



**RESEARCH**

**CITY NEWS  
MILAN  
Q4 2020**

# MILAN COMMERCIAL REAL ESTATE INVESTMENT MARKET AND OFFICE LEASING

**In Milan in 2020 undersized performance vs 2019 both for the Office leasing market and for the commercial real estate investment market**

## THE OFFICE LEASING MARKET

In 2020, the Milan Office leasing market recorded a negative performance with a total take-up equal to about 289,000 sqm: the lowest value ever registered in the last five years, down approximately 40% vs. 2019 (that was the best year ever), and down approximately 20% and 12% compared to the annual averages in the last 5 and 10 years. The number of completed transactions also dropped significantly: slightly less than 190 transactions were completed in 2020 compared to nearly 300 in 2018 and 2019.

More specifically, in Q4 2020 take-up slightly exceeded 93,000 sqm, down about 25% compared to Q4 2019 and down approximately 4% and 7% compared to the Q4 averages in the last 5 and 10 years, respectively. The number of completed transactions also decreased: 65 in Q4 2020 vs. 76 in Q4 2019.

From the analysis of the different sub-markets it results that in 2020 about 40% of take-up was concentrated in the Periphery with approximately 110,600 sqm (relating to 40 transactions). This result was impacted by the closing of a relevant pre-let deal in Q1 2020 for about 41,000 sqm by a tenant operating in the energy industry. CBD Porta Nuova and the Hinterland followed suit, with about 20% each of the total take-up, representing approxi-

mately 52,000 sqm (including a transaction completed in Q2 2020 for about 24,000 sqm by a tenant operating in the financial sector) and approximately 57,400 sqm (of which 20,000 sqm in Q4 2020), respectively. The Semicentre, CBD Duomo and Centre sub-markets accounted for about 10%, 8% and 6%, respectively, of 2020 total take-up. It should be noted that take-up in all the Milan sub-markets recorded a negative performance compared to 2019: about -15% in CBD Porta Nuova and the Periphery, about -50% in the Hinterland, about -60% in the Semicentre and about -65% in CBD Duomo and the Centre.

From the analysis it also resulted that approximately 67% of the transactions completed in 2020 were below 1,000 sqm. It should be noted that about ten deals of a size exceeding 5,000 sqm (three of which were closed in Q4 2020) were recorded during the year.

With regard to rents, about 60% of the transactions completed in 2020 with known rent were equal to a value below 300 €/sqm/year. It is worth noting, however, about 10% of the deals closed during the year at a rent exceeding 500 €/sqm/year.

As to Office prime rents, levels remained stable on a q-o-q basis in all sub-markets in Milan. More specifically, CBD Duomo,

CBD Porta Nuova and the Centre remained stable at 600 €/sqm/year, 510 €/sqm/year and 470 €/sqm/year, respectively, for the seventh consecutive quarter.

With regard to Office supply in Milan in Q4 2020, it has been observed that the aggregate vacancy rate was equal to 10.1%, with a total of approximately 1,215,000 sqm of vacant spaces. It is worth noting, however, that in the central areas (two CBDs and the Centre) the vacancy rate remained low and in a range between 3% and 5%. More specifically, in these three sub-markets the total vacant spaces corresponded to nearly 130,000 sqm (nearly 10% of the total vacant spaces in Milan) including approximately 60,000 sqm of grade A. However, most of the vacant spaces in the city are concentrated in the Periphery and in the Hinterland where they reached about 990,000 sqm in Q4 2020, of which about 750,000 sqm are of a lower quality (grade B and C).

### Take away Q4 2020

Office take-up decrease with respect to Q4 2019: approximately -25%

Approximately 32% of the quarterly take-up in the Periphery

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

## THE INVESTMENT MARKET

## Take away Q4 2020

**Total investments decrease with respect to Q4 2019: approximately -70%**

**Office volumes: approximately -85% vs. Q4 2019**

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

At the end of 2020, the commercial real estate market in Milan closed with about €3.9 billion investments (approximately 45% of the total in Italy). The 2020 result was below the one recorded in 2019 (approximately -23%), in line with the five-year annual average and over the ten-year annual average (approximately +37%).

The Milan commercial real estate market underperformed also in Q4 2020, with an investment volume of about €800 million: approximately -70% compared to Q4 2019, and approximately -46% and -23% compared to the reference averages of last five and ten years.

The investment volume driver in Milan remained the Office sector with about €2.5 billion investments in 2020 (equal to 63% of the total volume in the city and to approximately 75% of the total Office volume in Italy), down about 35% vs. 2019, substantially in line with the annual average of the last five years, growing, however, compared to the annual average of the last ten years (+35% approximately). Office investments in the last quarter of 2020 were equal to about €340 million: approximately -85% vs. Q4 2019 (which, however, was the best quarter ever for the Office sector in Milan). More specifically, in Q4 2020 it is also worth noting a decreasing number of completed Office transactions not only compared to Q4 2019 (8 vs. 29) but also compared to the Q4 average of the last five years (about 20 transactions).

With regard to prime net yields, after nine consecutive quarters with a stable value, levels in the Office sector recorded a compression on a q-o-q basis in the two CBDs:

CBD Duomo went from 3.30% to 3.20% while CBD Porta Nuova from 3.70% to 3.60%. Conversely, prime net yields in the Office sector decompressed in the Hinterland sub-market from 7.10% to 7.20%.

In terms of investment volumes in 2020, Logistics followed the Office sector, though with much lower values, with about €700 million: approximately +70% compared to 2019. More specifically, 4 deals were closed in Q4 for a total of about €130 million. As to prime net yields, the Milan Logistics sector remained stable on a q-o-q basis at 5%.

In 2020 investments in Mixed Products and Alternative Products followed suit, with about €360 million each, confirming the uptrend that has been recorded over the last few years. It should be noted that in 2020 nearly all investments in Mixed Products in Milan can be attributed to the transfer of two assets for mixed Office/Retail use located in Milan CBD Duomo. It is worth noting that Alternative products include also the completion of a deal relating to student housing in addition to various residential development projects.

In 2020 investments in the Retail sector in Milan were almost nihil: €23 million in total, relating to a few small-size transactions regarding bank agencies and the High Street product. It should be noted that prime net yields in the Milan High Street segment remained stable on a q-o-q basis at 3.40%.

In 2020, no Hotel investments were recorded in the city.

Lastly, in 2020 approximately 46% of the total investments in Milan were made by domestic investors for about €1.8 billion, up approximately 32% compared to 2019.

Foreign capital investments were primarily made by German investors with about €770 million invested in the Logistics and Office sectors, followed by US investors, with about €480 million, and French investors, with about €380 million, that both invested mainly in the Office product.



## MILAN TOTAL 2020 €3,922 M

**45% of Italy total**  
**-23% vs. 2019**



### OFFICE

**€2,476 M** -35% vs. 2019  
**63% of Milan total**  
**Prime net yield Q4 2020**  
**3.20% -10 bp**



### LOGISTICS

**€699 M** +70% vs. 2019  
**18% of Milan total**  
**Prime net yield Q4 2020**  
**5% stable**



### ALTERNATIVE

**€364 M** vs. €66 M in 2019  
**9% of Milan total**



### MIXED

**€360 M** vs. €63 M in 2019  
**9% of Milan total**



### RETAIL

**€23 M** -95% vs. 2019  
**1% of Milan total**  
**Prime net yield Q4 2020**  
**3.40% stable**

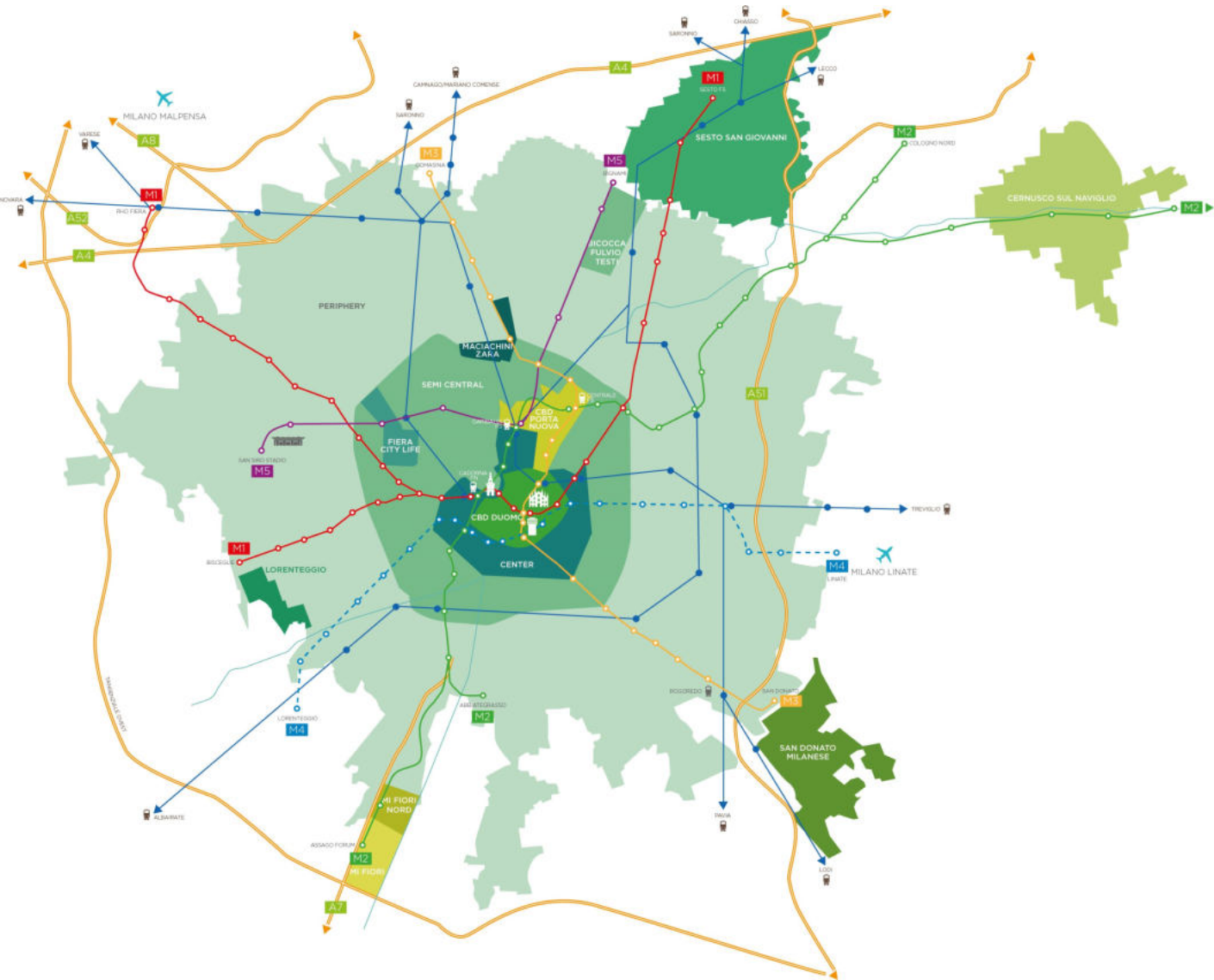
*Hotel €0 vs. €307 M in 2019*

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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





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