World Research – April 2020

Savills Global Market Sentiment Survey

savills

Global transaction volumes falling, but occupier terms favourable

In less than a month, the property market disruption caused by the Covid-19 pandemic has reached almost every corner of the globe. Occupiers, dramatically adjusting their behaviour to new ways of living and working have altered market fundamentals. Investors have paused to take stock of conditions and deal volumes have fallen.

Not all sectors and geographies have been impacted equally though, and the market is already planning ahead to recovery. Here we provide a snapshot of current market conditions across all sectors and geographies based on our survey of Savills research heads in 24 global markets.

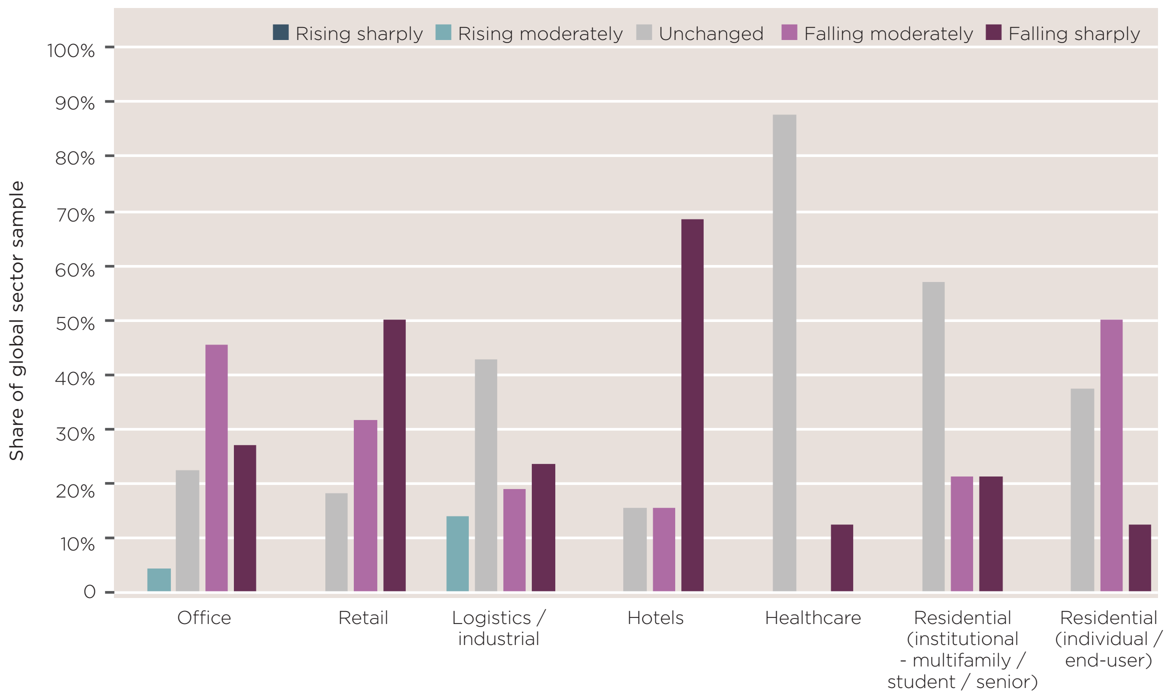
Capital markets

Transactional activity has been one of the most immediate casualties of the disruption caused by Covid-19. Buyers and sellers are taking stock and awaiting greater market clarity. Falls in transaction volumes were reported across 62% of all real estate sectors globally. However, there are transactions happening, particularly those that were in progress before the pandemic took hold.

In the office market, the largest real estate sector, a moderate fall in office transactions has been the most common result, reported in 45% of countries. This is followed by roughly equal numbers stating transaction volumes are either unchanged or are falling severely.

The sharpest falls in activity were seen in retail, with activity reported to be down in 82% of countries surveyed. ➤

Transaction activity by sector Snapshot of the market at 31st March 2020



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 24 global country markets. The results displayed are an aggregate of all countries and sectors, unless stated otherwise.

The survey was conducted 27th to 31st March 2020. Savills research heads in the following markets were surveyed: Italy, Spain, Portugal, Sweden, The Netherlands, Germany, Belgium, Czech Republic, Poland, Ireland, France, UK, Singapore, Japan, Mainland China, Taiwan, Hong Kong, Indonesia, Malaysia, Vietnam, South Korea, Middle East (region), US, Canada.

KEY STATISTICS

Transaction activity...
is falling in most sectors globally with the sharpest falls reported in retail and hotels

Capital values...
are lagging transactional activity, with 51% of countries/sectors reporting capital values to be unchanged

Rents...
still remain largely unimpacted, just over half of countries/ sectors reporting them to be unchanged

Terms for occupiers...
are currently favourable, particularly in the case of retail

At a sector level...
healthcare, logistics and to a lesser extent institutional residential currently most resilient across occupier demand and investment activity

Hotels, suffering severe contractions in occupancy levels as global travel is essentially shut down, saw transaction activity fall in 84% of countries.

The impact on capital values is yet to be seen at the same scale, with pricing firm in 51% of all sectors globally. More countries reported office, logistics and residential values as unchanged than they did falling. Retail, a sector already weakened due to structural changes prior to Covid-19, has seen falls in capital values compounded: 82% of markets reported falls. Only in China, Malaysia, Vietnam and Portugal have they remained unchanged.

Logistics is a bright spot, with 57% of markets recording no change, or rises, in transaction activity, opposed to 43% seeing falls. Unsurprisingly, healthcare activity and values are holding firm.

The global picture is mixed when it comes to real estate debt. European and North American countries in particular report of tightening of availability and worse terms, most notably in the US and UK. Availability and terms remain favourable in emerging markets such as Indonesia, the Czech Republic, Taiwan and the Middle East.

Occupier demand

Demand for real estate from occupiers is changing due to the pandemic. While many of companies across the globe are working from home, office space demand hasn't been impacted as severely. A moderate fall in demand was reported by 70% of countries and just 13% stated a sharp fall. Demand in the residential sectors has also fallen moderately.

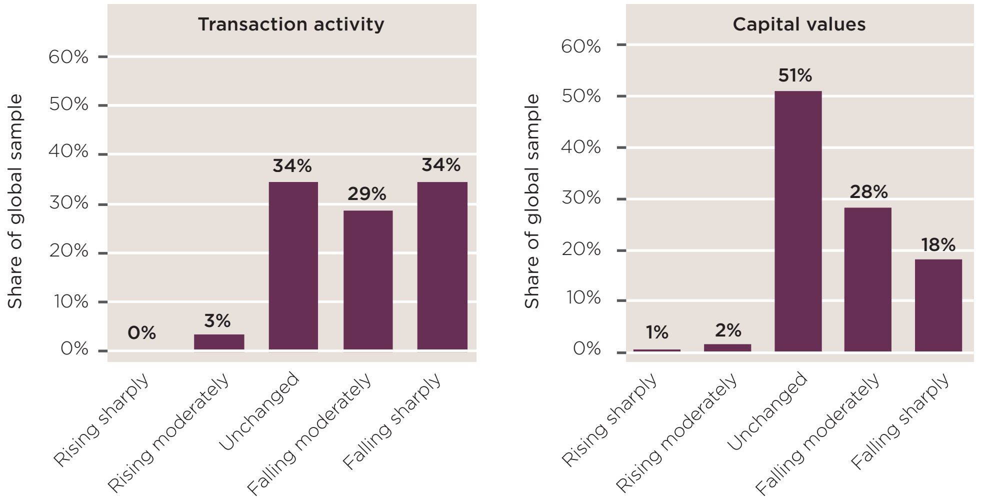
The hotel sector has been hit hardest with 95% of countries reporting sharp falls in demand as international travel and domestic lockdowns prevent visitors. Retail is in a similar situation with 74% of countries seeing sharp falls.

Logistics and healthcare have bucked the trend. The logistics market in particular is benefitting from increased demand from food retailers. Healthcare, unsurprisingly, is in demand at this time.

The impact of this change in demand is not yet fully realised in rental values which were reported unchanged in 51% of countries/sectors. The exceptions are once again retail and hotels where 30% and 63% of countries reported rental values to have fallen sharply, respectively.

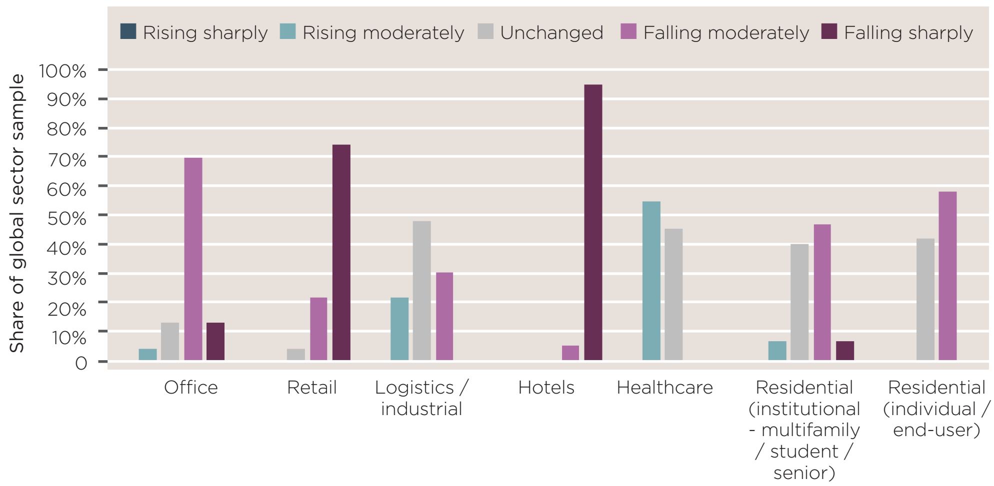
The change in sentiment has translated to favourable terms for tenants, especially in the retail sector. Favourable terms for retail tenants were reported in 86% of countries. Just over 50% of countries reported favourable terms for office tenants, and 23% in the logistics sector.

Trend in transactional activity compared to capital values (all sectors)
Snapshot of the market at 31st March 2020



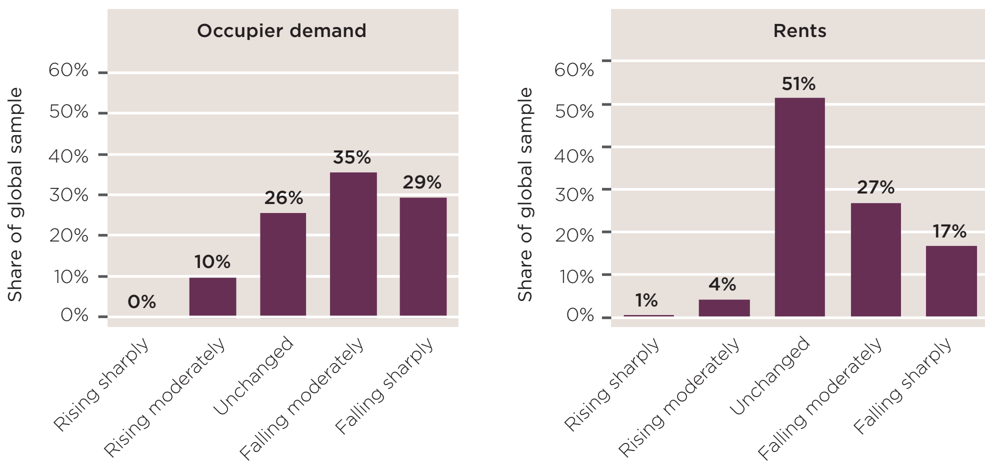
Source Savills Research

Occupier demand by sector
Snapshot of the market at 31st March 2020



Source Savills Research

Trend in occupier demand compared to rents (all sectors)
Snapshot of the market at 31st March 2020



Source Savills Research

What does Covid-19 mean for the real estate industry?

The disruption associated with Covid-19 is having a profound impact on global real estate markets. Overall, 67% of countries report a moderately negative market impact attributed directly to Covid-19, while 29% cite a severely negative impact.

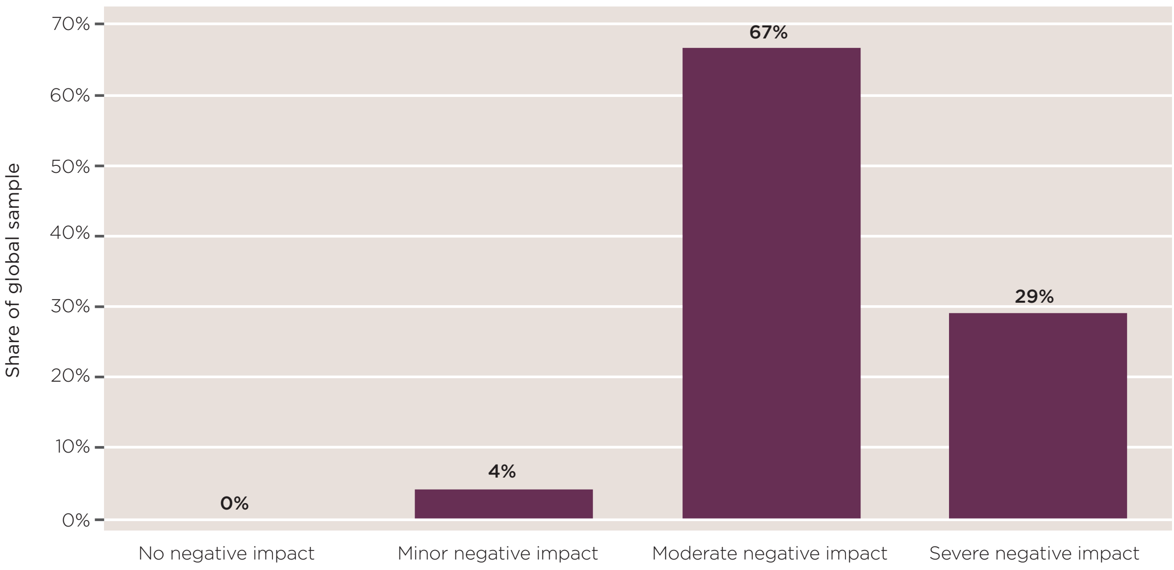
At a sector level, healthcare, logistics and to a lesser extent institutional residential are currently the most resilient across occupier demand and investment activity. The surge in demand for online retail and the defensive benefits of investing in beds underpin these segments.

Retail, already undergoing a structural change, has seen its woes amplified by the virus. Hotels meanwhile have felt an immediate impact from the international travel restrictions and domestic lockdowns.

In the short term we expect to see capital values and rents follow the falls seen in transaction activity and occupier demand. Covid-19 remains a near term challenge, but certain trends, such as the shift to online retail and changing working habits may be accelerated. This could have long term implications for markets as a whole.

Overall negative impact from disruption associated with Covid-19

Snapshot of the market at 31st March 2020



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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