



Luxury Residences Report

First Half 2017

YEAR XIV – n. 1
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Introduction and methodology

Introduction

The Luxury Residences Report (hereafter LRR) originated from an idea by Tirelli & Partners, a company specializing in property brokerage and consultancy in the most prestigious segment of the market

Considering that the most exclusive segment of the housing market has very different characteristic and trends to the general residential property market, the end purpose of the LRR is to provide six-monthly information about quantities, values and trends derived from Tirelli & Partners' day to day experience as specialists in the luxury property niche.

Over the six-month period under economic analysis, qualitative and quantitative information on the market is gathered, based on transactions carried out and other internal sources. All information is statistically processed and organized to summarize the data and underlying trends.

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

1. Price per sq.m. or total price above a given threshold;
2. Annual rent per sq.m. or total annual rent above a given threshold;
3. Location. The denomination Residual Area has been included amongst the different urban areas classified as luxury 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

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 250 sq.m. upwards), very high profile properties sought after by an extremely limited segment of buyers. On the other, are properties which, while coming under the denomination "luxury" because of their size and price, are accessible to a wider range of buyers.

Introduction

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.

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.

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The luxury homes market

The luxury homes market comprises:

- Residences with a value per m² over **7,000** euro or with an overall value of over **1,000,000** euro;
- Residences comprising a surface area of at least 50 m² with a rental value higher than **200** euro per m² per year or with an overall rental value greater than **40,000** euro per year;
- Residences located in the areas listed below:
 - o Quadrilatero
 - o Centro Storico (Historic Centre)
 - o Brera-Garibaldi
 - o Magenta
 - o Venezia – Manin - Giardini - Duse
 - o Other areas (a virtual zone comprising all the residences complying with the parameters indicated above but which are not located in the above areas).

Sales

Supply and demand – In the first half of 2017 the luxury homes market in Milan has consolidated the trend of 2016 which saw a very marked rise in value. In the first part of this year there has been a consolidation rather than a further rise, principally due to qualitative aspects of the properties for sale, which have problems in satisfying the demands of the highly selective and “mature” clientele.

Demand is particularly high in the “top” band (over 250 m²) and in the middle band for investors, but they do not always find what they want on the market. The gap in quality between the expectations of the potential purchasers and the reality of what is available limits what could be a real boom in transactions.

The performance of the **absorption index** has been overall positive with an increase in four of the six areas analysed, increasing the average value to 15.2% compared to 14.4% during the previous six months. There is still a wide gap that needs to be closed in order to return to the pre-crisis levels (about 25%) and this will depend very much on the quality of the properties that are placed on the market in the coming months.

Table 1

Sales of luxury homes in Milan
(1st half 2017)

Urban zone	Asking price	Selling price	Number of sales
Quadrilatero	↔/↑	↔	↔
Historic centre	↑	↔/↑	↔
Brera-Garibaldi	↑	↔	↔/↑
Magenta	↔/↑	↔/↓	↔/↑
Venezia-Duse	↔/↑	↔	↔
Other areas	↑	↔/↑	↑
Average	↑	↔	↔/↑

Source: Tirelli & Partners

Table 2

Absorption index of sales market
(percentage of properties sold versus total properties for sale)

Urban zone	IH 2017	2H 2016	IH 2016	2H 2015	IH 2015	2H 2014	1H 2014	2H 2013	1H 2013	2H 2012	1H 2012
Quadrilatero	6.8%	7.0%	15.6%	8.8%	6.3%	6.1%	11.1%	0.0%	10.3%	14.3%	8.3%
Historic centre	16.2%	17.3%	6.7%	5.1%	9.0%	3.4%	5.3%	0.7%	0.7%	8.6%	5.0%
Brera-Garibaldi	29.7%	26.4%	18.6%	15.6%	13.9%	5.1%	3.6%	9.2%	2.2%	8.5%	10.0%
Magenta	18.3%	16.1%	24.2%	5.5%	15.9%	6.1%	9.2%	7.6%	3.8%	6.5%	7.2%
Venezia-Duse	6.1%	5.7%	9.3%	17.6%	6.6%	5.0%	3.0%	6.9%	3.3%	9.4%	11.1%
Other areas	13.3%	12.0%	6.3%	12.5%	9.1%	9.2%	9.5%	7.2%	2.7%	6.7%	6.5%
Average	15.2%	14.4%	12.8%	10.4%	10.8%	6.5%	7.6%	5.8%	2.8%	7.8%	7.0%

Source: analysis of data gathered by Tirelli & Partners

Time taken for sales, and discounts –The **average discount** obtained versus the asking price is now under 9% (8.8%), confirming the downward trend evident for the first time for over 11 six month periods. Variations within the samples analysed remain significant.

On one hand it is noteworthy that, if correctly valued when placed on the market, more prestigious properties often receive offers equal to or very close to the asking price

On the other hand there are still on the market a number of over-valued properties which attract few offers or are discounted at well over 10%. The fact remains that the combined effect of increased interest from purchasers and the adjustment of the asking price has brought about a reduction in discounts of almost 50% in only three years.

The positive trend in the reduction of **time to sell** has continued, and is now about 18 months. The market is still very polarized with a significant minority of properties selling within six months and a majority of cases which, for reasons of quality and / or asking price, take over 2.5 years to sell.

Average **inventory times of unsold properties** show a slight improvement but are nevertheless about two years (24.2 months), which shows that there still remain properties of insufficient quality compared with the expectations of purchasers, comprising a stock that will only be absorbed with difficulty in the future.

Table 3

Sale times and discounts in the luxury homes market in Milan

Period	Average time to sell (months)	Average inventory time for unsold properties (months)	Gap between asking price and selling price (in %)
1H 2017	18.1	24.2	8.8
2H 2016	20.4	24.8	9.4
1H 2016	32.2	30.3	9.8
2H 2015	32.6	30.9	11.5
1H 2015	29.5	30.3	14.9
2H 2014	23.7	28.3	15.2
1H 2014	19.3	25.5	14.4
2H 2013	18.8	22.5	11.4
1H 2013	15.4	18.1	11.9
2H 2012	16.5	14.0	12.8
1H 2012	13.9	10.6	12.4

Source: Tirelli & Partners

Prices – Prices show substantial stability. Compared overall to 2016 there has been a slight increase in the average price, of around 0.4%. This contrasts with the second half of 2016 which showed a strong increase.

Prices are however polarised depending on the quality of the property.

New or renovated properties have risen in price by 1.2%, while on the contrary prices of old properties in need of substantial renovation have fallen by 1.9%. In the same way, average maximum prices have risen (+0.5%) while average minimum prices have fallen (-1.2%).

The highest increase is however to be found in the top band of the market. “Top Prices” have risen by more than 5% according to the overall average prices of this market segment. This is an unequivocal sign that the prevalent optimism has encouraged owners of prestigious residences to enter again the market that they had deemed prudent to leave during the crisis.

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Given the ample, but rather low quality properties available, quality is more and more the decisive factor for a highly selective and discriminating clientele. This factor, together with that of location, is bringing about a change in the Milan property market, linked to an updated concept relating to quality of life as has already come about in many cities throughout the world.

Table 4

Analysis of asking price, sold price and gap between asking and sold prices

Year	Asking price		Gap	Sold price	
	€/m ²	var. %	value %	€/m ²	var. %
IH 2017	8,495	0.4%	8.8%	7,747	1.3%
2016	8,465	1.6%	9.6%	7,651	5.7%
2015	8,335	-0.5%	13.2%	7,235	1.3%
2014	8,378	-0.8%	14.8%	7,140	-4.2%
2013	8,442	-3.1%	11.7%	7,456	-2.0%
2012	8,709	-3.3%	12.6%	7,609	-7.4%
2011	9,009	-1.6%	8.8%	8,219	-5.3%
2010	9,157		5.2%	8,680	

Source: analysis of data gathered by Tirelli & Partners

Table 5

Asking prices⁽¹⁾ for luxury homes in Milan
(1st half 2017)

Urban area	Average price New ⁽²⁾ (€/m ²)	Average price Used ⁽³⁾ (€/m ²)	Average price ⁽⁴⁾ (€/m ²)	Average minimum price ⁽⁵⁾ (€/m ²)	Average maximum price ⁽⁶⁾ (€/m ²)	Top prices ⁽⁷⁾ (€/m ²)	Overall average price ⁽⁸⁾ (€)	Overall maximum price ⁽⁹⁾ (€)
Quadrilatero	14,371	11,105	12,468	8.514	17,725	28,636	2,675,719	12,000,000
Historic centre	10,539	8,373	8,570	6.862	12,373	14,894	1,930,502	7,500,000
Brera-Garibaldi	9,757	8,331	8.851	7,174	11,653	14,545	1,810,027	7,500,000
Magenta	10,020	7,640	9.218	6,568	12,549	20,000	1,805,782	11,000,000
Venezia-Duse	10,566	9,832	10.412	7,625	13,609	20,840	2,789,920	13,000,000
Other areas	7,682	5,795	6.351	4,819	9,333	17,767	1,604,527	6,500,000
Weighted average	9,424	7,883	8.495	6,757	10,433	16,672	1,829,389	8,337,500
<i>Var.% semestrale</i>	<i>1.2%</i>	<i>-1.9%</i>	<i>-0.4%</i>	<i>-1.2%</i>	<i>0.5%</i>	<i>5.3%</i>	<i>5.5%</i>	<i>2.7%</i>

(1) The values shown in the table are calculated on the basis of the asking prices for both sold and unsold properties.

(2) Average price per m² for new or renovated luxury homes.

(3) Average price per m² for luxury homes in average state of maintenance or in need of renovation.

(4) Average price per m² for luxury homes calculated by weighted average of the average price per m² for new properties and the average price per m² for used properties.

(5) Average price per m² for luxury homes which have a price lower than the first quartile of the distribution of prices per m² of properties.

(6) Average price per m² for luxury homes which have a price higher than the third quartile of the distribution of prices per m² of properties.

(7) Maximum value per m² registered during the 6 month period.

(8) Total average value, calculated by weighted average of the total average price of new properties and the total average price of used properties.

(9) Overall maximum value registered during the six month period.

Source: analysis of data gathered by Tirelli & Partners

During this six month period important residential properties have been sold for very high prices. The most significant sales were registered in the Venezia – Duse area, reaching an overall value of 8.5 million euros and a price per m² approaching 17,000 euros. The sum of the top three sales reached 18 million euros, just a little below the all-time peak of 19,050,000 reached both in the preceding period and during the first half of 2011. It is worth pointing out that in the first part of 2013 – the darkest period of the crisis years – this figure was only a little more than 8 million euros.

Table 6

Characteristics of properties of highest overall value for sale in Milan
(1st half 2017)

Urban zone	Total price (€)	Area (m ²)	Price per m ² (€) (without garage)	State of maintenance	Residence type	Details and appurtenances
Venezia Duse	8,500,000	500	16,840	Excellent	Apartment	5th floor with terrace and garage
Magenta	5,500,000	640	8,594	Average	Apartment	Apartment on 2nd and 3rd floors with terrace
Magenta	4,000,000	345	10,867	New	Apartment	Apartment on 1st floor with double garage, new construction

Source: Tirelli & Partners

Reasons for purchase – During the first six months of 2017 the main force driving the market (51.6% of sales) was replacement of an earlier purchase. 37.9% of purchasers were first-time buyers and 10.5% bought as an investment, a significant reduction compared with the 29.1% of the previous period. Demand from investors remains high, however, driven also by the low returns available from other forms of investment but kept low by the perception that the properties on sale are not of a sufficiently high quality. In fact, for investors, in addition to the returns that can be obtained through rental and through the increase in the value of the property, it is also important to get these returns with minimum effort, without being obliged to carry out renovation work, the time and cost of which are difficult to predict.

Foreign investors – In the first six months there has been strong interest in the Milan property market from foreign investors, linked above all to the new “*flat tax*” launched by the Government in the budget. Although the percentage of potential purchasers from abroad is under 5%, they often make the decision to purchase within a very short time period. Most of them are from European

countries. The most popular areas are Quadrilatero, Brera and Magenta. Foreigners generally seek high class apartments with a surface area of 250 m² or more situated on high floors in prestigious apartment blocks.

Rental market

Table 7

The rental market for luxury homes in Milan
(1st half 2017)

Urban zone	Demand	Supply	Number of rentals
Quadrilatero	↑	↔/↓	↔
Historic centre	↔/↑	↔	↔
Brera-Garibaldi	↑	↔/↓	↔
Magenta	↔/↑	↓	↔/↓
Venezia-Duse	↔/↑	↔/↓	↔/↓
Other areas	↔	↔	↔
Average	↑	↔/↓	↔

Source: Tirelli & Partners

Supply and demand – Faced with a consistent demand, the supply of exclusive residential properties available for rent during the first half of 2017 is chronically insufficient. The supply is consistent in terms of quantity but the properties are not of a sufficiently high quality to satisfy discerning clients, who require apartments for immediate occupation, that have been renovated and, increasingly, semi-furnished. Sales therefore increase only slowly even though the demand is very high.

Table 8

Absorption index of rental market
(percentage of properties rented versus total rental properties on the market)

Urban zone	IH 2017	2H 2016	IH 2016	2H 2015	1H 2015	2H 2014	IH 2014	2H 2013	1H 2013	2H 2012	1H 2012
Quadrilatero	34.0%	35.6%	40.0%	33.3%	15.8%	25.0%	45.7%	12,9%	16.0%	8.7%	31.6%
Historic centre	13.2%	14.2%	15.6%	17.4%	17.8%	20.6%	33.3%	13,0%	10.2%	11.1%	22.9%
Brera-Garibaldi	27.1%	24.4%	20.0%	30.3%	44.1%	12.5%	25.0%	16,7%	25.0%	19.4%	19.4%
Magenta	26.9%	28.8%	37.0%	21.7%	24.2%	20.4%	31.0%	15,6%	20.3%	22.2%	14.5%
Venezia-Duse	11.3%	10.6%	5.1%	13.8%	14.3%	4.5%	19.0%	13,0%	18.2%	11.1%	29.4%
Other areas	20.4%	16.7%	12.7%	22.0%	16.3%	12.2%	14.0%	8,6%	17.9%	13.2%	16.7%
Average	23.3%	22.4%	21.8%	22.2%	22.6%	16.3%	28,6%	13.6%	17.9%	15.1%	20.6%

Source: analysis of data gathered by Tirelli & Partners

There is now a chronic lack of rental properties for immediate occupation, either because the owners have delayed investments in renovation until a tenant has been found or because many properties are rented to short-term tenants. Overall the absorption index of this six month period has risen slightly due to the fact that properties for immediate occupation almost always find a tenant.

Times to rent and gaps – Average times to rent and average times on inventory are decreasing slightly. These reductions are however close to or greater than annual rates, which are very high compared to more modern, dynamic markets. As mentioned above, the inventory of apartments not suitable for immediate occupation weighs heavily on the market and such properties will only be rented if other, more attractive properties are not available. The average discount has decreased by 0.5% compared to the previous six month period.

Table 9

Times to rent and discounts on the luxury homes rental market in Milan

Period	Average time to rent (months)	Average time on inventory of properties not rented (months)	Gap between asked and actual rent asked (in %)
IH 2017	10.9	13.3	7.5
2H 2016	11.2	13.6	8.0
1H 2016	11.4	13.0	7.7
2H 2015	13.1	16.3	9.1
IH 2015	12.6	18.4	9.9
2H 2014	18.9	18.6	13.0
IH 2014	14.4	17.7	11.5
2H 2013	12.7	15.0	9.9
IH 2013	9.7	12.7	9.9
2H 2012	11.1	10.2	13.5
IH 2012	7.5	10.6	6.3
2H 2011	7.1	7.1	8.2

Source: analysis of data gathered by Tirelli & Partners

Rents – During the first part of 2017 there have been substantial increases in rents. The increase is more marked for the highest rents, confirming the scarcity of high quality properties and the willingness of the market to pay a premium.

Table 10

Rents requested for luxury homes in Milan
(1st half 2017)
(€/m²/year)

Urban zone	Average minimum rent ⁽²⁾	Average maximum rent ⁽³⁾	Average rent ⁽⁴⁾	Top rents ⁽⁵⁾
Quadrilatero	255	442	335	500
Historic centre	220	310	262	380
Brera-Garibaldi	227	315	270	378
Magenta	216	302	258	375
Venezia-Duse	224	334	272	441
Other areas	206	273	246	452

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Weighted average	228	324	272	422
<i>Var. 6 month period (in %)</i>	<i>0.9%</i>	<i>2.8%</i>	<i>1.1%</i>	
<i>Var. annual (in %)</i>	<i>2.2%</i>	<i>5.9%</i>	<i>3.4%</i>	

⁽¹⁾ The values in the table are calculated on the basis of the requested rent for both rented properties and those on the inventory.

⁽²⁾ Average rent for luxury homes with a rent lower than the first quartile of the distribution of property rents.

⁽³⁾ Average rent for luxury homes with a rent higher than the third quartile of the distribution of property rents.

⁽⁴⁾ Average rent for luxury homes.

⁽⁵⁾ Highest rent registered during the 6 month period.

Source: analysis of data gathered by Tirelli & Partners

During this 6 month period some important rentals have been registered. Magenta zone came top with a rental of 160,000 euros per annum, excluding service charges.

Table 11

Characteristics of higher value rental properties in Milan
(1st half 2017)

Urban zone	Total rent (€/year)	Surface area (m²)	Rent (€/m²/year)	State of maintenance	Residence type	Details and appurtenances
Magenta	160,000	350	457	Excellent	Apartment	Apartment on 5th floor with terrace
Quadrilatero	110,000	240	458	Excellent	Loft	Apartment on 4th floor with terrace
Venezia Duse	80,000	260	308	Excellent	Apartment	Apartment on 4th floor

Source: Tirelli & Partners

Foreign renters – The rental sector also benefits from the “flat tax” launched by the Government. Even though the demand from foreigners remains below 5%, it is a solid demand and decisions are made in much shorter timeframes than by Italian renters, often due to external factors such as the start of the school year or family work commitments. Most demand, as for the sales sector, is from European countries, and the most favoured areas are Magenta, Quadrilatero, Brera and Historic Centre. Requirements from foreign renters focus on high quality properties, especially period properties, in perfect condition and with fixtures and fittings included.

Return on investment – The level of return on investment in luxury homes in Milan remains stable with respect to the level noted in the last two years, that is 3.16%

Table 12

Average potential rental return on investment
(% value)

Urban zone	IH 2017	2H 2016	1H 2016	2H 2015	1H 2015	2H 2014	1H 2014	2H 2013	IH 2013	2H 2012	1H 2012
Quadrilatero	2.58	2.62	2.56	2.43	2.30	2.33	2.32	2.43	2.48	2.38	2.33
Historic Centre	3.09	3.10	3.11	3.07	3.09	2.96	3.08	3.10	3.03	3.01	3.09
Brera-Garibaldi	3.04	3.06	2.93	3.04	3.15	3.04	2.96	2.88	3.03	3.11	3.08
Magenta	2.89	2.71	2.83	2.73	2.79	2.86	2.99	2.95	2.97	3.00	2.91
Venezia-Duse	2.71	2.54	2.49	2.57	2.58	2.56	2.66	2.74	2.74	2.60	2.61
Other areas	3.57	3.50	3.49	3.60	3.57	3.48	3.40	3.48	3.46	3.39	3.31
Average	3.16	3.15	3.13	3.12	3.15	3.11	3.16	3.19	3.21	3.19	3.18

Source: analysis of data gathered by Tirelli & Partners

Forecast

For the second half of 2017 we predict the continuation of the encouraging rise in demand noted during the last eighteen months, across all price levels and all sectors.

If this rise in demand is to be translated into an equally high number of transactions there must be improvements in the quality and quality / price ratio of the properties available. In a market that is certainly “mature” and in which there are available new properties with usability and functionality characteristics higher than those of “used” properties, it is evident that the quality of properties will become a major factor in the choice.

Bearing in mind the level of current “times to sale”, there will not be substantial changes in the asking price for properties on the market, but the slight increase will continue. Again, significant increases in future could arise from an increase in the quality of properties on offer, benefiting from the positive climate prevalent in the market. In the highest sector more significant increases can be expected due to demand from abroad. In fact prices for the Top sector in Milan are lower than in almost all other competing European cities, which, together with the scarcity of suitable properties, could have unexpected repercussions on prices.

Table 13

Market forecasts for sales for 2nd half 2017

Urban zone	Demand	Supply	Number of sales	Price of sales
Quadrilatero	↑	↔	↔	↔/↑
Historic centre	↔	↔/↑	↔	↔
Brera-Garibaldi	↑	↔	↔/↑	↔/↑
Magenta	↑	↔	↔/↑	↔/↑
Venezia-Duse	↑	↔	↔/↑	↔/↑
Other areas	↔/↑	↔/↑	↔/↑	↔
Average	↑	↔	↔/↑	↔/↑

Source: Tirelli & Partners

The forecast is that interest could increase throughout almost the entire urban area due to the fall in prices registered in recent years, which has favoured the return of interest in property also for investment purposes.

Table 14

Market forecasts for rentals for 2nd half 2017

Demand	Supply	Number of rentals	Rental prices
↑	↔	↔/↑	↔/↑

Source: Tirelli & Partners

During the first part of the year the rental sector should confirm the current tendency towards a slight growth.