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## Q3 2018: Spain Commercial Property Monitor

# Expectations remain generally solid but point to a loss of momentum

The Q3 2018 Spain Commercial Property Monitor results show the robust momentum reported over recent quarters has been slightly tempered, although the outlook remains comfortably positive across most parts of the market. Looking at the breakdown between sectors reveals much of the easing in demand growth to be stemming from the retail segment, likely attributable to a slower rate of consumer spending growth of late. Nevertheless, expectations point to firm growth in both the industrial and office sectors, supported by a still solid expansion across the economy.

### Occupier Market

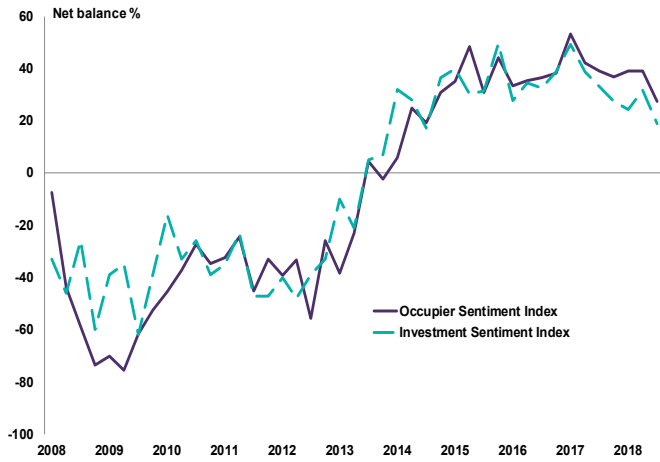
- The Occupier Sentiment Index (a combined measure of occupier market variables shown on chart 1 overleaf) eased to +27 in Q3, down from +39 in Q2. Although still comfortably positive and therefore signalling another quarterly improvement in occupier market conditions, this does represent the softest reading since 2014.
- Occupier demand continued to rise across all sectors covered in the survey (office, industrial and retail), with a headline net balance of +43% of respondents reporting an increase. This compares with a reading of +59% in both of the previous two reports.
- Having remained relatively unchanged in Q2, the downward trend in availability was resumed in Q3, with both the office and industrial sectors seeing a decline in vacant space. Availability held steady across the retail sector, while landlords slightly increased the value of incentive packages.
- Twelve month rental growth expectations were pared back slightly over the quarter. Nevertheless, strong growth is still anticipated across all prime markets, led by the office and industrial sectors. Across secondary markets, respondents returned a flat outlook for retail rents, while they anticipate modest growth for the office and industrial sectors (chart 6).
- In Madrid, rental growth expectations remain slightly stronger than the national average in both the office and industrial sectors. By way of contrast, projections in the retail sector are marginally more conservative.

### Investment Market

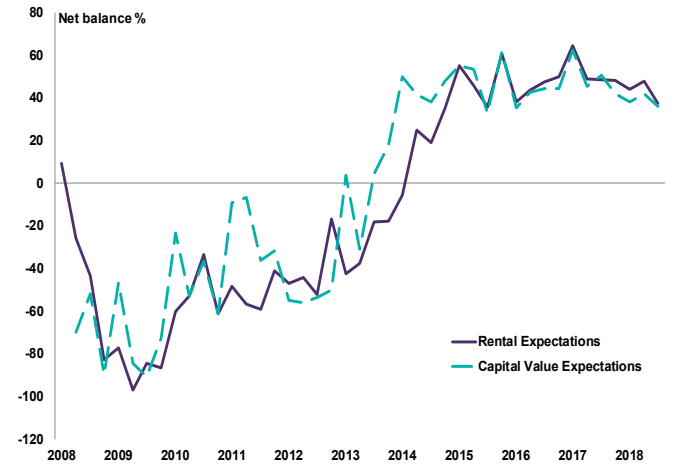
- The Investment Sentiment Index (an amalgamation of investment market indicators) dipped to +19, compared with +32 in Q2. This is again the most modest figure since 2014, but continues to point a still solid backdrop in the investment market nonetheless.
- Respondents reported a solid increase in investment enquiries across the office and industrial sectors during Q3. The demand indicator also remained positive for retail, although only modestly. Foreign investment demand picked-up at a slightly firmer rate across all sectors.
- The supply of property available for investment purposes rose in each area of the market during Q3. The last time this occurred was Q2 2015.
- Capital value expectations were trimmed slightly over the quarter, but remain elevated in most instances. The prime office and industrial sectors are seen posting the strongest growth over the next twelve months, while prime retail also displays solid expectations. Downward revisions to secondary markets left the outlook flat for secondary retail and only modestly positive for office and industrial assets.
- Capital value expectations in Madrid are marginally stronger than the figures for Spain as a whole. The one exception is secondary retail, where projections are more or less aligned with those at the national level.
- 40% of contributors nationally feel commercial real estate is above fair value, up from 27% in Q2 (chart 4).
- Nevertheless, 41% of respondents still feel the market is in the middle stages of an upturn, while only 15% believe conditions have reached the peak phase.

# Commercial Property Market

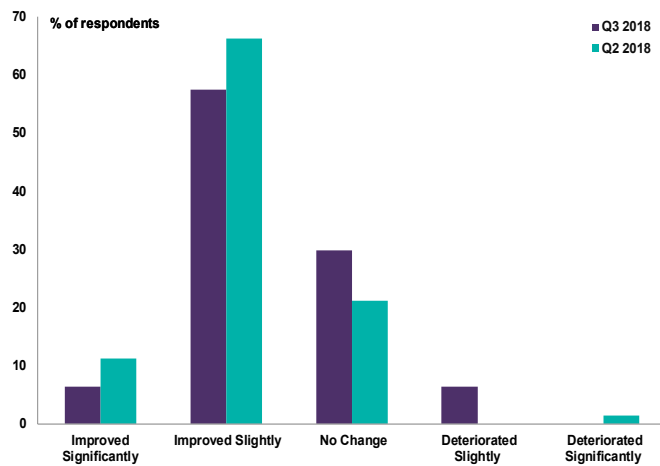
**Chart 1: Occupier, Investment Sentiment Indices**



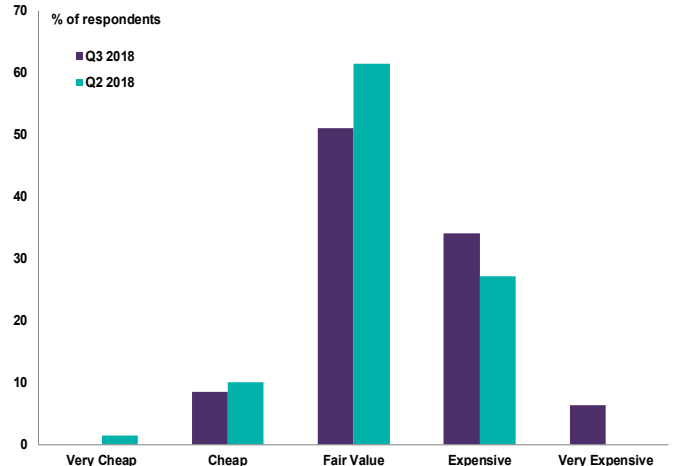
**Chart 2: 3-month Rents, Capital Values**



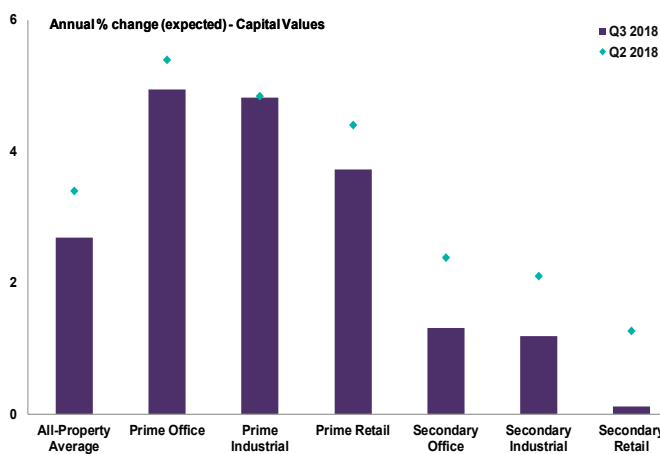
**Chart 3: Credit Conditions**



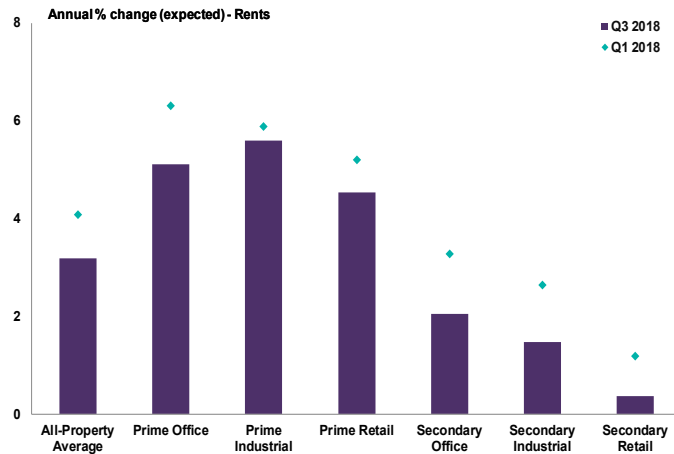
**Chart 4: Valuations**



**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](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 13 September 2018 with responses received until 14 October 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 1791 company responses were received, with 341 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 for Malaysia were collated in conjunction with Royal Institution of Surveyors Malaysia.

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](mailto:economics@rics.org)

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## Economics Team

### Tarrant Parsons

Economist  
+44(0)20 7695 1585  
[tparsons@rics.org](mailto:tparsons@rics.org)

### Simon Rubinsohn

Chief Economist  
+44(0)20 7334 3774  
[srubinsohn@rics.org](mailto:srubinsohn@rics.org)

### Jeffrey Matsu

Senior Economist  
+44(0)20 7695 1644  
[jmatsu@rics.org](mailto:jmatsu@rics.org)

### Sean Ellison

Senior Economist  
+65 68128179  
[sellison@rics.org](mailto:sellison@rics.org)

### Kisa Zehra

Economist  
+44(0)20 7695 1675  
[kzehra@rics.org](mailto:kzehra@rics.org)

### Janet Guilfoyle

Market Surveys Administrator  
+44(0)20 7334 3890  
[jguilfoyle@rics.org](mailto:jguilfoyle@rics.org)



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### Americas

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**Latin America**

[ricsamericalatina@rics.org](mailto:ricsamericalatina@rics.org)

**North America**

[ricsamericas@rics.org](mailto:ricsamericas@rics.org)

### Asia Pacific

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**ASEAN**

[ricsasean@rics.org](mailto:ricsasean@rics.org)

**Greater China (Hong Kong)**

[ricshk@rics.org](mailto:ricshk@rics.org)

**Greater China (Shanghai)**

[ricschina@rics.org](mailto:ricschina@rics.org)

**Japan**

[ricsjapan@rics.org](mailto:ricsjapan@rics.org)

**Oceania**

[oceania@rics.org](mailto:oceania@rics.org)

**South Asia**

[ricsindia@rics.org](mailto:ricsindia@rics.org)

### EMEA

---

**Africa**

[ricsafrica@rics.org](mailto:ricsafrica@rics.org)

**Europe**

[ricseurope@rics.org](mailto:ricseurope@rics.org)

**Ireland**

[ricsireland@rics.org](mailto:ricsireland@rics.org)

**Middle East**

[ricsmiddleeast@rics.org](mailto:ricsmiddleeast@rics.org)

**United Kingdom RICS HQ**

[contactrics@rics.org](mailto:contactrics@rics.org)