

ITALY Office Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

Prime Rents:	Rental growth is expected in prime locations but sustained by tenant incentives.	▶
Prime Yields:	Minimum value seems to be reached for the prime segment of the market.	▶
Supply:	Stable due to high absorption levels and large amount of speculative development to be pre-let.	▶
Demand:	Location, quality, image and flexibility continue to be the main drivers for demand.	▶

Prime Office rents – September 2019

LOCATION	€	US\$	GROWTH %	
	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Rome (CBD)	440	46.2	4.8	0.9
Rome (Centre)	350	36.7	0.0	n/a
Rome (Semi Centre)	300	31.5	0.0	-1.3
Rome (Greater Eur)	350	36.7	2.9	2.1
Rome (Periphery)	160	16.8	6.7	1.3
Milan (CBD)	590	61.9	3.5	4.4
Milan (Centre)	460	48.2	7.0	n/a
Milan (Semi Centre)	350	36.7	2.9	5.3
Milan (Periphery)	280	29.4	12.0	4.9
Milan (Hinterland)	240	25.2	9.1	n/a

Prime Office yields – September 2019

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Rome (CBD)	3.75	3.75	4.00	5.25	3.75
Rome (Centre)	4.25	4.50	4.50	5.00	4.25
Rome (Semi Centre)	6.00	6.25	6.25	6.50	5.75
Rome (Greater Eur)	4.25	4.50	4.75	5.75	4.25
Rome (Periphery)	8.00	8.00	8.00	8.00	6.75
Milan (CBD)	3.25	3.50	3.50	5.25	3.25
Milan (Centre)	4.00	4.00	4.00	5.75	4.00
Milan (Semi Centre)	4.50	4.75	4.75	6.75	4.50
Milan (Periphery)	4.75	5.00	5.00	7.50	4.75
Milan (Hinterland)	5.75	5.75	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 remains dynamic and highly attractive, with both Milan and Rome recording a peak in absorption since the beginning of the year. Location and quality of stock remains the key driver for tenant movement. On the office's capital markets side, it is perceived a strong demand focusing on prime assets as well as secondary well-connected locations.

Occupier focus

In Milan co-working continues to be one of the driving forces, looking for space located in strategic parts of the city and closing transactions for entire buildings. Pipeline is high, in particular in the CBD submarket, but numerous ongoing negotiations will make several developments, close to completion, unavailable. In Rome the wave of value-add investments aiming at improving the quality of office stock is continuing and spreads from the more core locations towards other areas with a consolidated urban context and existing infrastructure. Major refurbishment of stock is starting to redefine locations and values of the Roman office market. As the urban economy still shows limited growth rates with few expansions and new market entries, take up is mainly driven by existing office occupiers abandoning secondary locations and buildings as new opportunities open up in consolidated districts.

Investment focus

As the prices in core EU countries increase, investors are looking to Italy with more attention, especially Milan. Core and core plus assets are the most sought-after, while value add opportunities are on the investors agenda where real estate fundamentals are strong. With total investment figures in line with those reported for the same period of 2017 (10-year peak), the office sector has recorded an increase of 50% on the previous year. Overall, in both Milan and Rome, investment is still driven by location and aims to unlock value in consolidated districts with an eye on well-connected upcoming areas.

Outlook

The outlook for the leasing and investment markets remains positive, with both expected to outperform last year, with occupational market feasibly exceeding peak figures in both Milan and Rome. The combination of strong demand for high-quality space and the completion of speculative projects will put pressure on rents, which are forecast to increase in prime locations in both cities, while yields will remain at a historic low.

This report has been produced by Cushman & Wakefield LLP for use by those with an interest in commercial property solely for information purposes. It is not intended to be a complete description of the markets or developments to which it refers. The report uses information obtained from public sources which Cushman & Wakefield LLP believe to be reliable, but we have not verified such information and cannot guarantee that it is accurate and complete. No warranty or representation, express or implied, is made as to the accuracy or completeness of any of the information contained herein and Cushman & Wakefield LLP shall not be liable to any reader of this report or any third party in any way whatsoever. All expressions of opinion are subject to change. Our prior written consent is required before this report can be reproduced in whole or in part. ©2019 Cushman & Wakefield LLP. All rights reserved.

Claudia Buccini

Head of Research Italy
Via Turati 16/18, 20121 Milan, Italy
Tel: +39 02 63 799210
claudia.buccini@cushwake.com
cushmanwakefield.com