

Real Estate House View

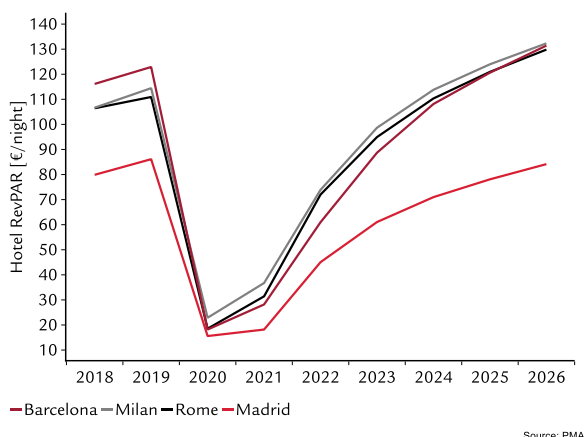
Italy, Spain, Portugal

First half of 2022

Key takeaways

- **Offices:** Polarisation is emerging, with the adoption of hybrid working methods focusing rental demand on the central urban districts and properties refurbished to the latest standards.
- **Retail:** The restrained consumer behaviour and the absence of tourists are continuing to weigh on the rental market, while investors are focusing their interest on the most resilient properties and segments.
- **Hospitality:** The Delta variant weighed strongly on the rebound potential in the summer, while in view of the Omicron variant the recovery of the sector up to 2023 will only be gradual.
- **Logistics:** The boom is continuing on the back of the growth of e-commerce and the restructuring of supply chains, with the sector benefiting from its popularity among users and investors.

Chart in focus



Following the Delta variant, the Omicron variant joined the party at the end of 2021. Overall hotel occupancy rates picked up in 2021 compared with 2020 but remain on average 20% to 40% below their pre-crisis level depending on the typology. On a positive note, long-term investors have not turned away from key destinations, where a gradual recovery is expected in 2023-2024, rather than a rebound. This scenario is now integrated in the pricing of transactions by experts. According to the forecasts, very popular tourist destinations such as Barcelona, Milan and Rome are set to recover their pre-Covid levels, in terms of RevPAR before Madrid, where the increased supply has weighed on RevPAR in recent years.

This region is the main beneficiary of EU recovery funds. The economic climate improved considerably in 2021, especially in Italy. Consumer confidence there is at its highest level in several years. Whether Italy can embark on a period of substantial economic healing will largely depend on the outcome of the forthcoming general election. The Spanish economy recovered more slowly in 2021 and is currently afflicted by an energy crisis that has led to a sharp rise in inflation. The economic progress in the three countries will depend on the development of the global financial markets. At a time of monetary policy tightening outside the euro-zone, the widening of government bond spreads poses a risk to the entire region.

The office sector is becoming polarised

Following several months of uncertainty about the future of rental demand, transactional activity resumed with the lifting of health restrictions. A polarisation of the sector is emerging, with strong momentum recorded in the central districts of Milan, Barcelona and Madrid, while peripheral areas are shaped by rising vacancy rates. Most companies are adopting a hybrid working method and gradually reducing their office space in order to replace it with collaborative space adapted to the well-being of employees. As a result, user searches are concentrated on refurbished properties offering high-quality flexible office benefits. Prime rents have remained stable in Milan, largely thanks to the increase in accompanying measures. However, decreases have been recorded in recent quarters in Madrid and Barcelona.

Retail below potential

There has been no sustained acceleration of household consumption expenditure following the post-lockdown recovery of consumption. While the success of the *vaccine passport* in the three countries explains mobility and the rebound in tourism in Q3 2021, the restrained household consumer behaviour continues to weigh on all the retail segments, with a very significant downturn on high streets, at shopping centres and in online shopping. Vacancy rates remain at high levels, with 10% to 20% due to the rationalisation of brand

portfolios. The polarisation arises from major disparities between the vacancy rates per property or address for each of the sectors and those in the three countries. The average fall in rents of 20% and more on the major prime high streets offers opportunities. The luxury sector continues to suffer badly with historically high vacancies. Although tourist arrivals are recovering strongly, they remain on average 30% to 50% below their pre-Covid level, which is affecting the recovery potential of “jumbo” and high street shops: this is particularly the case in Spain and Portugal, where the UK, German and Nordic clientèle is proportionately less vaccinated. Not surprisingly, convenience formats are holding up better, even if the process of “musical chairs” takes account of safeguarding or liquidation procedures. The big winners are the discount, textile, food and leisure brands that are continuing to penetrate secondary towns in Spain and Portugal. On the investment market, some players with diversified risk profiles remain active: be these opportunists seeking to reposition their assets or long-term institutional investors, all are attracted by the fall in prices or resilient segments such as *retail parks* and other food portfolios.

Logistics outperforming

The sector has emerged from the pandemic victorious. The penetration rates of e-commerce, which were fairly weak in southern Europe, have grown strongly and permanently changed consumer habits. XXL space is largely being targeted by international e-commerce players that are rapidly expanding their territorial network. While supply is receding in the northern Italian corridor, vacancy rates remain stable in Barcelona and Madrid due to the significant number of speculative projects launched and in spite of the strong take-up levels. The sector’s strong fundamentals are generating intense competition among investors wishing to position themselves in this established asset class, leading to a rapid compression of yields. The task now is to measure how long prices could rise for while remaining justified by rental growth prospects.

Chart 1: Development of prime logistics yields in Italy and Spain

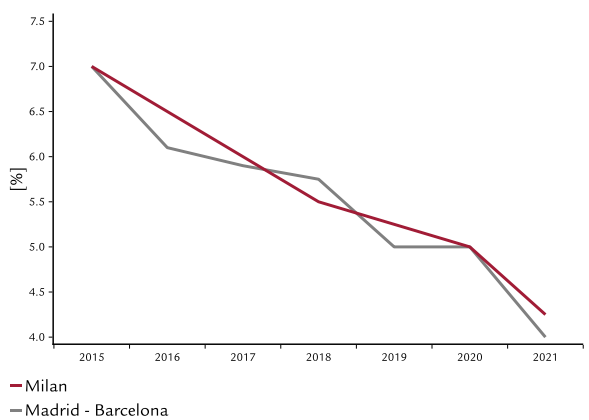
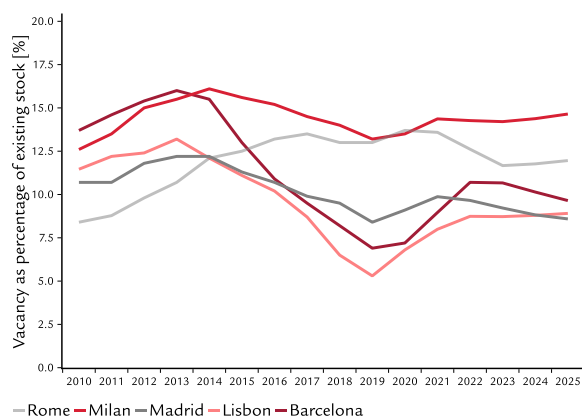


Chart 2: Development of vacancy rates in the office sector



Authors

Swiss Life Asset Managers, France

Béatrice Guedj
Head of Research & Innovation
 beatrice.guedj@swisslife-am.com

Elie Medina
Investment Analyst
 elie.medina@swisslife-am.com

Swiss Life Asset Managers

Francesca Boucard
Head Real Estate Research & Strategy
 francesca.boucard@swisslife-am.com

Marc Brüttsch
Chief Economist
 marc.bruetsch@swisslife-am.com

Do you have any questions or would you like to subscribe to this publication?

Please send an email to info@swisslife-am.com.

For more information, please visit our website at www.swisslife-am.com/research.



Released and approved by the Economics Department, Swiss Life Asset Management Ltd, Zurich

Swiss Life Asset Managers may have acted upon or used research recommendations before they were published. The contents of this document are based upon sources of information believed to be reliable but no guarantee is given as to their accuracy or completeness. This document includes forward-looking statements which are based on our current opinions, expectations and projections. We undertake no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements.

France: This publication is distributed in France by Swiss Life Asset Managers France, 153 rue Saint-Honoré, F-75001 Paris to its clients and prospects. **Germany:** This publication is distributed in Germany by Swiss Life Asset Managers Deutschland GmbH, Aachener Strasse 186, D-50931 Köln, Swiss Life Asset Managers Luxembourg, Niederlassung Deutschland, Hochstrasse 53, D-60313 Frankfurt am Main and BEOS AG, Kurfürstendamm 188, D-10707 Berlin. **UK:** This publication is distributed by Mayfair Capital Investment Management Ltd., 55 Wells Street, London W1T 3PT. **Switzerland:** This publication is distributed by Swiss Life Asset Management Ltd., General-Guisan-Quai 40, CH-8022 Zurich. **Norway:** Swiss Life Asset Managers Holding AS, Haakon VII's gt 1, NO-0161 Oslo.