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Q3 2018: Portugal Commercial Property Monitor

Strong demand and falling availability drives the Occupier Sentiment Index to a fresh high

The Q3 2018 Portugal Commercial Property Monitor results point to a significant tightening in the occupier market, with demand growth increasingly outstripping that of supply. The office sector in particular displays robust rental growth expectations as a result, which seems to have driven a significant pick-up in development activity. The investment side of the market also remains strong, with solid investor activity set to deliver further near term capital value growth. Beyond this, the outlook should continue to be supported by a favourable economic backdrop, even if growth turns out to be a little softer than in 2017.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market variables shown on chart 1 overleaf) climbed to +47 in Q3, marking a fresh new high for the series which started in 2013. As such, this indicator is pointing to robust momentum behind the occupier market.
- Demand from occupiers increased sharply, with a headline net balance of +57% of respondents reporting a rise in Q3. The strongest quarterly pick-up was once again seen in the office sector' although demand for industrial and retail space also increased in solid fashion.
- Availability declined in each area of the market covered by the survey over the quarter (office, industrial and retail). This prompted landlords to reduce incentives right across the board.
- Compared with the Q2 results, respondents upgraded their rental growth expectations for prime office space, with this sub-sector now leading the way by some margin. Conversely, rental expectations were revised down slightly for the industrial and retail sectors, albeit solid growth is still anticipated across prime locations (chart 6).
- Robust rental growth prospects across the office sector appear to be driving a significant pick-up in development activity. Indeed, a net balance of +75% of respondents noted an increase new office construction work during Q3.

Investment Market

- The Investment Sentiment Index (an amalgamation of investment market indicators also shown on chart 1) eased marginally to +40, from +45 in Q2. Nevertheless, this firmly positive reading continues to signal solid overall conditions in the investment market at present.
- At the headline level, a net balance of +63% of respondents cited a quarterly increase in investment enquires, the strongest reading since the start of 2016. Demand from foreign buyers also picked-up again, led by the office and retail sectors.
- Having fallen in each of the last two quarters, the supply of property available for investment purposes was little changed in Q3. When broken down, a small decline in the industrial sector was offset by a slight rise in retail properties on the market.
- Respondents returned stronger twelve month capital value expectations for prime and secondary offices compared with Q2. Prime industrial projections were left broadly unchanged although the outlook for secondary was revised from marginally positive to flat. Both prime and secondary retail capital value expectations were trimmed in the latest figures, albeit both remain comfortably positive (chart 5).
- 63% of contributors view commercial real estate to offer at least fair value for investors currently. This is up from 53% in Q2 but broadly in-line with the average over the past four quarters (chart 4).
- 50% of respondents sense conditions are close to peaking in the current cycle. That said, the remainder view the market to be either in the early or middle stages of an expansionary phase.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

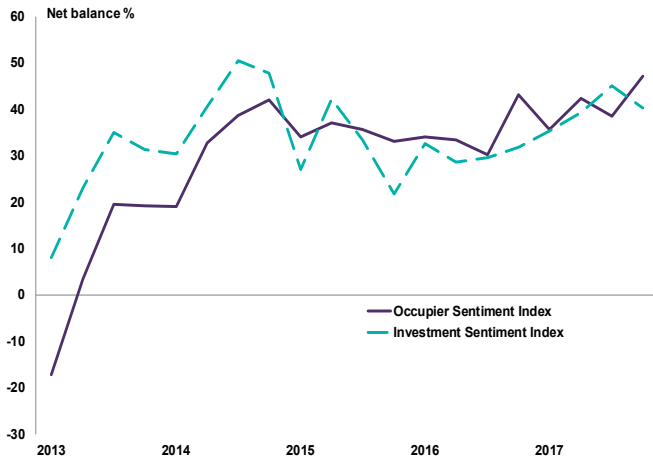


Chart 2: 3-month Rents, Capital Values

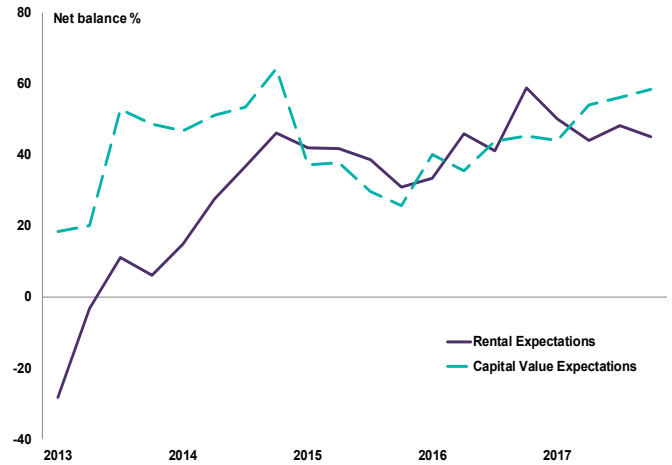


Chart 3: Credit Conditions

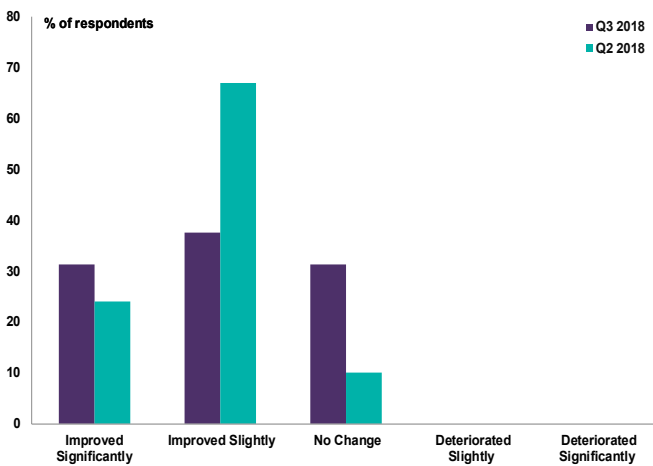


Chart 4: Valuations

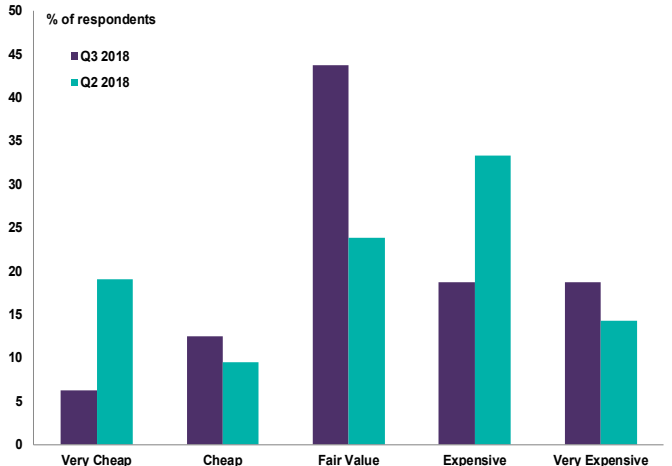


Chart 5: 12-month Capital Values Forecast

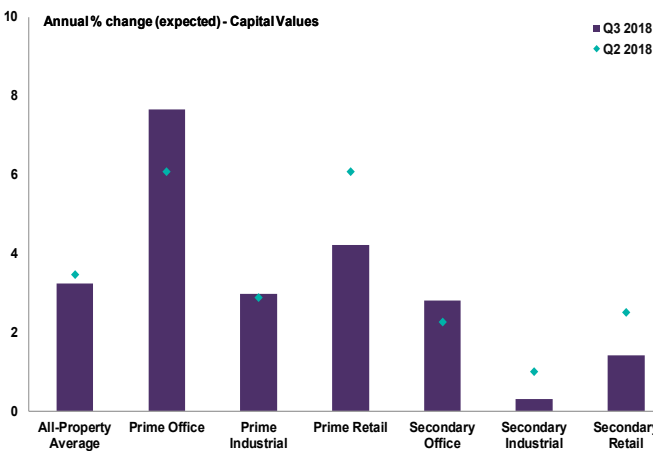
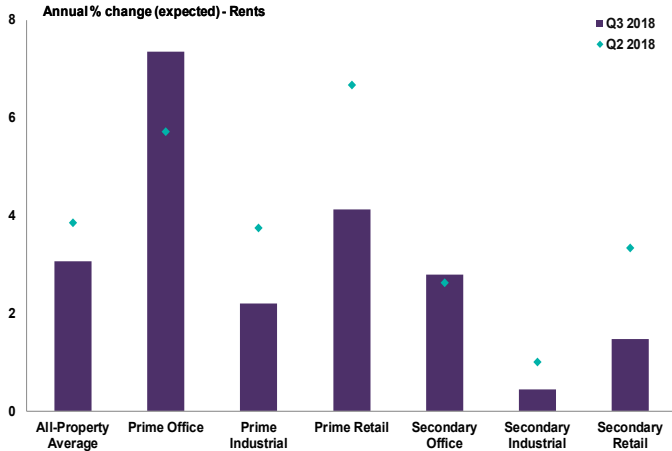


Chart 6: 12-month Rent Forecast



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 June 2018 with responses received until 8 July 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 1965 company responses were received, with 371 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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