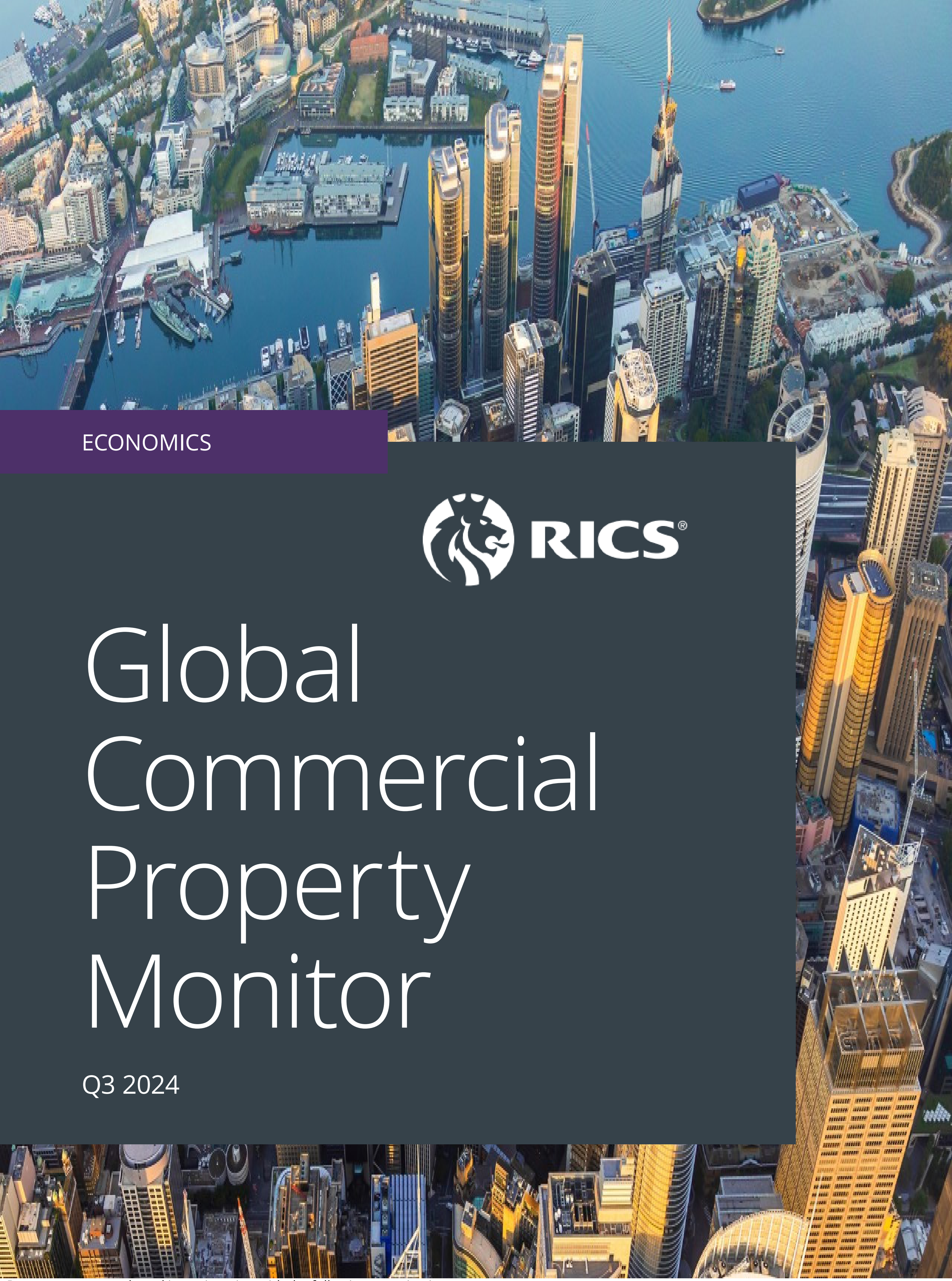


ECONOMICS

Global Commercial Property Monitor

Q3 2024

Responses were gathered in conjunction with the following organisations:

ECONOMICS

Further evidence that the global real estate market is in the early stages of recovery

- The headline RICS Commercial Property Sentiment Index (CPSI) posts the least negative reading in two years, albeit this remains relatively weak on a longer term comparison
- Improving credit conditions are paving the way for a tenative uplift in investment activity
- Polarisation between 'best in class' and the rest remains stark in many markets
- Forced asset sales still likely to be a feature of the market over the next year, particularly offices

The Q3 2024 RICS Global Commercial Property Monitor (GCPM) provides further tentative signs that the real estate market, at an aggregate level, is begining to move onto a slightly more positive trajectory. Interest rate cuts in most major economies are helping to improve the narrative for commercial property but, as the recently released IMF World Economic Outlook highlights, there remain significant macro and geopolitical challenges that could potentially derail global business activity.

For the record, the headline RICS Global Commercial Property Sentiment Index (CPSI) came in at -7 in Q3 which compares with -11 in the second quarter and represents the least negative reading in more than two years (as demonstrated in Chart 1). This improvement was reflected in similar moves in both the Occupier and Investment Sentiment Indices.

Disaggregating to the broad blocs that we employ to summarise the regional trends, all areas recorded either less negative or slightly more positive readings when set against the results from the previous iteration of the survey. This was particularly marked in the Americas, where the CPSI climbed from from -6 to +1 helped by the better tone from the US (zero compared with -8). APAC remains the laggard when taken as an aggregate (-18 as against -20) but, as has been the case for a while now, this masks profoundly divergent patterns at a country level. For Europe (including the UK), the CPSI is still stuck modestly in negative territory, with a -7 reading in the latest three month period. That said, this is the best result since Q2 2022. Meanwhile, feedback from respondents to the survey continues to show an upbeat trend in the Middle East and Africa (MEA).

Investor enquiries edge up as credit conditions loosen

Major central banks around the world, as well as many in emerging economies, have begun to cut interest rates as inflation concerns, while not completely gone, have lessened. Bond yields, reflecting this, have fallen back from last year's highs. However, it is significant that since the 50 basis point cut from the US Federal Reserve in the middle of September, most markets have followed the lead of Treasuries and given up at least some portion of the gains.

Despite this, respondents to the GCPM are telling us that the credit environment, in relation to its impact on the real estate sector, has improved over the past quarter. A net balance of +34% suggests this is the case at a global level, although the majority are pointing to a 'slight' rather than a 'significant' improvement. Perhaps unsurprisingly, the region with the highest reading for this metric is the Americas, where the net balance came in at +45% compared with +3% in Q2; for the USA specifically, the comparable results are +49% and zero. Europe is the region where, according to the survey, credit conditions are next most improved with the net balance standing at +32% as against +14% previously. For APAC, a net balance of +27% suggests some level of easing in the credit environment, although this jumps to +47% in China following the recent stimulus package. Meanwhile for MEA, these is less sense that conditions have changed (net balance of +16%) albeit that interest rate policy has followed the Fed lead.

Chart 1 - Commercial Property Sentiment by Region

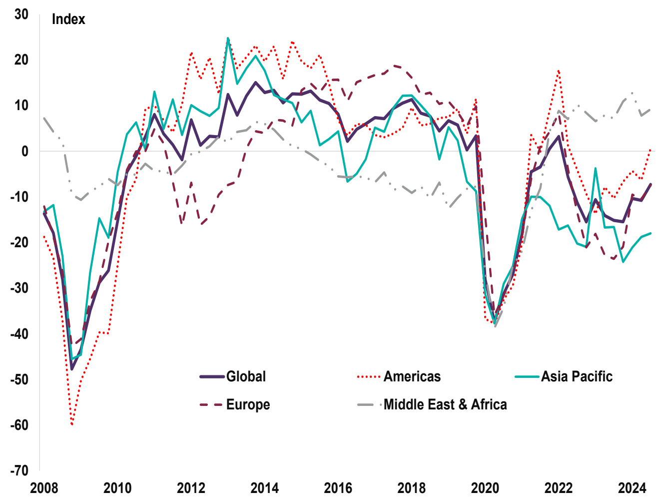


Chart 2 - Improving Global Credit Conditions Pave the Way for Uplift in Investment Enquiries

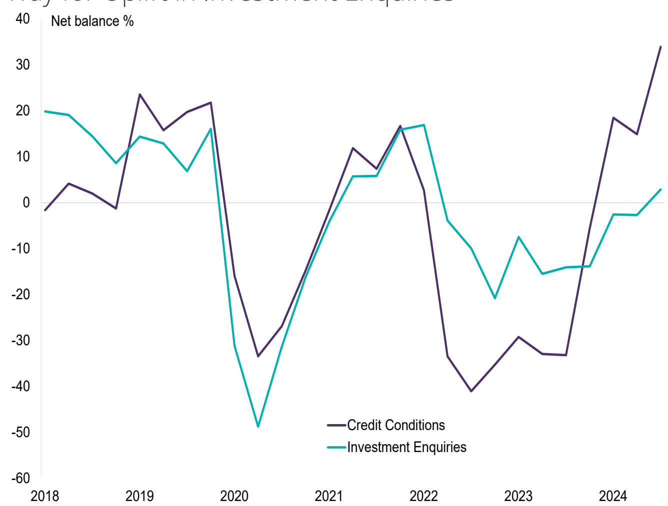


Chart 2 on the previous page highlights (at a global level) the relationship between the RICS credit conditions metric and the headline investment enquiries series. The former does appear to provide a good guide as to the likely trend in the latter and suggests that the uplift in investor activity could continue to gain ground over the coming quarters. Consistent with the credit conditions numbers, it is the Americas where the investor enquiries metric is showing the firmest improvement rising from +9% in net balance terms to +18%. That said, the MEA region continues to record the strongest reading for this series at +20% unchanged from Q2).

Polarisation within real estate remains stark

One of the themes that the survey findings have been highlighting for some time now is the divergence in performance between 'best in class' and the rest. We capture this most clearly in the results for twelve-month expectations for capital values and rents. This is very visibly demonstrated using the global numbers in Chart 3, albeit that the divergence is even more pronounced in some of the more mature real estate markets. Meanwhile, from a sector perspective, it is in offices where the gap is most evident reflecting the ongoing structural challenges around hybrid working and the pressure in some markets to meet specific targets/codes for sustainable buildings. Alongside this, the continuing appeal of alternative assets is striking in the results, with projections for data centres pretty much at the top of the pile.

In one of the additional questions included in the latest survey, respondents are asked which sector they see as being most susceptible to an increase in forced sellers over the next twelve months. The unweighted average results show offices continue to be viewed as most vulnerable (identified by around 50% of respondents), followed by retail. Someway behind those two sectors are hotels. Alongside this, we also asked at a country level whether forced selling had risen over the past twelve months and whether it was likely to increase over the next twelve months. The results for this are shown in Chart 7. In net balance terms, the US is seen as having been particularly exposed to distressed sales although the pressure is viewed as likely to lessen somewhat over the course of the next year. However, it is clear from looking at the results that participants in the real estate industry are far from convinced that the incidence of distress is going to materially diminish. Contributors from the Middle East are generally least concerned by this prospect according to the feedback to the survey.

Chart 3 - Global Twelve-month Capital Value and Rent Expectations by Sector

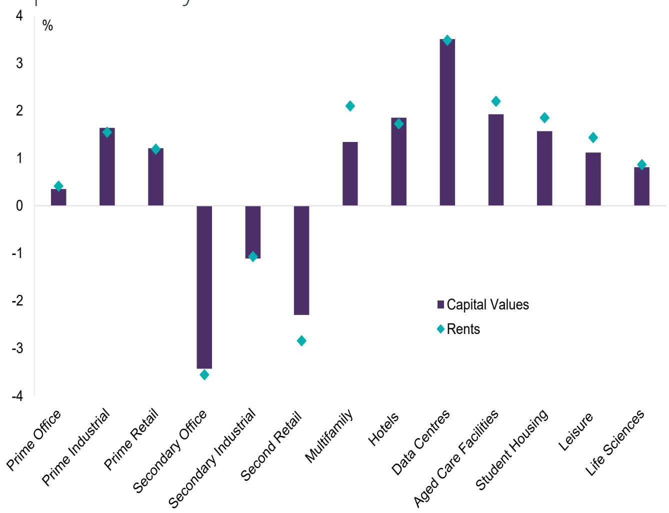
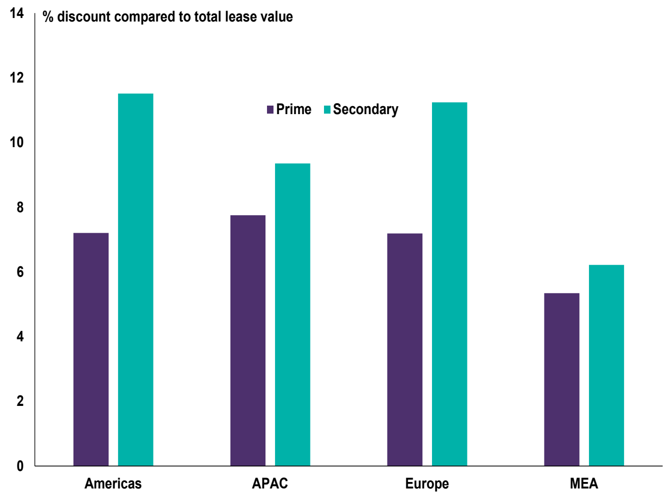


Chart 4 - Discount Compared to Total Lease Value in the Office Sector



Inducements for occupiers only easing slightly

We noted earlier that there has been a modest improvement in the occupier market accompanying the uplift in investor sentiment, but it needs to be put in the context of feedback suggesting that available supply to occupy is continuing to grow (net balance +25% against +27% in Q2) and that inducements to potential tenants remain relatively high (net balance +24% vs +27% previously). Given the previous discussion around polarisation, it is predictable that the global results show offices to be most exposed in this regard, with the sectors' availability net balance at +36% and inducements net balance at +35%. In two further additional questions, we probed the extent of the discount typically being offered through rent free periods (compared to the total lease value) for prime and secondary offices. Chart 4 captures the results at a regional level for both asset classes while Chart 8 focuses on secondary office discounts specifically, and at a country level. In roughly half the countries included in the GCPM, the secondary discounts exceed 10%, but, once again, it is the MEA region where they are lowest.

MEA country expectations remain most positive

Chart 5 graphs the feedback around aggregate twelve month expectations for rents and capital values at a country level. The top right quadrant reflects those markets with positive readings for both metrics, while the bottom left quadrant shows markets where, in net balance terms, the projections are negative. The broad picture is not dissimilar from the results of the Q2 survey, with Saudi Arabia, India and UAE recording the most positive results, while respondents from Sri Lanka see the recovery in the market continuing to come through relatively strongly. At the other end of the spectrum, the outlook for China and Hong Kong remains downbeat according to contributors, despite the latest package of measures. In terms of the more mature markets, the US has edged further into postive territory, while most European markets are little changed, with Spain generating the strongest expectations on the back of a relatively firm macro picture.

Reflecting the slightly improved tone to the latest results, there are tenative signs that professionals feeding into the survey are now sensing that the real estate market in general is closer to fair value. At a global level, 45% of contributors took this view in Q3 which is the highest share since the back end of 2020. And, just as significantly, the share believing the real estate market to either be expensive or very expensive has slipped to 38%, its lowest level since 2015. The most pronounced improvement in this indicator (at a regional level) has been in the Americas, where the share of respondents perceiving the market to be expensive has dropped from over 50% to 40%.

Chart 5 - Twelve-month Global Capital Value and Rent Expectations

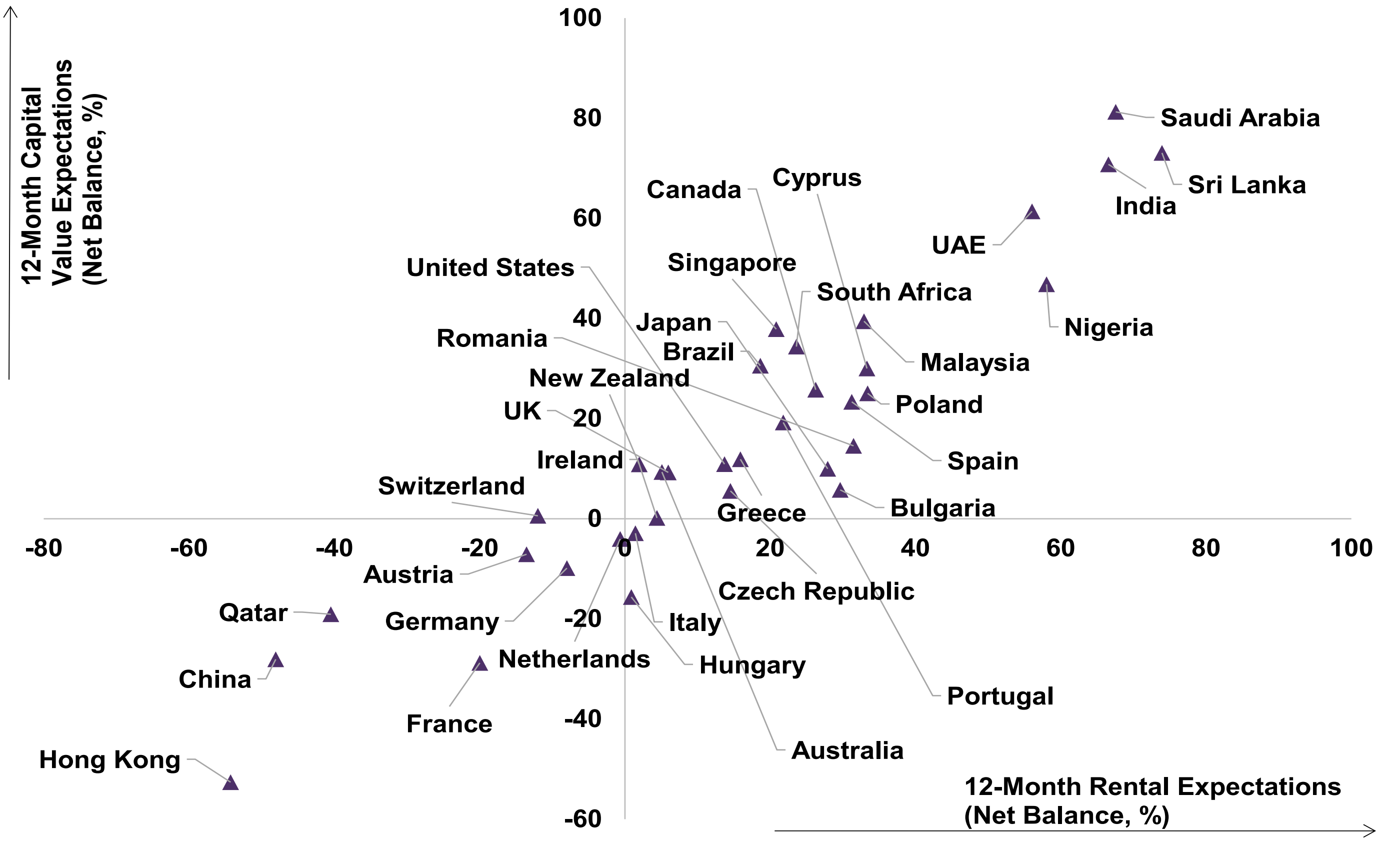


Chart 6 - Global Perceptions Regarding Point in Cycle

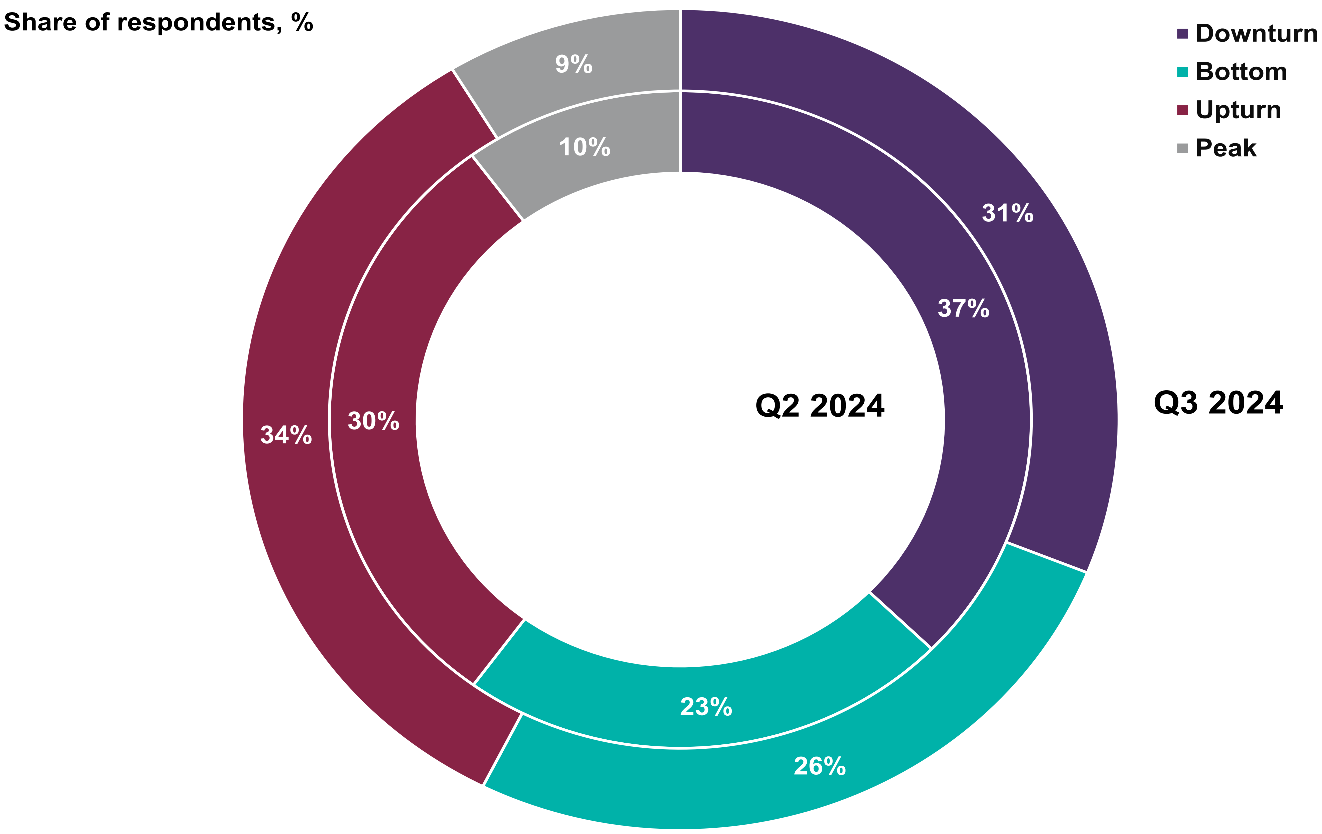


Chart 7 - Has the forced selling of assets increased over the past 12 months and expectations for next 12 months

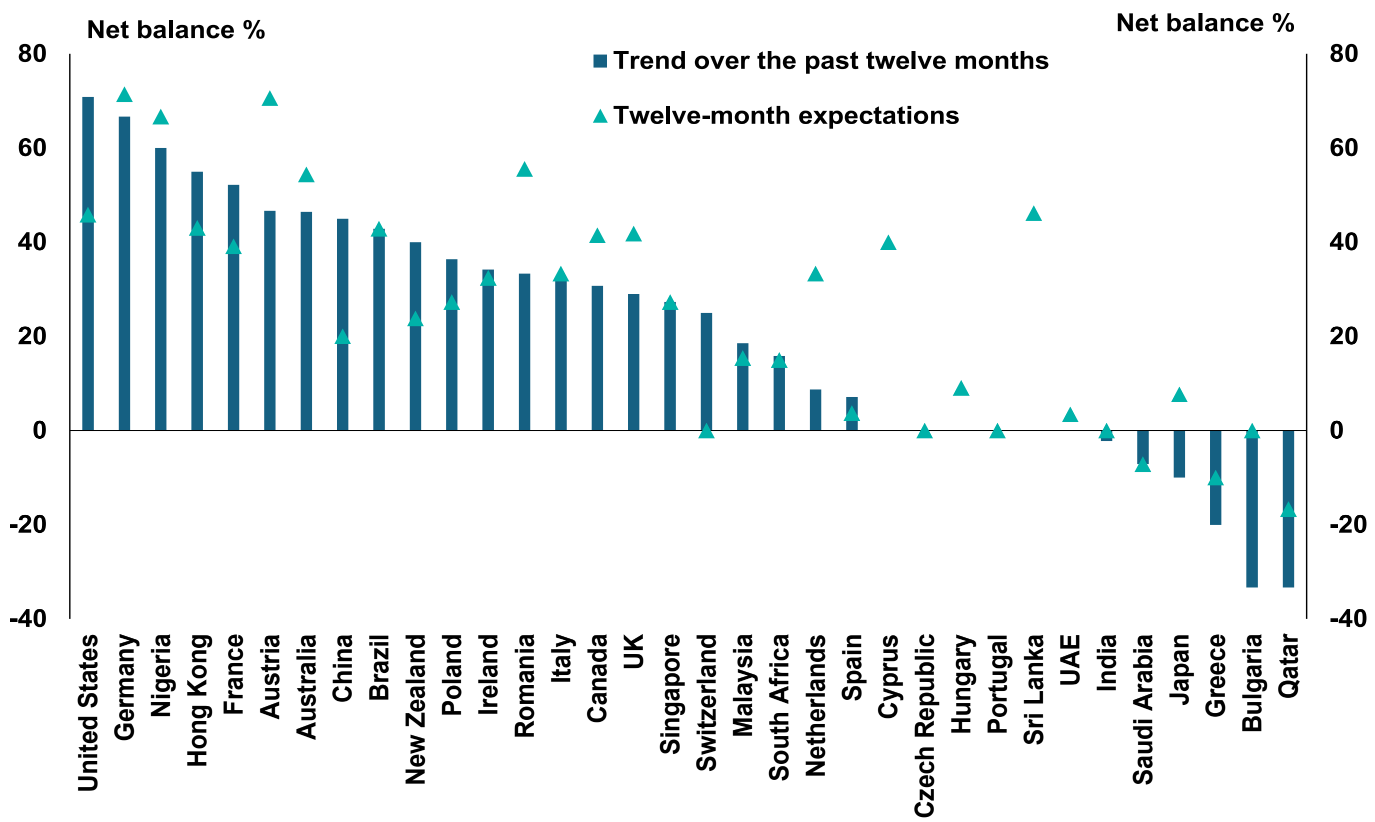
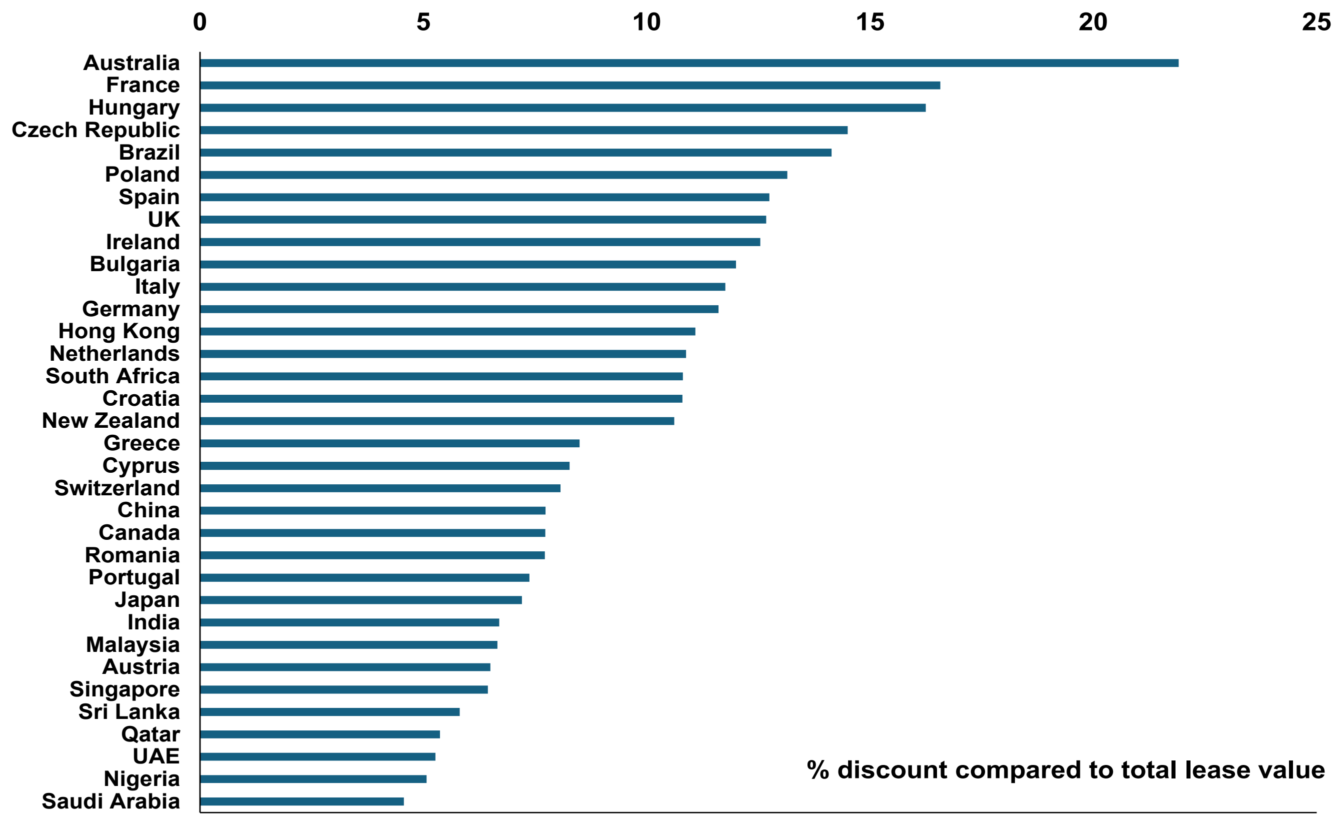


Chart 8 - Approximate level of discount typically being offered through rent free periods (compared to the total lease value) for secondary offices?



APAC: Headline sentiment remains subdued with a mixed picture at the country level

The headline RICS Commercial Property Sentiment Index (CPSI) for APAC was little changed at -18 in Q3, having remained largely steady now for the past several quarters. However, divergent conditions are being reported across different parts of the region. India continues to outperform the aggregate picture, with a headline index reading of +31, followed by Japan at +13. Meanwhile, Sri Lanka, Malaysia, and Singapore remain in neutral territory, with near-zero readings. Concurrently, the ANZ market is still being challenged by persistently high interest rates, with Australia recording a CPSI of -7 and New Zealand at -16. Elsewhere, despite recent efforts to stimulate the economy, China and Hong Kong recorded negative headline CPSI readings of -43 and -50, respectively.

A mixed picture for occupier demand

Variations in occupier demand across different sectors, as shown in Chart 1, is a significant factor driving the country level disparity. At the stronger end of the scale, India continues to see bullish signals for occupier demand growth across all sectors, recording net balances around +60% in each instance. Elsewhere, positive tenant demand is evident in Malaysia, particularly in the industrial sector, which boasts a net balance of +56%, surpassing the office (+7%) and retail (+22%) sectors. In contrast, Australia's retail sector lags behind the other two categories, posting a negative net balance of -15%. Similarly, Singapore's retail sector is also struggling in the face of inflationary pressures, producing a net balance of -17%; by comparison, office demand remains relatively strong with a net balance of +18%. Meanwhile, Sri Lanka displays tentative signs recovery, with tenant demand metrics registering mildly positive readings across the board. Also on a recovery path, the feedback from Japan shows optimism in the office and retail sectors, although its tenant demand metric for industrial space remains neutral.

At the weaker end, New Zealand, China, and Hong Kong record negative net balances across all categories, albeit with one subtle difference: prime properties are under less pressure than secondary ones in China and New Zealand, while the discrepancy is less apparent in Hong Kong.

Credit conditions improve

As the US Federal Reserve cut rates in September, the perception of credit conditions in major markets has improved visibly, as depicted in Chart 2. The only exception is in Hong Kong, where the net balance for the credit conditions indicator is still stuck at -40%. This is echoed by one of the comments in Hong Kong highlighting the "reluctance of lenders". Elsewhere, the credit conditions metric posted a regional average of +34% in net balance terms, ranging from +77% in India and zero in Japan. However, this improvement has, as yet, not translated into an overall increase in investment demand (shown in Chart 2). Unsurprisingly, investors' pessimism is more pronounced in China, Hong Kong and New Zealand, where sentiment is suppressed by macroeconomic headwinds. Combined with the results on the occupier side of the market, the latest feedback serves as a cautionary note that the effect of the promised China stimulus package has yet to boost market confidence.

Forced sales pressure expected to vary across markets

As shown in Chart 3, the industrial sector is widely seen as being less vulnerable to instances of forced selling moving forward. Indeed, the pressure is perceived to be more pronounced across the retail and office sectors given ongoing structural challenges.

Chart 1 - Occupier Demand by Country

Chart 2 -Credit Conditions and Investment Enquiries

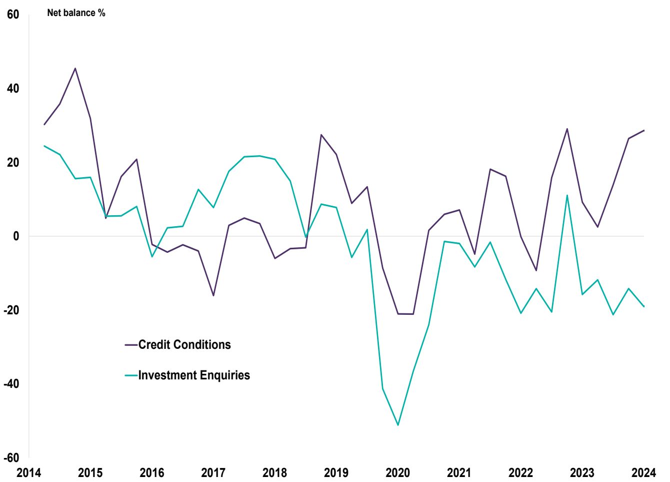
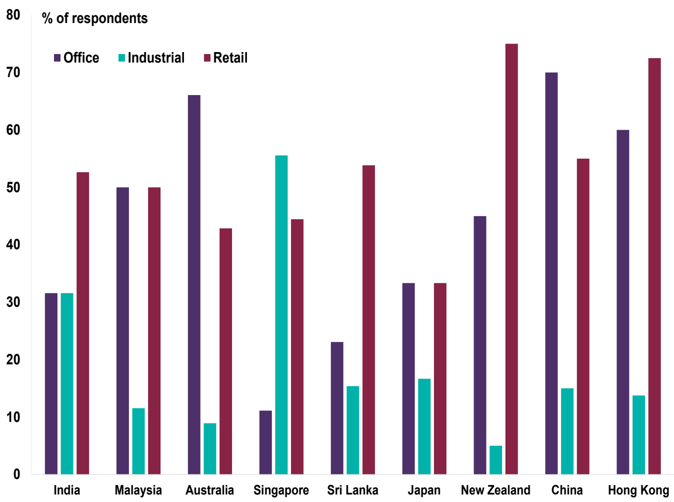


Chart 3 - Susceptibility to Forced Selling



Regional comments from survey participants in APAC

Australia

Office properties are nearing the bottom of their cycle, while industrial and retail properties have just passed the bottom. - Brisbane

High construction costs are negatively impacting feasibility, reducing the number of new starts, particularly in the office and residential sectors. - Brisbane

Demand in the Melbourne market has decreased among both foreign and local investors across all sectors, particularly office, residential, and retail. This decline is due to increased costs of holding assets and recent local government tax changes. It may take 3-5 years for Melbourne to recover. - Melbourne

Over-regulation and over-taxation. - Melbourne

The investment market appears to be nearing its bottom as central banks shift to an easing cycle. The office sector remains in a period of adjustment, but the push for centralisation among tenants remains strong. A tight supply pipeline beyond 2026 should support rental growth across Australian office markets as vacancy rates stabilise. - Sydney

Retail: The market has adjusted over the past 24 months. While spending is slowing, the availability of space to occupy is lower due to increased development costs, which has led to positive leasing spreads. Transparent income with low and stable incentives is providing good buying opportunities and consistent returns for investors. Demand is the strongest it has been for some time. - Sydney

Prime office rents are expected to remain stable, with incentives elevated in the short to medium term. Secondary office properties are likely to continue experiencing difficulties, particularly for owners who are capital-restrained and unable to upgrade. Rents in the secondary market are expected to fall as A/Prime landlords become more aggressive in securing tenants. - Sydney

The economy is under strain, and we will be fortunate if we avoid another recession. - Sydney

The office market continues to experience stress. The retention of bank rates is not improving the general mood in the market. - Sydney

I believe we are either at that bottom or just past it. It's prime buying time. - Sydney

Bottom of cycle with signs of recovery. - Sydney

Brunei

Economic uncertainty and a lack of consumer confidence have dampened spending and slackened demand amidst high inflation, escalating material costs, and high borrowing costs. These factors are creating repercussions in the local economy, reducing demand for retail and commercial space, and simultaneously affecting the domestic construction industry. - Bandar Seri Begawan

Cambodia

The current market is experiencing a significant slowdown in buyer activity and demand. Conversely, non-performing loans (NPLs) are increasing each quarter. - Phnom Penh

China

The market will recover gradually. - Kunming

The office market is experiencing a continuous decline in rents amidst rising vacancy rates and a rapid decrease in demand. The retail property market is showing diversified trends, particularly evident in the distinction between commercial real estate projects located in core areas and those in non-core areas. - Beijing

Market in recovery. - Tianjin

Macau SAR

In the coming months, the increase in foreign tourists visiting China, who also tend to visit Hong Kong and Macau for tourism and cuisine, will lead to a rise in foot traffic. With strong central government measures to maintain stability and the continuous introduction of favourable policies, it is believed that China's economic recovery and the increase in manufacturing orders will boost the income of southern citizens, directly benefiting them. - Macau

Hong Kong SAR

The high costs in the Hong Kong market continue to pose significant challenges for businesses of all sizes. There is a shortage of skilled professionals, and external business opportunities have nearly vanished. Relying solely on internal circulation affects the overall structure. Therefore, it is hoped that relevant departments and the government will promote Hong Kong's strengths, particularly in finance and real estate. Gradual improvements in grassroots industries from the bottom up are also desired, along with a steady economic recovery, strong support from the mainland, and the diligent efforts of the people for a better future. - Hong Kong

The market is still in the middle of a downturn with rather weak demand. - Hong Kong

The reluctance of money lenders to provide mortgages to potential buyers of commercial properties has seriously undermined market sentiment. - Hong Kong

The downturn in the economic atmosphere is impacting the market. - Hong Kong

Speculators with higher leverage will easily encounter liquidity problems when banks call in their loans, leading to an increasing bankruptcy rate. - Hong Kong

The general economy and market trend remain in a downturn. - Hong Kong

The market is declining. The overall economy is struggling. The property market continues to decrease as it rose too quickly over the past 10-15 years. - Hong Kong

The property market is collapsing. - Hong Kong

Hong Kong and Macau are undergoing an adjustment phase, with geopolitical factors playing a significant role. - Hong Kong

The extent of China's proposed stimulus efforts remains unknown. If significant money printing occurs, demand and values could rise. A resurgence in Mainland purchasers in the residential sector is frankly the only hope. - Hong Kong

Overall retail sentiment in Hong Kong is poor, as residents prefer shopping in Shenzhen and the Greater Bay Area. Luxury retail and F&B sectors are negatively impacted, and this condition is unlikely to improve until the fourth quarter of 2025. - Hong Kong

The mood remains pessimistic, but foreign investors will buy if the price is right. - Hong Kong

India

In the short term, the market can be volatile due to several interest rate cuts, but it has long-term potential to rise. - Bangalore

Office, co-working, and retail sectors are more expensive than two years ago and need to be tested for sustainability. - Bangalore

The housing sector is the major factor influencing real estate, with office space as the secondary market. Both were affected by COVID-19, which introduced the work-from-home concept. - Chennai

The market is likely to peak in the next 2 to 4 years. - Coimbatore

The market is very buoyant, reaching its peak earlier than expected. Prices are now unnatural, with unprecedented growth in the residential sector. - Delhi

Markets have been near their peak for some time. Long-term corrections may occur, but not immediately. - Gurgaon

Markets have been near their peak for some time. Long-term corrections may occur, but not immediately. - Gurgaon

Regional comments from survey participants in APAC

While rental markets and occupier interest remain strong, weak global investor interest is keeping capital values in check. - Hyderabad

Market conditions have improved recently. - Kattankulathur

The market will remain in an uptrend in the near term, with potential upside following several rate cuts. - Kolkata

Property resale value is challenging in coastal regions due to limited development affecting market value and selling prices. - Mangalore

Markets are improving on all fronts. - Mumbai

The Indian market is in an up-cycle boom due to the China+1 policy and stable government support. Increased government capex will help Indian players compete globally. - Mumbai

There is reasonable demand for residential and commercial office spaces, while industrial and retail space demand is stagnant. These trends are likely to continue for two to three years. - Mumbai

The market is generally rising. - Mumbai

India's top real estate markets show resilience, with strong demand in primary residential and commercial segments, especially in mid and affordable housing and Grade A office spaces. Industrial and logistics sectors thrive on e-commerce growth, while niche segments like student housing and data centres are expanding. Despite challenges in older assets, strategic investments and redevelopments offer growth opportunities, reflecting an optimistic outlook across the sector. - Mumbai

The overall market is in good condition and expected to move upward in the next three months. - Nagpur

The Indian Government has made the real estate industry more transparent with RERA (Real Estate Regulatory Authority), which controls builders in the interest of buyers. This has increased confidence in the industry. - Noida

The general market condition shows increased demand for retail property, but less for commercial and industrial properties. - Trivandrum

Indonesia

Data centres continue to be a growing sector. - Jakarta

The ongoing transfer of presidential power appears smooth, but all eyes are on the simultaneous nationwide regional elections in November. Extending the 9% VAT waiver for new landed residential properties until December will further spur the sector. - Jakarta

The market is very soft, especially for apartments, and hotel rates remain low compared to regional cities like Singapore. Industrial estates are seeing some pickup due to shifts in the manufacturing base from China. - Jakarta

Japan

Generally, in regions with increasing populations such as the capital area, real estate prices and rents are rising. Conversely, in regional cities with declining populations, real estate prices and rents are trending downward. Due to government-supported semiconductor promotion projects, land prices in Chitose, Hokkaido, where Rapidus is located, and in Kumamoto, Kyushu, where TSMC has expanded, have increased by approximately 30% per year, with rents also rising significantly. - Tokyo

Malaysia

Uncertainties in the current market make property investments more challenging and riskier. - Kuala Lumpur

The property market remains volatile, influenced by climate change risk, ESG practices, and geopolitical issues. - Kuala Lumpur

Appreciation of the ringgit and low interest rates might deter overseas investors. - Kuala Lumpur

The property market is still in the midst of consolidation. - Kuala Lumpur

General market conditions are still in the doldrums. There is room for improvement, but Middle East tensions persist. - Kuala Lumpur

Overall, market sentiments are strong with consumer confidence and solid government initiatives, which have strengthened the Malaysian Ringgit against the greenback. However, high-end residential properties, especially condominiums, are still struggling and need a longer recovery period. - Penang

The Malaysian property market's future looks promising, provided developers and policymakers address key challenges like affordability and oversupply. Continuous infrastructure improvements, such as expanding public transportation networks, are expected to boost property values and attract more buyers and tenants. The emphasis on sustainable and smart city developments also aligns with global trends. - Pulau Pinang

Myanmar

Despite the ongoing political crisis, occupancy rates in prime office, retail, and hotel spaces increased in 2024, with rising prices due to inflation. Businesses face challenges such as power cuts, price instability, and supply disruptions. Many large projects have been suspended since 2021, benefiting existing buildings by reducing competition and new supply. - Yangon

New Zealand

Improving market sentiment due to central bank rate decreases and steadying occupier health. Offshore capital is scarce and cautious, making the NZ market dominated by local private investors. - Auckland

The OCR was reduced by 25 basis points this quarter due to decreasing inflation, followed by a comparable cut in bank interest rates. This is a positive sign of improved market economics as the RBNZ gets inflation closer to the government-required margins of 1-3%. Currently around 4%, with potential to be within margins within 12 months. Spring will bring more properties to the market, providing a better gauge on market activity, with a predicted early market recovery over six months. - Christchurch

Key players in NZ believe we have passed the bottom of the cycle and are now acquiring prime industrial investments. The office sector remains challenged as an investment class. There has been a recent pickup in prime retail leasing in Christchurch, but no interest from foreign investors. - Christchurch

Key players in NZ believe we have passed the bottom of the cycle and are now acquiring prime industrial investments. The office sector remains challenged as an investment class. There has been a recent pickup in prime retail leasing in Christchurch, but no interest from foreign investors. - Dunedin

Regional NZ faces difficult times with high interest rates impacting discretionary spending, affecting hospitality first and retail turnover as well. - Christchurch

The regional market in New Zealand is not robust enough to manage the flat to negative growth experienced over the past six months. Increased unemployment has led to higher savings against borrowing, affecting the regional property market. Recent base rate cuts have yet to show a positive impact. - Nelson

Sector-specific: Prime office space remains in demand, while secondary office space does not. - Wellington

Singapore

Bottoming out. - Singapore

Stable. - Singapore

Sri Lanka

Prime grade A average retail rental rates witnessed a drop of about 8% during H1 2024 compared to H2 2023. With new retail developments coming up around Colombo, many tenants occupying prime grade A retail spaces in the last year of their leases have yet to renew, waiting to see what incentives the new developments will offer to negotiate better terms for their lease renewals. Prime grade A office rents have remained unchanged during H1 2024, with average rentals ranging around USD 2-3 per Sq ft. - Colombo

Europe: Demand holds steady at the regional level while improving credit conditions should support the outlook

The Q3 2024 GCPM results across Europe continue to signal a largely flat demand picture on both the occupier and investor sides of the market at present. Nevertheless, there has been a slight rise in the share of respondents sensing conditions are shifting towards an upturn phase of the cycle over the past two quarters (35% vs 27% back in Q1), which suggests sentiment is slowly starting to improve.

Occupier and Investment Sentiment Indices remain negative, but a little less so than previously

Chart 1 maps the OSI and ISI gauges at the regional level, with the Q3 figures of -8 and -7 marginally improved compared to the previous readings. That said, with both still sitting in slightly negative territory, this suggests overall momentum behind the market remains subdued. When viewed at a country level, there are some nations in which conditions appear more upbeat than the regional aggregates, evidenced by positive OSI and ISI readings being posted across Cyprus, Greece, Spain and Portugal. Conversely, the headline sentiment metrics remain firmly negative across France in particular, while Germany also posted readings that are still consistent with a contraction in the market (even if these are a little less downbeat than earlier in the year).

Easing credit conditions provide some relief for the market

As tracked in Chart 2, an easing in credit conditions has now been reported across Europe in each of the past three quarters, with the loosening in Q3 (in net balance terms) the most pronounced since 2015. Aided by this, the feedback around the level of investment enquiries coming through has shifted of late, as the Q3 net balance of +1% marks the first report since early 2022 in which this metric has been outside of negative territory. Even so, the latest reading is still relatively weak when viewed in a longer term context. Moreover, respondents across several of the larger European markets report that instances of distressed sales have increased over the past twelve months. Indeed, a net balance of +67% of contributors in Germany, +52% in France, +32% in Italy and +29% across the UK cite an increase in forced sellers in the past year.

Alternatives still expected to outperform traditional sectors in terms of rental and capital value growth

Projections for rental and capital value growth over the coming twelve months remain mixed at the sector level (Chart 3 displays the pan-European averages). On the stronger end of the scale, data centres are expected to deliver the sharpest pick-up in both rents and values on a sectoral comparison. Meanwhile, multifamily, student housing, aged care facilities, hotels and life sciences also exhibit positive projections for both variables over the year ahead. By way of contrast, the outlook appears much flatter for leisure. Regarding the traditional market sectors, prime industrial properties and prime offices and expected to see some uplift in rents and capital values. On the contrary, projections remain deeply negative across the secondary office and retail sectors. Further emphasising the weakness across the former, survey participants report that rent free periods, offered to incentivise tenants, typically amount to a discount of 11% (compared to the total lease value) for secondary office space across Europe. In France, the estimated discount level was closer to 17%, while in Spain and the UK the figure is around 13%.

Chart 1 - Occupier and Investment Sentiment Indices

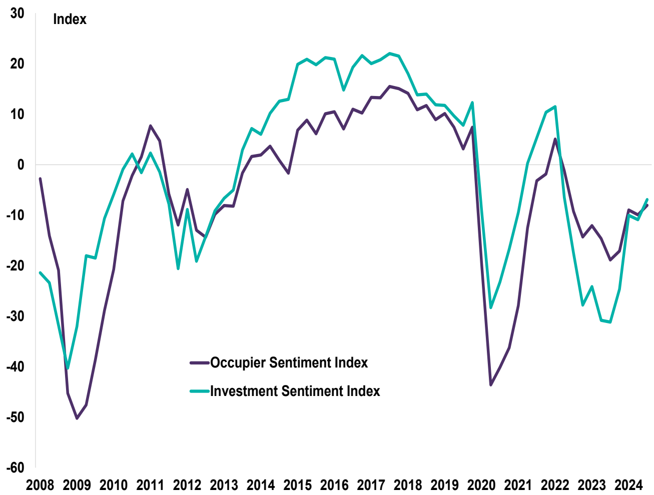


Chart 2 - Credit Conditions and Investment Demand

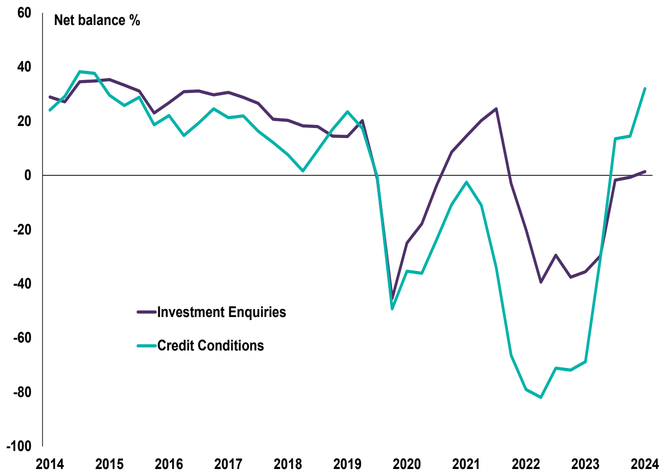
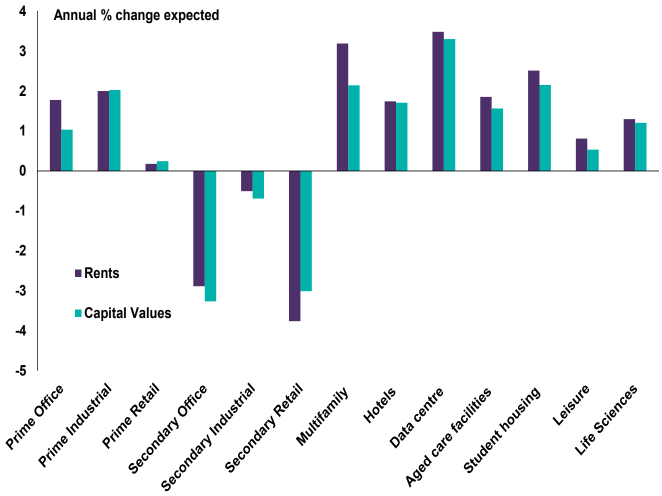


Chart 3 - Twelve-month Capital Value and Rent Expectations by Sector



Regional comments from survey participants in Europe

Austria

Latest interest rate cuts by the ECB should help developers and owners to consolidate and avoid further forced sales. - Vienna

Bulgaria

Increased valuation uncertainty. - Sofia

Cyprus

The overall market in Cyprus remains strong, there is some evidence of weakend demand but geopolitics in the area appear to affecting the market positively due to increase foreign investor demand. - National

There is stagnation currently in the market, indicating that in the following 6 months we might start seeing a downturn of capital values. - Nicosia

Czech Republic

Its probably early to say the market is back, but early recovery is reality. Black swans like geopolitics or condition of the automotive sector in CEE are still flying above our heads and it is necessary to remain careful. - Prague

France

The market continues to operate at two speeds. Investors are keen to increase AUM but petrified about the post-Covid reality concerning the secondary office market. It is clear that this procrastination is leading to a soft landing at the expense of retail (Mom and Pop) investors.- Paris

We are probabaly at or near the bottom of the cycle. However, for the office market, work from home is still negatively impacting demand and office capital values have yet to factor decarbonization costs. - Paris

Germany

After Expo Real (German Real Estate Fair) it was very clear to most attendees that also 2025 will be a year of similiar investment activities as 2024/ 2023 (meaning low volume traded) with Office Markets most volatile but rents as today; Retail and Industrial also sideway movements. Residential in the top tier and bigger cities will show again pressure on rents due to imbalance between demand and supply. - Berlin

The market is stagnating, expectation gap still high, institutional investors are dropping out, only those with high equity are buying, 2-3 big tickets due to favorable factors. - Munich

Greece

Greece real estate market is still recovering from the economic crisis, and the prices in most sectors just caught up with the pre-crisis 2008 levels. There is an abundance of assets tied up with NPLs, that were transferred from the banking sector to international funds and servicers, but their forced sale is conducted at a very gradual tempo, due to legal and bureaucratic reasons, so they still haven't affected the upward market trends. The main current economic concern is the high inflation. - Athens

Hungary

Office developments that are planned as speculative developments are only for governmental organizations. Other buildings will be built only after securing prelease leases. Developers are looking to develop smaller buildings around 10 000 sq m. The ESG revolution has still not started. Tenants rather focus on the incentive packages and landlords' commitments on ESG last, until it is needed, when, for example, renegotiating a lease with a core tenant. - Budapest

Ireland

Uptick in office demand - small number of large occupiers seeking deals to reflect market challenges for developers/owners. ESG compliant assets focus. Good interest in regional retail parks from investors. Overall increased interest from overseas investors; ECB delivered a 0.25% cut in September with at least one further reduction anticipated in 2024 and more in 2025. Interest rate decisions by central banks will be the main drivers of activity/values in the investment market. - Dublin

The residential sector in Ireland is at a peak, prices are very high and it is reminiscent of 2006, the ceiling must be close. - Dublin

Some opportunistic investors emerging in the office market. Private investors active in the prime retail market. French SCPI investors remain active. - Dublin

Italy

Market is on standby. -Milan

Netherlands

In general it's a difficult time for real estate due to geopolitical uncertanties. - Amsterdam

Retail becoming a more and more interesting investment opportunity. - Amsterdam

Dutch real estate market in slowly picking up in a relatively positive economic and political environment. - Amsterdam

Poland

Due to financing costs there is less movement in aqcuisitions compared to previous years. - Warsaw

Portugal

Improving occupier demand, as well as transaction activity in Spain, should fuel the rebound of international interest in Portugal. - Lisbon

Stable with positive outlook. - Lisbon

Romania

As of 2024, Romania's real estate market shows steady growth, driven by economic resilience and foreign investments. Major cities like Bucharest, Cluj-Napoca, and Timișoara remain the key hubs for residential and commercial development. The demand for new housing projects continues to rise, supported by urbanization and an expanding middle class. Commercial real estate, especially office spaces and logistics centers, also see increased activity, fueled by the country's strategic location in Europe. - Bucharest

Spain

With robust macro and micro economic fundamentals, the real estate sector in Spain continues with very good indicators, which suggests that we are starting a new cycle boosted by the drop in interest rates. - Madrid

Sweden

The Swedish CRE market has stabilized and is expected to gain momentum but at a slow pace. - Stockholm

Middle East and Africa: Strong outlook in parts of the region continues to attract international buyers

The Q3 2024 GCPM feedback for the Middle East and Africa continues to point to strong activity across the region, with a majority of respondents still of the view that the market is in an upturn phase of the property cycle. Moreover, twelve-month projections remain upbeat around the prospects of further capital value and rental appreciation moving forward, although it should be highlighted that expectations, in several instances, have been scaled back compared with earlier in the year.

Occupier and investment market fundamentals remain robust

Illustrated in Chart 1, the Occupier and Investment Sentiment Indices remain in positive territory across the region in aggregate, with the latest readings seeing minimal change compared to last quarter. As such, the Q3 results once again portray MEA as the strongest performing world region in terms of current market demand momentum from buyers and tenants alike.

When viewed at the country level, Saudi Arabia and the UAE continue to post the most elevated headline sentiment reading across all nations covered in the Monitor, with recent robust impetus showing little sign of easing at present. Meanwhile, both Nigeria and South Africa posted modestly positive readings for the Commercial Property Sentiment Index. Regarding the latter, the Q3 CPSI figure represents the first reading in outright expansionary territory since 2013, supported by a noticeable improvement in occupier market conditions over the most recent survey period. On the other hand, for Qatar, the latest CPSI reading remains negative, consistent with a still weak overall market backdrop.

International buyers continue to show strong interest across the region

As depicted in Chart 2, international investment enquiries continue to rise across all sectors at the aggregate regional level. In fact, the latest headline net balance of +19% marks a fresh record high for the series, driven by an acceleration in demand growth cited across the industrial and retail sectors in particular during Q3. Within this, Saudi Arabia and the UAE are seeing exceptionally strong international investor demand growth, evidenced by both nations registering record high readings across all market sectors tracked in the survey. That said, there is some divergence across different parts of MEA. Indeed, both South Africa and Nigeria returned negative net balances for the foreign investment enquiries measure, as did Qatar.

Outlook for capital values remains clearly positive, but projections have been scaled back further

Chart 3 shows twelve-month capital value expectations (regional level) across the various sub-sectors covered. While all categories still display a positive assessment for the year ahead, projections have been trimmed quite noticeably over each of the past two quarters now. This less bullish view is most apparent across secondary portions of the office, industrial and retail markets, while aged care facilities also returned only modestly positive expectations this time around. Nevertheless, respondents continue to envisage solid growth across most sectors, led by prime retail, student housing, data centres, leisure and multifamily residential.

Chart 1 - Occupier and Investment Sentiment Indices

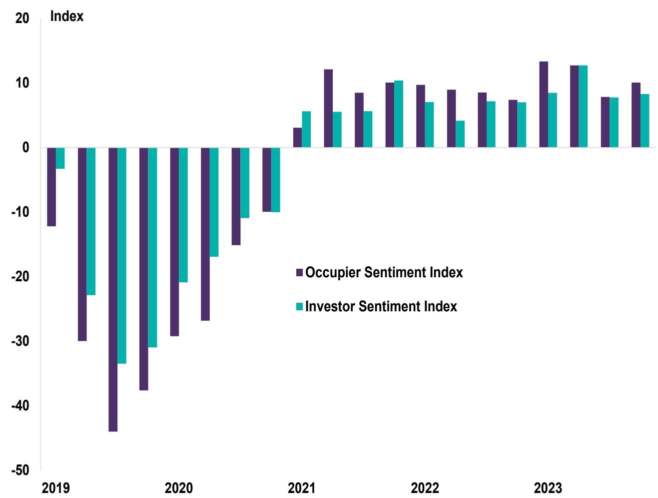


Chart 2 - International Investment Demand

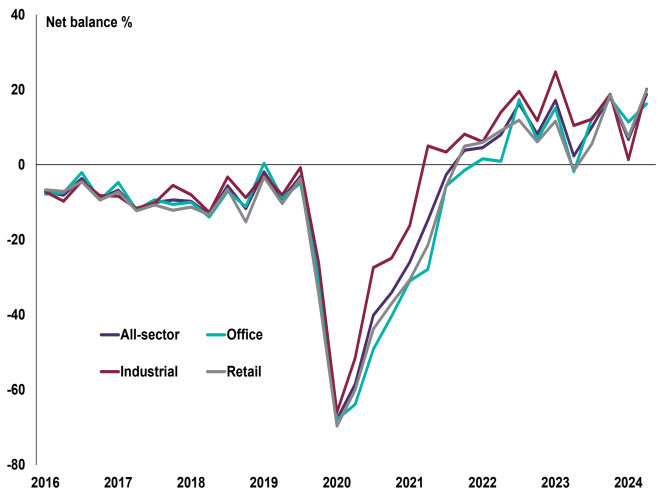
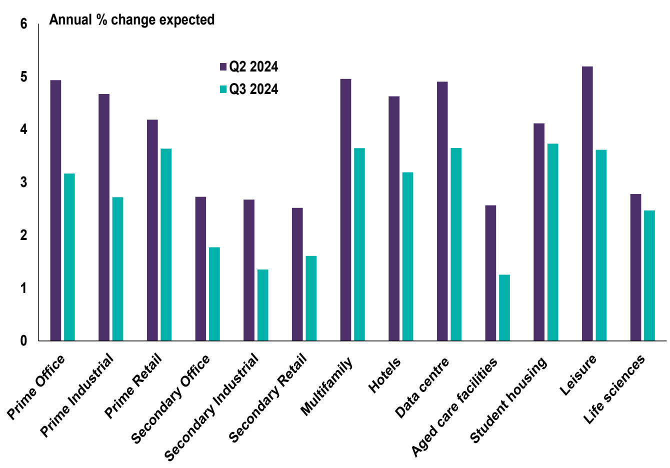


Chart 3 - Twelve-month Capital Values Projections by Sector



Regional comments from survey participants in MEA

Bahrain

The market has deterioated over the last 6 months and depends on investors. Projects may pick-up perhaps next year. - Manama

Ghana

There is a downturn in the property market in Tema, (industrial city of Ghana) due to imbalance in economic fundamentals and high taxes. - Tema

Kenya

High development costs i.e cost of debt and high costs of construction, continues to hamper investment in the real estate sector. - Nairobi

Kuwait

Due to new regulation, the prices of storage areas has increased. - Kuwait City

Mauritius

After Covid19, the market has witnessed an unprecedented growth rate due to an increased demand for properties. The craze will gain a new momentum in the short-run due to the the government populist measures to provide residential accommodation to the age group 18-35 years.This will be done via free interest loans targeted at that particular group. - Trou aux Biches

Nigeria

The general market condition is relatively unstable which could be largely be attributed to the current harsh economic realities - low purchasing power, market volatility due to unfavorable CPI, heightened fiscal policy uncertainty almost without recourse to the citizens' plight among others. - Lagos

The market is characterized with high inflation occurring in upward movements twice a day. -Lagos

The downturn in the economy due to the continuous devaluation of the Niara against major currencies, the removal of fuel and electricity subsidies and rising inflation has greatly impacted both big business and small businesses, many internationals are choosing to leave, while small business are having to downsize or close shop. - Lagos

Oman

Market has stabilised. Early signs of recovery in some values. -Muscat

Qatar

The market is not improving and may well not be improved until the end of this year 2024. There are no new projects in the pipelines in the near future. - Doha

Saudi Arabia

The Saudi Arabian market is undergoing changes, with landlords offering rent-free periods to attract tenants amid evolving economic conditions. Typically, these periods range from 1 to 3 months, resulting in discounts of 5% to 10% off the total lease value. Some landlords even provide longer options of 2 to 6 months, leading to discounts of 10% to 20%. These strategies are crucial for maintaining occupancy and meeting the needs of businesses seeking flexible leasing arrangements. - Riyadh

South Africa

Interest rates drop will definitely help to stabilize some sectors, but not to recover, yet. - Bloemfontein

Whilst the property sector in SA remains somewhat under pressure, there are green shoots appearing, and sentiment is beginning to curve upward. There exist pockets of excellence where developments are taking place in respect of Retail and Cluster units and these are more dominant in the Western Cape than elsewhere; the East Coast of SA is seeing significant infrastructure investment whilst activity in central SA and Northern SA remains subdued. - Durban

As interest rates have dropped by 25 basis points this past week, we expect to see some developers to take shelved projects and place them back on the playing field for potential development. - Johannesburg

Conditions are seeing a gradual improvement. Recent rate cut will help, but it will take a while to manifest itself in lowering costs. - Johannesburg

The election delivered surprisingly positive outcomes with a GNU and the general sentiment is much improved. - Johannesburg

Very early signals of upturn for slow rent and capital value appreciation. Mainly driven by monetary influences as opposed to positive real estate growth dynamics. USA elections, interest rates and Mid-East conflict are risk considerations that make for forward certainty. - Johannesburg

We are seeing a very slight improvement in enquiries, but until the SA economy starts to grow, the uptick will not be significant or of an extended duration. - Johannesburg

UAE

There is a growing emphasis on sustainability in the market, with a noticeable shift towards green building practices. Developers and contractors are increasingly incorporating energy-efficient designs and sustainable materials, aligning with global environmental standards.- Abu Dhabi

Dubai Industrial City launched a whopping 13.9 million sq. ft. expansion to accommodate continued demand surge for industrial and logistics assets underlining Dubai's industrial growth. - Dubai

Not quite at the peak, but possibly 12-18 months from it.- Dubai

Market still rising in Dubai, peaked in Abu Dhabi. Demand high, rent increases outstripping salary increases, affordability of residents a key issue. Office sector full, there is new supply delivery at the end 2026.- Dubai

Zambia

The local market is generally a "buyer's market". - Lusaka

The country's 2024 economic outlook has regressed due to energy crisis caused by drought, hence negatively affecting the property market. - Lusaka

Generally doing business in Zambia has become very difficult due to electricity load shedding which has impacted most companies and households. - Ndola

Zimbabwe

The currency confusions are causing a great amount of information inconsistency in the market and that is leading to misguided valuations of business at times as no one can predict which currency will be in use in the next three months. - Bulawayo

Policy shifts and unstable currency is greatly affecting the way business is run in the country. - Bulawayo

The Zimbabwean property market is generally affected by the economy which is characterized by inflationary pressures, local currency instability and low disposable incomes for the majority of the citizens. Once the economy starts experiencing some level of stability, Zimbabwe is poised to witness significant growth in the property market. - Harare

North America: Results points to a marginally stronger market with enhanced expectations

The Q3 2024 GCPM feedback for North America continues to reflect a market which remains in a relatively subdued state. Despite this, several indicators have shown some increased positivity both in terms of current conditions and regarding expectations for the twelve months. Chart 1 illustrates the headline Commercial Property Sentiment Index (CPSI) for both the US and Canada and shows that the CPSI has increased for both regions compared to last quarter. In the US, the most recent reading is zero, up from -8% in Q2, while in Canada, it is -3 (up from -7 in Q2).

In keeping with this, the proportion of respondents citing the market is in a downturn has fallen from 45% to 30% in the United States this quarter. Similarly, in Canada, this figure is now 22% (7% lower than in Q2), with a majority of respondents across the nation (54%) now citing that the market is in an upturn phase.

Credit conditions show significant improvements

Recent cuts to the policy interest rates within the US and Canada, alongside the prospect of further cuts down the line, should support economic activity moving forward. More specifically, the survey's credit conditions series has responded positively as a result. As shown in Chart 2, there have been noteworthy improvement in this metric across both countries, with the US demonstrating a more pronounced expansion into positive territory from zero in Q2 2024 to +49% in Q3. Canada has also seen an increase, though more modestly, from +23% last quarter to +33% this quarter.

Further signs of reprieve within the office market

At the aggregate level, occupier demand within the US increased to a net balance of +23%, up from +17% last quarter. Similarly, Canada also experienced a rise in this metric with the net balance moving out of the negative zone (-2% last quarter vs +11% this quarter). Breaking this down shows that, in the US, occupier demand for office space has increased noticeably, posting a net balance reading of +15% compared with -5% last quarter. Meanwhile, the figures for industrial and retail tenant demand remain firmly in positive territory at +20% and +35%, respectively. In Canada, the office market experienced a notable easing in negativity, albeit the latest reading is still indicative of a subdued picture, with the net balance moving from -20% to -5%.

When looking at US investment enquiries, one noticeable feature has been in the office sector with the net balance moving from -21% to +4% this quarter. In contrast, while the feedback around office investment enquiries became marginally less negative in Canada (-29% to -24%), this is still consistent with the weak trend persisting. Chart 3 highlights the continued disparity between the outlook for capital values across prime and secondary markets. Continuing to produce the most downbeat assessment, secondary office valuations are expected to see further declines in both nations. In the US, although twelve-month capital valuation projections are also negative for prime offices, these expectations are somewhat less pessimistic than before. Meanwhile, prime industrial and prime retail properties continue to exhibit positive capital value expectations in both the US and Canada. Alongside this, all but one of the alternative asset classes are expected to deliver a rise in capital values over the next year (US life sciences being the exception).

Chart 1: Commercial Property Sentiment Index

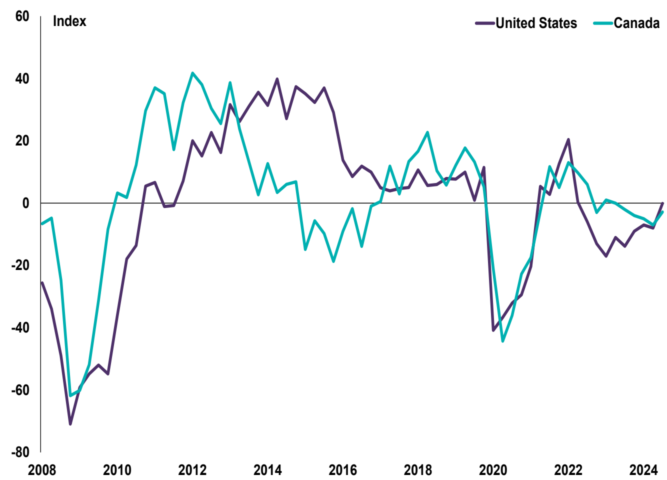


Chart 2: Credit Conditions Sentiment

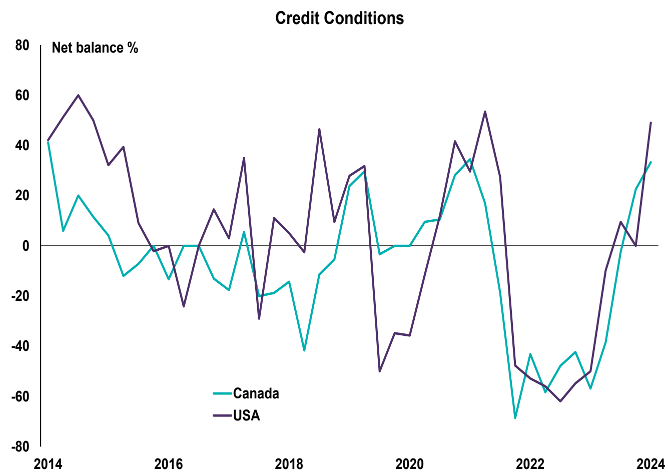
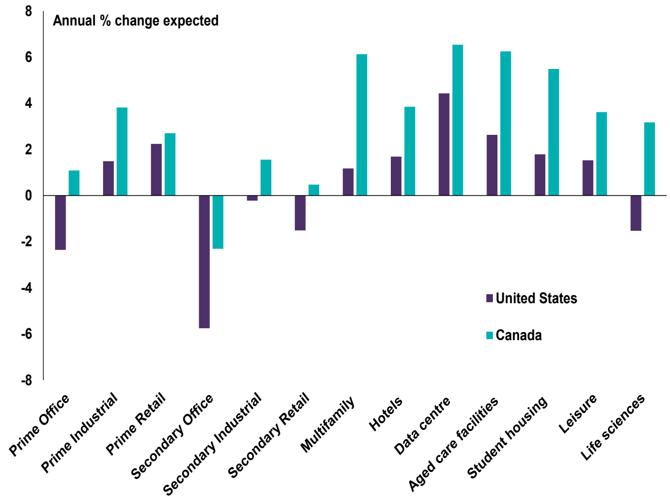


Chart 3: Twelve-month Capital Value Expectations by Sector



Regional comments from survey participants in the Americas

Barbados

Barbados continues to be strong and generally, property rents and capital values across the sectors are increasing with the exception of offices - particularly secondary offices. - Bridgetown

Bermuda

Cautious optimism for most sectors. Retail still flat due to internet shopping. - Hamilton

Larger retail spaces are struggling to maintain rental levels pre pandemic. Demand is shifting to smaller spaces.There is excess supply of secondary office accommodation whilst demand for prime office accommodation exceeds supply and the first new office building, currently under construction won't be ready for occupancy for another two years. Yields on city apartments range from 6-7% NET. - Hamilton

Brazil

The Data Center market, in which I operate, has been showing significant advances in terms of the development of new products, new players in the market and expansion plans for occupants in the region. - São Paulo

Canada

Rates have had two 0.25% declines in Canada over the past three months - and the US just recently saw their rates drop by 0.50%. General impressions are the US election is holding off a lot of investment decisions that I project might be invested with a Democratic win but reallocated to other sectors with a Republican win. Canada's political status is currently unstable as the Liberal party recently lost the support of the NDP party. - Charlottetown

Markets could turn unstable due to newcomers but slow job creation. - Edmonton

Many market participants have been in denial, but are starting to accept that market conditions are worsening. The recent reduction in interest rates has not spurred activity. Recent increases in the capital gain tax are hurting real estate as an investment. - Ontario

Industrial continues to show strength as the market vacancy stays around 3 to 5 percent. Prime, A class office is doing ok while secondary and suburban struggle. Prime retail is recovering better than expected while secondary retail struggles. Multifamily is strong with vacancy rates still low at around 2 to 3 percent. However, the overbuilt condo market may negatively impact that situation. Hotels have recovered faster than anticipated with prime property locations and flags doing very well. - Toronto

Office remains soft, although prime office is doing much better than secondary office. Prime retail is recovering stronger than anticipated. Sales per square foot is looking equal to or better than pre-pandemic. Industrial remains very strong, although maximum rent expectations have come down slightly, but are still well above average in place rents. Multi-family has always remained very strong in Toronto with very low vacancy levels. Rents will increase by an annual inflation factor. - Toronto

Wide variances of rent and inducements exist in similar quality buildings both downtown and suburban markets. It's less of a homogeneous market than has been seen in recent memory. - Toronto

Some improvement expected due to reduction in prime interest rates. - Vancouver

The federal election in the USA has created a wait and see market economy. People plan to invest according to whichever party wins the election. - Windsor

Cayman Islands

Best time for investment in both residential and retail properties. - George Town

Cayman continues to hold strong and stable despite global difficulties. - George Town

Chile

Market in recovery phase in offices. Industrial assets converging to historical levels after very low availability. Stable retail with good demand. - Santiago

Jamaica

The affordable housing market is very high as demand is outstripping supply. However, properties on the higher end of the market are taking much longer to be sold. This is mainly due to the rise in interest rates. - St. Andrew

Trinidad and Tobago

In general, the market is soft and confidence is low particularly with property which is a long term investment. - Port-of-Spain

Local data is limited, however, commercial offices have been struggling the most, but there has been notable uptake within the last 6 months as opposed to last three years. Retail spaces are still taking longer to be sold and rented unless rents are significantly lower (40%-50%). With a lot of online and social media shopping, there is much less of a demand for such spaces, large and small. Mall rents have also decreased by 20%+. Industrial type properties, rents and CV are more stabilized. - Port of Spain

Early recovery. - San Fernando

United States of America

"Large scale" mission critical net lease sector remains strong. - Baltimore

Boston Area - A/Trophy office remains competitive w/ reported TIM increase. B/C office faces many headwinds and valuation/demand challenges. Luxe/Market-Rate MF has supply increase from new deliveries, high-demand persists for affordable MF. Prime/luxe retail outperforming other retail. Hotel RevPAR favorable YoY, but moderating and Logan air passenger traffic recovery continues. Cap rate creep and price discovery continue to evolve and a case-by-case posture persists at the asset level. - Boston

We are at the bottom! - Chevy Chase

Suburban office woes seem to have no end in sight. - Chicago

Chicago government continues to face serious funding challenges. Puts pressure on operating costs and resale values. - Chicago

There appears to be more activity in the market now that interest rates appear appear to be falling now. - Dallas

Good... South Florida is a strong market. Typically the last one in to feel the pain of a distressed market and the first one out. - Jupiter

Since this is a political election year in the USA, some market changes are likely to be affected depending on economic policy and tax law changes of the political party which comes into power that are not reflected in the current economic environment. - Los Angeles

Nashville and Middle Tennessee remain resilient to the headwinds that are impacting other areas of the US. Rental growth for prime assets is consistently trending upwards year on year and due to the city being land constrained, new development is at a measured pace and never exceeding demand. The recent interest rate reduction by the Federal Reserve will only stimulate more activity as investors and occupiers continue to enter our market. - Nashville

Properties with CMBS loans are under the most stress. Insurance costs are affecting values significantly. The clarity of what the future of office space will look like is still a question to be resolved over the next three years. World wide events of war and climate change are affecting the risk models. - New Orleans

Regional comments from survey participants in the Americas

This is a very treacherous market for tenants, buyers, Sellers, and generally anyone who only enters the market once every 5 or 10 years. While there are opportunities at all points of market cycles, so many factors and parties now have a large impact on deals that a mistake in a lease or purchase could have a large, long term adverse effect. Perhaps better to forego being a genius and pick an expert to rely on (and maybe even blame!). - New York

The New York City commercial and retail real estate market has experienced significant shifts due to evolving economic conditions, changing work patterns, and consumer behaviors. Office demand remains soft, particularly for traditional office spaces, as remote and hybrid work models persist, leading to increased vacancy rates and downward pressure on rents. However, Class A office spaces with modern amenities continue to attract tenants, especially in prime locations like Midtown and Hudson Yard. - New York

We're closer to a bottom, and likely to stay there for another several months, office longer. Private RE valuations still haven't fully caught up to reality. We should see more transactions, which will make it harder to hold FMV's. This of course will make a market bottom, then off to the races, but geo-political risks are increasing at the same time, so should be interesting. - New York

Prime class A property has limited supply left following a flight to quality with large concessions available. There is now limited availability in this sector. Class B- to C "secondary properties have high vacancy rates, in many cases limited cash reserves and mortgages requiring refinancing in 2025, 2026. I would expect the number of foreclosures to increase and vacancy in these propert sectors to remain high. - New York

All commercial and residential real estate markets are projected to decline in New York city over the next 12 months. - New York

More demands but less availability plus risk. - Orlando

Orlando has benefitted from immigration and most commercial markets, except for office, have been either holding their own or improving, in particular the light industrial sector to include distribution whse & low-bay service properties. The retial sector has also been relatively st\rong due to immigration and limited new construction compared to historical past activity. The MF (Apt submarket) saw a major increse in inventory coming on-line pushed rental rates modestly lower - Orlando

Expect everything to start improving after interest rates go down Sept 18th with the exception of both primary and secondary office markets. - Sag Harbor

Wait and See in most sectors. However, office is on a rapid decline because the WFH and Flex Hours has finally come to roost. - San Diego

Market somewhat discombobulated by the coming election between two entirely different economic platforms. - San Francisco

Due to reputation, restricted supply, location, income profiles, etc., Santa Barbara remains an attractive market for investors. - Santa Barbara

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 11 September 2024 with responses received until 18 October 2024. 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 1536 company responses were received. 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 Sentimet Index is an unweighted average of the OSI and ISI. Regional indicators are weighted using estimates of the stock of commercial property provided by LaSalle Investment Management, and are adjusted on an annual basis.

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