THE KNIGHT FRANK CRESA GLOBAL CORPORATE REAL ESTATE SENTIMENT INDEX

Q4 2022

SUMMARY OF FINDINGS

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KNIGHT FRANK CRESA GLOBAL CRE SENTIMENT INDEX

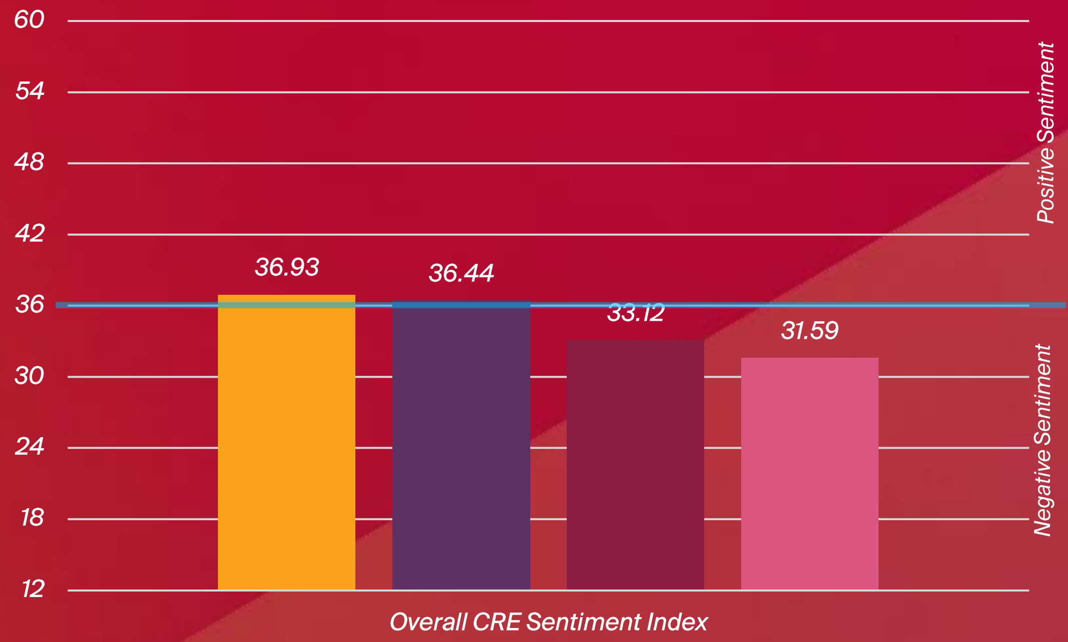
Executive summary of Q4 findings

- 118 corporate real estate leaders responded to our latest Q4 survey, conducted between the 11th and 27th January 2023.
- 75% of all respondents operate at a regional or global level.
- Q4 sentiment trended downwards amid a worsening macro-economic and operating environment, with the index falling by 2.6% q-on-q to stand at 31.59 (with a score below 36 representing negative sentiment).
- All three sub-indices that comprise the main index – measuring growth, portfolio and workplace dynamics – trended downwards q-on-q and all now show negative sentiment by recording scores below 12.
- Sentiment around prospects for global economic growth over the next six months improved marginally in Q4 but remained negative, echoing wider macro-analysis which points to a flatter and shorter global downturn.
- However, the gap between global economic sentiment and corporate performance closed during Q4 with expectations around corporate revenue, capital expenditure and headcount growth all falling q-on-q, with the last two recording negative sentiment with scores below 3.
- Sentiment relating to portfolio dynamics fell by just 0.17 q-on-q, suggesting that respondents are becoming more attuned to the future prospects for change at a portfolio level. Sentiment relating to future offshoring did trend upwards marginally q-on-q.
- In terms of workplace dynamics, intervention here appears to be more constrained over the next six months – perhaps as a function of reduced growth in capital expenditure budgets – with the sub-index falling by 2.2% q-on-q. All four indicators within the sub-index now show negative sentiment with scores below 3. Once again sentiment around the potential return to pre-pandemic levels of occupancy remains the lowest across the whole survey, suggesting that new baselines will be set around future office occupancy levels.
- The sentiment index is calculated on average scores across the entire sample population. In this executive summary, pages 7 & 8 illustrate the breadth of opinion in relation to future portfolio and workplace dynamics and identifies where the balance of opinion is and which issues are most polarising for CRE professionals presently.

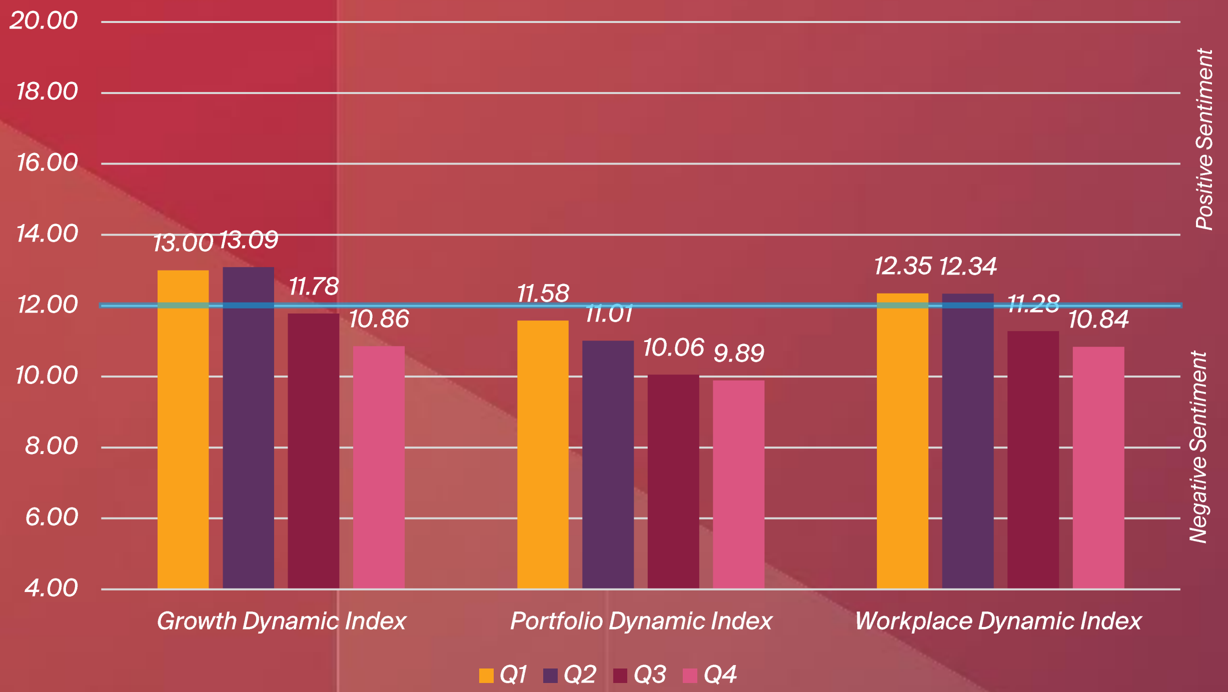
CRE SENTIMENT INDEX RESULTS (Q1-Q4 2022)

Sentiment falls further but at a slower rate. Turning point ahead?

The Knight Frank Cresa Global Corporate Real Estate Sentiment Index Q1-Q4 2022
(Score >36 = positive sentiment, <36 = negative sentiment)



The Knight Frank Cresa Global Corporate Real Estate Sentiment Index Q1-Q4 2022
(Score >12 = positive sentiment, <12 = negative sentiment)



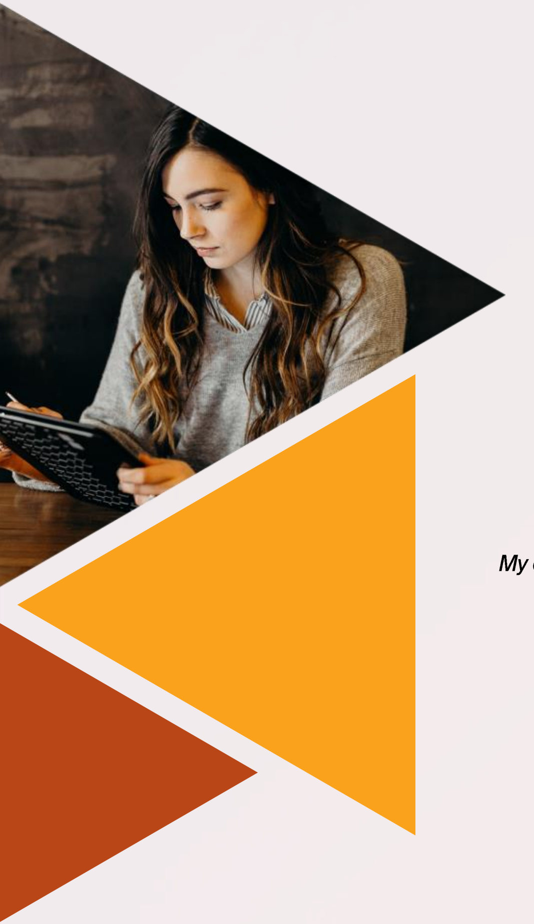
- Global corporate real estate leader sentiment fell by 2.55% (1.53 points) q-on-q and is at the lowest level since the survey began. The pace at which sentiment has reduced has slowed, however, suggesting that there may be a turning point over the next six months, particularly if global recession is avoided or is less severe than was anticipated in the closing months of 2022. Current sentiment will continue to act as a brake on CRE activity over the next six months, with planning and strategizing more in evidence than implementation.

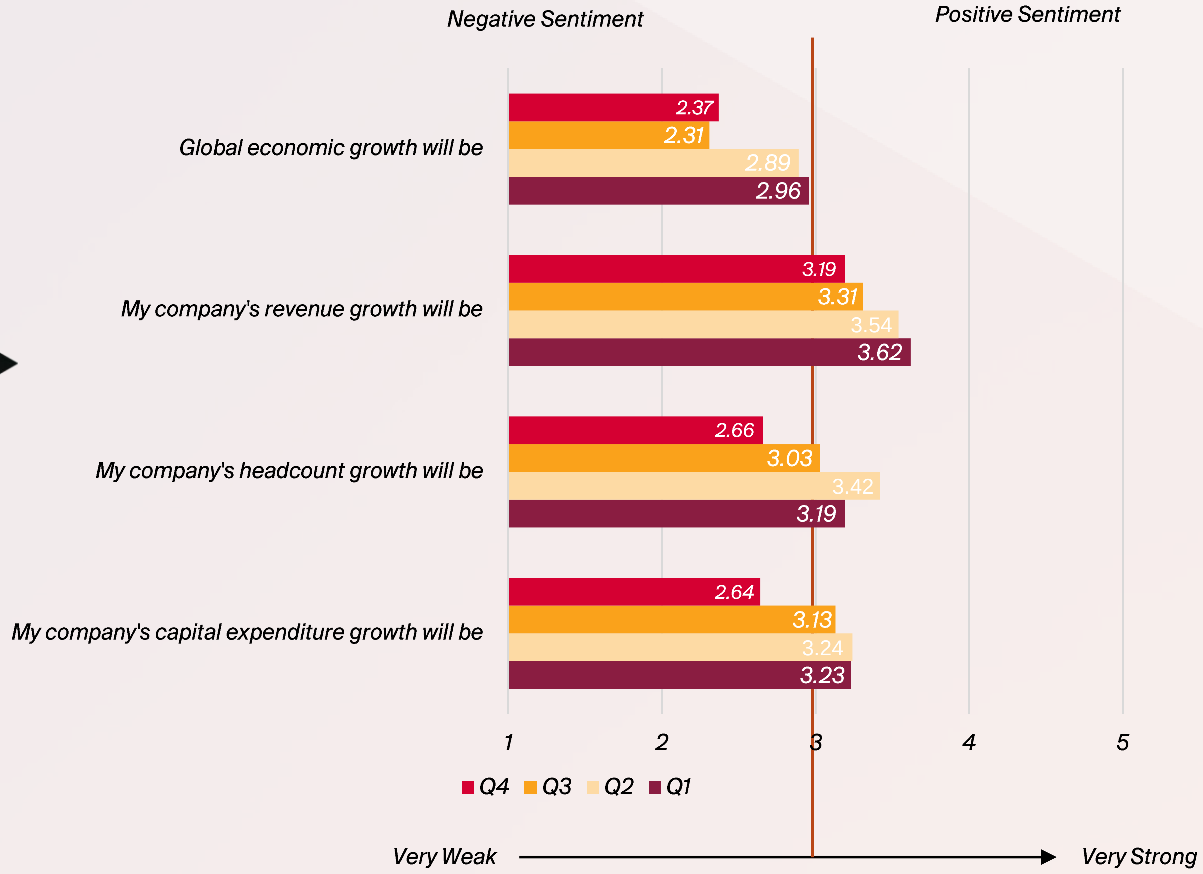
- All three sub-indices fell q-on-q. Sentiment around macro and company level growth dynamics fell most significantly by 0.92 points or 4.6% q-on-q. The portfolio and workplace indices also fell but by 0.17 and 0.44 points respectively over the same period.
- All three sub-indices continued to show negative sentiment over Q3, recording scores below 12. Sentiment was weakest in relation to anticipated portfolio dynamics over the next 6 months, although this element of the survey displayed greater stability q-on-q.

(Source: Knight Frank Cresa, 2023)(Q4 n = 118, Q3 n = 129, Q2 n=218, Q1 n= 26)

GROWTH DYNAMICS (Q1 – Q4 2022)

Sentiment around global economic growth improves but remains negative, corporate growth prospects take a hit particularly in relation to headcount & capex growth



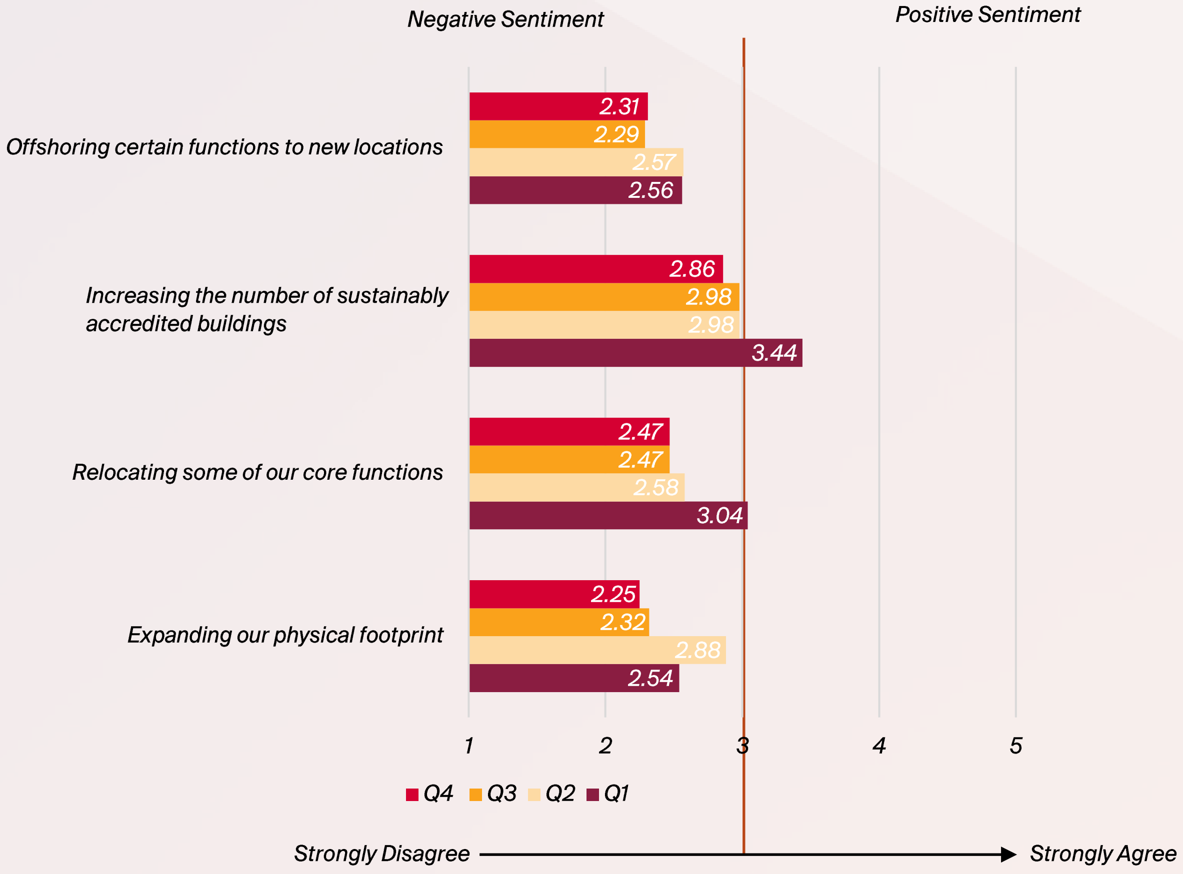


- Sentiment around growth prospects for global economic growth actually improved marginally by 0.06 points q-on-q. This is in keeping with analysis which suggests that the global economy might experience a shallower, shorter recession or avoid it altogether.
- Despite this slight improvement at the macro level, the differential between global economic and company level performance closed, bringing expectations around revenue, headcount and capital expenditure growth to all reduce q-on-q, with the latter two indicators now in negative territory for the first time since the inception of the survey.
- 39% of respondents with a global or regional remit view corporate headcount growth as 'weak' or 'very weak' over the next six months, while only 11% see their headcount growth as 'strong' or 'very strong'.
- Reduced expectations around headcount and capital expenditure growth are likely to serve as a brake on both expansionary activity and intervention at both the portfolio and workplace level over the next six months.

(Source: Knight Frank Cresa, 2023) (Q4 n = 118, Q3 n = 129, Q2 n=218, Q1 n= 26)

PORTFOLIO DYNAMICS (Q1 – Q4 2022)

Sentiment relating to portfolio dynamics is stablishing with expectations around offshoring improving slightly q-on-q

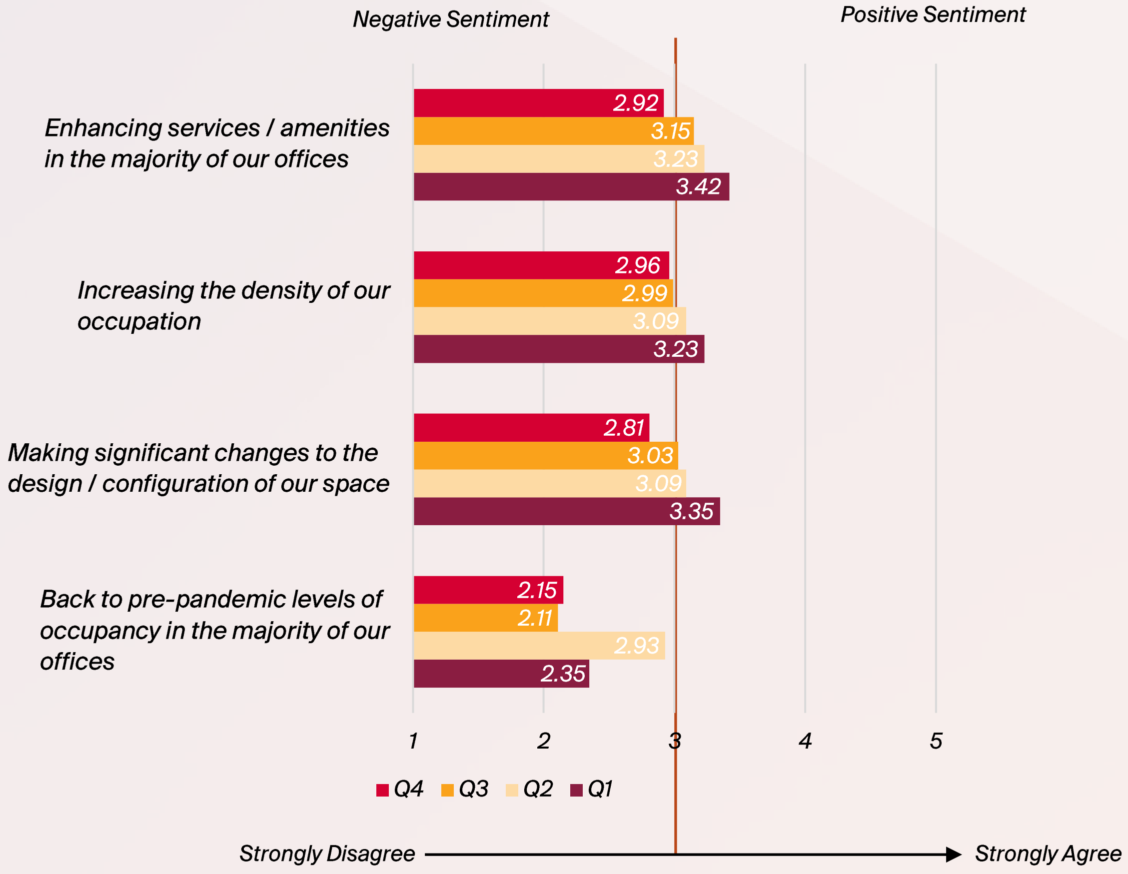


- The portfolio dynamics sub-index fell by just 0.17 points q-on-q suggesting some stabilisation. Indeed, there was a marginal positive turn in sentiment (+0.03) in relation to the future offshoring of functions to new locations, although this still received negative sentiment across the sample.
- The indicator relating to an increase in sustainably accredited buildings within a portfolio saw a downward shift in sentiment by 0.13 points after seeing stabilisation between Q2 and Q3. We are monitoring responses here carefully amid concerns that recent progress around recognising the role of real estate in supporting sustainability might take a backward step owing to the macro economic environment.
- Exploring this issue further, 41.6% of those with a global or regional CRE remit 'agree' or 'strongly agree' with the statement that they will increase the proportion of sustainable facilities in their portfolio. This outweighs the 31.5% who 'disagree' or 'strongly disagree'. In contrast, some 62% of respondents with a local remit expressed similar negative sentiment, while only 14% were agreeable.
- There was no change q-on-q in sentiment relating to the relocation of core facilities and this still records a negative sentiment score of 2.47. There were however some 27 respondents who 'agreed' or 'strongly agreed' with suggested relocations – which equates to 22.9% of our entire sample. This correlates with recent activity in major global office markets where occupiers have pushed ahead with resetting their HQ facilities, taking a flight to quality but in many cases also reducing the amount of space they procure.

(Source: Knight Frank Cresa, 2023)(Q4 n = 118, Q3 n = 129, Q2 n=218, Q1 n= 26)

WORKPLACE DYNAMICS (Q1 – Q4 2022)

Future intervention at the workplace level appears more constrained with the sub-index falling by 2.2% q-on-q, with all indicators now in negative territory



- Sentiment improved marginally in relation to occupiers moving back to pre-pandemic levels of occupancy with a 0.04 point improvement q-on-q. However, this indicator remains by far the most negative in the whole survey - a pretty consistent finding since the start of the year. We fully expect the baseline for office occupancy to be reset, reflecting more flexible working styles. Occupancy rates around the world are generally creeping up but remain well short of the 65-70% office occupancy typical of the pre-Covid period.

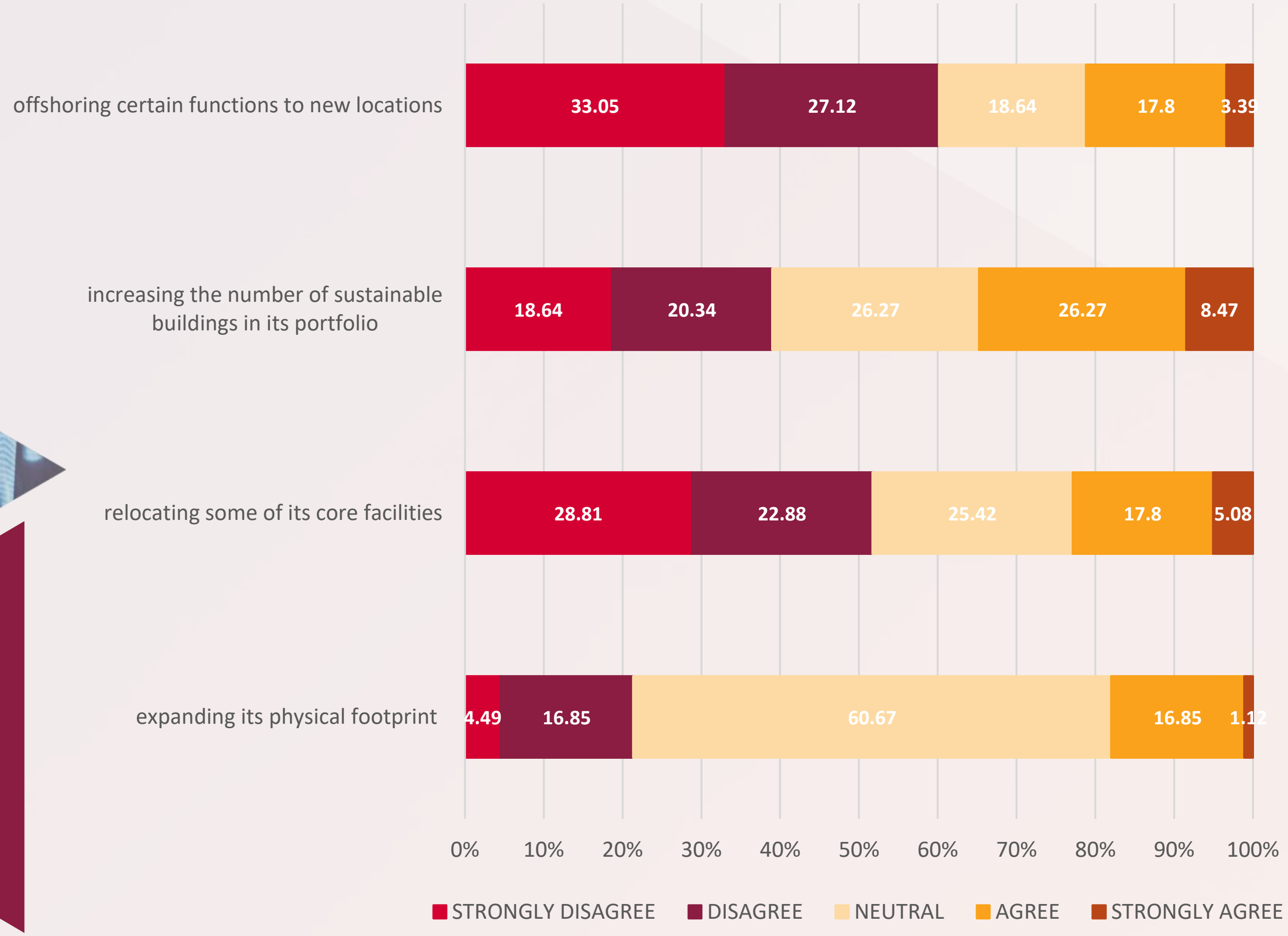
- The three other indicators within the sub-index all fell q-on-q. This might relate to changing sentiment around company growth where reduced capital expenditure will serve as a constraint on further intervention at the workplace level. Other valid interpretations could be that the macro-economic environment will generate a stronger return to office without the need for active intervention or that there is little room for manoeuvre for many organisations after sustained interventions over the course of the last 12 months.

- The very marginal reduction in sentiment around increasing density is not in our view significant. We do expect occupiers to continue to push for a stronger utilisation of office space – and possibly at a greater density as return to office mandates from many businesses strengthen and we see the growing adoption of an office first stance.

(Source: Knight Frank Cresa, 2023) (Q4 n = 118, Q3 n= 129, Q2 n=218, Q1 n= 26)

WEIGHT OF OPINION – PORTFOLIO DYNAMICS (Q4 2022)

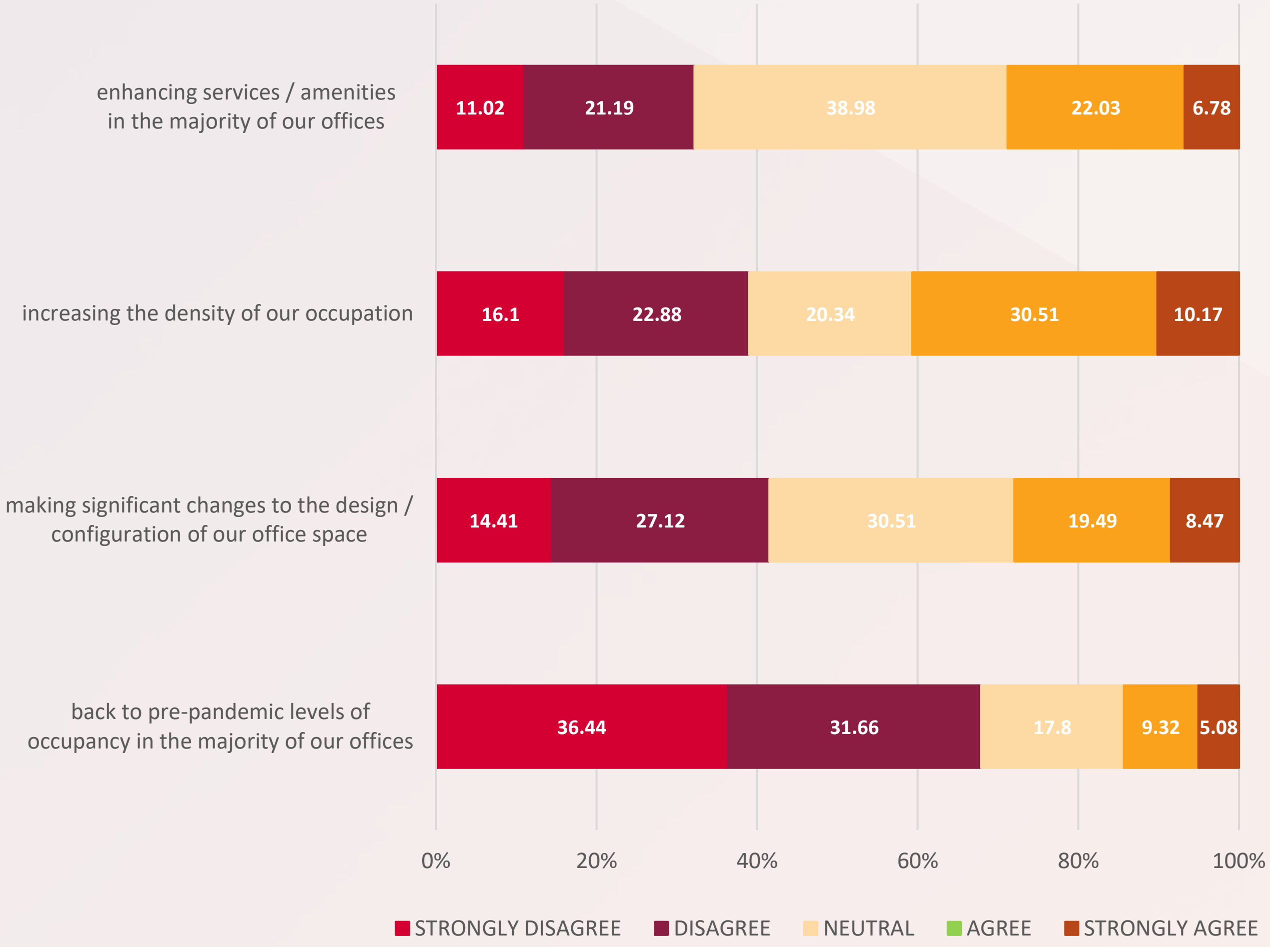
Where does the balance of opinion sit for each of the indicators?



- This element of the report provides a different analysis of the Q4 survey results. The main index is constructed around sample wide averages to generate quarterly scores at both an overall and sub-index level. In the analysis opposite we have taken those responses and grouped them in one of the five sentiment categories from 'strongly disagree' to 'strongly agree'. Each category is given a percentage value to show where the strongest weight of opinion sits.
- The expansion of the physical footprint is not on the agenda for many respondents with more than 60% responding neutrally to the suggestion – but the remaining 40% of respondents are fairly evenly split between being in agreement and disagreeing. This suggests little expansionary demand appearing in global office markets over the next 6 months.
- None of the other three indicators generated such a neutral response. The relocation and sustainable buildings indicators both saw around a quarter of respondents taking a neutral position but the weight of opinion was more agreeable on sustainability (35%) than relocating (22%).
- In contrast, the notion of offshoring functions was met with a more negative response with 60% of all respondents strongly disagreeing or disagreeing, compared with only 20% being agreeable. This is perhaps unsurprising given the prevailing narrative about onshoring and a wider debate about de-globalisation and mitigating supply chain risks.

WEIGHT OF OPINION – WORKPLACE DYNAMICS (Q4 2022)

Where does the balance of opinion sit for each of the indicators?



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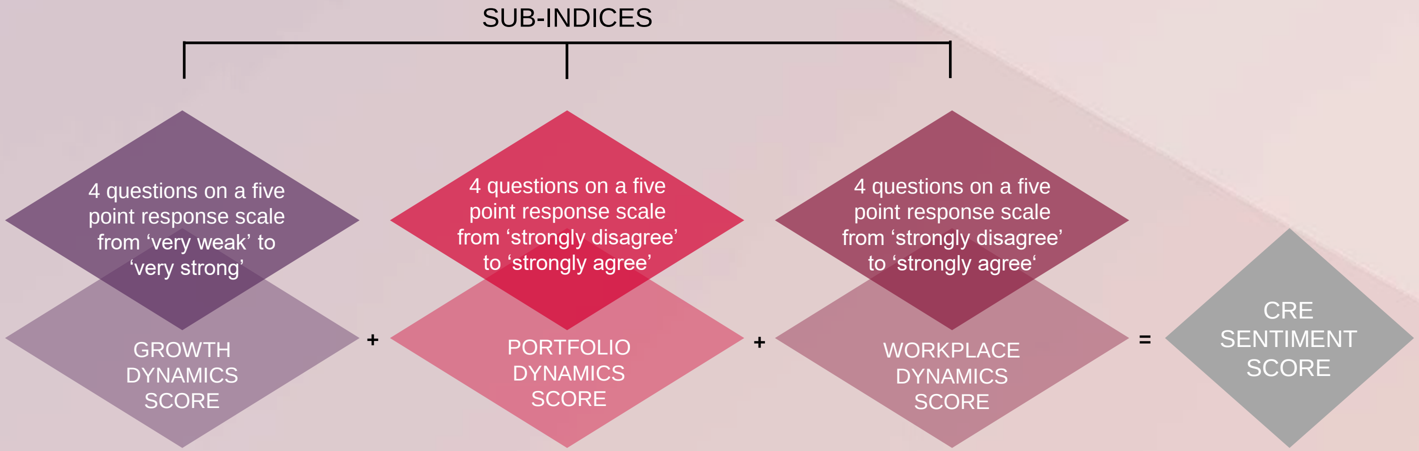
- Clearly workplace dynamics generate a stronger impulse than portfolio dynamics with generally fewer respondents adopting a neutral posture.
- The most emotive issue relates to re-occupancy – which generated the weakest sentiment across the whole survey. Almost 70% of respondents strongly disagree or disagree with occupancy rates getting back to pre-pandemic levels which again points to a resetting of the occupancy baseline. Just 14% of respondents anticipate a return to pre-pandemic levels of occupancy.
- Linked to this process of re-occupancy, more than 4 in every 10 respondents anticipate increasing the density of their occupation over the next six months – again a nod to strengthening return to office mandates and the adoption of an office first posture by many organisations.
- Just over 40% of respondents do not anticipate making big changes in the design or reconfiguration of their office space – perhaps a reflection of reduced availability of capex or maybe inertia in attempts to intervene given the prevalence of such activity since the onset of the pandemic.

METHODOLOGICAL NOTE

ABOUT THE KNIGHT FRANK CRESA CORPORATE REAL ESTATE SENTIMENT INDEX



Absolute score
(MIN = 5 MAX = 20.00)

Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment

Percentage score
= (Absolute score/20)*100
Score over 60 represents positive sentiment

Absolute score
(MIN = 5, MAX = 20.00)

Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment

Percentage score
= (Absolute score/20)*100
Score over 60 represents positive sentiment

Absolute score
(MIN = 5, MAX 20.00)

Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment

Percentage score
= (Absolute score/20)*100
Score over 60 represents positive sentiment

Absolute score
(MIN = 15 MAX 60.00)

Score greater than 36 = positive sentiment, score lower than 36 = negative 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.

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