



# **Luxury Residences Report Second Half 2011**

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**Luxury Residences Report – Tirelli & Partners/Nomisma**

**Commissioned by**

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## Index

<b>Introduction and Methodology .....</b>	<b>1</b>
<b>1. The residential property market in major cities – (<i>Omissis</i>).....</b>	
<b>2. Milan – 2nd half 2011 and forecast for 1st Half 2012 .....</b>	<b>3</b>
2.1 The housing market.....	4
2.2 The luxury homes market.....	5
2.2a Introduction and Methodology .....	5
2.2b Sales .....	6
2.2c Rentals .....	12
2.2d Returns.....	17
2.2e Forecasts.....	17
2.3 Methodology note.....	20

## Introduction and Methodology

The Prestigious Residences Report came about as a result of collaboration between Tirelli & Partners and Nomisma. The former specializes in estate brokerage and consultancy in the most prestigious segment of the market, the latter is a study, research and consultancy company with over twenty years experience in the field of real estate and urban transformation.

The combined efforts of these two leaders in the Italian real estate business led to the formation in 2003 of this six-monthly Observatory which monitors trends in the luxury homes market.

The Observatory was initially conceived as in-house to Tirelli & Partners, but for some editions now it has become an opportunity for Tirelli & Partners to invite leading real estate brokerage and consultancy companies from the main Italian cities to participate. Today's Observatory has been realized with the assistance offered by Nuova Attici srl for the city of Rome.

The end purpose of the Prestigious Residences Report is to provide a six-monthly current and prospective picture of quantities, values, trends and opinions from the professionals at Tirelli & Partners and the Observatory Associates, each for their city of reference, about the most exclusive segment of the home market, which usually has very different characteristics and tendencies to those of the residential property market in general.

Over the six-month period under economic analysis, Tirelli & Partners and the Observatory Associates gathered qualitative and quantitative information on the market based on transactions carried out and other internal sources. All information is statistically processed and organized by Nomisma, which also provides an analytical interpretation of the phenomena observed by contextualizing them within the general market trends measured by its systematic periodic surveys.

The report presents synthetic considerations, emerging trends and characteristics of the luxury home market resulting from the analysis of data and qualitative information supplied by Tirelli & Partners and Observatory Associates professionals.

The Observatory also provides analytical insights with detailed information and precise data relating to individual local markets.

A number of criteria (different for each city) were established to help define the prestige quality of a residence:

1. Price per square meter or total price above a given threshold;

2. annual rent per square meter, or total annual rent above a given threshold;

3. location. The denomination Residual Area has been included among the different urban areas classified as prestige to indicate those market situations that, while not being situated in the areas identified, still possess value requirements 1 or 2.

The areas subjected to monitoring are the following:

#### **Milan**

1. Quadrilatero
2. Historic Centre
3. Brera – Garibaldi
4. Magenta
5. Venezia – Duse - Giardini - Manin
6. Residual Area

#### **Rome**

1. Historic Centre
2. Pinciano Veneto
3. Parioli – Salario – Trieste
4. Prati
5. Camilluccia

It should be pointed out that at least two different categories can be identified under the description “prestige residence”, each with potentially different markets and trends.

On one hand are big or very big (from 250 sq.m and above), very high profile properties sought after by an extremely limited segment of buyers. On the other, properties which, while coming under the denomination “prestige” because of their size and price, are accessible to a wider range of buyers.

For ease of exposition, we will refer to the first segment with the adjective “top” and to the second with “medium”. From a statistical point of view, the weight of the second segment is much more significant than the first.

In the future this sub-division will be explicitly referred to whenever required for a correct analysis of an observed phenomenon. If not explicitly mentioned, every consideration is to be deemed valid for the segment as a whole.

**2. Milan – Second Half 2011 and forecast for  
First Half 2012**

## 2.1 The housing market<sup>1</sup>

Table 2.1

### Housing market trends in Milan (2nd half 2011)

Sales Market		Rental Market	
Demand	⇔/↓	Demand	⇔
Supply	⇔	Supply	⇔/↑
Number of contracts	⇔/↓	Number of contracts	⇔
Average price <sup>(1)</sup> (€/sq.m)	3,493	Average rent <sup>(2)</sup> (€/sq.m/year)	158
Average half-yearly fluctuation (%)	-0.2	Average half-yearly fluctuation <sup>(2)</sup> (%)	-1.4
Average annual fluctuation <sup>a</sup> (%)	-0.6	Average annual fluctuation <sup>(2)</sup> (%)	-2.1
Average closing times (months)	6.0	Average rental closing times (months)	3.9
Average discount on asking price (%)	9.4	Average gross rental yields (%)	4.6

<sup>(1)</sup> Weighted average of unoccupied homes.

<sup>(2)</sup> Used homes.

Source: Nomisma.

While supply has progressively stabilized, demand for residential property in Milan has remained fairly weak, especially in the semi-central and outlying areas. Selectivity in demand has also meant that average closing times were longer and reached 6 months for used properties (compared with 2.2 in 2002) and as much as 6.2 for new builds. On the other hand, no substantial variation in the gap between asking and actual prices was noted. Although the picture for the period is fairly critical, interest shown in some property developments resulted in a slight increase in prices in the semi-central areas, while those for central and prestige locations held substantially steady and those for outlying areas dropped slightly.

On the rental side there was a further increase in supply, although more contained than that recorded for the first part of the year, as opposed to substantial invariance in demand. Such dynamics resulted in a slight lengthening of average rental closing times, which went back to levels near the 4 months reached in the first part of 2008, but without a reduction in the number of contracts signed, which remained at 2010 levels. There was a more distinct fall in values, with prestige areas recording close to 3% over a six-monthly basis. Rents held decidedly better in semi-central areas, where the decrease stopped at -0.4%.

<sup>1</sup> See "Real Estate Market Report", Nomisma, no. III/2011.

As a consequence, there was a further decline in gross returns from rents, which today stand at an average of 4.6% (peaking at 5% in outlying areas), that is to say, a percentage point less compared with levels at the beginning of the 2000s. Total return for the sector shows a timid increase compared with the first half of the year with values (4%) far higher than the minimum (-1.9%) recorded during the first wave of the recession (first half 2009).

The forecast for the next half year does not signal any improvement over the current situation, with the present downward trend in both sales values and rentals being spread fairly evenly throughout the territory.

## **2.2 The luxury home market**

The luxury home market is defined as follows:

- Homes whose sales value per square meter exceeds **€7,000** or whose total value exceeds **€1,000,000**;
- Homes with minimum area of 50 square meters, whose rental value exceeds **€220** per square meter per year or whose total annual rental value exceeds **€40,000**;
- Homes located in the following areas:
  - Quadrilatero
  - Historic centre
  - Brera-Garibaldi
  - Magenta
  - Venezia – Manin - Giardini - Duse
  - Residual area (virtual area made up of all residences that comply with the indicated parameters but that are not located in the above-mentioned areas).

### **2.2.a Methodology note**

Starting from the previous report relating to the 1st Half 2011, we have made some changes to the method of calculating quantities with regard to the market in Milan. A weighting system has been introduced that takes into account both the state of repair of the properties and the location (see paragraph 2.3).

Therefore, the average values presented below are not directly comparable with those published in the report for the 2nd Half 2010 and earlier ones.

The new method has been applied to calculate the average prices (both per square metres and total), closing times and the gap between asking price and offered price.

## Luxury Residence Report

Second Half 2011

A weighting system has been applied to the rental market that takes into account the location but not the state of repair. Average rents, rental closing times and difference between asking and actual rent have been calculated using this weighting system.

In the following tables the new calculation method has been applied starting from values regarding the first half of 2010 in order to make temporal comparisons between similar quantities possible.

### 2.2.b Sales

Table 2.2

#### The luxury homes sales market in Milan- 2nd half 2011

Urban area	Demand	Supply	Number of Sales	Prices
Quadrilatero	↔/ ↓	↔	↔/ ↓	↔
Historic Centre	↔/ ↓	↔/ ↑	↓	↔
Brera-Garibaldi	↔/ ↑	↔	↔	↔
Magenta	↔/ ↑	↔	↔	↔
Venezia-Duse	↔	↔/ ↓	↔/ ↓	↔
Residual area	↔	↔/ ↑	↓	↔
<b>Average</b>	↔	↔	↓	↔

Source: Tirelli & Partners.

**Supply and demand**– During the second half of 2011, demand for luxury homes showed no evident signs of recovery over the first half of the year. Supply was substantially stable or increased in some areas such as the Historic Centre and the Residual Area. The most in-demand locations continue to be the Brera-Garibaldi and Magenta areas, while the Historic Centre showed signs of a further decrease in demand. It should be added that often the quality of the properties put on the market does not meet the expectations of potential buyers both in terms of state of repair and functionality/usability of the buildings. Furthermore, prospective sellers often have very high expectations with regard to the value of the property, often the result of “out of date” evaluations, and at first are disinclined to close for less than the price they expect. Successful transactions at the highest prices are the result of a firm intention to buy and above all, the quality of the homes on the market, both in terms of location and the renovations carried out.

## Luxury Residence Report

Second Half 2011

Combined analysis of the following tables shows a picture with these salient points: the homes on offer increase; those that are on the market for the longest time – usually the less prestigious and/or those overpriced, - remain unsold in expectation of a further discount. Not even the combination of average discounts now around 10% and a reduction in asking prices of close to 5% over the year is able to reduce the average times properties stay on the market (still around 11 months). The dynamics of transactions concluded compared with stock offered slows down decidedly.

The number of sales closed compared with number of properties on the market is in sharp decline, with double digit values. On average, the percentage of unsold properties out of the total available on the market shows an obviously “waiting” trend on the part of the demand, and one of “passive resistance” on the part of the supply. During the second half of 2011, only 9.8% of the stock of existing supply was sold compared with 23.4% in the first half of the year. The only area where the percentage increased was the Quadrilatero, which given the smallness of the sample and the particular nature of the properties is often a case apart.

Table 2.3

### Percentage of properties sold out of total properties on the market

Urban area	2nd semester 2011	1st semester 2011	2nd semester 2010	1st semester 2010
<b>Average</b>	<b>9.8%</b>	<b>23.4%</b>	<b>28.3%</b>	<b>24.9%</b>

Source: Tirelli & Partners.

**Closing times** – Average closing times have remained practically unaltered compared with those of the 1st half of 2011, being 10.7 months. There has been an increase, however, in the average stock time of properties still for sale, which on average reaches almost 9 months (8.8). Considering that the average value for property offered for sale during the period should be about 3 months, an average value of 8.8 months indicates that among the existing stock there are many homes that have been on sale for almost 15 months.

Table 2.4

**Average closing time, average stock times of unsold property, gaps between asking price and actual price in the luxury home market in Milan in the last four semesters**

	2nd semester 2011	1st semester 2011	2nd semester 2010	1st semester 2010
Average closing time (months)	10.7	10.8	9.4	7.5
Average stock time of unsold property (months)	8.8	8.4	8.0	6.8
Difference between asking/actual price (in %)	9.7	7.8	5.4	4.9

Source: Tirelli & Partners.

**Reductions** – The uncertainty of the current economic situation and the fact that it is impossible to foresee a definite recovery in the short term, have led buyers to assume a “waiting game” attitude that is primarily expressed in requests for substantial reductions on the asking price. During the second half of 2011, the average gap between the asking price and the actual price reached a new high of 9.7%.

**Prices** – The variation in prices observed in the second half of 2011 was equal to -0.9%, not significantly different to the decline recorded in the first half of the year. The correction observed (equal to -1.6%) on an annual basis was also in line with that of the first half of 2011. However, within this value are markedly different dynamics. The propensity of owners of the most prestigious homes (those in the fourth quartile of price) seems to be to hold rigidly to the asking price, reserving discounts for the final stage of negotiation, as can be noted from the substantial hold of average maximum prices (+0.3% on an annual basis). Conversely, in the less prestigious band of the market (identified as the first quartile of price), the decline in prices (-23.8% six-monthly, -4.8% on an annual basis), it occurs right from the time of demand and increases further during negotiations, when – as indicated above – the buyer manages to obtain a reduction of almost 10%.

The city’s two smallest areas (Quadrilatero and Venezia-Duse) continue to be the most prestigious. In these two locations the price of real estate is in fact equal to €17,900 and €14,700 per square meter, compared with a city average of around €10,500 per square meter. The most surprising figures in the semester in question, however, is the very consistent decline in the overall average price, which dropped 4% in the semester, reaching almost 10% (9.9% on an annual basis). Combined with the hold of average top prices, the figure is “explained” by a reduction in the quality of the homes on sale. In an uncertain market with lengthy closing times, where almost two digit reductions are asked

## Luxury Residence Report

Second Half 2011

for, the most prestigious homes are withdrawn from the market to wait for more favourable times.

Table 2.5

### Asking prices<sup>(1)</sup> for luxury homes in Milan – 2° half 2011

Urban area	Average price New <sup>(2)</sup> (€/sq.m)	Average price Used <sup>(3)</sup> (€/sq.m)	Average price <sup>(4)</sup> (€/sq.m)	Average Minimum price <sup>(5)</sup> (€/sq.m)	Average Maximum price <sup>(6)</sup> (€/sq.m.)	Top prices <sup>(7)</sup> (€/sq.m)	Average total price <sup>(8)</sup> (€)	Maximum total price <sup>(9)</sup> (€)
Quadrilatero	16,431	14,543	15,266	12,444	17,893	20,000	2,763,603	8,000,000
Historic Centre	9,950	8,535	8,934	7,637	10,280	22,571	1,65,922	7,900,000
Brera-Garibaldi	10,015	8,547	9,004	7,436	10,388	13,500	1,429,608	5,000,000
Magenta	9,669	9,147	9,294	7,793	10,582	14,783	2,062,666	9,000,000
Venezia-Duse	13,386	11,877	12,188	9,579	14,697	19,600	3,639,067	13,000,000
Residual area	7,377	6,480	6,791	5,266	8,241	12,000	1,466,578	5,500,000
<b>Weighted average</b>	<b>9,728</b>	<b>8,630</b>	<b>8,968</b>	<b>7,371</b>	<b>10,474</b>	<b>16,549</b>	<b>1,808,954</b>	<b>7,267,295</b>
<i>Bi-annual fluctuation (in %)</i>	-0.1%	-1.4%	-0.9%	-2.8%	-0.3%	-	-4.0%	-
<i>Annual fluctuation (in %)</i>	-1.0%	-2.1%	-1.6%	-4.8%	0.3%	-	-9.9%	-

(1) The values in the table are calculated based on the asking price both for properties sold and for listed properties.

(2) Average value of newly built or renovated luxury home units per square meter.

(3) Average value of luxury home units in average state of repair or to be renovated per square meter.

(4) Average value of luxury home units per square meter, obtained as weighted average of the New average price per square meter and the Occupied average price per square meter.

(5) Average value of luxury home units per square meter that come with a price lower than the first quartile of real estate price distribution per sq.m.

(6) Average value of luxury home units per square meter that are priced higher than the third quartile of real estate price distribution per sq.m.

(7) Maximum value per square meter recorded during the period.

(8) Mean total, calculated as weighted average of the New total average price and the Occupied total average price.

(9) Total maximum value recorded during the period.

Source: Tirelli & Partners data processed by Nomisma

**Top Prices** – Despite the difficulties described in the preceding paragraphs, top prices did not vary significantly during the first half of 2011 from those in the previous report, being on average around €16,500/sq.m. The Historic Centre area held on to its top place in the ranking with €22,500/sq.m., followed by the Quadrilatero with €20,000/sq.m. It should be noted, however, that while the home that fetched the top price in the Quadrilatero came within the sample for the semester analyzed, that in the Historic Centre goes back as far as the first half of 2010!

## Luxury Residence Report

Second Half 2011

Table 2.6

### Features of homes with the highest total sale value in Milan – 2° half 2011

Area	Total price (€)	Size (mq)	Price per sq.m.(€)	State of Repair	Type of housing	Features
Venezia-Duse	6,000,000	550	10,909	Good	Apartment	Apartment in period building
Residual area	4,800,000	520	8,846	Renovated	Apartment	2-level roof-top and penthouse apartment with terraces on both floors and 4-car garage in completely renovated building.
Brera-Garibaldi	3,400,000	300	11,333	Renovated	Apartment	2nd-floor apartment in period building with terrace, no parking space

Source: Tirelli & Partners.

In the second half of 2011, the homes with highest total value sold were located in areas other than the more well-established ones such as the Quadrilatero or Historic Centre. The record goes to the Venezia-Duse area, with the sale of a 550 sq.m. apartment for €6 million.

**Type of home requested** The most requested features were essentially similar to those in the last report. Generally, a home between 180 and 200 sq.m. with at least 3 bedrooms is preferred. Demand is concentrated mainly on the upper floors, to the extent that mezzanine or first floor apartments are often rejected out of hand even if they are located in very prestigious areas or settings. Other important features are period ambience, very good state of repair, terraces and a parking space, or better yet, a garage.

#### Most requested features – 2nd half 2011

**Area:** Brera-Garibaldi, Magenta

**Size:** 180/220 sq.m.

**Number of bedrooms:** 3

**Features:**



**Other:** new or renovated home, period building, upper floor, building with maximum 3 floors, bright, quiet, terrace with a good view, garage or parking space.

Source: Tirelli & Partners.

## Luxury Residence Report

Second Half 2011

**Reasons for buying** – During the second half of 2011, the decline in the number of those buying a luxury home as their first home stabilized, going from 64% at the end of 2010 to 50% in the 1st half of 2011 to the current 47%. Consequently, the percentage of buyers interested in replacing their current home reached 40% (compared with 34% in the previous report). The remaining 13% opted to purchase a luxury residential property as an investment.

**Foreign investors** – The on-going problems affecting the city's real estate market, including the luxury homes sector, continue to be a limiting factor for foreign investors. The percentage of foreigners has now been unchanged and stable at 2% since 2008. The provenance has also changed over time: if until a few years ago the majority of players in the market came from Russia, nowadays there are only investors from Europe. The features requested are not very different to those mentioned previously: upper floors, terraces and also an exclusive ambience. The most sought-after locations continue to be the Quadrilatero and Magenta areas.

### 2.2.c Rentals

Table 2.8

#### The luxury home rental market in Milan – 2nd half 2011

Urban area		Supply	Number of rentals	Rents
	<b>Demand</b>			
Quadrilatero	↔/ ↓	↔	↔	↔
Historic Centre	↔/ ↓	↑	↓	↔
Brera-Garibaldi	↔/ ↑	↔/ ↑	↔	↓
Magenta	↔	↔	↓	↔/ ↓
Venezia-Duse	↔/ ↓	↔	↔/ ↓	↔
Residual area	↔	↑	↔/ ↓	↓
<b>Average</b>	↔/ ↓	↔/ ↑	↓	↔/ ↓

Source: Tirelli & Partners.

**Supply, demand, contracts** – Demand for rentals declined further during the second semester of 2011. The areas where the recession was most accentuated were the Quadrilatero, the Historic Centre and the Venezia-Duse area, as opposed to the Brera-Garibaldi area, where demand showed signs of recovery. The number of properties available to rent has been abundant for some semesters now. Quality, however, proves to be totally inadequate to meet a demand that has evolved greatly over the past 3 years to align itself with

## Luxury Residence Report

Second Half 2011

international standards that require homes in a good state of repair, often completely furnished and in any event never without a fitted kitchen and built in storage space. The usual poor state of repair of the supply combined with the unwillingness of owners to renovate without first having identified a tenant or equip the house with the minimum furnishings required, is a notable stumbling block to matching supply and demand in an economic situation that is less rosy than in the past. Rental contracts have, therefore, shown a decline compared with the first half of the year: the percentage of contracts closed out of the total number of houses available has gone down from 34.8% al 27.8%

Table 2.9

### Percentage of rented properties out of total number of properties on the market (2nd semester 2011)

	2nd semester 2011	1st semester 2011	2nd semester 2010	1st semester 2010
<b>Average</b>	<b>27.8%</b>	<b>34.8%</b>	<b>32.8%</b>	<b>40.8%</b>

Source: Tirelli & Partners.

**Rental closing times and differences** – Despite the decline in demand and the lack of quality properties available to rent, average closing times were about the same as in the first half of 2011, an average of 7.1 months. This is a very long time considering it refers to rented homes (the Nomisma figure for the Milan market as a whole is 3.9 months!) On the other hand, average stock time of unrented properties has fallen from 7 to 6 months. This figure is misleading, however. The market as a whole has certainly seen an increase in average stock times as witnessed by the enormous number of “To Let” signs and the length of time they remain affixed to doors. In the face of a very difficult market, Tirelli & Partners’s strategy in the rental sector has been to focus on the more interesting properties and drop the more critical listings.

As has already been observed with prices, rents also have to undergo a reduction during negotiations between the parties. In the second half of 2011, the difference between requested rent and actual rent increased further to reach 8.2%.

## Luxury Residence Report

*Second Half 2011*

Table 2.10

### Average rental closing times, average stock times of properties not rented, difference between requested rent and actual rent in the luxury home market in Milan in the last four semesters.

	2nd semester 2011	1st semester 2011	2nd semester 2010	1st semester 2010
Average rental closing time (months)	7.1	7.2	7.3	6.5
Average stock times of unrented property (months)	6.0	7.0	6.8	4.6
Difference between requested/actual rent (in %)	8.2	7.3	6.4	7.8

Source: Tirelli & Partners.

Table 2.11

### Luxury home rental prices<sup>(1)</sup> in Milan, second half 2011

*(€/sq.m./year)*

Urban area	Average minimum rent <sup>(2)</sup>	Average maximum rent <sup>(3)</sup>	Average rent <sup>(4)</sup>	Top rents <sup>(5)</sup>
Quadrilatero	292	440	376	500
Historic Centre	223	332	276	400
Brera-Garibaldi	225	335	278	515
Magenta	219	310	263	515
Venezia-Duse	248	370	311	424
Residual area	182	260	230	316
<b>Weighted average</b>	<b>233</b>	<b>344</b>	<b>290</b>	<b>453</b>
<i>Semi-annual fluctuation (in %)</i>	-5.1%	-0.4%	-2.2%	-
<i>Annual fluctuation (in %)</i>	-8.4%	1.5%	-2.4%	-

(1) The table values are calculated on the basis of the rent requested both for rented property and for listed property.

(2) Average rent of luxury residential units that have a rent lower than the first quartile of property rent distribution.

(3) Average rent of luxury residential units that have a rent higher than the third quartile of real estate price per sq.m.distribution

(4) Luxury residential unit average rent.

(5) Highest rent recorded in the period.

Source: Tirelli & Partners data processed by Nomisma

**Rents** – During the second half of 2011, rents fell by an average of -2.2%. This is a greater drop than that recorded in the first part of the year, which was of the order of -0.2% . The decline is due mainly to a drop in minimum rents (-5.1%) compared with maximum rents which are generally holding (-0.4%). The picture thus painted shows how the introduction of a flat rate tax has failed to benefit the sector. The causes are to be found on one hand in the misalignment described between the state of repair of the supply and that required by the demand, and on the other in the highly uncertain economic climate both real

and perceived. Revisions to the tax rate have been announced several times and the introduction of the IMU (single municipal tax) has led to some unfavorable distortions in the sector. Renting a luxury home in Milan currently costs €290/sq.m., with a maximum of €376/sq.m. in the Quadrilatero and a minimum of €230/sq.m. in the residual area.

**Top rents** – One of the most surprising indicators for the semester is certainly that of the top rents, which show an extremely consistent reduction (-13.5%) affecting all the most prestigious areas with the exception of Magenta. In a very careful market, top prices in the Quadrilatero have decreased by a third (from €754 to 500/sq.m.) and it has lost (just) its record (now at €515/sq.m.) to Brera-Garibaldi (which, however, has gone down from the previous level of €600/sq.m.) and Magenta.

The Quadrilatero is not among the 3 transactions with the highest rents in the second half of the year, proof that the market is no longer prepared to pay very high rents for the most prestigious locations. The biggest transaction was in the Magenta area, where a home was rented at a total rent of €130,000/year (€260/sq.m.). Next in the ranking were the Venezia-Duse area with an apartment rented at €125,000/year and Brera-Garibaldi with €115,000/year.

Table 2.12

**Features of rental homes with highest overall rent in Milan in the second half of 2011**

Area	Total rent (€/year)	Size (sq.m)	Rent (€/sq.m./year)	State of repair	Type of home	Features
Magenta	13,000	500	260	Good	Apartament	2° floor with terrace
Venezia-Duse	125,000	330	379	Excellent	Apartament	5° floor with terrace
Brera-Garibaldi	115,000	300	383	Good	Apartament	5° floor with terrace

Source: Tirelli & Partners.

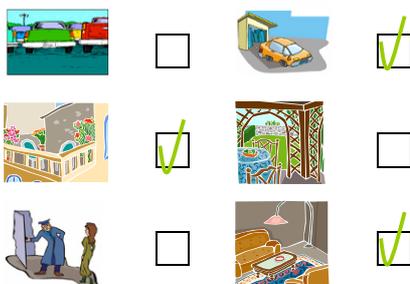
**Most frequently requested features – 2nd half 2011**

**Area:** Brera-Garibaldi, Magenta

**Size:** 130/150 sq.m.

**Number of bedrooms:** 2

**Features:**



**Other:** new or renovated home in a period building with no more than 3 floors, furnished or semi-furnished, ready to be lived in, with garage and terrace with a view.

**Type requested** – The average size most asked for by tenants has gone from 180 to about 150 sq.m., with at least 2 bedrooms (in 2010 the request was for 3 bedrooms). The most sought-after areas remain Brera-Garibaldi and Magenta. Additional features that clients insist on are: excellent state of repair, a fitted kitchen, position on upper floors and finally, outside space and a garage.

**Foreign renters** –The rental market appears to be more dynamic than that for sales

Source: Tirelli & Partners.

as far as foreign clients are concerned. In particular, the percentage of foreign renters has shown a fluctuating trend: over two years it has gone from 2.5% to nearer 1% and then back to 2% again in the half just ended. Interest from Eastern European clients has now completely disappeared, leaving only citizens from the main European countries. The most sought-after areas are still the same: Brera-Garibaldi and Quadrilatero.

**2.2.d Returns**

The greater

Table 2.14

decrease in average rents than that recorded for prices has led to a decline in the average gross rental return, which stands at 3.23%. If the difference at medium level is not so significant, the oscillation recorded in some other areas of the city has been

**Potential average rental returns in the last four semesters (% values)**

Urban area	2nd semester 2011	1st semester 2011	2nd semester 2010	1st semester 2010
Quadrilatero	2.46	2.40	2.29	2.00
Historic centre	3.09	3.11	3.18	3.39
Brera-Garibaldi	3.09	3.42	3.36	3.43
Magenta	2.82	2.93	2.90	3.02
Venezia-Duse	2.55	2.24	2.12	2.33
Residual area	3.38	3.55	3.70	3.52
<b>Average</b>	<b>3.23</b>	<b>3.28</b>	<b>3.26</b>	<b>3.27</b>

Source: Tirelli & Partners.data processed by Nomisma

more marked (see for example the data relating to the Brera-Garibaldi or Venezia-Duse areas). Returns in the residual area continue to be good, despite the fact that they have gone from 3.7% to approx. 3.4% during the last two semesters.

### 2.2.e Forecasts

Table 2.15

#### Forecast for the sales market for the 1st half 2012

Urban area	Demand	Supply	Number of sales	Sales prices
Quadrilatero	↔	↔	↔	↔
Historic centre	↓	↑	↔/↓	↓
Brera-Garibaldi	↔/↑	↔	↔	↔
Magenta	↔/↑	↔	↔	↔
Venezia-Duse	↔	↔	↓	↔
Residual area	↔/↓	↑	↔/↓	↓
<b>Media</b>	↔	↔/↑	↔/↓	↔/↓

Source: Tirelli & Partners.

2012 should be a year of transition for the luxury homes market in Milan. While the economic scenario is uncertain, the political situation is changing, with the country's government showing a firm intention to introduce income redistribution policies and take measures to reduce the enormous size of the black economy. All of this is being experienced in a dramatic way, often more negatively than it would be reasonable to do so. Expectations are negative and the role of expectations in the real estate market is always fundamental. A house is an investment and people instinctively tend to invest when the general climate is calm and favourable. Real estate demand, therefore, is highly cyclical – people buy in periods of growth (when prices go up) and withdraw from the market in negative periods (when prices go down). It is a matter of instinct, not logic, but this is the reality.

At local level in Milan, the introduction of the restricted traffic zone area C could penalize the purchase of medium-level homes in some areas of the historic centre.

The crux of the matter, for which it is not possible to express optimism for the current and coming years, is strictly tied to the lack of supply, and specifically of a supply that has the usability, livability and prestige demanded. At a quick glance, the market is full of properties for sale. The point is that in reality there is no market for the great majority of them as aesthetically, functionally and economically they do not meet the standards of a demand that is well aware

that in uncertain times only the quality of the property can guarantee it will hold its price over time and constitute the basis for a solid, lasting investment.

Table 2.16

**Forecast for the rental market for the 1st half 2012**

Demand	Supply	Number of rentals	Rents
↔	↔ / ↑	↔	↔ / ↓

Source: Tirelli & Partners.

As far as the rental market is concerned, in 2012 the segment could hypothetically benefit from the slowdown in sales observed during 2011, even if this would require considerable upgrading of the properties presently offered for rent. It would seem more plausible to expect a reduction in rents in answer to an intransigent demand with regard to the state of repair of rental properties.

**2.3 Methodology note**

Starting from the previous Report, some changes were made to the methodology used to calculate quantities with regard to the Milan market. In particular, the effort made to gather information on the state of repair of the properties has made it possible to provide the measure of average property prices, distinguishing the new/renovated from the used. A weighting system has been defined to ensure that an total average price could be established from the two "pure" quantities (used and new/renovated). Furthermore, to improve the significance of the average values calculated, we also decided to include differentiation by area of origin in the weighting system, weighing the values of each area for the actual market share of the city total they represent.

To limit the variability of the sample and so allow comparisons over time between homogeneous quantities, it was decided to use a multi-period weighting system that considers the number of properties listed in the last four surveys of the Observatory. Table 1 below summarizes the weighting coefficients used in this document.

Table 2.17

**Weighting system used to calculate average sales values**

<b>Area</b>	<b>WEIGHTS</b>		<b>Total</b>
	<i>New</i>	<i>Occupied</i>	
Quadrilatero	0.0267	0.0429	0.0696
Historic Centre	0.0787	0.2003	0.2789
Brera-Garibaldi	0.0397	0.0878	0.1274
Magenta	0.0546	0.1398	0.1944
Venezia-Duse	0.0085	0.0325	0.0410
Residual Area	0.1001	0.1886	0.2887
<b>Total</b>	<b>0.3082</b>	<b>0.6918</b>	<b>1.0000</b>

The new method has been applied to calculate the average value of prices (both per square metre and total), closing times and reduction expressed as the difference between asking price and actual selling price.

In view of the changes to the method, such values are no longer comparable with those published in previous editions of the Report. In general, the new method of calculation results in lower average prices than that previously used, due mainly to the weighting system introduced. This system places less importance on the Quadrilatero and Venezia-Duse areas, where the highest prices are recorded, but which together represent a market share of less than 12%, while it emphasizes values in the Residual Area, which represents about 28% of the market.

The weighting system has been also applied to the rental market. It considers the area but does not take into consideration the state of repair, as this information was not detected in the sample. With this system of weights we calculated average rent values, rental closing times and difference between rent requested and rent offered. Table 2 shows the weighting values used in this document.

Table 2.18

**Weighting system used to calculate average rent values**

<b>AREA</b>	<b>WEIGHTS</b>
Quadrilatero	0.1656
Historic Centre	0.2459
Brera-Garibaldi	0.1770
Magenta	0.1869
Venezia-Duse	0.1213
Residual Area	0.1033
<b>Total</b>	<b>1.0000</b>