



## Q2 2017: Japan Commercial Property Monitor

# Momentum remains modestly positive despite dampened rent, capital value forecasts

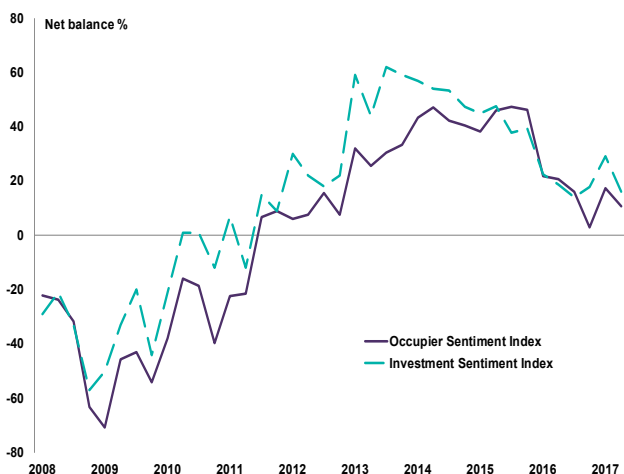
### Occupier Market

- The Q2 2017 results show that occupier demand continued to increase at the headline level with the office sector seeing the biggest gains (when measured in net balance terms). This is the twenty-fourth consecutive quarter where respondents have indicated an increase in demand at the headline level.
- Aggregate leaseable space was reported flat in Q2. However respondents did note a modest increase in retail space available to rent.
- Similarly, landlord incentives were unchanged in Q2, though respondents did report an increase in incentives across industrial space. Respondents were unanimous in reporting a rent-free period as the most common type of inducement being offered by landlords.
- Only a modestly positive net balance of respondents expect rents to increase over the next three and twelve months. Respondents see rents for retail space flat during the coming quarter and over the next year.
- The Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) eased to +11 in Q2 from +17 in Q1. This measure indicates moderately positive momentum in the occupier market.

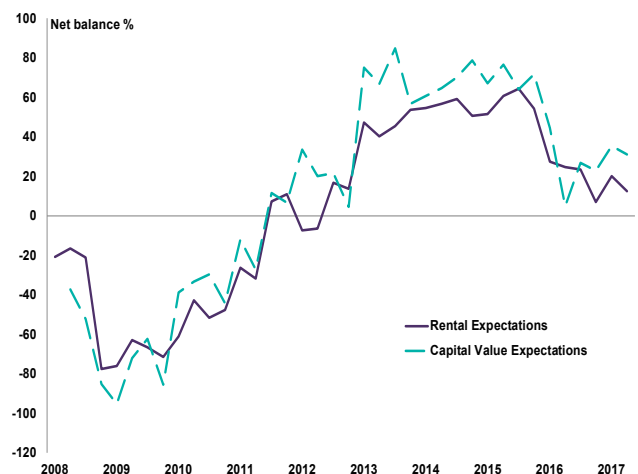
### Investment Market

- Headline investor demand maintained positive momentum in Q2 of 2017. This was mainly driven by the office segment, although respondents also indicated that investor demand for retail space increased in Q2. Contributors reported slightly stronger demand (when measured in net balance terms) from foreign investors, with all segments seeing an increase in foreign enquiries in Q2.
- The headline supply of properties available for sale was flat in Q2 after six consecutive quarters of decline. Respondents saw little change in supply across all three segments of the market (office, industrial, retail).
- Capital value expectations remained robust across the three and twelve month. Contributors expect all segments of the market to see values increase both time frames.
- The majority (63%) of respondents continue to sense local market conditions are peaking in the current cycle. This is the sixth consecutive quarter where at least 60% of contributors have said that they see the peak of the market.
- The Investor Sentiment Index (an amalgamated measure of three investor market indicators) eased to +16 from +29 in Q1. Although this indicator signals a slight moderation in momentum across the investment market, it remains positive nonetheless.

Occupier and Investment Sentiment Index

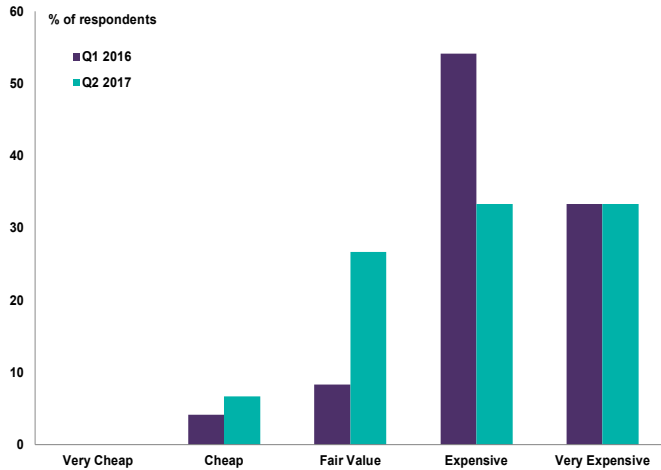


Rental and Capital Value Expectations

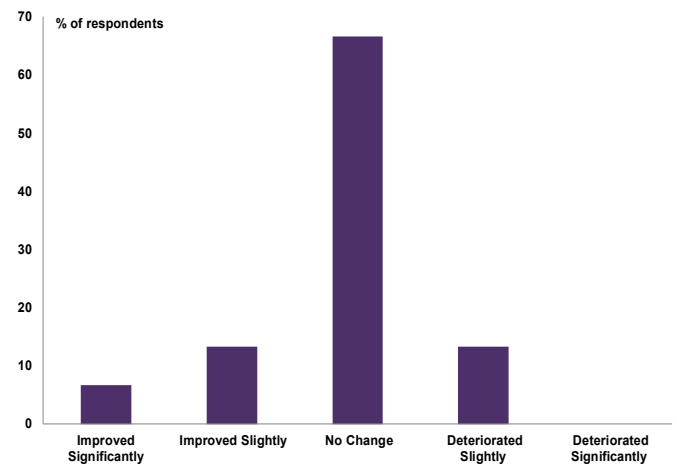


# Commercial Property Market

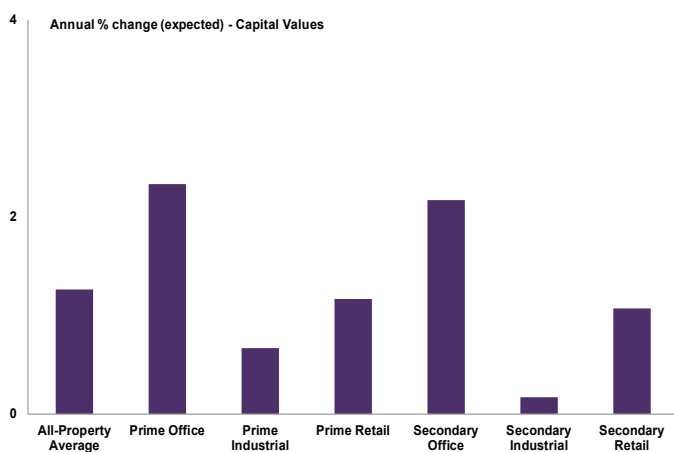
**Market Valuations** - The share of respondents who see the market as above fair value to some extent fell to 66% in Q2 from 87% in Q1. Meanwhile, the share of those who saw the market as fairly valued rose to 27% from 8% in Q1.



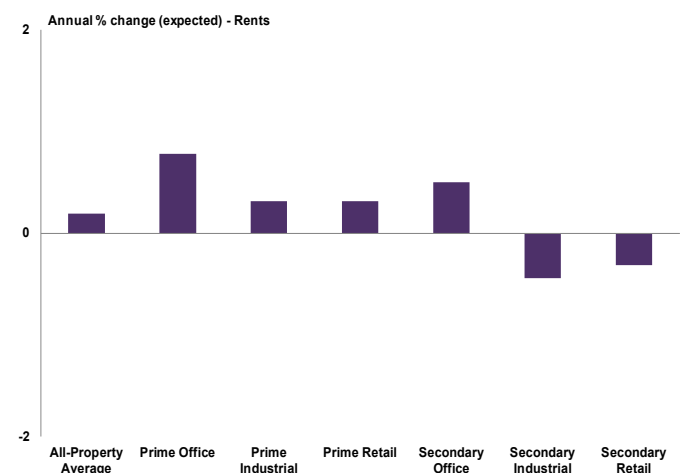
**Credit Conditions** - The majority of respondents (67%) saw no change in credit conditions in Q2, similar to Q1. This metric has remained relatively stable for the past eight quarters.



**12m Capital Value Expectations** - Headline capital value forecasts for the next year moderated slightly in Q2 to 1.3% from 1.5% in Q1. More bullish expectations for secondary office and retail values were offset by downward revisions for prime retail to 1.2% in Q2 from 3.3% in Q1.



**12m Rental Expectations** - Expectations remain more subdued than capital value forecasts. Headline rents are seen at broadly flat over the next year, little changed from the 0.4% forecast in Q1. Forecasts were revised lower in Q2 from Q1 across all market segments, with the exception of secondary offices where forecasts were unchanged.



# 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](http://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 June 2017 with responses received until 10 July 2017. 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 1427 company responses were received, with 316 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland.

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](mailto:economics@rics.org)

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We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

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