Q1 2022: Global Commercial Property Monitor

Real estate sentiment continues to improve in most markets

- **Headline Global Property Sentiment Index (CPSI) strengthens to best level since Q4 2019**
- **Occupier metrics gain momemtum after a period of lagging the recovery in investor sentiment**
- **Industrials, data centres and multifamily remain popular but some appetite for offices and retail returning**

The results from the Q1 2022 RICS Global Commercial Property Monitor suggest that, on balance, sentiment amongst professionals working in the real estate sector continued to improve through the early part of this year. This generally positive read comes in the face of ongoing challenges around Covid, albeit these have eased in some parts of the world, and emerging macro threats posed by an upsurge in inflation and the related response from central banks. In addition, war in Ukraine has provided an added layer of uncertainty and not just because of the impact on energy supply.

As highlighted in the Q4 report, the feedback from respondents to the Monitor continues to capture a distinct regional dimension which is evident in chart 1. The headline commercial property sentiment metric (CPSI) for the Americas shows the most positive trend (+18) with the mood music in the US running a little ahead of this (+20). The results for the Middle East and Africa (+9) and Europe (+8) have also strengthened compared with the preceding survey. However, in contrast to this, the insight received from APAC remains generally more downbeat. The aggregated CPSI for that region actually worsened when set against the final part of last year slipping from -12 to -17, the most negative reading since Q4 2020. That said, there was considerable divergence in the responses from contributors across this block with Singapore (+16) and India (+12) showing signs of encouragement and China (-34) and Hong Kong (-40) turning more negative.

Economic recovery supports uplift in occupier demand

A feature of recent RICS Monitors has been the stronger tone to investor related indicators compared with those focusing on occupiers. The Q1 report suggests that the latter are now beginning to catch up particularly in those parts of the world where economic activity is showing a strong pace of growth (chart 2). The global tenant demand series (which is measured in net balance terms as against the previous three month period) rose from +6% to +12% in Q1, its strongest figure since Q2 2019. However, this again masks significant divergence both at a regional and country level.

In the case of the US, the net balance read for this indicator jumped from +28% to +37%, its highest figure in seven years (just to be clear, this is not signifying a level of demand but the degree of change). For the UK, the picture was not dissimilar (net balance of +32%) although feedback from Germany and France remains a little flatter. As might be expected, the results from China (net balance -36%) and Hong Kong (net balance -58%) are indicative of the ongoing macro

Chart 1: Global Commercial Property Sentiment Index*

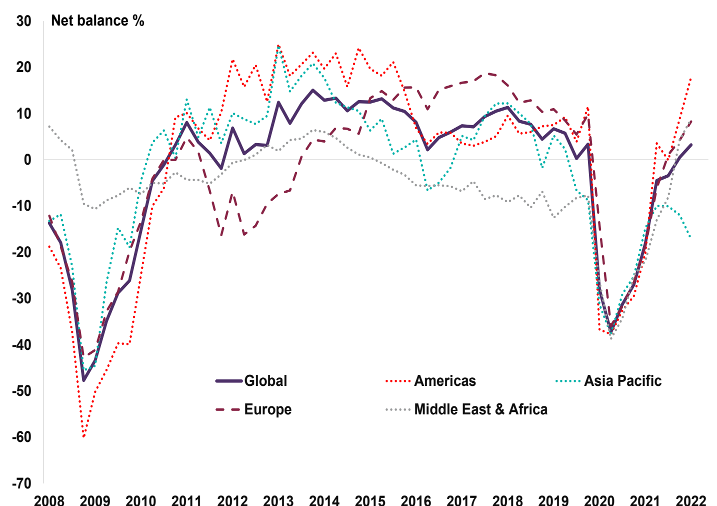

Chart 2: Occupier Demand in Selected Markets

Survey responses were supported by the following

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

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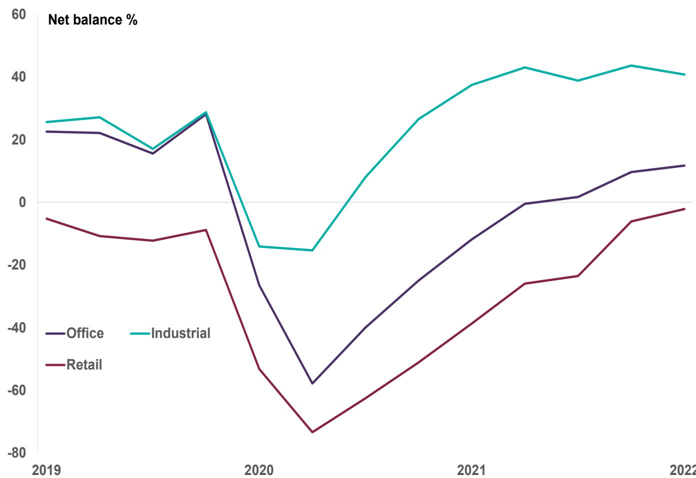
disappointments in those areas. Meanwhile, contributors from both Saudi Arabia and the UAE emphasise the ongoing uplift in occupier activity; the net balance in the case of the former jumped to +53% and in the latter it rose to +25%.

Sector laggards see some uplift in interest

The appetite amongst investors to own industrial/logistical space remains undiminished according to respondents to the latest Monitor (chart 3). At a global level, a net balance of +41% reported seeing an increase in investment enquiries compared with the preceding quarter which was also reflected in still buoyant expectations at the twelve month time horizon for both capital and rental values. This latter pattern is also clearly visible in the feedback for data centres and multifamily, as well as for aged care facilities (data is not collected on investment enquires for the alternative sectors).

Chart 3: Global Investment Enqury by Sector



Arguably the most intriguing element of the feedback around this issue is, however, the signal that the picture regarding both offices and retail appears to improving. For retail, the net balance for global investment enquiries climbed +12%, its best level since prior to the start of the pandemic. For offices, the comparable figure is -2%.This is the least negative read since Q2 2018. Moreover, the rebound is even more stark in some areas such as the US, as an example, where office investment enquiries reached a net balance of +35% from +16% in Q4 2021 while for retail the comparable numbers are +18% and +24%. Of the 36 countries included in this iteration of the GCPM, the investment enquiries metric for retail property (in % net balance terms) is now negative in less than half.

That said, for the time being the series tracking overseas investment enquiries for retail space is still stuck in negative territory, albeit to the smallest degree since Q4 2019. However as with so much else in the latest set of results, this headline numbers masks significantly divergent trends at a disaggregated level. The Americas feedback shows this indicator returning, even if only mildly, to positive territory and the same is true for the MEA region.

Monetary tightening not seen as posing immediate risk

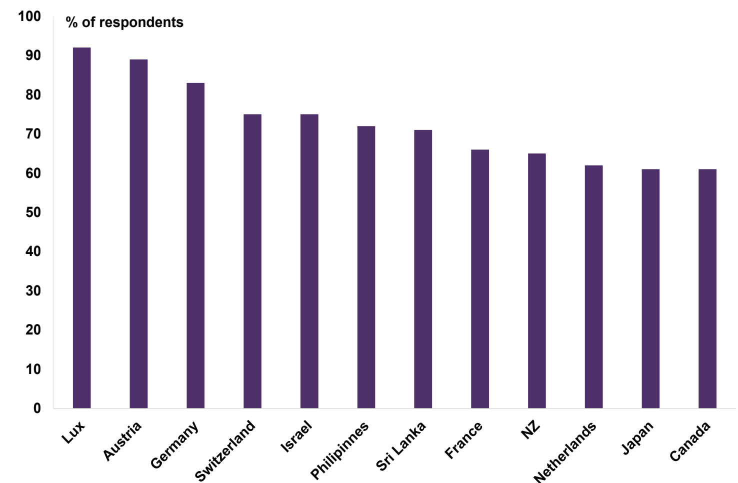
Insights from the survey being closely watched at this point in time are those that track respondents' perceptions of valuations. When attempting to assess whether a real estate market is cheap or expensive, this series is best used in conjunction with more traditional approaches. However, the sentiment around this issue is worth watching if only because of the way markets tend to engage with valuation metrics. At a global level, close to 50% of contributors to the GCPM concluded that real estate could currently be viewed as either expensive or very expensive. This is little changed from Q4 2021 or indeed, the proportion perceiving this to be case before Covid began to ravage economic activity. By contrast, only around 10% judge the real estate market to be either cheap or very cheap. Inevitably, the numbers do vary significantly as a local level. Chart 4 tracks those markets showing the highest proportion of respondents viewing commercial real estate in their own locality as expensive. European markets rank highest in this regard with Luxembourg, Austria, Germany and Switzerland topping the bill.

The shift in policy from central bankers across much of the globe could be seen as exacerbating the risk to real estate, particularly as more conventional interest rate hikes are being accompanied by measures to reverse the quantitative easing programmes that have been a feature of the monetary landscape for the past decade or so. There is, perhaps inevitably, greater uncertainty as to how this latter measure will play out both in the real economy and in real estate (and financial) markets.

Interestingly, for now at least, there is no sense that credit conditions for commercial real estate have shifted materially. In response to the question on credit conditions included in the GCPM, less than a quarter of respondents suggested the picture was worsening at the current time. And it is noteworthy that responses from the US, where there has been much discussion about the turnaround in Federal Reserve policy, are broadly similar.

The other series that can shed a light on this issue is the question around respondents perception as to where their market is in the real estate cycle. The global results for this are captured in chart 6 and show the proportion of contributors seeing real estate in an upturn phase was little changed from previous quarters at just over 40%. Less than one in five respondents take the view that real

Chart 4: Markets with Highest Share Viewing as expensive



estate is in the peak phase which arguably might be where the risk attached with higher valuations and tighter monetary policy may be greatest. Perhaps unsurprisingly, it is in a number of European markets where this constellation of results is evident although as chart 5 highlights, the expectations for capital values and rents remains positive in most of these markets.

Indeed, the proportion of real estate markets in the bottom left hand quadrant (consistent with expectations for further declines in both prices and rents over the course of the next twelve months) has fallen to just 16%, with the remainder all in the top right quadrant. To put this in some perspective, in recent quarters the share of markets with the most negative outlook has comfortably exceeded 20% while there has previously been a more mixed view on the scope for rents to show positive returns at a headline level.

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Chart 5: 12-Month Expectations

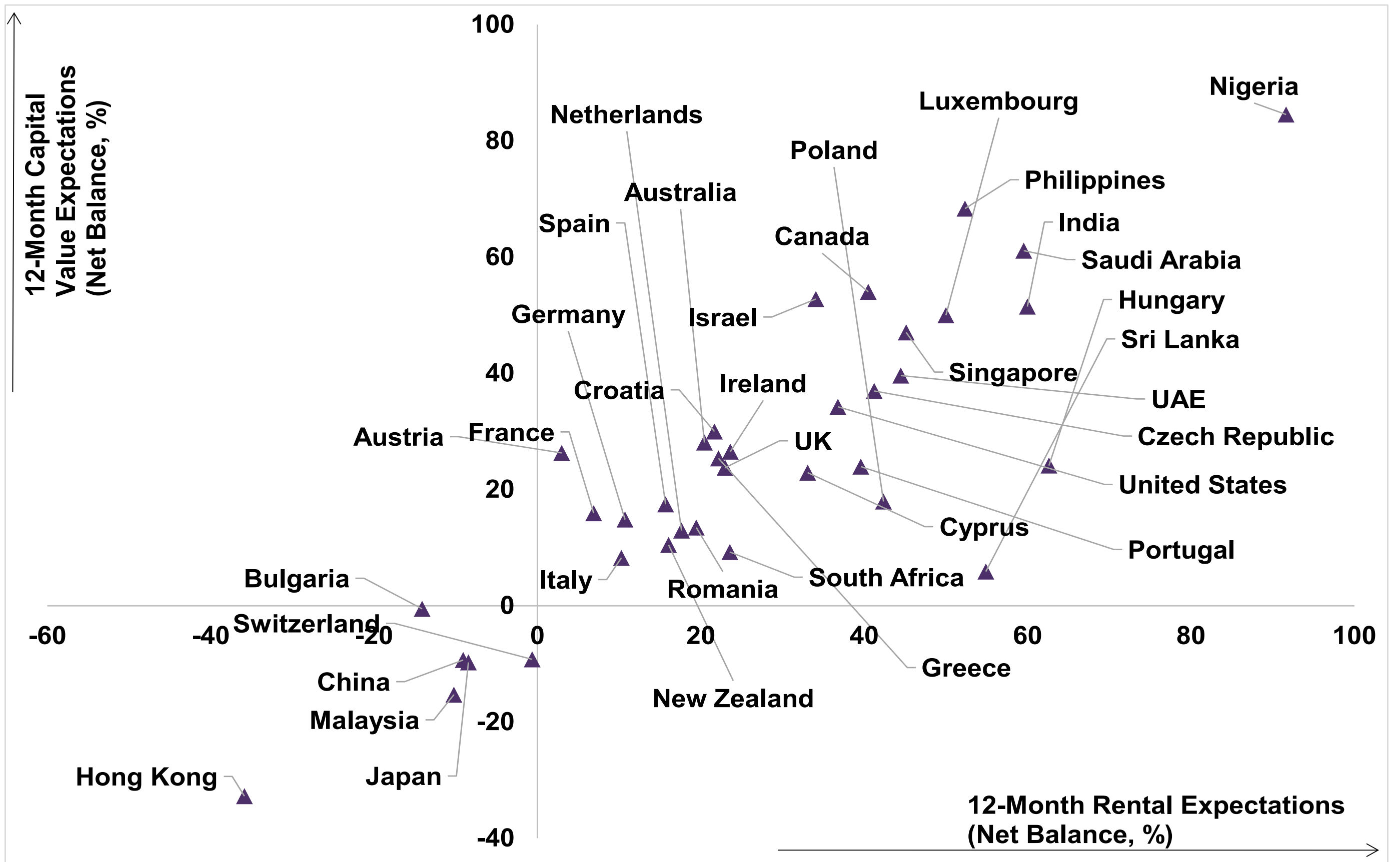
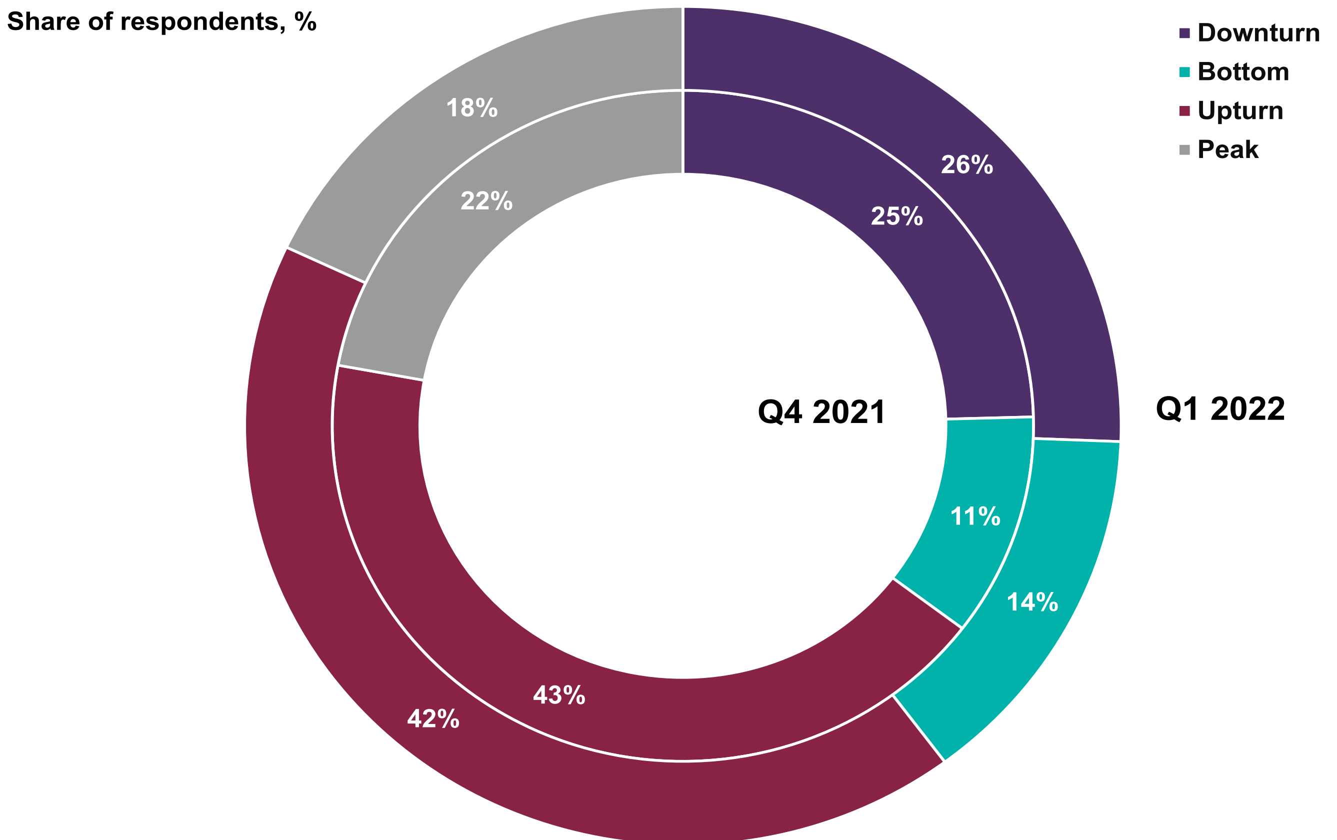


Chart 6: Perceptions on Phase of the Cycle



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Asia Pacific: Mixed picture across the region still very much in view

The latest set of results for the APAC region continue to highlight the divergent trends impacting the real estate sector. The more positive tone clearly evident in responses from Singapore and India is in stark contrast to the cautious message emanating from China and Hong Kong in particular (chart 1 shows the commercial property sentiment index by country). For Australia, Japan and New Zealand, sentiment remained largely unchanged over the quarter according to feedback from contributors, while the headline index for Malaysia, although still stuck in negative territory, is less so than previously.

Occupier metrics remain under pressure at the aggregate APAC level

In the global summary of the results, we noted that there are now convincing signs of an uplift in occupier activity in many parts of world; previously these indicators had been seen to be lagging the recovery in investor appetite. However, the story from the APAC region in aggregate remains more downbeat, which is reflective of some of the ongoing macro and Covid challenges. The headline metric for tenant demand is still stuck in negative territory with a net balance reading of -14%. Meanwhile, the investment enquiries series actually turned more negative over the period with the net balance slipping from -2% to -12%.

Chart 2 demonstrates that the picture regarding the occupier market is quite diverse across the region. The rebound in India appears particularly marked (net balance of +31% compared with +13% in Q4 2021) reflecting expectations for GDP growth in excess of 7%, even if projections have been lowered somewhat recently as elsewhere. Interestingly this improvement in the RICS data is being fuelled by a renewed appetite to take up office space as well as a turnaround in the retail sector. The improving occupier trend is also visible in both near term (3 month) and medium term (12 month) rent expectations which returned net balances of +35% and +60% respectively. Singapore and Australia also exhibit an increase in tenant enquiries in the latest report with readings of +18% and +11% but, predictably, responses from China and Hong Kong are being badly impacted by the challenges around Covid (something that is noted in the comments from contributors to the survey). The headline occupier demand reading for China was -36% with a pretty consistent balance across sectors. For Hong Kong, the comparable figure is -58%.

Valuations concerns ease at headline level

Aggregated figures for the whole of the region suggest that the real estate market is perceived to be less stretched from a valuation perspective than previously envisaged. The share of respondents who view property as expensive has dropped to around one-third which is lowest proportion since this series was introduced seven years ago. Inevitably there is wide range of views at a country level, highlighted in chart 3. Japan and New Zealand are amongst the markets viewed as most expensive while respondents from China appear significantly less concerned by this issue.

In terms of sector level expectations (for the next twelve months), industrials/logistics and anything related to data centres are seen as leading the way. Alongside this, feedback around health/aged care and residential/multifamily remains generally positive. Interestingly, the negative mood around hotels appears to be easing with capital values viewed as likely to grow by between 3 and 4% in both India and Singapore. However, for now, projections concerning secondary offices and secondary retail are still generally downbeat albeit less so than earlier in the pandemic.

Chart 1: Commercial Property Sentiment by Country

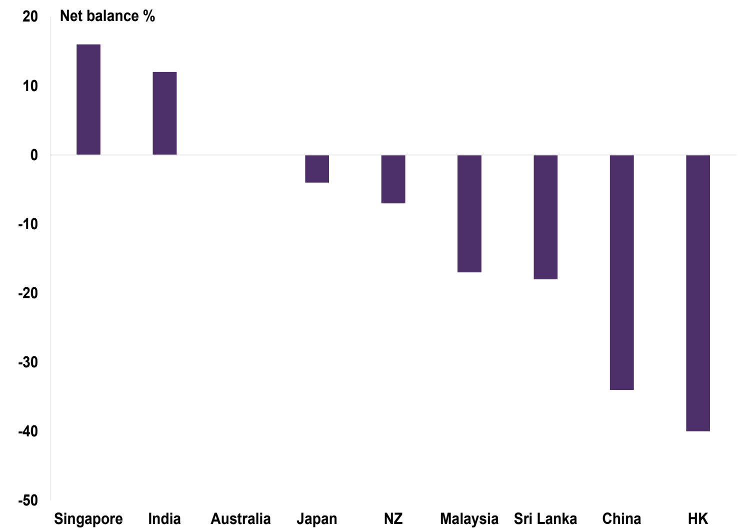

Chart 2: Occupier Demand by Country

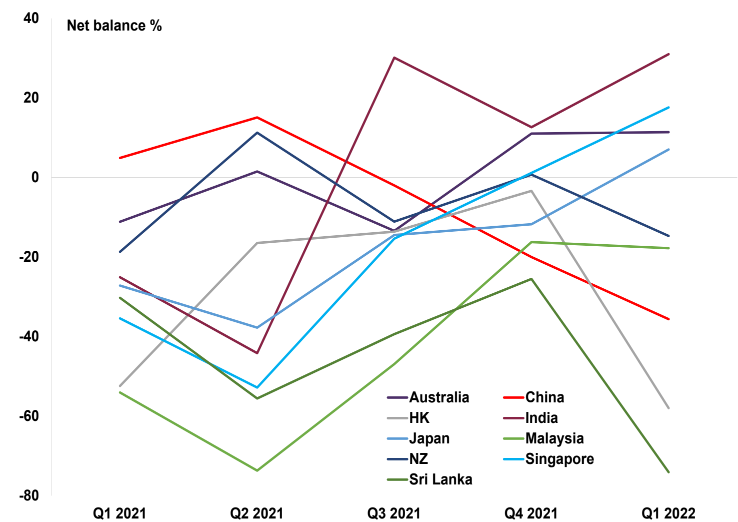

Chart 3: Share of respondents viewing CRE as expensive

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Regional Comments from Survey Participants in Asia Pacific

Australia

The covenant provided by the lease is paramount. Both in terms of the lease itself but more importantly the quality of the tenant - *Brisbane*

Uncertain - *Brisbane*

General market is going through a boom phase and will take time for market correction to happen in property - *Melbourne*

Some degree of uncertainty created by increased government intervention - *Melbourne*

The Australian economy is continuing to perform well albeit with inflation beginning to creep upwards interest rates will no doubt be raised resulting in a dampening effect on the Aussie property market. - *Melbourne*

Slow progress - *Perth*

Due to the fuel price increase, freight cost has been increased substantially and shipment schedule is being affected. Material supply costs are generally raised in a short period of time. Validity of the quote is reduced to 7 days. Suppliers expressed that supply cost will be increased every week. Construction material costs are uncertain and expected to increase steadily in the remaining 2022 - *Sydney*

Geopolitical instability is cause for concern for all capital markets. Poor leadership in our communities, companies and government will impact growth prospects - *Sydney*

The market is in the early recovery stage. It depends on the covid whether new variant leading to release of lockdown or lockdown again. It is very difficult to forecast - *Sydney*

China

The credit policy is being loosened slightly, which will stimulate market demand appropriately. However, the uncertainty of the outlook of the epidemic has suppressed the demand for investment in a short period of time. Industrial transformation and upgrading will still take a long time. As a result, office and industrial properties remain under pressure. The government will introduce policies to support the consumer market, and the outlook for commercial properties is optimistic. The residential market will maintain a steady low-speed growth. -*Beijing*

Credit eased moderately and the market is in the early stages of recovery. Industrial transformation remains to be seen. Consumption will gradually become active, and the residential market will maintain a low growth rate. - *Beijing*

Downturn, looking forward to recovery - *Beijing*

Overall feeling good - *Foshan*

Currently due to the covid restrictions retail business is in the downtown - *Foshan*

The market will improve in the second half of the year - *Kunming*

Due to the impact of the epidemic in Lianfu Hong Kong, Macao's experience in epidemic prevention is better than that of China. In terms of investment, it can be absorbed at low prices, and at the same time, it can be transferred to Zhuhai and Hengqin in China for investment - *Macau*

Residential pries are being curbed by the government and are very expensive - *Shanghai*

Downturn - *Weihai*

The market remains low, followed by an upward trend - *Xi'an*

Hong Kong

European territorial conflict worsens, along with lifting anti-pandemics measures / curfews and sick cases make major strike on local property market and weakening economy. Horizontal recession remains and extends for at least 1.5 to 2 months

Undergoing the fifth COVID outbreak since early of January, the whole society and economy are suffering from the highest ever infection and mortality rate, market sentiment is very upset

The economy in all sectors are seriously disrupted by covid-19 though with different level of impacts. Everyone may has the hope of drastic rebound of economy from the current very low base by Q3 2022 if the situation of covid-19 will be trimmed down to low cases and is reasonably under control with more people getting their 3rd jab

Hong Kong retail market is closer to the bottom. Office rental is still depressing. Industrial is better as limited supply supports the price and rent

Extreme COVID restrictions continue to hold back the market, but recent price falls are tempting investors back in

India

Market is slightly improving - *Bengaluru*

Residential Markets have been on the uptick in the last 2 years. Prime IT Parks, Retail & Commercial Real Estates are now in the Boom, rents are expected to skyrocket in the next 3-4 quarters as and when employees are expected to RTO. But however Residential Capital returns may be uptick only in a few markets while others will fall due to over supply. Retail capital and rental will hit high. Industries are expected to be a wait and watch but will hit high with Make in India push - *Bengaluru*

The market has recovered with optimism. There are many transactions happening in the commercial real estate. We can expect new launches. E comm / New age tech companies are the ones to watch as they flooded with investors money and the market is expected to be driven by them as they may need more spaces. These E commerce may afford to pay high rentals - *Bengaluru*

The real estate sector has picked-up momentum in the last couple of months and is likely to remain upbeat for the next 12 months - *Chennai*

Market is witnessing an upward trend in the Office absorption along with increase in rentals in some key markets. Residential primary sales along with plotted development sale are also on the rise - *Chennai*

Focus on India continues to be strong and more capital is being allocated to this region across all sectors for development, core and value added investments - *Gurgaon*

There is a credit/demand gap due to corona virus which will be felt in the next 6-8 months 2023 will see stabalisation - *Mumbai*

Now market conditions are improving. Covid-19 almost vanished. government also helping industries in many ways easy credit conditions, best transport conditions etc - *Mumbai*

Japan

The Japanese real estate market is recovering. How will the Ukrainian war affect the real estate market- *Nagoya*

We recognize that the situation requires close monitoring of how the surge in resource prices triggered by Russia's invasion of Ukraine will affect the Japanese commercial real estate investment and rental market - *Tokyo*

Malaysia

Improved slightly for residential sub-sector. For others still need fiscal &monetary policy - *Kuala Lumpur*

Still in the doldrum -*Kuala Lumpur*

Market still in the doldrum - *Kuala Lumpur*

Slowly recovering back to 2019 - *Kuala Lumpar*

TStill not out of the woods yet - *Kuala Lumpar*

New Zealand

Markets in NZ are significantly affected by the closure of our boarders due to Covid restrictions - *Auckland*

Flight to quality from both occupiers and investors - *Auckland*

The impacts of COVID across the retail sector has been significant. Many staff still work from home and key commercial centres feel empty - *Auckland*

The market is turning; primary driver is rising interest rates coinciding with peak market conditions. Buyer-seller gap is now clearly evident. Demand from occupiers is focused on better quality assists across all sectors. Secondary weakness emerging - *Christchurch*

Non-uniformity in markets due to covid-19 effects. Most preferred sector Industrial via logistics demand, office affected by work from home but very low CBD vacancy rate, retail struggling due to reduced demand as people stay at home and hospitality in tatters with boarders closed - *Christchurch*

Exceptional demand in our city given the nature of the office market and the robust density it provides. The capital city element of Wellington is ensuring that risk is minimised where government leases are concerned - *Wellington*

Singapore

Growth is expected to firm up over 2H 2022 as the economic recovery has already kicked in though at slightly different pace for different countries. The countries with stronger economic and fiscal policies targeted at revving up activities will enable better confidence and faster recovery pace. The revival of the region's property market will be evident in 2H 2022.

Market still down

Europe: Momentum improves across most markets in Q1, although some areas display a flatter trend

The Q1 2022 GCPM results for Europe point to a small improvement in sentiment at the aggregate level over the quarter, although this masks variation at the country level. Indeed, while the latest survey statistics show a noticeable uptick in momentum across several markets, progress appears more limited in a small number of nations. That said, concerns over the impact of geopolitical events, alongside macro headwinds more generally, are commonly cited by contributors, even if, at this stage, these worries have not prevented demand growth gaining impetus.

Headline Occupier and Investment Sentiment Indices both see improvement in Q1

At the aggregate level, the European OSI edged into positive territory for the first time since 2019, registering a reading of +5 compared to -2 back in Q4. Alongside this, the ISI moved further into expansionary territory, albeit only marginally, posting a figure of +11 relative to +10 last time (Chart 1). Again, this is the strongest reading for the ISI since prior to the pandemic, and extends a run of positive readings for this indicator into a third successive quarter.

Looking at the country level data displayed in Chart 2, the vast majority of European markets covered by the Monitor now exhibit positive readings for the Commercial Property Sentiment Index (to a greater or lesser degree). For the third consecutive report, Croatia displays the firmest CPSI reading, while feedback in the Czech Republic and Greece is also consistent with solid momentum behind the market at present. In each instance, measures of demand are running ahead of supply (in net balance terms), which is expected to translate into solid growth in both rents and capital values over the near term. Significantly, 14 of the 18 nations tracked saw an improvement in CPSI readings over the quarter, with Poland, Bulgaria, the UK and Spain all seeing a significant uplift. By way of contrast, the latest results were generally flat in Italy, Switzerland and Germany at the all-property level.

Recovery in office demand gains traction across a number of markets

In one of the more noticeable developments over the quarter, numerous markets saw a strengthening in occupier demand for office space during Q1. At the pan-European level, a net balance of +20% of respondents cited an increase in tenant demand across the office sector, up from +10% in Q4. When disaggregated, respondents in Croatia, Poland, Portugal, Greece and Spain reported a strong acceleration in office occupier demand. On the back of this, twelve-month rental growth expectations were revised higher for prime offices at the headline European level, with rents in this sector now envisaged rising by 3% (vs 2% projected previously). Nevertheless, expectations remain slightly negative for secondary office rents, although the anticipated rate of decline is much more modest than that pencilled in previously.

As demonstrated in Chart 3, secondary retail is the only other sector (alongside secondary offices) expected to see a fall in rents over the next twelve month, with negativity in the latter also diminishing noticeably in the Q1 survey feedback. At the top end of the scale, prime industrial rents are projected to rise by roughly 5% on an annual basis, while data centre rents are expected to pick-up by close to 4% at the aggregate European level. Relative to Q4, rental growth expectations were upgraded across multifamily residential and student housing sectors, while the rental outlook turned from negative to flat for hotels and prime retail.

Chart 1: Occupier and Investment Sentiment Indices

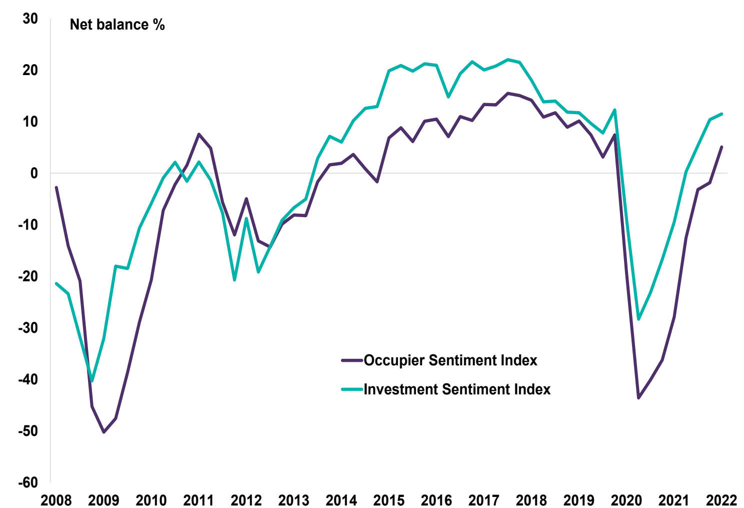


Chart 2: Commercial Property Sentiment Index by Nation

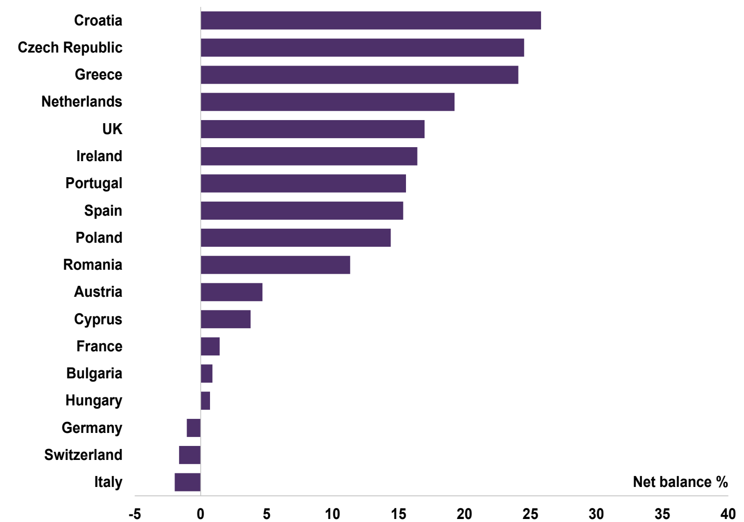
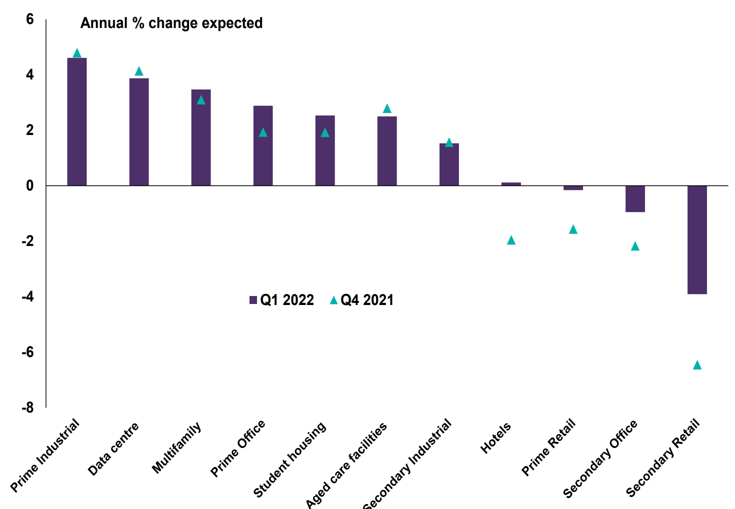


Chart 3: Twelve-month rental growth expectations



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Regional Comments from Survey Participants in Europe

Austria

Difficult phase for pricing, as the Corona and Ukraine crises are having a major impact. -Vienna

Bulgaria

The level of uncertainty is very high in context of the Russian aggression in Ukraine. Black sea region is very close to the war and FDI is eager to avoid this type of risks. We are reaching levels of risk and inflation resulting in nonsense prices. -*Sofia*

There is still significant gap in the expectations of landlords and tenants regarding pricing levels, which leaves many projects behind. There continues to be new building projects which have a level of building quality and property management not corresponding to the rental level. -*Sofia*

Cyprus

The current market will depend greatly on the situation in Ukraine. A substantial number of investors on the island comprise of Russian citizens. It remains to be seen how great the impact will be. The cost of raw materials and oil have also greatly increased further and will strain the economy. - *Paphos*

Czech Republic

General nervousness due to macro geopolitical events and rampant inflation. -*Prague*

France

The real estate market is at its highest and is likely to continue in this trend due to supply that is struggling to meet demand. -*Bayonne*

Office and retail sale prices are going to be impacted by interest rates, inflation and energy prices. Many investors will no longer be able to pretend that green property is not essential for lettings...as many stakeholders, (banks, tenants and legislators) will no longer accept brush offs from institutional investors - Paris

Ukraine will have an effect over time, though at MIPIM the positivity was manifest - Paris

Strongest (direct) evidence coming from pressure/uptake of industrial land. Offices are witnessing a distinct ‘lack of enthusiasm’ which is wait-and-see, but both secondary office and secondary retail are going to struggle over next 18 months – two years. -*Paris*

Germany

Market still driven by high demand into all asset classes due to a lack of alternative investment possibilities (i.e. real estate is still a very secure market); Germany seems, due to its stable economical and political situation, very interesting for international investors from around the world - but also for German private and institutional investors. -*Berlin*

Rising inflation coupled with rising interest rates; economic fallout from war in Ukraine; lingering problems with Covid; changing work habits and reduced need for in office work as opposed to hybrid. I expect challenging times ahead. - *Berlin*

Generally I would say that the market conditions are “interesting” with a number of different externalities impacting the different sectors. Whilst the Covid-19 pandemic is not yet over, the global economy is facing all sorts of different challenges, from the war in the Ukraine to tackling global warming, ESG regulations as well as looming monetary issues in relation to inflation and the risk of stagflation. This makes for an “interesting” and yet untasted cocktail. - *Cologne*

Prime Pitch is slow and highly rented. Shopping Centres are witnessing considerable vacancies and many landlords are undertaking short term lets as they hope values will come back, however, this is playing to the retail occupiers. Food stores are booming as are the investment values for such core products. - Duesseldorf

Due to war in Ukraine, uncertainty is growing regarding investment in commercial properties. - *Munich*

Greece

The hotel industry and the housing market are two markets that are very promising for the near future, both in the mainland and on the islands. -*Athens*

Hungary

The current “early downturn” status will drop significantly. -*Budapest*

Ireland

The outbreak of war in the Ukraine and rampant inflation will be problematic going forward. Also, the appetite for lending on Commercial ventures by the Irish banks may diminish. -*Clonmel*

Generally the outlook is optimistic, however, the uncertainty caused by the Ukraine crisis is bound to affect the market but as of yet we don’t know to what degree. - *Dublin*

Industrial and Logistics remain strong. Remaining uncertainty in the office market. - *Dublin*

Italy

Still positive but confused about medium /long term projections. -*Milan*

In general market is still very buoyant, with all market indicators generally strong. Clearly there is a number of potential threats that could alter this idylic situation, even if we discount further direct impact of the ongoing Ukraine situation. Inflation and commodity / energy costs are probably the biggest threat leading to slowing economic growth and eventually (probably low probability at present, and potentially only brief) recession. -*Milan*

The uncertainties and risks are linked above all to the progress of the pandemic but even more to the Russia-Ukraine war. - *Milan*

Netherlands

Interest rates increase going to have an effect on pricing the next 12 months. - *Amsterdam*

There is still a big demand for smaller offices in the centre and south of Amsterdam, size 250-500 m2. The expat market is almost back where it was two years ago. In total, a very good market in Amsterdam. - *Amsterdam*

At this moment (March 2022) the market gets unstable because of price inflation in combination with the Ukraine-crisis. - *The Hague*

Poland

Assets’ performance boosted by an inflow of migrants and companies from Ukraine. Investment market slowed down due to the war in Ukraine (investors feel uncertainty). -Warsaw

A big question mark - in correspondence with the war. Being the border country adds some risk points to the investments and expectations. Banks reacted almost immediately restricting financing conditions, which will have the influence on the new supply and in wider perspective on rents. - Warsaw

Romania

Due to the war, there is a high uncertainty and unjustified increases in the level of residential rents and property values on sale. - *Bucharest*

Spain

Market is benefiting from the pandemic slowdown last two years, and the Ukrainian war has not caused the market to slow. Unless this scales up, the demand for quality office spaces should continue to rise the next couples of years. - *Madrid*

Current uncertainty is notable, the pace is slow but the principles still remain unchanged. Investor appetite stands but product is scarce, financing is doubtful and leasing performance is just “OK”. - *Madrid*

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Middle East and Africa: Market conditions strengthening across the region

The survey feedback throughout the Middle East and Africa region points to another solid quarterly improvement in momentum. Indeed, headline demand growth accelerated (in net balance terms) across both the occupier and investment sides of the market, with the former seeing a particularly noticeable pick-up in the Q1 results. Nevertheless, conditions remain more subdued than the aggregate picture in some areas, while there is a general sense of caution evident in the comments left by respondents regarding aspects of the macro outlook.

Occupier Sentiment Index hits an all-time high

As demonstrated in Chart 1, the aggregate MEA OSI reading improved to +12, from a figure of +3 previously. As such, this marks the strongest return for this indicator since records began in 2008 and is indicative of a solid degree of momentum building across the occupier market. With respect to the ISI, the latest reading of +6 is unchanged from last quarter, marking the second consecutive report in which a positive figure has been posted. When viewed at a country level, Saudi Arabia again exhibits the firmest OSI and ISI readings across all markets tracked, with Israel and the UAE also displaying comfortably positive feedback for the headline indices. In each case, occupier and investor demand is now rising across all mainstream sectors (office, industrial, retail). Conversely, both the OSI and ISI metrics remain in negative territory in South Africa, albeit to a lesser degree than back in Q4.

Rising investor demand expected to drive capital values higher over the near-term

Illustrated in Chart 2, investment enquiries are reportedly rising at the all-property level across most markets tracked within the region. On the back of this, the near-term outlook for capital values is firmly positive in areas such as Nigeria, Saudi Arabia, Israel and the UAE. Drilling into the sector level results, twelve month capital value projections were upgraded for the prime office segment over the quarter, while solid growth is also anticipated for prime industrial and retail assets across MEA in aggregate. Moreover, expectations for secondary markets are also now comfortably positive, albeit these are less elevated than across prime sub-sectors, with the secondary office sector seeing an further strengthening in twelve month capital value expectations during Q1.

Meanwhile, respondents envisage robust capital value gains across data centres and multifamily residential assets in the year to come, with these two sectors now displaying the strongest twelve-month outlook compared to all other categories. Alongside this, capital value projections for hotels continue to recover swiftly, moving further into expansionary territory in Q1. This marks a significant turnaround relative to the negative view returned at this point last year. In addition, student housing is also expected to deliver solid capital value growth in the year ahead, while the outlook is positive, albeit more moderately in comparison, for aged care facilities.

Clear majority of respondents see the market in an upturn phase of the cycle

As shown in Chart 3, recent quarters have seen a consistent rise in the share of respondents sensing market conditions are turning up at the headline regional level. During Q1, the proportion of contributors taking this view reached 61%, up from 58% and 47% in Q4 and Q3 respectively. At the country level, respondents based in Saudi Arabia are in unanimous agreement that the commercial real estate market is in an upturn stage of the cycle, while the share stands at 75% across the UAE.

Chart 1: Occupier and Investment Sentiment Indices

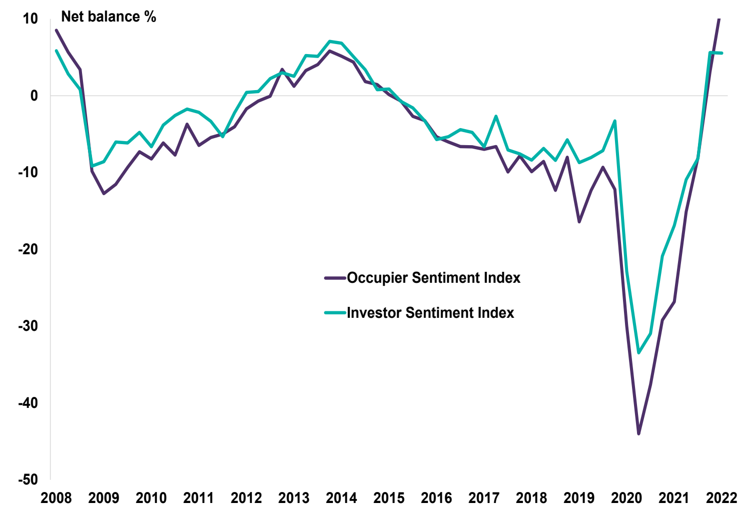


Chart 2: Investor demand and Capital Value Growth Expectations

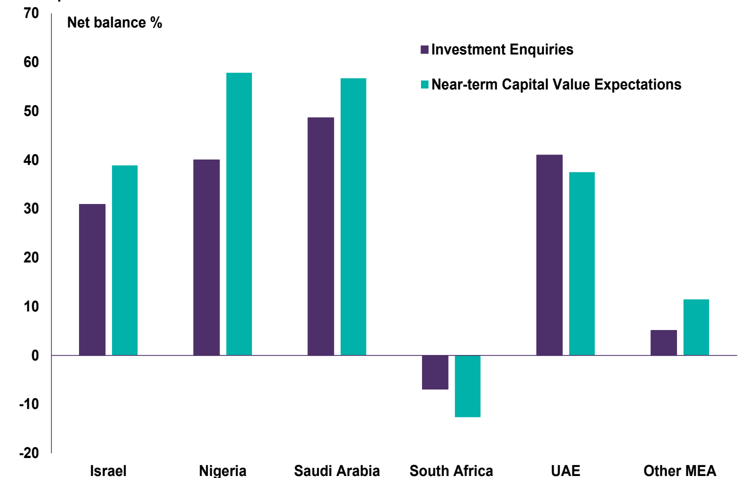
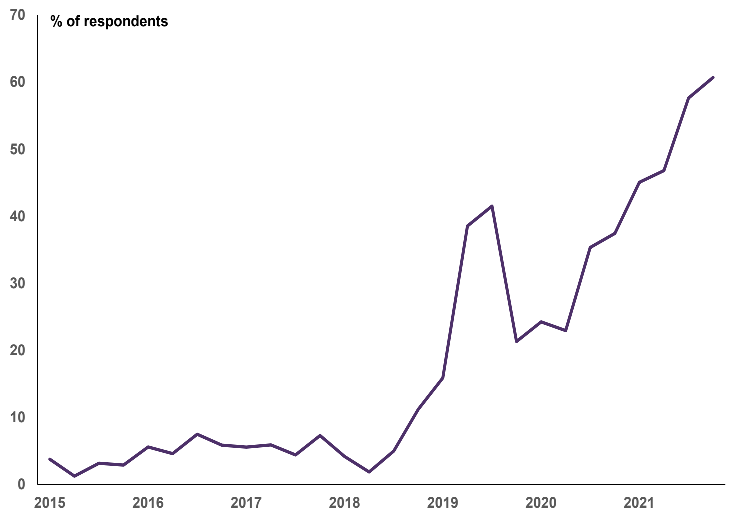


Chart 3: Share of MEA respondents reporting an upturn in the market



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Regional Comments from Survey Participants in MEA

Bahrain

Recovery stage. - *Manama*

Israel

There is uncertainty arising from the Covid situation, internal security situation, international uncertainty related to the Russia-Ukraine conflict. - *Tel Aviv*

Kenya

The credit facilities have been dormant, banks are now opting to peg interest loan on individual risk perhaps this will open up liquidity and see an in increase activities in the real estate market. However, this will happen probably after the election as investors maintain a wait and see approach. -*Nairobi*

Malawi

The negative impact of Covid-19 has contributed to low office demand. Also, online buying and covid -19 has led to low retail space demand. High interests rates, inflation exacerbated by high exchange rates and general energy increase has affected the supply side of floor space in almost all categories.However, office space has suffered the most due to working from home and lockdowns. Working from home is becoming the new lifestyle. -*Mzuzu*

Mozambique

The Mozambique property market is current at a declining phase of the property cycle, but this is partly due to the effects of COVID-19, that created fear and anxiety in the market, coupled with the delay in the exploitation of LNG - Liquified Natural Gas by the key players that had created a bubble in the property market in the pre pandemic period. There is however a steady recovery in some areas of the market, as demand for prime office begins to pick-up. -*Maputo*

Nigeria

Property market in Nigeria is coming back to life after Covid. -*Lagos*

The industry is currently experiencing a downturn. Cost of construction is very high due to inflation and other factors such as bad governance. The office sector is low in occupation demand and difficult to manage, as a result of increases in prices of fossil fuels. Retail sector is maintaining its momentum. - *Lagos*

Oman

After 4 tough years, there are small signs that the market could be at a point of very slow recovery in certain spots and sectors.-*Muscat*

Currently, raw material prices are increased and there is huge competition in the market to get the job. Clients are comparing the rates of lower tier contractors with the higher tier contractors in the market by compromising the quality of works. Now the market is slightly improving after the pandemic and is expected to regain its shape by end of 2023. -*Muscat*

Qatar

Now the conditions are improving after the pandemic, but still heavy rent is the driving forcing to hinder new business proposals. - *Doha*

Saudi Arabia

Market is getting better day by day after the pandemic. -*Riyadh*

There is a general increase in leisure, historical sites and new city developments aligned to Vision 2030. Office space for letting is more abundant. -*Riyadh*

South Africa

Market seems to be on the upturn. However, high fuel prices are causing some uncertainly where we expected the market to settle post Covid. - Cape Town

Markets are subdued, but with recent increases in Reserve Bank Repo rates, may slow further. Investors with "war chests" may enter the market when times are volatile. -*Port Elizabeth*

Turkey

Due to the Turkish Lira value against the dollar, new constructions cost are higher. New real estate development projects are delayed. Supply chain is broken in real estate and that causes real estate values and rent prices to spike constantly. -*Konya*

UAE

Demand picking up. -*Abu Dhabi*

The market has definitely seen an upward trend but we see it stabilizing as the Expo 2020 ends soon but expect the demand to be sustained for the rest year with values of property fluctuating no more than +/- 5%. -*Dubai*

Market is very volatile due to various factors. Ukraine war, post pandemic effects can have positive impact on the UAE market. End of Expo 2020, opening up neighboring markets can have mixed impacts. High oil price will increase the country's expenditure power for rest of the year and/or also the ability to attract investors for new and ongoing projects. China has already got the another wave of pandemic virus and it's behavior can make the world's economy upside down and hence high volatility. -*Dubai*

Dubai market remains positive, strong investor demand across several asset classes. Price ceilings likely reached in some residential capital values, rising interest rates will possibly restrain some. Anecdotal evidence is Russian buyer activity up. -*Dubai*

Uganda

The Kampala property market has significantly picked up over the last three months on the back of the signing off on the oil and gas final investment design with demand for prime office space picking up as well as for prime residential accommodation. Retail is still recovering but interests from regional retailers have started to improve and are likely to continue to do so for the medium to long term. - *Kampala*

Zambia

We are still experiencing low demand for office properties, with high voids and consistent but also slightly reducing rentals. Retail properties are slowing picking up with newly constructed malls starting to fill up. Residential has not really been affected by covid 19 and we have continued a steady increase in rentals and market values. - Lusaka

Zimbabwe

The mixture of two functional currencies, mixed messaging by government regarding economic recovery policy and Covid-19 has caused significant damage to the industry. Development activity is minimal, investment is almost at an all time low and there is no local access to finance. A badly struggling economy coupled with rock bottom income levels has produced an environment that dictates that investment in the real estate industry is out of reach for most. - *Harare*

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North America: Demand growth gathers pace in the occupier market, while the investment backdrop remains firm

The Q1 2022 GCPM results across North America are consistent with a further strengthening in market conditions, with occupier demand growth in particular appearing to pick-up speed over the latest survey period. Despite the overall improvement in the headline statistics, it should be noted that caution is evident in the comments left by contributors regarding the potential impact geopolitical events, general inflationary pressures, and rising interest rates could have on the market further ahead.

Commercial Property Sentiment Index strengthens across both the United States and Canada

The United States saw another quarterly improvement in the headline CPSI in Q1, with the latest reading reaching a near seven-year high of +20, up from an already solid figure of +13 previously. Within this, the occupier market component of the indicator chalked up the strongest reading since 2015. Meanwhile, in Canada, the CPSI rose to +13 from +5 last quarter, representing the strongest return for this series since Q3 2019 (Chart 1).

Across both markets, headline measures of occupier and investor demand strengthened during Q1. For the US, demand is now reportedly rising across all traditional sectors covered (office, industrial, retail), marking the first quarter this has occurred since prior to the pandemic. With respect to Canada, while investor enquiries are now reportedly rising across the board, tenant demand not yet seeing outright positive readings in the office and retail sectors. Even so, the flatter picture reported in Q1 is an improvement relative to the negativity being cited across these areas in the previous quarter.

Twelve month expectations upbeat at the all-sector level

Depicted in Chart 2, respondents across both the United States and Canada anticipate firm growth in all-sector rents and capital values over the next twelve months. For Canada, these expectations have been upgraded compared to the Q4 results, with the current net balance of respondents foreseeing an annual increase in capital values the highest on record (this series started in 2013). Looking at the United States, twelve-month capital value expectations eased marginally over the quarter, but this is mainly attributable to a slight moderation in industrial sector expectations following an all-time high for this metric seen in Q4. For US rental expectations however, the latest returns represent a stronger outlook, with the net balance of survey participants envisaging an increase in rental levels rising to a near seven-year high.

Chart 3 shows rental growth projections at the sector level across both countries. Continuing to lead the way, prime industrial rents are seen rising by close to 9% across the US and close to 8% in Canada during the year to come. On the same basis, rental growth projections remain particularly robust across the multifamily sector, with respondents forecasting growth of over 6% in both countries. In fact, rental growth projections now sit in positive territory (to a greater or lesser degree) across all categories of the Canadian real estate market. Meanwhile, the secondary office and retail sectors are the only areas within the US where respondents feel rents will decline over the next twelve months.

During Q1, perceptions around current valuation levels were little changed compared with the Q4 results. As such, a slim majority of respondents in the United States and Canada feel that prices are above fair value to some degree. With expectations pointing to a further appreciation in asset values over the year ahead, this measure will in all likelihood become further stretched through 2022.

Chart 1: Commercial Property Sentiment Index by Country*

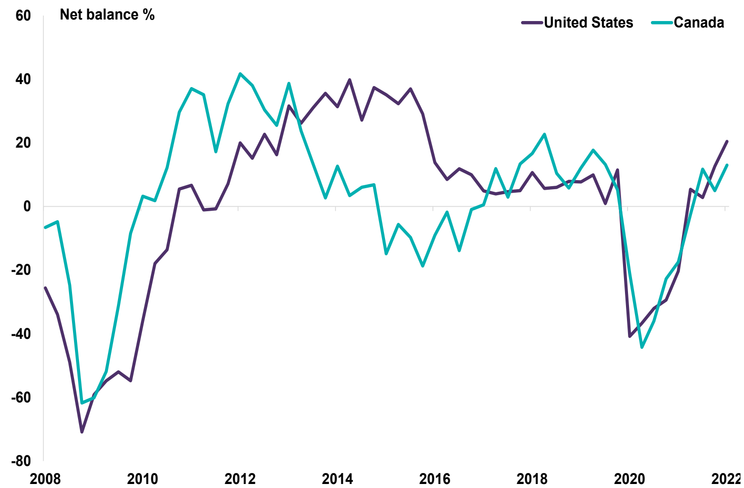


Chart 2: Twelve-Month expectations

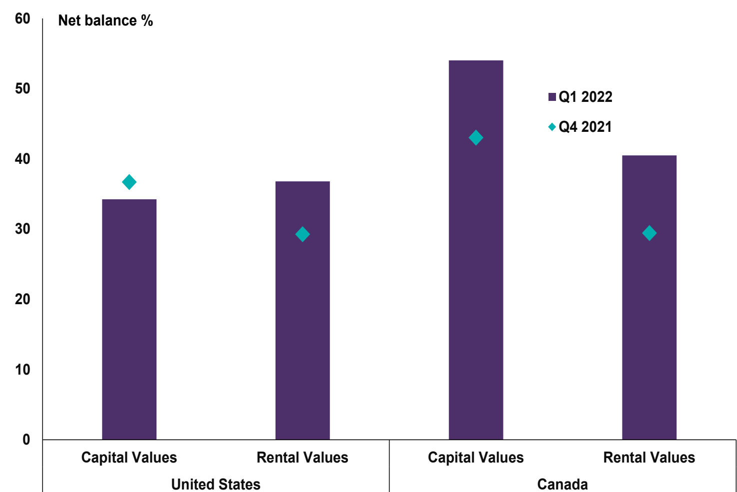
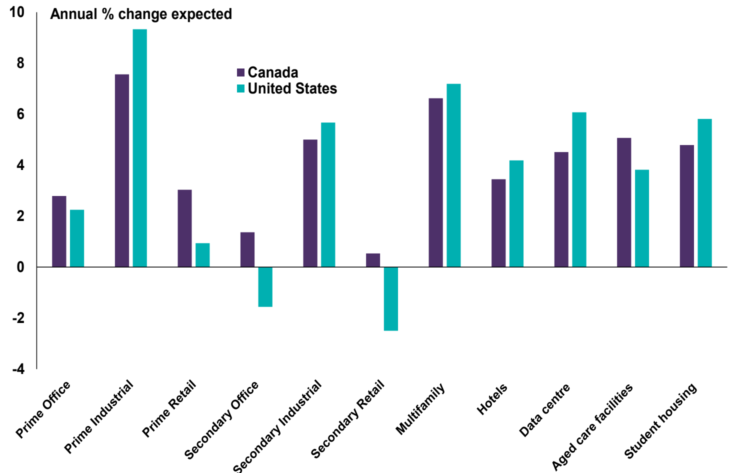


Chart 3: Twelve-month rental growth projections by sector



*The Commercial Property Sentiment Index is an amalgamated measure of indicators for occupier and investment markets.

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Regional Comments from Survey Participants in the Americas

Brazil

Moment of uncertainties in the market due to higher interest rates in the U.S., continuation of the war between Russia and Ukraine, and possibility of return of the pandemic. -*Sao Paulo*

Canada

Calgary is in recovery mode after 7 years of a downturn. For the first time in a while there is optimism. -*Calgary*

There has been high demand for industrial product. Office market affected by pandemic with work from home restrictions and downsizing by corporations as they adapt to shared work spaces and concepts of work from home and office balance. -*Montreal*

As covid-19 restrictions ease and/or are removed, the general marketplace continues to evolve amid inflation concerns and the anticipated series of interest rates hikes that are projected to occur. - *Sudbury*

Office market is proving surprisingly resilient with increasing vacancy. -*Toronto*

The post Covid pandemic recovery on market conditions has been aggressive. This increase is driven by lost wages and income where retail and other sectors are trying to recoup the lossess experienced over the past 2 years. - *Vancouver*

Chaos in construction material and labour supply chains continues and will potentially throttle future project investments. - *Vaughan*

Jamaica

Surprisingly construction rose in every area of the country during the pandemic. This continues and developers don't have enough hands to sell. Residential Market is fueled by a strong Air BnB market, Hotels are seeing 3 month penetration rates of between 80 to late 90%. During the pandemic there was increased Business Processing Outsourcing and buildings are being built or outfitted to accommodate the same. FDI in Tourism for build our of New hotels continues to be positive. - *St Ann*

Trinidad and Tobago

Lags in the negative effects of the Covid pandemic, and the current war in Ukraine have the potential to impact general market responses, in the medium and long term periods ahead. -*San Fernando*

United States

Cook County property tax uncertainty continues. Elections for assessor and mayor ahead. Street violence taints downtown area - Chicago

The DFW market remains strong, buoyed by continuing demand and the ongoing migration of companies into this market. However, with fuel prices much higher and ongoing uncertainty over Ukraine, together with the upward push of interest rates, there may well be a slight downward impact upon capital values. - *Dallas*

Values holding steady. - *Harrisburg*

Key word is stability. Geopolitical concerns acknowledged but yet to affect values. - *Harrisburg*

The stark contrast between market sectors eg. retail v industrial makes it hard to draw general conclusions. No one sees an end to skyrocketing industrial values. - *Los Angeles*

Market is coming out of Covid with more activity but still cautious. - *New York*

To say this market is schizophrenic doesn't do it justice: it is virtually sociopathic. The market for office space is literally building-by-building, landlord-by-landlord, and turns on a dime depending on what improvements each landlord says they will be making to their buildings. We have seen instances of landlords responding to offers with terms that are in excess of listed asking rents. Tenants are generally reducing space needs, a minority have returned to offices, and the City is a mess. - *New York*

Rising interest rates and inflationary pressure will have an impact on CRE over the foreseeable future. The US Federal Reserve is suggesting 3-years to reduce inflation, which I believe will result in a modest recession in the US by 2023. The Global market if moving in the same direction may result in more material impacts during a recessionary period. While the near-term appears less disruptive, the longer term could have material negative impact on CRE. - *Orlando*

Overall recovery is occurring. This would relate to all asset classes. Provided no additional variant outbreaks, pre-Covid levels should be reached by 2023. - *Philadelphia*

The San Francisco Bay Area including Silicon Valley remains one of the strongest regions in America for urban and suburban real estate driven by technology companies and the workforce they covet.- *San Ramon*

Small city. Home to major university. High tech significant in local market. Area attractive to high end home buyers and is a popular vacation destination - Santa Barbara

It is an uncertain time - Washington DC

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Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 9 March 2022 with responses received until 11 April 2022. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1864 company responses were received. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia. Responses from Israel were collated with the assistance of the Israel Real Estate Appraisers Association.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale. The Commercial Property 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.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: **economics@rics.org**

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Economics Team

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Responses were gathered in conjunction with the following organisations:

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Americas, Europe, Middle East & Africa
aemea@rics.org

Asia Pacific
apac@rics.org

United Kingdom & Ireland
contactrics@rics.org

rics.org