Q2 2018: India Commercial Property Monitor

Credit conditions supportive as cycle still seen in an upswing

India's commercial property markets maintained positive momentum in Q2 of 2018. Although respondents to the survey remain bullish, they are slightly less so than they were in Q1. However, against a robust economic backdrop that saw GDP expand 7.7% in Q2, India is expected to be one of the top performing commercial property markets globally. Meanwhile, respondents reported an improvement in credit conditions amid the government's recapitalization of public sector banks.

Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) declined slightly to +13 in Q2 from +18 in Q1 (chart 1), though this is still indicative of positive momentum in the occupier market.
- Occupier demand continued to rise at a headline level, albeit at a slower pace than in Q2 (in net balance terms). Office and retail properties saw only a moderate slowdown in the rate of increase of occupier demand, while that for industrial properties was more pronounced.
- The supply of office and retail properties available to rent increased in Q2, while the supply of industrial properties to lease was little changed in the quarter. Landlord incentives exhibited a similar dynamic, while a majority of contributors highlighted rent-free periods as the most popular type of inducement being offered.
- Respondents continue to expect a relatively robust expansion in rents (in net balance terms) over the next three-and-twelve months. Although the outlook for rents on industrial properties is flat for the next three months, these are expected to increase over the next year.
- As shown by chart 6, forecasts for rental growth were revised modestly lower from Q1, but still remain elevated in global terms. This is due to a slight downward revision on the outlook for rents for primary office and industrial spaces, particularly in Bengaluru.

Investment Market

- The Investment Sentiment Index (an amalgamated measure of occupier market indicators) fell to +8 in Q2 from +19 in Q1 (chart 1), indicating a slowdown in positive momentum in the investment market.
- Headline investment demand increased at a moderate pace, though the net balance of respondents reporting an increase fell from 31% in Q1 to 20% in Q2. Demand for retail was particualrly robust in Mumbai and the National Capital Region (NCR).
- Foreign demand also increased at a headline level, though foreign investors appeared to be most interested in offices. Bengaluru saw the biggest jump in foreign investment enquiries, while respondents in the NCR reported a modest decline.
- More than 50% of contributors flagged an improvement in credit conditions for the sixth consecutive quarter, as evidenced by chart 3.
- As shown by chart 4, properties are seen to be relatively fairly valued, although 43% of respondents do see properties as above fair value to some degree. However this is more skewed towards Bengaluru and Mumbai, where 60% and 53% of respondents see property as expensive to some degree. Meanwhile, the share is only 18% in the NCR.
- Against this backdrop, respondents see capital values increasing over the next three and twelve months. Chart 5 shows that respondents revised one-year forecasts for prime office value growth moderately lower from Q1, though remain bullish, while those for secondary retail values were revised higher.
- 59% of respondents still see the market in some phase of an upturn, though this appears to be at a more developed stage in Bengaluru and Mumbai than it is in the NCR.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

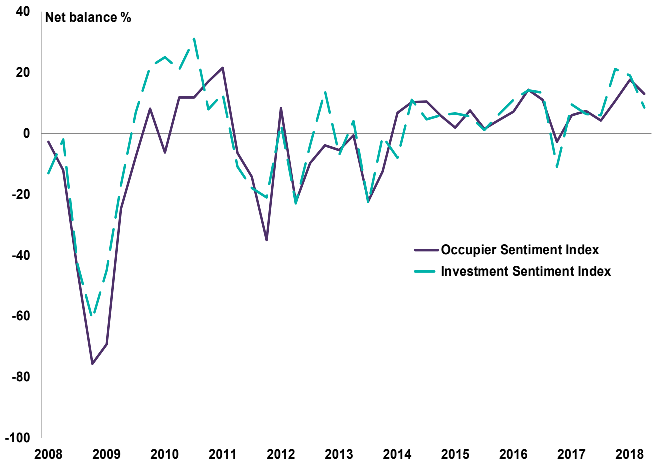


Chart 2: 3-month Rents, Capital Values

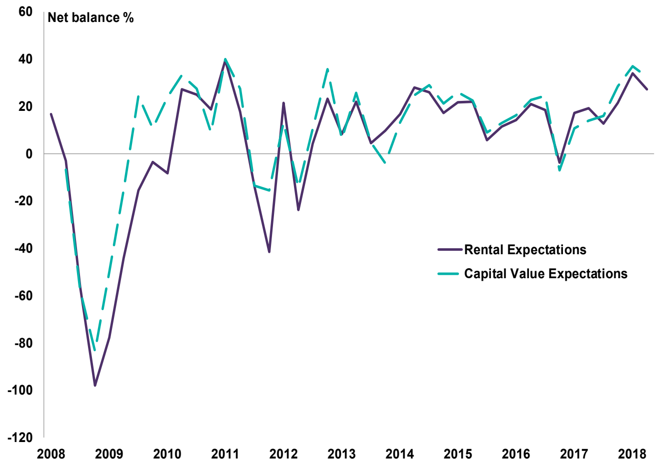


Chart 3: Credit Conditions

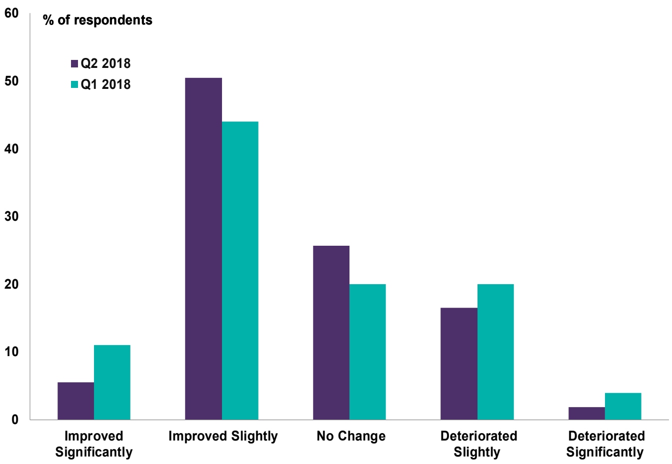


Chart 4: Valuations

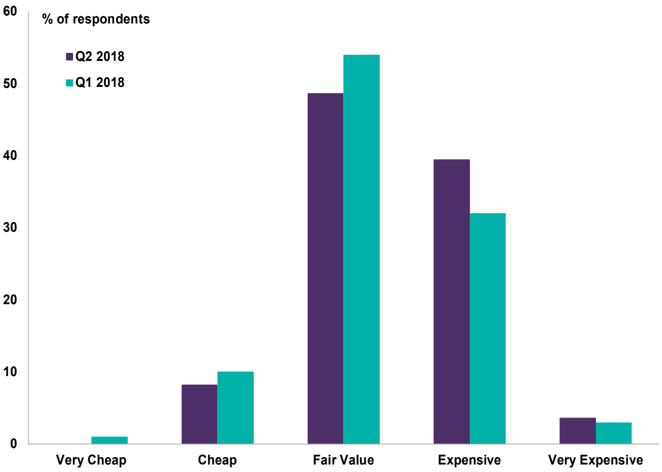


Chart 5: 12-month Capital Values Forecast

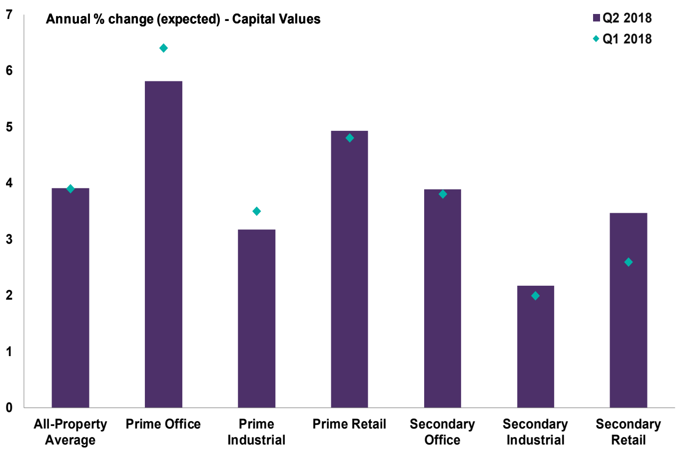
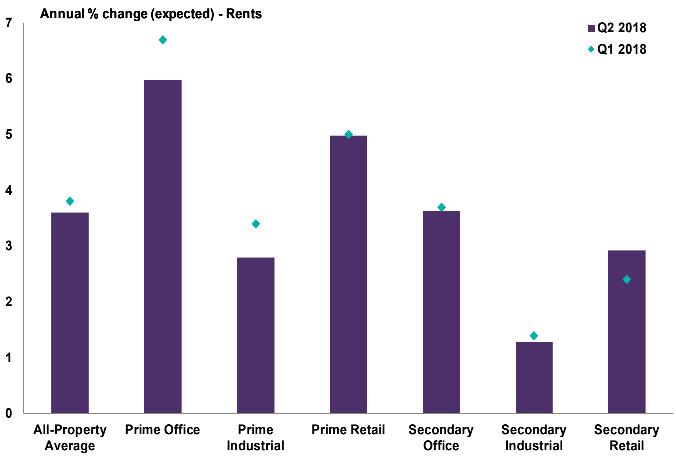


Chart 6: 12-month Rent Forecast



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 June 2018 with responses received until 8 July 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 1965 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.

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