



Q4 2017: Italy Commercial Property Monitor

Market activity continues to improve steadily

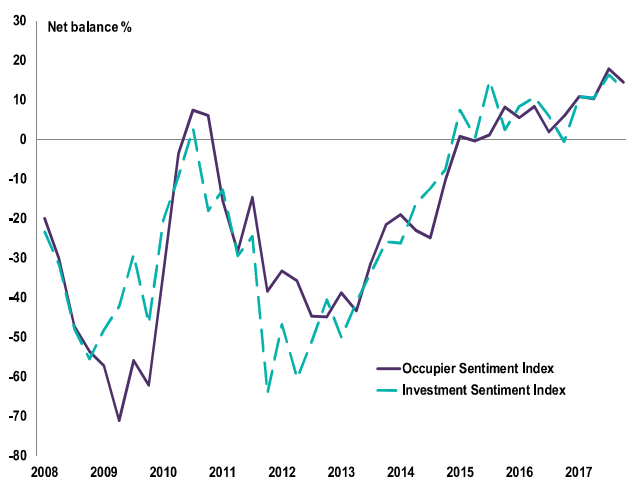
Occupier Market

- The Occupier Sentiment Index continues to signal steadily improving occupier fundamentals, posting a reading of +14 during Q4 (following Q3's high of +18).
- Demand from tenants rose in each area of the market, with retail posting the strongest growth while industrial demand picked up only marginally.
- Availability continued to increase in both the office and retail sectors, but held steady across the industrial segment. Alongside this, the retail sector was the only portion of the market in which landlords increased the value of incentive packages on offer to prospective tenants.
- Rent expectations were upgraded slightly across all sub-markets when compared to the previous quarter, with prime retail rents still anticipated to see the strongest gains. Nevertheless, the outlook remains slightly negative across the secondary industrial sector.
- In Milan, rental growth projections across prime sub-sectors comfortably exceed the national average. Little change is expected in rental values across secondary locations, although industrial again displays a slightly negative outlook.

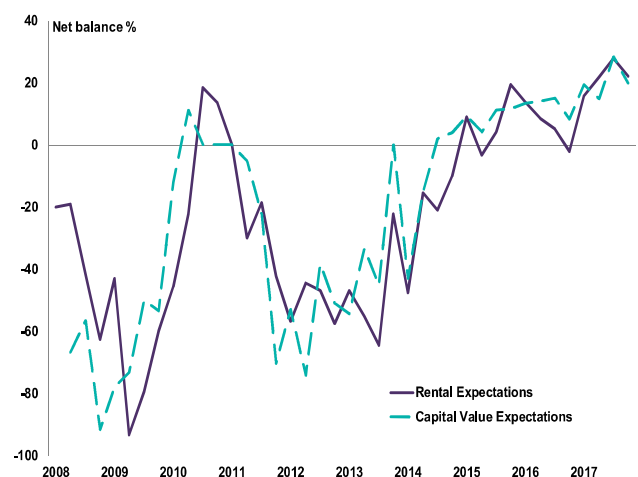
Investment Market

- The Investment Sentiment Index registered a reading of +13 in Q4, compared with +16 in the previous quarter. As such, this gauge remains consistent with a modest tightening in conditions across the investment market.
- Investment enquiries rose smartly in both the office and retail sectors over the quarter, but were broadly unchanged in the industrial segment. However, there was a pick-up in foreign investment demand for industrial assets, although office and retail posted stronger growth in comparison.
- The supply of property for sale continued to edge up slightly at the headline level, driven by the office and retail sectors.
- Respondents envisage all prime assets posting solid capital value gains over the year ahead. Forecasts for prime retail values now lead the way, having been revised slightly higher. At the same time, values across secondary sub-markets are expected to remain stable.
- Milan displays somewhat stronger expectations relative to the national figures for prime office and industrial values, but a similar outlook for the remaining sub-sectors.
- A majority of respondents continue to view the market as in the early to middle stages of a growth phase in the current property cycle.

Occupier and Investment Sentiment Index

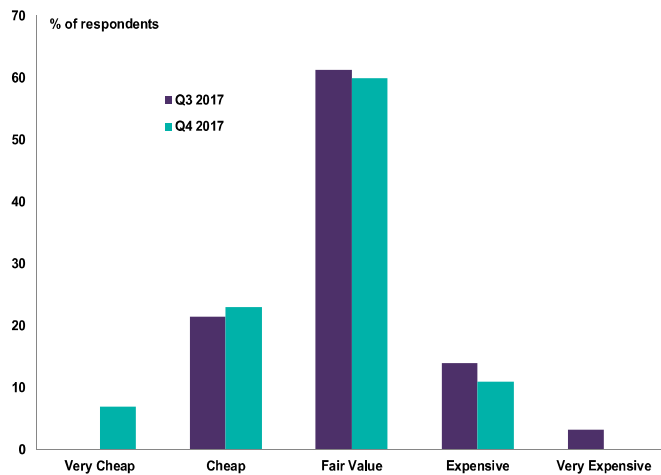


Rental and Capital Value Expectations

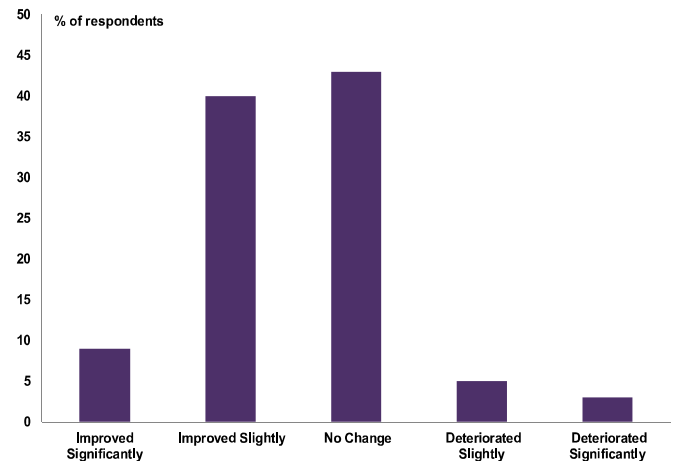


Commercial Property Market

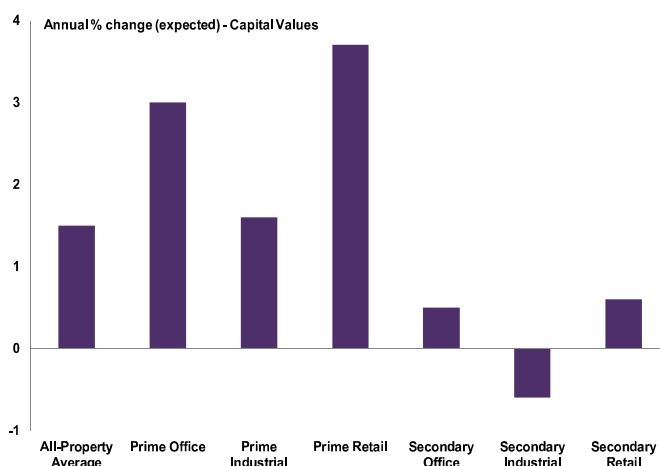
Market Valuations - The majority of respondents (89%) believe market prices are either at or below fair value at the national level, with an almost identical share also taking this view in Milan.



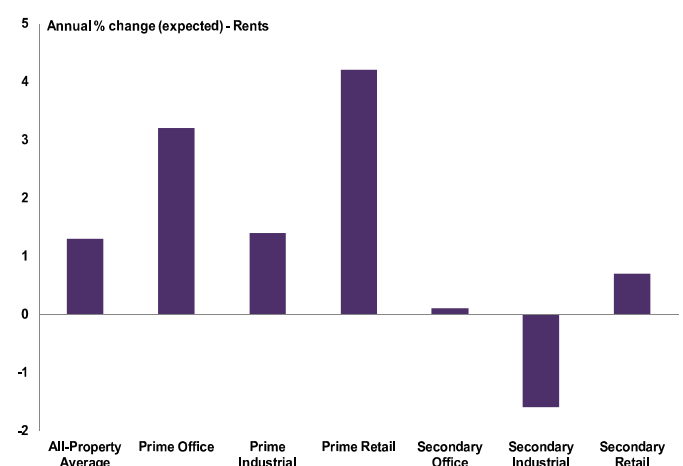
Credit Conditions - On balance, credit conditions reportedly eased to some degree in the fourth quarter.



12m Capital Value Expectations - The outlook remains fairly flat for properties across secondary locations for the year ahead, although prime markets are expected to post solid growth.



12m Rental Expectations - While the prime retail sector displays the firmest rental growth projections across all categories, at the other end of the spectrum, the outlook for secondary industrial rents remains slightly negative.



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 13 December 2017 with responses received until 12 January 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 1570 company responses were received, with 434 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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