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REASONS TO INVEST
IN THE NEXT BIG CITY

MAJOR MORATTI
SPEAKS ABOUT
THE NEW PROJECTS
PLAYERS' FORECASTS ON
THE RISING MARKET

MILAN
EXPO 2015

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Two-thirds of Milan’s surface area, more than 120 mn sqm, need to be redesigned and revamped according to the city’s new government plan, which foresees a public/private exchange between public services and constructions rights. Developers and Real Estate companies like Hines, Ligresti and Cabassi are looking for the next big business.

There are no less than 48 development projects that will change the face of the city between now and 2017; about fifteen of these are considered the most important in terms of investment amount, surface areas involved and type”, says Leo Civelli, CEO of Reag Europe, the leader in Italy in the valuations sector, controlled by the American Appraisal Group. “I hope to see some completed within the next 10 years,” he added underlining that completion times in Italy are still too long compared to the market’s potential. “Milan with its initiatives can be the starting point of economic recovery in Italy”, maintains Manfredi Catella, CEO of Hines Italia, which is building the largest urban development project in Italy as well as one of the largest in Europe, with an investment of €2.2 bn.

The polarisation of the interests on the Milan real estate market arises from the convergence of two fundamental events: the approval by the municipality, after 30 years, of the new development plan for the territory, which will take effect in March next year, and the start-up of an infrastructural capital investment plan that must be accelerated in view of Expo 2015. Public and private investments to the order of tens of billions of euros are being mobilized along these guidelines with the objective of doubling the metropolitan area’s ability to welcome private persons and businesses. Three investment upsurges are driving the developers, financiers, and manufacturers: the first regards the new urban development projects that have already received the approval of the public administration and are scheduled to enter the implementation phase in the next 12-18 months. The second upsurge affects the projects already in progress, the completion of which was slowed, or in some cases, stopped, by the
THE MOVE

By Pier Paolo Albricci

According to PCT, the light and dark green areas represent the new public park system that will surround the city in a continuous circle: the largest area, covering approximately 42 million sqm, is Parco Sud, for the most part owned by the Ligresti and Cabassi families.
financial crisis of the developers. The third regards infrastructural projects.

ALREADY APPROVED

The most important approved projects are located along the East-West axis, which includes, in its interurban point, the area where the halls of the Expo 2015 will be built and connected to the city center and the already existing Fairgrounds by a waterway. Near this area the developer Euroimlano, a group led by CEO Alessandro Pasquarelli that has Intesa Sanpaolo (42%) as a major shareholder, followed by the Uni

polar insurance group (20%), is in charge of the construction of the new Cascina Merlata district (see file on pag. XX). The location will host residences, offices and pub

lic services, including the head

quarters of the Expo 2015 Village, where the 2000 fair employees will live during the opening period. The master plan was fine-tuned to take into account the subsequent reconversion of the Expo buildings into homes to be leased at moderate rents (social housing), and with great emphasis on public parks. "It is the first real attempt at a new generation of social housing, with a balanced public/private mix," says Carlo Masseroli, councilor for development of the Milan Municipal territory, the man who more than others has linked his name to the new regulatory plan. Three other areas subject to profound reconversion are located along the same axis: the first is the historic Bovisa industrial district, where according to the same Euroimlano project, a district that is partially residential and partially dedicated to the creation of a scientific research and university center will rise. The second regards the reconversion of the Farini railway station, which, in the next few years, will be the urban development with the highest added value and impact in terms of dimension (over 50 ha in a semi-central zone, a third of which destined for residences and services) as well as other objectives such as the creation of a large park (over 60% of the area) that will link the East and West of the city. The third development center could be the Via Stephenson area, at the entrance to the motorways leading north, and therefore next to the Expo area. "My dream is that this might become the Milanese equivalent of La Defense, that is a new business district," Councilor Masseroli confessed to Lombard.

DISMANTLING RAILWAY STATIONS

The dismantling of the railway stations in other areas of the city, on the basis of an agreement already signed between the municipal administration, the Lombardy Region and Italian State Railways, indicate potential development centers for further reconversions. The Porta Genova station could host the new fashion and design center, two of the excellent Milan industries that make it a European capital. The Porta Romana station is destined to include the development of the university system to which the vast regional park project, Parco Agricolo Sud, will be connected. This will be one of the most important deals of the coming years: 80% of the areas of the Parco Sud, currently owned by the Ligresti and Cabassi groups (50%-50%) will be transferred to the municipality in exchange for constructions rights, valued at tens of billions of euro, in the center or semi-center of the city. The second investment upsurge will affect the large construction works in progress, like the restructuring of the ex-Falck area on the northern outskirts of Milan, the new
Eight points for the challenge

1) It is the capital of the second richest European region with 135 points versus Stuttgart (139), Catalonia (123), Rhone Alps (111), while the Euro average stands at 100 for GDP per capita in PPS.
2) It has a GDP per capita at the top level in Europe with €48,000 in a framework of nearly full employment (unemployment rate at 3.4%).
3) It is one of the ten economic centers, with the first European network of stock exchange (London and Milan Exchanges), headquartering two of the top five European banks and 25% of the Italian banks in addition to the representatives of all major financial providers.
4) It is a leading European innovation center with one of the largest internet optic fiber networks in Europe (350 km), headquartering 20% of the Italian new technology based firms and 50% of Pharma and Biotech employees in Italy.
5) It is a central location for 5 key innovation-driven industry districts (metalcultures) – fashion, design, biotech, new materials and ICT – and has a total of 6,600 companies with an annual turnover of €30.6 bn and 275,000 employees.
6) It is one of the top 3 world fashion capitals alongside Paris and New York, hosting more than 7,000 fashion companies with €115 bn in aggregate turnover and the world’s first position in the male fashion industry.
7) It is the second city in Europe, after London, in terms of number of organizations and resources in R&D, with almost 30,000 employees and €7.3 bn of R&D activities (42% of Italian expenditure), and 40% of Italian innovation patents, equal to Boston’s annual production.
8) It is the largest European exhibition center with 565,000 sqm of total surface versus Hannover (495), Paris (418), Frankfurt (322), Cologne (284).

Milan Santa Giulia district, both inherited from the default of Luigi Zanon’s Risanamento group, and the Porta Victoria project that was put on hold due to the difficulties of the Ipi group. "Creating value and limiting risks by going into projects with a liquidity crisis and few competitors, can be good business," explains the developer Marco Mutti, CEO of Forinvest.

The residential and commercial part of the Santa Giulia project, at risk of being terminated following the crisis of the developer Risanamento, is shut down for the moment, while a portion of the approved construction was completed.

Finally, the ex-Falck steel foundries area, where Zanoni had imagined a €4 bn development on Renzo Piano’s project, was acquired on 11 June for €405 mn by an Italian property syndicate, B&N Real Estate, owned by Davide Bizzi, and the Korean group Honam Investment Management. The objective is to finalize the project plan as soon as the municipal administration approves the developer’s requests.

The Infrastructure Challenge

The infrastructure challenge will be the true battle in the next few years. "Infrastructure will revitalize the face of the city more than the projects in the areas," states Architect Mario Cucinella, who is committed on the environmental architecture front. He is responsible for one of the projects for Cassina Merlata and the construction of an ecological and low cost family home (social insulation) on behalf of Il cement. "Milan really needs infrastructure to truly become a great metropolitan city," agrees Marco Tirelli, senior partner of the firm by the same name, specialized in marketing exclusive residences and offering consultancy for final users and investors.

The development plan for the territory envisages two new subway lines, numbers 4 and 5, to be built by 2015. These have already been tendered and the extension of Line 2 to Assago completed. Opportunities for new locations for industrial and service enterprises that operate or would like to operate in the greater metropolitan area at the heart of Lombardy will arise from a territorial development program on a broad, supra-municipal scale. The objectives are very ambitious: 10 subway lines compared to the 5 current ones, to be built by 2030, 12 urban railway lines, for a total of 102 km against the current 70 km, and above all 90 sqm of parks per inhabitant against the 13 sqm of today.

A second key point is the concentration of public functions close to the infrastructures so as not to occupy other ground, which essentially means no construction of new buildings, but the redevelopment of existing ones.
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Analysis

The exhibition site of Expo 2015 (1 mn sqm), designed to express the theme Food for the Planet, Energy for Life, was developed with the support of the architects Stefano Boeri, Renzo Piano and Jacques Herzog. The area, located only a few kilometers from the center of Milan, will place great emphasis on sustainability, and is modeled to resemble an island surrounded by a water canal structured around two perpendicular axes. All participating countries will have their assigned lots along the main axis every 18 m in a new country with different norms and tastes that express the many interpretations of the theme. Following an innovative principle, Expo 2015 will guarantee all countries equal representation as well as the possibility of contributing to the development of the theme, to agricultural production processes, technologies, food sector research and the excellence of the production system.

RIGHT MOMENT TO INVEST?
The coexistence of a phase in which the area and construction prices have been cut back by at least 30% on the peaks of 2 years ago, along with the approval of the PGT (government plan for the territory) and the 2015 due date, are accelerating on paper all the projects that will see substantial public investment alongside private investors. The new rules that are at the base of the new government plan for the territory would be easy the process. At the core of the matter is a balanced exchange between the public interest in having more services and more parks and that of private parties who aim to build and restructure degraded areas. “The cardinal idea is that private investments represent a fundamental peg in the city’s development, in favor of which the public interest is defined upstream,” explains Carlo Masseroli. And it is an interest that envisages services and many parks for the citizens. Masseroli does not believe that this public/private exchange that must necessarily take a restricted territory into account, will transform Milan into a city of skyscrapers. “Milan does not need to grow in height, but rebuild itself without expansion” explains Masseroli. The new rules will simply abolish bureaucratic compliance requirements that have so far been the major obstacle to expediting development. One of the promise of the new PGT is the rejuvenetion of the building stock of the fifties and sixties (of the past century) whose usability, functionality and aesthetic characteristics that are no longer adequate for current requirements in terms of energy savings, internal functionality and acoustic insulation. Accordingly appetite is related mainly to central location, but the creation of infrastructure will bring peripheral areas closer (in terms of reachability) to the city. The creation of projects that meet the requirements expressed by demand could start up a process of progressive liberation of these property units by the owners. The opportunity for private operators will be to buy en bloc and renew real estate assets that are amongst the oldest in the world. “The new projects can be placed on the real estate market of high standing, i.e. they comply with all the more recent energy regulations and appeal to international investors who are only interested in this typology,” observes Civellici (Rega). “Milan will be able to maintain its palatability in the next few years only if it is capable of renewing the market with intelligent projects and sustainable class A buildings, with technologies able to lower the consumption and the operating costs of the buildings, simultaneously increasing the property value,” insists Cutella (Hines). It is for this reason that the Porta Nuova project was fully certified by LEED (Leadership in Energy and Environmental Design).

Compliance with high and sophisticated construction standards compresses the capital return margin, also from the viewpoint of construction timing, because longer procedures are imposed, above all in the start-up phase of the construction sites. Porta Nuova has reached the first phase of marketing for the buildings, that will not be handed over to the buyers before 2013, on the basis of a sophisticated marketing project that carefully selects the target. On the basis of the figures provided by the developer, it can be calculated that the average prices for the first sales are a little over € 9,000, in a construction project whose residential perimeter will extend to over 43,000 sqm. “The return can, generally, consist of a leveraged IRR exceeding 25% and an equity multiple of between 1.5x and 2x,” he explained to Lombard and Cutella confirms “we predict an IRR of between 20% and 25% for the Porta Nuova project, which, in the end, will require 8-10 years of work”. The operators confirm that the leveraged IRR and the equity multiple will be around standard values, that is, respectively, around 25% and 1.5x.