



Q3 2017: Japan Commercial Property Monitor

Prime capital value forecasts revised higher despite expensive valuations

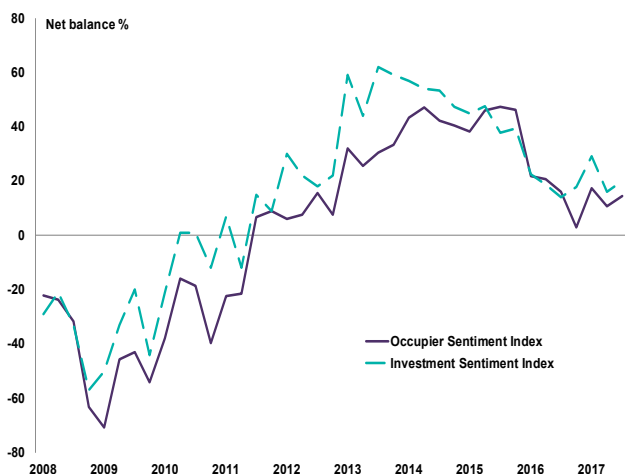
Occupier Market

- The Q3 2017 results pointed to occupier demand continuing to rise at the headline level. Although respondents reported positive demand growth across all market segments (office, industrial, retail), the pace of increase in demand for office and retail space slowed slightly, but was partially offset by a pickup in the industrial segment.
- Respondents highlighted tighter supply across all market segments. However development starts continued to expand at a modest pace across all three sectors.
- Alongside this, landlord incentive decline at an all-sector level with respondents reporting a modest decline in incentives for office and retail space, meanwhile there was little change in incentives in the industrial sector.
- Rent expectations over the three month and twelve month horizon remain modest. In the coming year, rental projections are the strongest across the prime office and retail sub-sectors.
- The Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) increased slightly to +14 in Q3 from +11 in Q2, consistent with modest build-up in momentum in the occupier market.

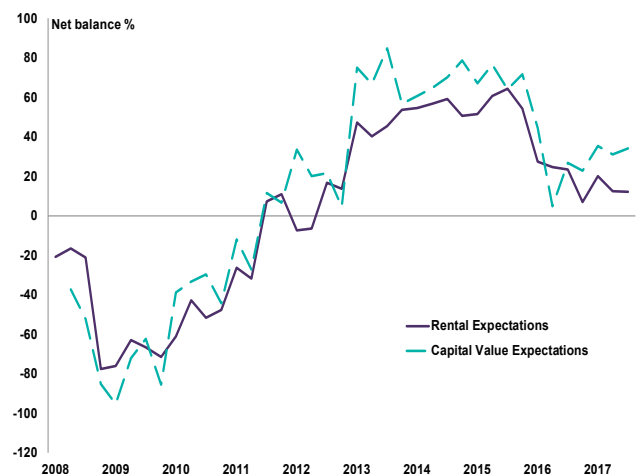
Investment Market

- The Q3 2017 results indicated that an increase in headline investment demand, spread evenly across all market segments. Although the pace of growth did moderate slightly from the previous quarter. Foreign investment enquires also exhibited a similar picture, with demand growth easing slightly in the office sector.
- Respondents reported a modest decline in the supply of properties available for sale, led by tightening supply in the office and industrial segments.
- Respondents continue to envisage headline capital values increasing over the next three and twelve months. All three primary sub-sectors are projected to see solid capital value gains over the twelve month horizon and are expected to firmly outperform the secondary sub-markets.
- The share of respondents who see the market at its peak rose from 63% in Q2 to 76% in Q3. This is the seventh consecutive quarter where the majority of respondents believed the market is peaking. In Tokyo, this proportion is even higher, where 84% of respondents believe the market is at its peak.
- The Investor Sentiment Index (an amalgamated measure of three investor market indicators) increased slightly to +20 in Q3 from +16 in Q2, consistent with positive momentum in the investment market.

Occupier and Investment Sentiment Index



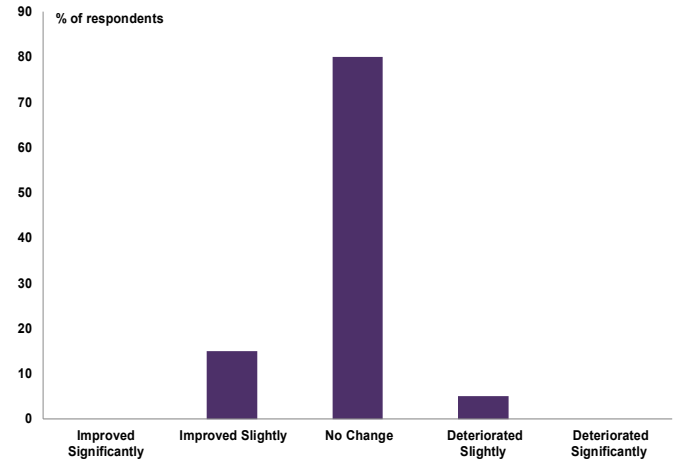
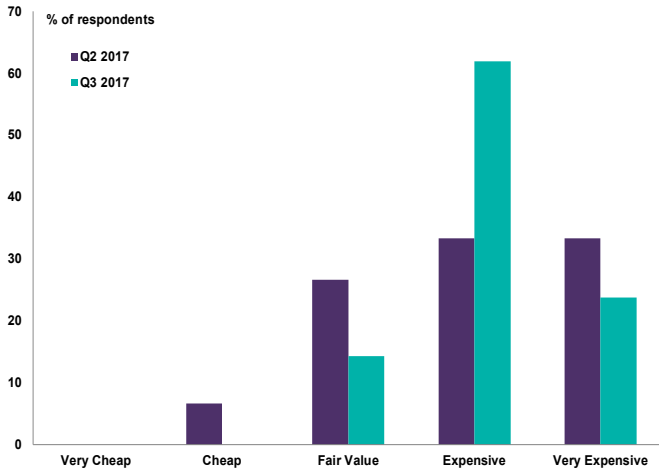
Rental and Capital Value Expectations



Commercial Property Market

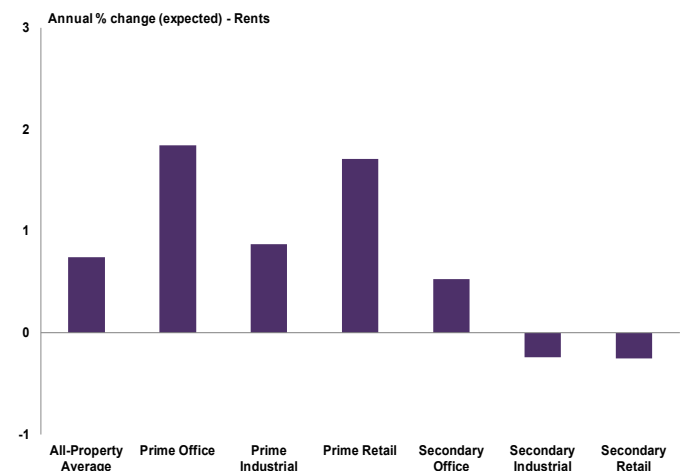
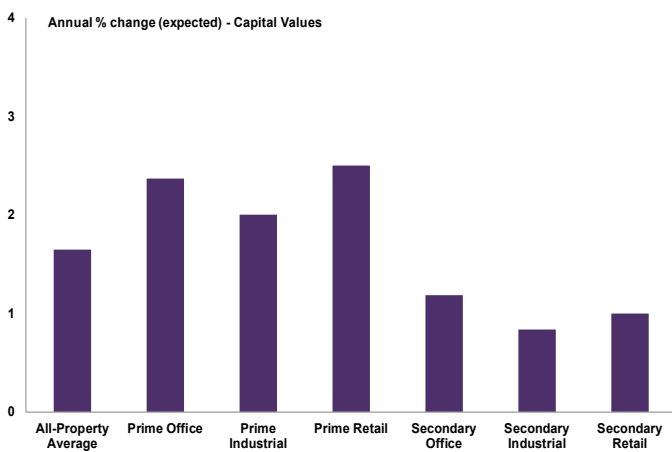
Market Valuations - The share of respondents who see the market as above fair value to some extent increased to 86% in Q3 from 66% in Q2. This is even more acute in Tokyo where 94% of respondents see the market as above fair value to some extent.

Credit Conditions - The majority of respondents (80%) continue to report no change in credit conditions. Meanwhile, 15% reported some degree of improvement (vs 20% in Q2) and the remaining 5% reported some degree of deterioration (vs 13% in Q2).



12m Capital Value Expectations - Headline capital value forecasts for the next year picked up modestly to 1.6% from 1.3% in Q2. Prime industrial and retail space saw the largest upward revisions from 0.7% and 1.2% to 2% and 2.5% respectively, while the forecast for prime office space moved only marginally higher to 2.4% from 2.3%. Meanwhile, the forecast for secondary office space was revised down to 1.2% from 2.2% in Q2.

12m Rental Expectations - Rent expectations remain fairly nuanced, though the headline rent forecast was revised up to 0.7% in Q3 from 0.2% in Q2. Expectations for prime rents were revised up to 1.5% from 0.5% in Q2, and increased across all market segments. Forecasts for secondary space were more subdued, and largely unchanged from Q2 as respondents continue to expect a pull-back in secondary industrial and retail rents over 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 September 2017 with responses received until 6 October 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 1609 company responses were received, with 347 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

Disclaimer

This document is intended as a means for debate and discussion and should not be relied on as legal or professional advice. Whilst every reasonable effort has been made to ensure the accuracy of the contents, no warranty is made with regard to that content. Data, information or any other material may not be accurate and there may be other more recent material elsewhere. RICS will have no responsibility for any errors or omissions. RICS recommends you seek professional, legal or technical advice where necessary. RICS cannot

accept any liability for any loss or damage suffered by any person as a result of the editorial content, or by any person acting or refraining to act as a result of the material included.

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



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

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.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

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,
#27-16 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

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org