



FEATURED ARTICLE

ITALIAN MARKETS

By Alberto Iori, SIOR



Italy represents one of the most powerful manufacturing countries in Europe so it's no wonder more people are interested in the opportunities to conduct business here.

The Italian real estate industrial stock ranks second below Germany in terms of sqm (approx. 450 mil). The stock devoted to logistics and carrier is only 10-15 percent of the total industrial stock: it is a low percentage compared to Germany and very low compared to France—and in particular to Benelux, where logistics and carrier sub-type dominated this asset class.

More than 50 percent of the Italian Industrial stock is located in the North of Italy, which is still one of the most industrialized macro-areas in Europe. After the end of WWII, Italy developed an aggressive manufacturing attitude (the so called Miracolo Italiano – Italian Miracle – from arts to industry) during the economic boom of sixties.

Today Italy still has a strong position in key industries, like: second in Europe in the Mechanical Engineering Industry, third in the chemical production value, and second in Europe for Pharma manufacturing value.

Beginning in 2008, transactions and values had constantly been decreasing until 2015 when they stopped (average lost 30 percent in capital value and slightly less in rent). The Italian market has been fed through real estate debt collected directly by owner occupier mostly through financial leasing. This financial tool is progressively losing

interest and now, from the investors' point of view, the longing to move on a system of operative rent is emerging.

Industrial investors in Italy were mostly private investors (often past entrepreneur that sold the business and remain with leased real estate) with no institutional investors approaching this market, which was fundamentally dominated by owner-occupiers (direct ownerships or through financial leasing). We can reasonably expect a huge demand for extract value from real estate through sale and lease back, especially nowadays with a young generation of entrepreneurs and Private Equity) that owns manufacturing subsidiaries and is experiencing a considerable growth in Italy.

The logistics sector has been evolving into a real multinational game dominated by international focused investors / developers during the last 10 years. The sector related to carrier is also moving in this direction, while the proper industrial manufacturing industry real estate

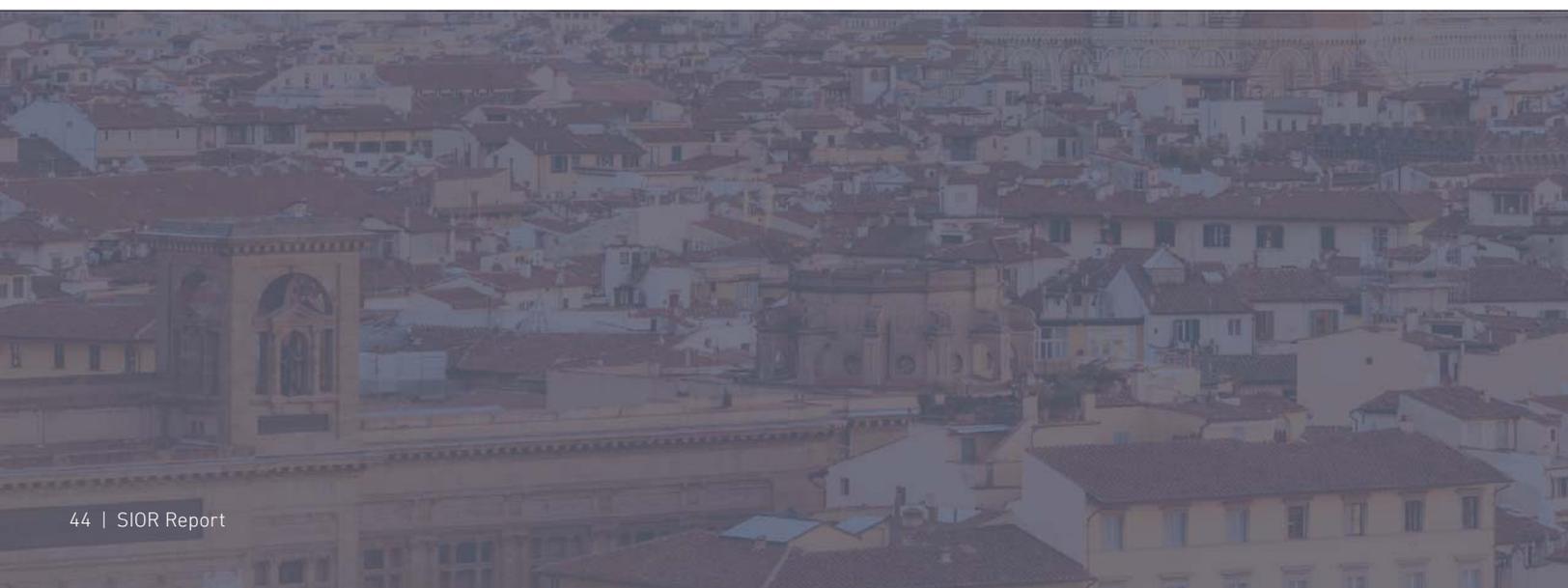
investment, despite expectation, is still plodding along.

This has personally affected my business in a few ways, first, we now have a legislation similar to US REIT that is called SIIQ, which is perfect for high yielding products like industrial to be listed in the hands of professional investors. The country will discover operational lease and there will be a great perspective opportunity for brokers representing occupiers that would like to shift from ownerships to tenancy

Regarding logistics, two of the largest international logistic developers / investors – Prologis and Logicor - have the largest portfolio; in particular, both of them control around 1.000.000 sqm. Prologis was built after a long decade of direct development and Logicor was constituted through a massive acquisition campaign in the last three years (acquisitions from fund liquidation, etc.) – overall class A logistic in Italy has quantified app. 10 mil sqm (a quarter of the overall market). Still

on this Field Gazely (IGD), SEGRO (that has recently acquired nr. 1 national logistics developer) and companies like Goodman and Panattoni just made 2/3 years' experience and then they shut activity. National take up in 2015 is around 600.000 sqm.

Even the international advisory sector is poor and fragmented; in fact, CBRE, JLL, and Cushman and Wakefield have entirely no more than 10 brokers (direct employed) on national basis. Italian stock is quite old, in particular properties built in the pre-war period represent 10 percent of the total national stock, while properties built between the end of World War II and the 70's represent about 15 percent. The majority of the stock was built between the 70's and 1985 and between 1985, and 2008 with a percentage of 30 percent (first category) and 35 percent (second one), finally the stock built after 2008 is very low, just 10 percent. In fact, after 2008 developments have been very scarce. Italy has recently discovered the phenomenon of "structural vacancy" referred to assets



built before the '80s located in an area not-convertible to other use.

In 2015 the market seemed to reach its floor, while in the Q1 of 2016 the take up (in particular the one related to recent/new product) is performing well and manufacturing companies are starting to buy new machines and make new investments. On the manufacturing side the companies selection occurred during the last eight years seems completed (Italy lost 20 percent of its manufacturing capacity) and for 2017 we can expect a re-start of the speculative construction in the logistics area.

Why do business in Italy? There are big stocks and multinational presence of worldwide producers, including Italian multinationals with worldwide presence here. There is a poor presence of big firms that always have difficulties developing a decent industrial brokerage network - I believe SIORs can do and offer many services in Italy.

In Italy there is a lot of SME companies with a high level of technology and innovation, investors with multi-let strategy have not come yet. Taxation: warehouse typically pay IMU, the national tax based on cadastral value (which today is quite similar to the market value) that is roughly 1 percent. At the local level there is no possibility to negotiate incentives from prospective occupiers.

National transportation rules – edit on 1992 – were recently amended with particular effort to promote selection in hub point (harbour, cargo airport, freight train village, etc.) whitening a national contest where truck road traffic still leads freight movement with 90 percent market share.

I would suggest to the SIOR community to try to map the Italian manufacturing presence within each member's own country. This will allow brokers to assess clients' strategies and understand if existing facility fit their actual business and if not, whether they need

to resize the space occupied or to find something different. SIOR member clients that need to relocate or expand can be approached with industrial tenant rep services, from contract analysis to stay vs. go option: this can be a real upgrade in a market where local brokers often just act like pure intermediary. ▼

