MARKET IN MINUTES
Savills Research

Italian Market Overview

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Economy

Following a drop of the GDP in the region of circa 7% in 2020, the Euro Area is expected to bounce back in 2021 with an increase of circa 4.3%.
The vaccination campaign, despite the slow start, is taking pace all over the continent, leading to a more positive outlook for the European economy.
France is set to register the greatest GDP increase (+5.6%), followed by Italy (+4.6%) and Germany (+3.6%) (Focus Economics).

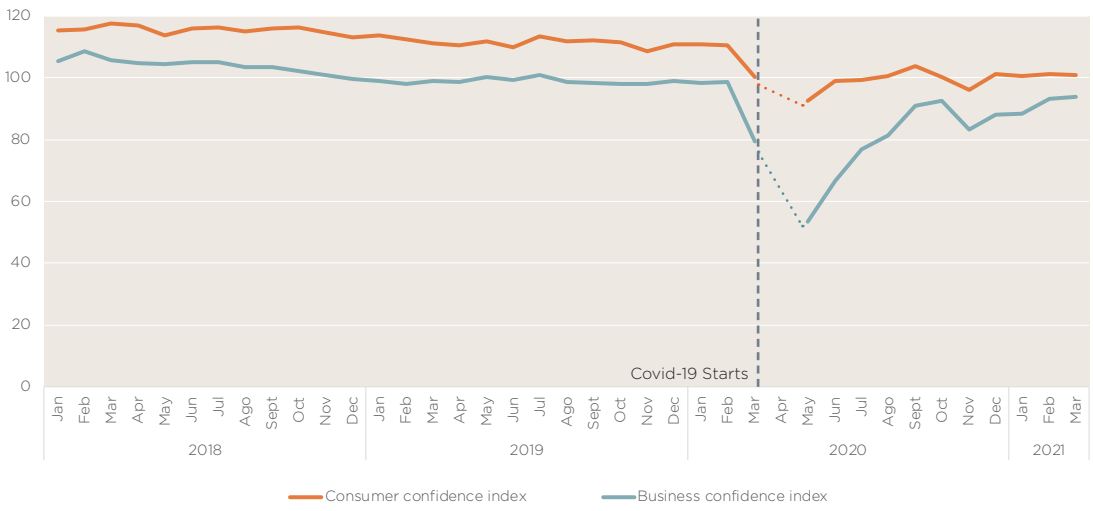
A new government was established in Italy during the first quarter of 2021, with Mario Draghi appointed as the new Prime Minister. The new government has been supported by almost all the main political parties and set amongst its priority goals the preparation of the Next Generation EU plan, due by the end of the month.

Mario Draghi's government has been positively sustained by both the International establishment and the Country itself as proven by the rise of the business confidence index. While Istat reported a substantial stability in the Italian GDP performance during the first quarter of the year compared to the last quarter of 2020, FocusEconomics Consensus Forecast panelists predict positive growth for the country during 2021 under several profiles.

Confidence Index

After the increase in both the Business and Consumer Confidence Indexes in February 2021, in March Consumer Index slightly decrease to 100.9 (-0.5).The Business Confidence Index rose to 93.9 from the previous Feb. at 93.3 benefiting also from the construction component, which jumped from 141.9 to 147.9 whilst market services and retail trade slipped balancing the overall result.

Consumer and business confidence indices



***Source** Istat Data (April not Available)

TOTAL INVESTED Q1 2021

€ 1.3 bn

LOGISTIC
€ 384 mln

OTHER
€ 298 mln

OFFICE
€ 297 mln

LIVING
€ 170 mln

HOSPITALITY
€ 117 mln

RETAIL
€ 48 mln

Source Savills Data

Investment Sector

Q1 2021 CRE performances still suffered the impact of Covid-19 with investment volumes totalling circa €1.3 billion, down by 30% when compared to the same period of 2020, where the pandemic had not yet affected the quarter's result. The volumes recorded are down by 26% compared to the past five-years' average, but almost in line with the 10 years' average.
The vaccination campaign, which continues to gain momentum, is expected to fuel wider real estate investor confidence.

Not all sectors reacted equally. Logistics / industrial is confirmed as a must to have for all investors, with volumes registered in the region of € 385 million and, with 29% market share of total investments, taking over the lead from Office segment.

The latter, in light of the increase in flexible working patterns, has driven a carefulness and a selective approach. In fact Office sector registered in the quarter a contraction by the 50% vs Q1 2020, albeit confirming its relevance, accounting for €297 million and representing c.ca 23% of total investments. Investors' focus will be addressed towards lower-risk Grade A assets with stable income characteristics in prime locations.

Among alternative investments, the living sector is becoming increasingly important, attracting a growing share of investments, being supported by strong underlying fundamentals and cross-border investors' growing and consolidating portfolios.

Living accounted for €170 million, representing in Q1 2021 c.ca 13% of total investments.
Data centres are also a rising alternative, offering opportunity for portfolio diversification.

Hospitality recorded slightly over €115 million in transactions thanks also to the acquisition of Baglioni Luna in Venice from a UK investor for circa € 100 million highlighting the general consensus of strong fundamentals for the Italian market place.

Retail is the sector that more than others has been impacted by the Covid-19 pandemic recording a marked decline due to the uncertainty of the recovery timeline, the shift to online retail and a strong decrease in tourists' flows. In fact, retail investment activity remained minimal (4%), with a quarterly result of circa € 50 million.

Mega deals (+€100 mln) weight decreased (45% of total investments) along with a general reduction in the average deal size. On the other hand, portfolio deals, with an amount in the region of €252 million, represented only the 19% of total transactions.

Milan continues to be the key Italian market with 28% of overall deals; Rome represented the 5%. The increasing interest for logistics/industrial assets is partially shifting the focus to different locations through the country.

The ratio between domestic and foreign capitals sees these latter prevail, with 74% of total invested volumes.

> **Investors demand for real estate will remain firm with focus on core office assets, logistic and alternative asset types which are increasingly becoming mainstream.**

Yield & Rents

Office prime yield for Milan CBD is stable at 3%, with prime rents at 625 €/sq m/per year. In Rome CBD the yield is at 3.75%, with a prime rental level at 450 €/sq m/per year.

Retail, according to the low number of transactions, remains a "frozen" sector awaiting evaluation of the changes underway. Prime high street assets preserve a yield of 3.25%.

Prime rents in high street sector confirm resilience, with Montenapoleone average value being 13,000 €/ sq m/per year. In Rome, Via Condotti prime rent is 11,000 €/sq m/per year.

Logistics' yields hold the value of 4.75%, with rental levels of the segment in the cities of Milan and Rome being 56 €/sq m/per year.

Key Facts Q1 2021 (All Asset Classes)

SINGLE ASSET DEALS
81%

FOREIGN INVESTORS
74%

MILAN DEALS
28%

ROME DEALS
5%

Savills team

Please contact us for further information

Gianni Flammini
CEO Italy
+39 02 6328141
gflammini@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

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