

10.3%
Grade A,B&C Vacancy Rate

YoY Chg
12-Mo. Forecast

260,000
Take-Up sqm

€660
Prime Rent €/sqm/yr

MILAN PROVINCE ECONOMIC INDICATORS Q2 2022

4.9%
GDP Growth

4.7%
Unemployment Rate

2.16M
Employment

YoY Chg
12-Mo. Forecast

ECONOMY OVERVIEW

Milan's economic growth in the first two quarters has been strong among comparable cities. The dynamic labour market has been absorbing new or returning workers, and the unemployment rate has declined to less than 5%, one of the lowest rates among similar cities. The city's outside number of office-sector employees and above-average disposable incomes are helping to bear higher consumer prices. In the next quarters Milan's economy is expected to grow at a faster rate than most comparable peers, although high inflation and the weaker international conditions could place city's economy at risk of a recession. In the longer period, the planned 2026 Winter Olympics are increasing investment and will be a crucial driver in the city's growth.

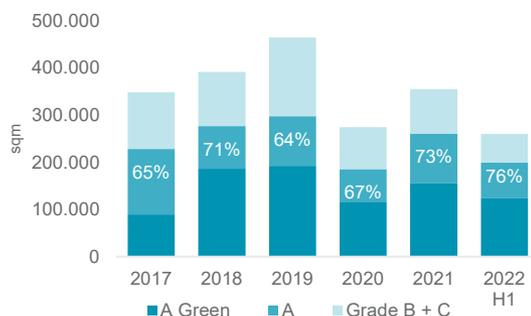
OCCUPIER AND INVESTMENT FOCUS

The strength of the office market was reconfirmed by the activity registered during the second quarter with a take up of 150,000sqm (+ 35% on Q1 2022) which brings the total figures for the first semester to the record value of 260,000sqm (+ 60% on H1 2021). The physical office space still plays a central role in corporate's organization and their business, but the new space planning philosophy is oriented towards flexibility and has a new approach to the work environment, employees' wellbeing and sustainability are the new drivers of the demand. The CBD was the most active sub-market covering 33% of the total H1 absorption, however there is a clusterization of the market in business districts with good transport connections, services and a context already established by other tenants. After the slow down due to the pandemic, the demand for flex offices has now recovered: many centres are fully booked, and operators have resumed projects previously on hold. During the second quarter, prime rents have grown further and stand at 660 €/sqm/yr (+3% vs Q1 2022), supported by the strong absorption and by the availability of spaces which reflects the new office concepts and quality standards. The investment market slowed down compared to Q1, however with half year volumes reaching 1,2 €Bn, Milan accounts for circa 60% of office volume invested in Italy. Steadily growing absorption and growing rental rates are still driving investors' confidence in the city. The CBD continues to gather interest regardless of the risk profile, while in secondary locations, investors have focused on stabilised assets. Value-Add deals, which dominated in Q1, have instead reduced during the second quarter due to the negative impact of current macro-economic and geopolitical conditions which affected the availability and the costs of financing.

OUTLOOK

On the occupational side, the number of ongoing negotiations suggests a very positive trend also in the second half of the year. Despite this, the effects of the current macro-economic and geopolitical situation will likely be visible, both on the development side, expected to slow down or stall, but also on the rental side, where rising energy costs and inflation could have a potential impact in the next months. On the investment side, the uncertainty deriving from inflation, growing interest rates, and difficulty in accessing credit, could cause a slow-down in market activity with a potential shift in market values.

TAKE UP BY GRADE



Note: Percentages refer to the share of grade A-A Green take up on total take up.

OVERALL VACANCY & PRIME RENT



Sources: ISTAT and Moody's.

Note: Employment data refers to workplace-based employment, individuals who work within the urban area.



MARKET STATISTICS (*)

SUBMARKET	OVERALL VACANCY RATE (Grade A,B&C)	YTD OVERALL TAKE-UP(SQM)	UNDER CNSTR (SQM)	PRIME RENT €/sqm/yr	PRIME YIELD (NET*)
CBD	5.1 %	87,000	163,000	660	3.00 %
Centre	11.0 %	18,000	55,000	480	3.50 %
Semi Centre	5.2 %	41,000	214,000	450	4.00 %
Periphery	13.8 %	46,000	289,000	290	4.50 %
Hinterland	14.5 %	68,000	110,000	240	5.25 %
TOTALS	10.3 %	260,000	831,000	660	3.00%

KEY LEASE TRANSACTIONS

PROPERTY	SUBMARKET	TENANT SECTOR	AREA(SQM)	TYPE
Milano Sesto	Hinterland	Bank	29,000	Pre-lease
Gioia20 Est	CBD	Consulting	27,900	Pre-lease
Milano 2 – Cellini and Donatello Bld	Hinterland	Education	12,000	New Lease
Primo – Piazza Fidia 1	Semi Centre	Finance	7,770	New Lease
Via della Spiga 26	CBD	Fashion	7,000	Pre-lease

KEY SALES TRANSACTIONS

PROPERTY	SUBMARKET	SELLER / BUYER	AREA (SQM)	PRICE/€ MLN
3 Asset Portfolio	CBD, Periphery	A2A / Henderson Park	26,000 + 36,000(buildable area)	Over 200
Mazzini 9/11	CBD	BNP Paribas / Amundi RE Italia Sgr	10,600	120
HQ 2 – Viale Piero e Alberto Pirelli 25	Periphery	Savills IM / Antirion Sgr	31,000	c.a. 70
Pirelli 32	CBD	Generali Real Estate Sgr / COIMA RES	7,500	58.2
Santa Maria Segreta 5	CBD	ITAS Assicurazioni / Castello Sgr	4,000	49

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(*) NOTES:

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.

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