

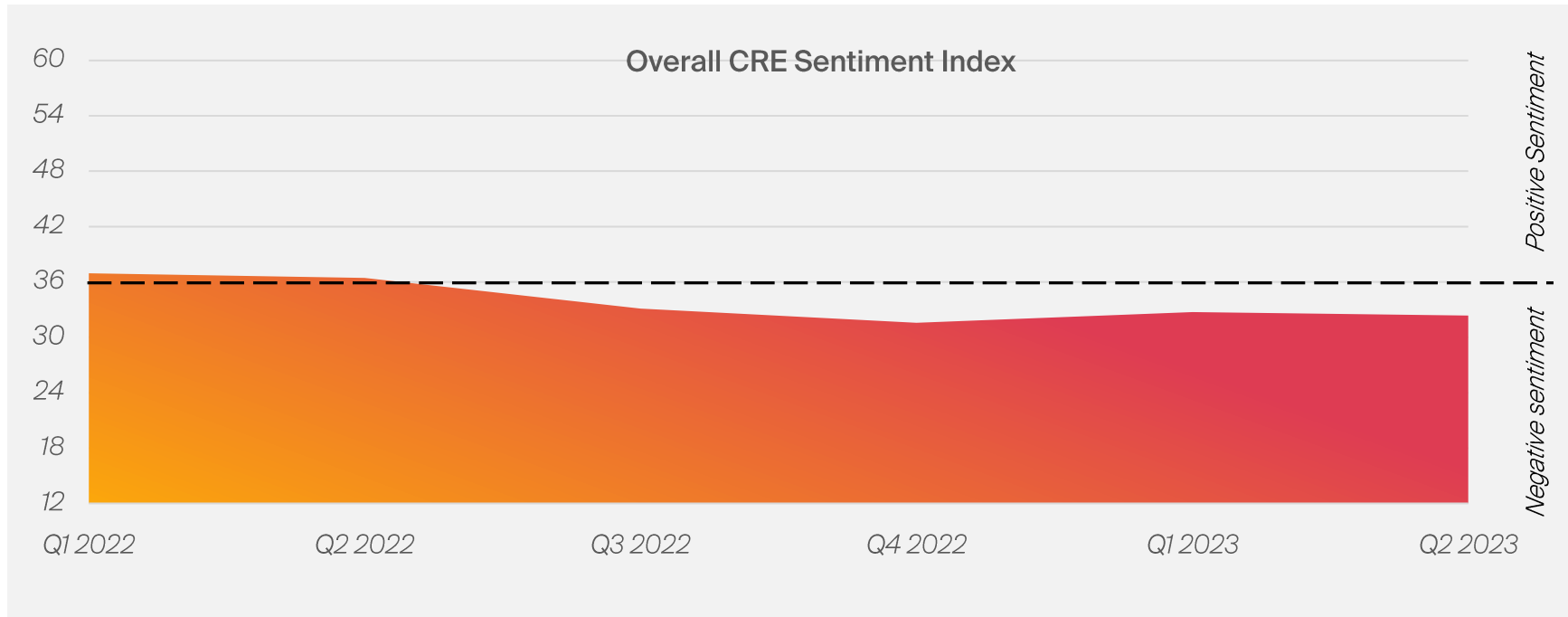
# Global Corporate Real Estate Sentiment Index

## Q2 2023



# CRE Sentiment – Q1 2022 to present

- Occupier sentiment trended downwards by 0.38 points in Q2, weighed down by declining sentiment surrounding portfolio dynamics.
- Six of the twelve indicators comprising the index have shown improvement q-on-q. Average movement across all 12 indicators is - 0.03 points - reflecting a largely stable outlook.
- The growth dynamic sub-index improved by 0.12 points q-on-q and is at its highest level since Q3 2022
- The Q2 Sentiment Survey was undertaken in mid-July 2023 and secured 59 responses from Corporate Real Estate Leaders across the world.



Q2 2023

(Movement Q-on-Q)

11.37



Growth

9.83



Portfolio

11.16



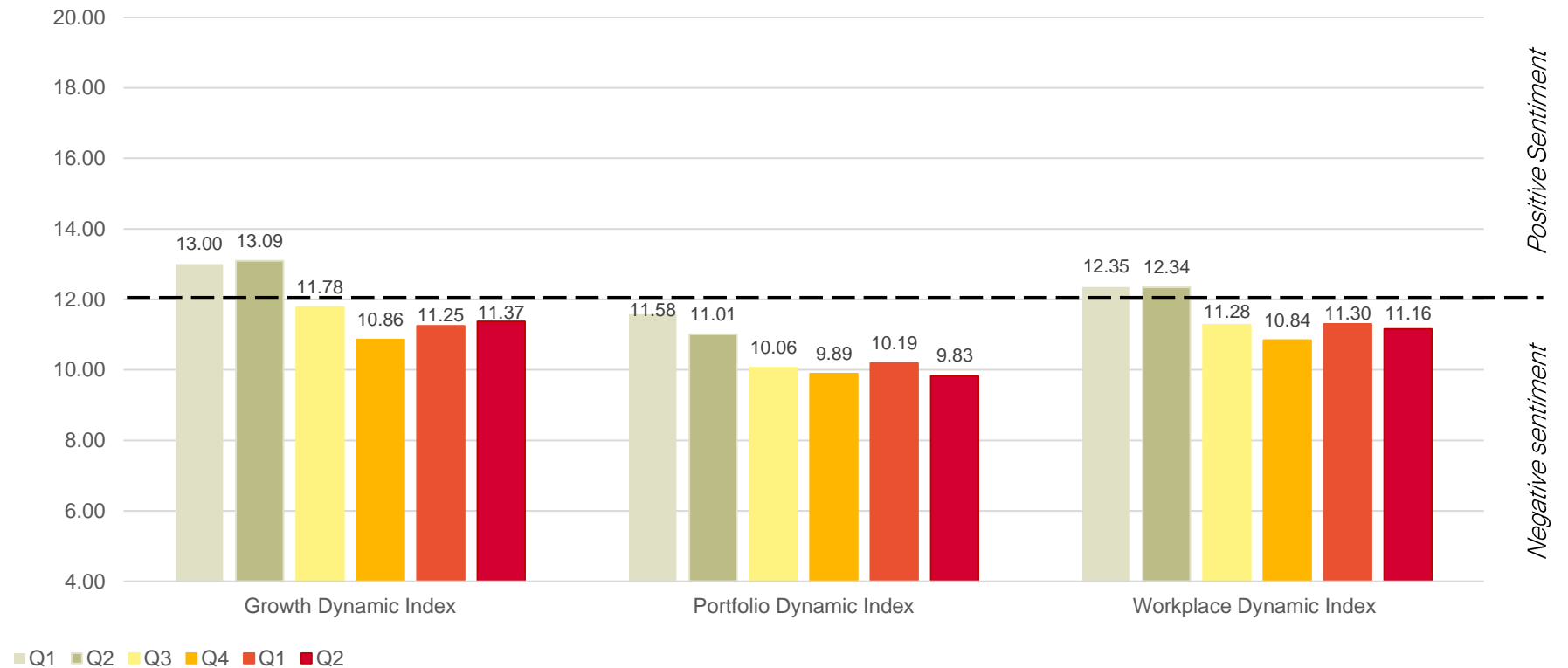
Workplace

Scores above 12 for each of these three sub-indices represent positive sentiment

# Sub-Index Performance (Q1 2022 – Q2 2023)

- At a sub-index level, growth dynamics have seen two consecutive quarters of improving sentiment, although they remain negative.
- The lowest sub-index reading is in relation to portfolio dynamics, reflecting the inability or unwillingness of occupiers to make significant changes to their global footprint presently.
- The workplace dynamic sub-index remains negative as it has been for the last quarter, weighed down by limited expectations of a return to pre-pandemic levels of occupancy.

The Knight Frank Cresa Corporate Real Estate Sentiment Index  
Sub-index performance (Q1 2022 – Q2 2023)



Source: Knight Frank | Cresa 2023

# Sentiment Scorecard – Growth Dynamics (Q2 2023)

| GROWTH DYNAMIC                            |             |   |
|---|-------------|---|
| <i>Global economic growth</i>             | <b>2.64</b> | ↑ |
| <i>Company revenue growth</i>             | <b>3.22</b> | ↓ |
| <i>Company headcount growth</i>           | <b>2.76</b> | ↑ |
| <i>Company capital expenditure growth</i> | <b>2.75</b> | ↑ |

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

- The growth dynamic sub-index is the only one of the three making up GCRESI that has seen improvement q-on-q. This reflects wider thinking around the macroeconomic picture with fears of a deep and extensive global recession receding, although there is also recognition that the global economy is in a fragile state presently.
- Reflecting this point, the greatest quarterly increase in sentiment is around prospects for global economic growth, which increased by 0.10 points to 2.64 in the Q2 survey.
- The most positive sentiment in the index relates to prospects for company revenue growth which scores 3.22 on a five-point scale, but this indicator has actually declined q-on-q by 0.09 points.
- There has been marginal improvement q-on-q around both corporate headcount and capital expenditure growth prospects, although scores remain negative. These improvements – and particularly those around capital expenditure - will need to be sustained in subsequent quarterly readings if occupiers are to become more (pro)active in global office markets.

# Sentiment Scorecard – Portfolio Dynamics (Q2 2023)

| PORTFOLIO DYNAMIC                            |             |   |
|--|-------------|---|
| <i>Expanding physical footprint</i>          | <b>2.03</b> | ↓ |
| <i>Relocating core facilities</i>            | <b>2.56</b> | ↑ |
| <i>Increasing % of sustainable buildings</i> | <b>2.92</b> | ↓ |
| <i>Offshoring functions to new locations</i> | <b>2.32</b> | ↓ |

- The greatest quarterly decline in sentiment is around prospects for the expansion of physical footprint which fell by 0.20 points q-on-q to 2.03 which represents the weakest sentiment across the entire index.
- Appetite for relocating core facilities improved quarter-on-quarter but remains in negative territory. There is a shift in momentum around the relocation issue, particularly as occupiers face up to functional and physical obsolescence and a growing realisation that the future supply of best-in-class, high-quality office space is going to be constrained owing to reduced development activity in most global markets.
- There was a downward shift in sentiment around the proportion of occupied portfolios that carry a sustainability accreditation. This is not a reflection of the watering down of longer-term sustainability goals but again a reflection of challenging supply conditions.
- Prospects for offshoring activity remain muted with that indicator reducing by 0.18 points q-on-q. This suggests that although global economic conditions are challenging, companies have yet to actively explore offshoring as a cost mitigation exercise.

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

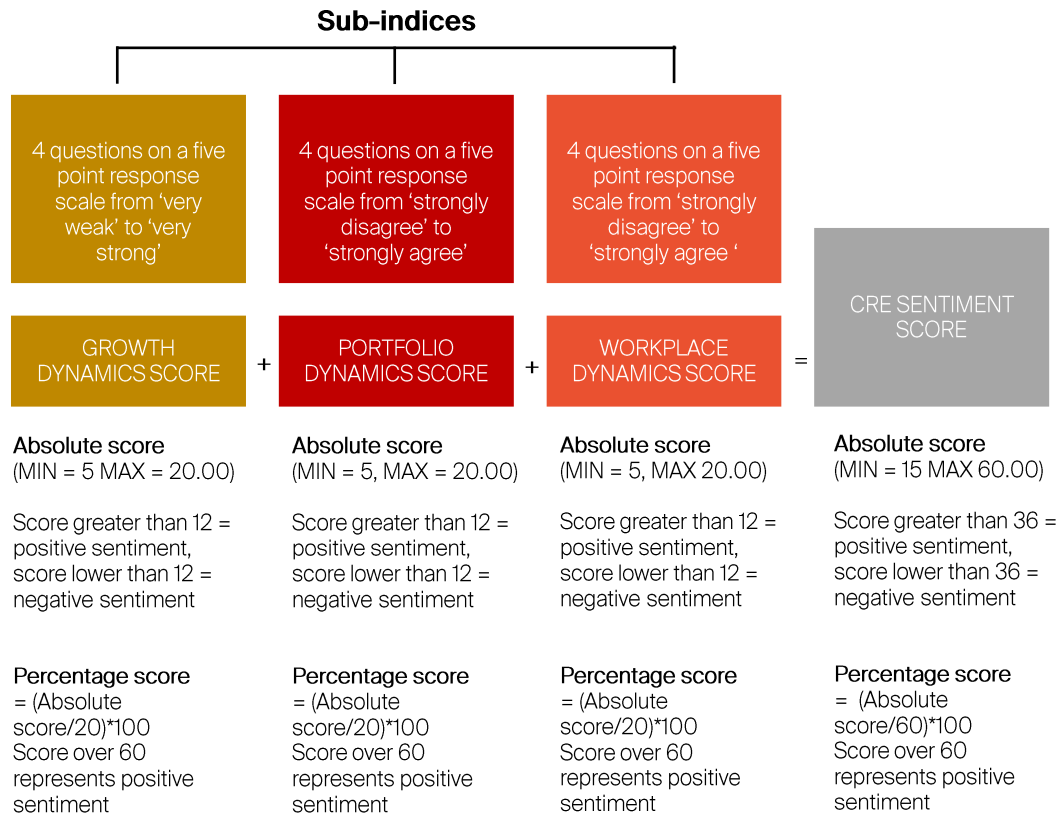
# Sentiment Scorecard – Workplace Dynamics (Q2 2023)

| WORKPLACE DYNAMIC   |             |   |
|---|-------------|---|
| <i>Back to pre-pandemic occupancy levels</i>                | <b>2.10</b> | ↑ |
| <i>Significant changes to office design / configuration</i> | <b>3.00</b> | ↑ |
| <i>Increasing density of occupation</i>                     | <b>3.03</b> | ↓ |
| <i>Enhancing office services / amenities</i>                | <b>3.03</b> | ↓ |

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

- Prospects for a return to pre-pandemic levels of occupancy in the next six months remain negative (as they have been since the index started in Q1 2022) but did rise by 0.06 points q-on-q in keeping with improving return to office rates and a range of announcements from global occupiers. This suggests that the journey towards traditional levels of office occupancy remains slow and that expectations around ‘good’ might need to be reset.
- There has been momentum in making changes to the design and configuration of office space, with many occupiers we have engaged with in recent weeks focused specifically on rebalancing the workplace offering to deliver ‘me’ as well as ‘we’ spaces. Whilst collaboration remains a key rationale for the future office, it must also allow users to have space to work with focus and in isolation.
- Densification of office occupation continues to attract positive sentiment – linked to the point about redesign and reconfiguration – although q-on-q that momentum has been falling. It is the same dynamic in terms of the enhancement of office services and amenities with a clear sense that CRE leaders are approaching the end of their options in supporting return to office mandates with such offerings.

# Methodological note



## 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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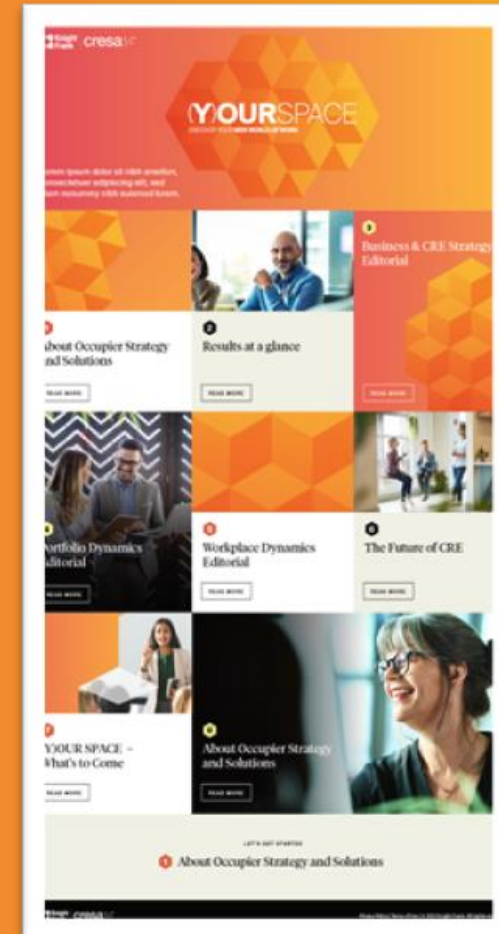
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