



## Q2 2018: China Commercial Property Monitor

# Investment market maintains positive momentum, but trade concerns loom large

In Q2 of 2018, conditions across China's commercial property market were nuanced, with the investment market maintaining positive momentum while the occupier market was more subdued. This was particularly true for industrial properties, and may be a sign that restrictions on shadow banking activities are starting to affect underlying economic activity.

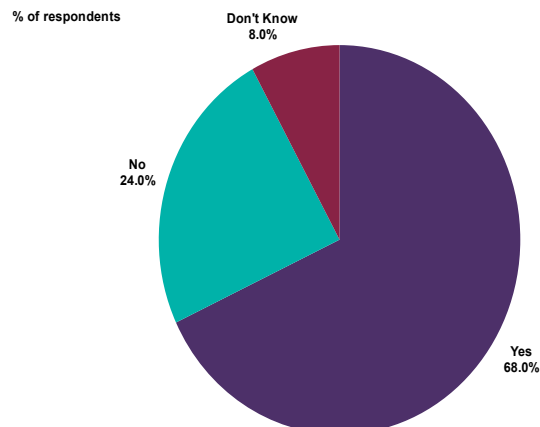
### Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) fell to +5 in Q2 from +17 in Q1 (Chart 1), indicating stalled momentum in the occupier market.
- Occupier demand eased in Q2 across all market segments (office, industrial, retail). Although demand for office and retail properties did increase during Q2, albeit at a slower pace than in Q1, respondents reported a decline in demand for industrial space.
- The availability of office and retail space to rent increased in Q2, at a faster pace than demand rose for these segments (in net balance terms). Landlord incentives, namely rent free periods, also were reported to have increased for office and retail properties.
- Against this backdrop, respondents are slightly more subdued in their expectations for rental growth over the next three months in net balance terms (Chart 2). Nevertheless, this is primarily due to industrial rental projections turning flatter for over the next three months. However, respondents expect rents on all market segments to advance over the next year.
- Chart 6 shows that respondents revised their forecasts for prime industrial rental growth to 1.9% over the next year in Q2 from 3.3% in Q1, the second consecutive quarter this market segment has seen a downward revision. Rents across all secondary segments are seen nearly flat in a twelve month view.
- A significant majority of respondents (68%) felt like the implementation of US tariffs would have a meaningful impact on economic activity. This share was even higher in Shanghai, where 90% of respondents said that the tariffs would be impactful.

### Investment Market

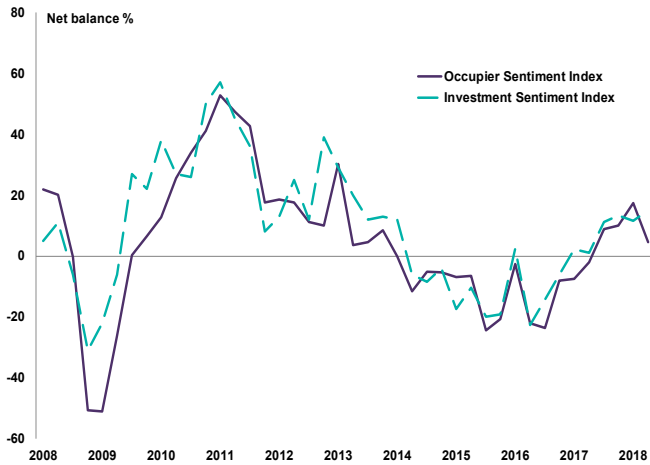
- The Investment Sentiment Index (an amalgamated measure of occupier market indicators) rose modestly to +15 in Q2 from +12 in Q1 (Chart 1).
- Respondents reported an increase in investment demand during Q2, particularly for office properties. Foreign demand was more subdued, though demand for offices did increase. The supply of office and retail properties for sale increased, while the supply of industrial space fell.
- As shown in Chart 4, perceptions on valuations remain slightly skewed towards being expensive, while Chart 5 indicates some deterioration in credit conditions.
- Respondents see capital values expanding over the next three and twelve months, particularly for offices, while prime retail values also exhibit a firmly positive outlook.

### Do you expect recent import tariff measures imposed by the US to have a meaningful impact on domestic economic conditions?

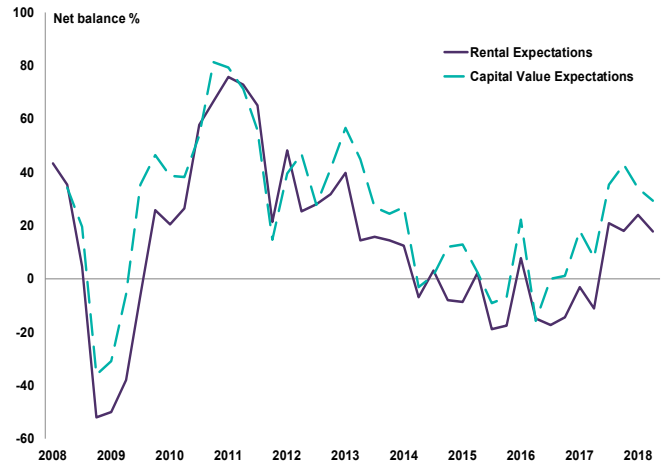


# Commercial Property Market

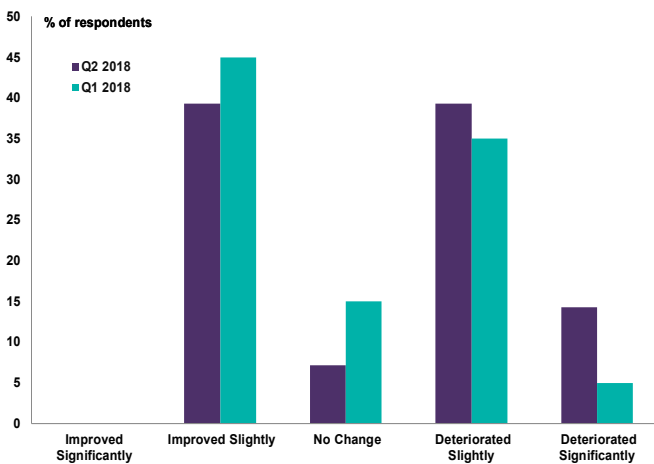
**Chart 1: Occupier, Investment Sentiment Indexes**



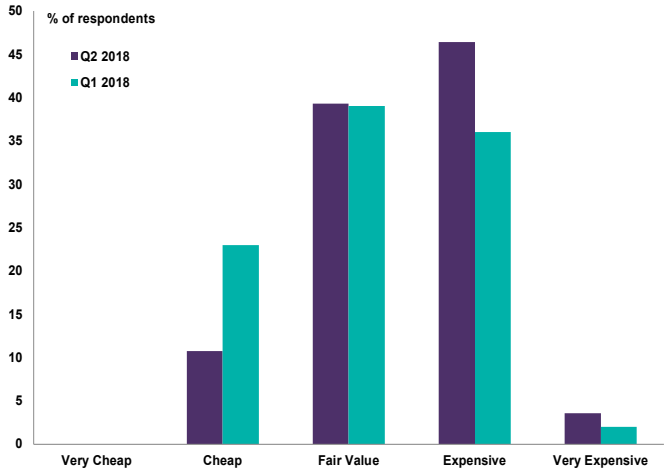
**Chart 2: 3-month Rents, Capital Values**



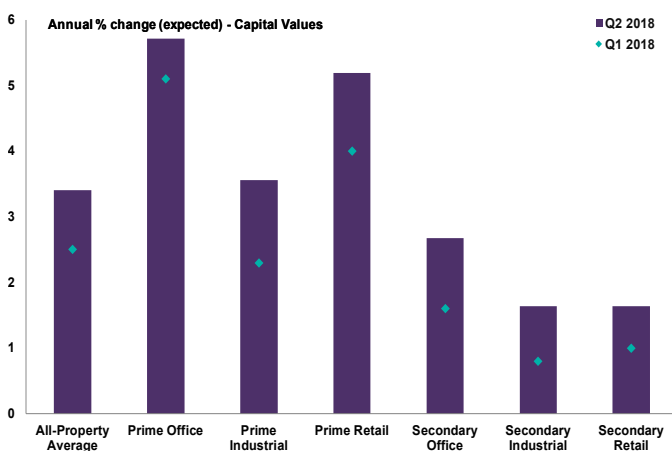
**Chart 3: Credit Conditions**



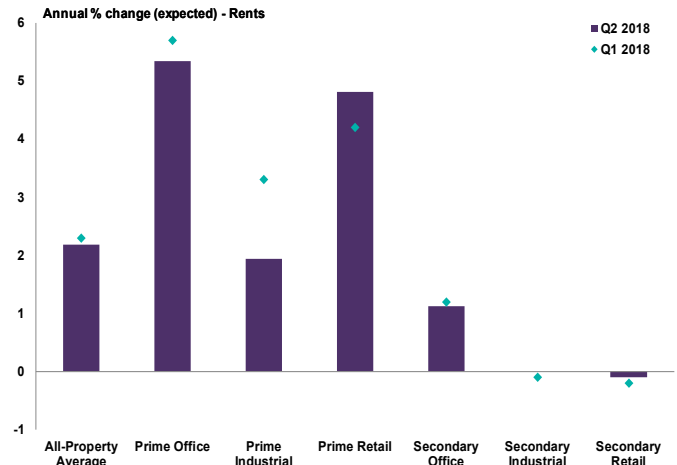
**Chart 4: Valuations**



**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](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 June 2018 with responses received until 8 July 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 1965 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](mailto:economics@rics.org)

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