ITALY

# Office Market Snapshot

Third Quarter | 2017

## MARKET INDICATORS

### Market Outlook

| | |
|---|---|
| Prime Rents: | Increasing for prime locations in Milan, especially the CBD, with landlords' incentives reducing for the best premises. Stable trend in Rome. |
| Prime Yields: | Compression of prime yields expected both in Milan and Rome. |
| Supply: | Pipeline in Milan anticipated to increase. In Rome reconversion will diminish secondary supply. |
| Demand: | Occupier and investor demand focus on high quality buildings and value-add assets. |

### Prime Office rents – September 2017

| LOCATION | € SQ.M YR | US$ SQ.FT YR | GROWTH % 1YR | GROWTH % 5YR CAGR |
|---|---|---|---|---|
| Rome (CBD) | 400 | 44.1 | 0.0 | -2.8 |
| Rome (Centre) | 350 | 38.6 | -7.9 | n/a |
| Rome (Semi Centre) | 300 | 33.1 | 0.0 | -2.5 |
| Rome (Greater Eur) | 340 | 37.5 | 7.9 | 0.9 |
| Rome (Periphery) | 150 | 16.5 | 0.0 | -1.3 |
| Milan (CBD) | 530 | 58.4 | 6.0 | 0.4 |
| Milan (Centre-out of CBD) | 420 | 46.3 | 7.7 | n/a |
| Milan (Semi Centre) | 320 | 35.3 | 10.3 | 3.5 |
| Milan (Periphery) | 240 | 26.5 | 9.1 | 1.8 |
| Milan (Hinterland) | 220 | 24.3 | 10.0 | n/a |

### Prime Office yields – September 2017

| LOCATION (FIGURES ARE NET, %) | CURRENT Q | LAST Q | LAST Y | 10 YEAR HIGH | 10 YEAR LOW |
|---|---|---|---|---|---|
| Rome (CBD) | 4.00 | 4.00 | 4.25 | 5.25 | 4.00 |
| Rome (Centre) | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| Rome (Semi Centre) | 6.25 | 6.50 | 6.50 | 6.50 | 5.75 |
| Rome (Greater Eur) | 5.25 | 5.25 | 5.75 | 5.75 | 4.75 |
| Rome (Periphery) | 8.00 | 8.00 | 8.00 | 8.00 | 5.75 |
| Milan (CBD) | 3.50 | 3.50 | 4.00 | 5.25 | 3.50 |
| Milan (Centre-out of CBD) | 4.00 | 4.00 | 4.75 | 5.75 | 4.00 |
| Milan (Semi Centre) | 5.25 | 5.25 | 5.50 | 6.75 | 4.65 |
| Milan (Periphery) | 5.50 | 5.50 | 5.75 | 7.50 | 5.00 |
| Milan (Hinterland) | 5.50 | 5.50 | 6.25 | 7.25 | 5.50 |

(*) Yields are calculated on a net basis as reported below:
Net Yield = NOI (1) / PP (2)
1. Net Operating Income - after deducting all non-recoverable expenditure
2. Purchasing Price – excluding transfer costs, tax and legal fees

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

## Overview

Office space demand is confirmed healthy and interest from international investors continues to be strong. Properties located in the central areas of the city maintain their desirability, with Milan in the lead due to value-add vacant properties, seen as opportunities in an active occupier market.

## Occupier focus

In Milan, the occupational market continues performing well, with quarterly figures slightly above the 10-year average and the volume registered to date significantly higher than the decade average. In contrast to previous quarters, no transactions over 10,000 m² were recorded, with the majority of leases being for space below 3,000 m². There is growing demand on behalf of companies looking for flexible and co-working office space, in line with the trend recorded in other major European cities. Competition is high for spaces under development or refurbishment, especially in central areas, with the majority of the completed transactions referring to grade A space. In Rome, take up saw an increase in activity, with several medium size transactions and one above 10,000 m² representing nearly half of quarterly absorption. Demand is generally driven by medium and small national companies, as well as corporates looking to rationalize and improve the quality of the occupied space. There is a trend for conversion of buildings which have been left vacant for lengthy periods, but are in desirable locations, to alternative uses, mainly hotel or residential. This trend has led to a reduction in stock, especially in central areas, and is expected to continue.

## Investment focus

The office sector maintains its attractiveness, with the annual figure to date higher than the same period last year. International as well as domestic players continue to maintain a growing interest in the Italian market, focusing on core/core-plus products and on value-add assets, strategically located in the city center. Milan is still confirmed as the most attractive location, covering circa 60% of the overall office volume, followed by Rome representing circa 35%.

## Outlook

As a consequence of the increasing competition for the best products, further compression of prime yields is expected by year end. The gap between prime and secondary products will continue widening, while investor expectations increase.

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