

9 The Milan Housing Market

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9.1 Introduction

Segmentation is definitely the main characteristic of housing markets and the case of Milan is no exception. We must necessarily start looking at the territorial structure of the Milan metropolitan area, which essentially coincides with the province, by focusing the relation between the changes intervening in real estate prices and population dynamics. In doing this we not only get confirmation that there are significant differences between the different zones of the metropolitan area, but also that the recoveries of the city centre in terms of population translates into relatively larger prices increases. Although the same is occurring in other large Italian cities, Milan retains a kind of leadership over the rest of the country as it still shows some lead and a stronger cyclical behaviour.

There are other obvious distinctions and segments worth examining, besides the internal horizontal differentiation. The separation between the property market – relatively large in Milan – and the rental market (relatively small) is an obvious example. The separation between new and old housing space and the distinction between private and public housing are equally important examples. From this perspective, Milan is not very different from many other large Italian cities as the share of restructured space is comparatively large and the availability of public housing definitely small. Where the comparison between Milan and other Italian cases proves interesting is in the level and the time profile of housing prices, costs, yields and rents. In Milan the cycle leads the average one and price oscillations are comparatively larger than elsewhere.

The disparities across different Italian cities mirror differences which are both internal to the metropolitan area and external to it. What interests most is the cyclical behaviour of housing prices and rents. As price changes impinge on the propensity to invest and the willingness to hold housing property, it seems worthwhile to look closely at the current price recovery and, in particular, at the role of

price expectations in the real estate market. The case of Milan could again foreshadow something which is going to occur elsewhere. There is evidence of diffused systematic errors in price expectations showing that investors form them more by extrapolating current prices than by looking at relation between the fundamental relation which ought to exist between price and rent. Milan looks different from other large cities. The large housing ownership in Milan also seems to reflect a stronger advantage for owner-occupiers over renters. In this particular phase, the uneven recovery of housing prices reveals that investors see the housing equity as a safe haven, i.e. a low risk-asset able to out perform both high-risk equities and low-yield government bonds. It seems safe to argue that the recovery is better fuelled where the pressure coming from the demand side is higher, as is probably the case in Milan.¹

9.2 Basic Features of the Housing Market

Durable, immobile and expensive goods supply housing services. The services are differentiated as houses are supposed to be bundles of joint intrinsic qualities and neighbourhood features. Housing prices certainly reflect different mixes of those characteristics and, at the same time, a common or market trend. Because of their changes, housing values are more similar to those of assets than those of final goods and services, rents included. On average, the changes in market values seem to be greater in the larger metropolitan areas, such as Milan. Changes are not the same in the different zones of any metropolitan area. While some of the qualities and features of houses are impossible to alter, others are simply expensive to change, particularly in historical cities. This is why observed changes in prices can be explained more by the presence of rationing phenomena and expectations dynamics than by fluctuations in those characteristics, particularly in cities where net investment adds little to the existing stock.

Other aspects of the housing market are worth noting. There are obvious construction lags and an equally obvious rigidity in supply, which may add to price instability. The rigidity of supply is compounded by the fact that what we call the housing market is a rather abstract concept. Indeed, many tiny and loosely related sub-markets exist in any single metropolitan area. In the case of Milan, the fashion district, for instance, has average prices and dynamics which cannot be easily compared to those of other residential zones. Although it is possible to think about a common trend of a metropolitan area, there are obvious differences in different segments of the same area. In Milan, for instance, although the last market slump brought about a price contraction larger than that at national level, the fashion district did not share the same price fall.

Besides the obvious geographical segmentation, any urban housing market is formed by a property market where developers and investors supply a quantity of

¹ This chapter is the result of a common research project of the two authors. Sects. 3 and 4 have been written by R Camagni while the others have been contributed by D Martellato.