Sentiment turns slightly less positive as global economy loses momentum

- Real estate cycle moves closer to the downturn phase
- Forward-looking indicators are still consistent with a ‘soft landing’
- European markets continue to display most resilient trend with more mixed signals across APAC

Sentiment across much of the real estate world appears to have turned a little less positive in the third quarter of the year according to results of the Q3 2019 RICS Global Commercial Property Monitor (GCPM). In some cases, concerns have grown around the flagging momentum of economic activity. However the impact of a more challenging macro environment has, in part, been offset by the response from policymakers with interest rates being cut in a number of economies and quantitative easing, in some form, being resurrected.

The slightly more cautious tone is reflected in the headline readings for both the Occupier Sentiment Index (OSI) and the Investment Sentiment Index (ISI). An unweighted average of the major investible (and larger emerging) markets shows the former to have slipped from 0 in Q2 to -11 and the latter from +4 to -4. Since the underlying components of these two composite measures capture changes compared with the preceding period, it suggests only a modest dip in confidence overall despite the economic hiatus.

Real estate cycle shifts into downturn phase

Although the key indices monitored in the GCPM have only edged lower in a modest way, there is still a sense from respondents that the real estate cycle is gradually moving into a downturn phase. In terms of the key group of markets that we focus on, more than half of all contributors are now intimating the market is in an upturn phase has dropped to around 15 per cent with around double this proportion viewing the market in the peak phase of the cycle.

Significantly, despite the more downbeat view as to where the real estate market is in the cycle, there is still a strong sense that it is headed towards a soft-landing rather than anything more painful; this is broadly consistent with the OSI and ISI indicators referenced earlier. This sentiment is also visible in the responses to the question on expectations for capital values over the next twelve months which are broadly unchanged on where they were in Q2 and consistent with a largely flat picture.

Inevitably there are exceptions to this more cautious pattern but they are typically in some emerging markets. Brazil is an example standing out from the crowd with more than eighty per cent of respondents seeing the market as being in upturn mode. Feedback from some African markets including Nigeria paint a similar, if somewhat less emphatic, picture, as does Saudi Arabia.

Sentiment in euro markets remains relatively upbeat

Although as noted earlier, the sentiment readings for Q3 are a little less upbeat than previously, there is a commonality in the broad regional story. European markets in general continue to score relatively highly with Germany and Netherlands, amongst others, still showing resilience away from the retail sector. The feedback from the UK is still reflective of the uncertainty associated with Brexit which is impacting on investor behaviour. Meanwhile, the main Middle East centres remain stuck, to a greater or lesser extent, in negative territory with insight from the UAE providing little reason for encouragement as to any near-term improvement.

The results across APAC are still fairly mixed reflecting the very different dynamics in play through the region. The numbers for New Zealand and India are consistent with a modestly positive trend in sentiment while Singapore remains in neutral territory. In contrast, the Chinese OSI and ISI have been slipping slightly in each of the past four quarters, with forward looking indicators providing little reason for sensing this trend will reverse anytime soon. Predictably, in view of recent developments in Hong Kong, the results for the SAR have seen a significant downshift both in terms of the occupier and investor mood music. Finally, the feedback for the US is pointing to little near-term change in the market, and twelve month expectations are telling a similar story.

Retail remains a drag on performance

It would be misleading to suggest this is a fully global phenomenon, with some positive trends visible particularly in a number of emerging markets, but the direction of travel is clear as structural change in shopping habits gathers pace. Most of the more mature markets have negative readings both for the retail sector OSI and ISI although, unsurprisingly, expectations differ materially between prime and secondary space with the outlook for the latter significantly more challenging. The industrial sector is a direct beneficiary of the softer trend in the retail numbers but the survey is also continuing to show a generally positive assessment of the outlook for offices with occupier demand still being supported by economic activity even if it is less robust than it has been.

September saw the launch of the International Construction Measurement Standard (ICMS2) developed by a 50 strong global coalition of professional bodies including RICS. Its purpose is to bring greater transparency to construction costs. Click here to find out more.
Chart 1 Occupier Sentiment Indicator

Net balance %

Current OSI
Previous OSI

Chart 2 Investment Sentiment Indicator

Net balance %

Current ISI
Previous ISI
Chart 3 Occupier and Investor Sentiment Indices - All sectors (net balance %)
Indicative of momentum over the previous quarter

Chart 4 Twelve Month Rental and Capital Value Expectations - All sectors (net balance %)
Chart 5 Valuations Perceptions
% of respondents viewing their local market as cheap, fair value or expensive
Chart 6 Property Cycle
% of respondents perceiving market conditions to be in various stages of the cycle
Regional Comments from Survey Participants

"Holding steady at just below the peak for office, residential, industrial. Retail is seeing a downward trend due to pressure on rents resulting in consolidation, closures and bankruptcies. This should reflect an adjustment in the retail market over the next 12-24 months"

"In the Paris office market, prime rents continue to increase, vacancy rates are still extremely low at 1.6% and tenant demand is stable. I’m concerned about the future effects of Brexit and the German economy and whether this will precipitate the end of market’s peak"

"The market has stagnated due to sluggish demand and low availability of funds. But the position is expected to strengthen due to increased foreign investments and policy initiatives"

"Benefiting from the further easing of monetary policy such as the central bank’s RRR cut, the value of the commercial real estate market will increase slightly, but rent levels will be affected by e-commerce. Rents of retail commercial property are unlikely to rise steadily"

"Optimistic about the market, despite the delayed recovery due to the economic political scenario"

"As a result of low spending by the government on infrastructure and other basic needs, there are impediments to funds that can go into real estate. This will change considerably as soon as spending increases from government"

"Generally the market is observing a downturn, supply is more than demand which is reducing prices of properties. Things are expected to improve in the coming quarter or two"

"Trade war may impact global markets further with talk of recessionary economic conditions. Interest rates are falling in New Zealand as a partial response. Road infrastructure spending has fallen. Americas Cup will stimulate income for Auckland businesses"
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 12 September 2019 with responses received until 13 October 2019. 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 3363 company responses were received, with 784 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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Responses were gathered in conjunction with the following organisations:
Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the valuation, development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to markets and effecting positive change in the built and natural environments.

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