RESEARCH

CITY NEWS
MILAN
Q1 2021

MILAN
COMMERCIAL REAL ESTATE INVESTMENT MARKET AND OFFICE LEASING

In Q1 2021 in Milan undersized performance vs Q1 2020 for the Office leasing market. Alignment for the commercial investment market

THE OFFICE LEASING MARKET

In Q1 2021, the Milan Office leasing market recorded a take-up of about 78,500 sqm, down by about 20% compared to Q1 2020 and compared to the Q1 average of the last 5 years but in line with the Q1 average of the last 10 years. 62 deals were completed in Q1 2021, compared to 64 in Q1 2020 and 62 on average in Q1 over the last 5 years.

Moving on to the analysis of the different sub-markets of the city, it should be noted that approximately 32% of take-up in Q1 2021 was concentrated in the CBD Duomo with around 25,300 sqm of take-up (for 12 deals). This result was impacted by the closing in the quarter of a large deal with a tenant in the fashion sector involving approximately 12,000 sqm. The CBD Porta Nuova and the Periphery sub-markets followed suit, each accounting for about 20% of quarterly take-up for around 16,500 sqm (for 9 deals, including a large owner occupier deal involving about 11,000 sqm) and about 14,200 sqm (for 11 deals) respectively. The Semicentre, the Hinterland and the Centre sub-markets respectively accounted for around 12%, 9% and 7% of total take-up in the city in Q1 2021.

It should be noted that the two Milan CBDs recorded a three-digit increase in take-up compared to Q1 2020. The Semicentre reported an increase in take-up of approximately 15% compared to Q1 2020. The y-o-y trend is decreasing for the Periphery, the Hinterland and the Centre sub-markets, which posted drops of approximately -77%, -42% and -7% respectively.

Delving deeper into the analysis, around 70% of the deals concluded in Milan in Q1 2021 involved surfaces below 1,000 sqm. It should be noted that 3 deals of a size greater than 5,000 sqm were recorded during the quarter.

With regard to the quality of assets leased during the quarter, approximately 72% of take-up related to grade A spaces (totalling approximately 54,000 sqm).

In terms of rents, about 55% of the deals concluded in Q1 2021 (with known rents) were above 300 €/sqm/year, including about 10% of deals with rents exceeding 500 €/sqm/year.

As regards Office prime rents, all the sub-markets in Milan recorded q-o-q stability. In particular, the CBD Duomo, the CBD Porta Nuova and the Centre remained at 600 €/sqm/year, 510 €/sqm/year and 470 €/sqm/year respectively for the eighth consecutive quarter.

An analysis of the Office supply in Milan in Q1 2021 shows that total availability is around 1,258,000 sqm with an aggregate vacancy rate of 10.40% (slightly up compared to Q4 2020 which stood at 10.10%). However, it should be noted that in the central areas of the city (two CBDs and the Centre) the vacancy rates remain low at 3-5%. In particular, in these three sub-markets, total availability is almost 150,000 sqm (about 12% of total vacancy in Milan) including approximately 78,000 sqm of grade A. Most of the vacant spaces in the city in Q1 2021 are concentrated in the Periphery and in the Hinterland with approximately 1,013,000 sqm, including around 745,000 sqm of lower quality (grade B and C).

Take away Q1 2021

Office take-up decrease with respect to Q1 2020: approximately –20%

Approximately 50% of the quarterly take-up in the two CBDs

Office prime rents stability q-o-q in all sub-markets

THE INVESTMENT MARKET

Take away Q1 2021

Total investments in line with Q1 2020

Office volumes: approximately -70% vs. Q1 2020

Prime net yields q-o-q: stability for Offices and High Street Retail, compression for Logistics

In Q1 2021, the Milan commercial real estate market recorded investments for approximately €665 million, around 56% of the total in Italy. The result for Q1 2021 is substantially in line with the value recorded in Q1 2020 and the reference averages of the last 5 and 10 years.

In Q1 2021, Mixed Products drove the volumes in Milan with about €260 million invested (in 3 deals involving single assets that accounted for approximately 40% of the quarterly total) after 5 consecutive years with no investments in Q1 for this sector. As regards the nationality of buyers of this product, approximately €160 million of US capital was invested in a single deal closed in the CBD Duomo. German investors (which allocated about €80 million) and domestic investors (which allocated the remaining €20 million) are the next major players in line thanks to the purchase of assets in the CBD Porta Nuova.

In terms of investment volumes in the quarter, Logistics followed suit with approximately €165 million (approximately 25% of the total) in line with Q1 2020 but up three-digits compared to the Q1 average of the last 5 and 10 years. In terms of prime net yields, in Q1 2021 a q-o-q compression was recorded for Logistics in Milan, from 5.00% to 4.75%.

In Q1 2021, investments in Offices in Milan totalled approximately €130 million (around 19% of the quarterly total), down around 70% compared to Q1 2020 and the Q1 average of the last 5 years, and around 65% compared to the Q1 average of the last 10 years. There were 4 deals closed (compared to 6 in Q1 2020) which concerned semi-central and peripheral locations. As regards to Office prime net yields, in Q1 2021 q-o-q stability was recorded in all the sub-markets in Milan. In particular, the CBD Duomo and the CBD Porta Nuova remain at 3.20% and 3.60% respectively for the second consecutive quarter.

In terms of contribution to total volumes in Q1 2021, Alternative Products followed Offices with around €100 million (approximately +16% compared to Q1 2020) with 4 deals closed, including one relating to a care home.

Investments in Retail trailed behind in the city in Q1 2021, totalling around €13 million attributable to two deals relating to a Supermarket and High Street products. For the High Street segment, in Q1 2021 prime net yields remained stable in Milan at 3.40% (for the third consecutive quarter). There were no investments in the Hotel sector in the city in Q1 2021.

Finally, in terms of origin of capital, approximately 90% of the total capital invested in Milan in Q1 2021 was international: around €590 million was invested, representing an increase of about 35% compared to Q1 2020. Among foreign capital, the US dominated with about €340 million (covering about ten deals), mainly allocated to Mixed Products and Offices, followed by Asian capital totalling about €100 million invested entirely in a Logistics portfolio deal (which also included other locations in Italy) and by Germany with about €85 million (for two deals) almost entirely allocated to the above-mentioned deal relating to the Mixed Products sector.

MILAN Q1 2021
€665 M

56% *of Italy total*
Stable *vs. Q1 2020*

MIXED
€258 M *vs. €0 in Q1 2020*
40% *of Milan total*

LOGISTICS
€164 M *- Q1 2020*
25% *of Milan total*
Prime net yield Q1 2021
4.75% -25 bp

OFFICE
€128 M *-70% vs. Q1 2020*
19% *of Milan total*
Prime net yield Q1 2021
3.20% Stable

ALTERNATIVE
€102 M *+16% vs. Q1 2020*
15% *of Milan total*

RETAIL
€13 M *vs. €3 M in Q1 2020*
1% *of Milan total*
Prime net yield Q1 2021
3.40% Stable

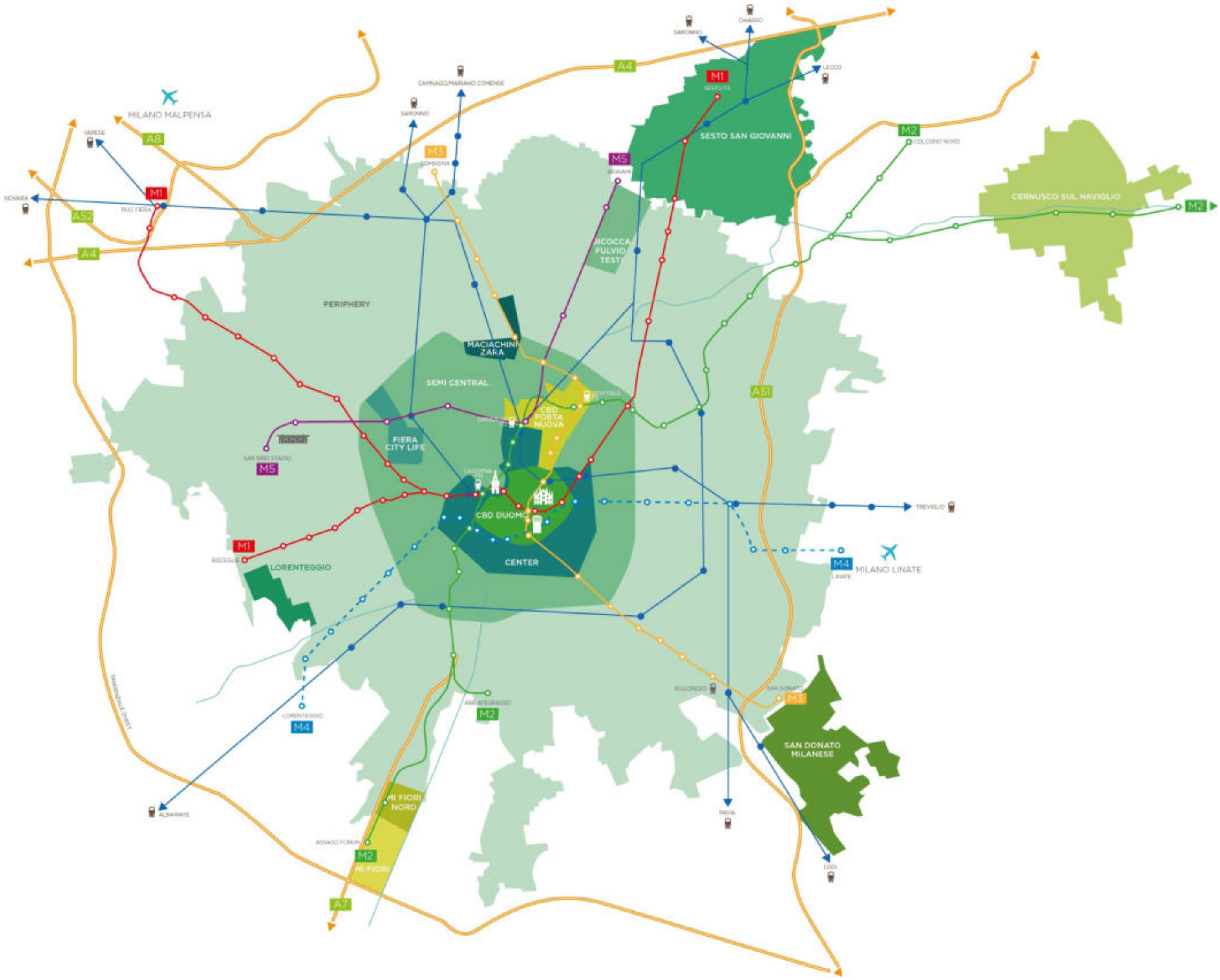
Hotel €0 = Q1 2020

BNP Paribas Real Estate Research Italy

Prime net yields have to be read as an indication of market trends. The levels are established as a mix between market sentiment and values of deals actually closed during the reference period.

OFFICE MARKET MAP–MILAN

- CBD Duomo
- CBD Porta Nuova
- Centre
- Semicentre
- Periphery



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