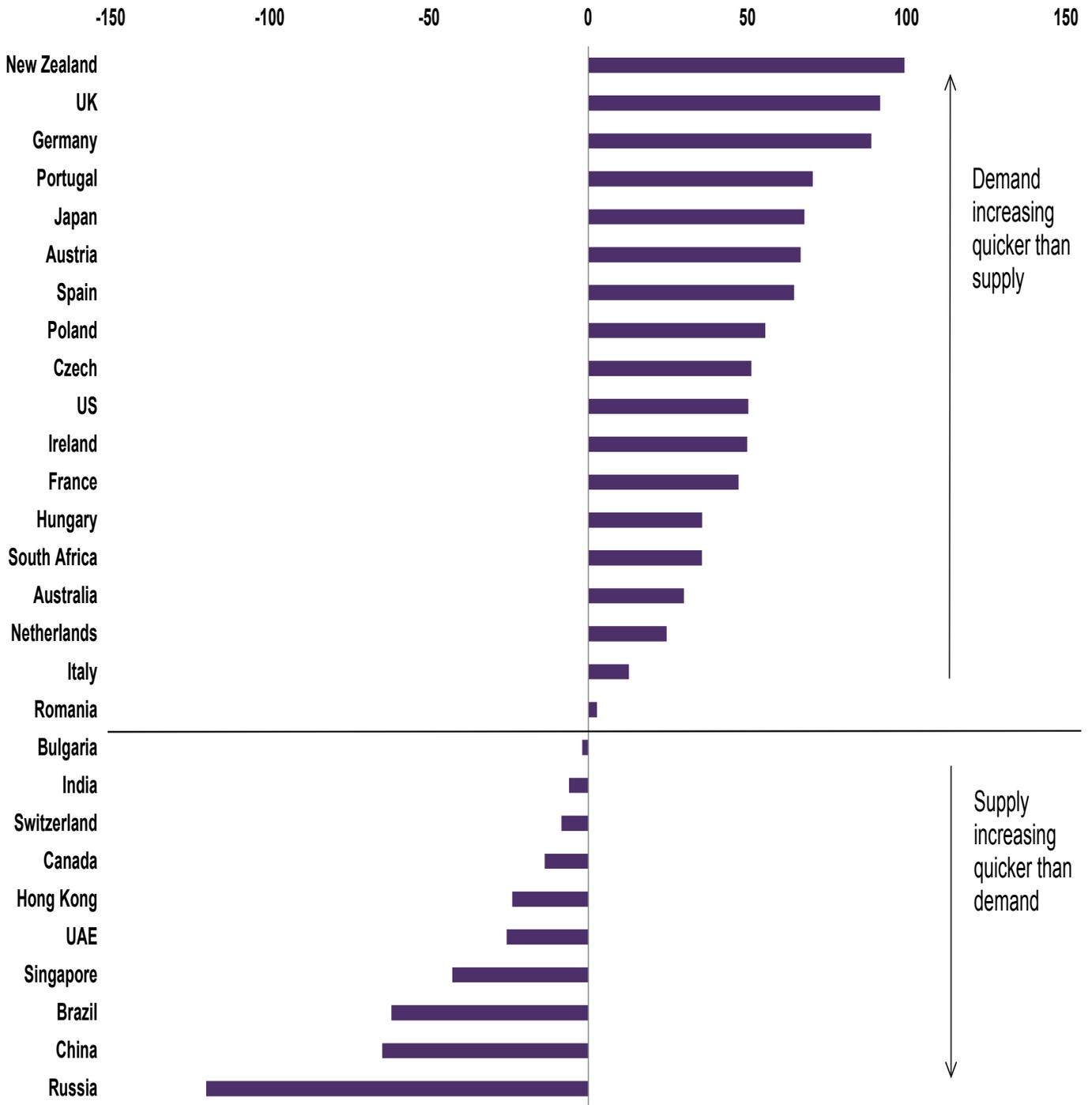
Twelve Month Rent and Capital Value Expectations [net balance %]



Occupier Market - Demand minus Supply [net balance %]



Investment Market - Demand minus Supply [net balance %]



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, the farmland market and arts and antiques.

Methodology

Survey questionnaires were sent out on 9th March 2015 with responses received until 2nd April 2015. Respondents were asked to compare conditions over the latest three months with the previous three months. A total of 1240 company responses were received, with 253 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.

A positive net balance reading indicates an overall increase, 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 distressed properties.

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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