SEE A BRIGHTER WAY

Research

Italy

Q4 2023

Italian market 2023

- Despite challenging economic and geopolitical environment, Q4 2023 showed **signals of recovery for CM investments**
- Lenders continue to deploy into multiple asset classes, with a heightened focus on sponsor, sector, and **asset quality.**
- **Occupiers' fundamentals are solid** resulting in positive absorption performances both in logistics and office assets

Fundamentals		2023	YoY %
Office Milan	Take-up	**426,000 sqm**	**-15%**
	Prime rent	**700 €/sqm/pa**	**+1.4%**
Office Rome	Take-up	**250,000 sqm**	**+70%**
	Prime Rent	**520 €/sqm/pa**	**0%**
Logistics	Take-up	**2.8 M sqm**	**0%**
	Prime rent	**67 €/sqm/pa**	**+11.7%**

The **global economy** has been more resilient than anticipated in 2023, despite challenging economic conditions. Estimates for **Italian economy** indicate an average GDP growth of +0.7% in 2023 with Industrial production at -2.3% and inflation decreasing at 5.9%.

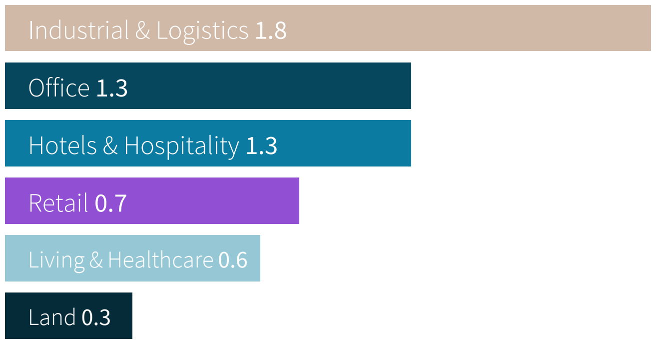
High interest rates and financing costs, coupled with economic uncertainty, have impacted pricing and sentiment across all sectors in 2023, resulting in a slowdown in **CRE investment activity** across EMEA markets. In Italy, after a record performance in Q1-Q3 2022, the following four quarters to Q3 2023 have been affected by a wait-and see attitude by investors. **Q4 2023** showed some initial signs of recovery with +19% YoY variation. The **I&L sector** has maintained its position as first asset class in the Italian Real Estate Investment market, with a 30% out of total investment volumes. The increased share of **Hotels** volumes is noteworthy, showing good appetite for hotels located in the main Italian cities and resort destinations, confirming the strong fundamentals of the hospitality sector. The **Office sector** has contracted in terms of asset allocation, despite robust occupiers' fundamentals. Milan was still the prime target of activity, with a strong presence of private capital focused on core products.

The **Living sector** stands out with a growing share out of total volumes, with significant investors' appetite for the PBSA, Build-to-Rent, and Built-to-Sell sectors.

Occupiers' demand was solid, with positive take-up performances for both the logistics and office sectors. In the **I&L sector** demand was driven by **grade A assets** and by **3PLs operators**, in turn benefitting second-hand assets due to the sustained supply-demand imbalance, driving rental growth across both prime and secondary locations.

In the **Office sector**, Rome witnessed a good level of activity, thanks to two major transactions. **Milan** also closed 2023 with a positive Q4 YoY variation and a good annual performance in terms of take-up, although lower than the record year of 2022. In addition to the 426,000 sqm of take-up in Milan, an extra 40,000 sqm were sublet, reflecting an important growing phenomenon. In addition, **the limited availability of Grade A buildings** has supported the level of prime rental rates, with a Grade A vacancy rate of 2.7%.

Italy Capital Markets volumes 2023 (€ Bn).
Over € 6 Bn, lands and share deals included (-53%)



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2024F

Italian market 2024 Outlook

- Looking ahead, we should see improving **stability and predictability in conditions in 2024**, as well as lower inflation and the start of the interest rate cutting cycle
- Global **geopolitical uncertainty** will continue to weigh on investment activity but at a lower pace
- **Occupiers' demand** will maintain strong, with an increasing focus on quality and ESG target

Fundamentals	2023 Q4	YoY %	2024F
Office Milan Take-up	148,000 sqm	+10%	▲
Office Rome Take-up	65,000 sqm	+114%	=
Logistics Take-up	594,000 sqm	-26%	=
Total Investment Vols	€ 2.5 Bn	+19%	▲

While conditions will remain broadly challenging in 2024, we expect more stability and predictability in conditions, as well as lower inflation and the start of the interest rate cutting cycle in late 2024. Geopolitical uncertainty elevates and we expect softening economic growth condition but with limited wider impact. Projections for the Italian economy indicate an average GDP growth of +0.5% for 2024, with Industrial production at +0.8% and inflation forecasts decreasing at 2.2%.

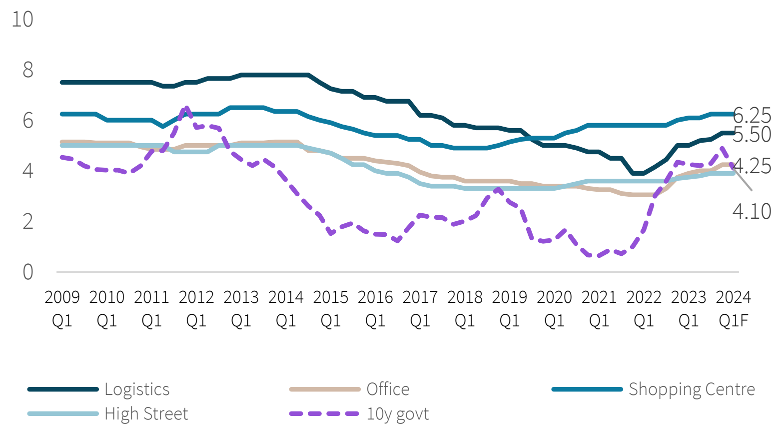
Global geopolitical uncertainty will continue to weigh on investment activity in 2024, with variation in performance across property types and markets. Expectations are for improving activity in the Logistics sector, with an increasing focus in Data Centres, Living, and Hotels. In addition, out-of-town Retail is attracting investor interests on certain dominant schemes. Prime yields are expected to stabilize at the top of the cycle and rental growth to soften as inflation eases.

Occupiers will be even more focused towards grade A high-quality assets with excellent sustainability metrics.

While the hybrid-work model is established, we also expect an increased momentum in corporate return-to-office (RTO) strategies, thereby beginning to improve attendance and occupancy. In Italy, Milan already shows higher RTO rates (85%) compared to other EU markets and foremost to US. For office leasing activity, we expect a market-wide trend in corporate consolidations, space rationalization consistent with RTO strategies, increasing subleases, prime space relocations and increasing focus on 2030 sustainability goals as the deadline approaches. Central and better connected locations will continue to be the most sought after.

The Italian logistics occupiers is expected to remain robust in 2024, with demand driven by grade A assets and by 3PLs operators. Operators have already expanded into locations outside of historically consolidated ones, considering the lack of supply and development, with a strong unsatisfied demand.

IT Prime Yields - All sectors %



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