



Q4 2017: India Commercial Property Monitor

Respondents maintain optimistic outlook for prime office space

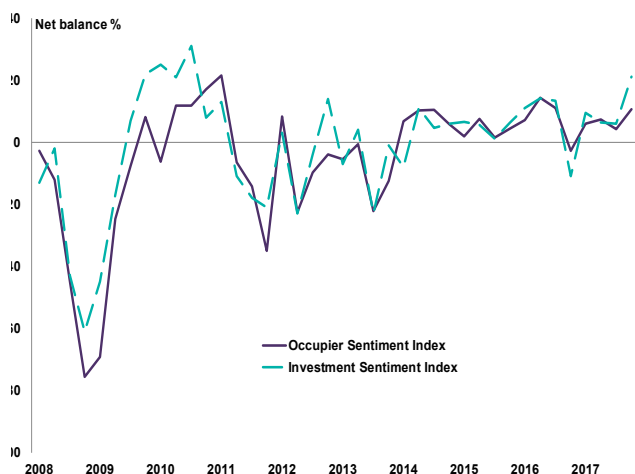
Occupier Market

- The Occupier Sentiment Index (a composite indicator designed to gauge overall momentum) moved to +11 in Q4, from +4 in Q3. This reading signals a modest pick-up in occupier market momentum.
- Respondents indicated that headline tenant demand increased at a robust pace in Q4. Demand was buoyed by continued strong demand for office space, while retail also saw a surge in occupier interest.
- Availability of leasable space was more or less unchanged for the fifth successive quarter at the headline level. Meanwhile, landlords opted to modestly increase the value of incentive packages across all market segments.
- Contributors continue to expect headline rents to increase over the next three and twelve months. Office space is expected to see the largest increase in rents over the next quarter, while rents on industrial properties are seen to be little changed over the next three months.
- In terms of the city breakdown, Bengaluru continues to exhibit stronger all-sector rental growth projections when compared with Mumbai and the National Capital Region (NCR). This is largely a result of bullish projections for office space - respondents are projecting prime and secondary rents to rise 9.3% and 6% respectively over the next year.

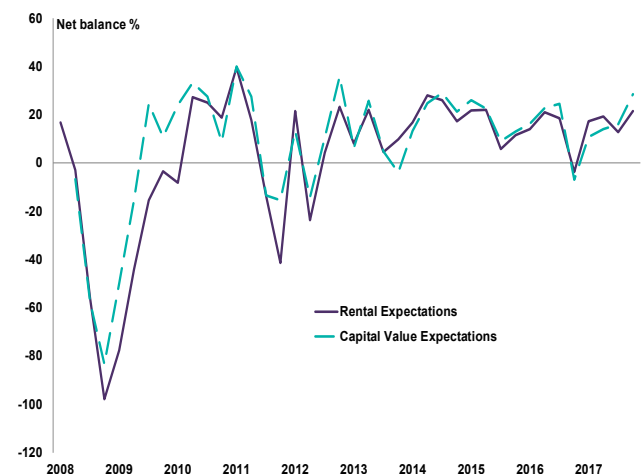
Investment Market

- The Investment Sentiment Index (a composite indicator of investment market momentum) increased sharply to +21 in Q4 from +6 in Q3. This indicates solidly positive momentum in the investment market.
- The pace of increase in investor demand picked up at a headline level in Q4, with respondents reporting an increase in demand across all three market segments (office, industrial, retail). Foreign investment enquiries exhibited a similar dynamic.
- Meanwhile, the supply of properties available for sale was flat in Q4, as contributors did not report a significant change in supply across any market segment.
- Headline capital values are expected to expand over the next three and twelve months, with respondents signalling a substantial increase in capital values over the next year (in net balance terms). As such, a majority of respondents (64%) see the market at some stage of an upturn.
- When disaggregated, expectations for capital values exhibit a similar trend to those of rents. Contributors expect headline capital values in Bengaluru to rise 8.2% over the next year, vs the 6.7% and 3.3% projected for Mumbai and the NCR respectively. Respondents were particularly bullish on prime office space in Bengaluru, where capital values are seen rising 12.2% over the next twelve months.

Occupier and Investment Sentiment Index



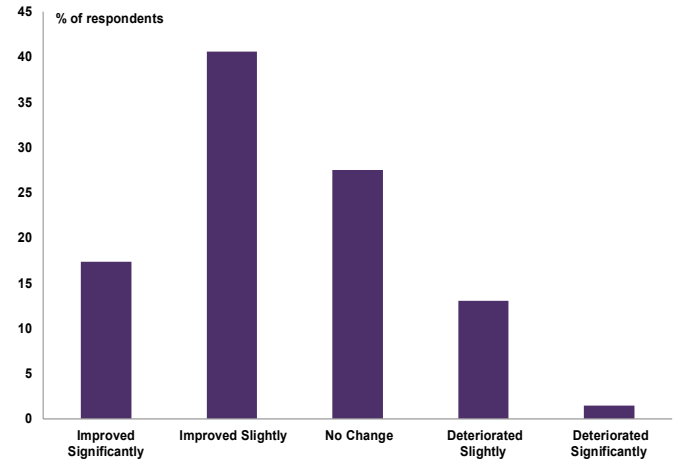
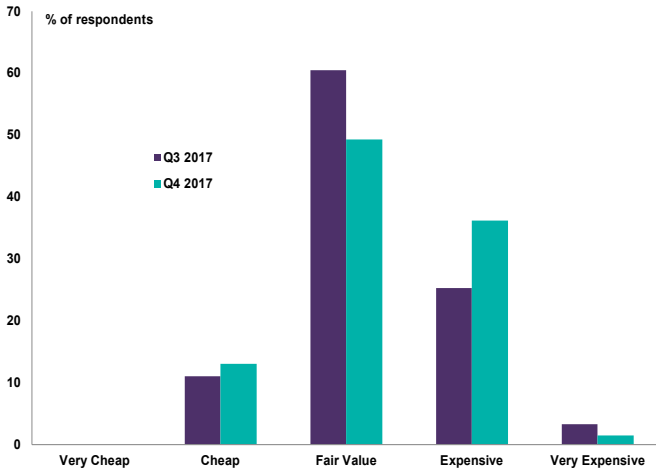
Rental and Capital Value Expectations



Commercial Property Market

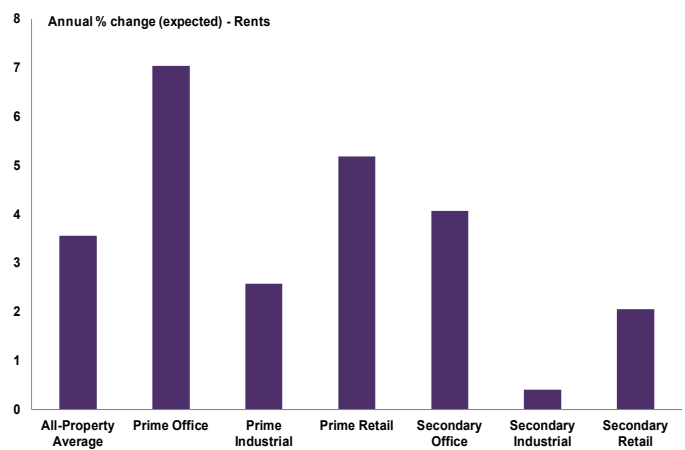
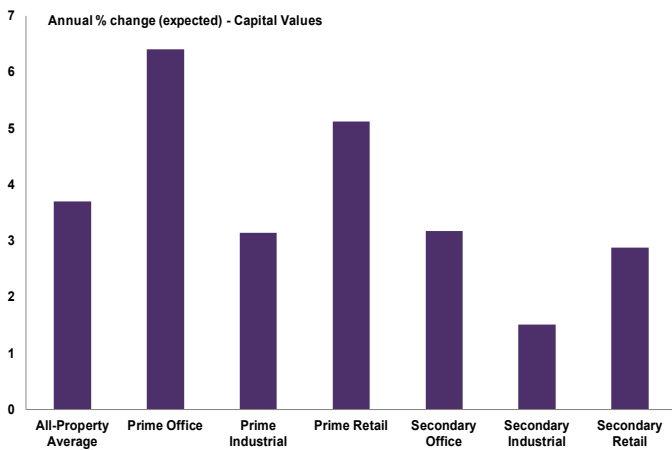
Market Valuations - Nearly half (49%) of respondents see valuations near or at fair values, down slightly from the 60% who shared this view in Q3. 37% see valuations as above fair value to some degree (vs 28% in Q3), while the remainder see the market as cheap.

Credit Conditions - The majority of respondents, 58%, saw some improvement in credit conditions in Q4, up slightly from the 53% who saw an improvement in Q3. Meanwhile, 14% reported some deterioration in credit conditions in Q4 (vs 18% in Q3).



12m Capital Value Expectations - Respondents revised capital value forecasts higher across all market segments in Q4. Headline capital values are now seen rising 3.7% over the next year (vs 3% forecast in Q3), with respondents particularly bullish on prime office and retail properties.

12m Rental Expectations - Rent expectations were also revised higher across all market segments in Q4, with headline rents expected to increase 3.6% over the next twelve months (vs 2.6% in Q3). Respondents held a particularly bullish outlook for the prime office segment of the market, where rents are seen rising 7% over the next year.



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 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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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



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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,
#06-22 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

**GF-17, Ground Floor, Block B,
Vatika Atrium, Sector 53,
Gurgaon – 122002,**

Haryana, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org