SPOTLIGHT
Savills Research

Savills Global Market Sentiment Survey

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Real estate markets react to easing of lockdown restrictions

As Covid-19 sent much of world into lockdown, global real estate activity slowed dramatically. Now the majority of countries around the world are loosening restrictions. Stores are re-opening and people are returning to the workplace. How have property markets, and in particular the investment markets, responded?

Occupier demand returning

With the easing of restrictions, occupier demand has been the first to begin to recover. Of those markets surveyed, 30% have seen a rise in occupier demand (across all sectors) since lockdowns have eased. For those countries no longer in lockdown – two thirds of which were in Asia Pacific – or near the end of lockdown, this figure stood at 34%.

Investment transaction volumes remain suppressed, however, with 48% citing volumes to be unchanged across all sectors, while 35% cite continued falls. Taken as a whole, just 18% have seen a rise in investment transaction activity since lockdowns have eased. Some opportunistic investment activity has been seen in the public markets, however, which have benefited from value optimisation.

In the case of capital values and rents, a return to growth is yet to be seen at scale. The majority of respondents stated that these remained unchanged.

Sheds and beds show resilience

Logistics, healthcare, and to a lesser extent, residential have proved to be the most resilient sectors, with some rental growth reported in a minority of markets (see chart below), though the majority of respondents still reported rents to be unchanged or even falling.

End-user residential is experiencing a rebound in countries where the market has re-opened, notably China where the market was given a post-lockdown boost by the central bank's credit easing. Here, residential volumes steadily improved from mid-February.

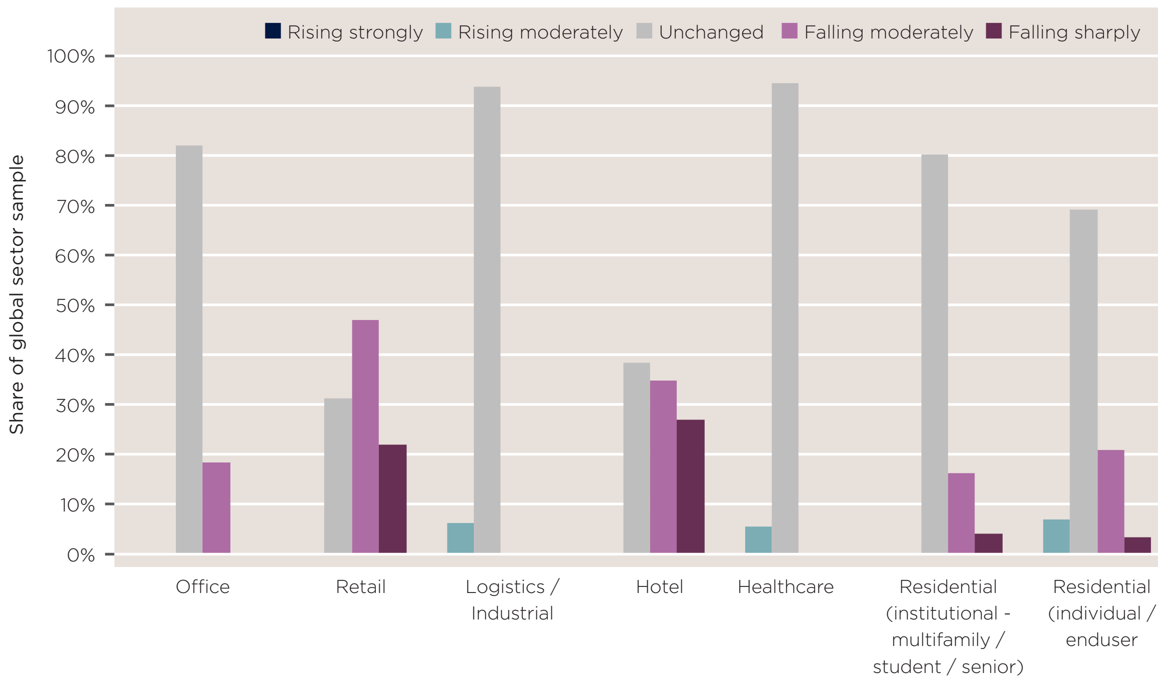
By the end of March volumes were around 70% to 80% of normal levels for some of the county's larger cities. However, volumes have since plateaued as deferred purchases have petered out and the realisation of the impact on the economy and job market starts to sink in.

Economic and financing conditions

Covid-19 has had a significant impact on the global economy. Oxford Economics predict world GDP to fall by 5.1% in 2020. After the initial impact of the virus many investors are now waiting to see what the shape of the recovery will look like.

Nearly half (49%) of survey respondents stated investment activity had remained unchanged since lockdown has eased, while 34% have seen a fall. ➤

Rents by sector: Since lockdown has eased



Source Savills Research

HIGHLIGHTS

Occupier demand...
has risen in 30% of markets surveyed since lockdowns have eased.

Logistics and healthcare...
have proved to be the most resilient sectors.

58% of respondents...
stated real estate debt has become more challenging to obtain.

Travel restrictions...
have slowed cross border activity, though demand for best in class assets in top tier cities remain.

Transaction volumes...
are expected to begin to pick up in the second half of 2020 before more sustained growth in 2021.

A shortage...
of investment transactions is making repricing difficult and the majority of respondents report no change in capital values.

➤ As banks have become more cautious in the wake of Covid-19 and tightened their lending criteria, some 58% of respondents stated real estate debt has become less available and on worse terms than usual.

This is particularly the case in EMEA and North America, where 75% of respondents stated debt was less readily available and on worse terms than usual, compared to 38% in Asia Pacific. Volumes of smaller deals in particular have been hit. According to RCA, in Europe the number of deals under €20m are down by 60% since the start of 2020, many of which may be reliant on debt to complete.

In Europe, lending rates have as much as doubled for some core German offices, while in the US a survey by the Federal Reserve found that banks had tightened lending standards across all major commercial real estate loan categories.

With no shortage of equity in the market, this is unlikely to a barrier for the big institutional players, though stricter lending criteria may impact the flow of smaller deals in the near term.

Cross border trends

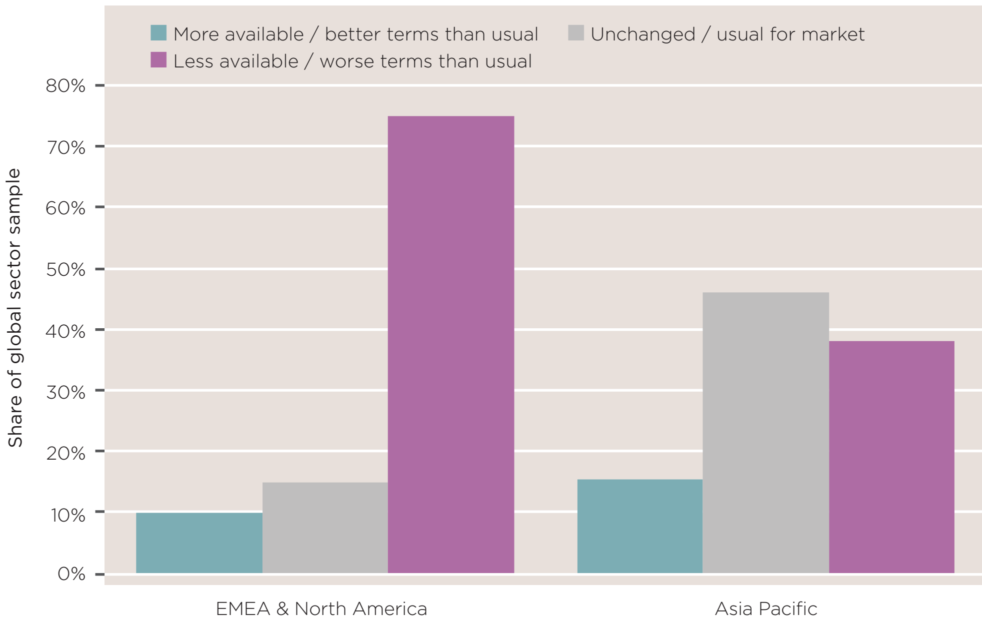
Lockdowns and associated travel restrictions have made completing cross border deals, usually requiring in-person inspections, more difficult. As a consequence, some 69% of markets surveyed anticipate half or more of all investment to come from domestic investors in the second half of 2020. This is an increase in domestic investment compared to the second half of 2019 in a small majority (38%) of markets.

Notable countries reporting an increase in domestic investment activity include the UK and South Korea, the former a major recipient of inbound cross border investment, and the latter a significant outbound investor in recent years.

The decline in cross border activity is expected to particularly affect the Southern European and Central and Eastern European markets, including Poland, the Czech Republic and Hungary, which are more heavily dependent on cross border capital compared to those in Western Europe.

Nonetheless, best in class, prime assets remain in demand among cross border investors. In top tier global centres with which the big global players are most familiar, cross border deals are still happening, though the impact of travel quarantines recently put in place in many countries remain to be seen.

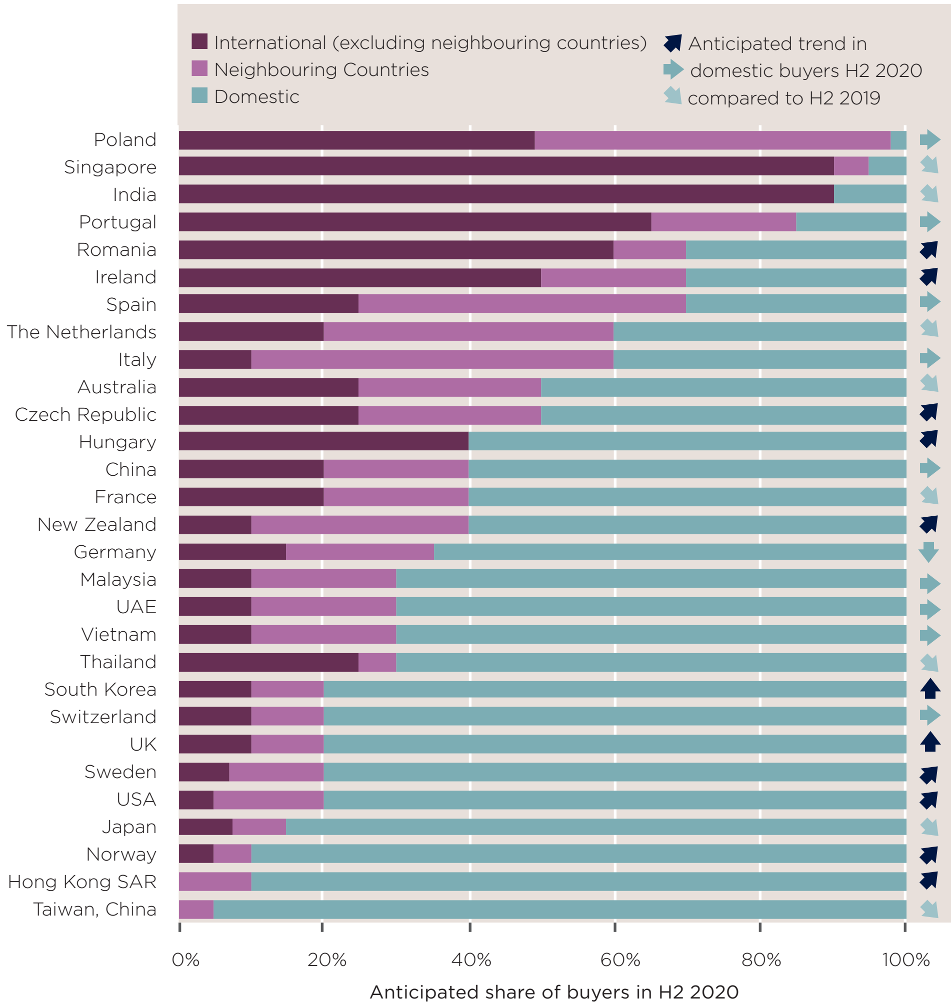
Real estate debt availability and terms, as at 3rd June



Source Savills Research

Anticipated investor profile in H2 2020

And expected change in domestic buyers since H1 2020



Source Savills Research

Investment outlook

After a challenging first half to 2020 where 88% of markets surveyed reported a decrease in transaction volumes in the office sector, prospects for the second half of the year are brighter. More survey respondents expect to see an increase in transaction volumes in the office sector (50%) than a decrease (22%), with the balance expecting 'no change'.

Survey respondents expect 2021 to mark the beginning of the wider recovery in office transaction volumes, with 75% of respondents expecting to see transaction volume growth in the office sector (22% expect to see no change, while just 3% anticipate falls).

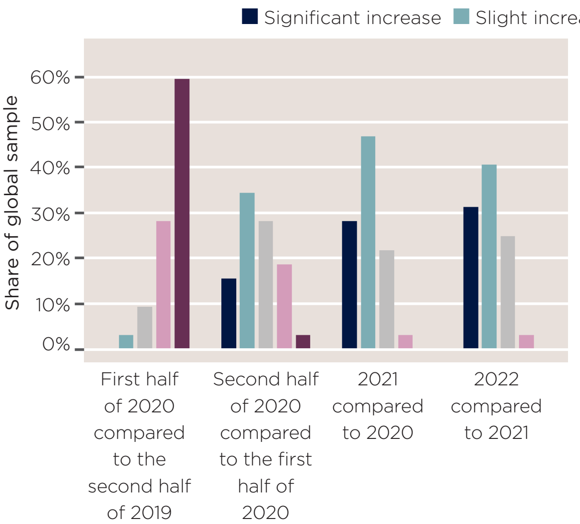
This growth is likely to be sustained into 2022, when 72% of markets expect further increases in activity to occur.

The speed and shape of recovery will vary from country to country. The rate of growth in investment volumes going forward will depend on the alignment of buyer and seller expectations. Many purchasers are expecting to see "Covid chips" on price of between 5% and 10%, at a time when few vendors are being forced to sell and redeploy capital. A shortage of investment transactions is making repricing difficult.

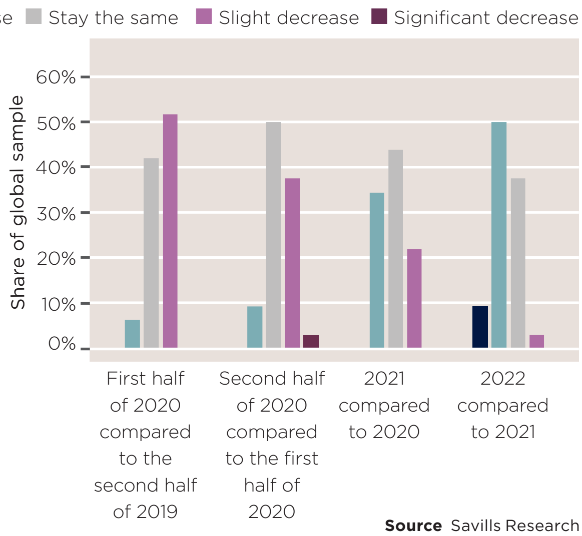
The outlook for capital values is therefore mixed. In the case of office markets, 50% expect prices to remain the same in the second half of 2020 and 9% expect to see rises. Conversely, slight decreases in capital values are expected in 38% of markets in the second half of 2020, while just 3% expect to see significant decreases. Transactions are likely to be the main casualty in the near term, as sellers wait for greater market clarity.

By 2021, however, the balance is expected to have shifted, with 34% of respondents anticipating capital value increases in offices and just 22% capital value falls, though the majority (44%) still expect to see no change in values.

Outlook for office transaction volumes



Outlook for office capital values



Source Savills Research

Outlook for logistics versus retail

Prospects differ between the retail and logistics sectors. The majority of markets do not expect to see any sustained recovery in retail transaction volumes until 2021, when 50% of respondents anticipate volume increases, compared to 13% who still expect decreases and 38% who expect volumes to remain unchanged.

Given the scale of investor demand and low vacancy rates, the prospects for logistics are the most positive, with 79% expecting an increase in transaction volumes in the second half of 2020. This is a trend expected to be sustained into 2021 and 2022. Logistics capital values are anticipated to increase accordingly, with 47% of markets predicting increases from H2 2020.

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

The survey was conducted 3rd to 5th June 2020. Savills research heads in the following markets were surveyed: Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, The Netherlands, UK, UAE, Australia, Hong Kong SAR, India, Indonesia, Japan, Mainland China, Malaysia, New Zealand, Singapore, South Korea, Taiwan (China), Thailand, Vietnam, US, and Canada.

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