Q1 2018: Germany Commercial Property Monitor

Overall outlook remains positive although portions of the retail sector are showing signs of fragility

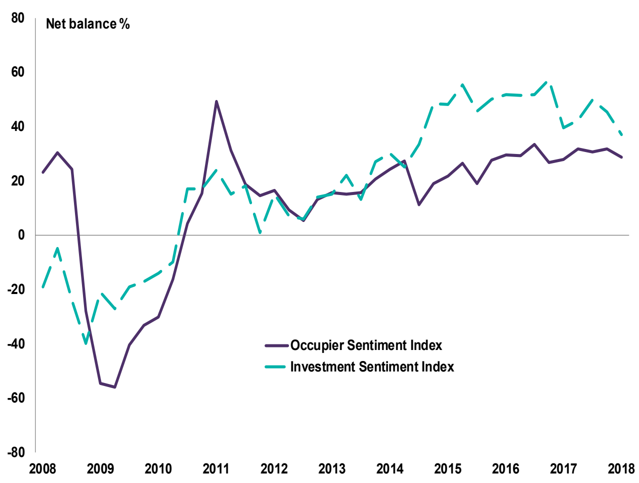
Occupier Market

- The Occupier Sentiment Index returned a reading of +29 in Q1, very similar to the previous figure of +32. Consequently, this indicator continues to suggest occupier market conditions are improving to a solid degree.
- Both office and industrial sectors saw another robust increase in occupier demand over the quarter. Meanwhile, demand for retail space remained stagnant, with a net balance of just +2%; the weakest reading since 2010.
- Availability declined at the headline level during Q1, driven by falls in the office and industrial sectors. Conversely, leasable space picked-up in the retail sector, prompting landlords to increase the value of incentive packages.
- Rental growth expectations for the coming year remain solid, led by the office sector (both prime and secondary), while prime industrial rents are also anticipated to rise firmly. By way of contrast, rental expectations for secondary retail space slipped a little deeper into negative territory, although prime retail still exhibits a positive outlook.
- When broken down by city, all-sector rental projections are strongest in Berlin, led by the office sector. Expectations across Frankfurt and Munich and more or less in-line with the national averages, while Hamburg displays slightly weak projections (weighed down significantly by secondary retail).

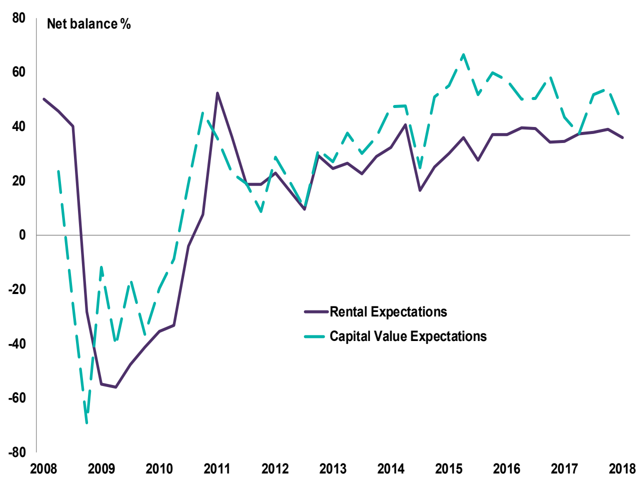
Investment Market

- The Investment Sentiment Index moved to +37 in the latest results, representing a slight easing on +45 in Q4. Although this measure is still consistent with solid investment market trends, it represents the most modest reading since 2014.
- Investment enquiries, both domestic and foreign, continued to rise across the board. Even so, demand for retail assets picked up more modestly than for offices and industrials.
- The supply of property for investment purposes continued to decline across each area of the market, albeit (in net balance terms) at the softest pace in over three years.
- Twelve months capital value expectations were scaled back, to a greater or lesser degree, across each sub-market covered by the survey. Nevertheless, values are anticipated to rise across all sectors, with the exception of secondary retail, where a flat outturn is now anticipated.
- At a city level, the most elevated capital value projections were again returned in Berlin (offices especially), although respondents were less upbeat on the outlook than three months ago. The office sector also displays the strongest year ahead projections in Frankfurt, Munich and Hamburg, while secondary retail is the weakest in each instance.
- 65% of respondents sense the market is close to peaking across Germany as a whole. Interestingly, a small minority (8%) sense the market has started to turn down.

Occupier and Investment Sentiment Index

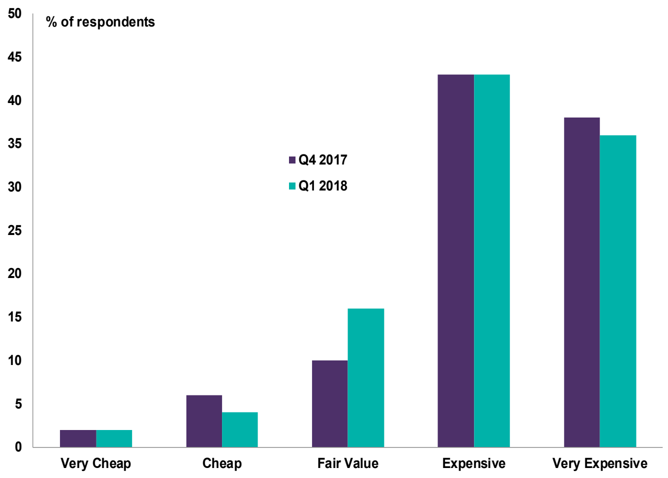


Rental and Capital Value Expectations

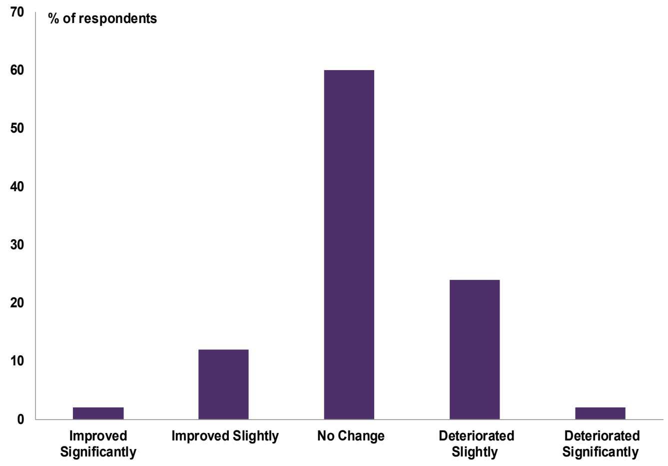


Commercial Property Market

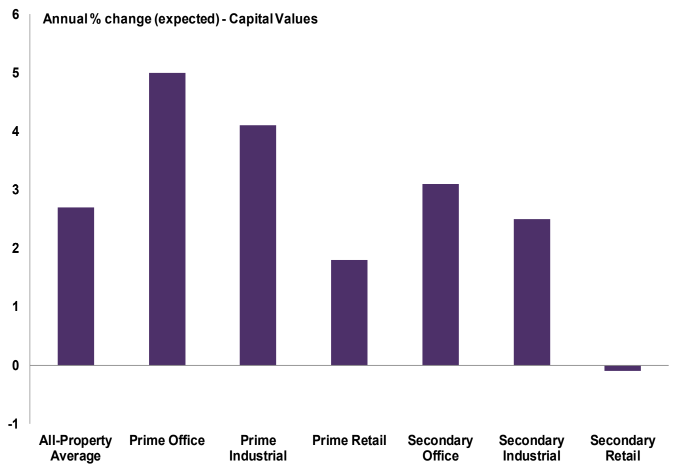
Market Valuations - A strong majority of respondents (nearly 80%) continue to sense values are somewhat stretched relative to fundamentals. Even so, this proportion has held relatively steady over the past two quarters.



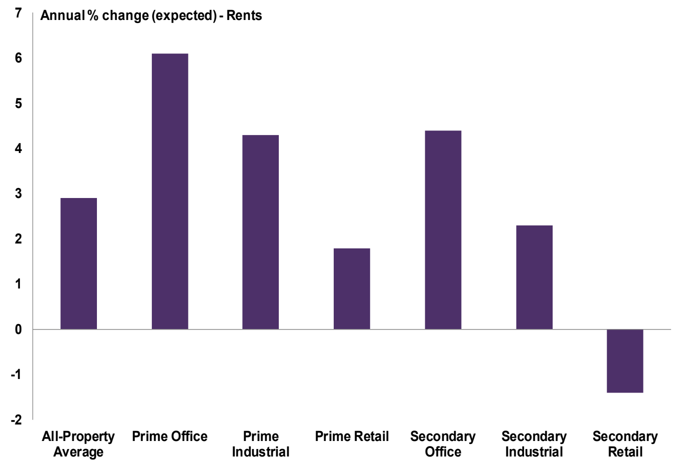
Credit Conditions - On balance, credit conditions reportedly deteriorated during Q1. This is only the second deterioration in financing conditions reported (on a quarterly basis) since 2014.



12m Capital Value Expectations - Respondents trimmed capital value expectations slightly across all sub-markets compared with the previous results. Even so, solid growth is anticipated in most sectors, with the exception of secondary retail.



12m Rental Expectations - Secondary retail rental expectations slipped a little deeper into negative territory during Q1. At the other end of the spectrum, office rents are still seen rising sharply over the year ahead.



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**

Disclaimer

Economics Team

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0) 7695 1675

kzehra@rics.org

Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

United Kingdom RICS HQ
Parliament Square, London
SW1P 3AD United Kingdom
t +44 (0)24 7686 8555
f +44 (0)20 7334 3811
contactrics@rics.org

Media enquiries
pressoffice@rics.org

Ireland
38 Merrion Square, Dublin 2,
Ireland
t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

Europe
(excluding UK and Ireland)
Rue Ducale 67,
1000 Brussels,
Belgium
t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

Middle East
Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates
t +971 4 446 2808
f +971 4 427 2498
ricsmenea@rics.org

Africa
PO Box 3400,
Witkoppen 2068,
South Africa
t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Americas
One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA
t +1 212 847 7400
f +1 212 847 7401
ricsamericas@rics.org

South America
Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil
t +55 11 2925 0068
ricsbrasil@rics.org

Oceania
Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia
t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org

North Asia
3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong
t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

ASEAN
10 Anson Road,
#06-22 International Plaza,
Singapore 079903
t +65 6635 4242
f +65 6635 4244
ricssingapore@rics.org

Japan
Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan
t +81 3 5532 8813
f +81 3 5532 8814
ricsjapan@rics.org

South Asia
48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India
t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org