RICS

Q3 2020: Global Commercial Property Monitor

Headline rents and capital values expected to soften amid gloomy economic backdrop

- **Commercial property sentiment indices still stuck in negative territory around the world**
- **Retail and office sectors facing significant disruption while industrials show resilience**
- **64% of respondents see their market turning down, with just 6% sensing conditions have reached a floor**

The results of the Q3 2020 RICS Global Commercial Property Monitor suggest the market remains under pressure, with the economic fallout arising from the pandemic continuing to take its toll. At both the global and regional level, key sentiment indicators remain firmly negative, even if the latest figures are marginally less downbeat than those returned last quarter. Notwithstanding this, structural changes sweeping the global economy are producing an increasingly divergent picture across different commercial real estate sectors. Offices and retail appear to be the hardest hit, while industrials and data centres display a much more resilient outlook.

Global economic recovery susceptible to setbacks

With social distancing restrictions again being ramped up in many parts of the world, national economies appear vulnerable to setbacks on their road to recovery. Although subject to revision given the uncertain climate, the IMF's latest projections now point to a -4.4% contraction in world GDP this year, with output across advanced economies anticipated to fall by -5.8%. Next year, world GDP on current estimates is expected to rebound by 5.2%, but advanced economies are not envisaged to fully recoup this year's lost output (recovering by 3.9%). Indeed, the shortfall is anticipated to be most pronounced in Europe, but the US economy is also expected to end 2021 smaller than prior to onset of the pandemic.

This challenging macro picture continues to weigh heavily on sentiment across the commercial real estate sector. As displayed in Chart 1, the headline RICS Global Commercial Property Sentiment Index* (which incorporates feedback on both the occupier and investment markets) registered a reading of -31 in Q3. Although marginally less negative than -37 posted in Q2, this still represents one of the weakest readings seen since the global financial crisis. At the regional level, Asia Pacific showed a slightly more noticeable easing in negativity compared to global average, with the latest reading moving to -28 from -38. The remaining regional groupings (the Middle East and Africa, the Americas and Europe) returned figures in the range of -32 to -34 during Q3, which are all only marginally above those recorded previously.

Survey responses were supported by the following organisations:

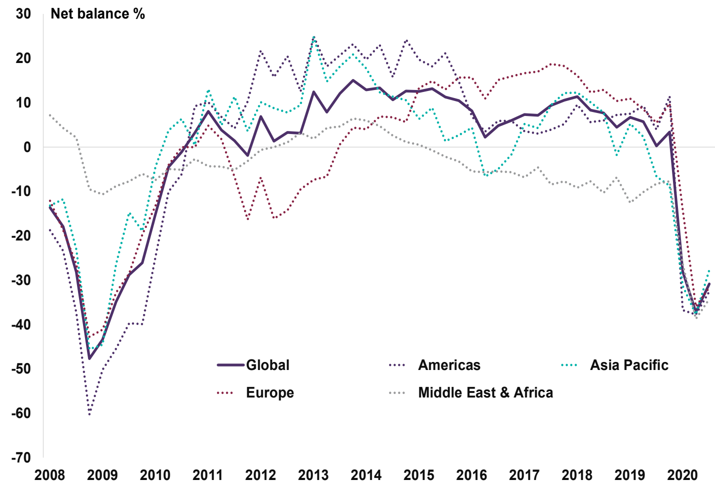
Headline rents and capital values expected to fall

At the global level, a net balance of -31% of respondents expect all-sector rents to decline in the year to come (not much changed on -37% in Q2). Alongside this, the comparable net balance for capital values now stands -27%, having been as weak as -36% last quarter.

Looking at the figures by region, expectations are slightly more cautious in Europe compared to the global averages, with areas such as Spain, the Netherlands and Romania all displaying a firmly negative assessment for the next twelve months. Across Asia Pacific, twelve month projections actually deteriorated slightly between Q2 and Q3, although much of the negativity appears to be stemming from Hong Kong, Japan, Malaysia and Singapore. Meanwhile, in China, the decline in rents and capital values anticipated over the coming year is relatively more modest and mainly concentrated in secondary markets.

In the Americas, the net balance of respondents envisaging falling rents and capital values eased from a respective -40% and -43% back in Q2, to -26% and -22% in Q3. This slightly less downbeat view is mirrored across the US, while Brazil saw expectations turn from negative to broadly neutral. Projections are also flatter across MEA, returning

Chart 1: Global Commercial Property Sentiment Index*



Source: RICS, LaSalle Investment Management

*The Global Commercial Property Sentiment Index is a weighted composite measure capturing overall market momentum, encompassing variables on supply, demand, and expectations net balances of +2% and -9% for rents and capital values respectively. This is largely being driven by a positive outlook across Saudi Arabia and parts of Africa, while expectations remain deeply negative in areas such as the UAE and Qatar.

Significant variance in expectations by sector

Looking beneath the all-sector averages reveals significant divergence across the various market segments covered in the survey. The retail sector, which was clearly already under pressure prior to the pandemic in many locations, has seen an accelerated rise in vacancies over recent quarters. At the global level, a net balance of +43% of respondents reported an increase in retail availability during Q3. Although this rise has been most pronounced in the Americas and Europe, APAC and MEA have also seen a noticeable uptick in vacancies. Consequently, prime retail rents are expected to fall by -6% over the coming twelve months (on average across the globe), with projections for secondary retail rents standing at -10%.

The pandemic has also ushered in a period of significant change across the office sector, given the increased prevalence of working from home. In each of the past two quarters, a net balance of -69% of contributors globally have reported a drop in office occupier demand, representing the weakest readings posted since the survey's inception in 2008. For the coming twelve-months, prime office rents are now seen falling by -3%, with steeper declines of -6% projected for secondary office space (global average).

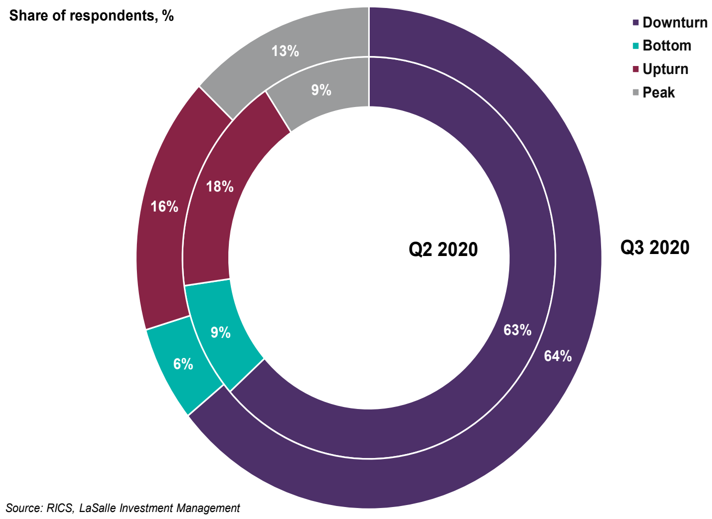
By way of contrast, the industrial sector has seen a pick-up in global occupier demand during the Q3 survey period. That said, this appears to have been driven by strong growth across the Americas, while Europe has also seen a solid recovery. Up until now, demand patterns for industrials across APAC and MEA and are little more subdued in comparison, although it should be noted that in both instances readings are significantly more resilient than those for offices and retail. From a global perspective, prime industrial rents are anticipated to rise by +2% in the year to come, although the outlook remains marginally negative for secondary at -1%.

Survey feedback regarding alternative sectors is also mixed. At the weaker end of the spectrum, hotels are expected to suffer steep declines in both rents and capital values across all world regions over the year ahead. Conversely, data centres exhibit positive projections right across the board, with this sector seemingly in a strong position to benefit longer term from an increased reliance on digital platforms. Meanwhile, multifamily residential displays a broadly flat twelve month assessment for rents and prices. Alongside this, a slightly negative twelve-month view continues to be returned for aged care facilities and student housing.

Majority of respondents see their market turning down

64% of respondents worldwide currently view their local market to be in a downturn phase of the property cycle. This is more or less unchanged from 63% back in Q2. Meanwhile, only 6% of contributors feel the bottom of the cycle has been reached, slightly less than the 9% of contributors who held this view in Q3.

Chart 2: Perceptions of phase of cycle



Source: RICS, LaSalle Investment Management

Chart 3: Commercial Property Sentiment Index by country Q3 2020

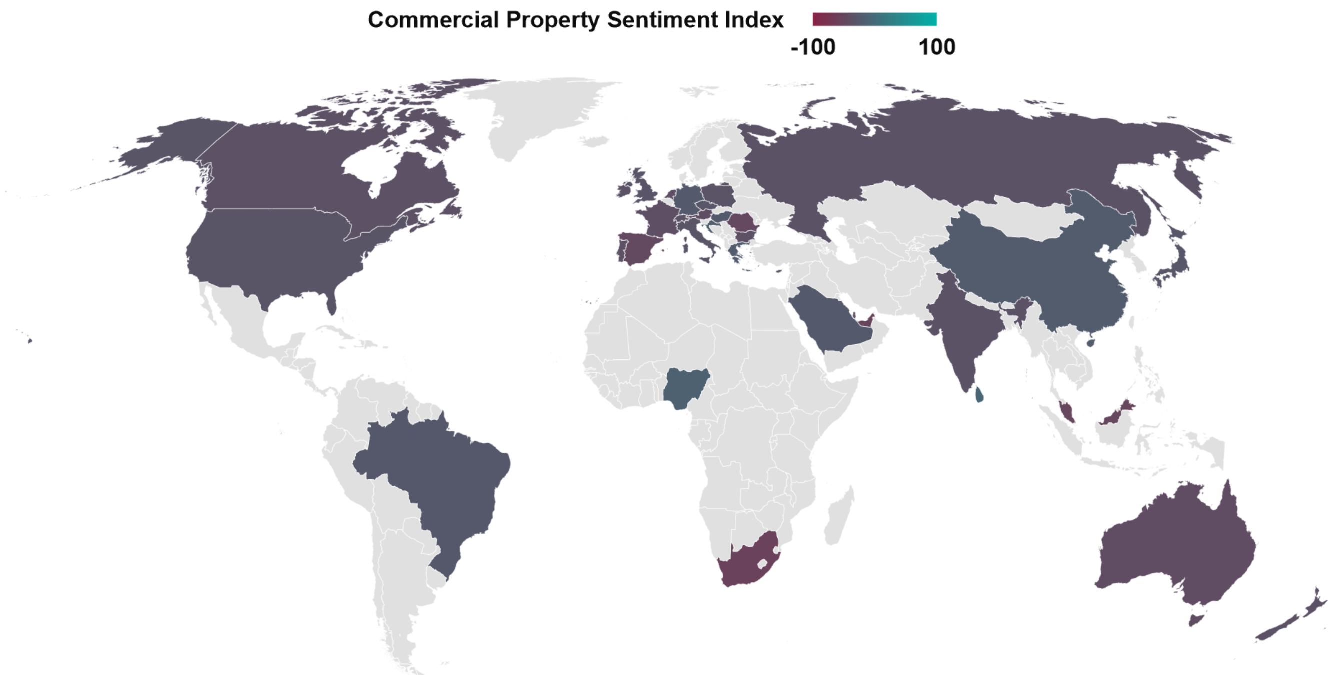
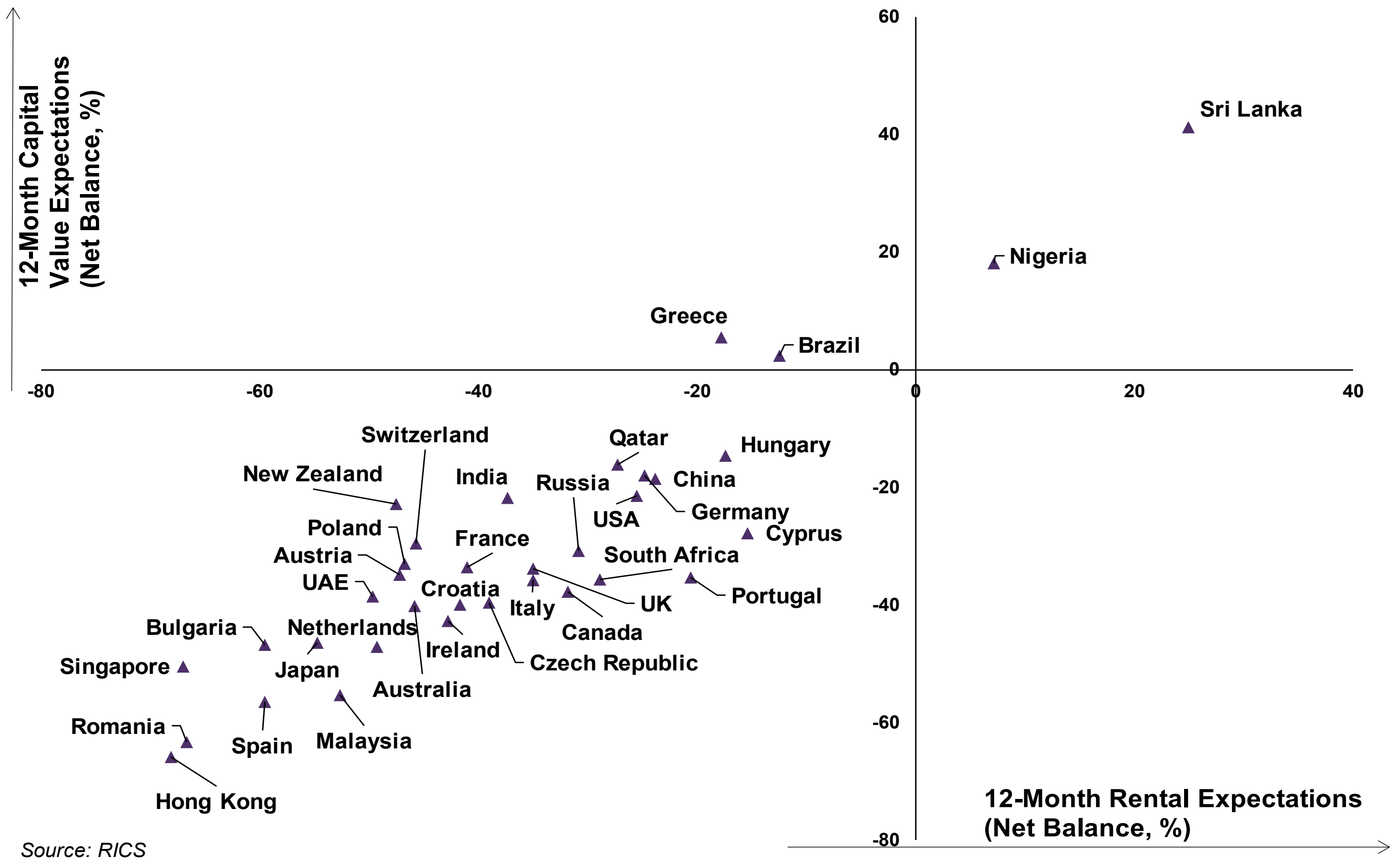
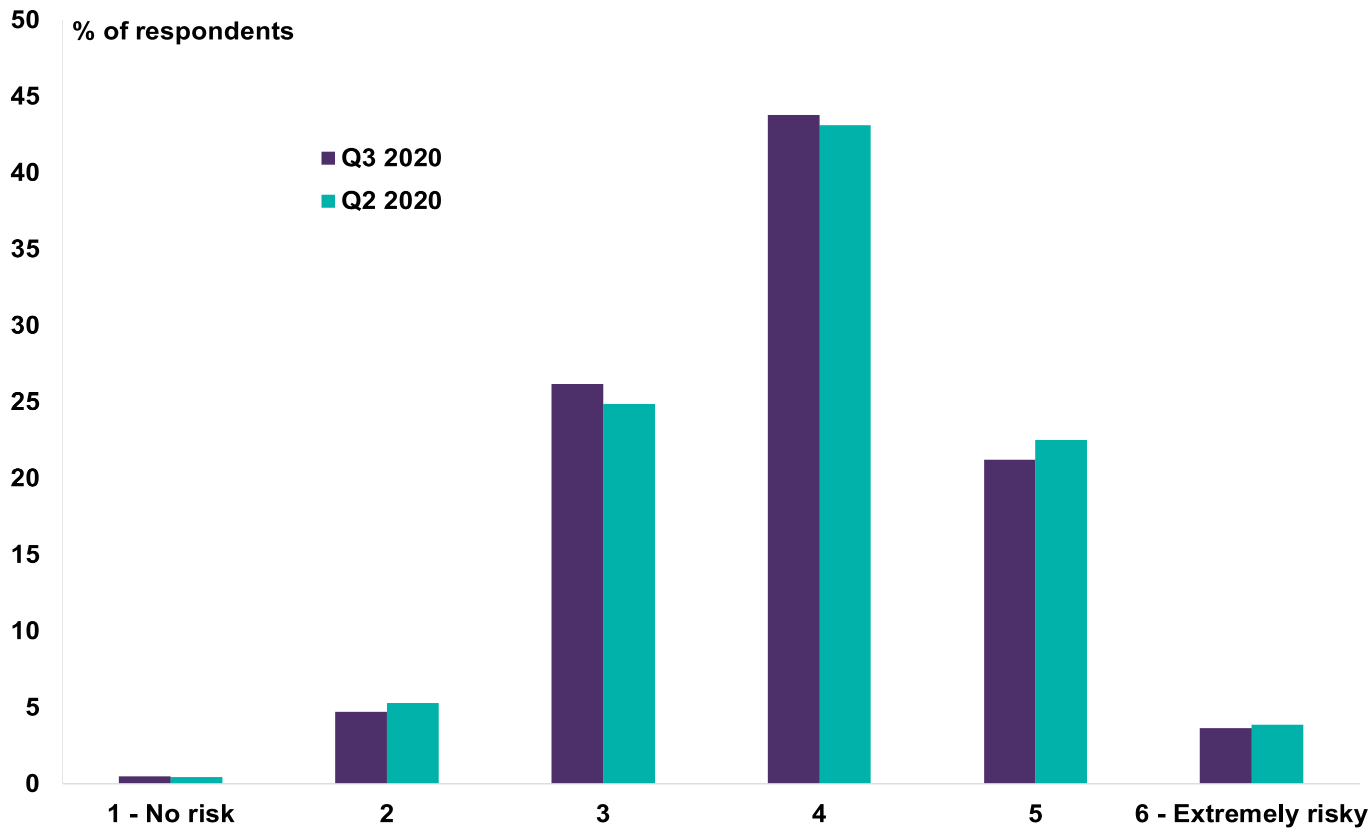


Chart 4: 12-month rental, capital value expectations



Source: RICS

Chart 5: RICS-AFIRE perceptions of risk on CRE returns



Source: RICS, AFIRE

RICS Special Report: Sustainability issues with commercial real estate

As part of the Q3 2020 RICS Global Commercial Property Monitor, respondents were asked a series of additional questions focussing on how preferences have changed for green buildings in the past year, the impact on rents and prices and to what extent ESG factors are affecting investment decisions.

Demand for green buildings trending higher

Survey feedback from across the commercial property sector suggests that occupier and investor interest for green buildings has risen by some degree over the past twelve months. Globally, almost 40% of survey participants believe that occupier demand for buildings with Green Building Certifications has risen modestly in the past year (Chart 1). This share is slightly higher in Europe, with around 43% of contributors noting a modest increase, whilst APAC appears to be leading the way with more than 50% of respondents across the region seeing a rise.

Nonetheless, it is worth noting that a sizeable share of contributors globally and across all regions state that there has been no change in occupier demand for buildings with green certifications. Across the Americas in particular, nearly 60% of respondents believe that occupier interest for green buildings has not changed in the last twelve months. At the other of the scale however, less than 5% of contributors globally feel that tenant demand for green buildings has fallen in the past year.

Across the investor side of the market, while around 47% of the survey's contributors globally see investor demand for green buildings to have risen in the past twelve months, an equal share note no change (Chart 2). Still, across Europe and APAC, more than half of the participants note an increase in interest for buildings with green certifications. The share of contributors taking this view is the lowest across the Americas, as around one-third of participants report a rise in investor appetite for green buildings in the last twelve months while more than 50% believe there has been no change.

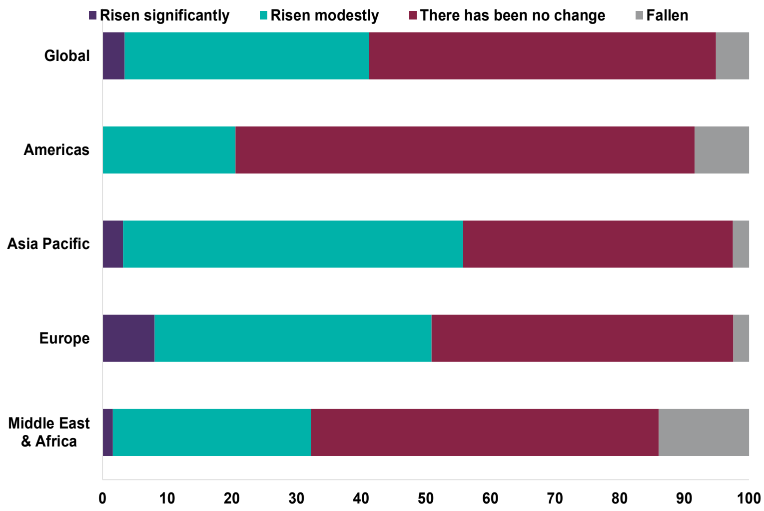
Green ratings add premiums to rents, prices

Even if demand has only risen relatively modestly, feedback suggests that green building certifications are having an impact on rents and prices. Chart 3 shows that globally, around 35% of contributors believe that green buildings receive a rent premium over comparable non-green buildings. The majority (more than one-fifth) state that the rent premium is up to 10%, with only 7% judging it to be higher. Meanwhile, almost 40% state that even if there is no rent premium for a green building, those without a green certification are subject to a brown discount.

Regarding price premiums, 42% of survey participants globally state that green certified buildings attain a price premium over comparable non-green buildings. Similar to the occupier side of the market, the majority state the price premium is up to 10%. Alongside this, around a one-third of the survey's contributors believe that there is no price premium however buildings without a certification are subject to a discount.

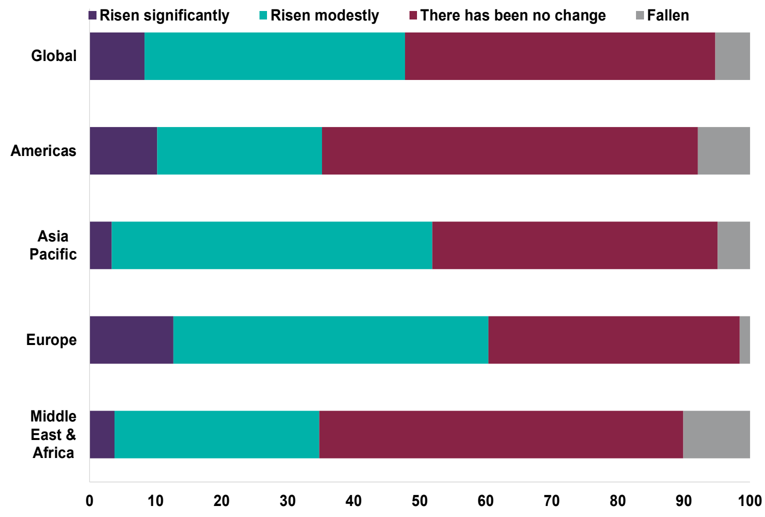
Looking at the results as the regional level, Chart 4 shows that this pattern seems to be more prevalent across Europe and MEA as 45% of participants note that green certified buildings are subject to a price premium,

Chart 1: How has **occupier demand** changed for buildings with Green Building Certifications* in the last twelve months?



Source: RICS

Chart 2: How has **investor demand** changed for buildings with Green Building Certifications* in the last twelve months?



Source: RICS

higher than in any other region.

ESG not the determining factor for investors

With respect to how Environmental, Social and Governance (ESG) factors are affecting investment decisions, around one-fifth of contributors globally note that investors are favouring projects with high ESG ratings. Meanwhile, the majority of contributors (around 64%) believed that while investors have expressed interest in the ESG related factors, the underlying decisions were still based on traditional cost matters.

*Includes BREEAM, LEED, Green Star, WELL, Passivhaus or any other certifications specific to the region

When disaggregated, feedback from European countries depicts a slightly more encouraging picture. Chart 5 shows that out of the top 10 countries that have the highest share of contributors that believe investors are favouring projects with high ESG-related ratings, 6 of them are in Europe. Indeed, Spain, Poland and Italy are close to the top of the list while a modest shift in investors' preferences for ESG factors also noted from contributors from the Ireland, France and Austria.

Away from Europe, some advancements have also been reported from contributors in China, US and Sri Lanka. In China, which appears to be leading the pack, more than one-third of participants note that investors are favouring projects with high ESG-related ratings. In the US, this proportion stand at around 25%.

Nevertheless, it does seem like sustainability and environmental factors are still not at the forefront of mainstream investment decisions across the majority of countries. Across prominent commercial property markets, the share of respondents seeing investor's favouring projects with high ESG-related ratings is less than 10% in the UK and Japan and virtually zero in New Zealand.

Chart 3: Do Green Certified Buildings achieve a **rent premium** over comparable non-green buildings?

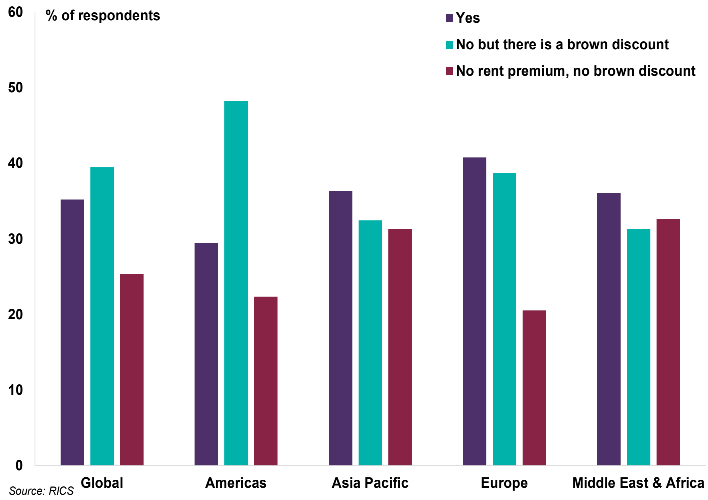


Chart 4: Do Green Certified Buildings achieve a **price premium** over comparable non-green buildings?

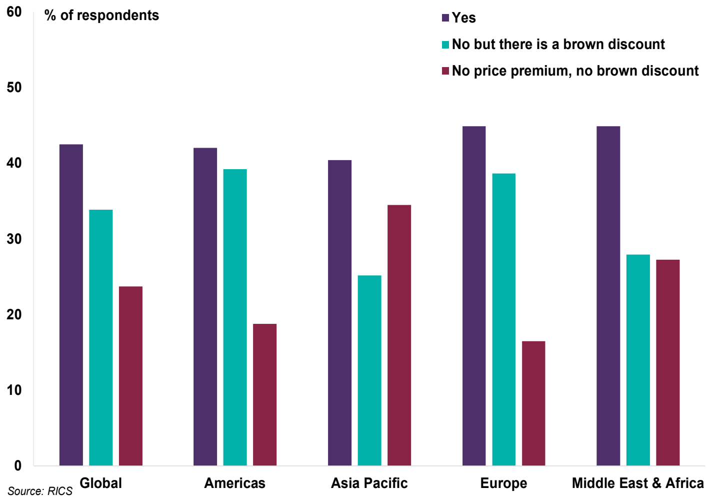
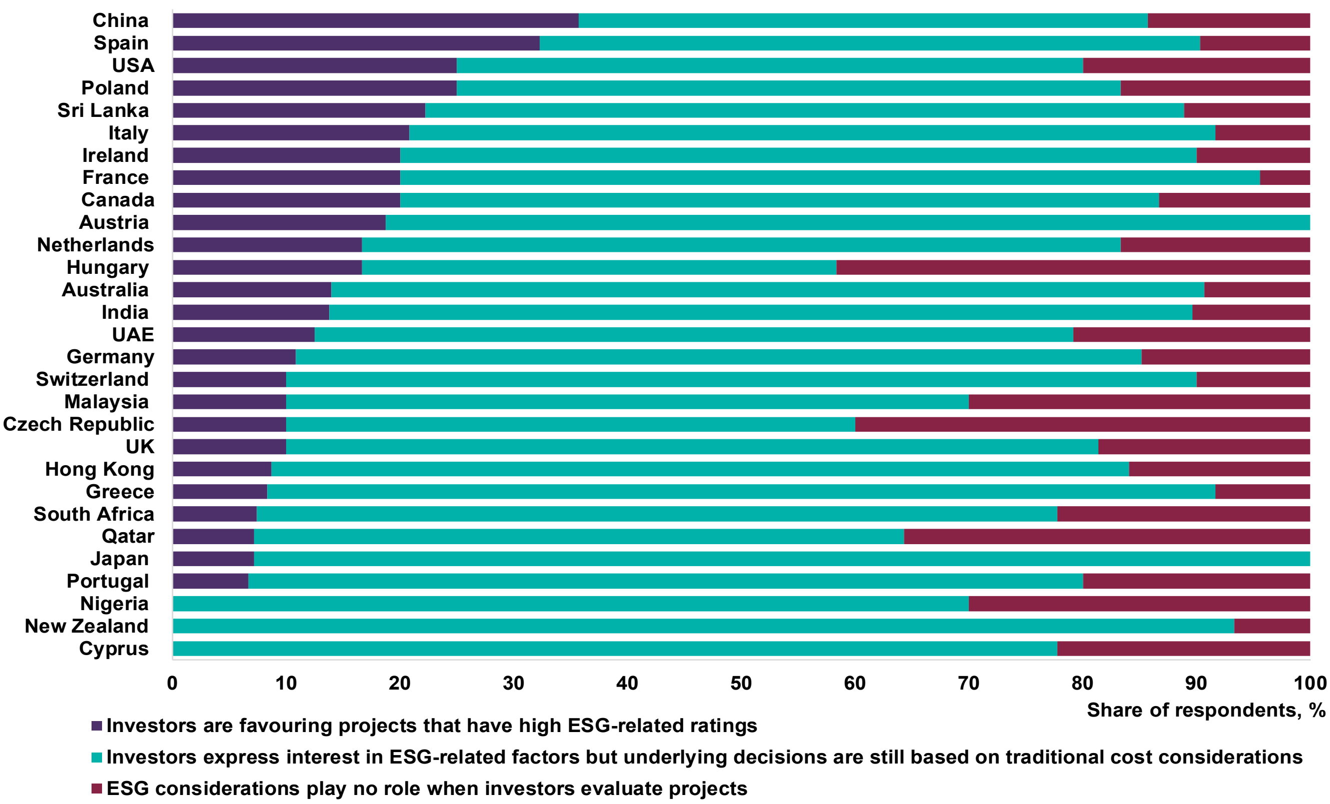


Chart 5: How are environmental, social and governance (ESG) factors currently affecting investment decisions?



Source: RICS

Americas: Little light visible at this point with further pressure on both rents and capital values

Although macro data across much of the Americas showed signs of improvement in the third quarter, there is little evidence that this has fed through into the commercial real estate market. In part, this reflects the highly uncertain outlook for economic growth in the face of the latest upsurge in COVID-19 cases. However it is also a function of some of the structural changes in the property sector that have been under way for some time, but have accelerated as a result of the virus.

Chart 1 tracks the RICS Occupier and Investment Sentiment Indices for the Americas. It suggests that there has been little change in the mood-music amongst occupiers over the past quarter at a headline level although investment sentiment is somewhat less negative than previously was the case. There broad trends are mirrored in the results from the US (not surprisingly, given its large weighting in the aggregated data); for Canada, the feedback while still very downbeat has seen a slight improvement in both segments of the market compared with the lows recorded in Q2. This pattern is, to some extent, captured in the expectations data for the next twelve months which is shown in Chart 2. That said, the insights provided by respondents is still consistent with lower rents and capital values over the period.

Sector divergence remains key feature

Predictably, the Q3 results shows huge divergence in sector performance with COVID-19 continuing to push the real estate industry to confront structural changes. The readings capturing occupier demand to take up new office and retail space are pretty much at historic lows with availability rising shaply and landlords under the inevitable pressure to provide greater incentives. By way of contrast, the appetite for logistics sites continues to grow as do the rent expectations for the better located properties.

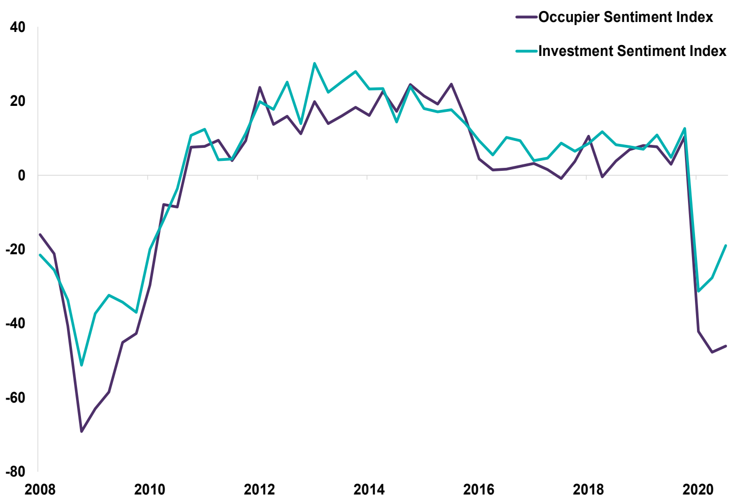
In the US, respondents project prime industrial/logistics space seeing rental growth of around 4% over the next 12 months. For secondary sites, the expectation is for a 2% increase which is not far behind what is being pencilled in (according to the survey) for data centres. All the other assets classes covered in the Monitor are seen as likely to face rent declines with secondary retail (-14%) and hotels (-13%) at the bottom of the pile. Against this backdrop, it is unsurprising that there is increasing discussion about the scope to, where possible, repurpose shopping centres to residential.

Markets still not compelling value

Despite the pressure on real estate prices particularly in the sectors noted above, the perception amongst respondents to the survey is that both the US and Canada markets are only now approaching what might be described as fair value. For both markets, around half of the respondents to the survey took this view, a point demonstrated in chart 3. That said, somewhere between one-third and two-fifths still perceive real estate to be, to some degree, expensive. Alongside this, roughly two-thirds of contributors believe the US and Canada markets to be in either the early or mid-phase of the downturn (rather than at the floor) implying that further weakess is likely in at least the near term.

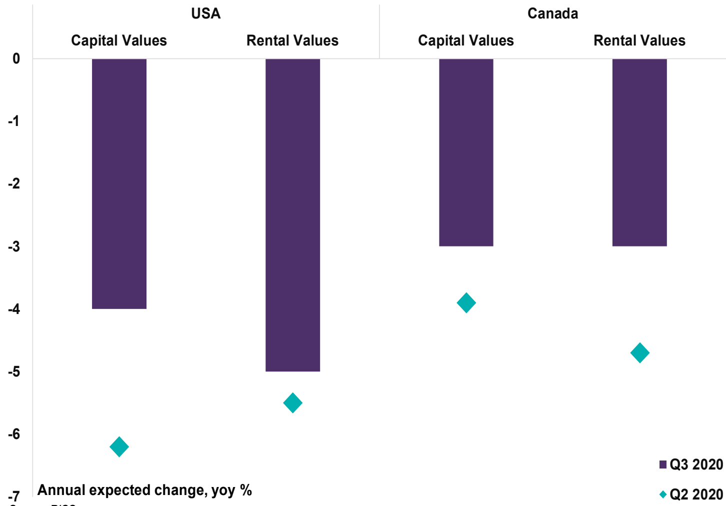
This challenging picture is also visible in investment activity indicators that we chart such as new enquiries which continue to remain very subdued away from the logistics space (and some alternative assets). Foreign investor trends are also broadly reflective of this pattern with generally little interest in offices and retail, notwithstanding the ongoing appetite of some opportunistic buyers.

Chart 1: Occupier and Investment Sentiment Indices



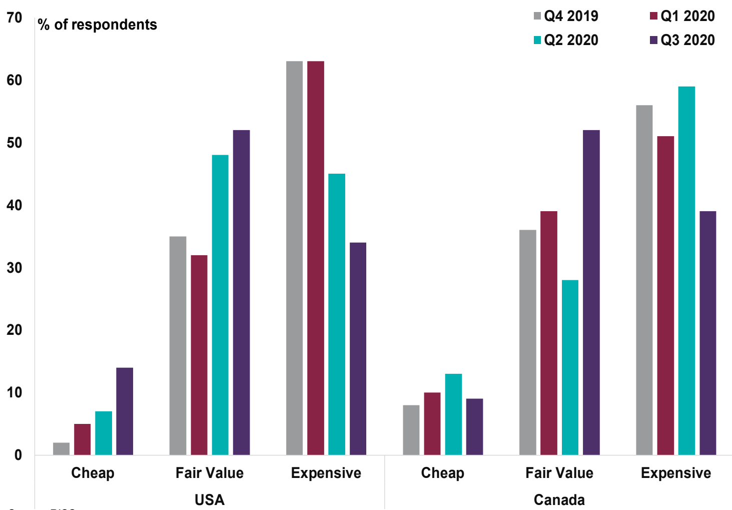
Source: RICS, LaSalle Investment Management

Chart 2: 12-month rental, capital value expectations



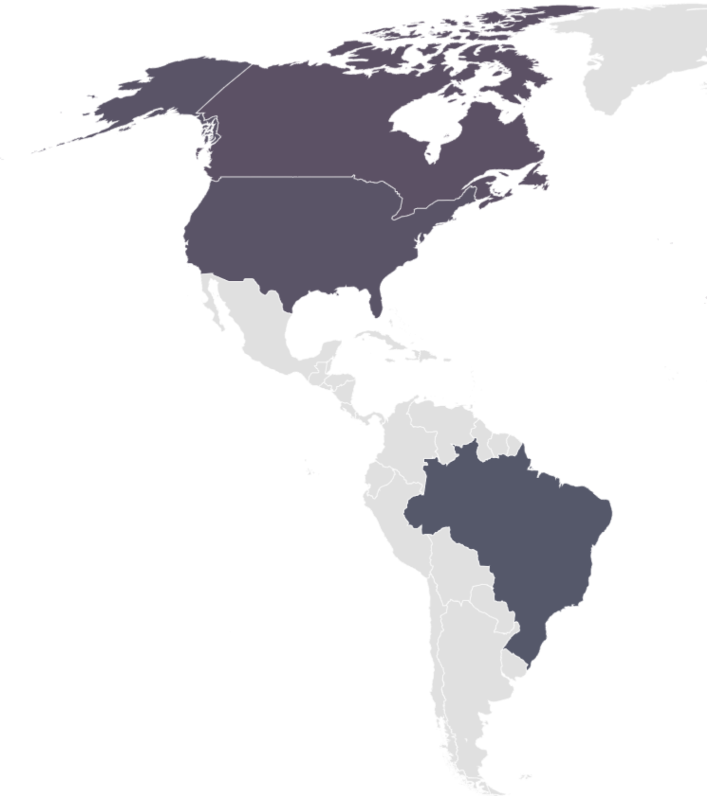
Source: RICS

Chart 3: Perceptions of valuations



Source: RICS

Regional Comments from Survey Participants in the Americas



Antigua and Barbuda

In the Antiguan ecomony 97% of GDP is reliant on tourism. At present bookings are 85% down on 2019. *-St. Johns*

Brazil

Market conditions may change rapidly depending on evolution of COVID-19 (i.e.: vaccine rollout). *-São Paulo*

Canada

COVID-19 environment has created a high level of uncertainty. Anything related to residential property types has appeared to come out unscathed, however the impact on commercial & industrial properties, especially income producing properties (office/retail/hospitality), remains to be determined. - *Sudbury*

Industrial and data centers are still receiving a lot of positive interest. rents are going up, occupancy is at very high levels (96% to 98%) both are in "development" stages. Office is also doing well in the downtown core. Where new space is coming on stream, it is getting leased up. Clearly, there has been a bit of a lull lately due to the pandemic. Retail, like everywhere is struggling to survive, but true class "A" malls are surviving and will. - *Toronto*

Industrial markets remain robust - Occupancy demand is anticipated to grow in most markets, new supply has been met with positive adsorption in Montreal, Toronto and Vancouver. Residential apartments have been weathering the storm but the vacancy rate is expected to increase in the short term. Office space subletting and vacancy are up in Toronto and Vancouver, retail sector remains sensitive with increasing bifurcation among asset types. - *Toronto*

Lowest vacancy rates in NA but with 10 mil sq ft of new development and post COVID-19 affects, rents will be under severe pressure by Q3 2021. *-Toronto*

The GTA real estate market was underpinned with very strong fundamentals heading into the pandemic. It is now a "sideways" market in most market nodes characterized by very little demand and tight head lease supply. Many projects are in a holding or "wait and see" pattern. Sideways markets have very few trades to act as markers, and low demand, making setting prices challenging for landlords and sublandlords. - *Toronto*

Fewer tenants than expected applied for government assistance due to COVID-19. Some landlords voluntarily gave up to 25% off rent for up to 3 months. - *Vancouver*

Chile

We still have to wait for the real effects of the lockdowns and the future of the pandemics. *-Santiago*

Trinidad and Tobago

General market in downturn due to COVID-19 restrictions on both supply and demand side. Recovery not likely in the near future since physical adjustments to the built environment must now adapt to the new environmental safety norms to be relevant to the covid era and this adaptation is a cost factor which would slow down the rate of recovery. The future holds many uncertainties in the new normal of changed behaviours being required. It calls for innovation and creativity in finding new survival way. *-Penal*

The Trinidad and Tobago economy still strongly depends on the diminishing oil and gas sectors, and after the closing of the national oil company Petrotrin, the economy went in a downward spiral, which is even more accelerated by the COVID-19 situation, which also affects the non-oil related retail and industrial sectors with many closures and lay-offs. *-Point Fortin*

United States

There is a lot of uncertainty generally although industrial seems to be rock solid as it has been for the last decade. "Green" has lately gained a layer of complexity that includes health in a way it never did before. Impacts of that on values are still TBD. *-Los Angeles*

Like any other market in the world Nashville has been impacted by COVID-19. The hardest hit sectors have been the hospitality and entertainment sectors, followed by retail and offices. The multi-family apartment market have seen vacancies increase are in more secondary complexes are offering incentives to entice tenants. Industrial is actually seeing an increase in activity as companies move to stockpiling more inventory to avoid more disruption to their supply chain. - *Nashville*

Commodities like Steel & Cement prices are likely to be affected negatively over next 12-18 month cycle. - *New York*

With COVID-19, I feel many of the small and large retailer with stick and brick locations will no longer exist. 60% of sit down restaurants will close for good. Office could go either way. If employers bring back all of their employee's into the office, with the social distancing rules, psf per worker will increase, but I suspect that many employees will continue to work from home. Unemployment will decrease, but many will discontinue looking for work, skewing the the rate - *Oceanside*

The dust has yet to settle. I do not think we'll really know where we are until at least 12 months after a vaccine protecting against COVID-19 has come into play. - *Philadelphia*

Lot of capital available for low risk, prime investments. - *Washington DC*

Asia Pacific: Signs of stabilization in Chinese occupier demand offsetting weakness in other regional markets

Respondents to the RICS Global Commercial Property Monitor from Asia Pacific indicated that sentiment in much of the region remained downbeat. On a more optimistic note, however, there are signs of stabilization in the mainland Chinese commercial real estate market. This is notable given mainland China was the first major market to both enter and exit lockdown, and data out of China has indicated the ecconomy has begun to grow again despite isolated outbreaks over the past several months.

Sentiment remains subdued in most of Asia Pacific

As can be seen in Chart 1, the Commercial Property Sentiment Index (CPSI) in Asia Pacific rose from -38 in Q2 to -29 in Q3. Although this is a quarter-on-quarter improvement, it still represents a deterioration in regional market sentiment.

However, even this may be painting an overly optimistic picture of market conditions in many Asia Pacific markets. A larger improvement in mainland China, which has a weighting of just under 50% in the aggregate Asia Pacific index, appears to be responsible for much of the regional improvement. The CPSI in China increased from -43 in Q2 to -20 in Q3, while in the rest of Asia Pacific decreased slightly from -33 in Q2 to -37 in Q3. This may still be a positive sign as, to this point in the pandemic, conditions in China have led the broader Asia Pacific region by one quarter.

Occupier, investment markets diverge

Chart 2 further illustrates the divergence in conditions between China and the rest of Asia Pacific. Although investor demand appears to be largely aligned in China and the broader region, there appears to be a major shift in occupier demand in China as survey participants noted a much slower pace of contraction in Q3 than in Q2. This is perhaps unsurprising given lockdowns, though severe, were lifted in China earlier than in other Asia Pacific markets. Further, outside of China respondent commentary remains generally pessimistic.

There is some dispersion in conditions between markets. Respondents in Australia and India noted that the pullback in demand slowed modestly from Q2 to Q3, though occupier demand (particularly for offices) continues to fall sharply and landlords are having to offer greater inducements to potential tennants. In Japan, participants highlighted an even greater pullback in occupier demand in Q3 than what was reported in Q2 (in net balance terms), though the investment market does appear to be more resilient.

Outlook favourable for industrial

A consistent theme across prime assets in Asia Pacific markets is that the outlook for industrial property is more upbeat than it is for office or retail. This is true for both rents and capital values, where respondents expect prime industrial properties to be more resilient than prime office or retail over the next twelve months. As shown in Chart 3, this trend appears to be global.

Prime industrial rental expectations in Asia Pacific are buoyed by Australia, where rents are expected to increase 1.5% over the next year. Japan and New Zealand are also expected to see positive rental growth (albeit modestly so) and, with the exception of Hong Kong and Malaysia, no Asia Pacific market tracked by this survey is expected to see a decline in prime industrial rents of more than 1.5%. The outlook for office and retail properties is considerably more subdued. At the aggregate level, this is somewhat offset by a stabilization in China, where little change is expected in rents over the next year.

Chart 1: Commercial Property Sentiment Index

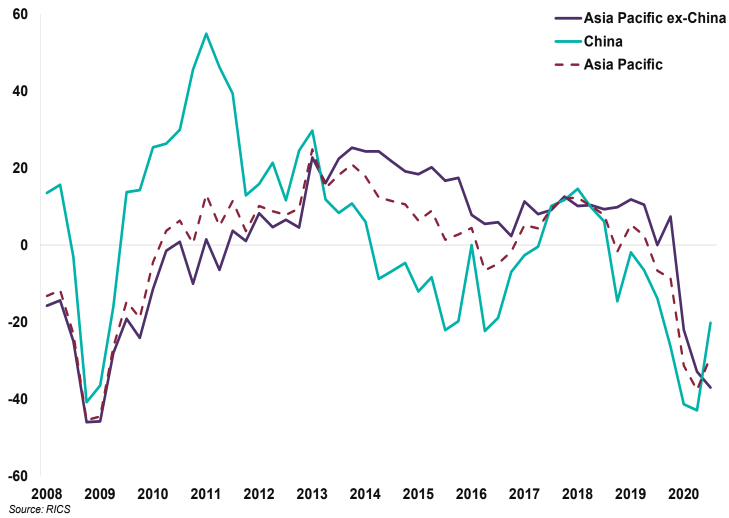


Chart 2: Occupier and investment demand

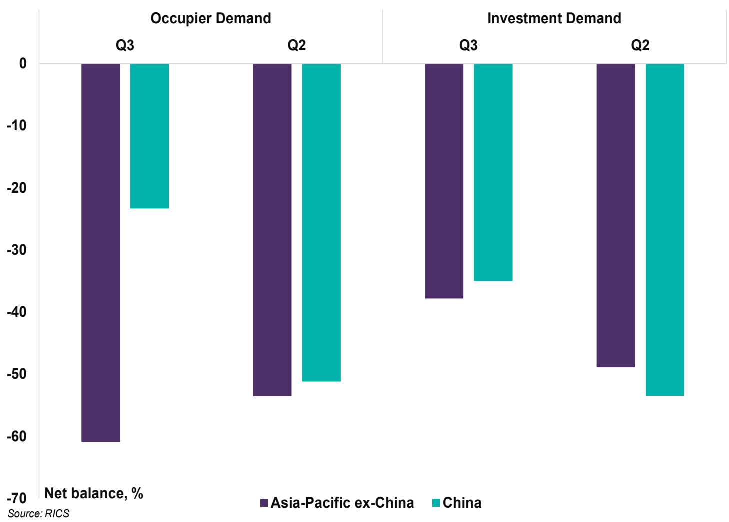
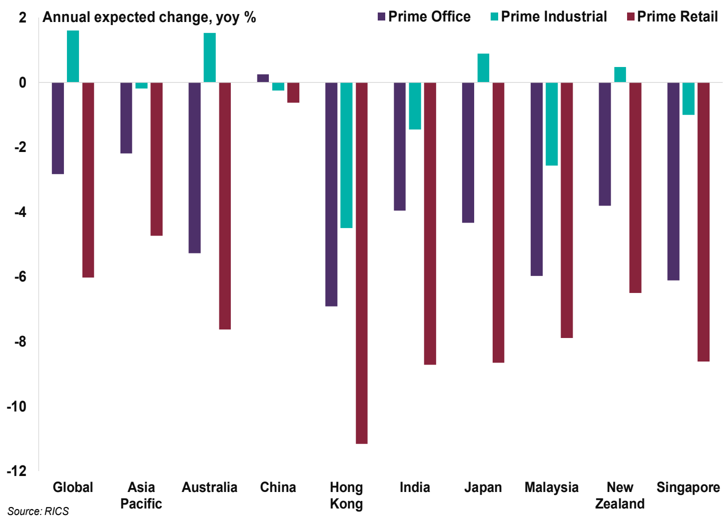
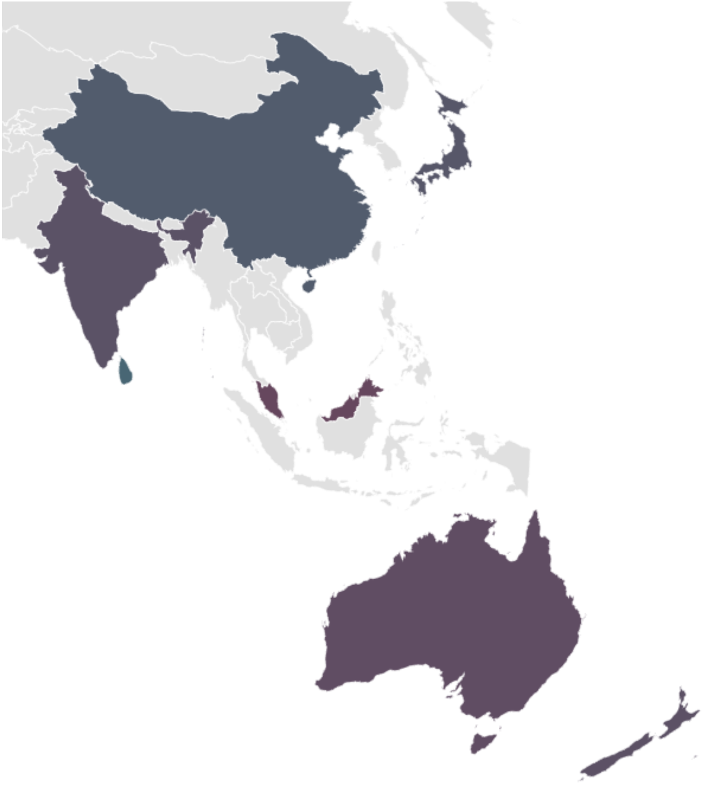


Chart 3: 12-month prime rental expectations



Regional Comments from Survey Participants in Asia Pacific



Australia

Queensland's economic activity has resumed quicker than first anticipated and anecdotally we are seeing this reflected in higher frequency statistics such as retail turnover. Nonetheless, COVID-19's effect on the local and global economy will be felt for many years to come. We believe, it is inevitable that normalcy will return to people's lives and therefore businesses. At the same time, structural shifts that were taking shape pre COVID-19 will accelerate. *-Brisbane*

Local & national commercial property market indicators are subdued/unclear due to concerns that the full impacts of the current global pandemic are yet to be realised. There remains good underlying investor appetite for high quality properties that display the traditional proven investment qualities & attributes. We expect that current market uncertainty will mask/distort underlying commercial market capital & rental value performance trends for at least the next 6-12 month period. *-Brisbane*

China

The prevention and control of COVID-19 is in the second half, and the market is affected by related effects. It is expected that it will pick up in the later period. *-Guangzhou*

Shanghai has demonstrated a very steady recovery from COVID-19. Normal business activities have resummed. The office market will be dragged by the huge oversupply in the next 3 years. Prime shopping cneters are doing well. Oversupply also happened in the secondary locations for retail space. Residential sales and rents are still strong amid government restriction on selling price for 1st time project sales. *-Shanghai*

Hong Kong

Investments by foreign Investors are at very low level but local investment activity continues.

The global retail suffers from the lock down of countries and COVID 19, without the tourists, retail sector relies on the local consumption which is also severely affected by the COVID-19. Besides, the social unrest has initiated some international brands to exit Hong Kong market.

Yields have seen some upward pressure but remaining generally low in low interest rate environment. Real talk support and holidays prevalent in retail but not other sectors.

India

The goal post seems to have moved to Q3 2021. The actual rebound and recovery is believed to be around Q3 2021 if the vaccine is administered by Q2 2021 and a genuine one found by Q1 2021. *-Bengaluru*

For the next 12 to 15 months, commercial real estate demands may hit due to COVID-19 Pandemic. Work from Home is currently preferred by the professionals, however it may not sustain for long. Office Demands will be back to steady growth post 12-15 months once the COVID-19 Pandemic settles. No organisation can deliver required output/productivity in their results without property office space and infrastructure. *-Mumbai*

Japan

Modest weakening of fundamentals in sectors other than logistics/ distribution, sentiment remains mostly postive and weight of capital chasing opportunities is keeping pricing firm to date. *-Tokyo*

Malaysia

Market has yet to completely factor in the effects of the COVID-19 pandemic whilst at the same instance the significant over supply in various segments such as service apartments and commercial spaces (office and retail) has created a huge challenge to various stakeholders. Although the market continues to experience a phase of consolidation, the most significant aspect is the timing for market recovery which is compounded and clouded by the pandemic. The double whammy impact is unprecedented. *-Kuala Lumpur*

New Zealand

Low term deposit interest rates have led to strong demand for quality investment properties, especially industrial where tenants have not been impacted by COVID-19.
Far more attention given to due diligence and investigation of tenant's business than in the past. Owners are choosing to hold properties and not sell leading to limited supply and increased competition amongst buyers prepared to accept low yields for those properties offering strong fundamentals. Vacancy factor for office/retail rising. *-Auckland*

Singapore

Easy credit from low interest rates is artificially sustaining otherwise unviable cap rates. Owners are not compelled to sell so cap rates continue to compress along with falling rates. Current shortage of prime CBD office space due to redevelopments to capitalizing on new incentives cancel out potential drops in office demand from COVID-19. Competition for the new digital banking licenses also saw an increase in new tech seeking large space in CBD which will should sustain prime office rents.

Europe: Industrial property shows signs of recovery, little cause for optimism elsewhere

The latest feedback across Europe continues to signal the commercial real estate market is struggling against the economic challenges posed by the ongoing pandemic. That said, while the retail and office sectors have shown little in the way of recovery during the latest survey period, sentiment in the industrial sector has turned in a more favourable direction.

Headline indices still entrenched in negative territory

The European aggregate Occupier and Investment Sentiment Indices (OSI and ISI, respectively), which are displayed in Chart 1, both remained deeply negative in Q3, showing minimal improvement after the steep (pandemic induced) declines posted in recent quarters. At the country level, Romania and Spain both returned especially downbeat readings, with the latest figures further deteriorating over the quarter (taking an average of both the OSI and ISI). At the other end of the scale, headline sentiment appears slightly less negative than the European average across Croatia, Greece and Germany. Driving this, as illustrated in chart 2, the surplus of supply over demand on the occupier side of the market is less acute in Croatia and Greece than all other European markets covered.

Expectations for rental growth across the retail sector are firmly negative at the pan-European level, with respondents envisaging prime retail rents falling by -5% over the coming twelve months. Meanwhile projections are even weaker for secondary retail rents, at -10%. For offices, prime rents are seen slipping by around 2%, on average, across the continent over the year ahead. Alongside this, the outlook is altogether more downbeat for secondary office space, with rents projected to drop by 5% on the same basis.

Prime industrial to outperform, alternatives mixed

With the industrial sector continuing to benefit from the accelerated switch towards online shopping, rental growth prospects appear much more resilient than other portions of the market. Indeed, across Europe as a whole, prime industrial rents are expected to rise by 2% in the coming twelve months. Furthermore, prime industrial rental expectations are positive in 14 of the 17 European markets included in the Monitor. That being said, contributors are slightly more cautious on the outlook for secondary industrial rents, with projections at the pan-European level standing at -1%.

Capital value projections are highly varied across some of the more alternative commercial real estate asset classes (newly added to the survey in Q2 2020). Hotels stand out as exhibiting the weakest twelve-month expectations, with respondents pencilling in a 9% decline in capital values across Europe on average. At the same time, expectations are slightly negative for both aged care facilities and student housing, pointing to around a 1% fall in each instance. Conversely, data centres and multifamily housing are anticipated to post capital value gains in the year to come, with projections standing at +2% and +1% respectively.

Commercial real estate in the midst of a downturn

The vast majority of European respondents view their local commercial real estate market to be in a downturn phase of the cycle (as shown in chart 3). In fact, Greece was the only market in which the largest share of survey participants did not consider the market to be turning down; 60% of respondents in Greece felt that conditions were consistent with the early stages of an upturn.

Chart 1: Occupier and Investment Sentiment Indices

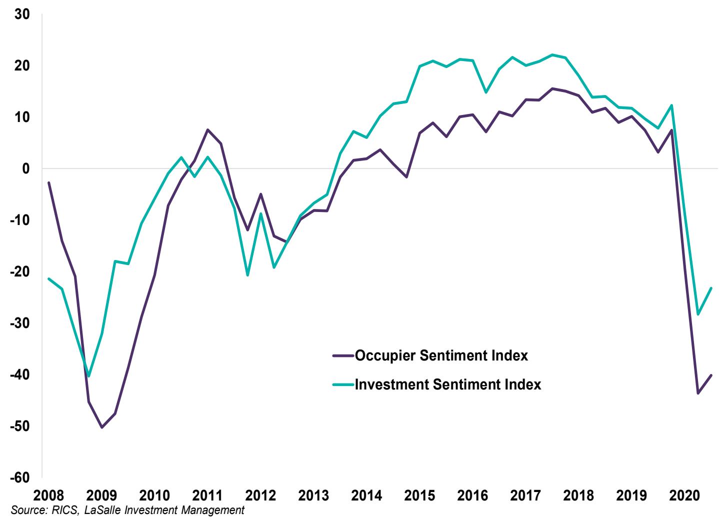
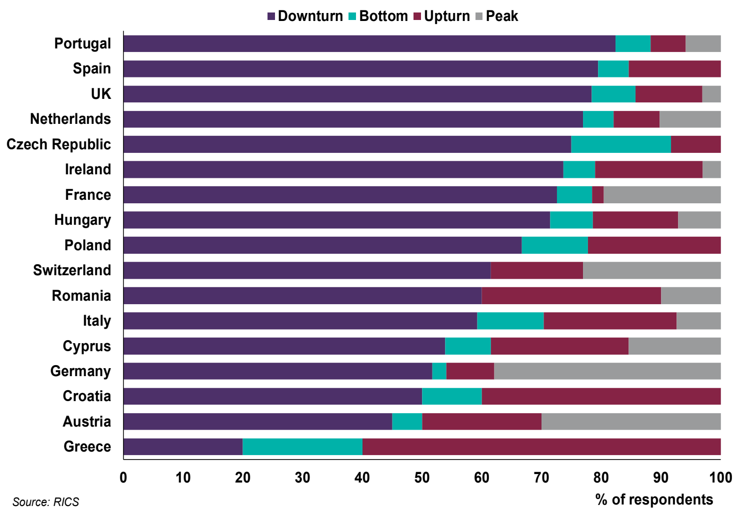


Chart 2: Demand minus supply

Chart 3: Perceptions of phase of cycle



**Responses are weighted by GDP PPP to ensure accurate representation

Middle East and Africa: Occupier and investor demand continue to slip

The Q3 2020 survey results across the Middle East and Africa continue to depict a weakening demand backdrop on both the occupier and investment sides of the market. Furthermore, a surplus of supply relative to demand was a significant issue in some areas even before the pandemic struck, and recent events have only exacerbated this.

Occupier Sentiment Index remains close to record lows

In aggregate across the region, the headline Occupier Sentiment Index (OSI) moved from -44 in Q2 to post a reading of -38 in Q3. Despite this latest figure being slightly less negative than before, it still represents the second weakest reading on record and therefore remains consistent with a challenging set of occupier conditions at present.

Meanwhile, the Investment Sentiment Index (ISI) came in at -31 compared to -33 beforehand, also a signal of subdued momentum behind the investment market. On a country comparison, overall sentiment appears more downbeat in South Africa and the UAE compared to the other markets covered across the region.

Investment enquiries reportedly fell within the office, industrial and retail sectors at the headline level during Q3. On average, the decline was slightly more pronounced in the office sector, with a net balance of -49% of respondents across MEA seeing a weakening trend. At the country level, as shown in chart 2, investment demand was much flatter in Nigeria compared to the aggregated regional numbers. Indeed, retail demand was broadly unchanged while only modest declines were reported in both the office and industrial sectors. Elsewhere, the investment enquiries series remained firmly negative across all sectors in Qatar, South Africa, the UAE and Saudi Arabia.

Subdued outlook for industrial relative to global peers

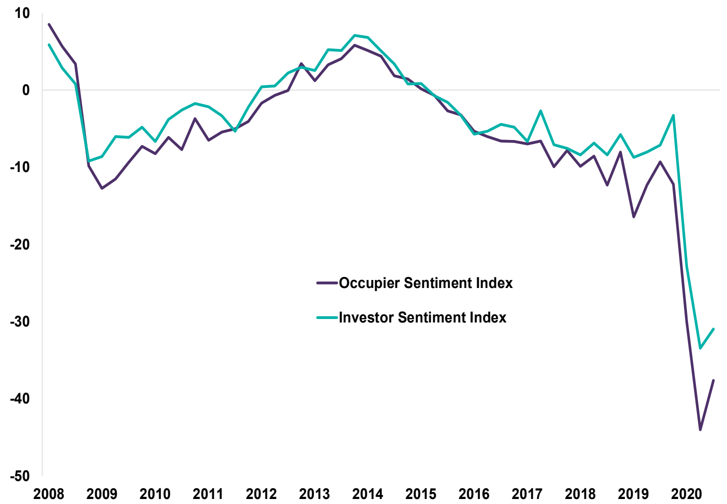
Interestingly, unlike in other world regions, there has been no noticeable upturn in conditions reported across the MEA industrial sector. Contributors cited a decline in both occupier and investment demand for industrials during Q3. As a result, rents and capital values across the sector are anticipated to come under widespread downward pressure over the coming three months. That said, the twelve-month outlook is more mixed, with capital value and rental expectations (in net balance terms) positive across Nigeria and Saudi Arabia.

Across the additional market sectors introduced to the survey earlier in the year, data centres lead the way in terms of rental and capital value growth projections. With the exception of the UAE (where the outlook is flat), data centres display comfortably positive expectations for the coming twelve months across the remaining individual MEA markets covered. At the other end of the scale, hotels generally exhibit the weakest twelve month outlook on a sectoral comparison, with rents and capital values seen falling sharply in most cases.

Commercial property market still in a downturn phase

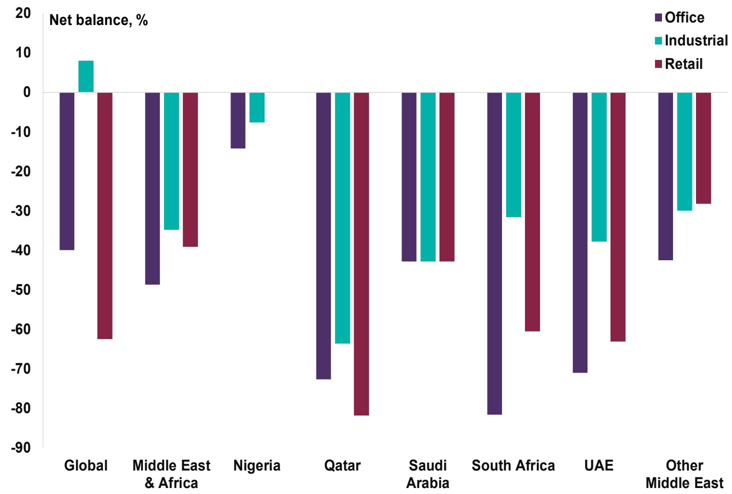
60% of respondents across the MEA region consider their local market to be in the downturn stage of the property cycle. As yet, there has not been any meaningful rise (at the aggregate level) in the share of survey participants sensing the market has reached a floor. That said, this does not apply to Qatar, where 35% of respondents feel the market has hit its bottom (up from 12% last time). Meanwhile, in Nigeria, despite the immediate near term economic disruption being felt, the largest share of contributors feel the market is in an upturn phase of the cycle.

Chart 1: Occupier and Investment Sentiment Indices



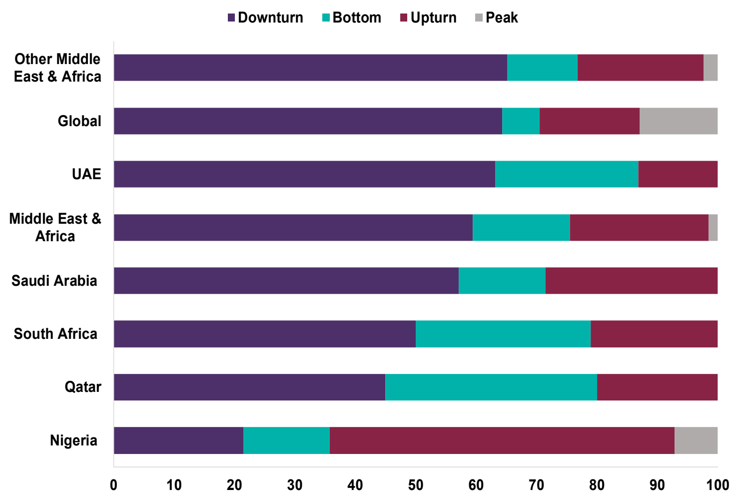
Source: RICS, LaSalle Investment Management

Chart 2: Investment enquiries



Source: RICS, LaSalle Investment Management

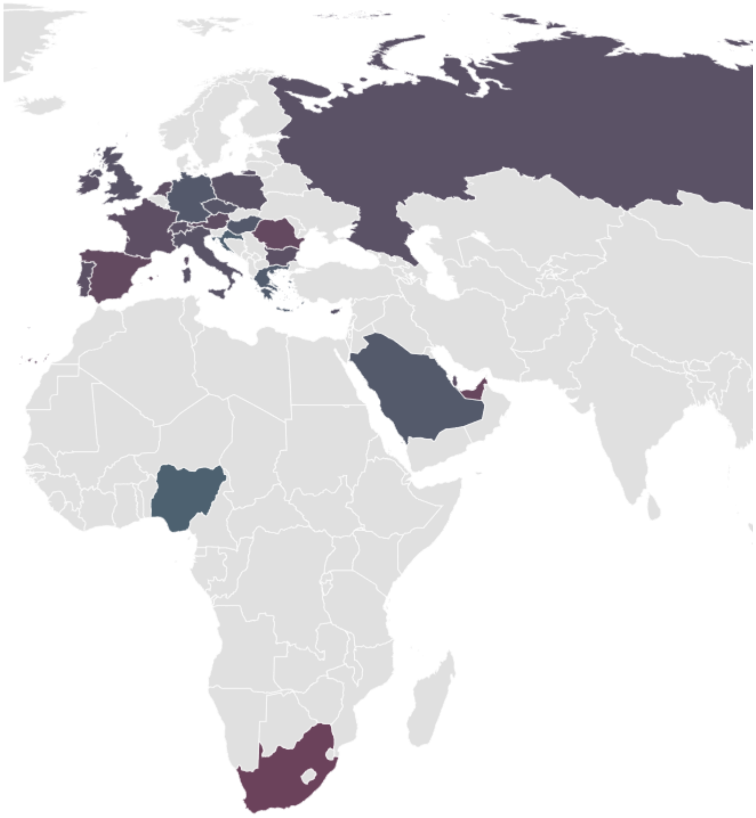
Chart 3: Perceptions of phase of cycle



Source: RICS

**Responses are weighted by GDP PPP to ensure accurate representation

Regional Comments from Survey Participants in EMEA ex-UK



Bulgaria

There is still a significant gap between the landlords/sellers asking prices and the real market transaction price and the prices buyers are ready to pay. Following that, there is decrease liquidity and slowdown of real transactions. -*Sofia*

Cyprus

The COVID-19 crisis and mild geopolitical insecurity in the region have created immediate future concerns that naturally transcribe into hesitation regarding investment. The former, though, appears to be considered a temporary economic setback to end in 2021, while the latter is rather given for the region and its effects are not very significant. Values, therefore, are expected to go down, somewhat, as the contextual economic consequences shall be felt, but the longer term outlook is more positive. -*Nicosia*

Denmark

Danish commercial real estate market (except hotels and retail) more affected by Social Democrat government's proposals for new notional gain tax (lagerbeskatning) than COVID-19. -*Copenhagen*

France

Weight of capital is currently maintaining pressure on pricing. This is despite increasing concerns on future leasing market conditions, during the economic downturn, and notable hardening of financing conditions. -*Paris*

Germany

Insecurity seems to have been replaced by a kind of indifference about future market developments. -*Berlin*

Greece

High volatility across the board due to the COVID-19 pandemic. -*Athens*

Hungary

Uncertainty looms over the office occupier market. Home office on one hand and social distancing, and possible obligatory home office support for workers on the other. I still expect a decrease in overall demand for office space over mid-term. -*Budapest*

Ireland

The Industrial market is strong, offices soft (weak demand still) and will get worse before it rebounds. The retail side is weak in big city centre units. -*Dublin*

Italy

Market perceptions and the outlook are currently strongly affected by the COVID-19 emergency. -*Milan*

Nigeria

Remote working conditions have been increasingly embraced due to the recent pandemic and hence reduced interests in secondary offices. However, it is expected that data centres will spring up in the immediate future so as to accommodate the increasing shift towards this dimension which is still relatively new in the country. -*Lagos*

Poland

Current market environment is extremely volatile as occupiers may be affected due to the COVID-19 crisis which makes investors as well as banks hesitant to take decisions. -*Warsaw*

Portugal

High market uncertainty due do COVID-19 pandemic. It is possible that market may start devaluing by March next year. -*Lisbon*

Romania

Retail might have a downshift, due to limited access of large number of people in closed spaces, including events or other retail marketing activities. Office market, especially some old buildings in refurbishment process, are turning into residential property as landlords/ developers anticipate a new era of working environments. -*Bucharest*

Spain

GDP in Spain is currently -18% due to the COVID-19 crisis. The real estate market is aware of new opportunities in the short term. Logistic is growing fast, not affected by the crisis, while offices and retail will worsen dramatically. -*Madrid*

South Africa

Due to the current situation, offices have been forced to remain vacant and more employers are comfortable in having their employees working from home. This might make tenants reduce their spending on rentals and opt for remote working. -*Johannesburg*

UAE

There is a significant downward trend to the market conditions and in particular retail. Job insecurity is impacting spending and the effects are now taking hold in the wider market. -*Abu Dhabi*

UAE under strain prior to COVID-19 impact, which has further pushed market expectations down. International passenger airlines & hotel industries hardest hit. Expecting air fares to rise resulting in flights only on emergency basis. Cargo movement however has escalated. -*Dubai*

Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 16 September 2020 with responses received until 19 October 2020. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1719 company responses were received, with 507 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia. Responses in the Americas were collated in conjuction with the Association of Foreign Real Estate Investors.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale. The Commercial Property Sentimet Index is an unweighted average of the OSI and ISI. Regional indicators are weighted using estimates of the stock of commercial property provided by LaSalle Investment Management, and are adjusted on an annual basis.

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This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: **economics@rics.org**

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Responses were gathered in conjunction with the following organisations:

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