MARKETBEAT

MILAN

Office Q3 2023

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
10.8% Grade A,B&C Vacancy Rate		
269,000 Take-Up sqm		
€700 Prime Rent €/sqm/yr		

MILAN PROVINCE ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
1.0% GDP Growth		
5.2% Unemployment Rate*		
2.5M Employment		

Sources: Moody's (Q3 2023 on Q3 2022 change and Q3 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 expanded over the summer, easing concerns that the tourism season would be hampered by a European purchasing power squeeze. However, rising prices, a decline in sentiment, and the ECB's tightening are affecting the economic performance. A dynamic labour market has weathered recent challenges well, posting a marginal increase in the unemployment rate. 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. Upward pressure on salaries is subdued. Milanese consumers are exposed to a shock to their purchasing power with rising 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, which will nonetheless slow significantly in the coming quarters. Rising real wages are set to drive a recovery in 2024. Financial markets recover quickly and boost hiring in tertiary activities. The 2026 Olympic Games provide a larger-than expected source of income and investment.

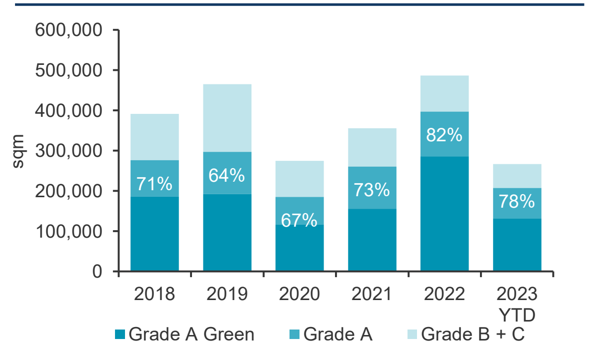
OCCUPIER AND INVESTMENT FOCUS

During the third quarter, the Milan office market confirmed its positive trend registering an absorption of 96,000 sqm, a slight increase from the previous quarter. However, the take up for the year to date remains significantly lower at 269,000sqm (-26%) compared to last year's exceptional value. Nevertheless, by adding the volume of sub-lease transactions, the total volume reaches 294,000 sqm, is in line with the average of the last 5 years. Subleasing has now become a common practice that allows leasing of high-quality spaces through "plug and play" solutions. The office environment is certainly evolving as enants increasingly prioritise ESG standards as well as attracting and retaining talent. This is evident when considering at the year-to-date take-up, where 50% of transactions are for Grade A Green spaces. The "green trend" is even more evident in central areas (CBD, Centre and Semi-centre) where the current availability of such spaces (82,000 sqm) is not enough to satisfy the average Grade A Green absorption of the last 5 years (112,000 sqm). Corporations are willing to pay prime rental values for green certified spaces compared to non-certified ones. This is reflected in the fact that the premium between these two types of spaces has increased from 17% in 2022 to 20% in 2023 in the CBD. The competition keeps prime rents high at 700€/sqm/yr in the CBD of Milan. On the Investment side, offices are suffering as in the rest of Europe due to the macro-economic situation, recording a slowdown of 68% compared to the previous quarter (with circa 100€Mn invested); the interest for this asset class remains but demand is very selective with regards to location and building quality. A strong attention to rental levels/capital values has brought prime yields to remain compressed in central areas on assets with potential future upside. As a consequence, the gap between prime and secondary assets is increasing and investment activities are therefore polarized between top locations at the right price and secondary discounted.

OUTLOOK

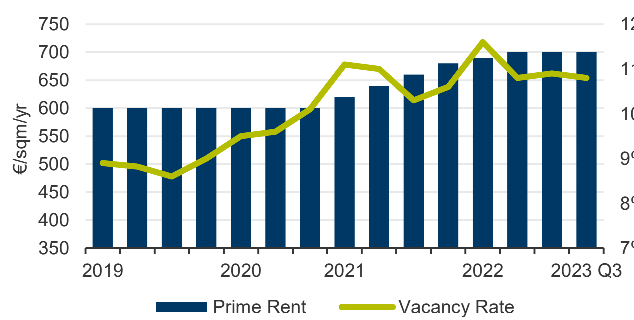
The Office sector is under pressure in the major European cities, but in Italy market fundamentals are still strong. The availability of green spaces is decreasing as the demand for these spaces is growing; the competition will also bring an increase in rental values over the next year. On the Investment side, change of use and ESG driven investments seem to be the only solution to mitigate the difficult landscape.

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 Q3 2023

CUSHMAN & WAKEFIELD

MARKET STATISTICS (*)

SUBMARKET	OVERALL VACANCY RATE (Grade A,B&C)	Q3 TAKE-UP(SQM)	YTD TAKE-UP(SQM)	UNDER CNSTR (SQM)	PRIME RENT €/sqm/yr	PRIME YIELD (NET*)
CBD	4.0 %	24,000	76,000	227,000	700	4.00 %
Centre	10.0 %	2,000	12,000	55,000	530	4.50 %
Semi Centre	3.6 %	31,000	79,000	149,000	470	5.25 %
Periphery	17.0 %	38,000	77,000	342,000	350	6.25 %
Hinterland	15.4 %	1,000	25,000	221,000	250	6.50 %
TOTALS	**10.8 %**	**96,000**	**269,000**	**994,000**	**700**	**4.00 %**

KEY LEASE TRANSACTIONS

PROPERTY	SUBMARKET	TENANT SECTOR	AREA(SQM)	TYPE
City Wave	Semi-centre	Banking & Finance	30,000	Pre-lease
Largo Tazio Nuvolari 1	Periphery	Manufacturing	8,900	Sale
Via Monte Rosa 91	Semi-centre	Consulting\Business Services	8,000	New Lease
Via Vittor Pisani 19	CBD	Services	6,500	Pre-lease
Via Monte Rosa 91	Semi-centre	IT\Communications	5,900	New Lease

KEY SALES TRANSACTIONS

PROPERTY	SUBMARKET	SELLER / BUYER	AREA (SQM)	PRICE/€ MN
Piazza Affari	CBD	Cromwell Property/Radial	10,000	93.6
Via Amoretti 78	Periphery	Savills/Corum AM	20,000	26.4
Viale Monza 338	Periphery	Savills / Finint	6,800	19.0
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

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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.

MARKETBEAT

ROME

Office Q3 2023

	YoY Chg	12-Mo. Forecast
7.9% Grade A, B & C Vacancy Rate	▼	▬
178,700 Take-Up sqm	▲	▬
€575 Prime Rent €/sqm/yr	▲	▲

ROME PROVINCE ECONOMIC INDICATORS Q3 2023

+1.9% GDP Growth	▬	▼
7.4% Unemployment Rate	▼	▲
2.2M Employment	▲	▬

Sources: Moody's, Rome Metropolitan Area (GDP Growth estimate Q3 2023 on Q3 2022)

ECONOMY

Rome's economy expanded over the summer in large part thanks to tourism spending and the domestic service sector; has now exceeded the pre-pandemic peak. However, growth is now slowing as a result of unprecedented tightening by the European Central Bank and sluggish momentum within the service sector. The unemployment rate nevertheless remains low in comparison to historical benchmarks. The city has benefited from its substantial office-using service sector, a return of tourism backed by spending from both foreign and local visitors on leisure and hospitality, and other related sectors such as transport. Though there has been a switch from record-low consumer sentiment to a more hopeful outlook about willingness to spend, tighter credit conditions will impede spending power on significant purchases and real estate. The capital is expected to achieve average performance compared to its southern European counterparts but is forecasted to fall behind Milan, considered as Italy's financial hub In the long run, the city's above-average population growth, vast office-based sector, and thriving tourism industry will fuel job creation, which will place it among the highest-ranked European cities for employment growth.

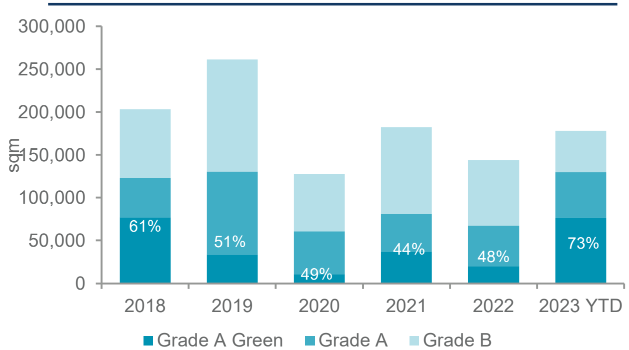
OCCUPIER AND INVESTMENT FOCUS

Despite take-up figures decreased in the third quarter (amounting to 25,500 sqm, nearly 30% below the ten-year average for this quarter), performances for both Q1 and Q2 were marked by the fulfillment of sizeable pre-let transactions which have set year-to-date figures at an encouraging 178,700 sqm a 54% increase YY. The average unit size transacted was around 700 sqm, typical for the city's market, where the majority of deals are for small floorplates especially in central submarkets. The CBD continues to gather the majority of occupiers attention (41% of space transacted in Q3); here a chronic lack of quality assets continues to push prime rents, which have risen by 10% YY, standing at 575 €/sqm/yr. The legal and service sectors were the most active during the quarter, accounting for 17% and 13% of take-up, respectively.
Current **investment activity** is centred around Owner Occupation - the most significant transaction of the quarter being on behalf of INPS (the Italian National Institute for Social Security) which bought one of its offices in the Periphery for circa 15€Mn - or around properties which are good candidates for change of use.

OUTLOOK

Occupier focus will remain on central locations: as the little quality space available in the CBD is used up, occupiers may turn their eye to the centre submarket. With investors failing to show interest even in prime product, and looking elsewhere for better returns, repricing is need for the market to remain competitive.

TAKE UP BY GRADE



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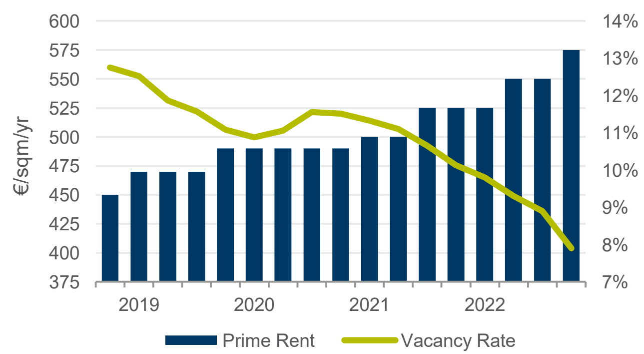
OVERALL VACANCY & PRIME RENT



MARKETBEAT

ROME

Office Q3 2023

MARKET STATISTICS (*)

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CBD	2.60%	10,400	34,400	0	575	4.50 %
Centre		1,100	37,800	0	380	4.75 %
Semi Centre	7.30%	300	5,000	0	280	6.25 %
Greater Eur	7.70%	6,800	80,000	0	360	5.00 %
Periphery	15.80%	6,900	21,500	0	150	9.00 %
TOTAL	**7.90%**	**25,500**	**178,700**	**0**	**575**	**4.50 %**

KEY LEASE TRANSACTIONS

PROPERTY	SUBMARKET	TENANT SECTOR	AREA (SQM)	TYPE
Torri EUR Viale Europa 242	GREATER EUR	Transportation Services	47,000	Pre-let
Piazza Giuseppe Verdi 9	CENTRE	Energy	30,000	Pre-let
Green Island Viale Oceano Pacifico 171-173	GREATER EUR	Services	13,600	New Lease
Via Abruzzi 10	CENTRE	Banking	4,900	New Lease
Via Po 14	CENTRE	Legal	4,500	New Lease
WOLIBA - Via Laurentina 449	GREATER EUR	IT/Communications	4,000	Expansion
Via del Tritone 132	CBD	Co-working	3,400	New Lease

KEY SALES TRANSACTIONS

PROPERTY	SUBMARKET	SELLER / BUYER	AREA(SQM)	PRICE/€ MN
Via Torino 38-40	CBD	COIMA Sgr /Private Italian	7,640	Est 27
Via della Camilluccia 589 A	SEMI CENTRE	Private Italian/ Sports Association	4,000	18-20
Via Longoni 53	PERIPHERY	Fabrica Sgr/INPS	19,300	15.4
Via Carciano 69	PERIPHERY	Savills Sgr/MBDA	4,200	9.4
Villino Almerici Via Piemonte 62	CBD	Finint Investment Sgr/ Blue Sgr	c.a. 1,000	8.5

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