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DISCOVER YOUR **NEW WORLD OF WORK**

**THE KNIGHT FRANK CRESA CORPORATE REAL ESTATE
SENTIMENT INDEX**

SUMMARY OF FINDINGS, Q2 2022



INTRODUCTION

Welcome to the first edition of the Knight Frank Cresa Corporate Real Estate Sentiment Index.

Corporate real estate leaders have been through a challenging time over the last two years.

COVID-19 has brought profound changes to working styles, the day-to-day operation of corporate real estate and a wider debate about the future role and purpose of the office.

Challenge and uncertainty are not limited to the effects and aftermath of the pandemic. Changing macro-economic conditions are bringing new operational realities to the fore. This will form that backdrop for future corporate real estate strategy and activity.

With this in mind, we wanted to regularly test the temperature of corporate real estate professionals via an industry first sentiment survey.

The Knight Frank Cresa Corporate Real Estate Sentiment Index is a simple 12 question on-line survey conducted quarterly that gauges sentiment in relation to three areas – growth, portfolio and workplace dynamics. Each of these areas are assessed individually in a sub-index, but are then combined to produce an overall sentiment score.

A full methodological note for the index can be found at the end of this document but in the overall index a score in excess of 36 indicates positive sentiment, whilst for the three sub-indices a score over 12 suggests similar.

After a trial study was undertaken across a limited cohort at the end of Q1, we repeated the exercise at the end of Q2 with responses obtained during the first two weeks of July 2022. 218 responses were obtained – thank you so much for your participation. What follows is a brief analysis of the Q2 index findings.

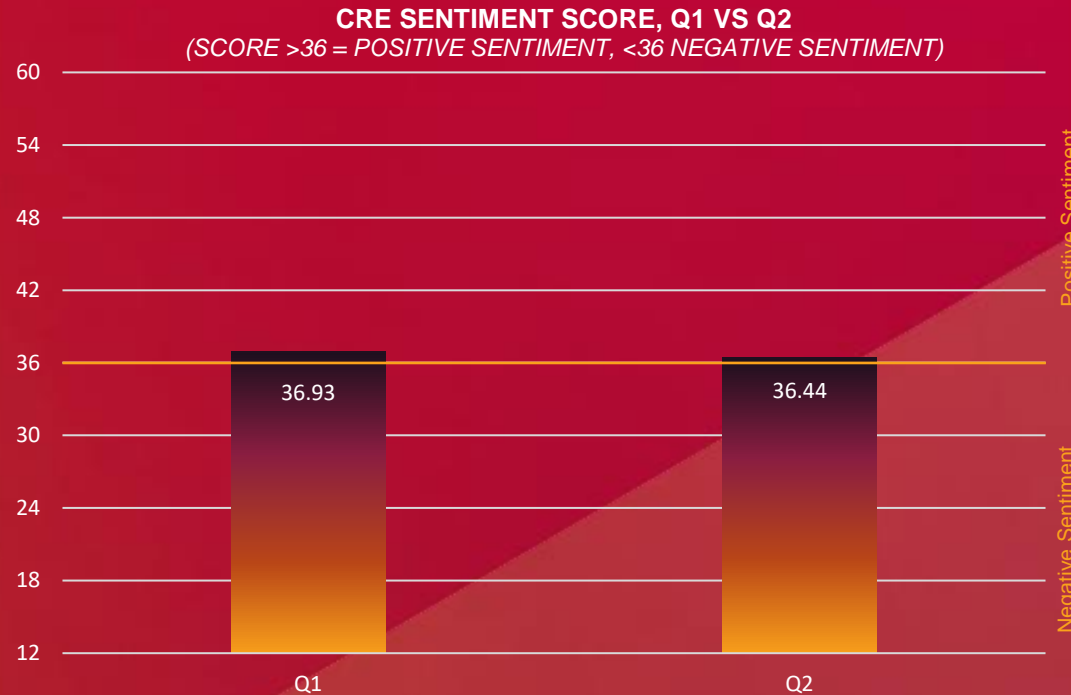
We hope you find these insights useful and we look forward to your continued contribution to the index. As always, please do contact me directly with any feedback or future considerations.

Best wishes

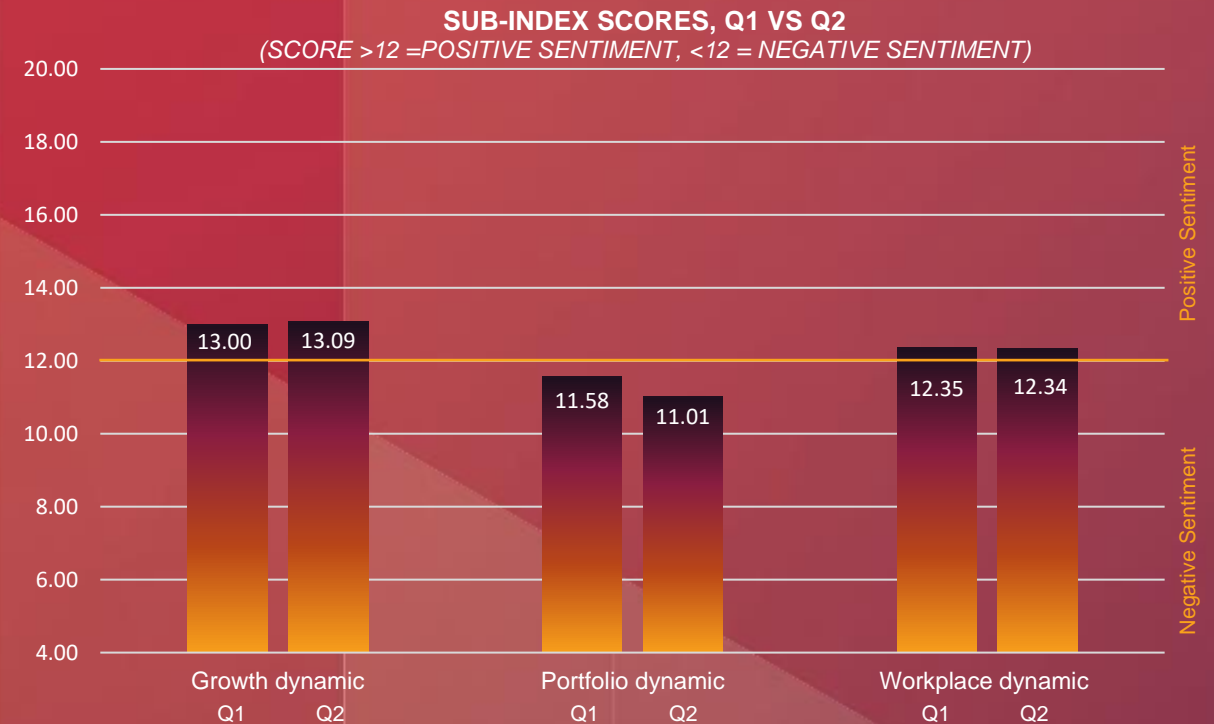
Tim Armstrong

CRE SENTIMENT INDEX RESULT

MARGINALLY POSITIVE SENTIMENT, BUT TRENDING DOWNWARDS Q-ON-Q



- ▶ Corporate real estate leader sentiment is marginally positive for the next six months, although has trended downwards from Q1, with an absolute score of 36.44.
- ▶ Those leaders operating with a global remit are most positive – recording a sentiment score of 37.04, whilst those operating at a regional level (APAC, EMEA, AMR) were the least positive, scoring 36.03.



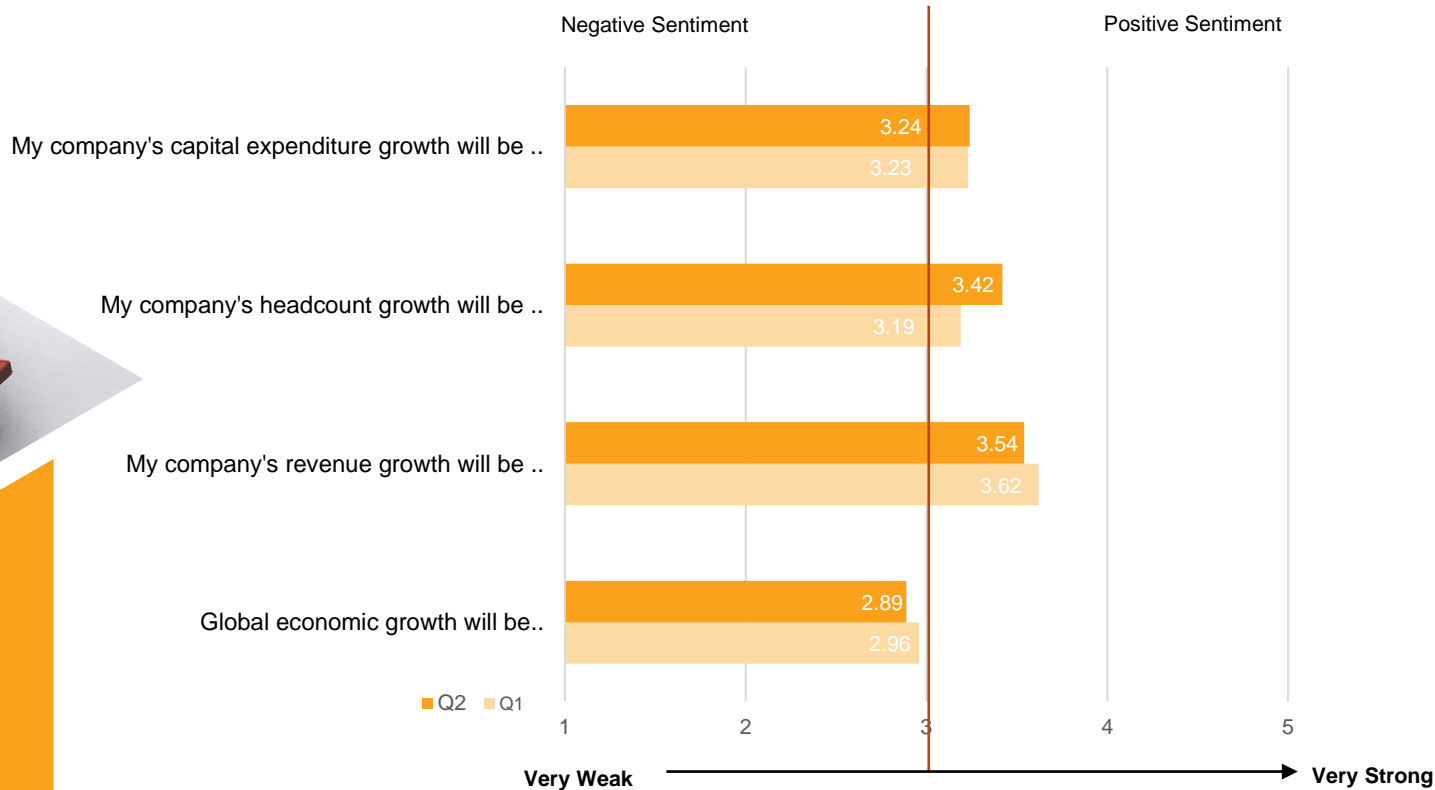
- ▶ CRE leaders continue to be most positive about prospects for growth (absolute score of 13.09) and least positive about future portfolio dynamics (absolute score of 11.01).
- ▶ Over the next 6 months CRE activity will largely be focused at the workplace rather than portfolio level, with teams seeking to reoccupy, reconfigure and revitalise their existing real estate.

(Source: Knight Frank Cresa, 2022)
(Q2 n=218, Q1=26)

GROWTH DYNAMICS (Q1 V Q2)

DECLINING SENTIMENT TOWARDS GLOBAL ECONOMIC GROWTH, BUT COMPANY GROWTH SEEN AS RESILIENT WITH STRENGTHENING EXPECTATIONS AROUND HEADCOUNT GROWTH

OVER THE NEXT SIX MONTHS ...



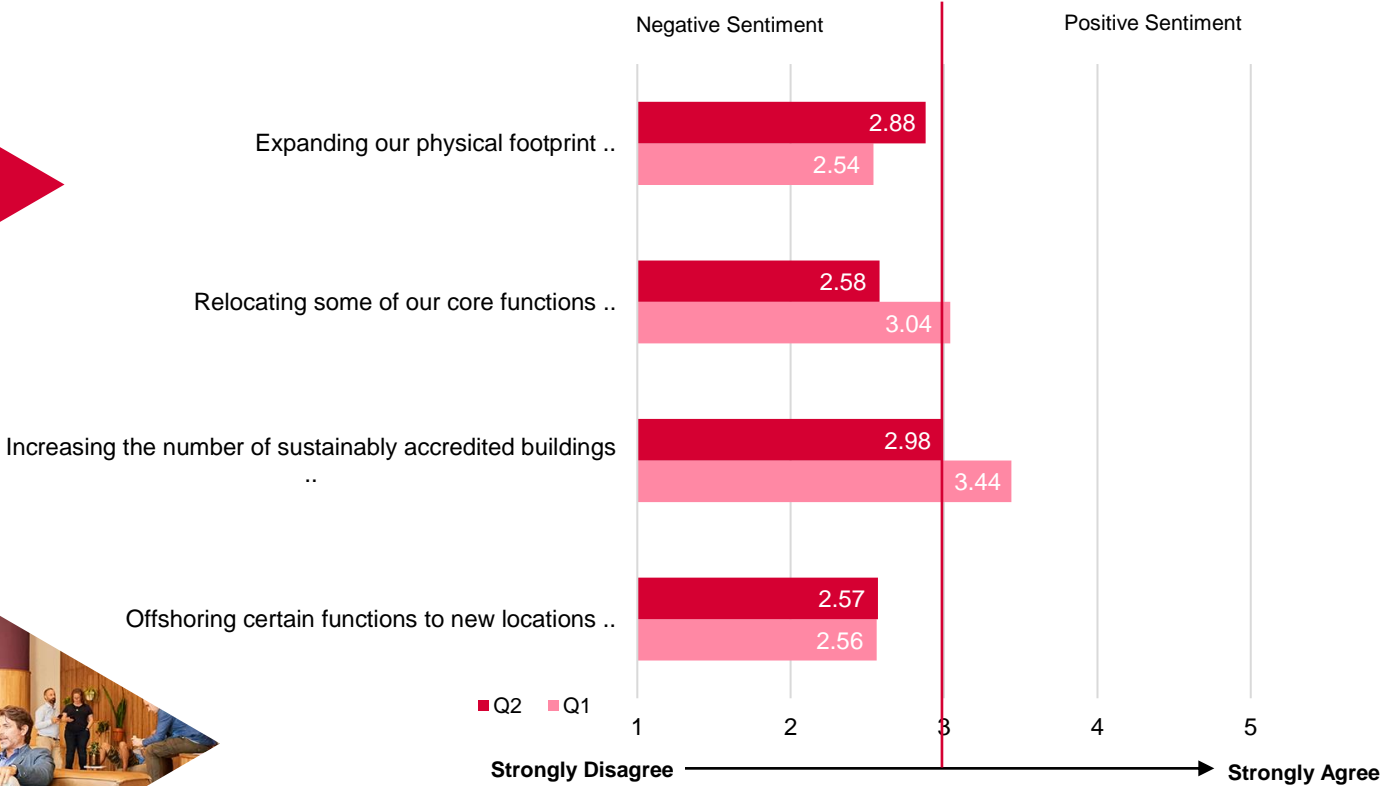
- ▶ Respondents view prospects for global economic growth as marginally negative over the next 6 months, with a small reduction in sentiment from Q1 to Q2. This weakening sentiment is in keeping with a softening economic outlook due to inflationary and geo-political pressures.
- ▶ Respondents are more upbeat about growth prospects for their company. Expectations around revenue, headcount and capex growth over the next six months have all remained positive.
- ▶ Sentiment around headcount growth actually increased q-on-q. Traditionally headcount growth has been a stimulus for increased CRE activity at both portfolio and workplace level – although the inter-relationship is less clear-cut given new working styles that have been ushered in since the pandemic.
- ▶ In the main, despite negativity at the macro level, the index findings augur well for CRE team activity particularly as there is sustained positive sentiment around capital expenditure, which is key to the delivery of real estate projects at either the workplace or portfolio level.

(Source: Knight Frank Cresa, 2022)
(Q2 n=218, Q1= 26)

PORTFOLIO DYNAMICS (Q1 V Q2)

LIMITED EXPECTATIONS AROUND PORTFOLIO REORGANISATION THROUGH RELOCATIONS AT OFFSHORING AND A SOFTENING OF THE PUSH TOWARDS SUSTAINABLY ACCREDITED BUILDINGS

OVER THE NEXT SIX MONTHS WE WILL BE ...



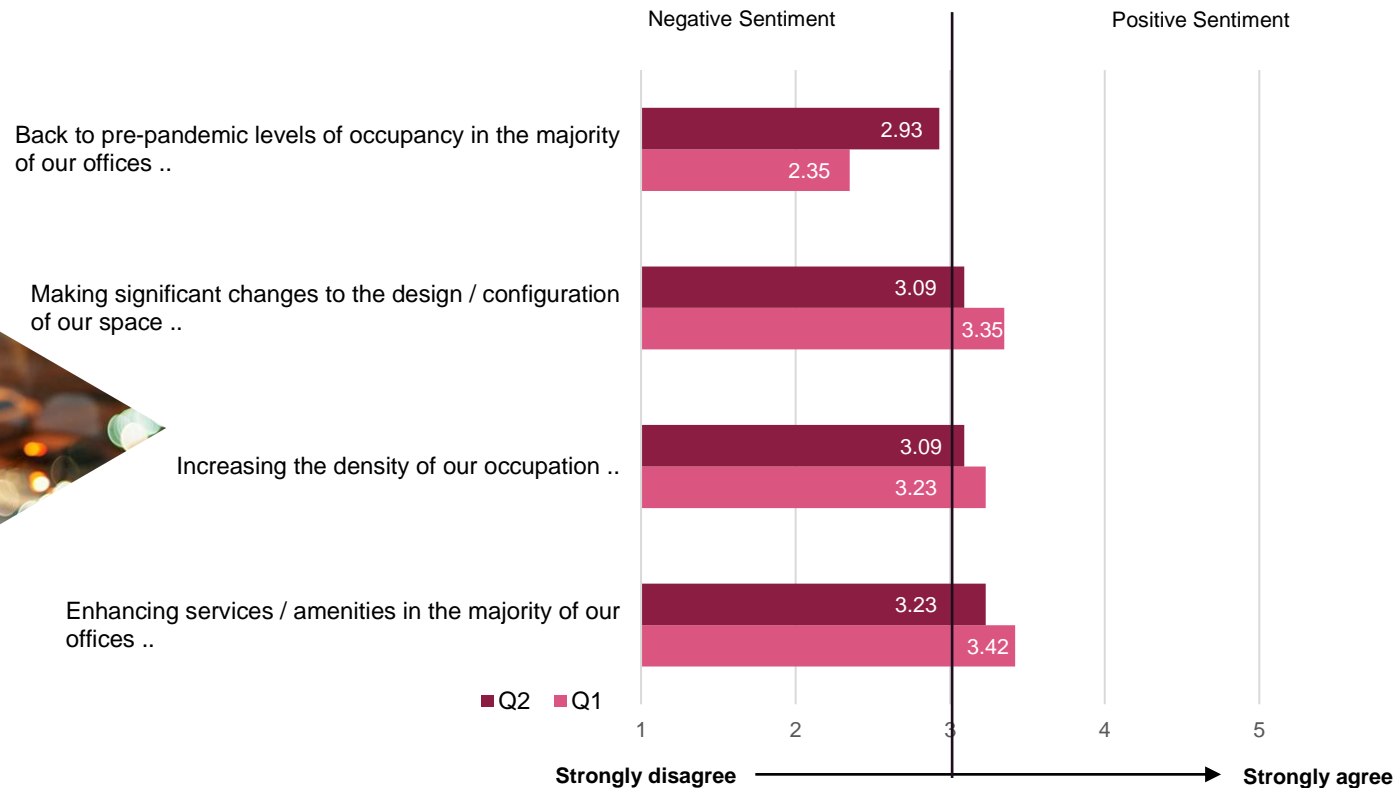
- ▶ All statements regarding future portfolio dynamics were met with negative sentiment, suggesting that large scale portfolio reconfiguration is not likely over the next six months.
- ▶ Sentiment actually improved q-on-q in relation to the expansion of physical footprints but remained in negative territory. This may signal increased planning for future change at the portfolio level underpinned by the positive growth outlook perceived at company level.
- ▶ Sentiment reduced markedly in relation to the relocation of core facilities. This is likely to drive greater lease renewals and regearing as occupiers buy-time.
- ▶ Sentiment remains consistently negative around the offshoring of certain functions to new locations, perhaps reflecting growth concerns about the resilience of global operational platforms. Negativity around future global economic growth and an associated increase in corporate cost sensitivity may change expectations here over the medium-term.
- ▶ There was a significant reduction in sentiment around 'increasing the number of sustainably accredited buildings within portfolios' and this is now marginally negative.

(Source: Knight Frank Cresa, 2022)
(Q2 n=218, Q1= 26)

WORKPLACE DYNAMICS (Q1 V Q2)

SLIGHT IMPROVEMENT IN TONE TOWARDS RE-OCCUPANCY LEVELS,
AS OFFICE RECONFIGURATION & AMENITY ENHANCEMENT REMAIN IN FOCUS

OVER THE NEXT SIX MONTHS WE WILL BE ...

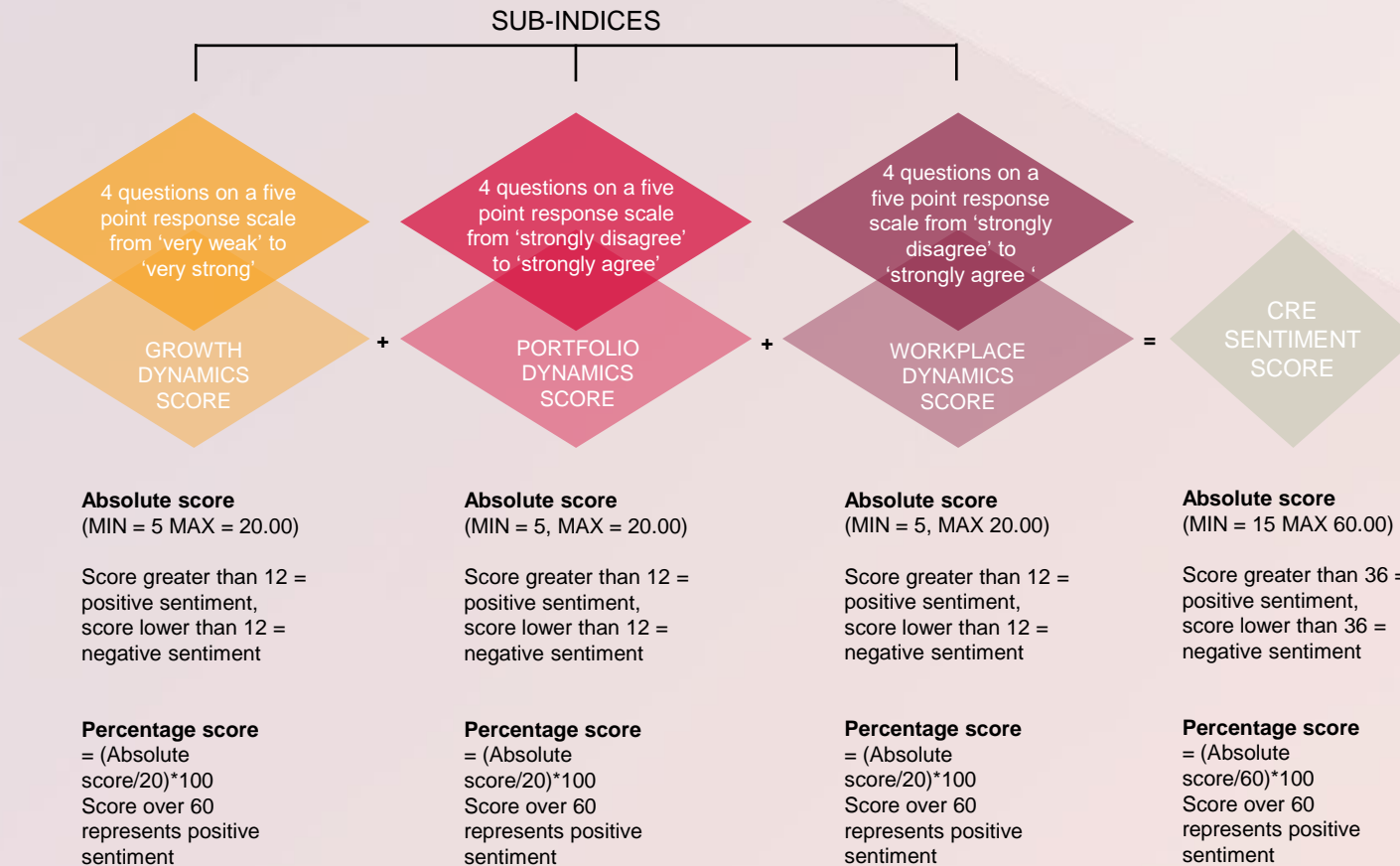


- ▶ Sentiment around the move back toward pre-pandemic levels of occupancy improved q-on-q but is moving towards a neutral position. This points to continued uncertainty about how re-occupancy is going to play out.
- ▶ All other elements of the index at the workplace level were met with positive sentiment but, in keeping with the overall tone, at levels lower than witnessed in Q1.
- ▶ Improvements in the design, services and amenities found within the workplace are likely over the next six months – supporting a move towards creating better workplaces to entice staff back and / or repurpose the office.
- ▶ There was mild overall agreement to the suggestion that the density of occupation will increase over the next six months. This is counter to the prevailing narrative during the pandemic which suggested a de-densification of office use with more space per person emerging.
- ▶ This may be a reflection of the fact that as organisations move towards more hybrid forms of working the actual floor-space per person might decrease (reflecting greater density on a pure headcount basis) but in reality does not mark such a move because the headcounts relationship with that space is more fluid and flexible.

(Source: Knight Frank Cresa, 2022)
(Q2 n=218, Q1= 26)

METHODOLOGICAL NOTE

ABOUT THE KNIGHT FRANK CRESA CORPORATE REAL ESTATE SENTIMENT INDEX



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.

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