Office snapshot

General Outlook

GDP growth recovery continues to face a high degree of uncertainty: US and UK forecasts remain robust, and the European ones are improving. The progress and effectiveness of vaccination campaigns and policies to support families and businesses continue to be driving factors for the international recovery. The strong dynamism was accompanied by a rise in prices.

In July 2021 meeting, the ECB Governing Council published its new monetary policy strategy which states that price stability is best maintained by aiming for a 2% inflation target over the medium term. This target is symmetric. The accommodative monetary policy stance was reconfirmed.

In Italy, after the relaxation of the lockdown measures and the restoration of the white zones, due to the surgency of Covid-19 cases connected to the Delta Variant in July, government has extended the state of emergency until 31st December 2021 and the use of the green pass. The annual GDP growth estimates have been revised upwards for 2021, forecasting a growth of 5.9% (Oxford Economics, July 2021) thanks to an improvement in confidence among consumers and businesses. Reform and investment spending plans favored a restart of services, which goes hand in hand with the ongoing consolidation of the industrial activity. Unemployment rate will remain high as business support and redundancy ban gradually stop.

The European Commission and Ecofin approved the Italian plan for the Recovery Fund, paving the way for the arrival of €24.9 billion in pre-financing by the end of July; they will be used to finance the first investment projects and to sustain the economic recovery. The Italian PNRR – Piano Nazionale di Ripresa e Resilienza (i.e., National Recovery and Resilience Plan) plans the allocation of €248 bn.

In Italy, H1 2021 recorded 83 investment deals for a total of around €3 bn, lower by 15% YoY. The slowdown was mainly ascribable to a decrease in deal size (€34 mln vs €59 mln in H1 2020) as the semester registered more transactions than H1 2020, highlighting the positive market outlook. The downtrend was attributable to the retail and office sectors and, slightly, by the hospitality one, as all the other segments showed a positive variation. Office confirms to be the main asset class. Logistics is gaining a growing share of the market (25%) and became the second asset class in terms of investment volume. Living, alternatives and healthcare are now becoming an integral part of investment strategies. Appetite per higher-quality core and core-plus product persists, but the demand is increasing for value-added and opportunistic assets in competitive segments of the market. International investors supported the investment's volume. Milan continues to be the leading Italian market followed by a growing interest in other cities.

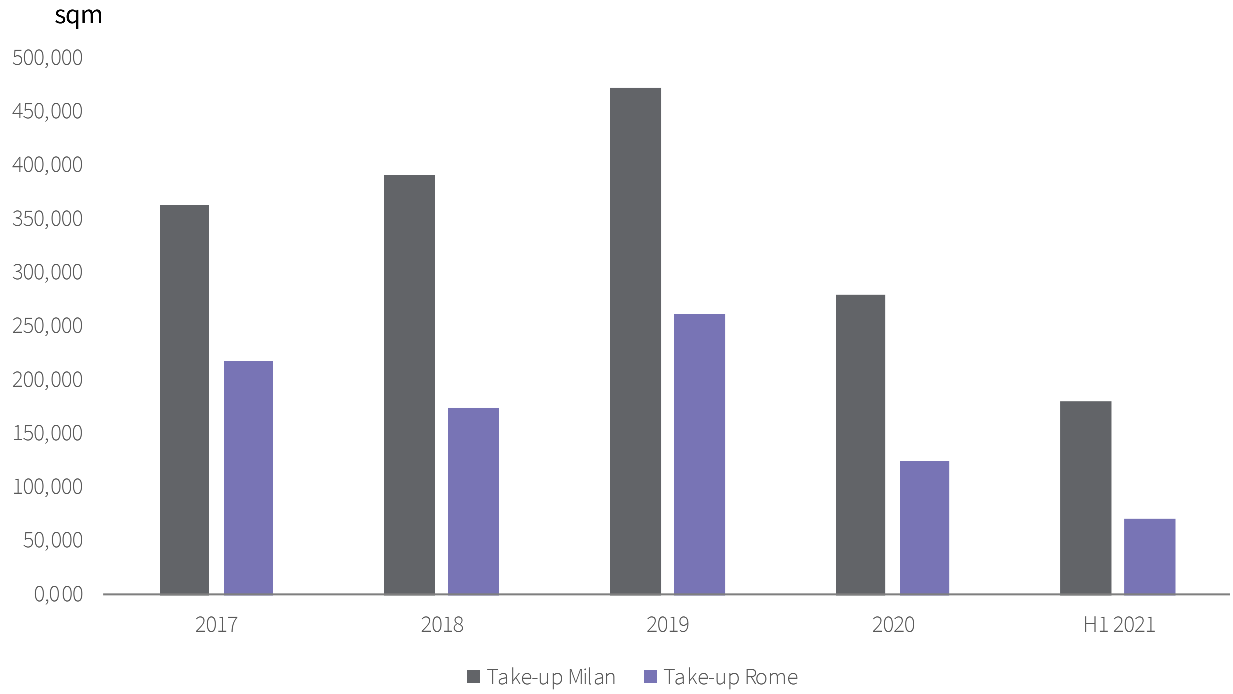
The disruption caused by the pandemic jolted almost all organisations into a new way of working. As they refocus their priorities beyond the pandemic, an opportunity has been created to reconfigure the ways in which they structure their operations. The new model encompasses four domains: the nature of work itself, the workforce, the workplace and the real estate portfolios. Recovering from the pandemic has afforded management teams a unique opportunity to help tackle the challenges around sustainability, inclusion and well-being. The majority of workers also still identify the office as a better environment than their homes for tasks such as collaboration, management, problem solving and socialising with colleagues. Many workers aspire to hybrid working arrangements, very few want to work entirely remotely. Workers and organisations continue to see the office as a key theatre for work. There's no single model for what hybrid work looks like. Corporates will need to operate with flexibility and agility throughout 2021 and beyond.

The office sector confirmed to be the most dynamic, recording 23 transactions and representing the 30% of the volumes with around €900 mln (-40% YoY). The market was held back as a lack of quality product and decision-making processes are getting longer, but the number of preliminary contracts is increasing, and the investment pipeline is positive. Milan was once again the leading market for both leasing and investment, accounting for the 83% of the total office investment volume with 15 deals; Milan investment volume registered a 33% decrease on H1 2020, but the number of deals was higher. In Rome, H1 2021 saw 3 deals for a total of €70 mln. International capitals mainly affected the volumes (59%), while domestic investors were involved in 10 deals for around €360 mln. Core capitals affected more than 50% of the total volume. Prime net yields decreased both in Rome (3.70%) and in Milan (3.25%), confirming the liquidity and strong competition for prime assets.

In Q2 2021, economic re-openings improved investors and corporates sentiment for the office sector. Occupiers remain cost conscious but, at the same time, focused on asset quality and fit-out. Leasing volume in Milan reached 180,000 sqm, up by 14% YoY but still below the last 5 years average. The demand of office space was dominated by deals below 500 sqm (43%) and by grade A office spaces (72%). The demand mostly targeted offices located in the periphery (28%). In Rome, the absorption totalled around 70,000 sqm (+49% YoY and -21% on the last 5 years average), thanks to a bigger number of deals and to an increase in the average size of transactions. The demand was mainly focused on EUR submarkets (31%) and on grade A spaces (49%). Prime rents remained stable both in Milan and Rome confirming the interest in grade A and high-quality spaces, but landlords are open to grant more generous incentives.

Occupier market

H1 2021



Milan

H1 Take-up

180,000sqm

H1 Last 5 years average

198,000sqm

Vacancy rate grade A

2.2%

sqm future supply

2021	**178,000**
2022	**534,000**
2023	**293,000**

Rome

H1 Take-up

70,000sqm

H1 Last 5 years average

88,000sqm

Vacancy rate

6.3%

sqm future supply

2021	**102,000**
2022	**140,000**
2023	**196,000**

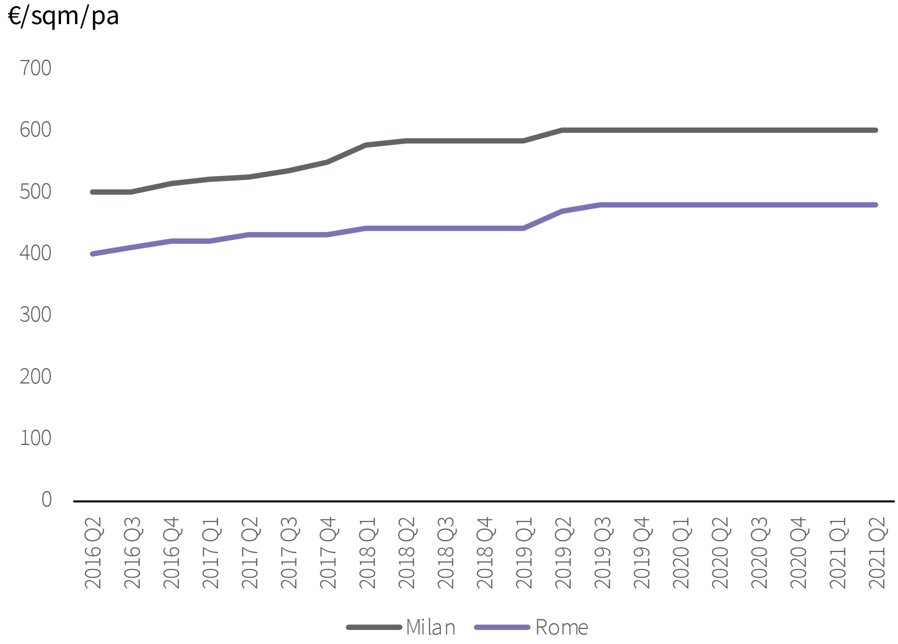
Rents

Milan (€/sqm/pa)

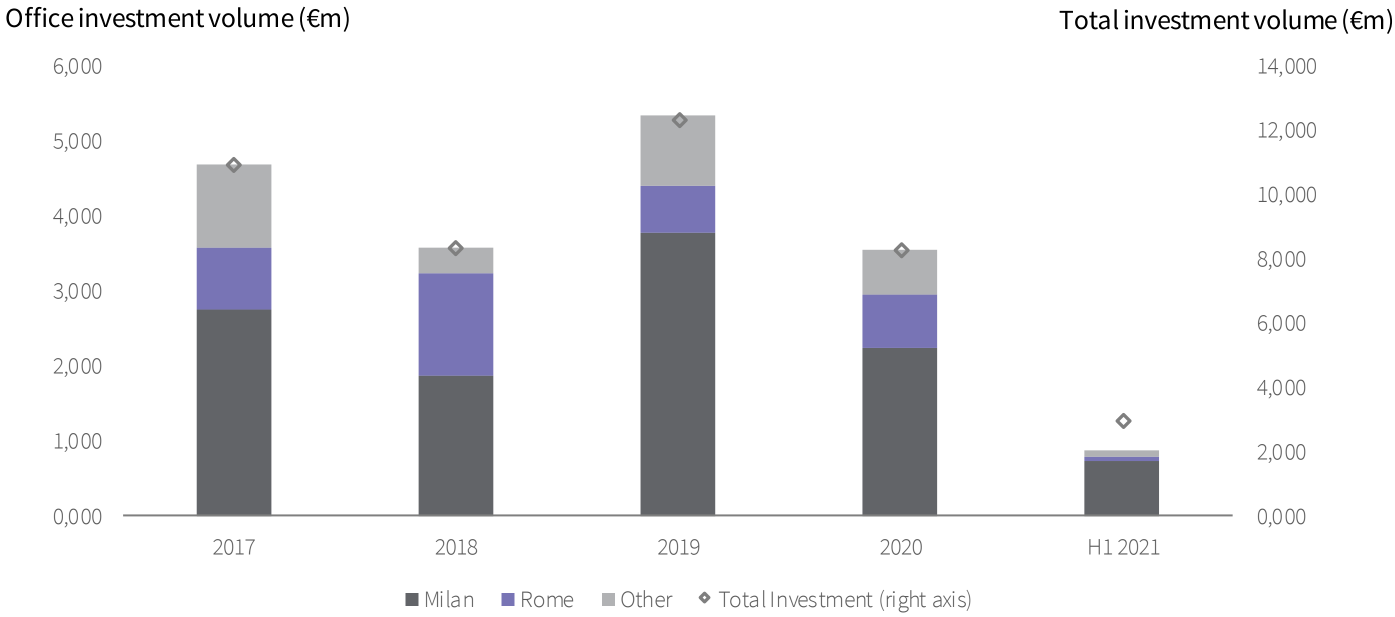
Historic centre	600
CBD	570
Centre	500
Semicentre	415

Rome (€/sqm/pa)

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



Investment market



Milan

H1 Investment volume: € 730 mln
N° of deals: 15

14 single deals

5 deals > €50 m

Average size: **€46 m**

3 transactions in the Centre

Rome

H1 Investment volume: € 70 mln
N° of deals: 4

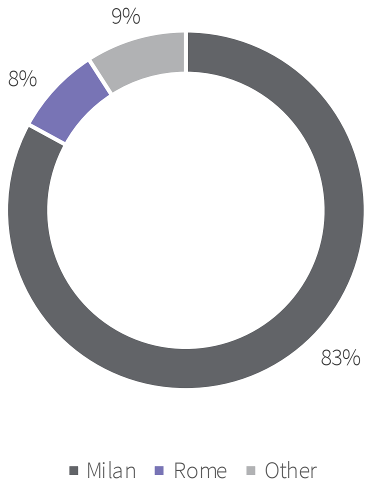
4 single deals

4 deals < €50 m

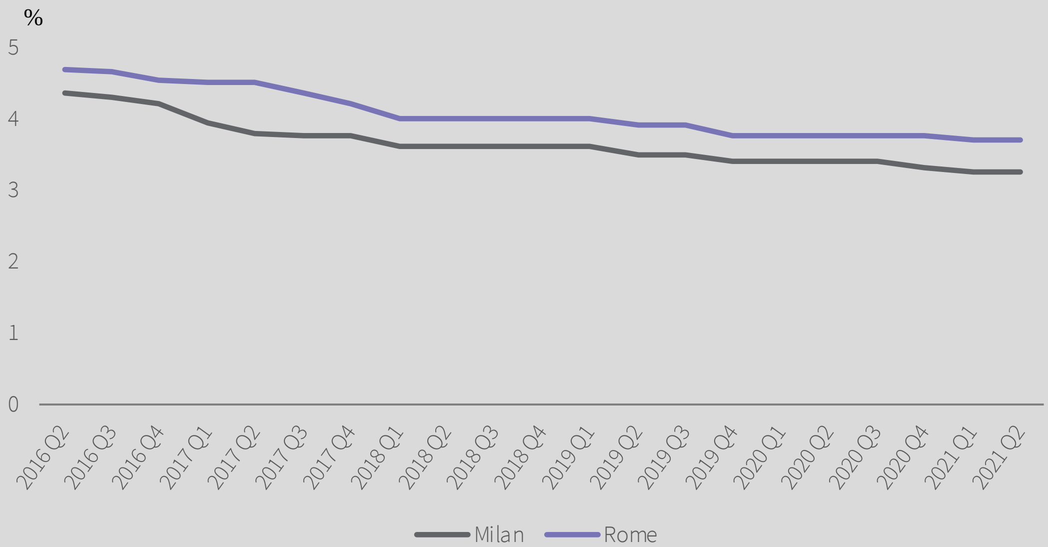
Average size: **€17 m**

2 transactions in the centre

Office investment volume by geography



Yields Q2 2021



Milan

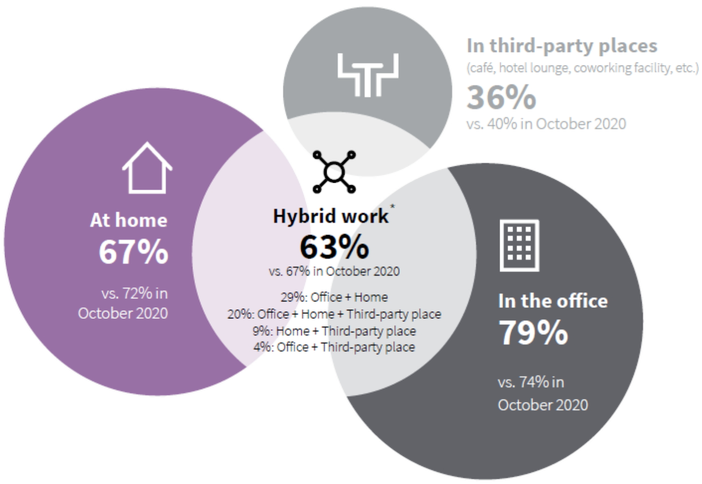
3.25%
-15 bps Y-o-Y

Rome

3.70%
-5 bps Y-o-Y

Corporate occupiers: evolving services and structures towards a hybrid lifestyle

How many days a week would you like to work in these different places post Covid-19?



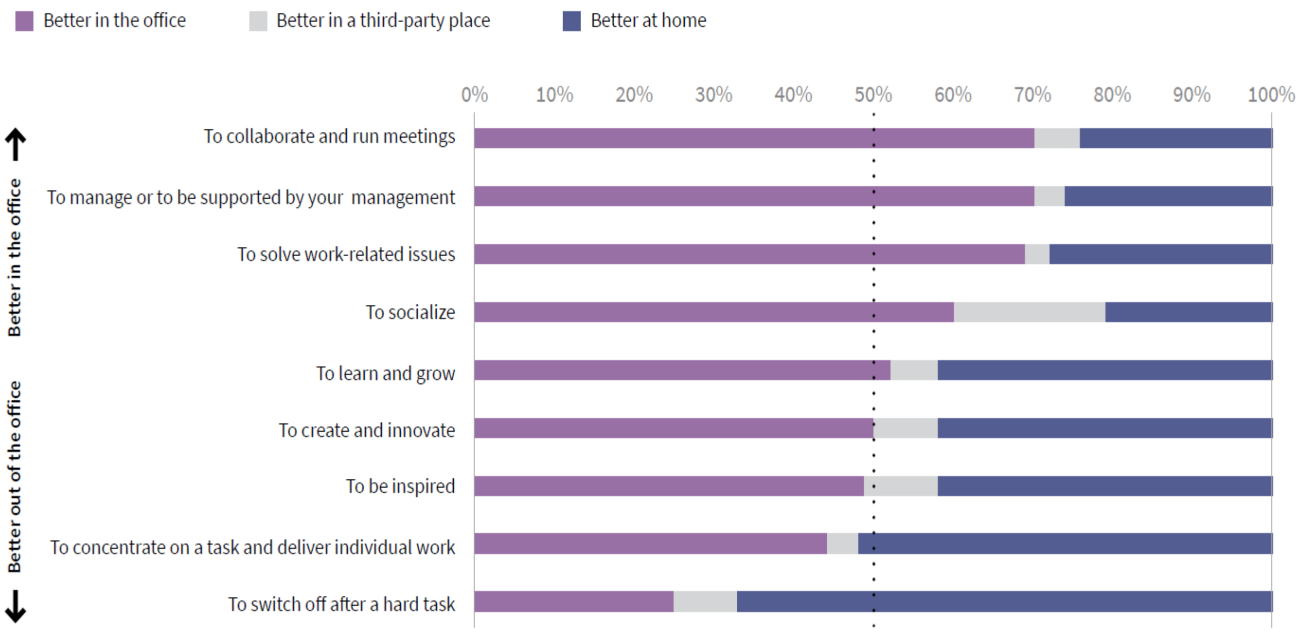
1. An outstanding office is the best way to engage your employees (47% people miss office life)
2. Homeworking fatigue is growing (33% don't want to work from home)
3. Productivity at home is declining (37% fell more productive at home against 48% of April 2020)
4. Work-life balance is the number one priority for the workforce (88% against 71% a year ago)

In the 15 months that have passed since the first major lockdowns were implemented across the world, the pandemic has created a seismic shift in working and living patterns. Workers adapted to homeworking in compliance with health and safety guidelines and revealed an appetite for greater flexibility and new hybrid ways of working.

The latest readings from our global office worker barometer indicate that forced adoption of remote working has created opportunities, but it is also exposing new social risks. Workers say they are experiencing an increased amount of virtual fatigue, or burn-out, and are increasingly wanting to get back to the office most of the time. This suggests that offices will be more important now than ever before as the center of the work ecosystem and that outstanding office environments will remain a critical way to engage employees. More than a year after the start of Covid-19, our objective was to understand how employees are feeling today about this new way of working.

Most of workers surveyed by JLL said they still want to work in the office at least part of the time. In addition, more than 60% of them said that 'human interactions' were among the things they missed most about the office. "Learn and grow" and "manager support" are fundamental for younger workers that declared to have a greater preference for working in the office most of the time.

After your recent homeworking experience, where would you prefer to do the following tasks in the future ? At home, in the office or in a third-party place ?



Source: JLL Worker Preference Barometer survey (May 2021)

Office market outlook

Preliminary or in an advanced state of negotiation investment deals: €1 bn

Decision-making processes are getting longer both for investments and leasing transactions

Office sector will continue to represent a relevant share of the investment volume

Occupiers are focused on periphery as centre is characterised by a lack of product

New value-added capital flows are entering the market but are held back by a lack of quality product.

In terms of take-up, an improving demand for medium-large spaces is a positive sign for later in the year

Investors are more focused than ever on ESG factors. On the one hand, this limits deals but on the other, it is a synonymous of market maturity

Occupiers' ESG compliance is relevant and impacts the closing of the deals

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