



Q1 2017: Australia Commercial Property Monitor

Investment sentiment remains firm despite flatter occupier trend

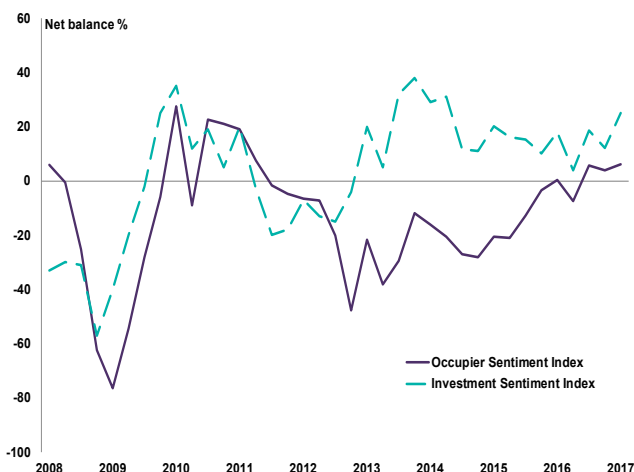
Occupier Market

- The Q1 2017 results show that a slight majority of respondents continue to report an increase in demand rather than a decrease at a headline level.
- This increase continued to be driven by the office sector, where a net balance of 37% more respondents reported an increase in occupier demand vs a decrease. Respondents reported a modest pullback in demand for retail space for the second consecutive quarter.
- Aggregate leaseable space was reported flat for the third consecutive quarter, as availability office space continues to decline.
- Significantly, the new development starts series recorded its fourth successive negative net balance reading with the softer trend visible in all three sectors monitored.
- Rental expectations are expected to rise modestly at both the three and twelve month time horizons. Prime offices are projected to show the strongest gain followed by secondary offices with secondary retail likely to see a drop in rent levels.
- The headline Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) was relatively unchanged, sitting at +6 in Q1 vs +4 in Q4.

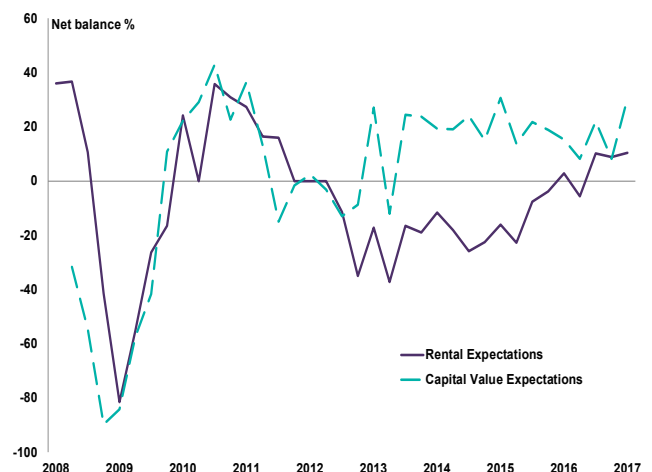
Investment Market

- The Q1 2017 data shows headline investor demand continuing to grow strongly with a net balance reading of +34% against +29% in the final three months of last year. The reading for offices was particularly firm at +47%.
- A similar trend was seen in foreign enquiries for investment, where the majority of contributors reporting an increase over a decrease remains relatively stable at +28%.
- The supply of properties available for sale saw a modest decline when measured in net balance terms. The headline reading of -11% was driven by a more pronounced drop in the availability of offices.
- Capital value expectations are expected to increase across all segments for the next three and twelve months with prime office and industrial space likely to show the strongest gains.
- The percentage of respondents who see the property market at its peak continues to rise, hitting 45% in Q1 from 36% in Q4 2016 and 29% in Q3.
- The Investor Sentiment Index (an amalgamated measure of three investment market indicators) rose to +25 in Q1 from +12 in Q4.

Occupier and Investment Sentiment Index



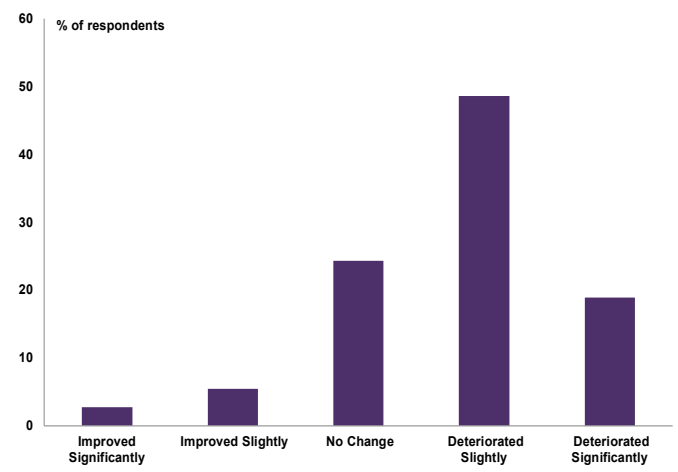
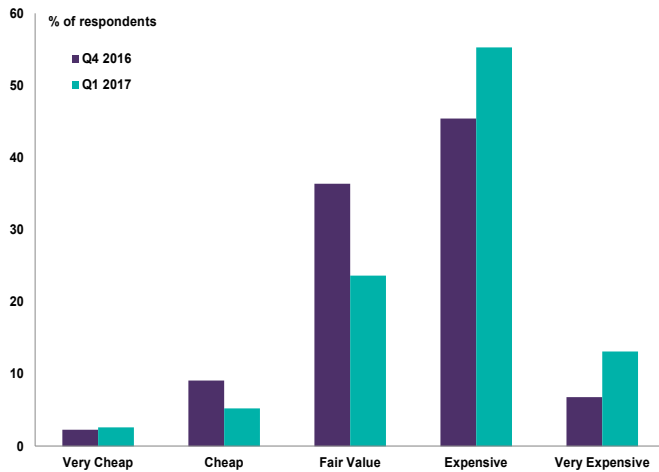
3-month Rental and Capital Value Expectations



Commercial Property Market

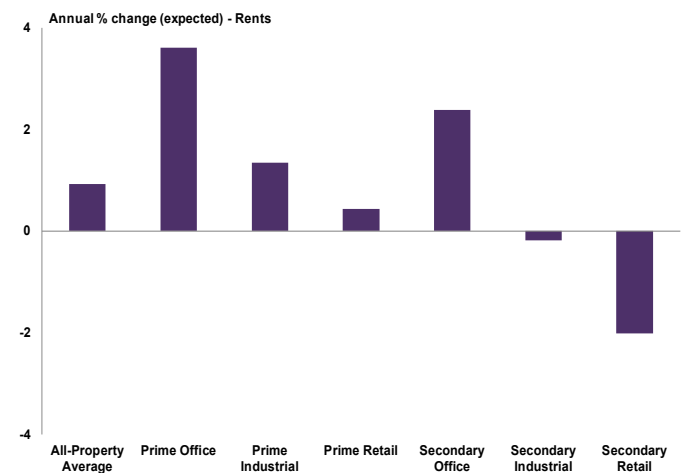
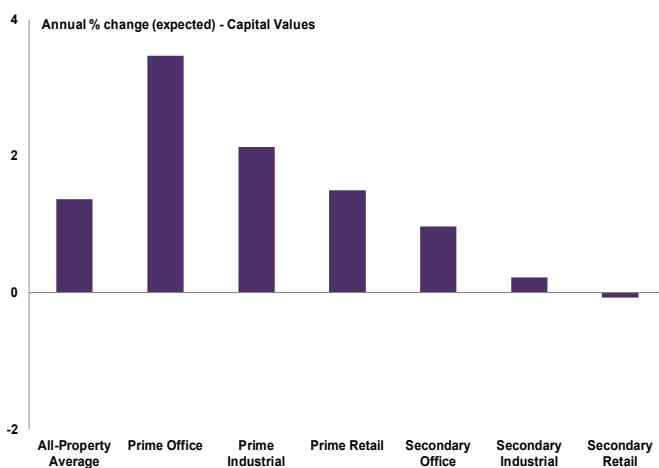
Market Valuations - The majority (68%) of respondents continue to perceive property to be above fair value to some degree, up from 52% in Q4. Otherwise, 24% see property at fair value while the remaining 8% believe property is below fair value to some degree.

Credit Conditions - A majority (68%) of respondents saw credit conditions deteriorate to some degree in Q1, little changed from the 72% who saw some deterioration in Q4.



12m Capital Value Expectations - Headline capital values are expected to increase 1.4% in the next year, up from 0.8% in Q4. The office and industrial segments saw the strongest upward revisions, while that for retail was much more modest.

12m Rental Expectations - Headline rents are expected to increase 0.9% over the next year, down from 1.5% in Q4. All segments saw rental expectations decline from Q4 for prime properties, while expectations for the secondary market remained stable.



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 2017 with responses received until 7 April 2017. 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 1699 company responses were received, with 362 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

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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