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Q3 2017: Spain Commercial Property Monitor

Solid demand set to drive capital values and rents higher

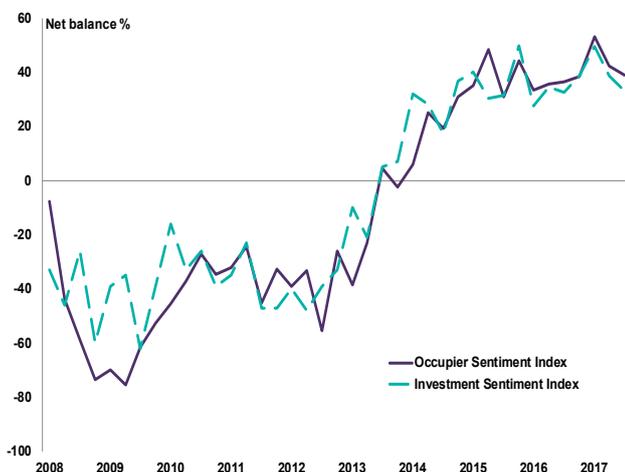
Occupier Market

- The Occupier Sentiment Index (a combined measure capturing overall conditions in the occupier market) returned a reading of +39. This is indicative of strong momentum behind the occupier market, albeit not quite as robust as earlier in the year.
- Tenant demand continued to rise across each area of the market (office, industrial and retail), extending a run of uninterrupted demand growth dating back to 2013.
- Each sector again saw a decline in space available for occupancy, with leasable space falling most noticeably in the office sector. Strong demand and shrinking supply prompted landlords to reduce the value of incentive packages on offer to tenants, right across the board.
- Rental expectations for the year ahead are firmly positive in each sub-sector, with prime office and retail space still leading the way. Rents are also anticipated to rise in all secondary markets, albeit more modestly than for prime locations.
- Rental growth projections in Madrid are more or less aligned with the national average, although the outlook is slightly stronger for office rents across the Spanish capital.

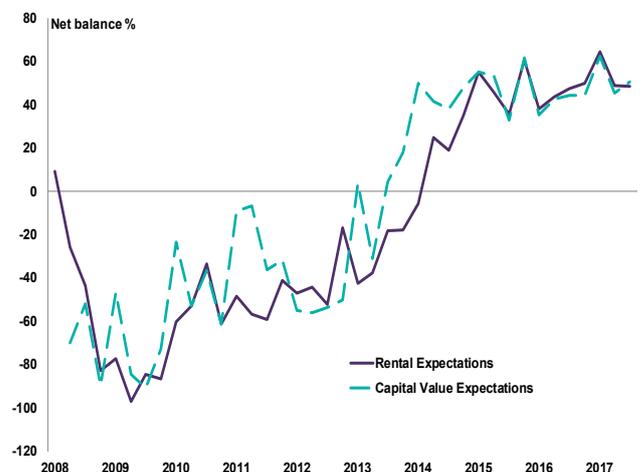
Investment Market

- The Investment Sentiment Index stood at +33 in Q3. Although this measure has now eased in two successive quarters (from +49 in Q1), it is still signalling solid momentum in the investment market at present.
- Investment enquiries continued to rise across each area of the market, with growth strongest in the retail sector and a little more modest in the industrial segment. Interest from foreign buyers also rose across all sectors, at a similar pace to that reported over the past four quarters.
- Meanwhile, the supply of property for investment purposes held broadly steady in Q3. This was the first occasion since 2015 in which supply was not reported to have declined.
- Over the next twelve months, capital values are expected to post strong growth across all prime markets, with retail and offices again exhibiting the firmest projections. Expectations for secondary markets are also positive, albeit only modestly.
- Relative to the national average, capital value expectations in the office and retail sectors are stronger in Madrid. Meanwhile, projections across the industrial sector are slightly more modest in comparison.

Occupier and Investment Sentiment Index



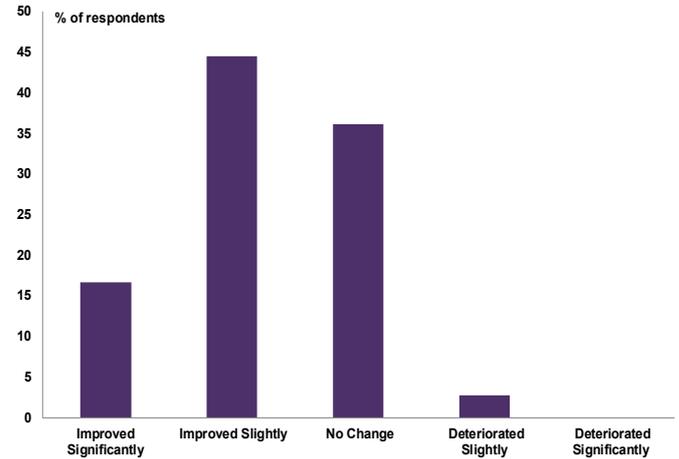
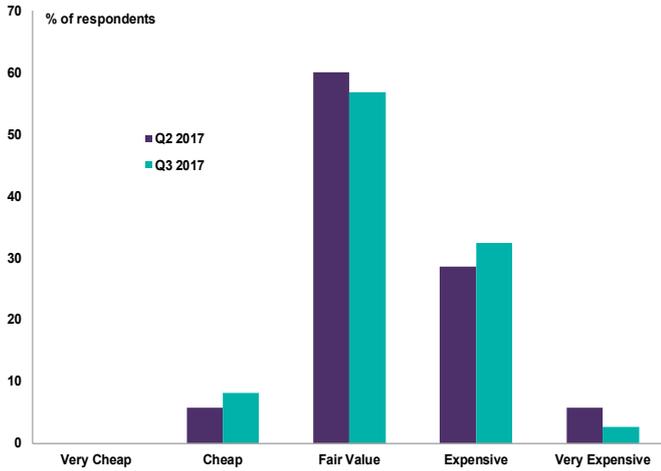
Rental and Capital Value Expectations



Commercial Property Market

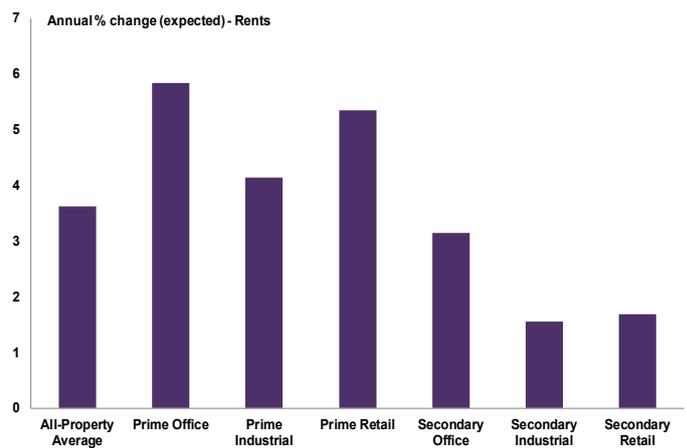
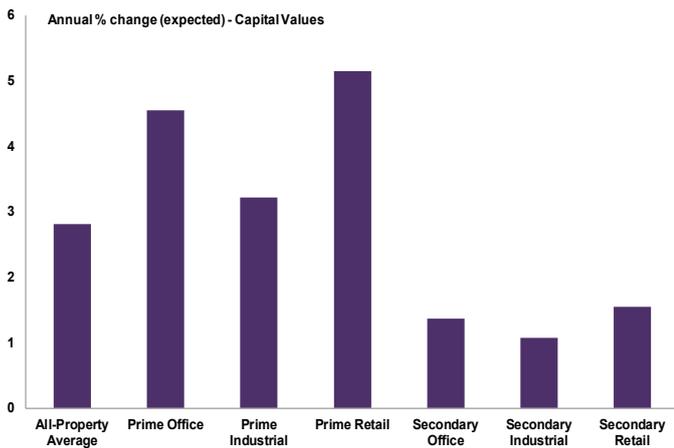
Market Valuations - Although a majority of respondents (65%) feel commercial real estate prices are either at or below fair value, this proportion has steadily declined from around 80% a year ago.

Credit Conditions - Financial conditions continued to improve during Q3, supported by ongoing policy easing from the ECB.



12m Capital Value Expectations - All-sector capital value expectations were largely unaltered relative to Q2. In terms of the breakdown, upward revisions to prime retail were offset by modest downgrades to the outlook for prime industrial values.

12m Rental Expectations - Respondents continue to foresee strong rental growth across all prime markets over the year ahead, while projections remain comfortably positive (albeit more modest in comparison) for secondary locations.



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 14 June 2017 with responses received until 10 July 2017. 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 1427 company responses were received, with 316 from the UK. Responses for Ireland 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 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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