



Q2 2019: US Commercial Property Monitor

Industrial sector outperformance set to continue

The Q2 2019 US Commercial Property Monitor results remain highly varied at the sector level, with strength in the industrial sector being partly offset by weakness in retail.

The Occupier Sentiment Index was unchanged in Q2, coming in at +8, pointing to marginally positive momentum at the headline level. Tenant demand increased at a solid quarterly pace in the industrial and office sectors, although demand for retail space fell for a second consecutive report.

Vacancies were cited as unchanged in the industrial segment during Q2, but continued to pick-up in both the office and retail sectors. This prompted office and retail landlords to further increase incentives on offer to tenants, an ongoing trend over the past three years.

Investment enquiries rose at the headline level, with a net balance of +22% of respondents citing an increase. Growth was led by the

industrial sector (net balance +62%), with offices also contributing positively (net balance 31%). Conversely, enquires fell across the retail sector as a net balance of -26% noted a decline in Q2.

As shown in charts 7 and 8, capital value and rental projections for the coming year are signalling further robust growth across the prime industrial sector, alongside more modest increases for secondary. Expectations are also comfortably positive for prime offices although the outlook is broadly flat for secondary. The retail sector continues to display the weakest sentiment, with values and rents projected to fall across secondary locations and remain stagnant for prime retail outlets.

49% of survey participants now view the market to have entered the peak phase of the property cycle. This is up from 41% in Q1 and represents the highest share taking this view since the series was introduced in 2015.

Chart 1: RICS OSI and ISI

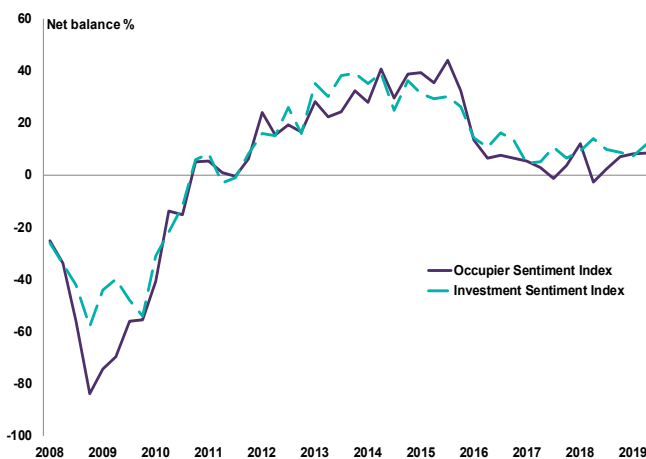


Chart 2: Three Month Rents, Capital Values

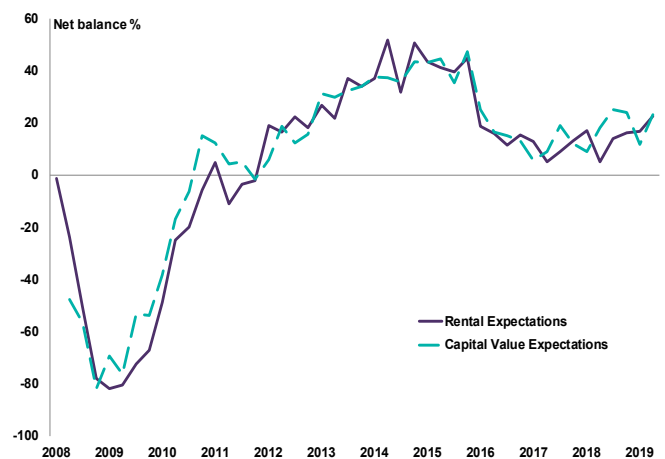


Chart 3: Occupier Market

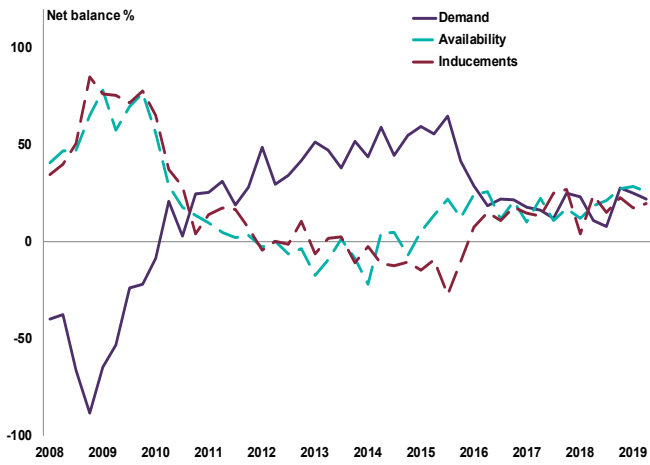


Chart 4: Investment Market

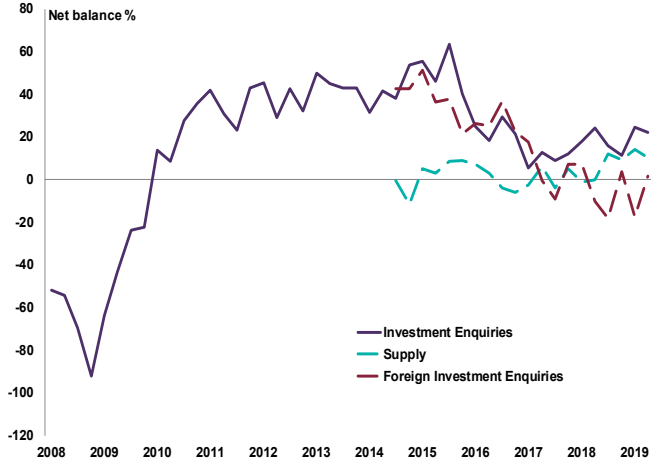


Chart 5: Credit Conditions

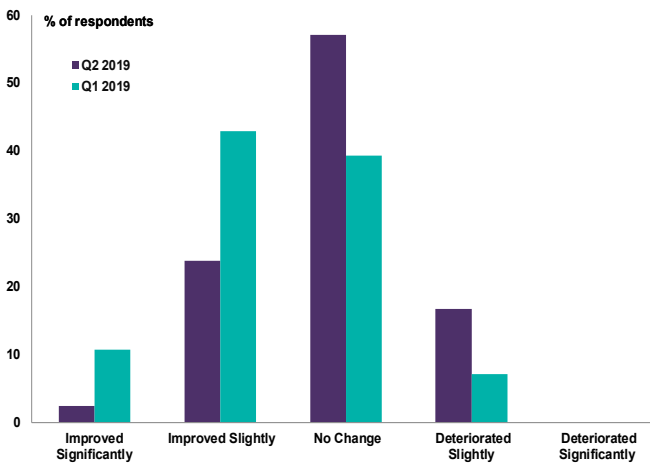


Chart 6: Valuations

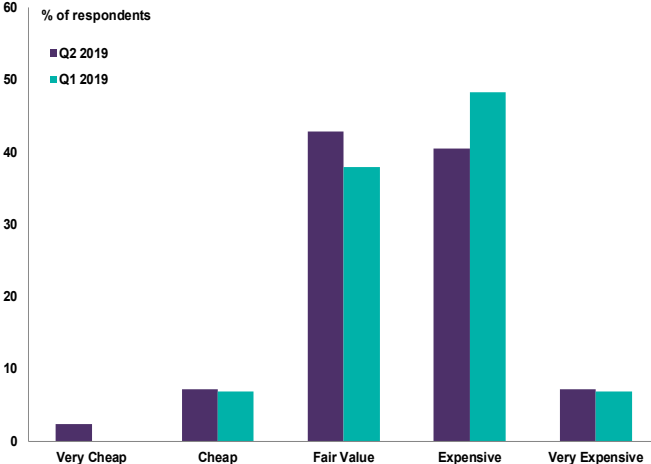
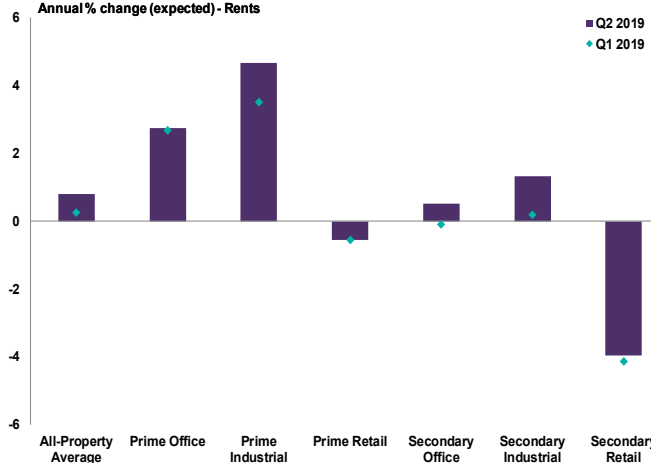


Chart 7: Twelve Month Capital Value Projections



Chart 8: Twelve Month Rental Value Projections



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 June 2019 with responses received until 8 July 2019. 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 3348 company responses were received, with 700 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

Disclaimer

This document is intended as a means for debate and discussion and should not be relied on as legal or professional advice. Whilst every reasonable effort has been made to ensure the accuracy of the contents, no warranty is made with regard to that content. Data, information or any other material may not be accurate and there may be other more recent material elsewhere. RICS will have no responsibility for any errors or omissions. RICS recommends you seek professional, legal or technical advice where necessary. RICS cannot

accept any liability for any loss or damage suffered by any person as a result of the editorial content, or by any person acting or refraining to act as a result of the material included.

Economics Team

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Kisa Zehra

Economist

+44(0) 7695 1675

kzehra@rics.org

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org



Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the valuation, development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to markets and effecting positive change in the built and natural environments.

Americas

Latin America

ricsamericalatina@rics.org

North America

ricsamericas@rics.org

Asia Pacific

ASEAN

ricsasean@rics.org

Greater China (Hong Kong)

ricshk@rics.org

Greater China (Shanghai)

ricschina@rics.org

Japan

ricsjapan@rics.org

Oceania

oceania@rics.org

South Asia

ricsindia@rics.org

EMEA

Africa

ricsafrica@rics.org

Europe

ricseurope@rics.org

Ireland

ricsireland@rics.org

Middle East

ricsmiddleeast@rics.org

United Kingdom RICS HQ

contactrics@rics.org