JUNE 2021

REAL ESTATE

POST-COVID TRENDS SECTOR BY SECTOR

PATRIGEST
ADVISORY & VALUATION

gabetti
PROPERTY SOLUTIONS

The **Gabetti Research Department** and **Patrigest**, advisory company of the Gabetti Group specialised in Valuation & Advisory for the management of real estate portfolios, have prepared a **study on the future of Italian real estate following the Covid emergency**, analysing the **future impacts** and **trends** sector by sector.

PATRIGEST ADVISORY & VALUATION

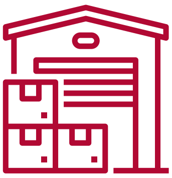
gabetti PROPERTY SOLUTIONS

TABLE OF CONTENTS

gabetti
PROPERTY SOLUTIONS

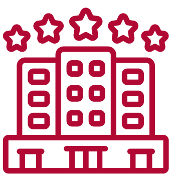
REPORT SUMMARY

*The **residential sector** marked a positive inversion in the trend **in third quarter 2020**, proving itself to be the more resilient sector.*



***Logistics** is the emerging sector, thanks to the acceleration provided to e-commerce by the pandemic.*

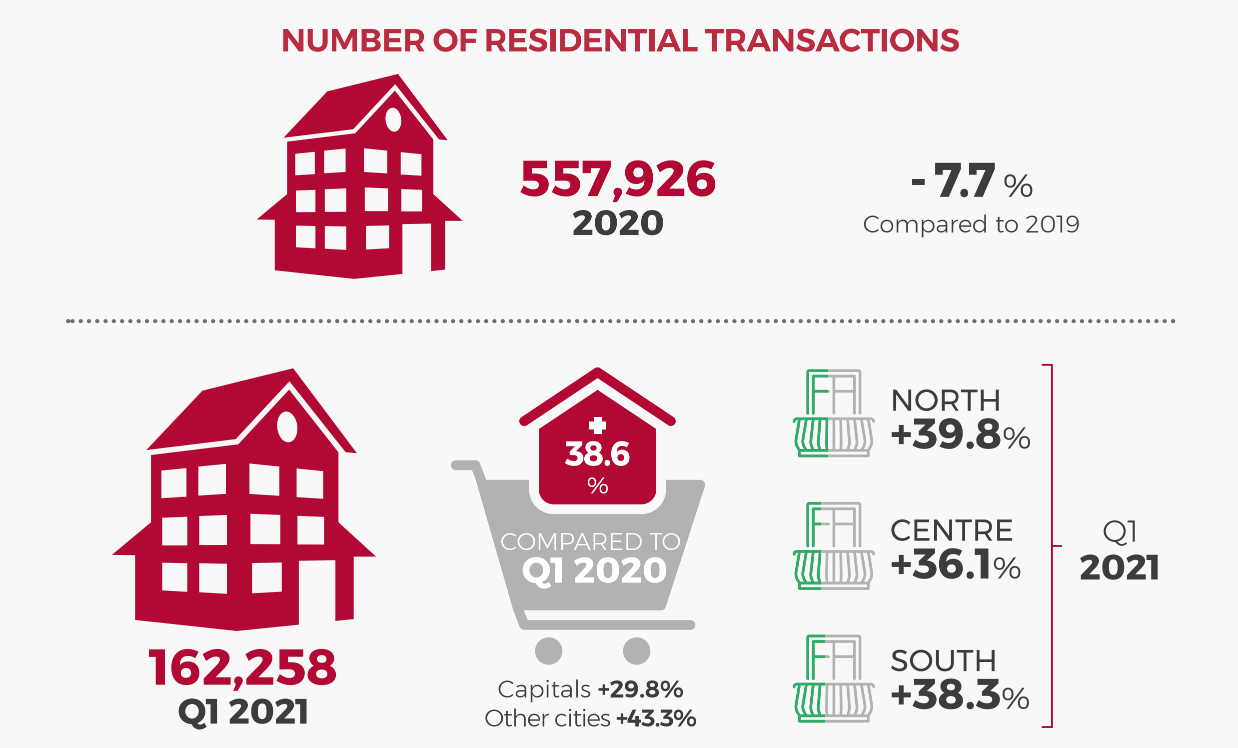
*Despite the significant decline in take-up, **offices** remain the preferred asset class of investors, while **retail** is forced to bet on an omni-channel strategy.*



*The **hotel sector**, whose future could benefit from the dissemination of remote working, may aim at the conversion of areas and contamination of business and leisure.*

RESIDENTIAL SECTOR

HIGHLIGHTS



KEY DATA

According to Agenzia delle Entrate data, **557,926 residential transactions** were completed **in 2020, -7.7%** compared to 2019. This change was impacted by the lockdown period, which froze transactions starting from the month of March up until May 2020, when activities resumed. While the first part of the year was significantly impacted by the **lockdown** in March and April, the second half of the year recorded positive changes, with a total of 141,324 transactions in **Q3** and 183,381 in **Q4**, respectively **+3%** and **+8.8%** in terms of annual growth rate. According to surveys of agencies of the network, in terms of prices, an average change of around -0.9% was recorded in H2 2020, similar to that of the prior half-year (-1.1%), bringing the total change in 2020 against 2019 to -2%. **Sales times** were stable at an average of **4.5 months**, as were discounts granted upon closing of negotiations, at around **12%. Q1 2021** marked a significant recovery in terms of transactions, with a variation of **+38.6%** compared to Q1 2020 and 17% compared to Q1 2019.

Contextually, the residential leasehold market in 2020 was on the radar of investors, with a total investment volume of € 370 million, up sharply compared to 2019, during which it amounted to just under € 60 million. This phenomenon is in line with the new consumption and living trends, characterised by growing interest in the new forms of multi-family living, such as co-living, serviced apartments and senior living.

FORECASTS

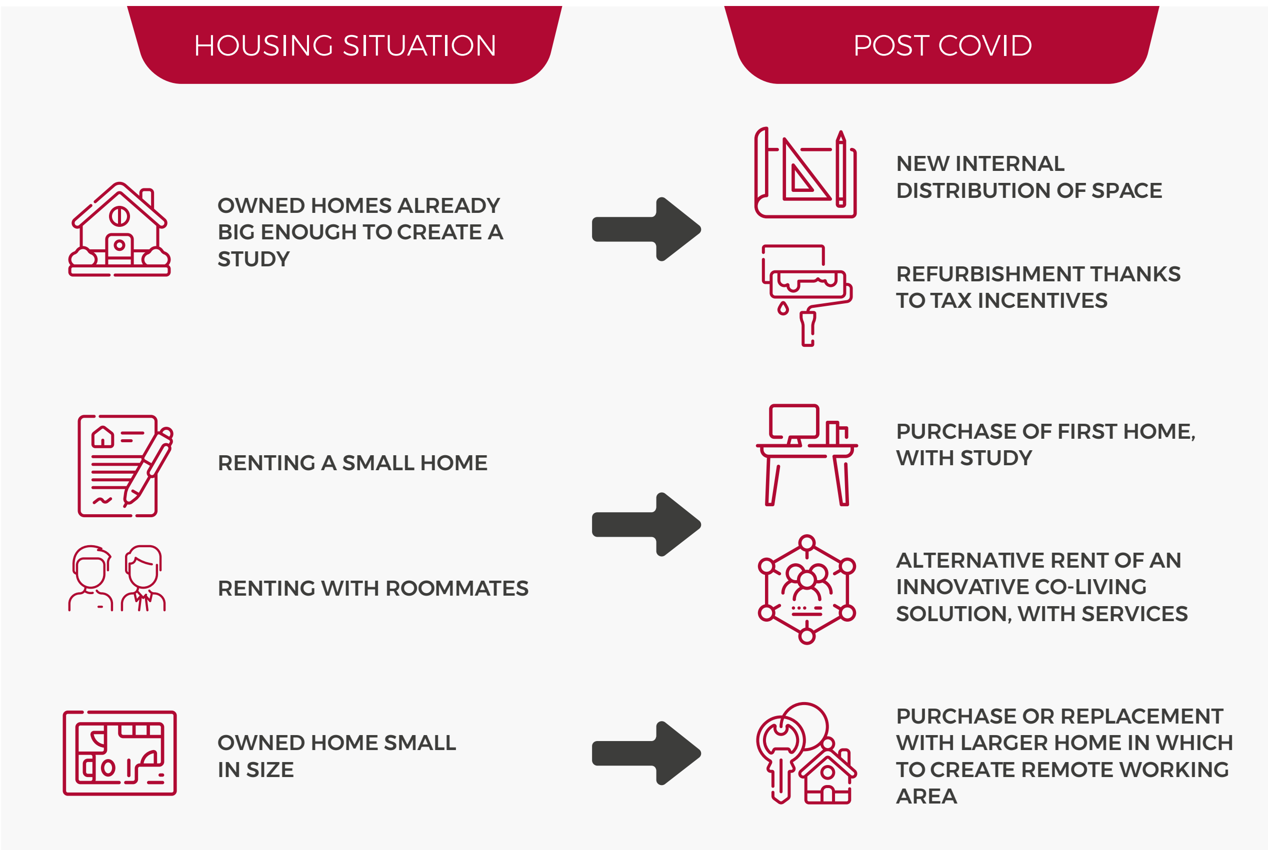
A slight decline in prices is expected by the end of 2021, in a context of **growing transactions**, in line with the gradual improvement in the health emergency following the vaccination campaign. With the Euro zone committed to reaching at least pre-pandemic growth levels, it is likely to assume that the ECB policy will be favourable in 2021 as well, continuing to inject liquidity at very low interest rates, which will also be reflected in **bank loans** to households for the **purchase of homes.**

Another factor to consider with regard to performance of the residential and credit market in 2021 is the tax advantage of the **110% Superbonus** (envisaged with the Relaunch Decree of 19 May 2020 and confirmed with the relative extensions following issuance of the 2021 Budget), which supports energy retrofitting works in residential buildings. This acts as a stimulus on the demand for existing housing to be refurbished, including with recourse to credit, as the **energy redevelopment** projects of buildings may envisage an overlap of the various incentives currently present on the Italian market which, contrary to the Superbonus, do not fully cover the resources invested.

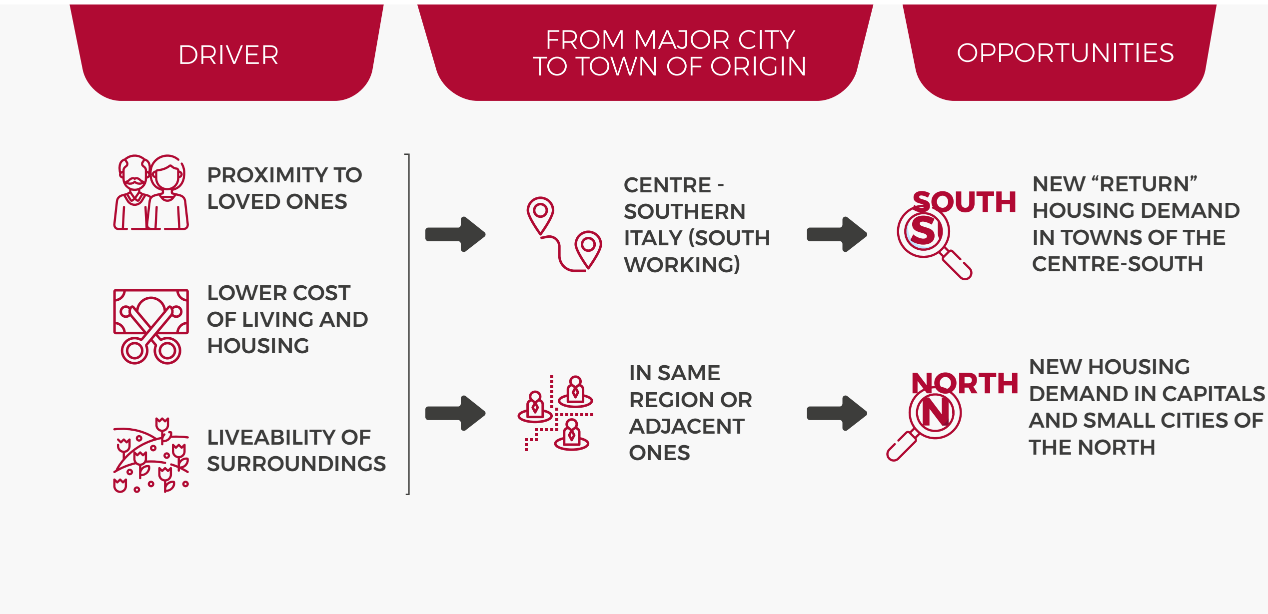
NEW TRENDS IN DEMAND

The results of a survey involving over 300 employees have shown that one of the consequences of the **pandemic** and of the greater recourse to **remote working** has been the emergence of a new housing need that is leading many individuals and families to rethink their living space.

HOUSING CHOICE DYNAMICS



Source: Remote working and New Housing Requirements 2021



IMPACT ON VALUATIONS

Confirmed stabilisation of **values** with slight declines only for product that is obsolete and not in line with **demand**. There is a recovery in demand for new living solutions or properties to be redeveloped, based on the new **incentives**, with a shift to bigger sizes with outdoor areas. A recovery in prices is expected over the medium term.

OFFICE SECTOR

HIGHLIGHTS

NUMBER OF TRANSACTIONS

9,463
2020

-10.3 %
Compared to 2019

Q4 2020
+8.1 %

Q1 2021
+50.7 %

INVESTMENT VOLUME

320 million €

Q1 2021

MILAN

TAKE UP Q1 2021

70,100 SQM

Down compared to Q1 2020.

PRIME RENT CBD

600€ SQM PER YEAR

Stable against the prior quarter.

ROME

TAKE UP Q1 2021

26,300 SQM

Essentially stable against Q1 2020.

PRIME RENT CBD-CENTRE

440€ SQM PER YEAR

Down compared to the prior quarter.

KEY DATA

In **2020**, following the impact of the health emergency and the consequent recourse to remote working, the office segment recorded a decline in take-up, investments and normalised transactions.

In terms of normalised transactions, **Q1 2021** recorded a significant recovery (+50.7%) over Q1 2020; with regard to capital market investments, the **volume invested** was similar to that of 2020; in terms of **take-up**, Milan recorded a decrease, while Rome's figures were in line with those of 2020. In particular, at the investment level, the office sector accounted for 24% of the total in Q1 2021, equal to **€ 320 million**. A number of significant sales were completed during this period, including Casa Milan in Milan, for a total of € 42 million, and an office property in Citylife for € 19 million.

In Q1 2021, estimated take-up in **Milan** was approximately **70 thousand sqm** (considering the key operators and a small percentage of smaller operators), while in **Rome** it was around **26 thousand sqm**.

The lower number of transactions recorded demonstrate a situation - still underway - characterised by an overall **wait-and-see attitude**. In other words, companies and operators are trying to understand what path to take in the post-pandemic phase with regard to work management and methods, particularly in relation to remote working, which many will presumably continue to use albeit to a lesser extent than now.

FORECASTS

In light of the current data, essential stability in rents and transaction prices is expected. As we know, how the various areas are viewed has been significantly impacted by remote working, more or less forcibly imposed in the last year. Indeed, remote working has modified the perception of **home space and office space**.

Since **remote working** will presumably continue in the post-emergency period, perhaps for one or two days a week, the need to have a home with space dedicated to work will also become increasingly important, making the office more of a representative space, an environment where people meet for alignment meetings, brainstorming and team building. The office space will therefore be **flexible** both in terms of use and structure, with plug-and-play devices, and will consequently become increasingly **identifiable** thanks to the design component, which will adapt to the needs of the business, but which must also take into account collective and individual well-being.

The **technological component** will also make a more significant contribution to modernisation of the office, where the possibility to book workstations via app and access the building in total security through QR-code will be implemented.

NEW TRENDS

REDUCTION OF TOTAL AREAS, although not to a major extent, as the offices must be integrated with common rooms, not only used for work but also for discussion among teams and for socialisation

Flexibility and **OPTIMISATION OF AREAS**, with workstations increasingly distanced and avoiding an overall high density of people

IMPACT ON VALUATIONS

With the exception of certain specific cases, the **ERVs** (unit market rent €/sqm/year) appear to be stable, although **yields** may undergo slight decompressions, particularly for certain assets and certain geographical areas, especially where investors perceive uncertainty. It is presumable that **core assets** or those with restrictive **long-term contracts** will maintain steady values and returns, as they are certainly more resilient than other categories.

RETAIL SECTOR

HIGHLIGHTS

VOLUME OF INVESTMENTS - Q1 2021

80
million €

Real estate investments in the first three months of 2021 recorded a total volume of € 80 million. The retail sector accounted for **6% of the total amount invested.**

NORMALISED NUMBER OF TRANSACTIONS SHOPS AND LABORATORIES

26,961
2020
-14.5% COMPARED TO 2019

+2.2 %
Q4 2020

+34.4 %
Q1 2021

KEY DATA

Following the health emergency, the retail segment is among the sectors most impacted by the restrictions of the various DPCMs (prime ministerial decrees). While on the one hand, the health emergency and relative lockdown measures have had a significant impact on retail, on the other, there has been an **increase in large-scale retail distribution**, with greater demand for **services integrated with logistics.** Looking at real estate investments in the retail asset class, the first three months of 2021 recorded an **investment volume of € 80 million**, down from first quarter 2020, reflecting continued investor uncertainty with regard to this asset class.

From a **normalised transaction** perspective, transactions involving retail shops and laboratories rebounded in Q1 2021, registering a change of **+34.4%** compared to Q1 2020.

FORECASTS

The pandemic has accelerated trends that were already underway, starting with the **omni-channel** strategy and the need to speed up the push for **innovation**. In the most critical situations that were tense even before Covid-19, we may see restructuring of the sales networks over the short term, in conjunction with the search for new identities and physical formats to be downsized or expanded, repositioning, acquisitions, mergers and closures.

Further dynamics may have repercussions on employment, but they may also create other job opportunities; consequently, building a realistic and optimistic vision of the future now could help us be ready to restart in the future.

NEW TRENDS

- Increased development of **APPs** of grocery chains for **ONLINE SHOPPING**
- Use of **SOCIAL MEDIA** as a promotional tool and opportunities to create a more direct and trust-based relationship with the customer
- Greater adoption of **CASHLESS METHODS** by retailers in order to increase citizen awareness of the health risks of cash.
- **FLEXIBLE LEASING,** a type of agreement aimed at start-ups and based on tenant sales, with a view to reducing the initial cost, complexity and duration of agreements.
- Greater attention towards **HEALTH-SANITARY ASPECTS**, modifying the sales point's procedures with respect to approach, parking, internal layout and inside/outside movement of goods, waste management.
- **REVAMPING OF VENDING** based on vending machines expanded and distributed regionally.
- Changes in the shop experience with greater recourse to **TECHNOLOGIES** (hi-tech changing rooms).

IMPACT ON VALUATIONS

There is a confirmed **decline in ERVs** that should stabilise in the medium term and will mainly impact the variable portion of revenues, which has seen sharp reductions and is only now beginning to recover, with expected **stability in yields**.

HOTEL SECTOR

HIGHLIGHTS

INVESTMENT VOLUME CAPITAL MARKETS - Q1 2021

141
million €

NORMALISED NUMBER OF TRANSACTIONS HOTELS

290
Q1 2021
+87.4% COMPARED TO 2020

POST-COVID MACRO TRENDS IN THE HOTEL SECTOR

CONSOLIDATION OF DOMESTIC DEMAND

LOWER GROWTH RATE INTERNATIONAL ARRIVALS

REDUCTION IN BUSINESS TRIPS

KEY DATA

The effects of the Covid-19 pandemic are still difficult to quantify, but they are certainly quite significant across the entire tourism industry, from air transport to the hospitality sector. In Italy, the drop in demand **in 2020** widely exceeded 50%, with the exception of certain segments that managed to keep up, such as beach tourism, which benefited from a period of relative decline of the effects of the virus, provincial hotels, generally used by domestic business customers, apartments with outdoor spaces and holiday villas for tourists.

Nevertheless, **capital market transactions** in the hotel sector in 2020 maintained good performance, recording **nearly € 1 billion**, mainly due to two major transactions: sale of the former Boscolo portfolio and sale of the Bauer hotel in Venice. With regard to **Q1 2021,** reported investments amounted to approximately € 141 million. In this context, mention goes to the Baglioni Hotel Luna transaction in Venice, for a total of € 100 million.

FORECASTS

Forecasts by international experts in the sector indicate progressive growth over the next 2/4 years, with a return to the 2019 results. The variable timeframe will depend on the rollout of the Covid-19 vaccine, which should allow a return to a normal health situation starting from the upcoming year. From 2024/2025, we can reasonably expect tourism flows to resume their natural growth, assuming no other disruptive factors intervene.

The **opportunities** for the future include: greater demand for **remote-working areas** that allow conversion of empty space into co-working space, partially satisfying demand that has been growing since even before the pandemic. For example, there is already talk in the media of "**workation**", a combination of the words work and vacation, as a phenomenon that emerged during the summer of 2020. In fact, many employees spent this period in hotels that had areas from which to work remotely. What changes is the very concept of hotel, which is increasingly viewed as not only a facility in which to sleep (along with a series of hospitality services), but also for daytime use. The real challenge for the future of the sector is the revolution of the very concept of hotel, renewing its contents and functions. Other opportunities include **senior and medical tourism**.

NEW TRENDS

The hotel of the future will tend to be a **liquid, multi-faceted, hyper-technological and eco-sustainable** space, capable of transforming itself by renewing contents and functions to generate new social and economic value.

- Space and services for **REMOTE WORKING**
- Ideal **SOCIAL AREAS** in which to relax or meet other people
- Zones for **PSYCHOLOGICAL-PHYSICAL RELAXATION**
- **MULTI-FUNCTIONAL AREAS** that can be transformed for events
- **BARS** and **RESTAURANTS** with a 24-hour varied offer Services
- Services for **FREE TIME** and **SPORT**
- Higher demand for **REMOTE WORKING** space

NEW TRENDS

DAILY USE of hotels (by the hour)

HIGHER DEMAND on weekdays and during **LOW SEASON**

Contamination of **BUSINESS** and **LEISURE SENIOR**

TOURISM and **MEDICAL** tourism

CONVERSION OF EMPTY AREAS / change in use

WORKATION WORK

HUB

REMOTE WORKING ROOM

MODULAR AREAS

CUSTOMISATION OF SERVICES

FUNCTIONAL, HYPER-TECHNOLOGICAL
and **HYPER-CONNECTED ROOM**

Extensive use of **NEW TECHNOLOGIES**

IMPACT ON VALUATIONS

A **gradual recovery in revenue** and yields is expected to lead to a return of interest in the sector by investors over the medium term, with a **decline in yields**.
The leisure sector will be the first to benefit from the positive impact of the vaccination campaign, followed by the business sector in the autumn.

LOGISTICS SECTOR

HIGHLIGHTS

VOLUME OF INVESTMENTS - Q1 2021

220
million €

The logistics sector continues to be one of the most vibrant sectors in terms of both investment and transaction volumes, as well as new developments and technological innovation in products and equipment.

CONTRACT LOGISTICS TURNOVER - 2019

86billion €

+0.8 %
compared to 2018

KEY DATA

During the first three months of 2021, reported investments in the logistics market amounted to a total of around **€ 220 million**. Particular mention goes to 7 logistics assets by GLP and one logistics asset acquired by CBRE Global Investors.

Logistics activities played a major role during the pandemic crisis, especially in ensuring continuity of supply of all types of goods. In addition to the procurement of basic necessities (health and food), which saw a sharp increase in the volume of goods transacted, the most obvious effects were in the exponential increase in online purchases via e-commerce platforms.

Based on data from the Milan Polytechnic (Contract Logistics Observatory 2019), the value of turnover by “Italian” contract logistics companies was € 86 billion in 2019, +0.8% compared to 2018. For 2020, the year-end closing estimate is € 77.8 billion, -9.3% compared to 2019 as a result of reduced exports and freight traffic due to restrictions imposed by the Covid emergency.

FORECASTS

Given the trend of growth in online demand, thanks to more time spent indoors within the home, both during leisure time and work, steady growth of the sector is expected during the upcoming months as well. To satisfy the continuously increasing demand, the entire e-commerce supply chain must increase efficiency and speed. In this scenario, bringing the goods closer to the end consumer becomes strategic.

NUOVI TREND

CREATION/REFURBISHMENT of high-performance, technologically advanced buildings, compliant with international and environmental regulations, suitable for "**LOGISTICS 4.0**".

Location in specific **INDUSTRIAL AND/OR LOGISTIC PARKS** which, compared to a dedicated (single) solution, can enjoy greater services in terms of security, energy generation, access control, facilities, railway connections (in the case of freight terminals) and greater flexibility of space and manpower.

LAST MILE: presence of a widespread distribution network near the main Italian urban areas, as an integrated localisation strategy

MULTI-LEVEL WAREHOUSES: buildings located in the hinterland with a high degree of automation to facilitate the picking of goods on high shelves..

MICRO LOGISTICS: areas within the city, even with a different use than industrial, such as multi-storey parking lots, old cinemas or theatres, vacant spaces that could be converted to last-metre distribution.

ORGANISATIONAL AND DESIGN CHOICES of the warehouses linked to safety distancing, **OMNI-CHANNEL** and **AUTOMATION**.

IMPACT ON VALUATIONS

The good performance of logistics is confirmed, showing it to be the sector that best absorbed the slowdown in activities due to the lockdown. Given the activity in the sector, spurred on by the development of e-commerce, growing interest by investors has been observed. Rents and expected yields are stable.

NOTES

OUR REPORTS:

- Residential Overview
- Lettings
- Prestigious Homes Market
- Investment Overview
- Office Market Overview
- Office Quality Focus
- Hotels Building
- Building Renovation
- Remote Working and New Housing Requirements

All our reports are available at gabettigroup.com in the Research Department section

Stay tuned for our upcoming reports by following us on LinkedIn

Research Department
Francesca Fantuzzi
Manager
ffantuzzi@gabetti.it

Analysts:
Roberta Giusto
Chiara Grandino
Diego Vitello

Giovanni Sparvoli
General Manager Patrigest
GSparvoli@gabetti.it

Nadia Crisafulli
Operations Manager
ncrisafulli@patrigest.it

info@patrigest.it
027755680

Gabetti Property Solutions
Via Bernardo Quaranta, 40 – 20139 Milano
Tel. +39 02 775 5301
www.gabettigroup.com

PATRIGEST
ADVISORY & VALUATION

gabetti
PROPERTY SOLUTIONS