



Luxury Residences Report

2nd Half 2016

YEAR XIII – No. 2

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Introduction and methodology

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 characteristics 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.

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.

**Milan – 2nd Half 2016 and forecast for 1st Half
2017**

The luxury residence market

The luxury residence 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 exceeds **200** euro per square metre or whose total annual rental exceeds **40.000** euro;
- Homes located in the following areas:
 - o Quadrilatero
 - o Historic Centre
 - o Brera-Garibaldi
 - o Magenta
 - o Venezia – Manin - Giardini - Duse
 - o Residual Area (a virtual area consisting of all those homes that meet the parameters indicated while not being situated in the areas mentioned above).

Sales

Supply and Demand – As far as the Milan luxury residences market is concerned, the second half of 2016 will be remembered as having consolidated all the key market indicators that had begun to show the first signs of a recovery during 2015 and the first part of last year. Demand is still very high in the “top” segment (over 250 sq.m.), that made up of the *pioneers*, who had first sensed the right time to buy in the face of the consistent fall in prices and of renewed confidence in the country. Above all, the desire to buy a home literally shot up in the “medium” segment, overcoming the wait and see attitude that had inhibited it during the last 5/6 years.

Specifically analysing the absorption indices reveals a considerable improvement in performance in three of the six areas analysed. The greatest leap ahead was in the Historic Centre, with more than double the percentage of transactions compared with stock. This is an important sign, given that the Historic Centre is the city’s biggest luxury area. On average, the figure stands at 14.4%, the highest in the past six years. The traumatic 2.8% of the first half of 2013 seems a very long way off, even if the road back to standard pre-recession levels (around 25%) is still long.

Table 1

The sales market for luxury homes in Milan
(2nd half 2016)

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

Source: Tirelli & Partners

Table 2

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

Urban Area	2nd half 2016	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	7.0%	15.6%	8.8%	6.3%	6.1%	11.1%	0.0%	10.3%	14.3%	8.3%	22.6%
Historic Centre	17.3%	6.7%	5.1%	9.0%	3.4%	5.3%	0.7%	0.7%	8.6%	5.0%	7.9%
Brera-Garibaldi	26.4%	18.6%	15.6%	13.9%	5.1%	3.6%	9.2%	2.2%	8.5%	10.0%	9.5%
Magenta	16.1%	24.2%	5.5%	15.9%	6.1%	9.2%	7.6%	3.8%	6.5%	7.2%	7.1%
Venezia-Duse	5.7%	9.3%	17.6%	2.6%	5.0%	3.0%	6.9%	3.3%	9.4%	11.1%	5.6%
Residual Area	12.0%	6.3%	12.5%	9.1%	9.2%	9.5%	7.2%	2.7%	6.7%	6.5%	11.0%
Average	14.4%	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

Sales times and discounts – As far as average discounts on asking price are concerned, the trend which began in 2015 has consolidated, with an average figure that is a further improvement on the first part of the year, and is well under the 10% threshold. The most striking figure concerns sales times, which have returned to well below the two year threshold. This average figure is still largely influenced by closures on properties that have been on the market for a long time, while for those put up for sale in the half year much shorter periods of around 3/5 months are no longer an exception. Average stock times have also fallen significantly considering that the decrease stands at around 5.5 months based, however, on stock that between one half and another “ages” by 6 months. For the second consecutive time, a drop has been observed as much in the former as in the latter. In any case, absolute values are still high if

compared with those of 2014 or earlier, but the stability of the trend inversion remains notable.

As already mentioned, there is still a consistent supply of insufficient quality to meet buyers' expectations, stock that will struggle to be absorbed in the future and will contribute to keeping the number of unsold properties high

Table 3

Sales times and discount in the Milan luxury residences market

Half	Average sales times (months)	Average unsold property stock times (months)	Gap between asking/effective sales price (in %)
2nd half 2016	20.4	24.8	9.4
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

Prices – Sales price dynamics also consolidate the inversion of the curve already mentioned for other indicators. For the first time since 2010, average asking prices show a positive sign over the year, while effective sales prices confirm and reinforce 2015's + sign due to the combined effect of the considerable decrease in average discounts. Considering the still-high level of current sales times, stability, or at most a slight increase in asking prices, is predictable in the short term. On the other hand, a further decrease in the average discount could push effective selling prices up. The structural relationship between sales times and prices by which dynamics of the latter accentuate only when the former have reached and surpassed a "physiological" limit is well known. Considering that such limit for sales times is around 3 months, there is still a lot of room before truly significant price dynamics can be foreseen. Any increments in the coming halves could come from a renewal of stock with an increase in the quality of the supply.

Table 4

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

Year	Asking prices		Gaps	Effective selling prices	
	€/sq.m	% fluctuation	% values	€/sq.m	% fluctuation
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: Tirelli & Partners data processed

Table 5

Asking prices⁽¹⁾ for luxury residences in Milan
(2nd half 2016)

Urban Area	Average price New ⁽²⁾ (€/sq.m)	Average price Used ⁽³⁾ (€/sq.m)	Average price ⁽⁴⁾ (€/sq.m)	Minimum average price ⁽⁵⁾ (€/sq.m)	Maximum average price ⁽⁶⁾ (€/sq.m)	Top prices ⁽⁷⁾ (€/sq.m)	Average overall price ⁽⁸⁾ (€)	Maximum overall price ⁽⁹⁾ (€)
Quadrilatero	15,051	11,344	12,768	10,613	16,101	28,636	2,519,227	12,000,000
Historic Centre	9,725	8,199	8,673	7,207	9,985	14,438	1,621,926	5,800,000
Brera-Garibaldi	9,599	8,494	8,995	7,758	10,432	14,545	1,541,236	7,500,000
Magenta	9,771	8,502	8,967	6,947	11,224	20,000	1,802,210	11,000,000
Venezia-Duse	11,211	10,515	10,697	8,450	12,799	20,840	2,774,533	13,000,000
Residual Area	7,798	6,233	6,936	5,314	8,718	11,525	1,542,678	6,500,000
Weighted Average	9,314	8,036	8,532	6,841	10,377	15,830	1,734,591	8,121,480
<i>Half-year. % fluctuation</i>	<i>2.8%</i>	<i>0.7%</i>	<i>1.6%</i>	<i>0.6%</i>	<i>2.8%</i>	<i>5.2%</i>	<i>3.2%</i>	<i>4.8%</i>

⁽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 luxury residences.

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

⁽⁴⁾ Average value per square metre of luxury residences obtained as weighted average of average price per square metre of New and average price per square metre of Used.

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

⁽⁶⁾ Average value per square metre of luxury 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 Used total average price.

⁽⁹⁾ Total maximum value recorded in the half-year.

Source: Processing of Tirelli & Partners data

With regard to completed transactions, the most sizable sale was recorded in the Magenta area, with a total value of 8.2 million euro, and a price per square metres of almost €15,000 sq.m. The other transactions “*on the podium*” also had prices of over €13,500 per square metre (net of the value of the garage if there is one), something which had not happened since the 1st half of 2010. To put this figure in the right perspective, it is worth pointing out that in the 6 half-years between the 2nd half/2007 and the 1st half/2010, the average for the 3 most sizable transactions has been below the €13,500 per sq.m. threshold only once.

Table 6

Features of homes with greatest total sale value sold in Milan (2nd half 2016)

Urban Area	Total price (€)	Size (sq.m)	Price per sq.m (€)	Condition	Type of home	Features and amenities
Magenta	8,200,000	550	14,910	Excellent	Apartment	Duplex penthouse with terrace
Brera	6,200,000	440	13,864	Average	Apartment	Apartment on third floor with terrace and garage
Historic Centre	4,650,000	330	13,678	New	Apartment	Duplex apartment on 3rd and 4th floors with terrace and double garage. New build

.Source: Tirelli & Partners

Reasons for purchase – If in 2015 the majority of buyers (a share of 50.8% in the second half) were looking for a first home – a clear sign of a waking market – during 2016 the replacement home segment was dominant with 41.1 (driven by the 54.7% of the second half of the year). The percentages of first home and investment purchases were more or less equal at 29.8% and 29.1% respectively. The fact that on an annual basis investment purchases constitute almost of third of the total is proof of renewed confidence in the property market, also in the face of the paucity of yields obtainable from alternative monetary investments.

Foreign investors – The return of interest in the Milan market by foreign investors, already evident in 2015, was confirmed throughout 2016. The percentage of buyers from abroad stands at around 5%. The main countries of provenance are still European. The most sought-after areas are still Quadrilatero, Brera and Magenta. Foreign demand is looking for luxury

apartments of at least 250 sq.m. located on higher floors and having outside space.

Rentals

Table 7

The luxury residences rental market in Milan *(2nd 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 trend relating to supply of luxury residences for rent remained stable also during the second half of 2016 and consistent in terms of quantity, but still inadequate from a quality point of view, and therefore unattractive to a very selective demand, which insists on ready-to-move-into, renovated and more and more often semi-furnished apartments.

Table 8

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

Urban Area	2nd half 2016	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	35.6%	40.0%	33.3%	15.8%	25.0%	45.7%	12.9%	16.0%	8.7%	31.6%	40.7%
Historic Centre	14.2%	15.6%	17.4%	17.8%	20.6%	33.3%	13.0%	10.2%	11.1%	22.9%	24.4%
Brera-Garibaldi	24.4%	20.0%	30.3%	44.1%	12.5%	25.0%	16.7%	25.0%	19.4%	19.4%	13.8%
Magenta	28.8%	37.0%	21.7%	24.2%	20.4%	31.0%	15.6%	20.3%	22.2%	14.5%	29.3%
Venezia-Duse	10.6%	5.1%	13.8%	14.3%	4.5%	19.0%	13.0%	18.2%	11.1%	29.4%	29.4%
Residual Area	16.7%	12.7%	22.0%	16.3%	12.2%	14.0%	8.6%	17.9%	13.2%	16.7%	33.3%
Average	22.4%	21.8%	22.2%	22.6%	16.3%	28.6%	13.6%	17.9%	15.1%	20.6%	27.8%

.Source: processing of Tirelli & Partners data

Analysing the absorption indices, which show a slight increase, it can be noted that during the last half, the Quadrilatero, Magenta and Brera areas were the

main drivers of the rental segment. Immediately available properties on the market often find a tenant without difficulty.

Rental closing times and differences – The rental market shows substantial stability with regard to average rental closing times, stock times and differences between asking and effective rents compared with the previous half.

Table 9

Rental closing times and discounts for luxury residences Milan

Half year	Average rental closing times (months)	Average stock times for unrented properties (months)	Gap asking/effective rent (in %)
2nd half 2016	11.2	13.6	8.0
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: processing of Tirelli & Partners data

Rents – During the second half of 2016, rents showed a further slight increase over the previous survey.

Variations were more marked for top rents, confirming the scarcity of quality supply, which is rewarded by the market. On an annual basis, average maximum rents increased by over 2%, while minimum rents only by 0.7%

Table 10

Rents asked⁽¹⁾ for luxury residences in Milan (II half 2016)
(€/sq.m/year)

Urban Area	Average minimum rent⁽²⁾	Average maximum rent⁽³⁾	Average rent⁽⁴⁾	Top rents⁽⁵⁾
Quadrilatero	258	430	332	500
Historic Centre	224	310	265	390
Brera-Garibaldi	231	304	268	372
Magenta	223	294	252	366
Venezia-Duse	220	314	268	431
Residual Area	211	268	240	444
Weighted average	226	315	269	412
<i>Half-yearly fluctuation (in %)</i>	<i>1.3%</i>	<i>2.9%</i>	<i>2.3%</i>	
<i>Annual fluctuation (in %)</i>	<i>0.7%</i>	<i>2.1%</i>	<i>1.9%</i>	

⁽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 luxury residences that have a rent lower than the first quartile of property rent distribution.

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

⁽⁴⁾ Average rent of luxury residences.

⁽⁵⁾ Top rents recorded in the half year.

Source: processing of Tirelli & Partners data

Foreign renters –The lack of interest in the rental market by renters from abroad, whose weight continues to be residual at around 1% of the total, was confirmed also in the first half of 2016. As with the sales market, renters are mostly from European countries, while the most sought-after areas are Quadrilatero, Brera and Magenta. Foreign renters' demands are for luxury properties in faultless condition, new or perfectly renovated, even better if furnished period properties with amenities.

Returns

Levels of revenue-generation also remain stable compared with those observed in the past two years. Overall, average revenue from luxury properties in Milan stand at 3.15%, a return to first half of 2015 levels.

Table 11

Average potential rental returns (% values)

Urban Area	2nd half 2016	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	2.62	2.56	2.43	2.30	2.33	2.32	2.43	2.48	2.38	2.33	2.46
Historic Centre	3.10	3.11	3.07	3.09	2.96	3.08	3.10	3.03	3.01	3.09	3.09
Brera-Garibaldi	3.06	2.93	3.04	3.15	3.04	2.96	2.88	3.03	3.11	3.08	3.09
Magenta	2.71	2.83	2.73	2.79	2.86	2.99	2.95	2.97	3.00	2.91	2.82
Venezia-Duse	2.54	2.49	2.57	2.58	2.56	2.66	2.74	2.74	2.60	2.61	2.55
Residual Area	3.50	3.49	3.60	3.57	3.48	3.40	3.48	3.46	3.39	3.31	3.38
Average	3.15	3.13	3.12	3.15	3.11	3.16	3.19	3.21	3.19	3.18	3.23

.Source: processing of Tirelli & Partners data

Forecasts

A continuation of the encouraging signs observed during 2016 is forecast for the first half of 2017. Since 2015, the market recovery was initially driven by investors with high disposable income looking for high quality luxury properties in the light of prices which had become favourable, expectations of an economic recovery and a propensity to anticipate trends. Today we are seeing a further increase in demand with the influx of potential buyers also in the medium-high market segment.

As far as supply is concerned, consolidation of the recovery could lead to an increase in the used market, where it would be reasonable to expect a rise in quality as a result of owners deciding to put their homes onto a more favourable market. The quality of new listings for sale will be crucial to determine the prospects for growth in the number of potentially recordable transactions.

The evolution of asking prices will not undergo substantial changes considering the present level of closing times, and will continue to trend slightly upwards. Any significant increases in the coming half years could come from an increased quality in supply as a result of the renewed climate of optimism in the market.

In relation to the number of sales, we are still expecting a slight increase, even if the absorption rate cannot grow significantly because of the existence of a supply which often struggles to meet the demands of very selective purchasers. In this regard we point out that in 2016, the homes that were most difficult to sell – the last quartile of completed transactions – languished on the market for 4.4 years and had to discount the asking price, already amply revised compared with the original level in 2011/2012, by 14.5%.

Table 12

Sales Market Forecasts for the 1st half 2017

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

.Source: Tirelli & Partners

An increases in interest is forecast for almost all areas of the city by virtue of the drop in prices recorded in recent years, which has favoured a return of interest from a point of view of investment.

Table 13

**Rental Market Forecasts for the
1st Half 2017**

Demand	Supply	Number of rentals	Rents
↔	↔	↔	↔

.Source: Tirelli & Partners

During the first part of the year, the rental segment should confirm the current trend towards stability.