MARKETBEAT

ITALY

Investment Q2 2023

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
2.25 €Bn Total Volume	▼	▬
380 €Mn Office Volume	▼	▼
200 €Mn Retail Volume	▼	▼
570 €Mn Industrial Volume	▼	▼
410 €Mn Hospitality Volume	▼	▲
230 €Mn Living Volume	▼	▲
75 €Mn Healthcare Volume	▼	▬
280 €Mn Mixed Use Volume	▼	▬
45 €Mn Other Volume	▼	▬

ITALIAN ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
+1.0% GDP Growth		▲
7.6% Unemployment Rate	▼	▬
4.4% 10-Yr Treasury Yield	▲	▲

Source: Moody's (GDP growth Q2 23 on Q2 22; 10 yr Gov Bond at Q2 23); ISTAT: Unemployment rate (May 23)

ECONOMY OVERVIEW

GDP growth in Italy paused in the spring, remaining broadly unchanged, mainly due to the contraction in manufacturing activity, affected by the weakening of the industrial cycle at global level. Despite that, yearly GDP growth to June 23 stands at around 1% and year-end estimate is confirmed in the range of +1.3%. Consumer price inflation fell further standing at 6.7% in June thanks to the sharp decline in the energy component, although it remains high. Households and firms expect inflationary pressures to ease further. The expansion in household consumption continued at a slower pace. Investment was held back by tighter financing conditions and by a less favorable outlook for demand. Over the next few quarters, recovery will likely be affected by the tightening of financing conditions and by weak international trade. Between May and June, the ECB raised interest rates by further 50 basis points overall with the reference rate increasing at 3.5%, and further hikes are likely to happen. The yields on ten-year government bond rose slightly while the spreads with the corresponding German bund narrowed. Employment continues to rise with unemployment rate landing at 7.6% in May. Wage growth is expected to strengthen over the remainder of the year, though remaining lower than the rise in prices. High uncertainty continues to be a key feature of the macroeconomic outlook and it will continue to affect real estate investment flows.

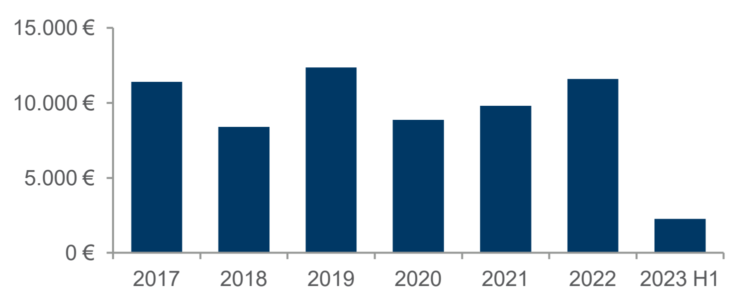
INVESTMENT OVERVIEW

The second quarter of 2023 saw a further slowdown in volumes with only 1.26€Bn invested, bringing H1 figures to 2.25 €Bn, a decline of 63% on the same period of 2022. This decrease in activity was largely anticipated by the many challenges the market is facing – high levels of inflation, credit crunch, raising cost of financing, rising returns on state bonds, general uncertainty on future pricing and the structural issues facing the office sector - which is deterring sellers from starting negotiating deals. The top performing asset classes throughout the quarter were Office and Industrial & Logistics, accounting respectively for 22% and 21% of quarterly volumes; however, since the beginning of the year it is Industrial & Logistics (25%) and Hospitality (18%) holding the top spots.
Following Q1 which was dominated by domestic capital, foreign investments have increased their market share throughout the quarter (64%), bringing the half-yearly share to 50%.
Despite the high demand from occupiers, the **Office** sector has emerged as a key worry for the global RE market as the combined impact of rising rates, structural unicyclic issues such as the shift to hybrid working and pressure to upgrade buildings' energy efficiency hits landlords. That said, the largest deal of the quarter came from this sector.
Industrial & Logistics proved to be more resilient than other asset classes, maintaining good investor interest despite a 12% decline Q/Q. Prime yields remain stable in main cities.
With a quarterly volume of c.a 200 €Mn – mostly due to the Aedes delisting - **Retail** investment volume is declining. Very few opportunistic investors are active in the market. Timing to close a deal has increased substantially as debt suiting the investors' returns is hard to find.
With regards to Alternative asset classes, increased tourist flows boosted interest for the **Hospitality** market which recorded a 31% growth Q/Q, while the **Living** sector - whose transactions centre on developments and asset repositioning - recorded a decrease of roughly 70% Q/Q. Within these sectors lack of product acts as a brake for volume expansion while interest is still high.

OUTLOOK

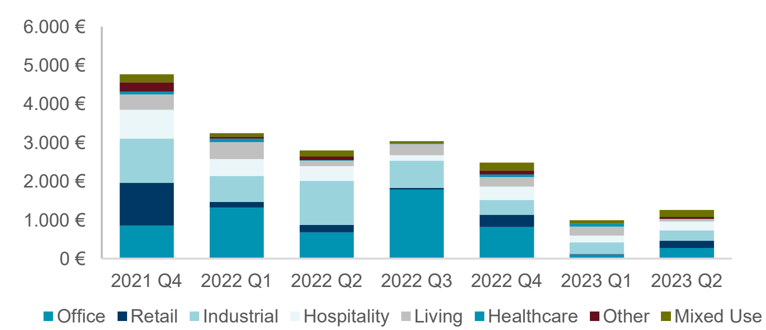
While investors take time to understand where the new equilibrium lies, there are some prospects: distressed opportunities may unlock value, higher financing costs may force some investors to exit, keeping the market moving. Going forward, repositioning ageing assets, addressing the climate crisis and ESG values will be critical to future-proofing investments.

INVESTMENT SALES VOLUME



Source: Cushman & Wakefield Research

INVESTMENT SALES VOLUME BY SECTOR



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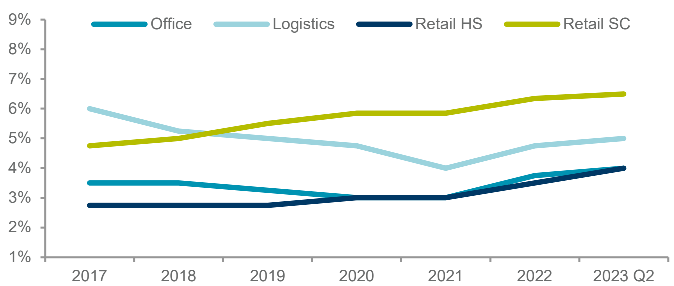
SIGNIFICANT SALES

PROPERTY NAME	TYPE	BUYER	SELLER	PURCHASE PRICE	MARKET
Aparto Milan Giovenale	Living	Colliers Global Investors	Hines	Est 120 €Mn	North
Piazza Affari 2	Office	Kryalos Sgr	Cromwell Property	93.6 €Mn	North
Land Ex Macello	Living	Redo Sgr	Undisclosed Seller	90 €Mn	North
Logistic Park Chiari	Logistic	JP Morgan	Invesco	72 €Mn	North
Via Cadolini	Mixed Use	Supernova	AbitareIn SpA	72 €Mn	North
Student Housing Cenisia	Living	Patrizia	StoneHill	70 €Mn	North
Bricoman Portfolio	Retail	Polis Sgr	Tecnomat/Bricoman	70 €Mn	Various
Hotel Savoy	Hospitality	Isrotel	Private Italian	62 €Mn	Centre
Via Sassetti 27	Office	Banca Sella	Gruppo Unipol	c.a. 60 €Mn	North

PRIME YIELD TREND



TOTAL VOLUME INVESTED 2023 H1

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(*) NOTES:
Yields are calculated on a net basis as reported below:
Net Yield = NOI (1) / PP (2)
1. Net Operating Income - after deducting all non-recoverable expenditure
2. Purchasing Price – excluding transfer costs, tax and legal fees
With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

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