UK COMMERCIAL PROPERTY DATA RESPONSE

RICS Commercial Property Market Survey (Q3)

Activity weighed down by uncertainty and retail weakness

- The RICS survey adds to the picture that weakness in the retail sector and Brexit-related uncertainty will continue to weigh on all-property rental values over coming quarters.

- The RICS Commercial Property Market Survey showed a net balance of 19% of surveyors reported a deterioration in occupier conditions in Q3, up from 13% in Q2. (See Table.) Weakness in the retail sector continued to drive the headline result. In addition, there was a modest decline in demand in the office sector. In contrast, occupier conditions were reported to have improved in the industrial sector. That said, consistent with the weakening in economic activity this year, the net balance reporting an improvement was just 9%, compared to 20% in Q2.

- Occupier conditions look even weaker in the retail sector, where the net balance of surveyors reporting a greater use of inducements was almost 50%. As noted in a recent Focus, inducement have provided a good read on turning points in retail rental value growth and point to no improvement in rents over the next few quarters. This is expected to offset the more positive outlook for industrial rents, causing all-property rental values to decline further.

- Along with the bleak prospects for the retail sector, uncertainty as to the outcome of Brexit continues to be noted by surveyors as holding back activity. With the further delay to the Brexit deadline until 31st January next year, this is set to continue. That said, even once uncertainty is reduced, we don’t think that there will be a sharp rebound in investment enquiries such as that seen after the EU referendum. (See Chart 1.) Indeed, with all-property capital values expected to fall, we think that investor appetite will remain subdued.

Chart 1: RICS Surveyors Reporting a Rise in Investment Enquiries (% Net Balance)

<table>
<thead>
<tr>
<th>RICS Commercial Property Survey – Key Balances (%)</th>
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<tbody>
<tr>
<td>Not seasonally adjusted</td>
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<tr>
<td>Past investment enquiries</td>
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<td>Past occupier demand</td>
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<tr>
<td>Past availability</td>
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<td>Expected rents in the next quarter</td>
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<td>Inducements</td>
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<td>Expected capital values</td>
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Source: RICS

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