Q1 2019: Germany Commercial Property Monitor

Strong industrial and office sectors remain in contrast with retail weakness

The Q1 2019 Germany Commercial Property Monitor results are consistent with a steady degree of impetus behind the market at present. The latest readings for both Occupier and Investment Sentiment Indices (combined measures of short term demand, supply and expectations series) remain close to their averages over the past year, coming in at +27 and +30, respectively (chart 1).

Having said that, on the investment side at least, momentum is noticeably more moderate when compared to the particularly robust growth seen between 2015 and 2017. Looking beneath the headline picture reveals that much of this is down to the retail sector, where buyer enquiries are stagnating. By way of contrast, investor demand continues to rise smartly for offices and industrials.

Whereas the mismatch between rising demand and falling supply in the office and industrial sectors is producing firmly positive expectations for rental and capital value growth over the year ahead, the picture is a little different for retail (charts 7 and 8). Indeed, although projections across prime retail locations are slightly positive, the outlook for secondary is downbeat. What’s more, this negativity is anticipated to become more entrenched over the three year time horizon.

Chart 6 shows that 88% of survey participants feel commercial real estate is overpriced to some extent relative to fundamentals (up slightly from 84% in Q4). Meanwhile, 77% of respondents are of the opinion that the market is in the peak stage of the property cycle (chart 2). Even so, contributors still envisage solid capital value growth continuing in the prime office and industrial sectors over the next three years.
Chart 3: Occupier Market

Chart 4: Investment Market

Chart 5: Credit Conditions

Chart 6: Valuations

Chart 7: Twelve Month Capital Value Projections

Chart 8: Twelve Month Rental Value Projections
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 March 2019 with responses received until 14 April 2019. 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 2901 company responses were received. 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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