



Italy Office - Q1 2024

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SPOTLIGHT
Savills Research

Italy Office Spotlight



Investments' recovery and robust take up levels bring the sector back into focus

Highlights

Office was the most sought-after sector in terms of investment volumes in Q1 2024

One significant transaction in Rome drove the volumes, while Milan confirms to be the most dynamic city

The quarter was characterized by an increase of deal size and the return of foreign investors

Leasing activity recovered some of its spark in Q1 2024, with a +10% on Q1 2023

Corporates keep on transitioning to new working models: the appeal of grade A spaces and green certifications keeps on rising

Q1 2024 KPI



INVESTMENT VOLUME
520 mln €
+444% YoY



NUMBER OF DEALS
9
-1 YoY



MILAN PRIME NET YIELD
4.25%
+25 bps YoY



MILAN PRIME RENTS
700 €/sqm/y
Stable YoY



MILAN TAKE-UP
93,000 sqm
+10% YoY



MILAN PIPELINE BY 2027
860,500 sqm
70 projects



Office Investment Market

In the first quarter of 2024, office sector returned to be the first asset class in terms of investments, with a total of € 520 mln, a figure four times higher than Q1 2023.

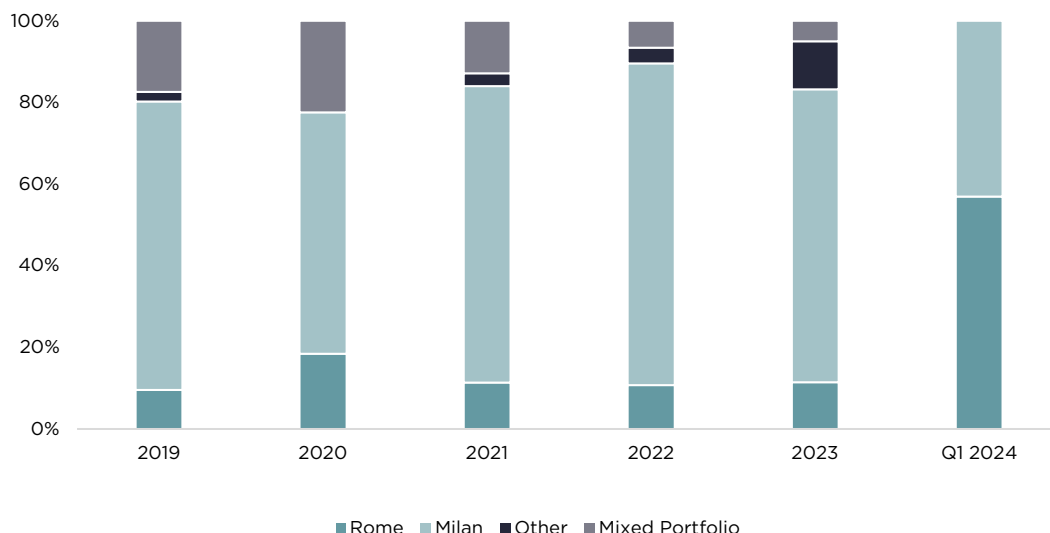
This result was reached thanks to the closing of one significant deal in the CBD of Rome, acquired for more than € 200 mln; the city attracted indeed most of quarterly volumes (57%) across two transactions. Milan continues to be the most dynamic city, recording 7 deals out of 9, located in both central and peripheral areas; an owner occupier deal of more than € 100 mln stood out.

The quarter was characterized by an increase of average deal size, amounting to € 58 mln (against € 23 mln in 2023) and by the absence of capitals deployed in regional locations. Foreign investors returned to prevail, accounting for 72% of the quarterly activity, while domestic investors were involved in four deals.

Prime net yield decompressed in Milan and Rome over the past 12 months and in Q1 2024 stands at 4.25% and 4.75%, respectively. Given the sector's good fundamentals and the expected reversal of monetary policy, a compression of office yields is expected by the end of this year.

66 The recovery of the sector is highlighted by the growing investment volume and the solid demand for spaces. The cities of Milan and Rome remain central: here an increase in rents and an adjustment of yields is expected by the end of the year.

Investment volume by geographies (%)



Milan Office Letting Market

Office take-up in Milan recorded approximately 93,000 sqm in Q1 2024, a value 10% higher than the same period last year. With very tight availability in both CBD Historic Centre and CBD Porta Nuova, coupled with a shortage in grade A product and a strong demand for Grade A assets, this led to prime rents increasing at the beginning of 2023 and being stable ever since. Grade A deals accounted for 73% of total take-up, higher than the last 5-years average, showing that ESG factors and quality of buildings are front and centre right now. While the number of deals decreased slightly, with a -12% on Q1 2023, it is still 5% higher than the average of the past 5 years.

Geographies are also changing: most deals of Q1 2024 were closed in Periphery (27%), followed by Hinterland (21%), CBD Historic Centre (18%), and Semicentre (17%). CBD Porta Nuova and Centre close the ranking, both at 8%. Although the demand for spaces in both CBDs remains strong, supply is too low to satisfy all tenants, so it spills onto other submarkets; among them, this quarter Hinterland seems to have more tailwind, with a +56% increase in number of deals on 2023, followed by Semicentre (+52%).

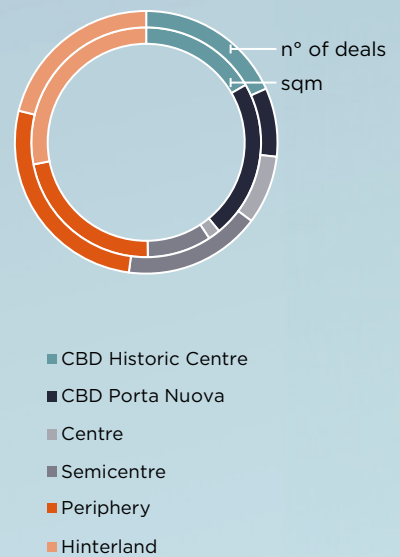
While sub-leasing transactions showed up aggressively in 2023, this year seems to mark a slow-down. Sub-leasing reflects a wider trend around EMEA Countries, where tenants' strategies are changing towards rationalisation of spaces, footprints and expenses.

The average deal size remained stable at around 1,305 sqm, although more than half (69%) of the leasing activity was performed on assets below 1,000 sqm, with deals between 600 and 1,000 sqm increasing by +4% in number on 2023, whereas deals above 5,000 sqm are reduced to a 3% (5% in 2022). Among the business sectors, services & consulting players still appear in the top three tenants, although banking, finance and fintech guide the leasing activity this quarter.

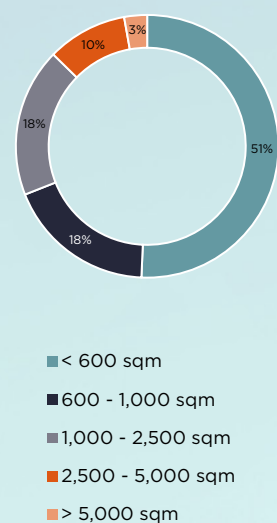
Finally, by 2027 approximately 860,500 sqm are expected to land on the market, across 70 projects. 63% of the pipeline is speculative in nature, with 29% available for pre-let and only 8% being owner-occupiers. Of the 91,000 sqm completed in Q1 2024, a little over half of the total (54%) was already leased by the time of completion.

Current availability is around 845,000 sqm, mainly in the Hinterland and Periphery submarkets, while CBD Porta Nuova and Centre have the lowest share.

Q1 2024 Take-up by submarket



Q1 2024 Take-up by deal size



Office key facts



Investments recovery could lead to a yield compression



Sub-lease and serviced office take-up is here to stay, but it's levelling down



Demand polarisation in submarkets is set to increase



Pipeline and completions will influence the market



New developments are leading to a new definition of grade A



The market is dynamic for ESG compliant assets





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