



Q1 2018: Brazil Commercial Property Monitor

Rental and capital value growth projections strengthen

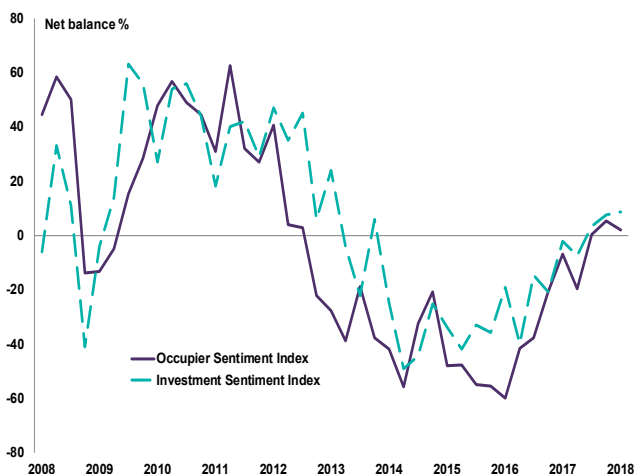
Occupier Market

- The Occupier Sentiment Index came in at +2 during Q1 (compared to +5 previously) and remained clear of negative territory for a third successive report. Consequently, this measure is pointing to a broadly stable backdrop in the occupier market.
- Respondents reported flat tenant demand during the opening quarter of the year, at the headline level, although the office sector did see a slight increase.
- Availability declined for a fifth successive report, with each sector (office, industrial and retail) seeing a fall in available space. Despite this decline, the level of inducement packages on offer to tenants held more or less steady during Q1.
- For the year ahead, respondents are now slightly more optimistic on the outlook for rents than three months ago. Indeed, rents are now expected to rise across all prime sub-sectors, with prime office space displaying the strongest projections. Meanwhile, rents are anticipated to hold steady across all secondary markets, albeit expectations have improved from a slightly negative assessment in the previous results.
- In Sao Paulo, overall rental growth expectations for the coming year are now more or less in-line with the national average. That said, prime office rents are anticipated to rise at a slightly sharper rate.

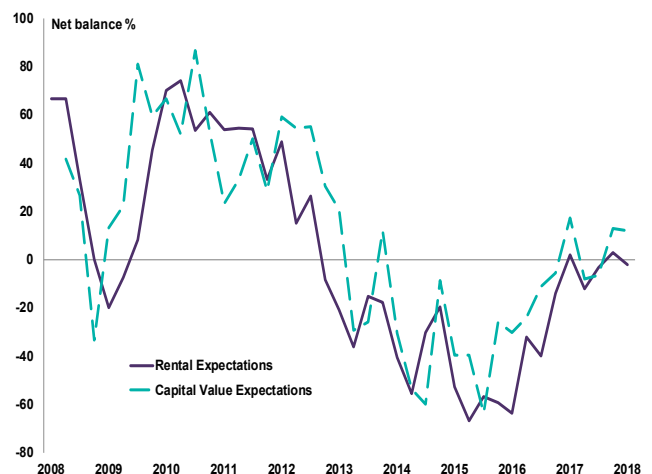
Investment Market

- The latest results show the Investment Sentiment Index moving to +9, having posted a figure of +8 in Q4. This indicator has been in positive territory for three consecutive reports, although it continues to signal only a modest improvement in overall investment market conditions.
- Investment enquiries picked-up for the second report in succession, with the pace of growth broadly matching that found in Q4. Indeed, a net balance of +19% of respondents cited an increase (compared with +16% in Q4). That said, foreign investment demand was flat over the quarter.
- The supply of property on the market for investment purposes was little changed over the quarter.
- Respondents upgraded capital value expectations noticeably when compared with the previous results. In fact, the outlook is now positive, to a greater or lesser degree, across all sub-sectors (both prime and secondary) for the coming year.
- Relative to the figures for Brazil as a whole, the twelve month view on capital values in Sao Paulo is again slightly stronger in the office sector.
- Back at the national level, 63% of contributors are now of the opinion that market conditions are consistent with the early stages of recovery (up slightly from 58% in Q4). For Sao Paulo, 79% of contributors now take this view.

Occupier and Investment Sentiment Index



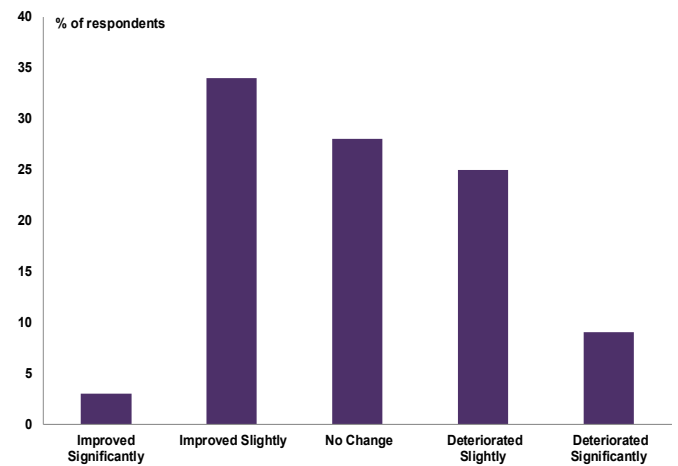
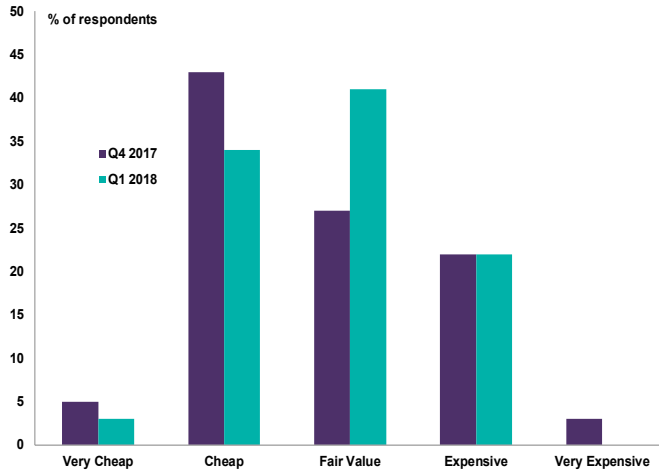
Rental and Capital Value Expectations



Commercial Property Market

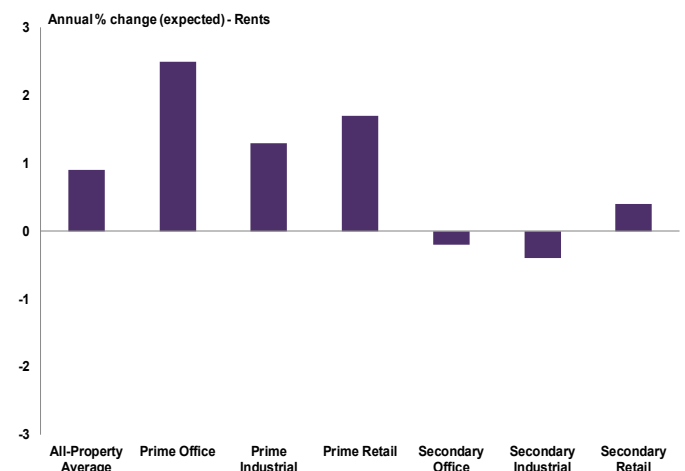
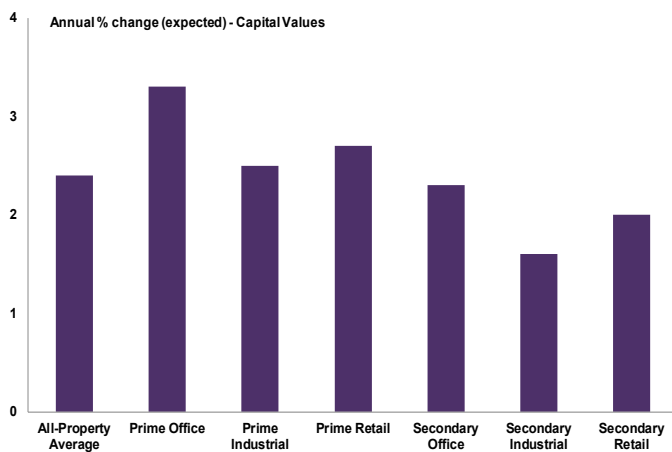
Market Valuations - While 22% of respondents continue to sense commercial real estate prices are stretched relative to fundamentals, a strong majority (78%) feel the market offers at least fair value for investors.

Credit Conditions - Following a series of rate cuts which has left the Central Bank of Brazil's Selic Rate at 6.5%, respondents reported (on balance) a slight improvement in credit conditions during Q1.



12m Capital Value Expectations - Respondents upgraded projections for capital value growth across the board compared with the previous results. Capital value gains look set to be evenly balanced across the sectors, although prime office expectations are slightly stronger.

12m Rental Expectations - Rental growth expectations were also upgraded in Q1, with prime office, retail and industrial rents all expected to rise in the coming year. That said, the outlook remains flat across their secondary counterparts.



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.

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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