

## Real Estate Strategic Outlook: Italy

### What are the macroeconomic drivers?

#### Fading influence of construction stimulus on Italy's GDP

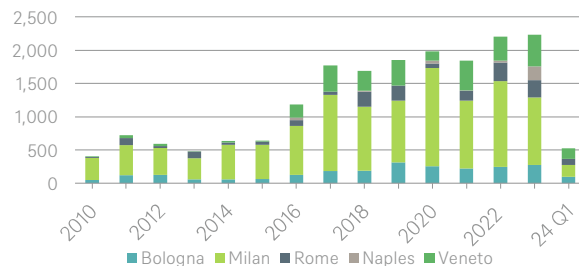
While the Italian economy exceeded expectations in 2023, GDP growth is likely to slow this year. The stimulus to construction brought about by the government's 'superbonus' scheme, aimed at encouraging investments in residential energy efficiency, is fading as the scheme is phased out. At just over 1%,<sup>1</sup> inflation in Italy is below the ECB's target and is likely to remain at this level throughout the year. This should allow real wages to recover and boost consumer spending in the short term.

### Strategy: what and where?

#### Growing opportunity in regional logistics hubs

We have had a positive view on the logistics market in Milan for some time, and this now extends to certain regional markets which have been attracting a higher proportion of take-up in recent years compared to the long-term average.

#### Italy Logistics Take-up by City, 000 sqm



Source: CBRE, May 2024

A key driver of the shift south is the National Recovery and Resilience Plan, which was approved by the EU in 2021 and is set to channel €24 billion from the EU's Recovery and Resilience Facility into infrastructure improvements. One of the key elements of this plan is the Ionian Highway which aims to connect some of the less affluent towns along the

Ionian coast in Southern Italy with the A14 and A2 motorways, reducing travel times north to Bologna and Rome. The significance of both cities as logistics hubs serving southern Italy is therefore increasing.

Vacancy in Italy is below 2%,<sup>2</sup> and while the next two to three years are likely to bring some relief in terms of supply growth, total speculative completions in the pipeline to be completed by the end of 2026 equate to less than two year's take-up at current levels. The risk is that take-up will moderate in line with a slowdown in economic growth in 2024 just as completions pick up, so our forecasts show some deceleration in logistics rent growth to reflect this possibility. However, the correction in entry yields allows for expected gross total returns for both Milan and Rome in the region of 10%.

#### Regulation driving operational focus

Despite a strong two years of rental growth for the Milan private rented sector, the outlook is tainted by regulatory and supply uncertainty. Purpose-built student accommodation (PBSA), on the other hand, is benefitting from structural undersupply and high residential rents. There is, however, substantial investor interest in the sector and a large volume of potential new developments in the pipeline. If projects scheduled to complete in the next two years are built out in full, rental growth is likely to moderate significantly as the new schemes compete to attract students. While we maintain a positive view on the sector in the long term, care is necessary when selecting individual schemes as they will need to be well located or attractively priced to achieve high occupancy in a potentially more competitive landscape than the present.

The hotel sector continues to perform well. It is the most popular alternative use for obsolete offices, particularly in Rome. Expected completions average in Milan, while supply growth in Rome is lower. Given the latter currently enjoys higher occupancy, the Italian capital is likely to be the stronger performer in the short-to-medium term. The ownership of hotels in Rome is highly fragmented, presenting an opportunity to work with an operator looking to expand their presence and upgrade the existing offer on an asset-by-asset basis.

<sup>1</sup> Oxford Economics, April 2024.

<sup>2</sup> Colliers, 2024 Q1

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