Logistics

Italy | January 2024

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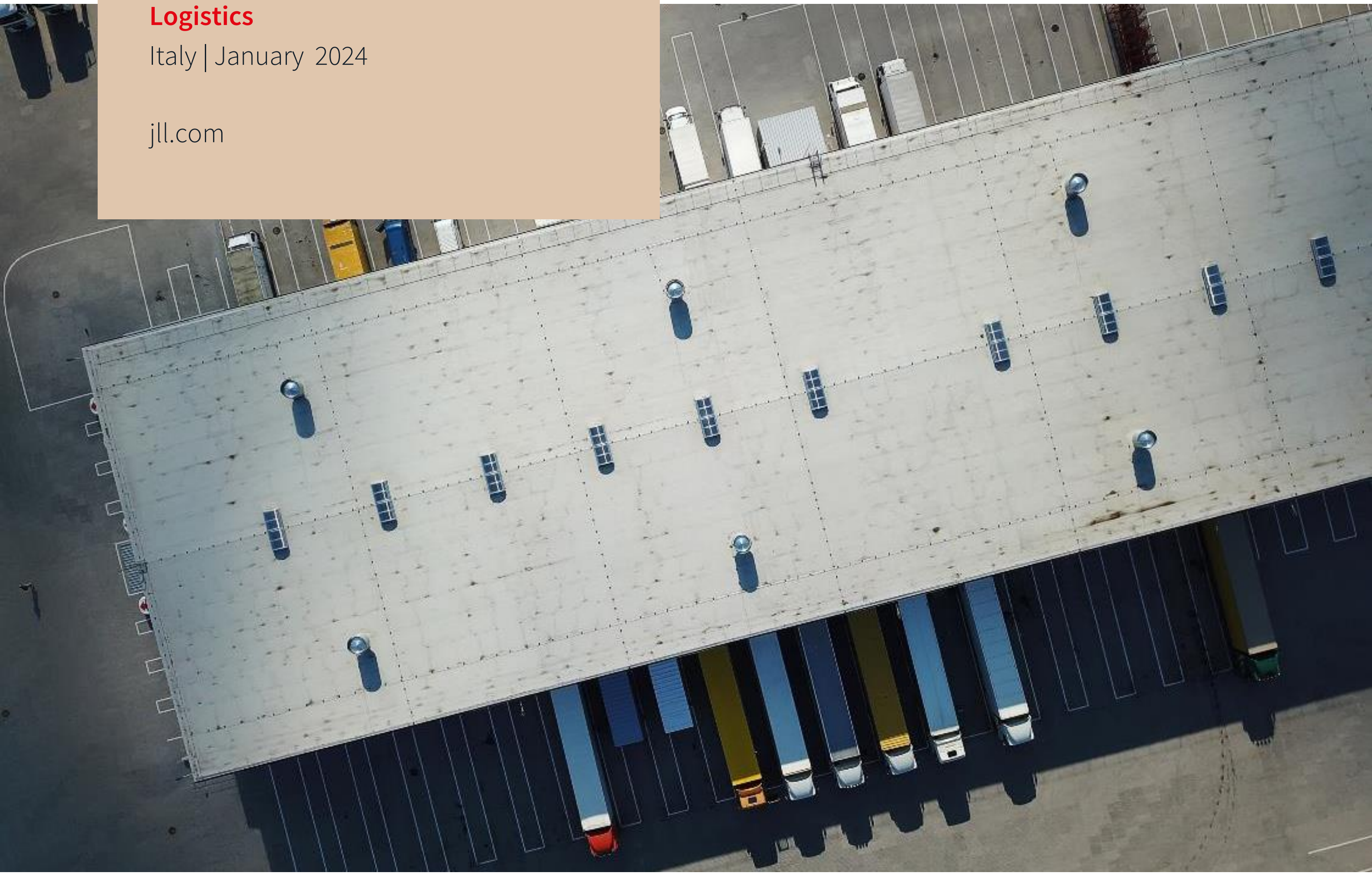

Logistics snapshot

Q4 2023 – Market Overview

SEE A BRIGHTER WAY

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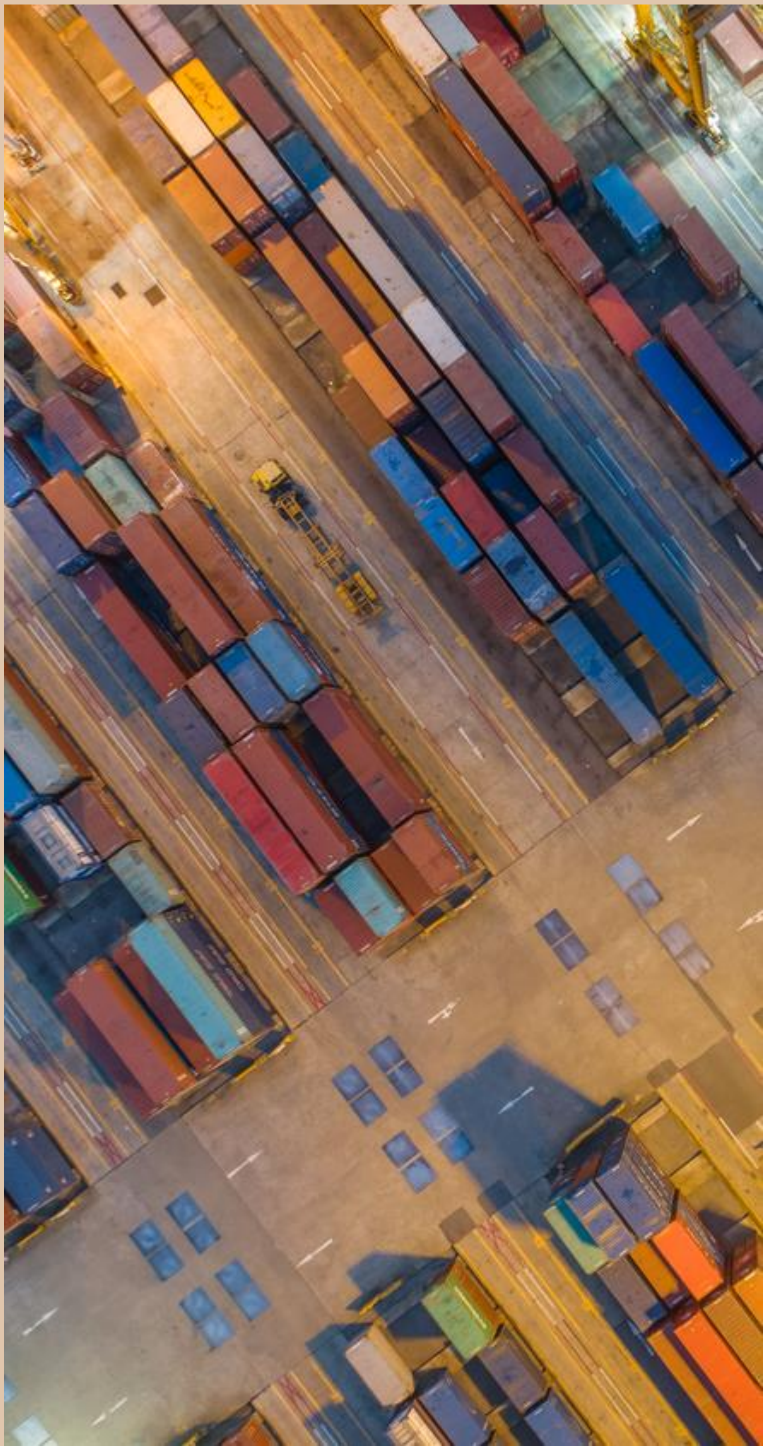


The Italian economy is expected to grow by 0.5% in 2024

Looking ahead, latest market projections indicate an average GDP growth of +0.5% in 2024. The impact of inflation is slowing down and there are signals that interest rates will fall towards the end of 2024.

Logistics investment remains subdued

Italian industrial and logistics (I&L) investment volumes fell by 42% in 2023, a better performance if when compared to the wider pan-European results. Nonetheless, the I&L sector maintains its position as the first asset class in the Italian Real Estate Investment market, in terms of investment volumes (30% out of total), and the asset class remains a target for real investors thanks to its enduring market fundamentals.

Logistics take-up driven by 3PL demand

The Italian logistics occupiers market remained robust in 2023, confirming an overall take up in line with the record of 2022, and +14% above the 5 years annual average. Demand was driven by grade A assets and by 3PLs operators, seizing the opportunity created by the growing demand as the retail and e-commerce sectors adopt more streamlined inventory management practices.

02
The Italian Economy

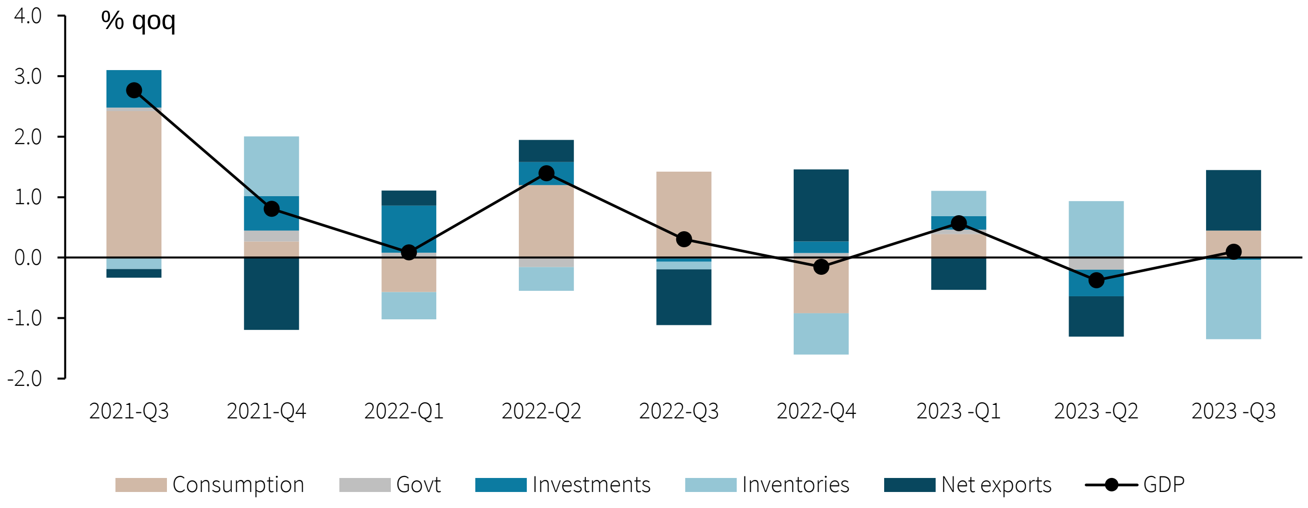
Projections for Italian economy indicate an average GDP growth of +0.5% in 2024

In Q3 2023 the Italian economy posted a GDP increase of 0.1% in comparison with both the previous quarter and the third quarter of 2022. Q3 data were impacted by the continued weakness in the manufacturing PMI – Italian industry despite the continued resilience in more services-oriented sectors. Net exports and consumption drive positively GDP evolution.

Latest market projections indicate an average GDP growth of +0.7% in 2023 and a +0.5% 2024 forecast.

The impact of high inflation and interest rates persists, but there are signals that, overall, economic conditions are on an improving trend: Inflation remains high by historic standards, but it has peaked and is now slowing quickly and it's going to stabilize below 2%; commodity prices have fallen, supply chain disruption and costs have eased; interest rate tightening cycle is drawing to an end.

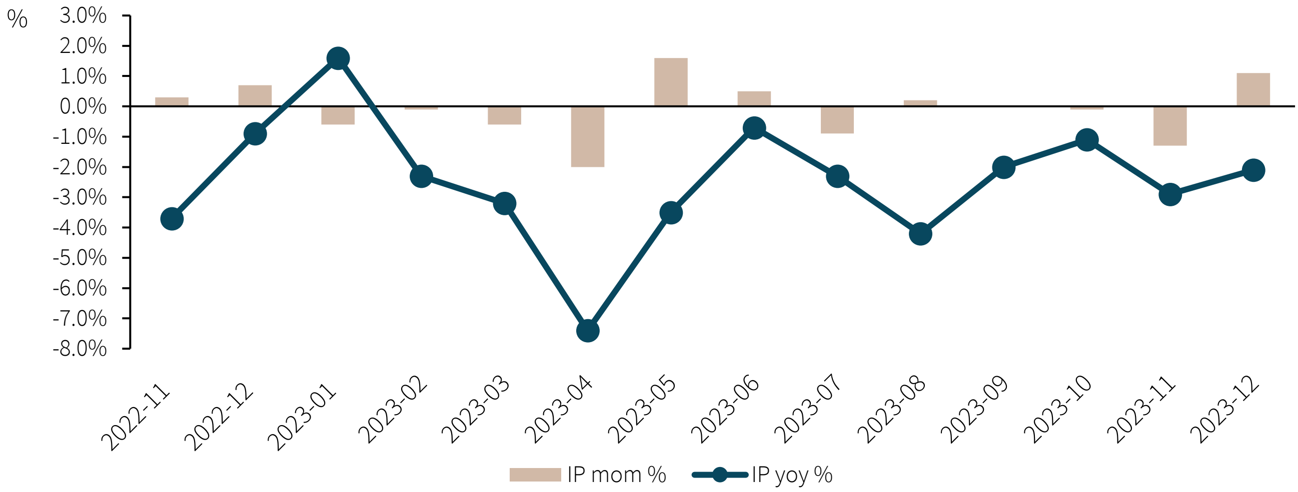
Contribution to GDP growth QoQ%



Source: JLL Research elaborations on ISTAT data

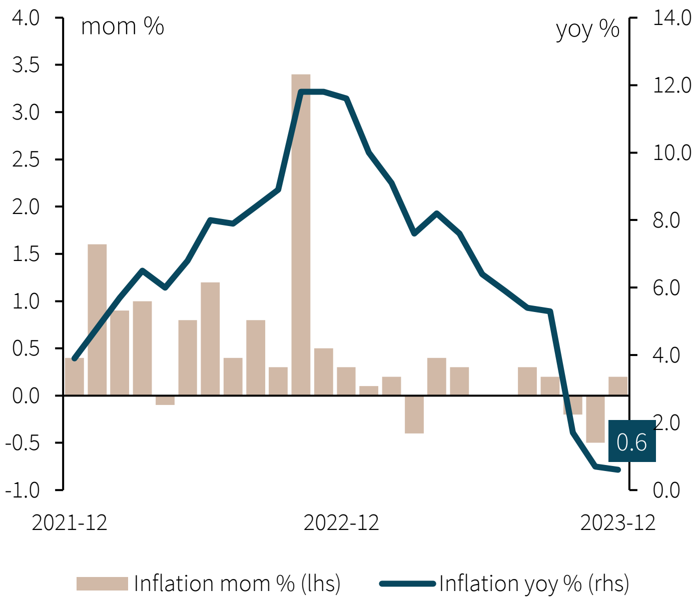
Industrial production in **December** posted a seasonally-adjusted increased of 1.1% **MoM** (-2.1% YoY on a calendar adjusted basis). The change of the average of the last three months with respect to the previous three months was -0.5%.

Industrial Production - December 2022 to December 2023



Source: JLL Research elaborations on ISTAT data.
Note: seasonally-adjusted qoq data; calendar-adjusted yoy data

Annualized headline **inflation** (HICP) reached **0.6% in December 2023** (down from 0.7% in November 2023). Looking ahead, headline inflation should continue to slow down throughout 2024. Core inflation, however, will take longer before it starts to come down, despite recent developments in the energy market.



Source: JLL elaborations on ISTAT data

Forecasts (Italy)	**2023F**	**2024F**
Gross Domestic Product	0.7	0.5
Industrial Production	-2.3	1.2
Consumer Prices (%)	5.6	1.6
Govt Balance (% GDP)	-5.3	-4.5
10yr govt bond yield (% EOP)	3.7	4.0

Source: Oxford economics of January 2024
Data: annual percentage changes unless specified

3. Logistics Capital Markets

The broader market - EMEA

European I&L investment activity reached a total of approximately **€ 26.3 Bn** in 2023, down by around 50% YoY, similar to the level seen in 2017, despite the % share on total CRE investment remains above pre-Covid levels. Investor activity has been largely focused **on assets sized** between € 25-75 million. However, there is scope for optimism as the sector remains a key target of real estate investors, supported by still healthy market fundamentals.

	Investment in € Billion		YoY
Germany	6.6	↓	-21%
UK	4.9	↓	-56%
Nordics	4.0	↓	-41%
Southern Europe	3.2	↓	-43%
France	2.6	↓	-60%
Benelux	2.0	↓	-73%
Italy	1.8	↓	-42%

Prime yields are moving towards stabilization in most markets, after a significant softening already recorded by Q4 2022, with the European average increased by 40 bps YoY and Italy moving to a 5.2% net-on-gross yield on the same basis (5.5% net-on-net yield), in Q4 2023.

Q4 2023 yields by market (vs Q3'23 and Q4'22 yields)

Source: JLL Research elaborations

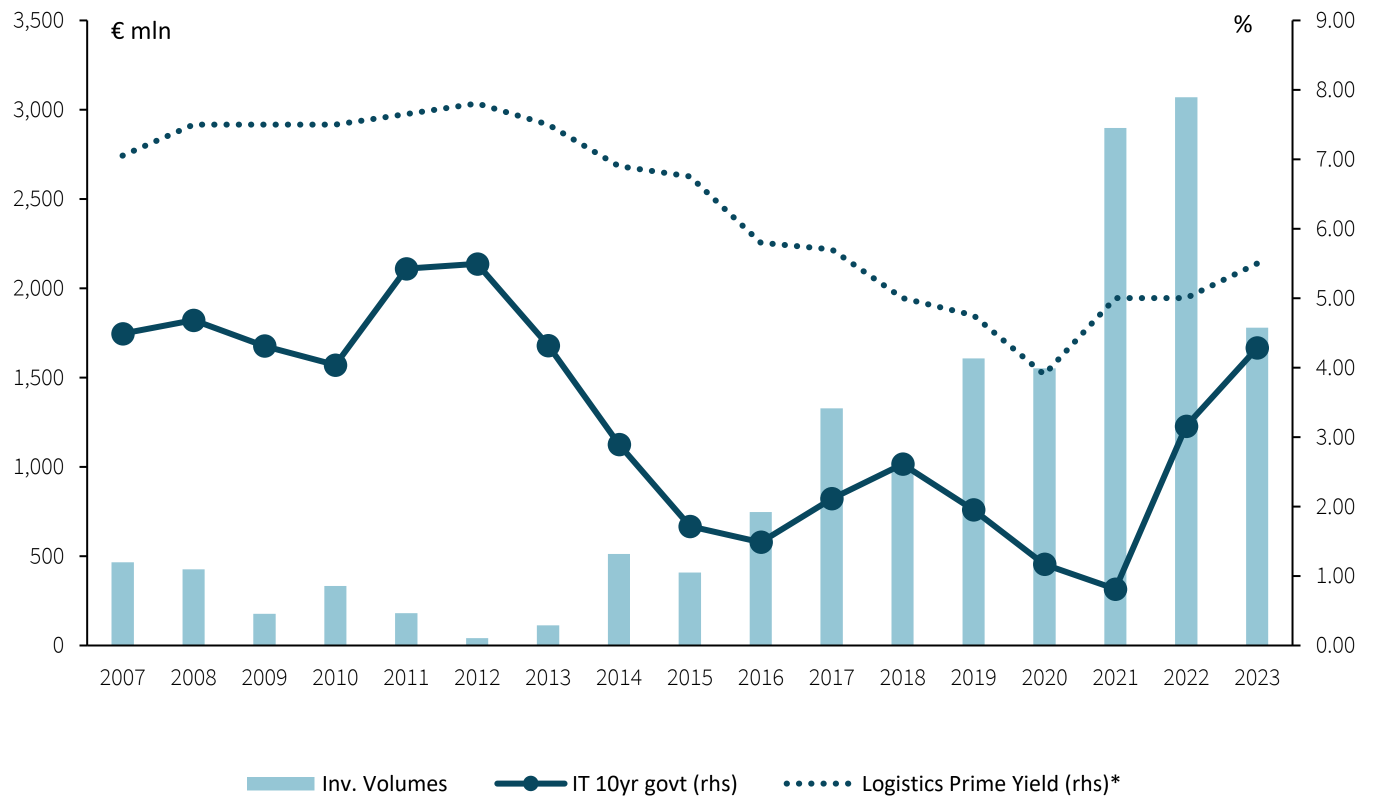
The national market - Italy

Logistics volumes remain subdued despite the continued investor demand

2023 reaffirmed investors' appetite for Italian logistics with a total annual investment volume of **€ 1.8 bn**. Logistics stood out as the most alluring asset class in the Italian Real Estate Market, capturing almost 30% of total invested capital. Nevertheless, ongoing global geopolitical uncertainties dampened investment activity in comparison to 2022, leading to a year-on-year decline of -42%. After a slow start driven by rising uncertainty and macroeconomic headwinds, the second half of 2023 has shown signs of improvement, with Q4 registering a 40% increase over Q3 and more than double compared to Q4 2022.

The solid positive trend in occupier demand and **tight supply-demand dynamics** continue to attract investors across risk profiles, albeit core activity was particularly penalised across EMEA markets, both in terms of players who already have long standing presence in the Italian market and **newcomers** who are expanding their EMEA strategy into Italy.

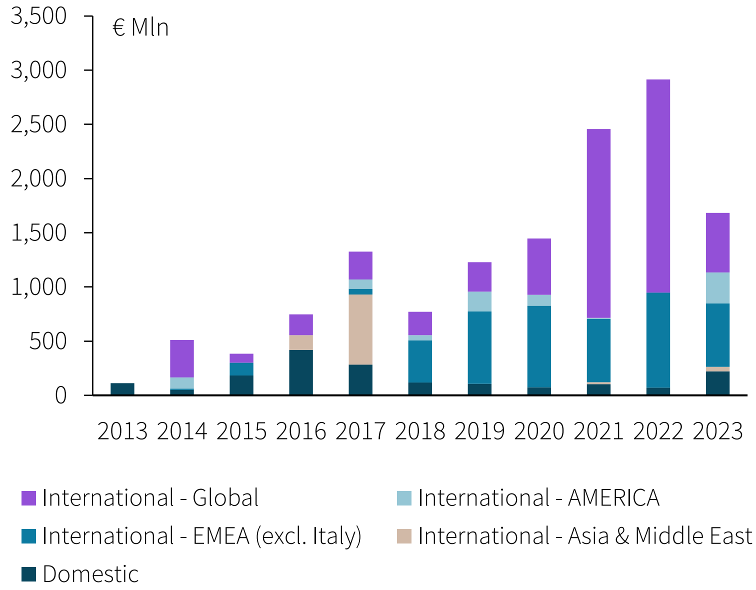
Logistics Investments Volumes - Italy



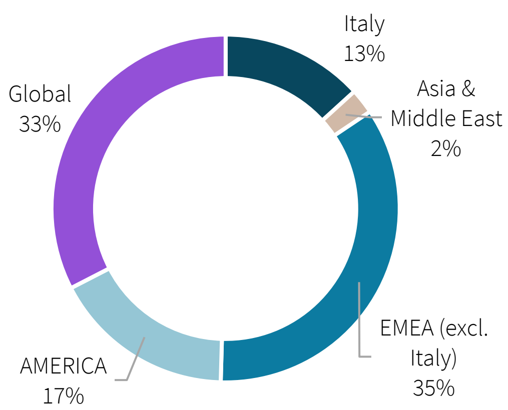
Source: JLL Research | Note: prime yields are calculated as net-on-gross end-of-period estimates assuming a 30bps negative spread on net-on-net yields.

Approximately 87% of the total invested capital is international, with some signs of domestic activity as well which was, however, in part aimed at residential conversion.

Logistics Investments Volumes by Capital Source



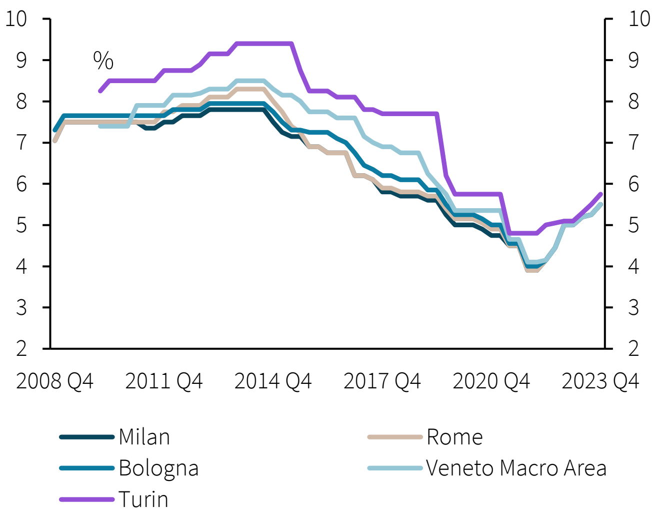
2023 as a % tot



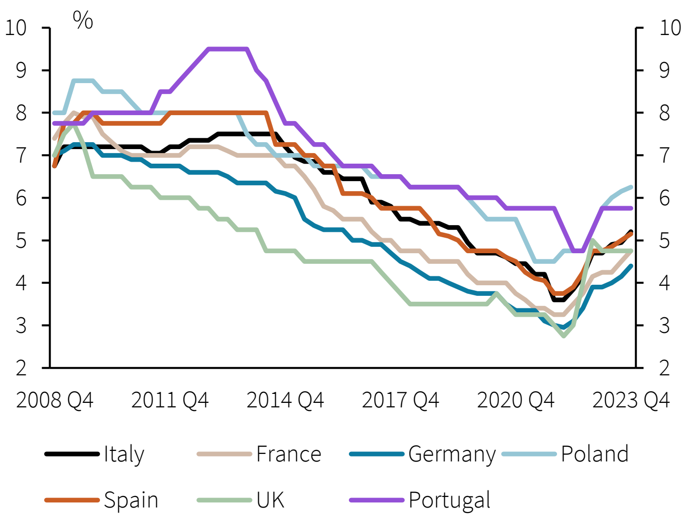
Note: we only considered transactions by capital of known origin

Prime net yields have risen in Q4 2023, reaching **5.20%** net-on-gross (5.50% net-on-net), reflecting the resurgence of investment activity. As global inflation slows, central banks are expected to gradually ease their monetary policy tightening, leading to improved financial conditions.

Logistics Prime Yield (net-on-net) Milan vs other geographies



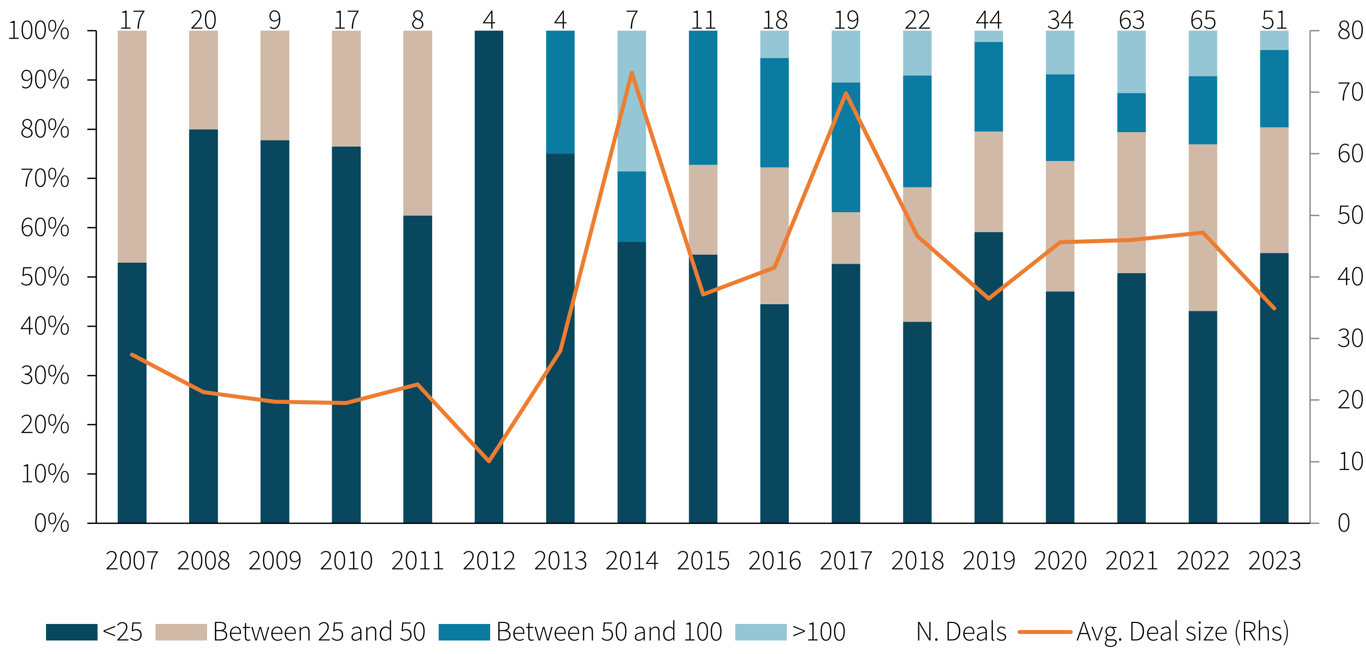
Logistics Prime Yield (net-on-gross) Italy vs other EMEA countries



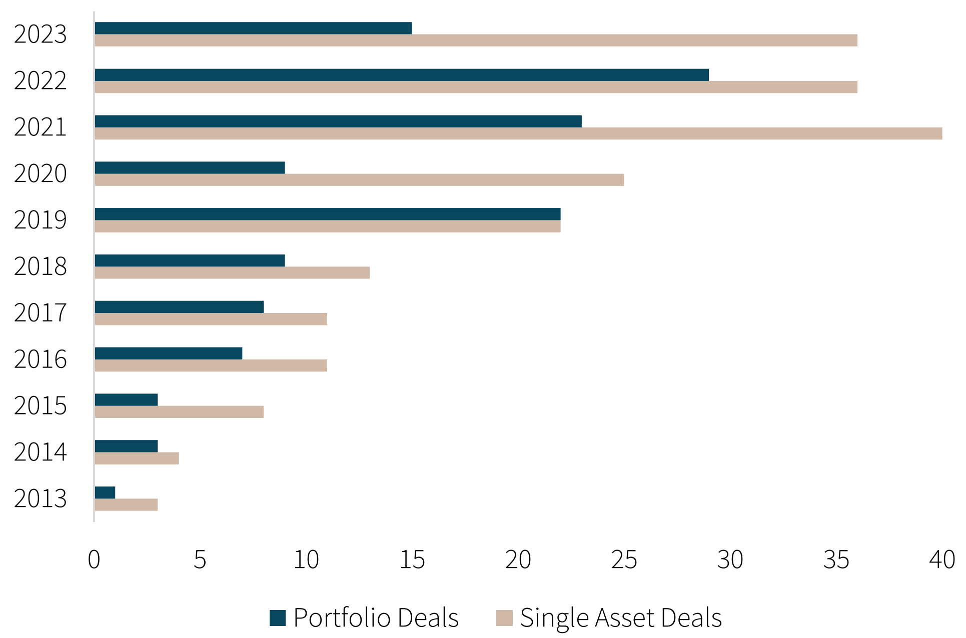
Note: the difference between net-on-net yield and net-on-gross yield stands at around -30bps

Recent global market uncertainties have directed investors towards **smaller-sized deals,** constituting the largest share of transactions, with an increasing appetite for the ticket size range € 10-25 M; in Italy, the average deal decreased to 35 M in Q4, **while remaining at structurally higher levels than In the past.** The desire for larger portfolios is emerging as new players seek to establish their foothold in the market.

Logistics Investments by Ticket Size - Italy



N° of Logistics deals by deal Type - Italy



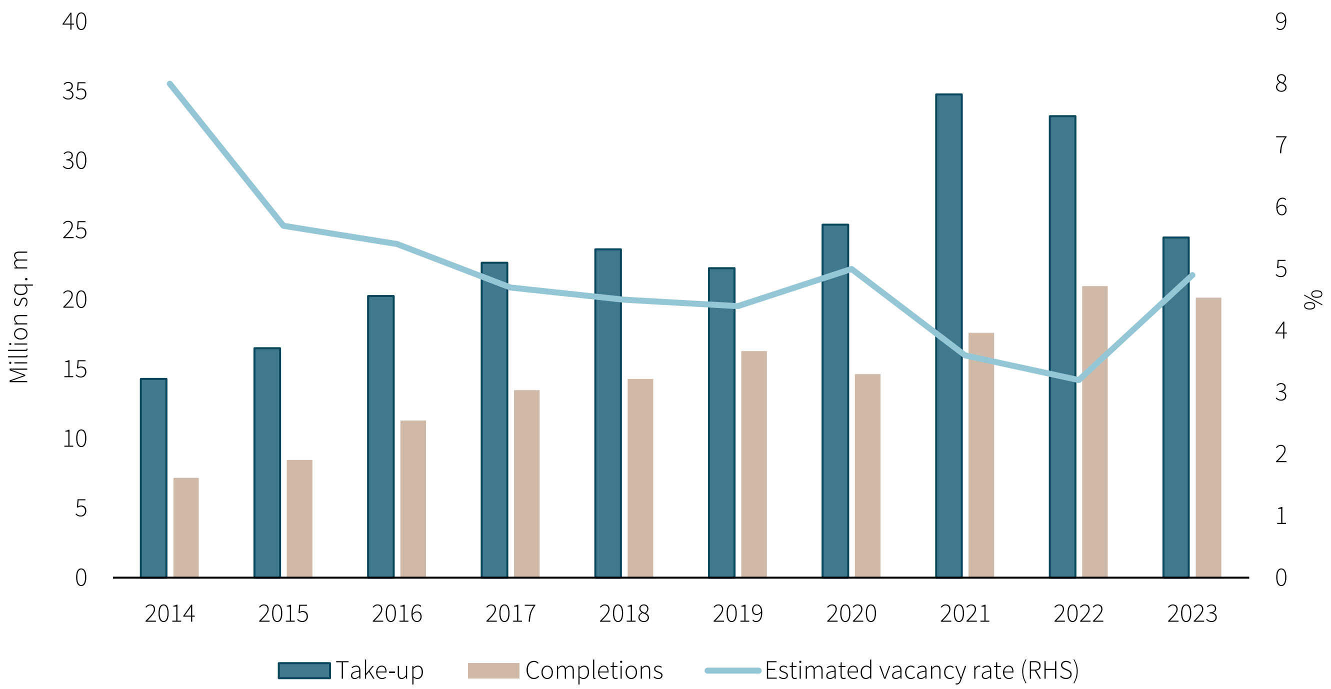
Source: JLL Research elaborations

4. Logistics Occupiers Markets

Europe's logistics occupier markets remain resilient, albeit down on the strong levels in 2021-2022

Europe's logistics occupier markets remain more cautious in response to economic uncertainty and supply constraints. Take-up across the 13 major logistics markets totaled over 24.5 million sqm 2023, 26% lower if compared to the record numbers seen in 2022. Despite this decline in occupier activity, there remains pent-up demand. Demand is expected to remain resilient as occupiers work out their different inventory strategies and convert to energy-efficient, ESG-compliant space.

Logistics take-up and completions – EMEA



Source: JLL Research elaborations

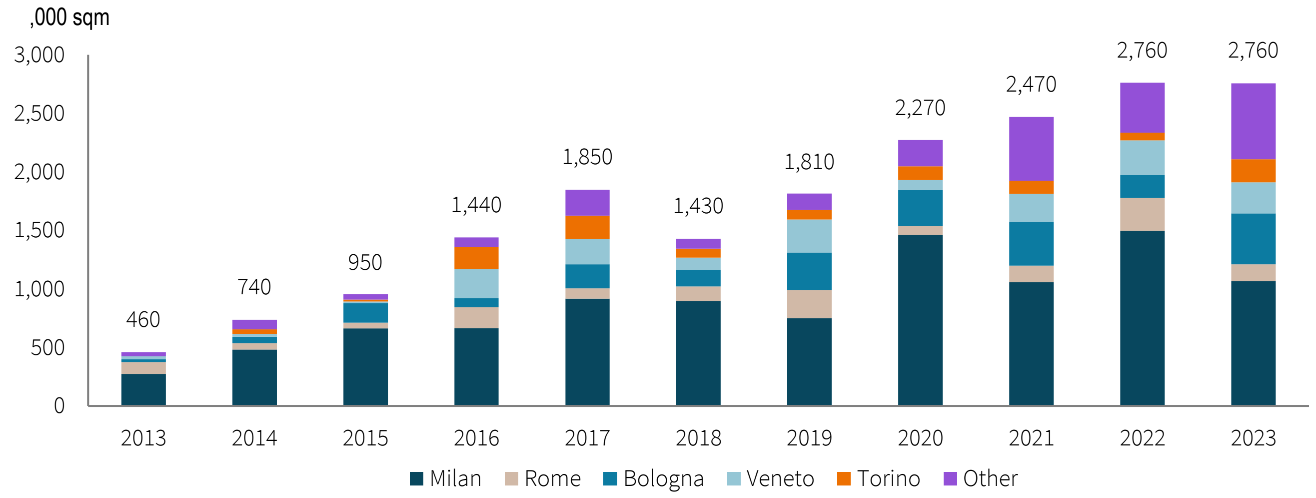
Structural trends continue to drive the need for supply chain alignment and reconfiguration. However, these **demand requirements** are currently colliding with **squeezed supply levels for high quality space.** Validating our view that pent up demand exists if suitable space is available, YoY take-up levels in 2023 were either stable or higher in markets where supply levels are currently higher and more high-quality supply is developed on a speculative basis.

The national market – Italy
Logistics leasing stable in take-up

In Italy, take-up in 2023 has shown a dynamism that has been able to confirm the record volume achieved in 2022, the highest level in the last 10 years, with around 2.8 million of sq m absorbed. **Demand** has therefore **remained strong and** keeps being **driven by 3PLs** with the capability and presence to meet and sustain such a high demand for space.

In terms of size band distribution, in 2023, there is a sustained level of interest, particularly for **smaller units** with the number of deals below 10,000 sqm representing over 30% of the total and 11% in terms of take-up (sqm). This size generally involves existing assets nearby city hubs and for immediate needs. On the opposite side 12 big deals equal and above 50,000 represented 23% of total take-up. In this case, demand is driven by more flexible timing and often involves BTS (Built To Suit) assets or under construction speculative assets.

Logistics Take-Up



Source: JLL Research elaborations

Since global geopolitical uncertainty continues to weigh on investment activity, speculative developments have slowed down and are focusing on consolidated markets which still represent the largest share of the overall gross absorption (77% for the **Northern Italy** markets). **Central Italy markets** are drawing more attention (12% of deals), along with **Southern Italy** (11% of deals) with institutional developers confirming their interest on BTS schemes and some also starting with speculative activity to address the lack of institutional grade stock.

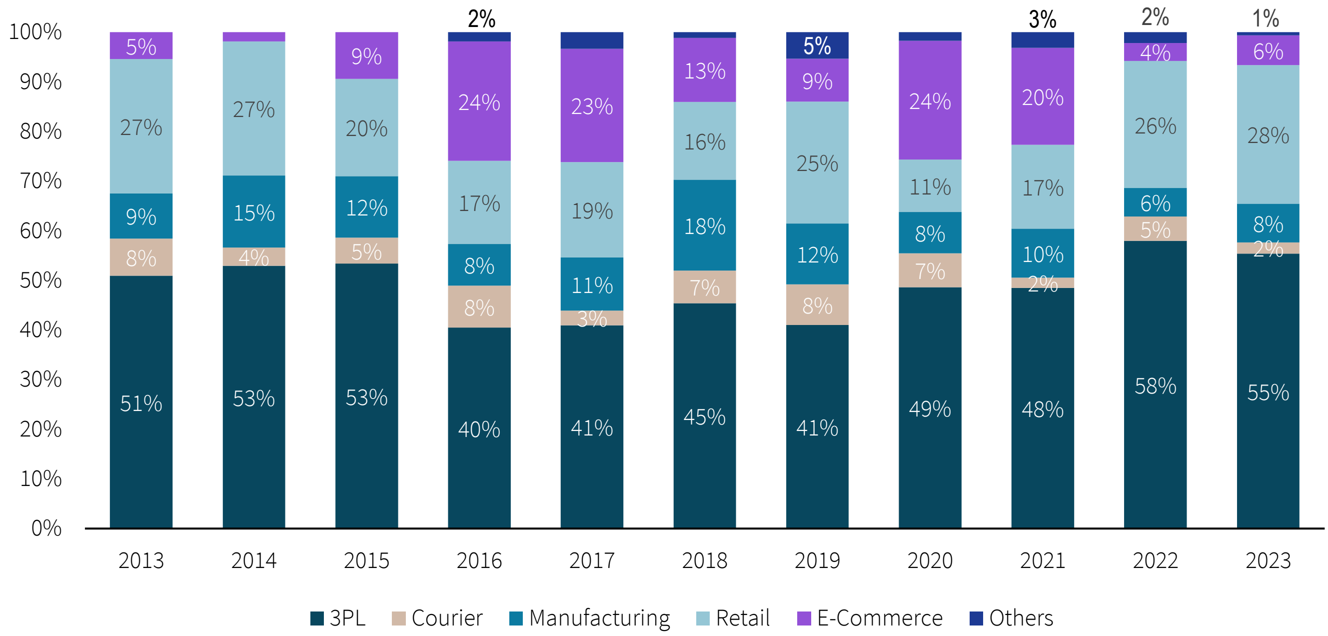
This is reflective of a growing trend with **tenants looking beyond established logistics hubs** and markets as they streamline and expand their supply chains to serve their growing business and consumer customer base. Such trend has already started to reflect on investors and developers acquisition strategies, opening up new target markets with a segmented approach to client type and price point.

3PL operators absorbed more than half of the leased-up space in 2023 thanks to their ability to manage space emergencies, their widespread presence on the territory and the knowledge of strategic needs.

Although e-commerce operators still show interest, the industry has reached a more stable level after a period of rapid growth. This has been offset by an increase in 3PLs and retailers.. Accordingly, activity by traditional retailers, continues to hold ground as retailers continue their supply chain restructuring, absorbing 28% of the overall space in 2023.

Logistics Take-Up by occupier sector

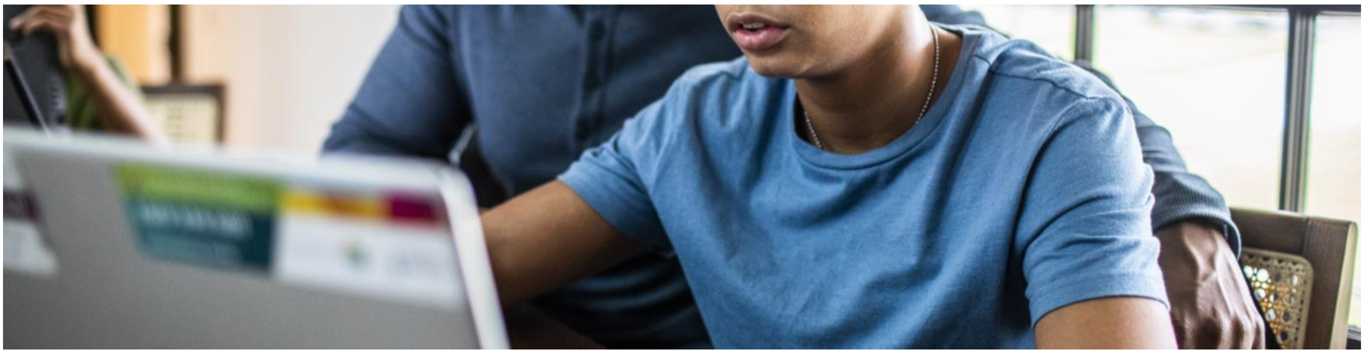
Out of total take-up



Source: JLL Research elaborations

A rise in transactions from Pharma operators is also noteworthy, despite their focus on generally smaller sizes and the high specificity of their requests it tends not to express itself fully.

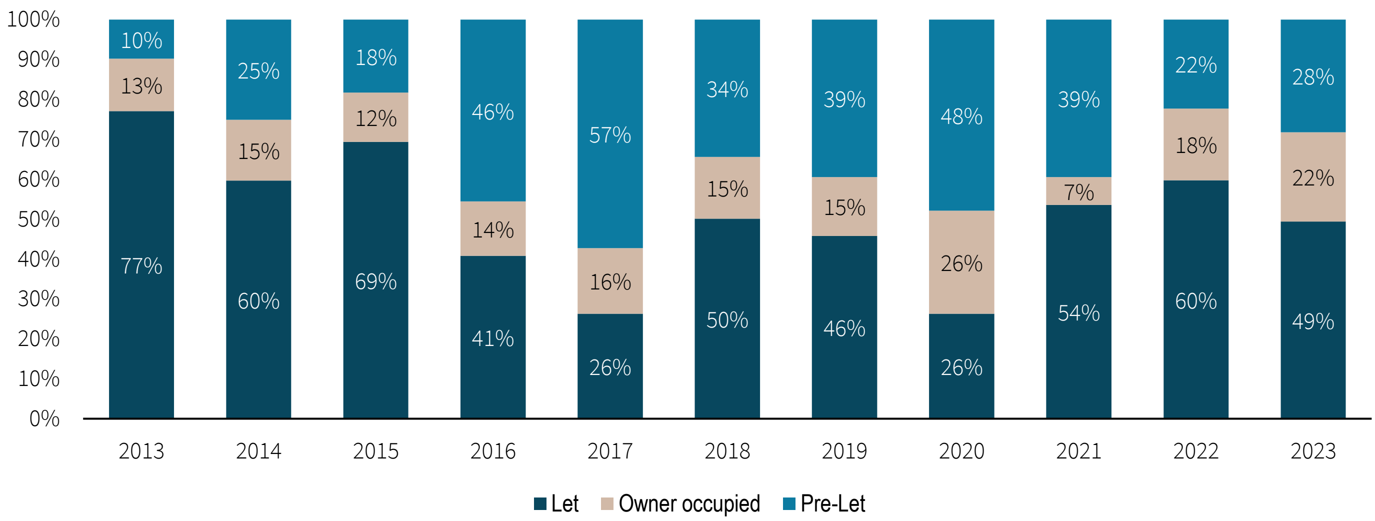
Indeed, 5 out of 12 of the **largest transactions** (more than 50,000 sqm) were all related to **retail operators,** while 4 of these involved **3PL operators**.



With pent-up demand still robust and lack of readily available assets, tenants are diversifying their strategies for substitution and expansion, driving strong dynamics in both the development and existing assets space.

Logistics Take-Up by type

Out of total take-up (,000 sqm)

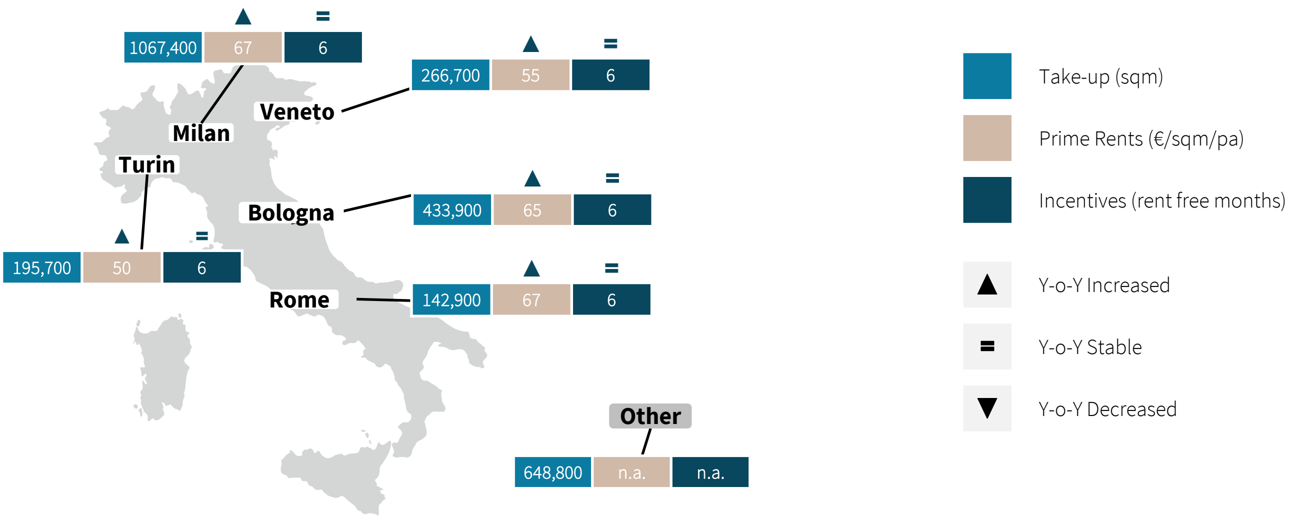


Source: JLL Research elaborations

The increase in **Pre-let** (28% of total take up) reflects two elements. On one hand, and crucially, tenants with more immediate needs have contributed to an unusually fast absorption of schemes that were originally developed on a speculative basis. On the other, tenants reviewing their supply chain, or that need specific products, continue to look at Bult-to-Suit opportunities.

In addition to the absorption of newly developed assets, location-focused tenants have been also willing to occupy less performing assets, often discounted in comparison with new assets. Due to the lack of alternatives and the absorption of almost all the vacant space in such locations also this type of asset has benefited from a rise in rents.

Those with a broader market area in mind are likely to target more modern assets with a close completion date and are willing to move away from prime locations for a reduction in rents.

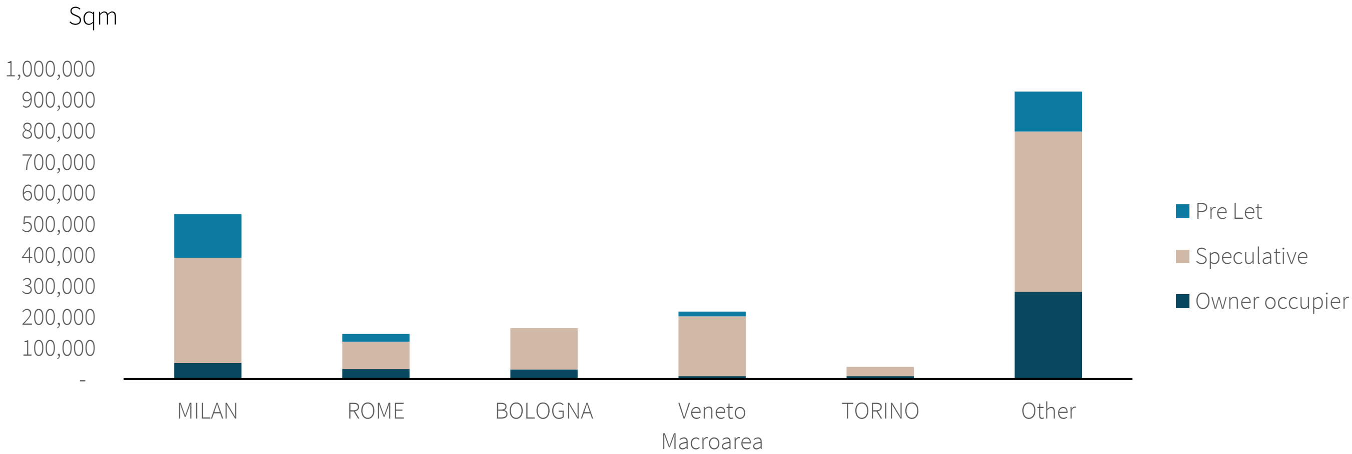


Supply-demand imbalance driving rental growth

As a result of those dynamics, **rents** have steadily increased across all markets, pushing **Prime Rents** in **Milan and Rome** to **67 €/sqm/pa** (+3% up last quarter and +12% YoY, for both cities), to **55 €/sqm/pa** in Veneto (+4% up last quarter and +10% YoY), to **65 €/sqm/pa** in Bologna (up last quarter for 7% and +14% YoY), and to **50 €/sqm/pa** in Turin (+4% QoQ and +6% YoY). Prime rents for **last mile assets** are stable in both **Milan** and **Rome (110 €/sqm/pa)** both QoQ and YoY. Rental growth has been driven by tight supply across locations and asset quality, as tenants struggle to find available space for their clients.

The stable take-up activity of this quarter has been accompanied by a good level of **development activity**, on the back of strong acquisition activity in 2021 and 2022: over 1,900,000 sqm were completed in 2023. Around 54% of new completed assets were developed on a speculative basis reflecting a strong conviction in demand fundamentals, in line with pre-let results (34%), followed by owner occupation ones (12%).

Pipeline of future logistics completions 2023-2027



Source: JLL Research elaborations

For the immediate future, development activity, while continuing to be affected by constraints from a town planning and approval point of view, is likely to benefit from an improving environment in terms of declining construction costs.

Milan

Take-up	1067,400 sqm
Transactions	56
Rent	67 €/sqm/pa
Last mile rent	110 €/sqm/pa
Completions	700,600 sqm

Rome

Take-up	142,900 sqm
Transactions	11
Rent	67 €/sqm/pa
Last mile rent	110 €/sqm/pa
Completions	179,500 sqm

Veneto

Take-up	266,700 sqm
Transactions	15
Rent	55 €/sqm/pa
Completions	131,300 €/sqm/pa

Bologna

Take-up	433,900 sqm
Transactions	25
Rent	65 €/sqm/pa
Completions	81,000 sqm

Turin

Take-up	195,700 sqm
Transactions	11
Rent	50 €/sqm/pa
Completions	104,900 sqm

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Looking ahead

Despite challenging operating conditions, improving market sentiment will encourage return of investment in 2024.

- **All real estate asset classes** have **suffered** in 2023. Nevertheless, I&L ranks at the top of investment volumes in Italy.
- Looking ahead, while the economic environment still feels challenging, inflation is on the way down and is forecast to **continue to decline** over the coming months, stabilizing around 2% target.
- **More stable interest** rates will increase visibility and **confidence in underwriting,** which will in turn improve market sentiment and encourage return of investment in 2024.
- As a result, upwards pressure on **prime yields** is expected to start cooling down but financing costs will continue to weigh on investment decisions.
- The softening GDP growth and reduction on consumption could reduce the increasing pace of **Rents** compared to past years trajectory.
- Logistics Market: Expectations are for improving activity in the Logistics sector, with an increasing focus in Data Centers.
- The Italian logistics occupiers market is expected to remain robust in 2024. Operators demand is still very high, but the level of take-up might be affected by the amount of square meters that will be developed during the year to increase the availability of space.

Our Three Scenarios for the Italian Logistics Market in 2024

Base case

ECONOMY

- **Geopolitical uncertainty** has increased and is unlikely to abate with elections in major economies in 2024
- **Inflation** has fallen as energy and commodity prices have fallen. Risks are to the upside from renewed supply
- **Interest rates** are at their peak and are widely expected to fall in 2024

CRE

- Despite **tighter lending conditions** there remains consistent demand for borrowing, particularly for refinancing existing debts, as well as for capex finance. **Opportunities** are likely to build, as the volume of debt maturities increases
- **Prime yields** reach the top of their cycle. The cost of debt funding remains high
- **Rental growth** to soften as inflation eases

Upside case

ECONOMY

- **Geopolitical uncertainty** will not impact worldwide, and resilient economy allows confidence to remain stable as future conditions are becoming more predictable
- **Core inflation** has started to fall rapidly and will remain around 2% throughout the year
- **Interest rate** outlook is more predictable as there are fewer changes ahead in 2024. More predictable rates make underwriting easier

CRE

- **Investments** strengthen as investors gain confidence to start deploying allocated capital. Most markets perform well
- **Prime yield** decompression stops in the short term and a new compression phase starts. **Rents** expected to grow in all markets and submarkets

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Downside case

ECONOMY

- **Geopolitical uncertainty** increases and is unlikely to abate with elections in major economics in 2024
- **Inflation** is not beaten yet and risks of a new price shock are rising; upside risk to inflation include supply chain fragmentation, climate shocks and armed conflicts
- Central banks should keep **interest rates** high for as long as necessary to bring and stabilize inflation down

CRE

- **Investments** suffer as investors flee to core markets. Most markets deteriorate
- **Prime yield** decompression set to continue for a while before reverting to long run average. **Rental growth** suffers in recession-hit sectors while remains stable or shows moderate growth in resilient segments

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