

ITALY

# Office Market Snapshot

First Quarter | 2018



## MARKET INDICATORS

### Market Outlook

Prime Rents:	Expected to consolidate at the highest values.	▼
Prime Yields:	Further slight compression might be expected both in Milan and Rome.	▲
Supply:	Speculative developments are still very limited if compared to the demand	▼
Demand:	High competition for new or refurbished iconic projects	▲

### Prime Office rents – March 2018

LOCATION	€	US\$	GROWTH %	
	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Rome (CBD)	400	46.4	0.0	-2.3
Rome (Centre)	350	40.6	-5.4	n/a
Rome (Semi Centre)	300	34.8	0.0	-2.5
Rome (Greater Eur)	340	39.5	0.0	0.9
Rome (Periphery)	150	17.4	0.0	-1.3
Milan (CBD)	570	66.2	9.6	3.7
Milan (Centre-out of CBD)	420	48.8	0.0	n/a
Milan (Semi Centre)	320	37.2	3.2	3.5
Milan (Periphery)	240	27.9	0.0	1.8
Milan (Hinterland)	220	25.5	0.0	n/a

### Prime Office yields – March 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Rome (CBD)	4.00	4.00	4.00	5.25	4.00
Rome (Centre)	4.75	4.75	5.00	5.00	4.75
Rome (Semi Centre)	6.25	6.25	6.50	6.50	5.75
Rome (Greater Eur)	4.75	5.00	5.25	5.75	4.75
Rome (Periphery)	8.00	8.00	8.00	8.00	6.00
Milan (CBD)	3.50	3.50	3.50	5.25	3.50
Milan (Centre-out of CBD)	4.00	4.00	4.25	5.75	4.00
Milan (Semi Centre)	5.00	5.00	5.25	6.75	5.00
Milan (Periphery)	5.25	5.25	5.50	7.50	5.25
Milan (Hinterland)	5.50	5.50	5.50	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

The fundamentals of the Milan office market are expected to consolidate this year, with strong demand and a high level of absorption forecasted. Speculative developments are still very limited if compared to the demand, both in Milan and Rome, and this is bolstering prime rental values. Demand for grade A space is set to remain strong and will continue sustaining overseas investor's interest for prime assets in Milan and Rome.

## Occupier focus

The occupier market in Milan has registered a good rate of absorption in the first quarter of the year. With occupiers very active, take up is expected to maintain positive over the coming months. Competition for space under development or refurbishment is high, especially in central areas, where prime headline rents have reached a ten-year peak. Strong demand for quality spaces and a trend to pre-lease assets in the pipeline before being officially on the market, is reducing grade A vacancy rate to an ever-lower level. On one side, the Rome occupier market was rather subdued during the quarter, characterized by limited absorption and increasing availability of secondary product, resulting from company strategies aiming at relocation to better quality and more efficient spaces. On the other side, the limited availability of grade A offices is stimulating an increase in projects, with new product potentially reaching the market over the next two to four years.

## Investment focus

The office sector is expected to retain investors' interest, although first quarter volumes were below their level a year ago. Milan continues to be the most attractive market, followed by Rome where interest is improving, but only in core areas of the city. Prime yields might experience further slight compression, reaching the lowest level in the cycle by the end of the year. Interest is also registered for secondary locations with strong fundamentals.

## Outlook

Positive economic performance is expected to continue in 2018, although political uncertainty may subtract some momentum from the economy. The leasing market will remain active, with high competition for projects coming on the market; as a consequence, prime rents are expected to consolidate at the highest value. In the investment market, the office sector will remain an important asset class with annual volumes expected to be in line with those of the previous year.

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