
DECEMBER 2021

# REAL ESTATE

## SECTOR- BY-SECTOR TRENDS

PATRIGEST
ADVISORY & VALUATION

gabetti
PROPERTY SOLUTIONS

The **Gabetti Research Department** and **Patrigest**, consulting company of the Gabetti Group specialised in Valuation & Advisory for the management of real estate portfolios, have prepared a **report on the future of Italian real estate**, analysing the **future impacts** and **trends** sector by sector, during this historic period marked by major changes due to the Covid-19 health emergency.

PATRIGEST ADVISORY & VALUATION

gabetti PROPERTY SOLUTIONS

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25%
20%
22%
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# REPORT SUMMARY

*The **residential** sector confirms its positive trend in **third quarter 2021**, proving to be the most resilient sector.*

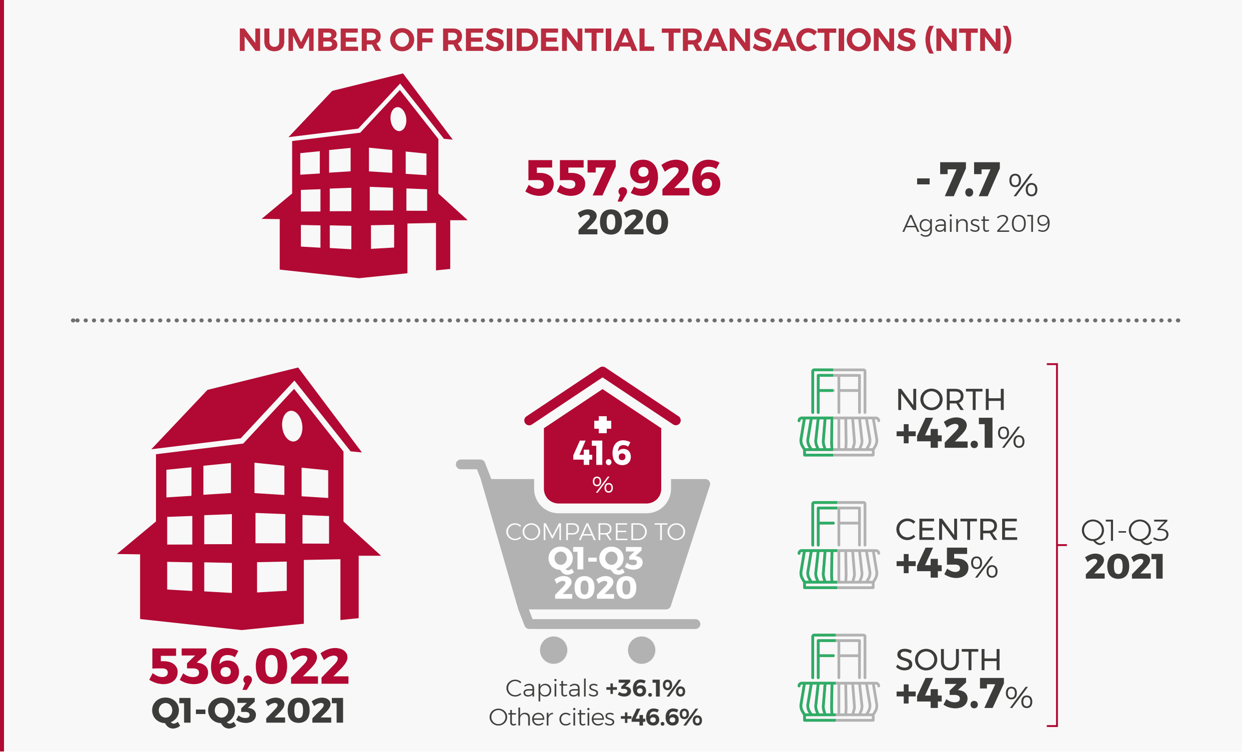
***Logistics** is the emerging sector, thanks to the acceleration of e-commerce as a result of the pandemic.*

*Despite the sharp decline in take-up, **offices** continue to be the preferred asset class of investors, while **retail** is forced to wager on a multi-channel approach.*

*The **hotel sector**, whose future may benefit from the dissemination of remote working, can focus on the conversion of areas and mixing of business and leisure.*

# RESIDENTIAL SECTOR

## HIGHLIGHTS




## KEY DATA

The residential market recorded significant growth in volumes during the **first nine months of 2021**, closing at +43.1% compared to the same period of 2020, for a total of 536,022 transactions (Agenzia delle Entrate data). On the one hand, it was an expected increase following the downturn recorded during the lockdown period of 2020, while on the other, the data show 23% growth compared to 2019.

According to surveys by agencies of the network, an average change in prices of around +0.3% was recorded in H1 2021, inverting the trend of the prior half-year. Sales **times** were down slightly at an average of **4.4 months**, as were **discounts** granted upon closing of negotiations, at around **11%**.

At the same time, the residential leasehold sector has caught the attention of investors: in 2020 it recorded a total investment volume of €370 million and in the first nine months of 2021, it amounted to €210 million (4% of the total capital market investments). 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

While the second half of 2021 is expected to close with a slight increase in prices and transactions on the rise, a growth trend is envisaged for both variables in 2022 as well. With the Euro zone committed to reaching at least pre-pandemic growth levels, the ECB policy will hopefully be favourable again in 2022, continuing to inject liquidity at very low interest rates, which will also be reflected on bank loans to households for the purchase of homes.

Another factor to take into consideration on the 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 overlapping of the various incentives currently present on the Italian market which, contrary to the Superbonus, do not fully cover the resources invested.

## NEW TRENDS

**MULTIFUNCTIONAL HOMES**, larger and with adjustable areas

Space for **REMOTE WORKING**, which many companies may adopt on a hybrid basis, alternating with office work

**OUTDOOR SPACE** such as gardens and balconies/terraces increasingly important

**CONDOMINIUM SERVICES** such as box locker, gym, multifunctional rooms

**SECOND HOMES** thanks to higher recourse to remote working and greater propensity to spend holiday periods in one’s own home

The results of a study involving over 300 workers demonstrated that one of the consequences of the pandemic and of the increased level of 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

| HOUSING SITUATION | POST COVID |
|---|---|
| OWNED HOMES ALREADY BIG ENOUGH TO CREATE A STUDY | NEW INTERNAL DISTRIBUTION OF SPACE<br>REFURBISHMENT THANKS TO TAX INCENTIVES |
| RENTING A SMALL HOME<br>RENTING WITH ROOMMATES | PURCHASE OF FIRST HOME, WITH STUDY<br>ALTERNATIVE RENT OF AN INNOVATIVE CO-LIVING SOLUTION, WITH SERVICES |
| OWNED HOME SMALL IN SIZE | PURCHASE OR REPLACEMENT WITH LARGER HOME IN WHICH TO CREATE REMOTE WORKING AREA |

Source: Remote working and New Housing Requirements 2021

# IMPACT ON VALUATIONS

The residential market has confirmed the forecasts of resiliency to the pandemic, with positive results throughout in terms of take-up times and stability of values. Demand is still sustained by the need to upgrade living conditions in terms of additional space and quality of homes. Throughout the period, there was also an increase in demand for homes to be refurbished, due to the incentives for seismic and energy upgrades, which increased demand even for homes that were struggling on the market. Further growth in transactions and consolidation of values is expected.

# OFFICE SECTOR

## HIGHLIGHTS

### NORMALISED NUMBER OF TRANSACTIONS (NTN): OFFICES

**25,605**
Q1-Q3 **2020**

**+48** %
Compared to Q1-Q3 2020

**2,439**
Q3 **2021**

**+18** %
Compared to Q3 2020

### INVESTMENT VOLUME

**1.6** billion €

**Q1-Q3 2021**

### MILAN

**TAKE UP** Q1-Q3 2021

**276,200** MQ

Figure up +35% compared to the first nine months of 2020

**PRIME RENT** **CBD**

**600**€ MQ ANNO

Figure stable against the prior quarter

### ROME

**TAKE UP** Q1-Q3 2021

**100,000** MQ

Figure up +71% compared to the first nine months of 2020

**PRIME RENT** **CBD-CENTRO**

**440**€ MQ ANNO

Figure stable against the prior quarter

# KEY DATA

In **2020**, following the impact of the health emergency and the consequent recourse to remote working, the office sector saw a reduction in terms of take-up, investments and normalised transactions.

With regard to normalised transactions, the **first nine months of 2021** saw a significant recovery (+48.6%) over Q1-Q3 2020, with the figure up compared to 2019 as well.

However, in terms of capital market **investments**, the volume invested was lower than the same period in 2020.
In particular, during the first nine months of 2021, the office sector accounted for 32% of total investments, equal to **€1.6 billion**. A number of major sales transactions of over €100 million were completed in Milan during this period, including the Liebeskind Tower in Citylife and a property situated at Via Broletto 16, right in the centre.

In terms of take-up, Milan and Rome recorded a significant increase compared to the figures for the first nine months of 2020 (respectively, +35% and +71%), although volumes remain below those of 2019. Specifically, estimated take-up in **Milan** during the period Q1-Q3 2021 was approximately **276,200 sqm** (considering the leading operators and a fragmented portion of smaller operators), while in **Rome** it was around **100,000 sqm**.

# FORECASTS

While the average areas in demand have been observed to be smaller than in the past, the reduction was actually not that significant, since part of these reduced areas in terms of workstations is converted into areas dedicated to team work. According to data by the Smart Working Observatory of the Milan Polytechnic's School of Management, 66% of large companies allowed personnel to return to the office between May and June, 7% preferred to reopen during the summer, and 20% waited until September. At the end of September, only 7% continued to prefer remote working. However, once the emergency is over, remote working is expected to remain as a valid opportunity, but for one or maximum two days per week. In fact, if dosed appropriately, it can become an advantage for companies and workers, optimising costs and time, as well as contributing to a small extent to reducing traffic and, therefore, pollution. In terms of market forecasts, given the current trends, 2021 will almost certainly end with a positive balance.

## NEW TRENDS

**REDUCTION OF TOTAL AREAS**, although not that significant, as the offices will have to be integrated with shared areas, not only for work purposes but also for team meetings and socialisation.

Flexibility and **OPTIMISATION OF AREAS**, with more distanced workstations, avoiding a high overall density of people.

**ESG** standards or holistic **SUSTAINABLE APPROACH**, with positive impact on people, on the building and on the territory.

## IMPACT ON VALUATIONS

Rents and yields are estimated to remain stable over the short term. There has been a slight reduction in the use of remote working and a consequent re-population of office space, which will always remain a point of reference for the tertiary sector, but with different methods of use in terms of time and space. Office space with low energy performance and non-compliant with ESG standards will increasingly suffer.

# RETAIL SECTOR

## HIGHLIGHTS

### VOLUME OF CAPITAL MARKET INVESTMENTS RETAIL SECTOR Q1-Q3 2021

**280**
Million €

The total volume of real estate investments in the first nine months of 2021 was €280 million, and the retail sector accounted for **6% of the total amount invested**.

### NORMALISED NUMBER OF TRANSACTIONS (NTN): SHOPS AND LABORATORIES

**25,605**
Q1-Q3 **2021**
+47.3%

**7,913**
Q3 **2021**
+22.7% rispetto al Q3 2020

## KEY DATA

Following the health emergency, the retail sector is among those most impacted by the restrictions set out by the various DPCM (Italian Ministerial Decrees). While lockdown measures have had a significant impact on retail, there has been an increase in demand for large-scale retail trade, with greater demand for services integrated with logistics. Although COVID-19 is still a persistent threat, the retail sector began to react and showed the first positive signs, including in the high street segment, in the second half of 2021, thanks to the vaccination campaign and to the possibility of being able to move about.

Looking at real estate investments in the retail asset class, the first nine months of 2021 recorded an investment volume of €280 million, down from the first nine months of 2020, reflecting continued investor uncertainty with regard to this asset class.
With regard to normalised transactions, purchases and sales of shops and laboratories recorded a recovery in the first three quarters of 2021, for an overall change of +47.3% compared to Q1-Q3 2020.

## FORECASTS

While the retail sector was among those that suffered the greatest impacts of the pandemic due to the restrictions imposed on retail activities, a slight turnaround was observed following introduction of the **green pass**, which has permitted a return to normalcy in terms of operating hours and presence of people. In particular, the possibility of resuming travel thanks to "green certification" is allowing a gradual return of international tourism, which is inevitably linked to this sector. In order to recover, the retail sector will have to focus on the "digital transformation" promoted by the NRRP (National Recovery and Resilience Plan), which will take a **multi-channel approach, moving from the physical channel to the online channel, based on the needs of customers**.

## NEW TRENDS

- Greater development of **APPS** by chains for **ONLINE SHOPPING**.
- Use of **SOCIAL MEDIA** as a tool for promotion and an opportunity to build a more direct and loyal relationship with the customer.
- Greater adoption of **CASHLESS MODE** by retailers, as citizens are increasingly aware of the health risks of cash.
- **FLEXIBLE LEASING**, a type of agreement aimed at start-ups and based on the tenant's sales, aiming to reduce the initial cost, complexity and duration of agreements.
- Greater attention to **HYGIENIC-SANITARY ASPECTS**, changing the approach to the point of sale in terms of entrance, parking, internal layout and external/internal goods movement, waste management.
- **RENEWAL OF VENDING SYSTEM** based on automatic distributors expanded and distributed throughout the territory.
- Changes in the shop experience, with greater recourse to **TECNOLOGIES** (former high-tech changing rooms).

## IMPACT ON VALUATIONS

Following the introduction of the green pass and the consequent reduction in limitations on movement, the retail sector is recording an increase in sales. We can therefore confirm a stabilisation of rents and only in some cases a slight and slow recovery of values.

# HOTEL SECTOR

## HIGHLIGHTS

**VOLUME OF CAPITAL MARKET INVESTMENTS - Q1-Q3 2021**

**710**
Million €

**NORMALISED NUMBER OF TRANSACTIONS (NTN): HOTELS**

**791**
**Q1-Q3 2021**
Up compared to
Q1-Q3 2021 (355 transactions)

**MACRO TRENDS IN THE HOTEL SECTOR IN THE COVID ERA**

**CONSOLIDATION** OF DOMESTIC DEMAND

**LOWER GROWTH RATE** IN INTERNATIONAL ARRIVALS

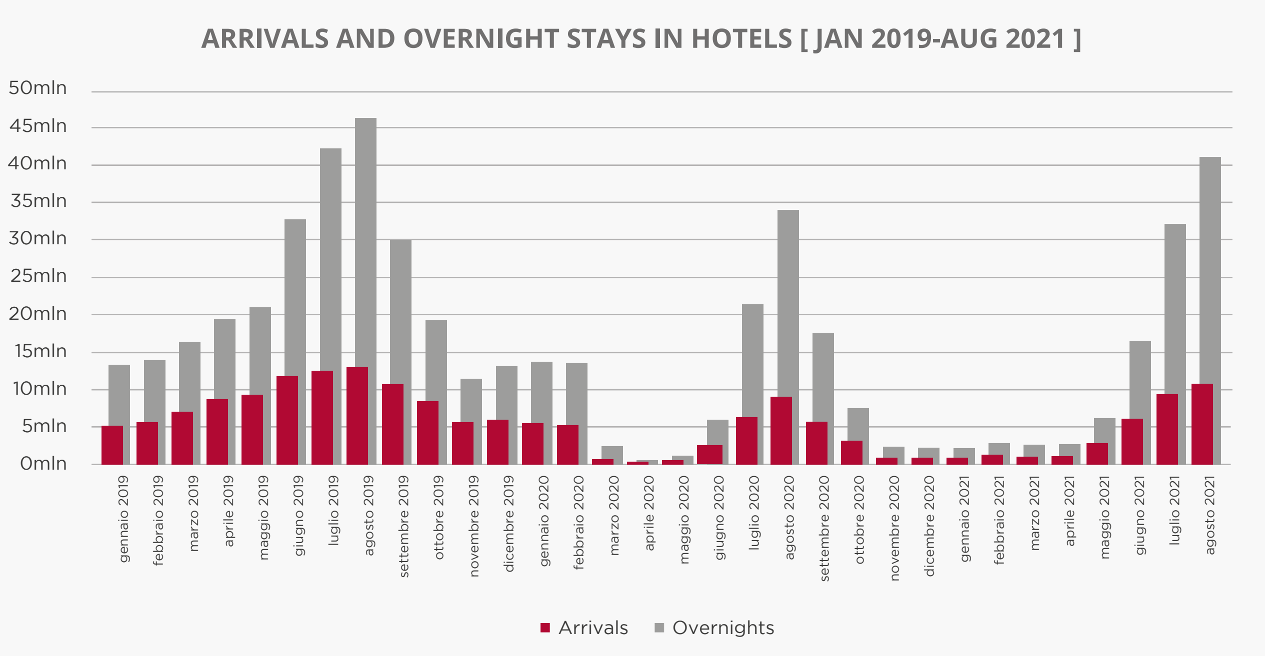
**REDUCTION** IN BUSINESS TRIPS

## KEY DATA

The effects of the Covid-19 pandemic have been 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, small-town hotels, generally used by domestic business customers, apartments with outdoor spaces and holiday villas for tourists.

Starting in March 2021, the general trend in arrivals and stays in **accommodation facilities** resumed growing, although with volumes still below those of 2019. In particular, the month of August recorded growth of 12% in terms of arrivals against 2020, but was still down (-14%) compared to August 2019.

In hotels in particular, Istat data indicate that the first 8 months of 2021 recorded an increase in arrivals of +9.4% (31 million) compared to the same period in 2020 (29 million). Overnight stays were up as well, recording a change of +15% (107 million) compared to the same period of 2020 (93 million). The overall figures, therefore, were up compared to the same period of the prior year, but still down compared to the first 8 months of 2019.




*Source: Gabetti Research Department analysis of Istat data*

In this scenario, capital market transactions in the hotel sector in 2021 maintained good performance, recording over €700 million in the first nine months, mainly due to major transactions recorded in the Triveneto area. Of these, two were in Venice, namely Baglioni Hotel Luna and the Bonvecchiati Complex, and three in Cortina D'ampezzo: disposal of the Grand Hotel Savoia and Radisson Savoia Palace for approximately €180 million and Hotel Cristallo for €74 million. Increased investments in Cortina demonstrates growing interest by investors in this mountain area, which is benefiting from the upcoming winter Olympics in 2026, certain to result in increased hotel supply.

# FORECASTS

Forecasts by the international experts of the World Tourism Organization indicate a gradual growth in tourism over the next 3 years, with a return to the results achieved in 2019. The time variable will depend on dissemination of the Covid-19 vaccine and on resurgence of the pandemic due to the progressive spread of virus variants in many areas of the world. Thanks to the vaccination campaign, the impact of the virus is currently more mitigated compared to 2020. This allows us to hypothesise that from 2024/2025, we can reasonably expect tourism flows to resume their natural growth, assuming no other disruptive factors intervene. At the same time, a relatively more vigorous recovery of close-to-home tourism is also expected.

To optimise on the **opportunities that may be offered by the sector**, numerous hotel operators are taking into consideration a new hotel model. Indeed, sector operators are taking advantage of this "calm" period to refurbish existing hotels to create a new product that is in line with the new demand. In this regard, the future will see greater demand for remote working areas, which will allow empty space to be converted into co-working space, partially satisfying demand that has been growing since even before the pandemic. For example, the media already use the term "workation", a neologism that combines the words work and vacation as a phenomenon that emerged during the summer of 2020. In fact, many workers spent that period in hotels that had remote working areas. What changes is the very concept of hotel, which is increasingly viewed not only as a structure 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 hotels, renewing their contents and functions. Measures to facilitate these new strategies include the recent **80% superbonus** and **grant** incentives for the retrofitting of hospitality facilities, with the objective of improving hotel supply based on the provisions of the National Recovery and Resilience Plan (NRRP).

In terms of investments, among the various Italian cities, Milan and the surrounding areas are certainly in the sights of investors, especially in view of the upcoming 2026 winter Olympics in Cortina.

## NEW TRENDS

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

- Space and services for **REMOTE WORKING**
- **SOCIAL AREAS** ideal to relax in or meet with other people
- Areas for **PSYCHO-PHYSICAL RELAXATION**
- **MULTI-FUNCTIONAL SPACE** transformed for events
- **BARS** and **RESTAURANTS** with a varied **OFFER** available 24/7
- Services for **LEISURE** and **SPORT**
- More **ECOSUSTAINABLE** hotel facilities
- **HYBRID** structures
- Higher demand for **REMOTE WORKING** areas
- **DAYTIME USE** of the hotel (hourly)

## NEW TRENDS

- **GREATER DEMAND** during the week and during **LOW SEASON**
- Mixing of **BUSINESS** and **LEISURE**
- **SENIOR TOURISM** and **MEDICAL TOURISM**
- **CONVERSION OF EMPTY SPACE** / 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

The hotel sector has seen a gradual recovery in terms of both domestic and foreign tourism, concentrated mainly during the summer season, as shown by the arrivals and overnight stays graph.

The introduction of the green pass and the reduction of travel restrictions, both for business and pleasure, has certainly had a positive impact, but the numbers have not yet reached pre-pandemic levels.

Revenues are expected to stabilise, with gradual recovery in the sector amid declining yields.

# LOGISTIC SECTOR

## HIGHLIGHTS

### INVESTMENT VOLUME - Q1-Q3 2021

**1.2**
Billion €

The logistics sector continues to record positive results. The vibrancy of the market is fuelled by the need to move an increasingly high amount of goods and by e-commerce.

### TURNOVER IN CONTRACT LOGISTICS - 2021

**86** Billion €

**+3.5 %**
compared to

## KEY DATA

Reported investments in the logistics market during the first nine months of 2021 amounted to approximately €1.2 billion, with particular mention to three portfolios transacted during Q3 2021.

During the course of the pandemic, logistics activities played a major role, especially in ensuring a continuous supply of goods in all categories. In addition to the supply of basic necessities (health and food sectors), which saw a sharp increase in the volume of goods in transit, the most obvious effects were seen in the exponential increase in online purchases through e-commerce platforms.

According to data from the Milan Polytechnic (Contract Logistics Observatory, 2021), turnover of contract logistics companies amounted to €86 billion in 2021, +3.5% compared to 2020. Following the drop in 2020, turnover in contract logistics is returning to pre-Covid levels (87 billion in 2019), while growth has been recorded in the costs of energy (+24%), fuel (+13%), leasing (+2%) and labour.

## FORECASTS

Given the growing trend of online demand attributable to more people staying in their homes, both during leisure time and work, the sector will continue to grow steadily in the coming months. To meet the steadily increasing demands, the entire e-commerce chain will have to organise operations by increasing efficiency and speed. In this context, bringing goods closer to the end consumer becomes strategic. In order to keep up with the times, even this sector will have to take advantage of the "digital and green transition" promoted by the NRRP, to reduce the gap that penalises Italy compared to the rest of Europe. From an economic standpoint, this is an opportunity to increasingly integrate the production and logistics sectors in our country.

### NEW TRENDS

**CONSTRUCTION/REFURBISHMENT** of performing buildings that are technologically advanced and comply with international and environmental standards, suitable for **"LOGISTICS 4.0"**

Location in specific **BUSINESS AND/OR LOGISTICS PARKS** which, compared to a dedicated (single) solution, may enjoy greater services in terms of security, energy generation, access control, facilities and railway links (in the case of freight terminals), as well as greater flexibility of areas and labour

**LAST MILE:** presence of a widespread distribution network near the main Italian cities, as an integrated location strategy

**MULTI-LEVEL WAREHOUSES:** buildings situated in the hinterland and with a high level of automation to facilitate the picking of goods on high shelves

**MICRO LOGISTICS:** areas within the city, even with a different designated use from industrial, such as multi-level parking garages, old cinemas or theatres and vacant areas that could be converted to last-mile distribution

**ORGANISATIONAL AND DESIGN CHOICES** for warehouses based on safety distancing, the **MULTI-CHANNEL** approach and AUTOMATION

## IMPACT ON VALUATIONS

A positive outlook is confirmed for the logistics sector, which, as mentioned, has proven to be the sector that has best withstood the slowdown in activity due to the closure. Constant growth in interest by investors is expected over the medium and long-term, while rents and yields are expected to be stable or to improve slightly.

# NOTES

# NOTES

## OUR REPORTS:

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

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