



## Q1 2018: Hong Kong Commercial Property Monitor

# Bottom of the market seen for retail as expectations turn positive

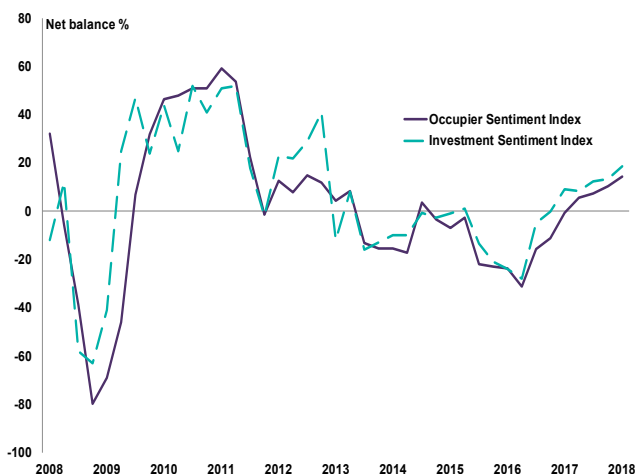
### Occupier Market

- Occupier demand continued to rise in Q1 2018 at a headline level. Demand for office space remained robust, while respondents continued to report an expansion in industrial space, albeit at a more modest pace. Meanwhile, demand for retail space was unchanged from Q4, the first time since Q2 of 2013 that demand for retail space didn't decline.
- The supply of office and retail properties available to rent increased at a modest pace in Q1. Meanwhile, respondents reported an increase in landlord incentives on retail space while those for office and industrial properties were unchanged from Q4.
- There was little change in development starts reported in Q1, though contributors did highlight a modest increase in office starts.
- Headline rents are expected to increase over the next three and twelve months, at a similar pace as in Q4. Retail rents are expected to be unchanged over the next quarter and year.
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) increased modestly to +14 in Q1 from +10 in Q4.

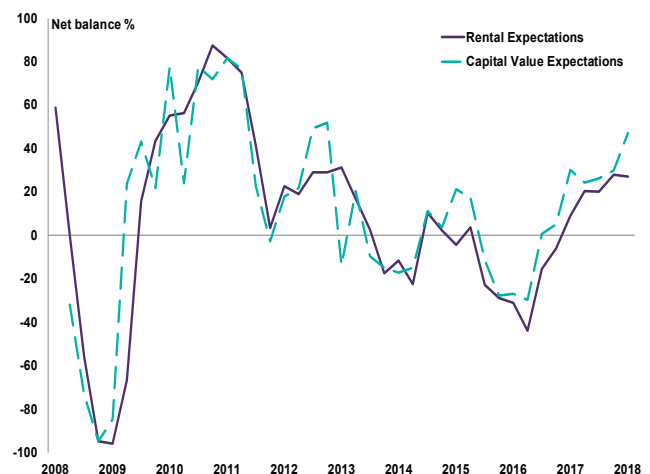
### Investment Market

- The Q1 2018 results indicate that headline investor demand remains robust, as a net balance of 31% of respondents reported an increase (vs 26% in Q4). Demand for office and industrial space continued to increase at a firm pace, while that for retail properties was unchanged.
- Headline foreign enquiries were modestly higher from the fourth quarter, though this was largely driven by the office segment as a modest increase in enquiries for industrial properties was offset by a modest decrease in foreign demand for retail properties.
- The supply of properties available for sale increased moderately across all market segments. Against this backdrop, capital values are seen increasing at a robust pace across all market segments, particularly over the next twelve months.
- The share of respondents who see the market at its peak increased to 61% in Q1 from 46% in Q4. Meanwhile, the share of respondents that see the market in some phase of an upturn moderated from 40% to 36%.
- The Investment Sentiment Index (an amalgamated measure of investment market indicators) increased to +19 in Q1 vs +13 in Q4.

### Occupier and Investment Sentiment Index



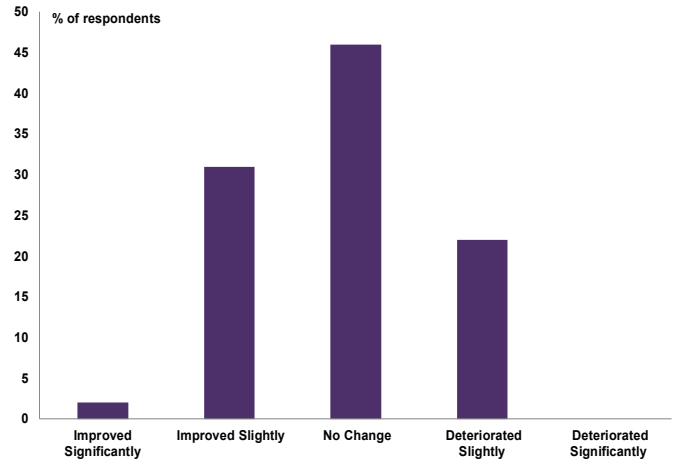
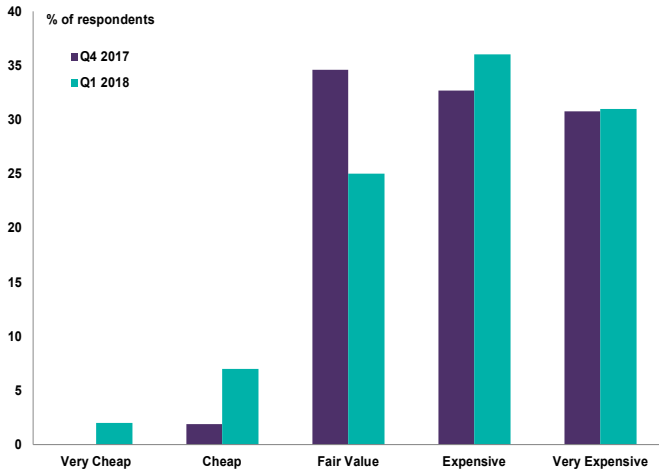
### Rental and Capital Value Expectations



# Commercial Property Market

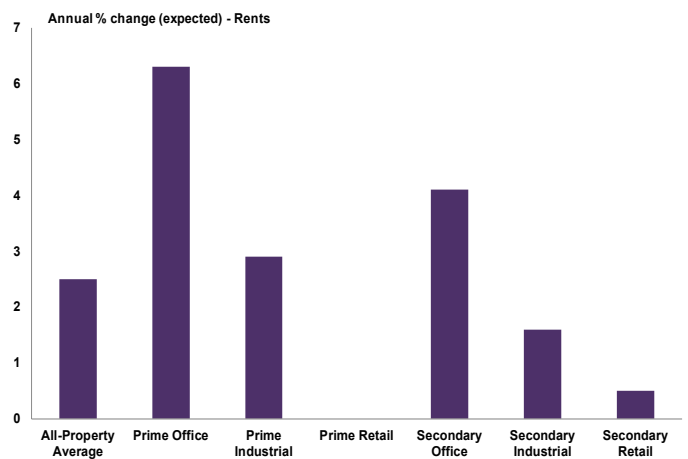
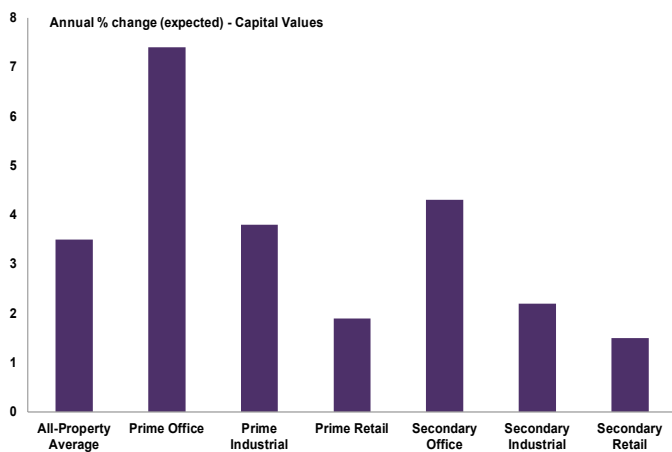
**Market Valuations** - The share of respondents who view property as expensive to some degree was little changed during the quarter at 67%, vs 64% in Q4. Meanwhile, 25% see the market as fairly valued (vs 35% in Q4).

**Credit Conditions** - Views on credit conditions remained evenly distributed. 46% of respondents reported no change (vs 58% in Q4), while 33% reported some degree of improvement (26% in Q4) and the remainder reported a slight deterioration.



**12m Capital Value Expectations** - Headline capital values are expected to increase 3.5% over the next year, vs the 3.3% increase in Q4. Respondents increased forecasts for office space, but this was tempered by a moderation in the outlook for industrial space.

**12m Rental Expectations** - Headline growth in rents over the next twelve months were little changed at 2.5% in Q1, vs the 2.6% forecast in Q4. Expectations for rental growth were little changed across all segments of the market.



# 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](http://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](mailto:economics@rics.org)

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