



Q3 2018: Czech Republic Commercial Property Monitor

Solid demand supports robust near term projections

Momentum in Czech Republic's commercial property market remained firm in Q3 2018 with strong economic fundamentals continuing to boost overall market sentiment. Despite suggestions that credit conditions have deteriorated on the back of a tighter monetary policy stance from the CNB, demand and supply indicators point to tight market conditions with near and medium term capital and rental value projections revised up as a result.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market indicators displayed in chart 1 overleaf) moved to +35 in Q3 from +28 previously. This is consistent with a solid quarterly improvement in occupier market dynamics.
- Occupier demand continued to rise in all three areas of the market (office, industrial and retail). For the fourth consecutive quarter, demand growth in the industrial sector led the way in Q3.
- Alongside this, after remaining more or less unchanged over the previous two reports, the availability of leasable space dropped in the latest results with respondents noting the sharpest quarterly decline since the back end of 2016.
- Meanwhile landlords reduced the value of incentive packages offered to tenants in all areas of the market.
- Rental value expectations for the coming year were revised up in Q3 with respondents projecting rental values rising by nearly 4% on average per annum in the next twelve months (chart 6). Significantly, this is the strongest annual projections since the series started in 2014.
- Rental values in prime properties are projected to outpace their secondary counterparts in the coming year and over the medium term horizon.

Investment Market

- The Investment Sentiment Index (a composite indicator incorporating a range of investment market variables shown on chart 1) increased to +53 from +31 previously signalling a strongly positive trend across the investment market.
- Investment demand continued to rise with the pace of growth quickening in Q3 driven by a reported up-tick in investor interest for retail properties over the quarter. Demand from foreign investor also appears to have increased in the latest results after remaining flat in Q2.
- The availability of supply for investment purposes decreased sharply in all three areas of the market (in net balance terms).
- Respondents upgraded their capital value projections for the coming year with a solid outlook in prime locations. In comparison, secondary assets are only expected to see modest gains in capital values over the next twelve months (chart 5).
- Almost all of the respondents to the survey (89%) believe that the Czech Republic commercial property market is in the peak phase of the property cycle.
- Against this backdrop, 50% of the respondents to the survey believe that commercial property values are becoming stretched. That said 38% still see prices at or around fair value.
- On balance, credit condition deteriorated in Q3 with 35% of respondents noting a deterioration, this highest share since this indicator was introduced in 2014.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

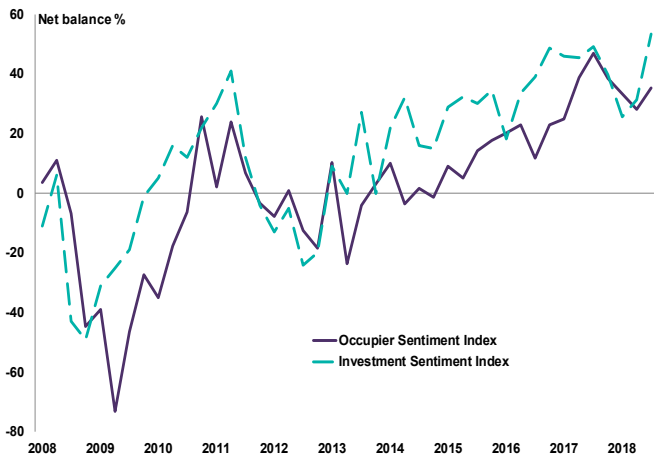


Chart 2: 3-month Rents, Capital Values

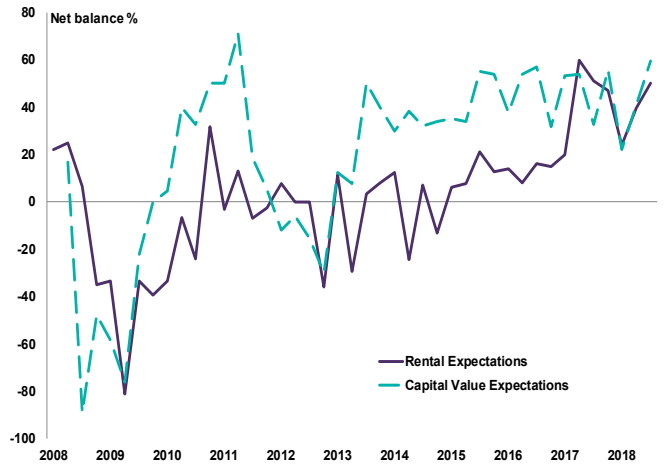


Chart 3: Credit Conditions

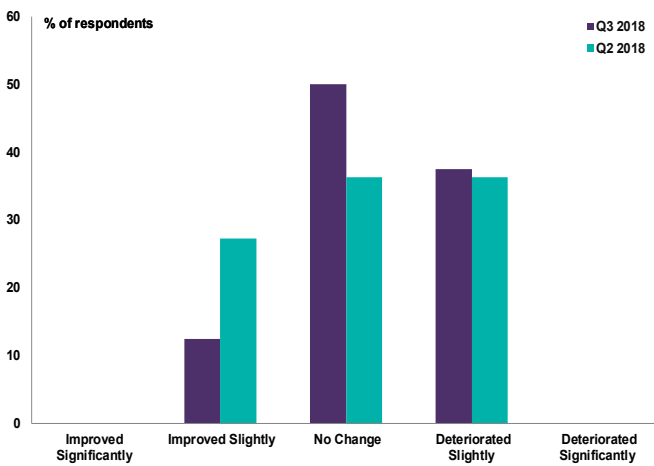


Chart 4: Valuations

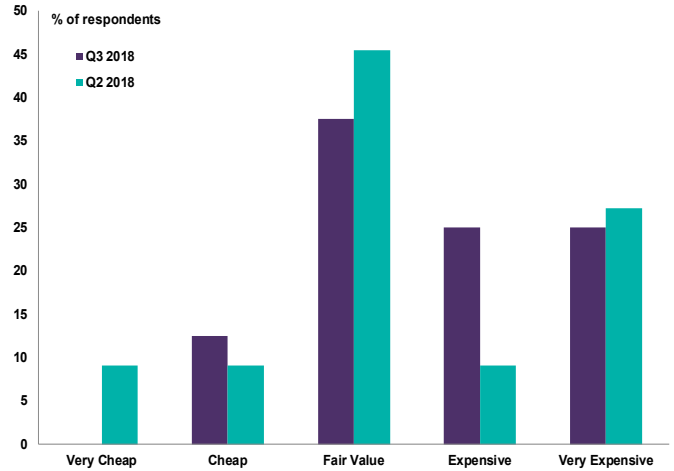


Chart 5: 12-month Capital Values Forecast

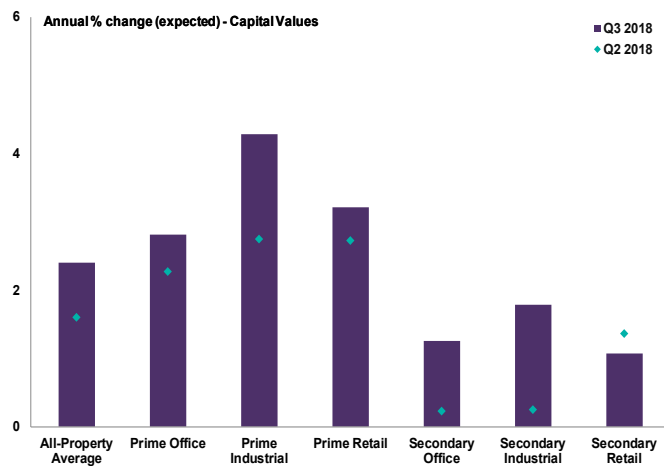
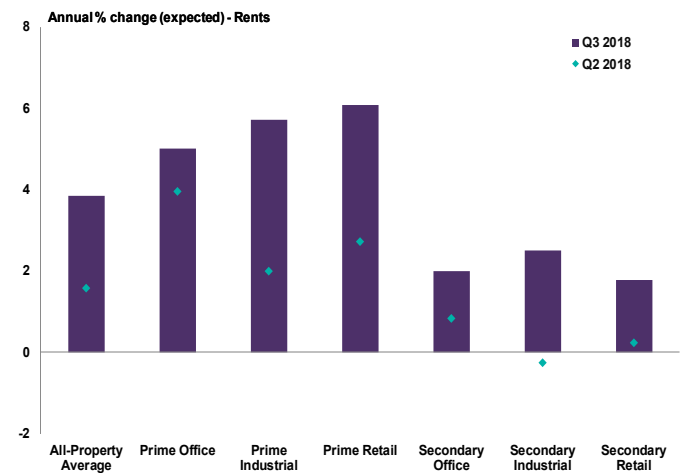


Chart 6: 12-month Rent Forecast



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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