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Q4 2017: Spain Commercial Property Monitor

Key activity indicators remain positive

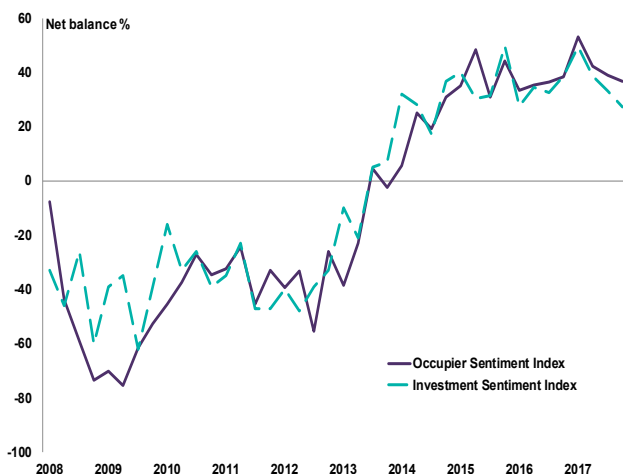
Occupier Market

- The Occupier Sentiment Index (a composite indicator capturing momentum) moved to +37 from +39 previously. As such, this measure is consistent with solid momentum in the occupier market.
- Occupier demand continued to increase in Q4 with the pace of demand growth evenly spread out across the three sectors (office, industrial and retail).
- Alongside this, the availability of leasable space also fell at the headline level albeit the pace of growth was modest in comparison to Q3. Respondents noted a noticeable decline in supply across the office sector, whereas availability declined marginally in the industrial sectors and remained unchanged for retail space.
- With increasing demand and falling supply, the value of incentive packages offered to tenants continued to fall.
- Rental expectations for the coming year were revised down with the all-sector average forecast now the lowest in three years. Contributors are still, however, expecting positive rental growth across the primary sub-sectors whereas the outlook is flatter for the secondary sub-markets.
- Rental growth forecasts in Madrid are stronger than the national average led by robust growth projected for prime office rents.

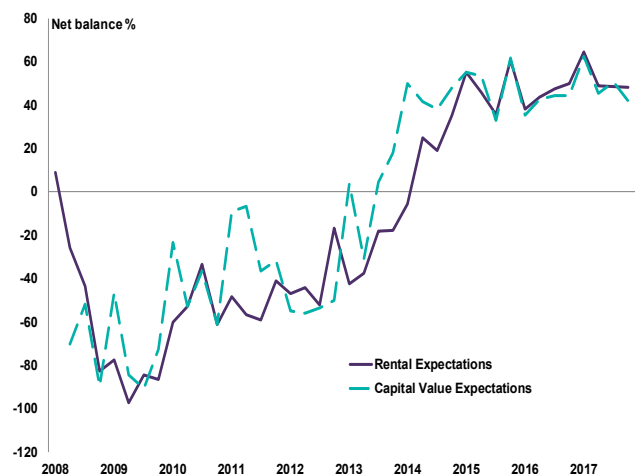
Investment Market

- The Investment Sentiment Index posted a reading of +27 in Q4 (compared to +33 in Q3). This indicator has eased throughout 2017 but is still pointing to positive momentum behind investment market dynamics.
- Investment enquiries continued to rise at the headline albeit the pace of growth moderated over the quarter. Within this, demand growth was relatively similar across all three areas of the market. Meanwhile, demand from foreign buyers also increased although the pace of growth was lower than any other point since the series began in 2014.
- At the same time, the supply of property from investment purposes was more or less flat in the latest results.
- Capital values are projected to increase across all sub-markets in the coming year with the prime office and retail sub-sectors expected to see the strongest capital value gains.
- Meanwhile in Madrid, capital value expectations are stronger than the national average. Indeed respondents envisage robust capital value gains for the primary sub-sectors with expectations also comfortably positive across the secondary areas of the market.
- Around 81% of respondents believe the market is in early to middle stages of an upturn.

Occupier and Investment Sentiment Index



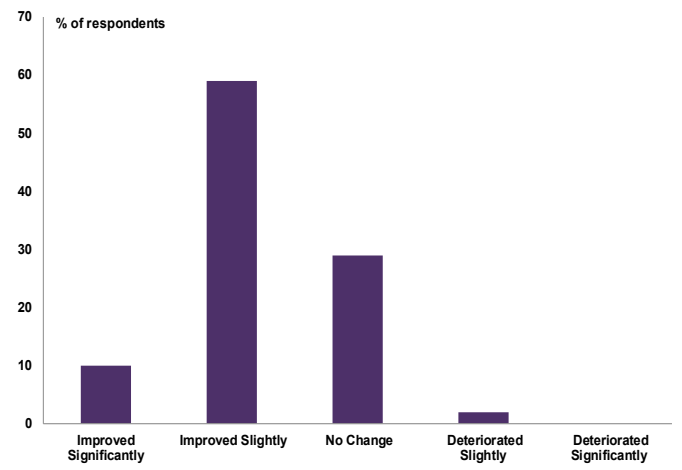
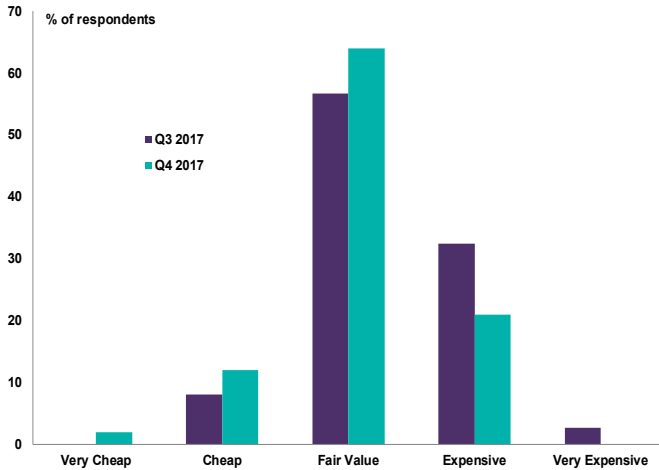
Rental and Capital Value Expectations



Commercial Property Market

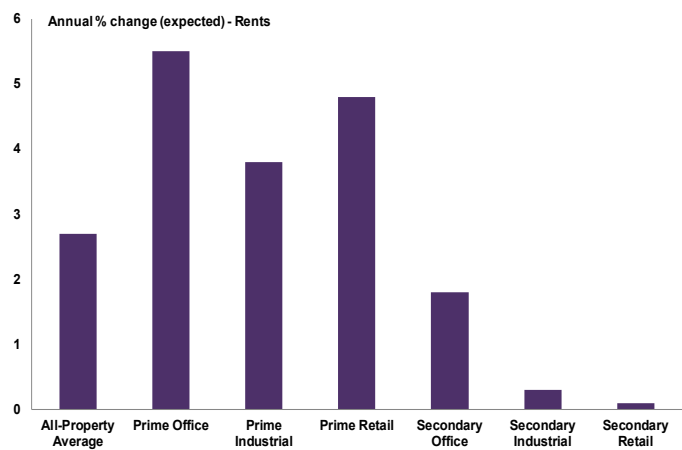
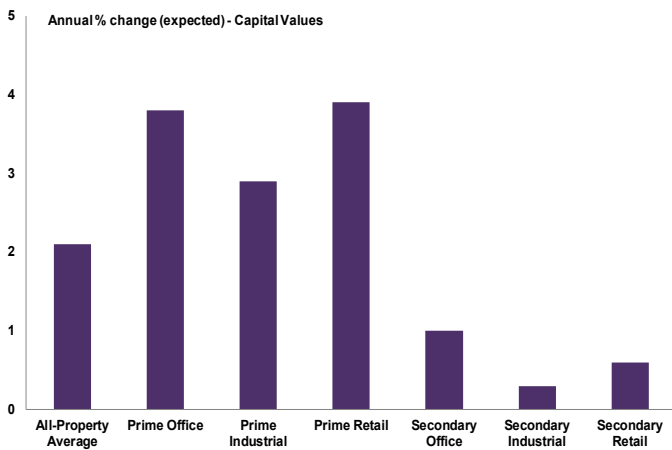
Market Valuations - The majority of respondents (78%) believe that commercial real estate prices are either at or below fair value, whilst 21% believe values are stretched at the moment.

Credit Conditions - On balance, respondents reported an improvement in credit conditions during Q4.



12m Capital Value Expectations - All sector capital value expectations were slightly lower in comparison to Q3. The primary sub-sector outlook is upbeat whilst the secondary markets are only expected to see marginal capital value gains.

12m Rental Expectations - Rental value projections for the coming twelve months were revised down in Q4. Contributors still expect to see firm growth in primary sub-sector rents whilst projections for the secondary sub-market are modest in comparison.



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 December 2017 with responses received until 12 January 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 1570 company responses were received, with 434 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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We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

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