Office snapshot

General Outlook

GDP growth recovery continues to face a high degree of uncertainty as countries are struggling to quantify the impact of growth against the Delta variant and global supply bottlenecks. Inflation expectations have risen in many major economies and continue to incite speculation over the timing of policy tightening. US Fed Chair Powell indicated that QE tapering might start at year-end.

In September 2021 meeting, the ECB Governing Council expects the key ECB interest rates to remain at their present or lower levels until inflation reached 2%, well ahead of the end of its projection horizon and durably for the rest of it.

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, the government has extended the state of emergency until the 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 6.6% (Oxford Economics, October 2021) thanks to an improvement in confidence among consumers and businesses. GDP expansion is driven by a 5% surge in household consumption that reflects the gradual reopening of the economy since April.

The first tranche of funding (around €25 bn) from the EU Recovery Fund has been disbursed to the Italian government in August. The Italian PNRR – Piano Nazionale di Ripresa e Resilienza (i.e., National Recovery and Resilience Plan) plans the allocation of €248 bn. With the D.M. 6th August 2021, the Ministry of Economy and Finance has proceeded with the allocation of resources in favor of each Administration responsible for the interventions. Brussels will make ten transfers to the Italian state upon reaching the objectives, by mid-2026.

In Italy, the first nine months of 2021 witnessed a good dynamicity of the market, with the closing of 144 deals for a total of around €5.4 bn, higher by 2% YoY. Even if the office sector confirmed to be the main investors' target with around €2 bn of volumes, the logistics one hit a new record high reaching in Q3 2021 the highest number of investments ever recorded. Living, alternatives and healthcare are becoming an integral part of investment strategies, while the retail sector continued to record a downward trend as the hospitality one, although the latest remained one of the most sought-after sector. The positive market momentum was highlighted by the increasing number of transactions which were characterised by a smaller deal size (€36 mln vs €61 mln in YTD Q3 2020). International investors were the most active in the market, looking for assets in the whole investment spectrum in the most competitive segments. Milan is still the main investors' destination, attracting the 43% of the volumes, but other geographies are becoming more and more appealing along with the increasing interest in the living, alternatives and healthcare sectors.

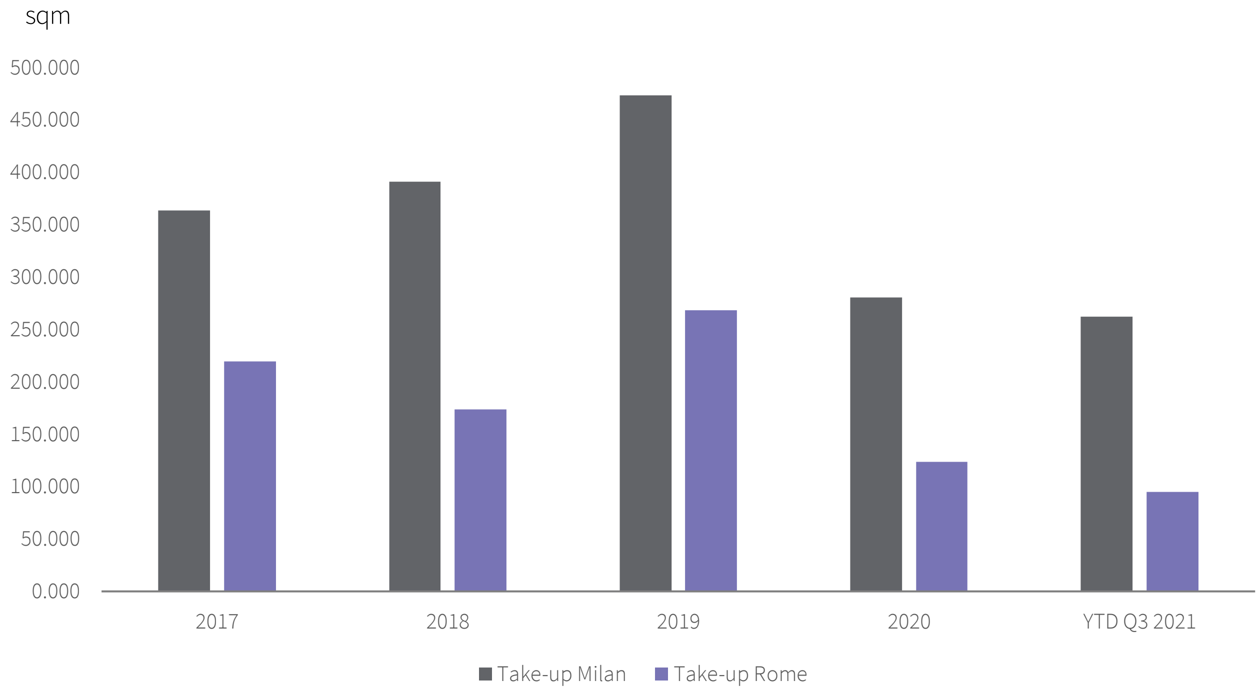
The corporate occupier world is still in a transition phase, and uncertainty about a return to normal continues to be high. Very few organisations will return to pre-pandemic ways of working and most are looking at a long-term strategy to continuously flex their approach and adapt to uncertainties. Companies have learned rapidly about their capacity to be agile and flexible, as well as the need to be resilient and have adapted to the new rules and conditions of work. Most organisations anticipate a less dense workplace in the future due to social distancing and increased amenity and collaboration spaces. Offices will be more important now than ever before as the center of the work ecosystem, and outstanding office environments will continue to be a critical way to engage employees. A key factor in every corporate transformation will be keeping employee demands 'front of mind' to achieve change.

The office sector confirmed to be the most dynamic, recording 46 transactions and representing the 35% of the investments with around €2 bn (-14% YoY). Even if volumes slightly decreased compared to one year ago, the number of deals improved (+16 YoY), testifying the solid attractiveness of this sector. Milan continued to drive the volumes, representing the 80% of the total across 31 deals located both in the central and peripherical areas of the city. The Capital recorded 9 deals from the begin of the year for a total of €270 mln mainly located in CBD and E.U.R. submarkets. Almost half of the volumes were allocated by international capitals (53%), while domestic investors were involved in a major number of deals (19) for around €910 mln. Prime net yields decreased in Milan (3.10%), while are expected to compress in Rome (now at 3.70%) in the next few quarters, confirming the liquidity and strong competition for prime assets.

There is cautious optimism on the leasing side: corporate occupiers will continue to seek to ensure flexibility within new leases, while employees will also seek a measure of flexibility in their working lives. In Italy, take-up showed signals of recovery in Q3 2021: Milan reached 260,000 sqm, up by 37% YoY across 192 transactions, a number higher than the whole 2020. The demand of office space was dominated by deals below 500 sqm (42%) and by grade A office spaces (66%). Almost half of the demand targeted offices in the central submarkets (CBD, historic Centre, Centre). Take-up in Rome increased too, totalling around 95,000 sqm (+58% YoY) thanks to a bigger number of deals (79 operations; +13% YoY). The demand was mainly focused on the Centre/Semicentre submarket (33%) and on grade B spaces (50%). Prime rents increased in Rome (490 €/sqm/pa) and should raise up too in Milan by the end of the year (now at 600€/sqm/pa), confirming the interest in grade A and high-quality spaces and the competition for these assets.

Occupier market

YTD Q3 2021



Milan

YTD Q3 Take-up

260,000sqm

Q1-Q3 Last 5 years average

279,000sqm

Vacancy rate grade A

2.2%

sqm future supply

2021	**97,000**
2022	**576,000**
2023	**322,000**

Rome

YTD Q3 Take-up

95,000sqm

Q1-Q3 Last 5 years average

129,000sqm

Vacancy rate

6.2%

sqm future supply

2021	**27,000**
2022	**186,000**
2023	**202,000**

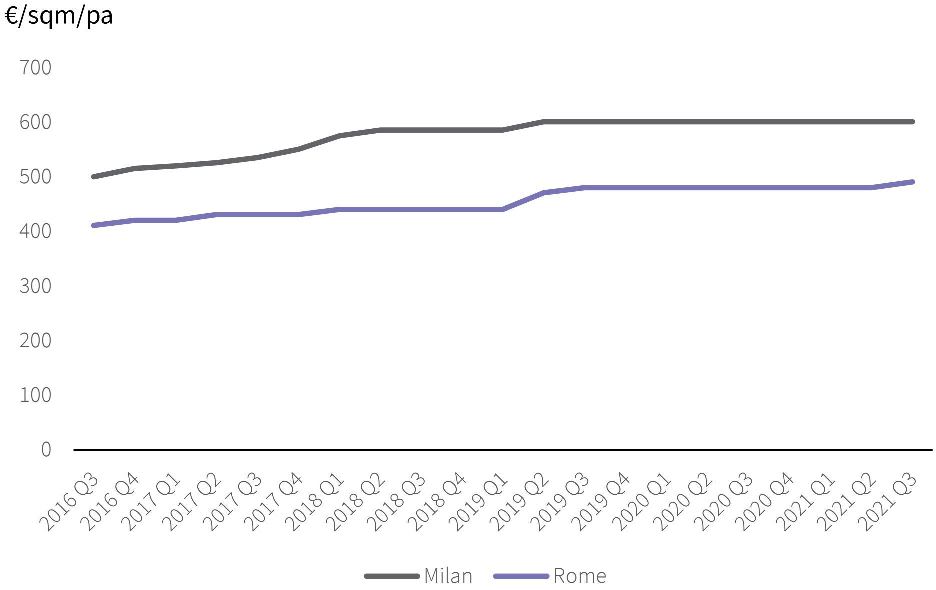
Rents

Milan (€/sqm/pa)

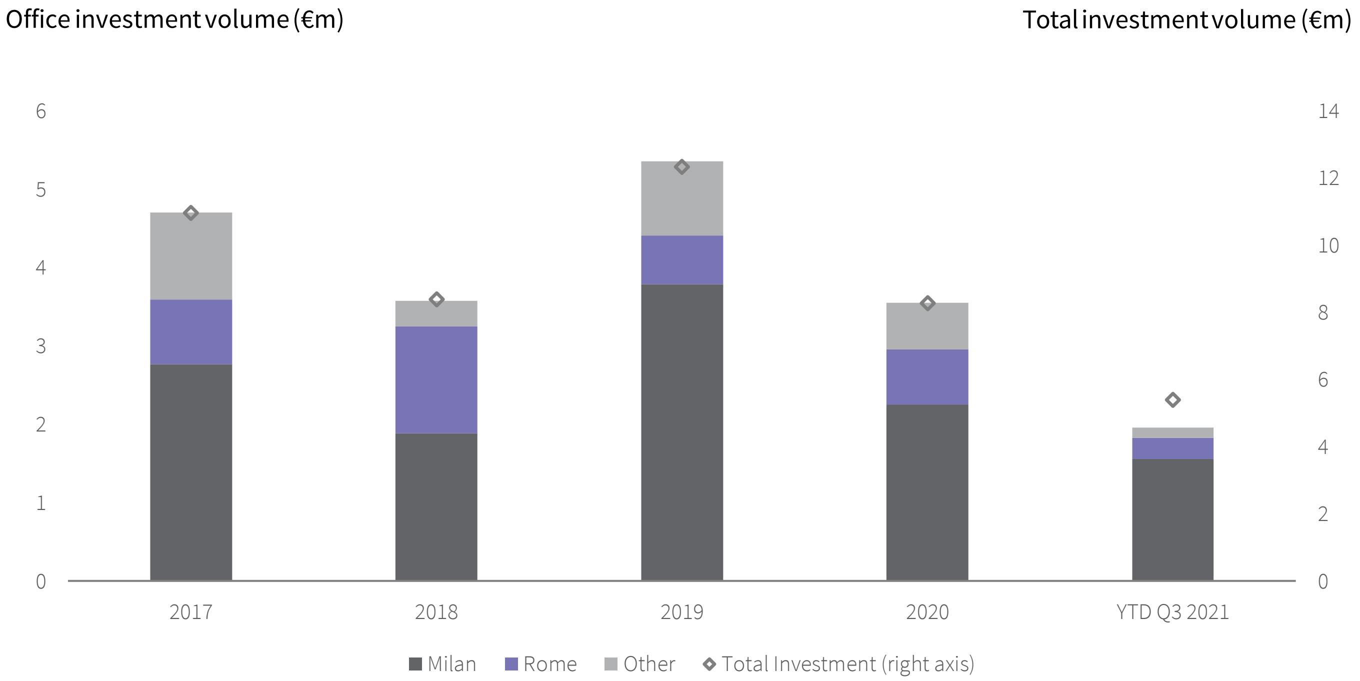
Historic centre	600
CBD	570
Centre	500
Semicentre	415

Rome (€/sqm/pa)

CBD	490
Centre	440
Semicentre	300
E.U.R.	360



Investment market



Milan

YTD Q3 Investment volume: €1,560 mln
N° of deals: 31

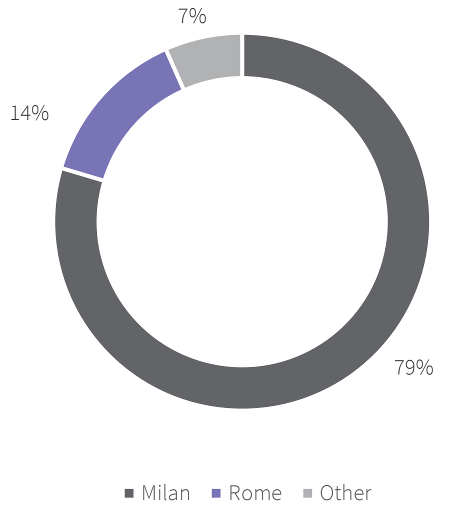
30 single deals

10 deals > €50 m

Average size: **€48 m**

5 transactions in the Centre

Office investment volume by geography



Rome

YTD Q3 Investment volume: €270 mln
N° of deals: 9

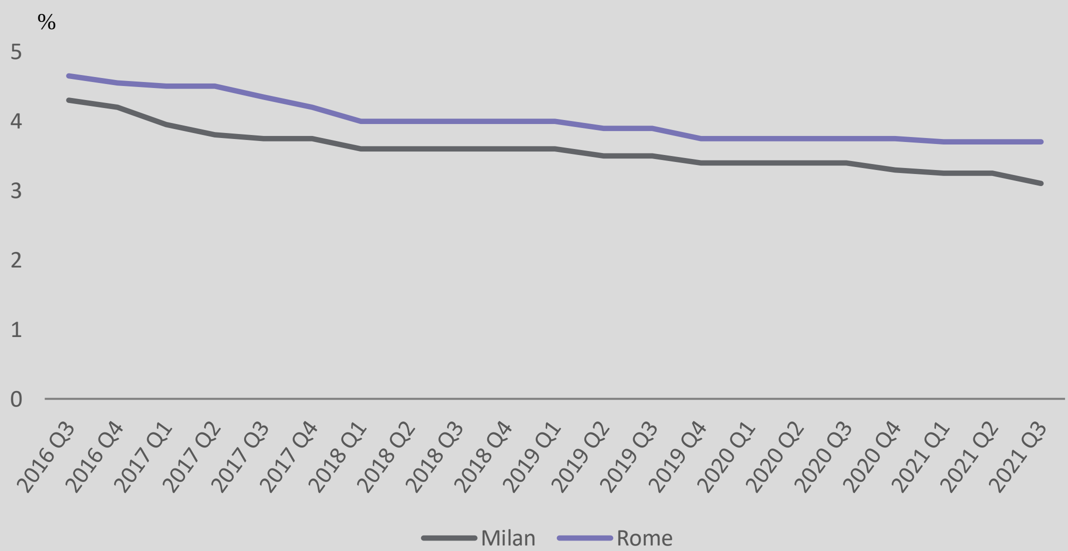
8 single deals

7 deals < €50 m

Average size: **€28 m**

3 transactions in the CBD

Yields Q3 2021



Rome

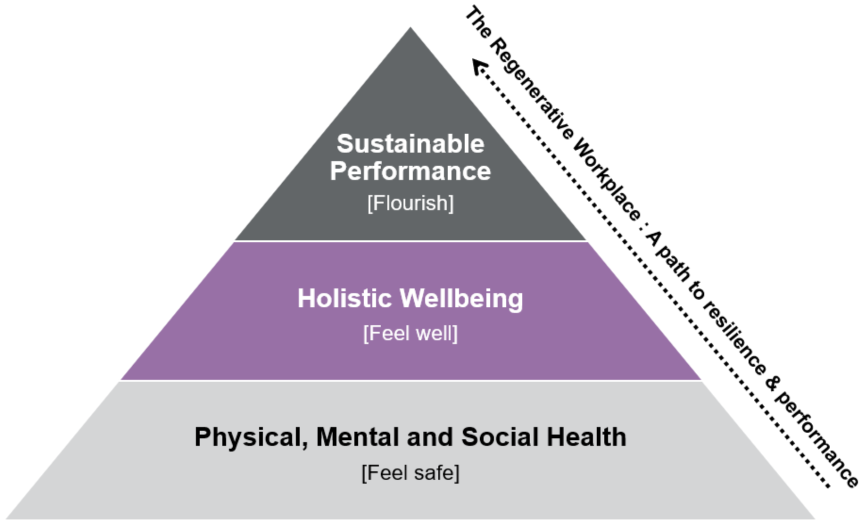
3.70%
-5 bps Y-o-Y

Milan

3.10%
-30 bps Y-o-Y

Regenerative workplace: restoring employee wellbeing to achieve sustainable performance

Employers have a new responsibility to actively support the health and wellbeing needs of their people and create a Regenerative Workplace



1. Three pillars: physical, mental and social health
2. Only when individuals are satisfied in their health needs, they can achieve a sense of wellbeing
3. When the conditions of health and wellbeing are met, employees are able to achieve sustainable performance

Office workers around the world welcomed the newfound flexibility and an opportunity to spend more time with their families during the pandemic. However, for many, the adoption of homeworking has led to increased feelings of isolation, stress and anxiety. They have struggled to establish healthy barriers between professional and personal lives. As organisations plan their transition to a post-pandemic future, it is a 'chance of a lifetime' opportunity for employers to create a new Regenerative Workplace. The regenerative workplace is about putting people at the center. By genuinely taking care of their employees' health and wellbeing, employers will be in a position to achieve sustainable performance.

Even though the office performs well as social element, it doesn't appear as beneficial as home in terms of quality of life. Working form home has offered the individual more opportunities to spend time with family, take breaks, eat well and exercise more. Employers should learn from the remote work experience and ensure that offices are as comfortable as home. It is about providing new health and wellbeing tools, amenities and spaces but also it is about management. The future will be about energy management: managers should really support employees in the self management of their health. This means making sure that workloads are sustainable and encouraging people to adopt healthy working practices into daily routines.

1 A holistic approach to health and wellbeing is needed to help employees restore their energy levels and feel fully supported to achieve sustainable performance
36% of employees today feel a lack of energy and struggle to remain motivated and engaged in their job.

2 Social health is at risk and the appeal of face-to-face interactions is a strong driver for the return to the office
Only 36% of the workforce is able to maintain strong working and personal connection with colleagues at a distance.

3 Mental health should be better addressed in the office
75% of employees expect to feel protected at work when expressing their difficulties or concerns.

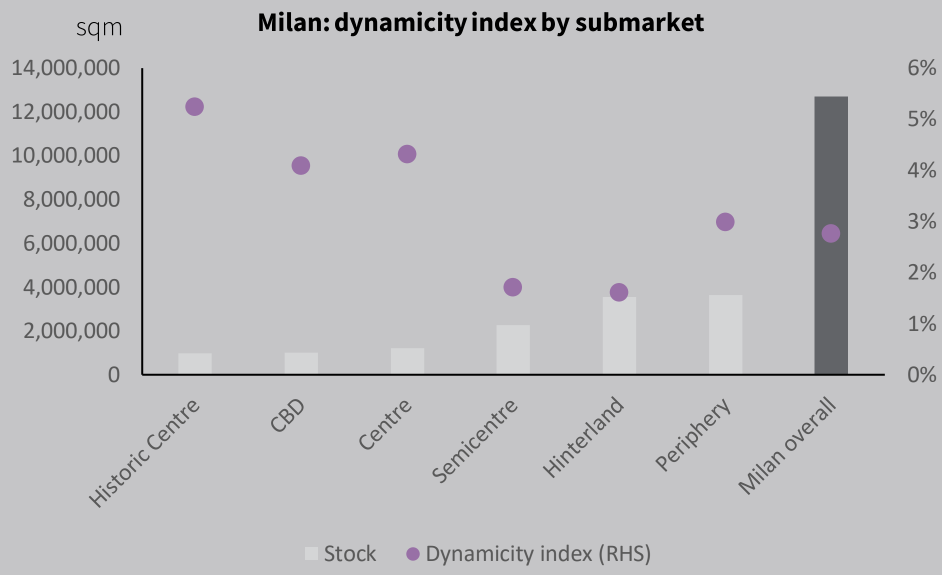
4 Physical health is closely connected to a healthy work-life balance and healthy routines
75% of employees say they are struggling to find the time or energy to incorporate these habits into their weekly routine.

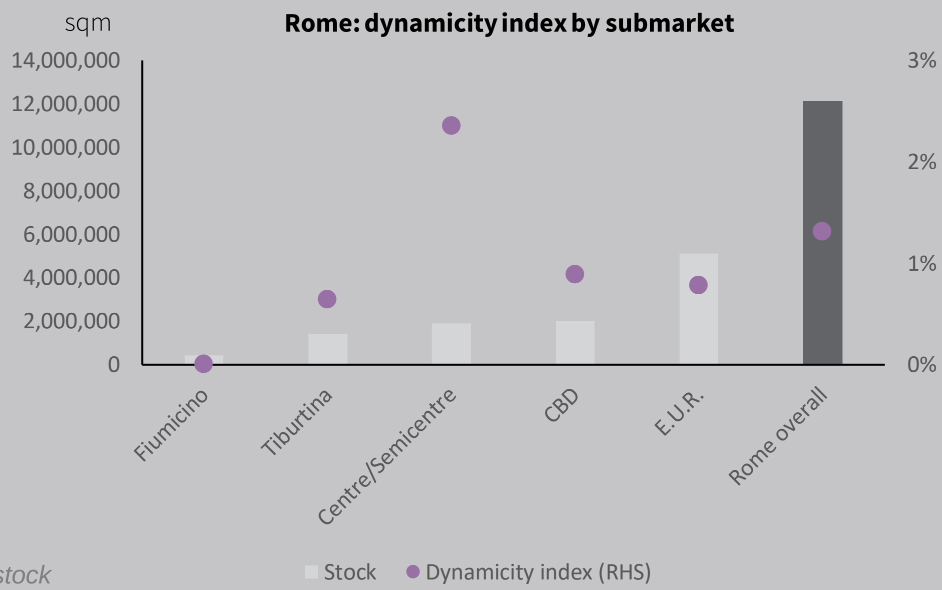
5 There is an opportunity for employers to acknowledge the new health and wellbeing needs of the workforce and think long-term
33% of employees do not have access to any health and wellbeing offerings today

Source: JLL Regenerative Workplace (Sep 2021)

Office market dynamicity*

- In the two main Italian office markets, office stock is almost equivalent, but they are different in terms of quality
- This is reflected in take-up levels and in the dynamicity of the two markets
- In the last 12 months, the 3% of the Milan stock saw the signing of a new leasing contract. In Rome, the index was equal to 1%
- In Milan, Historic Centre, Centre and CBD were the most dynamic submarkets with a dynamicity index well above 4%
- Milan Periphery also registered an index above the City average
- In Rome, Centre/Semicentre and CBD were the most dynamic submarkets, followed by EUR
- In Rome, only Centre/Semicentre submarket is more active than the city average
- Demand and asset quality drive submarkets' trend





**Dynamicity index: last 12-months take-up/stock*

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