

ITALY Office Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Headline rents increasing	▶
Prime Yields:	Milan and Rome yields have reached historic lows and are expected to remain stable in short term.	▶
Supply:	Speculative developments are limited if compared to demand and grade A supply is decreasing.	◀
Demand:	Corporate relocation strategies driven by quality and innovative use of space.	▶

Prime Office rents – December 2018

LOCATION	€	US\$	GROWTH %	
	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Rome (CBD)	420	44.5	5.0	-0.2
Rome (Centre)	350	37.1	0.0	n/a
Rome (Semi Centre)	300	31.8	0.0	-2.5
Rome (Greater Eur)	340	36.0	0.0	0.9
Rome (Periphery)	150	15.9	0.0	-1.3
Milan (CBD)	580	61.4	7.4	4.1
Milan (Centre-out of CBD)	440	46.6	4.8	n/a
Milan (Semi Centre)	350	37.1	9.4	5.3
Milan (Periphery)	260	27.5	8.3	3.4
Milan (Hinterland)	220	23.3	0.0	n/a

Prime Office yields – December 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	4.50	4.75	5.00	4.50
Rome (Semi Centre)	6.25	6.25	6.25	6.50	5.75
Rome (Greater Eur)	4.50	4.75	5.00	5.75	4.50
Rome (Periphery)	8.00	8.00	8.00	8.00	6.75
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	4.75	5.00	6.75	4.75
Milan (Periphery)	5.00	5.00	5.25	7.50	5.00
Milan (Hinterland)	5.75	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 occupational market was particularly active, with record levels of absorption both in Milan and Rome. Quality, image and flexibility continue to be the main drivers of demand, with co-working representing a new market player, targeting mainly prime locations. On the investment side, high interest both from domestic and foreign investors continues, focused on wide-range of opportunities, from core to value-added, in prime locations as well as in consolidated or emerging secondary areas.

Occupier focus

Both Milan and Rome occupational markets performed well with year-end absorption figures around 40% above the 10-year average. In Milan, while the main drivers remain high quality spaces and location, the importance of an iconic building has stepped up in the list of tenant requirements. The co-working sector, with an innovative and flexible approach to the use of the office space, is expanding particularly in Milan. In Rome the renewed interest on behalf of companies, does not always correspond to an adequate offer of quality spaces, representing an opportunity in terms of new developments and requalification projects.

Investment focus

The yearly volume invested in the office sector, although recording a decrease compared to the 2017 record figure, is confirmed above the historical average. Despite the political and economic uncertainty, interest remains sustained both from domestic and foreign players, with an increasing presence of Asian investors looking for fully leased properties with long-term contracts and prime tenants. High demand is confirmed for core product in CBD and in consolidated or emerging secondary locations.

Outlook

Investment activity in 2019 is expected to be in line with the previous year. Prime yields have reached historic lows and are anticipated to remain stable in the short term. Yield compression might be recorded in the emerging areas. On the occupier side, take up is anticipated to remain above the historic average, although slightly decreasing, with upward pressure on prime rents.

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