Solid headline conditions contrast with weakness emerging for secondary retail

The Q2 2019 Spain Commercial Property Monitor results point to continued growth in activity across the market. Indeed, the Occupier Sentiment Index came in at +22 in Q2, still comfortably positive but slightly down on the average of +35 in 2018.

Demand from tenants increased firmly once again in the office and industrial sectors, while the pace of growth eased noticeably for retail (in net balance terms). Alongside this, availability edged down in all but the retail sector, where it remained unchanged following a slight increase in Q1. This prompted retail landlords to increase the value of incentive packages for a fourth straight quarter.

Relative to last quarter, respondents upgraded twelve month rental projections across all categories, with prime industrial and office rents seen posting the strongest growth (5.5% and 6% respectively). Meanwhile, the secondary retail sector continues to display the most subdued outlook, with no rental growth anticipated.

The Investment Sentiment Index registered a value of +17 in Q2. This is slightly higher than +15 in Q1, but down on the average of +25 in 2018. Respondents continue to cite increasing investment enquiries for office and industrial assets, but demand was unchanged in the retail sector. Furthermore, foreign investor demand reportedly fell in the retail sector for the first quarter since this series was introduced in 2015.

Twelve month capital value expectations saw a noticeable improvement in the prime industrial sector compared with Q1 (now at 5.7%). Likewise, prime office values are now forecast to grow at a slightly stronger rate than previously envisaged (4.7%). Conversely, expectations for secondary retail slipped deeper into negative territory.

Although 43% of contributors still feel the market is in the early to middle stages of an upturn, 28% now sense conditions are close to the peak (up from 25% in Q1 and 16% in Q4).
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 2019 with responses received until 8 July 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 3348 company responses were received, with 700 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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Americas

Latin America
ricsamericalatina@rics.org

North America
ricsamericas@rics.org

Asia Pacific

ASEAN
ricsasean@rics.org

Greater China (Shanghai)
ricschina@rics.org

Greater China (Hong Kong)
ricshk@rics.org

Japan
ricsjapan@rics.org

South Asia
ricsindia@rics.org

Oceania
oceania@rics.org

EMEA

Africa
ricsafrica@rics.org

Europe
ricseurope@rics.org

Ireland
ricsireland@rics.org

Middle East
ricsmiddleeast@rics.org

United Kingdom RICS HQ
contactrics@rics.org