

**COIMA**

Real Estate, since 1974

# The future of offices

THE COIMA PERSPECTIVE

OCTOBER 2020





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## INTRODUCTION



Rome, October 22<sup>nd</sup>, 2020

Dear Tenants, Investors, Partners and Friends,

The COVID-19 pandemic has resulted in a rapid conversion of the typical working patterns of companies: during the first wave, the majority of office based employees has worked from home with apparently a limited impact on productivity.

The experience of these recent months has fuelled the debate on how work will be organised after the initial contingent phase of the pandemic. The need for office space by companies has been put into question, especially at a time when the global economic crisis will lead corporates to review their hiring plans, their organisational structure, and their cost base.

It is still early to draw definitive conclusions on such a broad and complex topic, but the purpose of this publication is to put forward some initial analysis and to develop scenarios for the office product in a constructive, objective, balanced and as far as possible quantitative way.

The theme of the future of the office, or of the office of the future, is central to COIMA and we are addressing it by working on two main fronts: (1) consolidating the relationship with our tenants as operating partner with the aim of proactively anticipating their needs and (2) accelerating on the innovation of the office product and operations with the aim of creating workplaces in line with the present and future needs of tenants.

The current economic and market environment is not without challenges: COIMA is ready to transform these challenges into opportunities with the aim of generating value for tenants, investors, employees as well as for the citizens of the areas in which we operate.

A special thanks in the production of this document goes to CBRE for having provided detailed historical real estate data for the Milan and Rome office markets and to MIC - Mobility In Chain for having performed the Public Transport Accessibility Level analysis for Milan and Rome, both important elements supporting COIMA's data driven approach.

Enjoy the reading,

**Manfredi Catella**

FOUNDER AND CEO OF COIMA



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## EXECUTIVE SUMMARY

### REMOTE WORKING ADOPTION

COIMA expects remote working to become a more structural component of corporates' organizational frameworks, albeit with varying degrees across different sectors. A possible medium term scenario could see the adoption of remote working in Italy growing from the current estimated level of 5% to a level of 30-40% (i.e. double the current European average of 17%, and in line with the current level of adoption of Nordic countries).

### IMPACT ON OFFICE SPACE REQUIREMENTS

COIMA has estimated that a hypothetical company (which did not adopt remote working pre-COVID) could reduce its office space requirements by c. 5-10% through a low to medium adoption of remote working or by c. 10-30% through a high adoption of remote working (assuming desks are shared amongst employees). COIMA believes that, in order to foster a higher degree of collaboration amongst the workforce, the office space allocated to common areas could increase from the current c. 40% level to a c. 50-60% level.

### ASSESSING THE ATTRACTIVENESS OF NEIGHBOURHOODS

COIMA has created a preliminary framework to analyse the office market moving from the traditional definition of centre / semi-centre / periphery approach to a neighbourhood driven approach. The various districts of a city have been classified according to criteria ranging from accessibility through public transport, level of services, availability of green spaces and diversification of end of uses. According to such framework, neighbourhoods that display an above average score on these criteria are defined as "qualified neighbourhoods", otherwise they are defined as "undifferentiated neighbourhoods".

### SCENARIOS FOR THE MILAN AND ROME OFFICE MARKETS

In recent years, qualified neighbourhoods in both Milan and Rome have attracted 35-49% more office take up compared to undifferentiated neighbourhoods and experienced a higher rental growth (by a tune of 9-14 percentage points). COIMA believes that the office tenant demand dynamics witnessed in recent years will consolidate and accelerate in a post COVID-19 world, amplified by an increased adoption of remote working. Office tenants will most likely favour "quality over quantity" in their real estate portfolio decisions going forward, possibly opting to reduce office space but upgrading their locations to gain in accessibility, visibility, sustainability, and wellness of their employees, and ultimately contributing in accelerating the impactful process of urban regeneration. An increase by 1.5-2.0x in the take up spread between qualified neighbourhoods and undifferentiated neighbourhoods witnessed over the last years in Milan and Rome could more than compensate, for qualified neighbourhoods, the reduction in office space demand associated with an increased adoption of remote working, sustaining rental levels and contributing in maintaining modest levels of vacancy broadly in line with the current ones.

### CONCLUSIONS

COIMA's view is that COVID-19 crisis is likely to accelerate the trend of developing resilient, holistic, and high-quality neighbourhoods designed with measurable ESG criteria and that these neighbourhoods will ultimately attract demand from tenants that will become more sensitive to a broader array of features as opposed of focussing mainly on price. In the medium term, qualified neighbourhoods will continue to enjoy a healthy interest by office tenants going forward, whilst, on the other end, undifferentiated neighbourhoods will most likely face headwinds with a portion of their office stock risking to become stranded and in certain cases also requiring public subsidies to be economically reconverted into other uses.

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## NOTE ON METHODOLOGY

The analysis presented in this document is focussed on (1) the potential structural impact of a likely increased adoption of remote working on corporates' office space requirements, (2) a preliminary assessment of the relatively attractiveness of the various neighbourhoods of Milan and Rome from the point of view of office tenants and (3) the potential impact of the remote working and neighbourhoods' differentiation on the Milan and Rome office markets.

The analysis does not consider the cyclical impact on employment levels (and therefore on corporate's office space requirements and office markets dynamics) of the current macroeconomic recession and the likely subsequent macroeconomic recovery but rather focuses on structural long-term trends.

The purpose of the document (and of the various analysis performed) is not to reach definitive conclusions but rather to develop an analytical framework that can support a constructive discussion, enable further simulations of alternative scenarios, and set the base for objective decision-making processes for relevant stakeholders.

The analysis has been developed using both COIMA's proprietary data and models as well as elaborating information and data collected by third party sources (in particular CBRE and MIC - Mobility In Chain) as summarised below:

- **Remote working:** data on the adoption of remote working have been drawn from public sources such as the Eurostat and the Osservatorio Smart Working of the Politecnico di Milano.
- **Milan and Rome office markets:** detailed historical data on the Milan and Rome office markets have been provided by CBRE.
- **Attractiveness of neighbourhoods:** the Public Transport Accessibility Level (PTAL) analysis for the various districts of Milan and Rome has been performed by MIC – Mobility In Chain which has also provided the scoring for the various districts of Milan and Rome in terms of service options, as well as the assessment of the presence of public parks.
- **Space planning:** COIMA Image has provided input and insight on office space planning precedents and likely trends going forward.
- **Others:** further qualitative input on the topic of remote working and employees / employers' preferences have been drawn from recent public surveys and studies published by Gensler, CBRE, Colliers, McKinsey, EY-ULI and Harris Interactive.

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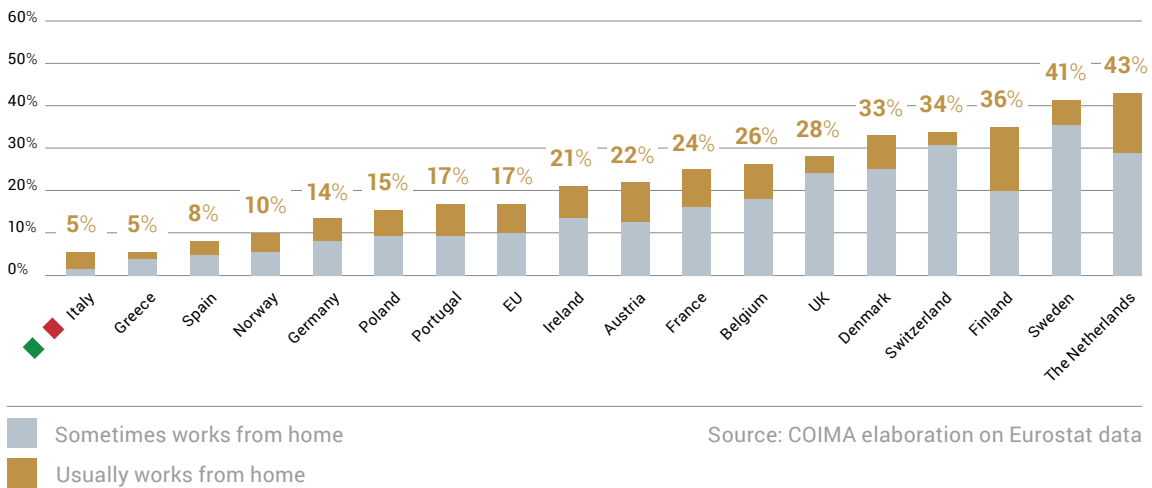
## REMOTE WORKING

### REMOTE WORKING ADOPTION

The topic of remote working has been very central since the beginning of the COVID-19 pandemic. As corporates have a very different approach to the matter and data available are quite scarce, it is difficult to estimate the actual adoption of remote working by corporates that have an office footprint in Italy.

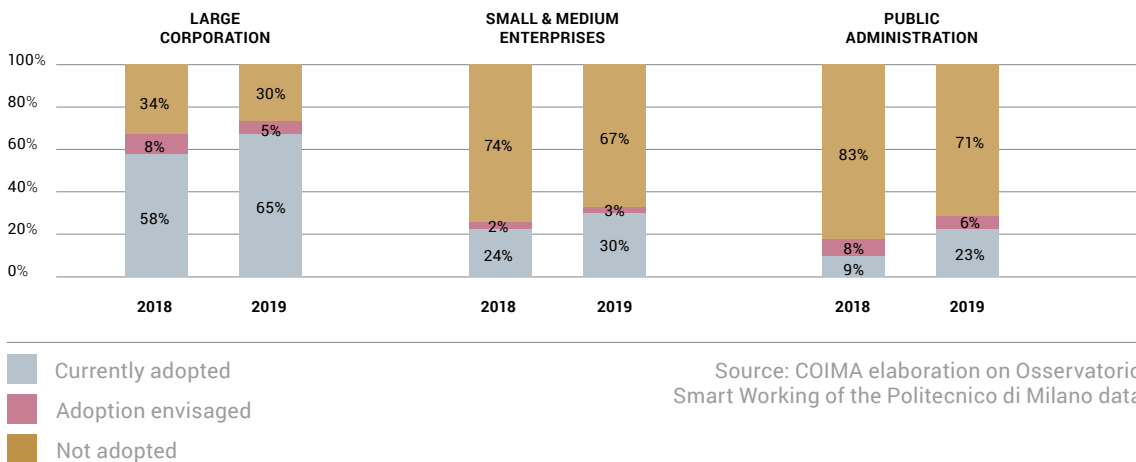
Data from Eurostat show that the current penetration of remote work at European level is estimated at approximately 17%. The variance of this data in the various European countries is large: for example, in countries such as Sweden and The Netherlands more than 40% of employees worked remotely in 2019 while in Italy about 5% of employees worked remotely in 2019.

#### PORTION OF WORKERS WHICH ADOPT REMOTE WORKING IN EUROPE (2019)



Data from the Osservatorio Smart Working of the Politecnico di Milano (School of Management), based on a sample of 776 enterprises and 365 public administration entities, shows how larger corporations are more advanced than small and medium enterprises in the adoption of smart working and suggest a higher adoption of agile modes of working compared to the Eurostat data. In fact, according to the Osservatorio Smart Working of the Politecnico di Milano (School of Management), c. 65% of large corporations have already embraced smart working in 2019 followed by small & medium enterprises at 30%, and the public administration at 23%.

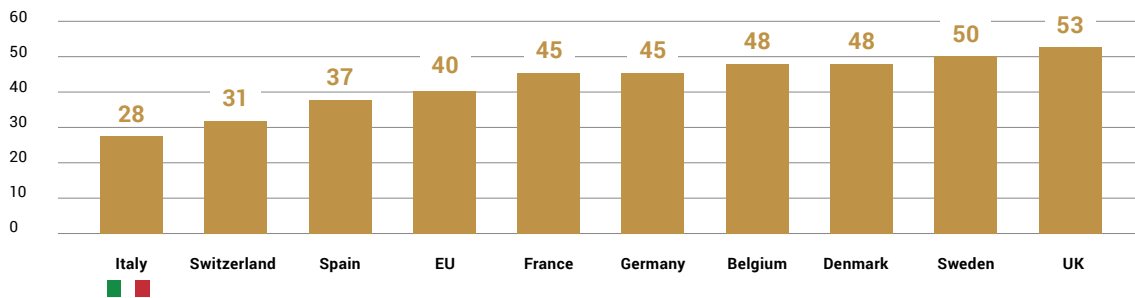
#### ADOPTION OF SMART WORKING BY COMPANY TYPE (% OF COMPANIES)





It should be noted that Italian cities, compared to the rest of Europe, have shorter commuting time, generally due to their smaller size, and this phenomenon tends to limit one of the main reasons for adopting remote work (i.e. a solution often adopted to reduce travel time on a weekly / monthly / annual basis).

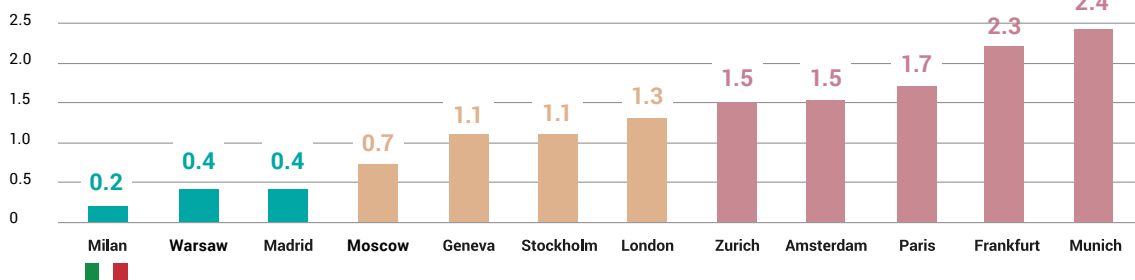
#### AVERAGE COMMUTING TIME BETWEEN HOME AND WORKPLACE (MINUTES)



Source: UBS (2020)

The high cost of housing (both for purchase and for rent) is also one of the main causes that often leads families and workers to move to more peripheral neighbourhoods or even to leave the cities and therefore preferring to adopt the work option remote if allowed by the employer. The residential market in Milan and Rome is relatively more affordable compared to other European cities, which makes the city more resilient and more affordable for workers, thus decreasing the pressure to leave cities.

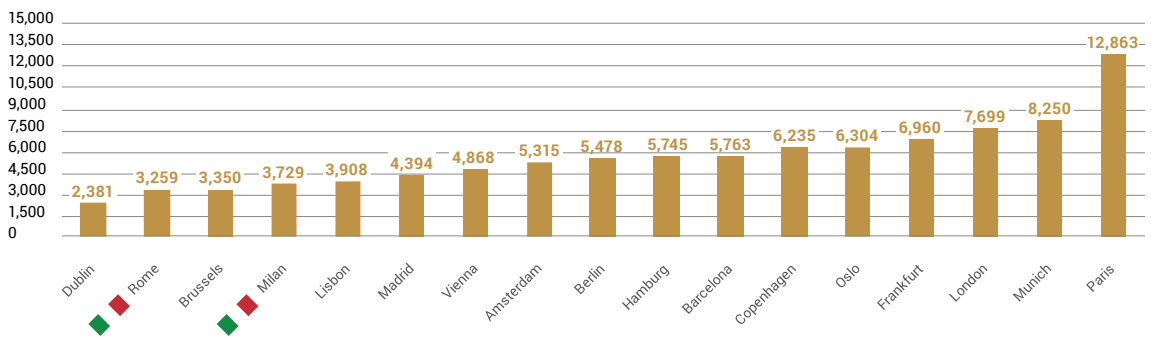
#### UBS GLOBAL REAL ESTATE INDEX (RESIDENTIAL)



- Residential correctly valued
- Residential over-valued
- Risk of bubble

Source: UBS (2020)

#### AVERAGE TRANSACTION PRICE OF A NEW DWELLING (€/SQM)



Source: Deloitte (2020)

## REMOTE WORKING CONSIDERATIONS

Whilst there are numerous benefits around more flexible working arrangements and remote working (which for employees mainly revolve around a better work life balance and less commuting time and for employers mainly revolve around potentially having a more motivated and productive workforce) there is also a long series of trade-offs to be observed about remote work.

For example, a central issue is establishing whether remote work will be an option or an obligation for the employee. The employee will perceive the possibility of working remotely some days of the week as a benefit, but if this opportunity becomes an obligation it could be perceived in a negative way and impact on the employer / employee relationship as well as on the long-term productivity and success of the enterprise itself.

In addition, employers have a duty to give their employees all the tools they need to perform their work. Remote work requires space which for most of the population is represented by their home which often, for example for reasons of availability of space or privacy, is not a realistic option. In the future this could be possible through the development of new residential buildings also equipped with co-working spaces set up with professional workstations (which will imply costs to be incorporated in the overall evaluation) but for the time being this means the employees need to equip their homes with a professional workstations which in our estimates could cost about c. €1,100 per year (taking into account setting up a strong internet connection, having a laptop, a monitor, a professional chair and other minor hardware equipment). This cost could be (or should be) subsidized by the employer.

### INDICATIVE COST OF A "HOME OFFICE" SET-UP

ITEM	COST PER ANNUM	NOTE
Laptop	~ €500 / per annum	~ €1,500 amortised over 3 years
Wi-Fi	~ €300 / per annum	-
Monitor	~ €167 / per annum	~ €500 amortised over 3 years
Chair	~ €100 /per annum	~ €300 amortised over 3 years
Headset	~ €67 /per annum	~ €200 amortised over 3 years
<b>Total</b>	<b>~ €1,100 per annum</b>	

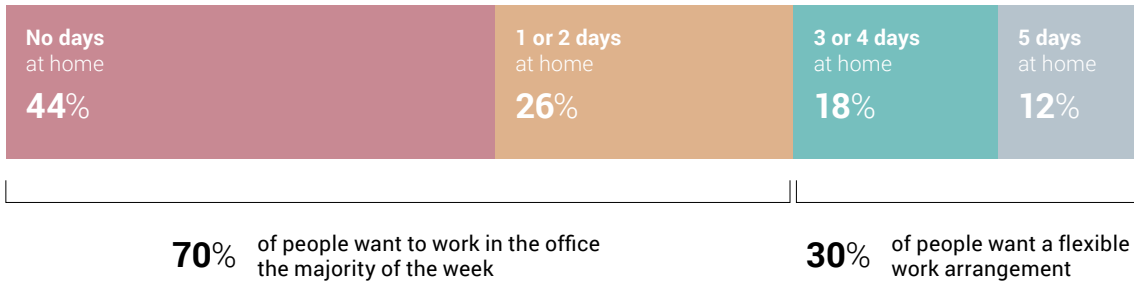
Source: COIMA estimates

Another topic is the possible side effect of an excessive use of remote work that could lead to the erosion of the human capital that companies have created over the years, to the detriment of the ability of companies to innovate and work in groups, as well as potentially accentuate mental health and isolation issues from the workforce, this was recently raised by Microsoft's CEO, Satya Nadella.

Architecture and consulting firm Gensler, in a survey carried out in the United States between April and May 2020, highlights how 70% of respondents generally prefer to work in the office, with up to two days of the remote work week, also highlighting how the younger generations (Millennials and Gen-Z) feel less productive and satisfied with remote work (causes mainly attributable to the feeling of isolation and lack of integration with the rest of the workforce and the difficulty of maintaining a proper balance between private life and working life). A survey carried out by Colliers in the first half of 2020 seems to confirm this aspect, highlighting how the younger section of the workforce has a greater preference for working in the office rather than the older groups. The younger section of the workforce is also the one that requires more training and relationship build-up, elements which typically require face to face interaction.

## PREFERENCES BETWEEN WORKING REMOTELY OR IN THE OFFICE

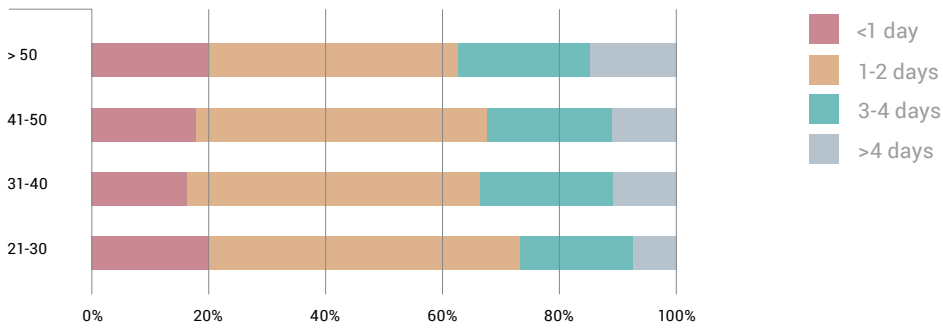
Do you prefer to go back to the office or continue to work from home?



Source: Gensler (2020)

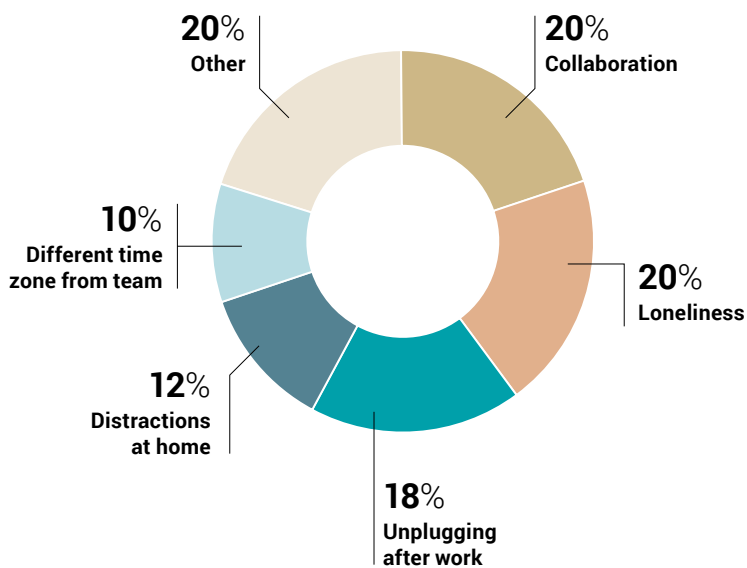
## PROPENSITY IN WORKING FROM HOME BY AGE GROUP (BY AGE)

Younger respondents would like to work slightly more from the office compared to older generations



Source: Colliers (2020)

## WHAT IS YOUR BIGGEST STRUGGLE WITH WORKING REMOTELY?



Source: CBRE (2020)

## REMOTE WORKING IMPACT ON OFFICE SPACE

Given the complexity and uniqueness of each single organisation and the several variables driving office space decisions, it is challenging to estimate the exact impact of remote working on office space requirements by corporates.

Nevertheless, COIMA has developed a model to estimate space requirements for a hypothetical company which currently does not adopt remote working and that starts to adopt remote working.

Three main scenarios have been imagined:

**Scenario 1) Low adoption of remote working:** assuming 30% of the workforce works remotely up to 1 days a week would imply c. 94% of employees being in the office on average.

**Scenario 2) Medium adoption of remote working:** assuming 60% of the workforce works remotely up to 2 days a week would imply c. 76% of employees being in the office on average.

**Scenario 3) High adoption of remote working:** assuming 90% of the workforce works remotely up to 3 days a week would imply c. 46% of employees being in the office on average.

### SCENARIOS OVERVIEW: EMPLOYEES' AVERAGE PRESENCE IN THE OFFICE

	NO REMOTE WORKING	1) LOW ADOPTION OF REMOTE WORKING	2) MEDIUM ADOPTION OF REMOTE WORKING	3) HIGH ADOPTION OF REMOTE WORKING
<b>EMPLOYEES</b>				
% of employees adopting remote working	zero	30%	60%	90%
Days of remote working per week	zero	1	2	3
Avg. % of employees in the office	100%	94%	76%	46%

Source: COIMA simulation

In order to assess the impact on desk requirements for a company starting to adopt remote working, COIMA has carried out a simulation which assumes that desks are shared amongst employees (if desks were not shared the adoption of remote working would not lead to a reduction in terms of number of desks), that the distribution of employees in the office is uniform during the week and that employees that adopt remote working have a 25% probability of finding a desks when showing up in the office "out of schedule" (i.e. there is an extra buffer in terms of number of desks compared to the average number of employees in the office on any given day).

The result of the simulation shows that:

**Scenario 1) Low adoption of remote working:** potential 5% reduction in desks vs no remote working

**Scenario 2) Medium adoption of remote working:** potential 18% reduction in desks vs no remote working

**Scenario 3) High adoption of remote working:** potential 41% reduction in desks vs no remote working

## SCENARIOS OVERVIEW: DESK REQUIREMENTS

	NO REMOTE WORKING	1) LOW ADOPTION OF REMOTE WORKING	2) MEDIUM ADOPTION OF REMOTE WORKING	3) HIGH ADOPTION OF REMOTE WORKING
<b>EMPLOYEES</b>				
% of employees adopting remote working	zero	30%	60%	90%
Days of remote working per week	zero	1	2	3
Avg. % of employees in the office	100%	94%	76%	46%
<b>DESKS REQUIREMENT</b>				
Probability of finding a desk "out of schedule"	n.a	25%	25%	25%
No. of desks needed vs no remote working	n.a.	-5%	-18%	-41%
Ratio desks / employees	100%	96%	82%	60%

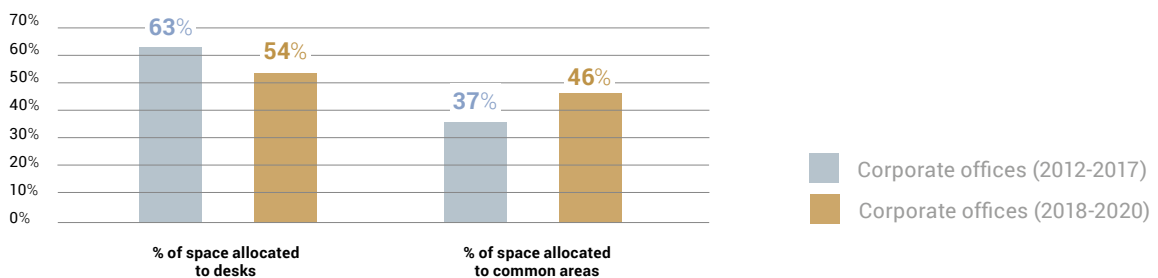
Source: COIMA simulation

Having estimated the number of desks required for each of the three scenarios, the impact on office space requirements would then depend mainly on any potential changes in the breakdown of office space allocated to desks vs office space allocated to other functions such as meeting rooms or amenities (which are defined as "common areas").

An analysis performed by COIMA's architecture and interior design unit, COIMA Image, shows that over the last decade, corporates have allocated progressively more space to common areas and less space to desks in their space planning, possibly also in conjunction with an increased adoption of remote working.

Corporate offices developed in the 2012-2017 period had on average c. 40% of the space dedicated to common areas, whilst corporate offices developed in the 2018-2020 period had on average c. 50% of the space dedicated to common areas. This is in line with the fact that offices may become less of a space for individual work and more of a setting for social networking and collaboration.

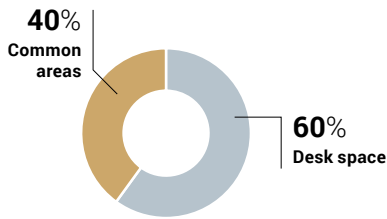
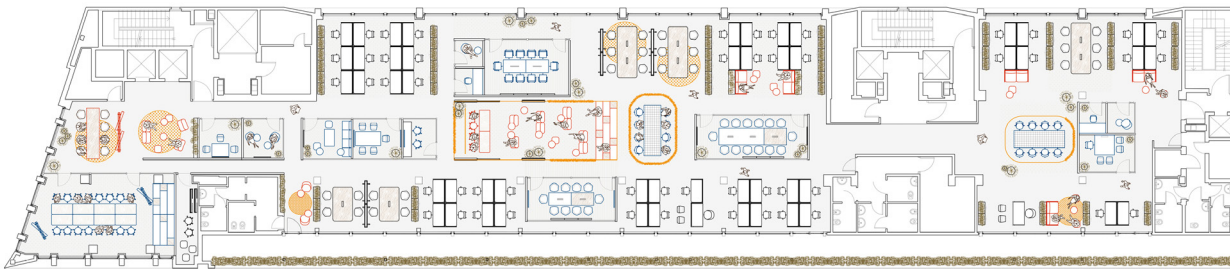
## CORPORATE OFFICES: SAMPLE OF SPACE PLANNING PRECEDENTS



Source: COIMA Image

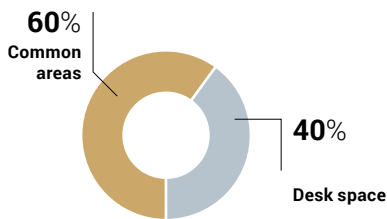
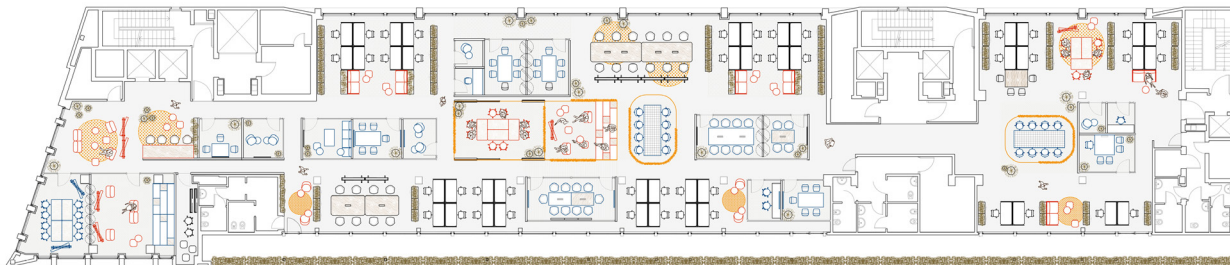
The two diagrams below illustrate how a typical office layout could change by an increased adoption of remote working with a reduction in space dedicated to desks (from 60% to 40%) and an increase in space dedicated to common areas (from 40% to 60%).

### OFFICE FLOORPLAN: TRADITIONAL LAYOUT



Source: COIMA Image

### OFFICE FLOORPLAN: COLLABORATIVE LAYOUT



Source: COIMA Image

Based on the analysis of space planning precedents, it is assumed that on average, corporates currently have a 60-40% split between space allocated to desks and space allocated to common areas.

Then, to estimate the potential reduction in office surface, three different scenarios are developed:

- Scenario A) Unchanged breakdown of space between desks and common areas:** the reduction in number of desks directly translates into an equivalent reduction in space requirements.
- Scenario B) Marginal increase in space allocated to common areas (from 40% to 50%):** the reduction in number of desks is partially compensated by the increase in space allocated to common areas.
- Scenario C) Material increase in space allocated to common areas (from 40% to 60%):** the reduction in number of desks is greatly compensated by the increase in space allocated to common areas.

Scenario A is considered as having a lower probability compared to Scenario B and Scenario C as it is likely that more office space will be allocated to common areas going forward in order to foster collaboration and teamwork when employees are in the office (in line with COIMA Image's recent projects).

Therefore, a hypothetical company which currently does not adopt remote working could reduce its office space requirements by c. 5-10% through a low to medium adoption of remote working or by c. 10-30% through a high adoption of remote working (in line with Scenario B and C as represented below).

### SCENARIOS OVERVIEW: SPACE REQUIREMENTS

	NO REMOTE WORKING	1) LOW ADOPTION OF REMOTE WORKING	2) MEDIUM ADOPTION OF REMOTE WORKING	3) HIGH ADOPTION OF REMOTE WORKING
<b>EMPLOYEES</b>				
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<b>DESKS REQUIREMENT</b>				
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No. of desks needed vs no remote working	n.a.	-5%	-18%	-41%
Ratio desks / employees	100%	96%	82%	60%
<b>SCENARIO A) SPACE REQUIREMENT</b>				
Space dedicated to desks vs common areas	60-40%	60-40%	60-40%	60-40%
Space needed vs no remote working	n.a.	-5%	-18%	-41%
<b>SCENARIO B) SPACE REQUIREMENT</b>				
Space dedicated to desks vs common areas	60-40%	60-40%	55-45%	50-50%
Space needed vs no remote working	n.a.	-5%	-11%	-29%
<b>SCENARIO C) SPACE REQUIREMENT</b>				
Space dedicated to desks vs common areas	60-40%	60-40%	50-50%	40-60%
Space needed vs no remote working	n.a.	-5%	-2%	-11%

LOW  
PROBABILITY

MEDIUM  
PROBABILITY

HIGH  
PROBABILITY

## THE ROLE OF FLEXIBLE OFFICES

The growing need for flexibility on the part of companies and employees is also likely to be satisfied by operators offering flexible workspaces.

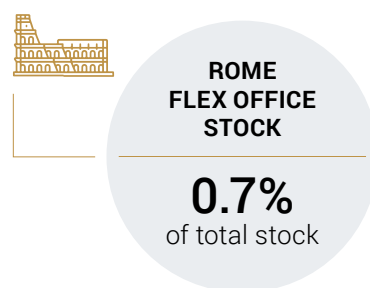
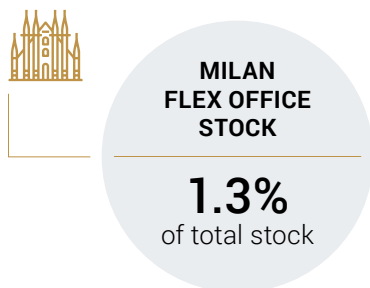
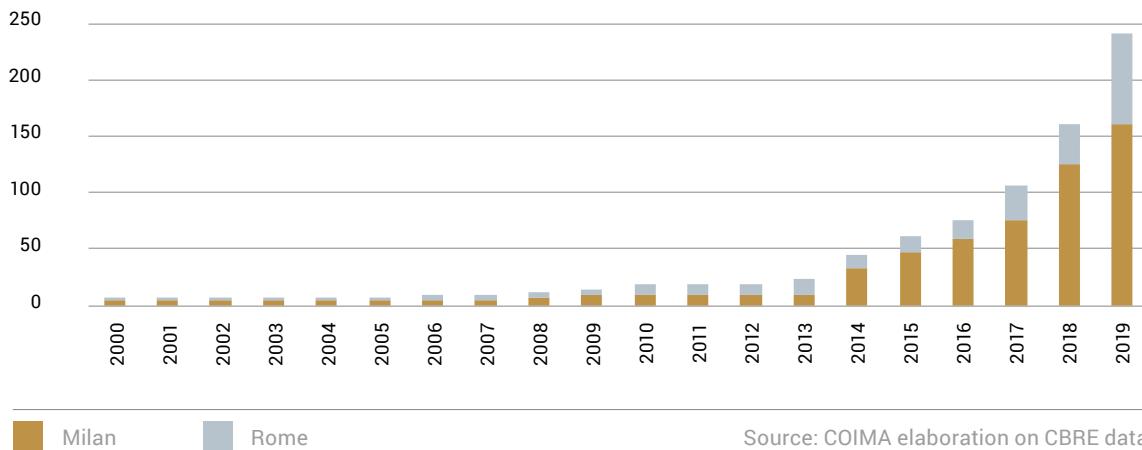
A JLL study focusing on the US market sees flexible workspaces grow their market share from less than 5% in 2019 to 30% in 2030 while a recent CBRE study (2020) indicates that for 73% of respondents, flexible office space will be part of their long-term real estate strategy.

It should be noted that the structural mismatch for these companies between the short to medium term revenue structure (the rents paid by the final customers to the flexible office operators) and the medium to long term cost structure (the rents that flexible office operators pay to landlords) makes their business model potentially more vulnerable to market cycles.

Flexible office operators are actually intermediaries between the landlord and the final customers, so from the point of view of the office market this demand is neutral or incremental compared respect to the “traditional” demand for office space by companies so it represents a phenomenon that is neutral or positive for the office real estate market.

Furthermore, large property owners could potentially integrate their offer by creating platforms capable of offering flexible workspaces (as is already happening in the context of the main listed European real estate companies).

### CUMULATED TAKE UP FROM FLEX OFFICE OPERATORS IN MILAN AND ROME ('000 SQM)











## A FRAMEWORK FOR DESIGNING AN OFFICE FOOTPRINT

Global consulting firm McKinsey has recently put forward a framework helping corporates assessing options for their post COVID-19 organisational structure and office footprint, highlighting that pandemic-style working from home may not translate easily to a “next normal” mix of on-site and remote working.

According to McKinsey, mixing virtual and on-site working might be a lot harder than it looks, despite its success during the pandemic. McKinsey suggests corporates to pay careful attention to the effect of choices on organizational norms and culture as it believes that most companies would be better off eliminating extreme scenarios and put themselves somewhere in the middle, with a hybrid mix of remote and on-site working.

			COST OF REAL ESTATE
Almost entirely on premises	Limited remote work, large HQ	Company leaders and employees are centralised in 1-2 big principal offices	 100%
	Partially remote work, large HQ	Company leaders and most employees spend the majority, but not all, of their time in 1-2 principal offices	 100%
Hybrid models	Partially remote work, multiple hubs	Multiple proportionate-size offices with leadership and employees dispersed among all offices	 75%
	Multiple micro hubs	Leadership and employees dispersed across small footprint “micro hubs” located in various geographies	 75%
	Partially remote work, with flex space	No permanent offices, rented flex space used for periodic in-person collaboration (but no connectivity)	 50%
Almost entirely off premises	Mostly remote work, no office sites	-	 zero

Source: McKinsey (2020)

## THE COIMA OFFICE PRODUCT

COIMA has historically been at the forefront of innovation in the office product, for example with the introduction of LEED certification protocols in Italy in the early 2000s and more recently the activation of the certification process for the entire Porta Nuova district according to the LEED and WELL for Community protocols.

Below are the few of the key features of the “COIMA office product” and the key certifications associated with each feature (where applicable).

CRITERIA	CRITERIA	MAIN CERTIFICATIONS
<b>Position</b>	Qualified neighbourhood in terms of accessibility to public transport network, availability of services (including food and beverage options and wellness options), availability of public spaces and parks and diversification in terms of end uses.	 
<b>Environment</b>	Minimization of carbon emissions in the atmosphere, both during construction and / or renovation (also through the use of alternative materials such as wood) and during use (high performing facades, on-site generation of electricity through solar panels, use of ground water and chilled beams for cooling and heat pumps for heating). Use of construction materials according to the principles of the circular economy (origin and reuse / recycling of materials). Use of sensors to minimise consumption.	  
<b>Services</b>	Presence of spaces for leisure, relaxation and socialization (coffee spaces, terraces, wellness spaces). Possibility to park individual means of transport, including bicycles and other slow mobility systems. Charging stations for electric vehicles. Changing rooms and showers to promote sports activities and the physical well-being of employees. Ground floor dedicated also to retail and e-commerce delivery.	
<b>Flexibility</b>	Possibility of remodelling the interior space “on demand” using movable walls and modular furniture. Integrated systems for managing meeting room reservations, etc.	—
<b>Interiors</b>	Organization of interior spaces aimed at stimulating collaboration and socialization in the workplace. Care and hospitality aimed at creating a feeling of well-being for occupiers. Balance between individual workspaces, spaces linked to collaboration and spaces that guarantee privacy and concentration.	
<b>Connectivity</b>	Physical space integrated with digital space. Ubiquitous internet connectivity via Wi-Fi.	

## DIFFERENTIATING NEIGHBOURHOODS WITHIN A CITY

According to the United Nations, two-thirds of the world's population will live in cities by 2050.

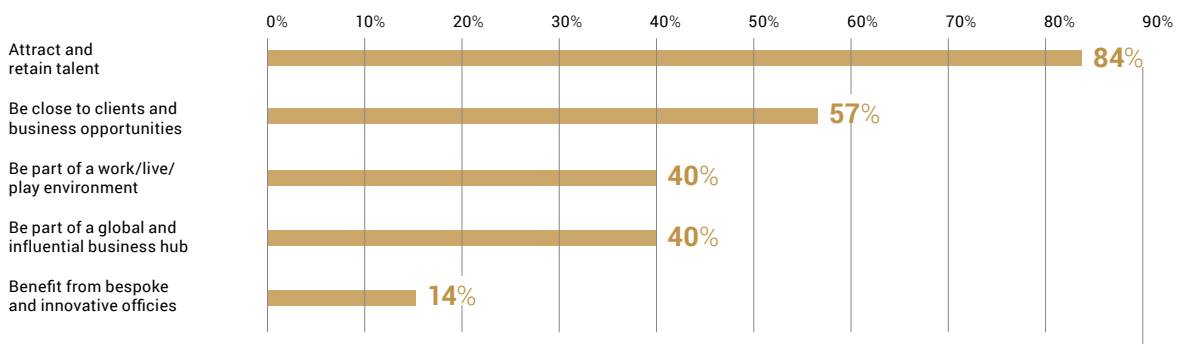
COIMA has a sceptical view of those urban development models maximising size and concentration and of the ability of megacities to be able to deliver a good degree of inclusion for its citizens. COIMA instead views with more favour a model of "network of cities", where each city is characterised by a more human scale and where the different cities are well connected through an efficient physical and digital infrastructure network. This is a model that Italy can naturally develop given its history which has been based upon a network of cities, more flexible and liveable, rather one single capital city becoming vastly predominant over other smaller cities.

Nevertheless, for most of the world's population, sizeable cities are and will remain the most attractive places to live, work, and enjoy a safe and promising lifestyle and COIMA believes that this general trend will continue in the long term, but possibly with reduced intensity and some degree of adoption by other countries of the Italian model.

A recent study by EY and ULI highlights that, although the world's megacities are put to the test by ever-increasing populations and the COVID-19 crisis, competition among them to attract talent, tourists, technology, and capital is ever present. Maintaining attractiveness and cultivating the best possible environments are of paramount importance to foster growth. In this context the definition of attractiveness may put more focus to liveability, sustainability, inclusiveness and enjoyability of cities rather than just their size and density.

Central to this contest is the effort by corporates, cities, and countries to attract highly skilled employees. This strategic factor takes precedence over all other considerations by corporates when assessing the attractiveness of a business district, including proximity to clients and business opportunities, amenities that provide a "work, live and play" environment, degree of influence, and availability of bespoke and innovative offices.

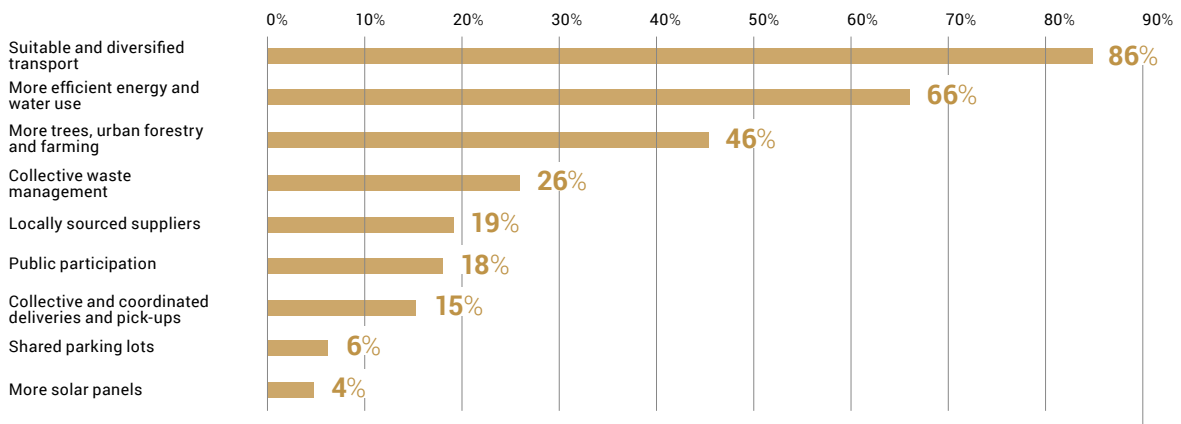
### KEY CRITERIA FOR COMPANIES WHEN ASSESSING THE ATTRACTIVENESS OF BUSINESS DISTRICTS



Source: EY-ULI (2020)

EY and ULI highlight that the urge to attract talent and tenants is also enabled by prioritising the environment. In fact, ULI research into climate change awareness and associated risk management has shown a gradual increase of awareness and action. A sustainable and diversified transport system is seen a key factor to make a business district resilient and attractive.

### PRIORITY TO MAKE A BUSINESS DISTRICT SUSTAINABLE



Source: EY-ULI (2020)

In addition, the digital transformation of the entire society will enable a decoupling between activities and physical presence. From the point of view of the physical space this phenomenon can combine the growth of cities with other well connected by more decentralised areas, an example of this is The Netherlands with its network of well-connected cities.

Even in a digitalised society, social and physical interactions will continue to be of paramount importance and will drive development and competition not only amongst cities but also within the different neighbourhoods of the same city (for example in the case of the “15 minutes city” model being the target of Paris).

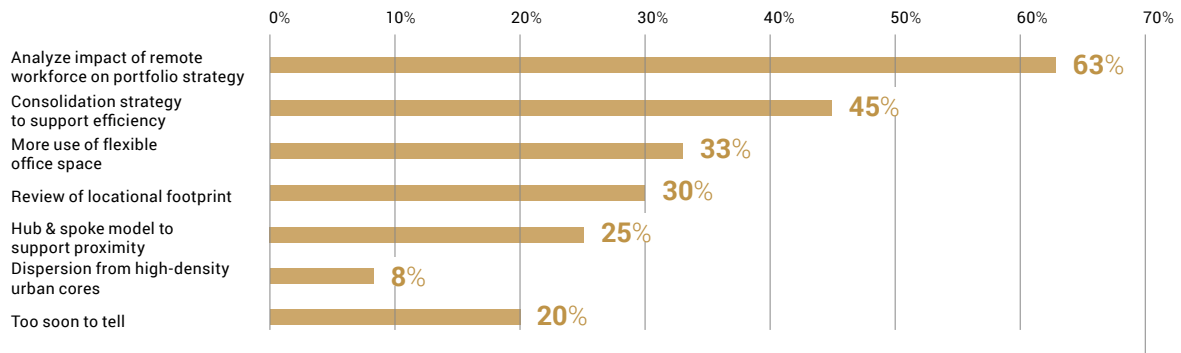
The Italian model is currently characterised by small-mid sized cities which may become hyper connected with the implementation of national infrastructure projects (such as the high speed railway, already underway, which has increased the connectivity of cities from a physical point of view as well as the potential upgrade in the digital connection through further investments in the internet network). The upgrade in physical and digital connectivity will foster the creation of a more distributed development across the country from an economic, social and urban development point of view.

If the Italian National Recovery and Resiliency Plan will be efficiently invested in the physical and digital infrastructure of the country connecting more remote areas of the territory, then an alternative economic and land development model could be activated with a more equal distribution of resources also supporting secondary cities and the Centre and the South of Italy.

COIMA expects a global shift from hyper concentrated mega cities to hyper connected system of liveable, sustainable, inclusive, and enjoyable cities. This is one of the greatest challenges of our times and an important mission for COIMA, especially having in mind future generations.

Large corporate occupiers have traditionally favoured urban locations for their accessibility, amenities, and business clustering. A recent CBRE study conducted on 126 senior-level global real estate executives indicates that, for the time being, the abandonment of high-density urban areas does not seem to be on the cards. CBRE indicates that the role of the city centre headquarters probably will not go away but employees will have more choice on where to work.

### WHAT FUTURE PORTFOLIO STRATEGIES ARE UNDER CONSIDERATION?



Source: CBRE (2020)

In addition, corporates will continue to leverage on their real estate footprint to present themselves as attractive employers as for employees who, according to a study carried out by Harris Interactive and commissioned by the European Think Tank of which COIMA is part of, are increasingly sensitive to issues such as collaboration and socialization in the workplace, the wellbeing features of the office, the environmental sustainability of the buildings, the flexibility of spaces and the presence of services within or adjacent to the offices. Furthermore, connectivity with the public transportation network and the availability of alternative modes of transport (bike-sharing, car-sharing, etc.) emerge as a pivotal themes by users of office spaces, who more and more wish to embrace a sustainable lifestyle (beyond the contingent COVID-19 situation that penalises public transportation in favour of the car).

### STUDY ON OFFICE USERS: KEY OFFICE ARCHITYPES

#### SUSTAINABLE OFFICE

More sustainable and natural building materials, incl. solar panels & energy windows.

Sensor-enabled workspaces for energy efficiency optimization.

Spaces that encourages a green conscience among employees (vegetal walls & plants, rules on waste reduction, local green food).

#### SMART OFFICE

Mobile office: ubiquitous access regardless of physical space (in/out of the office).

Seamless network access enabled by WiFi-friendly, non-blocking materials.

Smart walls/white boards, virtual reality and holograms to recreate/enhance human interactions.

Bio-metrics uses for security (access to buildings) & instant profile uploads.

#### FLEX-OFFICE 2.0

Modular spaces & furniture to accommodate the various ways people like to work:

- Jigsaw / movable / customizable desks, seating and walls for all uses (open space, collaborative, confidential).
- Standing desks / treadmill desks & couch / slouching areas.

#### SWEET OFFICE

Office spaces similar to home/cafés in terms of design and well-being:

- Incorporation of office spaces for each use: games, quiet, meditation, nap, digital detox, outdoors terraces, greenery, gardens.
- Adaptable features: ergonomic seating, adjustable lighting, temperature, music.
- Warm tones of décor and walls that change their view and/or scent.

#### SERVICED OFFICE

Multiple on-site facilities (e.g. doctor/therapists, pharmacy, hair dresser, gym, bar, child/pet care).

Shower, bathroom facilities, and large equipped kitchen to share meals.

Source: Harris Interactive

## A FRAMEWORK TO ASSESS NEIGHBOURHOODS' ATTRACTIVENESS

In order to assess how office tenant demand will develop going forward, COIMA has crafted a framework to classify the neighbourhoods of a city from the point of view of their attractiveness for a corporate and its office-based employees. The framework goes beyond the typical "centre / semicentre / periphery" paradigm and looks at specific features that characterise different neighbourhoods.

The framework is based on a scoring system which looks at five main areas:

- 1. Accessibility through the public transportation network:** assessment of the ease of access of a neighbourhood through the public transport network. The methodology used for the assessment is based on the Public Transport Accessibility Level (PTAL) framework, a technique originally created in London in the 1990's and subsequently adopted by Transport for London (the government body responsible for the transport system in Greater London)
- 2. Availability of services:** assessment of the offering available in a neighbourhood in terms of services (with a specific focus on food and beverage options)
- 3. Availability of wellness options:** assessment of the offering available in a neighbourhood in terms of wellness options (with a specific focus on gyms and swimming pools)
- 4. Proximity of public parks:** assessment of the proximity of a neighbourhood to public parks and public spaces
- 5. Diversification of end uses:** assessment of the degree of diversification of end uses of a neighbourhood in terms of co-existence of space dedicated to office, residential, retail, education, tourism, culture and other uses (in particular a higher score is attached to areas that show a higher degree of diversification of end uses, which tend to be more pleasant from the point of view of office occupiers and more resilient across cycles)

The scores achieved in the five different areas are then weighted (with half of the weight being put on the accessibility criteria) and a final score is attached to each single neighbourhood.

The neighbourhoods that have a higher than average final score are classified as "qualified neighbourhoods" and the rest are classified as "undifferentiated neighbourhoods".

When applying the framework to both Milan and Rome, the scores associated with the first four areas (accessibility, services, wellness, parks) have been elaborated for COIMA by MIC – Mobility In Chain a transport-planning firm based in Milan, Moscow and New York. The fifth area (diversification in end uses) has been assessed by COIMA independently.

In addition, it needs to be noted that the analysis is not static as it can be performed to neighbourhoods taking into account their current state or imagining their future development in terms of both infrastructure and services.

CRITERIA	WEIGHT	QUALIFIED NEIGHBOURHOODS	UNDIFFERENTIATED NEIGHBOURHOODS
Accessibility via public transport	50%	HIGH / MEDIUM	MEDIUM / LOW
Availability of services	25%	HIGH / MEDIUM	MEDIUM / LOW
Availability of wellness options	5%	HIGH / MEDIUM	MEDIUM / LOW
Proximity to public parks	10%	HIGH / MEDIUM	MEDIUM / LOW
Diversification in end uses	10%	HIGH / MEDIUM	MEDIUM / LOW
<b>Total Score</b>	<b>100%</b>	<b>HIGH / MEDIUM</b>	<b>MEDIUM / LOW</b>

Source: COIMA elaboration



## MILAN AND ROME: SIDE BY SIDE ANALYSIS

Milan and Rome have a similar amount of office stock (at around 11-13 million sqm) characterised also by a similar level of vacancy (at c. 9-10%). Both the Milan and Rome office markets are characterised by a structural lack of Grade A properties, the amount of office stock delivered in the last 10 years (which can be considered as a proxy of Grade A stock) is at 10% in Milan vs 5% in Rome.

Milan has seen a more resilient leasing market over the last 15 years, whilst in Rome the variance in terms of annual take up has been higher (max vs min take up in Milan over the last 15 years at 2.2x whilst in Rome at 4.4x). Both Milan and Rome have witnessed relatively stable letting prices in terms of prime rent level over the last 15 years (max vs min prime rent in Milan over the last 15 years at 1.3x and in Rome at 1.4x).

The current pipeline under construction in Milan represents c. 4% of the total stock is almost 60% pre let, whilst in Rome it represents less than 2% of the total stock and is more than 70% pre-let.

The metropolitan area of Rome is spread over a surface which is more than 3x larger than Milan and, considering the fact that Rome population is only 30% higher than Milan (in terms of metropolitan area), this results in Milan having a population density which is more than 2x higher than Rome.

		 <b>MILAN</b>	 <b>ROME</b>
Population (city)	million inhabitants	1.4	2.8
Population (metropolitan area)	million inhabitants	3.3	4.3
Area (metropolitan area)	Km <sup>2</sup>	1.6	5.4
Population density	inhabitants / Km <sup>2</sup>	2,064	811
Office stock (Jun-20)	million sqm	12.5	11.2
% of stock completed in last 10 years	%	10%	5%
Vacancy (Jun-20)	%	10%	9%
Max vacancy in last 10 years	%	14% (2015)	9% (2019)
Average yearly office take up last 15 years	'000 sqm	330	174
Max annual take up in the last 15 years	'000 sqm	473 (2019)	279 (2019)
Min annual take up in the last 15 years	'000 sqm	216 (2013)	63 (2012)
Current prime rent (Jun-20)	€ / sqm	600	450
Max prime rent in the last 15 years	€ / sqm	600 (current)	450 (current)
Min prime rent in the last 15 years	€ / sqm	450 (2005)	330 (2005)
Under construction pipeline (Jun-20)	'000 sqm	547	172
Under construction pipeline as % of stock	%	4.4%	1.5%
% of pre-let under construction pipeline	%	58%	74%

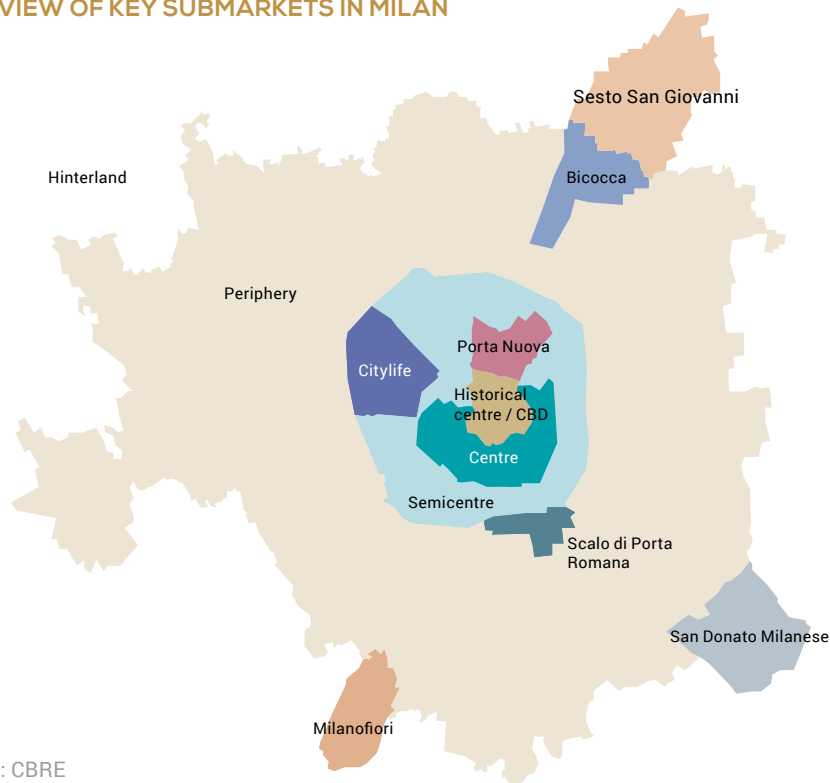
Source: COIMA elaboration on CBRE, Italian National Institute of Statistics data

**MILAN: QUALIFIED VS UNDIFFERENTIATED NEIGHBOURHOODS**

Applying the COIMA framework to the city of Milan, the neighbourhoods of the Historical Centre / CBD, Porta Nuova, CityLife, the Scalo Porta Romana, Bicocca as well as the Centre and the Semi-centre emerge as matching the criteria of qualified neighbourhoods with a total score in the range of 2.4-4.4. On the other hand, undifferentiated neighbourhoods in Milan are represented by the likes of Sesto San Giovanni, San Donato Milanese, Milanofiori and more in general the Periphery and the Hinterland of the city with a total score in the range of 0.6-1.9.

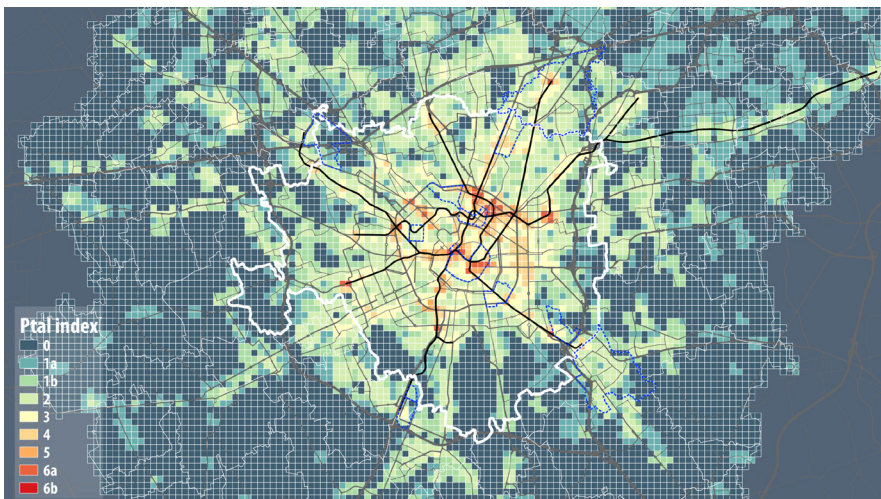
It needs to be noted that the scoring system is dynamic by nature, given that urban areas evolve over time. For example, neighbourhoods such as Scalo Porta Romana and Sesto San Giovanni are likely to experience an upgrade in the next 5-7 years as they will be subject to large scale development projects which will increase their accessibility, the availability of public parks as well as the degree of diversification of end uses.

**OVERVIEW OF KEY SUBMARKETS IN MILAN**



Source: CBRE

**MILAN: PUBLIC TRANSPORT ACCESSIBILITY LEVEL (PTAL) ANALYSIS**



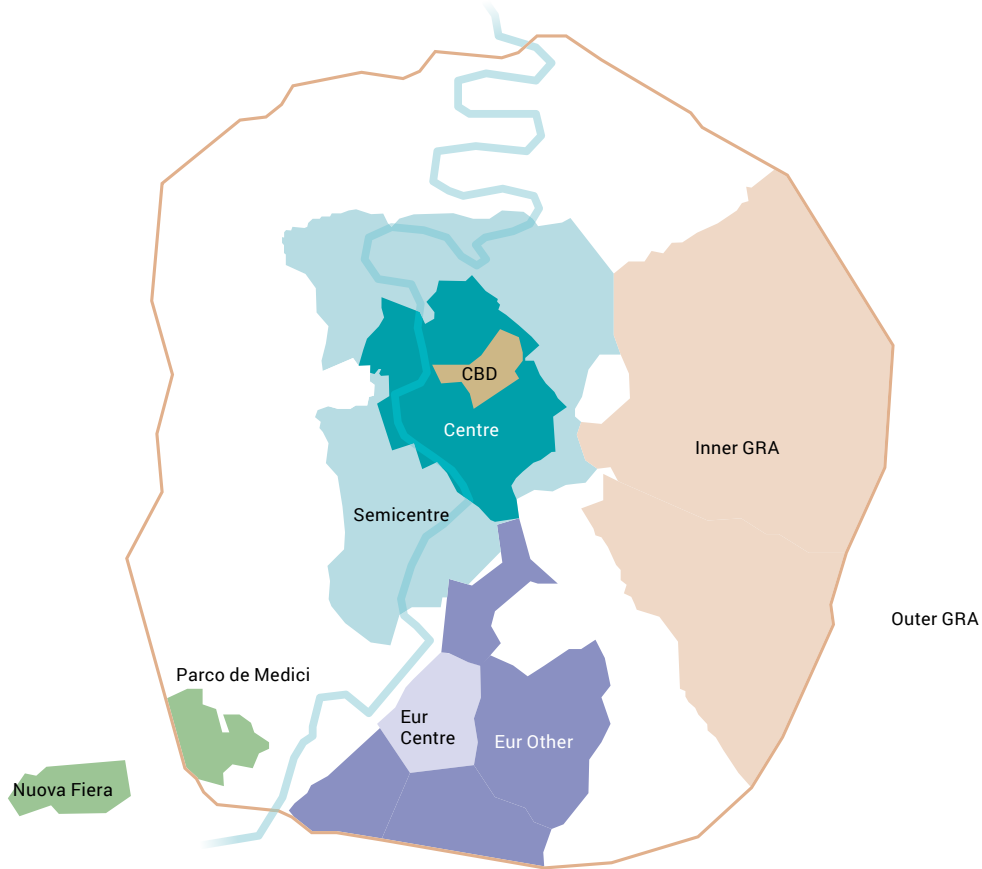
Source: MIC – Mobility In Chain



## ROME: QUALIFIED VS UNDIFFERENTIATED NEIGHBOUHOODS

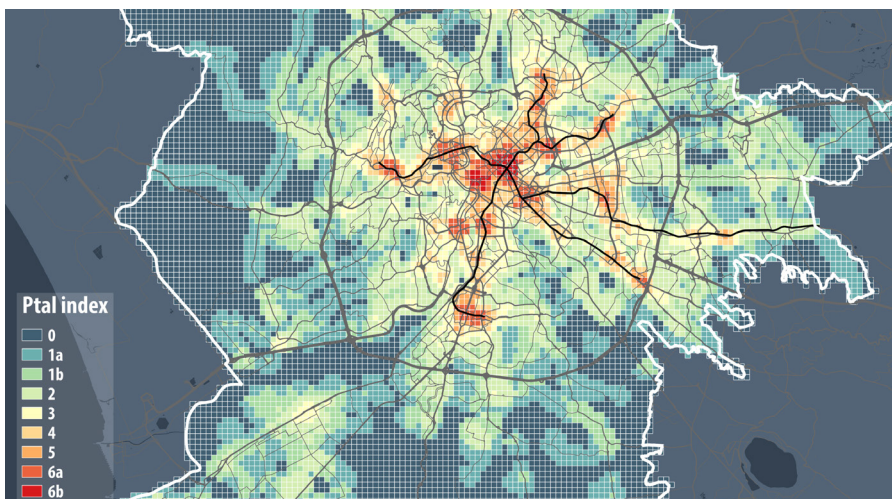
Applying the COIMA framework to the city of Rome, the CBD, Centre, Semi-centre and the EUR Centre districts emerge as qualified districts with a total score in the range of 3.1-4.3. On the other hand, undifferentiated neighbourhoods in Rome are the likes of Parco de Medici, Nuova Fiera, the EUR Other district and the areas across the Grande Raccordo Anulare (GRA) with a total score in the range of 0.1-2.3.

## OVERVIEW OF KEY SUBMARKETS IN ROME



Source: CBRE

## ROME: PUBLIC TRANSPORT ACCESSIBILITY LEVEL (PTAL) ANALYSIS



Source: MIC – Mobility In Chain

## NEIGHBOURHOODS' ATTRACTIVENESS AND TENANT DEMAND

### MILAN OFFICE MARKET

As demonstrated by the figures in the table below, qualified neighbourhoods in Milan (as defined applying the COIMA framework described earlier) have attracted 35% more take up in the last 5 years than undifferentiated neighbourhoods and have also experienced a higher rental growth in recent years (+22% for qualified neighbourhoods vs +8% for undifferentiated neighbourhoods). The overall level of difference in vacancy is also remarkable, with qualified district displaying an average vacancy of 6% vs the 15% displayed by undifferentiated neighbourhoods. Lastly, the dynamic in terms of net absorption of qualified neighbourhoods has been positive over the last 5 years whilst net absorption in undifferentiated neighbourhoods has been negative over the last five years.

MILAN		QUALIFIED NEIGHBOUR- HOODS	UNDIFFEREN- TIATED NEIGHBOUR- HOODS	MILAN OFFICE MARKET
Office stock (Jun-20)	'000 sqm	6,476	6,004	12,480
Office stock as % of total (Jun-20)	% of tot	52%	48%	100%
Vacancy (Jun-20)	%	6%	15%	10%
Avg. annual take up last 5 years	'000 sqm	223	165	387
Total take up last 5 years	% of tot	57%	43%	100%
Avg. annual take up as % of stock	%	3.4%	2.7%	3.1%
Avg. annual net absorption last 5 years	'000 sqm	157	(43)	114
Avg. prime rent growth (2017-2020)	%	+22%	+8%	+9%
Under construction pipeline (Jun-20)	'000 sqm	307	241	547
% of pipeline already pre-let	%	45%	75%	58%

Source: COIMA elaboration on CBRE data

Below are the details for each Milan submarket in terms of average annual take up. Average annual historical take up for qualified neighbourhoods has been 35% higher in recent years vs undifferentiated neighbourhoods (the delta in take up amounts to c. 60k sqm per annum, a space that could fit c. 5k office employees).

Milan office submarkets	Average annual take up 2015-2019 ('000 sqm)
Porta Nuova	58
CBD	57
Semicentre	54
Bicocca	18
Centre	18
Citylife	10
Scalo Porta Romana	7
<b>Qualified neighbourhoods</b>	<b>223</b>
Periphery	103
Hinterland	31
Milanofiori	19
San Donato Milanese	7
Sesto San Giovanni	5
<b>Undifferentiated neighbourhoods</b>	<b>165</b>
<b>Delta qualified vs undifferentiated</b>	<b>58</b>
<b>Delta qualified vs undifferentiated</b>	<b>+35%</b>

Source: COIMA elaboration on CBRE data

## ROME OFFICE MARKET

As demonstrated by the figures in the table below, qualified neighbourhoods in Rome (as defined applying the COIMA framework described earlier) have attracted 49% more take up in the last 2 years than undifferentiated neighbourhoods and have also experience a higher rental growth in recent years (+6% for qualified neighbourhoods vs -3% for undifferentiated neighbourhoods). The overall level of difference in vacancy is also remarkable, with qualified district displaying an average vacancy of 4% vs the 17% displayed by undifferentiated neighbourhoods.

Lastly, whilst overall net absorption of office space in Rome has been marginally negative in the last 2 years, the net absorption in qualified districts has been positive (vs negative in undifferentiated neighbourhoods).

ROME		QUALIFIED NEIGHBOURHOODS	UNDIFFERENTIATED NEIGHBOURHOODS	ROME OFFICE MARKET
Office stock (Jun-20)	'000 sqm	7,247	4,000	11,247
Office stock as % of total (Jun-20)	% of tot	64%	36%	100%
Vacancy (Jun-20)	%	4%	17%	9%
Avg. annual take up last 2 years	'000 sqm	134	90	224
Total take up last 2 years	% of tot	60%	40%	100%
Avg. annual take up as % of stock	%	1.8%	2.2%	2.0%
Avg. annual net absorption last 2 years	'000 sqm	7	(23)	(16)
Avg. prime rent growth (2017-2020)	%	+6%	-3%	+7%
Under construction pipeline (Jun-20)	'000 sqm	87	85	172
% of pipeline already pre-let	%	68%	79%	74%

Source: COIMA elaboration on CBRE data

Below are the details for each Rome submarket in terms of average annual take up. Average annual historical take up for qualified neighbourhoods has been 49% higher in recent years vs undifferentiated neighbourhoods (the delta in take up qualified neighbourhoods and undifferentiated neighbourhoods amounts to c. 44k sqm per annum, a space that could fit c. 4k employees).

Rome office submarkets	Average annual take up 2015-2019 ('000 sqm)
Centre	66
CBD	29
EUR Centre	20
Semicentre	18
<b>Qualified neighbourhoods</b>	<b>134</b>
EUR Other	56
Inner GRA	17
Parco de Medici	11
Nuova Fiera	3
Out of GRA	3
<b>Undifferentiated neighbourhoods</b>	<b>90</b>
<b>Delta qualified vs undifferentiated</b>	<b>44</b>
<b>Delta qualified vs undifferentiated</b>	<b>+49%</b>

Source: COIMA elaboration on CBRE data

## SCENARIOS FOR THE MILAN AND ROME OFFICE MARKETS

### MILAN AND ROME OFFICE MARKETS: POSSIBLE SCENARIOS

An increase in the adoption of remote working will most likely have the effect of reducing the total amount of office space required by corporates in Milan and Rome, in particular in a “constant employment / zero economic growth” scenario (the latter being the main assumption of the analysis in order to focus on long term structural trends rather than cyclical trends).

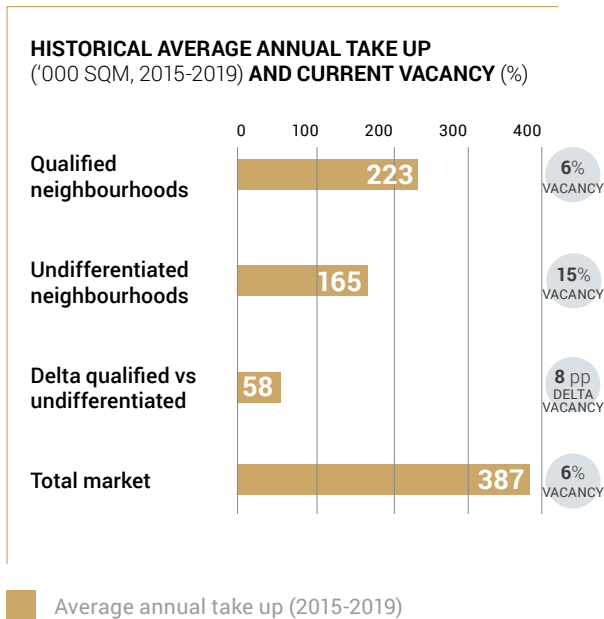
Having said that, based on the tenant demand trends witnessed over the last five years, which are likely to be accelerated by the increased adoption of remote working, COIMA believes that a polarisation scenario (or even an acceleration in the polarisation) can be expected going forward for the Milan and Rome office markets. The spread in take up witnessed over the last few years in Milan and Rome (whereby qualified neighbourhoods have attracted 35-49% more take up vs undifferentiated neighbourhood) can be expected to consolidate and accelerate further.

Tenants are likely to continue to favour “quality over quantity” in their real estate decisions and are generally likely to downsize their office footprint possibly opting to relocate offices in qualified neighbourhoods.

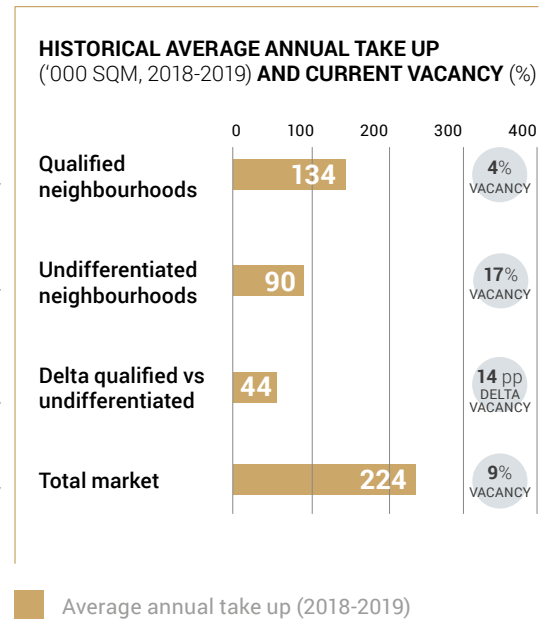
Based on some preliminary estimates performed by COIMA, and assuming a polarisation in line with recent years (or accelerating by 1.5-2.0x in terms of the difference in take up between qualified neighbourhoods and undifferentiated neighbourhoods) qualified neighbourhoods in Milan and Rome are likely to maintain a modest level of vacancy in the medium term (ranging around 5-9% in Milan and around 3-5% in Rome) whilst, at the same time, undifferentiated neighbourhoods are likely to experience a material increase in vacancy which in some scenarios might to exceed the 20% level in the medium term.



#### MILAN OFFICE MARKET



#### ROME OFFICE MARKET



## COIMA: PROFILE AND TRACK RECORD

Established in 1974, COIMA is a **leading platform for the investment, development and management of real estate assets** on behalf of institutional investors. COIMA SGR, an Investment & Asset management company, manages 26 real estate investment funds with over Euro 6 billion in investments and counts in its portfolio over 150 properties. COIMA Srl, a development and property management company, in over 40 years has developed and managed real estate properties totaling over 5 million square meters. COIMA RES is a Real Estate Investment Trust (REIT) founded in 2015 and listed on the Italian Stock Exchange since 2016.

Innovation and sustainability have always been central to COIMA's business model and are essential factors for maintaining market leadership and competitiveness. Central in the strategy is the holistic approach to real estate development adopted with the aim of generating, measuring, monitoring and providing long-term sustainable, economic and social performance through precise key indicators based on the ESG (Environmental, Social & Governance) parameters, such as reduced energy consumption, increased energy from renewable sources, re-vegetation and reduced water consumption. An example is the Gioia 22 building in Milan, which thanks to the introduction of the most effective sustainable building best practices will be the first tower in Italy to meet Nearly Zero Energy Building standards.

COIMA is today a **trustee on behalf of primary sovereign wealth funds and more than 100 institutional investors** from Europe, the United States, the Middle East, Asia and Italy. Forerunner in LEED certifications in Italy, COIMA has developed and manages 34 LEED certified buildings - equal to about 40% of certified buildings in Milan - for over 400,000 square meters; to these are added 15 properties under development, 10 of which will also receive WELL certification.



Among the most important projects, the platform has co-invested, co-developed and still manages today the Porta Nuova project in Milan. With more than 1 million square metres developed and 160,000 square metres of public space, Porta Nuova is one of the largest mixed-use city centre redevelopments in Europe. In the coming years, the project will see further developments over more than 400,000 square metres and 20,000 square metres of public space. Over the years, Porta Nuova has received several international awards, for the project itself and for buildings that have established themselves as Milan's architectural icons. Today, Porta Nuova is a **national hub of innovation** hosting over 60 international brands with more than 35,000 professionals.

The Porta Nuova project also features **social and cultural projects** thanks to the first public-private agreement in Italy between the Municipality of Milan, COIMA SGR and the Riccardo Catella Foundation for the management of a public park. With a rich annual calendar of free events, BAM - Biblioteca degli Alberi Milano fulfils its calling as a space designed for the public. BAM is an example of international excellence in the management of public areas, a cultural engine of urban regeneration bringing people together around issues such as climate change, education, diversity and inclusion. COIMA has also started the process to certify Porta Nuova **LEED and WELL for Community**: it will be the first urban redevelopment project in the world to obtain the double certification, contributing to the positioning of Milan and the country among the most advanced territories in pursuing leadership in ESG initiatives with measurable and transparent impact.

Porta Nuova represents an "unicum" thanks to the effective mix of architectural design, the cultural meaning of the project and the sustainable and innovative approaches used for shaping the area, which make it a magnet for visitors and tourists, as well as for thousands of employees and retailers who work in the area. In 2018, this virtuous framework led COIMA to investigate the possibility to enhance the customer experience, adopting **innovative digital and data-driven solutions**, but also producing and introducing more value within the entire value chain, from the premises owner to tenants, merchants and final users. After an eighteen-months program of market researches and benchmarking, the Porta Nuova digital eco-system and the Digital Platform architecture were designed to improve the customer experience with touchpoints feeding a data lake for further insight analysis. The first instance of the Digital Platform, following the launch of the **Porta Nuova mobile app**, is going to be implemented and completed by Q4 2021.



**COIMA SGR**  
**Investment & Asset Management**

Over Euro 6 billion in assets under management

- Approx. 600,000 sqm of office space
- > 80 office corporate tenants
- > 85% of office tenants use the space as their global or regional HQ



**COIMA Srl**  
**Development, Property & Facility Management**

Over 850,000 sqm of office space developed

- c. 75% for a single tenant
- c. 25% multitenant

100 buildings, 1.3 million sqm, under management

- Digital technologies for healthy places, people wellbeing, workplace productivity
- Energy management based on data analytics
- Sustainability, regulatory and risk assessment
- ESG strategy
- Sustainable development management



**COIMA RES,**  
**Real Estate SIQ**

Euro 690 million real estate portfolio (pro-quota)

- 85% offices
- 90% in Milan (and 50% in Porta Nuova)
- 65% LEED certified

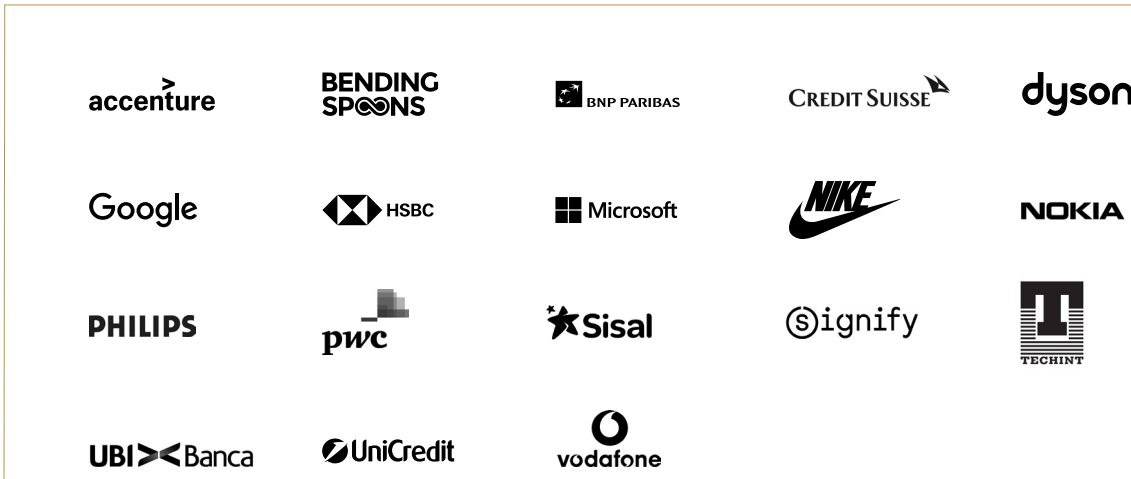


**COIMA Image**  
**Architecture, Space Planning & Interior Design**

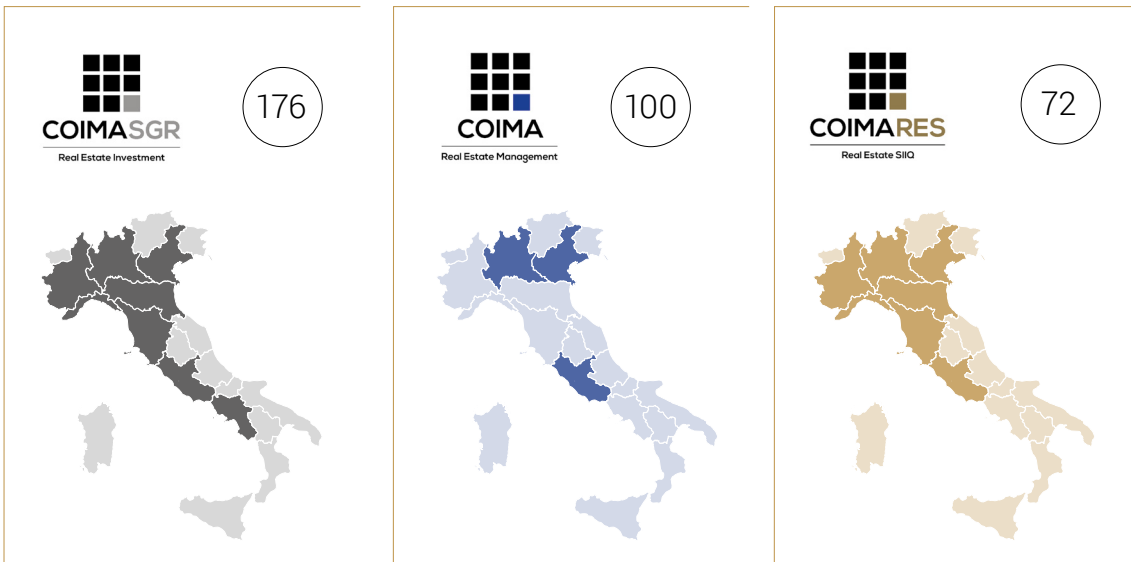
Over 700,000 sqm designed for the corporate sector

- workplace strategy
- integrated design
- change management

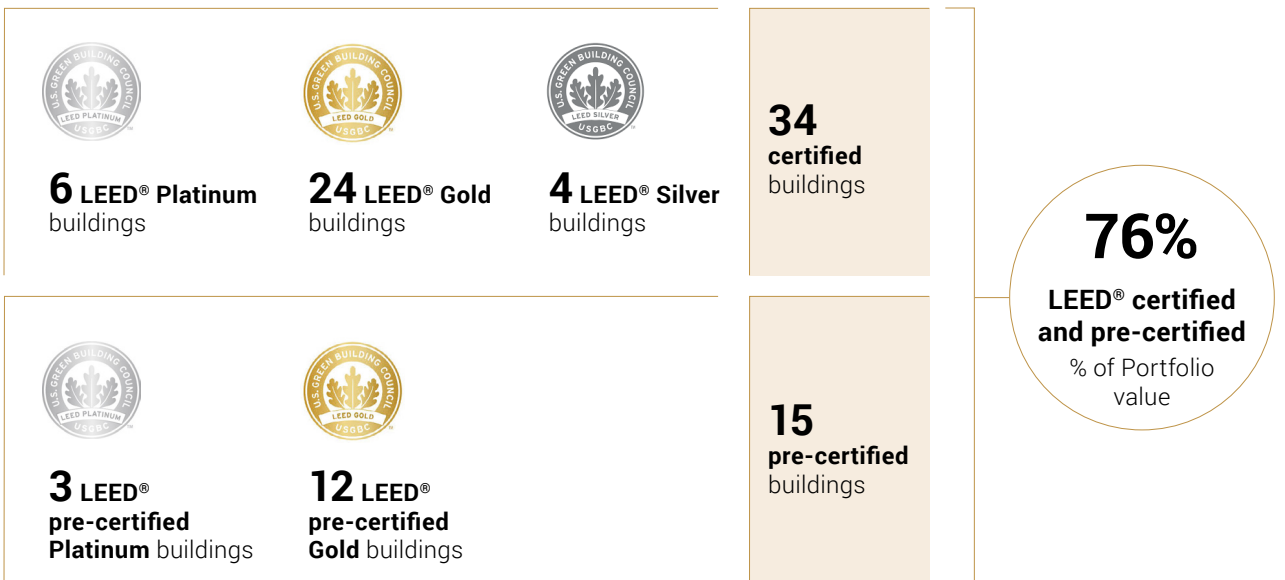
MAIN OFFICE TENANTS



BUILDINGS IN ITALY



SUSTAINABILITY CERTIFICATIONS





## COIMA'S AWARDS

2020

**US Green Building Council  
Greenbuild Europe  
Leadership Award**

USGBC

2019

**Aria & Solaria,  
Merit Award of Excellence**

Aia Awards

**Bosco Verticale,  
Among the world's 50  
most iconic skyscrapers**

CTBUH

2018

**Porta Nuova,  
Best urban regeneration  
project**

MIPIM

**Fondazione Feltrinelli &  
Microsoft House,  
Best office & Business  
development**

MIPIM

2016

**Porta Nuova,  
European Property Awards**

**Piazza Gae Aulenti,  
European Property Awards**

2015

**Bosco Verticale,  
Best tall building  
in the world.**

**Best tall building  
in Europe**

CTBUH

2014

**Bosco Verticale,  
International High-rise  
Award**

2013

**Torre UniCredit,  
Named one of the 10 best  
towers in the world**

Emporis Building

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#### Asset Management

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#### Sustainability and Innovation

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