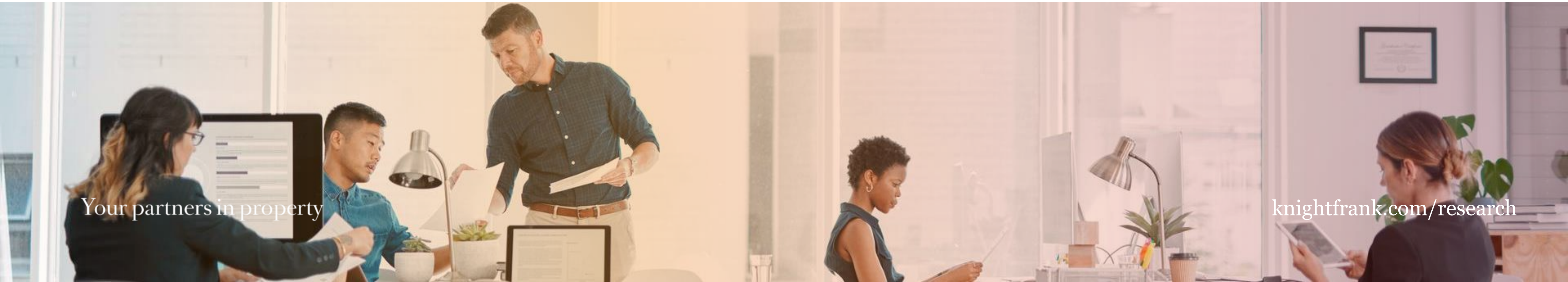
Global Corporate Real Estate Sentiment Index

Q1 2024



Key Findings

Overall, CRE leader sentiment moderated in Q1 2024 after 2 consecutive quarters of improvement. All 3 sub-indices saw a decline.

Stronger RTO mandates and a focus on compliance are driving more stable office re-occupancy rates.

Sentiment is strongest around increasing office density, which is a clear focus for CRE leaders.

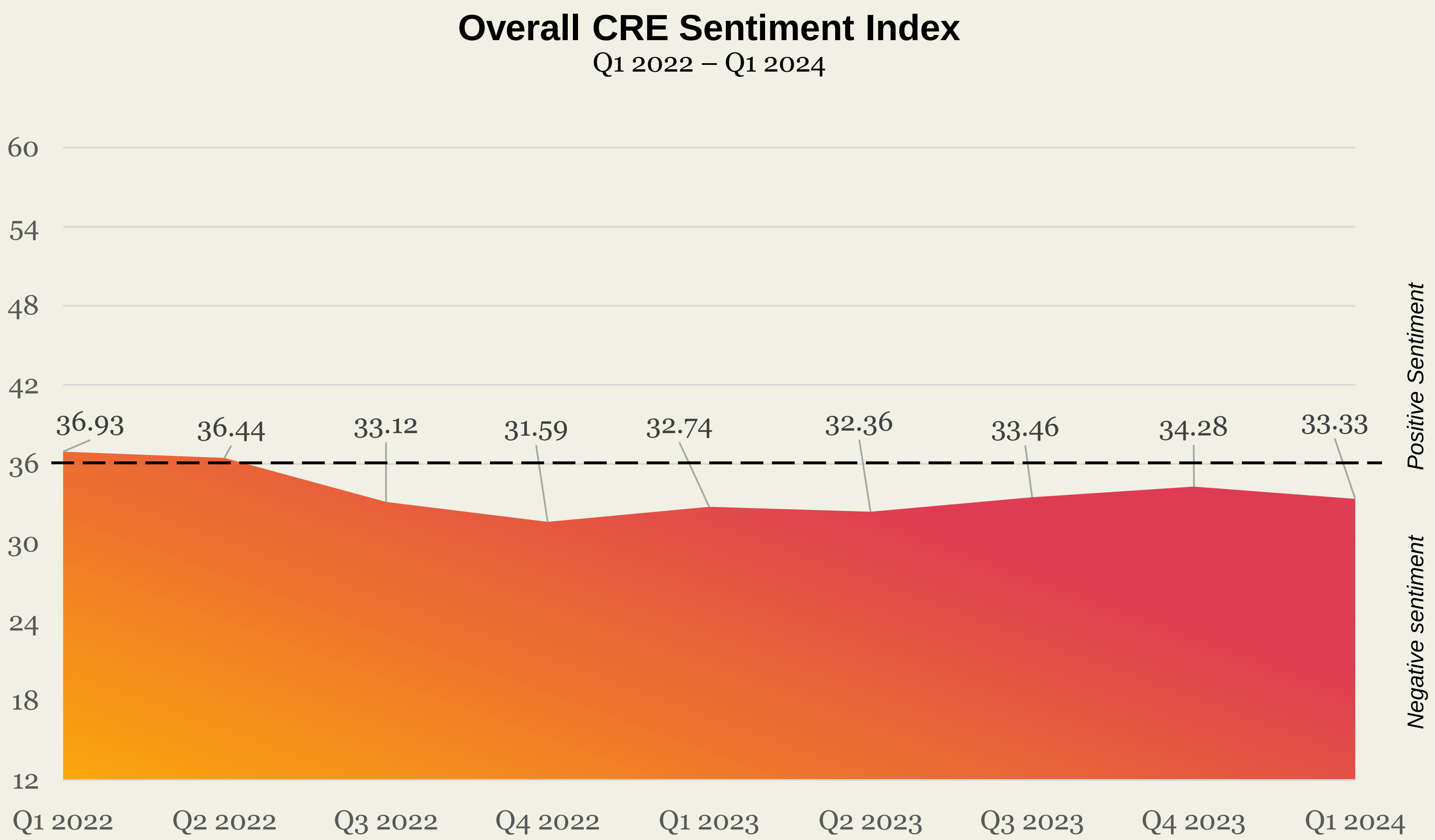
Obsolescence is a future driver, but relocation activity is limited over the short-term due to capex constraints.

Positive sentiment around offshoring improved for the 3rd consecutive quarter to a new high.

Sentiment around increasing the % of sustainable buildings in a portfolio has declined below LTA: reflecting supply constraints / geographical differences.

Source: Knight Frank, 2024

CRE Sentiment – Q1 2022 to Q1 2024



33.33

Overall sentiment fell back by 0.95 points and is now at levels last seen in Q2 2023.

3 of 12

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

Portfolio Dynamics

Despite a q-on-q decline, the Portfolio Dynamics sub-index score of 10.63 is at its 2nd highest level since Q3 2022

Caution

Although sentiment around the global macro-economy has improved, corporate growth is more challenged leading to constraints on capex, reduced headcount growth and a more cautious posture.

Takeaways for Occupiers

GROWTH DYNAMICS

- Steady improvements in sentiment around the global economy suggest reduced concern around recession and a future trajectory that will be more positive.
- Few respondents anticipate significant headcount growth, meaning the focus is on doing more with existing resources and, hence, a focus on productivity.
- Capex constraints are clear and will stifle progress in large capital-dependent projects such as relocations or extensive refurbishments.

PORTFOLIO DYNAMICS

- Offshoring is rising up the agenda as a means of delivering greater efficiency and productivity across a range of activities and functions.
- A sustainability impulse is still there for the majority of occupiers but the ability to enhance sustainability credentials at the portfolio level are hindered by limited capex and supply-side constraints.
- Relocation as a reaction to functional and physical building obsolescence is a real pressure, but capex again limits short-term response.

WORKPLACE DYNAMICS

- RTO levels continue to provide strong, actionable signals about future real estate 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.

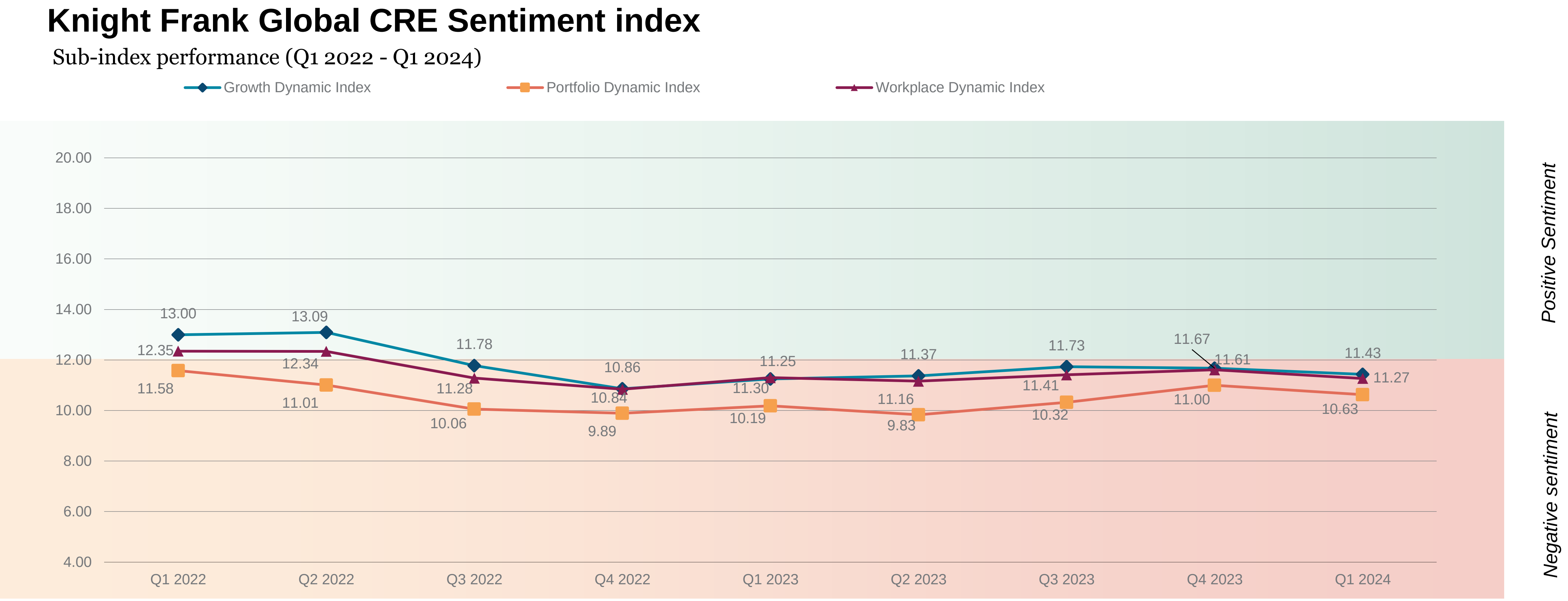
Sub-Index Performance (Q1 2024)

- 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 saw declining sentiment during Q1.
- All three sub-indices sit below a score of 12, which is the tipping point between negative and positive sentiment.
- After a strong increase in Q4 2023, Portfolio Dynamics fell back in the Q1 survey. It should be noted, however, that the sub-index score of 10.63 is the second strongest reading since Q3 2022.
- The growth dynamic sub-index reduced by 0.24 points but is above the levels seen over the period Q4 2022 to Q2 2023 when expectations of global recession were at their highest.
- Workplace dynamic scores have seen the greatest level of consistency since the start of the survey. This sub-index reduced by -0.34 points q-on-q, effectively to the level seen in Q1 2023.

Q1 2024 Sub-index score	*(Movement Q-on-Q)*
11.43 *Growth Dynamics*	↓ *-2.06%*
10.63 *Portfolio Dynamics*	↓ *-3.36%*
11.27 *Workplace Dynamics*	↓ *-2.93%*

Scores above 12 for each of these three sub-indices represent positive sentiment. Source: Knight Frank Q1 2024, N=90

Sub-Index Performance (Q1 2022 – Q1 2024)



Source: Knight Frank Research

Sentiment Scorecard

Growth Dynamics Q1 2024

GROWTH DYNAMIC			
Indicator	**Q4 2023**	**Q1 2024**	**Q-on-Q change**
Global economic growth	2.77	**2.81**	↑
Company revenue growth	3.27	**3.14**	↓
Company headcount growth	2.72	**2.66**	↓
Company capital expenditure growth	2.91	**2.82**	↓

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

- The growth dynamic sub-index reduced by 0.24 points q-on-q to stand at 11.43.
- The three corporate growth performance indicators within the sub-index continue to fuel this reduction in sentiment.
- At a macro-level, sentiment relating to global economic growth continued to improve steadily. A score of 2.81 suggests a more positive sentiment around the trajectory of the global economy following a period of concern around recessionary pressures. In fact, that score is the 3rd highest reading for global economic growth since the survey began in Q1 2022.
- Sentiment around future company revenue growth has never fallen below a score of 3. The Q1 reading remained positive at 3.14 but fell by 0.13 points q-on-q and is below the LTA for the indicator. This is the first-time sentiment around corporate revenue growth has fallen q-on-q since Q2 2023.
- Sentiment around company headcount growth has now been negative since Q4 2022 and fell further during Q1 to stand at 2.66. It is clear many companies, having protected human capital during the pandemic, are now seeking to drive increased productivity through the application of technology rather than additional headcount.
- Having turned positive in Q3 2023, sentiment around future capital expenditure has weakened for two consecutive quarters. This may serve as a brake on some of the more substantial, capital-intensive activities that CRE leaders traditionally deliver – such as relocations or refurbishments of existing space.

Source: Knight Frank 2024, Q1 N=90

Sentiment Scorecard

Portfolio Dynamics Q1 2024

PORTFOLIO DYNAMIC			
Indicator	**Q4 2023**	**Q1 2024**	**Q-on-Q change**
Expanding physical footprint	2.47	**2.58**	↑
Relocating core facilities	2.84	**2.43**	↓
Increasing % of sustainable buildings	3.14	**2.96**	↓
Offshoring functions to new locations	2.55	**2.66**	↑

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

Source: Knight Frank 2024, Q1 N=90

- After strong increases during Q3 and Q4 2023, the portfolio dynamics sub-index fell back by 0.37 points in Q1. However, it remains at its second highest reading since Q3 2022. This suggests that addressing portfolio level challenges is shaping current CRE thinking.

- Reduced sentiment around future capital expenditure clearly has an influence on the q-on-q movement in portfolio dynamics, although supply side constraints might also be at work.
- Capital expenditure constraints have influenced the 0.41-point reduction in sentiment around future relocations and aligns with growing lease renewals and regears from occupiers unwilling or unable to transact into new space.
- In contrast to much of the prevailing narrative, expansionary intent is in evidence. Sentiment around the future expansion of physical footprints was 2.58 – an increase of 0.11 points q-on-q and the highest reading since Q2 2022. This is further evidence of the Covid blinkers being removed and more occupiers focusing down on opportunities to grow and transform.
- Momentum has also been sustained around the offshoring of activity, with the latest reading of 2.66 representing an increase of 0.11 points q-on-q and the highest score achieved since the sentiment index began. The combination of growing cost sensitivity and the need to drive operational efficiency and productivity without headcount growth is fuelling consideration of offshoring, particularly as many offshoring locations are delivering higher value-add skills and services.
- There was a 0.18 reduction in sentiment around the future procurement of sustainable buildings. This indicator has consistently sat in or around a score of 3.00 (LTA = 3.02) so the Q1 2024 score of 2.96 is not disturbing. We believe that the reduction reflects supply-side challenges with a lack of green buildings outside of core markets.

Sentiment Scorecard

Workplace Dynamics Q1 2024

WORKPLACE DYNAMIC			
Indicator	**Q4 2023**	**Q1 2024**	**Q-on-Q change**
Back to pre-pandemic occupancy levels	2.66	**2.62**	↓
Significant changes to office design / configuration	2.88	**2.79**	↓
Increasing density of occupation	3.12	**3.02**	↓
Enhancing office services / amenities	2.95	**2.84**	↓

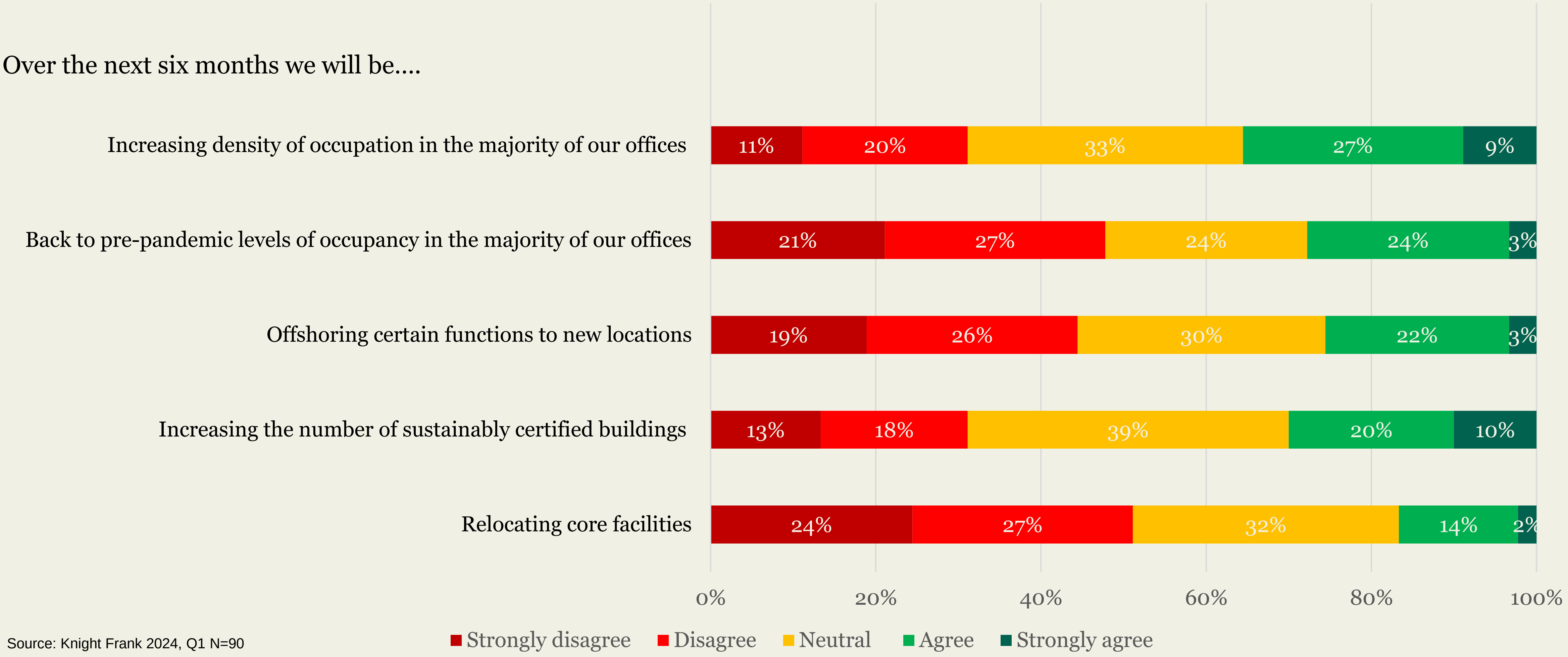
Scores >3 represent positive sentiment and <3 represent negative sentiment

Source: Knight Frank 2024, Q1 N=90

- The workplace dynamic sub-index fell for the first time in half a year and by 0.34 points, to stand at 11.27.
- All four indicators saw q-on-q reductions of up to 0.11 points.
- Sentiment was weakest in relation to the future enhancement of office services and amenities. The score of 2.84 is the lowest on record and suggests that the focus of CRE leaders is shifting from overt intervention in the delivery of increased workplace experience – largely because there is little more that they can achieve in this regard, particularly with capex constraints in evidence.
- Sentiment around a return to pre-pandemic levels of occupancy did reduce marginally q-on-q (-0.04 points) but the score of 2.62 is in keeping with levels seen since Q3 2023 when the tone of RTO messaging and mandates clearly strengthened. Our assessment of recent RTO announcements also illustrates a growing corporate focus on compliance with those mandates.
- 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. Sentiment around the increased density of office occupation fell by 0.10 points but remains positive with a score of 3.02 – one of only two of the 12 indicators that have a score of above 3.
- Getting to a new level of density will require some reconfiguration and redesign of space but this continues to see relatively low levels of sentiment with the current score of 2.79 down 0.09 points q-on-q.

Current weight of opinion

Selection of 5 of the 12 indicators in GCRESI showing the weight of opinion from respondents



Source: Knight Frank 2024, Q1 N=90

Methodological note

Sub-indices

4 questions on a five-point response scale from 'very weak' to 'very strong'	4 questions on a five-point response scale from 'strongly disagree' to 'strongly agree'	4 questions on a five-point response scale from 'strongly disagree' to 'strongly agree '	
GROWTH DYNAMICS SCORE +	PORTFOLIO DYNAMICS SCORE +	WORKPLACE DYNAMICS SCORE =	CRE SENTIMENT SCORE
Absolute score (MIN = 5 MAX = 20.00)	**Absolute score** (MIN = 5, MAX = 20.00)	**Absolute score** (MIN = 5, MAX 20.00)	**Absolute score** (MIN = 15 MAX 60.00)
Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment	Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment	Score greater than 12 = positive sentiment, score lower than 12 = negative sentiment	Score greater than 36 = positive sentiment, score lower than 36 = negative sentiment
Percentage score = (Absolute score/20)*100 Score over 60 represents positive sentiment	**Percentage score** = (Absolute score/20)*100 Score over 60 represents positive sentiment	**Percentage score** = (Absolute score/20)*100 Score over 60 represents positive sentiment	**Percentage score** = (Absolute score/60)*100 Score over 60 represents positive sentiment

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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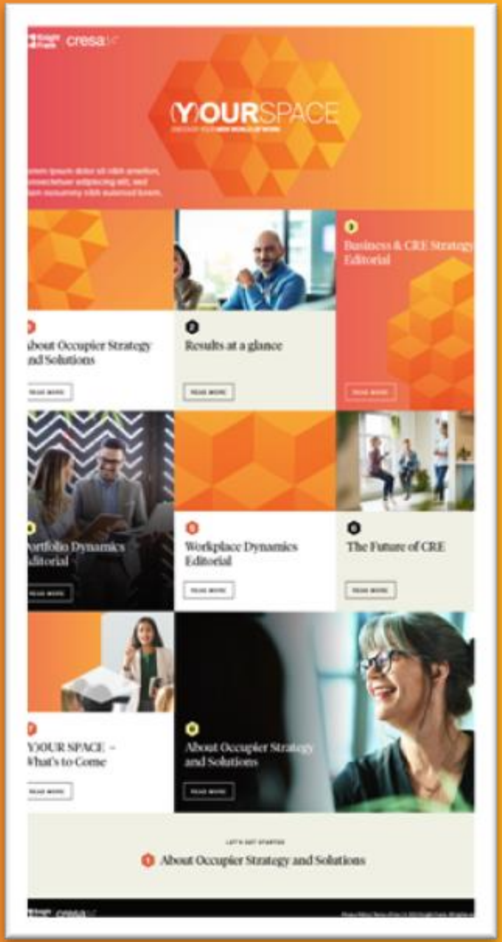

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