



ECONOMICS



Global Commercial Property Monitor

Q2 2023

Responses were gathered in conjunction with the following organisations:



Outlook for CRE remains mixed with MEA and parts of APAC viewed as likely to outperform

- Commercial Property Sentiment Index hovers in negative territory at a global level
- Feedback from MEA and parts of APAC continues to paint a more upbeat picture
- Rising interest rates in much of the world leads to further deterioration in credit conditions
- Expectations reflect polarisation between best in class and the wider market

The results of the Q2 RICS Global Commercial Property Monitor (GCPM) suggests that, at an aggregated level, sentiment remains downbeat. The headline Commercial Property Sentiment Index (CPSI) came in at -14, which compares with -11 in the first three months of the year; it has now a recorded a negative result for five successive quarters. Feedback provided around both the occupier and investment market showed a modest deterioration compared with the previous iteration of the survey. In the case of the Occupier Sentiment Index, the global reading slipped from -8 to -11 while for the Investment Sentiment Index, the latest number is -17 as against -14.

Regional picture shows further divergence

While the somewhat cautious message visible in the headline results is predictably reflected in the regional and country data, there are, as in Q1, some notable exceptions. Once again, the aggregate reading for the Middle East and Africa (MEA) is the standout when looking at the numbers from a broad regional perspective, a point clearly demonstrated in Chart 1. The CPSI for the area was little changed at +8 (previously +7) with Saudi Arabia, the UAE as well as Nigeria continuing to post strong results. By way of contrast, the insights from contributors across Europe remain most negative with the CPSI deteriorating in all the major markets, to a greater or lesser degree. In the case of France, it edged lower from -36 to -38, for Germany, it slipped from -28 to -34 and in the UK the latest reading came in at -17 compared to

-11.

In contrast, the picture across the APAC region continues to be quite mixed. The headline CPSI actually recorded a material decline slipping from -4 back to -17 (-21 in Q4 2022) for the whole of the bloc. This was, however, largely due to a more negative set of results emanating from China and Hong Kong which capture the slowing in economic activity coming through in recent months. This follows the sharp bounce in growth experienced in the early part of the year following the ending of the Covid restrictions. By way of contrast, responses from both India and Singapore continue to be consistent with a much more positive trend in real estate. Finally, the CPSI for the Americas remains weak albeit less so than in Q1 with the headline reading for the US coming in at -11 as against -17.

Rising interest rates fuels deterioration in credit conditions

Persistent inflation in many of the more advanced economies has forced major central banks not just to tighten monetary policy further over the past quarter but also to signal that interest rates are likely to continue rising through the course of 2023. Alongside this, the well publicised bank failures earlier in the year has contributed to a reset in the approach to lending particular in those sectors deemed as higher risk. This has been reflected in the headline credit conditions indicator captured in the GCPM. At a global level, the net balance of respondents indicating that the credit environment is becoming more restrictive rose to -33% which compares to -29% in Q1.

Chart 1 - Commercial Property Sentiment by Region

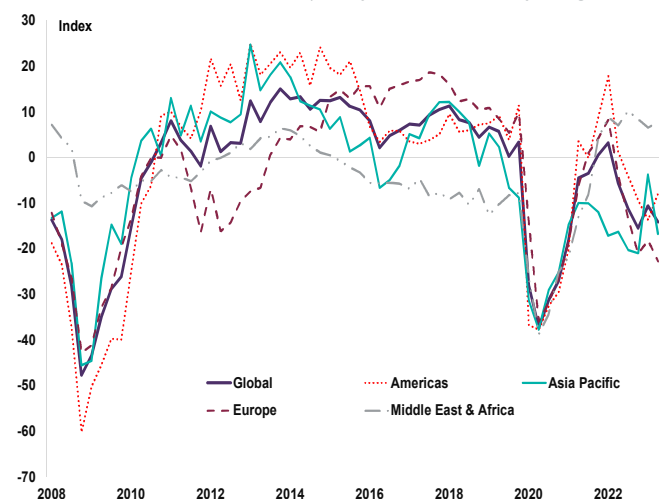
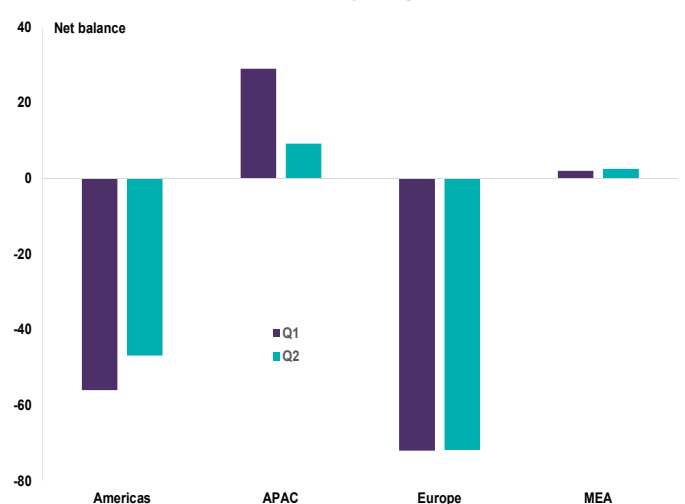


Chart 2 - Credit Conditions by Region



Perhaps unsurprisingly, there is a strong regional dimension to the pattern around credit availability which is highlighted in Chart 2 (on the previous page). The picture appears most challenging in Europe where the headline reading shows a net balance of -72% pointing to a further significant tightening in credit conditions, a figure that is broadly unchanged from the previous quarter. The feedback for the Americas was a little less negative than in Q1 but still consistent with a tougher environment (-47% v -56%); the latest reading for the US remains a touch higher than the regional aggregate at -55%.

Predictably, the picture is a little different elsewhere. For the MEA region, the net balance metric actually posted a very small improvement in credit conditions which is an almost identical result to each of the previous two quarters. Meanwhile in APAC, the feedback is still positive at an aggregate level (albeit less so than previously) but this masks widely diverging indicators at a country level. For Australia a net balance of -71% saw a deterioration in the financing climate (with New Zealand at -33%). By way of contrast, contributors from India continue to signal an improvement in credit conditions notwithstanding the tightening in policy by the RBI since the middle of last year. And the insights from China are also consistent with a further, more modest, improvement.

While it might be a simplistic to read directly from the credit environment to investor behaviour, it is noteworthy that the latest report shows investor enquiries turning a little more negative at a global level in Q2 with the headline net balance at -15% compared with -7% in the first three months of the year. The markets reporting the strongest positive trend in investor interest (measured in net balance terms) are Saudi Arabia, Singapore, UAE and India.

Office demand remains under pressure

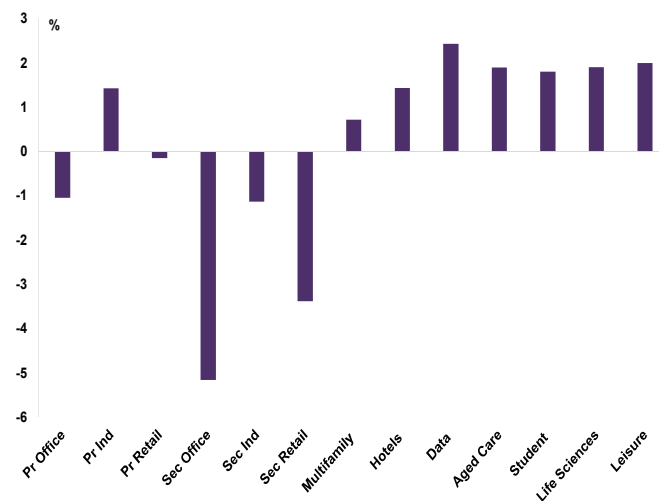
At a headline level, it is significant that the net balance readings for both tenant and investor office demand have been more negative than those for retail in each of the last three quarters which marks a pronounced shift from the feedback received previously. As with many of the other results already discussed in this report, the downturn in office demand is region and country specific.

Chart 3 shows the insights provided at a regional level where only the MEA is signalling a positive trend on both sides of the market. But within APAC, the results for India remain particularly upbeat with Singapore also still positive

Chart 3 - Global Investor and Occupier Office Demand



Chart 4 - 12 Month Global Capital Value Expectations



and Malaysia fairly flat. The big drag in the region once again emanates from China and Hong Kong according to the data provided by contributors. Europe also continues to be particularly hard hit reflecting ongoing challenges around the embedding of hybrid working and increased focus by both investors and tenants on buildings that meet criteria around sustainability.

As might be expected, these broad patterns are also captured in the results to the questions around both availability and supply of real estate as well, in the case of the occupier market, the responses around inducements.

Outlook for real estate still mixed at the country level

Chart 5 shows the twelve-month expectations net balances for both rents and capital values at a country level. As in Q1, the diverse prospects for real estate envisaged by respondents is clearly visible. The top right quadrant, which encompasses those countries where projections for both variables are positive, is largely but not exclusively made up of APAC and MEA markets. The contrast to this is the bottom left quadrant which includes the countries where expectations are negative for capital values and rents; these are predominantly European markets but also include China and Qatar.

Meanwhile, Chart 4 shows the outlook for capital values at a global level by sector over the same time horizon. Overall, the projections are not too dissimilar from those envisaged in the previous survey round. The divergence between prime and secondary real estate expectations is again evident in the results with the former generally seen as likely to hold firm. But the regional breakdown does suggest the pressure on secondary space is, in general, greater in the more mature markets. This is, moreover, particularly visible in feedback regarding the prospects for office space. In Europe, prime office capital values are seen as likely to fall a further 1 to 2% over the next year but for secondary offices, the drop is put at more than 6%.

The other interesting theme worth noting is the continued appeal of those sectors that might be loosely described as alternatives. Anticipated returns are a little lower than they have been but the results are still positive to some degree in each area. Disaggregating by region, it is unsurprisingly the MEA where projections for both capital values and rents are strongest both in mainstream segments of the market and elsewhere with hotels, multifamily and data centres, as well prime offices, viewed as likely to deliver the strongest returns.

Chart 5 - 12 Month Global Capital Value Expectations

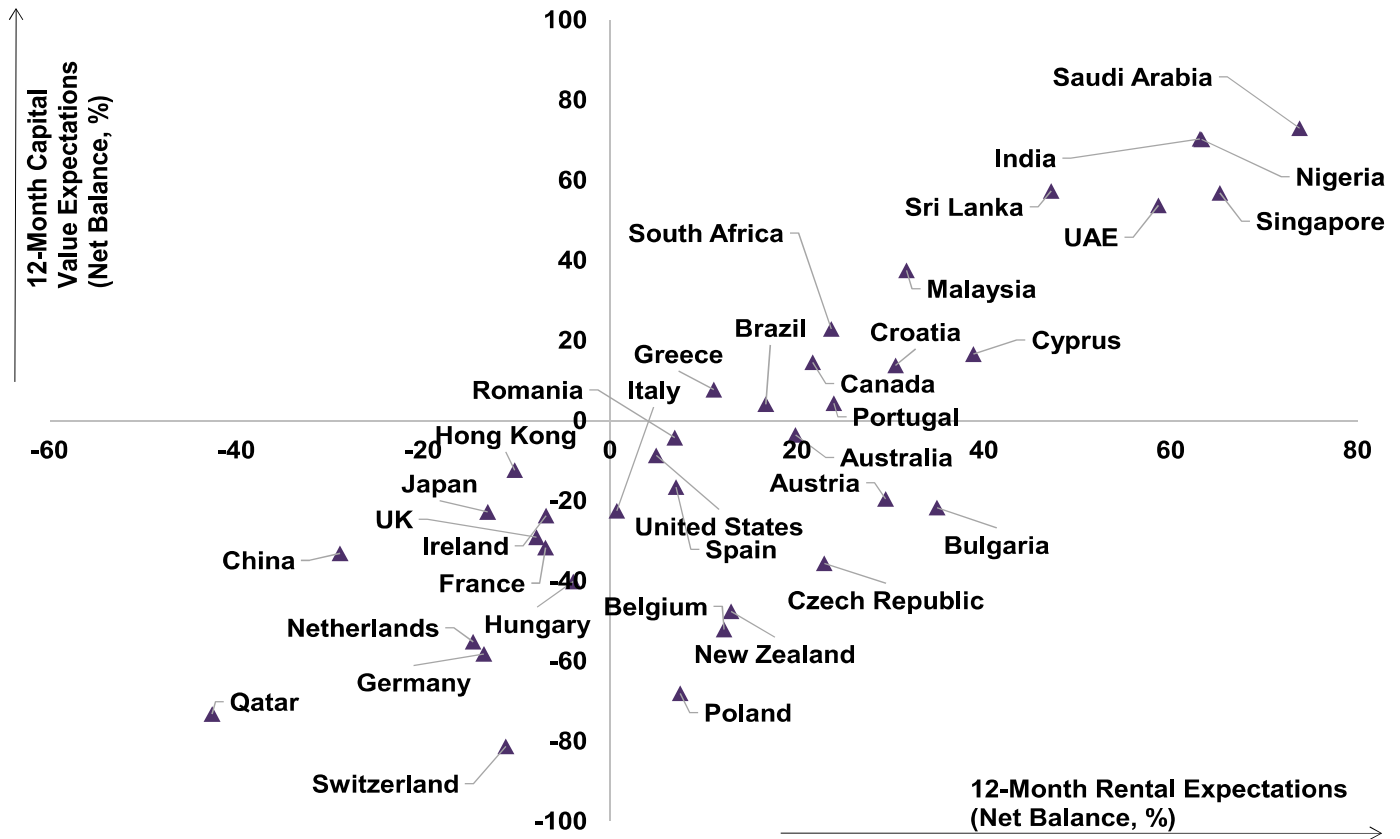
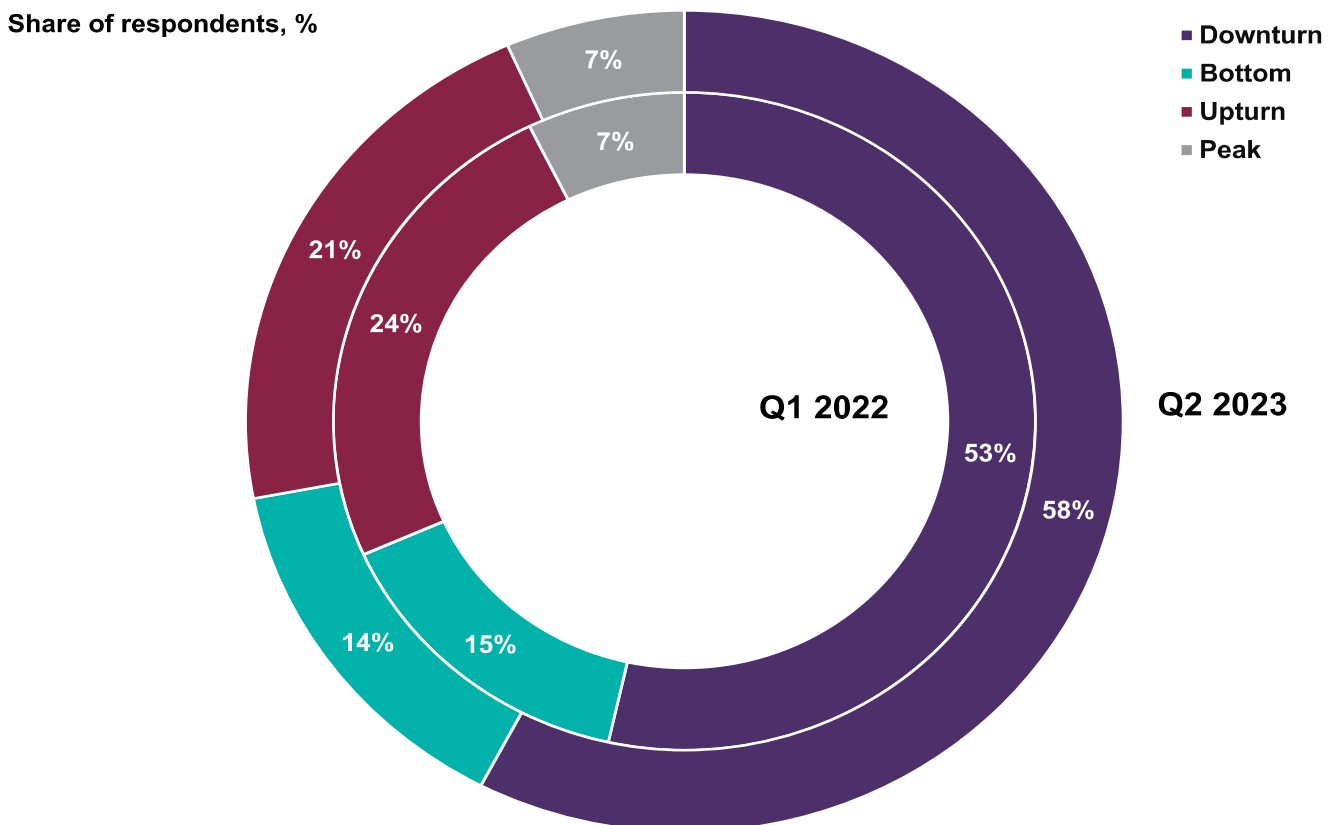


Chart 6 - Global Perceptions Regarding Point in Cycle



APAC: Headline sentiment dragged down by weaker results in China, Hong Kong and Japan

The headline RICS Commercial Property Sentiment Index (CPSI) for the APAC region slipped from -4 to -17 in Q2. The softening in the latest reading masks significantly divergent trends at a country level, a point clearly shown in Chart 1. Interestingly, the more negative results came primarily from China and Hong Kong with the headline indices retreating from -7 to -30 and -3 to -17 respectively. Japan also saw a decline in the CPSI, slipping from -9 to -16. Elsewhere, the picture was little changed. Australia and Sri Lanka both registered marginal improvements with the headline index rising from -8 to -5 and -6 to -3. Singapore and India were again on the stronger end of the scale, recording CPSI values of +26 and +25. However, New Zealand is still in negative territory, with the CPSI stuck at -18. Meanwhile, Malaysia remained in neutral territory with the headline index at -1.

China and Hong Kong's post-Covid recovery paused under macro headwinds

Chart 2 captures the feedback from respondents regarding tenant demand for space at a sector level. For China, it is evident that the momentum resulting from the exit of Covid restrictions has dissipated leading to negative readings in net balance terms for all three sectors. Moreover, as per Chart 3, investment prospects in China also suffered a blow from economic headwinds, recording significantly negative net balances for all three sectors. On the credit conditions metric, respondents in China are less positive than they were, leading to a sharp decrease in the net balance from +75% to +21%. As a result, capital value and rent expectations were dampened for all property types, primary and secondary, registering negative growth rate projections on a twelve-month basis. Facing a broadly similar situation, Hong Kong has also recorded negative numbers in terms of office and industrial demand. That said, retail occupier demand remains in positive territory in Hong Kong (+17% compared with +41% previously), with rent and capital value expectations holding in neutral territory.

Strong momentum persists in Singapore and India

Shown in Chart 2, the occupier demand metrics in Singapore and India remain comparatively balanced and strong. The investment enquiries results for those two countries (depicted in Chart 3) also registered solid figures with the overall net balances being +43% and +33%. Moreover, responses show that credit condition in Singapore have improved significantly, with the net balance flipping from -29% to +9%. However, these two markets also face the challenges from a lack of availability of stock, being the only two countries with the availability measures are being surpassed by tenant demand metrics. This is especially true in Singapore, where the overall sales supply registered a net balance of -7%. On a more cautious note, these shortages may suppress the growth potential for market activity in these two countries.

Industrial sector stands out in Australia

Industrial occupier demand eclipsed the other two sectors in Australia, New Zealand, Malaysia and Singapore. Echoing the occupier demand, in Singapore, Malaysia and Australia the robustness in investor appetite was also evident in the industrial sector, with readings at +33%, +50% and +21%. Surprisingly, despite worsening credit conditions, industrial property valuations in Australia are expected to improve, signalling strong resilience in the sector.

Chart 1 - Commercial Property Sentiment Index by Country

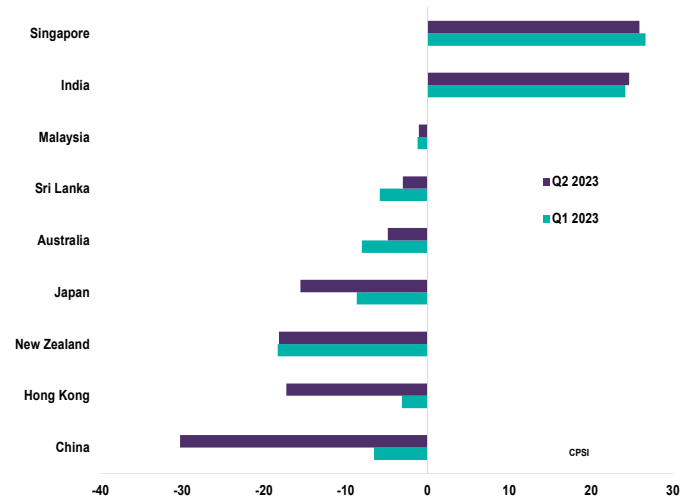


Chart 2 - Occupier Demand by Sector/Country

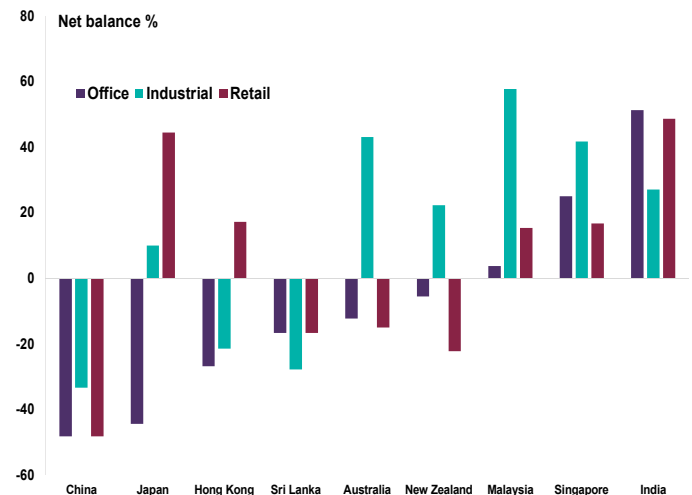
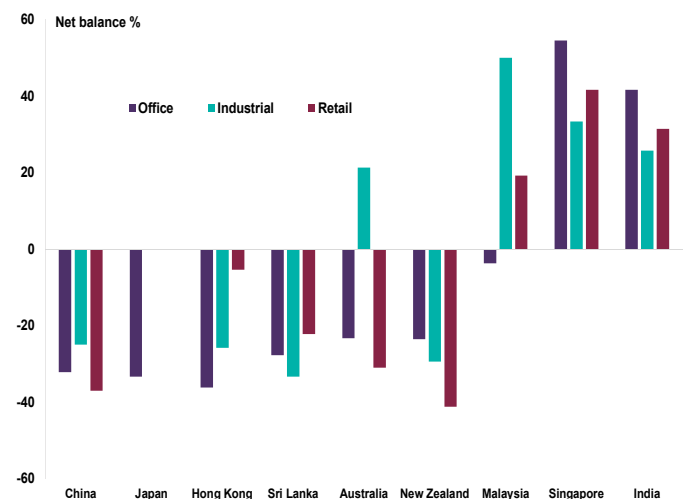


Chart 3 - Investment Enquiries by Sector/Country



Regional comments from survey participants in APAC

Australia

Strong residential and industrial demand. Weak retail but stable office demand. Residential rental market is strong. - Benowa

Values reflect market - they are neither high or low. Concerns that increases in ESG considerations will not be a permanent phenomenon and the pendulum will turn back the other way. They will for some time increase until they reach a point where ESG is simply virtue signaling. At that time investors will again revert to return on investment being the most critical factor. We have already seen virtue signaling being the downfall of some corporations/banks but not to turn the tide. - Brisbane

The employment figures were a shock to most; we are likely to see an unexpected interest rise again in early July 2023. - Hobart

The hybrid workplace is creating an uncertain future for absorption levels of the excess supply from office projects delivered to the market over the covid years. Although the retail market remains challenged, inflationary pressures at the checkout of non-discretionary retailers paying 'percentage of turnover' rents, are providing for increased income. Inflationary pressures and the Reserve Bank's use of increases in the cash rate target to slow it down, provide for prolonged market uncertainty. - Melbourne

The general market is brittle with property trust values being downgraded by the stock market. Retail tenant inquiry in secondary areas very poor. - Hawthorn

Increased financing costs and economic uncertainty affecting property values. - Melbourne

Normal situation. - Melbourne

Increasing interest rates are making for an uncertain commercial property market. - Perth

Cautious market. - Strawberry Hills

Market activity continues to be very subdued - it is getting very difficult to pin down where rents/CVs are going without any evidence. - Sydney

A difficult period for all business, employers and employees due to high interest rate and high living cost. - Sydney

Brunei

Market conditions remain subdued affected by mounting inflation and increase in Interest rate, resulting in reduced consumers' spendings and confidence levels amid the backdrop of global market uncertainties and geo-politics conflict. - Bandar Seri Begawan

China

Unclear market outlook. - Beijing

The economic recovery is below expectations, with low consumer willingness to spend and slow growth outside of basic needs. People are waiting for further stimulus policies from the government and an improvement in the international environment. - Beijing

Hong Kong SAR

Market is getting quite due to high interest rate and impact from China downturned economy. - Hong Kong

Nervous market. - Hong Kong

Interest hike curbs investors from investing commercial properties gradually in view of low return. - Hong Kong

Local markets are now establishing environmental issues to protect the future environment. However, government need to input great effort to support all related construction activities and local regulation and code of practice should require to amend to suit for the change. - Hong Kong

Business is slow. - Hong Kong

Local occupying and investor demand are insufficient to keep surging momentum in property market. - Kowloon

The retail market has improved slightly after border reopened. More mainlanders come to HK for shopping yet many local residents flying overseas for holidays. Retail and office rents rising relatively, subject to locations. - Kowloon

Uncertainty in the political and economic impacts between US and PRC Government as well as the increasing conflicts in the region. - Kowloon

Property market may experience another 18-month downward. - Hong Kong

India

Very good market condition. - Bangalore

Project opportunities are on the upturn. - Bangalore

Looking to better market. - Bangalore

The market in the last 3 months seen an increase in enquiries for Industrial space in and around Bangalore market. - Bangalore

Increase in demand for Green buildings and Science based targets. - Chennai

Post-Covid inflation impacts market, causing fluctuating real estate bull market - it will last another 5 years. - Coimbatore

No sign of any threat of looming recession in NCR. - Gurgaon

Market is recovering with on-site work increasingly demanded by the companies. There is lot of consolidation also happening. Expecting the market to mature in medium term. Long term prospects are good. - Gurgaon

Two faced market. Capital outlay and thrust for investments is high. Demand dynamics appear soft in certain markets. Many drivers at play in India - digitisation, payments economy, GCC growth, China +1, inflation, stabilised interest rates, dry powder chasing India. - Hyderabad

In general the market is volatile, due to the reason beyond the scope of commenting, I don't think the situation is very good for the capital investor to spend on these sort of hi-tech construction ventures to as there is lot of uncertainty in the market overall. - Kolkata

Moderate. - Mumbai

Expected supply crunch for prime office in Mumbai over next 3 years. - Mumbai

In all 30 percent of small industries are closed. In addition to that many of the office spaces are vacant and retail shop leases are struggling with their rental fulfilment due to increased rents. - Pune

The real estate demand has improved. - Thiruvananthapuram

Indonesia

Showing early sign of recovery but due to world uncertain conditions plus 2024 general elections, developers are concerned and in wait and see mode. - Jakarta

Improving slowly. - Jakarta

General return to office after covid still not 100%. - Jakarta

Japan

Uncertainty in offices, but hotels have high hopes for revival of inbound tourism. - Tokyo

Malaysia

Economy on the expansion growth rate (1H 2023) and supply-side as well as residential sub-sector need incentives from government. - Ipoh

Market is in a downturn and property market is in slowdown this year. - Kota Kinabalu

Regional comments from survey participants in APAC

Location and type of property is a key factor and price level. - Kuala Lumpur

Still room for improvement. - Kuala Lumpur

Generally the commercial property market sentiment is mixed. - Petaling Jaya

New Zealand

Still significant pricing mismatch between investors and vendors across all sectors. Prime office markets strong, secondary weak. Industrial market holding up due to constrained supply. Development market stalled due to high construction costs. - Auckland

Relatively high interest rates are dampening investment demand. Occupier demand holding up. Awaiting evidence of early recovery stage of cycle - anticipated post-election in Q3 2023 or early 2024. - Christchurch

Modest market activity with a lack of prime investment property on the market. High building costs, high inflation with a repositioning of market capitalisation and discount rates taking place. Add in mid-winter hibernation and a forthcoming General Election causing market participants to act with extreme caution and others to take a wait and see approach. - Christchurch

Inflation is rising. Therefore, the interest rate is going up. Low demand for building related works, Rent increased to suit the high interest rate. - Christchurch

The increase in interest rates in November 2022 halted most major investors. It slowed the economy substantially with current GDP figures confirming an overly aggressive posture from the Reserve Bank. Although some argue we are near the bottom of the cycle, tax and other fiscal policies are likely to slow any recovery. - Whangarei

Singapore

The markets are being affected by a change in the future forecast for interest rates and investors and occupiers are struggling to anticipate when the end of these rises will happen. - Singapore

Undecided market. - Singapore

Sri Lanka

Green energy establishment is important to us. - Akkaraipattu

Sri Lankan interest rates are very high at this time and it appears that after recovery of the economic condition, there is a slight drop of interest rates. Investors are now slightly shifting savings to other investments as the gain of savings are dropping. Therefore if the economy recovers as interest rates fall investment in the property market will begin to increase. But due to high migration of young people and professionals, residential demand expected to be down. - Athurugiriya

In early 2022, Sri Lankans started experiencing power cuts and shortages of basics such as fuel. The rate of inflation rose to 50% a year. As a result, protests broke out in the capital Colombo in April that year and spread across the country. The country ran short of fuel for essential services such as buses, trains and medical vehicles because it did not have enough reserves of foreign currency to import any more. The fuel shortage caused petrol and diesel prices to rise dramatically. - Colombo

Artificial fluctuation in US Dollar value changed the economy and due to this reason prediction may give wrong information. - Colombo

Sri Lanka is in economic recession, and its impact is significant. - Colombo

Based on the economic crisis currently operating in the country, there is slight downturn in the market operations. - Colombo

According to the statements of Central Bank of Sri Lanka, proposed interest rates are controlled and as at date they are dropping significantly. This is encouraging investors to return to the market. - Dehiwala

Still volatile market due to economic downturn. - Kandy

Although there was a considerable drop in demand in Colombo city, demand for real estate in outskirts was in a stagnated state during COVID 19 pandemic and now a gradual increase is evidenced. - Kandy

What I feel about the current situation is due to no proper program introduced by the government, and no private sector investor has shown any interest due to government instability. - Ragama

Because of the economic condition of the country any new investments are risky. Income levels stagnated for last few years. Government has no effective plan to promote investments. Present demand is only for essential commodities and services. - Wennappuwa, North Western Province

Vietnam

The economy has multiple structural issues, however there is light at the end of the tunnel. - Ho Chi Minh City

The downturn of the world economy is now affecting to Vietnam, especially as regards to exporting. - Ho Chi Minh City

Europe: Investment market continues to struggle against a backdrop of tightening credit conditions

The Q2 2023 GCPM feedback across Europe suggests investor demand (in aggregate) was further hampered by tightening credit conditions and a still sluggish economic growth outlook. In keeping with this, 68% of respondents still view the market as being in a downturn phase of the property cycle, unchanged from the Q1 results. That said, there are pockets of resilience across parts of the continent and within individual sectors, while overall occupier market trends are not quite as downbeat as on the investment side.

Investment Sentiment Index hits a fourteen-year low

At the pan-European level, the Investment Sentiment Index (ISI) posted a reading of -31 in Q2, falling from a figure of -24 previously and representing the weakest return since Q4 2008. Driving this, investment enquiries reportedly fell across all mainstream sectors, with retail and offices in particular seeing a sharp decline (in net balance terms). No doubt contributing to this downward trend, credit conditions deteriorated further over the Q2 survey period, evidenced by deeply negative net balance reading of -72% for this metric. Meanwhile, the Occupier Sentiment Index dipped slightly to post a reading of -15 (down from -12 beforehand), albeit this remains much less downcast than the low of -44 hit during the early stages of the pandemic (Chart 1).

Chart 2 displays the headline Commercial Property Sentiment Index (an amalgamation of the OSI and ISI) at a country level. The vast majority of European nations covered by the Monitor exhibit negative CPSI readings, to a greater or lesser degree, with conditions particularly challenging across Switzerland, France, Hungary and Germany. In each case, the Q2 CPSI reading was weaker than that posted in the previous iteration of the survey, weighed down most notably by the more difficult investment market backdrop. At the other end of the scale, Croatia and Greece display positive CPSI figures, supported by continued growth in both occupier and investor demand during Q2.

Mainstream capital values to come under further pressure

Chart 3 shows twelve-month capital value expectations (based on a Europe-wide average) across the different sectors tracked in the survey. The vast majority of sub-markets display either a flat or negative outlook for values over the year ahead, with secondary office and retail still seen posting relatively steep falls. While projections are not quite as downbeat across prime office and retail markets, values are expected to fall in the year ahead nonetheless. Conversely, data centres and life science capital values are anticipated to prove more resilient, albeit expectations are only marginally positive in both instances.

Valuations deemed to be stretched at the regional level

Not helped by the renewed pick-up in bond yields during the Q2 survey period, a majority of contributors (57%) continue to perceive commercial real estate to be 'expensive' relative to fundamentals. This view is notably more prevalent across nations such as France, Germany and Switzerland, as close to three-quarters (or more) of respondents in each market consider prices to be above fair value at present. That said, this view is not identical across all parts of the continent. Indeed, a majority of respondents feel the market offers at least fair value for investors at present within the UK, Spain, Greece and Cyprus.

Chart 1 - Occupier and Investment Sentiment Indices

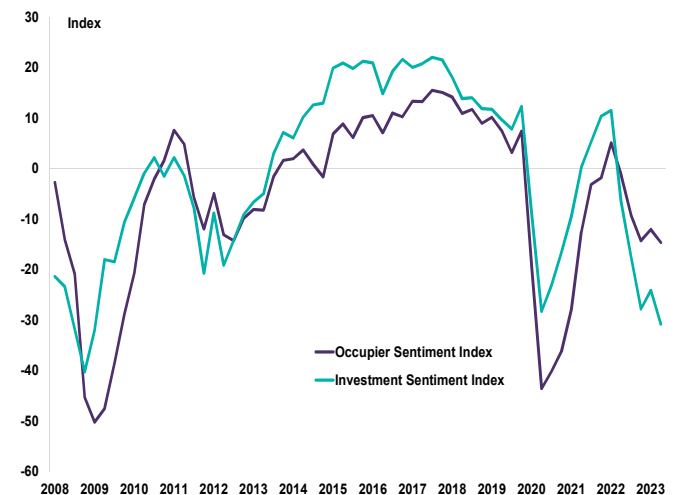


Chart 2 - Investment Sentiment Index by Country

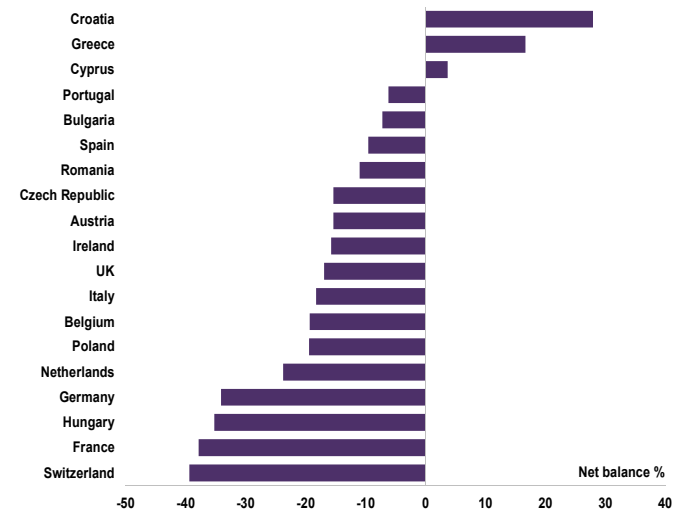
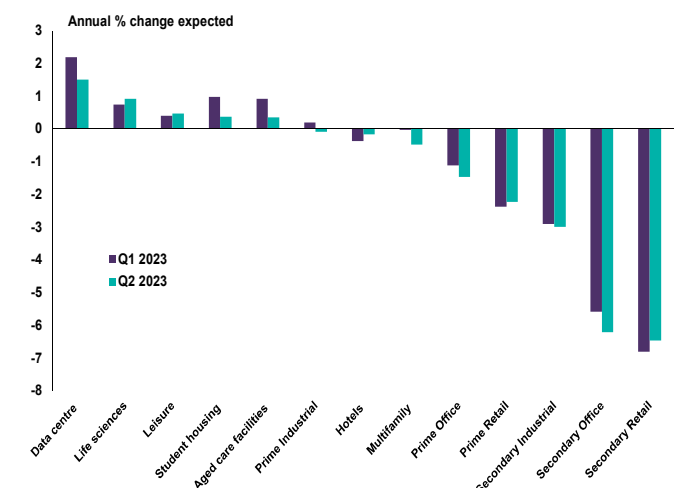


Chart 3 - Twelve-Month Capital Value Expectations



Regional comments from survey participants in Europe

Austria

Investors as well as developers seem to postpone investment decisions due to the high interest rate and inflation environment as well as uncertainty about the effects of currently discussed new building regulations. - Vienna

Belgium

Investment market is very slow, buyers are wary of further price corrections and sellers are rarely obliged to sell at the moment. This has been the pattern here in past downturns. How long this will endure is difficult to say and we are all at the mercy of geopolitics. - Brussels

Bulgaria

Sentiment remains high on the part of owners or sellers but indications are that demand for real estate investment is low, with very limited interest from international investors, and greater caution from domestic ones. Owner-occupiers remain the key driving force for a small number of potential office acquisitions. Residential-for-sale pricing is resilient despite lower transaction volumes. Industrial/logistics and retail have been underpinned by increased consumption. -Sofia

Czech Republic

Uncertainty is the main feeling. War, interest rates, potential recession. - Prague

France

What started out as a long awaited cyclical market correction is now a full swing repricing of the office suburban and regional markets coupled with a banking credit crunch and the emergence of non performing loan portfolios in a context of rising interest rates. -Paris

Germany

After a very long period of growth (rents, capital values and economy) now the initial downturn has started, and will need some time to recover; market values will be effected in general (nearly all asset classes) by a combination of high inflation rate, higher costs for debt, much less developments and could lead in Top Tier inner-city areas to a reduction of rents of 20% and lower take-up of space by the leasing markets. Expectation on recovery is not within the next 2 years' time (2025). - Berlin

We are in a time similar to 2009 or 2012 when everyone was unsure or negative on the future and only a few investors who were able to invest made the best deals ever. Occupier demand will prevail and support future growth of income and capital values against the remaining cap rate shifts to come. - Frankfurt

The market continues to be very quiet, hardly any transactions, a number of canceled transactions, significantly lower purchase price claims - Nuremberg

Hungary

The general market environment is getting worse that is reflected in the classification of "early downturn". -Budapest

Ireland

Prime resi cap vals and sales prices in Ireland are overpriced by at least 10%. Lots of secondary and small city offices cap vals are going to plummet. - Dublin

Main influencing factors in the market are cost and availability of finance, uncertainty in certain sectors of the occupational markets and lack of transactions to give confidence on pricing. -Dublin

Principle barriers inhibiting investors from acquiring green sustainable buildings is a lack of supply of those buildings for sale. There are a host of other issues affecting the supply of those buildings (refurbishment costs, lack of labour, lack of expertise, older buildings with values still too high to justify expenditure etc). - Dublin

Italy

The first quarter 2023, almost certainly lasting through Q2 and perhaps Q3, has been characterised by uncertainty and hence a "wait and see" as well as opportunistic "let's see some price adjustment" attitude which is leading to a major investor strike. Vendor's expectations as usual are not aligned with those of purchasers, with reduced debt liquidity and higher interest charges adding to the mix. Expectatons of serious fallout in the office sector, post Covid, is a theme with vultures circling. -Milan

Netherlands

Sharp decline in the take-up of office and industrial space. In the office market, there was an across-the-board drop in demand. In the industrial space market, mainly large-scale take-ups (logistics) dropped. The retail market is more active. Retail premises are becoming accessible again to entrepreneurs. However, the playing field for retailers is complicated by rising costs such as repayment of corona fees and rising staff costs. In all property types, available supply is decreasing. - Amsterdam

Well funded investors are waiting for real estate to become really cheap. The general idea is that once other investors need refinancing (which they can't), interesting opprtunities will come to the market for high yields. - The Hague

Poland

High interest rates and uncertainty about further increases have caused a "wait and see" approach by investors and vendors. - Warsaw

The Polish investment market in the office asset class has been hugely affected by both the after affects of the pandemic (hybrid working) and by the geopolitical situation with the war in Ukraine. This has been made far worse by the fact that 99% of the capital that has traditionally invested in this asset class is not Polish (Polish capital isn't really able to invest) so with capital retrenching it has caused the investment market to come to a total standstill and the banks to hold lending. - Warsaw

Portugal

The market is very volatile. - Lisbon

Romania

There is a lot of uncertainty in the local market caused by many factors: Still high energy prices, inflation >10%, interest rates at a record level, the continuation of the war in Ukraine. There is a sharp drop in the number of transactions and a low appetite for new projects. - Bucharest

Spain

Market affected by rate hikes as well as a slowdown in decision-making by small investors. Institutional investment is in force, but certain signs of a slowdown seem to be coming through. Madrid continues to be a benchmark, but other locations show greater heterogeneity in their expectations. - Madrid

There is a sense of overvaluation in general and high risk perception, so we could expect strong discounts in the coming quarters if the economy continues to deteriorate or credit becomes more expensive. - Madrid

Middle East and Africa: Occupier and investor demand metrics remain robust across the region in aggregate

The Q2 2023 GCPM results for the Middle East and Africa remain indicative of a generally solid market backdrop across the region, with headline demand metrics remaining in positive territory for all sectors. In keeping with this, a majority of contributors continue to sense the commercial real estate market across MEA as a whole is in an upturn phase of the cycle at present (the only world region in which this is the case).

Occupier and Investment Sentiment Indices remain positive

At the aggregate level, both the OSI and ISI remain in positive territory, thereby pointing to a continued expansion on both sides of the market during Q2. For the OSI, the latest reading of +9 is nearly identical to that returned last quarter. Meanwhile, the ISI edged up slightly to post a figure of +7, following a reading of +4 in the previous iteration of the survey results (Chart 1). As such, this suggests activity across the investment market gained momentum marginally during Q2. Contributing to this pick-up, international investment demand growth (as depicted in Chart 2) accelerated in net balance terms across the office, industrial and retail sectors over the quarter. In fact, for industrials, the Q2 net balance of +25% represents the strongest reading on record (series goes back to 2014).

When disaggregated at a country level, sentiment remains most upbeat in Saudi Arabia, Nigeria and the UAE. That said, there are distinctive differences between these markets. While international investor demand is buoyant across both Saudi Arabia and the UAE, Nigeria exhibits a much flatter trend. Instead, it is domestic investor demand that is driving the overall positive picture in Nigeria. At the other end of the scale, feedback is still downbeat across Qatar, pointing to a further contraction in investor demand across all market segments during Q2.

Capital values and rents anticipated to rise in most markets tracked across the region

Illustrated in Chart 3, headline capital value and rental growth projections for the year ahead are firmly positive in Saudi Arabia, Nigeria and the UAE. Drilling into the results across Nigeria, the outlook appears especially upbeat regarding the prime and secondary retail sectors, with respondents projecting double digit capital value gains for both markets in the year ahead, alongside 6-7% rental growth. Meanwhile, the prime office sector in Nigeria is also expected to post strong capital value and rental growth over the next twelve months (+11% and +7.5% respectively).

For Saudi Arabia and the UAE, all sub-sectors display positive expectations for both rents and capital values, led by particularly robust projections for prime office and industrial assets. Similarly, hotels, multifamily residential and data centres all exhibit firmly positive capital value and rental growth expectations at the twelve-month time horizon in both nations. For South Africa, the outlook is more mixed, as the prime industrial sector is anticipated to deliver solid capital value and rental growth in the coming twelve months, while projections remain flat to slightly negative across secondary office and retail sites. Lastly, in Qatar, respondents still foresee steep declines across all market segments over the year ahead, with the nation experiencing a considerable drop-off in demand in each quarter following the ending of the 2022 FIFA World Cup.

Chart 1 - Occupier and Investment Sentiment Indices

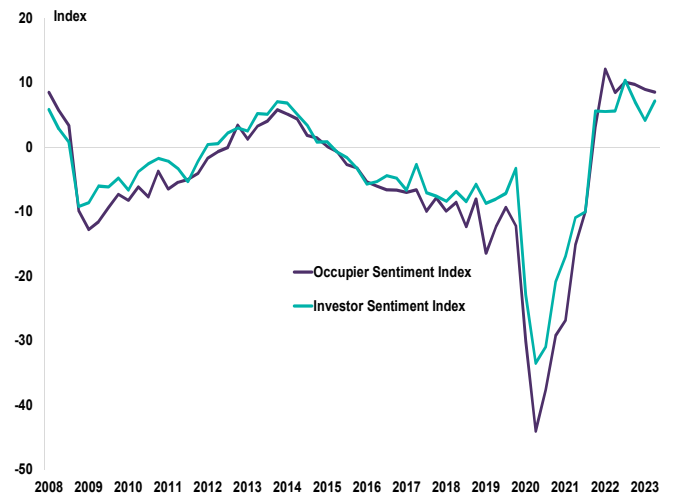


Chart 2 - International Investment Demand

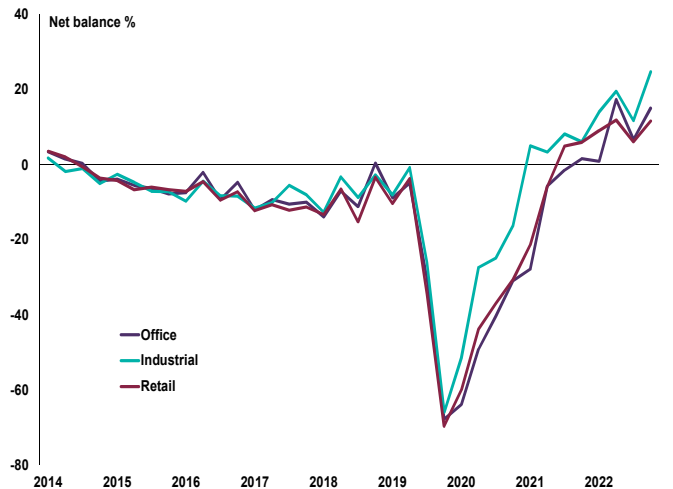


Chart 3 - Twelve-Month Rental and Capital Value Expectations



Regional comments from survey participants in MEA

Ghana

The economy of the State is not in good shape. We are going through restructuring with the IMF. - Accra

Kenya

Weak local currency & inflation has adversely impacted on the construction sector and real estate. - Nairobi

The property market in Kenya is currently depressed due to the downturn in the economy. This has seen property prices and rents stagnate and decrease in some cases. Further, the market is yet to recover from the negative impacts of the Covid 19 pandemic that saw a decline in property prices and rents move to lower levels. - Nairobi

Nigeria

Recent change in Government, devaluation of the local currency, removal of fuel subsidy and hike in power costs have caused a lot of uncertainty and investors are holding back to see how the market reacts to these factors. - Lagos

Real estate has potential for significant returns on investment. - Lagos

Oman

Market is at the bottom of the cycle. Recovery signs yet to be seen. - Muscat

We have witnessed commercial real estate occupier demand increase driven by SMEs as they take advantage of relatively low rents and generous incentives. Foreign investor enquiries meanwhile gained further traction but there is a lack of quality assets in the market. - Muscat

Qatar

Subdued post World Cup. - Doha

Saudi Arabia

Market growth is fast as a star in our country. - Jeddah

The city has undergone a process of removing slums and re-planning them with model projects, which will help create a model environment. This caused an increase in the demand for alternative housing, as well as real estate for the activities accompanying the residential activities, including commercial and administrative activities, offices, as well as entertainment. - Jeddah

Getting over heated. New opportunities being pursued from foreign companies to be part of the expansion. - Riyadh

South Africa

Economic climate worsens amid the weakening exchange rates with South Africa. Further, business, commercial and industrial activities have all slowed due to the limitations on access to efficient power supply on a long term basis. - Cape Town

Political uncertainty influencing market decisions. This uncertainty is likely to last to at least 3 months post 2024 elections. Unstable power supply is a huge inhibitor. - Cape Town

I anticipate a subdued 12 month period ahead from a property performance perspective, across all three sectors - Office, Retail, Industrial. Rental growth will be under pressure with renewed rental reversions coming sharp into the spotlight, with a more intense focus on cost containment to make the numbers balance. The time is right for PropTech to bring efficiency and value enhancing solutions. - Durban

South African property is still in the Valley of Despair, but there are few green shoots. A solid recovery is a way off. Market and other pressures are still very negatively skewed. - Johannesburg

Still a very depressed economy here in South Africa. Very little investment in new builds. Far too much vacant space available that needs to be filled before it makes sense to start creating additional stock. - Johannesburg

We are now starting to see a some traction across the sectors including the office sector. - Johannesburg

Cautiously optimistic. - Wellington

UAE

Sentiments are good, business is good. - Dubai

In 2022, Dubai experienced remarkable price growth and witnessed a significant influx of real estate investments. Looking ahead through the rest of 2023, we anticipate a continued increase in demand and prices for both apartments and villas in Dubai. Abu Dhabi investors have displayed significant interest in both off-plan and ready-to-move-in properties. In Ajman and Ras Al Khaimah, transaction volumes have risen. Overall, the UAE's real estate sector is expected to enjoy prosperous years ahead. - Dubai

We are seeing a string appetite from investors and occupiers alike. - Dubai

In UAE generally high investor demand and large pipeline of new construction. - Dubai

Zambia

The market is extremely sluggish due to high debt burden negatively impacting the country's economic growth. - Lusaka

There are initial signs and positive changes in the macro economy which are likely to improve local property market from Q4 2023. - Lusaka

Zimbabwe

Zimbabwe is currently in the hyperinflationary environment, basic commodity prices are increasing everyday, operating costs are increasing everyday and this is affecting demand for offices. - Harare

The market is characterized by irregularities due to lack of centralized data. This has led to valuation discrepancies and price distortions amongst others. - Harare

North America: Sentiment remains cautious particularly in the US

The Q2 GCPM results for North America continue to highlight material differences in the feedback provided by respondents from Canada and the US (the respective CPSI's are shown in Chart 1). The picture in the former remains somewhat less downbeat than the latter reflecting in part the more negative insights around credit conditions in the US. Consistent with this, a larger proportion of respondents view the US market to be in a downturn phase (or at the bottom) of the cycle compared with Canada.

Investment Sentiment still more negative

An ongoing theme running not just through the GCPM results for North America has been the relative resilience of key occupier metrics in comparison with the more visible pressure on the investment numbers. The Q2 data suggests this picture remains largely still in place in both Canada and the US. That said, in the case of the latter the Occupier Sentiment Index has slipped modestly into negative territory which is consistent with ongoing concerns about recessionary pressures building. Meanwhile, in both countries the headline occupier demand net balance reading masks a significant divergence in sector trends. Industrial space continues to be sought after according to contributors with, interestingly, the reading for retail also now positive. The contrast to this the metric capturing tenant demand for offices.

Credit conditions remain in negative territory

With economic pressures still weighing heavily on both countries as a result of persistent inflation and interest rates moving upwards as a consequence, the survey unsurprisingly shows that credit conditions remain tight. In Canada the net balance came in -42%, which represents a slight easing on the Q1 reading of -48% but still not far off previous highs. In the US the net balance this quarter was -55%, which was also slightly less downbeat compared to the previous figure of -62% but still towards the upper end of the historic range.

Capital value expectations stronger in Canada than the US

In keeping with much of the other feedback received this quarter, expectations for capital values (and indeed rents) continue to be stronger in the Canada than in the US. However a more interesting feature of the results is the polarisation between prime and secondary space (Chart 2). Taking the example of US offices, prime prices are seen declining another 3% but for secondary real estate, the drop is projected to be around 9%. For rents, the story is broadly similar. Prime office rents are seen declining 2% but for less good quality stock, the average forecast according to contributors is nearer 7%. The other story that is clear from the results to this question is the ongoing appetite for alternatives such as data centres and aged care facilities where expectations remain more upbeat.

Canada viewed as more expensive market

Over 70% of respondents from Canada are of the view that the market is dear which is the highest proportion since we began asking this question in 2015. In the case of the US, the share has dropped to around one-half reflecting in part recent adjustments in CRE pricing. However, the rise in the risk free return has meant this has not translated into greater numbers suggesting the market is offering value.

Chart 1: Commercial Property Sentiment Index

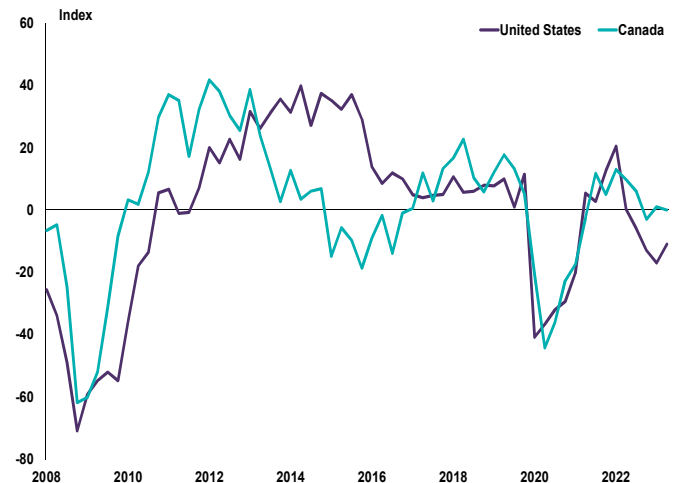


Chart 2: Twelve-Month Capital Value Expectations

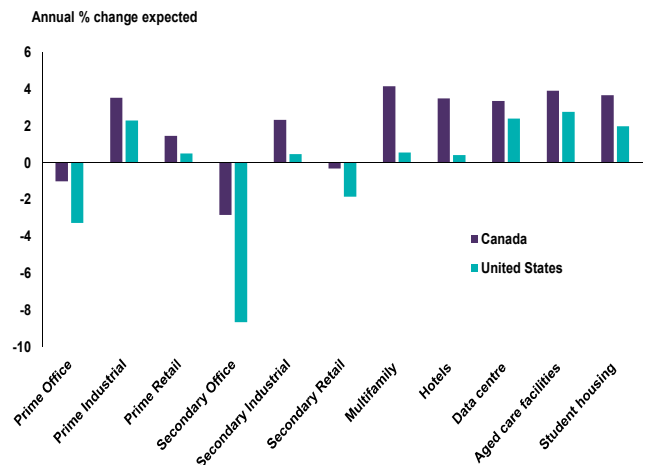
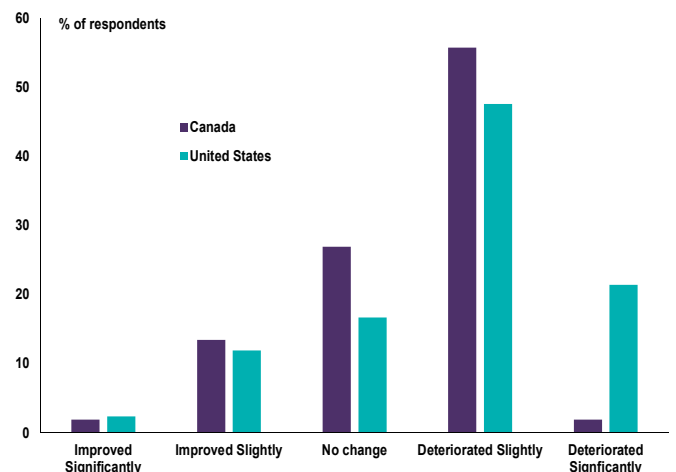


Chart 3: Credit Conditions



Regional comments from survey participants in the Americas

Antigua and Barbuda

Market is bouncing back after negative impact on Covid-19. - St. Johns

Canada

Calgary has a very strong residential market right now, with house prices and rental rates still climbing. Meanwhile other major centres in Canada have levelled off. We expect this to continue, based on high demand, growing population, low inventory, and still considered "affordable" compared to Vancouver / Toronto. - Calgary

Near term future in Nova Scotia is positive. - Halifax

Canadian 5 year bond yield hit 4% this week for the first time since before the financial crisis. Although investment and occupier demand remains steady, higher debt costs are leading to cap rate expansion and in sectors where tenant demand is weaker, and rental growth restrained, capital values are likely to decrease. However, serious downward pressure will only start to happen if forced sales become more commonplace. Exciting times for commercial property markets everywhere. - Kingston, Ontario

The Development Market is on a somewhat pause. A wait and see approach as the feasibility is trending downwards, however expected to be short lived. - Montréal

Many investors are proceeding with caution when it comes to new construction projects. The cost of borrowing money often eclipses the return on their initial investment, which can be discouraging. Unfortunately, some owners still choose to move forward with these projects, resulting in buildings that are only accessible to a limited portion of the population due to high rent prices. - Ottawa

Higher office vacancy rates continue to persist post Covid-19, with impacts to market rates, incentives required to attract new tenants, and overall values for office buildings. The root cause of change in the office marketplace, expansion of the work from home environment and principles. - Sudbury

First phase of downswing evidenced by increased inducements, free rent, and increased leasing commissions. Rent reductions will increase. - Toronto

The main issue in the market is that there is more volume of construction activity than there is skilled labour and professional services capacity available. This is expected to continue to drive up costs in the near to medium term. - Toronto

High interest rates are expected to take a toll not withstanding record immigration. - vaughan

The demand for skilled trades is high and the supply is low because of 2 Multi-Billion dollar projects under construction in the Windsor area. - Windsor

Jamaica

The real estate market in Jamaica is strong in most sectors - from land up developed properties. - Kingston

Trinidad and Tobago

Market demand has been sharply affected by two factors which rose to importance during COVID-19. Working from home has significantly reduced demand for office space, while online Shopping has similarly affected the demand for Retail space. - Port of Spain

Market is generally now on an upper scale bracket. - San fernando

United States

In the US, we are experiencing high interest rates and inflation. Rates are up considerably in most property sectors. However, "Real Estate is Local" and as Valuers, we have to look at each site and the components of value, individually and segmentationally. - Atlanta

Office demand is at the start of a long period of decline. - Dallas

DFW market is still relatively strong with continuing growth driving tenant demand for both commercial and residential properties. The industrial market leads the way, but clearly there are concerns over offices due to the unknown factor of how many staff will return to offices. Further interest rate rises are also of concern as inflation is still ongoing. - Dallas/Fort Worth

EV Battery and Chip processing and other projects positively impacted by the Inflation Reduction Act (USA) remain very hot. - Greenville, SC

The full extent of interest rate increases has not flowed through the market. While new projects have been delayed, valuation changes have lagged, and availability of capital will determine the depth of the upcoming cycle. - Miami

Overall there appears to be a softening of commercial real estate markets. - Miami Lakes

We are in the calm before the storm. Comments from every quarter are self-serving and contradictory. No building is totally safe from the leasing, financing, and political markets. It is starting to look like this may be a perfect storm. - New York

Challenging and uncertain, though uncertainty seems to have decreased somewhat as of late. - New York

Orlando is a bit of an anomaly in that it is a major tourist location with major theme parks and various other visitor attractions where over 70-million people visit the metro area annually. Thus, the comments offered are influenced by this significant segment of the metro Orlando economy. - Orlando

In holding pattern, relief that recession does not appear to be likely - San Francisco

Downtown CBD retail is impacted by closure of street and institution of a makeshift mall. Vacancy is over 14%. The rest of the metro area has retail vacancy rates in the 2% to 3% range. The City government seems unable to make any significant decision about moving forward. Something has got to give. - Santa Barbara

Industrial is strong, retail is good, and office poor. - springfield

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 facilities management market.

Methodology

Survey questionnaires were sent out on 14 June 2023 with responses received until 14 July 2023. 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 1740 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 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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