



**CITY NEWS
MILAN
Q2 2021**

MILAN COMMERCIAL REAL ESTATE INVESTMENT MARKET AND OFFICE LEASING

Q2 2021 vs Q2 2020: positive performance for the Office leasing market but undersized trend for the commercial real estate investment market

THE OFFICE LEASING MARKET

In Q2 2021 the analysis of the Milan Office leasing market showed an absorption of spaces equal to about 122,500 sqm, an increase both compared to the same period of 2020 and to the average of the Q2 of the last 5 and 10 years (about +90%, +20% and +40%, respectively). Increase also in the number of closed transactions: 75 in Q2 2021 compared to 28 in Q2 2020.

Thanks to this result, the first half of 2021 recorded in Milan an absorption of Office spaces equal to about 201,100 sqm, about 23% higher than that of the same period of 2020 and the H1 average of the last 10 years but in line with the H1 average of the last 5 years.

Moving on to the analysis of the different areas of Milan, in Q2 2021 all sub-markets recorded a relevant increase in the take-up compared to Q2 2020 with the exception of the CBD Porta Nuova which absorbed almost 13,000 sqm in the quarter, down by 70% compared to Q2 2020.

In Q2 2021, around 33% of the take-up was concentrated in the sub-market of the Centre thanks to the closure of a significant pre-let deal for around 35,000 sqm by a tenant belonging to the consultancy services sector. The Periphery sub-market

followed, accounting for around 30% of the quarterly take-up with around 37,700 sqm. Hinterland and CBD Porta Nuova both absorbed around 11% of the quarterly take-up with 13,600 sqm and 12,900 sqm, respectively. In the back, the Semicentre and the CBD Duomo that absorbed 9,500 sqm and 8,000 sqm, respectively.

Also in the semester just ended, the demand for Office spaces in Milan concentrated around 69% of the closed deals on a size of less than 1,000 sqm. A similar percentage is recorded in Q2. It should be noted that in the second quarter of the year 4 deals with a size of more than 5,000 sqm were registered.

With regard to rents, the H1 2021 data show a majority of deals with a rents level lower than 375 €/sqm/year (around 70% of the number of closed deals with known rents). This percentage reaches around 75% in Q2. It should be noted that in Q2 2021 there were 9 closed transactions at levels above 500 €/sqm/year.

In terms of Office prime rents, q-o-q stability is recorded compared to Q1 2021 in all Milan sub-markets with the CBD Duomo remaining at 600 €/sqm/year for the ninth consecutive quarter.

An analysis of the supply of Office spaces in Milan at Q2 2021 shows that the total availability is around 1,335,800 sqm with an aggregate vacancy rate of 11% (up compared to Q1 2021 which stood at 10.4%). However, it should be noted that in the central areas of the city (two CBDs and Centre) the vacancy rates remain low and between 3.5% and 5%. In particular, in these three sub-markets the total availability at Q2 is equal to almost 156,000 sqm (around 12% of the total vacant spaces in Milan) including around 67,000 sqm of grade A. Most of the space available in the city at Q2 2021 are concentrated instead in the Periphery and in the Hinterland with around 1,070,000 sqm of vacant spaces, including around 750,000 sqm of lower quality (B and C grade).

Take away Q2 2021

Office take-up increase with respect to Q2 2020

A relevant pre-let deal in the Centre

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

THE INVESTMENT MARKET

Take away Q2 2021

Decrease in total investments with respect to Q2 2020

Office volumes: approximately -70% vs. Q2 2020

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

The commercial real estate market in Milan recorded total investments in Q2 2021 of around €724 million (around 40% of the total Italy), down by around 38% compared to the same quarter of 2020, by around 18% compared to the average of Q2 of the last 5 years but in line with the Q2 average of the last 10 years.

Also the first semester just ended closes for the city of Milan with a decrease in investments compared to H1 2020: -25% for about €1.4 billion. Decrease (of about 12%) also compared to the H1 average of the last 5 years but in substantial alignment with the H1 average of the last 10 years.

By analysing the contribution of the various asset classes, in Q2 2021 the driver of the volumes in Milan is the Office product which records investments of around €322 million (around 96% of the total invested in Offices in Italy in Q2 2021), down both compared to Q2 2020 and to the average of the Q2 of the last 5 and 10 years (-70%, -44% and -26%, respectively). In Q2 2021, 9 Offices transactions were closed in the city including one portfolio deal (entirely located in Milan). As regards the nationality of the purchasers of the Offices product in Milan in Q2 2021, around €220 million were allocated from domestic capitals for 4 transactions (including a relevant indirect acquisition of shares). German investors have allocated around €60 million relating to a transaction on a single asset in the CBD Duomo, while the remaining €30 million were allocated from French and Austrian capitals.

As regards the Office prime net yields, q-o-

q stability was recorded in all the Milan sub-markets with the exception of the Hinterland which recorded a decompression from 7.20% to 7.30%. In particular, the CBD Duomo remains at 3.20% and the CBD Porta Nuova at 3.60% for the third consecutive quarter.

Then, in terms of volumes invested in the city during the quarter, Alternative Products followed with about €213 million invested relating to the closing of 7 transactions (including 3 residential development projects deals).

In Q2 2021, around €104 million were invested in Logistics in the Milan area and involved 3 transactions, including 2 portfolio deals. Prime net yields for Logistics in the city remained stable at 4.75% for the second consecutive quarter.

Subsequently, in the quarter, around €54 million were invested in Mixed Products and are attributable to 2 single asset transactions in the Semicentre.

The investments in the Hotel and Retail sectors are in the back, both of which record around €15 million, attributable respectively to the acquisition of: a Hotel in the Centre, a Supermarket and a portion of High Street Retail asset located in the CBD Duomo. Stability in Q2 2021 of prime net yields for High Street in Milan at 3.40% for the fourth consecutive quarter.

Finally, in terms of capital origin, in Milan in Q2 2021 around 60% of the total was national: around €420 million invested by domestic investors (more than half in Offices). The main foreign capitals invested in the city in the quarter were from the US with about €170 million (for 6 transactions) entirely allocated to Alternatives Products and Logistics, followed by the Germans with about €60 million invested entirely in an Offices deal (already mentioned) and by the French with about €35 million referring to 2 deals one in the Offices sector and the other in the Residential sector. The remaining €25 million were allocated in the quarter by British and Austrian capitals in the Hotel and Office sectors, respectively.



MILAN Q2 2021 €724 M

40% of Italy total
-38% vs. Q2 2020

OFFICE



€322 M -70% vs. Q2 2020

45% of Milan total

Prime net yield 3.20% =



ALTERNATIVE

€213 M +100% vs. Q2 2020

30% of Milan total



LOGISTICS

€104 M vs. €0 M in Q2 2020

14% of Milan total

Prime net yield 4.75% =



MIXED

€54 M vs. €0 M in Q2 2020

7% of Milan total



RETAIL

€16 M +130% vs. Q2 2020

2% of Milan total

Prime net yield 3.40% =



HOTEL

€15 M vs. €0 M in Q2 2020

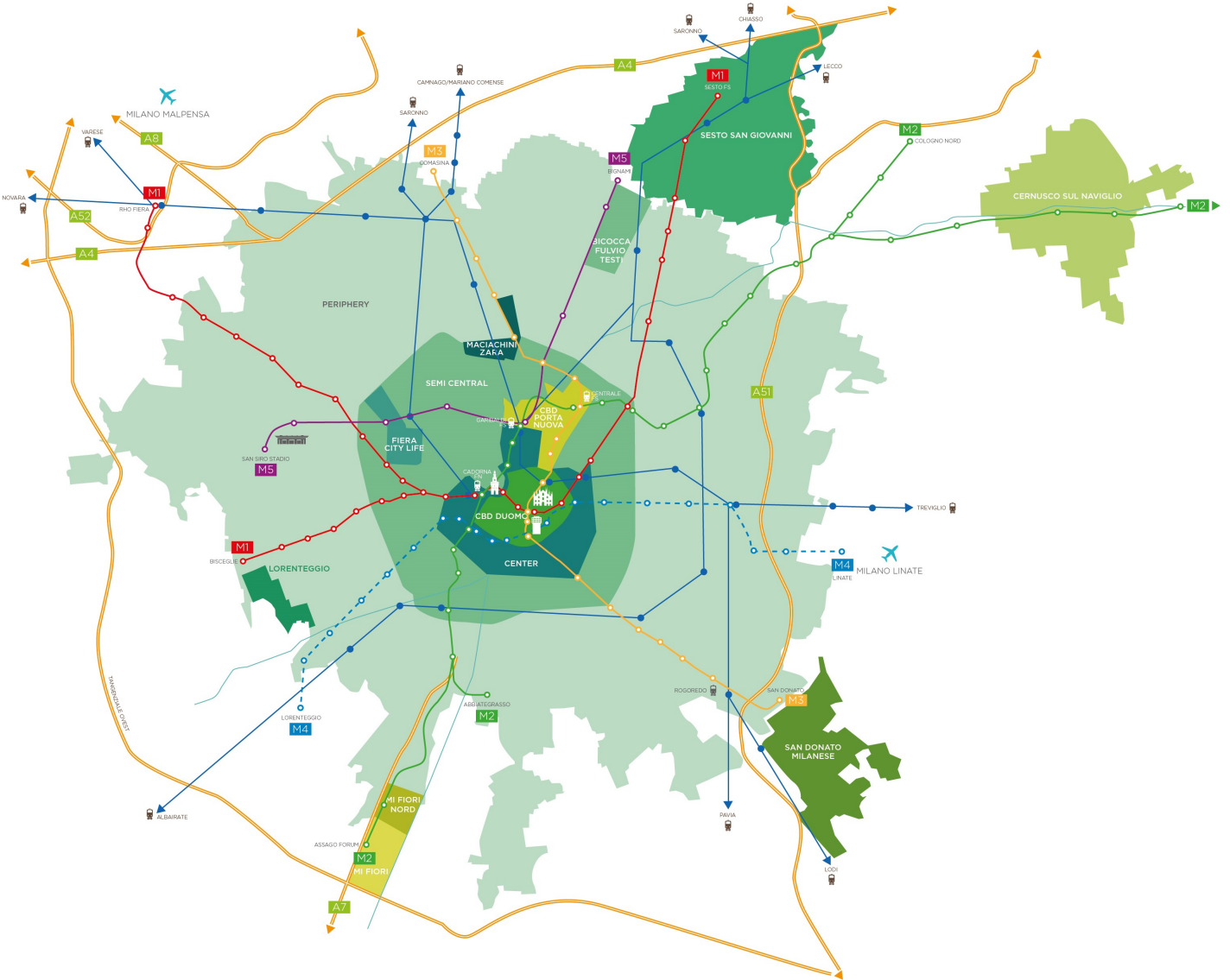
2% of Milan total

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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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