



Q3 2018: France Commercial Property Monitor

Capital value expectations trimmed further

The Q3 2018 France Commercial Property Monitor results point to a cooling in capital value growth going forward, with the outlook turning flat across secondary markets. That said, weakness in the retail sector continues to bear down on the headline averages, concealing still solid expectations across both prime office and industrial portions of the market. Meanwhile, survey participants continue to envisage decent rental growth across all prime markets over the next twelve months, driven by continued occupier demand growth and falling availability.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market indicators displayed in chart 1 overleaf) was little changed in the latest results. The Q3 reading came in at +16, compared to +18 previously, indicative of a steady tightening in the occupier market.
- At the headline level, tenant demand increased for the twelfth consecutive quarter, with a net balance of +23% of respondents seeing a rise. That said, while growth remained firm in both the office and industrial sectors, demand for retail space fell once again.
- Alongside this, availability rose across the retail sector but fell modestly within the industrial segment. Meanwhile, the availability of leaseable office space fell markedly, with respondents reporting the sharpest quarterly decline (in net balance terms) since 2007.
- Retail landlords increased the use of incentive packages on offer to tenants once again over the quarter. By way of contrast, inducements fell across all other areas of the market.
- Twelve month rental growth expectations remain strongest in the prime office and industrial sectors, albeit projections across the former were trimmed slightly relative to Q2. Although prime retail rents are now seen rising slightly over the coming year, with projections having been upgraded in the latest results, rents for secondary retail space are still anticipated to decline (chart 6).
- Furthermore, downward pressure on secondary retail rents is expected to intensify at the three year horizon. Only the prime office and industrial sectors exhibit stronger expectations over this longer term view (relative to twelve month projections).

Investment Market

- The Investment Sentiment Index (a composite indicator incorporating a range of investment market variables shown on chart 1) returned a reading of +15. Although still positive and not much changed with +17 last quarter, it does represent the most modest figure since 2014.
- Mirroring trends reported in Q2, investment enquiries (from both domestic and foreign investors) rose across the office and industrial sectors, while demand for retail assets fell.
- The supply of industrial properties on the market for sale edged lower for a sixth successive quarter. At the same time, supply held broadly steady in both the office and retail sectors during Q3.
- Compared with the Q2 figures, respondents pared back their expectations for capital value growth over the next twelve months in virtually all sub-sectors. This downgrade was most noticeable in the prime office market, albeit expectations remain comfortably positive nonetheless. Prime industrial values are now seen posting the strongest gains on a sectoral comparison, although expectations here are also slightly lower than last time. The price outlook is now more or less flat across all other categories with the exception of secondary retail, where values are still anticipated to fall (chart 5).
- 72% of contributors view commercial real estate to be above fair value currently, up slightly from 55% in Q2.
- 57% of survey participants across France sense the market is close to peaking in the current cycle although around one quarter feel conditions are still consistent with the middle stages of an upturn.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

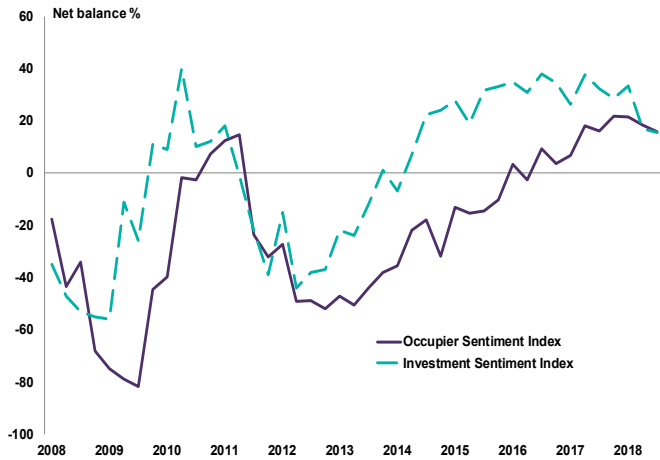


Chart 2: 3-month Rents, Capital Values

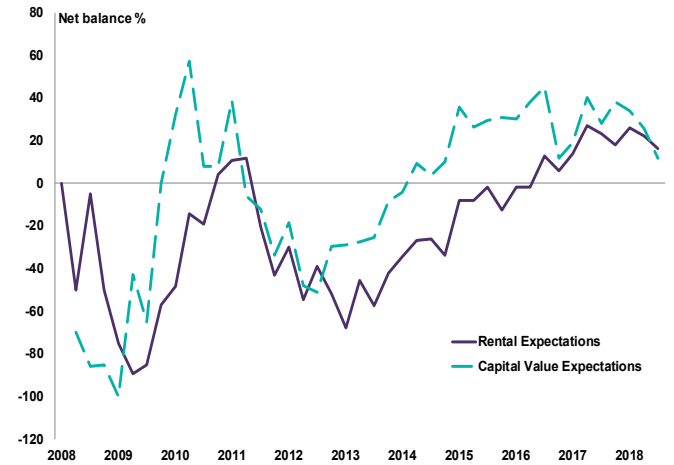


Chart 3: Credit Conditions

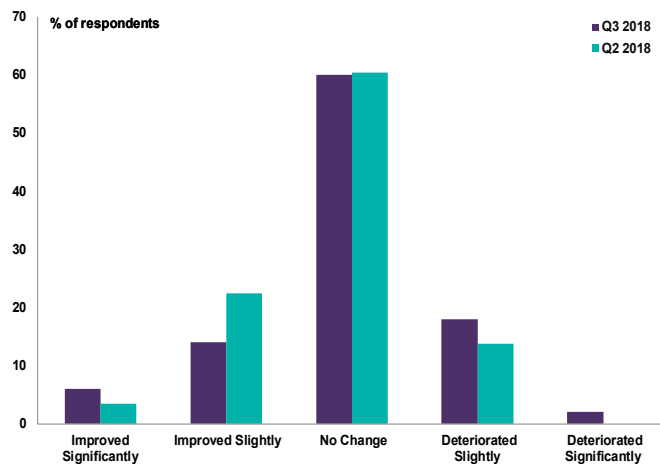


Chart 4: Valuations

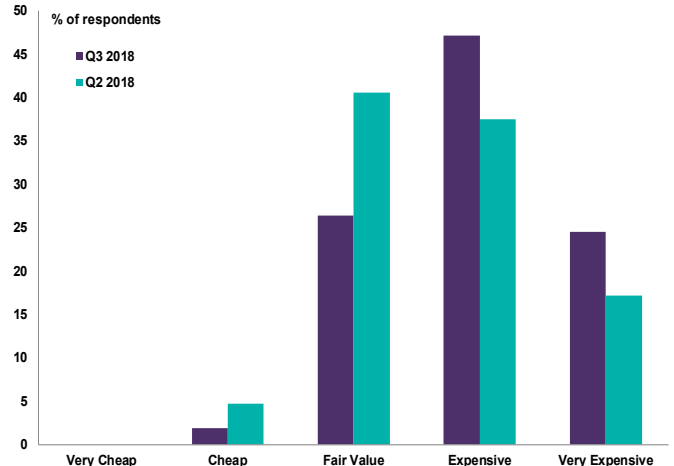


Chart 5: 12-month Capital Values Forecast

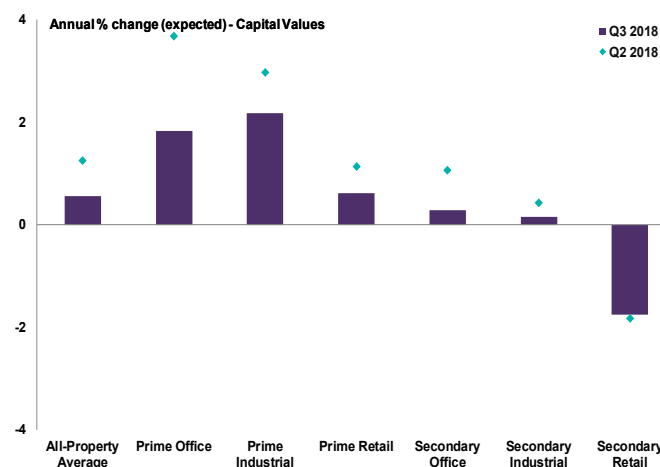
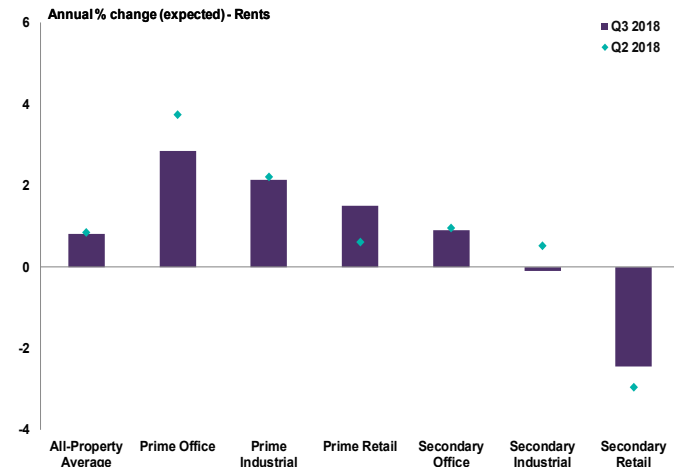


Chart 6: 12-month Rent Forecast



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 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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