

Italy Spotlight - H1 2024



Italian Office Market



66 Increased investment volumes and stable take up values bring the sector back into focus

Highlights

Office returned to be the most sought-after asset class in H1 2024, showing a dynamic growth of investment volumes

Two significant transactions in Rome drove the volumes, while Milan confirms to be the most dynamic city in terms of number of deals

The semester saw the deal size growing and an increased appetite of foreign investors

Leasing activity showed overall stability on the same period last year, with a -2% YoY, whereas the number of deals has increased by 5% YoY

Tenants are seeking the best value for money opportunities by targeting grade A assets in semicentral locations

H1 2024 KPI



INVESTMENT VOLUME
800 mln €
+110% YoY



NUMBER OF DEALS
22
+3 YoY



PRIME NET YIELD MILAN OFFICE
4.25%
+25 bps YoY



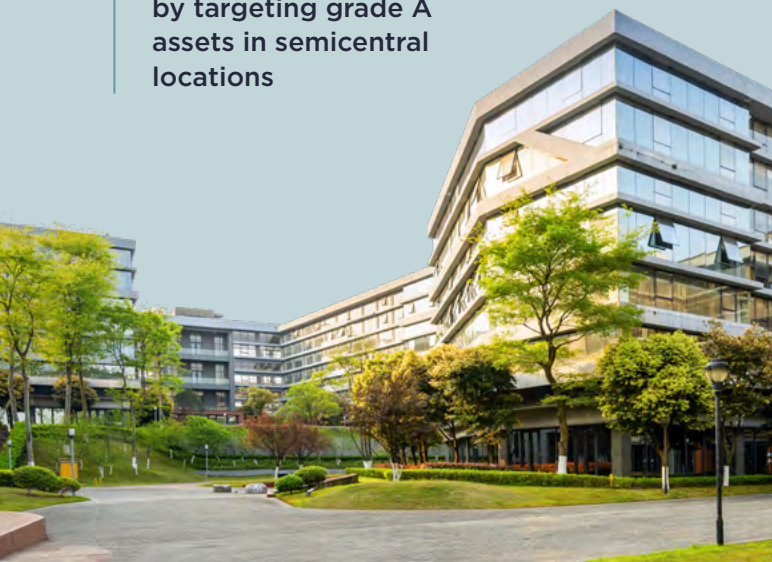
PRIME RENTS MILAN OFFICE
700 €/sqm/y
Stable YoY



MILAN TAKE-UP
176,000 sqm
-2% YoY



PIPELINE by 2027 MILAN
640,000 sqm
57 projects



Office Investment Market

In the first semester of 2024, office sector returned to be the top asset class in terms of investments, reaching a total of € 800 mln, showing a growth that matched the dynamicity of the market, reflected in the leasing market too.

Two significant deals in Rome, both above the € 100 mln mark, have contributed to this result with the city attracting most of H1 volumes (55%, with 6 transactions). Milan remains the most dynamic market, recording 11 deals for around €300 mln invested, with activity ranging from CBD Historic Centre to more peripheral areas.

H1 2024 was characterized by an increase of average deal size, amounting to € 36 mln (against € 23 mln in 2023) and by an increase in Rome market share.

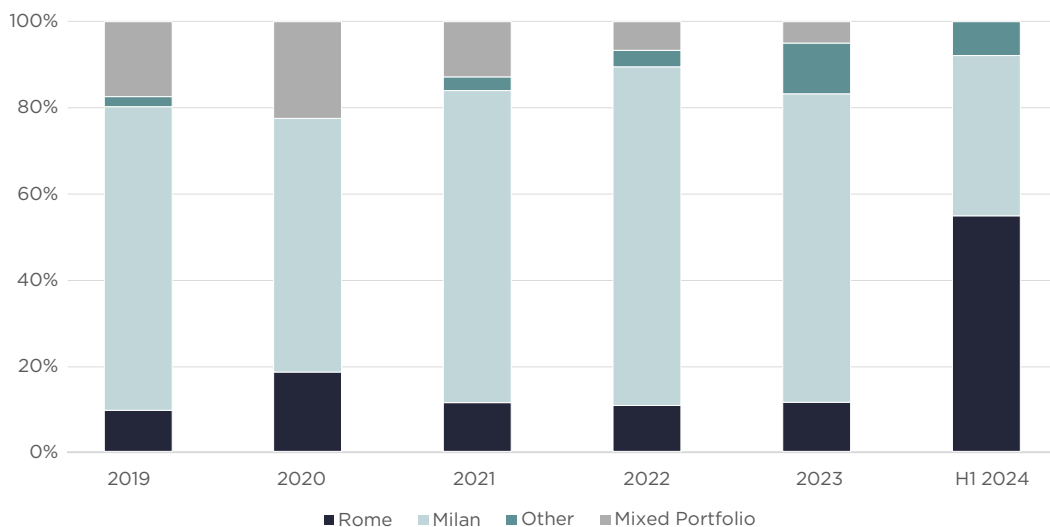
International investors returned to prevail, accounting for 58% of this semester's volumes, although domestic investors were involved in 15 deals.

Prime net yield decompressed in Milan and Rome over the past 12 months and in Q2 2024 stands at 4.25% and 4.75%, respectively. With the anticipated further reversal of monetary policy, and given the sector's good fundamentals, a compression of prime office yields is expected by the end of this year. Further polarization between prime and secondary assets will continue.

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The recovery of the sector is backed by solid fundamentals and pent-up demand for high-quality, ESG compliant offices. This will result in further interest and rental growth, especially in the cities of Milan and Rome, that remain central. An adjustment of yields is also anticipated in the second half of 2024

Investment volume by geography (%)



Milan Office Letting Market

After the positive result of Q1 2024, office take-up in Milan has seen a slow down in Q2 2024, reaching approximately 176,000 sqm in H1 2024, a value 2% lower than the same period last year. While take-up values are slowing down, the number of deals increased by 5% on H1 2023, reinforcing the impact of the trend in smaller size deals brought on by both rising rental values and hybrid working models that started in the recent past.

The average deal size shrunk at around 1,090 sqm in this first semester, with CBD Historic Centre stopping at 970 sqm. More than half (69%) of the leasing activity was in fact performed on assets below 1,000 sqm, with deals below 600 sqm increasing by +8% in number on H1 2023, whereas deals above 5,000 sqm are reduced to a 2% (5% in the 5 years average). Among the business sectors, retail and grocery and banking, finance and fintech players still appear in the top three tenants, although services & consulting guide the leasing activity this quarter.

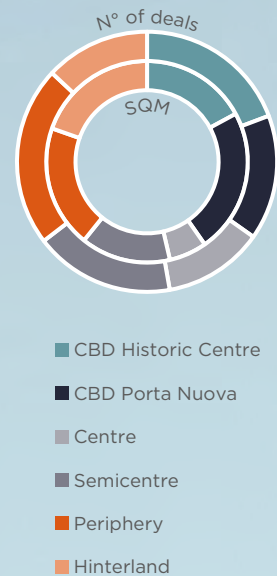
Geographies are also changing: most deals of H1 2024 were closed in Periphery (22%), although CBD Historic Centre is re-gaining

some traction with a 19% share on total take-up. Meanwhile, the Centre has seen a +25% on the number of deals in H1 2023, and the Semi-centre some +22% on the same period, continuing the spillover to less central markets. In fact, both CBD Historic Centre and CBD Porta Nuova display a very tight availability coupled with a strong demand for Grade A assets, and the previous increase in prime rents at the beginning of 2023 has made it harder for tenants to find a suitable space for the right price. With fewer grade A assets available in central markets, grade A take-up accounted for 69% in H1 2024, in line with the same period of 2023 and the last 5-years average.

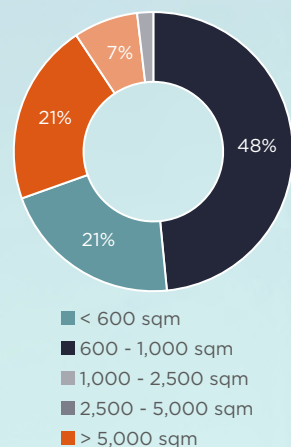
Finally, by 2027 approximately 640,000 sqm are expected to land on the market across 57 projects. 60% of the pipeline is speculative in nature, with only 8% being owner-occupied. More than 112,000 sqm were completed in H1 2024, with half of the total already leased by the time of completion.

Current availability stands at 768,000 sqm, while future availability is at 470,000 sqm, for an overall availability of 1,238,000 sqm, slightly raising the vacancy rate to 9.5%.

H1 2024 Take-up by submarket



H1 2024 Take-up by deal size



Office key facts



Gap on prices between supply and demand persists



Pent-up demand for high-quality, ESG compliant offices is making the market dynamic



The spillover trend towards semi-central markets is accelerating



Smaller (and greener) is better: tenants look for smaller sized spaces in grade A, certified assets



New developments are going to relieve the pressure on tight markets



The polarisation between ESG compliant and non-compliant assets is set to increase



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