Knight Frank

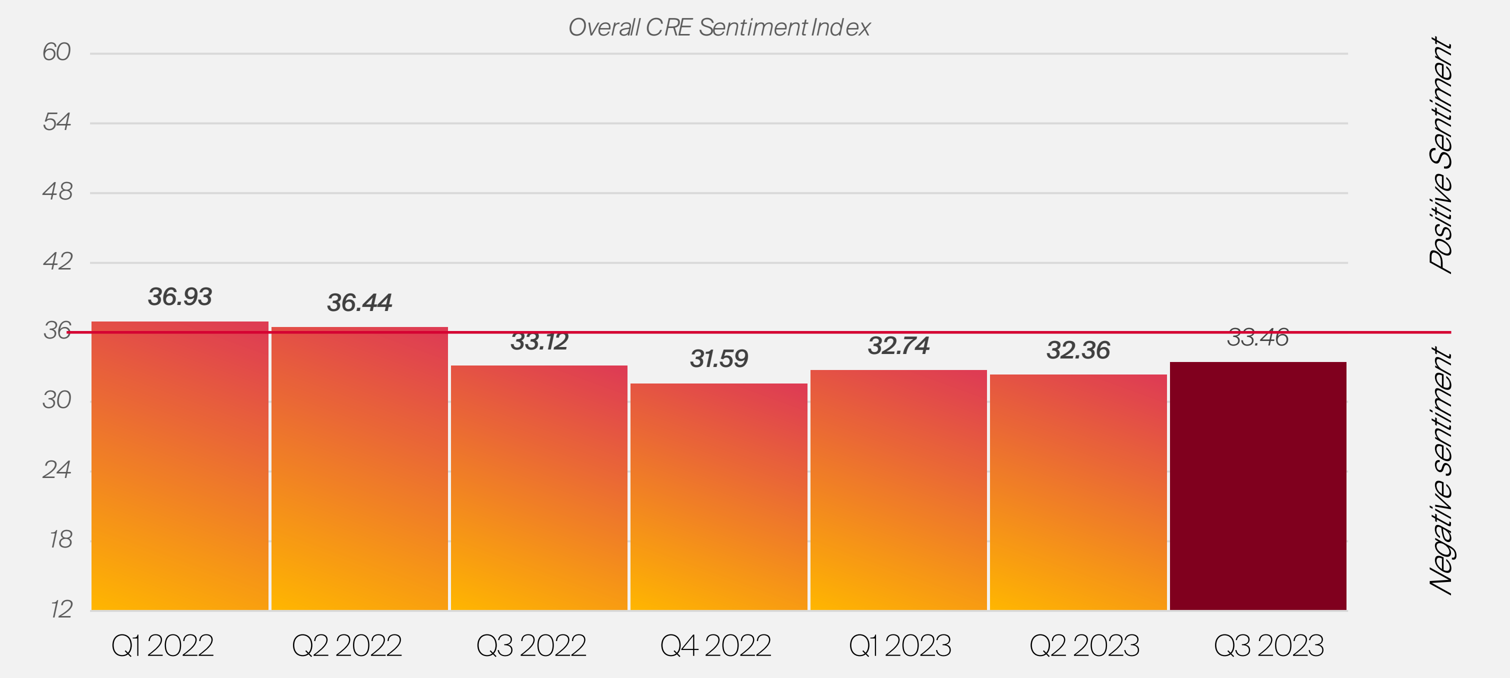
(Y)OURSPACE
MANAGING **COMPLEXITY**

Global Corporate Real Estate Sentiment Index

Q3 2023

CRE Sentiment – Q1 2022 to Q3 2023

- *The Q3 2023 GCRESI was undertaken in early October and secured 85 responses from Corporate Real Estate leaders based predominantly in the EMEA and APAC regions.*
- *In order to sustain the integrity of the GCRESI time-series we have not included 77 responses from CRE leaders located in North America during Q3. A fuller treatment of North American CRE Sentiment will be published under separate cover by Cresa.*
- *Occupier sentiment improved by 1.10 points in Q3 and, whilst still negative, now stands at its highest level since Q2 2022.*
- *Five of the twelve indicators comprising the index have shown improvement q-on-q. Average movement across all 12 indicators is 0.09 points – although two indicators moved by more than 0.5 points (10%) q-on-q.*
- *All three sub-indices improved q-on-q, with Portfolio Dynamics seeing the strongest improvement (0.49 points) q-on-q; more than offsetting the decrease in sentiment recorded between Q1 and Q2 2023.*



Q3 2023 (Movement Q-on-Q)

11.73 ↑
Growth

10.32 ↑
Portfolio

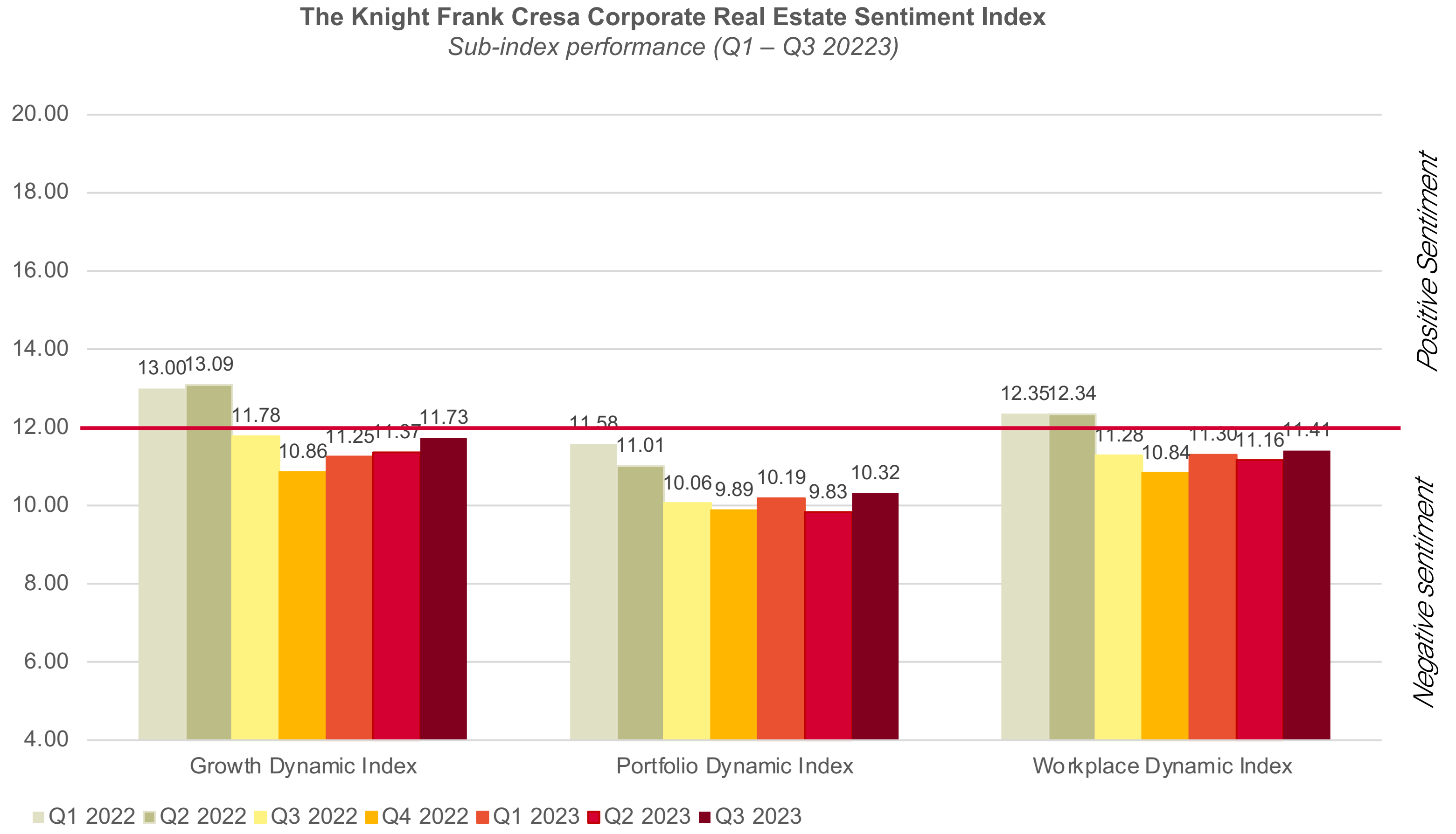
11.41 ↑
Workplace

Scores above 12 for each of these three sub-indices represent positive sentiment

Source: Knight Frank 2023, N=85

Sub-Index Performance (Q1 2022 – Q3 2023)

- *There are three sub-indices within GCRESI, measuring sentiment in relation on growth, portfolio and workplace dynamics over the next six months. Each of the three sub-indices saw improving sentiment during Q3, although each sub-index remains negative with a score below 12.*
- *Sentiment relating to growth dynamics improved q-on-q and is now the closest of the three to turning positive. The score of 11.73 is the strongest measure since Q3 2022 which is encouraging given the recent trajectory of the global economy. However, it should be noted that the survey was undertaken before events in the Middle East intensified and this could have a damaging impact on sentiment going forward.*
- *The Portfolio Dynamics sub-index saw the strongest q-on-q improvement, with sentiment here at a level not seen since Q2 2022. This element of the index has also witnessed three consecutive quarters of improving sentiment but still presents the lowest sentiment score of the three sub-indices.*
- *Sentiment around short-term workplace dynamics also improved q-on-q by 0.25 points.*



Source: Knight Frank 2023

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Sentiment Scorecard – Growth Dynamics (Q3 2023)

GROWTH DYNAMIC

Indicator	**Q2 2023**	**Q3 2023**	**Q-on-Q change**
Global economic growth	**2.64**	**2.59**	↓
Company revenue growth	**3.22**	**3.22**	→
Company headcount growth	**2.76**	**2.85**	↑
Company capital expenditure growth	**2.75**	**3.07**	↑

Scores >3 represent positive sentiment and <3 represent negative sentiment

- *The growth dynamic sub-index saw its highest level of q-on-q improvement since the turn of the year – a rebound which reflects that the crash landing of the global economy much posited in mid-2022 has not materialise with as much force as originally anticipated.*
- *That said, sentiment around the short-term prospects for the global economy did trend downwards q-on-q by 0.05 points – a reflection of ongoing fragility and concern at the macro-economic scale.*
- *Sentiment around future company revenue growth stabilised at its previous positive levels, suggesting that prudent management and operational efficiencies in softer market conditions were continuing to underpin corporate revenue growth.*
- *Sentiment around headcount growth did improve q-on-q – perhaps in keeping with a strong business transformation agenda – but it is still negative with a score of 2.85 and we expect pressure to intensify across global labour markets outside of specific in-demand skill-sets.*
- *The stand-out growth indicator in the Q3 survey relates to future corporate capital expenditure. The 0.32 point rise here drove the overall performance of the sub-index and, more fundamentally, indicates that the willingness of occupiers to invest and spend has increased. This is an important portent for real estate markets and will lead to stronger market activity if sustained beyond Q3.*

Source: Knight Frank 2023, N=85

Sentiment Scorecard – Portfolio Dynamics (Q3 2023)

PORTFOLIO DYNAMIC

Indicator	Q2 2023	Q3 2023	Q-on-Q change
Expanding physical footprint	2.03	2.54	↑
Relocating core facilities	2.56	2.51	↓
Increasing % of sustainable buildings	2.92	2.89	↓
Offshoring functions to new locations	2.32	2.38	↑

Scores >3 represent positive sentiment and <3 represent negative sentiment

- *The Portfolio Dynamic sub-index saw a significant 0.49 point rise q-on-q which is by far and away the strongest q-on-q increase since the index began. This would suggest that occupiers are beginning the transition from strategizing to execution in relation to portfolio management at a regional or global level.*
- *Interestingly, much of the improvement in sentiment at a portfolio level was driven by prospects for future expansion of the physical footprint which increased by 0.51 points q-on-q to stand at 2.54 – the second highest reading since the index began.*
- *Whilst still negative, improving sentiment around physical footprint does endorse a point we have consistently made in our (Y)OUR SPACE research, namely, that with the blinkers of covid removed a more progressive and transformative business agenda will generate more expansionary intent from occupiers.*
- *The other indicator within the portfolio dynamic sub-index that saw improved sentiment q-on-q related to the offshoring of certain functions to newer locations. The movement was slight (0.06 points) and we have been surprised that greater intent around offshoring has not been evident, given the fragility of the operating environment and clear cost consciousness.*
- *There was a slight reduction (0.03 points) in sentiment relating to the proportion of an occupier's portfolio that are certified sustainable. This indicator has oscillated in a range between 2.86 and 2.98 since Q2 2022. The relatively neutral scoring around this indicator is in our view a reflection of varying supply-side conditions on a multi-market basis rather than a more negative stance on sustainability per se.*

Source: Knight Frank 2023, N=85

Sentiment Scorecard – Workplace Dynamics (Q3 2023)

WORKPLACE DYNAMIC

Indicator	Q2 2023	Q3 2023	Q-on-Q change
Back to pre-pandemic occupancy levels	2.10	2.64	↑
Significant changes to office design / configuration	3.00	2.89	↓
Increasing density of occupation	3.03	2.93	↓
Enhancing office services / amenities	3.03	2.95	↓

Scores >3 represent positive sentiment and <3 represent negative sentiment

- *The workplace dynamic sub-index improved by 0.25 points q-on-q to stand at 11.41 – its highest level for more than a year.*
- *Whilst sentiment about the workplace is improving, that improvement is largely being led by the push and momentum of return to office mandates and more office centric workstyles than by any distinct CRE intervention in the workplace itself.*
- *Reflecting this, sentiment concerning a return to pre-pandemic levels of occupancy increased by 0.54 points q-on-q (the largest increase in any of the indicators) and is at a level only surpassed in Q2 2022.*
- *27% of all respondents to the Q3 survey 'agreed' or 'strongly agreed' with the statement that their company would be back to pre-pandemic levels of occupancy in the majority of their offices in the next 6 months.*
- *This is a polarising issue however, with 24% of all respondents 'strongly disagreeing' with the statement. What this points to is increasingly variability and volatility in the return to office debate. Our view is that workstyle flexibility is here to stay, but that the office will retain its primacy as a dominant workplace setting for most.*
- *What is clear is that CRE intervention in the workplace is showing falling sentiment with design/configuration changes, densification and the enhancement of services and amenities all falling q-on-q and at their lowest levels this year.*

Source: Knight Frank 2023, N=85

Methodological note

Sub-indices

GROWTH DYNAMICS SCORE	+	PORTFOLIO DYNAMICS SCORE	+	WORKPLACE DYNAMICS SCORE	=	CRE SENTIMENT SCORE
4 questions on a five point response scale from 'very weak' to 'very strong'		*4 questions on a five point response scale from 'strongly disagree' to 'strongly agree'*		*4 questions on a five point response scale from 'strongly disagree' to 'strongly agree '*		
Absolute score *(MIN = 5 MAX = 20.00)*		***Absolute score*** *(MIN = 5, MAX = 20.00)*		***Absolute score*** *(MIN = 5, MAX 20.00)*		***Absolute score*** *(MIN = 15 MAX 60.00)*
Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment		*Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment*		*Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment*		*Score greater than 36 = positive sentiment, score lower than 36 = negative sentiment*
Percentage score *= (Absolute score/20)*100 Score over 60 represents positive sentiment*		***Percentage score*** *= (Absolute score/20)*100 Score over 60 represents positive sentiment*		***Percentage score*** *= (Absolute score/20)*100 Score over 60 represents positive sentiment*		***Percentage score*** *= (Absolute score/60)*100 Score over 60 represents positive sentiment*

METHODOLOGY

- *A simple on-line survey of 12 questions grouped into three equally weighted sub-indices assessing growth dynamics, portfolio dynamics and workplace dynamics.*
- *Each sub-index comprises of four statements which survey respondents place on a five point response scale, with a score of 1 indicating strong negative sentiment and a score of 5 indicating strong positive sentiment. A score of 3 represents neutral sentiment.*
- *The survey is based on sentiment relating to the next six months from the point of survey.*
- *Responses to each of the four statements at the sub-index level are aggregated across the sample and averaged. These averages are then added together to provide an sub-index sentiment measure, to a maximum absolute score of 20. A score of greater than 12 indicates positive sentiment, less than 12 represents negative sentiment. Each cohort sentiment measure is also converted to a percentage score, with a score above 60% representing positive sentiment.*
- *Each of the three sub-index sentiment measures are then added together to provide an overall absolute CRE Sentiment Score, to a maximum of 60 and where a score greater than 36 indicates positive sentiment. Again this overall score is also converted into a percentage value, with a score above 60% representing positive sentiment.*

Source: Knight Frank | Cresa 2023

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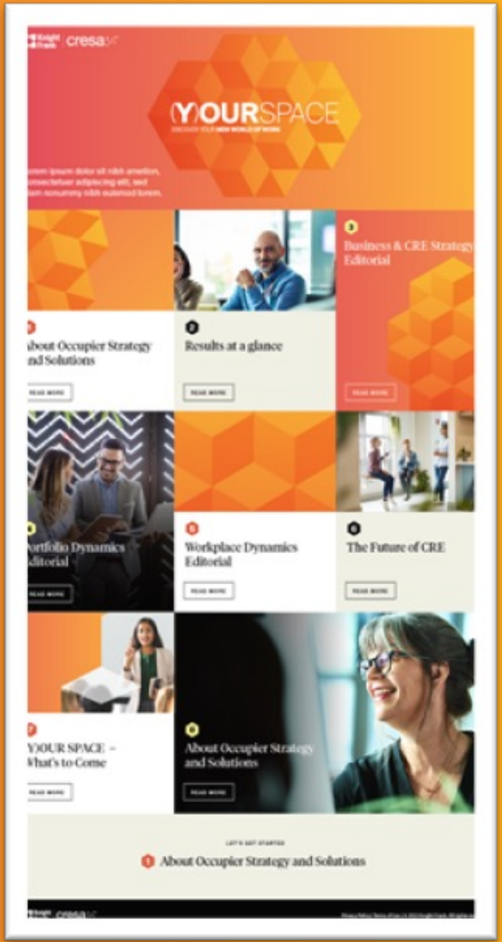

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