



Q3 2016: Switzerland Commercial Property Monitor

Investment demand remains stagnant

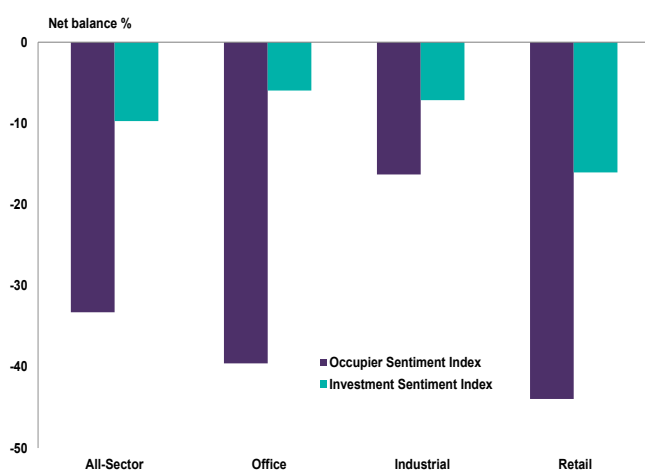
Occupier Market

- As has been the case in each of the last six reports, occupier demand continued to drift lower during Q3. The most notable decline occurred in the retail sector, while demand fell at a more modest pace in the industrial segment.
- Availability of leasable space rose once more, with a net balance of +45% of respondents noting an increase in supply over the quarter at the headline level. Similarly, the value of landlord incentive packages on offer to tenants also increased in each area of the market.
- Having held stable in each of the past two quarters, development starts declined during Q3, with new construction activity falling particularly noticeably in the retail sector.
- Rental projections remain in negative territory at each time horizon although respondents envisage a broadly flat trend for prime office rents.
- The Occupier Sentiment Index (a combined measure incorporating demand, supply and rent expectations series), stands at -33 at the all sector level. In keeping with trends reported over the past eighteen months, the industrial sector appears to be faring relatively better, while sentiment remains deeply negative for offices and retail.

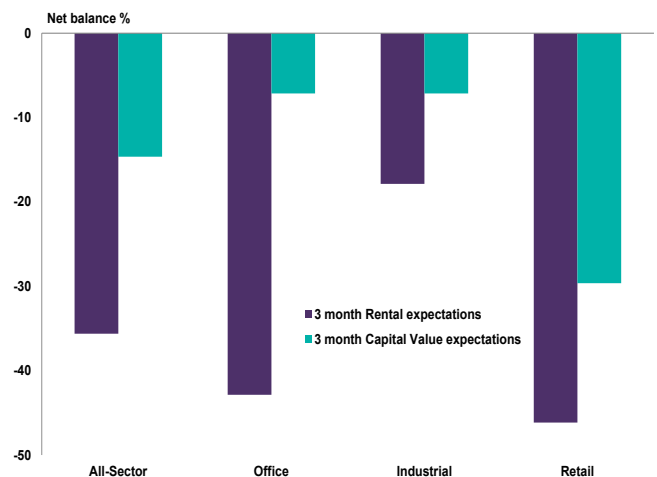
Investment Market

- Demand from both domestic and foreign investors was flat over Q3 at the all-sector level, almost mirroring the trend reported in the previous quarter. The sector breakdown shows a marginal increase in investor demand for offices and a slight decline for retail assets.
- The supply of property for investment purposes edged up again in the latest results, and this has been an ongoing trend over the past two years.
- Twelve month capital value projections actually deteriorated in most sub sectors during Q3. With the exception of prime offices, values across all categories covered in this monitor are expected to come under downward pressure over the year ahead.
- Around half of respondents continue to sense conditions in their local market are consistent with the early to middle stages of a downturn. However, there was a marginal increase in the share of respondents who feel the bottom of the market has now been reached.
- The Investment Sentiment Index stands at -10, seeing little change relative to Q2. This measure suggest conditions are broadly stagnant in the office and industrial sector but continue to worsen marginally in the retail segment.

Occupier and Investment Sentiment Index



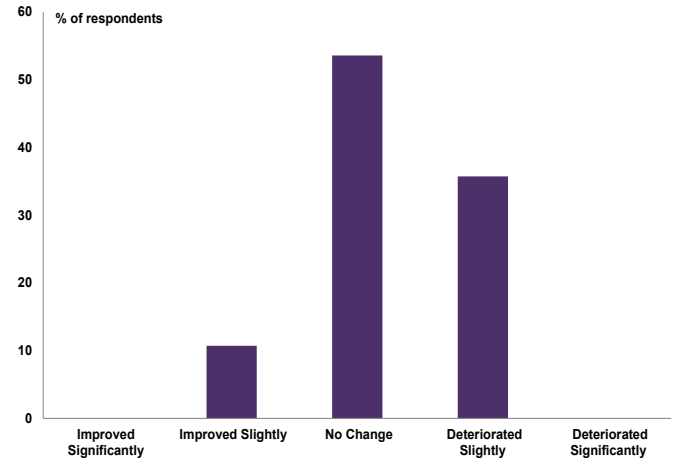
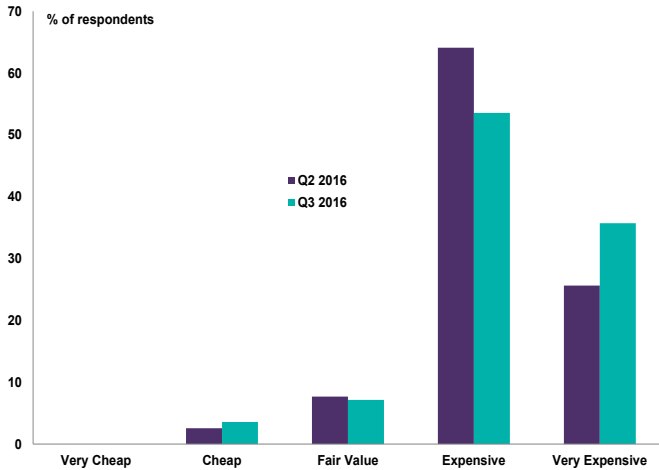
Rental and Capital Value Expectations



Commercial Property Market

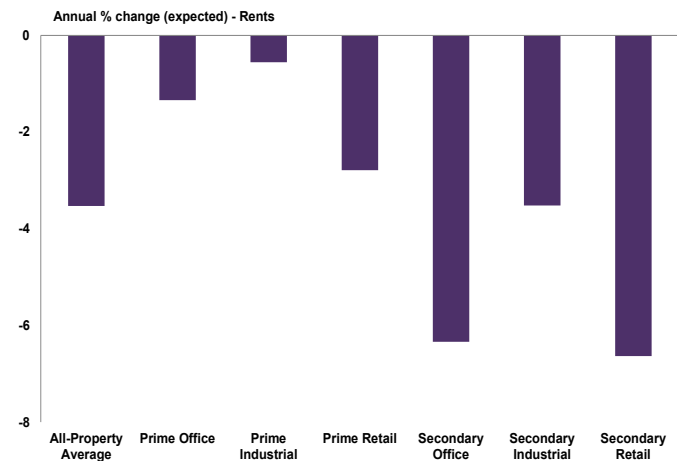
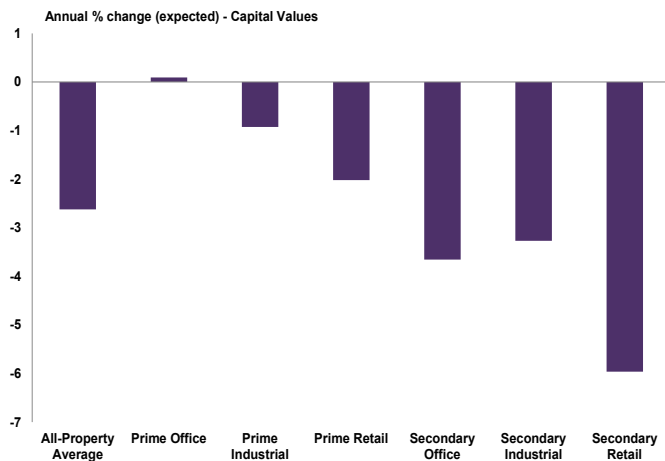
Market Valuations - In total, 90% of respondents sense commercial real estate to be overpriced to some extent currently. What's more, the share of contributor who deem values to be 'very expensive' increased from 26% previously to 36% in Q3.

Credit Conditions - While just over half of respondents noted little change in credit conditions over the quarter, a significant 36% felt conditions had deteriorated slightly.



12m Capital Value Expectations - Respondents now anticipate there may be some downside risk to values in the prime industrial and retail sectors, while projections across all secondary markets remain steeply in negative territory.

12m Rental Expectations - Twelve month rental projections were revised lower (to a greater or lesser degree) across each prime category during Q3. Nevertheless, secondary retail and office space continues to exhibit the weakest twelve month forecasts.



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 16 September 2016 with responses received until 10 October 2016. 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 1565 company responses were received, with 379 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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