By the end of Q2 and during Q3 2020 most of the countries were relieved from lockdown restrictions, especially in Europe. In the old continent the pandemic spread greatly reduced during the summer season, allowing tourism to take place – albeit mostly counting on the domestic traffic. Economies are working to get back to pre-Covid levels, with Focus Economics pointing in Q3 a quarter-on-quarter GDP increase of 8.5 in the Eurozone, with France registering a double digit growth (+12.5%) and Italy and Germany following with +8.8% and +6.1% respectively. While approaching the final quarter of the year, a serious comeback of the pandemic is affecting most of Europe, with Italy being an exception and succeeding in containing the spread.

On the 21st of July, an ambitious deal for a recovery package of €750bn was approved by the EU leaders, aiming at allocating material resources for the European reboot. Italy will be one of the main beneficiaries of such support, having €209bn destined, €82bn of which non-repayable. The Italian government is now focused on making the best use of such assets, planning to promptly intervene in key sectors, such as the healthcare and the education, but also working to stimulate long term growth.

Keywords will be competitiveness, innovation and digitalization for the production system, along with ecologic transition and green revolution. The set goal is to place Italy among the best performing EU countries, doubling the GDP growth, increasing investments to the 3% of the GDP, alongside increasing employment and R&D spending.

Istat reported a drop in the employment rate by the 3.6% in the second quarter of 2020 VS 2019, led by a drop in the employees having a fix term contract and of the independent workers. The age range of 18-34 is the one most affected and the unemployment rate diminished as well motivated by a rise in the share of the inactive population, settling at 11.6% in Q3. Private consumption is still predicted to contract by the 10% in 2020. Industry and exports alike are to face a contraction in the region of the 15%; similarly imports will reduce significantly.

FocusEconomics Consensus Forecast panelists have confirmed their prediction on the Italian GDP downturn in 2020, set in the region of -10%. The GDP recover in 2021 is foreseen to be at 5.9%.

Confidence Index

The recover trajectory of the Confidence Index takes the form of a V-shaped curve: the Consumer Index increased from 101.0 to 103.4, while the business index moved from 81.4 to 91.1.

Tangible actions put in place by the government, mostly in the form of incentives, helped leading to an enhancement of the Consumer Index, especially in its “perceived economic climate” component. Among such measures, a “vacation-bonus” was made available to national citizens sojourning in Italian’s hotels; a “mobility-bonus” was conceived to spur sustainable mobility.

On the other hand the Business Confidence Index points to a general improvement in the business climate, with manufacturing showing more optimism for the future, construction registering a recovery in the balance of assessments on order books and market services rising back.
Investment Sector

Investment volumes in the first 9 months of the year reached circa € 5.8 billion registering a 25% contraction compared to the record year of 2019. With € 2 billion transacted, Q3 represents the best quarterly performance since the beginning of the year despite the decrease by the 24% compared to the same quarter of the previous year. In addition, Q3 investment values are higher than both the average quarterly volume of the last 5-years (+10%) and of the last ten-years (+47%).

Offices represent 42% of Q3 total volumes for a total of € 843 million. 85% of this sum was generated by mega deals (€ 100M+) with Milan confirming to be the destination of choice for investors (76% of the activity).

Product demand is polarized on a “flight to core” attitude and relatively limited availability of opportunities apply. Weak occupational demand and wait&see approach from tenant base result in an investment focus on strong covenant income producing assets.

Logistic confirmed to be a dynamic investment sector with a quarter activity of € 582 million representing circa 30% of the investment volume of the Q3 and an YTD increase of 78% compared to 2019.

Hospitality and retail represent the most affected asset classes with the largest contraction compared to the previous year. Hospitality recorded € 331 million thanks to acquisition by Covivio of a Pan European portfolio comprising 8 assets of which 4 located in Italy. The time frame for the full recover of the sector is uncertain, making the prospects of the asset class hard to determine.

Retail investment activity remained minimal (12%), with a quarter result of € 238 million and a YTD decrease equal to 35%. In addition to the shortage of transactions related to shopping centres and retail parks, the drop has also been driven by the lack of transactions in the high street sub-sector confirming investors’ concerns for this asset class. Indeed, investors are observing the asset class with concern.

Interest from foreign investors is growing compared to the first two quarters of the year representing 77%, of the total transacted volumes with European capital, mainly France and Germany, representing the most active geographies.

Single assets represent 65% of the quarter deals’ value (€ 1.3 billion), mostly in the office asset class.

Positive expectation for the final quarter of the year bring an estimated year-end total volume in the region of € 8.5 billion, subject to pandemic evolution in the country.

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**The best quarterly performance since the beginning of the year. Office and logistic confirmed to be the most dynamic sectors.**

Yield & Rents

Prime yields in Q3 2020 react to the current market situation with a slight adjustment, while rents are still confirmed at previous quarter levels. The availability of liquidity on the market paired with mid-term expectation of low risk investment rates positively impact CRE investment market.

Milan CBD prime office yields, now at 3%, with prime rents at 625 €/sq m/year. Rome confirms values of the previous quarter, with a prime yield of 3.75% and CBD prime rents at € 450 €/sq m/year.

Logistics’ yields hold the value of 4.75%, with prime rental levels of the segment in the city of Milan confirmed at 55 €/sq m/year.

Retail reacts with an increase in yields on Prime shopping centres at 5.4%, while prime rents are confirmed at 875 € / sq m / per year. High street assets set Prime yields in Milan at 3.25%, maintaining via Montenapoleone average rent at 13,000 € / sq m / per year while Corso Vittorio Emanuele prime rent is 6,000 € / sq m / per year.

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**Key Facts - Q3 2020 YTD (all asset classes)**

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<thead>
<tr>
<th>SINGLE ASSET DEALS</th>
<th>FOREIGN INVESTORS</th>
<th>MILAN DEALS</th>
<th>ROME DEALS</th>
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<td>52%</td>
<td>35%</td>
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*Source: Savills Data*