



Q4 2021: Global Commercial Property Monitor

Sentiment continues to improve into the year end despite the spread of Omicron

- **Headline Global Property Sentiment Index (CPSI) edges up to best level since Q4 2019**
- **Investment Sentiment Index shows stronger rise reflecting more material pickup in investor enquiries**
- **Expectations for rents and capital values at 12 month time horizon firmer compared with Q3**

The headline results of the Q4 2021 RICS Global Commercial Property Monitor (GCPM) suggest that sentiment among professionals working in the real estate market actually improved in the final three months of last year despite concerns around the spread of the latest Covid variant. The aggregated (global) Commercial Property Sentiment Index (CPSI) improved for the sixth consecutive quarter returning to positive territory for the first time since the onset of the pandemic.

The shift in the mood music is most pronounced in the Americas (led by the US), a point highlighted in Chart 1. The aggregate reading in the CPSI also saw a significant uplift in the Middle East and Africa (MEA), improving from -8 to +4 (helped by stronger numbers from both the UAE and Saudi Arabia). The gain in the CPSI for Europe was more modest with amongst the larger markets, firmer results coming in from Netherlands and the UK. Meanwhile, APAC as a region continues to lag with the headline sentiment metric still stuck in negative territory, albeit that both Australia and New Zealand are bucking this trend and Singapore has recorded a noticeable improvement compared with Q3.

Investor confidence gaining momentum

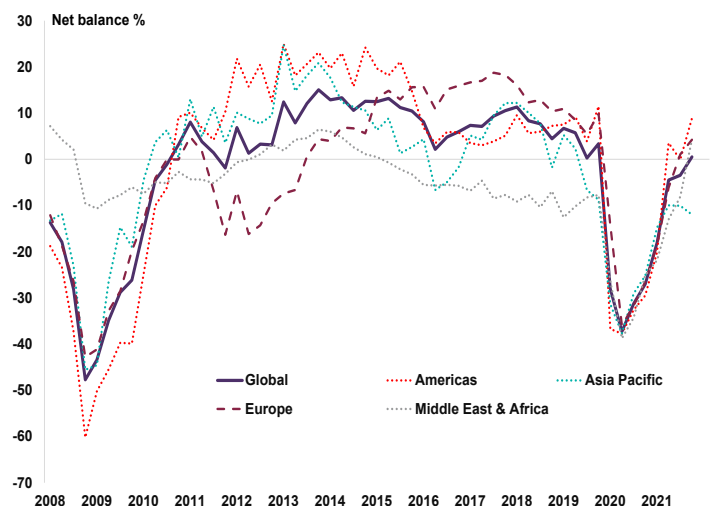
A recurring theme in the results of recent surveys has been the more positive feedback around investor behaviour compared to occupiers. The latest GCPM suggests this trend remains in place with the global Investment Sentiment Index (ISI) climbing to +5 from -1 while the Occupier Sentiment Index edged up more modestly (from -6 to -4). The renewed restrictions imposed on economic activity in some parts of the world as a result of the spread of Omicron will inevitably have played a role in limiting the improvement in the latter over the period in question.

The more upbeat mood amongst investors is captured in Chart 2 which tracks the net balance reading for the investment enquiries component of the ISI. To be clear, the net balance measure shows the proportion of respondents who have seen an increase in enquiries in the latest quarter (compared to the previous three months) as against those who have seen a decline. The reading for the US in Q4 was significantly

Survey responses were supported by the following

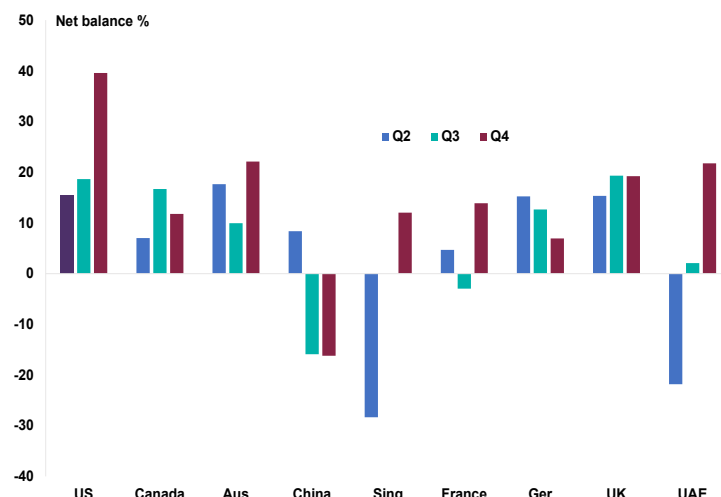


Chart 1: Global Commercial Property Sentiment Index*



stronger, climbing to +40% but the trend is generally encouraging in most the major markets with exception of China, where the ramification of Evergrande continue to linger. This is also reflected in the indicator designed to capture the pattern of overseas investment enquiries. The series is again measured in a net balance format

Chart 2: Investment Enquiries in Selected Markets

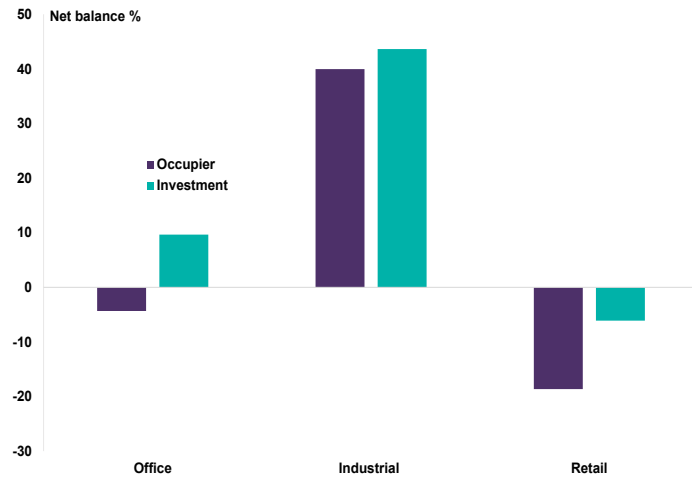


*The Global Commercial Property Sentiment Index is a weighted composite measure capturing overall market momentum, encompassing variables on supply, demand, and expectations

with the index moving to +1% in Q4 from -4% in Q3. Once again, this is the best reading since the onset of the pandemic with, from a regional perspective, Europe and the Americas leading the way.

Predictably, there remains a strong sector skew in terms of the strength of demand both at an occupier and investor level as demonstrated in Chart 3. Significantly, the feedback for the industrial sector remains around series highs while by contrast, it is still relatively soft in retail. That said, in the

Chart 3: Global Occupier and Investor Demand by Sector



Americas investment enquiries for retail space has returned to positive territory for the first time in more than five years, again led by the US (net balances of +15% and +24% respectively). As part of the Q4 GCPM, a number of additional questions were asked to better understand some of changes impacting the office sector in the wake of the pandemic. The results are presented in more detail on page 4 but the headlines are as follows. First, around two-thirds of respondents concluded that office space is still essential for a company to operate successfully. Second, four-fifths of contributors indicated that they are seeing an increase in demand for flexible and more local workspace. Third, the vast majority (80%) confirmed that repurposing of office space is taking place although only one-quarter suggested it was happening to a significant extent. Finally, just short of 60% agreed that space allocation for desks was being increased in the wake of the Covid pandemic.

Forward looking metrics turn a little more positive

The twelve month expectations series both for capital and rental values both edged upwards in Q4 and now stand modestly in positive territory in the point estimate projections; they are a little more so in net balance terms. That mix of results is consistent with greater conviction the outlook is improving but some caution as to how it will feed through into pricing power at an aggregated level. Needless to say, the sector issues highlighted earlier in terms of demand continue to be visible in the forecasts by respondents, a point clearly visible in Chart 4 which focuses on capital values.

Significantly, the expectation for prime industrial real estate at a global level has actually increased compared with the third quarter GCPM. Disaggregating this shows a broadly similar pattern at both regional and country levels. For the Americas, prime industrial capital values are now projected to climb a further 9% through 2022 with the US estimate at 10%. A constant theme in much of the anecdotal feedback does appear to be the failure of of the supply of new logistics

facilities to keep pace with growing demand. As in previous quarters, the other sectors where robust capital gains are anticipated include data centres, multifamily residential and aged care facilities.

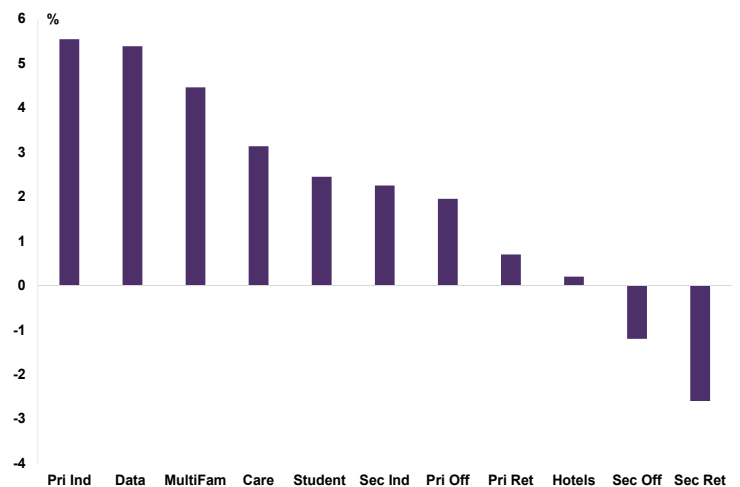
Meanwhile the country level net balance readings are shown in Chart 5 on page 3 in scatter format; the vast majority of countries are now in the top right hand quadrant which is indicative of positive expectations for both rents and capital values.

Diminishing share of respondents see market in downturn

One other metric that we continue to monitor closely is the perception of respondents to where their local market is in the real estate cycle. The global averages are evident in chart 6. The latest responses are not significantly different from the preceding ones and broadly reflect much of the other feedback to the survey. So the share of contributors who believe the market to still be in a downturn or in the bottom phase of the cycle has dropped from 42% to 35%. By way of contrast, the proportion who view the market to be in an upturn is 43% (42% in Q3) and in the peak phase 22% (as against 17%). For the Americas, the share of respondents who perceive the market to be either in the downturn or bottom phase of the cycle has dropped to its lowest level since the series began in 2015.

One slight note of concern particularly against a backdrop of rising inflationary pressures and central banks beginning to tighten monetary policy is the rising share of respondents who view their real estate market as being expensive or very expensive. Commensurate with this, only around 10% now take the view that the market could be described as being cheaply valued. As one might expect given the previous discussion, the number for the

Chart 4: Twelve Month Capital Value Expectations



for the Americas (taking the view the market is dear) is slightly above elsewhere at 56% (the US is at 60%) with the MEA at the lower end of the spectrum (43%).

Interestingly despite the interest rate hikes in some markets and the increasing rhetoric about moves in some others, the overall response to the question regarding credit conditions remains benign. The Q4 results show that a net balance of +17% of contributors indicated that credit conditions improved over the period. To put this in some context, the previous reading was +7% and the last time the series was this positive was back in the fourth quarter of 2019 suggesting that access to finance channels is, if anything, continuing to improve despite the warning shots from central bankers. For the Americas, the net balance around credit condition is +38%, for MEA it is +19%, for APAC it is +18% but interesting in Europe the feedback points to a deterioration with a net balance of -11% from -2% previously.

Chart 5: 12-Month Expectations

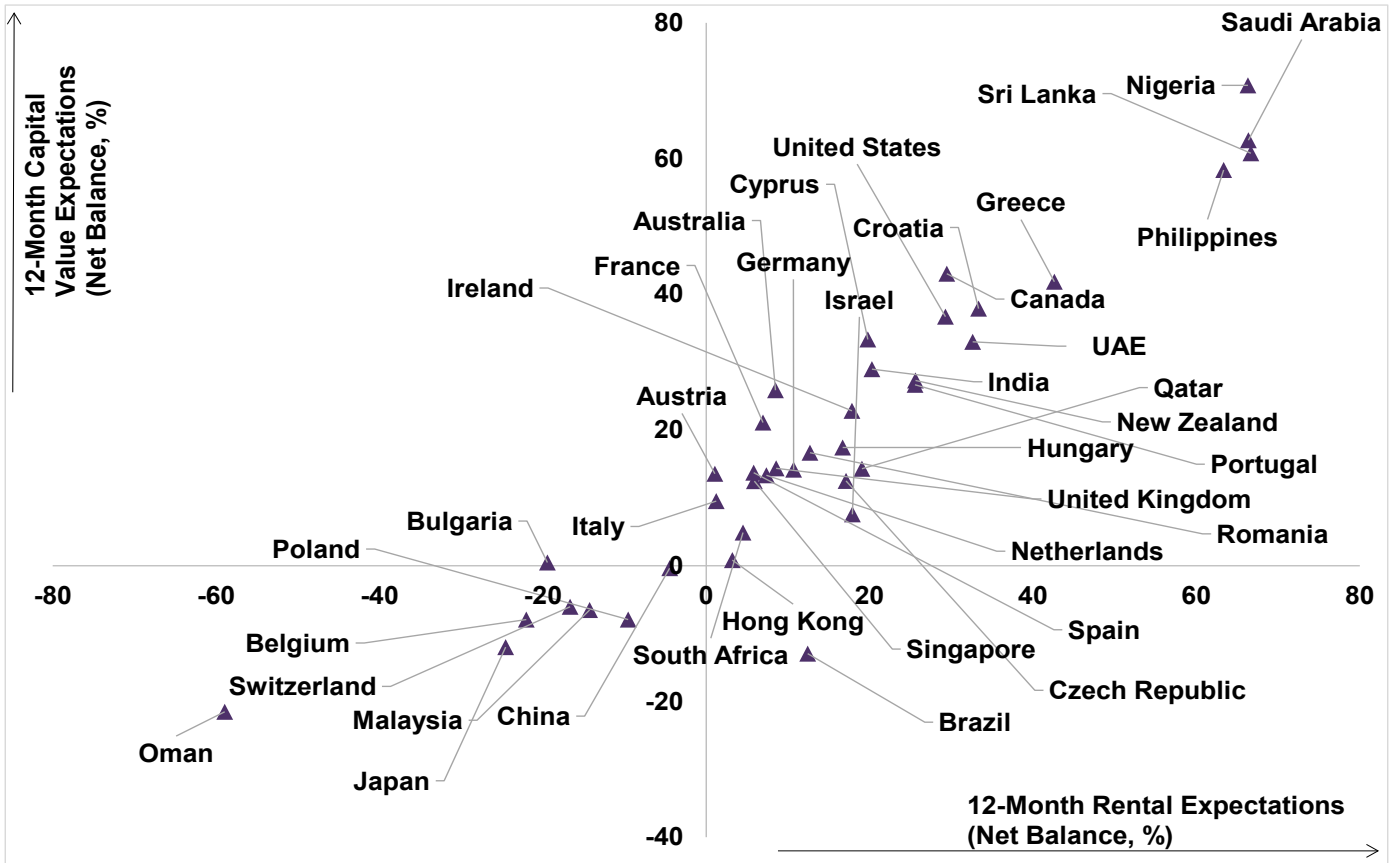
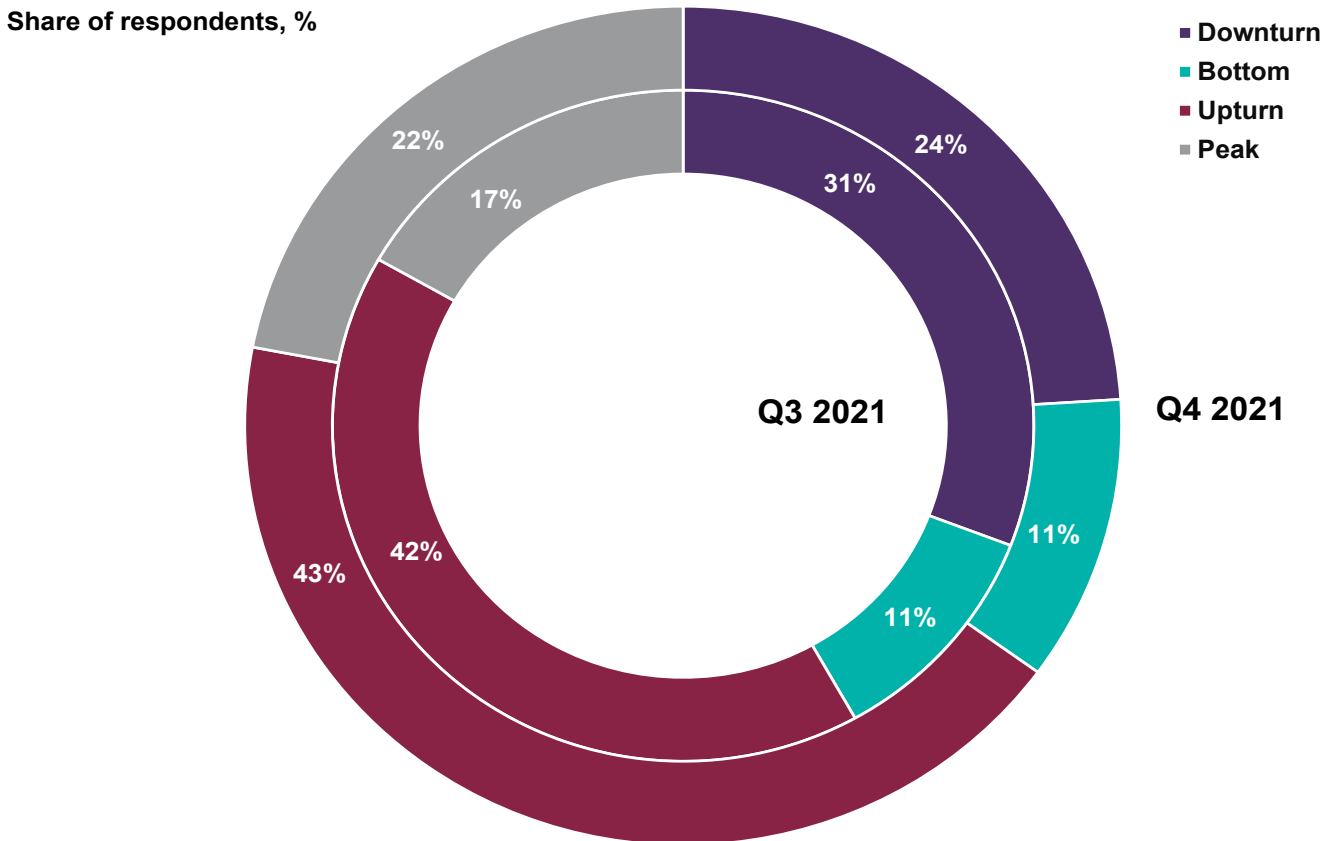


Chart 6: Perceptions on Phase of the Cycle



In the additional questions asked in the latest GCPM about the usage of office space, a number of key themes emerge. First, almost one-third of respondents no longer view office space as being essential for a company to operate successfully (Chart 7). At a country level, the feedback diverges quite widely with the Netherlands, China, Australia and the US amongst other providing a higher number of contributors taking this position.

There is rather more agreement in the insight around the question as to whether there has been a rise in demand for flexible and more local workspaces. At a global level, four-fifths of those contributing to the GCPM confirmed they are observing this trend. A number of European markets have seen particularly strong signs of this taking place (Chart 8) but in the vast majority of markets, upwards of 70% of respondents answered in the affirmative.

The third question related to the repurposing of offices for other uses (Chart 9). A total of 80% intimated that they are seeing this take place but only 20% confirmed, it is happening to a significant extent. Once again, European respondents appear to be observing a higher incidence of this with pretty much all contributors from Austria and Switzerland taking this view and more than 90% of those based in Germany.

both the US and the UK, something in the region of 85% of respondents are seeing repurposing although in both these markets, only around one-seventh of the feedback points to this happening on a significant scale at this point.

Finally, a question was asked about the space allocated per desk in the wake of Covid. Just under 60% suggested that it is being increased (Chart 10) with a broad range of responses. China was at the bottom of table in this regard with just 20% of respondents suggesting this is happening which may be a reflection of the country's management of the pandemic. By way of contrast, a very different picture is evident in the responses from Portugal, Croatia, Ireland, Austria and Poland.

Chart 7: Is Office Space Still Essential for a Company to Operate Successfully?

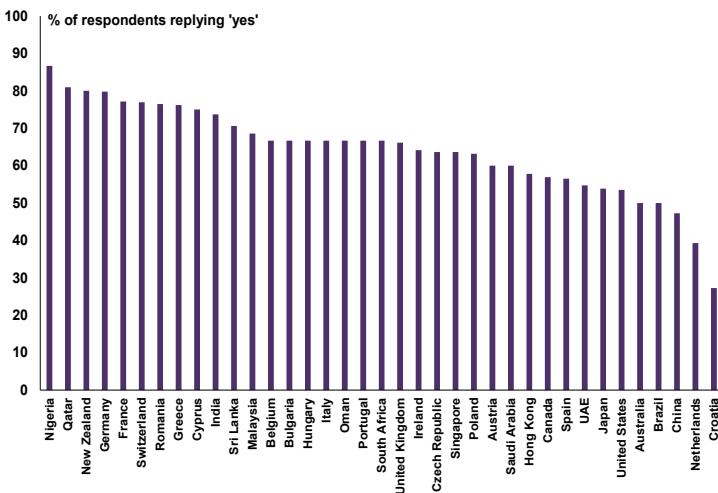


Chart 8: Are You Seeing an Increase in Demand for Flexible and More Local Workspaces?

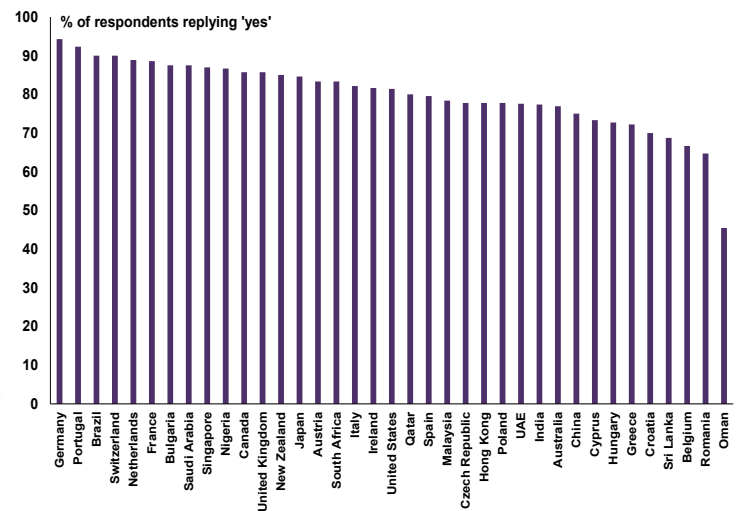


Chart 9: Are You Seeing a Repurposing of Office Spaces for Other Uses?

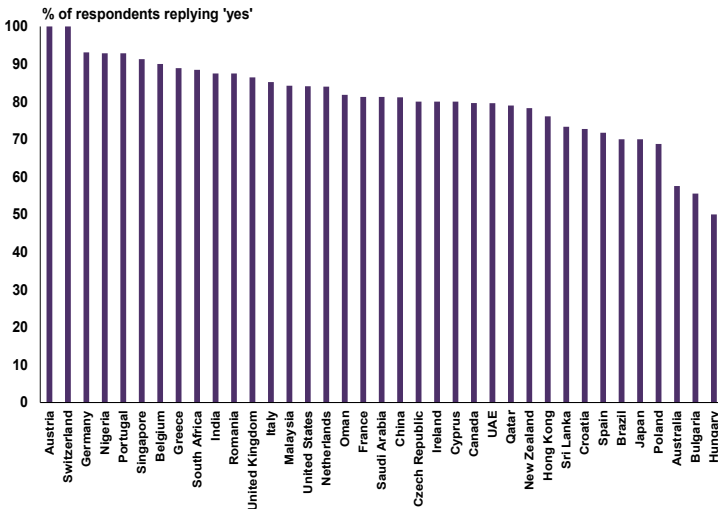
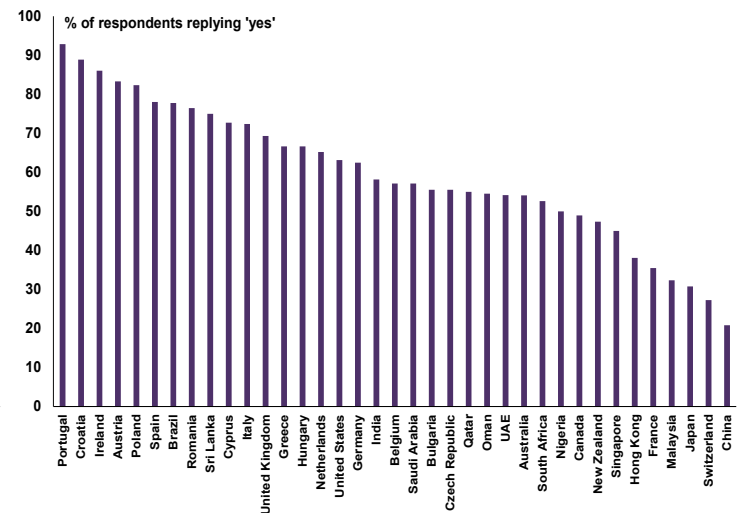


Chart 10: Has Space Allocation per Desk Increased in Offices in the Wake of Covid?



North America: Twelve-month capital value expectations strengthen across all areas of the market

The Q4 2021 GCPM results across North America show a further improvement in expectations for the coming twelve months, with capital values and rents now expected to post stronger growth than previously envisaged. Although the near-term disruption caused by the spread of the Omicron variant appears to have knocked occupier demand across Canada's office market over the quarter, this was not reflected in any negative effect on respondents longer term views.

Commercial Property Sentiment Index hits a five year high in the US, but dips slightly in Canada

Headline sentiment across the US commercial property market improved noticeably during Q4, with the aggregate CPSI reading increasing to +13 from a value of +3 beforehand (Chart 1). In fact, the latest figure marks the strongest in the US since Q1 2016 and was driven by a marked acceleration in demand growth from both occupier and investors over the period. Meanwhile, in Canada, the CPSI eased slightly to post a reading of +5, down from +12 in the previous quarter, but still remaining slightly positive nonetheless. It appears recent developments relating to the pandemic took their toll on demand across the office and retail sectors, with indicators tracking these areas slipping back into negative territory during Q4.

Twelve-month capital value expectations further upgraded

Despite near-term uncertainties, respondents across both nations upgraded their projections for capital value growth in the year ahead, with the all-property average hitting its highest level since 2013 in Canada, and reaching a five-year high in the US. Moreover, forecasts were revised higher, to a greater or lesser degree, for all sectors covered by the Monitor. For the US, prime industrial values still exhibit the strongest outlook, with respondents pencilling in 10% growth over the next twelve months. Multifamily and data centre values also display robust expectations while, at the other end of the scale, secondary office and retail values returned a flat to marginally negative outlook. Even so, these latest projections are less downbeat than in the Q3 results.

Looking at expectations across Canada, similar to the US, data centres, prime industrial and multifamily capital values exhibit the strongest twelve month outlook relative to all sectors tracked (with each of these areas receiving upgrades to projections). Significantly, there are no longer any market segments which display outright negative twelve-month capital value expectations within Canada, with previously weaker secondary retail and office projections turning more or less flat over the latest survey period (Chart 2).

Majority of respondents see the market in an upturn phase but concerns over valuations rising

Encouragingly, the proportion of contributors reporting conditions are turning down across the commercial property market has diminished steadily throughout the course of 2021 within both the US and Canada. As such, a majority of respondents now view the market to be in an upturn phase of the property cycle in each case. On a slightly more cautious note however, 60% of respondents from the US and 61% in Canada now deem commercial real estate values to be expensive relative to fundamentals (Chart 3). This is up from respective share of 48% and 53% in the Q3 results. With the latest feedback pointing to values rising sharply over 2022, it seems that this metric is likely to become further stretched going forward.

Chart 1: Commercial Property Sentiment Index by Country

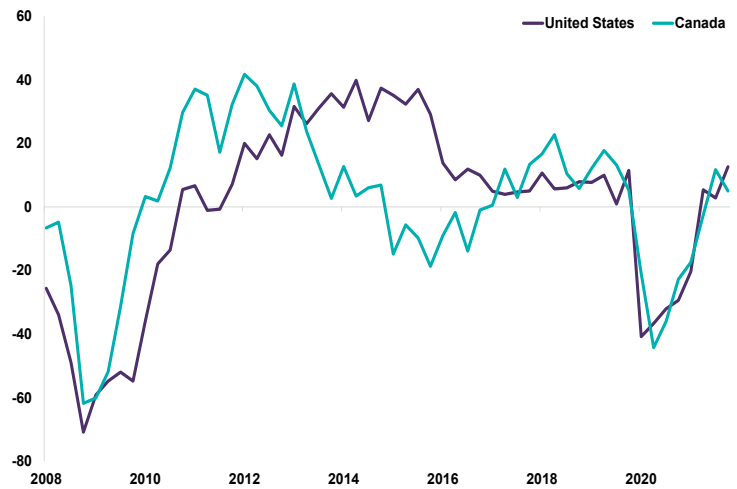


Chart 2: Twelve-Month Capital Value Expectations

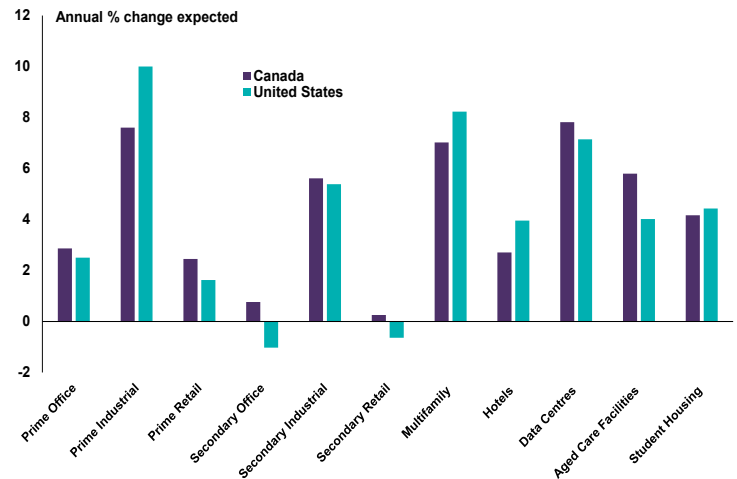
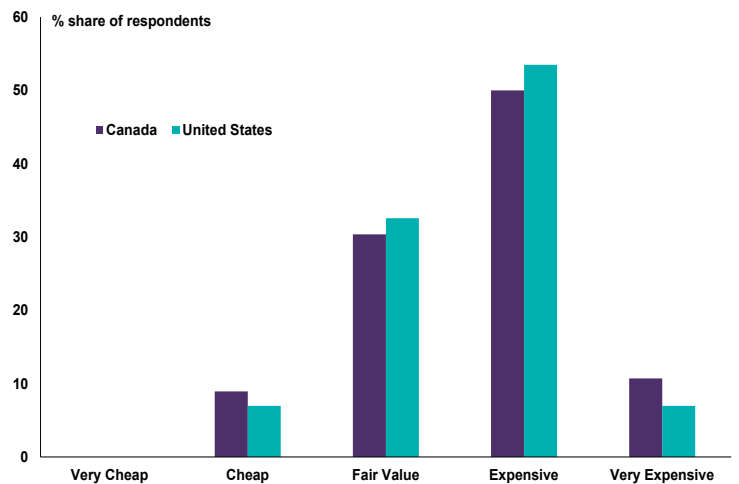


Chart 3: Perceptions on Valuation of Real Estate



Regional Comments from Survey Participants in the Americas

Brazil

The change comes from rising inflation and rising interest rates. -*Sao Paulo*

Canada

Multifamily asset demand up substantially, government legislated residential rental freeze. Surplus office capacity in CBD. Industrial demand up substantially. -*Halifax*

All real estate has a higher value, higher than market conditions support. -*Halifax*

Sectors that benefit from structural economic and societal shifts due to Covid (industrial, residential) accelerating at high rates while we are in a holding pattern and wait and see approach on retail, office and accommodation sector. -*Toronto*

Office is still doing ok in Toronto, with some new development coming on stream and leasing up. Industrial is on fire. Cap rates are at the lowest I have seen them in the GTA in 25 years. Multiple offers for every industrial property with cap rates in the 2.5 to 2.75% range for class A. Retail is struggling like most of North America, but signs of recovery starting to be seen in Class A malls. -*Toronto*

Downtown vacancy increased from 1% to 8% and expected to continue. However, due to the institutional control of major office buildings, rents or inducements have not significantly changed. -*Toronto*

Due to global economy condition, high inflation rate and increase in interest rate, the future property market is uncertain. -*Vancouver*

Supply Chain and impacts from COVID Pandemic are still impacting capital costs and rentals. The overall impact will only be known later during 2022. -*Vancouver*

Jamaica

Since the onset of the Covid-19 pandemic, there has been a general uptick in property values: particularly residential properties. Based on the current trend and economic climate, properties in general are expected to maintain their values and serve as an effective hedge against inflation. -*Kingston*

Trinidad and Tobago

The local and regional market is seeing very little activity and a lot of caution especially in the commercial sector. There seems to be a slight uptake in residential rental and capital values. There is a lot of caution because of pandemic uncertainty. -*Port of Spain*

Demand for real estate is on the decline and is likely to continue in the foreseeable future. -*Port of Spain*

United States

Market conditions are variable depending upon use, occupancy, sub markets. Covid-19 uncertainty is strong and has dampening impact on demand throughout the market. -*Boston*

The beginning of a slow recovery not helped by the Omicron virus. -*Chevy Chase*

The Dallas market continues to be strong, particularly in the industrial sector, although retail and office is also holding up well, despite concerns over a new surge in the Coronavirus. The holidays will likely contribute to this surge, and it will be interesting to see whether companies encourage workers to return to offices in the New Year. -*Dallas*

Some office demand is returning, industrial markets remain strong with low vacancies, multi-family continues to benefit from strong investor demand, pushing return rates even lower. -*Dallas*

Early recovery, industrial extremely hot, retail making an early recovery, starting to see some of the workforce shift back into the office. -*East Rutherford*

We are experiencing moderate occupier demand across all sectors. Investor demand remains strong with capital values showing very moderate increases. We believe we've seen the bottom of the cycle however inflation and potential changes in US tax code provides a bit of concern. -*Harrisburg*

We are seeing light at the end of the tunnel given good fiscal policy, distribution of vaccines. If Covid spikes beyond winter predictions, all bets are off as occupiers have delayed full occupancy yet again. -*New York*

Due to Covid, market remains weak with uncertainty, some offices started to comeback in September/October, but with Omicron things started to slow a bit. Retail is slowly recovering but online is still more than holding its own. -*New York*

Orlando and Florida has benefited noticeably due to the State keeping the economy open with no Covid mandates. Orlando has witnessed major growth and market activity due to immigration from the Northeast and West Coast relocating here. The housing market remains extremely strong along with CRE that is not expected to subside during 2022 based on local economists and major RE organizations. -*Orlando*

Orlando is one of the highest areas of population growth ever over the last 7 or 8 years. Minimum wage in Florida is \$8.65 and will increase to \$10. The November unemployment rate nationally is 5.0%. The majority of industries in Florida slowly grew in next few months, including Construction, Leisure and Hospitality, and Manufacturing. -*Orlando*

Uncertainty in turbulent election year compounded by the on going pandemic. -*San Francisco*

Asia Pacific: Increasing divergence in sentiment across the region

Feedback from APAC to the Q4 2021 GCPM shows sentiment remaining downbeat at an aggregated level, with the headline reading for the Commercial Property Sentiment Index (CPSI) coming in at -12 compared with -10 in the previous survey. Within this, the Occupier Sentiment Index worsened a little further from -12 to -16 in part on the back of the spread of the Omicron variant of Covid while the Investor Sentiment Index held steady at -8.

Chart 1 shows the CPSI at a country level across the region. The results highlight an improvement in the picture in both New Zealand and Australia with a return to positive readings and a less negative outturn in Singapore. However, the results for China and India are a little worse than in Q3 with Hong Kong and Japan barely changed and still in negative territory.

Investment enquiries for industrials generally firm

The APAC net balance aggregated reading for investment enquiries was -2% in Q4 signalling little change compared with Q3. Industrials, as elsewhere around the globe, remains a beacon of strength with the indicator showing a +15% net balance, the fifth consecutive positive outturn. The office number was 0 and it has been close to this in each of the past four quarters while retail still remains soft at -20% although it is worth noting, this is the least negative result since the onset of the pandemic.

Disaggregating the series at a country level predictably shows a mixed picture (Chart 2). The industrial enquiries net balance generally remains the firmest (or least negative) with the trend more solid in New Zealand, Australia, Singapore and Japan than elsewhere. There are also some signs of an uplift in office enquiries in a number of markets; the New Zealand net balance for this metric rose in each quarter in 2021 and at a faster pace with the feedback from Australia not dissimilar. In Singapore, the series has risen for two quarters in a row while momentum also appears to be picking up in Japan.

Despite the uplift in investor appetite in some parts of the real estate market in APAC, there still appears to be a perception that the cycle has yet to turn into a more positive phase. Across the region, 47% (43% in Q3) of respondents suggested the market is still in a downturn phase with another 11% (9% last quarter) indicating that it is in the bottom phase. That said, the share taking this view is significantly (and predictably) less in those markets where the CPSI is more upbeat including New Zealand, Australia and Singapore.

Sector expectations continue to show sharp divergence

Forward looking indicators captured by the GCPM continue to show a contrasting outlook at the sector level. Chart 3 suggests the appetite for data centres remains strong across the region (and elsewhere) with the APAC aggregates pointing to solid growth in both capital values and rents over the next twelve months. Prime industrial space alongside that linked to the provision of aged care and housing is also seen as likely to perform relatively strongly. By way of contrast, the outlook for secondary offices and retail is still viewed as downbeat with caution also still being expressed with regard to the prospects for the hotel sector.

For prime retail, there does seem to be some signs of a shift in the mood with the headline numbers for both capital values and rents flat across the region and the feedback from some markets a little more positive. In the case of India, respondents suggest that capital values could rise by as much as 3% although the recovery in rents is likely to continue to lag.

Chart 1: Commercial Property Sentiment by Country

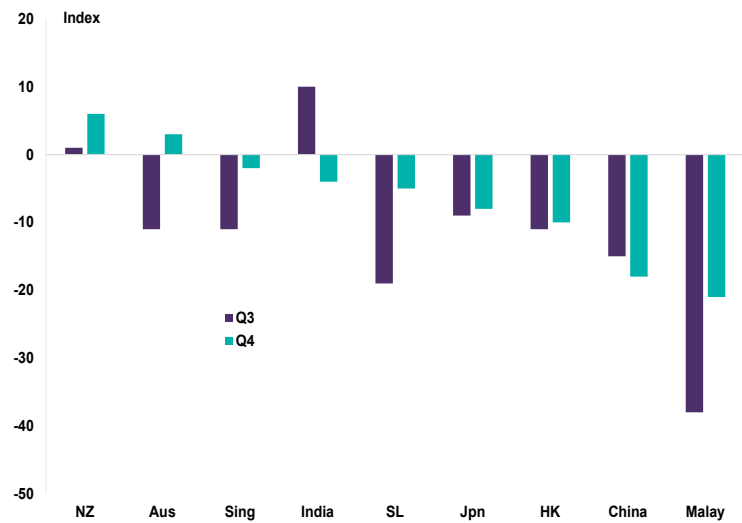


Chart 2: Investment Enquiries by Country

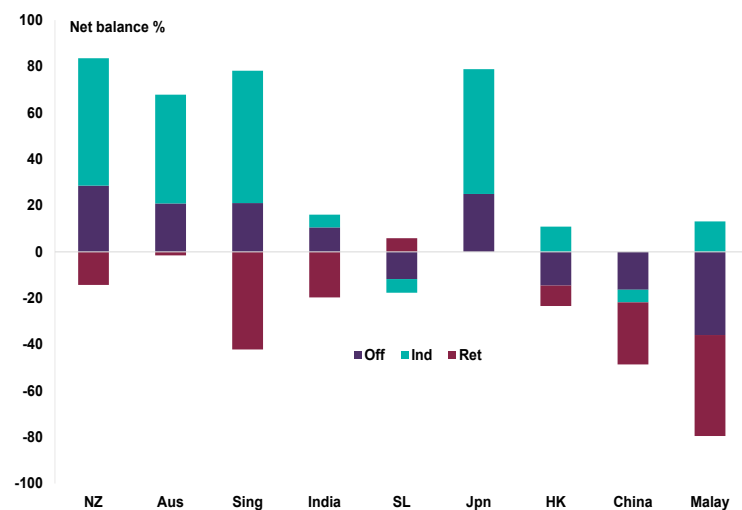
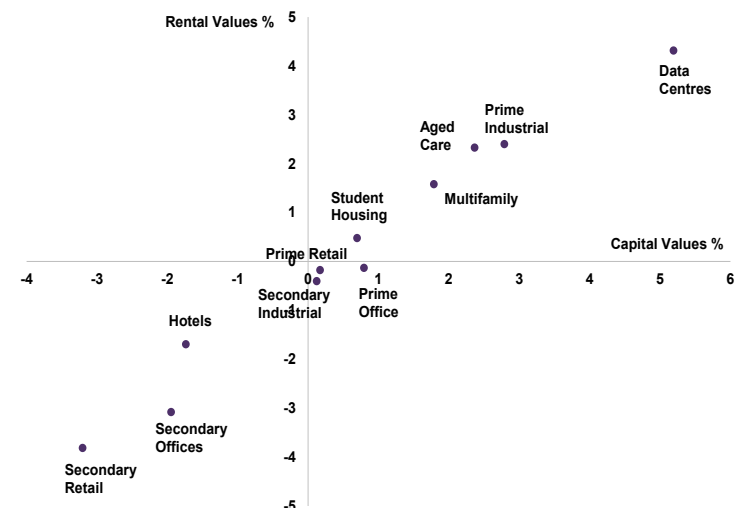


Chart 3: 12-Month Expectations for Capital and Rental Values



Regional Comments from Survey Participants in Asia Pacific

Australia

Construction prices remain high across Queensland and Brisbane in particular. In some sectors, construction is just as expensive as Sydney and Melbourne. This is largely due to a diminishing pool of contractors and a weakening supply chain. This competitive vacuum has kept construction pricing artificially high. - *Brisbane*

The property market has boomed in the Canberra region during the last quarter. - *Canberra*

The Institutional grade Prime Office Market is showing great resilience with face rents holding however rental incentives have become elevated. As evidenced from transactions current values are holding and or marginally increasing. Sub \$20m CBD properties have seen strong demand from private investors. - *Melbourne*

Hesitation around COVID is abating, this is driving an increase in all areas, some more significant than others. - *Perth*

Sydney CBD market is awaiting a recovery cycle - timing is really COVID dependant. - *Sydney*

China

Affected by the epidemic, the retail industry has been hit hard, and the recovery period is expected to be relatively long. However, due to restrictions on overseas consumption, the sales of Chinese luxury brands have increased significantly. - *Beijing*

Affected by the epidemic, the market situation will not be very good. - *Beijing*

Affected by multiple news, the market is in the bottom stage, and it is uncertain when the bottom will come out and how long it will last. According to the feedback from real estate agents, buyers and sellers have a strong wait-and-see attitude. Infrastructure and urban renewal policies may ease some of the pressure. - *Chengdu*

Short-term stable, long-term optimistic - *Guangzhou*

China property market is being regulated by the government. In Tier 1 cities, the office and retail space is still stable but more supply are coming up in the suburbs. Residential prices are being curbed by the government and are very expensive. - *Shanghai*

Office: Project delays paused further new supply in Q4. Regardless, emerging submarkets have seen nearly 650,000 sq m of new supply in 2021. Core submarkets remained active in the quarter, with strong absorption by TMT and finance firms helping drop core area vacancy down to 10.2%. Core average rental grew 0.82% y-o-y. Retail: A further 11 project completions in Q4 sent citywide high-grade mall stock to 20.9 million sq m. Demand from international and domestic players remained strong. - *Shanghai*

Hong Kong

New letting's enquiry is obviously more than before, because companies have changed the working model and can minimize numbers of desk. Flexi space is the trend that many international firms are applying.

The market sentiment has not been improved since the covid 19 still not yet controlled.

The market conditions may have significant impacts due to the spread of COVID-19 and the international political issues among China, USA, UK and EU, etc.

Bottoming out but slow recovery from pandemic.

The property market is expected to face a downside trend.

India

With the preference for hybrid model working environment, the demand for the commercial spaces could be stagnating. The developers have to be more innovative in their spaces to ensure the confidence level of the lessees. Built space environment must not only be just Covid compliant, but, look from the angle of ESG. Confidence building measures need to be taken immediately. Large floor plates can be modified for alternate use. Many developers have resorted to secured lending of these floor plates. - *Bengaluru*

There is a surge in demand for flexible office spaces with short lockin periods. Though cities like Bangalore have had a vacancy rate of less than 2% for the past few years, this is expected to go up as some of the companies decide to consolidate their office spaces. - *Bengaluru*

The market is beginning to stabilise. It may take upturn if covid spread is controlled and adequate vaccination is done thereby bringing people out of homes and increasing confidence in investing. The people are ready to go, just like athletes at start line. A controlled covid situation will see a market rush with major gainers being commercial, retail, hospitality and infrastructure sectors. - *Gurgaon*

Due to third phase of pandemic, small retail business are distressed condition, they are selling out their business spaces rapidly - *Kolkata*

Market will be improving over next 12 months as investment coming to India from companies exiting China. - *Mumbai*

Markets in wait and watch mode. - *NCR*

Japan

Excessive price adjustments did not occur in the Japanese hotel transaction market. - *Tokyo*

Office landlords more focussed on lease renewal (maximize tenant retention/ minimizing rent decreases) rather than securing higher occupancy unless they

have a serious vacancy issue near term. - *Tokyo*

Malaysia

Slow recovery. - *Kuala Lumpur*

Still slow but remain optimistic. - *Kuala Lumpur*

Challenging times and especially when there is political uncertainty in the country. Weak leadership with constant infighting will be reflected in the economy and property market. - *Kuala Lumpur*

Currently property market at down trend due to covid19. It will take at least 3 to 5 years to recover. - *Kuala Lumpur*

The impact of the pandemic has caused great disruptions in the office and retail sectors, which had seen tenants either downsizing or relocating to a cheaper location. There is still a large quantity of completed residential stock in the market (including service apartments) which is yet to be absorbed, thus creating an overhang situation in certain locations in the country. - *Kuala Lumpur*

New Zealand

Still very dynamic situation. Debt cost will be most significant influencer on values in 2022. - *Auckland*

Buoyant. - *Auckland*

NZ dominated by Covid-19 restrictions especially within our largest City of Auckland. Whilst the rest of the country has had more freedom the flow on effects have resulted in a somewhat static marketplace. International borders remain closed affecting Tourism and hospitality businesses whilst inflation has increased especially in the building and transport sectors due to supply chain issues. Housing demand is high as is investment demand driven by low bank deposit rates - to increase in 2022. - *Christchurch*

Yields appear to have steadied at record lows. Rising interest rates over 2022 may see some reversal in yields. - *Christchurch*

Singapore

Market is beginning to revive after 18 months of COVID restrictions .

The residential property price is still roaring. The underlying credit risk might be high. The office and retail leasing market are still challenging subject to the COVID19 in the next 12 - 24 months. Logistic assets are definitely hot now. Real estate investment activities in Singapore are still very active.

Market conditions is warm to hot. Early sign of recovery.

Everybody is watching the tackling of the pandemic.

Still alot of grey areas and uncertainty due to covid situations. Economy and sentiments are improving, however, with the high inflation and disrupted supply chains, everything are improving a very slow pace.

Europe: Conditions continue to improve across the investment market despite near-term macro uncertainties

The Q4 2021 GCPM results across Europe point to a continued improvement in sentiment, with progress particularly evident on the investment side of the market. That said, conditions remain polarised at the sector level, with the latest feedback still signalling a challenging set of circumstances for retail while industrials continue to post robust expectations for the twelve months ahead.

Investment Sentiment Index moves further into positive territory

Depicted in Chart 1, the Investment Sentiment Index saw a further improvement in Q4 at the aggregate European level, rising to a figure of +10 from +5 previously. As such, this latest return, although only modestly positive, is the strongest reading in two years. Alongside this, the headline Occupier Sentiment Index was more stable in comparison, posting a figure of -2 in Q4, only marginally improved on -3 last time round. Viewing the Commercial Property Sentiment Index at a country level (Chart 2) shows only four nations covered across Europe now display outright negative readings. This is down from a total of nine markets in the previous iteration of the survey. At the stronger end of the spectrum, Greece, Portugal, Croatia and the Netherlands all returned solid readings during Q4. Conversely, conditions across Belgium seem to be lagging, with CPSI sitting at -17 in Q4 having weakened from last quarter's figure of -13.

Stronger investment demand drives a pick-up in capital value expectations

Across Europe in aggregate, a net balance of +20% of respondents reported an increase in investment enquiries at the all-property level. This is up from a reading of +15% beforehand and also represents the strongest reading since the closing stages of 2019. Looking into the details, there appeared to be an acceleration in growth within the office sector (net balance rose to +21% from +14%), while trends remained firm for industrials (current net balance of +57% vs +59% in Q3). By way of contrast, the investment enquiries metrics for the retail sector remained in negative territory, at -20%, albeit this is less downbeat than -31% last time.

Back at the all-property level, stronger investment demand of late has prompted an upgrading of capital value expectations from survey participants. Indeed, a headline net balance of +15% of respondents foresee values rising in the year to come, up from +9% in Q3. Both the office and industrial sectors saw expectations rise between Q3 and Q4, with the +56% net balance for the latter marking the strongest reading since the series was introduced back in 2013. Looking at some of the alternative property classes covered by the Monitor, multifamily residential, data centres, aged care facilities and (to a slightly lesser extent) student housing are all anticipated to deliver strong capital value growth over the year ahead.

Recent capital value gains accompanied by a growing sense that the market may be nearing a peak

During Q4, there was a noticeable shift in perceptions on the stage of the property cycle. Whereas in Q3 only 24% of respondents at the pan-European level felt valuations were close to the peak of the cycle, this increased to 35% in the Q4 feedback. The view is particularly prevalent in Switzerland and Germany, where 66% and 85% of respondents respectively now view their local market as having entered the peak phase of the cycle. Nevertheless, a clear majority of respondents in Greece, Croatia, Spain, Cyprus, Italy, Ireland, the UK and Portugal see conditions as consistent with an upturn (chart 3).

Chart 1: Occupier and Investment Sentiment Indices

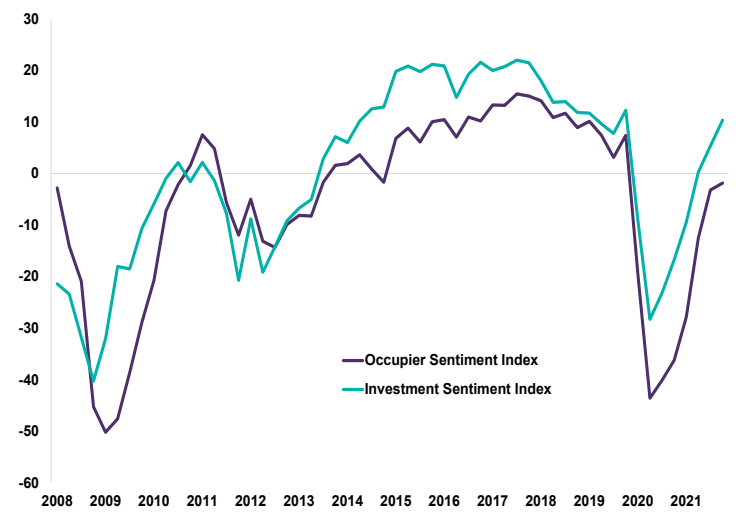


Chart 2: Commercial Property Sentiment Index by Country

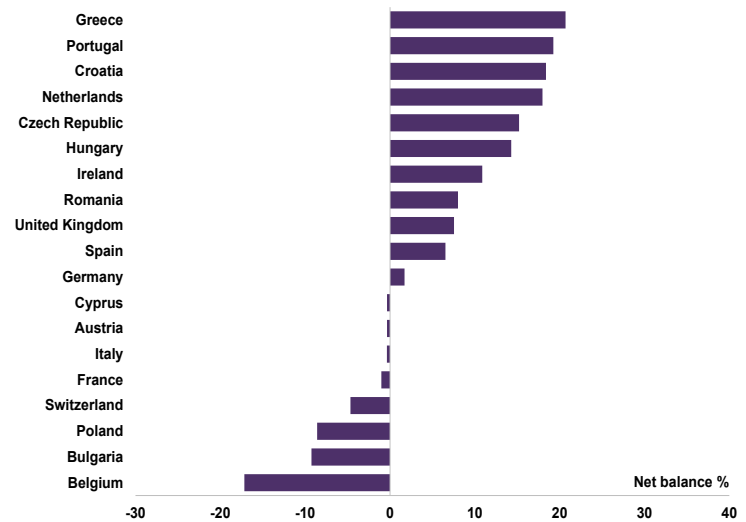
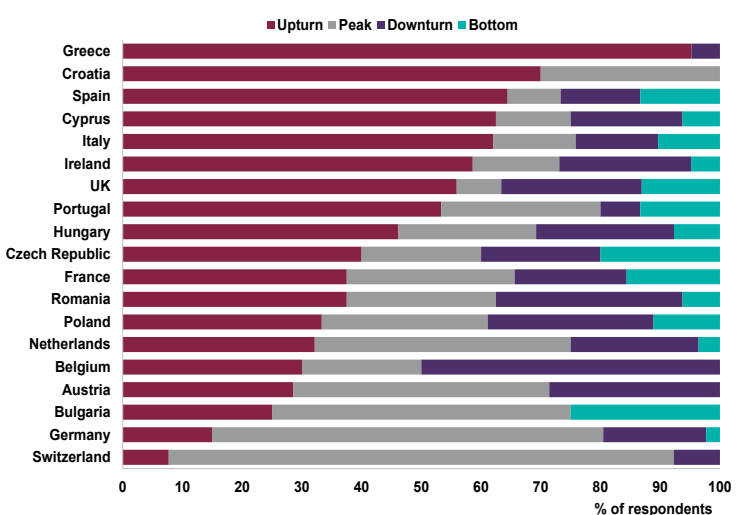


Chart 3: Perceptions on Phase of the Cycle



Regional Comments from Survey Participants in Europe

Belgium

Generally it is a buyers market at this point in time. - *Antwerp*

Bulgaria

Although market is getting more mature with more professional players, there still occasional investors with not enough experience but with significant capital, who given the small market, make significant influence on rental levels and property values. - *Sofia*

Despite the increasing of office and retail stock for rent, the sales market levels are almost unchanged, while for residential properties a stable growth is marked. - *Varna*

Cyprus

Predictions regarding Cyprus as a whole should be made and received with some reservation. The size of the economy, its inherent overwhelming dependence on specific sectors, and other factors, make it both vulnerable to external and/or unforeseeable forces, and also result in disproportionate swings of values. Both potential risk and profit are, thus, inflated. - *Nicosia*

Capital values are to increase because of the increase in construction materials and not because of demand. - *Nicosia*

The property market is still recovering from the effects of the 2008 economic crisis, the bail out of the country by the Troika (European Commission, IMF and ECB) in 2013 as well as the abandonment of the Investment Scheme for citizenship when investing in high value property. Paphos is mainly a tourist town and is not necessarily reflective of the general countrywide trend for commercial property. Residential values and rents have however started to increase as well as new build activity. - *Paphos*

Denmark

Copenhagen and Danish Market is influenced by a large foreign capital inflow. The investors currently prefer housing, also in smaller Danish Cities and logistics. - *Copenhagen*

France

Economy doing well, unemployment down. I detect general attitudes of either (a) get it done now or (b) wait and see. Inflation is largely commented on and a great pretext for waiting; plus of course the next COVID wave - my impression is that the fear of COVID is largely accepted as death totals are lower, even as infections gallop past 40.000 a day. - *Paris*

Small cities in the country have seen the highest increase since the Covid crisis started. Migration of people is real for a better life quality. - *Velizy*

Germany

5th wave of the pandemic will again provide an element of uncertainty to the RE markets in 2022. However some sectors demonstrated strong performance since the start of the pandemic such as Medical Office Buildings. - *Berlin*

We are on the eve of a major dislocation in the office property markets, after the end of the pandemic, when companies will have found "their" way of dealing with space use in the future. This will be felt less in the CBD but in the edge of city office agglomerations. - *Frankfurt*

Hungary

Everyone is a bit hesitant in the market due to covid and inflation risks. Industrial is still booming. - *Budapest*

Ireland

The general market is volatile with many underlying factors feeding into this volatility. - *Cork*

The next 6 months will be crucial for all sectors particularly office and retail which both were heavily impacted by Covid. The return to work for office tenants will be crucial. Also the hospitality and retail sectors will want good trading over the Christmas season to make up for lost sales to Covid. - *Dublin*

Italy

Market sentiment remains positive, particularly for Milan, but expanding in sectors such as multi-family and student housing to other major Italian cities such as Bologna, Torino, Rome. External factors such as interest rate increases are likely to have a slightly negative impact over the medium term as inflation fears increase. No major threats to what continues to be a strong investment market apparent just yet, but you never know. - *Milan*

Netherlands

Low interest rates continue to boost value. Complicated regulation inhibits development of new supply. - *Amsterdam*

Portugal

Covid 19 is still a problem to the market's progress. - *Lisbon*

Romania

Optimism together with bitter sweetness looking at the market dynamic. The transactions take longer than 2020, high pressure on capex overall, however, rent levels haven't increased although the construction costs reached astronomical levels. - *Bucharest*

Spain

Significant office supply pipeline in 22 but limited vacancy in the city centre. Strong investor demand for well let product but limited appetite for risk. Strong demand for modern logistics and living. - *Barcelona*

We are still subject to the future developments of Covid. Future behaviour will be subject to this and the future cost of energy, inflation and interest rates. - *Madrid*

Switzerland

There is a lot of liquidity in the market which is looking for investments. This is the main driver in our market. - *Zurich*

Middle East and Africa: Outlook brightens across both occupier and investment markets

The latest results across the Middle East and Africa are consistent with a clear strengthening in momentum compared to recent quarters, with indicators tracking both current conditions and twelve-month expectations picking up during Q4. Even so, the regional aggregates are not reflective of the backdrop being reported across all nations, with some areas still experiencing more challenging conditions at present.

Occupier and Investment Sentiment Indices turn positive

At the headline level, both the Occupier and Investment Sentiment Indices moved out of negative territory during Q4. For the ISI, the latest reading of +6 (up from -8 in Q3) marks the strongest reading since 2014 and brings to an end a sequence of twenty six quarters of negative returns beforehand. For the OSI, the latest reading of +3 is only marginally positive, although this too represents the strongest figure for the series going back to 2014. Disaggregating the data by country shows sentiment is currently firmest within Israel and Saudi Arabia compared to all other market tracked across the MEA region. Indeed, the combined CPSI came in at +28 and +26 respectively across the two nations, which is comfortably ahead of the global average of just +1.

Elsewhere, the UAE saw a noteworthy improvement during Q4, with the CPSI rising to +8 from -2 previously. As such, this marks the first positive reading for the UAE since 2015 and a sharp turnaround considering the index stood at -22 just two quarters ago. Supporting sentiment across all of these nations in Q4, occupier demand reportedly strengthened noticeably at the all-property level. In turn, this is now producing solid expectations regarding near term rental growth prospects (Chart 2). By way of contrast, Qatar and Oman continue to see a deterioration in occupier demand, leading respondents to envisage further falls in rental values in terms of the all-sector averages.

Capital value projections upgraded across all sectors

Twelve-month capital value expectations at the regional aggregate level were revised higher across the board during Q4. Leading the way, prime industrial, prime retail, multifamily residential and data centres all are expected to post capital value growth of 5% or more in the year to come. Meanwhile, secondary retail and office values display more modest expectations in comparison, although even this marks an improvement on flat to marginally negative projections returned over the previous quarter.

For the time being, the majority of MEA respondents (57%) consider commercial property prices to be either at or below fair value. That said, the share of respondents who are of the opinion that values are now somewhat stretched relative to fundamentals did rise to 44% from 36% in the Q3 report. At the country level, Oman and South Africa display the largest proportion of respondents viewing commercial real estate to be fair value or below. Conversely, nearly three-quarters of survey participants in Israel feel the market is expensive.

Commercial real estate market perceived to be in an upturn

The latest results also shows that perceptions on the current stage of the property cycle moved in a more favourable direction over the quarter. Indeed, 57% of MEA respondents in aggregate now sense the real estate market is in an upturn phase of the cycle, an increase on 47% last time. As demonstrated in chart 3, Saudi Arabia and the UAE exhibit the highest proportion of respondents viewing the market to be in an expansionary phase (roughly 75% in both cases).

Chart 1: Occupier and Investment Sentiment Indices

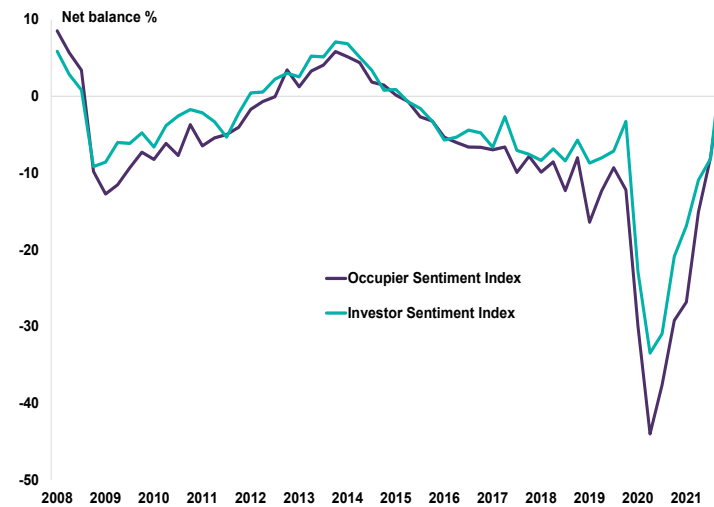


Chart 2: Occupier demand and Rental Growth Expectations

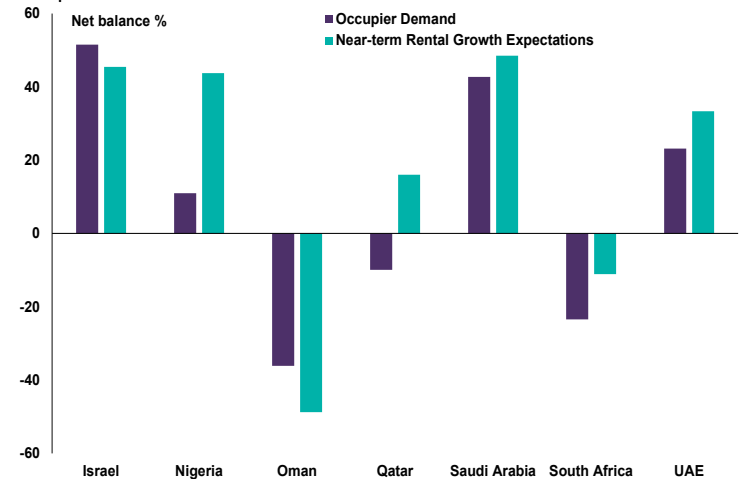
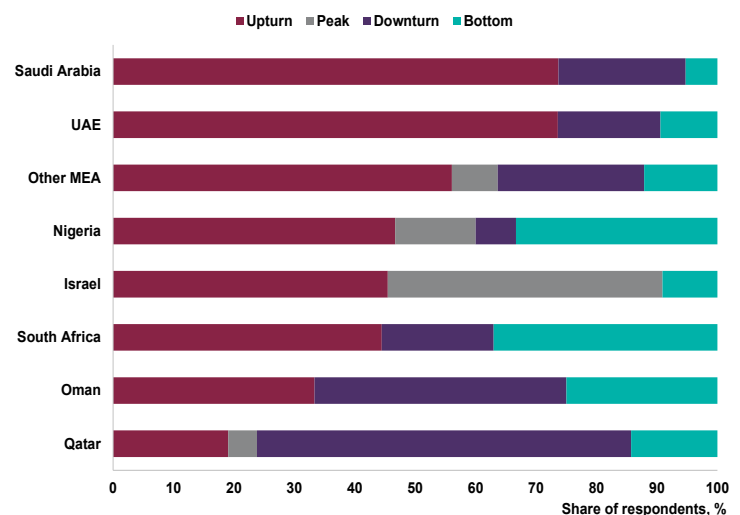


Chart 3: Perceptions on Phase of the Cycle



Regional Comments from Survey Participants in MEA

Ghana

Prices keep going higher. - *Wa*

Israel

A lot of cash is seeking solid investments, since people are afraid that money in the bank will be taxed. - *Jerusalem*

Market trends depend very much on Covid 19 and omicron developments. - *Tel Aviv*

Kenya

This is an electioneering period in Kenya and the political climate being experienced is not the best for business and the economy at large. This cycle of uncertainty engulfs the country every 5 years and potentially scares away foreign investors as well as the local investors. From a business stand point, people tend to hold on to money for security reasons, while politicians tend to inject money in the economy to lure voters. - *Nairobi*

Macroeconomic conditions and changing working patterns continue to have an impact on demand on various asset classes. - *Nairobi*

Lesotho

We have recently seen some new petrol stations even though some commercial developments have gone down. - *Maseru*

Malawi

The COVID-19 travel restrictions have hit the hospitality and tourism market very hard, otherwise other sectors in Malawi have not been seriously affected. - *Lilongwe*

Nigeria

Basically, the demand for office spaces and residential houses is on the surge. Hence, the cost of construction has inflated making it difficult for private clients to engage in construction projects. - *Lagos*

There is a decline on the rate of property development especially primary and secondary industrial developments. Likewise, the request for such properties. Most investors prefer undertaking development of retail shops and office building. - *Port Harcourt*

Oman

Market conditions are unstable because for various virus issues and political changes. - *Muscat*

The local market started improving but people are worrying about lockdown again because of the new version of Covid. - *Muscat*

Qatar

Market gives significant mixed signals. Total factor productivity growth remains sluggish, with population growth set to taper off rapidly as FIFA infrastructure works are winding down reducing resource demands yet commodity prices and supply challenges increase the cost impacts. Political aspect should be encouraging since boycott lifted, however, the government's coffers are bare than before, improving productivity will be vital if Qatar is to continue to expand at healthy rate going forward. - *Doha*

Saudi Arabia

Saudi Arabia is in the fortunate position that, notwithstanding the restrictions due to Covid, the Government is pressing ahead with it's Vision 2030 plan and therefore there is much development still to come. - *Riyadh*

South Africa

Covid 19 has totally changed the way we think office space with remote working, hot desking and staggering days for staff attending the office. Basically office space requirement can almost be halved post Covid-19 should companies continue in this way. - *Johannesburg*

Turkey

The country faces an economic crisis, and Turkish Lira is devalued. Prices will increase, but nominal price in Euro will decrease. - *Istanbul*

UAE

Market is seeing a come back on new retail & restaurant industry. There is hardly any new residential units required, as construction activity has come down and lot of professionals has left market. - *Dubai*

For Dubai, impact of Covid slowed the growth phase, but events like Expo2020 made a quick pick-up in interest and tourism, also the sunny weather brought the hold on Dubai tourism to a halt, especially for European countries on hold due to lockdowns. - *Dubai*

Private real estate market appears to be in an early upward movement with sales having increased substantially year on year in 2021. - *Dubai*

Uganda

Whereas hundreds of real estate properties have been put for sale by commercial banks seeking to recover outstanding loans from defaulting borrowers since January this year, it is not clear how many of those properties will be disposed of before the end of this year under harsh economic conditions that have triggered low consumer spending and poor investment appetite in many sectors. - *Kampala*

Zimbabwe

Mixed fortunes, with the Zimbabwe Dollar losing significantly against the USD, the market may remain unstable for a while. However, the trend is pointing to re-dollarization which the government is strongly against. - *Harare*

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 9 December 2021 with responses received until 17 January 2022. 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 2302 company responses were received. 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 from Israel were collated with the assistance of the Israel Real Estate Appraisers Association.

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 Sentiment 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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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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