



**RESEARCH**

**CITY NEWS  
MILAN  
Q3 2020**

# MILAN COMMERCIAL REAL ESTATE INVESTMENT MARKET AND OFFICE LEASING

**Quarterly performance undersized compared to 2019 for the Offices leasing market. Growth for the investment market with a Q3 that for the Office product was the best ever in the city**

## THE OFFICE LEASING MARKET

In Q3 2020 the Milan Office leasing market recorded a take-up of slightly less than 33,000 sqm, below both the figure of the corresponding quarter of the past year and also the Q3 last 5-year and 10-year averages (approximately -70%, -55%, and -50%, respectively). The number of completed transactions also dropped consistently: 30 transactions in Q3 2020 compared to 78 in Q3 2019.

In the first nine months of 2020, the Milan Office take-up amounted to nearly 196,000 sqm, approximately 45% lower than the value recorded in the same period of 2019 and also below the 9-month average of the last 5 years and 10 years (approximately -27% and -14%, respectively).

The analysis of the different sub-markets in Milan reveals that, in Q3 2020, approximately 70% of the take-up concentrated in the Hinterland thanks to the completion, among others, of two significant transactions each for spaces ranging from 9,000 sqm to 10,000 sqm. This was the sub-market showing the lowest take-up reduction compared to Q3 2019: approximately -10% against the much higher values recorded for the other sub-markets. More specifically, the Semicentre and the Periphery were down approximately 90% compared to Q3 2019,

CBD Duomo and CBD Porta Nuova dropped approximately 85% and the Centre approximately 80%. Also considering the first nine-months of 2020, all the Milan sub-markets confirmed a negative performance compared to the previous year, except for the CBD Porta Nuova, which, instead, remained in line with the previous year.

Going back to the take-up analysis in absolute terms in Q3 2020 to be signaled that the Hinterland sub-market is followed by the CBD Porta Nuova (at a certain distance) with approximately 12% of total take-up recorded. For the rest, CBD Duomo and the Semicentre contributed approximately 5% each to the total while the remaining sub-markets totalled less than 5% each.

Demand for Office spaces in Milan in the first nine months of 2020 concentrated on sizes smaller than 1,000 sqm in 70% of the cases. More specifically, in Q3 2020 only two deals exceeded 5,000 sqm in size.

With regard to rents, in the first nine months of 2020 data show that the majority of the closed transactions included rents below 300 €/sqm/year (for approximately 65% of the deals with known rent amount).

As to Office prime rents, in Q3 2020 levels

remained in line with Q2 2020 values across all sub-markets in Milan with CBD Duomo at 600 €/sqm/year for the sixth consecutive quarter.

With regard to Office supply, the aggregate vacancy rate in Milan decreased from 10.3% in Q2 2020 to 10.1% in Q3 2020. It should however be noted that the vacancy rate in the two CBDs and the Centre remained very low at approximately 2-4%.

In Q3 2020, the total Office spaces immediately available in Milan covered a surface of approximately 1,205,800 sqm concentrated in the Periphery (approximately 45% of the total) and in the Hinterland (approximately 38%). In terms of quality, it should be noted that these vacant spaces are mainly characterised by grade B quality (for approximately 590,000 sqm). The amount of grade A Office spaces currently available in the CBD Duomo, CBD Porta Nuova and Centre is equal to a total of approximately 42,000 sqm.

### Take away Q3 2020

Office take-up decrease with respect to Q3 2019

Two relevant deals in the Hinterland sub-market

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

## THE INVESTMENT MARKET

### Take away Q3 2020

Investments increase with respect to Q3 2019

Great result for the Office product: the best Q3 ever in the city

Prime net yields stability q-o-q for Offices (except in the Hinterland), decompression for High Street Retail, compression for Logistics

In Q3 2020, the commercial real estate market in Milan recorded investments comprehensively totalling €1.3 billion (approximately 63% of the total in Italy), up almost 184% compared to the same quarter in 2019, nearly 75% compared to Q3 averages of the last 5 years and approximately 155% compared to the Q3 averages of the last 10 years.

This significant result was reflected in total investments in the first nine months of 2020 reaching approximately €3.1 billion compared to approximately €2.4 billion of the past year (approximately +30%). The same growing trend was also visible with respect to the averages of the first nine months of the last 5-year and 10-year (approximately +35% and +72%, respectively).

The excellent performance of the third quarter 2020 can be almost exclusively attributed to the investments made in the Office sector: approximately €650 million corresponding to nearly 75% of the total quarterly investments in Offices in Italy. Noteworthy is the buoyant performance of the Office market in Milan in Q3 2020 with twice the number of deals closed compared to Q3 2019 (12 vs 6).

It should also be noted that Q3 2020 (with approximately €650 million) and the first nine months of 2020 (with approximately €2.1 billion) confirmed to be the best Q3

and the best 9-month period ever in terms of investments in the Milan Office sector. The breakdown of investors by nationality reveals that Office investments in Milan in the third quarter of 2020 were covered by domestic capital for approximately €215 million for eight deals. French investors closed two transactions – one in the Semicentre and one in the Hinterland – for a total of approximately €235 million and Asian investors closed two additional deals for a total of nearly €100 million in the CBD Duomo and in the Hinterland. Prime net yields remained stable on a q-o-q basis in all the Milan sub-markets, except for the Hinterland which recorded a decompression from 7.00% to 7.10% in Q3 2020. In particular, the CBD Duomo and the CBD Porta Nuova remained stable at 3.30% and 3.70%, respectively for the ninth consecutive quarter.

Logistics followed suit in terms of investment volumes in Q3 2020 in Milan accounting for slightly more than €400 million (corresponding to approximately 80% of the total in Italy in the sector in the quarter) with seven transactions. Prime net yields in Logistics compressed from 5.25% (a figure maintained stable for nine consecutive quarters) to the current 5%.

In Q3 2020, the Alternative Product sector recorded investments for approximately €109 million deriving from the completion of four real estate development deals.

Lastly, in Q3 2020, investments in Mixed Products amounted to slightly more than €100 million thanks to the completion of a deal in the CBD Duomo regarding a mixed-use Office-Retail asset.

In Q3 2020, no deals were closed in the Hotel and Retail sectors in Milan. As to Retail, prime net yields for the High Street segment decompressed from 3.25% to 3.40% in the quarter of reference.



### MILAN Q3 2020 €1,265 M

63% of Italy total  
+184% vs. Q3 2019



#### OFFICE

€650 M +123% vs. Q3 2019

51% of Milan total

Prime net yield 3.30% =



#### LOGISTICS

€402 M vs. €65 M in Q3 2019

32%

Prime net yield 5% -25 bp



#### ALTERNATIVE

€109 M vs. €0 M in Q3 2019

9%



#### MIXED

€104 M vs. €0 M in Q3 2019

8%

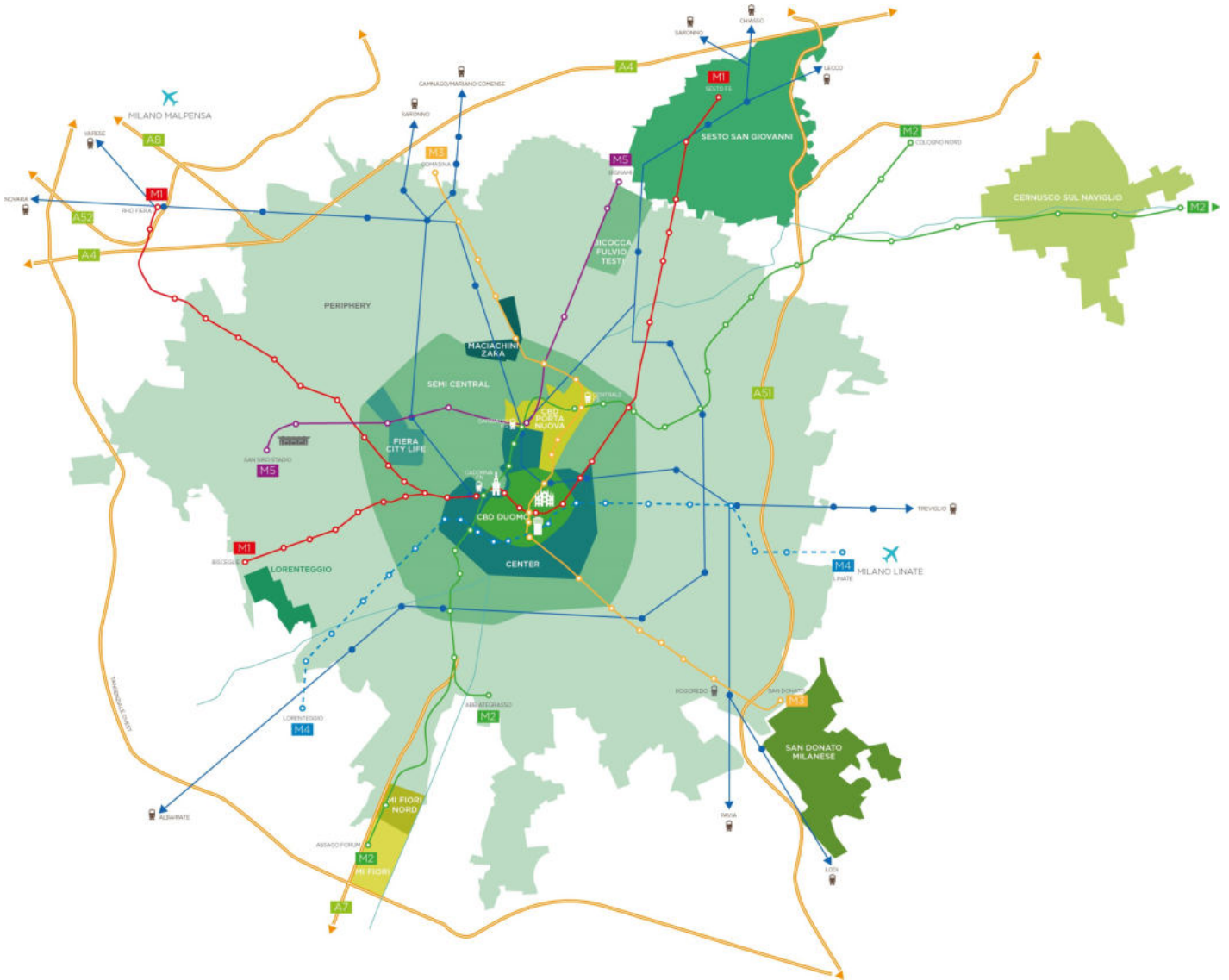
Retail €0 vs. €3 M in Q3 2019; Hotel €0 vs. €87 M in Q3 2019.

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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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