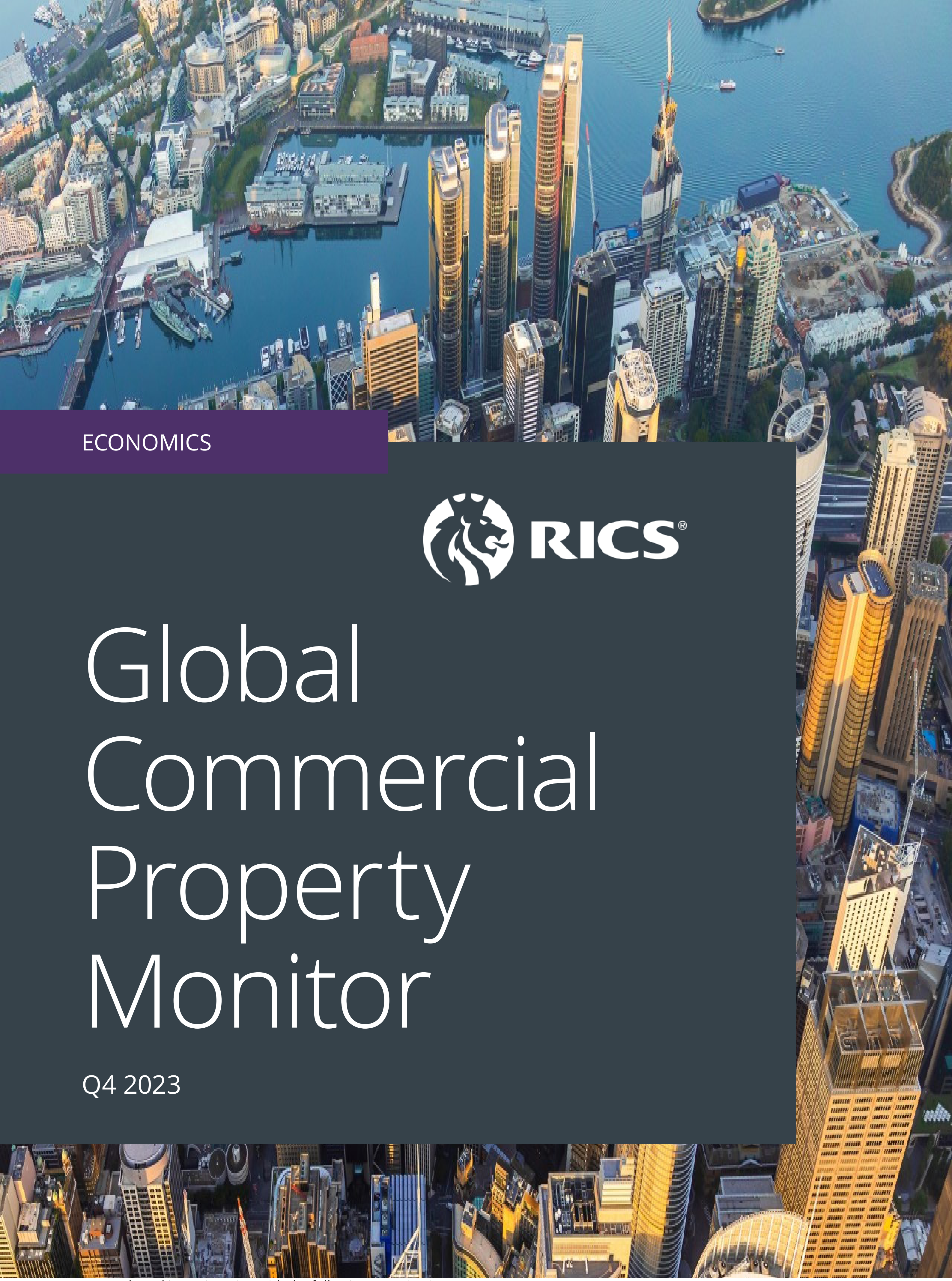


ECONOMICS

Global Commercial Property Monitor

Q4 2023

Responses were gathered in conjunction with the following organisations:

ECONOMICS

Credit conditions for CRE stabilise but feedback remains cautious away from MEA and a few parts of APAC

- RICS Commercial Property Sentiment Index remains negative and little changed from Q3 at a headline level
- Modest signs of improvement evident across some of the more mature markets albeit the better readings are still generally tentative
- Feedback from MEA continues to strengthen but aggregate APAC sentiment deteriorates

The headline RICS Global Commercial Property Sentiment Index (CPSI) for Q4 2023 came in broadly in-line with the Q3 reading at -15. Significantly, this global metric has been little changed since the middle of 2022. A similar story is visible when the headline number is broken down into its component parts, with the investment component (ISI) steady at -18 and occupier sentiment (OSI) unchanged at -13.

Predictably, these broad trends mask more interesting developments when the numbers are disaggregated at a regional level. For example, as highlighted in Chart 1, there has been a very modest improvement in the CPSI in both the Americas and Europe in the face of a material shift in tone regarding the outlook for interest rates. In writing up the results of the Q3 Monitor, we drew attention to the 'higher for longer' mantra. Since then, money markets have begun to anticipate a more rapid turnaround in the interest rate cycle, helped by slightly more benign inflation data. The counterpoint to this is the headline reading from APAC, which slipped to its worst result since the midst of the pandemic (Q4 2020), dragged down by more negative feedback from respondents to the survey in China.

Shift in credit conditions helps drive regional picture

While not wanting to overplay the impact of the turnaround in expectations around the outlook for monetary policy, and indeed, the improvement in credit conditions in some markets, these factors do appear to have played a role in driving some of the developments evident in the Q4 Global Commercial Property Monitor. Chart 2 captures the RICS Credit Conditions metric by broad region, both for the latest three month period and the previous quarter to demonstrate the scale of the turnaround. The most significant improvement (albeit the reading is still very marginally negative) is in the Americas where the net balance of contributors reporting a tightening lending climate moved from -43% to -6%. Within this, respondents from the US unsurprisingly report a particularly noticeable shift in mood reflecting, at least in part, the more soothing tone to recent pronouncements from the Federal Reserve.

The direction of travel in Europe is in broad-brush terms not dissimilar albeit that the headline read for credit conditions is still markedly more negative in net balance terms. At a country level, the UK metric now stands at -5% (up from -44% previously) while Germany has seen a particularly significant narrowing in the adverse trend from -74% to -20%. For APAC, credit conditions continued to improve modestly over the quarter although the result for Australia was little changed and remains stuck in negative territory (-34% v -38% in Q3). This is consistent with ongoing discussions around whether the Reserve Bank will raise interest rates further in February. Meanwhile, India is at the other end of the spectrum with a net balance of +73% of contributors pointing to a further improvement in the credit environment despite the central bank signalling that it is in no rush to ease policy. Reflecting this, the CPSI for India remains comfortably in positive territory at

Chart 1 - Commercial Property Sentiment by Region

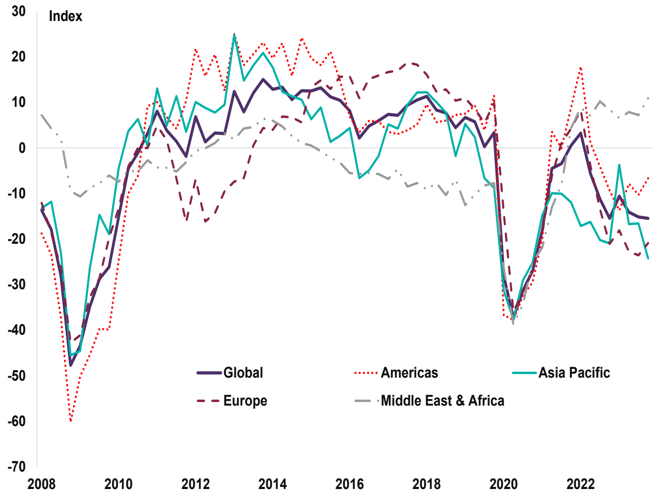


Chart 2 - Credit Conditions by Region

+21. However, it is the Middle East and Africa (MEA) where real estate sentiment remains most upbeat and within this region, Saudi Arabia is leading the way (CPSI +36). For MEA, the aggregated credit conditions indicator rose from a net balance of +1% to +11%. while in Saudi Arabia, it increased from +36% to +42%.

Stage in cycle metric suggests gradual progression

Chart 6 show the feedback to the question about where the real estate market is in the property cycle at a global level. In the latest iteration of the survey, 46% of contributors indicated that it is still in a downturn phase, with a further 23% signalling that it is now at the bottom of the cycle. The comparative results from Q3 are 55% and 19% (for Q2, the numbers were (58% and 14%). Meanwhile the share of respondents suggesting that the market is in the upturn phase of the cycle has edged up very slightly from 21% to 24%.

At a regional level, the results tell a similar story to a greater or lesser extent. For the Americas, the proportion of respondents who view the real estate market to be in either a downturn or at the bottom of the cycle has slipped from 70% to 65%, with an increasing share in the latter category. The equivalent figures for APAC are 68% and 66% and for Europe 88% and 82%. Meanwhile, the insight provided from MEA is understandably rather different with over 50% of respondents continuing to view the property market to be in an upturn phase of the cycle.

Occupier demand remains firmer than the investment market

A theme we have repeatedly drawn attention to in previous reports has been the relative resilience of the occupier demand metric as against the one designed to track investment enquiries. This can be explained, perhaps in part, by the global economy steering clear of the hard landing that was envisaged in some forecasts as inflation moved sharply higher and interest rates followed suit. Charts 3 shows the latest reading for both indicators at a regional level and suggests that the pattern still remains in place for the time being. For the record, the global measure for occupier demand in net balance terms stands at -4% as against -5% in Q3. The comparative result for investment enquiries is -14% (in both periods). Significantly, the regional results in most cases reflect a largely consistent trend at an underlying country level but, perhaps unsurprisingly, APAC is a notable exception. For instance, while in India the occupier metric stands at +61% and the investor series at +38%, the comparative figures for China are -45% and -42%.

Chart 3 - Occupier Demand and Investor Enquiries

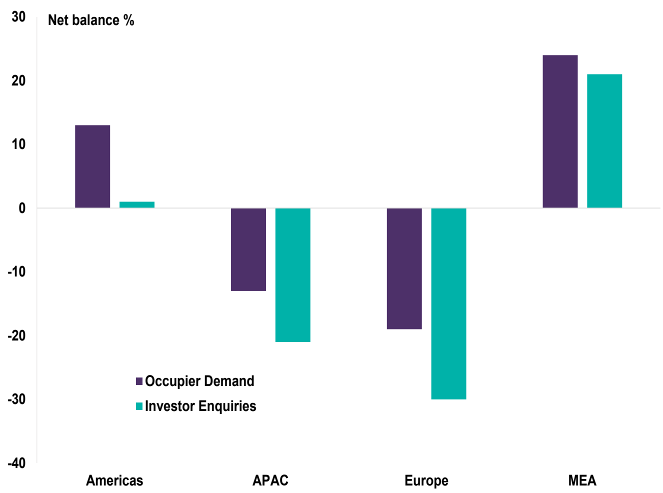
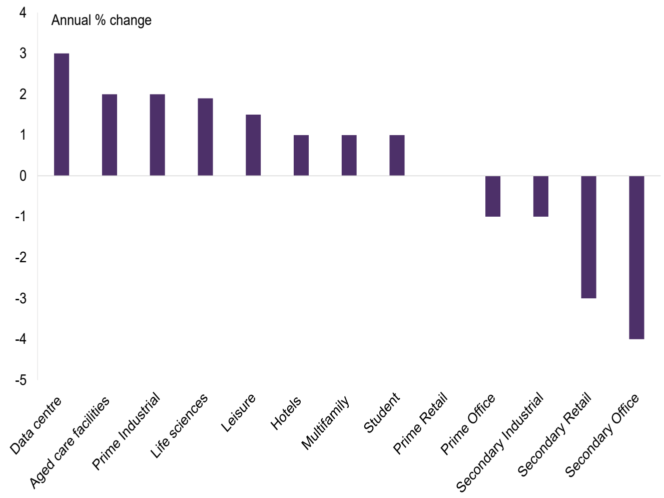


Chart 4 - 12 Month Global Capital Value Expectations



Reverting back to the global results, both the occupier and investor numbers continue to show a marked divergence in sector trends (the results for these questions are only captured for the three traditional mainstream sectors). In both areas, industrial demand remains modestly positive according to contributors, while for offices and retail in aggregate, the numbers are negative albeit a little less so than previously. Moreover, in the case of occupier demand for retail space, the latest data actually points to pretty much a flat trend (net balance of -1%).

Expectations Continue to Favour Prime and Alternatives

Chart 4 shows global capital value projections (in percentage terms) for the next twelve months according to survey participants. The results are not dissimilar from those recorded in Q3 and indeed from the rental projections provided by contributors in the current report. Notably, where the asset class is split between prime and secondary in the questionnaire, there is a clear preference for the former although, for the record, the gap in expectations hasn't widened any further this quarter. In addition, there continues to be an expectation that what are often described as alternative assets will deliver stronger returns for investors than mainstream assets. As highlighted in the chart above, data centres, aged care, prime industrial and life sciences top the ratings when it comes to projections for capital value gains.

The story at a regional level is not that different although there is a little more evidence of greater polarisation between best in class and the rest particularly in the case of offices. In the Americas, capital values are projected to fall by a further 2% when it comes to primes offices and by 6% for secondary units. Meanwhile, the comparative numbers for Europe are -0.5% and 5%.

Chart 5 shows 12 month capital value and rent expectations at a country level (in net balance terms). Once again, it is clear that forward-looking responses are most upbeat in MEA markets such as Saudi Arabia, UAE and Nigeria, as well as India. China and Hong Kong continue to languish in the bottom left quadrant of the scatter chart, which is consistent with further falls in both prices and rents. Significantly, the picture does appear to be slowly improving in a number of more mature market including the US and the UK.

Chart 5 - 12 Month Global Capital Value Expectations

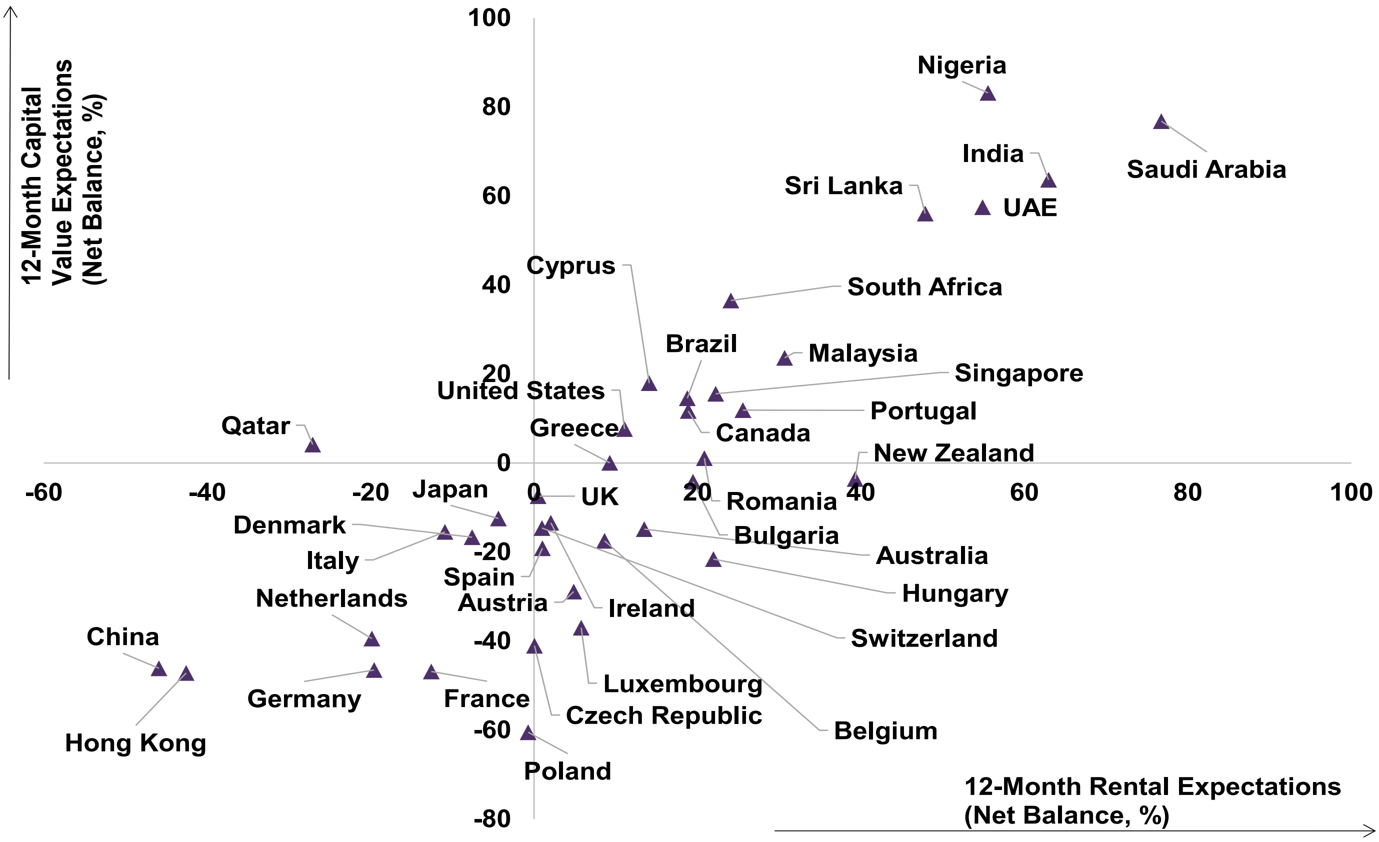
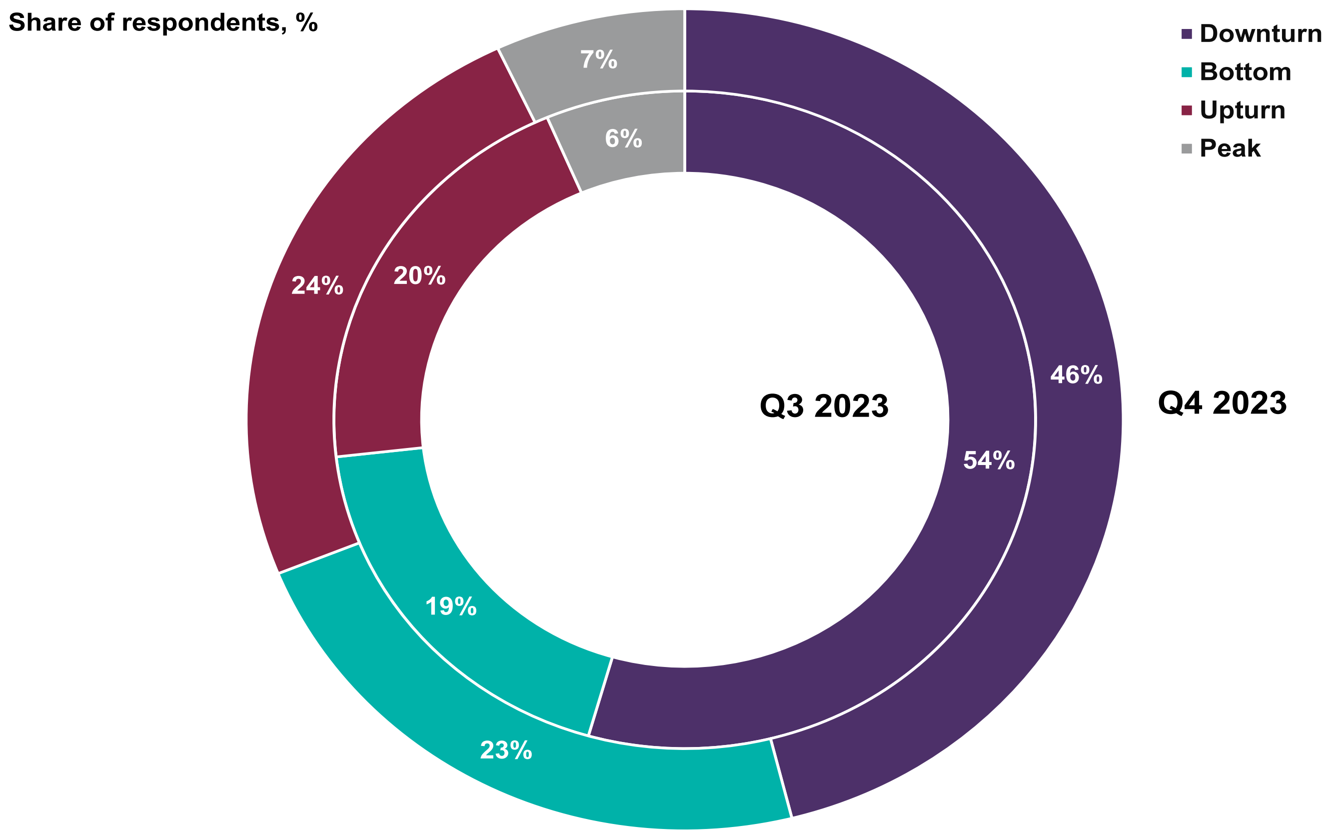


Chart 6 - Global Perceptions Regarding Point in Cycle



APAC: Headline sentiment remains subdued despite India's resilience

The headline RICS Commercial Property Sentiment Index (CPSI) for APAC posted a reading of -24 in Q4 compared with -17 the previous quarter. This is indicative of a generally downbeat tone to the feedback received in the latest survey with India and Malaysia notable exceptions to this picture. As highlighted in Chart 1, the CPSI for India remains well ahead of that for other APAC markets. Malaysia remains in neutral territory with the headline index at +5. Meanwhile, the positive momentum seen in Singapore previously appears to be dissipating, with the CPSI softening from +6 to -1. Sri Lanka registered a negative reading at -5, a marginal improvement from -9 in Q3 and Japan and New Zealand are both in the same ballpark with the CPSI at -6. At the weaker end of the spectrum, China and Hong Kong are stuck deeply in negative territory, with headline indices at -45 and -35 respectively.

Mixed picture in occupier demand

Chart 2 displays the feedback from respondents regarding tenant demand at a sector level. China and Hong Kong continue the downbeat trend with negative net balances around -40%. But there are underlying differences. In China, secondary properties are coming under greater pressure, with the forward-looking rental projections pointing to a decline of around 6% on the twelve-month basis. Meanwhile in Hong Kong, both prime and secondary properties appear to be underperforming with an expected fall of 4% in rents. In contrast, respondents in India (net balance +61%) and Malaysia report a positive occupier demand trend across all sectors. Elsewhere, the picture is more mixed. Tenant demand for retail space is firm in Japan with a net balance of +33%, thanks in part to a pick-up in inflation. Meanwhile, industrial demand in Australia remains relatively resilient with a net balance of +41%, as opposed to -15% and -16% for the office and retail sectors.

Besides the mainstream sectors, alternative such as life sciences, data centre, student housing and leisure demand are largely aligned with the headline index performance in each market. One notable exception is Sri Lanka, which is seeing strong rental and capital value expectations; forward-looking growth rates of over +8% are being projected on the 12-month metrics.

Property cycle perceptions varied in markets despite improved credit conditions

The aggregated credit conditions indicator continues to improve rising from +3% in Q3 to +14%. Most of the region appears to be facing a broadly supportive liquidity environment. Only Australia and Hong Kong registered negative net balances at -34% and -44%, which is similar to the levels seen last quarter.

That said, respondents' perceptions on where markets are in the property cycle predictably diverge markedly (reflecting the headline CPSI numbers) . As shown in Chart 3, China and Hong Kong have a high percentage (around 90%) of respondents viewinge their markets as being in the downturn phase or at the bottom of the real estate cycle. Meanwhile, Australia and Singapore share broadly similar distributions, with 77% and 67% of the respondents respectively expressing largely cautious views on this indicator. On the more positive side, 79% of respondents in India and 60% in Malaysia view those markets to be in the upturn part of the cycle.

Chart 1 - Commercial Property Sentiment Index by Country

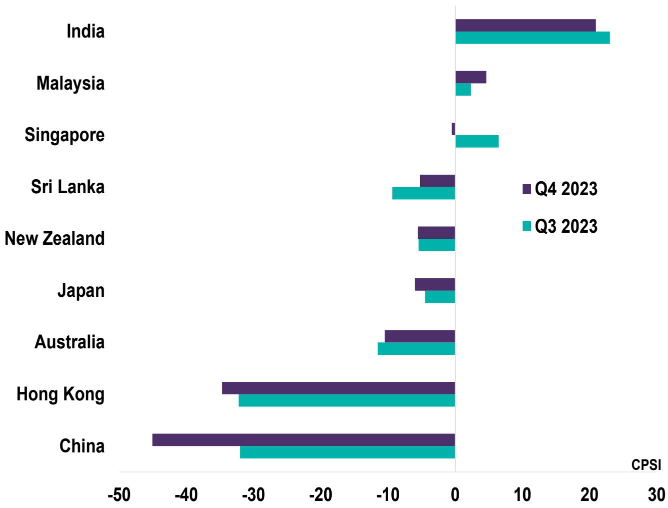


Chart 2 -Occupier Demand by Country

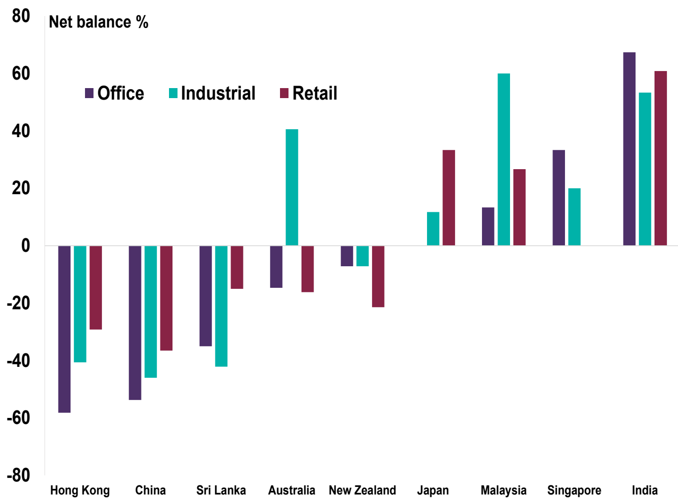
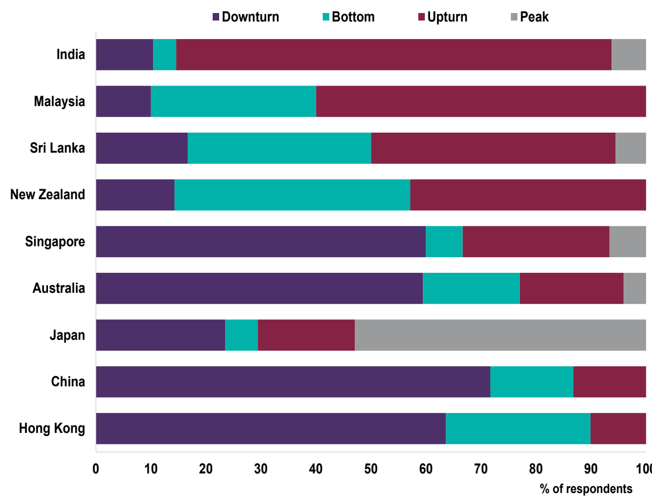


Chart 3 - Property Cycle Perceptions



Regional comments from survey participants in APAC

Australia

Capital markets and yields under pressure in commercial office space. Flight to quality on the occupier side of office. Secondary CBD and metro stock under pressure. - Brisbane

Still reasonable demand for industrial space and limited / low supply is keeping rents high. Also inflation will to some extent counter the effect of yields pushing out on capital values. - Brisbane

Still strong overall despite interest rate rises. - Gold Coast

Uncertain. Many players are awaiting other factors before making major commitments. - Melbourne

Commercial office market in a state of turmoil with low occupancy rates. - Melbourne

The office market nationally has suffered significant yield decompression with more pain expected in secondary assets. Despite ongoing higher vacancy levels incentives remain elevated whilst rentals are moderately increasing. - Melbourne

Tentative market at the moment. - Sydney

Interest rates uncertainty leading to buyers' indecision. - Sydney

Prime office rent growth has been unexpectedly strong in Sydney, though employment growth hasn't translated into occupancy. Some of this demand is likely to spill over into 2024 as tenants have delayed leasing decisions in 2023. - Sydney

Continued caution resulting in deferred decision making awaiting improved guidance signals from both domestic and overseas markets. - Sydney

Unstable market. - Sydney

It is expected that the lending rate is going down. The property sector may improve. - Syndey

Bangladesh

Nowadays, commercial & residential property values are increasing due to massive inflation in Bangladesh. Building material price hikes are a major factor. Industrial property demand is decreasing due to less international investment. - Dhaka

Brunei

Expected economic downturn over the next 12 months. - Bandar Seri Begawan

Cambodia

Under the current economy, the market is continuously down. - Phnom Penh

China

Currently, Shanghai remains the leader of China's economy. The overall market vacancy is high, but in core areas, especially in places like the Caohejing Development Zone and the Xuhui Minhang area, the vacancy rate is low, and there is an urgent need for new carrier spaces to emerge. Urban renewal also presents new opportunities. - Shanghai

The market continues to show subdued sentiment. - Beijing

As the market dips, low volumes of transactions and commercial activities are seen. - Beijing

In Beijing, fashion brands are cautious in expansion, but demand for quality locations remains, especially for F&B and health sectors. Office rents are under pressure, particularly in sub-markets. Limited new supply in core areas may lead to demand rebound with economic improvement. - Beijing

Private capital has started to become active in opportunistic distressed assets, with relative asset prices within 300 million CNY.- Beijing

In 2023, Guangzhou's office market completed 10 projects, a 28% supply increase. New projects were mainly in Pazhou and Financial City, making up over 80% of the city's volume. The average rental rate dropped to 30% from 40%. Owner-occupied and associated enterprise areas exceeded 100,000 sqm, driving the city's absorption, showing a recovery in market demand. - Guangzhou

The real estate market is in a slump with supply exceeding demand. Asset values are down, development costs are up, and consumer and investor confidence is low. Developers are cautious about new projects. The situation is unlikely to improve soon. - Shenzhen

Hong Kong SAR

The overall property market is generally weak. It's not yet bounced back from the Covid-19 pandemic influence and the social movement that has happened in the last three years. Retail markets are seriously affected because of less tourists visiting Hong Kong including the major and frequent travellers from Mainland China. A lot of shops closed for over two years. People changed to work at home instead of in office. Thus lots of prime and big sizes office are available for letting. - Hong Kong

Commercial property market is facing significant downturn in the wake of interest hike. - Hong Kong

Structural or behavioural changes such as work from home and ppl shop at China leading to rent and capital downturn. - Hong Kong

Weekend activities have been shifted to Shenzhen for competitive prices, diversities and visit to cultural events. Second-hand residential market is quiet and first-hand residential market is full of supply with discount expected. Supply for residential units are expected to increase in coming years and the market is generally pessimistic in local property investment. - Hong Kong

High interest rate impacts on the market. - Hong Kong

Hong Kong property market is still plunging due to the overall market direction a after the big change in 2019. Now the government is trying the best to bring in new investors to Hong Kong and create more job opportunities. - Hong Kong

The capital value of real estate market is seriously impacted by high interest rate and for sure it is now buyer's market. - Hong Kongs

In the stage of economic and property market recession and that of general property slumps due to worse investment and exported demand. - Hong Kong

India

Low liquidity. Low office demand. Residential apartments doing very well. - Bangalore

Overall there is a positive movement in the market for residential, commercial, retail and industrial sector. - Bangalore

Office market on both demand and supply has improved drastically but may dip in the coming 10 to 12 months. - Chennai

Indian market is booming in terms of commercial, residential and industrial development, then the government issuing subsidiaries to promote and offer schemes and keep the cost at the same level. - Chennai

At present market is recovering and there is lull in the market as the interest rates have gone up. - Chennai

Market is good for luxury housing, premium office and retail spaces. - Coimbatore

Indian RE market across asset classes has seen appreciation in terms of absorption and price improvement across locations. The vacancy across sectors has reduced. The sector looks positive for at least next 2 years. - Gurgaon

Strong demand dynamics despite pricing uplift. Very strong market sentiment. High liquidity induced market play. - Hyderabad

Regional comments from survey participants in APAC

National elections are due in India, hence Real estate transactions will reduce till elections are over. - Kakinada

I see it in the early recovery stage after some unprecedented events affecting global scenario. - Mohali

Markets are improving in real estate industry & many housing projects construction are in full swing. Expected there will be huge demand in future in housing sector. - Mumbai

It will be bullish as China is having slowdown and industrial shift to India in manufacturing, data centres and retails. - Mumbai

Residential and commercial spaces have almost reached saturation, no further scope for price increase. Prices has already escalated beyond threshold levels. Quality Grade A spaces with good connectivity will continue to attract tenants and investors. However, correction is round the corner in all asset classes in short to medium term. - New Delhi

There is an up trend in the market. Retail market is expanding fast and valuation of residential units are increasing due to demand. Commercial Grade A properties are well occupied, but secondary offices are stable. In my area of operation commercial rents and market is completely back on track after covid. - Pune

Now the real estate sector is picking up especially the retail assets. - Trivandrum

Indonesia

'Wait and see' attitude prevalent due to elections scheduled for 2024. - Jakarta

Market conditions slightly quite due to coming presidential elections uncertainties. - Jakarta

Japan

Office tenants continue to reduce/consolidate space, relocate to more prime buildings. A smaller 2024 new supply may help the market adjust before a large supply completes in 2025. - Tokyo

Government-led wage increases are expected to increase consumption, and new domestic investment is expected to increase labour productivity and outpace price inflation. It is also expected that foreign investors' capital will move to Japan, where it will grow. - Matsusaka

Malaysia

The property market in Georgetown is now weak compared to the previous year. But the industrial property is picking up slightly. - Georgetown

In general, retail market demand has increased between 5-10%, and there is a marked increase in retail properties especially in the CBD, close to current development of the LRT extension from Singapore to Johor Bahru CBD. Retail market in locations more than 5 kms from JB CBD remained unchanged save in areas where it is in itself within the CBD of neighbourhood centres like Tampoi, Senai, Kulai etc. Office demand appears unchanged as there is still an ample supply of office space. - Johor Bahru

During the pandemic, the market was stable for landed properties in good locations. However, high-rise properties for short-term rentals saw a drastic drop in demand, especially from tourists. Meanwhile, prime industrial properties for storage and warehousing were in demand due to the rise of online shopping. - Kota Kinabalu

The pandemic has caused a reset. But pre-pandemic level was very high. A "quick recovery" will again be above the "right" level. - Kota Kinabalu

Housing markets in the doldrum. Retail markets currently performing well. Overall economy has room for improvements. - Kuala Lumpur

Sentiment is beginning to improve with a focus on the state of Johor. - Kuala Lumpur

Government taking positive actions to stimulate the economy. - Kuala Lumpur

Industrial sector is the strongest sector attracting the most FDI with Data Centres close behind. Office market is the weakest it has been in decades. Prime retail performs well with strong consumer confidence, however the government's plans to impose a luxury tax will have adverse impact. - Kuala Lumpur

The pressure of cost push inflation persists to push the property and rental price, however local market demand remain cool and stagnant. Foreign investment cascading up, market prospect leading to recovery. - Kuala Lumpur

The real estate and property market are much depend on the geopolitical issue that affecting the foreign investments and migration. - Kuala Lumpur

Market values are generally low in this part of the country. - Kuching

New Zealand

Interest rate pivot expected imminently. - Auckland

Some caution due to business / covenant strength of some tenants given economic situation / cost escalations and potential for them to vacate premises due to collapse. - Auckland

Significant increase in interest rates has deferred institutional investment in property with no recent prime transactions. Secondary market has followed with virtually no commercial sales in the past 12 months. - Whangarei

Philippines

Market is going up consistently. - Manila

Singapore

Generally, market is good. - Singapore

Sri Lanka

With IMF support & well-planned monitory policy, next year may be favourably more hopeful in real estate market. Prevailing reduced interest rates encourage investments in real estate, especially the residential sector. - Colombo

Economic recovery heavily depends on external third-party funding and FDI. Though achieving a long-term debt repayment arrangement is a different context that will be dealt with at a continuous pace, it seems likely to be successful despite the fact that core inflation and interest rates are being controlled to some extent and foreign remittances/tourism are projected very positively. Therefore, delayed IMF instalments or ADB fund may be critical to achieving desired power/energy & drainage. - Colombo

Due to the bankruptcy of economy, we have experienced great amount of uncertainty in every aspect. However, we think we are at the bottom of collapse and moving slightly away from bad experiences. - Matara

A debt default led to a recession, currency depreciation, and high inflation. To meet IMF conditions, policy changes were implemented, leading to high interest rates and reduced investment, including in property. The proposed fiscal policy may further slow the market. - Ratmalana

Thailand

There is an oversupply in commercial and residential properties leading to stagnant or reducing rates. Tourism has not reached the desired levels as well. - Bangkok

Vietnam

Fairly sluggish overall. - Ho Chi Minh City

Europe: Headline occupier and investor demand still subdued given the difficult economic backdrop

The Q4 2023 GCPM feedback for Europe remains largely downbeat, hampered by continued weak momentum behind economic activity across much of the continent. Restrictive monetary policy settings are still weighing heavily on investor demand, albeit with interest rates widely seen as having peaked, a more stable picture for credit conditions has been reported this quarter. On the back of this, although a slim majority of contributors continue to sense the market is turning down, there was an increase (from 18% to 30%) in the share of respondents now of the opinion that the bottom of the current property cycle has been reached.

Occupier and Investment Sentiment Indices continue to point to tough market conditions

As demonstrated in Chart 1, both the Occupier and Investment Sentiment Indices remain stuck in negative territory across the region in aggregate (even if the latest readings are marginally less downcast than previously). As such, both metrics continue to signal subdued overall conditions, in keeping with the results seen throughout much of the previous year. When disaggregated by country, virtually all national markets covered exhibit negative returns for these measures, with the results for France and Germany standing out as being particularly weak. In both cases, occupier demand is falling sharply for office and retail space, and this is being accompanied by a further rise in vacancies in these portions of the market. Meanwhile, investor demand is reportedly in decline across all sectors, with less international capital being invested in both nations.

Chart 2 displays twelve-month capital value expectations at the all-property level for each European country tracked by the survey. While respondents hold a negative view on the outlook for headline values in most nations, there are a few exceptions. Indeed, Cyprus and Portugal registered slightly positive overall twelve-month capital value expectations, while contributors in Romania, Greece and Bulgaria foresee a more or less flat picture looking ahead. At the other end of the scale, relatively steep declines are anticipated across Poland, France, Germany, the Czech Republic and the Netherlands in the year to come.

Outlook for alternative asset classes appears resilient

Chart 3 depicts survey participants' sector level forecasts for both rents and capital values over the year ahead across Europe in aggregate. Significantly, for all market segments, the outlook for rental growth is once again stronger (or less negative) than that for capital values. It is also clear that a lot of pessimism is still stemming from the secondary office and retail sectors (with both segments struggling against not only the challenging macroeconomic climate but also the secular issues of remote working and the shift to online spending). Of the traditional sectors, prime industrials returned marginally positive capital value expectations, and continues to display a particularly solid outlook on the rental side.

Away from the mainstream sectors, robust rental growth is projected for data centres, multifamily residential, student housing and hotels. Moreover, rents are also seen rising (albeit more modestly) across aged care facilities, life sciences and leisure. Regarding capital values, most alternative sectors are envisaged posting slight gains over the year ahead, with the exception of leisure, where the outlook is broadly flat.

Chart 1 - Occupier and Investment Sentiment Indices

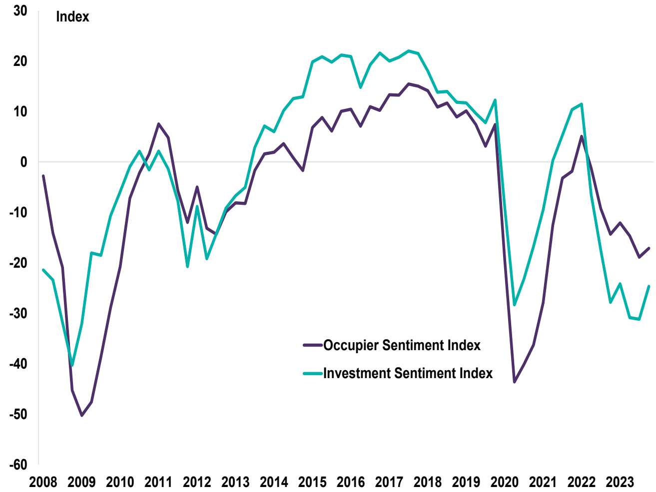


Chart 2 - Twelve-month Capital Value Expectation by country

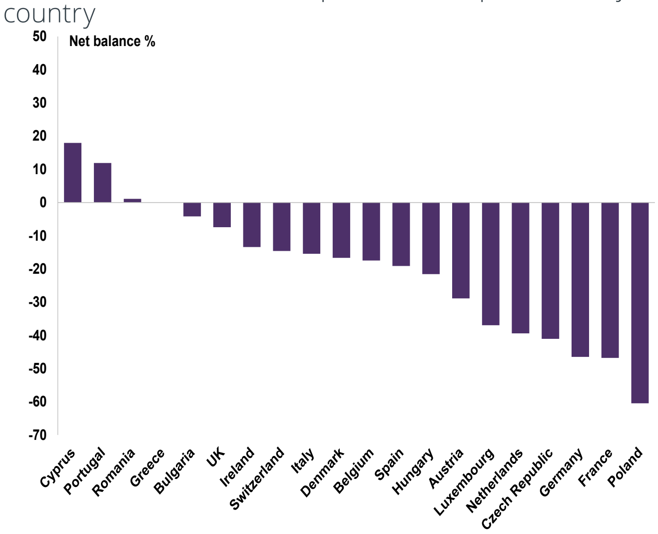
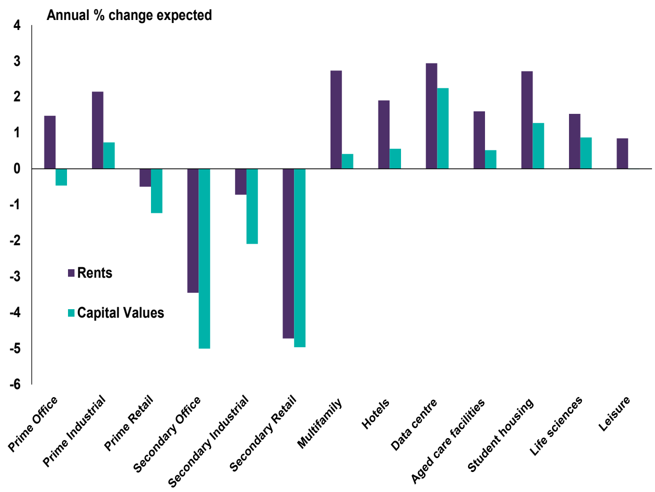


Chart 3 - Twelve-Month Projections by Sector



Regional comments from survey participants in Europe

Austria

The market situation is currently characterised by very high uncertainty. - Vienna

Bulgaria

The retail sector has reaped the benefits of healthy spending combined with willingness of occupiers to expand. This resulted in declining vacancies, a good development pipeline and rental growth. Strong investment numbers and shift to online retail continued to support industrial and rents reached all-time highs against stubbornly low supply numbers. Investors are shying away from offices as growth is weak and occupiers continue to ration space. Solid interest in hotels. -Sofia

Inflation pressure remains a factor influencing pricing. Yields are rising and will continue to rise in the coming months. The cost of debt is gradually increasing, but slower than expected as the banks are cautious and aware of the effect on non-performing loans / default rate. Foreign investments will remain negligible for a prolonged period. Residential properties remain the usual suspect for price growth, due to traditional high ownership rate in the country and the region.- Sofia

Cyprus

There is a significant stock of secondary offices because demand is focused on new energy efficient and green offices.- Nicosia

Czech Republic

There is very limited speculative office development in Prague thus lack of larger A class new built offices, lower vacancy rate, pressure on more fit out contribution from tenants that are willing to relocate. - Prague

The Prague market is in very difficult situation in most sectors. High cost of financing, construction & energy cost and labor cost together with yields are ingredients for a “deadly” cocktail. This situation will not dramatically change in next 12 months. - Prague

Denmark

Transaction volumes have deteriorated over the last 5 quarters. .- Copenhagen

France

We can expect a decline in market values. -Paris

Germany

Today there is a very conservative and withholding sentiment and some insecurity about war in Europe (Ukraine) and Middle East (Israel), therefore investments are done very carefully, but with a big expectation that pricing will come down further in 2024 with good chance to buy much cheaper than within the last two years. - Berlin

Hungary

Unstable, mid-downturn situation without clear indication for the near future .-Budapest

Low volume of transactions, limited buyers and sellers, inflation will increase cost of construction for new developments, but secondary buildings will struggle with both rental and sale opportunities.- Budapest

Ireland

No finance available, huge space between asking price and what purchaser will pay, no transactions. - Dublin

We are still in a price discovery mode and values continue to fall. - Dublin

Italy

Slightly more optimistic that things are bottoming out. -Milan

Market continues to be populated by a wait and see attitude and expectations of falling capital values / fall-out from over-stretched investors needing to re-finance. Falling interest rates may come to the aid of investors and mitigate the sell-off. Structural changes in the office sector in particular may be a bigger influence overall and for the longer term market trends. - Milan

Netherlands

Capital market is especially under presure (also due to the high interest costs). Valuation departments in busy times. Nevertheless, you see some companies moving towards different locations but with a limited capex investment. - Amsterdam

In general, it can be concluded that the real estate market has become more cautious due to geopolitical circumstances, higher interest rates, inflation and stricter rules for banks to facilitate real estate financing. - Amsterdam

Poland

The market conditions remain challenging, there is little momentum in the market and investors, developers and tenants all seem to be taking a deep breath before deciding what to do. Banking remains tough and is likely to worsen in the next 12 months. I suspect that there will be more foreclosures and keys being handed back, and these will eventually come into the public domain. All in all 2024 is going to be a challenging year and cash flow and debt availability for refinancing will be key. - Wroclaw

Portugal

It is expected that in the first half of the year there will be a retraction in some segments of demand. The effect on the market should be reduced by supply shortages. This shortage is particularly significant in the residential segment. - Lisbon

The “wait & see” attitude of (mostly, foreign) investors eventually caught up with Portugal in the second half of 2023 and both investment volumes and occupational activity were down on 2022, albeit possibly less so than in other European markets. Hotels and retail were the preferred asset classes while some “alternatives” (PBSA, healthcare, educational) also saw some activity. Local funds and family offices took advantage to buy in a less competitive market environment. - Lisbon

Romania

The re-pricing of assets seen across Europe the past 18 months has yet to play out in South East Europe, which I anticipate to occur in 2024. - Bucharest

Spain

There is still a lot of uncertainty in the market, although the easing of interest rates will help the maket reactivate. Institutional players will start to participate more actively and price adjustments will be easier to acomplish.- Madrid

Credit conditions seem to adapt to an environment of high rates, with a somewhat lower inflation evolution environment than in previous months. This should partly facilitate the reactivation of large operations. At the national level, Madrid continues to strive as a leading city in the sector, but the macro environment continues to show signs of uncertainty, which may be detrimental in the coming months. - Madrid

Sweden

We are at a point where there is reason to believe in a fragile recovery for the property market.- Stockholm

Middle East and Africa: Outlook remains buoyant across the region with capital value projections further upgraded

The Q4 2023 GCPM results for the Middle East and Africa once again point to robust overall market conditions across the region, with continued occupier and investor demand growth prompting further upward revisions to rental and capital value projections over the year ahead. That said, on the back of the consistent rise in real estate prices being reported in recent quarters, a majority of contributors based in MEA are of the view that the market is now ‘expensive’.

Occupier Sentiment Index reaches a fresh record high

Chart 1 shows both the Occupier (OSI) and Investment (ISI) Sentiment Indices edged up across MEA in aggregate during Q4. As such, these metrics have now been in expansionary territory in each of the past nine quarters. In the case of the OSI, the Q4 figure of +13 marks a fresh record high for the series, driven by an acceleration in headline occupier demand growth compared to Q3. In particular, the industrial sector saw a noticeable pick-up in momentum, as the net balance of respondents reporting a rise in tenant demand increased from +16% to +32% in the latest results.

Looking at the country level data, Saudi Arabia continues to exhibit the most upbeat readings for the headline sentiment indices on a regional comparison. Interestingly however, while the OSI rose from +26 to +39 (marking a new all-time high) the ISI moderated a touch from +39 to +33. Nevertheless, both readings continue to point to strong impetus behind the market in Saudi Arabia, with all sectors seeing an increase in demand. Alongside this, the results across the UAE are also consistent with a solid market backdrop, evidenced by OSI and ISI readings of +27 and +16 being returned in Q4 (albeit these are both slightly more moderate than last time).

In Nigeria, the OSI rose to +24 in Q4 (compared to a figure of +11 in Q3). Driving this improvement, demand for retail space rose firmly, while the office sector saw a modest increase. Conversely, tenant demand reportedly fell in the industrial sector. Across South Africa, demand trends remain patchy on both the occupier and investor sides of the market. Indeed, the industrial sector was the only segment to record a rise in investment enquiries during Q4, while office and retail units experienced a decline in buyer interest. On a somewhat more encouraging note, there was a slight rise in the share of respondents based in South Africa viewing the market to be in an upturn phase of the cycle. Even so, this proportion remains well below the regional average (Chart 2).

Rental and capital value projections remain solid

Shown in Chart 3, region-wide projections for both rents and capital values are firmly positive across all sectors for the year ahead. Leading the way in terms of capital values, prime office and retail assets are anticipated to deliver growth in excess of 6% over the next twelve months. In both instances, respondents upgraded forecasts relative to Q3. Meanwhile, rental growth projections are especially upbeat across leisure, data centres, multifamily residential, hotels and prime offices. Lagging the wider market slightly, rental growth expectations are more modest for secondary retail. From a country perspective, Saudi Arabia, the UAE and Nigeria exhibit positive projections (both rents and capital values) across all categories covered. For South Africa, while prime and alternative markets are envisaged posting some degree of growth in rents and capital values, the secondary office and retail sectors display negative forecasts.

Chart 1 - Occupier and Investment Sentiment Indices

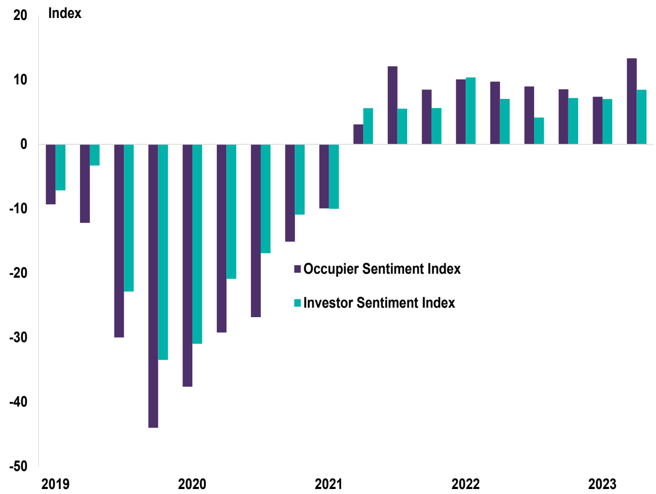


Chart 2 - Share of respondents sensing the CRE market is in an upturn phase of the cycle

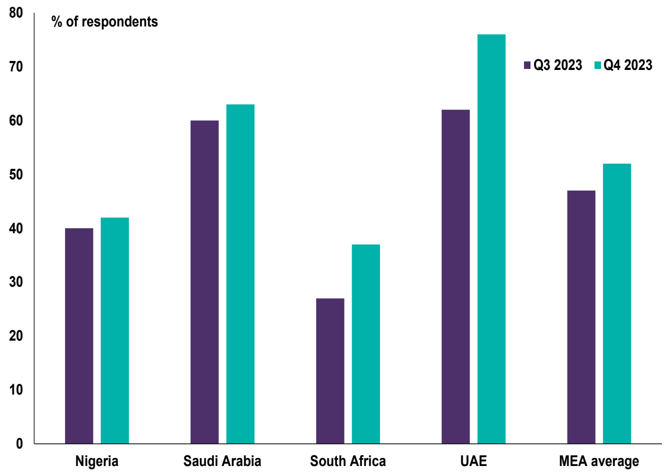
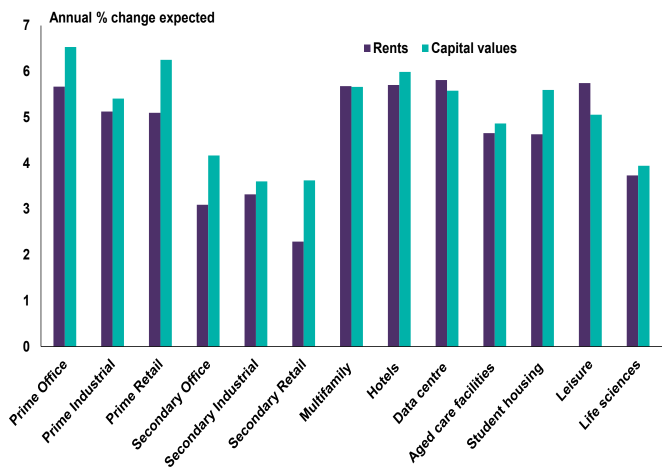


Chart 3 - Twelve-month Projections by Sector



Regional comments from survey participants in MEA

Ghana

Generally, the market isn't picking as anticipated especially this past month. - Accra

Mauritius

Post Covid 19 capital values, especially for agricultural and residential land, have risen enormously. An investment market is prevailing and values are continuously rising. - Ebene

There is a perceived hike in the level of values, specially for residential land over the country.- Quatre Bornes

Nigeria

The Real Estate market in nigeria is experiencing a spike in growth and development despite the economic situation. Property ownership is seen to be a measure for stability and sustainability. - Abuja

The market is saturated with many unoccupied building in North and Southern Nigeria. - Kaduna

The devaluation of the Naira is having a significant impact on the market.- Lagos

The budget is just being unfolded, and the allocation to real estate is too minimal. With the economic situation, new projects may not be many; but foreign investment may boost the real estate market. - Lagos

The current economic issues in Nigeria has really affected the volatility of the market (both upside and downside).- Lagos

Oman

Oman's retail market face headwinds including supply saturation and a stagnated market as locals and expats alike prefer shopping abroad due to variety and price. - Muscat

Qatar

The market appears to have bottomed out but it will be a long slow road out of this current situation due to oversupply in most sectors and little new demand. - Doha

Gloomy but recovering. - Doha

Saudi Arabia

There is no doubt that increasing government spending and progress on mega development projects will stimulate investment opportunities in Saudi Arabia. -Riyadh

Market volatile in terms of demand and supply with major projects expected to come on line.- Riyadh

The market in KSA is extremely buoyant and needing skilled worker resources. .- Riyadh

South Africa

The offices located in the coastal areas have improved massively with vacancies droping to about 2% to 4%. The inland /Gauteng area is still lagging with 'sticky' high vacancies. However, the rentals are starting to show some traction in growth and very slight drops in the same sticky vacancies. - Johannesburg

Offices are still struggling with rental rates and high vacancy rates, however, retail and industrial are performing well. The Leisure industry should keep on growing, especially for the overseas maket as South Africa is regarded as a cheap holiday destination. - Johannesburg

Our economy and property market have been negatively impacted by government incompetence, the lack of a stable electrical supply, transportation issues (harbour congestion and incompetent administration), and general political instability and high crime levels. - Port Elizabeth

Office market still under heavy strain - oversupply. Retail is largely unchanged, but caution indicated with regards to potential spend per head reduction. Industrial still faring well, especially newly built mini-units and logistics. - Pretoria

Uganda

There are alot of properties on sale cheaply but there are few buyers. Expensive properties can even spend a year on market. - Kampala

Uganda's construction sector is on the recovery from the effects of the COVID-19 pandemic. The Final Investment Decision (FID) was reached on 1 February 2022, which is to unlock over USD 10 billion oil project investments with Total Energies and CNOOC set to develop two upstream projects and an crude oil pipeline. - Kampala

UAE

Dubai is doing great, sentiments are high, foreign investors condsider it as a safe place to invest with high returns with no tax on your earnings. - Dubai

Need more developments in the market to meet demand. - Dubai

Market is strong , a lot of demand, high sentiment, everything backed by good government policies in alignment with the international requirements. - Dubai

Peaked. Starting the slow down process, temporarily of course.- Dubai

In general, the construction market is picking up. - Dubai

Zambia

The market is characterised by excess supply. - Lusaka

Zambia has had a slow pass of market transactions, we foresee a similar situation in 2024.- Lusaka

The cost of living has become very expensive in Zambia due to depreciation of the Zambian Currency against the US$.- Ndola

Zimbabwe

Political instability and unclear monetary policies are affecting performance of the property market. - Harare

North America: Commercial Real Estate sentiment remains largely cautious in the US and Canada

The Q4 GCPM results for North America largely echo the sentiment found in recent quarters, as respondents continue to report a market in a subdued state. However, the headline index (CPSI) for this quarter turned slightly less downbeat in the United States' compared to Q3, with the latest reading rising marginally to -9 from -14. Meanwhile, Canada's CPSI reading failed to see any improvement, moving to -4 from last quarter's -2 (Chart 1).

Credit conditions indicator significantly less negative in both countries

The steadying of interest rates of late, with cuts now expected in 2024, has led to some cause for optimism of an economic recovery in the near future and the net balances for credit conditions reflect this. Indeed, both the US and Canada have reported less negative net balances for credit conditions (Chart 2), with the former exhibiting a substantial easing in the net balance of respondents reporting a tightening in the lending environment (moving from -50% last quarter to -10% in Q4). Across Canada, although the change was less pronounced, the latest net balance did at least rise from -57% to -38%.

Prolonged struggle for the office market continues

At the aggregate level, occupier demand in the US increased with an 8pp rise in the net balance from +5% to +13% this quarter. At the same time, Canada's occupier demand reading remained steady with a +10% net balance recorded. Within this, it is noteworthy that occupier demand for industrial properties in Canada, and for retail in the US, have shown significant increases over the quarter, with the former rising from a net balance of +32% to +41% and the latter rising from +17% to +30%. Meanwhile, tenant demand for office space remains soft in both nations.

In conjunction with this, whilst the net balances for office investment demand were somewhat less negative in Q4 (-35% vs -43% in the US and -30% vs -34% in Canada), these trends remain weak. As such, this continues to weigh noticeably on twelve-month capital value expectations. When looking at capital value projections at the sector level, prime office and secondary office are the only two categories in which a decline is anticipated across both countries (Chart 3). That said, at -7%, respondents' twelve-month forecasts for secondary office values within the US are substantially more negative than those in Canada. In terms of expectations across other sectors, it is evident that prime industrial, data centres, multifamily and aged care facilities are anticipated to deliver solid capital value gains over the year ahead in both nations. In Canada, the student housing sector also displays a particularly firm outlook, ranking second in terms of expected capital value growth out of all categories covered.

Slight shift in sentiment on current stage of property cycle

Again in keeping with the expectation that interest rates will fall in 2024, this appears to have affected how firms view the current phase of the property cycle. In the US, the proportion of respondents indicating that they believe the market is in either the bottom or early upturn phase has increased by 4pp each during Q4, to 28% and 18% respectively. Similarly, in Canada, these two figures have also risen from last quarter and now stand at 21% and 13%. These two increases cumulatively imply that respondents in North America are perhaps anticipating a more positive economic setting in the coming few months and are exhibiting a small degree of cautious optimism about the commercial market.

Chart 1: Commercial Property Sentiment Index

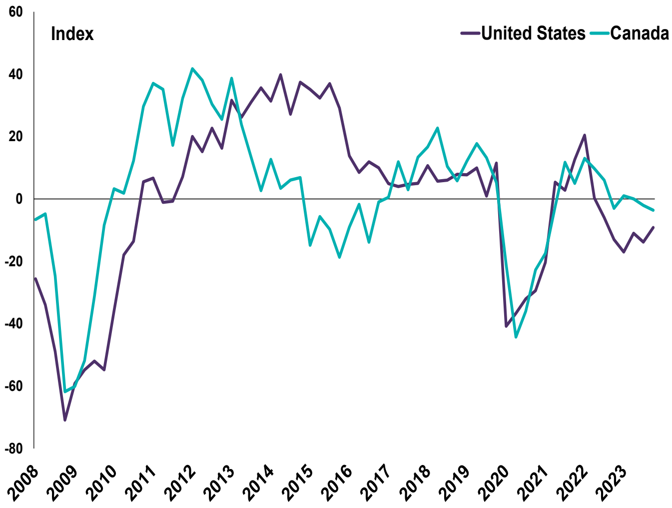


Chart 2: Credit conditions

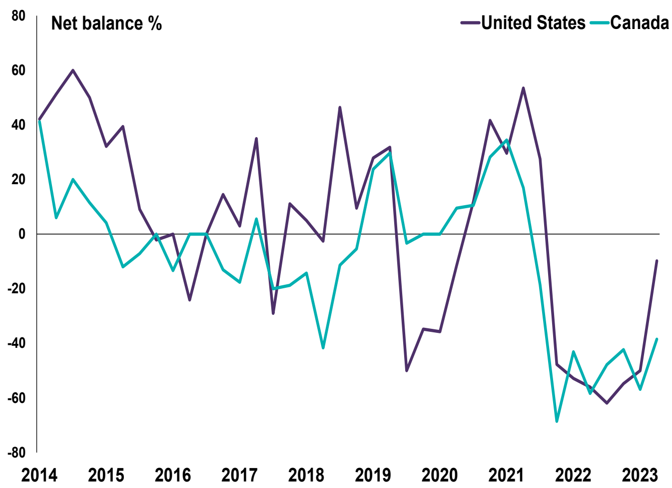
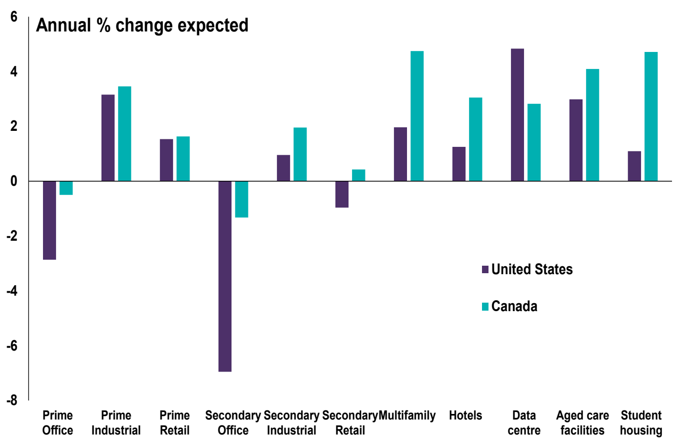


Chart 3: Twelve-month capital value expectations



Regional comments from survey participants in the Americas

Antigua and Barbuda

Improving in all sectors with significant foreign direct investment. - Liberta Village

Bahamas

Sectors of the market are showing signs of improvement, but the market is small. - Nassau

Barbados

Overall, the market is starting to rebound since the Covid-19 pandemic. Residential market seeing the greatest growth followed by the industrial sector; driven by demand for investment properties and limited supply of prime warehousing. - Bridgetown

Bermuda

Demand appears to still be outstripping supply in the quality, well located freehold residential market. Residential rents also remain strong. Retail continues to struggle, except for the odd example of quality niche retailers. Warehousing/storage demand is up yet demand remains tight. Some new office starts are being discussed which is encouraging. - Hamilton

Canada

Bank of Canada is holding the interest rate. This could spell trouble for a lot of mortgage holders in the near future. - Ottawa

Lack of reliable green power is becoming a major concern. - Spruce Grove

High interest rates impacting overall property market in relation to efforts to address inflation. Housing shortage impacting residential values and multi-residential rents. - Sudbury

Industrial continues strong with market rents down slightly from 6 months ago, but those rents are still significantly higher than expiring rents. Prime core office is holding steady on rents although more vacancy appearing in secondary or B class buildings. There is a shift to quality A class office. Retail class A properties are doing better than expected with good traffic flow and sales psf almost back to pre pandemic levels. In all classes/cases, cap rates are expanding. - Toronto

Office is depressed due to hybrid / full time at home work causing business to reduce office space. Cost of living increases are taking a toll on secondary markets - Toronto

High interest rates have slowed new development down significantly throughout 2023. If land was recently purchased using financing, then those projects are in financial issues and are needing to sell. - Toronto

General sense that 2024 will be a tough year, particularly the first 6 months - Toronto

B class office rent and value denial is rampant and yet to find it's floor. AA class doing better than expected from a year ago - Toronto

Early recovery as no further increase in bank rates for the last 4 months - Toronto

Many are in denial of the markets trending lower - Ontario

The Canadian Market is on the brink of a recession as interest rates continue to increase to curb spending. Over the past few months, the general population has realized that spending needs to slow down to allow the supply to increase and prices to stabilize. Groceries and housing costs remain high and the focus is to stabilize and reduce costs of both in 2024. - Windsor

Stable lots of local capital looking to be placed . Large rents selling in the markets - Winnipeg

Chile

The real estate market presents financing difficulties, we have recurring bankruptcies of real estate and construction companies, and property purchases decrease due to the rise in mortgage financing rates. - Santiago

El Salvador

Market conditions are improving thanks to the government policies to address gang violence and crime. Improved security is allowing Salvadorians more time to go shopping, old downtown and to the beach. The continued growth of the call center industry provides steady demand for the office market. - San Salvador

Jamaica

Strong market generally as more local and overseas enter the investment market - Kingston

Mexico

The industrial sector continues to grow due to the migration of companies based in China to Mexico. The office sector has an incipient recovery. The retail sector remains stagnant as the e-commerce trend that expanded during the pandemic continues to rise. - Mexico City

Overall, the industrial market remains the most active throughout Mexico with office being the least active sector. We anticipate the capital markets to once again be dominated by the industrial sector in 2024 - Mexico

Panama

In the first half of 2024 the market may be impacted by the May 5th presidential elections. - Panama City

Trinidad and Tobago

We are near the bottom of the cycle but the bottom is going to be a few years, so it is wide. - Maraval

Economic decline and inflation still looming - San Fernando

United States of America

Demand for CRE space continues to recover as RTO numbers improve. Leisure travel may moderate as domestic post-pandemic demand wanes; however, convention/int'l travel may temper such a dip. Boston's finite geographic footprint is impacted by strong demand-drivers from multiple "attraction" factors that keep steady pressure on pricing and housing affordability. Distressed CRE deals may be fewer than anticipated if monetary policy shifts to an accommodative posture (rate cuts). - Boston

Near the bottom of the market. -Chevy Chase

Demand remains good in the Dallas area, although there is some oversupply in the office and industrial markets due to office subleasing and new industrial product coming to the market. However, interest rates have declined and are expected to fall further in 2024, which should help financing to become more readily available and reduce borrowing costs, thereby increasing transactional volume. - Dallas

Regional comments from survey participants in the Americas

I think we are in for a relatively long downward cycle for most property types. The downward pressure on vlalues are likely to continue given the underwriting criteria have shifted so much. It will be different depending on the property...and micro market analysis will be essential. - Greenville Sc

Slightly improving outlook for access to debt. Awaiting distressed office sector to come to market. - Harrisburg, Pa

Still a near insurmountable delta between bid and ask. - Kansas City

Office market is still very sluggish, Industrial is holding its own and local retail is flat. - Kansas City

Our market has thrived since 2019 with increased values and activity. It has stabilized at this time. - Knoxville, Tn

The market is still trying to find its bearings. - Longview, Washington

The high cost of debt has meant that new spec development can't get funded, so the supply of spec buildings being delivered to the market is slowing, which means that vacancy is falling particularly for industrial property, as tenant demand remains robust. We believe this pent up demand will lead to a strong start to 2024, but as we get closer to the Presidential Election both owners and tenants will pause until after the election. Investor interest remains strong despite CAP rate expansion. - Nashville

2024 in the region is expected to be a time for continued stabilization of existing assets within modest growth beginning in 2025 - New Orleans

If this isn't a perfect storm, I don't know what is. There is total market disintegration: it's building by building, owner by owner, lender by lender. General "market" conditions count less than particulars, in that overall statistics have become almost irrelevant. Positions taken by landlords change abruptly across portfolios. Local political conditions are a joke. The city is not safe but is increasingly expensive. Now, what could possibly go wrong? - New York

Homeless Shelters (i.e. converted hotels, apartments, industrial/office manufacturing, etc.) are providing another property sector in many MSA across the United States. - New York

With interest rates thought to come down values and rents and demand should pick up - New York

Oakland suffers from poor city management and lack of security. This region needs to handle crime and homeless population effectively - Oakland

Surprising positive market psychology in face of uncertain inflation versus expectations of a mild recession. CRE has been inpacted by high interest rates, exodus from CBD in major urban cities. - San Francisco

The commercial side of business is still weak. Uptick on the healthcare sector of construction and tenant improvements. Data centers are going up. - San Jose

Development activity very much centered on residential. Commercial markets impacted (sale frequency more than price) by increased financing costs. General feeling is that things will improve in the upcoming year. - Santa Barbara

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 facilities management market.

Methodology

Survey questionnaires were sent out on 6 December 2023 with responses received until 12 January 2024. 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 2224 company responses were received. 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 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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