



Q1 2020: Spain Commercial Property Monitor

Pandemic set to weigh heavily on rents and capital values in the year ahead

The Q1 2020 Spain Commercial Property Monitor results unsurprisingly show the coronavirus pandemic is having a hugely negative impact on sentiment across the real estate sector.

The Occupier Sentiment Index sunk to a near seven-year low at -17 (down from a reading of +15 in Q4). Within this, previously strong occupier demand growth in the office sector ground to a halt in Q1, while demand for retail space again fell sharply.

The scale of the economic challenge posed by the Covid-19 outbreak is weighing heavily on the outlook for rents, as twelve-month expectations have fallen into negative territory across all areas of the market. Secondary retail and office rents are projected to see the steepest falls, with contributors expecting declines in the magnitude of -11% and -7% respectively. At the other end of the scale, projections are not quite as negative for prime office and industrial rents, although expectations are still negative to the tune of

around -1.5%.

The Investment Sentiment Index fell to -5 in Q1, following a figure of +9 in Q4, marking the poorest reading since 2013. That said, the backward looking indicator capturing changes in investment enquires over the past three months as a whole remained in marginally positive territory.

Nevertheless, the outlook for the coming twelve months is dramatically different from that returned in Q4, evidenced by survey participants slashing capital value expectations across the board. Outright declines are expected in each category covered by the survey, with secondary retail again displaying the weakest assessment for the year ahead, while prime industrial values are expected to be more resilient.

69% of respondents now feel the market is turning down, up sharply from a share of 33% of contributors who were of this opinion back in Q4.

Chart 1: RICS OSI and ISI

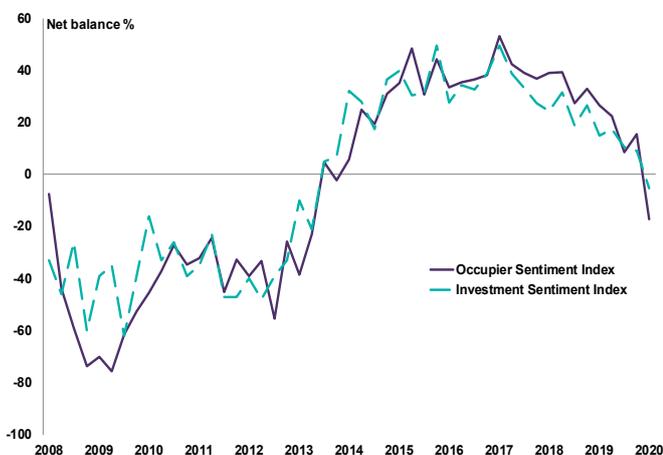


Chart 2: Property cycle

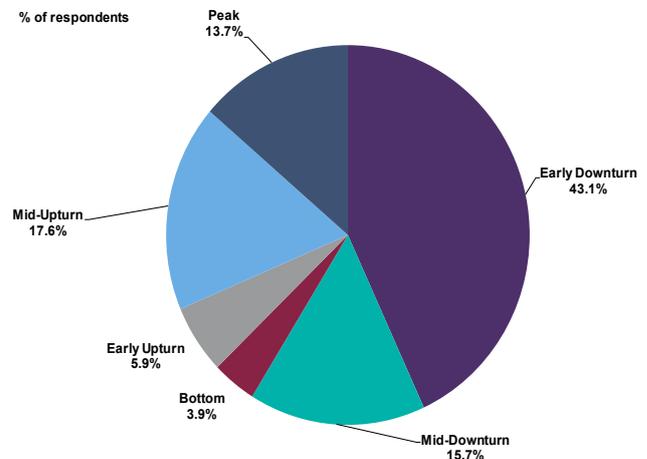


Chart 3: Occupier Market

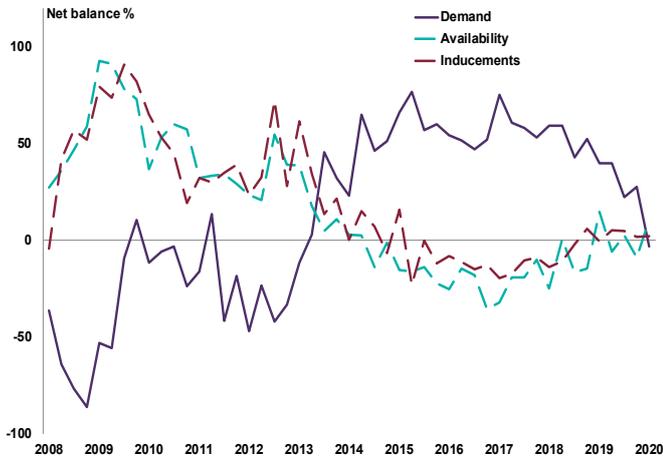


Chart 4: Investment Market

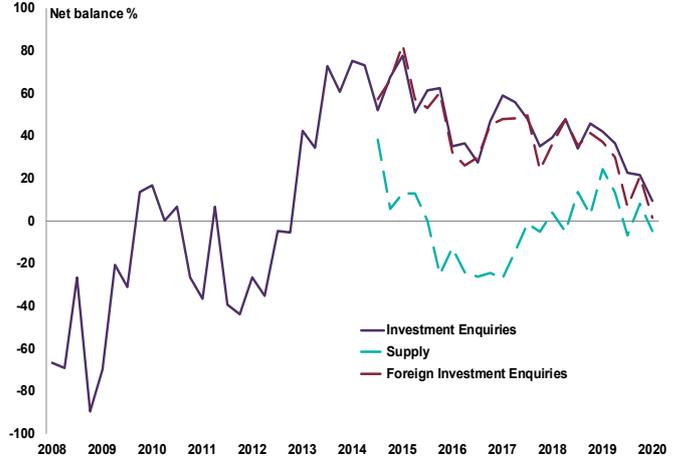


Chart 5: Credit Conditions

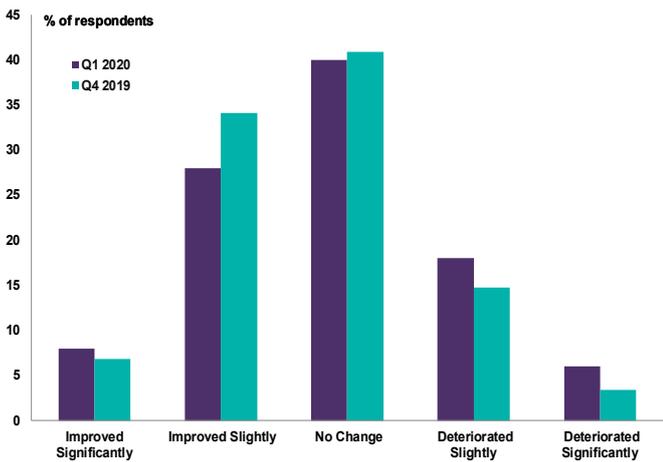


Chart 6: Valuations

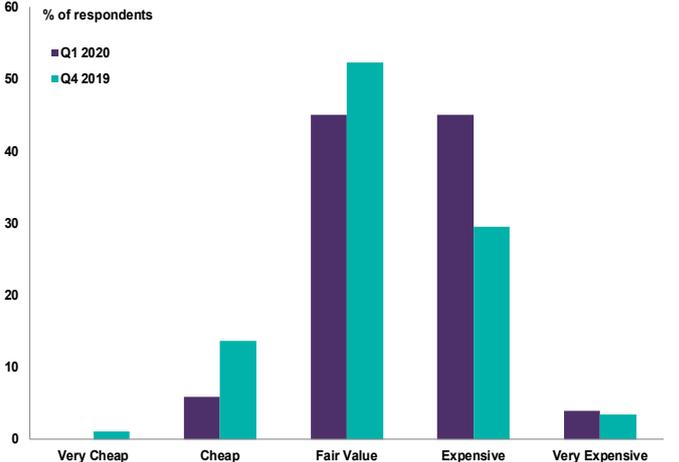


Chart 7: Twelve Month Capital Value Projections

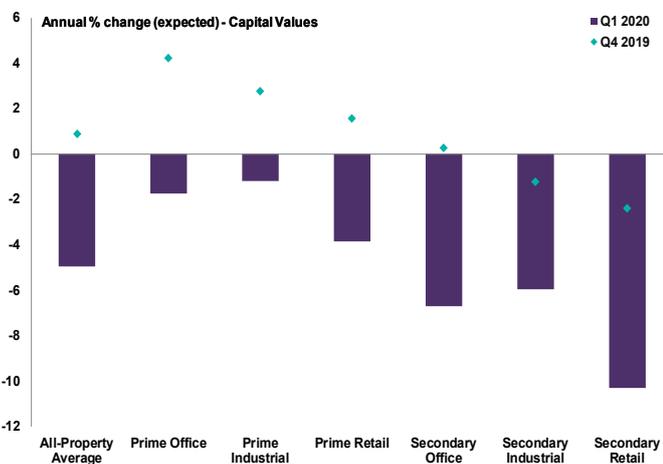
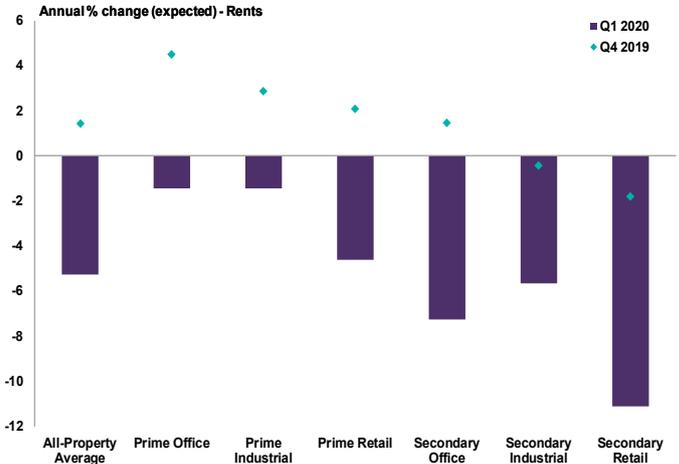


Chart 8: Twelve Month Rental Value Projections



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 11 March 2020 with responses received until 13 April 2020. 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 2604 company responses were received, with 592 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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