

Real Estate Market Overview

Italy | 2016





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Market Overview *01*



Macroeconomic indicators

Key data

In Q2 2016, the Gross Domestic Product (GDP), with 2010 as the base year (adjusted for calendar effects and seasonality), remained unchanged from Q1 2016, but grew by 0.8% when compared to Q2 2015.

Change in purchases for 2016 is equal to +0.7%.

	Gross Domestic Product	National demand
2011	0.6%	-0.6%
2012	-2.8%	-5.6%
2013	-1.7%	-2.5%
2014	-0.4%	-0.7%
2015	0.8%	0.5%
2016 I	0.3%	0.2%
II	0.3%	-0.1%

+0.3% GDP change
Q2 vs Q1 2016

+0.8% GDP change
Q2 2016 vs Q2 2015

Macroeconomic environment in Italy

Italy is gradually recovering from the economic crisis.

Domestic demand is supporting the recovery with limited help from exports due to weak non-EU markets. Household consumption benefited from an increase in disposable income and an improvement in the labour market, with investments continuing to increase mostly in part from the incentives introduced by the recent Stability Laws.

However, these indicators suggest that Q2 GDP would have increased at a lower rate compared to the previous period, a similar outlook for the rest of the EU.

In Q1 2016, GDP increased by 0.3% compared to the autumn months (from 0.2% at the end of 2015), and although it has recorded growth for its fifth consecutive quarter, it is still 8.5 percentage points below the 2008 peak.

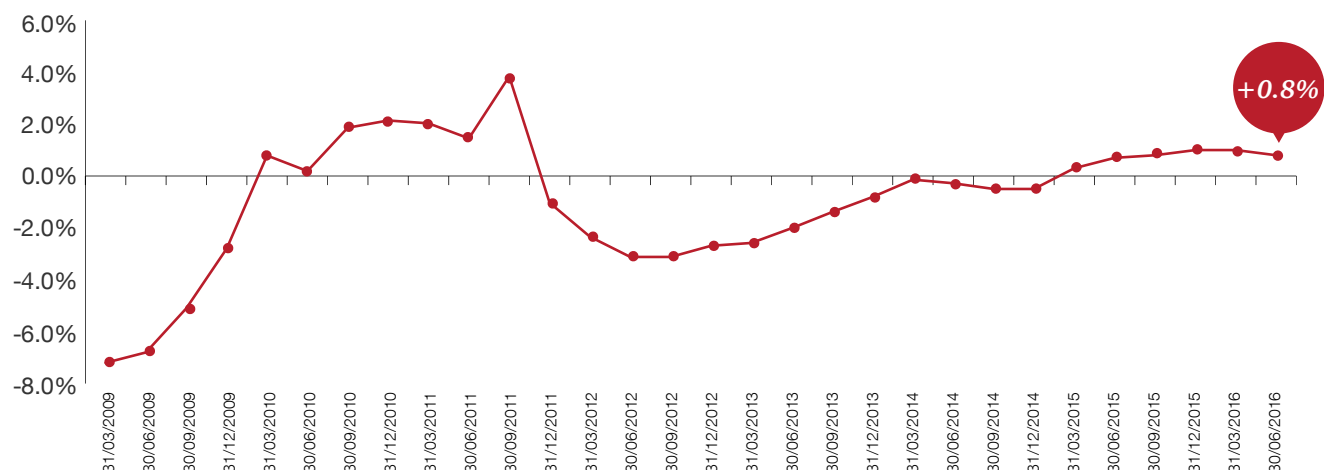
Source: Bank of Italy, Economic Bulletin July 2016

During the winter months, growth was sustained by domestic demand.

Following the recovery of household consumption (0.3%, similar to Q4 2015) there was an additional increase in investments (0.2%) from all the main components, except for construction spending, which decreased after two quarters of expansion.

The change in inventory has positively contributed to the 0.2% increase. GDP growth was restricted by foreign trade: the decrease in exports (-1.5%), which cancelled the gains achieved from the previous quarter, was more pronounced than the decrease in imports (-0.9%).

Gross Domestic Product trend (2009 – 2016)



Source: PwC based on Istat data (Istituto nazionale di statistica - Italian National Statistical Institute)



Key data

-0.4%

Inflation April 2016

-0.3%

Inflation May 2016

-0.2%

Inflation June 2016

+0.3%Growth in employment
Q1 2016 vs Q4 2015**11.6%**

Unemployment rate Q1 2016

Changing prices

Consumer price inflation has remained negative since February, mainly due to the contraction of energy prices and the very low rate of core inflation, which shows the large gap of unutilized production capacity.

Households and firms expect prices to increase modestly in the coming months. According to analysts' estimates, consumer price inflation, on average, should be slightly positive.

In June, the Consumer Price Index used by Italy for comparison with the rest of the EU (IPCA) was slightly negative for the fifth consecutive month, arriving to **-0.2%** from **-0.3%** in May.

Weak inflation is due to the decrease in market dynamics, mostly from energy prices and core inflation: inflation, excluding food and energy products, is placed at 0.5% (just above the minimum value of 0.3% recorded in April 2015), reflecting the ample amount of unutilised production capacity.

According to the expectations of households and firms, the change in prices should remain modest in the coming months.

According to professional forecasts, consumer price inflation should be slightly positive (0.1%) on average in 2016, which is in line with the forecasts for the Euro zone.

Labour market

In **Q1 2016**, employment continued to increase. The unemployment rate remained stable following an increase in the labour market participation, partly from the associated expansion phase of the cycle. The cost of employees has decreased compared to the same period in 2015 as a result of tax breaks and wage stagnation.

In the first three months of the year, the number of employed persons as reported by national bureaus has increased from the previous period, excluding seasonal influences, by **0.3%**. Growth in employment recorded during the first quarter is supported in part by companies hiring new employees with an indefinite employment contract in December 2015 in order to benefit from the large tax breaks implemented at the end of the previous year.

The unemployment rate remained stable at **11.6%** in the first quarter of 2016 from the increase in the labour market participation, as well as from large pension reforms, influencing the recovery cycle. The unemployment rate varies according to age group, with youth unemployment (15 to 24 age group) slightly decreasing by 0.8 percentage points to a rate of 37.9%. According to preliminary data for April –May, the unemployment rate remained unchanged from the previous year even though there was an additional increase in labour market participation.

Source: Bank of Italy, Economic Bulletin July 2016



Key data

+0.3% Change in consumption Q1 2016 vs Q4 2015

+1.1% Change in disposable income Q1 2016 vs Q4 2015

+62% Italian household debt as a percentage of disposable income Q1 2016

99.4 points Consumer Confidence Index as of August 2016

Italian households

In Q1 2016, household consumption increased by **0.3%** (similar growth recorded in the autumn) from an increase in consumption of both goods and services. During the same period, disposable income in real terms grew by **1.1%** compared to the autumn months, following more favourable labour market conditions.

The most recent economic indicators show that consumer spending should slightly increase throughout the spring.

Automobile registrations further increased and production expectations for firms that produce consumer goods have stabilised. Consumer confidence continued to decline, which nevertheless still remains at a much higher level than observed in June 2013.

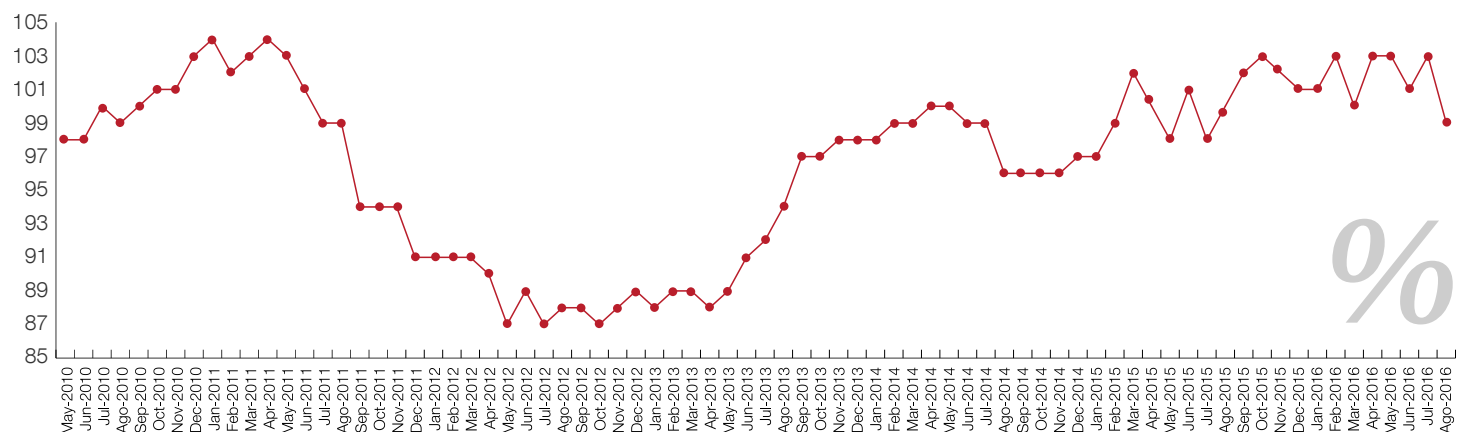
In Q1 2016, debt of Italian households, as a percentage of disposable income, dropped to **62%**, which is well below the average of the EU (circa 95% at the end of December).

Source: Bank of Italy, Economic Bulletin July 2016

	Data History		Forecast on italian consumption			
	2008 - 2010	2011 - 2013	2014 - 2016	2014	2015	2016
Houses	0.9	0.2	0.9	0.7	1	1
Furniture, electrical appliances and home mantainance	-1.9	-3.2	0.6	-0.2	0.9	1
Transportation	-3.3	-5.7	-0.1	-0.7	0.1	0.2
Communications	1.5	-1.8	1.2	0.5	1.5	1.7
Clothing and footwear	-0.3	-3.9	0.4	0.1	0.5	0.6
Education	-0.8	-2.2	0.1	-0.1	0.2	0.3
Food and non alcoholic beverages	-1.9	-2.7	0.3	0.2	0.4	0.4
Spirits and tobacco	-2.8	-	0.3	0.2	-	0.8
Entertainment and culture	1.2	-2.0	1.4	1	1.5	1.6
Hotels and restaurants	-	-1	0.7	0.4	0.8	0.9
Other goods and services	-0.8	-1.7	1.1	0.9	1.2	1.2

Source: PwC analisys on data provided by Rapporto COOP 2014

Consumer confidence of manufacturing firms (indexed base 2005=100)

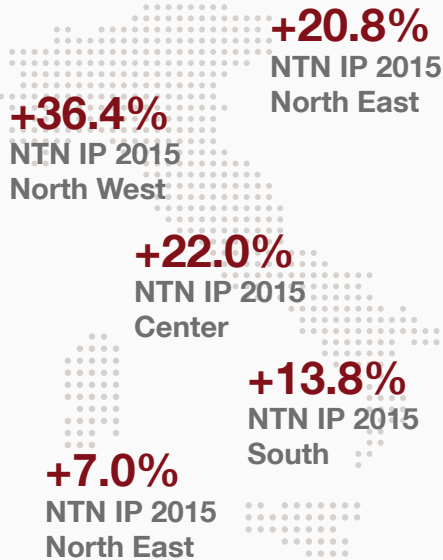
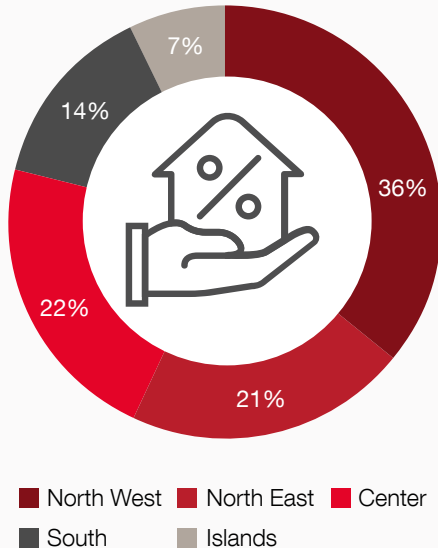






Market of residential mortgages

NTN IP share 2015



Mortgages – 2015 – Italy

The amount of transactions during 2015 related to houses covered by a mortgage (NTN IP) are equal to 193,350 units, almost one fifth more than 2014.

The North East area has registered the highest growth rate (+23.2% compared to the year before) but the greatest increase of NTN IP in terms of absolute growth has been registered in the North Western area, accounting for 36.4% of the total national amount, followed by the center of Italy (22%).

A high increase may be generally spotted all over the country, both for main cities (+19.2%) and the rest of provinces (+19.6%).

The scattered recourse to mortgages due to the consistent amount of purchased houses has been confirmed by the increase of the amount of NTN IP on the total amount of transactions closed by legal/natural people.

As a matter of facts, during 2015 a 5% increase of the NTN IP on the total amount of transactions has been registered, reaching a level of 45.5% (up to 50% in the North).

The number of mortgages remains lower at around 35% in the South and the Islands, even if they are registering a very interesting growth (+20.9% in the South and +20% in the Islands).

	NTN IP 2015	Var. (%) NTN IP 2014/2015	Share NTN IP per area	Share on total NTN in 2015
North West	70,340	18.4%	36.4%	50.0%
North East	40,139	23.2%	20.8%	50.6%
Center	42,622	16.9%	22.0%	47.2%
South	26,694	20.9%	13.8%	35.1%
Islands	13,556	20.0%	7.0%	34.9%
Total	193,351	19.5%	100.0%	45.5%

Main cities

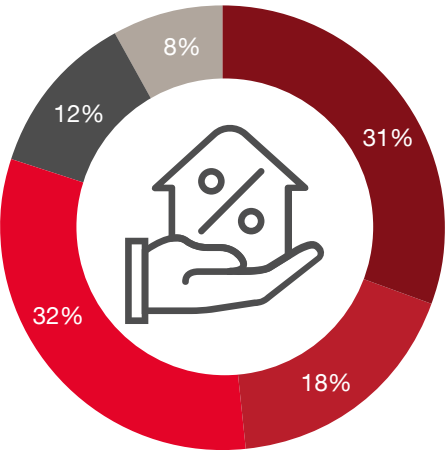
North West	21,609	20.0%	31.1%	48.7%
North East	12,367	23.4%	17.8%	49.1%
Center	21,864	15.0%	31.5%	50.3%
South	8,085	19.1%	11.6%	41.8%
Islands	5,594	24.6%	8.0%	42.3%
Total	69,520	19.2%	100.0%	47.8%

Rest of provinces

North West	48,731	17.7%	39.4%	50.6%
North East	27,771	23.2%	22.4%	51.3%
Center	20,757	19.0%	16.8%	44.4%
South	18,608	21.6%	15.0%	32.8%
Islands	7,962	16.9%	6.4%	31.1%
Total	123,830	19.6%	100.0%	44.3%

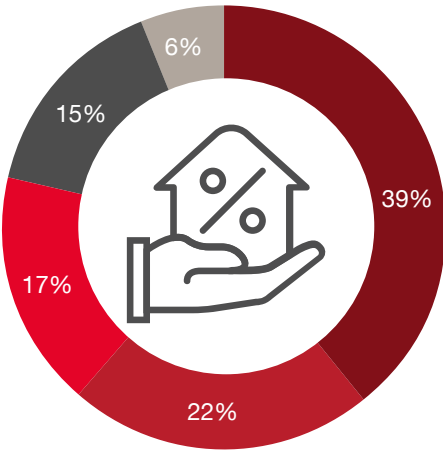


Share NTN IP 2015 - Main cities



North West North East Center
South Islands

Share NTN IP 2015 - Rest of provinces



North West North East Center
South Islands

Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)





Key data

53.9%
NTN IP incidence on total NTN in 2015 for medium-size houses

Mortgages – 2015 – Volume

Accounting for 73,199 transactions, the most common size for NTN IP in Italy during 2015 is the medium class, followed by small-medium (41,303 NTN IP), and small (40,162 NTN IP).

The highest growth rates in 2015 for house transactions by asset size have been registered for large houses (+25.9%), followed by medium (+21.6%) and small-medium (+16.6%).

The classes which show a reduction of the NTN IP are represented by Studio Apartments within all the Islands (-2.9%); similar results emerge also for municipalities in the rest of provinces in the center of Italy (-1.1%) and in the North East (-2.5%). The trend for provinces highlights an increase in large houses (+24.4%) as well as medium (+22.6%).

Asset classes: Studio/Apartments: up to 45 sqm (2.5 cadastral units); Small: from 45 to 60 sqm (2.5 - 4 cadastral units); Small-medium: from 60 to 90 sqm (4 - 5.5 cadastral units); Medium: from 90 to 120 sqm (5.5 - 7 cadastral units); Large: higher than 120 sqm (more than 7 cadastral units).

	Studio Apartment			Small			Small medium			Medium			Large			Total		
	NTN IP #	Var. (%) NTN IP 2014/2015	Share on total NTN 2015	NTN IP #	Var. (%) NTN IP 2014/2015	Share on total NTN 2015	NTN IP #	Var. (%) NTN IP 2014/2015	Share on total NTN 2015	NTN IP #	Var. (%) NTN IP 2014/2015	Share on total NTN 2015	NTN IP #	Var. (%) NTN IP 2014/2015	Share on total NTN 2015	NTN IP #	Var. (%) NTN IP 2014/2015	Share on total NTN 2015
North West	2,496	1.3%	24.3%	16,803	12.9%	43.3%	15,779	16.7%	53.4%	25,434	22.1%	58.3%	8,475	22.7%	55.8%	70,340	18.4%	50.0%
North East	982	21.0%	25.8%	7,097	20.4%	42.0%	8,235	20.5%	52.2%	15,800	22.2%	57.2%	6,638	28.6%	56.1%	40,139	23.2%	50.6%
Center	1,856	3.4%	27.5%	9,898	9.4%	44.4%	8,912	12.8%	49.5%	14,599	20.7%	53.0%	4,936	27.7%	49.8%	42,622	16.9%	47.2%
South	815	8.6%	8.5%	4,180	13.9%	26.9%	5,896	18.2%	40.5%	11,476	21.4%	47.4%	3,304	26.0%	47.4%	26,694	20.9%	35.1%
Islands	378	10.5%	8.9%	2,185	17.0%	27.5%	2,482	13.4%	36.0%	5,890	21.1%	47.6%	2,040	25.9%	47.6%	13,556	20.0%	34.9%
Total	6,527	5.9%	18.8%	40,163	13.5%	39.6%	41,304	16.6%	48.7%	73,199	21.6%	53.9%	25,393	25.9%	52.7%	193,351	19.5%	45.5%

Provinces

North West	1,029	7.1%	26.1%	6,036	17.9%	43.2%	4,981	15.7%	52.3%	7,352	25.2%	57.6%	1,931	19.2%	53.6%	21,609	20.0%	48.7%
North East	393	27.0%	26.7%	2,145	14.1%	40.6%	2,841	19.9%	51.5%	5,119	25.7%	55.3%	1,578	25.3%	54.6%	12,367	23.4%	49.1%
Center	1,154	6.4%	35.6%	5,561	8.2%	48.3%	4,584	10.0%	52.0%	7,335	18.3%	54.0%	2,287	29.3%	53.1%	21,864	15.0%	50.3%
South	218	11.7%	11.2%	1,285	14.3%	33.8%	1,790	16.3%	46.3%	3,475	19.0%	50.3%	1,087	22.0%	52.5%	8,085	19.1%	41.8%
Islands	114	-2.9%	9.4%	748	31.3%	31.0%	980	17.9%	42.9%	2,653	26.7%	53.5%	851	25.8%	54.2%	5,594	24.6%	42.3%
Total	2,908	9.0%	24.6%	15,775	14.0%	42.7%	15,176	14.9%	50.6%	25,934	22.6%	54.6%	7,734	24.4%	53.6%	69,519	19.2%	47.8%

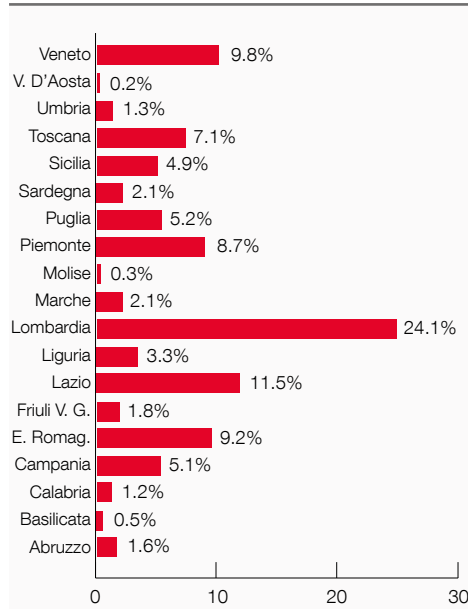
No provinces

North West	1,467	-2.5%	23.2%	10,767	10.2%	43.4%	10,798	17.1%	53.9%	18,082	20.8%	58.5%	6,544	23.8%	56.5%	48,731	17.7%	50.6%
North East	589	17.3%	25.2%	4,952	23.3%	42.7%	5,394	20.8%	52.6%	10,681	20.5%	58.2%	5,060	29.7%	56.6%	27,771	23.2%	51.3%
Center	703	-1.1%	20.0%	4,337	11.0%	40.2%	4,328	16.0%	47.1%	7,264	23.3%	51.9%	2,649	26.4%	47.2%	20,757	19.0%	44.4%
South	597	7.5%	7.8%	2,895	13.8%	24.6%	4,107	19.0%	38.4%	8,001	22.4%	46.2%	2,217	28.0%	45.3%	18,608	21.6%	32.8%
Islands	264	17.5%	8.7%	1,437	10.7%	25.9%	1,502	10.7%	32.5%	3,237	16.9%	41.7%	1,189	25.9%	43.8%	7,962	16.9%	31.1%
Total	3,620	3.5%	15.8%	24,388	13.2%	37.8%	26,129	17.6%	47.7%	47,265	21.1%	53.5%	17,659	26.5%	52.3%	123,829	19.6%	44.3%

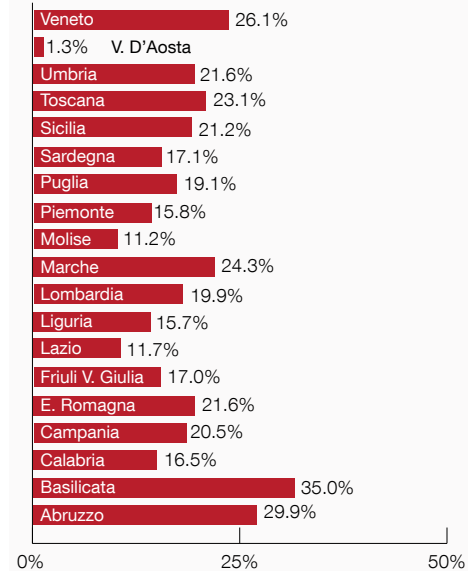
Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)



NTN IP 2015



NTN IP variation 2014vs2015



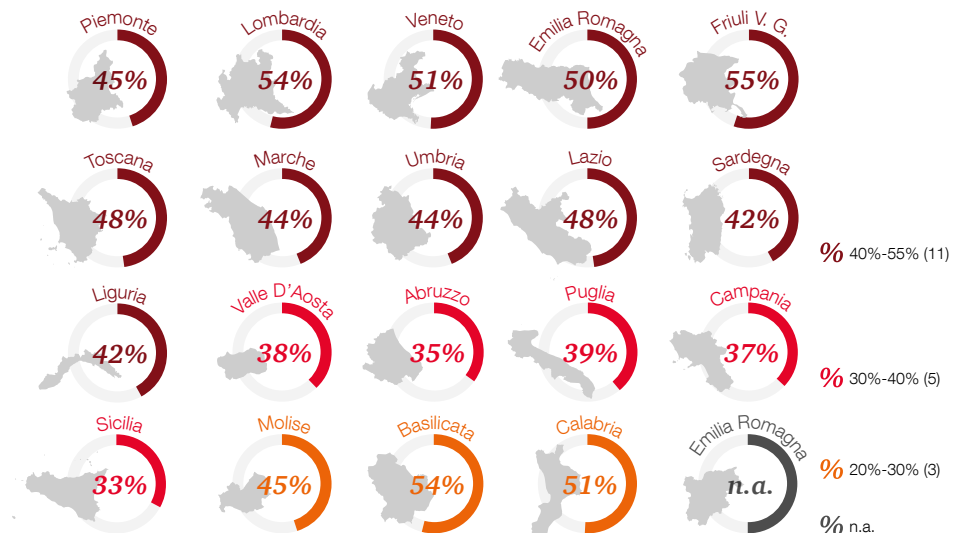
Mortgages – 2015 – Regions

The amount of transactions carried out via mortgage (NTN IP) is growing in all the regions and results +19.5 % higher than in 2014. **The highest increase in terms of absolute amount of NTN IP has been registered in Veneto (+26.1%), followed by Lombardia (+20%), and Lazio (+11.7%).**

In terms of percentage growth, the first region is Basilicata (+35%), followed by Abruzzo (+30%). It is also relevant to underline the increase of NTN IP in Toscana, +23.1%, and Emilia-Romagna, Sicilia, Friuli-Venezia Giulia and Umbria (around +20%).

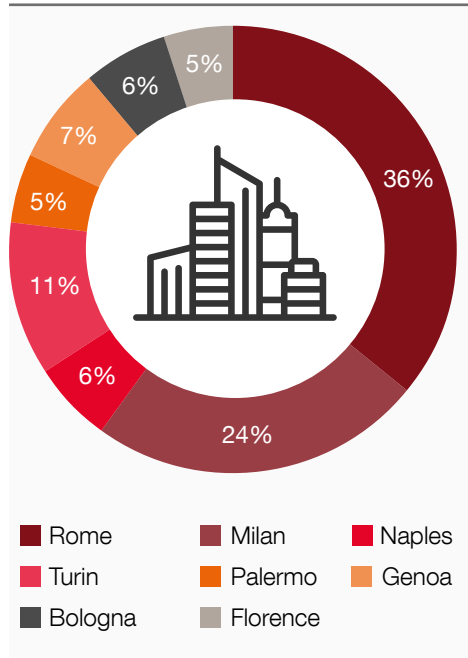
	NTN IP 2015	Var. (%) NTN IP 2014/2015	Share NTN-IP per region	Share total NTN 2015
Abruzzo	3,072	29.9%	1.6%	35.4%
Basilicata	951	35.0%	0.5%	29.2%
Calabria	2,238	16.5%	1.2%	22.9%
Campania	9,793	20.5%	5.1%	36.9%
Emilia Rom.	17,753	21.6%	9.2%	49.9%
Friuli V.G.	3,418	17.0%	1.8%	55.1%
Liguria	6,387	15.7%	3.3%	41.5%
Lombardia	46,670	19.9%	24.1%	53.7%
Marche	4,073	24.3%	2.1%	43.8%
Molise	526	11.2%	0.3%	27.5%
Piemonte	16,811	15.8%	8.7%	45.3%
Puglia	10,114	19.1%	5.2%	39.0%
Sardegna	4,043	17.1%	2.1%	41.6%
Toscana	13,719	23.1%	7.1%	47.9%
Umbria	2,519	21.6%	1.3%	44.2%
Valle d'Aosta	472	1.3%	0.2%	37.5%
Veneto	18,967	26.1%	9.8%	50.5%
Total	193,351	19.5%	100.0%	45.5%

Geographical distribution of the amount of NTN IP over the Total NTN in 2015

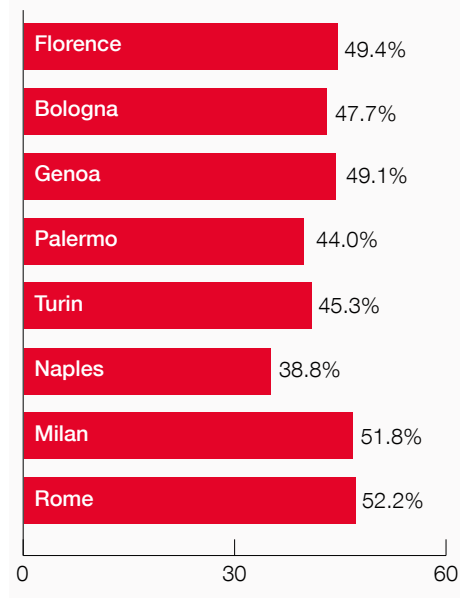




NTN IP 2015 - Cities



Incidence distribution of NTN IP on Total NTN 2015



Mortgages – 2015 – Regions

House purchases financed via a mortgage in big cities, whose collateral is represented by the properties themselves, **if compared to the trend registered all over the country result on average almost equal to +17.9%, whereas the national average is 19.5%.**

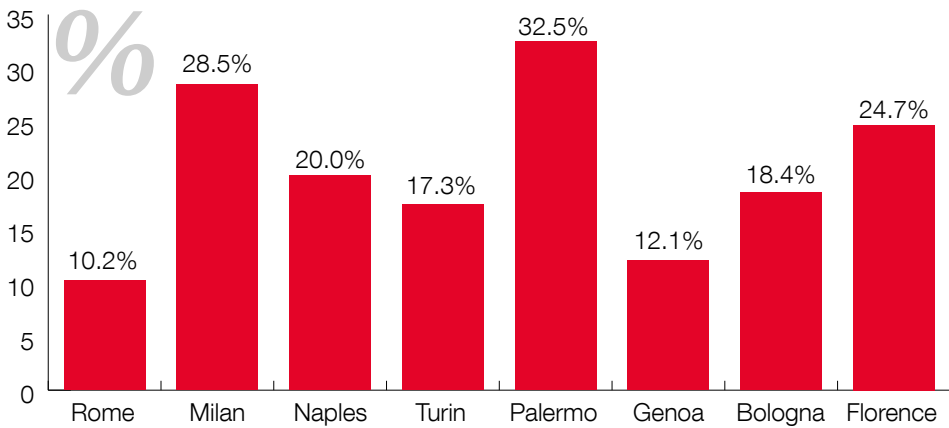
Within the main cities, it was recorded a well marked increase in Palermo (+32.5%) and **Milan (+28.5%)**. For what concerns the transactions whose purchase is guaranteed by a mortgage, some of the cities showing significantly high growth rates are Florence, +24.4% and Naples, +20%, whereas in **Rome** it stops at **+10.2%**.

	NTN IP 2015	Var. (%) NTN IP 2014/2015	Share NTN-IP	Share on total NTN 2015
Main cities				
Rome	13,595	10.2%	36.3%	52.2%
Milan	8,948	28.5%	23.9%	51.8%
Naples	2,190	20.0%	5.8%	38.8%
Turin	4,220	17.3%	11.3%	45.3%
Palermo	1,890	32.5%	5.0%	44.0%
Genoa	2,600	12.1%	6.9%	49.1%
Bologna	2,091	18.4%	5.6%	47.7%
Florence	1,961	24.7%	5.2%	49.4%
Total	37,495	17.9%	100.0%	49.2%
Rest of province				
Rome	5,451	15.2%	14.7%	48.1%
Milan	14,568	19.4%	39.3%	59.0%
Naples	3,455	22.3%	9.3%	41.8%
Turin	6,209	16.0%	16.7%	51.7%
Palermo	980	14.7%	2.6%	29.0%
Genoa	987	27.8%	2.7%	39.3%
Bologna	2,955	25.0%	8.0%	54.1%
Florence	2,468	20.3%	6.7%	54.7%
Total	37,073	19.0%	100.0%	51.4%

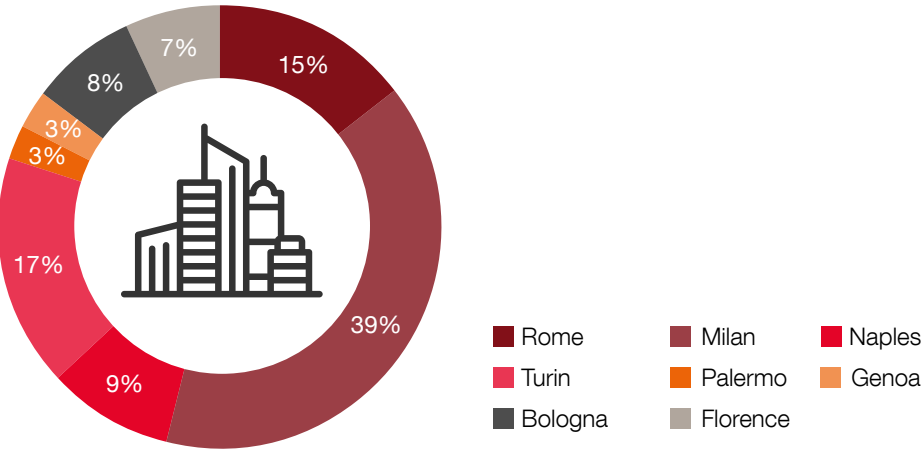


The municipalities within the provinces analysed show widespread growth, where the highest growth rate is registered in the **province of Milan** accounting for **+39.3%**.

NTN IP variation 2014vs2015



NTN IP 2015 – Rest of province



Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)



Affordability Index

The affordability index is calculated basing on the following variables:

- **Interest rate**, which reflects the trend of available credit and monetary policy.
- **Housing prices**, which express the situation of the housing market.
- **Disposable income**, which expresses how developed a country is and its overall level of competitiveness.

At the end of 2015, the index was **11.3%**, 2.1 percentage points more than the previous year; 6.8 percentage points higher than the lowest point of the first half of 2012 and slightly above the peak recorded in the first half of 2004.

+11.3%
AI H2 2015

+2.1%
AI H2 2015 vs AI H2 2014

Italian households and purchasing a house: affordability index

There has been a substantial increase in monitoring the economic and financial conditions of households in recent years. The trends are extensively analysed since purchasing a residence is the main and often only form of household debt, especially for Italian families.

The Bank Association of Italy (*L'Associazione Bancaria Italiana*), continuing from an initial project developed in collaboration with the Department of Labour and Social Policy (*Ministero del Lavoro e delle Politiche Sociali*) using data from the Italian IRS (*Agenzia delle Entrate*), estimates the affordability of purchasing a residence for Italian households, which is summarised in the affordability index.

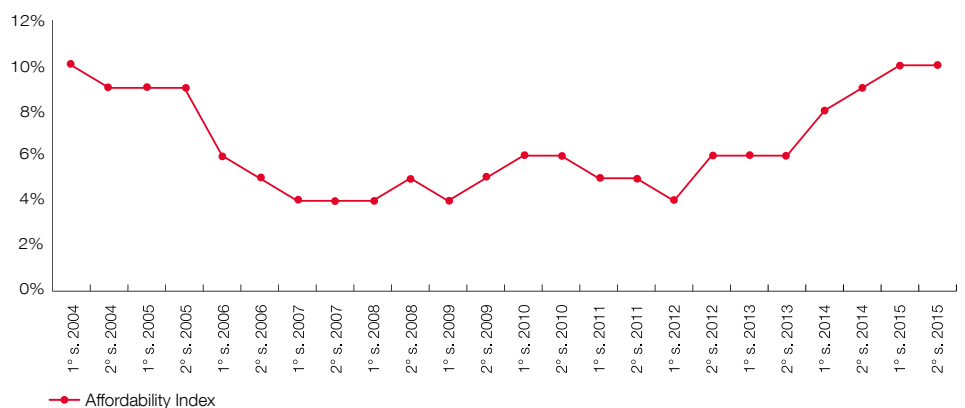
The affordability index provided by the Bank Association of Italy indicates that the mortgage payment necessary to finance the purchase of a residence should not exceed a certain portion of disposable income (circa 30%).

The analysis carried out indicates that purchasing a residence continues to be possible for an average Italian family, considering that the indicator used by the Bank Association of Italy is always positive throughout the entire analysed period (2004-2015).

Household income and housing prices (index base H1 2004=100)



Affordability index for Italian households



Source: PwC based on data from Agenzia delle Entrate, Rapporto immobiliare 2016, Il settore residenziale, May 2016



Key data

€63 billion

Mortgages loaned by banks in 2007

€41.1 billion

Mortgages loaned by banks in 2015

-34%

Drop in amount (€) loaned by banks in 2015 vs 2007

+71%

Increase in amount (€) loaned by banks in 2015 vs 2014

+55%

Increase in amount (€) loaned by banks Q1 2016 vs Q1 2015

€11 billion

Mortgages loaned by banks in Q1 2016

Household credit market: supply and demand

Household mortgage loans were severely affected by the crisis; however, 2014 was the start of the turnaround: mortgages for residences grew by 13% compared to the year before. The positive trend continued in 2015, but at an even greater pace, with a 71% jump over 2014.

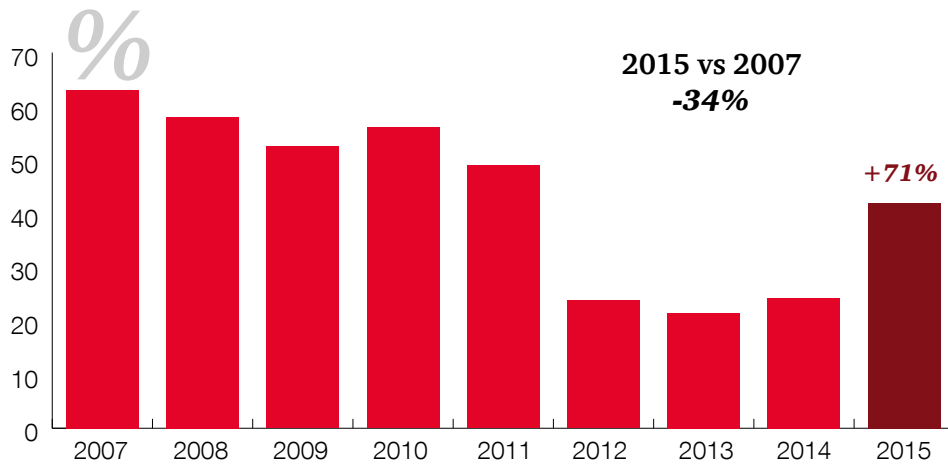
This growth highlights the renewed interest of the finance industry in the real estate sector, which is observable throughout the country.

2007	2008	2009	2010	2011	2012	2013	2014
62,758	56,980	51,047	55,592	49,120	24,757	21,392	24,157
Delta (%) vs the same period of the year before							
-0.2	-9.2	-10.4	8.9	-11.6	-49.6	-13.6	12.9

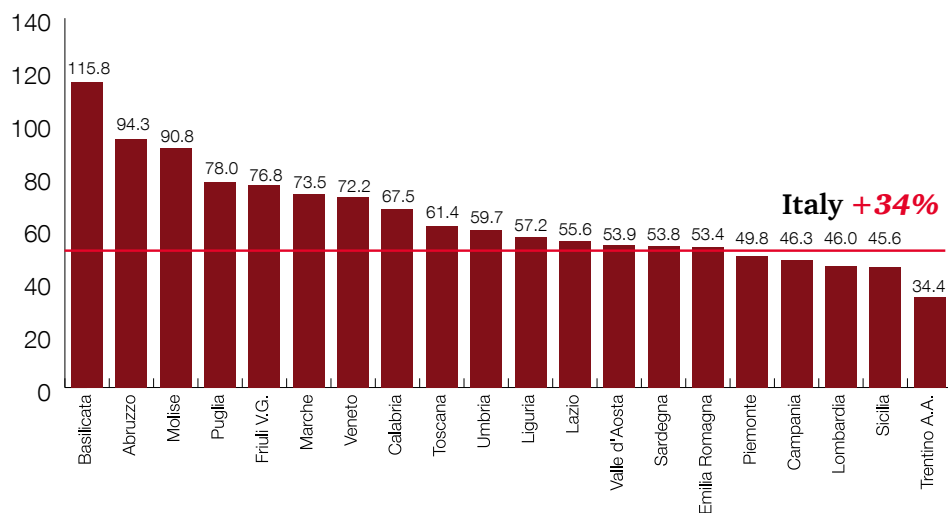
Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q1-Q3 2015
5,238	6,280	5,746	7,077	7,073	10,223	10,768	28,064
Delta (%) vs same period of the year before							
5.8	8.0	15.7	25.0	35.0	62.8	87.4	64.5



New household mortgages for residences (€ millions)



New mortgages loaned for real estate in Italy (Var. % Q1 2016 vs Q1 2015)



Source: PwC based on data from ANCE (Associazione Nazionale Costruttori Edili - National Association of Builders)



Key data

A Bank Association of Italy sample consisting of 78 banks, which represents circa 80% of the total Italian banking market, shows that between **January to April 2015** the amount of new mortgage loans grew by **55.2%** compared to the same period the previous year. Evaluating these first positive signs, must be taken into consideration the characteristics of the mortgages loaned: if, in fact, on one side the number of approved loans increased, then on the other side emerges that for the most part these were already existing mortgages that were transferred to another banking institution (in 2014, this process accounted for 21.6% of mortgages).

+55.2% New mortgages loaned Q1 2015 vs 2014

+61.1%
Loan To Value Q4 2014

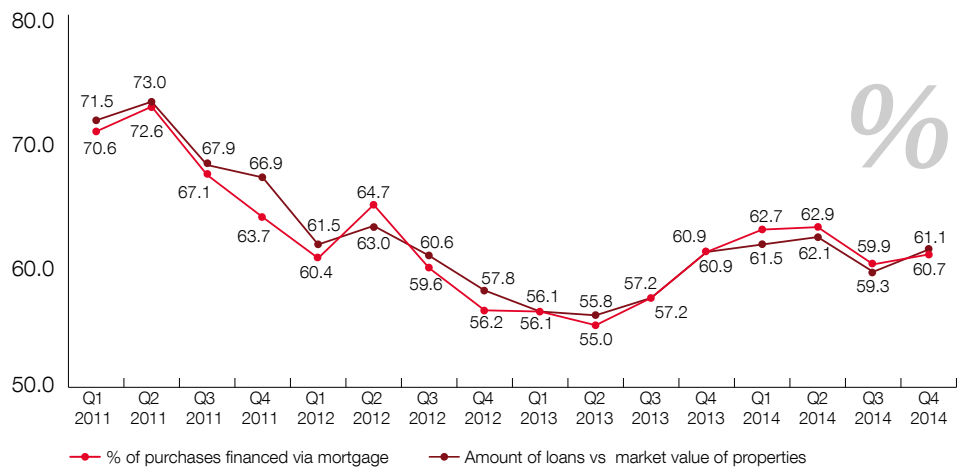
Household credit market: Loan To Value

The average rate is under 3% and it is expected to remain flat in the long term. Some analysts are convinced that the quarterly closing of Euribor will be stable for all of 2015 and most of 2016. Between 2017 and 2019 Euribor could increase, reaching a value between 0.10% and 0.40%.

This very low level, along with the gradually increasing Loan to Value ratio (LTV), could drive the real estate market.

As demonstrated in the chart below, the LTV decreased starting in 2011 until rebounding in 2013, arriving at 61.1% in the last quarter of 2014.

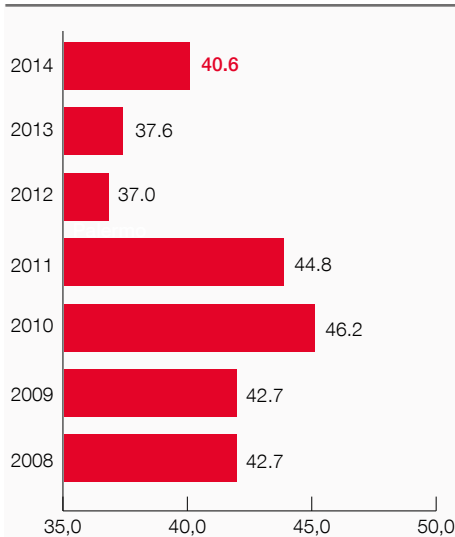
Credit market for the purchase of residences (Value %)



Source: PwC based on data from ANCE (Associazione Nazionale Costruttori Edili - National Association of Builders)



% of residences purchased with a mortgage



+40.6% % of residences purchased with a mortgage

The effects of credit restrictions on residential transactions

To understand the real effects of the credit underwriting standards on the real estate market, one could imagine how a family's financing commitments to purchase a house has changed over the last four years.

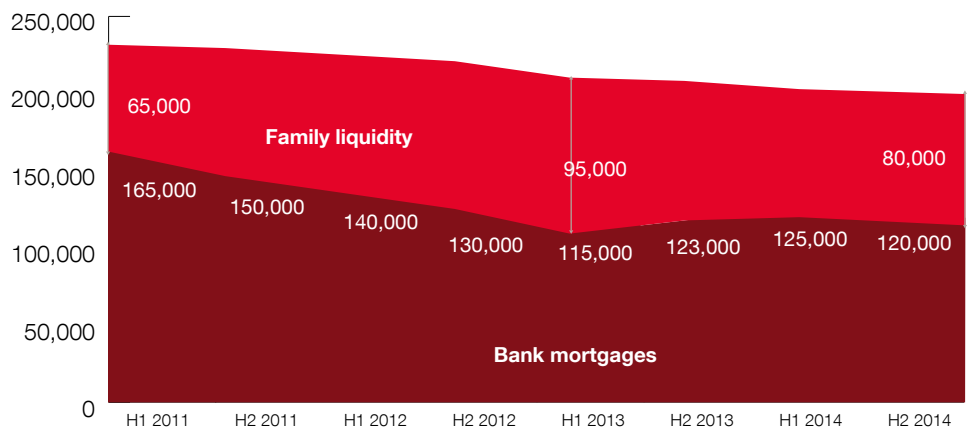
In fact, despite the considerable decrease in prices, which should have encouraged transactions, the sharp decrease in Loan to Value has created a more difficult environment for purchasing a home.

To purchase a 100 sqm apartment at the beginning of 2011 worth €230,000, households had to put down, on average, €65,000 in cash since the financial institutions would finance just above 72% of the asset value (the loan could have reached a maximum amount of €165,000).

In 2013, at the height of the credit crunch, despite the drop in real estate prices, the amount that households had to spend out of pocket was above €95,000. The LTV decreased considerably and, as a consequence, the loan covered up to €115,000 to purchase the same type of house, which now costed €210,000.

Market conditions appeared to be better by the end of 2014: since the **average LTV** increased to **60%** (even if still well below 2011 levels), the amount households had to put down was about **€80,000**, which still permitted borrowers to receive a loan of €120,000.

Amount of cash used for residential transactions (€)



Source: PwC based on data from ANCE (Associazione Nazionale Costruttori Edili - National Association of Builders)





Real estate market trends

Key data

Over the 44 years between 1971 and 2015, residential real estate prices went through 4 cycles (1971-1978, 1978-1987, 1987-1999, 1999 – present), characterized by a progressively increasing duration of each cycle: the growth phase increased from 3 years to 9 years, while the decline of the market stretched to 7 years from 4 years. In fact, the last two cycles showed that real prices did not fluctuate as much as they did in the past.

The residential market started to turn around in 2014 with a more moderate recovery than seen in previous cycles (+3.7% at the end of 2014 vs +37% in 1976, +17% in 1985 and +9% in 1997). At this point in the cycle, residential market data for the main Italian cities (Bari, Bologna, Cagliari, Catania, Florence, Genoa, Milan, Naples, Palermo, Padua, Rome, Turin, and Venice) shows a stronger recovery (+5.5% over the year before) than the average.

The four residential real estate cycles in Italy

The residential real estate cycles in Italy have shown a correlation between the trend of the number of transactions and relative prices, even if the variations of the two components throughout the cycles were not identical.

Residential prices in Italy have gone through four cycles (1971-1978, 1978-1987, 1987-1999, 1999-present), characterized by a progressively increasing duration of each cycle: the growth phase increased from 3 years to 9 years, while the decline of the market stretched to 7 years from 4 years. In fact, the last two cycles showed that real prices did not fluctuate as much as they did in the past.

The annual change in the number of transactions throughout the four cycles, contrary to what has been observed for prices, has not greatly varied: +16%, +7% and +7% during growth phases and -12%, -10%, -7.5% during periods of decline.

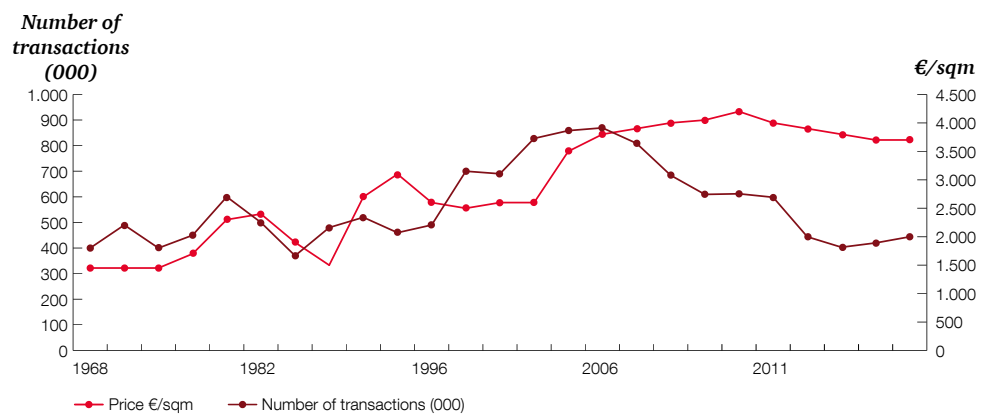
In the current cycle, housing prices have only moderately decrease when compared to the sharp decline in the number of transactions.

The number of transactions has recently started to increase, which, based on past cycles, indicates that prices should recover in the coming years.

The number of transactions recorded in 2015 was +4.7% higher than in 2014.

The residential sector has shown the best performance with a 6.5% increase over the year before and Q4 2015 was up 9.4% over the same period the year before.

Number of transactions and real prices for residences (1968-2015)



Given the recovery in the number of transactions, the current market situation could provide a good investment opportunity, assuming that the cycle will follow past trends with an increase in prices in the near future.

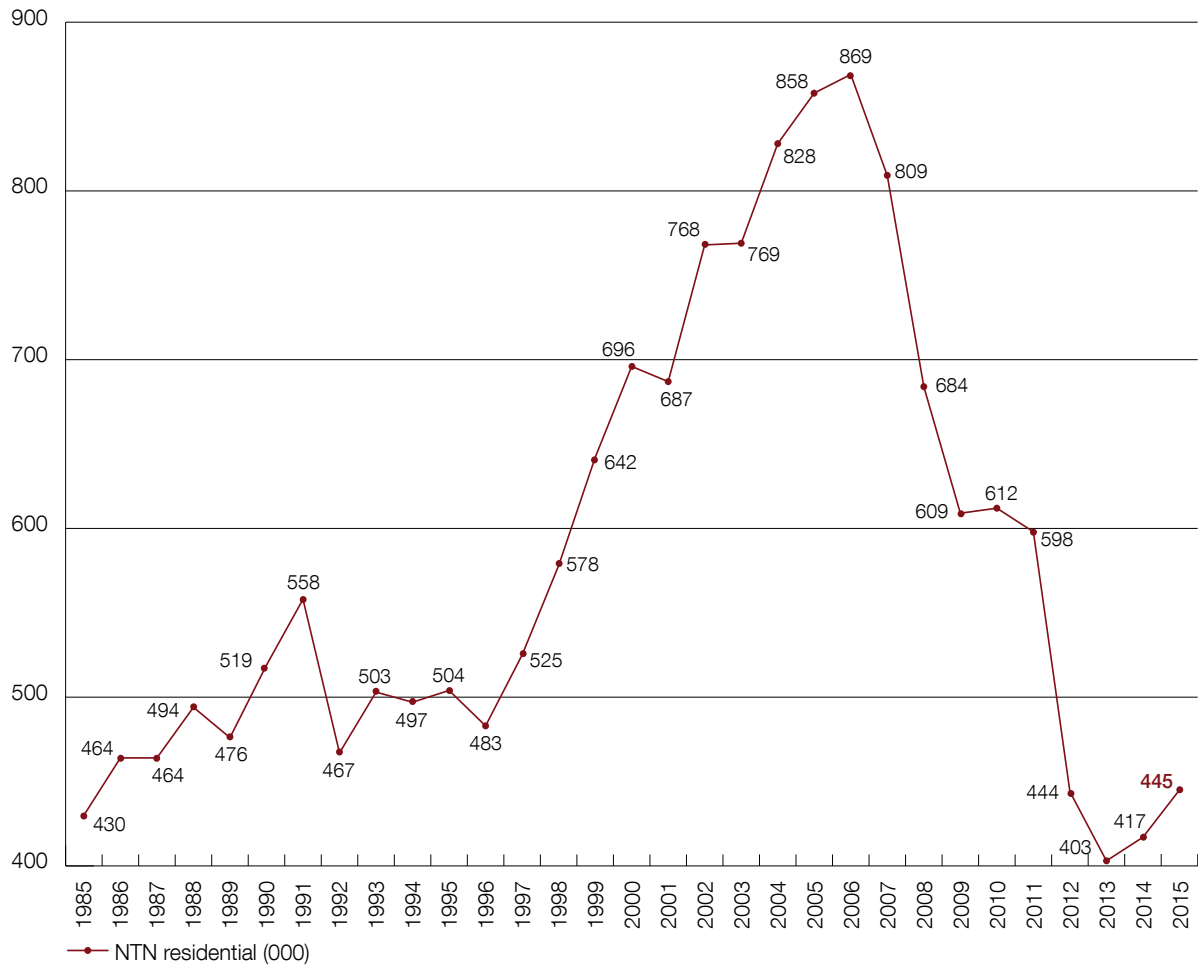
Source: PwC based on data from ANCE (Associazione Nazionale Costruttori Edili - National Association of Builders)



The residential real estate market, after a long and sharp drop since 2007, started to recover in 2014. The outlook that the market has entered a new phase of the cycle is based on the following factors:

- Trust:** Various indicators highlight that households have a renewed sense of trust in the market. The relevant index regarding the future market environment has grown from an average of 91.4 in 2013 to 116.6 in February 2015.
- Volume:** An additional drop in the number of transactions appears to be unlikely since at some point Italian families will need to purchase a home even if the transaction will occur in the future.
- Prices:** the decrease in prices following 2014 should lead to a greater propensity to buy.
- Interest rate:** interest rates have continued to decline and banks have been providing more loans. In 2014, purchases that included a mortgage loan increased by 12.7%.

Historical number of residential transactions (1985 – 2015)



Source: PwC based on data from Agenzia delle Entrate



Key data

444,636

Number of residential transactions (NTN) 2015

- 6.5%

Residential NTN 2015 vs 2014

8,842

Office NTN 2015

- 1.9%

Office NTN 2015 vs 2014

26,234

Retail NTN 2015

3.4%

Retail NTN 2015 vs 2014

9,243

Industrial NTN 2015

- 3.5%

Industrial NTN 2015 vs 2014

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Residential													
Stock	Value	29,230,658	29,730,243	30,588,991	31,229,051	31,804,801	32,271,134	32,689,812	33,204,511	33,579,054	33,740,601	33,744,359	33,808,141
	Delta (%)		1.71%	2.89%	2.09%	1.84%	1.47%	1.30%	1.57%	1.13%	0.48%	0.01%	0.19%
NTN	Value	828,037	858,476	869,308	808,827	684,034	609,456	611,878	598,224	444,018	403,124	417,524	444,636
	Delta (%)		3.68%	1.26%	-6.96%	-15.43%	-10.90%	0.40%	-2.23%	-25.78%	-9.21%	3.57%	6.49%
IMI	Value	2.83%	2.89%	2.84%	2.59%	2.15%	1.89%	1.87%	1.80%	1.32%	1.19%	1.24%	1.32%
	Delta (%)		1.93%	-1.58%	-8.86%	-16.96%	-12.19%	-0.89%	-3.75%	-26.61%	-9.64%	3.67%	6.18%
Office													
Stock	Value	452,237	485,293	511,474	572,196	572,882	589,450	605,605	618,026	624,821	628,027	662,309	664,271
	Delta (%)		7.31%	5.39%	11.87%	0.12%	2.89%	2.74%	2.05%	1.10%	0.51%	5.46%	0.30%
NTN	Value	21,082	22,648	21,913	21,262	17,865	16,183	15,248	14,468	10,624	9,454	9,017	8,842
	Delta (%)		7.43%	-3.25%	-2.97%	-15.98%	-9.42%	-5.77%	-5.12%	-26.57%	-11.02%	-4.62%	-1.94%
IMI	Value	4.7%	4.67%	4.28%	3.72%	3.12%	2.75%	2.52%	2.34%	1.70%	1.51%	1.36%	1.33%
	Delta (%)		0.11%	-8.20%	-13.27%	-16.08%	-11.96%	-8.29%	-7.02%	-27.37%	-11.47%	-9.55%	-2.23%
Retail													
Stock	Value	2,183,637	2,287,776	2,345,538	2,575,523	2,558,210	2,578,718	2,604,249	2,632,825	2,630,414	2,637,210	2,766,533	2,829,027
	Delta (%)		4.77%	2.52%	9.81%	-0.67%	0.80%	0.99%	1.10%	-0.09%	0.26%	4.90%	2.26%
NTN	Value	54,456	55,182	52,816	50,271	44,146	36,892	35,423	34,408	25,931	23,980	25,369	26,234
	Delta (%)		1.33%	-4.29%	-4.82%	-12.18%	-16.43%	-3.98%	-2.87%	-24.64%	-7.52%	5.79%	3.41%
IMI	Value	2.5%	2.41%	2.25%	1.95%	1.73%	1.43%	1.36%	1.31%	0.99%	0.91%	0.92%	0.93%
	Delta (%)		-3.28%	-6.64%	-13.32%	-11.59%	-17.10%	-4.92%	-3.92%	-24.57%	-7.76%	0.84%	1.13%
Industrial													
Stock	Value	439,731	494,964	530,019	510,713	519,411	524,099	532,420	567,460	573,888	582,700	735,171	742,712
	Delta (%)		12.56%	7.08%	-3.64%	1.70%	0.90%	1.59%	6.58%	1.13%	1.54%	26.17%	1.03%
NTN	Value	16,060	17,397	17,436	16,830	15,276	12,282	11,847	12,477	10,020	9,246	9,582	9,243
	Delta (%)		8.32%	0.22%	-3.47%	-9.23%	-19.60%	-3.54%	5.31%	-19.69%	-7.73%	3.63%	-3.54%
IMI	Value	3.7%	3.51%	3.29%	3.30%	2.94%	2.34%	2.23%	2.20%	1.75%	1.59%	1.30%	1.24%
	Delta (%)		-3.76%	-6.41%	0.18%	-10.75%	-20.32%	-5.05%	-1.19%	-20.59%	-9.12%	-17.86%	-4.52%

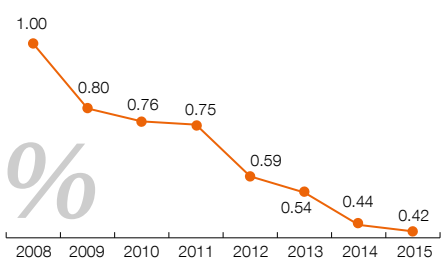
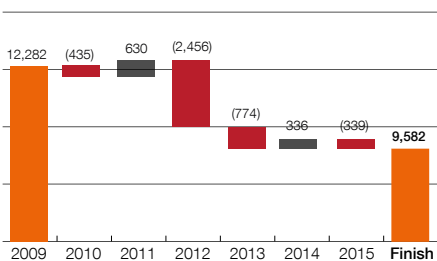
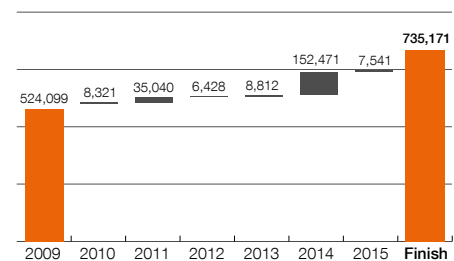
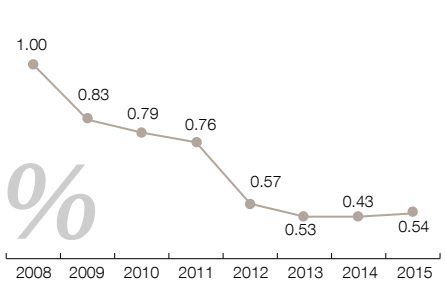
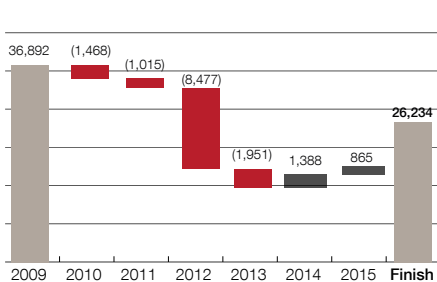
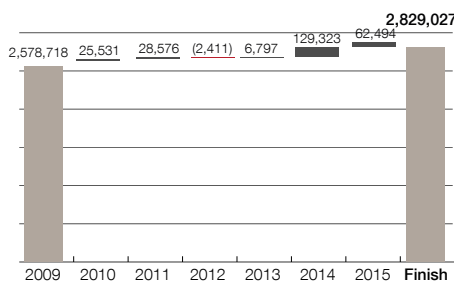
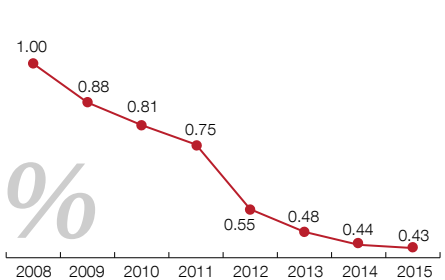
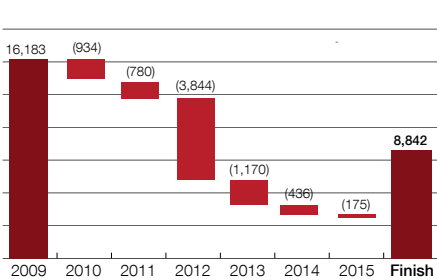
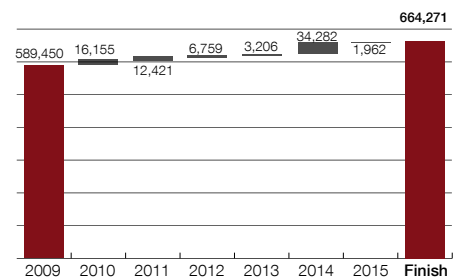
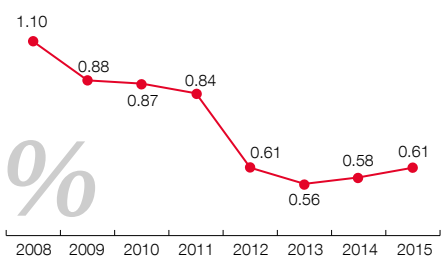
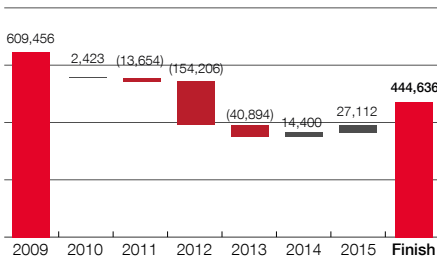
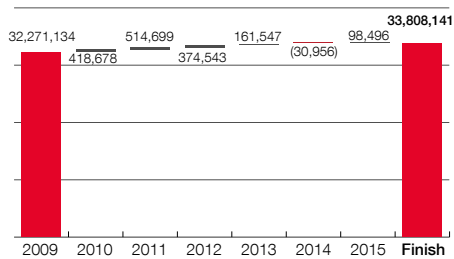
Source: PwC based on data from Agenzia delle Entrate



The number of real estate transactions started to increase in 2014, after a six year decline.

Although the overall market has shown positive signs, the residential component mainly supported the recovery with a 6.5% increase in 2015 over the year before.

The retail component also grew with a 3.4% increase overall, while the office market actually decreased by 1.9%. The industrial sector also showed a decreasing trend with a 3.5% drop in 2015 over the year before.



Source: PwC Based on data from Agenzia delle Entrate



Key Data

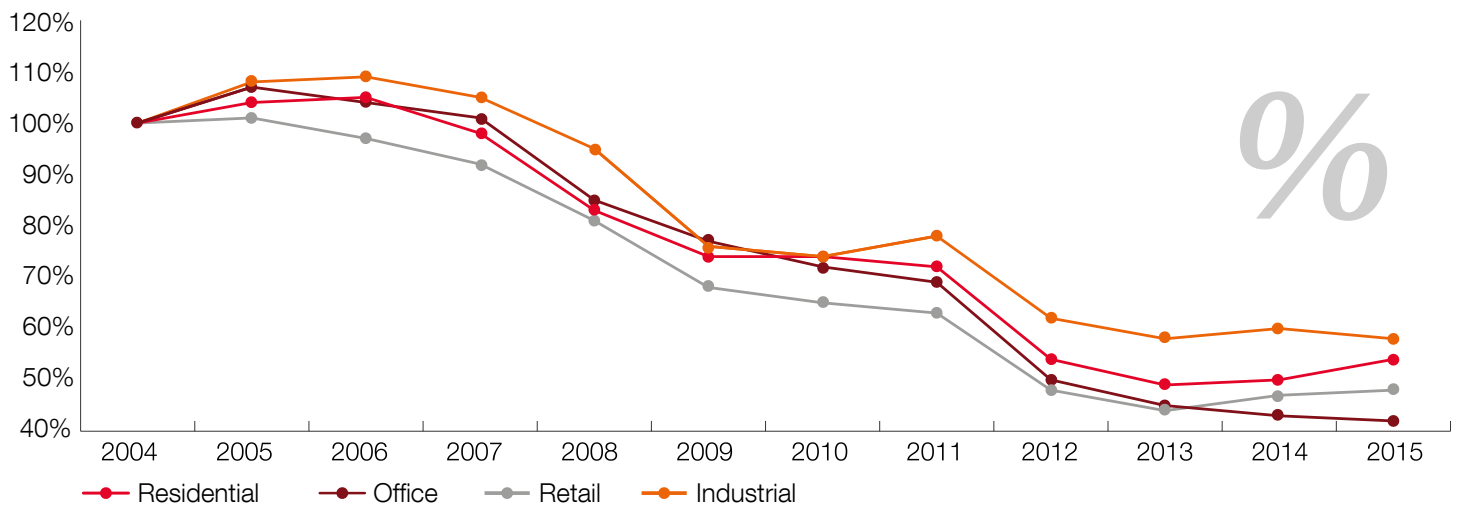
The historical trend of the **number of transactions (NTN)** for the four main property types from 2004-2015 has shown a **very sharp decrease**. In fact, transactions dropped by an aggregate -49.7% for all four property types throughout the analysed period (from 2004 to 2015).

In addition, there was an average decline of circa 41.4% over the last 8 periods (2008-2015).

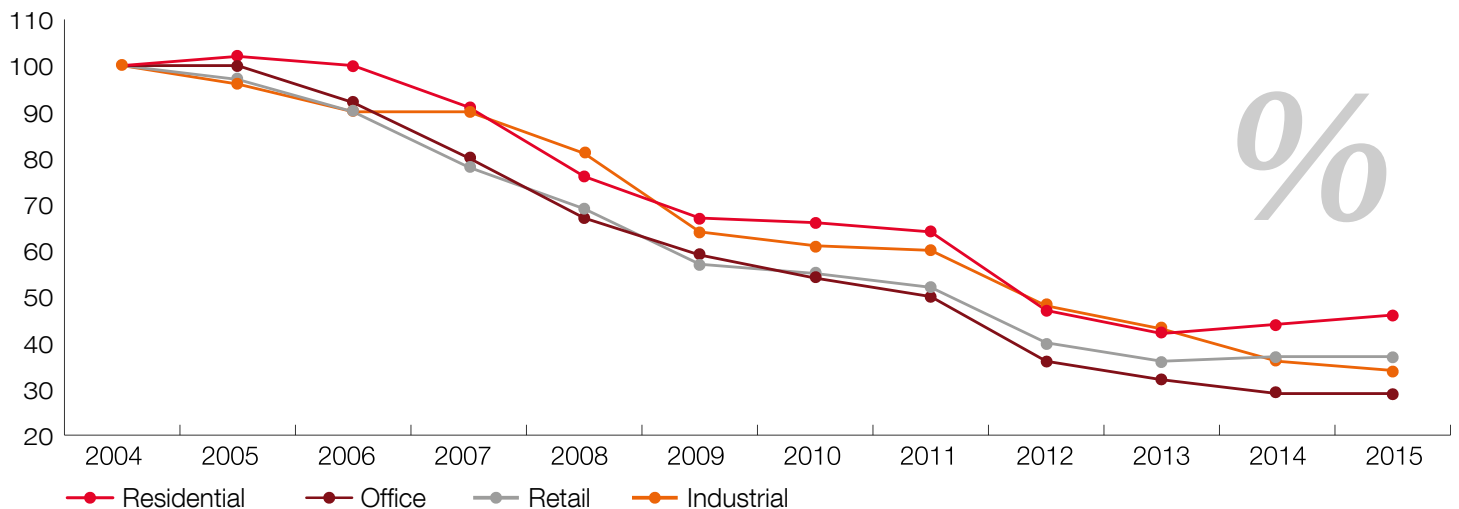
The historical trend of the intensity of the real estate market (**IMI - the ratio between the number of transactions and real estate asset stock**) for the four property types from 2004-2015 also recorded a very sharp drop.

In addition, there was an average decrease of 30% over last 8 periods (2008-2015).

Historical number of residential transactions (1985 – 2015)



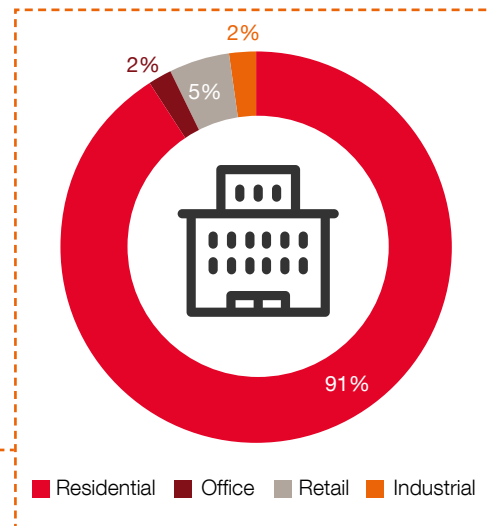
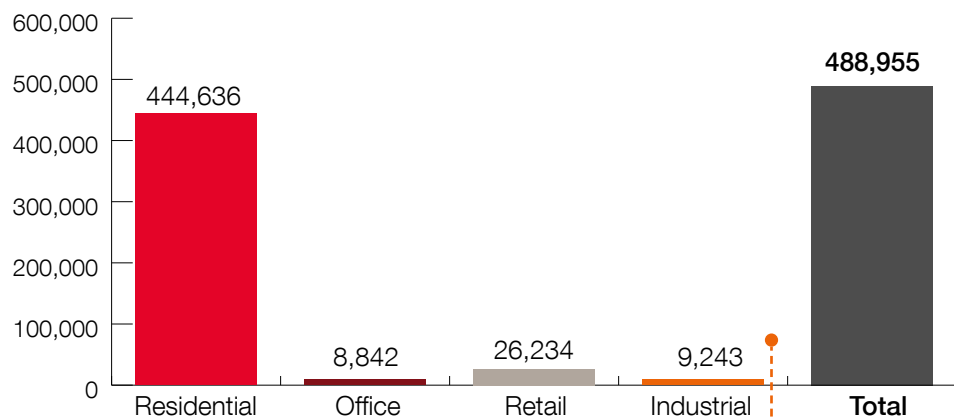
Trend of ratio between transaction and stock (IMI) (2004 – 2015)



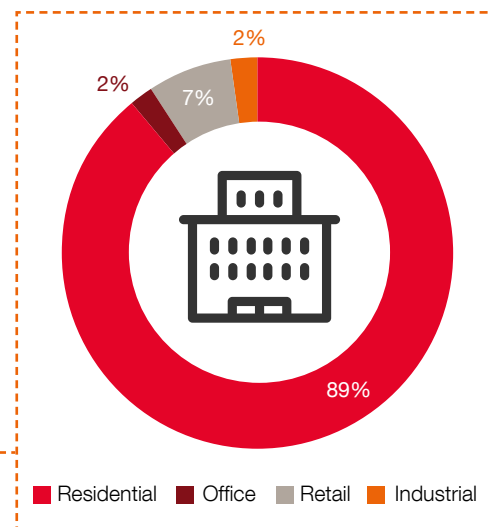
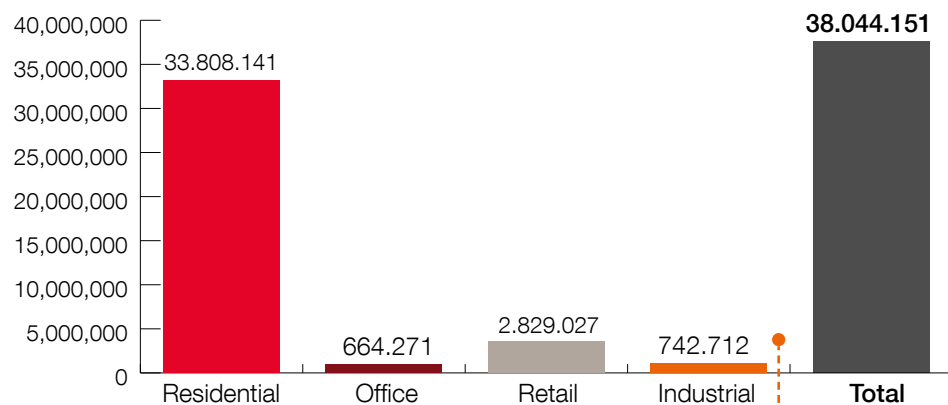
Source: PwC based on data from Agenzia delle Entrate



NTN 2015



Stock 2015

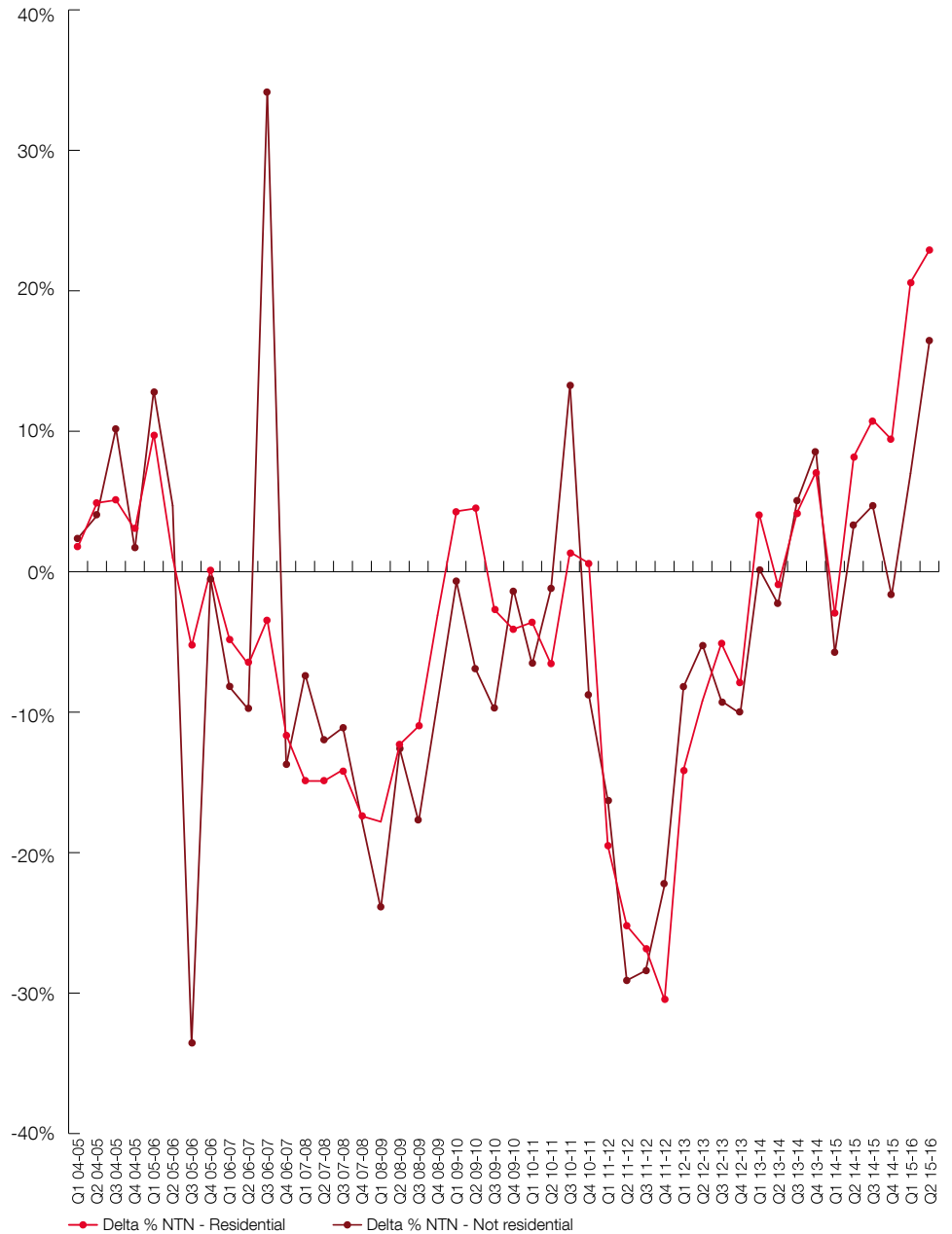


Source: PwC based on data from Agenzia delle Entrate



NTN % Change of the Italian real estate market (2004 – 2016)

Delta	Res.	Not Res.
Q1 04-05	1.8%	2.4%
Q2 04-05	4.9%	4.0%
Q3 04-05	5.1%	10.2%
Q4 04-05	3.0%	1.6%
Q1 05-06	9.8%	12.9%
Q2 05-06	1.0%	4.7%
Q3 05-06	-5.3%	-33.6%
Q4 05-06	0.1%	-0.5%
Q1 06-07	-4.8%	-8.2%
Q2 06-07	-6.6%	-9.8%
Q3 06-07	-3.4%	34.2%
Q4 06-07	-11.6%	-13.8%
Q1 07-08	-14.9%	-7.3%
Q2 07-08	-14.9%	-12.1%
Q3 07-08	-14.1%	-11.1%
Q4 07-08	-17.4%	-17.7%
Q1 08-09	-17.8%	-24.0%
Q2 08-09	-12.3%	-12.6%
Q3 08-09	-11.0%	-17.8%
Q4 08-09	-3.1%	-9.3%
Q1 09-10	4.3%	-0.7%
Q2 09-10	4.5%	-6.9%
Q3 09-10	-2.7%	-9.8%
Q4 09-10	-4.1%	-1.2%
Q1 10-11	-3.6%	-6.6%
Q2 10-11	-6.6%	-1.2%
Q3 10-11	1.4%	13.3%
Q4 10-11	0.6%	-8.8%
Q1 11-12	-19.5%	-16.3%
Q2 11-12	-25.2%	-29.1%
Q3 11-12	-26.8%	-28.4%
Q4 11-12	-30.5%	-22.3%
Q1 12-13	-14.1%	-8.2%
Q2 12-13	-9.2%	-5.2%
Q3 12-13	-5.1%	-9.2%
Q4 12-13	-8.0%	-10.1%
Q1 13-14	4.1%	0.2%
Q2 13-14	-1.0%	-2.3%
Q3 13-14	4.2%	5.0%
Q4 13-14	7.1%	8.6%
Q1 14-15	-3.0%	-5.8%
Q2 14-15	8.2%	3.3%
Q3 14-15	10.8%	4.7%
Q4 14-15	9.4%	-1.7%
Q1 15-16	20.6%	7.0%
Q2 15-16	22.9%	16.4%



Source: PwC based on data from Agenzia delle Entrate



NTN - 2016

In Q2 2016, the Italian real estate market continued the strong growth recorded in previous quarters with double digit increases over Q1 2015 across two property types; the number of residential transactions increased by more than 20% and industrial transactions increased by circa 30%.

Only the sales of retail properties recorded a slight slowdown in terms of growth (12.9% compared to 14.5% in the previous quarter).

The office segment jumped from a very moderate 1.3% increase in Q1 2016 to a considerable 14.7%.

304,786
NTN Q2 2016

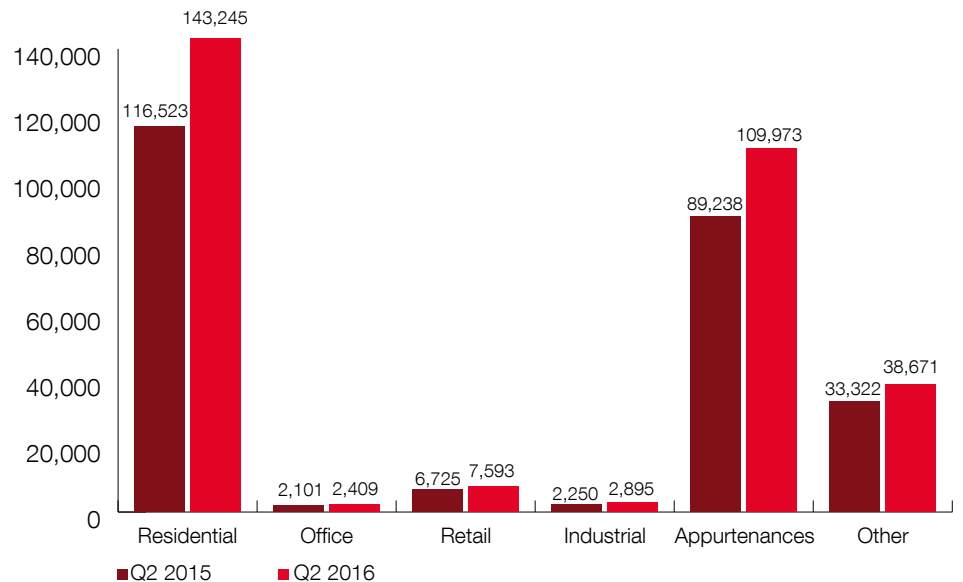
+21.8%
NTN Q2 2016 vs Q2 2015

+ 22.9%
Residential NTN
Q2 2016 vs Q1 2016

NTN: Q2 2015 – Q2 2016

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Residential	116,523	105,105	127,553	115,135	143,245
Office	2,101	1,913	2,813	2,024	2,409
Retail	6,725	5,826	7,765	6,774	7,593
Industrial	2,250	2,059	2,954	2,118	2,895
Appurtenances	89,238	80,164	100,825	87,525	109,973
Other	33,322	30,179	38,188	30,818	38,671
Total	250,158	225,246	280,117	244,393	304,786

NTN by property type: Q2 2016 vs Q2 2015



Source: PwC based on data from Agenzia delle Entrate





NTN - 2016

In Q2 2016, the Italian real estate market recorded double digit growth.

In fact, the number of residential sales grew by **+22.9%**, which is the largest increase recorded throughout the analysed period (starting 2004). This remarkable jump, which similarly occurred in Q1 2016 (+20.6%), is taking the market to transaction levels previously recorded before the second and more severe crisis of 2012.

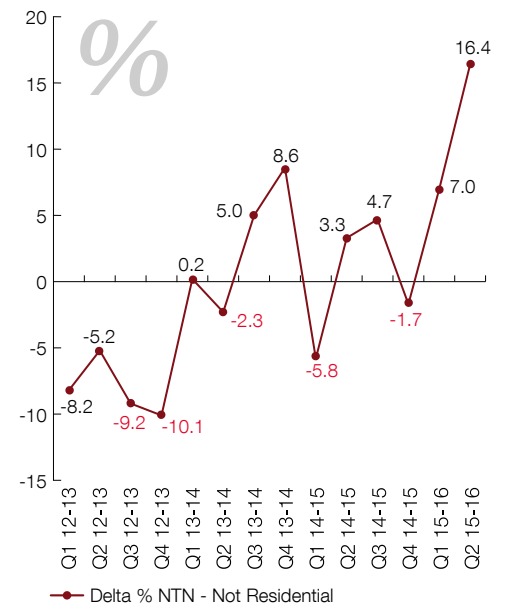
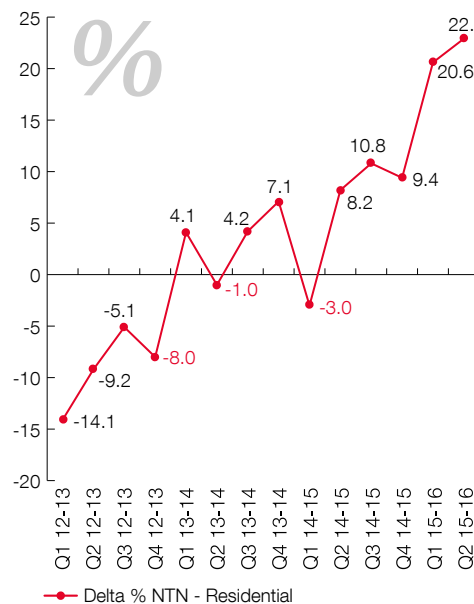
The most significant growth in terms of percentage, compared to the previous 6 month period, was recorded primarily by non-residential assets; offices recorded a **+14.7%** increase and industrial a **28.7%** increase (4 times the growth recorded in the previous survey).

304,786
NTN Q2 2016

+21.8%
NTN Q2 2016 vs Q2 2015

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Residential	94,888	116,543	95,454	116,514	105,104	127,553	115,135	143,245
Office	1,897	2,805	1,997	2,100	1,913	2,831	2,024	2,409
Retail	5,428	7,991	5,915	6,719	5,829	7,765	6,774	7,593
Industrial	2,015	2,992	1,981	2,249	2,058	2,954	2,118	2,895
Appurtenances	73,543	95,502	74,638	89,249	80,178	100,825	87,525	109,973
Other	29,236	37,997	28,424	33,322	30,175	38,188	30,818	38,671
Total	207,007	263,830	208,409	250,153	225,257	280,116	244,393	304,786

	Delta (%) Q3 13-14	Delta (%) Q4 13-14	Delta (%) Q1 14-15	Delta (%) Q2 14-15	Delta (%) Q3 14-15	Delta (%) Q4 14-15	Delta (%) Q1 15-16	Delta (%) Q2 15-16
Residential	4.2%	7.1%	-3.0%	8.2%	10.8%	9.4%	20.6%	22.9%
Office	-2.0%	0.3%	-6.4%	-3.8%	0.9%	0.9%	1.3%	14.7%
Retail	9.0%	14.1%	-5.2%	10.3%	7.4%	-2.8%	14.5%	12.9%
Industrial	1.6%	3.1%	-7.1%	-8.0%	2.2%	-1.3%	7.0%	28.7%
Appurtenances	2.4%	4.1%	-3.6%	6.1%	9.0%	5.6%	17.3%	23.2%
Other	4.8%	3.6%	-3.1%	4.9%	3.2%	0.5%	8.5%	16.1%
Total	3.6%	5.5%	-3.4%	6.8%	8.8%	6.2%	17.3%	21.8%



Source: PwC based on data from Agenzia delle Entrate



Key Data

+24.9%
NTN North Q2 16 vs 15

+20.7%
NTN Q2 2016 vs Q2 2015

+22.9%
NTN South Q2 16 vs 15

	Main cities	Rest of province
Rome	+12.4%	+22.4%
Milan	+29.7%	+22.7%
Turin	+24.3%	+26.2%
Genoa	+27.6%	+29.8%
Naples	+25.3%	+24.9%
Palermo	+12%	+5.3%
Bologna	+33.5%	+29.3%
Florence	+23.3%	+27.4%

NTN 2016 – Residential

Residential sales in Q2 2016 have also increased compared to the previous quarter throughout each macro level area of Italy.

The North of Italy showed the greatest positive results with a **24.9%** increase over Q2 2015, which was followed by the South and Centre with **20.8%** and **20.7%**, respectively.

The following table summarises the number of quarterly residential transactions by macro geographic area, divided by main cities and the rest of provinces.

The aggregate residential market data for eight main cities in Italy (based on the number of residents), in Q2 2016, shows a recovery in line with the national level, with residential sales totalling 25,787 and an overall increase of **21.5%**.

The growth rate for the group is remarkable, with the strongest performance recorded by **Bologna** (+33.5%) and **Milan** (+29.7%).

Other markets have also shown a marked increase, such as **Florence** (+23.3%), **Turin** (+24.3%), **Naples** (25.3%) and **Genoa** (27.6%).

Palermo has recorded a 20% increase, although well below the other top performers.

Rome, instead, which accounts for circa 32% of the number of transactions between the largest cities, recorded the weakest growth with a +12.4% increase in residential sales.

The residential markets of the municipalities that are located in the **Provinces of major cities** increased by circa **+23.7%**.

The Provinces that are above the average are **Genoa** and **Bologna**, each circa **+29%**, followed by **Florence** (+27.4%), **Turin** (26.2%), and **Naples** (24.9%). The Province of **Palermo**, however, recorded growth of only 5.3%, which is well below the average.

		Q4 2015	Q1 2016	Q2 2016	Delta (%) Q4 14-15	Delta (%) Q115-16	Delta (%) Q2 15-16
North	Provinces	20,617	19,813	24,949	11.5%	29.0%	26.9%
	No provinces	46,146	40,151	51,737	10.1%	21.8%	23.9%
	Total	66,763	59,963	76,686	10.5%	24.1%	24.9%
Center	Provinces	13,245	11,253	14,161	10.7%	17.0%	18.2%
	No provinces	14,148	12,680	15,606	11.5%	19.8%	23.1%
	Total	27,393	23,933	29,767	11.1%	18.5%	20.7%
South	Provinces	9,332	9,037	10,676	9.6%	18.0%	21.3%
	No provinces	24,066	22,201	26,116	4.7%	15.2%	20.6%
	Total	33,398	31,238	36,972	6.1%	16.0%	20.8%
Italy	Provinces	43,143	40,102	49,786	10.9%	22.9%	23.1%
	No provinces	84,360	75,032	93,459	8.7%	19.4%	22.9%
	Total	127,553	115,135	143,245	9.4%	20.6%	22.9%

Source: PwC based on data from Agenzia delle Entrate



The growth of the residential market that has already been observed at a national level is also confirmed by the +21.5% growth of the **eight main Italian cities** (by population), which is in line with the growth recorded by the Italian capitals (+22.9%) and is almost identical to the results of the previous quarter.

The number of residential transactions, therefore, have increased in the first half of 2016 throughout all the main Italian metropolises (21.2%) and in the municipalities of their respective provinces (22.4%) compared to 2015.

Among the main cities, Bologna stands out the most with a +33.5% increase. Positive results were also recorded in Milan (+29.7%) and Genoa (+27.6%). Rome and Palermo each grew by about +12%.

Among the provinces that recorded the greatest growth in transactions are Genoa (+29.8%) and Bologna (+29.3%).

Residential NTN 2016 - Main cities

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	var % 3° Trim 13-14	var % 4° Trim 13-14	delta Q1 14-15	delta Q2 14-15	delta Q3 14-15	delta Q4 14-15
Milan	3,475	4,346	3,814	4,740	4,108	5,373	4,804	6,150	2.0%	9.2%	18.2%	23.6%	26.0%	29.7%
Rome	6,060	7,502	5,834	7,334	6,339	7,839	6,564	8,250	-11.4%	5.0%	4.6%	4.5%	12.4%	12.4%
Turin	1,960	2,445	2,074	2,740	2,268	2,679	2,847	3,406	-9.5%	16.3%	15.7%	9.6%	37.2%	24.3%
Genoa	1,197	1,358	1,149	1,428	1,263	1,557	1,468	1,823	-18.9%	4.4%	5.5%	14.7%	27.8%	27.6%
Naples	1,131	1,537	1,289	1,475	1,370	1,596	1,584	1,851	3.6%	0.5%	21.2%	3.9%	22.8%	25.3%
Palermo	907	1,032	1,025	1,189	991	1,184	1,084	1,332	11.2%	16.1%	9.2%	14.8%	5.5%	12.0%
Bologna	979	1,165	1,021	1,192	1,039	1,250	1,218	1,591	-0.1%	3.2%	6.1%	7.3%	19.3%	33.5%
Florence	855	1,049	873	1,122	975	1,157	1,063	1,384	-1.0%	11.8%	14.1%	10.3%	21.7%	23.3%

Residential NTN 2016 - Rest of provinces

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	delta Q1 14-15	delta Q2 14-15	delta Q3 14-15	delta Q4 14-15	delta Q1 15-16	delta Q2 15-16
Milan	5,225	6,555	5,264	7,060	5,833	7,349	6,528	8,665	-5.6%	16.4%	11.6%	12.1%	24.0%	22.7%
Rome	2,521	3,070	2,591	3,087	2,687	3,353	3,191	3,782	-2.9%	3.0%	6.6%	9.2%	23.0%	22.4%
Turin	2,530	3,332	2,580	3,290	2,860	3,621	3,117	4,155	-5.8%	2.2%	13.1%	8.7%	20.8%	26.2%
Genoa	549	669	519	650	626	794	652	845	-12.3%	13.7%	14.0%	18.6%	25.6%	29.8%
Naples	1,732	2,250	1,989	2,238	1,866	2,490	2,334	2,795	4.3%	5.5%	7.8%	10.7%	17.3%	24.9%
Palermo	740	880	817	872	830	970	842	919	-6.7%	4.0%	12.1%	11.2%	2.7%	5.3%
Bologna	1,175	1,552	1,229	1,455	1,343	1,688	1,414	1,881	7.4%	13.9%	14.4%	8.8%	15.1%	29.3%
Florence	986	1,224	1,008	1,235	1,056	1,367	1,240	1,574	3.0%	10.3%	7.1%	11.7%	23.0%	27.4%

Source: PwC based on data from Agenzia delle Entrate



The graph shows the variation of prices and transactions in the residential real estate market per semester since 2004.

From 2000 - 2005 a similar growth was observed for both prices and transactions.

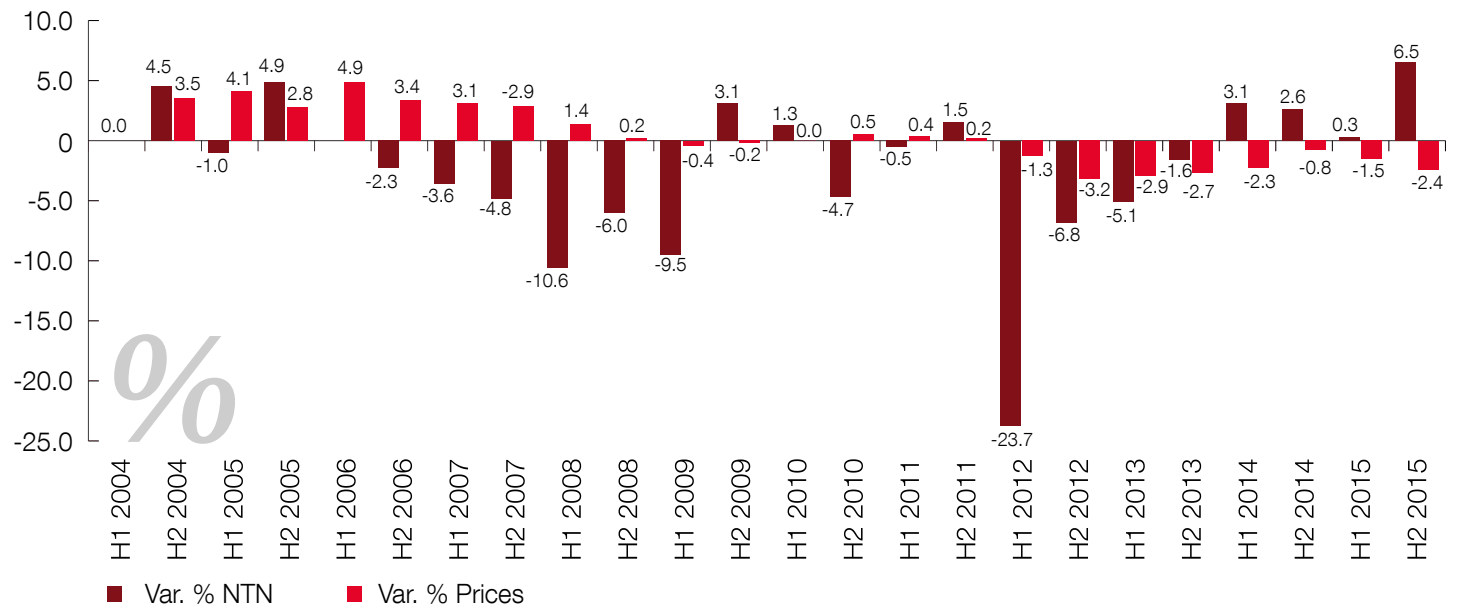
From 2006 - 2008 the transaction volume for the residential market has suffered a reduction, whereas the house prices kept growing, even if slowing down towards 2008.

During 2009, although the transaction volume alternated between bad semesters and slightly acceptable ones, prices remained stationary.

During the 1st half of 2012, the number of transactions contracted by 25%, compared to the 2nd half 2011, and as a consequence prices suffered a deep decrease.

Negative period followed until 2015, when the trend switched to positive for what concerns the transactions, whereas prices remained negative.

Trend variation for prices and number of transactions within the residential market



Source: PwC based on data from Agenzia delle Entrate



During **Q1 2016**, house prices fell by **0.4%** in comparison with the previous quarter; this conjuncture concerns both new houses and existing ones (-0.4% each). By considering a yearly basis, the fall in price continued, but reduced its intensity (-1.2% instead of -1.7% of the previous quarter).

The main contribution to this result is given by new houses (-0.7%, instead of -1.4% of the Q4 2015) and existing ones (-1.4%, instead of -1.8%).

When considering a broader range, it is possible to recognize how greatly existing houses contributed to the negative fall of Q1 2013 (-8.1% of the existing houses and -6% overall),

and then to the gradual reduction of the gap of IPAB.

As the price trend for existing houses was negative from 2011, the variance between the average values in 2010 and Q1 2016 was 20%, whereas the variance for new houses amounts only to -2.3%.

House price index (basis 100=2010) – quarterly data



% variation – quarterly house price trend





As reported in the survey “Sondaggio congiunturale sul mercato delle abitazioni in Italia” based on 1,262 real estate agencies and updated at Q2 2016, the average discount on sales prices applied to the initial vendor requests has risen to 14.5%, from 13.8% of Q1 2016.

The average time needed for negotiation, occurring from the sale date and the purchase date, remained quite stationary on 9.6 months (previous data 8.6).

The share of purchases financed via mortgages is growing (76.1%, instead of 73.8 of the previous survey), as well as the relation between the loan value and the market value of properties (73.8%, instead of 69.3%).

14.5% Average discount on sales price

9.6 Average amount of months for negotiation until the sale date

Negotiation, sale time and finance for residential units - Q2 2016

	Relationship between purchase price and bid price							Sale time and mortgages		
	over 30%	20 to 30%	10 to 20%	5 to 10%	less then 5%	Equal or higher	Average discount	Months occurring from the put up for sale to the purchase date	purchases (%) financed via mortgage	Amount of loans vs market value of properties
Geographic distribution										
North West	3.3%	20.7%	34.5%	22.0%	15.1%	4.4%	13.5%	9.9	75.9%	74.2%
urban areas	3.4%	22.4%	37.9%	25.0%	6.0%	5.2%	14.5%	7.5	76.3%	72.4%
not urban areas	3.3%	20.1%	33.2%	20.8%	18.5%	4.1%	13.2%	10.8	75.7%	75.1%
North East	2.6%	12.4%	48.3%	25.1%	8.7%	2.9%	13.4%	9.0	80.4%	75.5%
urban areas	3.2%	11.1%	39.7%	30.2%	12.7%	3.2%	12.4%	7.8	78.3%	73.6%
not urban areas	2.4%	12.8%	51.1%	23.4%	7.4%	2.8%	13.7%	9.4	81.1%	76.1%
Center	4.7%	25.6%	47.4%	7.7%	9.0%	5.5%	16.0%	10.0	71.7%	70.8%
urban areas	3.9%	15.7%	49.0%	25.5%	3.9%	2.0%	14.7%	8.3	75.7%	64.8%
not urban areas	5.0%	28.2%	46.9%	3.1%	10.3%	6.5%	16.3%	10.5	70.5%	73.0%
South and Islands	7.5%	25.2%	40.8%	13.2%	9.2%	4.0%	16.3%	9.2	74.2%	74.0%
urban areas	7.9%	28.6%	34.9%	15.9%	6.3%	6.3%	16.5%	7.4	74.8%	71.4%
not urban areas	7.3%	23.7%	43.6%	12.0%	10.5%	2.9%	16.2%	10.0	73.9%	75.6%
Population resident										
urban areas (>250k inhabitants)	4.4%	20.1%	39.6%	24.2%	7.2%	4.4%	14.5%	7.7	76.4%	71.1%
not urban areas (≤250k inhabitants)	4.1%	20.9%	42.2%	15.9%	12.7%	4.2%	14.5%	10.3	76.0%	75.0%
metropolitan areas (>500k inhabitants)	4.1%	23.3%	39.9%	22.8%	5.7%	4.1%	15.1%	7.7	76.4%	71.1%
not metropolitan areas (≤500k inhabitants)	4.2%	20.7%	41.5%	18.10.0%	11.3%	4.2%	14.5%	10.3	76.0%	75.0%
Total	4.2%	20.7%	41.5%	18.1%	11.3%	4.2%	14.5%	9.6	76.1%	73.8%
Q3 2015	4.5%	16.2%	40.7%	24.6%	10.4%	3.6%	13.8%	8.6	73.8%	69.3%
Q2 2015	4.2%	16.5%	43.8%	25.9%	6.4%	3.3%	14.2%	9.1	68.5%	64.7%
Q1 2015	4.8%	19.2%	41.9%	26.3%	5.3%	2.6%	14.9%	9.4	65.7%	64.2%
Q4 2014	5.4%	21.9%	40.8%	25.0%	4.6%	2.4%	15.5%	9.4	66.8%	65.3%

Source: PwC analysis on Bank of Italy data – Sondaggio congiunturale sul mercato delle abitazioni in Italia

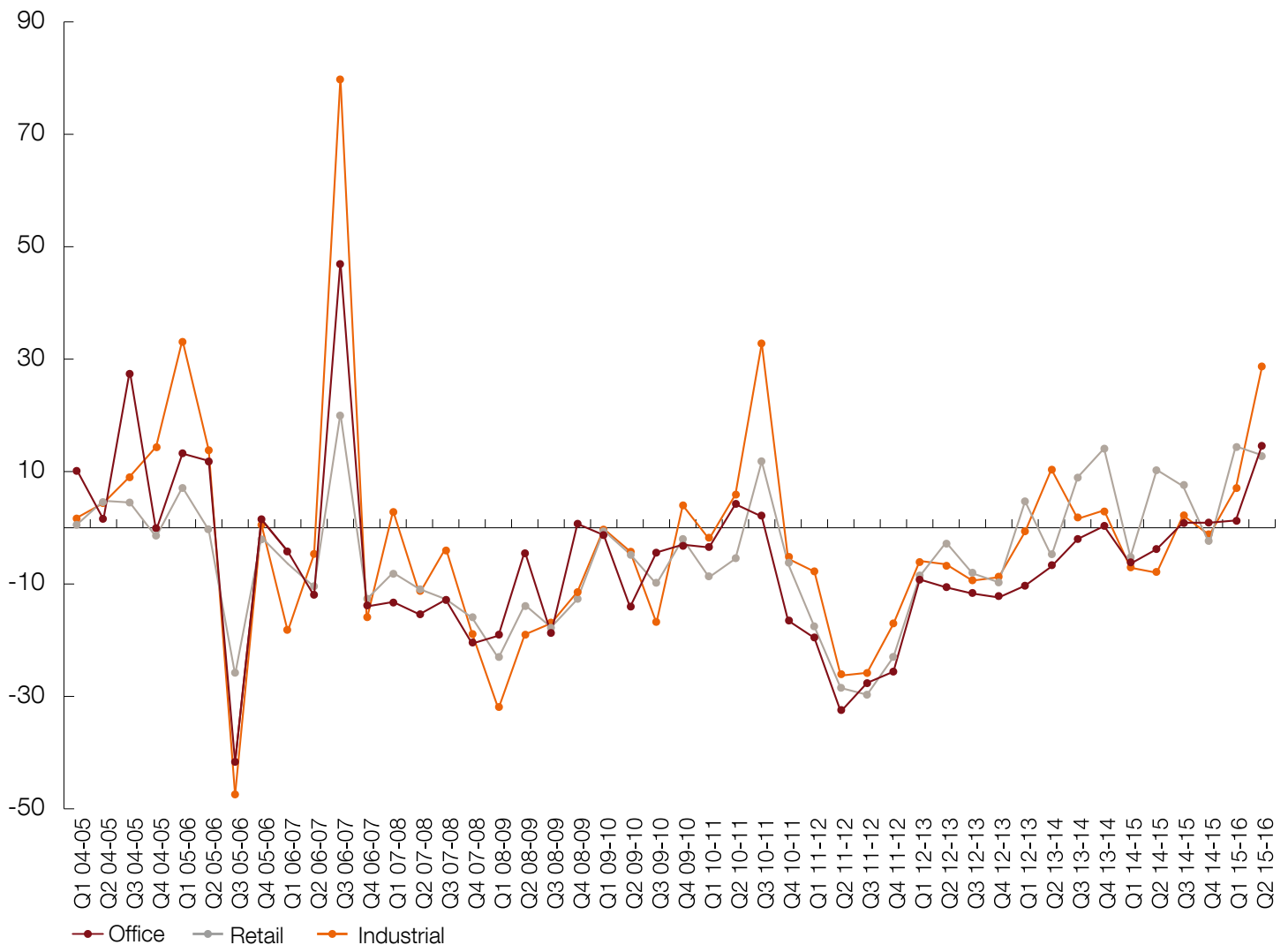


The graph reports the series of **yearly percentage variations** by quarter since 2004, within **not residential segments**. The recovery of the market is clearly shown starting from 2009, along with a continuing positive trend for all the not residential segments, even though it was suddenly interrupted in 2011; as a matter of fact, from the beginning of 2013, there is

a noticeable slow down of the negative trend, only partially confirmed in 2015. In 2015, the non residential segment suffered a fall of the industrial asset class, throughout almost all the quarters of the year, except for the third one. For what concerns the office market, a slight positive trend was registered, resulting in a sharp growth in Q4; on the opposite, the retail

markets have quickened particularly during the central quarters, but another decrease followed afterwards.

During **2016** the office market keeps slowly climbing up, whereas industrial and retail segments, after the decline which occurred at the end of 2015, grew at full speed.



	2011- 2012				2012- 2013				2013- 2014				2014- 2015				2015- 2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Office	-19.6%	-32.7%	-27.6%	-25.6%	-9.2%	-10.6%	-11.7%	-12.4%	-10.3%	-6.9%	-2.0%	0.3%	-6.4%	-3.8%	0.9%	0.9%	1.3%	14.7%
Retail	-17.6%	-28.5%	-29.7%	-23.0%	-8.6%	-2.6%	-8.1%	-9.7%	4.7%	-5.0%	9.0%	14.1%	-5.2%	10.3%	7.4%	-2.8%	14.3%	12.9%
Industrial	-7.8%	-26.3%	-25.8%	-17.1%	-5.9%	-6.5%	-9.4%	-8.8%	-0.7%	10.4%	1.6%	3.1%	-7.1%	-8.0%	2.2%	-1.3%	7.0%	28.7%

Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)



During Q2 2016, non residential asset classes showed double digit increases, accounting for a growth of **16.4%** compared to the same period in 2015. Although the number of industrial transactions were lower than other asset classes, this segment is the one registering the highest growth rate achieving an increase of almost **29%**.

An increase was also registered in transacted volumes for the office market, **+14.7%**, and for the retail segment, **+12.9%**. For what concerns historical data, following the deep fall registered during 2012, a recovery is easily recognizable at the beginning of 2013 even for non residential segments.

During Q3 and Q4 2013, the results worsened once more, but in 2014 the market returned to positive results, even if fluctuations occurred across quarters. In 2016 the office market kept slowly climbing, whereas the industrial and retail segments intensified their growth rates, after the previous decrease in 2015.

NTN 2016 Office

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	2° Trim 2016	delta % Q1 14-15	delta % Q2 14-15	delta % Q3 14-15	delta % Q4 14-15	delta % Q1 15-16	delta % Q2 15-16
North	1,134	1,241	1,173	1,676	1,185	1,413	-12.0%	-7.7%	11.6%	-3.4%	4.5%	13.7%
Center	422	452	359	654	417	504	3.6%	16.3%	-18.0%	8.1%	-1.1%	11.6%
South	422	406	382	502	422	491	0.6%	-9.5%	-6.6%	-7.0%	-4.5%	20.9%
						2,408						14.7%

NTN 2016 Retail

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	delta % Q1 14-15	delta % Q2 14-15	delta % Q3 14-15	delta % Q4 14-15	delta % Q1 15-16	delta % Q2 15-16
North	2,859	3,244	2,826	3,824	3,308	3,617	-6.1%	9.6%	8.1%	-5.6%	15.7%	11.5%
Center	1,300	1,562	1,310	1,824	1,450	1,698	-5.2%	11.3%	7.8%	4.4%	11.5%	8.5%
South	1,756	1,912	1,693	2,117	2,016	2,278	-3.9%	10.6%	5.9%	-3.4%	14.6%	18.9%
						7,593						12.9%

NTN 2016 Industrial

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	delta % Q1 14-15	delta % Q2 14-15	delta % Q3 14-15	delta % Q4 14-15	delta % Q1 15-16	delta % Q2 15-16
North	1,321	1,507	1,401	2,029	1,395	1,866	-13.1%	-8.2%	3.3%	-4.9%	5.7%	23.9%
Center	316	419	330	496	364	429	3.5%	0.2%	8.5%	13.2%	15.3%	1.8%
South	343	323	327	430	359	600	12.6%	-16.0%	-7.7%	2.1%	4.5%	85.9%
						2,895						28.7%

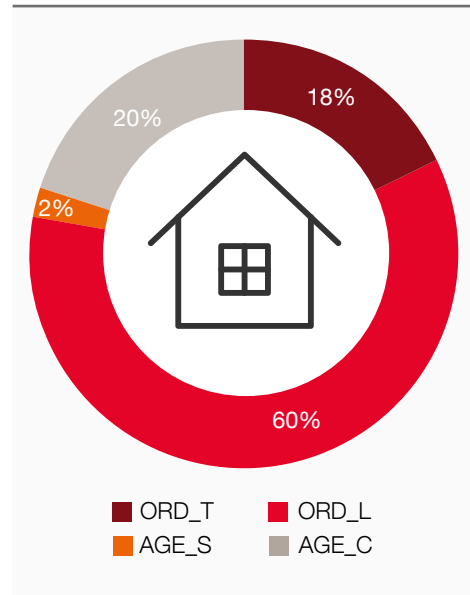
Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)





Market of residential rental trends

Number of houses for rent



Rent trend - 2015

The table shows the main national data for new residential rents registered during 2015, divided by different market segments. On the whole, the houses for rent during 2015 have almost achieved 6% of the potential available stock, which corresponds to an overall amount of rentals of € 4.6 billion and 75 million sqm.

The average surface of the houses for rent is around 92 sqm, and the average yearly rent is equal to 60.6 €/sqm, 2.3% lower than 2014.

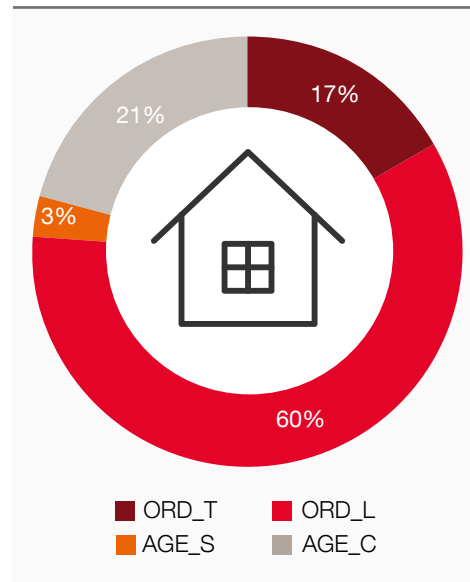
The residential market composition shows that 60% of rentals are made of ordinary – long term agreements, both in terms of number of houses for rents and leasing rent.

The segment of temporary ordinary agreements and the agreed upon one represent respectively about 18% and 20% of the market.

Rents for students is 2% of the total amount during 2015.

The average yearly rent per surface unit is decreasing for each market segment and is higher for the agreed upon contracts for students (70.7 €/sqm), whereas it is lower for ordinary – long term agreed upon agreements (58.7 €/sqm).

Leasing rents



	ORD_T	ORD_L	AGE_S	AGE_C
Amount of units for rent	145,133	492,955	17,985	165,633
IML 2015 Rental market strength	1.0%	3.4%	0.1%	1.2%
Total surface for rent (mln sqm)	12.5	45.9	1.7	15.3
Average unit surface for rent (sqm)	86.3	93.1	94.7	92.6
Total amount of rents 2015 (€ mln)	793.3	2,690.5	120.5	964.2
Average yearly rent 2015 (€/sqm)	63.3	58.7	70.7	62.9
Average yearly rent delta 2014/2015 (%)	-3.0%	-2.3%	-3.2%	-1.9%

Market segments for rentals:

ORD_T: ORDINARY TEMPORARY: Not facilitated agreements, from 1 to 3 years; this segment belongs to the set of temporary and not facilitated agreements.

ORD_L: ORDINARY LONG RUN: Agreements not facilitated, whose duration is more than 3 years; this segment belongs to the rental market of long term leases.

AGE_S: FACILITATED STUDENTS: Facilitated agreements, whose duration is included between 1 and 3 years; this segments belongs to the market of facilitated leases for students.

AGE_C: FACILITATED AGREED UPON: Agreed upon contracts, facilitated and whose duration is higher than 3 years; this segments belongs to the set of agreements facilitated and agreed upon.

Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)



Ordinary temporary market 2015

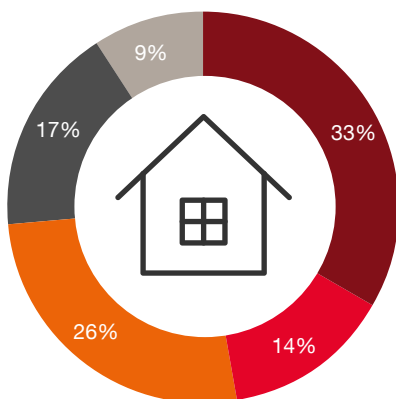
The new and temporary rental market in 2015 accounted for 145,000 houses, 1% of the potential stock for lease, for a total surface area of 12.5 million sqm. The overall yearly rents account for almost € 800 million and the yearly average rent is equal to 63.3 €/sqm, 3% lower than 2014.

For what concerns the rental market of ordinary and temporary agreements submitted during 2015 within the 8 main Italian cities, the one showing the highest amount of stock for lease is Florence (IML 2.6%);

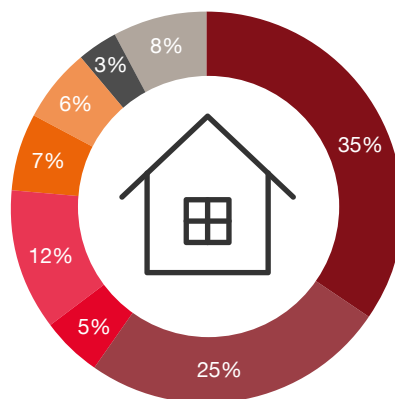
Milan is the most expensive main city, since the yearly average rent is equal to circa 127 €/sqm, whereas in Genoa the rental market has observed a drop of 20% from 2014.

	Houses for rent 2015 (#)	IML 2015 - Rental market strength	Total surface for rent (sqm)	Average unit surface for rent (sqm)	Total yearly rent 2015 (€ mln)	Average yearly rent 2015 (€/sqm)	Average yearly rent delta 2014/2015 (%)
North West	48,529	1.2%	3,722,914	76.7	226.9	71.7	-1.10%
North East	20,541	1.0%	1,760,345	85.7	111.9	63.6	-3.50%
Center	38,174	1.4%	3,383,432	88.6	252.0	74.5	-2.70%
South	24,983	0.7%	2,425,043	97.1	106.4	43.9	-3.00%
Islands	12,906	0.7%	1,230,069	95.3	56.1	45.6	-4.90%
Total	145,133	1.0%	12,521,803	86.3	793.3	63.3	-3.00%
Rome	9,737	1.8%	791,495	81.3	91.9	116.1	2.5%
Milan	7,029	1.9%	480,680	68.4	61.1	127.1	4.7%
Naples	1,440	0.7%	125,603	87.2	7.9	62.7	2.1%
Turin	3,251	1.5%	225,429	69.3	18.3	81.1	-1.3%
Palermo	1,834	1.3%	175,296	95.6	9.0	51.4	-12.9%
Genoa	1,677	1.5%	132,455	79.0	11.0	83.3	-21.9%
Bologna	921	0.9%	78,622	85.4	6.7	85.8	3.9%
Florence	2,150	2.6%	187,986	87.4	20.7	110.0	1.0%
Total	28,039	1.6%	2,197,566	78.4	226.6	103.1	0.1%

Number of houses for rent

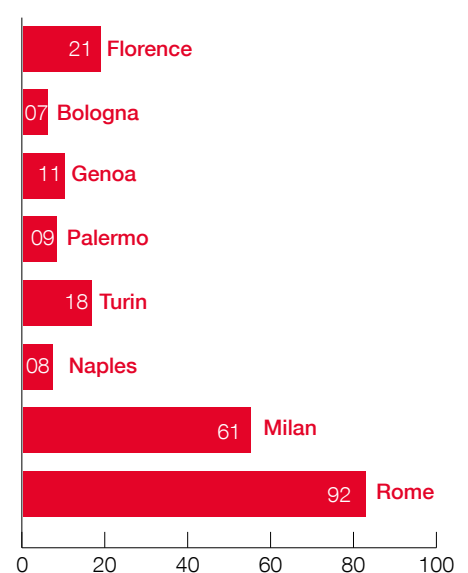


North West North East Center South Islands



Rome Milan Naples Turin Palermo Genoa Bologna Florence

Average yearly rent





Ordinary long-term market 2015

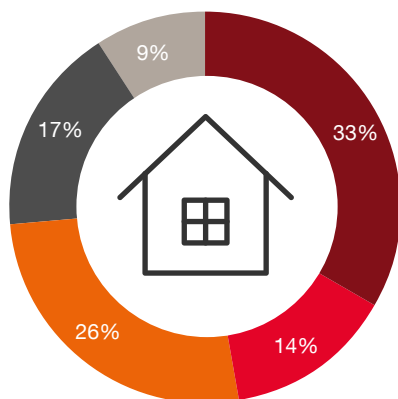
In 2015, long-term ordinary market locations accounted for 490,000 houses, with an IML equal to 3.4% and a total surface area of nearly 46 million sqm. The total annual rent amounts to almost € 2.7 billion and the average annual rent is 58.7 €/sqm, down 2.3% compared to 2014.

The average annual is equal to 70.3 €/sqm, down 2.2% compared to 2014. The greatest share of leased stock is recorded in Milan, with IML equal to 8.5% in 2015.

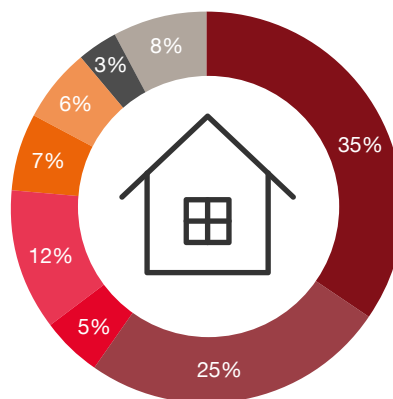
In Milan the average annual rent per square metre increased compared to 2014, surpassing 130 €/sqm, the highest among all the other cities. In addition to Milan, the annual average rent mildly increased only in Bologna and Florence in 2015.

	Houses for rent 2015 (#)	IML 2015 - Rental market strength	Total surface for rent (sqm)	Average unit surface for rent (sqm)	Total yearly rent 2015 (€ mln)	Average yearly rent 2015 (€/sqm)	Average yearly rent delta 2014/2015 (%)
North West	189,477	4.5%	16,119,720	85.1	1,064.0	66.0	0.10%
North East	86,568	3.8%	8,130,391	93.9	452.5	55.7	-0.60%
Center	93,947	3.6%	8,666,835	92.3	626.9	72.3	-2.50%
South	89,065	2.5%	9,357,252	105.1	397.6	42.5	-2.70%
Islands	33,898	1.9%	3,598,123	106.1	149.6	41.6	-3.20%
Total	492,955	3.4%	45,872,321	93.1	2,690.5	58.7	-2.30%
Rome	25,336	4.7%	2,119,953	83.7	250.4	118.1	-1.5%
Milan	31,928	8.5%	2,298,333	72.0	302.6	131.7	2.5%
Naples	10,950	5.3%	937,262	85.6	66.4	70.9	-3.9%
Turin	9,351	4.4%	666,926	71.3	52.3	78.5	-1.0%
Palermo	7,100	4.9%	703,492	99.1	37.4	53.2	-1.9%
Genoa	2,688	2.3%	215,790	80.3	14.1	65.5	-4.7%
Bologna	5,896	5.8%	442,430	75.0	44.5	100.5	0.8%
Florence	399	4.9%	331,059	82.8	34.7	104.7	0.2%
Total	97,248	5.5%	7,715,245	79.3	802.5	104.0	-0.7%

Number of rented houses

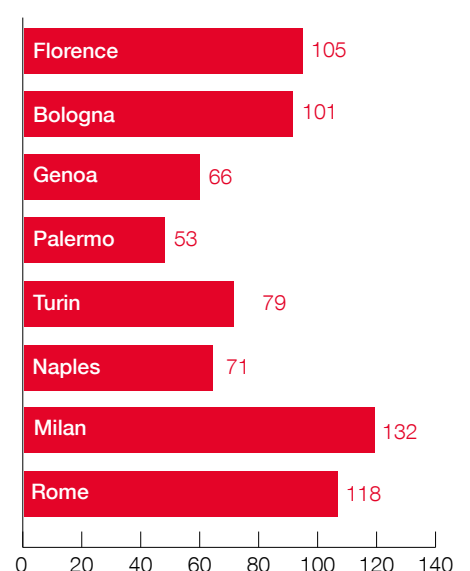


North West North East Center South Islands



Rome Milan Naples Turin Palermo Genoa Bologna Florence

Average yearly rent





The proportion of agencies that reported leasing at least one property in **Q2 2016** dropped slightly compared to the previous period (from 78.1% to 77.9% in the first quarter 2016) and has decreased by nearly 4.8 percentage points over the same quarter of 2015.

The negative balance between the number of opinions in rent increases and decreases slightly rose to 31.9% (from 31.2% in the first quarter 2016), while the share of opinions of stability was almost unchanged (at 64.3%).

The average discount on rents compared to the initial asking price of the lessor has slightly increased (from 6.5% in Q1 to 6.8% in the second quarter 2016). The

negative balance between increases and decreases in new leasable positions loosened (10.2% compared to 12.8% of previous quarter), but opinions of stability continue to remain widely prevalent (61.1% of the agencies).

Trend of Leases – Q2 2016

	% of rents via agency Q2	Market Rents Q2 vs Q1 2016			Expected rents Q3 vs Q2			Amount of mandates Q2 vs Q1			Average discount on rents
		negative	flat	positive	negative	flat	positive	negative	flat	positive	
Geographic distribution											
North West	78.4%	31.5%	64.7%	3.8%	14.8%	80.8%	4.4%	26.9%	65.9%	7.2%	6.2%
urban areas	81.7%	35.1%	60.8%	4.1%	12.9%	82.8%	4.3%	30.2%	60.3%	9.5%	4.9%
non-urban areas	77.0%	30.0%	66.4%	3.6%	15.6%	80.0%	4.4%	25.6%	68.2%	6.2%	6.8%
North East	84.1%	24.1%	72.3%	3.5%	9.8%	87.5%	2.7%	27.6%	65.6%	6.9%	5.8%
urban areas	91.4%	19.6%	80.4%	0.0%	4.0%	94.0%	2.0%	29.0%	59.7%	11.3%	3.9%
non-urban areas	82.1%	25.5%	69.9%	4.6%	11.6%	85.4%	3.0%	27.2%	67.2%	5.7%	6.4%
Center	71.8%	35.3%	62.3%	2.4%	20.8%	75.2%	3.9%	32.2%	51.1%	16.6%	7.9%
urban areas	76.7%	40.0%	56.4%	3.6%	24.5%	73.6%	1.9%	25.3%	57.3%	17.3%	9.3%
non-urban areas	69.8%	33.1%	65.1%	1.9%	19.3%	75.9%	4.8%	34.7%	48.9%	16.4%	7.3%
South and Islands	76.2%	40.4%	53.6%	6.0%	25.1%	67.2%	7.7%	28.9%	59.0%	12.1%	8.3%
urban areas	79.0%	44.7%	51.1%	4.3%	36.2%	59.6%	4.3%	37.0%	52.1%	11.0%	9.4%
non-urban areas	74.9%	38.2%	54.9%	6.9%	19.4%	71.1%	9.4%	25.5%	61.9%	12.6%	7.7%
Residents											
urban areas (>250k inhabitants)	81.8%	34.8%	62.0%	3.2%	18.1%	78.6%	3.3%	30.4%	57.7%	11.9%	6.5%
non urban areas (≤250k inhabitants)	76.3%	30.7%	65.3%	4.0%	15.9%	79.2%	4.9%	28.0%	62.4%	9.6%	7.0%
metropolitan areas (>500k inhabitants)	80.8%	40.6%	56.0%	3.4%	23.7%	74.0%	2.4%	27.5%	61.1%	11.4%	7.2%
non metropolitan areas (≤500k inhabitants)	77.1%	29.6%	66.5%	3.9%	14.7%	80.3%	5.0%	28.9%	61.1%	10.0%	6.7%
Total	77.9%	31.9%	64.3%	3.8%	16.5%	79.0%	4.4%	28.7%	61.1%	10.2%	6.8%
Q1 2016	78.1%	31.2%	64.2%	4.6%	13.1%	83.4%	3.5%	23.3%	63.9%	12.8%	6.5%
Q4 2015	82.4%	33.6%	63.1%	3.4%	16.4%	81.0%	2.7%	23.7%	63.5%	12.8%	6.3%
Q3 2015	84.8%	34.6%	63.0%	2.4%	21.0%	78.0%	0.9%	22.5%	62.8%	14.8%	6.3%
Q2 2015	82.7%	38.6%	58.3%	3.2%	22.3%	75.6%	2.1%	21.8%	62.6%	15.6%	6.7%

Source: PwC analysis on data provided by Bank of Italy – Economic survey on the housing market in Italy



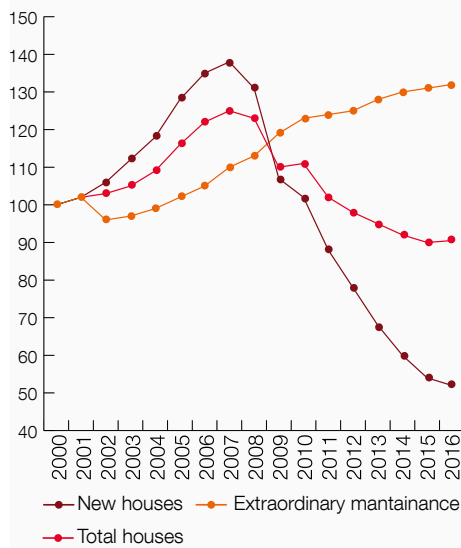
Investments in construction

Key data

+0.2% Investments in constructions 2016 vs 2015
Residential

- 3.4% Investments in constructions 2016 vs 2015
Residential - New

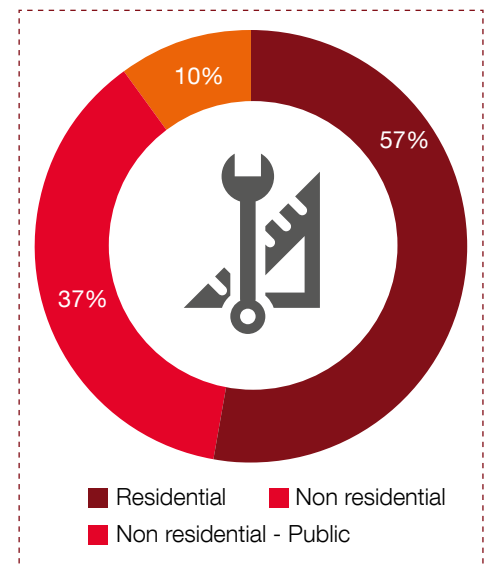
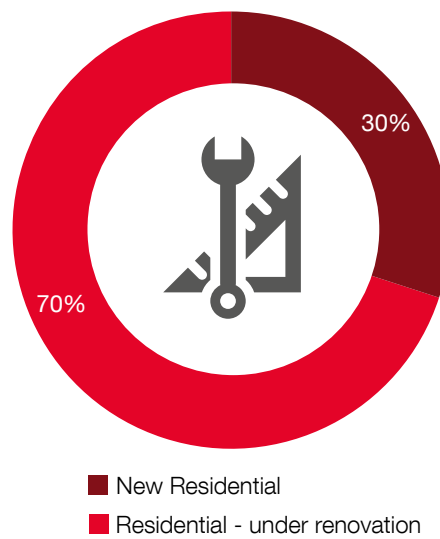
0.8% Investments in constructions 2016 vs 2015
Residential - Refurbishment



Investments in construction

The estimates provided by ANCE for 2016 show that construction investments increased by 0.3% in real terms, after significant declines over the previous years (-7.5% in 2013 and -5.2% in 2014).

However, it is worth noting that the decline in investments in construction in 2015 was partially mitigated by prolonged on fiscal incentives for building renovations, which were effective until December 2015.



	2016*	2013	2014	2015	2016*
Total Investments (€ Mln)	125,724	-7.5%	-5.2%	-1.0%	0.3%
Residential	66,906	-3.3%	-4.2%	-1.9%	0.2%
New residential	20,323	-12.4%	-14.0%	-6.8%	-3.4%
Residential - under renovation	46,603	2.9%	1.5%	0.5%	1.9%
Non residential	58,754	-11.7%	-6.3%	0,1%	0.3%
Non residential - private	34,121	-13.4%	-7.1%	-1.2%	0.2%
Non residential - public	24,621	-9.3%	-5.1%	-1.9%	0.4%

* Forecast by ANCE





Real estate leasing

Key data

€ 4 billion real estate leasing 2015 Residential

30.6% % leasing – existing estates > € 2.5 mln

22.8% % leasing – existing estates > € 0.5 and <= € 2.5 mln

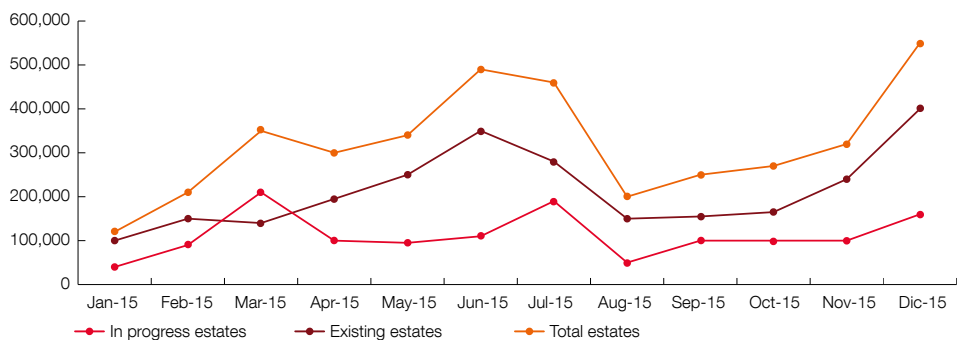
40% Growth of leasing volumes in 2014

Real estate leasing performances

A tax regulation issued in 2014 redrew the best practices of real estate leasing; as a result of this new regulatory framework, the total leasing volumes of the year grew by 40%.

The following year, the total amount of leasing stabilised at a level of **€ 4 billion**. However, both in number of contracts and in financial value, 2015 showed a negative trend compared to 2014, with decreases of 1.1% and 4.7% respectively.

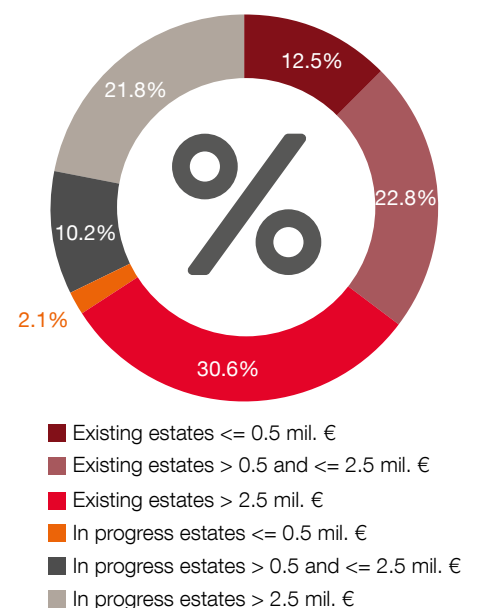
These negative dynamics have been entirely influenced by the results of projects in progress (-3.7% for number of contracts and -16.2% for value). On the contrary, the trend for existing estates remains stably positive, specifically for leasing of € 2.5 million or above, which registered a growth rate of **16.4%**.



Leasing financing stocks e trends in non – residential sectors

The analysis of different leasing classes by amount reveals a slight decrease for existing estates valued > **€ 0.5 and <= € 2.5 million** (-0.3%) and > **€ 2.5 million** (-0.9%) in 2015.

On the contrary, projects in progress valued < **€ 0.5 million** as well as those between **€ 0.5 and € 2.5 million** respectively increased by 0.2% and 1.1%.

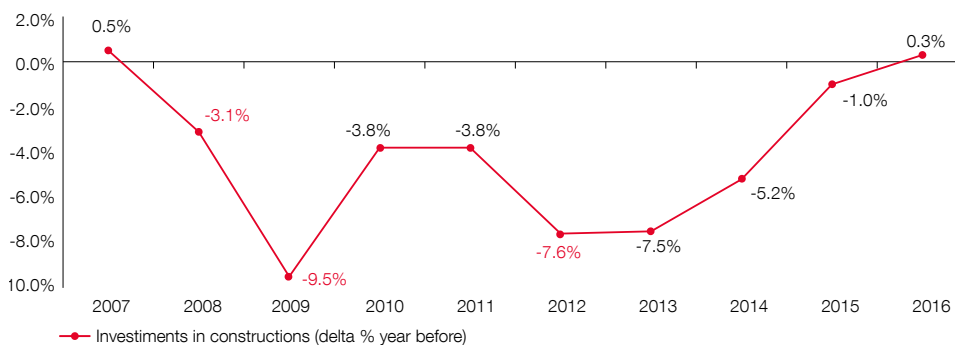


Source: PwC analysis on data provided by OMI – Agenzia delle Entrate (Osservatorio mercato immobiliare)



	2008 - 2015*	2008 - 2016*
Total Investments (€ Mln)	-34.9%	-34.7%
Residential	-27.7%	-27.6%
New residential	-61.0%	-62.4%
Residential - under renovation	19.1%	21.3%
Non residential	-41.4%	-41.20%
Non residential - private	-36.5%	-36.60%
Non residential - public	-47.1%	-46.90%

* Forecast by ANCE



Source: PwC analysis on data provided by ANCE

Investments in construction - Forecast 2016

2016 could represent the turning point for the Real estate industry. The ANCE forecast shows increasing **investments in construction**, thus putting an end to the negative trend that started in 2008. The turnaround will be driven by the growth in housing upgrades, by improvements in public works and by a less pronounced fall in production for new housing construction and non-residential private sector.

With regard to the latter, the forecast for 2016 assumes a slight increase of **0.2%**; on the other hand, new residential estates present a negative trend, which, according to ANCE's forecast, should register a decrease of **3.4%**.



Over the last seven years, bank financing for real estate investments have gradually fallen.

A similar trend is confirmed in Q1 2016: the number of issued mortgages for residential investments dropped by 11.1% in comparison with 2015, which had also decreased by 10.6% compared to 2014.

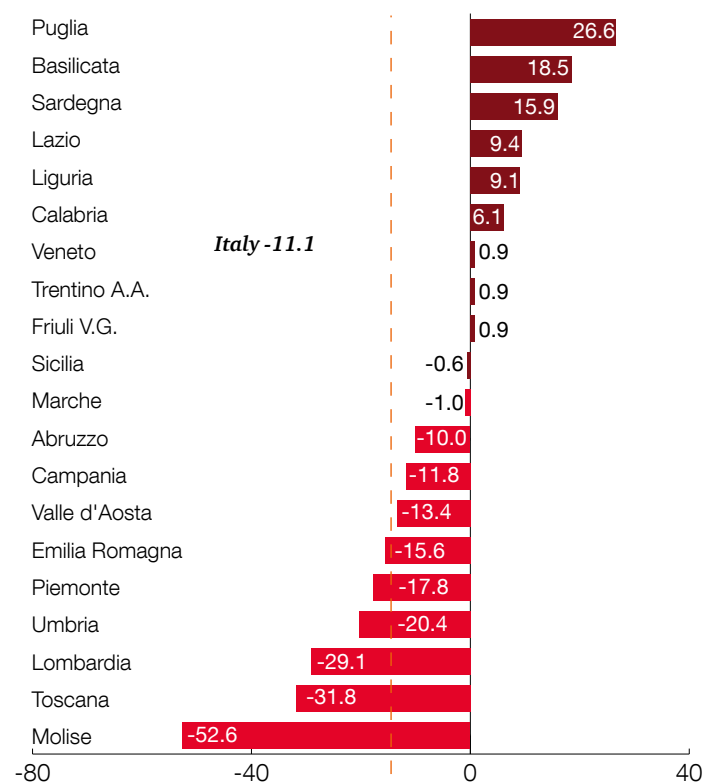
The decrease observed in the residential sector has been dramatic across the years: the amount of issued mortgages in 2007 was € 31.5 billion against € 9 billion in 2014, with a total drop of 74%.

On the contrary, the situation for non – residential asset classes is slightly less negative: after increasing again by more than 60% in 2015, new financing in 2016 dwindled by 21.1%, with half the amount of new loans in comparison with 2007.

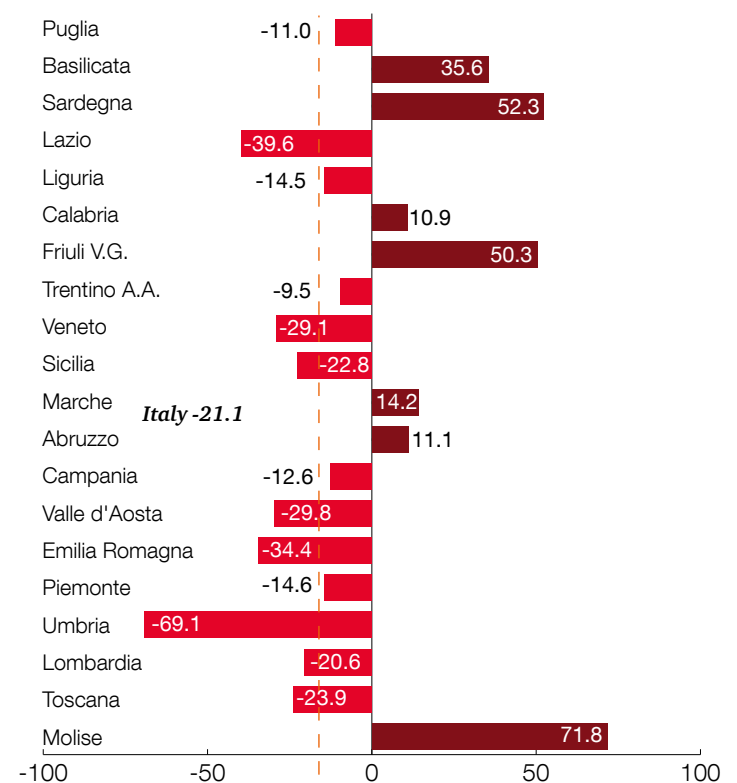
Flows of new financing for Real Estate investments in Italy (mln €)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Q1 2015	Q1 2016
Residential	31,427	29,802	24,407	23,458	19,418	16,090	11,212	9,141	8,172	1,953	1,747
Non residential	21,091	18,708	16,543	14,668	11,729	7,130	5,584	5,960	9,972	2,717	2,145
Delta % vs same period of the previous year											
Residential	17.2	-5.2	-18.1	-3.9	-17.2	-17.1	-30.3	-18.5	-10.6	-12.0	-11.1
Non residential	4.9	-11.3	-11.6	-11.3	-20.0	-39.2	-21.7	6.7	67.3	127.0	-21.1

Flows of new financing for residential investments in Italy (% variation - Q1 2016 vs Q1 2015)



Flows of new financing for non – residential investments in Italy (% variation - Q1 2016 vs Q1 2015)



Source: PwC analysis on data provided by ANCE

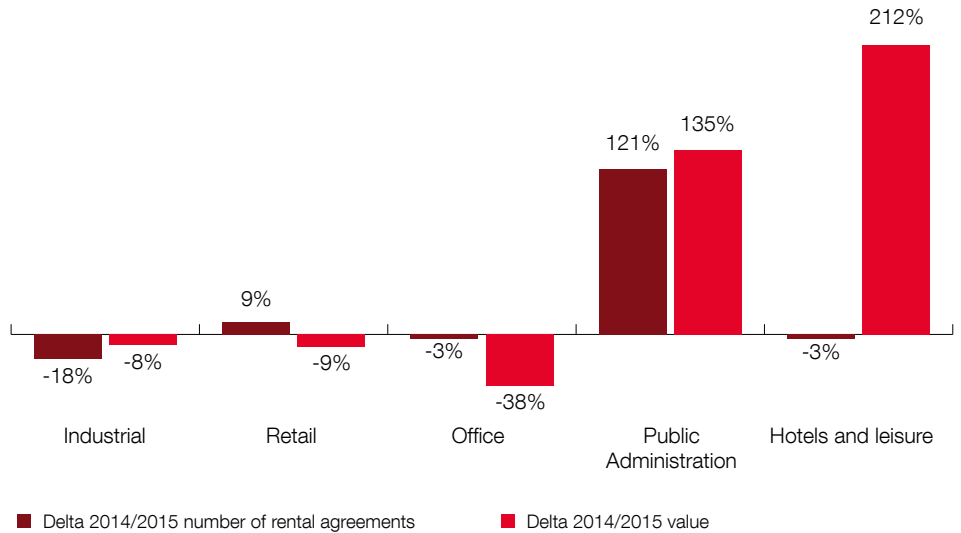


Key data

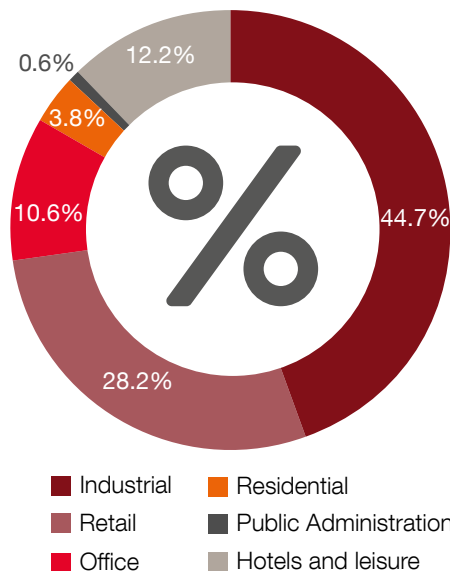
In 2015, the leasing volumes of industrial properties, retail spaces and offices dropped by 8.4%, 9.4% and 38.4% respectively in comparison with 2014. On the other hand, an increase in the leasing value for properties leased to public institutions and hotels was observed in the same period, with growth rates of +134.6% and +212.7% respectively.

The strongest increase is registered for logistics properties (from € 934,000 in 2014 to € 1 million in 2015) and in the tourism sector, where an average bid could reach the level of € 2.5 million. Finally, the number of contracts in the retail segment as well as in the public one has sharply risen over the last year, with growth rates of +9.4% and +121.4% respectively.

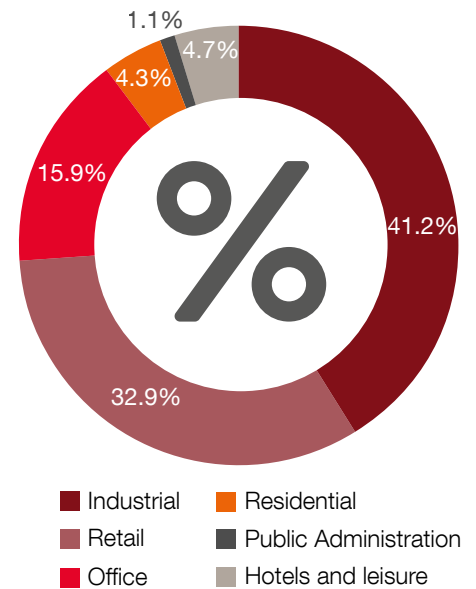
Leasing trends by asset class (% variation 2015 vs. 2014)



Percentage of lease agreements by asset class (value)



Percentage of lease agreements by asset class (number of contracts)



Source: PwC analysis on data provided by OMI – Agenzia delle Entrate



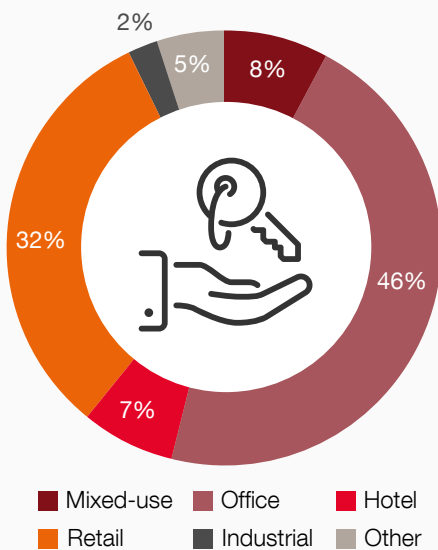


Investment trends in the real estate market

Key data - Q2 2016

Investments in the real estate industry in Q1 2016 reached a level of € 3.4 billion, about 9% less than Q1 2015. Nevertheless, when the Porta Nuova transaction in Milan (accounting for € 900 million) is not taken into consideration, the same result increases to +20% in comparison with the same quarter in 2015. Thus, the Italian market confirms to be utterly attractive for investors and especially for foreign ones. Their main purpose is to identify core products, as for instance the Great Beauty portfolio in Rome and the building located on Via Montenapoleone in Milan.

Investments by sector - Q1 2016

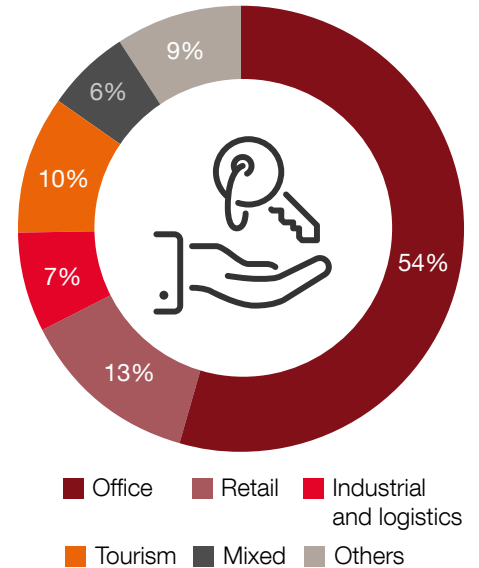


Source: PwC analysis on CBRE data

Italian investments 2016

There is a diverse range of investors active in the Italian investment market with various risk profiles, but all interested in every asset class. Rome and Milan are the two primary markets and alone represent 68% of all transactions. Moreover, thanks to the closing of a small number of consistent deals, the market activity in Rome has already reached half the volumes of 2015 but still remains 45% below the amount invested in Milan.

The returns observed in Q1 2016 generally appear more stable than in Q4 2015. Specifically, a strong interest in offices in prime locations explains the drops of 115 and 100 bps respectively in Milan and Rome in comparison with Q1 2015. Similar decreases are registered for retail properties, with returns 75 bps lower in Q1 2016 than in Q1 2015.



Net yield analysis 2015/2016

	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Office Rome (Prime)	4.00%	4.00%	4.25%	5.00%	5.15%
Office Milan (Prime)	4.00%	4.00%	4.25%	4.75%	5.00%
Office (Secondary)	5.50%	5.50%	5.75%	6.00%	6.25%
High Street (Prime)	3.50%	3.50%	4.00%	4.00%	4.25%
Shopping Center (Prime)	5.00%	5.00%	5.50%	5.50%	5.75%
Prime Logistics (Prime)	6.50%	6.50%	6.50%	7.00%	7.25%

Source: PwC analysis on CBRE data



Investments in Italy 2010-2016 ytd

	2010	2011	2012	2013	2014	2015	2016 ytd
Total investments (€ mln)	4,213	4,383	1,744	5,130	5,221	8,100	3,378
Asset class							
Offices	45%	35%	43%	29%	27%	40%	54%
Retail	37%	55%	27%	44%	45%	18%	13%
Industrial	4%	4%	1%	4%	8%	2%	7%
Tourism	7%	3%	17%	10%	11%	8%	10%
Mixed	3%	1%	4%	12%	0%	6%	6%
Other*	4%	3%	9%	1%	9%	26%	9%
Type of investor							
Italian investors	73%	83%	74%	30%	22%	27%	32%
Foreign investors	27%	17%	26%	70%	78%	73%	68%
Company							
Italian real estate funds	29%	41%	38%	13%	15%	14%	6%
German open-end funds and foreign funds	7%	8%	4%	20%	38%	17%	44%
Real estate listed companies and REITs	15%	9%	1%	10%	10%	19%	18%
Insurance companies and pension funds	9%	2%	2%	8%	6%	4%	1%
Private investors	11%	14%	15%	5%	1%	5%	1%
Corporate	7%	10%	27%	12%	14%	5%	18%
Others*	23%	17%	14%	32%	15%	36%	12%

Offices still remain the strongest class among the asset typologies: they represent 55% of the total transactions, showing a 58% increase compared to 2015. On the contrary, the retail sector has fallen by 23% over the same period, even if the investors' interest in high – street properties is increasing, as demonstrated by some of the latest deals. Hotels and industrial estates (+18% and +122% respectively) are growing fast, but the lack of supply across the country obliges the investors to widen their areas of interest and to concentrate on value added opportunities.

*banks, public administration and sovereign funds included

Source: PwC analysis on data provided by BNP PARIBAS REAL ESTATE



Almost **€ 1.8 billion** has been invested in **Q1 2016**, - 6.7% compared to the same quarter of the previous year.

The investment volume registered during the last quarter is 40% higher than the average of all quarters since 2010.

Even if the domestic component of the capital invested during the last quarter keeps growing, accounting for **€ 455 million** in Q1 2016 and € 255 million more than the same quarter the year before,

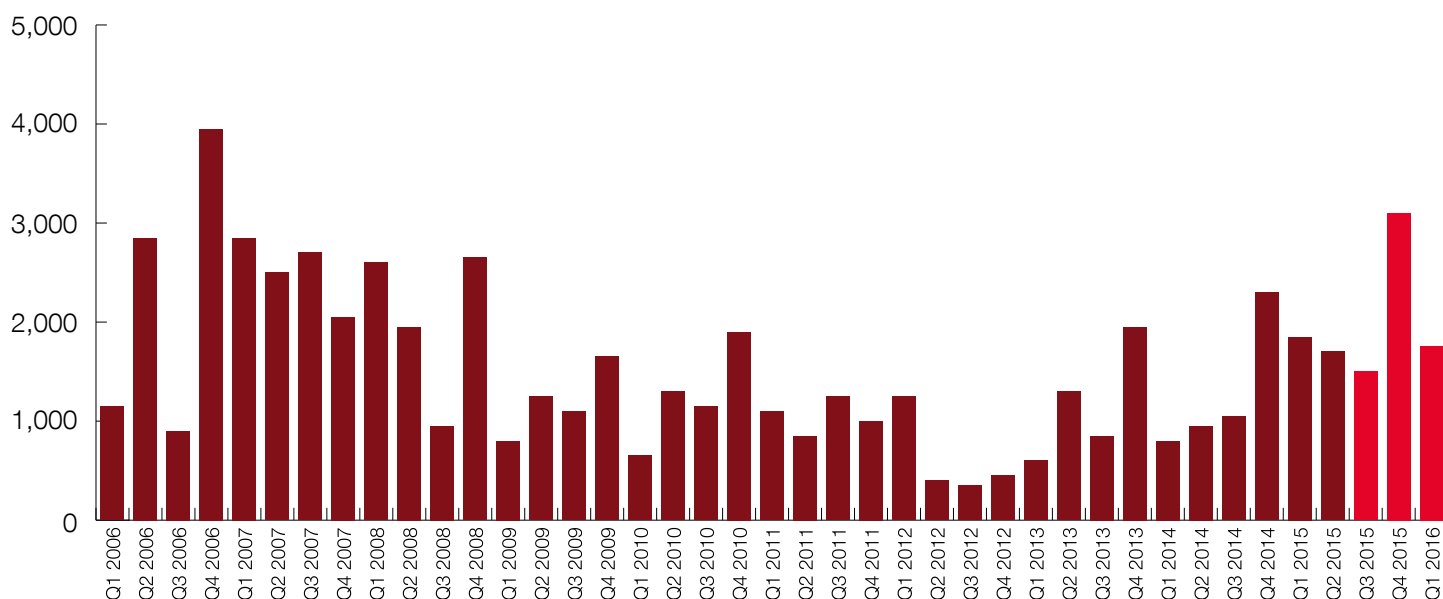
foreign capital is the main source for real estate investments in Italy, accounting for **€ 1.3 billion**.

Investments allocated to retail industry (32% of the volume) are increasing, whereas the office class still results the favourite one (46%); eventually, the mixed investments segment represents just 6% of the whole market.

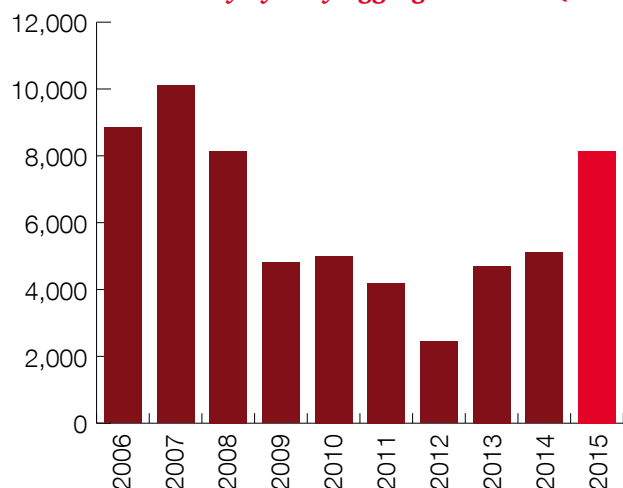
€ 1.3 bln Foreign investments in Italy Q1 2016

131% % of domestic capital on the whole capital invested Q1 2016 vs Q1 2015

Investments in Italy - from 2006 to 2016 (€ mln)



Investments in Italy - yearly aggregated trend (€ mln)

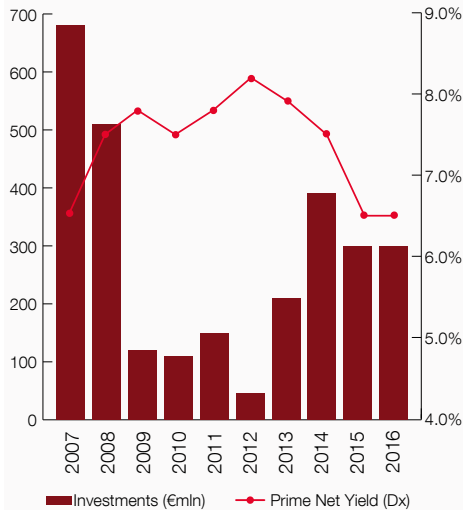


Investments in Italy (€ mln)

	Q1 2015	Q1 2016	Delta Y-o-Y
Rome	120	691	476%
Milan	1,544	654	-58%
Other markets	229	421	84%
Italy	1,893	1,766	-7%
Portfolio Transactions	446	329	-26%
Portfolio share (%) on total	24%	19%	
Foreign Capital	1,691	1,311	-22%
Domestic capital	197	454	131%
Foreign capital share (%) on total	89%	74%	



New stock of shopping centres (GLA > 10,000 sqm) and projects in progress



Projects in progress (GLA > 10,000 mq) by typology – Q2 2016



Retail Industry 2016 – Supply

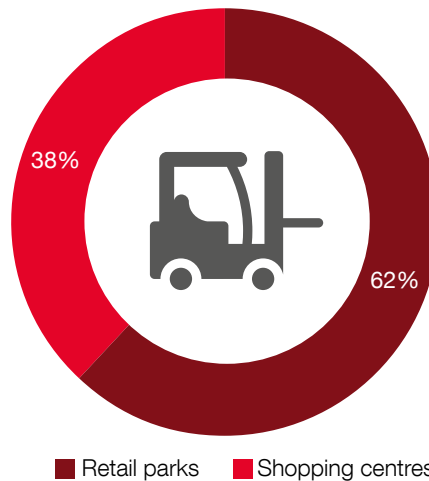
“Il centro”, a newly constructed 90,000 sqm center located in northwest Milan, was concluded and opened to the public in Q2 2016. An additional 387,000 sqm stock of GLA is expected to be delivered within 2016 and, when considering the remaining projects presumably delivered in 2017/2018, the same amount increases to 570,000 sqm. Moreover, the existing shopping centres alone account for 80,000 sqm of GLA.

The demand for retail spaces remains strong, especially after the recent launch of Primark and the upcoming opening of new Japanese restaurants by Wagamama on the Italian market.

The food court and/or the F&B formula represent valid alternatives to supermarkets when it comes to attract new customers and more and more owners are investing increasing amounts of capital to perfect them.

The supply of additional services, such as gym, dental and diagnostic clinics and health centres, is growing with the aim for clients to stay inside the shopping centers longer.

Retail investments by typology - Q2 2016

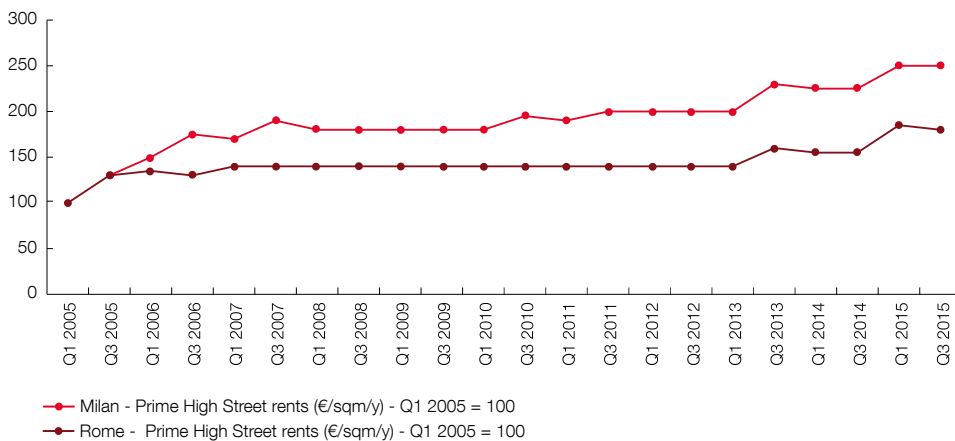




Retail Industry 2016 - Rents

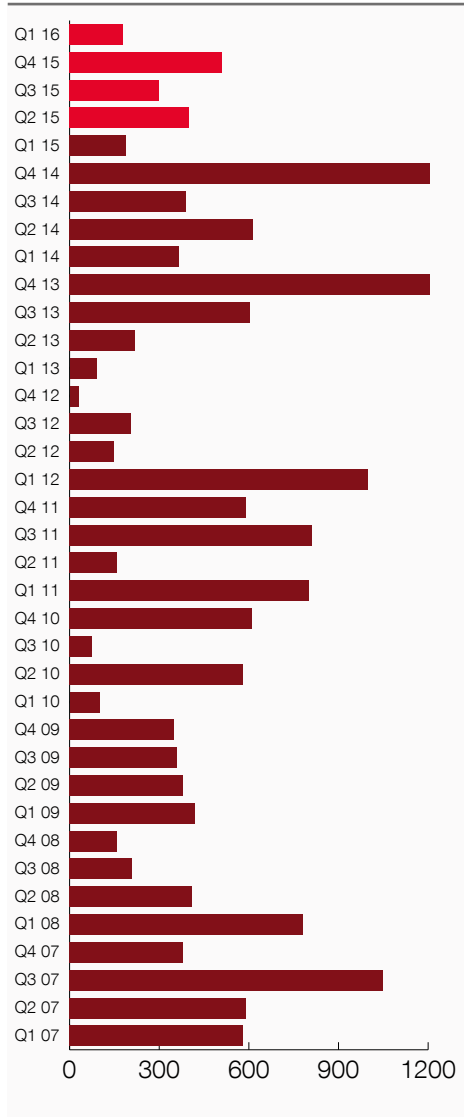
The economic recovery in Italy proceeds moderately and especially pushed by the internal demand. This phase of growth is sustained by improved manufacturing production and a light recovery in construction. A similar result was surely addressed by the positive level of sales registered in Q1 2015, which helped reinforce retailers' trust in the Italian market through the development of new expansion plans across the country.

Over the few next months we are likely to see the differences in pricing widen between prime/super prime assets and good secondary ones. For instance, the **high street segment** still prevails in **Milan**, with **Rome** and other cities such as Turin, Verona, Bologna, Padua, Venice and Florence following. **Prime asset rents** in Milan remain stable at **850 €/sqm/y**; however, the Italian market is currently facing a lack of supply for prime products, which has caused the number of new value added opportunities to reposition existing properties to increase.





Investment trend (€ mln)



Retail sector 2015 – Investments

The invested volumes in retail space in Q2 2016 stabilised at slightly less than € 200 million, a declining trend in comparison with that of the previous quarter. This might be more attributable to slow due diligence processes and negotiations than to weaker investor interest. As a matter of fact, the retail activity has remained quite lively across the quarter, when a set of preliminary deals and initial negotiations have started and could possibly be concluded within the year.

€ 200 mln Investments in Q1 2016

-65% Investments Q1 2016 vs Q4 2015

Retail sector 2016 – Returns

In Q2 2016 the net returns of all retail segments are aligned to those in Q1 2016. The only relevant drop was observed for retail parks, which decreased from 7.75% to 6% in Q2 2016.

Regarding prime and good secondary net returns for shopping centres, they do not show particular variations and remain stable over three quarters, with net returns of 5.00% and 6.00% respectively. Additionally, in line with last year, the most appreciated asset class for core investments is still high street.

The foremost transaction in Q1 2016 is certainly that involving the retail assets of Grandi Stazioni, acquired by Borletti Group (Antin Infrastructures – Icamap – BG Asset Management) for circa € 1 billion. On the other hand, over the entire semester, the invested volumes result 20% higher than 2015, with a total amount of € 700 million.

€ 1.4 bln Total investments in 2015

51% Investments in Shopping Centres in 2015

In addition to Milan and Rome, currently presenting a lack of Real Estate products available for sales, other cities such as Venice, Florence, Padua and Turin are attracting an increasing number of investors.

Retail parks everyday become more attractive as well, for they represent a valid alternative to shopping centres and require minor asset management activities.

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
High Street Prime (%)	3.50	3.50	3.50	4.00	4.00	4.25
High Street Secondary (%)	5.00	5.00	5.00	5.75	5.75	6.50
Shopping Centre Prime (%)	5.00	5.00	5.00	5.50	5.50	5.75
SC Good Secondary (%)	6.00	6.00	6.00	6.50	6.50	7.00
Retail Park Prime (%)	6.00	6.00	6.00	7.00	7.00	7.75

Source: PwC analysis on data provided by CBRE



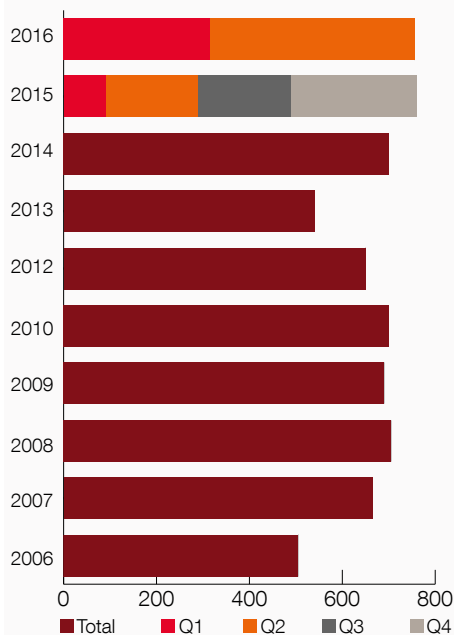
Key data

€ 165 mln
Investments in Q2 2016

6.4%
Prime Net Yield - Q2 2016

416,000 sqm
Take up - Q2 2016

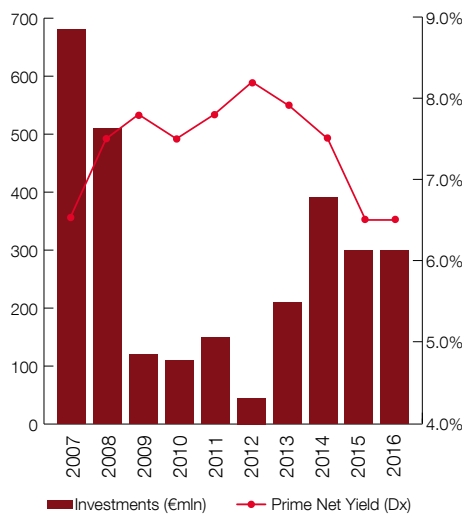
Take up trend (sqm)



Industrial and logistic sector – 2016

In Q2 2016, the amount of industrial and logistics investments reached € 165 million, a definitely higher level than the one of the previous quarter. This brought the semestral investments to circa € 200 million, in line with the same period last year. Prologis keeps investing in Lazio, having concluded the acquisition of two cross-dock properties from SiDi Srl; even Blackstone demonstrates to be quite active on the market by acquiring the logistic park in Rolo from Standard Life. Moreover, the French fund Corum invested in a light industrial warehouse of 45,000 sqm in Monselice and engaged in a preliminary agreement to purchase the Km Rosso, the Brembo headquarters (scientific – technologic park). Finally, AXA REIM and CBREGI concluded 2 acquisitions for a total value of € 50 million.

The **take up** of logistics spaces in Italy in **Q2 2016** consists of **416,000 sqm** and continues to increase sharply compared to the previous quarter.



In Q2 2016, **Lombardia remains the favourite area to invest in with circa 37% of total take up**. North eastern Italy and Veneto follow right after, with 30% of take up resulting from the rental of more than 50,000 sqm near Verona and other 45,000 sqm circa for the logistics park in Monselice. Speculative developments are scarce, with an increasing number of pre-let agreements in the first quarter of the years, accounting for one fourth of the registered contracts of the period.

Rents are generally stable but expected to grow over the next months as a result of an increasing demand as well as a decreasing supply, especially in Milan prime areas. **Prime rents** are stable both in **Milan (50 €/sqm/y)** and in **Rome (52 €/sqm/y)**.

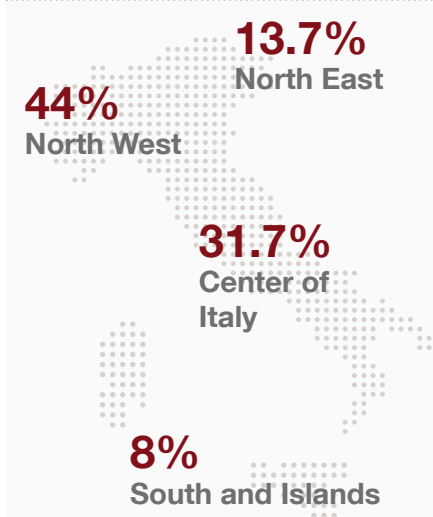
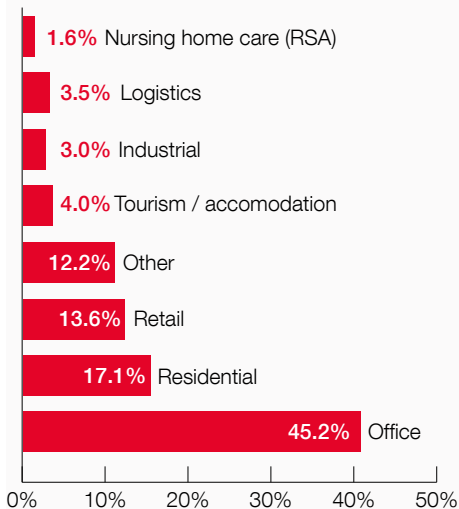
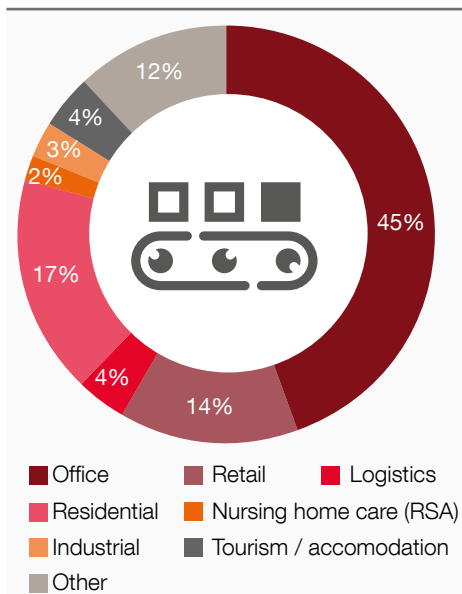
	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Vacancy Rate (%)	6	6.3	6.3	6.3	6.3	6.5
Take up (,000 sqm)	416	334	201	201	204	82
Prime rent Milano (€/sqm/y)	50	50	50	50	50	48
Secondary rent Italy (€/sqm/y)	40	40	40	40	40	40
Prime rent Rome (€/sqm/y)	52	52	52	52	52	52
Prime Net Yield (%)	6.4	6.5	6.5	6.5	7	7.25
Logistic Investments (€ mln)	165	30	110	103	-	87

Source: PwC analysis on data provided by CBRE



Real estate funds

Asset composition half. 2 2015



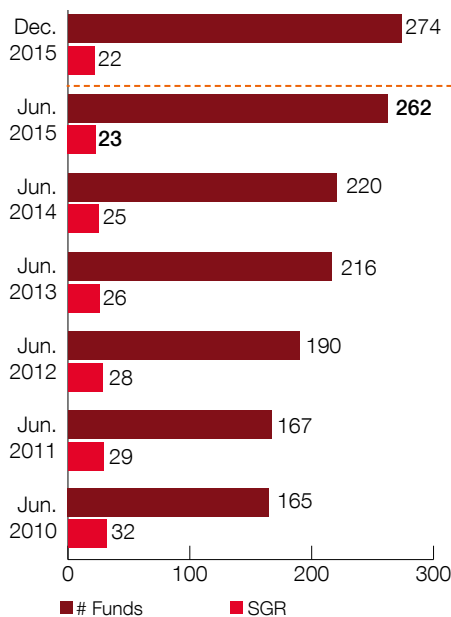
Real estate funds

Real estate funds in Italy represent about 3% of the Italian asset management market.

The 274 funds examined by Assogestioni register **activities of € 46,284 million** as at december 2015 and **assets** amounting to **€ 32,494**.

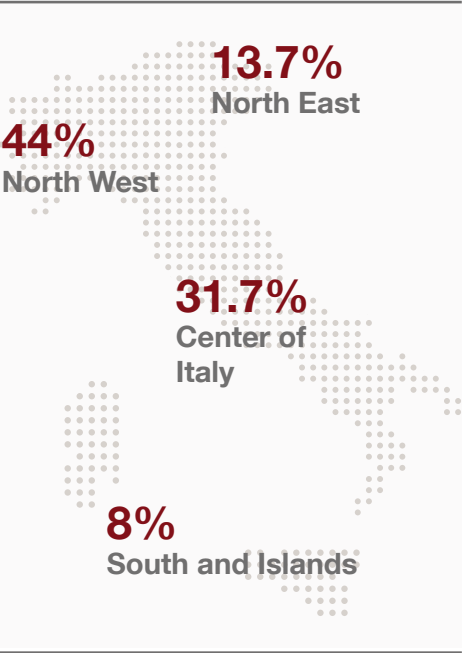
44% of the assets are located North West Italy, followed by 32% in the Center; North East Italy, Southern Italy with the islands and the assets located abroad follow respectively accounting for 14%, 8% and 2%.

Office is the most common among the asset classes, constituing 45% of the entire asset stock, followed with a large gap by residence (17%) and retail (12%).



SGR	# of Funds
Idea Fimit sgr	37
Investire	34
Generali Real Estate	30
BNP Paribas Real Estate	29
Coima	15
Fabrica Immobiliare	14
Prelios sgr	14
Sorgente Italia sgr	14
Polis Fondi Immobiliari	13
Castello sgr	10

Source: PwC analysis on data provided by Monitorimmobiliare



Geographic Areas	Jun-14		Dec-14		Jun-15		Jun-15	
	Mln €	%	Mln €	%	Mln €	%	Mln €	%
North West	4,305	11.2%	4,644	10.9%	5,300	12.4%	4,861	13.7%
North East	17,048	44.3%	18,741	44.1%	18,872	44.0%	15,578	44.0%
Center	12,814	33.3%	14,591	34.3%	14,497	33.8%	11,224	31.7%
South and Islands	3,186	8.3%	3,318	7.8%	3,226	7.5%	2,834	8.0%
Abroad	1,092	2.8%	1,217	2.9%	1,017	2.4%	872	2.5%

Asset Class	Jun-14		Dec-14		Jun-15		Jun-15	
	Mln €	%	Mln €	%	Mln €	%	Mln €	%
Office	20,061	52.2%	20,976	49.3%	20,946	48.8%	15,979	45.2%
Retail	5,088	13.2%	5,464	12.9%	5,586	13.0%	4,809	13.6%
Logistics	1,142	3.0%	1,200	2.8%	1,231	2.9%	1,246	3.5%
Residential	3,834	10.0%	5,642	13.3%	5,757	13.4%	6,032	17.1%
Nursing home care (RSA)	530	1.4%	534	1.3%	647	1.5%	554	1.6%
Industrial	1,005	2.6%	1,309	3.1%	1,466	3.4%	1,046	3.0%
Tourism accomodation	2,011	5.2%	1,725	4.1%	1,850	4.3%	1,406	4.0%
Other	4,775	12.4%	5,660	13.3%	5,428	12.6%	4,298	12.2%
Total	38,446		42,510		42,911		35,370	

Source: PwC analysis on data provided by Assogestioni





Milano *02*





Residential market

NTN data 2015

18,935
NTN 2015

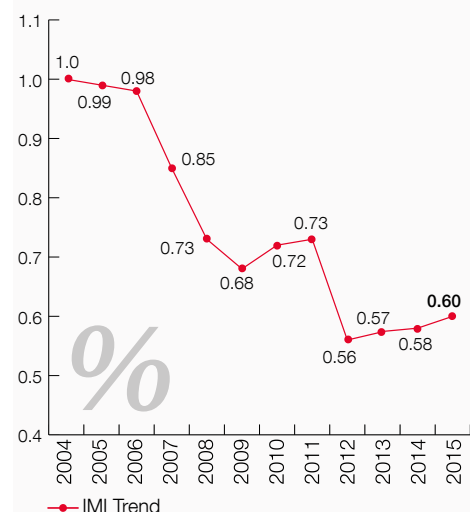
+23.5%
NTN 2015 vs NTN 2012

19,622
Average NTN 2004 - 2015

+13.43%
NTN 2015 vs 2014

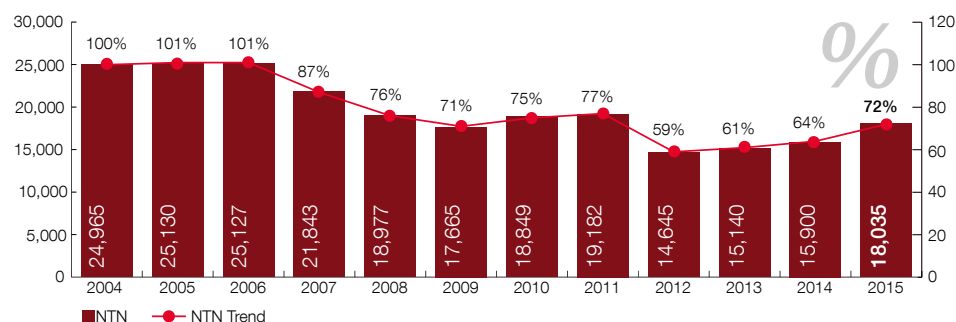
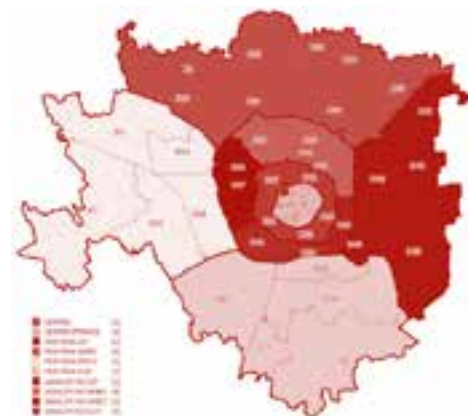
6,150
NTN Q2 2016

IMI - 2004/2015

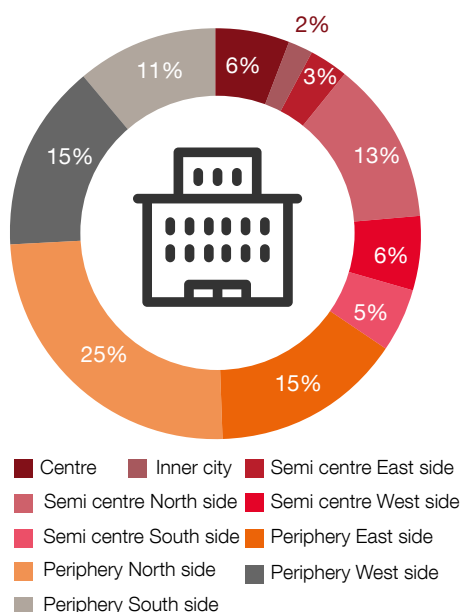


Trend of transactions (NTN) - 2004 - 2015

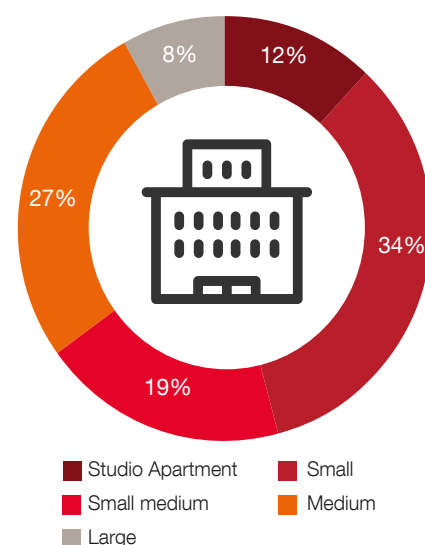
Over the period 2004 – 2015, the historical of NTN (Number of Normalized Transactions) trend of residences in **Milan** recorded an average value of **19,622 transactions**; the trend has been characterised by a general recovery over the last three years, with a growth rate of **23.15%** in 2015 compared to 2012.



NTN 2015 by geographic region



NTN 2015 by dimensional class



Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)



NTN data 2015

794,493

Real Estate stock Milan
2015

35,582

NTN 2015 – Province of
Milan

+10.7%

Province of Milan NTN 2015
vs 2014

10%

NTN Province of Milan
Direttrice Est

31%

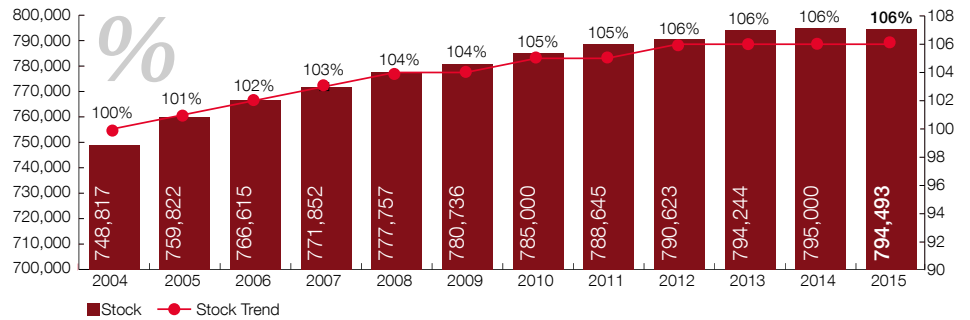
Stock Milan 2015 - small
estates



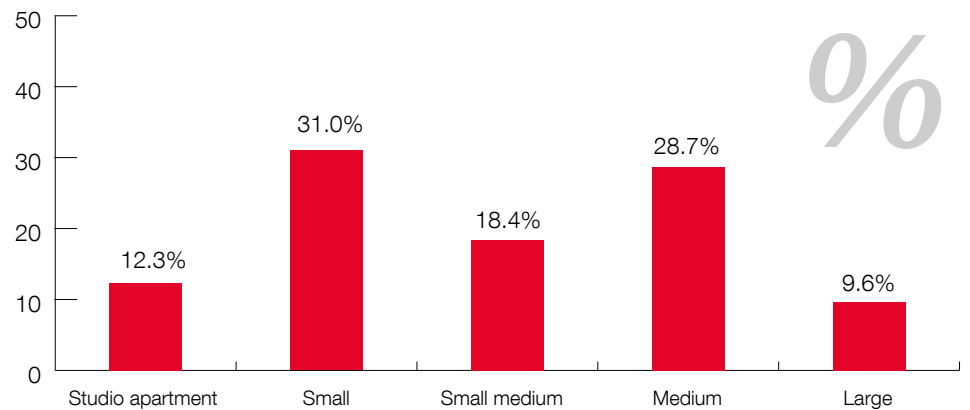
Real estate stock – 2004/2015

The Real estate stock in Milan has grown on average by 0.54% per year over the period 2004-2015.

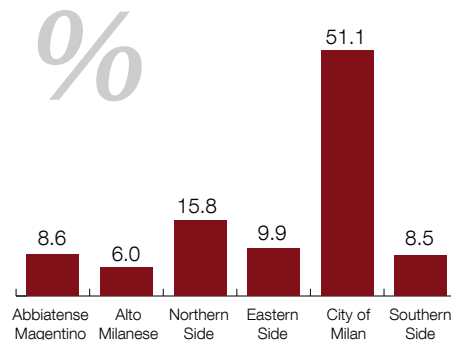
Also, the IMI (Indice di Intensità del Mercato Immobiliare) is 2.27%, which entails a slightly negative trend in 2015 compared to 2014.



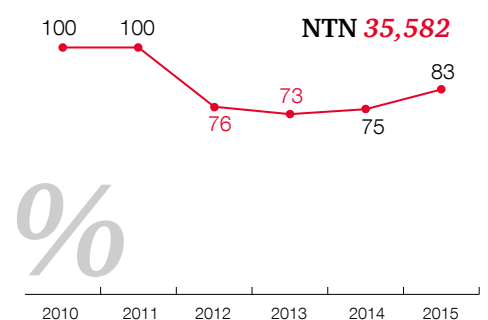
Stock 2015 by dimensional class



NTN 2015 - by geographic region Province of Milan



Transaction trend (NTN) 2010/2015 Province of Milan



Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)



Investment trends in the real estate market

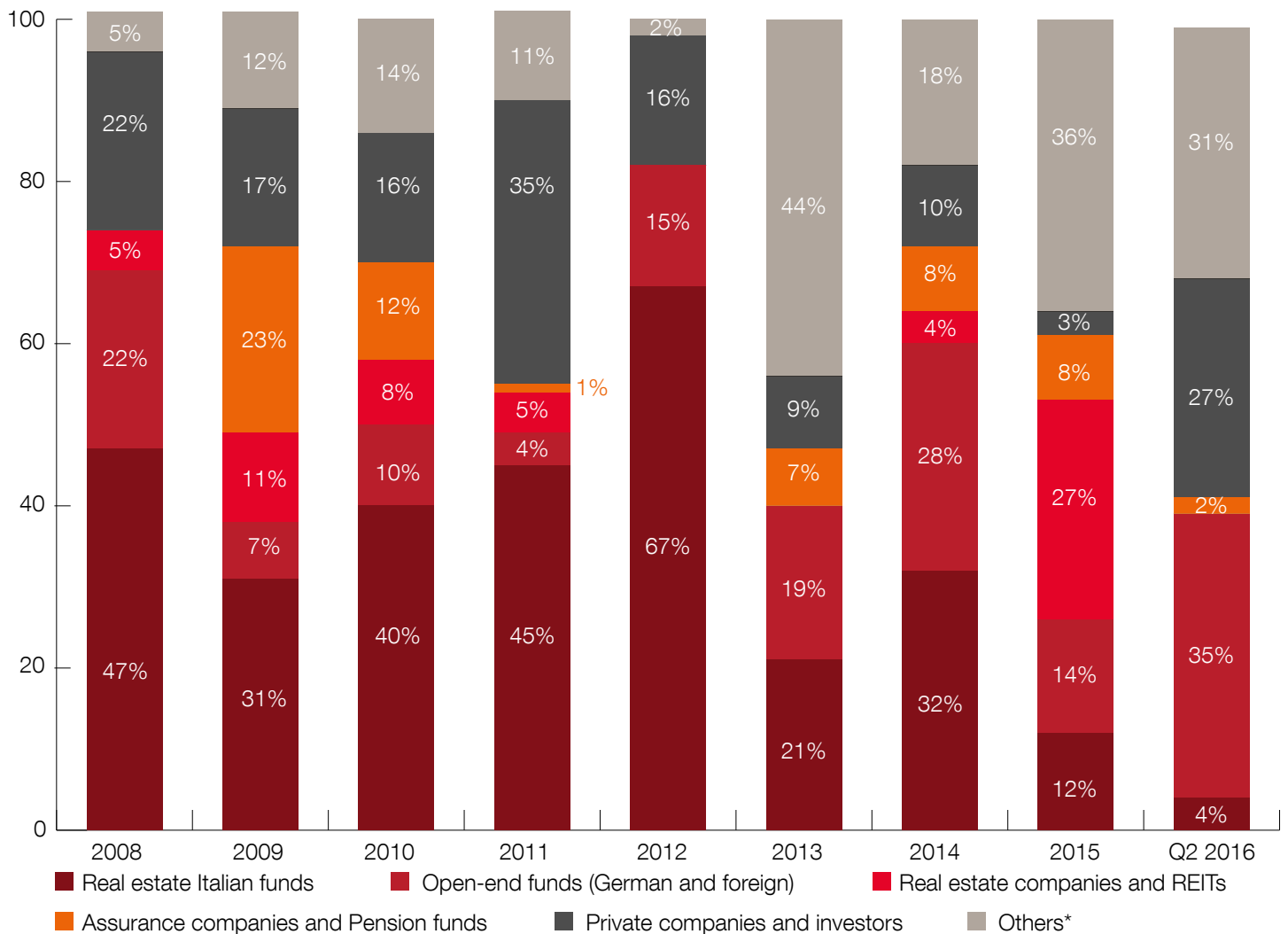
Investment trends

The market of investments in Milan remains lively, with transaction accounting for € 1.596 billion in 2016, even if diminishing by 28% in comparison with 2015. However, when the 900 million transaction of Porta Nuova is not considered, the investment market out performs the results of 2015 by 21%.

The most relevant investors are **open-end German funds, international property companies and sovereign funds**. Offices account for **78% of transactions**. The foremost deal for this sector was closed by AXA, having acquired the estate in Via Monte Rosa 91 for € 220 million.

For what concerns the retail sector, the only relevant transaction was Via Montenapoleone 15, acquired by Max Mara Group for circa € 15 million; this is the result of an increasing interest for high-street retail properties expressed by national and international investors.

Institutional real estate investments by investor class

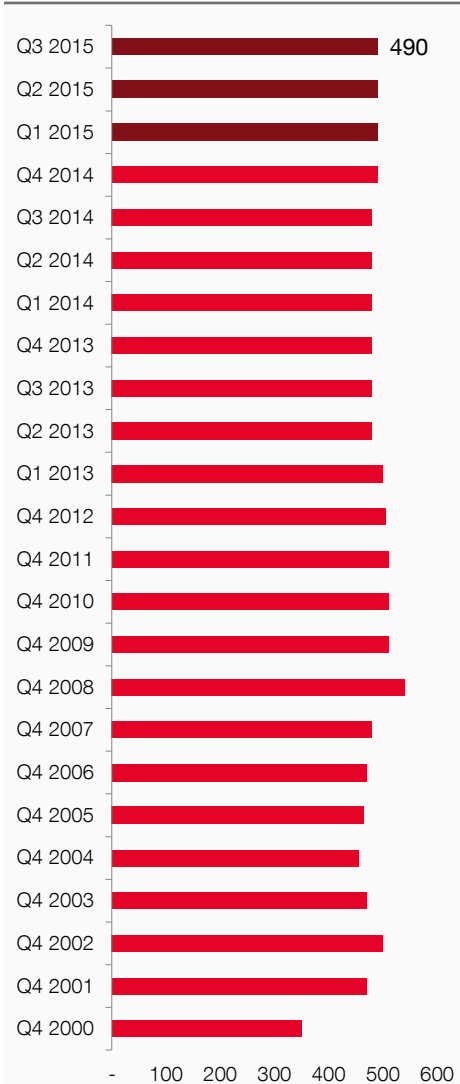


*Others: Banks, public sector and sovereign funds
Source: PwC analysis on data provided by BNP PARIBAS REAL ESTATE



Office market

Trend of prime rents (€/sqm/y)

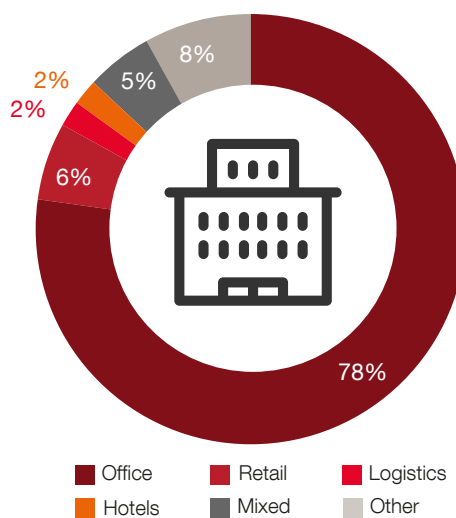


Source: PwC analysis on data provided by CBRE

Offices: Overview

After a very lively year, the office market take up in Milan recorded a less dynamic first quarter. However, the potential demand remains robust. During the second quarter, in fact, some large transactions have pushed the take up volume up to 100,000 sqm, for a total amount of 151,000 square meters in the first half, 18% higher than the same period in 2015.

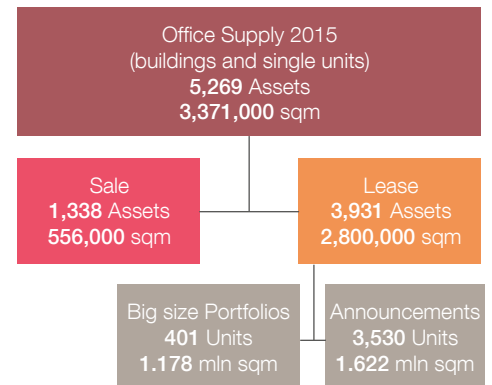
With regard to investments, instead, with transaction volumes of € 1.596 billion from the beginning of 2016, the real estate market in Milan appears very lively in spite of a 28% drop with respect to the same period of 2015. Offices account for 78% of transactions. The most significant transaction was the purchase of the property at Via Monte Rosa 91 for about € 220 million by AXA. In the retail segment, the only recorded transaction involved the building at Via Monte Napoleone 15 for about € 120 million by Max Mara Group.



Source: PwC analysis on data provided by BNP PARIBAS REAL ESTATE

Offices: Supply (1/3)

The office supply in 2015 in Milan accounts for nearly 3.4 million square meters distributed over 5,269 properties, both entire buildings and individual units.



The relevancy of **properties** available for **lease** is preponderant: **3,931 residential units** for a total amount of **2.8 million sqm**. Overall, the lease supply amounts to 30.7% of the entire surface equal to a **9.7%** share of the entire **stock** in terms of units.

The properties offered for sale account for 6.1% of the estimated surface for office use and 3.2% of surveyed real estate units in stock for office use. It is relevant to underline that the trading market is still more focused on medium and small-medium surfaces, which measure on average about 415 sqm.

Source: PwC analysis on data provided by Cresme Ricerche S.p.A.



Key data

15.8%

Surface supply 2015 vs 2014

7.8%

Number of units supplied on the market 2015 vs 2014

10.6%

Surface supply for rent 2015 vs 2014

30.7%

Surface supply for rent vs Office stock in Milan

31%

Vacancy rate 2015

Offices: Supply (1/3)

On average, the rental market provides larger surfaces, measuring about 716 sqm.

The comparison between last year data and those in 2015 shows an increase in **total supplied surface** in the city of Milan (sale and lease) equal to **+15.8%**; instead, the number of **real estate units supplied** on the market increases by **+7.8%**.

The **rent supply**, as mentioned, is equivalent to 3,931 units (74.6% of the total available office buildings) equal to 2.8 million sqm (83.5% of the available surface on the market); the increase of the **surface supply** between 2014 and 2015 is **10.6%** while the **number of real estate units** increased by **6.0%**. The sale supply, which is equivalent to 1,338 real estate units (25.4% of the total available office buildings) totals 0.6 million sqm (16.5% of the available surface on the market); the increase of supplied surface between 2014 and 2015 is **+ 52.0%** while the number of real estate units increased by **13.4%**.

As seen before, the office supply available for rent in the city of Milan is 2.8 million sqm over 3,931 real estate units. As estimated on data from **Agenzia delle Entrate - Catasto**, the **stock of offices in the city of Milan is 42,067 units over 9.2 million sqm**. Therefore, according to this information, the **total supply for rent**, in terms of surface, is equal to **30.7% of the entire stock**.

Considering a vacancy rate which currently stands at **31%**, a number of new projects are expected to be delivered on the market in the short term since they already have the planning permission in place from 2011 - 2014. Finally, in the upcoming years Milan will be hosting **new offices distributed over one million sqm**.

Actual and potential supply - Milan**Actual**

Announcements - Lease
1.766 mln sqm

Big size Portfolios - Lease
1.049 mln sqm

Announcements - Sale
0.494 mln sqm

Big size Portfolios - Sale
0.061 mln sqm

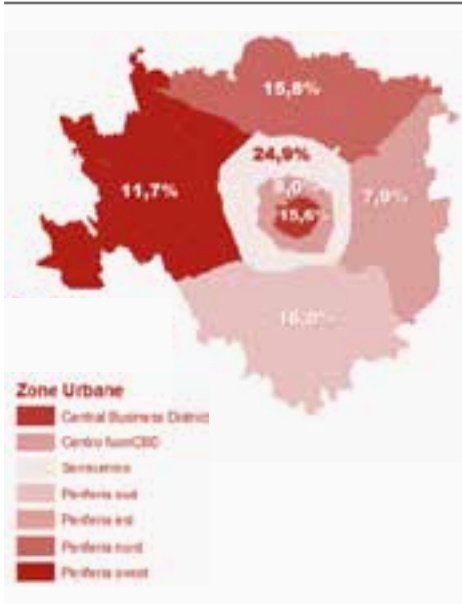
Potential

Building permits 2011 – 2014
New construction and requalification
0.304 mln sqm
of which
0.179 sqm out of P.A.
0.125 sqm out of P.A.

Further potential supply
Other assets not available Big size Portfolios
0.977 mln sqm
of which
0.143 mln sqm already choosen (15%)



Surface supply for rent



30.7%

Surface supply for rent vs
Office stock in Milan

31%

Vacancy rate 2015

Offices: Supply (1/3)

For **new construction surfaces** there is a vacancy rate of **17.5%** which is about 132,000 sqm not yet placed on the market as at June 2015. It is worth noting that a new construction process includes the complete demolition and reconstruction of existing estates as well as the new construction of completely free areas.

Vacancy rate – new projects

New construction office surfaces
2008 – 2015
756,554 sqm

Not leased at June 2015
132,224 sqm
17.5%

The **available surfaces for lease** in the Milan area in 2015 present strong concentrations in the semi-central area (700,000 sqm equal to **24.9%** of the total supply in Milan), in the northern and southern suburbs (respectively about 445,000 sqm and 450,000 sqm, about 16% of the supply) and in the CBD (Central Business District) that stands out in spite of its contained surface in the urban sector (440 thousands sqm equal to 15.6% of the total).

The recent period shows a more rapid take up of new construction surfaces than that of existing properties, which are probably less likely to meet the buyers' requirements and, therefore, to satisfy the demand. In fact, having repeated the analysis over the period **2013 – 2015**, it is found that only **38,000 sqm out of 171,000 sqm of newly constructed offices were still available in June 2015, accounting for circa 22.3%.**

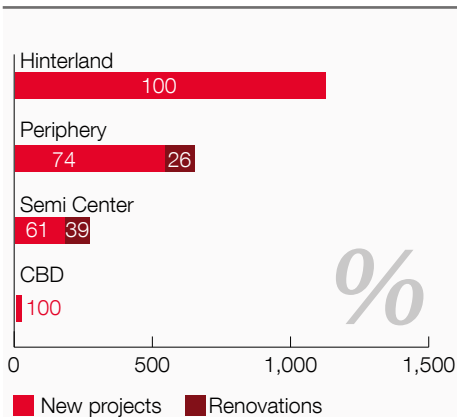
New construction office surfaces
2013 – 2015
171,059 sqm

Not leased at June 2015
38,156 sqm
22.3%

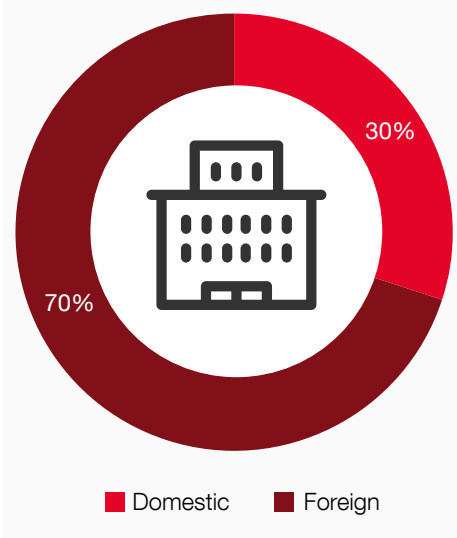
In comparison with the survey conducted in **2014** there is an overall increase in the available surface for rent of 10.6%, with the highest increases in the eastern suburb (+21.3%) and in the Central Business District (+15.9%). Significant increases are also recorded in the western suburb (+12.3%), in the southern suburb (+9.9%) and in the northern suburb (+9.1%). Only in the semi-centre and in the centre outside the CBD smaller increases are seen. The table in the next page represents the total surface for rent in the municipality of Milan distinguished by area.



New projects and refurbishments by area ('000 sqm)



New projects



Zone	Surface 2015 (sqm)	Delta % surface 2015vs2014
CBD	440,422	15.9
Centre outside the CBD	225,047	5.7
Semi centre	700,246	7.6
Periphery North side	444,924	9.1
Periphery East side	223,120	21.3
Periphery South side	449,690	9.9
Periphery West side	328,942	12.3
Not identified	3,335	-62.9
Total Milan	2,815,726	10.6

Offices: Supply (2/3)

In the upcoming years the urban features of the city of Milan will be affected by a large number of projects. In recent years, companies, in order to have modern spaces and to maximize their uses, have started to transfer their offices to outlying areas of the city, in order to obtain substantial economic savings. **Including renovations and new projects, 2,390,000 sqm are currently under construction or still in planning in Milan.**

In a context where companies are more and more decentralizing, the **central area (CBD) records only six renovation projects for a total of 24,000 sqm.** The CBD has no projects involving new constructions because it is characterized by historic buildings often under preservation as well as lack of building spaces.

Looking at the **new projects** for office use, there is the possibility to develop **2,031,000 sqm** in the upcoming years, divided as follows: **9%** in Mid-Centre, **30%** in Periphery and the largest share, **61%**, in the **Hinterland of Milan.** In fact, the Hinterland has significant advantages in terms of rent and it offers the possibility to create new developments for companies deciding to move in less central, but still attractive, structures.

Within the **Semi Center**, the North Western side is the area where we can find a high number of major development projects; among them, stands out the *City Life* project, consisting of the redevelopment of the Fiera Campionaria of Milan.

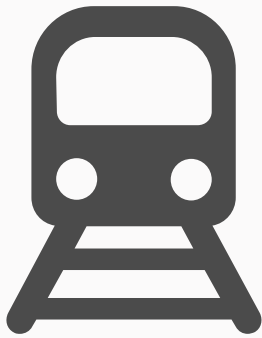
During 2015, the *Hisozaki Tower* was concluded, which Allianz Italy as the tenant; the works for the *Hadid Tower*, future headquarters of Generali, started right after. Finally, in 2017, the 30,000 sqm of the *Libeskind Tower* are expected to be delivered on the market, which have yet to be rented.

In the Semi Center it is also worth mentioning the redevelopment project of *Porta Volta* that covers an area of about 9,000 sqm and includes the construction of the new headquarters of the *Giorgio Armani Foundation* between Viale Montello and Porta Volta.



The Subway

The closeness to public transport has always been key in assessing the value of an estate.



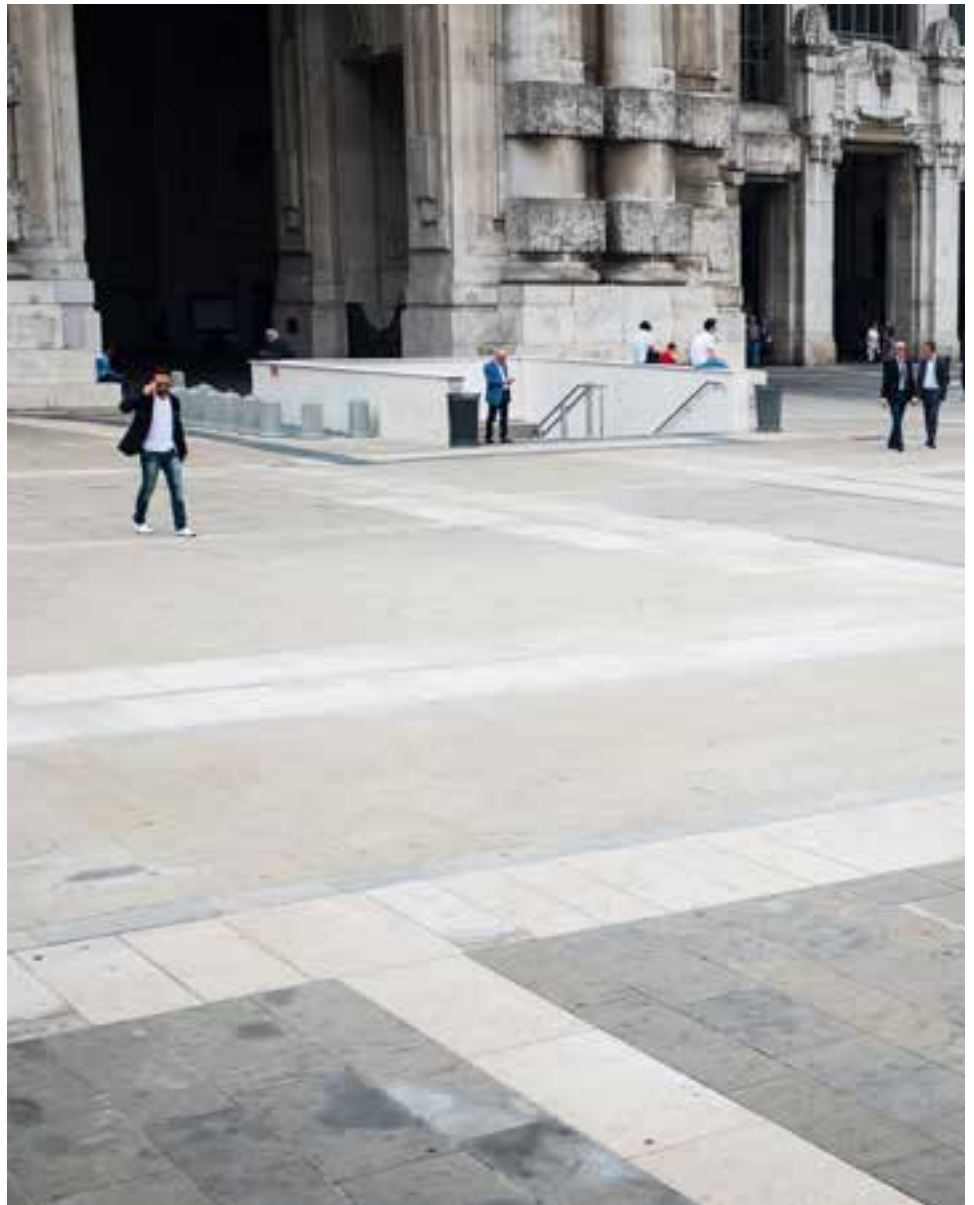
Both accomplished and in progress works are redrawing the mobility of Milan and strengthening the existing network. The Line M5 connects CityLife with Porta Garibaldi FS, while the Line M4, still to be completed, is going to become strategic to connect Linate airport and the city centre. Finally, the Line M1 has to be further developed northbound towards Monza from Sesto 1° Maggio FS.

Offices: Supply (2/3)

As regards the **Periphery**, the most dynamic area is represented by South East Milan, where a number of development projects, such as the Symbiosis-Ortles mixed-use development (prevalently offices) is still under construction.

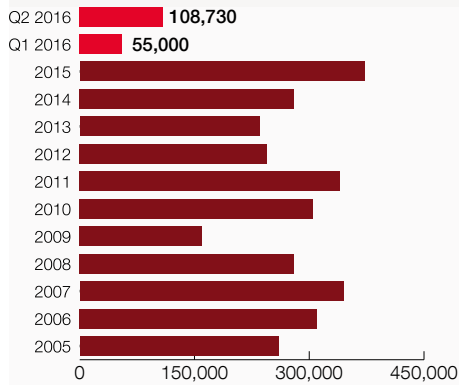
In North East Milan, the EverEst-Giardini di Lambrate project remains the most noteworthy and aims at redeveloping the old headquarters of Laminati-Colombo.

Finally, with regard to the **Hinterland**, the great majority of real estate projects will be developed North East Milan, with expected volumes of 843,000 sqm of offices. The Ex-Falk area will be host to circa 150,000 sqm, mainly devoted to offices; the project is expected to be delivered by December 2020.





Take up trend (sqm)



108,730 sqm

Surface for rent in Milan – Q2 2016

290,000 sqm

Surface under development – June 2016

Office market: Supply (3/3)

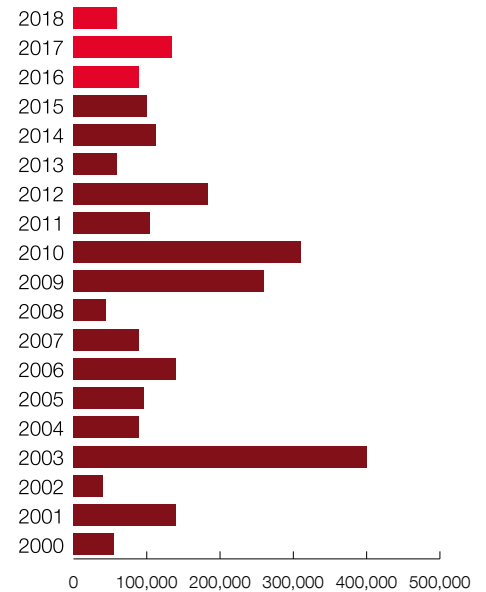
Development activities on the rise and account for circa **290,000 sqm** as at June 2016, with 54% concerning speculative projects that should be delivered between the end of 2016 and 2018. The most dynamic development areas are those from CityLife, in particular the *Torre Libeskind* and *Porta Nuova BD*, where the construction of a skyscraper for an important insurance company is expected, thus completing the skyline of the city.

The take-up in Q2 2016 is equal to **108,730 sqm**, which is **96%** more than the value of the previous quarter in 2016 and **94%** more than the same quarter of the year before.

During the first half of the year, the office market in Milan showed positive results: the take up was 28% higher than the same period of the previous year and 24% higher than the average over the last 10 years.

The main features driving the tenants' choices during Q2 2016 are the quality of real estate properties, the implementation of *smart working* policies and the research of the best locations; the quarter has been also featured by big rental agreements signed with primary IT, industrial and financial tenants.

Projects under development and already complete (sqm)



Source: PwC analysis on data provided by CBRE



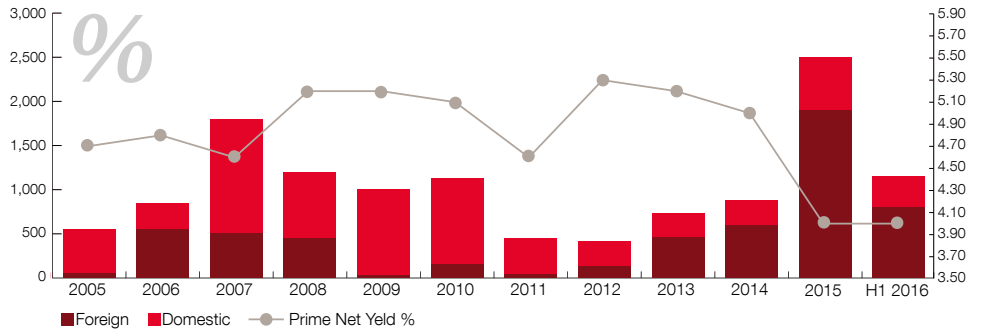
Key data - Q2 2016

During Q2 2016, investment volumes within the office segment in Milan have been equal to **€ 683 million**, more than 56% of the volumes registered in the same quarter of the year before. During the first half of the year, total investments accounted for circa **€ 1.1 billion**, which is in line with the positive trend started during 2015 and even higher than the H1 10 year average (equal to **€ 520 million**).

Foreign capital is currently dominating the market and represents **70% of the whole investment volume** during Q2 2016. The **domestic investment capital share** is equal to **30%** and is growing, particularly due to a recent acquisition by a new Italian SIIQ.

Due to the rising interest of the core investors, the competition for prime properties is growing and, as a consequence, the investment rate for the prime segment is low (4% net yield). Vice versa, the expected return for good secondary offices is growing, amounting to 5.75% (net value).

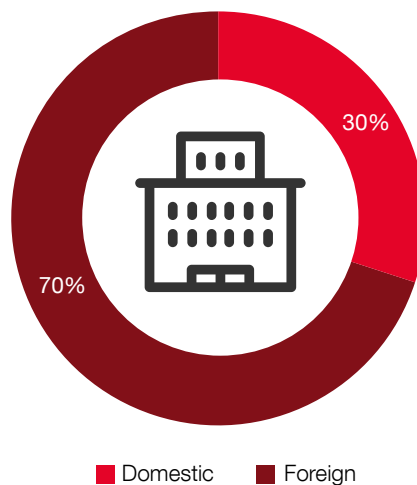
Office market: Investments trend (€ mln)



Key data

	Q2 2016	H1 2016	H1 2015	Var. H1 2016 vs H1 2015
Vacancy rate (%)	12	12	14	-14%
Take - up (.000 sqm)	109	164	128	28%
New stock (.000 sqm)	6.8	6.8	18.3	-63%
Prime rent (€/sqm/y)	490	490	490	0%
Weighted Average Rent (€/sqm/y)	235	240	257	-7%
Prime net yield (%)	4.00	4.00	4.75	-16%
Secondary net yield (%)	5.75	5.75	6.00	-4%
Office investments (€ mln)	683	1,100	878	25%

Buyers Q2 2016 (%)



Source: PwC analysis on data provided by CBRE



Key data

314 €/sqm
Average Prime Rent Q2 2016

+12%
Rental growth in Milan City Centre Q2 2016 vs Q2 2015

5.50%
Average prime net yield Q2 2016

Office market: Overview

During Q2 2016, the office market in Milan continued to follow a positive trend, doubling the volume in the first quarter of the year; the total take up for the first semester was 30% higher than H1 2015. The most active submarkets were the Peripheral areas and the CBD, which recorded the largest transactions, all of them for Grade A spaces.

The quality of spaces continues to be the key to drive demand, while the pipeline is strengthening; however, Grade A availability remains limited due to the lack of projects expected to be delivered by the end of the year. The high demand for the few prime products available on the market is creating competition between tenants, bringing a decrease in offered incentives.

Office market: Yields

Considering the market rents, prime net yields have lightlys decreased; the prime Yield in the centre of Milan is about 4.25% and rises to 6.50% in the periphery.

Milan	Prime Office Yields %		
	Q2 2016	Q1 2016	Iug-05
CBD	4.25%	4.25%	4.75%
Center	5.00%	5.00%	n/a
Semi center	5.75%	6.00%	6.50%
Periphery	6.00%	6.25%	7.00%
Hinterland	6.50%	6.50%	n/a
AVERAGE	5.50%		

Office market: Rents

From the analysis of rental agreements emerges that the average prime rent for Q2 2016 is 314 €/sqm/y, which is aligned to the value registered during the same period of the year before, whereas the average market rent for semi-central Milan increased by +12%.

Prime rents in the future at full capacity are likely to suffer a reduction due to additional potential incentives such as free rents, step-ups etc.; nevertheless, for what concerns high standing offices, a reduction of the incentives is expected.

Milan	Rent €/sm1/y	Growth %	
	Average Rent	1 year	5 years (CAGR)
CBD	490	1%	0%
Center	380	0%	n/a
Semi center	280	12%	0.4%
Periphery	220	0%	0.9%
Hinterland	200	0%	n/a
AVERAGE	314		

Source: PwC Analysis on data provided by Cushman & Wakefield







Rome *03*





Residential market

NTN data 2015

8,250
NTN Q2 2016

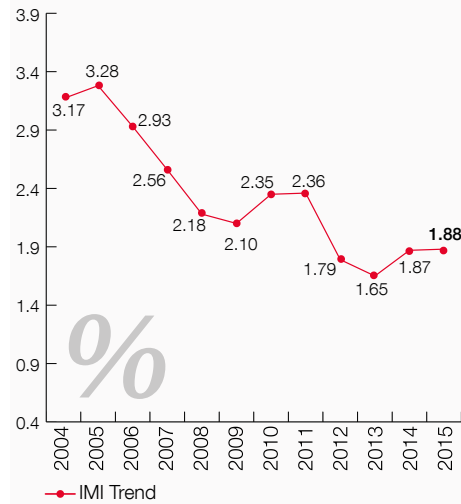
27,356
NTN 2015

+0.9%
NTN 2015 vs NTN 2014

13,168
NTN Q1 2015

- 2.90% NTN Q1 2015 vs
NTN Q1 2014

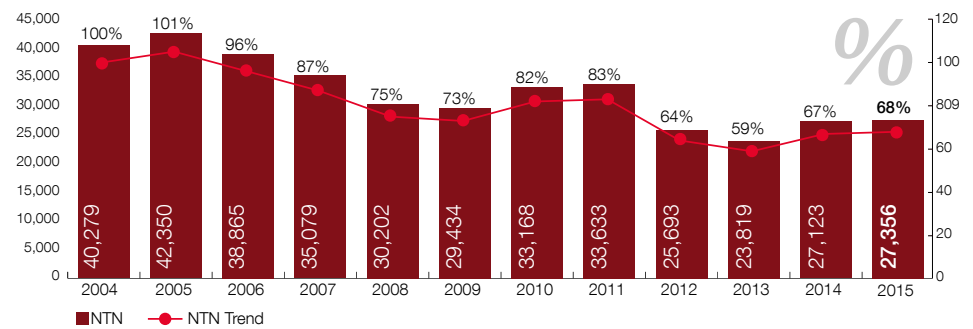
IMI – 2004/2015



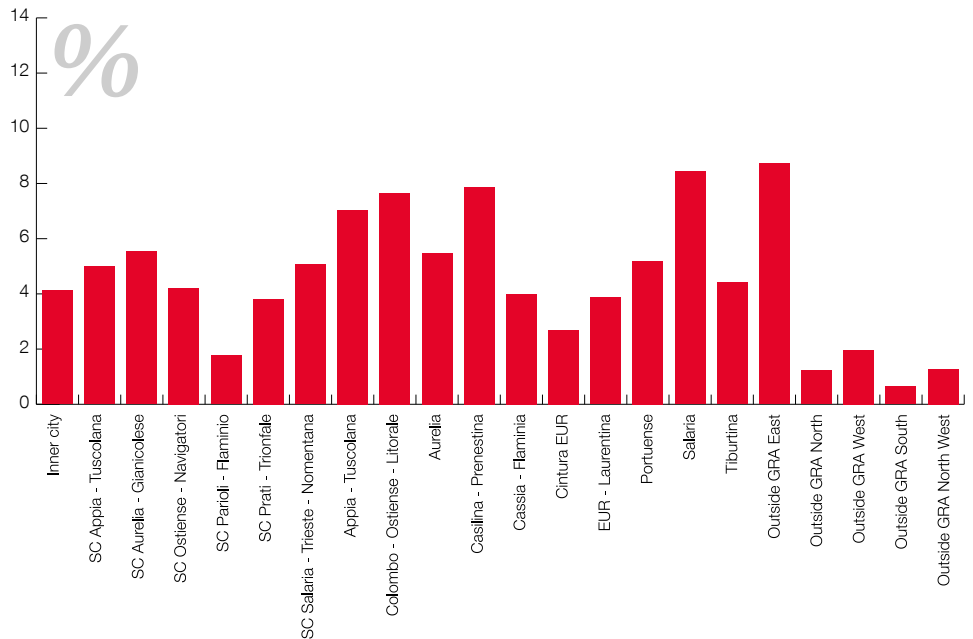
Trend of transactions (NTN) - 2004 - 2015

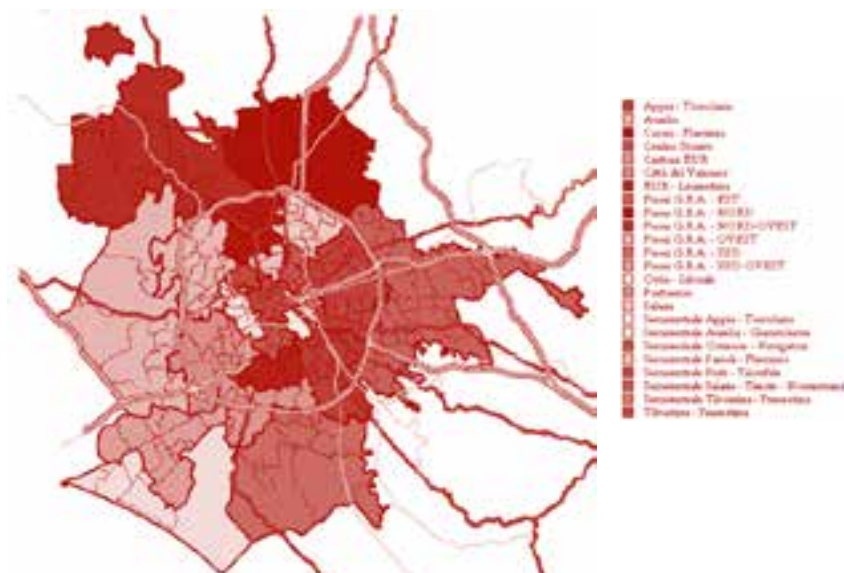
Over the period 2004 – 2015, the historical NTN (Number of Normalized Transactions) trend of residences in **Rome** recorded an average value of **32,250 transactions**.

As reported in the chart, the lowest result was in 2013, followed by a general recover over the last two years with a growth rate of 14.85% in 2015 from 2013.

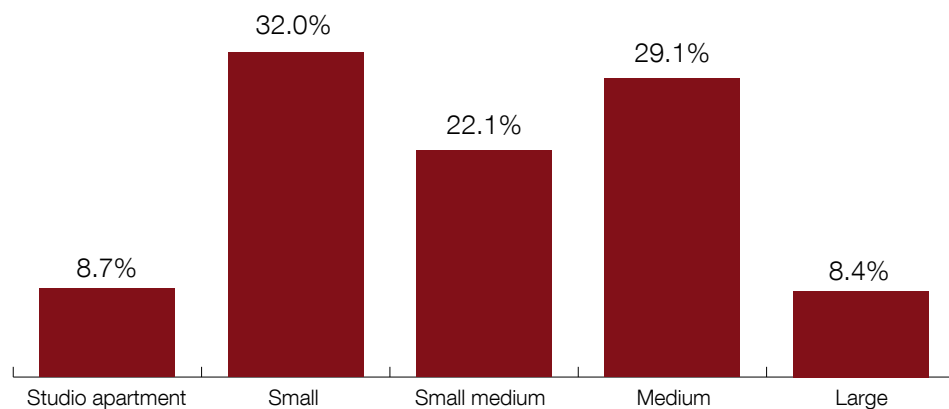


NTN 2015 by geographic region





NTN 2015 by dimensional class



Dimensional classes: Studio apartment: up to 45 sqm (2.5 cadastral units); Small: between 45 and 60 sqm (2.5 - 4 cadastral units); Small – medium: between 60 and 90 sqm (4 – 5.5 cadastral units); Medium: between 90 and 120 sqm (5.5 - 7 cadastral units); Large: 120 sqm and above (more than 7 cadastral units).

Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)



NTN data 2015

1,452,287
Stock in Rome - 2015

39,083
NTN 2015 -
Province of Rome

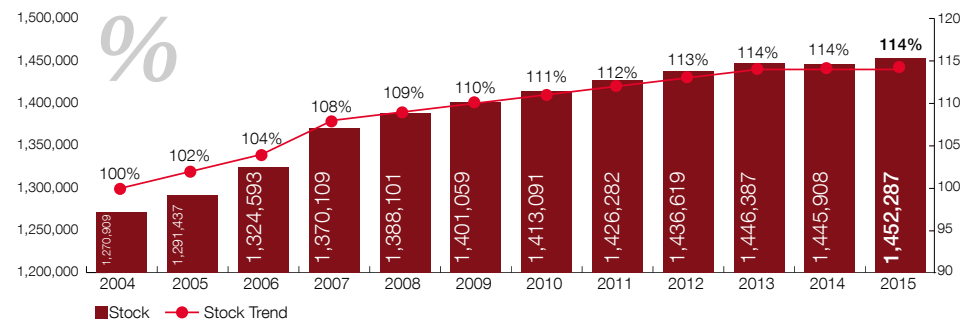
38,466
NTN 2014 -
Province of Rome

+1.6%
Province of Rome NTN 2015
vs 2014

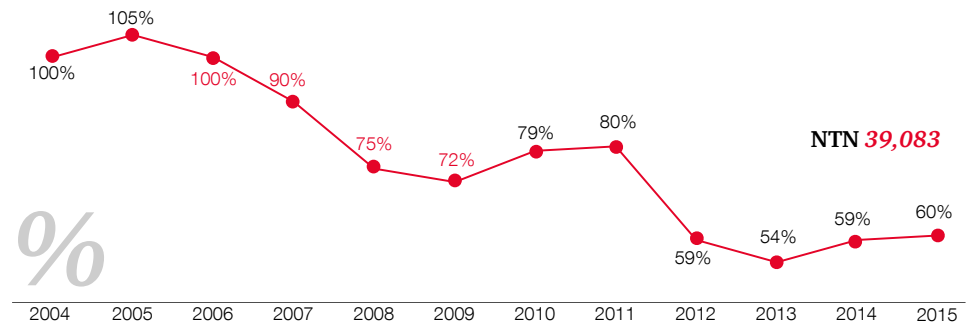
7% NTN Province of Rome
- Castelli Romani

Trend of Real Estate stock - 2004 - 2015

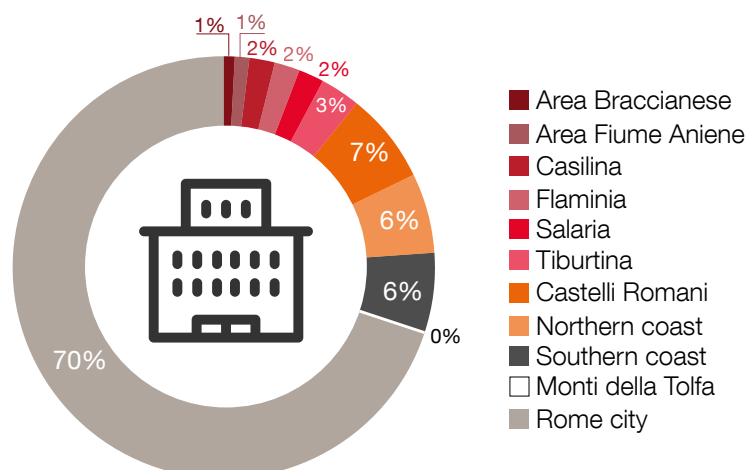
The real estate stock in Rome has grown on average by 1.2% per year over the period 2004 - 2015. Also, the IMI (Indice di Intensità del Mercato Immobiliare) has seen a positive trend since 2012.



Trend of transactions (NTN) - 2004/2015 Province of Rome



NTN 2015 by geographic region - Province of Rome



Source: PwC analysis on data provided by Agenzia delle Entrate (Italian Revenue Agency - IRA)

Investment trends in the Real estate market

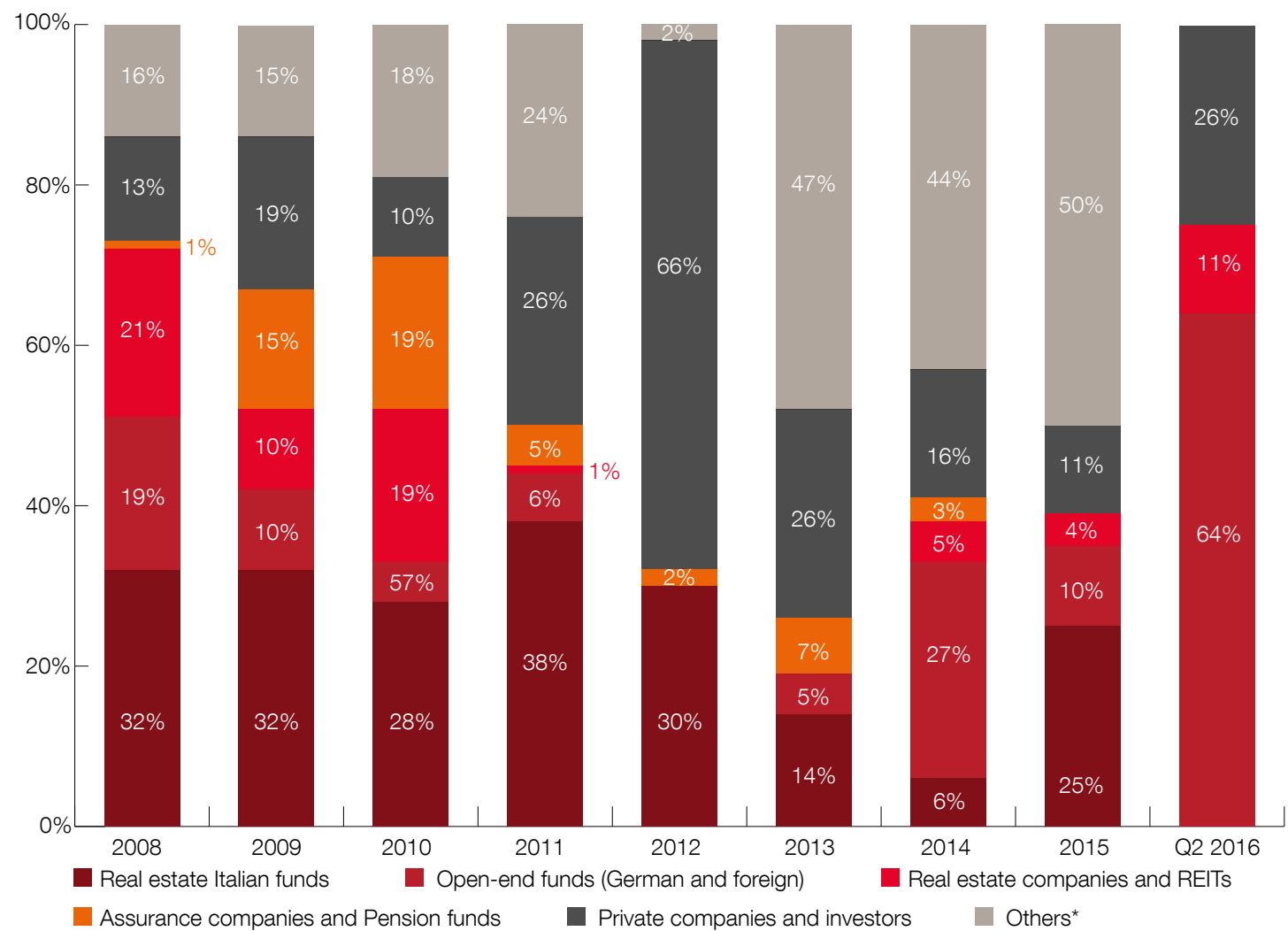
Investment trends

In H1 2016, the market of investments in Rome accounted for **€ 706 million, with volumes 69% higher than the same half in 2015**. Important transactions, such as the disposal of the Great Beauty portfolio (€ 220 million) as well as the deal involving the Coin located in Via Cola di Rienzo (€ 85 million), contributed to this satisfying result.

The latter transaction, specifically, was the first closing by the Bank of Montreal RE branch in Italy. As shown in the chart, **64% of the investments were promoted by real estate funds, especially German but also foreign, followed by private investors (25.5%), real estate companies and REITs (10.5%)**.

The analysis has highlighted emerging investor interests in development projects, aimed at converting vacant offices (mostly located in the CBD area) into hotels and retail spaces.

Istitutional real estate investments by investor class



*Others: Banks, public sector and sovereign funds
 Source: PwC analysis on data provided by BNP PARIBAS REAL ESTATE

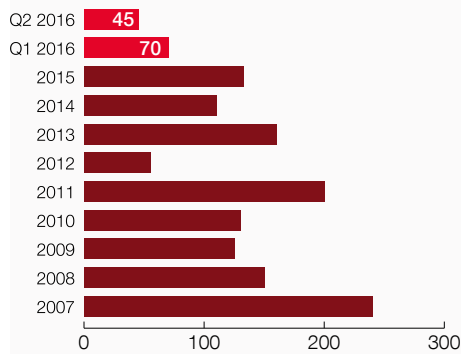


Rome office

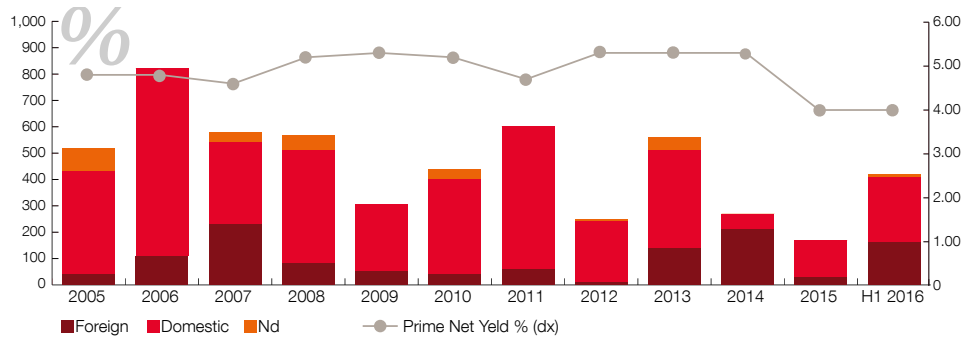
Key data - Q2 2016

In Q2 2016, the amount invested in offices was circa € 25 million, which was lower than that of the previous quarter. In H1 2016 the investment volumes reached a level of € 421 million, proving a steady and more emphasized growth compared to 2015. Prime net returns remain stable at 4.00%, although widespread uncertainty and volatility on the market may push upwards the trend over the next few months.

Take Up (.000 sqm)



Offices: Investments – historical trend (€ mln)



Key Data

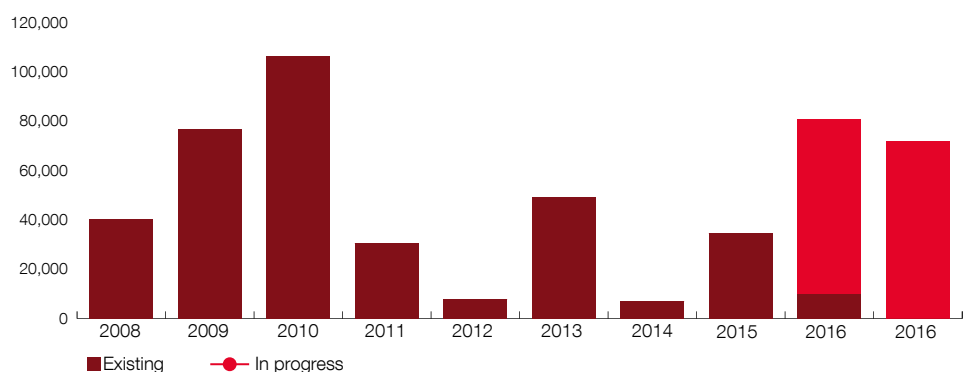
	Q2 2016	H1 2016	H1 2015	Delta H1 2016 vs H1 2015
Vacancy rate (%)	9	9	9	0%
Take - up (.000 sqm)	44.6	117	52.0	125%
Stock (.000 sqm)	7.0	7	7	0%
Prime rent CBD (€/sqm/y)	380	380	380	0%
Prime rent EUR (€/sqm/y)	320	320	320	0%
Prime net yield (%)	4.00	4.00	5.00	-20%
Office investments (€ mln)	25	421	67	528%

Offices: Supply

“Il Centro” and the “EUR” represent the most dynamic and relevant transactions of the quarter, accounting for 88% of the total marketed amount. **143.000 sqm** are still under development and/or refurbishment, of which 22% are considered speculative and expected to be delivered at latest in 2017.

The pipeline has slightly diminished in comparison with the previous quarter, as a result of both a refurbishment close to Parco de' Medici and a new project in semi-central Rome being concluded.

Accomplished and in progress projects (sqm)



Source: PwC analysis on data provided by CBRE



Key data

309 €/sqm/y
Average full capacity Prime
Rent Q2 2016

-3.2%
Rent growth - Semi-central
Rome Q2 2016 vs Q2 2015

5.95%
Average net prime rent Q2
2016

Offices: Overview

The strong absorption activity in 2015 was thanks to a few large scale transactions, such as Telecom Italia, moving to the center of the EUR. In Q4 2015 the most important deal was represented by a 35,000 sqm property located in Via dell'Arte; subsequently, Q1 2016 has featured another 50,000 sqm operation for the former Ministero delle Finanze Towers. The EUR has been also hosting Poste Vita since Q2 2016, which signed 18,000 sqm in Via Beethoven.

Transactions of similar kind, however, represent the great majority of the deals closed in Rome, a city that keeps on being substantially static and characterised by small, not relevant closings. On one hand, private companies strive to identify adequate products and, therefore, prefer to remain in their actual spaces; on the other, new policies sponsored by the Public Administration have yet to be implemented to proceed towards the redevelopment of the centre of Rome.

Offices: Returns

Considering the market rents, the prime net yields are substantially aligned; the prime yield in the centre of Rome is about **4.50%** and rises to **8.00%** in the periphery.

Prime Office Yields %

Roma	Q2 2016	Q1 2016	2016
CBD	4.50%	4.50%	4.75%
Center	5.00%	5.00%	n/a
Semi center	6.50%	6.50%	6.50%
EUR	5.75%	5.75%	5.75%
Periphery	8.00%	8.00%	8.00%
AVERAGE	5.95%		

Offices: Rents

From the analysis of rental agreements emerges that the average prime rent for Q2 2016 is **309 €/sqm/y**, which is aligned to the value registered during the same period of the year before, whereas the average market rent for semi-central Rome decreased by 3.2%.

Prime rents in the future at full capacity are likely to suffer a reduction due to additional potential incentives such as free rents, step-ups etc.; nevertheless, for what concerns high standing offices, a reduction of the incentives is expected.

Rome	Rent €/sqm/y	Growth %	
	Average Rent	1 year	5 years (CAGR)
CBD	400	0%	-4.4%
Center	380	n/a	n/a
Semi center	300	-3.2%	n/a
EUR	315	0%	-1.5%
Periphery	150	0%	-3.6%
AVERAGE	309		







@ Contacts 04

Elisabetta Caldirola

Partner | Italy Real Estate Leader

+39 348 9995688

elisabetta.caldirola@it.pwc.com

Antonio Martino - MRICS

Associate Partner | Real Estate Deals Leader

+39 346 7855519

antonio.martino@it.pwc.com



www.pwc.com/it

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