



Q2 2018: France Commercial Property Monitor

Investment demand falls noticeably in the retail sector

The Q2 2018 France Commercial Property Monitor results show the market losing further impetus, both on the investment and occupier sides. That said, drilling beneath the headline figures reveals an increasing variation between sectors. Retail is becoming further detached when compared with the still reasonably solid momentum seen in the office and industrial portions of the market. As seen across other parts of Europe, the rising share of sales made online continues to challenge traditional retail business models. This is being reflected in negative projections for retail rents and capital values, albeit this is confined to secondary locations for now.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market variables shown on chart 1 overleaf) came in at +18 in Q2. This represents a small easing compared to Q1's figure of +21, but still suggests occupier market conditions are improving steadily overall.
- Tenant demand trends continue to vary across sectors. While enquiries from occupiers rose sharply for office space, and more moderately for industrials, demand has now fallen for four consecutive quarters in the retail sector.
- Availability edged lower at the headline level, having remained flat over the previous two reports. That said, this was predominantly driven by a decline in the office sector, while vacant leasable space was more or less unchanged across both industrial and retail segments.
- Landlords increased the value of inducement packages on offer in the retail sector once more, an ongoing trend stretching back to 2013.
- Relative to the previous quarter's results, respondents scaled back expectations for rental growth over the year ahead in each sub-sector. Prime office and industrial rents are still seen posting solid growth, although the outlook is flatter for other parts of the market. Secondary retail rents are still envisaged falling, with projections deteriorating in the latest period (chart 6).
- The rental outlook in Paris is broadly aligned with the national average although expectations are fractionally stronger for prime office rents. As with the figures for France as a whole, respondents turned more pessimistic on the prospect for rental growth in the retail sector.

Investment Market

- The Investment Sentiment Index (a combined gauge of investment market indicators also shown on chart 1) posted a reading of +17. Although this remains consistent with some overall tightening in the investment market, it represents the softest reading since 2014.
- All-sector investment enquiries rose at the slowest pace (in net balance terms) since Q3 2013. That said, there was a solid quarterly pick-up in enquiries for both office and industrial properties, but a noticeable decline in demand across the retail sector. Interest from foreign buyers also declined for retail assets, albeit more modestly.
- The stock of retail properties on the market for sale increased during Q2, with a net balance of +14% of contributors reporting a rise.
- Twelve month capital value expectations were trimmed across all sectors compared to Q1, although revisions were only marginal in the office sector. Values for secondary retail assets are still projected to decline, while virtually no change is now expected for secondary industrial prices (chart 5).
- In Paris, capital value projections are a fraction stronger than the national average for both prime and secondary offices. Meanwhile, secondary retail exhibits a slightly less negative outlook than the French market as a whole.
- A majority of contributors feel the commercial market in France is above fair value (55%), although this proportion has come back slightly in the latest results (chart 4). The largest share of respondents also sense the market is in the middle of an upturn phase, whereas last quarter the majority thought conditions were close to peaking.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

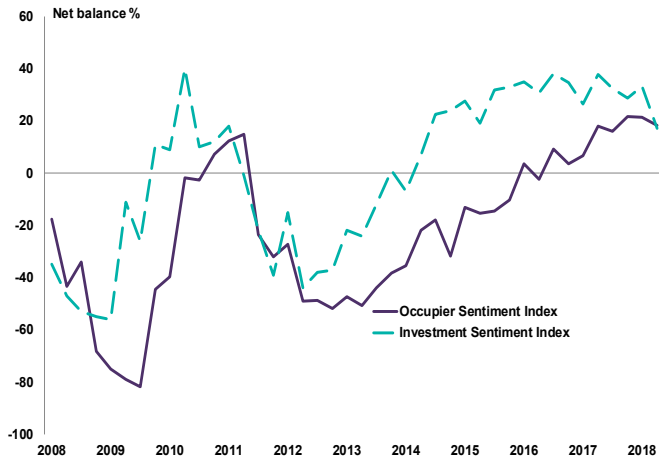


Chart 2: 3-month Rents, Capital Values

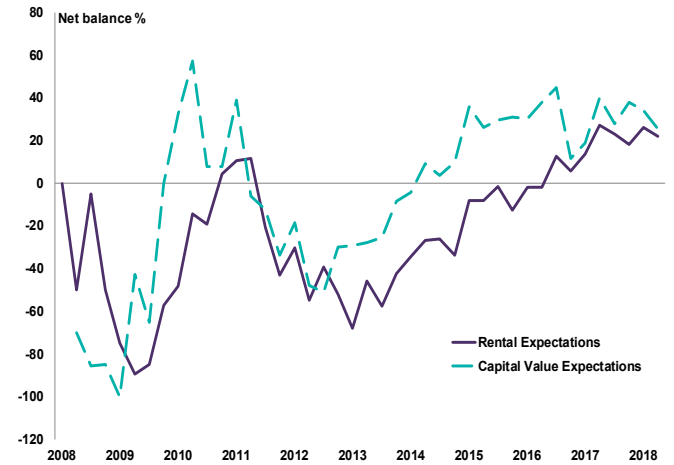


Chart 3: Credit Conditions

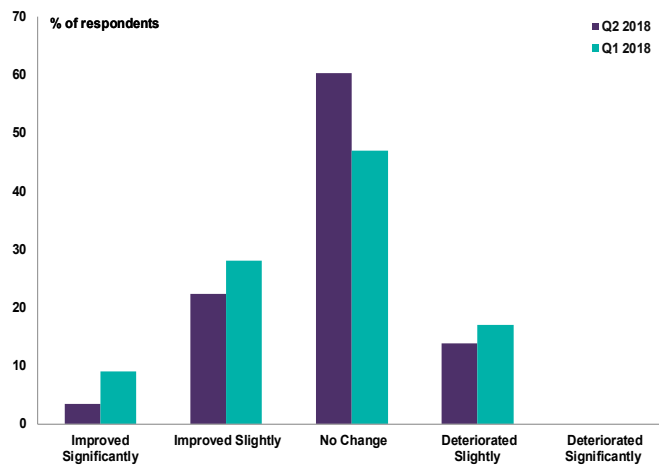


Chart 4: Valuations

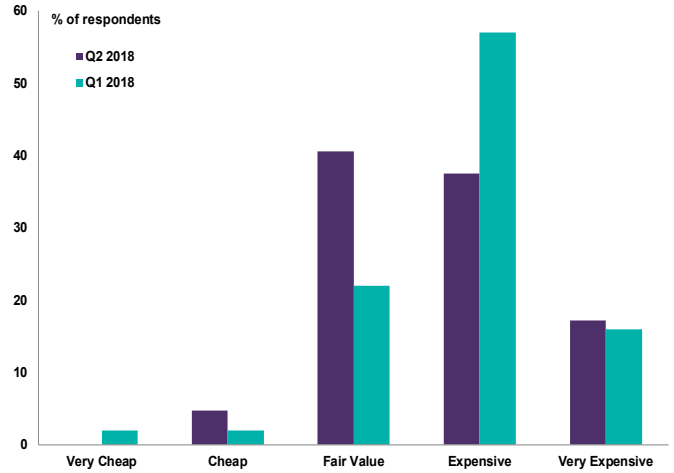


Chart 5: 12-month Capital Values Forecast

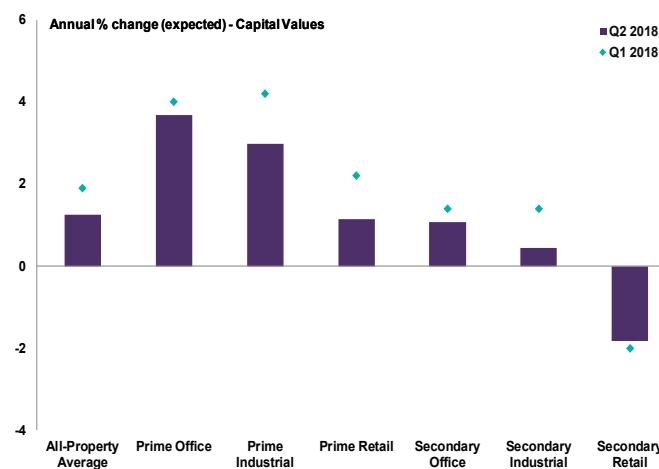
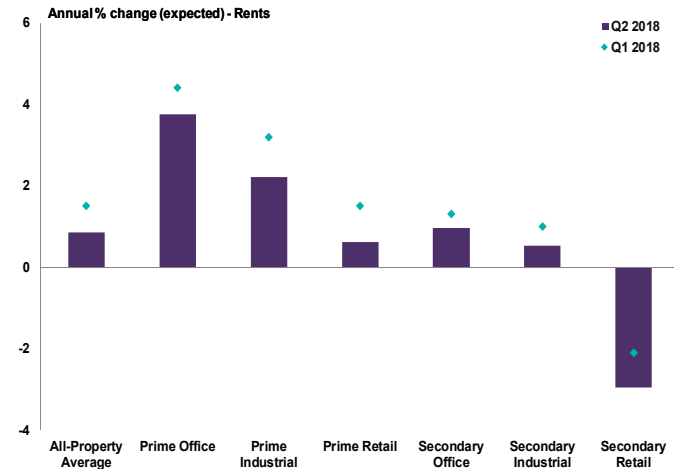


Chart 6: 12-month Rent Forecast



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 June 2018 with responses received until 8 July 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 1965 company responses were received, with 371 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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