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Q1 2018: Portugal Commercial Property Monitor

Occupier demand rising at the sharpest pace on record

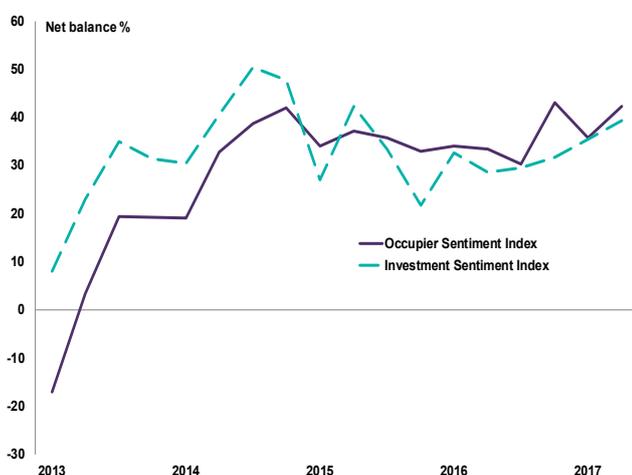
Occupier Market

- The Occupier Sentiment Index climbed to +42 in the latest results, following a figure of +36 in the previous quarter. This elevated reading is indicative of a significant quarterly rate of improvement in overall occupier market conditions.
- At the headline level, a net balance of +58% of respondents noted an increase in occupier demand during Q1. This represents the strongest reading since this series began in 2013, with all sectors (office, industrial and retail) seeing a robust rise in demand.
- The availability of leasable space declined sharply over the quarter, with space across the retail and office sectors seeing particularly steep falls. On the back of this, landlords chose to reduce the value of incentive packages right across the board.
- Respondents expect prime office rents to see the strongest growth over the next twelve months, relative to all other sectors, by some margin. Meanwhile, solid rental gains are also expected in the prime industrial, retail and secondary office sectors. By way of contrast, the outlook is broadly flat for secondary industrial and retail rents.
- The rental outlook across Lisbon appears slightly stronger than the national average for all sub-markets covered by the survey, although secondary industrial and retail rents are only expected to rise marginally.

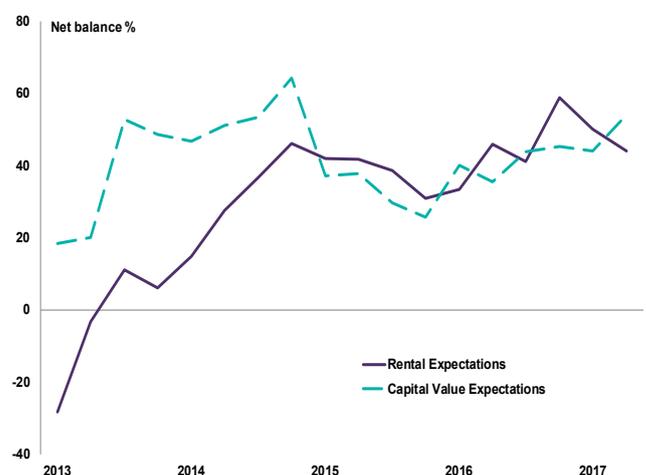
Investment Market

- The Investment Sentiment Index rose to +39 during Q1, representing the strongest return since the start of 2016. As such, this measure is signalling a renewed pick-up in investment market momentum over the quarter.
- Investment enquiries increased across all areas of the market, with a headline net balance of +54% of respondents noting a rise. Interest from foreign investors grew at an even sharper rate, with office and retail assets leading the way.
- The supply of property for investment purposes declined in Q1, having held more or less steady over each of the previous two quarters. That said, the supply of retail properties on the market saw little change.
- Capital value expectations for the year ahead remained more or less unaltered across most market segments relative to the previous results. Prime industrial projections were upgraded however, although respondents still forecast prime office and retail values posting stronger gains.
- Lisbon displays stronger capital value expectations than the national figures, with the prime retail and office sectors exhibiting the firmest outlook.
- 50% of respondents feel the market is in the middle stages of an upturn, albeit around one third feel conditions are close to peaking in the current cycle.

Occupier and Investment Sentiment Index



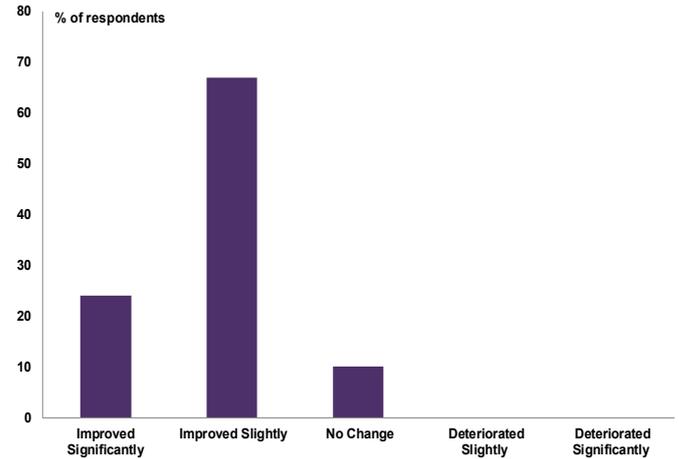
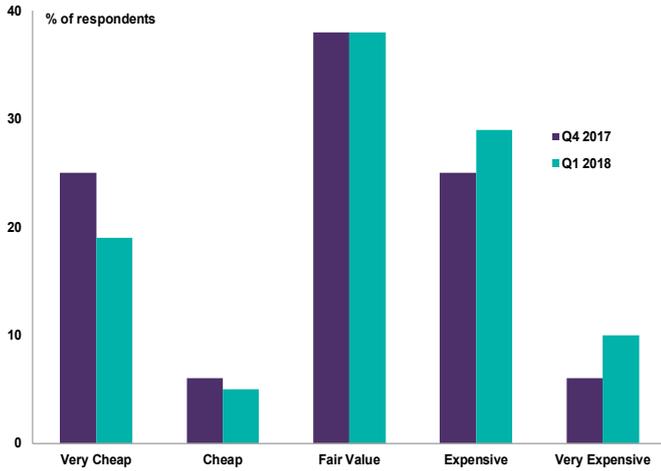
Rental and Capital Value Expectations



Commercial Property Market

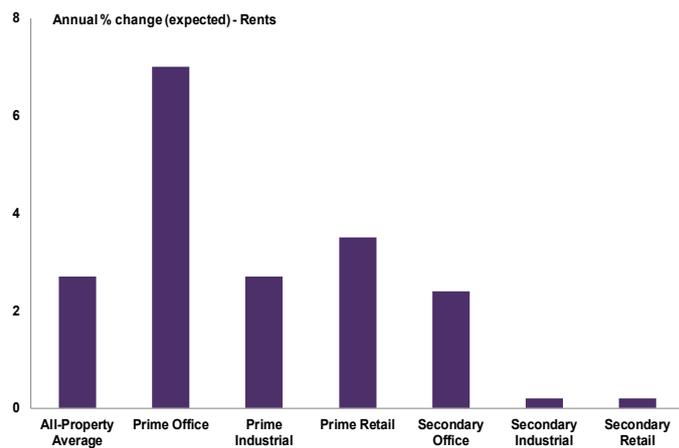
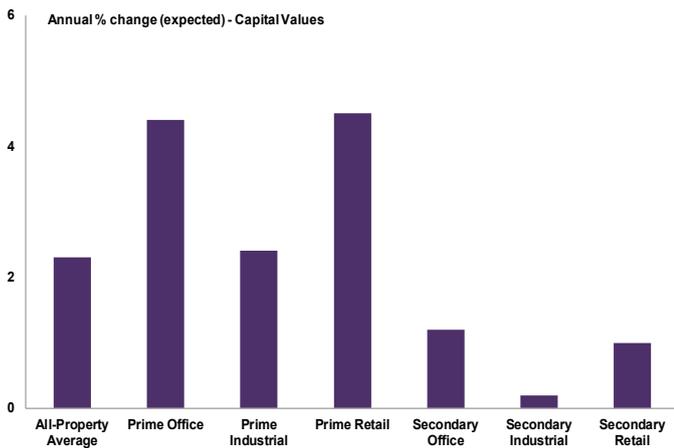
Market Valuations - A majority of respondents (62%) continue to view the commercial real estate market as either at or below fair value. However, the share of contributors sensing values are expensive to some extent rose to 39% (from 31% in Q4).

Credit Conditions - A strong majority of contributors reported an improvement in financing conditions over the quarter.



12m Capital Value Expectations - The prime retail and office markets display the strongest capital value expectations for the year ahead. Secondary office and retail values are expected to post marginal gains, although the outlook is flat for secondary industrial.

12m Rental Expectations - Solid rental growth is expected in all prime sub-sectors, with prime office rents anticipated to see the sharpest gains over the coming year. Secondary office rents are also anticipated to rise, but rents for secondary industrial and retail space display a flat outlook.



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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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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