JLL

Q4 2020

Office snapshot

General Outlook

Economic growth rebounded during the third quarter and is expected to reach roughly 7%, leaving 2020 global GDP about 4% below its level before the onset of the pandemic. Following the second wave, Q4 remained beset with massive uncertainty as it is growing the awareness that only a widely approved and distributed vaccine will end the crisis. In USA, the unemployment is compressing but still above the pre Covid-19 levels. In the Eurozone, economic activity is gradually deteriorating; services are compressing, followed by a slow down in manufacturing. Fears about the employment situation led consumers to postpone spending.

After a deceleration in 2019, the Italian economy recorded a deep downturn in GDP in Q3 2020 YTD (-8.4% YoY), mainly due to a slowing down in investment and export components. Preliminary data for 2020 show a contraction of 8.9%: the positive effects of the strong rebound in Q3 were held back by the restriction measures in the last quarter of the year. The new measures slowed down household consumption and the service sector.

The recovery in employment continued slightly in 2019 followed by a slowdown (-1.7%) in the first 11 months of 2020; despite the slight improvement since the summer, occupation remained below 2019 levels. In December, business expectations on employment were improving in manufacturing and retail trade sectors but construction and, above all, services clearly deteriorated. Till October, the second wave of the pandemic did not stop the positive trend of the industrial production. The gap between Italian (-0.2%) and European (0.2%) inflation (HICP) is decreasing; Italian CPI remained negative mainly due to energy products. In December, inflation remained negative for the eighth consecutive month. In November 2020, the interest rate on Italian 10-year Government Bond stood at 0.66%, compressing for the seventh consecutive month. The spread against the German Bund fluctuated dramatically till the end of May; at the end of October the index stabilized well below 120 bps. The Governing Council expects the key ECB interest rates to remain at their present level or lower until the inflation outlook robustly converges at 2%.

The new January decree have extended the state of emergency until the end of April and have adopted new measures to contain the pandemic until March, 5th. The allocation of Recovery Plan capitals will be crucial for the recovery of the Italian economy affected by a high and growing public debt. Focusing on digitalization, infrastructures, sustainability, tourism and research this will be a unique opportunity for our RE market. The global Covid-19 pandemic has proven to be an accelerant of change and transformation for the whole real estate sector that will last well behind the sanitary crisis: sustainability, digital and technology, flexibility of uses and regeneration will characterize the buildings of the future.

In the office sector, the increasing focus on health, wellness and the employee experience will drive the demand for high quality, smart buildings. The new workforce strategies are changing the demand: companies are adapting to a hybrid operating reality and 2021 will see organizations evaluating and integrating distributed working models. Demand for quality, technology and sustainability is disruptive for the whole industry creating the opportunity to enhance and regenerate the existing stock. In the long-term, office adaptions are likely to drive demand for space: relaxing seating density, more formal & informal collaborative spaces, adaptive spaces and amenities will form the basis for a new office usage and footprint.

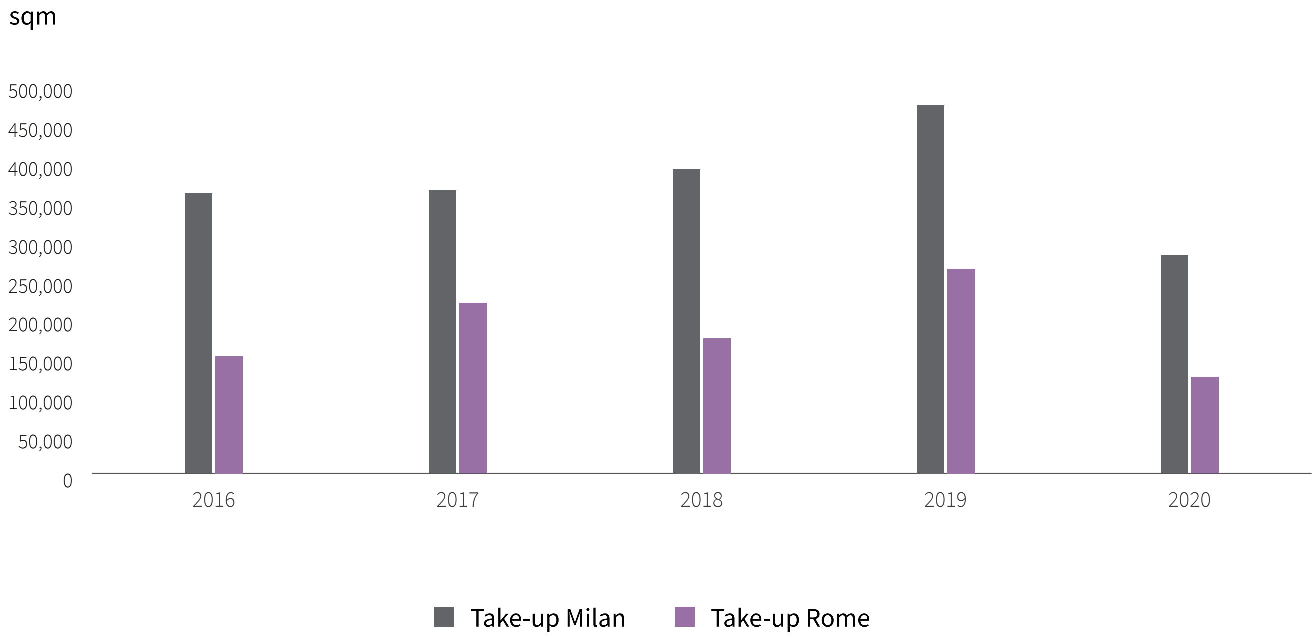
In Italy, 2020 recorded 141 investment deals for a total of around €8.3 billion, lower by 33% than 2019. The slowdown was mainly ascribable to the hotel and office sectors; logistics, residential, alternatives and healthcare are gaining a growing share of the market.

The office sector confirmed to be the most dynamic, recording 52 transactions and representing the 43% of the volumes with around €3.6 bn. Milan was once again the leading market for both leasing and investment, accounting for the 63% of the total office investment volume with 29 deals mainly transacted in the historical centre of the city. In Rome, the investment volume registered an increase for a total of around €710 m (+15%). International capitals mainly affected the volumes (60%), while domestic investors were involved in 27 deals for around €1.4 bn. Prime net yields remained stable in Rome (3.75%) while decreased in Milan (3.3%), confirming the liquidity of prime assets in the main markets and the strong competition for core high quality assets.

After the record absorption in 2019, take-up recorded a slowdown both in Milan and Rome as uncertainty and disruption remained key concerns for corporates in the last 12 months. In Milan, the leasing volume reached 280,000 sqm, down by 40% YoY and 25% on the last 5 years average. The demand of office space was dominated by deals below 500 sqm and by grade A office spaces (66%). The demand mostly targeted offices located in the CBD or Periphery submarkets.

In Rome, the absorption totalled around 120,000 sqm (-54%), thanks to the good performance of the last quarter of 2020 that was sustained by a massive transaction of around 30K sqm. The number of transactions was consistent (96) and mainly interested the EUR and Centre/submarkets. Regione Lazio deal caused a consistent increase in 2020 periphery take-up. Prime rents and incentives remained stable both in Milan and Rome confirming the huge demand for grade A and high-quality office spaces.

Occupier market
Q4 2020



Milan

Take-up	Last 5 years average
280,000sqm	**372,000sqm**

Vacancy rate grade A

1.9%

sqm future supply

2021	**224,000**
2022	**289,000**
2023	**93,000**

Rome

Take-up	Last 5 years average
120,000sqm	**187,000sqm**

Vacancy rate

5.9%

sqm future supply

2021	**218,000**
2022	**120,000**
2023	**55,000**

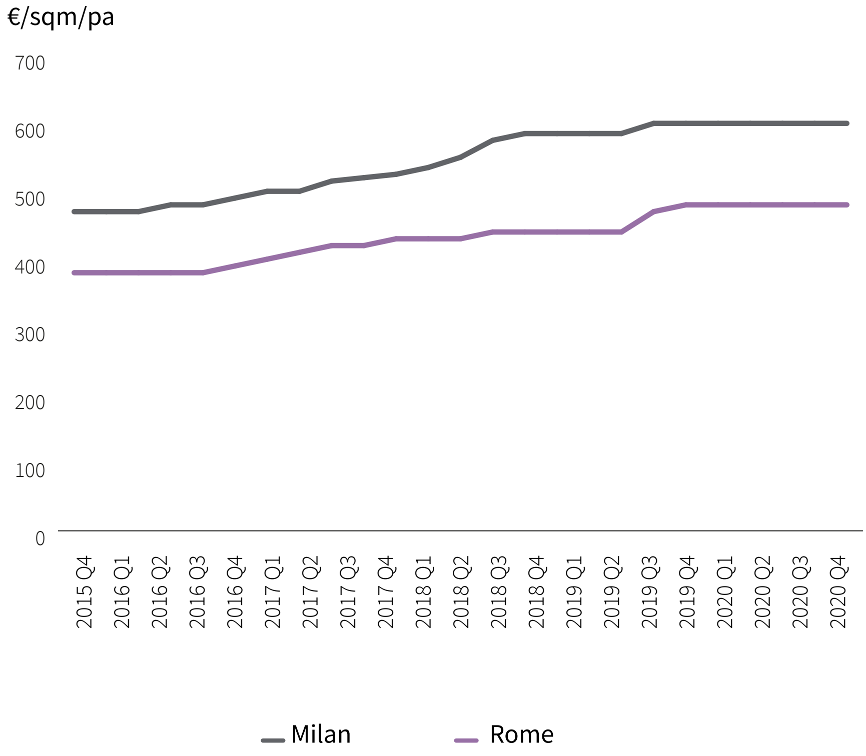
Rents

Milan (€/sqm/pa)

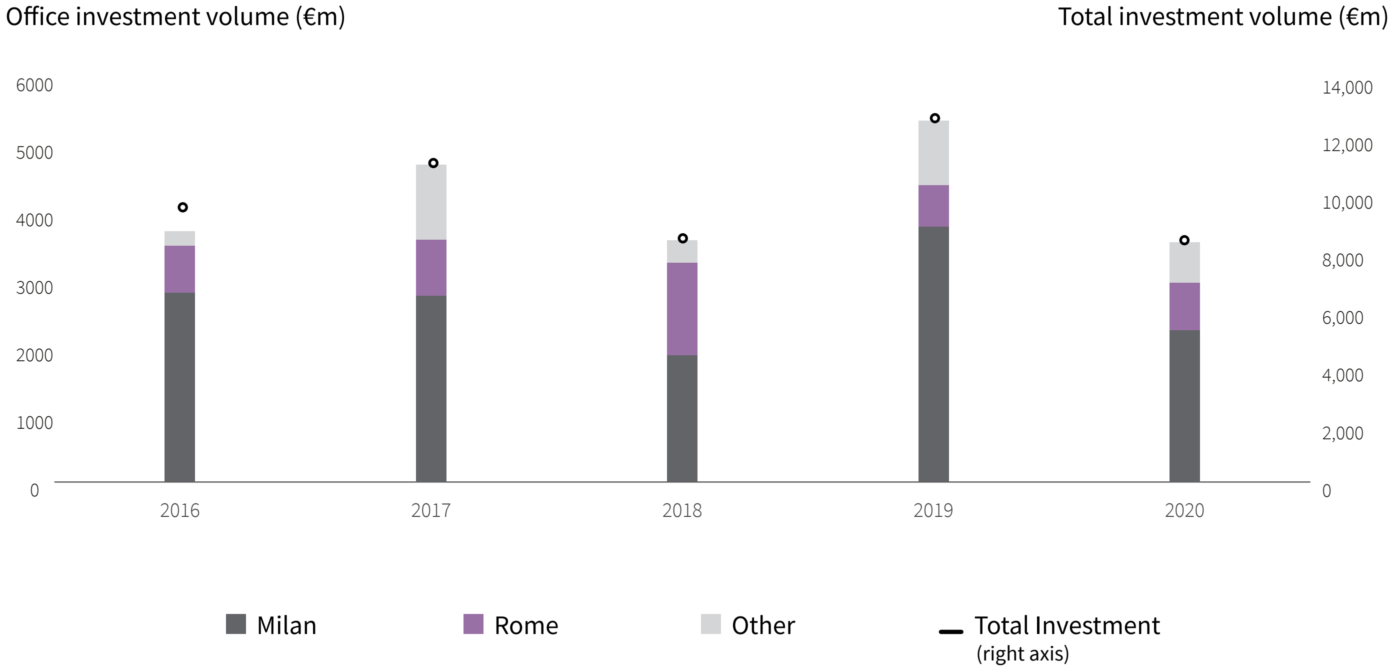
Historic centre	600
CBD	570
Centre	500
Semicentre	415

Rome (€/sqm/pa)

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



Investment market



Milan

Investment volume: € 2,250 m
N° of deals: 29

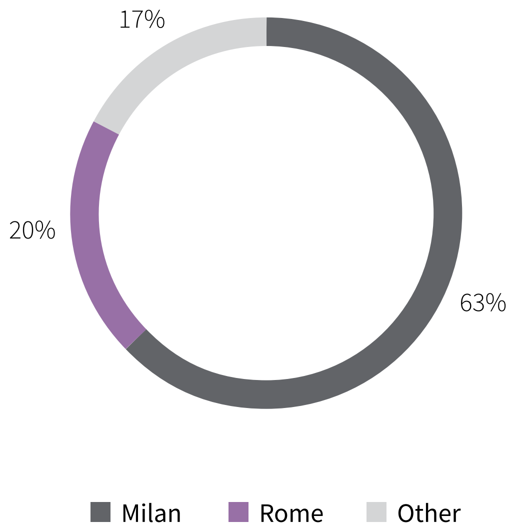
27 single and **2** portfolio deals

15 deals > €50 m

Average size: **€74 m**

9 transactions in the Historic Centre

Office investment volume by geography



Rome

Investment volume: € 710 m
N° of deals: 16

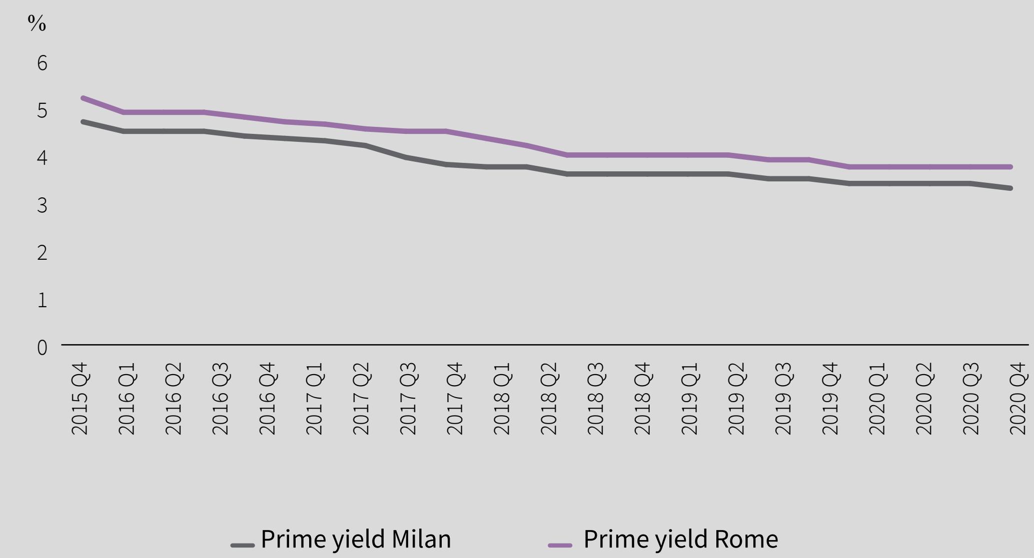
15 single and **1** portfolio deal

4 deals > €50 m

Average size: **€42 m**

8 transactions in the centre

Yields Q4 2020



Milan

3.30%
-10 bps Y-o-Y

Rome

3.75%
Stable Y-o-Y

Corporate occupiers: setting the scene for 2021

Workplace Strategy

Real estate technology investment will accelerate into new areas in 2021 as companies adapt to a hybrid operating reality: connectivity, collaboration, "hybrid" workplace ecosystems. In the long-term, office adaptions are likely to drive demand for space: relaxing seating density, more formal & informal collaborative spaces, adaptive spaces, amenities will form the basis for a new office usage and footprint.

People Strategy

Employee health and wellbeing will be central to future commercial/corporate real estate strategies and investments. Organizational responses will span HR, real estate and technology with innovation likely to reshape the workplace norm. People strategy includes talent strategy, attraction and retention.

CRE Strategies

Corporate real estate strategy has become a key topic discussion. Corporate Real Estate will need to embed net zero strategies as they reimagine their real estate portfolios in 2021. The new balance between office, home and third-party places (co-working, café, hotel lounge, etc.) will reshape corporate real estate portfolios for many companies going forward.

Business Strategy

Business strategy includes future operating models and growth. Many companies are now embarking on a wholesale review of future strategy and operational real estate requirements in order to guarantee business continuity in the event of a crisis. While the pressure to reduce costs is continuing, corporates need to invest to create the high quality, highly serviced, experiential real estate that employees are seeking for.

Employee perspective:

Remote work frequency after Covid-19*
2.4 days on average

Source: JLL Human Experience 2020 survey

58% Of employees prioritise working in a company that ensure their physical and mental well-being

Health & wellness

Of employees is a #1 investment priority for EMEA CRE directors in the medium to long term

Source: JLL, EMEA Covid-19 occupier sentiment survey (September 2020)

#2 Technology is #2 investment growth area for CRE directors in EMEA

Polarisation: Flight to Quality

The large-scale remote working experiment has forced companies to evaluate the value-add of the office. The office space still has a pivotal role to play in facilitating essential face-to-face activities that are not easily replicable online. The future of work will be “hybrid” but with the physical office at the heart. Only the best-in-class offices will be able to sustain corporates in enhance collaboration & innovation, talent attraction & retention, health and wellbeing.

Our research clearly shows that just 7% of all corporates are looking to reduce Grade A spaces. 50% are looking to increase their investment in high quality spaces.

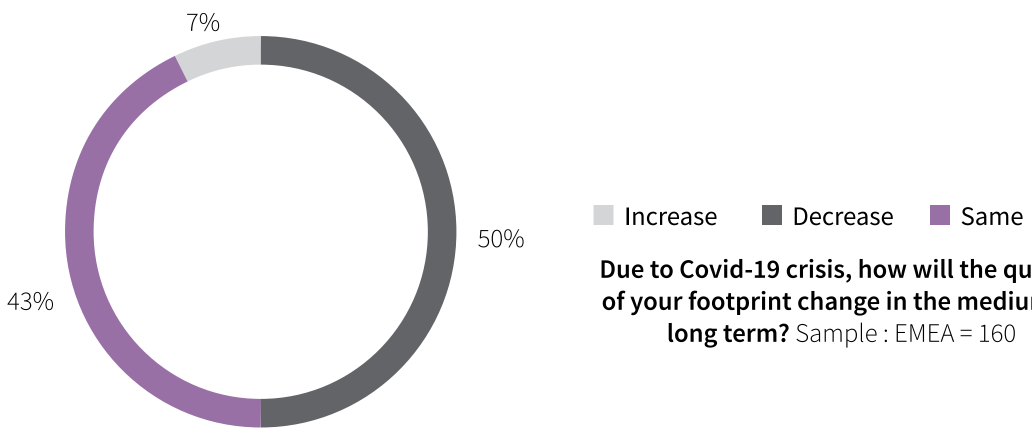
Demand in European office markets is therefore likely to gravitate towards these high-quality assets. Smart and sustainable buildings that can truly support companies’ environmental, health & wellness and employee experience initiatives will be in high demand. These assets will come at a premium and the rental value performance will be resilient even during a downturn.

In the short-medium term, the real estate market will be characterized by significant divergences between and within real estate asset classes. Polarisation between core and secondary assets will increase. High demand for core assets will maintain pressure on prime yields. The location is just a parameter, while the attention towards flexibility, sustainability, ESG and technology is growing. Secondary assets will represent an opportunity for those who want to implement value-add strategies.

Uncertainties related to COVID-19 have not slowed down global institutions’ confidence in commercial real estate. For investors, real estate is no longer an alternative asset. It’s now a core asset class. ”Flight to safety” in real estate, which continues to offer better relative returns in comparison to other asset classes, looks set to increase.

Interest rates are expected to remain low in 2021, confirming the attractiveness of the real estate sector.

Future corporate demand: Impact on Higher Quality Spaces in the portfolio



Due to Covid-19 crisis, how will the quality of your footprint change in the medium to long term? Sample : EMEA = 160

Source: JLL, Covid-19 EMEA Occupier Sentiment Survey, September 2020

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