The Knight Frank Cresa Global Corporate Real Estate Sentiment Index

Q1 2023

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Sentiment turns upwards, but still much road to run

Improvements across the board, but physical expansion & pre-pandemic levels of occupancy remain unlikely

- Q1 sentiment trended upwards for the first time since the inception of the index in Q1 2022 and reflects a more positive tone in the wider economy (compared to the closing months of 2022) and the continued relevance of the real estate discussion in relation to changing work styles and practices.

- The index rose by 1.92% q-on-q to stand at 32.74. It should be noted that whilst the direction of travel is upwards, overall sentiment continues to be below a score of 36.00 which represents negative sentiment. There is clearly road to run towards a more positive intent and action within the corporate real estate arena.

- In keeping with the overall results, all three sub-indices that comprise the main index – measuring growth, portfolio and workplace dynamics – trended upwards q-on-q by 0.39, 0.30 and 0.46 points respectively. All, however, continued to return negative readings with scores below 12.00.

- The growth dynamic improved by 0.39 points q-on-q to a score of 11.25. This reflects less nervousness around macro-economic conditions and improving growth prospects at a corporate level, particularly in relation to revenue growth. It is still, however, subdued in comparison to a year ago, when the equivalent score was 13.00.

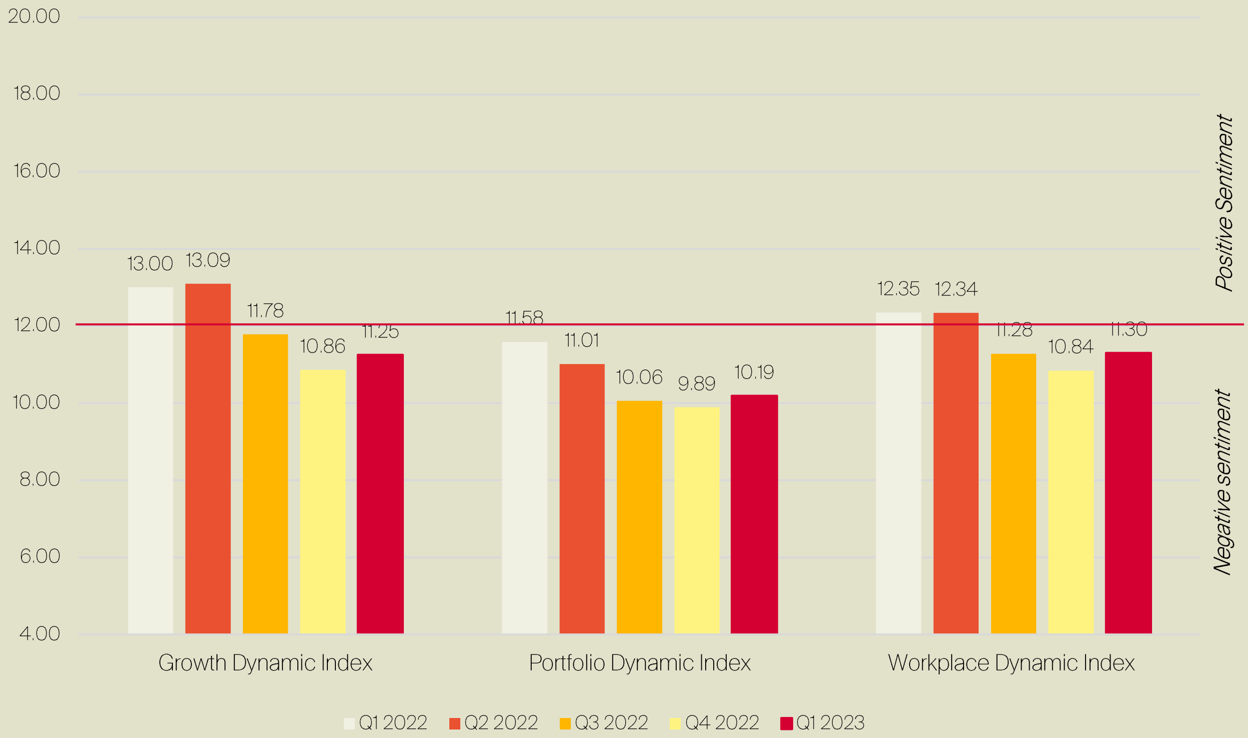
- Sentiment relating to portfolio dynamics improved but from a particularly low base. Prospects for the expansion of the physical footprint remain subdued (the second lowest sentiment score of the 12 assessed). There was an increase of 0.19 points q-on-q in relation to the potential offshoring of functions to new locations, perhaps a reflection of growing cost pressures starting to work through CRE and business thinking.

- Having fallen away markedly in Q4 2022, sentiment in relation to future workplace dynamics improved by 0.46 points q-on-q. It is now back to levels last seen at the midpoint of 2022 – suggesting that the return to office is providing CRE teams with opportunity to think about future space design, configurations and densities. It should be noted that suggestions of a return to pre-pandemic levels of occupancy continued to be met with the weakest sentiment across the entire survey. Return to office will be a slow process with an end point which is likely short of the occupancy levels seen before the pandemic commenced.

52 corporate real estate leaders responded to the Q1 survey, which was conducted between April 14th and April 30th 2023.

Sentiment by sub-index

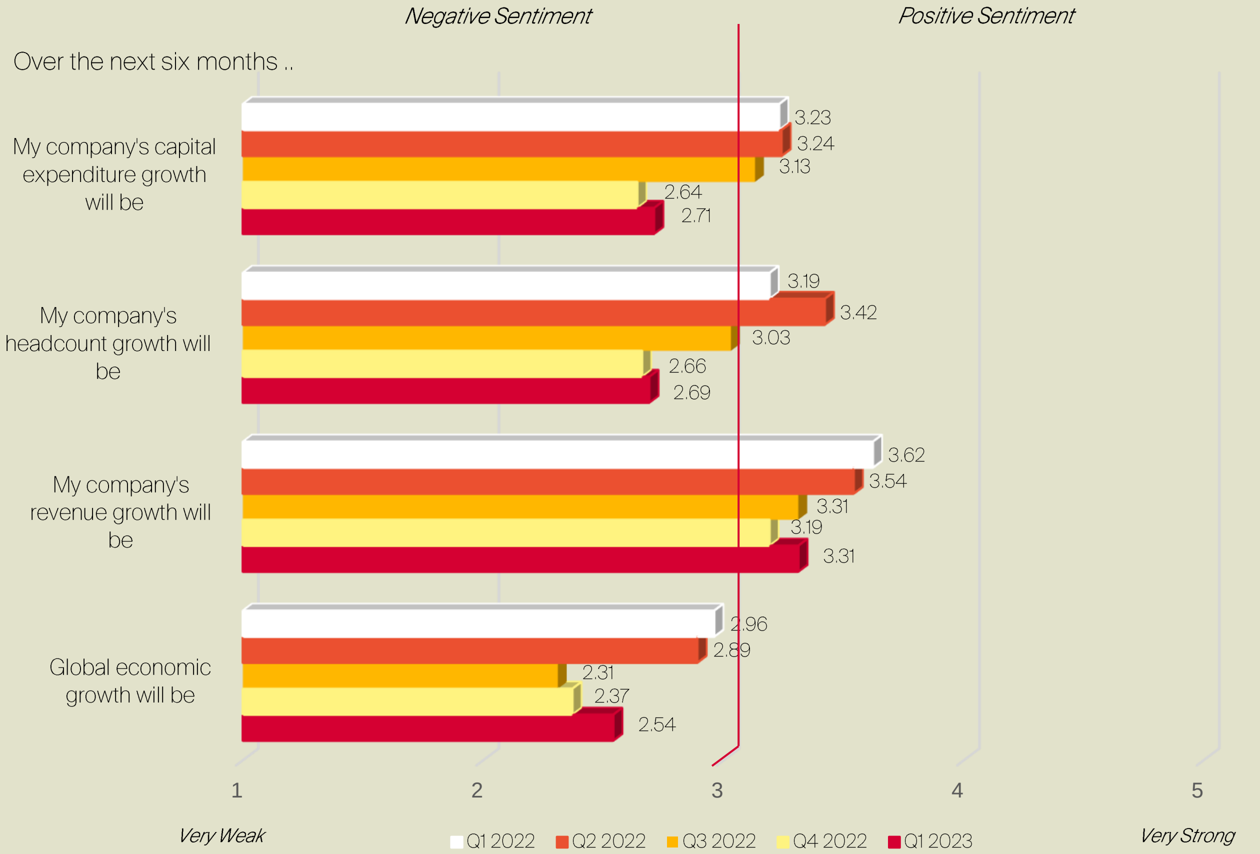
- The overall sentiment index is a composite of three sub-indices which measure growth, portfolio and workplace dynamics.
- All three sub-indices saw improvement q-on-q, with attitudes towards portfolio and workplace dynamics now at their most positive since Q2 2022.
- The growth dynamic has improved by 0.39 points q-on-q and is reflective of a more positive outlook for the global economy than had been anticipated in the closing months of 2022.
- It should be noted that none of the sub-indices have yet returned to positive sentiment (as indicated by a score of 12.00) although improvements at portfolio and workplace level do point towards increased momentum and activity over the next six months.



Source: Knight Frank Cresa 2023

Growth dynamics

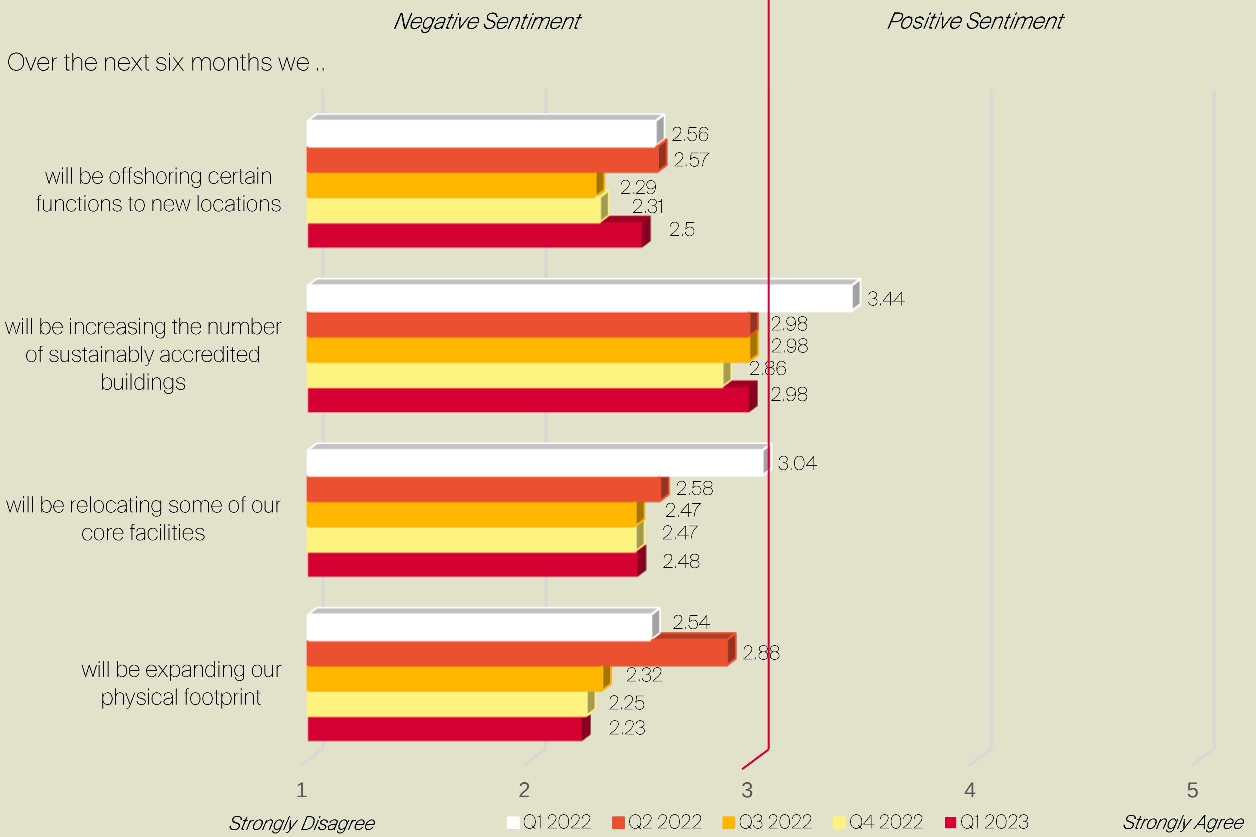
- Each of the four statements that constitute the growth dynamics sub-index showed improvement q-on-q.
- Prospects for global economic growth were met with the most positive sentiment since the mid point of 2022, which reflects some stabilisation in macro-economic outlook, despite numerous on-going headwinds.
- This macro-economic backdrop has brought more positive sentiment around corporate level growth – with expectations around revenue growth continuing to record a positive score beyond 3 as they have since GCRESI began.
- After falls in Q4, expectations around both headcount and capital expenditure growth recovered some ground q-on-q although they still return negative sentiment overall and will need to improve further if CRE activity levels are to upturn markedly.



Source: Knight Frank Cresa 2023

Portfolio dynamics

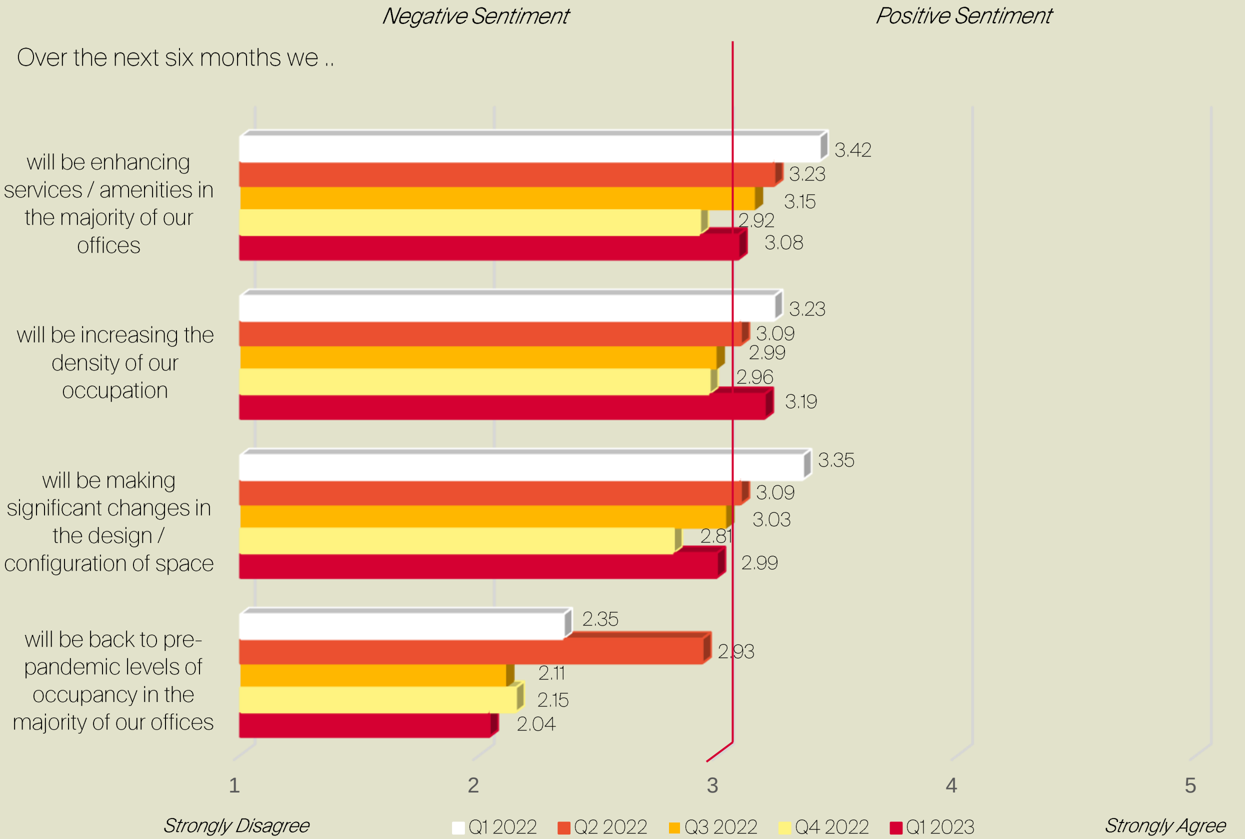
- Sentiment in relation to the future offshoring of certain functions – although remaining negative – saw an improvement of 0.19 points q-on-q to get close to levels seen when GCRESI began. As cost, efficiency and productivity narratives strengthen we expect more occupiers to utilise offshoring as a strategy, notwithstanding wider geopolitical considerations.
- Attitudes towards increasing the proportion of portfolios that are sustainably accredited remain around the neutral position typical of response since Q2 2022. In fact this is the third time the indicator has received an average response of 2.98.
- The potential relocation of core facilities also remains relatively stable, with a score of 2.48, but we are seeing more occupiers responding to either physical or functional obsolescence of space and commencing searches for future alternatives.
- The expansion of physical footprints remains muted, which suggests that over the next six months most occupiers are focused on managing the space they have rather than adding space.



Source: Knight Frank Cresa 2023

Workplace dynamics

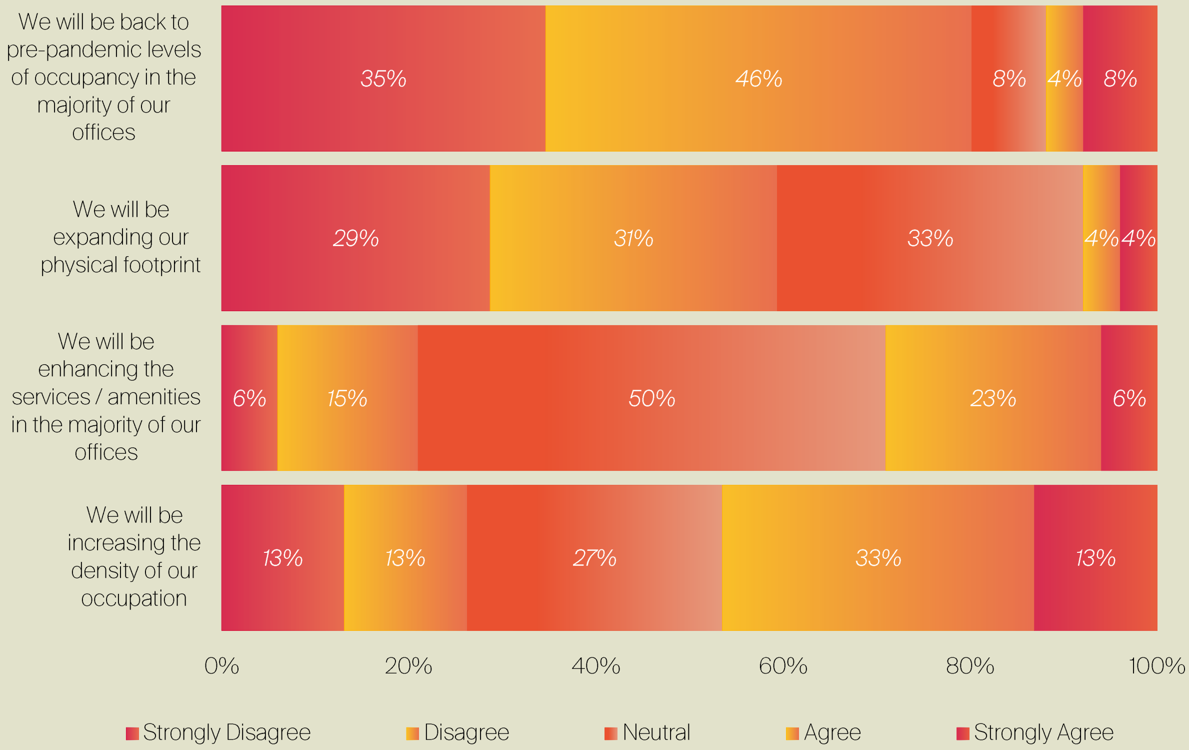
- In a survey which shows an upswing in sentiment overall, it is telling that attitudes towards returning to pre-pandemic levels of occupancy have become more negative q-on-q. The average score of 2.04 is the lowest on record for any indicator since GCRESI began.
- Consistent with earlier editions of GCRESI, it would seem that any market expectation about a return to pre-covid levels of occupancy need to be tempered. This does not mean that 'return to office' or the growing utilisation of the office is not an emerging theme – and there has been evidence of both in global markets since the turn of the year.
- Outside of this indicator, Q1 2023 saw improving sentiment on all three of the remaining indicators that constitute the workplace dynamic sub-index.
- Two of the indicators – relating to the future density of occupancy and the enhancement of services and amenities within the office – returned to positive sentiment with scores of 3.08 and 3.19 respectively.



Source: Knight Frank Cresa 2023

Weight of opinion

- This chart shows the weight of opinion that sits below the average scores used for the index for the two most negative and positive indicators across the survey.
- Sentiment was weakest in relation to the statement that respondent companies would be back to pre-pandemic levels of occupancy. Some 81% either ‘strongly disagreed’ or ‘disagreed with this statement, compared to just 12% who were in agreement or strong agreement.
- The expansion of global footprint also looks off the agenda for the majority of respondents (60%) with just 8% agreeing with suggestions of expansion over the next six months.
- 29% of respondents are enhancing services and amenities in the majority of their offices, but half are neutral on this point – suggesting that many feel that routes to further intervention are limited.
- Almost half (46%) of respondents anticipate an increased density of occupation over the next 6 months – indicating a shift in attitudes towards space provision on a per person basis.



Source: Knight Frank Cresa 2023

Methodology

About the Knight Frank Cresa Global Corporate Real Estate Sentiment Index

- A simple on-line survey of 12 questions grouped into three equally weighted sub-indices assessing growth dynamics, portfolio dynamics and workplace dynamics (see overpage).

- 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.

Methodology

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SUB-INDICES

GROWTH DYNAMICS SCORE

4 questions on a five point response scale from 'very weak' to 'very strong'

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

PORTFOLIO DYNAMICS SCORE

4 questions on a five point response scale from 'strongly disagree' to 'strongly agree'

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

WORKPLACE DYNAMICS SCORE

4 questions on a five point response scale from 'strongly disagree' to 'strongly agree'

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

CRE SENTIMENT SCORE

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

Contacts

Dr Lee Elliott

Head of Global Occupier Research
+44 (0)7468 729 187
lee.elliott@knightfrank.com

Tim Armstrong

Global Head of Occupier Strategy & Solutions
+65 6429 3531
tim.armstrong@asia.knightfrank.com

Tricia Trester

Head of Global Portfolio Solutions, North America
+1 (0)347 901 1111
ttrester@cresa.com

Colin Fitzgerald

Head Occupier Strategy & Solutions, EMEA
+44 (0)207 861 1131
colin.fitzgerald@knightfrank.com

Ross Criddle

Head of Global Portfolio Solutions, EMEA
+44 (0)207 590 2456
ross.criddle@knightfrank.com