



Q3 2017: UAE Commercial Property Monitor

Capital value and rental expectations remain negative

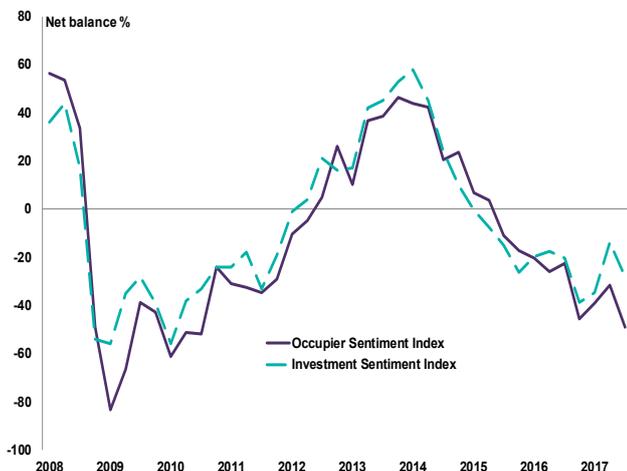
Occupier Market

- The Occupier Sentiment Index (a composite measure gauging momentum) moved to -49 from -32 in Q2. This is consistent with a further deterioration in overall occupier market conditions.
- Occupier demand fell across all sectors (office, industrial and retail) for an eighth consecutive quarter, with a net balance of -43% reporting a contraction at the headline level. The latest results point to demand for retail space seeing the steepest decline.
- The availability of leasable space continued to rise across all sectors. As a result, the value of incentive packages offered to tenants also increased, with respondents noting a particularly strong rise in office sector inducements.
- Rent expectations for the coming year deteriorated across all sub-sectors when compared to Q2, as respondents now anticipate a decline of around 4% at the all-sector level. The outlook for secondary rents is more downbeat than that for primary, albeit projections are now fairly entrenched in negative territory across the board.
- Average three-year rental projections are slightly more upbeat in comparison, with respondents envisaging an increase in rental values across all prime areas of the market. Nevertheless, respondents remain somewhat cautious on the outlook for secondary rents over this timeframe.

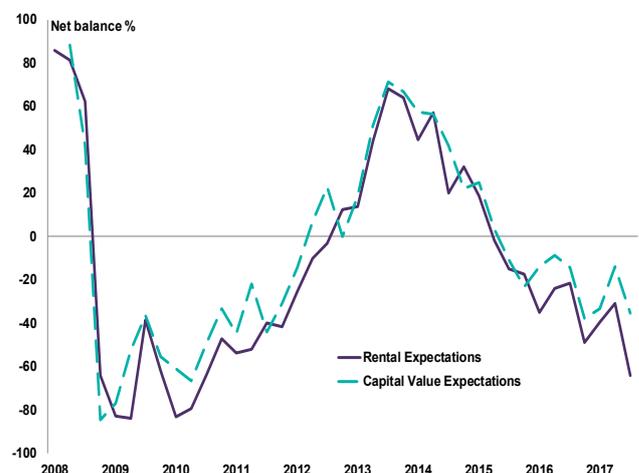
Investment Market

- The Investment Sentiment Index moved to -28 from -14 in Q2. As such, this measure is indicating a further weakening in investment market conditions.
- Investment enquiries continued to fall at the headline level, with a net balance of -36% of respondents noting a fall in overall demand. Breaking this down, respondents noted a sharp pull-back in investment demand across the retail sector alongside a steady decline within the office and industrial sectors.
- Foreign investment enquiries also fell sharply in Q3, with the decline spread quite evenly across the three sectors (in net balance terms).
- At the same time, the supply of properties for investment purposes continued to rise steadily at the headline level.
- Capital value expectations remain negative across all secondary sub-sectors for the year ahead, as respondents left projections virtually unaltered relative to Q2. By way of contrast, prime asset values are anticipated to remain more resilient and hold steady.
- 45% of respondents sense the market is in a downturn phase of the current property cycle, whilst 25% believe the market is approaching a floor.

Occupier and Investment Sentiment Index



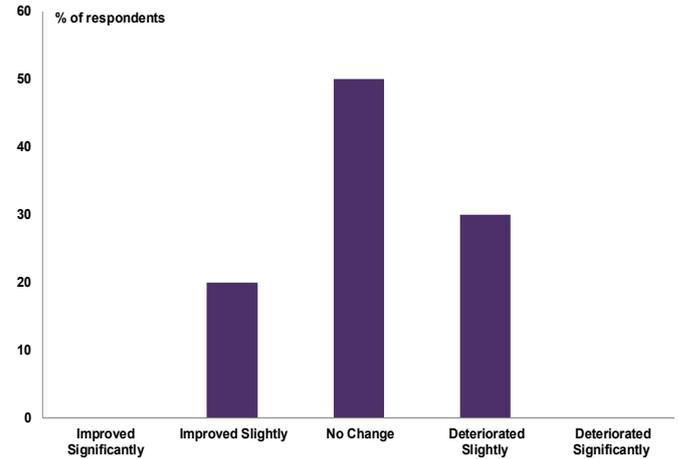
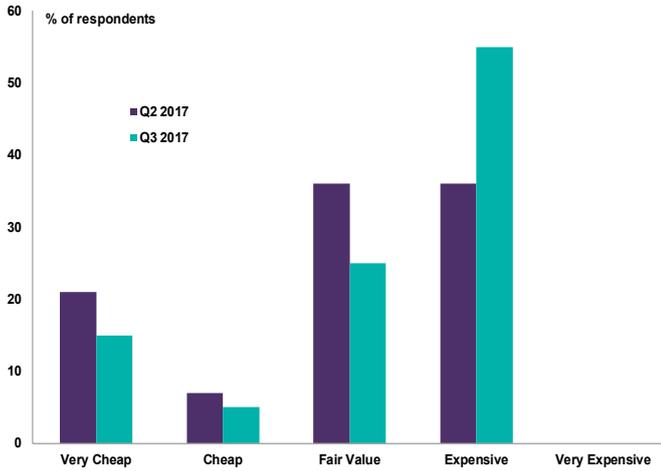
Rental and Capital Value Expectations



Commercial Property Market

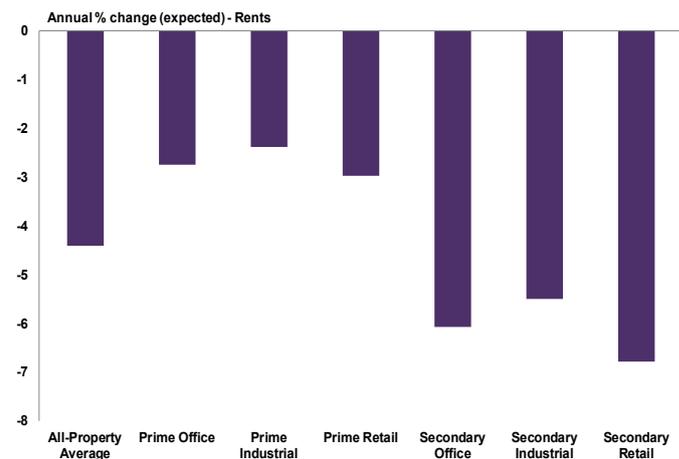
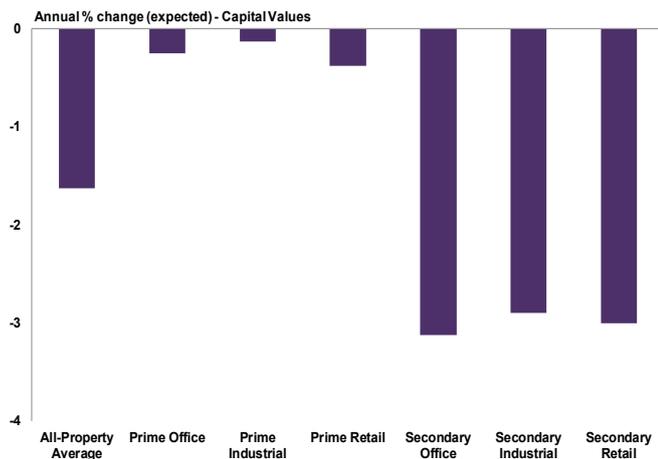
Market Valuations - Around 55% of respondents now believe the commercial real estate market is overpriced relative to fundamentals, up from 36% in the previous quarter.

Credit Conditions - On balance, credit conditions within the sector were reported to have continued deteriorating in Q3 (albeit marginally).



12m Capital Value Expectations - Headline capital values are now expected decline by 1.6% in the next twelve months. Nevertheless, this is driven by negative projections in secondary sub-sectors, while the outlook is broadly flat for prime assets.

12m Rental Expectations - Respondents envisage headline rents declining by 4.4% in the coming twelve months, with rents expected to fall across all areas of the market (with steeper declines in 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

a. Survey questionnaires were sent out on 13 September 2017 with responses received until 6 October 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 1609 company responses were received, with 347 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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