

Italian Spotlight – YTD Q3 2023



Italian Investment Market



66 Living and logistics drive investment in a reduced speed market

Highlights

The first 9 months of 2023 recorded an expected slowdown in terms of investment volumes

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

Living sector took the lion's share thanks to its strong fundamentals

The logistics sector was the most dynamic of the period with 44 deals

Hospitality gained the 3rd place in terms of investment volume proving to be resilient, with many deals related to developments

Office sector contributed to 11% with investment volumes in sharp decline despite a leasing market that remains dynamic

The market has been mainly characterized by small size transactions and secondary locations

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

Price adjustment is expected through the remaining part of 2023 and will be followed by a stabilisation in H2 2024

Like interest rates, yields will remain higher compared to data registered in recent years of expansionary monetary policy

YTD Q3 2023 KPIs



TOTAL INVESTMENT VOLUMES
3.9 bln €
-58% YoY



NUMBER OF DEALS
164
-19 YoY



SOURCE OF CAPITAL
62% foreign



GEOGRAPHIES
58% regional markets/ mixed portfolios



LOGISTICS | PRIME NET YIELD
5.20%
+90 bps YoY



HIGH STREET | PRIME NET YIELD
3.50%
+10 bps YoY



OFFICE | PRIME NET YIELD
4.00%
+75 bps YoY



SHOPPING CENTRE | PRIME NET YIELD
6.75%
+65 bps YoY

Macro-economic Outlook

The global scenario is still dominated by uncertainty. Global economic growth slowed down this year due to worsening of financial conditions. Eurozone growth is weak 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 September, inflation continued to contract (+5.4%), mainly thanks to food product prices while energy products returned to growth. Core inflation decreased at +4.6% while 'shopping trolley' inflation dropped to 8.3%. 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 (4.7%), followed by a slight improve in H1 2023 (6.5%). The growth in households' disposable income (+5.1% YoY), together with the continued growth in consumer prices, led to a further decrease in purchasing power (-1.7%). The resilience of final consumption expenditure (+8.6%) was therefore offset by the decline in the savings rate.

In September, the consumer confidence index worsened for the third month in a row, and business sentiment also decreased, driven by all sectors except for constructions.

According to Oxford Economics, Italian GDP is forecasted to increase by 0.7% in 2023, as high interest rates and prices reduced lending and dampen growth. Inflation is projected to slowly decelerate. Accordingly, a reversal of monetary policy is unlikely at least for the next 12 months.



GDP
+0.3% YoY
(Q2 2023)



UNEMPLOYMENT RATE
7.3% (-84 bps YoY)
(August 2023)

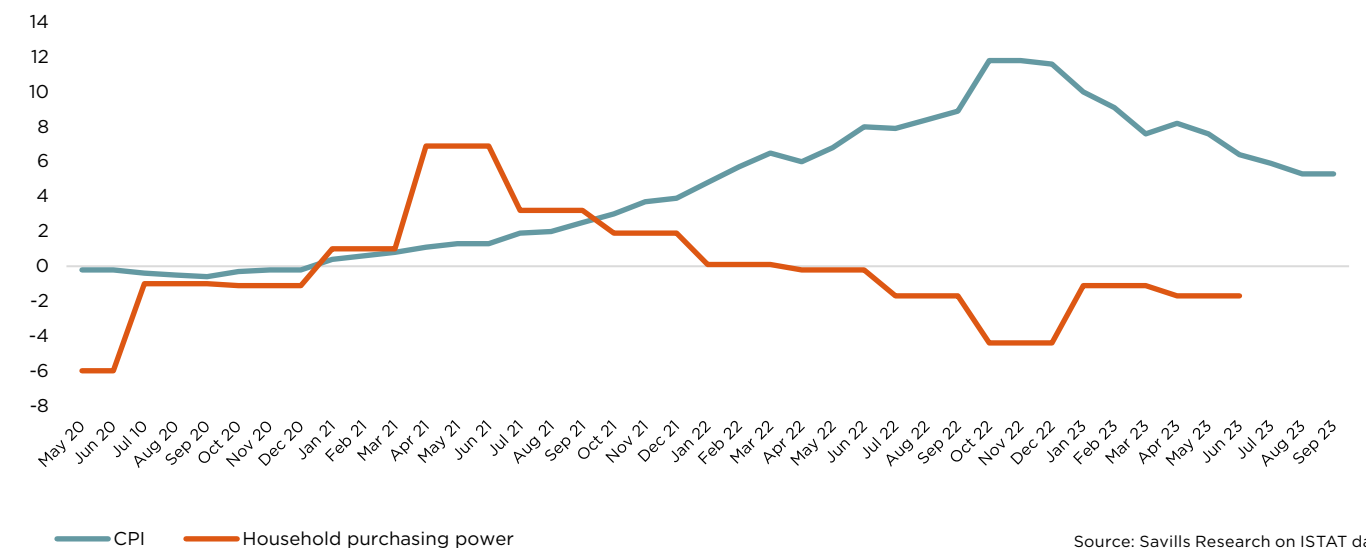


CPI
+5.3% YoY
(September 2023)



GOVERNMENT BOND YIELDS 10 YEARS
4.22% (+92 bps YoY)
(August 2023)

CPI and household purchasing power (% YoY)



Source: Savills Research on ISTAT data

Commercial Real Estate Investment Market

In YTD Q3 2023, around € 3.9 bln was invested in the Italian commercial real estate market, registering a 58% YoY decrease. The slowdown followed a record 2022 and had already started in Q4. 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 164 deals closed in the first 9 months of the year compared to a five-year average of 108, 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 31% of the investment volume, followed by Rome (11%). Thanks to the positive trend of logistics and hospitality sectors, the other Italian cities accounted for 58%.

Strong fundamentals sustained the living & healthcare sectors. The living sector is confirmed as the leading asset class by investment volume, and the only sector to record a positive YoY change. Volumes are mainly driven by the residential and healthcare segments.

Logistics confirmed its relevance in the Italian panorama, representing around 27% of total investments, underpinned by a strong leasing demand, low vacancy and increasing rents.

Hospitality continued to perform well, reaching the 3rd place by investment volume in YTD Q3 2023. The range of products attracting investors has expanded, while many deals are related to developments or changes of use.

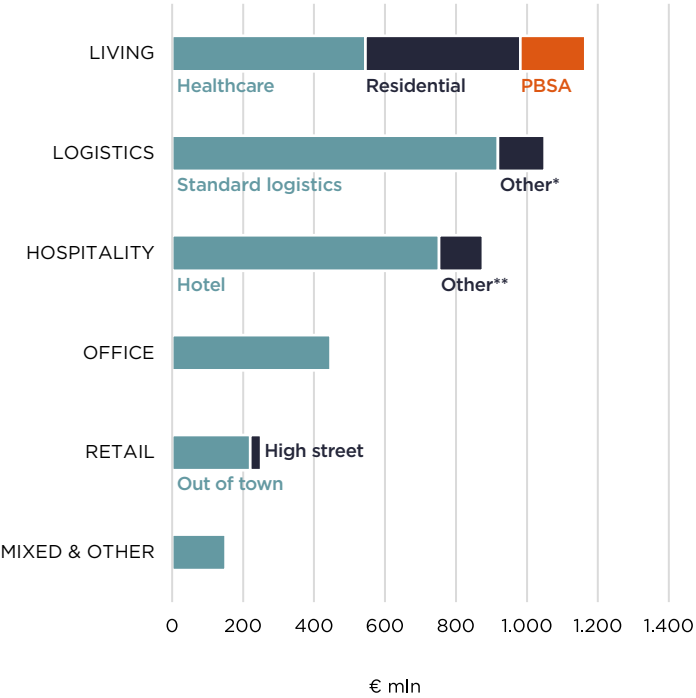
With around € 450 mln, office investment volumes are significantly declining despite a market that remains dynamic on the occupier side. The sector's pipeline is positive, but investor interest is dampened by concerns about new hybrid working models that are only partially affecting the Italian market.

In Q3 2023, rental levels remained stable in all the asset classes compared to the previous quarter while in some sectors like logistics, living and grade A offices, rents are higher in a YoY comparison due to high demand and low vacancy rate. The rise in interest rates continued to affect the yield trend; a further decompression in Q3 affected the logistics sector.

Investment volumes



Total investment volume YTD Q3 2023



* Cross dock, light industrial, industrial, land
** Resort, land

Market Outlook

Investment activity is slowing as yields adjust in the current challenging scenario. The price discovery phase is continuing and will be followed by a stabilisation in 2024. The stabilisation of interest rates and costs and the easing of inflation's expectation, will lead to a more favourable market in the second half of 2024. Like interest rates, yields will remain higher compared to data registered in recent years of expansionary policy, remaining at values similar to the current ones for a long time. In sectors characterised by demand constraints, rental growth is expected to partially offset yield decompression.

Investors' strategies remain focused on sectors with good fundamentals, i.e. sectors characterised by a strong mismatch between supply and demand and low vacancy rates, which therefore offer good prospects for rental increase. "Beds & sheds", together with hospitality, have proven to have solid fundamentals; selected office products, with returns in line with current financing and risk-free rationales, will remain in investors' focus. 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.

ESG factors will become increasingly relevant for both investors and occupiers and this will lead to a further polarisation between prime and secondary assets.

66 In the current complex scenario, the Italian market remains focused on beds & sheds. These sectors offer solid growth prospects and fundamentals in line with the main pan-European investment strategies. There is a pick-up in transaction activity, but a lively market recovery is postponed until H2 2024, when a possible reversal of restrictive monetary policy will become clearer.

Office

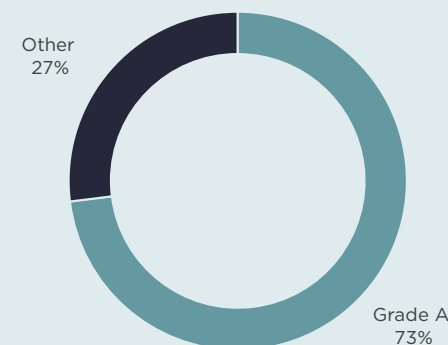
After the outstanding result achieved in 2022, office volumes slowed down in YTD Q3 2023, reaching € 450 mln, a figure down both YoY (-89%) and on the last YTD Q3 5 years average (-82%). The number of transactions also decreased: 26 deals were recorded, all below € 100 mln, with market comparatively liquid up to a volume of about € 50 mln, beyond which only two transactions have taken place in the period.

Milan confirmed to be the first investors' target but to a lesser extent than the recent years' trend. In the nine-month period, 12 properties located in both central and peripheral areas of the city were sold, for a total of € 310 mln.

Secondary locations such as Torino, Reggio Emilia and Napoli characterized the period activity, collecting 9 transactions for a total of circa € 100 mln.

Office take-up in Milan recorded approximately 280,000 sqm in the first 3 quarters of 2023, slowing down after the record volume of 2022 (-23% YoY). The decline is mainly ascribable to a shortage in grade A product that, coupled with a strong demand for Grade A assets and a tight availability, supported prime rents' increase over the last 12 months (+4% YoY).

YTD Q3 2023 Milan take-up by grade



Logistics

The sector remains central to investors' strategies also in the first nine months of 2023, being the first sector in terms of number of deals and the second in terms of volumes. The transactions amounted to 44 and were characterized by small size: 89% were below € 20 mln and only one exceeded € 100 mln.

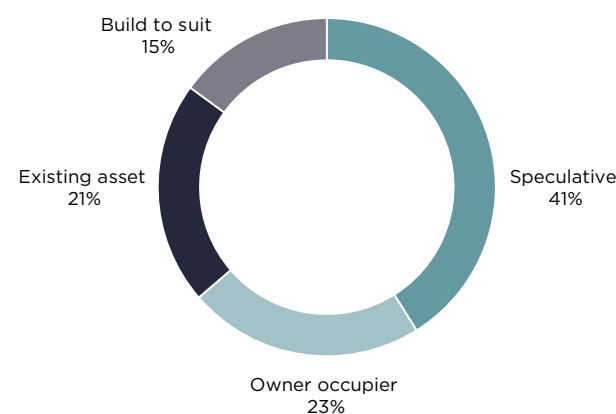
Volumes slowed down reaching € 1 bln, a figure down comparing both to the same period of the previous year (-58%) and to the YTD Q3 last 5 years average (-15%).

The North continues to be the preferred destination, with Milan and Pavia-Piacenza in the forefront.

On the leasing side, the absorption of spaces reached a new record high in the first three quarters of 2023: around 2.2 mln sqm were leased, a figure 6% higher compared to the same period of previous year. The market proved once again to be highly dynamic, recording 119 operations mainly characterized by medium size (10,000-30,000 sqm).

Interest in the sector persists, and this is reflected in the number of investment deals and in a new record high take-up. The limited availability of space is encouraging new developments and supporting higher rents.

YTD Q3 2023 Take-up by transaction profile



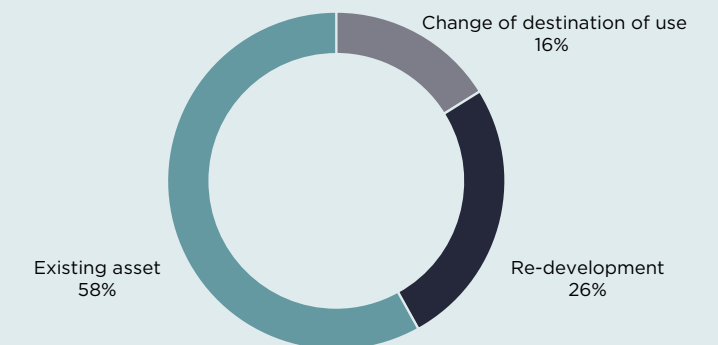
Hospitality

Tourism flows are rapidly recovering after the easing of Covid restrictions. Provisional Istat data for the first semester of 2023 revealed that number of tourists, as well as number of overnight stays, increased by 13% compared to the first semester of the previous year, despite being still below pre-Covid levels. The increase in ADR and thus in RevPAR is also supporting the sector.

In the first nine months a total of around € 880 mln were invested in the sector, a figure down by 26% compared to the same period of one year ago. Despite this, the attention paid to the sector remains elevated: 53 assets were sold and many of them involved re-developments of existing assets; a signal of the high interest paid by operators to enter or establish in the Italian market.

From the beginning of the year, Milan represented the most active location, recording 6 single deals and followed by Rome; in the South and Islands four single operations were closed. International capitals are still the most present in the market, characterizing around 56% of volumes.

YTD Q3 2023 number of deals by deal type



Retail

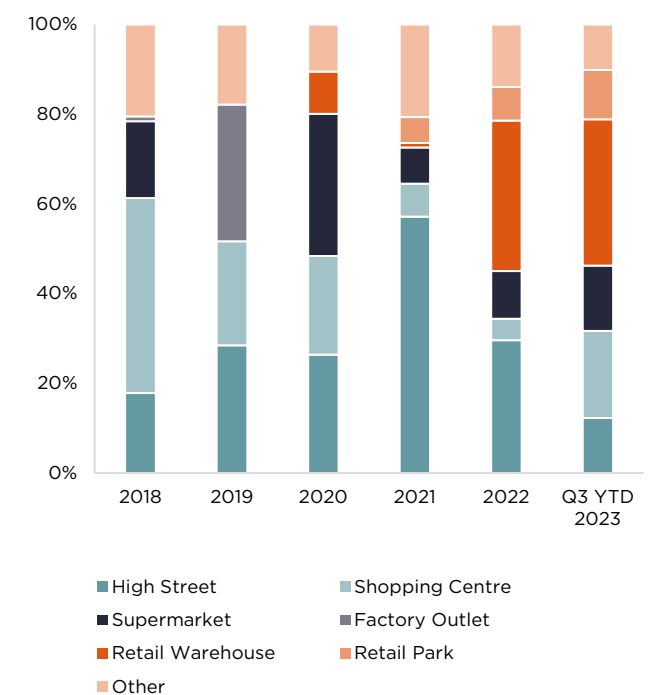
Volumes invested in the sector remained low also in the first nine months of 2023 with around € 250 mln recorded, a figure 55% down YoY. Average deal size decreased too from € 17 mln in the first nine months of 2022 to current € 12 mln.

Out of town attracted mostly of the investments reaching € 220 mln across 16 deals. The retail warehouse segment was the most buoyant, thanks to the closing of a € 70 mln portfolio which represented the largest deal of the period. Smaller size operations involved the selling of two retail parks, three shopping centers and five supermarkets.

The high street sector recorded instead only 12% of the period volumes, with the average size falling below € 10 mln. Milan remains the most targeted destination followed by Rome.

Over the last 12 months, prime yield decompressed for all the products. Retail park yield increased by 50 bps YoY, shopping centers by 65 bps and high street just by 10 bps. Another surge could occur by the end of the year.

Investment volume by segment



Living & Healthcare

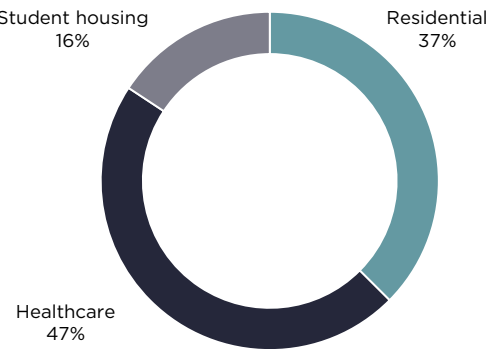
With € 1.2 bln, living represented the first sector in terms of investment volumes in the first nine months of 2023, attracting 30% of the total and being the only sector to record a positive year-on-year change. The weight of the sector continues to grow and with this recent result a new record high has been reached.

All the segments contributed to this outstanding achievement, especially the healthcare with around € 550 mln across 8 transactions, two of which were large portfolio deals. There was a growing focus not only on care home facilities, but also on clinics and private hospitals.

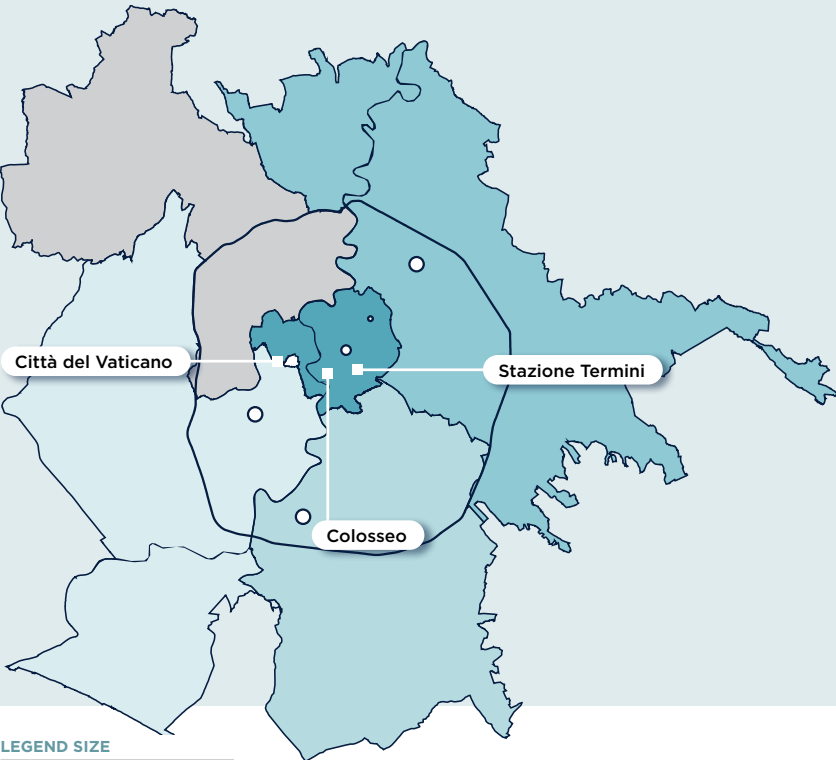
The residential segment reached around € 440 mln and includes several products such as build to rent, build to sell, development projects, social housing and senior living solutions. Milan and Rome represented the main destinations, but regional markets are starting to attract investors' interest.

Student housing represents the segment which consolidated the most and where we are beginning to register transactions of income producing products. From the beginning of the year volumes were driven by a deal in Milan of more than € 100 mln, one of the most significant transactions of the year.

YTD Q3 2023 investment volumes by sub-sector



Rome, build to rent main projects in pipeline



- LEGEND SIZE
- Small (<50 dwellings)
 - Medium (50-100 dwellings)
 - Large (>100 dwellings)

The multifamily solution appeared recently in the Italian scenario and is rapidly spreading, with several projects currently ongoing. The aim to offer a new kind of housing solutions, able to respond to the changing tenants' need, bring several operators to develop build to rent solutions. The preferred destination is obviously represented by Milan, while Rome offers the great opportunity to convert its old stock, in a market characterized by a low supply of new dwellings.

Most of the operators active in the market are international and see in this model a fresh new offer which was missing in the Italian market, enriched by unique amenities such as green areas, coworking and meeting spaces, gyms, concierges, laundry rooms, and delivery box stations.

By 2026, a total of 41 projects will be built in Italy, offering more than 8,200 rental apartments. In Rome, 5 projects have been identified and expected to be completed by the end of 2026; more than 750 dwellings will be provided to the actual offer.



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