



Q1 2018: UAE Commercial Property Monitor

Activity continues to weaken

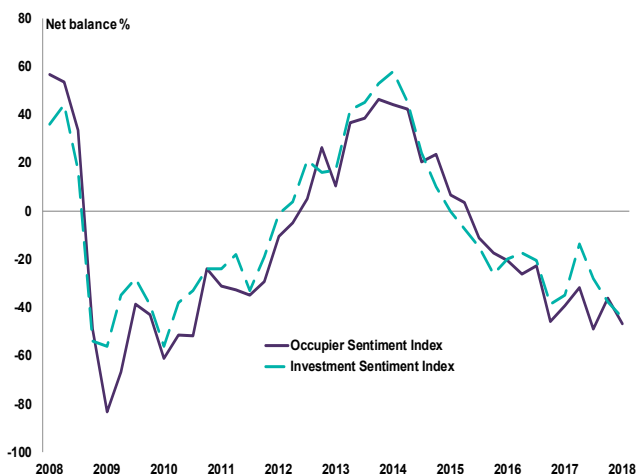
Occupier Market

- The Occupier Sentiment Index (a composite indicator capturing momentum) moved to -47 from -36 previously, consistent with a deterioration in overall occupier market conditions for the eleventh consecutive quarter.
- Occupier demand continued to fall in Q1. The pace of decline quickened in all areas of the market with respondents noting the steepest rate of decline in the retail sector.
- At the same time, availability of leasable space continued to rise at the headline level with the pace of growth accelerating from during Q1. Within this, supply increased significantly across the office and retail sectors.
- With subdued demand and rising supply, landlords increased the value of incentive packages offered to tenants in Q1.
- Average rental projections for the coming year came in below Q4 expectations, driven by respondents revising down significantly their projections for the secondary sub-markets. Meanwhile, the outlook for the prime space is a little more resilient, with respondents expecting prime office and industrial rents to hold steady.

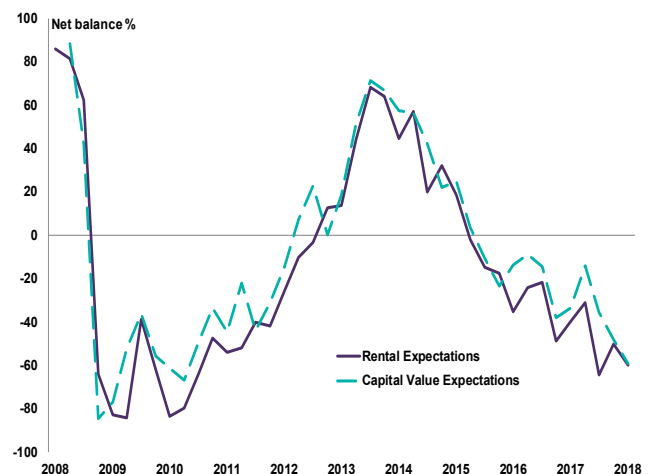
Investment Market

- The Investment Sentiment Index edged down to -44 from -38 in Q4, signalling the backdrop in the investment market continues to deteriorate.
- Investor demand fell at the headline level, albeit the pace of decline was softer than in Q4. Breaking this down, respondents noted a pull-back in investor demand for offices and retails, but relative to Q4, investor interest remained unchanged in the industrial sector. Meanwhile demand from foreign investors also fell across the board.
- Availability of supply for investment purposes increased in each area of the market, with the pace of growth now having accelerated for two consecutive quarters.
- Capital value expectations for the year ahead were downgraded once again. Significantly, projections for capital values have continuously moved further into negative territory since the beginning of 2017. A material decline in capital values is projected across secondary assets. Expectations for capital values in the prime sub-markets also remain in negative territory, but to a much lesser extent.
- The majority of respondents (82%) still believe market conditions are consistent with the downturn phases of the property cycle.

Occupier and Investment Sentiment Index



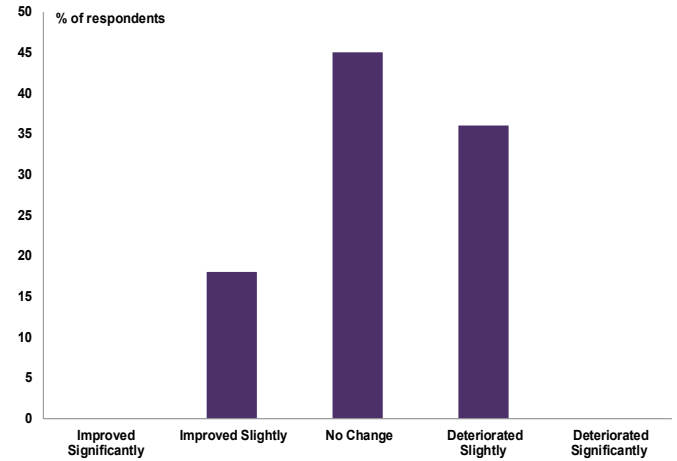
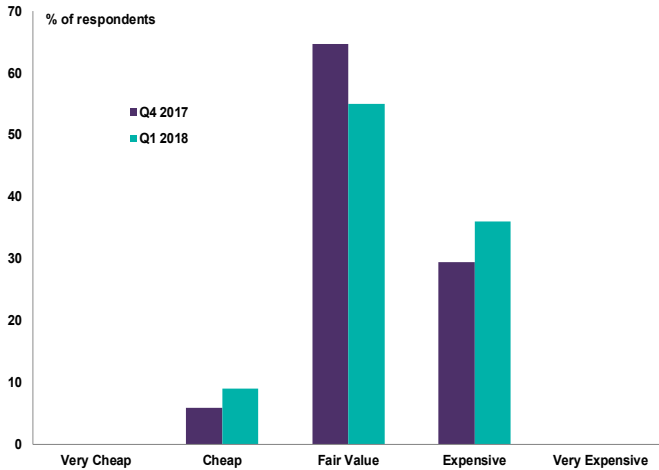
Rental and Capital Value Expectations



Commercial Property Market

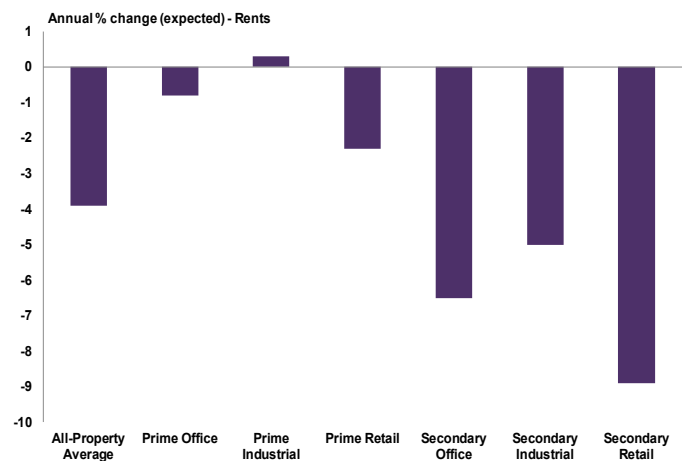
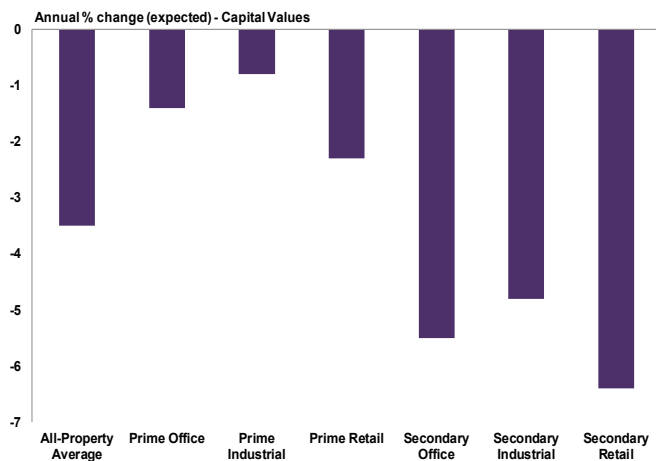
Market Valuations - The majority of respondents (64%) believe market prices are either at or below fair value, although the proportion of respondents stating valuations are stretched has increased from the previous quarter.

Credit Conditions - On balance, credit conditions reportedly worsened in Q1 with 36% of respondents reporting a decline.



12m Capital Value Expectations - Relative to Q4, capital value expectations were revised down for the fifth consecutive quarter with contributors envisaging a decline in capital values across the both prime and secondary markets in the coming year.

12m Rental Expectations - Average rental growth expectations were revised down in the latest results driven by particularly negative projections for the secondary sub-markets. By way of contrast, the rental outlook appears table for prime office and industrial space over the year ahead.



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 March 2018 with responses received until 11 April 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 1748 company responses were received, with 385 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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