Italy

# Logistics Market Overview

Snapshot Q1 2024

# LOGISTICS:
# WHAT TO EXPECT FROM 2024?

What was the impact of 2023, a year characterised by unprecedented complexities and challenges, on one of the best-performing sectors in recent years? The increase in interest rates and the conflicts that first hit Europe and then the Middle East had a significant influence on all asset classes, including logistics, which saw a decrease of about 43% in investments from 2022 to 2023. But when analysing all the data, it is possible to see how robust this sector has proved to be, find elements of positivity, and spot new trends on the horizon. The physiological decline shown in volumes can be interpreted as a direct consequence of restrictive monetary policies and the difficulty in finalising capital raising on more stabilised investment strategies.

As for space demand, it is evident how it has continued to grow significantly in the recent period (+7.5% 3-year CAGR), contributing to strengthening the fundamentals of the asset class in Italy, compared to other European countries. Furthermore, there has been a substantial increase in rental rates (9.3% average CAGR over the last three years in the main markets), also due to the significant growth of the pipeline of new logistics products.

Following these dynamics, with a predominance of average absorption attributable to 3PLs (approximately 45% on a quarterly basis), the first months of 2024 are showing a slight decrease in take-up as well, mainly due to the extension of commercial negotiations and uncertainty regarding timing and values of the multiple tenders active in the market. We are indeed witnessing an increase in complexity in decision-making processes, which will also be reflected in by specialised developers. This reduction is the coming quarters.

The increase in warehouse rental costs, which on average is 20% higher than the rents recorded in previous years*, is also attributable to the decrease in speculative projects by specialised developers. This reduction is related to new cost dynamics, including construction and financing costs, which could lead to a decrease in supply in the following quarters of 2024. The latter could result in stabilisation or a slight increase in rental rates, but it could also lead to a reduction in the volume of spaces absorbed by users. We note that this volume is increasingly influenced by ESG dynamics. Therefore, it is expected that users will prefer newly constructed properties over less efficient ones, even in light of discounts on rents.

Finally, looking at investments in the coming months and considering both macroeconomic and local market dynamics, a return of Core investors is expected in the second half of 2024. This could lead to an increase in transaction volumes and a stabilisation of yields with a compression trend, in line with the prospect of lower interest rates.

*ref. base 2021

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# Investments Key data
## Italy

**€ 300m**
Investments in Q1 2024

**+75%**
Portfolio Deals

**5.5%**
Prime Yield

**+16% & -32%**
Investment Trend YoY
(Q1 2024 on Q1 2023 vs 4 quarters yearly rolling data)

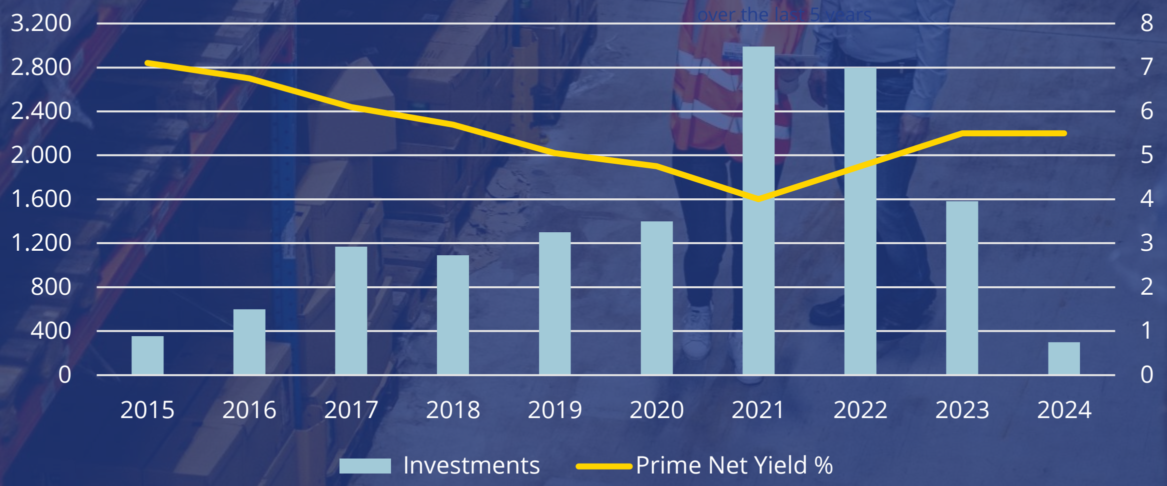
**€ 1.64b**
Cumulative Investments
4 quarters (Q2 2023 – Q1 2024)

**+50bps & +0bps**
Yield Trend
(YoY & QoQ)

## Investment Trends

- The recent months showed **positive metrics and guidelines** from the market and institutions regarding interest rates perspective. However, despite expecting **better financing conditions** over the second half of the year, **challenging** conditions in the **debt market** impacted significantly the latest results.
- Q1 2024 closed at **€ 300 M** showing a **slight growth** compared to Q1 2023 (+16%) while still demonstrating weaker results on a YoY 4-quarters cumulative basis (-32%).
- As a major trend, in line with the previous months, Q1 2024 demonstrated a concentration of investments on the **value-add or core+ opportunities,** often adopting equity-based investment strategies, with deferred financing, particularly for assets exhibiting robust **rent reversion** potential and **strong covenants. In addition, S&LB deals** accounted for **almost 70% of the total volume recorded.**
- investors targeted **value-add or core+ opportunities** often adopting equity-based investment strategies, with deferred financing, particularly for assets exhibiting robust **rent reversion** potential and **strong covenants.**
- The **Italian prime yield** has witnessed a significant surge over the past year rising 50 bps YoY. Nevertheless, prime yields are starting to stabilize, settling at **5.5% NIY,** showing **no variation QoQ.**
- We firmly believe that the **strong fundamentals underpinning the logistics asset class**, coupled with the consistent and **robust demand** from operators, will instil confidence in investors, enabling them to allocate their capital effectively.

**LOGISTICS INVESMENTS EVOLUTION IN ITALY**
(Million of euro between 2015 and Q1 2024)



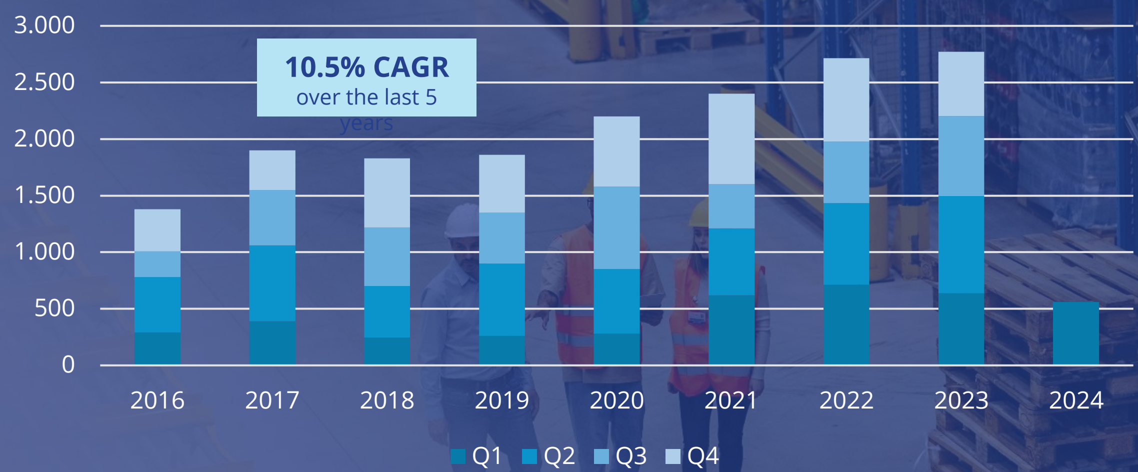

* Q1 2024 showed a vast proportion of Portfolio deals considering two big S&LB transactions of light industrial plants

# Take up & Key Statistics
Italy

## Take-up Trends

- The Italian logistic absorption is resilient, demonstrating to be the key driver of the asset class expansion showing a steady and **solid growth** over time (**approx. avg. 10.50 % 5y CAGR)**
- In Q1 2024, a solid part of the demand for space **comes from 3PLs**, which account for about **45%** of the total market uptake. The remaining part involves apprx. 30% of BTO projects (e.g. E-commerce, Cold Storage & End-users)
- Approximately **50% of the absorption** represents **existing** or **speculative assets**. Historically, the average void for existing assets were **almost zero** while for the speculative projects the leases usually occurred **during the construction phase or within the first 3 months after completion.** However, recent trends showed a slight increase in voids due to **longer negotiations** with clients.
- **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 (89%)**. **ESG** is a key driver for the expansion of the asset class leading to **rising demand and especially higher rents**.
- **Pipeline shortage**, together with higher cost of construction and financing, led **ERVs to grow steadily** across all the major markets (approx. avg. **3y-CAGR of 9.5%**). Currently, emerging locations are showing strong fundamentals leading to prime rents around € 67 /sqm/y.

**TAKE UP EVOLUTION**
2016 – Q1 2024 (thousands sqm leased)




*ESG Compliant asset obtained at least the Leed Gold or Breeam Very Good certificate

** 5y CAGR is calculated considering the cumulated take up values up to the end of 2023.

**550ksqm**
Take-up Q1 2024

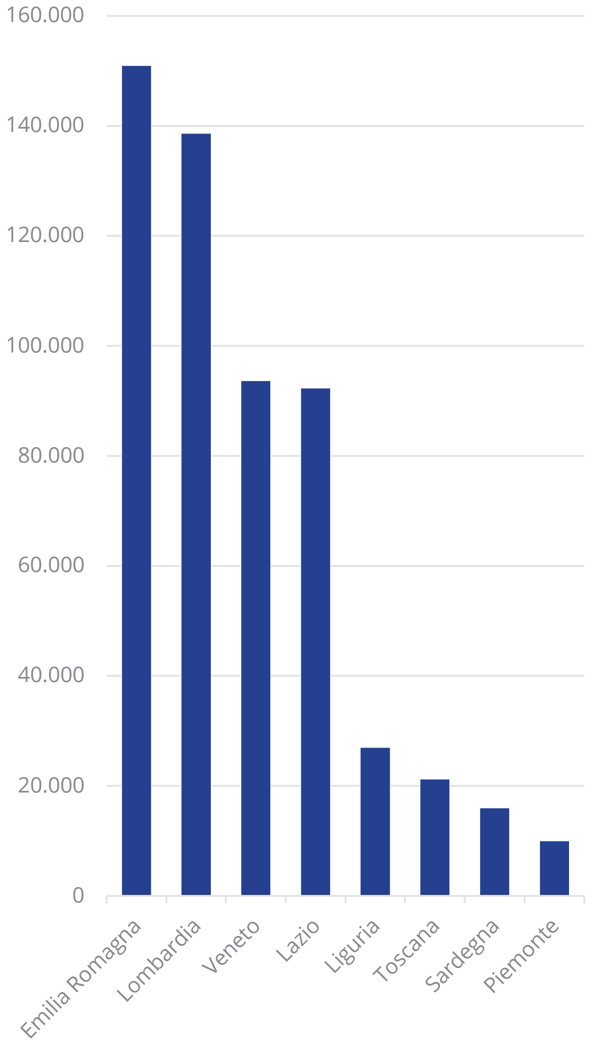
**-12% & +2,5%**
Take-up Growth YoY
(Q1 2024 on Q1 2023 vs 4 quarters yearly rolling data)

**45% & 30%**
3PL Absorption
BTO Absorption

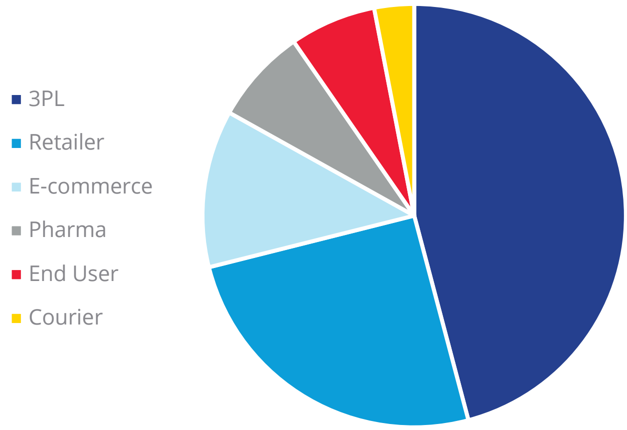
**89%**
Proportion of ESG compliant* assets leased

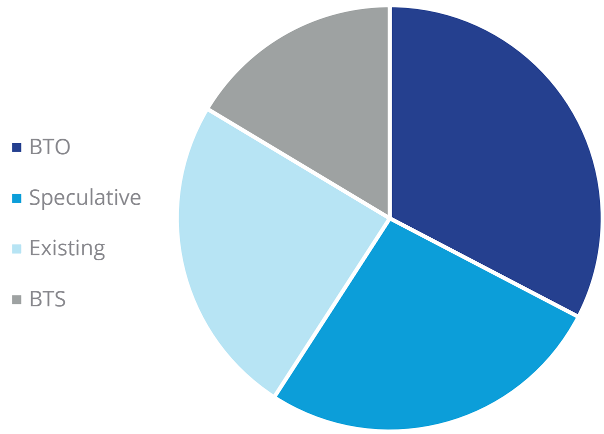
| Prime Rents (€/sqm/y) | Milan | Rome | Turin | Verona | Bologna | Piacenza |
|---|---|---|---|---|---|---|
| **Q4 2023** | 67 | 67 | 50 | 57 | 67 | 57 |
| **3y CAGR** | 8.4% | 9.4% | 6.6% | 11.3% | 11.4% | 10.1% |

## Q1 2024 Take-up by Provinces (GLA-sqm)

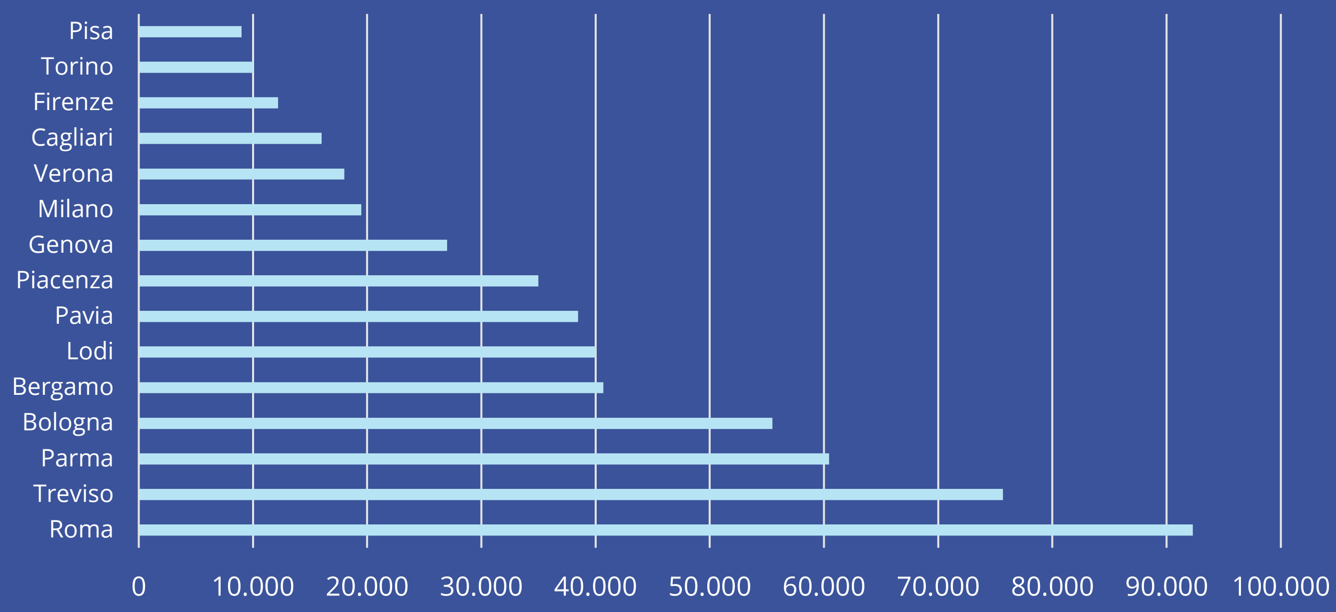



## Take-up Characteristics Considering Type of Tenants, Assets Types and Drivers



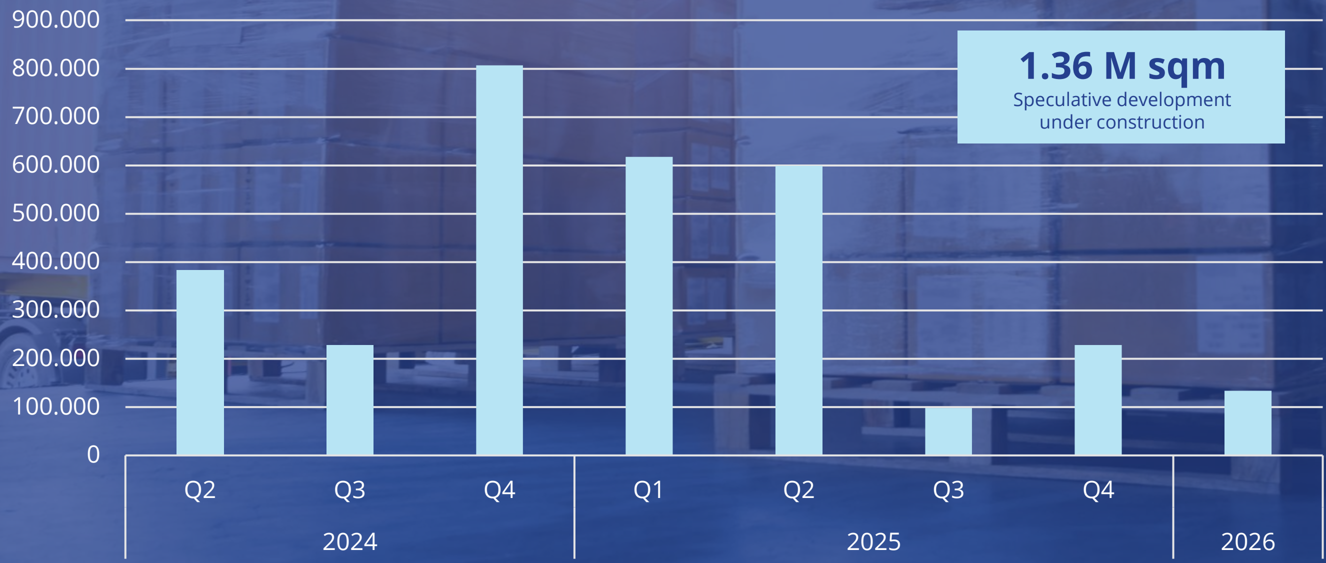




## Take Up Distribution by Regions



# Vacancy & Pipeline
Italy

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

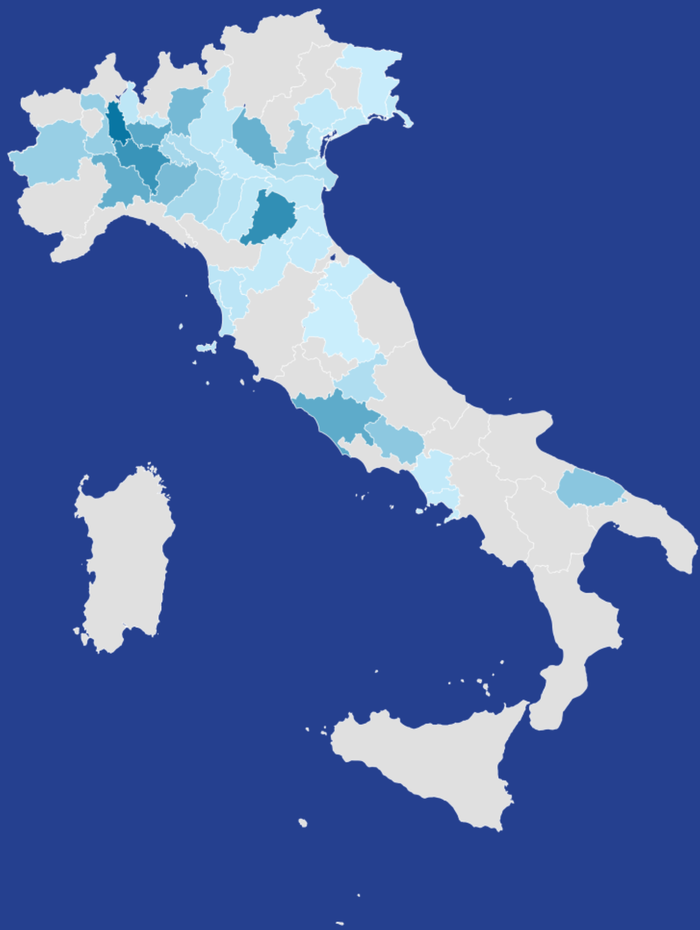



Data shows values net of current negotiations (apprx.660k sqm) that will be part of future take up at completion.

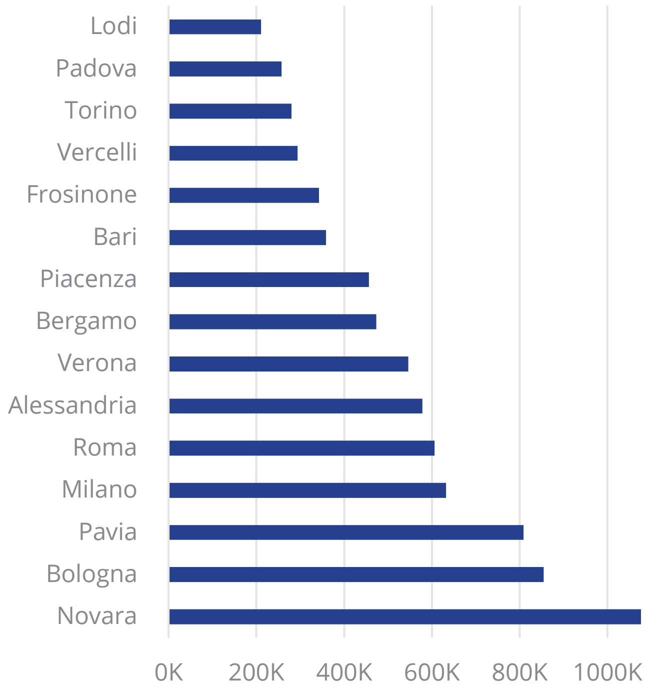
## Fast Facts
on potential development

- Despite the uncertainty recorded lately, we are still seeing a **strong demand** for logistic developments that can deliver above average returns (rental upside being a strong element).
- The vacancy rate remains stable **below 2%** across the country, where a few sub-markets shows even a ratio closer to zero.
- 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.
- **3.8 M sqm** will come to the market as speculative developments by 2026 **(currently 1.36 M sqm are under construction while 660 K sqm are under negotiation)**
- 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, making the competition and the decision making from operators longer and more complicated.
- A **"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). Thus, BtS development customized for the specific companies need are rising in numbers and volumes
- 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, end-users and investors.

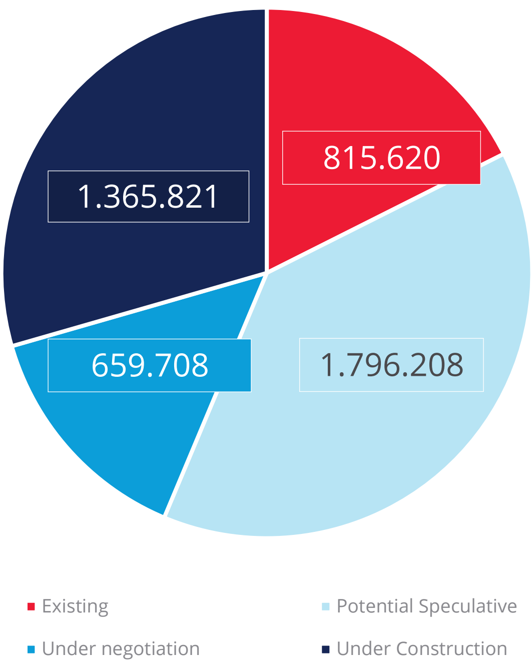
## Potential available GLA entering the Italian Logistic Market in the next 2 to 3 years. Potential planned pipeline concentration divided into the Italian different districts.



### 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.
For consistency and clarity, the graphs above do not involve BtS data while the map provide us a sense of the full potential pipeline distribution across the regions.

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