SPOTLIGHT
Savills Research

Italy Office - H1 2023

Italy Office Spotlight

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Grade A demand and tight availability support the leasing market

Highlights

With circa € 280 million transacted in Q2 2023, office investment volumes remained low although registering an increase compared to Q1 2023

The investment market was characterized by domestic capitals and small size deals

Prime net yields are now stable after the compression seen throughout 2022. Further decompression is expected in the next months

The shortage of high quality products has slowed down the leasing activity

Prime rents are stable, sustained by the high demand for grade A assets and low availability



H1 2023 KPIs

INVESTMENT VOLUME
370 mln €
-83% YoY

NUMBER OF DEALS
19
-24 YoY

MILAN PRIME NET YIELD
4%
+110 bps YoY

MILAN TAKE-UP
180,000 sqm
-29% YoY

MILAN PRIME RENTS
700€/sqm/y
+4% YoY

MILAN PIPELINE BY 2025
880,000 sqm
75 projects

Office Investment Market

After the outstanding result achieved in 2022, office volumes slowed down in H1 2023, reaching € 370 mln, a figure down both on the previous semester (-83%) and on the last H1 5 years average (-76%). The number of transactions also decreased: all 19 transactions recorded were below € 100 mln, with market comparatively liquid up to a volume of about € 50 mln, beyond which only two transactions have taken place in the semester.

Milan confirmed to be the first investors' target but to a lesser extent than the recent years' trend. In the six-month period, 10 properties located in both central and peripheral areas of the city were sold, for a total of € 260 mln.

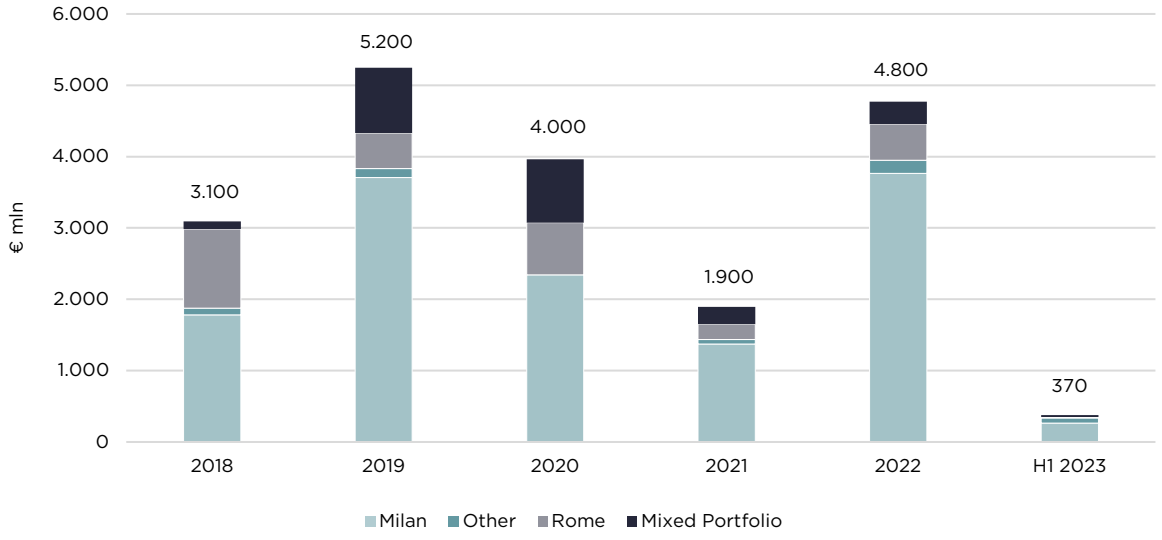
Secondary locations such as Torino, Reggio Emilia and Napoli characterized the half year activity, collecting 6 transactions for a total of circa € 70 mln. In Rome, volumes slowed down significantly YoY (-97%), although the number of deals remained stable: four offices were acquired by domestic players for a total of around € 15 mln.

After ten years of foreign dominance, the market is once again influenced by domestic capital, which accounted for 60% of total biannual activity.

In this context, prime net yield has stabilised at 4% in Milan and 4.50% in Rome. We expect these values to decompress further throughout H2 2023, while volumes should increase, driven by a good pipeline.

> The general wait & see approach affecting the sector at international level has an impact at domestic investment volumes as well. Despite this, domestic capital is still active and several deals are in pipeline in a sector that remains dynamic on the leasing side. The mismatch between demand and supply is sustaining rent and driving up the development pipeline.

Investment volume by geography



Milan Office Letting Market

Office take-up in Milan recorded approximately 180,000 sqm in the first semester of 2023, confirming the expected slowdown in leasing activity (-29% YoY and -12% on the last 5 years H1 average). This decline is mainly ascribable to a shortage in grade A product that, coupled with a strong demand for Grade A assets and a tight availability, supported prime rents' increase (+4% YoY). Although fewer square meters were leased, the number of deals increased by 4% on H1 2022, and by 21% on the 5 years average, showing that the market is still very dynamic.

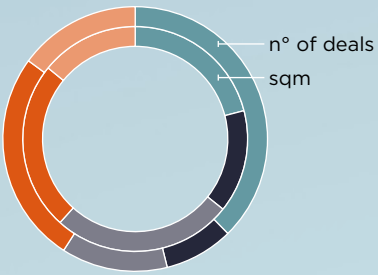
Grade A deals accounted for 73% of total take-up, in line with last year's performance. Although increasingly hard to find on the market, this semester registered a higher share in grade A assets than both the 5 years (66%) and the 3 years average (68%).

The largest transaction of the semester took place in Citylife, with a banking company securing around 30,000 sqm in pre-let. Most deals were closed in CBD Historic Centre (38%), followed by Periphery (26%), Hinterland (15%), and Semicentre (13%), leaving CBD Porta Nuova behind (8%). The demand for spaces in both CBDs remains strong, however supply is too low to satisfy all tenants, so it spills onto other submarkets.

The Milanese market is recording a strong increase in sub-leasing transactions, lately: in H1 2023, 19 out of 173 deals were sub-leases, an additional 15% on the 180,000 sqm leased. This reflects a wider trend around EMEA Countries, where tenants' strategies are changing towards rationalisation of spaces, footprint and expenses. The average deal size is also declining, with almost half of the leasing activity performed on assets below 600 sqm (47%), while deals above 5,000 sqm shrunk to a 2% (5% in 2022). Among the sectors, services & consulting still guides the leasing activity, along with banking and finance players that seem to have started their recovery.

By 2025, approximately 880,000 sqm are expected to land on the market across 75 projects, with 69% of them being speculative in nature, for around 620,000 sqm. Completions in H1 2023 amounted to 102,500 sqm, more than 22% of which were already leased before their completion dates. Current availability is over 735,000 sqm, mainly in the Hinterland and Periphery submarkets, while CBD Porta Nuova and CBD Historic Centre have the lowest share.

H1 2023 Take-up by submarket

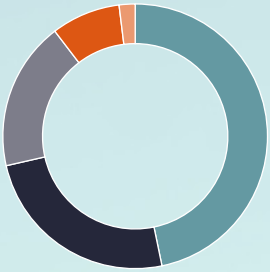


- CBD Historic Centre
- Semicentre
- Hinterland
- CBD Porta Nuova
- Periphery

Office key facts

- **Wait & see approach by investors**
- **Sub-leases and serviced offices are increasingly popular**
- **Rationalisation of spaces and reduction of offices footprint**
- **Lack of grade A product holds back take-up**
- **Prime rents are stabilising**
- **ESG factors are essential for both investors and occupiers**

H1 2023 Take-up by deal size



- < 600 sqm
- 600 - 1,000 sqm
- 1,000 - 2,500 sqm
- 2,500 - 5,000 sqm
- > 5,000 sqm





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