Q4 2017: Germany Commercial Property Monitor

# Market activity still solid although respondents increasingly view the market as peaking

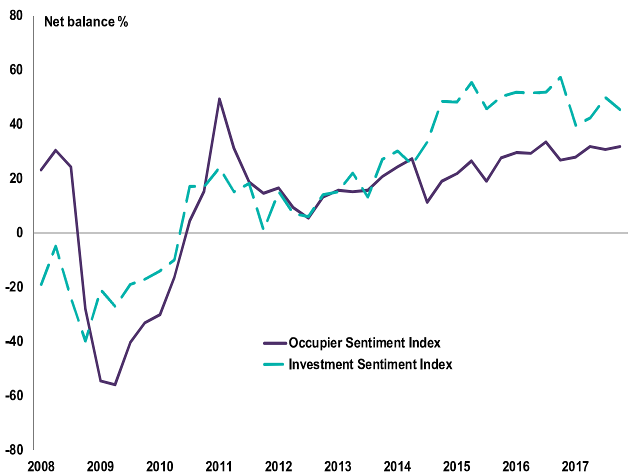
### Occupier Market

- The Occupier Sentiment Index registered +32 in Q4, following a figure of +31 in the previous quarter. This indicator suggests overall occupier market fundamentals continue to improve smartly.
- At the all-sector level, demand from tenants rose at the sharpest quarterly pace (in net balance terms) since 2011. This was led by a significant rise in the office sector, alongside solid growth in the industrial market. Meanwhile, demand rose only fractionally in the retail sector.
- Availability continued to decline in all sectors with the exception of retail, where supply held steady. Alongside this, landlords opted to increase the value of incentive packages in the retail sector (marginally) for the first time since 2013.
- Twelve month rental expectations were upgraded across virtually all sub-markets relative to Q3, with both prime and secondary office rental growth projected to outpace all other areas. At the same time, rents across secondary retail space display a flat to marginally negative outlook.
- At the city level, Berlin exhibits the firmest twelve month rental projections, although this is largely driven by buoyant sentiment in the office sector. Expectations in Munich are broadly in-line with the national average while, in Frankfurt, respondents anticipate slightly more modest rental growth.

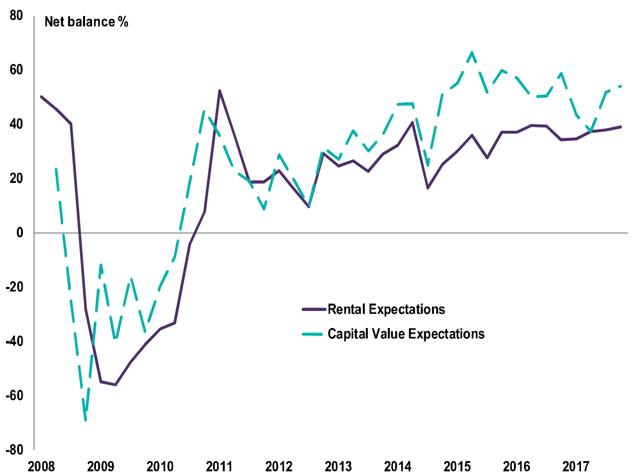
### Investment Market

- The Investment Sentiment Index posted another robust reading of +45, albeit this was not quite as strong as +50 in Q3. Nevertheless, this indicator continues to signal strong momentum behind the investment market.
- Investment enquiries, both domestic and international, picked-up across all sectors over the quarter, led by an exceptionally strong rise in office demand.
- The supply of property for investment purposes continued to decline right across the board in Q4.
- Capital value expectations for the year ahead strengthened for the third successive quarter at the all-sector level. The retail market was the only sector in which respondents did not upgrade their forecasts from Q3, albeit modest capital value growth is still anticipated across both prime and secondary assets.
- Beyond the national figures, Berlin displays the strongest capital value growth expectations by some margin. Even so, projections are comfortably positive in both Frankfurt and Munich. Across the latter, the prime industrial sector is expected to outperform in terms of price growth over the year ahead.
- Despite conditions remaining solid, and expectations for the year ahead strong, 75% of respondents do now feel the market is close to its peak.

**Occupier and Investment Sentiment Index**

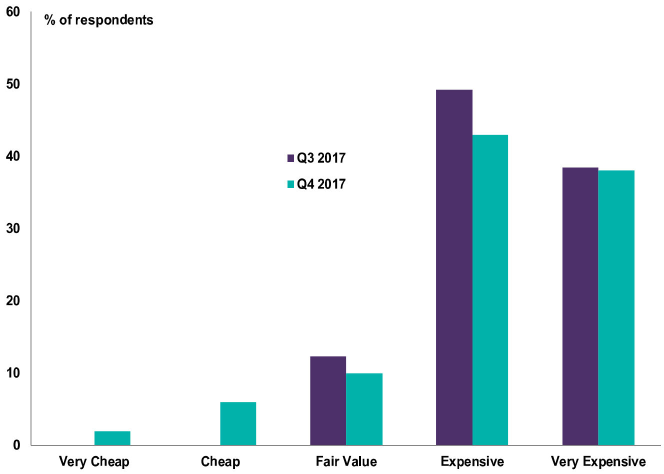



**Rental and Capital Value Expectations**

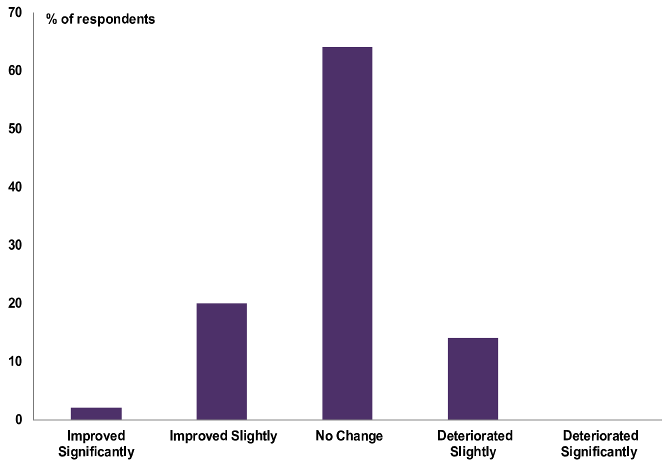


# Commercial Property Market

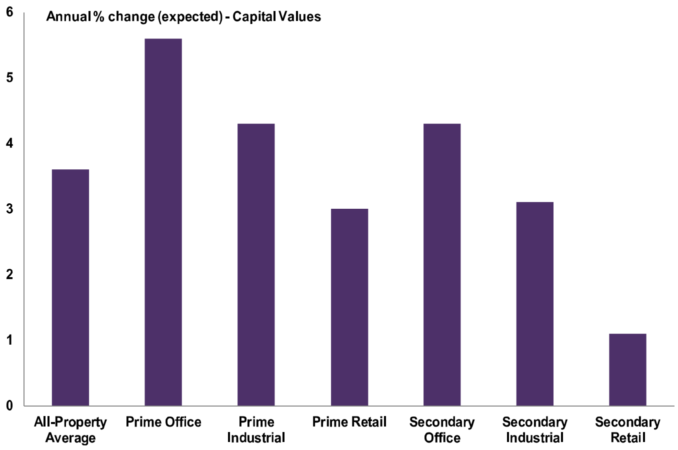
Market Valuations - Over 80% of respondents continue to perceive current values to be stretched across the commercial property market at present.



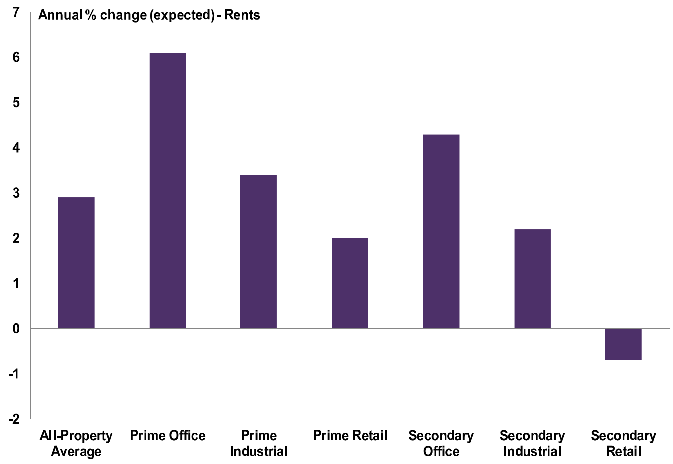

Credit Conditions - On balance, credit conditions reportedly eased very slightly in the fourth quarter following a similar improvement in Q3.




12m Capital Value Expectations - Capital values are expected to rise across all sub-markets over the year ahead, with offices expected to post the strongest gains while secondary retail values may edge up only marginally.




12m Rental Expectations - Rental growth expectations were upgraded across virtually all sub sectors when compared with the Q3 results. Secondary retail was the sole exception, where rents may come under slight downward pressure.



# 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 December 2017 with responses received until 12 January 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 1570 company responses were received, with 434 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

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## Disclaimer



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