

INVESTMENT IN COMMERCIAL PROPERTIES AT 3.2 BILLION EUROS IN ITALY IN THE FIRST HALF OF 2018

THE DATA ANALYSED BY THE BNP PARIBAS REAL ESTATE RESEARCH DEPARTMENT IN ITALY CONFIRM THE GOOD PERFORMANCE OF LOGISTICS WITH VOLUMES THAT MORE THAN DOUBLED COMPARED TO H1 2017. GOOD PERFORMANCE ALSO FOR RETAIL.

In the second quarter of 2018 € 1.7 billion (ca. 50 transactions) was invested in the Italian commercial real estate market (-40% compared to Q2 2017). The volumes recorded from the beginning of the year amount to around € 3.2 billion, confirming a drop (-35%) compared to the first half of 2017, a record year for the sector. However, it should be noted that this first part of the year has shown a market performance that is greater than the six-month average of the last decade (+22%).

With € 880 million (-20% YOY), Offices represented about 50% of total volumes in Q2 2018. In the first six months, volumes for this asset class amounted to about € 1.2 billion, with a decrease of 43% compared to 2017.

Retail enjoyed a positive performance in the first half of 2018 with over € 1.2 billion, in line with the results for the same period of 2017. In Q2 retail deals were closed to ca. € 500 million (about 30% of the quarter's total in Italy).

Growth in Italian Logistics continues: with € 410 million semi-annual volumes more than doubled compared to 2017 thanks to the excellent result of around € 200 million in Q2 (+270% compared to Q2 2017).

For the moment the growth in the Hotel sector that started in 2014 has slowed down. With almost € 140 million recorded in Q2 2018 investment has declined by around 50% both on a quarterly and half-yearly basis.

Transactions for the asset classes included in the "Other" category (RSA, student housing, data centres, barracks, and cinemas) were also lower than last year from € 860 million in the first half of 2017 to the current € 130 million. Only one transaction in this category was recorded in Q2 2018.

As for prime net yields:

- In Q2 the Milan office market saw a compression of prime net yields by 10 basis points to 3.40% after five consecutive quarters at 3.50%. Office prime yields were stable in Rome at 4.15%.
- Retail remained stable with Shopping Centres at 4.90% and High Streets in Milan at 3%. A compression in High Streets in Rome was noticed (from 3.50% in Q1 2018 to 3.30%).
- Logistics continued its compression trend in prime net yield (currently at 5.25%) that started in the second part of 2017.

From a geographical analysis, the Milan capital market showed a positive performance in Q2 thanks to the € 775 million euros invested (+12% YOY). In the city, office deals are growing again, with levels at almost € 600 million (+64% compared to Q2 2017).

In Rome, the 33% decrease of the capital market in Q2 2018 (€ 385 million vs € 570 million in the same period of 2017) also had a negative impact on the half-year trend that recorded € 640 million (-17 % compared to H1 2017). Offices drove Roman volumes in the second quarter of 2018 with around € 260 million invested (ie. 67% of the city's total).

"Some significant transactions will flow through the capital market pipeline in the next few months, but in light of what has transpired so far we could reasonably expect a year-end decline compared to 2017's record-setting result", notes Cristiana Zanzottera, Head of the Research Department at BNP Paribas Real Estate Italy. *"The focus on the Italian real estate market remains high, but within a context that sees a reduced availability of products for sale",* continues Zanzottera. *"In the future it will be a question of creating the right opportunities for all types of investors interested in a market that is increasingly international".*

With regard to the Office letting market in Milan, Q2 showed an absorption of around 120,000 square metres, representing one of the best quarters ever and bringing the result of the first six months of the year in line with 2017.

More precisely:

- In the Duomo CBD during the second quarter transactions of almost 11,000 square metres were closed, which is a level above the long-term quarterly average.
- In the Porta Nuova CBD the protracted lack of quality products on the market notwithstanding a sustained demand continued to negatively impact the absorption of space that was less than 10,000 square metres in the second quarter.
- In continuity with last year, the dynamic nature of the more peripheral Milanese sub-markets was confirmed thanks to the interest of tenants due to the simultaneous presence of quality spaces and more accessible prices compared to the central areas.

On the rent side, it is worthy to note the further growth in Q2 2018 of the prime rents of the Duomo CBD in Milan which reached € 570 sq m/year versus € 520 sq m/year 12 months ago. All the other Milanese sub-markets remained stable.

Rome is becoming increasingly active in the Office letting market: the approximately 62,000 square metres in Q2 brought the first half of 2018 to a result 20% higher than the same period in 2017. In terms of absorption, the dynamism of the Roman letting market in Q2 was widespread throughout all sub-markets. With regard to prime rents, however, the increase in the quarter was recorded exclusively in the Roman CBD with levels that reached € 430 sq m/year after remaining stable at € 420 sq m/year in the four previous quarters. Other locations in the city remained stable.

"On the whole, in Milan and Rome the Office letting market is lively and increasingly able to balance the expectations of owners and tenants", explains Zanzottera. *"The mismatch of demand and supply for quality spaces in some sub-markets in Milan and Rome is due to be solved in the next few years given the important redevelopment projects under way in the two cities".*

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