



Q3 2018: Croatia Commercial Property Monitor

Strong majority of contributors note improving credit conditions

The Q3 2018 Croatia Commercial Property Monitor results are consistent with positive momentum across the occupier and investment markets with solid near term projections particularly for prime assets. Indeed this reflects the solid economic fundamentals such as strong gains in gross wages, retail expenditure and consumer sentiment which all point to an improving growth profile. With a strong majority of contributors in Q3 stating credit conditions have improved, the outlook for commercial property remains upbeat.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market indicators displayed in chart 1 overleaf) moved to +31 in Q3 from +35 previously. This is consistent with solid momentum behind investment market fundamentals. When disaggregated, momentum was reportedly positive in all three market areas (office, industrial and retail).
- Tenant demand continued to rise at the headline level with the pace of growth holding steady in comparison to the previous quarter. Demand picked up smartly across all three areas of the market in Q3.
- Alongside this, the availability of leasable space declined in the office and industrial sectors. At the same time, the value of incentive packages offered to tenants declined across all three areas of the market.
- Development starts increased over the quarter, driven by robust activity in the office sector.
- Rental value expectations were upgraded slightly for the second consecutive report (chart 6). Contributors project a solid rise in rental values across prime markets. In comparison, secondary markets are expected to see virtually no change in rental values over the coming year.

Investment Market

- The Investment Sentiment Index (a composite indicator incorporating a range of investment market variables shown on chart 1) returned a reading of +27 in Q3 not far from the +33 reading in Q2. Positive momentum was reported across all three areas of the market with the office sector displaying the firmest results for the second consecutive report.
- Investor demand continued on an upward trajectory in Q3 led by robust demand in the office sector. Demand growth from foreign investors was solid across the office and industrial space but was relatively modest in the retail sector.
- The availability of supply for investment purposes remained unchanged in Q3.
- Capital value expectations for the coming year were unchanged from the previous report. That said, relative to Q2, the outlook for prime industrial and retail assets turned more sanguine. Chart 5 shows that very marginal gains in capital values are projected across secondary sub-markets.
- The majority of respondents to the survey (60%) believe that the market is in the early to middle stages of an upturn.
- Respondents generally felt that commercial property is fairly valued with 50% holding this view (chart 4). That said, the share of respondents stating that valuations are becoming stretched has risen to 30% in Q3 from 13% previously.
- Almost all of the respondents to the survey (90%) stated that credit conditions have improved in Q3 (chart 3).

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices



Chart 2: 3-month Rents, Capital Values

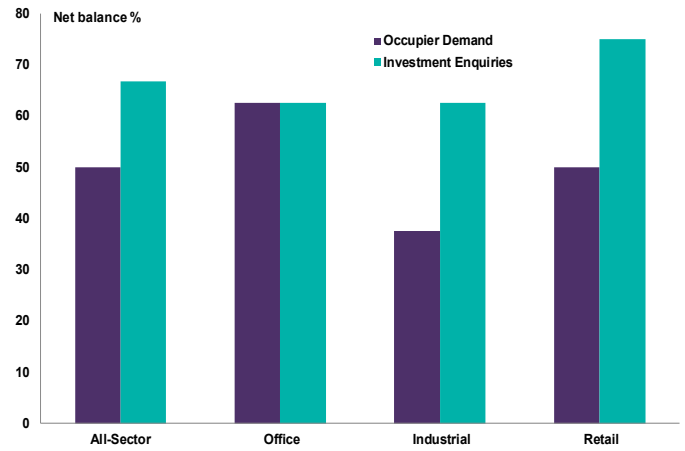


Chart 3: Credit Conditions

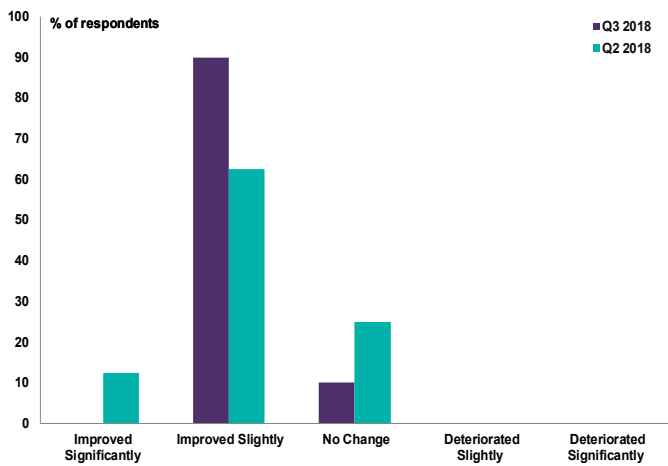


Chart 4: Valuations

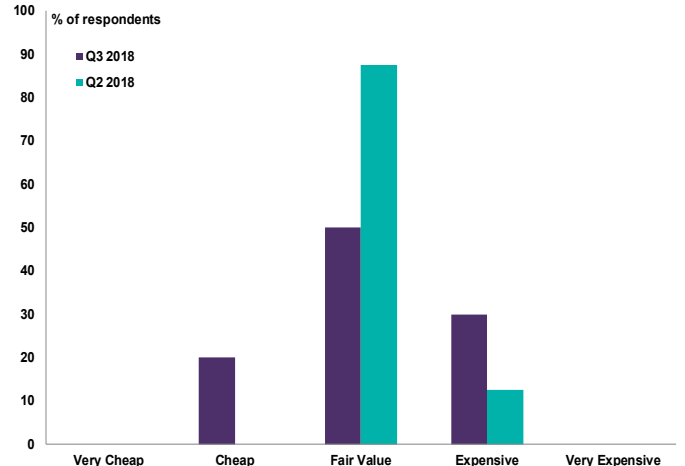


Chart 5: 12-month Capital Values Forecast

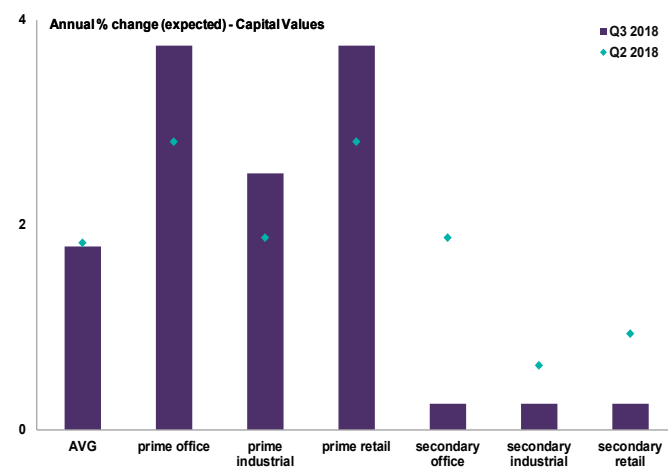
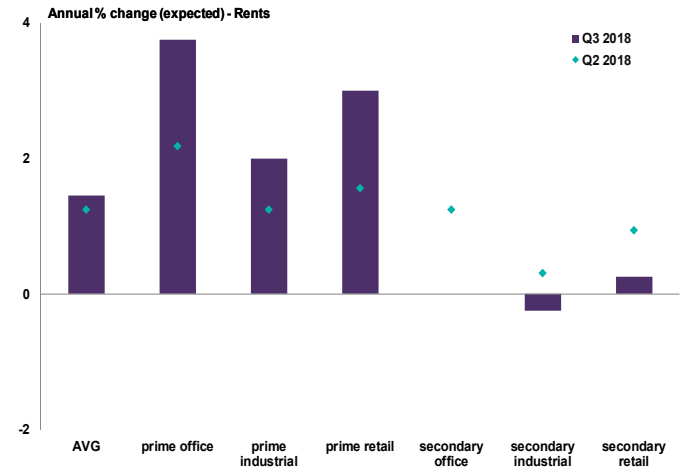


Chart 6: 12-month Rent Forecast



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 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 2018 with responses received until 14 October 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 1791 company responses were received, with 341 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 for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia.

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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