



Luxury Residences Report First Half 2009

YEAR VI – No. 1
September 2009

Luxury Residences Report – First Half 2009

Commissioned by:

Tirelli & Partners
Via Leopardi, 2
20123 Milano (Italy)

Edited by:

NOMISMA – SOCIETÀ DI STUDI ECONOMICI S.P.A.
Strada Maggiore, 44
I-40125 Bologna (Italy)
tel. +39 (051) 6483.301-111
fax +39 (051) 223441
email: nomosmi@nomisma.it
web site: www.nomisma.it

Project Managers

Marco E. Tirelli (Tirelli & Partners)
Silvia Distaso (Tirelli & Partners)
Daniela Percoco (Nomisma)

Project Team

Andrea Gattoni (Tirelli & Partners)
Federica Midili (Tirelli & Partners)
Piero Zanin (Tirelli & Partners)
Gianluigi Chiaro (Nomisma)
Johnny Marzialetti (Nomisma)

Report finalized in September 2009

Index

Introduction and methodology.....	1
1. The residential market in urban areas – first half 2009	3
2. Milan – first half 2009 and forecast for second half 2009.....	12
2.1 The residence market.....	13
2.2 The luxury residence market	14

Introduction and methodology

The Luxury Residences Report came about as a result of collaboration between Tirelli & Partners and Nomisma. The former specializing in luxury real estate consultancy, the latter 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 prestige residences market.

The end purpose of the Luxury Residences Report is to provide a six-monthly current and prospective picture of quantities, values, trends and opinions expressed by Tirelli & Partners about the most luxury segment of the market, which usually has very different characteristics and trends from those of the general residential market.

Over the six-month period, Tirelli & Partners gathers qualitative/quantitative information on the market, based on transactions effected and other internal sources. All the information is processed statistically and organized by Nomisma, which also provides an analytical interpretation of the phenomena observed, putting them into the context of the general market trends measured by its periodic surveys.

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

The Observatory also offers detailed information and up to date data relating to individual local markets.

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

1. price per square meter or total price above a given threshold¹;
2. annual rent per square metre of total annual rent above a given threshold¹;
3. location. The denomination Residual Area has been included among the different urban areas classified as prestige to indicate those market situations which, while not being located in the areas identified, still possess value requisites 1 or 2.

¹ Reference values vary from city to city: see the chart relative to each market.

The areas subject to monitoring are the following:

Milan

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

It should be pointed out that at least two different categories can be identified under the description “luxury residence”, each with potentially different markets and trends. On one hand are big or very big (from 200/250 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 “luxury” 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 the second with “medium”. From a statistical point of view, the weight of the second segment is much more significant than the first.

In 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 overall segment.

**1. The Luxury Residences market in Italy's urban
areas**
First Half 2009

Table 1.1

**Residence market trends in 13 urban areas,
First Half 2009**

Sales market		Rental market	
Demand	↓	Demand	↔/↑
Supply	↑	Supply	↑
Number contracts	↓	Number contracts	↔
Average price ⁽¹⁾ (€/sq.m.)	2,411	Average rent ⁽²⁾ (€/sq.m./year)	116
Average six-monthly variation ⁽¹⁾ (%)	-2,5	Average six-monthly variation(%)	-3,3
Average annual variation ⁽¹⁾ (%)	-3,5	Average annual variation ⁽²⁾ (%)	-4,1
Time for sale (<i>months</i>)	6,1	Average time for rental (<i>months</i>)	3,2
Average gap asking and actual price (%)	13,0	Gross yield from rental (%)	4,8

⁽¹⁾ Weighted average unoccupied residences.

⁽²⁾ Used residences.

Source: Nomisma.

“Credit to the private sector continues to slow down. Since April the variation over three months has become negative; in May it was equal to -0.9% on an annual basis. In the last decade the average growth rate in the private sector was 9.6%. The contraction concerns companies, while loans to families continue to grow, even though at a definitely inferior rate to those of previous years.”

This is how the Governor of the Bank of Italy described the situation in Italy with regard to the drying up of bank credit, during a meeting of the ABI (Italian Banks Association) on 8 July this year

The same considerations were also made by the Chairman of CONSOB during its annual meeting, when he spoke of the “danger of suffocation” for companies, referring not only to the drying up of the Stock Exchange channel of financial supply, but also to credit restrictions. His words echoed the statements made by the Governor of the ECB about the need for banks to grant more credit to businesses.

However, it emerges from bank credit data that families are less affected by *deleveraging* than business and that in general the tightening up on credit is less consistent that it appears with reference to the real estate sector. The real estate business in Italy will generate a turnover of 110 billion euro in terms of sales, a turnover which at the end of 2007, before the recession started to really

bite, amounted to 154 billion euro, but which at the end of this year will be reduced by over a quarter compared with two years ago.

Table 1.2

Property market turnover
(billions of €)

	2007	2008	% Variation 2008/07	2009	% Variation % 2009/08
Residences	128	110	-14,3	91	-17,3
Non-residential properties	26	23	-13,1	19	-15,3
<i>Total</i>	<i>154</i>	<i>133</i>	<i>-13,7</i>	<i>110</i>	<i>-16,9</i>

Source: Nomisma processing and estimates from Agenzia del Territorio data.

The reduction in turnover is mainly due to the reduction in the number of sales, which having reached a maximum at the beginning of 2007, subsequently started to decline very quickly, with a reduction of around 220 thousand residences and 20 thousand non-residential properties in the last two years (estimated at end of 2009).

The effect of the reduction in turnover determined by the combination of a reduction in quantity and, in 2009, by a reduction in values is, therefore, cautiously estimated at the not inconsiderable amount of around 44 billion euro.

However, construction does not seem to have been affected as negatively by the recession as property sales. Indeed, although drastic, the fall in investment in construction, estimated by ANCE at around minus 10 per cent in 2009, is still of a contained entity if compared with the decrease that real estate transactions are experiencing, particularly the volume of purchases made by specialist investors

The recession has also had its effect on the residential sector. The results of Nomisma surveys relating to the 1st half 2009 show that the values of residential properties in the main Italian cities have fallen, even if to a relatively contained extent (still?) compared with other European countries.

However, the negative variation of values is considerable with respect to their historic trends. With reference to residential properties, but not very differently for other types of property, the intensity of the negative trend recorded in the last half year is without doubt the highest for 25 half-years, or from the first half of 1997, and the third most drastic since 1994.

In addition, to show how widespread the unusual (for Italy) trend towards dropping values is, no exceptions to the “minus” sign are to be seen for any of the big cities analyzed.

Last half, for the first time since 1998, a -1% was recorded for residences, while the price trend for other types of property remained positive, although by not very much, and above all the phenomenon did not yet universally affect residences in all the big cities.

With this present survey, all types of property are also going into negative terrain, something which had not happened since the first half of 1997.

The number of property sales has definitely fallen, and this follows what is happening in the rest of the world, but now also values are also showing a certain tendency to drop, even if they are holding fairly well compared with other countries.

Table 1.3

Half-yearly and annual % variation in property prices in the 13 urban areas

	Half yearly	Annual
Residences	-2,5	-3,5
Offices	-2,3	-2,1
Shops	-1,7	-1,4
Garages	-	1,0

Source: Nomisma.

However, the picture is complex, given that there are different situations in the underlying trend indicated.

It emerges that segmentation of the market into high and low quality properties is becoming rooted.

On this point – given that the global markets spread ways of behaviour and perceptions at a far greater speed than in the past – we refer to the analysis of recent house market trends in the USA by Robert Shiller, according to whom “the boom and subsequent collapse of house prices were greater for low priced houses”.

Another aspect that makes it difficult to confirm the average trend in property market values is the enormous dichotomy between the “retail” (or single property units, usually residential and of small size) and “wholesale” markets (or high priced property packages or self-contained buildings mainly destined for business use).

Demand for the former is prevalently from users, while for the latter it is from investors. Following the credit crunch and the “great panic” that followed it, the number of those who buy property as a precaution, to put their money “away safely” in property, has become increasingly higher among both the first and second groups.

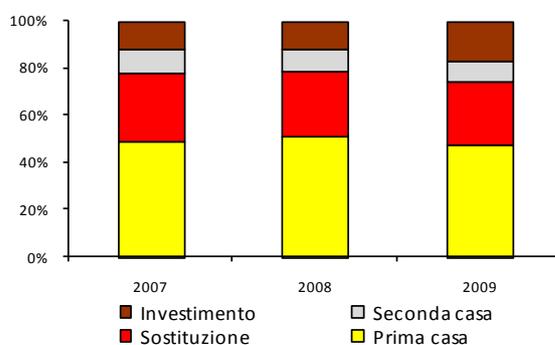
The need for much greater liquidity than was necessary in the past to purchase a property has contributed to opening a wide gap between smaller transactions, where the wide availability of finance is normally sufficient to support them, and those of a bigger entity, where the strong perception of “property” risk which somewhat dogmatically permeated and still permeates financial brokers, caused an extraordinary thinning out of such business in the second half of 2008.

In this context it appears much more difficult than in the past to draw up indices of houses and property prices in general that genuinely reflect the overall market trend.

With specific reference to the residential market, it appears excessively rarefied: decreasing **demand** and still falling sales produce a level of supply that continues to be quite abundant.

The demand for residences has reduced generally, but the worst indications, or where at least three-quarters of real estate agents declare a further decline in demand for homes, refer particularly to some markets in the North (Bologna and Venice *in primis*, but also Milan), while indications for cities in the South still show stability.

Figure 1.1
Residences – Average 13 urban areas – % Division of sales based on reason for purchase



The demand for the majority of residences still refers to the purchase of primary homes, but this component is slowing down compared to the past, as is the demand for substitutions and

Source: Nomisma.

second homes. All of this is to the advantage of residences bought as investments, which from less than 12% between 2007 and 2008, today touch 17% (around 5 points more, or more than 40%). Top of the list for this rush to invest are the cities of Florence and Venice (tourist destinations and art cities of international status) where the percentage of investments rises to around 30% of the total number of sales.

A demand which, therefore, even if weak, is assuming different characteristics compared with the past and which, above all, has a different attitude also from

the financial aspect. In 2008, Agenzia del Territorio data highlighted that even if there were fewer sales, those that were made were markedly more “liquid” and less financed than in the past. In 2007, 49.4% of sales were backed by a mortgage and own capital, while the following year this percentage fell to 42.7%. Purchasers today buy because they are more liquid and decide that investing in bricks and mortar gives more security than other financial investments.

The shortage of demand has inevitably led to a progressive contraction in the **volume of sales**, an indication confirmed by Agenzia del Territorio data for the 1st quarter of 2008. The reduction in sales is quantified at 18.7%, a decrease which follows that of 17.7% for the fourth quarter of 2008, so increasing the negative progression started in the middle of last year.

Table 1.4

Residences – Number of sales in Italy and their annual % variation

	1st quarter 2008	2nd quarter 2008	3rd quarter 2008	4th quarter 2008	Year 2008	1st quarter 2009
Number sales	167.070	188.275	149.253	181.989	686.587	135.872
Annual variation %	-14,1	-14,3	-14,1	-17,7	-15,1	-18,7

Source: Agenzia del Territorio.

With reference to the most recent data available at the time this document goes to print, or which stops at March 2009, some trends which were also observed at the close of the previous year are confirmed. In particular, the greater reduction in the volume of sales in the markets of Northern Italy (-20,8%) together with a crisis which is more felt in towns which are not regional capitals, or in the less prominent, less liquid property markets (which reduce contracts by almost 20% compared with the big urban areas, in decline by 15.8%).

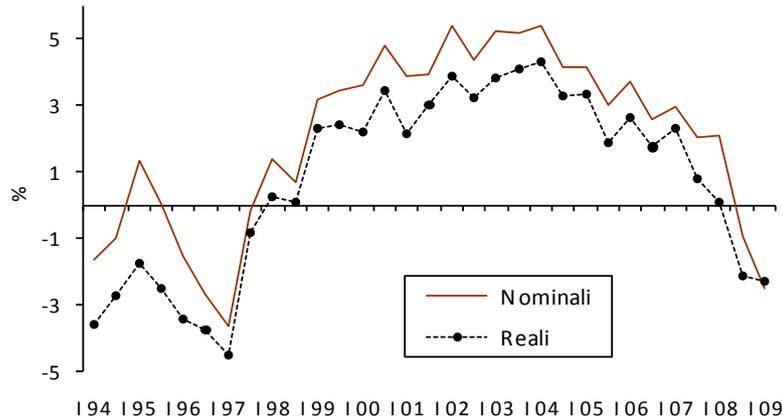
Market stagnation is reflected by the level of **prices**: property values are in decline for 71% of the sample. Such negative data had never been gathered until now, with no less than 12 cities out of the 13 considered where the increase in price data has disappeared.

To sum up, therefore, prices have lost 2.5% and this is the second consecutive half-yearly decrease, which takes present average values to the level of 2 years

ago, but we have to go back to 2006 if the effects of inflation on prices are removed.

Figure 1.2

Residences – average 13 urban areas – Half-yearly % variations in nominal and real prices



Source: Nomisma.

The reduction in prices is quantified at -3.5% per annum (or -4.4% in real terms). All the markets observed have been affected by the drop back in values, with negative points for the Venice market (more in the lagoon than in Mestre), Milan and Florence, while the southern markets would appear to be reacting better to the downward thrust.

Prices are in decline practically everywhere, more for new residences than for used and restructured ones, but without particular differences between the various urban areas.

Contributing to the depression of nominal prices are also the **reductions** now habitually applied at the time of sale, and which reach an average of 13% (going from 9.8% in Padua to 16% in Bari) and with significant variations also between the prestige areas (11.9%) and those on the outskirts (14.3% on average, or around 20% more compared with more prestigious locations).

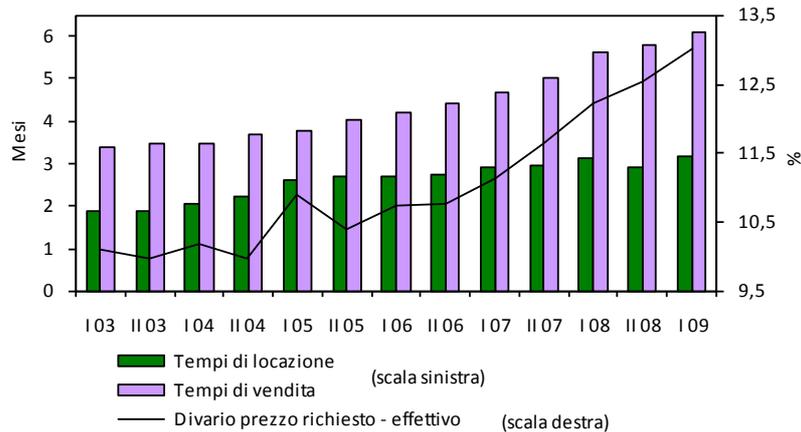
This shows the greater fragility of decentralized sites, where there is more likely to be an abundant supply, while prestigious areas would appear to be better protected from containment when new products are put on the market.

So the progressive widening of the gap between the asking and the actual price continues, which should increasingly contribute to facilitate the closing of deals. Even if prices do not appear to have “crashed”, as has happened in other

European countries, in our market it is the negotiability of property that makes them more saleable, favouring the meeting of supply and demand.

Figure 1.3

Average 13 urban areas – Average times for sale, average times for rental and average % gap between asking and actual price



Source: Nomisma.

The new build sector, traditionally more rigid compared with the secondary market, is not shielded from negotiability of the object. In this respect it is interesting to note that while reductions practiced on new builds were of the order of 5.2% in 2007, today we are at 7.3%; the reduction made is less, but the period increase is a good 40%. In the same period of time, on the other hand, reductions on used residences went from 11.6% to 13%; the absolute level is definitely higher, but the increase is proportionately more contained (+12 points). Sales times continue to lengthen, today exceeding the threshold of 6 months, a level not reached since as far back as 1997.

The rental market partially benefits, if such can be said, from the period of crisis being experienced by the sales sector. A discreet level of demand continues, already recorded for a couple of half-years, which corresponds to that segment of users that cannot afford to buy property because of the still high level of prices, added to the on-going difficulty in accessing credit by raising a mortgage. The “renter population” is probably still waiting for the current economic and financial crisis to improve in a few months, with the loosening of criteria for the granting of credit, and maybe also some further adjustments on the sales price front.

The assessment that emerges from the opinions of the operators interviewed is that the lowest point has been reached in the residential market from the point

of view of number of sales. A certain return of interest in purchasing is reported, motivated also by the possibility of paying lower and reduced prices with respect to the past.

This assessment of what happened in the market in the last half-year influences the forecast that volumes will longer decline in the second part of 2009, and, all things considered, prices not decidedly falling.

The operators' expectations for the residential sector are better than those for the non-residential sector, where uncertainty continues to weigh about the times, manner and intensity of a possible recovery.

2. Milan – First Half 2009 and forecast for Second Half 2009

2.1 The residence market²

Table 2.1

Residence market trends in Milan (1st half 2009)

Sales Market		Rental market	
Demand	↓	Demand	↔/↓
Supply	↑	Supply	↑
Number contracts	↓	Number contracts	↔/↓
Average price ⁽¹⁾ (€/sq.m.)	3600	Average rent ⁽²⁾ (€/sq.m./year)	167
Average six-monthly variation (%)	-3,7	Average six-monthly variation ⁽²⁾ (%)	-2,9
Average annual variation (%)	-6,1	Average annual variation ⁽²⁾ (%)	-2,6
Average sales time (months)	5,8	Average rental time (months)	4,0
Average reduction in asking price (%)	11,5	Average gross yield from rental (%)	4,7

⁽¹⁾ Weighted average of unoccupied residences.

⁽²⁾ Used residences.

Source: Nomisma.

During the first half of 2009, a further deterioration was seen in the Milan residence market situation compared with the trend observed during the last months of 2008. Sales in particular recorded a heightening of the negative dynamics already observed. The demand for residences decreased further, while, on the contrary, the number of residences for sale increased. The lack of a meeting between supply and demand is witnessed by the falling trend, equal to about 20%, in the number of sales contracts within the municipality (Agenzia del Territorio). Prices suffered from the negative phase and dropped further, reaching a six-month average equal to -3.7%, an average annual variation of -6.1%. Average times required to acquire a used residence lengthened a little, going from 5.5 months to 5.8 months, which nevertheless is about the same time needed to acquire a new residence (while in the previous half “only” 5 months were needed). The same happened as far as the average reduction on the asking price was concerned, which for used residences reached 11.5% (compared with 10% for the second half of 2008), while it increased notably for new residences and reached 9.6%.

The situation concerning the rental market appears less serious compared with that of sales. Despite an increasing supply and a demand in partial reduction, the number of rental contracts did not suffer such a marked decrease as the volume of sales. Nonetheless, rents, which during the second half of 2008 had stayed more or less unaltered (+0.3%), suffered an average reduction equal to -2.9% in the first part of 2009. An average of 4 months was needed to conclude a rental contract, longer than the national

² See “Property Market Report”, Nomisma, No. II/2009.

average, but in any case stable compared with previous surveys. Yield from rental stabilized at 4.7% as in the previous half, given the combined decrease in prices and rents. Sentiments about the coming half are fairly negative as far as prices and rents are concerned, and so further decreases in values are foreseen. Substantially better is the situation for sales volumes which could start to recover, but certainly below the levels recorded before the recession.

2.2 The luxury residence market

The luxury residence market is characterized as follows:

- Residences with a sales value per square metre greater than **7.000** Euro or with a total value of more than **1.000.000** Euro;
- Residences with a rental of more than **250** Euro per square metre or with a total annual rent higher than **40.000** Euro;
- Residences located in the following areas:
 - Quadrilatero
 - Centro storico
 - Brera-Garibaldi
 - Magenta
 - Venezia – Manin - Giardini - Duse
 - Residual area (a virtual area formed by all residences that correspond to the parameters indicated, but which are not located in the above-mentioned areas).

2.2.a Sales

Table 2.2

The luxury residence sales market in Milan
(1st half 2009)

Urban area	Demand	Supply	Number sales	Prices	Sales times (months)	Gap between asking/actual price (in %)
Quadrilatero	↔	↔ / ↓	↓	↔ / ↑	8,4	0,0
Centro storico	↔	↑	↔ / ↓	↔ / ↓	6,6	4,8
Brera-Garibaldi	↔ / ↑	↔	↔	↔	5,8	7,5
Magenta	↔ / ↑	↔ / ↓	↔ / ↓	↔	8,3	1,2
Venezia-Duse	↔	↓	↓	↔ / ↑	7,8	4,2
Zona residuale	↔	↔ / ↑	↔ / ↓	↔	8,9	5,8
Average	↔	↔	↔ / ↓	↔	7,8	5,0

Source: Tirelli & Partners.

Supply and demand – The demand for luxury residences during the first half of 2009 stabilized compared with the downward trend of the previous half. In some areas, such as Brera-Garibaldi and Magenta, the demand trend showed a growing sign of recovering interest from potential purchasers after the downward phase that had characterized the previous half.

The fairly positive signs deriving, on one hand, from demand are not equaled on the other by supply, chronically unable to guarantee and adequate levels of quantity and quality because of lack of a primary market (new builds) and for the progressive obsolescence of the secondary market. A natural consequence of the combined supply and demand dynamic was a further decrease in the number of sales in the half year. Particularly penalized were the Quadrilatero and Venezia-Duse areas where the quantity of the supply is contained because of the geographical limitations of the area.

Sales times – Average sales times have increased by over a month to reach 7.8 months; a value in consistent growth compared with the 6.2 months of the second half of 2008, in line with the values of 2007 and the first half of 2008. As always, however, some distinctions should be made between the different areas analyzed. The situation appears worse in the Quadrilatero, Venezia-Duse and Magenta areas, areas characterized by high quality supply, but at the same time very limited in terms of stock. For these areas we can definitely speak of the “scarcity value” of the properties, the effect of which is little elasticity in prices and a natural lengthening of sales times in the event of a slowdown in demand. The “residual” area also shows a worse trend than the average. Being a virtual area, with a supply not quantitatively limited by geographical boundaries, the lengthening sales times demonstrate the effective difficulty in bringing together supply and demand, a sign of an

objective crisis situation. In the first three areas mentioned, times have increased by about 3 months compared with the end of 2008, while in the latter by 2 months. The only location to have shown shortened sales times was Brera-Garibaldi, an area characterized by a varied supply and also smaller size properties and so able to satisfy a larger portion of the demand.

Reductions – The average gap between asking price and actual price stayed substantially stable, reaching 5% (half of that for residences overall: tab. 2.1) compared with 4.7% recorded in the previous half. This contained value would appear unexplainable if it is associated with the dynamics noted for sales times, but it is a value that finds justification in the way prices are established on the basis of “scarcity value”. An analysis of the dynamics per area effectively confirms this reading: it is precisely the areas with the most limited supply that generally record the more modest reductions.

The Quadrilatero presents no reductions for the half year; Magenta very slight reductions (1.2%); in the Venezia-Duse area they reach 4.2%, well under the physiological level, and in any case below the average variation for the half. A further confirmation is the Garibaldi-Brera area– the most dynamic in terms of sales times – which is also that where reductions are greater. The willingness to cede more on the asking price has favoured the speed of sales.

Table 2.3

Prices of luxury residences in Milan
(1st half 2009)

Urban area	Average minimum price (€/sq.m.)	Average maximum price (€/sq.m.)	Average price (€/s.sq.m)	Average total price ⁽¹⁾ (€)	Top prices (€/sq.m)	Maximum total price ⁽²⁾ (€)
Quadrilatero	13.200	17.408	15.304	4.115.882	20.000	12.000.000
Centro storico	7.300	10.234	8.767	1.727.143	11.563	2.750.000
Brera-Garibaldi	7.600	10.782	9.191	1.740.402	13.000	3.250.000
Magenta	8.700	12.330	10.515	3.026.389	14.058	12.000.000
Venezia-Duse	10.630	12.700	11.665	2.750.000	13.125	6.300.000
Residual area	5.000	7.510	6.255	1.503.882	9.000	2.450.000
Average	8.738	11.827	10.283	2.477.283	13.458	6.458.333
<i>Six-monthly variation (in %)</i>	2,3	-0,2	0,9	-	-	-

⁽¹⁾ Average total value of luxury properties considered as being in the “medium” band; such value is calculated on the basis of both actual transactions and the asking price for properties on the books.

⁽²⁾ Total value of prestige properties considered as being in the “top” band (price asked by owners of properties on the books; does not necessarily refer to completed transactions).

Source: Nomisma processing of Tirelli & Partners data.

Prices – The slowdown in values already observed during the previous half continues. The average variation went from +2.6% at the end of 2008 to +0.9% in the first half of 2009. In particular, it is the negative variation in average maximum prices (-0.2%) that

contributes most to the drop in average values, while average minimum prices still record positive variations (+2.3%). The Quadrilatero area remains the location where the highest price per square metre is asked, around 17,400 €, an adjustment equal to -1.1%, followed by the Venezia-Duse and Magenta areas. The historic centre presents the greatest difficulties with a variation in average maximum prices equal to about -7.0%, which is partly attenuated by the growth in minimum values. The average total price for a prestige residence in Milan is well over 2.4 million Euro, about 200,000 € more with respect to 2008, and touches over 4 million in the Quadrilatero.

Top Prices – For the third half in a row, the Quadrilatero area is still the most prestigious location, with an unchanged maximum “top” value of 20,000 €/sq.m. There was also no variation in the Brera-Garibaldi area, while a partial erosion was seen in top prices in the Venezia-Duse area – justified exclusively by the fact that slightly smaller residences appeared in the six month period than in the previous half – and in the historic centre – in our opinion due to a long period of disaffection for the area in question. Finally, it was in the residual area that the greatest fall in “top” prices was recorded, equal to about 3,000 €/sq.m. on average.

Table 2.4

Characteristics of the most expensive residences sold in Milan in the First Half 2009

Area	Total price (€)	Surface area (sq.m.)	Price per sq.m. (€)	Condition	Type of residence	Features
Magenta	4,700,000	475	9.895	To restructure	Apartament	Terrace, panoramic view. Perfectly maintained period building
Magenta	3,500,000	280	12.500	Good	Apartament	Period building
Brera-Garibaldi	3,250,000	285	11.404	New	Apartament	Attic with terrace

Source: Tirelli & Partners.

Reasons for purchase – Composition of the demand does not seem to have changed with respect to the end of 2008 survey. Over half the purchasers (54%) purchase a prestige residence as a primary home. In 38% of cases, the reason for the sale/purchase is the substitution of one home for another, and finally, the percentage of those who purchase as an investment without the immediate need to use it remains high (8%).

Type requested – According to purchasers, a prestige residence in Milan must have a size of at least 200 sq.m. with 3 bedrooms. Parking availability is considered essential. A terrace is much appreciated. Other important features are: a position on the higher floors to ensure good luminosity and an attractive view. The most sought-after area was Brera-Garibaldi (considering the variety of sizes of the residences available), followed by Magenta.

Foreign investors – For the third consecutive half, the percentage of foreign investors out of the total remains unaltered at 2%. The demand usually comes from the major European countries and to a lesser extent from Russia. The requested residence must not measure less than 200 sq.m., preferably be located in a period building, and must have a terrace and a garage. The most sought-after areas are, firstly, the Quadrilatero, followed by Venezia-Duse and Magenta.

2.2.b Rentals

Supply, demand, contracts – The general trend in supply and demand in the rental market for the first half of 2009 was fairly positive, and appeared to be recovering, mostly due to a general, consistent lowering of rents. Demand shows a generally growing trend, with the exception of the Quadrilatero, where the level of rents reached (albeit in consistent reduction) has provoked disaffection, which we judge to be absolutely temporary. Supply is more or less in line with demand, even if the quality of properties does not always reach the level requested by the tenants, either because of the general condition of the apartments, necessitating restructuring work that the owner would like to be partly or wholly for the tenant's account, or for the lack of furnishings considered essential (first and foremost the kitchen).

The number of rentals is little affected by such trends and on average remains fairly stable. As usual, analysis by area highlights different situations: for example Brera-Garibaldi and Magenta are the most dynamic, while Venezia-Duse and particularly the Quadrilatero suffer more.

Table 2.5

The luxury residence rental market in Milan
(1st half 2009)

Urban area	Demand	Supply	Number rentals	Rents	Rental times (months)
Quadrilatero	↔ / ↓	↔ / ↑	↔ / ↓	↓	8,0
Centro storico	↔	↑	↔	↔ / ↓	5,3
Brera-Garibaldi	↔ / ↑	↔	↔	↔	4,9
Magenta	↔ / ↑	↔	↔	↔	6,0
Venezia-Duse	↔	↔ / ↓	↔ / ↓	↔	6,0
Residual area	↔ / ↑	↑	↔	↔ / ↓	4,9
Average	↔ / ↑	↔ / ↑	↔	↔ / ↓	6,0

Source: Tirelli & Partners.

Rental times – Rental times for a prestige residence in Milan during the first half of 2009 increased consistently. On average at least 6 months are needed to conclude a contract, about 2 more compared with the previous months. Some areas do not contribute to this variation, including the historic centre and the residual area, where times remained unvaried. Rentals in the Quadrilatero, Magenta and Venezia-Duse are those that record the biggest increases and which condition the average. Particularly in the Quadrilatero area, where demand is scant and the number of contracts in decline, it now takes 8 months to arrive at the final signature of a contract.

Table 2.6

Rents for luxury residences in Milan, First Half 2009
(€/sq.m/year)

Urban area	Minimum average rent	Maximum average rent	Average rent	Top rents
Quadrilatero	310	454	382	550
Centro storico	190	252	221	333
Brera-Garibaldi	275	335	305	354
Magenta	224	324	274	389
Venezia-Duse	287	327	307	333
Residual area	180	238	209	286
Average	255	341	283	374

Source: Nomisma processing of Tirelli & Partners data.

Rents – While sales values still show a positive, even if slowing, variation, rents, which had already suffered a decrease in the last months of 2008, continue to decline, going from 295 Euro to 283 Euro per sq.m. per year (around 4% less). It is an accepted fact in Italian real estate circles that a “bad rental” is a temporary loss compared with a “bad sale”. Owners are therefore more willing to accept a reduction in asked rents, for which in

any case they can see the time limit. In addition, it has to be considered that owners rent what is not used directly, while those selling often cede their homes. In demand situations more attentive to values, owners can always withdraw from the sales market without economic loss, while it is not possible to do so from the rental market as loss of rent is not a recoverable loss.

As observed for rental times, the areas where the reduction in rents has been greatest are the Quadrilatero (around -13%) and Magenta (around -11%). These are areas characterized by large sized residences (200 and more sq.m.), and so with high total rents. Considering that this type of residence has a quantitatively limited demand, owners show a greater propensity in difficult market situations for reducing values to meet the demand half-way. In addition, in renting large properties, as well as economic factors, owners also consider non-economic ones (expectations of how the rented residence will be maintained by the tenants and their reliability in paying the rent, for example), which can make rental at a lower rent than that originally estimated acceptable.

Top rents – It is without doubt the “top” segment which shows less encouraging signs. The average value reached around 370 Euro compared with the approximately 450 Euro per sq.m. observed in the second half of 2008. This was contributed to by a reduction in the generalized rents for such areas, so that in the current market it is difficult for a top of the range product to reach 400 €/sq.m. a year.

The Magenta area, which was the urban area where the highest rental contracts were signed during 2008, has been overtaken by the Venezia-Duse area, where a 140,000€ a year contract was signed in the first half of 2009.

Table 2.7

Characteristics of rental properties with the highest total rent in the First Half 2009

Area	Total rent (€/year)	Surface area (sq.m)	Rent (€/sq.m./year)	Condition	Type of residence	Features
Venezia-Duse	140.000	450	311	fair	Apartment	Period building, excellent position. Highly sought-after
Quadrilatero	110.000	350	314	good	Apartment	Terrace
Magenta	110.000	320	344	excellent	Apartment	Terrace

Source: Tirelli & Partners.

Type requested – The most requested characteristics for a prestige rental residence are, first and foremost, an average size of around 150-200 sq.m. with at least 3 bedrooms. Other features considered absolutely essential are: a private parking space or garage, location on the higher floors, a fitted kitchen (especially in rental units of up to 120 sq.m.), The most sought-after areas are Brera-Garibaldi, Magenta and the residual area.

Foreign renters – While the percentage of foreign buyers remains unaltered compared with the last survey, the percentage of renters coming from abroad has diminished from 5% to 3%. Interest seems to have cooled particularly on the part of citizens from Russia, and the current demand derives only from European Union states. In addition, during the first half there did not seem to be a preference for a specific location, and the general indication points to a residence situated in a well-served central position with easy access. The picture is completed by the presence of a fitted kitchen, the availability of private parking and above all, excellent condition.

2.2.c Yields

Tavola 2.8

Potential average yield from rental
(1st half 2009)

Urban area	%
Quadrilatero	2,5
Centro storico	2,3
Brera-Garibaldi	3,0
Magenta	2,6
Venezia-Duse	2,6
Residual area	2,9
Average	2,6
Average six-monthly variation	-0,3

Yields from rentals have slightly diminished compared with the previous half-year to an average of 2.6%. The decrease concerned practically all areas of the city, with the exception of the Venezia-Duse area. The highest yield of 3.0% was recorded for the Brera-Garibaldi area.

Source: Nomisma processing of Tirelli & Partners data.

2.2.d Forecast

The forecast for the next six-month period is for the current market phase to remain unaltered, with the possibility of an improvement in the sales segment as early as the end

Table 2.9

	Sales	Rentals
Volume contracts	☹	☹
Values	☹	☹

of the year should the Government decide to bring forward closure of the time limit for the “fiscal shield”, a provision which in any event we predict as having positive effects of the Milan property market for the whole of 2010. Considering in any case the very limited extent of the existing stock of prestige

Source: Tirelli & Partners.

residences, its state of maintenance and the difficulty in upgrading it connected with the spread of condominiums, any broadening effect on demand will encounter a bottleneck in the existing supply. This will be overcome only if long-term urban renewal policies are put in place to upgrade the city as a whole and some areas near the centre in particular. In this regard, attention remains high on the Isola-Garibaldi area and that of the old fair where two big building sites have been started up, Porta Nuova and the City Life project respectively.