SOCIETY OF CHARTERED SURVEYORS IRELAND

RICS®

Q1 2021: Ireland Commercial Property Monitor

Demand growth gains further momentum across industrials, while retail and offices remain soft

The Q1 2021 Ireland Commercial Property Monitor results continue to signal polarised trends at the sector level. While trends across industrials continue to strengthen, feedback remains downbeat for offices and retail.

The Occupier Sentiment Index posted a reading of -21 in Q1, compared to -31 last time. Although still consistent with weak backdrop overall, a large degree of negativity has diminished since the recent low of -45 which was hit back in Q2 2020.

Nevertheless, this headline view masks significant divergence between different market segments. On the one hand, a net balance of +47% of respondents noted an increase in tenant demand for industrial space, marking the strongest reading for this indicator since 2018. Conversely, the tenant demand net balances stood at -27% and -60% respectively across the office and retail sectors.

As a result, respondents foresee rents continuing to decline for prime (-2%) and secondary (-5%) office space in the year to come. Likewise, expectations remain deeply negative for retail, as respondents envisage rents falling by 8% for prime retail space and 11% for secondary. By way of contrast, projections were upgraded across the industrial sector, with contributors now pencilling in 5% growth for prime industrial rents and a 2% increase for secondary.

Meanwhile, the Investment Sentiment Index returned a figure of -11, which is virtually unchanged compared to -10 back in Q4. Still, the disparity between sector performance remains equally as pronounced on the investment side, with industrials seeing strong growth in investor enquiries while demand metrics remain very much negative for offices and retail assets.

This is reflected in capital value expectations, which point to further steep falls for office and retail valuations in the year to come (albeit the pace of decline is expected to moderate.) At the same time, both prime and secondary industrial assets are now expected to post solid growth in capital values.

Away from the mainstream sectors, capital value expectations are also firmly positive for data centres, and to a lesser degree for aged care facilities and multifamily residential. At the other end of the spectrum, projections remain negative for hotels as well as student housing, although the expected rate of decline is now much less severe than in the previous results.

Chart 1: RICS OSI and ISI

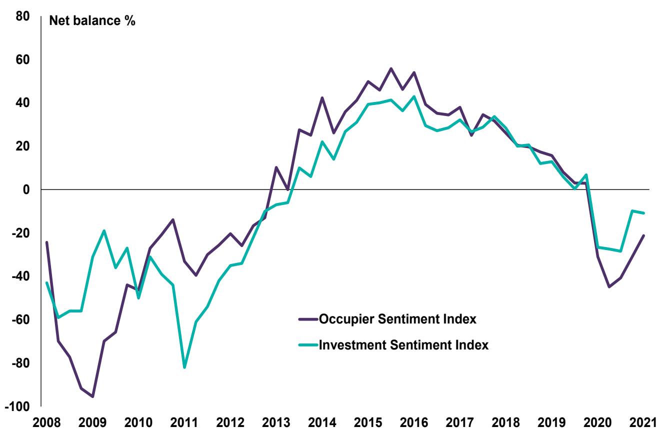


Chart 2: Property cycle

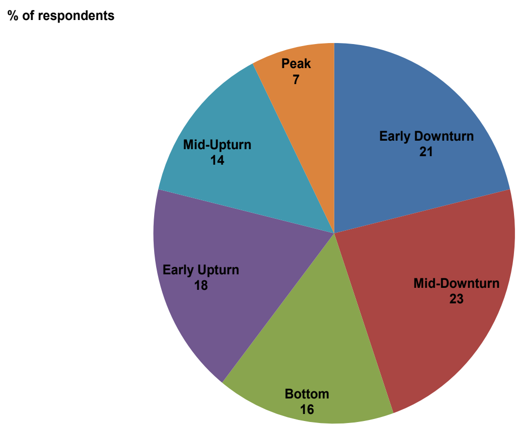


Chart 3: Occupier Market

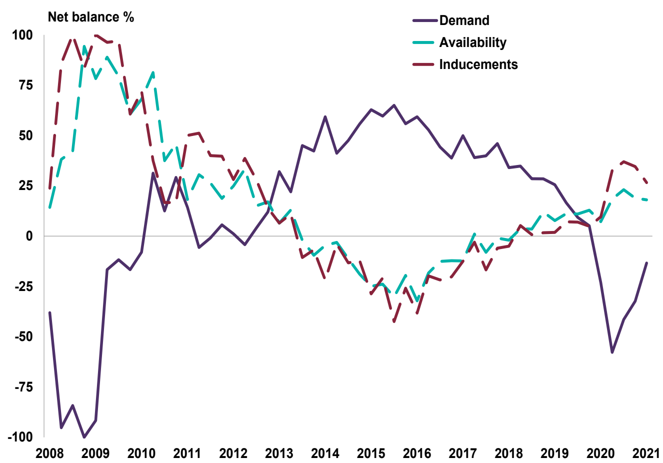


Chart 4: Investment Market

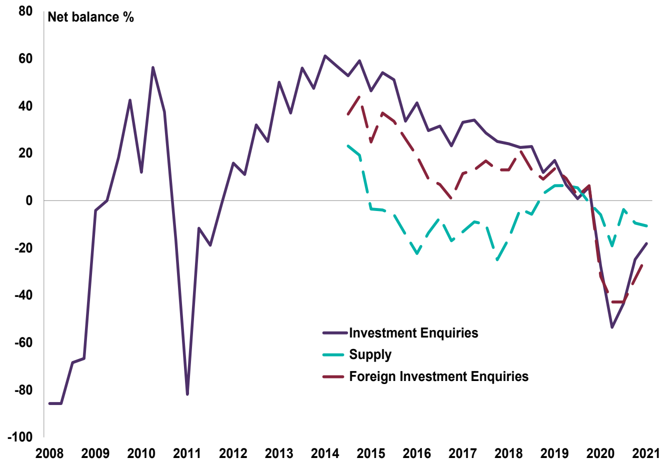


Chart 5: Credit Conditions

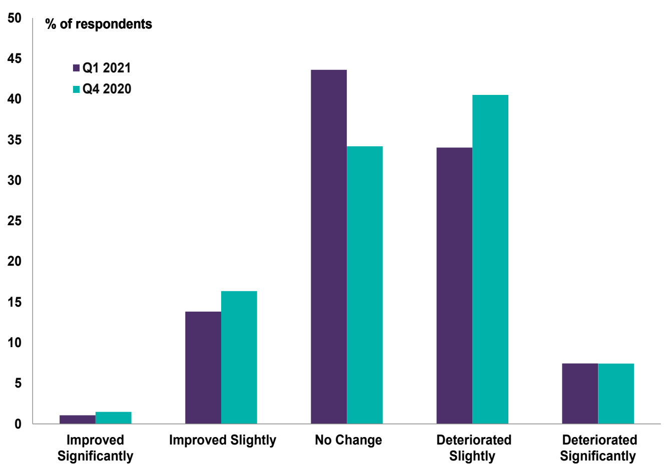


Chart 6: Valuations

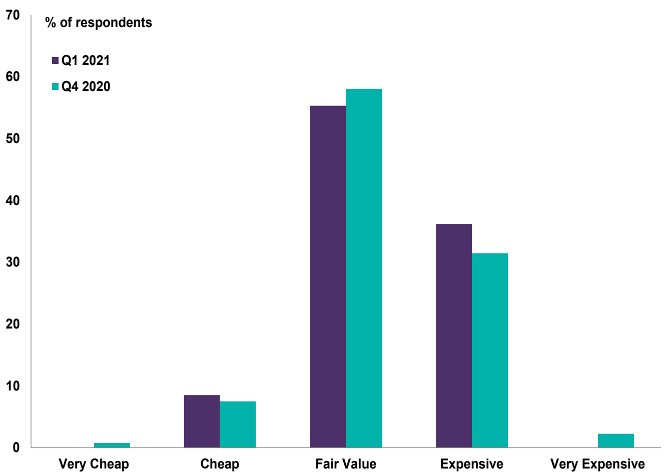


Chart 7: Twelve Month Capital Value Projections

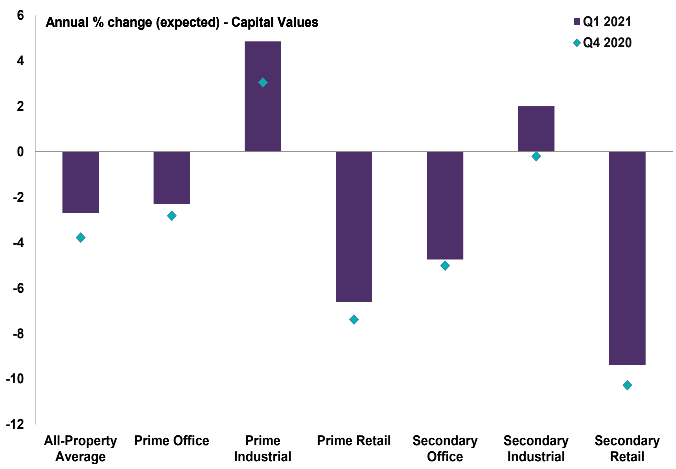
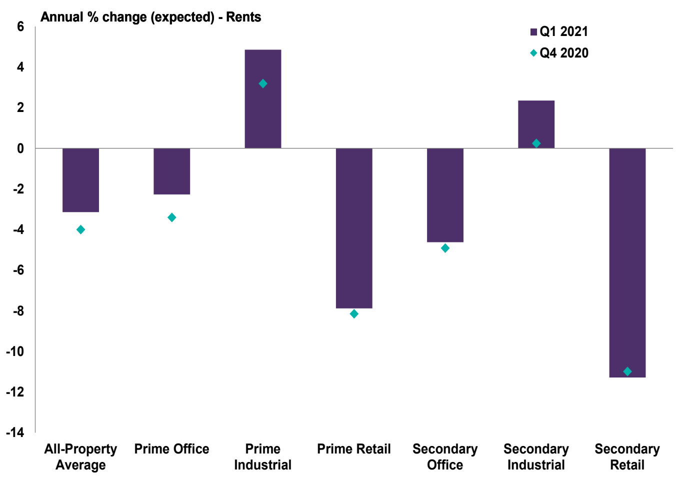


Chart 8: Twelve Month Rental Value Projections



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 10 March 2021 with responses received until 12 April 2021. 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 2714 company responses were received, with 801 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia. Responses in Israel were collated with the help of the Israel Real Estate Appraisers Association (IREAA).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. The Commercial Property Sentimet Index is an unweighted average of the OSI and ISI. Regional indicators are weighted using estimates of the stock of commercial property provided by LaSalle Investment Management, and are adjusted on an annual basis.

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