Q3 2017: US Commercial Property Monitor

Retail sector continues to dampen overall sentiment while industrial remains firm

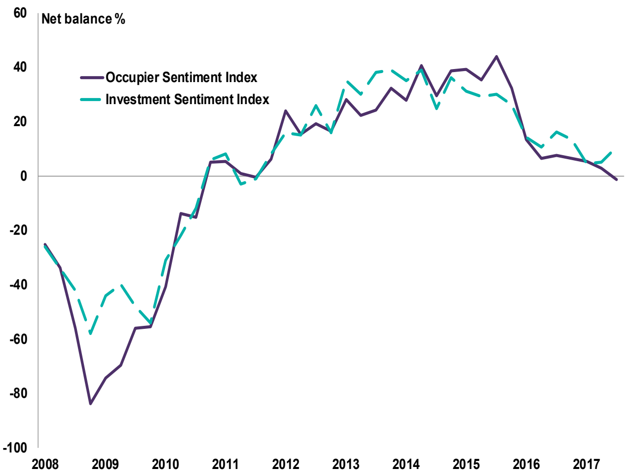
Occupier Market

- The Occupier Sentiment Index (a composite measure capturing overall momentum) posted a reading of -1 in Q3, compared with +3 previously . This broadly neutral return is signalling a flat picture in the occupier market at present.
- Beyond the headline figures again lies significant variation across sectors. While tenant demand increased in both the office and industrial areas of the market, demand for retail space softened for a third quarter in succession.
- Availability of occupiable space again edged up at the headline level, marking the eleventh consecutive quarter of rising supply. When broken down, availability was unchanged in the industrial sector, picked up marginally for offices, and increased more noticeably in the retail segment.
- Over the next twelve months, prime industrial rents are expected to post the strongest gains on a sectoral comparisons. Prime office and multifamily rents are also projected to rise, albeit more modestly. By way of contrast, expectations point to a decline in both prime and secondary retail rents during the coming year.
- In New York, the rental outlook remains more subdued than the national average. Projections are now more or less flat for both prime and secondary multifamily rents, as well as for prime offices. Secondary office rental expectations are marginally negative, while rents are expected to come under further downward pressure for both prime and secondary retail space. The prime industrial market is the only sub sector exhibiting positive projections for the year ahead.

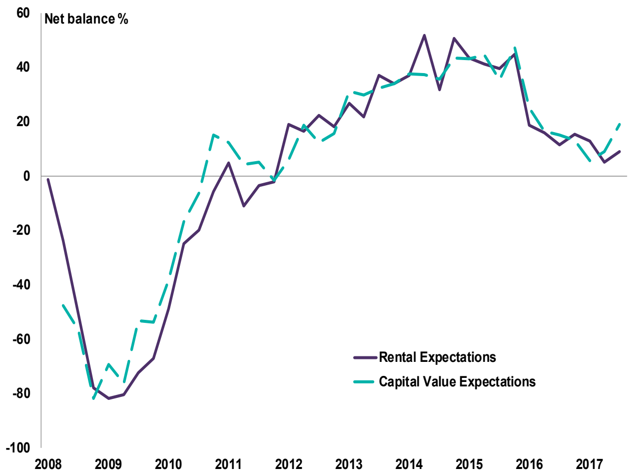
Investment Market

- The Investment Sentiment Index inched a little further into positive territory during Q3, increasing from +5 to +11. That said, this measure is still pointing to modest momentum behind the investment market currently.
- Investment enquiries increased smartly in the industrial sector, while a modest pick-up was reported in demand for offices. Investor interest continued to fall in the retail sector, with the pace of decline (in net balance terms) the sharpest since 2010.
- The supply of property for investment purposes fell in both the office and industrial arenas. Meanwhile, supply continued to rise in the retail segment for a third quarter in succession.
- Capital value expectations for the year ahead are generally positive across prime sub-sectors, with projections strongest for industrial assets. Meanwhile, capital values are anticipated to hold broadly steady in the prime retail market. Across secondary sectors, the multifamily category now leads the way (albeit projections are only modestly positive), while the outlook is relatively flat across the board. Secondary retail is again the exception, where values are anticipated to decline.
- In New York, compared with the national figures, projections are more modest for prime office and industrial values (albeit still positive), while the outlook for secondary offices is a little stronger. Prime and secondary multifamily units are expected to see little change in value over the year ahead. Meanwhile, sentiment is more downbeat across the retail sector in New York (both prime and secondary) relative to the US-wide projections.

Occupier and Investment Sentiment Index

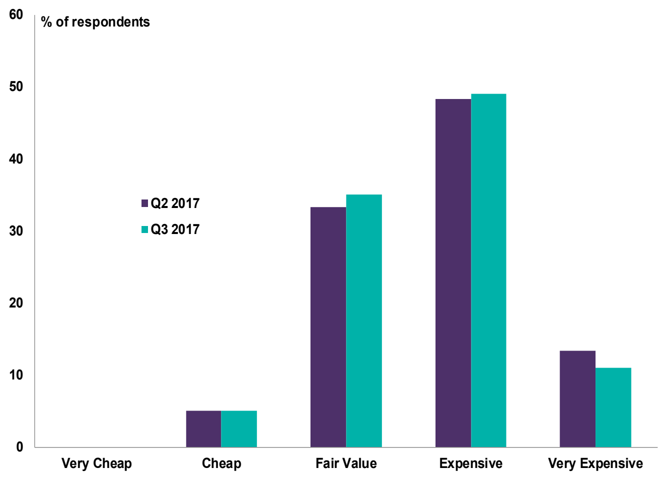


Rental and Capital Value Expectations

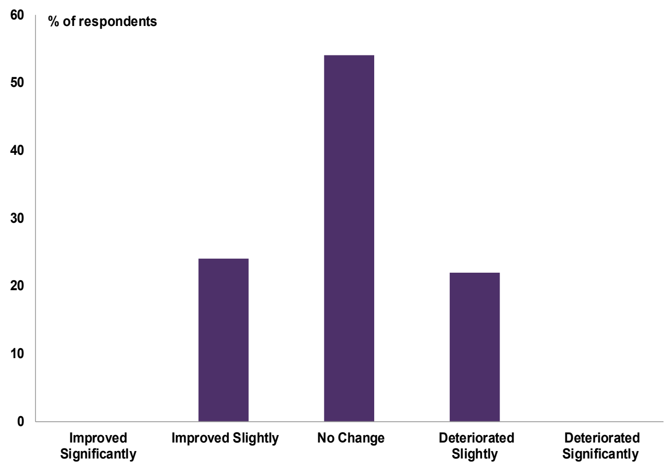


Commercial Property Market

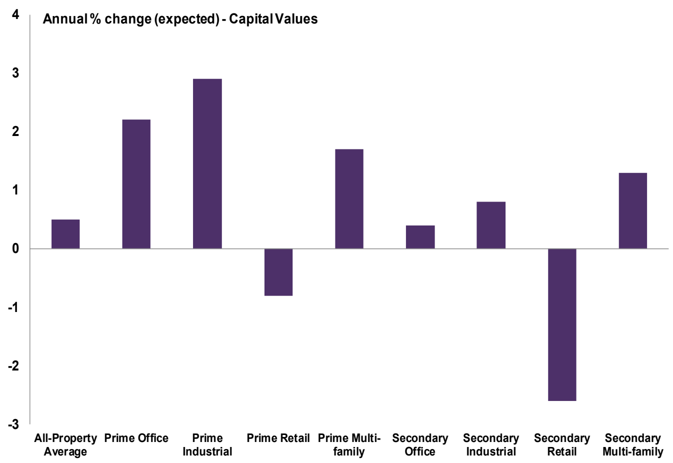
Market Valuations - 60% of contributors perceive capital values to be stretched relative to fundamentals currently (virtually unchanged from the previous quarter). In New York, 79% of respondents feel the market is overpriced.



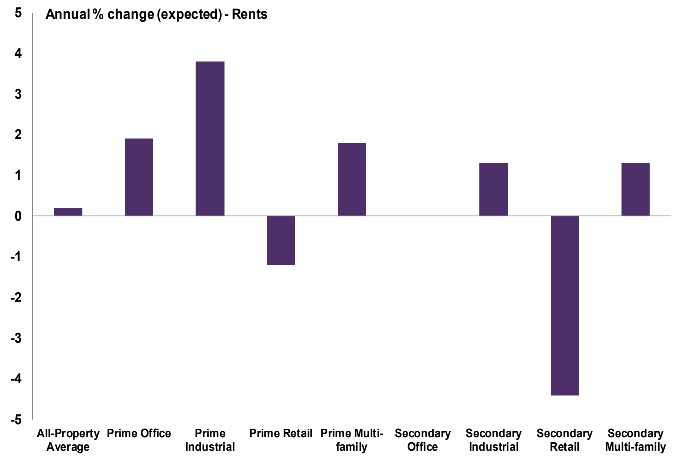
Credit Conditions - Credit conditions, on balance, where unchanged during Q3, despite ongoing tightening from the Federal Reserve.



12m Capital Value Expectations - Capital value gains are expected across most prime sub-markets over the year ahead. The retail sector continues to struggle, with the outlook remaining negative for assets in both prime and secondary locations.



12m Rental Expectations - Rents across prime industrial space are again expected to post the strongest growth over the year ahead relative to all other sub-markets. At the other end of the scale, projections across secondary retail remain firmly negative.



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**

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

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@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

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0) 7695 1675

kzehra@rics.org

Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world's wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.

United Kingdom RICS HQ
Parliament Square, London
SW1P 3AD United Kingdom
t +44 (0)24 7686 8555
f +44 (0)20 7334 3811
contactrics@rics.org
Media enquiries
pressoffice@rics.org

Ireland
38 Merrion Square, Dublin 2,
Ireland
t +353 1 644 5500
f +353 1 661 1797
ricsireland@rics.org

Europe
(excluding UK and Ireland)
Rue Ducale 67,
1000 Brussels,
Belgium
t +32 2 733 10 19
f +32 2 742 97 48
ricseurope@rics.org

Middle East
Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates
t +971 4 446 2808
f +971 4 427 2498
ricsmenea@rics.org

Africa
PO Box 3400,
Witkoppen 2068,
South Africa
t +27 11 467 2857
f +27 86 514 0655
ricsafrica@rics.org

Americas
One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA
t +1 212 847 7400
f +1 212 847 7401
ricsamericas@rics.org

South America
Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil
t +55 11 2925 0068
ricsbrasil@rics.org

Oceania
Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia
t +61 2 9216 2333
f +61 2 9232 5591
info@rics.org

North Asia
3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong
t +852 2537 7117
f +852 2537 2756
ricsasia@rics.org

ASEAN
10 Anson Road,
#06-22 International Plaza,
Singapore 079903
t +65 6635 4242
f +65 6635 4244
ricssingapore@rics.org

Japan
Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan
t +81 3 5532 8813
f +81 3 5532 8814
ricsjapan@rics.org

South Asia
48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India
t +91 124 459 5400
f +91 124 459 5402
ricsindia@rics.org