

RESEARCH



# MILAN

OFFICE MARKET OUTLOOK  
Q4 2016



OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

## KEY FINDINGS

Office take-up was 220,000 sq m in the first nine months of 2016, surpassing the volumes achieved for the same period last year.

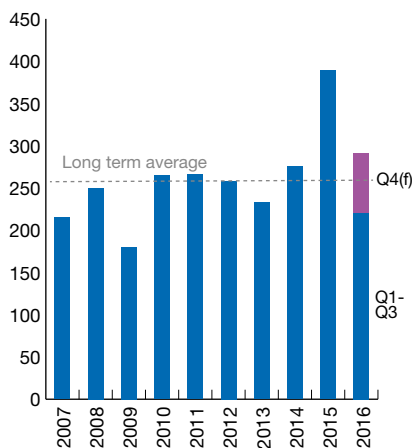
The development pipeline has increased and will deliver around 475,000 sq m of completions over the next three years.

Occupier activity is intensifying with trends reflecting a clear flight to quality.

Prime rents have remained fairly stable at €500 per sq m per annum, although the spread between core and peripheral areas is widening.

Prime office yields have remained stable at 4.5%, however core products are expected to come under increasing pressure resulting in yield compression.

FIGURE 1  
**Office take-up**  
sq m (000s)



Source: Knight Frank Research

## OCCUPIER MARKET

Despite a sluggish Italian economy, Milan's office market continues to burgeon.

As the most stable and transparent real estate market in Italy, Milan is the commercial hub for many important financial institutions including the Italian Stock Exchange. The metropolitan area of Milan has consistently been the wealthiest of the country; its GDP per capita is the highest – standing approximately 80% higher than the national average.

While economic indicators continue to point toward a sluggish economy, Milan's office market has shown resilience. Its office landscape has developed considerably over recent years. Significant capital has been targeting assets with development upside, transforming the city's skyline and expanding its supply of premium quality stock.

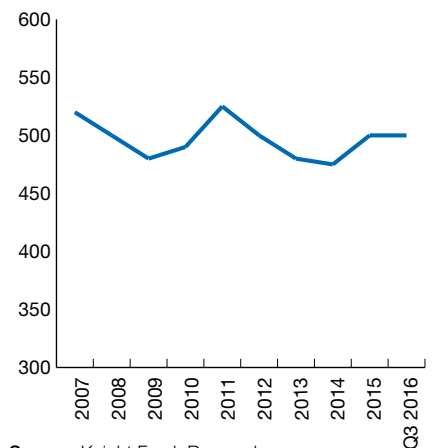
Occupier activity has also peaked. In 2015, take-up was a record 380,000 sq m. This momentum has continued through 2016 (Figure 1), with take-up (220,000 sq m) already surpassing the volume reached in the same period last year. However, full-year take-up is unlikely to match last year's total when nearly half of the space transacted in Q4 and was mainly driven by large-size deals.

Milan's office development pipeline is strengthening. By the end of the year, new projects and those under construction, both pre-let and speculative, will provide around 75,000 sq m of office space. A further 400,000 sq m is planned for delivery over the next three years of which 60% will be delivered through speculative projects. While vacancy levels are likely to rise from their current level of 12.5%, any large increases will likely be mitigated by sustained occupier demand.

Current market trends highlight a clear flight to quality as occupiers' preferences favour high quality premises. Subsequently, renovations and refurbishments continue to feature prominently in the market, with the headquarters of two leading fashion and consulting groups the latest to undergo renovation.

In particular, the CBD remains the most sought-after submarket. Although prime rental rates have remained fairly stable over the last two years at €500 per sq m (Figure 2), the spread between core and peripheral areas is widening. The market is also witnessing a fall in incentives for premium properties that are in the best locations.

FIGURE 2  
**Prime office rents**  
€ per sq m per annum

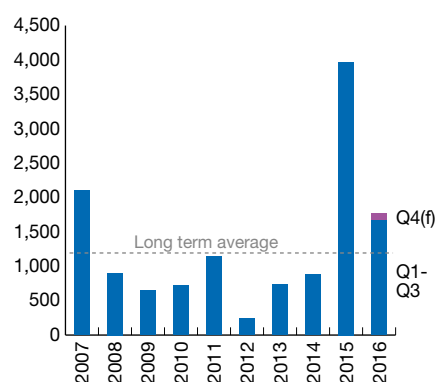


Source: Knight Frank Research



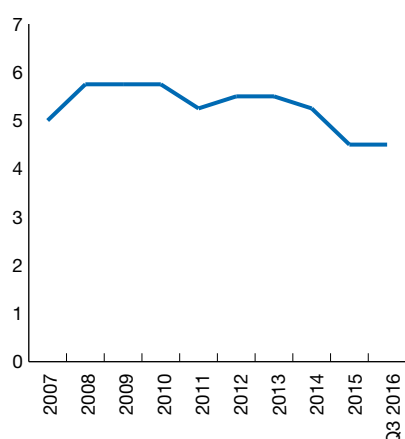
Diamond Tower in the Porta Nuova district

FIGURE 3  
Milan office investment volumes  
€ million



Source: Knight Frank Research

FIGURE 4  
Prime office yields  
%



Source: Knight Frank Research

## INVESTMENT MARKET

In recent years, investment into Italy has grown markedly, reflecting the continued search for value in a strengthening European property market. Domestic investors have traditionally been the primary protagonists in Milan's office sector but are increasingly becoming joined by a host of international outfits. Funds from the US, France and Germany, together with sovereign wealth funds from the Middle East, have been active in the market.

Total investment into Milan's office sector in 2015 more than tripled from the previous year. Nearly €4 billion was invested in its office market (Figure 3). The most significant transaction involved an acquisition by Qatar sovereign wealth fund for complete interest in Porta Nuova, with a project value of €2 billion. The investment

market has continued its solid run into 2016 as over €1.5 billion of assets have transacted in the first nine months of the year. Though transaction volumes in 2016 are unlikely to match those achieved last year, they will still be well above their long-term average.

Milan remains an attractive market for investment. While a less mature institutional market than established European centres such as London and Paris, Milan is becoming increasingly attractive to global investors in view of its upside potential. Prime office yields have remained stable at 4.50% over the last year (Figure 4) although core product will come under increasing pressure, resulting in a widening of the yield differential between prime and secondary assets.

### KNIGHT FRANK VIEW

Milan is seen as the Italian market best placed to benefit from a broad-based economic recovery. However, risks from the Italian banking system remain a long way from being resolved and represent a substantial downside risk to the Italian economy. But even through the tough economic climate, Milan's office market has weathered the storm and shown buoyancy.

Milan's occupational market is expected to continue its positive trend. One-off large scale leasing transactions will boost year-end figures above the long-term average. The investment market is also faring well and riding on the back of corporate expansion. There will be continued strong interest for core investments and development projects into 2017, reflecting growing confidence in the Italian market.

### Key recent office investment transactions in 2016

Quarter	Property	Seller	Buyer	Approximate price (€ million)
Q2	Vodafone Village 1	Gruppo Carminati	Coima SGR	200
Q2	Via Cordusio 2	Sorgente SGR - Fondo Donatello	Hines - BVK	128
Q3	Via Della Chiusa 2	NorthStar Realty Europe JV Cale Street Partners LLP	AXA IM - Real Assets	120
Q1	Mac 567	Doughty Hanson OBO Imbonati S.r.l	Deka-ImmobilienEuropa	115
Q1	Palazzo Turati	Tecno Holding OBO Milan Chamber of Commerce	Hines AKA Coima OBO SOFAZ	97
Q1	Cortile della Seta	UBI Banca	JP Morgan	80
Q1	Time building	Fabio Filzi S.r.l.	Invesco RE	64
Q2	L Oreal Italia HQ	Deka WestInvest ImmoValue	Amundi Real Estate Italia SGR - Fondo Nexus 1	64

Source: Knight Frank Research / Real Capital Analytics



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