

Italian Spotlight – 2023

Q
SPOTLIGHT
Savills Research

Italian Investment Market



Logistics, hospitality and living drive investments in an improving market

Highlights

2023 registered an expected slowdown of investment volumes

Uncertainty related to the macroeconomic environment and rising financing costs slowed down activity

Logistics took back the lion's share in terms both of investment volumes and number of deals

Hospitality confirmed to be a resilient sector gaining the 2nd place in terms of investment volume

Strong fundamentals sustained the living sector which was the only one to record a positive trend YoY

Office sector contributed with €1.1 bln to investment volumes in sharp decline, despite a leasing market that remains dynamic

Retail investments continued to be limited but the market showed more dynamism

The market has been mainly characterized by small size transactions and transactions in regional markets

ESG factors will become increasingly relevant for both investors and occupiers, leading to a further polarisation between prime and secondary assets

Yield decompression in 2023 affected all the asset classes, but will stabilize next year

2023 KPIs



TOTAL INVESTMENT VOLUMES
6.5 bln €
-45% YoY



NUMBER OF DEALS
255
+6 YoY



SOURCE OF CAPITAL
62% foreign



GEOGRAPHIES
52% regional markets/ mixed portfolios



LOGISTICS | PRIME NET YIELD
5.50%
+75 bps YoY



HIGH STREET | PRIME NET YIELD
3.75%
+25 bps YoY



OFFICE | PRIME NET YIELD
4.10%
+20 bps YoY



SHOPPING CENTRE | PRIME NET YIELD
7.25%
+100 bps YoY

Macro-economic Outlook

The global scenario is still dominated by uncertainty. Global economic growth slowed down in 2023 due to worsening of financial conditions. Eurozone growth is weak against a backdrop of fragile consumption while the US performs well. Italy economic trend remains positive despite gradual deceleration. Sticky inflation and rising financing costs are holding back consumption and investments.

In December, inflation continued to contract (+0.6%), mainly thanks to energy products while food product prices continued to grow. Core inflation decreased at +3.1% while 'shopping trolley' inflation dropped to 5.3%. The increases in the production chain were almost entirely passed on to consumers with effects on consumptions and sales, which grew in value terms but decreased in volume.

The propensity to save rapidly declined to record lows in Q4 2022 (4.6%), followed by a slight improve in the first 9 months of 2023 (6.9%). The growth in households' disposable income (+4.8% YoY), together with the continued growth in consumer prices, led to a further decrease in purchasing power (-0.6% YoY). The resilience of final consumption expenditure (+4.2%) was therefore offset by the decline in the savings rate.

In December, the consumer confidence index improved for both consumers and businesses, supported on the one hand by improved expectations on the economic climate and on the other hand by the services and construction sector.

According to Oxford Economics, Italian GDP is forecasted to increase by 0.5% in 2024, as interest rates remain high, and growth is weak. Inflation is projected to fall steadily below ECB target. Accordingly, a reversal of monetary policy is likely in H2 2024, but we will remain at restrictive level.



GDP
+0.1% YoY
(Q3 2023)



UNEMPLOYMENT RATE
7.5% (-42 bps YoY)
(November 2023)

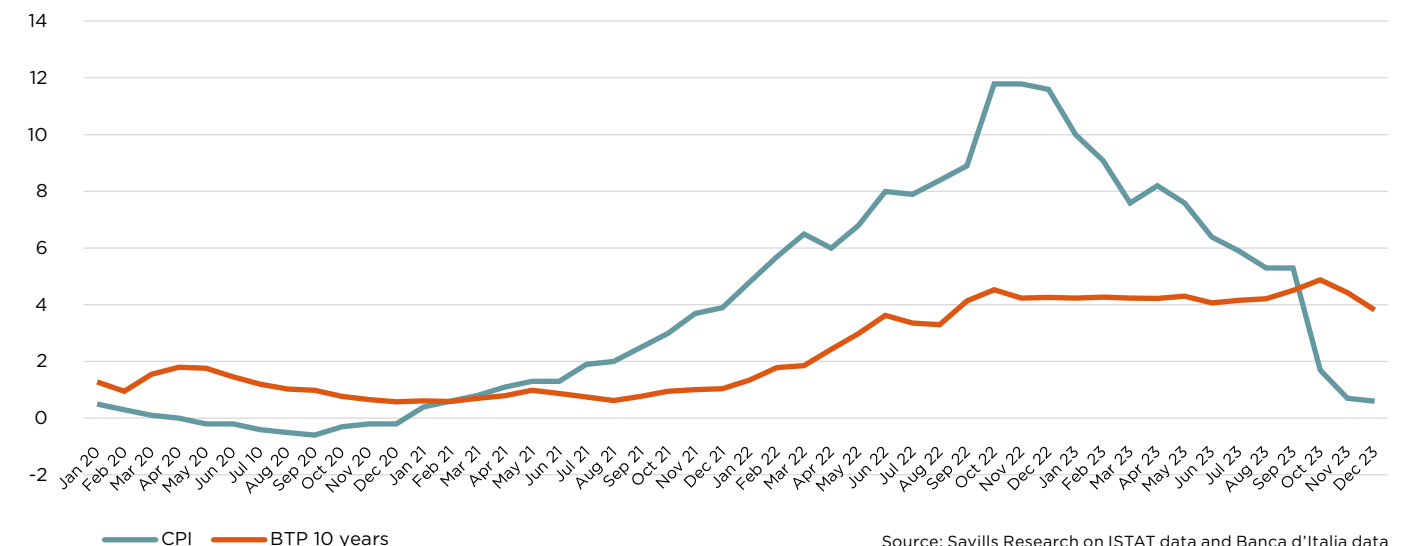


CPI
+0.6% YoY
(December 2023)



GOVERNMENT BOND YIELDS 10 YEARS
3.82% (-44 bps YoY)
(December 2023)

CPI and BTP 10-years (%)



Source: Savills Research on ISTAT data and Banca d'Italia data

Commercial Real Estate Investment Market

In 2023, around € 6.5 bln was invested in the Italian commercial real estate market, registering a 45% YoY decrease. The slowdown, started at Q4 2022, continued in the first 3 quarters of the year and was followed by slightly recovery in Q4 2023. As expected, the uncertainty surrounding the macroeconomic environment and the increase in financing costs slowed down activity.

Considering the number of deals, the market remained dynamic with 255 deals closed in the year compared to a five-year average of 191, however the average volume per deal decreased with a prevalence of transactions below € 50 mln.

Despite the period of uncertainty, international currency continues to prevail (62%), a sign that the Italian market remains competitive.

In terms of geographies, Milan confirmed to be the preferred destination, registering 34% of the investment volume, followed by Rome (13%). Thanks to the positive trend of logistics and hospitality sectors, the other Italian cities accounted for 52%.

Logistics confirmed its relevance in the Italian panorama, representing around 26% of total investments, underpinned by a strong leasing demand, low vacancy and increasing rents.

Hospitality continued to perform well, reaching the 2nd place by investment volume in 2023. More Italian capital is active in the market. New products and locations with good fundamentals are gaining an increasing market share.

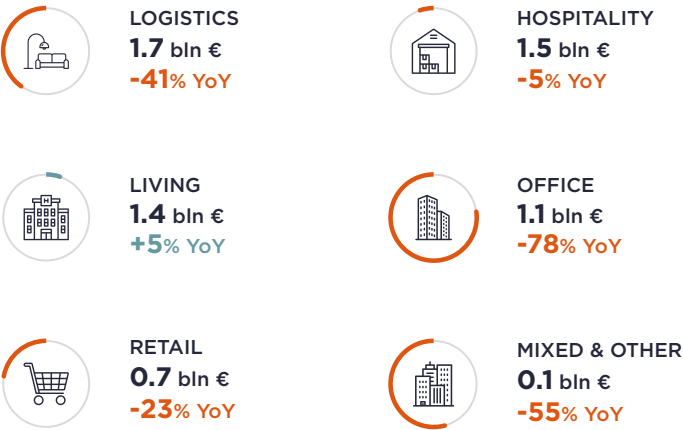
Strong fundamentals sustained the living & healthcare sectors. This was the only sector to record a positive YoY change in 2023. Volumes are mainly driven by the residential and healthcare segments. Regional markets are growing in interest, thanks to more competitive prices.

With around € 1.1 bln, office investment volumes are significantly declining despite a market that remains dynamic on the occupier side. Low availability of prime spaces limits absorption. Pent-up demand for high-quality, ESG-compliant offices is growing in the market.

Investment volume in the retail sector, amounting to about € 700 mln, continue to be subdued and led by the retail warehouse segment; the share of shopping centres is raising with about € 150 mln.

In 2023, rental levels registered an increase in almost all the asset classes. In logistics, living and grade A offices rent trend benefitted by high demand and low vacancy rates. The rise in interest rates continued to affect the yield trend; a further decompression in Q4 affected all the asset classes.

Investment volumes



Total investment volume by geographies (2023)



Market Outlook

The slowdown in investment activity that characterised the market since Q4 2022 will not see a reversal in the first half of 2024 but will register a slowly recovery trend. Still high financing costs and slowing economic growth are affecting investor confidence. A modest rebound is postponed until the second half of 2024, when a looser monetary policy is more likely.

Like interest rates, yields will remain higher than seen in recent years of expansionary policy. Risk premiums will be more comparable with pre-GFC levels, than what we observed pre-pandemic. Today and in the coming months, price correction will affect secondary assets, contributing to a further polarisation between prime and potentially stranded assets. In sectors characterised by demand constraints, rental growth will drive income returns. In H2 2024, the end of the price discovery phase will result in increased activity.

“Beds & sheds”, together with hospitality, have proven to have solid fundamentals. In terms of geography, we expect a growing market share in regional markets, thanks mainly to logistics and hospitality, but also to the living sector.

Decarbonising the real estate sector is an urgent and pressing need. ESG targets are actively shaping investors and occupiers’ decisions. Green certifications are no longer sufficient today, rather the minimum requirement to obtain bank financing. All large groups implemented ESG strategies, and by 2030 occupiers will have to choose properties that meet the ESG requirements dictated by the parent company.

66 In the current complex scenario, the Italian market remains focused on beds & sheds and in the resilient hospitality sector. The pick-up in transaction activity started in the fourth quarter of 2023 will continue moderately in the next six months and will consolidate in the second half of 2024. The focus on established products in the office segment will persist, while the retail segment will present new opportunities.

Office

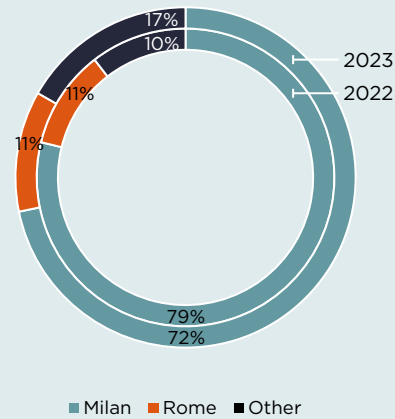
After the outstanding result achieved in 2022, office volumes slowed down in 2023, reaching € 1.1 bln, a figure down both YoY (-78%) and on the last 5 years average (-69%). The number of transactions also decreased: 45 deals were recorded. The market remained comparatively liquid up to a volume below € 50 mln, beyond which only 5 transactions took place.

Milan confirmed to be the first target for investors, although to a lesser extent than the recent years' trend; 22 properties located in both central and peripheral areas of the city were sold, for a total of € 760 mln.

Secondary locations such as Firenze, Napoli, Bologna and Genova characterised the activity of the year, collecting 32 transactions for a total of circa € 180 mln. In Rome, volumes slowed down significantly YoY (-76%), whereas the number of deals increased: 12 offices were acquired by domestic players for a total of around € 120 mln.

Office take-up in Milan recorded approximately 427,000 sqm in 2023. Even though this confirms the expected slowdown in leasing activity (-12% YoY), 2023 is the third best year for leased office spaces in last decade. The decline from 2022 record figures is mainly ascribable to a shortage in grade A product that, coupled with a strong demand for Grade A assets and tight availability, supported prime rents' increase (+4% YoY).

Investment volumes by geography



Hospitality

Tourism flows in our Country are rapidly recovering, turning back to pre-Covid levels. Provisional ISTAT data for the first eleven months of 2023 suggest that the number of tourists is just 2% lower than the same period of 2019 and show an increase of the foreign component. International tourism expenses are thus on the rise, (Q1-Q3 2023: +16% YoY), as well as ADR and RevPAR.

In this positive context, hospitality sector continued to perform well, reaching the 2nd place in terms of investment volumes with € 1.5 bln, a figure only slightly lower than in 2022. The market was dynamic, recording 56 deals, and characterized by an increase in domestic players, who contributed to half of the volumes.

The market is liquid in major cities such as Rome, Milan and Florence, but held back by a very limited supply, particularly of trophy assets. Value-add assets and regional markets are at the heart of investors' strategies in a market that continues to be driven by luxury but is also seeing growth in other segments.

2023 investment volumes by origin of capital



Logistics

The sector is confirmed as a priority in the Italian landscape in 2023, ranking first in terms of investment volume. During this period, the sector raised around € 1.7 bln, registering an expected slowdown compared to the previous year (-40%). Logistics was also the most dynamic sector, with 66 transactions and more than one hundred assets transacted.

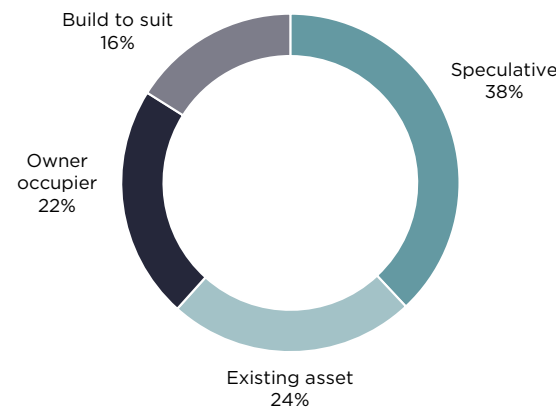
Reduced liquidity has led the market to be characterised by small operations: more than half of the annual transactions were below € 19 mln, while the average deal size decreased from € 35 mln in 2022 to € 26 mln in 2023.

Prime net yields decompressed in all key geographies during the year; Milan turned back to the level of six years earlier at 5.50% but values should stabilize in the coming year.

On the leasing side, take-up remained particularly high in 2023 with around 2.8 million sqm, a figure almost in line with the previous year's record and 13% higher than the average of the last five years.

For 2024 we expect a more favourable market, with investors eager to target standard logistics assets, last mile, but also new products such as IOS (Industrial Outdoor Storage), of which the first transaction was registered in 2023.

2023 Take-up by transaction profile



Retail

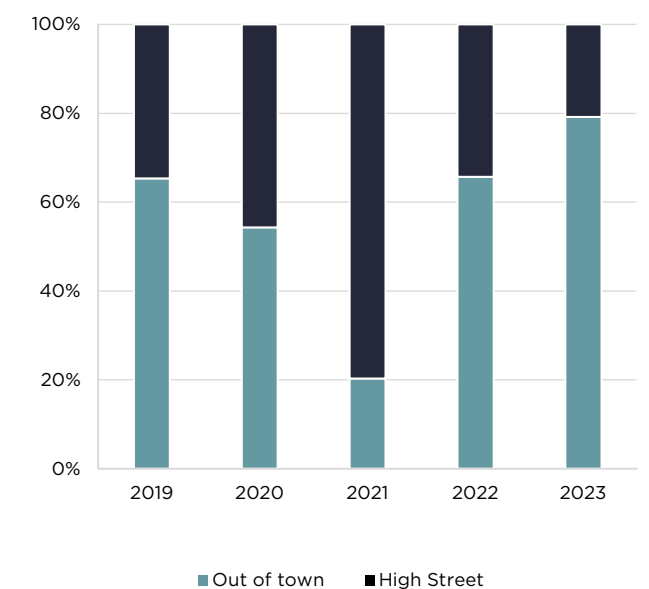
Retail investments continued to be low also in 2023, reaching around € 700 mln, a figure down both on the previous year (23%) and on the last 5 years average (-41%). Nevertheless, a positive trend is the number of transactions, which saw an upward trend for the third year in a row: in 2023, 27 deals have been recorded.

Out of town characterized most of the yearly activity (80%) recording € 530 mln. The retail warehouse products drove the volumes, thanks to the closing of three portfolios of over € 70 mln each. Shopping centers' volumes remained limited, standing at € 150 mln, but the number of deals increased (7; +4 YoY).

The high street saw its share decrease at 20% in the last year. Total volumes in 2023 stand at € 140 mln across seven transaction, five of which located in the city of Milan.

In this context, prime net yields continued to decompress compared to 12 months before, both for shopping centers (+100 bps), retail parks (+75 bps) and high street (+25 bps).

Investment volume by sub sector



Living & Healthcare

With € 1.4 bln, the living sector ranks third in terms of investment volume and represents the only asset class to record increasing volumes compared to 2022. Over the past six years, the share of this sector over the total Italian investments has steadily increased from 3% in 2018 and 2019 to about 21% in 2023. Solid fundamentals continue to support interest in the residential, student housing and healthcare sectors.

In the last 12 months, the healthcare represented the first segment, accounting for 40% of the total; two large care home portfolio deals contributed to this result.

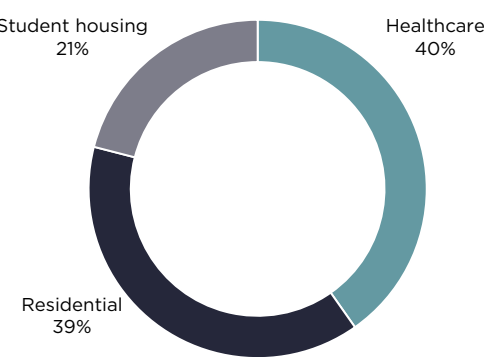
The residential segment reached around € 540 mln and includes

several products such as build to rent, build to sell, development projects, social housing and senior living solutions. Milan still represents the main destination, where 78% of the activity has been recorded.

Student housing hit a new record high in 2023, reaching a total of € 290 mln across 8 deals; half of these involved the change of use of existing property into student accommodations.

Solid fundamentals will continue to sustain the sector. In the next quarters, the opening of new schemes could favour higher ticket size deals, while increasing attention is expected for competitive secondary locations.

2023 investment volumes by sub-sector

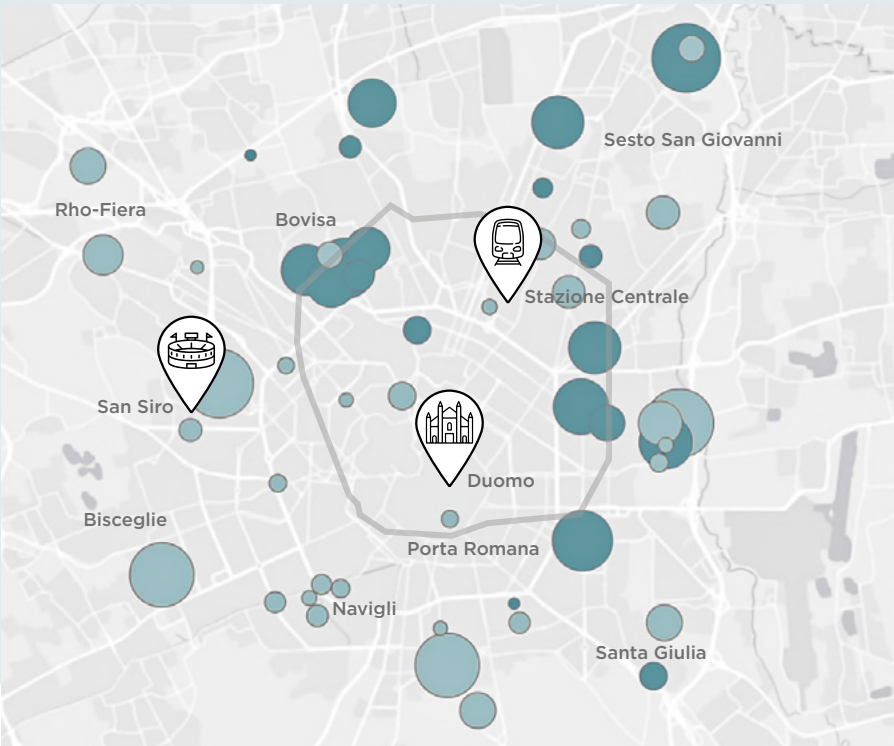
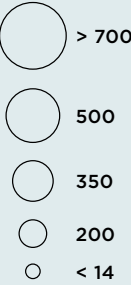


Milan, build to rent and student housing main development projects (2024-2026)

Typology

- Build to rent
- Student housing

N° of Dwellings (Build to Rent)
N° of Beds (Student housing)



Milan shows a lively pipeline of living development projects. In recent years, many operators have chosen to focus on this city to realize their first build-to-rent projects, with the aim to offer new living solutions in a city that is still competitive in terms of pricing respect other European destinations.

For the next three years, a total of 32 build to rent projects are expected to be completed in Milan for a total of around 7,000 dwellings. The offer comprises co-living, short rent and social housing solutions which will offer services ranging from coworking areas, gardens, gyms and communal spaces.

On the other hand, the shortage of student housing accommodations keeps the sector dynamic. In Milan, 20 projects have been identified that will add 9,000 beds to the current supply by 2026. Despite this, the new offer will not be sufficient to meet a growing demand.



Savills Team
Please contact us for further information

Davide Dalmiglio
Managing Director,
CEO Italy
+39 335 8473054
davide.dalmiglio@savills.it

Marco Montosi
Director,
Head of Investment
+39 02 632814749
mmontosi@savills.it

Giacomo De Feo
Director,
Investment
+39 02 632814748
gdefeo@savills.it

Carlo Walder
Director,
Head of Industrial & Logistics
+39 349 9777787
carlo.walder@savills.it

Dario Leone
Director,
Head of Hospitality & Leisure
+39 335 5834151
dario.leone@savills.it

Elena Zanlorenzi
Head of Research
+39 340 7701607
elena.zanlorenzi@savills.it

Manuela Nitti
Research Associate
+39 340 4773859
manuela.nitti@savills.it

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

