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MANAGING COMPLEXITY

Knight Frank

Global Corporate Real Estate Sentiment Index

Q3 2024

Key Findings

Overall CRE leader sentiment rose by 1.98 points to reach the highest level seen since Q4 2023.

All three subindices saw rising sentiment q-on-q, although portfolio dynamics saw the strongest increase (+1.05 points)

11 of the 12 indicators making up the Sentiment Index saw improvement q-on-q, with 7 now above their long-term average.

The strongest quarterly increase was in relation to sustainable portfolios with sentiment up 0.46 points q-on-q and in positive territory.

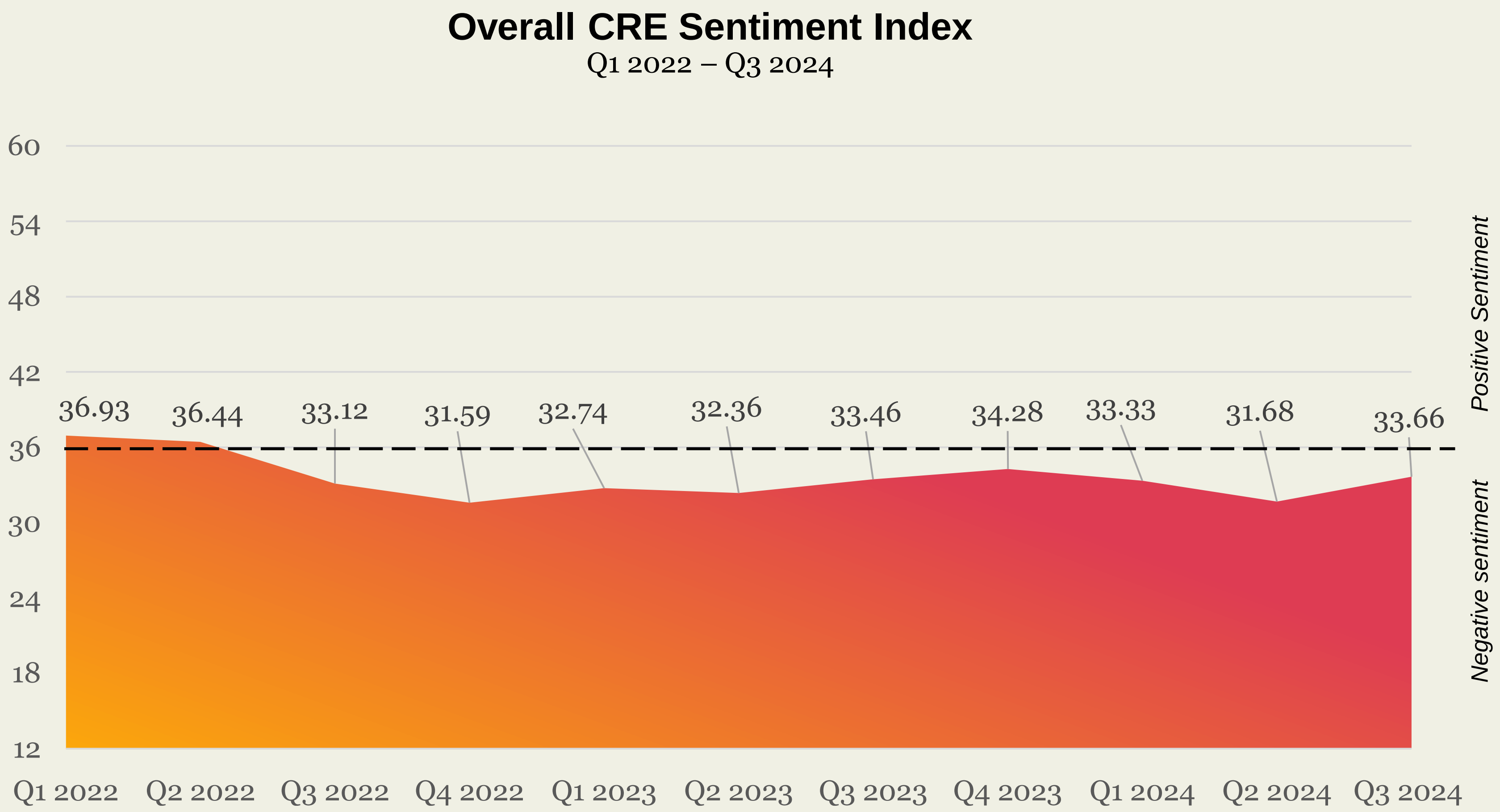
Sentiment is weakest in relation to physical expansion and a return to pre-pandemic occupancy.

This quarter we had a special focus on AI adoption. Respondents expect increased levels of adoption at an enterprise level and, to a lesser extent, within the CRE function.

Source: Knight Frank, 2024

CRE Sentiment – Q1 2022 to Q3 2024

Sentiment is at its highest level for nine quarters, jumping by almost 2 points q-on-q



33.66

Overall sentiment rose by 1.98 points to the third highest reading since the survey began in Q1 2022. This is the latest turn in a volatile period from mid 2022 onwards.

Portfolios in focus

The portfolio sub-index increased by more than 1 point q-on-q and is at the highest level recorded since the index began in 2022.

From uptick to turning point?

Although historically the index has been volatile q-on-q, this quarter represents only the 4th time that overall sentiment has improved q-on-q, and the strength of the improvement is unparalleled.

Takeaways for Occupiers

GROWTH DYNAMICS

- Cautious optimism returns to the global economic outlook despite inflationary pressures and geopolitical tensions. Attention will quickly turn to the US post Donald Trump's inauguration in January and potential policy implications.
- Sentiment remains volatile around capital expenditure growth, although is much less pessimistic than a quarter ago. This should support activity at the portfolio level.
- Little expectation around significant headcount growth for most respondent organisations over the next 6 months.

PORTFOLIO DYNAMICS

- Sentiment remains weak with respect to physical expansion, meaning that portfolio rationalisation or consolidation is a more likely strategy.
- Offshoring continues to be in focus for many, with the indicator at an all-time high and increased activity being witnessed in major outsourcing markets.
- After a significantly low score in Q2, sentiment about increasing the proportion of portfolios carrying a sustainability certification turned positive – as market provision steadily improves.

WORKPLACE DYNAMICS

- The bulk of occupiers continue to accept that there will not be a strong return to pre-pandemic levels of occupancy.
- Q3 saw less positive sentiment towards the densification of office occupancy.
- Enhancing workplace services and experiences remains a lower order priority for many respondents – which may be a direct function of mandating or a lack of innovative new approaches to the issue. There is a growing market narrative around reaching 'peak amenity'.

Sub-Index Performance (Q3 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 significant improvements in sentiment after three consecutive quarters of decline.
- Sub-index increases are notable, particularly in the case of portfolio dynamics (a 10% increase q-on-q) and growth dynamics (a 7% increase q-on-q) with both now at levels seen at the back end of 2023.
- The growth dynamic sub-index rebounded strongly in Q3, although it remains below the long-term average. All four indicators in the growth sub-index improved q-on-q, with company revenue growth and capital expenditure growth both recording strong upticks in sentiment.
- Improved portfolio dynamics accounted for more than half of the overall improvement in sentiment. Occupiers are turning their attention towards portfolio-level activities, albeit with a focus on rationalisation, consolidation and/or improvements in operational efficiency.
- Although improving q-on-q, sentiment around workplace dynamics was the lowest of the three, in keeping with the shifting focus towards portfolio-level activity.

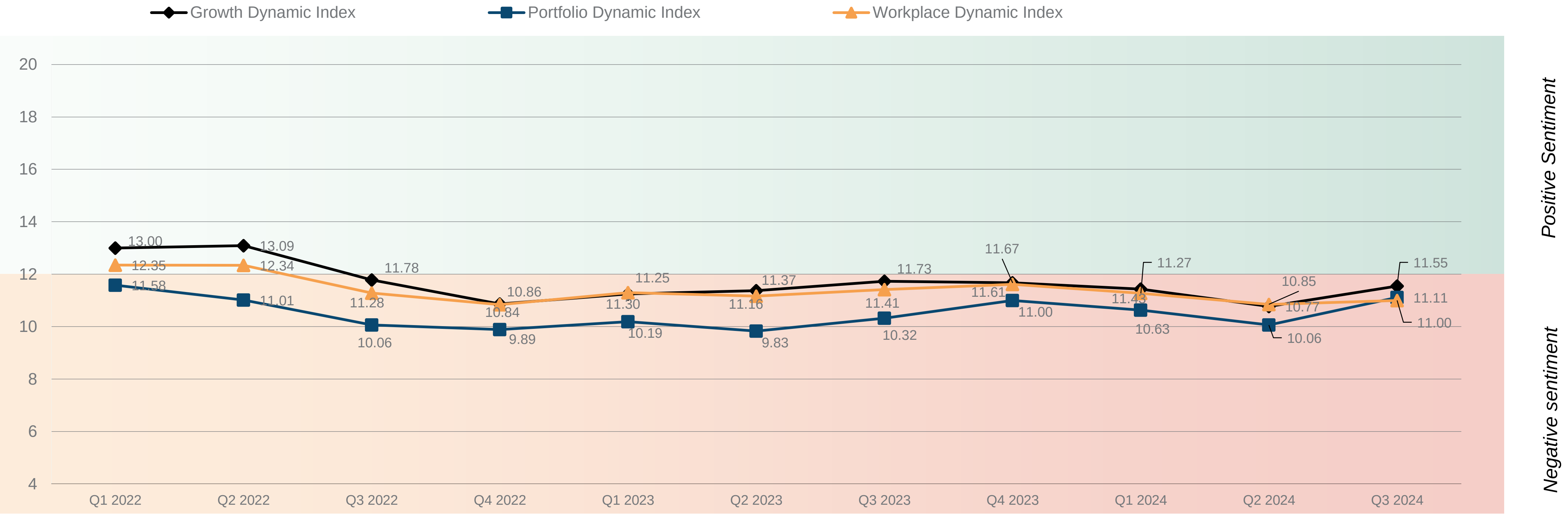
Q3 2024 Sub-index score	*(Movement Q-on-Q)*
11.55 *Growth Dynamics*	↑ *+7.24%*
11.11 *Portfolio Dynamics*	↑ *+10.44%*
11.00 *Workplace Dynamics*	↑ *+1.38%*

Scores above 12 for each of these three sub-indices represent positive sentiment. Source: Knight Frank Q3 2024, N=66

Sub-Index Performance (Q1 2022 – Q3 2024)

Knight Frank Global CRE Sentiment Index

Sub-index performance (Q1 2022-Q3 2024)



Source: Knight Frank Research

Sentiment Scorecard

Growth Dynamics Q3 2024

GROWTH DYNAMIC			
Indicator	**Q2 2024**	**Q3 2024**	**Q-on-Q change**
Global economic growth	2.70	**2.88**	↑
Company revenue growth	3.05	**3.27**	↑
Company headcount growth	2.45	**2.58**	↑
Company capital expenditure growth	2.57	**2.82**	↑

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

- The growth dynamic sub-index improved by 0.79 points q-on-q to stand at 11.55.
- The improvement was solid across all four indicators comprising the growth dynamic sub-index but was underpinned by expectations of corporate revenue and capital expenditure growth.
- Sentiment around global economic growth improved by 0.18 points q-on-q to 2.88 which is actually the strongest sentiment around global economic growth since Q2 2022.
- Note that responses were collected prior to the US Election, which may change the trajectory of the global economy and the business operating environment.
- Sentiment around future company revenue growth has never fallen below a score of 3. The Q2 reading remained positive at 3.27, rising 0.25 points to return to the level seen at the end of 2023.
- Sentiment around company headcount growth continues to be negative but has improved q-on-q. Businesses continue to focus on driving productivity through the application of technology rather than additional headcount, and, in fact, some notable job cuts are beginning to emerge across a range of sectors, which may weigh down on this indicator going forward.
- Sentiment around future capital expenditure rebounded following an extended period of negative and declining sentiment. Although not technically positive (i.e. with a score above 3) one-fifth of all respondents to the survey agreed or strongly agreed with the statement that their company will see growth in capital expenditure over the next six months. If sentiment meets with reality, these respondents will see a significant brake on CRE activity being released.

Source: Knight Frank 2024, N=66

Sentiment Scorecard

Portfolio Dynamics Q3 2024

PORTFOLIO DYNAMIC			
Indicator	**Q2 2024**	**Q3 2024**	**Q-on-Q change**
Expanding physical footprint	2.19	**2.45**	↑
Re-locating core facilities	2.52	**2.70**	↑
Increasing % of sustainable buildings	2.84	**3.26**	↑
Offshoring functions to new locations	2.51	**2.70**	↑

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

- The portfolio dynamics sub-index drove the entire index over Q3, rising 1.05 points q-on-q and halting declines over the last half-year. All four of the indicators making up the sub-index saw sentiment levels increase.
- Although it improved by 0.26 points q-on-q, sentiment relating to the expansion of the physical footprint was the weakest across the whole survey, and we do not anticipate expansionary demand to be a dominant feature of activity over the next six months.
- Instead, we expect more occupiers to focus on the rationalisation, consolidation or reordering of their portfolios. This accounts for strengthening sentiment around both the relocation of core facilities and the offshoring of activity to new locations.
- The most significant uptick in sentiment in Q3 related to increasing the proportion of sustainable buildings within occupier portfolios. The score of 3.26 is the second highest since the index began. 42% of all respondents 'strongly agreed' or 'agreed' with the statement relating to sustainable buildings. As always, the practical challenge will be to source appropriately certified product within global markets, but the intention is clear from global occupiers.

Source: Knight Frank 2024, N=66

Sentiment Scorecard

Workplace Dynamics Q3 2024

WORKPLACE DYNAMIC			
Indicator	**Q2 2024**	**Q3 2024**	**Q-on-Q change**
Back to pre-pandemic occupancy levels	2.36	**2.48**	↑
Significant changes to office design / configuration	2.68	**2.74**	↑
Increasing density of occupation	3.06	**2.98**	↓
Enhancing office services / amenities	2.75	**2.80**	↑

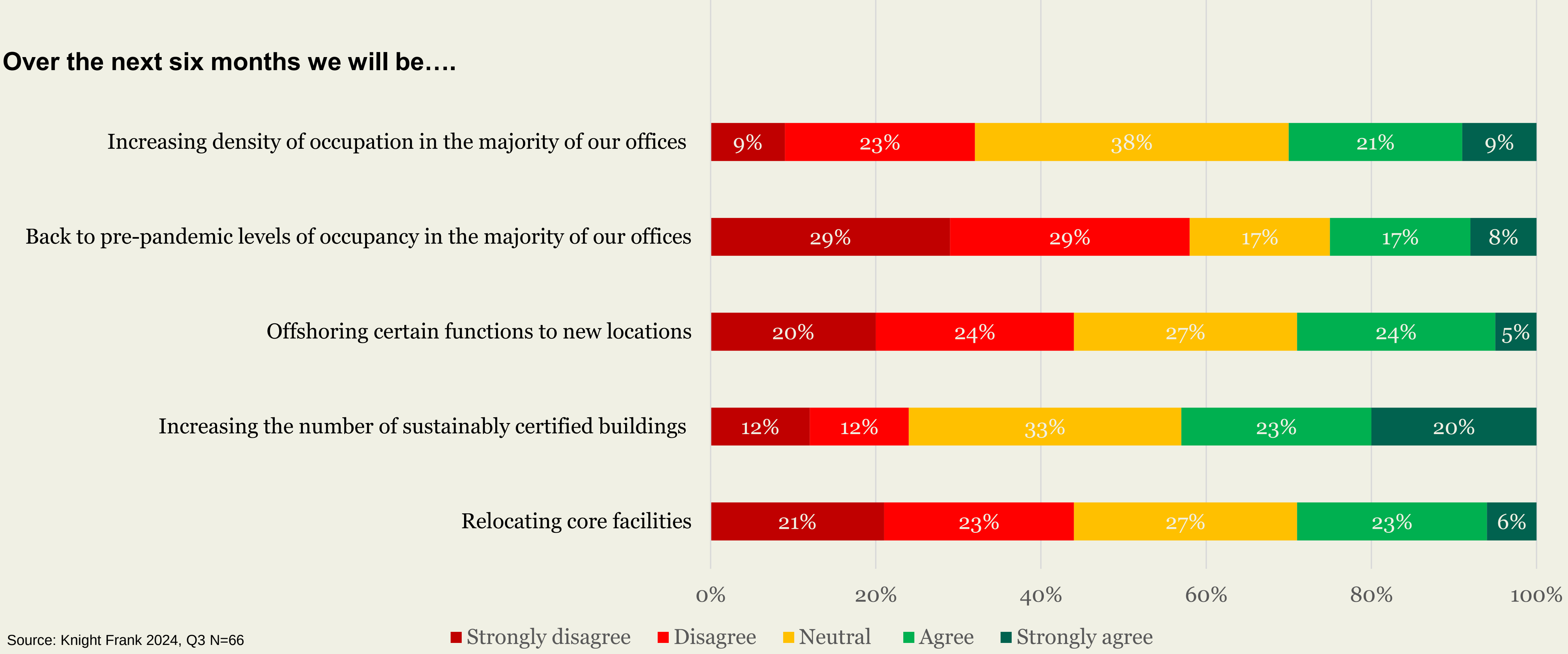
Scores >3 represent positive sentiment and <3 represent negative sentiment

Source: Knight Frank 2024, N=66

- Three of the four indicators comprising the workplace dynamic sub-index increased q-on-q, although the movements were marginally upwards. As a result, the sub-index only moved by 0.15 points to reach 11.00 (the weakest of the three sub-indices).
- Sentiment continues to be weak in relation to a return to pre-pandemic levels of occupancy. The RTO debate which raged across global markets over the last 12-18 months seems to have subsided with many occupiers recognising that more flexible workstyles are a post-pandemic reality and will generate variation in occupancy rates. Just 8% of all survey respondents 'strongly agreed' with the suggestion that they will get back to pre-pandemic levels of occupancy within the next 6 months, compared to 29% of respondents who 'strongly disagreed'.
- There was a slight downward shift in sentiment around the densification of office space, with the indicator shifting from positive sentiment to marginally negative.
- Making changes to office design and enhancing office services and amenities both continue to show low scores and negative sentiment. This may be in part due to the rise in the stick of mandates to drive RTO rather than the carrot of enhanced design and experience. There is, however, a growing narrative within the market about amenity provision and whether we have reached 'peak amenity' and will see more functional and practical amenities becoming the key workplace requirement.

Current weight of opinion

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



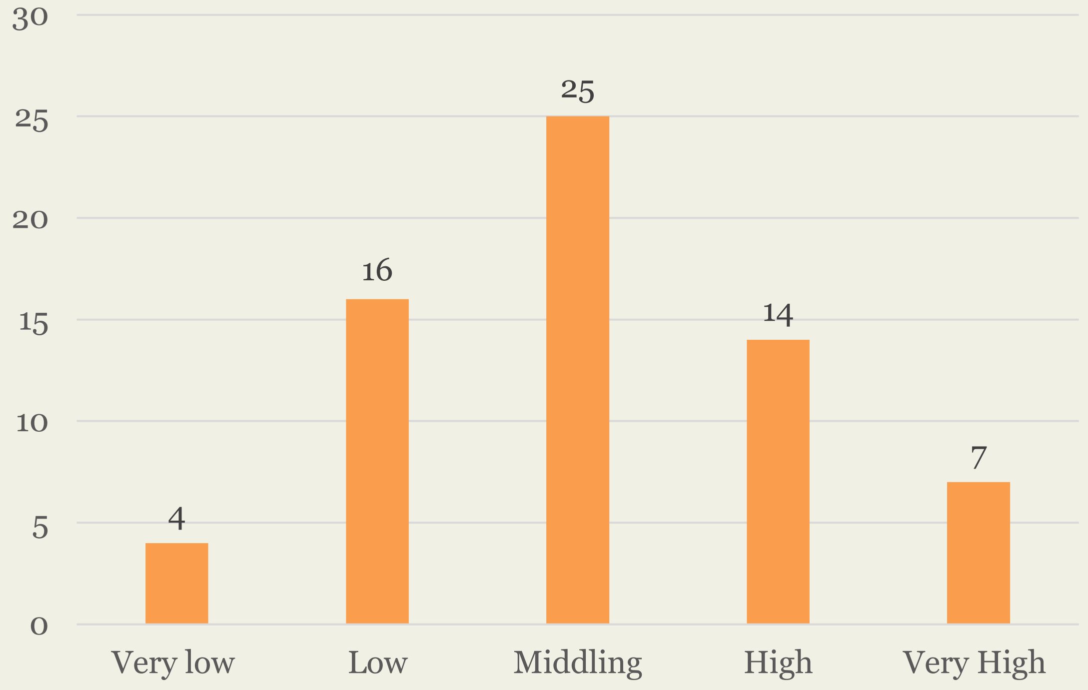
Source: Knight Frank 2024, Q3 N=66

Corporate adoption of AI

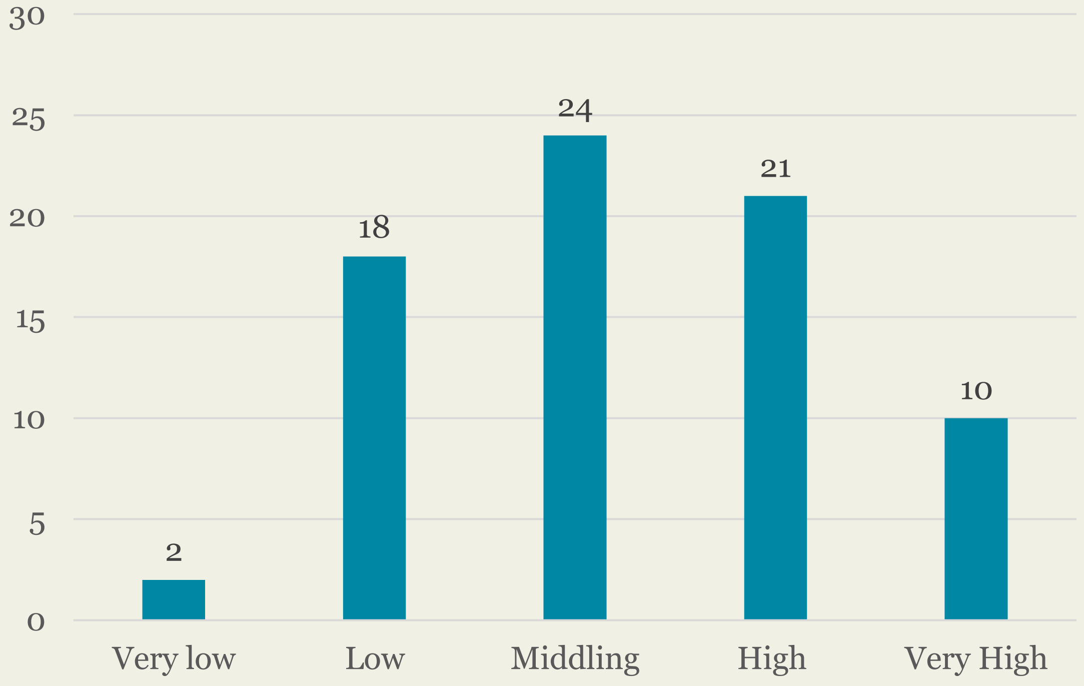
AI adoption on the increase over the next 12 months.

32% of respondents see current adoption as ‘high’ or ‘very high’, rising to 48% over the next year.

Current level of AI adoption at the Enterprise level



Level of AI adoption at the Enterprise Level over the next year

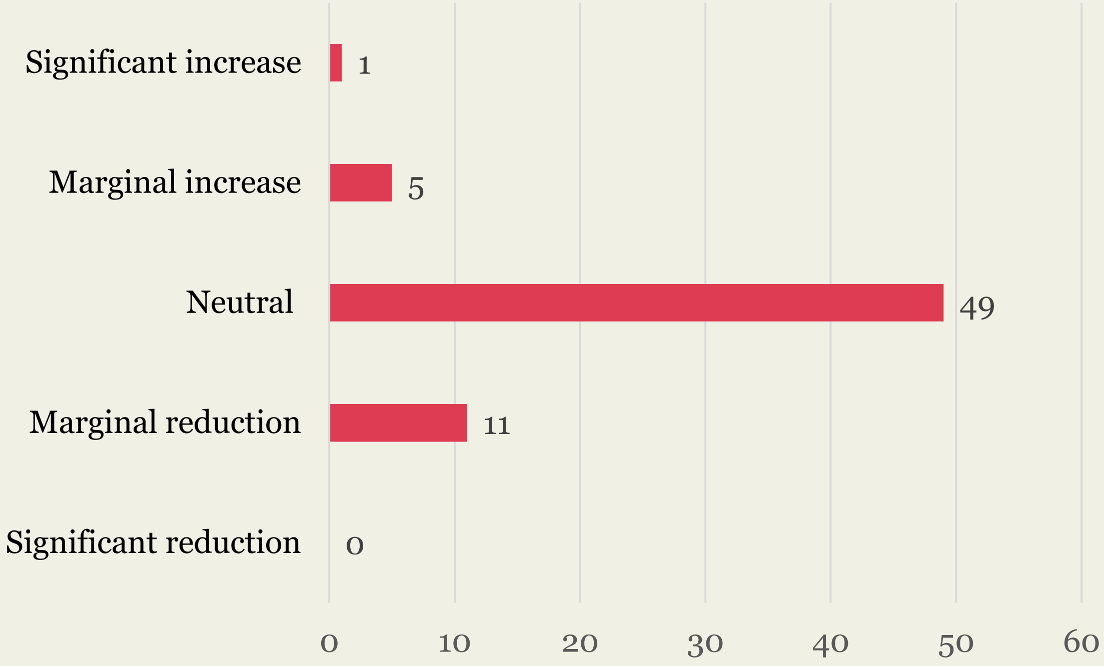


Source: Knight Frank, 2024. N=66

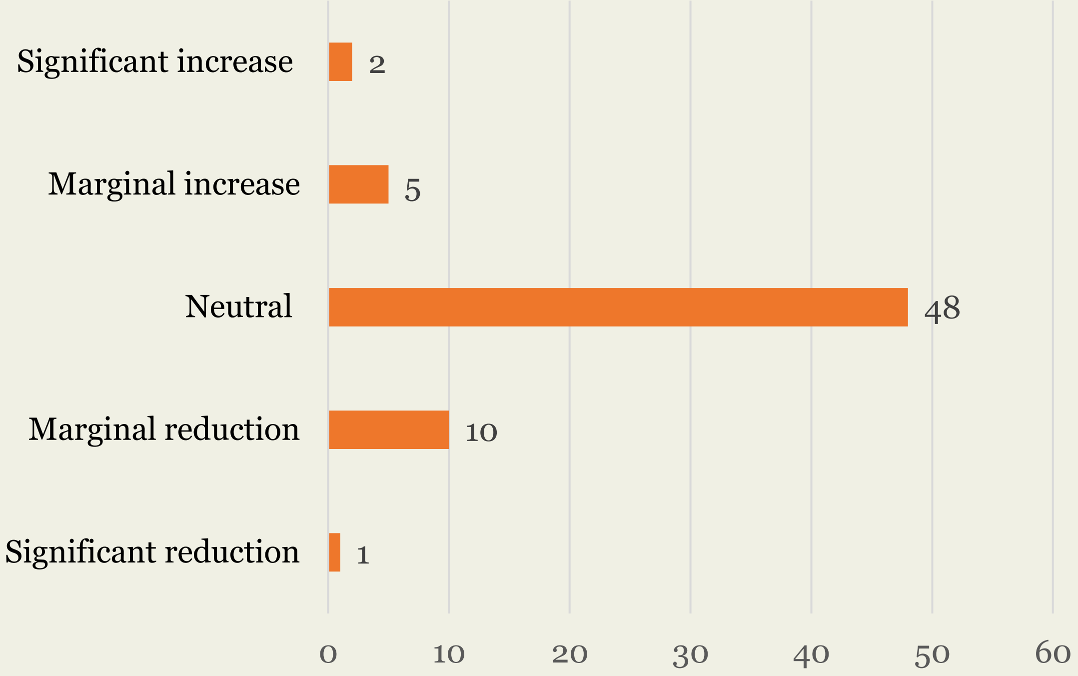
Perceived impact of AI on headcount & floorspace

AI adoption viewed as unlikely to have a significant effect on either headcount or floorspace over the next year and where impacts occur, they are viewed as marginal.

The perceived headcount impact of AI adoption at the enterprise level



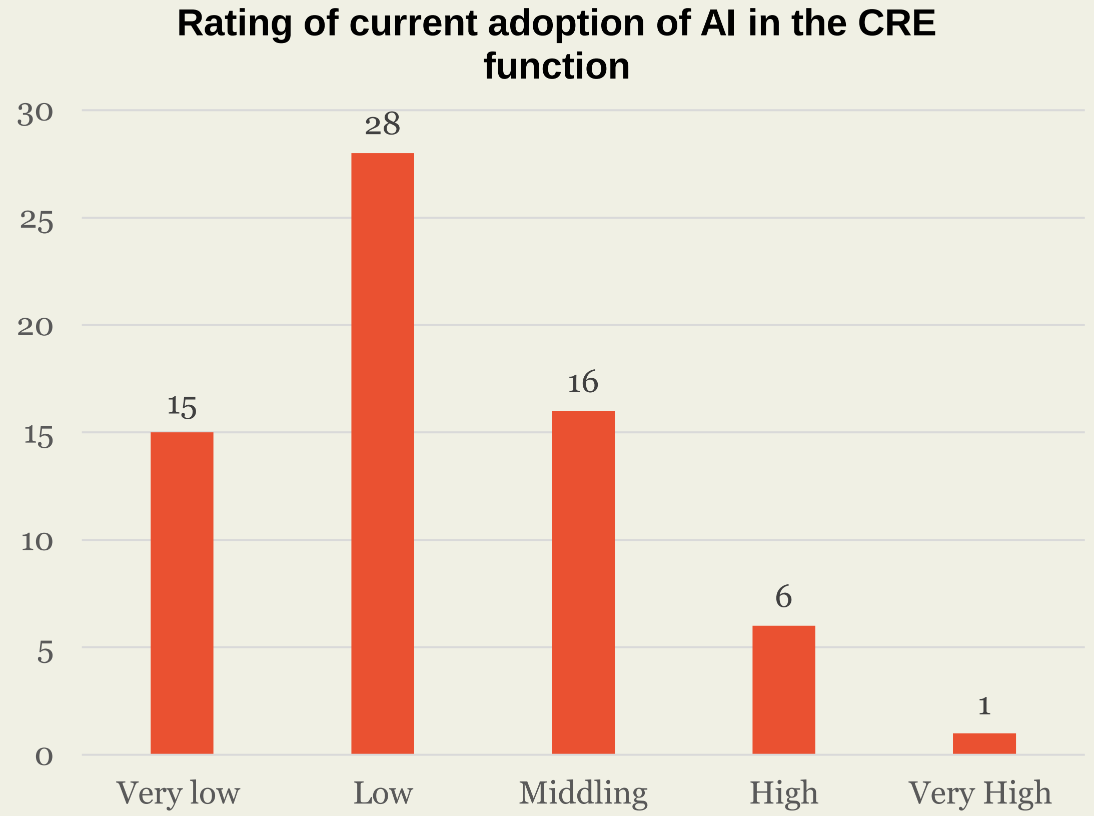
The perceived floor-space impact of AI adoption at the enterprise level

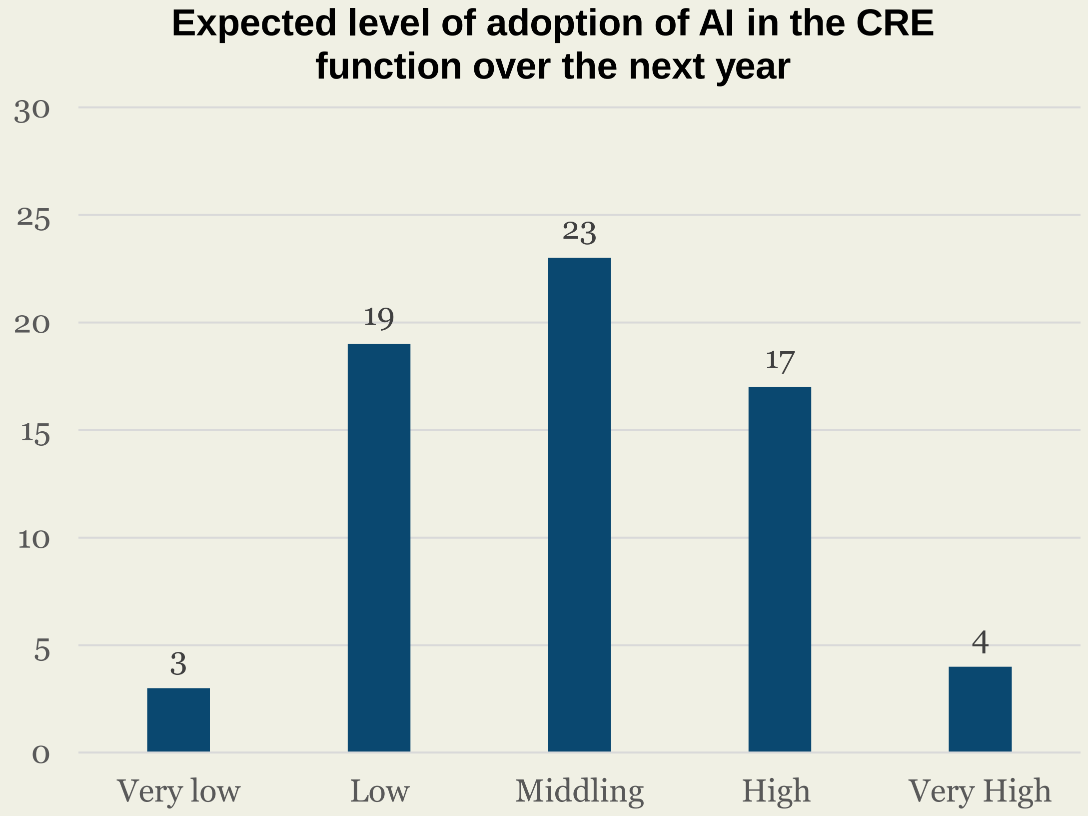


Source: Knight Frank, 2024. N=66

AI Adoption within Corporate Real Estate

CRE is on the journey over the next year, but current adoption is perceived as low. 65% of respondents rate CRE adoption of AI as 'very low' or 'low' but only a third see that being the position within 12 months.





Source: Knight Frank, 2024. N=66

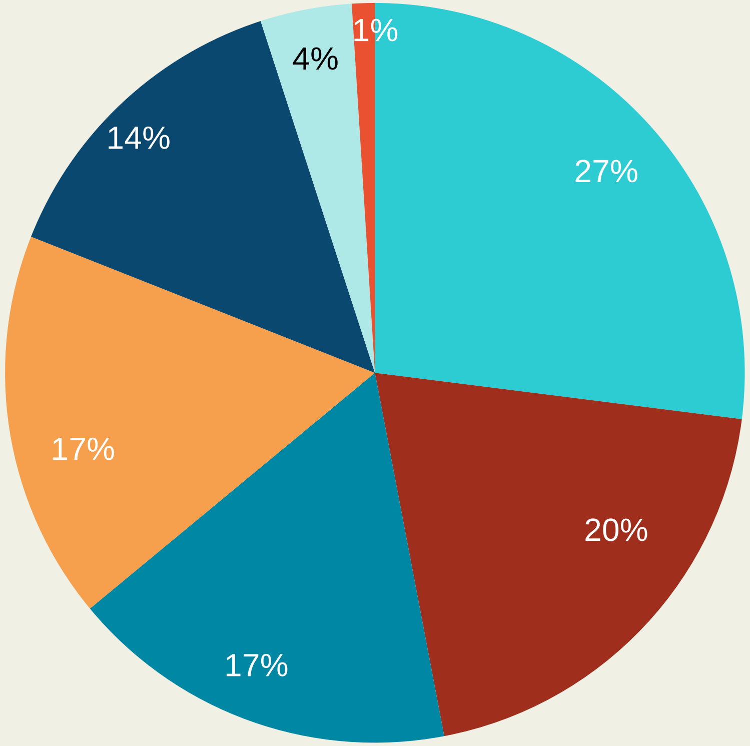
Use Cases for AI in CRE

Lease and transaction management & predictive facility management & operational efficiency were the two standout use cases identified by respondents, although all areas achieved double-digit responses suggesting a broad-based opportunity.

Respondents view on the area of the greatest opportunity for the application of AI in CRE

(% of respondents)

- Lease management & transaction automation
- Predictive facility maintenance & operational efficiency
- Enhancing space utilisation/optimisation
- Sustainability & energy efficiency
- Enhancing employee experience
- No great opportunity
- Other



Source: Knight Frank, 2024. N=66

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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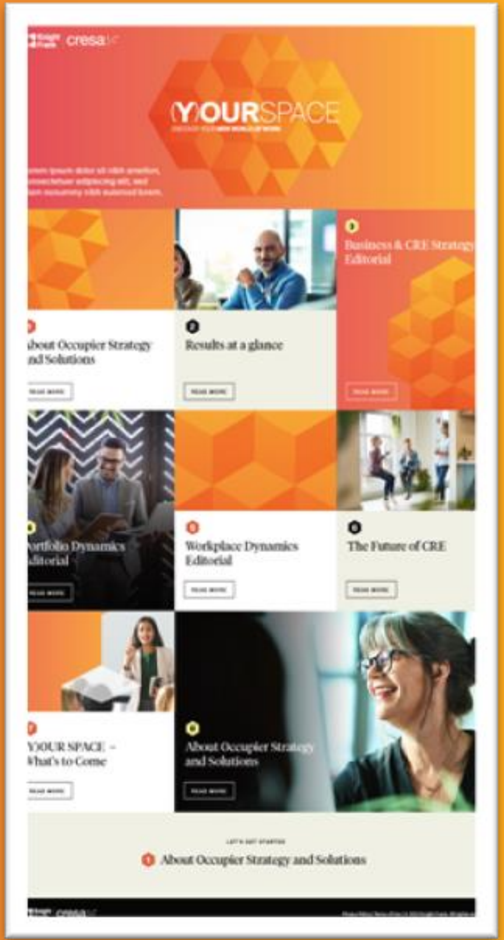

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