

REAL ESTATE CAPITAL MARKETS: MARKET OVERVIEW AND PROCESSES OF DISPOSAL AND ACQUISITION OF INCOME PROPERTIES

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Abstract

The real estate sector retains its attractiveness for institutional investors who rely on advisory companies for their business operations. Following an analysis of the real estate investment market, the objective of the paper is to outline the main players involved, the different investment asset classes and the geographical distribution of investment flows. Secondly, we will discuss the importance of the role of real estate companies, which offer consulting to investors in the processes of disposal and acquisition of income properties. Consequently, a number of case histories of transactions managed directly by the Gabetti Group as advisor will be examined, as well as key transactions in terms of their significant impact on the territory.

Keywords: real estate investment; capital market; office market.

1. Introduction

Real estate has nowadays become a valuable financial asset that can be traded on the global market. The capital can indeed be invested to purchase property able to generate income, even through proper requalification processes.

It is particularly evident that the trend in the real estate market, both residential and commercial, represents a valid indicator for the overall economic situation of a Country.

In particular, the residential sector refers to property where people live; it is appealing to private and institutional investors, pension and welfare institutions and the Public Administration, who seek to satisfy a primary need (i.e. a home), to obtain an economic return on investment (i.e. rent) or to refurbish the property¹.

On the contrary, the non-residential sector comprises property destined for commercial use, requested for the most part by the private and public sectors or by the Civil engineering department. Depending on the objectives of the various subjects involved,

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¹ Borghi A., Fantuzzi F., *Investire nel mercato immobiliare*, in Manuale del Provate Banker, Egea 2013.

the demand for investment is subsequently divided into that for new properties, and that for requalification projects².

The commercial sector follows a trend related to GDP. We indeed observe that as the economy of a Country grows and develops, the demand for commercial real estate becomes increasingly more consistent (XU, 2017). In this context, the asset classes which are usually regarded as investment material in Italy refer to non-residential uses, office and retail in particular, even though the residential sector is gradually attracting the attention of investors.

Following the Sub-Prime crisis, the increasing influence of the financial sector on the real estate market has attracted the attention of numerous scholars, who have expressed divergent conclusions about the transformation of real estate into a financial asset.

On the one hand, this process has raised concern for the impact that it could have on the weaker social classes (ERES, 2012; von Loo e Albers, 2019; Folk and Richardson, 2017), on the other hand, it has been made clear how financial innovation may be able to solve these social problems.

For instance, by covering examples of different financial products that are essentially part of the 'financialization of housing', (consider e.g. the insurance policies) Gerritsen demonstrates that innovation in finance may effect positive change³. Home equity insurance may in fact counteract displacement and allow homeowners to protect themselves against events like the global financial crisis of 2008.

In this perspective of analysis, the trend of Italian real estate market will be examined. A significant increase in capital market investments, in terms of volumes of euros invested, has characterized real estate asset classes in Italy in the last few years. Starting from the market reports by Gabetti Research Department, this paper will analyze the geographical distribution of this flows and the different sectors involved, such as hotel, office, retail and industrial one. Secondly, we will discuss the role of real estate consulting to investors in the processes of disposal and acquisition of income properties, through two examples of transactions managed by Gabetti as advisor in Naples and in Turin.

2. Real estate investment volumes

Starting from 2015, there was a significant increase in capital market investments in Italy, reaching a record investment volume in 2017; consequently, the overall figure for 2018 shows a physiological decline compared to the prior year. From a total volume of around €5 billion in 2014, the value grew to a total of €7.8 billion in 2015, +44% compared to 2014, while in 2016 it amounted to €9.3 billion, +19.4% compared to the prior year. Growth in real estate investment in Italy continued in 2017, reaching a total of approximately €11.2 billion, up +20.4% over 2016.

In 2018, €8.3 billion in investments were recorded. At the quarterly level, after recording a total investment volume of €1.6 billion in the first quarter, the second quarter recorded €1.5 billion in investments, the third quarter approximately €2 billion and the fourth quarter approximately €3.1 billion.

² Ibidem

³ Gerritsen J., *A Different Perspective: On the Financialization of Housing*, 2008.

In the first semester of 2019 a volume of approximately €5 billion was recorded, a strong increase compared to the same period in 2018⁴. (Ufficio Studi Gabetti, 2019).

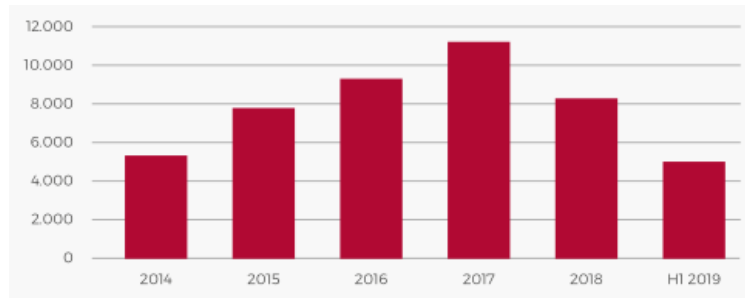


Figure 1: Capital markets investment, Italy (volume - Million €).
Source: Gabetti Research Department analysis.

A total investment volume of €5 billion was recorded in H1 2019. The majority of this volume comprised the hotel sector (43.4%), which recorded more than €2 billion in investments, and the office sector, which accounted for 33.7% of the total, for a volume of €1.7 billion. These were followed by investments in properties in the retail sector, which amounted to €550 million, accounting for 11.1% of the total, and the industrial segment (industrial and logistic), at €410 million and approximately 8% of the total invested. Investments for other use (mostly Universities, Student Housing and Land) at €80 million, accounted for 1.7% of the volume invested, while properties for residential use represented 0.9% of the total, with a volume of approximately €45 million. Lastly, the healthcare/nursing homes segment accounted for 0.6% or €30 million, and the mixed segment for 0.3% or €16 million.

⁴ Ufficio Studi Gabetti, *Investment Overview Q2 2019*, Milano, 2019.

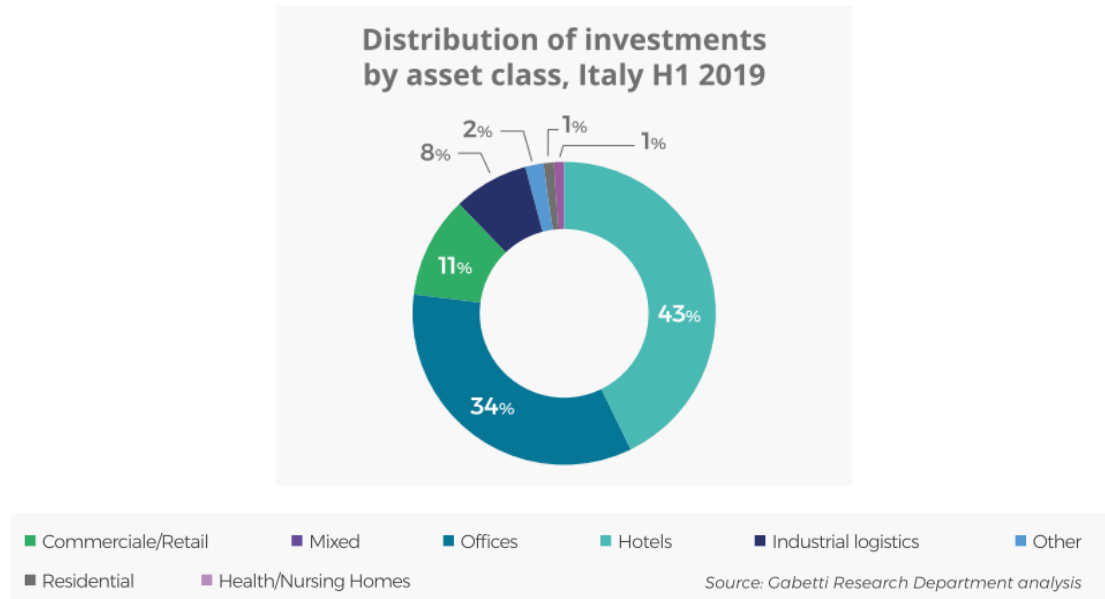


Figure 2: Distribution of investments by asset class, Italy H1 2019.
Source: Gabetti Research Department analysis

During 2019, the majority of investments (approximately 52%) attributable to a specific geographical area took place in Northern Italy, followed by the Centre with approximately 13.7% and the South with 3.6% of the total, while the remaining 30.7% comprised portfolios distributed throughout the country.

More specifically, the investment volume recorded in the province of Milan accounts for 31.7% of the national total, followed by the province of Rome with 12.4% of the total, while 0.8% comprises investments in mixed portfolios with properties situated in the two cities.

At the absolute level, the total investment volume in the province of Milan was approximately €1.6 billion, while in the province of Rome it was around €618 million. Northern Italy also ranks first in terms of number of transactions, at 57%, followed by the Centre (22%) and the South (8%), while 13% of the investment volume is not attributable to a single area.

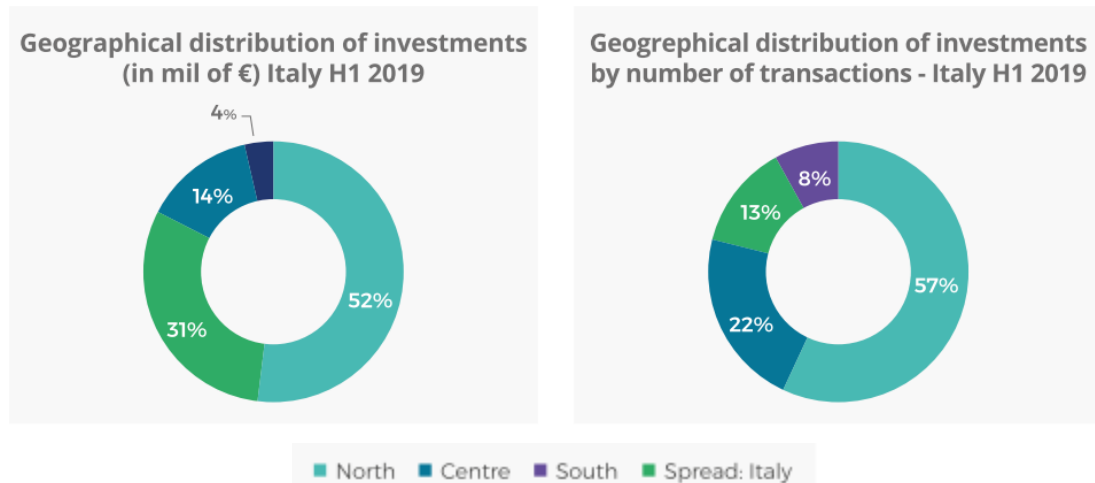


Figure 3: Geographical distribution of Investment volumes
Source: Gabetti Research Department analysis

3. Real estate investment volumes by sector

3.1 Focus on hotel

After the year 2018, in which hotel investments for approximately €718 million were recorded, the first half of 2019 recorded over €2 billion in investments (43.4% of the volume invested), a sharp increase over the same period in 2018⁵.

Mention goes to an important transaction in the hotel segment during this half-year, comprising a portfolio of 8 assets, with a predominance of international capital (91%) compared to domestic capital (8%). Venice, Florence and Rome were the most attractive cities in the first six months of 2019, with high-end hotels recording the greatest interest.

The first six months of 2019 confirmed the preference for high-end hotel facilities and a predominance of foreign investors, at 91%, following the purchase of two major portfolios: one of 15 assets by the USA and one of 8 assets by France. In 2018, foreign investors represented approximately 67% of the total invested, with France and the USA among the top investors

Hotel facilities recorded a +1.6% change in terms of overnight stays in 2018 and +3.2% in arrivals compared to 2017, confirming the growth trend that began in 2014. Italy's appeal also emerges from the breakdown in overnight stays, with 50% of the total 279 million originating from foreign countries.

3.2 Focus Office

Total reported investment in the office market in H1 2019 amounted to approximately €1.7 billion. The highest investment volume attributable to a specific region was recorded in Lombardy (81.6% or €1.4 billion), followed by Lazio with €282 million (16.7%).

⁵ Ufficio Studi Gabetti, *Hotel Overview Q2 2019*, Milano, 2019.

In detail, a total of 36 transactions were mapped: 24 in Lombardy (of which one mixed office/retail property), 9 in Lazio, 1 in Veneto, 1 in Piedmont, 1 in Friuli-Venezia Giulia, (the latter with a mixed residential/office building).

The average value of estimated investment per individual asset in the office sector, excluding transactions involving mixed properties or parts of mixed portfolios, was approximately €51 million in 2018.

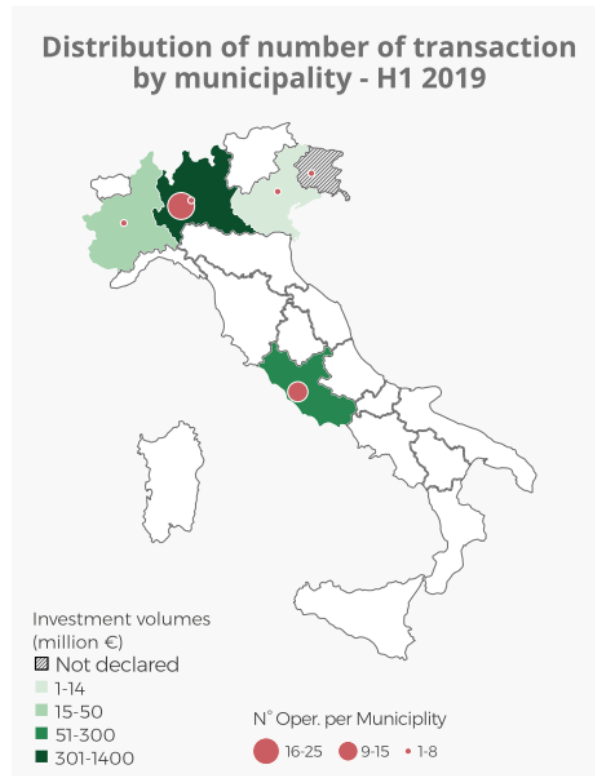


Figure 4: Geographical distribution of office investment volumes.
Source: Gabetti Research Department analysis.

3.3 Focus Retail

Retail investments reported during the first half of 2019 amounted to €550 million. The highest investment volume attributable to a specific region was recorded in Lombardy (55,7% or €310 million) and Lazio (36.2% or €200 million).

In detail, a total of 16 transactions were mapped: 61 from a portfolio of discount stores distributed across the country, 7 in Lombardy, 4 in Lazio, 2 in Veneto, and individual transactions in Piedmont, Campania and Friuli Venezia Giulia.

The average value of estimated retail investment per asset, excluding transactions involving mixed properties or portfolios, was approximately €39.7 million in H1 2019.



Figure 5: Geographical distribution of retail investment volumes.
Source: Gabetti Research Department analysis.

3.4 Focus Industrial

Reported investments in the industrial market (which includes both the industrial and logistics sectors) amounted to a total of approximately €410 million. The highest investment volume attributable to a specific region was recorded in Piedmont (38% or €156 million), followed by Lombardy, with €107 million (26.2%).

More specifically, a total of 23 transactions were mapped, involving logistics properties and areas: 7 in Lombardy, 4 in Piedmont, Veneto and Emilia Romagna, 3 in Lazio, 1 in Campania.

The average value of estimated investment per individual asset in the industrial/logistics sector in 2018 was approximately €20.5 million.

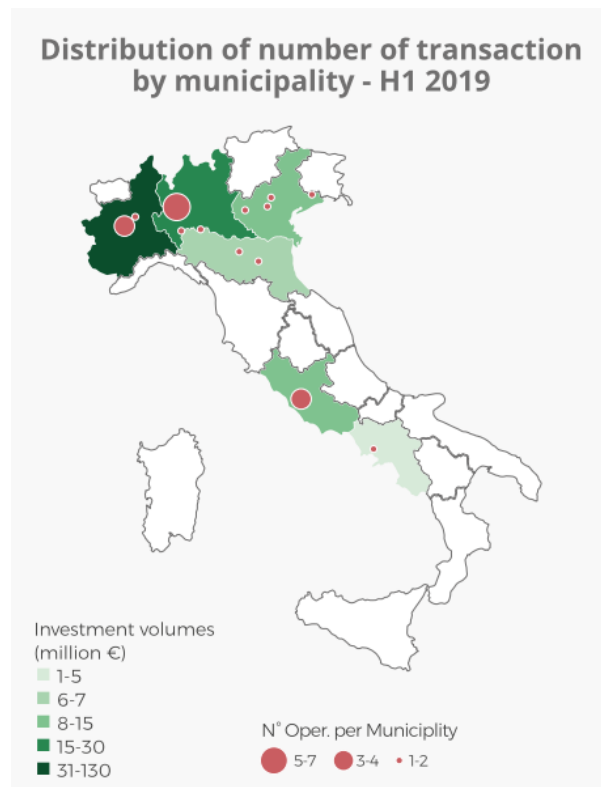


Figure 6: Geographical distribution of industrial investment volumes.
Source: Gabetti Research Department analysis.

4. The geography of investments

In the real estate investment market, Milan confirms itself as economic-financial center, catalyzing interest above all in the office sector, while in Rome investments are more distributed in the various sectors, with particular attention to the retail and hotel sector, thanks to its nature as a cultural-tourist attraction.

Even Florence, from this point of view, is increasingly at the center of investment operations in the two sectors, while Emilia Romagna, with Bologna and Reggio Emilia, is being characterized by an increase in investments in the industrial-logistic sector.

In addition to more traditional investments, we are witnessing of an increase in the transformation of obsolete property, to be redeveloped and commercialized, which in the coming years will be one of the main products on which long-term investors will concentrate⁶.

On a global level, Italy, due to its geographical position and to the fact that it is bathed by the sea, has seen a growing interest in the tourist accommodation sector by international investors. That's why, we expect significant growth in investment in the

⁶ Fantuzzi, Cogotti, *Il mercato degli investimenti immobiliari*, (S)radicamenti, Società di studi geografici. Memorie geografiche NS 15, pp. 615-625; 2017.

hotel asset class, which will pay an increasingly important role in investor asset allocation.

According to the Focus on Office quality, by Gabetti Research Department, we can analyze the weight of certain drivers in the marketability of properties with office designated use in Milan. Statistics were drawn up based on 259 sale and lease agreements stipulated in 2017 in Milan and its hinterland and 188 agreements stipulated in 2016.

The factors analyzed are:

Size: measured according to the size of the areas taken up;

Building quality: measured according to Grade;

Accessibility: measured in terms of the distance of the properties from the underground.

An analysis of the sizes most in demand highlights that in both 2016 and 2017, areas under 700 sqm had the biggest market in terms of contracts stipulated. In 2017 in particular, they accounted for approximately 51% of the total, compared to around 46.8% in 2016.

The available data indicate how a building's Grade is a decisive factor, with Grade A buildings achieving higher rent across all regions.

Proximity to the underground is also a key factor in terms of commercial appeal. In 2016, approximately 58% of the agreements stipulated involved properties that were less than 500 meters from an underground station. This trend was observed in 2017 as well, again accounting for about 58% of agreements stipulated.

Moreover, there continues to be a direct relationship between distance from the underground and rent, albeit with different trends in the average unit rents depending on grade. Lastly, the analysis confirms the growing importance for tenants of factors such as accessibility and the presence of services in the area.

2017		
Distance from subway station	Lease agreements (%)	Average rent (€/sq.m/year)
Underground < 200 m	20%	340
Underground > 200 m < 500 m	38%	291
Underground > 500 m < 1,000 m	20%	196
Underground > 1,000 m < 1,500 m	7%	196
Surface lines	11%	180
Not connected	3%	158
Total	100%	

Table 1: take-up of office building by distance from subway station.

The values indicated refer to unit headline rents.

Source: Gabetti Research Department analysis.

Zone / Grade	2017			
	Rented area (%)	Average rent (€/sq.m/year)		Rent A/B
CBD Historic Center				
A	38%	425	●	111%
B	62%	382	●	100%
CBD Porta Nuova				
A	50%	393	●	140%
B	50%	281	●	100%
Centre				
A	38%	420	●	144%
B	63%	291	●	100%
Semi-centre				
A	43%	281	●	117%
B	57%	241	●	100%
Periphery				
A	40%	222	●	128%
B	60%	174	●	100%
Hinterland				
A	29%	200	●	142%
B	71%	140	●	100%

Table 2: take-up by grade of office building in Milan.

The values indicated refer to unit headline rents.

Source: Gabetti Research Department analysis.

5. The main players involved in capital markets⁷

We can divide investors into two categories: institutional and private ones; the first ones are mainly real estate funds, property companies, credit institutions, financial and insurance institutions, private pension funds and developers; the second ones are construction companies, non-real estate companies that diversify through real estate, private families with important budget and club deals.

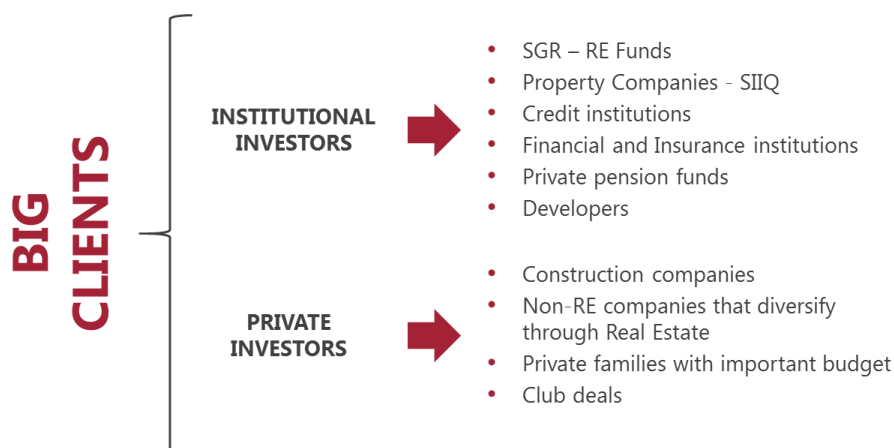


Figure 6: Investors.

Source: Gabetti elaboration.

⁷ For a complete overview, Fantuzzi, Cogotti (2017), *Il mercato degli investimenti immobiliari*, (S)radicamenti, Società di studi geografici. Memorie geografiche NS 15, pp. 615-625.

There are four investment criteria connected to the different risk profile, estimated yields and property maintenance: *core*, *core plus*, *value added* e *opportunistic*. (see also Borghi, 2009, pp. 12-13)

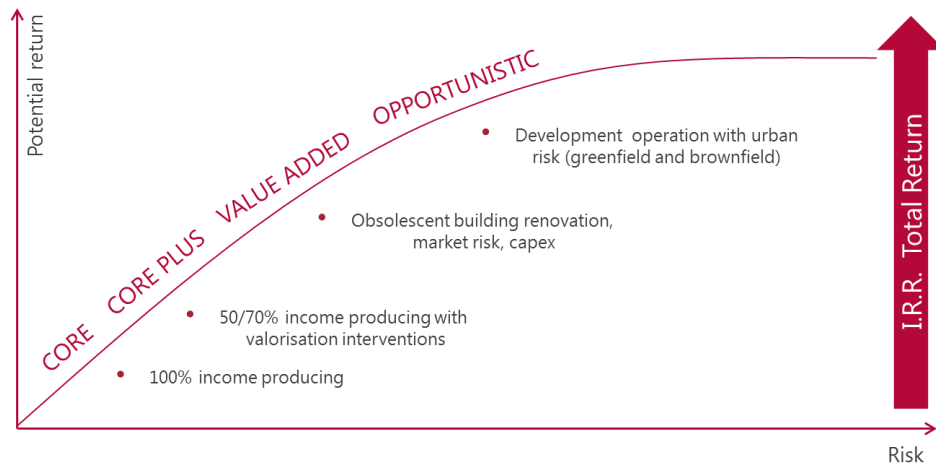


Figure 7: Investment criteria.
Source: Gabetti elaboration.

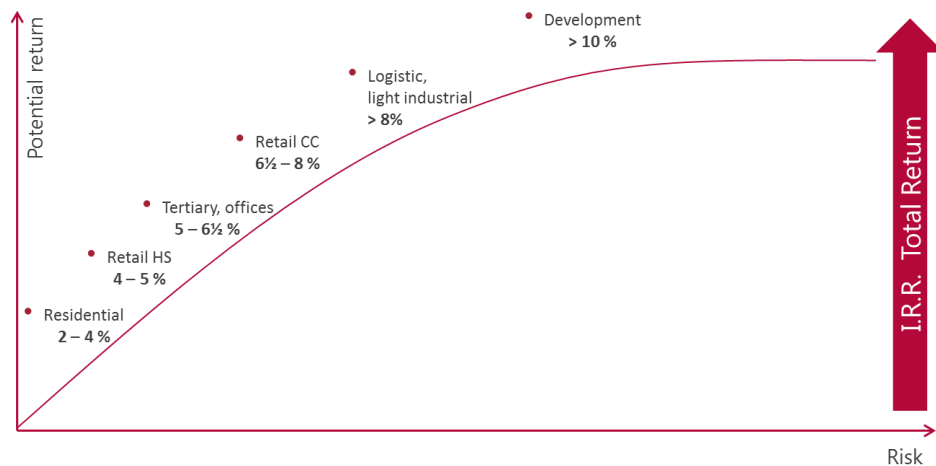


Figure 8: Prime gross yields.
Source: Gabetti elaboration.

6. Capital market advisory: the gabetti group experience

In capital market advisory, we generally can find different assignment/ mandate typologies:

Advisory mandate: consultancy on investment operations for sell side or buy side;

Brokerage mandate: intermediation in the trade of operations between seller/buyer;

Mandate for the implementation and management of selling procedures through competitive process;

Sell & Lease back operations mandate.

The main asset classes in capital market transactions are:

Directional buildings/detached offices;

Shopping centers, retail parks, big box retail, high street retail;

Logistic platforms, warehouses, industrial sheds;

Receptive buildings, mainly hotels;

Senior living, student houses;

Detached residential buildings.

As an example, the Capital Markets department is the Gabetti Agency Business Unit that specifically works for big clients and it supplies real estate consultancy related to the disposal and acquisition processes of single properties or building portfolios, finalizing sales and purchase transactions. (www.gabettiagency.it).

The client is supported with a strategic and integrated approach, interacting with the other company divisions in all the steps of the operation: from the analysis of the initial pricing of the building or portfolio, to the implementation of the best selling/purchasing strategy, to the production of costumed marketing materials, till the support in the operation closing.

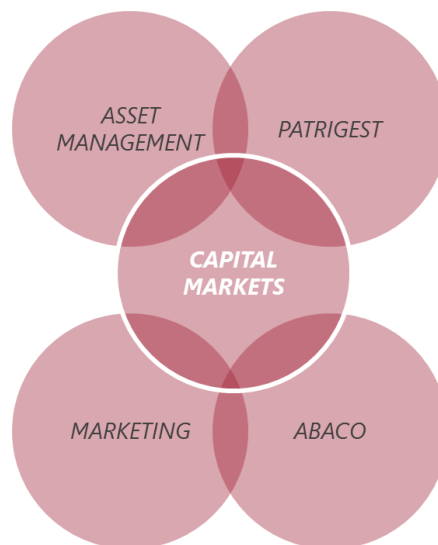


Figure 9: Work approach – Team Work.

Source: Gabetti elaboration.

The Department offers a service of coordination of all the actors involved in the deal till the closing of the operation with the role of **project coordinator** in relation to the disposal and acquisition of both single assets and building portfolios, that comprehend mainly income generating properties.

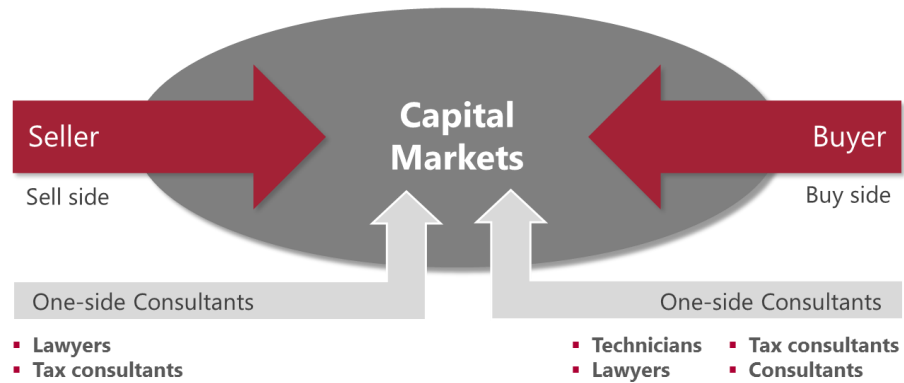


Figure 10: Work approach – coordination role.
Source: Gabetti elaboration.

Every step of capital market operations is really important and we can divide it into three main phases: analysis and assignment acquisition, pre-commercialization and soft marketing phase, commercialization and marketing phase

Each case, as we have seen, has its own specificity, which also translates into the relationship with the consulting company: these are processes that do not always start with an information activity, which the advisor does to the market, once received the mandate assignment; often, in fact, we are faced with “off-market” operations, in which the potential buyer, interested in a specific property, through his advisor, sends an letter of interest to the “property” without the asset being actually on the market.

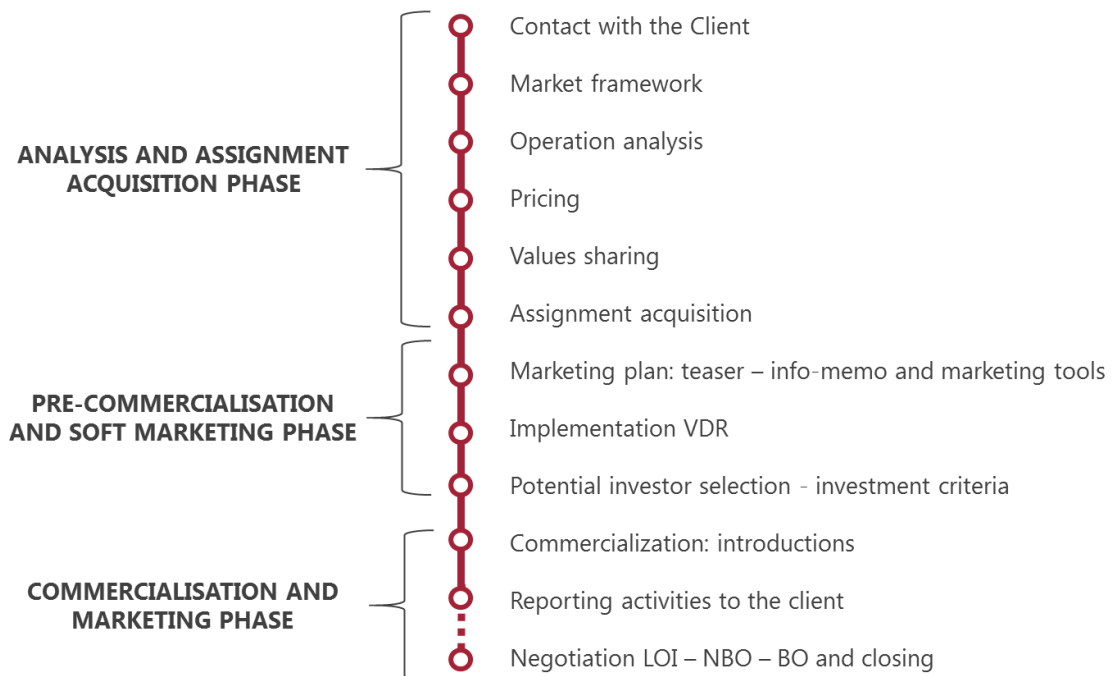


Figure 11: Selling mandate operative process.
Source: Gabetti elaboration.



Figure 12: Purchasing mandate operative process - Off market operations.
Source: Gabetti elaboration.

7. Case Histories

To clarify capital market operations we can show two examples of transactions carried out by Gabetti Agency ad consultant.

The first one in Naples regards an historic building the previous headquarter of the newspaper “Il Mattino”, on behalf of Seneca Fabbicati (Caltagirone Group) to the company Chiatamone 65 srl, with a loan from Banco BPM⁸.

VIA CHIATAMONE	NAPOLI
Vendor	GRUPPO CALTAGIRONE
Purchaser	PRIVATE
Nature of Instruction	SELL SIDE
Size	7.500 sqm
Date	2019
Price	€ 14,3 mil
Asset Type	Mixed use Office & Retail
Deal Type	Asset Deal

Table 3: via Chiamontone, Naples.
Source: Gabetti Agency.

The second one in Turin: the Real Estate Lanificio Maurizio Sella, a vehicle of the Sella group, purchased the complex that was the headquarters of Juventus F.C. from 2002 to 2018 in Corso Galileo Ferraris 32 in Turin. The building, intended for office use of over 5,000 square meters, was sold by a Piedmontese private club deal and will become a new Sella Group in Turin.

⁸ <http://www.gabettigroup.com/it-it/area-stampa/dettaglio/artmid/1738/articleid/800>.

CORSO GALILEO FERRARIS, 32 TORINO	
Vendor	PRIVATE
Purchaser	BANCA SELLA HOLDING
Nature of Instruction	SELL/BUY SIDE
Size	5.300 sqm
Date	2019
Price	€ 9,625 mil
Asset Type	Office
Deal Type	Asset Deal

Table 4: case history: Corso Galileo Ferraris, Turin.
Source: Gabetti Agency.

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