INVESTMENTS IN ITALY

The macroeconomic context

The most recent data from the Bank of Italy show that growth has reinforced at global level, and remained robust also in the first quarter of the new year. However, the international economic perspectives are weighed down by a number of risks deriving from import tariffs imposed by the United States on certain products and a potential weakening of the financial markets due to uncertainty over monetary policy evolution in some advanced economies.

Growth remained solid also in the Eurozone: the final quarter of 2017 registered an increase in GDP of 0.6% in the Eurozone compared with Q3 2017, mainly due to a rise in exports and a rise in internal demand supported by increased investment. However, core inflation has been slow to show any consistent signs of growth. According to preliminary estimates, inflation in March reached 1.4%, with the core component remaining at 1%. Inflation is expected to stay at this level for the rest of 2018 and for all of 2019. The Governing Council of the ECB has confirmed that the expanded asset purchase programme will be continued until September 2018 and beyond if necessary, until a lasting change to price trends is observed, in line with the ECB’s inflation target.

Economic activity in Italy remained lively in the final quarter of 2017, with growth totalling 1.5% for the entire year. The Bank of Italy also confirmed that GDP growth continued (+0.2%) in the first months of this year, albeit at a reduced pace compared with the previous period.

Q1 2018: a relatively lower performance

In Italy 2018 opened with a level of investment in commercial real estate of 1.5 billion of euro: a decrease of 25% compared with the figure recorded in Q1 2017 (corresponding to 1.9 billion of euro), but 18% higher than the long run average for first quarters (1.2 billion of euro).

It should be noted that 2017 was an exceptionally active year, with a peak of investments of around 11.1 billion of euro, a figure which had never previously been achieved in the history of Italian commercial real estate.

In Q1 2018 the traditional hierarchies among different asset classes have not been respected. Unusually, the greatest contributor to total volumes was the Retail sector (50% of the total) and not the Offices sector (20% of the total). In further detail, 294 million of euro were invested in the Offices product (70% of which is located in the city of Milan), a fall of 70% compared with Q1 2017. This weaker performance is the consequence of the scarcity of the core Offices product evident for some time, both in Milan and in Rome, given an interest from international investors that is greater than ever thanks to the abundance of liquidity on global markets and the improved fundamentals seen in Italy.

In terms of yields, the scarcity of the Offices product is reflected in Milan by prime net figures which are stable for a year at 3.50% in the CBD Duomo and 3.75% in the CBD Porta Nuova. However, it is worth noting the yield compression observed in the Centre (from 4.25% at the end of 2017 to current 4.15%), in the Semicentre (from 4.75% to 4.50%) and in Maciachini (from 5.25% to 5%), areas where investors are focusing their demand given the above-mentioned limited availability of product in the more central locations of the city. For Rome, where 62 million of euro were invested in Offices in Q1 2018 (-60% compared with Q1 2017), prime net yields were flat in the CBD (4.15%), in the Eur Core (4.75%), in the Semicentre (6%) and in the Periphery & Outside GRA (7.50%). The only compression in the city was seen in the Centre where prime net yields fell from 5.50% at the end of 2017 to the current 5.25%.

As mentioned previously, the first three months of 2018 showed a majority of investments in the Retail sector: with 741 million of euro invested in Offices in Q1 2018 (-60% compared with Q1 2017), prime net yields were flat in the CBD (4.15%), in the Eur Core (4.75%), in the Semicentre (6%) and in the Periphery & Outside GRA (7.50%). Only compression in the city was seen in the Centre where prime net yields fell from 5.50% at the end of 2017 to the current 5.25%.
In further detail, the only transaction involving the two cities was the portfolio of two High Street assets bought for a total of 210 million of euro by French capitals. In comparison with last years, in Q1 2018 Shopping Centres increased their importance: the relative share was 57% of total Retail volumes thanks to the completion of two relevant deals (a portfolio deal in various locations for about 200 million of euro and the purchase of a single asset in Bari for around 140 million of euro). With regard to the prime net yields seen in the Retail sector, yield compression should be noted in the High Street sector in Milan where yields fell from 3.15% at the end of 2017 to their current level of 3%. On the other hand, prime net yields were stable for Shopping Centres (4.90%) and for High Street in Rome (3.50%).

Logistics also delivered a good performance in the first quarter of the year: +80% compared with Q1 2017. In further detail, the volumes recorded in this sector in Q1 2018 were 215 million of euro (15% of the total for Italy). In particular, almost 70% of capital invested in Logistics was in North Italy (144 million of euro). By contrast with 2017, when there were no transactions in Central Italy, it should be noted that a portfolio of six Logistics assets was completed in Q1 2018 in the Rome area for a total of 70 million of euro. Prime net yields recorded a compression for the Logistics product which pushed values to their current levels of 5.50% in Milan (from 5.75% at the end of 2017) and 6.25% in Rome (from 6.40%).

An increasingly international market

The first quarter of 2018 showed a slight increase in the share of volumes invested by foreigners in the Italian market.

Structurally, the percentage of foreign capital was around 70% while in Q1 2018 the international component reached 80%.

The main foreign player in the first quarter of current year was represented by the United States with around 265 million of euro invested (20% of the total for Italy), mainly concentrated in the Retail sector (around 115 million of euro).

Total European capital flows invested in Italy in the first quarter of the year amounted to 735 million of euro (55% of the total) less than in Q1 2017 (around 1 billion of euro). With regard to European investors, French ones were particularly active in Italy (as they were in 2017), with investments for around 245 million of euro in Q1 2018, followed by Swiss investors, with around 200 million of euro. British capitals were absent in the first quarter of 2018, despite having made a similar contribution to total volumes in Q1 2017 as the United States (equal to around 300 million of euro).

An analysis of the various players by product type reveals that 52% of volumes invested in the Offices sector in Q1 2018 (which differed from the amount recorded in Q1 2017) was of domestic origin, followed by European (35%) and American (14%) capitals.

In the first quarter of the year, the Retail sector was dominated by foreign capitals (99% of total investments) and, in particular, European ones (82%). Only 16% of the total invested was from the United States.

For the Logistics sector, in 2018 the majority of investors were again from abroad (65% of the total), especially from the United States (around 38% of the total).

In the Hotel sector, where have been invested around 90 million of euro in Q1 2018, most of capitals were domestic (58% of the total), in alignment with the investment structure of 2017.

Average deal size still subdued

In terms of the size of closed deals, individual asset transactions showed an alignment of average values for Q1 2018 and Q1 2017: 34 million of euro, an amount that is basically also in line with the long run average.

In further detail, for the Offices sector the average size of individual assets purchased in Q1 2018 was up on the same period the year before (46 million of euro versus 41 million of euro in 2017), and compared with the long-term average (35 million of euro). The average value of Logistics deals also increased, rising from 13 million of euro in 2017 to 24 million of euro in Q1 2018 (always referred to individual asset transactions).
With regard to portfolios, however, the first quarter of 2018 showed a general fall in average size from 112 million of euro in Q1 2017 to the current 72 million of euro. In further detail, while in the first quarter of 2017 four portfolio operations were completed with a volume each of over 100 million of euro, in Q1 2018 there were only two portfolios deal with this dimension.

In the first quarter of this year only one Offices portfolio was completed, with a size of around 20 million of euro, while in Q1 2017 three portfolios were completed for a total amount of around 470 million of euro.

On the other hand, for the Retail sector the average portfolio amount increased from 80 million of euro in Q1 2017 to 110 million of euro in Q1 2018 due to the completion of two big deals, one in the High Street segment in Milan and Rome and the other in the Shopping Centres segment (each with an amount of around 200 million of euro). These deals contributed to the increase of around 40% in Retail volumes recorded between Q1 2018 and the same period last year.