MARKET IN MINUTES
Savills Research

Italian Market Overview

savills

Economy

The Italian and European economy is proving to be resilient in the face of a less favourable external environment, also characterized by commercial tensions.

According to Spring European Economic Forecast provide by European Commission, the economy is expected to continue to grow for the seventh consecutive year in 2019, with real GDP increasing in all EU Member States. Given the persistence of global uncertainties, it will be the internal dynamics that sustain the European economy. Growth should accelerate again next year.

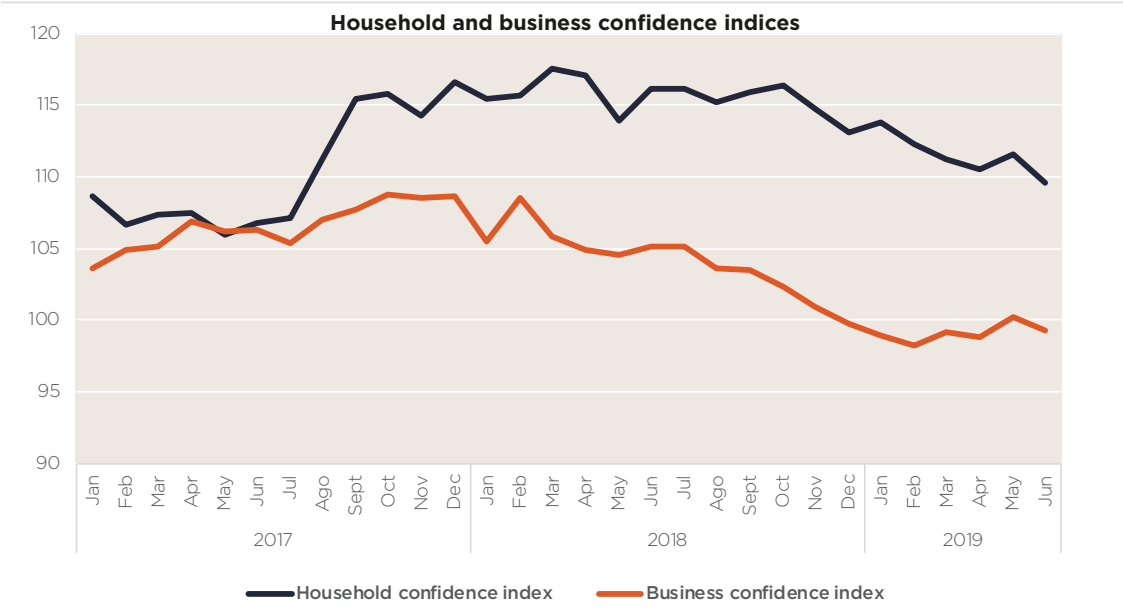
Few concerns weigh on growth prospects: on the external front there is the risk of further intensification of trade conflicts and weaknesses in emerging markets, in particular China. In Europe it is important to pay attention to the possibility of a no-deal Brexit, to uncertainty on the global political stage and to a possible return of the vicious circle between sovereign issuers and banks.
Italy, after avoiding sanctioning by the European Union, has to implement some actions in order to keep under control the structural deficit and keep the 2020 National Forecast within the EU standard.

As reported by the latest Istat data, the national employment rate is constantly increasing. The number of persons looking for a job decreased: the reduction involved both men and women, and all age groups. The unemployment rate in May dropped to 9.9% (-0.2 percentage points compared to the previous month's value), the youth unemployment rate decreased to 30.5% (-0.7 percentage points) According to Eurostat the Italian inflation should remain contained and lower than those of the Eurozone (1.3%). Based on the ISTAT data, inflation has decreased to 0.8% in June, the lowest it has been since April 2018.

Confidence Index

Despite a contraction starting from the second half of 2018, the business confidence index has started giving signs of recovery at the beginning of the year. Household confidence index is instead facing a period of decline.

Considering the recent numbers released by ISTAT, both the consumer and business indices worsened in June. The consumer confidence index showed decreases from 111.6 in May to 109.6. The business confidence climate also showed a decrease from 100.2 in May to 99.3 due to a contraction in manufacturing, construction and market services.



*Source Istat Data

TOTAL INVESTED H1 2019

€ 5 bn

HOSPITALITY
€ 2 bln

OFFICE
€ 1.8 m

RETAIL
€ 791 mln

LOGISTICS
€ 152 mln

OTHER
€ 312 mln

Investment Sector

With over € 5 billion invested, the real estate sector has witnessed in this first half of the year, a strong interest from investors towards Italy (+45% compared to H1 2018). The peak was registered in the second quarter with main focus on office and hospitality segments.

Investments in the second quarter of 2019 totalled 3.4 billion euros. This is the best result achieved in recent years, representing an increase of over 80% when compared to the same quarter of 2018 and, on first half basis, almost doubled when compared to last year.

Office is one of the most dynamic asset classes, with overall volumes in the region of 1.8 billion euros of which almost 870 million euros registered in Q2. representing 26% of total volumes. As recent years' trend, transactions ave been mainly focused in Milan (78%) and Rome (19%).

Hospitality sector represented the highest growing segment in the first half of the year in comparison to the previous, with more than 2 billion euros transacted. In the second quarter of 2019 the transactions amounted to 1.6 billion euros, including the acquisition of Belmond hospitality platform from LVMH for a volume in the region of 1 billion euros.

While interest in the hospitality and office segment is growing, there was a contraction in logistics and retail sectors during the first part of the year.

The retail asset class registered in H1 2019 a total volume in the region of 800 million euros (-40% compared to the first half of last year) and circa 615 million euros only in the second quarter. Volumes transacted in Q2 contributed to a partial recovery of investment volumes with a material increase (+41%) compared to Q2 2018.

Logistics represents the 3% of total transactions (about 150 million euros of which over 100 million euros transacted in Q2), with a decrease compared to Q2 2018 and to the first half year figure.

Interest in alternative asset classes is growing, with 224 million euros of volumes invested in Q2 bringing total volumes for the semester at 312 million euros and showing a yoy growth (+5%).

> **"H1 2019 has been the best first half for the real estate sector in a decade."**

Yield & Rents

Net yields for office sector in Milan CBD are confirmed at 3.5% thanks to the consolidated interest for the asset class. Further to this, an additional contraction is on-going for semi-central Business District in Milan with yield varying according to building quality, location and accessibility.

For the retail segment few transactions have been recorded and, in Savills' opinion, prime shopping centres would trade around 5% net initial yield whilst prime high street in the region of 3% net initial yield.

The logistics sector confirmed 5.25% net initial yield for prime assets.

Looking at office rental level in Milan CBD consolidated at 600 €/sq m/per year (2% growth compared to Q1 2019) while in Rome CBD values are at 430 €/sq m/per year.

After a soft Q1 2019, the market seems to have reacted in the second quarter. Expectations are good and we forecast achieving, a volume of transactions slightly higher compared to last year's by the end of 2019.

Rents and Yields, after the adjustment registered in the retail asset class in Q2, are expected to be stable for the other asset classes.

Key Facts - H1 2019 (all asset classes)

SINGLE ASSET DEALS
84%

FOREIGN INVESTORS
73%

MILAN DEALS
37%

ROME DEALS
15%

Source Savills Data

Savills team

Please contact us for further information

Gianni Flammini
CEO Italy
+39 02 6328141
gflamminii@savills.it

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

Maddalena Panu
Head of Research
+39 02 632814214
maddalena.panu@savills.it

savills