DUFF & PHELPS

Real Estate Advisory Group

ITALIAN REAL ESTATE MARKET: Q1 2018

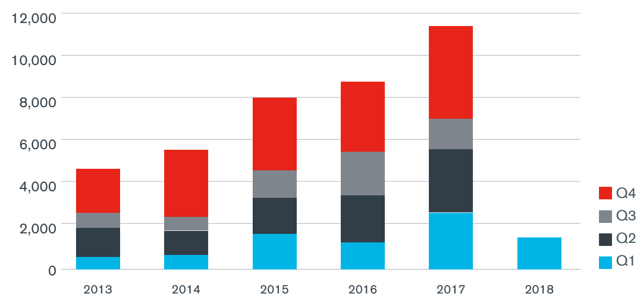
Macroeconomic overview

The Italian economic recovery appears to have slowed since the end of 2017. The reason could be related to the current political situation which has stalled despite the general elections, as well as the decrease of exports mainly in Extra-European Union markets. While industrial production has slowed consistent with the Italian economic recovery, positive data on employment rate (+0.3% since Q4 2017) and the increase of pro-capita incomes points to signs of growth. According to European Commission "the Italian economy is expected to continue to grow at the same pace of 1.5% this year, largely supported by domestic demand".

Investments

As for Italian macroeconomic trends, real estate investments in the market recorded a decrease due to both external factors (e.g. outcomes of political elections) and generally expected adjustment of the market after exceptional 2017 results. In Q1 2018, real estate investments in Italy were EUR 1.4 bln (-28% compared to Q1 2017) and, despite the decrease recorded, the volume of deals is above average as compared to the same period over the last ten years.

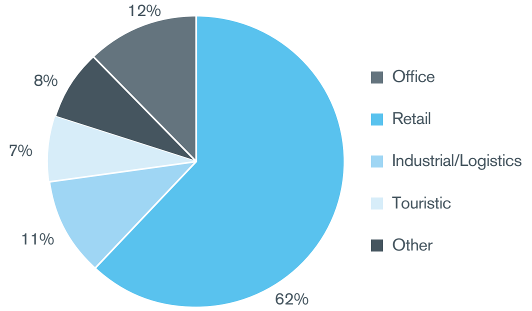
Real Estate investments in Italy



Source: Duff&Phelps REAG R&D on internal sources

Retail spaces, hotels and mixed-used buildings are the asset classes which recorded positive results, while office spaces particularly in Milan suffered a setback. As a result, many investors are waiting for more certainty before investing in the Italian real estate market.

Q1 2018: Real Estate investments by asset class



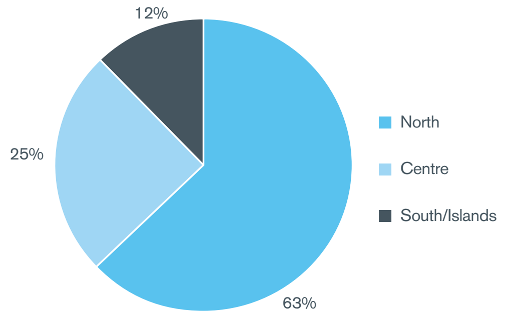
Source: Duff&Phelps REAG R&D on internal sources

Market highlights

According to official sources, in 2017, the construction sector recorded the most investments in refurbishment of housing (+0.5% vs. 2016) while the construction of new residential spaces has gently decreased (-0.7% yoy). Private construction investments in new non-residential buildings increased (+1.5%) and development of public buildings recorded a decrease of 3% yoy.

2018 will truly represent the turning point for the construction sector. The main driver will be investments in the refurbishment of buildings, but this has to be supported by a relaunch of construction in the public sector and private non-residential projects.

Q1 2018: Investments by location (mln of euro)



Source: Duff&Phelps REAG R&D on internal sources

The “sold out” of prime assets in Milan, the first Italian gateway city, has contributed to a reduction in investment performance in the office sector during Q1 2018. The lack of supply of core buildings and competitiveness on the existing ones has supported the yield compression. In general, investors in this asset class will require value-added office space before relaunching investments.

The retail sector is characterized by both the positive trends of high streets, almost in major Italian touristic cities (Milan, Rome, Venice and Florence) and notable deals of shopping centres.

For prime markets, rental growth prospects are still positive but with different patterns for each city and asset:

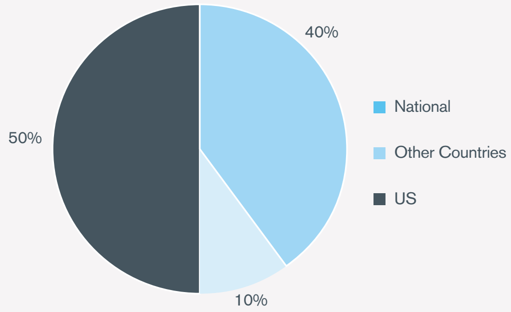
- Milan +1.0-2.0% (office and retail)
- Rome +0.5-1.5% (office and retail)
- Florence +0.5-1.5% (office and retail)
- Bologna +0.5-1.0% (office and retail)

The rise of tourism in Italy has resulted in increased purchases of retail goods, mostly at high street prime locations. Increased tourism has also supported development of luxury and leisure structures as well as increased the demand for holiday houses/apartments, hotels and B&B’s.

The increase of e-commerce transactions is leading to the development of new “build to suit” logistics areas close to strategic Italian cities where yield compression and stabilization of prices and rent would be the main trend of 2018.

The current sociodemographic dynamics, such as the increase of the average age of the Italian population, the globalization of university education and the flexible lifestyle of young workers are influencing the growth of interest toward alternative markets. Deals related to student housing, retirement homes and senior living highlight the potential growth of submarkets.

Q1 2018: Investments by origin of investors (mln of euro)



Source: Duff&Phelps REAG R&D on internal sources

Key drivers for 2018:

- Internet of Things and Machine Learning
- Digital economy & society
- Industry 4.0
- Gap between prime and secondary assets
- Growth of sub-market demand (NPL, Student Housing, etc.)

	Office		Retail: high streets		Logistics	
	Prime rents (€/sqm/ year)	Prime gross yields (%)	Prime top rents (€/ sqm/year)	Prime gross yields (%)	Prime rents (€/sqm/ year)	Prime gross yields (%)
Milan	500-600	4.0%	8,000-11,000	3.2%	50-60	6.5%
Rome	400-500	4.0%	8,000-11,000	3.5%	45-55	6.8%
Turin	250-300	5.8%	3,500-4,500	4.0%	45-50	7.3%
Venice	375-425	5.0%	5,000-5,500	3.5%	N.A	N.A
Bologna	250-300	5.6%	4,500-5,500	4.0%	50-55	6.6%
Florence	350-400	4.9%	7,500-8,500	3.5%	55-60	6.8%
Naples	275-324	6.2%	2,500-3,500	5.0%	40-50	6.7%
Bari	200-300	6.2%	1,500-2,500	5.2%	40-45	7.8%

Source: Duff&Phelps REAG R&D on internal sources

CONTACT

Duff & Phelps REAG Italy | R&D Department | T +39 039 64 23 876