SOCIETY OF CHARTERED SURVEYORS IRELAND

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Q2 2018: Ireland Commercial Property Monitor

Expectations remain positive but continue to moderate

The Q2 2018 Ireland Commercial Property Monitor results show conditions remain generally solid across the market, even if expectations for capital value and rental growth have cooled relative to recent quarters. The retail sector appears to be leading this moderation, as secondary locations in particular now display a flat outlook. Nevertheless, economic fundamentals should remain supportive to the broader market. GDP looks set to post another robust year of growth (albeit slightly down on last year), while improvements in the labour market should be sustained, helping to underpin both investor and occupier demand going forward.

Occupier Market

- The Occupier Sentiment Index (a composite measure of occupier market indicators shown on chart 1 overleaf) posted a reading of +20 in Q2, down from +26 in Q1. This indicator has now softened in three consecutive quarters, although the still-positive reading signals a certain degree of tightening in the market.
- Occupier demand continued to rise in solid fashion across both the office and industrial sectors over the quarter. However, demand growth was marginal for retail space.
- Following two quarters in which availability had held steady, Q2 saw vacant space edge up in the retail sector. Respondents also noted a slight rise in the office sector alongside a small decline in the industrial segment.
- This prompted landlords to increase the value of incentive packages on offer in the retail sector, with a net balance of 17% of respondents reporting a rise.
- Over the next twelve months, respondents pared back expectations for rental growth once again. This represents three consecutive quarters in which expectations have been trimmed, albeit most areas of the market are still envisaged posting solid gains (led by prime industrial). That said, expectations are now flat for secondary retail (chart 6).
- Rental growth projections in Dublin continue to exceed the national average, although expectations have also eased relative to earlier in the year. Furthermore, secondary retail rents are now expected to see little change in the capital.

Investment Market

- The Investment Sentiment Index (an amalgamation of investment market indicators shown on chart 1) also came in at +20, compared to +28 in Q1. In fact, the Q2 figure is the weakest since 2014. Nevertheless, the latest results remain consistent with a modest overall improvement in investment market conditions.
- Survey participants reported a further increase in both office and industrial investment enquiries during Q2. Meanwhile, demand was stagnant for retail assets, posting the most subdued reading since 2011. Alongside this, a similar trend was noted for overseas buyer demand.
- The supply of property on the market for sale held broadly stable, bringing to an end a sequence of continuous decline since the early part of 2014.
- Respondents now anticipate a slightly slower rate of capital value growth over the coming year than was the case previously. Again, this is mainly due to downward revisions across the secondary retail sector, where little change is now projected. All other sub sectors are anticipated to chalk up solid gains, even if the pace of growth is set to ease (chart 5).
- When disaggregated, the figures for Dublin remain stronger than those at the national level, with capital value growth expectations most elevated in the prime industrial sector. Having said that, secondary retail assets are no longer seen posting any material value growth over the next twelve months.
- Back at the national level, 43% of contributors now sense the market is above fair value, up from 32% in Q1 (chart 4). The comparable figure for Dublin is 61% (40% previously). Nevertheless, a majority of respondents both in the capital and across Ireland as a whole feel the market is still in the middle of an upturn.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

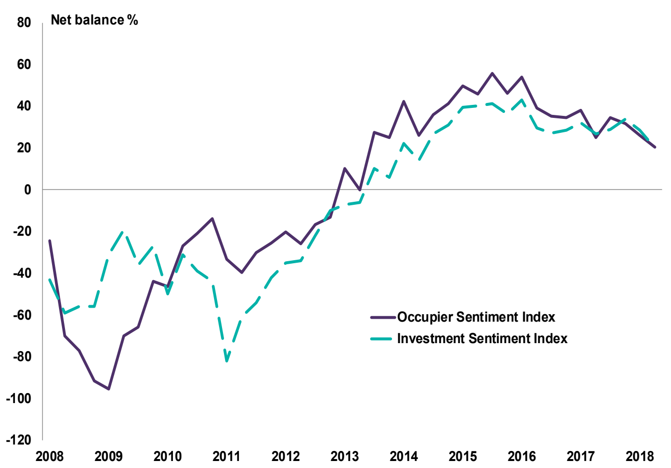


Chart 2: 3-month Rents, Capital Values

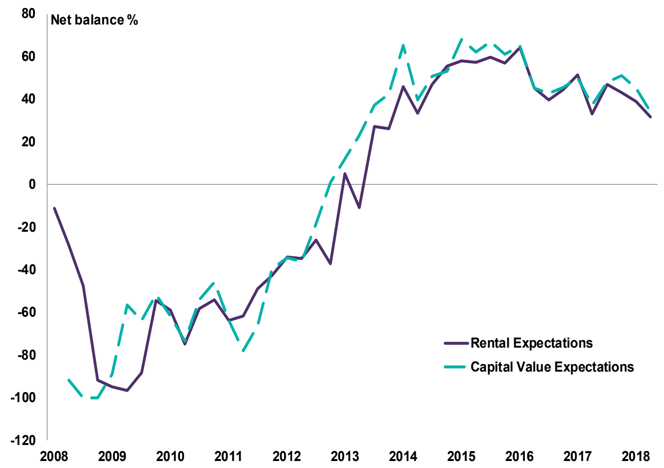


Chart 3: Credit Conditions

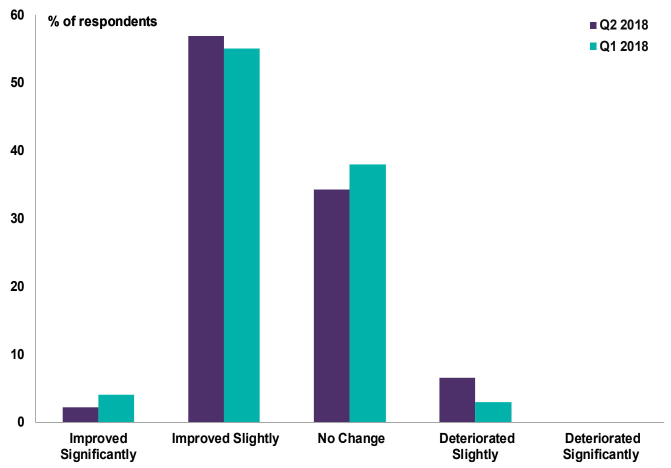


Chart 4: Valuations

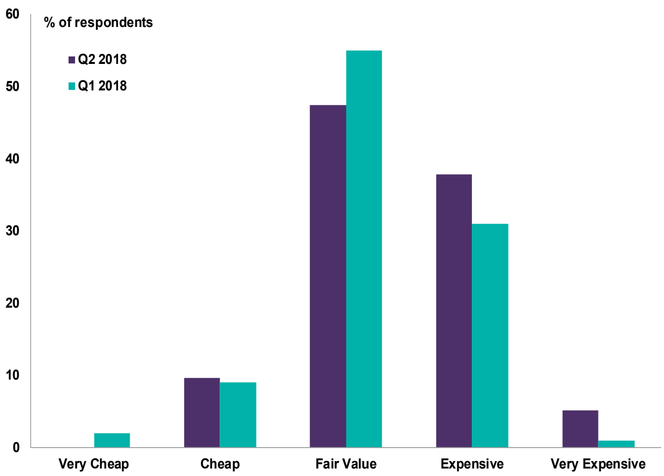


Chart 5: 12-month Capital Values Forecast

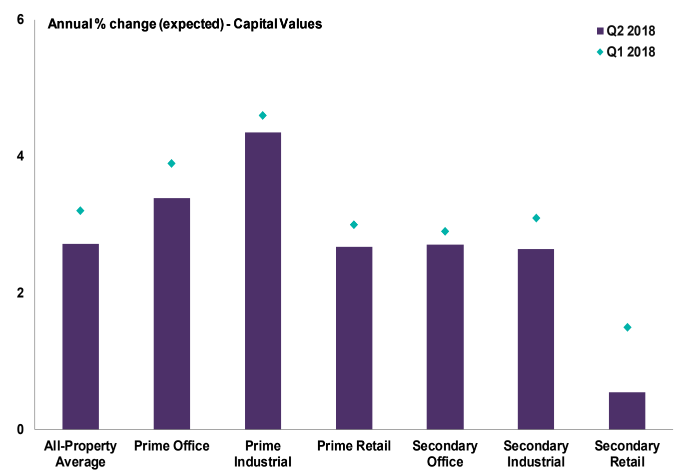
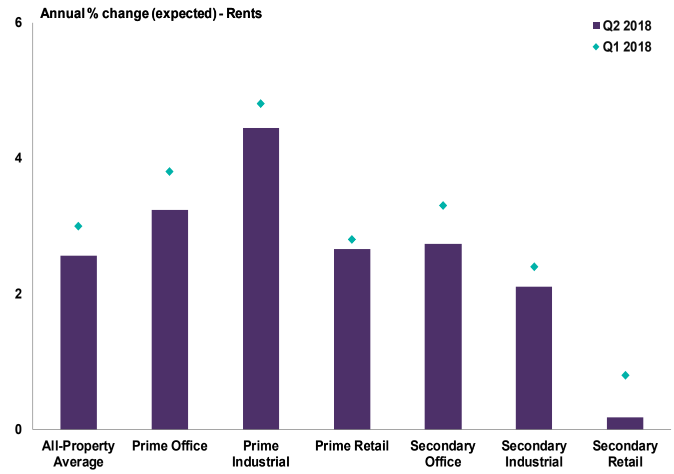


Chart 6: 12-month Rent Forecast



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 371 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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