



Q1 2018: Japan Commercial Property Monitor

Occupier, investment markets maintain modestly positive momentum

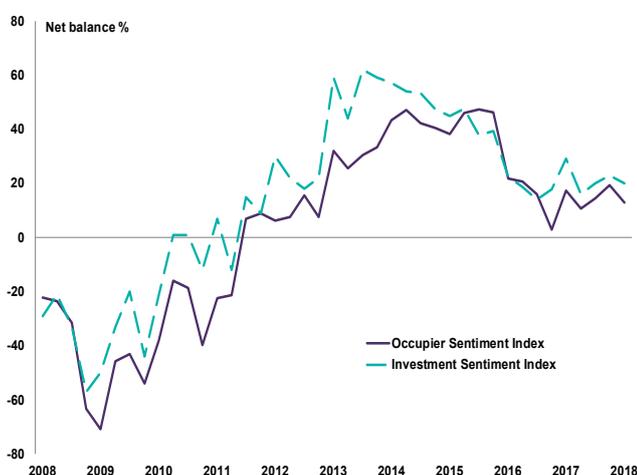
Occupier Market

- The Q1 2018 results point to occupier demand continuing to rise at the headline level. The pace of demand growth (in net balance terms) was little changed from that in Q4 across all three market segments (office, industrial, retail).
- Headline availability of leasable space tightened at a similar pace to Q4. However, when broken down by segment, office space availability decreased at a faster rate than in the previous quarter, while the decline was more muted in the industrial and retail sectors.
- Landlord incentives were little changed across all market segments during Q1. Respondents continued to report a rent free period as the most common type of inducement. Headline development starts increased modestly, driven mostly an increase in new office construction activity.
- Rents are seen rising at a headline level over the next three and twelve months. Prime office rents are expected to rise at the fastest pace, while the outlook for industrial rents as well as secondary retail appear flat for the year ahead.
- The Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) decreased slightly to +13 in Q1 from +19 in Q4. Although still positive, this indicator is signalling only modest momentum being the occupier market at present.

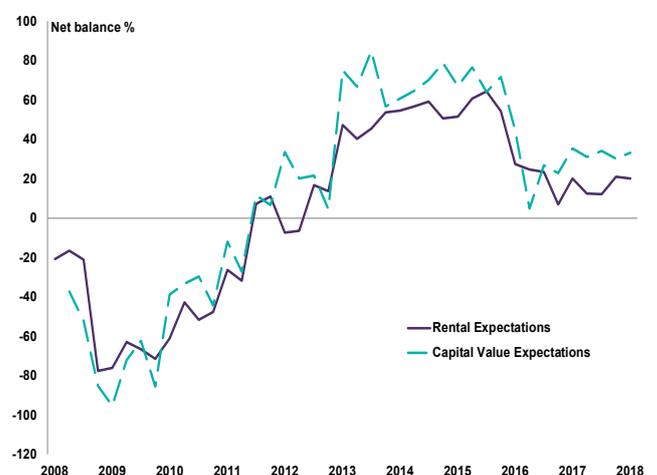
Investment Market

- The Q1 2018 results indicate that headline investment demand continued to increase at a similar pace to Q4. The retail segment saw demand increase at a slightly slower rate than the office and industrial segments, in net balance terms.
- Headline foreign demand increased during the first quarter, led by demand for offices. Foreign demand for industrial and retail properties was also reported to have increased in Q1, though at a more subdued pace than in Q4.
- The supply of properties available for sale was little changed across all market segments (office, industrial, retail) having fallen slightly in each of the previous two quarters.
- Respondents expect prime office values to increase in robust fashion over the next twelve months, although the outlook is a little subdued across the other sub-sectors (albeit generally still positive).
- The share of respondents who see the market at its peak remained elevated, at 61%. 22% of respondents said the market was in still in an upturn, while 13% said that the market was in the early stages of a downturn (vs 4% in Q4).
- The Investor Sentiment Index (an amalgamated measure of three investor market indicators) was virtually unchanged at to +20 in Q1, following +23 in Q4.

Occupier and Investment Sentiment Index



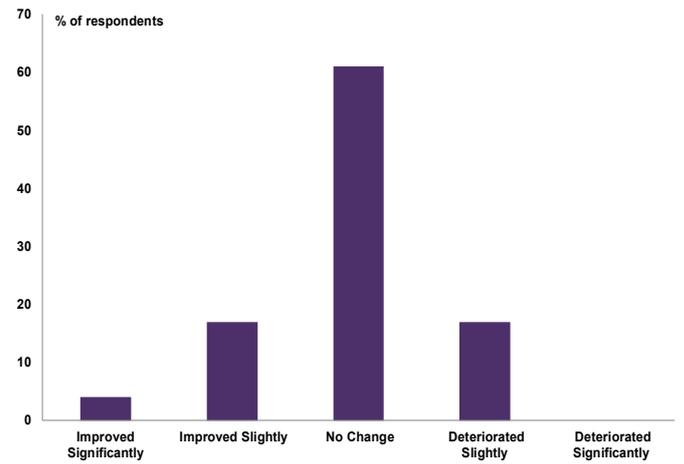
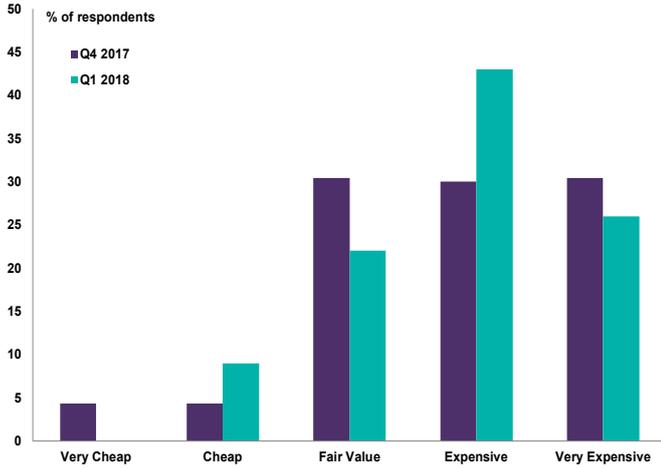
Rental and Capital Value Expectations



Commercial Property Market

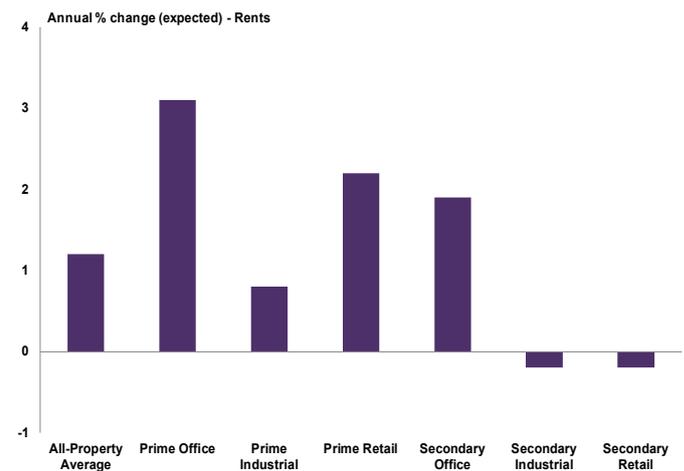
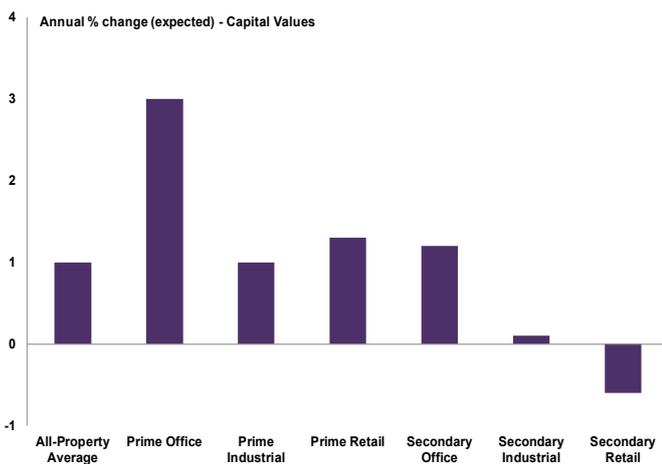
Market Valuations - The share of respondents who see the market as above fair value to some extent increased to 69% in Q1 from 60% in Q4. Meanwhile, the share that see the market as fairly valued fell to 22% from 30% in Q4.

Credit Conditions - On balance, respondents noted little change in credit conditions during Q1, ending a sequence of fourteen quarters in which some degree of easing had been reported.



12m Capital Value Expectations - Respondents' revised their forecasts for one-year capital values significantly lower in Q1. Headline values are seen up only 1% over the next year, after forecasting nearly 3% in Q4. Forecasts for industrial and retail properties were significantly more subdued than in Q4.

12m Rental Expectations - Respondents were slightly less bullish for headline rents in Q1. Notwithstanding This, forecasts for prime office and retail space were revised higher from Q4, although those for secondary space were revised lower across all markets segments.



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 14 March 2018 with responses received until 11 April 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 1748 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.

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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