

Real Estate Strategic Outlook: Italy

What are the macroeconomic drivers?

Growth concentrated in Milan

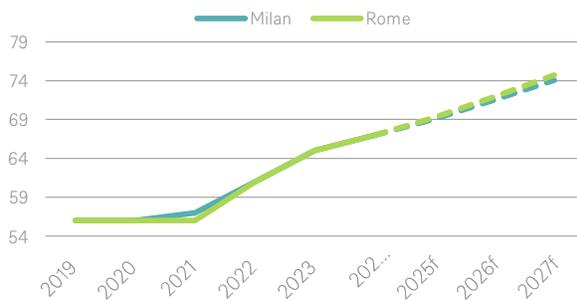
While Italy's GDP growth is likely to lag that of the Eurozone both this year and over the medium term, Milan's economic story is much more positive, particularly when growth is measured on a per capita or per household basis. Milan is expected to be one of the ten best-performing European cities in terms of employment growth in 2024, a factor which is particularly supportive of the office occupier market.

Strategy: what and where?

Logistics once again the outperformer

The logistics market in Italy stands out as having some of the lowest vacancy rates in Europe. At a national level, availability is just 3.8%, while in Milan, it falls to below 3%.¹ Rents have seen a step-change in the past three years, with annual rental growth averaging between 5% and 6% for both Milan and Rome.²

Italy Logistics Rents, € psm p.a.



Source: PMA, DWS, November 2024

The slight reduction in demand this year and prolongation of letting negotiations are signs that rents have found a new level, and we are unlikely to see a repeat of the post-pandemic growth rates. However, the medium-to-long-term picture is still positive given ongoing supply shortages and the development of Northern Italy as a key hub in the Southern European logistics corridor.

¹ Colliers, Q3 2024

Opportunity in maturing residential sectors

Residential completions in Milan have lagged demand for several years and the lack of supply, combined with high interest rates keeping tenants in the rented sector, is evident in recent high prime rental growth rates. The pipeline going forward remains insufficient as high construction costs and lack of certainty around the regulatory climate have dampened developers' willingness to build. We expect Milan to remain the outperformer in terms of rental growth due to its attractiveness for young professionals and students who are most likely to require rented accommodation.

These dynamics also favour co-living and student housing. The latter sector has received an upsurge in investor interest in the past two years and we expect this to stimulate further development in what is currently a highly undersupplied market. Any PBSA asset acquisitions will consequently need to be well-placed to reduce potential supply risk from new development.

Entry pricing attractive for outlets and grocery

Some retail sub-sectors are now looking attractively priced given the prospects for solid rental growth in the next few years. Outlet centres are performing well in our experience and opportunistic acquisitions in this sector may be possible. The expansion of discounter supermarkets in Italy could also be an opportunity to gain exposure to a sector which is both resilient to ecommerce and where performance tends to be counter-cyclical as consumers switch to lower-priced options in an economic downturn.

Low grade A vacancy boosts outlook for office rental growth

While overall vacancy rates are high in Milan and Rome, Grade A availability is in fact very low, particularly in Rome. This has led to strong rental growth in both markets, but with the Italian capital seeing exceptional growth in recent years, and we expect Rome to outperform in the short term. The prospects for Milan in the medium-to-long term are also positive given the strong regional economic growth story.

² Colliers, Q3 2024

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