

# Global Corporate Real Estate Sentiment Index

Q4 2023

Your partners in property

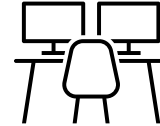
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# Key Insights

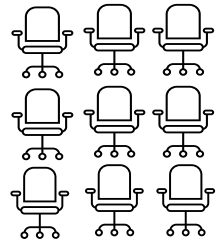
Overall CRE leader sentiment is at its highest level since Q2 2022.



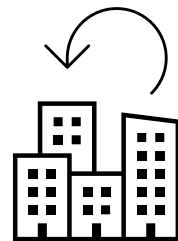
Stronger RTO mandates & a focus on compliance fuel improved sentiment about a return to pre-pandemic levels of occupancy within the next 6 months.



Sentiment toward increasing office density turns positive and may be delivered through a more intense approach to hot-desking.



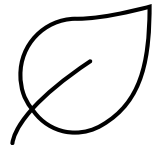
More occupiers are actively relocating core functions in response to growing physical and functional obsolescence.



Momentum continues to build around the future offshoring of activity, which achieved its highest score since Q2 2022.

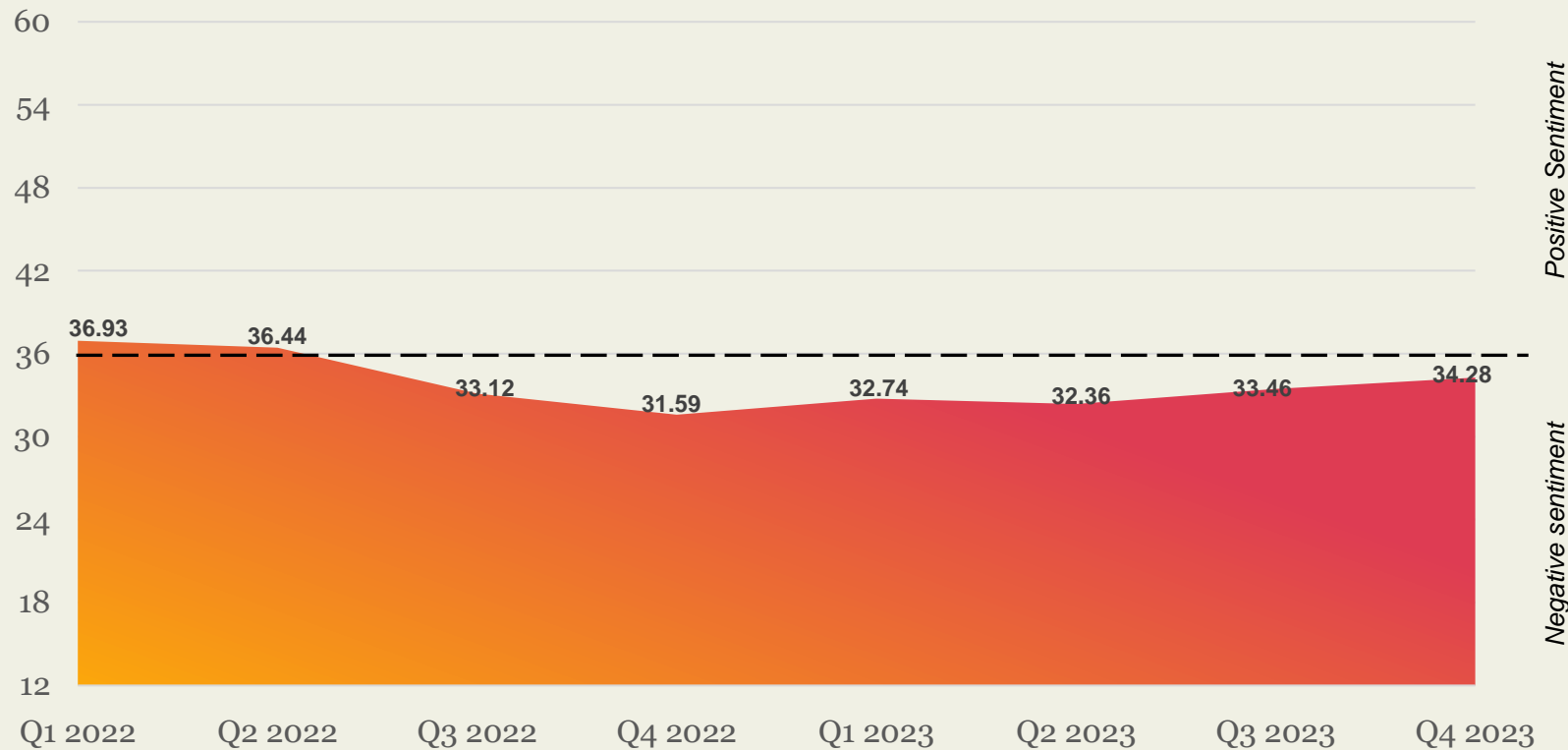


Sentiment around increasing the proportion of sustainable buildings within a portfolio has returned to positive territory.



# CRE Sentiment – Q1 2022 to Q4 2023

**Overall CRE Sentiment Index**  
Q1 2022 – Q4 2023



**34.28**

Overall sentiment is at its highest level since Q2 2022 and rose 2.45% q-on-q.

**7 of 12**

indicators comprising the Sentiment Index saw an improvement q-on-q.

## Portfolio Dynamics

drove the overall increase of the Sentiment Index with structural changes to the corporate map increasingly on the agenda

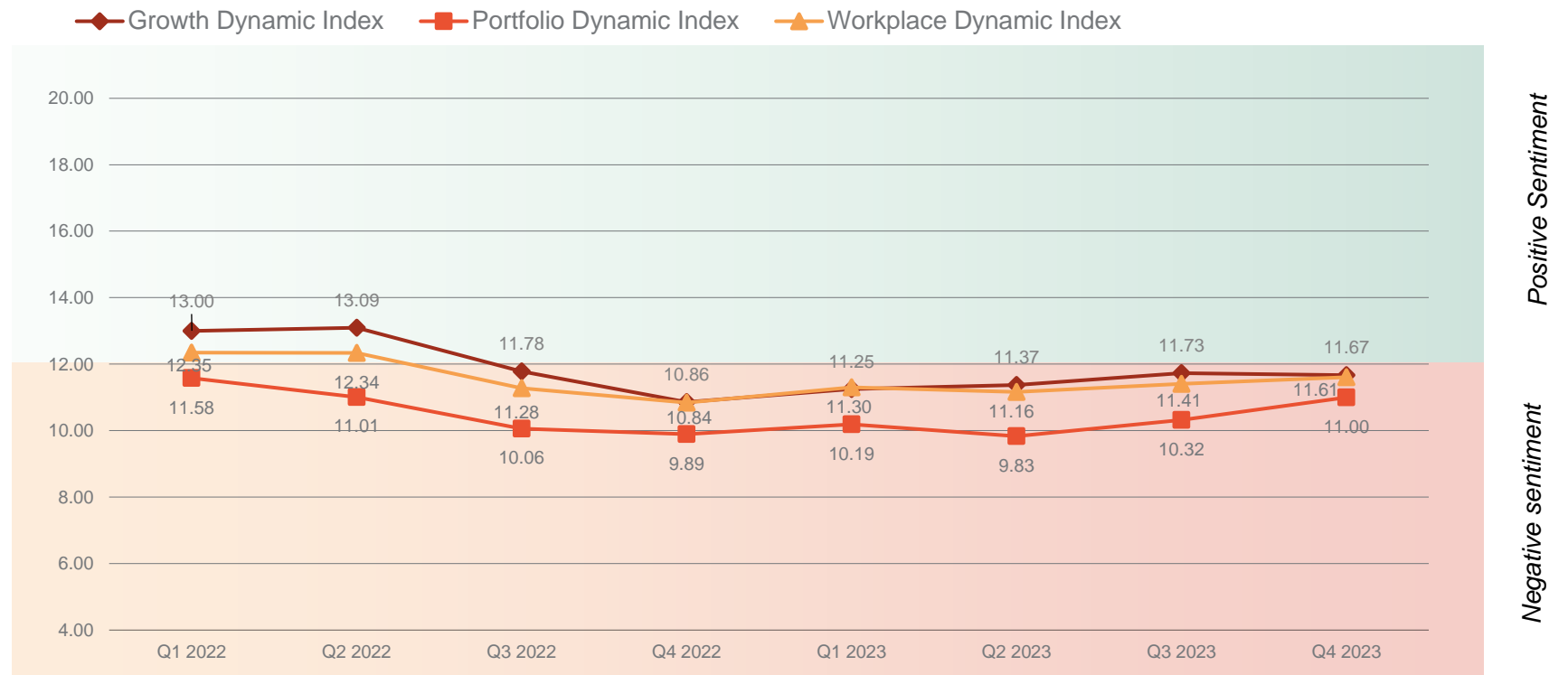
## Cautious Optimism

Momentum is building although capex constraints & economic/geopolitical fragility may act as a brake on activity

# Sub-Index Performance (Q1 2022 – Q4 2023)

- There are three sub-indices within the GCRESI, measuring sentiment in relation to growth, portfolio and workplace dynamics over the next six months.
- All three sub-indices sit marginally below a score of 12 which is the tipping point between negative and positive sentiment.
- Scores for both the portfolio and workplace dynamics are, however, at their highest level since Q2 2022.

## Knight Frank | Cresa CRE Sentiment Index Sub-Index Performance (Q1 2022 – Q4 2023)

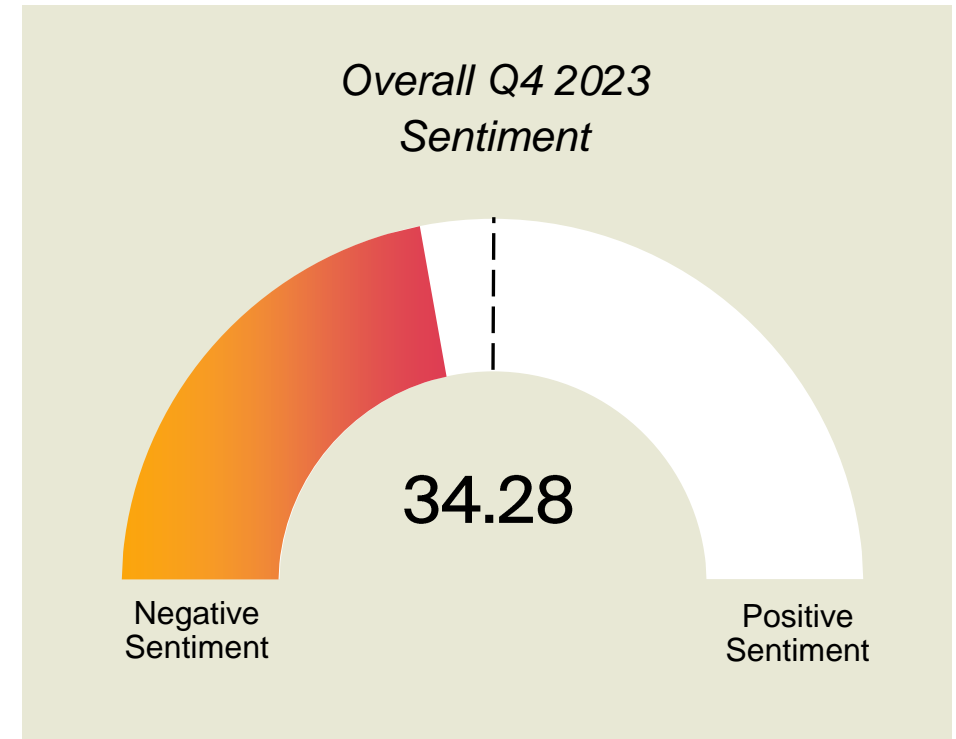


# Sub-Index Performance (Q4 2023)

## Improved sentiment almost entirely driven by portfolio dynamics

- Two of the three sub-indices (portfolio and workplace) saw improving sentiment during Q4, although the growth sub-index declined marginally q-on-q.
- The reduction in the growth dynamic is relatively marginal (0.06 points) and the current reading is still, bar Q3 2023, the strongest since Q2 2022.
- Portfolio dynamics rose by 0.68 points q-on-q and drove the overall performance of the index (which grew by 0.82 points over the same period). On a y-on-y basis portfolio dynamics have increased by 1.11 points and represent a clear turning point in the attention and action of CRE professionals.

Q4 2023 Sub-index score	(Movement Q-on-Q)
11.67 <i>Growth Dynamics</i>	↓ -0.51%
11.00 <i>Portfolio Dynamics</i>	↑ +6.59%
11.61 <i>Workplace Dynamics</i>	↑ +1.75%



Scores above 12 for each of these three sub-indices represent positive sentiment. Source: Knight Frank 2024, N=64

# Sentiment Scorecard

## Growth Dynamics Q4 2023

GROWTH DYNAMICS			
Indicator	Q3 2023	Q4 2023	Q-on-Q change
Global economic growth	2.59	2.77	↑
Company revenue growth	3.22	3.27	↑
Company headcount growth	2.85	2.72	↓
Company capital expenditure growth	3.07	2.91	↓

Scores >3 represent positive sentiment and <3 represent negative sentiment

- The growth dynamic sub-index reduced by 0.06 points q-on-q to stand at 11.67.
- In contrast to previous readings, it was corporate growth performance indicators that underpinned this reduction.
- Indeed, sentiment relating to global economic growth improved by 0.18 points q-on-q to 2.77 – a reading which whilst still negative on a five-point scale, is the strongest reading since Q2 2022. This is encouraging and, despite obvious geopolitical headwinds, suggests that a slow post-Covid growth trajectory continues. It is telling that this indicator has never exceeded a score of 2.96 since the index began.
- In contrast, sentiment around future company revenue growth has never fallen below a score of 3. The Q4 reading remained positive at 3.27 and improved by 0.05 points q-on-q, although is currently below the LTA for the indicator.
- Sentiment around company headcount growth has now been negative for five consecutive quarters and fell back to levels seen at the turn of 2023 with a score of 2.72.
- Q3 2023 saw a significant rally in sentiment around future capex growth. In Q4, half of the gains made were lost with the indicator now marginally negative at 2.91 points. This may serve as a brake on activity at the workplace and portfolio level if sustained.

# Sentiment Scorecard

## Portfolio Dynamics Q4 2023

PORTFOLIO DYNAMICS			
Indicator	Q3 2023	Q4 2023	Q-on-Q change
Expanding physical footprint	2.54	2.47	↓
Relocating core facilities	2.51	2.84	↑
Increasing % of sustainable buildings	2.89	3.14	↑
Offshoring functions to new locations	2.38	2.55	↑

Scores >3 represent positive sentiment and <3 represent negative sentiment

- Momentum continued to build around portfolio dynamics in Q4. After a 0.40 point increase between Q2 and Q3, the sub-index grew by a further 0.68 points between Q3 and Q4.
- Portfolio dynamics are the driver of overall index performance and whilst the score of 11.00 remains a negative reading, CRE leaders continue to shift from strategy to execution in relation to portfolio management at a regional or global level.
- Potential change at the portfolio level does not appear to be underpinned by expansionary intent. After gains in Q3, expectations around an expanding physical footprint fell back by 0.07 points – although the reading of 2.47 remains above the long-term average.
- Significant improvements in sentiment were found in relation to the future relocation of core facilities. This indicator grew by 0.33 points q-on-q and is at its highest level since Q1 2022. This aligns with both market observations and findings from our (Y)OUR SPACE research, that show occupiers are actively relocating core functions in response to growing physical and functional obsolescence.
- Momentum is also building around the future offshoring of activity. Q4 saw the third consecutive quarter of improvement on this indicator, with a further rise of 0.17 points bringing a score of 2.55. This is the highest score since Q2 2022. We believe this indicator will be under-representative of the market reality, because some of the responding businesses are in sectors that are not known for BPO and offshoring processes.

# Sentiment Scorecard

## Workplace Dynamics Q4 2023

WORKPLACE DYNAMICS			
Indicator	Q3 2023	Q4 2023	Q-on-Q change
Back to pre-pandemic occupancy levels	2.64	2.66	↑
Significant changes to office design / configuration	2.89	2.88	↓
Increasing density of occupation	2.93	3.12	↑
Enhancing office services / amenities	2.95	2.95	-

- The workplace dynamic index continued to show improved momentum with a 0.20 point rise q-on-q to 11.61 – the highest level since Q2 2022.
- Two of the four indicators comprising the workplace dynamics sub-index saw q-on-q improvement. Most notable was sentiment around increasing the density of office occupation, which is now back in positive territory with a score of 3.12 with q-on-q growth of 0.19 points.
- The significant recent gains in sentiment around a return to pre-pandemic levels of occupancy were essentially sustained q-on-q with the indicator reducing by just 0.01 points. Return to office mandates and an increasing focus on compliance are shaping sentiment here.
- The interplay between a greater return to office and a more densely occupied office will be a key and emotive theme going forward, especially if that density is delivered through a more intense approach to hot-desking.
- At present such changes appear unlikely. Sentiment around further changes in the design and configuration of office space declined very marginally (0.01 points) and remain 0.12 points below a positive reading.
- Similarly, sentiment around further interventions in the amenities and services on offer within the office stabilised at 2.95 – only the third sub-3 score since the index began in Q1 2022. This may align with reduced sentiment around capital expenditure and the change of focus from CRE leaders towards implementing portfolio level strategies.

Scores >3 represent positive sentiment and <3 represent negative sentiment

Source: Knight Frank 2023, N=64



# Takeaways for Occupiers

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## GROWTH DYNAMICS

- Steady improvement in global economy will support CRE activity but caution prevails
- Productivity gains rather than headcount growth are the key to corporate growth
- Capex constraints apparent and may stifle projects

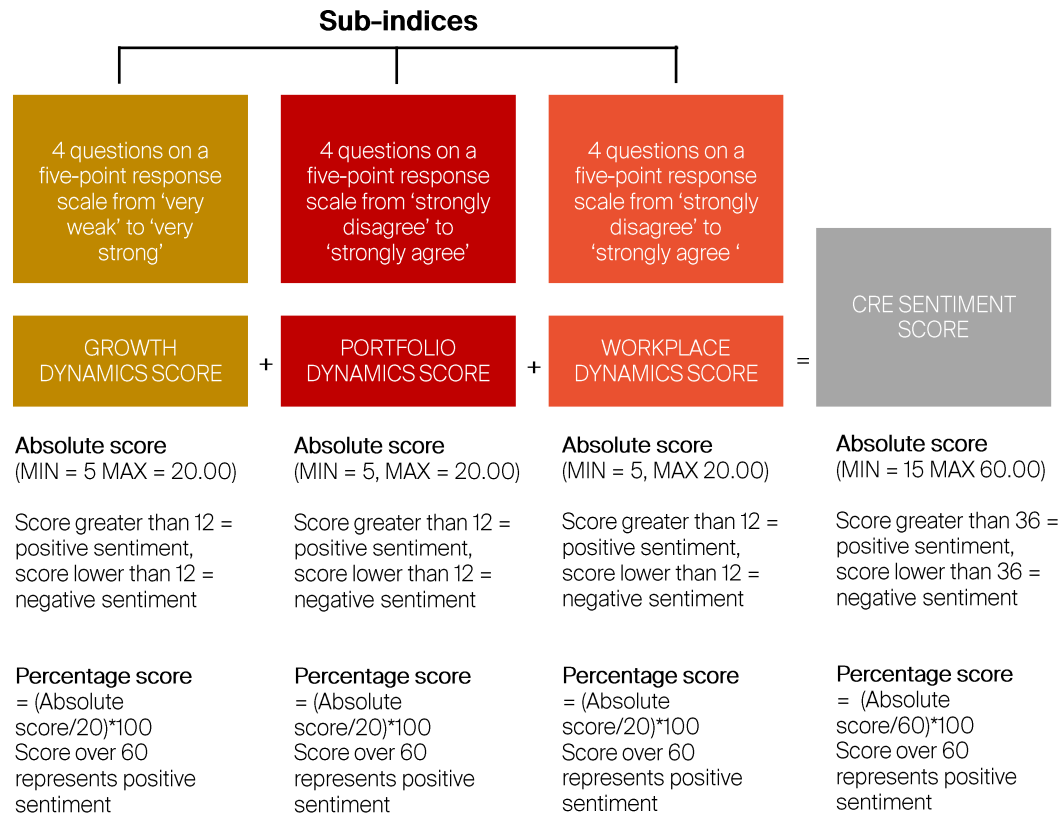
## PORTFOLIO DYNAMICS

- Relocation on the agenda - A flight to quality to overcome functional & physical obsolescence
- Continued exploration of offshoring options to deliver operational efficiency & for higher value functions
- Raising the bar on sustainability by securing 'green buildings' at the point of relocation wherever possible

## WORKPLACE DYNAMICS

- RTO levels now providing strong, actionable signals about future needs
- Limited scope for further action in terms of delivering enhanced experience through services & amenities
- Growing focus on driving densification, increasing productive utilisation & delivering both me AND we space

# Methodological note



## METHODOLOGY

- A simple on-line survey of 12 questions grouped into three equally weighted sub-indices assessing growth dynamics, portfolio dynamics and workplace dynamics.
- Each sub-index comprises of four statements which survey respondents place on a five-point response scale, with a score of 1 indicating strong negative sentiment and a score of 5 indicating strong positive sentiment. A score of 3 represents neutral sentiment.
- The survey is based on sentiment relating to the next six months from the point of survey.
- Responses to each of the four statements at the sub-index level are aggregated across the sample and averaged. These averages are then added together to provide a sub-index sentiment measure, to a maximum absolute score of 20. A score of greater than 12 indicates positive sentiment, less than 12 represents negative sentiment. Each cohort sentiment measure is also converted to a percentage score, with a score above 60% representing positive sentiment.
- Each of the three sub-index sentiment measures are then added together to provide an overall absolute CRE Sentiment Score, to a maximum of 60 and where a score greater than 36 indicates positive sentiment. Again, this overall score is also converted into a percentage value, with a score above 60% representing positive sentiment.

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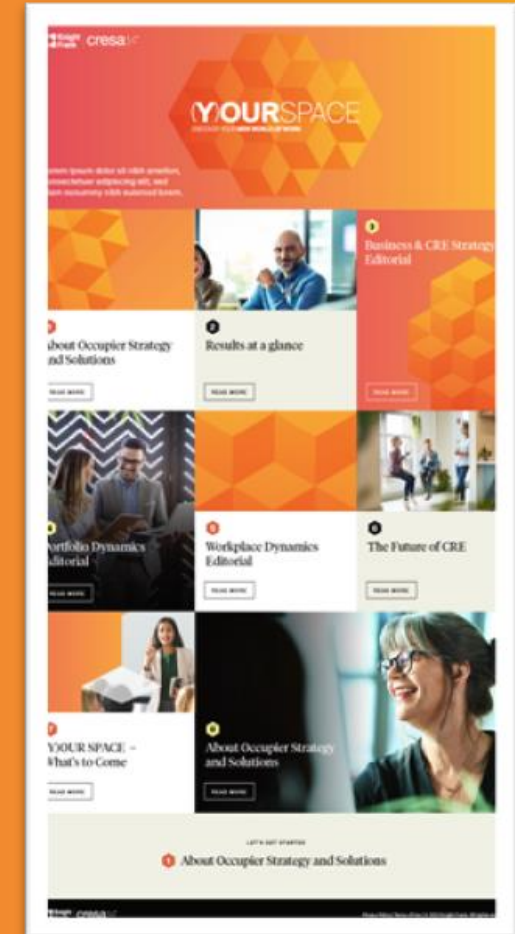
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