



Luxury Residences Report

First Half 2016

Processed by



YEAR XIII – n. 1

October 2016

2. Milan – First Half 2016 and forecast for second half 2016

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General comments

2.1 The residential property market¹

Table 2.1

Residential property market trends in Milan
(1st half 2016)

Sales market		Rental market	
Dem and	↑/↔	Demand	↔/↑
Supply	↔	Supply	↔
Number of contracts	↑	Number of contracts	↔
Average price ⁽¹⁾ (€/sq.m.)	3,020	Average rent ⁽²⁾ (€/sq.m./year)	145
Average half-yearly fluctuation (%)	0.1	Average half-yearly fluctuation ⁽²⁾ (%)	0.3
Average annual fluctuation (%)	-0.7	Average annual fluctuation ⁽²⁾ (%)	-0.4
Average closing times (months)	7.0	Average rental closing time (months)	4.0
Average discount on asking price (%)	12.0	Average gross rental returns (%)	4.9

⁽¹⁾ Weighted average unoccupied homes

⁽²⁾ Pre-owned homes

Source: Nomisma

In the first half of 2016, demand for residential property increased considerably compared with 2015, confirming the start of a long-awaited recovery in Milan and observed most markedly in the city centre and more prestigious areas. Further proof of renewed interest is also provided by the satisfying number of transactions, which at the end of 2015 recorded an annual increase of 13.4% compared with 5% in 2014 (and with the not to be forgotten low point of -23.7% in 2012). This would, therefore, appear to signal an end to the shift towards renting rather than purchasing which the market experienced in the years 2012 and 2013, when around 60-65% of demand for residential property was directed at the rental market. This greater absorption has partly put the brakes on the increase in the supply of residential stock that has been on-going for some years now, and which realtors report as being stable in the half-year. Greater market dynamism is also confirmed by sales closing times, which have slightly decreased compared with the first half of 2015 and remain stable on a half-yearly basis (7 months on average). As far as prices are concerned, it can be confirmed that the Milan market is showing the first signs of a cyclic inversion, which for the 13 big cities monitored as a whole should occur no earlier than the second half of 2017.

¹ See "Property Market Report", Nomisma, No. 2/2016, November 2016.

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An upturn in prices for new build homes – even if very slight (+0.3% half-yearly) – has been recorded for the first time in eight years. The upturn could be confirmed in the coming half-years since the annual result, even if still slightly negative, it is altogether close to stationary (-0,3%). Improved performance can be attributed particularly to prestige and city centre areas (+0.6% and +0.3% half-yearly respectively), considering that both have recorded positive results also on an annual basis (tab. 2). On the other hand, pre-owned homes show opposing trends among the various urban sub-markets, with price increases in the prestige, central and semi-central areas and not inconsiderable decreases in the suburbs (-0.9% half yearly and -1.7% annual). To complete the overview of the sales market, a slight reduction has been noted in the average discount agreed to during final negotiations, which is now on average 12 percentage points.

The rental market is also showing the first signs of the long-awaited cyclic inversion in the property market, with a positive half-year fluctuation in average rents (+0.3%), compared with an annual result that is still negative but substantially stationary (-0.4%). Positive performance seems to be most robust in prestige areas, where positive signs have been recorded both on a half-yearly (+0.6%) and an annual (+0.3%) basis. Average annual gross rental returns have stabilised at 4.9%. Rental sector dynamics show a stable supply and a demand that remains stationary or at most, slightly increasing, with rental closing times unchanged from the two previous half-years (4 months). There are, however, some appreciable differences between the different urban markets – while demand for rentals in the semi-centre and suburbs remains at the levels of the second half 2015, realtors are seeing a significant increase in demand in central and prestige areas. Free market contracts (for four years renewable for an additional four-year period) are the most common type of tenancy agreement on the Milan market (81.6%), but have diminished significantly compared with 2013 (91.4%) in favour of short term leases (15.2%).

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2.2 The prestige residences market

The prestige residences market is defined as follows:

- Homes whose sales value per square metre exceeds **7,000** euro or whose total value exceeds **1,000,000** euro;
- Homes with a minimum surface area of 50 sq.m, whose rental value exceeds **200** euro per square metre or whose total annual rental value exceeds **40,000** euro;
- 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 are not located in the above-mentioned areas).

2.2.a Sales

Supply and Demand – After years characterised by on-going market weakness, indicators regarding the sales sector invert the trend to confirm and exceed the signs of recovery that surfaced during 2015. A detailed analysis of absorption indices reveals an improvement in performance in four of the six areas analysed. The biggest upturn was recorded in the Magenta area. This is a relevant sign since Magenta is the city's biggest prestige area after the Historic Centre. In general, the 4 areas with improved performance show higher absorption rates than those for the preceding 8/10 half-years, an extremely important fact.

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Table 2.2

The prestige homes sales market in Milan
(1st half 2016)

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

Source: Tirelli & Partners

Table 2.3

Sales market absorption index
(percentage of properties sold out of total properties on the market)

Urban area	1st half 2016	2nd half 2015	1st half 2015	2nd half 2014	1st half 2014	2nd half 2013	1st half 2013	2nd half 2012	1st half 2012	2nd half 2011
Quadrilatero	15.6%	8.8%	6.3%	6.1%	11.1%	0.0%	10.3%	14.3%	8.3%	22.6%
Historic Centre	6.1%	5.1%	9.0%	3.4%	5.3%	0.7%	0.7%	8.6%	5.0%	7.9%
Brera-Garibaldi	18.6%	15.6%	13.9%	5.1%	3.6%	9.2%	2.2%	8.5%	10.0%	9.5%
Magenta	24.2%	5.5%	15.9%	6.1%	9.2%	7.6%	3.8%	6.5%	7.2%	7.1%
Venezia-Duse	9.3%	17.6%	2.6%	5.0%	3.0%	6.9%	3.3%	9.4%	11.1%	5.6%
Residual Area	6.3%	12.5%	9.1%	9.2%	9.5%	7.2%	2.7%	6.7%	6.5%	11.0%
Average	12.8%	10.4%	10.8%	6.5%	7.6%	5.8%	2.8%	7.8%	7.0%	9.8%

Source: Tirelli & Partners data processed by Nomisma

Closing times and discounts – The net improvement with regard to average discounts on asking prices which began last year, continues, with an average value going from 14.9% in the first half of 2015 to 9.8% at the beginning of 2016. For the first time since the 2nd half 2011, the discount rate has gone below the 10% threshold. As far as sales closing times and stock times are concerned, the inversion of the curve predicted in the preceding Report has materialized. For the first time in 10 half-years, there has

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been a drop in both the former and the latter. Absolute values are still high if compared with those of 2014 or earlier, but the inversion remains a noteworthy fact.

However, it is clear that supply of an inferior quality compared with purchasers' expectations remains consistent. This stock will struggle to be absorbed in the future, contributing to keeping the level of unsold properties high.

Table
2.4

Closing times and discounts in the Milan prestige residences market

Half-year	Average closing times (months)	Average stock times unsold properties (months)	Gap between effective/asking price (in %)
1st half 2016	32.2	30.3	9.8
2nd half 2015	32.6	30.9	11.5
1st half 2015	29.5	30.3	14.9
2nd half 2014	23.7	28.3	15.2
1st half 2014	19.3	25.5	14.4
2nd half 2013	18.8	22.5	11.4
1st half 2013	15.4	18.1	11.9
2nd half 2012	16.5	14.0	12.8
1st half 2012	13.9	10.6	12.4
2nd half 2011	11.1	8.7	9.7

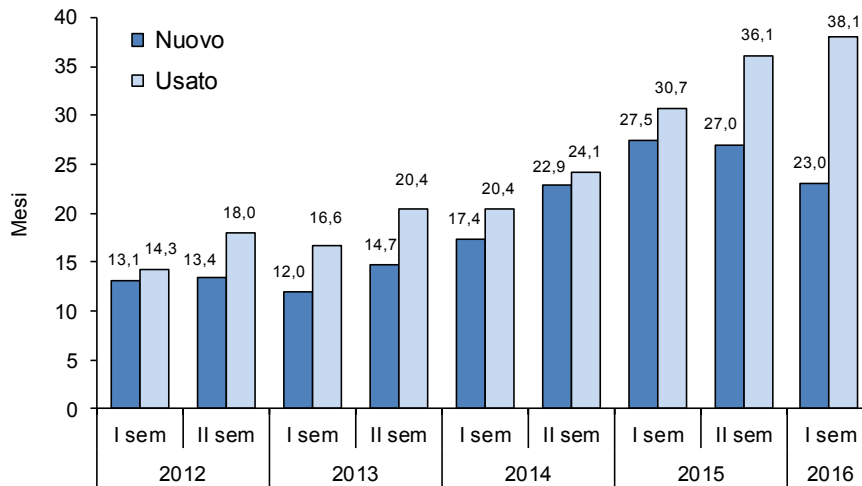
Source: Tirelli & Partners

Comparison between new and pre-owned properties highlights the structure of the recovery shown by the inversion of the curve. New builds, by definition characterised by uniform quality, sell much more quickly than pre-owned properties, reducing average closing times from 27 to 23 months, which conversely increase for pre-owned, going from 36 to 38 months.

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Figure 2.1

Evolution of average closing times for new or renovated properties and pre-owned properties



Source: Tirelli & Partners data processed by Nomisma

Prices – Price dynamics also underscore the inversion of the curve already mentioned with regard to other indicators. For the first time since 2010, average asking prices show a positive sign, while actual sales prices confirm and reinforce the previous half-year’s + sign, mainly because of the decrease in average discounts.

Considering the current level of average closing times, no significant price increases are predictable in the short or medium term. The structural relationship that links closing times and prices is by now an established fact, with the latter gaining dynamism only when the former have reached and exceeded a “physiological” limit. Considering that this limit for closing times is around 3 months, there is still a lot of ground to cover before a significant upward movement in prices can be foreseen. Any increases in the coming half-years could, however, come from an increase in the quality of the supply as a knock-on effect of the renewed air of positivity the market is experiencing.

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Table 2.5

Historic series of asking prices, effective selling prices and the gap between asking price and effective price.

Year	Asking Prices		Gaps	Actual selling prices	
	€/sq.m.	% fluctuation	% values	€/sq.m.	% fluctuation
2016	8,399	0.3%	9.8%	7,573	2.2%
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: Tirelli & Partners data processed by Nomisma

Table 2.6

**Asking prices⁽¹⁾ for prestige homes in Milan
(1st half 2016)**

Urban area	Average price New ⁽²⁾ (€/sq.m.)	Average Price Pre-owned ⁽³⁾ (€/sq.m.)	Average Price ⁽⁴⁾ (€/sq.m.)	Min. Average Price ⁽⁵⁾ (€/sq.m.)	Max. Average Price ⁽⁶⁾ (€/sq.m.)	Top prices ⁽⁷⁾ (€/mq)	Total average price ⁽⁸⁾ (€)	Total maximum price ⁽⁹⁾ (€)
Quadrilatero	14,450	11,676	12,741	10,669	15,163	20,000	2,551,429	12,000,000
Historic Centre	9,408	8,035	8,462	7,202	9,626	14,894	1,537,324	5,600,000
Brera-Garibaldi	9,400	8,360	8,832	7,604	10,255	14,545	1,447,547	7,500,000
Magenta	9,529	8,448	8,844	6,901	10,968	19,444	1,752,107	11,000,000
Venezia-Duse	10,986	10,366	10,528	8,398	12,466	18,05	2,749,081	13,000,000
Residual Area	7,586	6,244	6,847	5,288	8,539	11,000	1,500,207	5,500,000
Weighted average	9,059	7,981	8,399	6,802	10,094	15,050	1,680,999	7,747,473
% half-year fluctuation	0.7%	-0.1%	0.3%	0.8%	-0.6%		2.9%	

(1) The values in the table are calculated on the basis of asking price both for sold and for listed residences.

(2) Average value per square metre of new build or renovated prestige residences.

(3) Average value per square metre of prestige residences in average state of repair or to be renovated.

(4) Average value per square metre of prestige residences obtained as weighted average of average price per square metre of New and average price per square metre of Pre-owned.

(5) Average value per square metre of prestige residences with a lower price than the fourth quartile of property price distribution.

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- (6) Average value per square metre of prestige residences with a higher price than the third quartile of property price distribution.
- (7) Maximum value per square metre recorded in the half-year.
- (8) Average total value obtained as weighted average of the New total average price and Pre-owned total average price.
- (9) Total maximum value recorded in the half-year.

Source: Tirelli & Partners data processed by Nomisma

As far as completed transactions are concerned, the most substantial sale was recorded in the first half of 2016 in the Magenta area, at a total price of 5.6 million euro and price per square metre of €12.444. Both figures are below the highest sale price recorded in 2015. The transaction concerned not an historic residence but rather a superbly renovated, energy Class A penthouse. Two other sales at prices higher than those recorded in the last half-year were in the Quadrilatero and Historic Centre areas at 5.0 and 4.8 million euro respectively.

Table 2.7

Features of homes sold for highest total prices in Milan
(1st half 2016)

Urban area	Total price (€)	Size (sq.m)	Price Per sq.m (€)	State of repair	Type of home	Features and amenities
Magenta	5,600,000	450	12,444	Excellent	Penthouse	Duplex pentouse with terrace and garage. Perfectly renovated, energy Class A.
Quadrilatero	5,000,000	400	12,500	Average	Apartment	Apartment on sixth floor, panoramic views, terrace and double garage.
Historic Centre	4,800,000	670	7,164	In need of renovation	Apartment	Apartment on fourth floor with terrace and garage

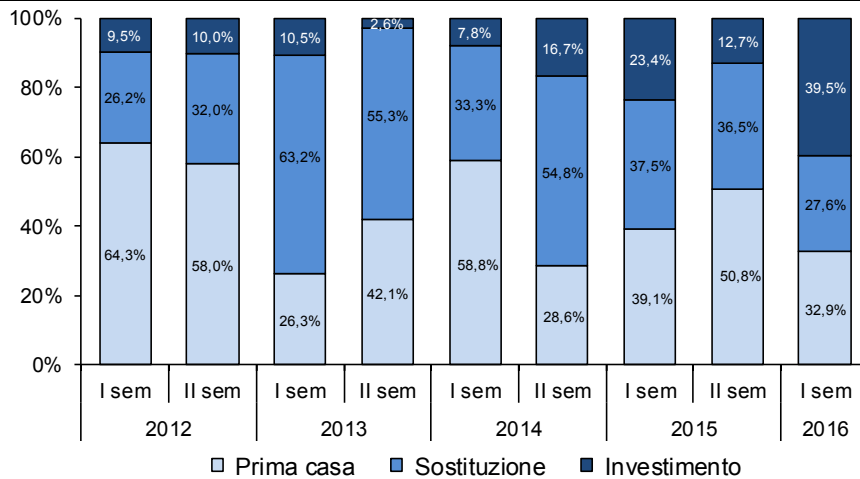
Source: Tirelli & Partners

Reasons for purchase – If during 2015 the majority of purchasers (50.8% of the total at years' end) were looking for a primary residence, in the first six months of 2016, the three components (primary residence, substitution and investment) accounted for fairly equal shares of the market, with a strong increase in investment purchases, showing renewed confidence in the property market even considering the meagreness of returns achievable from buying to let.

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Figure 2.2

Distribution of properties sold by type of use



Source: Tirelli & Partners

Foreign investors – The first part of 2016 confirmed a renewed interest in the Milan market on the part of foreign investors that had already been evident in 2015. In fact, the percentage of purchasers from abroad in the last half-year was 5%, with the majority once again being from countries within Europe. The most sought-after areas were Quadrilatero, Brera and Magenta. Foreign purchasers are looking for prestige apartments of at least 250 square metres situated on upper floors and having outside space.

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2.2.b Rentals

Table 2.8

The prestige residences rental market in Milan
(1st Half 2016)

Urban Area	Demand	Supply	Number rentals
Quadrilatero	↔/↑	↔	↑
Historic Centre	↔	↔/↓	↔/↓
Brera-Garibaldi	↔/↑	↔/↓	↔/↓
Magenta	↑	↔	↑
Venezia-Duse	↔	↔/↓	↓
Residual Area	↔/↓	↔	↓
Average	↔	↔/↓	↔

Source: Tirelli & Partners

Supply and Demand – The supply of prestige residences for rent remained consistent in terms of quantity during the first half of 2016, but still inadequate as far as quality is concerned, and so unappealing to a very selective demand, which insists on properties that are ready to move in to, and increasingly frequently, semi-furnished. Whereas in the past renovations works were postponed until after signature of the tenancy agreement, nowadays signature of the agreement presupposes that the property is almost always renovated and furnished. Otherwise the property is excluded on principle by potential tenants.

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Table 2.9

Rental market absorption index (percentage of properties rented out of the total number of properties on the market)

Urban Area	1st half 2016	2nd half 2015	1st half 2015	2nd half 2014	1st half 2014	2nd half 2013	1st half 2013	2nd half 2012	1st half 2012	2nd half 2011
Quadrilatero	40.0%	33.3%	15.8%	2..0%	45.7%	12.9%	16.0%	8.7%	31.6%	40.7%
Historic Centre	15.6%	17.4%	17.8%	20.6%	33.3%	13.0%	10.2%	11.1%	22.9%	24.4%
Brera-Garibaldi	20.0%	30.3%	44.1%	12.5%	25.0%	16.7%	25.0%	19.4%	19.4%	13.8%
Magenta	37.0%	21.7%	24.2%	20.4%	31.0%	15.6%	20.3%	22.2%	14.5%	29.3%
Venezia-Duse	5.1%	13.8%	14.3%	4.5%	19.0%	13.0%	18.2%	11.1%	29.4%	29.4%
Residual Area	12.7%	22.0%	16.3%	12.2%	14.0%	8.6%	17.9%	13.2%	16.7%	33.3%
Average	21.8%	22.2%	22.6%	16.3%	28.6%	1.,6%	17.9%	15.1%	20.6%	27.8%

Source: Tirelli & Partners data processed by Nomisma

Analysing the absorption indices, which remain substantially stable compared with 2015, it can be noted that during the last half-year, top performers in the rental market were the Quadrilatero and Magenta areas, with around 40% of properties rented. Properties that are immediately ready to move into have no trouble finding a tenant.

Tenancy agreement closing times and differences – The rental sector has also shown a significant and simultaneous decrease in average rental agreement closing and stock times and difference between asked and actual rent. In particular, average tenancy agreement closing times and stock times for unrented properties recorded significant decreases of 1.7 and 3.3 months respectively, while discounts have reduced considerably, to the extent of recording the best result for the past eight half-years.

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Table 2.10
Closing times and discounts in prestige residences in Milan

Half-year	Average tenancy agreement closing times (months)	Stock times for unrented properties (months)	Difference asking/actual rent (in %)
1st half 2016	11.4	13.0	7.7
2nd half 2015	13.1	16.3	9.1
1st half 2015	12.6	18.4	9.9
2nd half 2014	18.9	18.6	13.0
1st half 2014	14.4	17.7	11.5
2nd half 2013	12.7	15.0	9.9
1st half 2013	9.7	12.7	9.9
2nd half 2012	11.1	10.2	13.5
1st half 2012	7.5	10.6	6.3
2nd half 2011	7.1	7.1	8.2
1st half 2011	7.2	7.0	7.3

Source: Tirelli & Partners data processed by Nomisma

Rents – During the first half of 2016, rents showed a restrained increase of around 0.6% over figures recorded in 2015.

The difference between asking and actual rent is the same for both maximum and minimum prices. Taken annually, however, average maximum rents increased by 1.0%, while minimum rents stayed more or less unchanged.

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Table 2.11
Rents asked¹ for prestige residences in Milan (2st Half 2016)
(€/sq.m/year)

Urban Area	Average minimum rent ⁽²⁾	Average maximum rent ⁽³⁾	Average rent ⁽⁴⁾	Top rents ⁽⁵⁾
Quadrilatero	254	408	327	500
Historic Centre	222	310	263	391
Brera-Garibaldi	220	297	259	367
Magenta	218	288	250	365
Venezia-Duse	225	305	263	401
Residual Area	212	264	239	431
Weighted average	223	306	263	401
<i>Half-year fluctuation %</i>	0.6%	0.6%	0.6%	
<i>Annual fluctuation (in %)</i>	-0.1%	1.0%	0.6%	

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

(2) Average rent of prestige residences that have a rent lower than the first quartile of property rent distribution.

(3) Average rent of prestige residences that a rent higher than the third quartile of property rent distribution.

(4) Average rent of prestige residences.

(5) Top rents recorded in the half year.

Source: Tirelli & Partners data processed by Nomisma

Good news also emerges from analysis of concluded transactions where among three very significant tenancy agreements recorded, one is the first to reach a record annual rental of 145,000 euro. This is an extremely important result by Milan standards.

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	2015	2014	2013	2012	2011					
Quadrilatero	2.56	2.43	2.30	2,33	2.32	2.43	2.48	2.38	2.33	2.46
Historic Centre	3.11	3.07	3.09	2,96	3.08	3.10	3.03	3.01	3.09	3.09
Brera-Garibaldi	2.93	3.04	3.15	3.04	2.96	2.88	3.03	3.11	3.08	3.09
Magenta	2.83	2.73	2.79	2.86	2.99	2.95	2.97	3.00	2.91	2.82
Venezia-Duse	2.49	2.57	2.58	2,56	2.66	2.74	2.74	2.60	2.61	2.55
Residual Area	3.49	3.60	3.57	3,48	3.40	3.48	3.46	3.39	3.31	3.38
Average	3.13	3.12	3.15	3.11	3.16	3.19	3.21	3.19	3.18	3.23

Source: Tirelli & Partners data processed by Nomisma

2.2.d Forecasts

The encouraging signals observed in the first half are expected to continue into the second half of 2016. In the past two half-years, the market has been driven by investors with high disposal income in search of high quality prestige properties in a context of prices which have become favourable and expectations for an economic recovery, and a strong propensity for anticipating trends. We believe that in the immediate future we will see a further increase in demand, with an influx of potential buyers also in the medium-high market segment.

With regards to supply, a strengthening of the recovery could lead to an increase both in the new build segment (realtors have been particularly busy in recent months, and many property developments or divisions which were previously languishing on the market have found purchasers), and in the pre-owned market, where it would be reasonable to expect an increase in quality due to the owners deciding to put their homes onto a more favourable market.

The evolution of asking prices will not undergo substantial changes given the level of current closing times. The structural relationship that links closing times and prices is by now an established fact, with the latter gaining dynamism only when the former have reached and exceeded a “physiological” limit. Considering that this limit for closing times is around 3 months, there is still a lot of ground to cover before a significant upward movement in prices can be foreseen. Any increases in the coming half-years could, however, come from an increase in the quality of the supply as a knock-on effect from the renewed air of positivity the market is experiencing.

An increase is expected as far as the number of sales is concerned, even if the absorption rate will not grow hugely due to the existence of a supply that often struggles to meet the requirements of a very selective demand.

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Table 2.14

Sales Market Forecasts for the 2nd Half 2016

Urban Area	Demand	Supply	Number of sales	Sales prices
Quadrilatero	↑	↔	↔	↔
Historic Centre	↔	↑	↔/↓	↔/↓
Brera-Garibaldi	↑	↔/↑	↑	↔
Magenta	↑	↔/↑	↔/↑	↔
Venezia-Duse	↔/↑	↔	↔	↔
Residual Area	↑	↑	↔/↑	↔/↓
Average	↑	↑	↔/↑	↔

Source: Tirelli & Partners

It is predicted that interest could increase with regard to almost all the urban areas by virtue of the drop in prices recorded in recent years, which has stimulated a return of interest in buying with intention to let. In a generally positive situation, the Historic Centre area will continue to be penalised by excessive congestion and the lack of green spaces.

Table 2.15

Rental market forecasts for the 2nd half 2016

Demand	Supply	Number tenancy agreements	Rents
↔	↔	↔	↔

Source: Tirelli & Partners

Current trends in the rental segment should continue during the second half of the year.

2.3 Methodology note

Starting from the Report for the first half of 2011, some changes have been introduced to the method of calculating quantities regarding the Milan market. In particular, the effort put into gathering information on the state of repair of the properties has made it possible to provide the measure of average prices of the properties, distinguishing the new/renovated from the pre-owned. A weighting system has therefore been defined to ensure that in any event, a general average price could be defined from the two “pure” quantities (used and new/renovated). Furthermore, to improve the significance of the average values calculated, distinction by relevant area has also been included in the weighting system, weighting the values of each area by the effective market share of the city total it represents.

To limit the variability of the sample and allow for temporal comparisons between homogenous quantities, it was deemed opportune to use a multi-period weighting system that takes into account the number of listed properties in the Report’s earlier surveys. Table 2.16 summarizes the weighting coefficients used in this document.

This methodology is applied to calculate the average values of prices (both per square metre and total), sales closing times and the discount expressed as the gap between asking price and selling price.

Considering the changes made to the methodology, such values are no longer comparable with those published in editions of the Report prior to 2011. In general, the new method of calculation shows lower average prices compared with the previous one due essentially to the weighting system introduced. In fact, this system attributes less weight to the Quadrilatero and Venezia-Duse areas where the highest prices were recorded, but which together represent less than 11% share of the market, while it emphasizes Residual Area values, which represent about 29% of the market.

Table 2.16
Weighting system used to calculate average sales values

Area	Weights		Total
	New	Pre-owned	
Quadrilatero	0.022	0.032	0.054
Historic Centre	0.066	0.152	0.218
Brera-Garibaldi	0.058	0.071	0.128
Magenta	0.076	0.143	0.220
Venezia-Duse	0.014	0.038	0.052
Residual Area	0.145	0.183	0.328
Total	0.380	0.620	1.000

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A weighting system has also been applied to the rental market. It considers the relevant area, but not the state of repair, this information not having been measured in the sample. Average rent values, rental closing times and gaps between asking rents and offered rents were calculated with this weighting system.

Table 2.17 shows the weighting values used for this document.

To be able to make temporal comparisons between homogenous quantities, the new calculation method was applied starting from the values relating to the first half of 2010.

Table 2.17
**Weighting system used to
calculate average rental
values**

Area	Weights
Quadrilatero	0.121
Historic Centre	0.214
Brera-Garibaldi	0.157
Magenta	0.245
Venezia-Duse	0.102
Residual Area	0.161
Total	1.000