



## Q3 2017: Brazil Commercial Property Monitor

# Further signs of recovery emerging

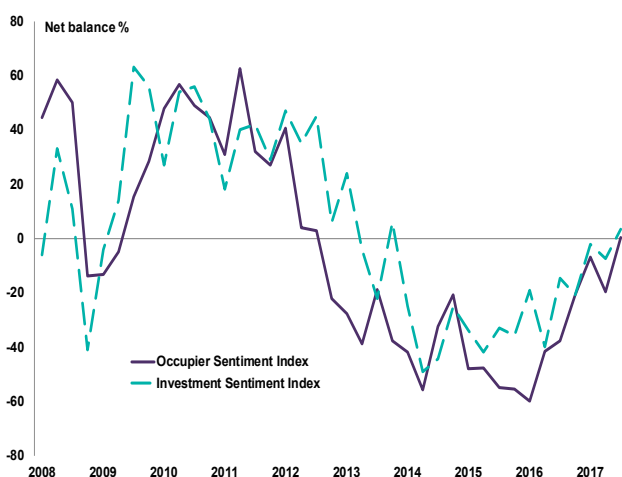
### Occupier Market

- The Occupier Sentiment Index (a composite indicator capturing overall momentum) moved from -20 to zero in Q3. This marks the first occasion since 2012 in which the OSI has not been negative. Even so, this reading is indicative of a stable picture, rather than a recovery as yet.
- Tenant demand continued to edge lower across all areas of the market, albeit the pace of decline was slightly reduced relative to Q2.
- At the same time, availability of leasable space continued to fall for a third quarter in succession, with each sector posting a small drop. This prompted landlords to reduce the value of incentive packages, right across the board (the first quarterly decline since 2012).
- Twelve month rental expectations are now pointing to a flat trend across prime locations, having been marginally negative in Q2. However, rents are still expected to fall across secondary markets over the coming year. At the three year horizon, prime office rents exhibit the strongest forecasts on a sectoral comparison.
- In Sao Paulo, respondents' rental growth projections are more or less aligned with the national average, although the outlook is a little more pessimistic across secondary sub-sectors.

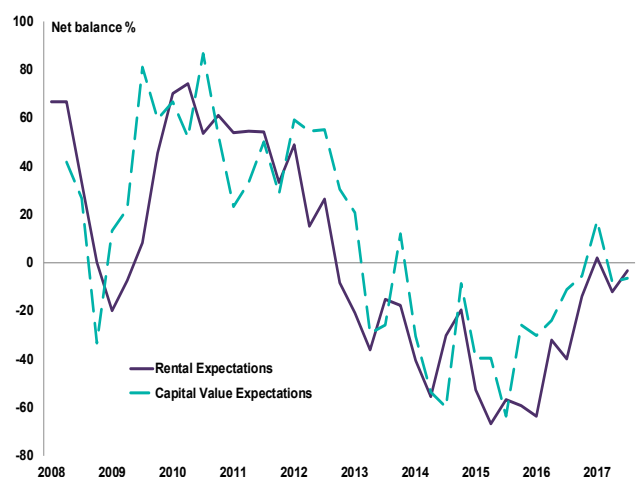
### Investment Market

- The Investment Sentiment Index improved to +3 from -7 during Q3 (the first positive reading since 2013). Nevertheless, this measure is pointing to a steadier climate, rather than an upturn at this point in time.
- Investment enquiries were unchanged in the office sector, but crept lower in the industrial and retail segments. The indicator on foreign investment demand remained modestly negative in Q3, posting a net balance of -14%.
- Meanwhile, the supply of property for investment purposes fell for the first time since this series was introduced back in 2014.
- All-sector capital value expectations for the year ahead were virtually unchanged relative to Q2, signalling a flat picture. The sector breakdown shows modest gains are expected for prime office values, while the outlook is broadly stable for all other sub-sectors.
- Respondents in Sao Paulo envisage slightly stronger capital value growth in the prime office sector when compared to the national figures. Prime retail assets are also anticipated to see growth (albeit marginal). Expectations across the city are relatively flat in all other areas of the market, although secondary industrial values may slip slightly.

Occupier and Investment Sentiment Index

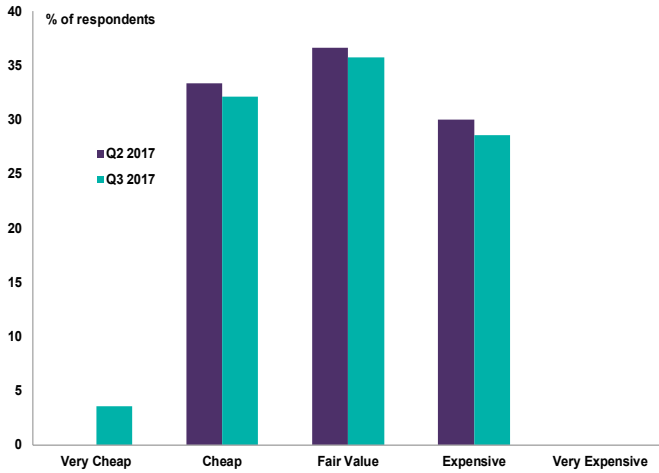


Rental and Capital Value Expectations

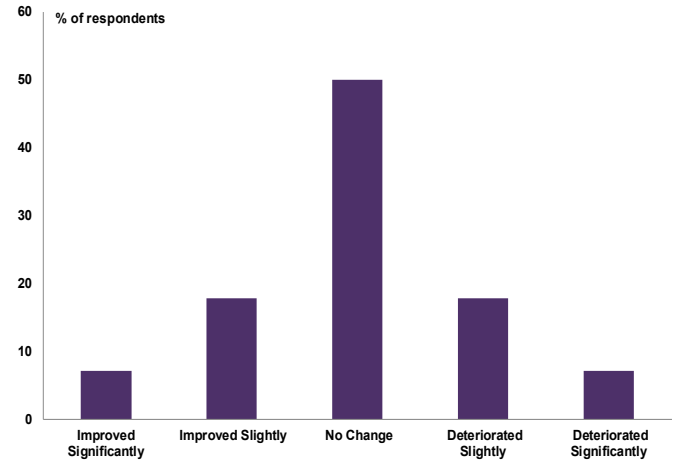


# Commercial Property Market

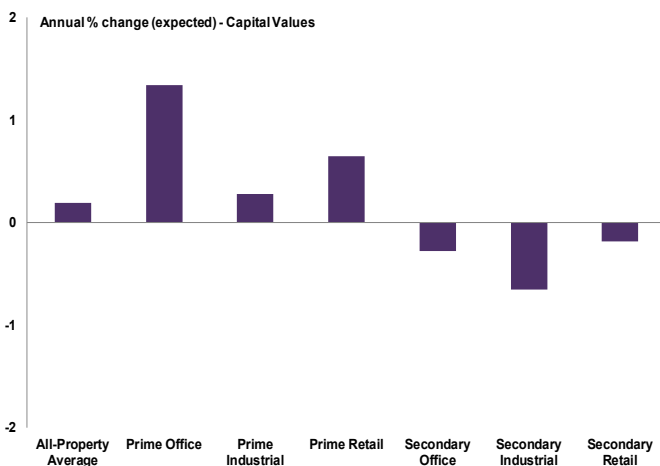
**Market Valuations** - Respondents continue to return mixed views regarding valuations. While two thirds of contributors feel prices are at or below fair value, the remainder sense values are somewhat stretched.



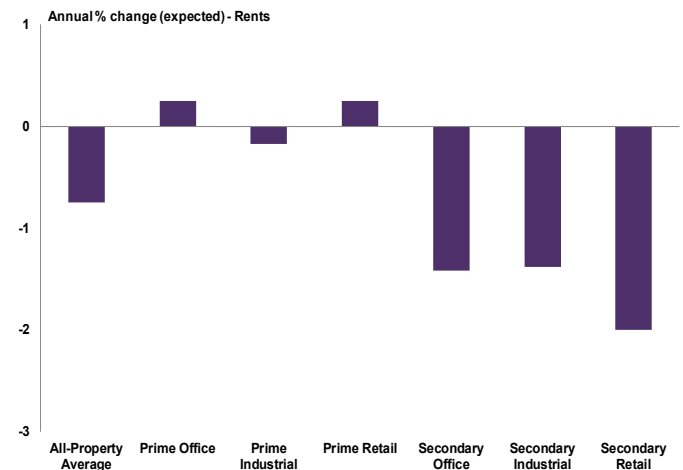
**Credit Conditions** - Despite recent interest rate cuts from the Central Bank of Brazil, respondents (on balance) reported little change in credit conditions for the commercial real estate sector in Q3.



**12m Capital Value Expectations** - The outlook for capital values is now more or less flat across the majority of categories for the year ahead. The prime office market is a slight exception, and could post modest gains.



**12m Rental Expectations** - Rents across all prime sub-sectors are now expected to hold steady over the coming twelve months. For the time being, rents in secondary locations are still anticipated to come under downward pressure.



# 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](http://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 13 September 2017 with responses received until 6 October 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 1609 company responses were received, with 347 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](mailto:economics@rics.org)

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