



Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
Outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



Rome real  
estate market



Real estate  
funds

Insights

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# Real Estate Market Overview

**2024**





Macroeconomic overview



Real estate risk premium



Italian investment trend



Investors' Outlook



Investments in construction



Private residential market trend



PNRR



Milan real estate market



Rome real estate market



Real estate funds



Insights

# Contents



01.

Macroeconomic overview

3



02.

Real estate risk premium

8



03.

Italian investment trend

13



04.

Investors' Outlook

22



05.

Investments in construction

24



06.

Private residential market trend

27



07.

PNRR

33



08.

Milan real estate market

39



09.

Rome real estate market

45



10.

Real estate funds

50



11.

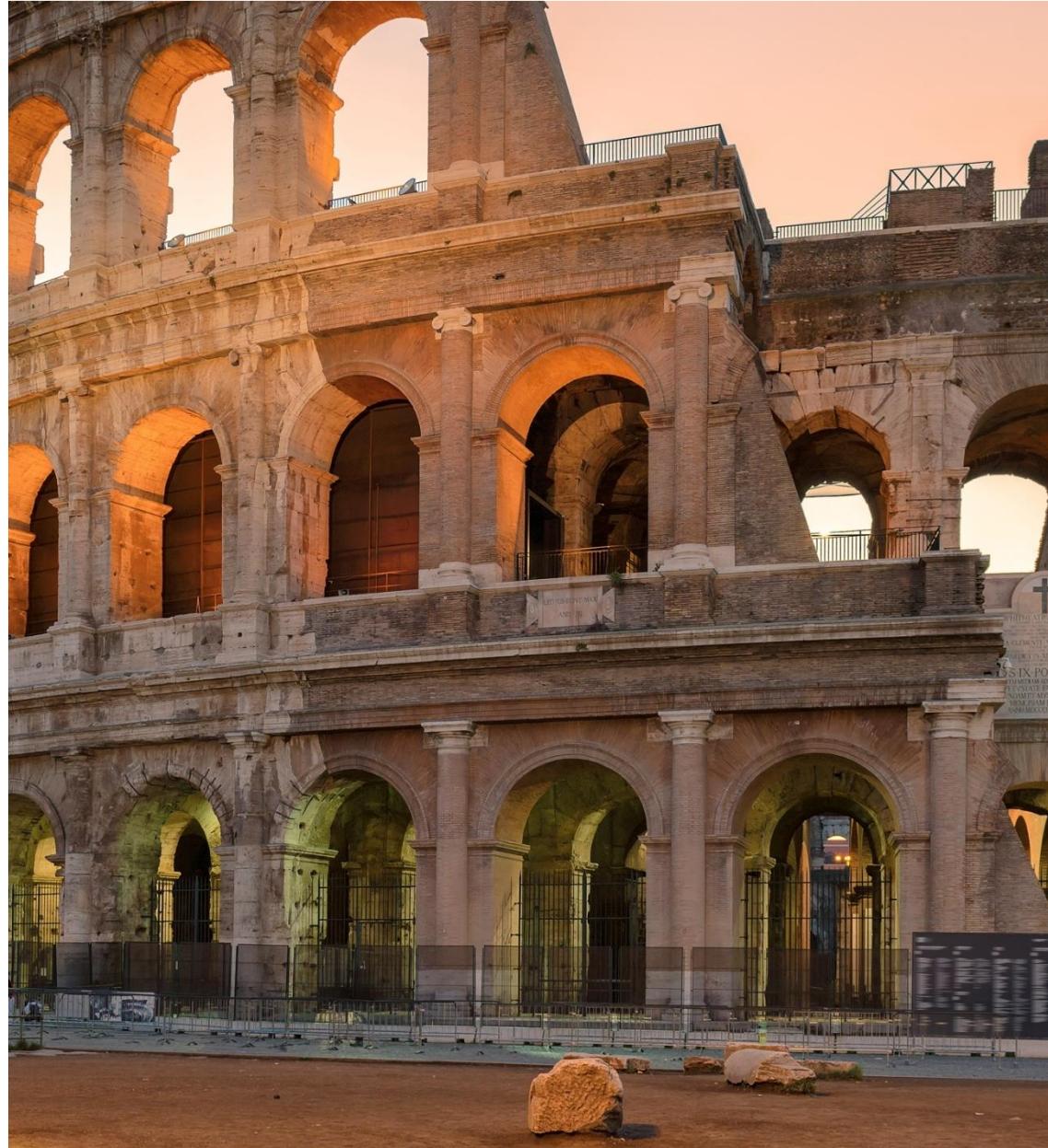
Insights

52



# 01.

## Macroeconomic overview





The Euro area economy has been grappling with extended stagnation since the end of 2022. Both a restrictive monetary policy and the impact of inflation on real household income have adversely affected aggregate demand. However, there are recent positive developments that suggest a potential reversal of this trend.

In the first quarter of this year, the euro area's GDP experienced a growth of **0.3 percent**, exceeding expectations in major economies. Furthermore, the disinflation process that started in January 2024 is yielding the desired outcomes.

The **inflation rate has declined by 8 percentage points** since its peak in 2023 and reached **2.7 percent in May 2024**.

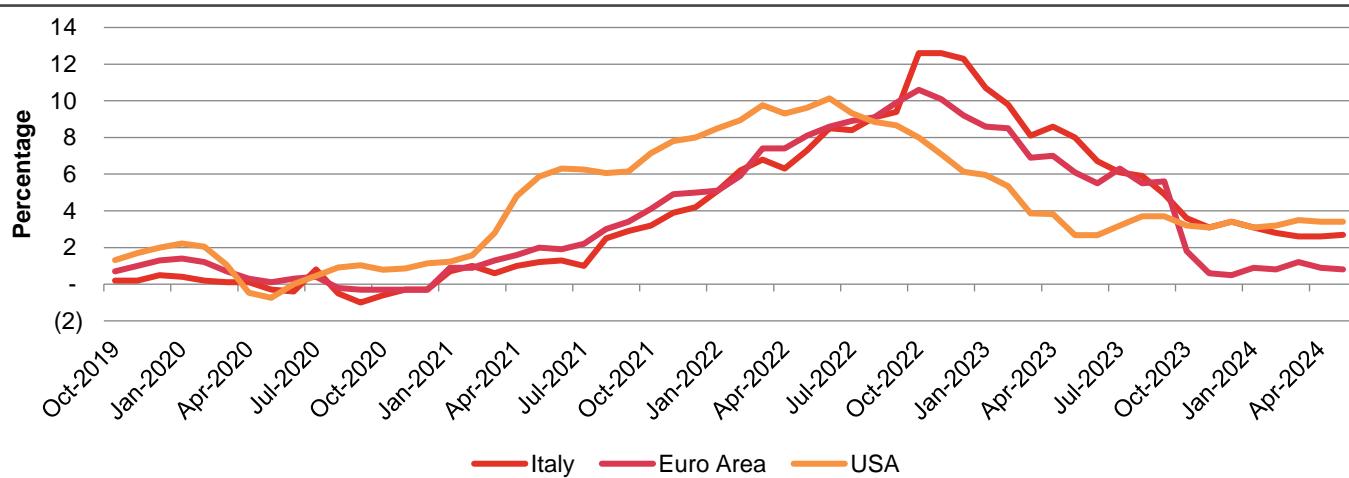
Considering the disinflation, the recovery of consumers' purchasing power, attributed to wage growth and the resilient employment situation (with an unemployment rate of 6.0

percent), suggests that domestic demand is poised to gather momentum in the coming months. However, amidst a backdrop of general economic and political uncertainty, central banks worldwide are adopting a more cautious approach than initially anticipated.

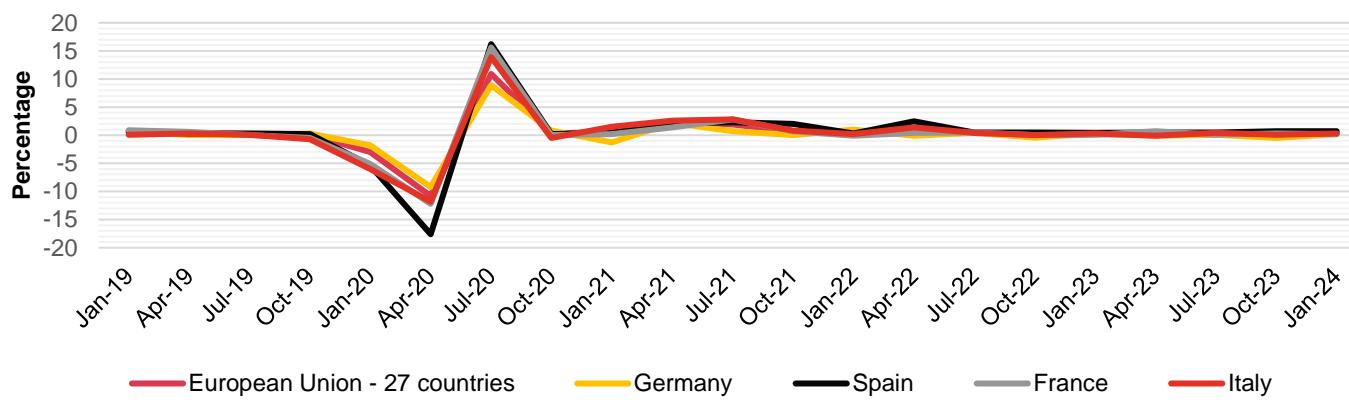
Following the **European Central Bank's decision to reduce the interest rates by 25 basis points on June 6th**, a phase of prudent monetary easing is commencing. This will be accompanied by a short-term strategy that aligns with the performance of the Eurozone's economy.

These measures aim to support the recovery and ensure stability in the face of ongoing uncertainties, while closely monitoring the economic conditions and making adjustments accordingly.

### Average CPI Index in the EU, monthly (Annual percent change)



### Real GDP growth rate, quarterly (q/q-1)



Source: Ufficio Studi PwC analysis on Eurostat data



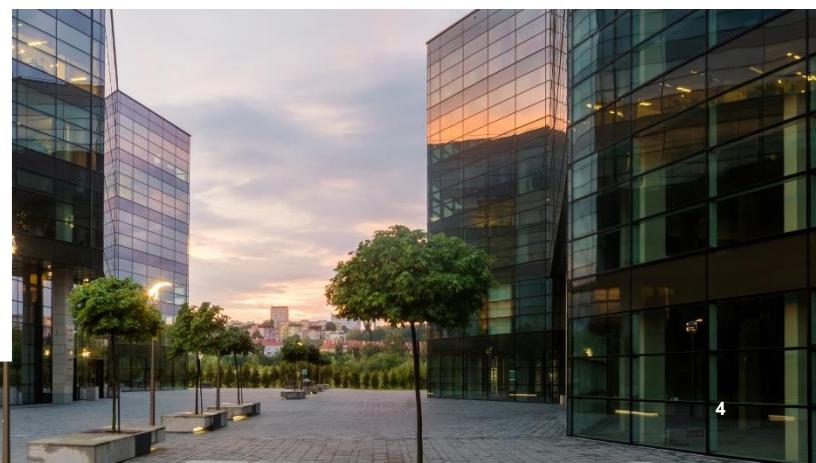
**0.8%**

Italy Average Inflation  
May 2024



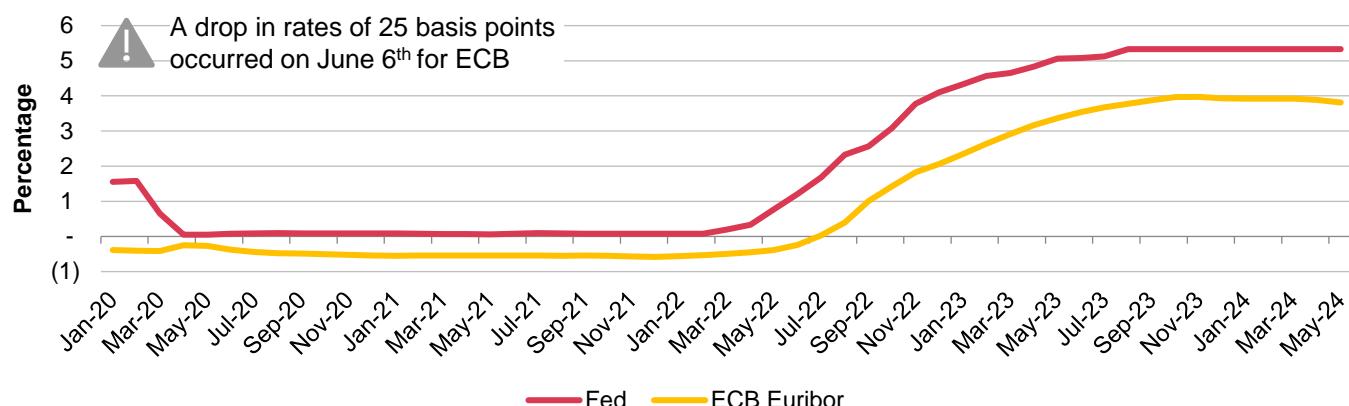
**0.3%**

Average quarterly growth rate  
GDP EU Countries



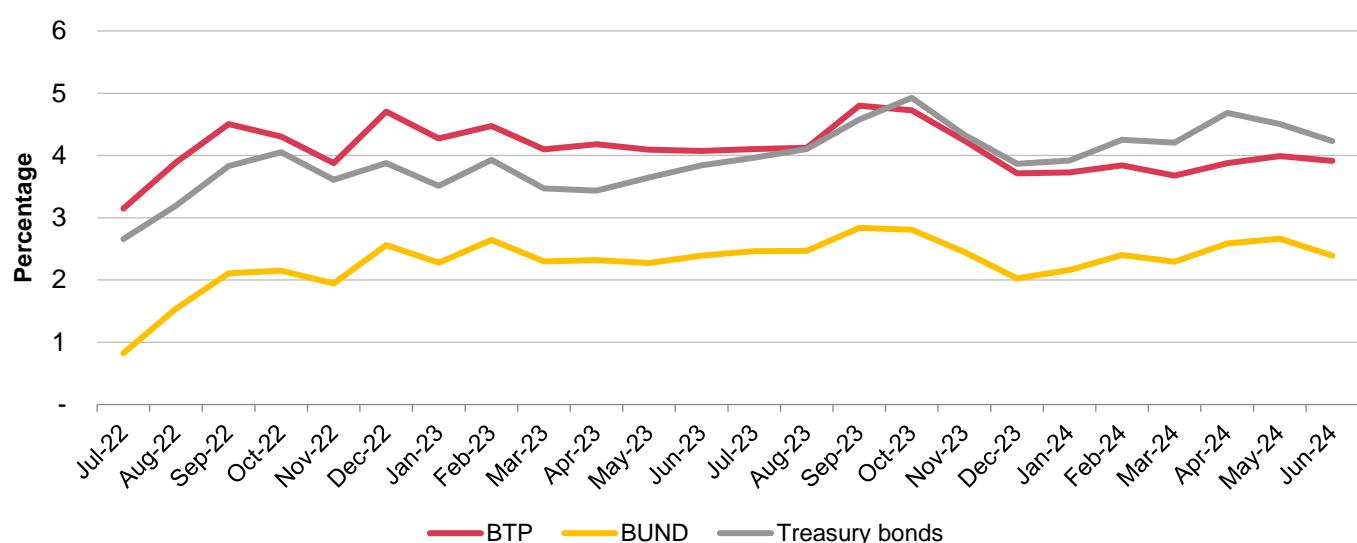


## Interbank interest rates



Source: Fed St.Louis (FRED), BCE

## Government bonds return



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

To spur post-pandemic economic recovery, central banks worldwide implemented a zero-interest rate policy in 2020. However, as inflation started to rise in 2022, central banks adopted restrictive monetary policies.

The tightening of monetary conditions resulted in an increase in yields of newly issued government bonds. In 2021, the spread between Italian and German bonds remained below 150 basis points. However, due to factors such as Italian political instability, the spread exceeded 200 basis points in the second half of 2022.

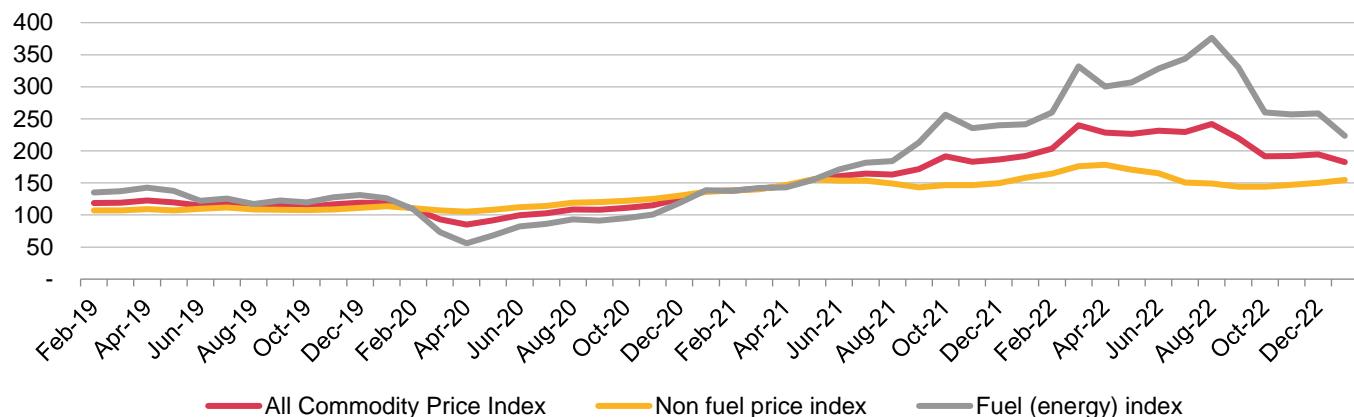
Since then, the spread has declined, primarily attributed to the contraction of the German economy beginning in 2023 and the growth of the Italian economy during the first half of 2024.

As of **June 2024**, the spread stands at 151 basis points and is forecasted to continue shrinking. At present, the global economy is experiencing disinflationary trends, with significant decreases in inflation across major economies.

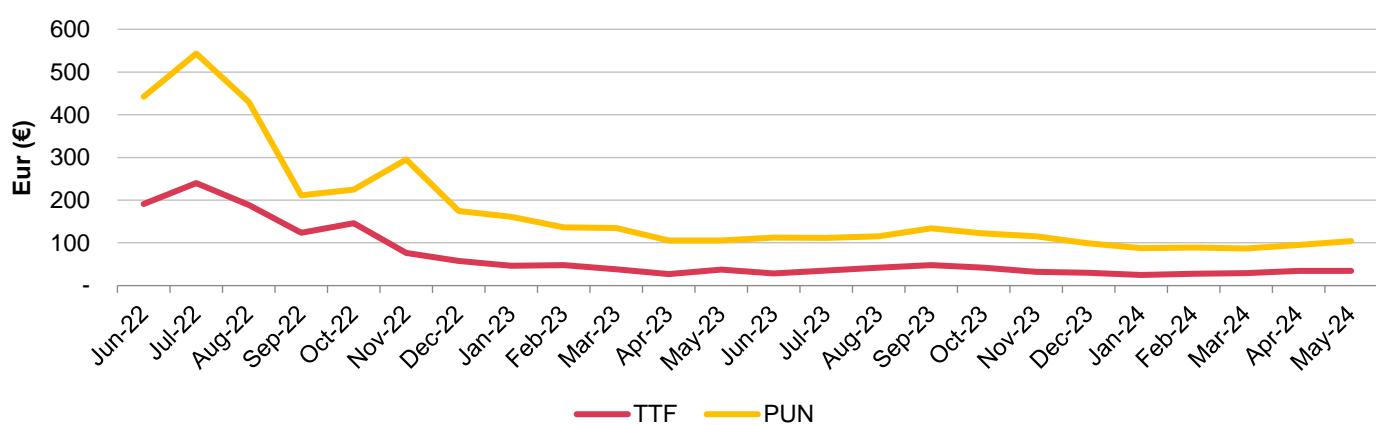
In response, the European Central Bank (ECB) has begun to ease monetary conditions, including a **0.25 percentage point cut to key interest rates**. These measures aim to support economic stability and facilitate recovery.



## Commodities index



## Gas price & PUN



In 2021, the rapid global economic reopening, alongside disruptions in supply chains, resulted in higher prices for numerous goods.

Russia, being one of the world's largest producers of energy goods, experienced additional price increases in commodities due to geopolitical tensions with the West. Ahead of the winter season, the price of natural gas, for which Russia is the leading exporter, notably surged during the summer of 2022.

In the early months of 2024, the diversification of energy supply led to significant declines in energy prices. However, despite these decreases, energy prices remain elevated compared to historical levels, and consumer prices have not shown signs of slowing down.

Forecasts for commodity prices are subject to various risks, with the primary concern being the potential for further escalation of conflicts.

Gold prices, often seen as an indicator of demand for safe-haven assets, reached new record highs in April. Any escalation in the Middle Eastern conflict represents a key upside risk for most commodity prices.

Conversely, the main downside risks to the inflation forecast include the potential for increased OPEC+ supply and weaker-than-expected global economic growth.

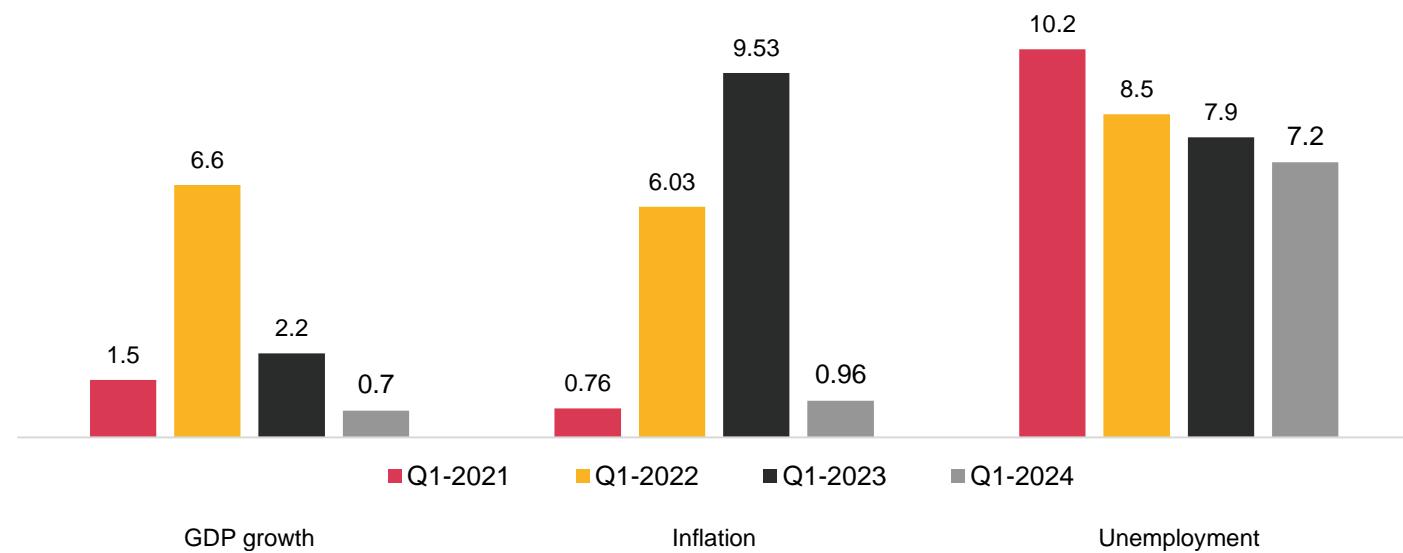


**Restrictive monetary policy** is cooling economic activity. The Eurozone is in recession, there has been a decline in industrial production (manufacturing PMI below the 50 point threshold) and a slowdown in investments in Italy: +0.8% in the first quarter of 2023 (vs. +2 % of Q4 2022). The prospects 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 +0.6%), 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: Ufficio Studi PwC on Economic Bulletin Bank of Italy July 2023 and DEF 2023 data

**0.96%**

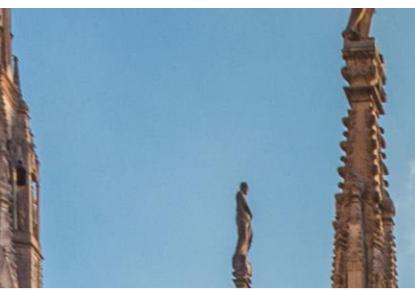
Annual growth rate in Q1 2024

**0.8%**

Inflation rate in May 2024

**7.2%**

Unemployment rate in Q1 2024



## 02. Real estate risk premium





The reduction in the spread between bond market yields and private real estate market yields has reversed, leading to a widening gap once again. Many institutional players in the real estate market have adopted a "wait and see" strategy due to the new macroeconomic environment and the recent increase in interest rates, which has resulted in higher borrowing costs. This approach has yielded two outcomes:

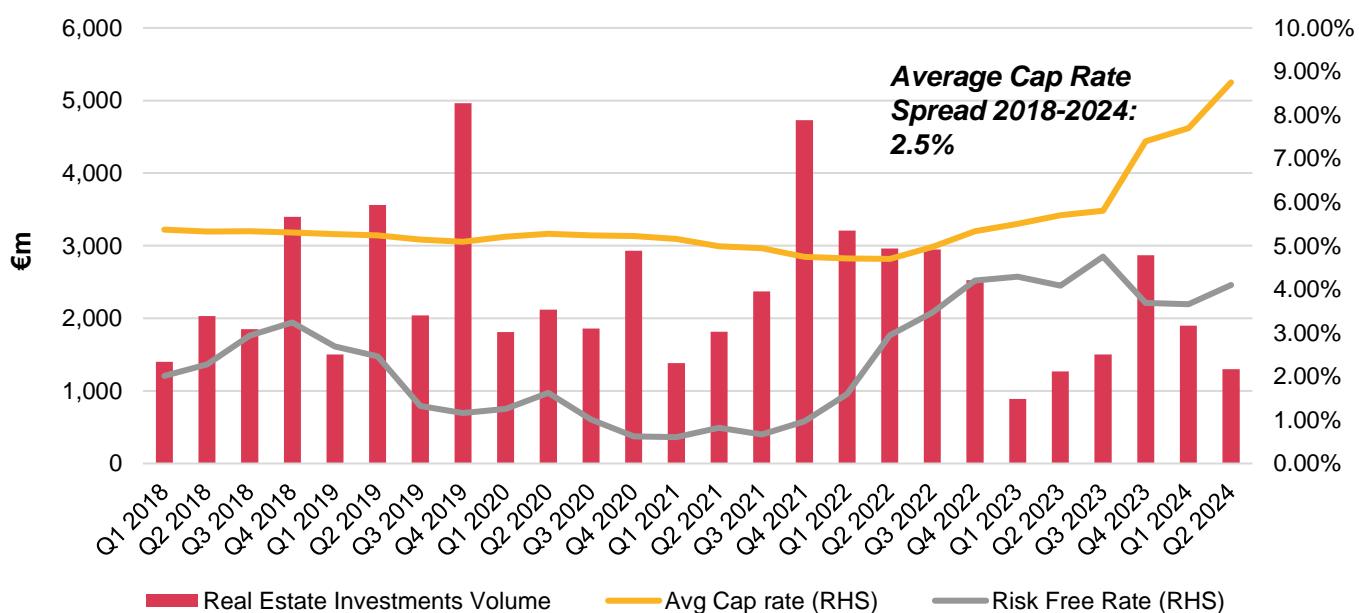
1. **In the first phase (Q4 2022 - Q3 2023),** the spread between real estate yields and government bond yields narrowed, especially as government bond yields experienced an upward trend.

2. **In the second phase (Q4 2023),** there was a significant increase in yields in the real estate market, with the average cap rate in Italy rising by an average of 130 basis points. In contrast, government bond yields decreased during this period.

The chart illustrating the spread between the capitalization rate in the real estate market and the risk-free rate underscores an intriguing phenomenon in the real estate market, as well as in various private markets. It highlights how these markets tend to be relatively sluggish in reacting to changes in asset values, resulting in a slower adjustment process.

In particular, the widening or narrowing of the spread between real estate yields and government bond yields over multiple quarters offers significant insights into the pace at which the real estate market incorporates new asset values. This spread, also known as the risk premium, acts as a measure of the compensation investors demand for taking on the specific risks associated with real estate investments compared to risk-free government bonds.

### Trend All Property Cap Rate, Risk Free Rate and investment volume by quarter in Italy



Source: PwC analysis on RCA and market data



**8.7%**

All Property Cap Rate Q2 2024



**3.9%**

Risk Free rate (BTP 10 years) Q2 2024





# The factors of the Real Estate Risk Premium: economic factor

Inflation and higher interest rates can have significant implications for the real estate market. When inflation rises, the cost of borrowing also tends to increase, which can dampen demand for real estate. Higher interest rates make it more expensive for individuals and businesses to obtain financing for property purchases or investments. This can lead potential buyers and investors to reconsider their plans, resulting in reduced demand in the real estate market.

On the other hand, economic growth can have a positive impact on the demand for real estate. When an economy is experiencing growth, businesses are expanding, creating more jobs and income. This often translates into increased demand for commercial real estate, such as office spaces, retail properties, and industrial facilities.

Looking specifically at the relationship between the cap rate index and inflation rates from 2008 to 2024, there is an inverse relationship between the two.

This inverse relationship can be attributed to changes in real rates, which reflect the inflation-adjusted returns on real estate investments.

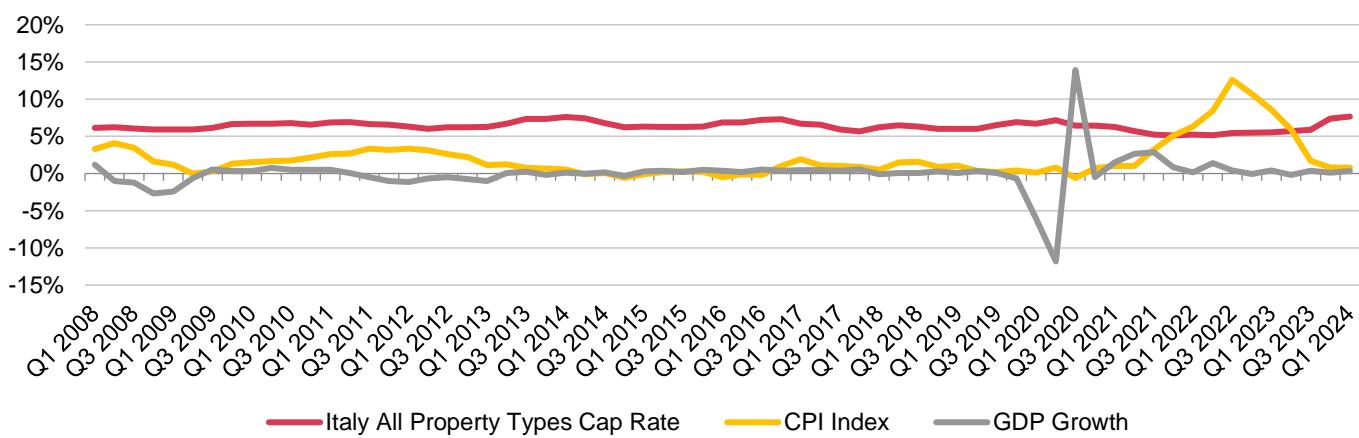
However, it is worth noting that despite the significance of GDP and inflation, these factors have had a relatively minimal impact on real estate values. Real estate is a highly localized asset class, and its value is primarily driven by local factors such as supply and demand dynamics, demographics, land availability, zoning regulations, and local economic conditions.

In many cases, the growth or decline of a specific region or city can have a more significant effect on property values compared to national or global economic trends.

Therefore, when assessing real estate values and making investment decisions, it is crucial to consider the local economic conditions and trends. Understanding the specific market dynamics, such as population growth, job growth, infrastructure developments, and supply-demand imbalances, can provide valuable insights into the potential future performance of real estate investments.

Local factors play a pivotal role in determining the success and profitability of real estate ventures, making it essential for investors to conduct thorough research and analysis within the context of the specific market they are interested in.

**Italy All property Types cap rate, CPI Index Italy and GDP Growth Italy (Quarterly data)**



**Correlation table**

	<b>Italy All Property Types Cap Rate</b>	<b>CPI Index</b>	<b>GDP Growth</b>
<b>Italy All Property Types Cap Rate</b>	1.000	----	----
<b>CPI Index</b>	-0.566	1.000	----
<b>GDP Growth</b>	-0.147	-0.005	1.000

Source: PwC analysis on RCA, INSI and market data



# Market cycle factor

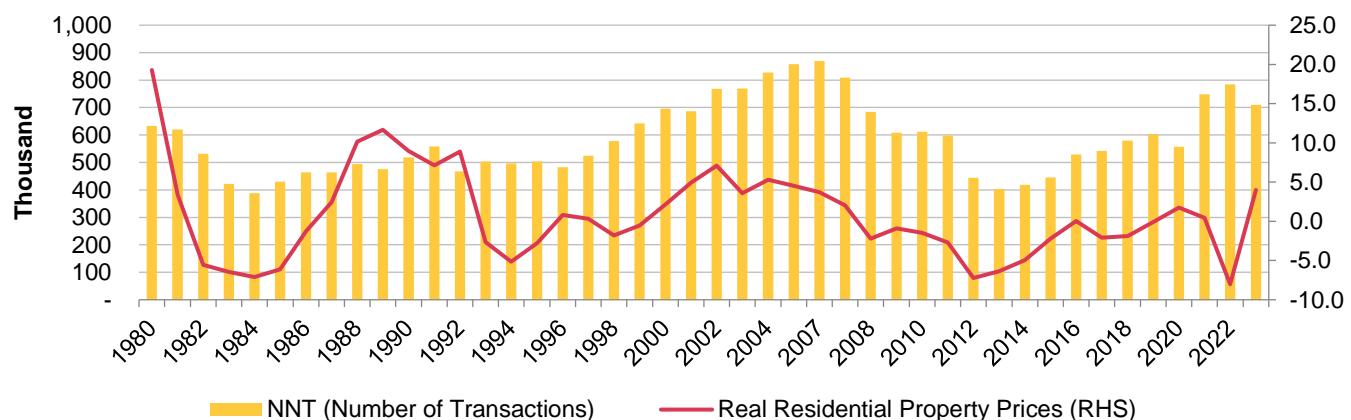
Market cycles have a significant impact on the real estate risk premium. Let's examine the different stages of the market cycle and their effects on the real estate market:

- Recovery:** During this stage, the real estate market experiences stagnation in terms of new construction, resulting in an excess supply of properties. As a consequence, there is a downward pressure on property prices, including both residential and rental properties.
- Expansion:** In the expansion stage, market demand for real estate starts to rise, leading to an increase in property prices. This period coincides with a swift recovery in the overall economy, which stimulates demand in the real estate market.

3. **Hyper-Supply:** As the market cycle progresses, the supply of properties gradually begins to exceed the demand from buyers. This oversupply in the market, coupled with a decrease in market demand, can result in a decline in property prices.

4. **Recession:** The recession stage is characterized by an economic slowdown, leading to low market demand and high vacancy rates in the real estate sector. As economic conditions worsen, the real estate market experiences reduced activity, impacting both property prices and rental demand.

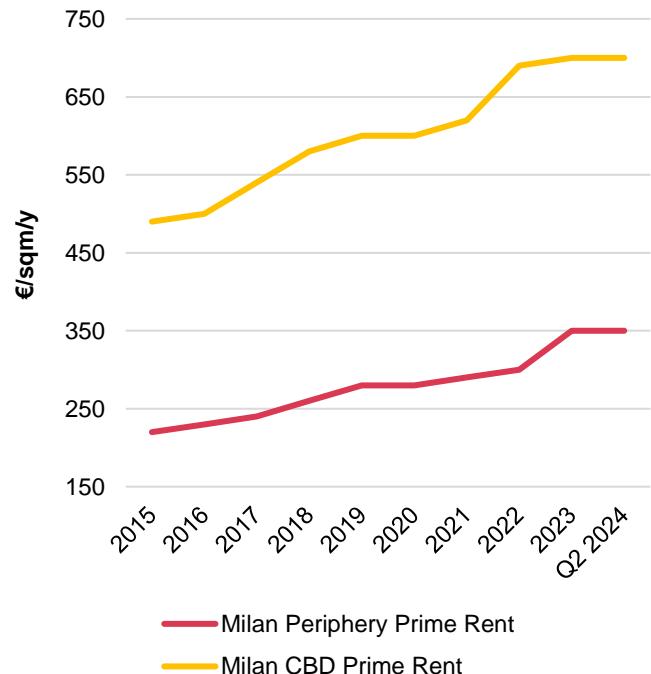
NNT residential sector and Real Residential Property Price



# Location factor

Location is a critical factor in determining the real estate risk premium. The proximity of a property to the city's employment center, highways, and public transit plays a significant role in influencing cap rates.

Properties that are situated in high-demand and stable locations often have lower cap rates. These locations typically offer desirable amenities, convenient access to employment opportunities, and strong economic stability. As a result, these properties are in high demand, leading to lower cap rates. On the other hand, transitional or outlying neighborhoods tend to have higher cap rates. These areas may experience higher employment volatility and fluctuating demand. Such conditions can contribute to greater tenant turnover, increased leasing costs, and other factors that impact operating cash flows. Consequently, these properties usually command higher cap rates to compensate for the associated risks and uncertainties. It's important to understand that when comparing properties, a property in an excellent location will typically achieve higher returns compared to a property with similar qualities in an average location. The desirability and stability of a location have a significant impact on the potential profitability and long-term value of real estate investments.





# Climate risk factor

It is difficult to argue that the inclusion of a higher climate risk premium will not have an impact on property prices, assuming all other factors remain constant. Climate change represents one of the most significant challenges for real estate managers today, and many buildings will require upgrades and retrofits to better address its effects. However, implementing these measures comes with a cost, and in order to maintain the risk/return profile of their strategies, real estate managers cannot simply spend without careful consideration, under the pretext of mitigating climate risk. They need to approach their capital expenditure (CapEx) programs with a methodical mindset.

## Property and Physical factors

Property-specific risk factors play a crucial role in determining the real estate risk premium. These factors encompass various aspects of a property, including its age, condition, and location.

The age of a property can impact its risk premium. Older buildings may have a higher risk premium due to the potential for more frequent maintenance and repair needs. Additionally, older buildings may have outdated systems or lower energy efficiency, which can increase operating costs and affect profitability.

The condition of a property is another important factor. Properties in good condition, with well-maintained systems and infrastructure, generally carry a lower risk premium. On the other hand, properties in poor condition may require significant capital expenditures for renovations, leading to higher risks and thus higher risk premiums.

Location is also a critical consideration. Properties in prime locations, such as city centers or high-demand neighborhoods, often command





Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



Rome real  
estate market

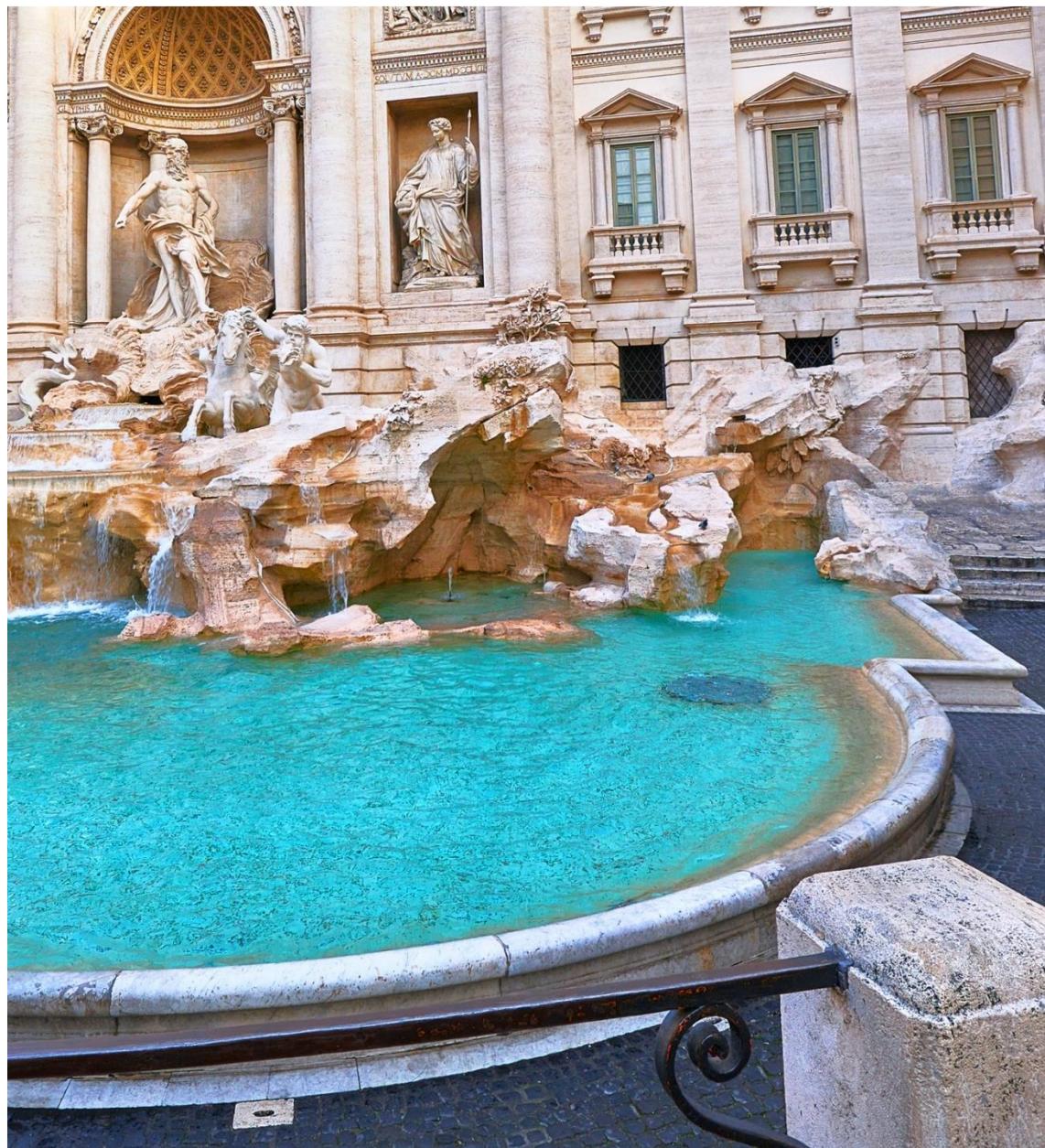


Real estate  
funds

Insights



## 03. Italian investments trend





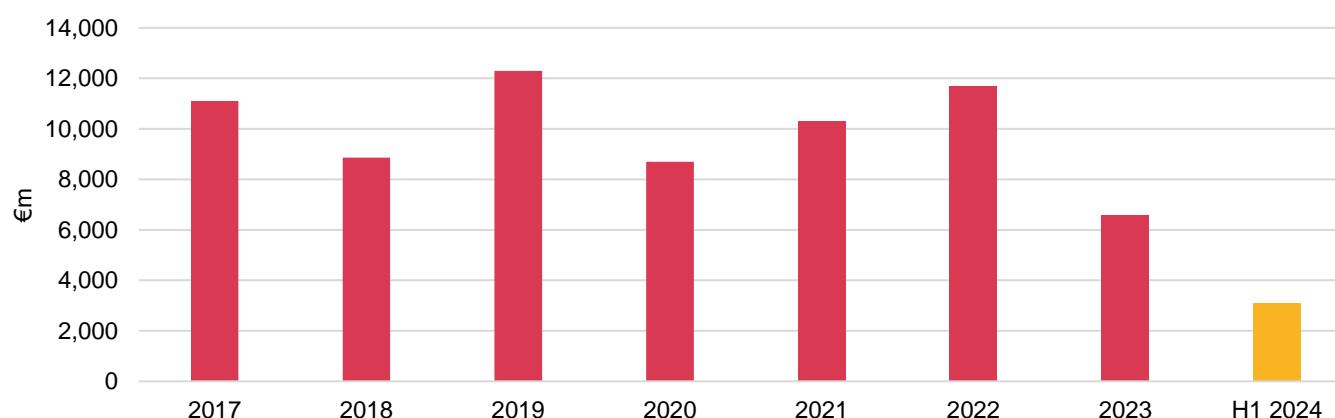
# Italian real estate investment trends for institutional stakeholders

During the initial half of 2024, the real estate investment arena in Italy showcased substantial growth, surpassing a cumulative **volume of €3 billion**. This figure shows an impressive surge of **approximately 40% compared to the corresponding period in the prior year**. The remarkable expansion highlights a promising recovery in investment activity within the real estate sector, and this upward trajectory is expected to endure throughout the latter half of the year. Remarkably, the Retail and Hospitality sectors encountered significant momentum in the first half of 2024, characterized by numerous substantial large-scale transactions.

These sectors emerged as the predominant asset classes during this quarter, showcasing a resurging interest amongst Investors, particularly after enduring a period of relative neglect in the aftermath of the pandemic.

The metropolises of Milan and Rome continue to drive investments in Italy, propelling them to retain their positions as prominent market forces. During the initial half of 2024, these **two cities attracted over 50%** of the total invested capital in the country, further solidifying their stature as pivotal destinations for real estate investment. Overall, the robust expansion in real estate investments, the reinvigoration of the Retail and Hospitality sectors, and the dominant presence of Milan and Rome as alluring investment hubs collectively contribute to a positive outlook for the Italian real estate market in the remaining period of 2024.

## Trend of total investment volume in Italian real estate market 2017 – H1 2024



## Investments by asset class in H1 2024 and H1 2023



Source: PwC analysis



**€3.1bn**

Total investments in H1 2024



**€2.2bn**

Total investments in H1 2023



**+ 40%**

Investments H1 2024 vs H1 2023



# Main transactions in the Italian real estate market – 2024 YTD

During the initial half of 2024, real estate investments made by institutional players in Italy primarily involved international investors, in accordance with a well-established trend witnessed in recent years.

The sectors that attract the most attention from international players pertain to retail and hospitality. Esteemed investors such as Coima Sgr and Kering hold a dominating presence in Italy's office and retail market.

Milan continues to be the most sought-after city amongst investors, while Rome specifically attracts international investors in the hospitality sector, as evidenced by significant deals concluded in the first half of 2024.

Among the most noteworthy transactions in 2024, in terms of both scale and significance, are those related to the Palazzo del Monte in Milan and the Galleria Sciarra in Rome.

Type	Date	Property Name	City	Owner/Buyer	Seller
Retail	mag-24	Roma Est Shopping Centre	Rome	Klepierre	GIC
Office	mag-24	MIND Science Campus	Rho	University of Milan (UNIMI)	N.A.
Hotel	mag-24	Sofitel Roma Villa Borghese	Rome	Extendam	AccorInvest
Office	mag-24	Sapphire Portfolio 2024	N.A.	Coima SGR	Morgan Stanley
Office	mag-24	Galleria Sciarra Colonna di Carbognano	Rome	Coima SGR	Morgan Stanley
Mixed	apr-24	Banca Intensa Sanpaolo ITA Office Portfolio 2024	N.A.	Coima SGR	Intesa Sanpaolo
Office	apr-24	Via Arrigo Boito / Via Verdi	Milan	Coima SGR	Intesa Sanpaolo
Office	apr-24	Via Clerici 4-6	Milan	Coima SGR	Intesa Sanpaolo
Office	apr-24	ITA Office	N.A.	Coima SGR	Intesa Sanpaolo
Retail	apr-24	IGD IT Retail Portfolio 2024	N.A.	Starwood Capital, Sixth Street	IGD Immobiliare
Retail	apr-24	Italian Retail	N.A.	Starwood Capital, Sixth Street	IGD Immobiliare
Retail	apr-24	Palazzo del Monte	Milan	Kering	Blackstone
Hotel	apr-24	Bonvecchiati Complex	Venice	Denkmalneu Gruppe, ECE Group	N.A.
Industrial	mar-24	Metra Aluminium International Industrial 2024	N.A.	WP Carey REIT	Metra
Office	mar-24	future Campari HQ	Milan	Campari	BNP Paribas REIM
Industrial	gen-24	Fedrigoni IT Industrial Portfolio 2024	N.A.	WP Carey REIT, Savills IM	Fedrigoni
Industrial	gen-24	IT Industrial	N.A.	WP Carey REIT, Savills IM	Fedrigoni
Office	gen-24	Palazzo di Fuoco	Milan	Corum, SCPI Eurion	Blackstone, Krylos
Office	gen-24	Krylos OBO Apollo IT Office Portfolio 2024	N.A.	N.A.	Krylos, Apollo Global RE

Source: PwC analysis on RCA data



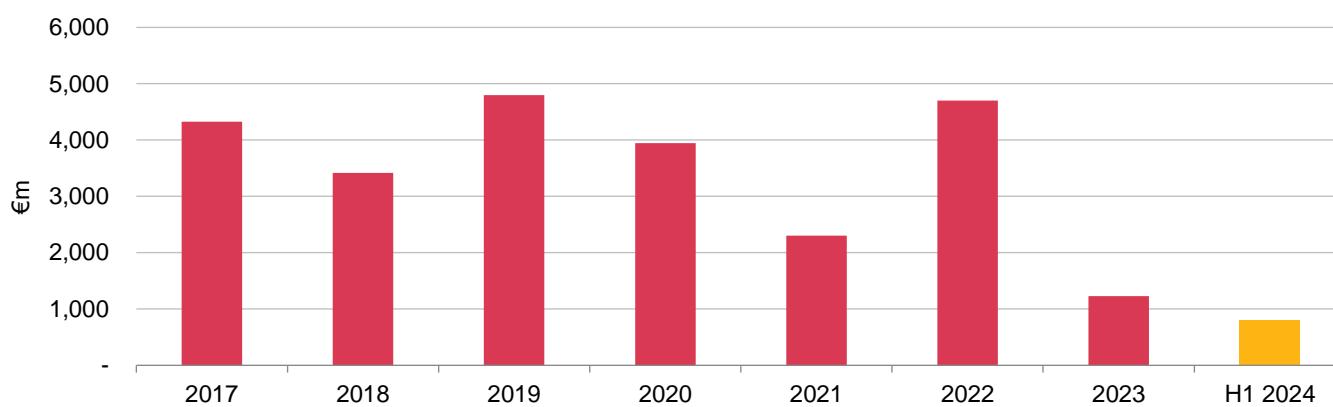
# Office sector

The office sector in Italy has demonstrated sustained and **positive growth in the initial half of 2024**. This sector has managed to maintain its upward momentum from the preceding year, with **investments amounting to approximately €800 million**.

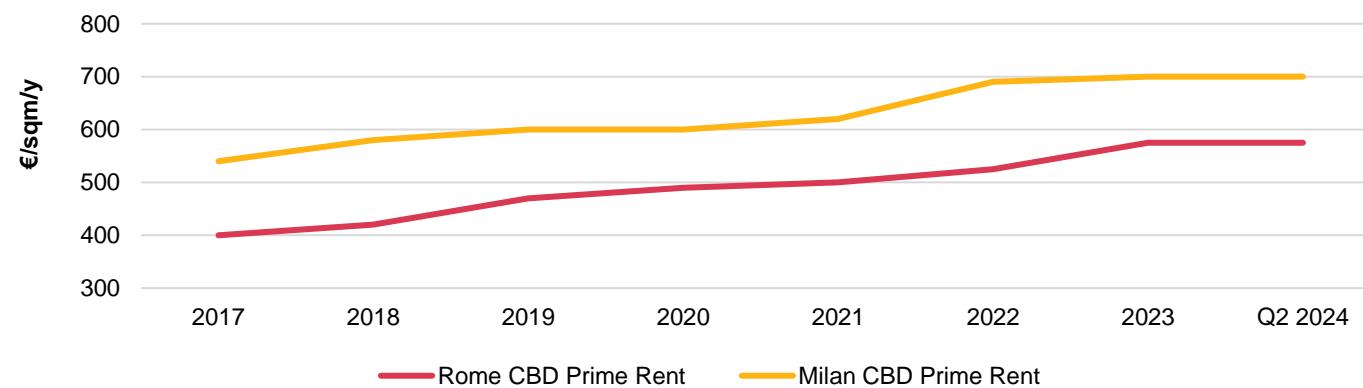
A particularly notable transaction took place within Rome's Central Business District, where an esteemed asset located on Via Vittorio Veneto was acquired. This transaction stands as the largest-ever single-asset deal recorded in the city's office sector, thereby exemplifying the market's confidence and allure.

**In Milan, the office market experienced an absorption volume of approximately 200,000 square meters** during the first half of 2024, mirroring the figures recorded during the corresponding period in the previous year. Similarly, **the Rome market witnessed a take-up volume of 155,000 square meters**, aligning with the historical average for the initial quarter.

## Investments trend office sector in Italy 2017 - H1 2024



## Trend of CBD rent in Rome and Milan 2017 – H1 2024



Source: PwC analysis



**€800m**

Total Investments in H1 2024



**575 €/sqm/y**

Rome CBD Prime Rent H1 2024



**€370m**

Total Investments in H1 2023



**700 €/sqm/y**

Milan CBD Prime Rent H1 2024



# Retail sector

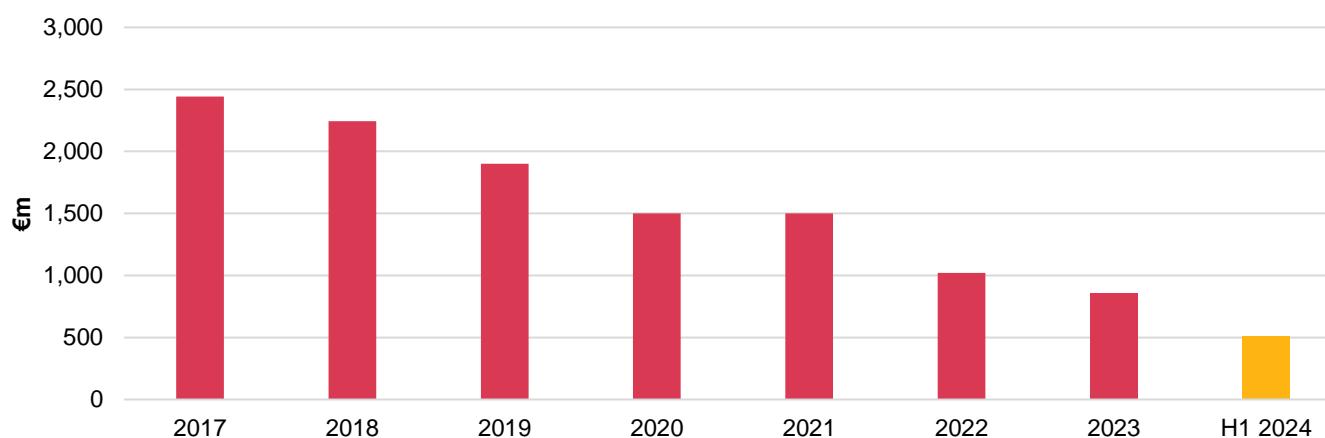
Investments in the Retail sector in Italy during the **first half of 2024 saw an increase in volume, totaling €510 million**.

This figure is higher than the negative performance recorded in the H1 2023.

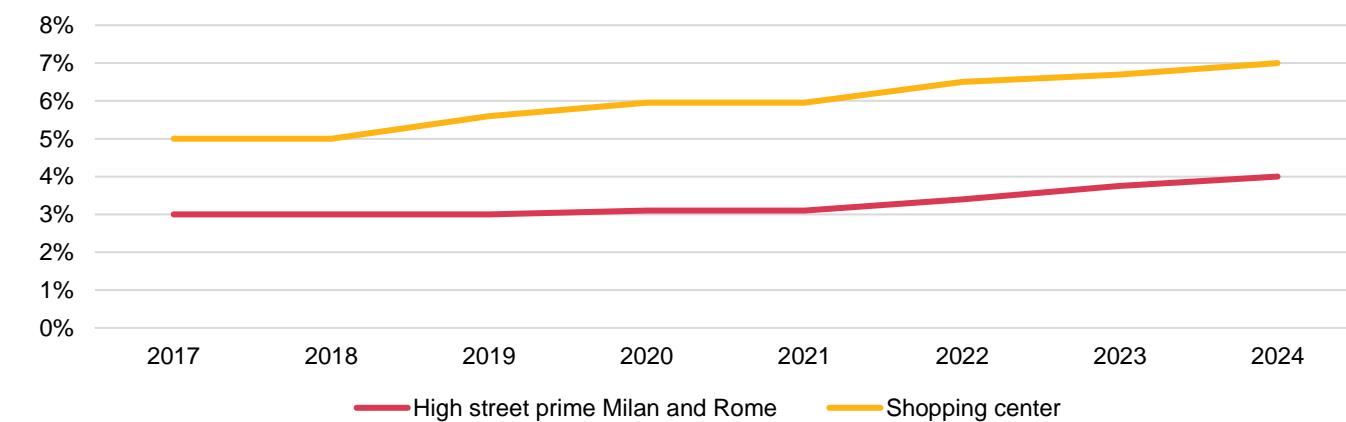
However, there were still notable activities in the Out of town and Supermarkets sector, which has been consistently active in recent quarters. These transactions often involved sector operators directly engaging in end-user deals or sale and leaseback arrangements, indicating a strategic review of their real estate portfolios.

The high street sector also showed increased dynamism, with one standout deal in the Italian real estate market being the acquisition by Kering of a property on **Via Montenapoleone in Milan for €1.3 billion**. This transaction marked the largest deal in this sector.

## Investments trend 2017 - H1 2024



## Prime net yields 2017 - H1 2024



Source: PwC analysis



**€510m**

Total investments in H1 2024



**4%**

Prime net yield Highstreet Milan and Rome in H1 2024



**€210m**

Total investments in H1 2023



**7%**

Prime net yield Shopping Center in H1 2024



# Logistic sector

During the **first half of 2024**, the Logistics sector in Italy witnessed a notable upturn in investment volume, **totaling €470 million**. This figure represents substantial growth compared to the same period in 2023.

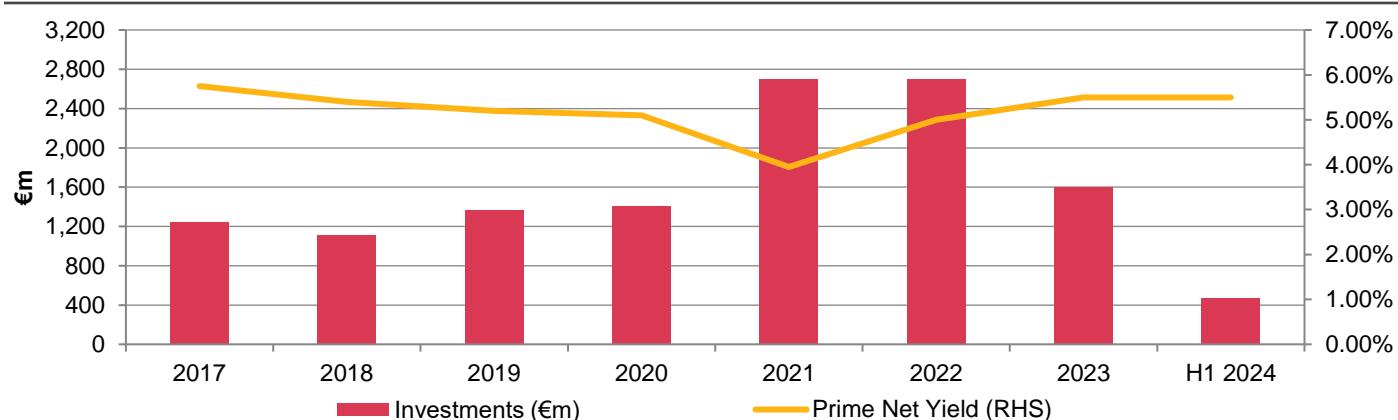
A significant contributing factor to this growth is the Light industrial segment, which had already experienced an increase in investment activity in the previous year. Notably, the first half of 2024 saw the completion of two major sale and leaseback portfolios within this segment.

**Despite this heightened activity, the prime net yield has remained steadfast at 5.5% for six consecutive periods**, indicating stability in the market.

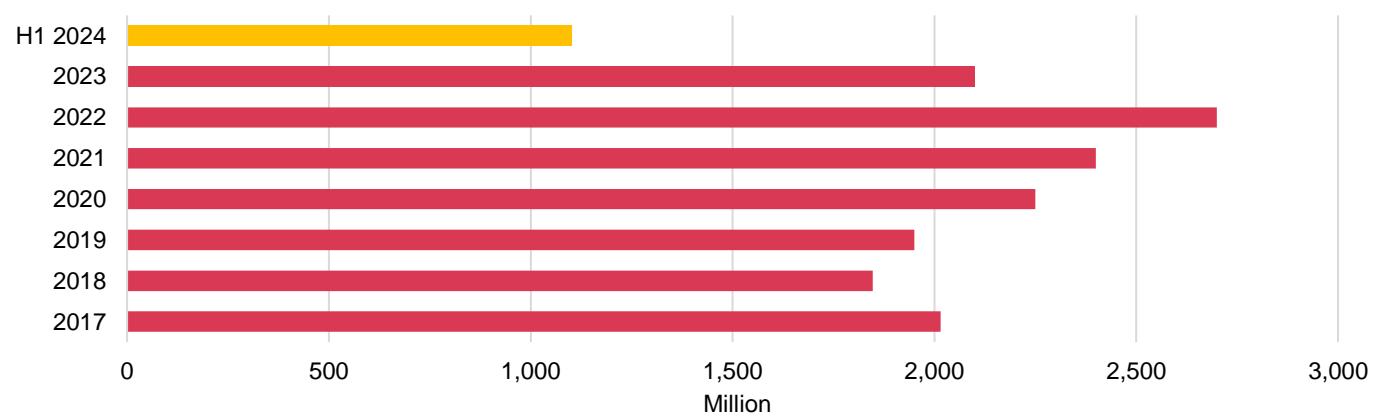
Moreover, the Logistics sector has shown impressive space absorption, with a robust **take-up volume of approximately 1.1 million square meters** during the initial half of the year.

These figures clearly depict the strong performance of the Logistics sector in Italy, with the Light industrial segment leading the way in attracting investment and maintaining stable prime net yields. Additionally, the sector has demonstrated remarkable space absorption, pointing towards a vibrant and thriving market.

## Investments trend and prime net yield 2017 - H1 2024



## Take up trend (sqm) 2017 - H1 2024



Source: PwC analysis



**€470m**

Total investments in H1 2024



**5.5%**

Prime net yield in Logistic sector in H1 2024



**€525m**

Total investments in H1 2023



**1.1 m sqm**

Take - up in H1 2024



Macroeconomic overview



Real estate risk premium



Italian investment trend



Investors' outlook



Investments in construction



Private residential market trend



PNRR



Milan real estate market



Rome real estate market



Real estate funds



Insights

# Hospitality sector

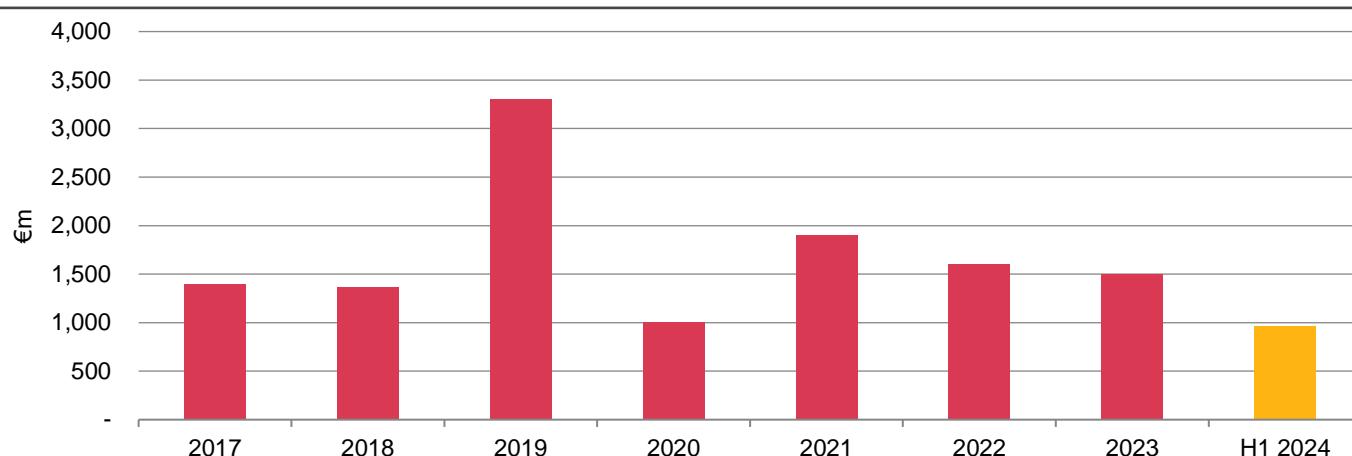
The hospitality sector recorded a favorable outcome in the first half of 2024, with investments amounting to a total of **€950 million**, showcasing a twofold increase compared to the same period in 2023.

Furthermore, this asset class further strengthened its position as the most widely dispersed in terms of geographic investments, albeit with a heightened concentration of transactions occurring in the Northwest and South regions during the first semester of 2024.

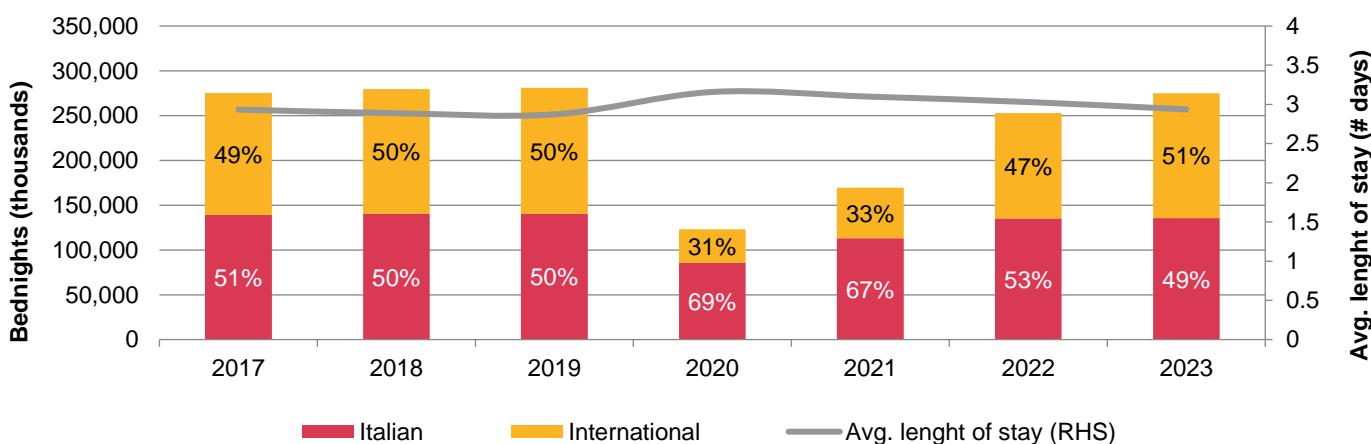
In terms of performance, the prominent tourist destinations in Italy exhibited a positive trend in Revenue Per Available Room (RevPAR) when compared to the statistics from 2019. This signifies that the hospitality sector performed well in generating revenue and underscores the resilience of these highly sought-after tourist hotspots.

All in all, it is indeed heartening to observe the favorable outcomes and growth attained by the hospitality sector in Italy during the first half of 2024.

## Investments trend 2017 – H1 2024



## Total demand in terms of night spent 2017 - 2023



Source: PwC analysis

**€960m**

Total Investments in H1 2024

**136m**

Nights spent of Italian tourists in 2023

**45m**

Arrivals of Italian tourists in 2023

**€270m**

Total Investments in H1 2023

**139m**

Nights spent of International tourists in 2023

**41m**

Arrivals of International tourists in 2023



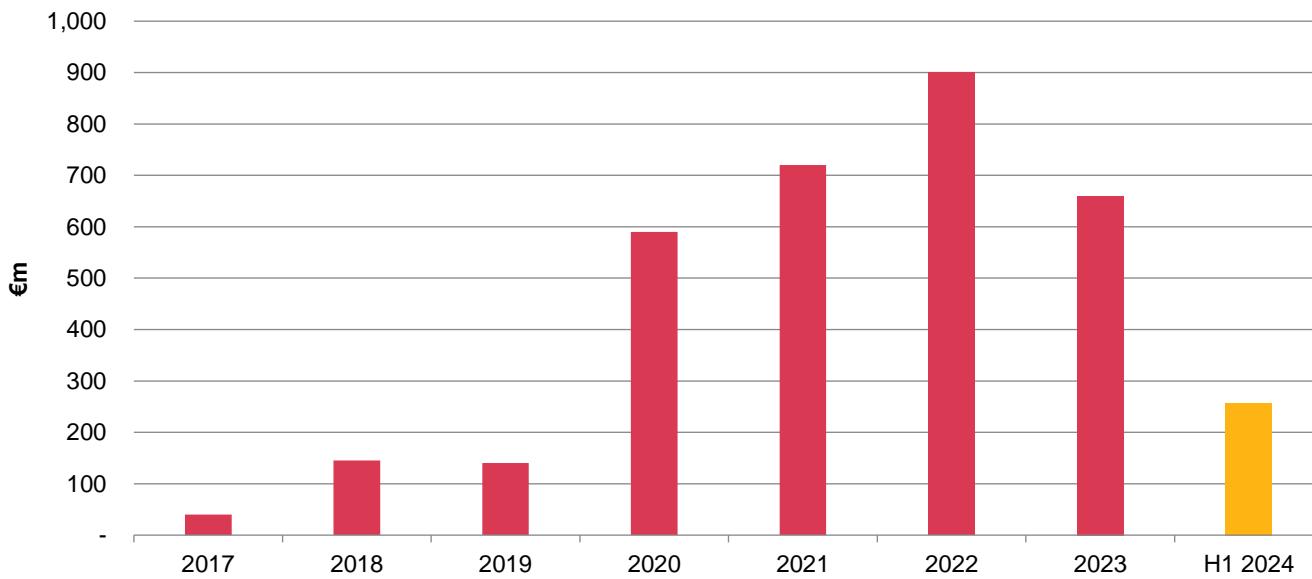
# Living sector

Investor interest in the Living sector remains robust, particularly in value-add operations. However, the availability of suitable properties remains limited, leading to relatively low investment volumes.

Major cities are facing high demand for private and student residences, causing a significant gap between supply and demand. Moreover, the serviced apartment sector is flourishing in art cities, taking advantage of the remarkable growth of the hospitality industry in recent years.

Notably, the **city of Rome has seen a surge in interest, becoming the focal point of most transactions during Q2**. Furthermore, there is a growing demand for student housing in the city, highlighting the need for more accommodations to meet the high demand.

## Investments trend 2017 - H1 2024



Source: PwC analysis



**€260m**

Total investments in H1 2024



**€310m**

Total investments in H1 2023





# Student housing

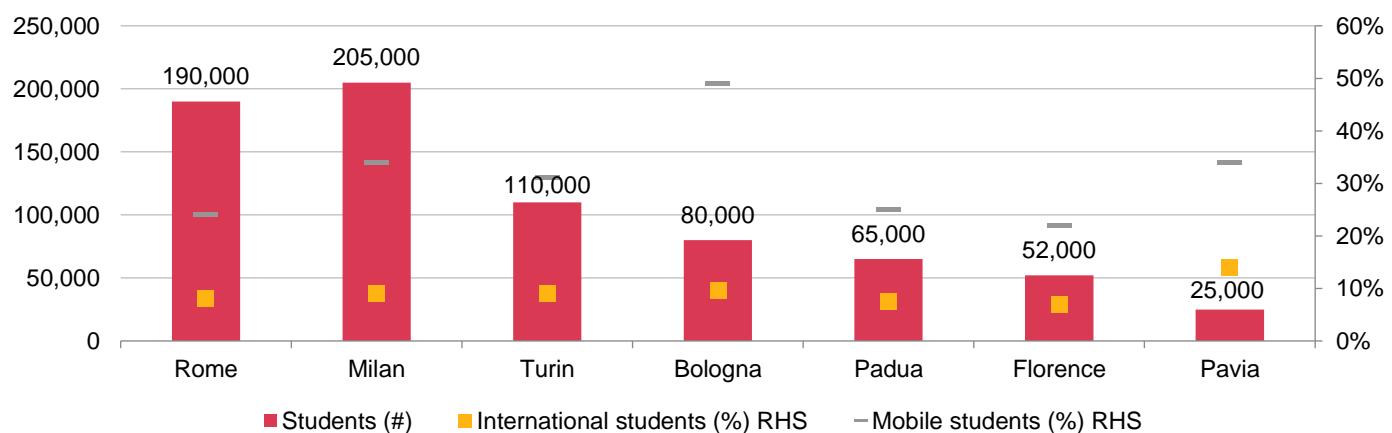
In **2023**, the student housing market in Italy witnessed a significant investment volume **exceeding 200 million euros**. On a broader scale, the European student housing market is projected to reach an impressive investment volume of **3.9 billion euros**. This indicates a strong interest and confidence in the student housing sector, both in Italy and across Europe, highlighting its potential for growth and attractiveness to investors.

During the **2022/2023 academic year**, Italy had a total of **1.9 million university students**. However, the current supply of student accommodation in the country is limited, with only 73,000 units available.

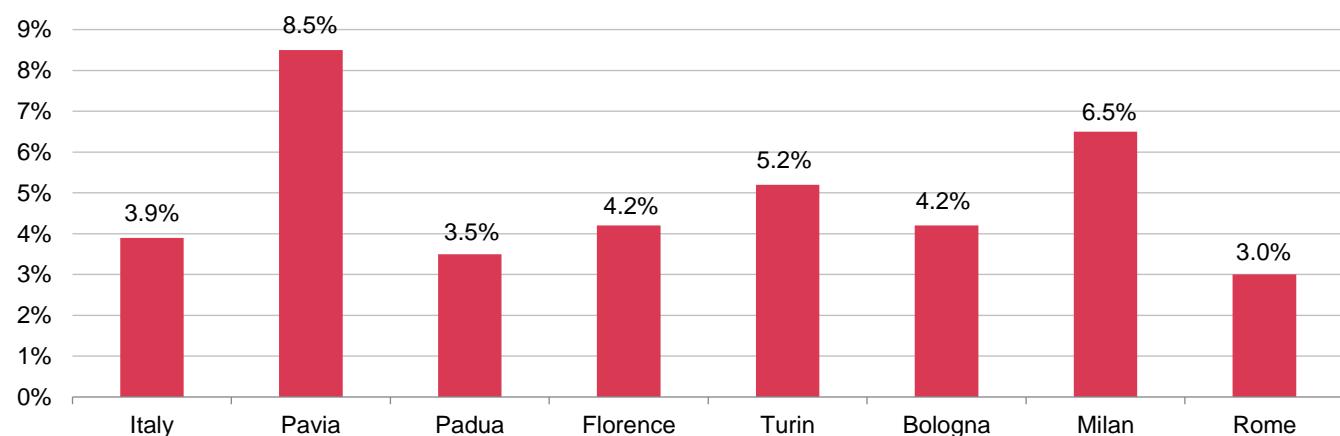
When compared to other countries in Europe, Italy lags significantly behind in terms of the provision of student accommodation. In fact, **Italy has the highest inadequate provision rate (4%)** when compared to countries like Denmark and the UK, where the availability of student accommodation is ten times higher.

This shortage in supply poses a significant challenge for students in Italy who face difficulties in finding suitable and affordable housing options during their studies.

## Number of students in the main Italian cities



## Provision rates in the main Italian cities



Source: PwC analysis on Scenari Immobiliari



4%

Italy provision rate



~ €200m

Total investments in 2023



Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market

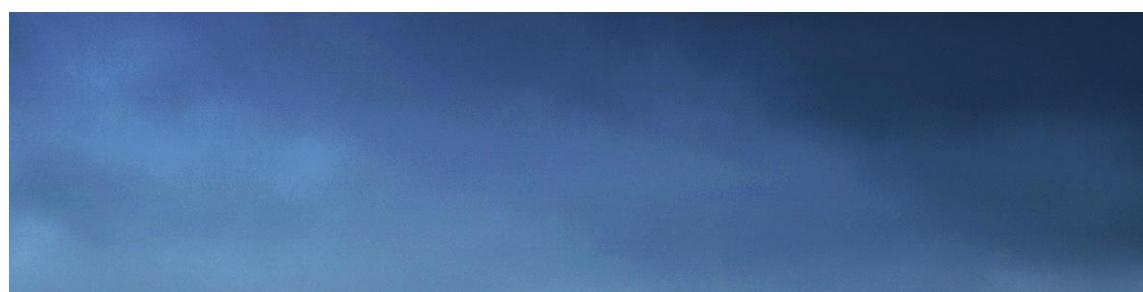
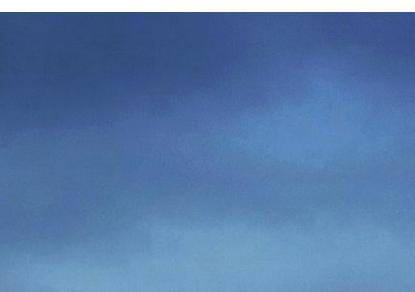


Rome real  
estate market



Real estate  
funds

Insights



## 04. Investors' outlook





# Institutional investor preferences

The INREV Investment Intentions Survey is a comprehensive analysis that delves into the investment goals and aspirations of investors in the real estate sector. The survey focuses specifically on non-listed real estate funds, which play a vital role in shaping the dynamics of the industry.

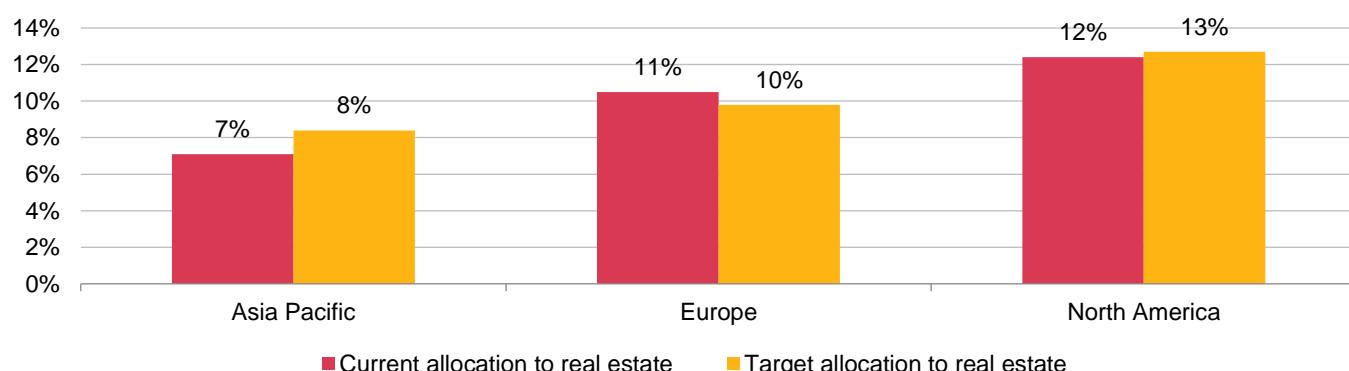
In 2023, the real estate market experienced a series of challenges due to various factors, including an increase in interest rates and declining valuations. These challenges were primarily attributed to the overallocation of funds to the real estate asset class, particularly among European investors. On average, investors allocated 10.6 percent of their portfolio to real estate, slightly surpassing their target average of 10.4 percent. The European investors had an average allocation of 10.5 percent. This indicates a widespread enthusiasm for real estate investments among European investors, despite the prevailing challenges faced by the market in 2023.

The survey reveals that residential, industrial/logistics, and office spaces continue to hold the top three positions for the fourth consecutive year.

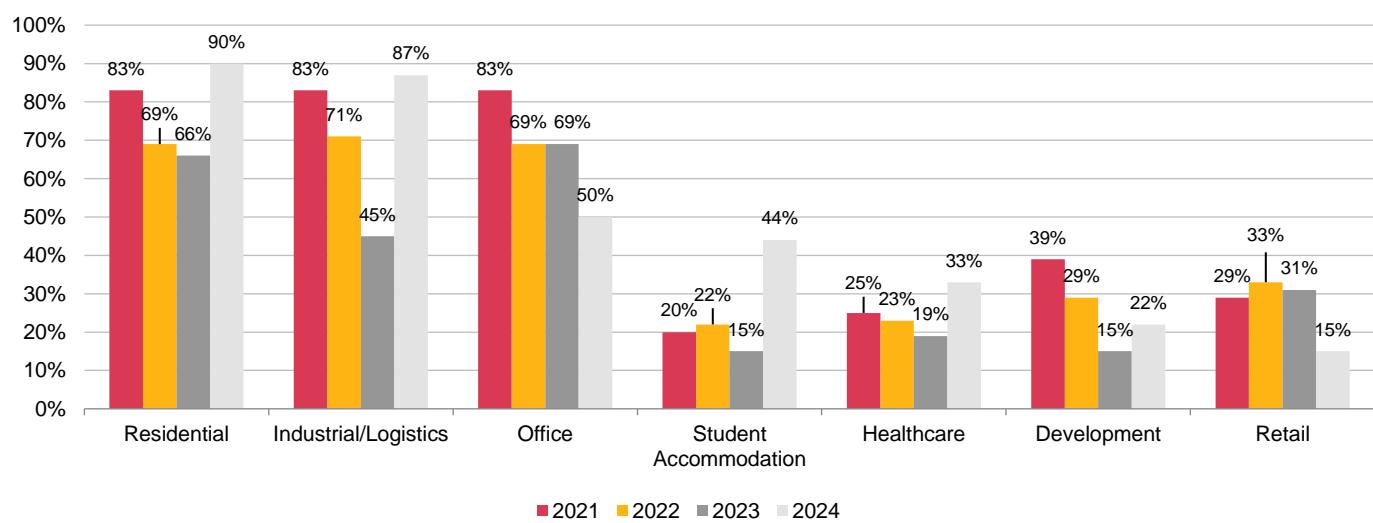
However, there has been a shift in the ranking order compared to previous years. This suggests that investors are continuously evaluating and adjusting their investment strategies based on market conditions, emerging trends, and evolving demands. The consistent popularity of residential properties indicates the enduring attractiveness of this sector to investors, driven by factors such as population growth, urbanization, and evolving lifestyle preferences. Meanwhile, the industrial/logistics sector gains prominence as the e-commerce boom and the increasing demand for efficient supply chain infrastructure present lucrative investment opportunities. Additionally, offices remain an important asset class, albeit with varying market dynamics influenced by evolving work trends and the impact of the pandemic on office space utilization.

This insight into investor intentions and sector preferences provides valuable guidance for industry stakeholders, allowing them to align their strategies, make informed decisions, and capitalize on emerging opportunities in the ever-evolving real estate market.

## Current and target allocation to real estate by macro area



## Europe's preferred sectors



Source: Investment Intention 2024 INREV



Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



Rome real  
estate market



Real estate  
funds



Insights



# 05. Investments in construction

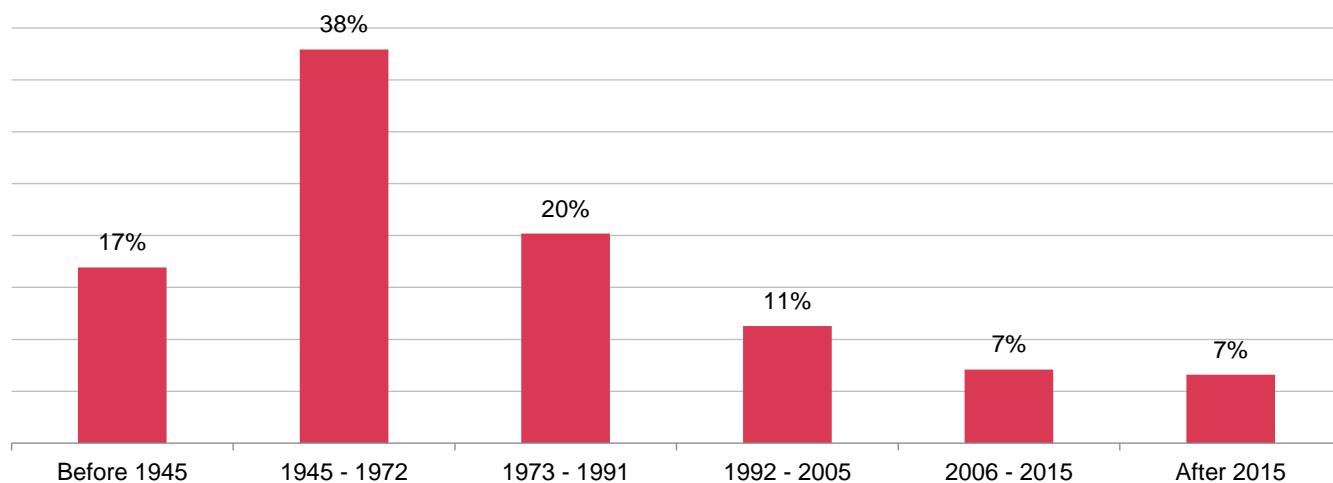




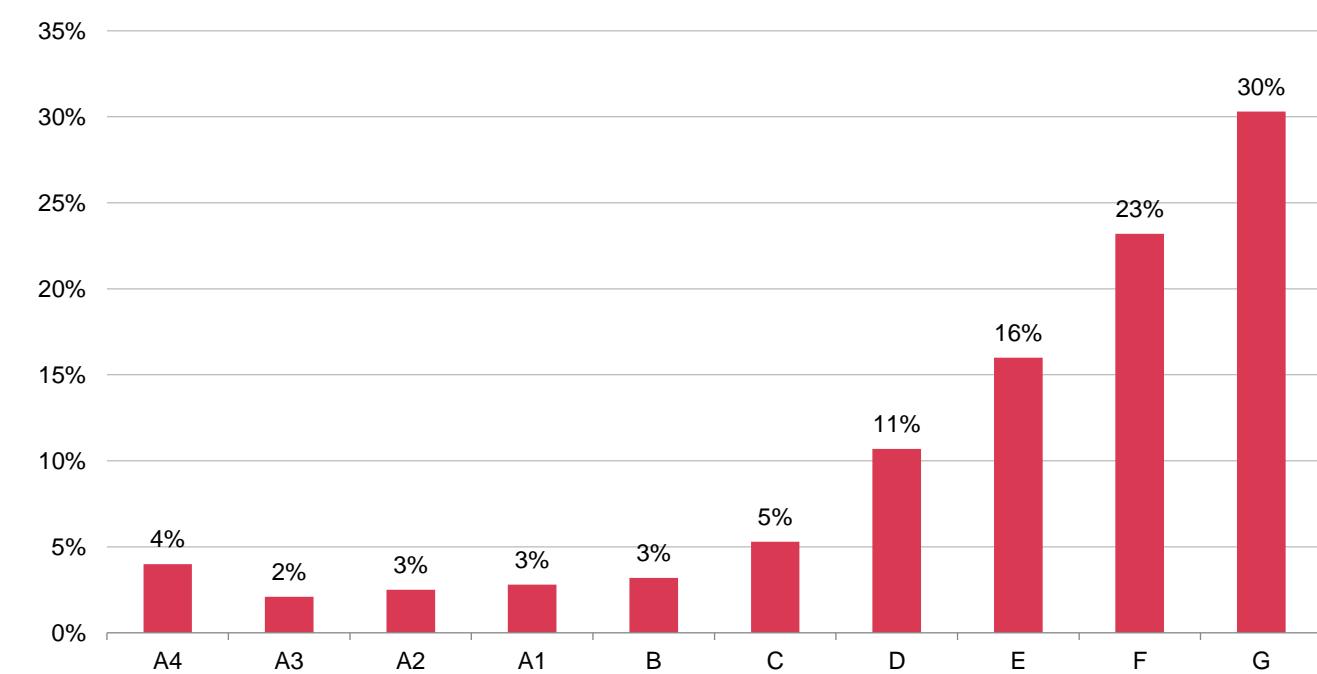
The **classification of Italian residential real estate**, mapped by ENEA (*Italian National Agency for New Technologies, Energy and Sustainable Economic Development*), reveals a concerning trend. On more than 50% of stock analyzed, ca. **85 percent of the mapped residential buildings in Italy fall below energy class C**, indicating suboptimal energy efficiency levels. Moreover, the data highlights that more than half of all property purchases in Italy still involve buildings classified as F or G in terms of energy performance.

This classification system, based on energy efficiency evaluations, is crucial for understanding the environmental impact and energy consumption of residential buildings. The fact that a significant majority of residential buildings are categorized below energy class C is a matter of concern from both an environmental and economic standpoint. Addressing this issue requires a comprehensive approach involving government policies, incentives, and public awareness campaigns. Encouraging energy-efficient retrofits, promoting renewable energy adoption, and providing financial support for building upgrades are potential strategies to improve the energy performance of existing residential buildings.

### Number of residential properties by year of construction (%)



### Number of residential properties by energy classification (%)



Source: PwC analysis on ENEA data

Macroeconomic  
overviewReal estate  
risk premiumItalian investment  
trendInvestors'  
outlookInvestments  
in constructionPrivate residential  
market trend

PNRR

Milan real  
estate marketRome real  
estate marketReal estate  
funds

Insights

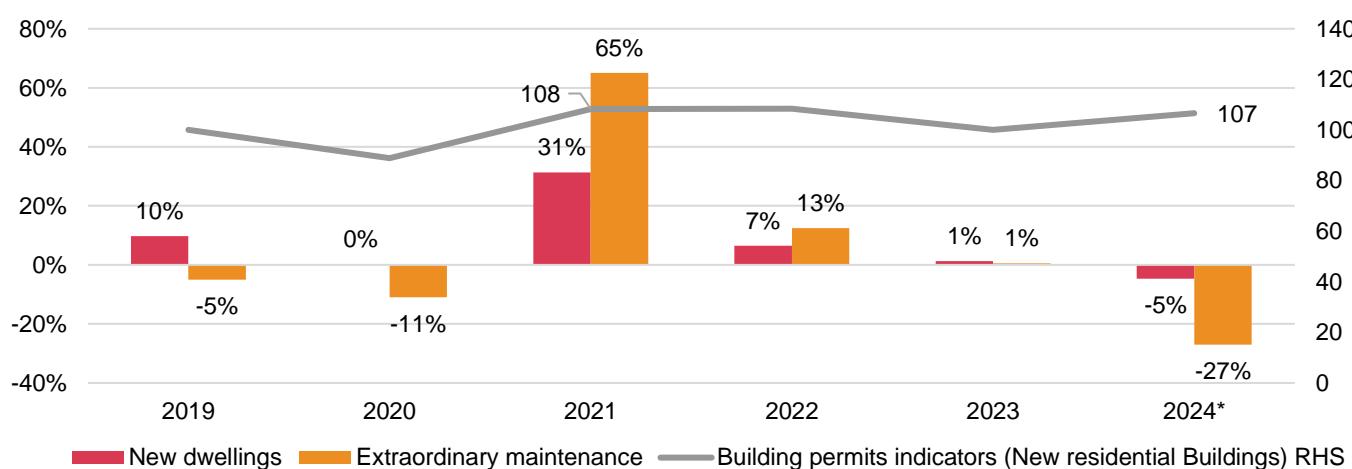
The construction market is anticipated to be significantly impacted by the unstable regulatory environment in the upcoming year.

According to Ance's forecast for 2024, there is a projected reduction of **-7.4 percent in construction investment**. This reduction is expected to have a particularly negative impact on the extraordinary maintenance sector, which is estimated to experience a **decline of -27 percent**.

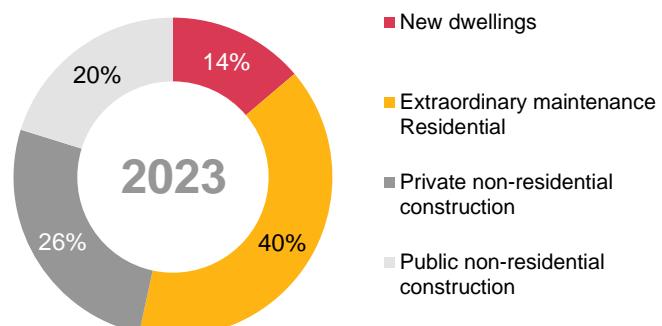
One of the primary factors contributing to this decline is the suspension of the Superbonus, a government incentive program aimed at promoting energy efficiency and renovations in buildings.

This suspension is expected to hamper the demand for extraordinary maintenance projects, as the Superbonus offered significant financial benefits and incentives for property owners to invest in such projects.

### Construction investment (YoY % changes in quantity) 2019 - 2024\* (forecast) and Index of building permits New residential buildings (Base 2019=100)



### Investment in construction by industry (53.4% investment in residential)



The uncertain regulatory environment surrounding the construction industry has created a sense of instability and caution among investors.

This, coupled with the suspension of government incentives, has led to a decrease in construction investment and a negative outlook for the extraordinary maintenance sector.

It is important for stakeholders in the construction industry to closely monitor and adapt to the changing regulatory landscape in order to navigate the challenges and seize opportunities that may arise.

Source: PwC analysis on Italian Building Society (ANCE) and INSI data

**-5%**

Investments in new dwellings in 2024\*

**-27%**

Investments in extraordinary maintenance in 2024\*





Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



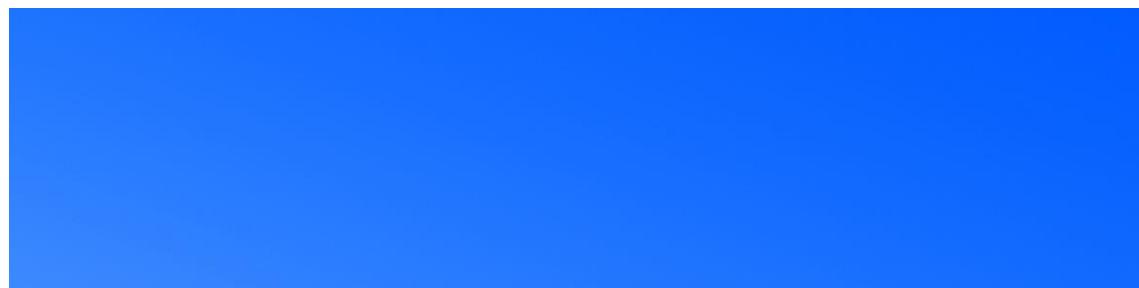
Rome real  
estate market



Real estate  
funds



Insights



## Italy





# Private residential market trend by quarter

During the first quarter of 2024, the Italian residential real estate market witnessed a slight decline in activity. The total number of transactions recorded during this period amounted to **154,770**, reflecting a decrease of 7 percent compared to the same period in the previous year. Several factors contributed to this decline in transaction volumes.

Firstly, there was a natural slowdown following an unprecedented surge in activity experienced in the immediate post-pandemic period. As restrictions eased, pent-up demand resulted in a flurry of real estate transactions, driving up volumes.

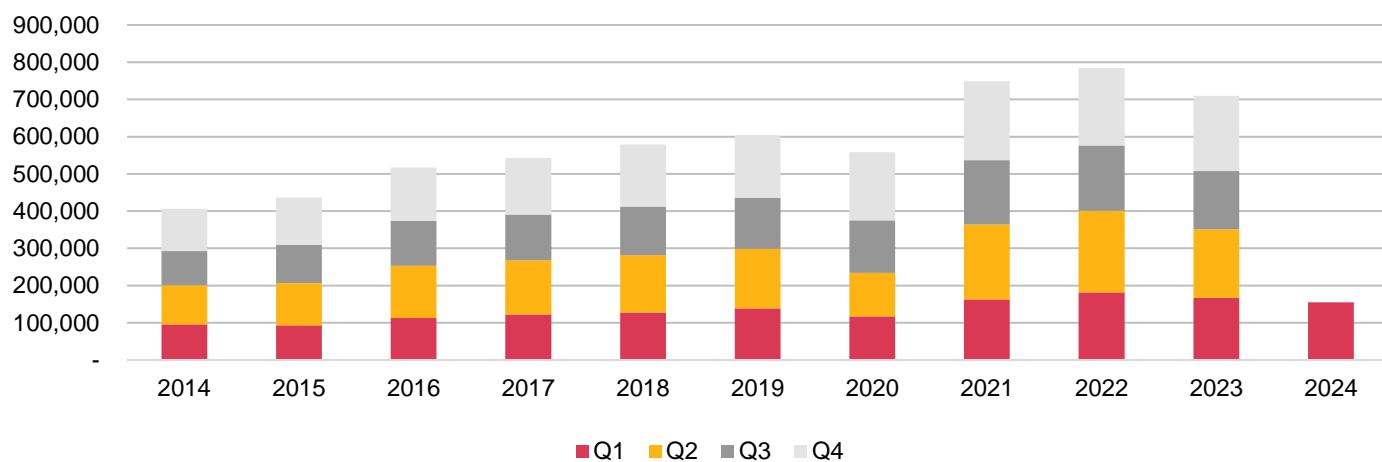
However, as the market began to stabilize, a moderation in activity was expected. In addition to the post-pandemic slowdown, the Italian real estate market also faced challenges imposed by a worsened macroeconomic scenario. Inflationary pressures and increased debt costs, as set by central banks, weighed on the market and affected buyer sentiment.

Higher inflation rates eroded purchasing power and made housing affordability a more significant concern for potential buyers. The impact of these macroeconomic factors affected both buyers and sellers in the residential real estate market. Buyers, faced with rising costs and limited affordability, may have been more cautious in their purchasing decisions.

On the other hand, some sellers may have adjusted their pricing expectations to accommodate the changing market dynamics, which could have contributed to the decrease in transaction volumes.

Despite the slight decline in activity, it is essential to note that the Italian residential real estate market remains a vital sector. The market has shown resilience and adaptability in the face of various challenges throughout history. As the economy continues to recover and stabilize, there is potential for growth and renewed activity in the real estate sector. It is crucial for market participants, including buyers, sellers, and industry stakeholders, to closely monitor market conditions and adapt their strategies accordingly.

**NNT annual time series (2014-Q1 2024)**



Source: PwC analysis on INSI data



**154,770**

Residential NNT Q1 2024



**-7%**

Q1 NNT residential (2024 vs 2023)



**166,745**

Residential NNT Q1 2023



# NNT Y 2023 - Residential

In 2023, the residential real estate market in Italy experienced a decline in transaction volumes compared to the same period in the previous year.

A total of **710k residential transactions were recorded**, representing a 10 percent decrease. When examining the regional breakdown, the northern territories reported a slight decrease in activity. In the **North-West**, approximately 243k houses were sold, reflecting a 9 percent decline compared to 2022. Similarly, in the **North-East**, around 135k houses were purchased, showing an 11 percent decrease. These regions, known for their bustling urban centers and vibrant housing markets, experienced a mild slowdown in transaction volumes. Moving to the central region, a more significant decline in activity was observed. The number of purchased houses in the **Center decreased by 13 percent**, with over 141k transactions recorded. This decline can be attributed to a variety of factors, including economic conditions, market dynamics, and buyer sentiment. In the **southern part of Italy**, there was a 7 percent decrease in the number of residential sales. Approximately 122k houses were sold during this period, reflecting a relative stability compared to other regions. The southern real estate market faced its own unique challenges, including economic disparities, urban migration trends, and varying levels of demand. The islands, consisting of beautiful and sought-after locations, recorded the lowest number of residential transactions in 2023, with approximately 67k houses sold. This suggests that the islands real estate market may have experienced a more significant impact from the overall decline in transaction volumes.

**710k**

Residential NNT Y 2023

**-10%**

Var. (%) NNT Y 2023 vs Y 2022

## Var. (%) NNT Y 2023 vs Y 2022 by area



Source: PwC analysis on Italian IRS data





# Affordability index

In 2023, the growth rate of real estate prices in Italy lagged behind that of income. Throughout the year, the average annual purchase cost represented a **modest increase of 1.7 percentage points** compared to the previous year. However, this figure was still **more than 9 percentage points** lower than the peak reached in the average of 2011.

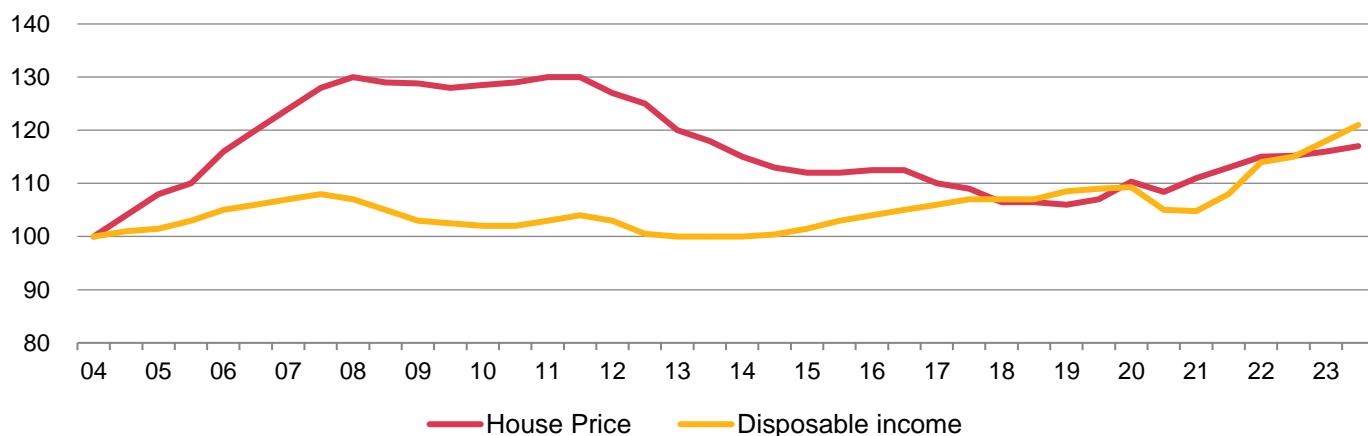
By the end of **2023**, the **affordability index for housing stood at 11.6 percent**, indicating a decrease of nearly 2 percentage points from the previous year's levels. Although the affordability index has undergone a decrease, it still reflects a reasonable proportion of income allocated towards housing costs.

The moderation in the growth rate of real estate prices and the improvement in affordability can be attributed to various factors. The less dynamic growth of real estate prices may indicate market adjustments and a more balanced supply and demand dynamic.

Additionally, income growth and economic factors likely contributed to increased affordability. Therefore, individuals and prospective homebuyers should closely monitor market trends, mortgage rates, and economic indicators to make informed decisions regarding housing investments.

Ensuring favorable conditions for accessing home purchases should be a priority for policymakers and stakeholders in order to foster a healthy and sustainable real estate market.

Affordability index for Italian household 2004 - 2023 (Base 2004 = 100)



Historical trend of Affordability index for total Italian households 2004 – 2023



Source: PwC analysis on Italian IRS data



# Residential mortgages

The first quarter of 2024 brought a much-needed recovery in demand for new mortgages from individuals and households. After more than two years of contraction, there was a notable **increase of 1.9 percent in the number of new mortgage applications**.

Several factors contributed to this resurgence in demand. One key driver was the reduction in IRS indexes for fixed-rate mortgages. Compared to the highs seen in 2023, **the IRS indexes decreased by 0.70 percent**, making fixed-rate mortgages more appealing and affordable to borrowers.

This reduction in interest rates sparked renewed interest and incentivized individuals and households to consider purchasing or refinancing their homes.

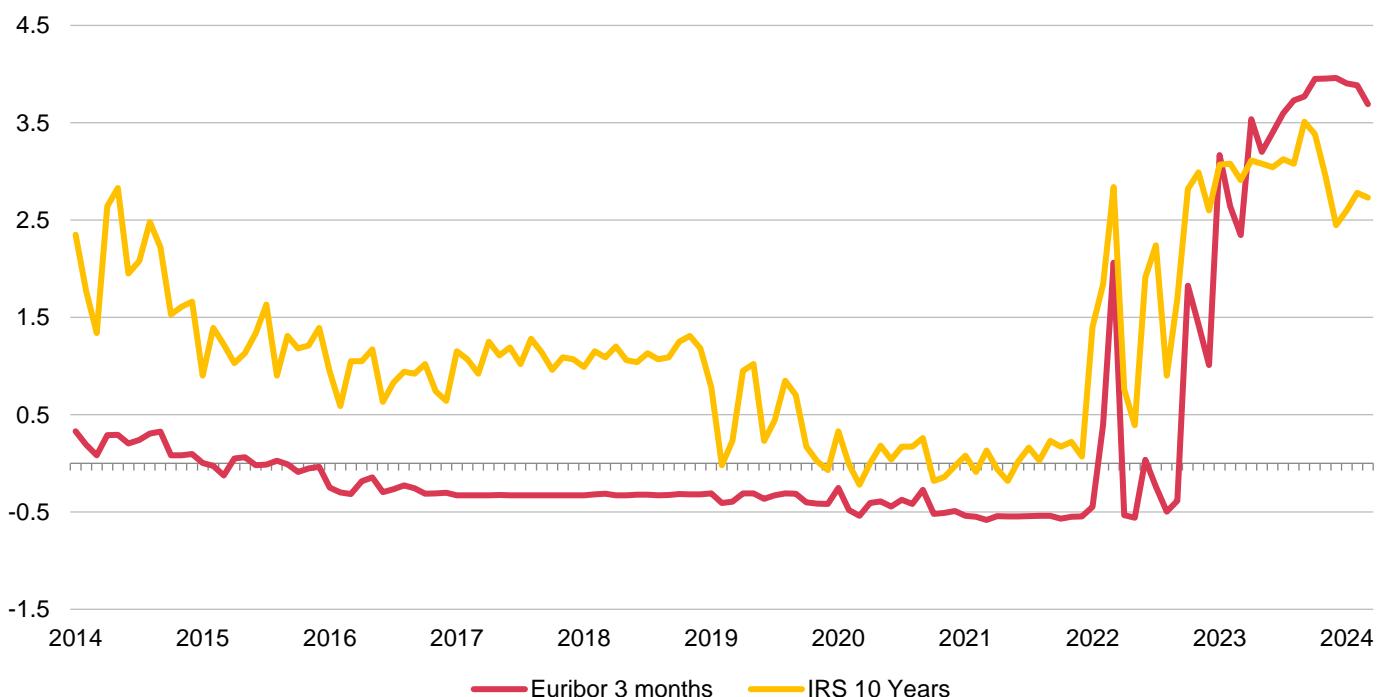
The decrease in interest rates not only made mortgages more attractive but also contributed to improved affordability. Lower interest rates translate into lower monthly mortgage payments, making homeownership more attainable for many potential buyers.

This affordability factor, coupled with the desire for stable long-term financing, encouraged individuals and households to explore mortgage options and take advantage of the favourable market conditions.

It is important to note that the recovery in mortgage demand observed in the first quarter of 2024 is a positive sign for the real estate market. The increased activity in the mortgage sector not only stimulates the housing market but also has a ripple effect on related industries such as construction, home improvement, and real estate services.

As the year progresses, it will be crucial to monitor how the trend in mortgage demand evolves and whether it continues to contribute to the overall growth and stability of the housing market. The favourable market conditions and accessible financing options present opportunities for both buyers and sellers to navigate the real estate landscape.

## Reference rate Euribor and IRS 10 years 2014 – July 2024



Source: PwC analysis on NAB data



# NNT residential analysis

The Italian residential real estate market experienced a downward trend in the number of purchases and sales during the years of the pandemic.

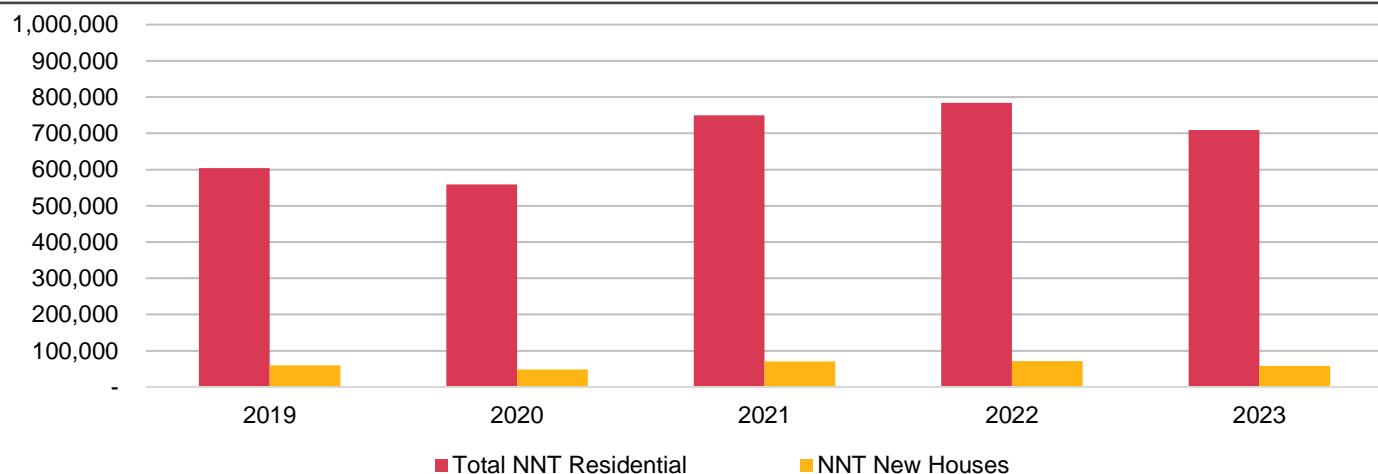
The restrictions and uncertainties caused by the pandemic had a profound impact on the housing market, leading to a decrease in activity and transaction volumes. However, as the situation started to improve, the market saw a gradual recovery in 2021 and 2022, with an **increase in both the number of purchases and sales**. Despite the recovery, the market faced challenges in 2023, which resulted in a decrease in transaction volumes. One of the factors contributing to this decrease was the increase in interest rates.

As central banks tightened monetary policy to address inflationary pressures, borrowing costs for mortgages increased. This rise in interest rates may have deterred some potential buyers from entering the market or pursuing real estate transactions, leading to a decline in activity.

As for the share of **new housing as a percentage of the total**, it has remained within the range of 8% to 10%. This indicates that new housing continues to play a significant role in the market, albeit with variations over time. The stability of this percentage suggests that despite the fluctuations in overall transaction volumes, there is a consistent demand for new construction and development projects.

The **House price index for new dwellings exhibits a correlation with the Italian Construction costs index for residential buildings**. Both indices show a similar trend over time, indicating a positive relationship between house prices of new dwellings and construction costs in the residential building sector in Italy. This relationship underscores the influence of construction costs on the affordability and pricing of residential properties in the Italian real estate market.

Number of residential sales by quarter Q1 2019 - Q4 2023 and % Share of NNT New Housing



House price index new and existing dwelling and Construction costs index for residential building (base 2015 = 100)





Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



Rome real  
estate market



Real estate  
funds



Insights

# 07. PNRR



Macroeconomic  
overviewReal estate  
risk premiumItalian investment  
trendInvestors'  
outlookInvestments  
in constructionPrivate residential  
market trend

PNRR

Milan real  
estate marketRome real  
estate marketReal estate  
funds

Insights

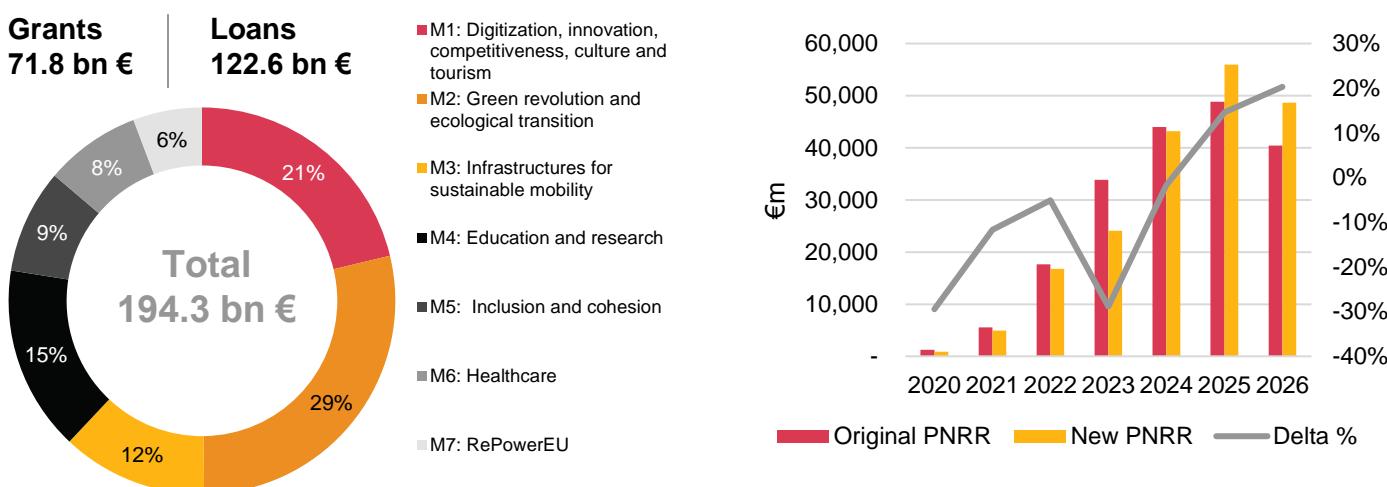
The **National Recovery and Resilience Plan (PNRR)** is a strategy adopted by the Italian government to address the economic crisis caused by the COVID-19 pandemic and promote sustainable growth and resilience in the country. Within the context of the PNRR, the **real estate sector** plays a fundamental role in the economic recovery. Investments in the real estate sector not only aim to revive the industry but also contribute to addressing some of the main challenges the country faces, such as **environmental sustainability, urban redevelopment, and energy efficiency**.

Through the PNRR, funding is allocated for the (i) **energy retrofitting of buildings**, (ii) **energy efficiency measures**, (iii) **digitalization of real estate**, and (iv) the **promotion of sustainable infrastructure**.

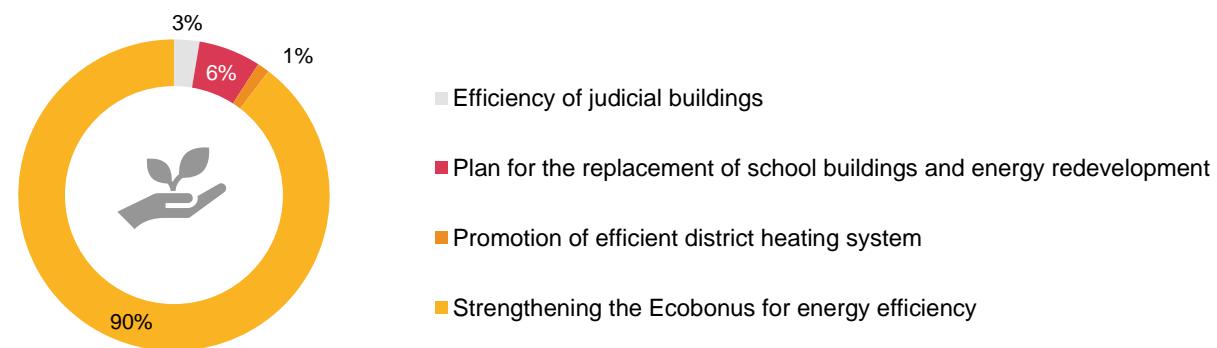
These investments will not only create new job opportunities in the real estate sector but also contribute to **reducing CO2 emissions** and is expected to have a **positive impact on tourism and the hospitality sector** in Italy in the future years. In fact, the PNRR includes **significant investments in Italian infrastructures**, including the renovation and modernization of public infrastructure, such as transportation networks, roads, railways, and energy grids. This will enhance the overall quality and efficiency of Italy's infrastructure, leading to economic growth and job creation in the construction sector.

Additionally, the PNRR aims to promote **access to housing and reduce the housing gap by supporting social housing initiatives** and facilitating access to credit for home purchases. This will help address the issue of poverty and increase social stability in the country.

### Allocation PNRR's funds per Mission (% total investment streams or reforms) – Italy



### Breakdown Allocation PNRR's funds Mission 2 Green revolution and ecological transition – Italy



Source: PwC analysis on European Commission data



150

Investment streams



66

Reforms



28%

of the plan will foster the social spending

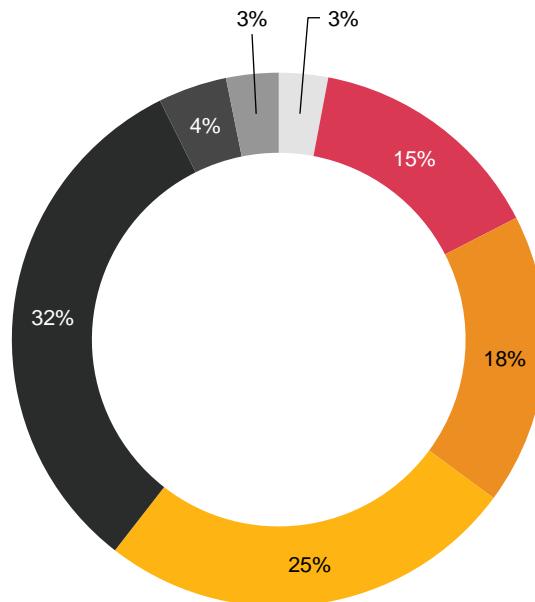


39%

Investments supporting climate objectives



## Map of funded projects in Italy (2024)



### Legend

- Green transition
- Smart, sustainable and inclusive growth
- Social and territorial cohesion
- Health and economic, social and institutional resilience
- Digital transformation
- Policies for the next generation

- Smart, sustainable and inclusive growth
- Green transition
- Digital transformation
- Social and territorial cohesion
- Policies for the next generation
- Other
- Health and economic, social and institutional resilience

Italy's recovery and resilience plan supports the green transition with key investments in:

- **energy efficiency in residential and public buildings** (**€ 16.9 billion**)
- **sustainable mobility** (**€ 34.5 billion**)
- **development of renewable energies** and the circular economy and improvement in waste and water management (**€ 24.7 billion**)

The modified plan, including the REPowerEU chapter, has further strengthened the focus on the plan on the green transition, devoting 39% of the available funds to measures that **support climate objectives** (up from 37.5% in the original plan).

Source: PwC analysis on European Commission data



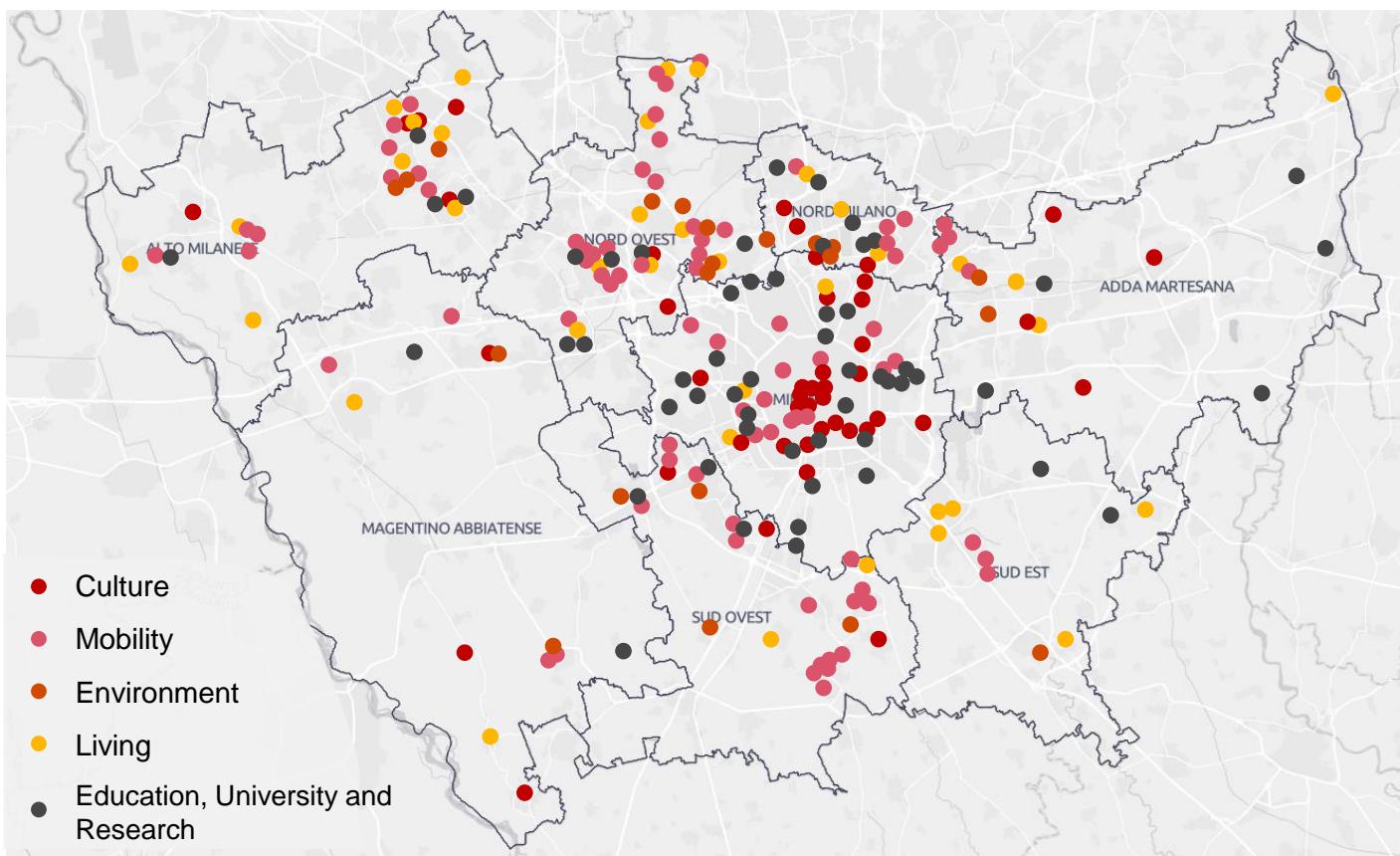
**+500 Projects**

Total funded projects





## Map of funded projects in the Metropolitan City of Milan (2019 – 2022)



The National Recovery and Resilience Plan (PNRR) has allocated **over 700 million in funding for 288 projects** across **67 municipalities** in the Milan metropolitan area. These projects span a variety of areas, including school construction, energy efficiency improvements in cinemas, theaters,

and museums, preservation of historic parks and gardens, rural architecture enhancement, and restoration of religious buildings. The map of interventions, developed by the Order of Architects of Milan, covers from 2019 to 2022, encompassing programs initiated prior to the NRPR's approval but later integrated into the plan.

Source: PwC Analysis on Centro Studi PIM - Ordine degli Architetti di Milano, 2023



**+713m €**

Total funding allocated (2023)



**+108m €**

Investments supporting Mission 2 C3 (Incentivise energy efficiency in public buildings)



**+280**

Total projects funded



## M1C3 Investment 4.2.3: Tourism sector enterprise development and resilience (EIB Fund of Funds)

The "Fondo Tematico Turismo" is a thematic fund in the context of the National Recovery and Resilience Plan (PNRR) in Italy. It is a dedicated fund within the PNRR that focuses specifically on supporting and promoting the tourism sector in Italy. Its purpose is to allocate financial resources to projects and initiatives aimed at enhancing the competitiveness, sustainability, and development of the tourism industry.

### Objectives:

- Support businesses that have committed to transitioning towards a more sustainable tourism industry, even in the face of the COVID-19 pandemic.
- Promote innovative investments in digital and green transition and energy efficiency.
- Contribute to the increase in the supply of services for tourism.
- Support projects with positive externalities that may face difficulties or financial burdens in accessing the market, by providing patient capital.

Through the "Fondo Tematico Turismo," the government aims to invest in infrastructure development, improve tourist destinations, enhance cultural and natural heritage sites, foster innovation in tourism services, and implement sustainability measures.

### Types of projects that can be funded



**Creation, renovation, modernization and improvement of accommodation facilities**

Hotel, Restaurants, B&B cottages, campsites and vacation centers



**Creation, renovation, modernization and improvement of tourism infrastructure**

Public and private cultural and accommodation sites, parks, sports facilities, mountain tourist facilities, and mountain sports facilities



**Investments in sustainable tourism and related to green transition**

Waste, water, energy management; earthquake interventions; support for local realities and promotion of conscious tourism and emerging tourist locations



**Digitization of processes and/or supply and training/improvement of staff skills**

Installation of fiber optics, digitization of services, promotion (digital marketing) and tourism offerings



**Investments in clean, sustainable and connected mobility for tourism**

Investment in infrastructure to facilitate tourist mobility and accessibility to sites; improvement of local soft mobility routes



*up to 40% mountain tourism*



*min 30% urban/religious tourism*



*min 30% maritime tourism*



*min 40% in Southern Italy*



### M1C3 Investment 4.2.3: Preferential project selection criteria



Projects and/or investments that can be implemented within a short or predictable timeframe to ensure rapid and efficient resource allocation



Projects and/or investments submitted by sound enterprises that are able to ensure their financial sustainability



Projects and/or investments that are financially attractive, of medium/large size, and that project a greater socio-economic impact on the territory



Projects and/or investments that contribute to achieving the objectives of the European Green Deal (green transition) or bearing a significant contribution to the digital transition



Projects and/or investments from enterprises particularly affected by the COVID-19 pandemic



Projects and/or investments by companies operating in national circuits of excellence, supporting local tourism supply and/or tourism promotion initiatives

### M1C3 Investment 4.2.3: Main Funding target

**€805m**

Total amount of the  
Tourism Thematic Fund

At least **50%** of the resources of the Thematic Fund will be devoted to energy efficiency investments with regard to project lines referring to the tourism sector.

### M1C3 Investment 4.2.3: Timeline

**March 15, 2023**

**June 30, 2026**





Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



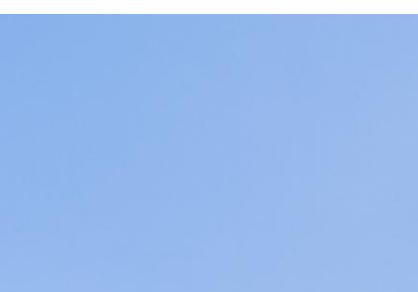
Rome real  
estate market



Real estate  
funds



Insights



# 08. Milan real estate market





# Investments trends

During the first half of 2024, the real estate market in Milan experienced significant investment activity, with a **total investment amount of approximately 800 million €**. This demonstrates the continued attractiveness of Milan as a prime investment destination.

**Office assets** emerged as the leading sector for investment, accounting for nearly **50% of the total investments during this period in terms of number of deals**. The demand for office spaces in Milan remains high, driven by the city's status as a major business and financial hub in Italy.

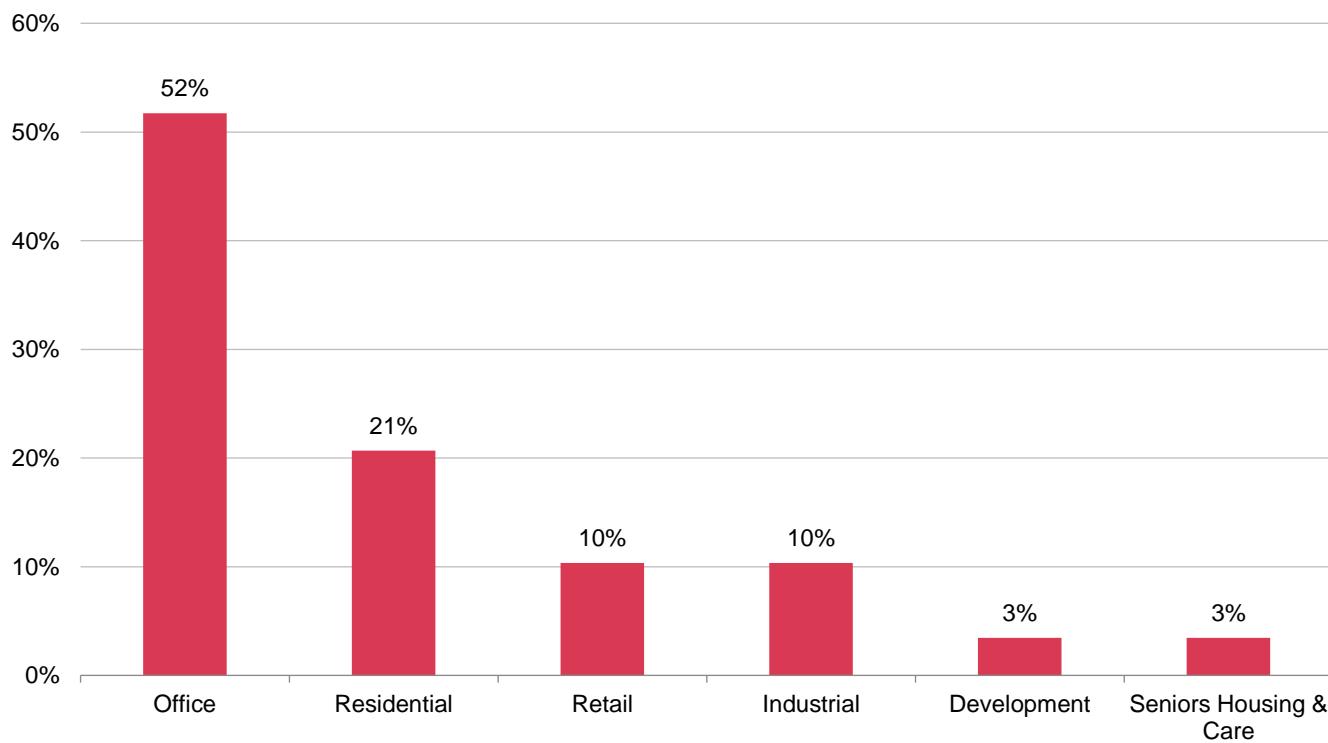
In terms of notable deals, the retail sector recorded the largest transaction in the Italian real estate market. This involved the purchase of a property by Kering in Via Montenapoleone, highlighting the strong interest in prime retail locations in Milan.

Another key investment trend is the growing focus on the residential segment. The residential market, particularly in large cities like Milan, continues to attract significant investment.

Overall, these investment trends reflect the confidence and interest in Milan as a thriving real estate market. The city's economic strength, cultural appeal, and potential for future growth make it an attractive destination for both domestic and international investors. As the market evolves, it will be important to monitor these investment trends and their impact on the real estate landscape.

Keeping a close eye on market dynamics, regulatory changes, and emerging opportunities will enable investors and industry professionals to make informed decisions and capitalize on the potential that Milan's real estate market offers.

Breakdown of deals by asset class in Milan real estate market YTD 2024 in terms of number of deals



Source: PwC analysis



Macroeconomic overview



Real estate risk premium



Italian investment trend



Investors' outlook



Investments in construction



Private residential market trend



PNRR



Milan real estate market



Rome real estate market



Real estate funds



Insights

# Office sector

During H1 2024, office investments in Milan reached almost **€300 million**. Net yields remain stable with **4.2%**: the take-up of was **185,000 sqm**.

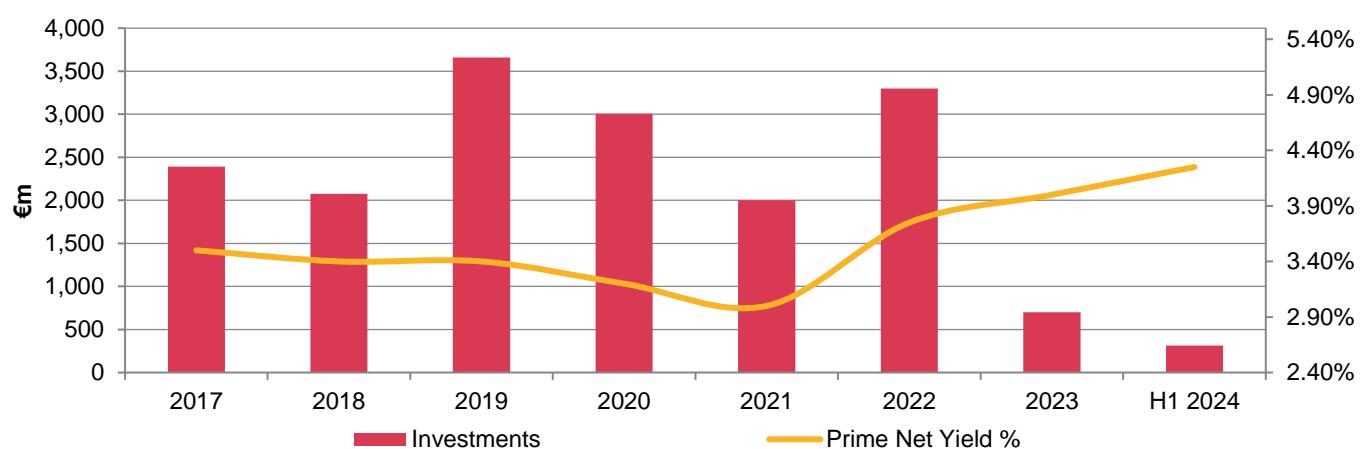
Investment activity in the real estate market has primarily focused on the central areas of the city. These central locations are characterized by extremely low vacancy rates and a high demand for prime properties.

Investors are actively seeking opportunities to enhance the value of properties through renovation or repositioning. However, despite the availability of capital, the supply of suitable investment opportunities remains limited.

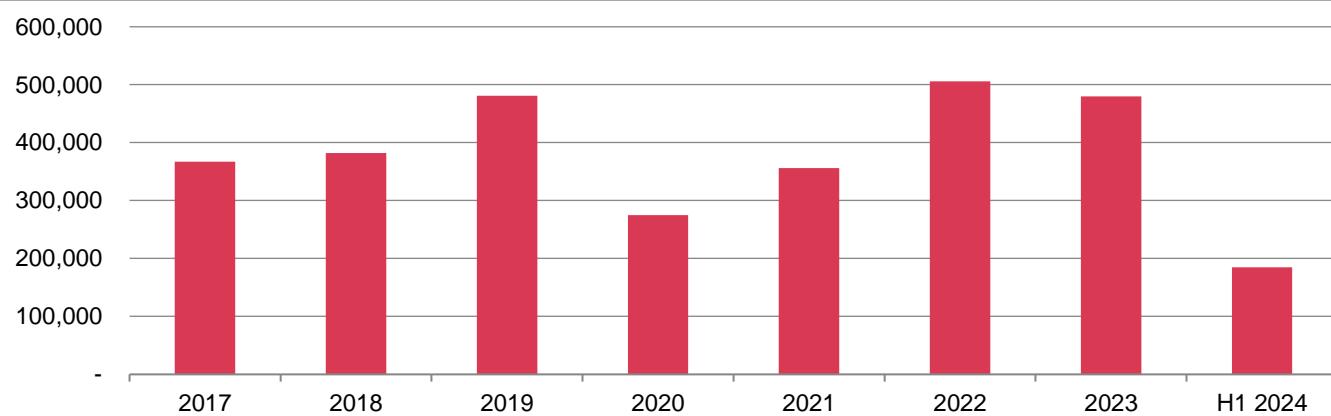
The concentration of investments in central areas reflects the desirability of these locations due to their proximity to key amenities, transportation hubs, and business districts. These prime properties attract strong demand from both domestic and international investors, who recognize the potential for long-term growth and attractive returns.

Overall, the concentration of investments in central areas driven by value-add strategies reflects the current market dynamics and the strong demand for prime properties.

## Investments trend and Prime net yield 2017 – H1 2024



## Trend of take up (sqm) 2017 – H1 2024



Source: PwC analysis

**€300m**

Total Investments in H1 2024

**4.25%**

Prime net yield H1 2024

**+10%**

Var. % Y 2022 vs Y 2020

**3.75%**

Prime Net Yield in Y 2022



# Retail sector

Investor focus has shifted towards out-of-town areas, with a particular interest in the supermarket segment.

This reflects the growing demand for retail spaces in suburban locations and the opportunities that this market segment presents.

Notably, in the upcoming third quarter, the real estate market is expected to experience a significant impact on transaction volumes due to the sale of a **High Street property on Milan's prestigious Via Montenapoleone**.

The sale of this property on Via Montenapoleone represents a noteworthy event in the market and underlines the attractiveness of prime locations in Milan for investors.

The street is renowned for its luxury retail offerings and is considered one of the most prestigious shopping destinations in the city.

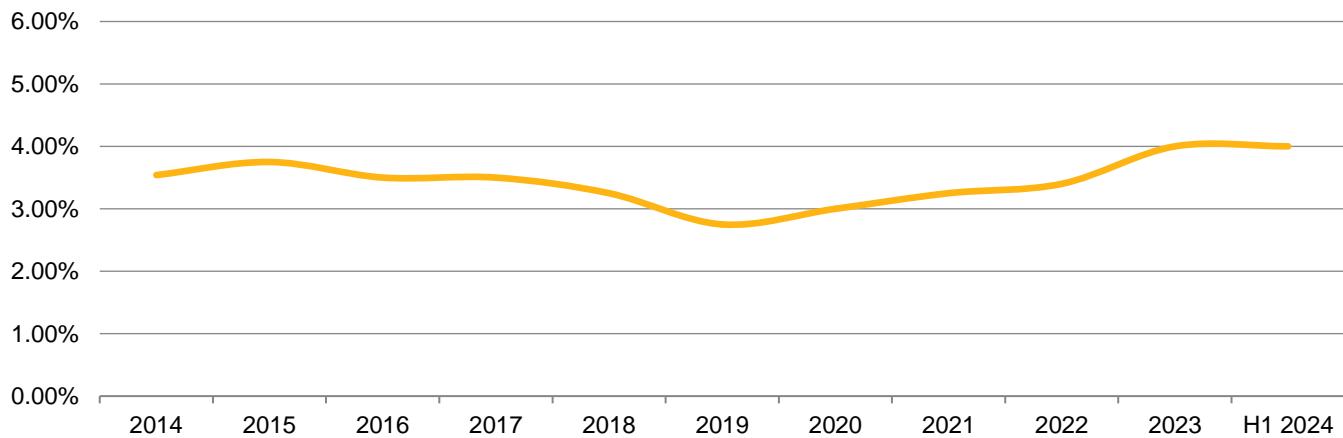
The transaction is expected to generate considerable interest and showcase the potential for high-value investments in the retail sector.

As the market responds to this transaction and continues to evolve, it will be essential to monitor the impact on investment trends, transaction volumes, and market dynamics. Factors such as consumer preferences, economic conditions, and regulatory changes will also influence the future direction of the real estate market in Milan.

Prime rent highstreet trend in Milan 2014 – H1 2024



Prime net yield highstreet trend in Milan 2014 – H1 2024



Source: PwC analysis



# Hospitality sector

The market is characterized by its liquidity, but it is hindered by the extremely limited supply, especially in prestigious trophy assets. Investors are focusing their strategies on value-add assets and regional markets, indicating a shift in investment preferences.

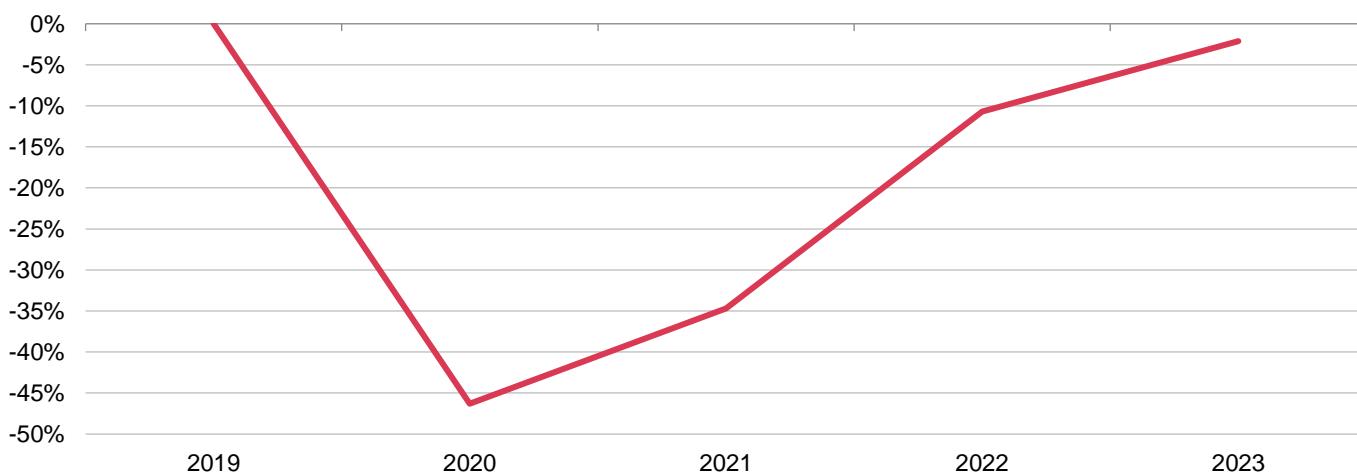
While the luxury segment continues to lead the market, there is a noticeable growth in other segments as well. This diversification reflects the evolving demands and preferences of buyers and investors in the market. It also highlights the untapped potential of emerging market segments that are attracting attention from investors.

However, the scarcity of supply, particularly in trophy assets, poses a challenge for the market. The limited availability of these high-end properties restricts the opportunities for investors and buyers looking for exclusive and prestigious assets.

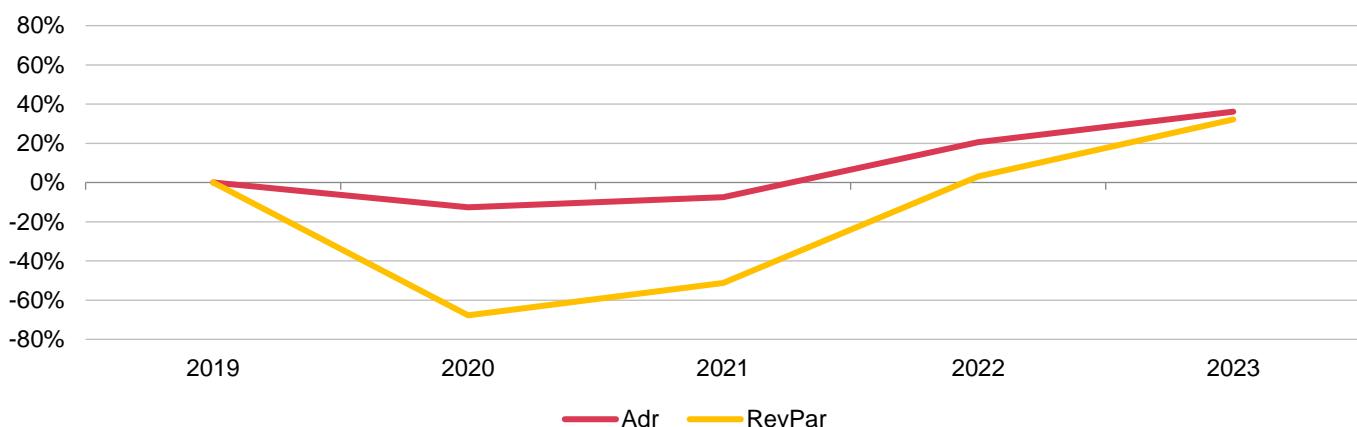
To capitalize on the market's liquidity and meet the demands of investors, it will be essential to focus on developing and increasing the supply of trophy assets. This will not only attract more investment but also contribute to the overall growth and sustainability of the market.

In terms of performance, Milan recorded an increase of **13% in ADR (Average Daily Rate)** compared to the 2022, while **Occupancy rates increased by 13.5% compared to the previous year and reaching the same level of the prepandemic year**.

**Milan's occupancy rate 2019 – 2023 (Base 2019 = 0%)**



**Milan's Average Daily Rate and Revenue Per Available Room 2019 – 2023 (Base 2019 = 0%)**



Source: PwC analysis on EBTL



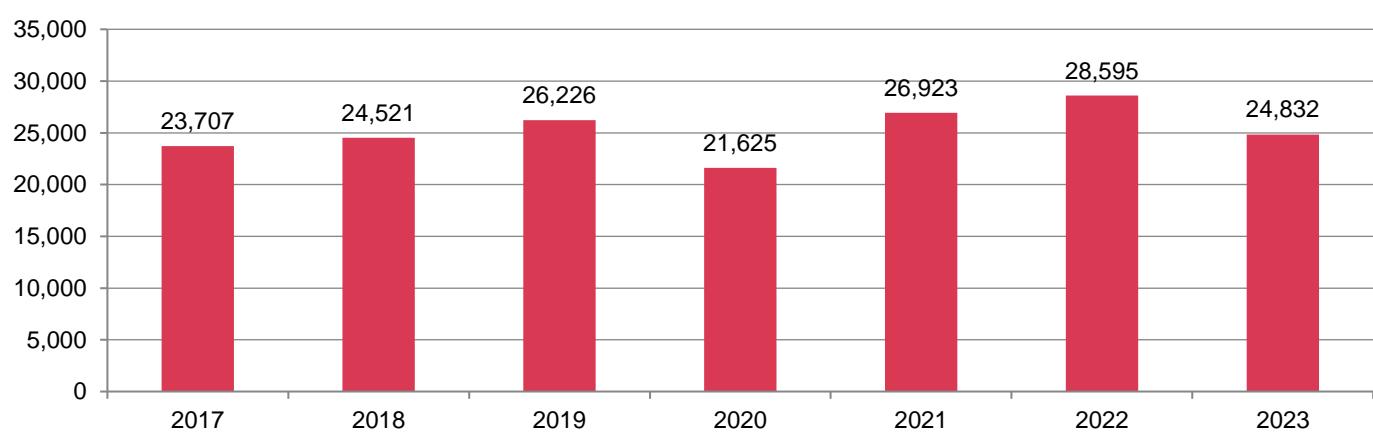
# Residential sector

In 2023, a total of **24,832 homes were sold**, indicating a decline of **13% compared to the previous year**.

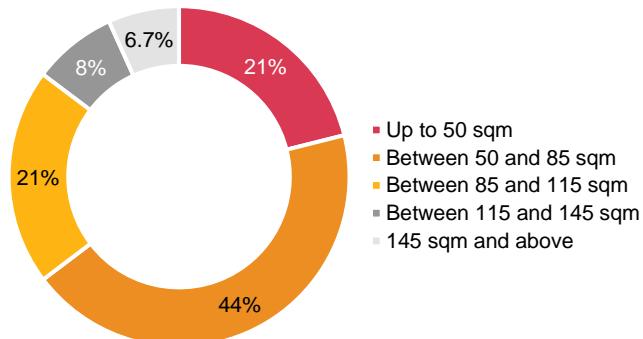
This downward trend persisted into the first quarter of 2024, with sales figures remaining relatively stable. Despite the decrease in sales volume, there was a significant development in the average price of homes, which **stood at around 4,030 euros**.

This marks a noteworthy **increase of over 10% compared to the previous year**, suggesting a strengthening market and rising property values. These changes in sales volume and average prices reflect the dynamics of the real estate market during this period and highlight the evolving factors influencing home sales and prices.

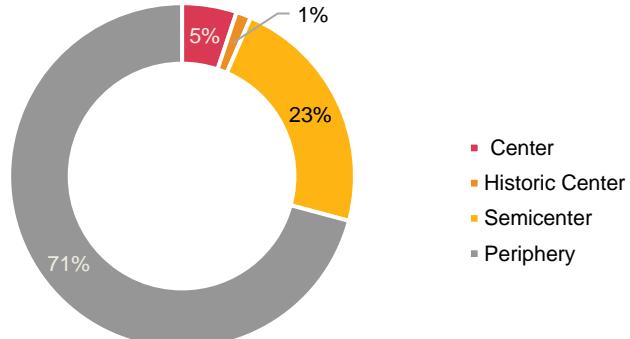
Trend of NNT 2017 – 2023



NNT by dimensional class (2023)



NNT by macroarea (2023)



Source: PwC analysis on Italian IRS data



**24,832**

NNT 2023



**-13%**

NNT 2023 vs 2022





Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



Rome real  
estate market



Real estate  
funds



Insights

# 09. Rome real estate market





# Investments trends

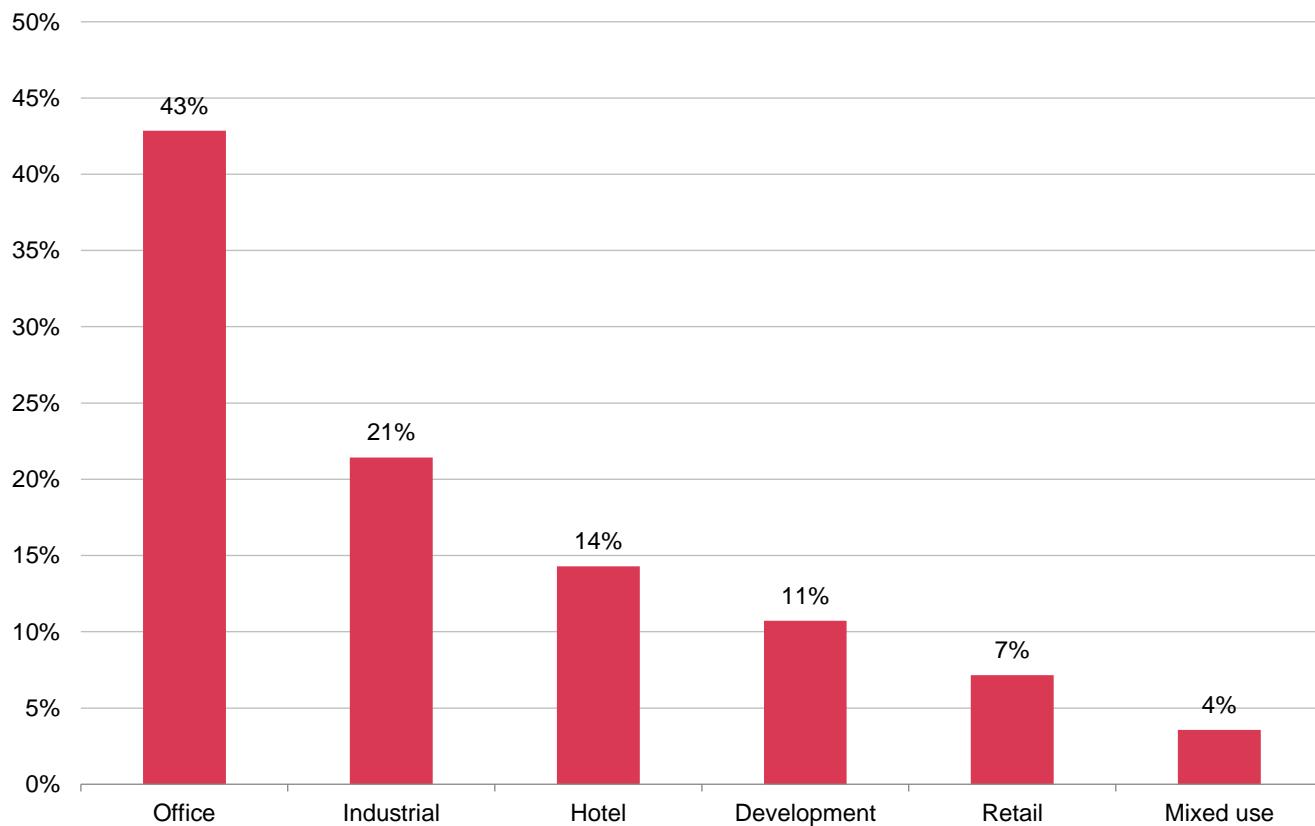
The real estate market in Rome experienced significant investment activity during the first half of 2024, with a total investment amounting to approximately **900 million €**. This demonstrates the continued interest and confidence in the Rome market.

**Office assets** remained a major focus for investors, accounting for nearly **44% of the total investments in terms of number of deals**. Offices continue to be an attractive investment option in Rome, reflecting the city's status as a significant business and administrative hub. Furthermore, the hospitality and retail sectors also remain highly appealing to investors in Rome.

These sectors continue to attract significant investment, highlighting the demand for quality hotels and retail spaces in the city. The hospitality sector benefits from Rome's status as a popular tourist destination, with investors recognizing the potential for long-term growth and returns.

Similarly, the retail sector in Rome benefits from the city's vibrant commercial activity and the presence of renowned shopping districts. As the market evolves, it will be important to closely monitor these investment trends.

Breakdown of deals by asset class in Rome real estate market YTD 2024 in terms of number of deals



Source: PwC analysis



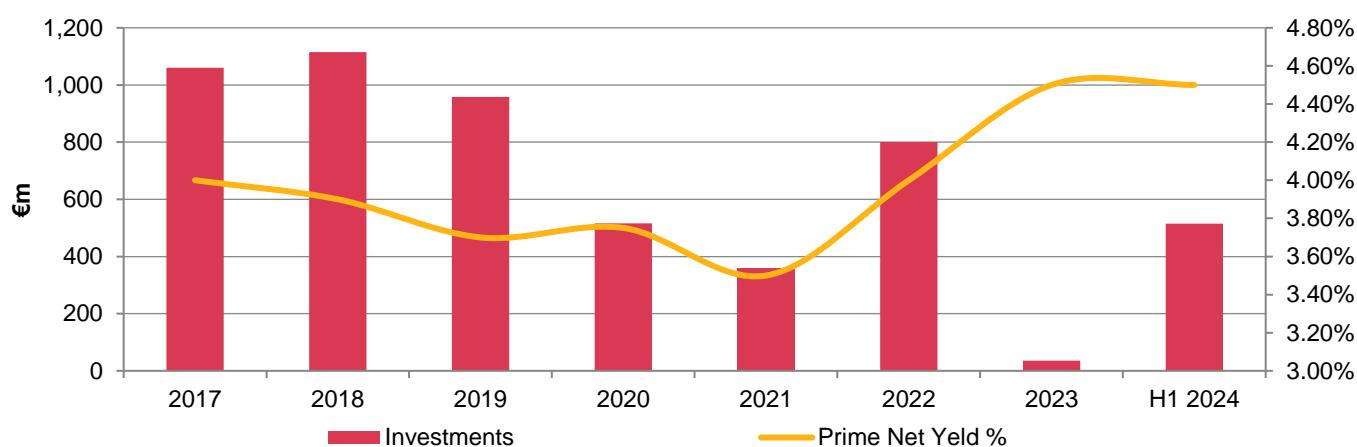
# Office sector

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**.

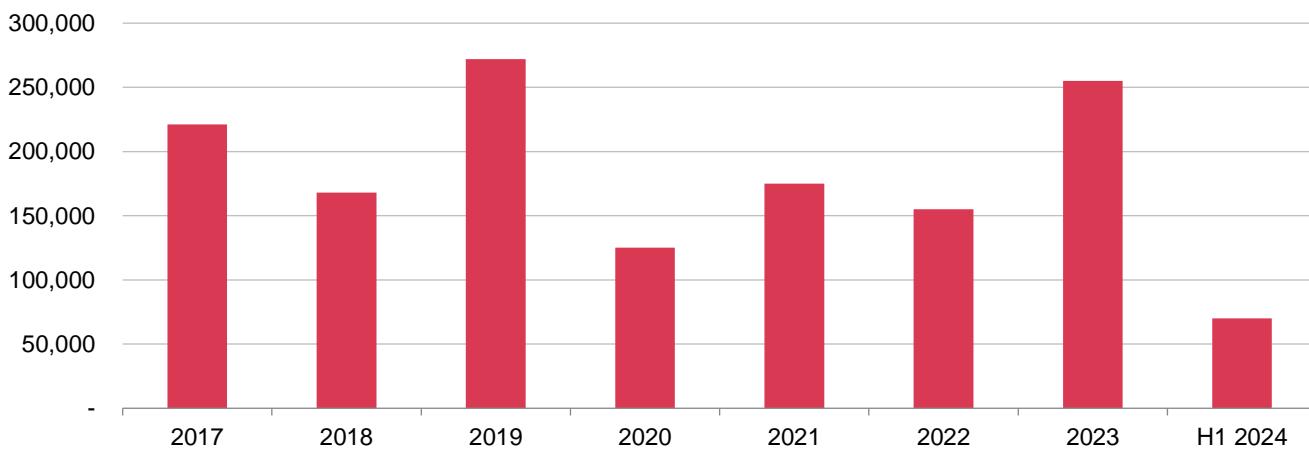
There was also a growth in the absorption of office space in Rome, on the user side, where 148 transactions were concluded, for a total area of approximately **150k sqm (+5%)**.

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 2017 – H1 2024



## Take-up trend (sqm) 2017 – H1 2024



Source: PwC analysis



**€500m**

Total Investments in H1 2024



**4.5%**

Average Prime Net Yield H1 2024



**70,000sqm**

Take-up H1 2024



# Hospitality sector

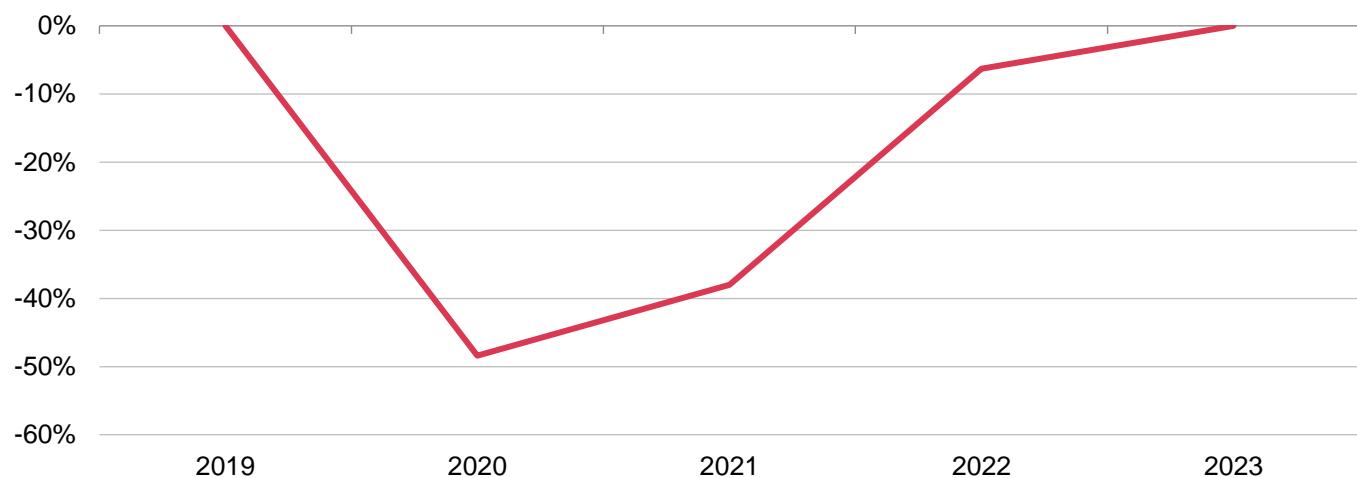
In Italy, the spread of chain hotels ('brand penetration') remains modest compared to the main European markets, due to a high fragmentation of the industry. This context constitutes an opportunity for the Italian market, which is increasingly open to the entry of hotel chains and international investors.

**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.

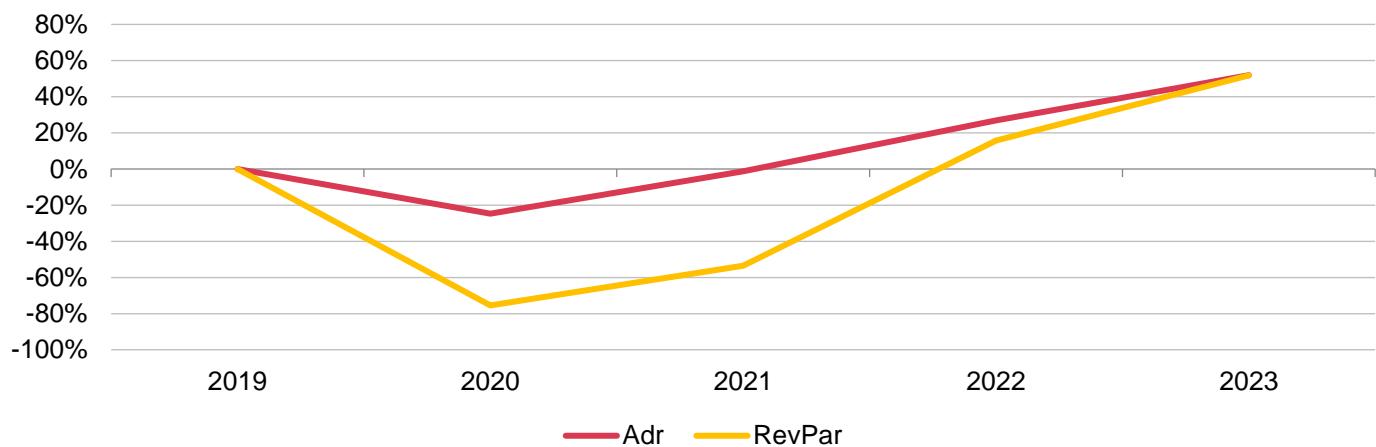
In terms of performance, the **ADR (Average daily rate) in Rome grew by around 20% in 2023 compared to the previous year**, achieving the best results among European capitals. **Hotel occupancy rates reached the same level of the prepandemic year.**

As a result, the **RevPar in Rome is above the levels reached in 2019 (+52%).**

Rome's occupancy rate 2019 - 2023 (Base 2019 = 0%)



Rome's Average Daily Rate and Revenue Per Available Room 2019 - 2023 (Base 2019 = 0%)



Source: PwC analysis on EBTL data

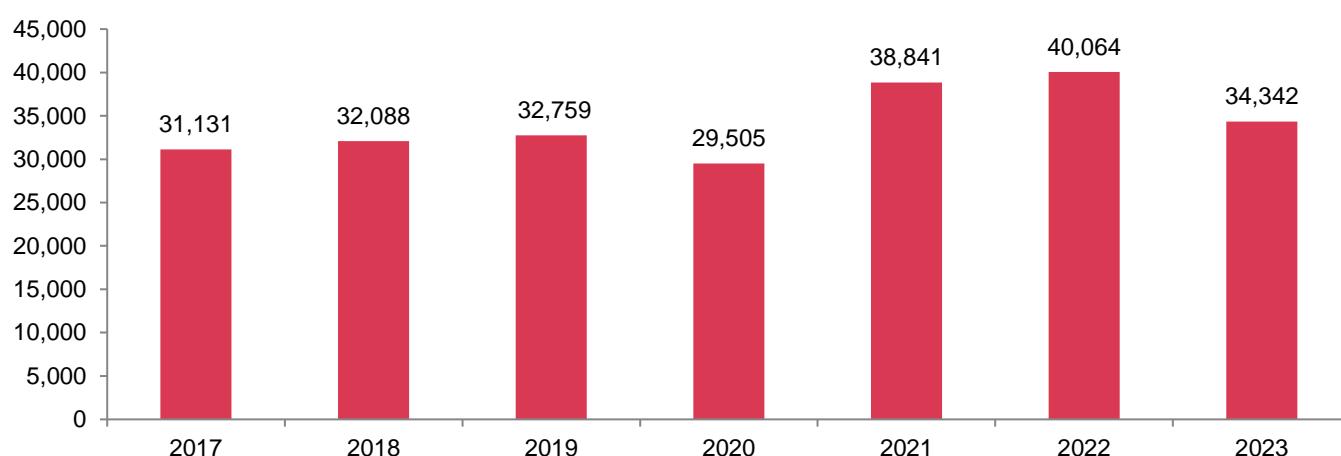


# Residential sector

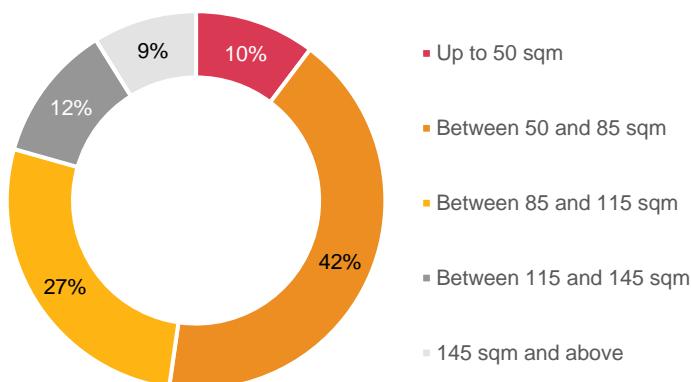
During the year 2023, the real estate market in Rome experienced a significant decline in buying and selling activity, with a **decrease of 14% compared to the previous year**.

This decline was notably reflected in the total number of economic transactions related to the sale and purchase of residential properties, which amounted to **34,300** in the capital city. Several factors contributed to this decline. One important factor was the gradual increase in interest rates on mortgages required by banks for property purchases.

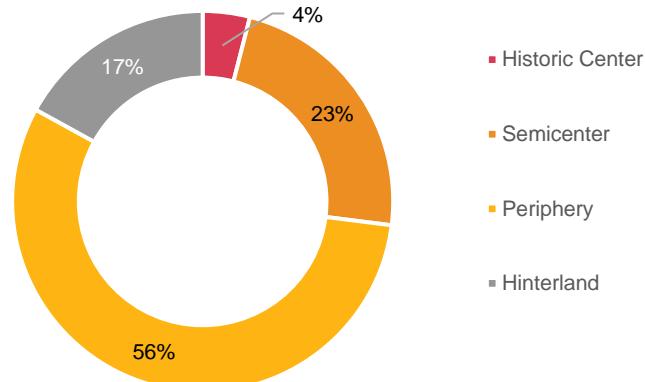
## Volume of NNT (2017 - 2023)



## NNT by dimensional class (2023)



## NNT by macroarea (2023)



Source: PwC analysis on Italian IRS data



**34,342**  
NNT 2023



**-14%**  
NNT 2023 vs 2022



Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



Rome real  
estate market



Real estate  
funds

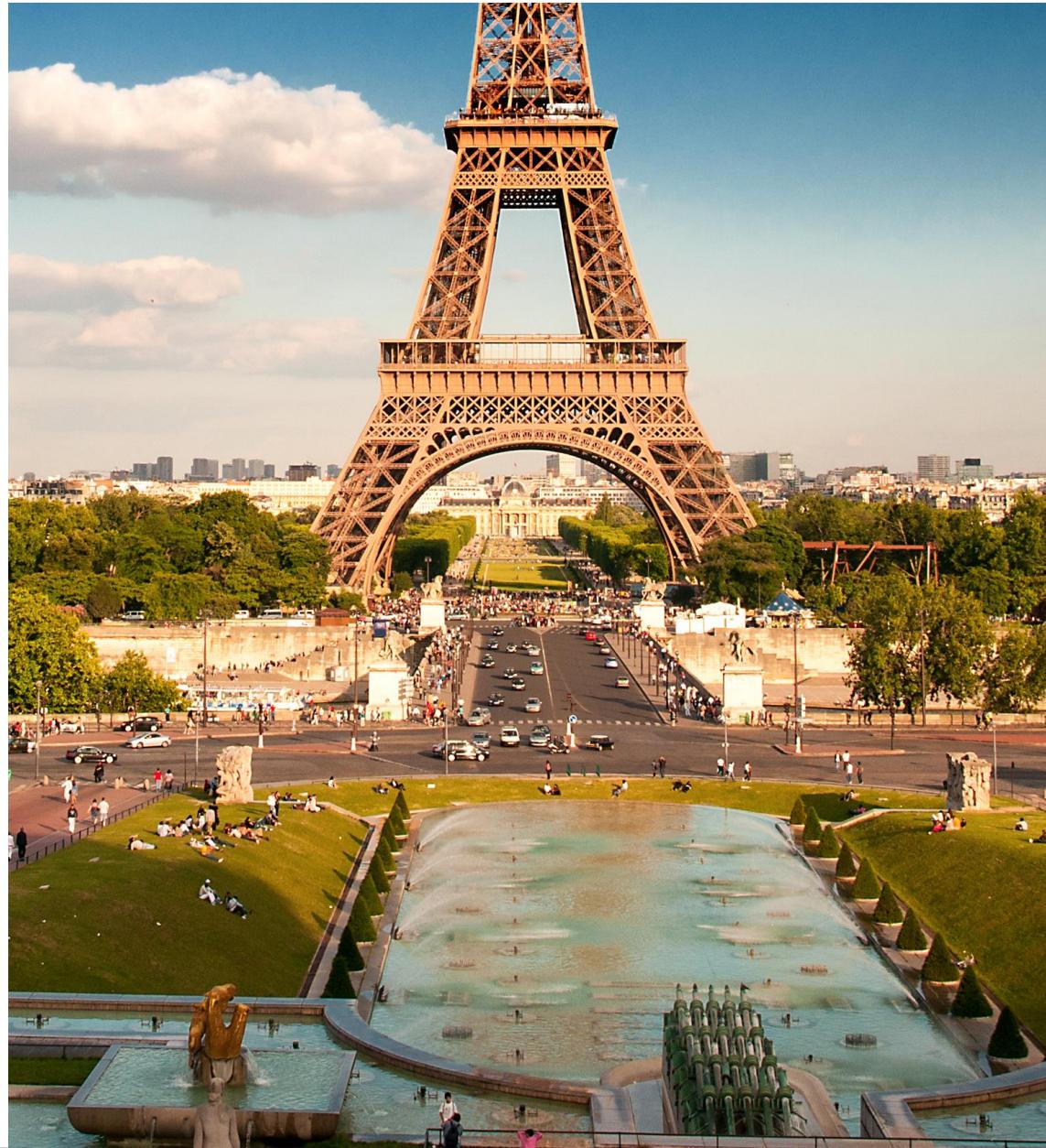


Insights



10.

# Real estate funds



# Real estate funds - overview

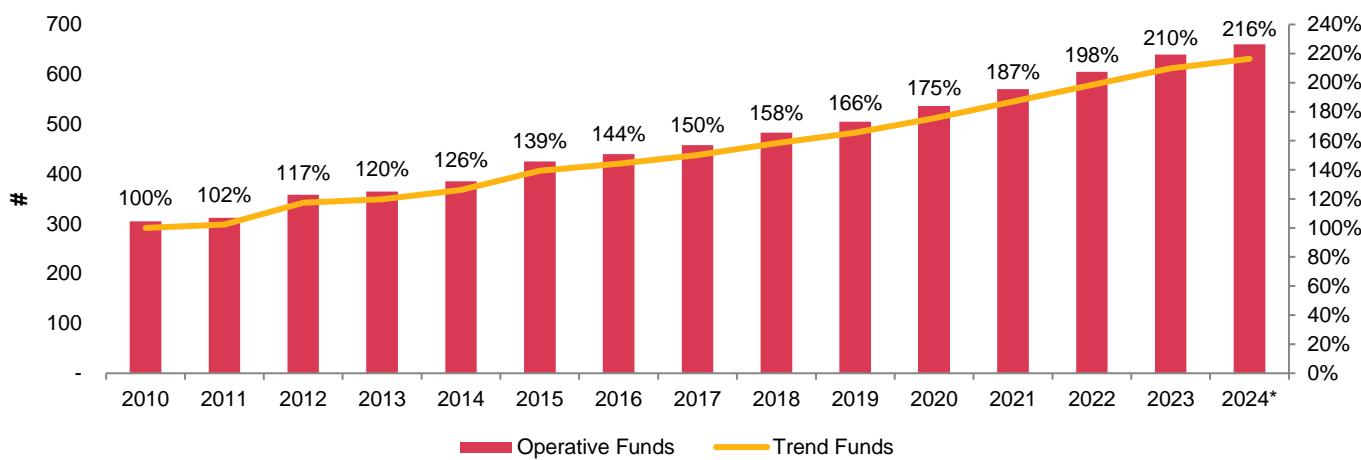
According to the Report by Scenari Immobiliari and the Casadei Study, the expansion cycle of Italian real estate funds continued in 2023.

The assets under management in Italy accounted for almost **12 percent of the total in the EU area**. The **630 active funds in Italy hold real estate assets directly**, amounting to **127 billion euros**. This represented a growth of approximately 3.3 percent compared to the previous 12 months. Furthermore, it is projected that the total value of these assets will increase to 132 billion euros in 2024, reflecting a 3.9 percent increase.

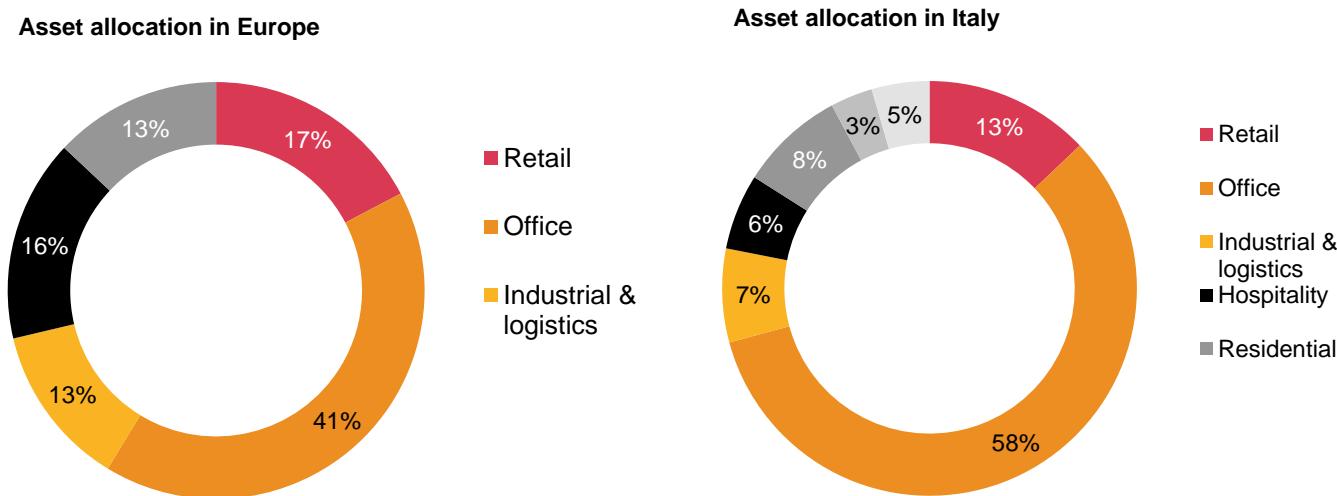
In Europe, which accounts for nearly **35 percent of the world's assets**, the total volume of real estate assets reached **1,580 billion euros**, indicating a growth of **3.3 percent**.

This data highlights the continued growth and significance of real estate funds in Italy and Europe. These funds play a vital role in managing and investing in a wide range of real estate assets, contributing to the overall strength and growth of the real estate market in the region.

## Historical trend of Italian operative Funds



## 2023 Asset allocation



Source: PwC analysis on Nomisma and Scenari Immobiliari data



Macroeconomic  
overview



Real estate  
risk premium



Italian investment  
trend



Investors'  
outlook



Investments  
in construction



Private residential  
market trend



PNRR



Milan real  
estate market



Rome real  
estate market



Real estate  
funds



Insights

# 11. Insights



# Real Estate Securitization

In 2019, law decree no. 34 enacted by the Italian government introduced important changes to the Italian securitization law. In particular, **securitization vehicles are now allowed to directly purchase real estate assets and securitize any proceeds arising therefrom**. Such assets (and the relevant proceeds) will be segregated in favor of the noteholders under the securitization scheme and shall be managed and serviced by persons/entities having the required expertise and authorization. Such reform has therefore created a different way for investors to invest in a real estate securitization through a structure which is characterized, among others, by a **high level of flexibility, reduced time for its implementation, a direct control by the noteholders over the securitized asset** (also through the appointment of a captive asset manager). The reform created therefore new investment opportunities in the Italian real estate market for both traditional players as well as for new investors approaching such market for the first time.

By investing in securitized products, the market acquires debt securities collateralized by securitized assets, which, through the generation of periodic cash flows (which for the real estate market are mainly represented by rents, leases and the resale of the assets), rewards investors through coupons. As interest rates rise, securitized products offer an alternative to traditional debt securities, providing higher yields for the same risk with a more diversified exposure to the underlying assets.

Securitized products can be offered in the market in different tranches, depending on different risk levels: senior, mezzanine, junior. The senior tranche has the lowest risk and highest priority in receiving payments from the underlying mortgages, while the junior tranche has the highest risk and lowest priority, rewarded by larger coupons. The junior tranche is usually subscribed by the sponsor of the relevant transaction.

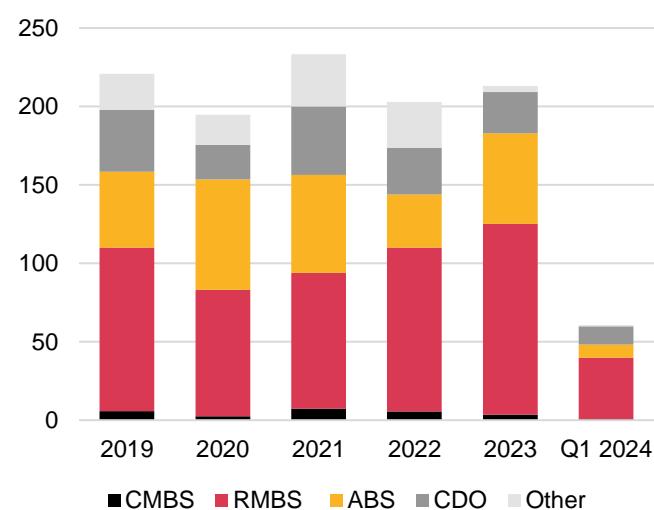
Between 2020 and 2023, there is a **50% growth in liquidity funding of MBS instruments**, in Europe, from 83 billion raised in 2020 to 125 billion in 2023. MBS to date account for 60% of total volumes raised by investors through securitization, followed by ABS (asset-backed-securities, accounting for 27% of total issues) and CDOs (collateral-debt-obligations, 12%).

In 2023, the Italian real estate operator securitization market stood at around **2.5 billion**: the total amount of operating SPVs are now 47 (in 2020 there were only 12). The most important transactions carried out with securitized products in the last year include:

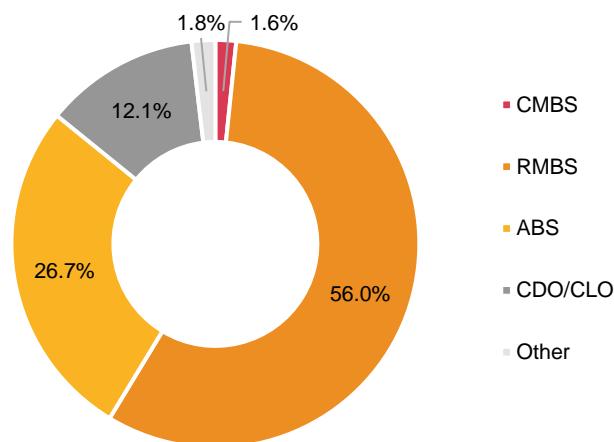
- a transaction regarding a **€50million real estate portfolio owned by Coop Alleanza 3.0** and acquired by a securitization vehicle;

- purchase, for more than **€20million**, of a predominantly office area of more than 61,800 square meters sold by Fondo Artemide, managed by Kryalos Sgr, in via Lorenteggio in Milan;
- Redbrick Investment Group, in partnership with an international alternative investment fund, acquired a 5,000-square-meter, primarily residential ground-shelf property in Piazzale Susa, Milan, through a securitization vehicle.

## Issuance trend in Europe (2019 - Q1 2024)



## Issuance of securitized products (2023)

**213bn**

Issuance of securitized products in Europe (2023)

**60%**

MBS weight on total issuance (2023)

**2.5bn**

Issuance of real estate securitized products in Italy



# Experiential tourism and new forms of hospitality

Before the Covid-19 crisis, **tourism** with an **experiential** connotation was the preserve of a **high-spending traveler** profile (where the concept of experience goes hand in hand with that of luxury and exclusivity); following the pandemic, **experiential tourism** has become the subject of a rapid **democratization** that places the search for **experiences** at the **top of travel preferences**. Making the tourist feel at the center of the experience, building engaging and memorable experiences that **can create a memory**, is something that goes beyond the mere concepts of exploring the holiday location. The **experience economy** has been on top of the priority since then: the demand for vacations in unique accommodations today is a trend that is becoming increasingly evident. Among the alternative forms of lodging most appreciated by tourists coming to the Belpaese are **widespread hotels** in small villages, **design hotels** in art cities, **luxury hostels**, and **open-air facilities** with luxury amenities such as **glamping**.

Glamping is a new and popular trend for **open-air tourism**: a derivative of the union of the terms "glamour" and "camping." It's an eco-friendly declination of the concept of sustainable vacation: the structures have no impact on the land, being built without foundations; here tourists can combine their growing desire to be close to nature, to have adventures and to have a digital detox, but without giving up on comfort.

The global **glamping market** has grown rapidly in recent years: according to the experts glamping, the actual glamping market size is ca. **\$2.8 billion**. Europe is the primary global player, holding ca. 35% of the market: the growth is expected to continue in the next years: experts see the growth close to ca. **10% annually**.

Italy is following the trend: in 2022, according to Risposte Turismo's study, there were **95 glamping facilities**, which rises to 294 if campsites offering glamping are also considered, for a total of 9,500 beds. The main facility offered is the **tent** (53%), followed by the **lodge tent** (16%) and **tree houses** (8%). 84% of tourists who choose this type of facility do so for the breathtaking scenery that can hardly be offered by traditional accommodations; 72% of glamping facilities offers to their customers unique experiences as hiking, food and wine, yoga and meditation. Proximity tourism is quite common for glamping: more than 26% of the presences come from the same region; the most present category of people, on the other hand, is from 25 to 40 years old (43%).





# Golf tourism

In the wake of the experiential tourism trend, another sector that is experiencing strong growth is sports tourism: according to UN Tourism, **today sports tourism accounts for 10% of total tourism spending**, set to increase to experts with an expected growth of 17% by 2030. International major events that we are experiencing in Europe in recent years are to be considered as growth enablers: an Italian example could be the Ryder Cup held in 2023 in Rome. With a total induced revenue generated by the event on the territory of 260 million euros, Rome hosted more than 270,000 people from over 100 countries around the world, with a significant contribution to the tourism and hospitality sector.

In this historical moment, Italian golf hospitality turns out to be a market of strong interest for institutional investors: in the post-Covid-19 there are several transactions related to enhancement and redevelopment of golf resorts and 5-star golf hotels especially in the central Italy region.

The investors' goal is to create new benchmark destinations for tourists, just as Spain, Portugal and Greece have done in the last decade. In Southern Europe the sportsman can connect his passion for golf with the uniqueness of venues, as well as the possibility of playing 365 days a year thanks to the favorable climate.

The structure quality (both accommodation and the sports facility) and the high standard of services offered must be the focal point of the investor's strategy, given the high-spending niche market; in addition, the strategic nature of the venue's geographic location (specially considering proximity to the main places of interest and major infrastructure hubs) is a winning element for the strategy success.

This all dovetails with the growth of the sport of golf in Europe: the number of registered golfers has almost doubled, passing from 7.5 million in 2012 to 14 million in 2022; according to Future Market Insight, in 2023 the European revenue generated by the golf market was \$3.3 billion, with a total of 14.7 million visiting golfers across Europe and an expected annual growth rate of 7.5 percent over the next ten years.

**260m**

Total revenues generated by Ryder Cup in Rome (2023)

**14m**

Golf players in Europe (2022)

**\$3.3bn**

Total European revenues generated by golf market (2023)





# Data center

The demand for data center in Europe is experiencing rapid expansion, leading to an influx of companies seeking to invest in the region. This is driven by the need to enhance connectivity for customers and expand their presence in European data center.

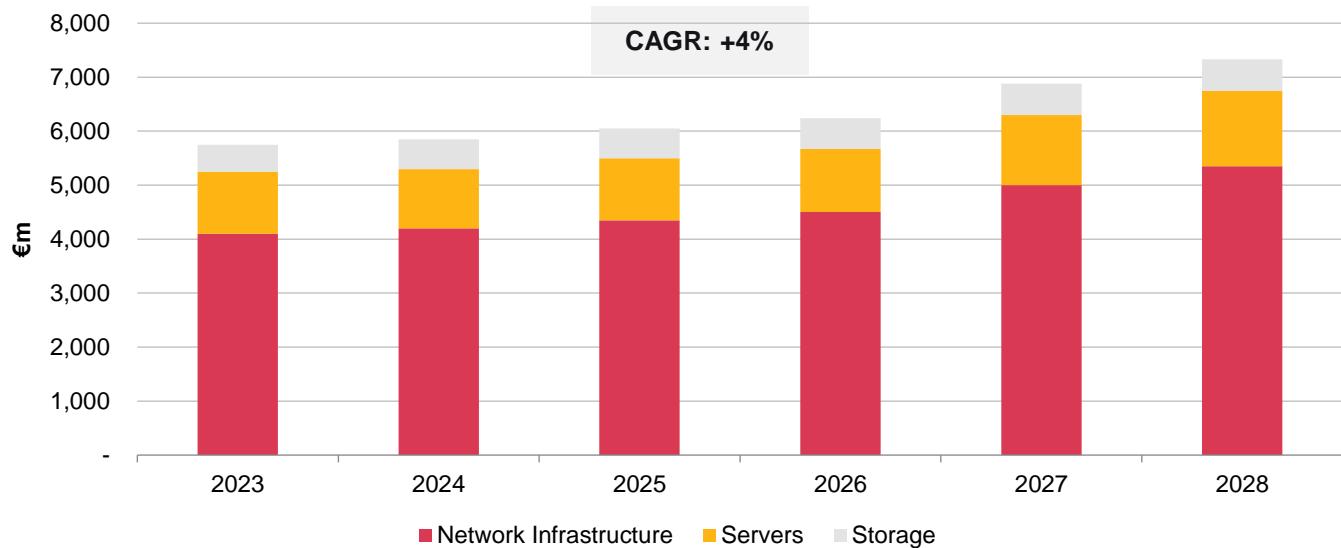
Italy is a prime example of this trend, currently hosting **168 data center**. The country's strategic location allows for important connections between Europe and Africa through submarine cables. The majority of these data center are colocation facilities, with many concentrated in and around the city of Milan.

Italy has emerged as one of the fastest-growing data center markets in Western Europe, capitalizing on the surge in demand from Italian businesses in 2023. According to a study conducted by **Milan Polytechnic**, investments in the Italian data center industry are projected to reach **€15 billion by 2025**.

Several factors contribute to this rapid growth. Italy's data center market offers a diverse range of options for both local and international operators. The country's attractive business environment, combined with its strategic location and robust telecommunications infrastructure, makes it an appealing destination for data center investments.

As the demand for data center continues to skyrocket, Italy is well-positioned to attract further investments and establish itself as a major player in the European data center market. Industry professionals and investors can leverage the opportunities presented by Italy's growing data center sector to enhance connectivity and cater to the evolving needs of businesses across various industries.

**Data center revenue by segment in Italy (forecast 2023-2028)**



Source: PwC analysis on Statista data





# Reinventing Cities

The Reinventing Cities competition aims to catalyze and showcase pioneering models of **public-private collaboration for carbon-neutral development**. This competition serves as a platform to bring innovative and replicable climate solutions to life, which will then serve as examples for other cities to follow. The ultimate goal is to reinvent urban development practices and significantly reduce the carbon footprint of both new and existing buildings.

Currently, **buildings account for more than 50 percent of emissions in C40 cities**. By encouraging and promoting sustainable and climate-friendly approaches to urban development, the Reinventing Cities competition is striving to address this issue. Through this competition, cities have the opportunity to embrace innovative solutions that can transform the way buildings are designed, constructed, and operated.

For each site, various bidding teams will compete to acquire the site and implement their innovative projects. These projects must encompass a holistic approach, covering every aspect from the initial inception to the implementation and long-term operation. Additionally, the submitted projects must include a comprehensive financial plan that outlines the steps required to turn the proposal into a reality.

The competition has several overarching goals, including:

- Driving collaboration between the private and public sectors to achieve low carbon urban regeneration. By fostering partnerships between these sectors, the competition aims to create sustainable and environmentally-friendly urban spaces.
- Supporting the implementation and replication of inspiring solutions that can be scaled up on a global level. The competition seeks projects that not only address local challenges but also offer potential solutions that can be applied in cities worldwide.
- Assisting in shaping public policy-making to support the development of decarbonized, sustainable, and resilient cities. The competition aims to influence and accelerate policy changes that align with the goals of reducing carbon emissions and enhancing urban sustainability.
- Accelerating change and innovation in the global building sector, which currently accounts for approximately 40% of global emissions.

## Example of winning projects in Milan and Rome

Piazzale Loreto, Milan



Scalo Lambrate, Milan



Tuscolana, Rome



Ex Filanda, Rome



Source: PwC analysis on c40reinventingcities.org



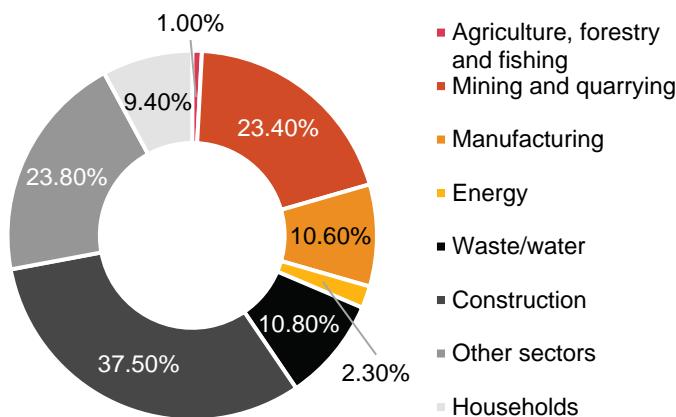
# Circular construction

The European Union is committed to achieving climate neutrality by 2050, targeting an economy with net-zero greenhouse gas emissions. Buildings in Europe significantly contribute to this goal, accounting for **40% of total energy consumption** and **36% of CO<sub>2</sub> emissions**.

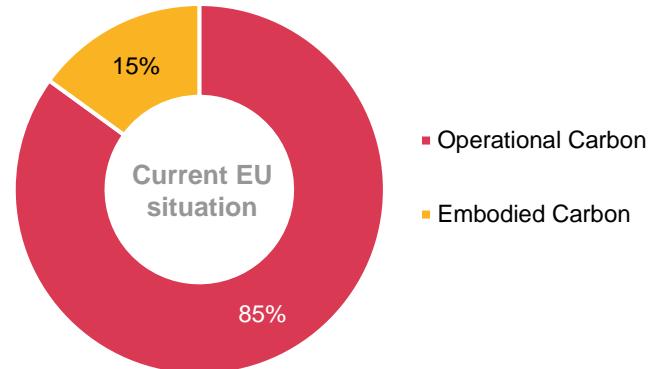
While efforts have traditionally focused on enhancing the energy efficiency of buildings during their operational phase, it is equally crucial to address CO<sub>2</sub> emissions generated **throughout the entire building lifecycle** to accelerate emissions reductions. These **embodied emissions**, in the EU, they are estimated to represent 10-20% of construction-related CO<sub>2</sub> emissions, and in some countries, this figure may reach up to 50%.

Circular construction provides a crucial strategy for decarbonising the built environment by promoting the **efficient use of resources** and **addressing embodied emissions** across a building's entire lifecycle. This approach is essential in reducing the construction sector's considerable **resource consumption**, which accounts for around **50% of all raw materials extracted** and **30% of global water consumption**. Additionally, construction and demolition activities generate over **30% of all waste in Europe**.

## Waste generation by economic activities and households, EU, 2020



## Embodied carbon emission in EU building sector



Source: PwC analysis on Eurostat

## Key Data

**40%**  
EU final energy consumption of buildings

**50%**  
Of all raw materials extracted

**30%**  
Of all waste in EU is due to Construction and Demolition activities



# Green Bonds

In recent years, green bonds have garnered significant interest from both investors and issuers. These bonds are designed to finance projects that provide environmental benefits and promote a more sustainable economy. The scope of "green" encompasses a range of activities, including renewable energy, sustainable resource management, conservation, clean transportation, and climate change adaptation.

Characterized by an approach aimed at **transparency**, Green Bond issuers are required to provide accurate details on the use of the funds raised and the environmental impacts of the financed projects. This ensures investors that their capital is directed exclusively towards green initiatives, offering **returns comparable to traditional bonds** while **contributing positively to climate change mitigation**.

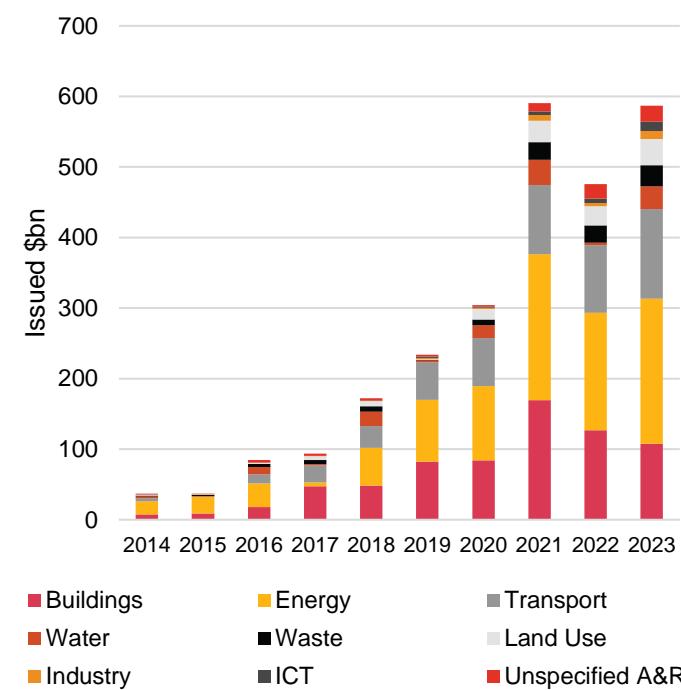
The issuance of green bonds has grown significantly, reflecting the increasing global commitment to sustainability. Between 2014 and 2023, the volume of green bonds raised from \$33 billion to \$586 billion, with Europe leading the market at approximately 45% of total issuances in 2023.

In the European Union, green bonds represented a modest 0.6% of all bonds issued in 2014, escalating to 8.9% by 2022. This trend underscores the financial sector's rising focus on products that support sustainability and the growing investor demand for financing environmentally sustainable projects.

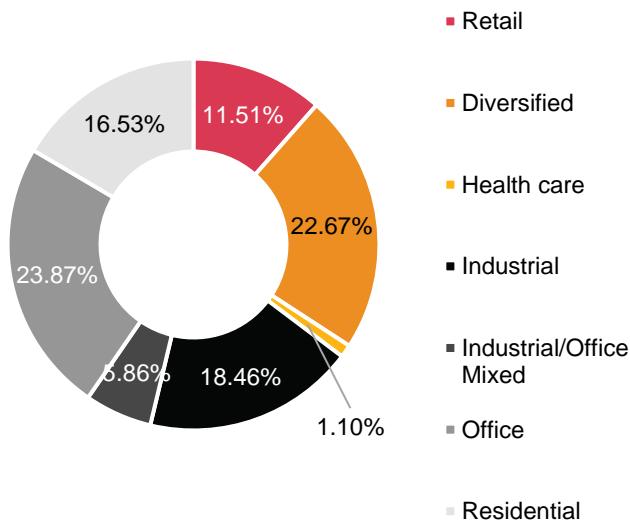
A notable portion of green bond issuances is attributed to the building sector, prompted by **increased investment in energy-efficient buildings and sustainable real estate**. By 2023, bonds in this sector accounted for approximately **15% of total green bond issuances**.

Focusing on the market allocation of real estate green bonds in Europe, data from EPRA indicates that office specialists, industrial, and diversified property companies led in terms of issued amounts, representing 65% of the total.

Green Bonds Issued by sector, 2014-2023



Composition of Real Estate Green Bonds in EU, Nov '23



Source: PwC analysis on Climate Bonds Initiative data



# Green Loans

Green loans are a type of financing specifically designed to support projects that provide significant environmental benefits. These loans are used to fund a variety of initiatives aimed at enhancing sustainability, such as **Renewable energy, energy efficiency, pollution prevention and control, sustainable water and wastewater management, climate change adaptation, green buildings**.

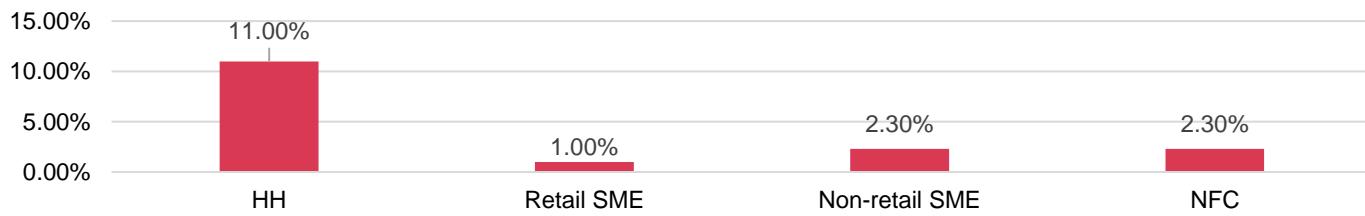
To standardize and ensure the effectiveness of green loans, the **Green Loan Principles (GLP)** provide a globally recognized framework. This framework is essential for maintaining the integrity and environmental focus of green loans.

Based on a survey by EBA (European Banking Authority), credit institutions allocate approximately **4.5%** of their total loans to green loans and advances, reflecting varying proportions across different asset classes and institutions. Specifically, green loans and advances constitute approximately 11% of loans in the household portfolio, but only slightly over 2% in the non-retail SME and NFC segments. The share of green loans in total lending to retail SMEs remains marginal.

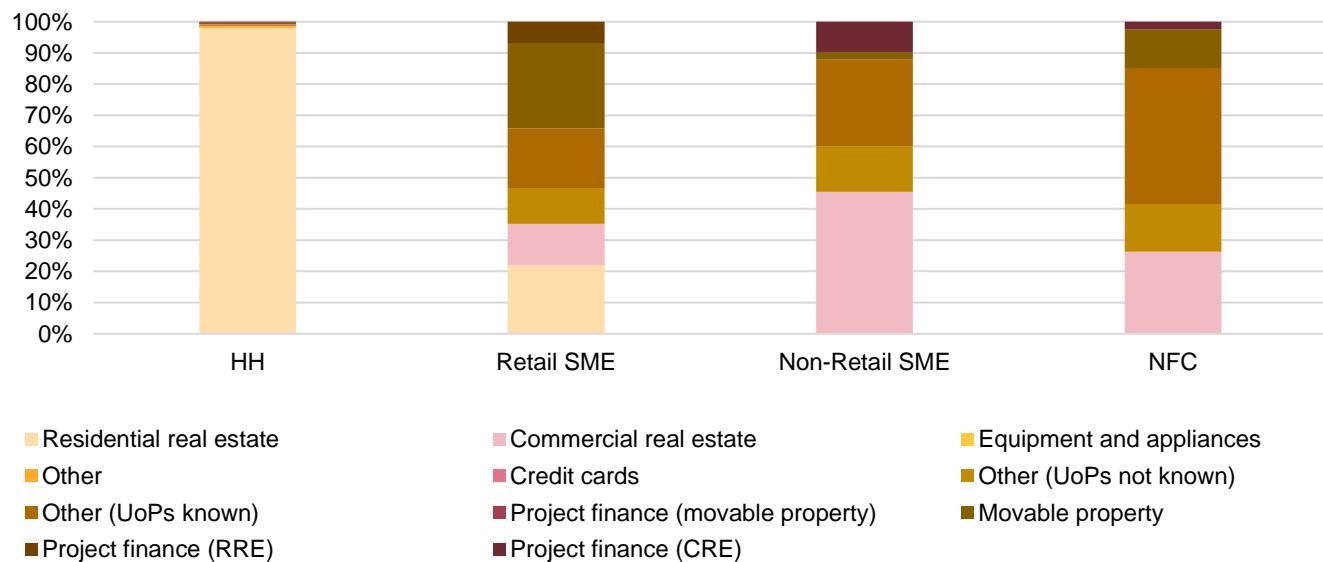
Bank lending especially to households and SMEs would play a key role in their access to sustainable finance. On average, 46% of credit institutions' total lending is towards households and SMEs, of which over 61% are mortgages and loans collateralised by commercial real estate. Credit institutions' loans and advances to households identified as green count for 11%. They mostly finance real estate, with over 98% of total green lending in this business line financing residential real estate (RRE).

The recast Energy Efficiency Directive and the Energy Efficiency Performance of Buildings Directive (EPBD) from December 2021 affect credit institutions' green loans and advances. These measures aim to at least **double the annual energy renovation rate of residential and non-residential buildings by 2030** and promote deep energy renovations, leading to 35 million buildings renovated by 2030. The revised EPBD introduces "mortgage portfolio standards" to ensure that, over time, credit institutions and other mortgage lenders improve the median energy performance of their real estate portfolios and encourage clients to enhance the energy efficiency of their properties.

Share of green loans in total loan by business line



Share of green lending by product



Source: PwC analysis on EBA data



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