



Q3 2017: Hong Kong Commercial Property Monitor

Downbeat sentiment surrounding retail space showing signs of bottoming

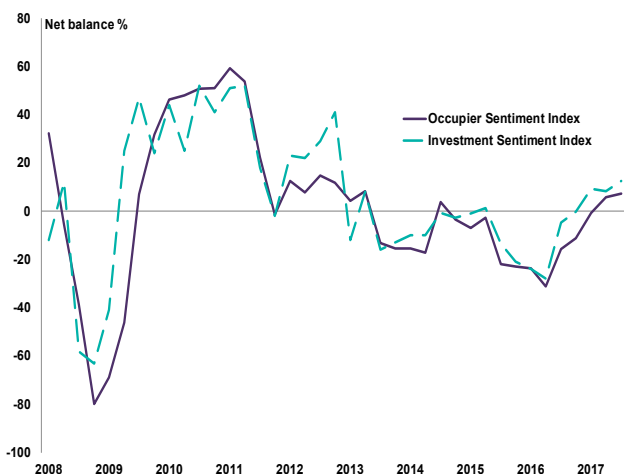
Occupier Market

- The Q3 2017 results show an increase being reported in occupier demand, as the headline net balance increased from 15% in Q2 to 22% in Q3. Respondents reported declining demand for the retail segment of the market for the 17th consecutive quarter.
- Headline supply continues to increase gradually, as it has since Q2 of 2013. In net balance terms the share of respondents reporting an increase in office space fell from 17% in Q2 to 11% in Q3.
- Respondents continued to report increasing landlord incentives, with a net balance of 20% (vs 18% in Q2) reporting an increase. However this was mainly accounted for by incentives for retail space, as contributors reported more modest increases for office and industrial properties.
- Headline rents are expected to increase over the next quarter and year. Expectations remained nuanced between segments as respondents are still expecting retail rents to decrease over both time periods
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) was little changed at +7 in Q3 from +6 in Q2, indicating modestly positive headline momentum.

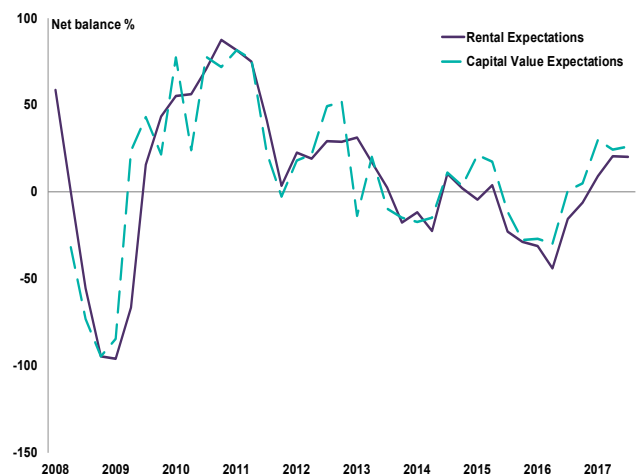
Investment Market

- The Q3 2017 data shows headline investor demand continued to increase at a modest pace. Demand for office space remained robust, while the share of respondents reporting a decline in demand for retail properties fell to 9% from 24% in Q2 in net balance terms.
- Headline foreign enquiries were flat for the second consecutive quarter, though foreign demand for office space remained robust. The supply of office and retail properties increased at a modest pace in Q3.
- Capital values are expected to rise over the next three and twelve months for office and industrial properties. Retail rents are expected to change little over the next quarter, and only post a modest decline over the next year.
- The share of respondents who see the market in some stage of a downturn increased to 21% from 15% in Q2, while 39% see the market at its peak (52% in Q2). However 39% still see the market at some stage of an upturn, up from 33% in Q2.
- The Investor Sentiment Index (an amalgamated measure of investment market indicators) increased modestly to +12 from +8 in Q2, indicating positive investment market momentum.

Occupier and Investment Sentiment Index

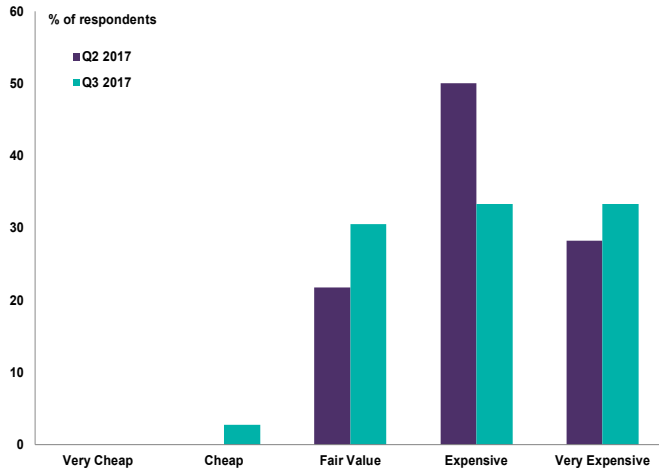


Rental and Capital Value Expectations

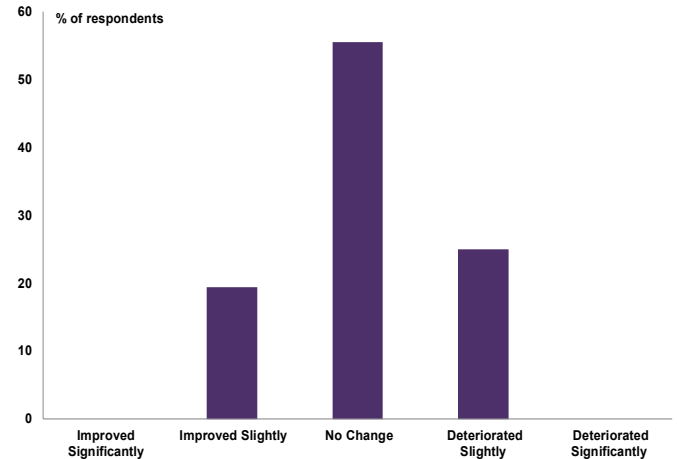


Commercial Property Market

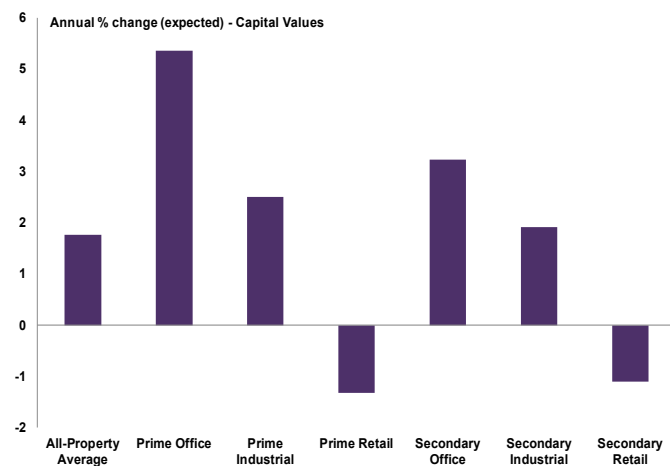
Market Valuations - The majority of respondents still see valuations as expensive to some degree, though this has moderated to 66% of respondents from 78% in Q2. 31% now see the market as fairly valued, up from 22% in Q2.



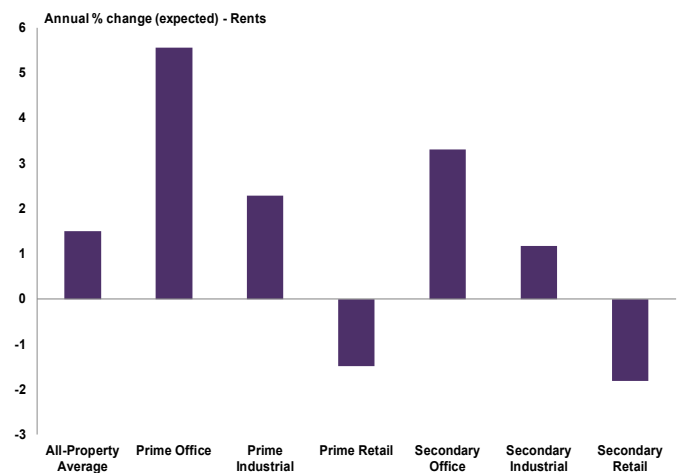
Credit Conditions - Credit conditions remained evenly skewed in Q3. 56% reported no change in credit conditions (vs 43% in Q2) while 25% reported some degree of deterioration (24% in Q2) and 19% reported some degree of improvement (32% in Q2).



12m Capital Value Expectations - Respondents revised one-year capital value forecasts lower across the board in Q3. Values for prime office space are expected to rise 5.4% over the next year, down from the 6.7% forecast in Q2. Meanwhile, values for prime retail space are expected to fall 1.3% over the same period, after respondents forecast a 0.5% pullback in Q2.



12m Rental Expectations - Headline rents over the next year are expected to increase 1.5%, up from the 1.3% forecast in Q2, and marking the sixth consecutive quarter that headline rent forecasts were revised higher. In Q3 this was driven by less bearish rent forecasts for prime retail space, which are now expected to fall 1.5% (vs a 3.4% fall forecast in Q2).



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 September 2017 with responses received until 6 October 2017. 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 1609 company responses were received, with 347 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

Disclaimer

This document is intended as a means for debate and discussion and should not be relied on as legal or professional advice. Whilst every reasonable effort has been made to ensure the accuracy of the contents, no warranty is made with regard to that content. Data, information or any other material may not be accurate and there may be other more recent material elsewhere. RICS will have no responsibility for any errors or omissions. RICS recommends you seek professional, legal or technical advice where necessary. RICS cannot

accept any liability for any loss or damage suffered by any person as a result of the editorial content, or by any person acting or refraining to act as a result of the material included.

Economics Team

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0) 7695 1675

kzehra@rics.org



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

United Kingdom RICS HQ

Parliament Square, London
SW1P 3AD United Kingdom

t +44 (0)24 7686 8555

f +44 (0)20 7334 3811

contactrics@rics.org

Media enquiries

pressoffice@rics.org

Ireland

38 Merrion Square, Dublin 2,
Ireland

t +353 1 644 5500

f +353 1 661 1797

ricsireland@rics.org

Europe

[excluding UK and Ireland]

Rue Ducale 67,
1000 Brussels,
Belgium

t +32 2 733 10 19

f +32 2 742 97 48

ricseurope@rics.org

Middle East

Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates

t +971 4 446 2808

f +971 4 427 2498

ricsmenea@rics.org

Africa

PO Box 3400,
Witkoppen 2068,
South Africa

t +27 11 467 2857

f +27 86 514 0655

ricsafrica@rics.org

Americas

One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA

t +1 212 847 7400

f +1 212 847 7401

ricsamericas@rics.org

South America

Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil

t +55 11 2925 0068

ricsbrasil@rics.org

Oceania

Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000, Australia

t +61 2 9216 2333

f +61 2 9232 5591

info@rics.org

North Asia

3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong

t +852 2537 7117

f +852 2537 2756

ricsasia@rics.org

ASEAN

10 Anson Road,
#27-16 International Plaza,
Singapore 079903

t +65 6635 4242

f +65 6635 4244

ricssingapore@rics.org

Japan

Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan

t +81 3 5532 8813

f +81 3 5532 8814

ricsjapan@rics.org

South Asia

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org