Colliers

Italy

Logistics Market Overview

Snapshot Q2 2023

Last Mile Delivery

How to optimise logistics and stay competitive

The future of logistics relies on the last mile, which seems more and more to be the key to retaining customers and building loyalty, and hence to increasing sales. This is because fast delivery is increasingly becoming a priority for buyers. It is a factor that cannot be ignored when talking about logistic spaces.

According to Gartner, the global last-mile delivery market size was valued at $40.5 billion in 2021 and is anticipated to generate $123.7 billion in 2030. But that growth comes at a cost. Between wages, vehicles and gas, last-mile delivery accounts for over half of shipping costs. This is a high price to pay for a challenge that must be faced, given that consumers now take for granted a high level of service and flawless experience in terms of speed. Delivery and operating flows have to be optimised to prevent all this having an impact on margins.

The challenge is even more complex if one looks at the current socio-economic context, which makes it extremely difficult to make forecasts and demands flexible strategies from players. Businesses need solutions that ensure operational efficiency, reduce costs and maintain the highest standards in terms of customer experience.

These solutions meet two main criteria: new technology to be implemented and spaces to be managed differently. After the surge in online sales, many have invested in maxi hubs, but time has shown that this solution is not enough to ensure efficiency at times when resilience and flexibility are required. There is hence a growing demand for warehouses in locations that were once considered secondary, but are now strategic for ensuring a high-level delivery experience — not only in the great metropolises, but also in the large urban clusters throughout Italy — at a time when in Rome and Milan prime rents for last-mile properties have reached €100 per square metre.

Therefore, there is a move from a few hubs to warehouses strategically positioned to cover the entire territory, which are automated and have a flexible and extensive structure that can carry out deliveries in an increasingly rapid manner. This involves adjusting space size, redeploying staff and optimising delivery routes, but also new ways of using existing infrastructure more efficiently in order to ensure last-mile economic sustainability and remain competitive.

"Businesses need solutions that ensure operational efficiency, reduce costs and maintain the highest standards in terms of customer experience."

Investments Key data
Italy

€ 258m
Investments in Q2 2023

+14%
Portfolio Deals

5.00%
Prime Yield

-77% & -61%
Investment Trend YoY
(Q2 2023 on Q2 2022 vs 4 quarters yearly rolling data)

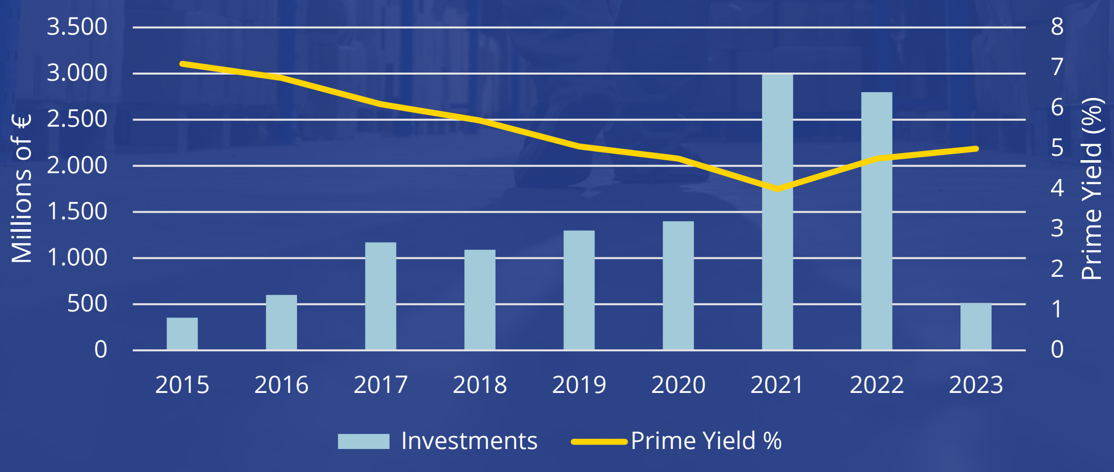
€ 1.53b & € 515m
Cumulative Investments
(Q3 2022-Q2 2023) vs H1 2023

+110bps & Steady
Yield Trend
(YoY & QoQ)

Investment Trends

- **Q2 2023** confirmed the **macroeconomic slowdown** already experienced over the last two semesters. The **risk adverse trend** and the "**wait and see strategy"** shown during the last 3 quarters remain solid showing consistent investments data (€300m to €250m per Q).
- The **challenging debt market** conditions (apprx. 200bps raised by ECB in the past 9 months) together with the **slow adjustments in the bid-ask spread** by the sellers enhanced the scarcity of investments over the last semester. However, the market is now showing **more stabilization** by setting the EUR SWAP 5 yr below the Euribor Overnight rate.
- Given these conditions, we expect more **equity-based investment strategies** with postponed financing, targeting assets with strong potential in terms of **rent reversion** and with **strong covenants**.
- Despite the recent macroeconomic facts, we are still seeing significant **appetite** in the logistic asset class driven by positive industry forecasts and a strong net absorption. Q2 2023 ended with positive results from a few **sell-side processes** that we expect will **crystalize the prime yields** and in turn **boost investments** over the next few quarters. **Q2 2023** recorded **€ 258m of Investment** (-77% on Q2 2022) **.** H1 2023 close at € 515m (-70% on H1 2022)
- The **Italian prime yield** demonstrated a **significant downturn** over the last year which directly followed the high cost of debt and rising interests in the bond capital market. It **remained steady** since last quarter and compared to **Q2 2022 it gained 110bps** closing at **5% NIY.**
- We believe the **strong fundamentals** that backs the logistic asset class as well as the **steady and strong demand** from the operators will provide the **right comfort** to investors to allocate their capital effectively.

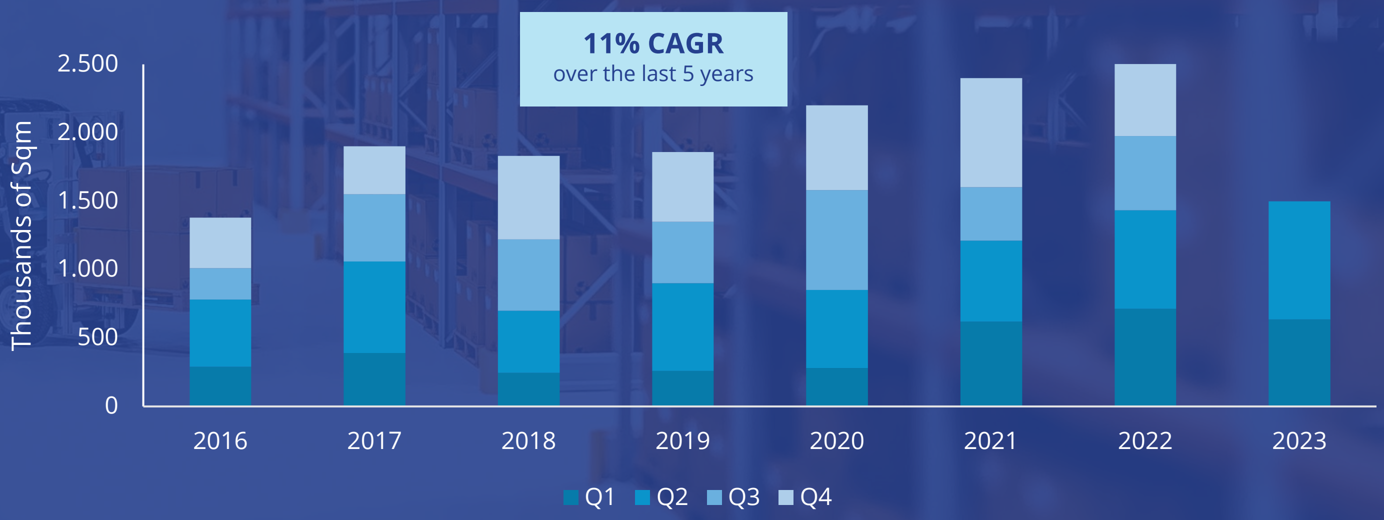
Logistics Investments Evolution in Italy
(Millions of Euros between 2015 and 2023)



Take up & Key Statistics
Italy

Take-up Trends

- The **Italian logistic absorption** is demonstrating to be the **key driver of the asset class expansion** showing a steady and solid growth over time **(Avg. 11% 5y CAGR)**
- Data highlights a **record breaking take up** over the last 4Q hitting approx. **2.78m sqm** and a 6% yearly rolling data growth compared to Q2 2022)
- **Take up** registered during **Q2 2023** was among the highest ever recorded (863,000 sqm, 20% rise over Q2 2022). Moreover, this quarter **showed 45% overperformance** considering Q2 results in a 5y timeframe.
- This positive trend highlights a **rising interest** from logistic operators (especially **3PL**) which account approx. 66% of the total absorption. In addition, significant demand comes from **retailers** and **e-commerce players** which account for apprx. 27%.
- We are recording a rising number **of big-sized searches** which in this quarter touched **53% of the total take up** (considering warehouses above 20k sqm)
- We are seeing a **larger proportion of BTS and BTO** developments with avg. sizes above 17k sqm. This trend accommodates a larger demand from operators and manufacturers that have specific needs and long-term expansion plans
- **Final clients** are seeking even more for newly built (**Grade A**) and **ESG compliant** warehouses which in this quarter accounted for almost the totality of the total take up (89%). **ESG trend** will be a key driver for the future expansion of the asset class leading to **rising demand and especially higher rents**.



*ESG Compliant asset obtained at least the Leed Gold or Breeam Very Good certificate ** 5y CAGR is calculated considering the cumulated take up values until end of 2022. 2023 data are still partial but aligned

863,000sqm
Take-up Q2 2023

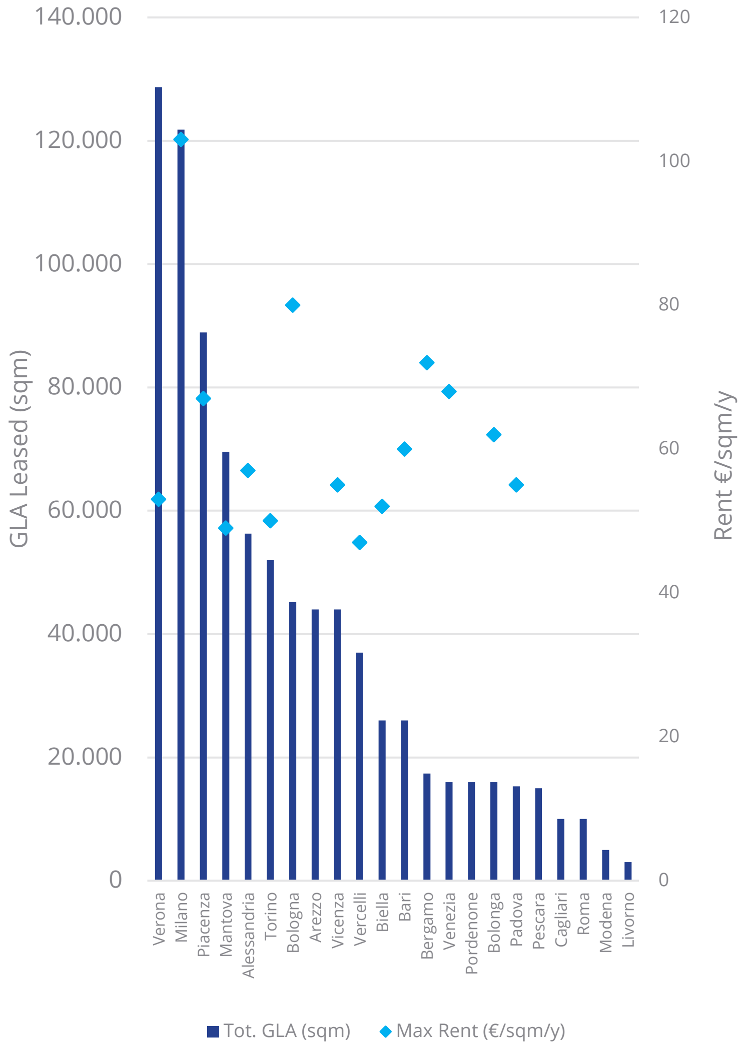
+20% & +6%
Take-up Growth YoY
(Q2 2023 on Q2 2022 vs
4 quarters yearly rolling data)

66%
3PL Absorption

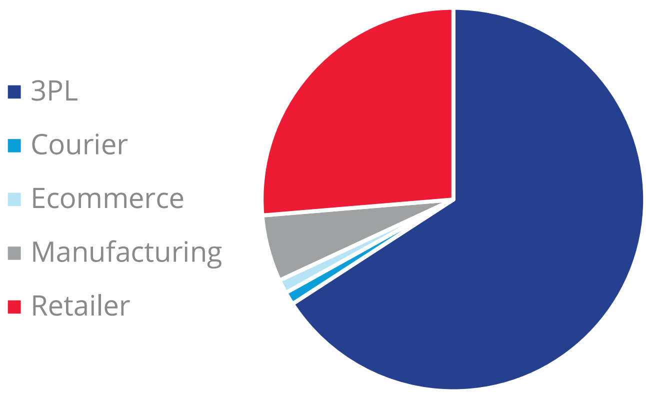
89%
Proportion of ESG compliant* assets leased

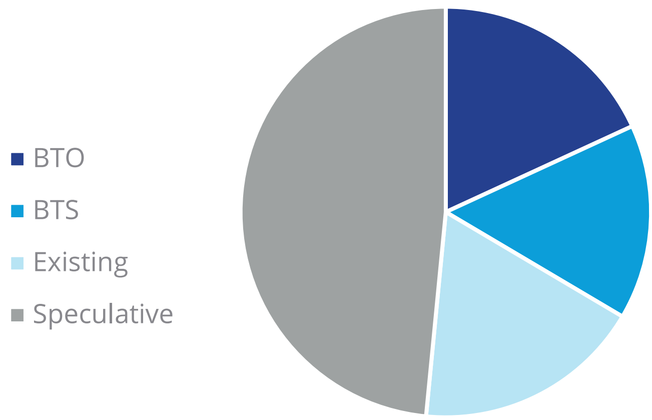
Prime Rents (€/sqm/y)	Milan	Rome	Turin	Verona	Bologna	Piacenza
Q2 2023	65	65	50	53	65	54
3y CAGR	6,8%	7,7%	6,6%	7,3%	9,7%	8,2%

Q2 2023 Take-up by Provinces (GLA-sqm)

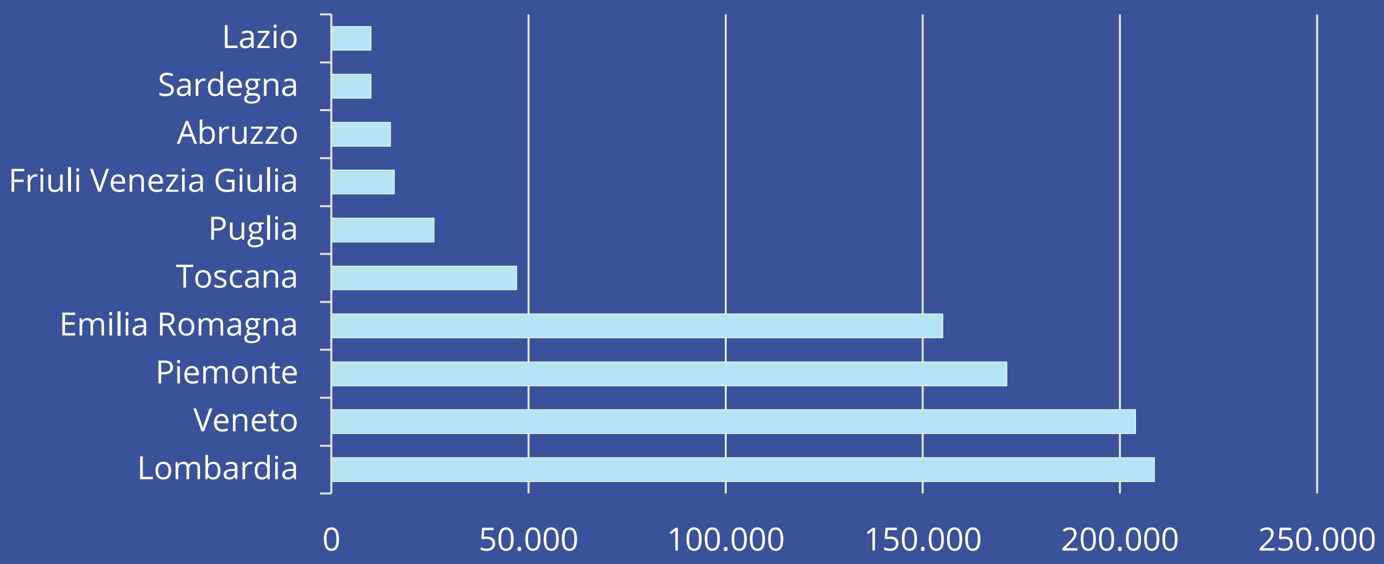


Take-up Characteristics Considering Type of Tenants, Assets Types and Drivers



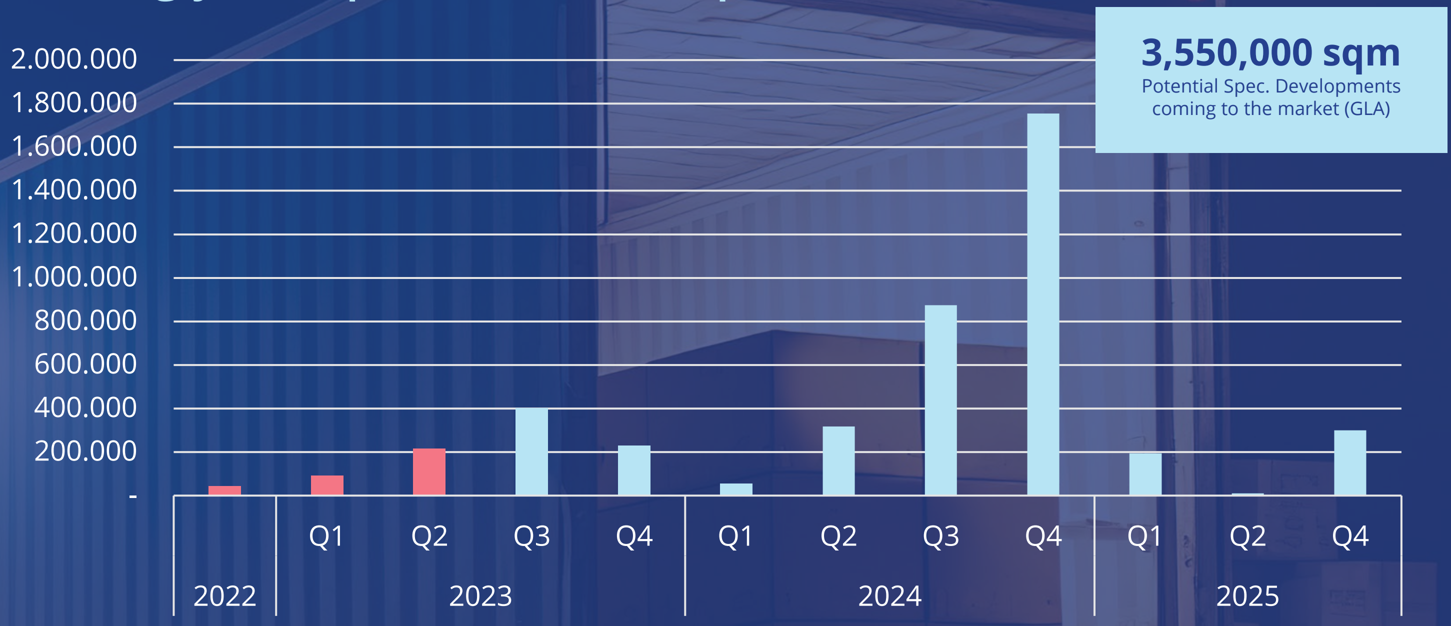


Take Up Distribution by Regions



Vacancy & Pipeline
Italy

Planned Speculative Developments and Vacancy in the coming years (potential GLA-sqm)

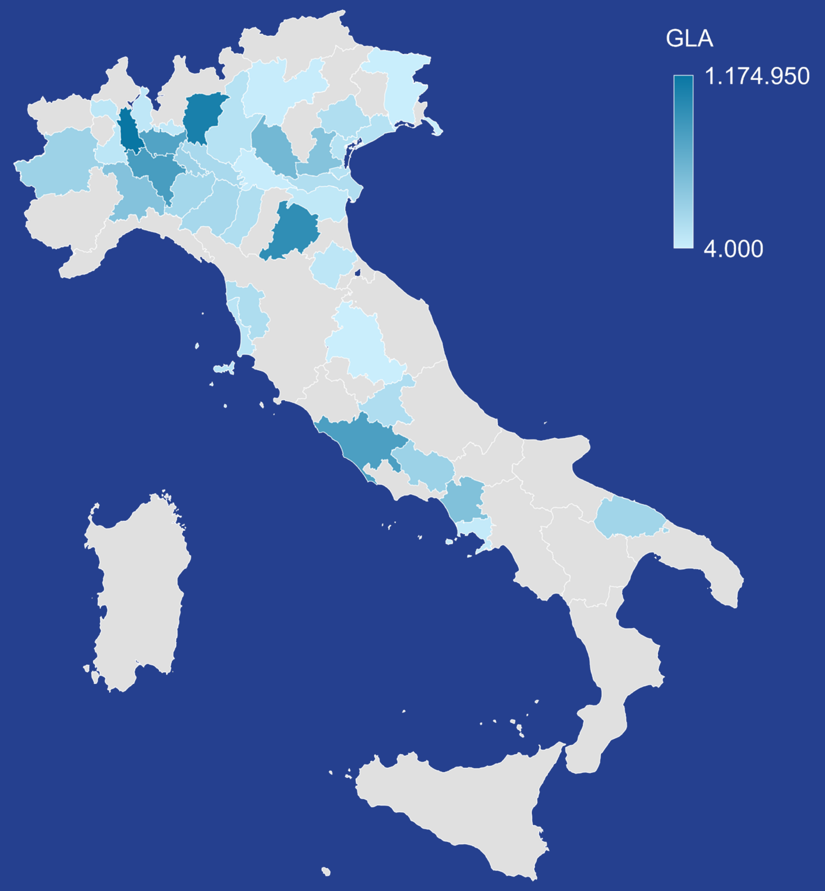


Red columns show the current status of existing assets at Q2 2023 both considering speculative developments and vacant existing portions. Data shows values net of current negotiations (apprx. 1m sqm) that will be part of future take up at completion.

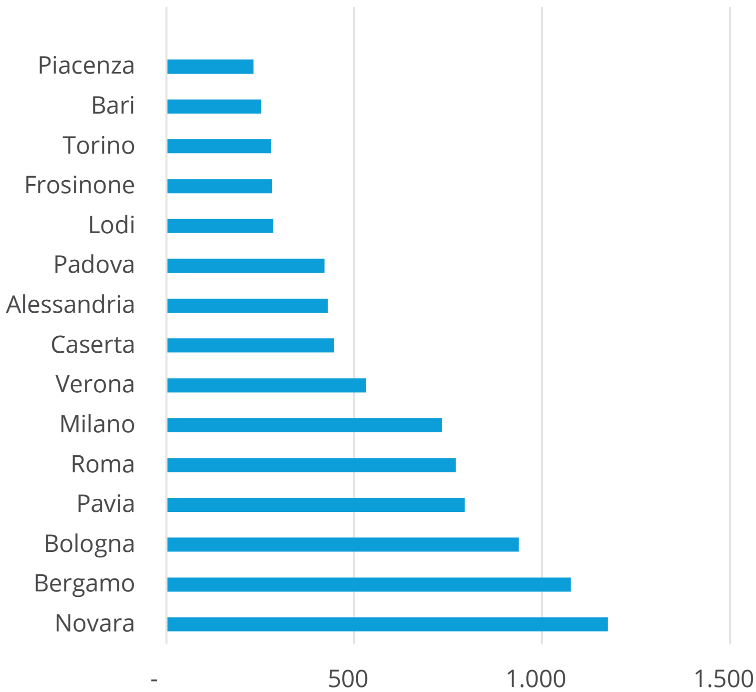
Fast Facts
on potential development

- The **absorption rate** of new developments is showing quite **impressive results** with the vast majority of the projects being leased before the construction end date
- The **vacancy rate** remain stable **below 1,5%** all over Italy considering few sub-markets where the vacancy rate is closer to zero
- **High construction costs** and difficulties in getting building permits pushed a few project to drop or deliver with a slight **delay** as well as to **rising asking rents**.
- The **high costs of financing** as well as the **significant uncertainty** led investors to put on hold various projects and to **renegotiate land prices** which on average decreased 15% to 25% (depending on the sub-market)
- Despite the uncertainty recorded lately, we are still seeing a **strong demand** for logistic development that can deliver **above average returns.** However, more attention on market fundamentals, rental increase and absorption trends led to reduced number of land transactions and active institutional players.
- **South of Italy and emerging sub-markets** such as Genova, Trieste/Udine and the Adriatic Coast are attracting even more capital
- Despite some delays, 2023-2025 will see apprx. **3,5 mln sqm** coming to the market as speculative developments all over Italy (data net of negotiation already closed and pre-let transactions on new developmets)
- The Italian **main ports and airports**, especially if connected with the **railways**, are becoming even more demanded by investors. **Intermodality** is becoming a critical desiderata both from operators and investors.

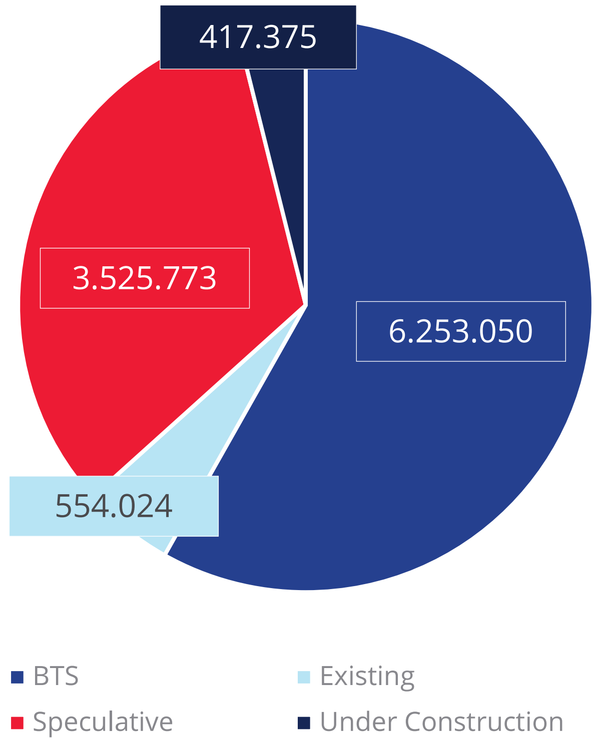
Available GLA potentially entering the Italian Logistic Market in the next 2 to 3 years. Pipeline concentration divided by Provinces



Main Provinces in Terms of Sqm potentially coming to the Market
(GLA – Thousands of Sqm)



Italian Vacancy & Pipeline divided by Type
(GLA – Sqm)



BTS projects are lands controlled by institutional players or reliable developers not necessarily with already the building permit in place (but at least on an advance phase) that would need at least a partial pre-let to move forward with the construction or final urbanistic stage.

Contacts

EMEA – Logistics Capital Markets

Edward Plumley
Director, EMEA Capital Markets
edward.plumley@colliers.com
+44 7595 123288

ITALY – Capital Markets

Silvio Sancilio
Head of Capital Markets
silvio.sancilio@colliers.com
+39 338 746 9372

ITALY - Logistics, Last Mile & Data Centers

Faustino Musicco
faustino.musicco@colliers.com
+39 348 460 2502

Domenico Marino
domenico.marino@colliers.com
+39 334 625 0708

Alessandro Daffrè
alessandro.daffre@colliers.com
+39 331 403 7282

Giovanni Mazzacani
giovanni.mazzacani@colliers.com
+39 334 634 8228

Luca Invernizzi
luca.invernizzi@colliers.com
+39 337 163 3111

Matteo Ferri
matteo.ferri@colliers.com
+39 366 571 6790

Research

Simone Roberti
simone.roberti@colliers.com
+39 348 380 6762

Angelica Solfaroli
angelica.solfaroli@colliers.com
+39 338 655 5909

Offices

Milano

Via Giuseppe Mazzini, 9
20123

Roma

Via Leonida Bissolati, 76
00187

www.colliers.com

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