

RESEARCH



MILAN

OFFICE MARKET OUTLOOK Q4 2015

OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

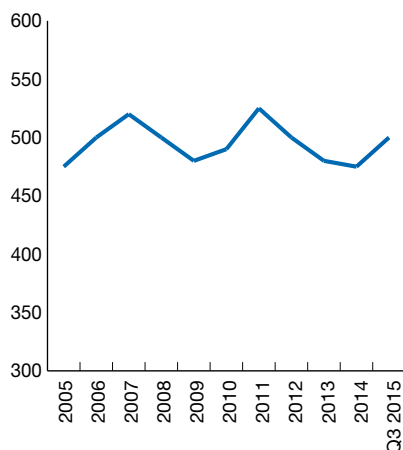
The Italian economy is beginning to strengthen, with real GDP forecast to grow by 0.9% in 2015

As demand continues to rise, the number of new lease agreements are increasing

Office investment over the first three quarters of 2015 surpassed full-year 2014 volumes, with deals in excess of €100 million increasing

Prime office yields in Q3 reached their previous floor of 4.5%, and could harden further as investor confidence grows

FIGURE 1
Prime office rents
€ per sq m per annum



Source: Knight Frank Research

OCCUPIER MARKET

Despite various uncertainties in other European regions, GDP in Italy returned to positive growth in 2015, positively influencing the country's real estate markets.

Being one of a handful of European countries still in negative growth in 2014, the threat of a Grexit and Russia falling back into recession looked set to disrupt the recovery that Italy was slowly making. However, the Italian economy showed signs of positive growth during the first three quarters of this year, and real GDP is now forecast to grow by 0.9% in 2015.

Office take-up in Milan totalled 189,300 sq m during the first nine months of 2015. Although this was down approximately 6% on the same period in 2014, demand was still healthy and the decline was mainly due to a reduction in the availability of high-quality space, as well as companies taking longer to negotiate deals while the economy showed uncertainty at the beginning of the year. So far in 2015, leasing activity has been confined largely to the Semi Centre area, which accounted for 30% of take-up, followed by 26% in the Periphery.

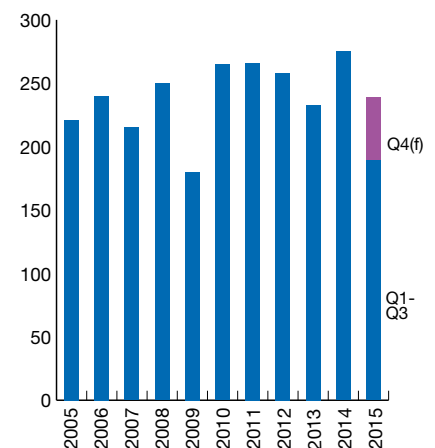
During this nine month period, activity was dominated by lease renegotiations, however, as the economy strengthened throughout the year, the number of new lease enquiries started to increase. New leases accounted for 26% of total take-up in Q1-Q3 2015, compared with just 12% in the same period last year.

Development activity rose significantly in 2014, particularly in the fourth quarter, with full-year completions totalling

185,300 sq m. Completions in Q1-Q3 2015 reduced by 37% year-on-year to 49,655 sq m, with another 50,000 sq m due to enter the market in the fourth quarter. The bulk of this new stock will be located in the Semi Centre area, which will further fuel leasing activity there.

Since the end of 2012, prime office rents have fluctuated between €475 and €500 per sq m per annum, where they stood in Q3 2015. While the desirability of Milan's office market is rising, occupiers will still remain wary until economic growth stabilises, and as a result, rents are expected to remain stable until at least mid-2016.

FIGURE 2
Office take-up
sq m (000s)



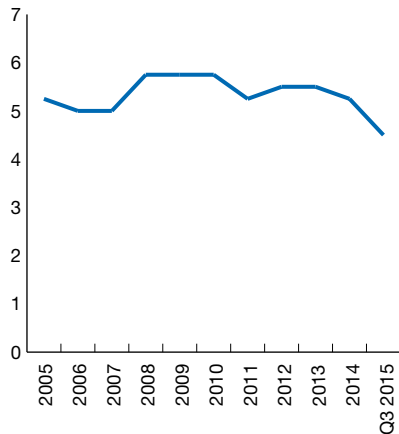
Source: Knight Frank Research

Key office leasing transactions in 2015

Quarter	Property	Tenant	Size (sq m)
Q3	Piazza Edison	DLA Piper	5,000
Q2	Via Ugo Foscolo 1	Boston Consulting	5,000
Q3	Galleria San Babila	De Rosa & Partners	1,200
Q3	Via San Damiano 2	Neuberger Berman	1,200

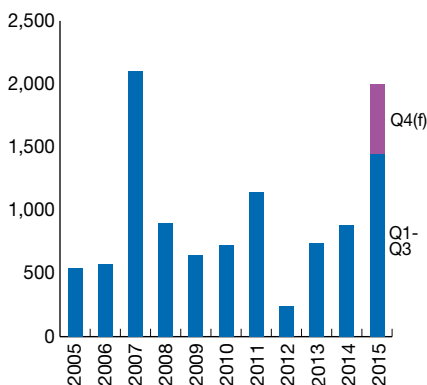
Source: Knight Frank Research

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Milan office investment volumes
€ million



Source: Knight Frank Research

INVESTMENT MARKET

Investment in Milan's office market soared during the first nine months of 2015, with volumes amounting to €1.4 billion, exceeding full-year 2014 volumes, primarily because the number of transactions in excess of €100 million was significantly higher than in previous years.

Notable office deals so far this year include Fosun International's acquisition of the Palazzo Broggi building for €345 million from Italian fund IdeA FIMIT Sgr, who also sold two office buildings on Via Arrigo Boito and Via Verdi for a combined total of €145 million to Intesa San Paolo. As the economy strengthened, investor interest remained positive, particularly from cross-border investors

who took a 90% share of Milan's office investment volumes.

Portfolio transactions were also very popular, with another two in excess of €100 million taking place during the first three quarters of 2015 – the Milan prime office portfolio purchased by Swiss investment manager Partners Group for €195 million in Q1 and US equity fund Blackstone's acquisition of the Ream Sgr's former Poste portfolio for €132 million in Q2.

As a result of the rising investment volumes this year, prime office yields, which maintained stability throughout 2014, have hardened by 75 basis points since the start of the year to 4.5% in Q3 2015, hitting their previous floor last seen in H1 2007.

Key recent office investment transactions in 2015

Quarter	Property	Seller	Buyer	Approximate price (€million)
Q3	Palazzo Broggi	IDEA FIMIT Sgr	Fosun International Ltd	345
Q1	Milan Prime Offices Portfolio	Torre Sgr	Partners Group	195
Q3	Via Arrigo Boito / Via Verdi	IDEA FIMIT Sgr	Intesa San Paolo	145
Q2	Ream Sgr Milano fmr Poste Portfolio 2015	REAM Sgr	Blackstone	132
Q2	Energy Park	SEGRO	Hines	119
Q3	Cassa Depositi Milan Portfolio 2015 (office element)	CDP	Beni Stabili SpA / Verde Partners / Borio Mangiarotti	93

Source: Knight Frank Research / Real Capital Analytics

KNIGHT FRANK VIEW

With the Italian economy returning to growth in 2015 and expected to strengthen further in 2016, the outlook for the real estate markets looks promising.

Office take-up is set to increase as positive occupier demand in Milan grows, and could reach as high as 240,000 sq m by the end of the year. This may encourage some rental growth towards the middle of 2016, not only in prime locations but also in the periphery. In fact, prime office rents may exceed

the previous peak of €525 per sq m per annum, last seen in 2011, to reach a new high.

High investment figures during the first nine months of the year have put office investment volumes in Milan on course to reach approximately €2 billion. International investors are expected to remain active, but volumes are also likely to be boosted by increased domestic demand in the coming months.



The Palazzo Broggi building, sold to Fosun International for €345 million



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