Office snapshot

General Outlook

GDP growth recovery continues to face a high degree of uncertainty: US and UK forecasts are accelerating while European one slowed down again. Inflation is coming back sustained by energy costs and government stimulus programmes, but we should plan for a temporary rebound between 2% and 3%, not for the emergence of a sustained period of above-normal price growth.

In Italy, strict lockdown measures were put in place over Easter to prevent a fresh surge in cases; an increase in vaccinations is essential in order to enable safe reopening. In March, the government led by Mario Draghi finalised an additional emergency €32 bn spending package, increasing support for businesses and extending the redundancy ban and furlough schemes. The Government has approved and transmitted to Parliament DEF 2021. The annual GDP growth estimates have been revised downwards for 2021, forecasting a growth of 4.5% due to the worsening of the epidemic and, consequently, the restrictive measures adopted to contain it. The deficit will reach 11.8% in 2021 while public debt will rise to 159.8% in 2021. Government will ask Parliament to authorise a further budget variance of €40 bn for a new measure that will be promulgated by the end of April.

By the end of April, the government will have to submit the plan for the Recovery Fund to the European Commission. The Italian PNRR – Piano Nazionale di Ripresa e Resilienza (i.e., National Recovery and Resilience Plan) plans the allocation of €221.5 bn related to 6 different Missions: digitisation, innovation, competitiveness and culture; green revolution and ecological transition; infrastructure for sustainable mobility; education and research; inclusion and social; health. Among these, more than €120 bn will be allocated to activities directly related to the real estate sector: energy upgrading and renovation of buildings; high speed railways and safe roads; renewable energy, hydrogen and local sustainable mobility; enhancement of skills and right to study; social infrastructures, families, communities and third sector; tourism and culture; special intervention for territorial cohesion; intermodality and integrated logistics and supply chain.

In Italy, Q1 2021 recorded 36 investment deals for a total of around €1.3 bn, lower by 18% YoY. The slowdown was mainly ascribable to a decrease in deal size (€36 mln vs €51 mln in Q1 2020) as the quarter registered more transactions than Q1 2020. The downtrend was attributable to the retail sector as all the other segments showed a positive variation; despite this, mixed-use asset combining office and high street, saw a great appetite. Logistics, residential, alternatives and healthcare are gaining a growing share of the market. International investors supported the investment's volume confirming the attractiveness of the Italian market.

Hybrid work is the new normal, but it is a multi-faceted reality. The new employee preferences are compelling employers to urgently adapt to the reality of new working patterns: choices about where people work, home working, ability to go to the office and interest in third-party places. Our Human Experience survey shows that not all places of work attract the same worker profiles: the office remains a central place for older employees while homeworking is a popular choice in the tech and web industry and in more traditional industries; working in a third-party place is clearly a new trend for the youngest part of the workforce. The appetite for homeworking is fuelled by aspirations for a more balanced and local working life. However, our research shows that if more than 2 days a week are worked from home, the benefits in terms of engagement start to drop of. The workplace of the future will have to find the right balance between collective needs and individual comfort. Variety and choice will be the heart of an office value-add to accommodate all working expectations and all workstyles.

The office sector confirmed to be the most dynamic, recording 10 transactions and representing the 29% of the volumes with around €380 mln (+19% YoY). Milan was once again the leading market for both leasing and investment, accounting for the 76% of the total office investment volume with 6 deals mainly transacted in the semicentre of the city; Milan investment volume registered a 47% increase on Q1 2020. In Rome, Q1 2021 saw 3 deals for a total volume of €60 mln. International capitals mainly affected the volumes (78%), while domestic investors were involved in 4 deals for around €80 mln. Core capitals affected more than 50% of the total volume. Prime net yields decreased both in Rome (3.7%) and in Milan (3.25%), confirming the liquidity and strong competition for prime assets.

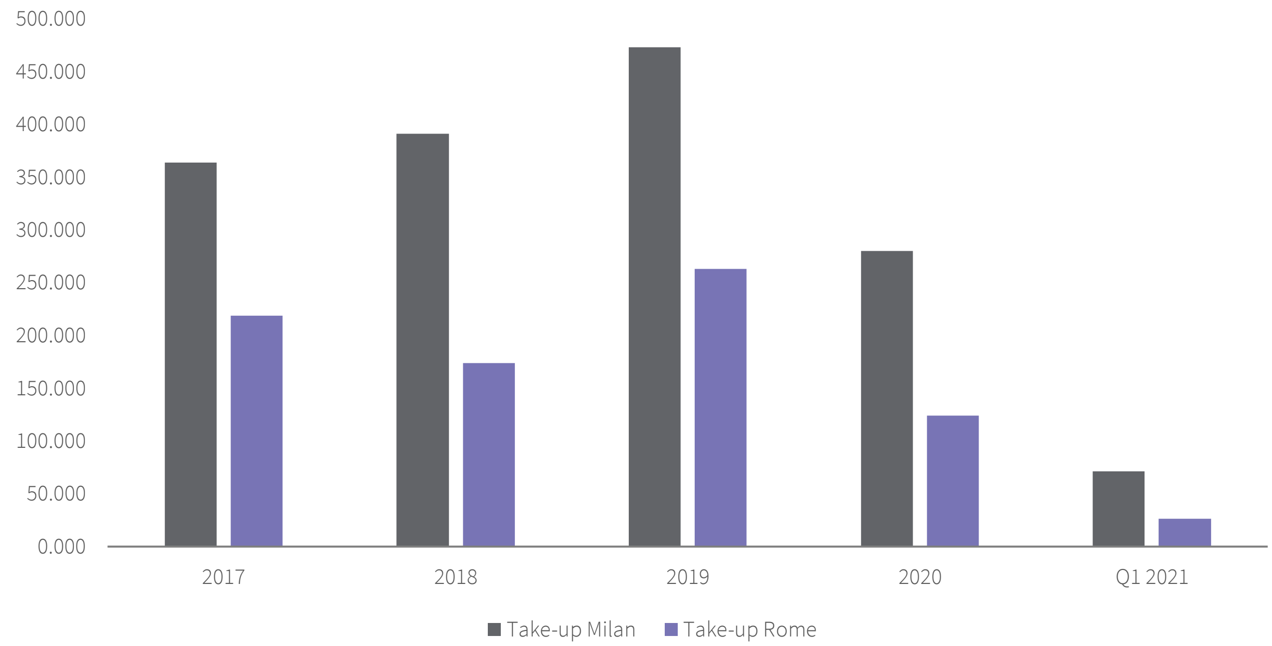
In Q1 2021, new lockdown measures and a slowed vaccination campaign has caused an extension of uncertainty and a wait-and-see approach from corporates. Leasing volume in Milan reached 71,400 sqm, down by 29% YoY and 28% on the last 5 years average. The demand of office space was dominated by deals below 500 sqm (46%) and by grade A office spaces (67%). The demand mostly targeted offices located in the historic centre (31%).

In Rome, the absorption totalled around 26,300 sqm (-5% YoY and -36% on the last 5 years average), due to a smaller number of deals and to the absence of transactions over 5,000 sqm. The demand was mainly focused on CBD and EUR submarkets and on grade A spaces (59%).

Prime rents and incentives remained stable both in Milan and Rome confirming the interest in grade A and high-quality spaces.

Occupier market

Q1 2021



Milan

Q1 Take-up

71,400sqm

Q1 Last 5 years average

98,000sqm

Vacancy rate grade A

2.2%

sqm future supply

2021	**117,000**
2022	**338,000**
2023	**209,000**

Rome

Q1 Take-up

26,300sqm

Q1 Last 5 years average

41,000sqm

Vacancy rate

6.0%

sqm future supply

2021	**123,000**
2022	**121,000**
2023	**87,000**

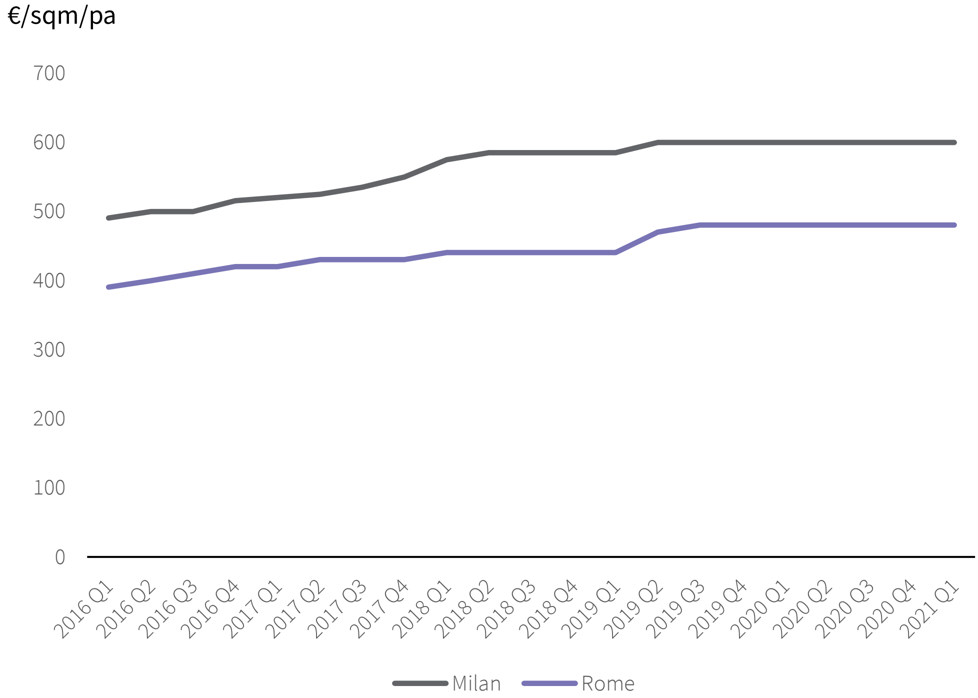
Rents

Milan (€/sqm/pa)

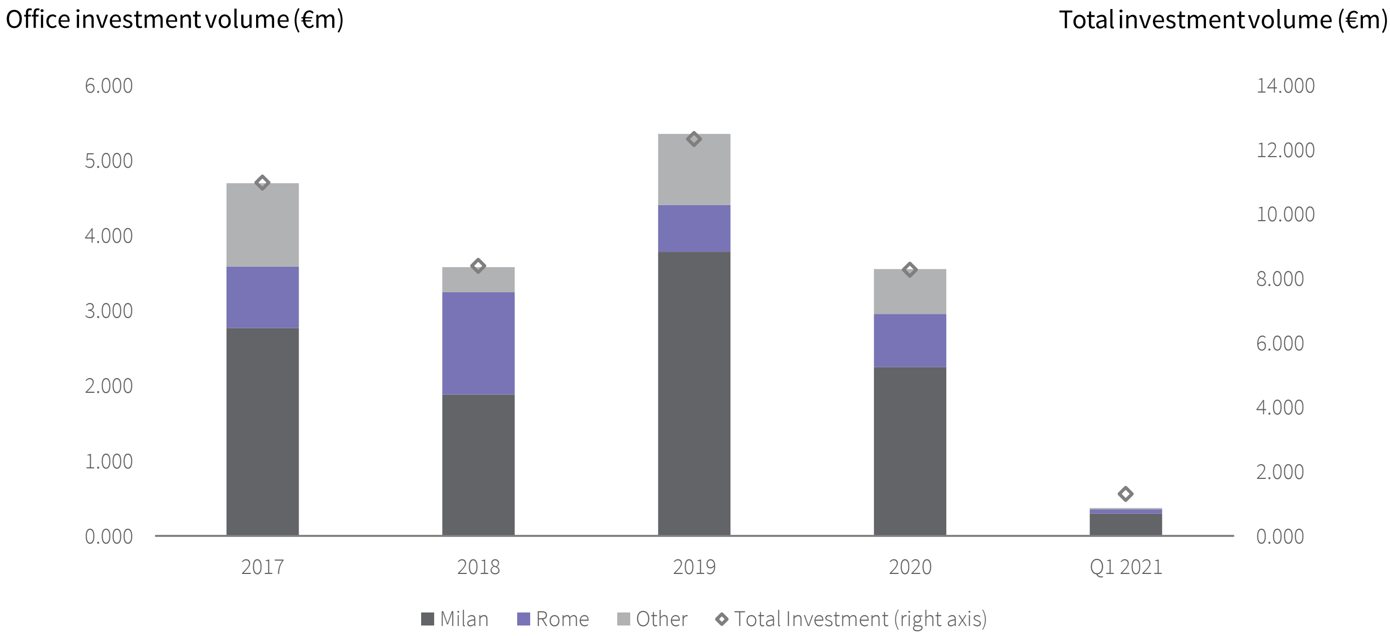
Historic centre	600
CBD	570
Centre	500
Semicentre	415

Rome (€/sqm/pa)

CBD	480
Centre	440
Semicentre	300
E.U.R.	360



Investment market



Milan

Q1 Investment volume: € 290 mln
N° of deals: 6

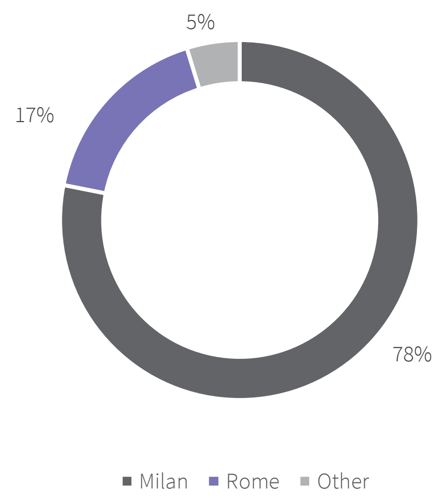
6 single deals

2 deals > €50 m

Average size: **€47 m**

2 transactions in the Semicentre

Office investment volume by geography



Rome

Q1 Investment volume: € 60 mln
N° of deals: 3

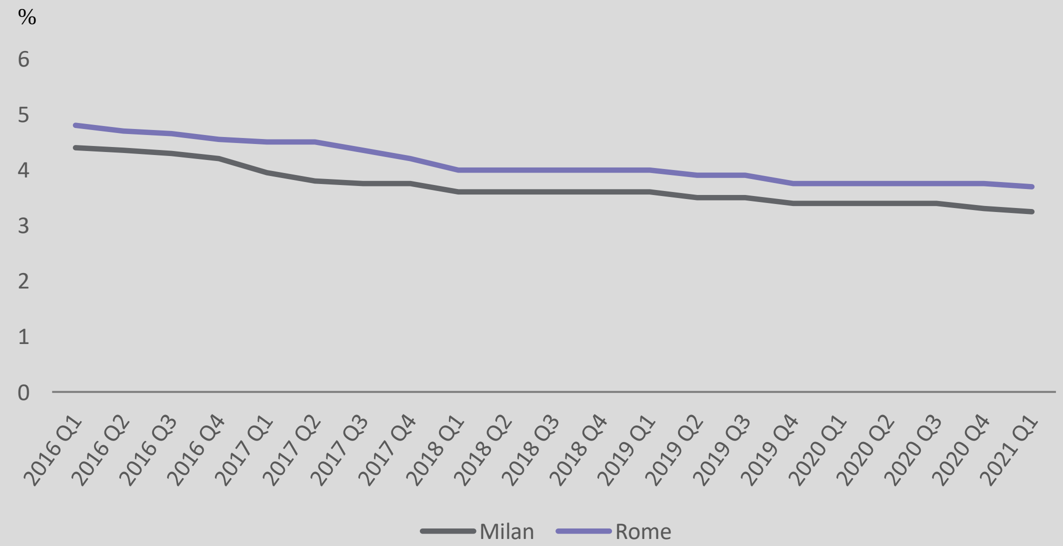
3 single deals

3 deals < €50 m

Average size: **€20 m**

2 transactions in the centre

Yields Q1 2021



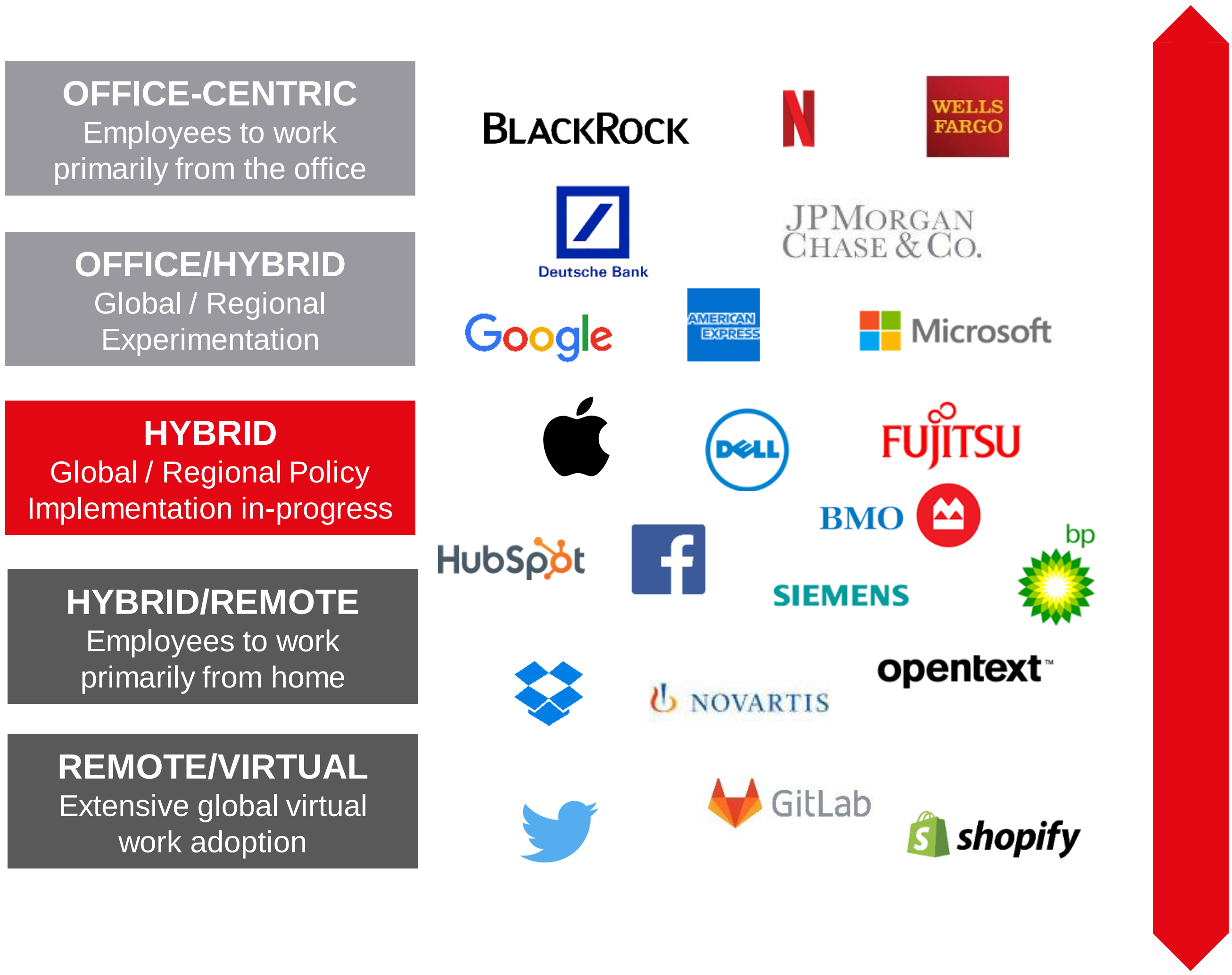
Milan

3.25%
-15 bps Y-o-Y

Rome

3.70%
-5 bps Y-o-Y

Corporate occupiers: the hybrid workplace continuum



After the pandemic, we estimate that employees will continue to adopt the remote solution 2/2.5 days a week: working from home will diminish since employees will miss the office needing interaction to generate new ideas. In addition to this, for many people their home living arrangements make working from home a below optimal choice, with its limited space, lack of privacy and more distractions. This is particularly true for the younger generation, with global JLL survey data indicating that 64% of millennials are most eager to return to the office, the highest percentage of any age group. Therefore, the direction of the companies won't be to get rid of spaces, but to create places that will have to adapt to the new needs, hybrid and human centric spaces.

The office will maintain its central role and the organisations will have to evaluate and integrate distributed working models for the long term. The hybrid solution will consist in evolving from the "Work from home" to the "Work from anywhere". Employees will have the opportunity to work for instance in coworking spaces, client sites, third places (cafés, hotel lounges), satellite locations and partner offices. The future workplace will be anywhere and at any time, with the traditional office acting as the central hive of productivity and center of innovation, providing employees with opportunities for social interaction and engagement, learning and team-building activities. The office will become one of the available instruments to choose from, not a simple space where to go. In this perspective, the workplace will have to be more human-centric than ever: the focus will consist in enhancing the office in terms of collaboration, innovation, talent attraction & retention, health and wellbeing. As a smaller number of employees is forecasted to be on site, the model of the hubs&clubs could be adopted, consisting in the existence of a central representative office to which smaller and more flexible secondary offices will be added. The need for individual workstations will diminish and will be replaced by diversified workspaces to accommodate more types of businesses, such as sofas and bar-style counters for informal group work sessions and isolated niches for individuals.

JP Morgan has declared that their workplace will be office-centric as they have experimented negative effects in working from home and a productivity drop in certain jobs. For BlackRock, the office will remain the primary work location in the longer-term with a selective~~ly~~ use of remote work. For Marriott Intl, remote work suits some roles but for creativity and productivity, being together, is irreplaceable. For Microsoft, flexibility is fundamental to support individual workstyles balancing business needs and corporate culture. Once will be safe to return to the office, Google will test a flexible workweek; employees would be expected to work at least three days a week in the office to collaborate.

Corporate occupiers are accepting that they may never operate again in the way they did pre-crisis and that the ability to continuously adapt to new and changing conditions will be essential for future success. Companies should explore solutions that fit and flex best with their organisation. Lower workplace density and reconfigurations to handle greater logistical flexibility should help to keep the overall office utilisation and occupancy more stable than previously anticipated.

Office as a campus

From a real estate perspective, our home, neighbourhood and workplace will need to accommodate the new priorities which have risen the collective public agenda. People have rediscovered a different pace of life, the importance of connection and community to their sense of well-being, and the value of outside green space and clean air. Assets will need to repurpose physical internal and external space to drive holistically healthy experiences to attract new and retail existing occupiers, and ultimately increase the value of their assets; corporates need to provide exciting places where they can showcase their brand and culture, inspire employees and enhance their wellbeing.

Government, business~~es~~ and society are now clearly much more aware of the key role buildings play in physical, mental and community health.
Social connections in supporting wellbeing have proven to be vital. A focus on local communities' wellbeing (investment on local business, volunteering, mentoring and sharing of private spaces for local purposes) will create a virtuous cycle that will make the location more attractive.

Create a new building or redevelop it where users and the community have access to blue and green biodiverse space during breaks, to use for meetings or family free-time will prove a resilient investment decision.

Offices will remain a crucial central hub for enterprises – a place to learn, socialise and connect. Organisations will be embracing strategic changes to their portfolios, optimising the office ecosystem to include flexible workspaces and sophisticated amenities that put their people first.

In this context, the concept of office as a campus, equipped with services, integrated with the community, located in areas of urban regeneration, sustainable and inclusive, is proving to be a winning choice:

- Value enhancing benefits
- Resilient in the longer-term
- Positive effects on rents
- Lower vacancy rate
- Urban regeneration engine also in secondary locations

Urban regeneration	Sustainable and livable spaces; ESG factors	Mixed-use assets
Workspace redesign	Green spaces	Technology investments
Integration, connection and inclusion	Traffic circulation, squares, pedestrian areas	Proximity to universities and research centers
Focus on people, health and wellbeing	Services and amenities	Air quality and thermal control

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