Q1 2021: Global Commercial Property Monitor

Sentiment continues to gradually recover but sector divergence remains pronounced

- **Real estate sentiment edged up in Q1, albeit still remaining in negative territory on key metrics**
- **Logistics/industrials to remain strongest part of market followed by multifamily and data centres**
- **Concerns over valuation persist but respondents view real estate edging towards upturn phase of cycle**

The results of the Q1 2021 RICS Global Commercial Property Monitor (GCPM) point to a gradual improvement in sentiment in the real estate market as hopes for economic recovery gather momentum. At its April meeting, the IMF upgraded the forecast for global growth for 2021 to 6% (from 5.5% previously) and for 2022 to 4.4% (from 4.2%). Meanwhile the headline RICS metric (CPSI) capturing confidence in global real estate climbed from -27 to -18. This is the least negative reading since Q4 2019 and compares with a low of -37 in Q2 2020.

Significantly, as highlighted in chart 1, a broadly similar trend is visible in the regional aggregates. The APAC sentiment indicator leads the pack at -15 (as against -25) in the previous three month period. However the feedback for Europe shows sentiment at -19 (previously -26), the Americas at -20 (-29) and Middle East and Africa at -22 (-25).

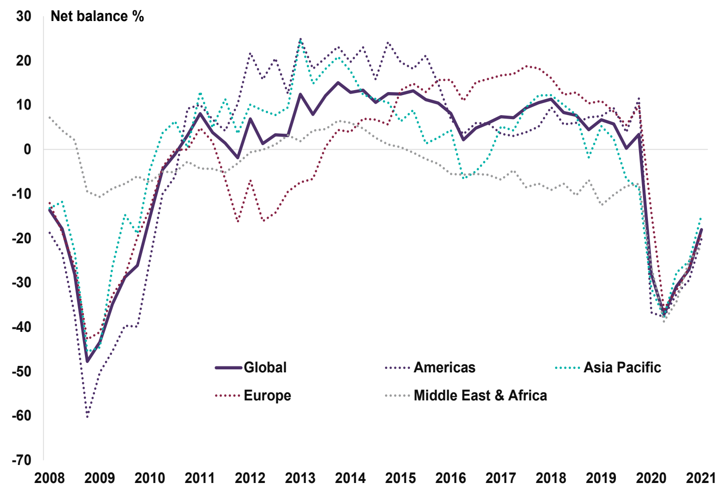
The latest results continue to show investor sentiment running ahead of the occupier market. The global indicator for the former came in at -10 compared with -19 in Q4. Meanwhile the occupier measure showed a similar improvement in terms of magnitude but still remains at -26 despite the upgrading of economic expectations. Unsurprisingly, the regional aggregates show a similar pattern.

Sentiment at a country level diverges to a greater extent

Chart 2 tracks the CPSI at a country level and in most cases includes a comparison with the Q4 reading (excluding countries where the sample was not large enough in the previous iteration). Generally, the improvement highlighted at the aggregated level is also visible when looking at the trend in individual markets. There are, however, a few exceptions where readings are a little less positive in Q1 (India, Belgium, Greece and Turkey) but they are typically only marginally so. Meanwhile, the markets where the firming in sentiment has been better than average include China, the UK and Australia (with some smaller markets such as Nigeria and Croatia recording even stronger gains based on the feedback from respondents to the survey).

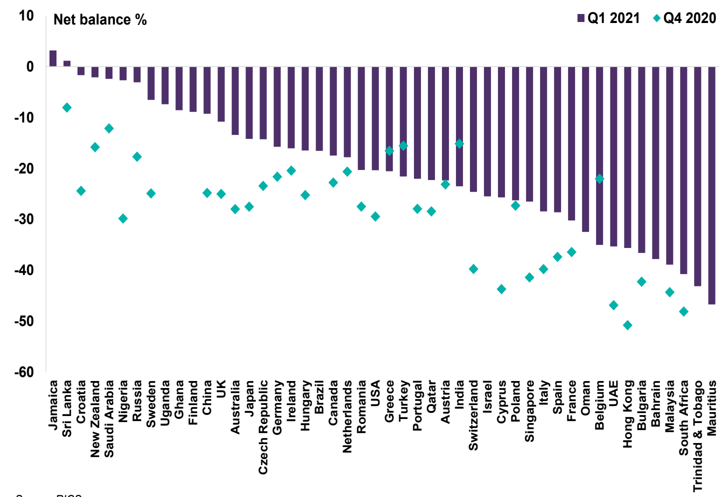
The insights around sentiment are, by and large, also reflected in the forward looking indicators capturing the outlook for both rents and capital values. At a global level, rents are now projected to fall by 2% over the next twelve months compared with 3% previously. For capital values, the respective figures are 1% and 2%.

Chart 1: Global Commercial Property Sentiment Index*



Source: RICS, LaSalle Investment Management

Chart 2: Commercial Property Sentiment by Country



Source: RICS

Survey responses were supported by the following organisations:

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

The net balance readings for 12 month expectations by country (as opposed to the % projections) are shown in chart 5. As in previous rounds of the GCPM, most markets are in the bottom left hand quadrant which imply further declines in both rents and capital values. However, the headline numbers continue to mask significant differences in outlook at a sector level.

Logistics/Industrials continue to drive performance

The global numbers broken down by sector continue to paint a stark picture whether viewed from the perspective of investors or occupiers. The single mainstream segment of the real estate market where (global) demand remains firm is logistics/industrials. The Tenant Demand net balance measure rose again in this area, from +19 to +28, while still remaining deeply in negative territory for both offices and retail, albeit less so than in Q4. The indicators for Investment Enquiries track similarly with the logistics/industrial measure rising from +27 to +37. That said, the negative reading for offices has diminished to -12 (compared to -26 in Q4 and a low of -58) suggesting that sentiment amongst investors towards that part of the market is begining to turnaround.

This broad pattern is also replicated in expectations for capital values (chart 3) and rents. Prime industrial continues to be viewed as the sector likely to deliver the strongest returns with prices projected to rise by a further 4% at a headline level over the next year. Data Centres are seen as delivering a similar increase in capital values with multifamily and aged-care facilities also anticipated to record further gains. Predicatably, retail (both prime and secondary) are forecast to remain under pressure with rents likely to fall further and capital values similarly.

In an additional question included in the survey (for more detail see page 4) we asked how long it would be before revenues generated by each asset class would return to pre-Covid levels. Retail shopping centres were viewed as taking the longest period to recover at a global level with this being particularly evident in Europe and the Americas. Interestingly, both in APAC and MEA the recovery period for this sector was seen as likely to be somewhat shorter and broadly matched by the prospects for secondary offices and hotels.

A scaling back but not the end of the office

There has been much discussion about the future of the office as some form of normality returns to the global economy. Some indication of what may happen can be found in those parts of the world where this is already the case. Nevertheless, cultural patterns may diverge quite widely so we have asked an additional question as to whether businesses will look to cut back their office footprint over the next two years (for more detail see page 4). The results are consistent with a hydbrid model of office work emerging reflecting a greater desire for flexability, albeit that corporate demand for space will to an extent be supported by de-densification of usage. On average, responses to the question suggest that businesses will reduce their footprint by around 10% over the period in question with a slightly higher figure in the Americas and a lower one in APAC. For the record, when the same question was posed in Q2 2020, the global result was slightly, albeit not materially, lower.

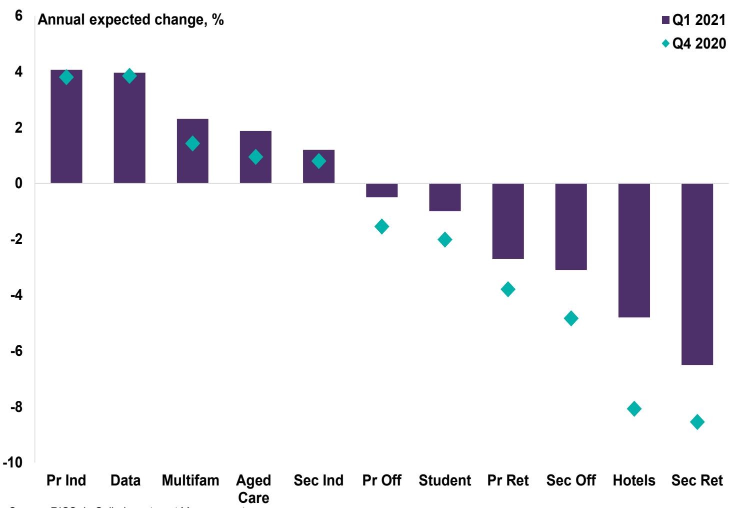
Valuation concerns ease a little further

A striking feature of the feedback received in the Q1 Monitor is that 43% of respondents (see chart 4) still view the real estate market as 'expensive' or 'very expensive' despite the wide spread between bond yields and cap rates. This is a little down on the 45% who perceived that to be the case in the Q4 GCPM and the 51% who took that view in the early part of 2020. Alongside this, 44% believe the market to be offering 'fair value', a proportion that has been pretty stable in recent quarters. The percentage viewing the market as dear is a little higher in Europe (49%) and somewhat lower in MEA (31%) reflecting in part, the extended period of pressure on some real estate markets in the latter.

Despite this, the responses to the question about where markets are in the real estate cycle (chart 6) are consistent with the gradual turnaround in sentiment highlighted previously. At a global level, 39% of respondents now view the market as being in a downturn phase compared with 51% in the previous quarter. In addition, 13% in both periods were of the view that the market was at the bottom of cycle. Significantly, the share seeing the market as being in the upturn phase has climbed from just over one-quarter to more than one-third.

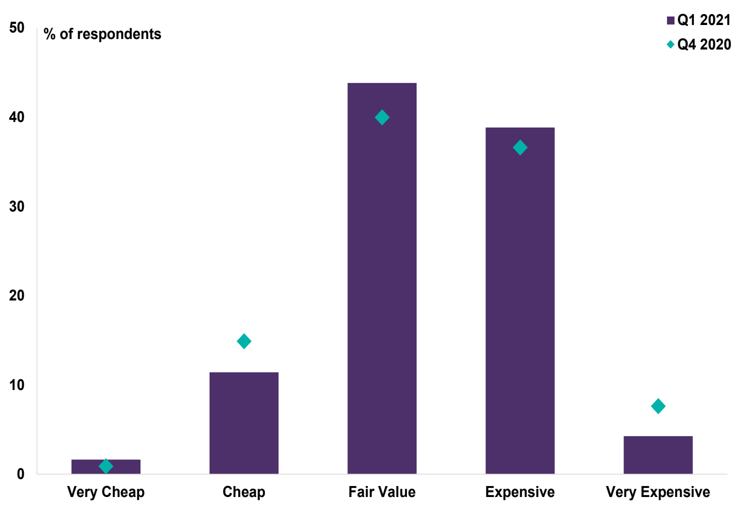
In terms of the regional breakdown, APAC has the highest proportion of contributors perceiving the market to be in an upturn part of the cycle at 43%. Europe is at the other end of the scale at just 28% but interestingly, it still has a relatively high number of respondents taking the view that real estate in that part of the world is in what may be described as the peak phase (18%).

Chart 3 Global Capital Value Expectations by Sector



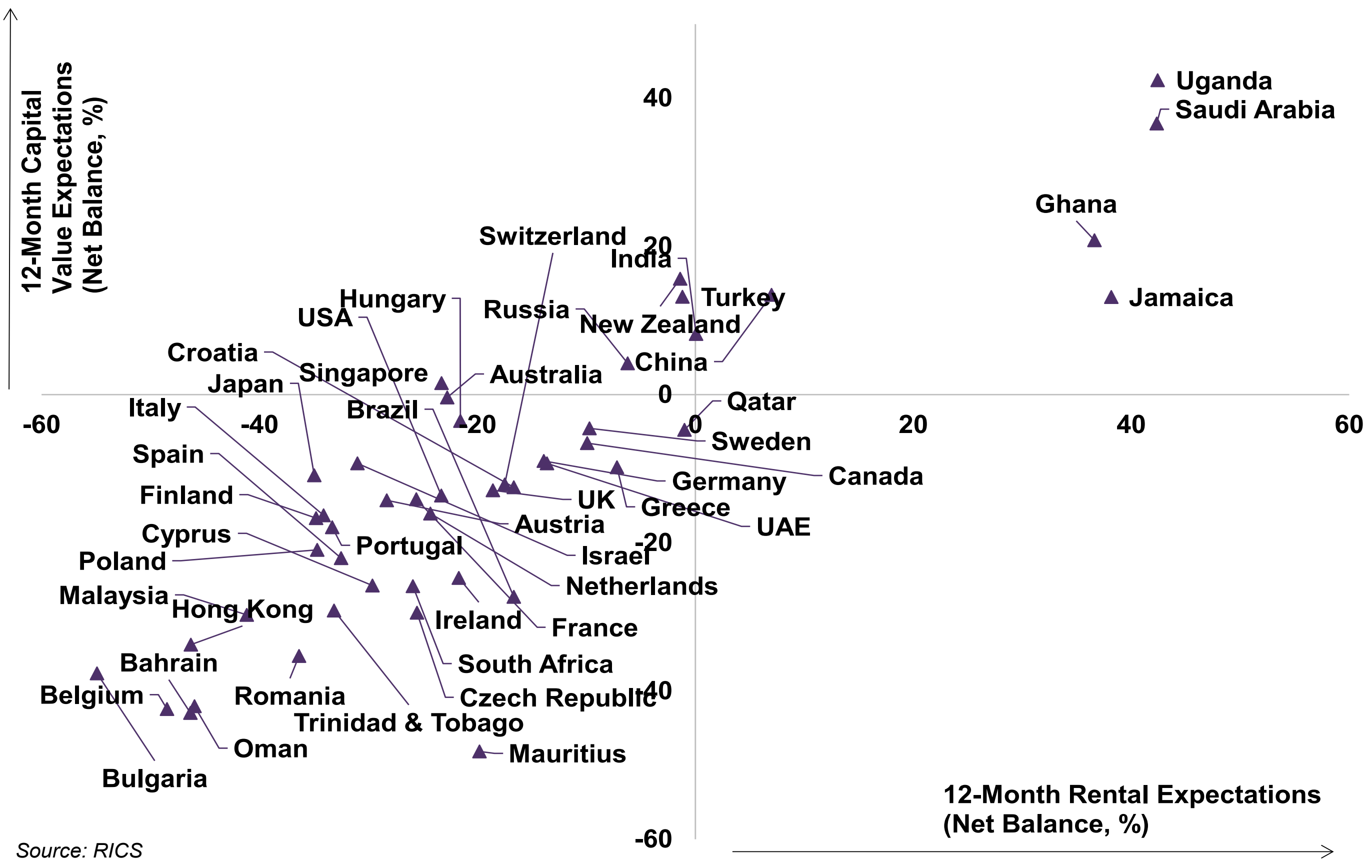
Source: RICS, LaSalle Investment Management

Chart 4 Perceptions on Valuation of Real Estate



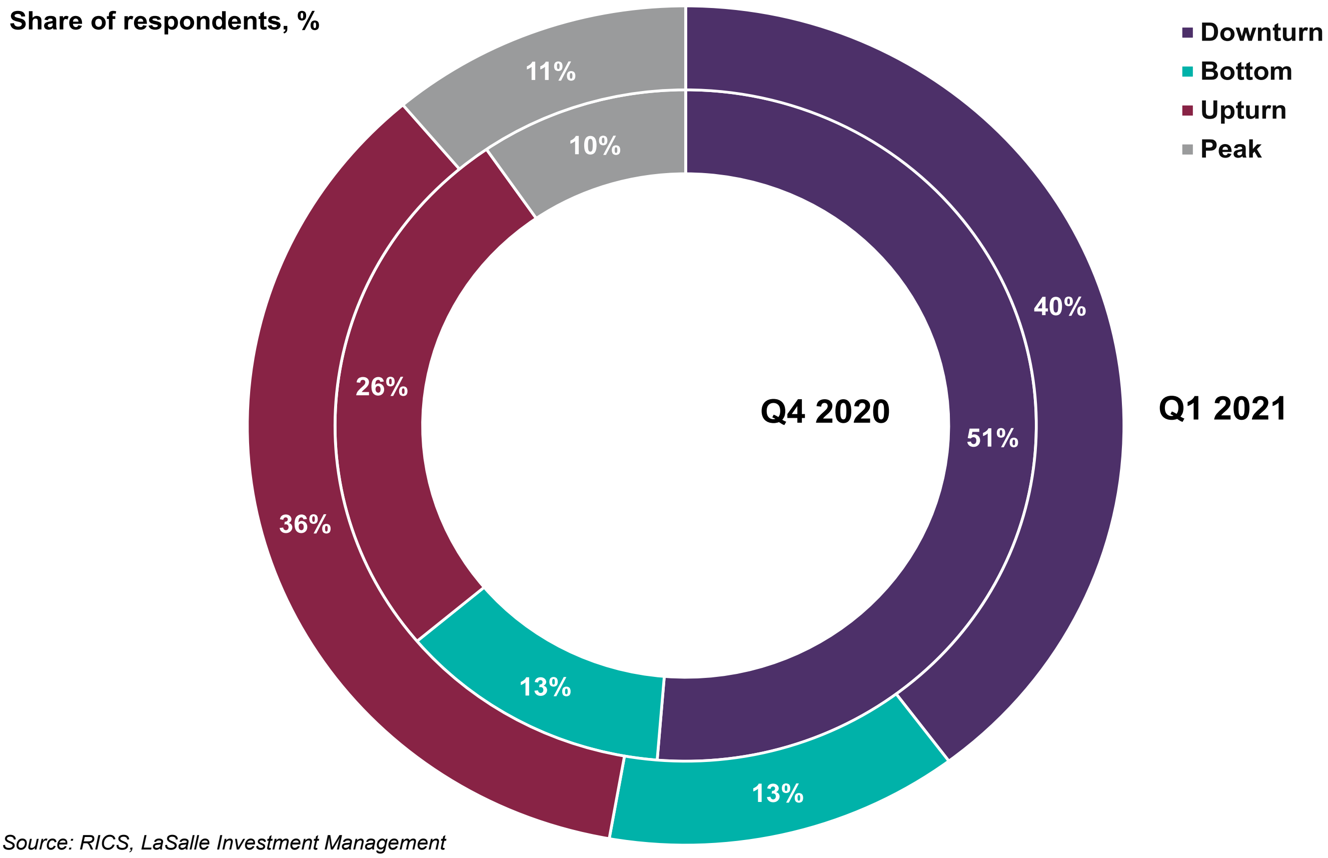
Source: RICS, LaSalle Investment Management

Chart 5: 12-month Expectations



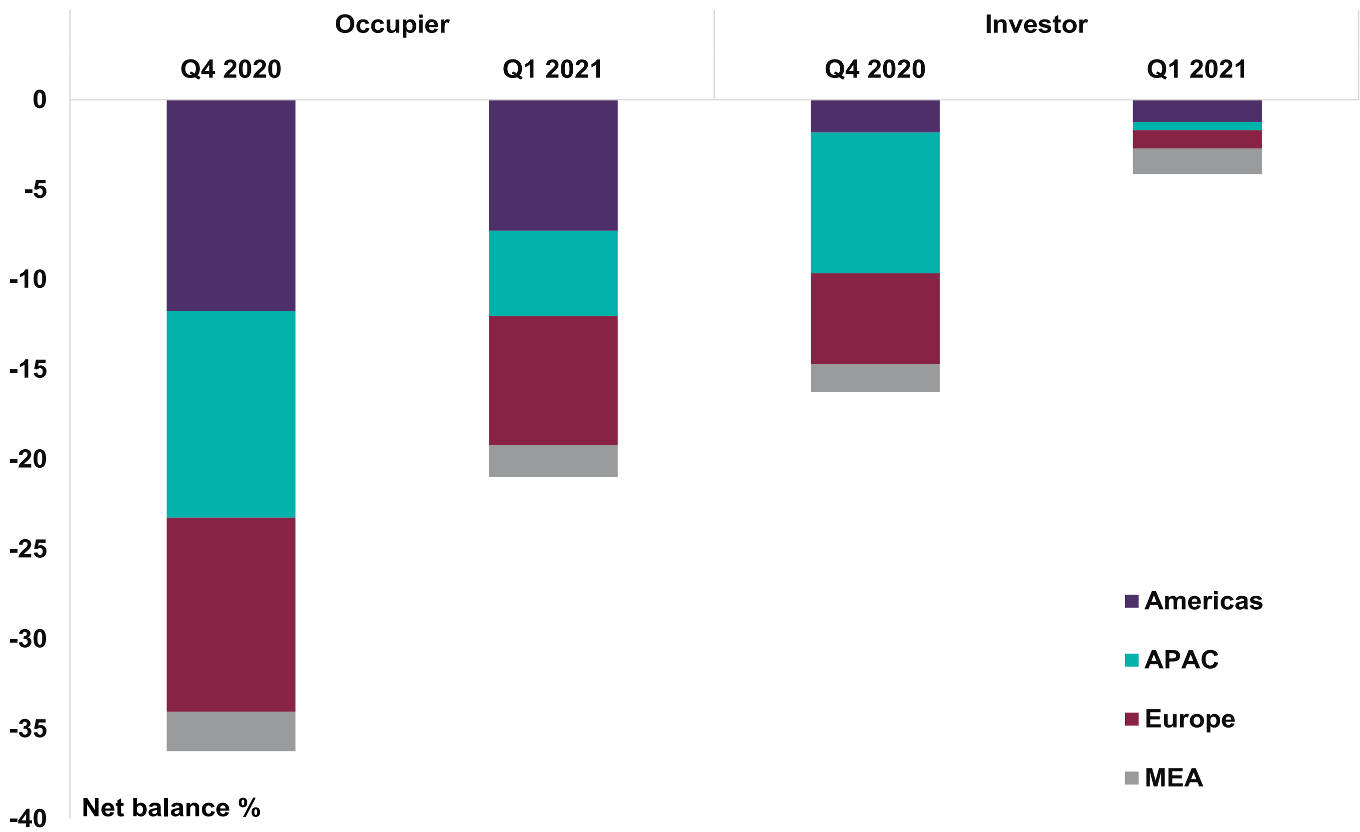
Source: RICS

Chart 6:Perceptions on Phase of the Cycle



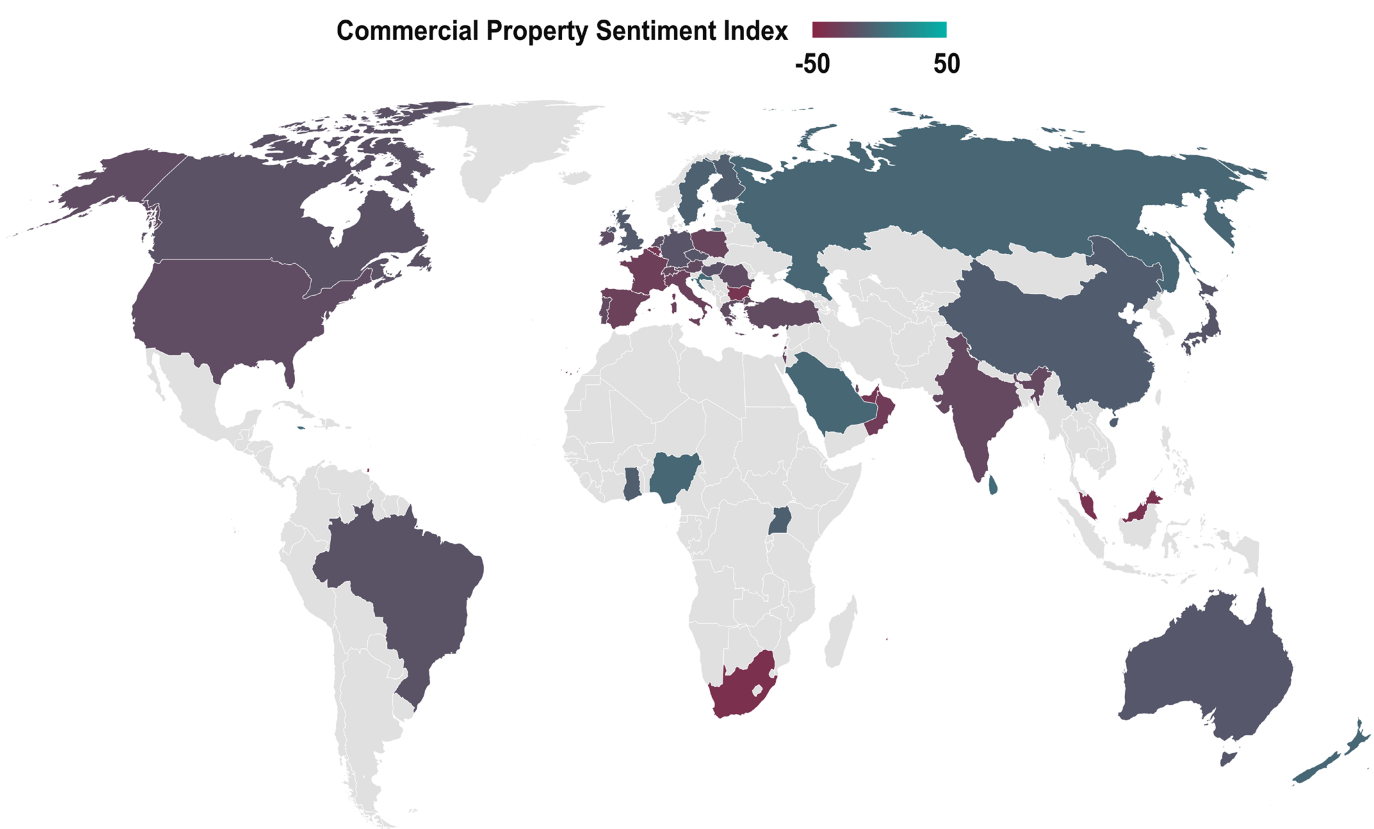
Source: RICS, LaSalle Investment Management

Chart 5: Change in Occupier and Investment Demand



Source: RICS, LaSalle Investment Management

Chart 6: Commercial Property Senitment Index Heatmap



RICS Special Report: Risk in commercial property since the onset of Covid-19

As part of the Q1 2021 survey, respondents were asked a series of additional questions focussing on perceived risk in commercial real estate since the onset of Covid, and subsequent changes in occupier behaviour.

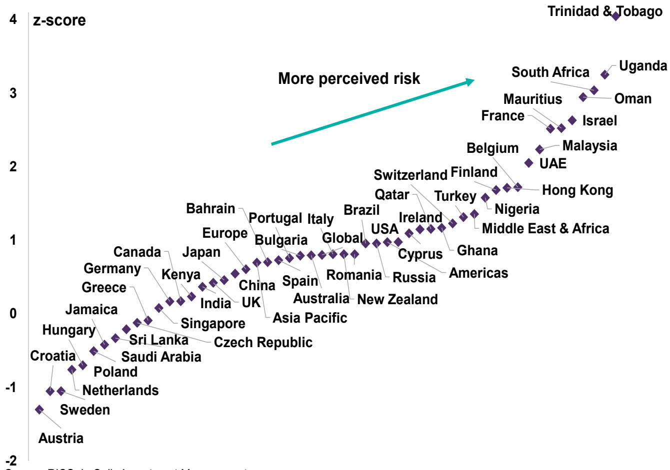
Survey feedback from across the commercial property sector suggests that although the perceived risk surrounding commercial real estate remains elevated, it has eased somewhat since the peak of the Covid-19 pandemic and subsequent economic lockdowns. Chart 1* shows how risky commercial property is perceived to be, based on z scores. A positive reading indicates that commercial property is viewed as having above average risk levels, while the converse is true for a negative score (see note at bottom of page). It is evident that the majority of markets scored above zero, indicating that commercial property is still seen as being relatively risky.

However, the sector is perceived as being less risky than during the peak of the pandemic. When the same question was asked in Q2 of 2020, globally commercial property scored 1.7. In Q1 of 2021, the global reading for commercial property was 0.8. Although this still represents above average risk, the degree to which it is above average has been significantly reduced. Chart 4 shows that the vast majority of markets are viewed as being less risky in Q1 2021 than they were in Q2 2020, especially the Netherlands, Croatia and Austria. However, there were some notable exceptions: perceptions of commercial property risk in Germany, Switzerland and Brazil have increased since Q2 2020, while property in Oman is seen as being significantly riskier than it was last year.

Respondents were also asked how they expected businesses to scale back their office real estate footprint over the next two years. Globally, a more drastic cut in office space is expected, with respondents forecasting an 8.6% reduction vs 7.8% in Q2 2020. This was mainly driven by the Americas and Europe, while respondents from Asia Pacific and the Middle East and Africa generally felt that less office space would be cut than they did in Q2 of 2020. Chart 2 shows the degree of disparity between markets, with respondents in the United States, United Kingdom and France expecting a cut by between 12-14% over the next two years.

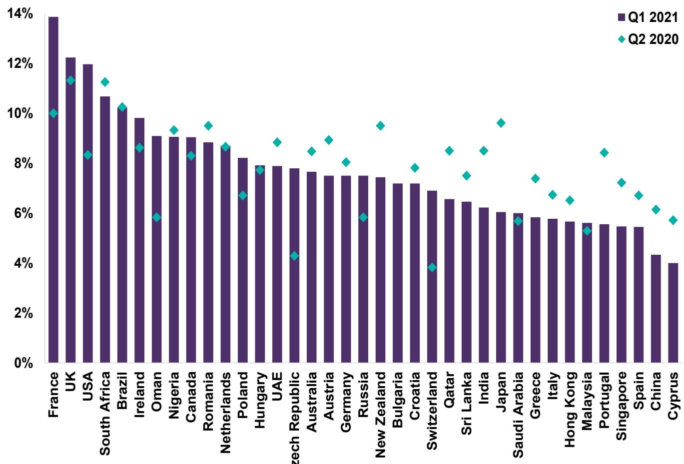
Sub-leasing has also been a common theme since the onset of the pandemic. Globally, 6.9% of office space is estimated to have been subleased since the onset of Covid-19. Although there is little deviation by region, Chart 5 shows that there is a fair degree of disparity by country, with more than 12% of space in Russia having been subleased, versus less than 2% in Japan. Finally, when asked how long it will take revenues from different asset classes to recover to pre-Covid levels, respondents (perhaps unsurprisingly) saw industrial and logistics assets as the quickest to recover (Chart 3). Meanwhile, revenues at secondary office properties, retail and some hotels could take as much as three years to recover.

Chart 1: How risky do you perceive the current backdrop to be for returns on commercial real estate investments?



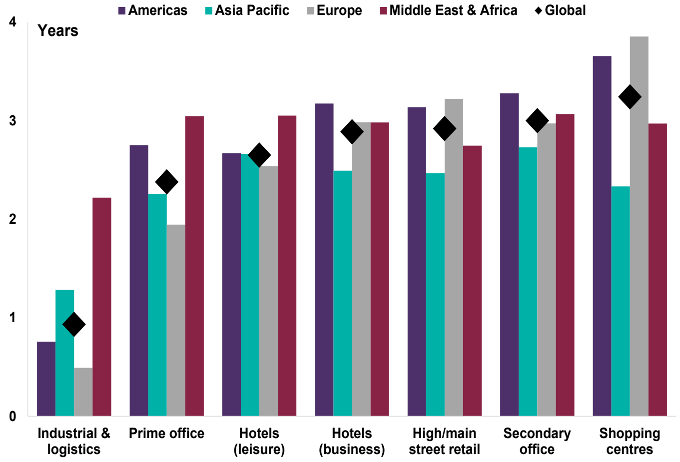
Source: RICS, LaSalle Investment Management

Chart 2: How much do you envisage within the next two years, businesses will scale back their office real estate footprint?



Source: RICS

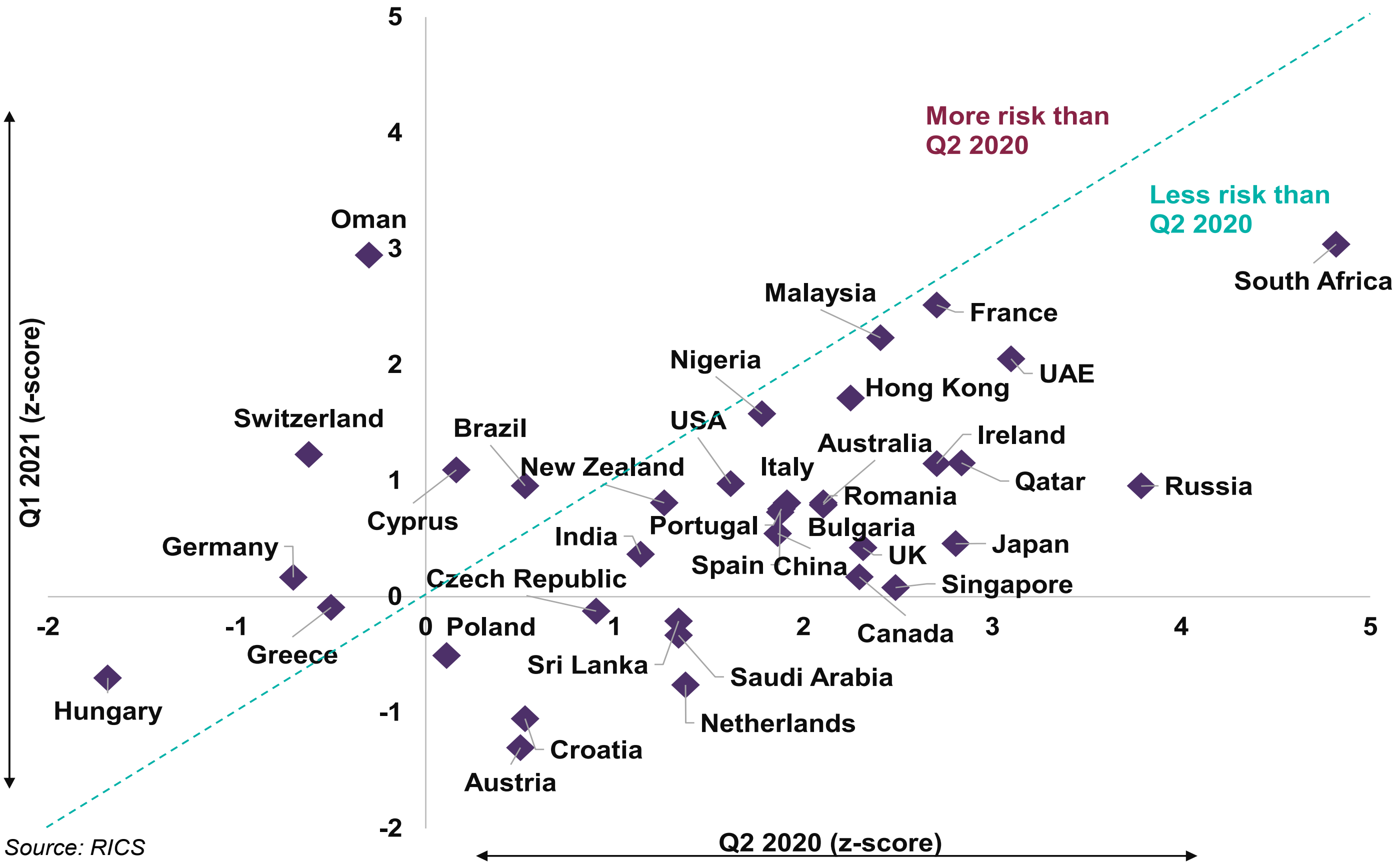
Chart 3: How many years do you think it will take for the revenues generated by each asset to return to pre-COVID levels?



Source: RICS, LaSalle Investment Management

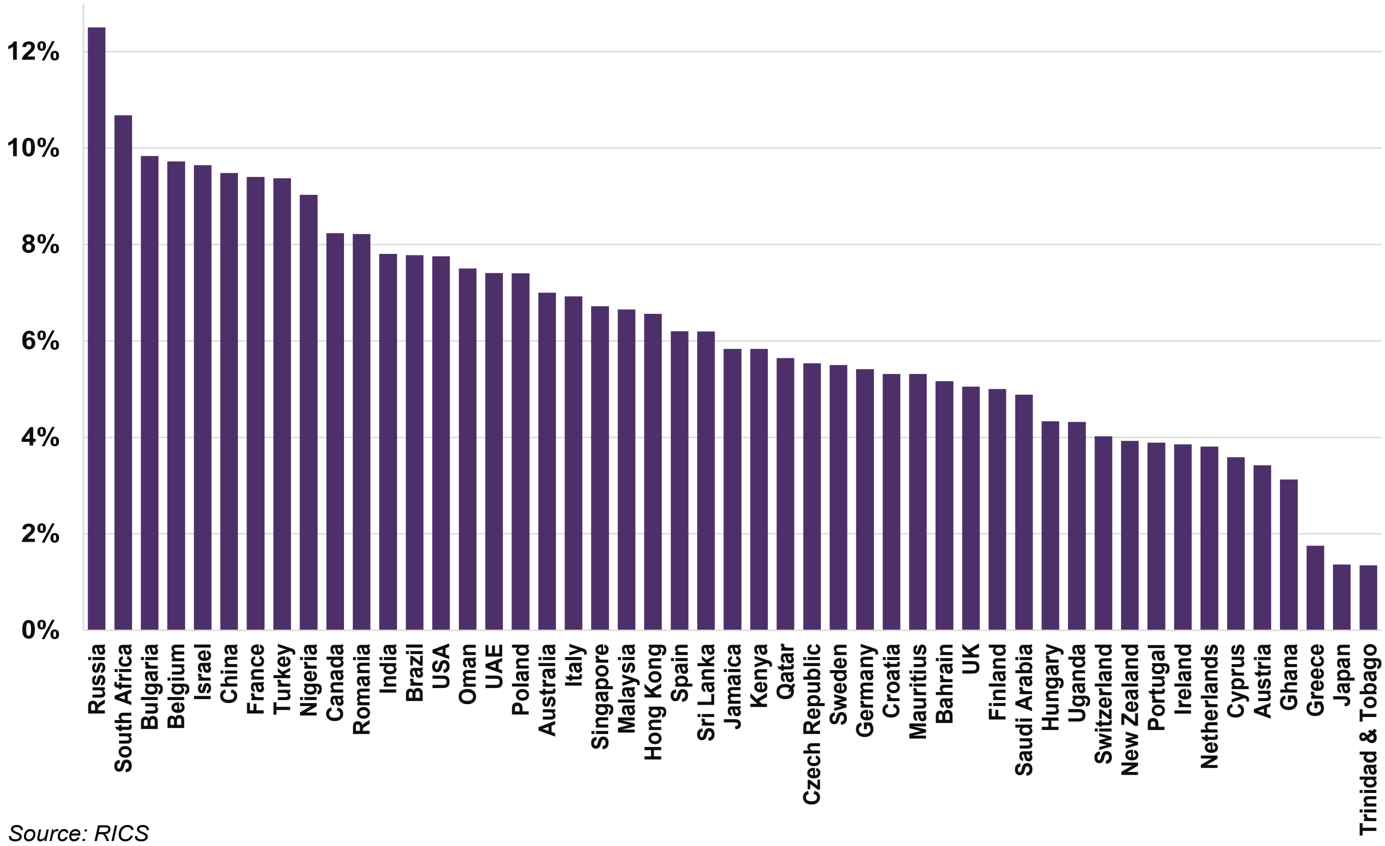
*Risk was measured on a scale of 1 to 6 where 3.5 would measure 'average' risk. The z-score shows how many standard deviations commercial property is perceived to be above or below the average level of risk. Thus, a score of 1 indicates that property in that market is perceived as being 1 standard deviation riskier than average, and vice-versa for a score of -1.

Chart 4: How risky do you perceive the current backdrop to be for returns on commercial real estate investments?



Source: RICS

Chart 5: What percentage of office space has been subleased since the onset of COVID-19?



Source: RICS

Asia Pacific: Recovery continues but non-industrial, occupier market remains soft

Respondents to the RICS Global Commercial Property Monitor from Asia Pacific indicated that the recovery in regional commercial property markets continued in Q1 of 2021. The Asia Pacific Commercial Property Sentiment Index* (CPSI) rose to -15 in Q1 2021 from -25 in Q4 2020. Although the index remains in contractionary territory, it is well off the low of -38 in Q2 of 2020 and the highest reading since Q4 of 2019.

Participants indicate two-speed recovery

Prior feedback from survey contributors has pointed to an uneven impact of the initial shock of the pandemic across different segments of the market. This lack of uniformity appears to have persisted through the early stages of recovery. Chart 1 shows the CPSI separated by the market segments. It is clear that the impact on industrial property has been much more moderate than it has been on offices and retail properties.

The Industrial CPSI hit a low of -20 during Q2 of 2020, vs -44 for the Office CPSI and -50 for the Retail CPSI, and has risen to +10 (vs -24 and -31 for office and retail respectively) in the current quarter. This puts the industrial segment of the market firmly on a recovery footing, while momentum in the office and retail segments remains sluggish.

Further proof of this is provided by market expectations: while prime office and retail capital values are expected to change by between -1% to 1% over the next twelve months across Asia Pacific, prime industrial capital values are expected to rise 3% over the same period. This trend is exacerbated in Tokyo and Auckland, where prime industrial capital values are expected to increase between 5% to 6% over the next year.

Occupier markets struggle to gain traction

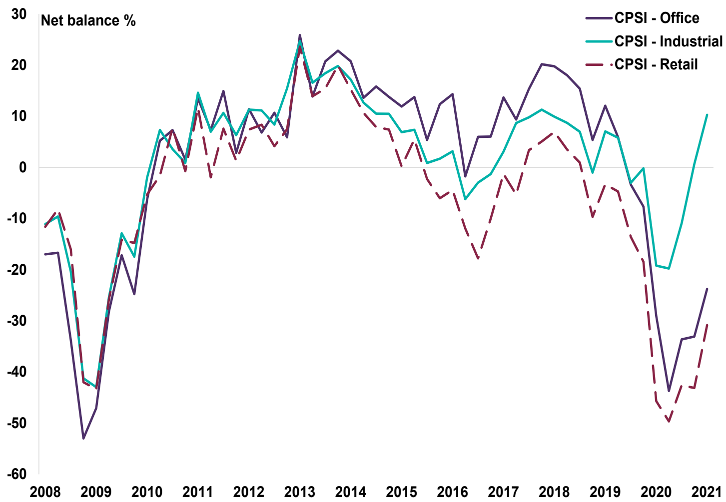
The mixed impact of lockdowns and historically low interest rates continues to linger across most commercial property markets in Asia Pacific, as occupier markets have generally been slower to recover than investment markets. Chart 2 illustrates this using the Occupier Sentiment Index (OSI, horizontal axis) and Investment Sentiment Index (ISI, vertical axis). Every major metropolitain area in Asia Pacific tracked by this survey recorded a negative reading for the OSI, albeit only modestly so for Shanghai.

On the other hand, there appears to be some green shoots of recovery for investment in the sector. Both Auckland and Colombo recorded a firmly positive reading for the ISI, and the readings for Tokyo and cities in Australia and mainland China are indicative of a stabilization in investment. This becomes particularly evident when looking at different segments of the commercial property market. Regional investment demand, both domestic and cross-border, is robust for industrial properties, while occupier demand for office space remains sluggish as businesses enact return to the office plans and potentially make adjustments to future space requirements.

Signals point to pending rebound in some markets

Although the recovery from the COVID-19 pandemic may appear sluggish across some market segments, conditions have nonetheless improved over the past several quarters. Chart 3 compares occupier and investment demand in Q2 of 2020, which marked the deepest impact of the pandemic for most markets, to the current quarter. Although demand remains negative in several markets, it is off the lows of Q2 2020. In Australia and China demand metrics point to a more balanced recovery than their regional peers.

Chart 1: Commercial Property Sentiment Index

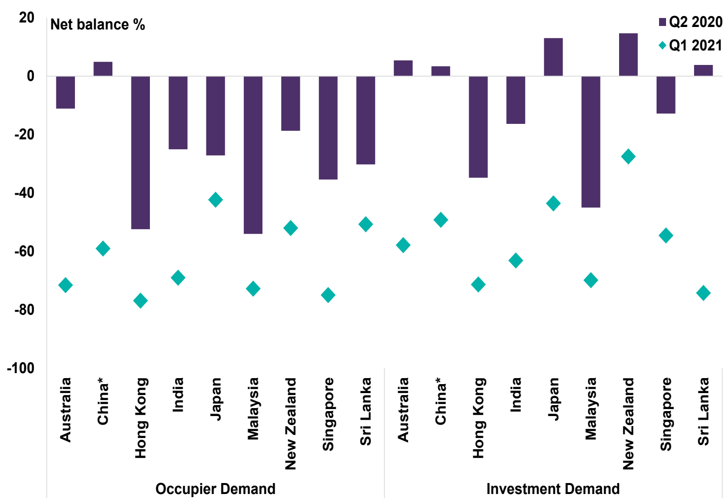


Source: RICS, LaSalle Investment Management

Chart 2: Occupier and Investment Sentiment Indicies

Source: RICS, LaSalle Investment Management

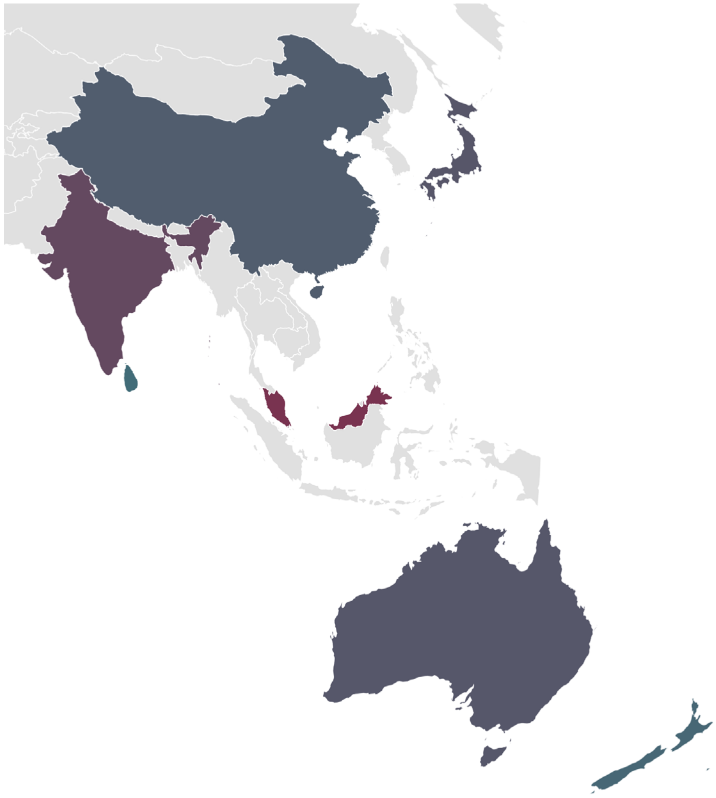
Chart 3: Change in Demand from Q2 2020 to Q1 2021



Source: RICS
*Q2 2020 figures from China taken from Q1 2020 as a result of the earlier timing of lockdowns relative to other areas

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

Regional Comments from Survey Participants in Asia Pacific



Australia

Working from home has changed the office market permanently. Demand for office space will decrease by 10-20% for the long term affecting rents and capital values. Retail will struggle as bulky goods, outlet centres and online shopping successfully compete for retail customers away from retail centres. -*Canberra*

Industrial: Tenant and investor demand very high. Office: Landlords increasing incentives, tenants waiting to see how vaccine pans out. Retail: 25% vacancy is bottom of the market, vaccine holds key to turnover increases. -*Melbourne*

Leasing sentiment continues to improve across Australia as we enter into the new year. Whilst increased leasing activity is expected in H2 21 with rents likely to hold firm throughout 2021, rising vacancy resulted from backfill supply, and record-high sublease availability in Sydney and Melbourne are expect to see further softening in incentives, putting further downward pressure on net effective rents. -*Sydney*

Australia is doing well with the management of Covid when compared with other parts of the world. Economic recovery is ahead of schedule. However, the vacancy level in commercial offices is increasing and a material increase in sub-let space coming to the market. Commercial office tenants are formalising hybrid working, which will further reduce demand for office space for numerous years. -*Sydney*

China

With the recovery of the consumer market, the market as a whole has stopped falling and stabilized. Due to the impact of industry and depopulation, it is difficult for urban areas to experience rapid growth. Local areas will perform well. -*Beijing*

Market is recovering coping with less impact from COVID-19. However, it is not balance worldwide. In mainland China, the recovery is clear and strong, people are almost back to normal life. However the outside market may not be taking longer period. But early light is already seen everywhere. -*Guangzhou*

Hong Kong

The real estate market in Hong Kong especially for office and retail is suffering a serious impact after the political matters happened since 2019 and consequently COVID-19. It will last for some not less than 2 years and may be even longer to retrieve the pre-COVID level.

India

Residential sales are picking up on the back of strong liquidity and lower interest rates; office segment will continue to be circumspect but with expected rapid economic recovery, we can expect an incease in leasing activity (despite WFH challanges); logistics will continue to be supported by e-commerce till regular manufacturing and other sectors increase their warehousing requirements. -*Delhi NCR*

The CRE market is recovering fast. Currently the demand for secondary office and retail is fair. Once the businesses starts operating on full scale, there will be a definite increase in primary office/retail. Some doubt about retail but I am very certain, retail will also increase. Customers are now done with e-commerce. Online shopping is a good substitute but it doesn't take care of the opportunity cost (leisure) that customers get while live shopping at stores or perhaps just window shopping. -*Noida*

Japan

Comparing to othe OECD countries, downward pressure by COVID on the Japanese real estate market has not been so severe. In other words, up trend recovery might be moderate, not like the US, I suppose. -*Tokyo*

Malaysia

The 2021 property market continues to be generally weak but is beginning to see prime residential development land and residential accommodation sales trending upwards. Institutional investors are switching portfolios to have a higher proportion of logistics and senior-living accommodation. Going forward the market will see a growth in demand for prime suburban office space and retail centres as work from home becomes a new norm post-pandemic. -*Kuala Lumpur*

New Zealand

The COVID impact in NZ is very specific to sub sectors and sub markets. General remarks about COVID impacts are therefore unreliable or without real context, requiring caution. -*Auckland*

Singapore

Significant dry powder held by sovereign wealth funds and private equity firms alongside market liquidity and reasonable, but not competitive, financing offers, are maintaining capital values against a backdrop of a softer economies and potential for rents softening.

Real estate returns no longer fit within the traditional classification of core, core plus, value-add and opportunistic. Large amount of capital (lower cost) sourcing deals is re-rating the risk spectrum where higher return investors are being squeezed out of the market.

Europe: Capital value expectations strengthen further across the industrial sector but remain negative for offices and retail

The Q1 2021 GCPM results across Europe are consistent with a somewhat steadier headline backdrop compared to recent quarters, particularly on the investment side of the market. That said, this is largely down to a further pick-up in momentum within the industrial sector, while conditions continue to languish across offices and retail. Even so, the Q1 figures encouragingly show a slight drop in the proportion of respondents viewing the market to be turning down across Europe in aggregate, easing from 55% in Q4 to 40% in Q1.

Sentiment indices turn less negative

As shown in chart 1, both the headline European Occupier and Investment Sentiment Indices turned slightly less negative over the latest survey period. Nevertheless, the aggregate results remain more downbeat across the occupier market than on the investment side. Indeed, the latest OSI reading came in at -28 (compared to -40 previously), while the ISI registered a figure of -9 (up from -17 in Q4). Looking into the individual country data, Bulgaria, Belgium, France, Spain, Italy and Poland all exhibit significantly weaker readings than the pan-European averages. At the other end of the spectrum, Sweden and the UK posted amongst the least negative headline readings in Q1, with respondents across the both markets noting a more stable trend in occupier demand over the quarter alongside a modest improvement in investment enquiries.

Outlook remains weak for office and retail rents

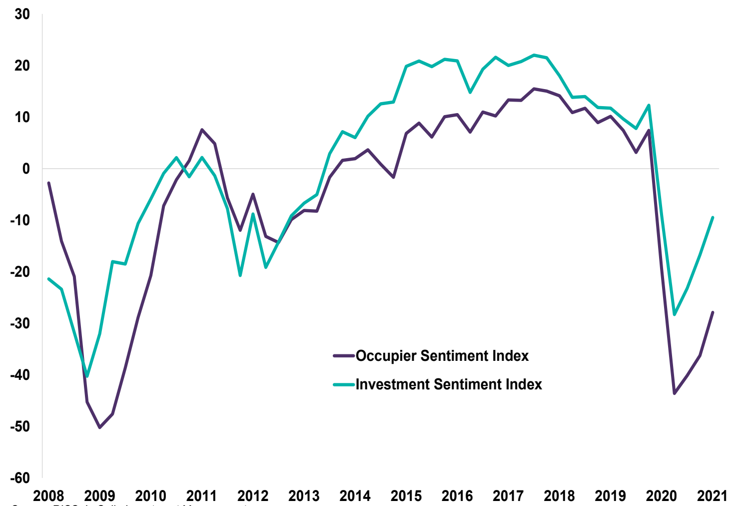
Despite the slightly less downbeat tone to the headline results this time, rental growth expectations remain negative within the office and retail sectors across all European nations covered (when incorporating views on both prime and secondary markets). With regards to offices, the increased prevalence of working from home during the pandemic is expected to lead to a permanent reassessment of office space requirements from businesses. Chart 2 illustrates that some reduction in office footprints is anticipated within the next two years across all European markets included in the survey. Respondents in France and the UK anticipate office footprints being cut by 14% and 12% respectively, while any such reduction is expected to be smaller in nations such as Cyprus (4%) and Spain (5%). Either way, this is likely a factor weighing on office rental growth projections, with rents anticipated to drop by 5% for secondary office space on average across Europe, while respondents envisage a 1% fall in prime office rents.

Meanwhile, projections remain deeply negative regarding retail rental growth prospects. At the pan-European level, contributors now foresee secondary retail rents falling by 11% over the next twelve months, with prime retail rents expected to decline by 6% on the same basis.

Demand growth accelerating across the industrial sector

Across Europe in aggregate, a net balance of +37% of respondents noted an increase in tenant demand for industrial space. Alongside this, a net balance of +48% of contributors reported a rise in investment enquiries for industrial properties. In both cases, the Q1 readings are the strongest since the survey's inception in 2008, emphasising the sheer pace of the structural forces driving growth across the sector in spite of the challenging macro economic climate. As such, the outlook for industrial rents and capital values strengthened further during Q1, with prime industrial units in particular expected to see robust gains in the year to come. Likewise, already positive 12-month expectations for rental and capital value growth were again upgraded during Q1 for data centres, aged care facilities and multifamily residential.

Chart 1: Occupier and Investment Sentiment Indices



Source: RICS, LaSalle Investment Management

Chart 2: Expected reduction in office space requirements

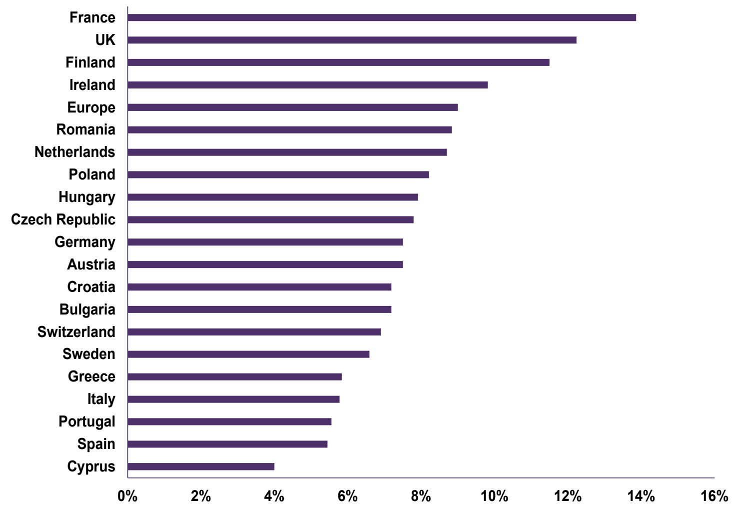
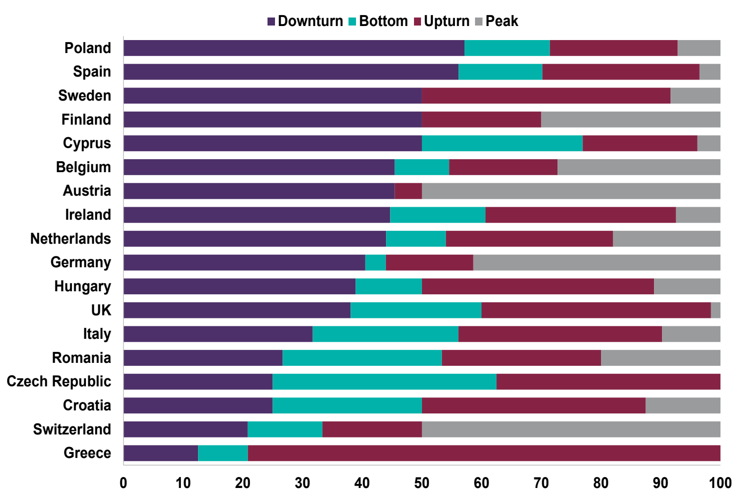
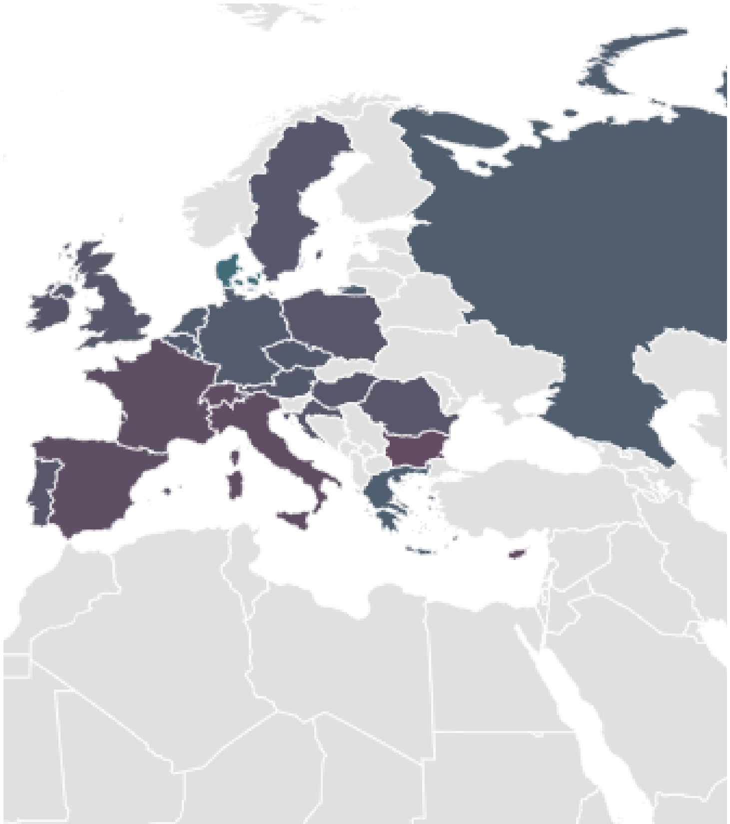


Chart 3: Perceptions on Phase of the Cycle



Source: RICS

Regional Comments from Survey Participants in Europe



Austria

The retail real estate market is really down and rents are not yet following the factual turnover situation in many segments. *-Vienna*

Belgium

Digital shopping will force all types of retailers to go online and offer a multi-channel approach. Eventually most physical shopping will disappear towards prime locations with bricks & mortar shops turning into showcases where you can try and order with a delivery at home or in the shop. Office space will be impacted by home working especially because the voluntary pre-pandemic situation is changing into a legal situation. Logistics will go multi level and inner city. *-Brussels*

Cyprus

The market has been greatly affected by Covid and the collapse of the Passport Scheme. However, office and commercial properties have proven resilient. The services sector and the expected recovery of the tourism industry will help drive a relatively quick recovery of the real estate and financial sectors. Cyprus still remains an attractive destination for investment. *-Nicosia*

Czech Republic

Mixed and a bit confused. There remains plenty of liquidity with investors but there is a lack of progress in investing/deploying which has meant the market remains sluggish. There are prime deals still proceeding and these will continue but not necessarily at pre-Covid levels. Industrial/logistics has seem major gains in the current situation and it is likely that this will be sustained as the consumer preferences/habits are unlikely to revert back to pre-Covid ways easily. - *Prague*

France

Investor appetite and confidence highly variable depending upon sector type and location. *-Paris*

Greece

Tailwinds for senior living and student accommodation. Strong demand for green office buildings, logistics, data centres. Medium demand for residential. No demand for retail, secondary office. Hotels in a wait and see mode. Generation rent in the residential sector. *-Athens*

Hungary

Following a totally frozen market, tenants started to deal with their operations at the end of 2020. We have been experiencing a very slow recovery in the Budapest Office Market. Tenants are decreasing their dedicated office space per employee but increasing the cooperation, meeting room areas and that is why the overall decrease is not expected to become significant. *-Budapest*

Ireland

There is little prospect of the market improving during Covid-19 pandemic. *-Rhode*

Italy

Uncertainty with lots of noise and guesswork. Hard evidence of what the future holds for office and retail still in short supply. *-Milan*

Netherlands

Continued pressure on prime offices in the city center due to rising supply and decreasing demand in the periphery. Fast-growing high-tech industry and e-commerce have led to high demand for prime industrial. *-Eindhoven*

Poland

Covid was a big surprise for the real estate market. Today, we cannot yet be sure of the long-term effects it will bring. The announcements of new pandemics make us think about how business will operate in the future and what its real estate needs will be, as well as how investors will perceive the risk. How to protect capital against new risks resulting from pandemics and how to conclude contracts with tenants. *-Warsaw*

Portugal

Office space will have to be reformulated. *-Lisbon*

Romania

Remote working / work from home as become quite a validated option for most companies. *-Bucharest*

Spain

Market in Barcelona is sinking due to tourism drop off. - *Barcelona*

From the start of 2021, we are noticing some reactivation in real estate activity. Logistics and multifamily are still very active while offices and retail are showing some growth in enquiries. Hopefully by the second half of the year, we will finally see transaction level match pre-covid times. - *Madrid*

Switzerland

While multifamily, industrial, retail, hotels, student and senior housing have somewhat clear and known caveats, the office sector remains amongst the most risky, with the least visibility and the highest weight in the capital allocation. - *Zurich*

Middle East and Africa: Current conditions still subdued across the region, but forward-looking metrics improve slightly

The Q1 2021 survey feedback across the Middle East and Africa continues to portray a challenging set of conditions at present, with indicators on occupier and investment demand still negative across the majority of nations covered. Notwithstanding this, the outlook for capital values over the coming twelve months did see some improvement, with prime markets now expected to post modest gains across the MEA region as a whole.

Headline sentiment only marginally less negative than in last quarter

At the aggregate level, the Occupier Sentiment Index for MEA was virtually unchanged during Q1, coming in at -27 compared to -29 previously. As such, this measure continues to signal weak momentum behind the occupier market at present. On the investment side, the latest ISI moved to -17 in Q1 from -21 beforehand, slightly less downbeat than the OSI reading but still subdued when placed in a historical context nonetheless (chart 1). Looking at the country level data, Saudi Arabia and Nigeria both display broadly neutral readings for the headline sentiment indicator. In the case of latter, this marks a significant improvement compared to the Q4 results. Conversely, South Africa and the UAE continue to exhibit amongst the poorest readings for both the OSI and ISI gauges across the region.

Investor demand still falling across most regional markets

As depicted in chart 2, investment enquiries reportedly fell in most nations covered across MEA during Q1. The steepest declines (in net balance terms) were cited in Oman, Mauritius and Turkey. On a more positive note, a few markets bucked the broader regional pattern including Saudi Arabia, Uganda, Ghana and Nigeria. Furthermore, Saudi Arabia saw an uplift in cross-border investment enquires for the first time since 2019, with growth cited across all sectors.

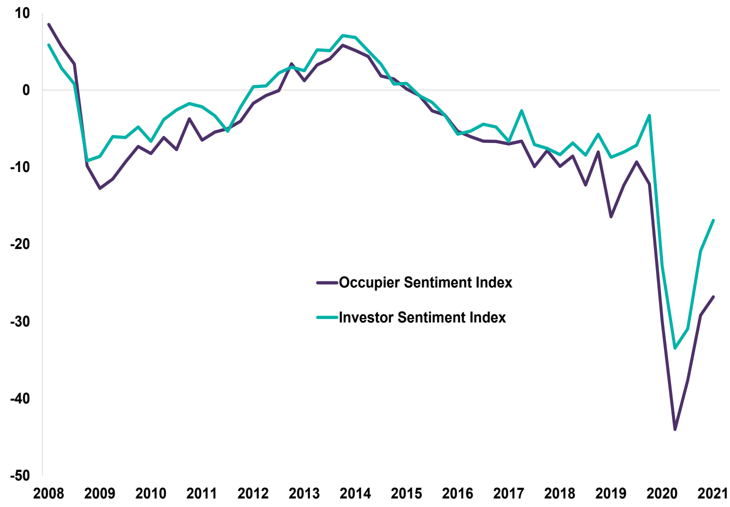
Perhaps helping to facilitate this pick-up in international investor demand, the current backdrop in Saudi Arabia is perceived to present the lowest risk to commercial real estate investment returns compared to all other MEA markets covered in the survey (chart 3). By way of contrast, respondents sense the current macro climate poses relatively greater risks for commercial real estate returns in Uganda, South Africa, Oman and Israel. In keeping with this, international investor demand fell noticeably across each of these nations during Q1.

Prime markets expected to deliver capital value gains

Although demand remains subdued throughout much of the region, the outlook for capital values over the coming twelve months did see some improvement at the aggregate level. Indeed, prime office and retail properties are now anticipated to post marginal capital value gains (+1%), marking the first occasion since 2019 in which expectations for these two sub-sectors have been in positive territory. Alongside this, prime industrial sector capital value projections remain comfortably positive at +2%. That said, the outlook for capital values is flat across secondary markets. Turning to some alternative sectors, multifamily (+2%), data centres (+4%), aged care facilities (+2%) and student housing (+1%) are all now expected to deliver capital value growth across MEA in aggregate.

Nevertheless, projections remain highly varied at the country level. Respondents in Nigeria, Uganda and Saudi Arabia foresee solid capital value growth across each of the three traditional segments of the market. By way of contrast, headline capital values are anticipated to decline in Oman, Israel, South Africa and the UAE over the next twelve months.

Chart 1: Occupier and Investment Sentiment Indices



Source: RICS, LaSalle Investment Management

Chart 2: Investment demand by country

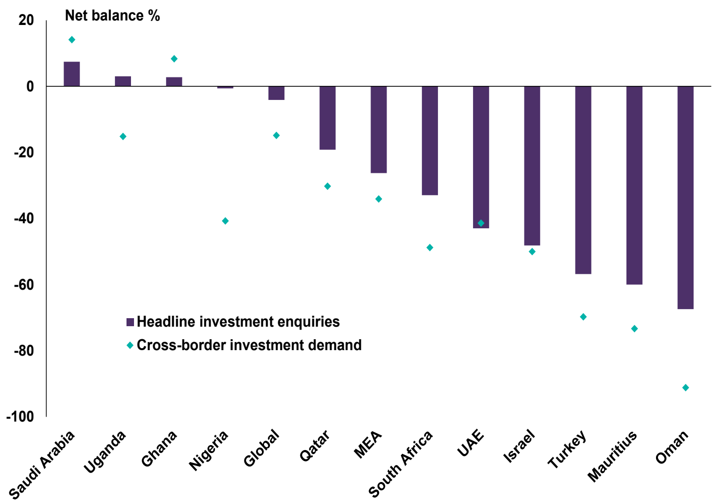
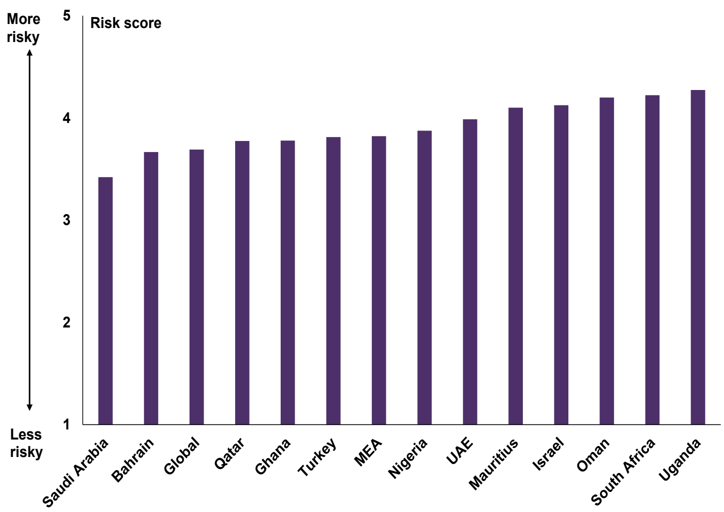


Chart 3: Perceptions on risk level for investment returns



Regional Comments from Survey Participants in MEA

Bahrain

Market is slow and it may take time to pick-up. -*Manama*

Botswana

Botswana's real estate market seems to be resilient to the pandemic, particularly residential and industrial asset classes. The tourism/ hospitality sectors are worst hit with some investors reporting little or no revenues while they keep on accumulating unavoidable operating costs. Unfortunately landlords have not received any relief that can be passed onto tenants, hence offering rent deferrals and /or 1 or 2 months waivers on a case by case basis. -*Gaborone*

Egypt

The development market has faced difficulties due to Covid-19 but I expect it to start to recover incrementally within the next 6 months. -*Cairo*

Ghana

Even though real estate business is slow due to covid, the construction industry is still active. - *Accra*

Israel

Israel has completely reopened as a result of high levels of vaccination. Internal tourism and retail are recovering. Office workers are mostly returning to work. Secondary retail has been hit very hard.. The mall retailers have been using the downturn to restructure their leases and space use in some cases. Major retailers have held their ground. Local investors are back in the market or never left. -*Tel Aviv*

Kenya

Real Estate Markets in Eastern Africa are still on a decline owing to effects of the COVID-19 pandemic. -*Nairobi*

Malawi

Slow business but has led to closure of retail or office space. - *Zomba*

Mauritius

Market is weak, there is no feel good factor, every potential investor is waiting to see what happens next before deciding upon the next move. Thus, we are in recession with economic destruction looming. -*Quatre Bornes*

Mozambique

General market is at the bottom of the cycle, but we expect a slight recovery for 3Q 2021. Industrial and logistics market related with gas & oil industries is growing 10% while the remaining economy has contract by -5%. - *Maputo*

Nigeria

The Real Estate sector in Nigeria grew in Q4 2020 for only the 2nd time since 2016 indicating some increase in activities in the sector. However, this was predominantly in the low- to mid-income sectors and mainly in the residential market. High-end real estate transactions remained stagnant, most likely due to the sharp drop in foreign direct investment into the country which have been hurt by the effect of Covid-19 and an increase in security issues generally. -*Lagos*

The market is depressed at the moment. However, there is more activity in the sales market than in the lettings market which could be attributed to the cost of foreign currency and the restrictions on its movement. -*Lagos*

Oman

Very difficult trading conditions in the Oman market. Lack of expat visas and Covid 19 has resulted in an exodus of both companies, professional working people, and real estate demand for each sector. - *Muscat*

Saudi Arabia

Sentiment improving but still someway off the original pre-covid predictions. -*Riyadh*

South Africa

The industrial and residential markets are proving resilient, especially prime industrial properties. However, the office market has continued to weaken. -*Johannesburg*

The demand for office space will reduce, online shopping will increase thus resulting in fewer retail requirements. -*Johannesburg*

UAE

COVID-19 has adversely impacted the whole world which has a trickle down affect on each and every aspect of life and business. Recovery will take a bit of time after the pandemic reaches to an end. - Abu Dhabi

Generally the market has seen real pressure on a number of fronts, primarily due to a sustained low oil price and travel restrictions brought about by Covid-19, which are keeping leisure and transactions low. -*Dubai*

Uganda

The effects of COVID-19 Pandemic has seen a tremendous reduction in demand for office, industrial and retail space for rent. This is most likely to go on for about 2-3 years. People have lost livelihoods. - *Kampala*

Americas: Industrial sector continues to shine while offices and retail remain under pressure

The Q1 2021 GCPM results across the Americas point to the polarised sectoral trends evident over the past year remaining very much entrenched. While retail and offices continue to struggle, exacerbated by the backdrop of the pandemic, the industrial/logistics segment is seeing solid demand growth both at the aggregate level and across most individual markets covered.

Sentiment indices remain weak, especially on the occupier side of the market

The headline Occupier Sentiment Index registered a reading of -30 across the Americas as a whole, slightly less negative than -39 posted last quarter but still consistent with a noticeable contraction in overall occupier market conditions. On the investment side, the headline ISI gauge moved to -10 from -19 in Q4. Although still marginally negative, this metric is edging closer to neutral territory, which would signal a more stable pattern coming through in investment market conditions.

At the country level, the US returned readings of -32 and -9 for the OSI and ISI gauges, with both indicators a little less negative than in Q4 (-40 and -18). Likewise, some of the negativity of recent quarters appears to be diminishing in Canada, where the OSI came in at -25 (-32 in Q4) and the ISI moved to -10 (compared to -13 last time). Interestingly, the OSI is slightly less downbeat than the ISI in Brazil, where respective readings of -14 and -19 were posted.

Solid rental and capital value gains projected for industrials

At the aggregate level, prime industrial capital values are now projected to rise by 5% over the coming year, with rents expected to rise by 4% on the same basis. The outlook is also comfortably positive for secondary industrial properties, albeit expectations are slightly more modest in comparison to prime (chart 2) By way of contrast, expectations remain firmly negative across the office and retail sectors (for both prime and secondary), with the latter still expected to post particularly steep declines over the next twelve months.

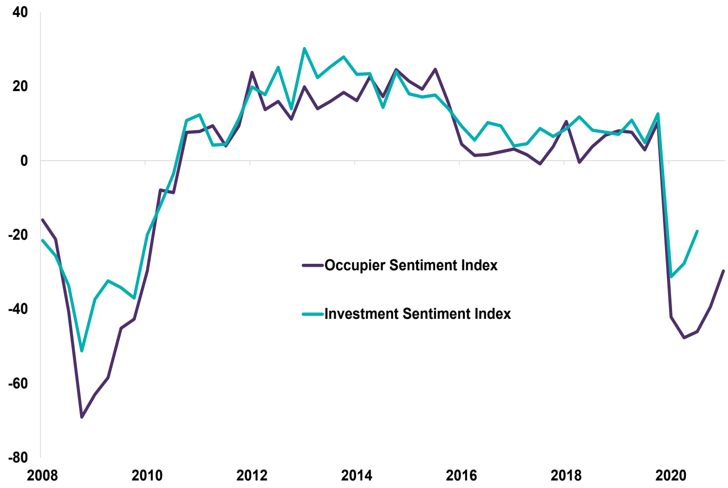
These broad patterns remain evident when the expectations data is disaggregated at the country level across Brazil, Canada and the US. In each case, occupier and investor demand is reportedly rising within the industrial sector, while these indicators remain depressed for offices and retail. Looking at some of the Caribbean markets, office and retail space is in fact projected to see positive rental growth across Jamaica. Conversely, expectations are altogether more downbeat across Trinidad & Tobago, where rents are anticipated to decline in the office, industrial and retail markets in the year ahead.

Back at the aggregate level, data centres and multifamily residential stand out as exhibiting a firmly positive twelve month assessment for rents and capital values. At the other end of the scale, the outlook for hotels and student housing remains negative, albeit slightly less so than back in Q4.

Rising share of respondents sense a recovery may be starting to emerge across the US and Canada

Although a significant proportion of respondents continue to view the market to be turning down, there was at least a noteworthy increase in the share reporting an early upturn is now underway. In Canada, this rose from 18% in Q4 to 37% in Q1, while in the US, 29% of survey participants feel a recovery has started (up from 22% in Q4). In Brazil, even though 45% of contributors view the market to be in a downturn, just over one-quarter sense a floor has now been reached (chart 3).

Chart 1: Occupier and Investment Sentiment Indices



Source: RICS, LaSalle Investment Management

Chart 2: 12-month Expectations

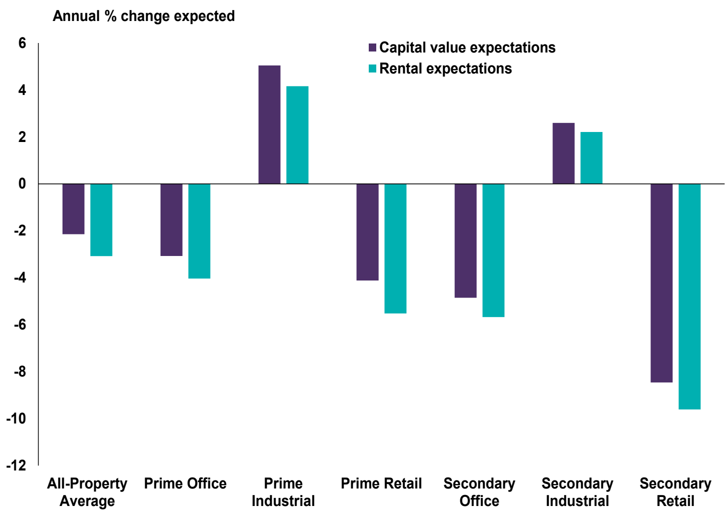
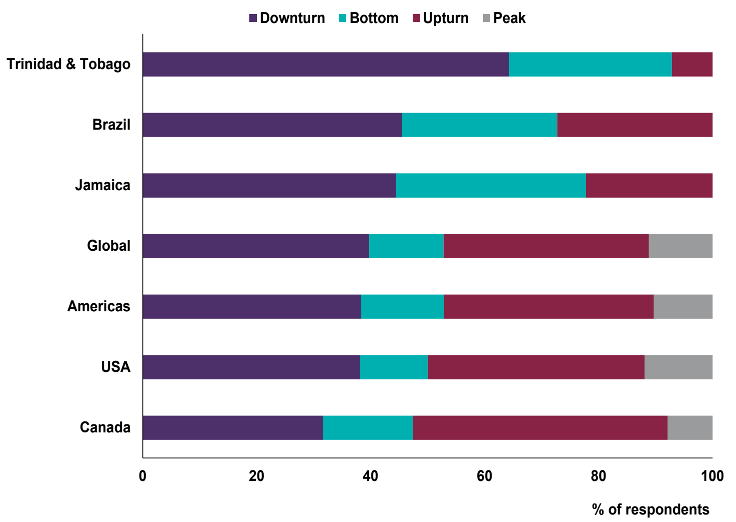
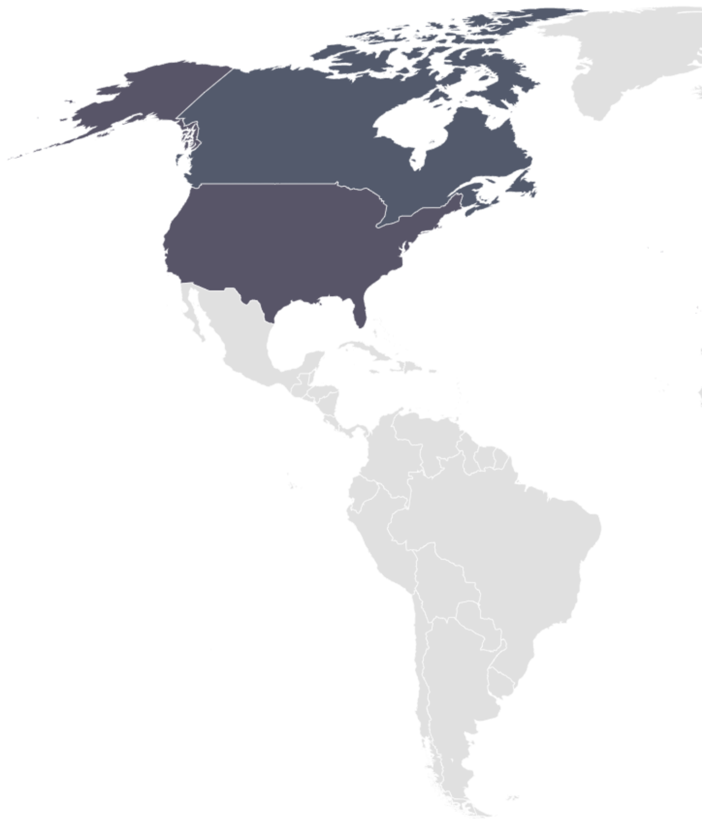


Chart 3: Perceptions on phase of the cycle



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

Regional Comments from Survey Participants in the Americas



Antigua and Barbuda

Antigua continues to be a very small market and surprisingly little affected by Covid in some areas. An unexpected amount of construction seems to be taking place although some of the larger construction was probably planned pre-covid. Due to a culture of a lack of willingness to reduce rents and asking prices, property will often remain vacant giving a slightly distorted image of the market. Most commercial lettings are by landlords rather than through agents. -*St. John's*

Brazil

Despite the reality of the pandemic, the biggest problem in Brazil is its politicization, bringing consequences far worse than the disease itself. It is necessary to have a strong and precise action to avoid the worst.-São Paulo

Canada

The longer term impacts of covid-19 on the commercial retail and office market segments is still evolving. -*Sudbury*

Driven primarily by strong manufacturing and construction activity, the Greater Toronto Area posted job gains for five consecutive months leading up to November 2020, at which point growth was flat and then fell in December by -1.5% as new lockdowns were imposed. Job growth is expected to expand to other sectors in 2021 as the vaccination programs are rolled out and restrictions ease. Following a -5.6% contraction in 2020, GDP growth in Ontario was projected to reach 5.5% in 2021.-*Toronto*

Most positive comments relate to industrial, including low risk related to returns. Office is doing ok and appears to be stabilizing. Retail is much worse off, but A+ centers will recover sooner and recover well. B class retail and lower is going to continue to have a very hard time recovering and many centers will not. -*Toronto*

Jamaica

The market is currently stable despite the Covid pandemic. We here in Jamaica have not experienced any situation where a business is forced to fully close down.-*Kingston*

Trinidad and Tobago

Market conditions soft at the moment but expected to recover when the Covid crisis is over.-*Tunapuna*

Supply and demand recovery appears grim in the near future due to risk and uncertainty created by the global Covid pandemic. - *Port of Spain*

The market is improving at a slow rate. All dependant on COVID. It's necessary to open up markets and continue large scale trading. Also developments and infrastructure should be the driving force. - *Port of Spain*

United States

Industrial is still surging ahead in this market, due to COVID-19 and the continuing shift to online trading. However, the office and retail sectors still exhibit uncertainty and may take several years to recover. It is going to be interesting to see what trends develop as the pandemic recedes later this year. -*Dallas*

Santa Barbara is somewhat of a special market characterized by significant investor interest and limited supply. Having said the above, negative trends in retail have been exacerbated by the pandemic. The time needed to sort out uses in retail districts will be measured in years, not months. -*Santa Barbara*

As vaccines are more readily available and COVID restrictions begin to relax, a very slow, but steady strengthening across all sectors is underway. -*Harrisburg*

The Nashville market has shown tremendous resilience over 12 months or so and most sectors are either back to pre-Covid levels, or close to them. Even the hospitality sector is bouncing back with increasing numbers of visitors coming to the city as lockdowns ease and vaccination programmes are rolled out. - *Nashville*

Office Sub-lease market has over-supply in major CBDs. Return to office strategies will greatly impact office usage and footprints need evaluation. Real estate returns / sale / rentals will be affected due to sizable investments made to improve building infrastructure heath & safety parameters. Suburban housing prices will get to fair market value / dip as people return back to city houses. - *New York*

I believe transaction activity shall pick up late 2021 -2022. While significant amounts of sublease space has hit the market, very limited take up of this space has occurred. Net effective rents could decline by as much as 30-35%. - *New York*

Industrial real estate in the US coastal markets is seeing 10% rental increases per year. - *Teterboro*

Wait and see. We at the bottom, coming out! -*Washington DC*

.

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 10 March 2021 with responses received until 12 April 2021. 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 2714 company responses were received, with 801 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia. Responses in Israel were collated with the help of the Israel Real Estate Appraisers Association (IREAA).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.

Contact details

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

Disclaimer

This document is intended as a means for debate and discussion and should not be relied on as legal or professional advice. Whilst every reasonable effort has been made to ensure the accuracy of the contents, no warranty is made with regard to that content. Data, information or any other material may not be accurate and there may be other more recent material elsewhere. RICS will have no responsibility for any errors or omissions. RICS recommends you seek professional, legal or technical advice where necessary. RICS cannot accept any liability for any loss or damage suffered by any person as a result of the editorial content, or by any person acting or refraining to act as a result of the material included.

Economics Team

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

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.

Americas, Europe, Middle East & Africa
aemea@rics.org

Asia Pacific
apac@rics.org

United Kingdom & Ireland
contactrics@rics.org