Q2 2018: Italy Commercial Property Monitor

Projections remain solid despite softer demand growth

The Q2 2018 Italy Commercial Property Monitor results suggest there has been some loss of impetus, at least in terms of demand growth, when compared with the latter stages of last year. This seems to chime with business surveys pointing to a slightly slower rate of economic expansion, albeit the slowdown appears unlikely to have been too dramatic in the context of recent political uncertainty. Capital values and rents look set to continue to rise modestly over the next twelve months, although growth is still expected to be confined to prime locations, rather than in secondary markets.

Occupier Market

- The Occupier Sentiment Index (a composite measure of occupier market indicators shown on chart 1 overleaf) came in at +6, compared with +12 in the previous report. Although still positive and therefore indicative of a marginal degree of tightening, it does represent the poorest reading since the end of 2016.
- Occupier demand rose modestly across each area of the market during Q2, although the increase was noticeably softer than the average reported over the past twelve months.
- Availability continued to edge up, but this was mainly concentrated in the office sector, with vacant industrial and retail space seeing little change.
- Landlords increased the value of incentives on offer to tenants in both the office and retail sectors, but left inducements unchanged for industrial space.
- At the headline level, respondents are now forecasting a slightly faster pace of rental growth over the next twelve months than was the case last quarter. That said, this has largely come about due to negative expectations across secondary sub-sectors being revised to flat. Prime industrial rental projections were revised stronger however (chart 6).
- In Milan, rental growth projections exceed the national average in the office market (both prime and secondary areas). By way of contrast, secondary retail rental expectations are significantly weaker, and still point to an outright decline.
- Rental expectations for the next twelve months are slightly more subdued across Rome in comparison to the figures for Italy as a whole. This is largely a result of a more downbeat assessment on secondary market rental prospects.

Investment Market

- The Investment Sentiment Index (an amalgamation of investment market indicators also shown on chart 1) slipped to +5 from +15, also representing the weakest reading since 2016. Overall, this neutral figure signals an easing in investment market momentum over the quarter.
- Investment enquiries rose in each area of the market, but at the slowest pace (in net balance terms) going back to 2014. Interest from foreign buyers displayed a similar trend, albeit growth was even more marginal in the industrial sector.
- The supply of property on the market for sale continued to drift higher, with a net balance of +9% of respondents noting a rise at the headline level.
- Capital value expectations continue to point to solid growth for prime assets (office, industrial and retail) over the next twelve months, with projections little changed from Q1. For secondary markets, respondents now envisage a flat outlook for values across each sector, marking an improvement on the negative projections in some sub-sectors previously.
- The prime industrial sector across Milan displays particularly upbeat capital value projections for the year ahead, with the all-sector reading also slightly stronger than the national average. In Rome, the prime office sector is expected to deliver the strongest capital value gains (outpacing those in Milan). Notwithstanding this, the outlook is relatively more subdued across the industrial sector in comparison to the figures for Italy as a whole.
- At the national level, 78% of respondents sense the market is either at or below fair value, virtually unchanged fro 79% last time (chart 4). In Milan, just over one quarter of contributors do now view the market as expensive, while the proportion taking this view is just 13% in Rome.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

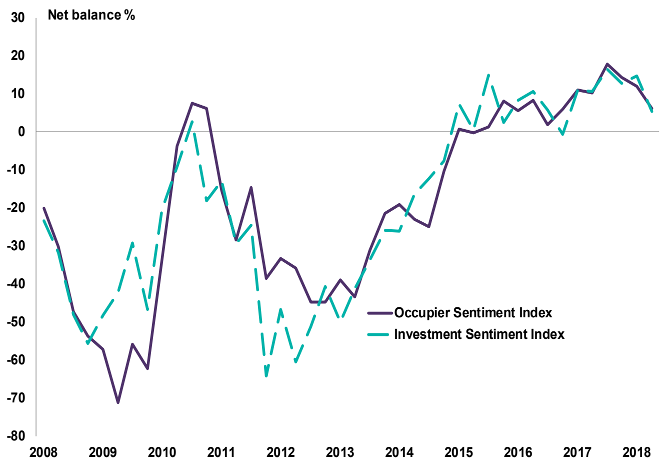


Chart 2: 3-month Rents, Capital Values

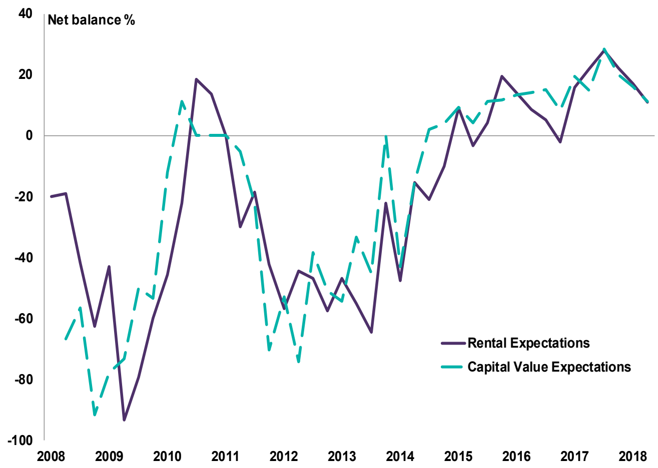


Chart 3: Credit Conditions

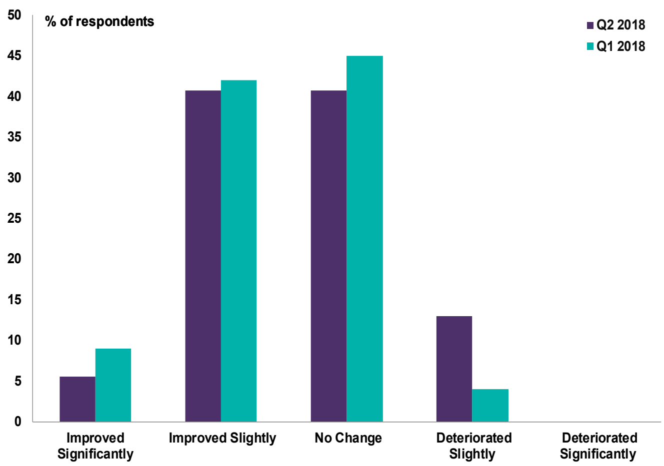


Chart 4: Valuations

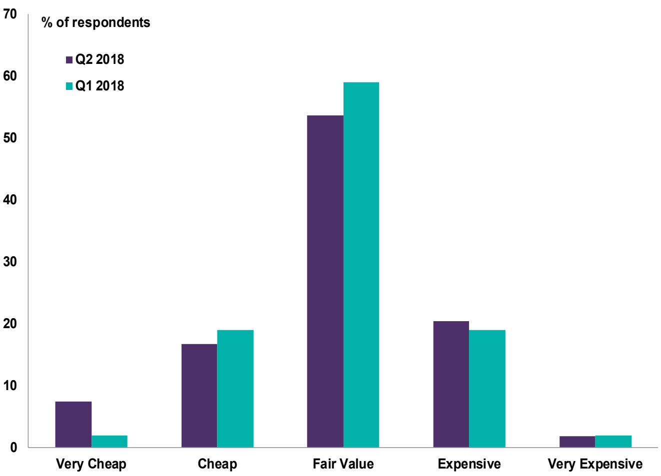


Chart 5: 12-month Capital Values Forecast

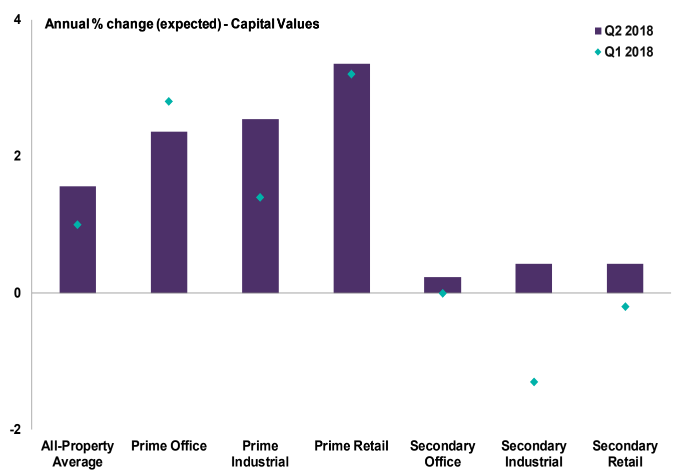
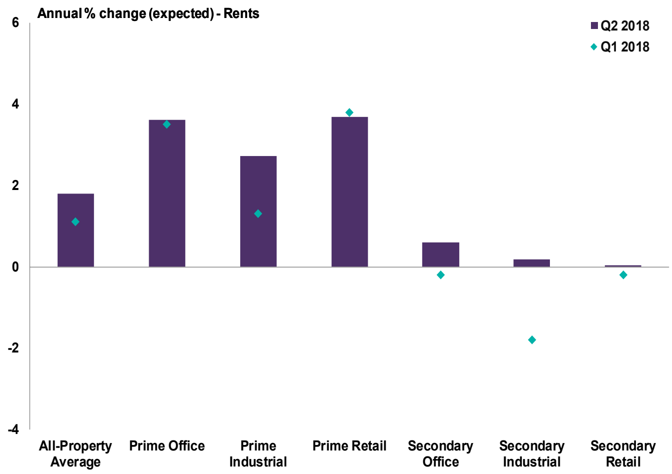


Chart 6: 12-month Rent Forecast



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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