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MANAGING COMPLEXITY

Knight Frank

Global Corporate Real Estate Sentiment Index

Q2 2024

Key Findings

Overall, CRE leader sentiment fell for the second consecutive quarter. All 3 sub-indices saw a decline.

Growth Prospects over the next 6 months are weak, with the Growth Dynamic sub-index recording its lowest ever score.

Sentiment is strongest around increasing office density, which is a clear focus for CRE leaders.

There has been a marked fall in sentiment regarding physical expansion – reflecting wider economic concerns.

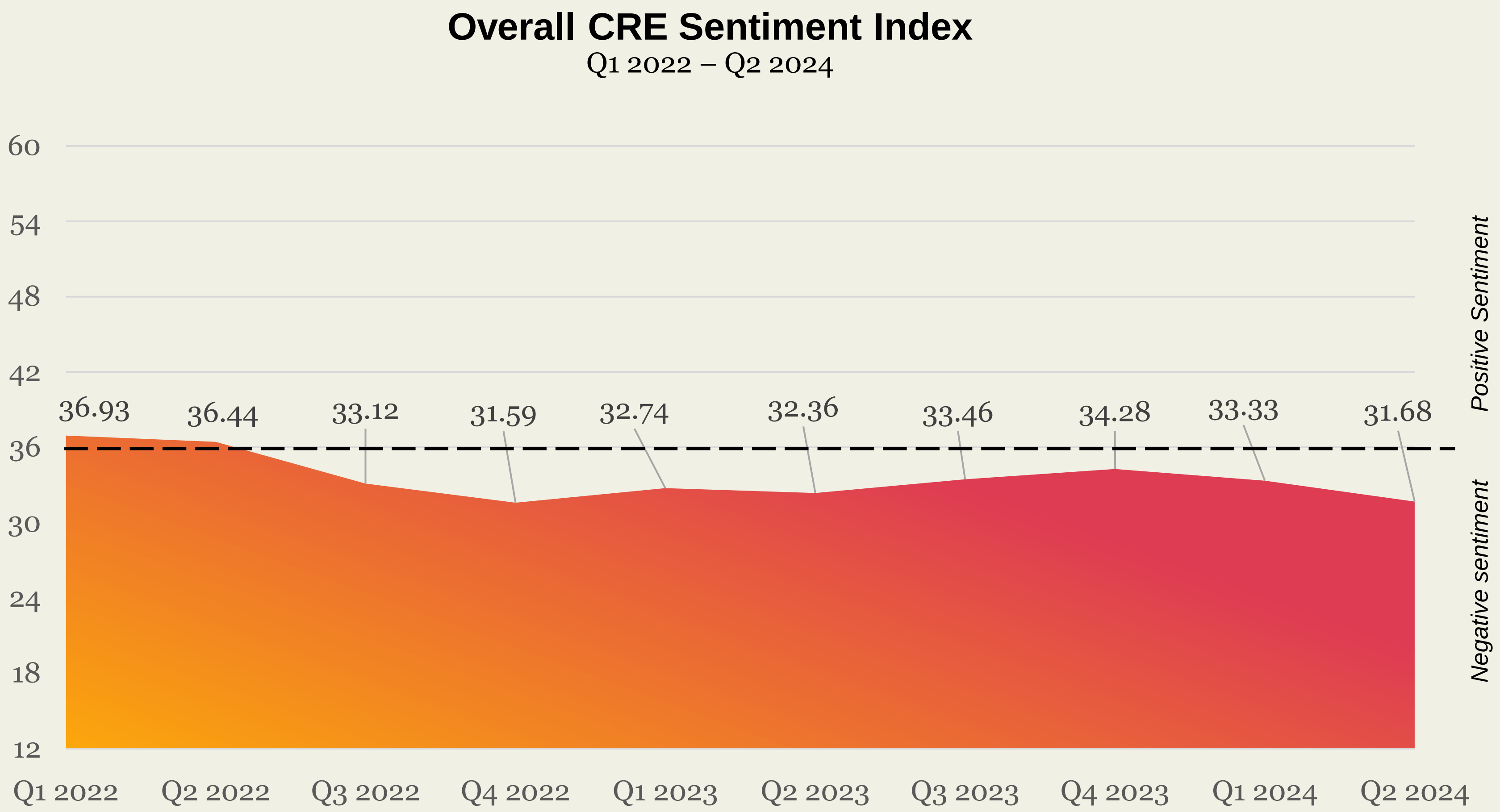
Upticks in sentiment around offshoring were halted in Q2, but the indicator remains above its long-term average.

There has been a significant reduction in sentiment around a return to pre-pandemic levels of occupancy – as more flexible workstyles take hold.

Source: Knight Frank, 2024

CRE Sentiment – Q1 2022 to Q2 2024

Sentiment fell by 1.65 points q-on-q and is at levels last seen at the end of 2022



31.68

Overall sentiment fell back by 1.65 points to the second lowest reading since the survey began in Q1 2022.

2 of 12

indicators comprising the Sentiment Index saw an improvement q-on-,while 2 indicators were at or above a score of 3, which indicates positive sentiment.

Growth in question

The growth dynamic sub-index saw an all-time low score of 10.77, with all four component indicators falling q-on-q.

Caution

Sentiment around future capital expenditure and headcount growth are at their lowest level ever, inferring to a more defensive CRE strategy from global occupiers over the next 6 months.

Takeaways for Occupiers

GROWTH DYNAMICS

- Growing concern around the global economic outlook, halting progress made since the turn of the year.
- Sentiment relating to growth in headcount and capital expenditure – both traditional catalysts to CRE activity – has fallen markedly and will lead to a more defensive posture
- Capex constraints continue to bite and will make delivery of capital-intensive initiatives more challenging. We are likely to see such projects on hold, with occupiers buying time wherever possible.

PORTFOLIO DYNAMICS

- There has been a slight improvement in sentiment around relocation – perhaps indicating that some occupiers will seek value or smaller units of space.
- Offshoring will remain a focus for many given a need for greater financial and operational efficiency, although sentiment has fallen slightly q-on-q.
- The flight to value may see non-listed occupiers making compromises on sustainable real estate – with the latest reading the lowest on record. Short-term supply challenges may also be at work here.

WORKPLACE DYNAMICS

- Have we moved on from the RTO debate? Occupiers seem to accept that there will not be a strong return to pre-pandemic levels of occupancy.
- While workstyle flexibility is set, the densification of the workplace looks set to rise – with positive sentiment recorded in Q2.
- We expect occupiers to drive densification, increase productive utilisation & deliver both me AND we space, although capital constraints will stifle progress.

Sub-Index Performance (Q2 2024)

- There are three sub-indices within the GCRESI, measuring sentiment in relation to growth, portfolio and workplace dynamics over the next six months. All three sub-indices saw declining sentiment during both Q1 and Q2 2024.
- Sub-index declines have been notable, with the growth dynamic falling by 0.66 points, portfolio dynamics by 0.57 points and workplace by 0.42 points.
- All three sub-indices sit well below a score of 12, which is the tipping point between negative and positive sentiment.
- The growth dynamic sub-index saw all four indicators decline q-on-q, with sentiment around global economic prospects falling q-on-q for only the fourth time since the sentiment index began.
- Similarly, after sustained growth, portfolio dynamics fell back to levels last seen at the end of 2022. Capital constraints are having clear impacts.
- There has been a marked reduction in the workplace dynamic score q-on-q. Noise around RTO rates has dissipated in global markets, with many occupiers recognising the need for (or benefits of) some flexibility in future workstyles.

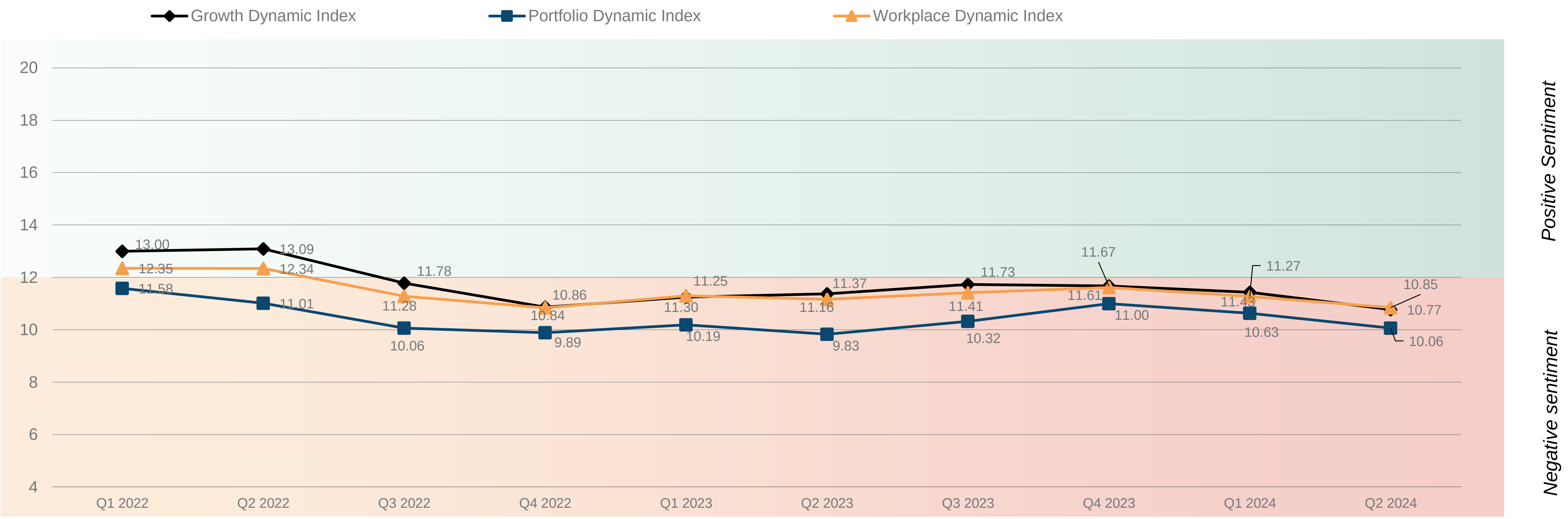
Q2 2024 Sub-index score	*(Movement Q-on-Q)*
10.77 ↓ *Growth Dynamics*	*-5.77%*
10.06 ↓ *Portfolio Dynamics*	*-5.36%*
10.85 ↓ *Workplace Dynamics*	*-3.73%*

Scores above 12 for each of these three sub-indices represent positive sentiment. Source: Knight Frank Q2 2024, N=77

Sub-Index Performance (Q1 2022 – Q2 2024)

Knight Frank Global CRE Sentiment Index

Sub-index performance (Q1 2022-Q2 2024)



Source: Knight Frank Research

Sentiment Scorecard

Growth Dynamics Q2 2024

GROWTH DYNAMIC			
Indicator	**Q1 2024**	**Q2 2024**	**Q-on-Q change**
Global economic growth	2.81	**2.70**	↓
Company revenue growth	3.14	**3.05**	↓
Company headcount growth	2.66	**2.45**	↓
Company capital expenditure growth	2.82	**2.57**	↓

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

Source: Knight Frank 2024, N=77

- The growth dynamic sub-index reduced by 0.66 points q-on-q to stand at 10.77.
- For the first time, all four indicators making up the growth dynamic sub-index fell q-on-q as concerns around corporate growth were matched by a gloomier macro-economic outlook.
- Sentiment around global economic growth fell back after two consecutive quarters of improvement. The Q2 score of 2.70 points was a reduction of 0.07 points and is the lowest reading since Q3 2023.
- Sentiment around future company revenue growth has never fallen below a score of 3. The Q2 reading remained positive at 3.05 but fell by 0.09 points to its lowest reading since records began. This shift represents a second consecutive quarter of decline.
- Sentiment around company headcount growth continues to be negative and the Q2 reading of 2.45 is also the lowest since the index began. Occupiers appear to be focused on driving productivity through the application of technology rather than additional headcount. They are also reabsorbing capacity protected during the pandemic years.
- Having turned positive in Q3 2023, sentiment around future capital expenditure has now weakened for three consecutive quarters and is also at a new low. This will act as a brake on some of the more substantial, capital-intensive activities that CRE leaders traditionally deliver. It is also likely to fuel more defensive real estate activity in global markets, with regearing and renewal, even for the short-term, likely to rise.

Sentiment Scorecard

Portfolio Dynamics Q2 2024

PORTFOLIO DYNAMIC			
Indicator	**Q1 2024**	**Q2 2024**	**Q-on-Q change**
Expanding physical footprint	2.58	**2.19**	↓
Re-locating core facilities	2.43	**2.52**	↑
Increasing % of sustainable buildings	2.96	**2.84**	↓
Offshoring functions to new locations	2.66	**2.51**	↓

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

- The portfolio dynamics sub-index fell back for the second consecutive quarter, falling by 0.57 points in Q2. Much of the confidence gained in the second half of 2023 has been lost and the sub-index is at its lowest level on record. Capital constraints are clearly influential here.
- Despite this, there has been a slight uptick in sentiment around relocations over the next six months. This may be forced by lease events but could also represent the emergence of occupiers seeking greater value and efficiency from their office space.
- A more negative growth outlook has certainly served to reduce expectations around footprint expansion. The reading of 2.19 for this indicator is the lowest on record.
- More value driven occupiers – particularly those not publicly listed – may seek compromise when it comes to sustainable real estate – with the latest reading of 2.84 the lowest seen. Short-term supply challenges may also be at work here.
- Momentum has also slowed in terms of the future offshoring of activity, with the latest reading of 2.51 representing a decrease of 0.15 points q-on-q. The combination of growing cost sensitivity and the need to drive operational efficiency and productivity without headcount growth is undoubtedly fuelling consideration of offshoring, as we are witnessing in several Asian markets.

Source: Knight Frank 2024, N=77

Sentiment Scorecard

Workplace Dynamics Q2 2024

WORKPLACE DYNAMIC			
Indicator	**Q1 2024**	**Q2 2024**	**Q-on-Q change**
Back to pre-pandemic occupancy levels	2.62	**2.36**	↓
Significant changes to office design / configuration	2.79	**2.68**	↓
Increasing density of occupation	3.02	**3.06**	↑
Enhancing office services / amenities	2.84	**2.75**	↓

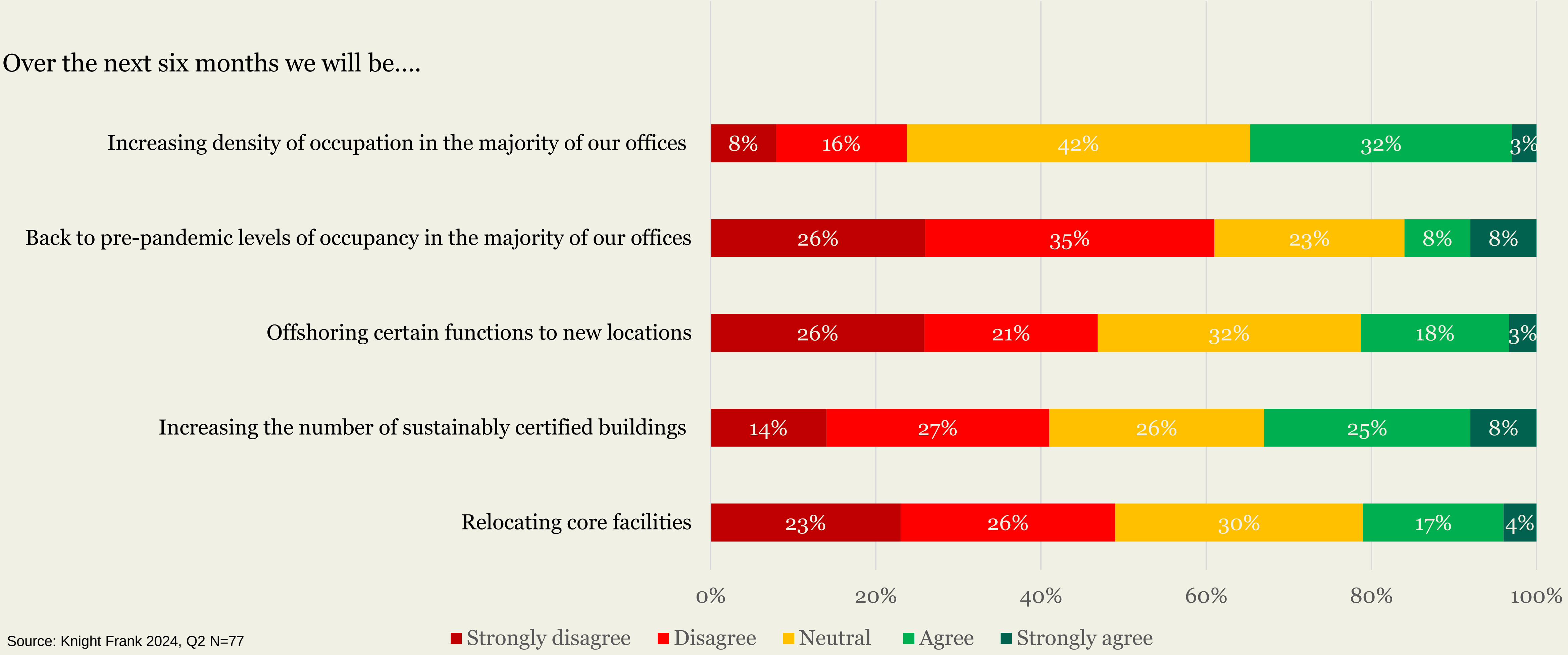
Scores >3 represent positive sentiment and <3 represent negative sentiment

Source: Knight Frank 2024, N=77

- The workplace dynamic sub-index fell for the second consecutive quarter and back to levels last seen at the end of 2022, standing at 10.85.
- Three of the four indicators saw q-on-q reductions of up to 0.26 points.
- Sentiment is weakest in relation to a return to pre-pandemic levels of occupancy. The RTO debate which raged across global markets over the last 12-18 months seems to have subsided with many occupiers recognising that more flexible workstyles are a post-pandemic reality and will lead to variation in occupancy rates. The score of 2.36 is the lowest since Q2 2023 with reductions being seen throughout 2024.
- There is subdued sentiment around both changes to office design and configuration, and the future enhancement of services and amenities. The latter is once again clearly influenced by reductions in capital expenditure.
- The only indicator which has seen q-on-q improvement, and which sits with a score of above 3 (positive sentiment), relates to the increasing density of occupation. This indicator has been positive for three consecutive quarters and aligns with a need for greater efficiency and cost mitigation.

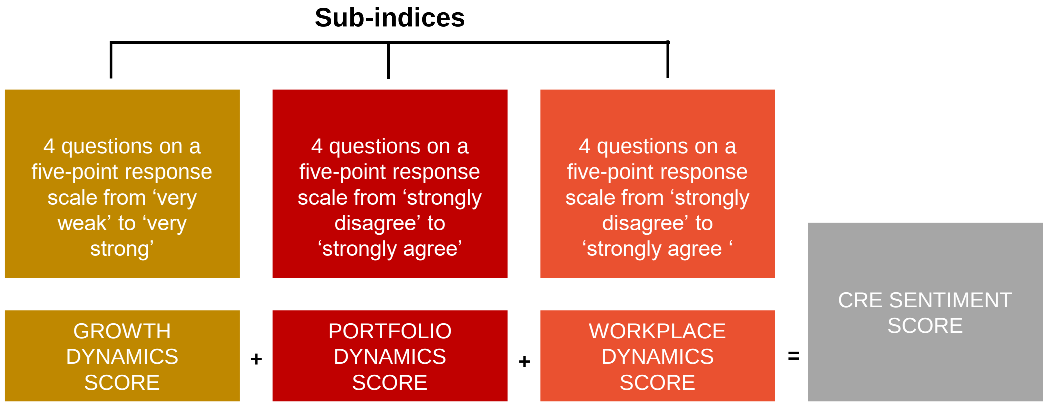
Current weight of opinion

Selection of 5 of the 12 indicators in GCRESI showing the weight of opinion from respondents



Source: Knight Frank 2024, Q2 N=77

Methodological note



Growth dynamics score	Portfolio dynamics score	Workplace dynamics score	CRE sentiment score
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 a 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.

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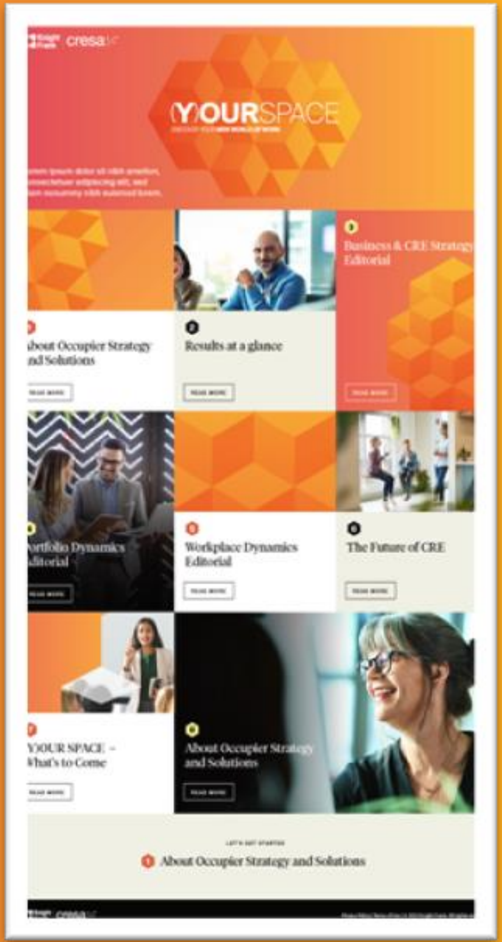

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