REPORT | Q2 2024

# ITALIA GRI 2024

Industry leaders shape the future of Italian real estate at the region's premier annual conference

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GRI Club

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**INTERACTIVE** TITLES



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# WELCOME TO GRI EUROPE

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"At Italia GRI 2024, we witnessed a confluence of top-tier real estate professionals diving head-first into critical issues and emerging opportunities within Italy's property market.

This year's discussions underscored Italy's strategic position within the European and global context, particularly amid the current polycrisis. Despite the challenges, there is cautious optimism about economic stability and investment potential in 2024.

The growing focus on ESG principles and the integration of innovative technologies continues to drive the market forward, attracting long-term investors who are committed to responsible and profitable development.

These conversations are invaluable in providing a clearer picture of the opportunities and challenges that lie ahead. The insights gained here will be instrumental in guiding strategic investment decisions across various real estate sectors."

**GUSTAVO FAVARON**
CEO & Managing Partner, ***GRI Club***

# INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following the discussion sessions that took place during **Italia GRI 2024**, the premier event in the region where the most senior players in the Italian real estate market delved into Italy's role within the European landscape and the global polycrisis.

Participants explored opportunities and challenges in urban regeneration, logistics, data centres, hospitality, and private debt, while also highlighting the importance of sustainability and technological advancements in attracting long-term investment.

**CLICK HERE** TO ACCESS ALL THE **ITALIA GRI 2024** PHOTOS

# ITALY'S ECONOMIC AND FINANCIAL OUTLOOK

Industry leaders at Italia GRI 2024 noted that Italy is currently navigating a complex global landscape marked by interconnected economic, social, environmental, and geopolitical challenges, known as a "poly-crisis."

Despite these difficulties, the Italian economy is projected to continue its growth trajectory, sidestepping the threat of contraction that looms over other European nations, driven by robust exports, tourism, and investments in construction and machinery.

The financial sector in Italy remains stable amid shifting interest rates, though certain vulnerabilities persist, particularly in corporate debt and commercial real estate.

High interest rates have inevitably increased debt service costs, yet Italy has not seen a corresponding rise in delinquencies. This indicates a robust financial framework where both corporate and household debt ratios remain manageable.

Italy's real estate market has also remained relatively stable, with prudent lending practices contributing to this resilience. Investment opportunities in Italy's private debt market are attracting both local and international investors, particularly in retail, hotels, and office sectors.

Image: GRI Club / Midjourney

## » Poly-crisis and Global Trade Disruptions

The global landscape is currently shaped by economic, social, environmental, and geopolitical crises that interact to create greater instability. Supply chain disruptions, particularly in key maritime routes like the Suez and Panama Canals, have underscored the fragility of global trade.

Europe's heavy reliance on importing critical raw materials for its green and digital transitions, mainly from countries like China and the Democratic Republic of Congo, adds another layer of complexity.

Geopolitical risks, including conflicts in the Middle East and the ongoing Russia-Ukraine war, pose significant threats to financial stability. These risks are not new but continue to exert pressure on the global economic environment. "A materialisation of geopolitical risk leads to a market contraction," noted one attendee.

"Climate change has a big impact, both on housing markets, but also on tourism," said another participant. Its effects are becoming increasingly evident, influencing market dynamics and economic strategies.

Widespread AI adoption also poses potential risks, including concerns about too much harmonisation and operational dependence on non-European providers. The growing importance of private markets and private credit, though still small, requires careful monitoring.

## » Construction

The construction industry in Italy is grappling with significant challenges, including rising construction costs and higher interest rates, which are making it difficult for middle-class buyers to afford apartments, leading to a contraction in prices.

The sector faces a labour shortage exacerbated by demographic changes and the retirement of baby boomers, with a particular difficulty in finding unskilled labour.

Technological advances and artificial intelligence are also transforming the industry, promoting more factory-based construction and a shift towards modular construction methods.

Image: GRI Club / Midjourney

## » Economic Resilience and Growth

Despite these challenges, Italy has demonstrated remarkable economic resilience. The country's GDP growth has consistently outperformed expectations, driven by robust investments in construction and machinery, along with a buoyant tourism sector.

"The Italian GDP is 4.6 percentage points higher than pre-COVID levels," noted one leading economist, highlighting the country's relative economic recovery compared to some of its European counterparts.

Despite the overall positive financial environment, there are pockets of vulnerability within Italy's economy. The real estate sector, for instance, has seen a decline in profit margins for real estate firms, highlighting a specific area of concern. While high interest rates have been well-absorbed by the economy, certain households and corporations remain vulnerable, underscoring the need for ongoing vigilance.

## » Banking on Balance

European banks, including those in Italy, have shown strong profitability driven by interest rate margins. However, their market valuation remains low, reflecting scepticism about future profitability. This low market valuation is attributed to various factors, including asset quality and the pace of digitalisation within the banking sector.

Italian banks have remained resilient, profiting from high interest rates while maintaining low levels of non-performing loans. This stability is particularly noteworthy given the worrisome constellation of economic events that could have destabilised the sector.

Despite high interest rates, there has not been a significant rise in debt ratios for corporations and households. The mechanical effects of inflation, while generally negative, have helped keep debt ratios in check.

## » Non-Bank Financial Institutions

This stability is contrasted with the growing activity in non-bank financial institutions (NBFIs), like private credit funds, which are less regulated but expanding rapidly. "We have regulated banks a lot, now the activity is migrating towards non-banks," an expert noted, suggesting that regulatory challenges may be in store for the future.

Concerns about liquidity mismatches in funds could amplify market corrections if a downturn occurs. Macro-prudential policies are necessary to address this issue, particularly for NBFIs. These policies aim to mitigate the risks associated with liquidity mismatches and prevent procyclical behaviour during market stress.

More cross-country banking mergers within Europe were noted as being desirable. The growth of private credit funds, while requiring balanced regulation, ensures they do not pose systemic risks. This balanced approach aims to foster a vibrant non-bank financial sector while mitigating potential risks.

## » New Globalisation & Italy's Strategic Role

In the context of "New Globalisation," Italy has a unique opportunity to become a crucial bridge between the Mediterranean and Northern European countries. This phase of globalisation emphasises regional trade and strategic partnerships.

Italy's geographic location places it at the crossroads of Europe and the Mediterranean, making it a natural hub for trade and economic exchanges. This strategic positioning allows Italy to facilitate connections and trade routes between non-European Mediterranean countries and Central and Northern Europe.

## » Economic Benefits

The shift towards regional trade under New Globalisation can lead to several benefits for Italy:

> • Specialised Value Chains: Countries around the Mediterranean already have specialisations in various value chains critical to Europe's strategic interests.
>
> • Lower Labour Costs: Labor costs in many Mediterranean countries are now more competitive compared to China, making regional production more attractive.
>
> • Improved Logistics Infrastructure: Enhanced port facilities in countries like Egypt, Morocco, and Turkey support more efficient trade routes, benefiting Italy as a transit and exchange hub.

## » Potential for Growth

As Europe seeks to establish its own value chains in strategic technologies, Italy can leverage its location and infrastructure to play a significant role. The focus on regional trade can drive growth in several sectors, including logistics, manufacturing, and high-tech industries.

Image: GRI Club / Midjourney

# THE EVOLVING LANDSCAPE OF PRIVATE DEBT

Participants at Italia GRI 2024 noted that the private debt market in Italy is experiencing significant growth, driven by high interest rates and inflationary pressures. This environment has increased the appeal of private debt funds, which offer floating-rate products and attractive returns.

Larger, well-established funds are particularly successful in raising capital, but niche funds focusing on special situations are also gaining traction. The market is adapting to fewer new leveraged buyout deals by focusing on refinancing existing debts and add-on acquisitions, maintaining robust deal flow despite economic uncertainties

A shift towards mid-market transactions and larger deals was also observed, while emphasis was placed on the importance of value creation and sustainable pricing, particularly during refurbishment phases. Cash flow management has emerged as a critical factor in Italy, with investors prioritising transactions where significant value can be organically generated by sponsors.

## » Debt vs Banks

Private debt is increasingly filling the gap left by traditional banks, especially in scenarios requiring faster processing and higher leverage. Traditional banks in Italy remain less active in specific asset classes, opening opportunities for private debt investors.

The emergence of new players offering senior lending solutions with higher loan-to-value ratios (LTVs) and expedited processing times is reshaping the Italian market. However, these new lenders often require more complex security packages compared to traditional banks.

## » Fundraising

Fundraising in the Italian private debt market remains challenging but shows signs of improvement. Larger funds have been more successful in raising capital compared to their smaller counterparts. There is a noticeable shift in funding sources towards the Middle East, Far East, and emerging interest from South America. In Italy, the lack of operators financing secondary cities and markets presents both a challenge and an opportunity.

The session also explored the growing interest in securitisation and crowdfunding platforms in Italy as innovative ways to raise capital for real estate investments. These methods offer fiscal efficiency and structural benefits, making them attractive alternatives to traditional financing. The fiscal efficiency of securitisation vehicles, coupled with their structural benefits, makes them an appealing option for Italian investors.

# ITALIAN REAL ESTATE OUTLOOK

The Italian real estate market has been characterised by stability, with lower growth in real estate prices compared to other European countries. This stability is partly due to the Italian mortgage market's lower loan-to-value ratios, which have contributed to prudent lending practices.

However, the commercial real estate sector remains a point of concern, with low transaction volumes and declining profit margins. Challenges like regulatory frameworks, taxation, and economic fluctuations impact real estate investments, requiring foreign investors to navigate these complexities carefully.

Despite these hurdles, opportunities abound in high-luxury residential properties, sustainable developments, and co-living projects. Growth is expected in logistics, retail, residential, offices, and hospitality sectors, leveraging Italy's advantageous location and evolving market trends to attract long-term investments.

## » TOP 3 REAL ESTATE OPPORTUNITIES

However, the commercial real estate sector remains a point of concern, with low transaction

**• TOURISM AND HOSPITALITY**

"The tourist flows in 2023 have been higher each month compared to previous years," noted one participant, observing that Italy's tourism sector, particularly in secondary destinations, is ripe for growth.

The country remains a top global destination but has yet to fully capitalise on its potential. Improving accommodations and expanding in lesser-known areas could yield high returns, underscoring the sector's growth potential.

**• STUDENT HOUSING**

With increasing mobility among university students, there is a significant demand for student housing. Despite demographic trends, the number of off-campus students continues to rise, making this a lucrative area for investment.

**• SOUTHERN ITALY**

The southern regions of Italy present significant untapped potential. These areas could play a strategic role in the evolving landscape of regional trade, particularly as Europe seeks to develop more localised value chains in strategic technologies.

# SECTORAL SUMMARY

## RESIDENTIAL

- Italy's cultural heritage and natural beauty attract residential real estate investment, particularly in historic and luxury properties.
- High demand for sustainable, high-quality housing in urban centres drives prices up, with multifamily assets and alternative classes like student and senior housing gaining traction.
- Remote working trends and sustainable living priorities create opportunities for tax-incentivized investments in rural areas, with environmental considerations becoming increasingly important.

## OFFICES

- Investments are largely focused on Grade A office real estate in prime locations, with ESG, location, and talent access as key factors.
- The shift towards flexible workspaces and mixed-use developments opens opportunities for repurposing underutilised properties.
- The integration of technology and collaborative spaces aligns with new workplace strategies, driving interest in superior office stock.

## HOSPITALITY

- Slow transactions in 2023 are expected to ease and occupancy levels are anticipated to return to pre-COVID-19 levels.
- There is an increasing focus on sustainable tourism and high-end accommodation.
- Italy has a growing population with increased leisure time and a desire for unique experiences, presenting new opportunities.

## RETAIL

- Prime retail locations in iconic cities like Milan and Rome continue to attract investment, while opportunities exist in high-traffic secondary locations.
- Despite ecommerce challenges, the sector offers potential for creative investors to capitalise on changing consumer behaviours and the vibrant market.

## LOGISTICS & INDUSTRIAL

- The logistics and industrial sector in Italy remains resilient, bolstered by historically low rents, high yields, and low capital values.
- Growth opportunities are fueled by the evolution of ecommerce and increasing demand for efficient supply chain solutions, despite the ageing existing stock and low vacancy rates.

# ITALIAN RESIDENTIAL DEMAND

Discussions at the 'Rental vs Sale Resi Models' session highlighted the robust demand for residential properties across Italy, with Milan and Rome identified as particularly attractive markets.

The need for modern, energy-efficient properties to cater to the growing population in Milan, expected to rise from 1.2 million to 1.4 million in the next few years, was underscored, while Rome was also noted for its large market and unmet demand for new developments.

However, secondary cities like Bologna and Florence, despite their potential, face significant challenges in attracting both national and international investment. The discussion revealed that these cities require substantial urban regeneration and improvements in energy efficiency to unlock their real estate potential.

Italy's property price trends showed notable regional variations, with the highest asking prices for both sales and rentals found in the northern regions, while the southern regions had the lowest.

Over the past two years, the average asking prices for both sale and rental properties have steadily increased, reaching their peak in May 2024. Sales prices experienced moderate growth, while rental prices saw a more significant rise, reflecting a growing demand for rental properties across the country.

## » Battle of the Builds

Build-to-rent (BTR) projects were noted to be emerging as a viable model, particularly in the luxury and niche markets. However, BTR faces higher operational and management challenges, necessitating experienced operators to manage large residential portfolios effectively.

The preference for build-to-sell (BTS) models was evident, driven by quicker returns and stronger cash flow. Speakers shared that BTS projects often achieve pre-sales of up to 40% before construction begins, providing a vital financial cushion.

Private investors, particularly high-net-worth individuals (HNWIs) and family offices, show a preference for short-term returns, making BTS models more attractive. Nonetheless, the luxury segment remains resilient, with high-end developments in secondary cities offering significant margins.

Institutional investors are gradually warming to BTR models, seeking lower risk profiles and proven management capabilities. The discussion noted that successful BTR projects could pave the way for broader acceptance and investment.

## » BTR Challenges

Effective property management emerged as a critical factor for BTR projects. The need for experienced operators to handle large-scale residential developments was emphasised, highlighting the importance of operational excellence in ensuring project success.

- **SUSTAINABILITY**

> ESG considerations are becoming increasingly integral to residential developments. Projects that incorporate ESG principles not only achieve higher returns but also gain greater community acceptance.
>
> The session showcased examples of successful ESG projects, such as urban regeneration initiatives that transformed polluted, abandoned areas into vibrant, sustainable communities.

- **TECHNOLOGY**

> Modern residential developments are increasingly incorporating technology to enhance efficiency and community engagement. Smart home features, community-oriented technology solutions, and high energy performance standards are now essential components of new projects.
>
> The discussion noted the growing demand for amenities that foster a sense of community, such as gyms, outdoor pools, and communal spaces.

- **REGULATORY**

> Regulatory frameworks in Italy pose significant challenges, particularly concerning VAT and tax structures.
>
> The panel discussed ongoing efforts to streamline these regulations, drawing on more efficient models from other European countries.

Despite these challenges, the future of residential rentals in Italy looks promising, driven by younger generations and returning expatriates seeking flexible living arrangements. The market is expected to grow, with a focus on scalable solutions that incorporate amenities and services to enhance the residential experience.

## » Student Housing

Although alternative asset classes, such as student housing, present significant opportunities for investors in Italy, they also offer a number of unique challenges due to several factors:

- **LACK OF BENCHMARKS**

> There is a scarcity of strong benchmarks for operational performance and exit cap rates in the Italian student housing market. This makes it difficult for investors to accurately assess the potential returns and risks associated with these investments.

- **MARKET FRAGMENTATION**

> The market for student housing in Italy is fragmented, with fewer large-scale developments compared to other countries. This fragmentation adds complexity to investment decisions and operational management.

- **HIGH LEVERAGE COSTS**

> Developers and asset owners often prefer to leverage their assets significantly, sometimes up to 80%, at high costs. This high leverage increases financial risk, especially in a market with uncertain cash flows and exit strategies.

- **REGULATORY AND STRUCTURAL CHALLENGES**

> The regulatory environment in Italy can be complex, affecting the ease of developing and managing student housing projects. Additionally, the structural intricacies of financing these projects add another layer of difficulty.

- **MARKET MATURITY**

> The student housing market in Italy is still maturing, with fewer established players and large-scale investments compared to more developed markets. This nascent stage of the market leads to higher uncertainty and risk for investors.

Image: GRI Club / Midjourney

GRI CLUB MEMBERS WILL ALSO ATTEND

# EUROPE GRI 2024

GRI Club

Founded in 1998 in London, GRI Club currently brings together more than 16,000 senior executives spread across 100 countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Club content.

**Find out more about GRI Club Europe.**

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