



MILAN PROVINCE ECONOMIC INDICATORS Q4 2022



Sources: ISTAT and Moody's.

Note: *compared to previous market beat, unemployment rate is no further referred to the municipality but to the Metropolitan area.

ECONOMY OVERVIEW

Rising prices and the repercussions of the Russia-Ukraine war are hitting Milan's economy, that contracted in the fourth quarter, bringing the year end GDP growth estimate at +3.3% on 2021. Despite this, the city's performance is still robust and closer to that of Northern European cities. Labor market is dynamic, thanks to the industrial composition of Milan (made up by a large number of office-using employers) that allows to absorb new or returning workers, and the unemployment rate has declined to less than 6%, one of the lowest rates among comparable cities. Office-based employment will retain its strength and will continue to back office demand over 2023. Real retail sales have been steadily contracting for a few months after a summer spending spree as a return to service spending dampened demand for goods. Although Milanese consumers are not immune to a shock to their purchasing power with rising food and energy bills, above-average incomes compared with incomes in other major Southern European cities will cushion the blow to local businesses during the winter. Milan's leisure tourism segment will be affected by the expected squeeze of European purchasing power but it could be partially offset by the recovery in business travel as service firms are reintroducing in-person activities. Preparations for the 2026 Winter Olympics are ongoing and they will continue to support the regional economy and bring some travel and spending in the lead-up to the event.

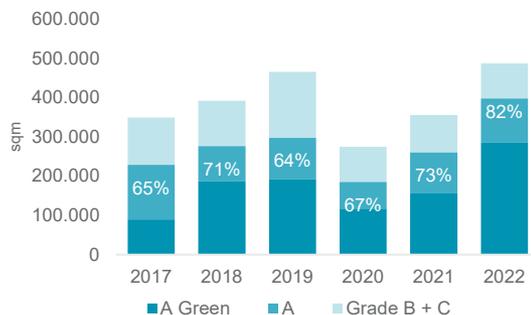
OCCUPIER AND INVESTMENT FOCUS

The positive trend of the Milan office market has been reconfirmed in the last part of the year: with a year-end volume equal to 490,000 sqm (+40% on 2021), 2022 has been the best year ever for this sector (+5% on the previous record registered in 2019). Talent attraction and retention has become one of the main drivers of demand as each company wants to guarantee its employees a better workplace and experience than their competitors. Moreover, occupiers' attention is focused on improving their brand identity by moving to Grade A / A Green buildings in prime locations or in areas undergoing a significant renovation offering a good level of services and connections to increase employees' wellness. This is demonstrated by the absorption of large spaces only for Built to suit or speculative Under Construction spaces (which are absorbed before they even reach the market) accounting for almost 40% of the total absorbed volume in the last year. Healthy demand is still driving rents in central submarkets, with an average increase of +2% QQ and with the CBD reaching a prime rental level of €690 sqm/yr. On the **Investment** side, Milan remains the most active market attracting circa 75% of the total transacted office volume. The total volume for Q4 is in line with the previous year (190 €Mn), but the yearly volume is much higher than 2021 (+77%), with 3.3 €Bn, and only 10% less than the peak value of 2019. Reflecting the macroeconomic conditions and the general uncertainty and instability of the markets, mainly due the cost of money, quarterly yield grew by 50/75 bps on Q3, standing at 3.75% for prime office space in the CBD.

OUTLOOK

Fundamentals of the office market are expected to remain positive, with firms and tenants looking to reorganize their spaces and a confidence in new developments, exclusively in line with ESG criteria. The availability and cost of money will certainly affect the investment market and there will be a slowdown in the first part of the year. Although the activity will decrease, the presence of foreign funds that have been eyeing the market in recent years will facilitate a reaction. Prime office products in Milan will continue to be attractive, but the gap between central and peripheral locations will increase further.

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



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	5.5 %	128,000	248,000	690	3.75 %
Centre	10.1 %	40,000	55,000	520	4.25 %
Semi Centre	4.4 %	87,000	139,000	450	4.75 %
Periphery	16.7 %	152,000	353,000	300	5.75 %
Hinterland	17.0 %	80,000	185,000	250	6.25 %
TOTALS	11.6 %	487,000	980,000	690	3.75%

KEY LEASE TRANSACTIONS

PROPERTY	SUBMARKET	TENANT SECTOR	AREA(SQM)	TYPE
Symbiosis	Periphery	Fashion	38,000	Pre-lease
Milano Sesto	Hinterland	Bank	29,000	Pre-lease
Gioia20 Est	CBD	Consulting	27,900	Pre-lease
Lorenzini 8	Periphery	Fashion	20,900	Pre-lease
Corso Italia 19	Centre	Consulting	12,300	Pre-lease

KEY SALES TRANSACTIONS

PROPERTY	SUBMARKET	SELLER / BUYER	AREA (SQM)	PRICE/€ MLN
Cortile della Seta	Centre	Savills IM Sgr/Generali	17,700	Circa 350
Via Montebello 18	Office	Kryalos Sgr OBO Blackstone / Kryalos Sgr OBO Milan Trophy RE Fund 4	17,000	235
3 Asset Portfolio	CBD, Periphery	A2A / Henderson Park	26,000 + 36,000(buildable area)	Over 200
Via San Marco Via Balzan	Centre	Kryalos Sgr OBO Allianz / Kryalos Sgr OBO Blackstone	20,600	210
Building U1&U3, Milanofiori	Hinterland	Brioschi Sviluppo / Generali OBO Cassa degli Agricoltori	58,000	188

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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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