MARKETBEAT

ITALY

Logistics Q2 2023

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
1.46 M Italy Take-Up sqm	▼	▬
€65 Prime Rent €/sqm/yr, Milan	▲	▲
€65 Prime Rent €/sqm/yr, Rome	▲	▲

ITALIAN ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
+1.0% GDP Growth	▲	▲
7.6% Unemployment Rate	▼	▬
6.3% E-Commerce Sales Growth	▲	
5.9% Retail Sales Growth	▲	

Source: Moody's (Q2 2023 on Q2 2022 change and Q2 2023 data for employment and unemployment rate)
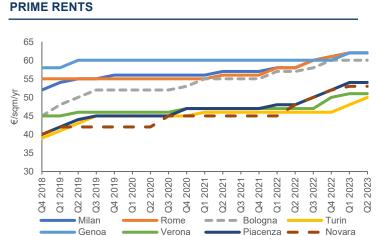
ECONOMY OVERVIEW

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, GDP yearly growth to June 23 stands at around 1% and year-end estimate are 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/June, the ECB raised interest rates by further 50 bps overall with the reference rate increasing at 3.5%, and further hikes are likely to happen. The yields on 10-yr government bond rose slightly while the spread with the corresponding German bund narrowed. Employment continues to rise with unemployment rate lending 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.
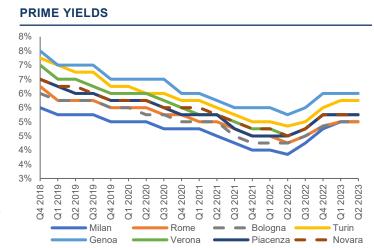
OCCUPIER AND INVESTMENT FOCUS

In the second quarter we have registered a strong activity on the occupier market, with an absorption of circa 850,000sqm (39% higher than the first quarter); the total for H1 2023 is slightly below (-5%) the value registered in H1 2022, which was the best semester ever. Analyzing the transactions completed in the first half of the year, there is a return of big deals: 11 transactions over 40,000 sqm since the beginning of the year, 6 of these in Q2; there were only 8 transactions of this size throughout 2022. However, the majority of transactions concluded was between 5,000 and 25,000 sqm: 73% over the total for the entire first semester. Demand is increasingly focused on spaces that meet ESG (Environment, Society, and Governance) criteria, with an emphasis on good energy performance and efficiency. In the second quarter, almost 50% of the transactions referred to speculative projects; considering H1, 41% of the volume was for speculative projects and 23% for build to suit assets. The strong demand for high quality spaces and the decrease in the availability of projects in pipeline will bring to a significant reduction of the availability in the near future. Prime rents have continued to grow in almost every market, as a consequence of the high competition for prime spaces and of inflation, Milan and Rome have registered a further 5% increase Q/Q for standard logistics assets (65€/sqm/yr in both cities) while rents for last mile / courier assets are stable (105€/sqm/yr in both cities). Despite the slowdown in the CRE investment volumes, in H1 23 the logistics sector proved to be more resilient than other asset classes with ca 570€M, accounting for 25% of the overall CRE investments. Single asset deals dominated the market, representing approx. 90% of the H1 volume. Prime yields in Milan and Rome reflect market repricing and currently are stable at 5.00%.

OUTLOOK

Investors are studying the current business environment to understand what the new equilibrium will be. Decarbonization is gaining momentum and is increasingly prioritized in government policies and corporate goals. This will increase the gap between primary and secondary markets, with greater demand for space that meets new environmental standards. Repricing started in Q4 2022 will likely continue until the end of the year with further interest rates hikes expected. On the other hand, the leasing market is expected to continue to perform well, with a strong competition for prime spaces which will likely cause a further increase in rental values.

PRIME RENTS

Milan — Rome — Bologna — Turin — Genoa — Verona — Piacenza — Novara

PRIME YIELDS

Milan — Rome — Bologna — Turin — Genoa — Verona — Piacenza — Novara

MARKET VALUES (*)

SUBMARKET	PRIME RENT €/Sqm/Yr						PRIME YIELD (NET)		
	LOGISTICS WAREHOUSE			LAST MILE/CROSS DOCK			LOGISTICS WAREHOUSE & CROSS DOCK		
	€/Sqm/Yr	Q/Q	Y/Y	€/Sqm/Yr	Q/Q	Y/Y	%	Q/Q	Y/Y
Milan	65	↑	↑	105	→	↑	5.00	→	↑
Rome	65	↑	↑	105	→	↑	5.00	→	↑
Bologna	63	↑	↑	90	→	↑	5.00	→	↑
Turin	50	↑	↑	75	→	↑	5.75	→	↑
Genoa	62	→	↑	100	→	↑	6.00	→	↑
Verona	52	↑	↑	90	→	↑	5.25	→	↑
Piacenza	54	→	↑	75	→	↑	5.25	→	↑
Novara	53	→	↑	75	→	→	5.25	→	↑

KEY LEASE TRANSACTIONS

REGION	CITY (PROVINCE)	TENANT SECTOR	AREA (SQM)	TYPE
Piemonte	Cameri (NO)	GDO	70,000	Pre-lease (BTS)
Lombardia	Verdellino (BG)	3PL	55,000	Lease
Emilia-Romagna	Monticelli D'Ongina (PC)	3PL	55,000	Pre-lease (Speculative)
Piedmont	Tortona (AL)	Retail	52,300	Pre-lease (BTS)
Veneto	Oppeano (VR)	3PL	50,400	Pre-lease (Speculative)

KEY SALES TRANSACTIONS

PROPERTY	REGION	CITY (PROVINCE)	SELLER / BUYER	AREA (SQM)	PRICE/€ MN
Logistic Park Chiari	Lombardia	Chiari (BS)	Invesco/JP Morgan	84,000	72.4
Tortona (part II)	Piemonte	Tortona (AL)	Prelios SGR obo Hines / Garbe JV Union Investment	54,000	56
Logistics Verdellino	Lombardia	Verdellino(BG)	AF Logistics/Unipol	56,000	39.2
Siderforgerossi Pan-european Portfolio (S&LB) (Italian part)	Multi Region	Multi City	Siderforgerossi/WP Carey	78,000	37.5
Mantova	Lombardia	Mantova (MN)	Ecodem/Barings	63,000	34.5

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(*) NOTES:
(1) Prime Rent and Yield figures illustrated in the table above refer to: Logistics properties (for space >10,000sqm) and Cross Dock (for space between 5,000-20,000sqm). Prime rents for freight warehouses tend to be significantly higher.
(*) 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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