MARKETBEAT

MILAN

Office Q2 2024

	YoY Chg	12-Mo. Forecast
10.4 % Grade A,B&C Vacancy Rate		
76,000 Take-Up sqm		
€700 Prime Rent €/sqm/yr		

MILAN PROVINCE ECONOMIC INDICATORS Q2 2024

	YoY Chg	12-Mo. Forecast
1.2% GDP Growth		
4.3% Unemployment Rate*		
2.56M Employment		
3.87% 10-Yr Treasury Yield		

Source: Moody's Italy (GDP Growth estimate Q2 2024 on Q2 2023; Unemployment Rate Q2 2024; 10 yr Gov Bond at Q2 2024)

ECONOMY OVERVIEW

In H1 2024, Italy's economy showed signs of cautious optimism, leading to improved year-end forecasts. GDP grew by 0.9% in 2023 and 0.3% in early 2024, projecting an annual increase of 1%. The labor market strengthened, with a slight rise in employment and an expected 7.1% unemployment rate by year-end. Inflation was subdued at 0.8% in May, with a gradual return to ECB targets, leading to a significant drop in the household spending deflator to 1.7% in 2024 from 5.2% in 2023. Despite wage growth consolidation is expected to rise in the following months, 2025 inflation trend will show a moderate increase, but would remain aligned to the ECB 2% target. The ECB's June rate cut, the first since 2022, reduced government bond yields and returned the yield spread between Italian real estate and the 10-year bond to positive territory, fostering optimism among real estate investors, signaling a positive outlook for the property market. Overall, the forecast scenario remains characterized by uncertainty in the international framework, particularly due to ongoing geopolitical tensions. However, the economic forecast for Italy in H1 2024 offers a guardedly positive view, anticipating moderate expansion and a steady macroeconomic climate.

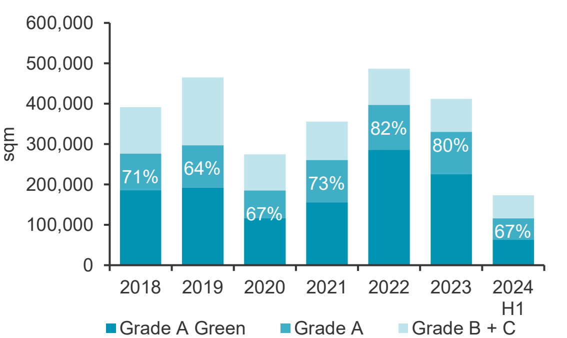
OCCUPIER AND INVESTMENT FOCUS

In the second quarter of the year, the Milan occupier market has registered an absorption of 76,000 sqm, -16% compared to Q2 of last year (91,000sqm), which was influenced by a single pre-let transaction of 29,000sqm. However, the take up for the first semester resulted in line with H1 23 (at 173,000sqm) and the half-year average of the last 10 years. On top of the leased spaces, there are further 9,000 sqm of sub-leased space bringing the total absorption for H1 to 182,000 sqm. Occupiers' decision-making process is increasingly driven by accessibility, infrastructures (retail, leisure, hospitality, public spaces) and, above all, by sustainability. Occupiers and investors acknowledge that respecting ESG criteria and adopting green policies is not only a matter of ethics, but also an advantage to be more competitive while aligning to new regulations and standards. Notwithstanding this increased consciousness, the availability of Grade A Green spaces is still very limited (1.9% in the whole Milanese market) and the competition for these spaces, in particular in CBD and Semi-centre, caused a significant increase in rents, which have generally registered a +20/25% and have reached 700€/sqm/yr in the CBD. Investment volumes in Milan have decrease Q-on-Q since the beginning of the year, recording approximately 100 €Mn in Q2 2024, with few transactions. This has resulted in a first-half volume of almost 330 €Mn, +38% compared to the same period last year, which was the worst semester in the last 10 years. Compared to the first semester of last year, the average investment size has increased by 32%, reaching 36 €Mn. However, this figure remains far from the average investment size of the top performing years (>70 €Mn) mainly due to the limited activity of foreign investors, resulting in a strong predominance of domestic capital (accounting for 70% of the city's total volume) and the current investors' preference for small transactions. Quarterly yields remained stable at 4.25% for prime office buildings in the CBD, reflecting the still cautious approach to super-stabilized products. Investor's focus confirmed for prime locations and strong fundamentals such as sustainable rental level and compliant to ESG credentials.

OUTLOOK

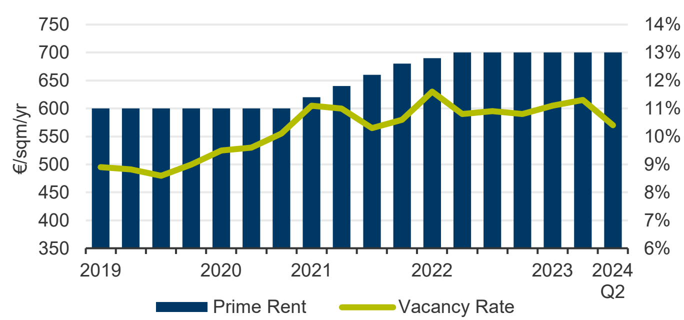
The leasing market fundamentals are expected to remain positive, demand will remain very high for green spaces with the two major trends being space optimization and quality improvement. We are expecting a further growth in rental values within the end of the year due to the slowdown in delivery times for certain project that will cause lack of availability of Grade A Green buildings in the near future

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 Q2 2024

MARKET STATISTICS (*)

SUBMARKET	OVERALL VACANCY RATE (Grade A,B&C)	Q2 2024 TAKE-UP(SQM)	H1 2024 TAKE-UP(SQM)	UNDER CNSTR (SQM)	PRIME RENT €/sqm/yr	PRIME YIELD (NET*)
CBD	6.0%	32,000	70,000	159,000	700	4.25 %
Centre	8.0%	7,000	11,000	57,000	540	5.00 %
Semi Centre	3.6%	15,000	21,000	176,000	480	5.50 %
Periphery	15.4%	13,000	36,000	254,000	350	6.75 %
Hinterland	14.6%	9,000	35,000	24,000	250	7.25 %
TOTALS	**10.4 %**	**76,000**	**173,000**	**670,000**	**700**	**4.25 %**

KEY LEASE TRANSACTIONS YTD

PROPERTY	SUBMARKET	TENANT SECTOR	AREA(SQM)	TYPE
Via Gaetano Negri 8	CBD	IT\Communications	6,000	New Lease
Segreen Business Park - Building W	Hinterland	IT\Communications	4,900	New Lease
Palazzo Vasari - Segrate	Hinterland	Education	4,500	New Lease
Via G.B. Pirelli 35	CBD	Fashion	4,200	New Lease
Bodio Center - Bodio 5	Semi-centre	IT\Communications	3,490	New Lease

KEY SALES TRANSACTIONS YTD

PROPERTY	SUBMARKET	SELLER / BUYER	AREA (SQM)	PRICE/€ MN
Corso Europa 2	CBD	BNP Paribas / Campari Group	10,000	110
Palazzo di Fuoco Viale Monza 2	Semi-Centre	Kryalos SGR / Corum AM	10,500	70
Piazzale Luigi Cadorna 5/7	Centre	Private / Monge	8,600	56
Via dell'Orso 6/8	CBD	Cir spa / Merope AM	4,000	38
Via Lorenteggio 257	Periphery	Kryalos SGR / Zenith	60,000	24

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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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MARKETBEAT

ROME

Office Q2 2024

	YoY Chg	12-Mo. Forecast
6.9% Grade A, B & C Vacancy Rate	▼	▬
33,000 Take-Up sqm	▼	▬
€575 Prime Rent €/sqm/yr	▬	▲

ROME PROVINCE ECONOMIC INDICATORS Q2 2024

	YoY Chg	12-Mo. Forecast
1.7% GDP Growth	▲	▲
6.3% Unemployment Rate	▲	▲
2.2M Employment	▲	▼
3.87% 10-Yr Treasury Yield	▲	▲

Source: Moody's Italy (GDP Growth estimate Q2 2024 on Q2 2023; Unemployment Rate Q2 2024; 10 yr Gov Bond at Q2 2024) .

ECONOMY

In H1 2024, Italy's economy showed signs of cautious optimism, leading to improved year-end forecasts. GDP grew by 0.9% in 2023 and 0.3% in early 2024, projecting an annual increase of 1%. The labor market strengthened, with a slight rise in employment and an expected 7.1% unemployment rate by year-end. Inflation was subdued at 0.8% in May, with a gradual return to ECB targets, leading to a significant drop in the household spending deflator to 1.7% in 2024 from 5.2% in 2023. Despite wage growth consolidation is expected to rise in the following months, 2025 inflation trend will show a moderate increase, but would remain aligned to the ECB 2% target. The ECB's June rate cut, the first since 2022, reduced government bond yields and returned the yield spread between Italian real estate and the 10-year bond to positive territory, fostering optimism among real estate investors, signaling a positive outlook for the property market. Overall, the forecast scenario remains characterized by uncertainty in the international framework, particularly due to ongoing geopolitical tensions. However, the economic forecast for Italy in H1 2024 offers a guardedly positive view, anticipating moderate expansion and a steady macroeconomic climate.

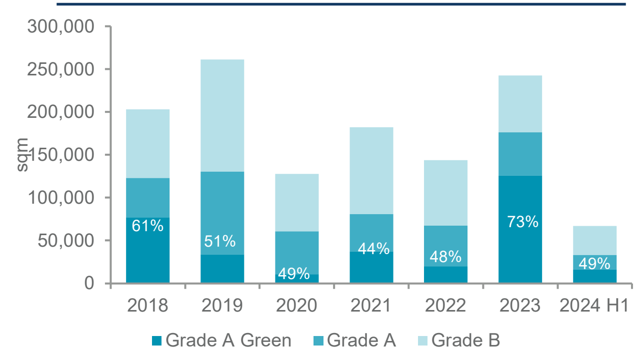
OCCUPIER AND INVESTMENT FOCUS

The Rome occupier market registered an absorption of 33,000 sqm in the second quarter, consistent with the volume recorded in Q1. However, this represents a 48% decrease compared to the second quarter of last year, which was significantly higher than the 10-year average due to a major pre-let transaction. In spite of the positive take-up trend, the market is constrained by a shortage of quality spaces: Grade A green offices (in line with sustainability and ESG criteria) constitute less than 1% of the total availability and this figure rises to 2.2% including Grade A spaces. Consequently, these spaces achieve significantly higher rental rates (+26% over grade B buildings in CBD/Centre) stimulating opportunities for upgrading and refurbishing poor quality spaces to reflect occupiers' interest in efficient and valuable spaces. Considering the size of transactions, 80% by number are for small spaces (<1,000sqm). Occupiers continue to concentrate primarily on the CBD and Greater EUR areas, which have accounted for nearly 60% of the semester's take-up, including the three largest transactions (ranging between 5,000/6,000 sqm). The market conditions have maintained prime rents stable at 575€/sqm/yr in the CBD. On the investment side, Rome is gaining interest and thanks mainly to a sizeable transaction has surpassed Milan: in Q2, Rome recorded an investment volume of 128 €Mn, bringing the total for the first half of the year to 418 €Mn (+28% compared to Milan). There is a high interest in vacant properties in central location to be repositioned or converted as well as for end-users, but the market results limited by a mismatch between Sellers and Buyers' expectations.

OUTLOOK

Market fundamentals are expected to remain positive, with an absorption in line with the average of the last 10yrs. Competition for assets in central areas with good infrastructures and compliant with sustainability standards will remain high. Investors' appetite for offices is stable, but very selective; main focus remain on central locations and on assets with future reversion or potential repositioning. Interest in value-add opportunities should help revive activity in H2 2024 and into 2025. However, the investment market is generally expected to improve once the cut in interest rates will be more tangible and investors will feel more confident.

TAKE UP BY GRADE



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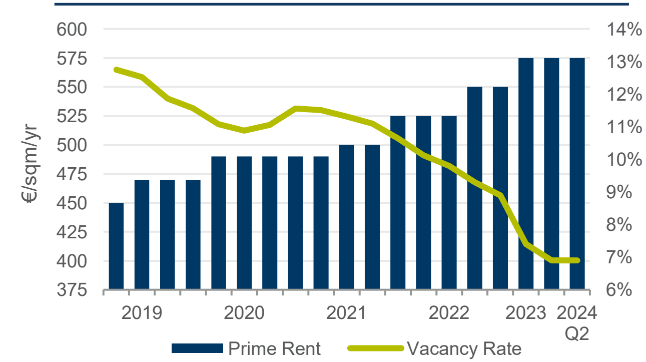

MARKETBEAT

ROME

Office Q2 2024

MARKET STATISTICS (*)

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CBD	2.2%	6,200	17,000	31,000	575	4.75 %
Centre		7,000	12,000	45,000	400	5.00 %
Semi Centre	7.1%	700	4,000	0	300	6.75 %
Greater Eur	6.8%	10,600	23,000	122,000	370	5.75 %
Periphery	13.8%	8,500	11,000	3,000	150	9.50 %
TOTAL	**6.9%**	**33,000**	**67,000**	**202,000**	**575**	**4.75 %**

KEY LEASE TRANSACTIONS YTD

PROPERTY	SUBMARKET	TENANT SECTOR	AREA (SQM)	TYPE
Palazzo Canevari – Largo di Santa Susanna 13	CBD	Public Sector	6,200	New Lease
Via Silvio d'Amico 40	GREATER EUR	Public Sector	5,200	New Lease
Via Achille Campanile 73-85	GREATER EUR	IT/Communications	4,830	New Lease
Via Veneziani 56	PERIPHERY	Co-working	3,260	New Lease
Viale Egeo 100-106	GREATER EUR	Education	2,630	New Lease

KEY SALES TRANSACTIONS YTD

PROPERTY	SUBMARKET	SELLER / BUYER	AREA(SQM)	PRICE/€ MN
Via Vittorio Veneto 89	CBD	Ardian / Deka Immobilien Gmbh	23,000	269
Via Arno 64	Center	CNPADC / Embassy of Algeria	3,500	21
Villino Morani - Via Sicilia 136	CBD	Gruppo Marseglia / India Embassy	2,300	25
Fondo Sapphire Portfolio (share 51%)	CBD	Zurich; Morgan Stanley / Enasarco	40,600	103

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