



Q1 2015: Russia Commercial Property Monitor

Real estate market set for further weakness

Key macroeconomic trends

The Russian economy is set to remain mired in recession in 2015. The economy has been hammered by a number of negative factors including the plunge in the oil price, the application of 'western' sanctions and the central banks raising of interest rates. Indeed, industrial production in February contracted by 1.6% on an annual basis, and the forward looking manufacturing PMI suggests that industrial output will likely continue to edge down. Overall, the economic downturn will continue to be broad based. Further deterioration in economic activity will likely lie ahead. We believe a significant recovery in oil prices and/or a durable and peaceful solution to the conflict in Ukraine will be required to counter the sharp contraction in growth. That said, the probability of these events occurring is still low in the near term which helps to explain the poor readings for both occupier and investor sentiment.

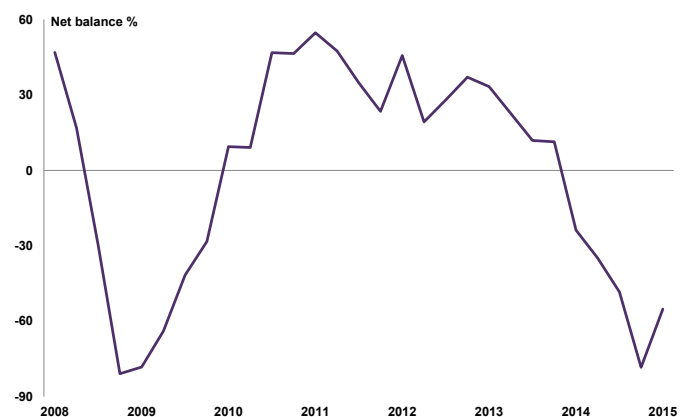
Occupier Market

- The Occupier Sentiment Index remained firmly entrenched in negative territory at -55 in Q1.
- Occupier demand decreased sharply across all sectors for the fifth consecutive quarter. Alongside this, supply and the level of inducements offered by landlords picked up again over the quarter but at a slower pace than in the previous quarter.
- Against this backdrop, headline rents are projected to continue declining notably in the near term and over the year ahead.
- Respondents are now projecting rents to fall by 9% on average with the prime office and secondary retail areas forecast to see the biggest drops.

Investment Market

- The Investment Sentiment Index remains negative but to a slightly lesser extent than previously at -62.
- Investor demand contracted significantly across all segments of the market with the office sector being particularly badly hit. Demand from foreign buyers has declined sharply.
- A net balance of 91% of respondents thought credit conditions in the commercial sector deteriorated in Q1.
- Capital values are expected to fall across all sectors, both at the three and twelve month horizons with a drop of around 7% projected over the course of 2015.
- Interestingly, after the fall in the market, around one third of respondents are now viewing real estate (or certain sectors) as cheap or very cheap.

Occupier Sentiment Index



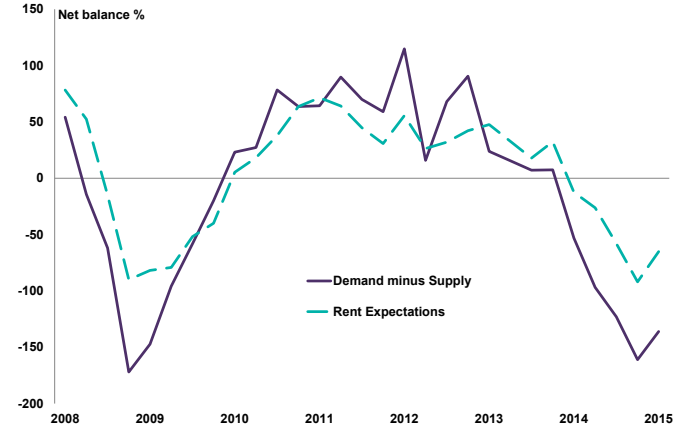
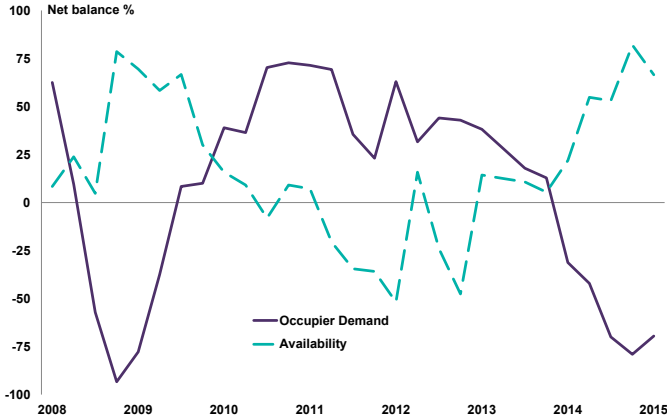
Investment Sentiment Index



Commercial Property Market

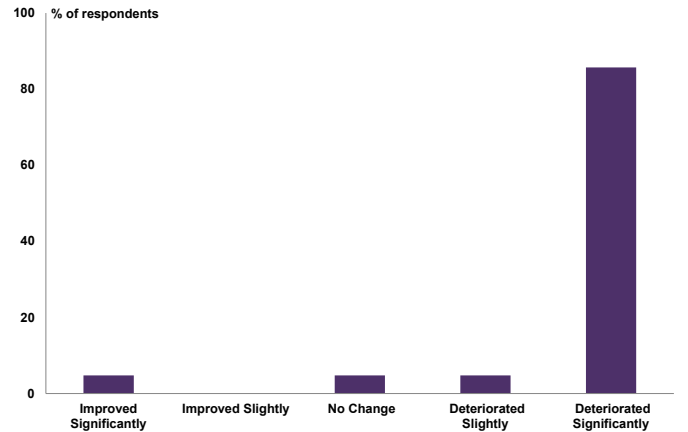
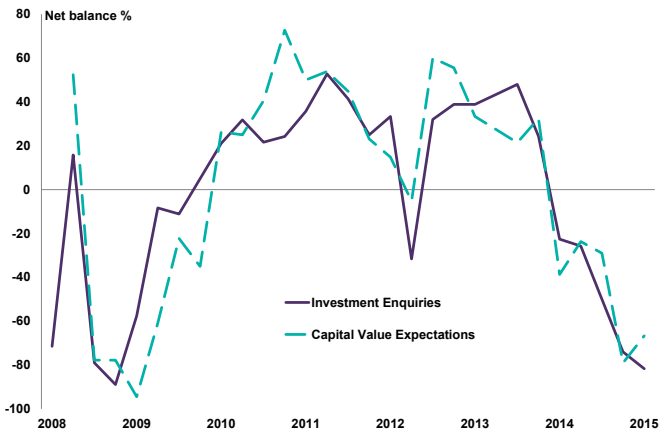
Occupier Demand and Available Space - Occupier demand contracted again in Q1 as supply of leasable space continued to rise.

3 Month Rental Expectations - The glut of supply and weak demand has left rent expectations firmly in negative territory.



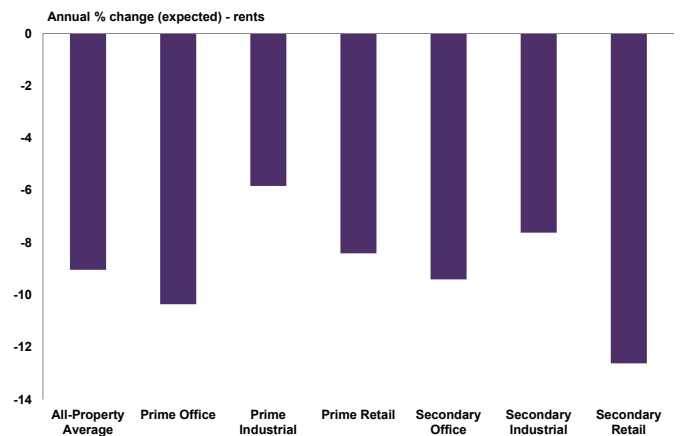
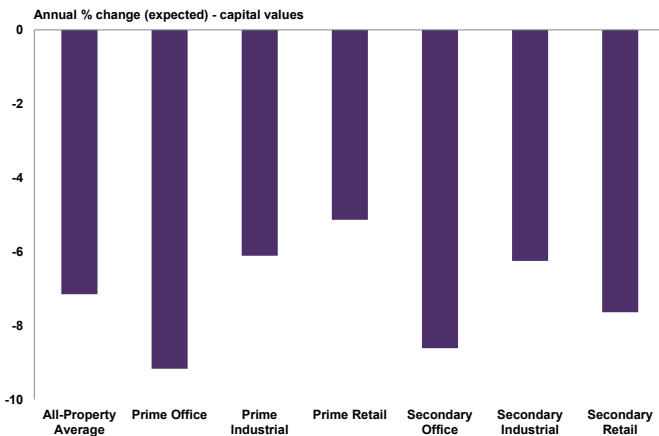
3 Month Capital Value Expectations - Investor demand continued to decrease during Q1, which is taking its toll on sentiment regarding capital values.

Credit Conditions - The majority of respondents saw credit conditions deteriorate in Q1 relative to the previous quarter.



12 Month Capital Value Expectations - Respondents expect capital values to fall across all sectors over the coming twelve months.

12 Month Rent Expectations - Likewise, rents are expected to fall quite sharply across all markets over the year to come.



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 Global Commercial Property Monitor is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity, the farmland market and arts and antiques.

Methodology

Survey questionnaires were sent out on 9th March 2015 with responses received until 2nd April 2015. Respondents were asked to compare conditions over the latest three months with the previous three months. A total of 1240 company responses were received, with 253 from the UK. Responses for Ireland were collated in conjunction with Society of Chartered Surveyors Ireland.

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.

A positive net balance reading indicates an overall increase, 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 distressed properties.

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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