Q3 2018: UAE Commercial Property Monitor

Momentum continues to deteriorate

The Q3 2018 UAE Commercial Property Monitor results point to a further pull-back in momentum across the occupier and investment markets. Indeed this is consistent with the challenges facing the UAE economy this year. That said, the wider mood music suggests that the economic picture is likely to improve in the coming years, on the back of higher oil prices and increased government spending. Whether this actually materialises remains to be seen. For now, both near and medium term projections remain downbeat.

Occupier Market

- The Occupier Sentiment Index (a combined measure of occupier market indicators displayed in chart 1 overleaf) came in at -41 pointing to a deterioration in overall market conditions. Significantly this measure has remained in negative territory for three years and is indicative of a persistent decline in occupier market fundamentals.
- Tenant demand decreased across all three portions of the market with the pace of decline broadly unchanged from the previous quarter. A steep rate of decline was reported across the retail and office sectors whilst the fall across the industrial portion of the market was relatively more modest.
- Alongside this, the availability of leasable space continued to rise in the office and retail sectors and, to a slightly lesser extent, in the industrial sector. On the back of this, landlords increased the value of incentive packages offered to tenants.
- In keeping with falling tenant interest, development starts fell marginally for the first time since 2011, even so contributors did note continuing positive momentum across the retail portion of the market.
- Average rental projections for the year ahead inched further into negative territory at an all-sector level (chart 6). Indeed rent expectations were downgraded across all sub-markets with the outlook for the secondary space relatively more downbeat in comparison to prime assets.

Investment Market

- The Investment Sentiment Index (a composite indicator incorporating a range of investment market variables shown on chart 1) returned a reading of -32, consistent with a deterioration in investment market fundamentals for the fourteenth successive quarter.
- Investor demand continued to decline at an all-sector level with a further pull-back reported across the office and retail sectors, whilst demand for industrial assets appeared to be more or less unchanged from the previous quarter. Meanwhile demand from foreign investors also fell across the board in Q3.
- Alongside this, the availability of supply for investment purposes continued to increase in all three areas of the market.
- Capital value expectation for the coming year were downgraded from the previous results (chart 5). The outlook for secondary locations was significantly more downbeat in comparison to the prime sectors.
- The majority of respondents (50%) believe that the market is in the downturn phases of the property cycle (similar to the last quarter) whilst 35% believe that it has reached the bottom.
- Chart 4 indicates 48% of the survey's participants believe commercial property prices are expensive, up from 41% previously.
- On balance credit conditions reportedly worsened in Q3 with 33% of contributors noting a deterioration (chart 3).

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

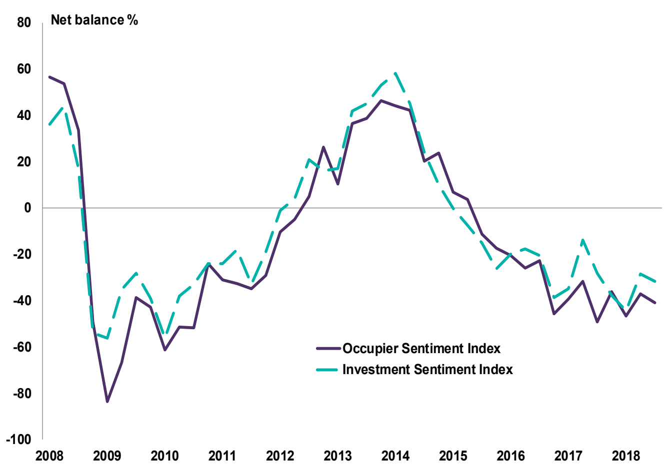


Chart 2: 3-month Rents, Capital Values

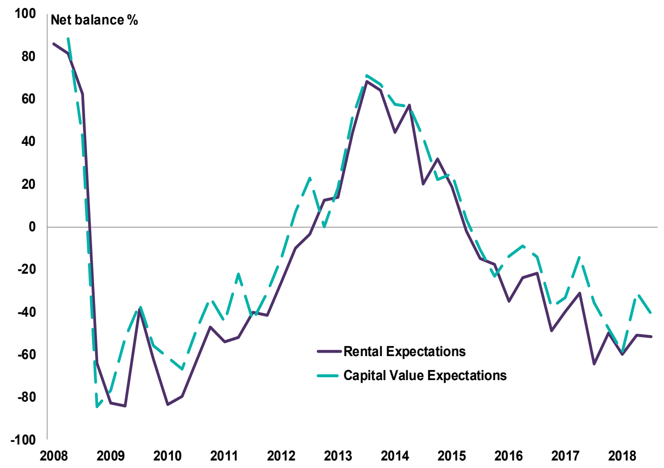


Chart 3: Credit Conditions

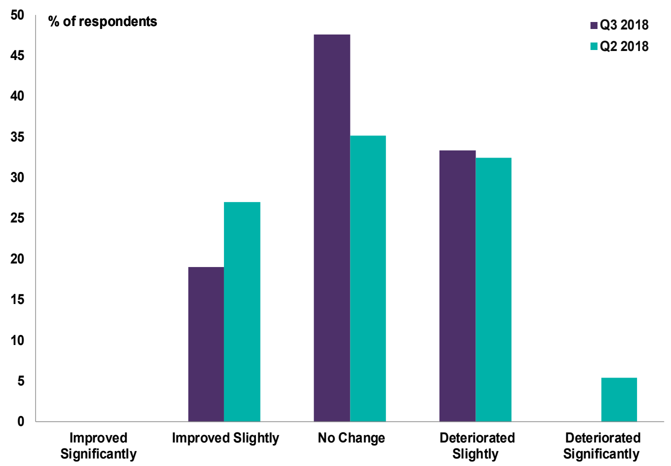


Chart 4: Valuations

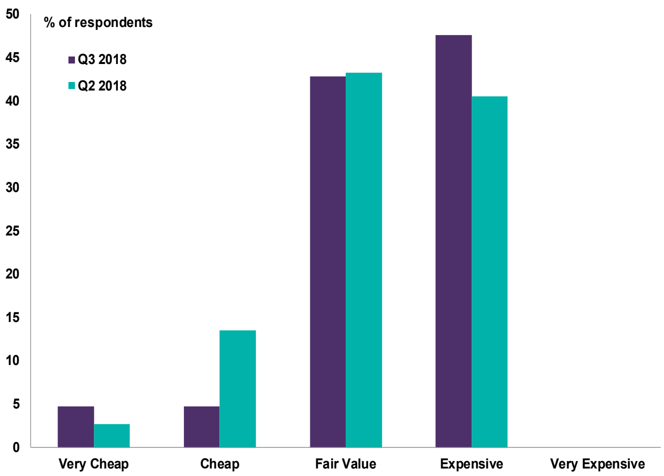


Chart 5: 12-month Capital Values Forecast

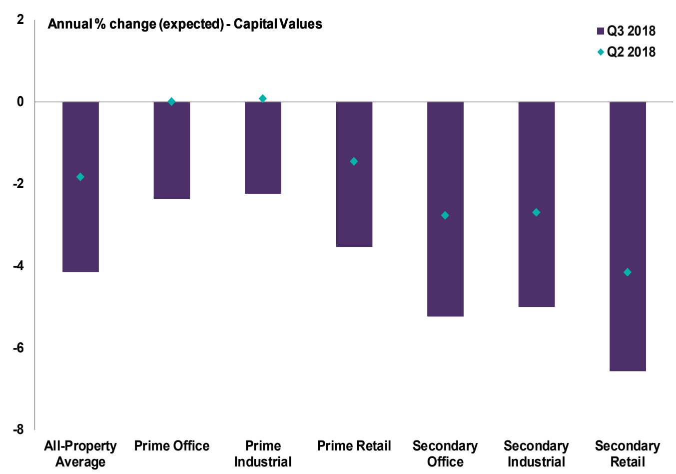
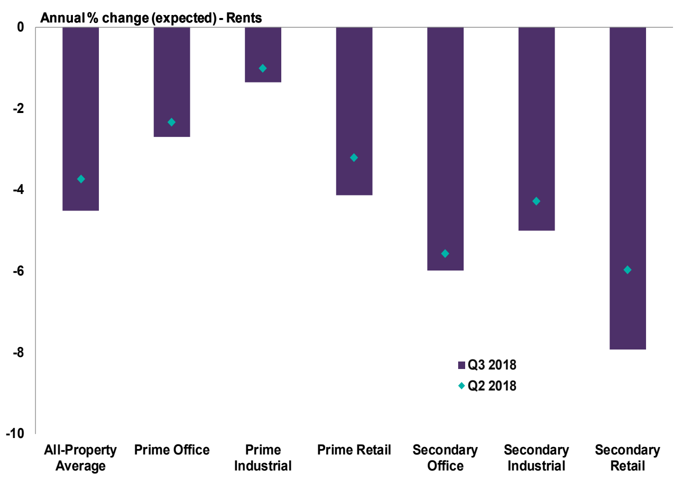


Chart 6: 12-month Rent Forecast



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 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 the 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.

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