

2023 | BNP PARIBAS REAL ESTATE ITALY

OFFICES

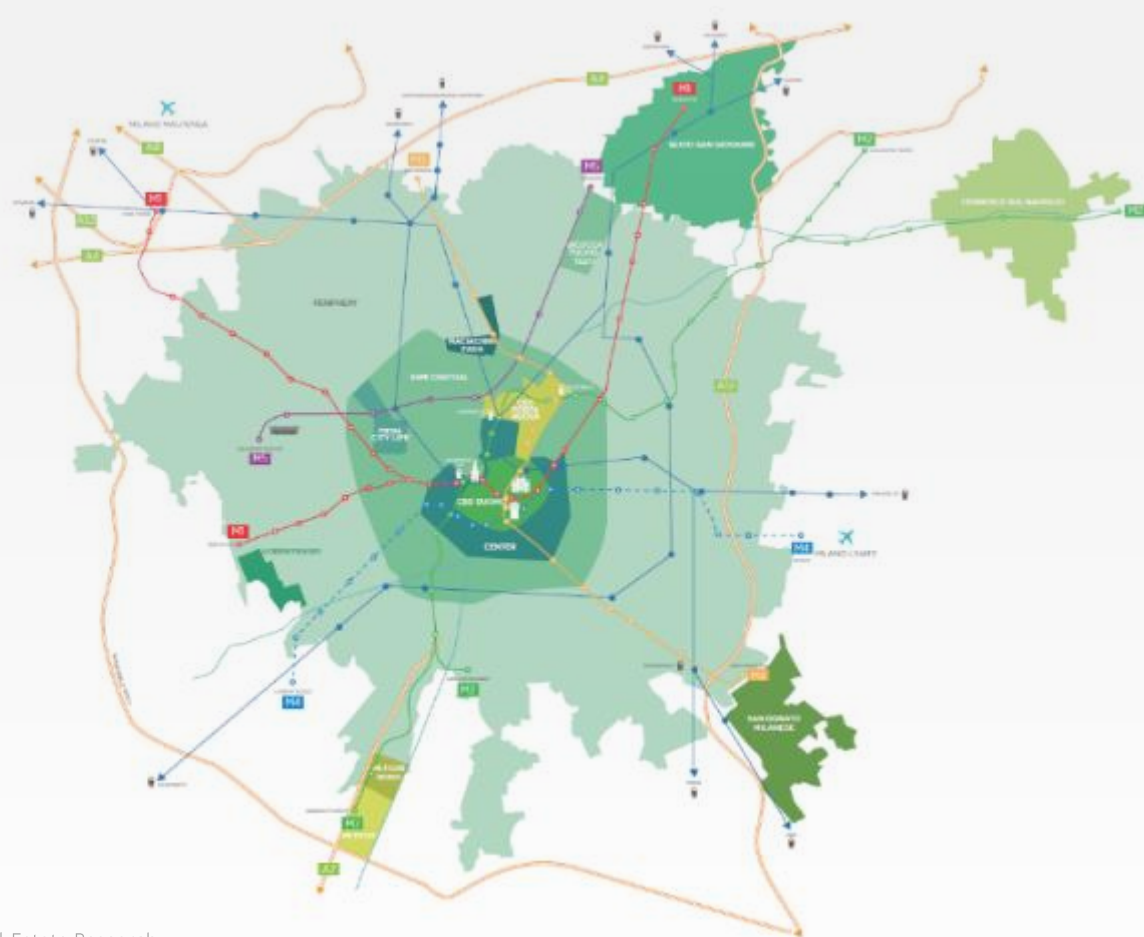
Milan



**BNP PARIBAS
REAL ESTATE**

Real Estate for a changing world

CLUSTERS



Sesto San Giovanni:
210 €/sqm/yr

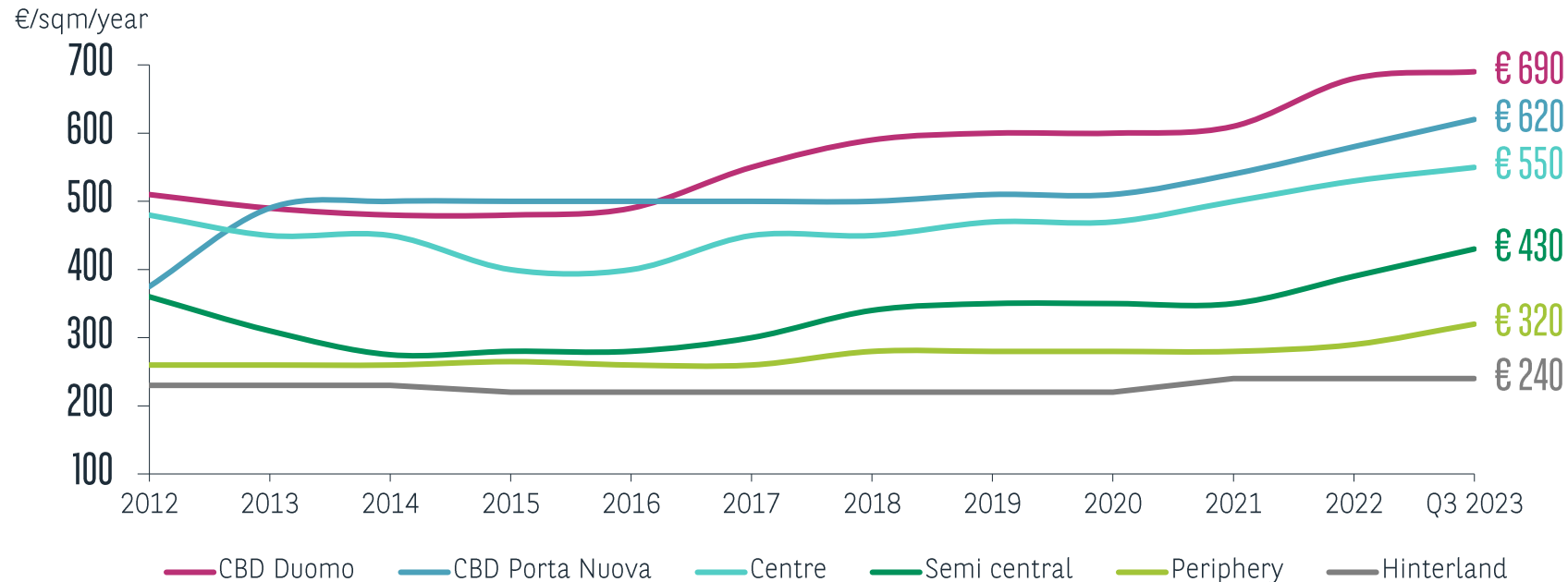
Prime office rents - growth across submarkets

After growth at the start of 2023, prime rental values remained stable in Q3 2023, despite experiencing some growth in CBD Porta Nuova and the Semicentre, to reflect strong demand and scarcity of high quality product, and the emergence of new submarket locations.

Occupier demand continues to polarise to often favour new build or recently refurbished premises which respects ESG criteria, often commanding higher rental levels.

Economic considerations were also seen to play an important role, with the proportion of take-up at rents in the higher bands significantly down compared to previous years, in both the Milan and Rome marketplaces.

PRIME RENTS BY SUBMARKETS



Source: BNP Paribas Real Estate Research

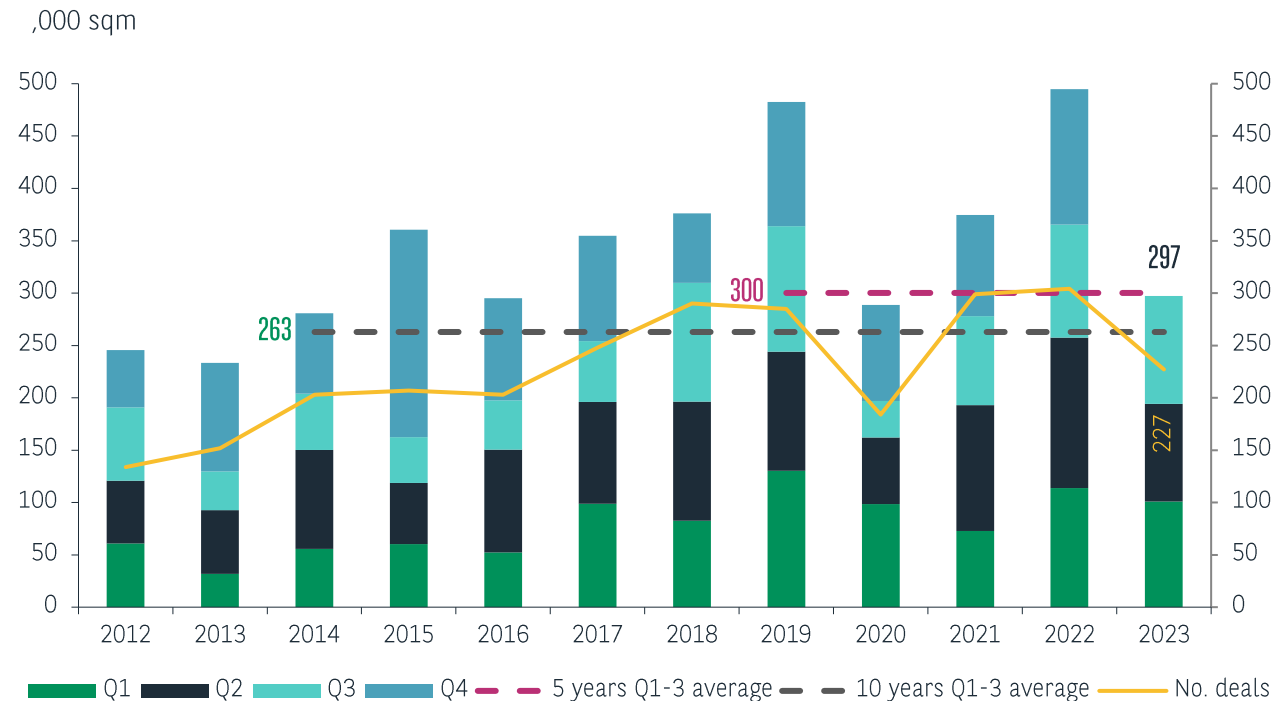


Take-up by quarter - market contracts Y-o-Y but remains dynamic

365k sqm
Q1-3 2022

-19%

297k sqm
Q1-3 2023



Source: BNP Paribas Real Estate Research

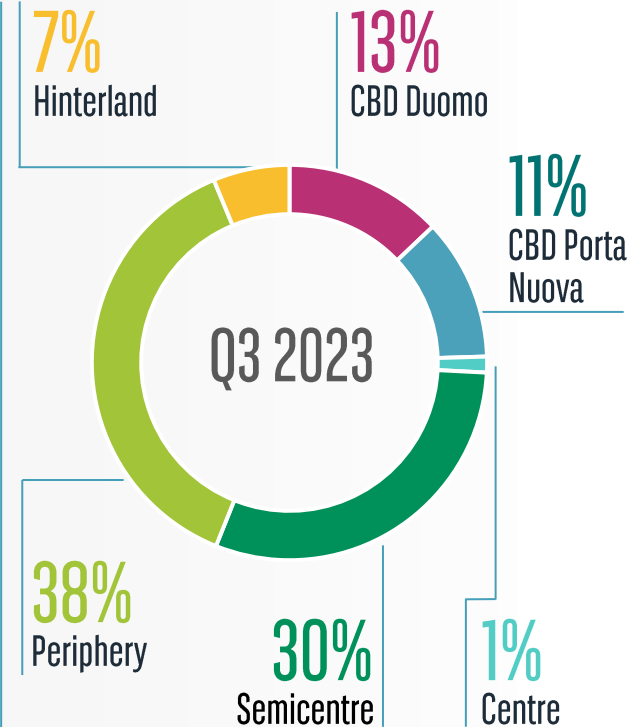
Milan take-up at the end of Q3 2023 reached 297,000 sqm, a -19% contraction Y-o-Y, of which 103,000 sqm in Q3 roughly stable Y-o-Y.

Ytd total take-up fell Y-o-Y but remained roughly in line with the 5-yr average and exceeded the 10-yr average, as economic concerns place pressure on occupiers and their real estate plans.

A total of 227 deals were closed in the first 9 months of the year in the the Milan market.

Demand in Milan's semicentre was strong, second only to the Periphery where higher supply and lower rental values attract occupiers.

After the Centre, where the supply of quality space is especially tight and limits take-up, the Hinterland accounted for least take-up as here demand is weaker.



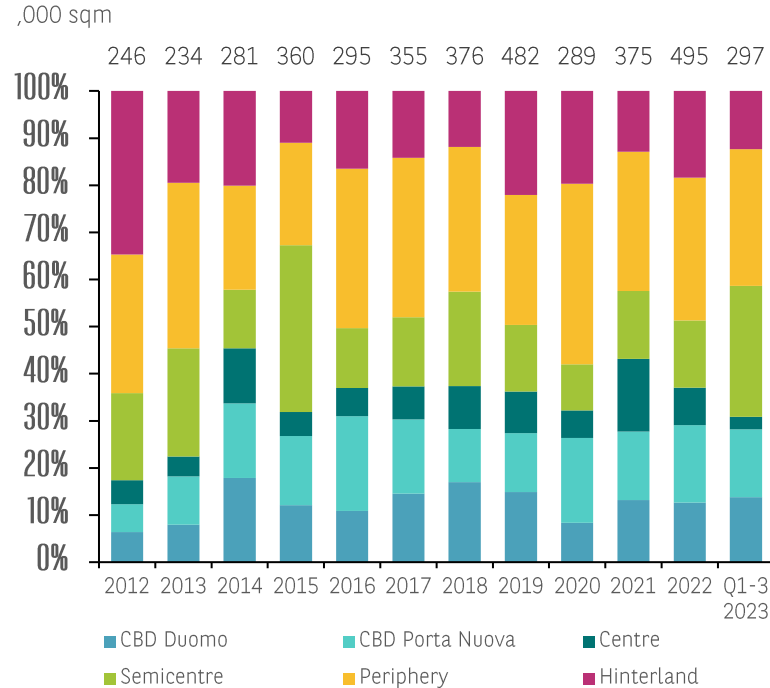
Office take-up analysis

Asset **QUALITY AND SUSTAINABILITY CRITERIA** remains a fundamental aspect of today's occupier market. In Q1-3 2023, Grade A premises accounted for three quarters of Milan's take-up, roughly stable Y-o-Y.

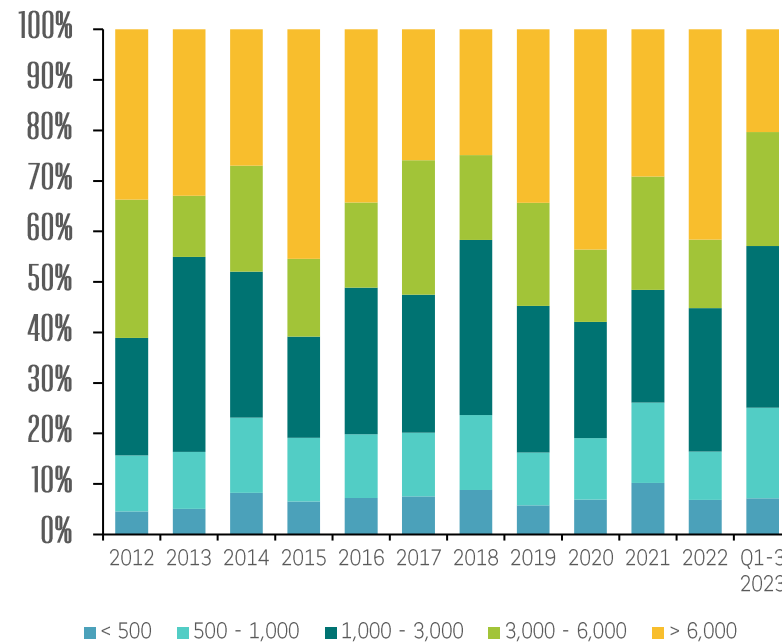
The role of larger **UNIT SIZES** in making up total take-up contracted very significantly in the first three quarters of 2023. Here, the majority of take-up in sqm related to deals in the 1,000 – 3,000 sqm size bracket in Q1-3 2023.

As far as regards **DEAL TYPE**, although we do not include sublettings in our take-up calculations, it is interesting to note that by the end of Q3 2023 the amount of space sublet had increased by 250% Y-o-Y, reminding us of the growing significance of cost saving which, alongside sustainability, is also a key driver in today's occupier market.

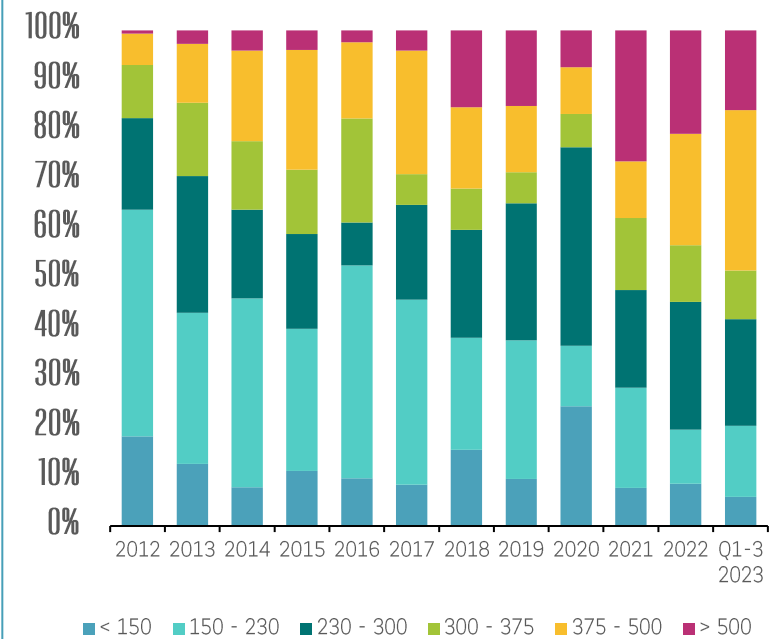
TAKE-UP BY SUBMARKET



TAKE-UP BY SIZE



TAKE-UP BY RENT



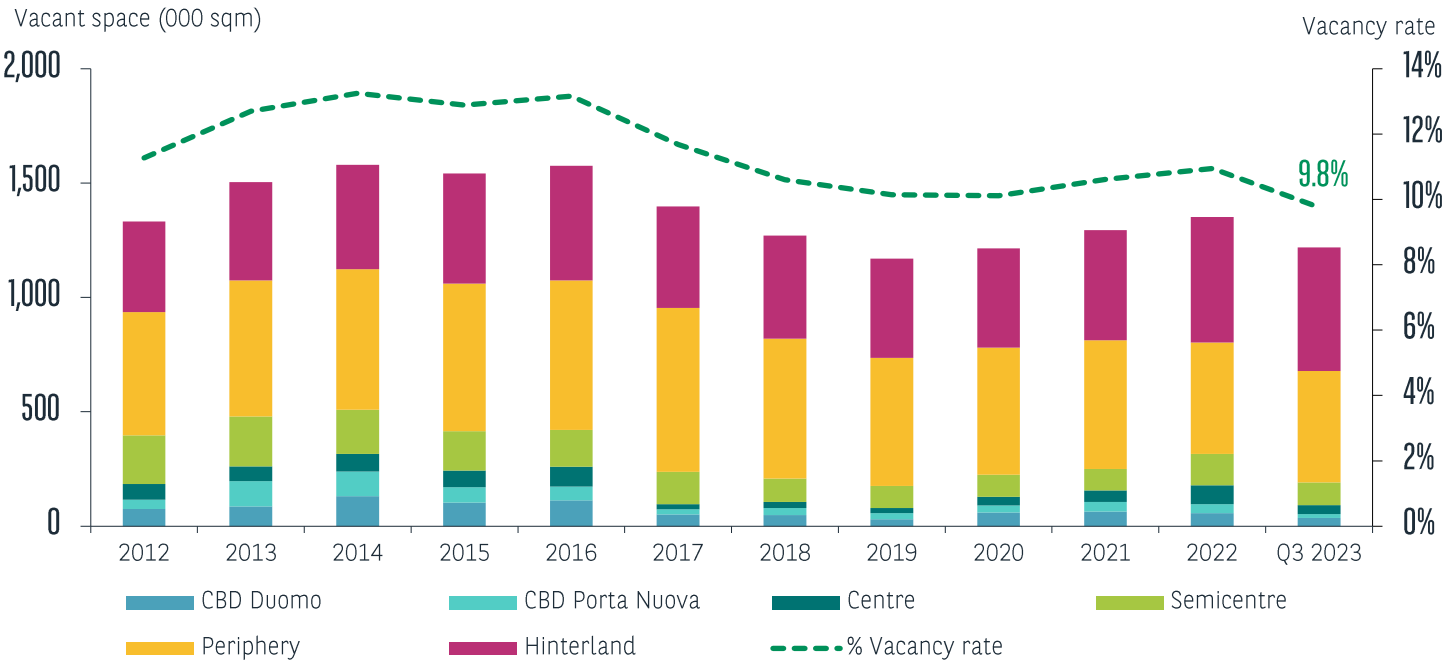
Vacancy by submarket - Aggregated vacancy contracts

At the end of Q3 2023 Milan's **office vacancy stood at 9.8%**, a contraction on the previous quarter and Y-o-Y, after two years of continuous growth.

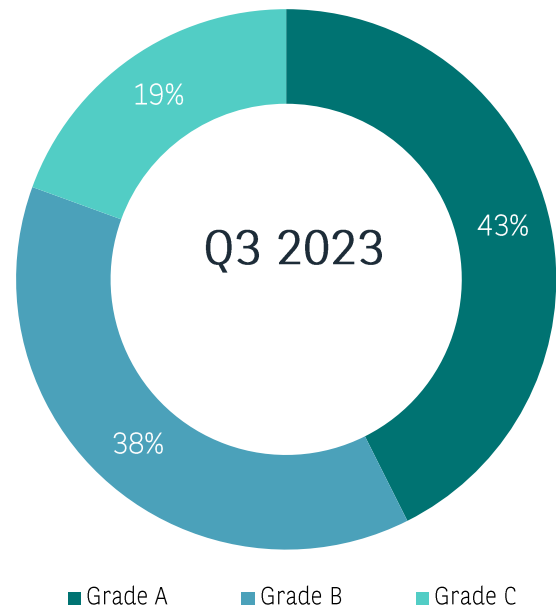
This reflects not only a strong occupier market, with healthy take-up levels, but also the limited amount of new supply reaching the market at present. Furthermore demand is predominately focussed on higher quality space, further reducing the pool of suitable available premises and supporting **ongoing disparity**, in terms of space quality and location.

The **vacancy rate** tightened in Milan's CBD, including both CBD Duomo and CBD Porta Nuova, down to just 1.9% by the end of Q3 2023.

VACANCY BY SUBMARKET



VACANCY BY GRADE



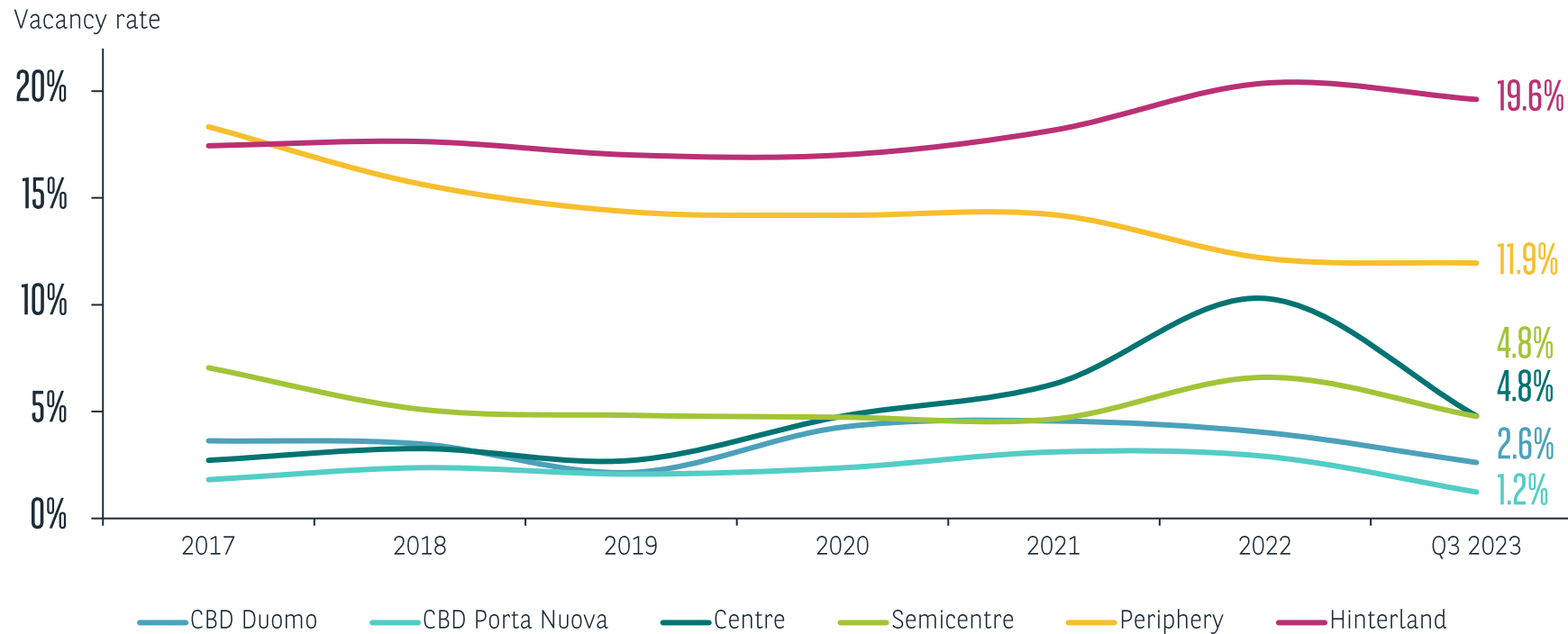
Source: BNP Paribas Real Estate Research

Milan: vacancy rates by submarket – availability differentiated

Availability of office space in Milan is highest in the two least central submarkets of the Periphery and Hinterland, where vacancy has remained stable over recent years.

In contrast, the vacancy rate is tightest in Milan's two CBD submarkets of the **CBD Duomo** and **CBD Porta Nuova** continues to contract.

New development and refurbishment schemes have not resulted in increases in vacancy rates as such premises are quickly absorbed thanks to strong occupier demand in Milan.



Source: BNP Paribas Real Estate Research



Italian Investment Market

INVESTMENT VOLUMES CONTINUED

CONTRACTING, down by -61% Y-o-Y in Q1-3 2023, in a trend which commenced in the latter part of 2022.

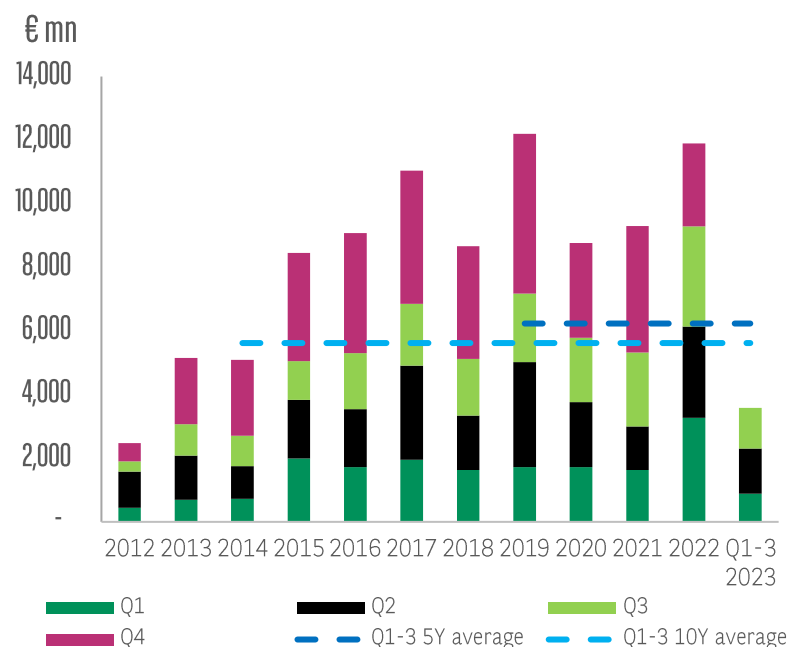
As repricing continues, this fall in volumes was common to all **ASSET CLASSES**, although to varying degrees, with the exception of 'Alternatives' which saw Y-o-Y growth.

YIELD DECOMPRESSION slowed in Q3 2023, leading to hopes of a recover in volumes in upcoming quarters.

The weighting of the **OFFICE** asset class contracted to a 17% at end-Q3 2023, from 39% at the same point the previous year.

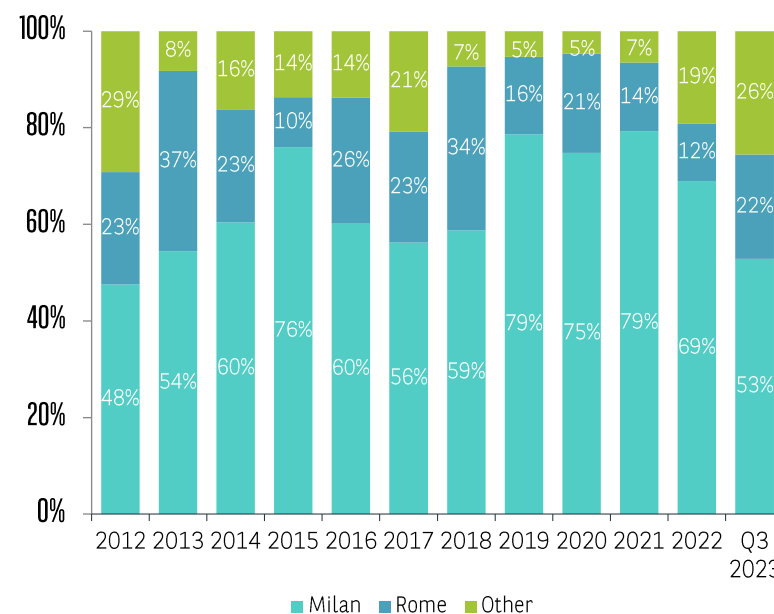
ITALIAN REAL ESTATE INVESTMENTS

Strong contraction characterises market



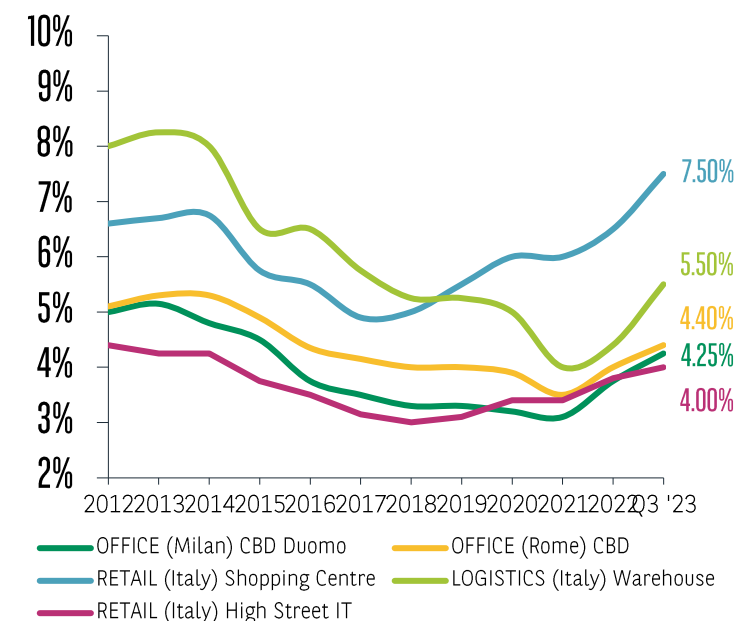
ITALY OFFICE INVESTMENT VOLUMES

Historical Milan market domination falls



ITALIAN COMMERCIAL YIELDS

Decompression differentiated by asset classes



Milan Office Investment Market

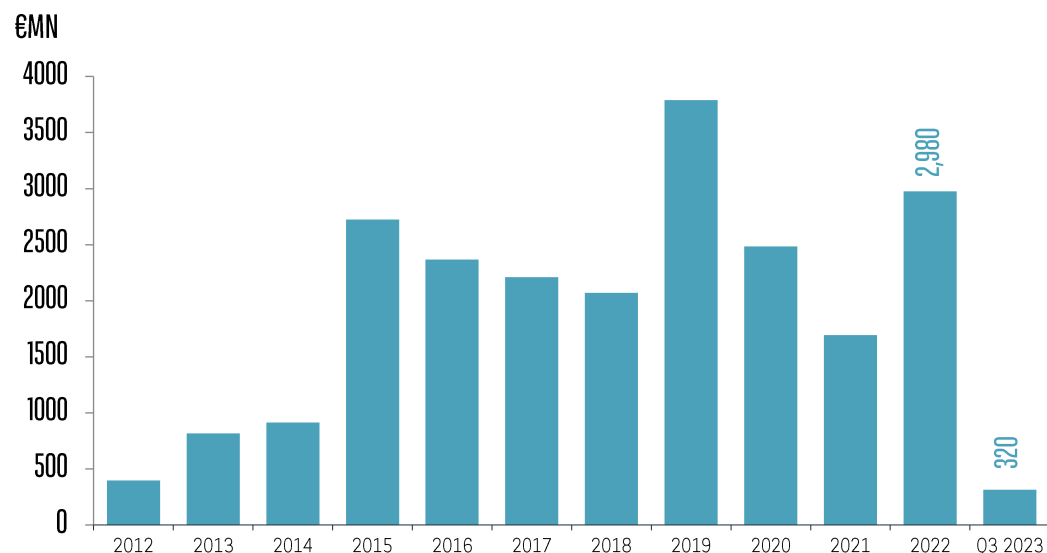
MILAN'S OFFICE MARKET increasingly attracts interest, despite significant contractions in investment volumes as yields decompress, in line with the wider Capital Markets

SECONDARY OFFICE MARKETPLACES can play an important role, offering - otherwise scarce - suitable opportunities. Regardless of location, investor interest remains focused on **ESG COMPLIANT** assets.

For assets where a change of use is not planned, **TRIPPLE A TENANTS** with strong credit ratings are highly sought after in the office sector.

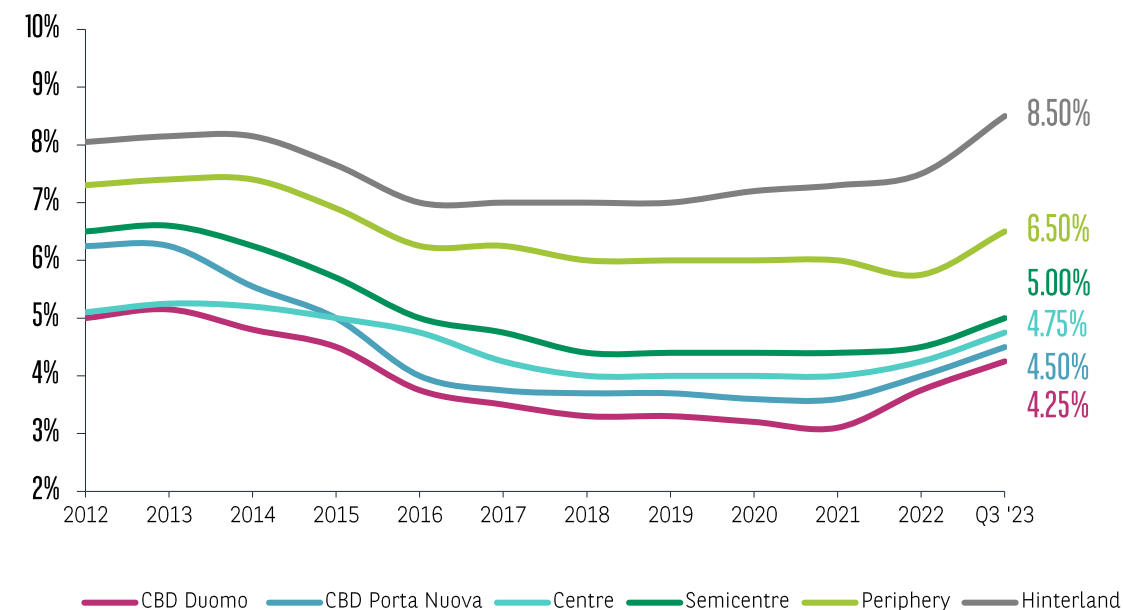
MILAN OFFICE INVESTMENT VOLUMES BY QUARTER

Volumes reduced by -77% on H1 2022



MILAN OFFICE PRIME NET YIELDS BY SUBMARKET

Rome prime net yields continue decompression trend



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