



Q3 2015: Canada Commercial Property Monitor

Oil price fall continues to weigh on domestically focused sectors

Key macroeconomic trends

Recent survey evidence from Canada has given some tentative signs that the outlook for growth is improving in some sectors, but the more domestically focused parts of the economy are still struggling due to the oil price fall and the slowdown in growth through the first half of this year. The combination of the weakened Canadian dollar and strengthening US economy is providing a boost to the manufacturing sector but business sentiment remains weak for firms either directly or indirectly exposed to the energy sector. Employment intentions still remain relatively subdued and this is reflected in the RICS Occupier Sentiment Index which remains in negative territory. While employment has been creeping up, the uncertainty surrounding the growth outlook is keeping investment intentions muted and occupier demand decreased for the third consecutive quarter in Q3. With the large development pipeline of some regions continuing to add capacity to commercial property markets, the supply of leasable space is increasing and this is adding to negative expectations for rental growth.

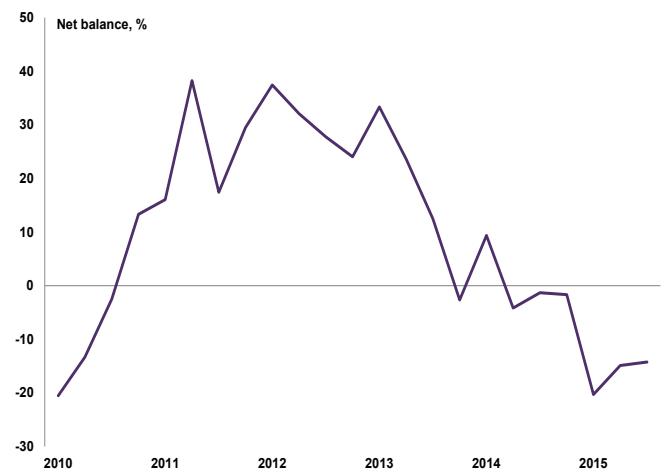
Occupier Market

- The Canada Occupier Sentiment Index recorded a value of -14 in Q3, indicating a further deterioration in conditions in commercial tenancy markets.
- Occupier demand decreased for the third consecutive quarter while the supply of available space picked up across all sectors.
- This growing market slack has resulted in landlords increasing the incentive packages on offer to tenants and respondents to the survey are not optimistic on the outlook for rents: a net balance of 14% expect rents to fall over the coming 12 months.
- At the 12 month horizon, respondents expect rents to fall, albeit only modestly, across all sectors apart from the prime industrial arena where a small rise is forecast.

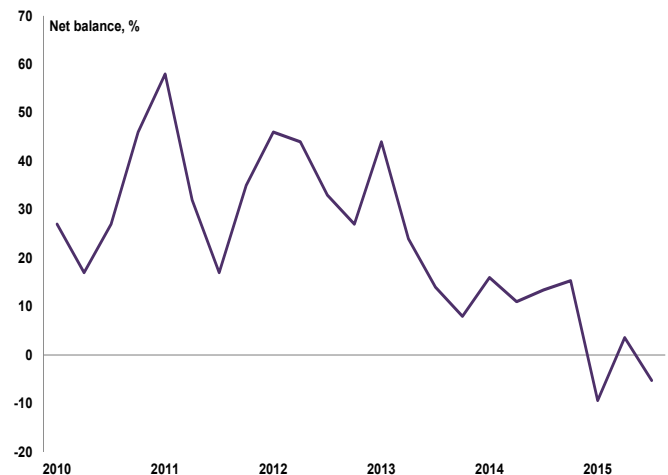
Investment Market

- The Canada Investment Sentiment Index fell back into negative territory in Q3 with a value of -5.
- Investor demand rose across all sectors, helped by a slight increase from foreign buyers thanks, in part, to the Canadian dollars depreciation.
- However, supply of property for sale rose at a quicker pace than demand and this, as well as some uncertainty regarding the outlook for economic growth is keeping capital value expectations in negative territory.
- The secondary office sector is expected to see the largest fall in capital values over the coming 12 months.

Occupier Sentiment Index

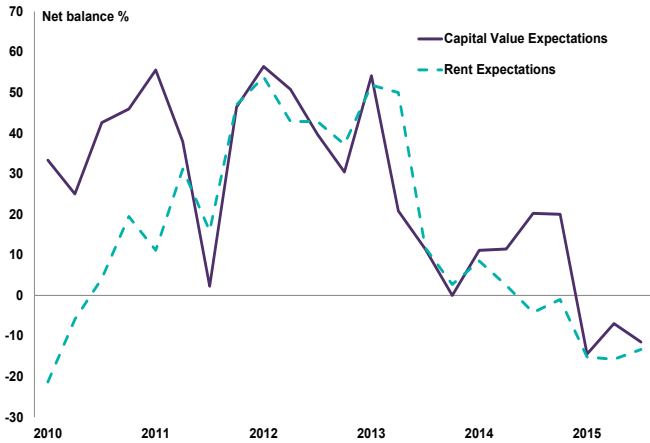


Investment Sentiment Index

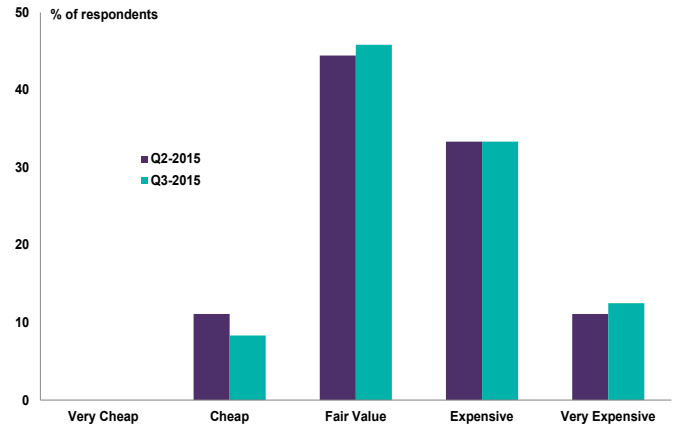


Commercial Property Market

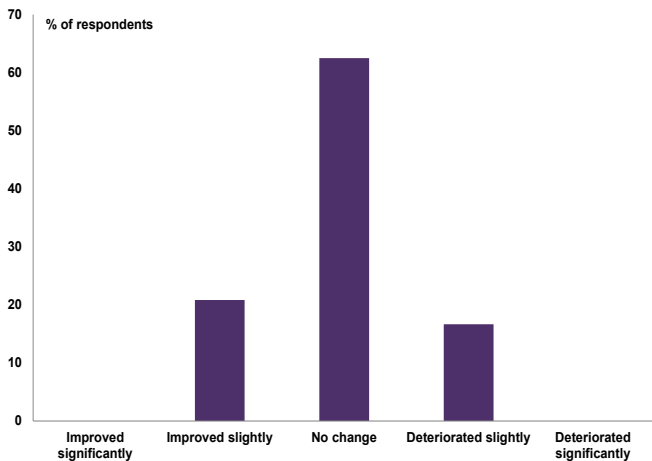
3 Month Rental and Capital Value Expectations - Near term expectations for both rent and capital values remain modestly negative.



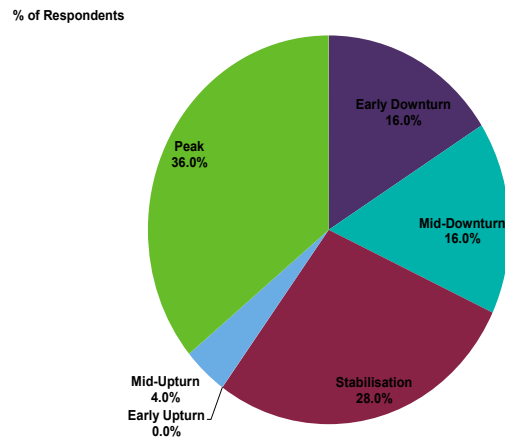
Market Valuations - A substantial proportion of respondents (46%) view current market values as expensive to some extent.



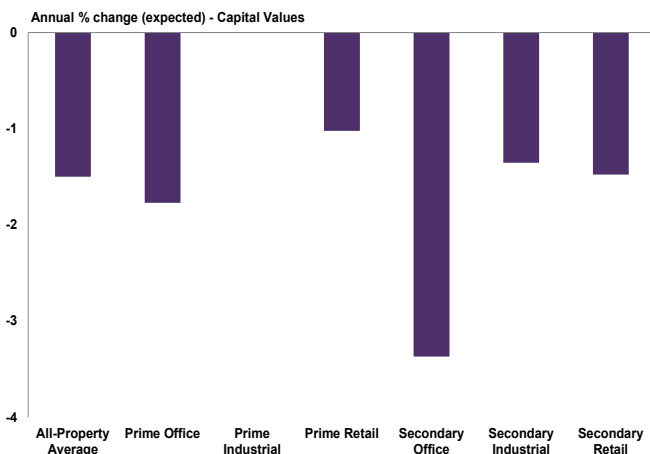
Credit Conditions - Credit conditions remained broadly unchanged over the quarter.



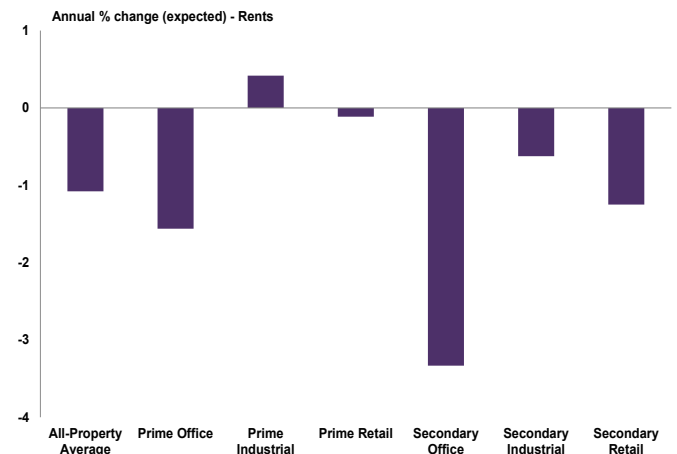
Property Cycle - Reflecting the substantial proportion of respondents who view the market as expensive (see above), the majority of contributors think the market is now at the peak or early downturn phas of this current cycle.



12 Month Capital Value Expectations - Capital values are expected to fall across all sectors except the prime industrial market, where they are forecast to remain broadly stable over the year to come.



12 Month Rent Expectations - Only the prime industrial sector is forecast to see any growth in rental values over the coming 12 months, and even here the growth is expected to be minimal.



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 16 September 2015 with responses received until 2 October 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 1308 company responses were received, with 312 from the UK. Responses for Ireland 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 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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United Kingdom RICS HQ

Parliament Square, London
SW1P 3AD United Kingdom

t +44 (0)24 7686 8555

f +44 (0)20 7334 3811

contactrics@rics.org

Media enquiries

pressoffice@rics.org

Ireland

38 Merrion Square, Dublin 2,
Ireland

t +353 1 644 5500

f +353 1 661 1797

ricsireland@rics.org

Europe

[excluding UK and Ireland]

Rue Ducale 67,
1000 Brussels,
Belgium

t +32 2 733 10 19

f +32 2 742 97 48

ricseurope@rics.org

Middle East

Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates

t +971 4 446 2808

f +971 4 427 2498

ricsmenea@rics.org

Africa

PO Box 3400,
Witkoppen 2068,
South Africa

t +27 11 467 2857

f +27 86 514 0655

ricsafrica@rics.org

Americas

One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA

t +1 212 847 7400

f +1 212 847 7401

ricsamericas@rics.org

South America

Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil

t +55 11 2925 0068

ricsbrasil@rics.org

Oceania

Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia

t +61 2 9216 2333

f +61 2 9232 5591

info@rics.org

North Asia

3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong

t +852 2537 7117

f +852 2537 2756

ricsasia@rics.org

ASEAN

10 Anson Road,
#06-22 International Plaza,
Singapore 079903

t +65 6635 4242

f +65 6635 4244

ricssingapore@rics.org

Japan

Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan

t +81 3 5532 8813

f +81 3 5532 8814

ricsjapan@rics.org

South Asia

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org