Q2 2017: US Commercial Property Monitor

Sentiment remains reasonably solid across most sectors, but downbeat in the retail segment

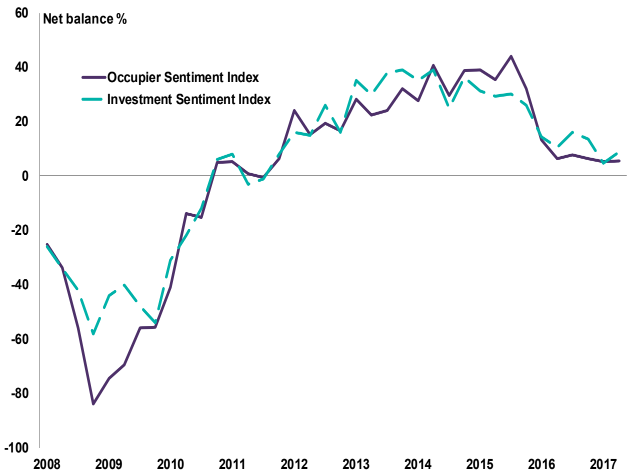
Occupier Market

- The Occupier Sentiment Index (a composite measure capturing overall momentum) came in at +6. This marginally positive reading is indicative of a rather flat picture in the occupier market at present.
- The headline indicator masks variations between sectors however. Indeed, demand from occupiers rose in both the office and industrial sectors, but fell for a second straight quarter across the retail area of the market.
- Availability of leasable space picked up again at the headline level (tenth consecutive quarter), with a net balance of 22% of respondents reporting a rise. When broken down, availability was unchanged in the industrial sector and increased in both the office and retail segments.
- Twelve month rental growth projections continue to diverge across sectors. At the top end of the scale, respondents expect solid growth in the prime industrial, multifamily and office areas of the market. By way of contrast, both prime and secondary retail rents are anticipated to decline over the year ahead.
- In New York, the rental outlook appears noticeably weaker than the national average. In fact, the secondary industrial sector is the only sub-market in which expectations are (marginally) positive. Meanwhile, projections are firmly entrenched in negative territory in the retail sector.

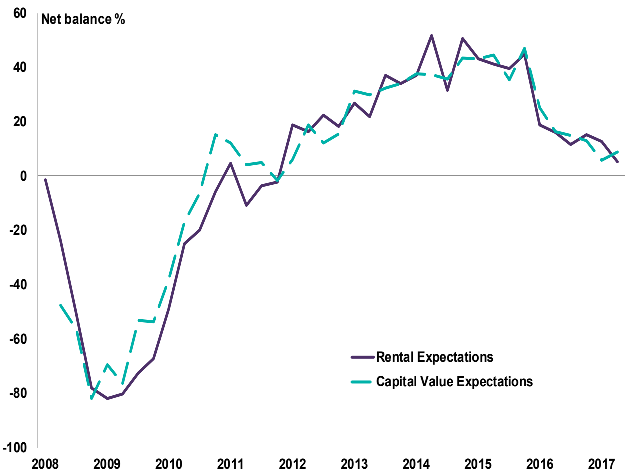
Investment Market

- The Investment Sentiment Index edged into marginally positive territory during Q2, increasing from +5 to +9. Even so, this gauge is consistent with only modest momentum behind the investment market.
- Investment enquiries increased at a reasonable pace in both the office and industrial sectors, while demand declined in the retail area of the market. Alongside this, interest from foreign buyers was flat at the headline level.
- The supply of property for investment purposes rose in the retail sector for a second quarter in succession. Meanwhile, supply was broadly unchanged in the office and industrial segments.
- Capital values are anticipated to rise across most prime sub-sectors over the year ahead (prime retail being the sole exception) with industrial assets leading the way. Across secondary markets, industrial and multifamily are the only sectors displaying positive expectations.
- Again, capital value expectations in New York are more pessimistic in comparison to the US-wide figures, with prime industrial the only area of the market anticipated to see growth in the coming twelve months. Virtually all other sub-sectors display negative projections (to a greater or lesser degree) with sentiment most downbeat in the retail sector.

Occupier and Investment Sentiment Index

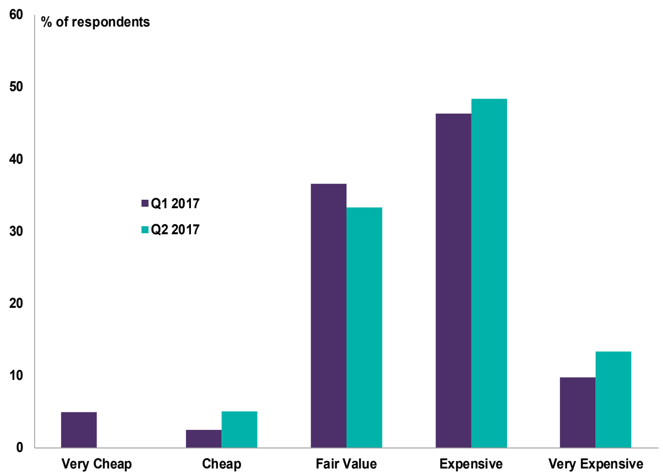


Rental and Capital Value Expectations

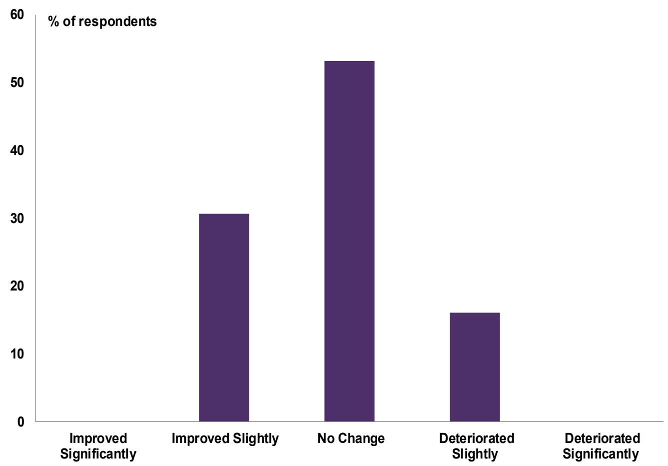


Commercial Property Market

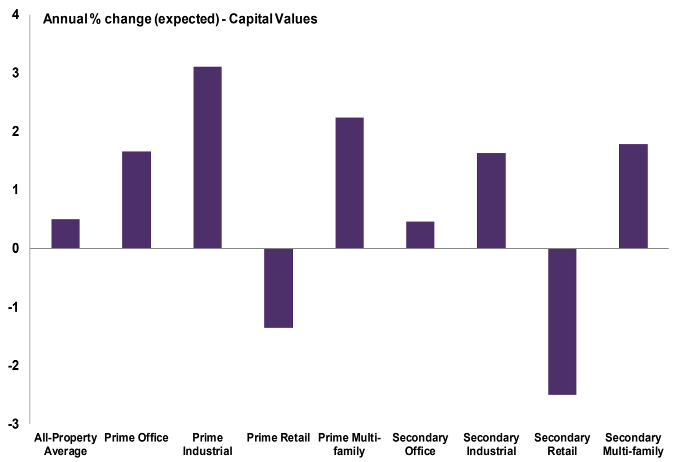
Market Valuations - 62% of contributors perceive capital values to be stretched relative to fundamentals currently (up from 56% in the previous quarter).



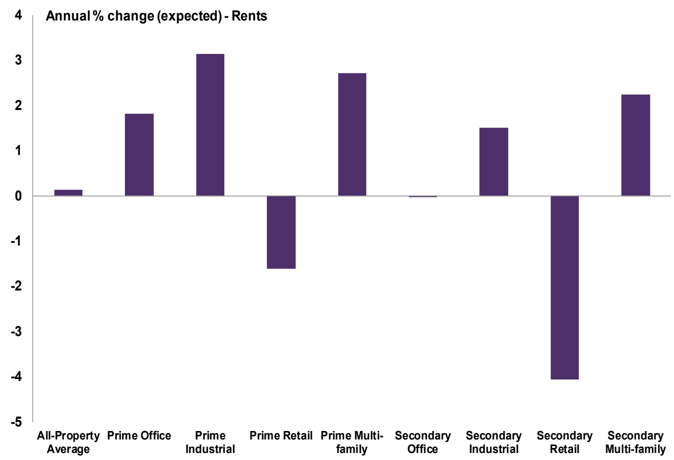
Credit Conditions - Despite ongoing tightening from the Federal Reserve, credit conditions reportedly improved somewhat (on balance) over the past three months.



12m Capital Value Expectations - Most prime sub-markets are expected to chalk up further capital value gains over the year ahead. However, the outlook remains negative for both prime and secondary retail assets.



12m Rental Expectations - Secondary retail space is anticipated to see a pullback in rental values over the coming year. By way of contrast, prime industrial and multifamily appears set to see further solid rental gains.



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 June 2017 with responses received until 10 July 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 1427 company responses were received, with 316 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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