



Q3 2018: Brazil Commercial Property Monitor

Medium term projections for rental growth and capital values strengthen

The Q3 2018 Brazil Commercial Property Monitor results point to an improvement in overall market sentiment with the recovery in occupier and investor demand appearing to be back on track. Whilst rental projections for the year ahead are slightly less upbeat in comparison to the previous quarter, medium projections continue to strengthen. And, with the majority of contributors believing that the market is now in the growth phase of the property cycle, it looks likely that trends in commercial real estate will hold up reasonably well over the coming quarters.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market indicators displayed in chart 1 overleaf) increased in Q3, coming in at +17 from -6 previously. This represents the most positive reading since 2012 and is consistent with a noticeable improvement in occupier market fundamentals over the quarter.
- After reportedly declining in Q2, occupier demand increased marginally at the headline level in Q3. The sector breakdown shows that following a drop in tenant interest last quarter, this stabilised in the industrial sector. Respondents reported a rise in demand for office space, with a net balance of +24% noting a rise. By way of contrast, tenant enquiries continued to decline in the retail sector.
- The availability of leasable space declined marginally over the quarter, with each area of the market seeing a slight fall. Meanwhile, landlords reduced the value of incentive packages offered to tenants across the board.
- Despite a pick-up in demand over the quarter, contributors downgraded their rental value projections for the coming year (chart 6). Prime offices are expected to see the strongest rental growth over the next twelve months whilst the outlook for the secondary sub-markets is more or less flat.
- Contributors envisage rental values recovering more firmly over the medium term horizon. Indeed, projections have turned particularly positive for rents across prime sub-sectors, while secondary locations are also expected to see reasonably solid rental growth over the next three years.

Investment Market

- The Investment Sentiment Index (a composite indicator incorporating a range of investment market variables shown on chart 1) moved to +6 in Q3 from -2 previously pointing to a slight improvement in market sentiment over the quarter.
- Investor demand increased modestly in Q3, driven by a solid rise in inquiries across the office sector. Meanwhile, demand across the industrial and retail areas of the market remained more or less unchanged. At the same time, an increase in foreign investment demand within the office sector was offset by a decline in interest for retail assets.
- Contributors reported no change in the supply of property available for investment purposes.
- Capital value expectations for the coming year remained broadly unchanged from Q2 (chart 5), the breakdown however indicates that contributors upgraded their projections for prime assets whilst expectations across the secondary sub-markets were revised down over the quarter.
- The majority of contributors (76%) believe that the market is in the early to middle stages of an upturn.
- 59% of respondents believe that commercial property prices are either at or below fair value, down from 72% in Q2. Meanwhile, the share of respondents stating that valuations are becoming stretched increased to 41% in Q3 from 29% previously (chart 4).

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

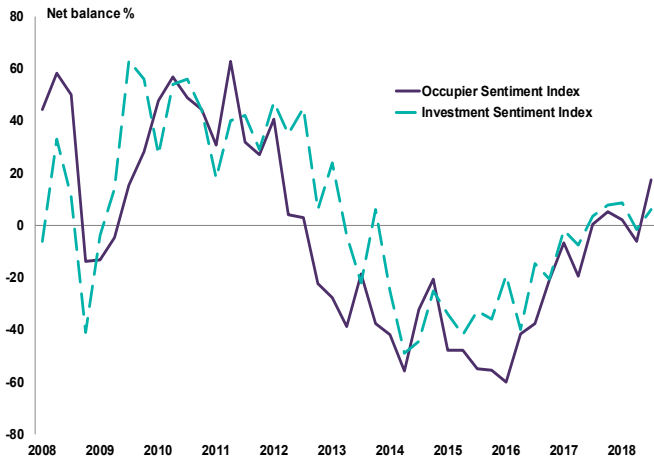


Chart 2: 3-month Rents, Capital Values

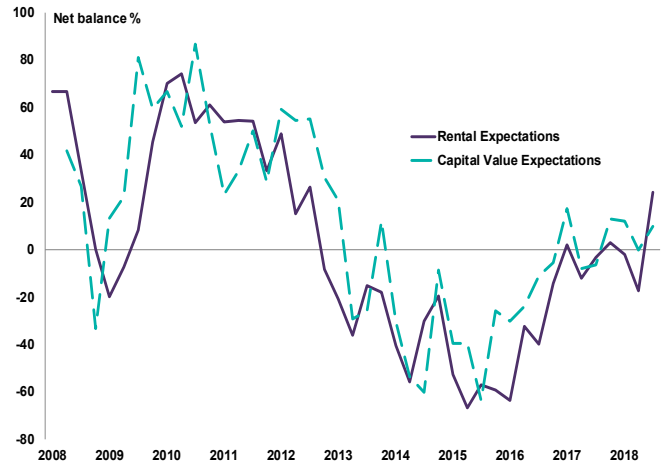


Chart 3: Credit Conditions

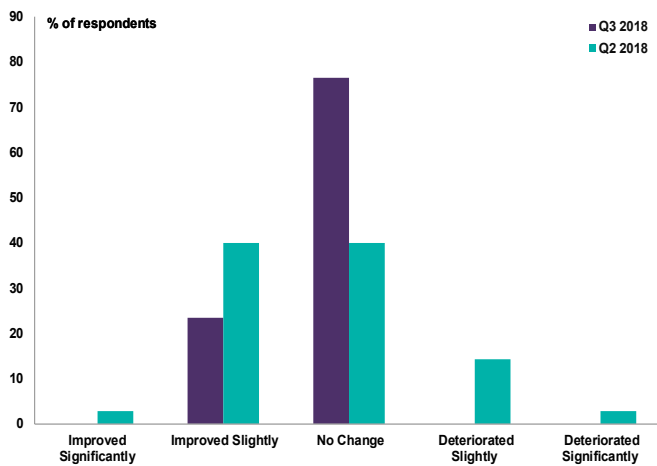


Chart 4: Valuations

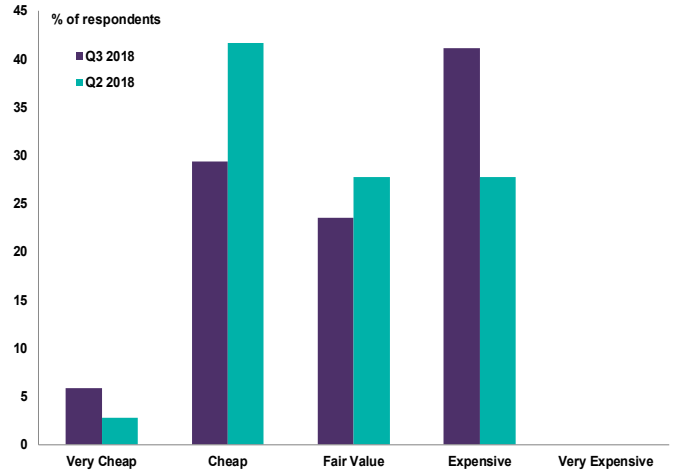


Chart 5: 12-month Capital Values Forecast

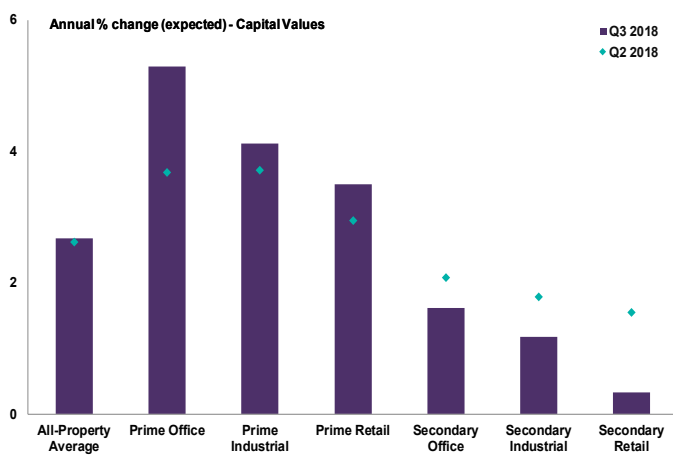
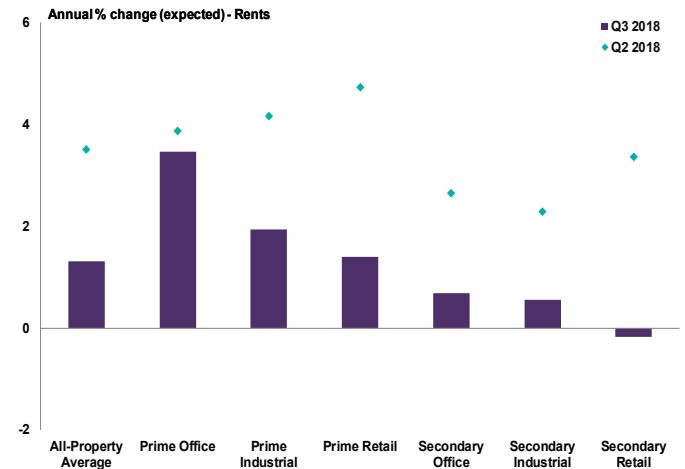


Chart 6: 12-month Rent Forecast



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 13 September 2018 with responses received until 14 October 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 1791 company responses were received, with 341 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 for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia.

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

Disclaimer

This document is intended as a means for debate and discussion and should not be relied on as legal or professional advice. Whilst every reasonable effort has been made to ensure the accuracy of the contents, no warranty is made with regard to that content. Data, information or any other material may not be accurate and there may be other more recent material elsewhere. RICS will have no responsibility for any

errors or omissions. RICS recommends you seek professional, legal or technical advice where necessary. RICS cannot accept any liability for any loss or damage suffered by any person as a result of the editorial content, or by any person acting or refraining to act as a result of the material included.

Economics Team

Tarrant Parsons

Economist
+44(0)20 7695 1585
tparsons@rics.org

Sean Ellison

Senior Economist
+65 68128179
sellison@rics.org

Simon Rubinsohn

Chief Economist
+44(0)20 7334 3774
srubinsohn@rics.org

Jeffrey Matsu

Senior Economist
+44(0)20 7695 1644
jmatsu@rics.org

Kisa Zehra

Economist
+44(0) 7695 1675
kzehra@rics.org

Janet Guilfoyle

Market Surveys Administrator
+44(0)20 7334 3890
jguilfoyle@rics.org



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the valuation, development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to markets and effecting positive change in the built and natural environments.

Americas

Latin America

ricsamericalatina@rics.org

North America

ricsamericas@rics.org

Asia Pacific

ASEAN

ricsasean@rics.org

Greater China (Hong Kong)

ricshk@rics.org

Greater China (Shanghai)

ricschina@rics.org

Japan

ricsjapan@rics.org

Oceania

oceania@rics.org

South Asia

ricsindia@rics.org

EMEA

Africa

ricsafrica@rics.org

Europe

ricseurope@rics.org

Ireland

ricsireland@rics.org

Middle East

ricsmiddleeast@rics.org

United Kingdom RICS HQ

contactrics@rics.org