Q3 2017: China Commercial Property Monitor

Respondents see an increase in both foreign and domestic demand

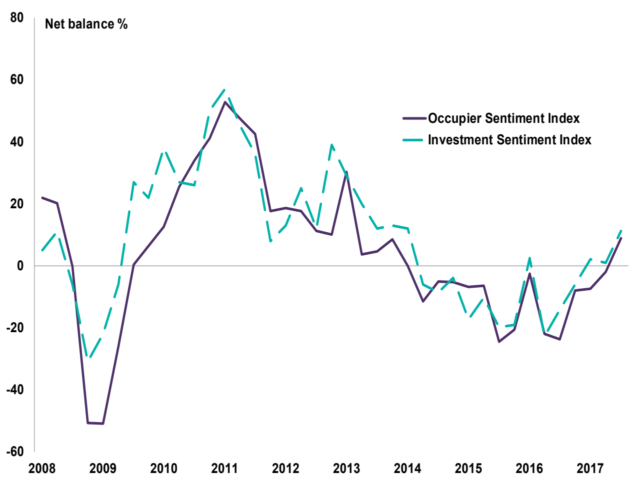
Occupier Market

- The Q3 2017 results show an increase being reported in occupier demand, as the headline net balance increased from 5% in Q2 to 23% in Q3. The increase in demand was spread relatively evenly across all three segments of the market (office, industrial, retail).
- Respondents reported an increase in headline supply for the 22nd consecutive month. The increase in supply of industrial properties was more subdued than that for office and retail space.
- Landlord incentives increased modestly in Q3. Incentives on industrial space were largely unchanged during the quarter. Respondents also reported little change in headline development starts, as a modest increase in office starts was offset by a decline in industrial starts.
- Headline rents are expected to increase modestly over the next three months across all market segments. Respondents expect the pace of increase in rents to pick up over the next year across all segments.
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) increased to +9 in Q3 plus -2 in Q2, indicating modestly positive headline occupier market momentum.

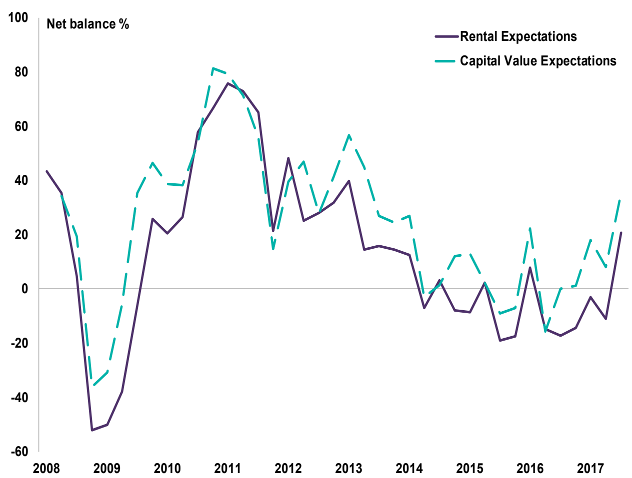
Investment Market

- The Q3 2017 data shows headline investor demand increased at a modest pace. Demand increased across all market segments, including for retail space where respondents had reported a decrease in demand during the previous ten quarters.
- Respondents reported that headline foreign demand increased in Q3 for the first time since this metric began to be tracked in Q3 of 2014. The office and retail segments saw the sharpest pickup in demand.
- The supply of properties for sale also increased, driven mainly by the office and retail segments. Against this backdrop, respondents expect capital values to increase over the next three and twelve months, with the strength spread evenly across all market segments.
- The majority of respondents, 55%, see the property cycle in some stage of an upturn, up slighly from 52% in Q2. 33% see the market at some stage of a downturn, down from 38% in Q2.
- The Investor Sentiment Index (an amalgamated measure of investment market indicators) increased to +11 from +1 in Q2, indicating a pick-up in positive investment market momentum.

Occupier and Investment Sentiment Index

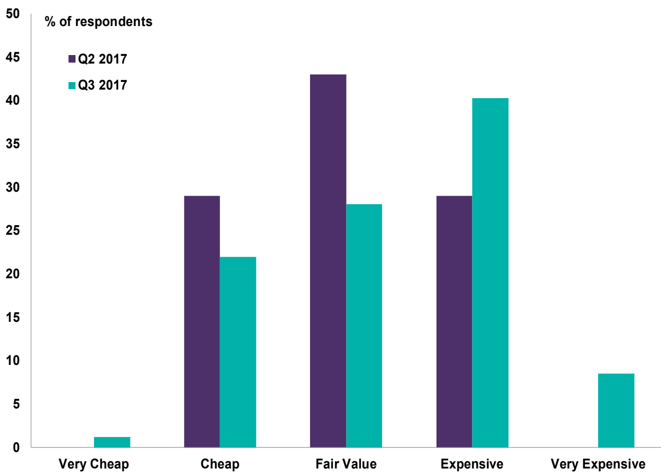


Rental and Capital Value Expectations

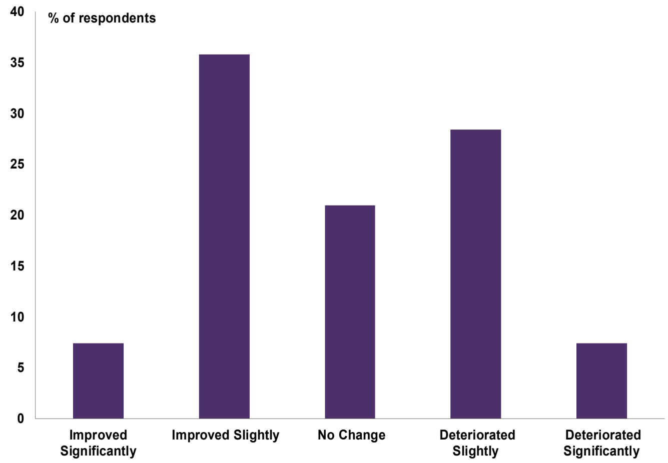


Commercial Property Market

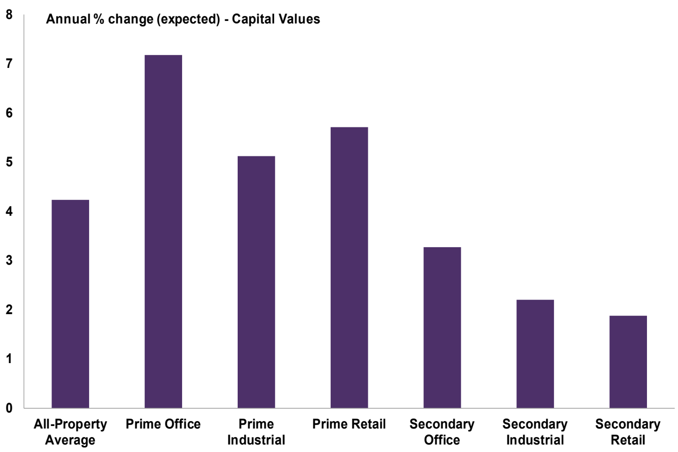
Market Valuations - The share of respondents who view the property market as above fair value to some degree increased to 49% in Q3 from 29% in Q2. Those who saw the market as fairly valued fell from 43% in Q2 to 28% in Q3.



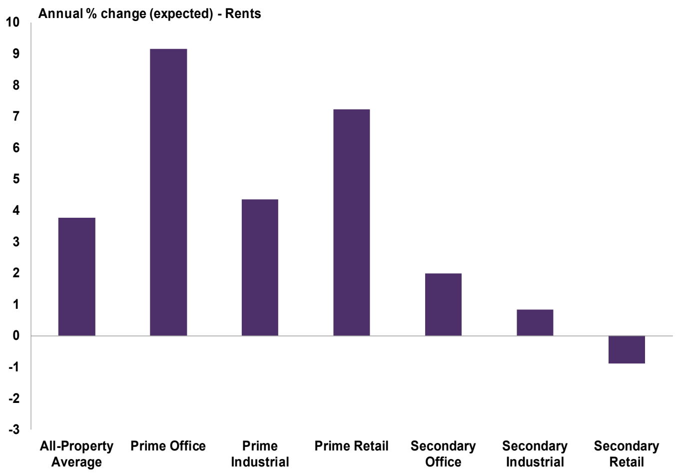
Credit Conditions - Credit conditions were fairly evenly skewed in Q3. 21% of respondents saw no change in conditions (vs 29% in Q2), while 35% saw some degree of deterioration (vs 53% in Q2) and 43% saw some degree of improvement (vs 19% in Q2).



12m Capital Value Expectations - One-year captial value forecasts increased sharply to 4.2% in Q3 from 1.3% in Q2. Forecasts for all segments of the market were revised higher, as prime space is seen up 6% over the next year (vs 3.3% forecast in Q2), while values for secondary space are expected to rise 2.4% over the next twelve months after respondents forecast a 0.7% pullback in Q2.



12m Rental Expectations - One-year rent forecasts were revised higher across all market segments, as headline rents are now expected to rise 3.8% (vs 0.3% forecast in Q2). Rents on prime office space are seen up 9.2% over the next year (3.6% in Q2), while those on prime retail are expected to rise 7.2% (2.6% in Q2). Expectations for secondary rents, expected to rise 0.6%, are more subdued.



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 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.

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