Simon Rubinsohn
Chief Economist
srubinsohn@rics.org
+44 (0)207334 3774

RICS Global Commercial Property Monitor

Q3 2014

Japan market upholds strongest momentum while Brazil and Russia flag

- **Japan continues to post the strongest underlying results with the UK and New Zealand close behind**
- **Sustained recovery in Spain, Portugal and Ireland accompanied by a pick up in French investment**
- **Divergence in emerging markets; India improving, China flat, Brazil and Russia continue to worsen**

The Q3 2014 RICS Global Commercial Property Monitor point to a further gradual improvement in overall market sentiment. Japan continues to exhibit the strongest momentum, posting the highest readings for both of the composite Investment Sentiment Index (ISI) and Occupier Sentiment Index (OSI) indicators. This extends a consistent run of firm underlying results going back six quarters. Forward looking indicators suggest this robust picture should be maintained over the next 12 months at least, with further growth in capital values and rents anticipated by survey respondents. Similarly, strong results were recorded for the UK and New Zealand, with both improving on an already healthy performance last quarter (unsurprising given the current macro environment with GDP growing at an annual pace in excess of 3% in both countries).

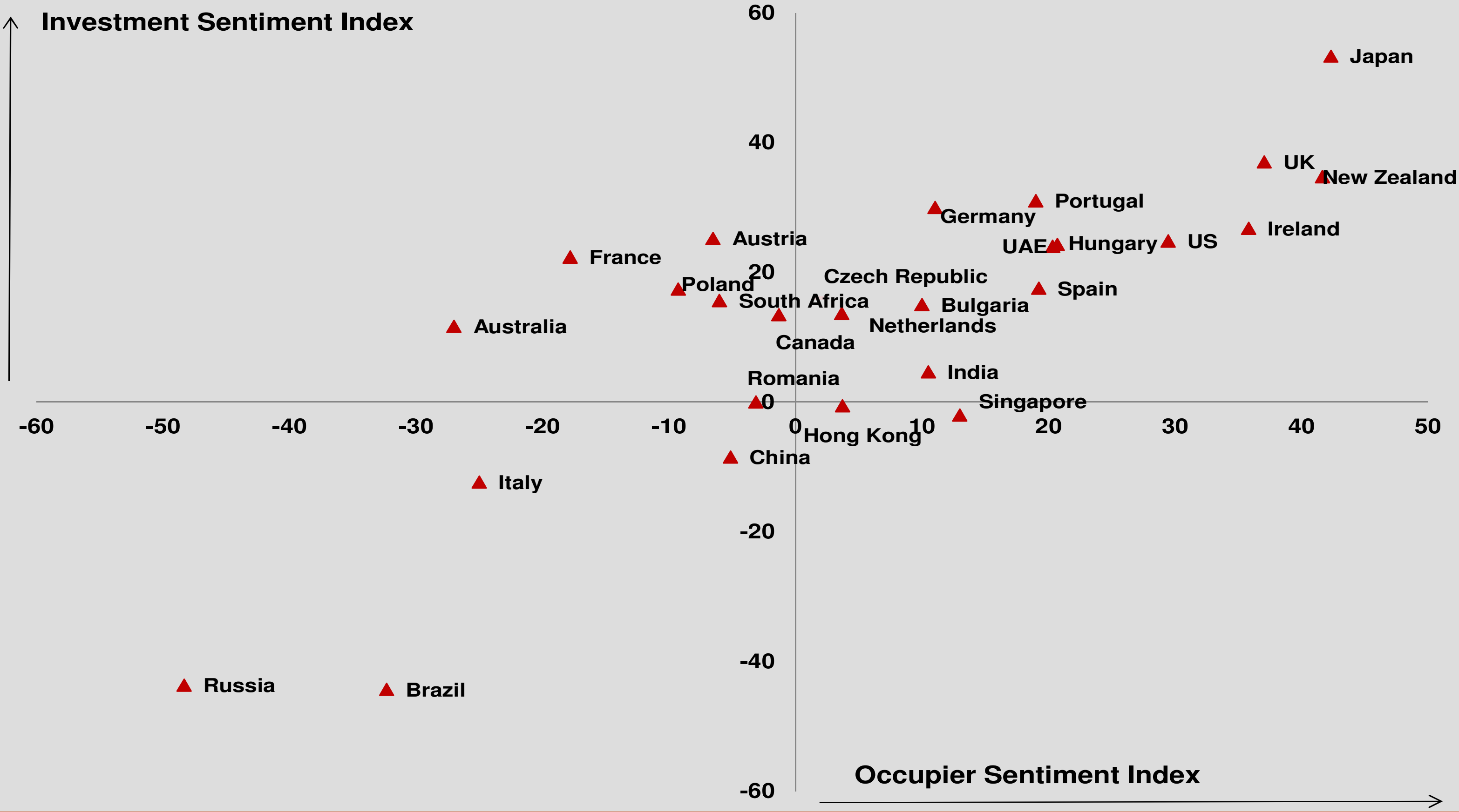
The latest monitor also shows solid momentum in the US, UAE and Hungary, particularly on the occupier side, with meaningful growth in tenant demand (likely a result of improving labour markets) placing upward pressure on rental expectations at the twelve month horizon. Investor sentiment remains upbeat in Germany, while the revival continues in some of the peripheral euro area nations which were worst hit by the 2008 global financial crisis. Indeed, confidence returned to Portugal, Spain and Ireland during the latter half of 2013 and the recovery has become increasingly well established ever since. As such, these three markets rank highly in terms of growth in occupier demand and investment enquiries, and this is supporting the medium term outlook for rents and capital values.

The weak performance of the Italian and French economies is reflected in the results for the occupier segment, with the OSI readings for each remaining firmly in negative territory. Interestingly, however, while investment indicators point to tentative signs of stabilisation in Italy, France has seen a material pick up over the past quarter. In fact, the investor enquiries gauge appears to be rising at a faster pace than in any other country, although this has yet to fully feed through into capital value projections, which remain subdued. Nonetheless, this comes as a positive development after three years of disappointing market performance.

Meanwhile, the BRICS markets appear to be experiencing mixed fortunes. Medium term prospects for India are encouraging, with sizeable gains projected for rents and capital values of around 10% per annum, over the next three years. Alongside growing optimism about the country's economic performance these buoyant expectations are eing driven by the government's approval of REITs (announced in the latest budget) with the entire Indian sample stating that funding in the commercial real estate sector should be improved as a result. Meanwhile in China, growth in supply is outstripping that of demand in both the occupier and investment sectors, contributing to a flat near term outlook for rents and capital values. Furthermore, OSI and ISI readings have now been negative for two consecutive quarters, the first time this has occurred since 2009. South Africa demonstrates similar trends to those of China, but investor interest did see an uptick over the past three months.

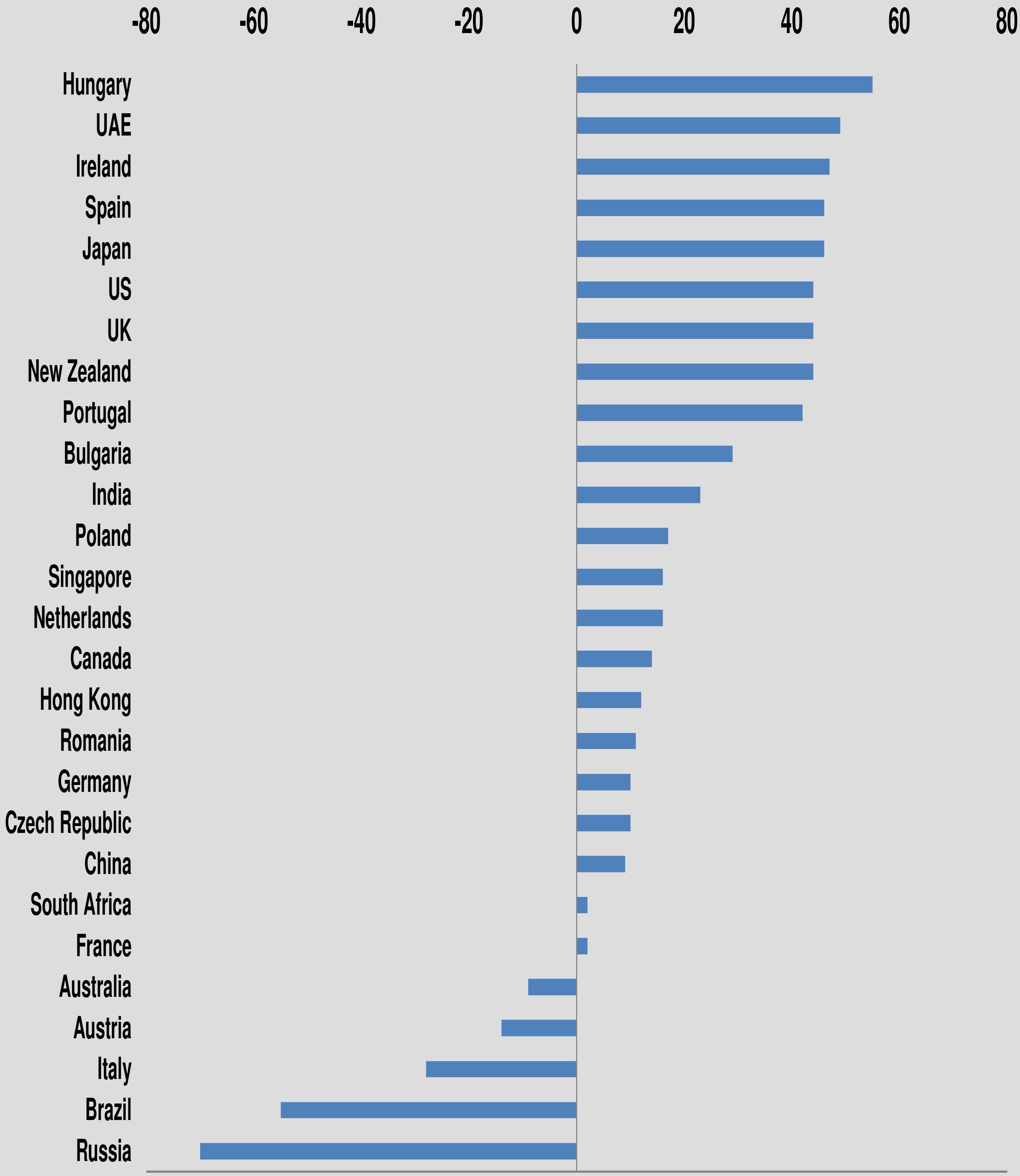
The feedback from Russia and Brazil is, however, more concerning with sentiment in both cases deteriorating across the board. This has now been an ongoing theme in Brazil for the best part of two years with moderating economic growth and higher interest rates taking their toll on the real estate sector. In Russia, around three quarters of respondents noted that sanctions were affecting business while just over half predicted there could be more bad news to come.

Occupier Sentiment Index and Investment Sentiment Index

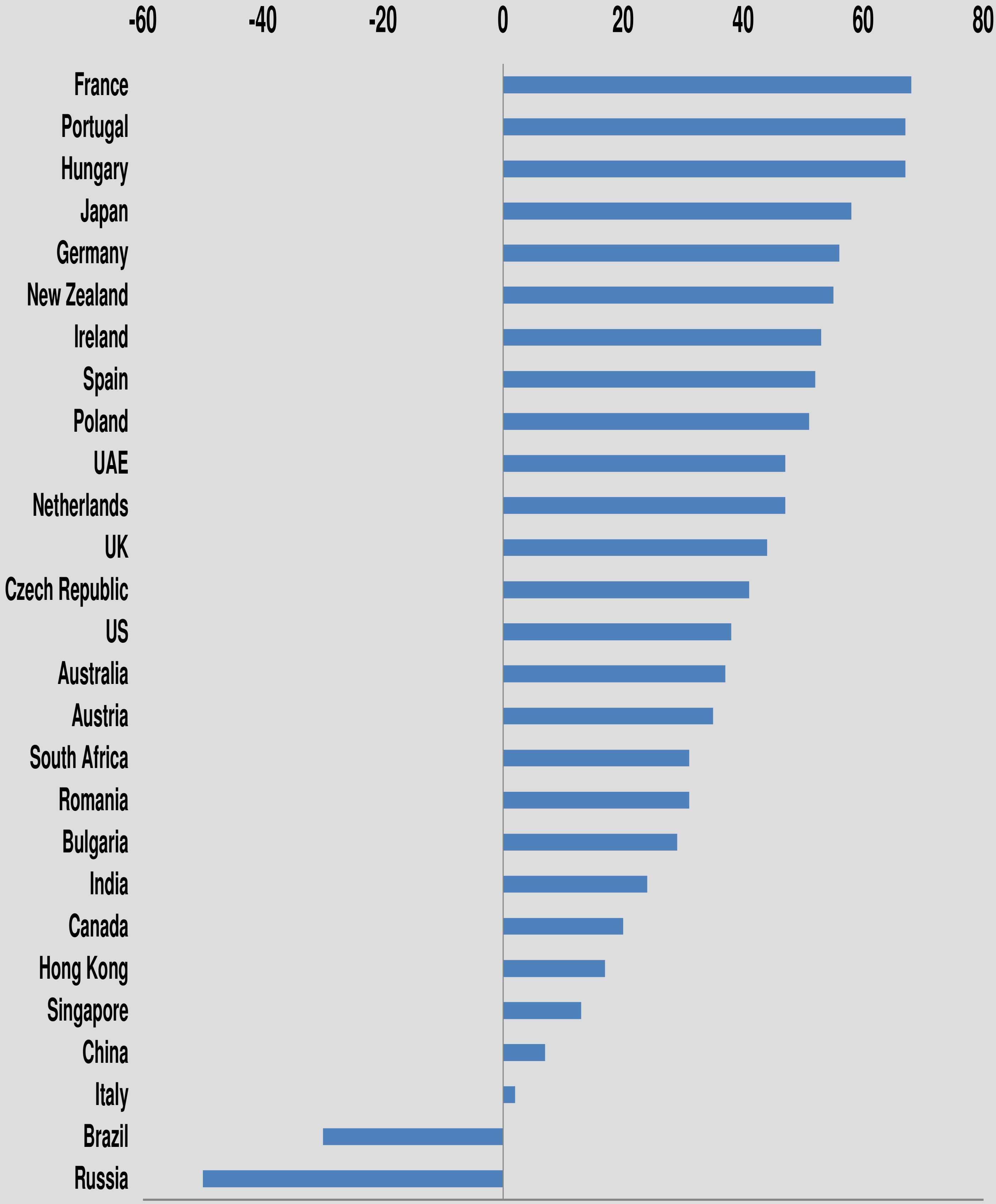


Twelve Month Rent and Capital Value Expectations (net balance %)

Tenant Demand - change with preceding quarter (net balance %)



Investment Enquiries - change with the preceding quarter (net balance %)



Information

RICS 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 Global Commercial Property Monitor is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity, the farmland market and arts and antiques.

For access to city level agents' comments and contributor details please view the RICS economics website.

Methodology

Survey questionnaires were sent out on 16th September with responses received until 10th October. Respondents were asked to compare conditions over the latest three months with the previous three months. A total of 1002 company responses were received, with 250 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.

A positive net balance reading indicates an overall increase, a negative reading indicates an overall decline.

Contact details

This publication has been produced by RICS Economics. For all economic enquiries, including participation in the monitor, please contact:

economics@rics.org

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RICS UK
T +44(0)20 7334 3774
srubinsohn@rics.org

RICS Asia
T +852 2537 7117
ricsasia@rics.org

RICS Europe
T+32(2) 733 1019
ricseurope@rics.org

RICS Oceania
T +61(2)92162333 info@rics.org.au

RICS Americas
T +1 212 847 7400
ricsamericas@rics.org

RICS India
T +91 124 459 5400
ricsindia@rics.org

RICS Middle East
PO Box 231078
Dubai
United Arab Emirates
T: +971 4 375 3074
F: +971 4 427 2498
ricsuae@rics.org