Q2 2020: Europe Commercial Property Monitor

Pandemic causing significant downturn across European commercial real estate

- Occupier and Investment Sentiment Indices return weakest readings since 2009
- Outlook for rents and capital values deeply negative across retail, more resilient for industrials
- 84% of respondents expect businesses to reduce their office footprint over the next two years

The Q2 2020 Europe Commercial Property Monitor results point to a significant deterioration in sentiment over the quarter, as the market continues feel the effects of the economic fallout from the Covid-19 pandemic.

Both headline Occupier and Investment Sentiment indices fell sharply, posting readings of -44 and -28 respectively across Europe in aggregate. For each series, the Q2 readings are the weakest going back to 2009 and the global financial crisis.

Occupier fundamentals take a turn for the worse

Looking specifically at the occupier market, a net balance of -55% of respondents reported a decline in headline tenant demand over the quarter. As shown in chart 2 overleaf, all European nations covered displayed a significant deficit in demand compared to supply in Q2, with the widest discrepancies reported in Romania, Austria and Italy.

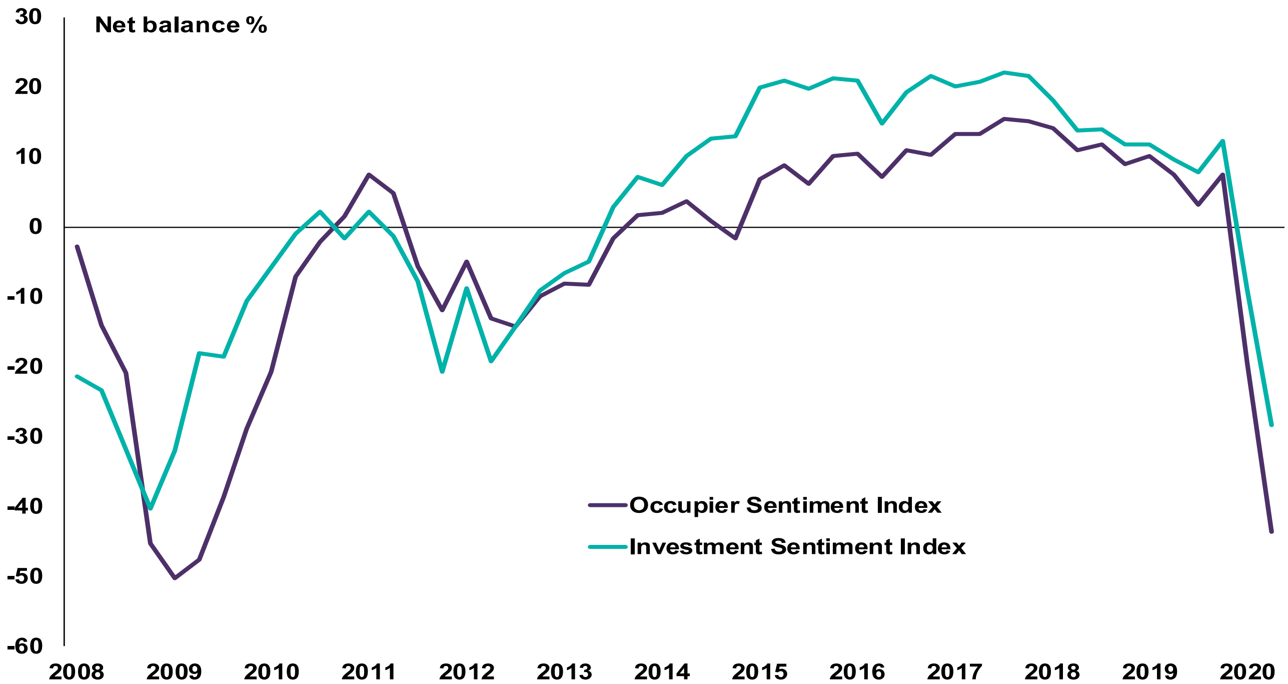
Back at the pan-European level, the sector breakdown shows demand for retail and office space fell at the sharpest rate (in net balance terms), while the decline was relatively more modest across industrials.

Remote working expected to cause a lasting shift

As many office based roles have been forced into a period of remote working during the pandemic, businesses have had a chance to assess the impact on productivity. In instances where the move has seen efficiency maintained or improved, firms may be prompted to re-evaluate their office space needs.

With this in mind, respondents were asked for their views on whether or not businesses would look to scale back their current office footprint over the next

Chart 1: OSI and ISI



two years. Interestingly, an overwhelming majority of respondents (86%) across Europe as a whole felt a reduction would happen to some degree. Disaggregating the results further, the largest share of contributors (around one-third) felt firms would cut their office space requirements by between 5% and 10% on average. Of course, any such shift would have significant longer-term ramifications for occupier conditions across the sector.

Rent and capital value expectations firmly negative

This issue is likely one factor behind the negative twelve-month rental and capital value expectations returned across Europe's office sector, with both prime and secondary markets anticipated to see a pull-back.

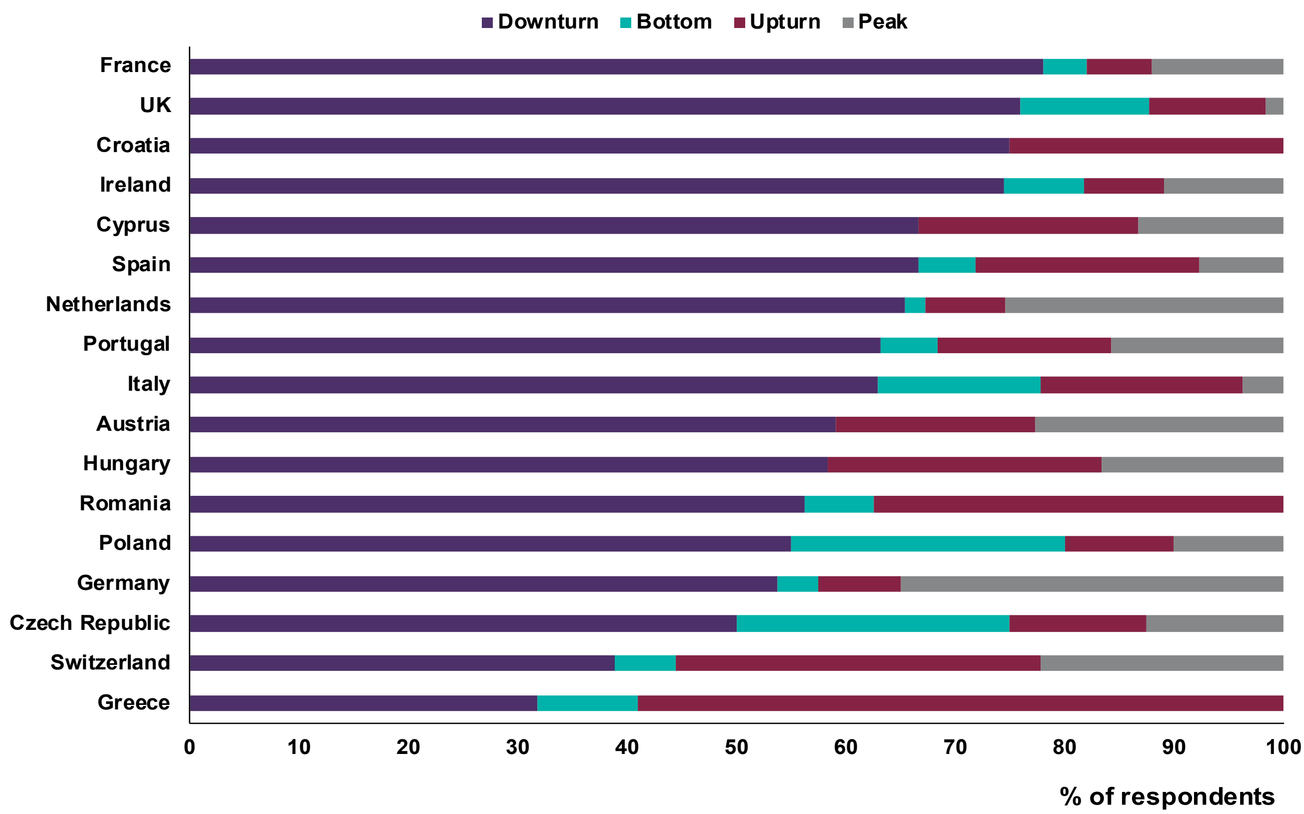
Alongside this, the outlook remains deeply negative within the retail sector, where forced closures of many physical stores and an accelerated shift towards online shopping have been hugely challenging for the more traditional retailers. Indeed, rents and capital values are now both projected to see double digit annual declines for secondary retail markets across Europe. Furthermore, an aggregate 62% of European respondents now consider the commercial real estate market to be in a downturn phase, up from 47% taking this view back in Q1.

Industrials more resilient

Although the industrial sector appears unlikely to pass through the crisis completely unscathed, expectations are at least much more resilient in this sector than in other areas. In particular, rents for prime industrial space are expected to hold steady across Europe, on average, over the next twelve months. Moreover, capital value projections for the year ahead are marginally positive for prime industrial assets, even if values for secondary units are expected to come under downward pressure.

Chart 2: Demand minus Supply

Chart 3: Phase of the Cycle



Key Takeaways

The survey's gauge on international investor demand across France fell into negative territory for the first time since the series was introduced in 2014

91% of respondents now consider commercial real estate in Austria to be above fair value, representing the highest share taking this view since the survey was formed.

Hotels across Spain are expected to see double digit decline in both rents and capital values in the year ahead as the Covid-19 pandemic weighs heavily on the outlook for tourism

Respondents expect capital values and rents to fall across most categories covered in Germany over year ahead. That said, the industrial sector and data centres may buck this general downward trend, supported by longer-term structural changes.

In Italy, the gap between falling demand and rising availability was the widest since 2012 at the headline level. As such, respondents expect a sharp decline in rental levels across all sectors over the coming twelve months.

Across Poland, although widespread declines in capital values and rents are expected in most segments of the market, the prime industrial sector is expected to outperform, displaying positive projections for the year to come.

Regional Comments from Survey Participants in Europe

Cyprus

"Unprecedented conditions whose outcome is difficult to predict. Instinctively, I would expect this Covid-19 downturn to have a short-lasting direct effect (demand, investment etc). I do expect lasting indirect effects, though, as the period has, somewhat, altered attitudes towards the very notion of real estate and its need and purpose."

Nicosia

France

"Covid-19 has been a big accelerator of existing trends -specifically for consumer behaviour. Logistics, last mile, single-family housing and data centers emerging as the winners. Low interest rates will continue to support ongoing strong inflows into the real estate asset class - supporting valuations in general."

Paris

Greece

"The Covid-19 crisis apparently appears to be deeper than initially estimated. In this context real estate is likely to share part of the burden of the economic pain in the short run, but it can be prove more resilient in the long run given its defensive nature.

Athens

Germany

"Non Food Retail Sectors and Hotels are the sectors primarily affected"

Frankfurt

Hungary

"Everyone is hesitant, waiting to see if there will be another wave of Covid-19"

Budapest

Ireland

"It is early days to fully assess the fallout from businesses closing since March that are only reopening now. The true picture will emerge in mid/late Sept this year in terms of their future survival, commercial vacancy numbers, demands for office, industrial and retail. The property market is all about confidence and uncertainty is its worst enemy. At present uncertainty is prevailing day by day about the economy , a second wave of Covid-19, unemployment. Many agents have reported busy periods in May and June dealing with the pent up demands and the surge of activity built up over the March /Apr period. However, there are signs this is now petering out somewhat."

Leinster

Italy

"Despite the crisis, real estate sectors saw an acceleration of existing trends, rather than a disruption

Milan

Netherlands

"We will need two years to recover from the Covid-19 impact"

Lisbon

Poland

"Core market has proven resilient to the crisis triggered by the pandemic with the exception of the hotel sector."

Warsaw

Portugal

"We will need two years to recover from the Covid-19 impact"

Lisbon

Romania

Bucharest is experiencing aggressive commercial term renegotiations from the tenants' side or a search for "good deals" in the market. This is despite the fact that most tenants are still in the fog in regards with their own business perspectives. The landlords problem is that most office buildings are shaped in a way that makes them easy to lease and/or sell, while almost none of them are designed to in a way that is easily adaptable to fit new requirements following the Covid-19 pandemic."

Bucharest

Spain

"Covid-19 has had a devastating impact on commercial values in Spain. E-commerce is now a major threat for retailers."

Madrid

Austria

The headline Occupier Sentiment Index for Austria fell further during Q2, coming in at -62 compared to -32 last quarter. The economic fallout from the global pandemic has hit occupier demand significantly, with the retail and office sectors seeing particularly sharp declines over the quarter.

Accompanying this, vacancies rose across each area of the market, as the headline quarterly increase (in net balance terms) outpaced any seen since 2012. Given this backdrop, landlords increased incentive packages on offer to tenants markedly across the office and retail sectors, and more moderately for industrials.

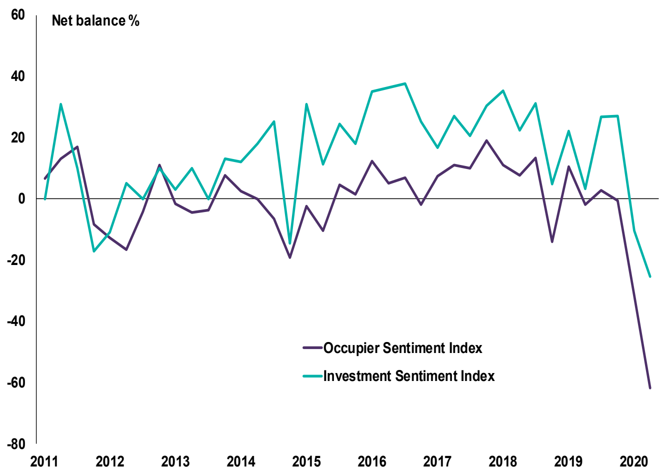
Twelve-month rental projections were downgraded further relative to Q1. Secondary retail rents are now seen falling by around -12%, while projections for prime stand at -5.5%. Rental declines are also forecast across prime and secondary office markets, with respondents now expecting falls of -2% and -7% respectively. At the same time, projections are only marginally negative for prime industrial rents, although the outlook is less resilient for secondary.

The headline Investment Sentiment Index also deteriorated again over the quarter, with the latest figure slipping to -25 from -11 last time. Driving this, investment enquiries for office and retail properties fell sharply in Q2.

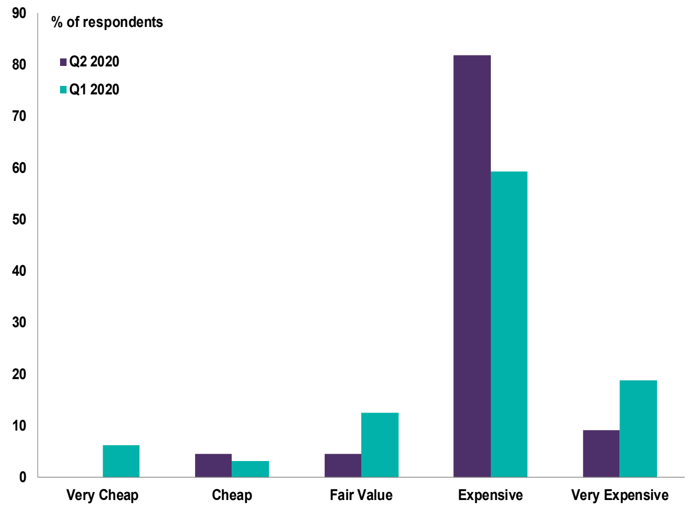
Respondents envisage capital values declining across virtually all categories over the coming year. Prime industrials are the only exception, where the outlook appears more or less flat. Away from the three traditional sectors, hotels display an especially poor twelve-month outlook, with survey participants expecting double digit falls.

91% of respondents now consider commercial real estate in Austria to be above fair value, the highest share taking this view since the survey was formed.

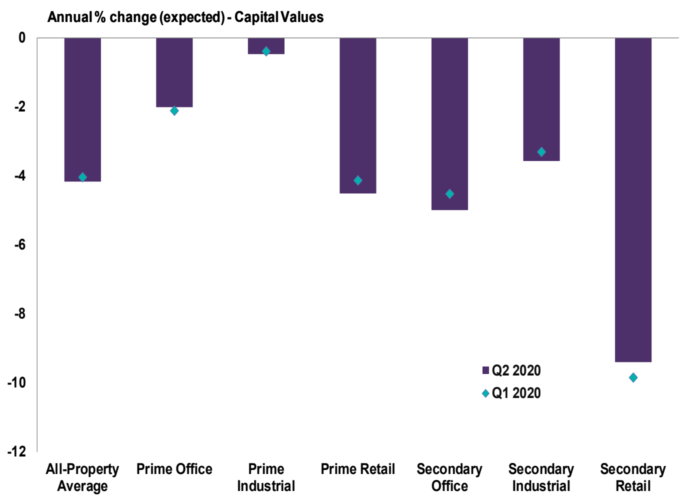
RICS OSI and ISI



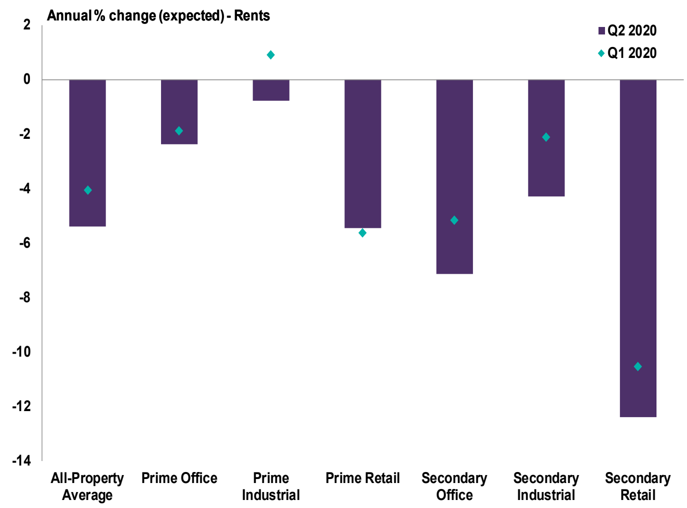
Valuations



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Croatia

The headline Occupier Sentiment Index dropped to -40 in across Croatia in Q2, down from -23 in the previous quarter. This represents the poorest return since the Croatian survey started in 2016 an is indicative of a significant weakening in occupier market conditions.

Tenant demand fell sharply across the retail sector, evidenced by a net balance of -67% of contributors reporting a decline. Although occupier demand also fell for office and industrial space, the rate of decline (in net balance terms) was more modest in comparison.

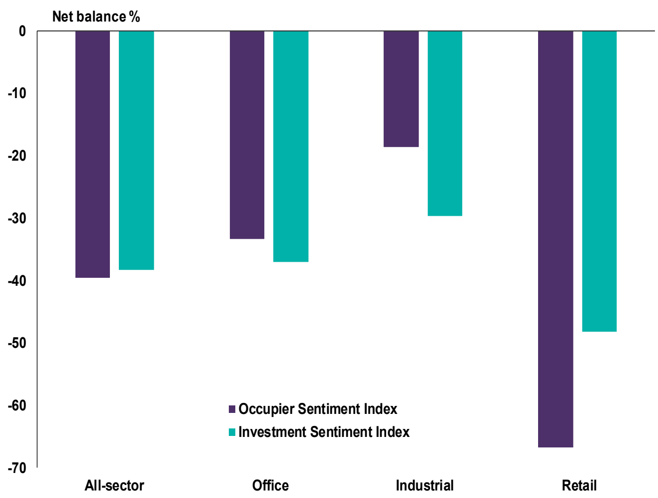
Twelve-month rental growth projections were cut across several sectors during Q2. Secondary retail rents are now seen falling by -13%, and prime retail rents are anticipated to drop by -7%. Expectations are also steeped in negative territory across the office sector, with prime rents projected to decline by roughly -4% and secondary rents seen falling by -6%. Although industrial rents are still expected to fall, this quarter's projections are at least slightly less negative than last time out and now stand at -2% for prime and -4% for secondary (-3% and -7% previously).

The Investment Sentiment Index also slumped to a fresh record low, coming in at -38 compared to -18 in Q1. Investment enquires, both from domestic and international buyers, fell across all sectors.

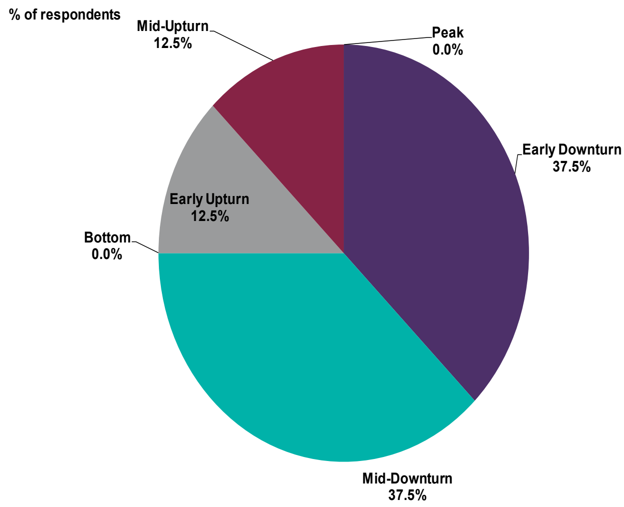
As such, capital values are expected to come under significant pressure in the coming twelve months. Secondary retail and office markets currently display the weakest outlook, although prime assets are also anticipated to see a drop in values.

Reflecting the vast economic costs of the Covid-19 pandemic, 75% of respondents now view the market to be in the downturn phase of the property cycle. This proportion has risen dramatically relative to the end of last year, when there were no contributors who felt the market was in a downturn.

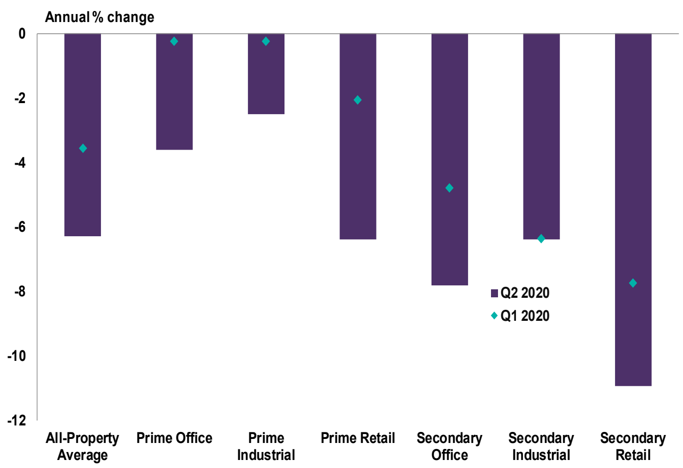
RICS OSI and ISI



Phase of the Cycle



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections

Cyprus

In Cyprus, the Q2 2020 results are consistent with a further weakening across the commercial real estate market. Indeed, the Occupier Sentiment Index fell to -30 from -12 previously, marking the poorest return since the survey was established.

Occupier demand fell sharply across the retail sector during Q2, while demand for office space also saw a steep drop. By way of contrast, tenant demand was unchanged for industrials over the quarter. Given this backdrop, availability increased markedly across both the office and retail portions of the market.

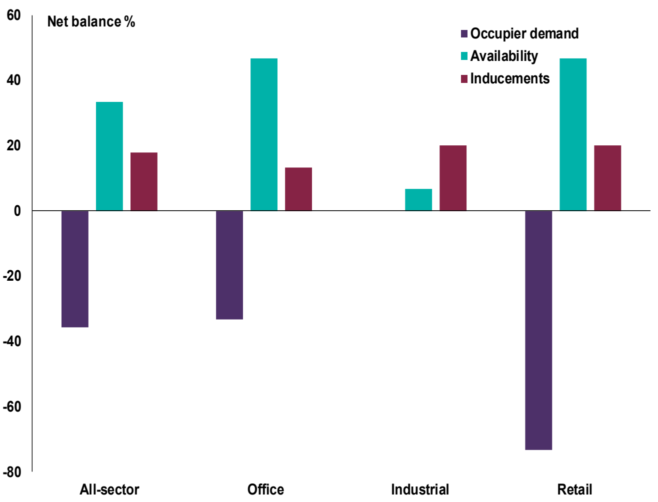
Interestingly, respondents upgraded their projections for rental growth across all prime sub-sectors compared to Q1. Prime industrial rents are now expected to rise by 2.5% over the coming twelve months, while expectations stand at roughly 2% and 1% for prime office and retail rents. Nevertheless, secondary retail and industrial rents still display a broadly negative outlook.

The headline Investment Sentiment Index fell to -41 in Q2, down from -21 previously. Looking into the details, investment demand reportedly slumped across all sectors, with enquiries from both domestic and overseas investors falling sharply.

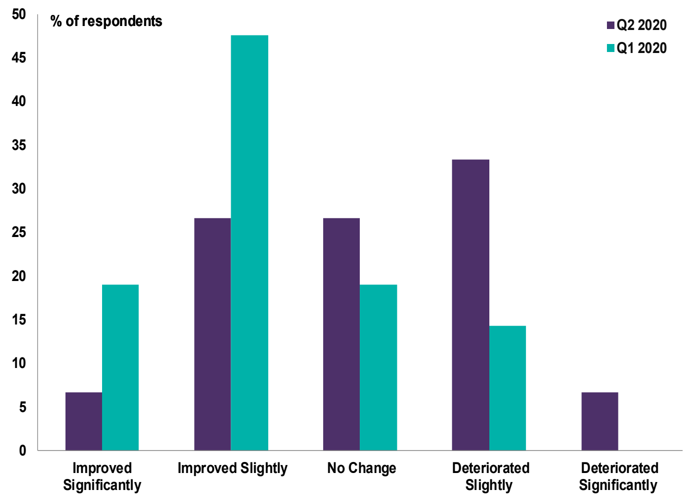
Twelve-month capital value expectations remain firmly negative for each sub-sector covered. Hotels (a new category added to the survey this quarter) display the weakest outlook for the year ahead, with respondents expecting near double digit decline in values. Likewise, secondary industrial and office values are also projected to post steep declines.

67% of survey participants now consider the market to be turning down. This is up from just 24% taking this view back in Q1.

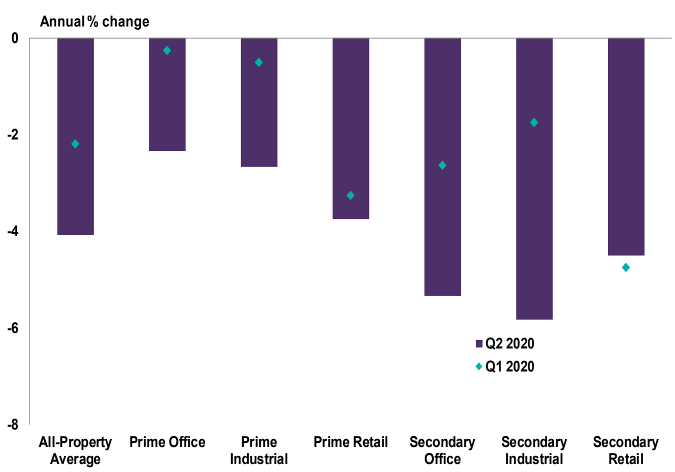
Occupier Market



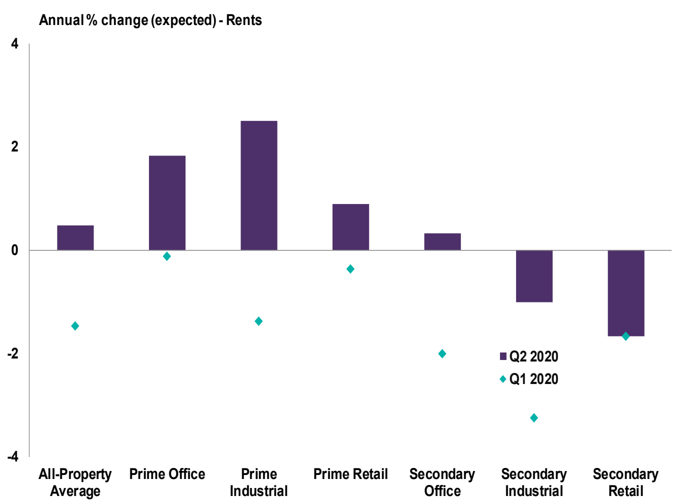
Credit conditions



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Czech Republic

Overall sentiment in the Czech Republic commercial leasing market continued to weaken in Q2, evidenced by the OSI falling to -49 from -8 previously. This represents the most subdued reading going back to 2009 and is consistent with a sharp contraction in occupier fundamentals.

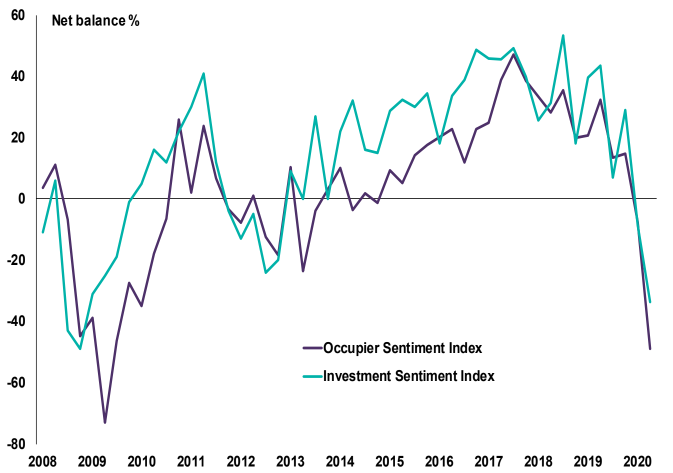
Indeed, tenant demand fell across each area of the market, with the office and retail sectors seeing especially steep falls (posting net balances of -88% and -71% respectively). On the back of this, availability rose for a second successive quarter at the headline level, prompting landlords to raise the value of incentive packages on offer to tenants.

Rents are now expected to fall across all categories over the coming twelve months, a sharp turnaround in relation to generally positive projections found prior to the onset of the Covid-19 outbreak. Perhaps unsurprising given the impact of travel restrictions on tourism, hotels are expected to see a particularly steep -14.5% decline in rents in the year ahead. At the same time, rents for secondary retail space are seen falling by -8%, while prime retail rents are projected to fall by -7%.

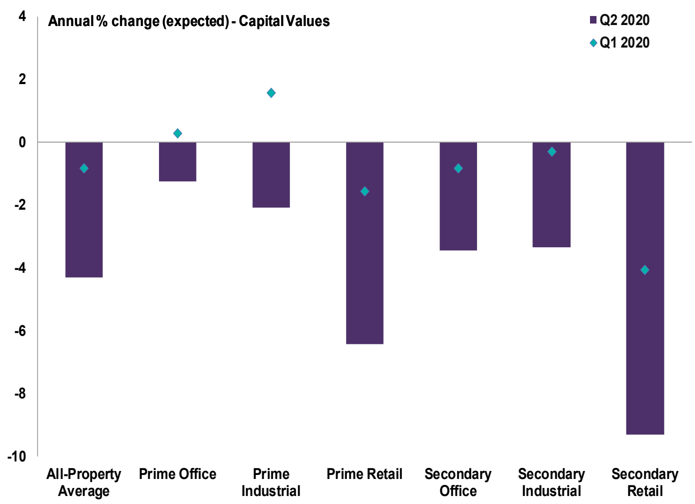
The Investment Sentiment Index also deteriorated sharply over the quarter, coming in at -34 compared to -8 last time. This was driven by a significant reduction in investment enquiries across all sectors, with international buyer demand also falling sharply.

As such, capital values are expected to come under pressure over the year ahead, with the hotel and retail sectors anticipated to see the steepest annual declines. At the other end of the scale, prime office values display only modestly negative projections for the year ahead, although forecasts for secondary office values are more downbeat.

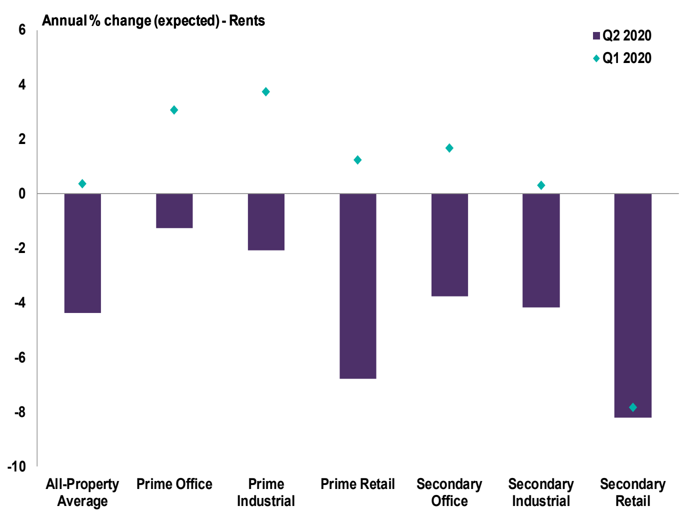
RICS OSI and ISI



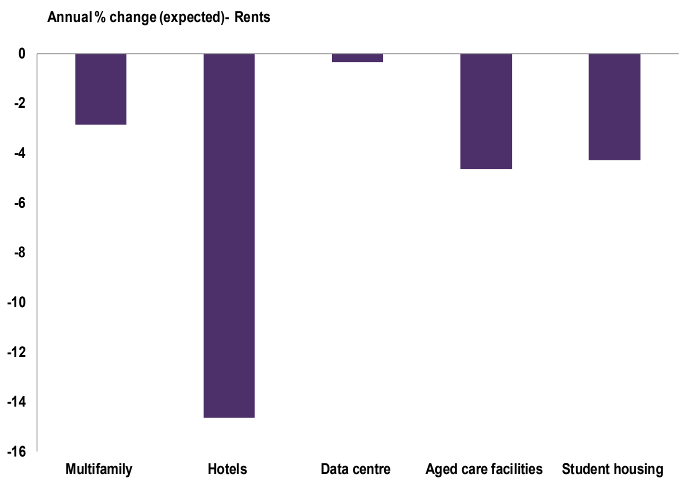
Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Alternatives- Twelve Month Rental Projections



France

The headline Occupier Sentiment Index in France fell to -48 during Q2 (down from -8 last quarter), thereby marking the weakest reading since 2013. Respondents noted a pull-back in tenant demand in each sector, although the decline was particularly sharp for office and retail space, and relatively more modest for industrials.

Reflecting this, availability was broadly unchanged across the industrial segment in Q2, while vacancies rose noticeably in the office and retail portions of the market. Even so, landlord inducements reportedly increased across the board.

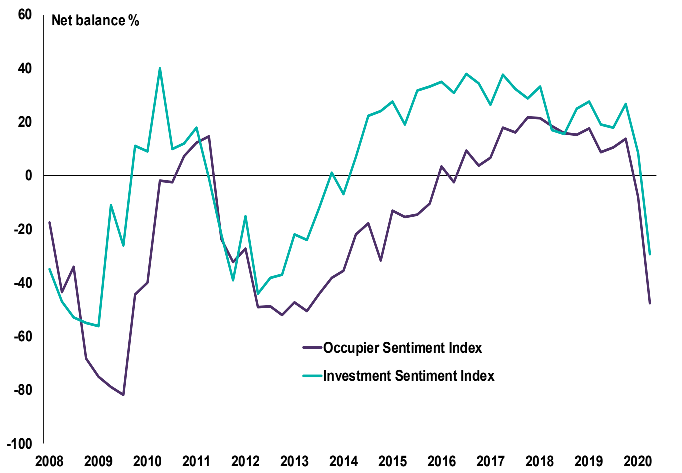
Rental growth projections for the coming twelve months remain highly varied at the sector level. At the weaker end of the scale, secondary retail rents are seen falling by more than -10%, while projections stand at -6.5% for prime retail rents. Rents for secondary office space are also seen falling by roughly 6% in the year to come. By way of contrast, prime industrial rents actually display modestly positive projections, pointing to 1% growth over the next twelve months.

The Investment Sentiment Index deteriorated to -29 in Q2, down from +8 previously. Driving this, a headline net balance of -36% of respondents reported a fall in investment enquiries over the quarter. The retail sector bore the brunt of the decline, posting a net balance of -73% (the worst reading on record).

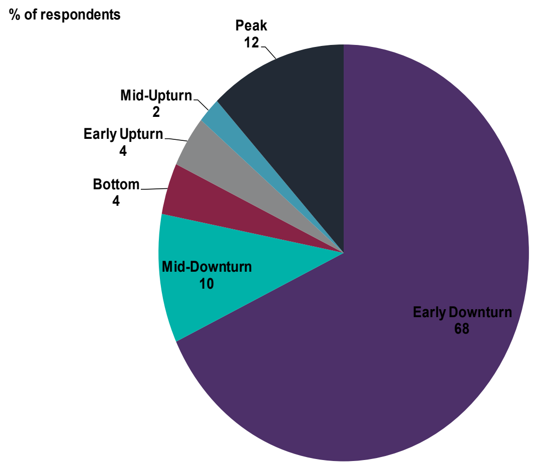
Twelve month capital value projections are now negative, to a greater or lesser degree, across almost all sub-sectors. Again, the prime industrial sector is an exception, with respondents expecting modest gains in capital values.

78% of survey participants now consider the commercial real estate market to be in a downturn, a dramatic increase on 33% taking this view back in Q1.

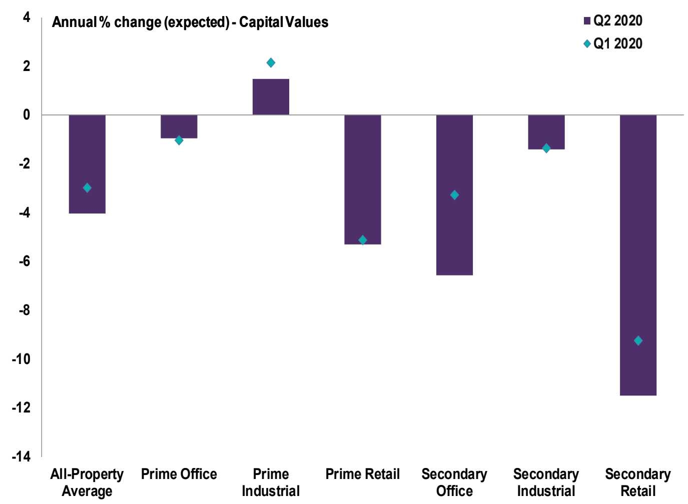
RICS OSI and ISI



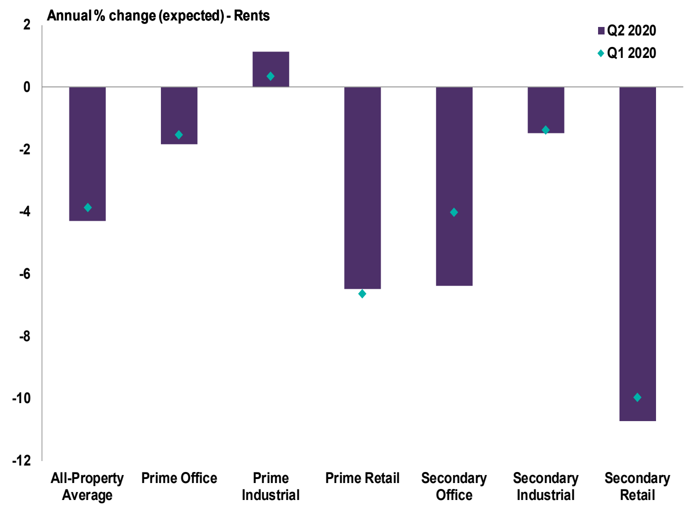
Phase of the Cycle



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Germany

In Germany, the Occupier Sentiment Index fell to -36 during Q2, deteriorating further from last quarter's reading of -17. In fact, this latest return is the weakest figure for the OSI since 2009.

A net balance of -88% of respondents reported a decline in tenant demand for retail space in Q2, representing the worst quarterly trend on record. Office demand also fell sharply, evidenced by a net balance of -55% of contributors noting a decline. Conversely, occupier demand appears more resilient within the industrial sector, as respondents reported little change on balance.

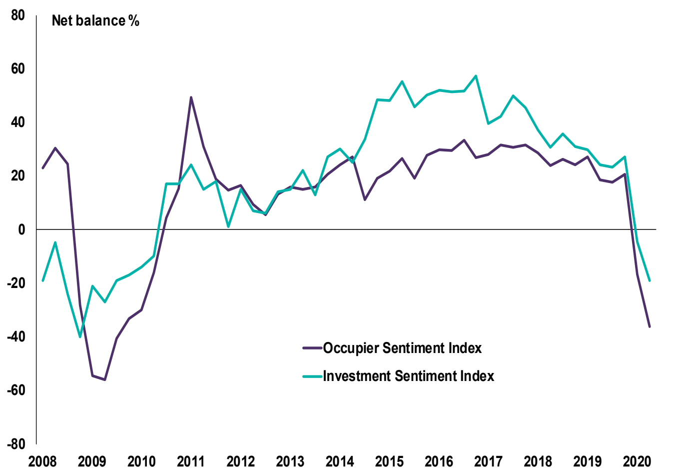
The outlook for rents over the year ahead is mixed across different sectors. Indeed, rents for retail space, hotels, secondary offices, student accommodation and multifamily housing are all seen falling to varying extents. At the same time, respondents expect rents for prime industrial space to continue to rise, while data centre rents also display slightly positive twelve-month expectations.

The Investment Sentiment Index slipped to -19 in Q2, down from -4 previously. Investor demand pulled back across each sector, although the decline was more modest for industrials compared to the office and retail sectors.

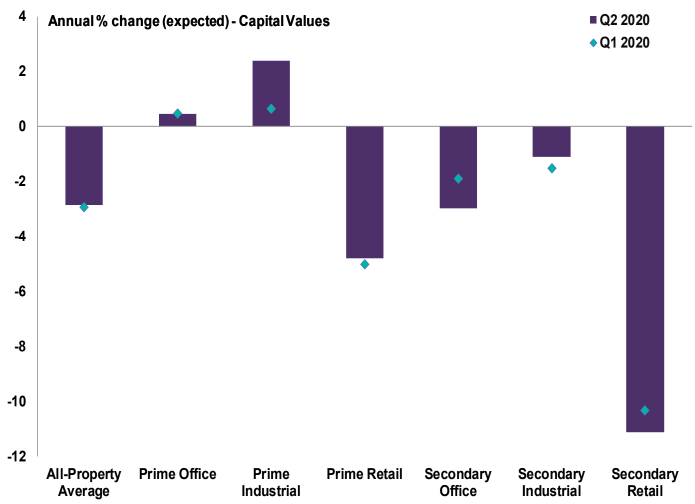
With regards to capital value expectations over the next twelve months, the only categories exhibiting a positive assessment are prime industrial and data centres. The majority of sub-sectors are expected to see values decline, with projections especially downbeat across the retail sector and for hotels.

The majority of contributors continue to view the commercial real estate market in Germany to be in a downturn phase of the cycle, with only 4% feeling conditions have reached a floor.

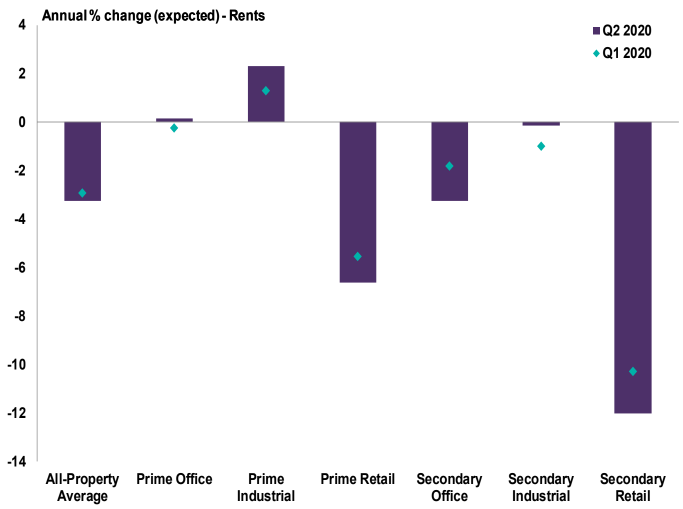
RICS OSI and ISI



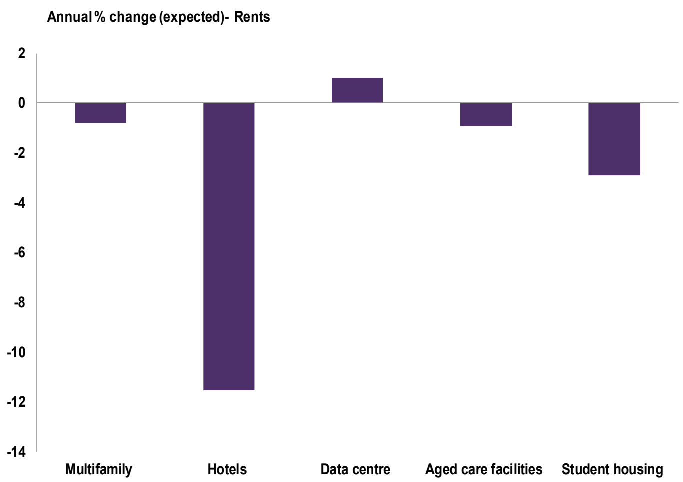
Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Alternatives- Twelve Month Rental Projections



Greece

The Occupier Sentiment Index dropped to -32 in Greece during Q2, down from +6 last time, bringing to an end a run of fourteen successive positive readings for this indicator.

The weakening in Q2 was driven by a sharp contraction in tenant demand across the retail and office sectors over the quarter. On the contrary, occupier demand increased in the industrial sector, albeit at a more moderate pace (in net balance terms) than in the period preceding the Covid-19 crisis. Reflecting this, while vacancies rose across the office and retail portions of the market in Q2, availability of leasable space actually fell in the industrial sector.

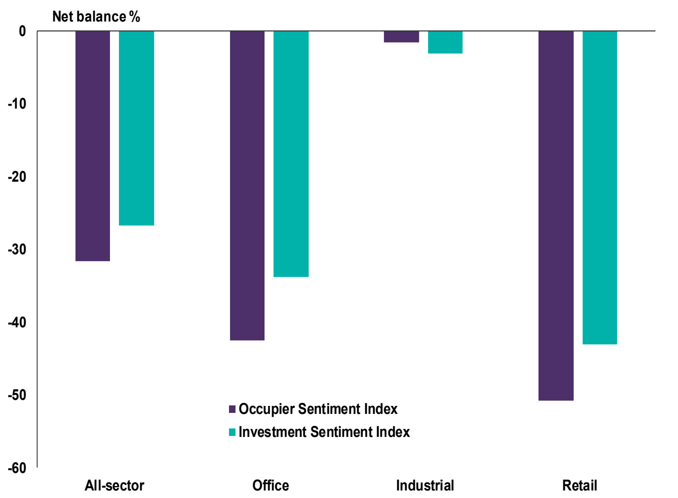
Looking to the year ahead, respondents expect rents to fall across most sectors, with secondary retail space projected to see rents fall by -9%. By way of contrast, respondents foresee prime industrial rents increasing by around 3% on the same basis, while the outlook for prime office rents is marginally positive.

On the investment side of the market, the headline ISI fell to -27 compared to a reading of +10 previously. Investment enquiries retreated significantly across the office and retail sectors, while demand stagnated for industrial properties over the quarter.

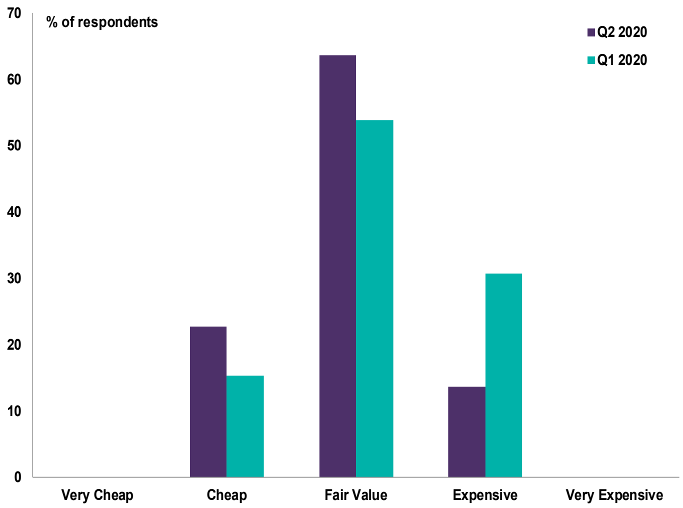
Twelve-month capital value expectations point to prime industrial and office assets bucking the general downward trend to post solid gains. That said, the outlook is comfortably negative across the remaining categories, with secondary office values expected to see values tumble by more than 5%.

Despite the challenging global economic conditions brought on by the Covid-19 pandemic, the vast majority of survey participants (86%) continue to feel commercial real estate across Greece offers at least fair value for investors.

RICS OSI and ISI

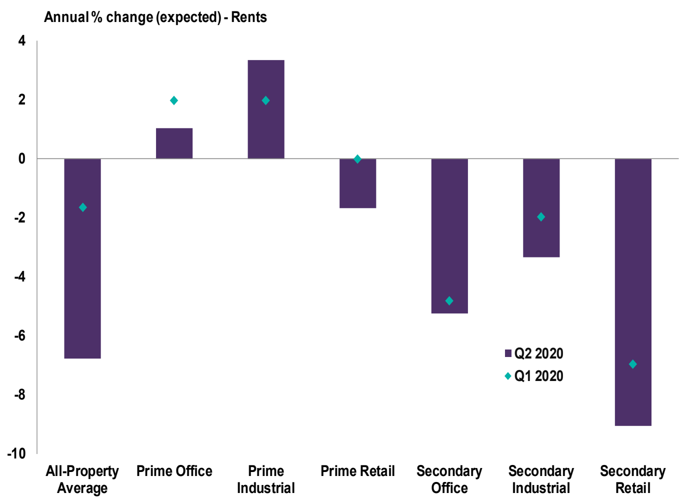


Valuations



Twelve Month Capital Value Projections

Twelve Month Rental Value Projections



Hungary

The aggregate Occupier Sentiment Index across Hungary continued to deteriorate over the quarter, hitting an eleven year low of -35 (down from -19 previously). That said, the sector breakdown shows this weakening in conditions was not uniform across all portions of the market.

While tenant demand collapsed across the retail and office sectors (evidenced by a net balance of -83% of respondents reporting a decline in each case), the industrial sector actually saw a solid improvement. Even so, landlord incentive packages on offer to tenants rose in each market segment over the quarter.

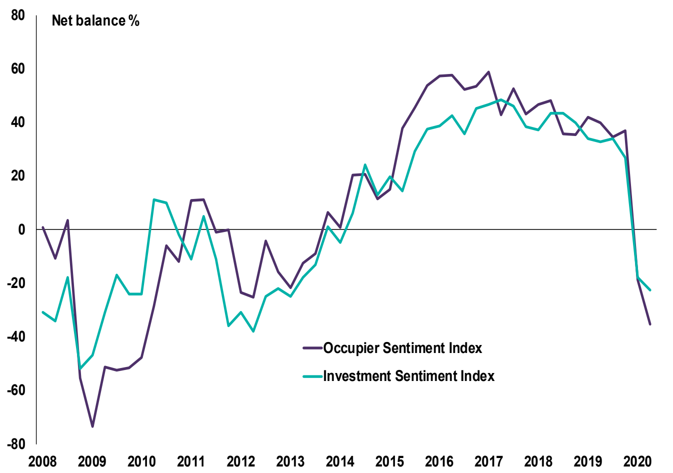
Twelve-month rental growth projections remain negative across the vast majority of sectors, with respondents further downgrading their expectations from Q1 in most instances. The retail sector displays the weakest outlook for the year ahead, with rents in secondary locations seen falling by almost 10% while expectations for prime retail rents stand at -5.5%. Prime industrial is the only sub-sector to see an improvement over the quarter, with respondents now expecting marginal growth in rents as opposed to a flat trend projected last time.

The Investment Sentiment Index fell slightly deeper into negative territory, coming in at -23 compared to -18 in Q1. Investment enquires, both from domestic and international buyers, fell across the board.

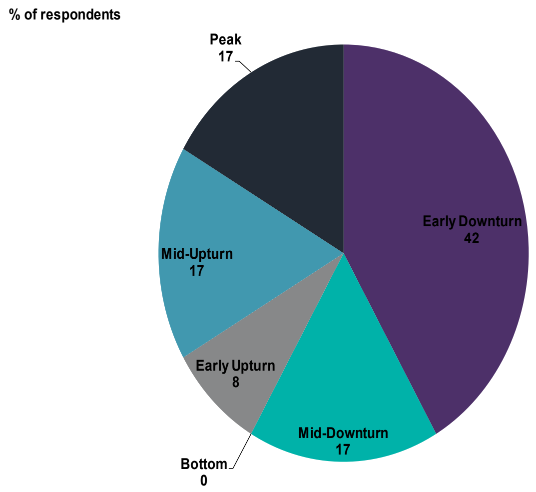
Capital value expectations for the year ahead were broadly aligned with those returned in Q1. As such, values are still seen slipping in virtually all sectors. Prime industrial is again the sole exception, where the outlook turned from slightly negative to broadly flat.

58% of survey participants now consider the Hungarian market to be turning down, up from 50% taking this view in Q1.

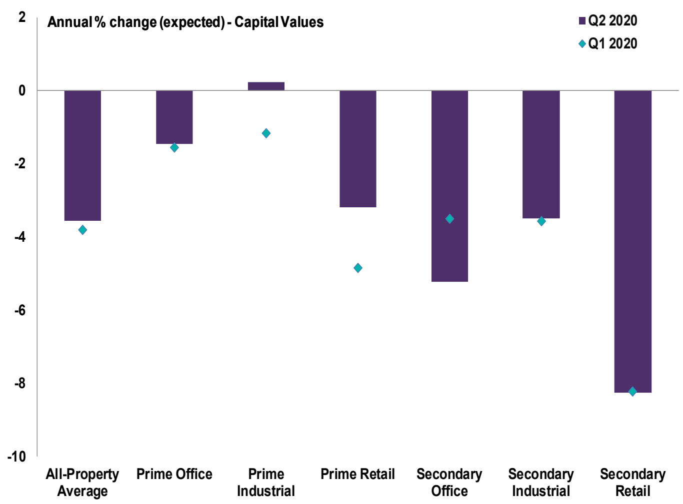
RICS OSI and ISI



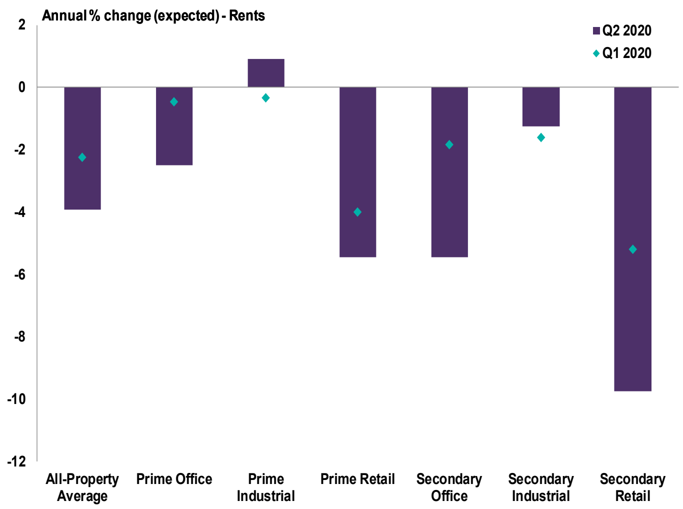
Phase of the Cycle



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Ireland

The latest results across Ireland show the Occupier Sentiment Index falling to -45 in Q2, marking a further decline from the figure of -31 returned in Q1. Tenant demand plummeted across the retail sector, with a net balance of -92% of respondents reporting a decline. Alongside this, a steep decline was also cited across the office sector while interest in industrial space was also seen falling over the quarter.

Availability continued to increase at the headline level, although this was predominately driven by a rise in vacancies across the retail sector. Conversely, vacant space edged down across the industrial segment,

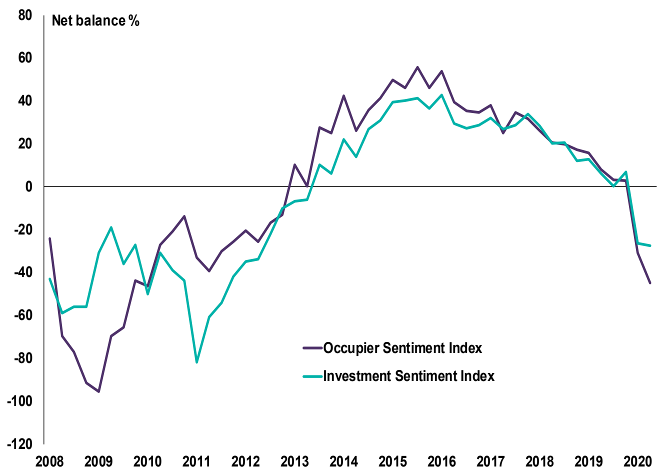
Although still firmly negative in most cases, respondents slightly reduced the rate of decline expected in rents over the next twelve months compared with Q1. Nevertheless, secondary retail rents are still seen posting near double digit declines, while the outlook remains downbeat across the office sector. For prime industrial space, contributors are now expecting rents to increase by 1% in the year to come (upgraded from a negative projection of -2% returned in Q1).

The headline Investment Sentiment Index remained at -27 in Q2, consistent with a still subdued backdrop. Indeed, investment enquiries fell across each sector, led by an especially steep fall in demand for retail properties.

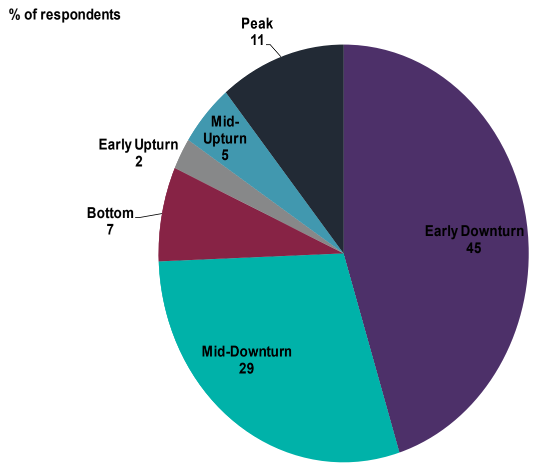
Twelve-month capital value projections remain negative across both prime and secondary portions of the retail sector in Q2. At the other end of the scale, prime industrial values are now expected to chalk up marginal gains. For the office sector, both prime and secondary values are still expected to come under significant downward pressure over the year ahead.

74% of respondents consider the commercial property market in Ireland to be in the downturn phase of the cycle (64% in Q1).

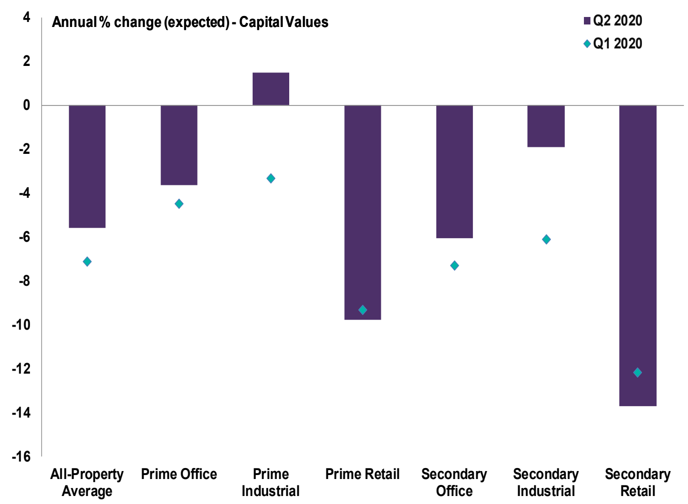
RICS OSI and ISI



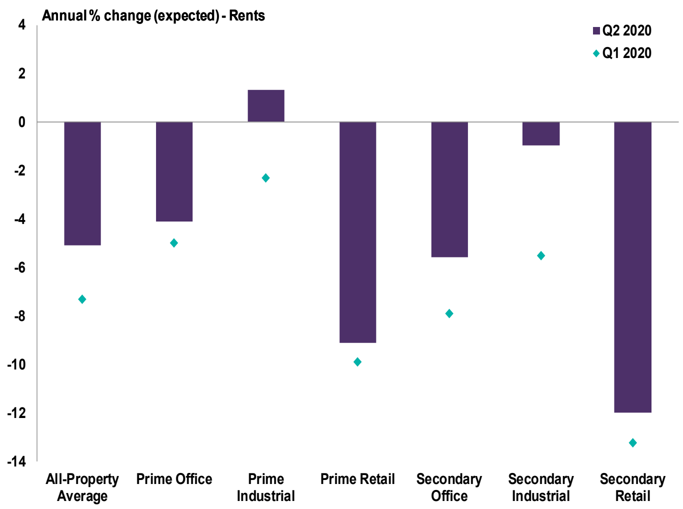
Phase of the Cycle



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Italy

Hampered by the severe economic fallout from the Covid-19 pandemic, the Occupier Sentiment Index fell further in Italy, coming in at -45 compared to -32 in Q1. All sectors saw a contraction in demand, with a headline net balance of -65% of respondents noting a decline (the weakest quarterly figure since 2009).

Availability continues to rise across each area of the market, a trend which actually pre-dates the onset of the Covid-19 pandemic. As such, incentive packages on offer to tenants increased at the headline level. The only sector not to see a rise in inducements was industrials.

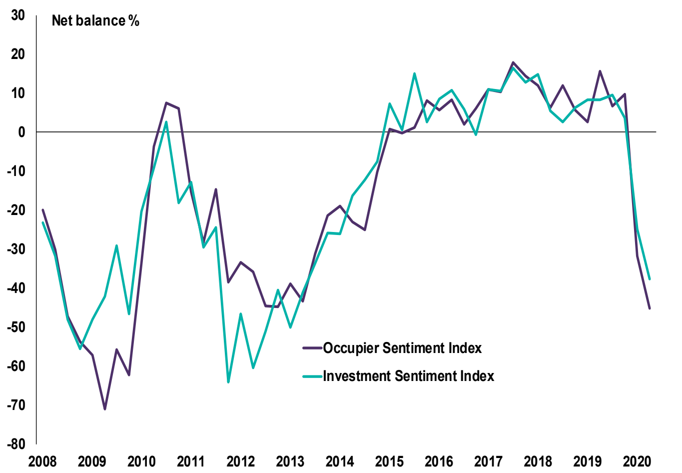
For the coming twelve months, respondents further downgraded their rental growth expectations across the retail sector, with rents in secondary locations projected to fall by -14% and prime by -7%. The outlook for secondary office rents was also cut further, with respondents now anticipating a -9% decline in the year ahead.

The Investment Sentiment Index dropped to -38 in Q2, down from a reading of -25 previously. Driving this deterioration, investment enquiries suffered steeps falls in each area of the market, although the retail sector was the worst performer by a clear margin.

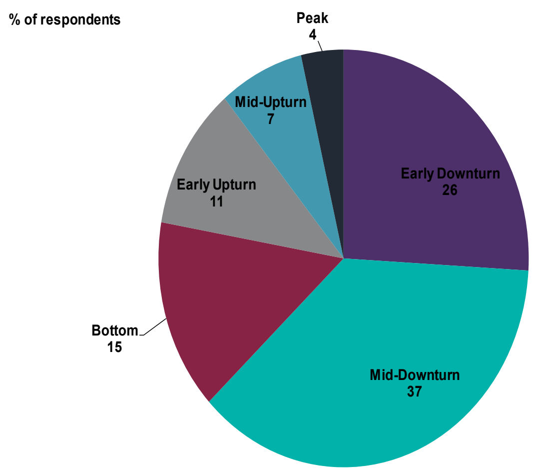
With regards to the outlook for capital values in the year ahead, all categories continue to display negative expectations to a greater or lesser degree. Retail and hotels (added to the survey this quarter) exhibit the weakest projections, while capital value declines are expected to be on the more moderate end of the spectrum for industrial properties.

63% of survey participants feel the market is in a downturn now. This is up from 42% in Q1. For the time being, only 15% feel that conditions have reached the bottom of the cycle.

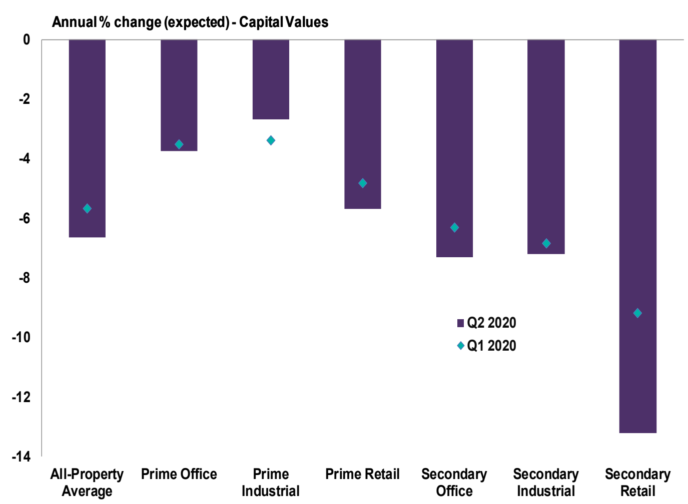
RICS OSI and ISI



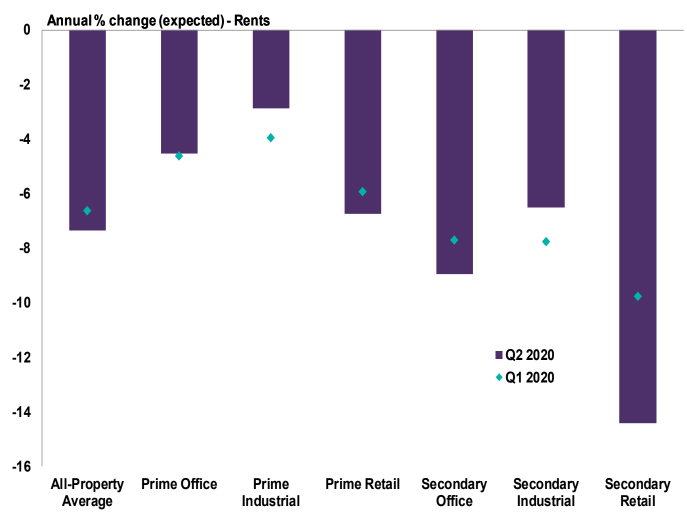
Phase of the Cycle



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Netherlands

The Occupier Sentiment Index fell to an eight -year low across the Netherlands in Q2, registering a figure of -43 compared to -5 last time out. Looking into the details, tenant demand fell sharply, with a headline net balance of -52% of respondents citing a decline (the first negative reading for this series since 2014).

Trends in vacancies vary at the sector level, as retail availability picked-up at a significant rate (in net balance terms), while the rise was more modest for offices. At the other end of the spectrum, availability was more or less steady across the industrial segment.

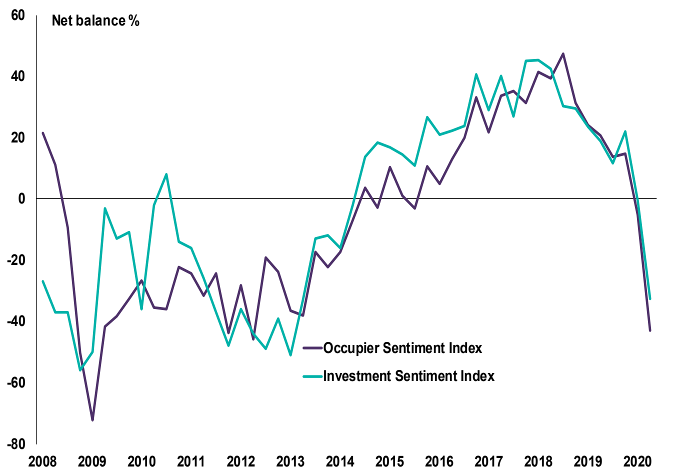
Estimates for rental growth over the coming twelve months were downgraded across all categories compared to Q1. Secondary retail rents exhibit the poorest outlook, with respondents expecting a decline of -14%. Prime industrial is the only sub-sector in which rents are not expected to decline in the year ahead, although even here the outlook has been revised from slightly positive to flat over the quarter.

The Investment Sentiment Index dropped to -33, down from a reading of zero in Q1. Emphasising just how challenging the current backdrop is, 80% of survey participants noted a deterioration in credit conditions over the quarter (despite significant easing by the ECB).

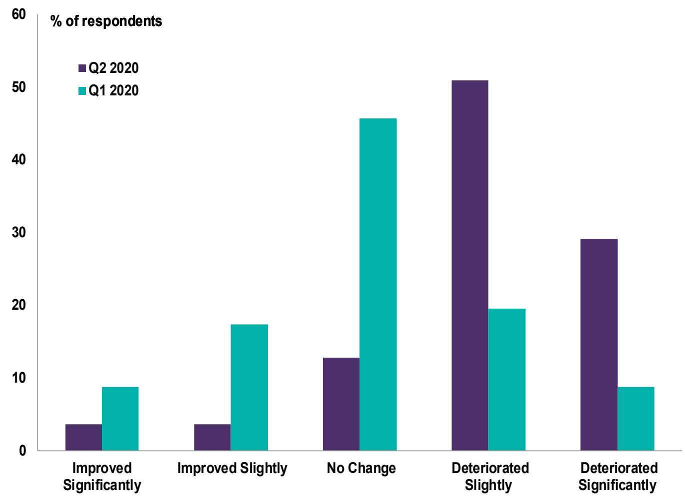
Investment enquiries fell across the board, albeit the decline was particularly severe in the retail and office sectors, and more modest for industrials. This is reflected in twelve-month capital value expectations, which point to steep declines across retail and secondary office markets, but are only marginally negative for prime industrials.

65% of survey participants now consider the commercial real estate market across the Netherlands to be turning down (up from 41% in Q1).

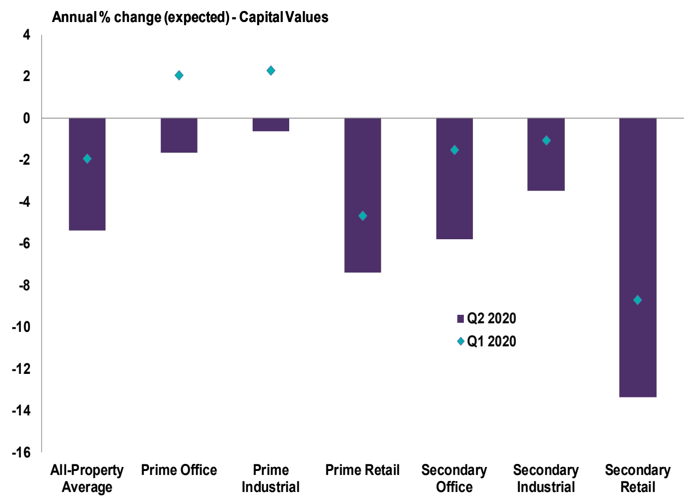
RICS OSI and ISI



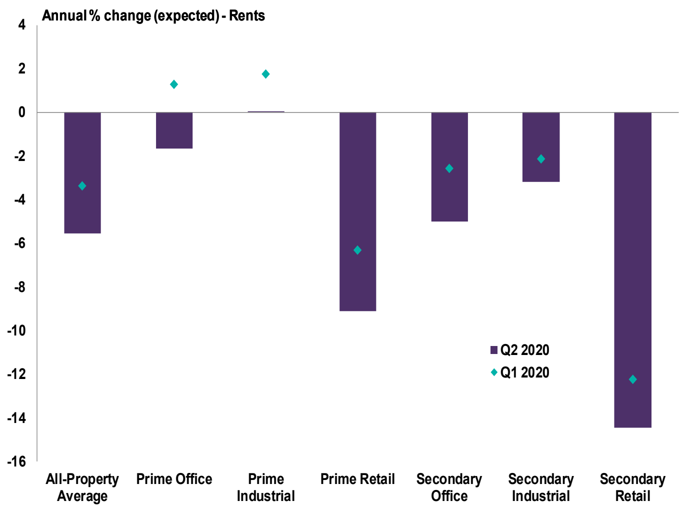
Credit conditions



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Poland

In Poland, the headline Occupier Sentiment Index slipped to -42 in Q2, down from a reading of -15 previously. Tenant demand fell in both the office and retail sectors, posting respective net balances of -53% and -82%. Meanwhile, the industrial sector continued to see growth in occupier demand, albeit at a noticeably slower pace than before the crisis.

Even so, availability of leasable space increased across all sectors during Q2. Alongside this, office and retails landlords increased the value of incentive packages on offer to tenants sharply, while there was little change noted within the industrial sector.

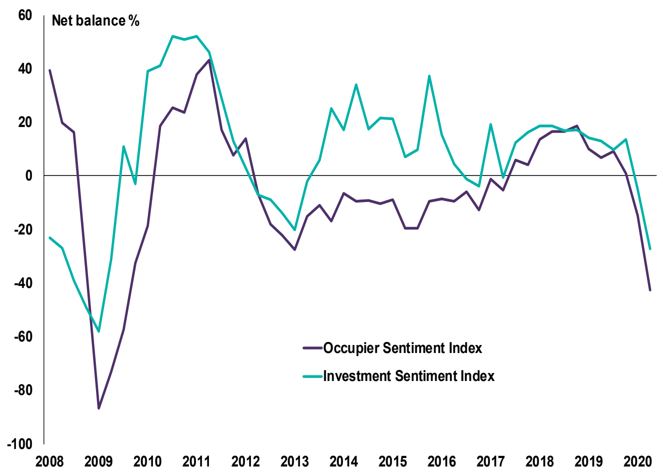
Twelve-month rental growth projections are becoming increasingly divergent at the sector level. While retail rents (both prime and secondary) are projected to fall sharply, respondents anticipate positive rental growth for prime industrial space in the year to come. At the same time, rents for secondary office space are expected to decline by close to 6%, while projections are much flatter at -1% for prime office rents.

The Investment Sentiment Index fell to an eleven-year low in Q2, coming in at -27 compared to a figure of -5 back in Q1. Enquiries from investors fell in each area of the market, with the headline rate of decline sharper than any seen since 2009 (in net balance terms).

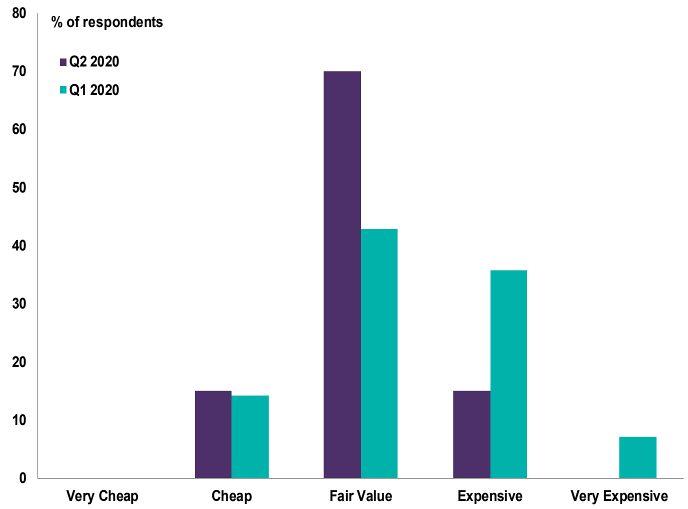
Nevertheless, prime industrial assets are expected to deliver a modest uptick in capital values in the year ahead, while the outlook is flat for secondary. All other categories are projected to see capital values retreat in the year to come, although the sharpest declines look set to be concentrated across retail.

Interestingly, there was a shift in perceptions around valuations in Q2, with 85% of respondents now feeling the commercial real estate market in Poland offers at least fair value for investors (up from 57% last quarter).

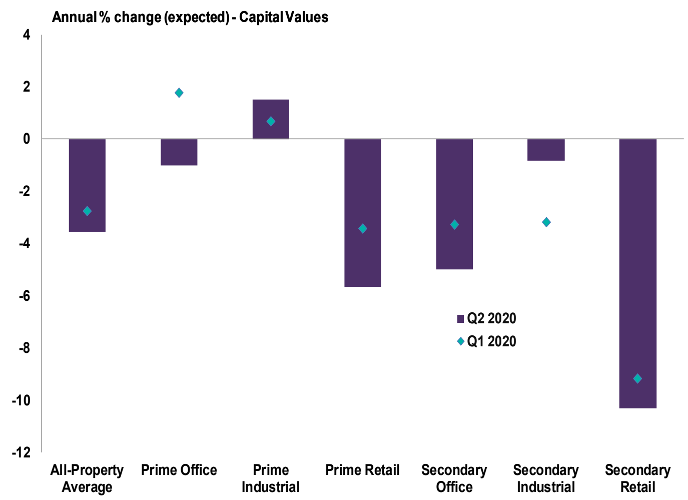
RICS OSI and ISI



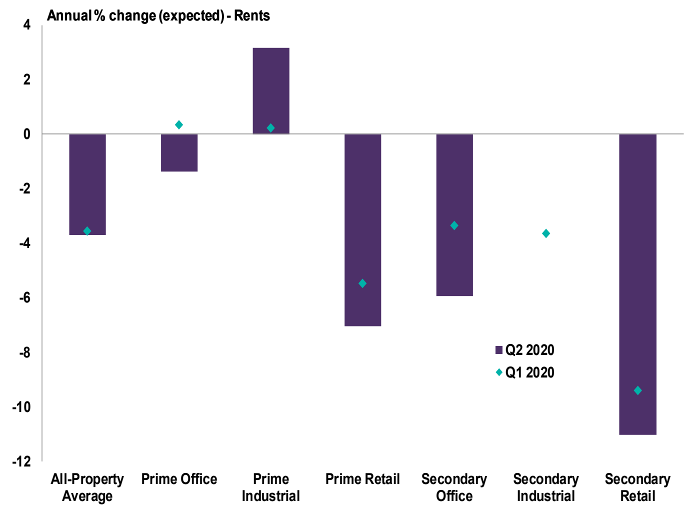
Valuations



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Portugal

During Q2, the Occupier Sentiment Index fell to -43 in Portugal, the poorest reading since the national survey was established in 2013. A headline net balance of -67% of respondents reported a decline in occupier demand over the period, with each sector seeing a deterioration.

Alongside this, vacancies increased at the headline level for the first time since 2014. Although availability reportedly picked-up across all sectors, the rise was particularly pronounced for retail.

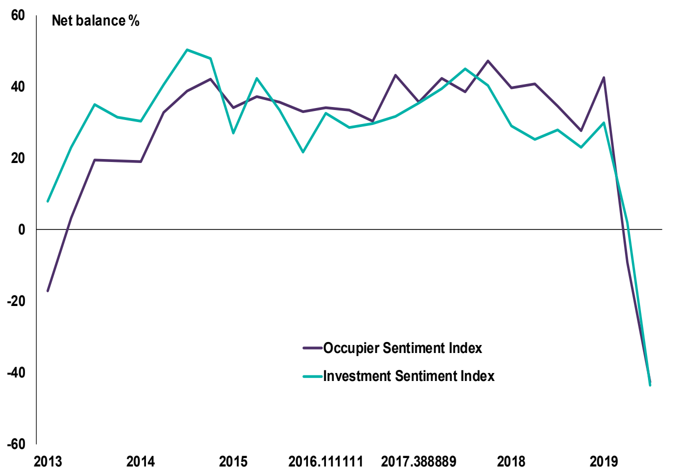
Reflecting this, twelve-month rental projections were downgraded heavily across the secondary retail sector, with respondents now envisaging a -12% decline. Expectations are also firmly negative for secondary office rents, at -7.5%, although the outlook is now only marginally negative for prime. Meanwhile, prime industrial rents exhibit a flat to marginally positive twelve-month assessment even if rents are expected to fall sharply across secondary locations.

The Investment Sentiment Index also hit a record low in Q2, dropping to -44 from +2 previously. Investment enquiries (both in overall terms and regarding international demand) fell across each sector, bringing to an end a long stretch of growth dating back to 2014.

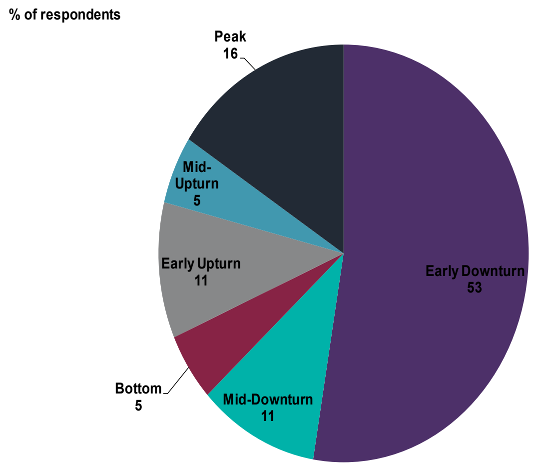
For the year to come, capital values are expected come under downward pressure across virtually all categories, with the outlook especially downbeat across the secondary retail sector. Prime industrial values may buck this trend however, with respondents returning marginally positive projections.

63% of contributors sense the commercial market across Portugal is now in the midst of a downturn, closely aligned with the 61% taking this view back in Q1. Interestingly, only 5% of respondents feel the market has reached the bottom of the current cycle.

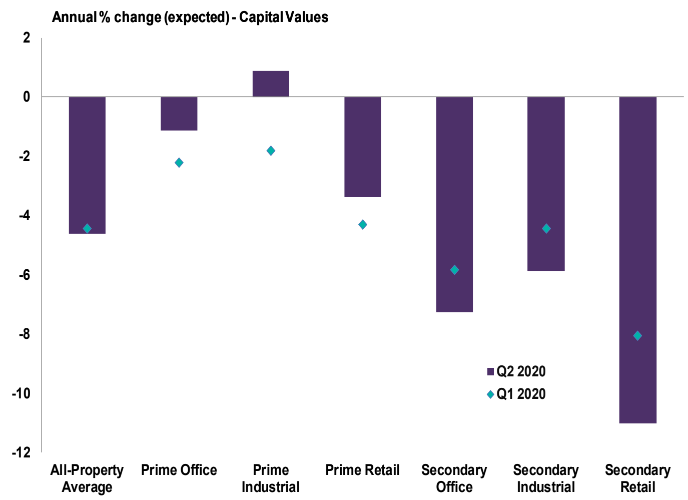
RICS OSI and ISI



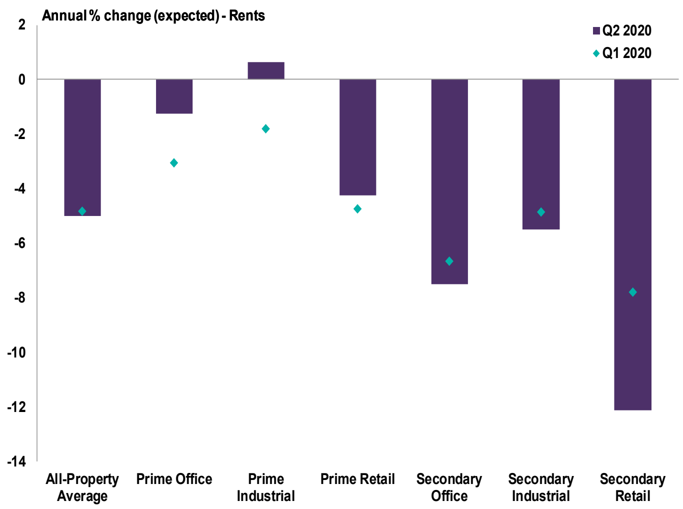
Phase of the Cycle



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Romania

The Occupier Sentiment Index registered the weakest quarterly reading on record across Romania in Q2, with the latest figure slumping to -52, from -34 previously. Behind this, the balance between demand and supply deteriorated sharply, evidenced by a net balance of -72% of respondents reporting a decline in headline tenant demand, while a net balance of +58% cited a rise in vacant leasable space.

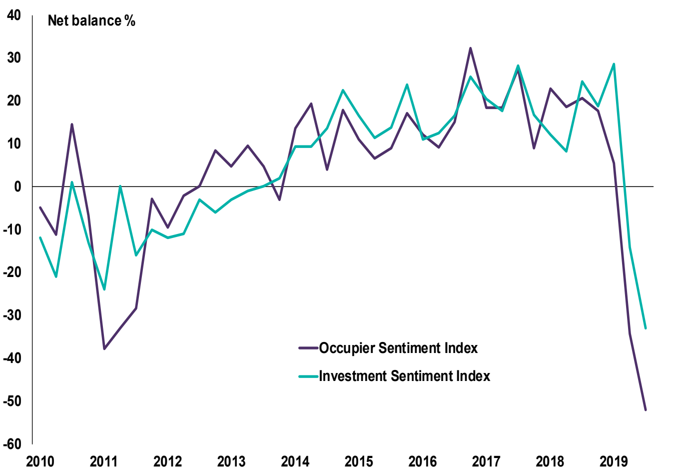
Rental growth projections for the coming year were revised down for each sub-market compared to Q1. Secondary retail rents are now seen falling by -9%, while respondents envisage close to a -7% decline across prime retail locations. Meanwhile, prime office rents are expected to decline by -4%, with projections standing at -7% for secondary. On the same basis, expectations are slightly less pessimistic across the industrials sector, as respondents foresee -1% and -4% falls for prime and secondary rents respectively.

The Investment Sentiment Index came in at -33 in Q2, slipping further from last quarter's reading of -14. Ending a run of thirty successive positive quarterly readings, the investment enquiries gauge posted a negative net balance of -58% in Q2. What's more, international investment demand also fell sharply across each area of the market according to survey feedback.

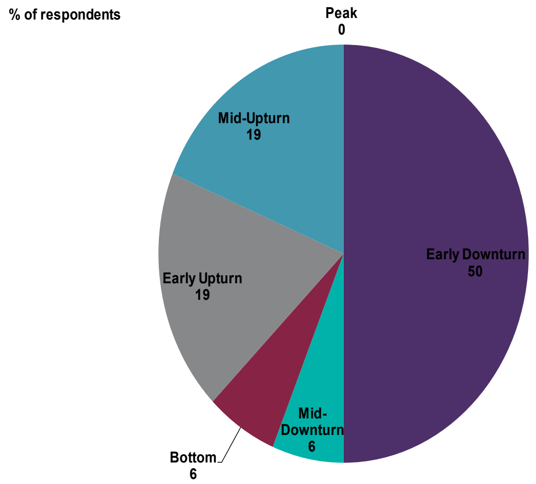
As such, all sectors are expected to see capital value declines in the year ahead, with respondents again downgrading their projections in each instance relative to Q1. Again, the retail sector (particularly secondary) exhibits the poorest twelve-month assessment for values.

Given this backdrop, a majority of contributors continue to view the real estate market to be in a downturn phase of the cycle. For now, only 6% feel conditions are consistent with the bottom of the cycle.

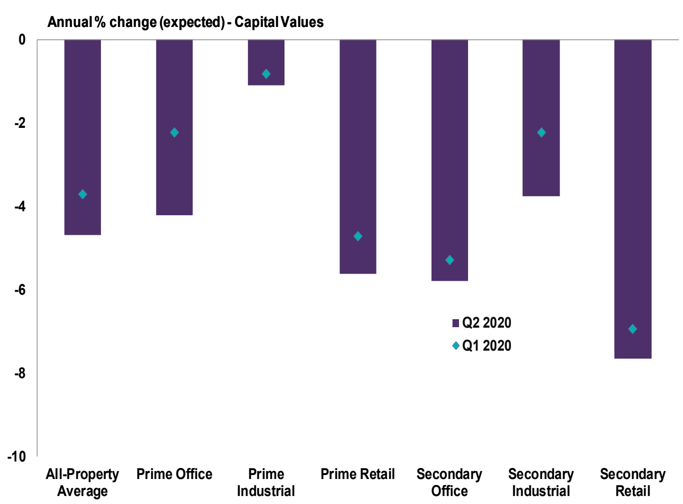
RICS OSI and ISI



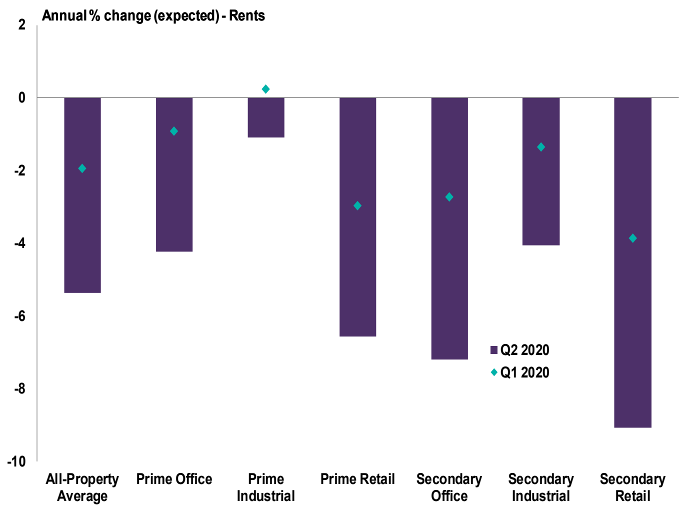
Phase of the Cycle



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



Spain

The Occupier Sentiment Index across Spain fell to an eight-year low of -53 in Q2, slipping further from the figure of -17 posted last quarter. The economic fallout from the Covid-19 pandemic continues to hit occupier demand hard, as a net balance of -62% of respondents noted a decline at the headline level over the quarter.

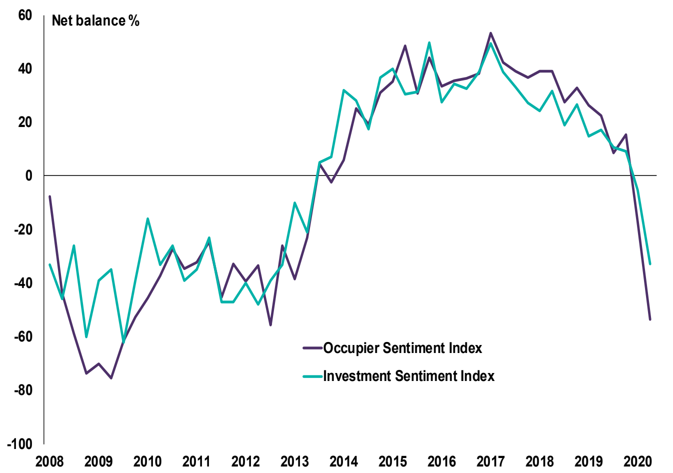
Although all areas suffered a fall in occupier demand, the decline was especially marked across the retail and office sectors, and was a little more modest for industrials. Similarly, while there was an increase in vacant space office and retail space over the quarter, respondents reported a steadier trend for industrials.

These nuances in demand/supply dynamics are echoed in rental growth projections for the year ahead. Indeed, secondary retail rents are expected to fall by -12%, while secondary office rental projections stand at -7%. Although secondary industrial rents are also expected to come under downward pressure in the year to come, the outlook is more resilient for prime industrial rents, where a flat trend is envisaged.

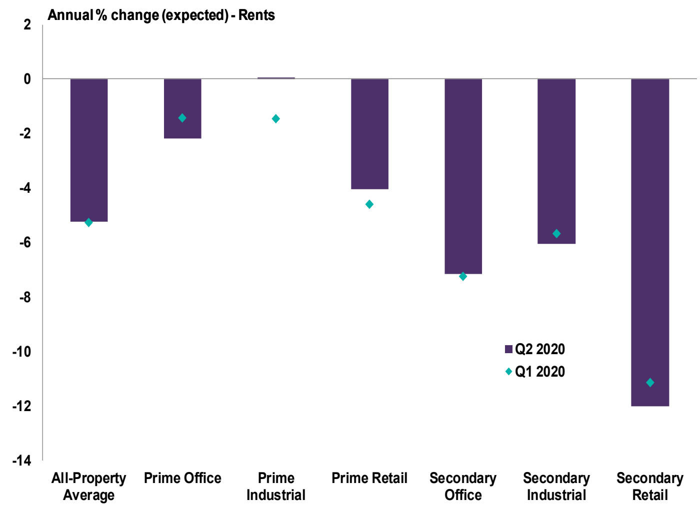
The Investment Sentiment Index dropped to -33 in Q2, significantly weaker than the reading of -5 registered in Q1. A headline net balance of -49% of respondents noted a fall in investment enquiries over the quarter, the most negative figure for this indicator going back to 2008. Likewise, international investment demand slumped across each area of the market.

Twelve-month capital value expectations point to steep falls across all secondary markets, with sentiment unsurprisingly most downbeat for retail. By way of contrast, prime industrial values actually display a marginally positive assessment, while prime office values are expected to see only modest declines. Across the alternative sectors added to the survey this quarter, hotels are forecast to see the steepest decline in values, with respondents pencilling in a -14% drop.

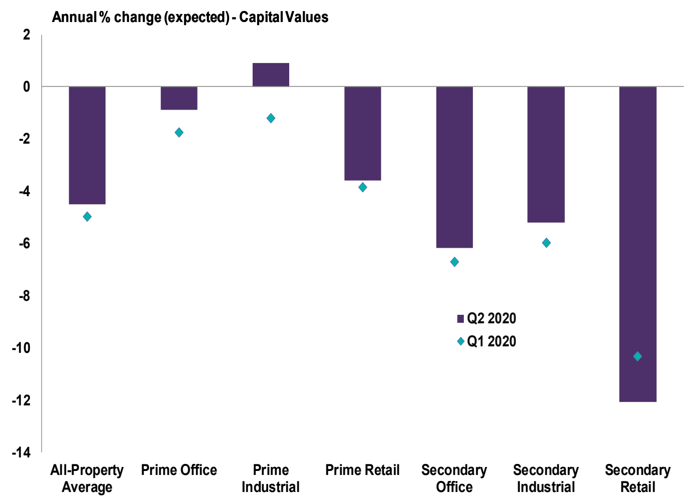
RICS OSI and ISI



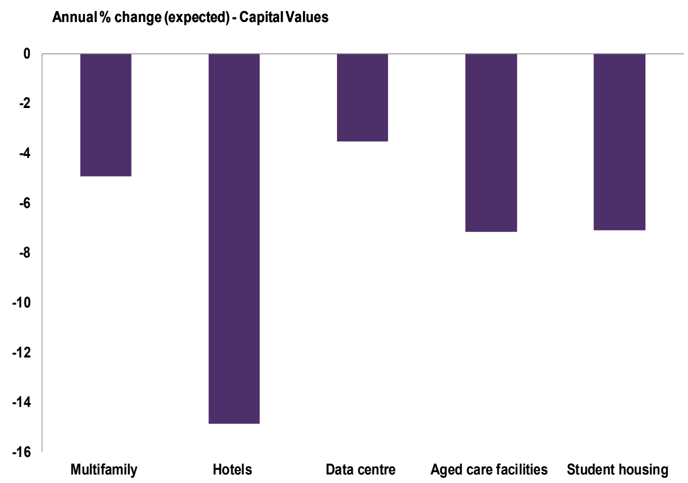
Twelve Month Rental Value Projections



Twelve Month Capital Value Projections



Alternatives- Twelve Month Capital Value Projections



Switzerland

The Occupier Sentiment Index fell to a four-year low across Switzerland in Q2, slipping to -40 from -33 last time. Although occupier demand fell to a certain degree across all sectors, the decline across retail was significantly worse (in net balance terms) than that reported for offices and industrials.

In terms of supply, respondents reported an uptick in vacant office and retail space over the quarter. However, availability declined in the industrial portion of the market for a second quarter in succession.

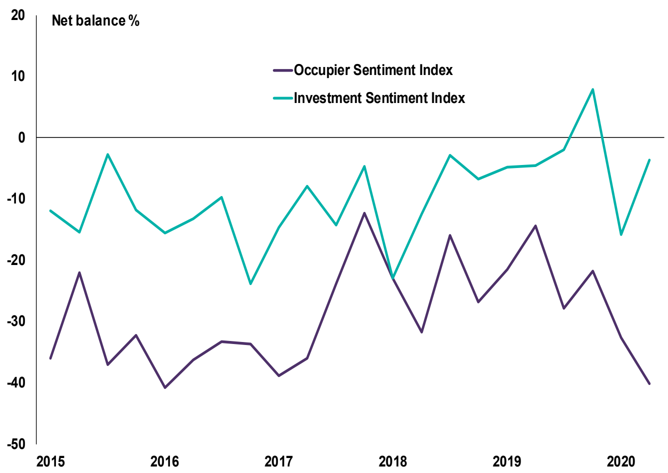
Twelve-month rental growth projections are mixed, with all secondary markets expected to see relatively sharp declines (led by a -12% drop for secondary retail). That said, prime office and industrial rents are anticipated to see growth of around 2% in the year to come, although prime retail rents are forecast to fall by -3%.

The Investment Sentiment Index recovered slightly in Q2, moving into neutral territory at -4, compared to a figure of -16 returned in Q1. The less negative tone in the latest results has been driven by a pick-up in investment demand across the office and industrial sectors, even if investor demand continues to contract sharply for retail properties.

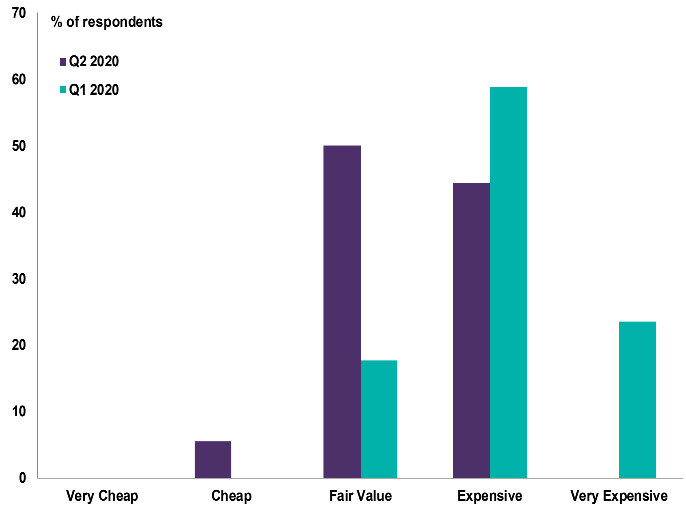
The outlook for capital values over the year ahead is similarly varied across sectors. At the stronger end of the spectrum, prime office and industrial values are both anticipate to rise modestly. By way of contrast, secondary retail values are seen falling sharply.

Interestingly, there was noticeable shift in perceptions around valuations in the latest results. Indeed, the majority of respondents now feel commercial property offers at least fair value for investors. On the flipside, this is the first time that the share of contributors sensing the Swiss market was overvalued has fallen below 50% since the series was introduced in 2015.

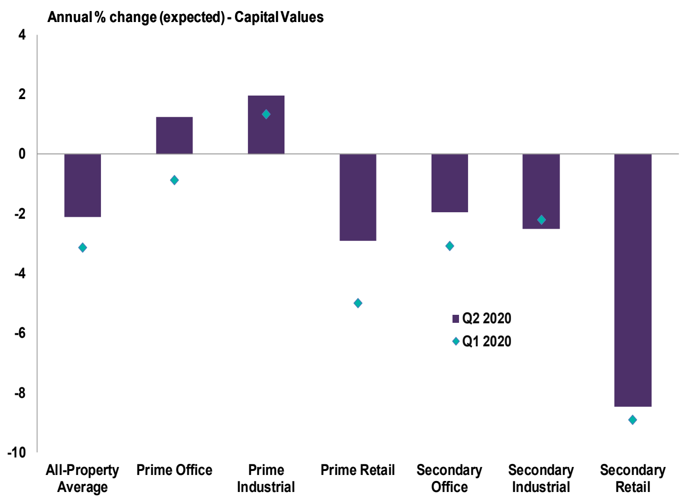
RICS OSI and ISI



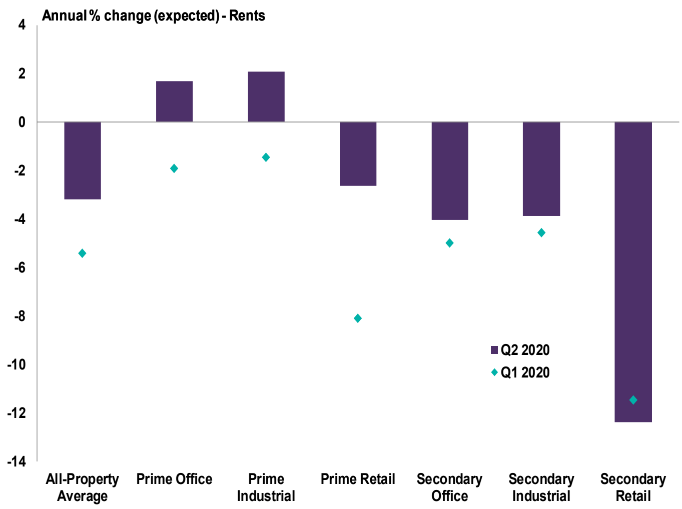
Valuations



Twelve Month Capital Value Projections



Twelve Month Rental Value Projections



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 12 June 2020 with responses received until 13 July 2020. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 2083 company responses were received, with 496 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia. Responses in the Americas were collated in conjunction with the Association of Foreign Real Estate Investors.

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

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

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

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