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Real Estate Market Overview

Index

Introduction

During 2021 there were many changes in the real estate market that steered investors' preferences toward certain asset classes. The changing macroeconomic scenario and inflationary pressure had strong repercussions on construction costs. The year 2021 will be remembered as the year when, for the first time in Italy, offices are no longer the predominant class in terms of investment.

The pandemic has shifted the interest of institutional investors to different asset classes, as dedicated office space will be remodule for new dynamics regarding remote work. The asset class with the highest investment volume has been logistics, with demand for industrial space fueled by the explosion of e-commerce and the last mile phenomenon.

The market segment with the highest growth potential is residential in all its forms. Investors are looking to built-to-rent and multifamily as an entry opportunity into the residential sector so that this sector can finally make a quantum leap on the demand side in order to meet an increasingly demand for quality domestic spaces.

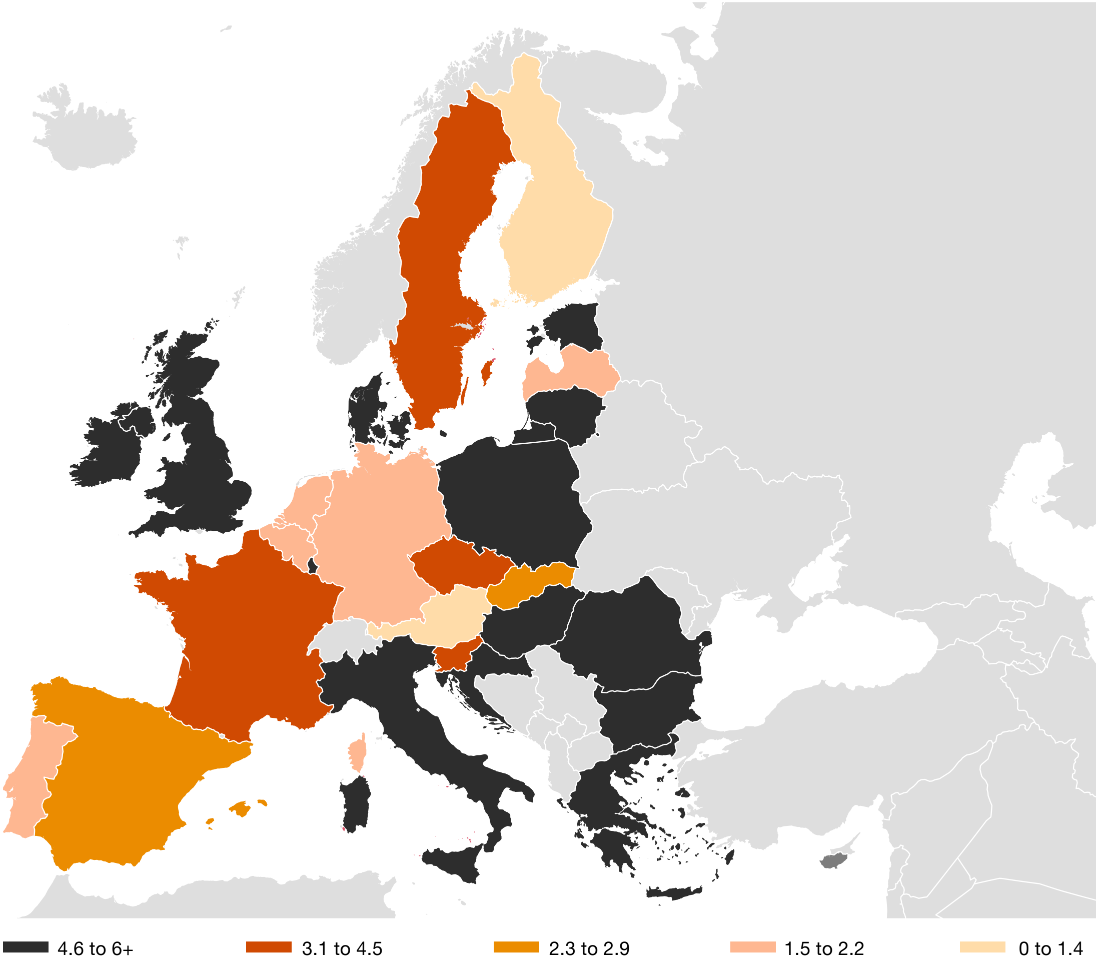
Macroeconomic overview

Domestic demand and a rebound in world economy helped make the Italian and European recovery faster than expected in 2021. **Annual growth rate of real GDP** in Italy in 2021 was about **6.3%**. However EU growth will be "severely impacted" by the disruption stemming from Russia's invasion of Ukraine, the European Commission warned, as investor confidence dropped sharply in Germany, the union's biggest economy. The European commission is expecting **2022 growth** to be below the **4%**, although it is not predicting the expansion will completely stop. After a period of low inflation and low energy prices, the global economic recovery in 2021 came follow in higher-than-expected inflation rise. The trend was first evident in the United States, but it eventually encompassed nearly all the Eurozone nations. **The price of oil, natural gas, electricity and agriculture raw materials** also contributed **to driving inflation upwards** in the second half of 2021. Such a forecast make sit seem less likely an abrupt change in the stance of monetary policy is about to happen and it also goes against the mostly pessimistic views in which inflation could slow down economic recovery in the near future (stagflation).

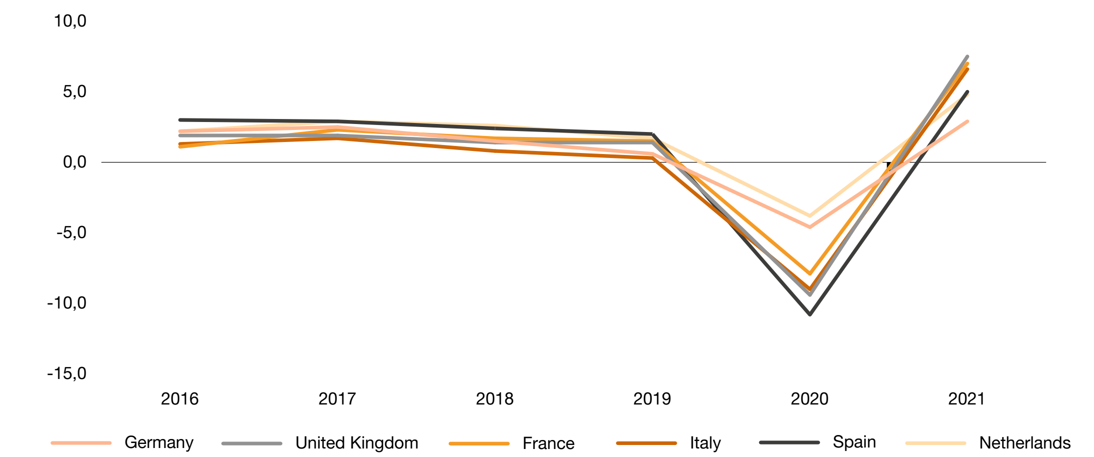
2.9%
Italy's Inflation 2021

6.3%
Annual growth rate GDP

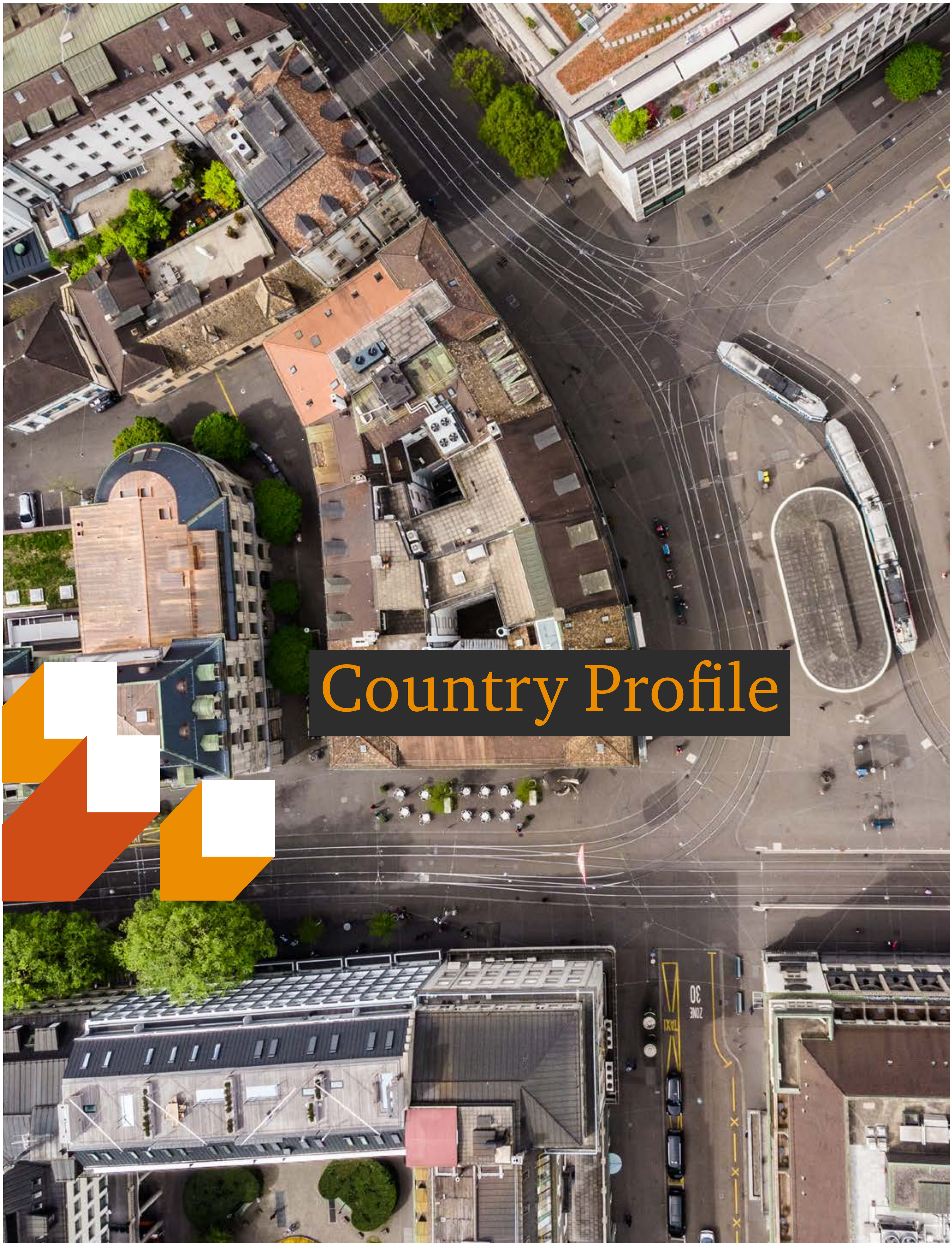
Real GDP growth rate Y-o-Y



Real GDP growth rate Y-o-Y



Source: PwC analysis on Eurostat data



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.

	2000	2010	2020
GDP (€bn)	1,239,266	1,604,515	1,744,732
GDP per capita (€)	21,771	27,108	29,254
Population (m)	59.92	59.19	59.64
Life expectancy (years)	80	82	83

Growth in Italy was low over the past 20 years, compared to the other European countries.

However in the 2021 the rebound of Italy economy was the highest in Europe compared the last year:

	2021
GDP (€bn)	1,779,539
GDP per capita (€)	30,039
Population (m)	59.24
Life expectancy (years)	83

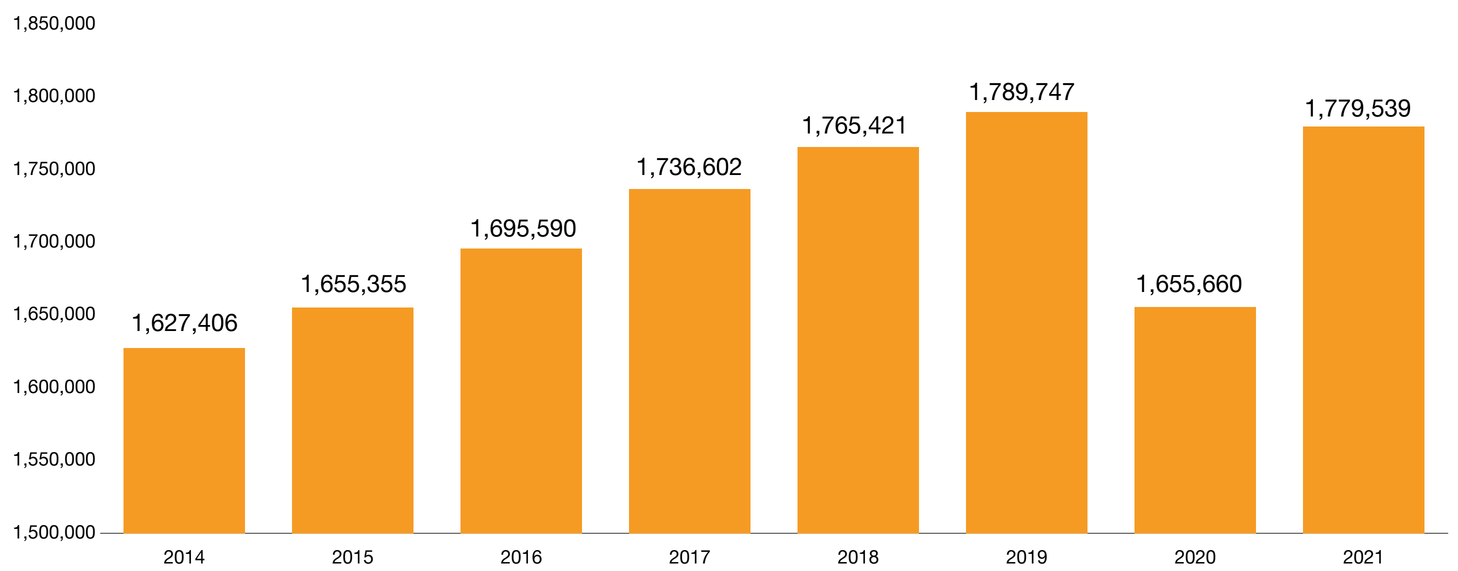
In 2021, compared to the previous year, exports show a very sustained growth (+18.2%) and widespread at a territorial level for the increase in exports is very marked for the Islands (+46.4%), around the national average for the North-West (+19.2%) and the North-East (+18.0%), more contained for the Center (+15.3%) and above all, for the South (+6.6%).

Italian Consumer price index reached 6% on average this year. The high level of inflation is caused in particular by international trade and supply chain bottlenecks, and by rising energy costs due to the pandemic period and the War in Ukraine.

€1,779,539 bn
Italian GDP 2021

59.24 ml
Italian Population 2021

Italian GDP trend evolution (€/bn) 2014 – 2021



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

Italian main economic drivers

Economic Growth

Italy has recovered from the COVID-19 crisis: it is growing quickly in comparison with other comparable countries in EU.

Annual growth rate of real GDP in Italy in 2021 was about 6.3%.

Population

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

The 2020 was the worst year for the new born since The First World War.

Public Debt

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

The situation worsened with the pandemic crisis.

Inflation

After the pandemic crisis there was an inflation increase both in the US and EU. Italy has a similar trend to the EU-28, with an high increase of Consumer Price Index (+1,9%).

Exports

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

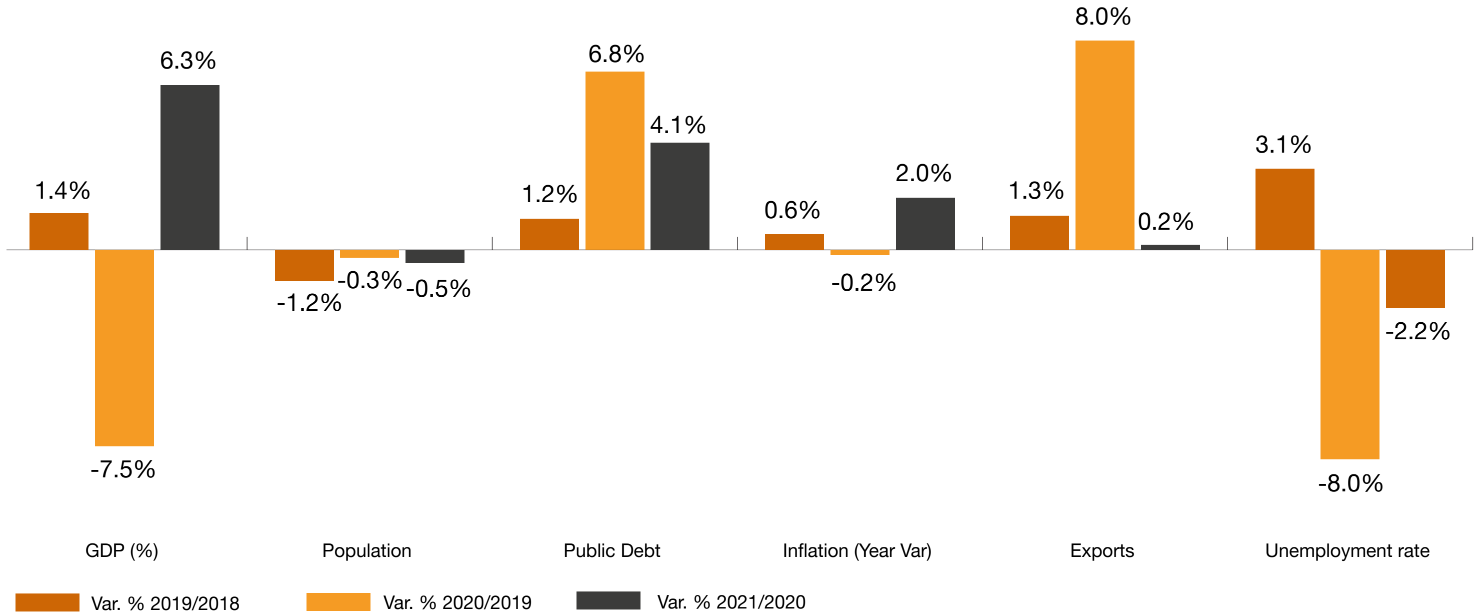
The main boost to overall export growth came from the pharma, refined petroleum products, and clothing sectors.

Unemployment

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

In 2019 this rate reached the threshold of 10%.

In 2021 the rate decreased by up to 9%.



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

Tourism has recorded to the lowest level in 2020, with a decrease of 55% with respect the previous year

Investments in Construction

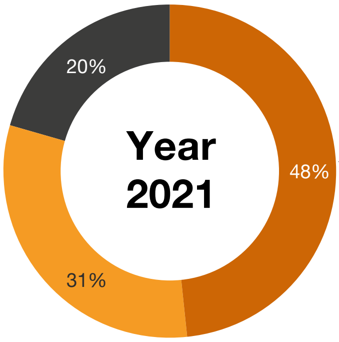
The INSI Index for building constructions 2021 records an **increase of 20.7% compared to 2020** in terms of total investment volume. The rebound of economy after the pandemic crisis has recorded a positive trend both in the residential and non-residential private sector. The growth in **2021** is higher than the previous pandemic period (**+9% compared to 2019)**. Total investments in 2021 reached almost €150ml: in residential new buildings the investment volume was **€16ml**, while **€55ml** was the amount of investments in residential refurbishment. **Non-residential market private and public has recorded the 60% of total investment volume**.

Forecasting construction investments 2022

The slow down in general economy due the Ukraine war will cause a stagnation to the expected growth for this year. **For 2022**, all the main national and international research **institutes foresee a stagnation for our country and other European countries, with a high degree of uncertainty** that will certainly weigh on the expectations of businesses and citizens.

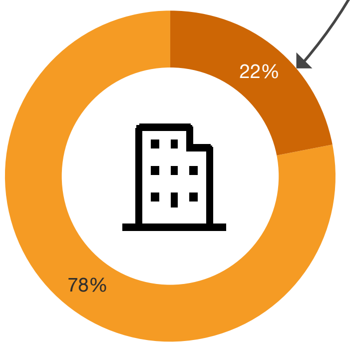
However the new European plan (**PNRR**) will produce new opportunities of investment both for residential and non-residential market. The economic forecasts for 2022, relating to the construction sector, lead to the hypothesis of a substantial recovery in investment levels, especially those linked to the public component.

Construction investments for buildings 2021



Residential
Non Residential - Private
Non Residential - Pubblic

Residential new buildings and refurbishment



Residential - New Buildings
Residential - Refurbishment

Source: PwC analysis on NAB and INSI data

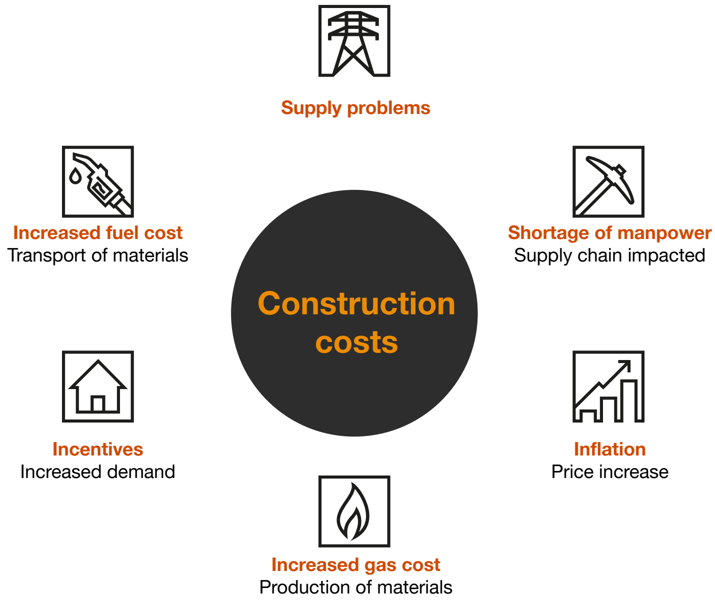
Construction costs

Construction costs trend in EU

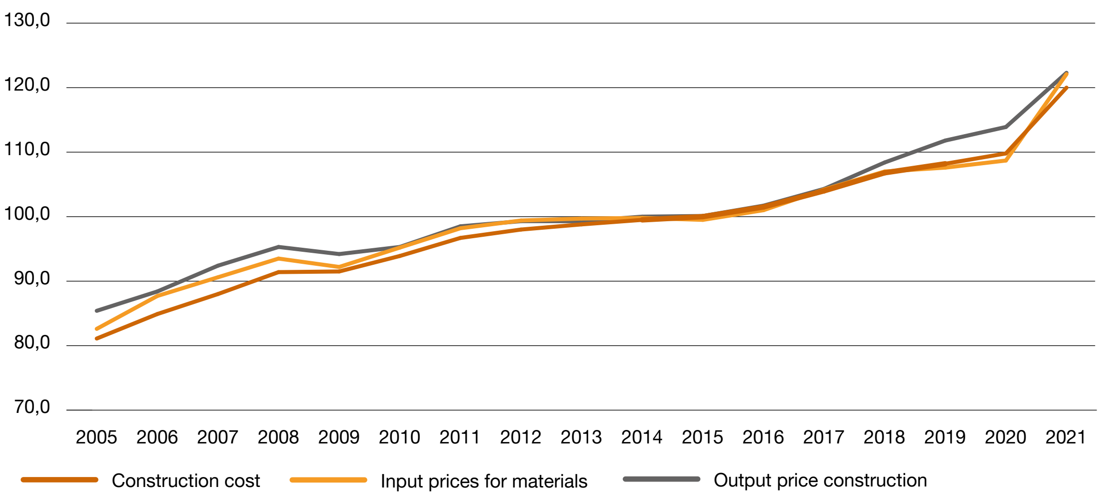
Construction costs have been growing significantly in recent times driven by macro-economical and global happenings. Among these, certain situations are strongly contributing to this growth:

- Extended periods of supply-chain disruption and high energy prices, in addition manpower shortages, are contributing to rising global inflation.
- Russia and Ukraine's key roles as product and raw material exporters have placed global value chains under further strain.
- Lockdowns in China's manufacturing hubs due to its zero-COVID policy is further affecting trade and material prices.

In this context it is difficult to predict when construction input costs will peak/plateau and how the Real Estate market will respond to higher inflation.



EU Construction prices and costs 2005-2021 (2015=100)



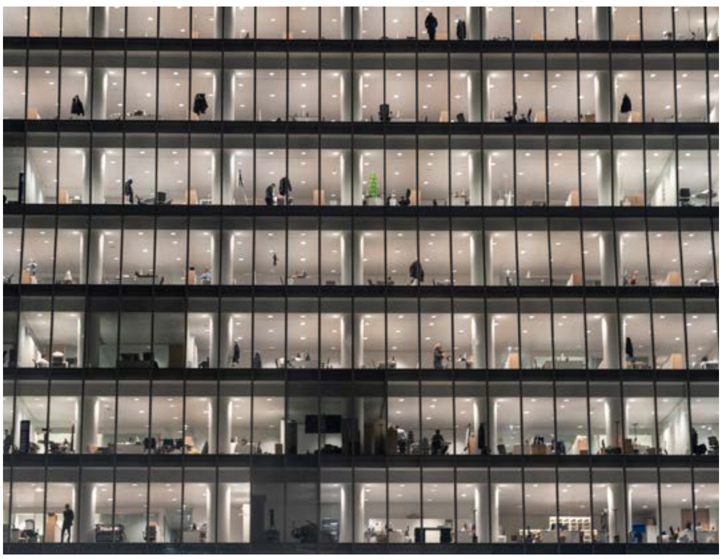
Source: Eurostat

Focus on Italy

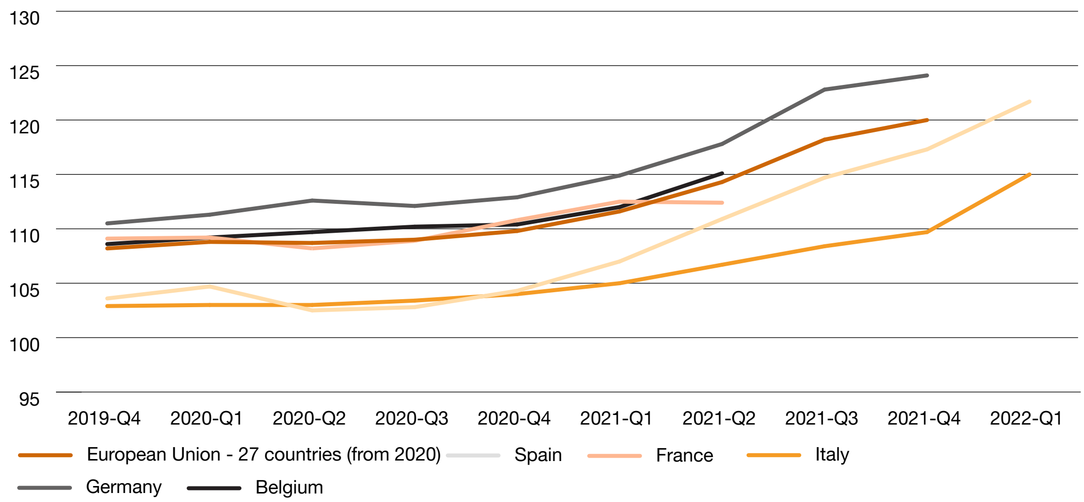
Italy's energy prices rose by 42% Y-o-Y in April driving our inflation expectation for Italy to 6% in 2022. Significant price volatility is affecting downstream industries. Domestic public policies are also having an impact on construction demand and prices.

A brief overview over the last two decades

Although this situation refers to the latest period, the global phenomenon concerning the increase in construction costs was already in place, as evidenced by the graph.
In fact, between 2005 and mid-2008 construction costs (for residential buildings) increased relatively steadily in the EU. **Until 2012**, the indices increased further and then stagnated for a relatively long period **between 2012 and 2016,** before experiencing another continuous increase. Construction cost and prices indices were not strongly affected by **the COVID-19 crisis** in the first and second quarters of 2020. Thereafter, however, a dynamic growth occurred that was particularly driven by the costs for input materials especially in the last period.



Construction Cost trend in Eu 2019-2022 (2015=100)

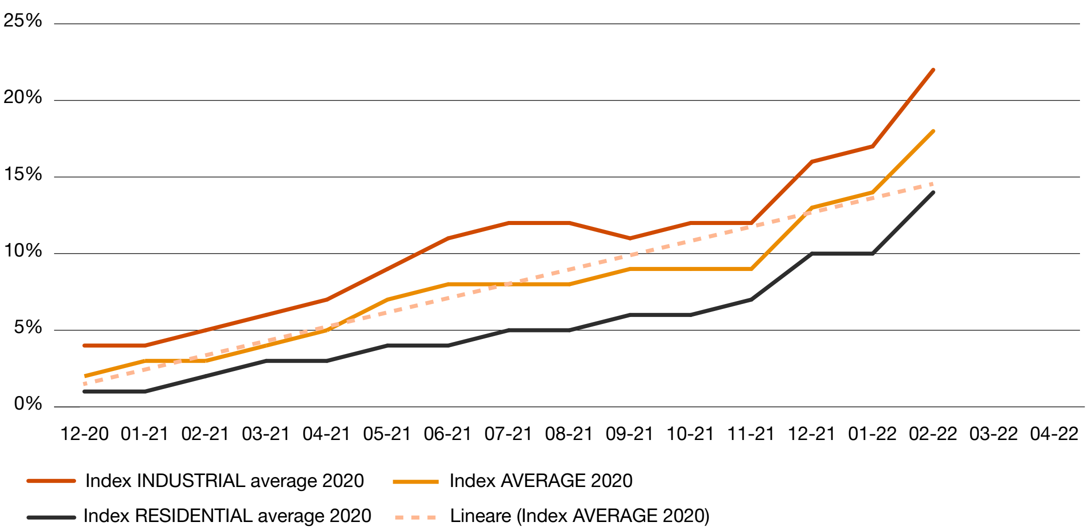


In the euro area construction costs have been increasing sharply in the last period, with a clear interdependence between different countries.

However, the increase in Italy is less pronounced than in the other countries under analysis and the EU average.

This occurs despite the implementation of incentives such as the Superbonus and Ecobonus, elements that have contributed to the increase in demand for materials.

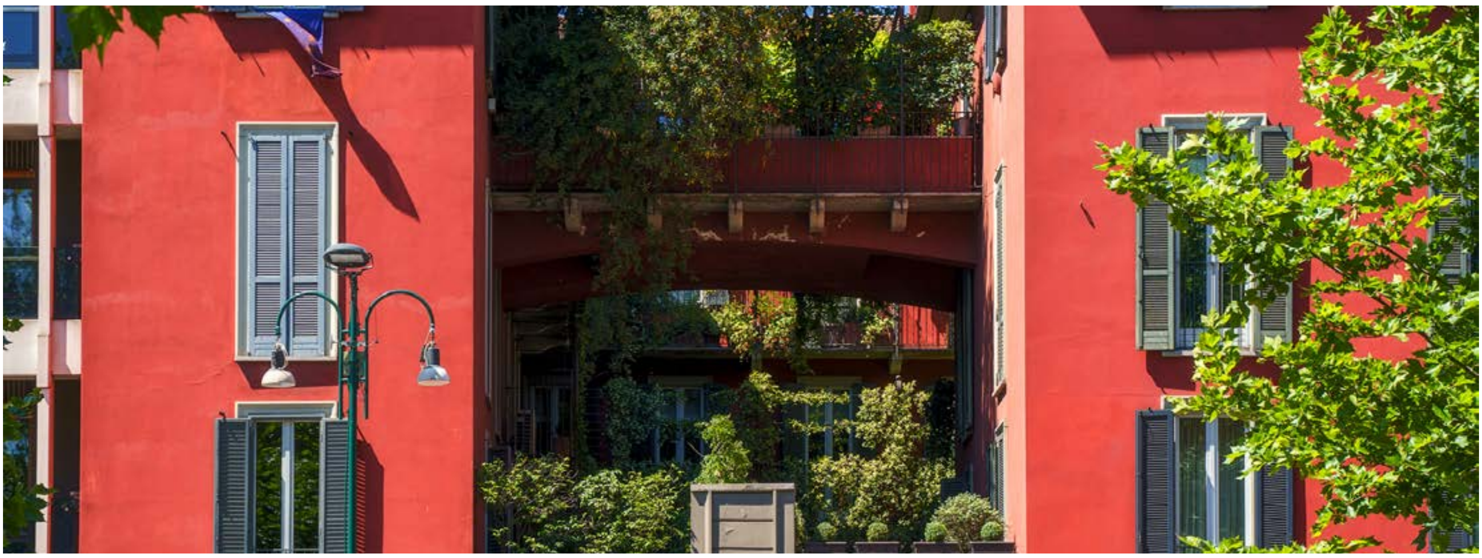
Construction Cost trend in Eu 2019-2022 (2015=100)



Source: Eurostat, Istat

The early months of 2022 saw significant increases in construction costs, with similar trends among asset classes.

This is mainly due to the uncertainty linked to the current geopolitical situation in Europe.



Growth rates of materials cost

The increase in material costs is part of a global context that includes a number of factors as shortage of workforce, supply chain and an increased demand for materials due to the simultaneous restart of construction activity impacted by COVID-19.

Construction Materials (Italy)	Source	Period	Variation % in 2021 (respect 2020)
Steel (in concrete construction)	MEPS (ITALIA)	Nov 2020 - July 2021	243%
Polyethylene (HDPE)	Prometeia	Nov 2020 - June 2021	101%
Polyethylene (LDPE)	Prometeia	Nov 2020 - June 2021	128%
Polypropylene	Prometeia	Nov 2020 - June 2021	101%
PVC	Prometeia	Nov 2020 - June 2021	74%
Polystyrene	Prometeia	Nov 2020 - June 2021	97%
Copper	Prometeia	Nov 2020 - June 2021	39%
Petroleum	Prometeia	Nov 2020 - June 2021	68%
Bitumen	SITEB	Nov 2020 - June 2021	25%
Concrete	ANCE	Nov 2020 - Jan 2021	10%
Coniferous timber	Prometeia	Nov 2020 - June 2021	76%
Natural Gas	Prometeia	Nov 2020 - June 2021	114%
Energy	Prometeia	Nov 2020 - June 2021	74%

Raw materials cost

The rapid increase in energy costs, especially those relating to the supply of natural gas, started in the second half of 2021, accelerated in March 2022 with the outbreak of war in Ukraine. It has produced a significant increase in raw materials and semi-finished products in all productive sectors, including the construction one.

Raw materials (Italy)	Increase until February 23, 2022	War shock	Latest pre-COVID-19 value
	Average 1-23 Feb 2022/ Jan 2020	Average 24 Feb-9Mar/1-23 Feb 2022	9 Mar 2022 /Average Jan 2020
Gas	579.6%	105.9%	1295.8%
Energy	332.8%	66.4%	717.9%
Nichel	72.7%	40.3%	259.3%
Petroleum	43.2%	22.2%	76.5%
Wood	179.4%	20.6%	230.5%
Steel	120.8%	16.6%	173.4%
Copper	60.4%	5.5%	67.8%
Aluminium	78.8%	14.7%	101.3%
Iron	48.8%	7.3%	69.2%

- Price lists, currently available, are updated to February 2022 and therefore do not yet reflect increases related to the current geopolitical situation;
- data for updated price lists will be collected in June 2022 and released in November 2022;
- ANCE data show cost increases in 2021 for some construction materials while data from the Assolombarda Study Center show increases in raw material costs in 2022.

Source: Database Meps, Prometeia e Siteb elaborated by ANCE 2022, ANCE 2022, Centro Studi di Assolombarda

Italian scenario - Government measures and legislative incentives

Fund for compensation of increased construction costs

With **Legislative Decree No. 121/2021 of Sept. 10, 2021**, the government made available a fund to compensate companies for the increase in the cost of construction materials that has been recorded in recent months.

The fund for 2021 was disbursed by the MIMS in the total amount of 200 million euros (100 for the first half of the year and 100 for the second half).

The resources are disbursed directly by the Ministry to the contracting authority, which has the right to use them to supplement those already provided for in the economic frameworks for individual works.

Detection of price changes in construction materials

The **November 11, 2021 Decree** highlights the percentage increase of more than 8 percent - recorded in the first half of 2021 compared to the average for the year 2020 - for 54 materials. Economic operators holding public contracts will be able to ask contracting authorities for compensation for higher costs incurred due to the increase, indicating the quantity of materials used. The largest price change is for steel, with an increase of more than 40 percent. The cost of wood and copper is also increasing. With the Decree of April 4, 2022, the list of 54 materials was updated as a percentage increase-recorded in the second half of 2021 compared to the average of the year 2020.

Price compensation mechanism

Decree 4/2022 of Jan. 27, 2022 identifies the price compensation mechanism. Changes in the price of individual construction materials, upward or downward, are evaluated by the contracting authority only if they are greater than 5 percent from the price recorded in the year of bid submission.

In this case, the offsetting shall be carried out, upward or downward, for the percentage exceeding 5% and in any case equal to the 80% of such excess.

Fund for compensation of the increase construction costs

In 2021, 398 contracting authorities requested access to the Fund for a total of

52.5 mln €

Material costs to be absorbed annually by the contractor in total

From 10% to 5%

Coverage of additional costs of contracting authorities when there is more than 5% change in material prices

From 50% to 80%

Implications and opportunity resulting from the inflationary scenarios

The global inflationary scenario, in addition to influencing construction costs, may introduce other changes of a macroeconomic nature to the market, such as increase in interest rates on mortgages and bank loans, changes in rent or in sale prices of goods and problems in the willingness to invest in the market. In fact, investment returns can be significantly affected by the evolution of project development speed, construction costs and prices / product in target markets.

Despite the positive period for construction, during which projects in Italy are accelerating, the clash with the cost of raw materials and site components threatens to curb these opportunities. The current situation, also concerns PNRR (National Recovery and Resilience Plan) contracts, which are in danger of stalling or costing more than expected. With rising prices, additional funds would be needed to carry out all the projects in the Plan, as the resources foreseen for Italy were calculated with reference to end-2020 prices and today would no longer be sufficient to complete all the works.

Cause

- Uncertain geopolitical context
- COVID-19 pandemic

Drivers

- Inflation
- Increase in demand for materials
- Capital release
- Simultaneous restart of many construction sites

Effects

- Increase in construction costs
- Increase in interest rates for mortgages and bank loans
- Increase in office and residential rents, and in the sale prices of goods
- Market moving towards a “service” concept (alternative living/working)

Future Scenarios

Industrial/financial actions that may arise from the market

As a result of the above, **future scenarios**, **potential initiatives and changes in strategy**, may be adopted by market players, to cope with the current geopolitical situation.

Among these, the most significant could be issues related to planning design activities with a focus on risk reduction, underwriting of hedging products, and adoption of smart procurement.

Timing/ Planning	Construction Risks	Hedging Products	Smart Procurements	Uncertain scenario	Independence of prices
Holding off/ accelerating development to reduce risks and pick medium term opportunity.	Select construction methodologies and materials that can reduce risks of exposure towards energy/ material costs.	Subscribe hedging products that can cap the overall material costs.	Identify “smart procurement” activities involving supply chain (for example pooling orders).	Uncertainty on when/whether such growth is peaking and where it will plateau.	Making the price of renewable energy independent from the price of gas to ensure economic benefits.

The **current geopolitical context** represents a high degree of uncertainty about future costs and the availability of some materials. These factors are forcing contractors to bid for work even higher than expected in order to absorb the long-term risks associated with the timing needed to complete the work.

Operators can only to some extent shape the market through specific actions such as “smart” procurement, strategic alliances with suppliers, placemaking and product “push”.

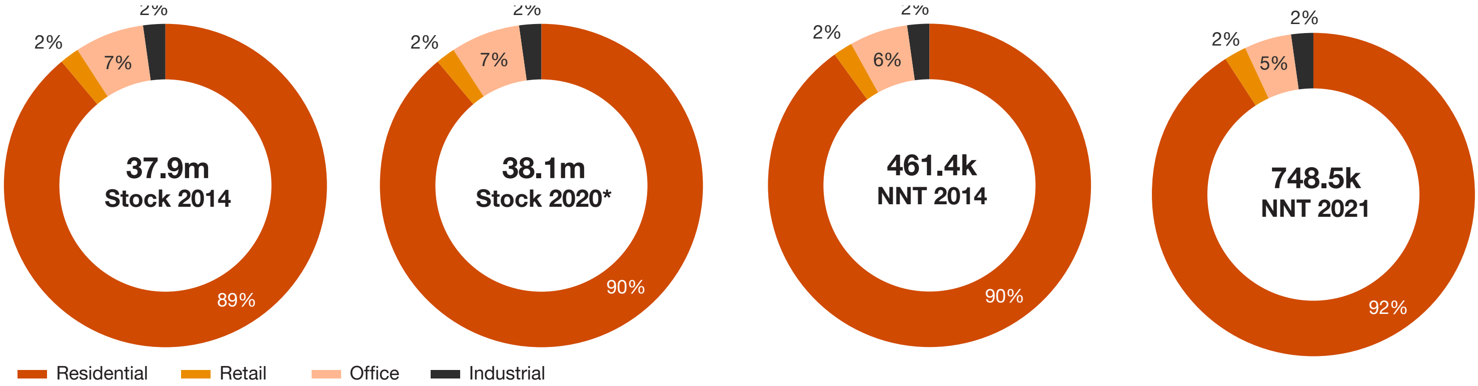
Transaction Trends

Stock and transaction (NNT) overview (2004 – 2021)

From 2004-2021, 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.

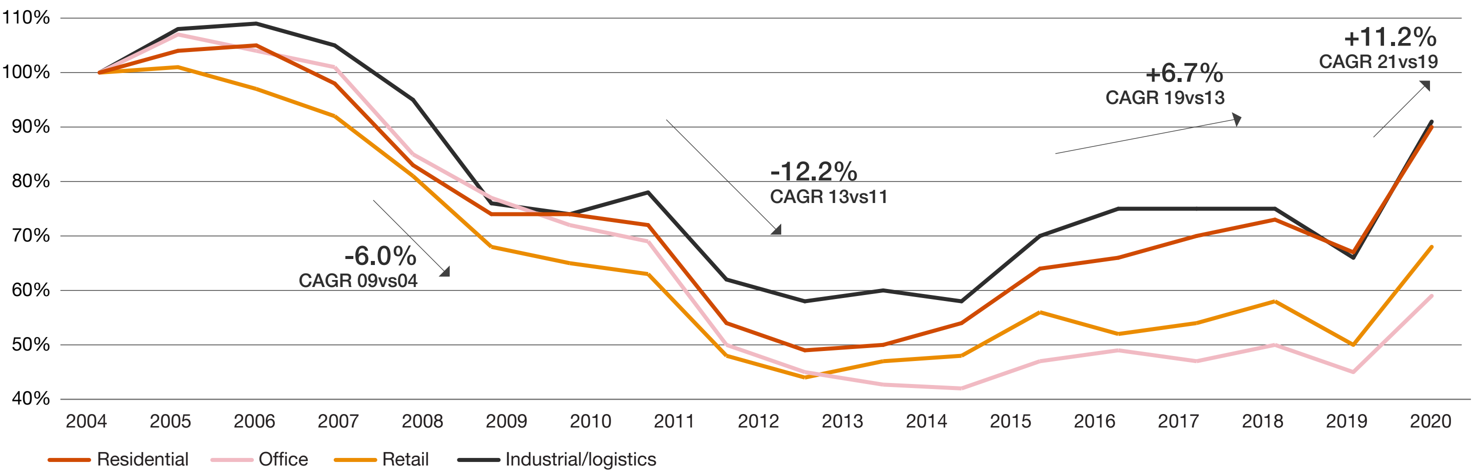
Since 2014, all asset classes have showed significant growth, reaching and surpassing the pre-crisis peak.

In **2021**, **residential** is the main asset class, accounting for circa **90% of total transactions**. For non residential asset classes, **retail** is accounts for **5%** of total transactions, followed by **industrial** and **office** with **2%** of transactions.

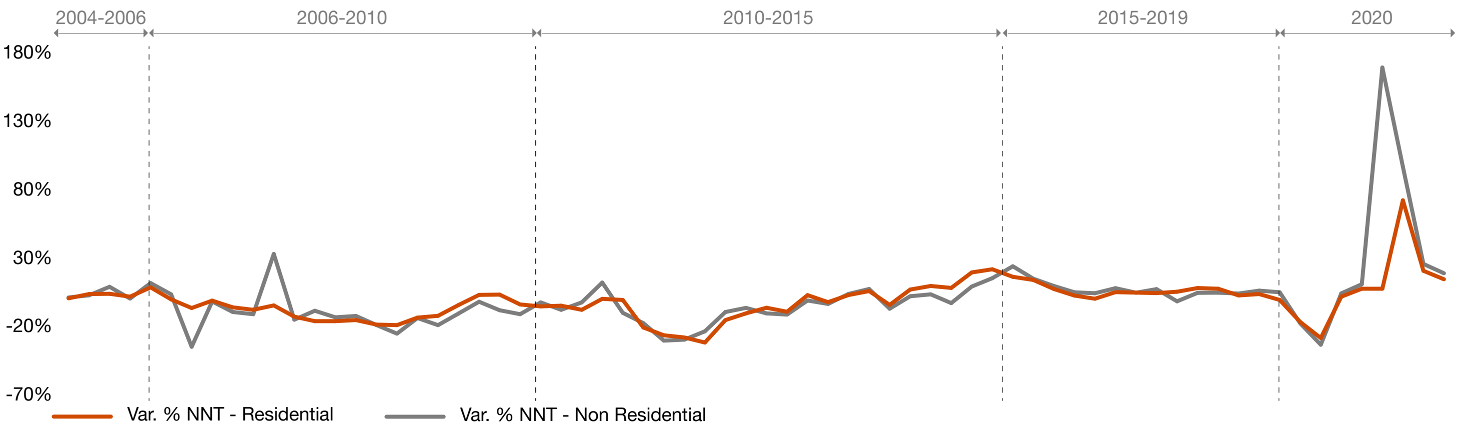


*Stock 2021 not available at the present date

Transaction trend (NNT) (2004 – 2021)



NNT % change of the Italian real estate market (2004 - 2021)



Source: PwC analysis on Italian IRS data

Historical residential transaction trend

From 2014-2021, 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 **748k in 2021**, with a growth of +11.4% compared to 2019.

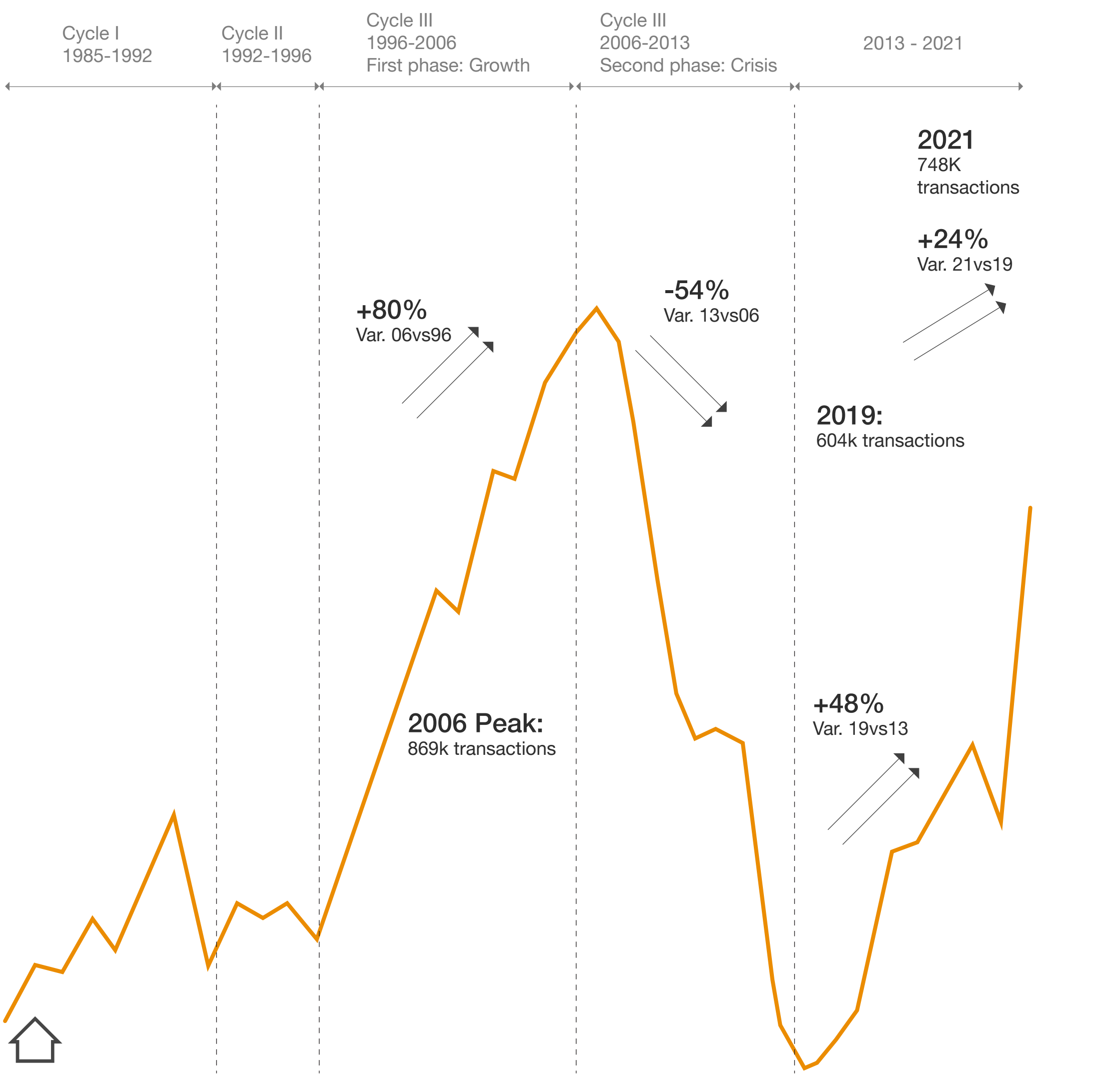
The positive turnaround registered in 2014 was mainly influenced by lower registration costs that came into effect on January 1, 2014 for mortgages and cadastral documents, which are applicable to the transfer of real property (Article 10 of D.lgs 14 marzo 2011, n. 23).

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%).

The **pre-crisis level were surpassed in 2021** with a **+24%** on NTN volume (21 vs 19).

Historic number of residential transactions (1985 – 2021)



Source: PwC analysis on Italian IRS and Nomisma data

NNT Y 2021 - Residential

In Y 2021, there were **748,523 residential transactions, 190,597 more than the same period of 2019 (an increase of 24%).**

Despite the significant decline in the number of residential transactions in 2020, the Y 2021 performed much better than expectations, which predicted a significant decline even in a soft scenario (-8%).

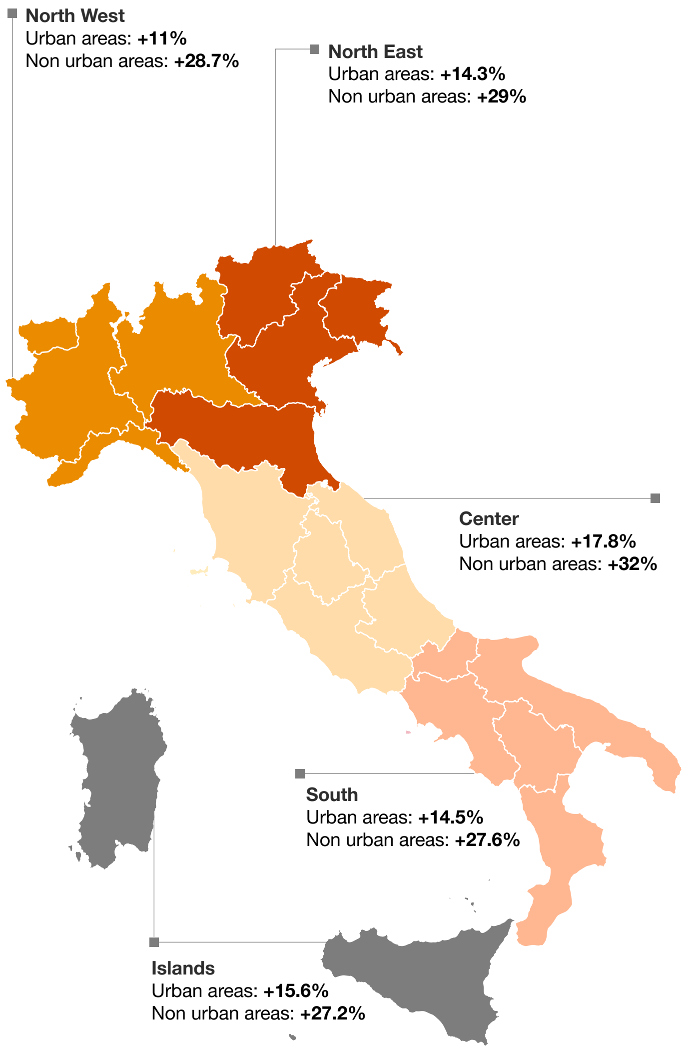
According to NNT historical trend, seasonally adjusted with four-quarter moving average, the housing market has been recovering almost uninterrupted since 2014.

Islands recorded the lowest number of residential transactions in Y 2021 at 63,569.

The Northern territories reported a significant recovery too, with 256,329 homes sold in the North-West and approximately 150,697 in the North-East, an increase of 23.1% and 24.4% respectively.

In the Center, has been recorded an increase of 25.5% with more than 154,000 purchased homes, the highest increase in comparison to the pre-pandemic year, while in the South, transactions increased by 24.2%, with 123,591 units. Distinguishing the residential market between province capitals and the rest of their provinces, during Y 2021, there was a significant difference in transactions with respect to 2019. Recovery of pre-pandemic volumes was more significant in the provinces rather than in the province capital, respectively recording +14.3% while rest of the provinces +29%.

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



Source: PwC analysis on Italian IRS data

748,523
Residential NNT Y 2021

603,541
Residential NNT Y 2019

+24%
Var. (%) NNT Y 2021 vs Y 2019

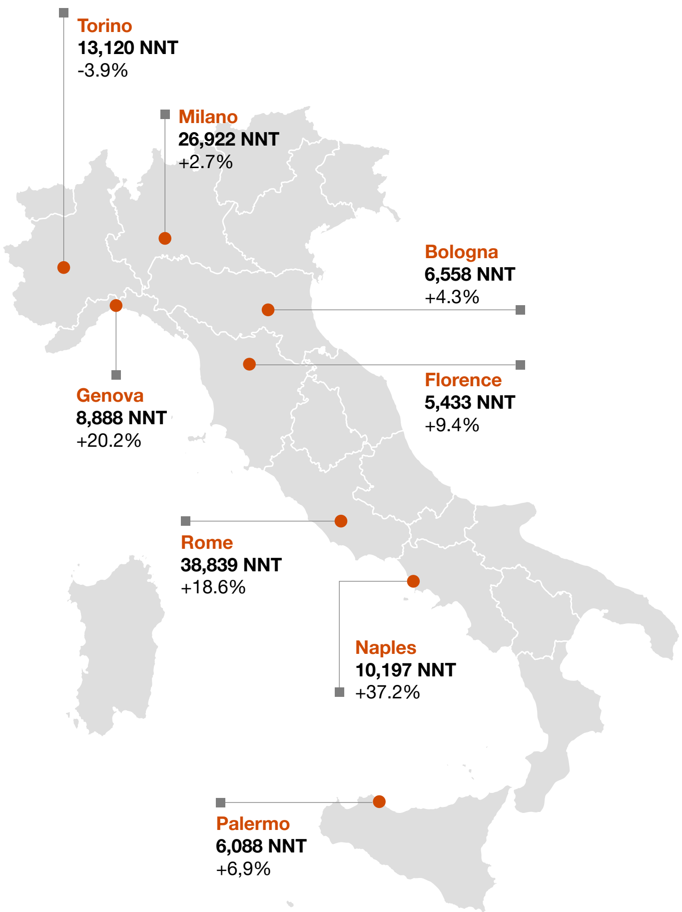
In Y 2021, **10.6m residential sqm were sold in the 8 main cities of Italy** (Y 2020 average sqm sold 91.1 vs Y 2019 average sqm sold 90.7), **an increase of 12.3% compared to Y 2019**.

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.

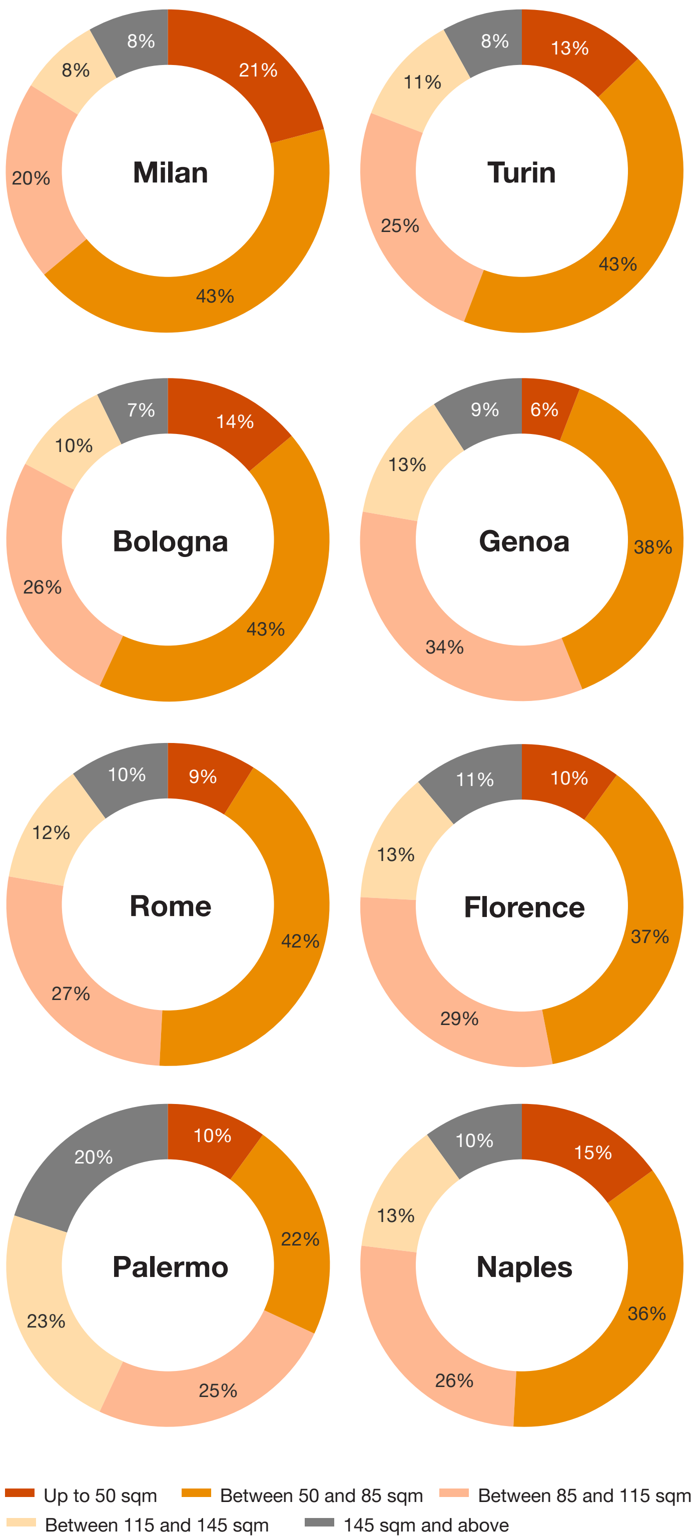
The distribution of the transactions in the main cities by residence type shows that in Y 2021, transactions regarding residences **between 50 and 115 sqm accounted for 79% of the total**.

In Milan, houses up to 50 sqm purchased in Y 2020 were almost 26% of the total in Milan; transactions for houses over 145 sqm had the greatest share in Palermo, Florence and Naples.

Var. (%) NNT Y 2021 vs Y 2019 by main cities



Share of NNT Y 2021 by dimensional class



Source: PwC analysis on Italian IRS data

NNT Y 2021 – Non Residential

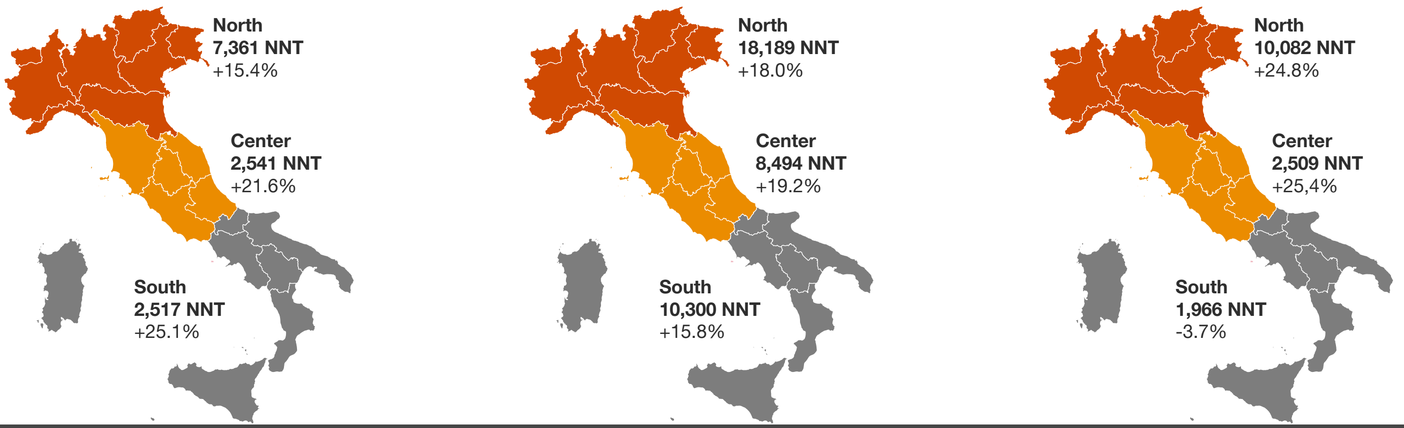
For the **non residential** asset classes, in **Y 2021**, the **retail** sector recorded **36,984 transactions with +17.6% increase** over the same period the pre-pandemic year. Retail transactions are mainly concentrated in the north, although the highest increase was recorded in the Center (19.2%).

The **industrial** sector (logistics and manufacturing) recorded **14,557 transactions**, showing the most significant increase of **20.1%** with respect to FY 2019. The office sector reached **12,419 transactions**, showing an increase with **18.5%**.

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; while, 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, while in 2020 due to COVID-19 suffered a remarkable decrease as shown by the graph, only to recover again in 2021 with a decidedly positive trend.

Var. (%) NNT Y 2021 vs Y 2019 by area

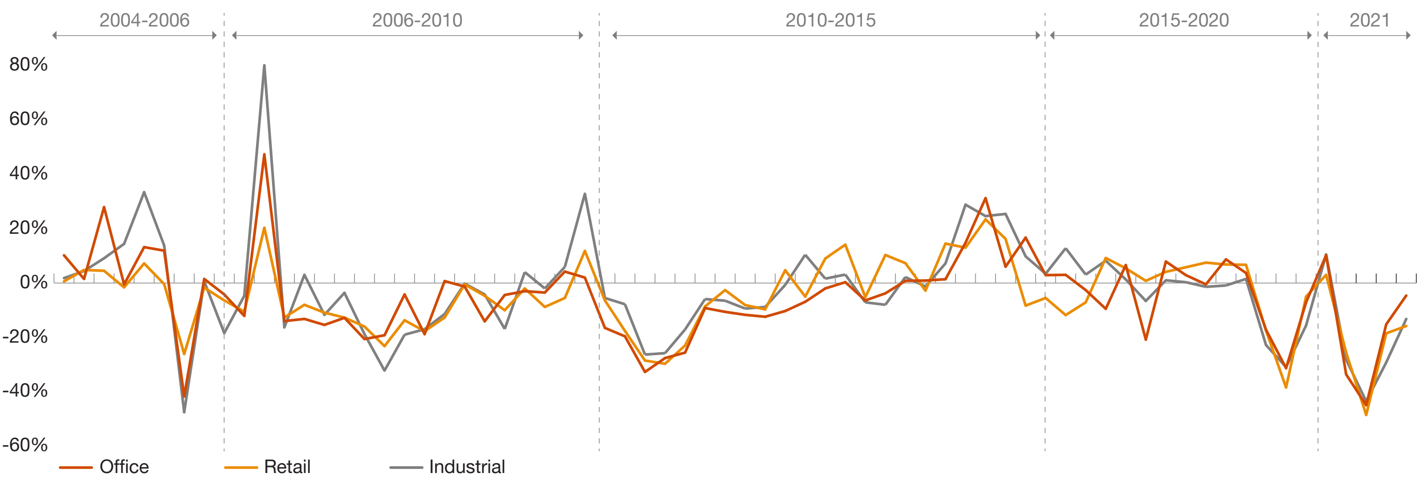


12,419 NNT +18.5%

36,984 NNT +17.6%

14,557 NNT +20.1%

Historical Non Residential transaction trend (NNT) (2004 – 2021)



Source: PwC analysis on Italian IRS data

Italian Investment Trends

Historical investment trends of commercial Real Estate in Italy

Investments in **2021** reached a level of **€10.4bn**, about 14% higher than the previous year, that was year in terms the worst year in terms of volume and total transaction value.

The individual sector with the largest share of investments is the **Logistic** asset class with **€2.7bn**, which represents its record volume, followed by the **Office** sector with **€2.2bn** invested, with **43%** lower than the 2020. **Retail** sector reached almost **€1.4bn**, while the Residential investments reached over €700ml, that represents the new record.

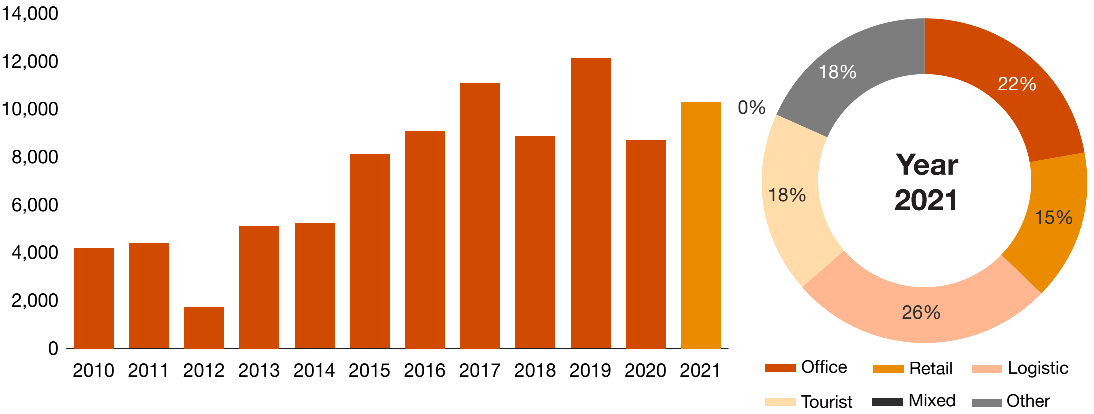
Milan and Rome still represent key investing location for the Italian office market. **Milan has recorded a great recover after the pandemic crisis: 357,000 sqm (+29% on 2020); while Rome has reached a total amount take up of 137,000 sqm (+11% on 2020)**. The main source for real estate investments in Italy is represented by international capital, accounting, in 2021, for 75% of total investment volumes (+44% compared to 2020).

€10.4bn
Total investments in 2021

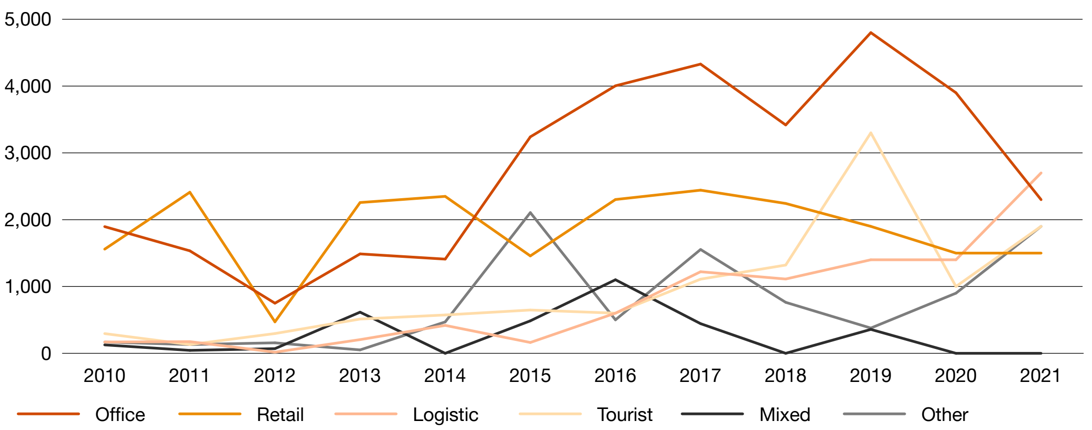
+14%
Investments 2021 vs 2020

75%
Share of foreign investments 2021

Historical investment trend (€m)



Investments trend by asset class from 2010 to 2021 (€bn)



Source: PwC analysis

Transaction and deal analysis

The table reported here in shows for each asset class the **top transactions** in terms of value in 2021.

Key data main transaction

Office
2.2€bn

Retail
1.4€bn

Shopping Center
0.7€bn

Industrial & logistics
2.7€bn

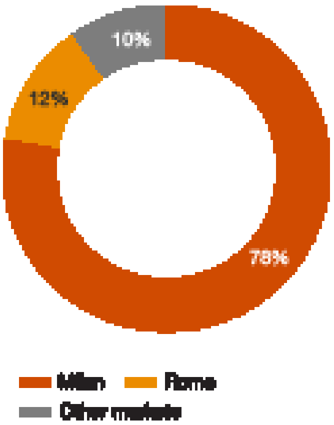
Hotel
2.1€bn

	Asset	Price (€m)	Buyer	Seller	Location	Period
Uffici	Il Curvo	320	ENPAIA	Generali Immobiliare Italy	Milan	Q2 2021
Uffici	Milan & Rome Offices Portfolio	506	Apollo Global RE	ENPAM	Milan, Rome	Q2 2021
Retail	Five-asset portfolio	95	Apollo Global RE	ENPAM	Rome	Q2 2021
Logistico	ITA Logistics	120	EQT - Exeter Property Group	Namira SGR, Round Hill Capital, KKR	Various Locations	Q3 2021
Logistico	ITA Logistics	128	AXA IM - Real Assets	SEGRO	Various Locations	Q3 2021
Logistico	Logistic Portfolio DeA Capital	268	Dea Capital Real Estate - Fondo Logita	Gruppo Segro-Vailog	Piacenza, Bologna, Rome	Q2 2021
Logistico	Logistics Tortona	268	Green Logistics di Aquila Capital	Various	Tortona	Q2 2021
Logistico	Seve-assets Portfolio	160	GLP	Tristan Capital Partners, BNP REIM Sgr	Milan, Rome	Q1 2021
Hotel	Bonvecchiati Hotel	100	ECE European Lodging Recovery Fund	Eligio Paties	Venice	Q2 2021
Hotel	Reuben Brothers	100	Reuben Brothers	Baglioni Hotels	Venice	Q1 2021

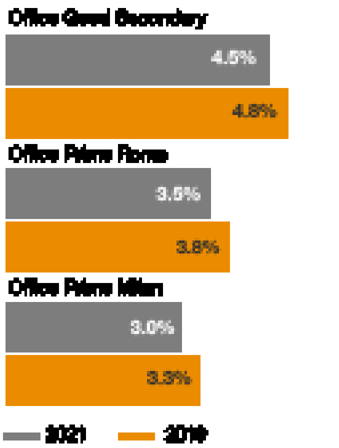
Source: PwC analysis

Office sector Y 2021 - Investments

Investments by location Y 2021 (%)



Prime Net yields Y 2021 vs 2019

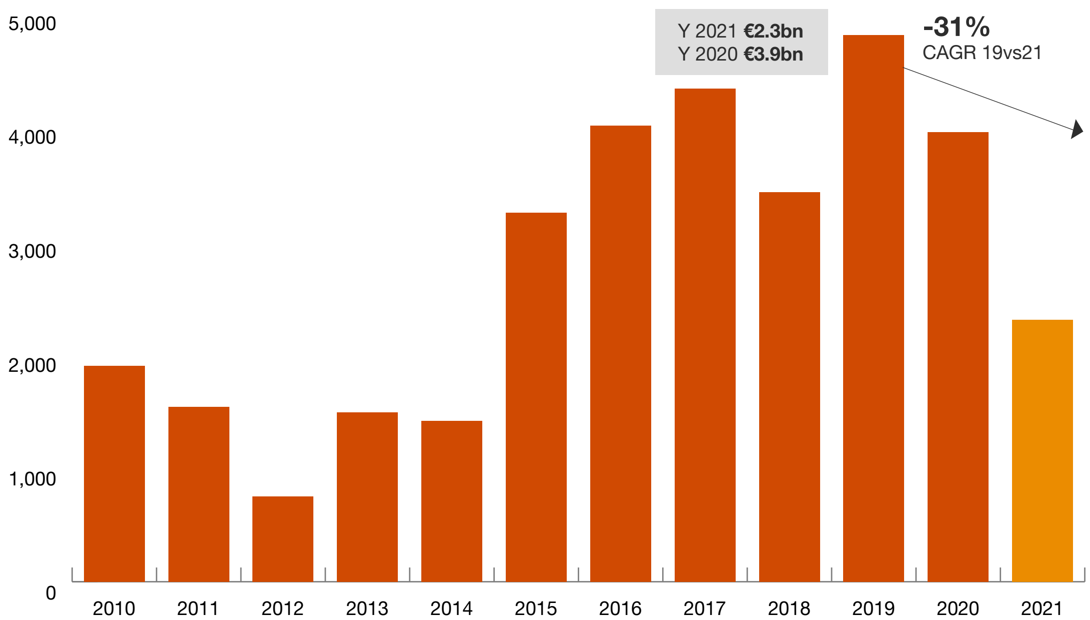


Office investment volumes were slightly lower in 2018, but basically due to the excellent performance recorded the previous year. In 2017 the investment volume was supported by a large deal involving the sale of properties by a Roman developer for around €500m. 2019 was an outstanding year, accounting for €4.8bn Office investments. 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. However in the **2021 the investment volume in office sector was €2.3bn (-41% compared to the previous year)**.

Milan and Rome's markets showed a significant improvement compared to the previous year, **increasing the level of prime rent (+6% Rome, +3% Milan)**.

The demand for the new building with **ESG standards** will continue to increase in the next few years, leading to a widening of the gap between rent for grade A and rent grade B buildings.

Investment trend office sector in Italy (€bn)



€2.3bn	-41%	500 €/sqm/y	620 €/sqm/y
Total investments in Y 2021	Var. % Y 2021 vs Y 2020	Rome CBD Prime Rent Y 2021	Milan CBD Prime Rent Y 2021

Source: PwC analysis

Retail sector Y 2021 - Investments

€1.4bn
Total Investments in 2021

-4%
Vs Total Investments in 2020

6.25%
Supermarket Prime Net Yield 2019

5%
Supermarket Prime Net Yield 2021

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 **2021 investment volume in retail sector reached €1.4bn**. The investments in this asset class remain lower than in the pre-pandemic period. International investors prefer to allocate their capital to other class

The highest investments in retail sector were recorded in the High Street segment with almost 70% of the total investment volume.

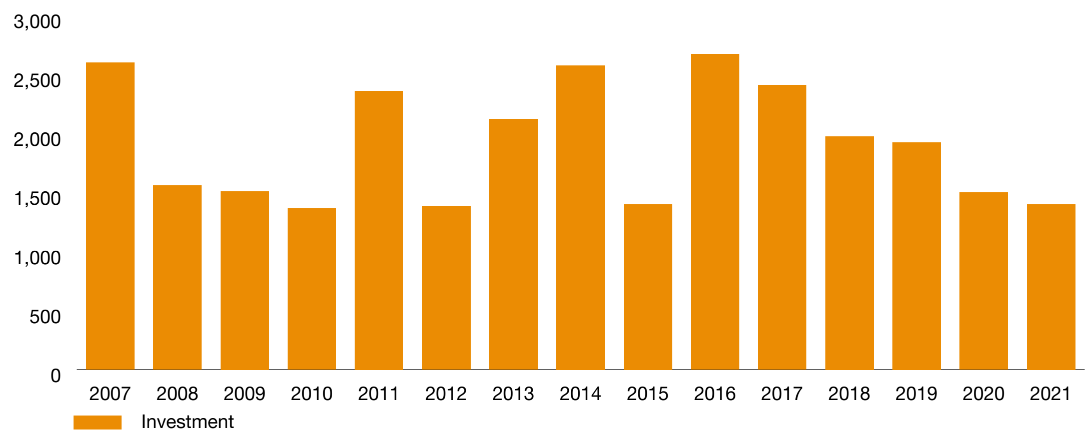
Prime Net Yields registered an overall growth compared to the pre-pandemic period.

The decline in the retail sector is expected to continue due to the strong growth of e-commerce. At first, investors' sentiment did not foresee a constant growth of the sector, which will reach a total investment volume equal to pre- COVID-19 levels.

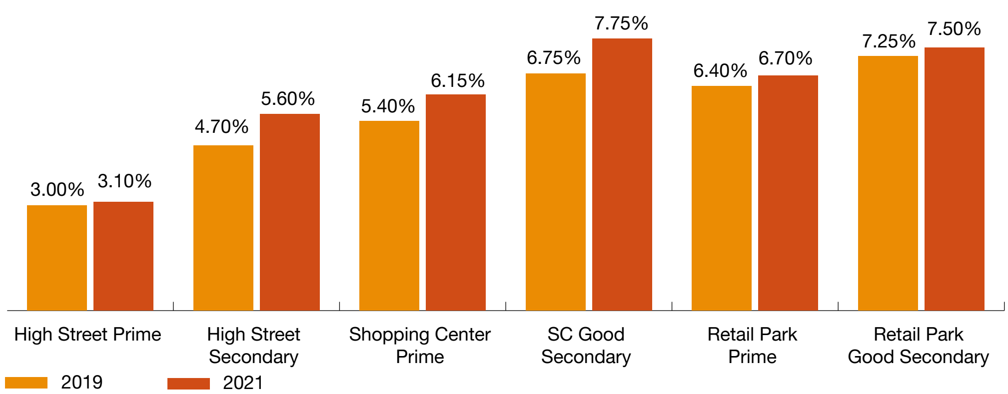
However the **H2 of 2021 had a clearly positive trend** compared the H2 2020. Moreover, the second half of 2021 obtained remarkable, compared to the same period of the previous year.

ESG issues are central to investments decisions in the retail sector as well. The demand for renewed and energy efficient spaces is growing.

Investments trend (€m)



Prime Net Yields Y 2021vs2019

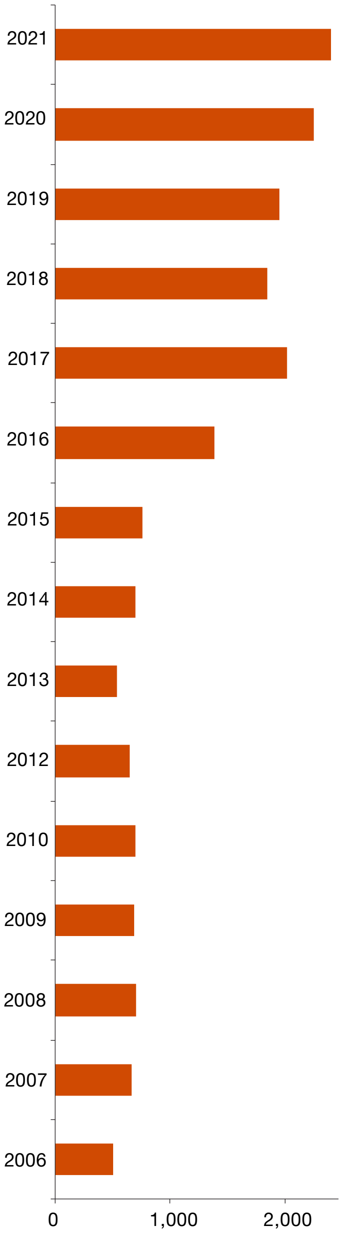


Source: PwC analysis

Logistic sector Y 2021 - Investments

Take up trend (sqm)

2,250K sqm
Take up Y 2021



The 2021 was the year with the largest investment volume in the logistic segment. The total investments reached **€2.7bn**. The level of take up in the Y 2021 has registered **2,500 k sqm**, which is up by **11%** 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. The other most dynamic areas are **Bologna and Rome**.

The growth of **e-commerce** requested a greater demand for space, accounting for 43% of the absorbed volume.

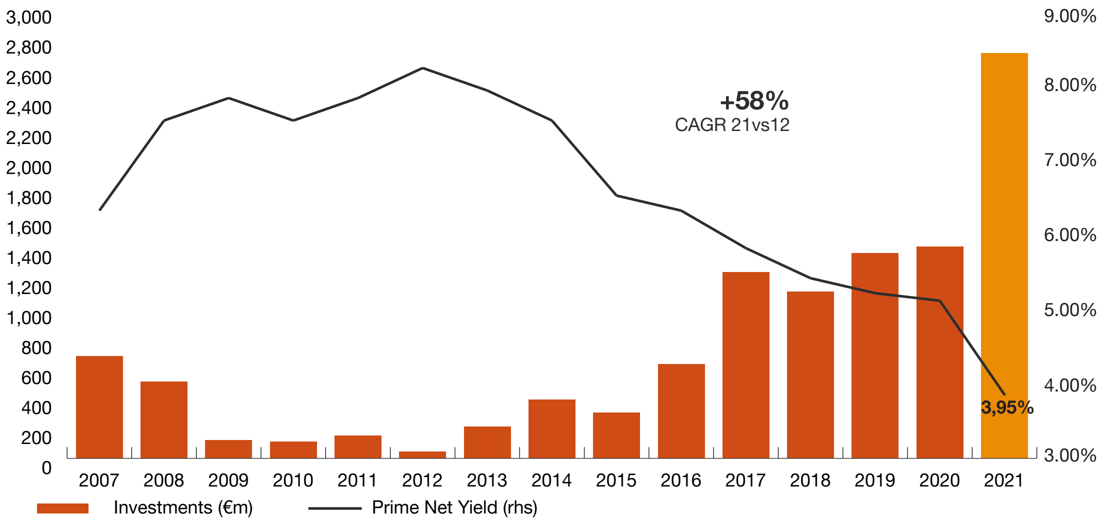
The **Industrial and Logistic** sector has become the commercial real estate market segment that attracted the most interest from **investors**. For the first time the investment volume in logistic sector exceeded the investment volume of the office segment.

Moreover, the COVID-19 pandemic has helped to strengthen the role of logistics as one of the most attractive asset classes.

3.95%
Prime Yield

€2.7bn
Total Investments in Y 2021

Investments trend (€/m)



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

Hotel sector Y 2021 - Investments

+110%
Increase in Italian hotel investments (Y 2021 vs Y 2020)

€1bn
Total Investments in Y 2020

€2.1bn
Total Investments in Y 2021

4.75%
Milan Lease contract net yield

In Y 2021, hotel sector recorded **a increase of 110%** compared to the previous year as far as concerns the total investment volume.
The volume invested in 2020 reached around €1bn, while in 2021 the investments in the Hotel sector was slightly above **€2bn**.

The pre-pandemic period showed a dynamic hospitality market. In 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.

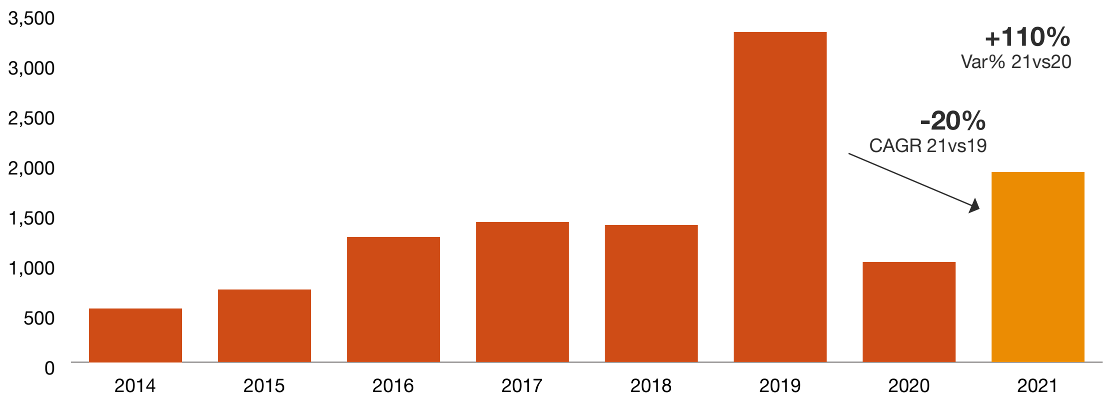
Moreover, during 2019 the Elliot fund purchased for €400m 100% of Bauer SpA, the company that owns, among other things, the historic Bauer hotel in Venice; the investment plan also included € 100 million for the renovation.

After pandemic period the market is recovering in terms of investments. In 2021 total investment volume compared the pre-pandemic period has recorded a good performance **(CAGR 21vs19 is -20%)**.

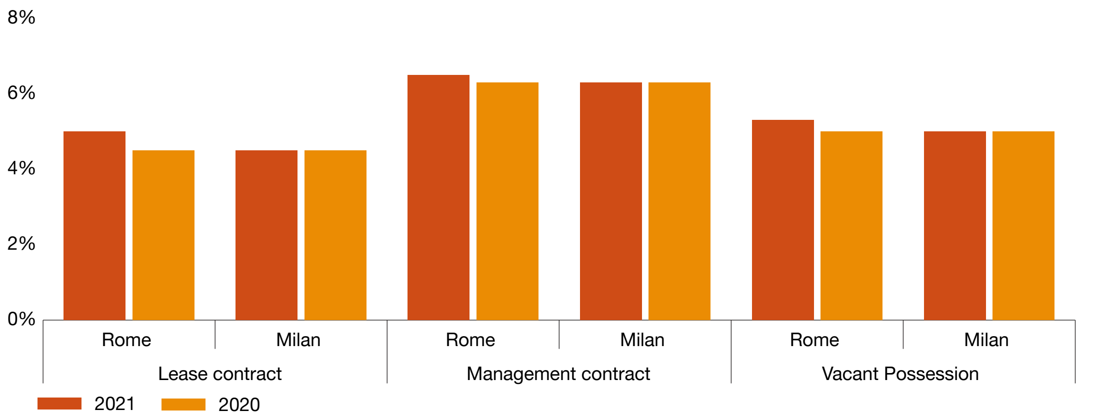
Tourist Arrivals Forecast

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

Investments trend (€m)



Prime Net Yields Y 2021vs2020



Source: PwC analysis

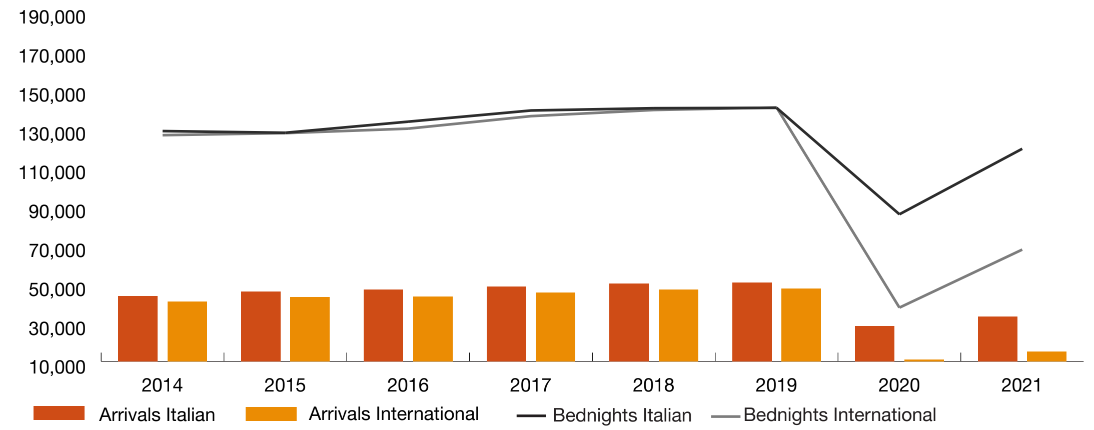
Hotel sector 2021 - Tourism demand

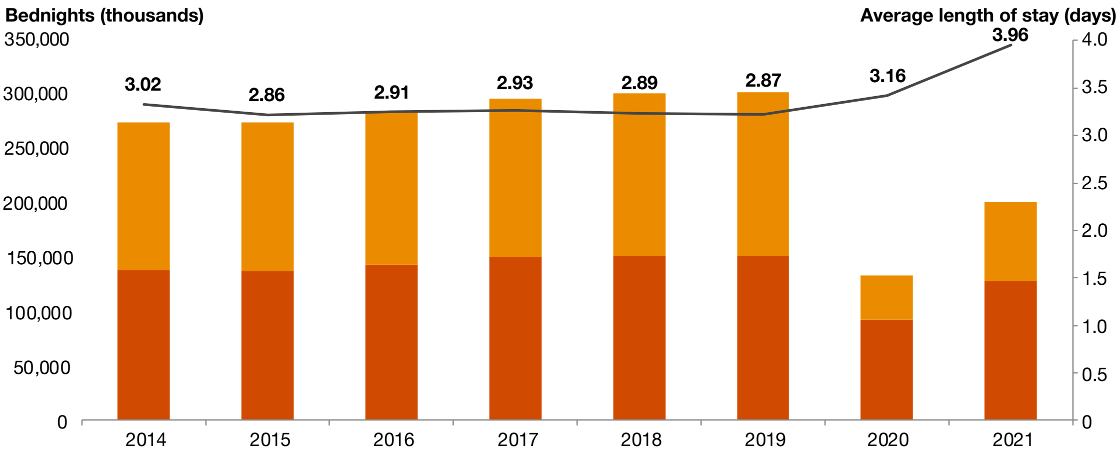
The data for 2021 confirms the growth compared 2020 in terms of arrivals. The comparison with 2020 suggests **an increase of 15% for Italian arrivals and 36% for international arrivals.** However the total demand both Italian and International remains below the level of 2019, in particular for international demand.

The Y2021 recorded a recover compared 2020 in terms of bednights both Italian and international demand. The domestic bednights recorded **an increase compared to the previous year (32%)**. Moreover the international bednight showed a clear **increase of 50% compared to 2020.**

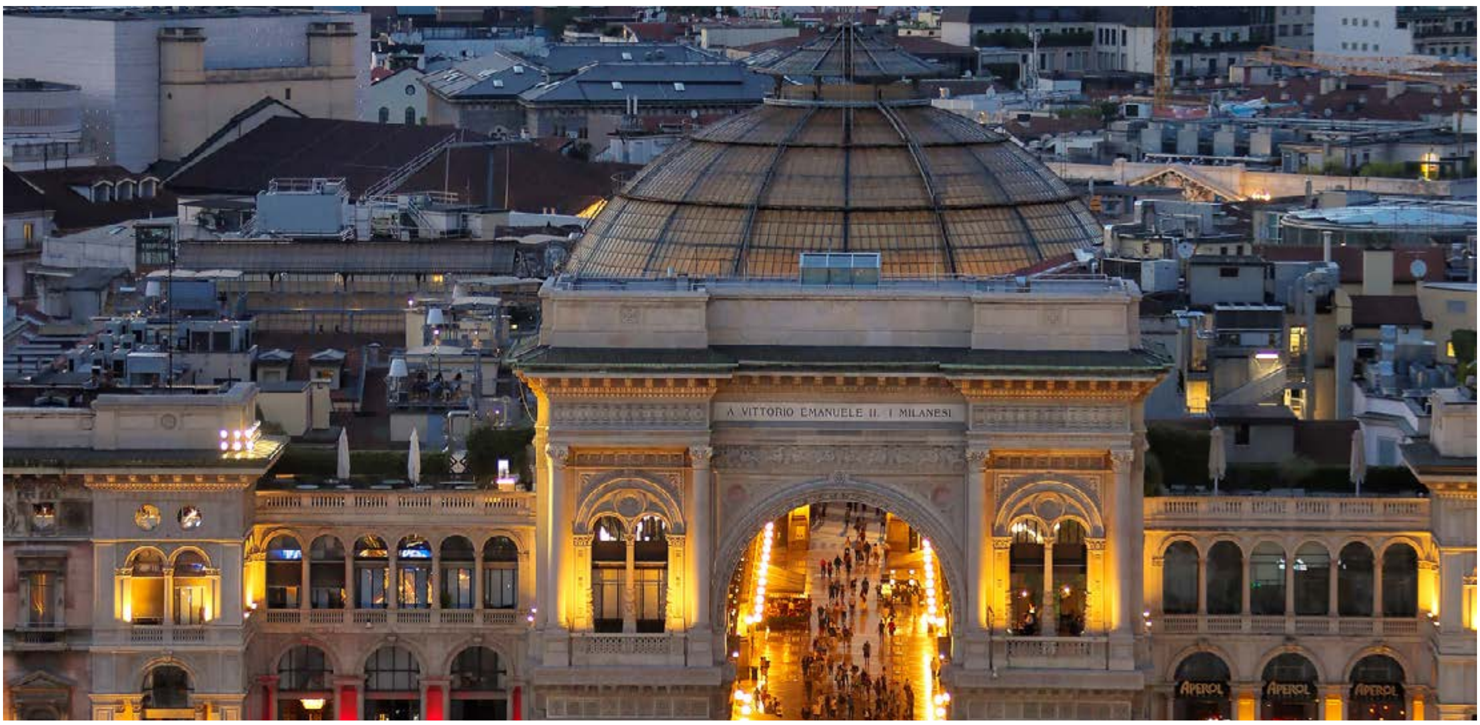
3.96
Avg. Length of stay in Italy (2021)

Hotel demand in Italy 2014-2021





Source: PwC analysis on INSI data



Alternative Asset Classes

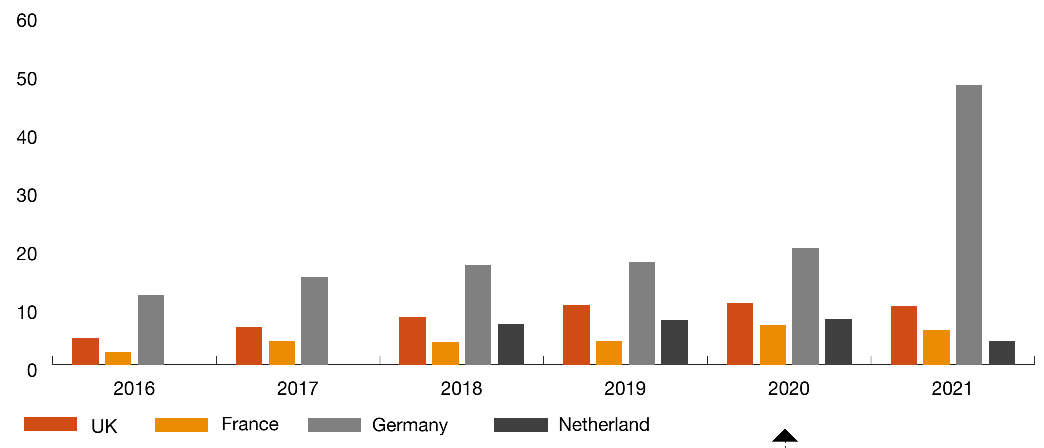
Residential Market – Key Factors

In a year where the pandemic crisis brought uncertain, the residential market has turned out to be safe. **There was a visible shift towards investment in the residential sector**: it represents the market segment that has attracted the most interest in recent years from institutional investors.

A house remains one of the most important necessities in life. The rent is one of the first payments that a household makes. Many housing markets in Europe are characterised by a large proportion of owner occupied housing.

However this trend is changing: there are some housing market in Europe characterised by **a bigger proportion of private rental market. Germany** has the most private rental housing market with almost **60% of stock**. In Poland, for example, there is a good proportion of social housing market.

Historical residential investment volume of main European market in €bn



Housing Market Structure by City Household Forecast 2030

Source: PwC analysis

Built to Rent (BTR)

Build to Rent ("BTR") refers to the purpose-built apartment that is typically 100% leased. 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 under one 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 who holds the property and rents out the units on a long-term** basis 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 improved investment options that lead to higher returns for investors**.

Drivers

- Decreased home purchase affordability;
- Continued urbanization and shortage of housing supply;
- Socio-economic changes;
- Changing regulations.

Pros

- Long-term lease contract;
- Long-term and stable income flow;
- Premium tenant services;
- Reduced time needed for housing search;
- 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

Multifamily Investments

Total multifamily investments in **Europe (12 countries)** continue their positive trend, increasing by more than **79% YoY to 92 billion euros in 2021**.

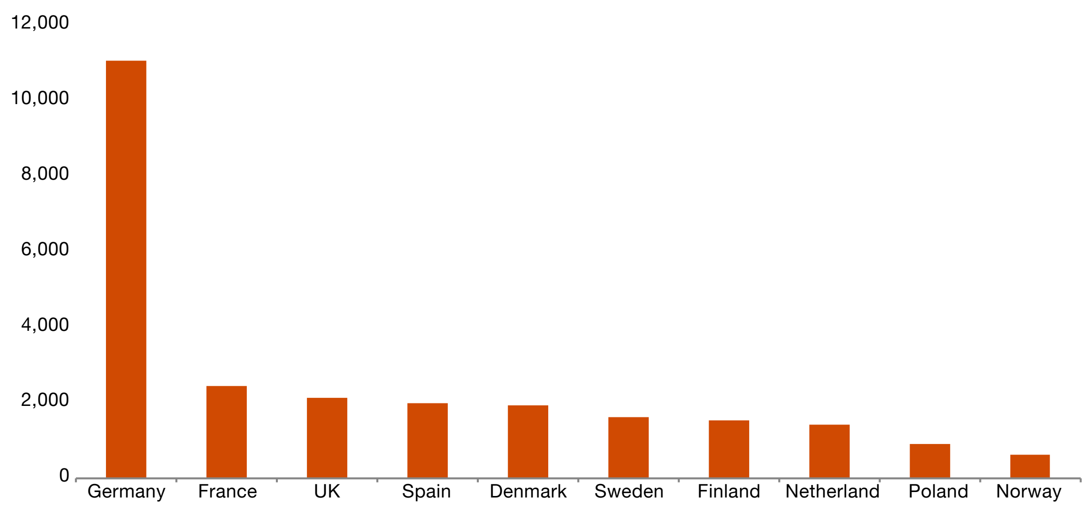
Multifamily investment volume exceeded office investment volume for the first time across the 12 countries examined. **The share of multifamily investments was 54% of the total in Denmark, 46% in Germany, 39% in Ireland, and 35% in Sweden.**

In recent years, many factors have led to the growth of multifamily housing, including **declining homeownership affordability, urbanization, and socioeconomic changes and with evolving regulations.** In addition, growth in investment volumes in the Multifamily segment has increased, due **to uncertainties about the future of the office and retail segments** that have shifted investors' interests to the residential and logistics sectors.

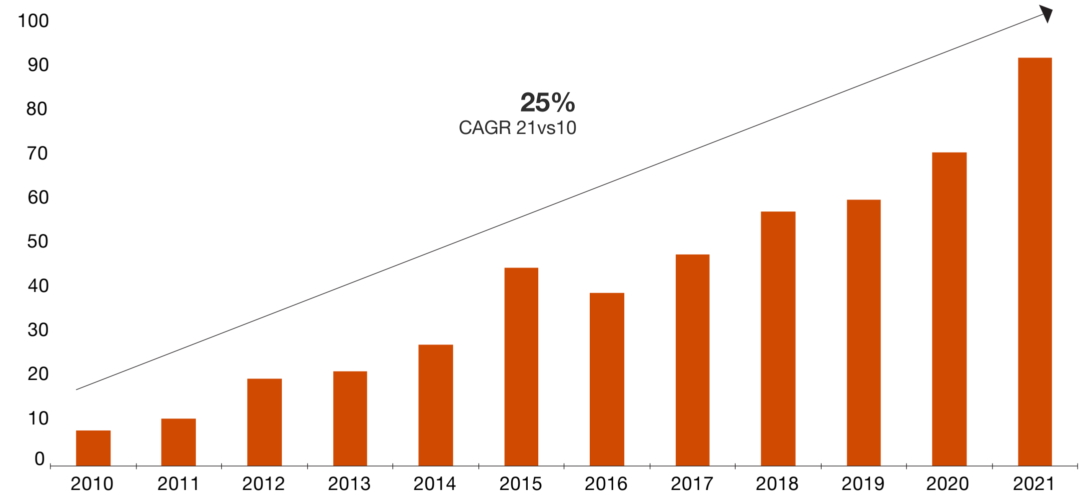
Total Investment Volume in Multifamily (Europe) - (2021)

€92bn

Investments in Multifamily by country (H1 2021) in million €



Historical trend of investments in the multifamily sector in Europe (€bn)



Source: PwC analysis

Multifamily Yields

The growth in multifamily segment is putting downwards pressure on yields. New competitors are entering the market and total investment volume is increasing and the yields are falling. **The average Prime Net Yield** in multifamily sector in **Western Europe** reached a record low of **3.05%**, while in **Eastern Europe the average is 4%.**

The outlook is positive but labour shortages and rising construction cost will slow down development activity. The Ukraine War is increasing pressure on consumer prices of commodities and on costs of energy. The prime net yield in residential sector has been shrinking in the last few years. The reasons for the compressions derive from the strong investors' interest in this asset class.

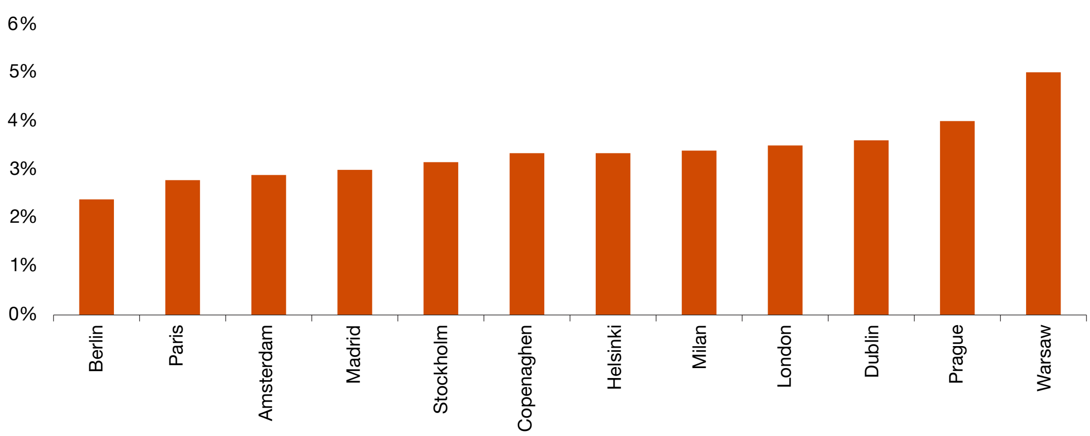
Total investments in the residential market in Italy is in its early stage. Italian market is one of the biggest countries in Europe with the **lowest share** of population living in a rented accommodation **– 21%**, compared to the EU average.

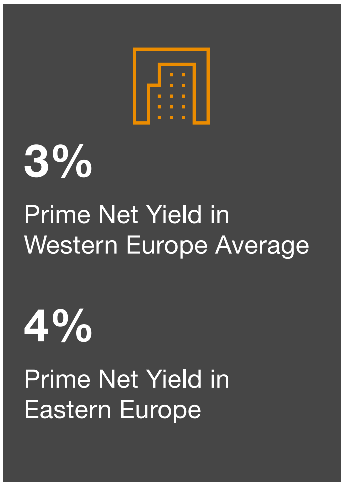
The reasons for this delay are many: first of all there are a cultural and structural reasons. Moreover there is the fragmentation of the ownership that makes it difficult to acquire entire buildings to be managed professionally.

Despite that, there's a new demand for living that is being expressed with no supply to satisfy it. The investors are exploring this asset class in Italy, starting from Milan, and this led **residential investment** surging in the first half of **2020 in Italy, representing 6% on the total**, a jump from less than 1% in the previous years

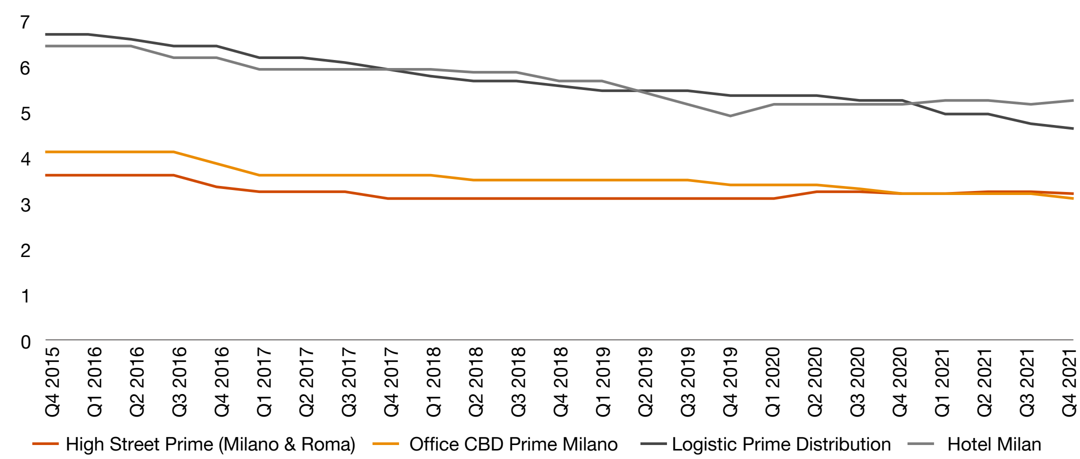
The **total residential stock in Italy is 4.1 bn/sqm** for an average surface of 117 sqm.

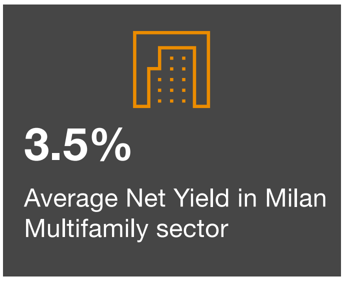
European Prime Net Yields in Multifamily Sector (2021)





Italian Prime Net Yields in main asset class





Source: PwC Analysis

Student housing

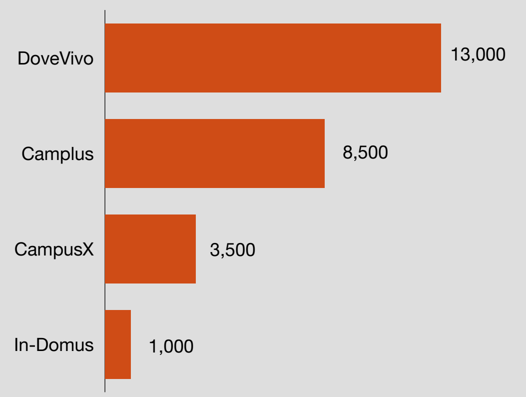
Th student housing segment has showed big volumes in terms of investment volumes during the last three years. The influx of foreign students is increasing year by year in Italian universities. This trend of increasing numbers of foreign student is favourited by an affordable cost of living and relatively low university fees compared to the rest of Europe.

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 DoveVivo, Campus X, Camplus, Hines and Nuveen.

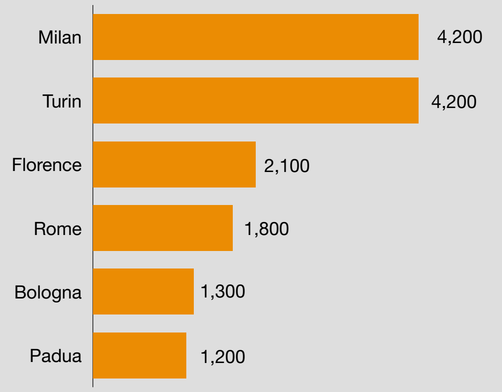
However the Italian students live in their parents houses mostly. The rest of the students homes are in hands of private individuals, institutions and campuses.

In other markets, the student housing is considered a mature asset class compared to the Italian market. Uk student housing market remains the biggest market in Europe in terms of investment volume. The growth and business potential for student housing segment is more interesting than ever.

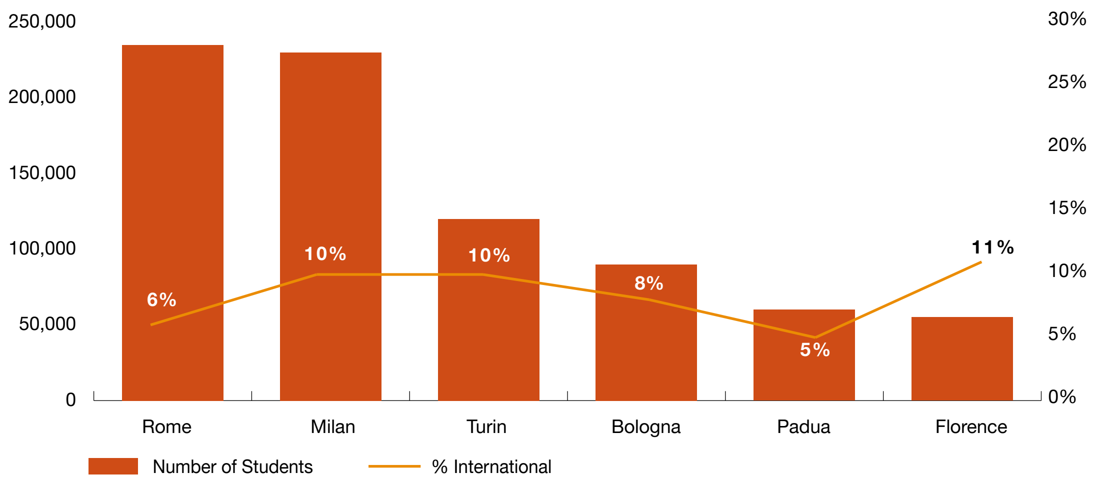
Italy's Main Operators (N. of beds) (2021)



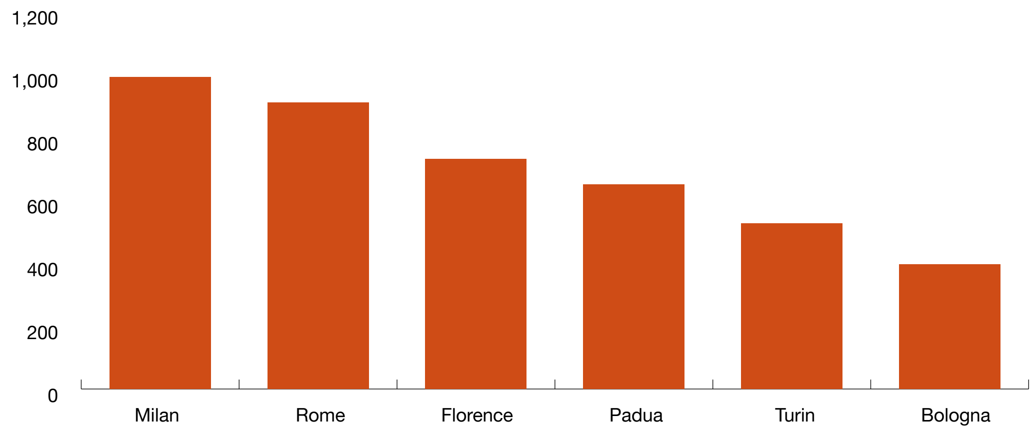
Number of beds in Pipeline by 2024



Number of students and % of international (2021)



Monthly rents in main Italian cities (€/month)



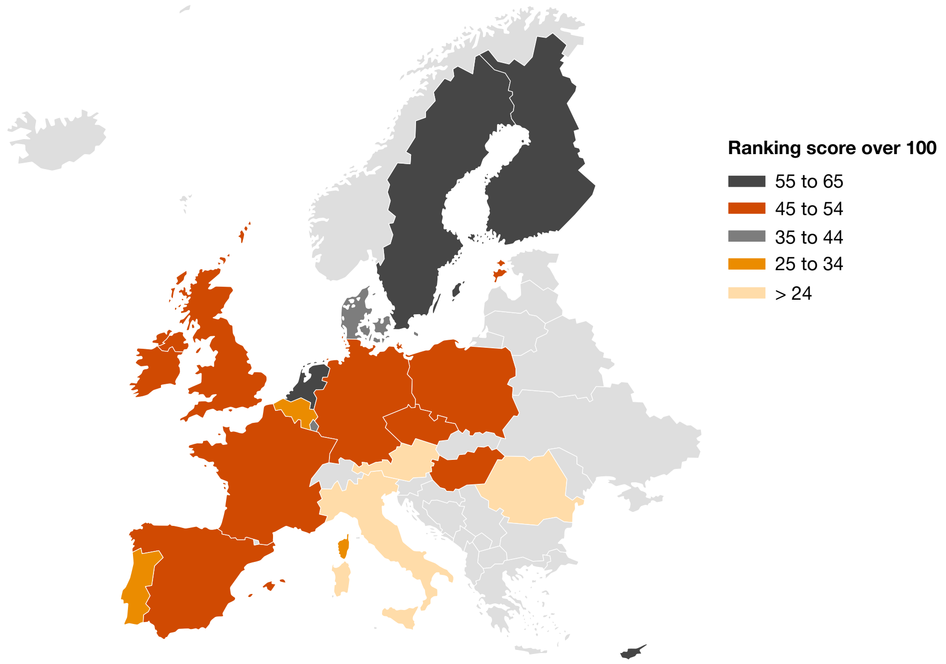
Source: PwC Analysis

Data Centre in Europe

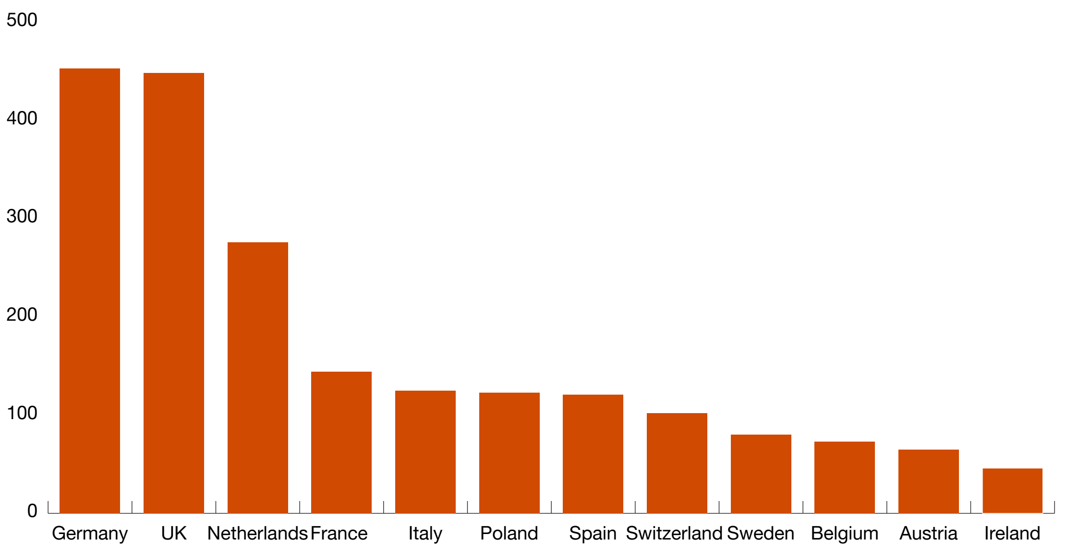
Investors' interests recently got closer to the data center segment, since colocation operators became more willing to lease high-tech facilities – especially in Availability Zones in terms of hyperscale infrastructure powered by independent electrical substations.
In 2021, the **global investment volume** in data center infrastructure **reached $60 billion**, registering a **twofold increase** in terms of investment **compared to the previous year**. In Europe, the country that attracted the most investment was the United Kingdom. The platform consolidation is the result of a big number of European M&A deals with the intense competition from investors and colocation operators.

The best European region in terms of high reliability of energy supply is Scandinavian region Moreover the Nordic region has notably renewable energy, with some of the best-performing grids in Europe. **In the Netherlands**, there are strong broadband connectivity, dense infrastructure, and large cloud adoption are the key success factors for the ranking result. **The UK, Germany, France, Sweden** are the best-graded countries particularly thanks to the solid infrastructure network in place, large data consumer pool, high cloud penetration rate. They also represent the countries with the highest number of data centers in Europe.

Hyperscale and cloud scale data centre



Number of Data Centers in Europe by country in 2021



Source: PwC Analysis

Data Centre in Italy

The **data centre market in Italy will grow of 3.8% CAGR during the period 2021-2026**. The expected investment volume during 2021-2026 will be of **2.6 €bn**.

In 2021, the total investment in the Italian data center market was over 1.7€bn, with Milan being one of the most preferred locations for investments in the country. In terms of power capacity, data centers in the **country added a power capacity of 46 MW in 2021**.

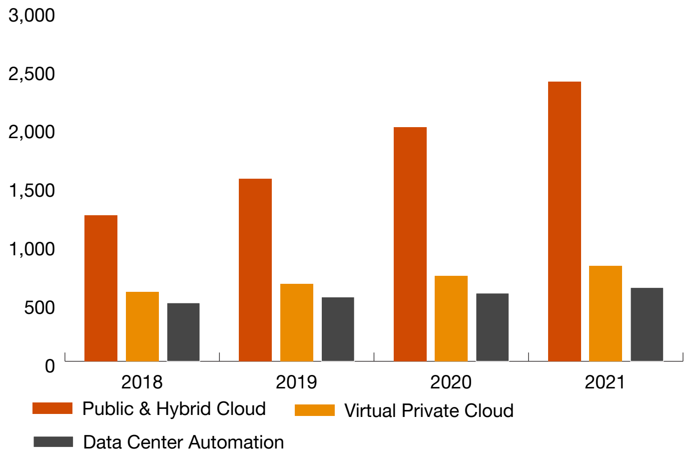
The development of new technological infrastructure across major cities in Italy will increase the demand for data storage from connected devices across new businesses and consumer segments. Huawei Technologies and IBM are some of the IT infrastructure providers in the Italian data center industry.

Investment volume for hyperscale infrastructure is projected to be one important voice of revenue for general contractors and sub-contractors in the market.

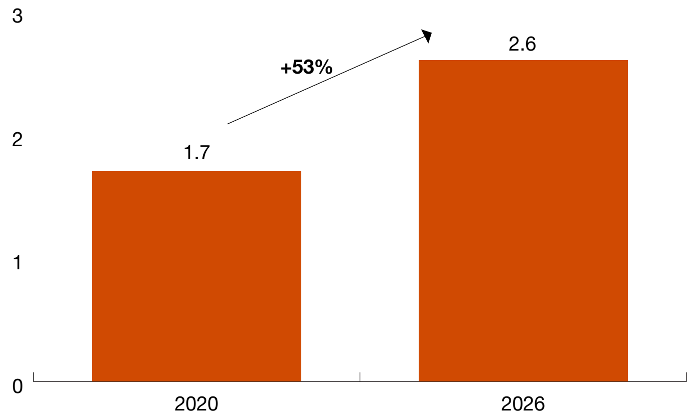
The rise in digital transformation strategies and the adoption of cloud computing by firms increased cloud server adoption. The Public & Hybrid Cloud market value of Italian infrastructures in 2021 was 2.4bn of euros.

Moreover in 2021 the value of virtual private cloud hit over €500m. The difference between public and private cloud depends on the use: in public clouds, users share the resources of the same infrastructure; while in private clouds a single server is dedicated to each company.

Marker Value of Cloud Infrastructure in Italy (€/'000)



Forecast Investment volume in Italian data Centre Market



Source: PwC Analysis

1 | to place (computer servers) together in a secure dedicated storage facilit

Real Estate Funds

Real Estate Funds – Overview

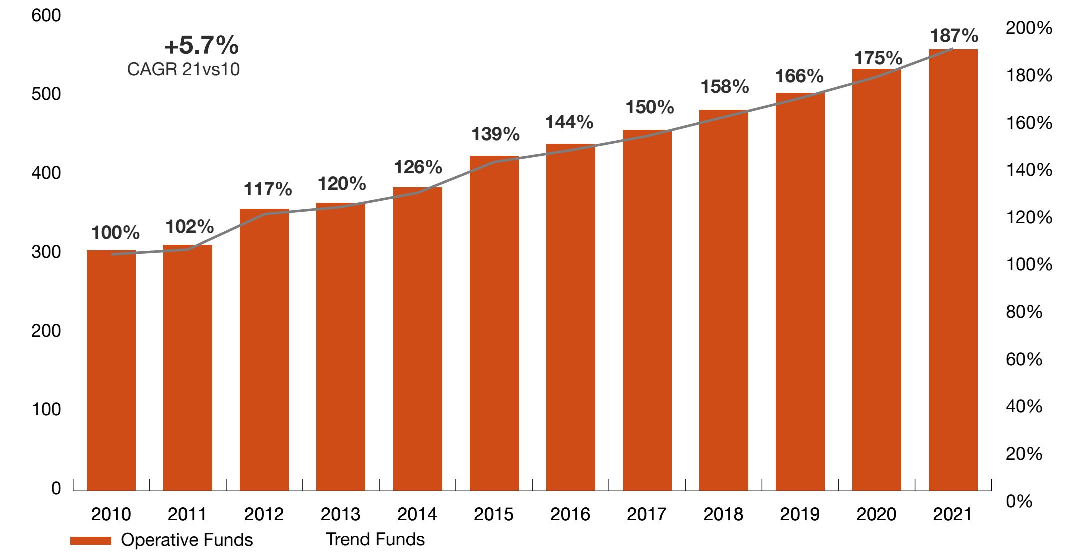
Real estate funds in Italy represent about 3% of the Italian asset management market. The funds examined by Scenari Immobiliari have **assets under management** amounting to **€105bn**. With regard to Y 2022 a growth of **5.2%** was estimated YoY, reaching a total volume of approximately €110bn.

During the last years (2010-2021) the number of the Italian operative funds has constantly increased, showing a CAGR of almost 6%. Therefore, stressing the significant role played by this investment vehicle.

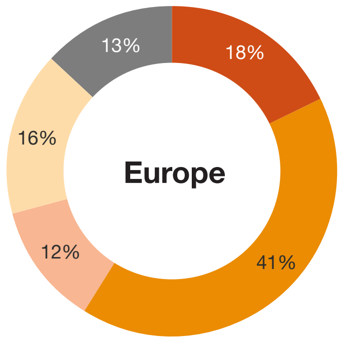
Offices are the most common among the asset classes, constituting 63.3% of the entire asset stock, followed at a distance by residences and other 15.0% and retail 13.5%.

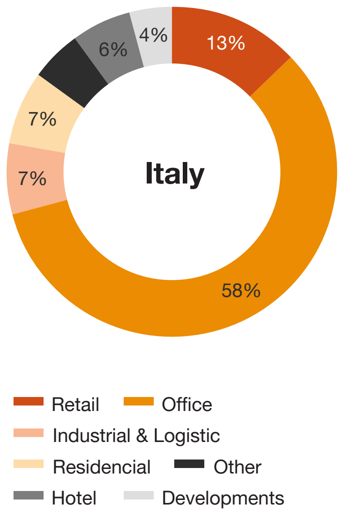
In 2021, the funds surveyed by Scenari Immobiliari show that asset acquisition is mainly focused in Northern Italy (43%), followed by the abroad (7.5%), the Center (3.9%), and South and Islands (1%), while Milan takes a share of 31.7% and Rome of 12.7%.

#Italian Operative Funds Trend



2021 Asset allocation





Source: PwC analysis on Nomisma and Scenari Immobiliari data

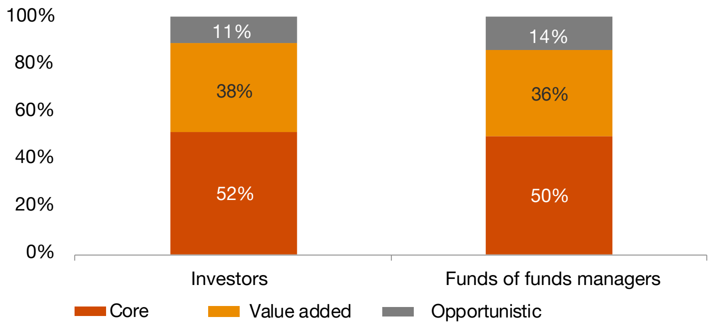
Real Estate Funds – Investment Intentions

Since 2009, the preferred type of investment has been **core**. Since 2016 value-added-oriented investing has become the preferred investment style, which has further strengthened during 2018 and 2019, while the post pandemic era has experienced a renewed interest towards core investments.

In fact, 2021 core investments in Europe where preferred by a 50% of investors, that have reevaluated low-risk investments and secured returns. This significant shift to core strategies can be directly linked to the global outbreak of COVID-19, and real estate investors anticipating a weaker economic outlook and increased uncertainty. Other types of preferred investments shifted as well, with the value-added one counting for a 37%, following the last years trend, while the opportunistic preference recorded a 13% of preference.

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)**.

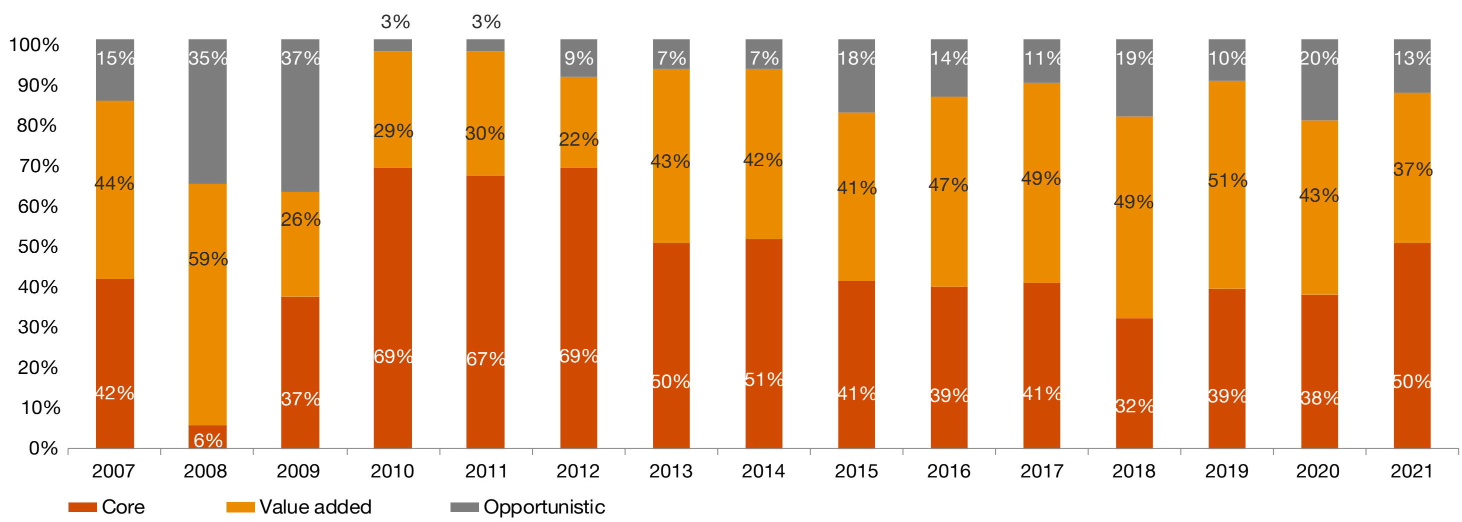
Value Added - Properties and/or portfolios to be enhanced (vacant properties and/or to be restored).



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)



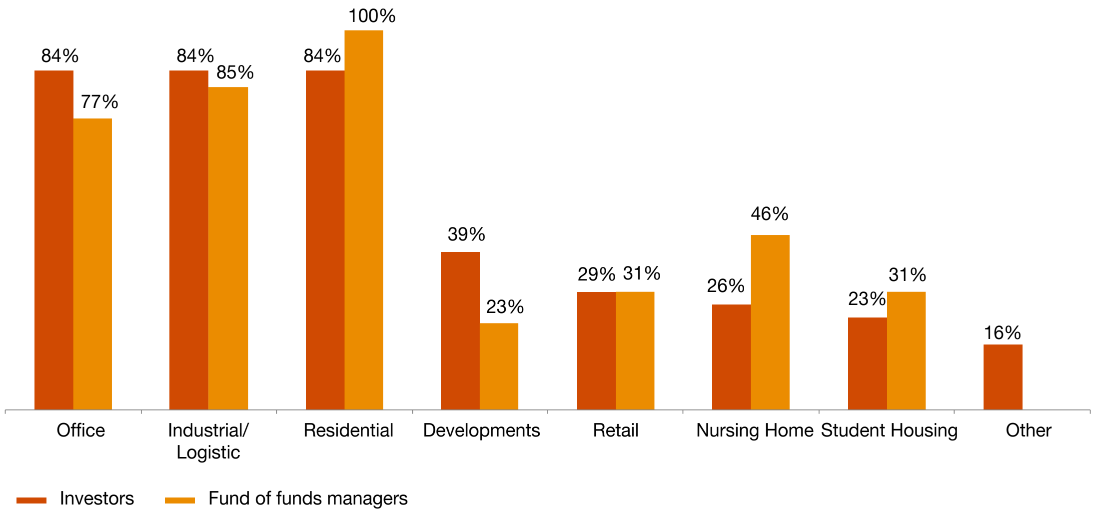
Note: based on a sample of 85 investors (banks, developers, insurance groups, private equity, asset management companies) and 118 asset managers.
Source: PwC analysis on INREV data

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 heightened by the restrictions related to COVID-19, causing the alienation of many investors from these sectors.

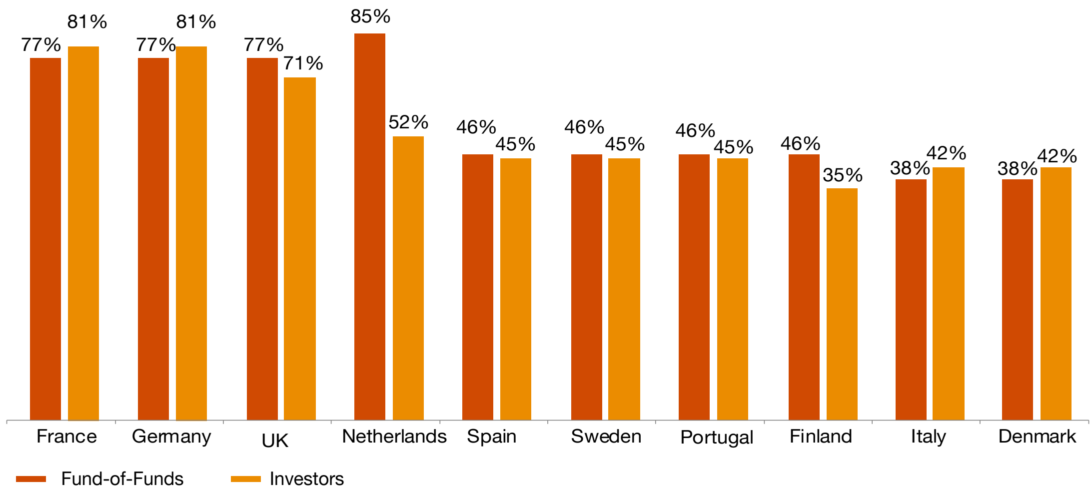
Funds-of-funds show broadly similar sector preferences, although residential is in first place, followed by industrial/logistic and then offices.

In terms of location, most of the investments are allocated to **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.

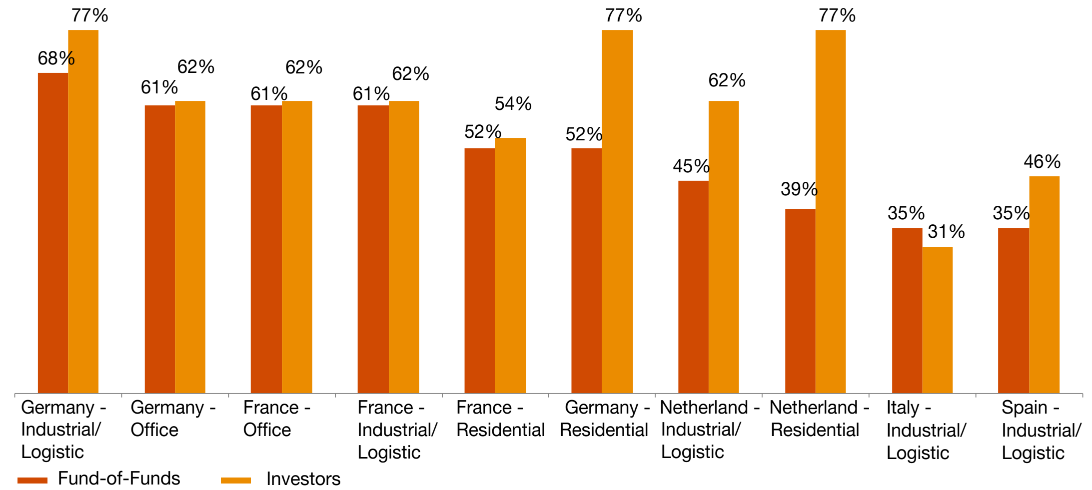
Source: PwC analysis on INREV data

The strong preference for the **Industrial/Logistic sector** is evident with 5 out of 10 country/asset class combination, the highest result by sector since 2007. Office and residential are also popular asset classes, combined with mostly Germany and France.

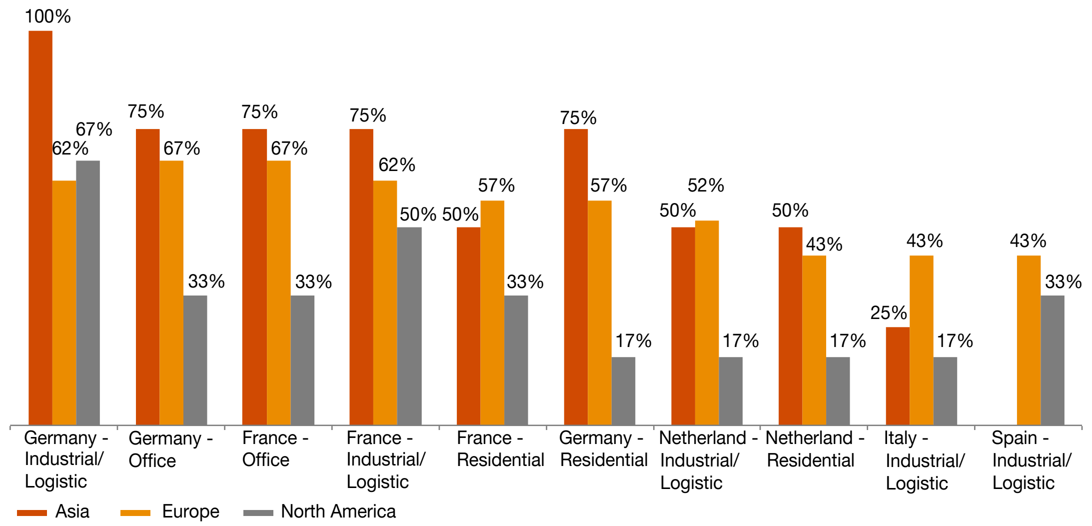
For Funds-of-funds Managers, Germany-industrial/logistic, along with Germany-residential and Netherland-residential are the preferred combinations.

Investors from Asia show a strong preference for Germany and France. In addition, the German-Industrial/logistics pairing would seem to be the trend with respect to other geographies, followed by offices in Germany, offices in France, industrial/logistic in France and residential in Germany.

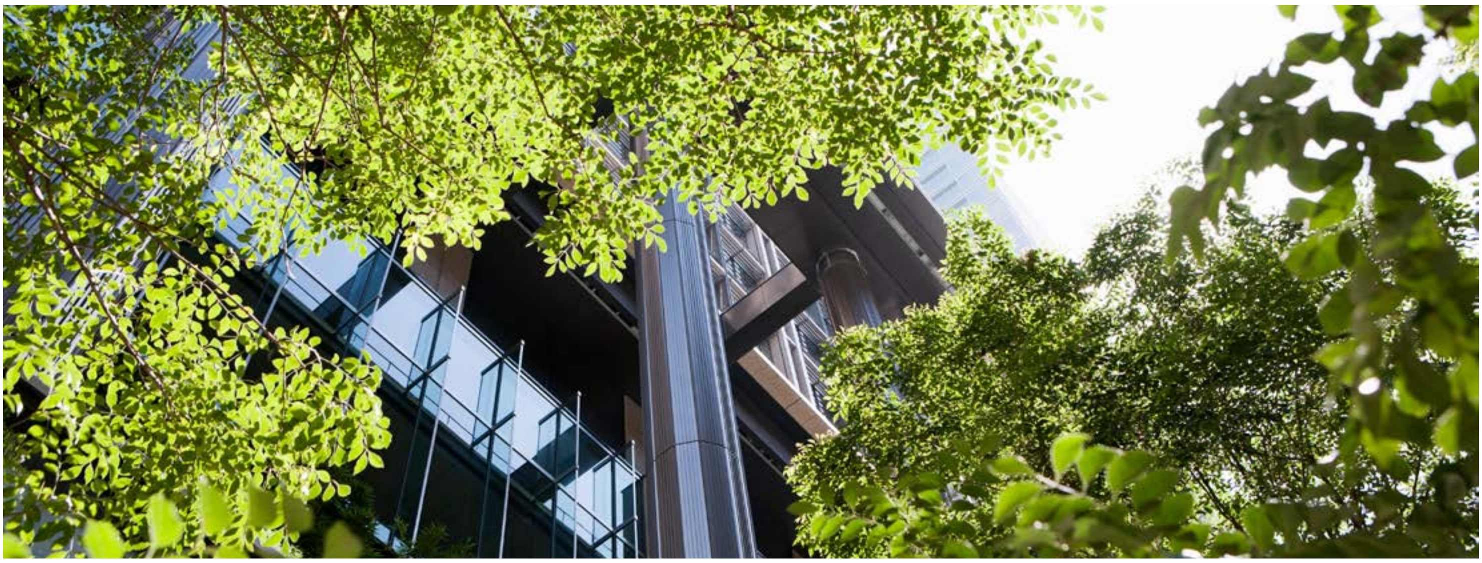
Preferred country/asset class combination by type of investor



Preferred country/asset class combination by investor origin



Source: PwC analysis on INREV data



ESG

ESG

ESG refers to an **investment strategy** which seeks **equivalent or higher returns** while simultaneously **making a positive impact** in three areas: **environmental, social and governance**.

The **Paris Agreement** sets out a global framework to avoid dangerous climate change by **limiting global warming** to well below **2°C** and pursuing efforts to limit it to **1.5°C**. To achieve this limit, EU must fully **decarbonize its economy by 2050** in order to fulfil its commitment to the Paris Agreement objectives.

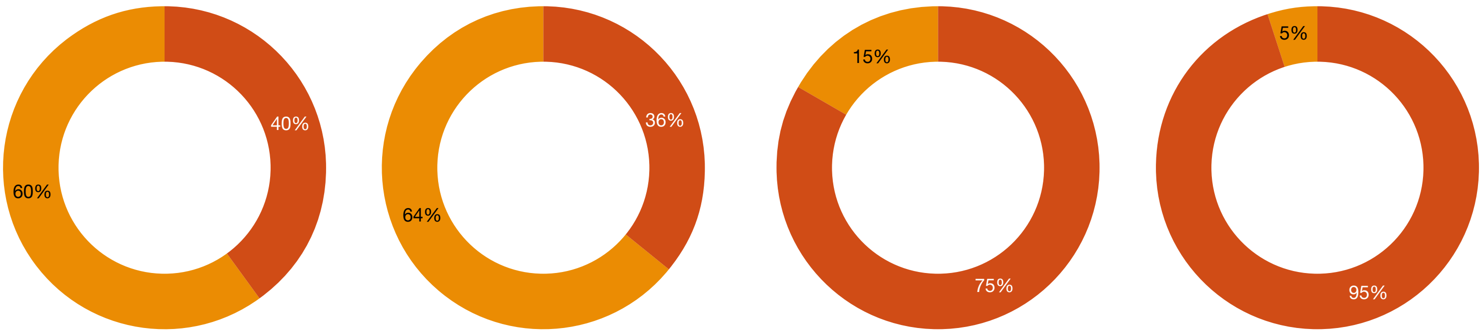
In EU there are **119 million residential** buildings and **12 million non-residential**, of which **42%** of non-residential buildings and **38%** of residential buildings were built **pre-1970**, before the widespread adoption of energy efficiency measures.

In this context, all EU member states will need to ensure that public buildings and **non-residential buildings** are at least **class F by 2027**, and **class E by 2030**, with all **residential buildings** meeting class **F by 2030 and class E by 2033 (Article 9)**. Meeting these targets would require **renovation of considerable % of the current building stock**, estimated at some **35 million buildings across the EU**.

These numbers can give an idea of the potential impact of the new ESG trend in our economy.

In particular, Italian market is characterized by **poor quality properties**, in which the prevalence of building **transactions in the lowest energy classes** is clear and a total amount of **33.7%** of buildings belonging to **class G**.

Overview of the actual situation (2021)



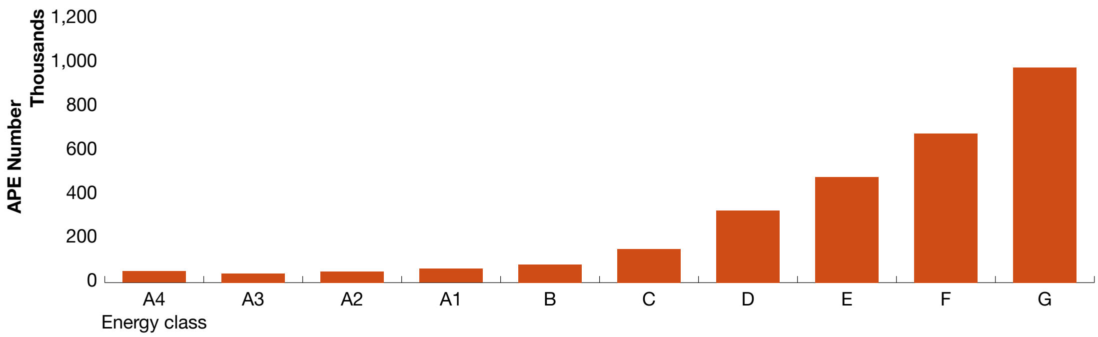
>40%
Of energy consumed

>36%
Of energy- related greenhouse gas emissions

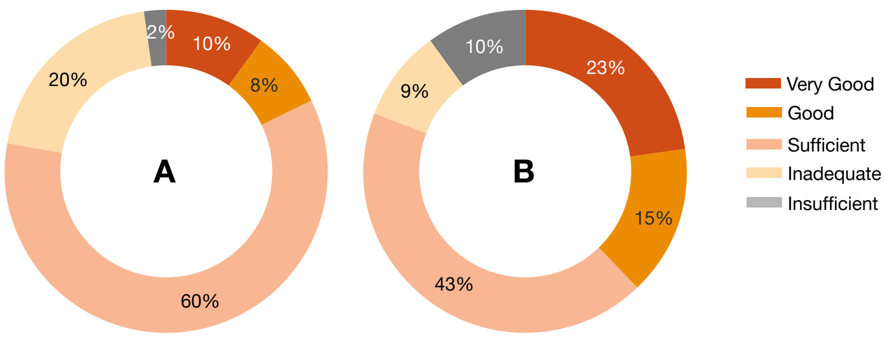
>75%
Of EU buildings are not energy efficient

>85-95%
Of EU buildings are expected to still be standing in 2025

The following graph represents the **distribution** of the **energy class** of buildings in **Italy**



The following pie chart represents the **perception of who acquires** (a) and sells (b) based on the **importance** on the **energy efficiency issue**



Green certifications

The next decade will be very critical for real estate industry to achieve a more sustainable– net-zero future. Substantial number of buildings will need to undergo restructuring as part of **wider net-zero** plans across entire real estate portfolios. However, the **current pace of restructuring** is at around **1-2% in mature cities** – is nowhere near fast enough.

While sustainability strategies include a wide array of energy, water and waste tracking, green certifications are used as an indicator of commitment to positive environmental impact. The most prominent of these certifications are **LEED, BREEAM & WELL**. Thanks to these certifications, it is possible to reach the target of CO2 reduction and more energy efficiency. Green certifications permit to have the **following advantages**:

Lower operating costs	Structural benefits	Better occupancy rate	Tax incentives and funding opportunities	Higher rental rates	Streamlined compliance	Lower emission

Leed

It is a **classification system for the energy efficiency** and **environmental sustainability** of buildings, developed in America in 1998 by the U.S. Green Building Council

Worldwide: **145k** - Italy: **962**

LEED certified buildings averaged **11.1%** higher rent than non-LEED certified buildings

It reduces CO2 emissions by estimated **34%** less

LEED certification reduces energy consumption by **25%**

Breeam

It is an **environmental sustainability assessment methodology**, developed in 1988 by the Building Research Establishment in the UK

Worldwide: **30.5k** - Italy: **463**

BREEAM certification can increase rental rates by **24.9%** compared to conventional, code-compliant buildings to achieve an Excellent rating

CO2 emissions are estimated to be between **36%** and **40%** less

BREEAM reduces energy consumption by **30%** to **40%**

Well

It is an **innovative tool**, on a voluntary basis, for the **classification** and **certification** of buildings in relation to the **comfort, health and well-being** of people

Worldwide: **34k** - Italy: **631**

WELL certification can augment the value of the building up to **8-10%**

It's possible to observe a **3.7%** increase in rent

Due to the comfort of the ambient the tenant retention can improve up to **6%**

5-10% increases in occupancy rate

Milan

Milan – City Profile

Italy's long-running political instability is raised by many 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 from other cities in Italy; it plays in the European league," says one local CEO.

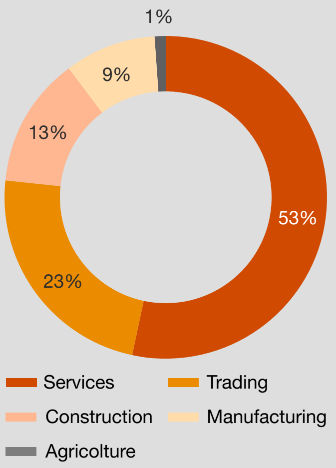
The city authority is praised for its approach to urban regeneration with an emphasis on investing in public transport, bold architectural design and the value of placemaking mixing offices, services, and public spaces. In 2023, metro Line 4 is due to start operating and is tipped to benefit fringe city 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.

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 620 €/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.

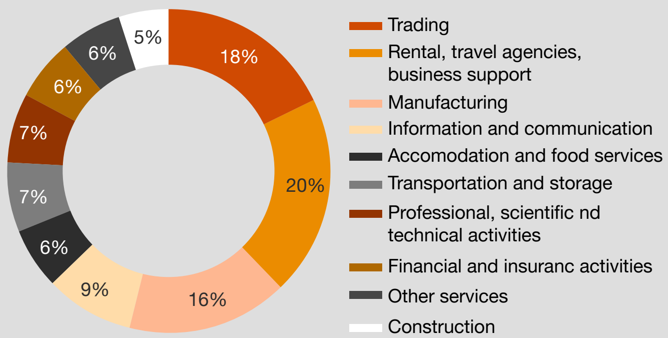
Active companies by sector H2 2021



53% of companies in Milan are in services, while only 1% are in agriculture.

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

Active workforce operating by sector



Source: PwC Emerging Trends in Real Estate Europe 2021

Municipality of Milan

Over the period 2004 – 2021, the average **Number of Normalized Transactions** of residential in **Milan** is **21,135 transactions per year**.

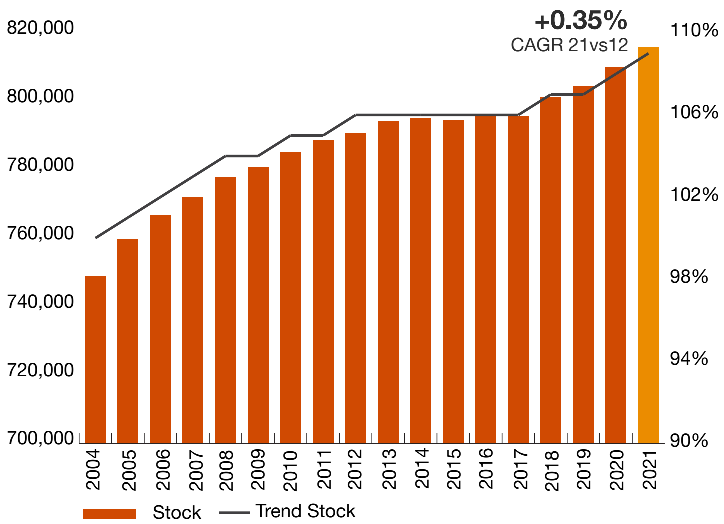
During 2020 has recorded a significant decrease due to the Covid19 pandemic situation compared to the previous year **(-17.5%)**. Instead in 2021 the NTN is higher than the previous year with the total amount equal to 26,923.

26,923
NNT 2021

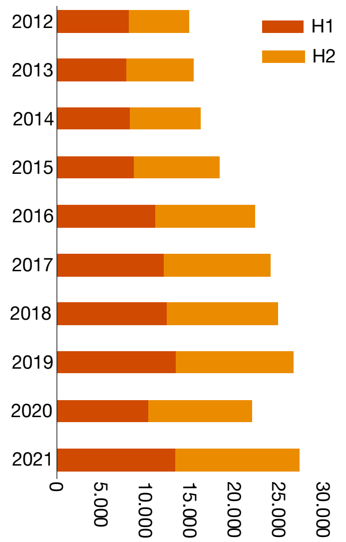
+24.5%
NNT 2021vs2020

+77.83%
NNT 2021vs2013

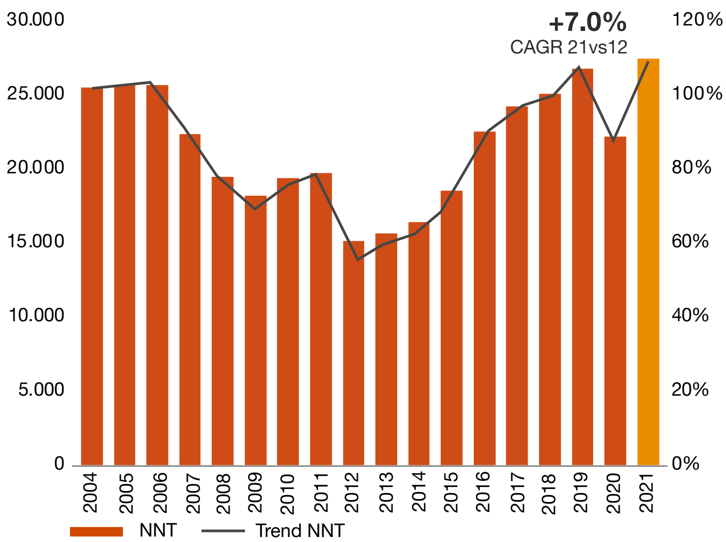
Trend of Real Estate Stock

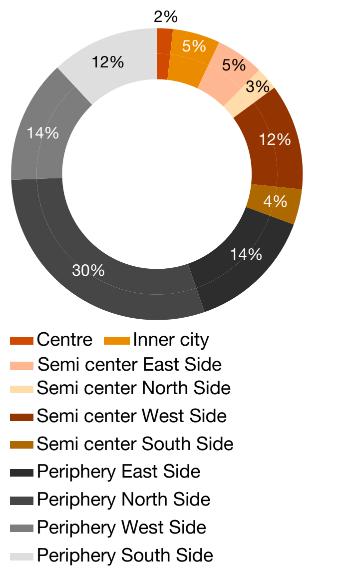


Trend of NNT by half year

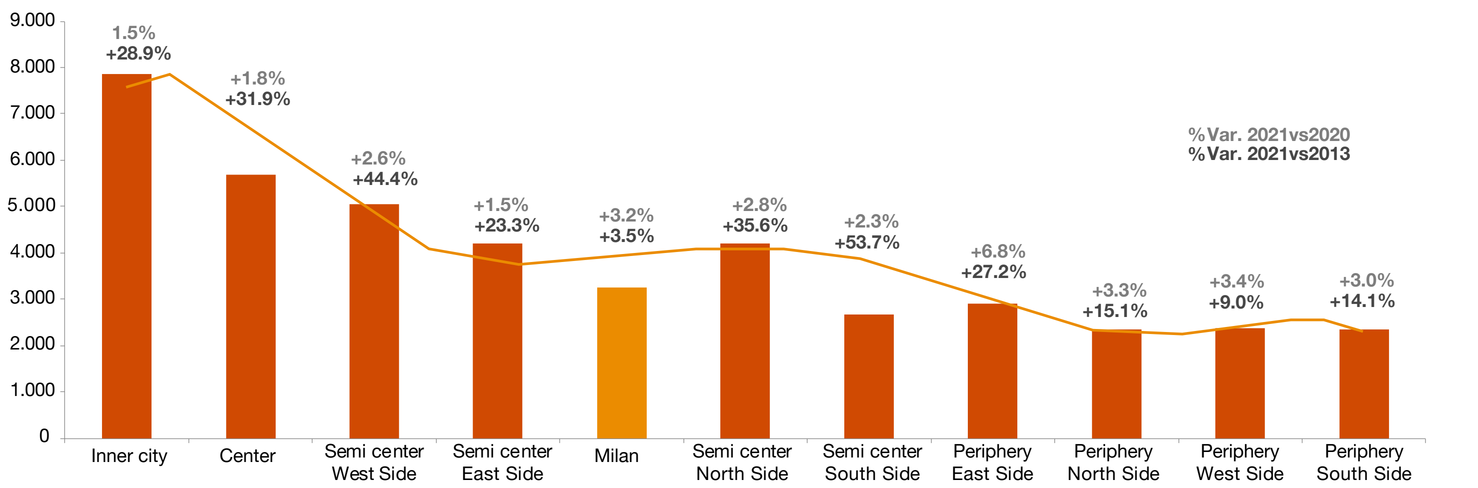


Trend of NNT





2021 Average purchase price (€/sqm)



Province of Milan

Over the period 2004 – 2021, the average **Number of Normalized Transactions** of residential in the **Province of Milan is 56,278 transactions per year**.

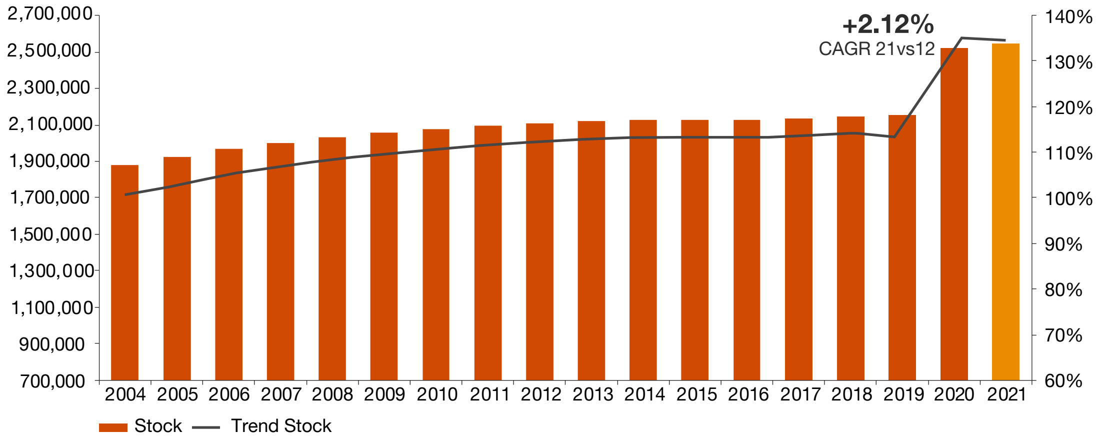
2020 has recorded a significant decrease due to the Covid19 pandemic situation compared to the previous year (**-10.44%**), while during 2021 there was a recover with +1.38% compared 2020 but the level remain lower than 2019.

57,232
NNT 2021

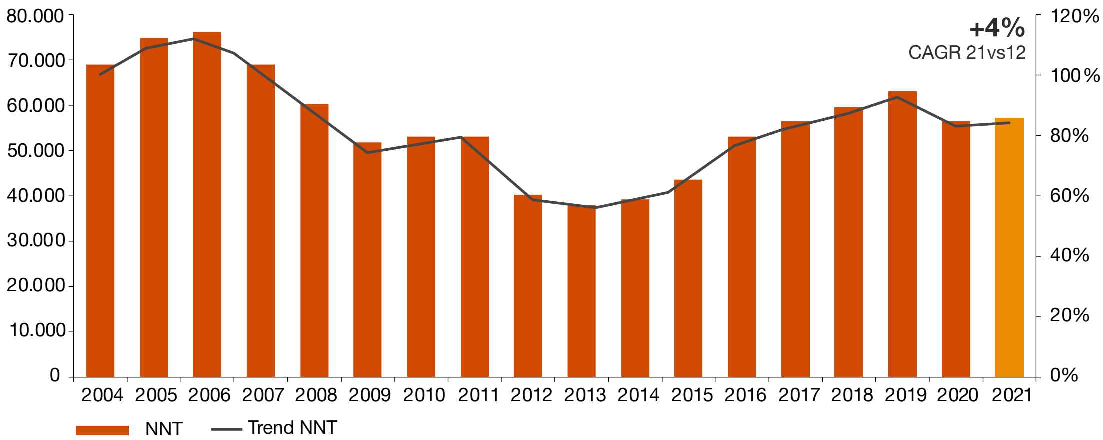
+1.38%
NNT 2021vs2019

+50.93%
NNT 2021vs2013

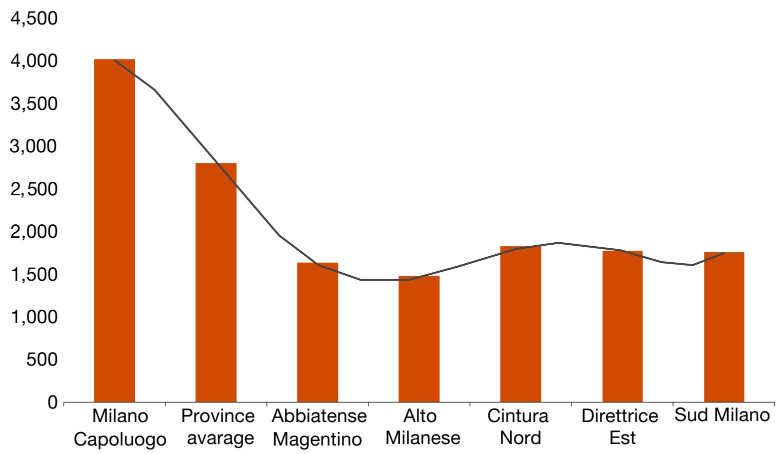
Trend of Real Estate Stock

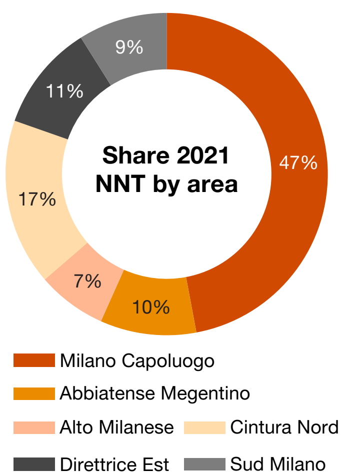


Trend of Real Estate NNT



2021 Average purchase price (€/sqm)





Source: PwC analysis on Italian IRS data

Milan Investment Trends

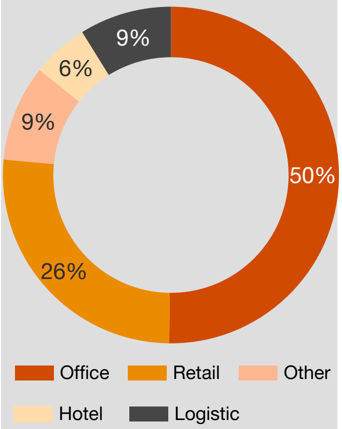
Investment trends

In Y 2021 the investment market in Milan accounted for nearly €4bn, with a level of volumes 3% higher than the previous year.

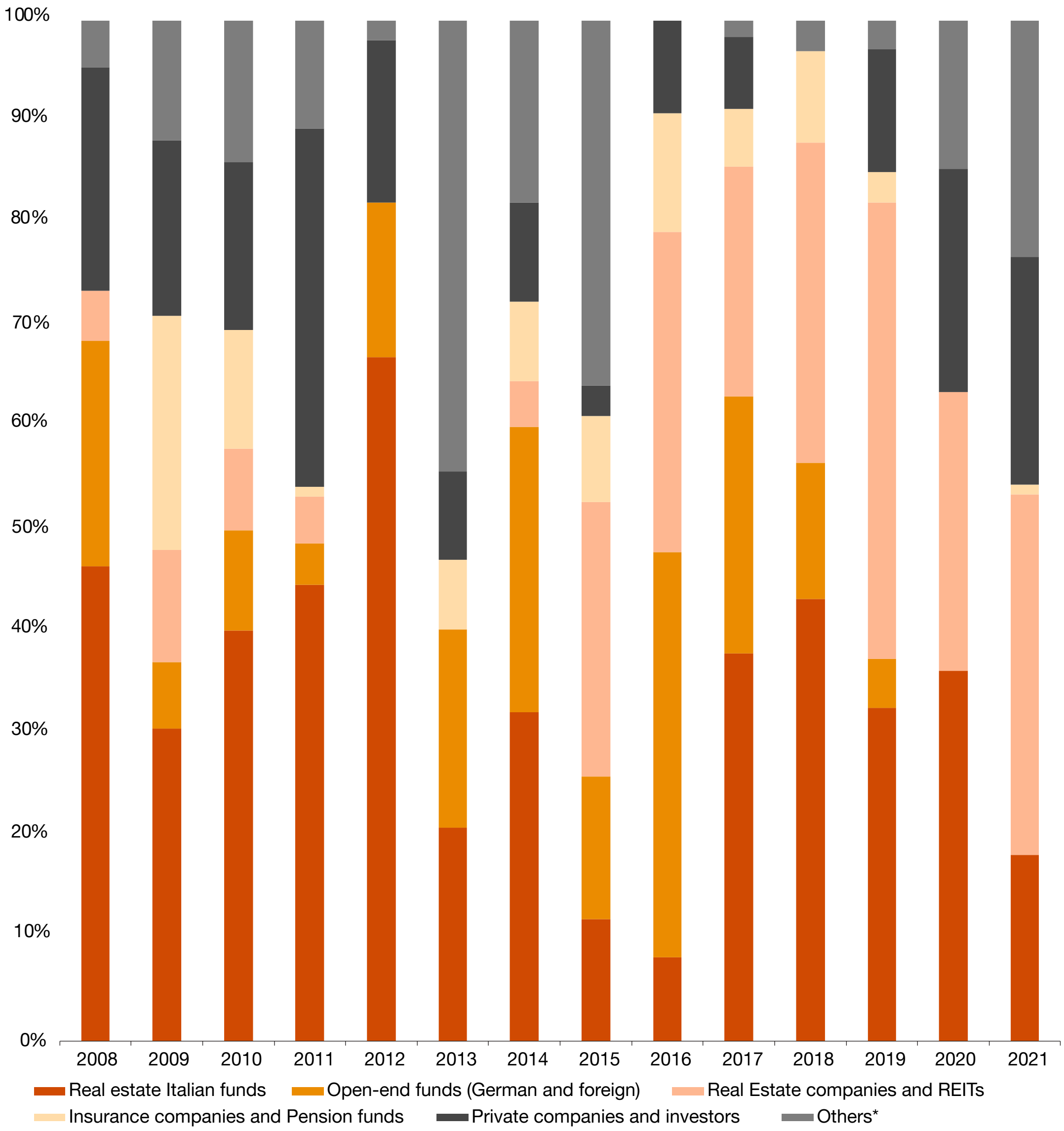
The main market is still the office sector with 42% of total volume invested during the whole year.

In 2021 the most relevant investors were real estate Italian funds, real estate companies and REITs and Private companies and investors.

Investments by asset class – Y 2021



Institutional real estate investments by investor class



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

Office sector

In **Y 2021**, office investments in Milan reached almost **€2 billion, down -40% in comparison with the 2020**.

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.

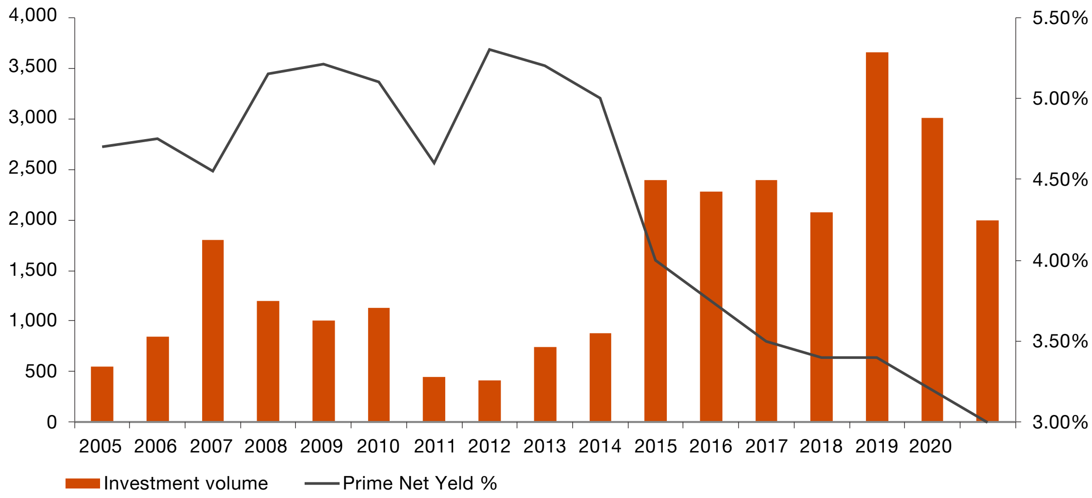
The trend of vacancy rate is slightly higher than the previous year.

€2bn
Total Investments in Y 2021

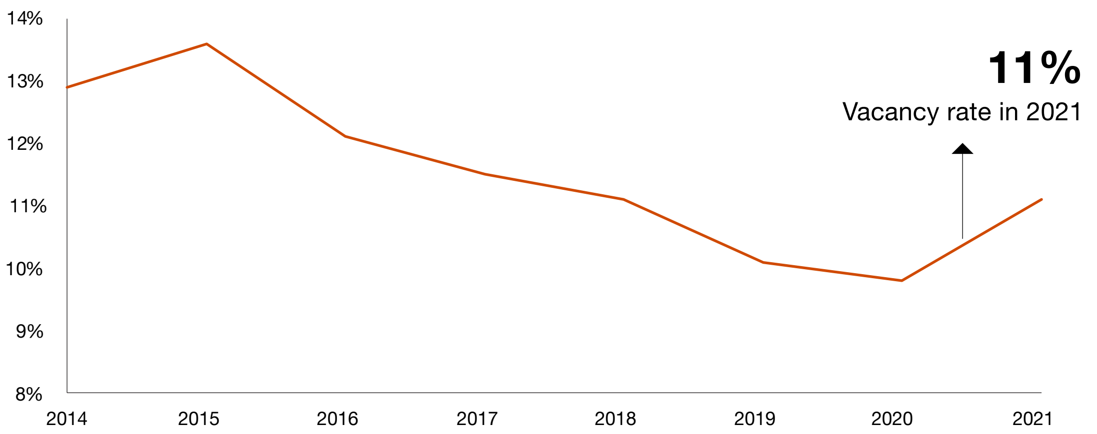
620 €/sqm/y
Prime Rent CBD Y 2021

3%
Prime Net Yield in Y 2021

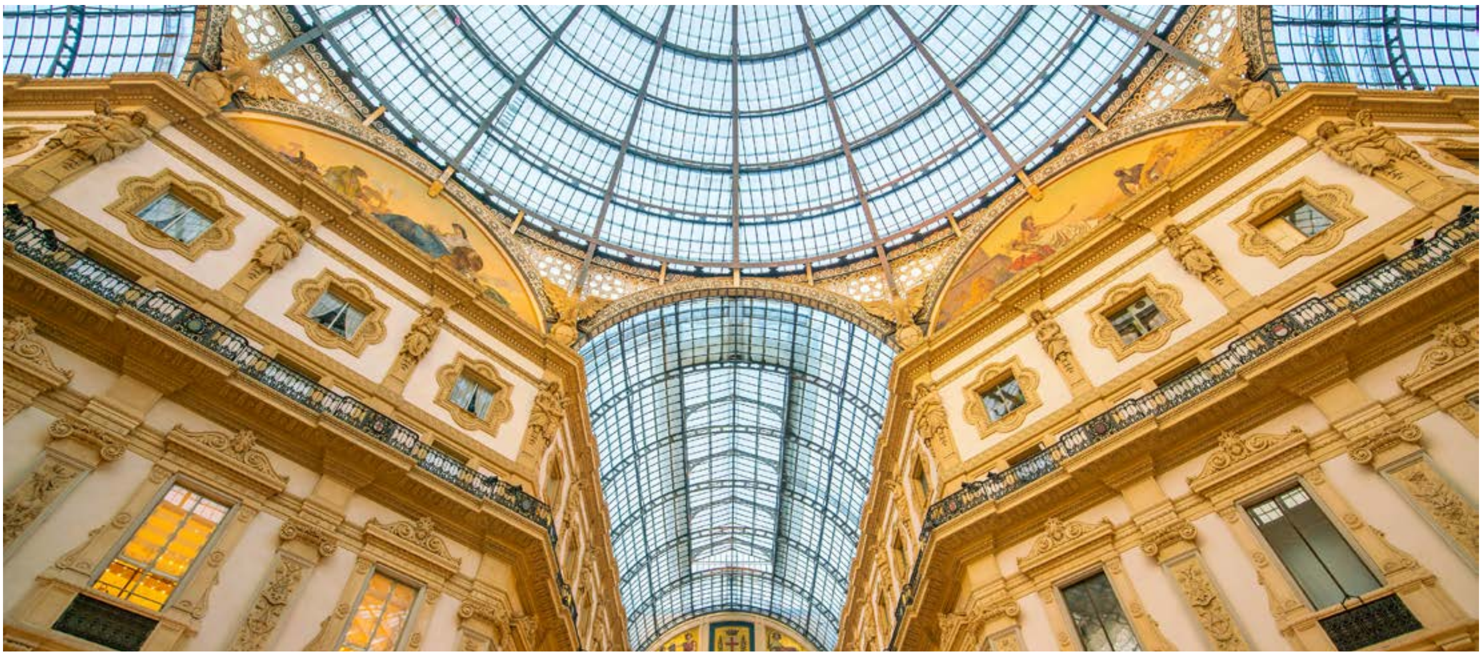
Trend of Investments (€m)



Trend of Vacancy Rate (%)



Source: PwC analysis



Office sector

Rents

From the analysis of rental agreements emerges that the average prime rent for Y 2021 is 406 €/sqm/y, which is slightly higher than the value registered during the previous year (394 €/sqm/y).

Milan	2021	2020	2019
CBD	620	600	600
Centre-out of CBD	480	480	480
Semi Centre	400	370	350
Periphery	290	280	280
Hinterland	240	240	240
Average	**406**	**394**	**390**

Yields

The Prime Net Yields remain stable from the second quarter; Prime Net Yield in the CBD of Milan is about 3% and 4.5% in the periphery.

Milan	2021	2020	2019
CBD	3.00%	3.25%	3.25%
Centre-out of CBD	3.50%	4.00%	4.00%
Semi Centre	4.25%	4.50%	4.50%
Periphery	4.50%	4.75%	4.75%
Hinterland	5.25%	5.75%	5.75%
Average	**4.10%**	**4.45%**	**4.45%**

406 €/sqm/y
Average Prime Rent Y 2021

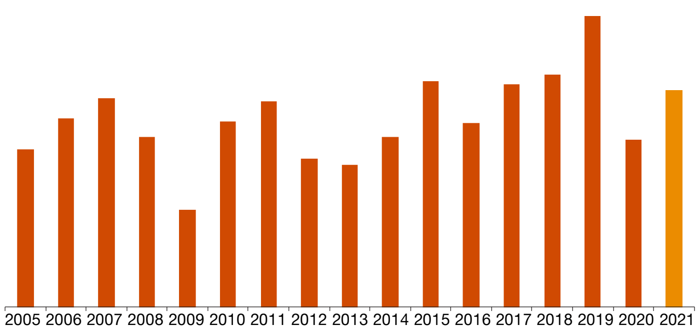
356k sqm
Take-Up in 2021

4.10%
Average Prime Net Yield Y 2021

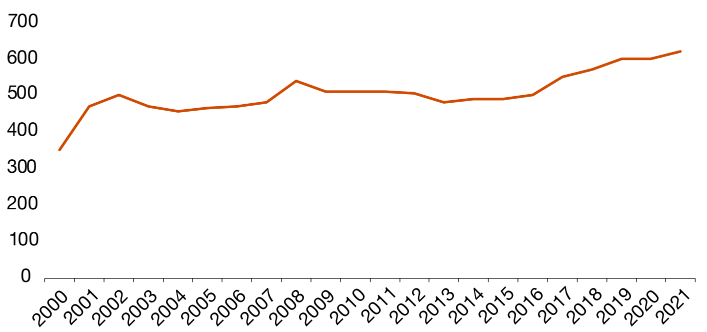
The Milan market is proving to be very attractive for investors and is undoubtedly the number one market in Italy in terms of volumes and number of deals. With regard to core investors, a growth in the number of domestic investors has been recorded. The Take-up in the 2021 reached 356k sqm, increased over 80% compared to the previous year.

Prime rent for office in the CBD is growing, for the 2021 reached 620 €/sqm.

Take up trend (sqm 2005-2021)



Trend of prime rents (€/sqm/y 2000-2021)



Source: PwC analysis

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
2020	24%	164	40
2021	36%	182	65

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%
2020	(66.0%)	(5.9%)	(68.0%)
2021	47.1%	11.0%	63.3%

182€
2021 Average Daily Rate (ADR)

36%
2021 Occupancy

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.

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 2021, the occupancy rate was of 36%, recovering after the pandemic crisis partially (+47% compared to 2020). The ADR recorded an increase of 11% over the 2020.

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

Rome

Rome – City Profile

Macroeconomics Rome data show a steady level of total population, while unemployment rate is lower than the previous year.

Institutional real estate market recorded a positive trend in the last few years. 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 still a big gap in values compared to Milan, apart from hotels," says a large Italian institutional investor. Prime CBD office rents in Rome are 500 €/sqm/y, and prime yields are 3.5% compared to €620 and 3% in Milan."

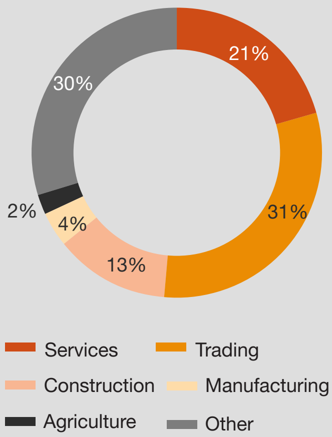
Rome's underperformance is blamed on two continuing factors: the lack of transparency and the city leadership. "Rome is blocked, and the reason is strongly related with the lack of strategic vision," says a global investment manager.

"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 choosing where to allocate the money. For investors with foreign banks relationships, debt is relatively cheap, 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.

Active companies by sector H2 2021



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 31% of the overall volume, followed by service companies with 21%.

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

Key Data City of Rome

2,874,605
Population

58.2%
Employment Rate

9.5%
Unemployment Rate

Source: PwC Emerging Trends in Real Estate Europe 2020

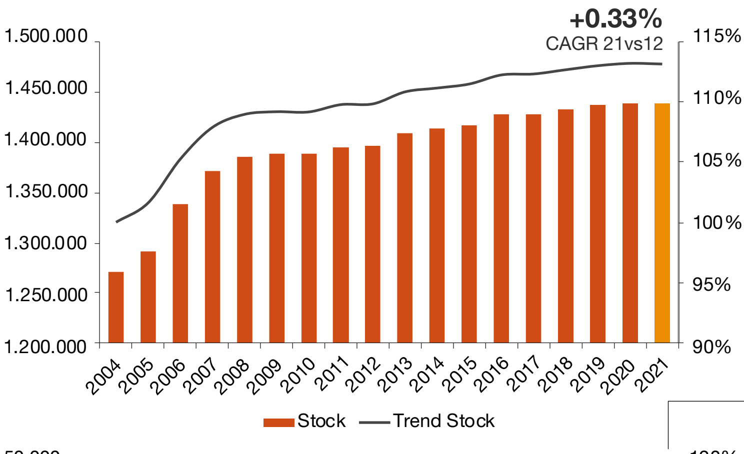
Municipality of Rome

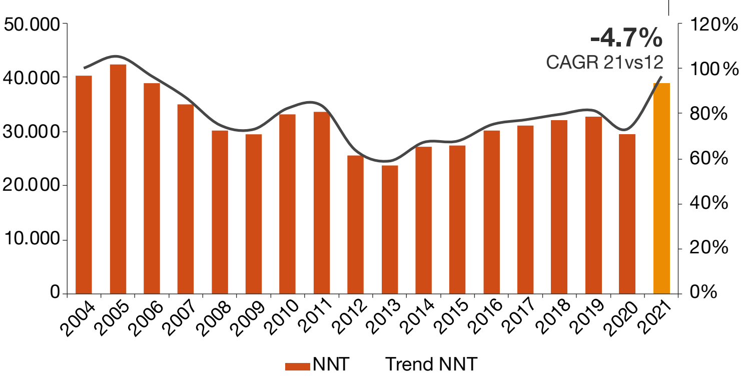
Over the period 2004 – 2021, the average **Number of Normalized Transactions** of residential in **Rome is 32,310 transactions per year**.

During 2020 has recorded a significant decrease due to the COVID-19 pandemic situation compared to the previous year **(-9.9%), while in 2021 there was an increase of +31.64% YoY.**

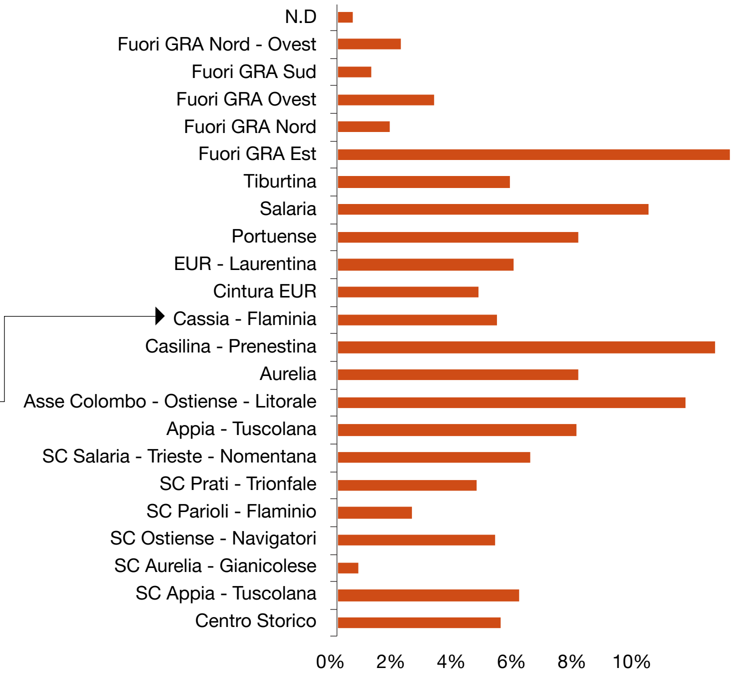
38,841	**+31.64%**	**+63.07%**
NNT 2021	NNT 2021vs2020	NNT 2021vs2013

Trend of Real Estate Stock

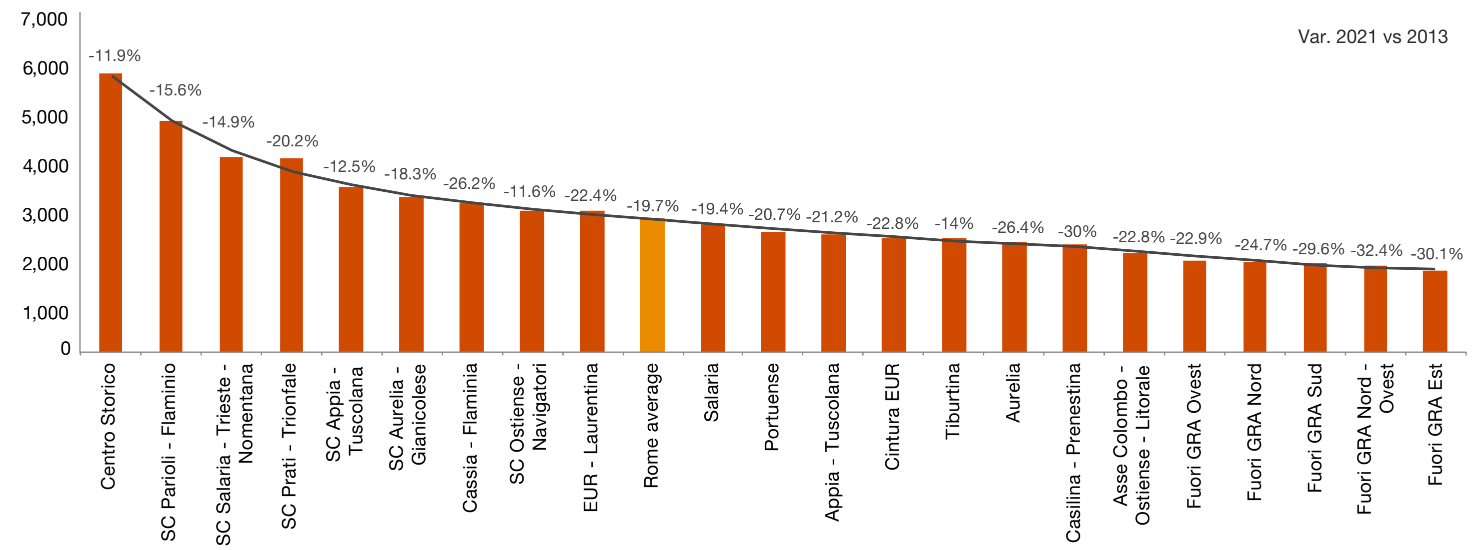




Share 2021 NNT by area



2021 Average purchase price (€/sqm)



Province of Rome

Over the period 2004 – 2021, the historical trend of **Number of Normalized Transactions** of residential in the **Province of Rome** has presented an **average value** of **44,771 transactions**.

During 2020 has recorded a significant decrease due to the Covid19 pandemic situation compared to the previous year (**-9.2%). In 2021 there was an increase of almost 35% YoY**.

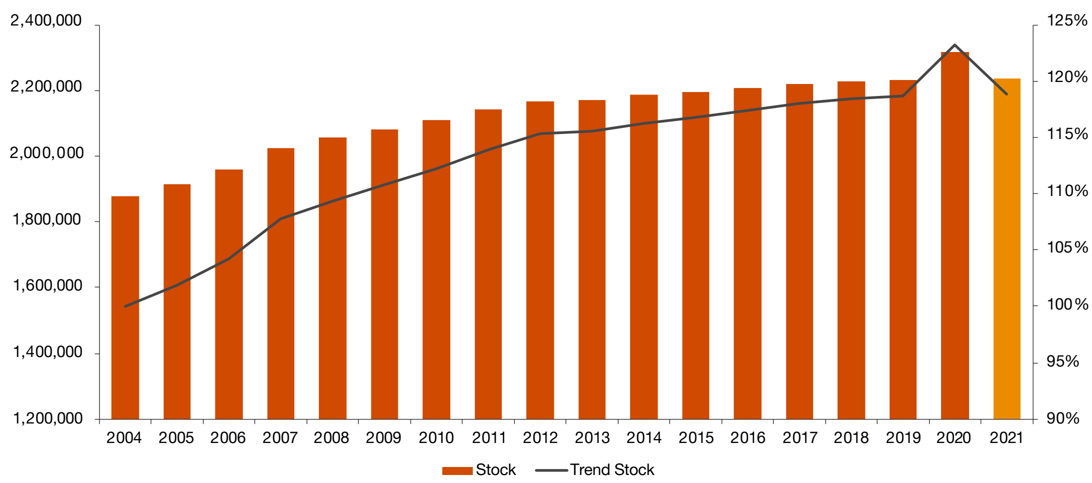
59,536
NNT 2021

170,000 sqm
Take-up in 2021

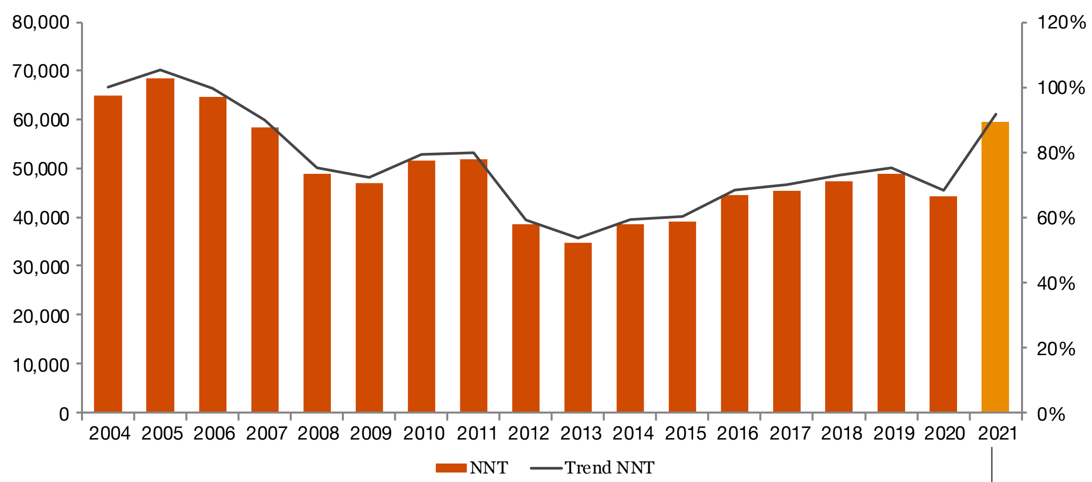
+34.39%
NNT 2021vs2020

+71.27%
NNT 2021vs2013

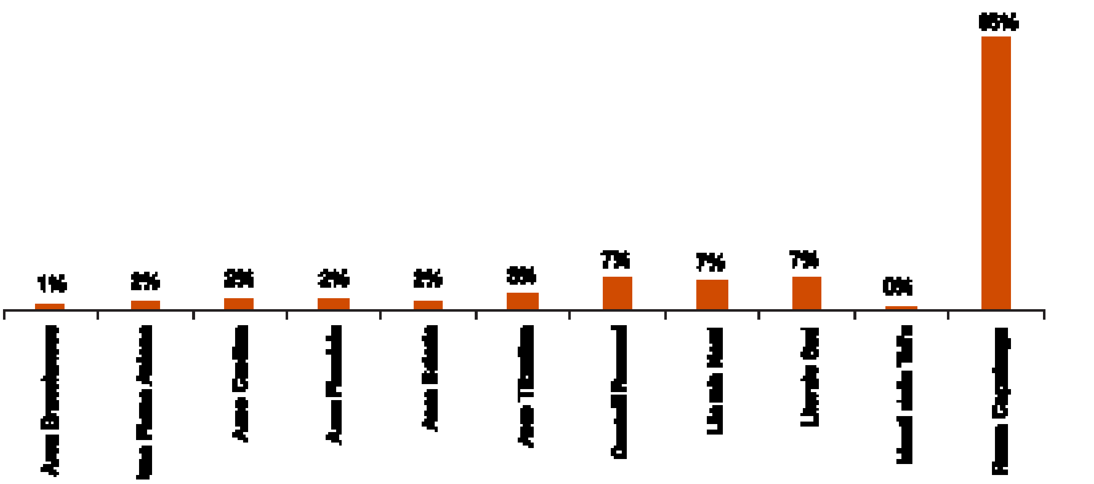
Trend of Real Estate Stock



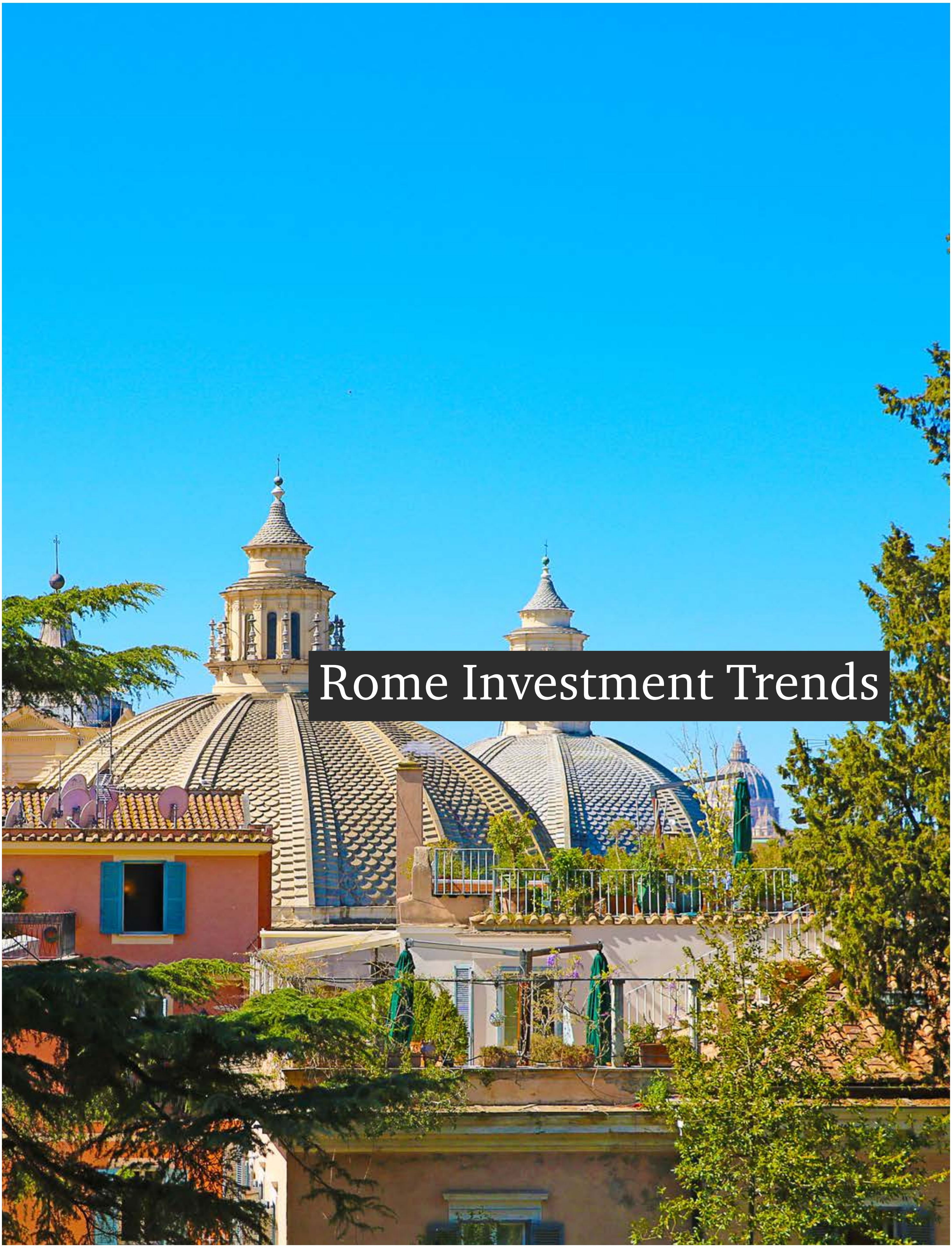
Trend of Real Estate NNT



Share 2021 NNT by area



Source: PwC analysis on Italian IRS data



Rome Investment Trends

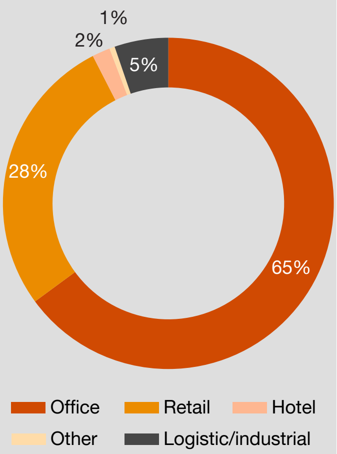
Investment trends

In Y 2021 the investment market in Rome accounted over €0.8bn.

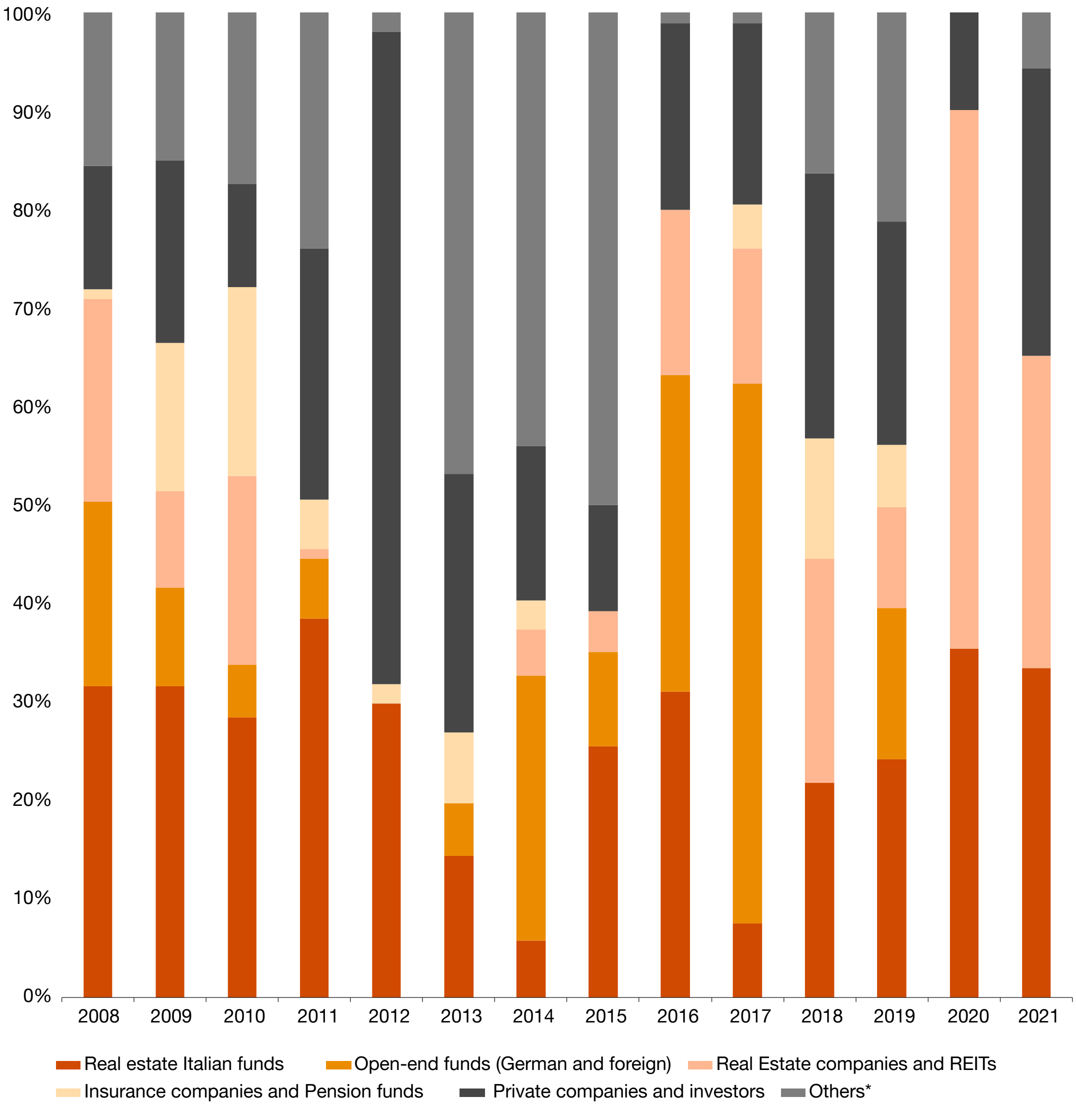
The main market is still the office sector with 65% of total volume invested in the first semester.

In 2021 the most relevant investors were mostly Real Estate companies and REITs and Real estate Italian funds.

Investments by asset class – Y 2021



Institutional real estate investments by investor class



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

Office sector

In **Y 2021**, office investments in Rome reached **€370m**, plunging by **38%** in comparison to the previous year.

Office sector remains the main asset class in Rome in terms of total investment volume, but the trend of investments remained negative since 2018. Rome office market is still small compared to the Milan office market.

Interest towards the city remains high and expectations for the coming months are positive, in particular after the pandemic crisis. The prime net yield in the CBD is **3.5%.**

In Y 2021 reached a value of **170,000 sqm** an increase compared to the same period of the previous year which reached 120,000sqm (+42%).

€370m

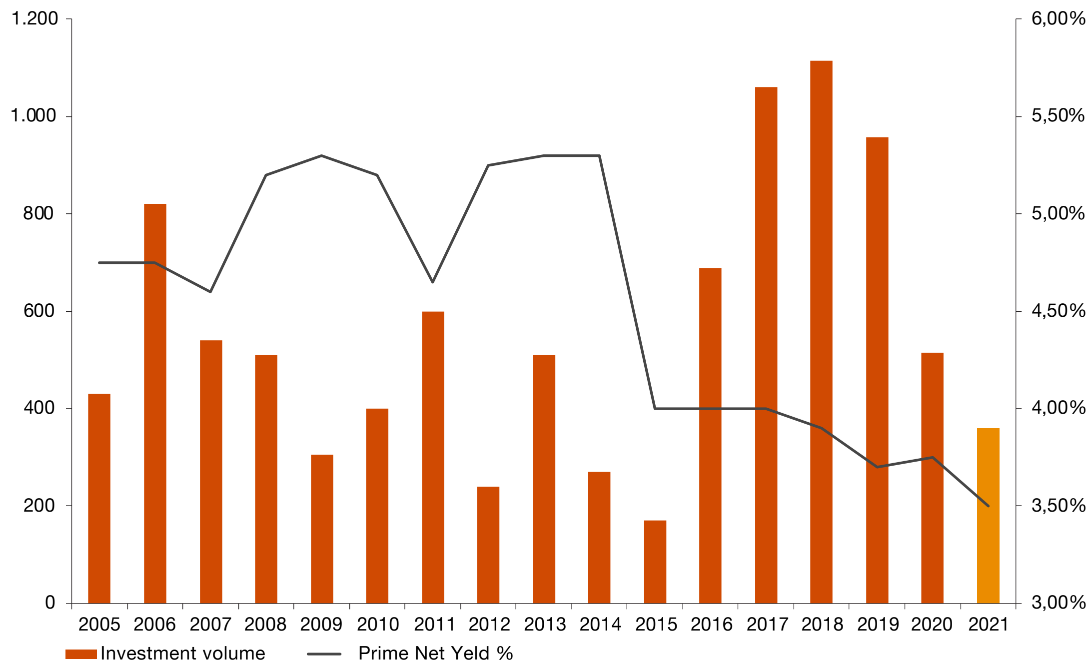
Total Investments in Y 2021

11.3%

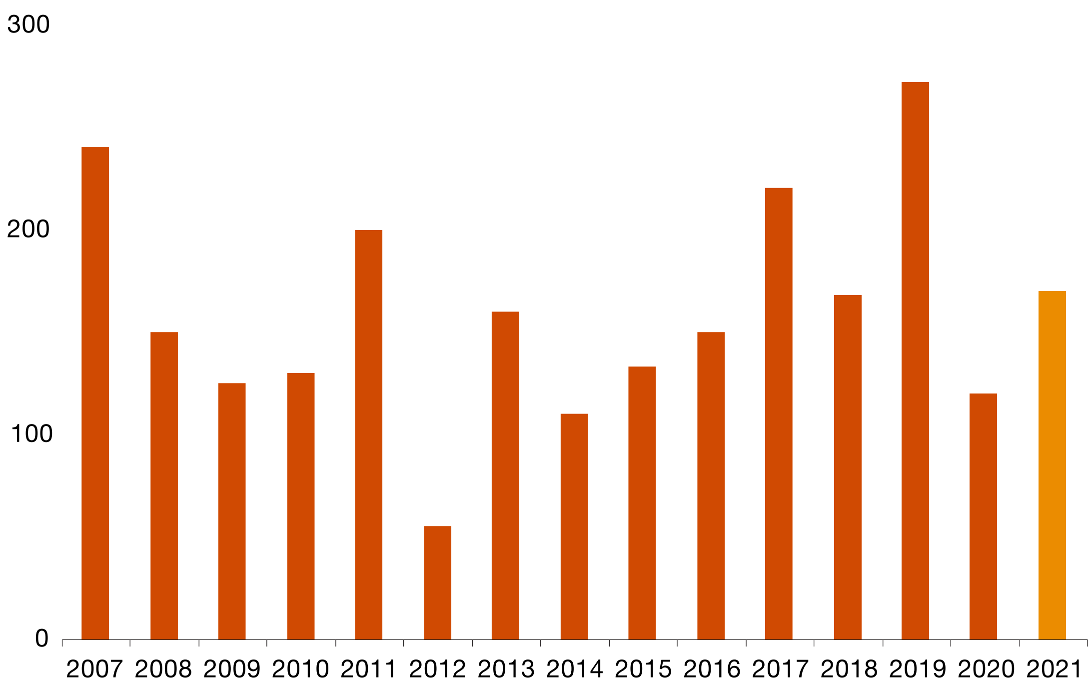
Average Vacancy rate in Y 2021

Submarket	Vacancy Rate
CBD	5.30%
Centre	5.30%
Semi Centre	17.90%
Eur	9.60%
Periphery	20.60%

Trend of Investments (€m)



Take Up ('000 sqm)



Source: PwC analysis

Rents

From the analysis of rental agreements emerges that the average prime rent for Y 2021 is 340 €/sqm/y, which is slightly higher than the previous year (332 €/sqm/y).

Rome	2021	2020	2019
CBD	500	490	470
Center	380	360	350
Semi center	300	300	300
EUR	360	350	350
Periphery	160	160	160
Average	**340**	**332**	**326**

Yields

The Prime Net Yields remain stable from the second quarter of 2021; Prime Net Yield in the CBD of Rome is about 3.5% and rises to 8.00% in the periphery.

Rome	2021	2020	2019
CBD	3.50%	3.75%	3.75%
Center	4.00%	4.25%	4.25%
Semi center	5.75%	6.00%	6.00%
EUR	4.00%	4.25%	4.25%
Periphery	8.00%	8.00%	8.00%
Average	**5.05%**	**5.25%**	**5.25%**

340 €/sqm/y
Average Prime Rent Y 2021

5.05%
Average Prime Net Yield Y 2021

500 €/sqm/y
Prime Rent CBD Y 2021

170,000 sqm
Take-Up in 2021

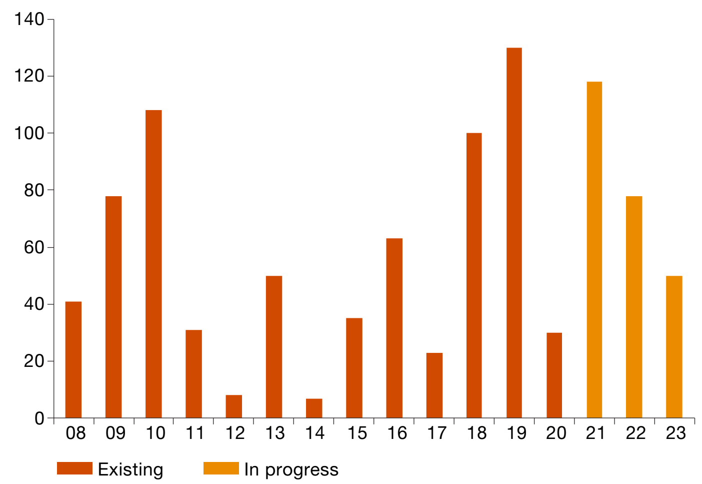
Take-up in 2021 reached 170,000 sqm, increased +42% compared to the same period of 2020. There was a recover in take-up level after pandemic period. Centre and EUR continue to be the most dynamic areas when it comes to Take-up.

Prime rents showed a slight increase compare to the same period of 2020. CBD prime rents is 500 €/sqm/y while the Center recorded a rent of 380 €/sqm/y.

Developments 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.

Accomplished and in progress projects ('000 sqm)



Source: PwC analysis

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
2020	20%	150	30
2021	32%	204	65

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%
2020	(71.2%)	(12.1%)	(74.7%)
2021	57.1%	36.0%	113.7%

204€
2021 Average Daily Rate (ADR)

32%
2021 Occupancy

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.

Historical trading

Since 2015, Rome's performance has increased from both growth in Occupancy rate 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.

In 2021 the occupancy rate is higher than the previous year (+57%), while the RevPAR showed an increase of almost 114%. The **ADR** increased by **36% compared to the 2020.**

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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