



## Q3 2018: Ireland Commercial Property Monitor

# Sentiment turning more cautious across retail but still solid elsewhere

The Q3 2018 Ireland Commercial Property Monitor results point to a softer backdrop emerging across the retail sector, albeit this is largely confined to secondary locations for the time being. As structural changes continue to impact consumer spending behaviour across the economy, this trend is becoming increasingly evident in many parts of Europe. Within the office and industrial sectors however, conditions remain solid, with both occupier and investor demand continuing to rise firmly. This expected to translate into further capital value and rental growth going forward, aided by strong macro fundamentals.

### Occupier Market

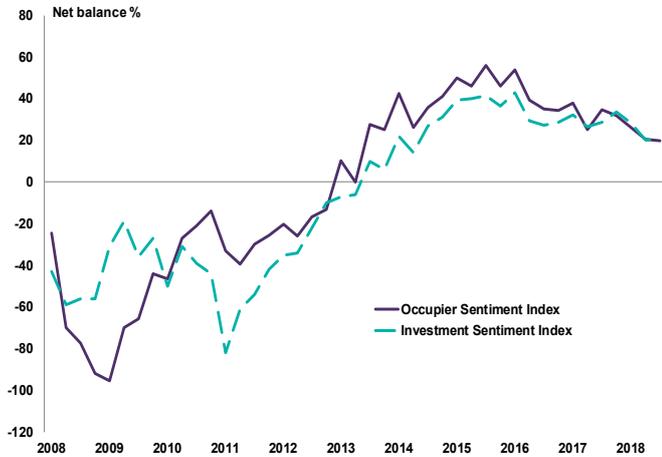
- The Occupier Sentiment Index (a composite measure of occupier market indicators shown on chart 1 overleaf) was unchanged over the quarter, again returning a reading of +20. As such, this metric is signalling a steady degree of momentum behind the occupier market.
- At the headline level, a net balance of +29% of respondents reported an increase in occupier demand in Q3. Although still solid, this does represent the most modest reading since 2012. The sector breakdown shows demand stagnating in the retail area of the market, but continuing to rise elsewhere.
- Availability of leasable space held broadly steady in both the office and industrial sectors. Meanwhile, there was an increase in vacant retail space for a second successive quarter. This pushed retail landlords to raise the value of incentive packages on offer to tenants once again.
- Compared to the previous quarter, contributors upgraded their forecasts for rental growth over the next twelve months in both the office and industrial sectors. Solid growth is anticipated in prime and secondary sub-markets, albeit expectations are comfortably stronger in the former. By way of contrast, rental projections were revised down slightly for prime retail rents, while those for secondary retail space continue to exhibit a flat outlook (chart 6).
- In Dublin, twelve month rental growth projections across the office sector are now slightly more modest than the national average. At the same time, forecasts for industrial rents are more or less in-line with the figures for Ireland as a whole. In terms of rents for retail space, contributors now see some downward pressure in secondary locations, although the outlook remains modestly positive for prime.

### Investment Market

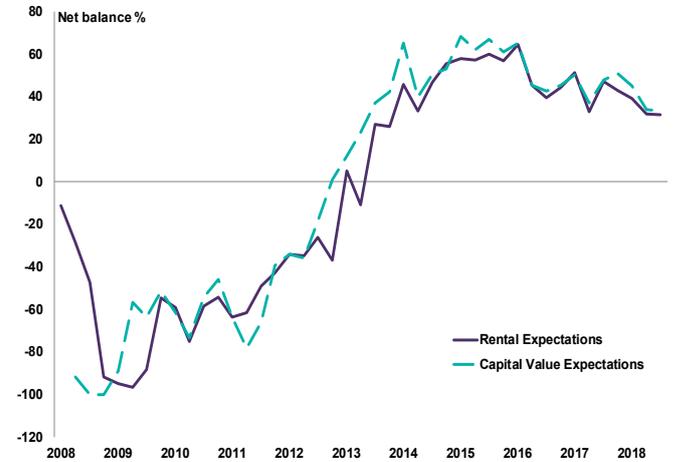
- The Investment Sentiment Index (an amalgamation of investment market indicators shown on chart 1) came in at +21, little changed from +20 in Q2. Nevertheless, this brings to an end a sequence of three straight quarters in which this indicator had eased.
- Both office and industrial assets attracted a solid increase in investment enquiries during Q3, while demand was flat across the retail sector. Furthermore, there was an outright decline in overseas enquiries for retail assets (the first since this series was introduced in 2014).
- The supply of property for investment purposes held steady in both the office and retail sectors over the quarter, but continued to fall across the industrial market.
- The prime office and industrial sectors continue to lead the way in terms of twelve month capital value expectations, with respondents now pencilling in a slightly stronger rate of growth than was the case previously. At the other end of the scale, secondary retail values are seen holding steady, although prime retail projections are still reasonably positive (chart 5).
- Capital value projections in Dublin are now more or less aligned with those at the national level, although there are a couple of exceptions. The secondary office market exhibits slightly stronger expectations than the headline figures, while prime retail projections are modestly weaker.
- Nationally, 46% of contributors sense commercial real estate is now above fair value, slightly up on 42% in Q2 (chart 4). In Dublin, the proportion taking this view is higher still, at 62%.
- Although a majority of respondents across Ireland feel the market is still in the early to middle stages of an upturn, the proportion viewing conditions as near the peak has steadily risen over recent quarters to 23%.

# Commercial Property Market

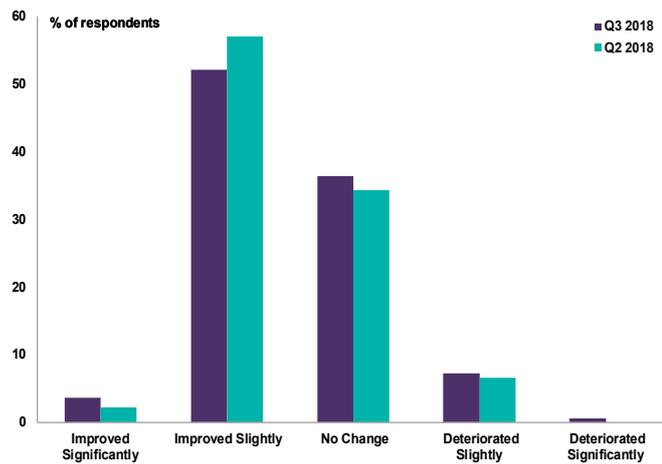
**Chart 1: Occupier, Investment Sentiment Indices**



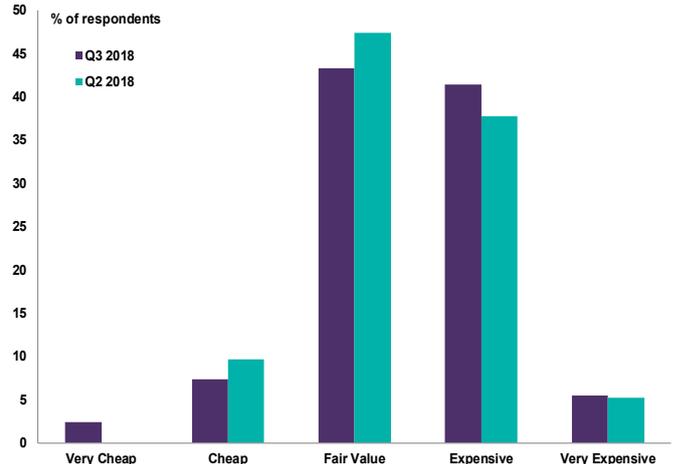
**Chart 2: 3-month Rents, Capital Values**



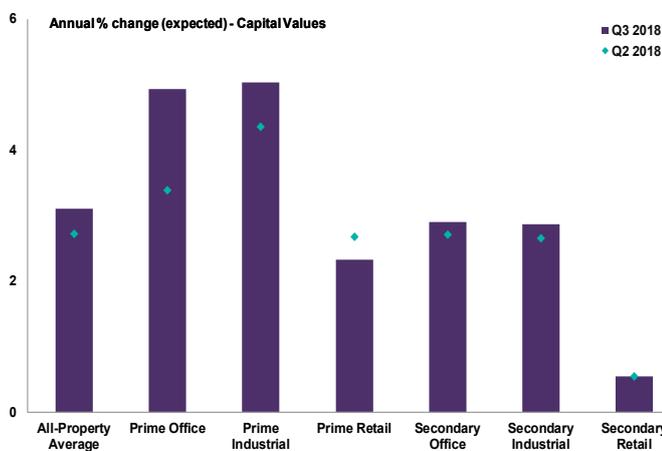
**Chart 3: Credit Conditions**



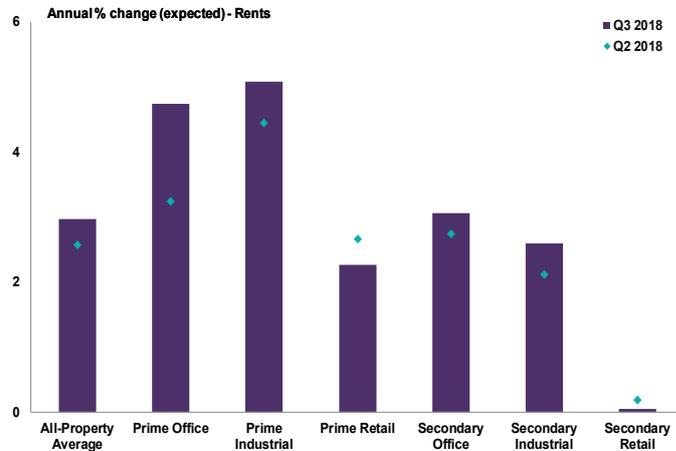
**Chart 4: Valuations**



**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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