



## Q3 2018: US Commercial Property Monitor

# Outlook for rents and capital values remains mixed

The Q3 2018 US Commercial Property Monitor results remain varied at the sector level. Capital value and rental growth is expected to be largely confined to the industrial sector, while the outlook is only marginally positive for prime offices. Sentiment remains cautious across other areas of the market, with values already looking stretched and foreign investor demand weakening. Secondary retail in particular looks likely to come under downward pressure over the coming twelve months.

### Occupier Market

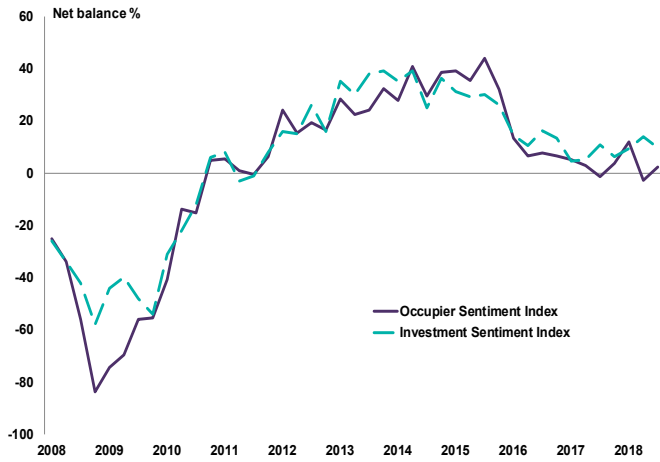
- The Occupier Sentiment Index (a combined measure of occupier market indicators displayed in chart 1 overleaf) moved to +2 in Q3, from -3 previously. That said, this broadly neutral reading is still consistent with a flat overall backdrop across the occupier market at present.
- Headline tenant demand was broadly unchanged over the quarter, with a flat trend reported for both the office and industrial sectors. However, having declined in each of the last seven reports, there was a marginal quarterly pick-up across the retail sector.
- Despite this, availability of retail space continued to drift higher over the quarter, while a similar increase was reported in the office sector. The amount of vacant space in the industrial sector was unchanged, although landlords did reduce incentives during Q3.
- Over the next twelve months, prime industrial rents are seen posting the strongest growth on a sectoral comparison. That said, expectations were downgraded slightly compared to Q3, although those for secondary industrial were strengthened. Prime office rents are anticipated to deliver modest gains, while the outlook is flatter for secondary. Retail remains the weakest of the sectors in terms of rental prospects (chart 6).
- In New York, respondents remain more pessimistic than those at the national level. Retail and office rents (in prime and secondary locations) are expected to decline over the next twelve months. Secondary industrial is the only sub-sector displaying a positive outlook over the year ahead.

### Investment Market

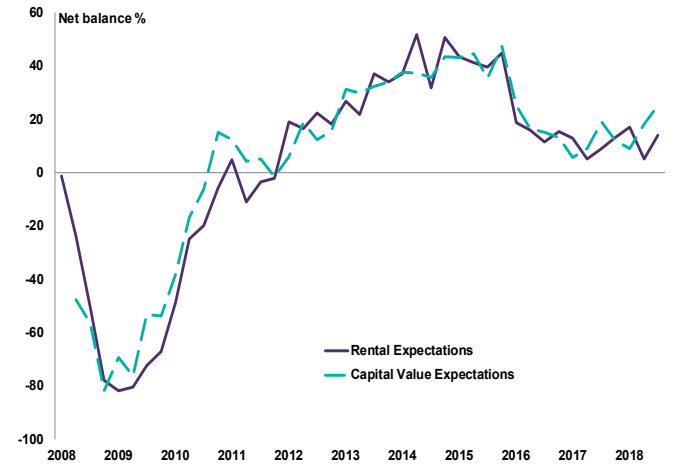
- The Investment Sentiment Index (a composite indicator incorporating a range of investment market variables shown on chart 1) came in at +10, compared to +14 in Q2. This modestly positive reading is indicative of steady degree of momentum behind the investment market.
- Investment enquiries increased firmly across the industrial sector while offices saw a more moderate rise in comparison. Investor demand continued to decline across the retail sector. Foreign investor demand reportedly fell in both the office and retail sectors but remained unchanged for industrial assets.
- Having held broadly steady over the past three quarters, the supply of property on the market for investment purposes increased. This was driven by a rise in the number of office and retail units becoming available for sale.
- The twelve month outlook for capital values remains highly varied at the sector level. Prime offices are expected to post modest capital value gains although the view on secondary is broadly flat. Both prime and secondary industrial assets are seen delivering solid growth, albeit expectations were trimmed slightly compared to Q2. Prime retail values are now expected to remain flat, while expectations are firmly negative for secondary (chart 5).
- With the exception of the industrial sector, where marginal growth is expected, capital values are seen declining across all other areas of the New York market.
- 45% of survey participants nationally feel commercial real estate is overprice to some extent. The proportion is a lot higher, at 66% in new York.
- 50% of respondents in New York feel the market is in the early stage of a downturn compared with a national figure of 35%.

# Commercial Property Market

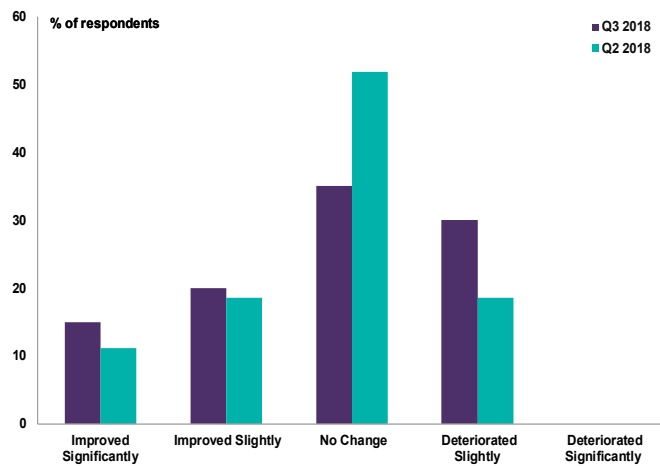
**Chart 1: Occupier, Investment Sentiment Indices**



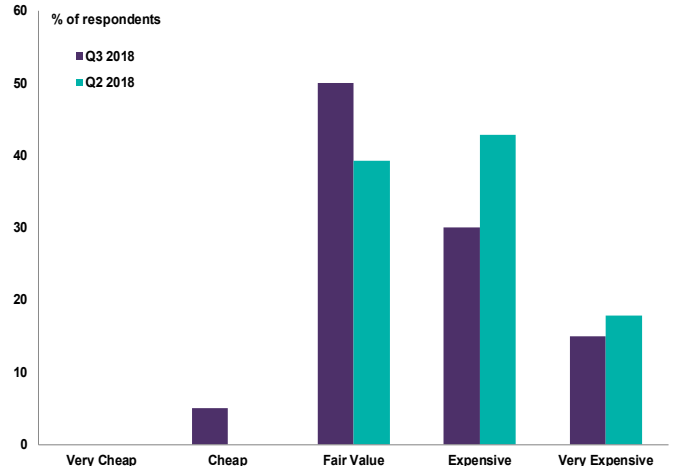
**Chart 2: 3-month Rents, Capital Values**



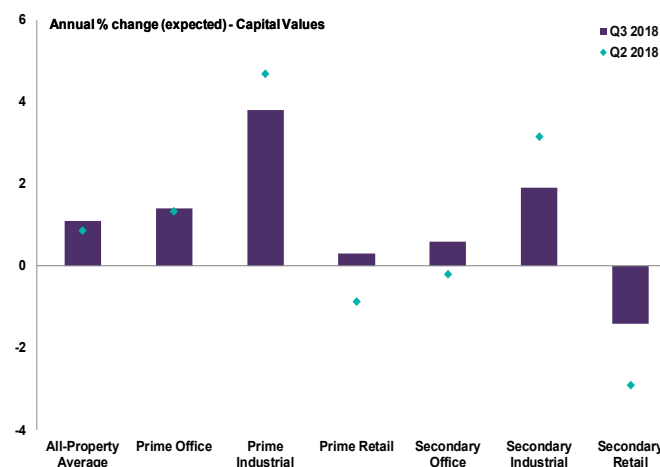
**Chart 3: Credit Conditions**



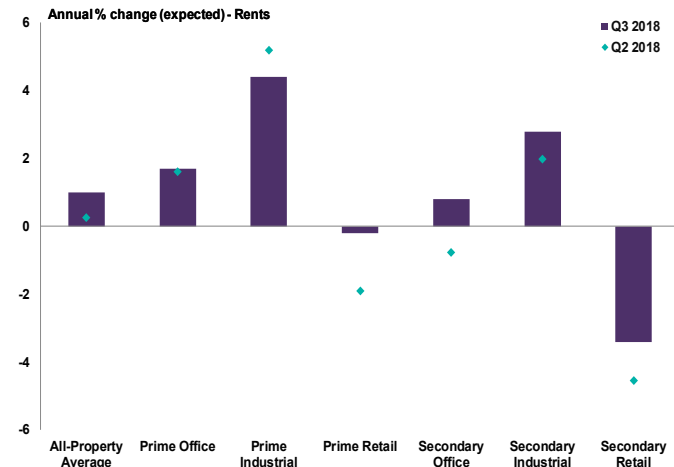
**Chart 4: Valuations**



**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](http://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 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](mailto:economics@rics.org)

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