Q4 2017: Hong Kong Commercial Property Monitor

Bottom of the market seen for retail as expectations turn positive

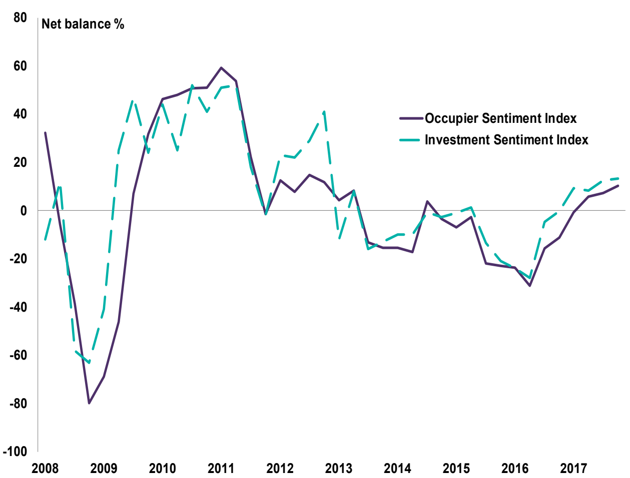
Occupier Market

- Occupier demand continued to rise in Q4 2017, at a similar pace to Q3. The headline net balance remained at 22% in Q4, while each market segment (office, industrial, retail) remained relatively unchanged from Q3.
- The pace of headline supply growth continued to slow in Q4. Although respondents continued to report an increase in the supply of office and retail properties available to let, the availability of office properties declined in Q4.
- Contributors continued to highlight retail space as receiving the largest increase in landlord incentives. However, respondents reported that incentives for office space increased for the first time in two quarters in Q4, while incentives offered on industrial space were little changed.
- Headline rents expectations continue to gain pace over the next three and twelve months. Expectations for office and industrial space remained robust, while contributors now expect retail rents unchanged over the next quarter and year. It was the first time since Q1 of 2014 that respondents did not expect retail rents to decline over the next quarter.
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) increased modestly to +10 in Q4 from +7 in Q3, indicating modestly positive headline momentum.

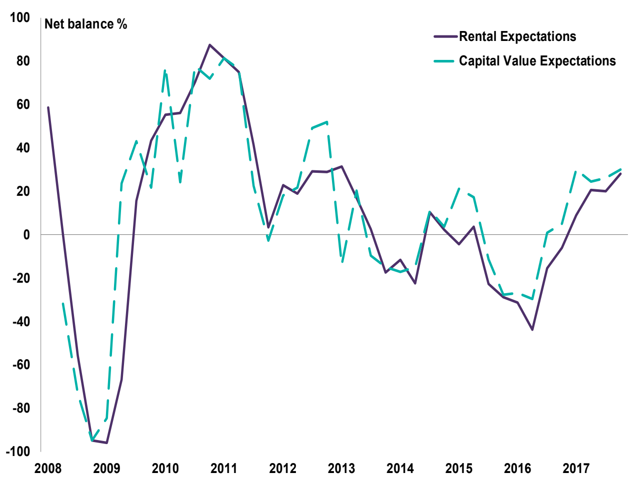
Investment Market

- The Q4 2017 results indicate that headline investor demand remains robust, as a net balance of 26% of respondents reported an increase (vs 22% in Q3). 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 third quarter, though this was largely driven by the office segment as enquiries for industrial and retail properties were flat.
- The supply of office and retail properties was also reported to have increased in Q4. Office development starts were also reported to have increased during the fourth quarter, while those for industrial properties declined and retail properties were little changed. Against this backdrop, capital values are now seen rising across all market segments over the next three and twelve months.
- The share of respondents who see the market at its peak increased to 46% from 39% in Q3, while 40% still view the market being in some phase of an upturn.
- The Investor Sentiment Index (an amalgamated measure of investment market indicators) was little changed in Q4 at +13, vs +12 in Q3, indicating positive investment market momentum.

Occupier and Investment Sentiment Index

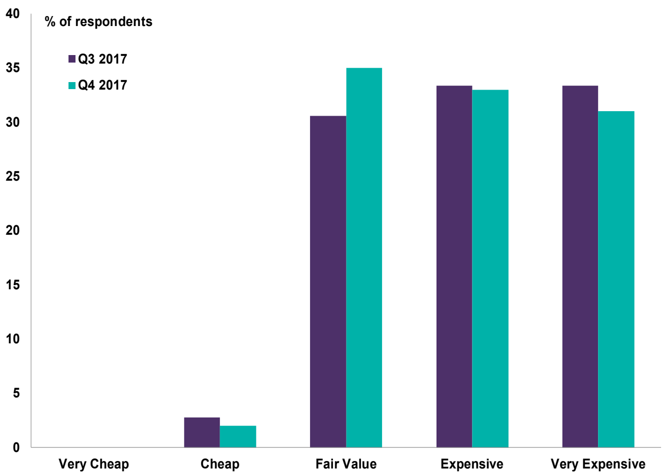


Rental and Capital Value Expectations

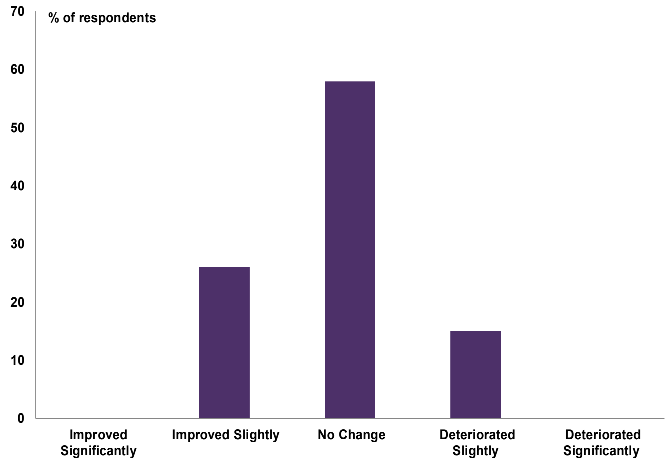


Commercial Property Market

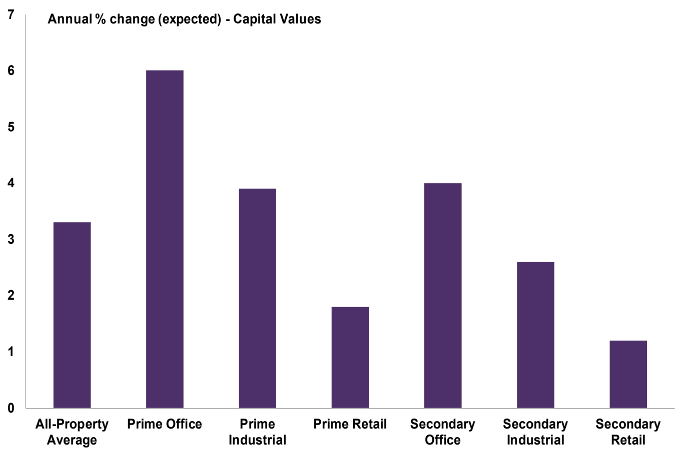
Market Valuations - The share of respondents who view property as expensive to some degree was little changed during the quarter at 64%, vs 66% in Q3. Meanwhile, 35% see the market as fairly valued (vs 31% in Q3).



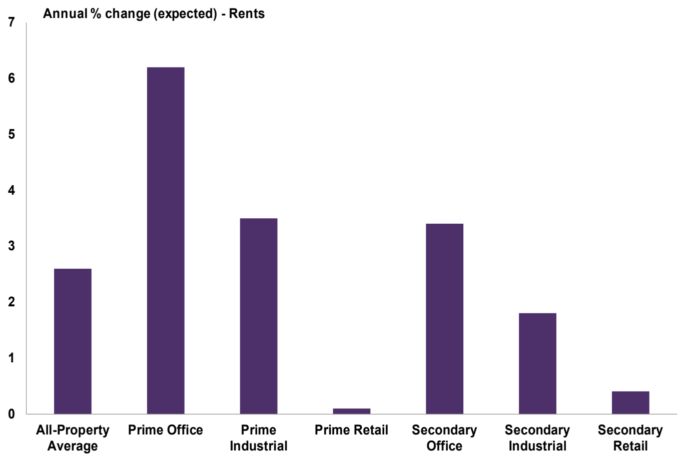
Credit Conditions - Views on credit conditions remained evenly skewed. 58% of respondents reported no change (vs 56% in Q3), while 26% reported a slight improvement (19% in Q3) and the remainder reported a slight deterioration.



12m Capital Value Expectations - Respondents were more bullish on the one-year outlook for capital values, with the headline forecast being revised up to 3.3% in Q4 from 1.8% in Q3. All segments of the market were revised higher, and respondents now see retail values increasing over the next twelve months after forecasting a decline in Q3.



12m Rental Expectations - Headline rents are seen increasing 2.6% over the next year, up from the 1.5% forecast in Q3. All segments of the market saw upward revisions, though the revisions to secondary space were more modest than those to prime properties. The exception was retail: rents are seen increasing 0.4% over the next year on secondary properties but only 0.1% on prime space.



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

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: **economics@rics.org**

Disclaimer

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