MARKETBEAT

MILAN

Office Q1 2023

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
10.8% Grade A,B&C Vacancy Rate	▼	▬
81,000 Take-Up sqm	▼	▼
€700 Prime Rent €/sqm/yr	▲	▲

MILAN PROVINCE ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
1.4% GDP Growth	▼	▼
5.6% Unemployment Rate*	▬	▼
2.5M Employment	▬	▬

Sources: Moody's (Q1 2023 on Q1 2022 change and Q1 2023 data for employment and unemployment rate) .

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

ECONOMY OVERVIEW

Milan's economy improved in 2022, +3.6% GDP yearly growth, and slowed down in the last part of last year and in the first quarter 2023: rising prices, a decline in sentiment, and the ECB's tightening have dragged on economic performance. Year-end GDP growth is expected to be in the range of 1%. However, labour market is confirmed robust and dynamic: it has absorbed new or returning workers, and the unemployment rate has declined to less than 6%, one of the lowest rates among cities in southern Europe. A sustained influx of skilled workers from the rest of Italy counteracts human capital flight to other European cities and guarantees a supply of labour for companies. Retail sales are still downward as a return to service spending dampened demand for goods. Milanese consumers are exposed to a shock to their purchasing power with rising core prices and tightening credit standards, though above-average incomes compared with other major southern European cities will cushion the effect of the squeeze on spending. Milan's economy is projected to stagnate this year. Above-average disposable incomes will support the economy and protect it against rising prices and tightening credit standards. Longer term, Milan's growth will be supported by favorable demographic trends, a skilled workforce, and robust tourism.

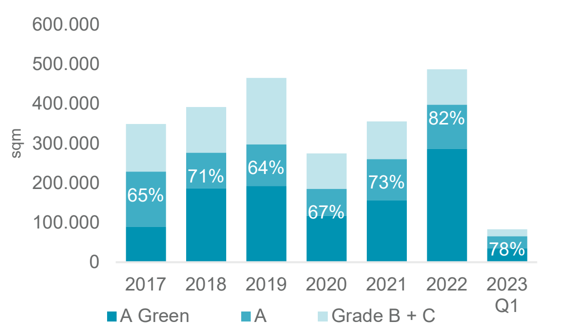
OCCUPIER AND INVESTMENT FOCUS

In the first quarter, the Milan occupier market has registered **an absorption of 81,000 sqm**, in line with the quarterly average of last 3 years but slightly lower than the same period last year. The total volume of leased space increase by 17% considering sub-lease contracts as well (14,000sqm); it has become more common for companies to release part of their spaces, often recently leased and with high quality finishes, offering them as "plug & play" solutions. The **quality** of the spaces is now a primary element of talent attraction and retention strategies; **accessibility and services and infrastructures**, especially in decentralized areas, remain essential. The demand for prime spaces in the CBD remains high, companies tend to lease smaller spaces but of higher quality and in more central locations and since the availability is more limited, the competition fuels the growth of prime rents. Nowadays, decarbonization and energy optimization are central for the real estate sector: an increasing number of landlords is aligning to the target of "Net Zero by 2050" required by the Paris Agreement and are therefore carrying out a due diligence of their assets to estimate the capex needed to renew them. Many companies have also put lot of effort into "data monitoring" (i.e. collecting and analysing consumptions) to manage resources more efficiently. On the **Investment** side, a "wait and see" attitude – in particular by foreign investors - influenced volumes (50€Mn), but the interest in the Milan market remains high. Quarterly yields grew by 25 bps Q/Q, standing at 4.00% for prime office space in the CBD, reflecting the macroeconomic conditions and the general uncertainty and instability of the markets (mainly due to the cost of money).

OUTLOOK

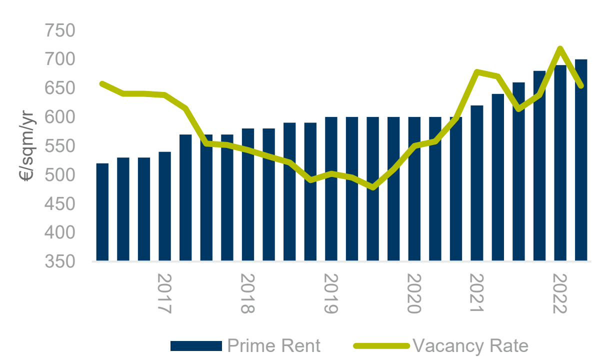
The investment market is expected to grow in the second half of the year, sustained by the strength of the leasing market which should continue on a positive trend with companies choosing spaces in line with ESG criteria (good energy performance and efficiency). ESG elements are now very important also for the Investment market. Prime office assets 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



MARKETBEAT

MILAN

Office Q1 2023

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 %	25,000	262,000	700	4.00 %
Centre	9.5 %	3,000	55,000	530	4.50 %
Semi Centre	4.6 %	9,000	139,000	460	5.00 %
Periphery	16.0 %	30,000	354,000	300	6.00 %
Hinterland	14.8 %	14,000	185,000	250	6.50 %
TOTALS	**10.8 %**	**81,000**	**995,000**	**700**	**4.00 %**

KEY LEASE TRANSACTIONS

PROPERTY	SUBMARKET	TENANT SECTOR	AREA(SQM)	TYPE
Via Vittor Pisani 19	CBD	Services	6.500	New Lease
Via Arbe 49	Periphery	Insurance Agents, Brokers & Service	4.900	New Lease
Via Luisa Battistotti Sassi 11	Periphery	Gas\Energy	4.600	Pre-lease
Via Nervesa 21	Periphery	Other	3.840	Pre-lease
Via Achille Grandi 8 / Cernusco sul Naviglio	Hinterland	Transportation Services	3.700	New Lease

KEY SALES TRANSACTIONS

PROPERTY	SUBMARKET	SELLER / BUYER	AREA (SQM)	PRICE/€ MN
Via Ripamonti 99	Periphery	Private / Domo Media	4,800	18,5
Piazzale Marengo	Centre	COVIVIO / Private	2,500	15,0
Via Bensi 8	Periphery	Private / Private	5,200	12,5

ANNA STRAZZA
Senior Consultant, Research
+39 02 63799278
anna.strazza@cushwake.com

ALESSANDRO SERENA
Partner, Head of Office Agency Italy
Landlord Advisory Group
+39 02 63799265
alessandro.serena@cushwake.com

CARLO VANINI
MRICS International Partner
Head of Capital Markets Italy
+39 02 63799302
carlo.vanini@cushwake.com

(*) 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.

cushmanwakefield.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

C&W (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. C&W is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and approximately 60 countries. In 2021, the firm had revenue of $9.4 billion across core services of property, facilities and project management.