



## Q2 2015: Russia Commercial Property Monitor

# Occupier sentiment continues to decline as economy heads deeper into recession

### Key macroeconomic trends

The recession in Russia appears to be deepening with the economy contracting by 1.3% in Q1 and business surveys pointing toward a further contraction in the second quarter. The fall in the price of oil and the western economic sanctions are taking their toll on the economy. The unemployment rate continues to drift upwards and wage growth has fallen substantially with real wages declining even more due to the soaring inflation rate since the start of 2015. Against this weak economic backdrop, occupier sentiment continues to deteriorate with the RICS Occupier Sentiment Index recording a value of -44% in Q2. Tenant demand fell substantially across all sectors while the stock of available space continued to rise. Rent expectations are negative in each sector over the coming 12 months with secondary space forecast to see the largest falls. Investment sentiment also continues to deteriorate, albeit at a lesser pace than previously with investor demand falling in each sector for the sixth consecutive quarter. The easing in monetary policy during the quarter appears to be helping somewhat with respondents reporting credit conditions to have improved slightly over the quarter.

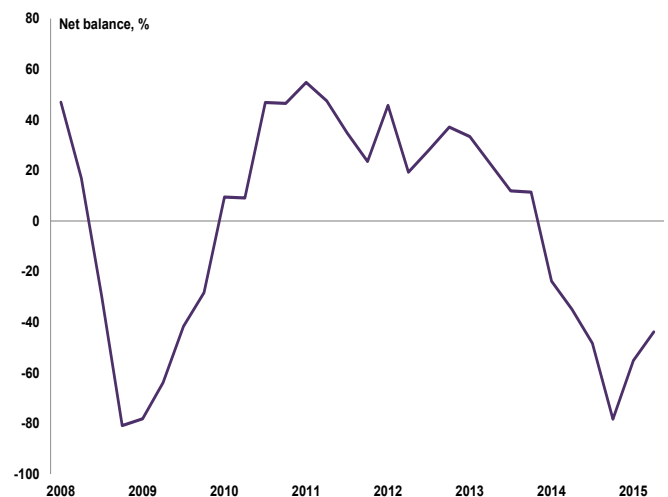
### Occupier Market

- The RICS Occupier Sentiment Index remained in negative territory for the sixth consecutive quarter with a reading of -44%.
- Occupier demand contracted sharply across all sectors.
- The supply of leasable space increased again in Q2 and landlords have been raising the value of the incentive packages on offer to tenants as market slack continues to build.
- Rent expectations remained in negative territory across all sectors with respondents forecasting the retail sector to see the sharpest fall in the coming 12 months.

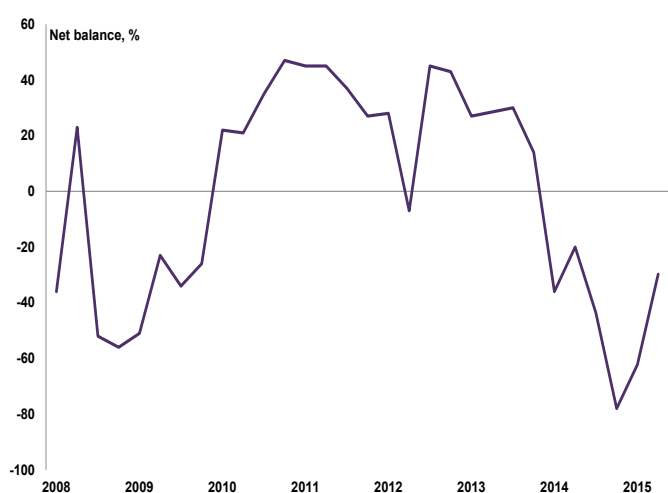
### Investment Market

- The RICS Investment Sentiment Index remained firmly in negative territory in Q2 with a reading of with a value of -30.
- Investor demand contracted in each part of the market, albeit at a more moderate pace than in previous quarters. Demand from foreign buyers continues to fall sharply.
- The supply of properties for sale continues to increase in each segment of the market.
- Monetary policy has been easing through most of this year following the large increase in rates in Q4 last year. On balance, contributors noticed an easing in credit conditions in the sector in Q2.
- Capital values are expected to fall in each sector over the coming year with a drop of 2.4% forecast.

Occupier Sentiment Index



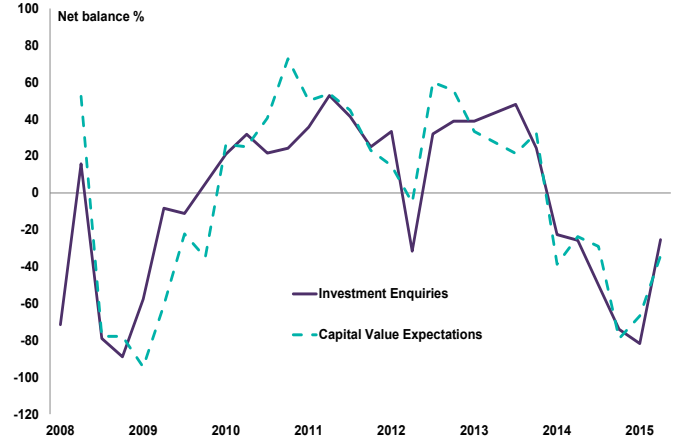
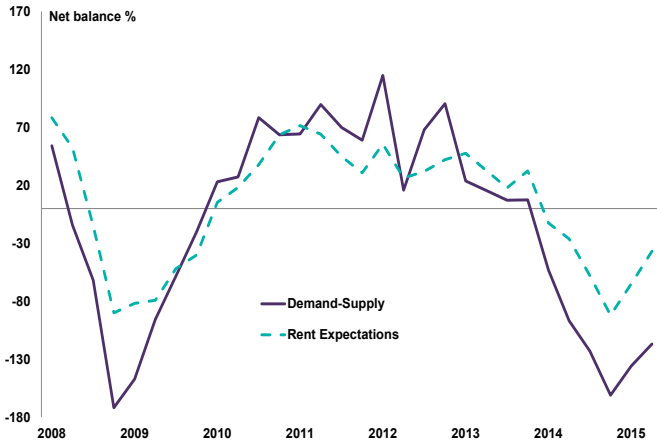
Investment Sentiment Index



# Commercial Property Market

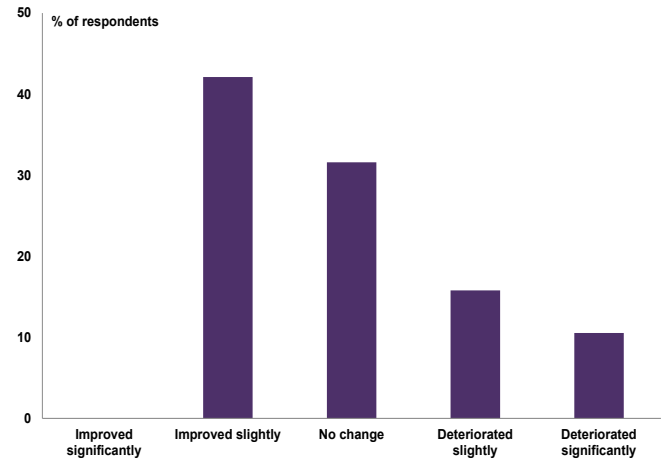
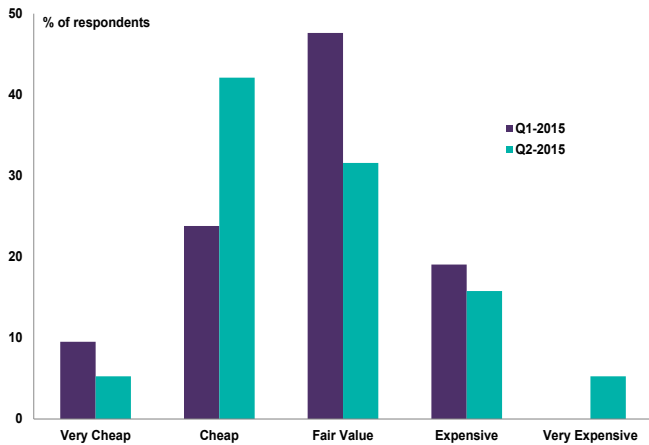
3 Month Rental Expectations - The falling demand and rising level of vacancies is keeping rent expectations negative.

3 Month Capital Value Expectations - Investor demand continues to contract and capital values are expected to fall in the coming months.



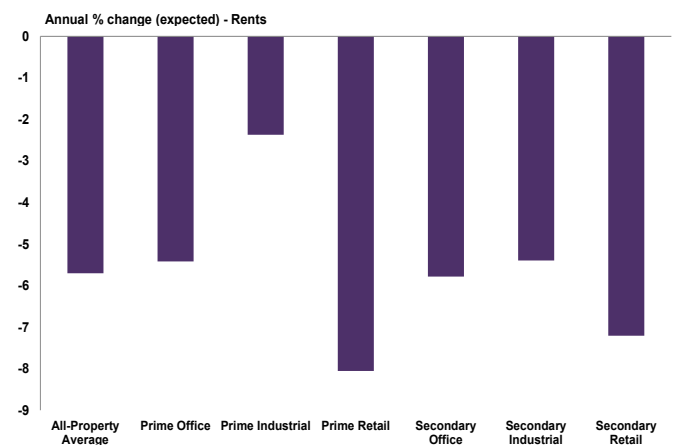
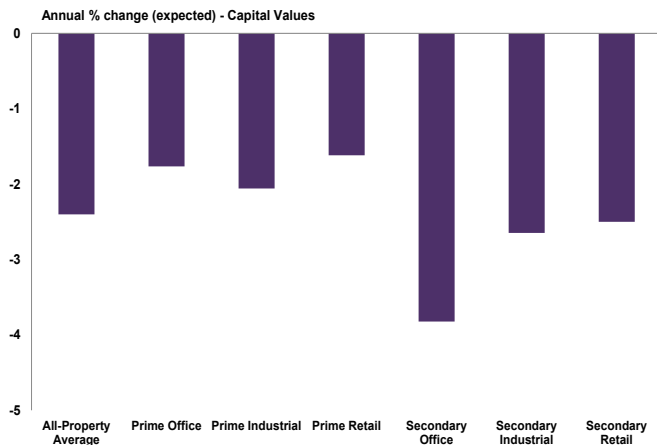
Market Valuations - A higher proportion of contributors think the market is cheap but capital values are still expected to fall over the year to come (see below).

Credit Conditions - Thanks to the recent monetary easing, a net balance of 16% of contributors thought credit conditions had improved over the quarter.



12 Month Capital Value Expectations - Capital values are expected to fall in the coming 12 months, although by a lesser degree than was forecast in Q1.

12 Month Rent Expectations - Rental values are expected to decrease in each sector with retail units seeing the sharpest fall.



# 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 Cities Commercial Property Monitor is available from the RICS website [www.rics.org/economics](http://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 10 June 2015 with responses received until 3 July 2015. 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 1294 company responses were received, with 283 from the UK. Responses for Dublin were collated in conjunction with the Society of Chartered Surveyors Ireland.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a city 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](mailto:economics@rics.org)

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