Q3 2021: Global Commercial Property Monitor

Commercial Property Sentiment Index posts fifth successive quarterly increase

- **Real estate sentiment edged up again in Q3, albeit only marginally compared with Q2**
- **Headline index strongest for Europe and Americas but Middle East and Africa most improved**
- **Occupier demand gaining some momentum on the back of macro economic recovery**

The headline results of the Q3 2021 RICS Global Commercial Property Monitor (GCPM) suggest that sentiment among professionals working in the real estate market has changed little compared with the preceding three month period. The aggregated (global) Commercial Property Sentiment Index (CPSI) did actually rise for the fifth consecutive quarter, but only very marginally; it still remains in negative territory (-3).

This pattern is broadly replicated at the regional level, as highlighted in Chart 1. The biggest improvement in the CPSI was visible in the Middle East and Africa (MEA) where the negative reading narrowed from -13 to -8. The results for Europe, show a gain of a similar magnitude (-6 to +1). However, for the Americas, the feedback was slightly less positive (+4 down to zero). For APAC it was unchanged (-10). This somewhat bland set of results takes on greater colour when disaggregated to country level and, more starkly, by sectors.

Occupier metrics begining to strengthen

A recurring theme in the results of recent surveys has been the more positive feedback around investor behaviour compared to occupiers. With the macro recovery continuing to build, albeit somewhat patchily in places, indicators designed to capture the occupier trend have begun to improve and narrow the gap. At a global level, the Investment Sentiment Index remains around 0% but the Occupier Sentiment Index now stands at -6 compared with, respectively, -10 previously and -26 in the first quarter of the year. This trend is underpinned by evidence of a pick-up in tenant demand, albeit the global reading has only edged to a net balance of +3%.

Significantly, the tenant demand metric in Europe and the Americas is showing stronger momentum (net balances of +12% and +10% respectively) than elsewhere (MEA -1% and APAC -12%). Chart 2 disaggregates the picture a little further, highlighting the trend regarding occupier activity in a number of key markets. Significantly, this indicator has been in positive territory for two successive quarters, both in the United States and the UK. That said, for the time being, other metrics looking at inducements are continuing to rise to a greater or lesser extent in each case. Elsewhere, in Europe the pattern is more mixed, with the tenant demand reading moving back into positive territory in Italy (+21%) and Germany (+7%) but remaining negative in France (-4% compared with -19% in Q2).

Chart 1: Global Commercial Property Sentiment Index*

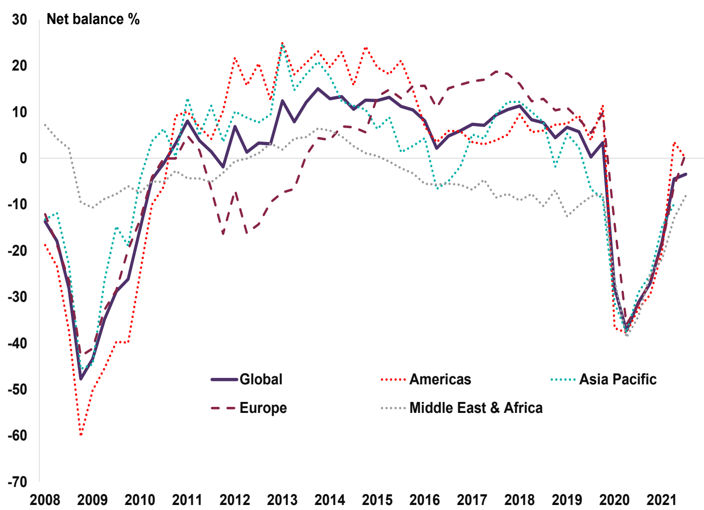
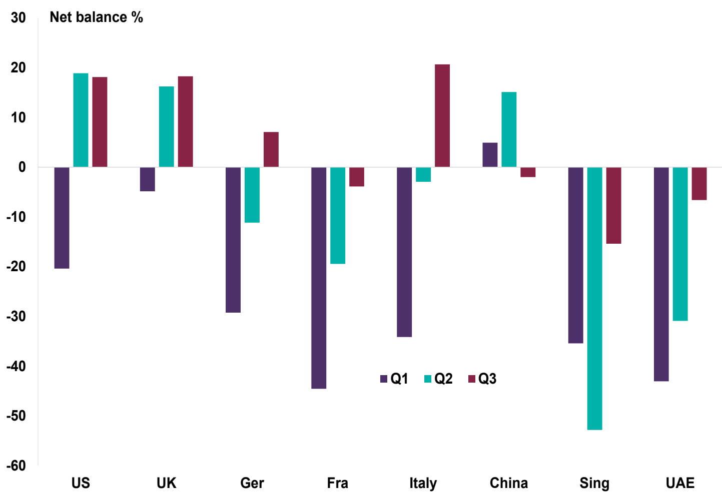


Chart 2: Tenant Demand in Selected Markets



Survey responses were supported by the following

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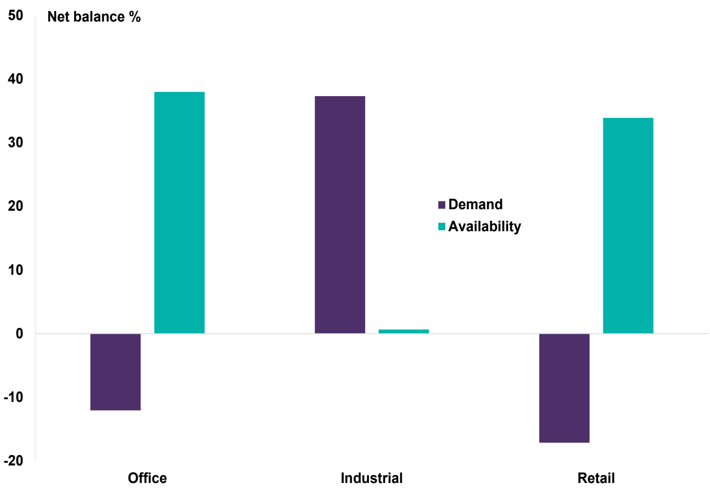
**The Global Commercial Property Sentiment Index is a weighted composite measure capturing overall market momentum, encompassing variables on supply, demand, and expectations*

At the same time, feedback from China was flat (-2% vs +15% previously) which chimes with a slowing in economic activity in recent months. Meanwhile, Singapore and UAE are showing less negative tenant demand readings than in Q2 (-15% vs -53% and -7% v -31%). As touched on earlier, the sector story remains hugely relevant in providing a clearer narrative around these developments. This is evident in Chart 3, which shows global occupier demand and availability (in net balance terms) by the three main sectors that are focused of the survey.

Unsurprisingly, it is the industrials/logistics area where demand is continuing to grow strongly and new supply is constrained. The negative feedback regarding take-up of office and retail space continues to lessen but respondents are suggesting that availability in both areas is still rising to a certain extent. It is also noteworthy that the results from a number of countries actually show a rise in demand in these generally 'out of favour' sectors (office more than retail). However, with a few exceptions, this dynamic is most evident in some smaller markets.

Chart 3: Global Occupier Demand and Availability by Sector



Forward looking metrics point to a more positive outlook

Feedback around the outlook over the next twelve months is little changed from the Q2 results (Chart 4). In the case of prime offices, for both rents and capital values, headline projections are flat to marginally positive. However, the numbers are still slightly negative when it comes to secondary office space. For prime industrial real estate, capital values are seen rising a further 5% with rental growth viewed as only being marginally slower. The expectation for both prime and secondary retail remains a little more downbeat but it is worth noting that, even here, there has been a lessening of the negative mood. In the first quarter of 2021, secondary retail rents were anticipated to decline by 8% at a global level, but the latest reading puts the expectation for the next twelve months at half this level.

As for the alternative sectors, the standout performers remain data centres and multifamily. Aged care facilities and student housing are also seen as likely to record positive returns over the period in question, with hotel capital values remaining broadly flat.

Chart 6 (on page 3) shows twelve-month expectations by country in net balance terms. The top right quandrant are those markets where respondents to the survey anticipate both capital and rental values rising. Saudi Arabia has most positive readings on this basis, followed by Turkey and Greece, but more investible markets such as the US, the UK and Canada also sit in this area. The bottom right quadrant, by way of contrast, captures those markets where the forward looking metrics are negative on both the investor and occupier side. This grouping continues to include (amongst others) Singapore, South Africa and Malaysia.

Real estate entering an upturn phase

An indicator that is watched closely is the share of respondents who view markets to be in different phases of the real estate cycle. This is highlighted in Chart 7. At a global level, around 40% still believe the market to be either in a downturn or at the floor, while 60% view it as in an upturn or in the peak phase. Although these numbers are similar to last quarter, they do show a significant shift in thinking compared with the same period in 2019. At that point, around 70% felt the real estate market was in a downturn or at the floor. Consistent with other feedback, Europe and the Americas have the highest proportion of contributors taking a positive view of the market position in the cycle. In contrast, more than 50% of the feedback from APAC suggests that the regional real estate market is in a downturn phase.

Alongside this, the share of respondents who take the view that real estate is now fair value continues to rise. Chart 5 shows that in Q3 this reached 44%, although the proportion who see it as cheap remains low - at just 11% despite the extraordinarily low level of interest rates. With central banks gearing up to begin tightening monetary policy (albeit only modestly initially) in response to the sharp uplift in inflation rates in recent months, this could potentially be one area of risk for real estate markets looking ahead.

Chart 4: Global Capital Value Expectations by Sector

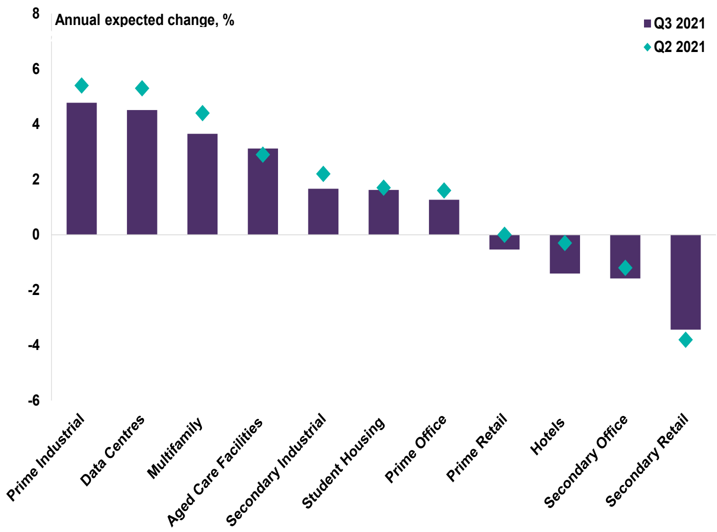


Chart 5: Perceptions on Valuation of Real Estate

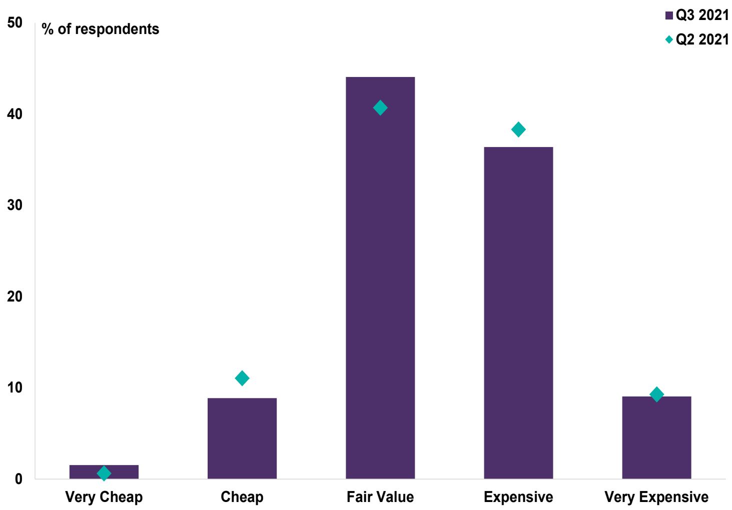


Chart 6: 12-Month Expectations

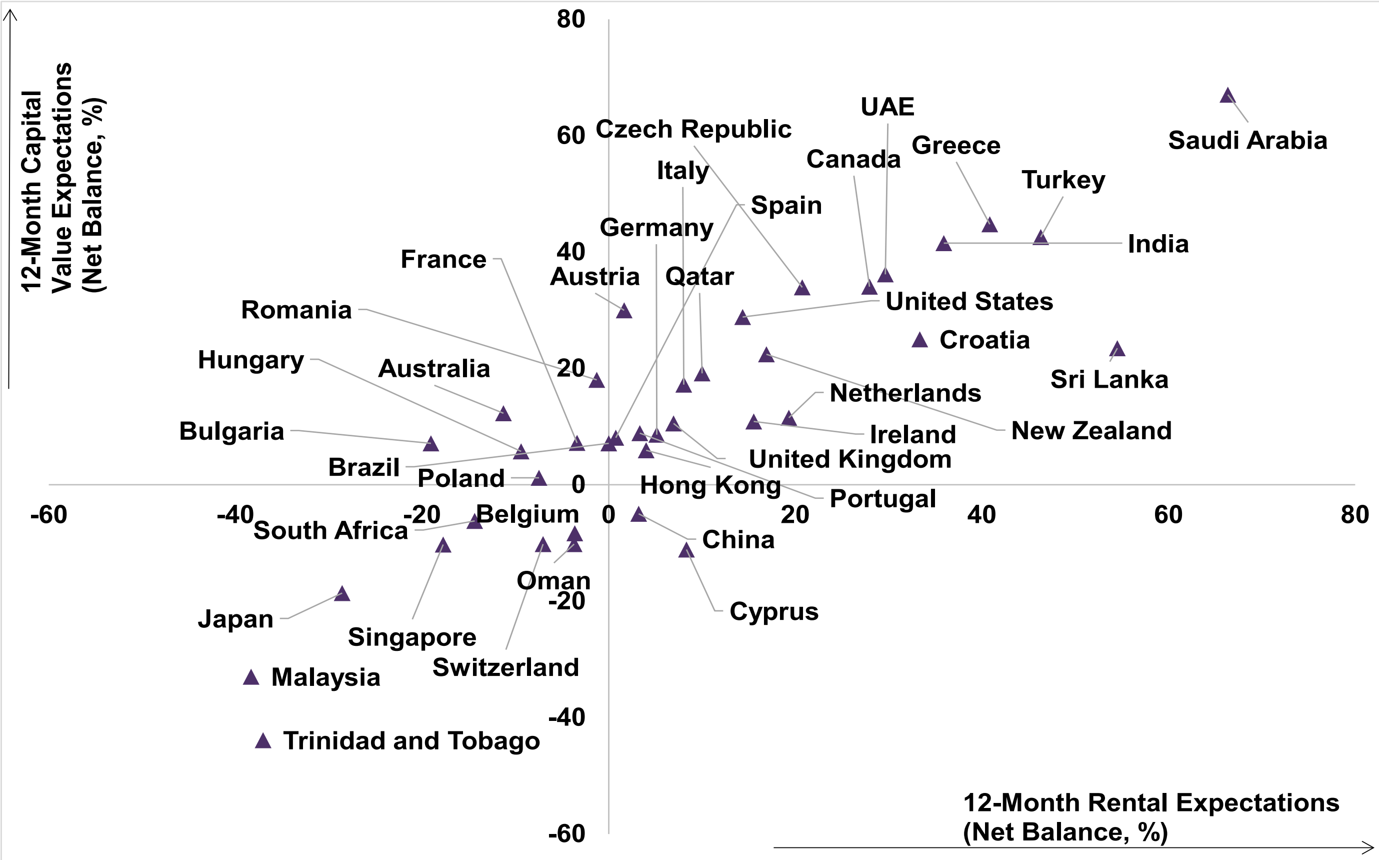
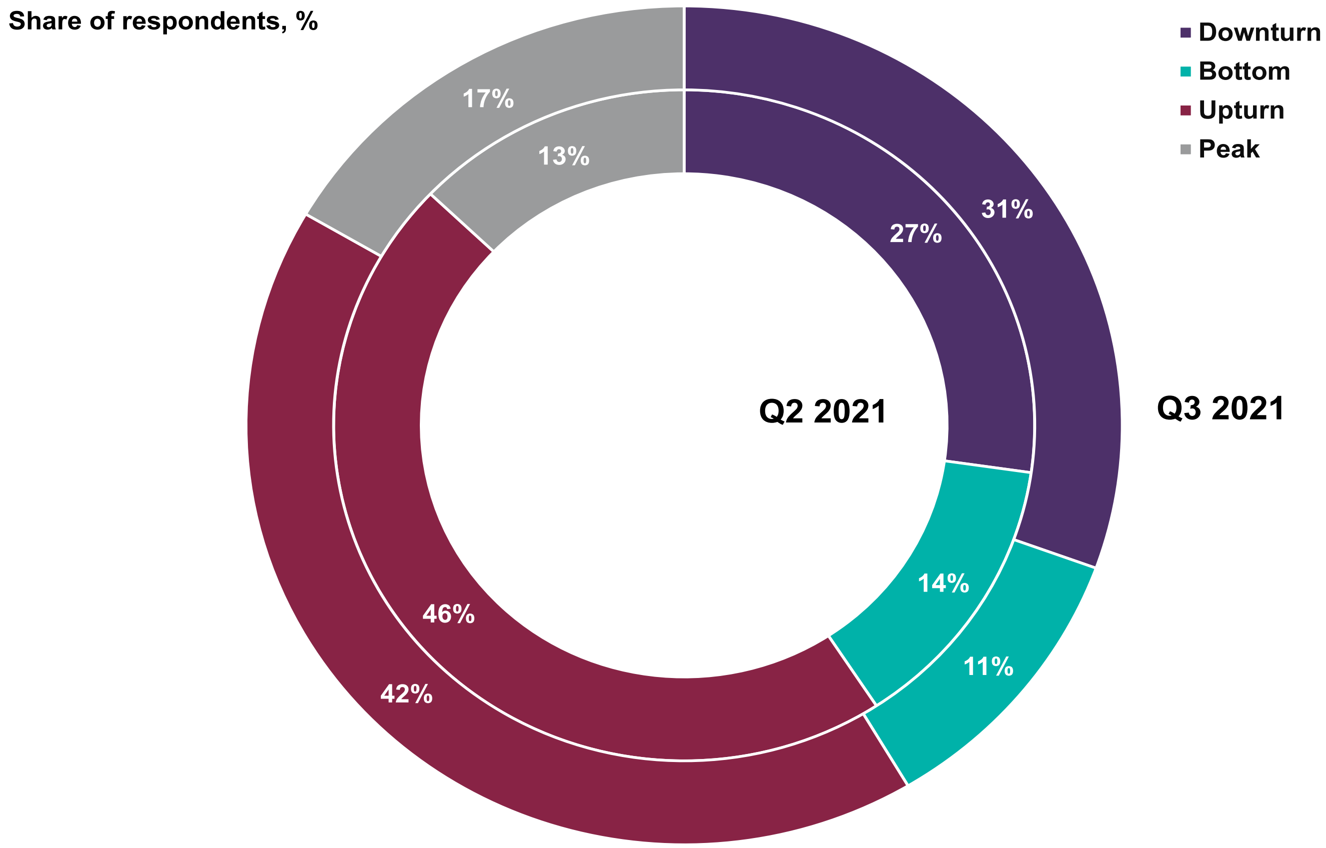


Chart 7: Perceptions on Phase of the Cycle



North America: Headline capital value projections upgraded for the next twelve months

The Q3 2021 GCPM results across North America show a further improvement in forward looking indicators, with respondents pencilling in slightly greater capital value and rental growth than previously envisaged. Nevertheless, current conditions remain somewhat mixed, with office demand appearing to falter within the United States, while retail continues to lag the broader recovery across the commercial real estate market.

Commercial Property Sentiment Index rises in Canada

The headline Commercial Property Sentiment Index delivered a noticeable improvement across Canada during Q3, rising to +12 from -3 previously (Chart 1). Driving this pick-up, occupier and investor demand growth accelerated within the industrial sector, while the previously negative trend across retail and offices has dissipated of late. For retail, occupier demand had fallen sharply for seven straight quarters prior to the Q3 results. However, the latest net balance of -2% (up from -34% beforehand) is consistent with a stable backdrop and therefore represents a significant shift in the mood music.

Across the United States, the CPSI was little changed over the quarter, returning a figure of +3 compared to +5 last quarter. As such, the headline measure is indicative of a broadly steady aggregate picture, although this continues to mask divergence at the sector level. Whereas industrial demand continues to rise at a near record pace (in net balance terms), the office and retail sectors continue to return subdued feedback, even if this is considerably less downcast than was the case at the start of the year.

Strong projections for industrial and multifamily values

For the coming twelve months, respondents across both Canada and the United States are expecting robust growth in prime industrial capital values (Chart 2). Similarly, secondary industrial assets are also projected to post solid gains, albeit not quite as sharp as their prime counterparts. On the same basis, expectations are modestly positive regarding prime office values, although the outlook is flat to marginally negative for secondary. Interestingly in Canada, prime retail capital value expectations moved into positive territory for the first time since Q4 2019, while projections are more or less stable across the United States. Nevertheless, for secondary retail values, respondents anticipate a slightly negative trend remaining in place over the next year.

Away from the three traditional market sectors, multifamily also exhibits a strong outlook for capital values right across North America, with contributors based in the United States in particular further upgrading projections relative to Q2. Moreover, several alternative asset classes also appear to be in demand currently, with prices anticipated to be pushed higher for data centres, aged care facilities and student housing over the year to come. In Canada, hotels are now seen posting a modest recovery in capital values over the next twelve months, although for the time being projections are flat across the United States.

50% of respondents consider real estate to be expensive

Despite the generally positive twelve-month assessment for values, close to 50% of respondents across both the United States and Canada already view commercial real estate as expensive to some degree. This marks a significant rise compared to the recent lows hit during the latter stages of 2020 (when the share stood at 35% in the United states and 28% in Canada),albeit the proportion taking this stance has remained largely stable over the past couple of quarters.

Chart 1: Commercial Property Sentiment Index by Country*

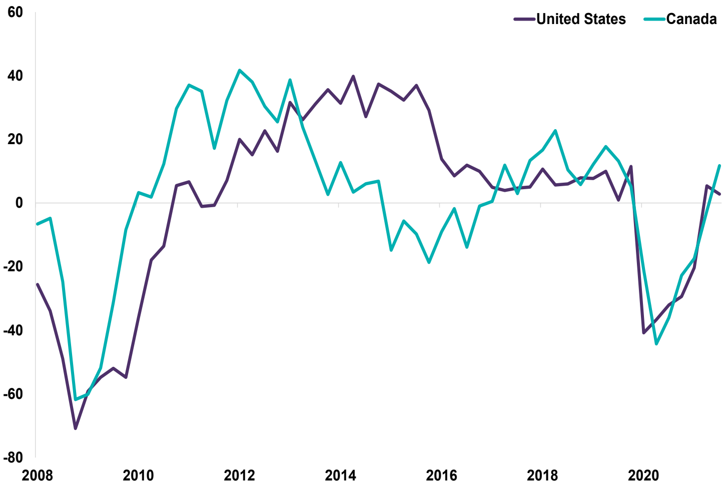


Chart 2: Twelve-Month Capital Value Expectations

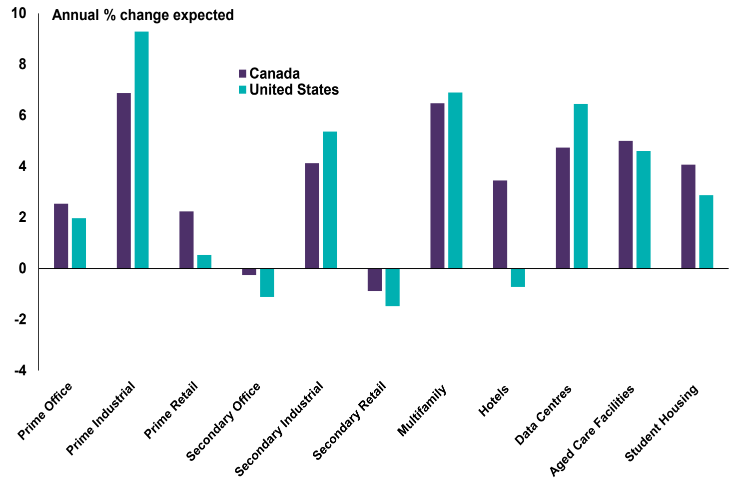
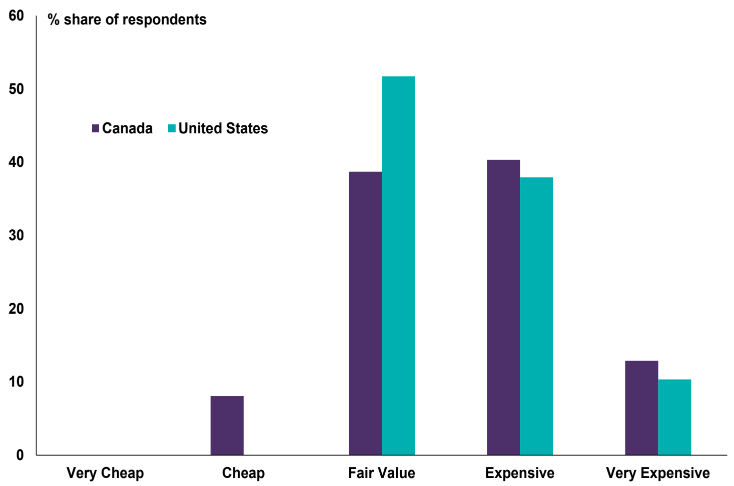
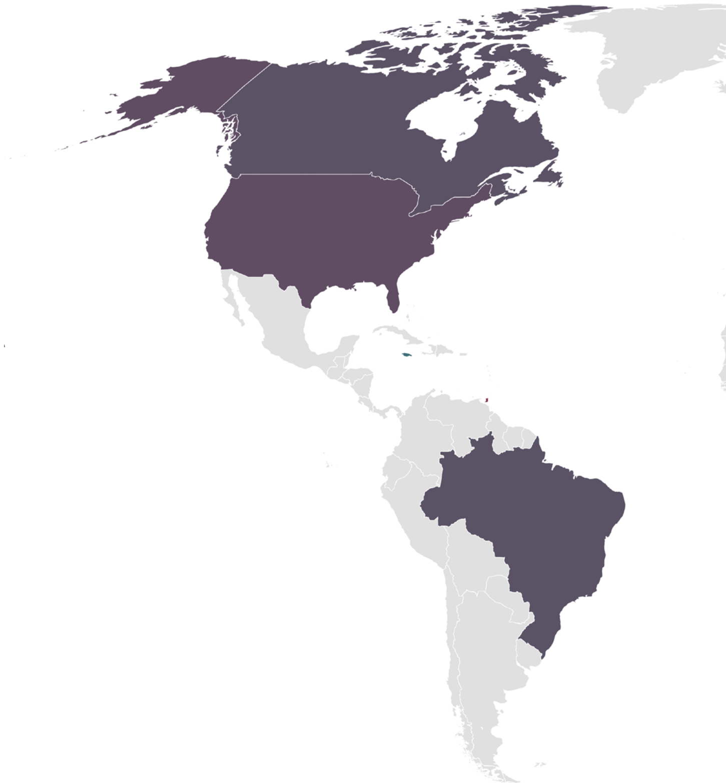


Chart 3: Perceptions on Valuation of Real Estate



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

Regional Comments from Survey Participants in the Americas



Brazil

In Rio de Janeiro, the commercial real estate market is in high demand especially for standard A corporate buildings. In other sectors, it is very retracted and with low prices. -Rio de Janeiro

Canada

Office sublease space reduced but overall vacancy rising and expected to continue. Rental rates slow to respond to changing conditions. -*Toronto*

Immigration levels need to return to normal in order to support the current market levels. -*Toronto*

Recovery is underway but uncertainty persists regarding "return to the office". - *Toronto*

There is a high level of capital seeking property investment and a more narrow spectrum of acceptable property types and geographies. No mall demand, no Calgary office demand. Only modestly higher supply of industrial and multi-family, driven by lofty pricing, to meet this surging capital availability. - *Toronto*

Toronto is a strong market, with expected resumption of immigration activity likely to drive a sharp swing back to tight occupier conditions. Office physical attendance remains low, but leasing demand remains steady. Industrial is white hot. Multi-residential has already seen very sharp recovery. Hotels remain lagging. - *Toronto*

In my opinion there will be an increase in costs due to a combination of supply chain challenges brought about during the COVID pandemic that has caused commodity price increases and triggered inflationary pressures. This impact has already been experienced in the cost of food and fuel. -*Vancouver*

It's a good time to have property to sell, particularly multifamily and industrial. -*Vancouver*

Extreme supply chain shortages, rising material costs, restriction of supply continue during the second year of COVID impacts. Some of the largest year over year construction capital cost increases have occurred in 2020 through 2021 - unprecedented in some asset classes. -*Vaughan*

Trinidad and Tobago

The commercial real estate market within recent times has shown some restriction in demand. Rental rates are experiencing declines having an effect on investment potential of commercial properties in all classes. Notably the rental demand for Class A office space in particular has been affected with vacancy rates ranging above 10% and rental rates are currently down by approximately 2% measured over the last year.-*Port of Spain*

Market conditions are not great presently due to the decline in the economy. If and when the economy revives to some form of stability, market conditions will improve. -*San Fernando*

United States

New Property Tax values in CBD to be released by year end. Expectations of material increases negatively impact the market. Full impact will not be known until August 2022 when millage rates are set. Will push rents and gross rent properties will be negatively impacted. - *Chicago*

All property sectors in Nashville continue to experience growth in rents and capital values with record prices being paid for investments as we experience increasing cap rate compression. - *Nashville*

Market is still slowly improving but tentative - the threat Covid and its variants remains a big frictional deterrent -in being able to easily predict the market cycle. - *New York*

Some of the increase in activity surrounding multi-family is due to recent increased political attention to housing affordability. There is a sense that speed to market is crucial to avoid further profit erosion by government exactions. - *Los Angeles*

Phoenix metro area is very busy, huge residential boom with relocated people moving to the area - very high demand for property and low supply. Local properties listed are going within days - retail is keeping pace now Covid numbers have dropped. - *Pheonix*

Asia Pacific: Caution remains visible in responses

Feedback from APAC to the Q3 2021 GCPM shows sentiment unchanged at an aggregated level, with the headline reading for the Commercial Property Sentiment Index (CPSI) coming in at -10 for the second consecutive quarter (-15 in Q1). Within this, the Occupier Sentiment Index improved a little further from -17 to -12, despite ongoing macro concerns in a number of countries linked to COVID-related restrictions. Meanwhile, the Investor Sentiment Index slipped back a little (from -3 to -8).

Chart 1 shows the CPSI at a country level across the region. The results highlight a notable turnaround in the responses from India, albeit this modestly positive reading follows five successive weak quarters. A few comments from respondents operating in India are highlighted on page 7, and though they are inevitably somewhat mixed, there does appear a better tone compared to the feedback received in the second quarter. A contrast is provided by the insights from Chinese contributors, who are a little more downbeat than previously, as are those from Australia.

Markets still perceived to be, on balance, expensive

Over two-fifths of respondents from APAC are still of the view that the real estate market is in a downturn phase, with a further 9% seeing it at the bottom of the cycle. Within these aggregated scores, a more positive message is emanating from India where around 60% now judge the market to be in an upswing (45% in Q2). However, only a third of contributors from China are of a similar view and even less (one-fifth) of those reporting on commercial property in Malaysia. Despite the somewhat mixed comments from Hong Kong, 40% of respondents perceive the market to be in an upward leg of the cycle, with a similar proportion of this view in Australia despite COVID lockdowns.

In terms of perceptions around valuations (Chart 2), there has been a modest rise in the share of respondents who view real estate to be cheap or very cheap in their locality; it has risen from 11% to 18%. However, 44% still see real estate as expensive to some degree, which is only slightly lower than the proportion who took that view in the previous quarter. China (26%) and Malaysia (23%) have the lowest proportion of contributors citing property as being expensive while in Japan, this position is taken by over 80% of those participating in the survey.

Sector expectations continue to show sharp divergence

Current trends at a sector level continue to show significant contrasts. While the headine (regional) metrics capturing both occupier demand and investment enquiries are negative (to a greater or lesser extent) for offices and retail, they remain positive for industrial property. Significantly, the forward looking indicators suggest this pattern is likely to persist over the course of the next twelve months. Chart 3 shows the strongest projections for returns are for data centres, prime industrial, aged care facilities and multifamily, with secondary retail and hotels remaining under the greatest pressure.

These broad trends are replicated in most countries included in the survey, although feedback from India and China is noteworthy for the somwhat less negative feedback around the outlook for offices and retail. Capital and rental values in these nations are expected to rise at a solid pace for prime space. In the case of Australia, the pressure on secondary office and retail is viewed as remaining intense, with student housing also seen as challenging. Finally, in Singapore, respondents highlight the adverse conditions not only continuing to impact retail but also draw attention to the hotel sector, with both rents and capital values likely to be hit further over the coming year.

Chart 1: Commercial Property Sentiment by Country

Chart 2: APAC Perception of Valuation

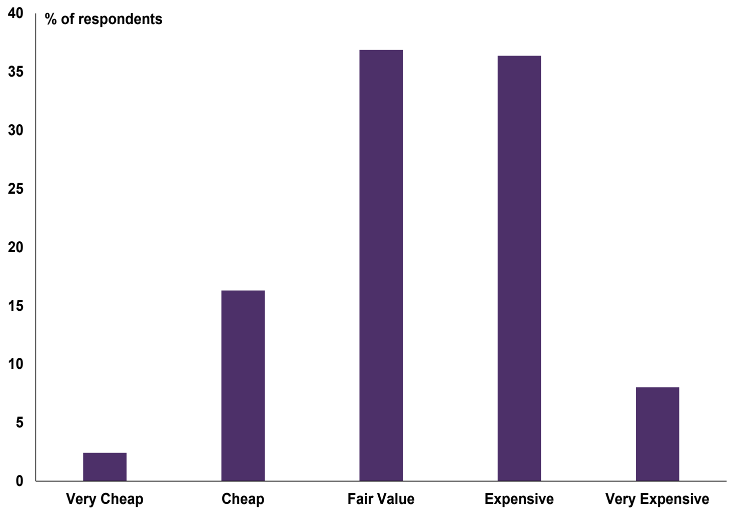
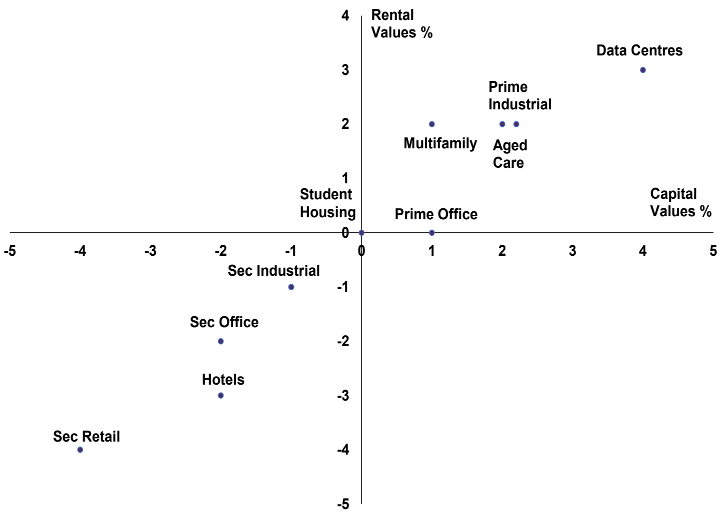
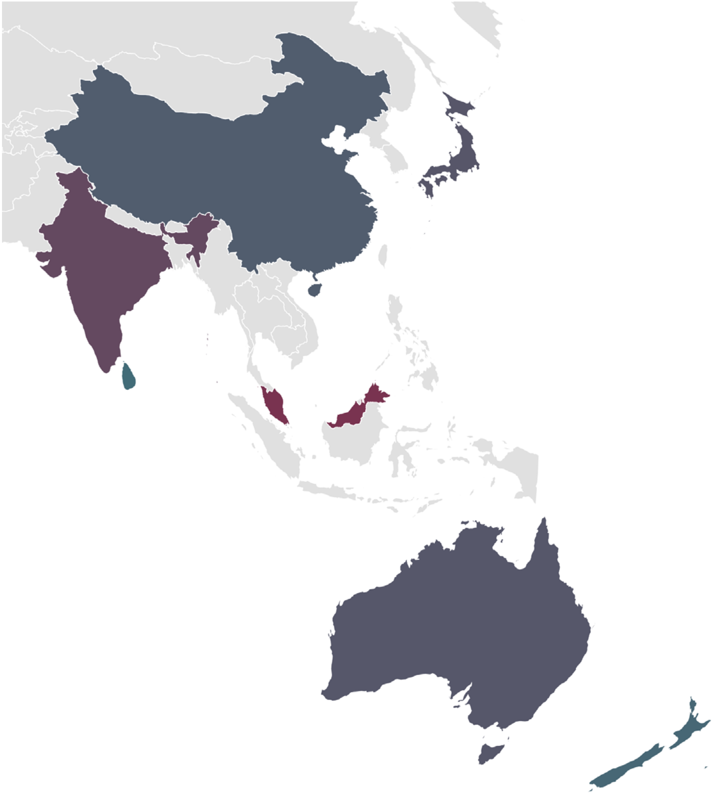


Chart 3: 12-Month Expectations for Capital and Rental Values



Regional Comments from Survey Participants in Asia Pacific



Australia

Whether Brisbane can see a sustained rebound in the near term will depend on when and how interstate and international borders open. Otherwise, the office market in particular has largely stabilised.- *Brisbane*

Logistics, office and retail markets are behaving differently. Record breaking occupier demand for logistics & industrial. Office sublease is well above average but stabilising, but office workspaces are empty with Melbourne in another long and hard pandemic lockdown. Some retail subsectors are starting to improve with declining vacancy rates in neighbourhoods and large format retail. - *Melbourne*

Perth has weathered the COVID storm quite well. However, the market is heavily leveraged to China so there may be substantial fallout from Evergrande, more limited energy consumption and building, and the re-opening of other iron ore exporters (namely Brazil). - *Perth*

A lot of this will depend on how Australia adjusts to living with COVID. The mentality at the moment remains moored in the past, and has been slow to accept the reality of living with COVID. Although a 'roadmap to opening' has been announced, there remain a lot of questions around both inter-state and international travel that have yet to be answered. - *Sydney*

China

Neutral picture -*Beijing*

The real estate market sales fell off a cliff in the third quarter. - *Shanghai*

The epidemic is under control, ofices are basically stable, followed by industry, and commerce is generally sluggish. - *Shenzen*

Unclear market development prospects - Shiyan City

Hong Kong

Retail sector is recovering while investors are adopting 'wait and see' attitude for other sectors of commercial property.

In the bottom of the cycle of Hong Kong's retail market, which will not be improved unless the border quarantine restriction for travellers from the rest of the world relaxed.

Due to the political crisis, a lot foreign investors are going to relocate their headquarters and remove their business to another districts and countries. The demand of the prime offices and retails will drop down gradually.

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India

As many IT companies are opening their offices, this would bring demand in the office space and many projects may start. - *Bangalore*

Residential market is showing fast upward trend. Retail market is in recovery. Industrial market is moving in positive direction. Overall property market is showing positive trend in last 3 months. - *Gurugram*

The market is still to recover from the COVID-19 effects and is volatile. There no less demand and more supply situation but the investors are reluctant to commit and are looking for quick small gains rather than waiting for the right opportunity. - *Mumbai*

Market is improving on day to day basis. - *Mumbai*

The commercial market is very weak due to impact of the pandemic and the anticipation of third wave is scaring the investors as well as the end users. Hence the market will remain sluggish till the end of this quarter. - *Pune*

Japan

With the exception of hotels, prices for commercial real estate in Japan have remained high. This is supported by the strong investment appetite of both domestic and foreign investors.. -*Tokyo*

Hotels and downtown commerce have that feeling, but other markets are overheated. Investment from overseas is also active, and prices do not fall at all. - *Tokyo*

Malaysia

Still in a state of uncertainties due to the Covid-19 pandemic. However, assuming that the Covid-19 can be well managed in the next 12 months, demand for commercial space will increase multifold. - *Johor Bahru*

The local property market is in the doldrum for the next 18 months. -*Kuala Lumpur*

For retail, sign of recovery quite strong. For foreign investment, policy need to synchronize with ESG.- *Kuala Lumpur*

New Zealand

Covid has created an overarching hiatus in some sectors and yet some developers and investors are as active as ever. Cheap money has led to overpriced assets.. - Auckland

The industrial market is performing very strongly both tenant demand and capital value appreciation- *Auckland*

Singapore

There remains a significant gap between fair (book) value and the commercial reality. Cheap debt, the ability and willingness to hold onto assets has meant pricing has not moved significantly from 2019. The spectre of distress remains just that.

Europe: Headline sentiment improving incrementally, with green shoots of recovery emerging across the office sector

The European results from the Q3 2021 GCPM show a continued gradual improvement in overall market sentiment. Helping to lift the aggregate picture slightly, some early signs of recovery appear to be emerging across the office sector, alongside continued robust demand growth for industrial property. That said, trends remain mixed at the country level, with some nations still seeing more subdued office market conditions, while the backdrop for retail remains generally weak across the board.

Investment Sentiment Index turns marginally positive

As demonstrated in Chart 1, both the headline Occupier and Investment Sentiment Indices (OSI, ISI) further recovered in Q3. In the case of the ISI, the latest reading of +5 is the first positive return since Q4 2019 (rising from zero previously) and is indicative of overall investment market trends inching towards a more expansionary phase across Europe. For the OSI, the Q3 figure of -3 marks an improvement from -13 posted beforehand and suggests overall occupier market conditions have now stabilised.

When disaggregated by country, the Commercial Property Sentiment Index improved (or turned less negative) in nineteen of the twenty European nations covered by the survey. Admittedly, this rally was only modest in most instances, but Greece, the Netherlands, the Czech Republic, Austria, Portugal, Ireland and the UK all now exhibit outright positive readings. By way of contrast, Cyprus was the only European market in which the CPSI slipped back slightly, with anecdotal evidence pointing to the pandemic still significantly hampering growth in the local economy.

Demand tentatively starting to recover across offices

At the pan-European level, the occupier demand indicator for offices posted a net balance of +5%, marking the first positive reading since prior to the pandemic. At the same time, a net balance of +55% of respondents reported an increase in tenant demand for industrial space, representing a fresh record high for the series. On the weaker end of the spectrum, tenant demand across the retail sector remains subdued, with the latest net balance coming in at -26% (although this is less downbeat than the figure of -38% in Q2). On the back of this variance in demand conditions, rental growth projections remain mixed across the different sectors. Shown in Chart 2, prime office rents are now expected to see a modest uplift in the year to come, with expectations being upgraded to +1.4% compared to +0.6% previously. On the same basis, rental projections are firmly positive across prime industrial (+5%), data centres (+4%), multifamily (+3%), aged care facilities (+3%) and student housing (+2%). For the time being, rents are still anticipated to fall for hotels, prime and secondary retail, along with secondary offices over the year to come. It should be noted, however, that the expected rate of decline across each of these categories has been pared back to some degree relative to the Q2 feedback.

Property cycle perceptions moving in a positive direction

Likely supported by a strengthening in investor demand at the headline level during Q3, a greater share of respondents now view the market to be in an upturn phase of the property cycle. In fact, only 21% of contributors across Europe feel the market is still turning down (a steady improvement on 25% and 40% taking this view in Q2 and Q1 respectively). At the country level, a strong majority of survey participants percieve market activity to be expanding across Greece, Croatia, Spain, Italy, the UK and Ireland (illustrated in Chart 3).

Chart 1: Occupier and Investment Sentiment Indices

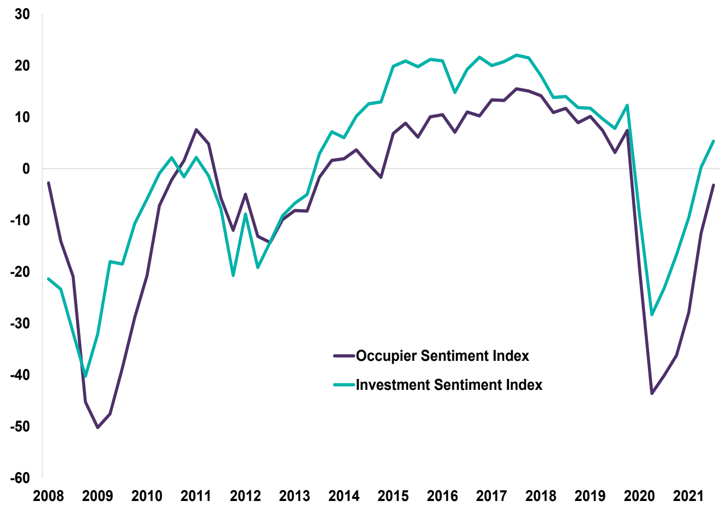


Chart 2: 12-month Rental Expectations by Sector

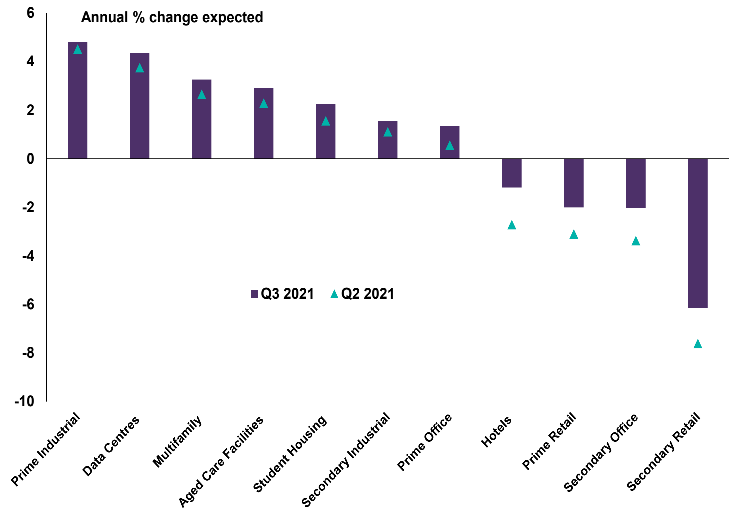
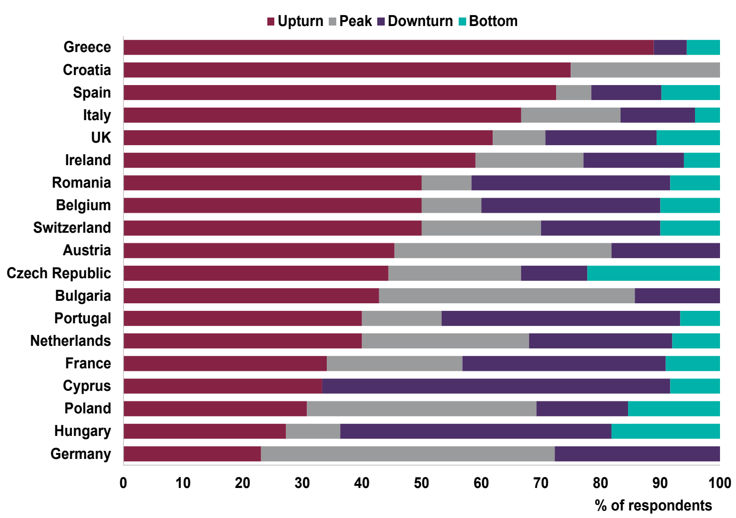
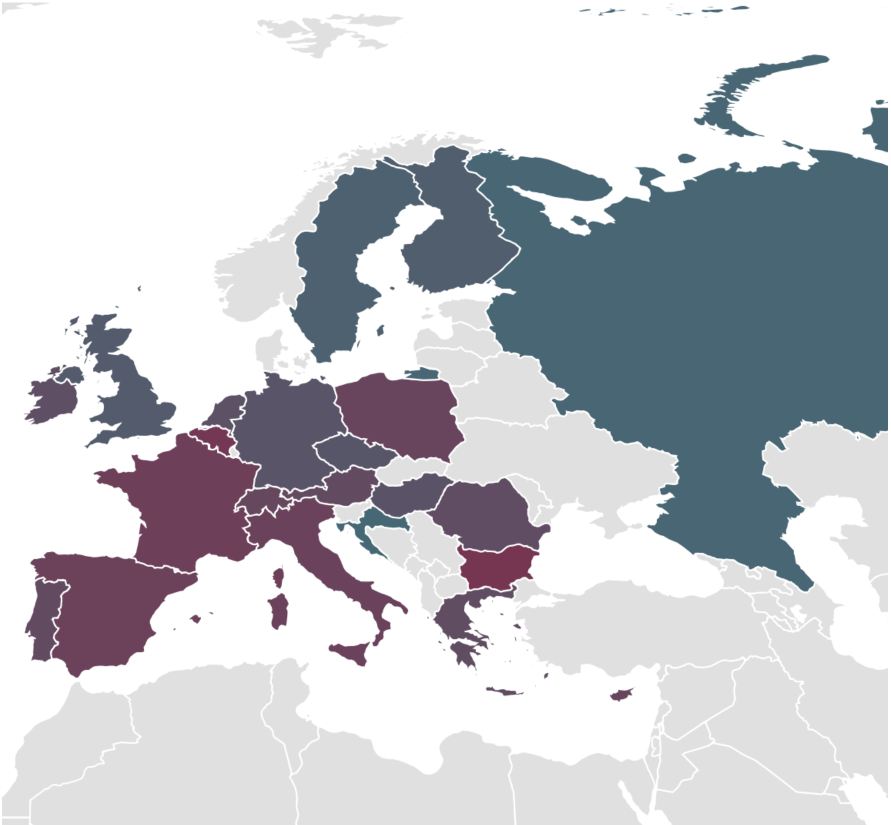


Chart 3: Perceptions on Phase of the Cycle



Regional Comments from Survey Participants in Europe



Bulgaria

The beginning of 2021 registered low activity in terms of leasing transactions, due to the sluggish demand and the COVID-19 restrictions. The unprecedent safety measures and work from home continued to negatively affect tenant requests for new office space. However, the second quarter came with unprecedented boost in take up, with market volume outpacing the 5-year average by 33%. Pent-up demand was among the main reasons. - *Sofia*

Cyprus

At present, the main negative impact on the local economy comes from the pandemic. Lockdowns and traffic restrictions have affected employment and consumption. Future economic growth will depend on the world returning back to normal. - *Limassol*

France

A paradoxical market where offices and especially retail are impacted by the Covid crisis, but where prime capital values are holding up and in certain areas advancing against a backdrop of still negative long term interest rates. -*Paris*

Germany

Markets are still driven by monetary policy. - *Hamburg*

The market for office and retail is practically non-existent at the moment. - *Görlitz*

Greece

Positive trends in most sectors. -*Athens*

Hungary

There is a huge wave of subleases coming to the market. This is something to look into over the coming quarters. -*Budapest*

Ireland

As we come out of Covid-19 restrictions, the general market is busy, mostly industrial units and residential sales & lettings. Retail is down and offices are stable. -*Leinster*

Some confidence coming back to the market. Once offices are re-occupied investor demand will return. High build costs will inflate rental values on new schemes. HIgh street retail will be impacted significantly by Covid, however, suburban convenience and essential retail is still in demand. Industrial will remain steady but lack of supply may drive up rental values. - *Dublin*

Italy

Fairly positive within a rather fluid context. -*Milan*

Netherlands

Investment volumes growing in stable markets like the Netherlands. - *Amsterdam*

Portugal

Beginning of the recovery after the pandemic has been brought under control in Europe. - *Lisbon*

Romania

In my opinion, demand is in a neutral zone, where companies still are defining the "way of work" of tomorrow after validation of hybrid working (both remotely and in the office). - *Bucharest*

Russia

The Russian market has been overlooked by international investors since 2015, but with Oil & Gas at record prices, a stable economy and high demand from occupiers (particularly in logistics), plus double digits yields that is unlikely to continue. - *Moscow*

Spain

Office demand has yet to turn upwards. - *Barcelona*

Slight recovery following Covid standstill. - *Madrid*

Switzerland

The property market in Switzerland remains strong. Low interest rates, realisation that we will live with COVID, and a strong desire for the recent "old days, and old ways" is holding investor and occupier interest firm in our region. - *Zurich*

Middle East and Africa: Capital value expectations strengthen due to steadier demand, even if supply overhang remains

The latest survey feedback across the Middle East and Africa points to a steadier demand backdrop coming through on both the occupier and investment sides of the market over the quarter. As such, this represents a more encouraging development relative to the steep falls reported throughout much of the period since the pandemic started, albeit some areas of weakness remain when trends are disaggregated by country and sector.

Headline sentiment indices turn less negative

At the aggregate level, both the Occupier and Investment Sentiment Indices turned less downbeat during Q3. Readings for both indices now stand at -8 which, for the ISI, is up from -11, while the OSI rose from -15. Although still in marginally negative territory, the latest figures are pointing to a more stable picture emerging of late. Helping to support this, overall occupier demand and investment enquiries reportedly stabilised over the quarter, although trends within the industrial sector appear to be improving ahead of those for offices and retail. Notwithstanding this, as Chart 2 shows, the overhang of availability (which started to come through in 2019 and was exacerbated by the pandemic) remains fairly pronounced and is a key factor still weighing on headline sentiment.

When viewed at the national level, Saudi Arabia stands out as displaying the strongest readings across the MEA region, with the OSI sitting at +14 across the country, while the ISI registered a figure of +11 in Q3. At the other end of the scale, conditions remain challenging within South Africa (OSI -38 and ISI -36) and Oman (-23 for both the OSI and ISI). In each case, demand continues to fall across all mainstream sectors, with the rate of decline not yet showing much sign of easing.

Capital value expectations strengthen in several markets

In terms of the outlook over the coming twelve months, all-property capital value expectations (as depicted in Chart 3), strengthened during Q3 within Saudi Arabia, the UAE and Qatar, while Turkey also exhibits comfortably positive projections. Although the industrial sector leads the way with regards to expected growth in most cases, offices and retail properties are also anticipated to see an appreciation in capital values over the year to come in the aforementioned countries.

By way of contrast, respondents based in South Africa and Oman are still expecting a slight fall in capital values over the year to come. In South Africa, these declines are anticipated in the retail and office sectors, while industrial assets are expected to buck the downward trend.

Data centres expected to deliver robust growth

Across MEA in aggregate, data centres continue to return the most upbeat assessment from contributors regarding the prospects for rental and capital value growth over the year to come. Interestingly, projections were upgraded for student housing relative to Q2, with rents now anticipated to rise by 3% on an annual basis (up from 2% forecast previously). Elsewhere, both rental and capital value expectations remain firmly positive for multifamily and aged care facilities. With respect to hotels, while rents are seen posting marginal growth over the next twelve months, the outlook for capital values is flat at the broad regional level. Nevertheless, respondents in Saudi Arabia and Qatar do foresee a significant rise in hotel values.

Chart 1: Occupier and Investment Sentiment Indices

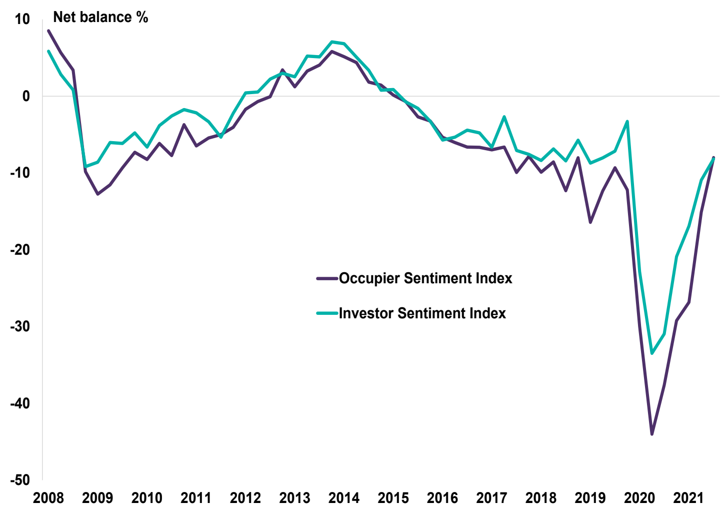


Chart 2: Availability by Sector

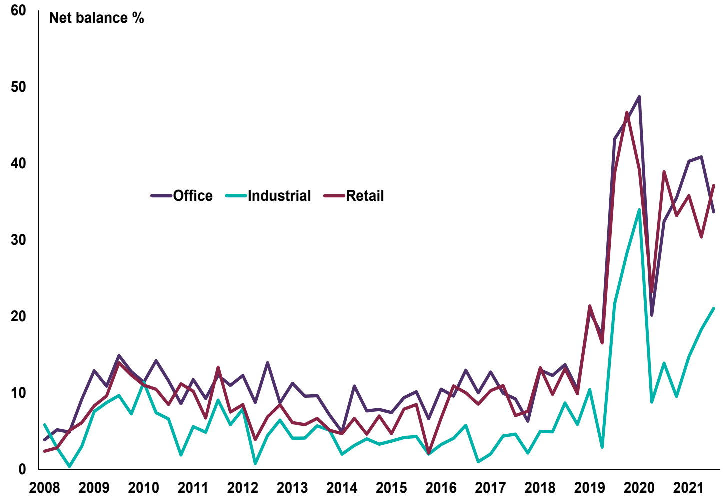
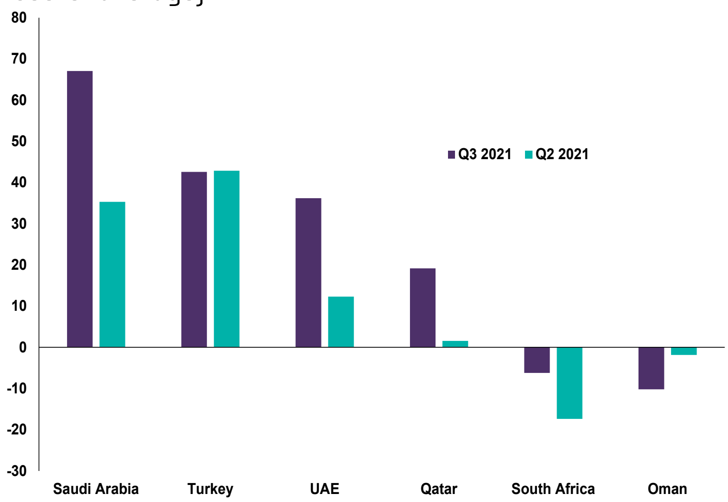
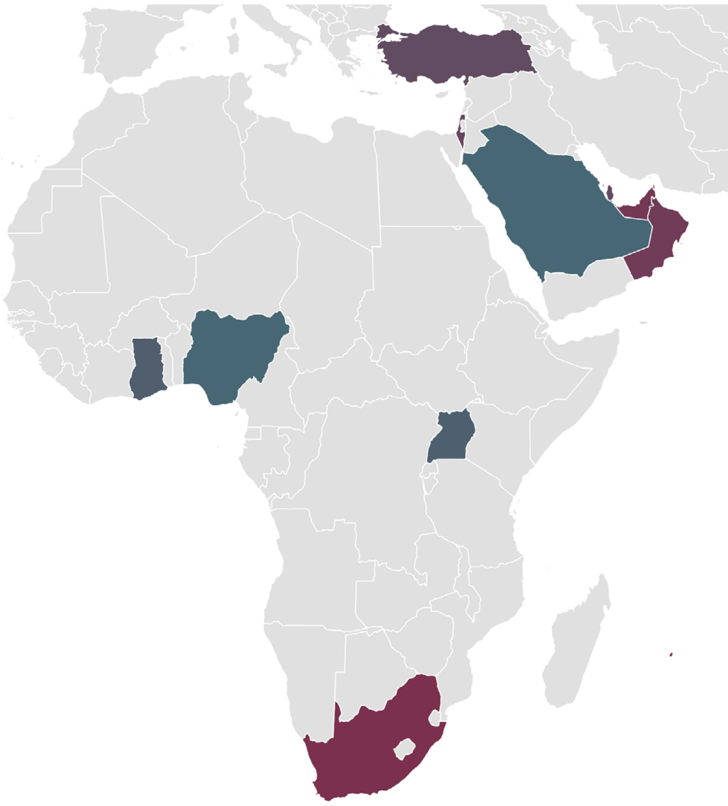


Chart 3: Twelve-month Capital Value Expectations (all-sector average)



Regional Comments from Survey Participants in MEA



Kenya

COVID 19 has had adverse effects on property & real estate in Kenya & Eastern Africa generally. *-Nairobi*

Lesotho

Generally markets are slowly beginning to pick up but the quick recovery is on the owner occupier residential market. *-Maseru*

Nigeria

The market is not good at the moment. Access to funding and land remains a huge obstacle to new developments. Insecurity and high cost of building materials continue to act against the improvements in all the real estate categories in Nigeria. *-Lagos*

Oman

The market is in the early stages of recovery and is dependent on the increase in oil demand and increase in oil prices. *-Muscat*

Saudi Arabia

The Giga Projects are spikng values and demand which will continue for 4 or 5 years. *-Riyadh*

South Africa

Market conditions are negative.-*Durban*

Due to COVID, the current rental market in all areas has taken strain and investors are not getting returns they got a year ago. Occupation is down with current tenants demanding lower rates. *-East London*

Due to low levels of interest rates, the residential property market is performing well. Industrial facilities like warehousing & manufacturing are doing well with many greenfield developments taking place. Office rental tenants in good standing is around 70%. Although demand is at mid 50% supply is close to 70% indicating the need for landlords to compete keenly. *-Johannesburg*

Turkey

Last year there wes a huge reduction in mortgage interest rates. Demand for houses and apartments pushed values up dramatically for newly constructed real estates. Construction costs keep rising with the Turkish Lira collapsing against dolar and new construction demands across world. Land prices have also risen by about 100%. Industrial real estate prices also going up, effected by land prices and construction costs. - *Konya*

UAE

The market will show up better in the coming year, as the Covid 19 situation is getting better as well as Expo 2020, which brings new hopes in the region. *-Abu Dhabi*

Commercial market is moving very slow due to COVID 19. *-Abu Dhabi*

Market is just getting up after the effect of pandemic. Also the Expo 2020 helped a bit to show slight recovery starting. *-Dubai*

While Dubai Expo 2020 brings hope to the region, investors are still indecisive. Secondary retails are performing better, especially food and grocery retailers. *-Dubai*

Residential rental values are stagnant and, due to pandemic, real estate development capital investment has slowed down during the last one and a half years. *-Dubai*

There is a feeling that recovery is imminent, but we are yet to see the tell tale signs of such recovery. -*Sharjah*

Zimbabwe

The impact of covid 19 has been heavy on the Zimbabwean economy. Recovery pace depends on Government policies and the investment climate created by ruling authorities. - *Bulawayo*

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 9 September 2021 with responses received until 13 October 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 1587 company responses were received. 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 have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

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

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

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Responses were gathered in conjunction with the following organisations:

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