



**RESEARCH**

**CITY NEWS  
MILAN  
Q2 2020**

# MILAN COMMERCIAL REAL ESTATE INVESTMENT MARKET AND OFFICE LEASING

**For the Office leasing market a decreased quarterly performance compared to 2019. Growth for the investment market: Q2 2020 being the best Q2 ever for the Office product in the city**

## THE OFFICE LEASING MARKET

In Q2 2020 the Milan Office leasing market recorded a take-up of slightly less than 64,000 sqm: below both the figure of the corresponding quarter of the past year and also the last 5-year and 10-year related averages (approximately -45%, -35% and -27%, respectively). The number of completed transactions also dropped: 28 in Q2 2020 (one of the lowest values in the last 10 years) compared to 75 in Q2 2019.

In the first half of 2020, the Milan Office take-up amounted to nearly 166,500 sqm, approximately 31% lower than the value recorded in the same period of 2019 and approximately 13% below the H1 average of the last 5 years (but in line with the H1 average of the last 10 years).

The analysis of the sub-markets in Milan reveals that, in Q2 2020, approximately 60% of the take-up concentrated in CBD Porta Nuova, as a result of a considerable owner-occupier deal closed for approximately 24,000 sqm by a tenant operating in the banking-financial sector. This was the only sub-market showing a positive quarterly performance in terms of take-up compared to Q2 2019 (approximately +160%). More specifically, the sub-markets of CBD Duomo, Semicentre and Hinterland were down approximately 90% take-up in

the Centre dropped approximately 75% and in the Periphery approximately 45%.

Conversely, on a half-year basis, both the CBD Porta Nuova (approximately +87%) and the Periphery (approximately +45%) recorded an uptrend compared to the first half of 2019. All the other sub-markets confirmed also on a half-year basis the negative performance mentioned above concerning Q2.

Demand for Office spaces in Milan in the six-month period just ended concentrated on sizes smaller than 1,000 sqm (for approximately 65% of total deals). In the second quarter of the year, only two deals exceeded 5,000 sqm in size.

With regard to rents, H1 2020 data show that the majority of the transactions included rents below 300 €/sqm/year (for approximately 65% of the deals closed with known rent amount). It should be noted that in Q2 2020 two deals were completed with a rent exceeding 500 €/sqm/year: one in CBD Duomo and the other in CBD Porta Nuova. Both were completed by tenants operating in the Services sector.

As to Office prime rents, in Q2 2020 rents remained in line with Q1 2020 values across all sub-markets in Milan with CBD Duomo at 600 €/sqm/year for the fifth con-

secutive quarter.

With regard to Office supply, the aggregate vacancy rate in Milan rose from 9.8% in Q1 2020 to 10.3% in Q2 2020. It should however be noted that the vacancy rate in the two CBDs and the Centre remained very low at approximately 2-3%.

The total Office spaces immediately available in the city covered a surface of approximately 1,230,000 sqm, mainly concentrated in the Periphery (approximately 47% of the total) and the Hinterland (approximately 38%). In terms of quality of the vacant spaces, it is worth noting that these are mainly grade B and C spaces. In the city, the total amount of grade A Office spaces is equal to approximately 285,000 sqm, including a total of nearly 39,000 sqm located in the two CBDs and the Centre.

### Take away Q2 2020

Office take-up decrease with respect to Q2 2019

A major deal in the CBD Porta Nuova

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

## THE INVESTMENT MARKET

### Take away Q2 2020

Investments increase with respect to Q2 2019

Great result for the Office product: the best Q2 ever in the city

Prime net yields stability q-o-q for Offices and Logistics. Decompression for High Street Retail

In Q2 2020, the commercial real estate market in Milan recorded investments comprehensively totalling €1.2 billion (approximately 57% of the total in Italy), up almost 23% compared to the same quarter of 2019, up nearly 33% compared to the Q2 averages of the last 5 years and up approximately 80% compared to the Q2 averages of the last 10 years.

This significant result was reflected in total investments in the first half of 2020 in Milan reaching approximately €1.8 billion, in line with the first half of 2019 but showing a growing trend compared to the 5-year and 10-year H1 averages (approximately +17% and +40%, respectively).

The excellent performance of the second quarter can be almost exclusively attributed to the investments made in the Office sector: in Q2 2020 investments totalled slightly more than €1 billion (approximately 85% of the total investments in the Office sector in Italy in the quarter), up about 92% vs Q2 2019. In this same sector, seven deals were completed in the quarter, including two portfolios (one entirely located in Milan and the other including Milan and other locations).

It should be noted that Q2 2020 (with about €1 billion) and H1 2020 (with slightly less than €1.5 billion) confirmed to be the best Q2 and the best H1 ever in terms of investments in the Milan Office sector.

The breakdown of investors by nationality reveals that Office investments in Milan in the second quarter of 2020 were mainly covered by domestic capital (approximately €850 million). German investors closed a €140 million worth deal in CBD Duomo, while US investors made up for the remaining €40 million (namely the portfolio deal including various locations already mentioned above). Office prime net yields remained stable on a q-o-q basis across all sub-markets in Milan. More specifically, CBD Duomo and CBD Porta Nuova recorded 3.30% and 3.70%, respectively, for the eighth consecutive quarter.

The Alternative Product sector followed suit in terms of investment volumes in the quarter with slightly more than €100 million of investments deriving from the completion of four transactions.

In Q2 2020 Retail investments accounted for less than €10 million, resulting from one single portfolio transaction in the High Street segment. It should be noted that prime net yields in the High Street sector in Milan decompressed from 3.10% to 3.25% in Q2 2020 after a year in which values had remained stable.

In the second quarter of 2020, no transactions were closed in the Logistics, Hotels, and Mixed Products sectors in Milan. Prime net yields in the Logistics sector remained stable at 5.25%.



**MILAN Q2 2020**  
**€1,160 M**

**57%** of Italy total  
**+23%** vs. Q2 2019



### OFFICE

**€1,047 M** +92% vs. Q2 2019

**90%** of Milan total

Prime net yield **3.30%** =



### ALTERNATIVE

**€106 M** vs. €10 M in Q2 2019

**9%**



### RETAIL

**€7 M** vs. €282 M in Q2 2019

**1%**

**HS 3.25%** +15 bp

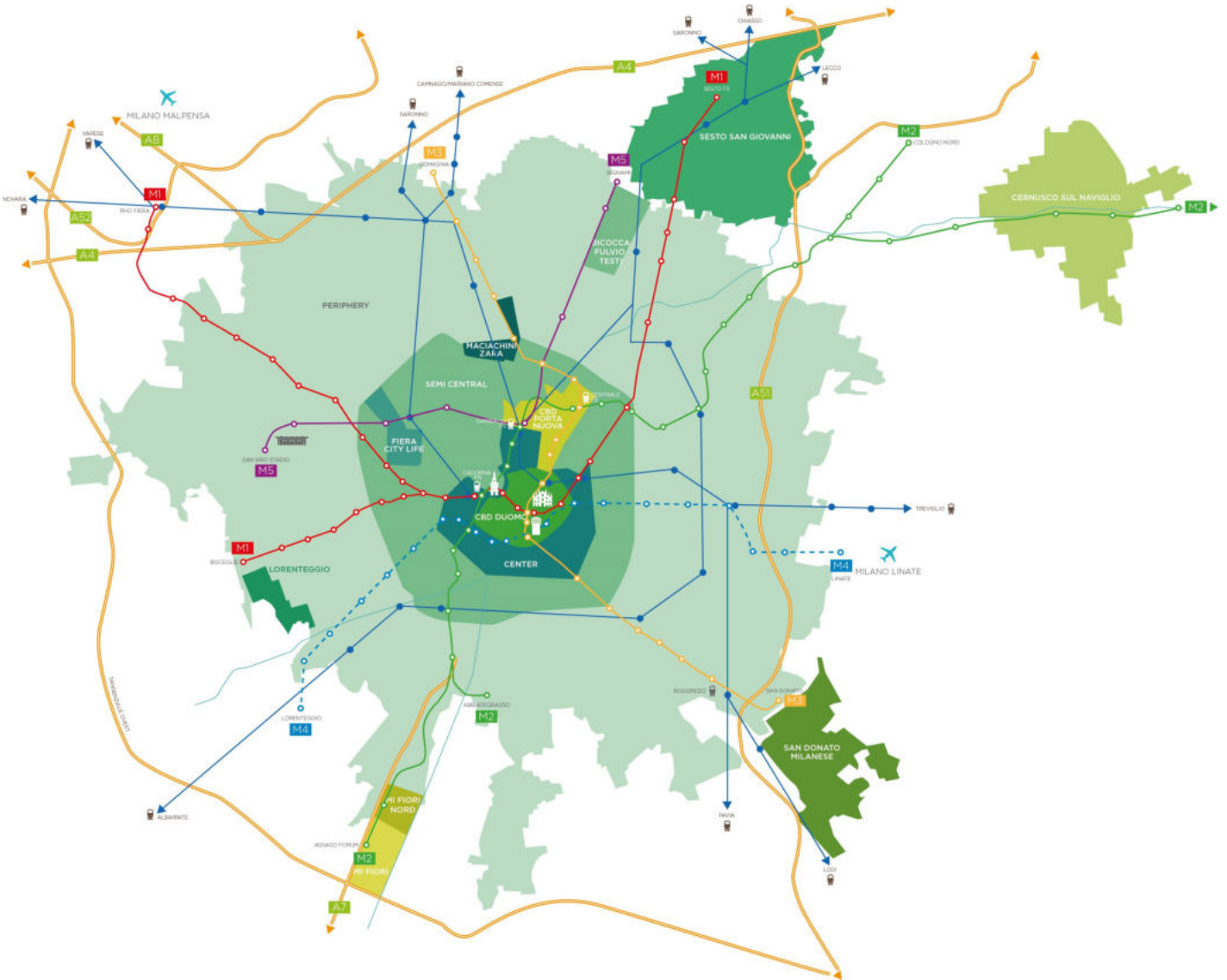
Logistics €0 vs. €22 M in Q2 2019; Hotel €0 vs. €41 M in Q2 2019; Mixed Products €0 vs. €44 M in Q2 2019.

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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

- CBD DUOMO
- CBD PORTA NUOVA
- CENTRE
- SEMICENTRE
- PERIPHERY



# 6 BUSINESS LINES in Europe A 360° vision

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