



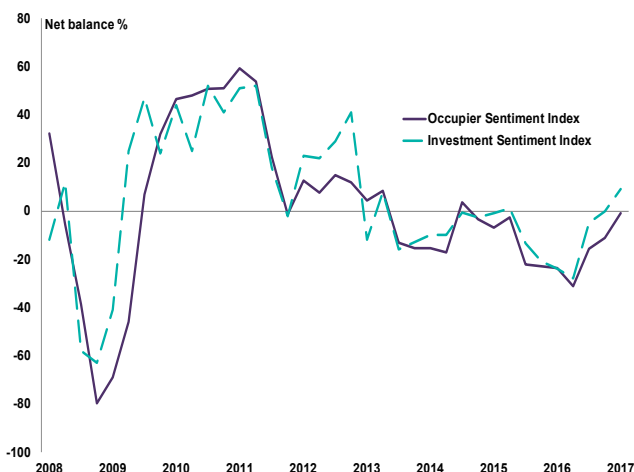
Q1 2017: Hong Kong Commercial Property Monitor

Market remains highly nuanced though retail sentiment off cyclical lows

Occupier Market

- The Q1 2017 results show that headline demand remained flat for the third consecutive quarter, but demand across segments continues to be very nuanced. The results show demand for office space remains robust, while that for industrial properties remains flat and retail demand subdued.
- Headline supply continues to increase modestly, as it has since Q2 of 2013. Office and retail saw supply continue to increase while supply of industrial properties to let were flat.
- There was little change in the landlord incentives reported. A net balance of 13% of contributors reported an increase in landlord incentives vs 24% in Q4.
- Headline rental expectations remained flat over the next quarter. However, like demand, expectations were very nuanced between segments. A net balance of 60% of respondents expect office rents to increase over the next quarter, while a net balance of 39% of respondents expect a decline in retail rents.
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) rose to -1 in Q1 from -11 in Q4, but there remains a fair amount of dispersion between segments.

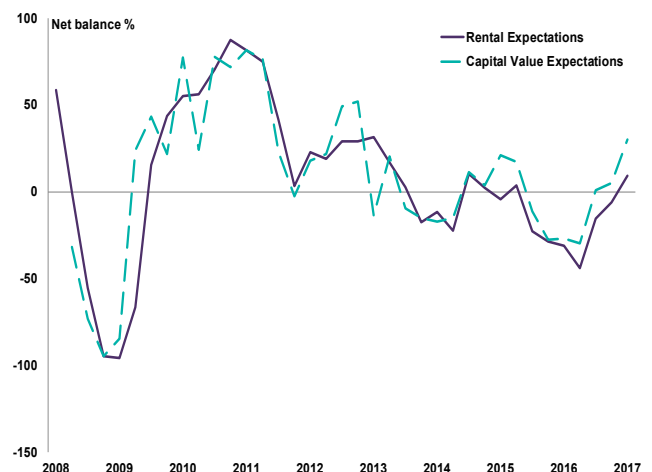
Occupier and Investment Sentiment Index



Investment Market

- The Q1 2017 data shows headline investor demand continued to increase at a modest pace. However this was largely driven by the office segment, as demand for industrial and retail properties was flat. Foreign investment enquiries exhibited a similar dynamic.
- Contributors reported that headline supply continued to increase modestly, driven mainly by increases in the office and retail segments.
- Headline capital values expectations remain robust for the next three and twelve months, with much of the positive sentiment is driven by the office segment. Although respondents expect retail capital values to fall over the next three months, they expect retail values to be little changed over the next year.
- More respondents, 46%, now see the property cycle at its peak, up from 32% last quarter. The share of respondents who see the market at its peak has risen for four consecutive quarters. However 31% see the market at some stage of an upturn, while 20% see the market at some stage of a downturn.
- The Investor Sentiment Index rose to +9 in Q1 from 0 in Q4, as all segments posted an increase in sentiment from Q4.

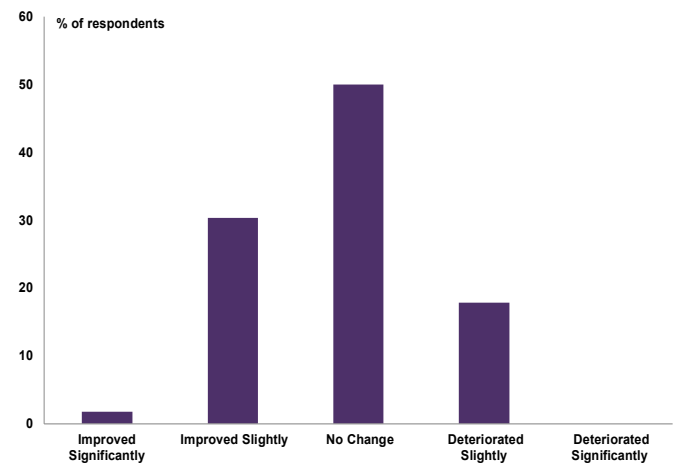
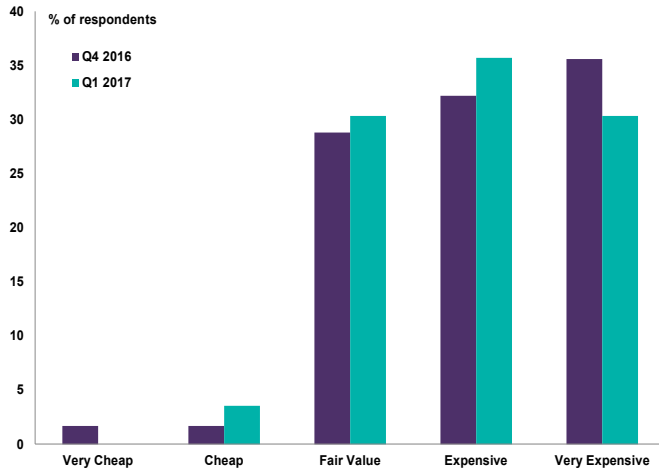
Rental and Capital Value Expectations



Commercial Property Market

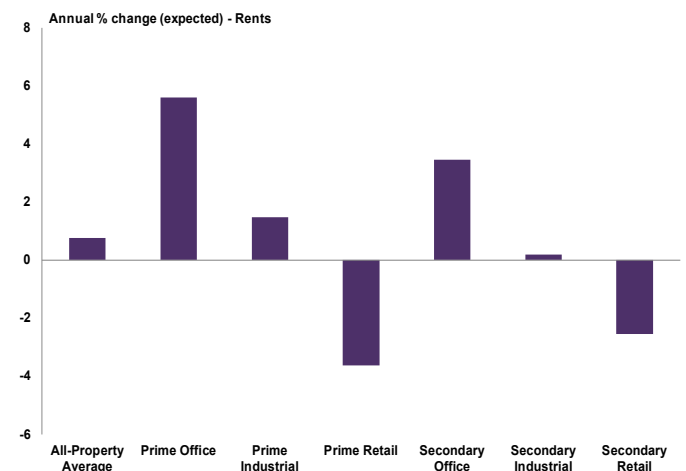
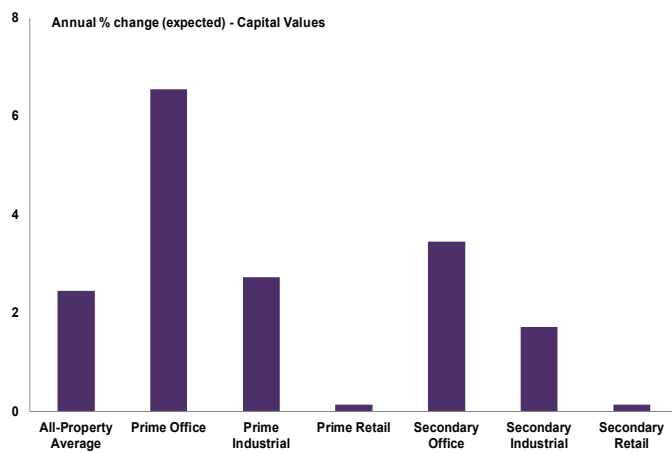
Market Valuations - The majority of respondents (66%) continue to see the market as expensive to some degree, little changed from the 68% who shared this view in Q2. Only 4% saw the market as cheap to some degree, unchanged from Q4.

Credit Conditions - Credit conditions remained fairly evenly skewed in Q1, with 50% reporting no change. Interestingly, 32% of respondents reported some improvement in credit conditions, despite benchmark interest rates being increased 25 basis points in both December and March.



12m Capital Value Expectations - Capital value forecasts for the next year remained extremely nuanced, with office space expected to outperform other segments in both the prime and secondary markets. However, respondents are still expecting retail values to increase 0.1% over the next year.

12m Rental Expectations - Rent expectations over the next year are even more nuanced than those for capital values, with respondents expecting a 3.6% and 2.5% pullback in prime and secondary retail rents. Office is expected to continue to outperform over the next twelve months, with prime space expected to see rents up 5.6%.



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 7 December 2016 with responses received until 6 January 2016. 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 1695 company responses were received, with 496 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland.

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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