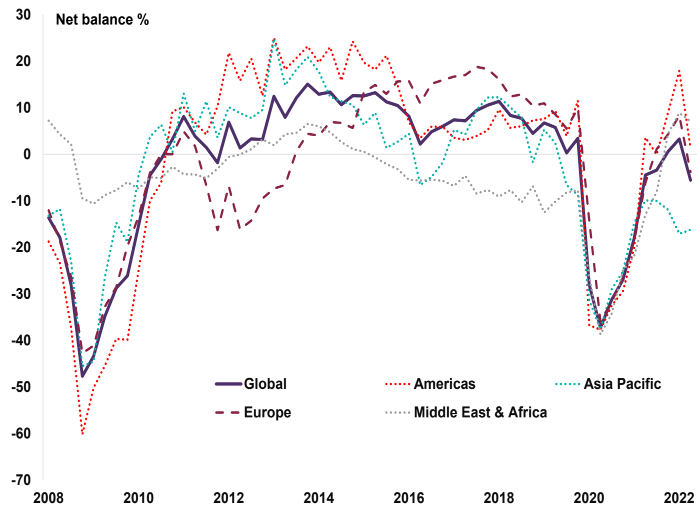
Q2 2022: Global Commercial Property Monitor

Real estate sentiment loses some momentum amidst increasing macro challenges

- **Increasing share of respondents view the real estate market to be in a downturn to some extent**
- **Occupier demand indicator remains positive for now, albeit less so than previously**
- **Datacentres, multifamily and prime industrials likely to show strongest returns over the next year**

The evidence of an improvement in sentiment amongst professionals working in the real estate sector over recent quarters appears to have stalled at a global level according to the results of the Q2 RICS Commercial Property Monitor. The headline Global Property Sentiment Index (CPSI) edged back marginally into negative territory in the latest survey (-6 as against +3 previously). Although this does not imply a major shift in tone, it is reflective on the ongoing tightening in monetary policy by key central banks (led by the US Federal Reserve) and the acceleration in inflation which does not, as yet, appear to have run its course. Whether higher inflation becomes more firmly embedded in the expectations of both businesses and wage bargainers will be critical in judging the extent to which policymakers will need to continue raising interest rates and, inevitably, the impact on the prospects for the world economy. These concerns are predictably captured in many of the anecdotal remarks from respondents to the latest Monitor.

Chart 1: Global Commercial Property Sentiment Index*

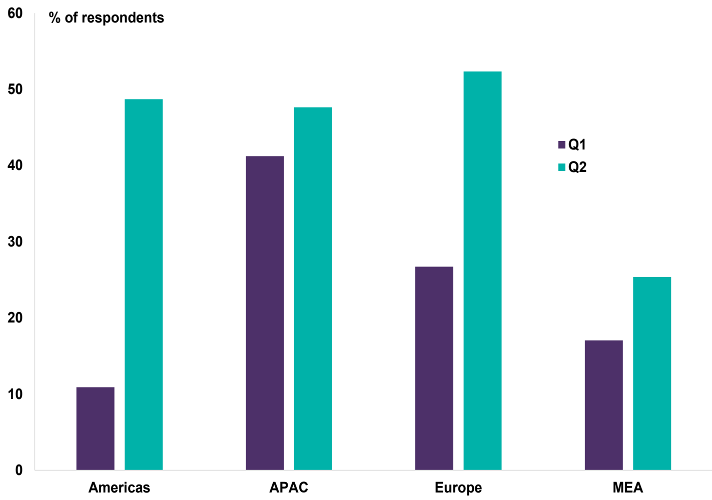


In terms of the picture at a regional level, the aggregated results are shown in chart 1. Significantly, the Americas, where momentum was strongest in Q1, has seen the most pronounced shift in sentiment (albeit the headline numbers just about remain in positive territory) with the CPSI retreating from +18 to +1. The results from Europe show a similar trend though a little less marked (+8 to -4) while the APAC and MEA readings are little changed. In the case of the former, that implies another negative result for the region (reflecting in part the still subdued growth picture in China) while, for the latter, the headline sentiment metric remains modestly positive.

More contributors focus on a downturn

Alongside the composite measure of sentiment which is drawn from a number of the individual series contained in the survey, we also closely monitor (particularly at potential turning points) the perceptions of respondents regarding where the market is in the cycle. Chart 6 (as usual) shows the global feedback to this question for the most recent quarter and the preceeding one. It suggests that the proportion of respondents who view their market to be in the early stage of a downturn has climbed from 11% to 30% while the share seeing their market in the middle of a downturn has risen from 15% to 18%. In all, around one-half of respondents now view real estate as being in a downturn phase (the highest share since Q4 2020) with a further 10% suggesting the market is at the bottom of the cycle.

Chart 2: Perception market is in downturn phase



Survey responses were supported by the following

ROYAL INSTITUTION OF SURVEYORS MALAYSIA

SOCIETY OF CHARTERED SURVEYORS IRELAND

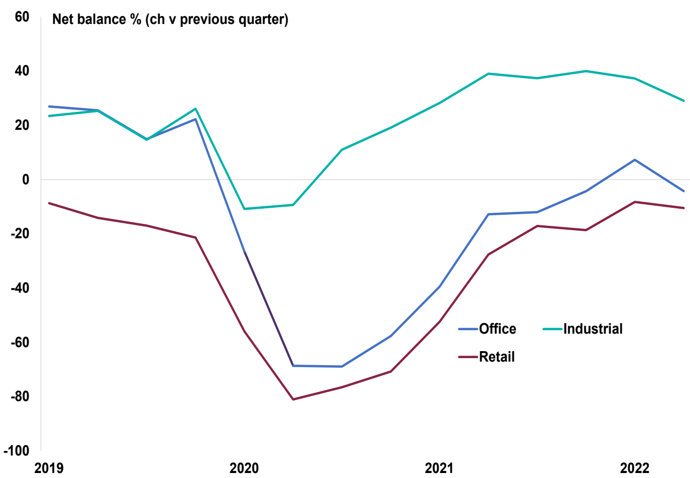
**The Global Commercial Property Sentiment Index is a weighted composite measure capturing overall market momentum, encompassing variables on supply, demand, and expectations*

The responses to this question at a regional level are captured in chart 2. For the Americas, the proportion of respondents indicating the market is either in the early or mid phase of a downturn has similarly climbed to around 50% but from only 10% previously. For Europe the respective figures are 52% from 26%. In APAC, the increase has predictably been more modest edging up from 41% to 47%. Significantly, MEA again stands out in stark contrast with just a quarter of respondents viewing the market locally to be in a downturn (compared to one-sixth in Q1) with the benefit of higher oil prices clearly evident for a number of these economies.

Industrials sites remain in demand by occupiers

The marked divergence in feedback by sector may not be as pronounced as it was at one point but it is still very much in evidence. While the reading for global occupier demand for industrial sapce was a net balance of +38% (the proportion of respondents who have recorded an increase over the past quarter against the share seeing a fall), it was -4% for offices and -9% for retail. Chart 3 shows how the outperformance of industrials has narrowed somewhat since the early part of the pandemic.

Chart 3: Global occupier demand by sector



It also suggests that retail demand metric, while still in negative territory, is actually at pretty much its best level since the end of 2018. Significiantly, despite the actions of the Federal Reserve, the headline occupier demand indicator for the Americas remains positive even if it suggests momentum is slowing. And, interestingly, this is still the case for the three main sectors led by a reslient US market. Unsurprisingly, the responses from APAC in aggregate regarding occupier demand are much more cautious (again measured in net balance terms) with the industrials series now showing a flat trend and declines in the other main segments of the market.

But, as is often the case, the headline numbers mask material differences in the picture at a more local level. For China and Hong Kong, the headline demand indicator continues to fall (and it does so in all three sectors) reflecting specific economic challenges. The contrast to this is the insight provided by respondents from, amongst other countries, Singapore, India and Australia. Interestingly, demand from occupiers for retail space has now risen in three out of the last four quarters in India while, in Singapore, the net balance read for this sector was positive for the first time since 2014.

For Europe, the occupier demand series for industrials shows a further healthy increase over the quarter with a more modest rise in office demand. The industrials trend remains particularly strong in the UK according to the feedback received. Meanwhile, the MEA demand aggregates show solid interest across all sectors with the results particularly strong in Saudi Arabia and the UAE.

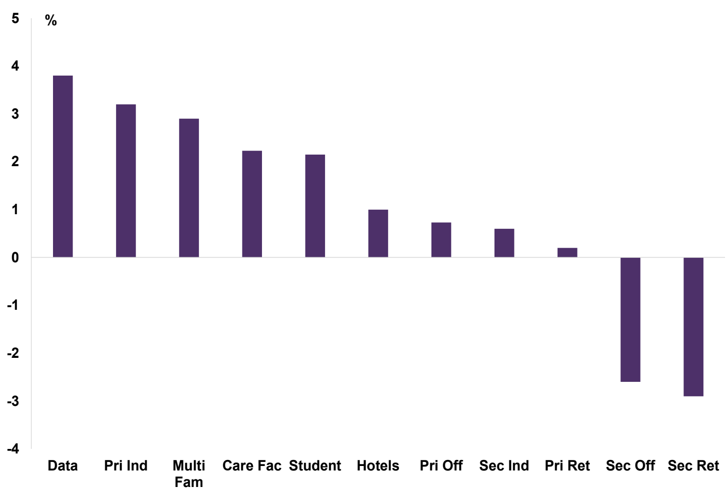
Investor activity shows signs of slowing momentum

The investment enquiries net balance at a global level has been picking up since the second quarter of last year and, in the process, has been leading the upturn in the occupier metrics. However the Q2 results suggest that investors may be becoming just a little more cautious with the aggregated net balance read for demand slipping from +17% to -4%. To be clear, this is a very small fall and more indicative of a flatter trend but it does, nevertheless, point to a shift in direction. This pattern is also visible in the three month capital value expectations series (+12% to -3%) and to a lesser extent in the twelve month outlook (+21% to +6%).

The regional results for investor enquiries pretty much mirror the tone of the rest of the report. For the Americas, while the net balance remains positive, it is significantly less so than in Q1 (+8% as against +38%). As far as APAC is concerned, the results point to a sharper fall in activity compared to the first three months of the year (-21% v -12%). Meanwhile the message from European respondents is somewhere between these with the investor enquiries metric slipping from +25% to -3%. As previously indicated, the story in MEA appears to be noticably different this quarter with the net balance remaining pretty much unchanged at +21% (as against +20%); this is the fourth succesive positive quarterly result for the region.

In terms of the twelve month expectations for capital values, the sectors viewed as likely to outperform (at a global level) have changed little compared with the last survey. Datacentres, multifamily and prime industrials are seen as likely to continue to deliver the strongest returns (chart 4) with secondary office and retail projected to be the backmarkers. The picture around hotels continues to stabilise after the turmoil of the Covid period with both capital values and rents forecast to record modest gains.

Chart 4: 12 Month Global Capital Value Expectations



Stretched valuations present downside risk

Against the backdrop of the rising interest rates and the possibility the global economy slips into some form of recession, the perception that real estate markets are on balance a little overvalued presents added risk. At a global level, more than half of respondents are of the view that their local market could be described as either expensive or very expensive. For the Americas, this share jumps to two-thirds (70% in the US). Elsewhere, it is 42% in APAC (although that is still up on the 36% recorded in Q1), 61% in Europe (over 90% in Germany) and 50% in MEA (up from 44% previously).

Chart 5: 12-Month Expectations

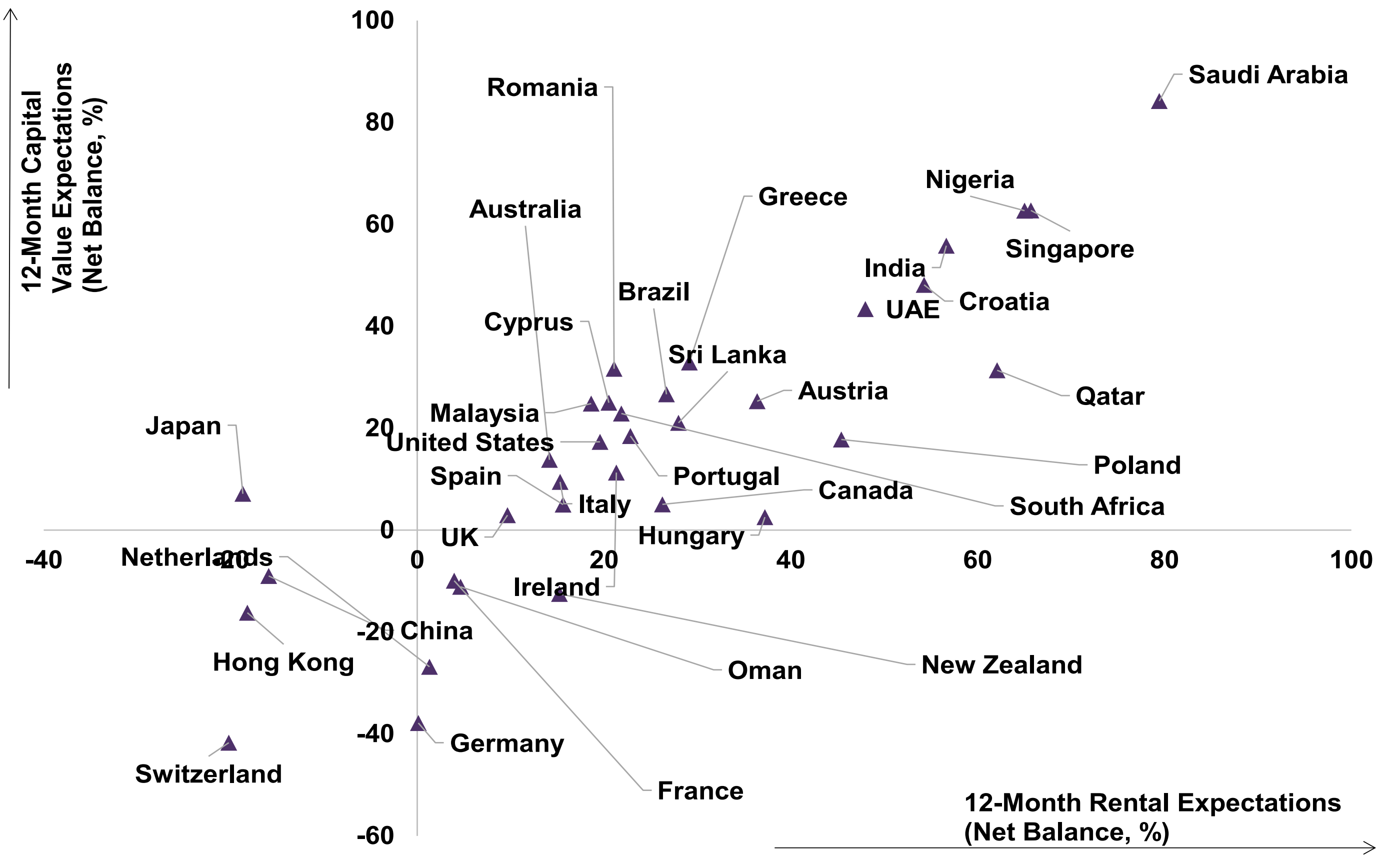
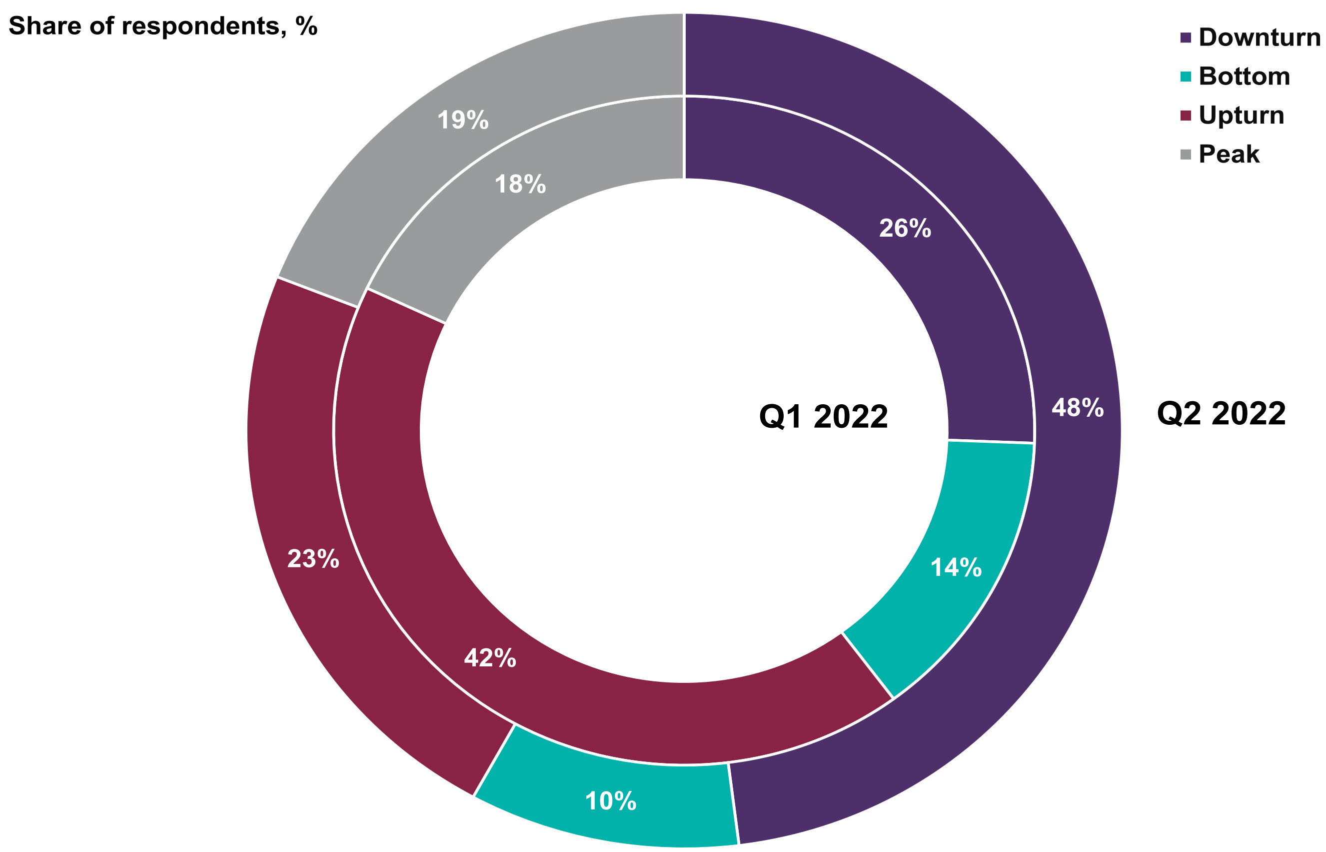


Chart 6: Perceptions on Phase of the Cycle



Asia Pacific: Divergent feedback across the region even more stark than in Q1

The latest set of results for the APAC region continue to show very distinct trends in real estate markets. This is clearly evident in chart 1 which highlights the headline read for the RICS Commercial Property Sentiment Index by country. Significantly, despite the growing macro uncertainty, sentiment is continuing to improve in both Singapore and India, albeit that in both countries this is only the second quarter in a row with a positive number after the challenges around Covid. Meanwhile for now the insights from China remain generally downbeat although it is noteworthy that responses from Hong Kong (and for that matter Malaysia) are less negative than they were earlier in the year.

Some markets more in downturn phase than others

The mixed picture across the region is also demonstrated in the responses to the question around where in the cycle the local markets are perceived to be (chart 2). Interestingly, a particular large share of contributors from New Zeaand continue to see the market is some form of downturn (this is also reflected in the anecdotal remarks provided) with a large proportion of contributors from China, Hong Kong and Australia similarly minded (the latter seeing a marked increase taking this view). By way of contrast, this is not the perception of most respondents from either Singapore or India; in the former, around two-thirds actually see the market in the early stages of an upturn while three-quarters of Indian respondents suggested their market was in either the early or mid phase of an upturn. The newsflow from Malaysia, meanwhile, continues to improve with almost 50% of contibutors now seing real estate in the early phase of an improving cycle despite the broader economic issues.

Occupier demand metrics reflect macro hurdles

The headline tenant demand indicator for the APAC region remains in negative territory (net balance of -19%) which is indicative of a fall in leasing activity; this has been the story since the second quarter of 2019. Predictably, the industrial sector continues to show a good deal more resilience both at the aggregate level and when disaggregated. Interestingly in the case of both Singapore and India, tenant demand has rebounded strongly in recent quarters (net balances of +55% and +53% respectively in Q2) with the feedback showing a strong pick-up across all the three main sectors; for retail for example, the net balance in both cases is +53%.

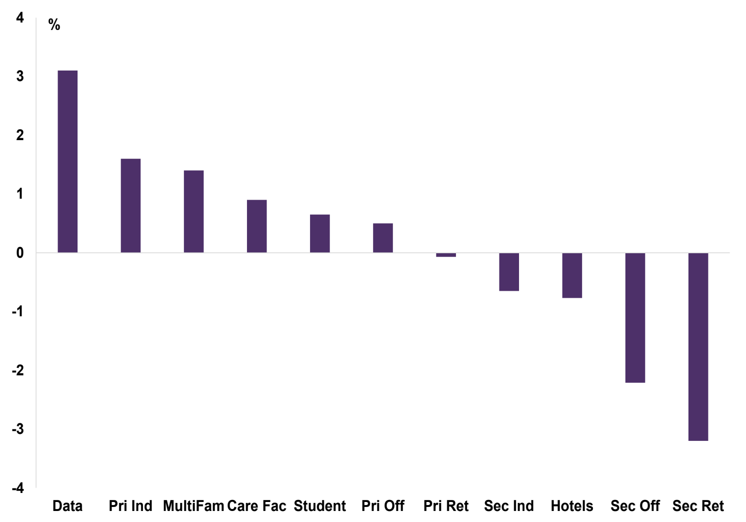
Expectations remain cautious

Reflective of the mood music across the region (at a headline level), forward looking indicators are generally faily flat So the twelve month expectations for capital values (in net balance terms) was little changed from Q1 at +3% while the rent expectations series at the same time horizon was very mildly negative at -3%. Chart 3 shows the point estimates in terms of sector expectations for APAC. As elsewhere around the globe, data centres alongside prime industial and multifamily continue to offer the prospect of the srtongest returns with secondary offices and retail still under some pressure. Consistent with much of the other feedback, expectations for these out of favour sectors is more positive in both Singapore and India; indeed, secondary retail is viewed as likely to see rising capital values and rents in each country. Significantly, the majority of respondents in both countries still see their respective markets are offering fair value (53% for Singapore and 60% for India). Meanwhile almost 40% of respondents from China now view the market as cheap to some degree. The contrast to this is New Zealand and Japan where around three-quarters of contributors suggest that each market is dear.

Chart 1: Commercial Property Sentiment by Country

Chart 2: Perception market is in downturn phase

Chart 3: 12 Month Global Capital Value Expectations



Regional Comments from Survey Participants in Asia Pacific

Australia

Current significant growth may well be checked by rising interest rates - Adelaide

The Canberra market has been really tight since the global pandemic began, while we anticipate the office market will be softened as the new stocks enter into the market and the rising cash rate increases the cost of capital - Canberra

Still experiencing a very strong market on the Gold Coast in Queensland - Gold Coast

The office market is enjoying higher levels of physical occupation averaging some 58% nationally and CBD are finally coming to life during the day and at night. There is stronger enquiry for retail and office against a back drop of a hybrid working model and larger corporates intending to take smaller footprints. Tenants are likely to focus more on ESG factors and amenity - Melbourne

Some uncertainty - Melbourne

Slow downturn - Perth

Financing costs starting to rise as interest rate cycle being priced in. Office incentives stable, but rents rising at premium buildings in premium locations. Clear evidence of flight to quality as companies fight to attract/retain staff amid tightest labour market in decades - this includes demand for green buildings - Sydney

Uncertain times but in Sydney a cautiously optimistic outlook - Sydney

Property market may be in a little bit of a downturn due to interest rates rising - Sydney

China

It is difficult for the market to rise in the short term, but it will rise slightly in the long run - Beijing

Downturn - Weihai

The market is developing in a positive direction - Xi'an

Hong Kong

Recovering

Commercial property market is in an early stage of recovery after the 5th wave of COVID 19 pandemic

Industrial market fast growing with more fund investors putting capital into that sector

The property market is now under a serious plunge down and affecting the local employment rate and economy. Hong Kong is under a great pressure and impact which has never been so poor. All employers are starting to reduce the expansion and even slimming down the business in Hong Kong. Some of them are withdrawing from Hong Kong

Local economy and property market should begin to recover as the pandemic is under control

The market might be affected due to uncertainty in political conditions and high inflation rate

India

The market is recovering and upward trend is being observed - Bengaluru

Due to the price rise of bulk materials and fuel overall construction costs have increased significantly (10 to 15%). But the Employers are not in a mood consider it accordingly. Literally almost all the contracting companies are struggling to meet the ends and earn some profit - Bengaluru

The market is really upbeat post the pandemic period - Chennai

No cause for alarm will improve over time - Chennai

Due to pandemic the prices in rents and other proprietary things are touching the high sky level - Gujurat

The recent momentum in rentals and capital values may not sustain in light of high inflation, rising interest rates and sporadic lockdowns - Gurgaon

It is improving modestly & also prices are stabilizing in the real estate market - Mumbai

General market conditions Now it is improving - Mumbai

Market conditions are improving moderately & there is a demand for residential flats increased. All working class people wants to purchase flats. I hope after 3 months there may be improvement in market conditions - Mumbai

Post pandemic recovery should be witnessed as the new year commences - NCR

For green buildings the government has offered tax discounts. But for an investor or for a person looking for renting an apartment it does not make a big change as the tax is to be paid annually and is generally paid by the owner. This tax is generally less than half of a monthly rent that one gets - Pune

The market is showing significant recovery signs, especially in Residential Sector. The IT industry has a boom but work from home has affected on the commercial market especially office spaces - Pune

Japan

We are closely watching how the weak yen will affect the Japanese real estate investment market - Tokyo

Malaysia

Market yet to show sign of recovering - Bayan Lepas

Market is generally uncertain due to concerns over inflation and political stability. After 2 years Covid 19 locked down and the opening of Singapore-Johor border, demand for properties has been increasing steadily - Johor Bahru

Demand is still low but things are slowly moving back to before Covid-19 MCO period - Johor Bahru

Rising world inflation and continuing covid lockdowns in certain countries is dampening the post covid recovery - Kota Kinabalu

Market value will be the potential for improvement due to pandemic recovery business - Kuala Lumpur

Still relatively subdued- Kuala Lumpur

Outlook is not promising at all - Kuching

Demand is generally recovering post-Covid. However, prices of construction materials have surged considerably, causing new properties to see an uptick in selling price - Kuching

New Zealand

The ongoing recovery from the various impacts of COVID 19 on the office, hotel, residential and retail sectors is still unfolding. Inflation, war and unstable investment markets suggest several years of readjustment ahead - Auckland

Rising interest rates are driving increased investment yields - Auckland

Rents holding across sectors for premium grade. B grade office rents and cap rates deteriorating significantly - Auckland

Rising interest costs are biggest impact on investment demand and pricing. Material mismatch in some sectors between purchaser and vendor expectations - Auckland

Building costs increasing, Interest rates increasing, low vacancy rates for prime commercial property, rents threatening to increase via cost push effect offset by increasing yields - Christchurch

The New Zealand Government's move (indirectly via the Reserve Bank) to increase interest rates is now having a significant detrimental impact on the commercial investment property market - Dunedin

Seismic issues are determining the market in Wellington - Wellington

Phillipines

Bullish - Manila

Singapore

High inflation and recession concerns

The general consensus has that the real estate industry (construction) is in a holding pattern. The investment market is in a value-seeking phase, with investors looking for investment opportunities that can be restructured/ repositioned to unlock value. The multifamily sector is currently in a high demand/low supply phase due to slow down in construction due to pandemic-related supply issues

The underlying investment demand form foreign investment/family office is growing in Singapore

Sri Lanka

Stagnated property market - Colombo

Market is still in downturn - Colombo

Currently Sri Lanka is going through an economic crisis and due to this, the real estate sector has been hard hit due to inflation and price increases in building materials and labour charges. Investors are reluctant to invest until the economy and political stability are achieved in the country - Colombo

Very uncertain the future of the market condition in Sri Lanka due to the current economic, political and social conditions. At least another 5 to 8 years will have to go for any significant change in the property market whether it is commercial, industrial residential or otherwise - Colombo

Europe: Macro headwinds starting to weigh on conditions across the commercial property market

The Q2 2022 GCPM results for Europe suggest macro headwinds, in the form of intense inflationary pressures and the prospect of a significant tightening in monetary policy, are beginning to dampen the mood music across commercial real estate. This is particularly evident on the investment side of the market, with investor demand stalling and capital value expectations turning marginally negative at the aggregate level. That said, some national markets display a more resilient set of results and are yet to be significantly affected by the turning in the global economic backdrop.

Investment Sentiment Index falls back into negative territory

Representing a contrast to the recent run of strengthening feedback, the headline Investment Sentiment Index for Europe fell into negative territory during Q2 (chart 1), posting a reading of -6 compared to a figure of +11 previously. Driving this, the net balance for the investment enquiries gauge slipped to -3% from a reading of +13% beforehand, with weakness most apparent in the retail and office sectors, while industrials were more resilient. Likely contributing to this flattening in the investment market, respondents reported a significant tightening in credit conditions during Q2, with the latest net balance of -66% the most negative on record (chart 2).

Meanwhile, the Occupier Sentiment Index also softened somewhat, albeit to a lesser extent than the ISI, easing to -1 in Q2 compared to a reading of +5 in Q1. When disaggregated at the national level, the latest results show that most European countries covered experienced some degree of softening in the latest results, although Croatia and Greece stand out as areas which still display a solid reading for the overall Commercial Property Sentiment metric. By way of contrast, Germany and France saw amongst the steepest deteriorations in the CPSI during Q2, with both nations now exhibiting firmly negative readings (chart 3).

With respect to the outlook for capital values at the regional level, the prime industrial sector, along with alternatives such as multifamily, data centres, aged care facilities and student housing, are all expected to post moderate capital value gains in the year to come (although projections have been trimmed in many cases during Q2). On the same basis, projections have turned much flatter for prime office values as well as those for secondary industrial units. At the weaker end of the spectrum, respondents foresee secondary office values coming under further pressure in the next twelve months, while expectations are also negative across both prime and secondary portions of the retail sector.

Commercial real estate viewed as entering the early stages of a downturn

Across Europe as a whole, 52% of respondents now view the market as having slipped into the downturn phase of the property cycle. This marks a considerable shift in sentiment relative to last quarter, when only 26% of respondents viewed market conditions to be consistent with some stage of a downturn. At the country level, Germany, France, and the Netherlands all display a majority of survey participants sensing the market has entered the early stages of a downturn. Conversely, Greece stands out as bucking the broader regional pattern, with an overwhelming majority of contributors still sensing the market remains in an expansionary phase of the current property cycle.

Chart 1: Occupier and Investment Sentiment Indices

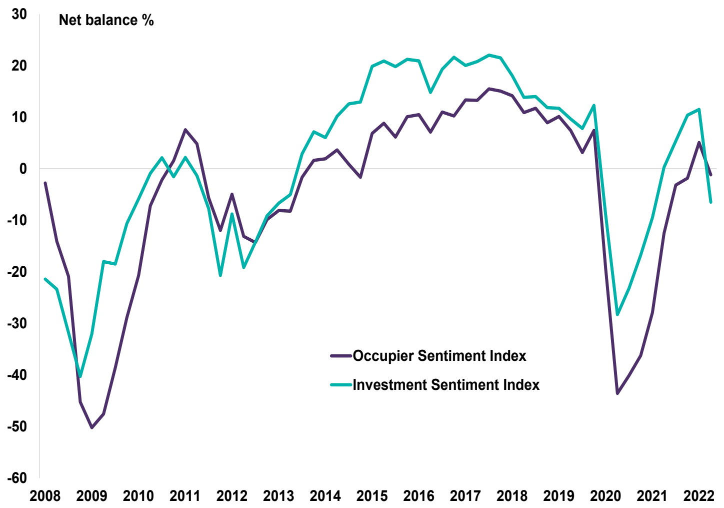


Chart 2: Credit conditions

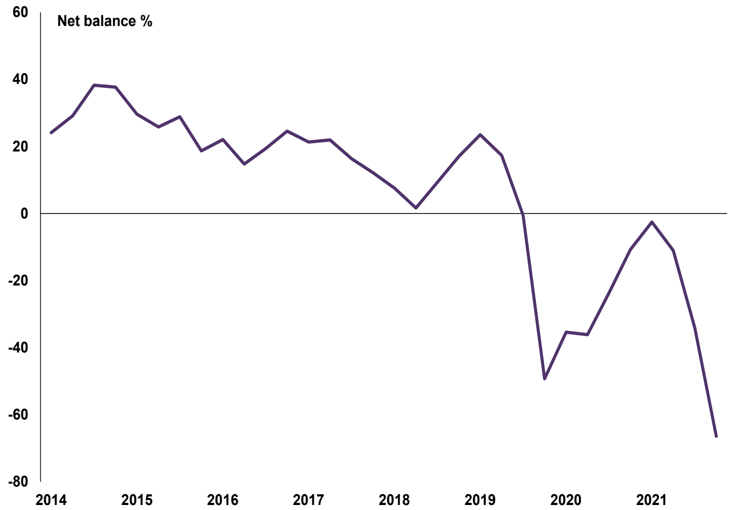
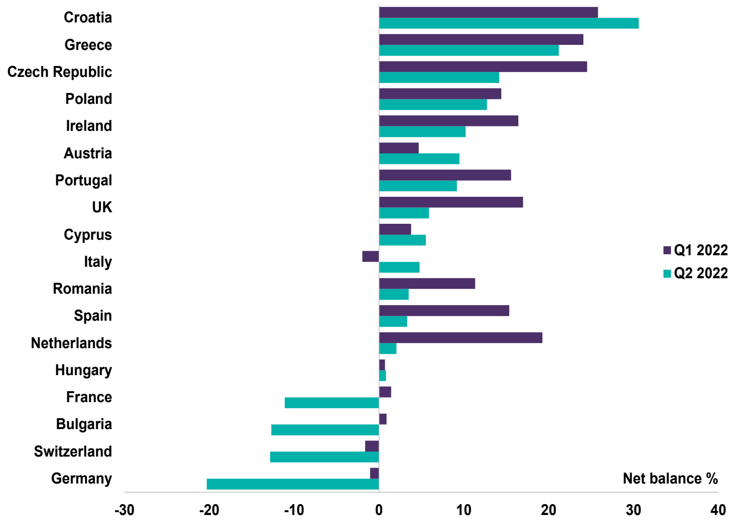


Chart 3: CPSI by country



Regional Comments from Survey Participants in Europe

Austria

The market has entered a phase of increasing uncertainty due to rising energy prices, construction cost and the unknown longer term effects of the war in Ukraine. -Vienna

Bulgaria

Bulgarian market continues to be segmented and with landlords who lack decent PM service. -Sofia

Croatia

Residential market in a bubble, other sectors are relatively stable. - Zagreb

Cyprus

Cyprus market is always a bit slow to react to global trends but there is added interest in the Environmental Performance of Buildings, mainly for larger developments (due to the Building Coefficient incentives). - Nicosia

Czech Republic

Sensing nervousness due to geopolitics and interest rate increases. -Prague

France

Increased inflation is leading to increased indexation that is likely to be offset by increasing interest rates that will reduce capital values. -Paris

A paradoxal market with major geopolitical and economic problems and still prime office rents continue to rise with some economic growth and sustained investor interest in most asset classes, especially industrial, less in retail. The strong rise in percentage terms in long term interest rates hasn't yet dampened the investment market as short term rates are still very low. - Paris

Germany

High demand from international and national institutional and private investors, very high insecurity in capital markets swapping over to real estate. However high inflation works towards real estate investments, very unsecure debt financing, high yield bond markets (especially in real estate) in big trouble. -Berlin

Many fundamental market factors, economic environment as well as geo-political relations have become moving parts - uncertainty on what to make of it. - Berlin

Having an extreme inflation rate combined with an ECB unable to hike interest rates, a macro economic disaster was bred. I doubt that Covid measurements would have led to financial crisis on themselves. However, with all recent developments Germany will lose wealth while consumers won't be able to afford rents with trippled side costs. Respectively prices will fall.- Berlin

The main factor for the downturn are the interest rate that have risen significantly and I would expect that this is not the end, as inflation is very high and ECB will need to follow the FED. We will see more capacity in the construction market within the next 12 months.- Berlin

Uncertainty in the interest rates means people sitting on the fence in the investment market at this time. Occupier demand continues to be stronger for the next 9 to 12 months. - Frankfurt

Start of a crisis, probably more severe and longer lasting than crisis in 2008/2009. - Munich

Greece

Different forces in the Greek market are shifting interest and prices in various directions.The pandemic / lockdown, the electricity and oil supply costs have created numerous cash issues in several business sectors, boosted electronic sales and greatly affected the retail and logistic sectors. Digital nomads has also been a trend that increased rental and investor demand in the residential sector. Prime assets have shown resilience, secondary asset stock is in need for upgrading / change of use. -Athens

Hungary

The war in the Ukraine and subsequent sanctions have had a large impact on the HU CRE market along with inflationary pressure and weakening local currency. All occupiers and owners are experiencing greater difficulty in predicting utility costs and this combined with increasing borrowing costs and hampering confidence. On the flip side the CRE markets are not over-supplied and vacancy remains low and inflationary pressure will result in rent rises. Question is if the occupiers can pay them. -Budapest

Ireland

Construction inflation is outstripping capital growth in all sectors. - Dublin

Italy

Uncertainty brings inevitable slowdown. It's just a matter of how much for how long, and that's anyone's guess right now. Not the first time and won't be the last. -Milan

In Italy after 12 years of negative cycle for RE now is starting a new positive cycle. -Milan

I think that the market is generally improving and I expect that the growth will continue over the next years, I think that a new cycle is starting. I see new developments underway and interest from both national and international investors and HNWIs in good quality and sustainable products. -Milan

Netherlands

Stagflation (and Ukraine situation) will have a negative impact on price levels coming 12 months. - Amsterdam

Construction costs and nitrogen disposition issues have an influence on developments. - Amsterdam

Rising interest rates and changing legislation/taxing for real estate investments are downsizing transactions at the moment. - Rotterdam

Poland

Some investor, usually from US, put their investments on hold, but there are immediately others that take that as an opportunity and step in into rare abandoned investments. Costs are high and difficult to predict due to the war, but there are signs of stagnation on the rise. PRS and logistic markets are booming, also we see interest in retail parks and data centers. -Warsaw

Romania

Except the Industrial and Logistics market, yields are still compressing in most market. - Bucharest

Spain

In general, the market is "strange", I would not dare to predict if the year is going to end well or badly, I do not see the macroeconomic news really reflected in the market as in previous times. - Madrid

Still very hot with a "rush" to complete transactions before "the recession". - Madrid

Middle East and Africa: Demand conditions remain solid, with further growth in capital values anticipated

The latest results across the Middle East and Africa region are indicative of momentum remaining firm over the quarter, with both occupier and investment demand indicators strengthening slightly at the headline level. For the time being, the gloomier outlook for the global economy does not seem to be weighing too heavily on forward looking metrics across MEA in aggregate. Indeed, capital value expectations were trimmed only modestly in Q2 and remain comfortably positive for all sectors.

Occupier and Investment Sentiment Indices remain solid

Shown in chart 1, the aggregate MEA OSI reading eased marginally in Q2, moving to +8 from +12 beforehand. Nevertheless, this still positive figure remains indicative of an overall increase in activity over the quarter. With respect to the Investment Sentiment Index, the latest reading of +6 is unchanged in comparison to last quarter's figure (equalling the best reading for the series at a regional level since 2013).

When viewed at the country level, Saudi Arabia again stands out as displaying the strongest momentum at present, with the composite CPSI edging up to +30 from an already buoyant +27 previously. Similarly, the CPSI continues to improve steadily across the UAE, posting a figure of +15 in Q2, representing the strongest return since 2014. In both cases, occupier demand growth accelerated over the latest survey period (in net balance terms), leading to a further upgrading in rental growth expectations at the all-property level. At the other end of the spectrum, the feedback from South Africa is a little more subdued in comparison, albeit the CPSI did turn marginally less negative at -14 (from -16 in Q1). On closer inspection, both the office and retail sectors remain under pressure across the country, with tenant demand struggling for momentum while landlords raise the value of incentive packages on offer.

Outlook for capital value remains positive, albeit projections in some markets have been trimmed slightly

Despite being slightly scaled back in some markets compared with the Q1 results (chart 2), respondents across MEA in aggregate still foresee solid capital value growth in most sectors over the coming twelve months. Leading the way now, student housing and hotels are expected to deliver the strongest capital value gains, with both sectors defying the wider trend by receiving upgraded projections during Q2. On the same basis, multifamily, data centres and prime industrial values are also expected to see a firm increase, even if projections are not quite as elevated as in Q1. Meanwhile, capital values are anticipated to see only modest growth in the secondary portions of the industrial, office and retail markets.

When disaggregated, Saudi Arabia and Nigeria both exhibit particularly elevated capital value projections for the year ahead, while the outlook for values is also positive (to a greater or lesser degree) across all sectors within the UAE. The outlook is more mixed in South Africa and Qatar, with weakness still evident in the retail and secondary office markets, while prime industrial units are anticipated to see a pick-up in capital values.

Respondents still see the market in an upturn phase

At the headline MEA level, 45% of survey participants consider the real estate market to still be in an expansionary phase of the cycle, a higher proportion than in any other world region. Granted, this is slightly down on 61% taking this view last quarter, but (as shown in chart 3) the largest share of contributors in Saudi Arabia, the UAE, Oman an Nigeria feel conditions in their local market are consistent with an upturn.

Chart 1: Occupier and Investment Sentiment Indices

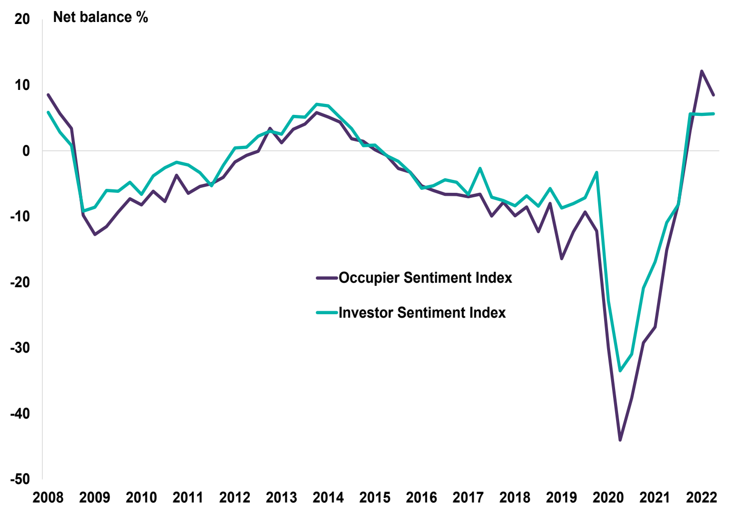


Chart 2: Twelve-month capital value expectations by sector

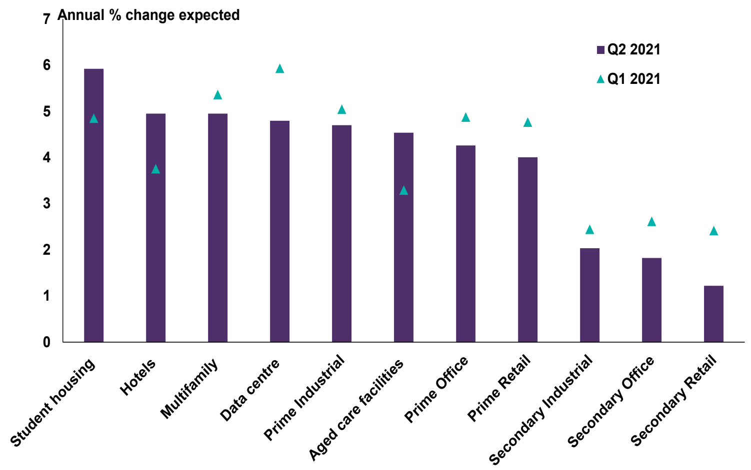
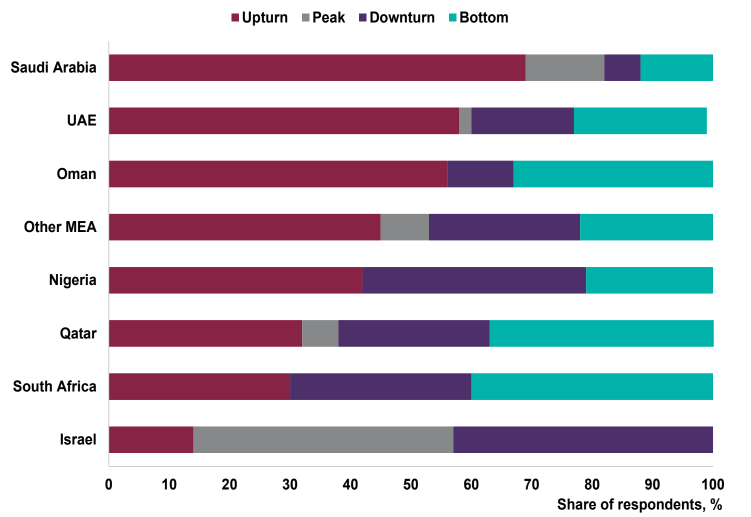


Chart 3: Property cycle perceptions



Regional Comments from Survey Participants in MEA

Bahrain

Generally all markets are in the early recovery stage as restriction of Covid-19 have been gradually released. - Muharraq

Kenya

Covid-19 pandemic is still here with us, and it keeps on mutating into different variants. This has an adverse effect on the real estate market. Furthermore, the situation has been exacerbated by the forthcoming country general elections, causing a buyers market and reduced returns. Still, as an industry, we remain optimistic and look forward to a “normal” if there will ever be one. -Nairobi

Malawi

The market is still suffering from uncertainty due to Covid and the Russia-Ukraine war. -Blantyre

Mozambique

Market is stagnant for almost 12 months due to the armed insurgency in Cabo Delgado that freeze the LNG developments in the country. We preview that stagnant condition will continue for the next 12 months. -Maputo

Nigeria

The global trends such as the Russia-Ukraine war and the Coronavirus pandemic induced negative shocks in the Nigerian economy which majorly depends on crude oil revenues. This has affected both public and private sectors financial activities which led to drastic fall in people’s purchasing power. In particular interest, the students housing sub-sector is the worst-hit due to the current strike embarked by the University lecturers’ Union which has left many investors with unoccupied units. -Bauchi

The prices of building materials are on the increase daily, thereby, affecting the construction of buildings; which adversely affect the rents or prices of the buildings. - Lagos

The Covid 19 impact continues to impact real estate investment in Nigeria. The economy is at the early recovery stage and hopefully things can get more stabilized in the coming years. - Lagos

Oman

Recovery stage. -Muscat

Qatar

Qatar is a fast-developing country hosting the World Cup at the end of the year. Therefore, retail, office, and industrial rental charges will increase in the next three months. My determination is fully based of the high demand which will be created due to FIFA 2022. There is a possibility that the construction sector will be affected after the World Cup ends, and the current market condition may change to a different prospect. - Doha

Saudi Arabia

Saudi Arabia has remarkably rebounded from the effect of Covid-19. -Riyadh

A lot of building actovity in KSA as part of the Kingdoms Vision 2030 initiatives. -Riyadh

South Africa

High demand for low value housing is making entry level housing prices unaffordable, while high value residential properties have reduced in real market valuation over the last 2 years or, at best, remained the same. Office blocks and hotel rooms are being converted into housing units. Economy has been decimated by the effects of the COVID lockdown and now the inefficient and uncertain provision of electricity is limiting the revival and growth of the economy. - Cape Town

Durban, South Africa, has been through an array of challenges over the past 12 months including riots, extreme flooding, and political happenings which have all had a negative impact on the general property market. -Durban

Expect retail to recover and then level out, potentially to pre-pandemic levels; expect Industrial High Tech to grow as well as DC’s, noxious industrial to remain stagnant; Office Sector will return to demand and value in the next 3 to 5 years because of Company Culture and decrease in WFH concept. Overall, a bumpy ride for the short to medium term. -Durban

Commercial sector remains constrained with rentals under pressure due to high vacancies and weak economic activity. Industrial market holding its own for now with pressure on the horizon given all the new developments coming out of the ground which is bound to leave secondary stock with vacancies.in the coming cycles. - Johannesburg

Local market conditions across all sectors are at the lowest it has been in the past decade, possibly two decades. - Pretoria

Turkey

With the high inflation and decrease in supply, prices will continue to rise.. -Istanbul

UAE

Residential market demand increased. Rents and capital values improved. Retail is at stand still. -Abu Dhabi

End of pandemic and return to work should precede renewed investment in office accommodation as companies review their future startegies. -Abu Dhabi

A positive outlook overall with increasing demand during the period in both prime office accommodation and industrial sheds, fresh demand arising from a widening of government led incubator programs. A strong focus towards organic SME’s in the private sector and introducing new entrants from the international AI and digital tech sectors towards further regional diversification and building a broader non-oil reliant economy led by private sector innovation and entrepreneurial catalysts. -Abu Dhabi

Residential values that had been rising since late 2020 are now stable, with limited price rises, some evidence of buyer resistance and price reductions. Residential rents remain strong, especially for whole houses. Logistical warehouse space, especially anything E-Retail centric remains in strong demand, as does both sale and lease of prime CBD Grade A office space. With hotels & prime retail malls at virtual full occupancy since late ‘21,it will be interesting to see how their valuations trend. -Dubai

The construction industry is recovering following the global pandemic episodes and refocus from the successful EXPO2020 experience, where global attention was again realigned on green, environmentally friendly and sustainable developments. -Dubai

During and after Expo2020, investor’s interest has picked up on residential, which pushed rentals in general, the investing in retail and industrial may follow moderately, but will still take some time. -Dubai

Zambia

It is a buyer’s market with significant properties up for sale. - Lusaka

Zimbabwe

No activity in the real estate sector. Residential sales and developments are observable. - Bulawayo

North America: Respondents sense the market is entering a downturn as interest rates rise

The Q2 results across North America point to a significant shift in sentiment, with the strong momentum built-up over recent quarters now fading amid the challenging global macro climate and the prospect of a further tightening in monetary policy. That said, demand remains generally firm within the occupier market at this stage, while investor demand has seen a more noticeable cooling in impetus over the quarter.

Commercial Property Sentiment Index no longer in positive territory across the United States

Illustrated in chart 1, the headline CPSI slipped markedly within the US during Q2, falling to zero from +20 in the previous iteration of the survey. Driving this, the all-property investment enquiries gauge returned a net balance of +6%, down from a much stronger reading of +43% back in Q1. Meanwhile, across Canada, the dip was much less pronounced, with the Q2 CPSI reading of +10 not dramatically different to a figure of +13 seen last time. Looking into the details, while the investment portion of the index did soften a touch in Canada, this was partly offset by an modest improvement on the occupier side (with tenant demand seeing a solid uplift across Canada in Q2).

The recent tightening in monetary policy from both the Federal Reserve and the Bank of Canada has been reflected in credit conditions reported across the commercial real estate market in Q2. Indeed, an overwhelming majority of respondents based in both the United States (66%) and Canada (74%) reported a deterioration in credit availability over the Q2 survey period (chart 2).

With respect to capital value expectations over the year ahead, respondents in the United States scaled back their projections across virtually all categories covered. That said, values are still envisaged to rise firmly for prime industrial assets, multifamily, data centres, aged care facilitates and student housing, even if the projections were trimmed in most instances relative to last time. On the weaker end of the spectrum however, prime office capital value projections turned from positive to flat, while expectations moved deeper into negative territory for secondary offices. Alongside this, prime retail expectations sit in marginally positive territory for the year ahead, with secondary values anticipated to come under downward pressure.

A similar picture is evident across Canada, with secondary office values now expected to fall, while previously positive expectations for prime offices have now flattened. The retail sector, particularly when it comes to secondary units, remains challenging. For the time being, all other sub-markets covered do still display positive expectations for the year ahead, albeit these have been scaled back noticeably in most areas during Q2.

Views on the current stage of the property cycle shift dramatically

Demonstrated in Chart 3, perceptions on the current phase of the property cycle shifted considerably during Q2. A respective 52% and 59% of survey participants in the United States and Canada now feel the market is in the downturn part of the cycle. Last quarter, these shares stood at 10% and 27% across the two nations. At the same time, a majority of contributors also view valuations as stretched relative to fundamentals. In Canada, two-thirds of respondents feel market pricing is above fair value currently. For the US, 70% of contributors sense the market is expensive, with only 30% feeling it offers fair value for investors.

Chart 1: Commercial Property Sentiment Index by Country*

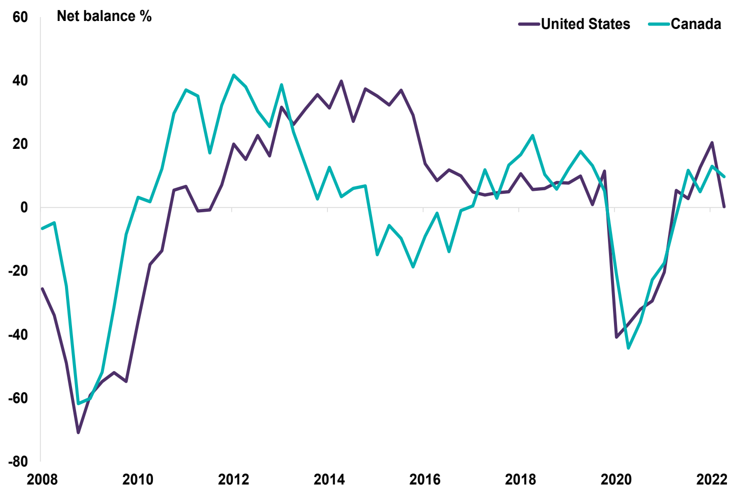


Chart 2: Credit Conditions

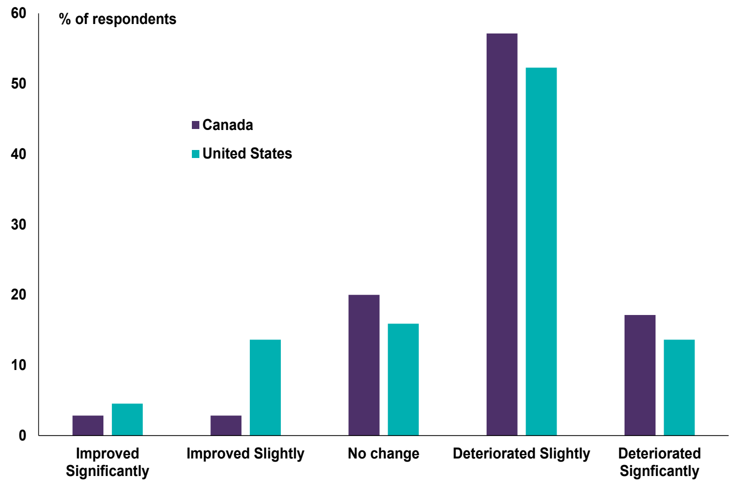
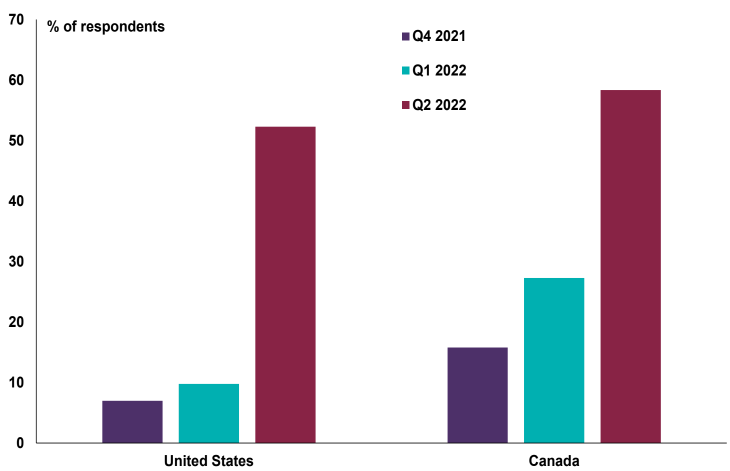


Chart 3: Perception market is in downturn phase



*The Commercial Property Sentiment Index is an amalgamated measure of indicators for occupier and investment markets.

Regional Comments from Survey Participants in the Americas

Brazil

Too much inflation and too high interest rates. -Sao Paulo

Canada

Widening gap between downtown and suburban office rents (particularly if not on transit). -Toronto

In the last two to three weeks, the capital markets have headed into bear territory. Interest rates have risen 50 to 75 basis points. There is the beginning of modest but noticeable cap rate expansion. Market values will be soft for many months to come. -Toronto

Inflation has been the major driver in cost increases. However, the cost increases have impacted investor demand which is also showing signs of reduction. - Vancouver

The market has no direction and is confused at the current moment due to increase in interest rate, high inflation rate, less overseas investment especially from China. Vancouver is a place that depends heavily on Chinese investors. - Vancouver

Economic conditions have understandably declined in the last three months, development costs are up, demand is off. - Vancouver

Jamaica

Strong markets all round. - Kingston

Trinidad and Tobago

Investors seeking rental returns are active however the criteria is value for money. Inflation is a significant factor in the new build decision. Refurbishment in all sectors may be a better option than new build. - Port of Spain

The real estate market in Trinidad with respect to residential and commercial properties are somewhat in slow recovery from the Covid pandemic. Due to the ongoing increases in Covid cases and job losses in both private and public government entities, this is likely to affect the real estate market. -San Fernando

Generally the market is stagnant. Investors are waiting to see how the economy pans out. Unemployment is increasing, inflation is increasing and foreign exchange earnings are low. Government revenue base is in decline and the politicians still can't get it right and understand it's about putting the best interest of the country as the priority. We have a vibrant business community and a relatively well educated population but we need to get over the red tape and hurdles in start up businesses. -San Fernando

The negative impacts of the closure of the island's oil refinery, COVID 19, and the Ukraine war are ongoing. -San Fernando

United States

Office market has lost three HQ's. Boeing, Caterpillar and Citadel creating questions and doubt in the market. Major election in fall, Governor, Mayor, and Assessor offer potential changes in policy. - Chicago

Both tenant demand and investor demand remain strong in the DFW market, with industrial still leading the way. This seems set to continue, although rising interest rates and inflation will likely impact the market, although the extent of this remains to be seen. - Dallas

Office market is slow, industrial/ warehouse is feeling headwinds and local retail is chugging along. We are projecting slower activity in the last 1/2 of the year. - Kansas City

Generally, there is some nervousness around inflation and the Fed shifting interest rates so some of the feverishness on the part of investors has diminished and transaction volume has lessened. - Los Angeles

Poor decisions in Washington are causing negative ripple effects across the entire real estate market in our area. Sadly, much of this was preventable but most of the current policymakers lack a basic understanding of economics or they simply don't care while they are forcing their unwanted agendas on the bulk of our nation's taxpayers. Even with a new administration, it will now take significant time to reverse the nation's economic course and return us to being an economic powerhouse. - Myrtle Beach

Tale of two markets with 80% of the activity taking place in class A and new developments. Secondary properties suffering. - New York

The New York City office market continues to become riskier and more complex, as the fortunes of the city declines. Crime is out of control, there is an outflow of the upper middle class, the "government" is a one-party system without checks or balances, and there isn't much, if any, prospect for improvement. It has never been this bad before. - New York

Tough. - New York

Proceed with caution. - New York

The Orlando market is one of the best markets in the U.S. since the pandemic. Housing has shown noticeable increases on rents - MF top five in U.S. and commercial rents and demand have been moving upward for prime real estate and in particular industrial / distribution. - Orlando

Unstable in recognition of inflation increases. - San Francisco

It is going to be a bit of a downer for awhile. Real estate professionals should proceed with caution. - Washington

A very difficult unpredictable market. - Washington

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 9 June 2022 with responses received until 11 July 2022. 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 1700 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 from Israel were collated with the assistance of the Israel Real Estate Appraisers Association.

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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Responses were gathered in conjunction with the following organisations:

Delivering confidence

We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

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