



Q2 2015: Canada Commercial Property Monitor

Increased uncertainty causes occupier sentiment to decline

Key macroeconomic trends

The Canadian economy has seen the adverse impact of the oil price fall sooner than had been expected with GDP falling by 0.3% in the three months to April compared to the previous three months. Some regions and sectors are feeling the pinch more than others with Alberta, the oil capital of the country, expected to see GDP contract by 1% this year. Business investment looks set to detract from growth again in 2015, thanks in large part to the oil price fall. Indeed, respondents to the RICS Canada Construction Market Survey reported workloads in the sector to have fallen dramatically in recent quarters and they foresee further cancellation/delays of projects over the year to come. However, with employment continuing to creep up and real earnings growth rising, thanks to the sharp fall in inflation, consumption expenditure should help most other parts of the country expand in 2015. With the increased uncertainty in the economy, employers have been wary about signing new leases and vacancy rates have been rising. This has kept the RICS Occupier Sentiment Index in negative territory in Q2 with rents expected to fall over the coming year.

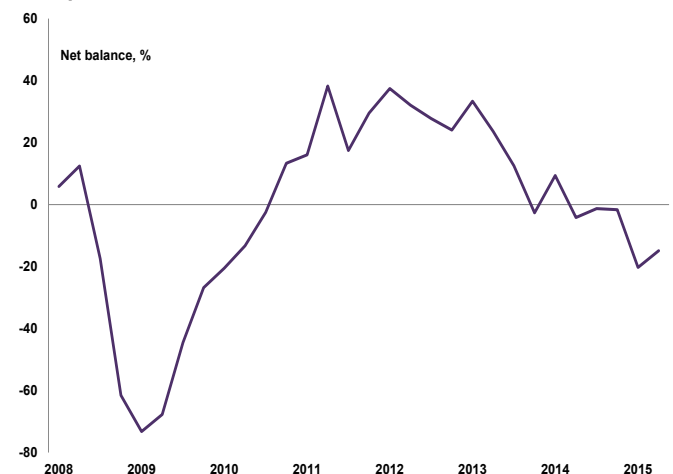
Occupier Market

- The Canada Occupier Sentiment Index remained in negative territory, at -15, in Q2 signalling a further increase in slack in the lettings market.
- The industrial sector was the only one in which demand expanded with interest in office space decreasing sharply.
- Stocks of available space increased significantly across all sectors.
- The weak demand and increasing number of vacancies kept rent expectations negative at both the three and twelve month horizon.
- The office sector is expected to see the largest decline in rental values over the next year with rents on secondary units forecast to fall by 4.5%.

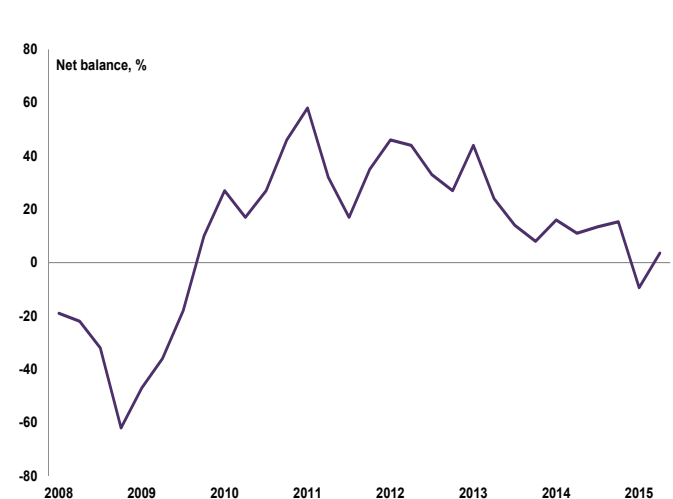
Investment Market

- The Canada Investment Sentiment Index recorded a value of 4 in Q2, indicating conditions remained broadly stable over the quarter.
- Investor demand grew very modestly in each sector, with foreign buyers continuing to be attracted to the market.
- Meanwhile, supply of properties for sale decreased slightly in each segment of the market.
- Credit conditions in the sector were reported to have improved slightly in Q2.
- Capital values are expected to remain broadly flat over the coming twelve months with small gains in prime space being offset by decreases in secondary values.

Occupier Sentiment Index



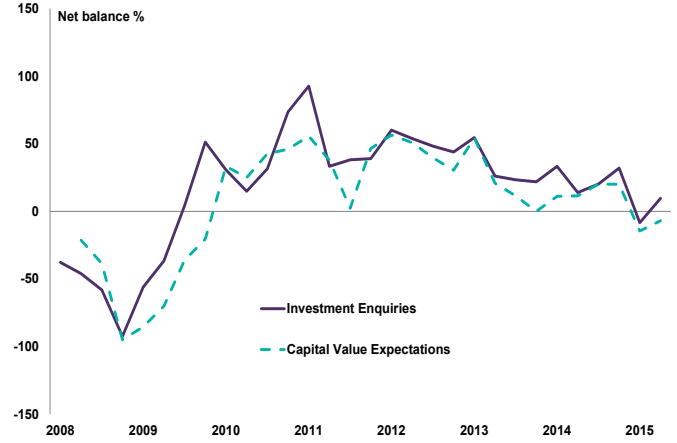
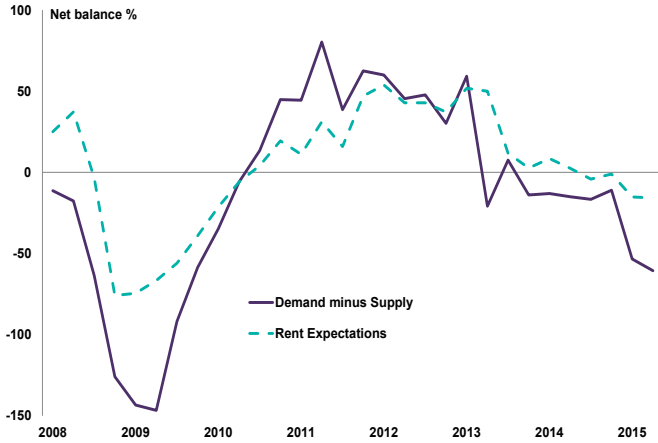
Investment Sentiment Index



Commercial Property Market

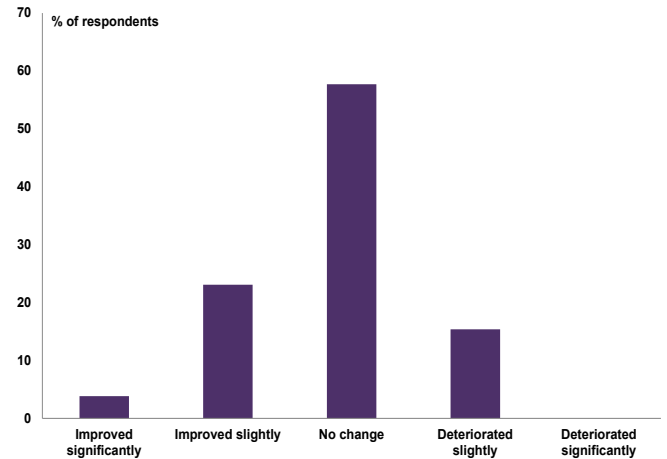
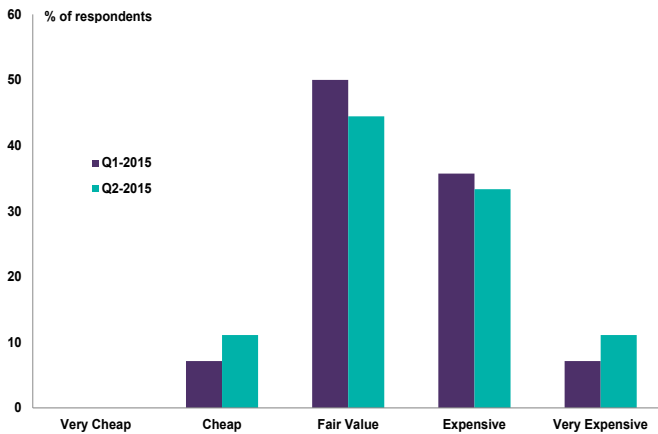
3 Month Rental Expectations - The weakening demand and growing number of vacancies are keeping rent expectations in negative territory.

3 Month Capital Value Expectations - Growth in investor demand has been more subdued so far this year and expectations for near term capital value growth have moderated.



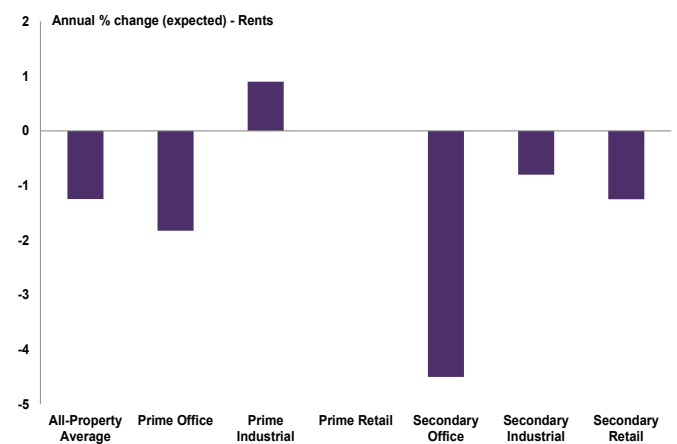
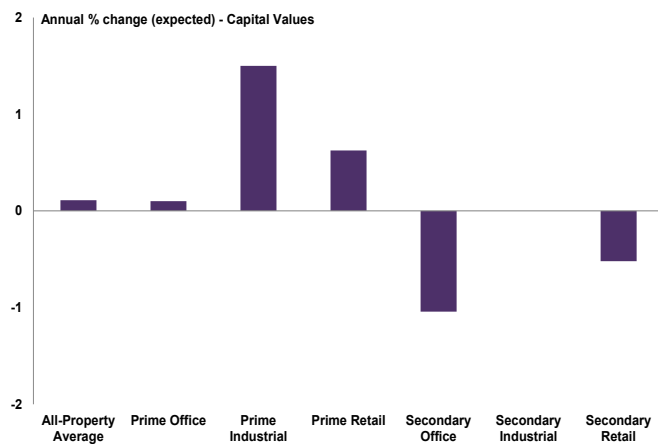
Market Valuations - One third of respondents think capital values are expensive but more think that they are fairly priced at present.

Credit Conditions - Credit conditions were thought to have improved slightly, on balance, in Q2.



12 Month Capital Value Expectations - Capital values of secondary units are expected to fall over the year to come.

12 Month Rent Expectations - Only prime industrial units are expected to see any growth in rental values over the next twelve months.



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 Global Cities Commercial Property Monitor 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 10 June 2015 with responses received until 3 July 2015. 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 1294 company responses were received, with 283 from the UK. Responses for Dublin 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 city 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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