

ITALY

# Office Market Snapshot

Second Quarter | 2018



## MARKET INDICATORS

### Market Outlook

Prime Rents:	Headline rents increasing, sustained by greater incentives.	▼
Prime Yields:	Milan and Rome yields have reached historic lows and further compression is expected by year end	▲
Supply:	Speculative developments are still very limited if compared to demand	▶
Demand:	Driven by quality and the innovative use of space.	▼

### Prime Office rents – June 2018

LOCATION	€	US\$	GROWTH %	
	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Rome (CBD)	420	45.7	5.0	-1.4
Rome (Centre)	350	38.1	0.0	n/a
Rome (Semi Centre)	300	32.6	0.0	-2.5
Rome (Greater Eur)	340	37.0	0.0	0.9
Rome (Periphery)	150	16.3	0.0	-1.3
Milan (CBD)	570	62.0	7.5	3.7
Milan (Centre-out of CBD)	430	46.8	2.4	n/a
Milan (Semi Centre)	320	34.8	0.0	3.5
Milan (Periphery)	240	26.1	0.0	1.8
Milan (Hinterland)	220	23.9	0.0	n/a

### Prime Office yields – June 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)	4.50	4.75	5.00	5.00	4.50
Rome (Semi Centre)	6.25	6.25	6.50	6.50	5.75
Rome (Greater Eur)	4.75	4.75	5.25	5.75	4.75
Rome (Periphery)	8.00	8.00	8.00	8.00	6.25
Milan (CBD)	3.50	3.50	3.50	5.25	3.50
Milan (Centre-out of CBD)	4.00	4.00	4.00	5.75	4.00
Milan (Semi Centre)	4.75	5.00	5.25	6.75	4.75
Milan (Periphery)	5.00	5.25	5.50	7.50	5.00
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 office leasing market, supported by improving employment levels, continues to show positive signs, with strong tenant demand and rising headline rents. On the investment side, the office sector has traditionally been considered the preferred asset class by national and international players and this has created intense competition for the limited prime products available.

## Occupier focus

The Italian office market is registering good performances both in Milan and Rome, with landlords' attention focused on headline rent rather than on net effective rent, in the aim of maintaining asset values high. In Milan, new developments are rapidly pre-let before construction, causing a shortage in availability of quality buildings. Occupiers are inclined to move towards the Historic and Porta Nuova CBD, leading to an increase in availability of lower quality buildings within the Periphery and Hinterland. In Rome, the relocation and rationalization strategies of national communication and energy companies is keeping the market dynamic. Tenant movement continues to be towards the Greater Eur, with attention to costs remaining a key factor. Demand in both cities remains driven by quality and the innovative use of space.

## Investment focus

The office sector saw a significant reduction in investment volumes mainly due to the lack of product in line with international standards, the result of scarce development and requalification activity over the past years. Competition for the limited amount of core products available has led to the compression of prime yields, which have reached historic lows in both Milan and Rome. Milan retains its resilience confirming its place as a gateway city, capable of competing with other European markets and attracting a growing number of corporate investors despite the current political uncertainty. In Rome, the limited availability of prime product could promote new investment strategies oriented towards the redevelopment of existing buildings.

## Outlook

The leasing market will remain active, with end of year figures in line, if not above, last year's both in Milan and Rome. On the investment side, an increase in interest for prime properties in secondary locations with solid fundamentals is expected.

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