



**CITY NEWS
MILAN
Q1 2020**

MILAN COMMERCIAL REAL ESTATE INVESTMENT MARKET AND OFFICE LEASING

Decreasing performance with respect to Q1 2019 both for the investment market and for the Office take-up

THE OFFICE LEASING MARKET

The analysis reveals a take-up in Q1 2020 of nearly 104,000 sqm in the Milan Office leasing market, down about 20% compared to both Q1 2019 and Q4 2019.

Take-up performance in the first quarter of 2020, however, exceeded the 5 year and 10 year reference averages (approximately +10% and +30%, respectively).

It should be noted that in Q1 2020 the final result was influenced by the completion of a large size Pre-Let transaction (about 41,000 sqm) in the Periphery.

The analysis of the different districts of Milan reveals a buoyant performance only in the Periphery sub-market, compared to Q1 2019. More specifically, in this district take-up was equal to about 65,400 sqm (approximately 63% of the total quarterly take-up in Milan), growing about 145% compared to the same period of 2019, as a result of the already mentioned pre-let transaction relating to a surface of about 41,000 sqm.

In Q1 2020 take-up in the Hinterland was equal to about 12,100 sqm, plummeting 75% vs. Q1 2019 (that had been the best Q1 ever in this district due to the closing of a relevant pre-let deal). Also the Semicentre and the Centre reported a negative perfor-

mance in terms of leased spaces compared to Q1 2019, with 8,550 sqm (about -10%) and 6,230 sqm (about -7%), respectively. In CBD Porta Nuova take-up slightly exceeded 6,000 sqm (about -28% vs. Q1 2019). Finally, in CBD Duomo spaces were leased for about 5,400 sqm, plunging 80% vs. Q1 2019 that, however, has been the second best Q1 ever for this sub-market. The underperformance recorded in CBD Duomo in Q1 2020 is attributable to a lower number of transactions completed (14 against 21 in Q1 2019).

As to the size of closed deals, also in Q1 2020 demand focused on spaces with a surface below 1,000 sqm in 70% of cases. In the first quarter of this year only two deals over 5,000 sqm were reported.

With regard to rents, Q1 2020 data show a majority of transactions with rents below 300 €/sqm/year (about 70% of the deals with a known rent amount). It is worth noting 3 transactions closed in Q1 2020 with rents over 500 €/sqm/year, all relating to CBD Duomo and with tenants operating in the Service sector.

As to Office prime rents, values were stable q-o-q compared to Q4 2019 in all Milan sub-markets. In CBD Duomo prime rents

remained stable at 600 €/sqm/year for the fourth consecutive quarter.

With regard to supply, the Milan aggregate vacancy rate remained stable against Q4 2019 at 9.8%. Extremely low vacancy rates were confirmed in the two CBDs and in the Centre (around 2-2.5%).

The total Office spaces immediately available in the city covered a surface of 1,178,500 sqm and mainly included grade B spaces (about 50% of the total vacant spaces) and grade C spaces (about 30%) concentrated in the Periphery and in the Hinterland. In Milan, total vacant grade A spaces amount to 264,000 sqm (about 20% of total vacant surfaces), including only 29,100 sqm located in the two CBDs and in the Centre.

Take away Q1 2020

Office take-up decrease with respect to Q1 2019

A relevant pre-let deal in the Periphery

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

THE INVESTMENT MARKET

Take away Q1 2020

Investments decrease with respect to Q1 2019

Office volumes decrease, good performance for the Logistics

Prime net yields stability q-o-q for all asset classes

In Q1 2020, the commercial real estate market in Milan reported investments for about €665 million (approximately 40% of the total investment volume in Italy), down about 30% compared to the same period of 2019. The result, however, is in line with the last Q1 5 year and 10 year average values.

The downtrend recorded against Q1 2019 was mainly due to decreasing investments and to the lower number of transactions in the Office sector: about €440 million in Q1 2020 (-45% approximately vs. Q1 2019) and 6 transactions closed against 11 in Q1 2019. It should be recalled, however, that the first quarter of last year had been the best Q1 ever for the Milan Office product. Three out of six transactions closed in the first quarter of 2020 concerned Offices located in CBD Duomo (about 65% of the total Office volume in Milan).

With regard to the nationality of the investors who purchased Office assets in Q1 2020, about 60% of total investments was made by international investors.

German investors closed the most relevant acquisition in terms of investment volumes in CBD Duomo, accounting for about 50% of total Office investments in the city.

Other international investments in the Milan Office sector were made by U.S. and

Australian investors.

Prime net yields in the Office sector were stable q-o-q in all Milan sub-markets. In particular, CBD Duomo remained stable at 3.30% and CBD Porta Nuova at 3.70% for the seventh consecutive quarter.

In the first quarter of 2020, it is worth noting the good performance of the Milan Logistics sector, with about €135 million investments (3 transactions) compared to about €8 million in the same period of 2019. In Q1 2020, all investment volumes originated from foreign investors and, more specifically, from the United Kingdom for about €75 million (corresponding to 2 transactions) and from South Africa for about €60 million (corresponding to one transaction). Prime net yields in the Logistics sector in Milan have also remained stable at 5.25% from Q2 2018.

Alternative products followed in terms of volumes reported in the city in Q1 2020, with investments worth approximately €90 million (8 transactions), mainly referable to real estate developments.

To conclude the analysis by asset classes, in Q1 2020 the Retail in Milan reported about €3 million investments, decreasing against about €100 million in Q1 2019. More specifically, two transactions were closed: one concerning the acquisition of a supermarket in the Semicentre and the other relating to a small High Street portfolio with assets located in different areas of the city. Prime net yields in the High Street segment in Milan remained stable at 3.10% for the fourth consecutive quarter.

In the first quarter of the year no transactions were reported in the Hotel sector in Milan.



MILAN Q1 2020 €664 M

40% of Italy total
-30% vs. Q1 2019



OFFICE

€437 M -45% vs. Q1 2019

66% of Milan total

Prime net yield 3.30% =



LOGISTICS

€136 M vs. €8 M in Q1 2019

20%

5.25% =



ALTERNATIVE

€88 M +13% vs. Q1 2019

13%



RETAIL

€3 M -9% vs. Q1 2019

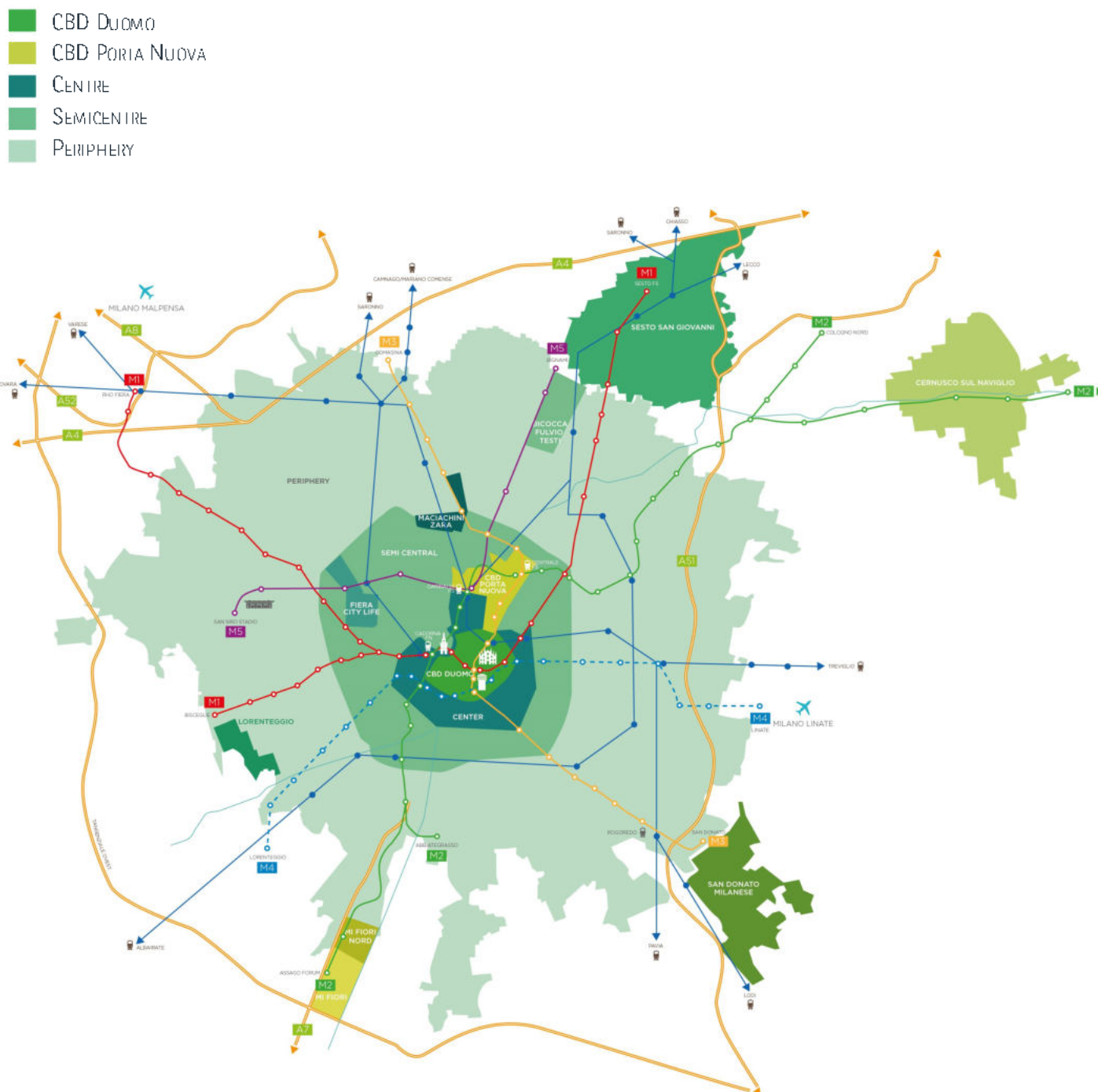
1%

HS 3.10% =

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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



6 BUSINESS LINES in Europe A 360° vision

BNP Paribas Real Estate Italy

MILAN

Piazza Lina Bo Bardi, 3
20124 Milan
Phone: +39 02 5833 141

ROME

Via Salandra, 13
00187 Rome
Phone: +39 06 4200 6020

Contact

RESEARCH

Cristiana Zanzottera

Head of Research

Phone: +39 02 3211 5357

cristiana.zanzottera@bnpparibas.com

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