Q1 2018: Australia Commercial Property Monitor

Investment market robust while occupier momentum more subdued

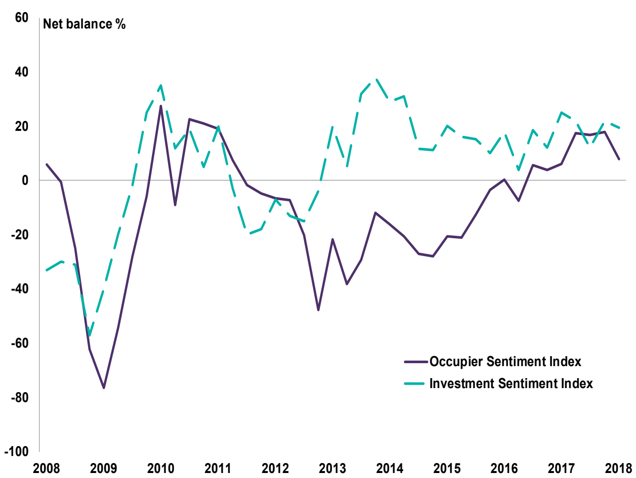
Occupier Market

- The Q1 2018 results showed a modest pickup in headline demand, with a net balance of 14% of respondents reporting an increase. Demand for office and industrial space remained strong, while respondents reported the sixth consecutive quarterly pullback in occupier demand for retail space.
- Aggregate leaseable space was little changed, but this was largely due to a decline in office and industrial space available to let being offset by an increase in availability for retail space.
- A similar trend was seen in landlord incentives as contributors reported fewer inducements for office spaces and an increase in incentives for retail space. Aggregate development starts were reported as being little changed for the second consecutive quarter.
- Headline rents are expected to increase over both the three and twelve months, though expectations moderated since Q4. This was largely due to a more bearish outlook for retail.
- The headline Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) dipped to +8 in Q1 from +18 in Q4.

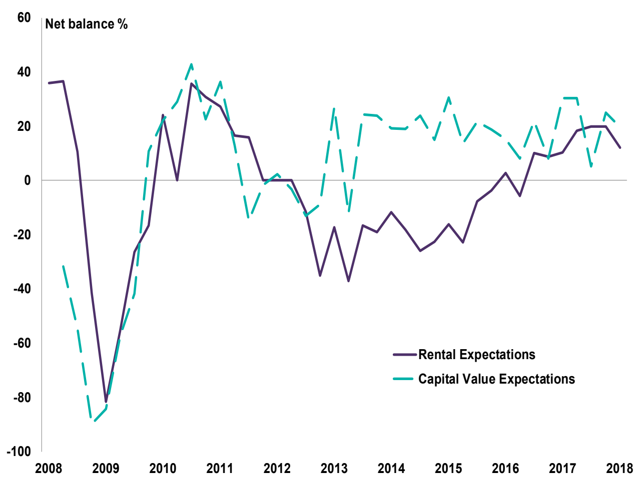
Investment Market

- The Q1 2018 data indicates that headline demand continued to increase at a similar pace to Q4. For the third consecutive quarter, demand was broadly driven by the office and industrial segments while that for retail was flat.
- Foreign demand was reported to be little changed in Q1 after respondents reported an increase in Q4. An increase in foreign demand for office space was offset by a decrease in foreign demand for retail properties.
- Headline capital values are expected to increase over the next quarter and year. The outlook for retail remains softer than that for other segments, as capital values for retail space is expected to decline over the next three months and be little changed over the next year.
- Respondents' perceptions on the phase of the cycle were little changed in Q4, although the share who see the market in some phase of an upcycle rose to 31% from 14% in Q4. Those who reported the market being at its peak fell to 42% from 58% in Q4, the first time this was less than 50% since Q1 of 2017.
- The Investor Sentiment Index (an amalgamated measure of three investment market indicators) was little changed at +20 in Q1 from +22 in Q4.

Occupier and Investment Sentiment Index

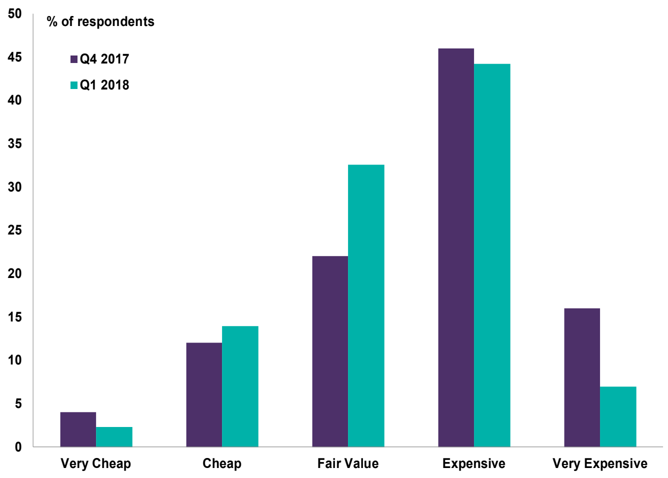


3-month Rental and Capital Value Expectations

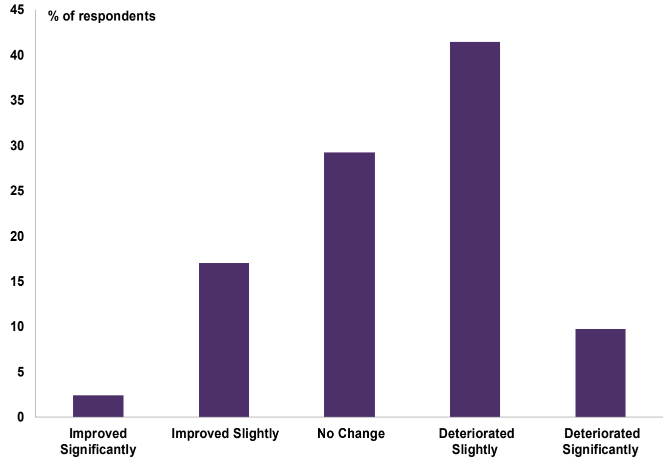


Commercial Property Market

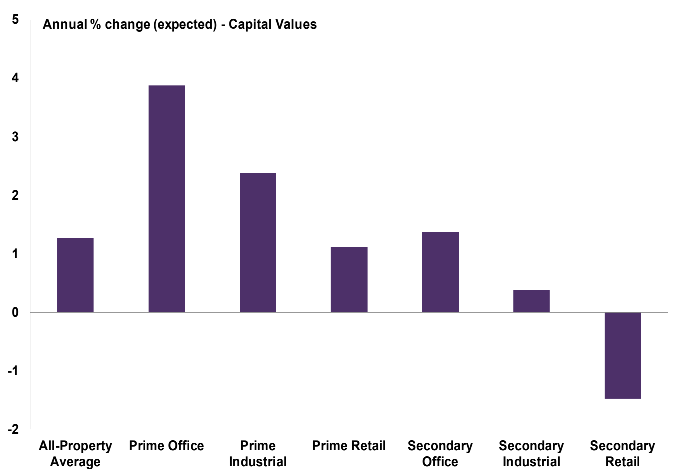
Market Valuations - The majority of respondents, 51%, continue to see the market as being above fair value to some degree. However this is down from the 62% who held this view in Q4. The share who see the market as fairly valued rose to 33% from 22% in Q4.



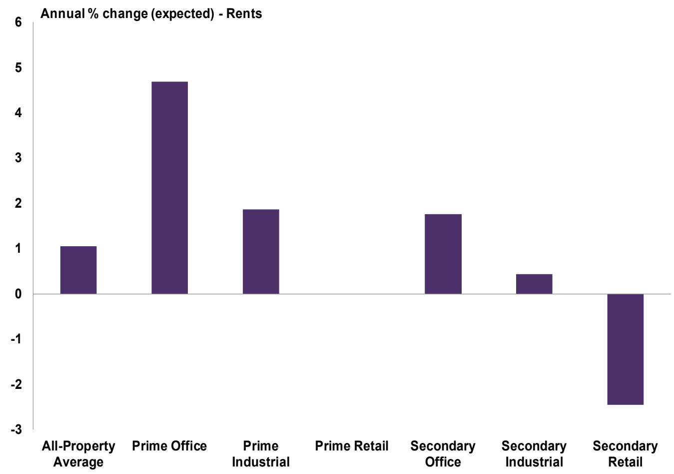
Credit Conditions - A majority of respondents, 51%, continued to see credit conditions deteriorate to some degree in Q1, little changed from the 53% who reported some deterioration in Q4. 29% reported no change in conditions in Q1, down from 47% in Q4.



12m Capital Value Expectations - Headline capital value forecasts over the next twelve months were little changed, as respondents see values increasing 1.3% over the next year (vs 1.4% forecast in Q4). However the dispersion between market segments increased, as respondents were more bullish on the outlook for prime office space and more bearish on the outlook for secondary retail.



12m Rental Expectations - Headline one-year rent forecasts were revised lower in Q1 as respondents expect rents to increase 1% over the next year (vs 1.7% forecast in Q4). Although respondents maintained their forecast for a 4.7% increase in prime office rents, forecast rents for all other market segments were revised lower in Q1.



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 2018 with responses received until 11 April 2018. 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 1748 company responses were received, with 385 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

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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