Colliers

Italy

Logistics Market Overview

Snapshot Q3 2023

How much is sustainability worth?

Here is how certifications and a reduced environmental impact increase the value of a logistics hub

Can sustainable logistics be compatible with the market's needs? The answer is "yes" — above all if attention is paid to the increasing importance of environmental sustainability. In a constantly evolving, competitive market such as logistics, the adoption of measures that limit environmental impact has become an essential requirement to achieving unprecedented levels of efficiency and performance. This need is also clearly being expressed by investors, which are more and more interested in companies' sustainable responsibility, in addition to CSR. This is an increasingly important factor when assessing a property, including in logistics.

In recent years, logistics has been the asset class that, with its significant volumes, has driven real estate investments in Italy. Numerous properties have been developed, accelerating grade-A projects or applications for LEED certifications, while also promoting the construction of low environmental impact buildings and the adoption of green practices, starting with the energy used, water consumed, emissions generated or land occupied.

With the growing demand for logistics spaces, a thorough, professional assessment that also considers these new elements has become essential to successfully investing in the sector. In this case, assessment becomes a strategic tool for both investors and logistics operators, making it possible to identify profitable opportunities and anticipate risks.

Sustainability is now a key element of assessment. The less the environmental impact of a building, the lower the costs for the tenant and the greater its value: a virtuous cycle that drives up rent values, attracts more ethical investments, lowers operating costs in the long term and generates a positive impact on the hub's value.

Yet, what does "reduced environmental impact" mean in practical terms? Certifications are a good example. LEED-certified logistics hubs have a greater market appeal. They usually consist of buildings with much shorter transaction and leasing times than "standard" buildings. They open up new development opportunities and new business models. No less importantly, they are much easier to resell. In addition to their clear environmental benefits, the implementation of sustainable logistic approaches also provides an opportunity to lower expenses and increase operating efficiency.

Being LEED-certified offers an additional advantage in terms of interest rates and inflation: if a building is certified, it statistically stays on the market for a shorter period, reducing investment risks for both investors and tenants.

"With the growing demand for logistics spaces, a thorough, professional assessment that also considers these new elements has become essential to successfully investing in the sector."

Investments Key data
Italy

€ 428m
Investments in Q3 2023

43%
Portfolio Deals

5.3%
Prime Yield

-40% & -66%
Investment Trend YoY
(Q3 2023 on Q3 2022 vs 4 quarters yearly rolling data)

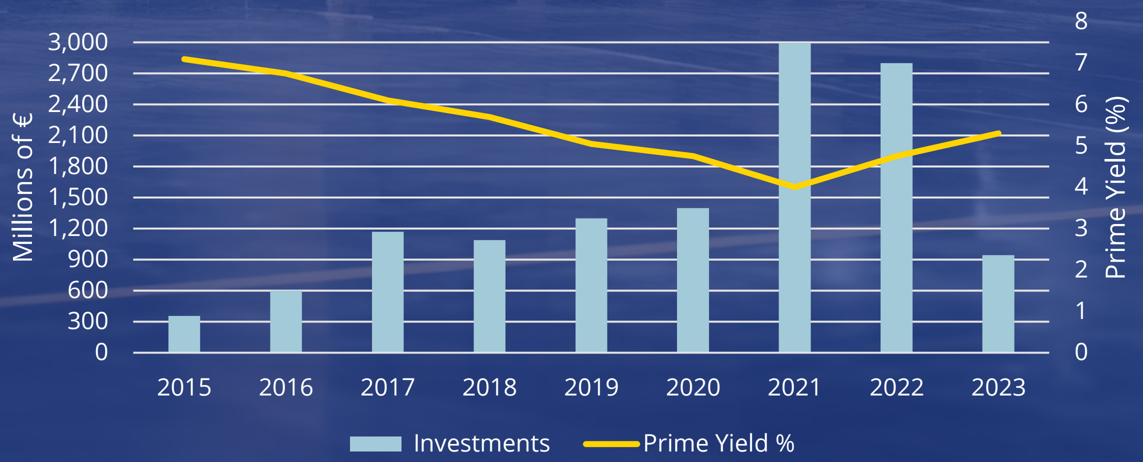
€ 1.24b & € 943m
Cumulative Investments
(Q4 2022-Q3 2023) vs 2023 YtD

+110bps & +30bps
Yield Trend
(YoY & QoQ)

Investment Trends

- In Q3 2023, despite witnessing a significant **increase of 170 million euros** compared to Q2 2023, the asset class performance continues to be influenced by the persistent **macroeconomic slowdown** observed in recent quarters.
- The current **challenging conditions** in the debt market are compelling investors to target **value-added or core+ opportunities**. They are also adopting **equity-based investment strategies**, often coupled with deferred financing, particularly for assets exhibiting robust **rent reversion potential and strong covenants**.
- **Interest** in the logistics asset class remains **robust**, driven by a **positive industry outlook** and substantial **net absorption**. While Q3 2023 recorded **428 million euros** in investments (a 40% decrease compared to Q3 2022), it is noteworthy that this performance reflects the consolidation of several sales processes initiated in previous quarters, offering promising results even for the coming months.
- The **Italian prime yield** has witnessed a significant surge over the past year due to the elevated **cost of debt and rising interest rates** in the bond capital market. After remaining stable throughout Q1 and Q2, the Italian prime yield has now settled at **5.3% NIY**, marking a 100 basis points increase since Q3 2022.
- We firmly believe that the **strong fundamentals underpinning the logistics asset class**, coupled with the consistent and **robust demand** from operators, will instill confidence in investors, enabling them to allocate their capital effectively.

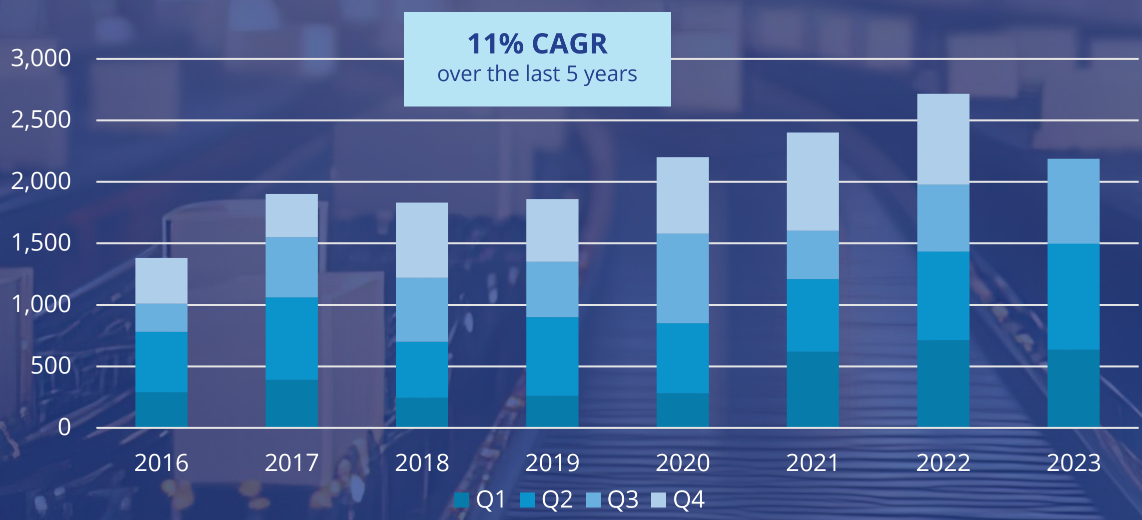
Logistics Investments Evolution in Italy
(Millions of Euros between 2009 and Q3 2023)



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 **(approximately avg. 11% 5y CAGR)**
- Data highlights a **record-breaking take-up** over the last 4Q hitting approx. **2.94m sqm** and a 6% yearly rolling data growth compared to Q3 2022)
- **Take up** registered during **Q3 2023** was among the highest ever recorded (705,000 sqm, 30% rise over Q3 2022). In addition, this quarter **showed 34% overperformance** considering the Q3 avg. results within a 5-year timeframe.
- A substantial portion of the growing demand originates from **retailers and e-commerce operators**, together accounting for approximately **40% of the total** absorption in the market.
- We have observed a notable **increase** in the number of searches for **larger warehouse spaces**, with such requests making up an impressive **68% of the total take-up** for this quarter. These figures consider warehouses exceeding 20,000 square meters in size.
- **Existing assets** have maintained a **vacancy rate below 1.5%,** and the void period is nearly non-existent. This reaffirms the attractiveness of ready-to-use assets, even in locations traditionally considered "secondary."
- **Final clients** are looking for newly built (**Grade A**) and **ESG* compliant warehouses** which in this quarter accounted for almost the totality of the **take up (86%)**. **ESG** is a key driver for the 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

705k sqm
Take-up Q3 2023

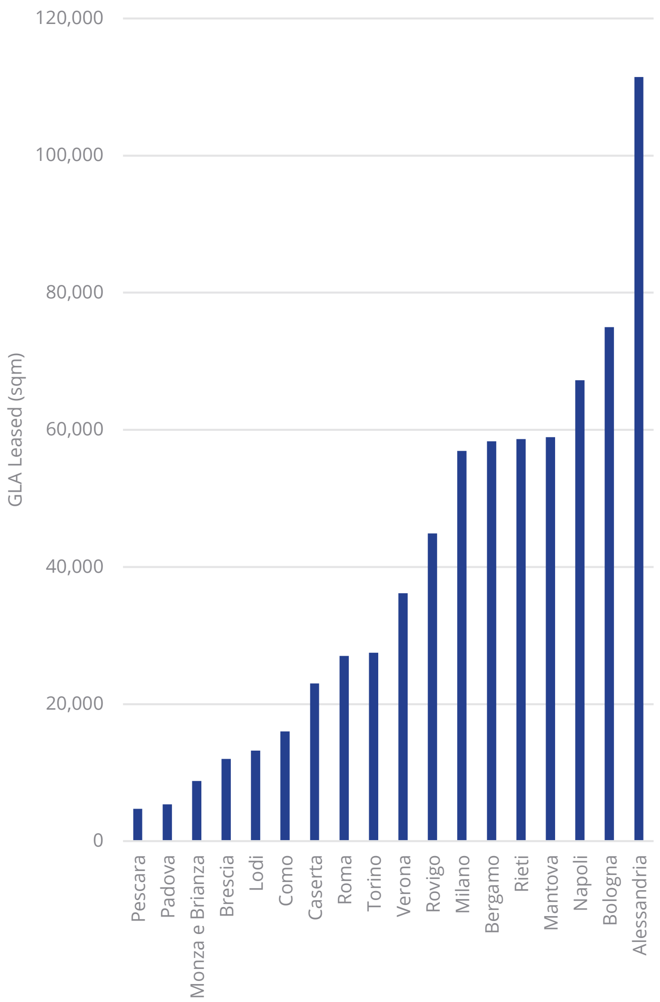
+30% & +6%
Take-up Growth YoY (Q3 2023 on Q3 2022 vs 4 quarters yearly rolling data)

39%
3PL Absorption

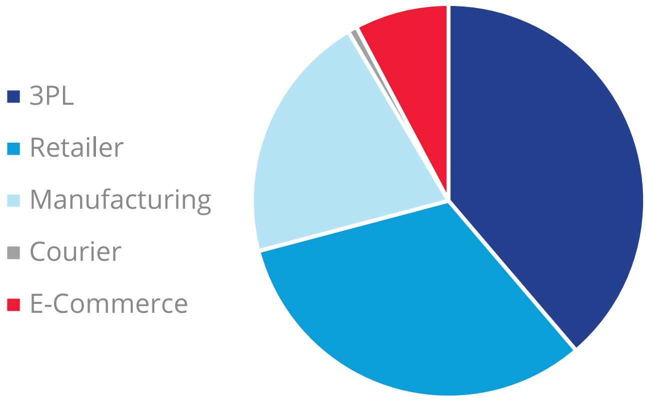
86%
Proportion of ESG compliant* assets leased

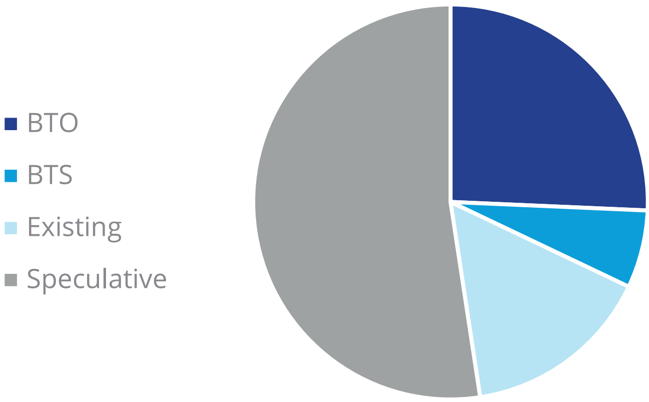
Prime Rents (€/sqm/y)	**Milan**	**Rome**	**Turin**	**Verona**	**Bologna**	**Piacenza**
Q3 2023	65	65	50	55	65	57
3y CAGR	6.8%	7.7%	6.6%	9.3%	9.7%	10.1%

Q3 2023 Take-up by Provinces (GLA-sqm)

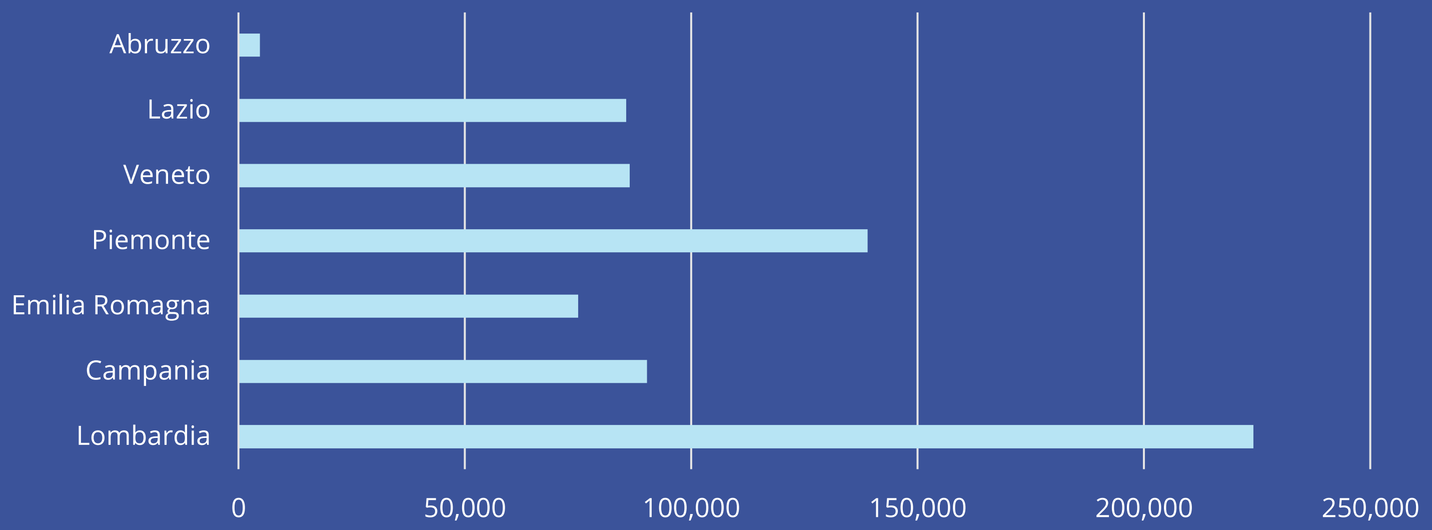


Take-up Characteristics Considering Type of Tenants, Assets Types and Drivers



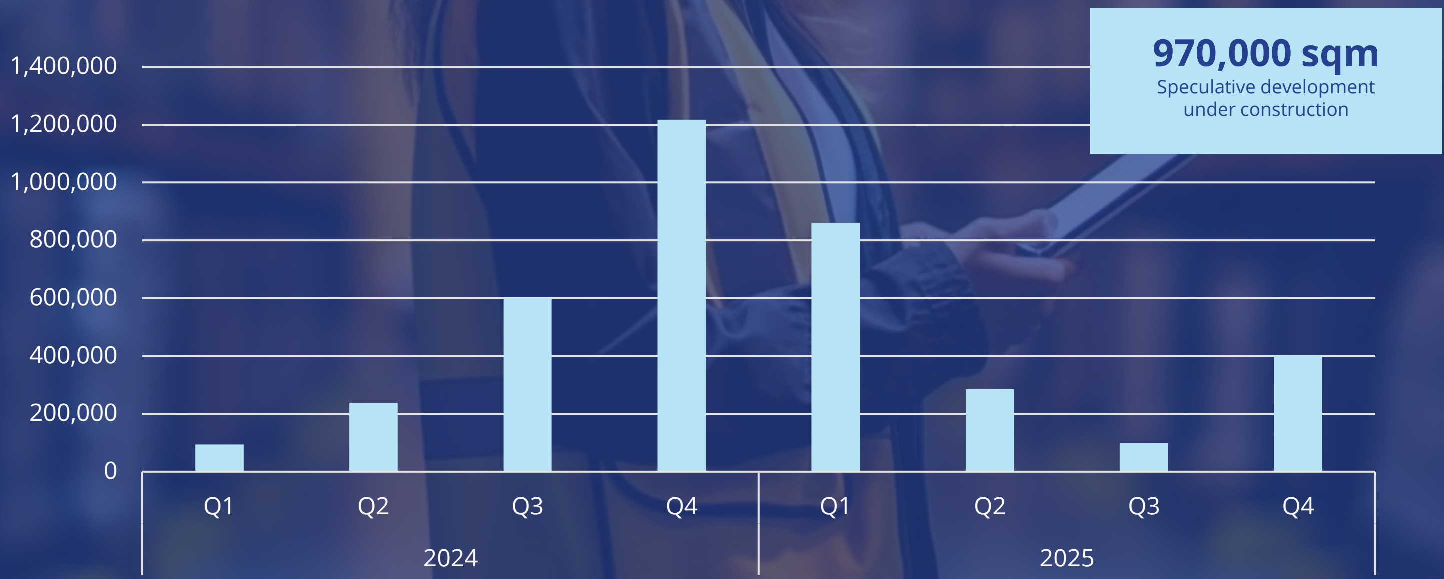


Take Up Distribution by Regions



Vacancy & Pipeline
Italy

Under Construction Projects & Planned Potential Speculative Developments in the coming years (GLA sqm)

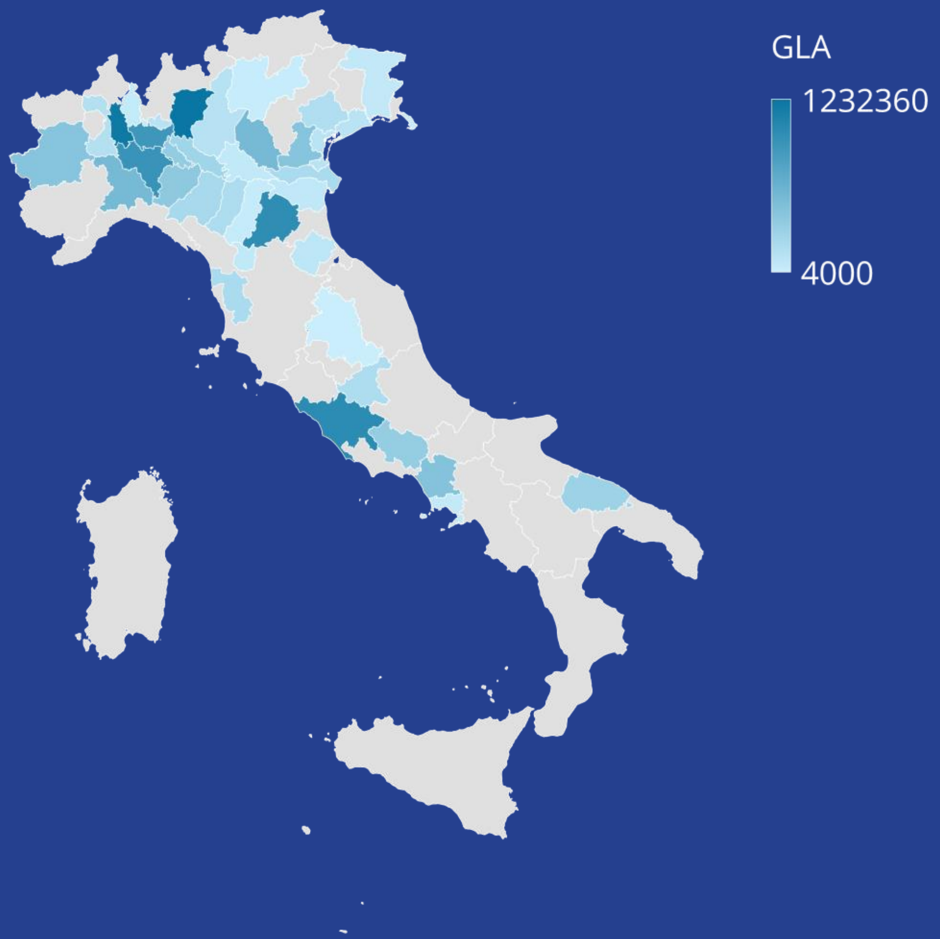


Data shows values net of current negotiations (apprx.820ksqm) that will be part of future take up at completion.

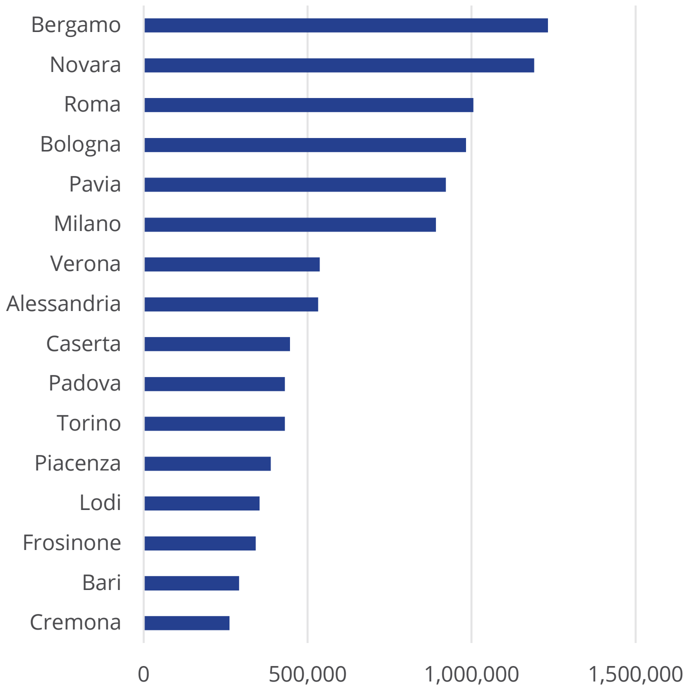
Fast Facts
on potential development

- The need to operates within **ESG** compliant assets is pushing firms to look for new sheds. Therefore, 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 remains stable **below 1.5%** all over Italy considering few sub-markets where the vacancy rate is closer to zero.
- High costs of financing, high construction costs as well as and difficulties in getting building permits pushed a few projects to drop or deliver with a slight delay as well as to rising asking rents. **2.2m sqm will come to the market as speculative developments by Q4 2024 (currently 970,000 sqm are under construction).**
- Despite the uncertainty recorded lately, we are still seeing a strong demand for logistic developments that can deliver above average returns (rent reversion being a strong element).
- 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.
- A new **"reshoring**" trend is challenging global supply chains. Firms, also in Italy, start to prefer sourcing products —such as clothes and computer chips — closer to home, turning away from manufacturing powerhouses like China. Investors are looking to invest into industrial assets as a way to diversify their portfolios (at the moment mainly made by logistic assets).
- **Sale & leasebacks** are witnessing a boost. These types of transactions may offer a more attractive capital solution for companies now.

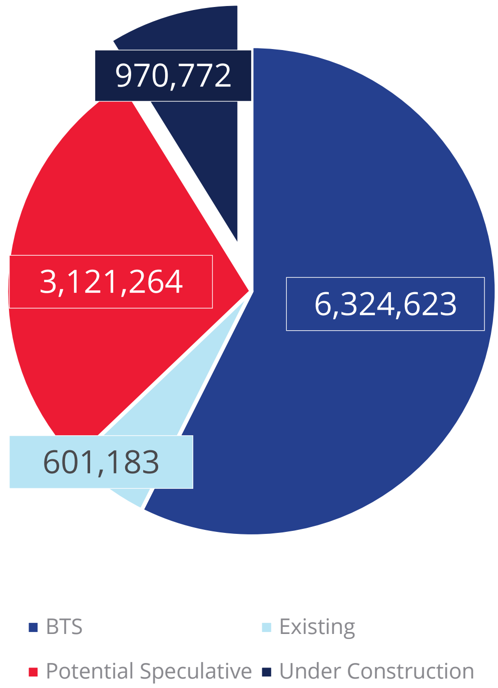
Available GLA potentially entering the Italian Logistic Market in the next 2 to 3 years. Pipeline concentration divided by Provinces



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.

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