Q2 2018: Germany Commercial Property Monitor

# Retail sector weakens but offices and industrials still solid

The Q2 2018 Germany Commercial Property Monitor results suggest that momentum continues to slip somewhat compared to the robust performance seen over the last couple of years. That said, RICS figures show the slowdown to be mainly concentrated in the retail sector, with both rents and capital values anticipated to come under downward pressure, at least in secondary locations. This is becoming a more prominent theme across Europe more generally, given challenges presented by the rise of online shopping. Nevertheless, the outlook remains firm (albeit a little less so than previously) across both the office and industrial areas of the market.

**Occupier Market**

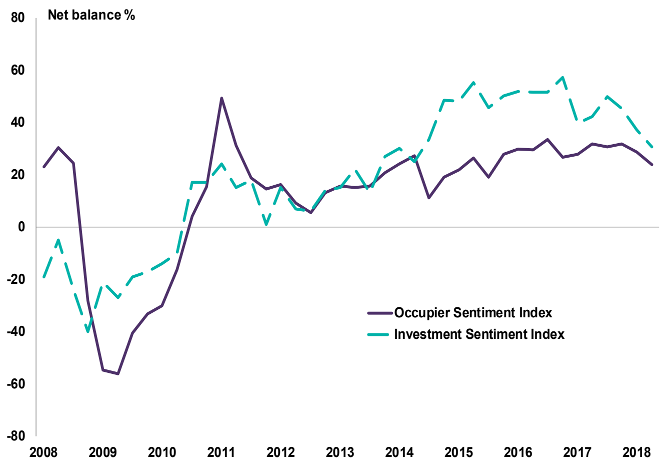
- The Occupier Sentiment Index (a composite measure of occupier market indicators shown on chart 1 overleaf) registered a reading of +24 in Q2. This was down from +29 previously and represents the softest reading since Q3 2015. Even so, this indicator is still suggesting overall occupier conditions are tightening to some degree.
- Occupier demand continued to rise in solid fashion for office and industrial space, but fell across the retail sector (the first quarterly decline since 2009).
- Alongside this, retail availability edged up for the second consecutive period. By way of contrast, the amount of vacant leasable space across both the industrial and office portions of the market continued to decline.
- Landlords have now increased incentives on offer to retail tenants in each of the last three quarters.
- Over the next twelve months, respondents downgraded expectations for rental growth in all but the office sector. Indeed, projections for secondary retail rents slipped deeper into negative territory while rents in prime retail locations are now only anticipated to increase marginally. Industrial sector rents, both prime and secondary, are still seen rising, albeit less so than in Q1, with growth in the former outstripping the latter comfortably (chart 6).
- Headline rental growth projections are strongest in Berlin, compared to all other German cities covered by the monitor, with expectations in the office sector exceptionally firm. When comparing Frankfurt with Munich, both display similar overall forecasts, although Frankfurt office rents exhibit a stronger outlook. Expectations in Hamburg are relatively more modest. Secondary retail rents are now expected to decline in all cities.

**Investment Market**

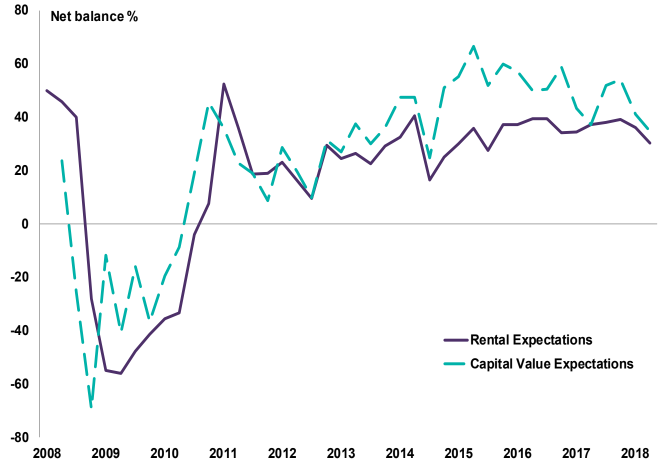
- The Investment Sentiment Index (a combined gauge of investment market indicators also shown on chart 1) returned a value of +31 in Q2. This was down from +37 in Q1, and has eased in three successive reports. Nevertheless, the index is still consistent with a solid overall investment market backdrop.
- At the headline level, a net balance of +37% of respondents noted an increase in investment enquiries over the period. That said, while the demand trend remained solid for office and industrial assets, the net balance of +12% for the retail sector was the softest in over eight years.
- Interest from foreign buyers also reportedly rose, albeit at the softest pace (in net balance terms) since this series was introduced in Q3 2014.
- The supply of property for investment purposes continued to fall, extending a run of decline going back four years.
- Capital value expectations for the year ahead were trimmed compared to Q1 across virtually all sub-sectors (secondary offices the exception) but remain generally positive. However, secondary retail assets now display a marginally negative outlook (chart 5).
- At the all-sector level, Berlin displays the firmest outlook for capital values at the twelve month horizon. Each area of the market is expected to see some degree of growth, led by the office sector, followed by industrials. Across Frankfurt, Munich and Hamburg, secondary retail assets are anticipated to see values decline.
- Back at the national level, 85% of respondents view the market as above fair value to some degree, up from 79% in Q2 (chart 4). Meanwhile, 75% of respondents feel the market is at its peak, the joint hightest reading since this indicator was introduced in 2014.

# Commercial Property Market

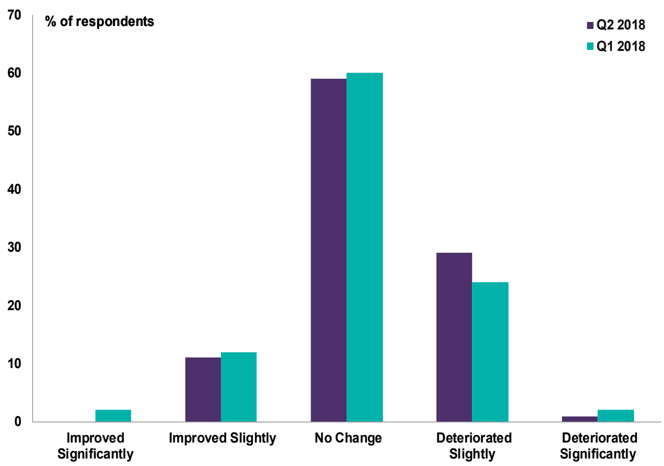
### Chart 1: Occupier, Investment Sentiment Indices



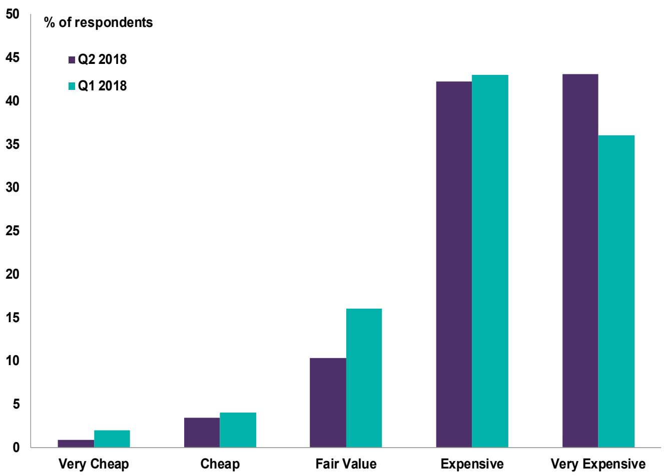

### Chart 2: 3-month Rents, Capital Values



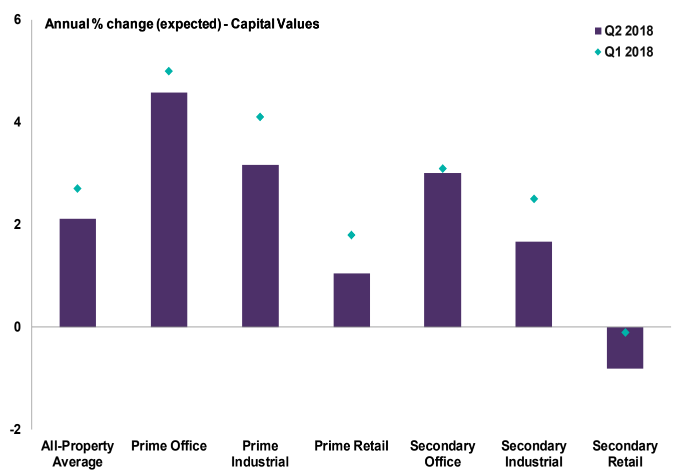

### Chart 3: Credit Conditions



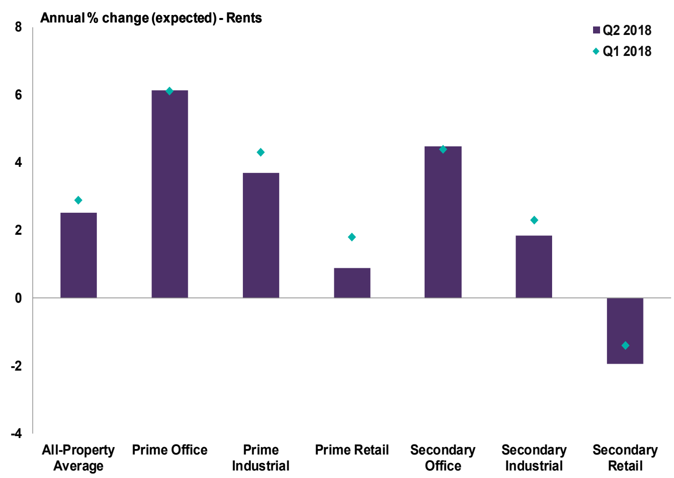

### Chart 4: Valuations




### 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 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.

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## Disclaimer



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