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Real Estate Market Overview

Index

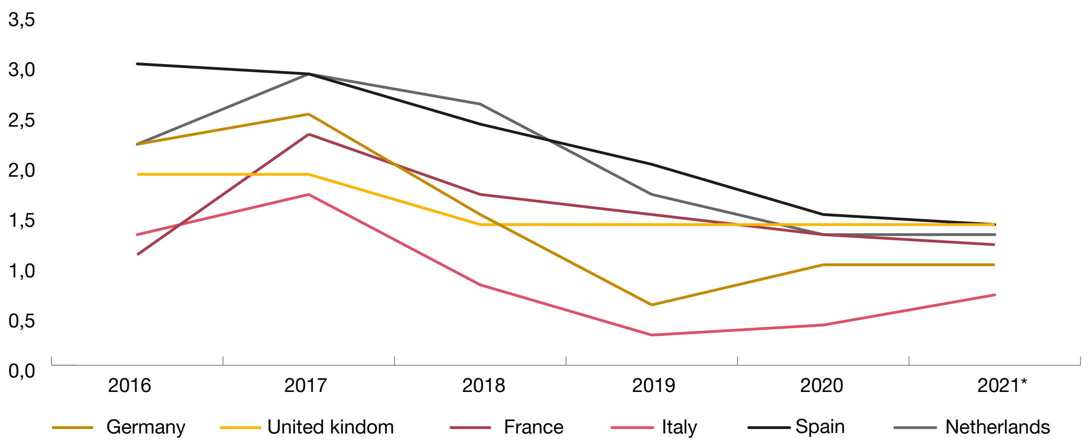
Macroeconomic overview

The European economy has entered a protracted period of subdued growth and low inflation in the context of high uncertainty, a much less supportive external environment, and structural shifts mainly affecting the manufacturing sector. Global growth is set to fall this year to a pace usually associated with the brink of recession. International trade in goods has been stagnant at best, previously-identified risks of an increase in trade tensions and geopolitical conflicts materialized over the summer, and high uncertainties related to trade policies and Brexit have not receded. Leading indicators suggest that the weakness in global manufacturing will continue in the near term.

Hence, the EU economy, which slowed down in the first half of 2020, is not likely to rebound in the near term. Labor markets in Europe, however, have remained strong and the unemployment rate has fallen to below its pre-crisis level, fueling robust wage growth, which has allowed domestic demand to expand at a relatively steady pace, in a context of historically low borrowing costs. As on top, some Member States have introduced growth-enhancing fiscal measures and more domestically oriented sectors are expected to remain resilient, GDP should continue to grow in all Member States. All these factors are however unlikely to be strong enough to power growth to a higher trajectory than this year.

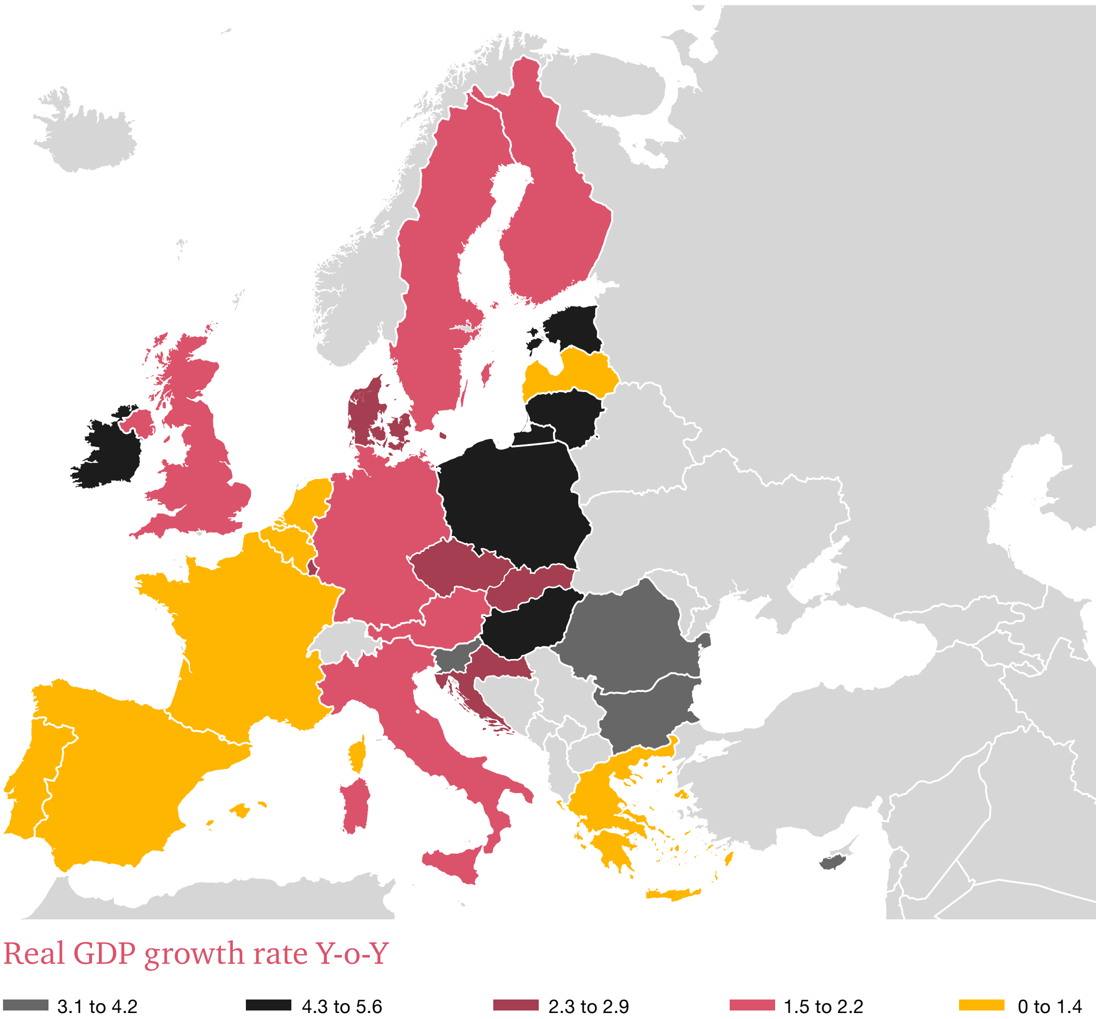
Source: PwC analysis on Eurostat data

Real GDP growth rate Y-o-Y



*Economic Forecast Autumn 2020

Real GDP growth rate (2019) EU 28 Countries



Source: European Commission, Autumn 2020 Economic Forecast – EA and EU outlook

Country Profile

- The Italian economy is ranked as the third largest economy in the Euro area and the eighth largest in the world.
  As a prominent country, it is a founding member of the G7, G8, the Euro zone and the OECD.
- The country plays a significant role in the regional and global economy and it's a leading country in world trade, exports and tourism.
- Recently, it has suffered sharply from the financial crisis of 2007-08 and the subsequent European sovereign debt crisis.

1.27%
Fertility rate (births per woman)

-1.2%%
Annual population growth (19vs18)

301.3
Area (sq. km -thousands)

200.9
Population Density (people per sq. km of land area)

	2000	2010	2019
GDP (€bn)	1,239,266	1,604,515	1,789,747
GDP per capita (€)	21,771	27,108	29,662
Population (m)	56,92	59,19	59,64
Life expectancy (years)	80	82	83

In the third quarter of 2020, Gross Domestic Product (GDP) increased by 15.9% compared to the previous quarter and decreased by 5% with respect to the third quarter of 2019.

Households final consumption expenditure and NPISH (Non-profit institutions serving households) reached the amount of 243,218m during the Q3 2020, a vivid increase compared to the previous quarter (12.4%), but on the other hand a significant decrease with regard to the same period of the previous year (-7.4%).

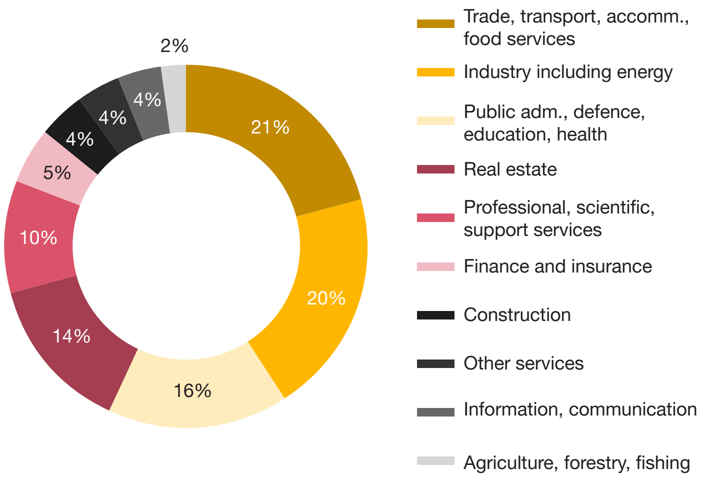
Although the overall net foreign demand was significantly negative, exports recorded higher volume than imports.

According to the latest data based on the Bank of Italy's forecasting models, the improvement in the economic situation over the summer was stronger than the baseline scenario outlined in July projections; however, the recovery is still partial.

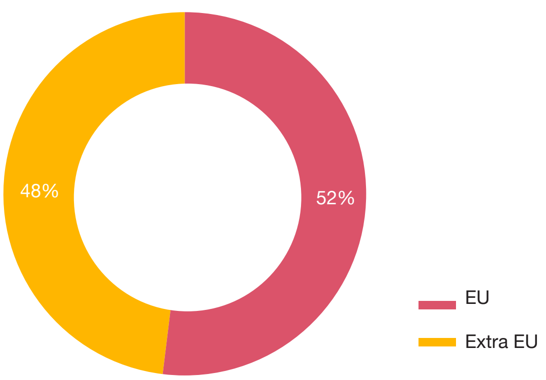
In the third quarter, the more timely indicators for electricity consumption, gas supplies to the industrial sector, and motorway traffic continued to rise, following a trend that began in May with the reopening of many activities. However, for the quarter on average, these indicators have not yet fully returned to pre-pandemic levels.

Source: Bank of Italy, Economic Bulletin October 2020

Gross value added by industry (2019)



Destination of exports 2020 (First 11 months)



Source: PwC analysis on Italian National Statistical Institute (INSI) and World Bank data

Italian main economic drivers

Economic Growth

Italy has recovered from the Financial crisis, but it is growing slowly in comparison with other comparable countries.

It's expected to grow at an average of 0.4% per year over the next 10 years.

Tourism

Italy is the country with the 3rd highest number of overnight stays in the EU.

The number of overnight stays has increased during the last six years about 4.3% per year.

Population

It is expected to suffer from population ageing as with most developed nations.

However, by the 2021, thanks to the migration, the population is expected to reach 60.3m of people.

Migration

During 2015, Italy received 280,100 legal immigrants.

Some sources estimate the number of illegal immigrants at 200,000.

International migration will be key in future population demographics for Italy.

Public Debt

Italy has a very high level of public debt. It will require significant effort, and political will, to achieve only modest reductions.

Inflation

Italy has a similar trend to the EU-28, however the annual rate of price change has been lower.

Persistently low inflation would make it more difficult to achieve the deleveraging necessary.

Exports

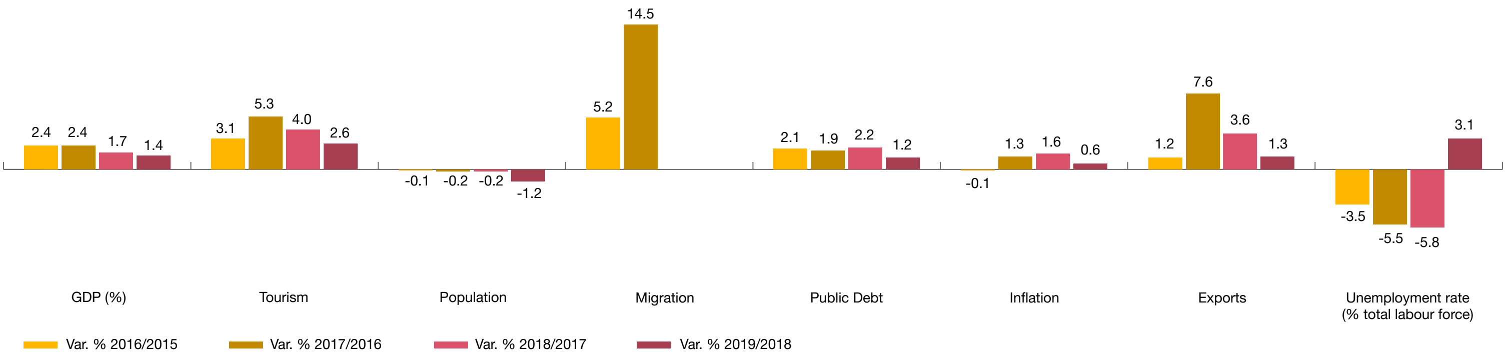
Recent years have seen a recovery in exports, which have been a key driver of Italian growth.

The main boost to overall export growth came from the pharma, refined petroleum products, and clothing sectors.

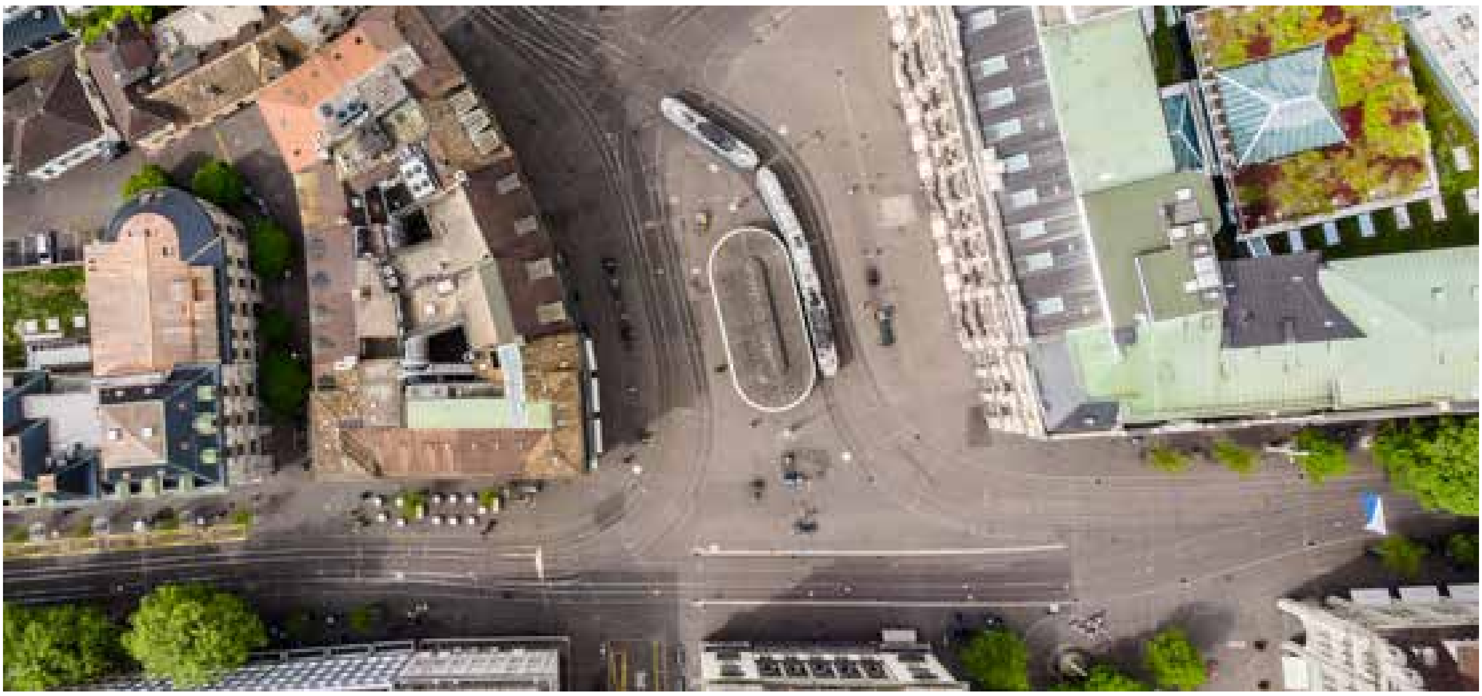
Unemployment

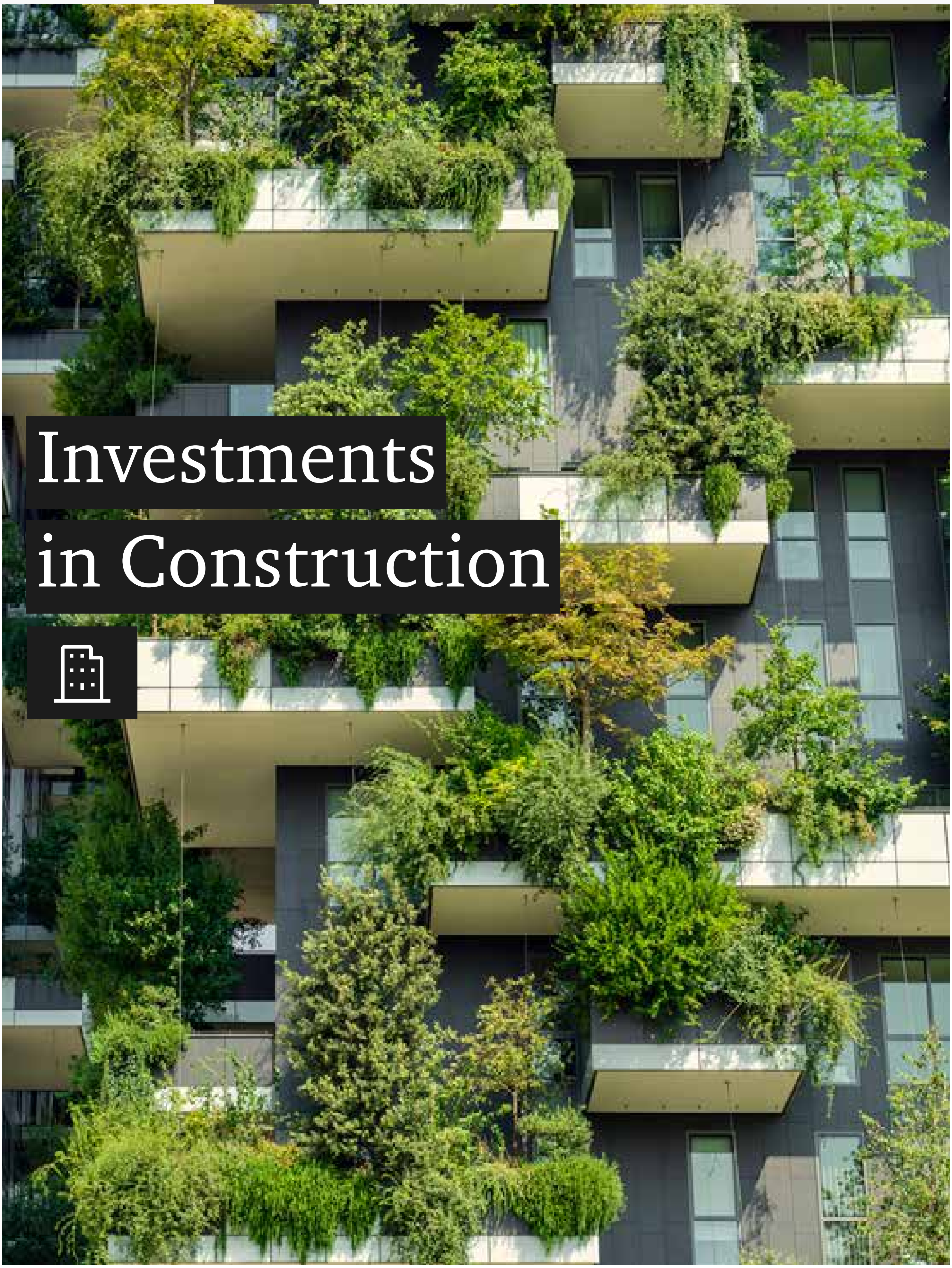
The unemployment rate in 2018 in Italy was 2.2% above the Euro area states' average of 7.5%.

In 2019 this rate reach the threshold of 10%.



Source: PwC analysis on Italian National Statistical Institute (INSI)

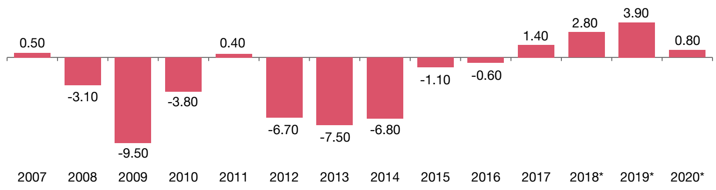




Investments in Construction

The INSI Index for building constructions forecasts an **increase of 1.9% in 2019** compared to 2018. The positive signs in 2019 in the residential and non-residential private sector were unable to balance the lack of growth in public works. In 2017, investments in new residential houses were €17.8bn, which was 0.5% higher than 2016, in 2019 an additional increase of circa 5.4% has been recorded. During the same year, the investments for upgrading the housing stock have been estimated at €47.3bn. The investments in private non-residential buildings amounted to €41.8bn (+2.5% compared to 2018), while those in public non-residential buildings amounted to €23.0bn (+2.9% in real terms). However total investments in 2019 are 1% lower than investments in 2018 and almost 7% compared to 2017.

Construction investments for buildings: change in quantity with respect to the previous year



*NAB forecast

Forecasting construction investments 2020

The slowdown in the general economy expected for this year (+ 0.4% on an annual basis the INSI estimate) can not fail to impact also on the production levels of buildings, downsizing the first positive data found in 2019.

Also for 2020, all the main national and international research institutes foresee a stagnation for our country, with a high degree of uncertainty that will certainly weigh on the expectations of businesses and citizens.

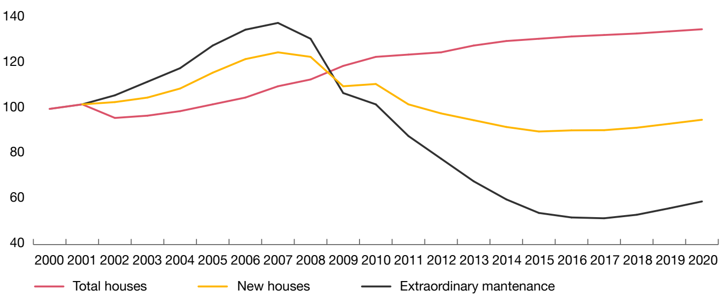
The economic forecasts for 2020, relating to the construction sector, lead to postpone the hypothesis of a substantial recovery in investment levels, especially those linked to the public component, to the future. Given these premises, the NAB forecast for 2020 **is an increase in construction investments of 1.7% in real terms**.

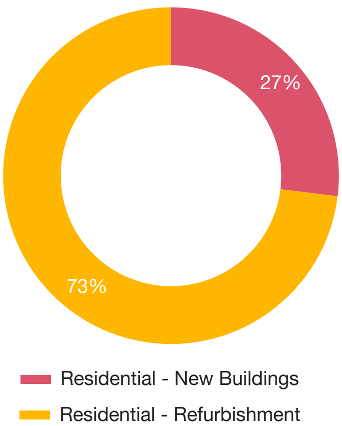
With reference to the individual sectors, the continuation of the positive trend for investments in new housing, investments in extraordinary maintenance and investments in the non-residential sector.

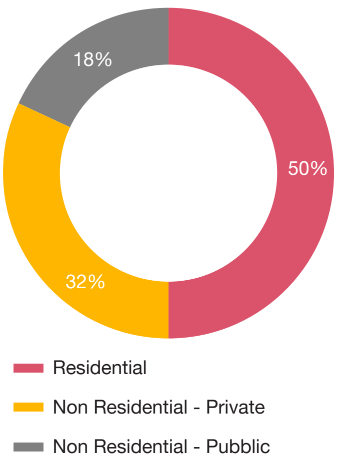
Bank loans

For ten years, **bank loans to undertake new investments in real estate have decreased, while the 2018**, for the first time, the disbursements of new mortgages for residential investments show a significant increase of +6.1% compared to the previous year. The reduction in loans seen in the residential sector was very strong: from €31.5bn granted in 2007 to just €7bn in 2017 (-77%), as for the non-residential sector, in the third quarter of 2019 recorded -17.9%.

Residential Investments







Source: PwC analysis on NAB and INSI data

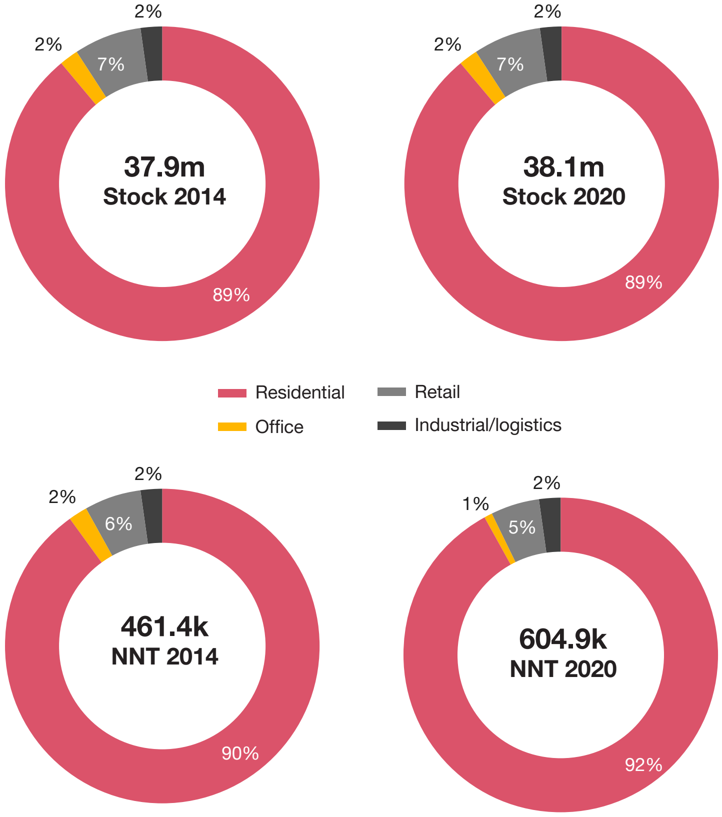
Transaction Trends

Stock and transaction (NNT) overview (2004 – 2020)

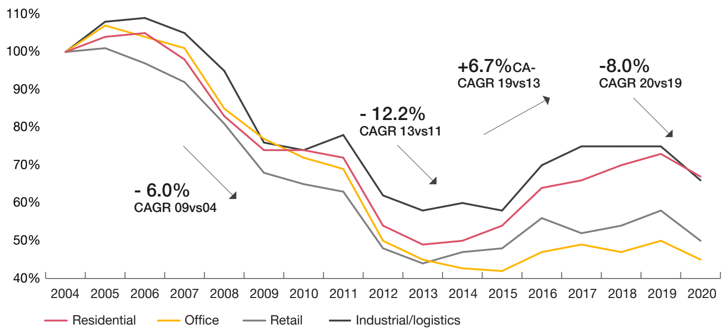
From 2004-2019, the number of transactions for the main assets classes (residential, office, retail, and industrial) followed the same general trend, peaking around 2005/2006, and then drastically declining until the market started to recover around 2014.
In 2020 the positive trend has once more undergone a drastic decline due to COVID-19 pandemic situation.

Since 2014, all asset classes have showed significant growth, although well below the pre-crisis peak.

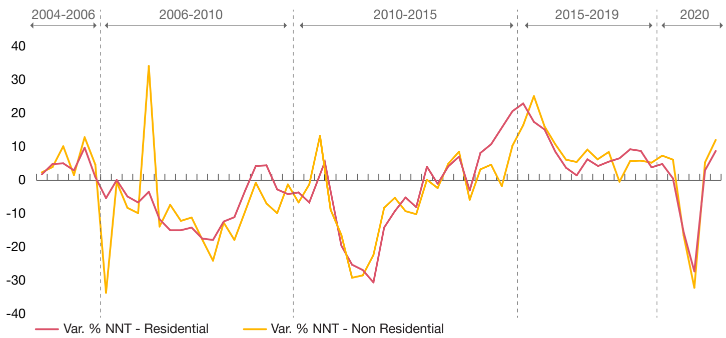
In 2020, residential is the main asset class, accounting for circa 90% of total transactions and stock. For non residential asset classes, retail is accounts for 4% of total transactions and 7% of stock, followed by industrial and office with 2% of transactions and stock.



Transaction trend (NNT) (2004 – 2020)



NNT % change of the Italian real estate market (2004 - 2020)



Source: PwC analysis on Italian IRS data

Historical residential transaction trend

From 2014-2019, the residential real estate market was finally able to put an end to the long and sharp drop that started in 2007, recording substantial, consistent growth and highlighting clear signs of recovery.

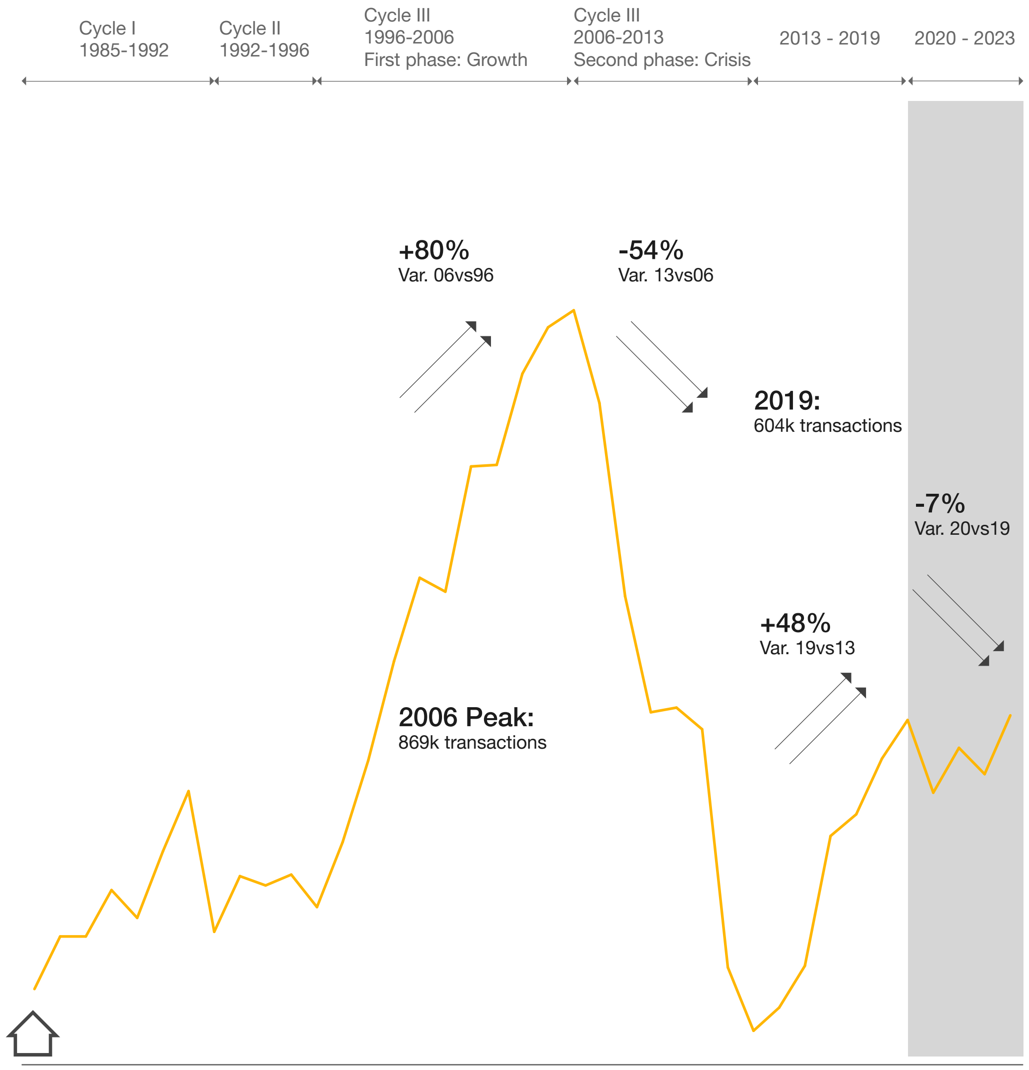
The number of residential transactions reached approximately **604k in 2019**, with a growth of +4.3% compared to the previous year.

The positive turnaround registered in 2014 was mainly influenced by lower registration costs that came into effect on 1 January 2014 for mortgages and cadastral documents, which are applicable to the transfer of real property (Article 10 of D.Lgs 14 marzo 2011, n. 23).

Since 2014, the market has **recorded six consecutive years of growth**.

Due to the Covid-19 pandemic situation the 2020 NNT volume suffered a significant decrease, down by 7% compared to the previous year. A forecast already stressed during H1 2020 (-22%).

Historic number of residential transactions (1985 – 2023)



Source: PwC analysis on Italian IRS and Nomisma data

NNT Y 2020 - Residential

In Y 2020, there were **557,926 residential transactions, 45,615 less than the same period of 2019 (a decrease of 7.6%).**

Although the significant decrease in the number of residential transactions recorded in Q2 2020, recording -21.8% compared to the same period of 2019, the Y 2020 performed better than the expectations.

According to NNT historical trend, seasonally adjusted with four-quarter moving average, the housing market has been recovering almost uninterrupted since 2014.

Islands recorded the lowest number of residential transactions in Y 2020 at 46,954, showing the main decrease percentage compared to the same period in 2019 (-9.0%).

The Northern territories reported a significant impact too, with 192.704 homes sold in the North-West and approximately 113,564 in the North-East, a decrease of 7.5% and 6.3% respectively.

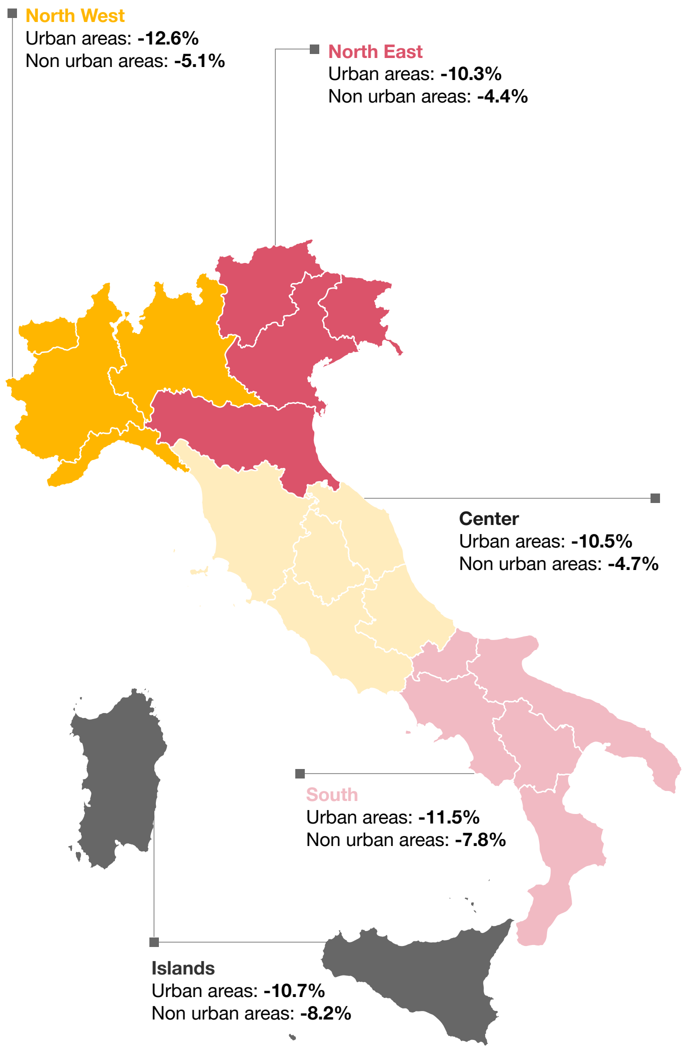
In the Center, has been recorded a decrease of 7.4% with less than 114,000 purchased homes, while in the South, transactions decreased by 8.8%, with 90,808 units. Distinguishing the residential market between province capitals and the rest of their provinces, during Y 2020, there was a significant difference in transactions. Indeed, province capitals recorded -11.1% while rest of the provinces -6.0%.

603,541
Residential NNT Y 2020

557,926
Residential NNT Y 2019

-7.6%
Var. (%) NNT Y 2020 vs Y 2019

Var. (%) NNT Y 2020 vs Y 2019 by area



Source: PwC analysis on Italian IRS data

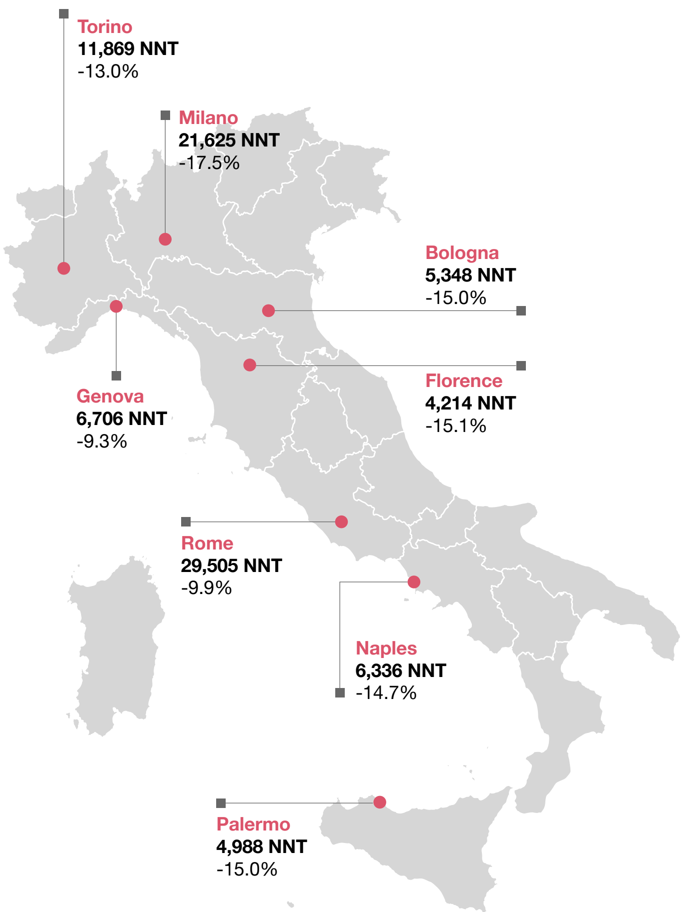
In Y 2020, **8.2m residential sqm were sold in the 8 main cities of Italy** (Y 2020 average sqm sold 91.1 vs Y 2019 average sqm sold 90.7), **a decrease of 12.8% compared to Y 2019.**

In seven of the eight major cities, the size cut most sold is the one with less than 85 square meters, while in Palermo the main dimensional class is the one above 85sqm.

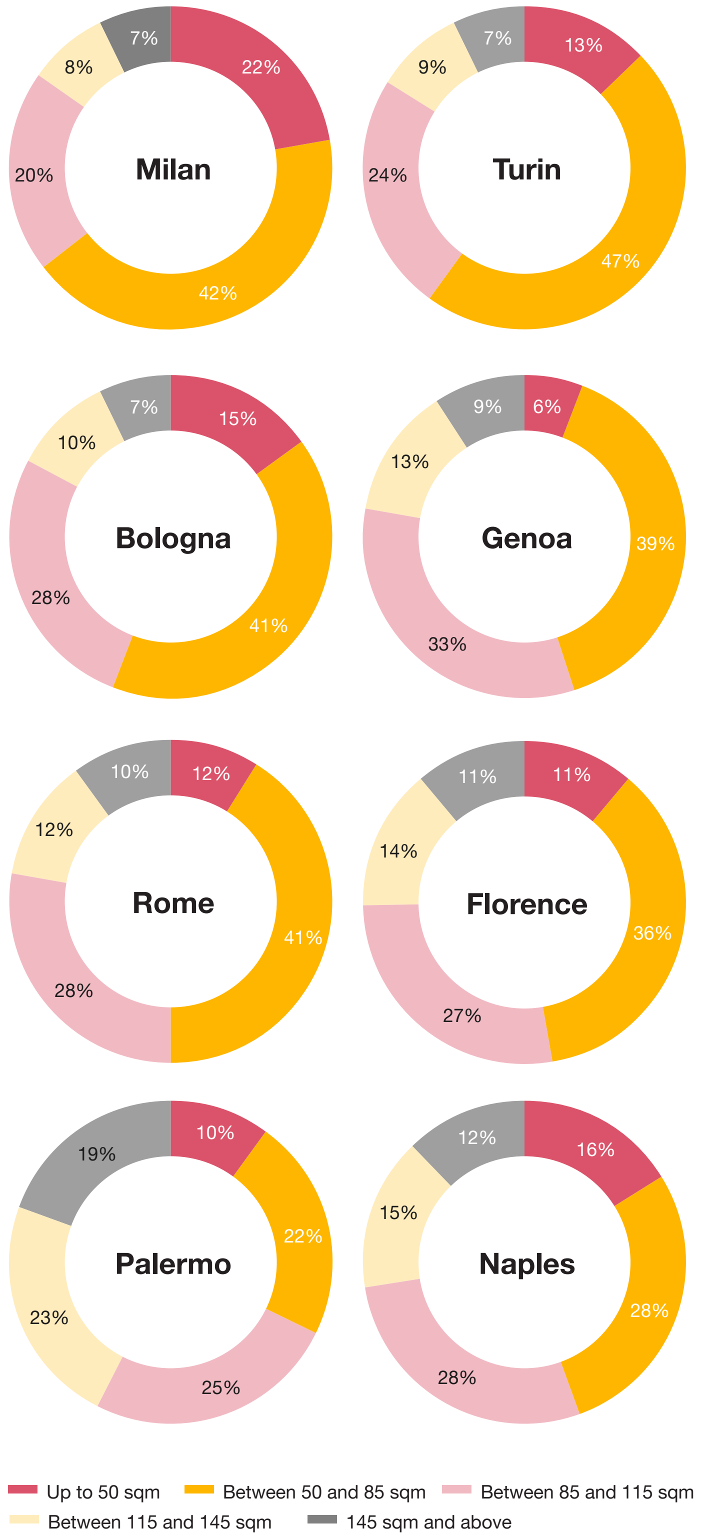
The distribution of the transactions in the main cities by residence type shows that in Y 2020, transactions regarding residences **between 50 and 115 sqm accounted for 65.4% of the total**.

In Milan, houses up to 50 sqm purchased in Y 2020 were almost 22% of the total in Milan; Transactions for houses over 145 sqm had the greatest share in Palermo, Florence, Naples and Genoa.

Var. (%) NNT Y 2020 vs Y 2019 by main cities



Share of NNT Y 2020 by dimensional class



Source: PwC analysis on Italian IRS data

NNT Y 2020 - Non Residential

For the **non residential asset classes**, in **Y 2020**, the **retail** sector recorded **26,960 transactions with -14.2% decrease** over the same period the previous year. Retail transactions are mainly concentrated in the north, where the highest decline was recorded (15.4%).

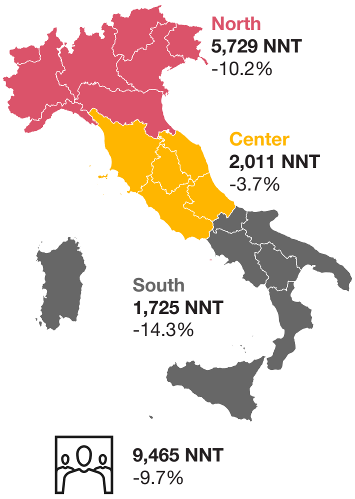
The **industrial** sector (logistics and manufacturing) recorded **10,611 transactions**, which was **12.5% lower** than Y 2019. The **office** sector reached **9,465 transactions**, showing the less significant decrease with **9.7%**, compared to the other asset class.

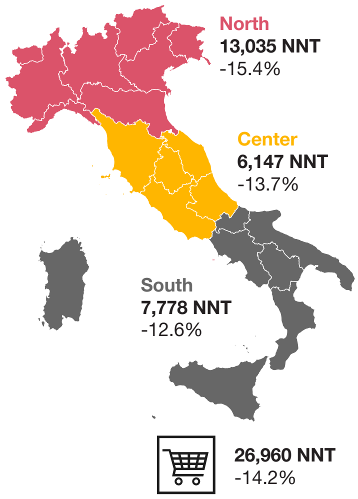
The graph reports the series of **yearly percentage variations of the number of transactions** by quarter since 2004, within **non residential segments**. A clear slow down of the negative trend of transactions was recorded during 2013, which finally started turning positive in 2014 and mostly continued over the next 3 years, although with variations depending on the asset class: 2015 indeed suffered a fall of the industrial asset class, which was prolonged during almost all the quarters of the year, except for the third one.

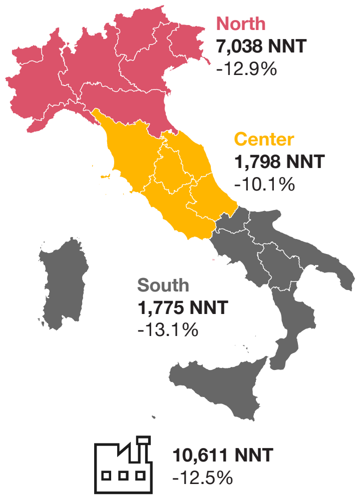
For what concerns the office market a slight positive trend was registered, resulting in sharp growth in Q4; on the opposite, the retail markets have quickened in particular during the central quarters, then slackened later. During 2016, transactions consistently increased across all asset classes over year before, further confirming the market recovery.

In 2019, the number of transactions for all non residential asset classes continued to grow each quarter, while in 2020 due to COVID-19 suffered a remarkable decrease as shown by the graph.

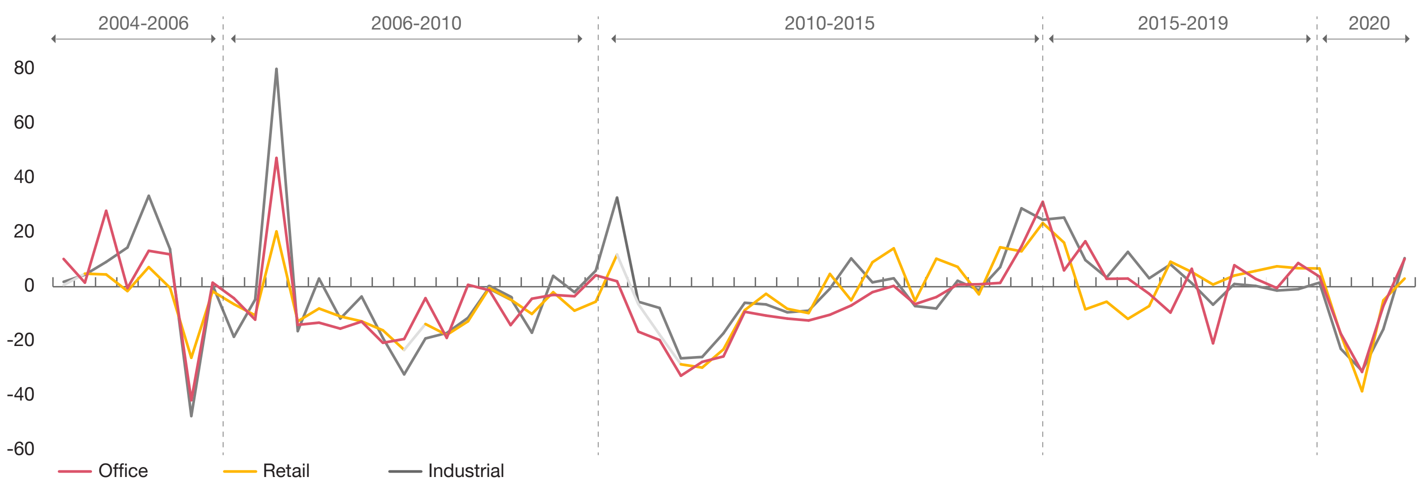
Var. (%) NNT Y 2020 vs Y 2019 by area







Historical Non Residential transaction trend (NNT) (2004 – 2020)



Source: PwC analysis on Italian IRS data

Italian Investment Trends

Historical investment trend of commercial Real Estate in Italy

Investments in 2020 reached a level of **€8.5bn**, about 29% lower than the previous year, which is the worst year variation ever recorded in terms of volume and total transaction value.

The individual sector with the largest share of investments is the Office asset class with €3.9bn, which represents 46% of the total transaction volume, followed by the Logistic sector with €1.4bn invested. Retail sector reached almost €1.1bn, a result influenced by the deal UniCredit S.p.A./Esselunga S.p.A. during the first quarter of 2020. The Hotel investments reached over €0.8bn, a 75% decrease compared to the 2019.

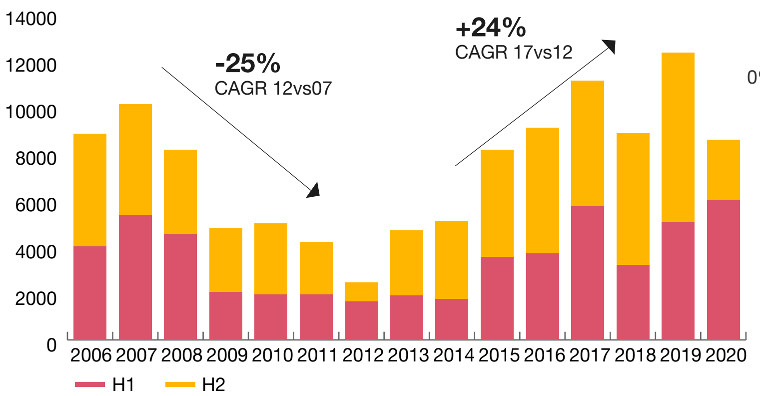
Milan and Rome still represent key markets for investment, accounting for 43% and 10% of the total investment volume in 2020 respectively, with a concentration of office investments in Milan. The main source for real estate investments in Italy is represented by international capital, accounting for 60% of the total, which is lower compared to the average of the previous 5 years.

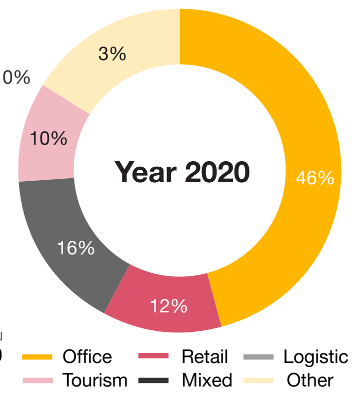
€8.5bn
Total investments in 2020

-29%
Investments 2020 vs 2019

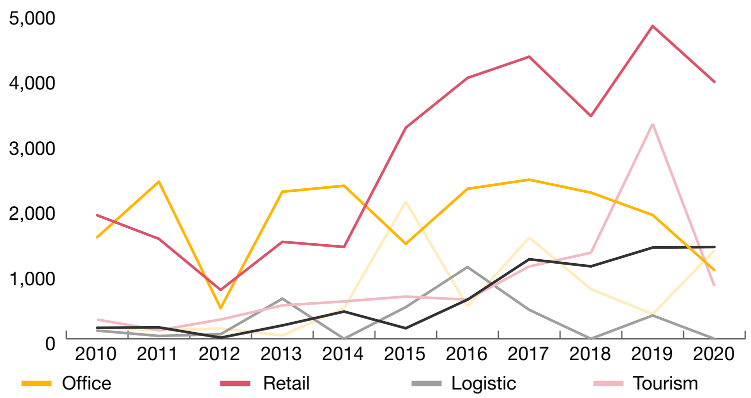
60%
Share of foreign investments 2020

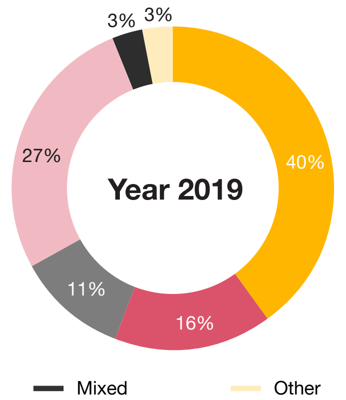
Historical investment trend (€m)





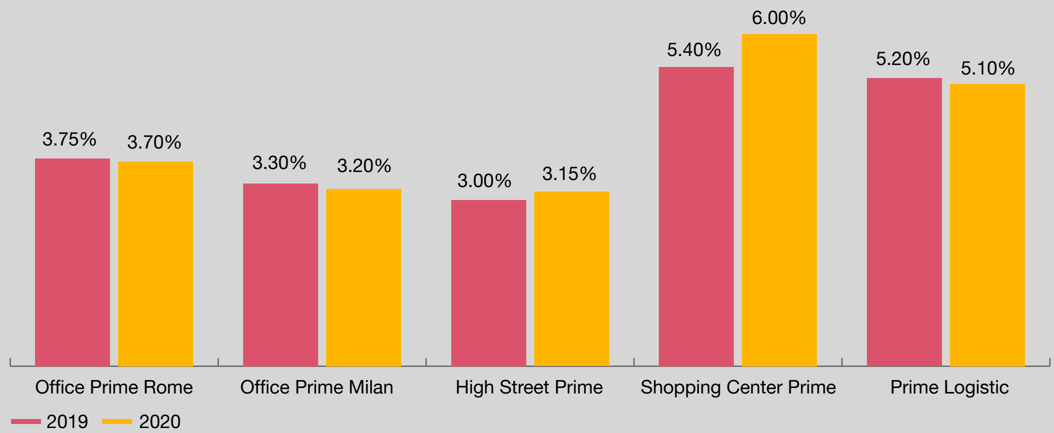
Investments trend by asset class (€m)





Net yields in Italy by asset class Y 2020vs2019

Prime yields registered an overall contraction over the past year, except for the High Street Prime and Shopping Center Prime which witnessed an increase



Source: PwC analysis

Transaction and deal analysis

The table reported herein shows for each asset class the **top transactions** in terms of value since 2017 to 2020.

Key data main transaction

Office

2,28€bn

Retail

1,64€bn

Shopping Center

1,07€bn

Industrial & logistics

1,37€bn

Hotel

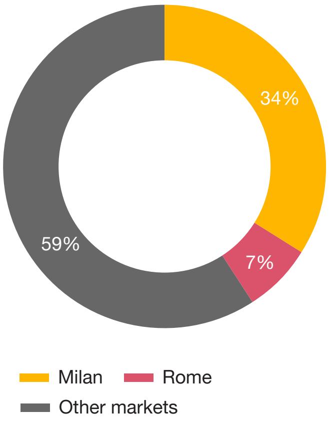
2,26€bn

Asset	Price (€m)	Seller	Purchaser	Location
31-32, Foro Bonaparte	272	Edison	Dea Capital RE SGR	Milan
Covivio portfolio	263	Covivio	Kryalos	Milan, Rome, Venice
Vodafone Village 1	213	Coima Res	Meritz Financial Group	Milan
39, Via Pirelli	193	City of Milan	Coima SGR	Milan
449, Via Laurentina	170	Savills	GWM Group, DeA Capital Real Estate	Rome
Milan offices portfolio	500	UBI Banca	Coima SGR	Various locations
Galleria Passarella	280	Goldman Sachs	DeA Capital Real Estate, Poste Vita	Milan
Sky Italia	262	Risanamento	Lendlease Global Commercial REIT	Milan
35, Via Pirelli	130	Coima SGR	Deka Immobilien	Milan
Esselunga Shares	435	Esselunga	Unicredit	Various locations
Merlata Mall	330	Fawaz Al Hokair Group	Ceetrus	Milan
26, Via della Spiga	250	Thor Equities, Invesco Real Estate	Savills, Barings	Milan
Coop portfolio	250	Coop Alleanza 3.0.	BNP Paribas REIM SGR	Various locations
Two luxury department store	150	Kering Group	BMO Real Estate Partners	Rome, Milan
1-3, Piazza San Babila	95	OTB, Red Circle S.r.l / Renzo Rosso	Gruppo Statuto, DRC Capital	Milan
4, Via Pietro Verri	92	Gruppo Statuto, Beni Stabili SpA	Amundi	Milan
Fondamenta Orseolo	46	Gruppo Coin Spa	AXA IM	Venice
Parco Leonardo	300	Cibele Uno	Generali, Poste Vita	Fiumicino
Shopping centers portfolio	200	Blackstone	Partners Group	Carpi, Monselice, Civitavecchia, Roma, Brindisi, Melilli
Shopping centers portfolio	187	Eurocommercial Properties	IGD SIIQ	Bologna, Mantova, Sarzana, Imola
Centro Sicilia	140	Cualbu	GWM Group	Misterbianco
Gran Shopping Mongolfiera	135	Orion Capital Managers, HB Capital	CBRE Global Investors	Molfetta
8 Gallery	105	PIMCO, GWM Group	Pradera, AXA IM	Turin
CER-L Portfolio	270	Carlyle Europe	AXA IM - Real Assets	Various locations
Italy logistics	146	AEW Europe	AXA IM - Real Assets	Various locations
Logicor portfolio	600	Blackstone (Logicor)	China Investment Corporation CIC	Various locations
Passo Corese	118	Segro	Tritax Group	Rome
Five-asset portfolio	100	Prologis	The Carlyle Group	Milan, Bologna, Venice, Turin
Four-asset portfolio	76	Dea Capital SGR	Kryalos SGR	Oppeano, Cameri
Three-asset portfolio	66	-	Blackstone	Lombardy
Bauer Palazzo	250	Elliott Management, Blue Skye Investment	Signa Group	Venice
Ca Marcello hotels portfolio 2019	200	MTK Group	Deka Immobilien	Various locations
Belmond portfolio	1.000	Belmond	LVMH	Various locations
Bauer Hotel	400	Bortolotto Possati family	Blue Skye Investment, Elliott Management	Venice
Castello portfolio	250	Castello SGR	Oaktree	Various locations
Capri Palace Hotel & SPA	105	Dogus	Centricus	Anacapri
NYX Hotel	60	-	Dea Capital Real Estate	Milan

Source: PwC analysis

Office sector Y 2020 - Investments

Investments by location Y 2020 (%)



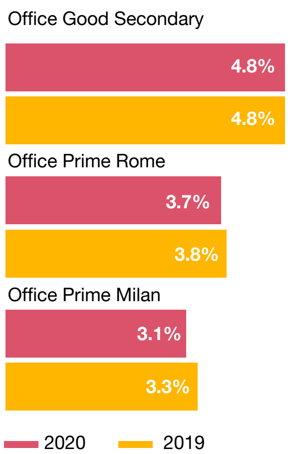
Office investment volumes were slightly lower in 2018, but basically due to the excellent performance recorded the previous year. In 2017 the investment volume was supported by a large deal involving the sale of properties by a Roman developer for around €500m. The 2019 was an outstanding year, accounting for €4.8bn Office investments.

The 2020 investment volume reached €3.9bn (-18% compared to the same period of the previous year). The main markets remain Milan and Rome, accounting for 34% and 7%, respectively, of the total investment volume in 2020.

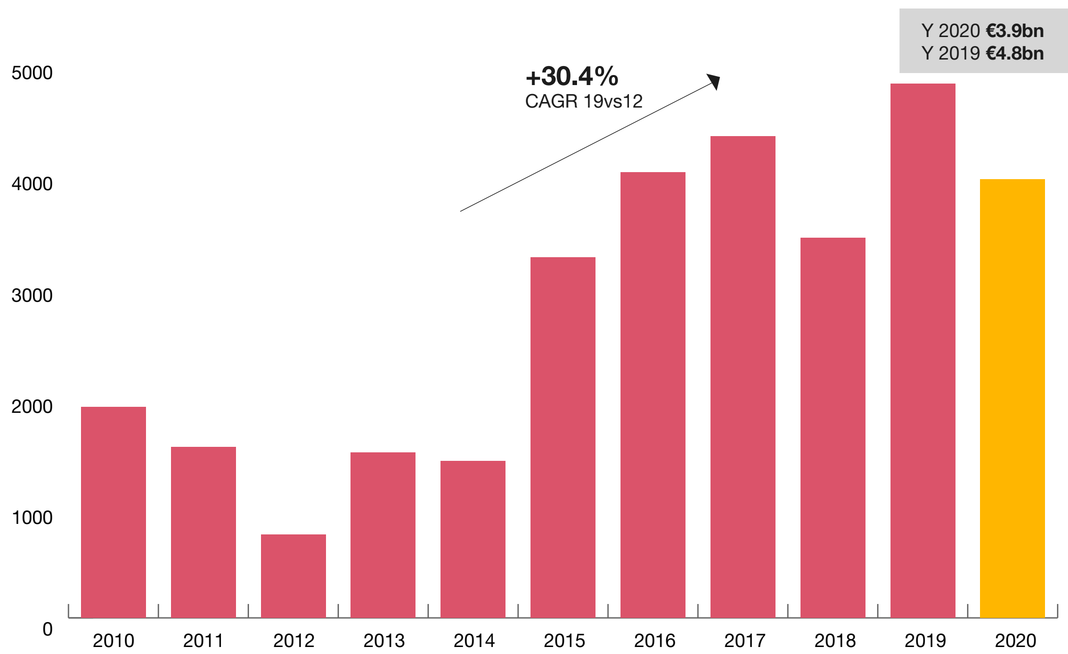
Milan and Rome's markets showed a significant decrease compared to the previous year, caused by the pandemic crisis occurred during the first three months of 2020.

Competition for the limited amount of core products, both in Milan and Rome, has led to a compression of prime yields, which have reached their lowest point; These compressed yields could remain at this level in the medium-long term.

Prime Net yields Y 2020vs2019



Investment trend (€m)



€3.9bn Total investments in Y 2020

-18% Var. % Y 2020 vs Y 2019

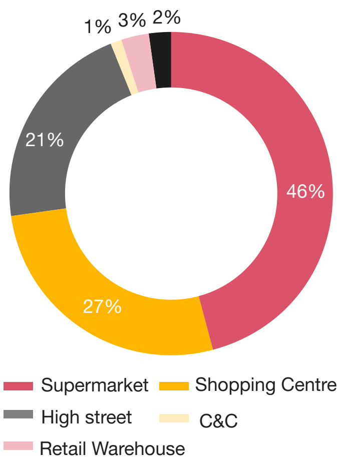
450 €/sqm/y Rome CBD Prime Rent Y 2020

600 €/sqm/y Milan CBD Prime Rent Y 2020

Source: PwC analysis

Retail sector Y 2020 - Investments

Retail investments by typology Q4 2020



€1.0bn

Total Investments in 2020

€0.83bn

Total Investments in H1 2020

In 2019, almost **€2.0bn** were invested in the retail sector, despite being lower than the record results of 2018 and 2017 (respectively -3% and -20%), however 2019 investments were in line than the 10 year average.

In **2020**, retail investments volume decreased compared to the previous year, from €1.92bn in the 2019 to **€1.05bn** (-45%).

There continues to be strong interest in Supermarket, which accounted for 46% of the retail volume for the first nine months of the year, followed by Shopping Center, which accounted for 27% and High Street with 21%.

One of the most significant contributor to the 2020 retail investment volume is the Esselunga / UniCredit transaction, which resulted in the sale to the bank of 32.5% of La Villata Spa.

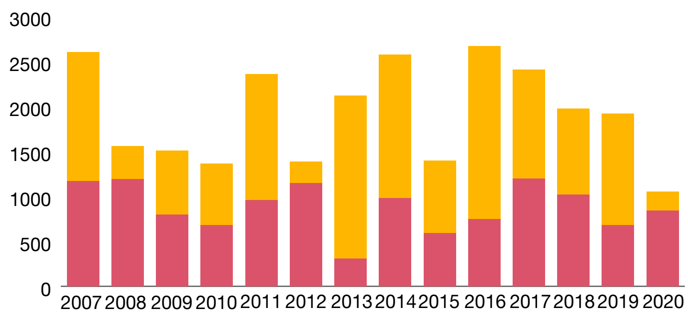
Most of the H1 2020 investments are due to the conclusion of important joint venture activities between Retail specialist operators and institutional investors both in the out of town, and mass distribution segments.

The High Street segment is also doing well, since investors' appetite for trophy assets has been stressed.

Although, the remarkable results obtained during the first half of 2020, compared to the same period of the previous year, the second half of the year did not perform as good as the previous one.

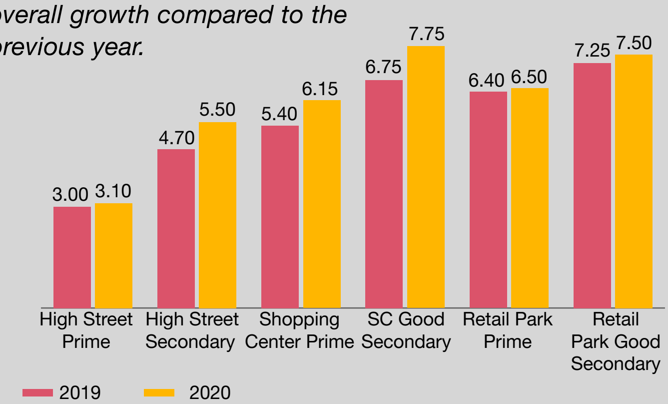
Indeed, the H2 2020 with only €214m accounted for the 20% of the total investments occurred in 2020.

Investments trend (€m)



Prime Net Yields Y 2020vs2019

Prime Net Yields registered an overall growth compared to the previous year.



Source: PwC analysis

Retail sector Y 2020 - Supply

In the first half of the year, the effects of the COVID 19 crisis on development activities have certainly been remarkable. The shutdown of construction activities imposed during the lockdown months has led to a delay in completions expected for Q2 2020. Moreover, the profound uncertainty situation that has characterized the past year led to the voluntary suspension of some initiatives in the pipeline. However, 2020 closed with just under 200,000 sqm of retail development completed. Most inaugurations took place in the final quarter of the year.

The development pipeline for the next two years (2021 and 2022) foresees the construction of over 400,00 sqm. More than a half of these constructions will be concentrated within the city of Milan (240K sqm approximately).

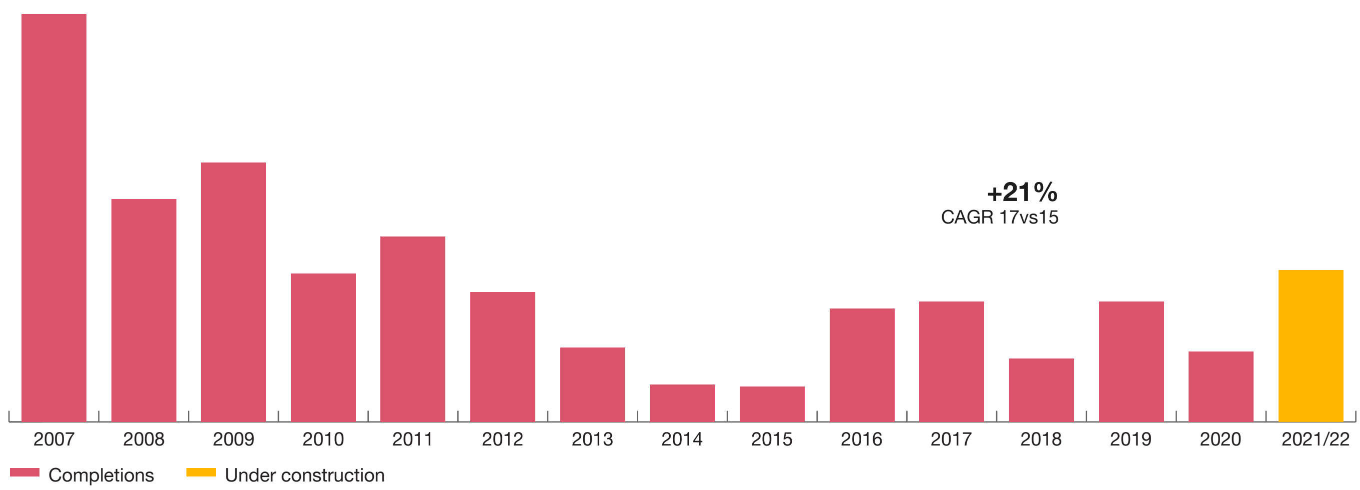
Shopping centres remain the preferred asset class, followed by retail.

The first half of 2020 closed with an increase in retail investment volume compared with the same period in the previous year, over **€840 million** were registered.

The second quarter, however, saw a considerable decline in investment volume, achieving the worst quarterly result since 2012.

The already cautious approach of investors towards this asset class has been reinforced by the climate of uncertainty generated by the COVID 19 crisis.

Volumes of existing and under construction new stock retail (GLA > 10k sqm) in Italy – Y 2020



410k sqm
GLA of new developments in 2021/22

190k sqm
Expected GLA of new developments in 2020

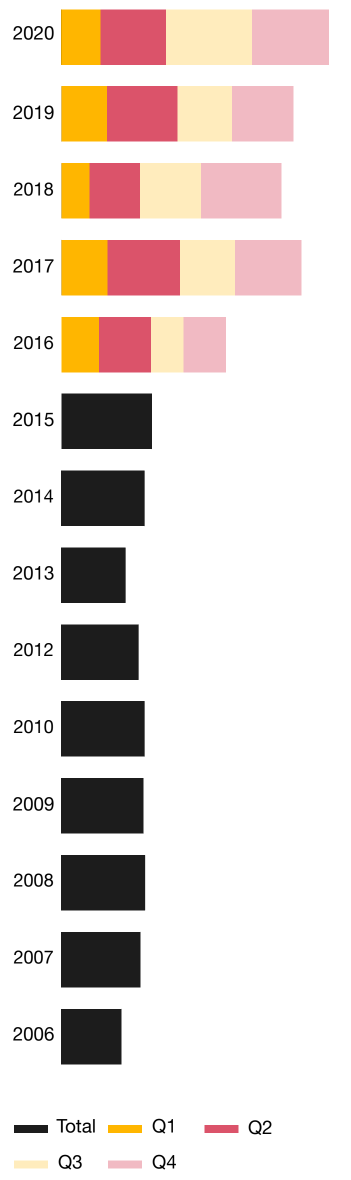
325k sqm
GLA of new developments in 2019

Source: PwC analysis

Logistic sector Y 2020 - Investments

Take up trend (sqm)

2,250K sqm
Take up Y 2020



The level of take up in the 9 months of 2020 has registered **2,250k sqm**, which is up by **15%** on the amount reported in the same period of the previous year.

The most attractive area in terms of take-up is still the Lombardy region, with the city and greater Milan area representing 65% of the total take-up in the first half. The other most dynamic areas are Bologna and Rome.

3PLs* and Retailer continue to be the most active occupiers, absorbing 51% and 28% of the first quarter of 2020 take up volumes. This demand is driven by the expansion of e commerce and omni channel activities.

Indeed, due to the Covid-19 lockdown imposed by the government, in the second quarter e commerce requested a greater demand for space, accounting for 43% of the absorbed volume.

The 2020 has witnessed a slight increase in terms of national investment within the Industrial and Logistic sector, accounting for €1,4bn, +3% compared to the previous year.

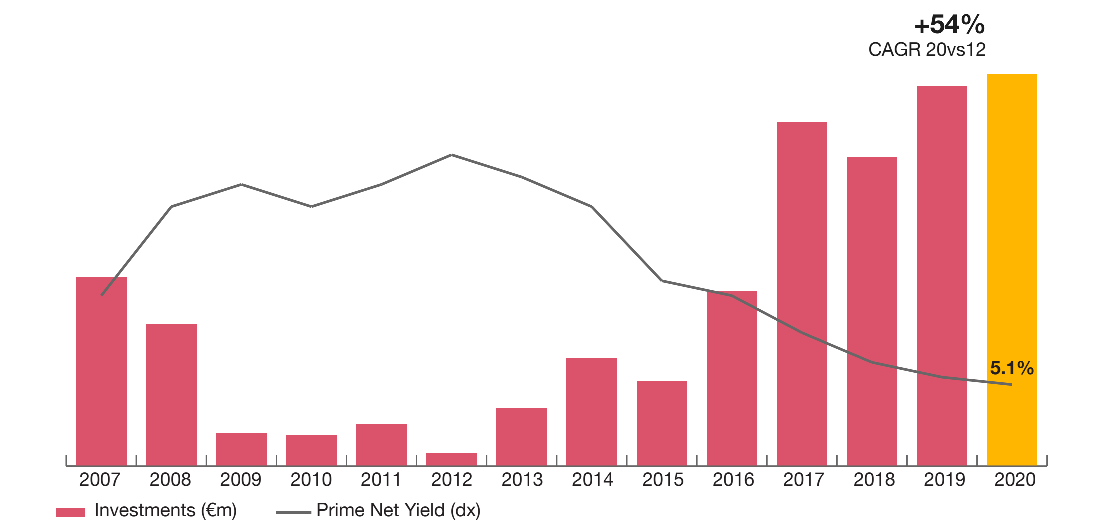
Nevertheless, the COVID-19 pandemic disaster has helped to strengthen the role of logistics as one of the most attractive asset classes, the adopted actions to prevent the spread of the virus have nonetheless caused a partial delay of deals in progress.

47 €/sqm/y
2020 Secondary Rent Italy

57 €/sqm/y
2020 Prime Rent Milan and Rome area

€1,4bn
Total Investments in Y 2020

Investments trend (€/m)



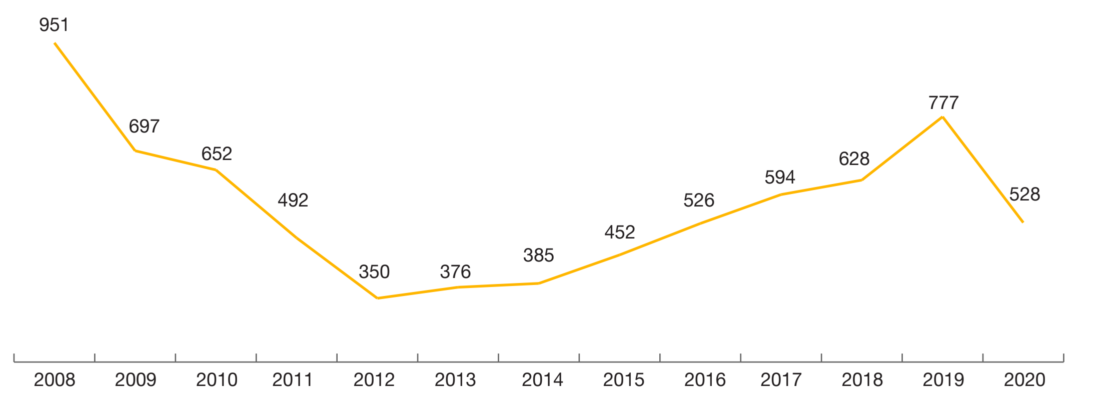
Source: PwC analysis
*3PL – (Third Party Logistic Service Provider) – Integrated logistic

Hotel sector – Transactions Trend

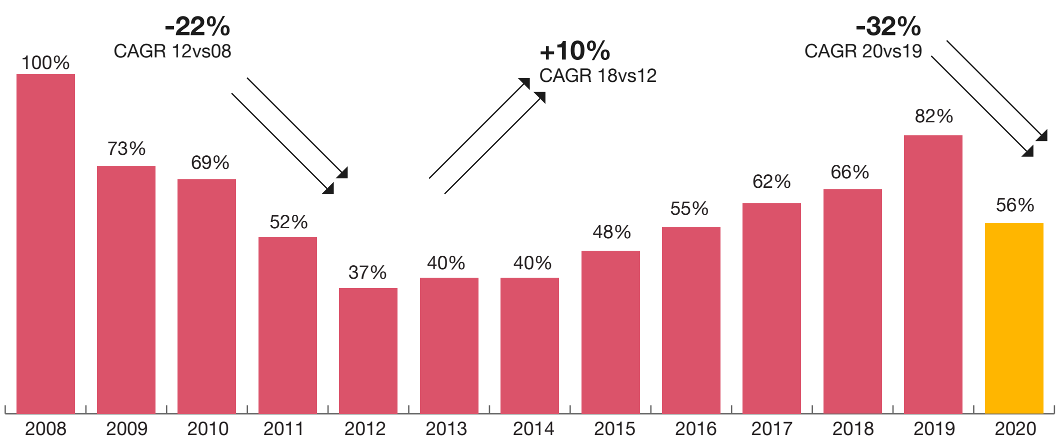
In **Y 2020**, hotel sector recorded a **decrease of 32%** compared to the previous year. The transactions volume in 2019 reached around **800 units**, while in 2020 the transactions in the Hotel sector was slightly above **500 units**.

Since the crisis of 2008 the hotel transaction trend undergone a continuous decline, reaching in 2012 the lowest point ever registered. However, subsequentially the hotel sector recorded a growing trend with a compound annual growth rate between the 2012 and 2018 of 10%. The 2019, due to its significant volumes both of transactions and investments, was considered the best year since the crisis.

Transactions Historic Trend (2008 – 2020) (#)



Transactions Historic Trend – 2008 =100 (2008 – 2020) (%)



-32%
Decrease in Italian hotel transactions (Y 2020 vs Y 2019)

528 Units
Total Transactions in Y 2020

777 Units
Total Transactions in Y 2019

+10%
Registered CAGR 18vs12

Hotel sector Y 2020 - Investments

-75%
Decrease in Italian hotel investments (Y 2020 vs Y 2019)

€3.3bn
Total Investments in Y 2019

€0.8bn
Total Investments in Y 2020

4.75%
Milan Lease contract net yield

In Y 2020, hotel sector recorded a **decrease of 75%** compared to the previous year. The volume invested in 2019 reached around €3,3bn, while in 2020 the investments in the Hotel sector was slightly above **€0,8bn**.

The 2019 proved to be the most lively year of the last decade, with the first positive signs occurring at the end of 2018 when the French group, LVMH, announced its acquisition of the Belmond group, which opened the hunt for Luxury accommodations. In the spring, the American fund, Oaktree, bought 15 hotels from Castello Sgr for €250m.

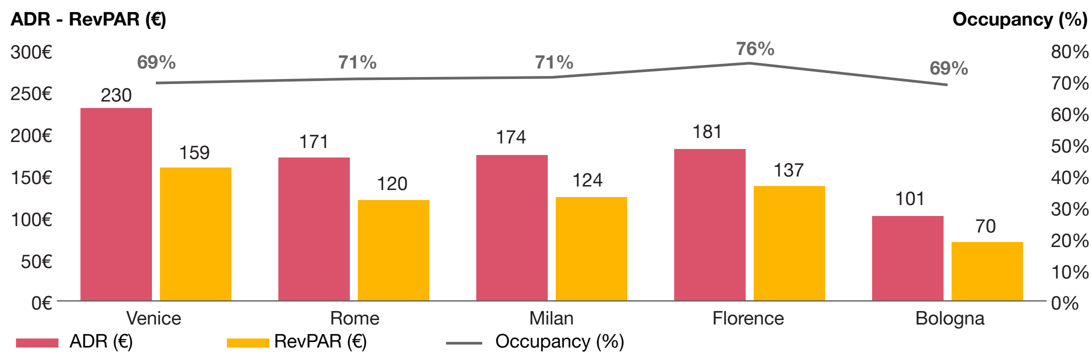
Moreover, during 2019 the Elliot fund purchased for €400m 100% of Bauer SpA, the company that owns, among other things, the historic Bauer hotel in Venice; the investment plan also included € 100 million for the renovation.

Yet, from the first 6 months of the 2020 the situation was definitely inferior in terms of investments. Indeed H1 2020 registered €415m, -80% compared to the same period of the previous year (€2,1bn).

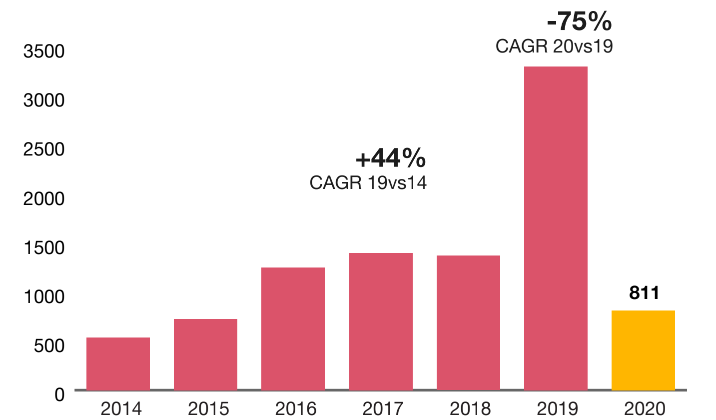
Tourist Arrivals Forecast
Italy tourist arrivals has always reported a positive trend in the last decade. However, due to COVID-19 pandemic situation thsi trend is no longer expected.

Origine	2020	2021	2022	2023	2024
Domestic	-46%	-21%	5%	12%	16%
International	-71%	-48%	-18%	-5%	2%

2019 Main cities performance

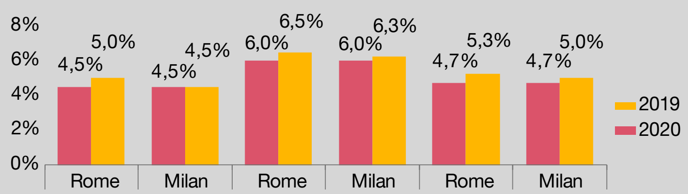


Investments trend (€m)



Prime Net Yields Y 2020vs2019

Yields in Rome and Milan have mostly increased compared to the previous year.



Source: PwC analysis

Hotel sector 2019 - Tourism demand

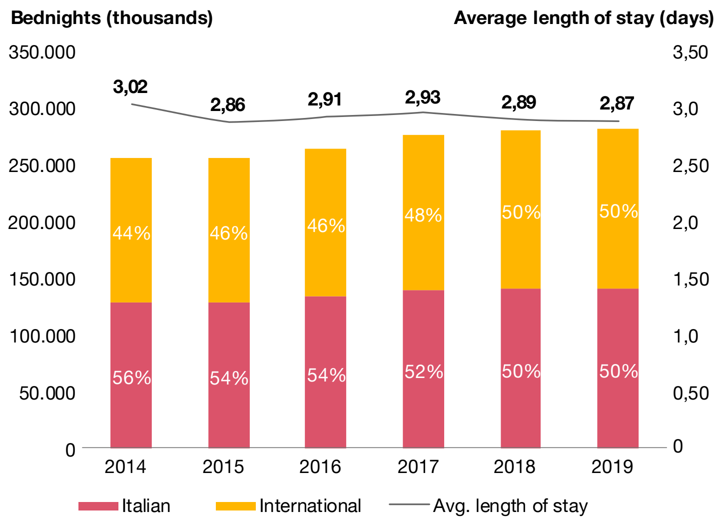
According to the latest available data from INSI, **Italy recorded circa 97m arrivals with 280m bednights in 2019.** The data for 2019 confirms and consolidates the growth recorded since 2015. International demand accounted for 50% of total bed nights and the main feeder market is Germany (18%).

According to the latest data from INSI **the Y 2019 recorded an increase in both arrivals and bednights with +1.1% and +1.5% respectively**.

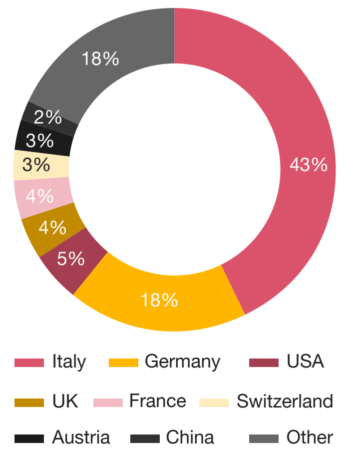
Although, the domestic bednights undergone a slight decrease compared to the previous year (-1.9%), the **international class registered a significant increase with 7%.**

2.87
Avg. Length of stay in Italy (2019)

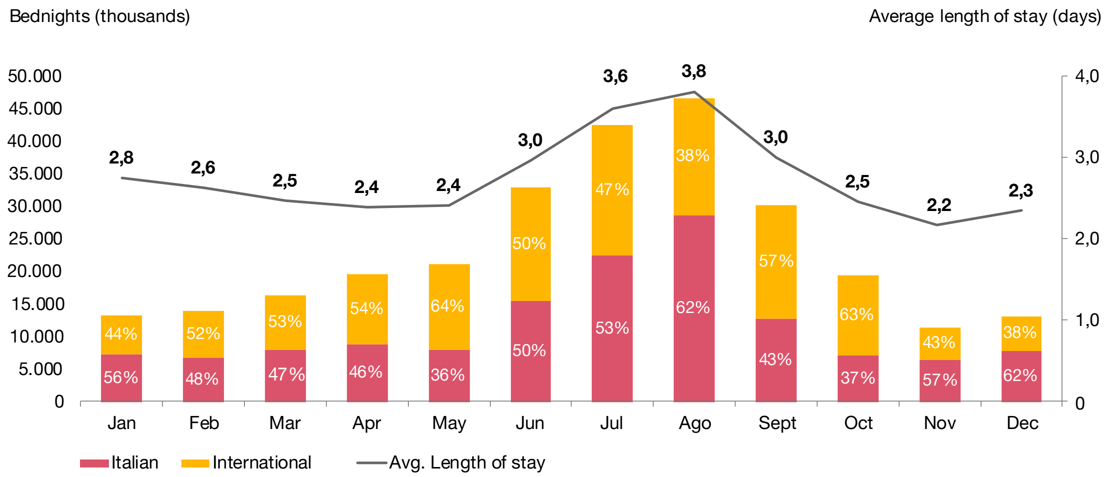
Hotel demand in Italy 2014-2019



Nationality mix– bednights



Monthly bednights distribution



Source: PwC analysis on INSI data

Hotel sector – Italian Forecasts

According to the main hotel sector KPI's the Italian hospitality market will recover from the COVID-19 pandemic crisis by the **2024** and exceed the 2019 values in **2025** with an average increase of **4%**. The travel flows will undergo a partial recovery in 2023 for most of the Italian cities.

The 2019 proved to be the liveliest year of the last decade. The graphs show the main hotel sector KPI's such as Demand, Average Daily Rate (ADR) and RevPar. All three charts reported a **common recovery** which will take place in **2024**, coming back to 2019 values. The following year, 2025, will register an increase of 4% compared to 2019. As shown the Demand and RevPar charts follow a similar path with a drastic decline in 2020 followed by a gradual growth till the recovery year (2024). On the other hand, the **ADR** chart takes a different trend with a **gentler downhill.**

Milan & Rome Aggregate Hotel Main KPI's Forecast (2019=100)

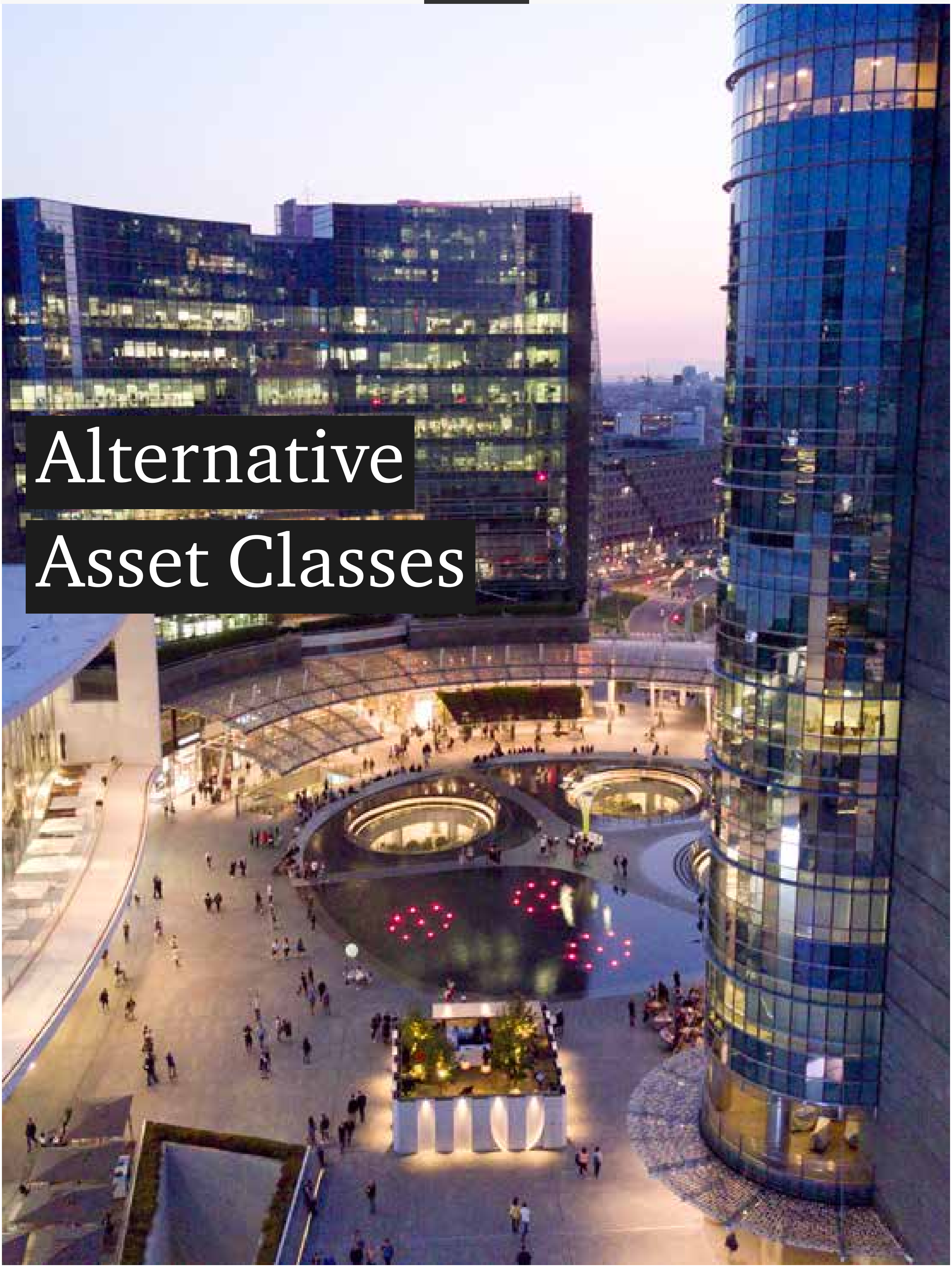
Source: PwC analysis

2.8%
Total Italy Expected recovery by 2023

4%
Average increase of Milan & Rome Hotel KPI's by 2025

2024
Year of expected recovery for the Milan & Rome Hotel Aggregate data

Alternative Asset Classes



Nursing Home sector

Italy is behind Europe both for the offer of specialized structures and for the total investments in this specific sector.

The overall sector suffers from a lack of supply and new developments, in contrast with the strong request for beds throughout the Italian territory. The Italian nursing home offer is mainly characterized by small structures. The leading areas with a strong offer are the metropolitan areas of Milan and Turin.

The main players on the market are specialized investment funds, which are concentrated in Lombardy and Piedmont, while the south suffers due to a lack of supply. Lombardy and Piedmont attract capital due to a concentration of an aging population in the area supporting demand for nursing homes.

The main investors currently operating in the market are Ream Sgr, Investire Sgr, Threestones Capital, Primonial REIM, and Cattolica Assicurazioni which are active with specialized funds and account for nearly 70% of the Italian nursing home investments.

In Italy, there are **13.7m people aged 65 and over, representing 23% of the total population**. In the next few years a continuous growth of 28.5% of this age group is estimated, **reaching around 17.8m in 2035 and representing 30% of the entire population in Italy**.

The 80 and over age group is expected to reach about 5.5 million people in 2035, 29% more than 2019.

The European commission identifies a standard of 50-60 beds per 1000 inhabitants over 60 years old as standard parameter of nursing and residential care facilities offer, while in Italy the offer is lower, approximately 19 beds per thousand inhabitants over 60 years old.

Throughout Italy there is a great imbalance with a strong concentration of beds in the northern part and a lack of supply in the south.

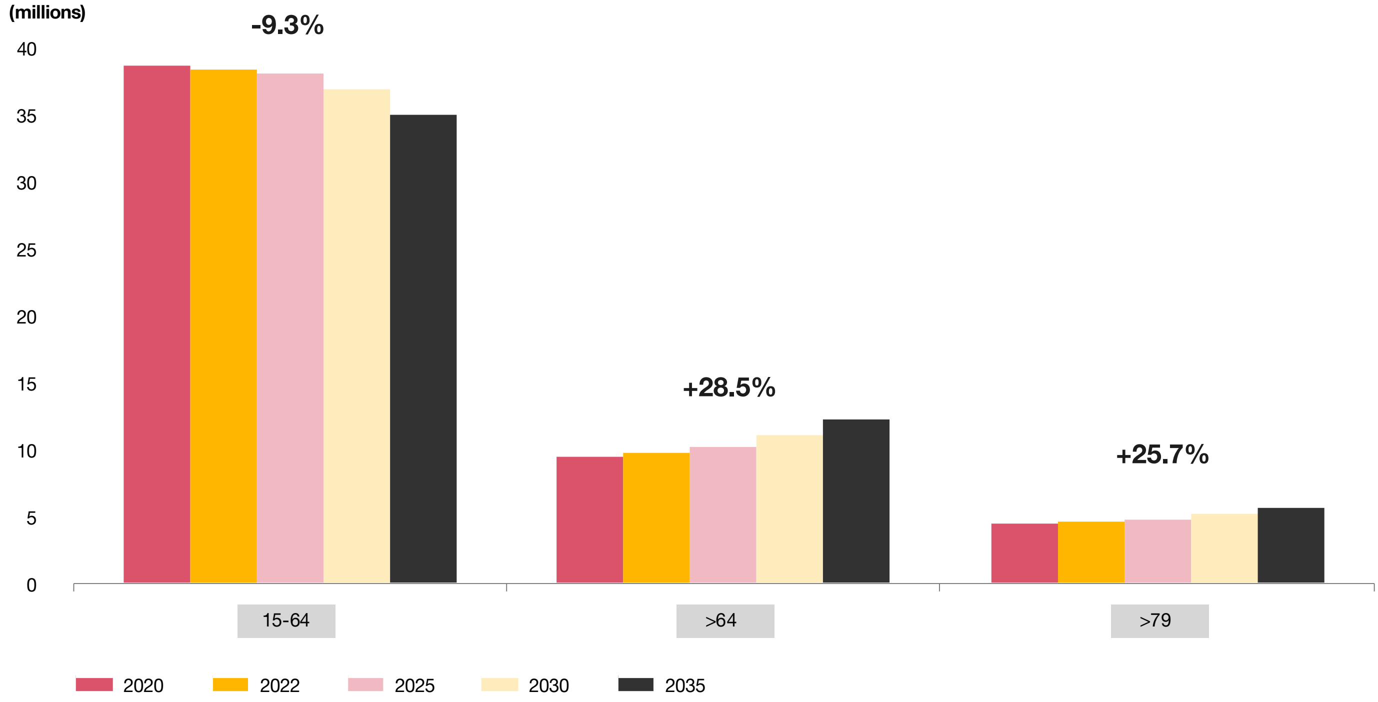
The ageing population and the continuing demand of nursing home facilities has led to an estimated investment forecast of €15bn by 20235.

13.7m
Population >64 in Italy (2019)

5.75%
Net Yield

17.8m
Population >64 in Italy by 2035

Forecast population in Italy by age – Var. % (2035 vs 2020)



Source: PwC analysis

Nursing Home Indexes

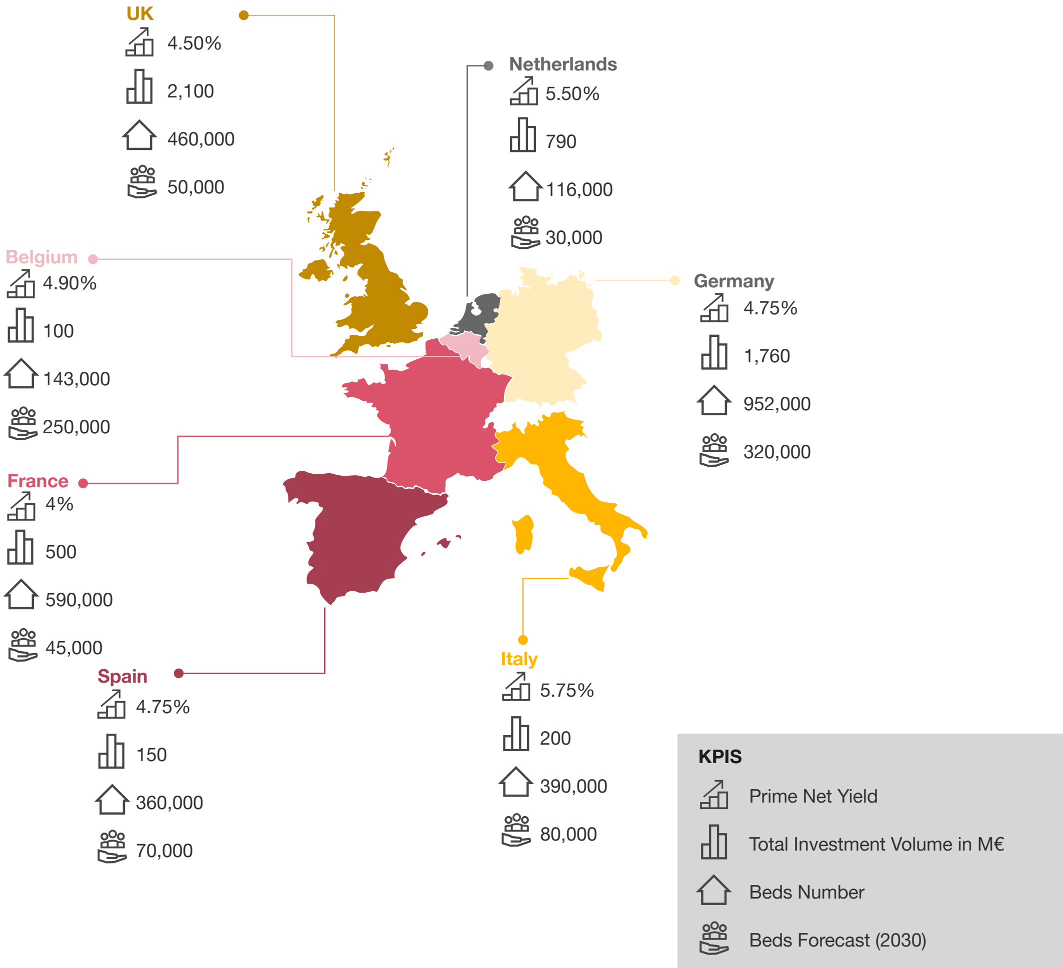
The privately run Italian market is rather fragmented, with a high number of individual regional operators.

In Italy, health policies are decided at the regional level; assistance is free in Lombardy and Veneto. However this does not happen in the other Italian regions.

The major private operators in Italy are international companies; French operators such as **Maisons de Famille**, **Orpea** and **Korian** are all present in this market.

The main domestic operator is KOS, a healthcare group based in Milan which also operates rehabilitation centers and hospitals.

The 2020, the rather low rate of equipment, especially in southern Italy, attracted both foreign and national operators interested in the significant operating volumes.



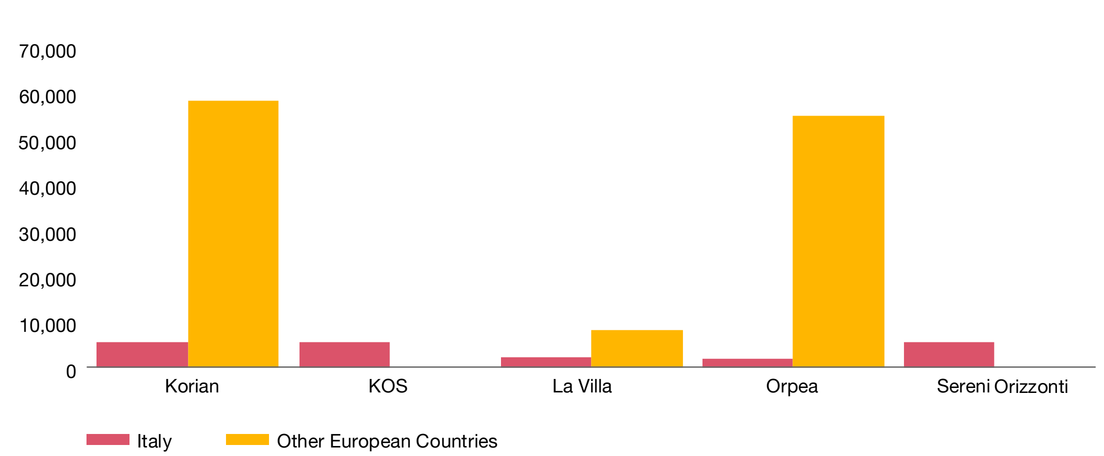
200 M€
Nursing Home investments in 2018

83
Life expectancy in 2019

23%
Percentage of people over 65 in Italy

110 M€
Nursing Home investments in 2020

Main Private Operators (N. of beds)



Source: PwC analysis

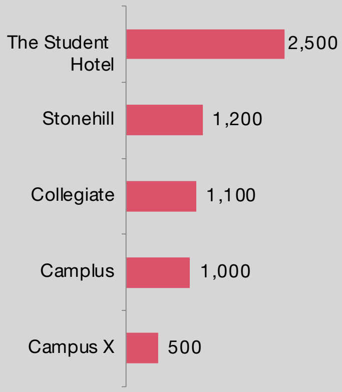
Student housing

Student housing continued to be an attractive sector in EMEA in 2019. Indeed €8.5bn of investments were registered, representing an increase of +63% compared to the previous year. UK led such investments volume with almost €6n followed by France (€1.2 bn), Germany (0.55 €bn) and Sweden (0.4 €bn).

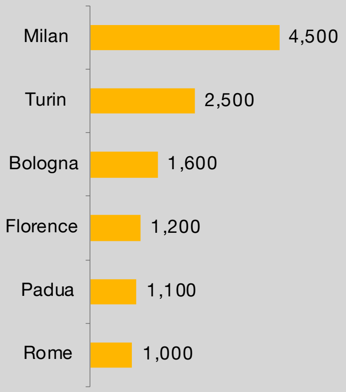
In Italy, investments in student housing remain low as the funds are concentrated on the main commercial markets. Yet, the interest in the sector is high and it is contributing to the creation of new infrastructures. Both domestic and international operators are highly active in the market such as Collegiate, Campus X, The Student Hotel, Hines and Nuveen.

In 2019 was estimated that in Italy there is a lack of 100k beds to reach the European average and investments of over €4bn are needed to adapt the offer.

Italy's Main Operators (N. of beds) (2020)

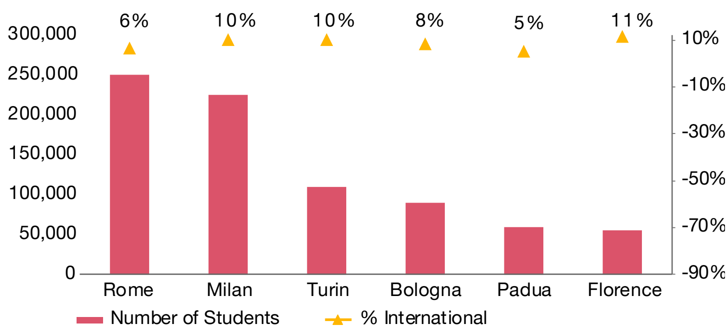


Main Cities beds pipeline by 2023

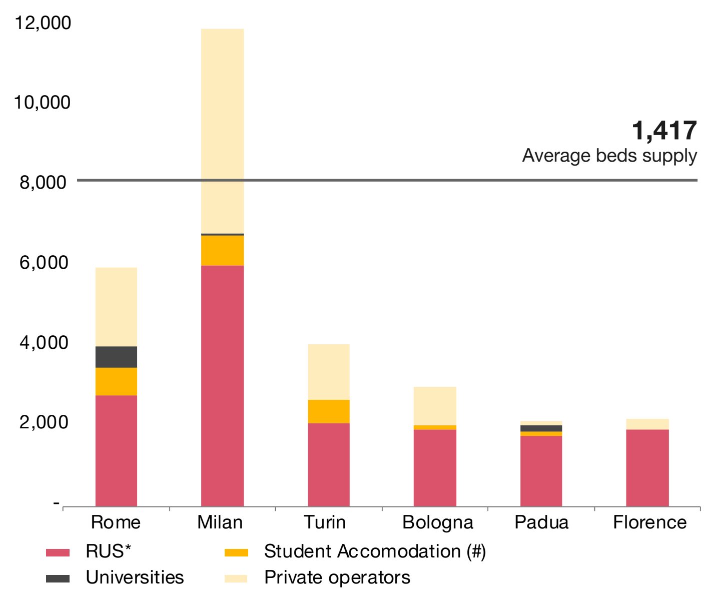


The main driver for pursuing such alternative class is the constant increase in the number of Italian post-secondary education students, over 1,8bn over the period 2018/2019. Indeed, the university registration number showed an increase of +2% compared to 2018.

Number of students and % of international (2019)



Beds Supply by main Italian cities (2020)



*Right to University Study;
Recognised by MEUR (Ministry of Education, University and Research.
Source: PwC analysis

Built to Rent (BTR)

Build to Rent ("BTR") refers to the purpose built apartment that is typically 100% rented. It can be part of a larger multi-tenure development that includes both apartments and houses, but it should be on the same site and/or contiguous to the main development and the schemes will typically be professionally managed share in a single ownership and under management control.

Built to Rent main characteristics

1 It differs from traditional private rental housing since **BTR developments usually involve an owner of the entire development holding the property for the long term and leasing the units for the long term** instead of selling them.

2 **Rents can be fixed at the market or, for affordable housing, an appropriate discount could be offered to market rents** with appropriate government support to fill the funding gap.

3 The BTR model focuses on increasing the supply of rental apartments **through the improvement of investment options that lead to a higher return for investors**.

Drivers

- Decrease in house acquisition affordability;
- Continued urbanization and shortage of housing offers;
- Low interest rates;
- Socio-economic changes;
- Change of regulation.

Pros

- Longer term rental contract;
- Long-term and stable income flow;
- High services for the tenant;
- Reduction of the time needed to search for accommodation;
- Anti-cyclicality and stable flow in times of crisis.

Points of attention

- Significant initial investments;
- Delayed returns (the payback period is longer than a solution with return on capital at maturity);
- Taxation in different countries could affect the performance and business model.

Source: PwC analysis

Built to Rent (BTR) – Features

Typical Services & Value Added Services in the BTR

- Caretakers and guards for the community
- The technology allows residents via app to control appliances remotely
- Various services in the house such as cleaning, or the gardener
- Residents will benefit from amenities such as the gym and swimming pool
- On-site maintenance (also available via app)
- Structures that facilitate the community
- Residents with friends in the same building are more likely to stay longer
- Buildings designed with a sustainable approach

BTR

- **All rental units owned or managed by a single owner**
- **Buildings designed specifically for rent**
- **Total management of the building**
- **Long term rentals (+3 years)**
- **High level of services**
- **Generally made up of +50 units**

Source: PwC Analysis

Built to Rent (BTR) – Europe Data

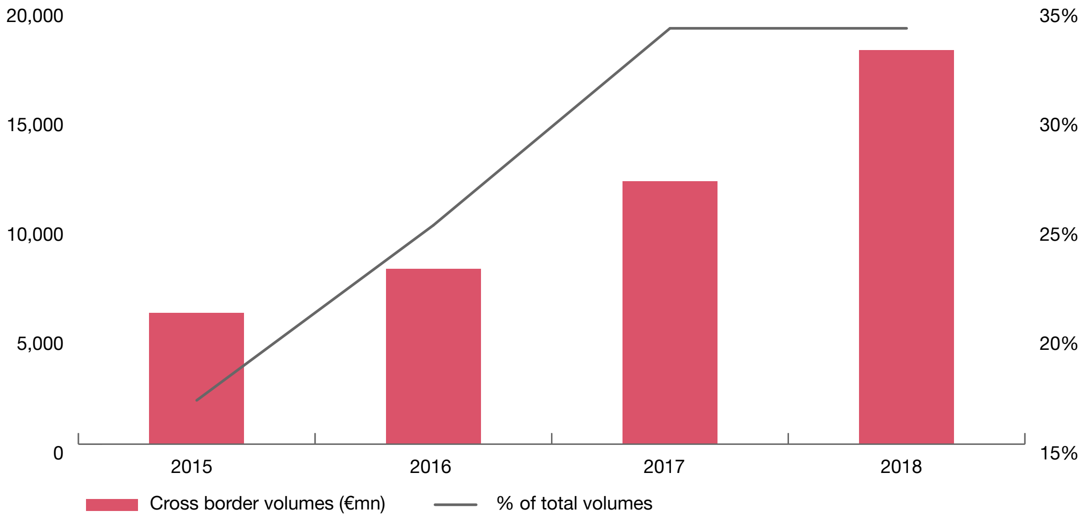
Total investments in Europe in the residential market continue their positive trend, with an increase of more than 40% to € 56 billion in 2018. The growth of some early-stage markets, notably the UK and Spain, has led investment volumes while both markets consolidated their place among the major European hubs for residential investment

Total investment levels in European residential continued their positive trend with **total investments increased by more than 40% to € 56 billion in 2018.**

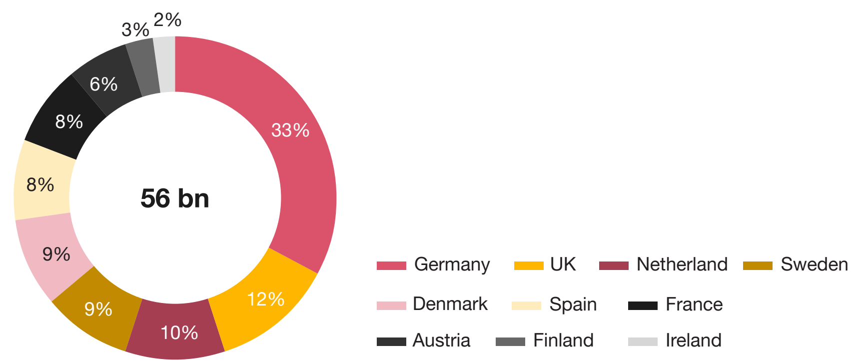
Multi-family investors have increased, attracted to more markets; **cross-border business grew by over 40% in 2018.**

In recent years, several factors have led the growth of multi-family housing, including **declining affordability of home ownership, continued urbanization, low interest rates and socio-economic change along with changing regulation.**

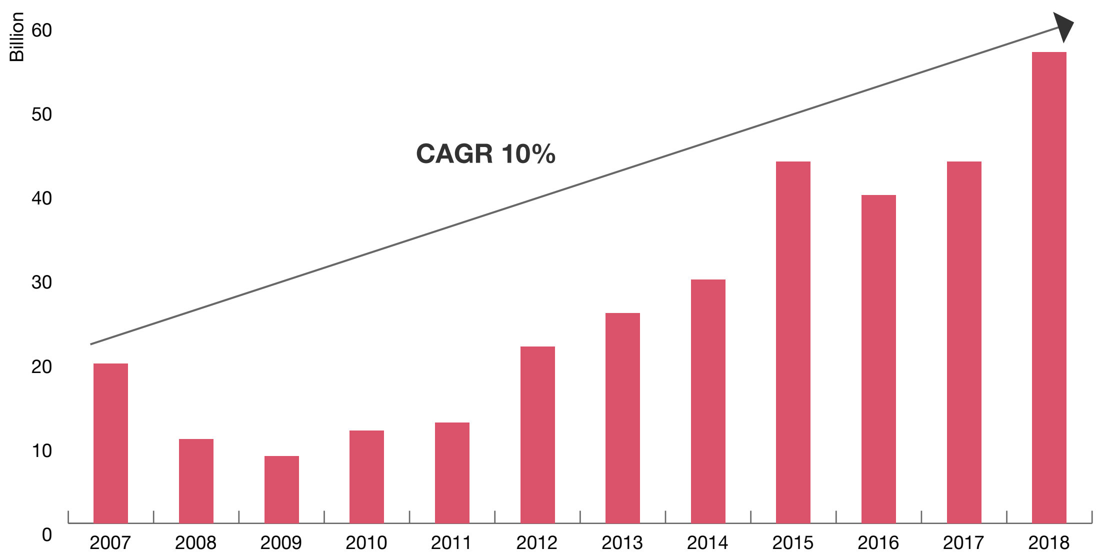
Cross Border Investments in Multifamily (2015 – 2018)



Investments in Multifamily by country (2018)



Historical trend of investments in the multifamily sector



Source: PwC Analysis

Built to Rent (BTR) – European main players

Germany	UK	Spain
Vonovia	**L&Q**	**Testa**
Deutsche Wohnen	**Grainger plc**	**Vivenio** Alquilamos hogares
LEG	**Getliving**	**Témpore** Properties
Grand City Properties S.A.	**Greystar**	
	Criterion Capital	
	Legal & General Investment Management	

Source: PwC Analysis

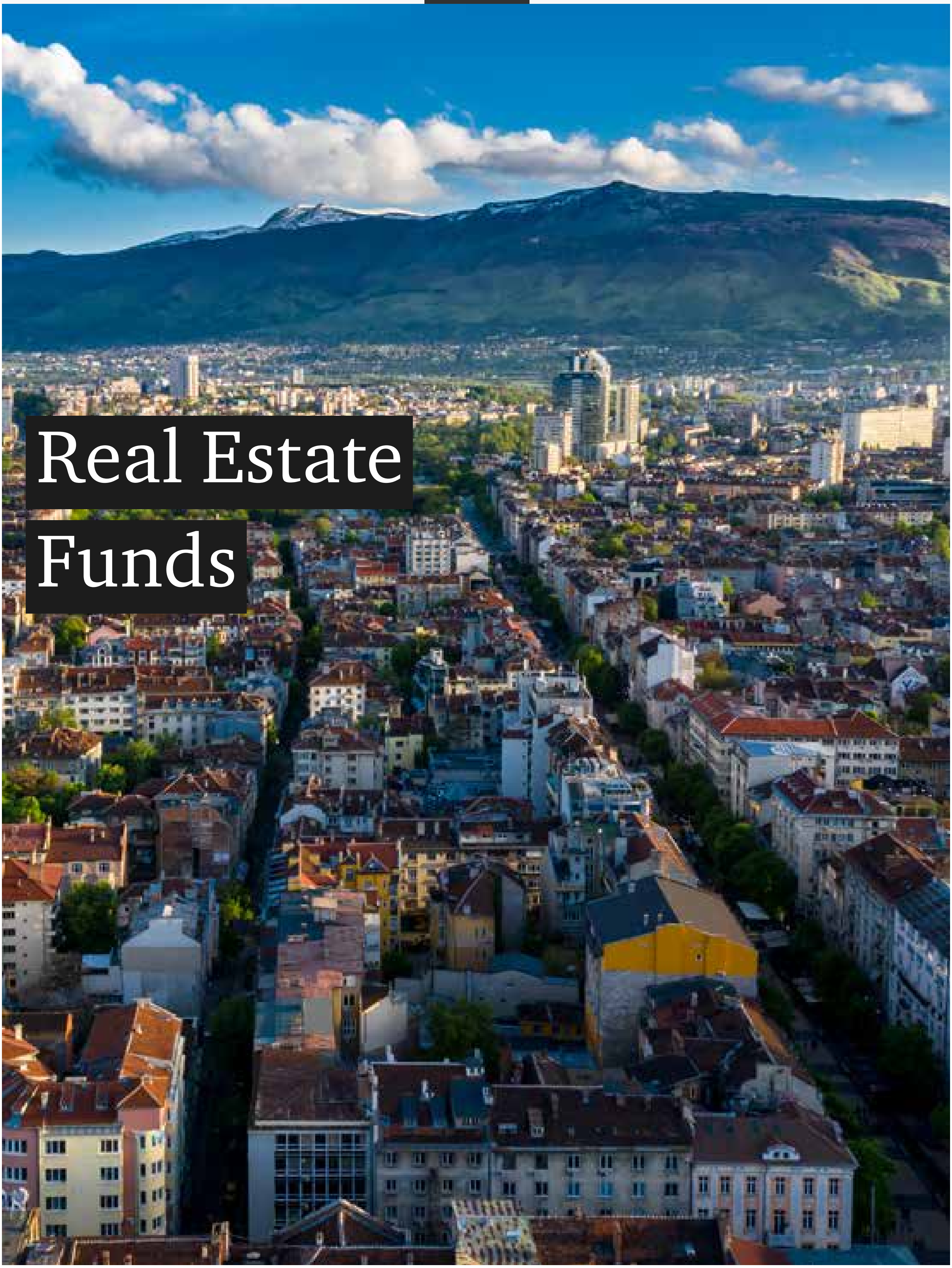
Built to Rent (BTR) – Milan Market

Most of the services offered are included in the fee (e.g. waiting rooms, bicycle storage, lockers, waste room, conference room, business area, coworking spaces, etc.), while the other services (e.g. alarm, gym, laundry, wifi, etc.) are considered pay per use.

	Homizy	Hines	Dove Vivo
Mission	• The concept of living as a **unique sharing experience**; • leadership position: construction of **+3,000 apartments**; • promoting sharing between people.	• Return to the city an **area that has not been used for some time**; • an investment of approximately **350 million euros over the next four years**.	• Manage properties intended for **co-living**, guaranteeing their network of owners and investors the **best value** and **an international community of young people**.
Target	• **Young professionals.**	• Mainly **families** and the **elderly**.	• **Young professionals and students**, usually international.
Product	• **Smart oriented** residential building developed and built specifically for **co-living**; • Efficiency of management and maintenance.	• A park of more than **30,000 square meters**, including **services for the family and the elderly**.	• A single or shared room in different cities of Italy; • the rooms are refurbished, well furnished, with Wi-Fi and many amenities; • the offer formula is all-inclusive.
Know how	• **Market leader** thanks to the synergies with AbitareIn; • new product with **price range between € 550 - € 990** per room with an all-inclusive solution.	• Aims to build **800 apartment units**; • an important **portion of the residential property includes an agreed rental contract**.	• Management of **1,500 rental units, 7 residences, including 8,000 rooms for a total of 300,000 square meters**.

Source: PwC Analysis

Real Estate Funds



Real Estate Funds – Overview

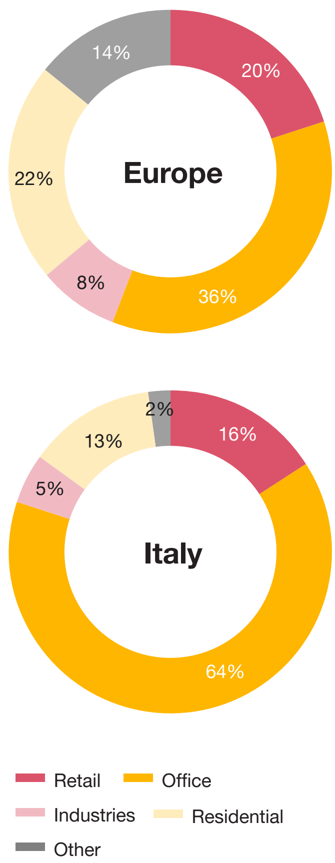
Real estate funds in Italy represent about 3% of the Italian asset management market. The funds examined by Scenari Immoiliari have **assets under management** amounting to **€91.5bn**. With regard to the Y 2020 a growth of **3.8%** was estimated, reaching a total volume of approximately €95bn.

During the last ten years (2010-2019) the number of the Italian operative funds has constantly increased, showing a CAGR of almost 6%. Therefore, stressing the significant role played by this macro category.

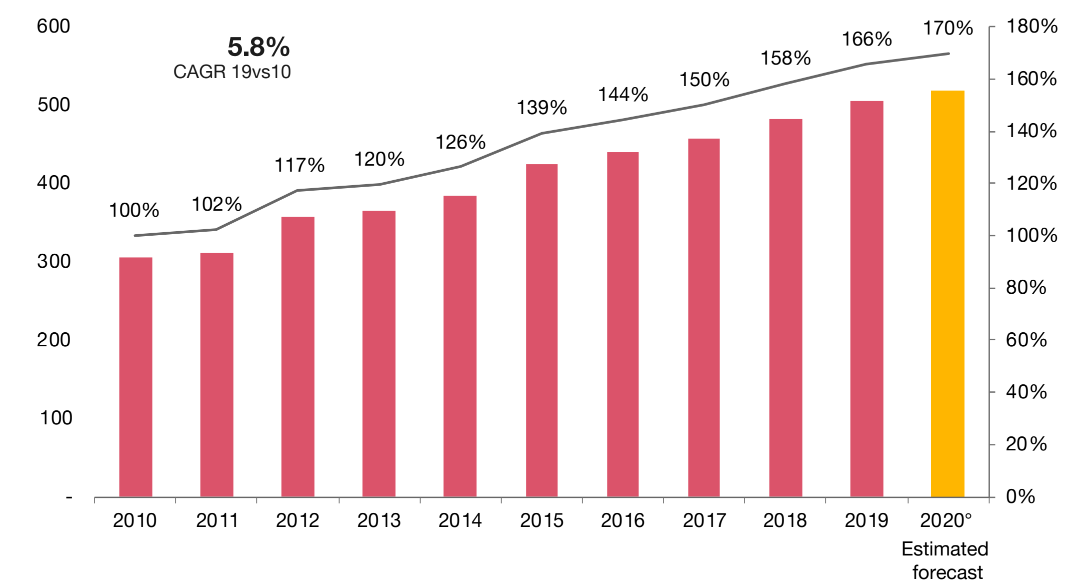
Offices are the most common among the asset classes, constituting 64.5% of the entire asset stock, followed at a distance by retail 16.0% and residences 13.0%.

In 2019, the funds examined by Scenari Immobiliari point out that the acquisition of assets is mainly focused in the North of Italy (44.1%), followed by the Center (25.4%), abroad (20.9%) and the South and Islands (5.0%).

2019 Asset allocation



#Italian Operative Funds Trend



Source: PwC analysis on Nomisma and Scenari Immobiliari data

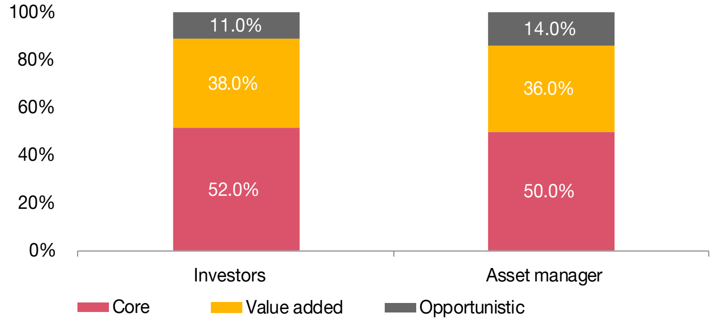
Real Estate Funds – Investment Intentions

Since 2009, the preferred type of investment has been the core, while over the past six years it has been steadily declining. Since 2016, **value-added-oriented** investing has become the preferred investment style, which has further strengthened during 2018 and 2019.

In 2019 as in 2018, **value added** investments were the preferred type of investment in Europe by investors **(51%)**, considered more attractive in terms of risk and return. The other investments preferred by investors were **core (39%)**, followed by **opportunistic (10%)**.

In 2020, **value added** investments recorded a decline compared to the previous year, settling at a value of 43%, while **opportunistic** investments reported a significant growth reaching the threshold of 20%, the highest value recorded since 2009.

Fund-of-funds (FoF) managers' perception is in line with investors and the most recurring type of investment is **core (50%)** followed by the **value added** category **(36% and 38% respectively)**.

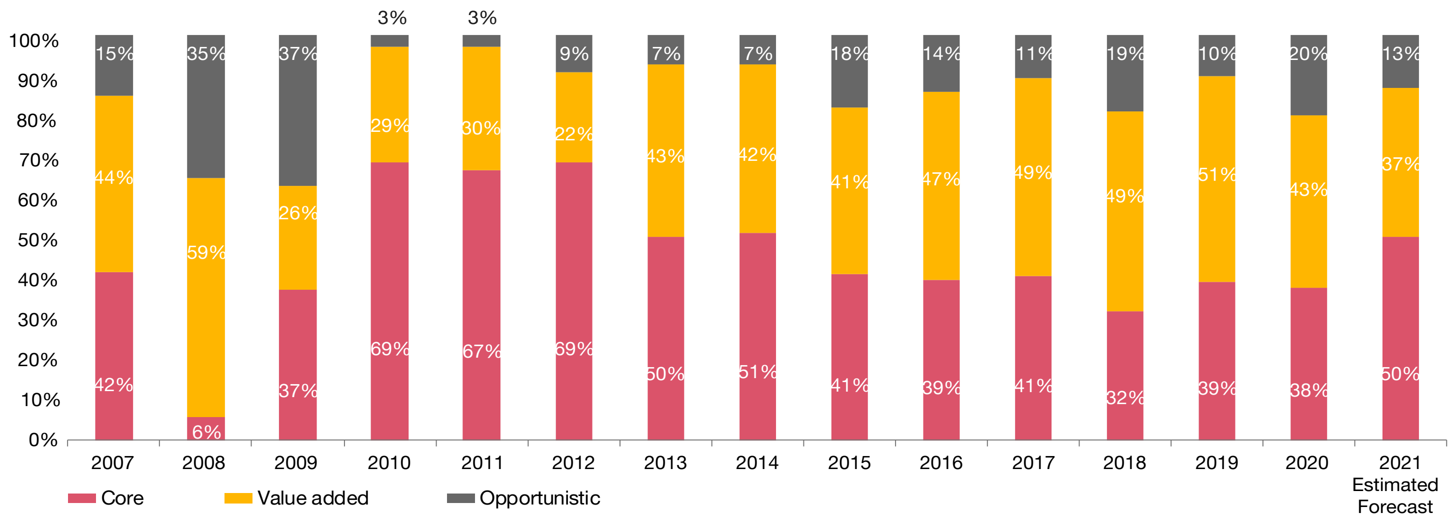


Value Added - Properties and/or portfolios to be enhanced (vacant properties and/or to be restored).

Opportunistic – in general regarding developing areas, but also entire portfolios of critical properties or completely to be restored real estates.

Core - Real estate and/or real estate portfolios with a good quality level, good location and fully occupied through lease agreements by primary tenants; (**Core+**) otherwise properties that partially (some properties in the portfolio) have enhancement potential (partially vacant and/or to be enhanced).

Investment type preference trend (2007 - 2021)



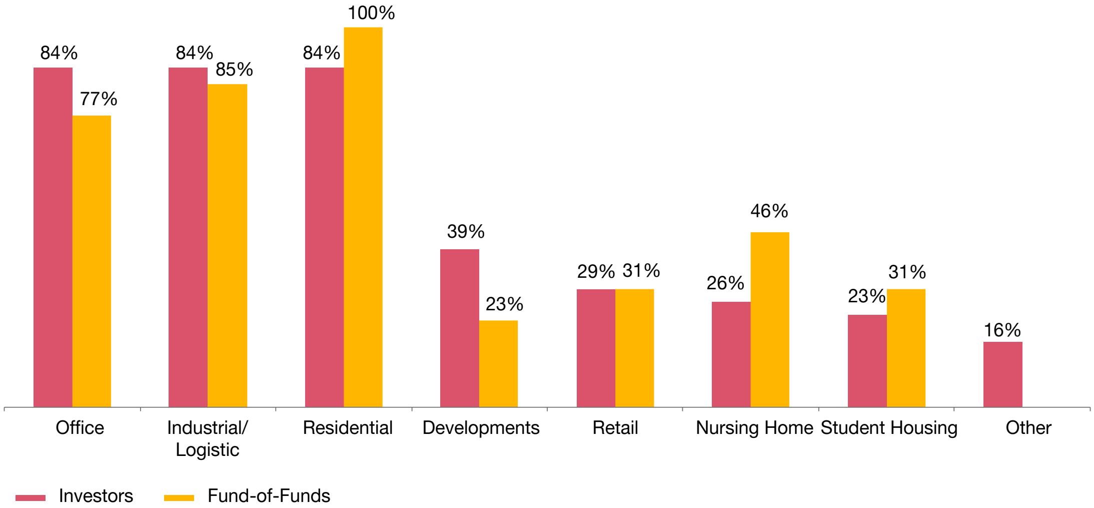
Note: based on a sample of 85 investors (banks, developers, insurance groups, private equity, asset management companies) and 118 asset managers.
Source: PwC analysis on INREV data

Offices, industrial/logistic and residential are the most favored asset classes by investors. The negative sentiment towards the retail sector and especially the shopping center sector, was further accentuated by the restrictions related to COVID-19, causing the alienation of many investors from these sectors.

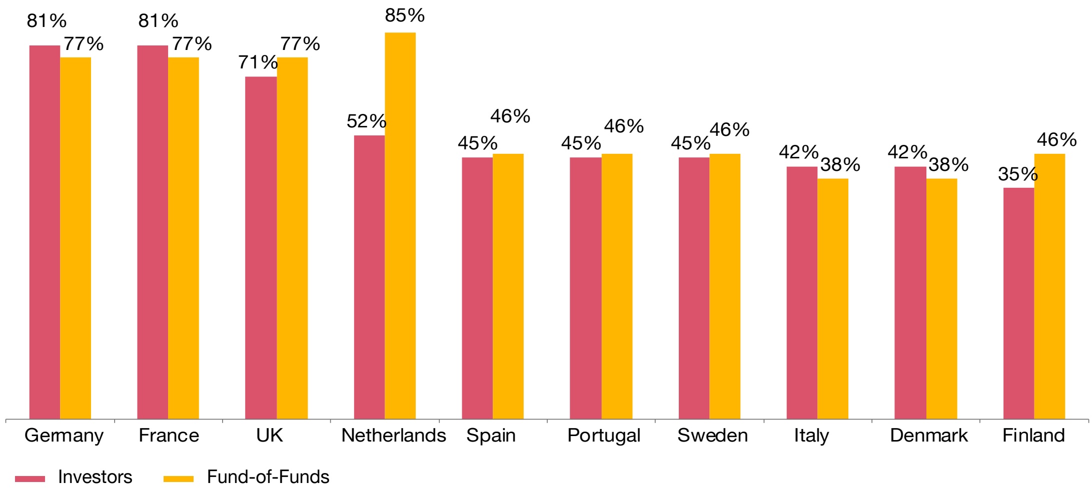
Funds-of-funds show broadly similar sector preferences, although residential is in first place, followed by industrial/logistic and then offices.

In terms of location, most of the investments are made in **Germany, France, UK** and **Netherlands**, which show the same level of investments on average.

Most preferred sectors for 2021 by respondent type



Top 10 most preferred locations for 2021 by respondent type



Note: The survey was conducted on a sample of 84 Investors (pension funds, insurance companies and sovereign wealth funds) and 15 Funds-of-Funds.

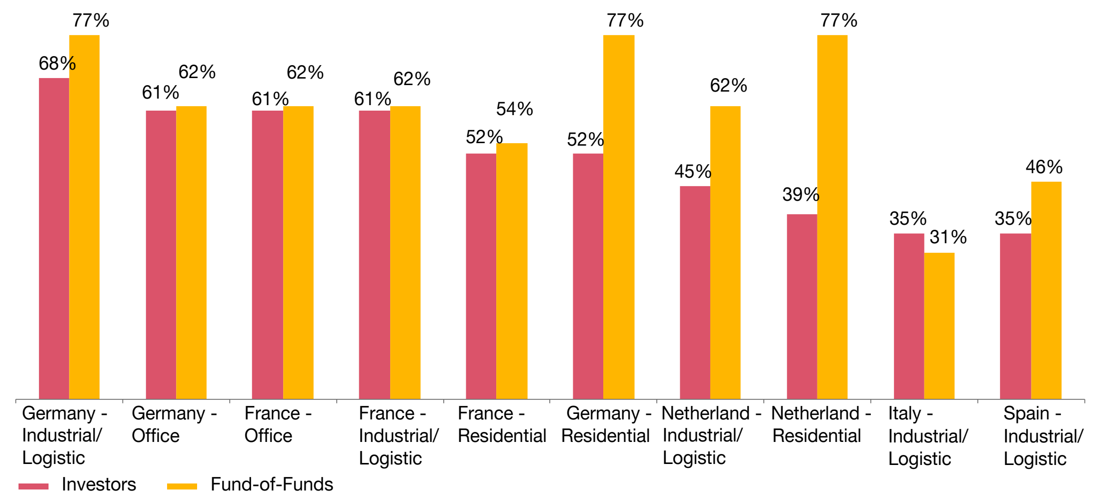
Source: PwC analysis on INREV data

The strong preference for the Industrial/Logistic sector is evident with 5 out of 10 categories, the highest result by sector since 2007. Combinations of residential and office sectors are also in high demand, with Germany and France as the predominant countries.

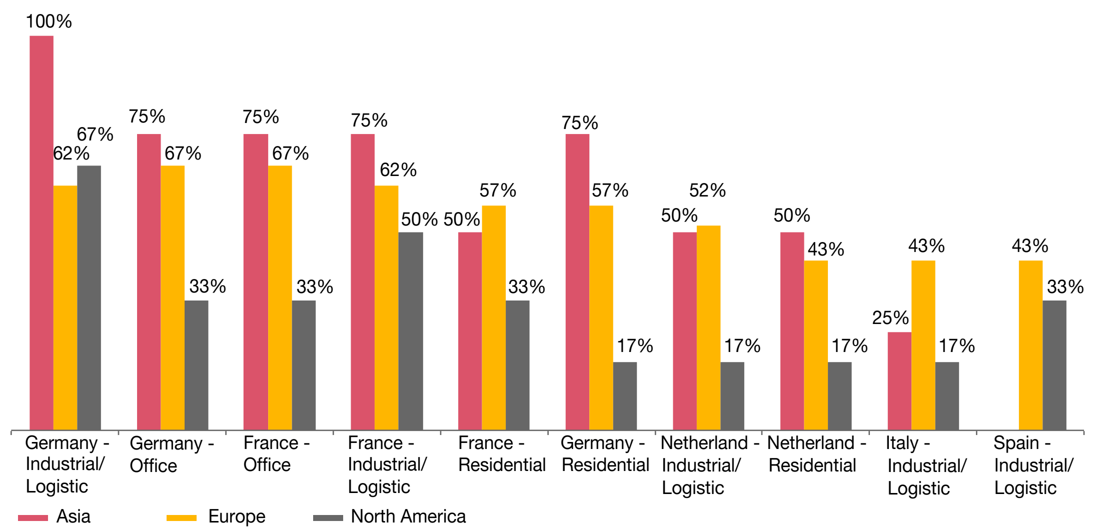
For Funds-of-funds, Germany- industrial/logistic, along with Germany- residential and Netherland- residential are the preferred combinations.

Investors from Asia show a strong preference for Germany and France. Germany-Industrial/logistic appears to be at the center of attention from all the analyzed geographic areas, followed by offices in Germany, offices in France, industrial/logistic in France and residential in Germany.

Preferred country/sector combination by type of investor



Preferred country/sector combination by investor origin



Source: PwC analysis on INREV data

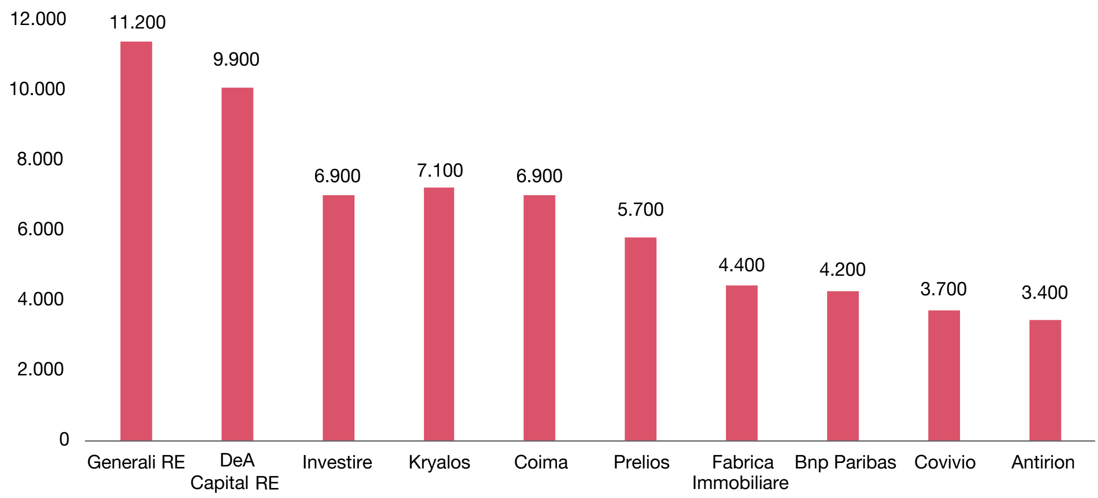
Main Asset Managers in Italy

In the Italian ranking at the end of 2019, **Generali Real Estate** was confirmed in first place with an AUM of € 11 billion.

A confirmation in second place also for **DeA Capital Real Estate with AUM of € 9.5 billion**; **Investing** follows in third place with **AUM of € 6.8 billion**.

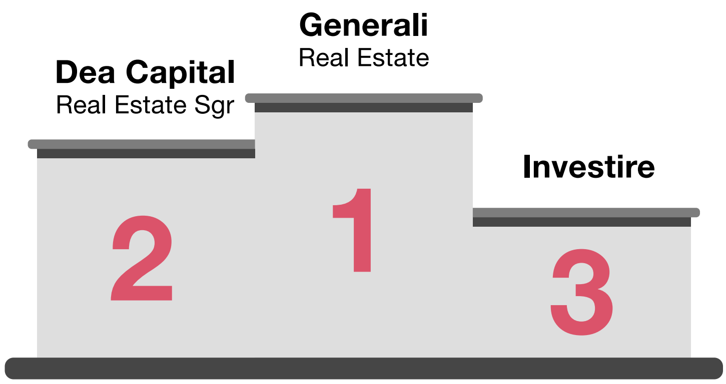
The top 3 players in the Italian ranking together hold 44% of the assets under management of the top 10 Italian companies for a total of € 28 billion.

Main Asset Managers by Asset Under Management (AUM) 2019



Ranking of the main Asset Managers in Italy

Gestore	AUM (€/Mln)	Var% annua
Generali RE	11,200	10.9%
DeA Capital RE	9,900	7.0%
Investire	6,900	12.9%
Kryalos	7,100	15.7%
Coima	6,900	4.7%
Prelios	5,700	9.8%
Fabrica Immobiliare	4,400	5.7%
Bnp Paribas	4,200	-12.8%
Covivio	3,700	13.8%
Antirion	3,400	4.0%
Totale	**63,400**	**7.2%**



Source: Financial statements and companies' websites as at 31.12.2019

Italian NPL market

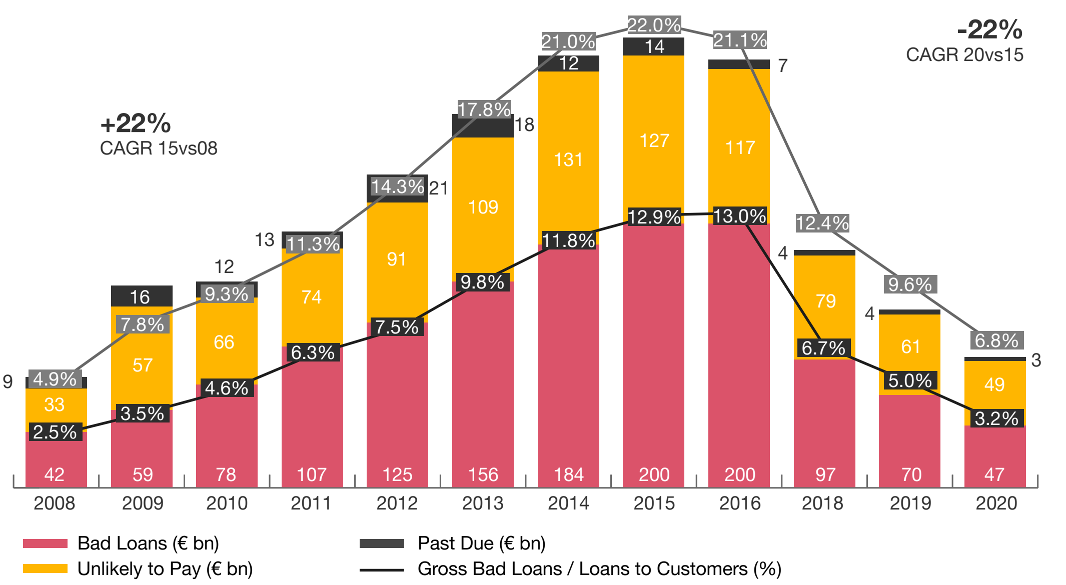
Asset Quality

The NPE stock, after reaching the highest level of GBV in 2015 (€341bn), has constantly declined over the last five years, reaching €99bn at YE-2020.

Gross Bad Loans decreased by € 23bn vs YE-2019 and by € 50bn vs YE2018. Gross Unlikely to Pay showed a decline too, with € 49bn in YE-2020 vs € 61bn at YE-2019. Gross Past Due remained relatively stable.

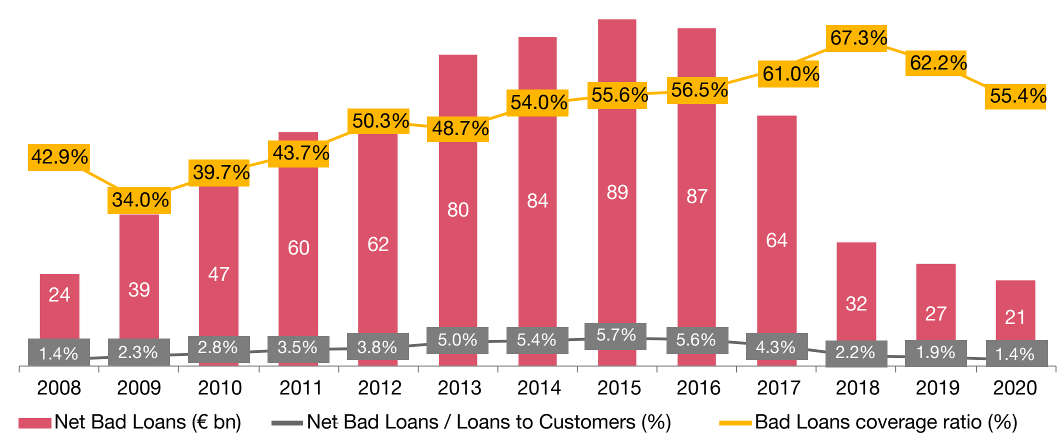
The slowdown of the decreasing trend, compared to the same period of 2019 was caused by the lockdown measures due to the COVID-19 pandemic.

Gross NPE and Bad Loans trend (2008 – 2020)



The total volume of net Bad Loans decreased by €6b vs YE-2019, reaching €21b, the lowest amount since 2008. Moreover, the Bad Loans Coverage ratio decrease from 62.2% at YE-2019 to 54.4% at YE-2020.

Net Bad Loans Trend



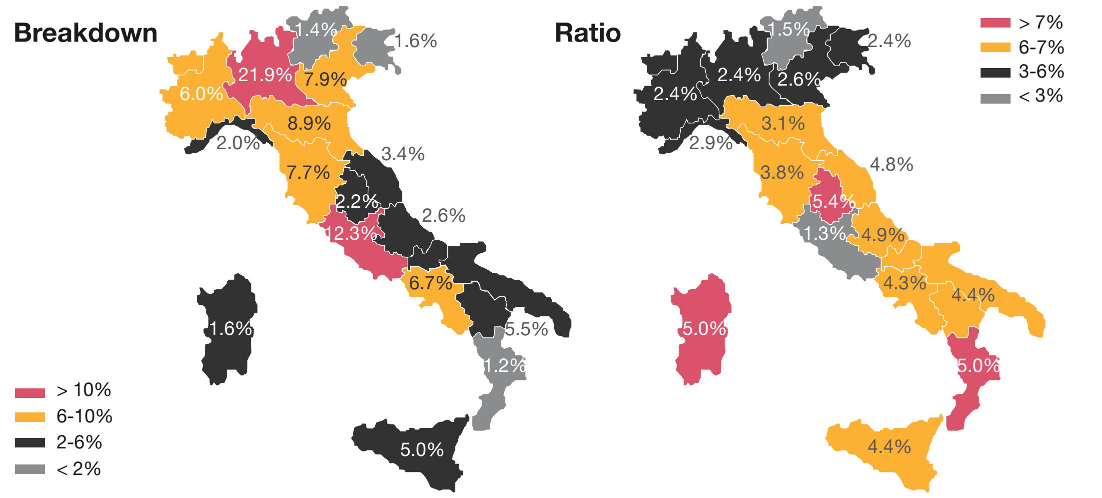
Source: PwC The Italian NPL Market December 2020

Gross Bad loans trend

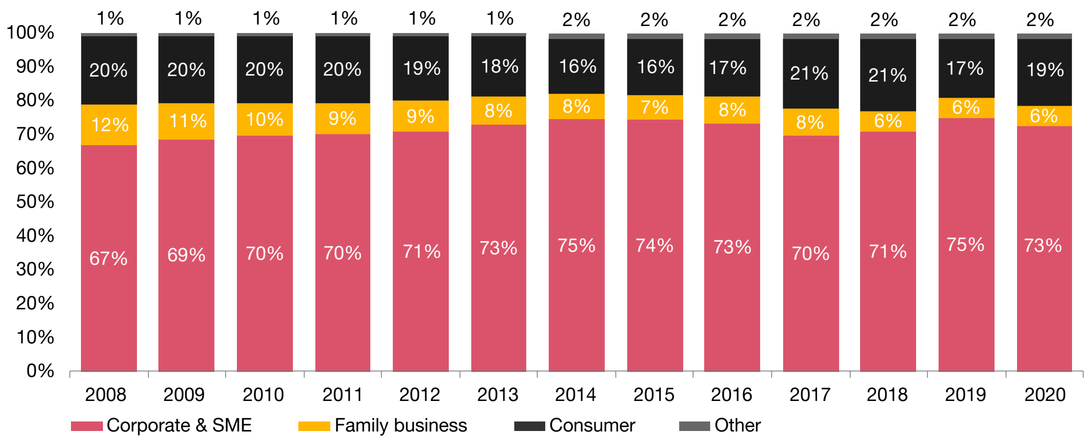
The breakdown of gross Bad Loans ratio reaches the highest percentages in Umbria (5.4%), Calabria (5.0%) and Sardegna (5.0%); overall, gross Bad Loans ratio assumes the highest values in central and southern regions;

- Lombardy represents almost 22% of total Italian Bad Loans, while it shows a relative low Bad Loans ratio (2.4%);
- At YE-2020 the "Corporate & SME" sector still represents the greatest share (73%) of Italian gross Bad Loans.
- The percentage of Secured Bad Loans (43%) decreased slightly compared to YE-2019.

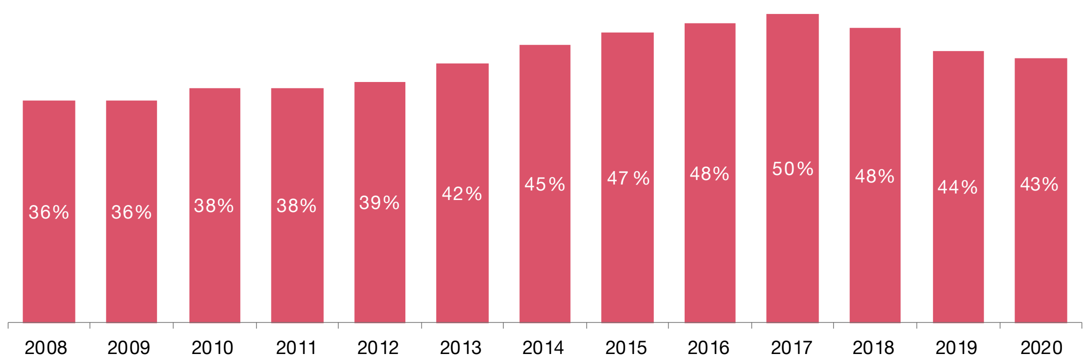
Gross Bad Loans by region* (YE 2020)

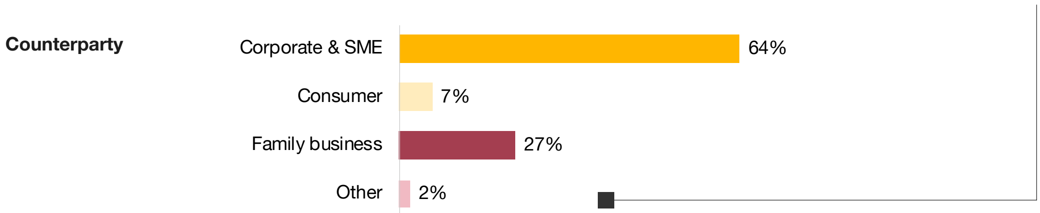


Breakdown of Gross Bad Loans by counterparty (2020)



Secured Gross Bad Loans trend (% on total Bad Loans)





*Unique percentage for 1) Aosta Valley and Piedmont, 2) Abruzzo and Molise, 3) Apulia and Basilicata

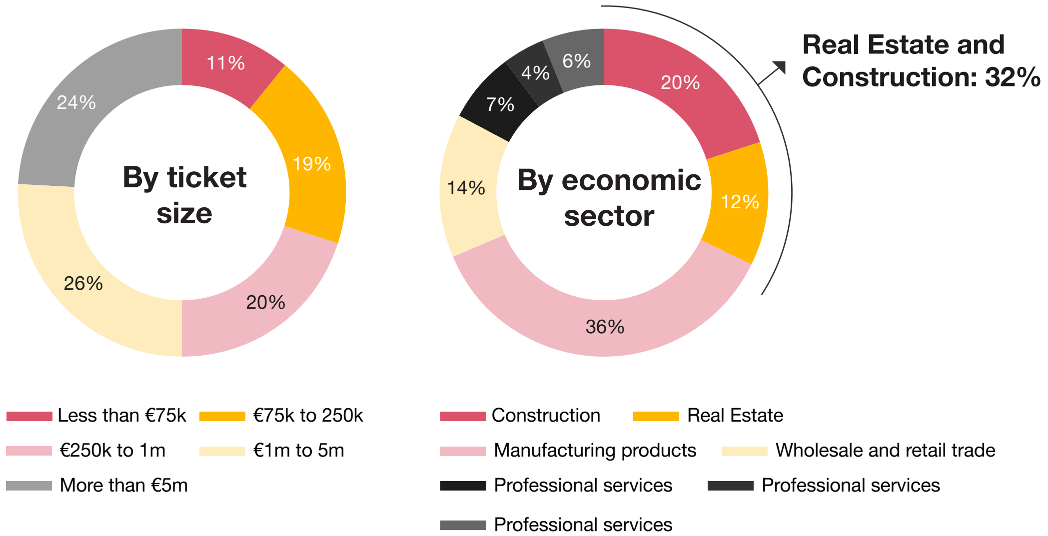
Source: PwC The Italian NPL Market December 2020

Gross Bad loans breakdown

The breakdown of gross non-performing loans by economic sector shows that construction represents 20% and real estate 12% which together represent a total of 32%.

Large-size exposures (over €1m) represent 50.7% of total GBV, while only 11% of small-size exposures (below €75k).

Break down of Gross Bad Loans (n°)

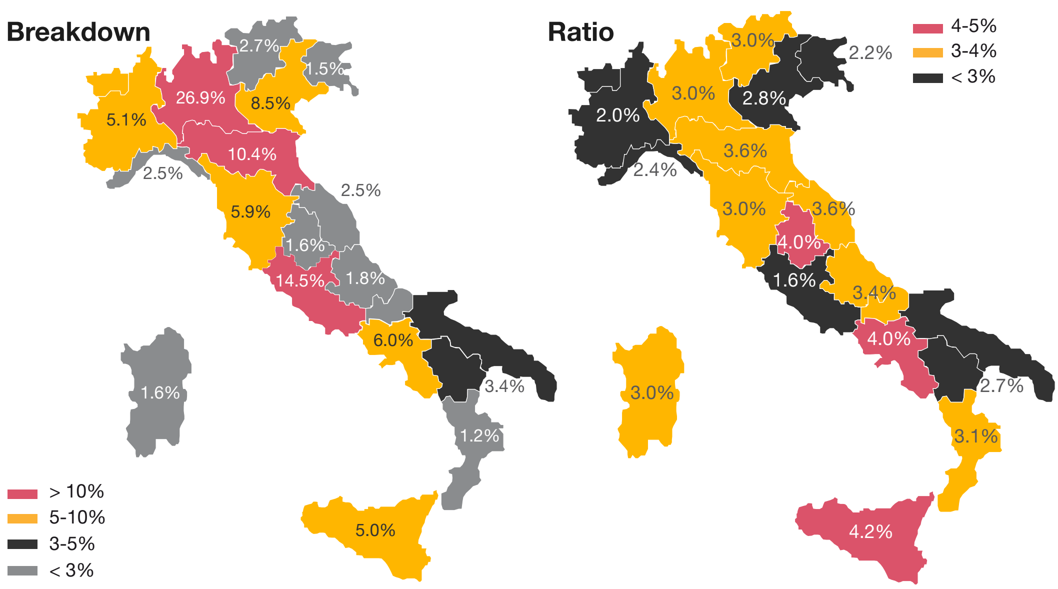


Unlikely to Pay (UtP)

The gross UtP stock composition as of YE-2020 illustrates the following:

- The highest concentration of UtP in terms of volume is in Lombardy (26.9% of total volumes).
- Sicily (4.2%), Umbria and Campania (both 4.0%) are the regions with the highest levels of UtP ratio;

UtP by region* (YE 2020)



*Unique percentage for 1) Aosta Valley and Piedmont, 2) Abruzzo and Molise, 3) Apulia and Basilicata

Source: PwC The Italian NPL Market December 2020

Milan

Why Lombardy and Milan

Lombardy *is one of the top 3 regions in Europe able to attract investments with its strategic plan and is one of the 4 EU industrial aggregates.*

Lombardy is also the gateway for international investments to enter into Italy.

Lombardy is the heart of Italy's economy, and is very attractive to multinational companies that want to enter the Italian market. In fact, 48.6% of all Italian companies part of international corporations have headquarters in Lombardy.

In addition, the manufacturing industry of Lombardy and Milan has proven that it is above the average of the best European standards.

At a systemic level, the Lombardy industrial system confirms it rightfully belongs to the network composed by the four main European industrial aggregates (which includes Baden-Württemberg, Rhône-Alpes and Catalonia).

It also confirms its Italian leadership and its techno-industrial structure, with many SMEs specialized in high-end productions and able to adopt governance mechanisms and business strategies that are unusual for Italy.

Milan is listed within the top 10 cities for investments in Western Europe and mentioned as one of the preferred destinations for investing in the real estate sector.

Milan is an excellent business environment and a dynamic city. In fact, Milan can be considered the cornerstone of the national economy, with more than 40% of the total firms of Lombardy based in the city and its province and its GDP is 10% of total Italian GDP. Milan has the following attributes:

A city that attracts business value: the Milan Metropolitan area accounts for nearly one third of all foreign-invested firms in Italy, more than 30% of their employees and 34% of their turnover.

A strong specialization in the service sector (sectoral expertise): the Universal Exposition Expo Milano 2015 has confirmed the role of the city as a capital of business and finance, and a magnet in attracting flows of tourism from the world. In addition, key sectors in Milan include ICT & Media, Financial & Consulting services, Creative Industry (fashion and design), Retail and Commerce, and Life Science and Biotechnology.

A hub for talent (human capital): with its 8 universities and 2 international schools, accounting for more than 10% of the Italian university population, Milan area stands out for the quality of its human capital and education system at all levels. Globally renowned academic institutions and distinguished fashion & design institutes are based here.

A leader in innovation (technology): Milan area hosts seven advanced research centers, among Life Sciences and Biotechnology, that are specialized in various sectors and acknowledged as an excellence within the European research landscape. More than 340 organizations in the area of Milan are part of at least one technological cluster.

An international city: Milan hosts over 122 consulates and foreign commercial offices and is in a central position in northern Italy. The city has three international airports and primary transport infrastructure.

Milan – City Profile

Italy's long-running political instability is raised by many rueful Italian interviewees. But respondents also stress that Milan rises above the national travails.

The "locomotive" of Italy is led by strong local government and continues to attract talent and capital from both domestic and international investors. "Milan has a different market to other cities in Italy; it plays in the European league," says one local CEO.

The city authority is praised for its approach to urban regeneration with an emphasis on investing in public transport, bold architectural design and the value of placemaking mixing offices, services, and public spaces. In 2023, metro Line 4 is due to start operating and is tipped to benefit fringe city spots such as the fast-growing Tortona district in the fashionable south-west where investors have been snapping up offices in anticipation of value increases.

In the north arc of the city centre, the Porta Nuova development's success is driving investment in surrounding areas including the Scali Milano former rail yards.

On the north-eastern fringe, the Bicocca business and university quarter is attracting international capital for residential and student housing development as well as one of the first transactions in the city by South Korean investors.

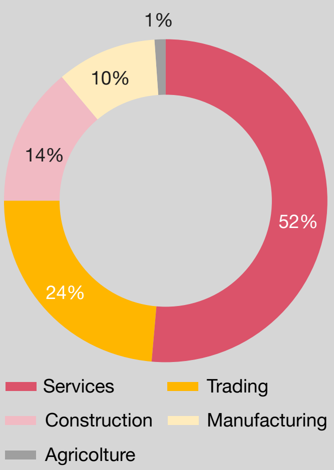
"There are good opportunities if you are able to get an office building refurbished to grade A specification. You will lease it in no time at very good rents," reports one of many pan-European investors with projects in the city. Demand from a diverse tenant base for modern space underpins top rents of 600 €/sqm/y, which is higher than many European cities outside Italy.

The city is looking forward to hosting the winter Olympic Games in 2026. "Thanks to this, there will be need of many more apartments which could be sold at the end of the international events. This will be a great opportunity for Milan," says a local hotel and residential developer.

And as the wealthiest regional economy, close to Europe's key distribution routes, Greater Milan is the most active logistics submarket, offering prime yields of 4.75%, higher than many western European locations.

> *Milan is living another golden age, especially with the vision of a city that could grant a high quality of life, with environmental quality, services and green areas.*

Active companies by sector H1 2020

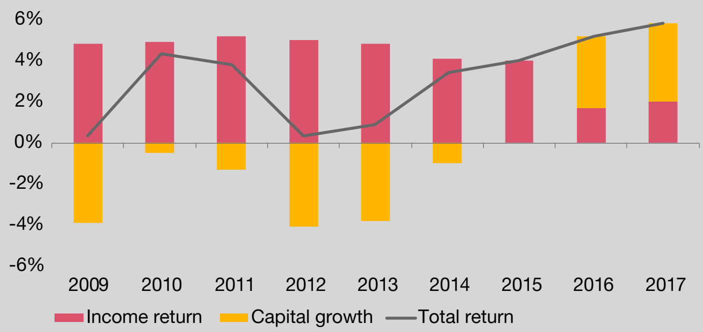


52% of companies in Milan are in services, while only 1% are in agriculture. Construction companies account for 14% and employ 5% of the workforce.

From 2013 to 2018 Milan has recorded positive and interesting results such as a decrease in unemployment, and an increase in population and GDP.

Source: PwC analysis on data provided by The Chamber of commerce of Milan Monza Brianza Lodi

All property return 2009 - 2017



Source: PwC Emerging Trends in Real Estate Europe 2020

Residential

Municipality of Milan

Over the period 2004 – 2020, the average **Number of Normalized Transactions** of residential in Milan is **21,625 transactions per year**.

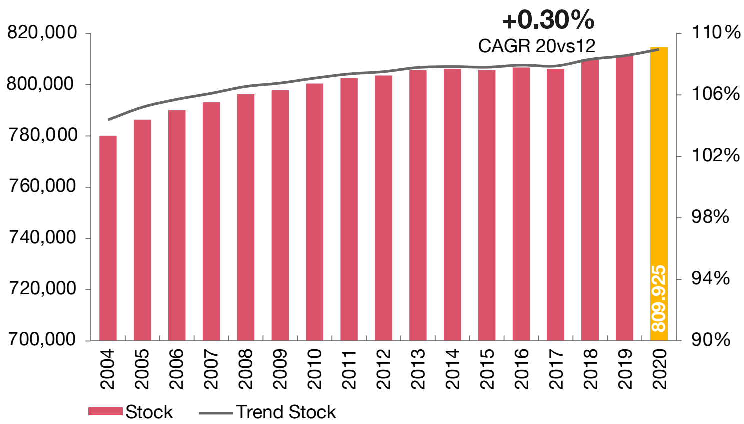
During the analysed period, the trend has been characterized by a general recovery over the period 2013-2019, while the 2020 has recorded a significant decrease due to the COVID-19 pandemic situation compared to the previous year **(-17.5%)**.

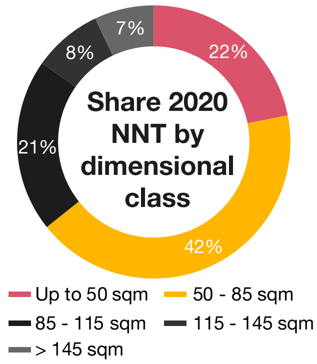
21,625
NNT 2020

-17.5%
NNT 2020vs2019

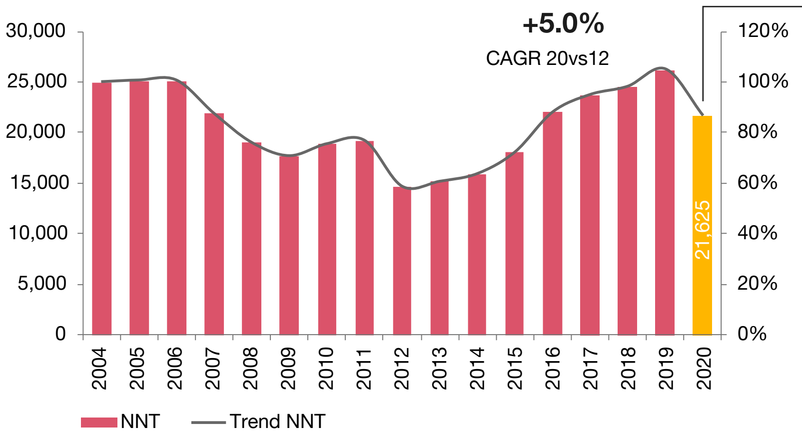
+42.83%
NNT 2020vs2013

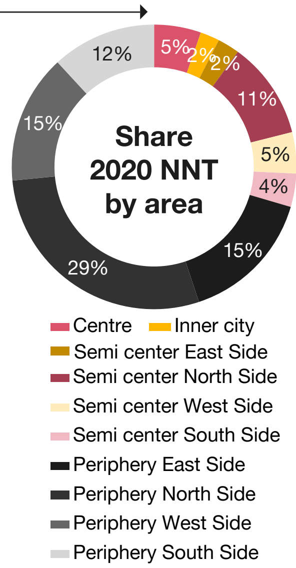
Trend of Real Estate Stock



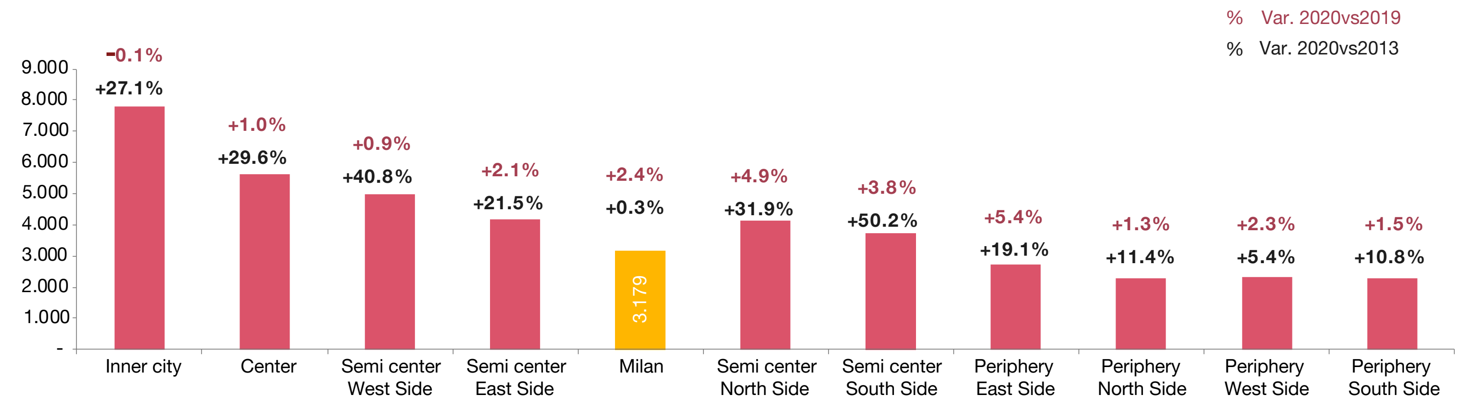


Trend of NNT





2020 Average purchase price (€/sqm)



Source: PwC analysis on Italian IRS data

The transaction activity in Milan increased by 7.0% in 2019, reaching approximately 26,200 transactions and showing an expansive cycle affecting all urban areas. Properties between 50-85 sqm reported a 7.1% increase in sales (42% of total residential transactions in Milan), while properties between 85-115 sqm saw an increase in transactions of 3.0% and account for 20% of the market. However, considering the fast absorption of units and a growth in sales of between 4% and 5%, over the next 5-10 years the city is in danger of not being able to satisfy the demand for new homes.

In the second half of 2020, 11,487 transactions were recorded, which was a decrease of 11.82% compared to H2 2019.

The areas with the greatest increase in sales are in the semi center. In particular the Semi center (North side) recorded in 2020 the higher increase percentage among all the analysed 11 micro zone (+4.9%). In 2019, the Municipality of Milan approved the new town planning (Piano di Governo del Territorio - PGT) which provides for the construction of more than 3.9 million sqm of gross floor area on more than 9.6 million sqm of total land area, of which 1.5 million sqm will be for residential use, for a total of approximately 240 thousand new homes.

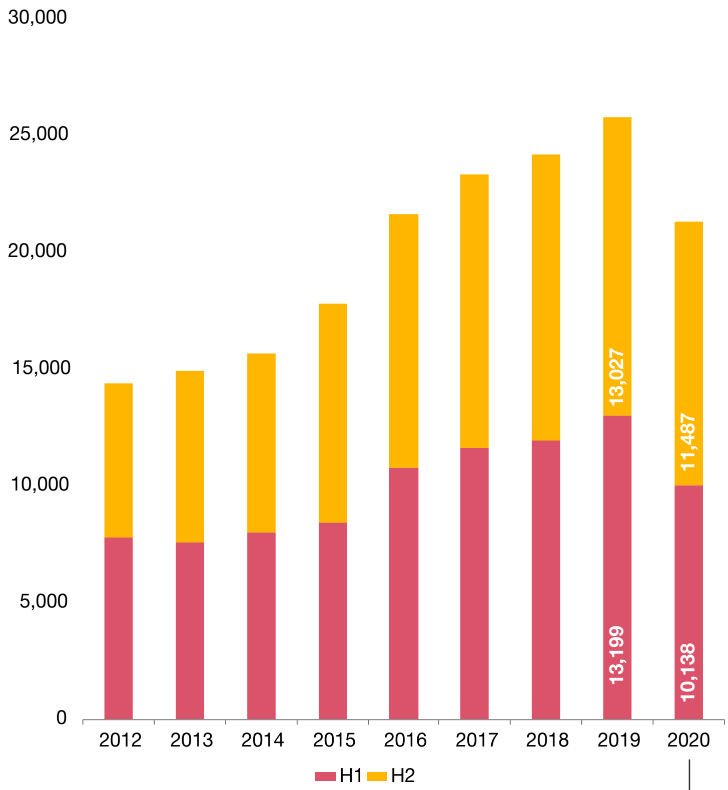
11,487
NNT H2 2020

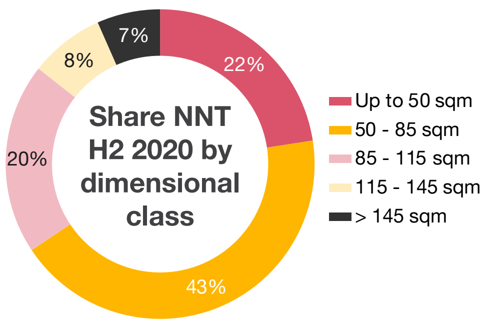
-11.82%
NNT H2 2020 vs H2 2019

+53.90%
NNT H2 2020 vs H2 2013

+4.20%
NNT H2 2020 vs H2 2016

Trend of NNT by half year





Source: PwC analysis on Italian IRS data

Province of Milan

Over the period 2004 – 2020, the average **Number of Normalized Transactions** of residential in the **Province of Milan is 56,222 transactions per year**.

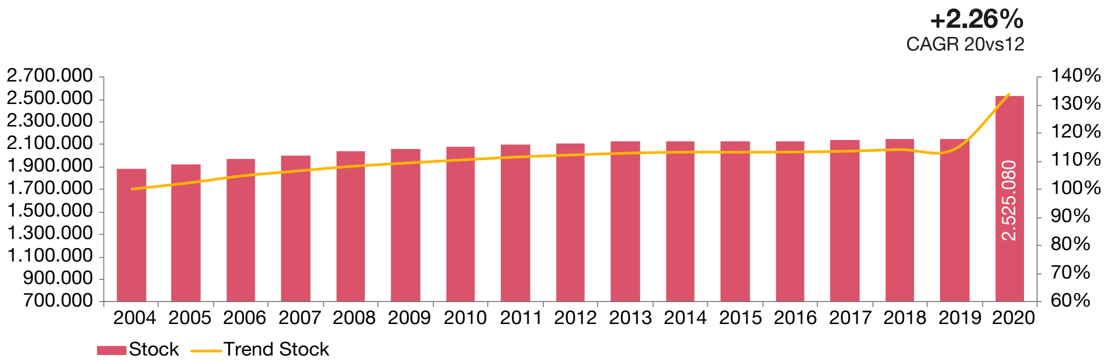
During the analysed period, the trend has been characterized by a general recovery over the period 2013-2019, while the 2020 has recorded a significant decrease due to the Covid19 pandemic situation compared to the previous year **(-10.44%).**

56,453
NNT 2020

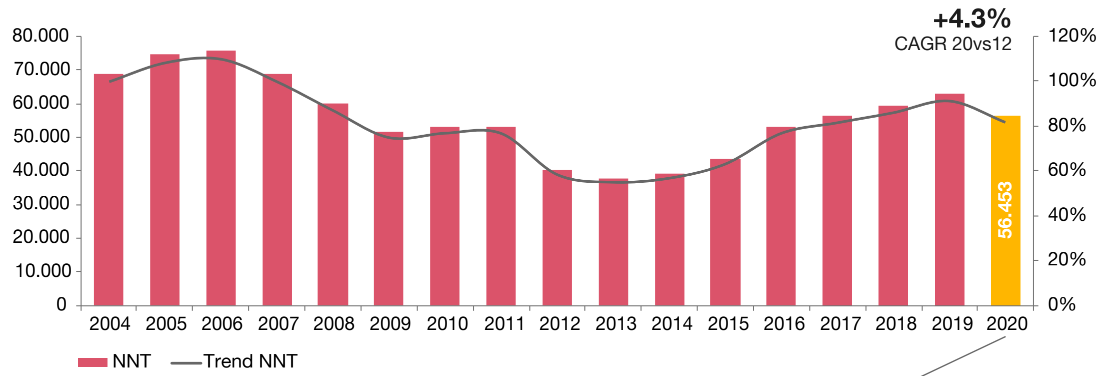
-10.44%
NNT 2020vs2019

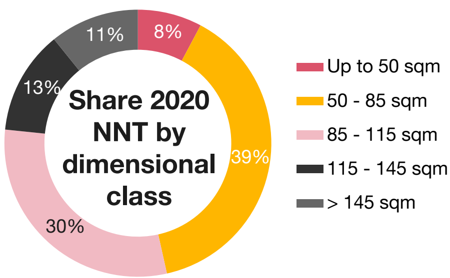
+48.88%
NNT 2020vs2013

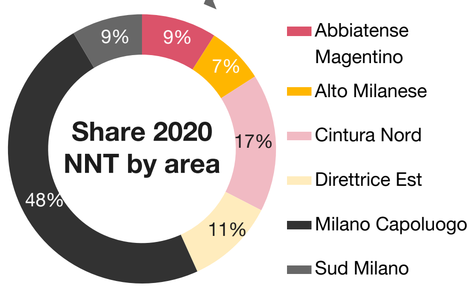
Trend of Real Estate Stock



Trend of Real Estate NNT







Source: PwC analysis on Italian IRS data

Investment Trends

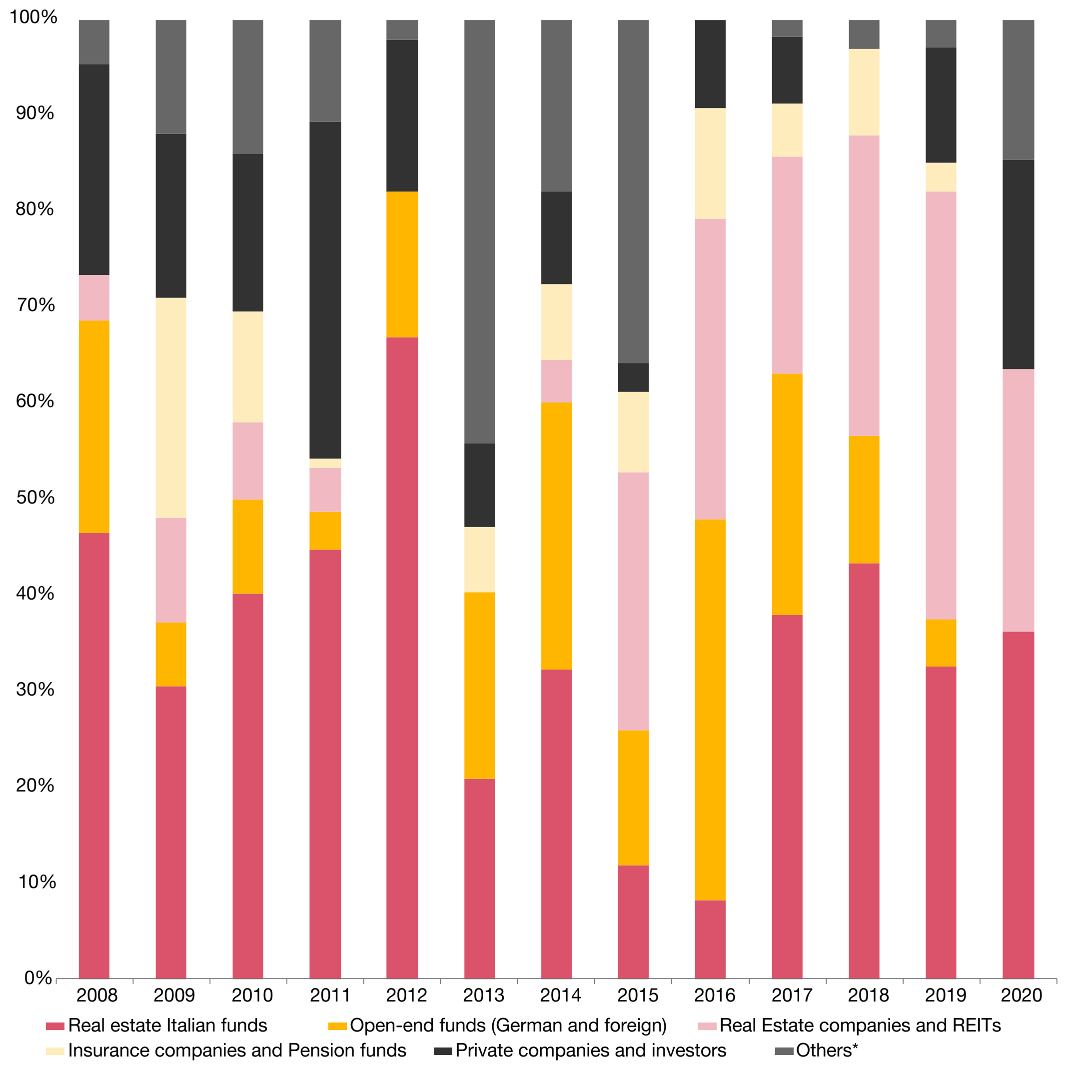
Investment trends

In Y 2020 the investment market in Milan accounted for nearly €3.4bn, with a level of volumes 33% lower than the previous year.

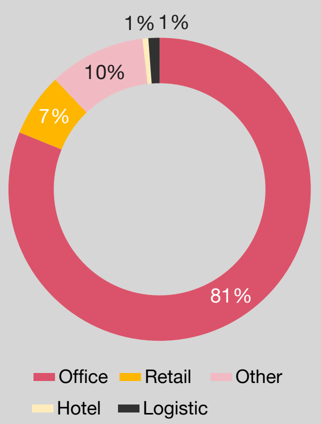
The main market is still the office sector with 81% of total volume invested during the whole year.

In 2020 the most relevant investors were real estate Italian funds, real estate companies and REITs and Private companies and investors.

Institutional real estate investments by investor class



Investments by asset class – Y 2020

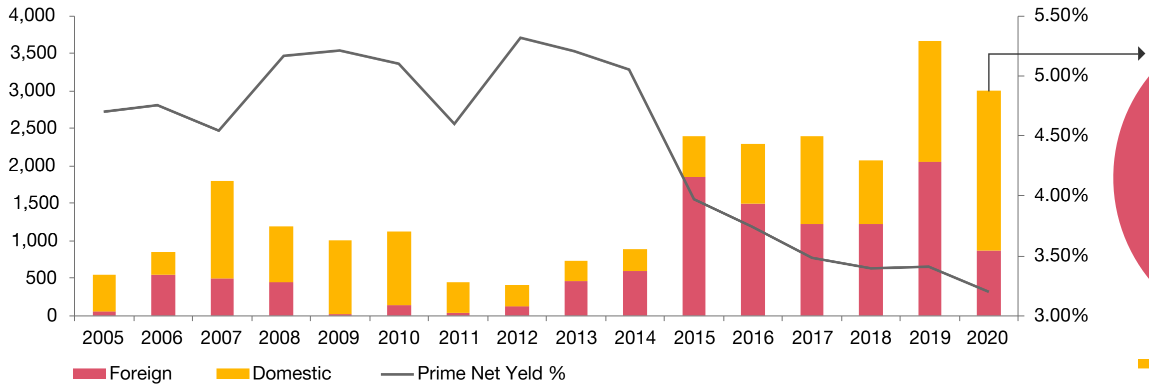


*Others: Banks, public sector and sovereign funds
Source: PwC analysis

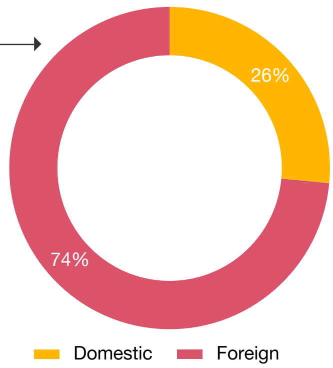
Office sector

Office sector

Trend of Investments (€m)



Investors - Y 2020



In **Y 2020**, office investments in Milan reached **€3.0 billion, down -18% in comparison with the 2019**.

Milan remains the most attractive market in terms of volumes and number of deals.

The lack of quality product remains a central issue even for the Milan market, which is reflected in the lack of deals on individual assets restricting the growth of the market.

Foreign capital in Y 2020 represented 29% of the total investments.

Prime and secondary net yields remained almost stable at 3.2% and 4.8%, respectively, compared to the previous year.

€3.0bn
Total Investments in Y 2020

9.9%
Vacancy rate in 2020

29%
Share of foreign investors in Y 2020

Rents

From the analysis of rental agreements emerges that the average prime rent for Y 2020 is 394 €/sqm/y, which is slightly higher than the value registered during the previous year (390 €/sqm/y).

Milan	2020	Q2 2020	2019	Q2 2019
CBD	600	600	600	590
Centre-out of CBD	480	480	480	460
Semi Centre	370	370	350	350
Periphery	280	280	280	270
Hinterland	240	240	240	240
Average	**394**	**394**	**390**	**382**

Yields

The Prime Net Yields remain stable from the second quarter; Prime Net Yield in the CBD of Milan is about 3.25% and rises to 5.75% in the periphery.

Milan	2020	Q2 2020	2019	Q2 2019
CBD	3.25%	3.25%	3.25%	3.50%
Centre-out of CBD	4.00%	4.00%	4.00%	4.00%
Semi Centre	4.50%	4.50%	4.50%	4.75%
Periphery	4.75%	4.75%	4.75%	5.00%
Hinterland	5.75%	5.75%	5.75%	5.75%
Average	**4.45%**	**4.45%**	**4.45%**	**4.60%**

394 €/sqm/y
Average Prime Rent
Y 2020

4.45%
Average Prime Net Yield
Y 2020

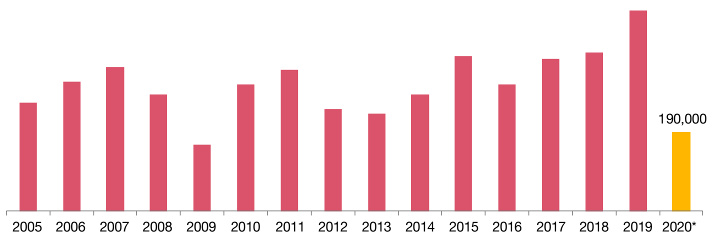
600 €/sqm/y
Prime Rent CBD Y 2020

190k sqm
Take-Up in 2020*

The Milan market is proving to be very attractive for investors and is undoubtedly the number one market in Italy in terms of volumes and number of deals. With regard to core investors, a growth in the number of domestic investors has been recorded. The Take-up in the first nine month 2020 reached nearly 190k sqm, down by 47% compared to the same period of 2019.

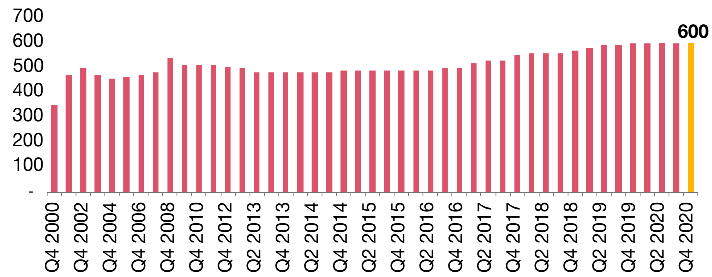
Prime rent for office in the CBD is growing, for the 2020 reached 600 €/sqm.

Take up trend (sqm)



* Value based on the first 9 months of 2020

Trend of prime rents (€/sqm/y)



Source: PwC analysis

Hotel sector

Hotel sector Milan

Annual hotel statistics

	Occupancy (%)	ADR (€)	RevPAR (€)
2015	69%	161	111
2016	64%	141	90
2017	68%	144	98
2018	69%	167	115
2019	71%	174	124

Growth on previous year

	Occupancy	ADR	RevPAR
2015	7,9%	23,5%	33,3%
2016	(7,2%)	(12,4%)	(18,8%)
2017	6,3%	2,1%	8,5%
2018	1,3%	15,9%	17,5%
2019	3,2%	4,4%	7,7%

*YTD December 2020 (growth is on the same period of the previous year)

€174
2019 Average Daily Rate (ADR)

71%
2019 Occupancy

8m
2019 Total Arrivals

12,4m
2019 Total Overnight stays

Introduction

Milan, one of the biggest and more cosmopolitan Italian cities, is the national business and financial centre and leader in technological and scientific research. Many national and international companies already have HQs in the city, with other large companies searching to be present in the local market as well. The city is well known for its leading museums, theatres, and landmarks as well as international events and fairs, which include the Fashion Week (in February and September), Milan Furniture Fair (in April), SMAU (in October), and EICMA (in November). New events and social activities are constantly being organized in Milan, such as the Fall Design Week, which had its pilot edition in October 2016 and its first full edition in 2017, and MAPIC Italy, which also launched in 2016.

Recent transactions

National and international investors continue to search for opportunities in Milan and in 2018 and 2020, hotel transactions included (amongst other transactions): J24 Hotel Milano, Glam Hotel, Just Hotel Milano, NH Collection CityLife, NH Milano Congress, iH Hotels Milan Puccini, Townhouse Duomo, Townhouse Galleria Seven Stars, Hotel Carlyle Brera, Radisson Blu Milan, LaGare Hotel Milano Centrale - MGallery by Sofitel.

Historical trading

Milan has historically been supported by business demand, although the leisure component has been increasing, especially since the EXPO 2015.

Since 2017, Milan has registered consistent, strong growth from both an increase in Occupancy and ADR; RevPAR grew by 8.5% in 2017 and an additional 17.5% in 2018, pushing the market back towards levels recorded pre-crisis (RevPAR of €104 in 2007).

In 2019, the occupancy rate increase up to 71%, +3.2% over the previous year, while the ADR recorded once more an increase of 4.4% over the 2018.

Hotel demand

The province of Milan in 2018 recorded 7 million arrivals and 13.4 million overnight stays, which is circa 7% higher than 2014. In 2019 arrivals reached 8m, an increase of 3.9% over the 2018. The overnight stays recorded 12,4m, an increase of 7.5% over the previous year.

The majority of overnight stays are from international tourists. Over the last 5 years, this segment has grown by circa 14%.

International tourists mainly arrive from the USA, China, Germany, France, UK, Spain and Russia.

Source: PwC analysis on AICA, ISTAT, Statista and RCA

Rome

Rome – City Profile

In terms of residential, logistics and office, which are the most popular sectors targeted by Emerging Trends Europe's respondents, Rome's real estate market continues to play second fiddle to its northern rival. "Today there is a 30% gap in values compared to Milan, apart from hotels," says a large Italian institutional investor. Prime CBD office rents in Rome are 490 €/sqm/y, and prime yields are 3.75% compared to €600 and 3.30% in Milan."

Rome's underperformance is blamed on two continuing frustrations: the lack of transparency and its city leadership. "Rome is blocked, and the reason is strongly related with the lack of strategic vision," says a global investment manager.

However, local players who know how to work with these constraints and more adventurous international capital, particularly from the US, are active. The market in 2019 has been a little more dynamic, and there is competitive bidding for opportunities. Players are looking for the same product as investors in other European cities: buildings to refurbish to grade A specification.

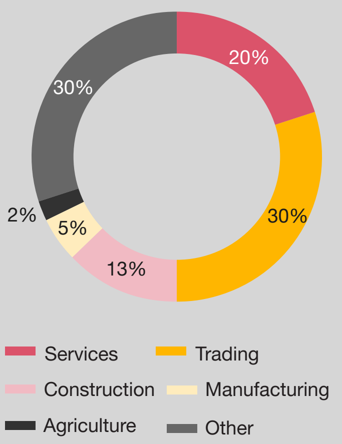
"That market is not so crowded compared to German cities. We think that wave is now coming to Rome," says one. Italy's capital is strong on hotels and retail. Institutional investors with sound knowledge of Italian shopping continue to buy into big malls, examples being the insurance/pension fund money behind trades in GranRoma and Parco Leonardo.

Italy's real estate market "is still bank centric", and banks are choosy about what they will fund. For investors with relationships with foreign banks, debt is relatively cheaper, but Italian banks are still weighed down by €135bn of bad loans and require higher spreads, even for core investments, or very high levels of pre-letting or pre-sales for development.

"Our investments are mainly financed through equity, and more and more we are seeking joint ventures with institutional investors," says another Italian CEO.

> *Rome is a city where we see good growth prospects: there is a big lack in the offer of luxury hotel brands," says the CEO of an Italian investor. However, he adds: "The problem is that more or less 85% of hotels are owned by families, with price expectations that are too high.*

Active companies by sector H1 2020

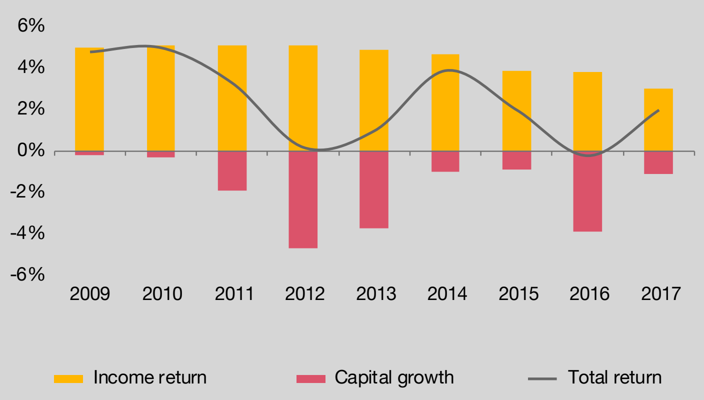


Rome has not been able to replicate the positive trend recently seen in Milan, even though unemployment has decreased and tourism demand and population have increased.

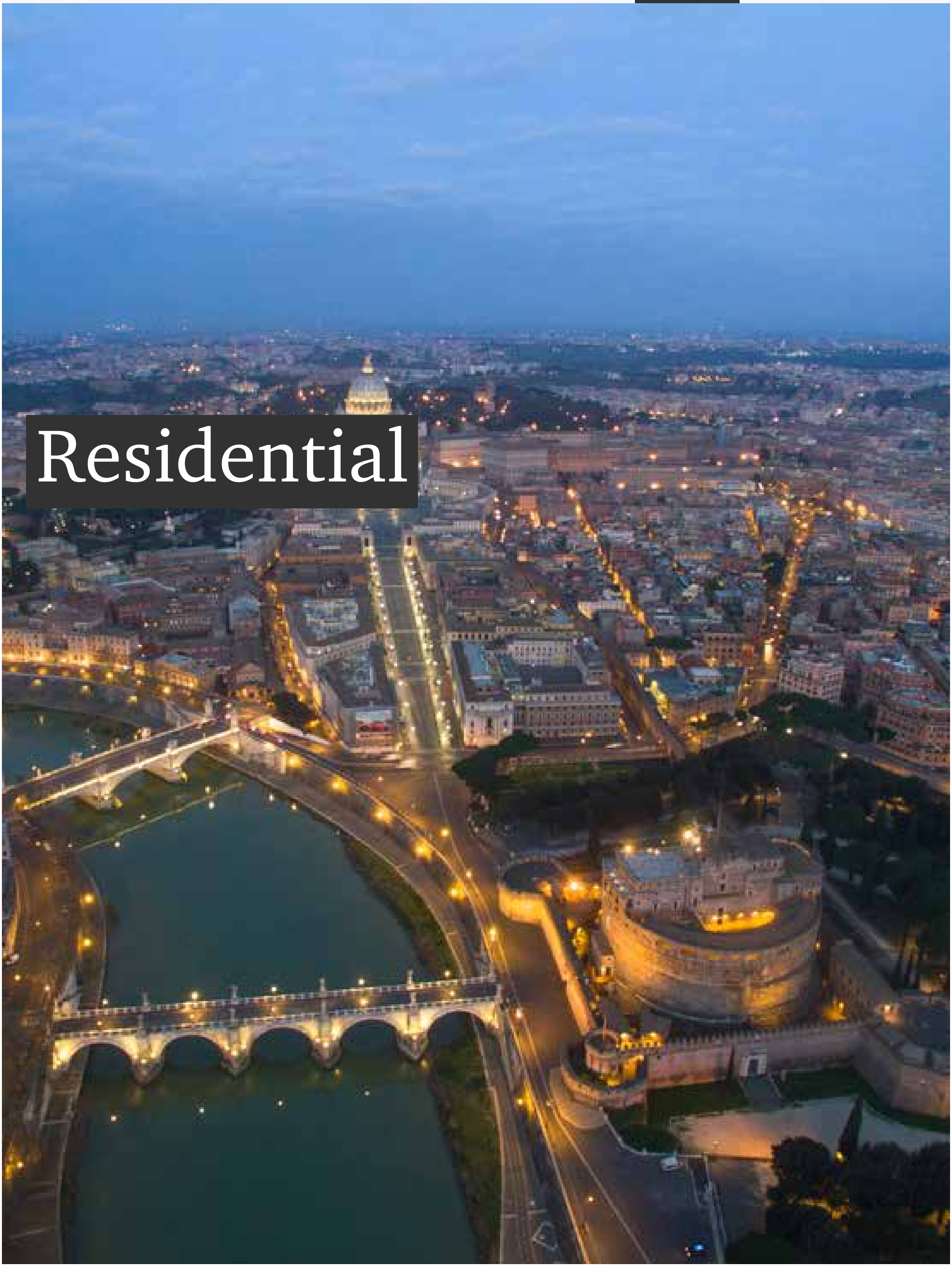
The trading companies account for 30% of the overall volume, followed by service companies with 20%. The number of active companies increased by 2% over the last two years.

Source: PwC analysis on data provided by The Chamber of commerce of Rome

All property return 2009 - 2017



Source: PwC Emerging Trends in Real Estate Europe 2020



Residential

Over the period 2004 – 2020, the average **Number of Normalized Transactions** of residential in **Rome** is **29,505 transactions per year.**

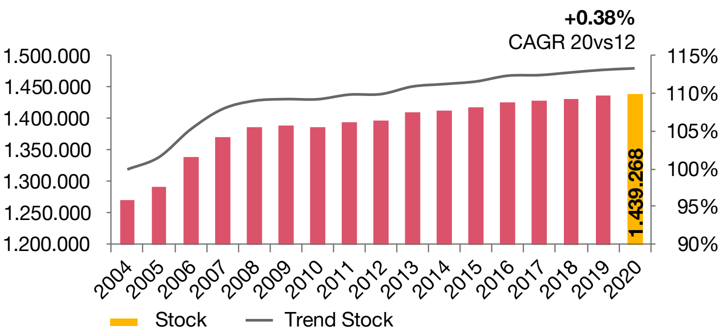
During the analysed period, the lowest transaction volume was seen in 2013, followed by a general recovery over the following five years, while the 2020 has recorded a significant decrease due to the Covid19 pandemic situation compared to the previous year **(-9.9%)**.

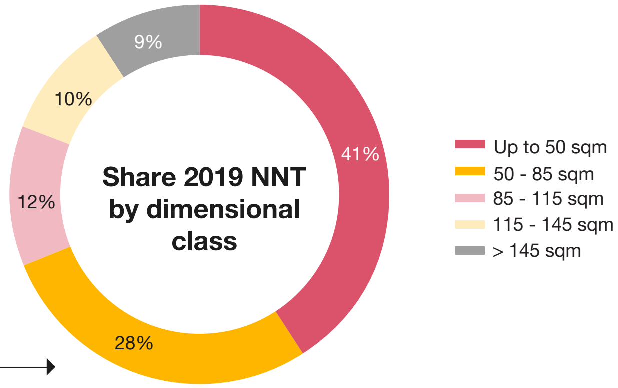
29,505
NNT 2020

-9.9%
NNT 2020vs2019

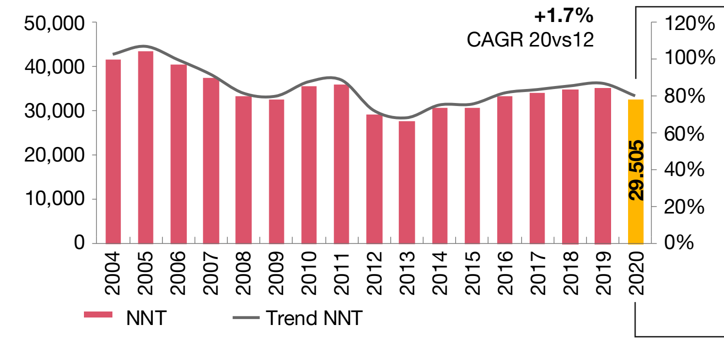
+23.87%
NNT 2020vs2013

Trend of Real Estate Stock

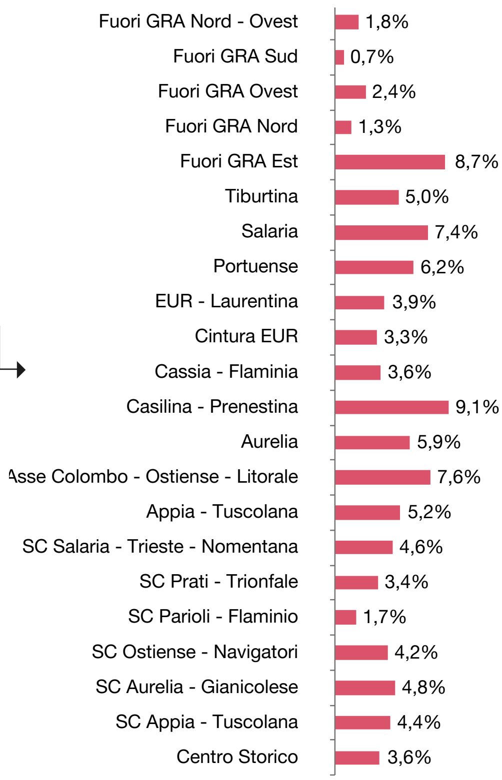




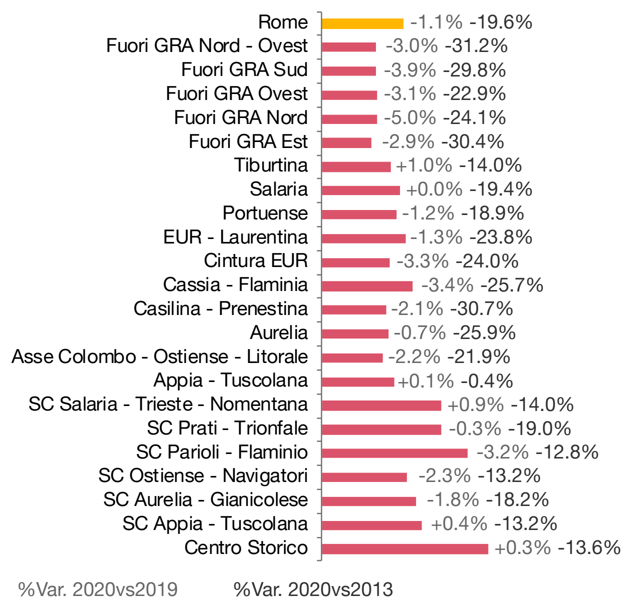
Trend of NNT



Share 2020 NNT by area



2020 Average purchase price (€/sqm)



Source: PwC analysis on Italian IRS data

Municipality of Rome

Real estate market data shows that the prices (€/sqm) in Rome, in comparison with Milan, are much lower and have continued to decrease in recent years. However, Rome is still the primary real estate market in Italy for number of residential transactions with **the second half of 2020 recording 16,044 residential transactions, which is -0.2% lower than H2 2019**.

For the second half of 2020, the greatest decrease of residential transactions were for properties from 50 to 85 sqm (-3.9% from the previous year) with a total of circa 6,431 transactions. Concerning the other dimensional class an overall increase has been recorded led by the size over 145 sqm (+3.93%), followed by 85 – 115 sqm (+3.16%), up to 50 sqm (+1.07%), and 115 – 145 sqm (+0.84%). The average apartment size in Rome is 94.4 sqm, while the average is 91.1 sqm (+o.4%) in the other eight main Italian cities, and 107.5 sqm throughout Italy. The real estate market in Rome is divided into different zones with strong identities which attract specific buyer profiles. The historic centre has been waiting for improvements for several years now which would create demand from Italian buyers for this area, since there are historical buildings with a high architectural importance.

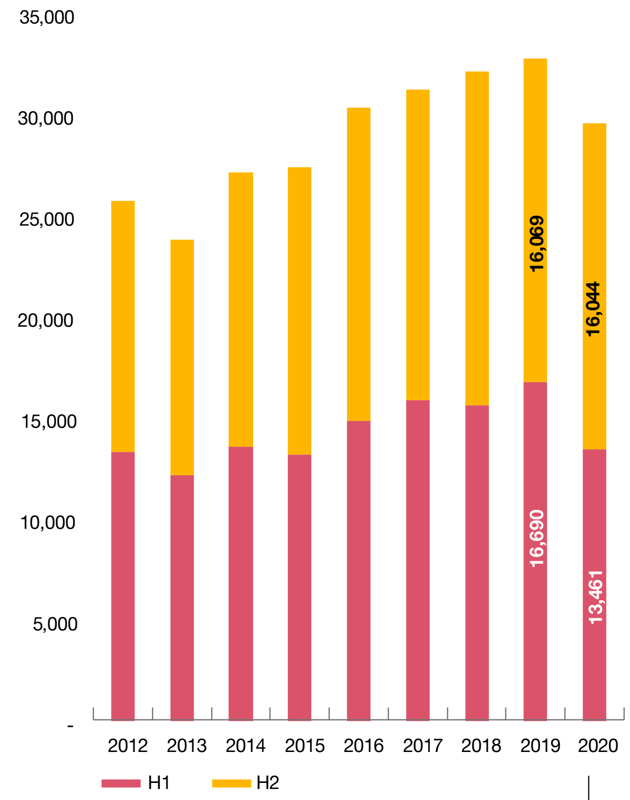
16,044
NNT H2 2020

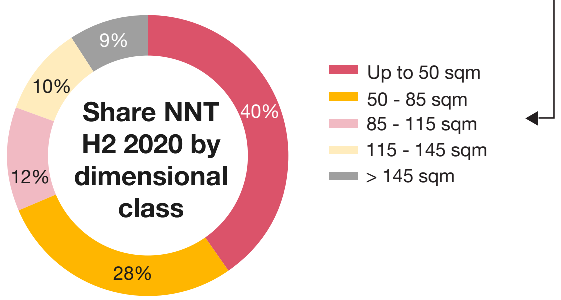
-0.2%
NNT H2 2020 vs H2 2019

+37.4%
NNT H2 2020 vs H2 2013

-4.0%
NNT H2 2020 vs H2 2016

Trend of NNT by half year





Source: PwC analysis on Italian IRS data

Province of Rome

Over the period 2004 – 2020, the historical trend of **Number of Normalized Transactions** of residential in the **Province of Rome** has presented an **average value** of **44,302 transactions**.

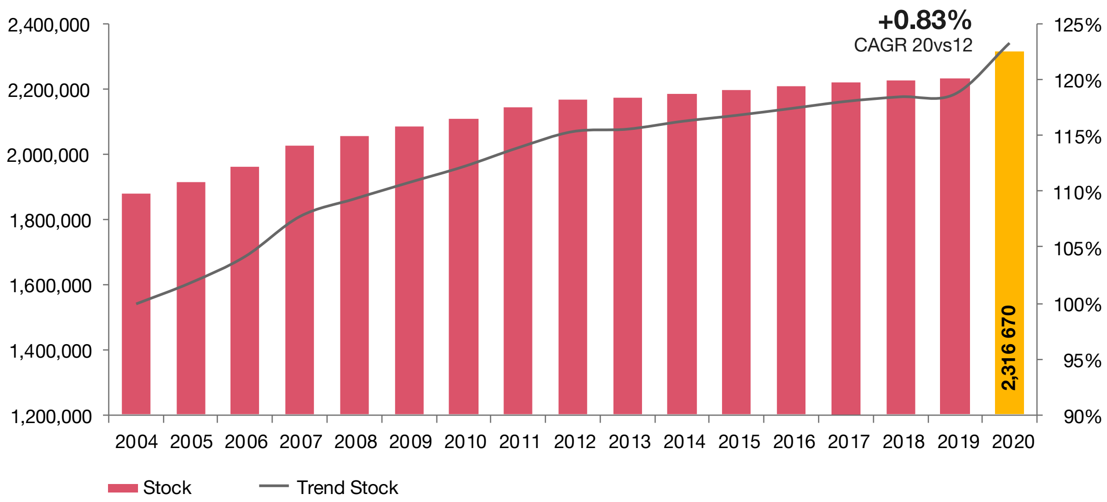
During the analysed period, the lowest transaction volume was seen in 2013, followed by a general recovery over the following five years, while the 2020 has recorded a significant decrease due to the COVID-19 pandemic situation compared to the previous year **(-9.2%)**.

44,302
NNT 2020

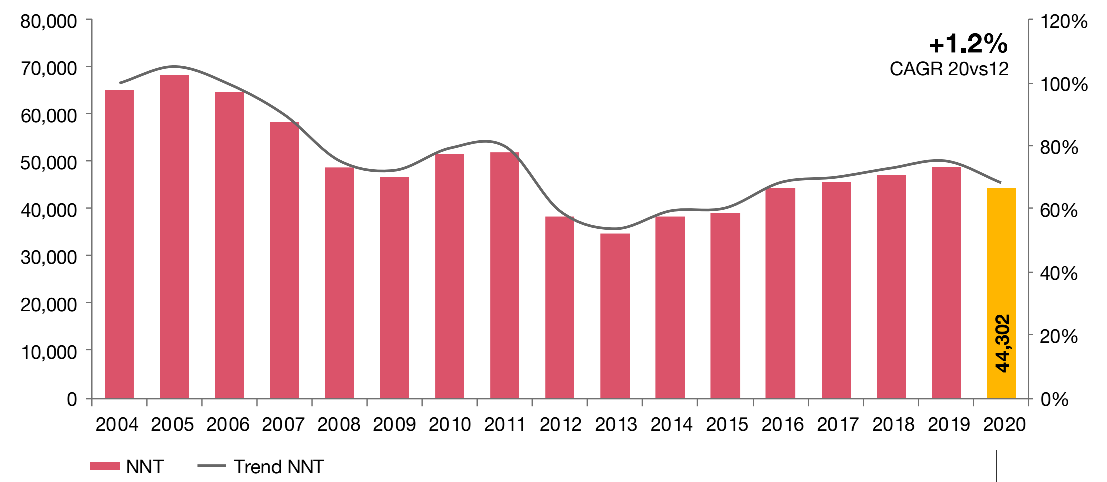
-9.23%
NNT 2020vs2019

+27.45%
NNT 2020vs2013

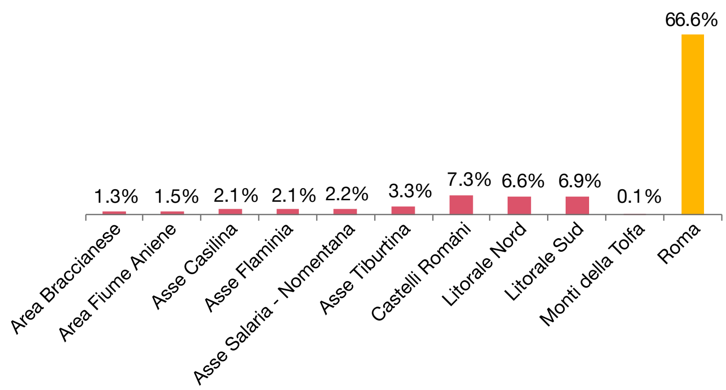
Trend of Real Estate Stock

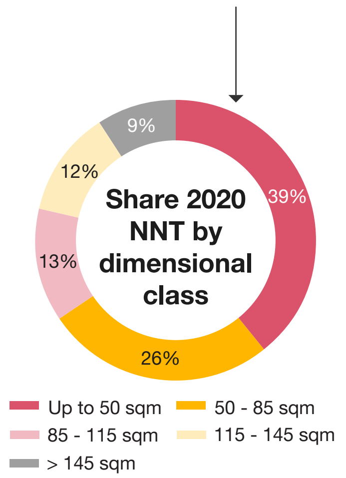


Trend of Real Estate NNT



Share 2020 NNT by area





Source: PwC analysis on Italian IRS data

Investment Trends

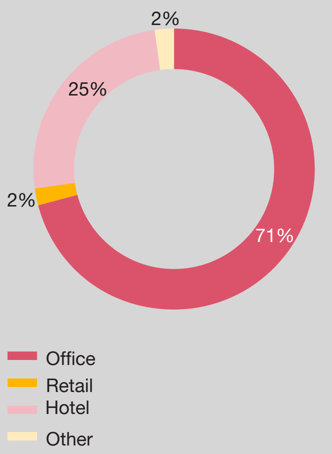
Investment trends

In Y 2020 the investment market in Rome accounted for €0.8bn.

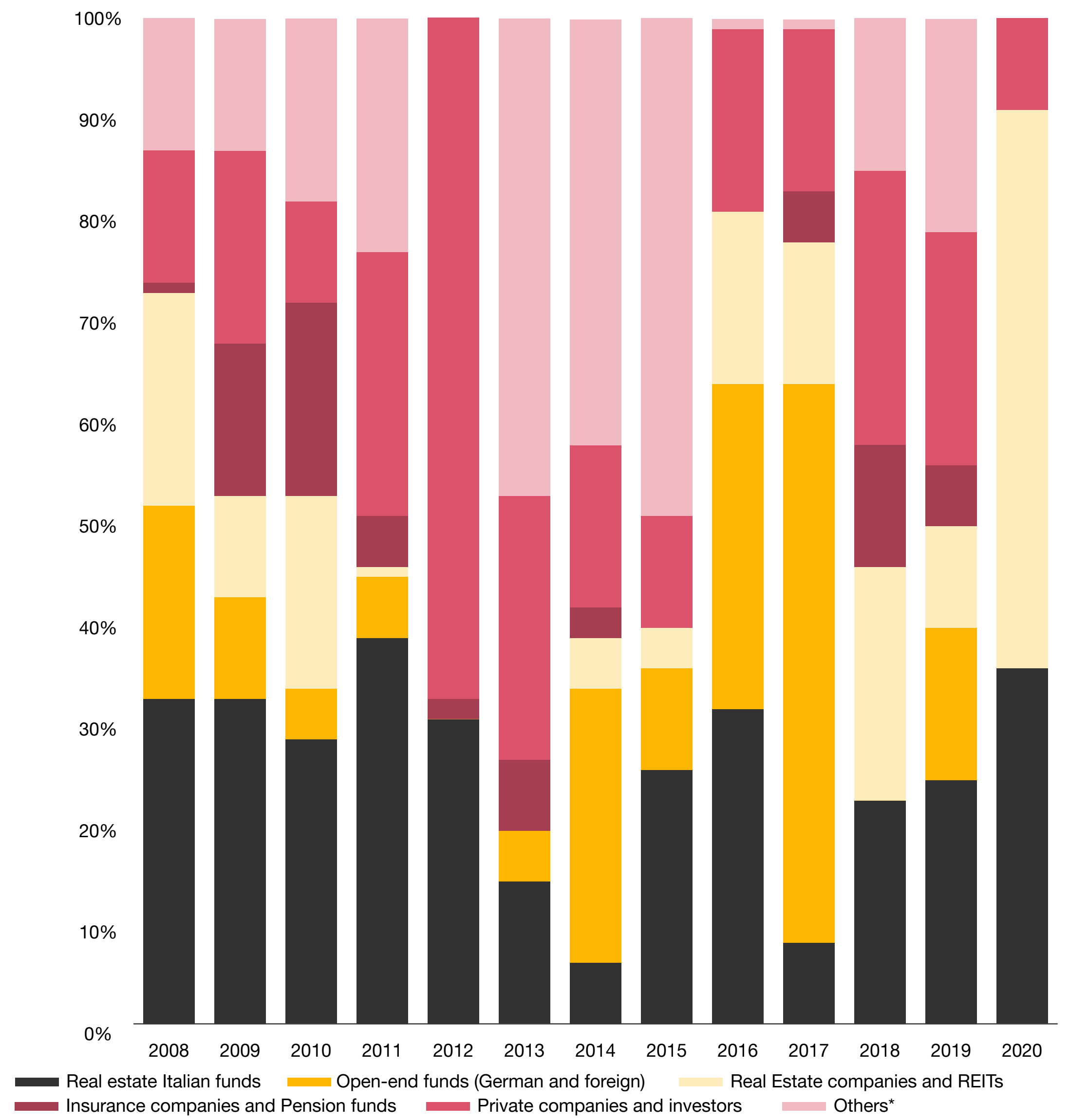
The main market is still the office sector with 71% of total volume invested in the first semester.

In 2020 the most relevant investors were mostly Real Estate companies and REITs and Real estate Italian funds.

Investments by asset class – Y 2020



Institutional real estate investments by investor class



*Other: Banks, public sector and sovereign funds

Source: PwC analysis

Office sector

Office sector

In **Y 2020**, office investments in Rome reached **€582m**, down **39%** in comparison with the previous year.

Domestic capital in 2020 constitutes the minority of the total capital invested (**23%**). Interest towards the city remains high and expectations for the coming months are positive; the prime net yield in the CBD is **3.75%**.

The first nine months of 2020 reached a value of **59,700 sqm** a sharp decline compared to the same period of the previous year which reached 248,500sqm (-76%).

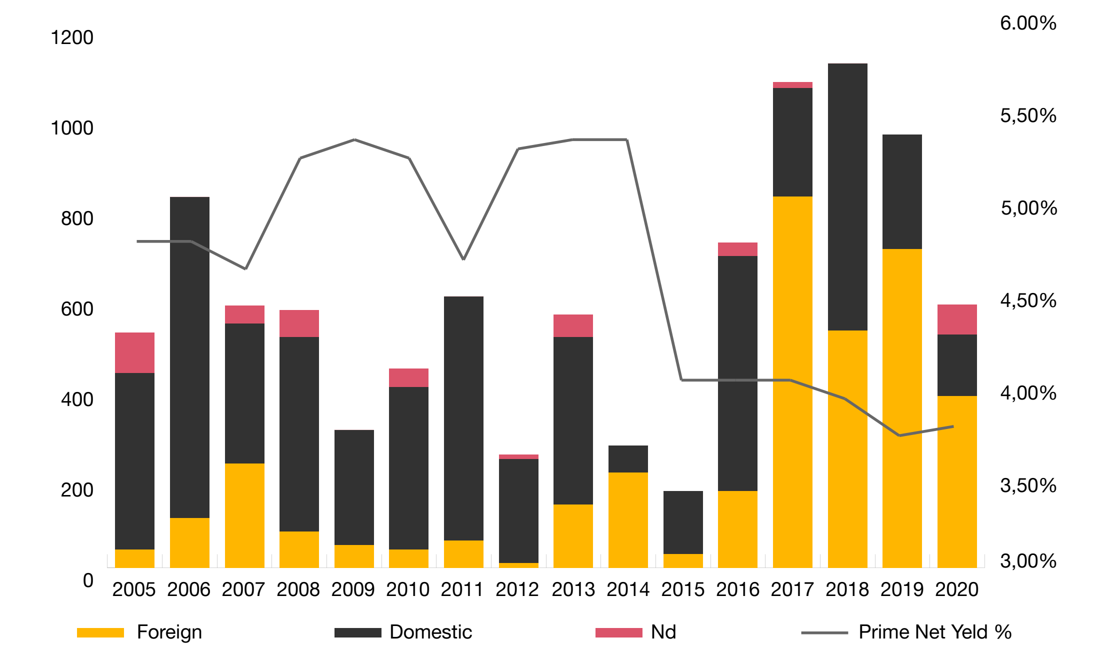
Developments pipeline is growing, with approximately **145,000 sqm** under construction/ renovation (completion expected between 2020 and 2022.

€582m
Total Investments in Y 2020

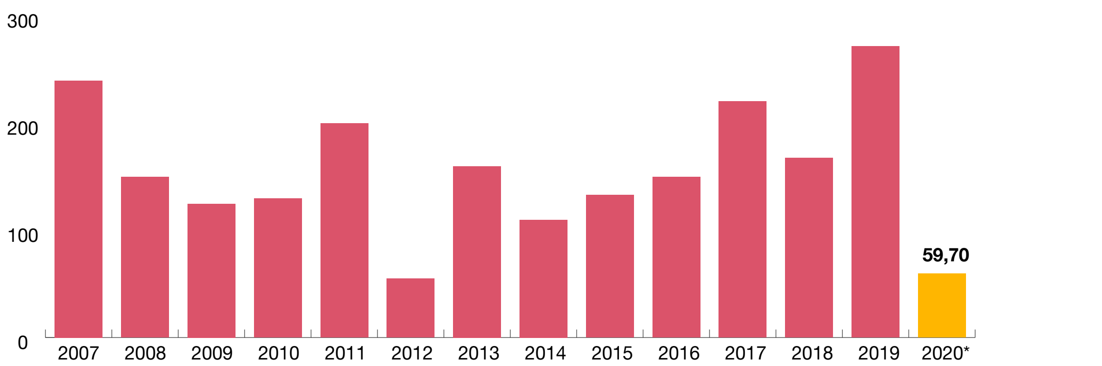
8.9%
Vacancy rate in Y 2020

65%
Share of foreign investors in Y 2020

Trend of Investments (€m)

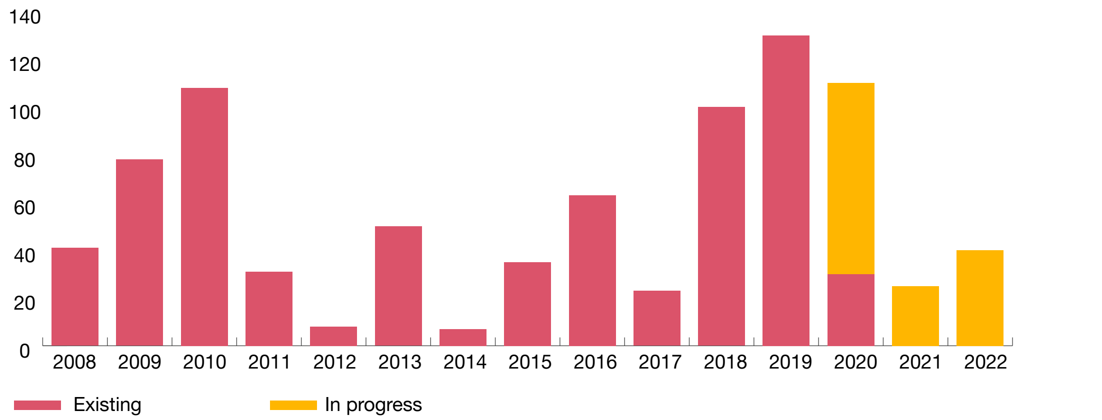


Take Up (‘000 sqm)



* Value based on the first 9 months of 2020

Accomplished and in progress projects (‘000 sqm)



Source: PwC analysis

Rents

From the analysis of rental agreements emerges that the average prime rent for Y 2020 is 332 €/sqm/y, which is slightly higher than the previous year (326 €/sqm/y).

Rome	2020	Q2 2020	2019	Q2 2019
CBD	490	470	470	440
Center	360	350	350	350
Semi center	300	300	300	300
EUR	350	350	350	350
Periphery	160	160	160	160
Average	**332**	**326**	**326**	**320**

Yields

The Prime Net Yields remain stable from the second quarter of 2020; Prime Net Yield in the CBD of Rome is about 3.75% and rises to 8.00% in the periphery.

Rome	2020	Q2 2020	2019	Q2 2019
CBD	3,75%	3,75%	3,75%	3,75%
Center	4,25%	4,25%	4,25%	4,50%
Semi center	6,00%	6,00%	6,00%	6,25%
EUR	4,25%	4,25%	4,25%	4,50%
Periphery	8,00%	8,00%	8,00%	8,00%
Average	**5,25%**	**5,25%**	**5,25%**	**5,40%**

332 €/sqm/y
Average Prime Rent
Y 2020

5.25%
Average Prime Net Yield
Y 2020

490 €/sqm/y
Prime Rent CBD Y 2020

59,700 sqm
Take-Up in 2020*

* Value based on the first 9 months of 2020

Source: PwC analysis

Take-up in the first nine months of 2020 reached 59,700 sqm, down -76% compared to the same period of 2019. However, the impact of a such decrease is soften by comparing it with the average of the period that goes from 2014 to 2018 (-39%).

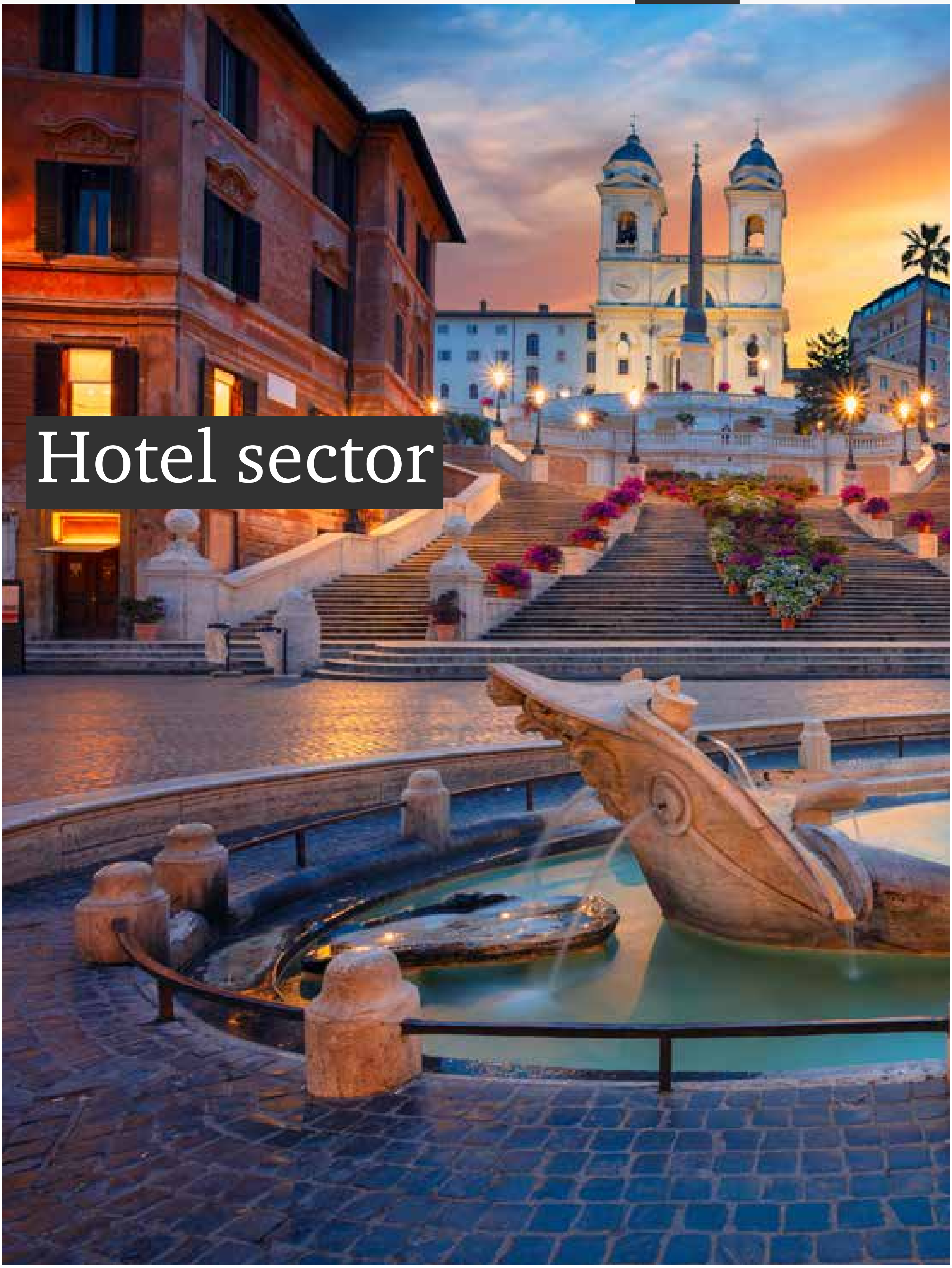
Center and EUR continue to be the most dynamic areas when it comes to Take-up.

Prime rents showed a slight increase compare to the second quarter of 2020. CBD prime rents recorded an increase of 4.3% compared to the previous year; so does the Center, which with regard to 2019 increased by 2.9%.

Developments in the pipeline are in an increasing trend, with nearly 145k sqm under construction/ renovation (completion expected between 2020 and 2022). Investments in 2020 reached a volume of approximately €582m, decreasing by 39% compared to the previous year.

Foreign capital accounted for about 65% of total investments, almost €380m. In this period there was a growing interest by investors with a grater propensity for risk for value-added and opportunistic products.

Hotel sector



Hotel sector Rome

Annual hotel statistics

	Occupancy (%)	ADR (€)	RevPAR (€)
2015	70%	156	109
2016	72%	162	117
2017	71%	169	119
2018	69%	172	119
2019	71%	171	120

Growth on previous year

	Occupancy	ADR	RevPAR
2015	(1,3%)	5,3%	3,9%
2016	3,1%	4,4%	7,6%
2017	(1,7%)	3,9%	2,2%
2018	(2,1%)	1,8%	(0,3%)
2019	1,9%	(0,7%)	1,2%

*YTD December 2020 (growth is on the same period of the previous year)

€171
2019 Average Daily Rate (ADR)

71%
2019 Occupancy

9m
2019 Total Arrivals

30,9m
2019 Total Overnight stays

Introduction

Rome, the capital of Italy, is not only the city where all the national public institutions, international political and cultural organisations, embassies and largest companies are headquartered, but it's also the cultural, artistic and spiritual capital of the country.

Hotel demand

The city of Rome in 2018 recorded 12.7 million arrivals and 30 million overnight stays, which is circa 3% higher than 2017. In 2019 the overnight stays reached over 30m, which is 3% higher than the previous year, while the national arrivals recorded an increase of 1.3%, confirming the positive trend since 2012.

International tourists, which are the true strength of Rome's tourism market, represent the majority of total overnight stays.

International tourists mainly arrive from the USA, UK, Germany, Spain, France, and Japan.

Overnight stays by month shows that the market benefits from a low seasonality, since the city satisfies different demand segments, such as business, leisure, religious, and political, ensuring a consistent presence of visitors throughout the year.

Historical trading

Since 2015, Rome's performance has increased from both growth in Occupancy and ADR; RevPAR grew by 3.9% in 2015, 7.6% in 2016, 2.2% in 2017 and 6.4% in 2018.

In 2019, the occupancy rate increase up to 71%, +1.8% compared to the previous year, while the RevPAR recorded an increase of 1.2% with regard to the 2018. On the other hand, a negative variation has been recorded by the ADR which decreased by 0.6% compared to the previous year, an unusual variation if we consider the positive trend of the last four years.

Recent transactions

National and international investors continue to search for opportunities in Rome and over the period that goes from 2018 and 2020, hotel transactions included (amongst other transactions): Ambasciatori Palace Hotel, Adagio, Crowne Plaza Rome St. Peter's, Domus Romana, Hotel Capo d'Africa, Venetia Palace Hotel, la Lama, Meininger, The Pantheon Iconic Rome and Naiadi Rome Hotel.

In addition to the above transactions, investors have also been very active acquiring assets to be converted into hotels in the city center.

Source: PwC analysis on AICA, EBTL Roma, Statista and RCA

Glossary

NNT

The number of “standardized” real estate units sold (sales of property rights are “counted” taking into account the share of property transferred, which means that if an unit is sold only for a portion, for example 50%, this would not be counted as one, but as 0,5).

Stock

The number of real estate assets included in the land registry archives in a given geographical area.

IMI

The real estate Market Intensity Index: ratio between NNT and Stock.

IRS

Internal Revenue Service – Real Estate Market Division.

INSI

Italian National Statistical Institute.

NAB

National Association of Builders.

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