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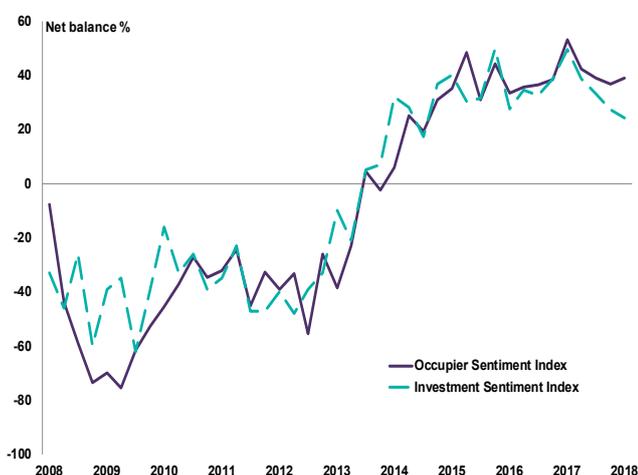
Q1 2018: Spain Commercial Property Monitor

Solid demand set to drive further rental and capital value growth in 2018

Occupier Market

- The Occupier Sentiment Index registered a value of +39 in Q1, following a similar reading of +37 previously. This measure continues to point to a solid overall rate of improvement in occupier market conditions.
- Tenant demand increased smartly once more during Q1, with a headline net balance of +59% of respondents noting an increase. Moreover, growth in demand was fairly evenly spread across the office, industrial and retail sectors.
- Availability continued to decline across the board, with a net balance of -25% representing the most negative reading in twelve months. Alongside this, landlords reduced the value of incentive packages in each market segment, albeit only marginal for retail premises.
- Despite the still solid backdrop, rental growth projections were trimmed very slightly for the second successive report. Although all prime sectors are expected to post strong rental growth over the year ahead, the outlook has turned flatter for secondary space (albeit secondary office rents may increase modestly).
- In Madrid, rental expectations remain more elevated than the national average. Prime office rents look set to post significant gains while the outlook is also robust for prime industrials and retail rents. Expectations are more modest across secondary markets within the capital, with secondary retail rents anticipated to see no change.

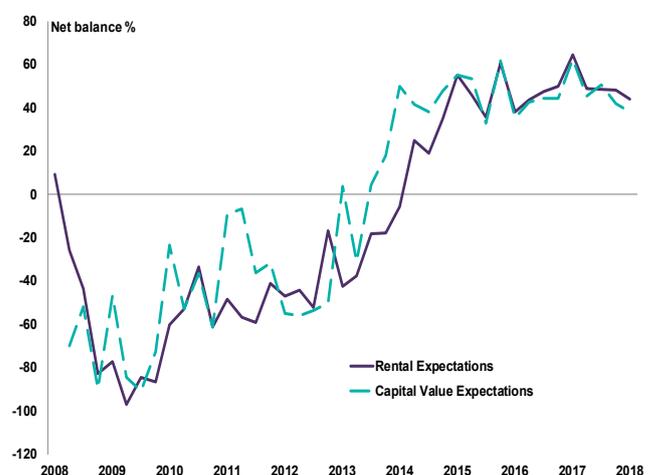
Occupier and Investment Sentiment Index



Investment Market

- The Investment Sentiment Index moved to +24 in the latest results, following +27 in Q4. This is the most modest reading since Q3 2014, and although still comfortably positive, it does suggest momentum has softened slightly.
- Investment enquires continued to increase across all sectors, albeit the pace of growth (in net balance terms) appears a little softer than that reported throughout much of 2017. Nevertheless, interest from foreign buyers also picked-up in each area of the market.
- The supply of property for sale held steady for a third consecutive report, with the stock of industrial assets on the market actually rising a fraction during Q1.
- Capital value expectations for the coming year remain positive, to a greater or lesser degree, across all sub-sectors. That said, prime assets are seen outperforming secondary by a clear margin, with the latter only anticipated to post modest price gains.
- Capital value projections are also slightly stronger in Madrid compared to the figures for Spain as a whole. Generally speaking, respondents left forecasts at similar, solid levels to those returned in the Q4 report, although prime office projections were revised a little higher.
- 55% of respondents now feel market conditions are consistent with the middle of an upturn (43% in Q4).

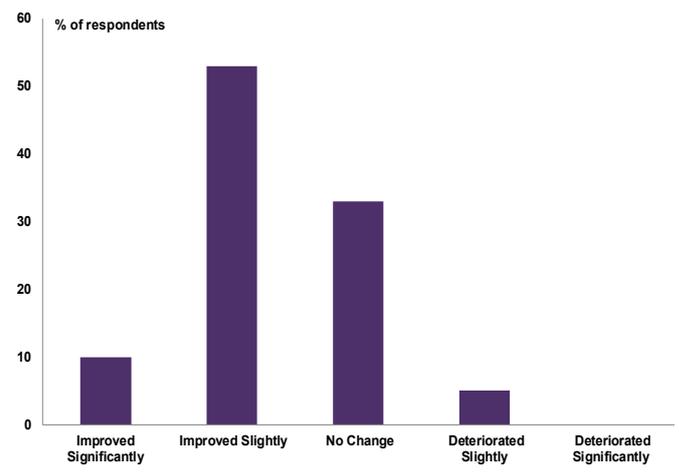
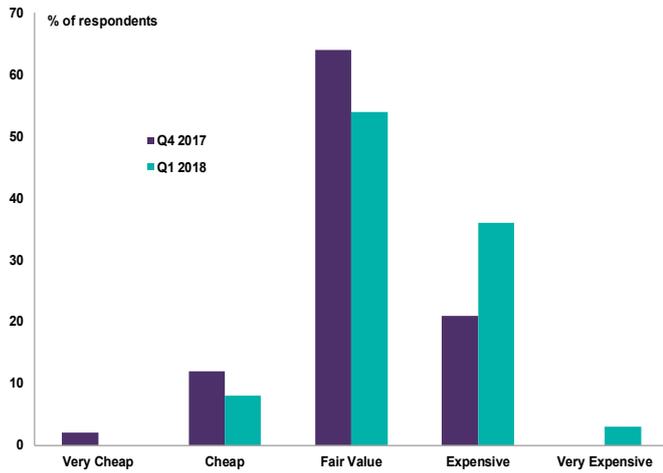
Rental and Capital Value Expectations



Commercial Property Market

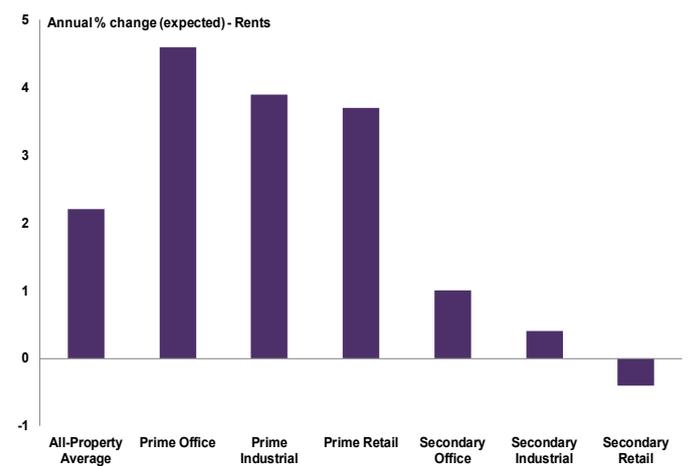
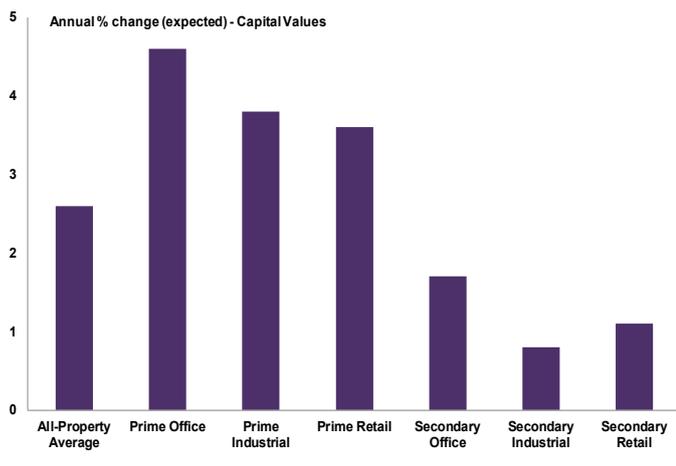
Market Valuations - 62% of respondents continue to view the commercial real estate market as offering at least fair value for investors. Nevertheless, there has been an increase in those sensing values are becoming somewhat stretched (from 21% to 38%).

Credit Conditions - A strong majority of respondents continued to report an improvement in financing conditions during Q1, supported by the ongoing accommodative monetary policy stance of the ECB.



12m Capital Value Expectations - Respondents continue to envisage capital values rising across all categories over the next twelve months. That said, although sharp gains are expected for prime assets, the outlook is only modest for secondary.

12m Rental Expectations - The divide between prime and secondary is perhaps more visible for the rental outlook. While all prime markets are expected to see solid growth over the year ahead, rents across secondary locations are expected to see little change.



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 March 2018 with responses received until 11 April 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 1748 company responses were received, with 385 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

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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.

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