



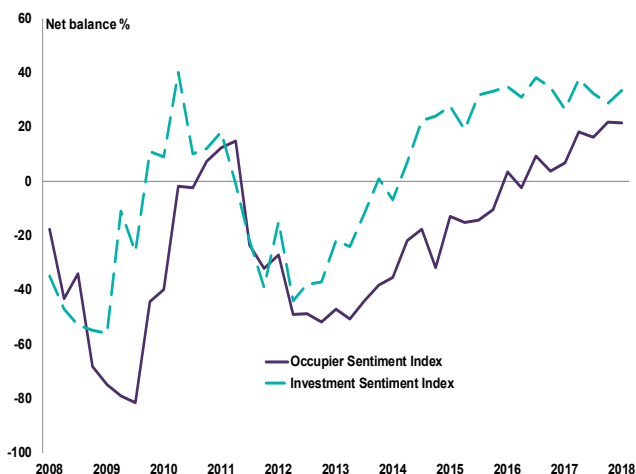
Q1 2018: France Commercial Property Monitor

Sentiment improving in the industrial sector

Occupier Market

- The Occupier Sentiment Index registered a headline reading of +21 in Q1. This compares with a similar reading of +22 previously, and continues to suggest conditions in the occupier market are tightening steadily.
- Tenant demand increased in robust fashion across the office and industrial sectors once more. However, demand for retail space contracted for the third successive report.
- Headline availability remained unchanged over the quarter, with a pick-up in the retail sector being offset by a decline in office and industrial space. Given this, retail landlords pushed up the value of incentive packages on offer to tenants.
- At the headline level, twelve month rental growth expectations strengthened for a third consecutive quarter. The outlook for industrial rents, both prime and secondary, improved most noticeably compared to the projections in Q4. By way of contrast, respondents trimmed prime retail rental forecasts, and still anticipate falling rents across secondary retail space.
- Likewise, in Paris, rental expectations are positive in all but the secondary retail sector for the year ahead. Relative to the previous quarter, prime industrial space received the strongest upgrade, although prime office rents are still anticipated to see the firmest rise compared to all other areas of the market.

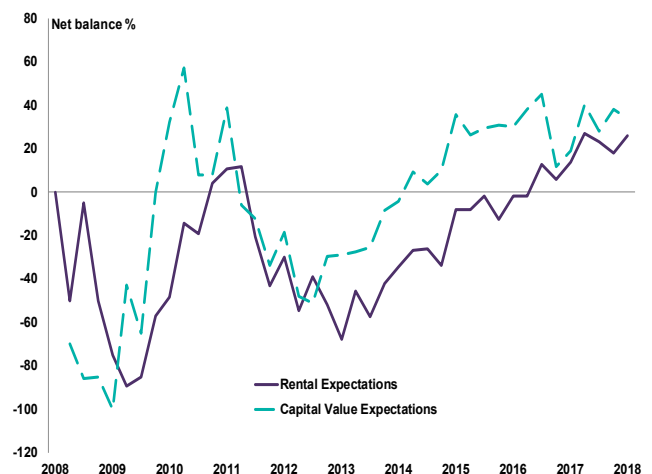
Occupier and Investment Sentiment Index



Investment Market

- The Investment Sentiment Index came in at +33, following a reading of +29 in Q4. This measure is consistent with solid momentum behind the investment market, as has consistently been the case since the second half of 2015.
- Investment enquiries continued to rise sharply for both office and industrial assets, but saw little change across the retail sector. That said, foreign investment demand for retail properties did increase, albeit at a slightly softer pace relative to both offices and industrials.
- The supply of property for sale declined at the headline level, posting a net balance of -20%. Within this, the retail sector was the only area of the market not to see a decline.
- Twelve month capital value expectations were adjusted higher across both office and industrial markets (prime and secondary) compared with the previous results. Prime retail values are still seen rising modestly, although the outlook remains negative across secondary retail locations.
- These trends are mirrored across Paris, with office and industrial values now anticipated to rise at a similar pace, while retail (secondary in particular) remains the laggard.
- Across France as a whole, 58% of respondents feel market conditions are approaching the peak of the current cycle. This is the highest proportion since the series began in 2015. In Paris, the figure is higher still, at 66%.

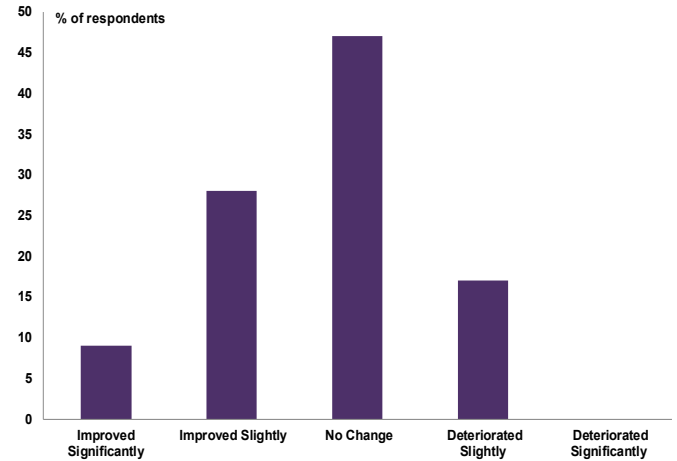
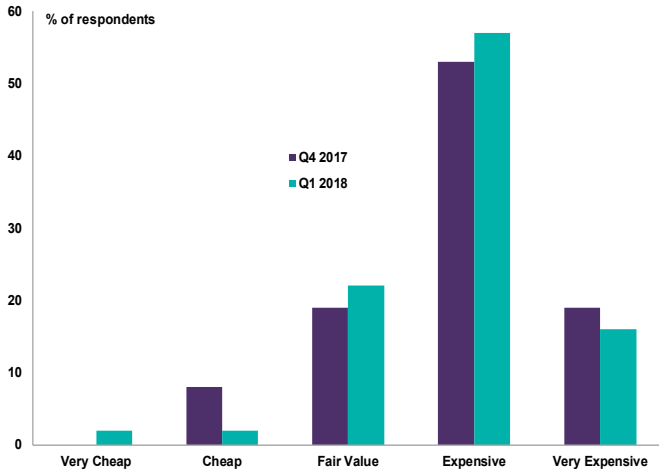
Rental and Capital Value Expectations



Commercial Property Market

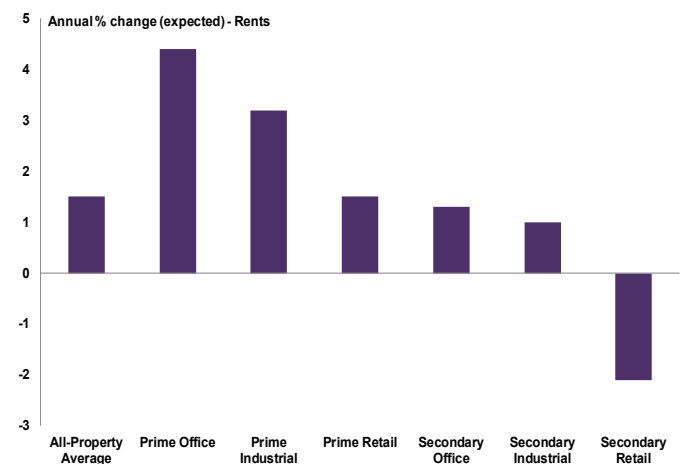
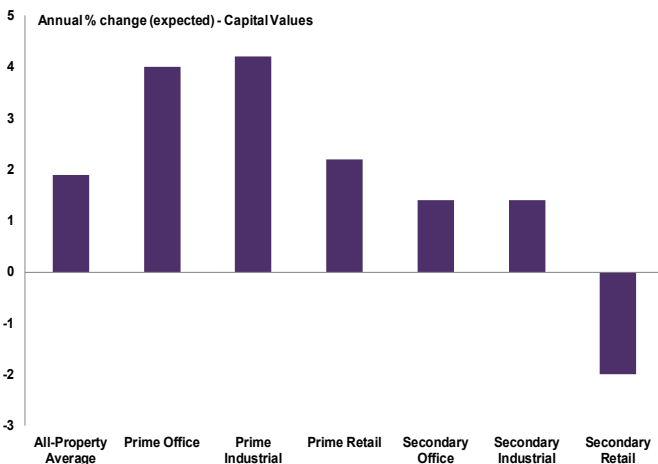
Market Valuations - The majority of respondents (74%) believe commercial real estate values are somewhat overpriced. Even so, the proportion of contributors taking this view has held pretty steady over the past year.

Credit Conditions - Credit conditions continued to improve on balance during Q1, albeit the proportion of respondents noting an easing the financing climate has moderated in recent quarters.



12m Capital Value Expectations - Capital value expectations were upgraded during Q1, with the prime industrial sector seeing the strongest revisions. While prime retail values are still expected to rise modestly, secondary values are anticipated to come under pressure.

12m Rental Expectations - Although prime office rents are still envisaged posting stronger growth than all other sub markets over the coming year, prime industrial expectations were revised significantly higher relative to the previous results.



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 14 March 2018 with responses received until 11 April 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 1748 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

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