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

SUMMARY OF FINDINGS, Q3 2022

KNIGHT FRANK CRESA GLOBAL CRE SENTIMENT INDEX

Executive summary of Q3 findings

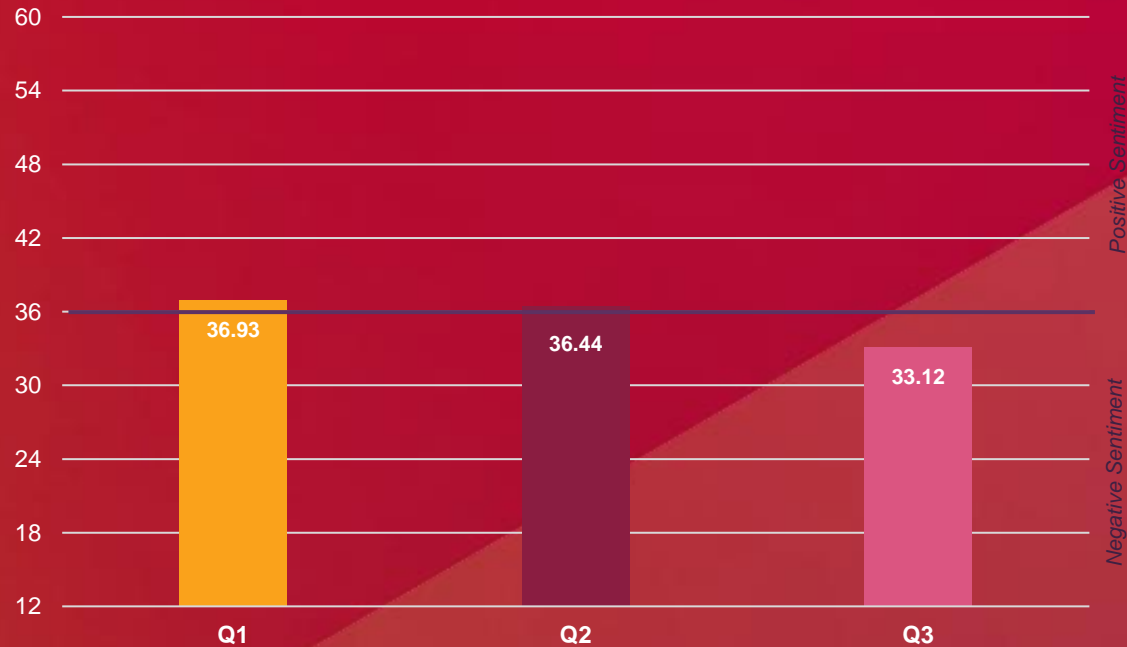
- ▶ 129 corporate real estate leaders responded to our latest Q3 survey, conducted between the 3rd and 14th October 2022.
- ▶ 78% of all respondents operate at a regional or global level.
- ▶ Q3 sentiment turned negative amid a worsening macro-economic and operating environment, with the index falling by 5.5% q-on-q to stand at 33.12 (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.
- ▶ Prospects for global economic growth softened further in Q3 as did company growth indicators, although revenue, capital expenditure and headcount growth remain in positive territory.
- ▶ Sentiment relating to portfolio dynamics is also trending negative. Respondents show little immediate appetite for relocations or offshoring, whilst the expansion of physical footprints is off the agenda for the large majority.
- ▶ Q3 survey results show low respondent expectation of getting back to pre-pandemic levels of occupancy, although enhancing workplace services, amenities and design continues to be a focus in order to bolster utilisation.
- ▶ Survey respondents operating at a regional level tend to have more positive sentiment around future dynamics, particularly in relation to portfolio and workplace dynamics. Global respondents are most positive about the growth dynamic.
- ▶ There is clear variance in sentiment by industry sector. 70% of our Q3 respondents were drawn from four sectors – tech & media, financial services, professional services and business services. Professional service firms were most positive about future growth and workplace dynamics, whilst financial service firms were most negative about portfolio dynamics.

CRE SENTIMENT INDEX RESULT

SENTIMENT TURNS NEGATIVE, AMID WORSENING ECONOMIC & OPERATING ENVIRONMENT

CRE SENTIMENT SCORE, Q1 - Q3 2022

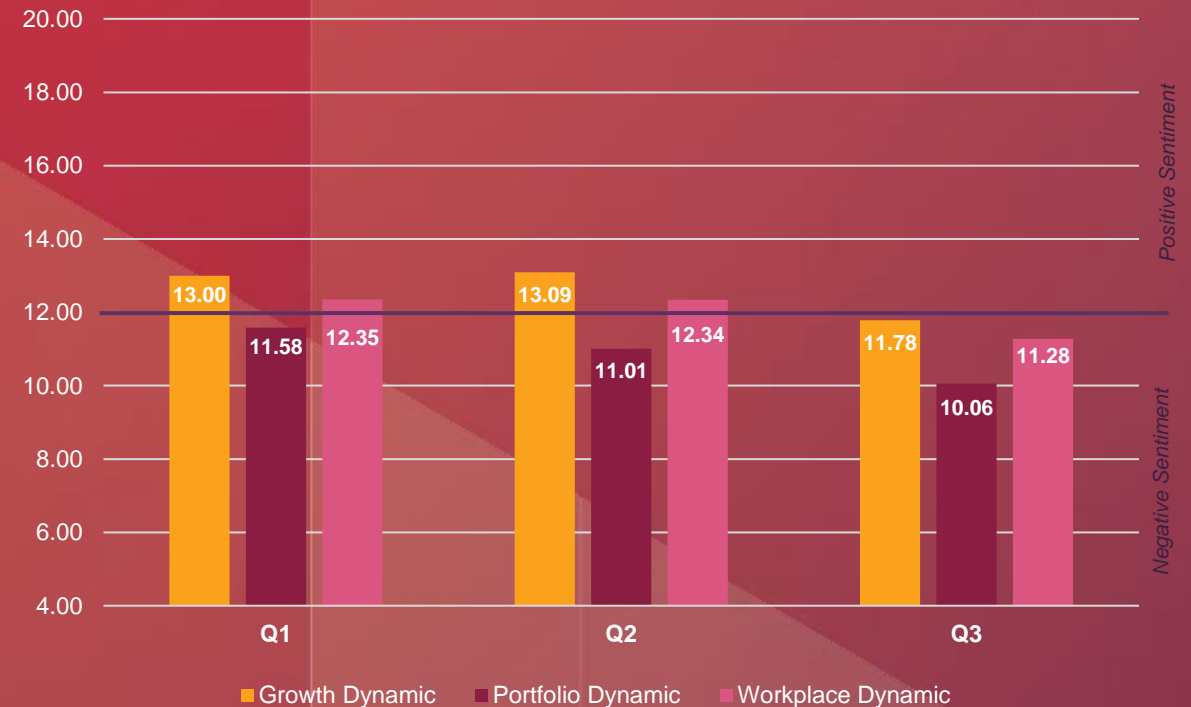
(SCORE >36 = POSITIVE SENTIMENT, <36 = NEGATIVE SENTIMENT)



- ▶ Corporate real estate leader sentiment fell by 5.5% (3.3 points) q-on-q and is now firmly negative. There has been a steady erosion in sentiment since the start of the year. Current sentiment will serve as a brake on CRE activity over the next six months, although we expect teams to continue developing plans and strategies but not implementing this side of year end.

SUB-INDEX SCORES, Q1 - Q3 2022

(SCORE >12 = POSITIVE SENTIMENT, <12 = NEGATIVE SENTIMENT)



- ▶ All three sub-indices fell q-on-q. Sentiment around macro and company level growth dynamics fell most significantly by 1.31 points or 6.6% q-on-q although the portfolio and workplace indices also fell by around 1 point over the same period.
- ▶ All three sub-indices returned negative sentiment over Q3, with sentiment weakest in relation to anticipated portfolio dynamics over the next 6 months.

(Source: Knight Frank Cresa, 2022)
(Q3 n = 129, Q2 n=218, Q1= 26)

GROWTH DYNAMICS (Q1 – Q3 2022)

PROSPECTS FOR GLOBAL ECONOMIC GROWTH SOFTEN AS DO COMPANY GROWTH INDICATORS, ALTHOUGH REVENUE, CAPITAL EXPENDITURE & HEADCOUNT GROWTH ALL REMAIN POSITIVE

OVER THE NEXT SIX MONTHS ...



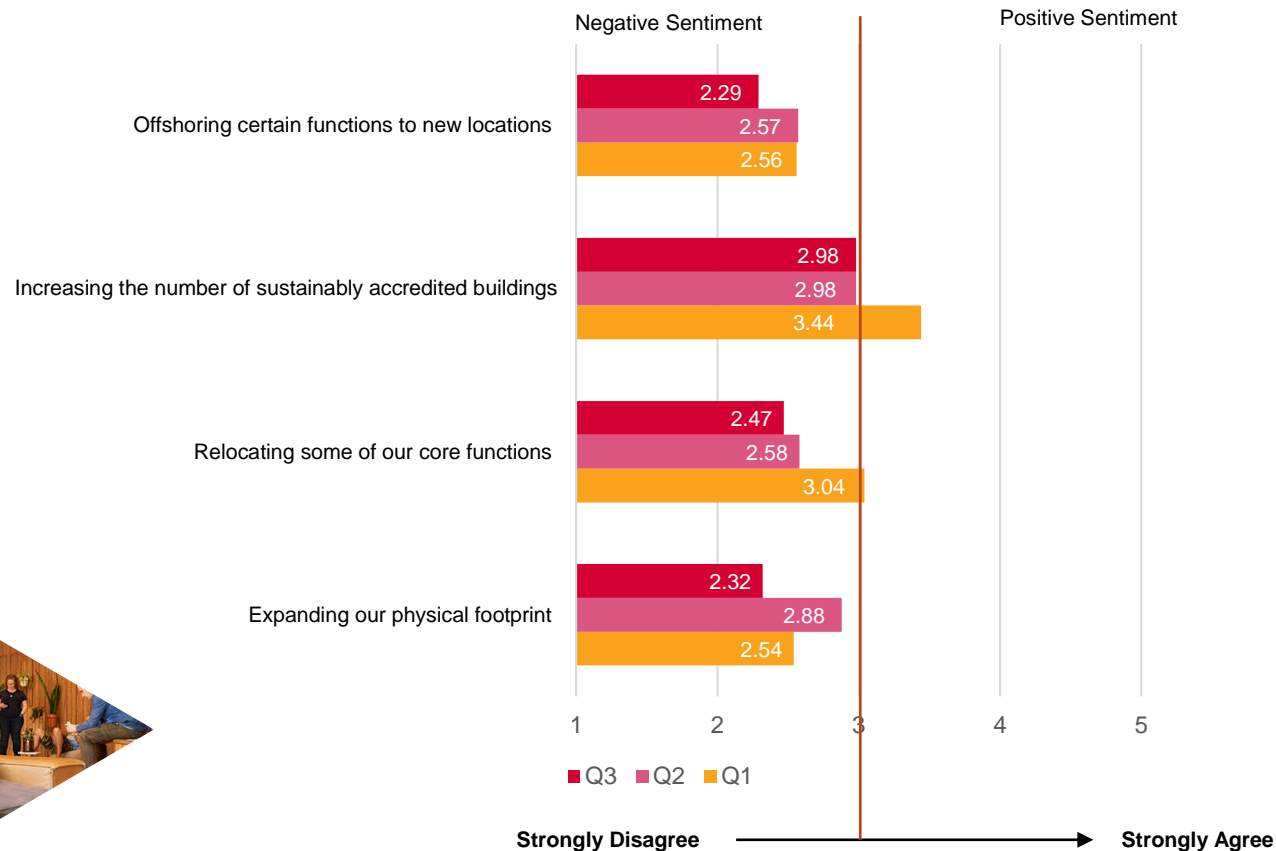
- ▶ There has been a significant fall in respondents' sentiments regarding global economic growth over the next six months. Sentiment fell by 0.58 points on a five-point scale. Prospects for global economic growth now represent the 3rd weakest factor of the 12 analysed in the index.
- ▶ Respondents continue to be more upbeat about growth prospects for their company, although sentiment has weakened q-on-q. Expectations around revenue, headcount and CAPEX growth over the next six months all remain positive.
- ▶ Headcount growth expectations are almost neutral suggesting that wider macro-conditions are starting to weigh on hiring rates and this will have some bearing on the space needs of occupiers over the medium term, although the relationship between headcount and space requirements is clearly being re-set in a new world of work.
- ▶ Expectations around revenue growth remain strong (3.31 on a five-point scale) although close attention is being paid to the next round of corporate earnings to see if that sentiment flows through into reality.
- ▶ Although sentiment has softened around capital expenditure (falling by 0.11 points q-on-q), it remains positive suggesting that it is not in itself a brake on CRE activity as things stand.

(Source: Knight Frank Cresa, 2022)
(Q3 n = 129, Q2 n=218, Q1 n= 26)

PORTFOLIO DYNAMICS (Q1 – Q3 2022)

SENTIMENT RELATING TO PORTFOLIO DYNAMICS IS TRENDING NEGATIVE. LITTLE IMMEDIATE APPETITE FOR RELOCATION, OFFSHORING WHILST EXPANSION IS OFF THE AGENDA FOR MOST.

OVER THE NEXT SIX MONTHS WE WILL BE ...



- ▶ All four statements relating to future portfolio dynamics continued to be met with negative sentiment by our sample of respondents, with the sub-index falling by 0.95 points or 4.75% q-on-q.
- ▶ The greatest fall came in relation to expectations around the expansion of the physical footprint (2.32). 56% of all respondents either strongly disagreed or disagreed with the suggestion of a growing physical footprint. We anticipate occupiers strategising around portfolio optimisation given the macroeconomic environment and the possible need to make cost savings going forward.
- ▶ That said, current sentiment was even weaker in relation to the offshoring of certain business functions to new locations (2.29) with less than 5% of all respondents 'strongly agreeing' that this course of action will be taken over the next six months.
- ▶ Although many occupiers recognise the strategic need to reset their core / HQ facilities in light of new workstyles and amid cost pressure, few see this as a route over the next 6 months with the sentiment score standing at 2.47 - a fall of 0.11 points q-on-q.
- ▶ Sentiment around 'increasing the number of sustainably accredited buildings within portfolios' stabilised q-on-q after falling in the previous quarter. The indicator remains marginally negative and it remains to be seen whether this represents a softening of corporate stance around ESG, a function of limited global supply of sustainable buildings or simply a short-term inability to transact.

(Source: Knight Frank Cresa, 2022)
(Q3 n = 129, Q2 n=218, Q1= 26)

WORKPLACE DYNAMICS (Q1 – Q3 2022)

LITTLE EXPECTATION OF GETTING BACK TO PRE-PANDEMIC LEVELS OF OCCUPANCY BUT INTERVENTION IN WORKPLACE SERVICE, AMENITY & DESIGN TO BOLSTER UTILISATION CONTINUES

OVER THE NEXT SIX MONTHS WE WILL BE ...

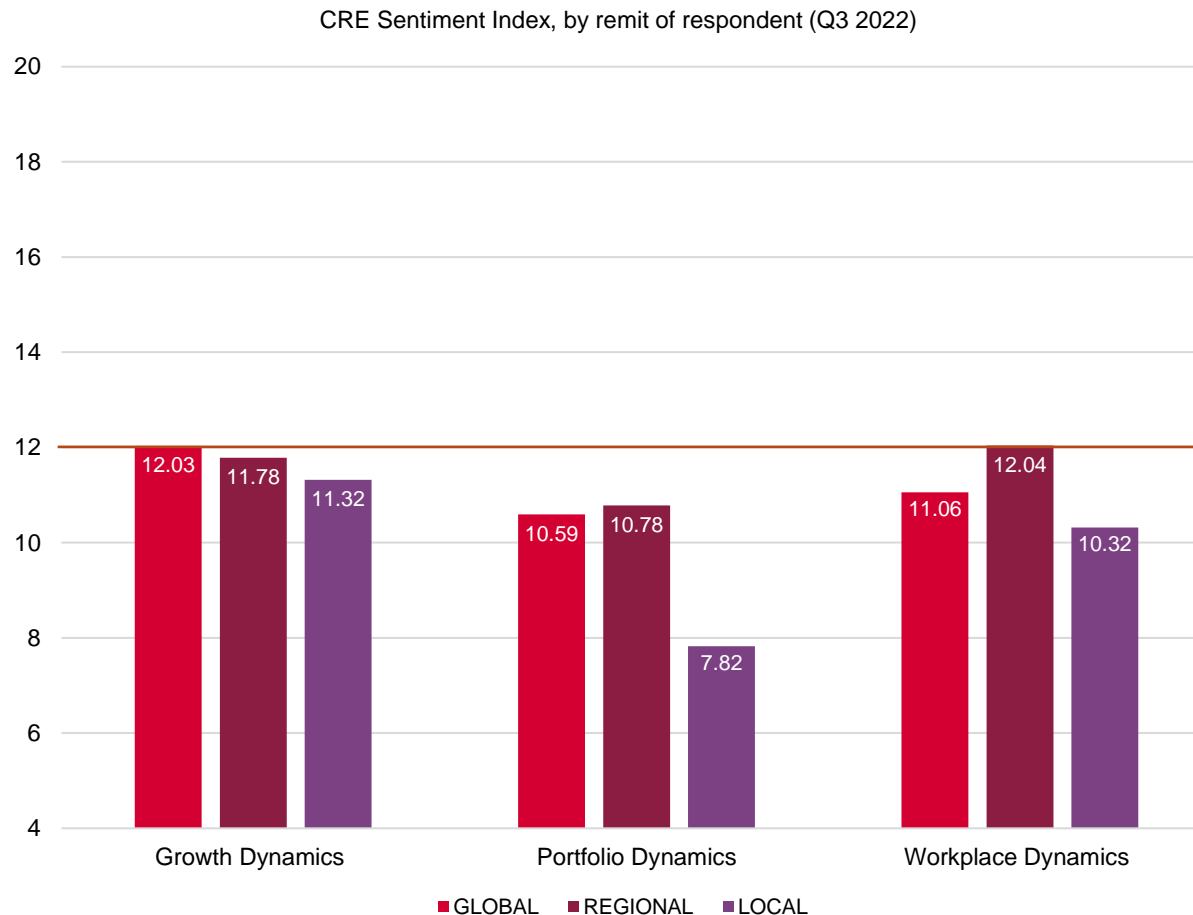


- ▶ After showing some improvement in Q2, sentiment around the move back toward pre-pandemic levels of occupancy weakened significantly in Q3 falling 0.82 points to 2.11 – the lowest sentiment for any of the 12 statements in the index.
- ▶ Just 16% of total respondents agreed or strongly agreed with the suggestion of getting back to pre-pandemic levels of occupancy, whilst in contrast 67% strongly disagreed or disagreed. This position does suggest that there will be a re-set of occupancy benchmarks in the new world of work introduced by the COVID-19 experience.
- ▶ Despite this dynamic, CRE leaders are most active at the workplace level with positive sentiment being expressed about enhancing office design, service and amenity over the next six months – although sentiment around such interventions has weakened marginally q-on-q.
- ▶ It should be noted that more than 10% of respondents strongly agreed that they would be making significant changes to the design and configuration of their space, and this is likely to have some impact on the density of occupation witnessed in respondents' workplaces over the next six months. Our read is that this is about increasing the utilisation of space (i.e. the number of individuals using the office) rather than necessarily reducing the amount of space on offer to each individual office user.

(Source: Knight Frank Cresa, 2022)
(Q3 n= 129, Q2 n=218, Q1= 26)

RESULTS BY REMIT OF RESPONDENT (Q3 2022)

RESPONDENTS OPERATING AT THE REGIONAL LEVEL TEND TO HAVE MORE POSITIVE SENTIMENT PARTICULARLY IN RELATION TO PORTFOLIO & WORKPLACE DYNAMICS



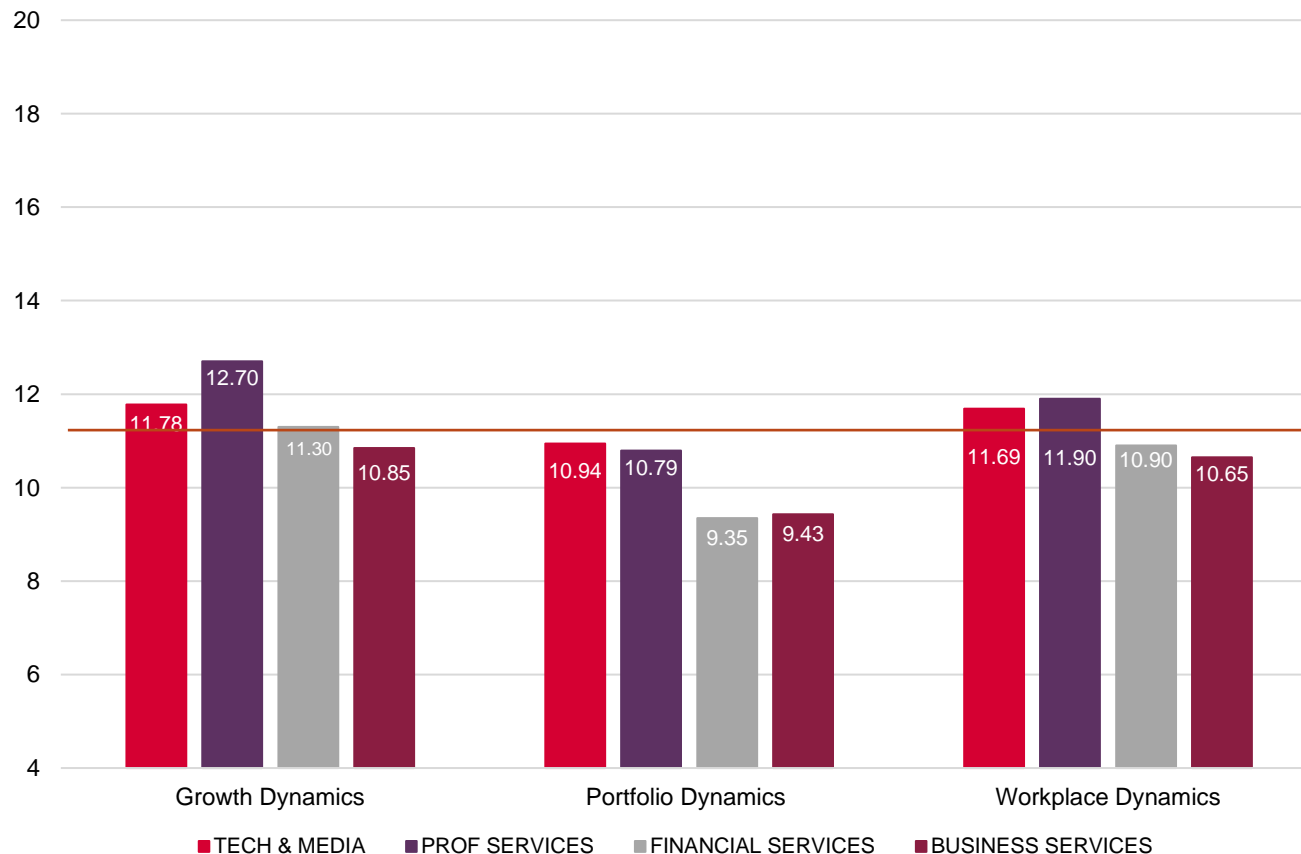
- ▶ Respondents to the survey operate across a broad-range of geographical remits. In assessing the Q3 sample, 80% of respondents operate across multiple markets in either global or regional CRE posts.
- ▶ Assessing the responses of global, regional and more locally active CRE professionals, brings some slight variation in sentiment. At an overall index level sentiment is most positive amongst regional operators with an index score of 34.60 (some 1.48 points above the score achieved across the entire sample). Global respondents were a little less positive although again were above the overall Q3 index score, recording 33.61. Sentiment was weakest amongst locally operating CRE professionals with an index score of 29.46.
- ▶ This low overall index score for local operators is largely a function of their limited involvement in portfolio level activity. This accounts for the low portfolio dynamic score recorded by this group (7.82) – a score much below those functioning at the multi-market level.
- ▶ Global respondents have the most positive scores for future growth dynamics – this being a function of their exposure to a broader range of markets and therefore not being conditioned by the macro-economic environment of one or a small number of markets.
- ▶ Regional CRE leaders are marginally positive in their sentiment towards workplace dynamics with a score of 12.04. Respondents here are most positive about workplace reconfiguration and service / amenity enhancement.

(Source: Knight Frank Cresa, 2022)
(Q3 n= 129, Global = 51, Regional = 50, Local = 28)

RESULTS BY INDUSTRY SECTOR (Q3 2022)

PROFESSIONAL SERVICE FIRMS MOST POSITIVE AROUND GROWTH & WORKPLACE DYNAMICS, AND FINANCIAL SERVICE FIRMS MOST NEGATIVE ABOUT FUTURE PORTFOLIO DYNAMICS.

CRE Sentiment Sub-indices, by industry sector (Q3 2022)



- ▶ 70% of the respondents to our Q3 survey were drawn from the 4 broad industry groupings show in the chart opposite. These sectors are traditional mainstays of global office markets and therefore are an interesting bell-weather of occupier behaviour but also future market trends.
- ▶ There is clear disparity in sentiment between the four sector groupings. All show overall negative sentiment across the index with Professional Service firms returning an index score of 35.39, compared with the tech and media sector (34.41), financial services (31.59) and business services (30.93).
- ▶ Of the four groups the professional services grouping – dominated by legal sector occupiers – was most positive about both the future growth dynamic and workplace dynamics. This is commensurate with office market activity around the world, where law firms have arguably been most active in both transactional terms but also in terms of the transformation of their workplaces.
- ▶ At a portfolio level, sentiment was particularly weak from financial services (9.35) and business services (9.43) firms, suggesting that they see less opportunity for relocations or offshoring and are unlikely to be a source of expansionary market demand over the medium-term. Again this is commensurate with trends being observed in global office markets presently.
- ▶ Overpage is a table showing those statements that drew both the most positive and the most negative sentiment from respondents in each of the four main sector groupings.

(Source: Knight Frank Cresa, 2022)

(Tech & Media n = 33, Professional Services n = 23, Financial services n = 20, Business Services n = 14).

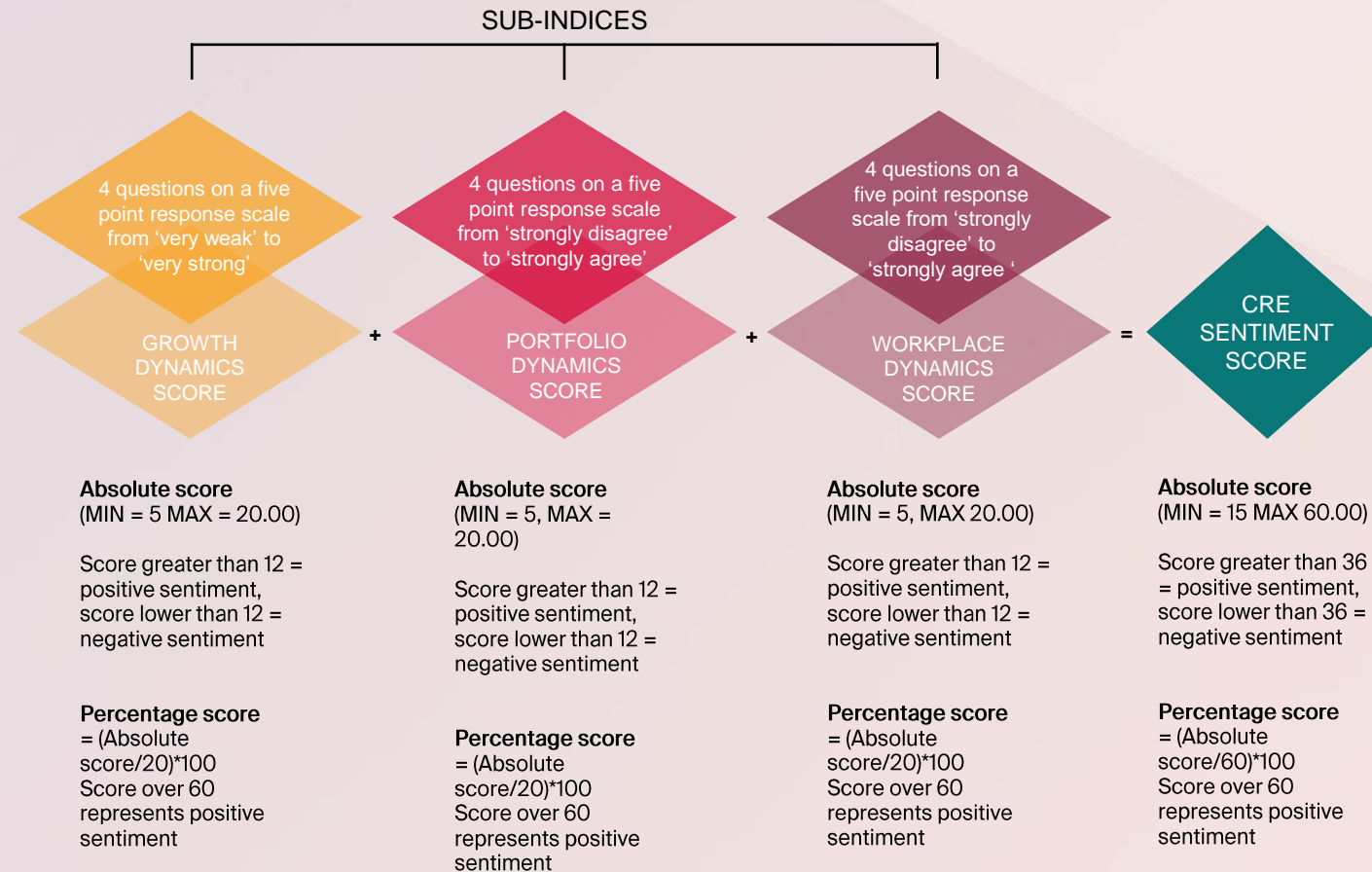
MOST POSITIVE & MOST NEGATIVE SENTIMENT BY SECTOR (Q3 2022)

MOST POSITIVE	#1	#2	#3
Tech & Media	Enhancing the services / amenities in the majority of our offices (3.42)	My company's revenue growth (3.42)	Increasing the density of occupation in the majority of our offices (3.24)
Professional Services	My company's revenue growth (3.48)	My company's capital expenditure (3.48)	Enhancing the services / amenities in the majority of our offices (3.43)
Financial Services	My company's revenue growth (3.20)	Increasing the number of sustainably accredited buildings in our global portfolio (3.20)	My company's capital expenditure (3.15)
Business Services	My company's revenue growth (3.21)	Increasing the density of occupation in the majority of our offices (2.93)	Significant changes in the design / configuration of office space (2.86)

MOST NEGATIVE	#1	#2	#3
Tech & Media	Back to pre-pandemic levels of occupancy (2.00)	Global economic growth (2.15)	Expanding our physical footprint (2.42)
Professional Services	Back to pre-pandemic levels of occupancy (2.04)	Offshoring certain business functions to new locations (2.35)	Global economic growth (2.52)
Financial Services	Expanding our physical footprint (1.80)	Back to pre-pandemic levels of occupancy (1.90)	Offshoring certain business functions to new locations (2.00)
Business Services	Back to pre-pandemic levels of occupancy (2.00)	Expanding our physical footprint (2.00)	Global economic growth (2.07)

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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