



Q3 2017: Croatia Commercial Property Monitor

Contributors revise up rental and capital value projections

Occupier Market

- The headline Occupier Sentiment Index (a composite measure capturing overall momentum) moved to +19 following a reading of +24 in Q1. Breaking this down, the office and retail sectors displayed the strongest momentum during Q3, whilst overall sentiment in the industrial sector remained only marginally positive reading.
- Occupier demand continued to rise across all areas of the market albeit the pace of growth eased slightly when compared to the previous two quarters.
- At the same time, availability of leasable space was flat at the headline level. Within this, a marginal increase in supply across the industrial and retail sectors was cancelled out by a slight fall in the office sector. Alongside this, the value of incentive packages offered to tenants remained unchanged.
- Twelve month rent expectations picked up from the previous quarter, driven by a noticeable strengthening in projections for prime office space. Prime retail expectations are also firmly positive, although the rental outlook across secondary markets is relatively flat. At the three year horizon, rental growth is anticipated to accelerate across all sub-markets, albeit rents in prime locations re expected to outperform secondary counterparts.

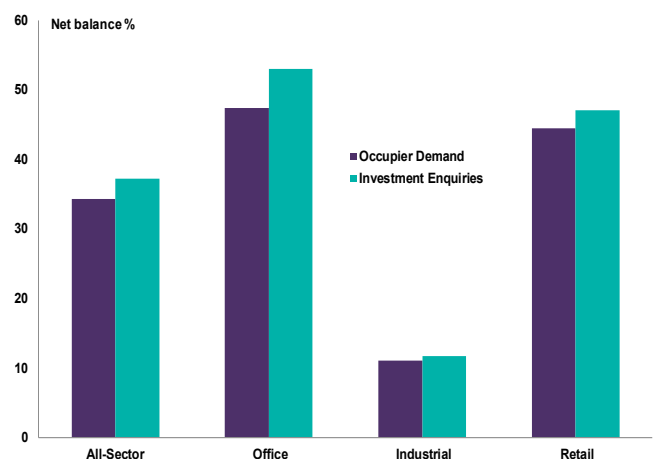
Investment Market

- The Investment Sentiment Index moved to +19 from +22 in Q2, pointing to reasonable momentum in the investment market. Once again, the office and retail sectors display the firmest results whilst activity across the industrial segment improved only slightly.
- Investment enquiries continued to increase firmly at the headline level, though demand growth across the industrials sector decelerated in Q3. Similarly, demand from foreign investors increased in the office and retail sectors but remained unchanged for industrials.
- The supply of property for investment purposes increased at the headline level driven by a pick up in the office and retail arenas.
- Capital value expectations for the coming year were revised up from the previous quarter with strong growth projected in the prime office and retail sectors. At the same time, expectations signal a flat outlook for the secondary industrial sub-sector.
- At the three year horizon, capital value expectations were solid across the prime sectors but were trimmed across secondary locations, where they remain flat.
- The majority of contributors (77%) continue to feel that conditions in their local market are consistent with the upturn phase of the current property cycle.

Occupier and Investment Sentiment Index



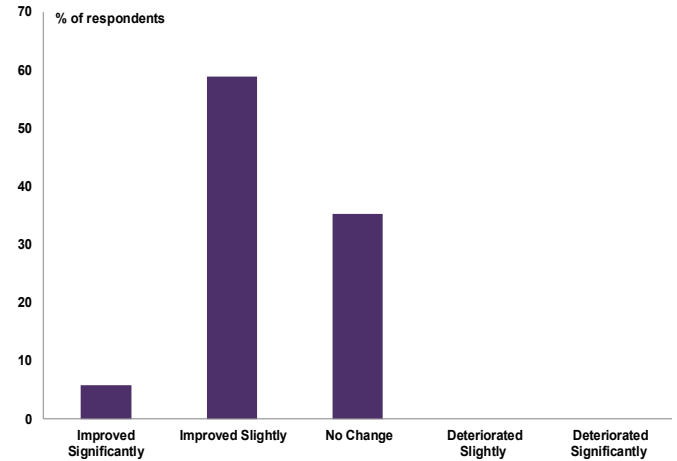
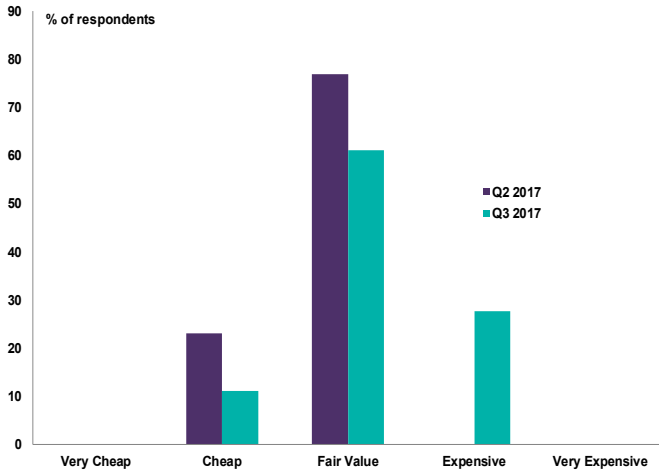
Rental and Capital Value Expectations



Commercial Property Market

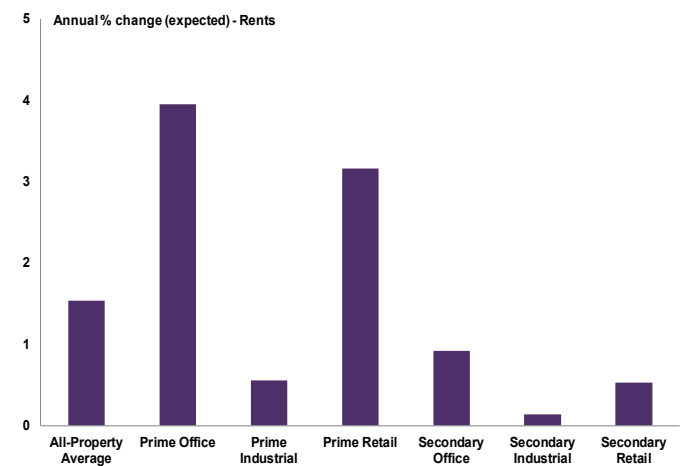
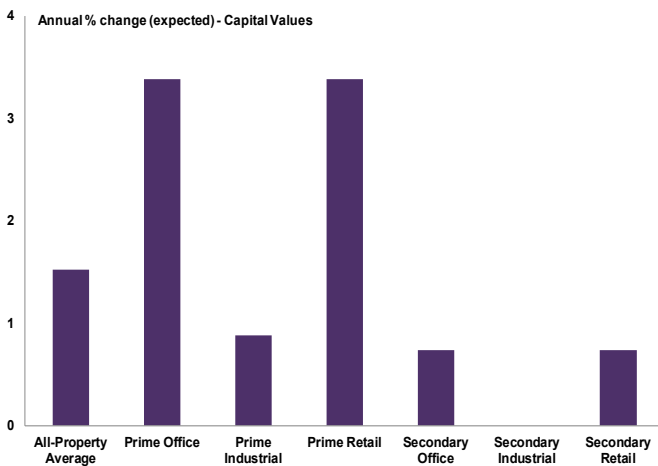
Market Valuations - 28% of respondents to the survey now believe commercial property value may be becoming somewhat stretched. This marks a shift compared to last quarter, when all contributors perceived prices to be at or below fair value.

Credit Conditions - The majority of respondents felt credit conditions improved in Q3.



12m Capital Value Expectations - Capital value projections were upgraded across all sub markets with the exception of the secondary industrial sub-sector, where the outlook remains flat.

12m Rental Expectations - Respondents revised up their rental expectations for the coming year, but this was mainly driven by solid growth in the prime retail and office sub-sectors, in comparison, rental projections in all other sub-sectors remain 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 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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