

COMMERCIAL PROPERTY INVESTMENTS IN ITALY REACH 1.9 BILLION EUROS IN THE THIRD QUARTER OF 2018

The data processed by the BNP Paribas Real Estate Italia Research department describe a third quarter in line with the same period of last year and better than the five-year and ten-year averages of the reference period. Good performance in retail and logistics. The office sector continues its decline.

In Italy, the third quarter of 2018 registered investment volumes in the commercial real estate market in line with the same period of 2017: 1.9 billion euros (about 50 transactions). The quarter was positive, up from Q2 2018 (+10% approximately) and higher than the five-year and ten-year averages for third quarters of the year (respectively +38% and +70%).

The year-to-date result confirms the slowdown with respect to last year: 5.1 billion euros invested in the first nine months of 2018, with a decrease (approximately -25%) compared to the same period of 2017. Last closed quarter helped to reduce this year's percentage gap with 2017, caused essentially by the less positive trend of the first six months of the year after the record close of 2017. However, the overall size of the Italian market continues to remain above the five-year and ten-year averages of the first nine months of the year (respectively +12% and +37%).

The positive trend in the **Retail** sector continues and in Q3 2018 it was the main contributor to total volumes in Italy with almost 700 million euros invested (36% of the total volume for the quarter). This brings the year-to-date result to almost 2 billion euros (equal to about 37% of total YTD 2018 investments and +20% compared to the first nine months of 2017).

The **Office** sector continues to suffer from a shortage of products, which weighed on the Q3 result: approximately 530 million euros of investments (-26% YOY), confirming the slowdown of this year. Thus far, in 2018, approximately € 1.7 billion euros have been invested in Offices, with a decrease of around 38% compared to the first three quarters of 2017.

Logistics continues to be a dynamic sector: about 450 million euros have been invested YTD in several transactions, especially in Milan and Rome. Moreover, at the end of the year, an interesting pipeline is expected to contribute to this solid result.

Investments in the **Hotel** sector reached half a billion euros in the first nine months of 2018, with a slowdown compared to 2017 (approximately -20%) but still higher than the five-year and ten-year average of the period (respectively +10% and +35%, approximately).

Another half a billion euros have been invested so far in 2018 in products included in the "**Alternative**" category (Care homes, student housing, data centers, barracks, cinemas), confirming the growing interest in these assets since 2014.

As for net prime yields:

- in Q3, the city of Milan recorded a further compression of 10 basis points for Office yields, reaching currently the 3.30%. Office yields in Rome were stable for the fourth quarter in a row, at 4.15%.
- Net prime yields in Retail were generally stable with respect to Q2 in all sub segments: Shopping Centers at 4.90%, High Street Milan at 3% and High Street Rome at 3.30%.
- Prime net yields were also stable for Logistics at 5.25%.



In the first nine months of the year, the city of Milan totalled almost 2 billion euros in investments, in line with 2017 and above the five-year and ten-year average for the first three quarters of the year (respectively +15% and +54%, approximately).

The results for Rome since the beginning of the year in terms of volumes are slightly lower compared to 2017 (-10% approximately) but higher than the five-year average (+16%) and the 10-year average (+19%) for the first nine months of the year. More specifically, Q3 2018 investments reached approximately 300 million euros in the city, a value fully in line with the same quarter of 2017.

“Third quarter results have made it possible to reduce, but not eliminate, the gap in volume compared to last year which is occurring in the commercial investment market in our country,” says **Cristiana Zanzottera, head of the BNP Paribas Real Estate Italy Research Department**. *“Though the market remains highly dynamic, as evidenced by the large number of transactions in 2018, overall volumes were affected by the absence of big size deals and significant portfolio transactions that characterized 2017,”* added Zanzottera. *“The Italian market continues to create value and therefore remains of great interest for investors, including international investors, who again in 2018 are generating the majority of volumes.”*

Moving on to the analysis of the **Office leasing market** in Milan, the third quarter of 2018 registered an absorption of spaces about 118,000 square meters – the best Q3 ever for the city. In the first nine months of the year, there was a take-up of over 320,000 square meters (a 25% increase compared to the same period of last year).

In particular:

- in Q3 2018, transactions in the CBD Duomo were closed for about 25,000 square meters: more than double the level of Q2 2018 and more than triple the level of Q3 2017.
- The occupier market trend of the CBD Porta Nuova last quarter improved considerably compared to Q1 and Q2, which had absorbed approximately 10,000 square meters. Q3 2018, with approximately 23,000 square meters absorbed, represents one of the best quarters of the last five years for this sub-market.
- With respect to Q2 2018, the increase in take-up in the Centre and Periphery sub-markets should be noted. Inferior results in Q3 for the Semi centre (which, however, in Q2 had been affected by the significant pre-let of the third tower of CityLife) and for the Hinterland.

As far as **rents** are concerned, prime rents continued to grow in Milan for the CBD Duomo that in Q3 2018 reached €580/m²/year (+2% compared to Q2). Unlike the previous quarter, in which prime rents remained stable in all the other sub-markets, positive changes Q/Q were observed in Q3 even in some less central areas: + 7% in the Semi centre and +8% in the Periphery, reaching respectively €320/m²/year and € 280/m²/year.

Unlike Milan, the Office leasing market in Rome posted a 50% drop in Q3 2018 with respect to both the level recorded in the previous quarter and compared to Q3 2017. More in detail, in Q3 2018, almost 30,000 square meters were absorbed in Rome for a year-to-date total of approximately 115,000 square meters. Compared to the spaces absorbed in Q2, the lower dynamism of the city appeared in all sub-markets, with the exception of Periphery & Out of GRA, which remained at the same absorption levels of the previous quarter. As for prime rents, like the previous quarter, the only increase was that of the Rome CBD, which in Q3 reached the level of €440/m²/year (+2% compared to Q2). The other Roman sub-markets were stable.

“Milan this year confirms its dynamism with a significant increase in prime rents compared to the recent past: a +12% in the last twelve months,” says Cristiana Zanzottera. *“International corporations are still interested in trying to occupy flexible, quality spaces in the city.”*

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