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Real Estate Market Overview

2023

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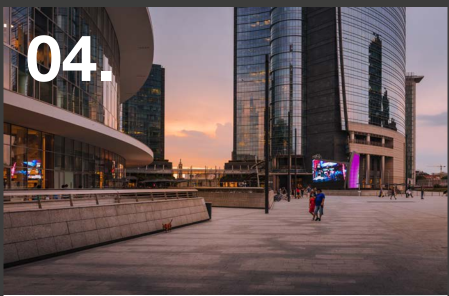
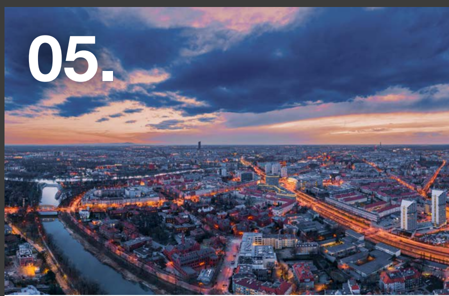
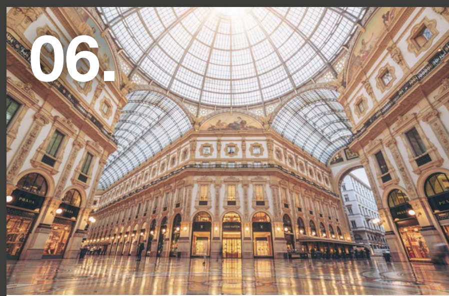
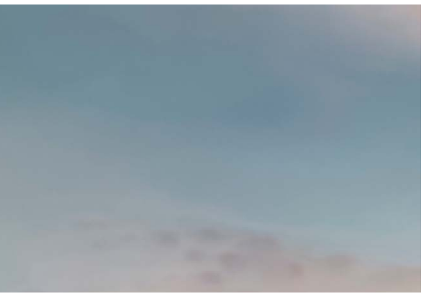
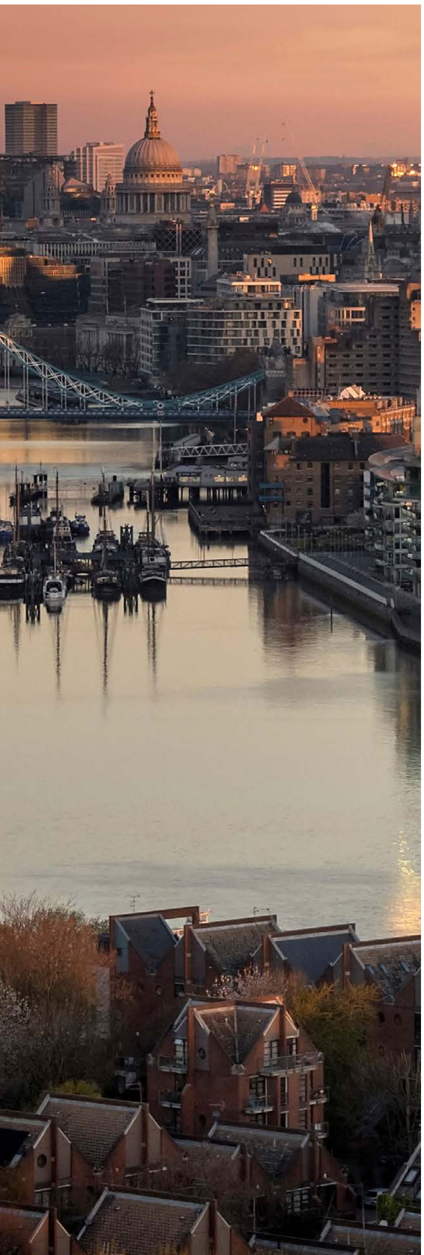








01. Macroeconomic overview

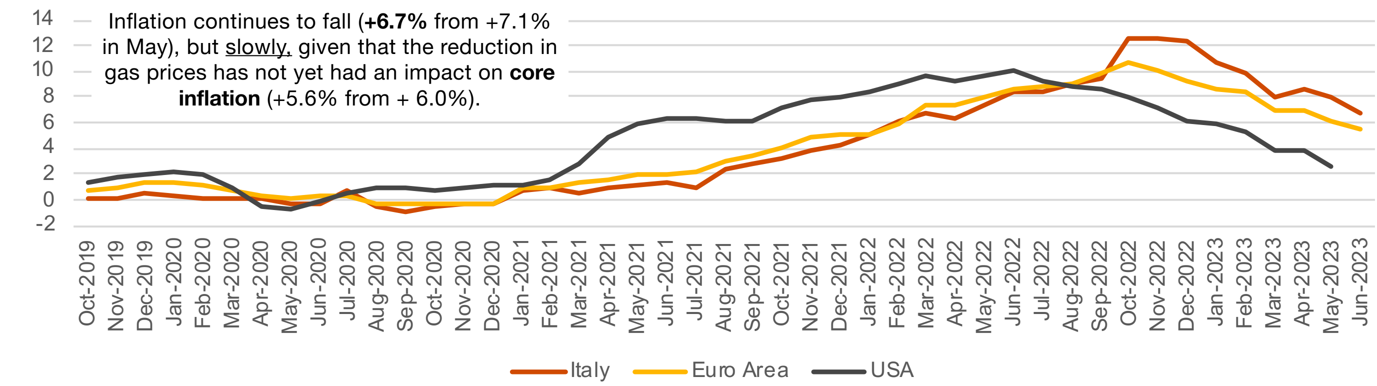


The conflict between Russia and Ukraine continues, with no signs that the situation can be resolved any time soon. **Inflation** in the eurozone, after a steadily rising 2022, falls slightly to **5.5%** in June 2023. Anticipatory indicators continue to point to a recovering economy. Macroeconomic data shows industrial production in the eurozone grew by 0.2% in May, up slightly from April's 1% increase, while retail trade in May remained stable compared to April.

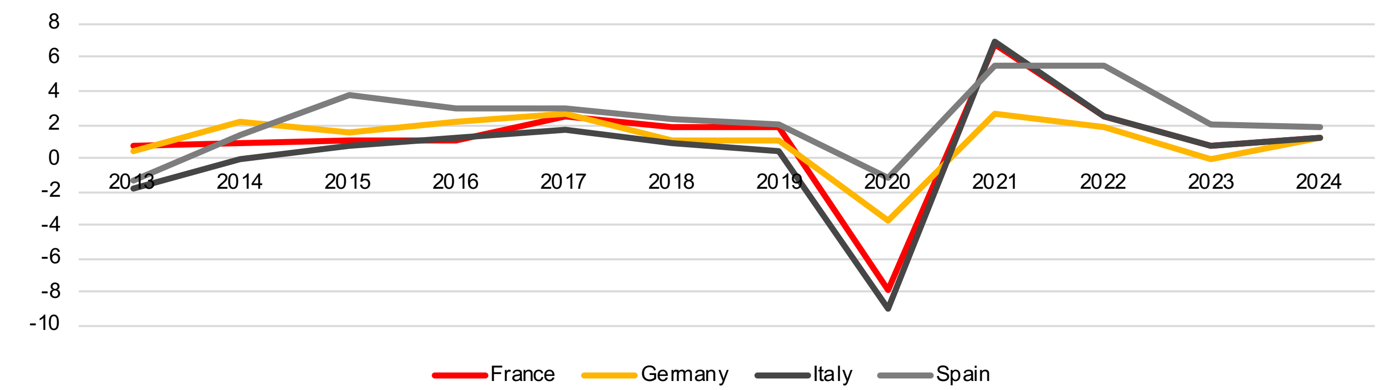
The **labour market** was broadly stable, with the **unemployment** rate rising slightly to **6.5%** in the Eurozone in May, but remaining at historic lows. On the monetary policy front, the ECB continues to raise rates, indicating, however, that due to the high uncertainty the next moves will depend on the evolution of macro data and the transmission of monetary policy.

While acknowledging the soundness of the European banking system, the central bank stated that it is closely monitoring the situation and that it has the tools to provide the necessary liquidity to the system, should the need arise.

Italy Average CPI Index (Annual percent change)



Real GDP growth rate Y-o-Y

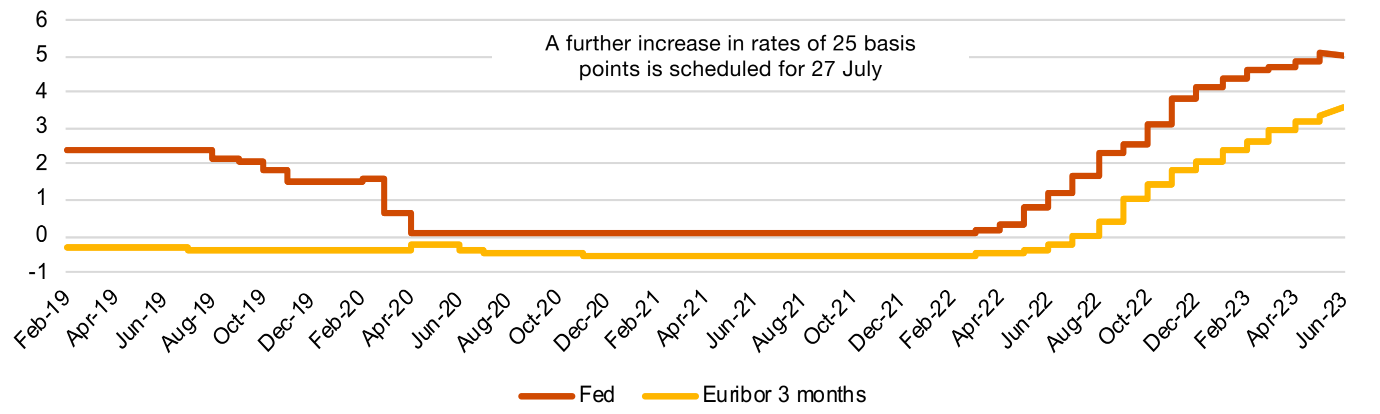


Source: Ufficio Studi PwC analysis on Eurostat data, OECD Economic Outlook June 2023

6.5%
Italy Average Inflation

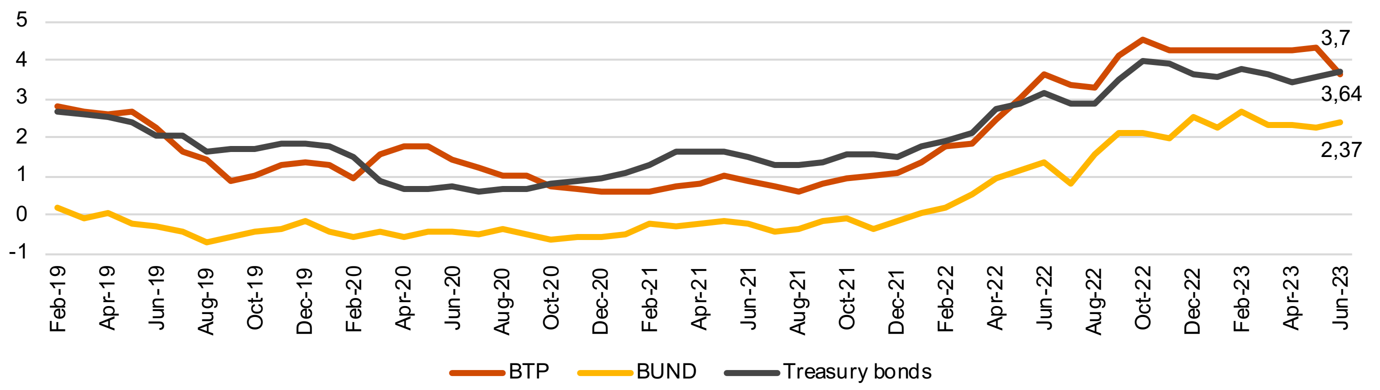
3.5%
Average annual growth rate GDP in the Main EU Countries

Interbank interest rates (basis points)



Source: Fed St.Louis (FRED), BCE

Government bonds return



Source: Banca d'Italia, Investing.com, Fed St.Louis (FRED)

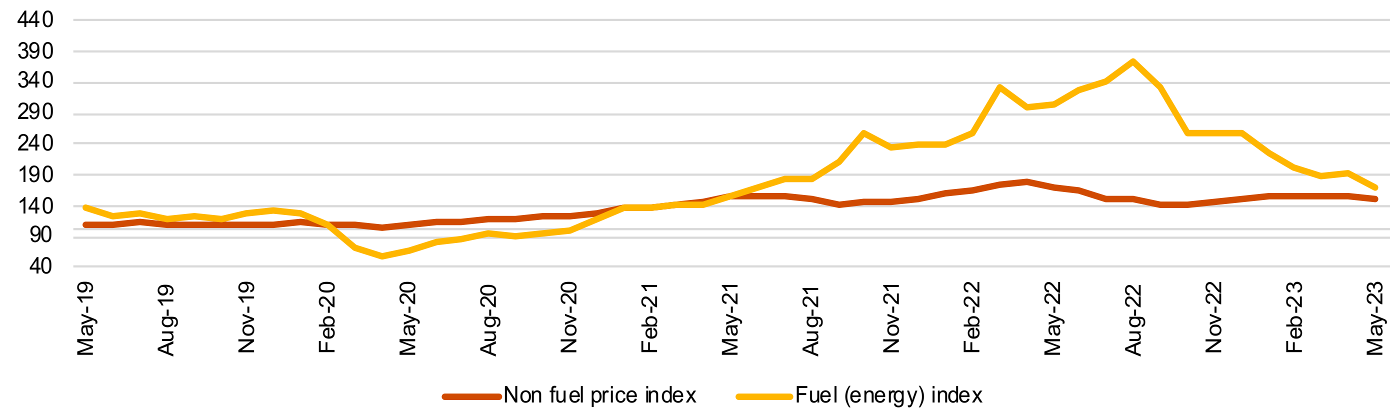
Key points on the macroeconomic scenario:

- To promote the post-pandemic economic recovery, the other central banks also brought interest rates close to 0 in 2020.
- In 2022, the increase in inflation led central banks to undertake restrictive monetary policies.
- The pace of interest rate increases was very rapid: the ECB raised its rates by 400 basis points in 11 months. 3-month Euribor is up to 3.55% in June 2023.
- The increase in the cost of money led to an increase in the yields of newly issued government bonds.
- Higher refinancing costs, together with the write-down of older bonds, led to turmoil in the financial markets.
- The spread between Italian and German bonds remained below 150 basis points in 2021, to then exceed 200 points in the second half of 2022, also due to Italian political instability. In 2023 the spread is currently decreasing due to the slowdown of the German economy.

3.55%
3-mounth Euribor

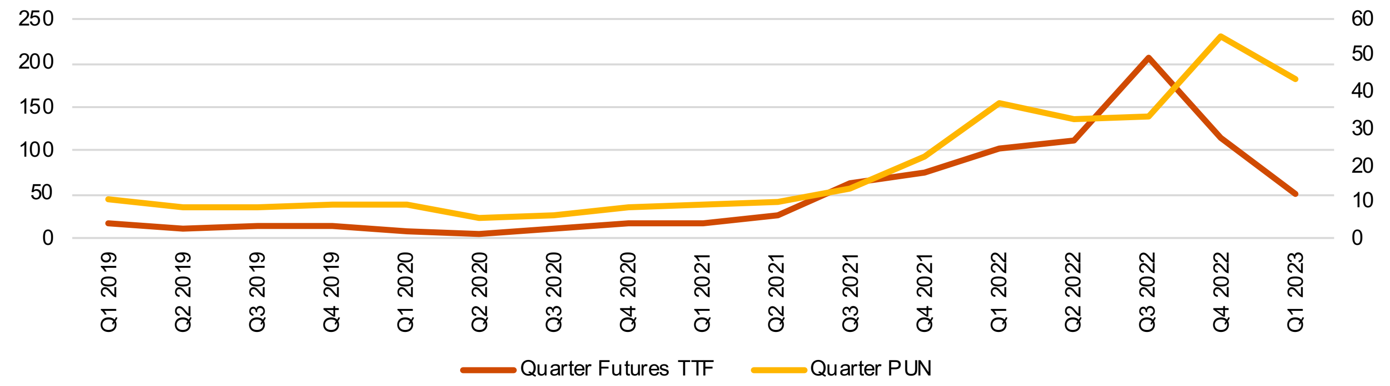
200bp
Spread Btp-Bund in 2022

Commodities index



Source: Fed St.Louis (FRED), BCE

Gas price & PUN



Source: Banca d'Italia, Refinitiv, Fed St.Louis (FRED)

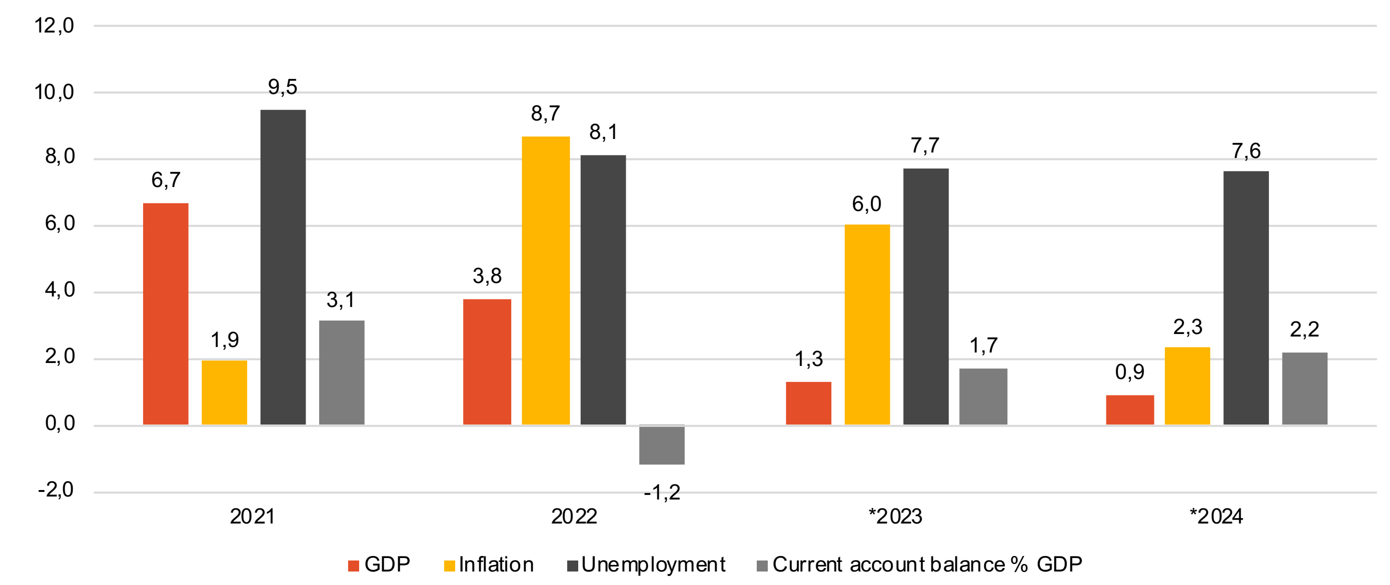
- In 2021, the rapid reopening of the global economy has led to higher prices for many goods, also due to slowdowns in supply chains.
- Geopolitical tensions between Russia and the West have led to further increases in the prices of energy goods, of which Russia is one of the major world producers.
- The invasion of Ukraine and the use of energy supplies as a pressure tool by Russia have caused high volatility in energy prices.
- In particular, the price of natural gas, of which Russia is the world's leading exporter, significantly increased during the summer, when it was necessary to fill the reserves in view of the winter.
- The European Union depended on gas imports from Russia for 40% of its consumption, in Germany and Italy Russian gas was used to generate almost 40% of energy needs.
- High gas prices therefore translated into higher energy costs for households and businesses.
- The diversification of suppliers and the reduction in energy consumption (in part due to an unusually hot winter) have led to a gradual reduction in the prices of energy goods and in particular of gas.
- However, prices still remain high in a historical perspective.

Restrictive monetary policy is cooling economic activity: the eurozone is in recession, there has been a decline in industrial production (manufacturing PMI below the 50 point threshold) and a slowdown in investments in Italy: +0.8% in the first quarter of 2023 (vs. +2 % of Q4 2022). The prospects are uncertain due to numerous downside risks: **inflation** is still high (particularly in the core component), **commodity** prices remain at historically high levels; the effects of rate hikes have yet to be fully transmitted to **credit,** with risks to debt for both the private financial sector and **sovereign debt;** moreover, the persistence of high employment levels in Western economies increases the risk of triggering a wage-inflation spiral. Compared to the Bank of Italy's January forecasts, **GDP** growth in July was revised upwards for 2023 (**+1.3%** from +o.6%), while downwards for 2024 (+ 0.9% from +1.2%).

In recent years, the Italian population has experienced constant aging and demographic decline, and the country is expected to suffer from population aging like most developed countries: 2020 was the worst year in terms of new births since the first post-war period. Italy has a very high level of public debt. The situation has worsened with the pandemic crisis.

Italy's debt-to-GDP ratio is expected to decrease from 149.9% in 2021 to 144.4% in 2022, thanks to economic growth and a favorable inventory adjustment. Thereafter, a further slight decline is expected, namely to 141.4% in 2024. The increase in the inflation rate is largely due to the sharp increase in energy prices, which peaked in late 2022 to then begin a slow decline. Wage growth is expected to resume only gradually and with some lag, as several wage settlements had already been renegotiated before the energy price shock.

Trend of the main economic indicators and forecast



Source: PwC analysis on Istat, Banca d'Italia, Euribor.it
* indicates forecast

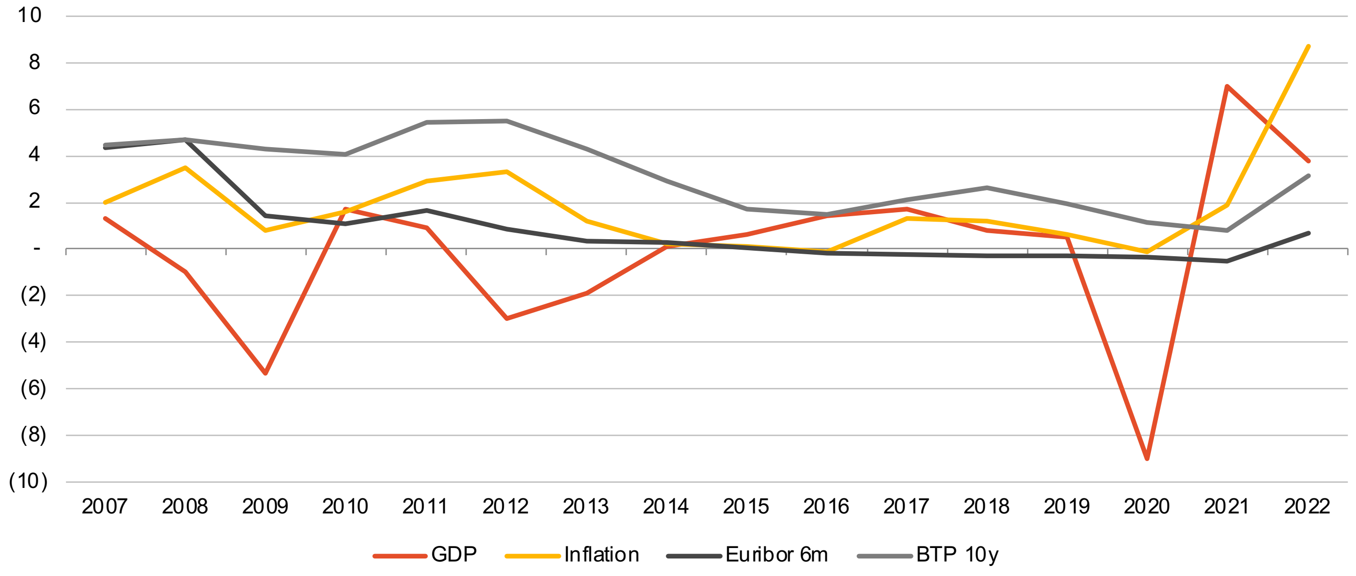
3.8%
Annual growth rate GDP in 2022

8.7%
Inflation rate in 2022

8.1%
Unemployment rate in 2022

-1.2%
Current account balance in 2022

Italian inflation and GDP, EURIBOR and BTP



Source: PwC analysis on EBC data

02.

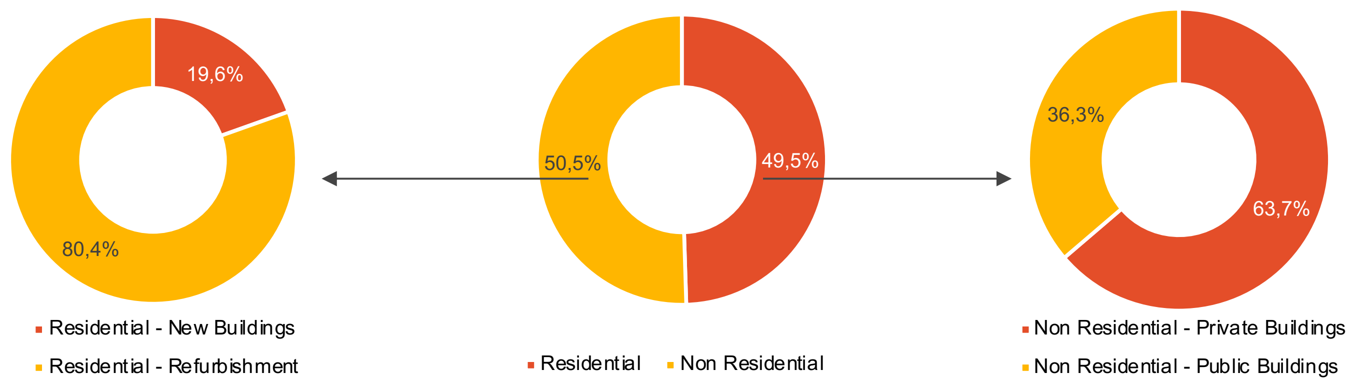
Investments in construction

Investment in construction has been the main growth engine of the Italian economy over the past two years. Approximately **one third of the GDP growth** in the periods under review is attributable to construction.

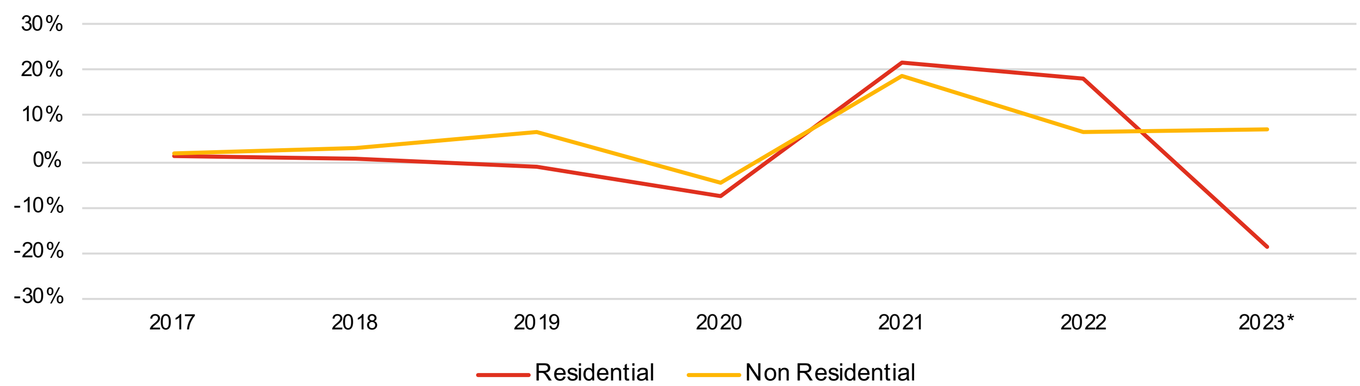
In 2022 there was a significant growth in the entire construction sector of about **+12.1% in real terms,** resulting from **increases in all sectors.**

This **significant growth** follows the exceptional increase in the sector's production levels **(+20.1%)** achieved in 2021, and allows it to largely recover towards pre-COVID levels, after the **-6.2% drop recorded in 2020.**

Breakdown of total investments in constructions in 2022



Trend of investments in residential and non residential constructions 2017 - 2023



Source: PwC analysis on Italian Building Society (ANCE)

50.5%
Investments in residential building in 2022

49.5%
Investments in non residential building in 2022

03. Private residential market trend

Europe

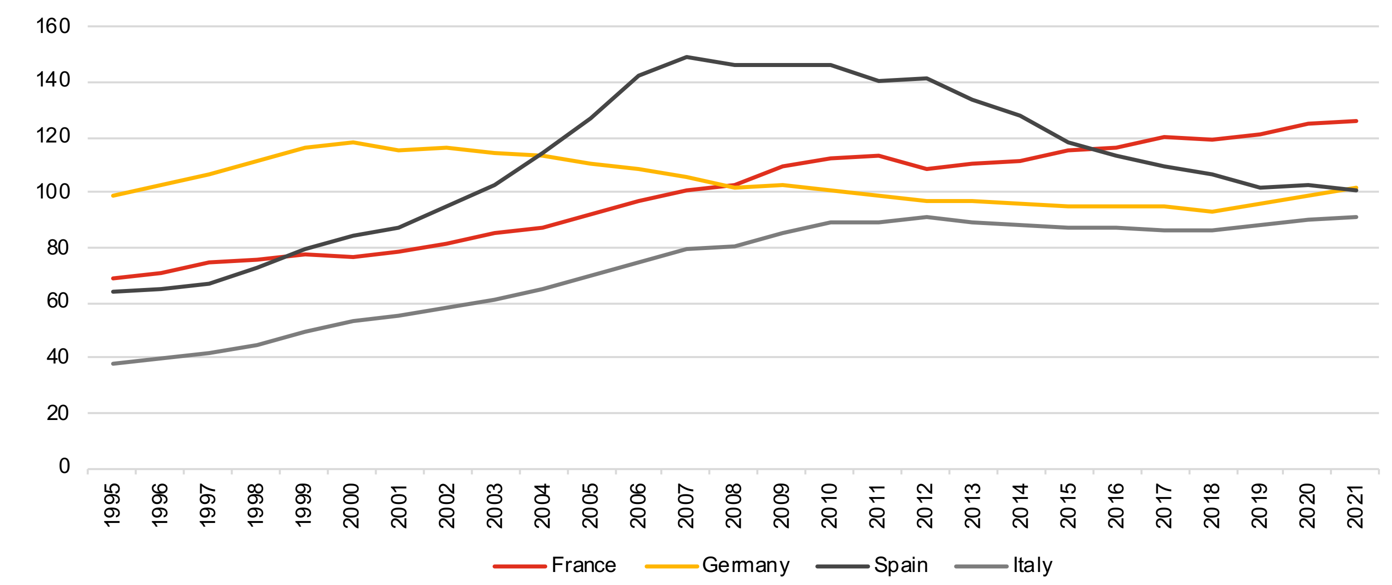
European housing market

During the pandemic years there was a sharp increase in the demand for independent housing, which initially boosted house prices. On the supply side, lockdown closures, supply chain disruptions and labor shortages have drastically reduced the supply of new homes. The last few years have shown how the price trend in the residential market is highly cyclical. Residential investment proved to be a volatile component of aggregate demand, particularly amid uncertain global markets.

The huge construction boom recorded up to 2007 in Italy and Spain was followed by a collapse following the outbreak of the GFC. While there were sharp drops in Spain and Italy, in France the **residential market maintained levels substantially in line with the years prior to 2008;** Germany has not fallen and its house prices have not fallen in the aftermath of the global financial crisis and sovereign debt crisis. The comparison between the levels of household mortgage debt with respect to their net disposable income highlights wide differences between the main European countries: from over 200% in the Netherlands in recent years to around **35% in Italy.**

The debt/income ratio has a strong growth trend in Spain, as well as in France, while more modest growth was recorded in Germany. By contrast, in Italy the ratio has remained at low levels despite some growth since 2000. These notable differences between countries belonging to a common monetary union reflect large institutional differences in the real estate market and in credit institutions and their evolution, as well as divergent economic histories.

Household debt Total, % of net disposable income (1995 - 2021)



Source: PwC analysis on OECD data

1998 - 2007 Y
Building boom in Europe before GFC

2008 Y
Italy's debt to income ratio remained at low levels

European housing market

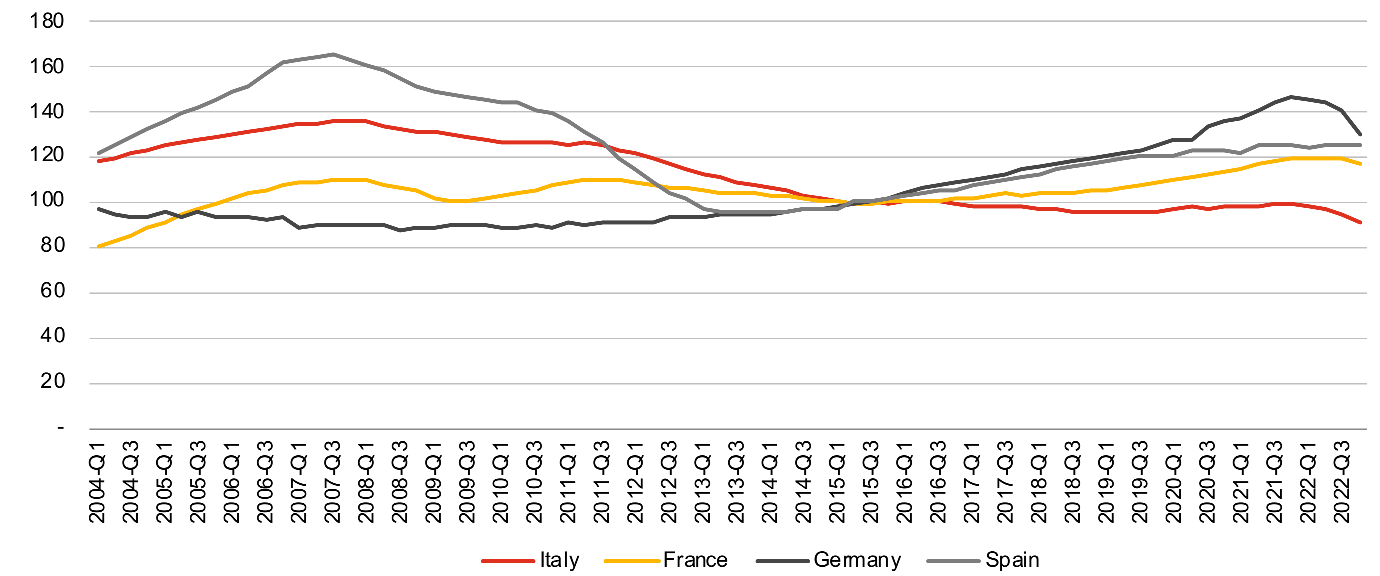
The European housing market in the last 20 years has gone through two major phases, divided by the catalytic event of 2008 (GFC). Before the crisis, the housing market was steadily increasing, **from 2008 there are mixed trends** in the main European countries, but the real house prices in most of the euro area **have risen sharply since 2015.**

During the 2008 GFC, a liquidity crisis developed in the money markets, and this brought devastating effects on financing, which suddenly dried up. With the onset of the global financial crisis, real house prices fell sharply, especially in Spain, where serious banking crises occurred; **these effects were also seen in Italy, with prices decreasing following the sovereign debt crisis in 2011.**

Country risk spreads in sovereign yields relative to Germany increased and grew further during the European sovereign debt crisis, peaking in 2010-12, giving further impetus to the decline in house prices outside the central euro area. After the sovereign debt crisis abated, risk spreads narrowed and, **through targeted longer-term refinancing operations (TLTROs) by the ECB from 2014 to 2019** and further unconventional monetary policy brought down long-term interest rates.

In **2020-2021,** despite the COVID-19 related recession, **house prices increased in most countries,** with the temporary exception of countries heavily dependent on tourism such as Spain and Italy.

Real house price of main EU countries (2004 - Q3 2022, 2015 = 100)



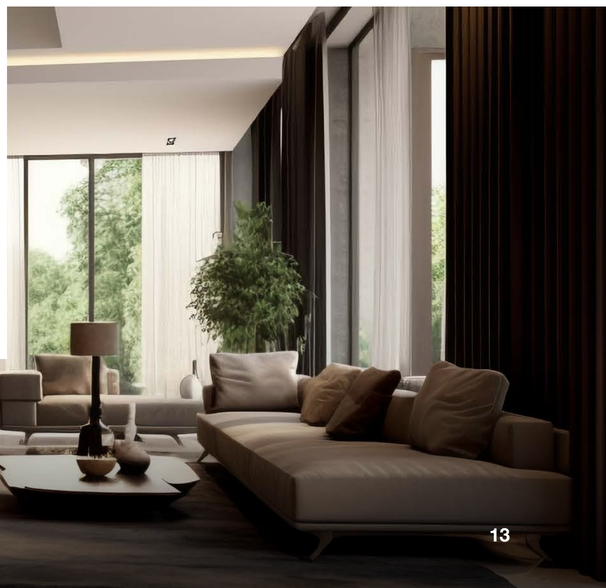
Source: PwC analysis on OECD data

2015 Y

Real house price in Europe increased since 2015

2020 - 2021 Y

Real house price rose despite the pandemic linked recession



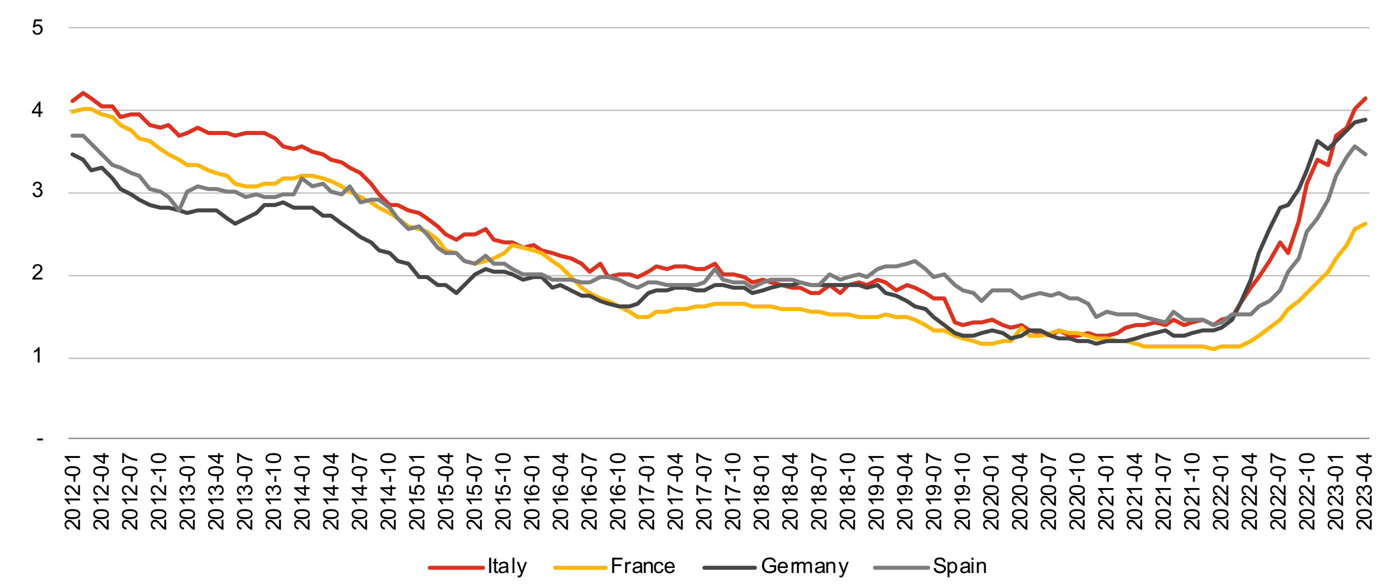
The drivers of the mortgage rate

In recent months there has been a substantial increase in mortgage rates across Europe, affecting the residential property market. There is a positive correlation between the mortgage market and that of buying and selling prices in the residential market; if there is an increase in house prices, this effect translates into an increase in demand for loans by households.

There may be a further effect on the demand for existing housing stock, as the existing stock of houses will have fairer market conditions and mortgages can be obtained on more favourable terms. The last factor to be considered is the link between the mortgage interest rate and the inflation rate: inflation expectations may influence the demand for mortgages and the cost of long-term debt.

Historically, Italy recorded rather low volumes in the mortgage market. This trend is evident as Italy was positioned, according to mortgage market development indicators, as a low-growth country in terms of mortgage debt/GDP and LTV ratio.

Cost of borrowing for households for house purchase (2012 - mar 2023)



Source: PwC analysis on EBC data

Real estate risk premium

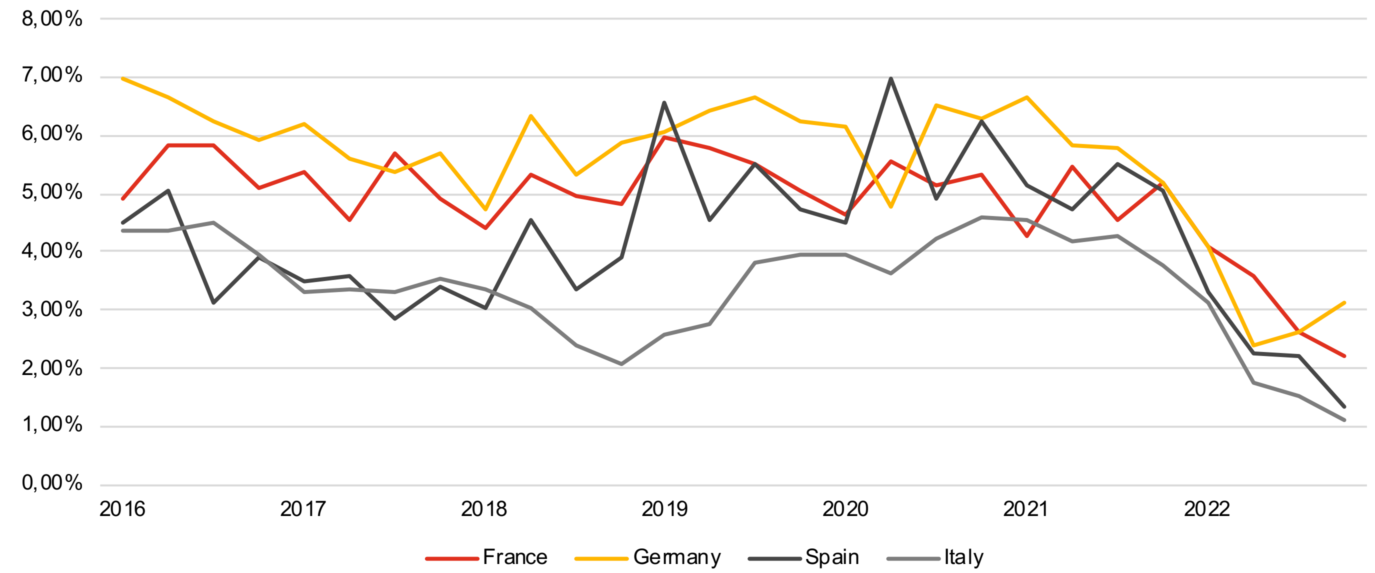
The real estate sector for years remained a very attractive investment, even following the shock of the pandemic, but **in the past year the situation has changed considerably.**

The change in monetary policy with the consequent rise in yields on all Eurozone government bonds has thinned the spread between the risk free rate and the average cap rate indicating the risk premium in real estate. **The attractiveness of investing in real estate has decreased as government bond yields have risen.**

The trend in real estate risk premium of the main Eurozone countries considered in our analysis show a downward trend over the past 12 months. In addition, a new perception of the risks associated with holding real estate assets is emerging, which should lead to an asset-specific reshaping of the risk premium.

Trajectories are expected to diverge significantly across asset classes, highlighting the polarization of markets between core and value-add assets. This latest market phase could be marked by the search for specific investment opportunities with a higher risk-return ratio in order to achieve a higher expected return.

Real estate risk premium of main EU countries (2016 - 2022)



Source: PwC analysis on RCA and Refinitiv data

2022

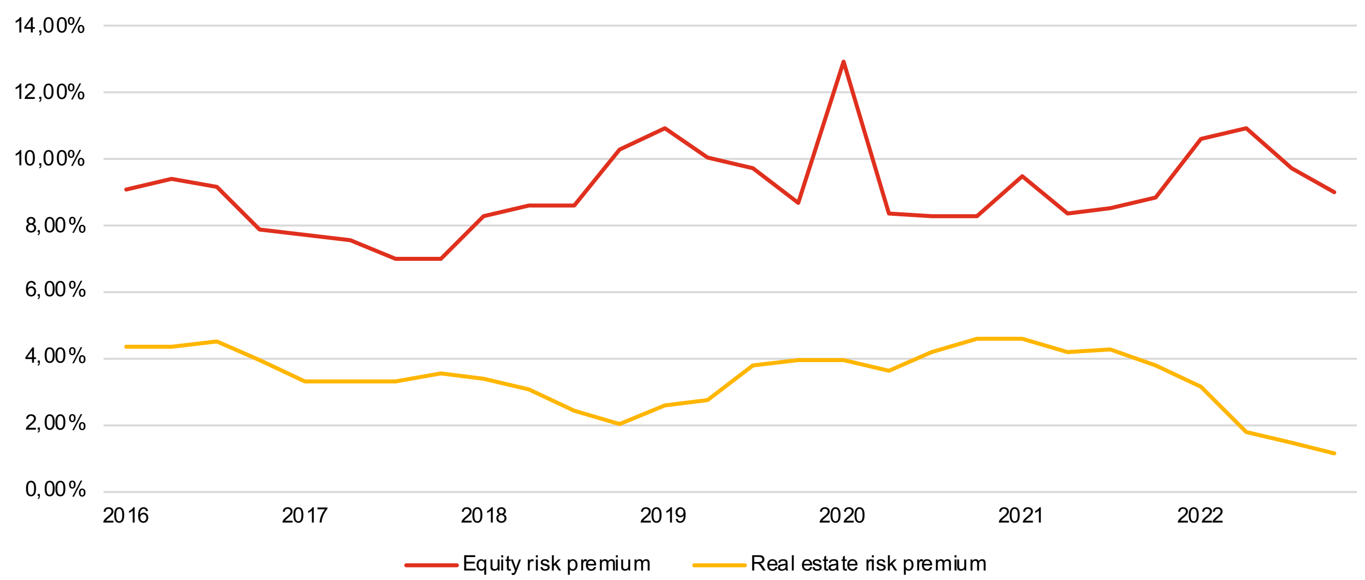
The attractiveness of investing in real estate has decreased as government bond yields have risen

Real estate risk premium

Analysis of the risk premiums of the Italian real estate and equity markets shows a contrasting trend over the past 12 months. The risk premium calculated on the Italian real estate market, as the difference between the average cap rate of a representative basket of real estate asset classes and the risk free rate, shows a substantial decrease due to the ECB's increase in rates and the consequent increase in government bond yields settling below the **1.5 percent** threshold. The **implied equity risk premium calculated on the Italian stock market,** on the other hand, **was in the range of 8% and 10%.**

However, the risk premium in real estate could be negatively affected in real estate-specific risk elements, such as an increase for tenants with the weakest credit ratings **(tenant risk)** with wide differences across sectors. The second aspect to keep in mind, exacerbated by an increasingly uncertain environment, is the increase in **liquidity risk.** The real estate sector is highly dependent on international investment, particularly in a still immature Italian market. Transactional activity in some market segments may slow down due to the inactivity of international investors or who tend to retreat to their home market in an uncertain macroeconomic environment.

Italy equity risk premium and real estate risk premium (2016 - 2022)



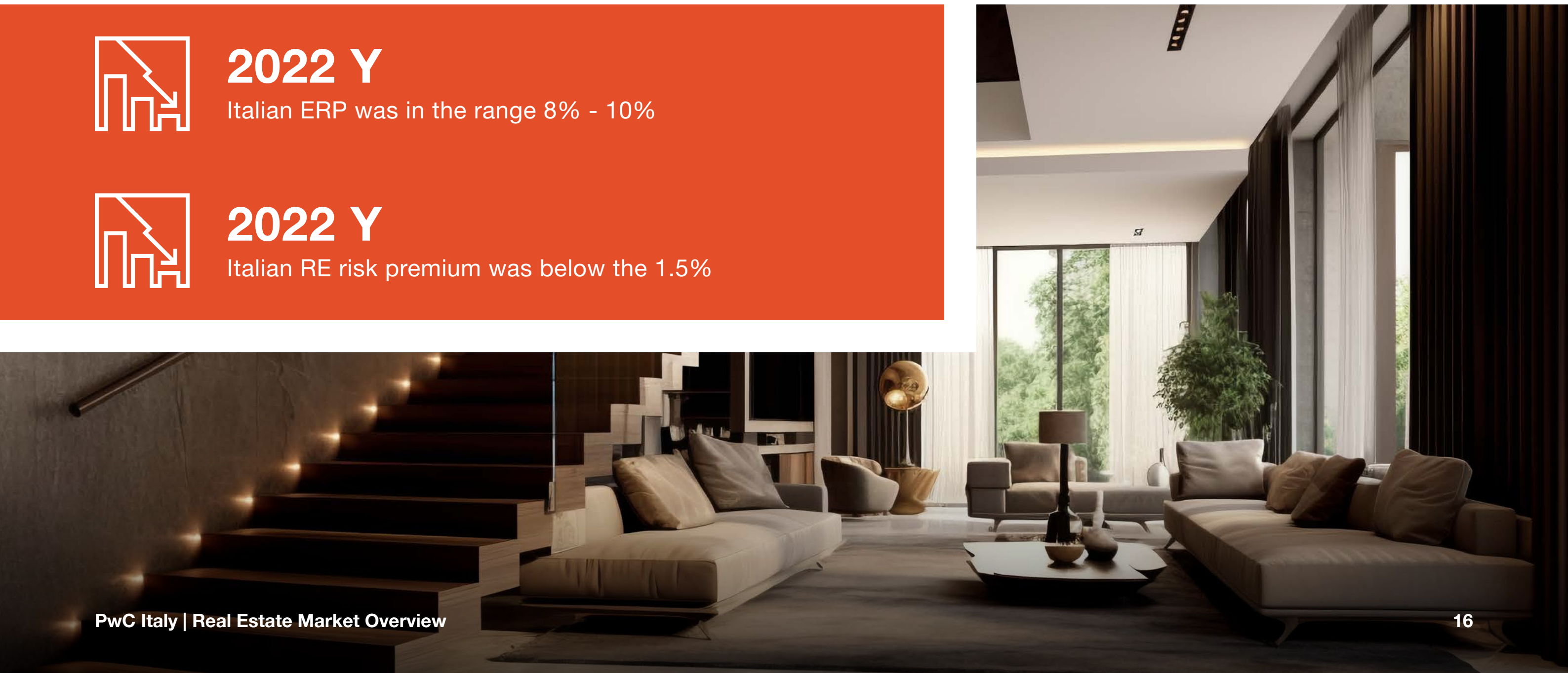
Source: PwC analysis on RCA and Refinitiv data

2022 Y

Italian ERP was in the range 8% - 10%

2022 Y

Italian RE risk premium was below the 1.5%



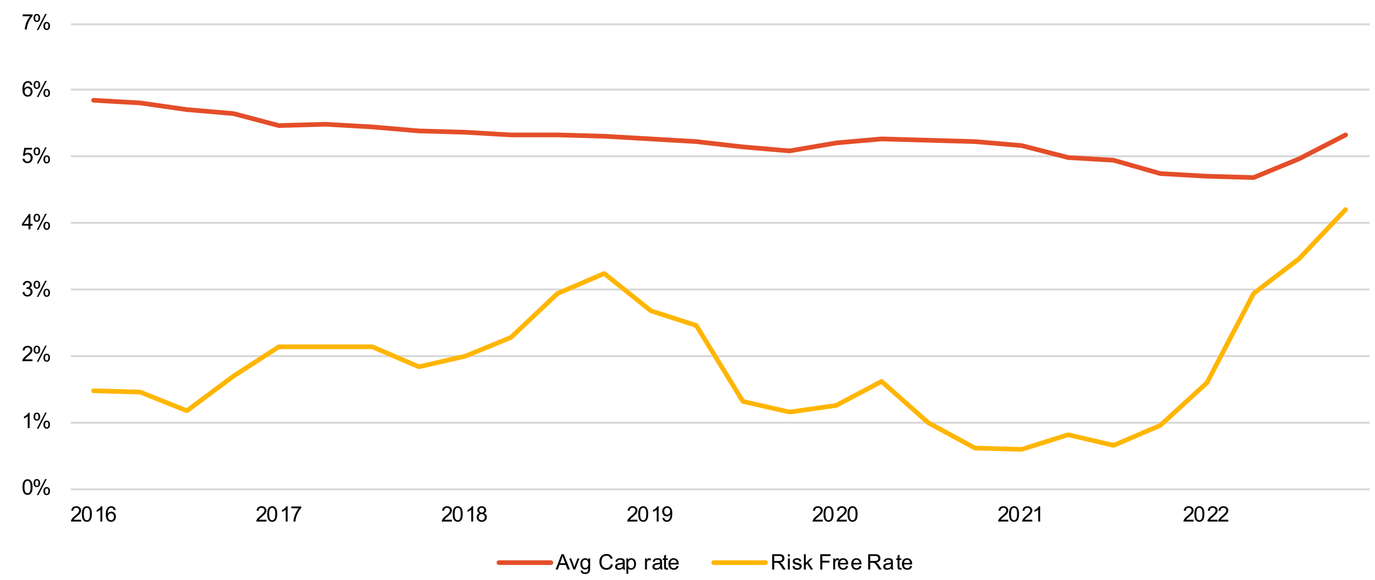
Alternative investments

The change in monetary policy by central banks led to an increase in government bond yields. As the chart shows, the spread between yields in the bond market and in the private real estate market has narrowed considerably.

But the two types of assets are to be considered alternatives, as they appeal to different types of investors. The implied risk characteristics of the private real estate market make this asset class highly specialized and targeted at institutional investors. The narrowing spread with government bond market yields puts the real estate market in front of a completely new scenario compared to the last decade of low rates.

Real estate investors will have to adapt to the current rate scenario, which may remain unchanged for some time. For this reason, the search for a higher yield that justifies a certain risk-taking will lead investors to focus on value add transactions, highlighting even more the specialty of investing in the private real estate market.

Trend of Italian Cap rate all property and risk free rate (2016 – 2022)



Source: PwC analysis on RCA and Refinitiv data

03.

Private residential market trend

Italy

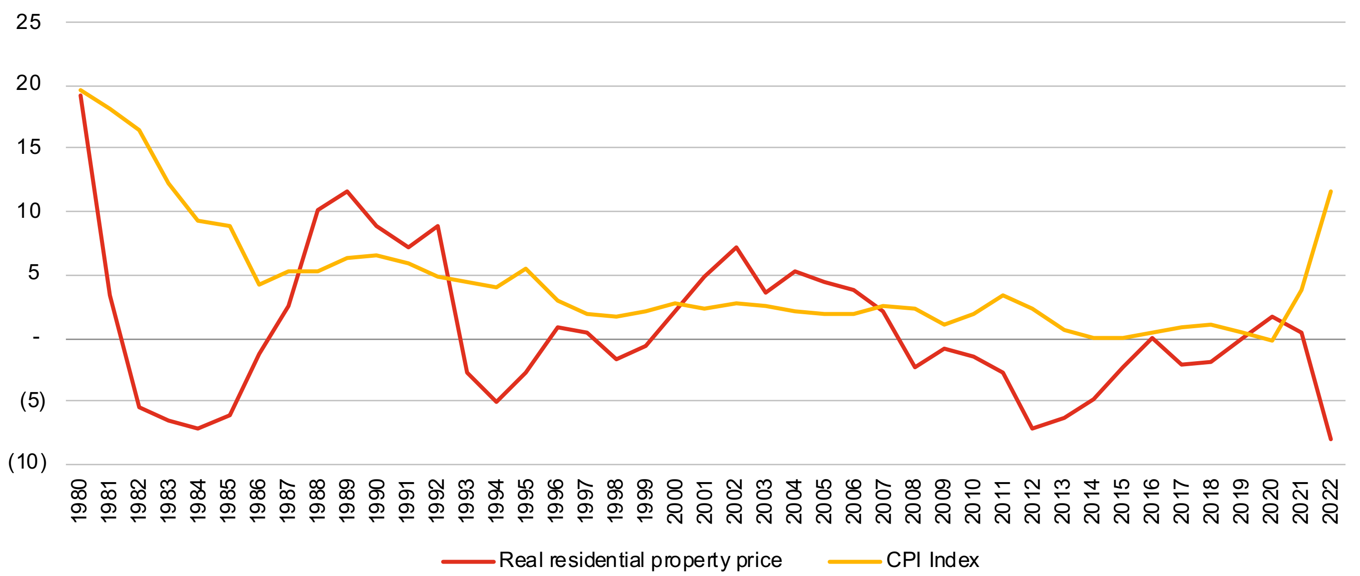
Housing market and inflation

Residential real estate today may offer less protection against inflation than in the past. If expanding lending volumes can provide protection against inflation, financing could become more expensive as inflation accelerates and a consequent change in central bank monetary policy. **During the 1970s,** consumer and house prices substantially followed the same trend, both in Italy and around the world. A period of high inflation that characterized those years and ended due to the interest rate **shock in the early 1980s.**

Until 2021, rent inflation, which is determined by existing lease agreements, and overall inflation have also followed the same trend, even internationally. **But a series of macroeconomic dynamics following the outbreak of the pandemic** led to a sudden increase in inflation that differs markedly from the trend in house prices.

As for property prices, the values are still positive but tending towards stability. If in nominal terms house prices will register **a +1 per cent in 2023 (compared to +3.1 per cent in 2022), in real terms this will translate into a drop of 4.8 per cent.** In addition to inflation, another determining factor for price dynamics is the low supply of new homes in Italy, which is an expression of the increase in raw material prices on the real estate market; **this means that real estate price dynamics will not fully reflect inflation.**

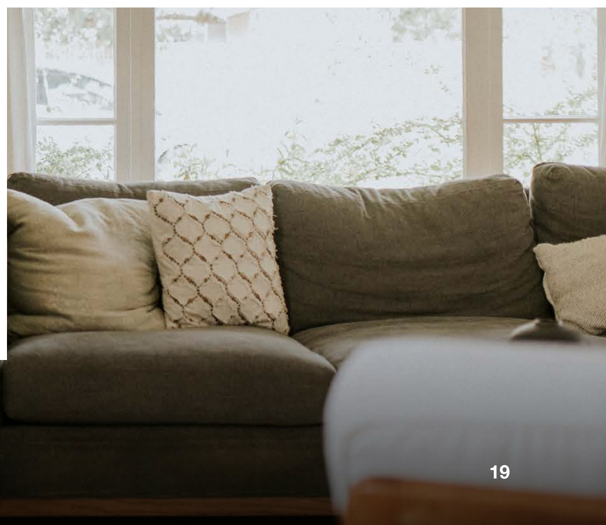
Inflation and Residential property price in real terms in Italy (1980 - 2022)



Source: PwC analysis on FRED data

1980
High inflation period until 1980

-4.8%
Estimated decline of housing prices in real terms during 2023



Affordability index

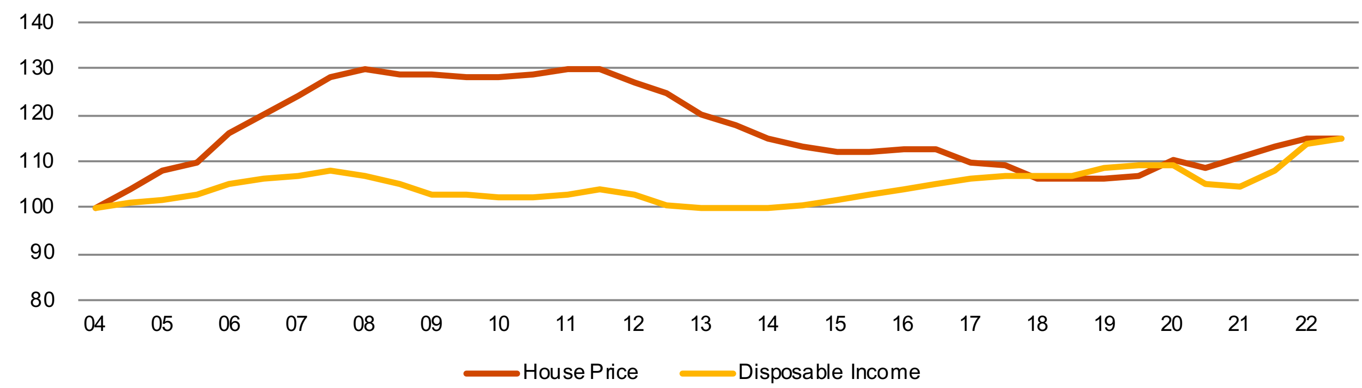
2022 was a year in which the recovery in both house price levels and household disposable income consolidated. **House prices during 2022 grew by +3.4%,** with a slowing trend in the second half of the year.

Household income increased by 6.3 percent following a positive trend in the economy after the pandemic outbreak. **Projections for 2023,** according to the Italian Statistical Institute, **show how annual income growth is expected to slow from the figure at the end of 2022.**

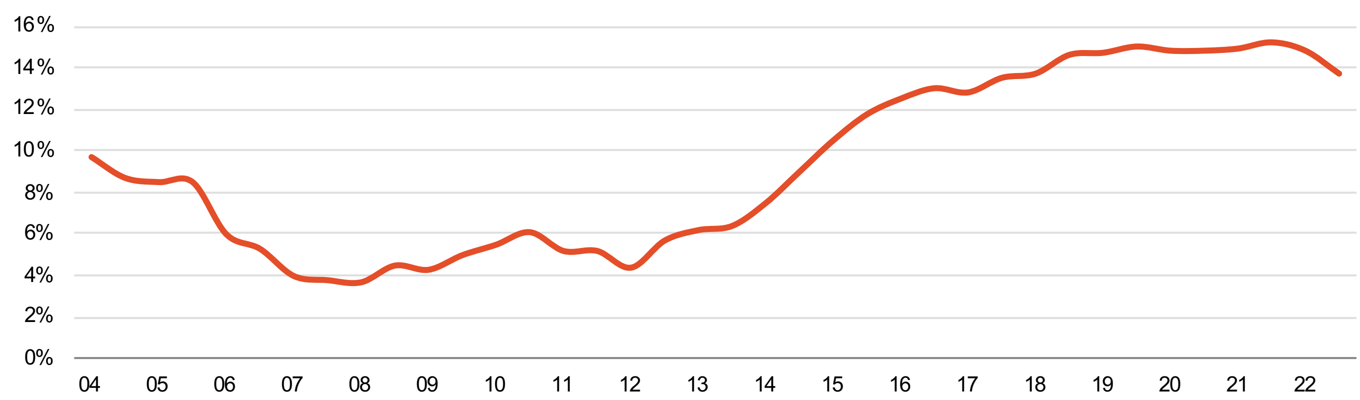
The growth of real estate prices appears to have a more static trend than that of income: **in 2022 the average annual purchase cost of an average home was about 152,000 €,** (+3.4 percent compared to 2022) but certifying a significant decline from the peak during the years 2010 - 2011.

The **affordability index** during the second half of 2022 showed a slightly declining trend: the influence of the rate hike by the ECB was instrumental in outlining a negative trend in the index. **At the end of 2022, the index reached a value of 13.6 percent (-1.2% compared to 2021).** Index levels continue to remain high compared to the historical average, despite a decline last year.

Affordability index for Italian household (2004 - 2022)



Historical trend of Affordability index for total Italian households (2004 - 2022)



Source: PwC analysis on Italian IRS data

Residential mortgages

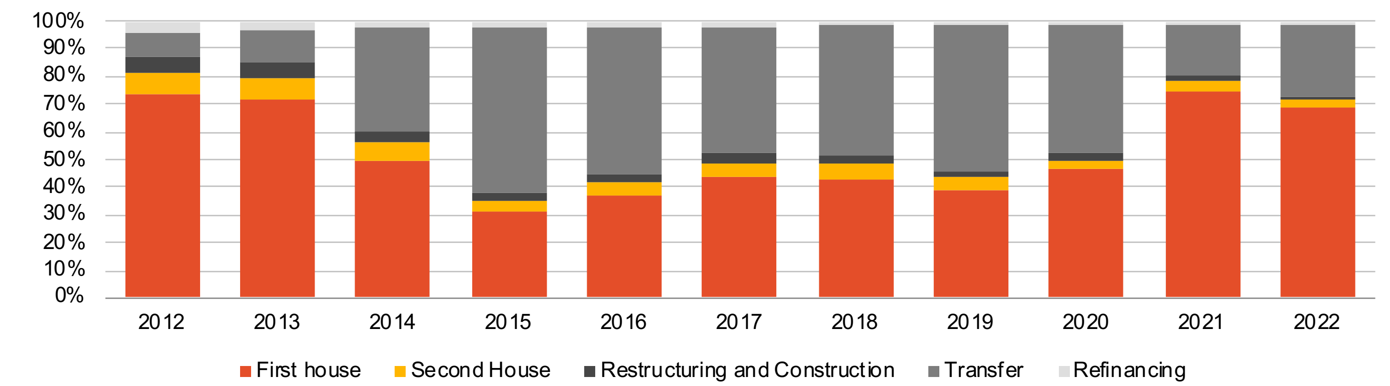
In 2022, the continuing upward trend in the reference rates of 3-month Euribor and 10-year IRS had an impact on the type of rate (fixed or variable) chosen by privates and households.

The **3-month Euribor touched a high of 3.5%** in the first quarter of 2023, confirming an upward trend, while the **10-year IRS index over the same period grew by 3%.** The rise in the 3-month Euribor over the past year has produced a marked increase in the installment amount for variable-rate mortgage underwriters.

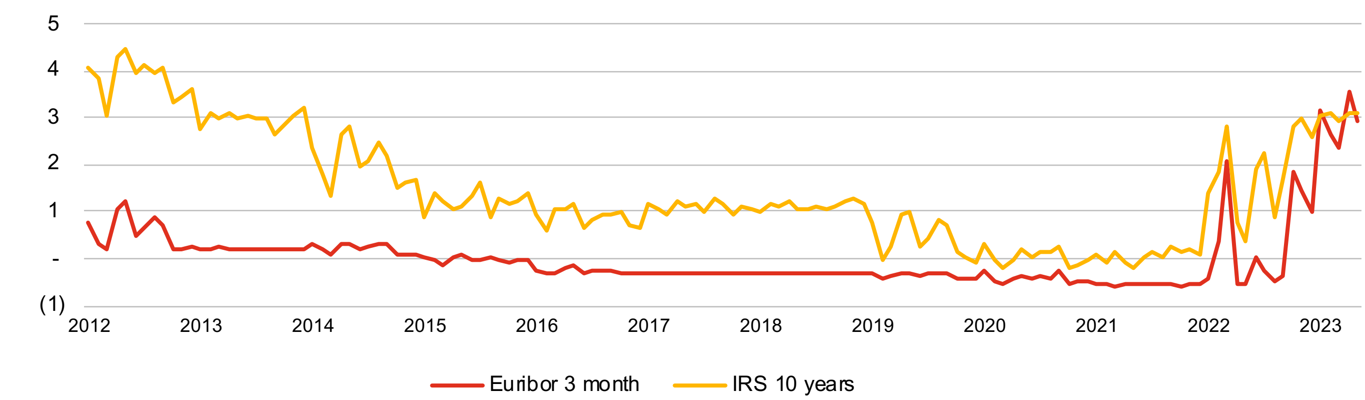
In addition, this increase has resulted in a strong upswing in demand for **transfer mortgages** *(surroga)***,** with borrowers interested in sheltering themselves from future and further installment increases. Demand for transfer mortgages increased substantially in the last quarter of 2022 and in the first quarter of 2023.

The negative outlook regarding further rises in Euribor indices during 2023 will direct the choice of potential borrowers to fixed-rate mortgages, consistent with what has already been observed in the last quarter of 2021 and the first quarter of 2022.

Percentage breakdown of mortgage applications by purpose (2012 - 2022)



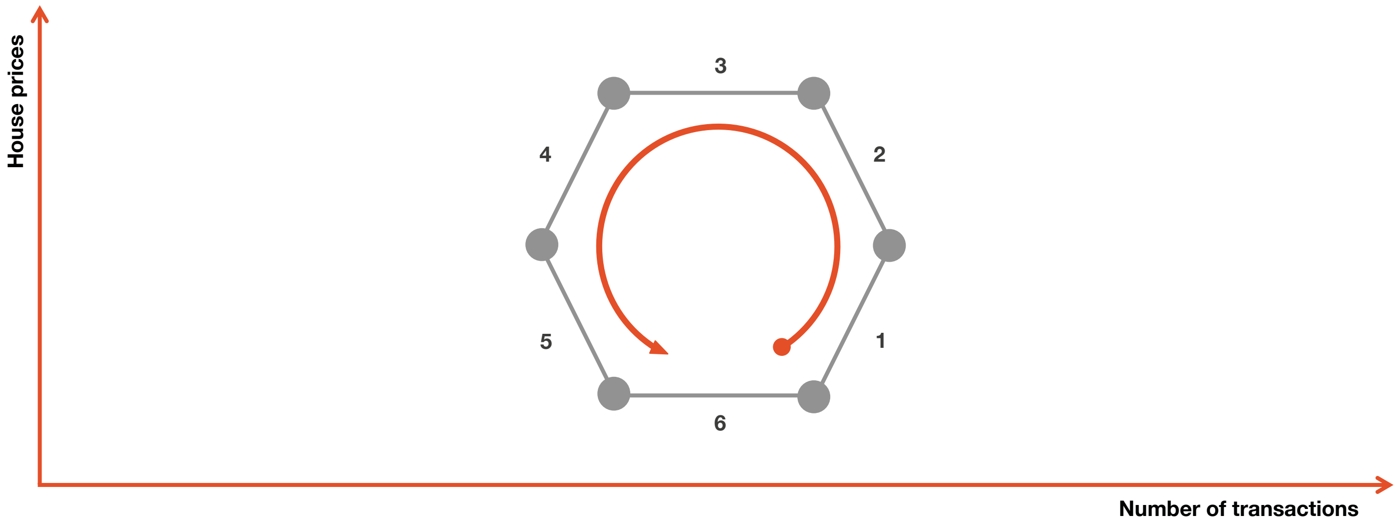
Reference rate Euribor and IRS 10 years (2012 - 2022)



Source: PwC analysis on NAB data

The housing market cycle

Exagon model



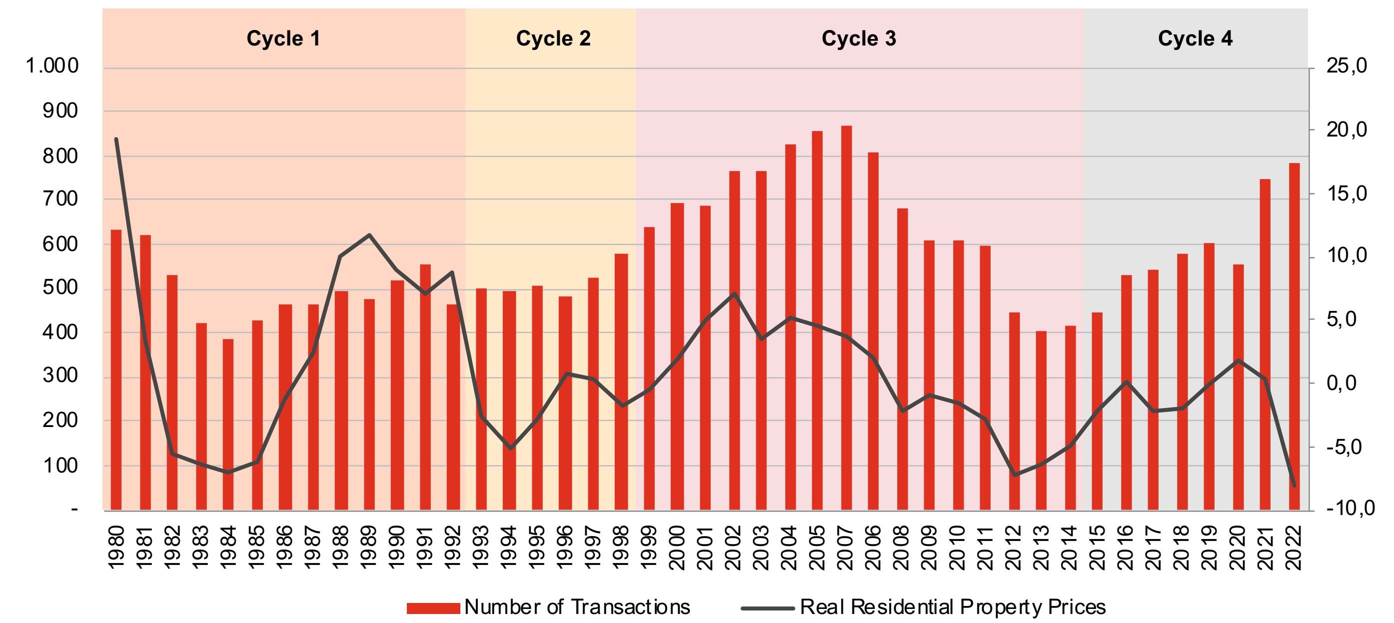
Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
The market dynamics, increase in transactions and prices	Negative supply shocks can determine the joint upswing in prices and decline in transactions	Despite the decline in residential investment and in secondary market transactions, prices remain stable	The persistent decline in housing sales produces a decline in house prices	Positive expected housing market returns produces an increase in transactions associated to declining prices	The end of this phase leads a rise in prices and a new cycle

Housing cycle phases in the Italian residential market

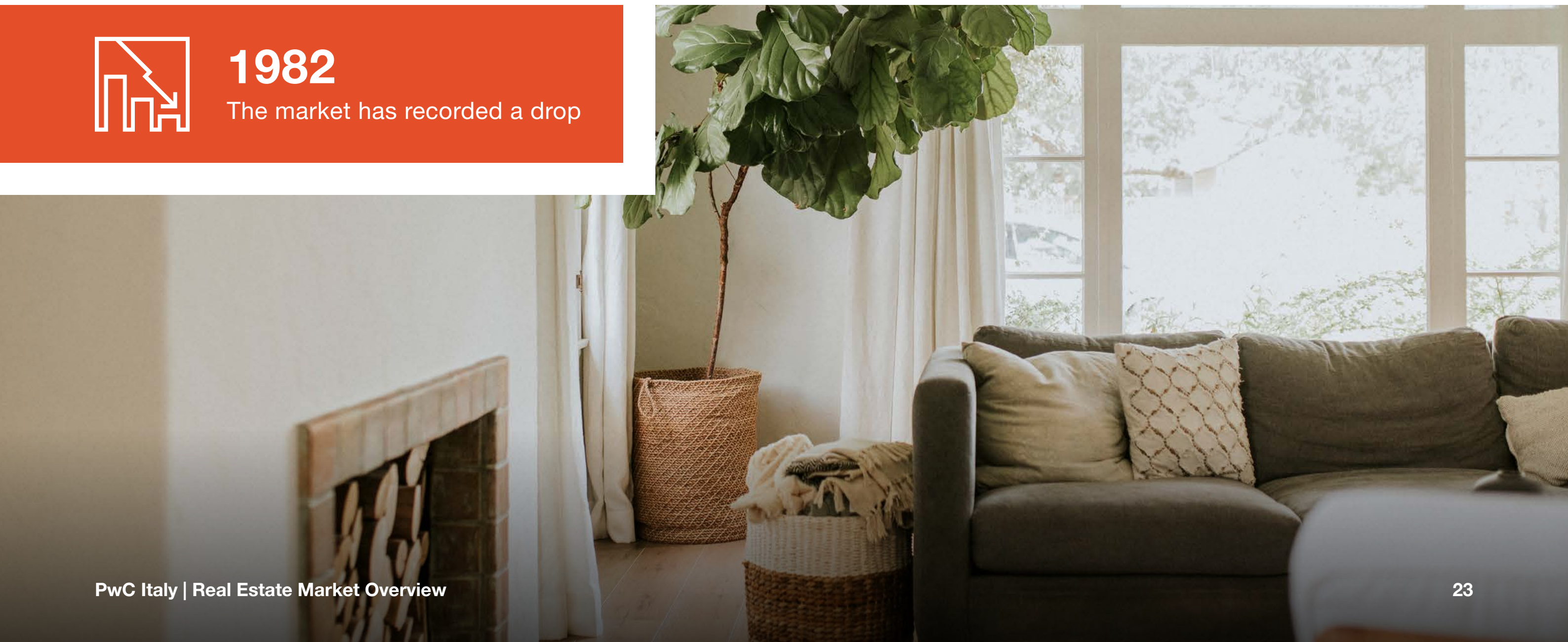
Since the early 1980s, the market has recorded a clear drop in the level of prices, changing its structure. From the end of the 80's there was a reversal of the trend with an increase in the price and in the number of sales partners.

The other date is represented by the GFC which changes the structure of the market again. By analyzing each phase of the real estate cycle, it can be seen how the growth in prices and sales is influenced by periods of strong economic growth. For this reason, **GDP or credit tend to follow a joint expansionary cyclical phase,** fueling the primary and secondary housing markets. On the other hand, during the recessionary phases in which prices and transactions are decreasing, a **fundamental role is given by the variation of the market's return expectations,** which anticipate the decline and ascent phases of the transactions.

Number of transaction in Italian residential market ('000) and trend of real property prices (% var) (1980-2022)



Source: PwC analysis on Italian IRS data



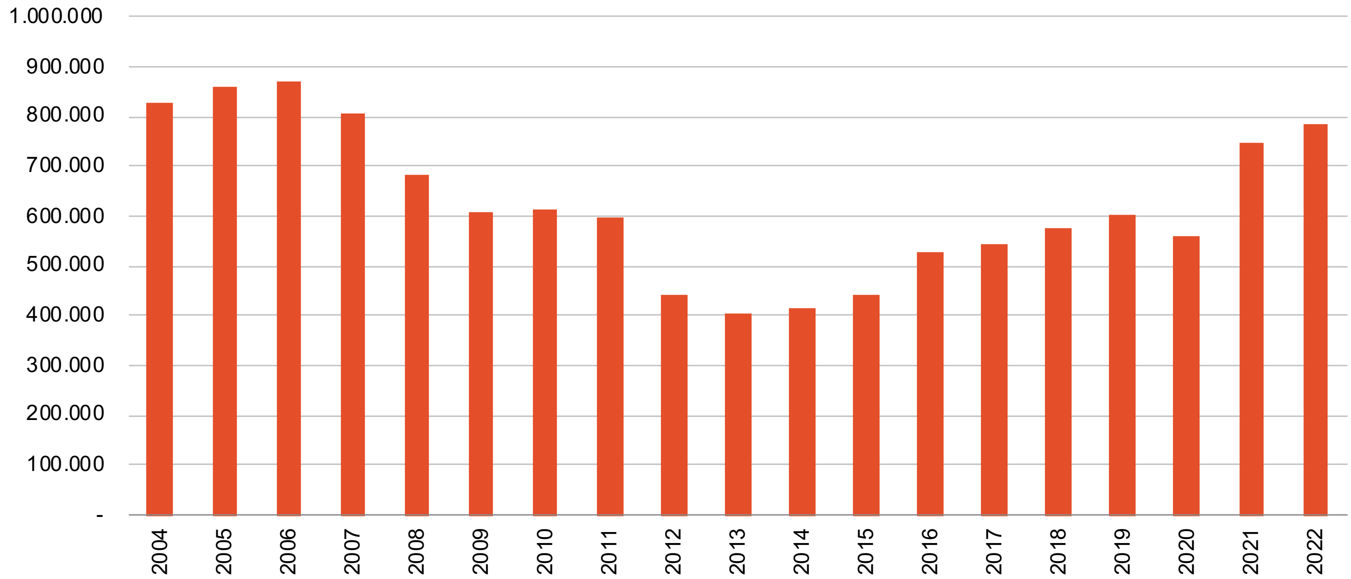
1982
The market has recorded a drop

Private residential market trend

In 2022, purchases and sales in the residential sector are slightly up on last year at **+4.8%.** According to ISTAT, **house prices in 2022 grew by about +5.2** compared to 2021. The growth is attributable, in particular, to those of new dwellings, which grew by 12.1%; the prices of existing dwellings also increased (+3.8%). The residential real estate market of private individuals in 2022 showed a substantial stability of sale prices, more difficulties to sell, and a continued increase in the average discount on sale prices compared to the seller's initial requests **(to 8.4 per cent, from 8.0).**

The selling times lengthened somewhat, remaining close to historical lows and below 6 months. The highest share of purchases, about 41%, regards the small to medium size residences, from **50 sqm up to 85 sqm.** In 2022, compared to the same period in 2021, growth was recorded for smaller sized residences, while larger sized properties show a decrease throughout the country. The decline reaches 15.2% in the eight cities on average, for properties with a surface area of more than 145 sqm.

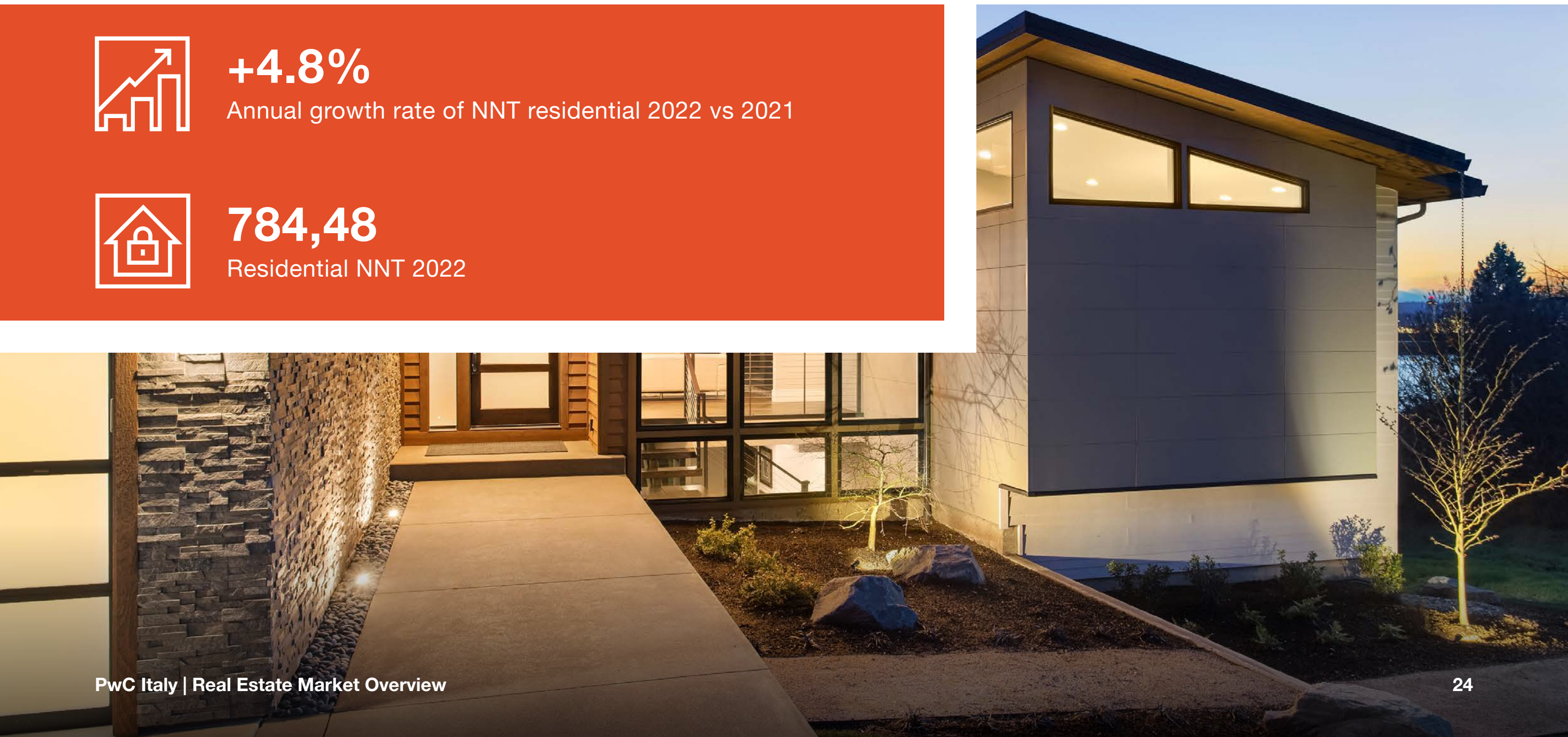
NNT annual time series (2004-2022)



Source: PwC analysis on INSI data

+4.8%
Annual growth rate of NNT residential 2022 vs 2021

784,48
Residential NNT 2022

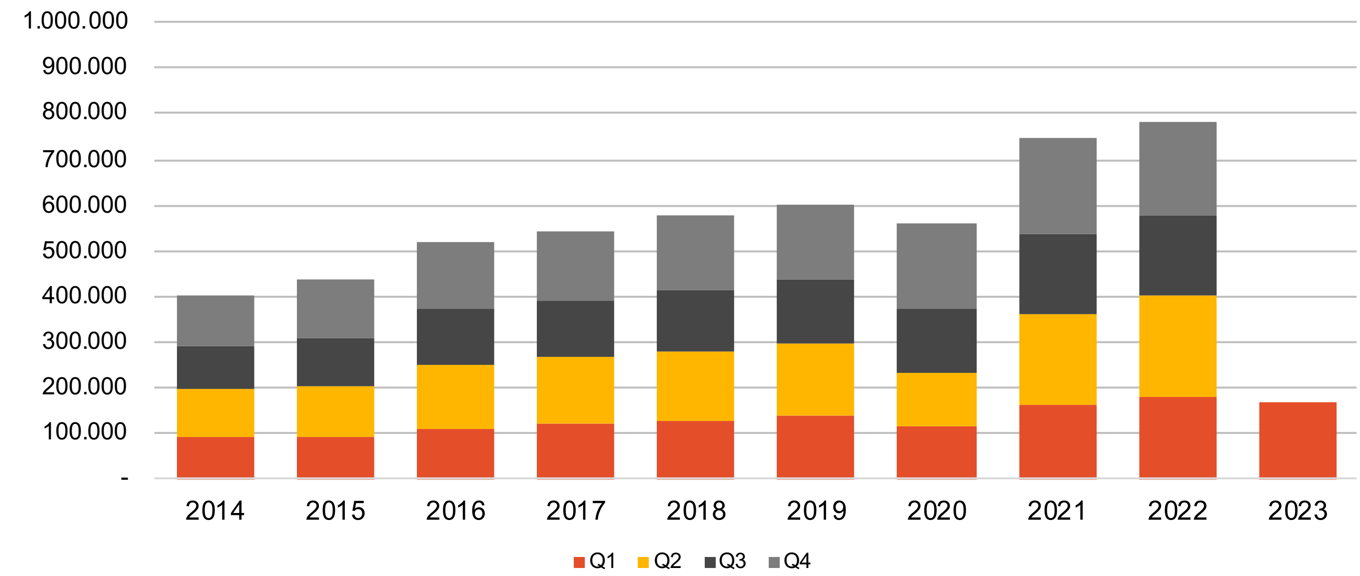


Private residential market trend by quarter

During the **first quarter of 2023,** the **Italian residential real estate market experienced a slight decline,** with a total of **166,745 transactions,** representing a **decrease of 9.01%** compared to the same period in the previous year. This decline can be attributed to a combination of factors, including the **natural slowdown** following an **unprecedented post-pandemic surge** in transaction volumes and the impact of a **worsened macroeconomic scenario** marked by inflationary pressures and increased debt costs set by central banks.

Despite the decline, the **Italian residential market remains dynamic,** demonstrating resilience in the face of evolving market conditions. Indeed, **transaction volumes are still superior** with respect to both the **pre-pandemic volumes** (2019) and **post-European economic downturn volumes** (2014), showing a relevant compounded annual growth rate (CAGR) equal to +4.72% and 7.19%%, respectively.

NNT annual time series (2004-2022)



Source: PwC analysis on INSI data

166.745
Residential NNT Q1 2023

+4.72%
Q1 NNT residential CAGR (2023 vs 2019)

-9.01%
Q1 NNT residential (2023 vs 2022)

+7.19%
Q1 NNT residential CAGR (2023 vs 2014)

NNT Y 2022 - Residential

In 2022, there were **784,485 residential transactions, 36,000 more than the same period of 2021 (an increase of 4.8%).**

The Northern territories reported a slight increase compared to 2021, with **266,578 residences** sold in the North-West and approximately **153,292** in the North-East, an increase of 4% and 1.7% respectively.

In the Center, an increase of 5.1% has been recorded with more than 162,000 purchased houses.

In the South, there was a 7% increase in the number of sales in the residential sector, with around 132,000 houses sold.

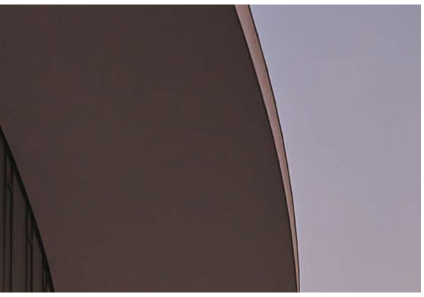
Islands recorded the lowest number of residential transactions in Y 2022 at 70,000.

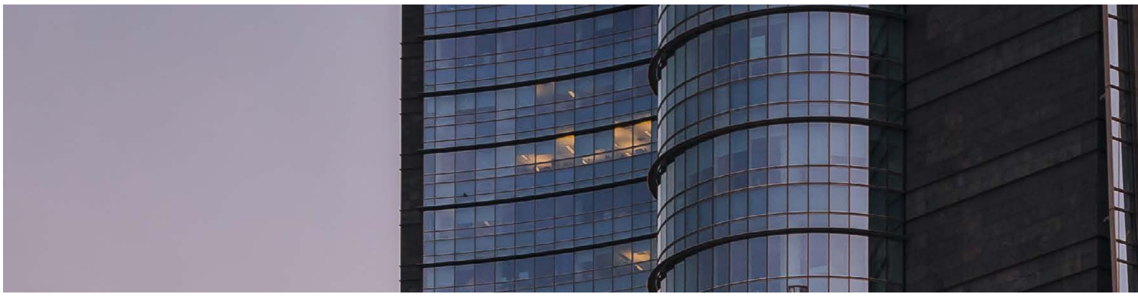
784,485
Residential NNT Y 2022

+4.8%
Var. (%) NNT Y 2022 vs Y 2021

Var. (%) NNT Y 2022 vs Y 2021 by area

Source: PwC analysis on Italian IRS data





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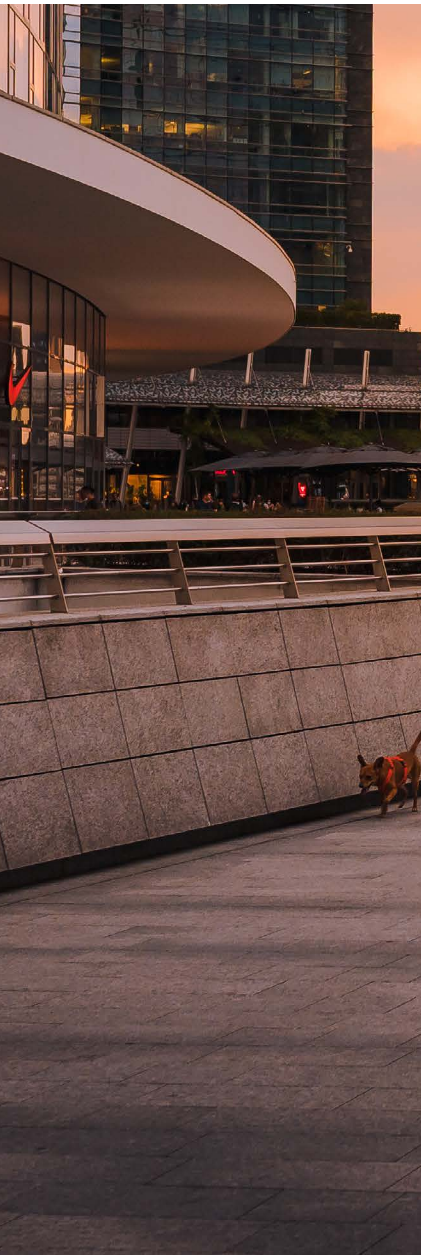
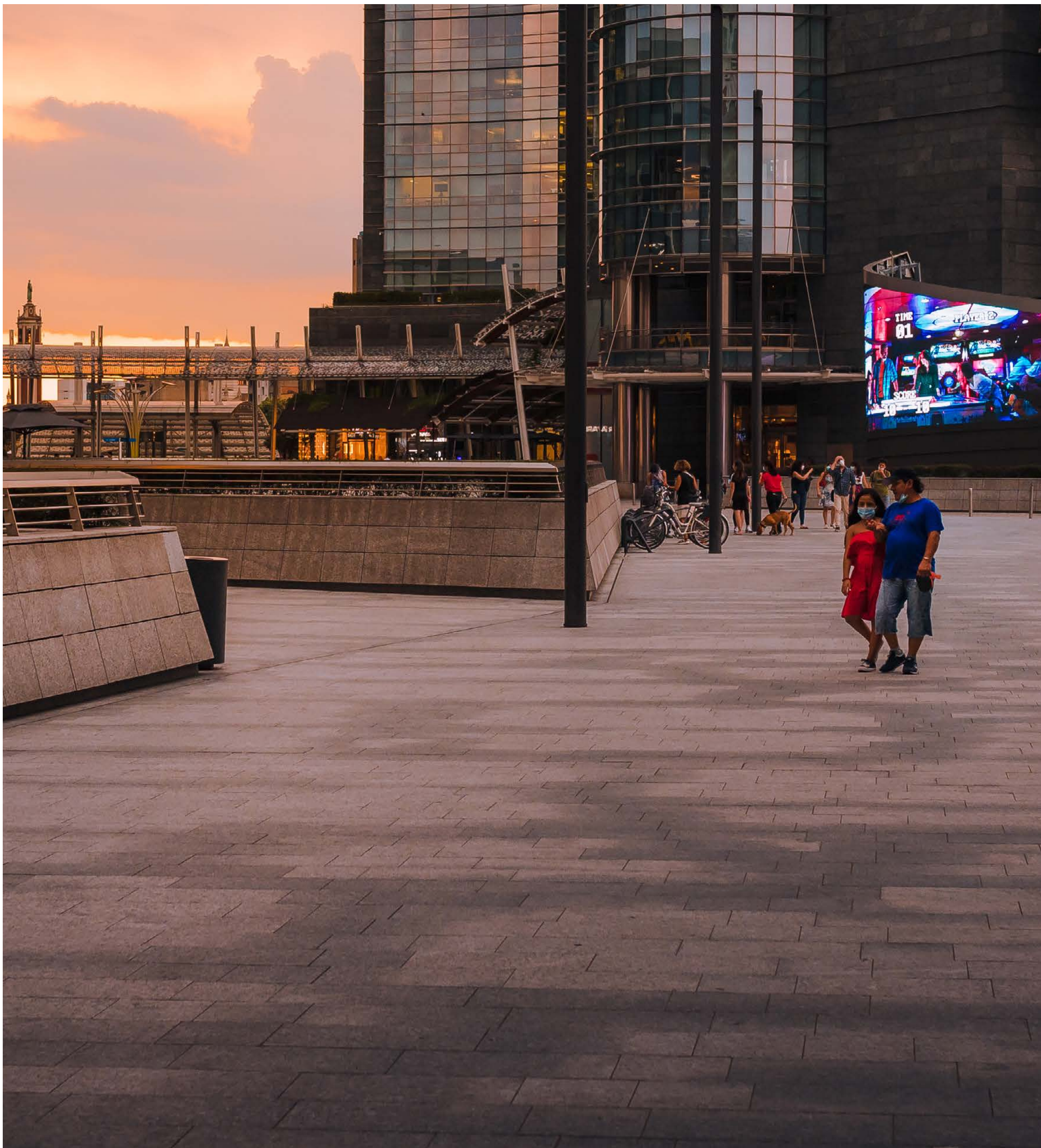
Italian investments trend





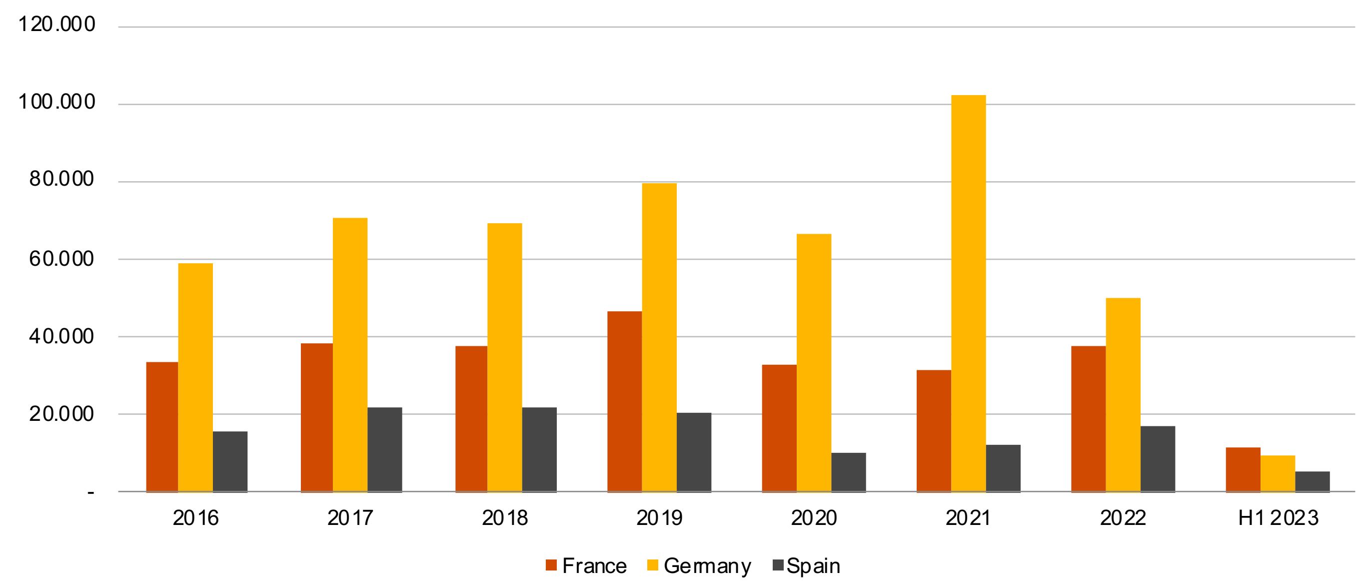
Investments trend of commercial real estate in Europe

The real estate market is slowing down across Europe with the outlook for 2023 clearly down from the previous year in terms of investment volumes.

The main European countries analyzed show a declining trend in the first half of 2023 across all asset classes. **France is the best performing market as of the first half of 2023, exceeding €11 billion in volumes, followed by Germany with €9 billion. Spain** confirmed itself as an attractive market by recording an investment volume of **5.6 billion euros.**

The most significant decline is reported by the German market, which after a record 2021 led mainly by the fast-growing residential segment, is slowing down. The trend could reverse in the second half of 2023 when the rate increase by the European Central Bank is expected to stop, reducing the current uncertainty of the market that investors are operating in.

Trend of total investment volume in main European real estate market (€bn) 2016 - H1 2023



Source: PwC analysis on RCA data

€11.7bn
Total investments in H1 2023 in France

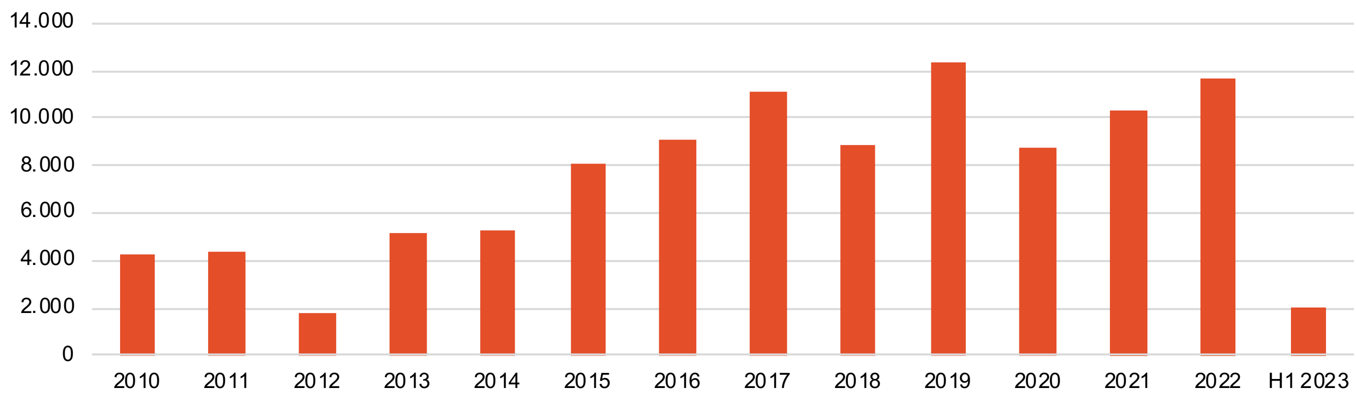
€9.2bn
Total investments in H1 2023 in Germany

€5.6bn
Total investments in H1 2023 in Spain

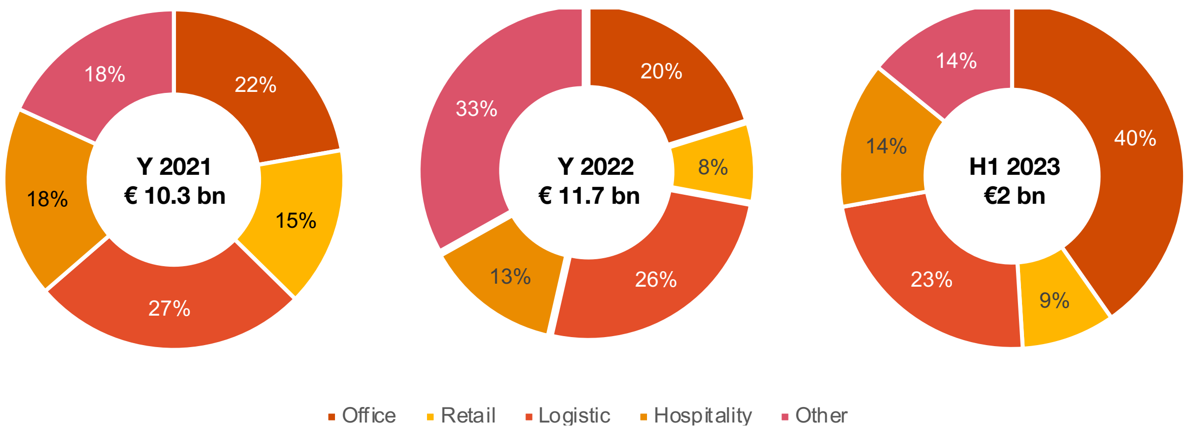
Investments trend of commercial real estate in Italy

Real estate investments amounted to roughly **2.05 billion €** during H1 2023, showing a **slow-down** with respect to previous years figures, while **2022 volume increased** to **11.7 billion €,** the second best result ever, after 2019. However, **Q4 2022 and H1 2023** saw a slowdown due to the ECB's revisions of interest rates, which led to a wait-and-see approach on the part of investors, intent on monitoring the impact of the rising cost of capital on real estate pricing before launching new transactions. Q4 2022 investment volumes were **51% lower than in the same period of 2021 and 26% lower than in the previous quarter.**
Nevertheless, investors remain positive about the fundamentals of demand for office and logistics properties, as witnessed by the record take-up volumes recorded at the end of the year by the **Italian logistics market (2.7 million sqm)** and the **Milan office market (480,000 sqm).** Conversion and repositioning activities also affected the Hospitality and Residential markets: the former is seeing growth in value-add transactions in prime urban locations and resort markets, while the latter is continuing its expansion through development and conversion activities.

Trend of total investment volume in Italian real estate market (€bn) 2010 - 2022



Investments by asset class in H1 2023, 2022 and 2021



Source: PwC analysis

€2.05bn
Total investments in H1 2023

€11.7bn
Total investments in 2022

+ 14%
Investments 2022 vs 2021

Main transactions in the Italian real estate market - 2022

During 2022, real estate investments by institutional players mainly involved international investors.

The sectors in which international players are most involved in are the logistics and hospitality sectors. Investors such as Prologis dominate the country's logistics and industrial market. **The city that attracts the most investors remains Milan,** particularly in the office segment. Rome, on the other hand, attracts international investors in the hospitality sector with major deals completed in 2022.

Among the most important transactions in 2022 in terms of size are those involving the W Rome purchased by Hamilton Pyramid Europe/Canada Pension Plan Investment Board through their joint venture and Hotel Majestic acquired by Edmond de Rothschild.

Type	Date	Property name	City	Owner/Buyer	Seller
Dev Site	Nov 22	**Porta Romana**	Milan	Coima SGR, Covivio, Prada	FS Italiane
Office	Nov 22	**Allianz**	Milan	Macquarie Group	Blackstone, Kryalos
Hotel	Nov 22	**W Rome**	Rome	Hamilton Pyramid Europe	King Street Capital Managements
Industrial	Sept 22	**Milan & Rome Industrial**	Italy	Prologis	Crossbay
Apartment	Aug 22	**Cenisia**	Turin	Patrizia	Stonehill International Group
Office	Aug 22	**Intesa Sanpaolo Milano**	Milan	Mediobanca	Blackstone, Kryalos
Office	Aug 22	**U3**	Assago	Generali RE Fund SICAF	Brioschi Sviluppo
Office	Aug 22	**U1**	Assago	Generali RE Fund SICAF	Brioschi Sviluppo
Office	Jul 22	**Cortile della Seta**	Milan	Poste Vita, Generali Group	Maston Investment Management
Office	Jul 22	**Urban Cube**	Milan	Perial	AXA IM - Real Assets
Hotel	Jul 22	**Hotel Bellevue**	Cortina d'Ampezzo	Prodea Investments	Sorgente SGR
Hotel	Jul 22	**Excelsior**	Venice	London + Regional	Coima SGR
Office	Jul 22	**RCS HQ Blocco 1**	Milan	RCS MediaGroup	Kryalos, Blackstone
Other General	Jul 22	**Palazzo Marini 3-4**	Rome	Chelsfield Group, Fort Partners	DeA Capital Real Estate
Office	Jun 22	**KPMG**	Rome	Allianz RE Holdings	DeA Capital Real Estate
Office	Jun 22	**Via Della Centralinista 3**	Bologna	Radius Global Infrastructure, Inc	Fabrica Immobiliare Sgr
Hotel	Jun 22	**Hotel Majestic**	Rome	Edmond de Rothschild	Alberghi Riuniti Via Veneto SRL
Office	Jun 22	**The Bridge**	Milan	ENPAM	Investire Immobiliare Sgr
Office	Jun 22	**Telecom Italia**	Italy	Radius Global Infrastructure, Inc	Covivio
Industrial	Jun 22	**Oppeano III Logistics**	Oppeano	Starwood Capital	PFA - Mere til Dig, Patrizia, POBA
Industrial	Jun 22	**Aldi Logistics**	Oppeano	Starwood Capital	POBA, PFA - Mere til Dig, Patrizia
Office	May 22	**Deloitte HQ**	Milan	Hines	BNP Paribas REIM
Retail	May 22	**IT Carrefour**	Italy	MDSR Investments	Amundi
Retail	May 22	**Italy Retail**	Italy	DeA Capital Real Estate	BNP Paribas REIM

Source: PwC analysis on RCA data

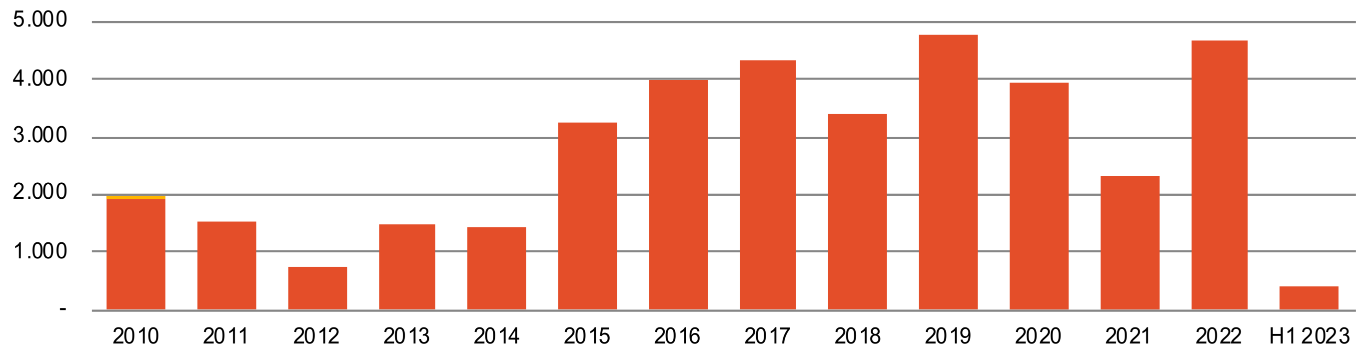
Office sector

The Office segment recorded an investment volume of **€ 410 million.** Milan is again the leading market for this asset class, despite a slight increase in the prime net yield.

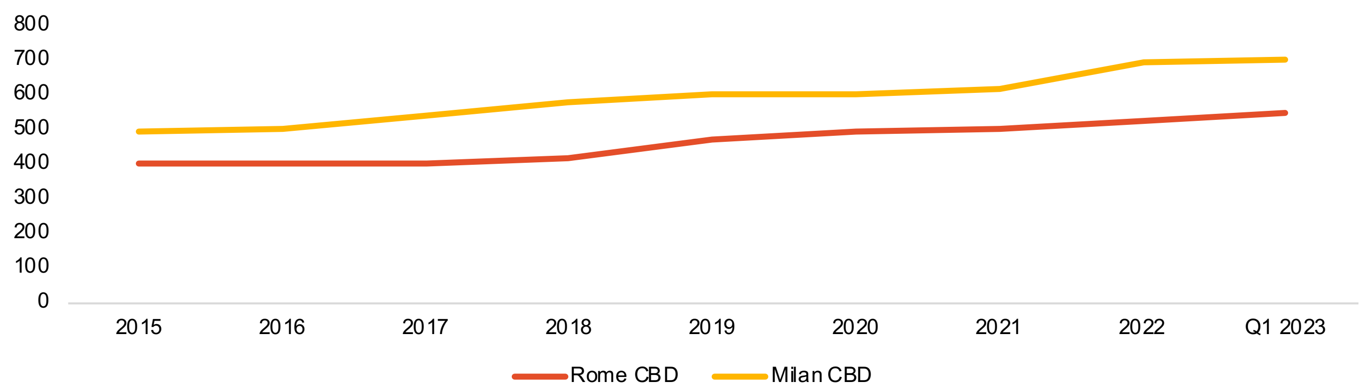
Expectations on the sector are also supported by the turmoil related to the rental market. In the first half of 2023, Milan recorded an absorption of 202,000 sqm, including 105,000 sqm in Q2 2023, up from the first quarter.

The focus on the **prime component** of the market is confirmed, while there is a greater territorial diversification due also to the low vacancy of Grade A product. In terms of space absorption, employment prospects for office workers continue to be stable and positive, with an physical occupation of space averaging 80%.

Investments trend office sector in Italy (€bn) 2010 - H1 2023



Trend of CBD rent in Rome and Milan 2015 - 2022



Source: PwC analysis

€410m
Total Investments in H1 2023

550 €/sqm/y
Rome CBD Prime Rent Q1 2023

€4.7bn
Total Investments in Y 2022

700 €/sqm/y
Milan CBD Prime Rent Q1 2023

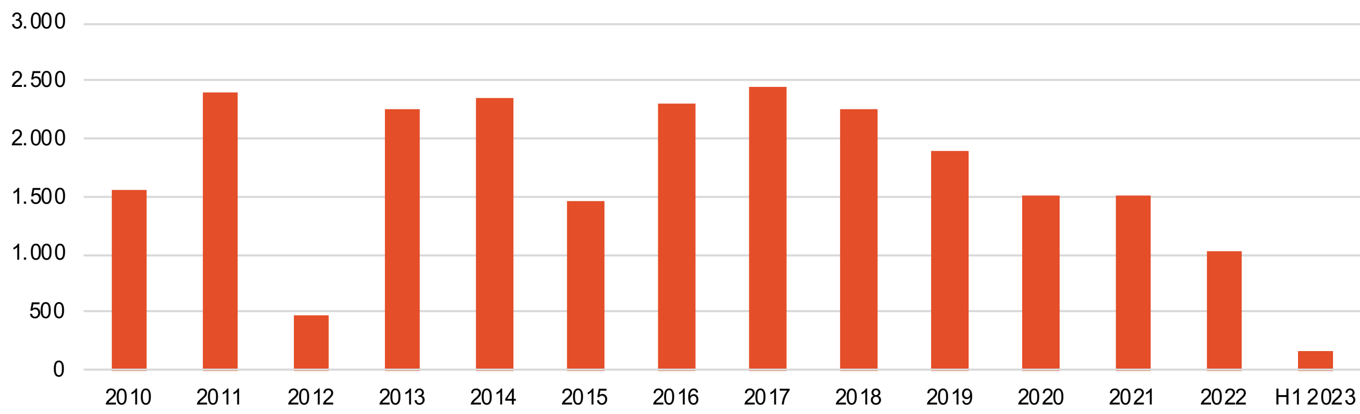
Retail sector

The retail sector recorded an investment volume of about €160 million in the first half of 2023, thanks mainly to the big box and out of town segments.The last year, registering about **€ 1 billion.** Demand remains high for the high street component.

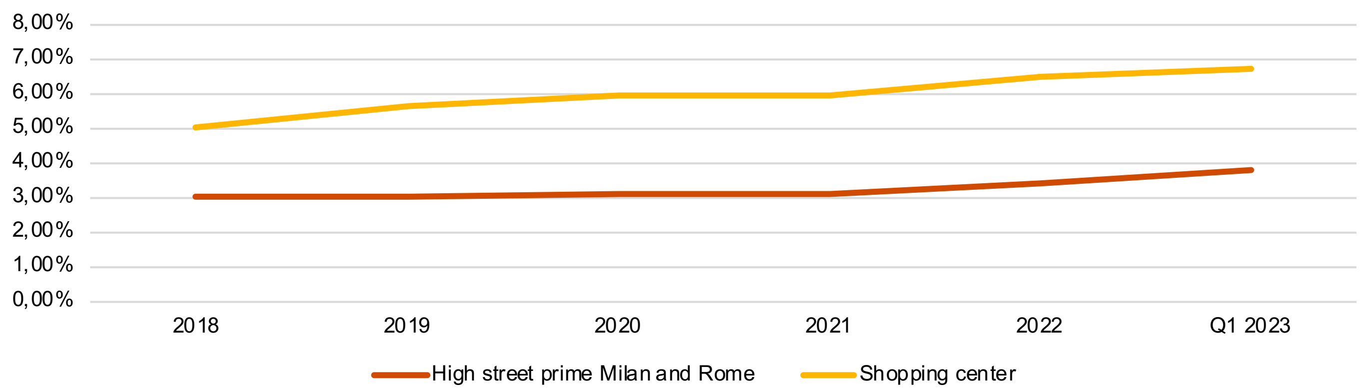
During 2022 more than **25%** of the total investments at national level are concentrated in Lombardy, followed by Veneto and Emilia Romagna, respectively with almost **15% and 10%.** In 2022, the Italian commercial real estate market recorded a total turnover of almost 6.5 billion € from the sale and rental of retail space, down **3.7 percentage points compared to the share reached in 2021.**

The sector is going through a transition phase confirming a downward trend even in the first half of 2023. The future of the retail asset class appears to be unclear after the pandemic period and the following e-commerce explosion.

Investments trend (€bn) 2010 - H1 2023



Prime net yields 2018 - Q1 2023



Source: PwC analysis

€160m
Total investments in H1 2023

€300m
Total investments in Q4 2022

€1bn
Total investments in 2022

25%
Share of investments in the retail segment in Lombardy

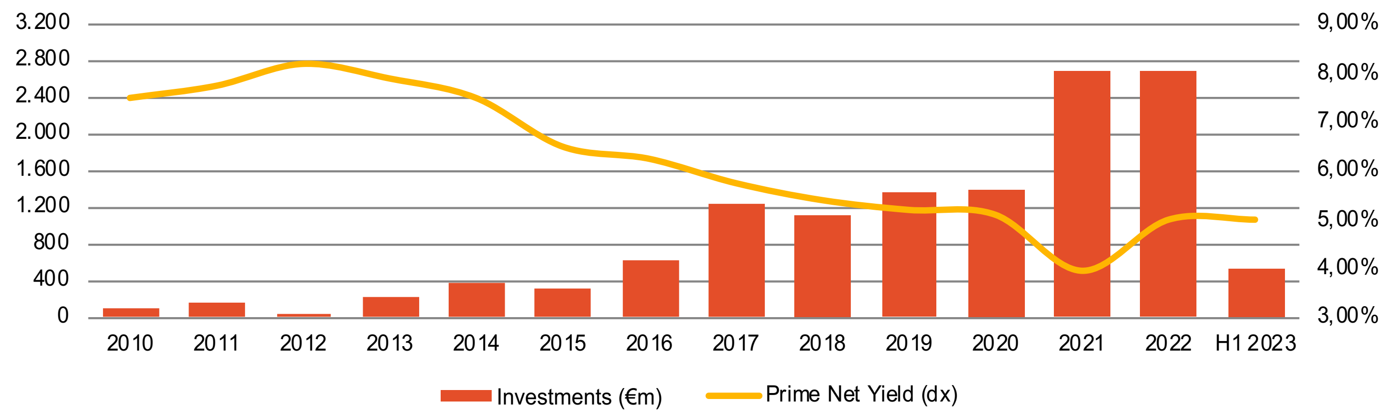
Logistic sector

Logistics remains the sector that attracts the most investment volumes, with **over € 500 million invested, make it the top asset class in the first half of 2023.**

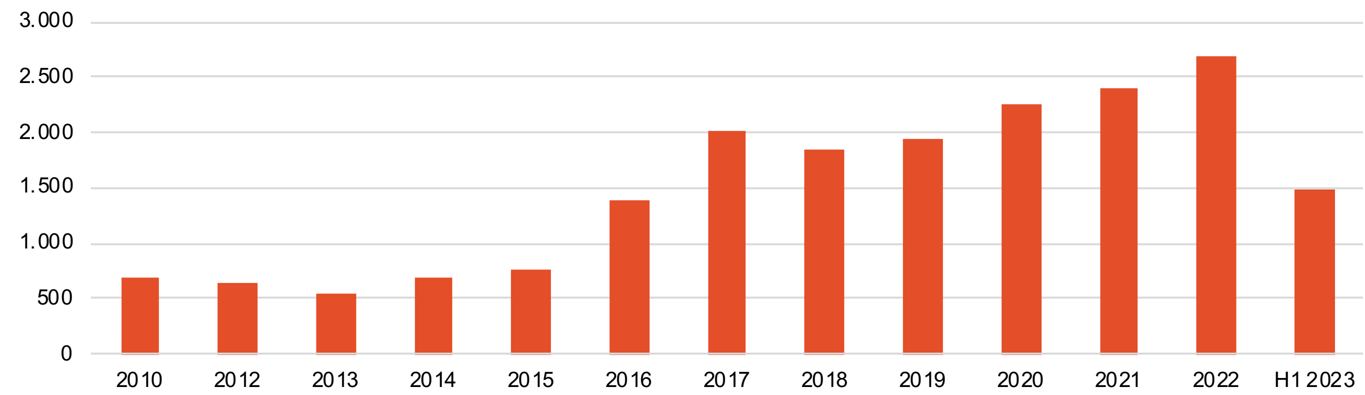
The **take-up** recorded in the first half of the year is **1,478,000 square meters,** registering a slight increase compared to the first six months of 2022 (+3%). Italy's logistics sector remains highly attractive, characterized by strong demand that struggles to find an answer in the limited supply of modern space, with vacancy at an all-time low.

The strong demand, together with the general inflationary dynamics of the last two years, pushes up prime rents in the main markets: the new **Italian prime rent corresponds to a range between €57 and €68/sqm/year,** found in the Milan and Rome markets.

Investments trend (€bn) and prime net yield 2010 - H1 2023



Take up trend (sqm) 2010 - H1 2023



Source: PwC analysis

€525m
Total investments in H1 2023

57 - 68 €/sqm/y
Average rent in Rome

€2.7bn
Total investments in Y 2022

60 - 68 €/sqm/y
Average rent in Milan

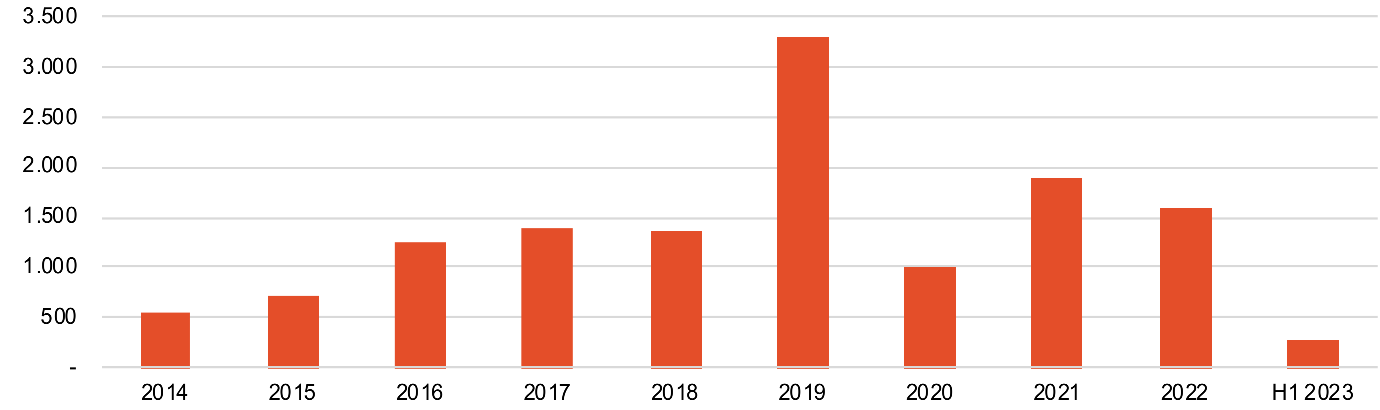
Hospitality sector

The hospitality sector recorded an investment volume of approximately **€270 million in the first half of 2023,** mainly distributed in small- to medium-sized deals. Investors interest was mainly directed towards accommodation facilities that are able to be renewed/upgraded, adding high-quality products to the market.

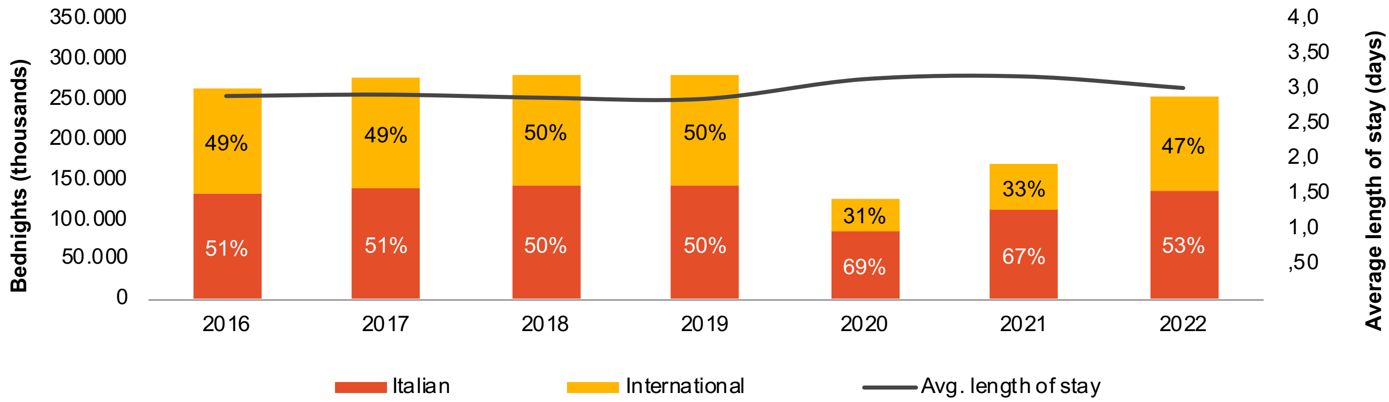
2022 was the first real year of recovery in tourist flows after the covid. Domestic tourist demand recorded levels close to 2019, the last pre-covid year, while for foreign demand, only 2023 will in all likelihood certify the definitive recovery.

Development activity in the luxury and extra-luxury sector and the opening of international hotel chains are fuelling a growing market.

Investments trend (€bn) 2014 - 2022



Total demand in terms of night spent 2016 - 2022



Source: PwC analysis

€270m
Total Investments in H1 2023

53%
Domestic demand

€1.6bn
Total Investments in Y 2022

47%
International demand

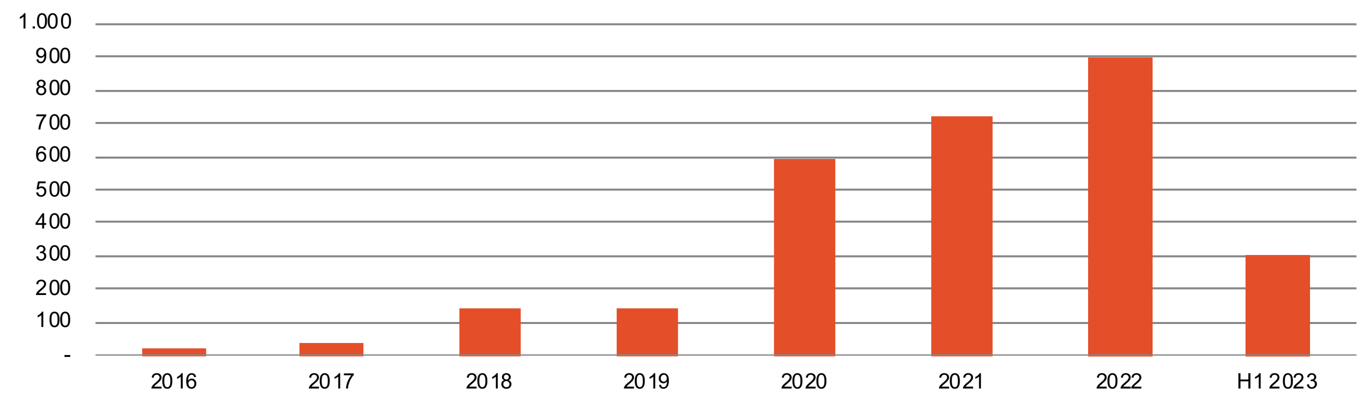
Living sector

The Living segment recorded an investment volume of about €300 million in the first half of the year, showing a smaller contraction than other asset classes, confirming investors' growing interest in the sector. **Milan remains the most attractive Italian city for investors,** followed by Rome, Turin and Florence.

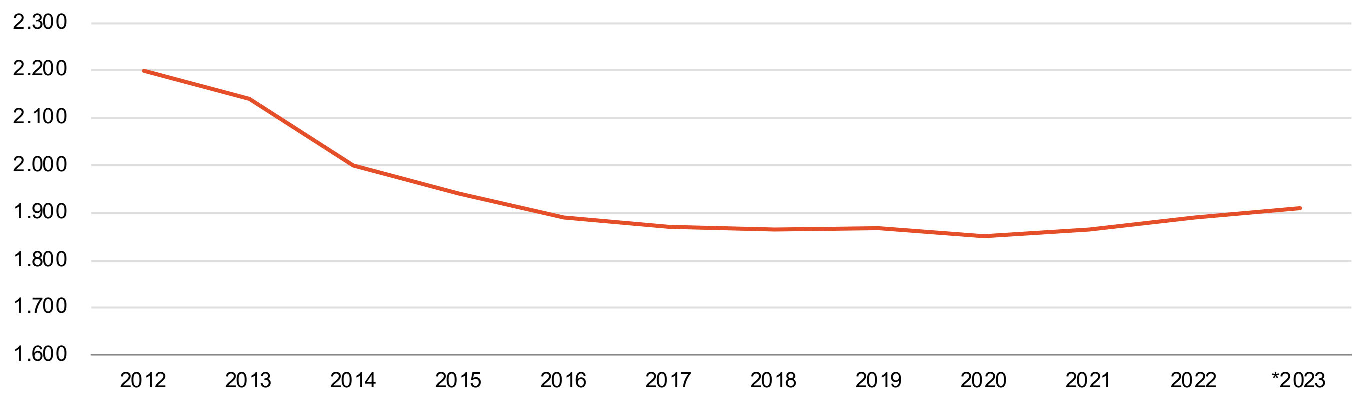
As far as yields are concerned, expectations are rising for **multifamily prime yields,** with Milan going above **4% during 2023.**

The living market, despite changing conditions regarding the cost of money, remains among the emerging asset classes of greatest interest to domestic and international investors

Investments trend (€bn) 2016 - H1 2023



Average house prices (€/sqm) 2012 - 2022 and forecasts 2023



Source: PwC analysis

€300m
Total investments in H1 2023

4%
Multifamily Prime net Yield in Milan

€900m
Total investments in Y 2022

+2%
Average house prices forecast 2023

Student housing

The student housing market has reached a total investment volume of €200 million by 2022 in Italy and €12.4 billion in Europe.

University students who are off-campus turn out to be about 40% of the total. The beds of specialized public institutions available for students, however, provide coverage of 8.1% of the total. The remaining 2.4% are given by private institutions. Student housing appears to be an area where supply is very low compared to the growing demand.

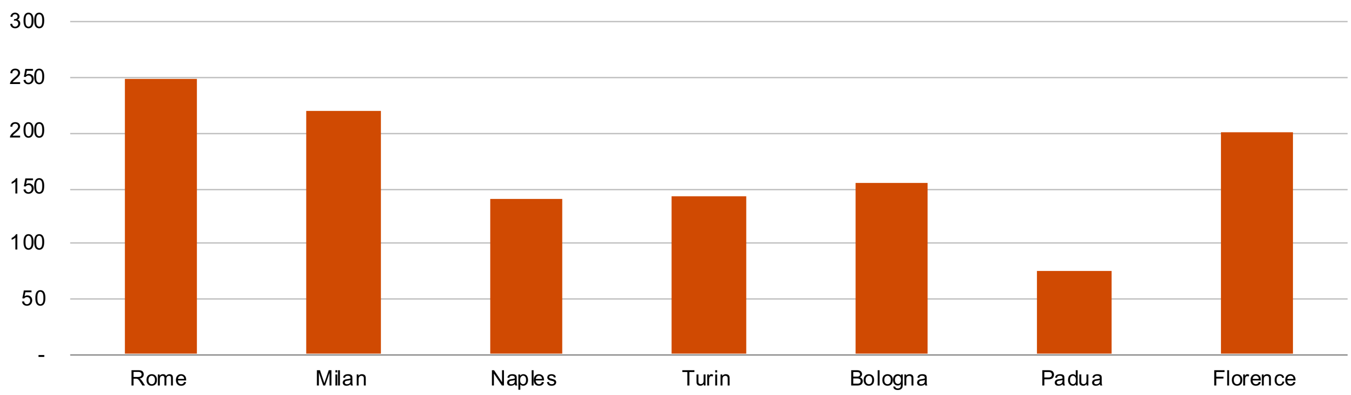
Structured bed supply has been identified at a threshold of 20% of off-campus students, which is the average European coverage rate. At least 130,000 university beds would be needed to reach this threshold.

The lack of specific supply for university students results in average rent levels registering very significant increases, particularly in the residential market of Milan, Rome and Bologna. Students represent a significant demand that leads to rapid changes in rent trends.

Structured bed coverage - European benchmark target 20%

	Off-campus student (%)	Number of structured beds for student	Coverage (%)	Benchmark target (20%)
Italy	40%	53.750	8%	132.240
Rome	32%	4.220	7%	12.240
Milan	47%	8.460	10%	17.780
Naples	18%	780	4%	3.890
Turin	42%	3.780	8%	9.090
Bologna	65%	2.380	6%	8.390
Padua	51%	2.430	8%	5.950
Florence	35%	1.320	7%	3.690

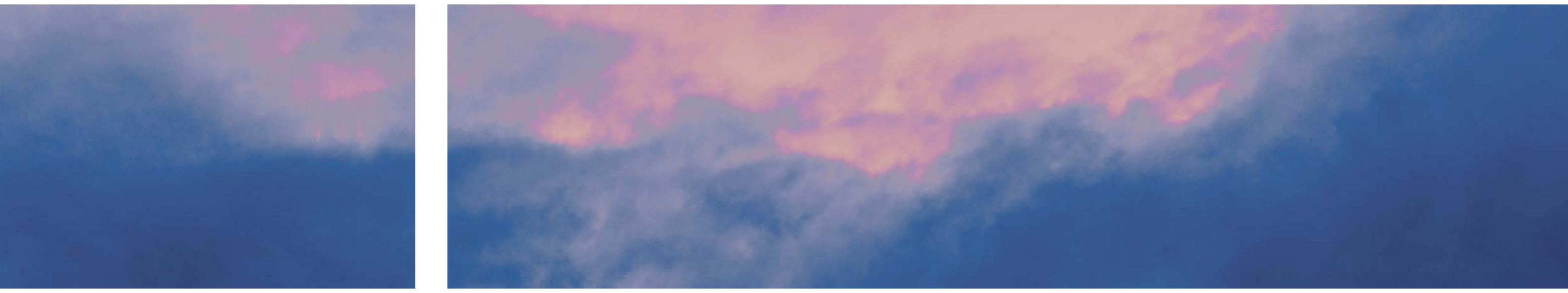
Residential average rent in the main Italian university cities (€/sqm/Y)



Source: PwC analysis on Scenari Immobiliari

200m

Investment volume in Italian student housing market



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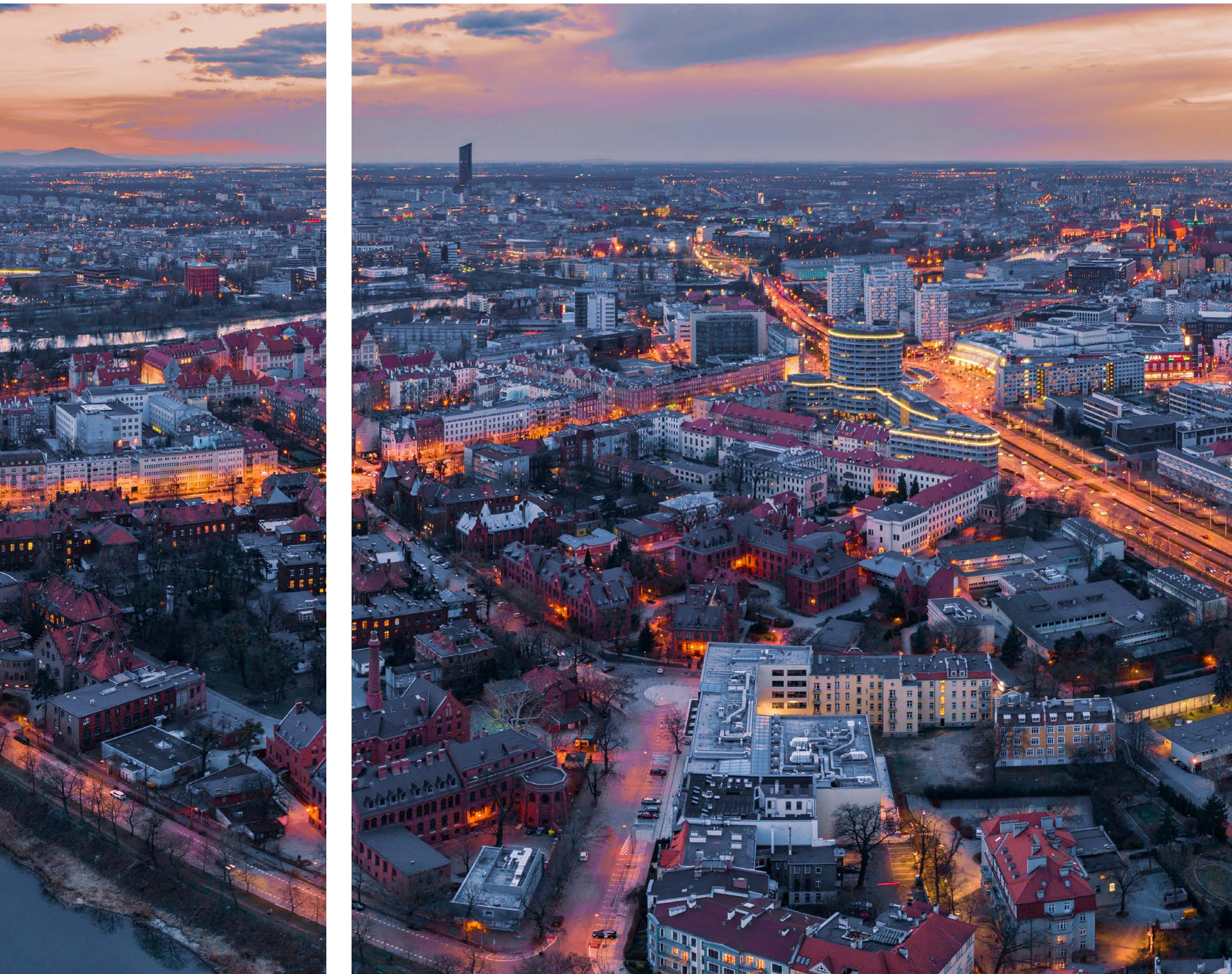
Real estate funds



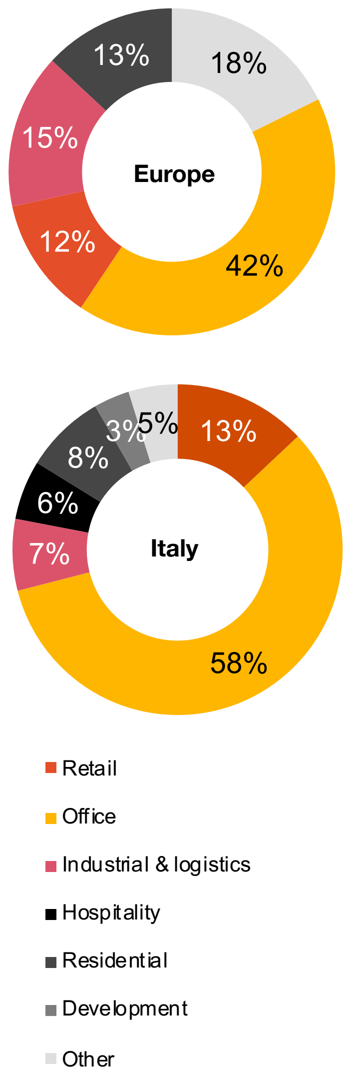
Real estate funds - overview

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 **€120bn in 2022.** An increase of about 10.5 per cent over the previous year.

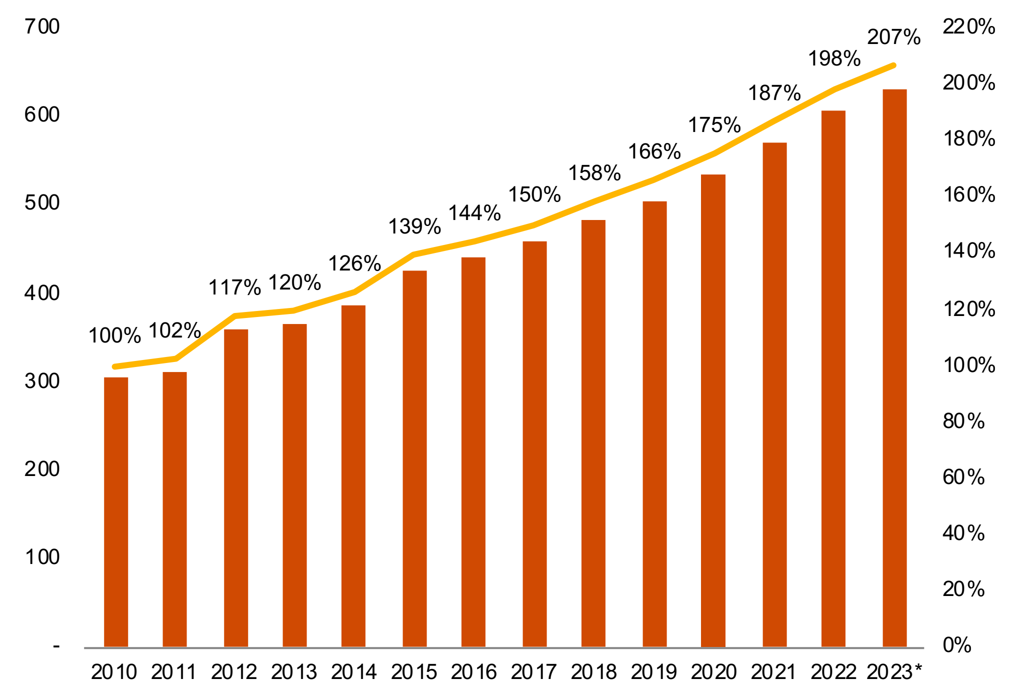
During the last ten years (2012-2022) the **number of the Italian operative funds** has constantly increased, showing a **CAGR of almost 5%.** Therefore, stressing the significant role played by this macro category.

Offices are the most common among the asset classes, constituting **58%** of the entire asset stock, followed at a distance by **retail asset class (13%)** and residential segment (8%).

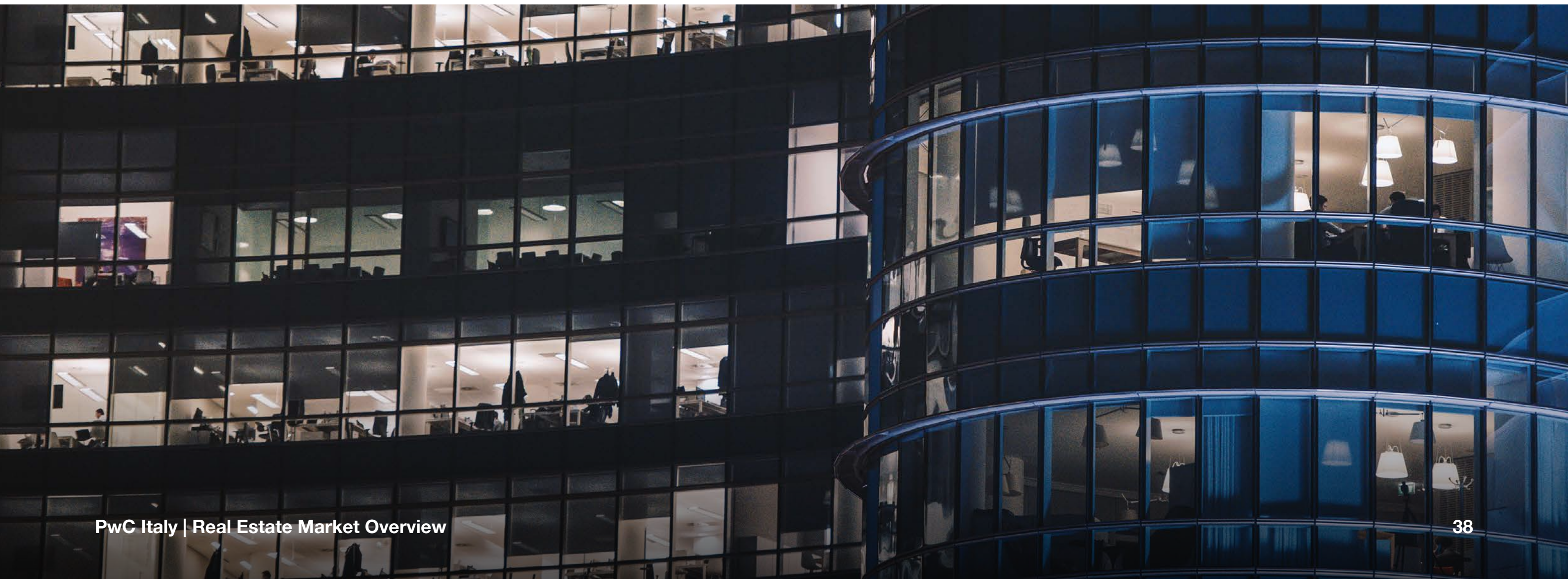
2022 Asset allocation



Historical trend of Italian operative Funds



Source: PwC analysis on Nomisma and Scenari Immobiliari data



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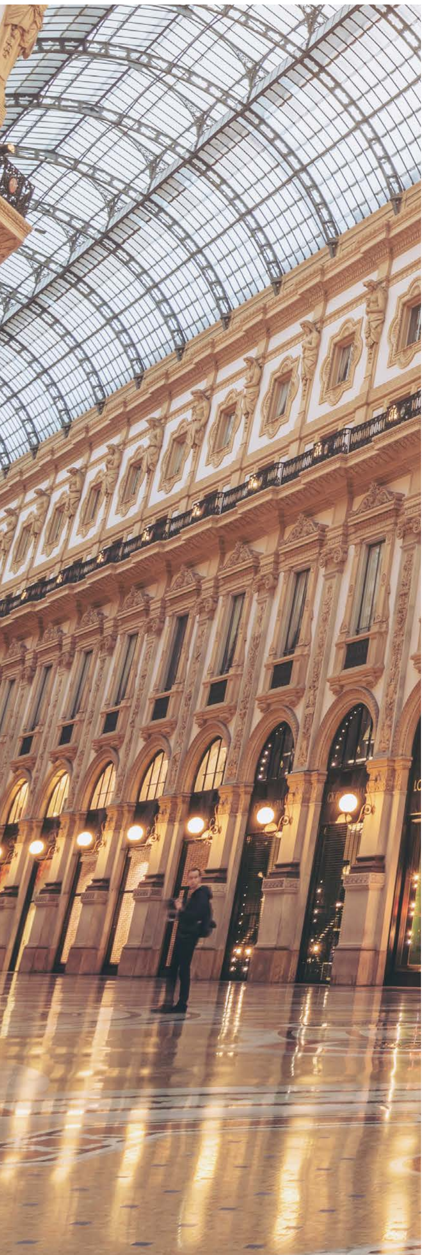
Milan real estate market



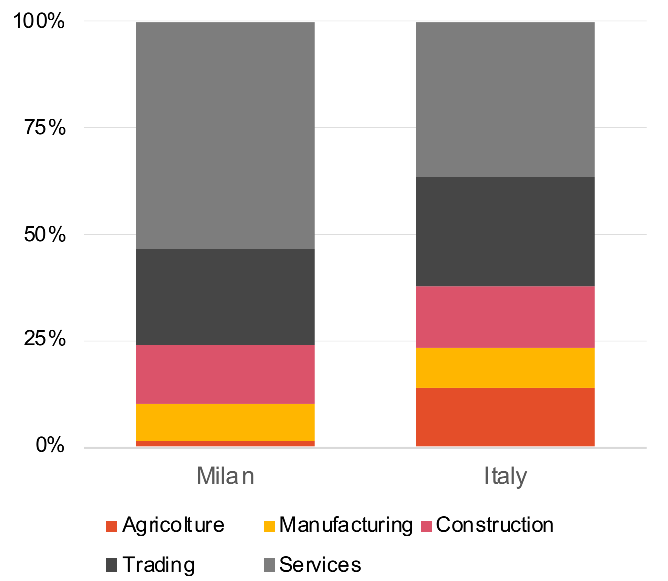
City profile

Milan, the capital of Lombardy in northern Italy, is a city renowned for its rich history, cultural heritage, and dynamic atmosphere. With a population of over 1.3 million people, Milan serves as a global hub for fashion, design, finance, and commerce. It boasts a strategic location at the crossroads of Europe, making it an attractive destination for both residents and investors.

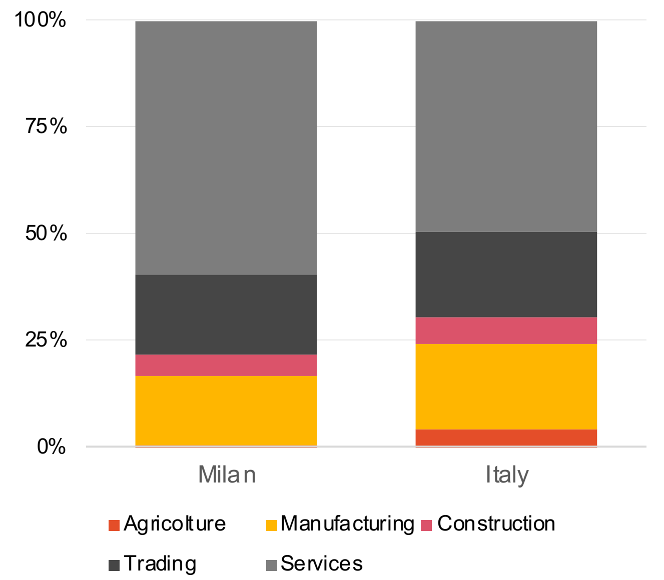
The city stands out with a significantly **higher concentration of companies in the services sector (53.3%) compared to the national average (36.3%),** which is also reflected in a **larger share of employment (59.8%) compared to the national average (49.7%).** This emphasizes the **city's dominance as a hub for diverse service-oriented industries.**

The real estate sector in Milan is experiencing significant growth, fueled by a strong economy and increasing demand. The city offers a diverse range of properties, from historic buildings in the city center to modern developments in the surrounding areas. Milan's real estate market presents lucrative opportunities for investors, with steady rental yields and potential capital appreciation. Key factors driving the real estate market include excellent transportation infrastructure, world-class educational institutions, and a thriving business environment. Milan's cultural attractions, vibrant nightlife, and culinary scene also contribute to its appeal as a desirable place to live and invest.

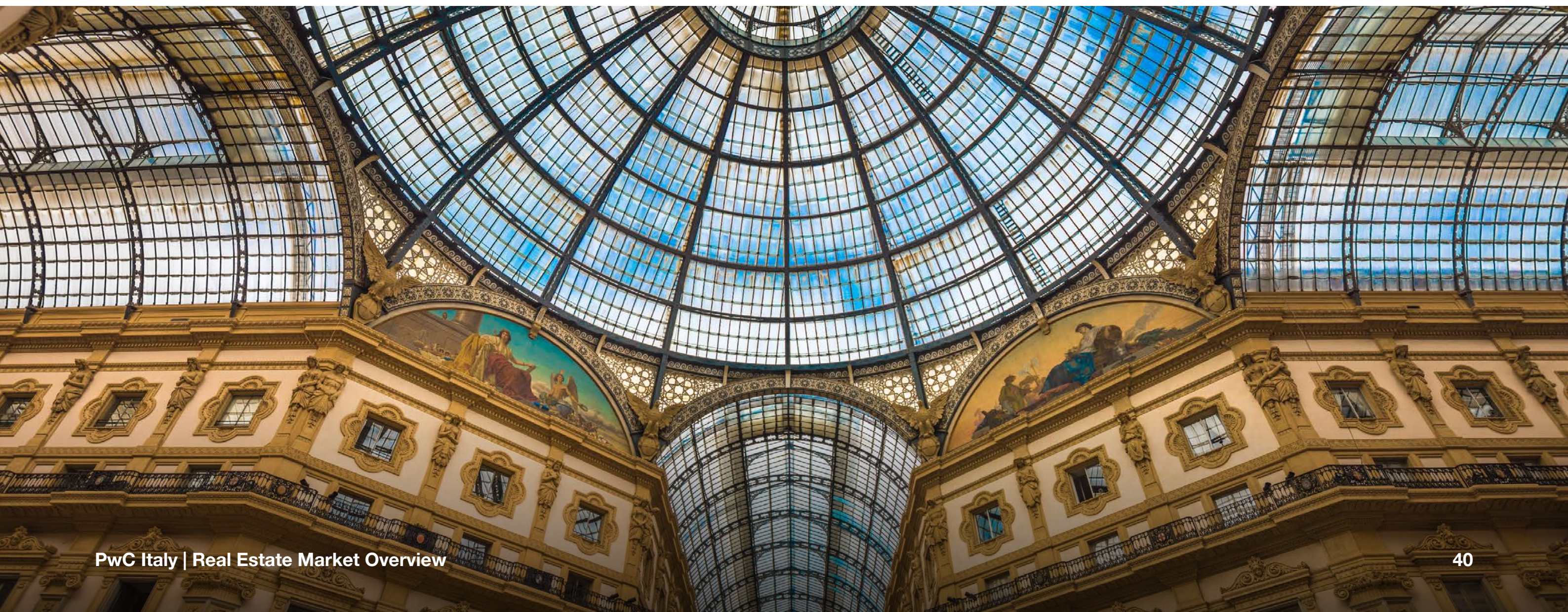
Active companies by sector (2022)



Employment by sector (2022)



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



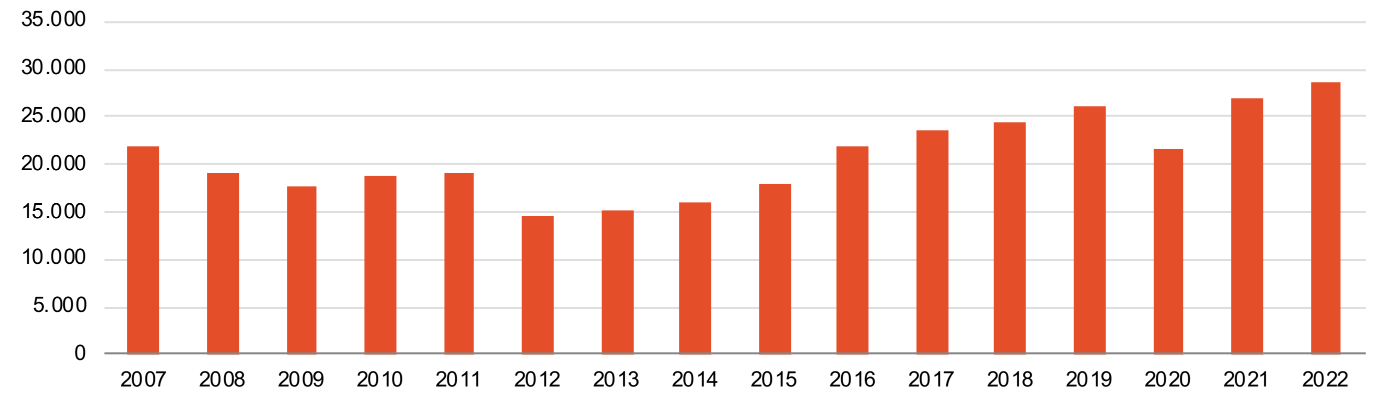
Residential sector

The **Number of** residential **Normalized Transactions in Milan** in 2022 was **28,595 transactions.**

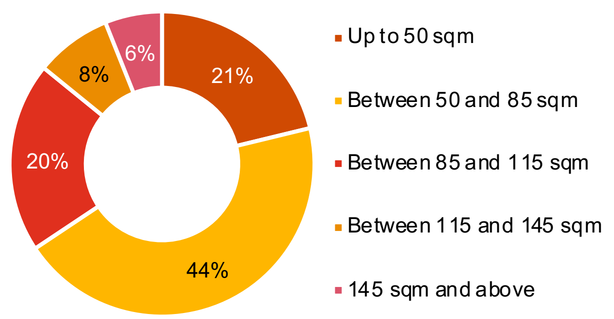
The total turnover of the **residential segment in 2022** in Milan increased considerably **(+37%)** compared to the previous year, driven mainly by the new increase in sales prices. In the comparison to the **top eight metropolitan cities,** only **Rome surpassed Milan** with a turnover of €15.8 billion.

If only new homes are considered, supply has fallen by **-4.3% compared to 2021,** and the share of new homes for sale accounts for less than 15% of all residential supply in the City of Milan.

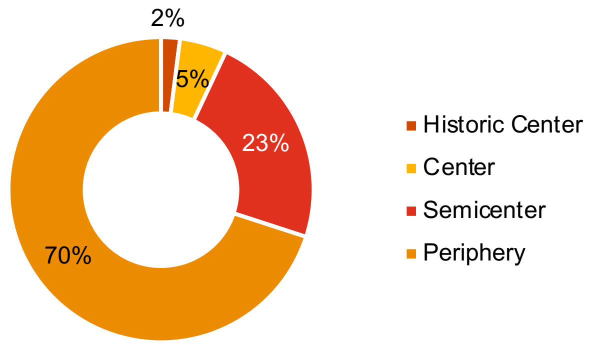
Trend of NNT 2007 - 2022 (2007 = 100)



NNT by dimensional class (2022)



NNT by macroarea (2022)



Source: PwC analysis on Italian IRS data

28,595
NNT 2022

+24.5%
NNT 2022 vs 2021

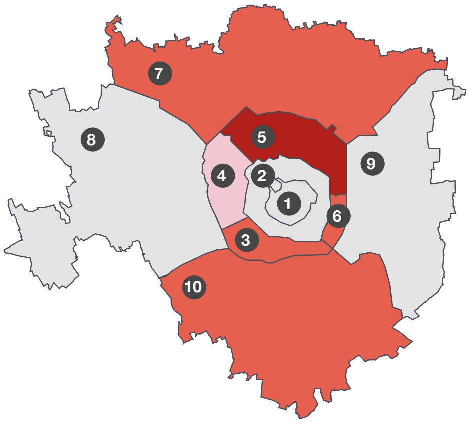
Residential asking and transaction prices

Real estate transactions typically entail price negotiations resulting in a reduction of the initial asking price to the real sale price. In recent years, Milan's residential real estate market has witnessed a notable surge in average transaction prices, driven by a significant increase in asking prices.

Specifically, the weighted **average asking prices** in Milan's OMI areas **rose by approximately 39.09%** since 2015, partially reflecting average transaction prices, which increased **by 21.42%.**

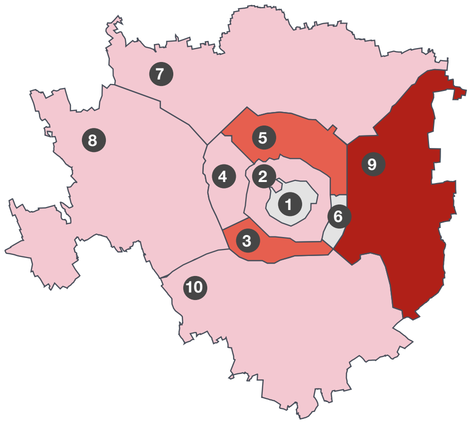
However, the increase in asking prices **did not uniformly** translate into a proportional growth in real prices. Specifically, certain OMI areas, such as the North Semicenter, witnessed a substantial rise in both asking prices (+49.86%) and transaction prices (+25.28%). Conversely, areas like the East Periphery experienced the fourth lowest increase in asking prices (30.59%), yet still observed a the most significant growth in transaction prices (+34.47%).

Var % in asking prices [2015-2022]



	Milan's OMI areas	Asking prices
1	Historic center	25,91%
2	Center	30,57%
3	South Semicenter	38,60%
4	West Semicenter	36,83%
5	North Semicenter	49,86%
6	East Semicenter	41,15%
7	North Periphery	42,80%
8	West Periphery	27,69%
9	East Periphery	30,59%
10	South Periphery	38,83%

Var % in transaction prices [2015-2022]



	Milan's OMI areas	Real prices
1	Historic center	7,07%
2	Center	15,03%
3	South Semicenter	26,31%
4	West Semicenter	20,68%
5	North Semicenter	25,28%
6	East Semicenter	13,23%
7	North Periphery	16,88%
8	West Periphery	18,63%
9	East Periphery	34,47%
10	South Periphery	20,63%

Source: PwC analysis on Italian IRS data and Immobiliare.it

+39.09%
Var. % Asking prices (2015-2022)

+21.42%
Var. % Real prices (2015-2022)

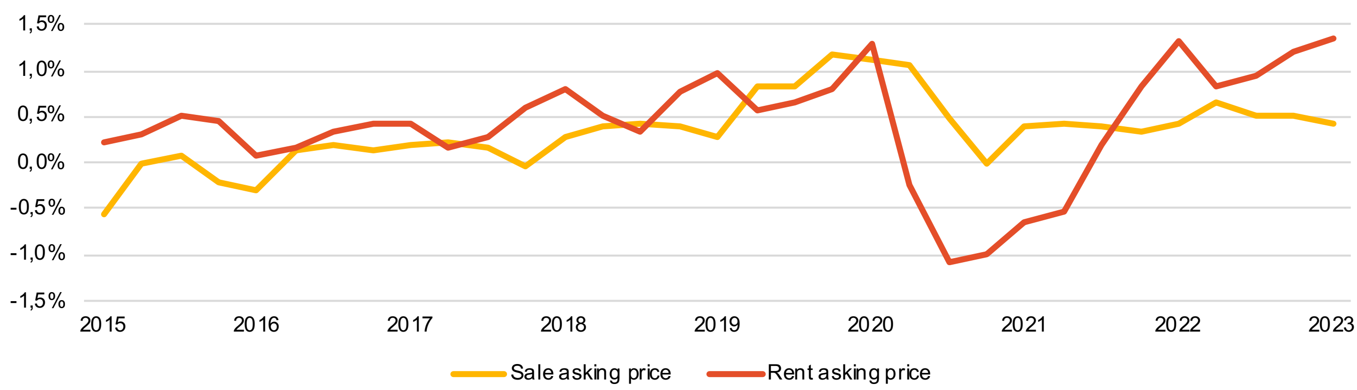
Residential asking transaction and asking rent

Milan's asking prices for both sale and rental have been evaluated, revealing a general **parallel trend** from 2015 to 2023. However, the trends separate in 2020 following the onset of the pandemic. Indeed, during this period, while sale asking prices remained relatively stable, rental asking prices experienced a decline until Q3 2021, before eventually reversing their downward trajectory. Notably, rental asking prices exhibited a faster growth rate compared to asking sale prices since Q4 2023.

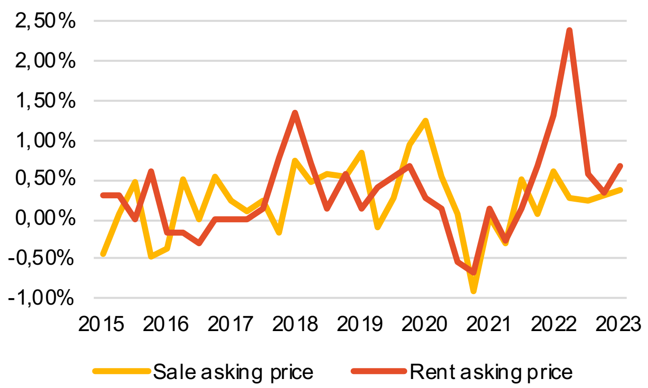
As previously highlighted, rental asking prices in Milan experienced a more significant decline compared to asking sale prices. This holds true for all OMI areas, except for the **Historical Center** and **Center** areas, where **the supply of residential rental properties exhibited greater resilience compared to the assets available for sale.**

Lastly, it is worth highlighting the presence of a **recurring pattern in sale and rental asking prices.** For instance, as seen in the **South Periphery** area, rental asking prices tend to **increase for one or two consecutive quarters** before experiencing a slowdown in growth. This behavior is observed in most OMI areas throughout the available data, however, a structural break is observed in 2020 and 2021.

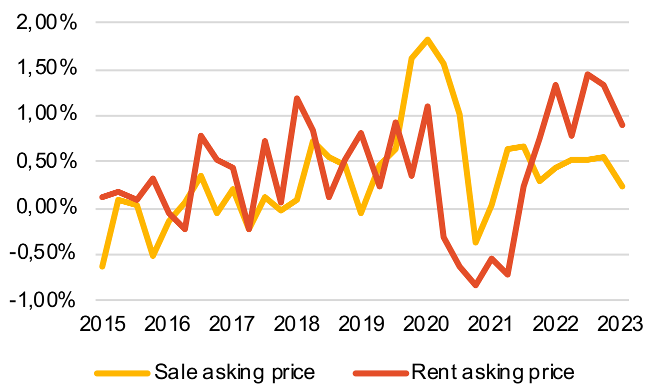
Price Spread - Milan



Sale and Rent Asking Prices - Historic Center



Sale and Rent Asking Prices - South Periphery



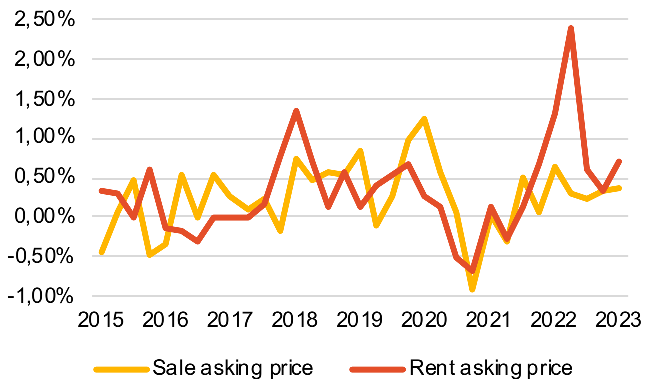
Source: PwC analysis on Italian IRS data

Residential asking transaction and asking rent

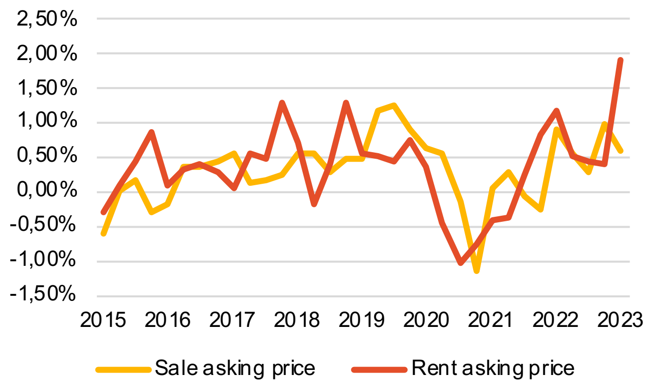
Sale and Rent asking prices exhibited diverse trends across different regions of Milan, including the Historic Center, Center, Semicenter, and Periphery. The significant findings are outlined below:

- **The Historic Center and Center areas exhibited a similar pattern** not only during the significant decline experienced in 2021 but also **throughout the entire observation period.** However, in terms of recovery, the Historic Center displayed a more notable bounce back during 2022, while the Center witnessed greater growth during the first quarter of 2023;
- In contrast, **the Semicenter and Periphery areas differed from the Historic Center and Center areas.** These areas experienced a substantial drop in rental prices during 2020 and 2021 compared to sales asking prices. However, both the Semicenter and Periphery areas observed considerable growth in rental price rates compared to the growth rates of sales asking prices.

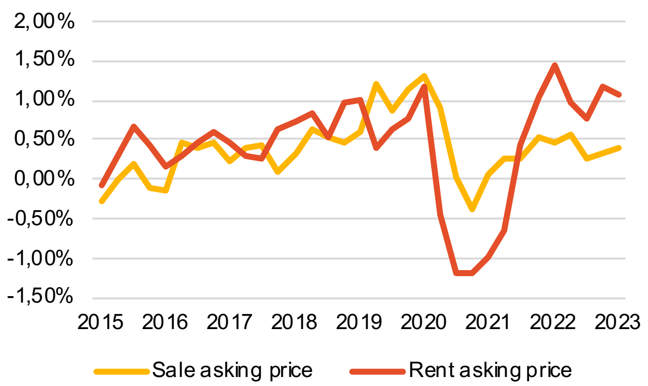
Sale and Rent Asking Prices - Historic Center



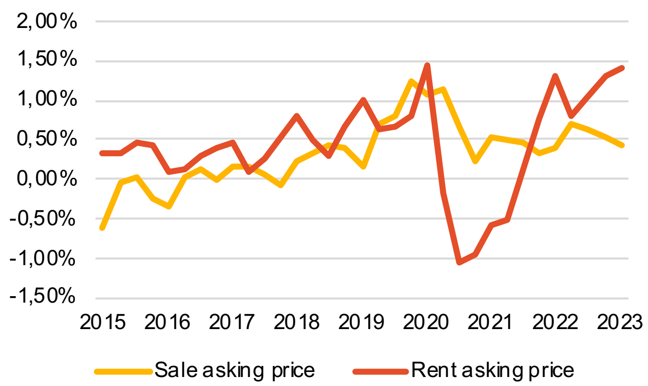
Sale and Rent Asking Prices - Center



Sale and Rent Asking Prices - Semicenter



Sale and Rent Asking Prices - Periphery



Source: PwC analysis on Italian IRS data

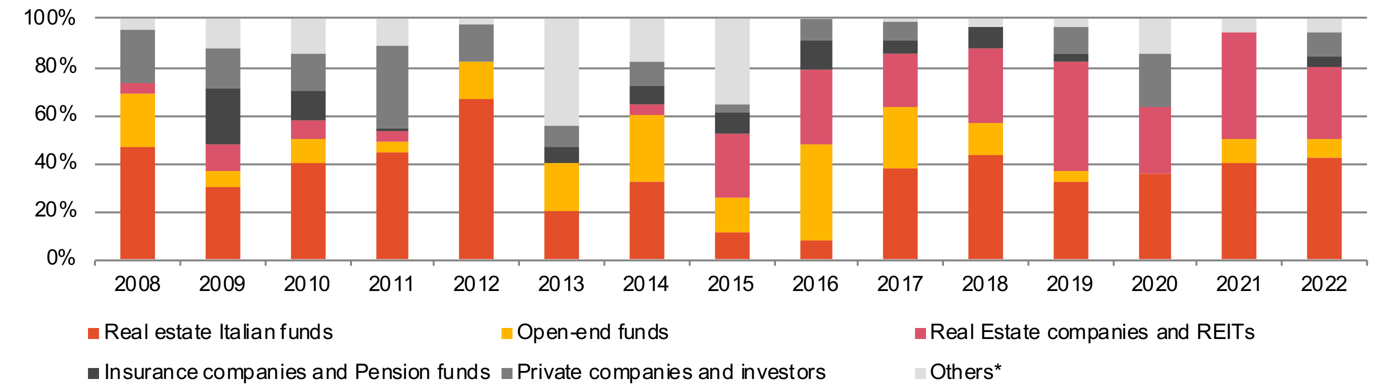
Investments trends

In 2022, real estate investments in Milan were shaped by notable trends among various investor types.

Real estate Italian funds emerged as the driving force behind investments, contributing 42% of the total investment amount in 2022. This figure closely aligns with their 2021 investments, which accounted for 40% of the total. Their sustained interest underscores continued confidence in Milan's real estate market. However, **Real Estate companies and REITs experienced a slowdown in 2022,** with investments amounting to 30% of the total.

This marks a decrease of 15 percentage points compared to their investments in 2021, suggesting a recalibration of strategies and priorities among this investor class. Remarkably, **both Insurance companies and Pension funds,** as well as **Private companies and investors, entered the market in 2022 after not investing at all in 2021.** They accounted for 5% and 10% of the overall investment amount, respectively. Finally, **Open-end funds** and **Others investors maintained similar figures** compared to 2021, with the former contributing 8% and the latter 5% of the total investment amount.

Real estate investments by investor class (2008 - 2022)



Source: PwC analysis

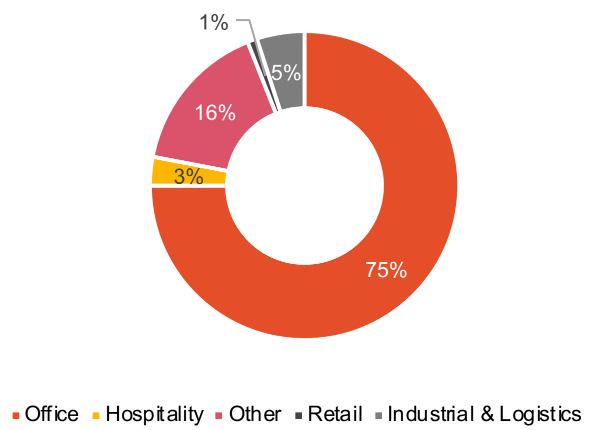
The real estate market in Milan witnessed notable investment trends in 2022, with an approximate **total investment amount of € 5,2 billion.**

Office assets captured the majority of investments, accounting for nearly 75% of the total in 2022. This represents an increase of 25 percentage points compared to 2021, thus **continuing the positive trend** of this asset class during the last few years.

On the other side, **Retail investments shrank to 1% in 2022,** indicating that the asset class faced major break, as 2021 figure was 26%.

The **Hospitality asset class Industrial & Logistic** accounted for 3% and 5% of the total investment amount in 2022, a slight decrease from 2021, as previous figure were equal to 6% and 9%, respectively.

Real estate investments by investment class (2022)



Source: PwC analysis on Broker data

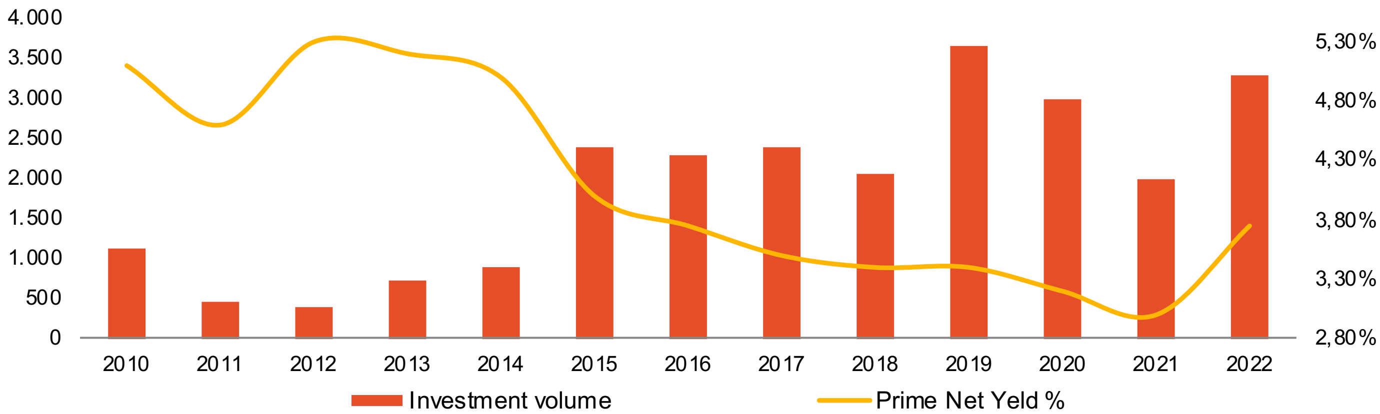
Office sector

In **Y 2022,** office investments in Milan reached almost **€3.3 billion, +65% compared to 2021.** Demand was mainly for office space **below 1,000 sqm** (62% of the total), although eight transactions above 10,000 sqm were recorded during the year, the **largest being almost 40,000 sqm.**

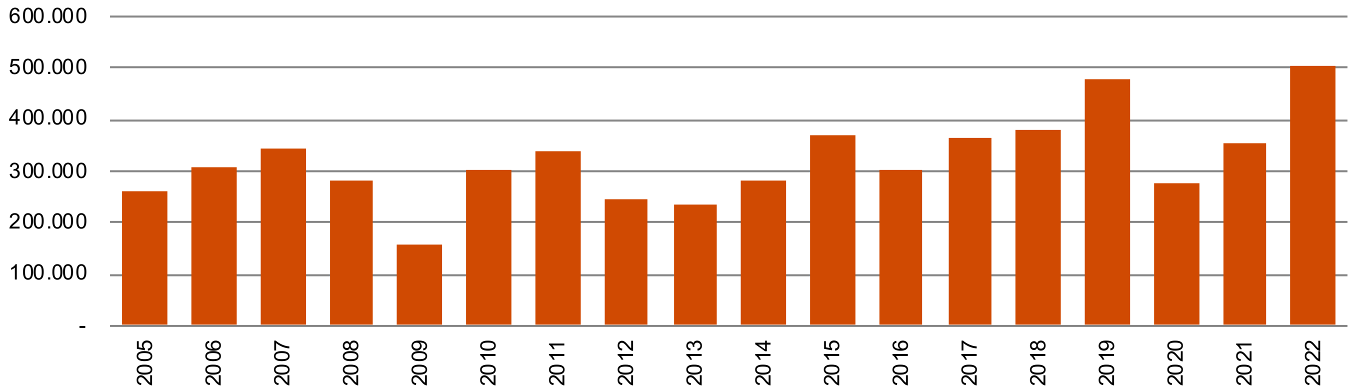
Grade A properties remain the preferred choice of occupants, accounting for **77% of the absorbed area.**

In terms of zones, about 34% of demand involved spaces located in the central areas (CBD - business district, historical centre, city centre), 33% in the suburbs, 17% in the Hinterland area and 16% in the semi-centre. Both rents and yields increased, reaching a prime rent of 690 euro per sqm and a yield of 3.75%.

Investments trend (€bn) and Prime net yield 2010 - 2022



Trend of take up (sqm) 2010 - 2022



Source: PwC analysis

€3.3bn
Total Investments in Y 2022

690 €/sqm/y
Prime Rent CBD Y 2022

+10%
Var. % Y 2022 vs Y 2020

3.75%
Prime Net Yield in Y 2022

Retail sector

Milan, being one of the most influential global fashion life-styles cities, is recovering enthusiasm and promoting change for life quality.

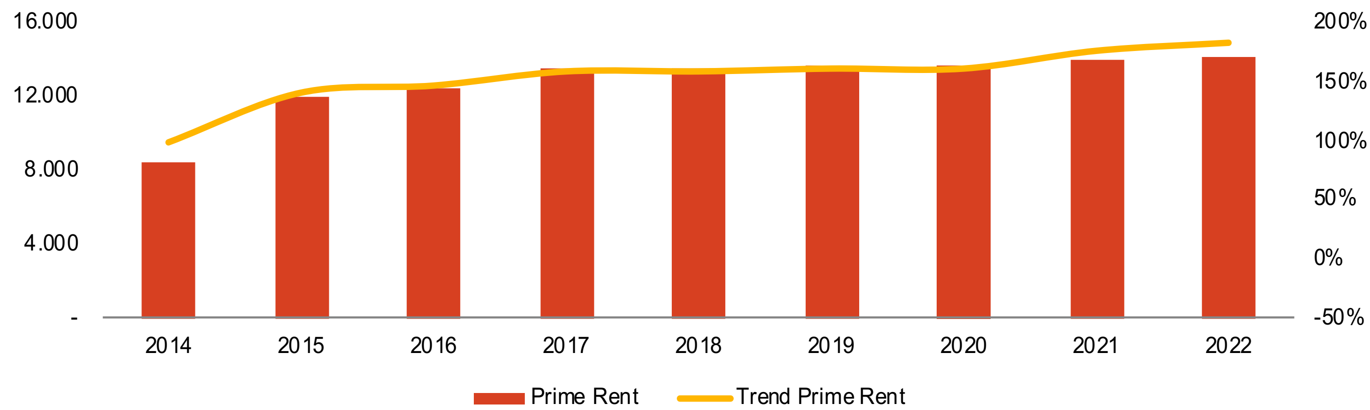
The Q2 of 2022 confirmed stable rental values as registered in the first three months of the year. Milan saw an increasing number of visitors and international tourists, also in the summer period. Emerging retail sectors such as automotive are actively exploring Italy, with particular attention to Milan.

Q3 of 2022 confirmed stable rental values, with some prime high streets registering increasing values due to the limited offer and to strong levels of interest from tenants.
For example, **via Montenapoleone registered a +3.5%** increase compared to the same period of 2021.

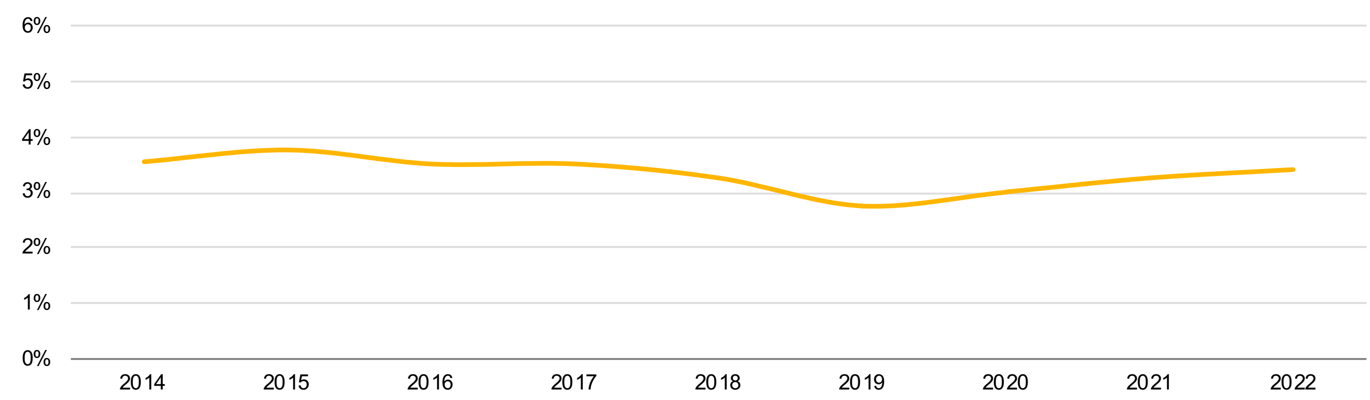
Rental values in the highstreet sector in Milan on Brokers data (€/sqm/y) 2022

High Streets	Min 2022	Max 2022
Via Montenapoleone	8.000	17.000
Via della Spiga	1.700	5.450
Via Sant'Andrea	3.600	8.100
Via Verri	1.500	4.500
Corso Matteotti	900	3.200
Galleria Vittorio Emanuele	1.500	19.000
Corso Vittorio Emanuele II	3.500	8.200
Gae Aulenti - Via Capelli	1.500	2.200
Via Manzoni	950	2.500
Via Dante - Cordusio	1.600	2.400
Via Torino	900	1.800

Prime rent retail and Prime rent trend in Milan 2014 - 2022



Prime net yield highstreet trend in Milan 2014 - 2022



Source: PwC analysis

Hospitality sector

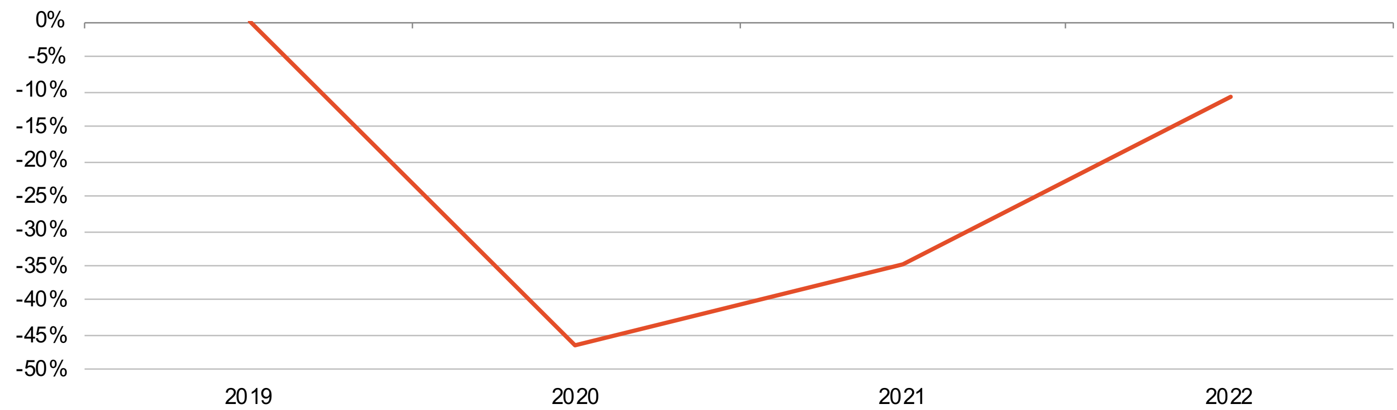
The hospitality market is a key sector in a city like Milan, which in recent years has continuously risen in the ranking of the most visited European cities. International investors' interest in this asset class is on the rise. Capital flows have been particularly directed towards the upper-upscale segment with rebranding transactions of existing hotels or the purchase of income hotels by core investors.

In terms of performance, Milan recorded an increase of about 30% in ADR (Average Daily Rate) compared to 2021. Hotel occupancy rates were around 60%. RevPAR is in line with the performance recorded in 2019 (+3%).

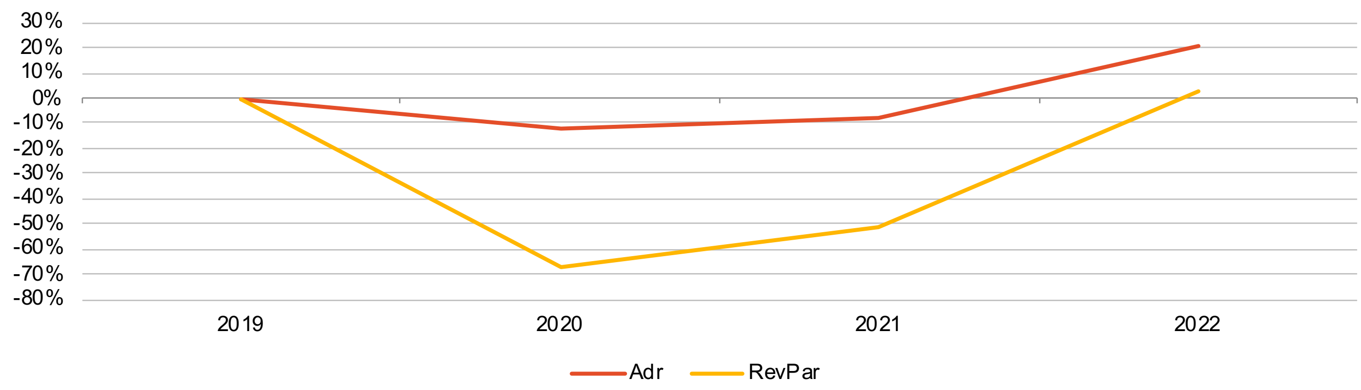
International capital will continue to dominate the hotel investment market in Italy, now accounting for about 80% of transaction volumes in the country, especially in particularly attractive cities such as Milan.

Core transactions in income-producing hotel assets, on the other hand, will continue to be scarce, both because of the limited supply of quality product with these characteristics, and because of the high cost of money, which is reflected in a sharp rise in expected returns and consequent repricing demands, which struggle to be absorbed by the typical Italian seller represented by private individuals and families.

Milan's occupancy ratio (2019-2022)



Milan's Average Daily Rate and Revenue Per Available Room (2015-2022)



Source: PwC analysis on EBTL

Hospitality sector

Milan's hospitality real estate sector is shaped by significant trends, including a growing emphasis on **sustainability and eco-friendly practices,** the rise of boutique and lifestyle hotels, and the **increasing demand for luxury accommodations and personalized services.**
One notable transaction in Milan exemplifies these trends as Hines, a US-based company, acquires the former Versace office building on via Borgospesso to convert it into a boutique luxury hotel.

This transaction effectively **integrates the major trends in the hospitality real estate sector.** The hotel's adherence to ESG standards demonstrates a focus on sustainability and eco-friendly practices. Additionally, the project embraces the boutique and lifestyle trend by offering guests a personalized stay with local cultural elements. The conversion of the former Versace office building caters to the growing demand for upscale accommodations and exclusive amenities sought by affluent travelers.

Overall, **this transaction reflects the evolving nature of Milan's hospitality real estate market,** catering to the changing preferences of consumers. Milan positions itself as an attractive destination for discerning travelers, emphasizing sustainability, boutique experiences, and luxury offerings. The boutique luxury hotel project showcases the vibrant and competitive nature of Milan's hospitality real estate sector.

Sustainable and Green Practices

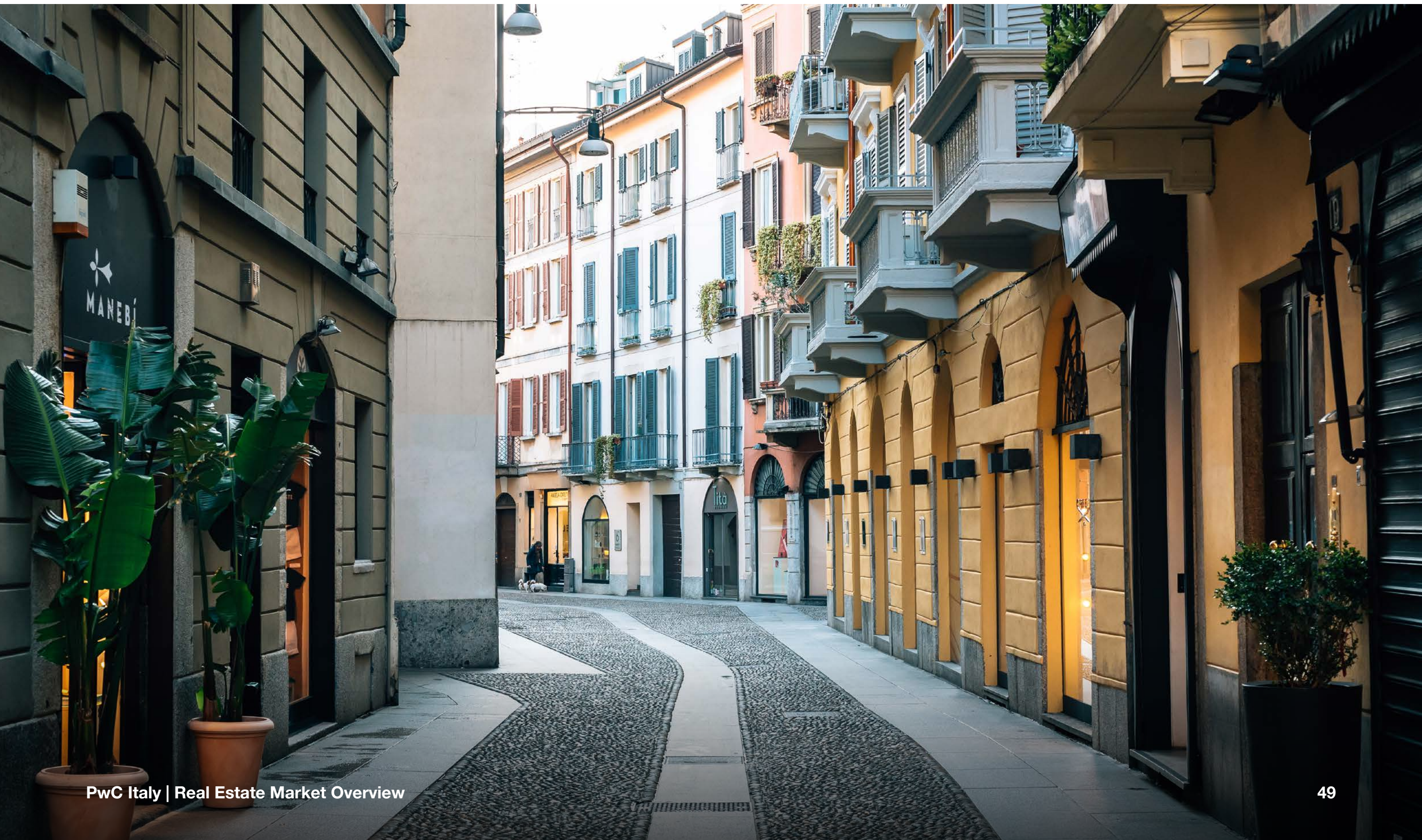
Eco-friendly measures such as energy-efficient technologies, waste management systems and the use of renewable resources. This trend is driven by consumer demand for environmentally responsible accommodations and the desire to reduce operating costs.

Boutique and Lifestyle Hotels

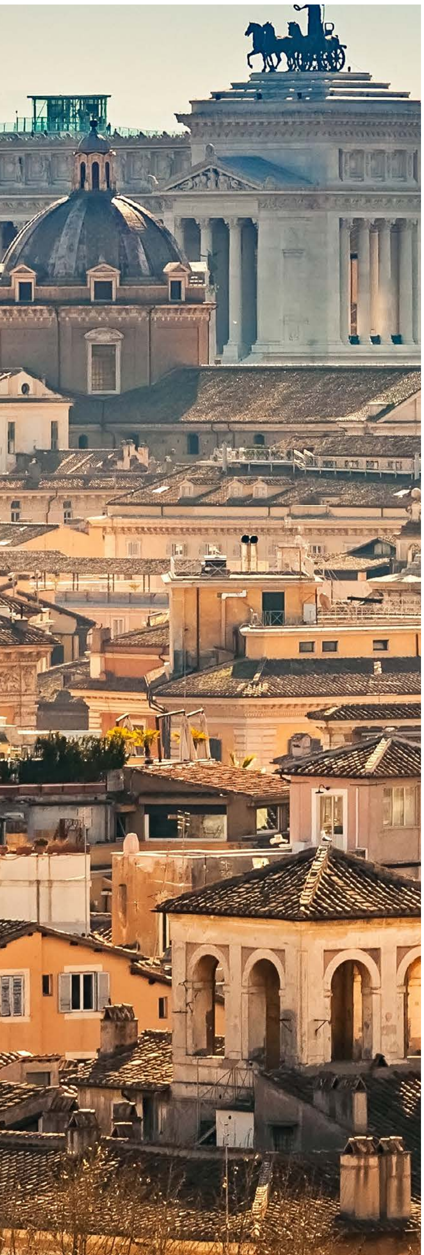
Boutique hotels cater to niche markets and appeal to travelers seeking authenticity and a more intimate atmosphere. These properties often feature distinctive design elements, local artwork, and immersive experiences that reflect the local culture and heritage.

Luxury and High-End Segment

International luxury hotel brands are expanding their presence in Italy, attracting affluent travelers who seek premium accommodations, personalized services, and exclusive amenities.



08. Rome real estate market



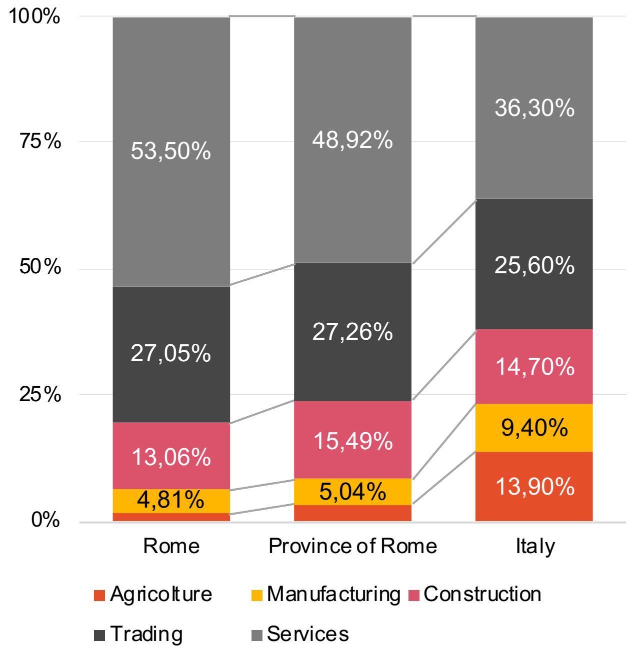
City profile

Rome, the eternal city, showcases a robust economic landscape, shaping its real estate market and offering valuable insights into investment opportunities. Understanding the dynamic economic sectors and their interplay is crucial for comprehending Rome's real estate market.

In 2022, the **Service sector held a dominant position in Rome,** representing a **significant share of 53.50%** of the city's economic activity. Moreover, Rome exhibited a **comparative advantage** in both the **Service** and **Trading sectors.** The city's Service sector outperformed the province of Rome (48.92%) and the national level (36.30%). Similarly, the Trading sector in Rome accounted for a substantial 27.05% share, closely aligned with the province of Rome (27.26%) and Italy (25.6%).

Rome's economic landscape in 2022 revealed a **lower emphasis on the Construction, Manufacturing, and Agriculture sectors compared to national averages.** Indeed, the construction sector accounted for 13.06% of Rome's economic activity, while manufacturing and agriculture contributed 4.81% and 1.58%, respectively, while national averages accounted for 14,70%, 9,40% and 13,90%, respectively.

Active companies by sector (2022)



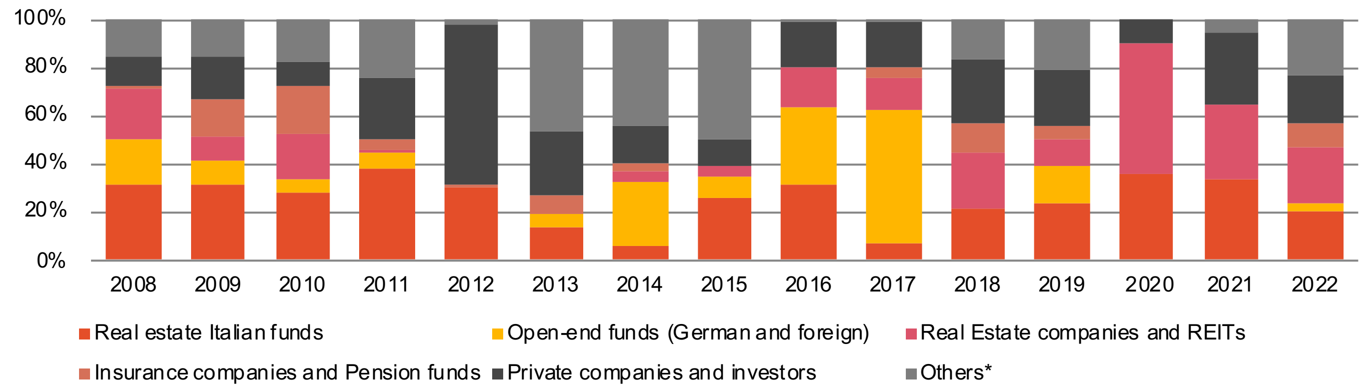
Source: PwC analysis on data provided by The Chamber of commerce of Rome

Investments trends

In 2022, the real estate market in Rome experienced a dynamic investment landscape, characterized by diverse investor participation.

Among the investor classes, **Real Estate Italian funds and Banks, public sector and sovereign funds** contributed 23% to the total investments in Rome. Conversely, **Open-end funds** (German and foreign) and **Insurance Companies and Pension funds** had **relatively lower participation,** accounting for 3% and 10%, respectively. **The investor classes displayed a relatively balanced distribution of investments in Rome,** with the exception of Open-end funds and Insurance Companies and Pension funds, which held smaller shares. Compared to 2021, **significant growth** was observed in the **"Others"** category, consisting of Banks, Public sector entities, and Sovereign funds, with an increase of 17 percentage points. **Insurance companies and pension funds also experienced substantial growth,** expanding their share by 10 percentage points.

Institutional real estate investments by investor class (2022)



Source: PwC analysis

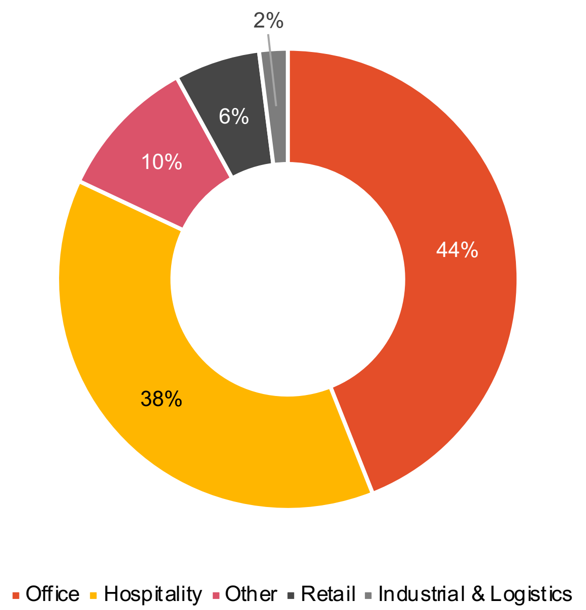
The real estate market in Rome witnessed notable investment trends in 2022, with an approximate **total investment amount of 1,48 billion €.**

Office assets captured the majority of investments, accounting for nearly **44%** of the total in 2022. This represents a decrease of 21 percentage points compared to 2021, indicating a **shift in investor preferences.** Despite this decline, offices remained a significant focus for investors in the Rome market.

The **Hospitality asset class** experienced a **remarkable surge, reaching 38%** of the total investment amount in 2022. This marks a significant increase compared to the mere 2% allocation in 2021. The revival of the hospitality sector following the pandemic-induced slowdown contributed to this notable growth, **attracting investors seeking opportunities in the recovering market.**

On the other hand, **investments in the Retail and Industrial & Logistics sectors declined in 2022,** accounting for 6% and 2% of the total amount, respectively, reflecting a reevaluation of these asset classes within the Rome market.

Institutional real estate investments by investment class (2022)



Source: PwC analysis on Broker data

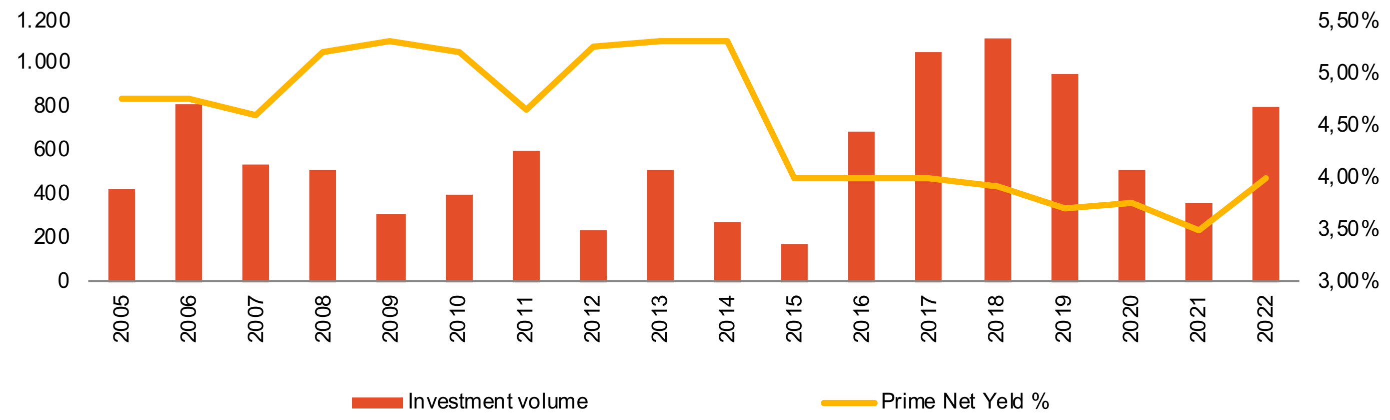
Office sector

Rome recorded 10 capital market transactions, for a total value of approximately **€ 800 million,** relating to real estate located mainly in the central and **EUR areas.**

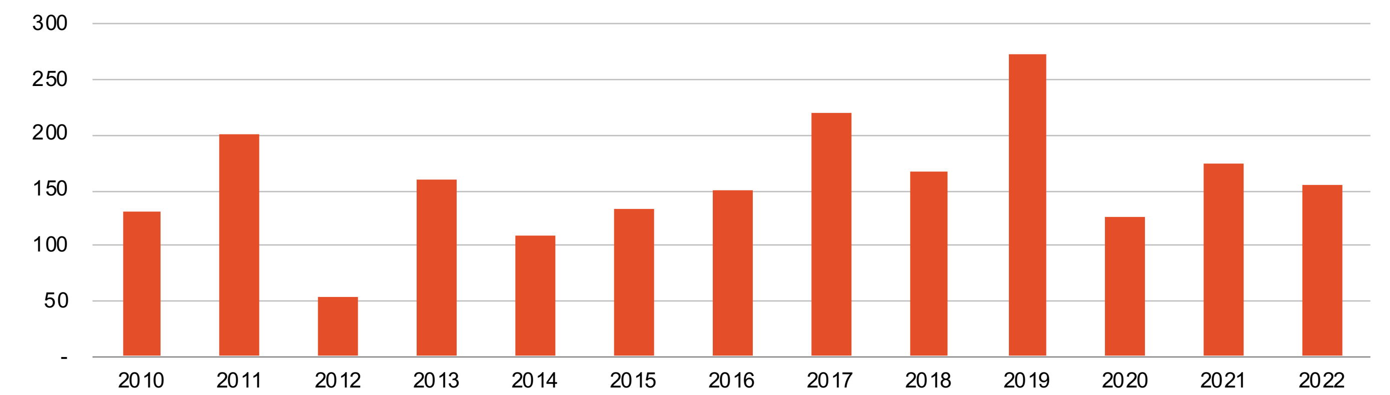
There was also a growth in the absorption of office space in Rome, on the user side, where 148 transactions were concluded, for a total area of approximately **150,000 sqm (+5%).**

Demand was mainly concentrated in the **Eur (38%), Center and Semi-Center (28%) and CBD (20%)** areas, while grade B spaces were the most in demand (62%), mainly due to the preponderant supply of grade B properties compared to others in Rome. Prime rents were stable, standing at a prime rent of EUR 520 per sqm and an **increasing yield at 4%.**

Trend of investments (€m) 2010 - 2022



Take up trend (sqm) 2010 - 2022



Source: PwC analysis

€800m
Total Investments in Y 2022

520 €/sqm/y
Prime Rent CBD Y 2022

+55%
Var. % Y 2022 vs Y 2020

4%
Average Prime Net Yield Y 2022

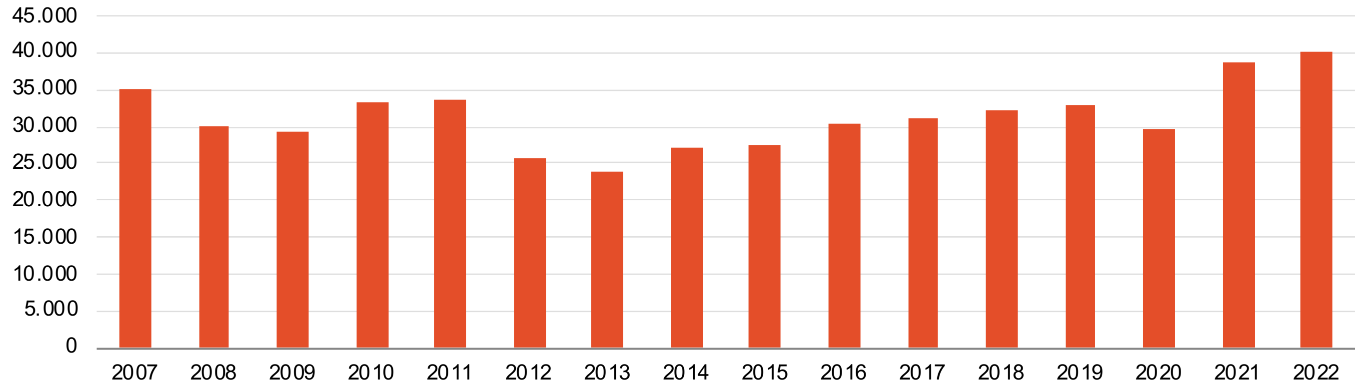
Residential sector

The **Number** of residential **Normalized Transactions** in 2022 was 40,064.

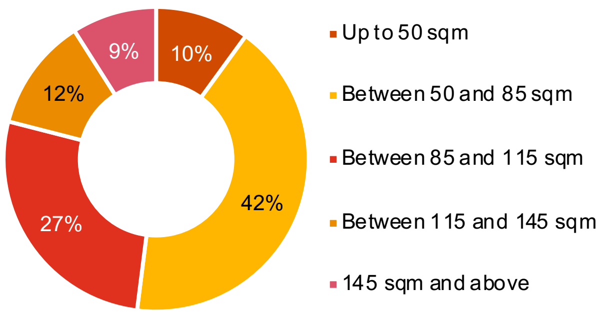
In 2022, Rome's residential real estate market recorded sustained demand, which led to a good performance of purchases and sales in many areas, while average prices and average selling times remained stable on the whole compared to the previous year.

In the **historic centre,** average prices are within a very wide range that takes into account the location of the property, its state of maintenance and proximity to historical, cultural or institutional points of interest. The average discount on the asking price is reduced in the first half of 2022, which varies greatly by area. The average selling time remains substantially stable, ranging between 2 and 8 months.

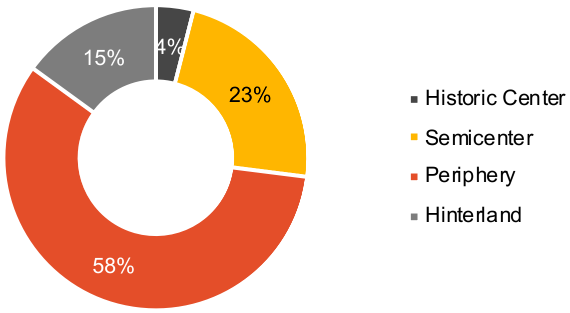
Volume of NNT (2008 - 2022)



NNT by dimensional class (2022)



NNT by macroarea (2022)



Source: PwC analysis on Italian IRS data

40,064
NNT 2022

+3%
NNT 2022 vs 2021

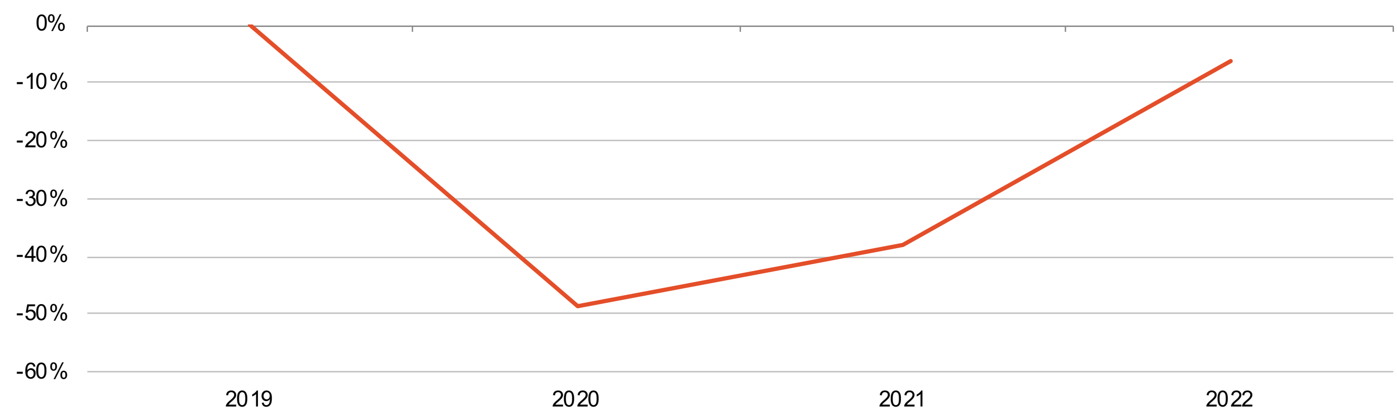
Hospitality sector

In Italy, the spread of chain hotels ('brand penetration') remains modest compared to the main European markets, due to a high fragmentation of the industry. This context constitutes an opportunity for the Italian market, which is increasingly open to the entry of hotel chains and international investors.

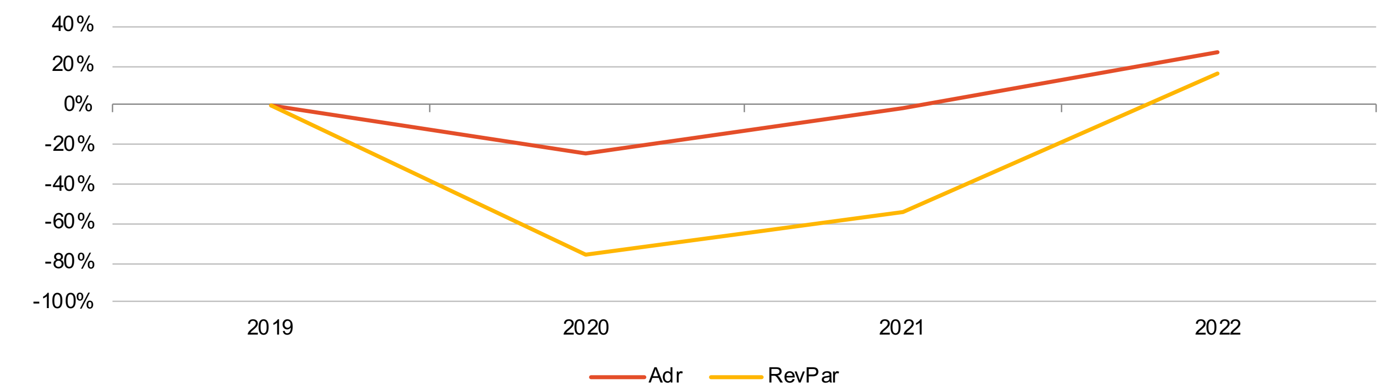
The hospitality market has been in evolving in Rome in recent years. The city proves to have appeal with international investors, showing a broad investment potential. In the context of value-add transactions, **investors are showing particular interest in the Roman market,** also in view of the Jubilee of 2025, focusing on the repositioning of existing structures and the conversion of office buildings in the city centre, especially in the luxury and extra-luxury segment.

In terms of performance, the ADR (Average daily rate) in Rome grew by around 29% in 2022 compared to the previous year, achieving the best results among European capitals, with Rome second only to Paris in terms of growth rate. Hotel occupancy rates are still below 2019 levels, -6% in Rome, but in line with the European market.
As a result, the RevPar in Rome is above the levels reached in 2019 (+16%).

Rome's occupancy ratio (2015-2022)



Rome's Average Daily Rate and Revenue Per Available Room (2015-2022)



Source: PwC analysis on AICA, ISTAT

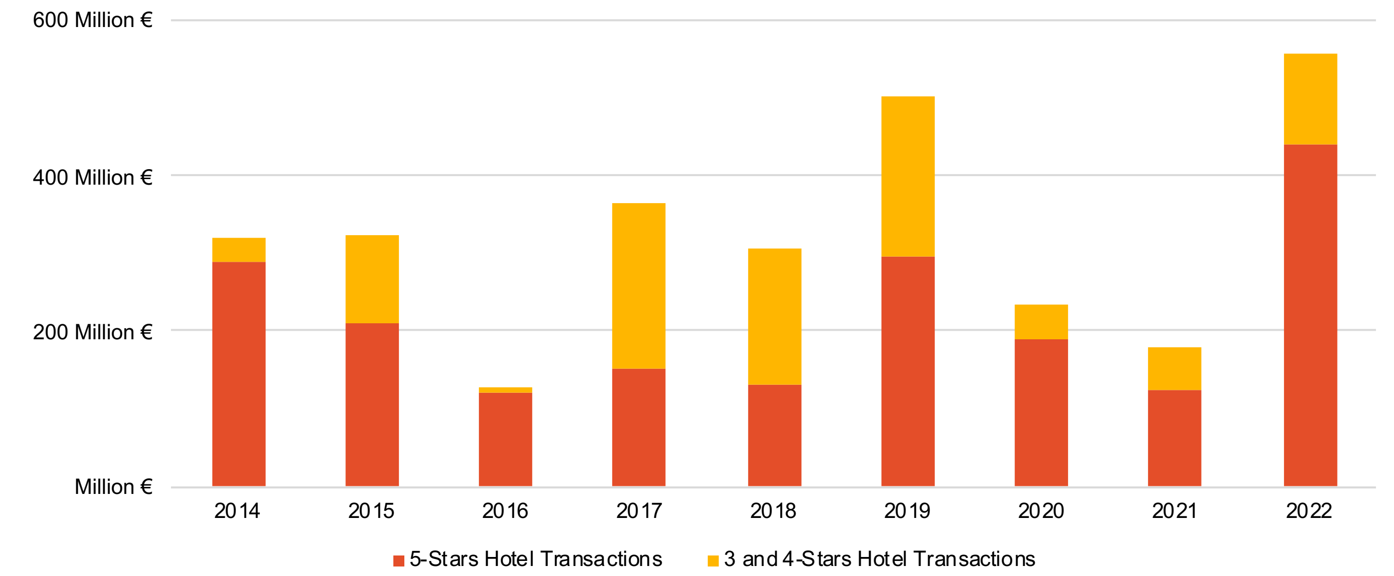
Hospitality sector

Transactions in the hotel sector in Rome, between 2014 and 2023 Q1, demonstrate the city's enduring appeal to investors in Italy. In 2022, **Rome stood out as the top destination for hotel investments,** with a **significant focus on the luxury segment, accounting for 79% of the total hospitality investments in Rome.** The city's allure as a hub for luxury hospitality remains strong, attracting substantial capital inflows.

Rome's position as one of the most attractive and vibrant destinations for luxury hospitality investments in Italy is reinforced. Its rich historical and cultural heritage, combined with its global prominence, continue to draw both domestic and international investors seeking opportunities in the sector. The favorable investment climate and sustained interest in luxury hospitality projects make Rome an ideal market for those looking to enter or expand their presence. The city's thriving hospitality industry, coupled with its reputation as a premier tourist destination, offers compelling prospects for long-term growth and profitability.

Rome's hospitality real estate sector presents a dynamic landscape ripe with potential, making it a favorable choice for discerning investors seeking to capitalize on the city's robust market and capitalize on the demand for upscale accommodations and premium experiences.

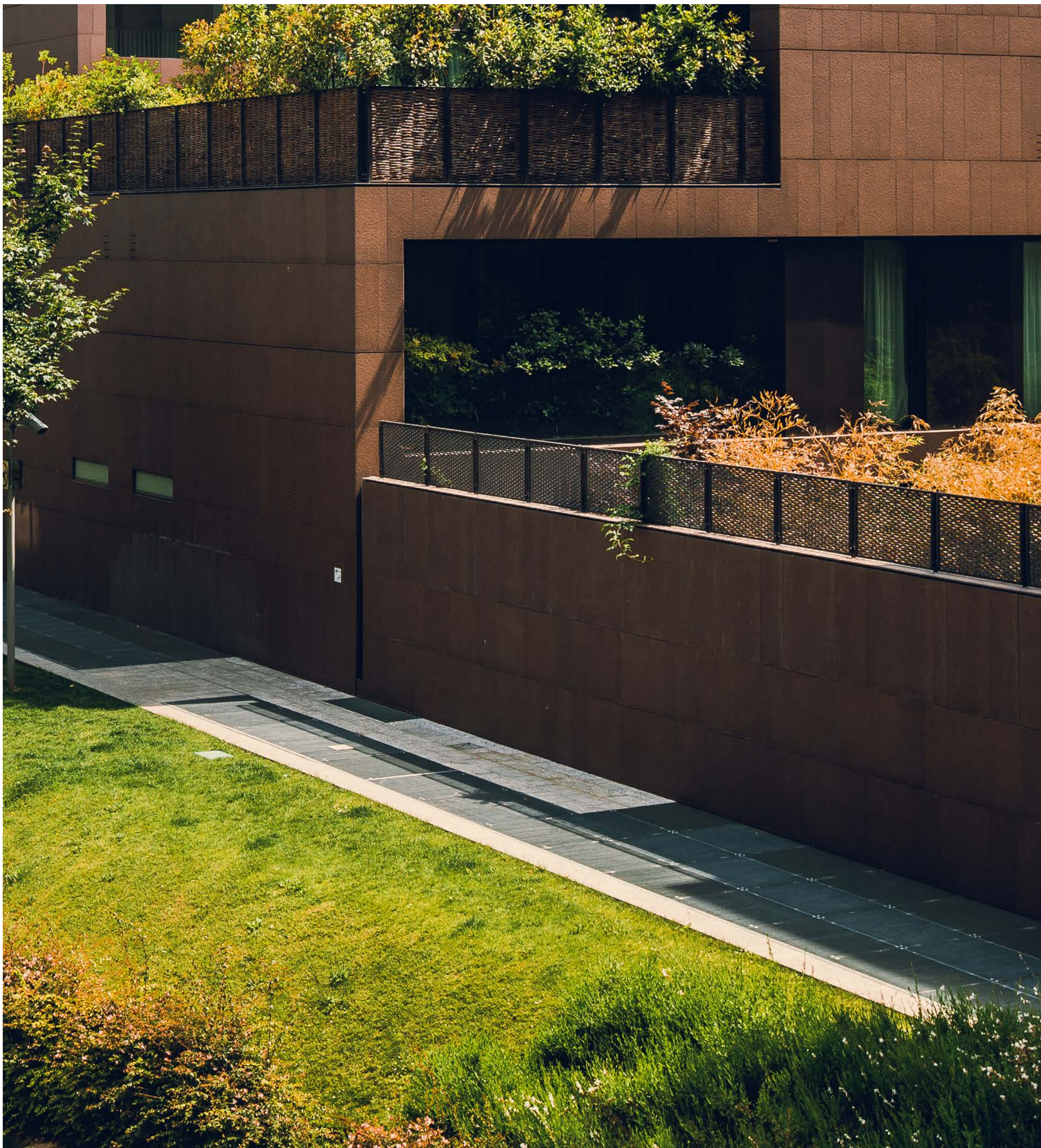
Quote of luxury transactions in Rome's hospitality sector (2014-2022)



Source: PwC analysis

07.

European Green Home



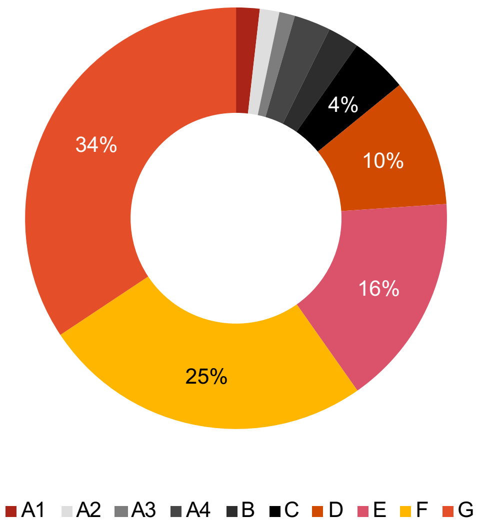
Green homes

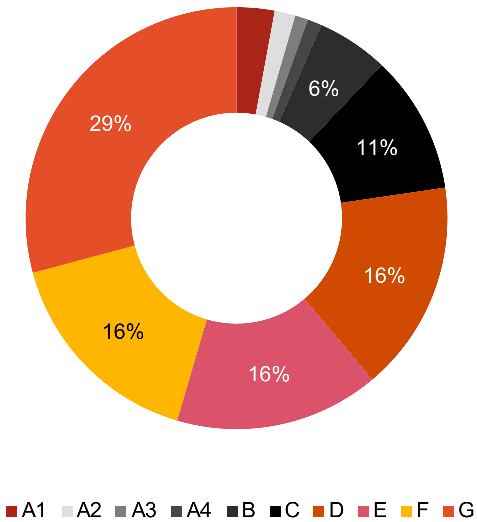
EU Parliament has approved the ‘green homes’ directive and the reactions, especially political ones, have led many to think that they will have to renovate their homes to comply with the new guidelines. The European directive aims to increase the energy efficiency of buildings and is part of a broader EU green transition project. In the European Union, buildings are responsible for 40% of final energy consumption and **36% of greenhouse gas emissions.**

In general, **75% of buildings are to be considered energy inefficient.** In Italy, buildings account for the third largest share of CO_2 emissions and houses are classified according to an energy efficiency scale that progressively goes from A4 to G: according to data from ENEA, around **86% of residential buildings are in energy classes D and below.**

By 2021, there were **12.4 million residential buildings** in Italy, while just over one million are non-residential. Houses in the two lowest classes, F and G, **number 7.7 million:** these may have to make the ‘jump’ in energy class to E by 2030 according to the non-final version of the EU directive.

Percentage distribution of APEs by energy class for the residential and non-residential sector





Source: PwC analysis on Enea data

40%
EU final energy consumption of buildings

86%
Residential buildings in energy class D

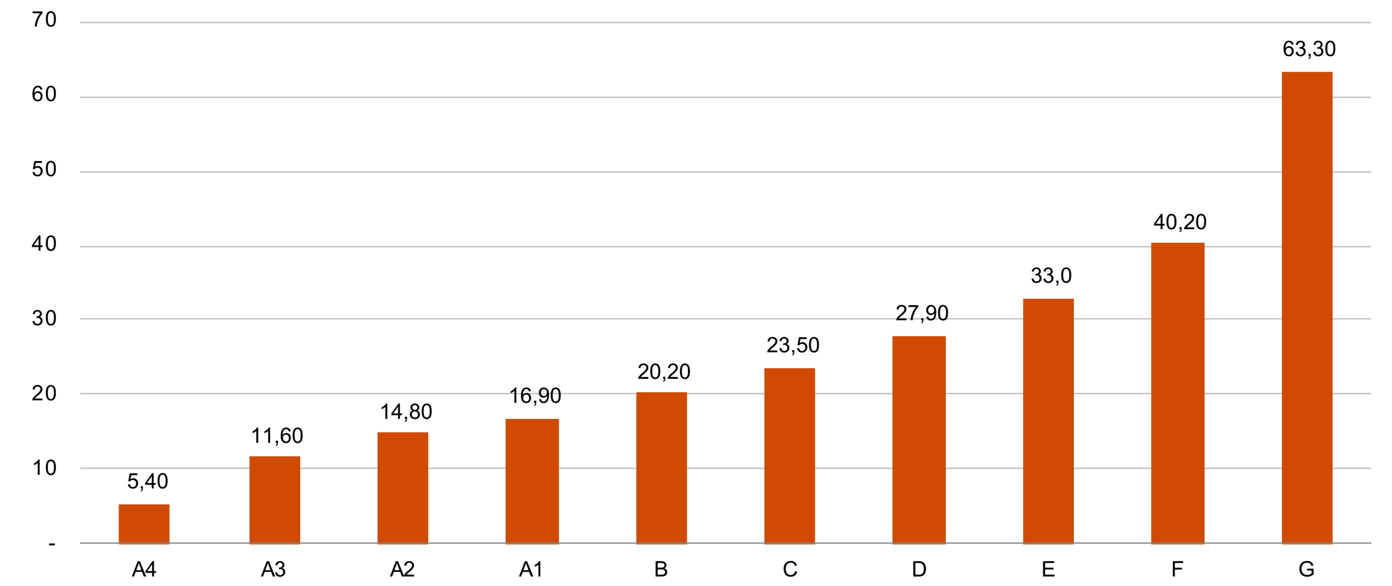
12.4m
Total residential building in Italy

The year of construction has an influence on the classification of buildings, as subsidies to improve energy efficiency have been introduced recently. Energy efficiency changes with respect to the year of construction: a residential building constructed in the years **2016-2021 uses about 60% less energy** than a building constructed before 1945, and about half as much as a building constructed between 1945 and 1991.

According to the National Association of Home Builders (ANCE), 'major' energy upgrades would be required on approximately **2 million buildings by 2030.** ANCE's estimate includes an initial share of buildings that would represent 15% of those with the worst performance, as indicated in the directive approved by the EU Parliament: this would be about **230,000 public and non-residential buildings** and **1.8 million private homes.**

Consequently, this means that every year, and up to 2033, more than **215,000 interventions on individual buildings will have to be completed,** 180,000 of which for private homes alone. ANCE estimates the cost at approximately **€40 billion for residential buildings and €19 billion for other buildings,** although the methodology for the calculation is not made explicit.

Distribution of average Co2 emissions by energy class for residential buildings (Kg/sqm annual)



Source: PwC analysis on Enea data

2m
Buildings to be built by 2030

215k
Total interventions on building to complete up to 2033

€60bn
The estimate of the costs

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