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Q2 2018: Spain Commercial Property Monitor

Market conditions continue to strengthen

The Q2 2018 Spain Commercial Property Monitor results signal some renewed vigour behind the market in Q2, particularly on the investment side, with demand growth accelerating and capital value projections revised higher. The robust performance of the Spanish economy remains a key support, which continues to defy the broader slowdown seen in across eurozone through the opening stretch of the year. On the occupier side, strong job creation and employment growth continues to fuel tenant demand, producing an all-round solid outlook for the commercial market over the next twelve months.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market variables shown on chart 1 overleaf) returned a figure of +39, identical to the previous reading. Consequently, this strong figure suggests the occupier market continues to retain robust momentum.
- The Q2 results once again show a significant rise in demand from occupiers across all sectors, with the office and industrial portions of the market showing a particularly strong rate of growth.
- Having reportedly declined in each of the last thirteen quarters, respondents cited a flat trend in the availability of leasable space over the quarter. This trend was mirrored across each sector (office, industrial and retail).
- Landlords reduced the value of incentive packages on offer in the office and industrial segments, but left inducements unchanged across the retail sector.
- Respondents made noticeable upgrades to rental growth expectations for the year ahead compared with Q1. In fact, headline projections are now at their strongest level going back five quarters. Upward revisions came across each sub-sector, with prime office and industrial rents seen posting the sharpest increase (chart 6).
- Rental growth projections across Madrid are still closely aligned with those at the national level, with respondents also raising their forecasts across all sectors of the Spanish capital. That said, any rental increases across secondary retail space are anticipated to be only marginal.

Investment Market

- The Investment Sentiment Index (an amalgamation of investment market indicators) picked up to +32 in Q2, following a reading of +24 previously. This brings to an end a run of five successive quarters in which this indicator had eased, indicative of some renewed momentum.
- Investment enquiries rose in solid fashion across all sectors in Q2, with the rate of demand growth accelerating most significantly for industrial assets over the quarter. Likewise, interest from foreign buyers also increased within each area of the market.
- The supply of property on the market for sale held broadly steady at the headline level for a fourth quarter in succession. That said, respondents did report a slight decline in the number of retail properties available for investment purposes.
- Near term capital value expectations strengthened slightly at the headline level (chart 2) although this was entirely down to an improvement in the office sector. Over the next twelve months however, respondents are more confident of seeing further gains across all sectors than was the case last quarter. Prime offices exhibit the most elevated projections although solid capital value gains are expected across the board over the next twelve months (chart 5).
- In Madrid, growth in both prime office and prime retail values is anticipated to outstrip the national average over the coming twelve months.
- Close to three quarters of respondents nationally feel commercial property prices are either at or below fair value at present (chart 3). Meanwhile, 55% feel the market is still in the middle stages of an upturn (unchanged from last quarter).

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

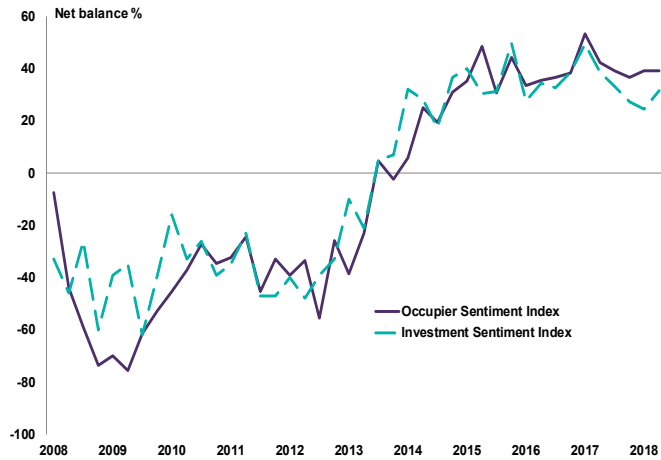


Chart 2: 3-month Rents, Capital Values

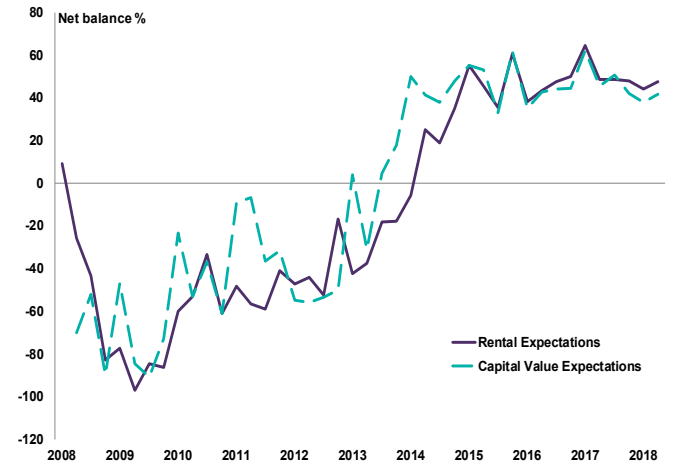


Chart 3: Credit Conditions

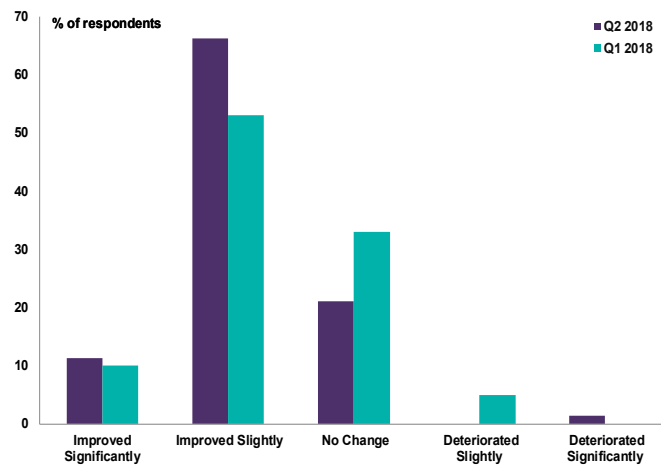


Chart 4: Valuations

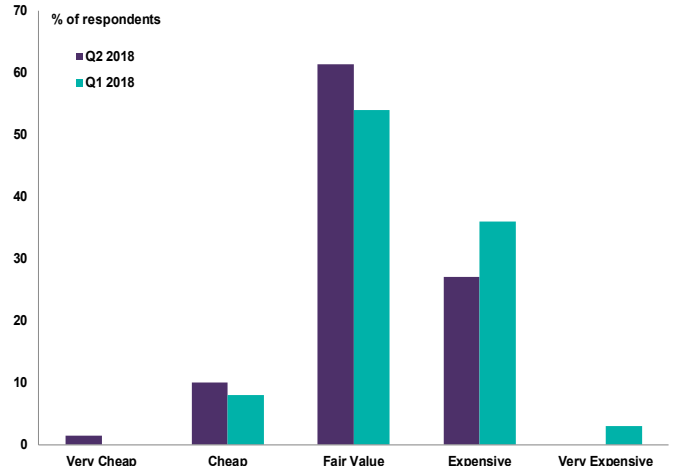


Chart 5: 12-month Capital Values Forecast

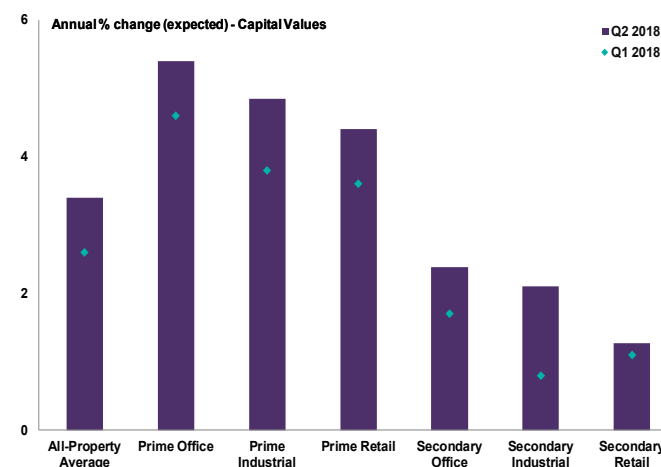
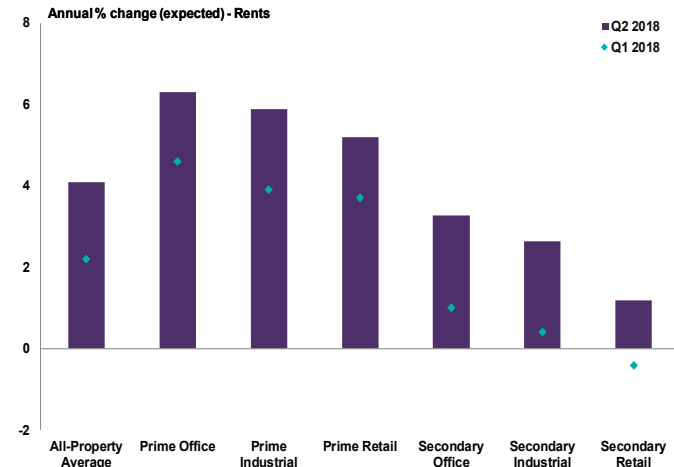


Chart 6: 12-month Rent Forecast



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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Economics Team

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Kisa Zehra

Economist

+44(0)20 7695 1675

kzehra@rics.org

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org



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United Kingdom RICS HQ

Parliament Square, London
SW1P 3AD United Kingdom

t +44 (0)24 7686 8555

f +44 (0)20 7334 3811

contactrics@rics.org

Media enquiries

pressoffice@rics.org

Ireland

38 Merrion Square, Dublin 2,
Ireland

t +353 1 644 5500

f +353 1 661 1797

ricsireland@rics.org

Europe

[excluding UK and Ireland]

Rue Ducale 67,
1000 Brussels,
Belgium

t +32 2 733 10 19

f +32 2 742 97 48

ricseurope@rics.org

Middle East

Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates

t +971 4 446 2808

f +971 4 427 2498

ricsmenea@rics.org

Africa

PO Box 3400,
Witkoppen 2068,
South Africa

t +27 11 467 2857

f +27 86 514 0655

ricsafrica@rics.org

Americas

One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA

t +1 212 847 7400

f +1 212 847 7401

ricsamericas@rics.org

South America

Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil

t +55 11 2925 0068

ricsbrasil@rics.org

Oceania

Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000, Australia

t +61 2 9216 2333

f +61 2 9232 5591

oceania@rics.org

North Asia

3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong

t +852 2537 7117

f +852 2537 2756

ricsasia@rics.org

ASEAN

10 Anson Road,
#27-16 International Plaza,
Singapore 079903

t +65 6635 4242

f +65 6635 4244

ricssingapore@rics.org

Japan

Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan

t +81 3 5532 8813

f +81 3 5532 8814

ricsjapan@rics.org

South Asia

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org