Italy Office - Q1 2023

SPOTLIGHT
Savills Research

Italy Office Spotlight

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The leasing market remains dynamic

Highlights

- The quarterly investment market was characterized by domestic capitals and small size deals
- Regional markets took a leap forward, but Milan remained the first target
- Prime net yields decompressed also in the first three months of 2023
- The shortage of high quality products has slowed down the leasing activity
- Prime rents increased in the quarter, sustained by the high demand for grade A assets and low vacancy rate

Q1 2023 KPIs

INVESTMENT VOLUME
100 mln €
-93% YoY

NUMBER OF DEALS
10
-15 YoY

MILAN TAKE-UP
85,000 sqm
-23% YoY

MILAN PRIME NET YIELD
4.00%
+110 bps YoY

MILAN PRIME RENTS
700€/sqm/y
+8% YoY

MILAN PIPELINE BY 2026
960,000 sqm
82 projects

Office Investment Market

After the outstanding result achieved in 2022, office volumes slowed down in Q1 2023, reaching € 100 mln, a figure down both on the previous quarter (-93%) and on the Q1 average of the last 5 years (-87%). The number of transactions also decreased: 10 transactions were recorded, all characterised by a small average size of less than € 20 mln.

Milan confirmed to be the first investors' target but to a lesser extent than the trend of recent years. Here, just over half of the quarterly volumes (€ 50 mln) were invested in four transactions, two of them in the Scalo di Porta Romana district.

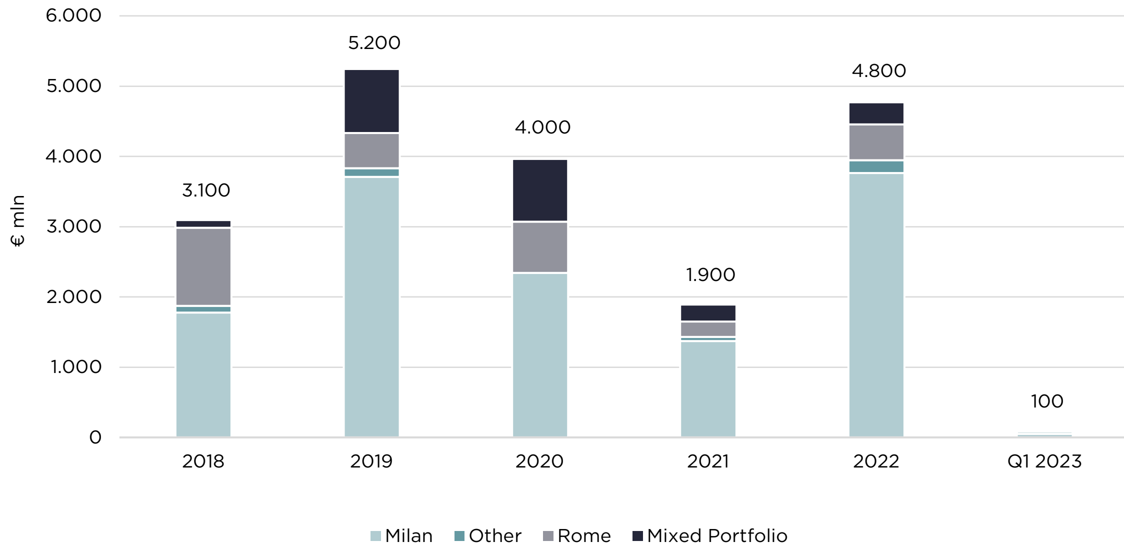
Secondary locations such as Torino, Reggio Emilia and Napoli characterized the quarterly activity, collecting 4 transactions for a total of circa € 40 mln. In Rome, volumes slowed down significantly YoY (-90%), although the number of deals remained stable: two offices were acquired by domestic players for a total of around € 15 mln.

After ten years of foreign capital dominance, the market returned to be influenced by domestic capital, which accounted for 84% of total quarterly activity.

In this context, prime net yield has returned to the level of seven years ago, at 4% in Milan and 4.50% in Rome. By the end of the year we expect these values to remain stable, while volumes should increase, driven by a good pipeline.

> Despite the wait & see approach that characterized the quarter, several deals are in pipeline, as investors are still interested in a segment that has proven to be resilient. On the leasing side, the market is active and characterized by a high discrepancy between demand and supply, which is pushing up rents.

Investment volume by quarter



Milan Office Letting Market

On the leasing side, the first quarter of 2023 reached around 85,000 sqm, a figure lower compared to record Q1 2022 but still high (12% down on Q1 average of the last 5 years). The decline is mainly attributable to a shortage of grade A product. Strong demand for Grade A assets and a vacancy level of around 2% supported prime rents' increase, which grew by 8% YoY. Grade A deals accounted for 66% of total take-up; due to lack of grade A supply, grade B share is increasing.

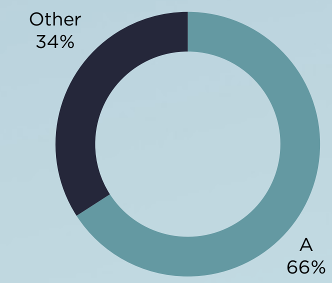
In the last three months, the market recorded an increase of operations on a year-on-year basis (81 deals, +12 YoY), but with a lower size than in 2022. The average deal size was 1,050 sqm while it was 1,650 sqm in 2022; 83% of leasing transactions were of small dimension (< 1,500 sqm) while only 1% have a surface above > 5,000 sqm (5% in 2022).

The largest transaction of the quarter was related to an IT company securing around 6,000 sqm in the CBD Porta Nuova district. In Q1 2023, periphery represented the main market (39% of total take-up), followed by CBD Historic Centre (23%) and Hinterland (18%); CBD Porta Nuova accounted for 14%.

The demand was driven once again by leasing operations, accounting for more than 74% of quarterly absorption, followed by pre-let deals (23%). Milan market is recording a strong increase in sub-leasing transactions: in the first quarter of Q1 2023, around 13,600 sqm have been sub-leased in addition to the 85,000 sqm mentioned above. Among the sectors, services & consulting and media & communication stand out, while banking & finance players significantly slowed down.

By 2026, approximately 960,000 sqm are expected to be placed in the market across 82 projects. 71% of pipeline is of speculative nature for around 680,000 sqm. Vacancy rate is not expected to increase any further thanks to a limited supply: the speculative pipeline is only 2.6 times the average take-up of the last five years. This percentage drops to 1.2 times in the historic centre.

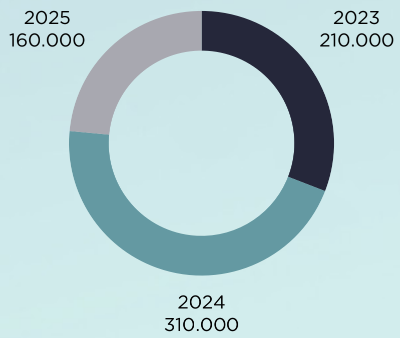
Q1 2023 Take-up by grade



Office key facts

- Wait & see approach by investors
- Capital value is crucial for investments
- High quality workplace requirements
- Lack of grade A product holds back take-up
- Prime rents are raising up
- ESG factors are essential both for investors and occupiers

Speculative pipeline by year (sqm)



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