

Italian Spotlight – Q1 2024

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SPOTLIGHT
Savills Research

Italian Investment Market



66 The gradual consolidation of Italian commercial real estate continues in Q1 2024

Highlights

Q1 2024 consolidated the positive trend in investment volumes started in the previous quarter

Despite some caution related to monetary policy, international currency continued to remain relevant

Development projects, redevelopments and changes of use involved more than 50% of volumes thanks to the significant transaction in Milan of the former FS Farini and San Cristoforo railway yards

Offices return to be the top asset class, recording growing investment volumes in line with the occupier market that remained dynamic

Logistics maintained the lion's share in terms of number of deals, underpinned by strong leasing demand

Hospitality continued to perform well, focusing on new locations and innovative asset types

The living sector volumes continued to be subdued, slowed down by a lack of up-and-running products

Retail investments continued to be limited but the market is showing more activity

The market was still mainly characterized by granular activity

In the next months, rental levels will register further increase in asset classes characterized by supply constraints

Q1 2024 KPIs



TOTAL INVESTMENT VOLUMES
1.9 bln €
+108% YoY



NUMER OF DEALS
51
-5 YoY



SOURCE OF CAPITAL
50% foreign



GEOGRAPHIES
52% regional markets/mixed portfolios



OFFICE | PRIME NET YIELD
4.25%
+25 bps YoY



LOGISTICS | PRIME NET YIELD
5.50%
+50 bps YoY



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



SHOPPING CENTRE | PRIME NET YIELD
7.25%
+75 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. In the Eurozone, the economic growth is moderate, inflation remains high while rates cut has been postponed to June. Italy economic trend remains positive, supported by low inflation, rising household confidence and an expanding service sector.

In March, inflation increased moderately (+1.2%), mainly due to the softening decline in energy products and to the acceleration of prices of transport-related services. Core inflation decreased at +2.3% while 'shopping trolley' inflation dropped to 3.7%. 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.

In March, the confidence index improved for businesses but slowed down for households, supported on the one hand by an improvement in expectations on the general economic climate in the country and, on the other hand, held back by a lack of confidence in the current economic situation experienced by households.

The propensity to save rapidly declined in Q4 2022 (5.3%), followed by a slight improve in 2023 (7%). Growth in households' disposable income (+3.3% YoY) balanced the rise in consumer prices, leading to an expansion in purchasing power (+2.1% YoY) and savings. Final consumption expenditures were resilient (+1.5%).

According to Oxford Economics, Italian GDP is forecasted to increase by 0.6% in 2024, as interest rates will remain high at least in the first part of the year and growth is weakening. In H2 2024, interest rates are expected to compress slowly and PNRR to accelerate. Inflation is projected to fall steadily below ECB target.



GDP
+1.0% YoY
(2023)



UNEMPLOYMENT RATE
7.5% (-34 bps YoY)
(February 2024)

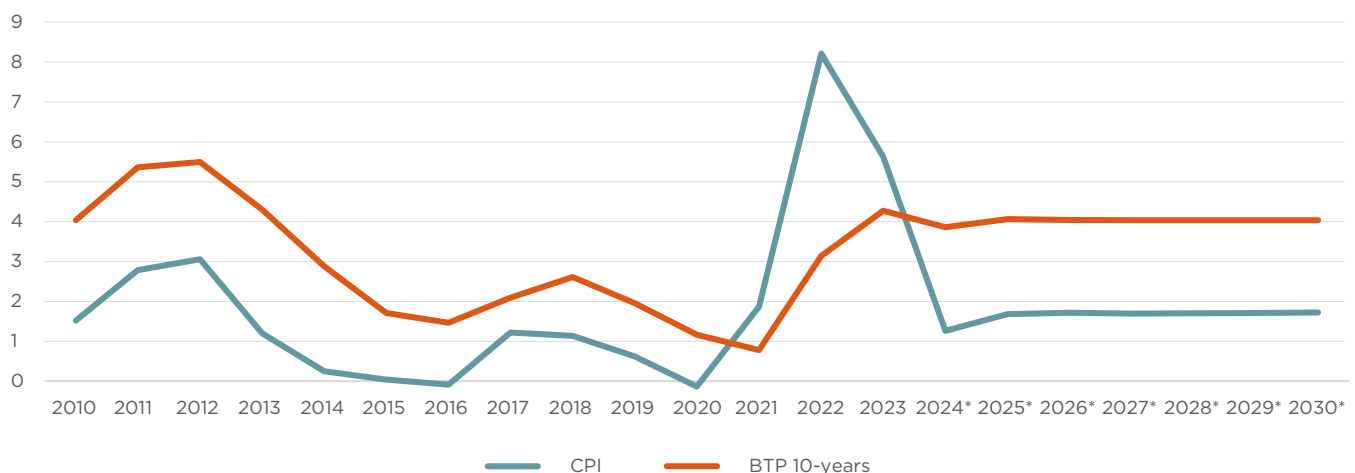


CPI
+1.2% YoY
(March 2024)



GOVERNMENT BOND YIELDS 10 YEARS
3.70% (-54 bps YoY)
(March 2024)

CPI and BTP 10-years (%)



Source: Savills Research on Oxford Economics data

Commercial Real Estate Investment Market

In Q1 2024, around € 1.9 bln was invested in the Italian commercial real estate market, registering a 108% YoY increase. The slowdown, started at Q4 2022, stopped in the last part of 2023; Q1 2024 continued and consolidated the positive trend. Investors' strategies remain focused on sectors with solid fundamentals characterised by resilient demand and good prospects for value growth. Development projects, redevelopments of large areas and changes of use involve more than 50% of volumes: the transaction of the former FS Farini and San Cristoforo railway yards brings the mixed-use sector in second place in terms of investment volumes.

Considering the number of deals, the market remained dynamic with 51 deals closed in the Q1 compared to a five-year average of 43. Market continues to be characterised by a numerical predominance of deals with a size lower than €50m, which account for about 90% of the transactions, while, by value, the 3 largest transactions of the quarter account for more than 50% of the volumes.

Despite some caution related to monetary policy, international currency continues to remain relevant (50%), confirming the competitiveness of the Italian market.

In terms of geographies, Milan confirmed to be the preferred destination, registering 52% of the investment volume, followed by Rome (18%). Thanks to the positive trend of logistics, hospitality and retail sectors, the other Italian cities accounted for 30%.

With around € 520 mln, offices returned to be the top asset class, recording growing investment volumes in line with a market that, on the occupier side, is dynamic. Pent-up demand for high-quality, ESG-compliant offices will result in a further rental growth in the coming months.

Logistics confirmed its relevance in the Italian panorama, representing around 18% of total investments, underpinned by more aligned price expectations between buyers and sellers and a strong leasing demand.

Hospitality continued to perform well, reaching the 4th place by investment volume in Q1 2024. Investors' strategies are shifting towards new locations and innovative asset types.

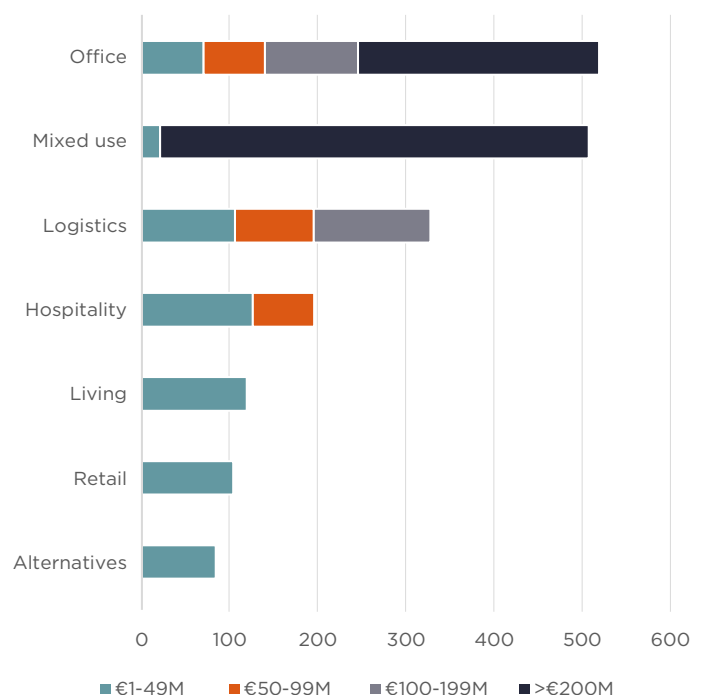
The living & healthcare sectors saw a countertrend. Volumes in the segment continue to be subdued, as there were no deals in Q1 related to up-and-running products in both the PBSA and in the residential asset classes.

Investment volume in the retail sector registered a positive performance led by retail warehouses and supermarkets; the share of shopping centres is raising accounting for 28% of total volumes. The high street component will continue to drive the segment in the coming quarters thanks to significant deals that will be finalised in the coming months.

Investment volumes



Total investment volume by size (Q1 2024)



Market Outlook

The recovery in investment activity that characterised the market in the last 6 months will consolidate in the coming quarters. The Italian macro-economic scenario remains positive supported by low inflation and household confidence. Financing costs are still high, and a firmer 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. The expected reversal of monetary policy seems to be approaching but uncertainties remain regarding where interest rates will settle, as well as the speed of their decline. 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 continue to 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 2024, rental levels will register further increase in asset classes characterized by supply constraints and high demand such as logistics, living and grade A offices. The rise in interest rates affected the yield trend in 2023; however, thanks to solid fundamentals and a reversal of monetary policy, some asset classes will experience a possible compression by the end of the year.

66 In the current complex scenario, the Italian market is experiencing a consolidating investment activity focused on sectors that offer solid medium-term prospects. We detect growing dynamism, albeit for small and medium-sized transactions. Although caution continues to prevail, in the coming months we will see a gradual recovery in investment activity, more focused on segments closely linked to the macro-trends influencing the market.



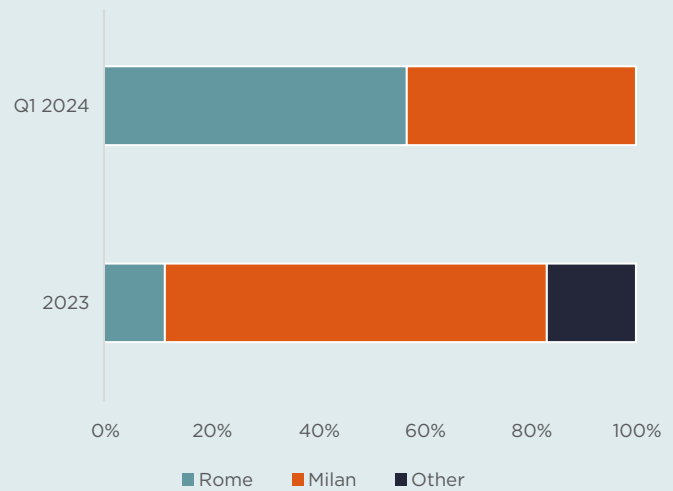
Office

In the first quarter of 2024, office sector returned to be the first asset class in terms of volume, recording around € 520 mln, a figure half of that recorded for the whole 2023. A total of nine transactions were recorded in the last three months, two of which in the city of Rome. Here, a deal of over € 200 mln boosted volumes and made the city the first by investment volume.

Milan remains however the most dynamic city, recording 7 transactions for around € 220 mln. The activity has spread to both central and peripheral areas; in the CBD historical centre a deal of more than € 100 mln finalized by an owner occupier drove the volumes. International capitals continue to be the most active representing more than 70% of the total office volumes.

On the leasing side, Milan recorded a take-up of 93,000 sqm, down from the record volumes of 2022 but 10% up year-on-year. The robust demand for high quality space is not matched by the current supply and is supporting the expected rising rents in the coming months.

Investment volumes by geography



Logistics

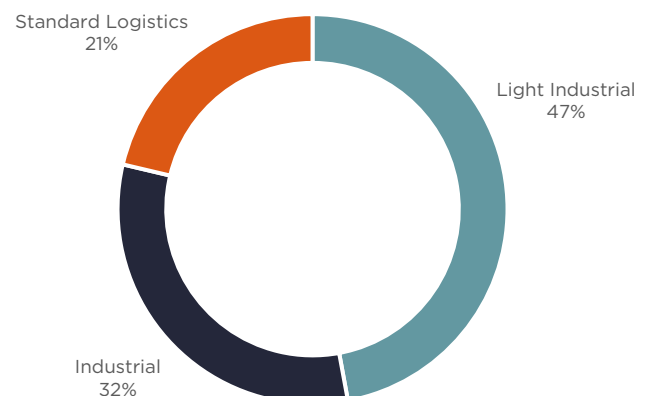
Logistics starts 2024 as the third largest asset class by investment volume, with a share of around 17% of the total volume of the period. A total of € 330 mln was invested, which is higher than both Q1 2023 (+17%) and the last five years Q1 average (+8%). The sector remains the most dynamic in the Italian scenario also in the first quarter of 2024, recording 11 deals.

Activity was driven by the closure of two sale & lease back industrial portfolios, which together accounted for 68% of total volumes. Since the beginning of the year, five logistics assets have been sold, three of them in the cluster of Milan, which continues to be one of the main targets.

The market was again dominated by foreign capitals (90%). After months of rises, prime net yields remained stable in the key geographies, but a compression is expected given the sector positive key indicators.

The leasing side remains robust also in the first quarter of 2024, recording around 550,000 sqm, a figure 5% higher than the Q1 average of the last five years. Strong demand for logistics space will continue to put this sector at the centre of investors' strategies, thanks also to more aligned price expectations between buyers and sellers.

Q1 2024 Investments by subsector

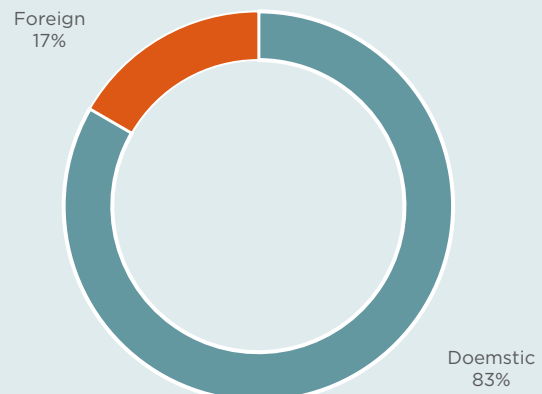


Hospitality

The sector continues to be sustained by the strong recovery of tourism flow in our Country. Although figures have not yet fully come back to the level of 2019, international tourists' expenses increased compared to pre Covid levels. In this positive scenario ADR and RevPAR increased too.

Investments remained consistent in the first quarter of the year, with a total of around € 210 mln, a figure 26% higher than the same quarter of the past year. A total of nine deals have been recorded and mainly involved a value-add strategy. The market in major cities such as Rome, Milan and Firenze continues to be held back by very limited supply but, conversely, investors' strategies are moving towards new locations and innovative asset types. Milan collected in fact just 15% of quarterly volumes, while sea and ski destinations were more attractive. Domestic players represented the majority over the last three months, while foreign investors were involved in just two deals.

Q1 2024 investment volumes by origin of capital



Retail

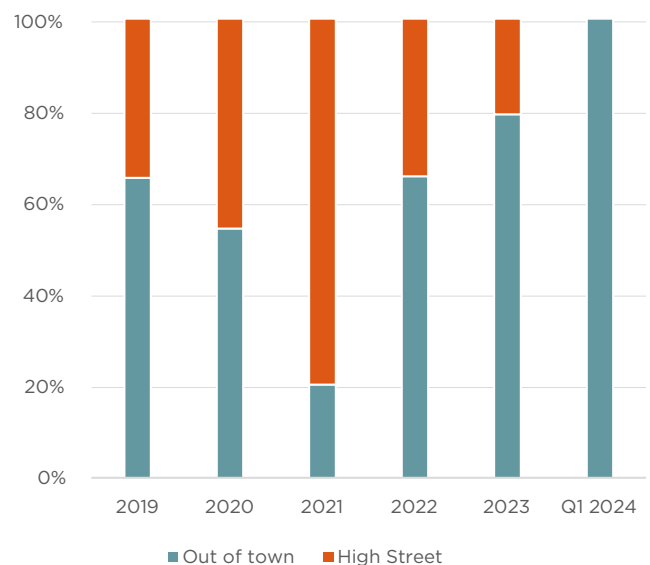
Retail investments continued to be limited in the first quarter of 2024, at around € 110 mln, but the trend is positive. Quarterly volumes are in fact five times greater than Q1 2023 and number of deals also increased: a total of 8 transactions were closed, all related to the out-of-town segment.

The north of the Country still represents the most sought-after destination, where 43% of volumes have been recorded in the last quarter. However, two assets were sold in the South.

Retail warehouse, shopping centre and supermarkets segments drove the quarterly activity with the largest deal represented by a portfolio of two retail warehouses. Shopping centers are increasing their share, thanks to two transactions. The interest in supermarkets continues as confirmed by the acquisition of three assets for approximately € 30 mln.

High street did not record any deals in the quarter, but tourist and luxury destinations remain at the centre of investors and retailers' strategies in the main cities.

Investment volume by subsector



Living & Healthcare

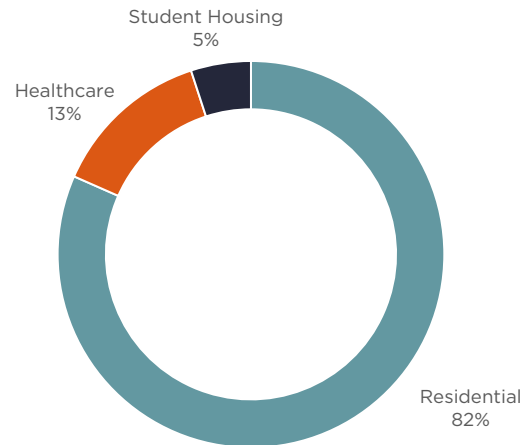
Q1 2024 volumes in the living sector continue to be limited, at around € 120 mln, as there were no up-and-running transactions in the quarter in either the student housing or the residential segment.

The residential subsector was the most sought after, recording 5 deals, four of which in the city of Milan and the remaining one in Rome. The transactions mainly refer to buildings acquired to be converted into build to sell dwellings.

Healthcare and student housing both recorded only one transaction each. The latter consists in a former hospital to be redeveloped for student accommodations. The sector continues to see a prevalence of international capitals, accounting for 95% in the last quarter.

It is expected that interest in the sector will continue and will be encouraged by the opening of new schemes that could facilitate larger operations.

Q1 2024 Investment volumes by subsector

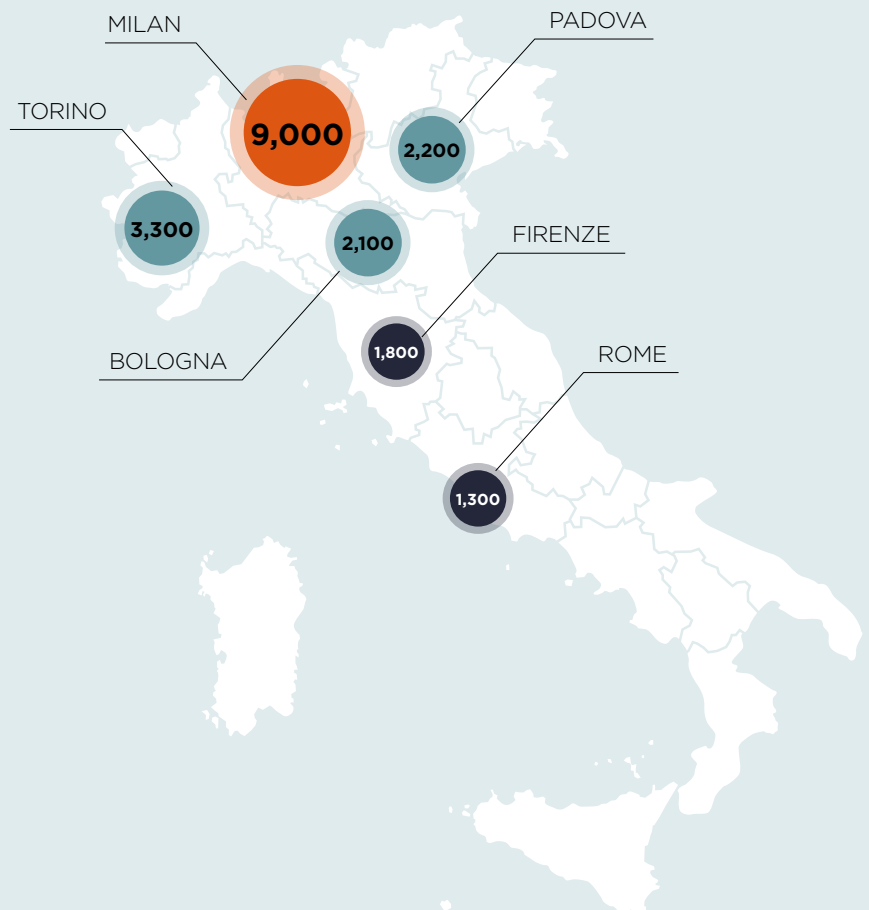


Students housing bed pipeline by 2026

The limited availability of student accommodations in Italy, coupled with the growing number of mobile and international students, contributes to keep the sector in the investors' radar.

A total of 69 projects are in pipeline and should be completed by 2026, adding to the market around 23,000 beds.

Milan continues to be the most dynamic city, in terms both of stock and development projects; here 40% of total bed pipeline is located. Torino also presents a good level of pipeline: by the end of 2026, 11 student accommodations are expected to open, six of which are of large dimension (>300 beds). Padova and Bologna both have around 2,000 beds in pipeline, while Rome will see the opening of 6 new student housing accommodations.





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