SPOTLIGHT
Savills Research

Savills Global Market Sentiment Survey

savills

Concessions support the occupier markets, some early green shoots from China

Since we last conducted this survey at the end of March, the number of Covid-19 cases around the globe has more than doubled. But as many countries have reached peaks in the numbers of new infections, some clarity is emerging. Focus is now turning to ending the lockdowns, and in a few countries some nonessential sectors have reopened.

Some 29% of countries surveyed reported market sentiment to be 'neutral', 52% 'slightly negative' and only 16% 'negative'. Sentiment in China is now 'slightly positive'. China has seen some real estate activity resume as infection rates have been brought under control. South Korea and Vietnam, also benefitting from rapid decreases in infection levels, both reported 'neutral' market sentiment.

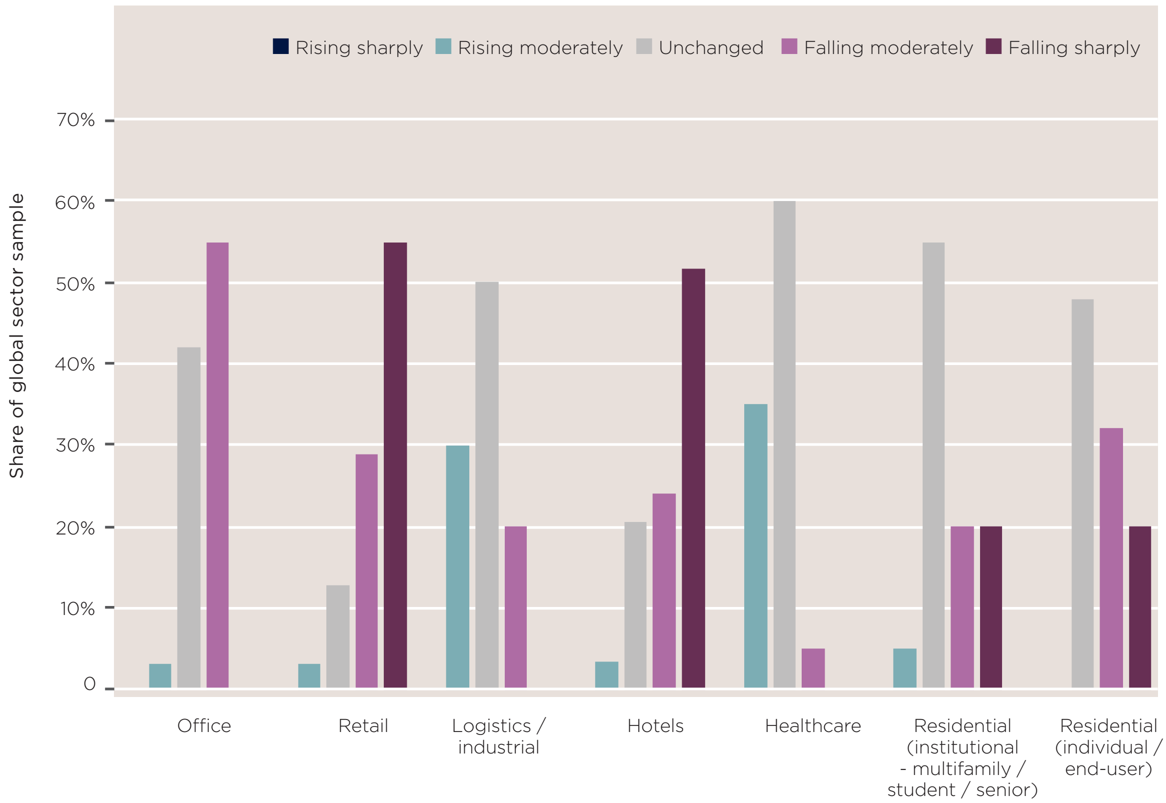
Here we provide a snapshot of how market conditions have changed since the end of March across all sectors and geographies based on our survey of Savills research heads in 31 global markets.

Occupier demand

Occupiers had to dramatically adjust their behaviour to new ways of living and working in the wake of the pandemic. This altered occupier demand virtually overnight. But with early indications that many countries are now at the peak of the epidemic, signs of stability can be seen in some sectors. Demand for offices from occupiers is reported to be stable in 42% of countries, while 55% reported moderate falls in occupier demand. This is a significant improvement from the 70% that reported moderate falls at the end of March.

Supported by a surge of online retail sales, occupier demand in logistics was reported to be unchanged or rising modestly in more than 79% of countries. Only in the retail and hotel sectors has occupier demand continued to decline, reported to be falling sharply in more than half of countries. ➤

Occupier demand by sector Change between 31st March and 15th April 2020



Source Savills Research

HIGHLIGHTS

Market activity...
is returning in China, with retail and office leasing activity rising moderately in the first half of April. Utilisation rates have also increased as more offices and shops are open with people in them, although rates remain below normal levels as social distancing continues.

Rents...
remain unchanged across 60% of sectors and countries globally, supported in part by the extensive use of concessions. Retail tenants have been the greatest beneficiaries, with 80% of countries reporting retailers receiving some form of rent relief.

Government assistance...
or intervention, such as reduced property taxation or temporary bans on evictions, were reported in 59% of the countries surveyed.

Transaction volumes...
are down but no longer falling as sharply. In the first half of April, 44% of countries noted no change in transaction volumes.

➤ An early guide to the shape of recovery can be seen from China. Here, retail and office leasing activity increased moderately in the first half of April. Utilisation rates have also increased as more offices and shops are open with people in them, although rates remain below normal levels as social distancing continues. Hospitality is also recovering, but demand still remains well below pre-epidemic levels. While activity is resuming, pockets of secondary outbreaks have led lockdowns to be reintroduced, as in Harbin in Heilongjiang Province following a second spike in cases, this time imported.

Support for occupiers

Rents are reported to be unchanged across 60% of sectors and countries, rising to 71% of countries in the case of offices. Where falls have been observed they've been concentrated in the hotel and retail sectors.

One reason rents haven't fallen significantly is due to the extensive use of concessions to support occupiers during this time. Retail tenants have been the greatest beneficiaries, with 80% of countries reporting retailers receiving some form of rent relief. Deferred service charges and changes in payment structures are the next most common, with 40% of countries reporting their use by retail landlords in each case.

Even in the office markets, where rents have been largely unimpacted, 43% of countries report some kind of rent relief to office tenants. Logistics, meanwhile, are the least impacted and few concessions have had to be employed.

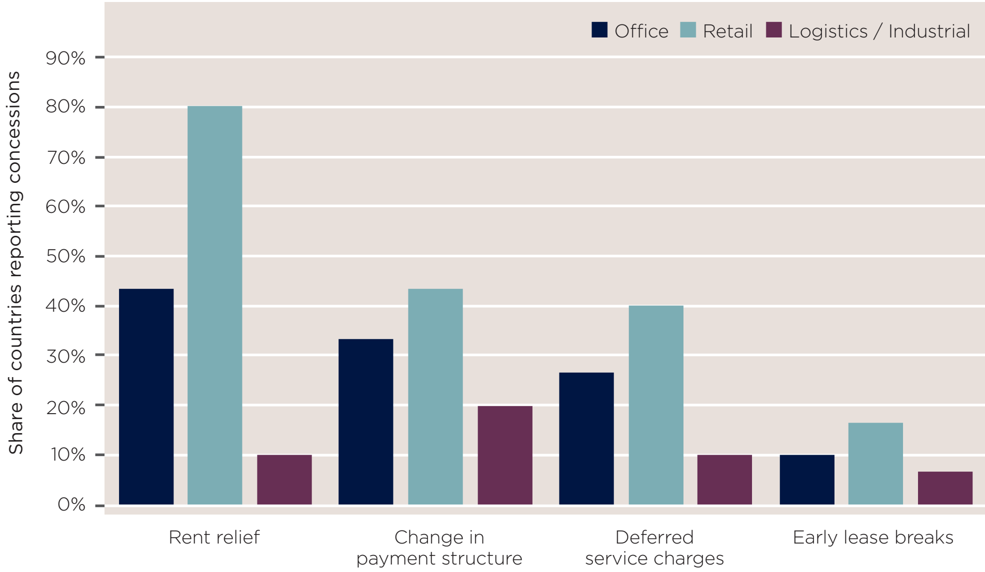
A month into lockdown in most countries, and benefiting from landlord and government support, early lease breaks have yet to be widely observed. China, further through the pandemic, has seen some tenants (typically smaller firms) exercise early termination, as has Italy, Portugal and Switzerland in the case of retail.

Government intervention has been a hallmark of this crisis. Administrations have stepped in to secure jobs and support individuals, and this support has benefitted the occupier markets. Government assistance or intervention, such as reduced property taxation or temporary bans on evictions, were recorded in 59% of the countries surveyed.

Retail is the greatest beneficiary, with some kind of assistance seen in 75% of countries. For example, business rates in Great Britain have been suspended for the 2020-2021 tax year for all companies, and in Singapore, restaurants, shops, hotels and tourist attraction will pay no property tax for 2020. ➤

Concessions granted, by sector

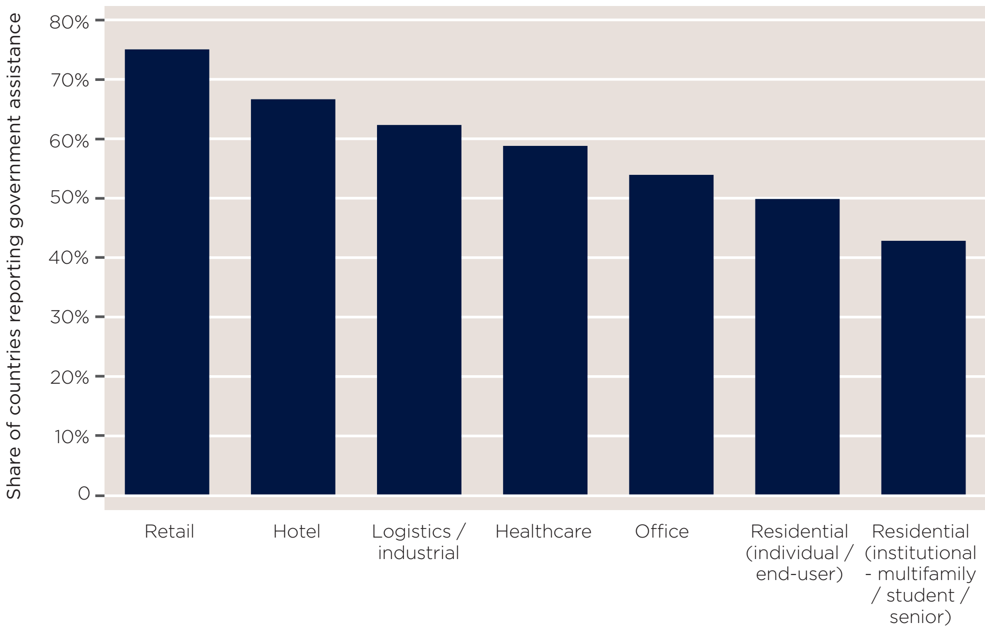
Snapshot of the market, 15th April 2020



Source Savills Research

Government assistance or intervention, by sector

Snapshot of the market, 15th April 2020



Source Savills Research

Capital Markets

The survey results indicate that transaction volumes are down but no longer falling as sharply. In the first half of April 44% of countries noted no change in transaction volumes. In the office market, nearly half of the countries surveyed reported no change in transaction volumes since the end of March, when 73% of countries where reporting moderate or severe declines in volumes.

Retail and hotels continue to see the sharpest falls in transactions, with 73% and 68% reporting declines respectively, as the lockdowns and enforced travel restrictions take their toll.

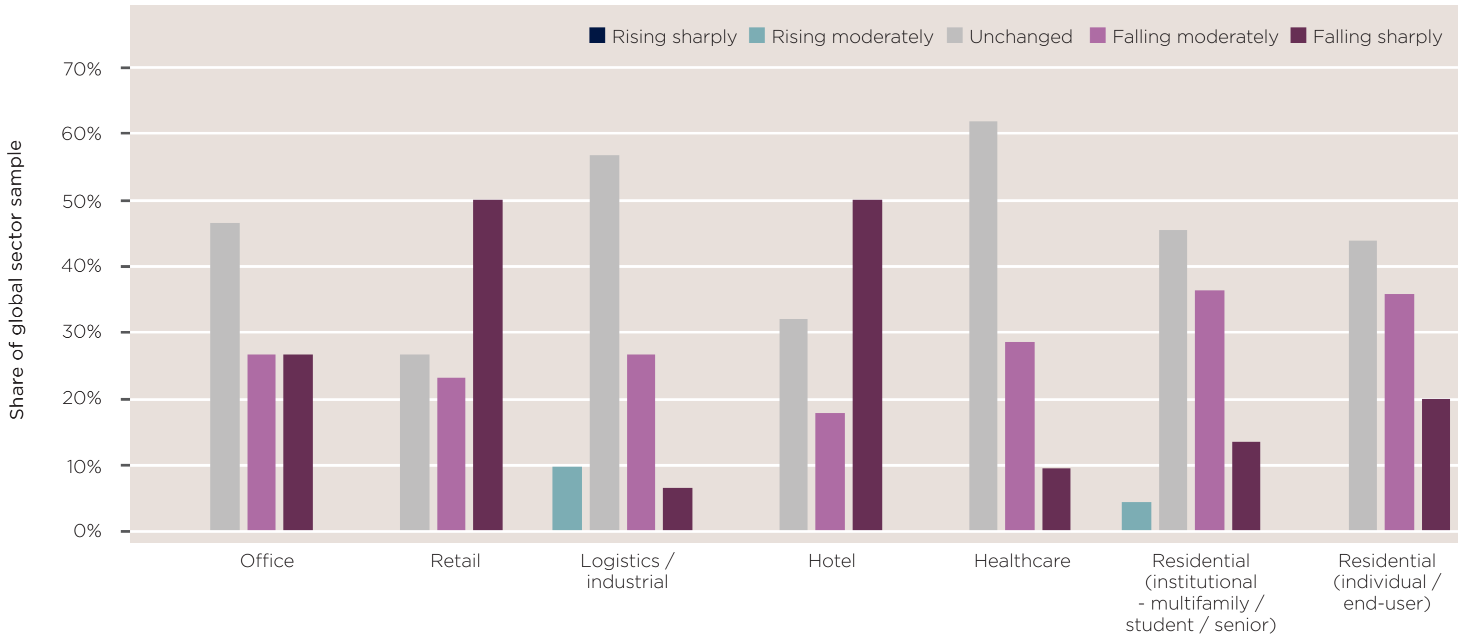
The results also indicate that the pandemic continues to leave capital values largely unaffected with 63% of countries surveyed reporting capital values in their markets to be unchanged, albeit on thin volumes.

Unsurprisingly, logistics and healthcare continue to fare well, with 87% and 95% of countries respectively reporting unchanged or increased capital value. Both sectors will continue to be in high demand for the foreseeable future, which should help support values.

Over two-thirds of countries are reporting offices and residential capital values to be unchanged. In the end user residential sector, while the lockdowns have severely impacted transactions as viewings and surveys are unable to take place, 73% of countries are reporting that capital values remain unchanged, compared to 53% of countries in our last survey.

Transaction Activity by Sector

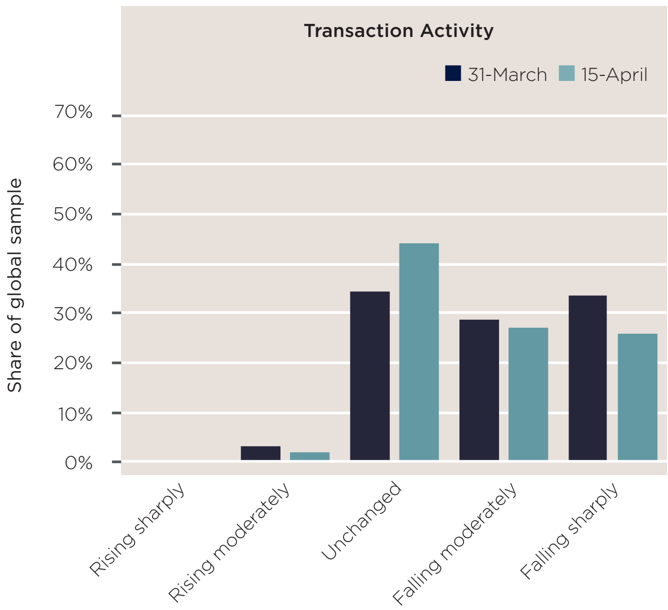
Change between 31st March and 15th April 2020

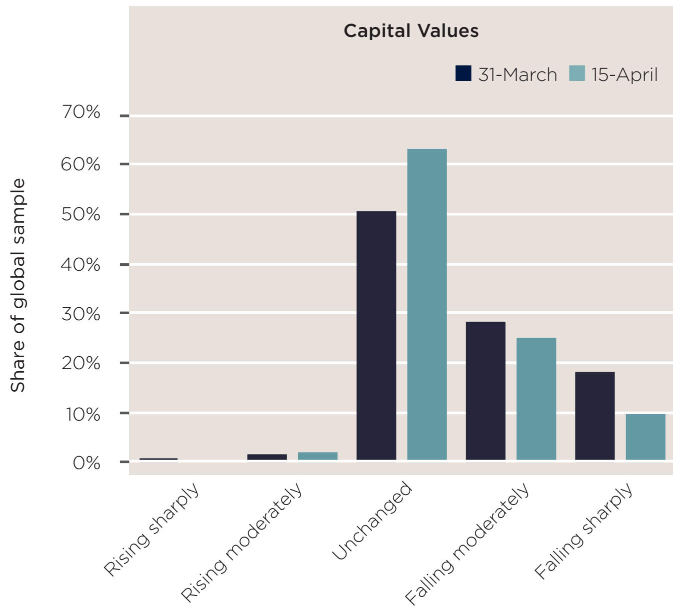


Source Savills Research

Trend in Transaction Activity and Capital Values (all sectors)

Change between 31st March and 15th April 2020





Source Savills Research

Covid-19's impact

There is no doubt the impact of Covid-19 on the real estate market has been significant. In this survey, 19% of countries reported a severe negative impact on their real estate markets due to the pandemic and 74% described a moderate negative impact.

This is a slight positive shift compared to our previous survey conducted on 31st March, which found that 29% of countries had seen a severe negative impact and 67% a moderately negative impact.

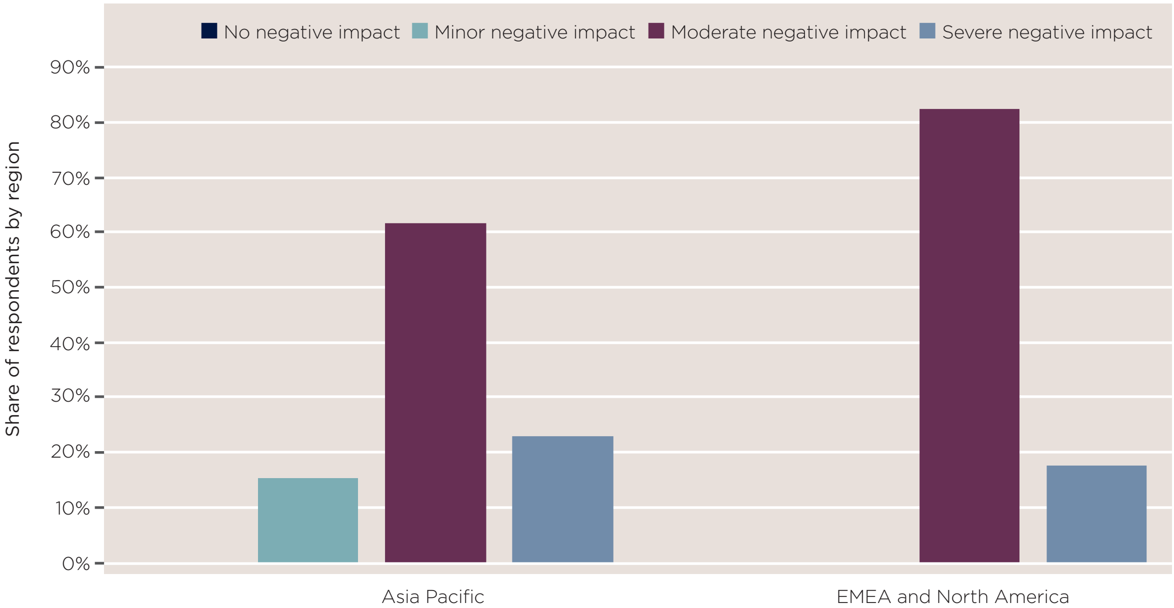
At a regional level, sentiment in Asia Pacific is more positive than in EMEA and North America – the regions currently bearing the brunt of the epidemic (see chart below).

While many countries remain in lockdown, the long term impact of Covid-19 is yet to be seen. Many believe the world will come out of this a different place. The forced isolation has accelerated the use of technology for communication and enabled flexible working from home.

Supply chains have come under scrutiny, which may lead to more on-shoring or near-shoring as manufacturers look to diversify their supply networks, although the price sensitive consumer may mitigate the pace of change. The value of having access to a private outside space or a large public outdoor space is being realised as well as good Wi-Fi and a home office. Health and wellbeing, already a focus before the pandemic, are at the forefront of people's minds.

These changes to the way we live and work are all expected to have an impact on real estate markets worldwide.

The impact Covid-19 has had on the property markets, by global region



Source Savills Research

About the survey

The Savills Global Market Sentiment Survey is designed to take the pulse of property markets across the globe, particularly important in today's fast-moving environment. The findings provide a snapshot of current market conditions based on an internal survey of Savills research heads across 31 global country markets. The results displayed are an aggregate of all countries and sectors, unless stated otherwise.

The survey was conducted on 15th April 2020. Savills research heads in the following markets were surveyed: Australia, Canada, China, Czech Republic, Germany, Greece, Hong Kong SAR, Hungry, India, Indonesia, Ireland, Italy, Japan, Malaysia, Middle East (region), The Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Singapore, South Korea, Spain, Switzerland, Taiwan (China), Thailand, UK, US, Vietnam.

Savills team

Please contact us for further information

World Research

Sophie Chick
Director
sophie.chick@savills.com
+44 (0) 7792 793 575

Paul Tostevin
Director
ptostevin@savills.com
+44 (0) 7807 999 136

Kelcie Sellers
Analyst
kelcie.sellers@savills.com
+44 (0) 203 618 3524