

## Real Estate Strategic Outlook: Italy

### What are the macroeconomic drivers?

#### Post-pandemic spending boost losing momentum

The strong economic growth of early 2023 is showing signs of weakening but Italy still appears set to outperform the Eurozone this year. Over the medium term, the deployment of €200bn from the EU recovery fund over the next few years should boost public spending, although absorption of funds is running behind the government's plans. Milan is the economic outperformer, with growth rates expected to be around 40 basis points above the national average for the next 10 years.

Pricing in the Italian real estate market was relatively slow to correct compared to other major European markets. We would therefore re-enter this market at a slightly later point, most likely in H1 2024.

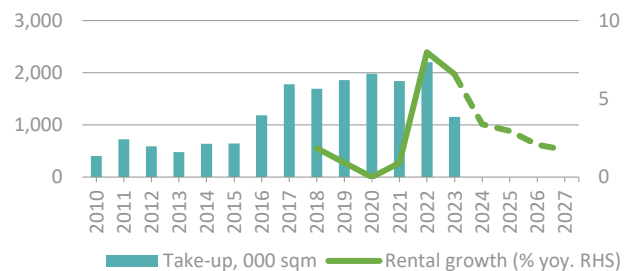
### Strategy: what and where?

#### Strong demand for logistics

Following several years of record take-up, the logistics sector is significantly undersupplied at present with the vacancy rate below 1.5%. While planned speculative developments are likely to pick up towards the end of 2024, new supply is unlikely to allow for a significant easing in vacancy. We, therefore, expect upward pressure on rents to persist.

The growing importance of the Southern European logistics corridor is likely to benefit Northern Italian logistics hubs, particularly around Milan, which links this route to the key North-South logistics corridor leading from London to Genoa. We would therefore favour acquisitions and refurbishments in this region, as well as in emerging yet undersupplied logistics hubs close to Rome and Bologna.

### Logistics take-up and rental growth



Source: CBRE, DWS, August 2023

### Office refurbishments in demand

The undersupply of quality offices in Milan and Rome persists, with the latter city particularly lacking modern office stock. We would advocate a value-add strategy in these markets. Location will be key as even offices with high-quality fit out and strong ESG credentials may prove difficult to let at a commensurate rental level in less central business districts such as Bicocca. The lack of large occupiers in Rome would mean we would target smaller buildings (typically under 5,000 sqm GLA) where void risk is likely to be low.

### Regional student housing in short supply

Student housing stock in Italy remains low compared to other European countries. However, the pipeline of new development is substantial in Milan, so in the next 5-10 years this market could be better supplied, but there is still an opportunity for an attractive yield spread to residential in strong regional markets such as Florence, Bologna, and Padua. The demand from tourists in these markets should also support high summer occupancy.

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