Q4 2017: Japan Commercial Property Monitor

# Prime capital value forecasts revised higher amid tight supply

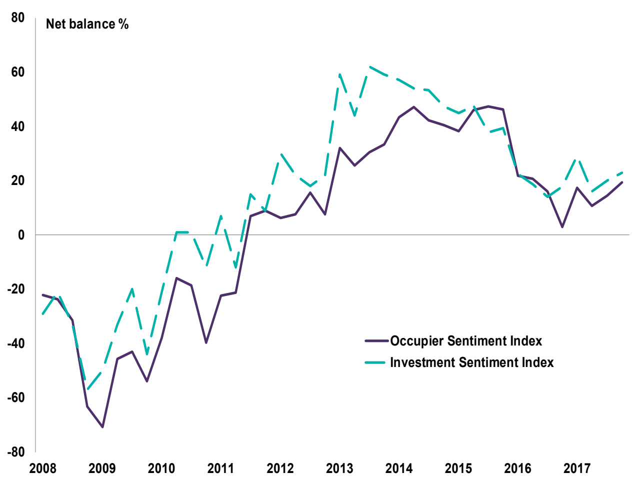
### Occupier Market

- The Q4 2017 results pointed to occupier demand continuing to rise at the headline level.  Demand was particularly robust for office space, with a net balance of 43% of respondents reporting an increase, while respondents noted little change in the demand for retail space from Q3.
- The supply of space to rent continued to tighten at a headline level, although at a slower pace than in Q3. This was largely due to little change in the supply of industrial properties, with contributors reporting a decline in the availability of office and retail space.
- Similarly, landlord incentives were reported to have decreased for the office and retail segments of the market, while those for industrial properties were little changed. Development starts, however, were reported to have increased across all market segments.
- Respondents see rents across all sub-markets rising over the next year, though office space is expected to see the quickest rise. This difference is more pronounced in the shorter-term, as rents on industrial properties are seen unchanged over the next quarter.
- The Occupier Sentiment Index (an amalgamated measure of three occupier market indicators) increased to +19 in Q4 from +14 in Q3.

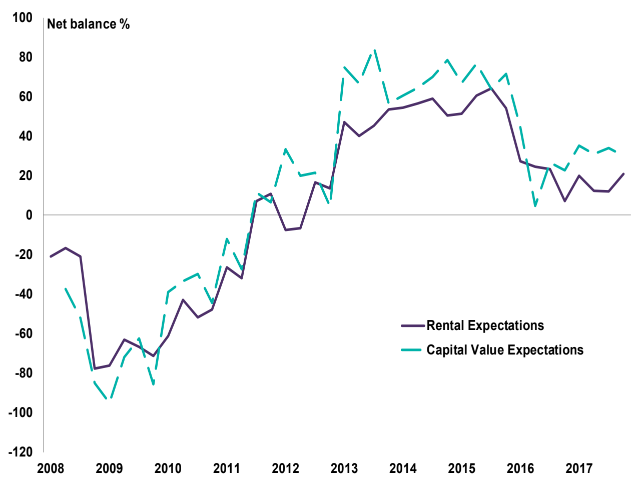
### Investment Market

- The Q4 2017 results indicated that investment demand continued to increase, particularly for the office and retail segments of the market while demand for industrial properties was more subdued.
- Foreign demand saw a particularly robust increase in Q4 across all market segments. A net balance of 44% reported an increase in aggregate foreign demand, the highest reading in net balance terms since Q2 of 2015.
- The supply of properties available for sale was also reported to have decreased across all three sectors, particularly for industrial properties.
- Against this backdrop, respondents continue to see capital values expanding at a robust pace of the next three and twelve months. The results suggest that the pace of increase will be relatively even across all market segments.
- The share of respondents who see the market at its peak fell to 65% from 76% in Q3. While no respondents say that they saw the market in a downturn in Q3, 9% reported that the market was in some phase of a downturn in Q4, while 17% said it was still in an upturn (vs 19% in Q3).
- The Investor Sentiment Index (an amalgamated measure of three investor market indicators) increased slightly to +23 in Q4 from +20 in Q3**.**

### Occupier and Investment Sentiment Index

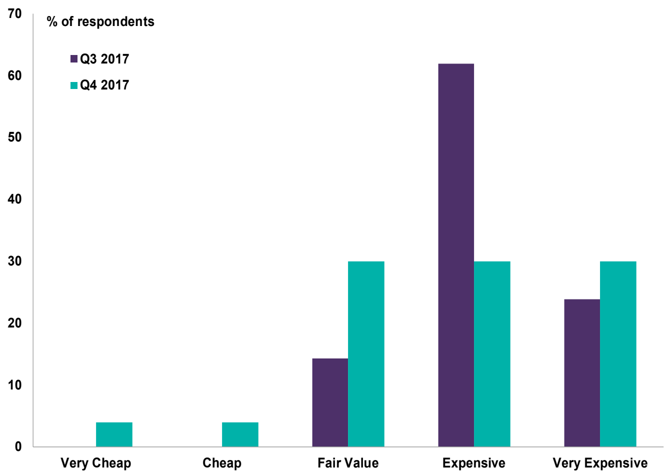



### Rental and Capital Value Expectations

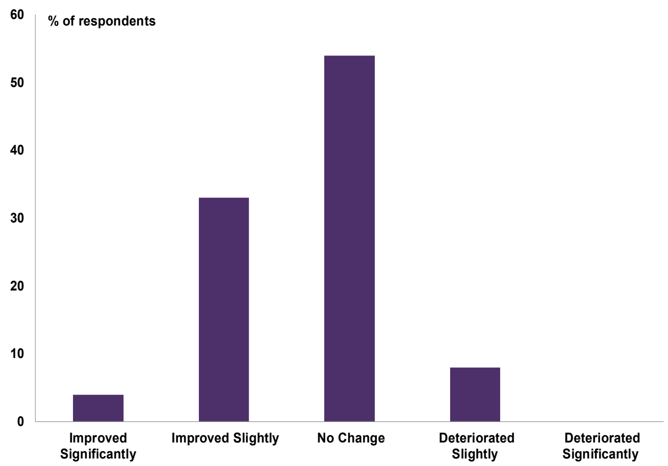


# Commercial Property Market

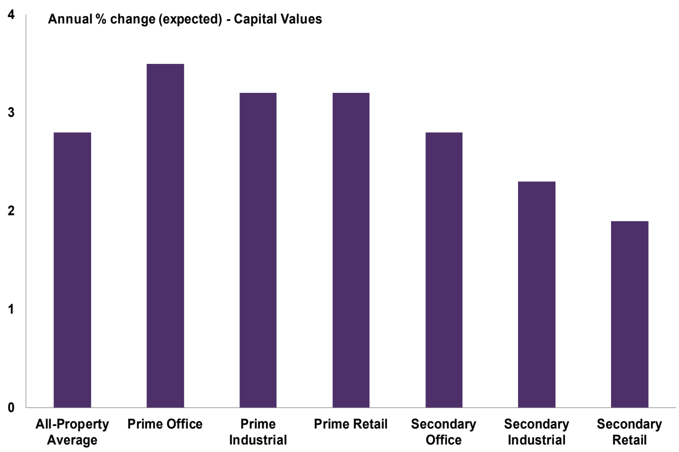
Market Valuations - The share of respondents who see the market as above fair value to some extent fell to 60% in Q4 from 86% in Q3, while 30% see the market as fairly valued (vs 14% in Q3).



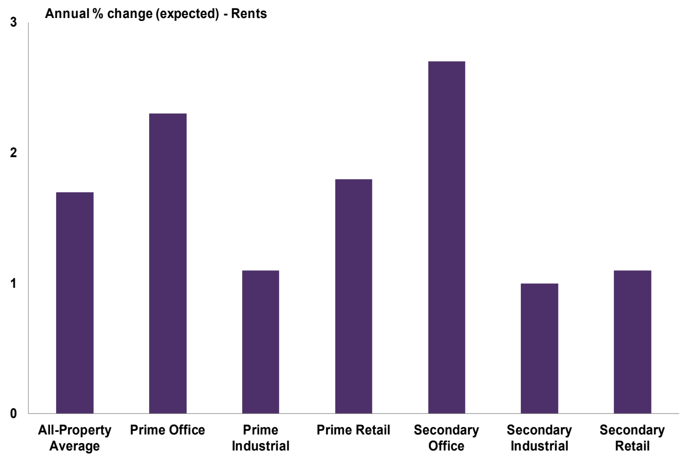

Credit Conditions - Views on credit conditions were slightly more skewed in Q4 than in previous quarters. 54% reported no change (80% in Q3), while 37% reported some degree improvement (15% in Q3) and 8% said they saw a slight tightening (5% in Q3).




12m Capital Value Expectations - Respondents' outlook for capital values were significantly more bullish in Q4, as aggregate forecasts were revised up to 2.8% over the next year vs the 1.6% gain forecast in Q3. Prime space, as well as secondary retail space, saw the largest upward revisions.




12m Rental Expectations - Respondents turned bullish on rents across all segments of the market, with headline rents seen rising 1.7% over the next year (vs 0.7% forecast in Q3). The upward revision was largely driven by increased optimism for rents on secondary locations, which are now seen rising 1.6% over the next twelve months after respondents forecast no change in Q3.



# 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 December 2017 with responses received until 12 January 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 1570 company responses were received, with 434 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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## Disclaimer



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