



RESEARCH

**CITY NEWS
MILAN
Q4 2021**

MILAN OFFICE RENTAL AND COMMERCIAL INVESTMENTS REAL ESTATE MARKET

Positive performance in Milan in 2021 compared to 2020 for both the Offices rental market and the commercial investment market.

THE OFFICES LEASING MARKET

Excellent performance in 2021 for the Offices Leasing market in Milan, which closed with a total take-up of about 385,000 sqm. This value is in line with the figures recorded in 2018 and compared to the annual average of the last 5 years, up compared to 2020 (around +33%) and compared to the annual average of the last 10 years (about +16%). Significant increase in the number of transactions closed in 2021 as well: just over 300 (in line with 2018 and 2019) compared to about 187 in 2020.

In particular, Q4 2021 showed an absorption of spaces equal to around 97,700 sqm: this is slightly up compared to Q4 2020 (around +5%), in line compared to the average of Q4 in the last 5 years and slightly down with respect to the average of the Q4 of the last ten years (around -4%). Increase in the number of transactions closed in the quarter as well: 94 in Q4 2021 compared to 65 in Q4 2020.

Moving on to the analysis of the various zones of the city, it should be noted that about 30% of the take-up in 2021 was concentrated in the Periphery with about 115,000 sqm taken up (in 70 transactions). This result was impacted by a significant deal owner occupier closed in Q2 2021 for about 20,000 sqm by a tenant belonging to the energy sector and in Q4 2021 thanks to a number of pre-Let deals for about 12,500 sqm closed by a tenant belonging to the beauty and cosmetics sector.

CBD Duomo CBD Porta Nuova, the Centre and

the Semi-centre follow, each of which absorbed about 14% of the total take-up and about 55,000 sqm, respectively (in Q2 2021 a significant pre-Let deal was closed in the Centre for about 35,000 sqm by a tenant belonging to the consulting sector).

The Hinterland accounted for about 13% on the total absorbed in 2021 (recording around 49,000 sqm). It should be noted that, in terms of trends, all the sub-markets in Milan recorded a take-up increase compared to 2020 with the sole exception of the sub-market of the Hinterland, which recorded a negative change compared to the previous year (about -15%). Delving deeper into the analysis, around 71% of the transactions closed in Milan in 2021 involved less than 1,000 sqm. It should be noted that about 11 deals with a size of over 5,000 sqm were registered during the year (of which five with a size of more than 10,000 sqm). With regard to rental fees, it was observed that about 50% of the transactions with a known rental fee related to levels of less than 300 €/sqm/year. However, 17% of deals closed at a rental fee level above €500/sqm/year are worth noting.

In terms of prime Offices rental fees, q-o-q stability during the quarter was recorded in all the sub-markets of Milan, with the exception of the CBD Duomo which recorded an increase and reached a level of 610 euro/sqm/year (from €600/sqm/year). CBD Porta Nuova

and the Centre remain respectively at 540 €/sqm/year and 500 €/sqm/year for the second quarter in a row.

By analysing the offer of executive Offices spaces in Milan at Q4 2021, it emerges that the overall availability is around 1,295,000 sqm with an aggregate vacancy rate of 10.6%. However, it should be noted that in the central areas of the city (two CBD and Centre) the vacancy levels remain low and between 3% and 6.5%. In particular, in these three sub-markets the total availability is equal to almost 156,000 sqm (around 12% of the total vacancy in Milan) including around 75,000 sqm of grade A. Most of the surfaces available in the city are concentrated instead in the Periphery and in the Hinterland with around 1,043,000 sqm of vacant spaces, of which around 727,000 sqm of lower quality (B and C grade), in Q4 2021.

Take away Q4 2021

Offices space absorption up on Q4 2020: about +33%

In the Periphery, about 40% of the quarterly absorption

Stable prime Offices rental fees q-o-q in all sub-markets with the exception of CBD Duomo which records an increase

THE INVESTMENT MARKET

Take away Q4 2021

Total investments up on Q4 2020: about +112%

Offices volumes: about +47% vs Q4 2020

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

The commercial real estate market in Milan closes 2021 with about €4 billion invested, equal to about 44% of the total Italy. The result for 2021 is slightly higher than that recorded in 2020 (about +3%), in line with the five-year annual average and growing compared to the ten-year annual average (about +30%).

Oversized performance in the city in Q4 2021 which recorded investment volumes of about €1.7 billion: doubled value in Q4 2020 and up compared to the reference averages of the last 5 and 10 years (about +7% and +42%, respectively).

The volume driver in Milan in 2021 is confirmed to be the Offices sector with about €1.7 billion invested (equal to 42% of the total in the city and about 79% of the total Offices in Italy), down both compared to 2020 and to the annual average of the last 5 and 10 years (around -32%, -31% and -13%). The volumes invested in Offices in the last quarter of 2021 amounted to about €500 million: around +47% compared to Q4 2020. In particular, in Q4 2021 there was also an increase in the number of closed Offices transactions compared to Q4 2020 (16 vs 8) but in line with the average recorded in Q4 of the last 5 years (about 18 transactions).

As regards the net prime yields of the Office product, stability was recorded in all the sub-markets of Milan with the exception of the CBD Duomo which recorded a contraction from 3.20% in Q3 2021 to 3.10% in Q4 2021. CBD Porta Nuova remains stable at 3.60% (for the fifth quarter in a row) and the Centre at 4% (for the fourteenth quarter in a row).

In terms of contribution to total volumes for 2021, the Offices follow, at a certain distance, Retail, which recorded exceptional volumes of about €890 million: a record value compared to 2020 when investments in this sector were non-existent and compared to the annual five-year and ten-year average (around +61% and 133%). In particular, €785 million were recorded in Q4, a record value for Retail in Milan. This result is almost entirely attributable to a significant portfolio transaction that involved various assets (including an important High Street asset located in CBD Duomo) and located in the CBD Duomo and the Centre. In the High Street segment, mention should be made of the q-o-q stability of net prime yields in Milan at 3.40%

Investments in Alternative Products follow in 2021 with about €660 million, confirming the growth trend recorded for some years now. It should be noted that almost all of the volumes invested in Alternative Products in Milan in 2021 is attributable to the Institutional Residential sector.

Logistics and Mixed Products registered about €300 million each in Milan in 2021. In terms of net prime yields, a q-o-q compression for Logistics in Milan from 4.50% in Q3 2021 to 4.00% at the end of 2021 was recorded.

The Hotel sector is in the back which in 2021 in Milan recorded investments of about €185 million, an increase compared to 2020 which had not had any investments in this asset class.

Finally, in terms of the capital source, in Milan in 2021 about 27% of the total was domestic: about €1.1 billion invested, down by about 40% compared to the 2020 value.

Among foreign capitals, the Americans dominated with about €2 billion invested mainly in Retail and Alternatives, followed by the French with about €275 million and by the Germans with about €270 million, both with investments mainly concentrated in the Offices product.



TOTAL MILAN 2021 €4.035 mln

**44% of total Italy
+3% vs 2020**



OFFICES

€1.693 mln -32% vs 2020
42% of the total city
Prime net yield Q4 2021
3,10% -10 pb



RETAIL

€888 mln vs €23 M in 2020
22% of total city
Prime net yield Q4 2021
3,40% stable



ALTERNATIVES

€660 mln +81% vs 2020
16% of the total city



MIXED

€312 mln -13% vs 2020
8% of the total city



LOGISTICS

€299 mln -57% vs 2020
7% of the total city
Prime net yield Q4 2021
4,00% -50 pb



HOTEL

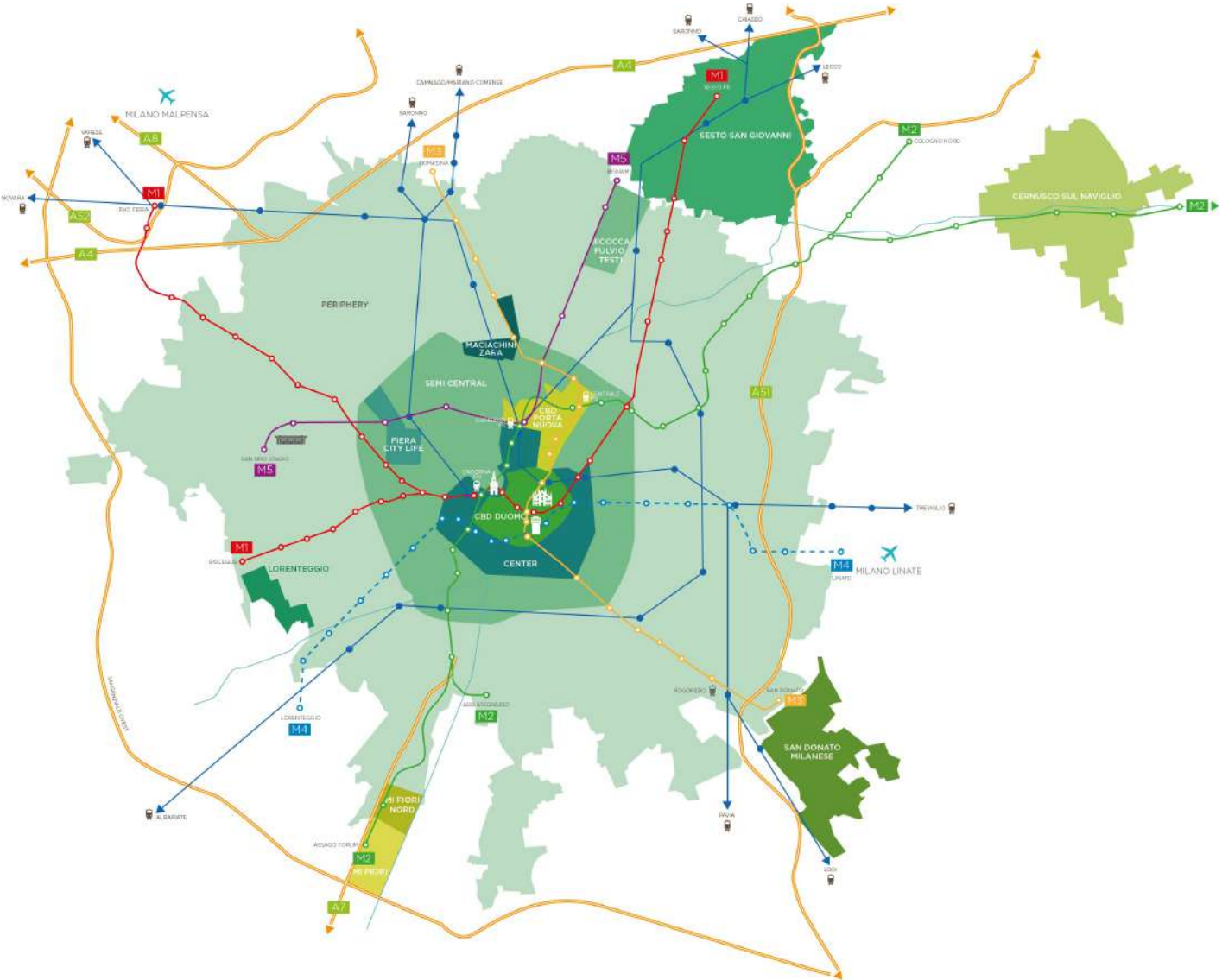
€183 mln vs €0 in 2020
5% of the total city

BNP Paribas Real Estate Research Italy

The net prime yields are to be read as a guide to indicate market trends. The levels are set as a mix between market sentiment and transaction values actually closed during the reference

OFFICE MARKET MAP - MILAN

- CBD DUOMO
- CBD PORTA NUOVA
- CENTRE
- SEMI-CENTRE
- PERIPHERY



6 BUSINESS LINES in Europe A 360° vision

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