SPOTLIGHT
Savills Research

Italy Office - 2023

Italy Office Spotlight

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Lack of confidence still affect investment volume despite solid fundamentals in the occupier market

Highlights

- With circa € 1.1 billion transacted in 2023, office investment volumes registered a sharp decline despite a dynamic occupiers' market
- The investment market was characterized by small size deals and by the centrality of Milan market
- Prime net yields registered further decompression and additional price adjustment is expected for secondary offices and peripheral markets
- Although leasing activity slowed down compared to 2022, the year closed positively: 2023 is the third best year for leased office spaces in the past 10 years
- Corporates are translating the new working models into an increased demand for grade A offices and smaller spaces to decrease their footprint

2023 KPIs

INVESTMENT VOLUME
1.1 bln €
-78% YoY

NUMBER OF DEALS
45
-20 YoY

MILAN PRIME NET YIELD
4.10%
+20 bps YoY

MILAN PRIME RENTS
700 €/sqm/y
+4% YoY

MILAN TAKE-UP
427,000 sqm
-12% YoY

MILAN PIPELINE BY 2026
795,000 sqm
66 projects

Office Investment Market

After the outstanding result achieved in 2022, office volumes slowed down in 2023, reaching € 1.1 bln, a figure down both YoY (-78%) and on the last 5 years average (-69%). The number of transactions also decreased: 45 deals were recorded. The market remained comparatively liquid up to a volume below € 50 mln, beyond which only 5 transactions took place.

Milan confirmed to be the first target for investors, although to a lesser extent than the recent years' trend. 22 properties located in both central and peripheral areas of the city were sold, for a total of € 760 mln.

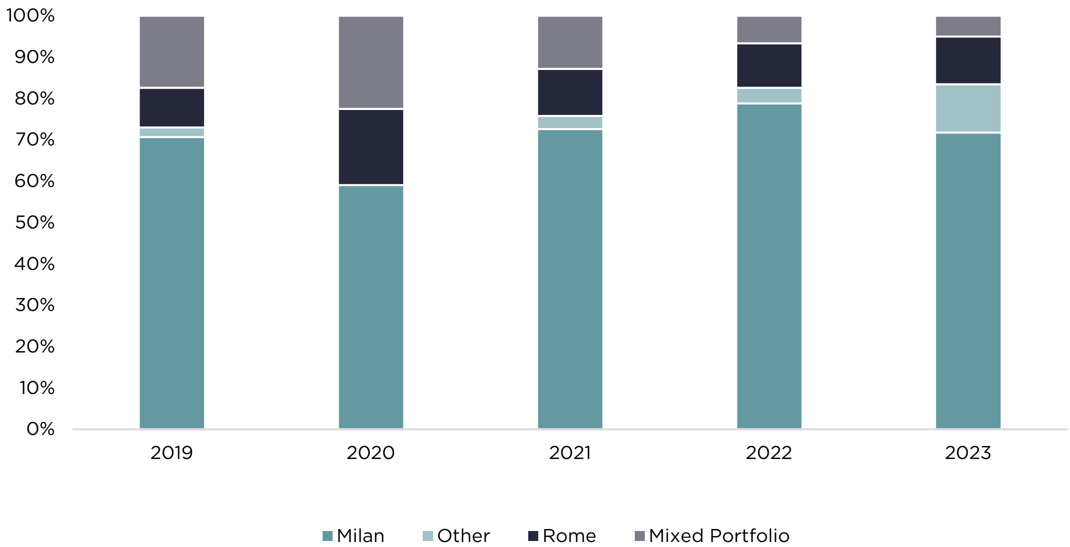
Secondary locations such as Firenze, Napoli, Bologna and Genova characterised the activity of the year, collecting 32 transactions for a total of circa € 180 mln. In Rome, volumes slowed down significantly YoY (-76%), whereas the number of deals increased: 12 offices were acquired by domestic players for a total of around € 120 mln.

For the first time since 2020, domestic capital prevails over foreign money, accounting for 52% of the total activity in 2023.

In this context, prime net yield decompressed at 4.10% in Milan and 4.60% in Rome, and we do not expect these values to decompress further throughout 2024. Cash buyers will be active benefitting from repricing although activity will remain subdued until H2 2024.

> Investment activity is held back by a lack of confidence in the sector among international investors, despite good fundamentals in prime assets. A trend roll back is not expected until H2 2024, although the market remains closed to a record level on the leasing side. Polarisation is widening, so pipeline and completions will influence the dynamism of the market in the coming years.

Investment volume by geographies (%)



Milan Office Letting Market

Office take-up in Milan recorded approximately 427,000 sqm in 2023. Even though this confirms the expected slowdown in leasing activity (-12% YoY), it shows some growth compared to the last 5 years average (+9%) and qualifies as the third best year for leased office spaces in the past 10 years. The decline from 2022 record figures is mainly ascribable to a shortage in grade A product that, coupled with a strong demand for Grade A assets and tight availability, supported prime rents' increase (+4% YoY). The number of deals increased, with a +7.2% on 2022, 21% higher than the 5 years average, showing that the market is still dynamic, although strategies are changing.

Grade A deals accounted for 77% of total take-up, an increase compared to last year's 73%, showing that ESG factors and quality of buildings are front and centre right now. Although grade A assets are increasingly hard to find on the market, this year registered a higher share in grade A assets leases than the 5 years average (66%).

Geographies are also changing: most deals of 2023 were closed in Periphery (26%), followed by Semicentre (20%), CBD Historic Centre (18%), and Hinterland (14%). CBD Porta Nuova and Centre close the ranking at 11% and 12%, respectively. 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, Semicentre seems to have more tailwind, with a +60% increase in number of deals on 2022.

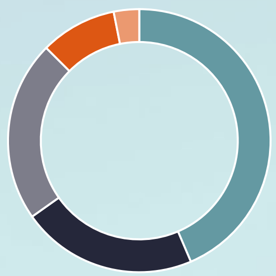
Sub-leasing transactions also showed up aggressively on take-up this year, amounting to an additional 9% on top of 327 transactions. Although the trend has slowed down in H2, this reflects a wider trend around EMEA Countries, where tenants' strategies are changing towards rationalisation of spaces, footprints and expenses.

The average deal size shrunk from 1,600 sqm in 2022 to 1,305 sqm: more than half (66%) of the leasing activity was performed on assets below 1,000 sqm, with deals between 600 and 1,000 sqm increasing by +60% in number YoY, whereas deals above 5,000 sqm are reduced to a 3% (5% in 2022), with a contraction of -33% YoY. Among the business sectors, services & consulting players still guide the leasing activity, followed by banking and finance players.

By 2026, more than 795,000 sqm are expected to land on the market, across 66 projects. 58% of the pipeline is speculative in nature, for around 464,000 sqm. Completions in 2023 amounted to 219,000 sqm roughly, 46% of which were already leased before their completion date. Current availability is around 757,000 sqm, mainly in the Hinterland and Periphery submarkets, while CBD Porta Nuova and Centre have the lowest share.

2023 Take-up by submarket

2023 Take-up by deal size



Office key facts

- Cash buyers will be active
- Sub-lease and serviced office take-up is here to stay
- Demand polarisation 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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