SPOTLIGHT
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Italian Living Overview

2023

Contents

Why invest in Living in Italy

Outlook and fundamentals of a newly established asset class

Living sector confirms its investment appeal recording approximately 30% of transaction volumes in the Italian market during H1 2023.

The on-going strong interest by institutional investors is distributed throughout the various subsectors with Residential segment leading the volumes and the Purpose Built Student Accommodation (PBSA) representing the most consolidated segment where we are beginning to register transactions of income producing products.

Milan and Rome represented the main destinations, but regional markets are also starting to attract investors' interest.

The growth in investors' appetite is sustained by 4 key main drivers:

- Supply and demand dynamics
- Demographic changes
- Long-term stable income outlook
- ESG approach and credentials

Investors expect the supply and demand fundamentals to remain favourable in major metropolitan areas, following the recent trend of investors targeting Milan and Rome as main starting point, but also showing interest to key Italian gateway secondary cities, with a focus on the ESG credentials of newly designed schemes.

Medium-long term demographic changes provide strong counter-cyclical outlook.

Current market headwinds, with rise of financing and building costs, impact bid/ask spread whilst healthy fundamentals sustain income growth prospects.

At present, the most common Living sub-sectors for investors in Italy to have exposure to are Multifamily and PBSA. In comparison to Multifamily and PBSA, fewer investors are currently active within Care Homes or Social Housing, in part, this likely reflecting the specialist nature of these sectors and the high level of regulation in place.

PBSA sub-sector, with its historical and current undersupply in the Italian market, has been bolstered by a strong pipeline and first transactions for newly built up-and-running schemes, confirming the strong appeal for institutional and private investors.

Living real estate remains a strong target given rental growth outlook and long term increasing pipeline prospect.

Perhaps one of the brightest drivers of change is the rise of ESG. The real estate sector, from construction, to finance, to operations, is making environmental, social and corporate governance concerns a part of any business decisions.

Given the importance of ESG for investors, the ESG credentials of assets and investment vehicles in the Living sectors will continue to see these draw an increasing proportion of Italian investment. A large amount of new Living stock is purpose-built and designed to very high Environmental standards, while the nature of the schemes (being places where people live and socialise) with their public realms and amenity spaces, means they deliver significant Social Value.

> Investors are increasingly looking at Italy's living sector, marked by consistent growth, robust fundamentals and a strong ESG focus across all subsectors.
>
> Despite market challenges, the living sector's resilience makes it an appealing investment choice.
>
> **GIACOMO DE FEO**
> **Director, Investment**

CHAPTER 1

Demographic and economic context

With urban population expected to grow, cities play an increasingly important role in inclusiveness, resilience and climate change

Over the next decade, Italy's urban population* is expected to increase, with people moving to urban areas, shifting from 72% to 75% of the total population, corresponding to a growth of approximately 1.1 million people.
Milan and Rome will experience the most robust population growth, particularly in the 20-34 age segment, with respective increases of 10% and 7%.

The capacity to attract commuters in the main cities, Milan and Rome, which currently host 560,000 and 440,000 daily travellers, is expected to strengthen, especially in the Lombardy Capital, where projections see 94,000 additional commuters within the next decade.

Dynamic cities that draw in younger population for their excellent university education and quality of life will remain the top preference for innovative companies.

The count of households** is set to rise across the entire country, with a projected increase of 640,000 units over the coming ten years. Although the number will grow, households will exhibit a trend towards smaller average sizes, a shift that will be particularly evident in major cities. In cities such as Milan and Rome, for example, the average household size is expected to drop below 2 members by 2035 and 2039, respectively.

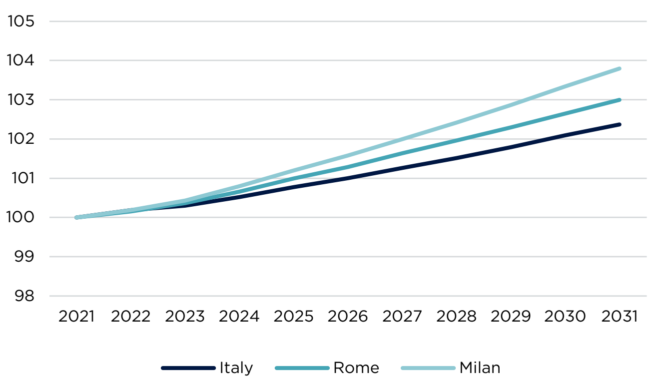
In 10 years, more than 1 mln people will move to cities

Within 10 years, an increase of more than 600,000 households is expected

	Population	No. of households	Average household size	20-34 age group (%)
	58.8 mln **-1.8% in 10 years**	26.2 mln **+2.4% in 10 years**	2.3	16% **16% in 10 years**
	4.2 mln **+1.2% in 10 years**	2.0 mln **+5.7% in 10 years**	2.1	12% **16% in 10 years**
	3.2 mln **+0.4% in 10 years**	1.5 mln **+4.0% in 10 years**	2.1	16% **18% in 10 years**

Source: Savills Research on ISTAT and Oxford Economics data

Number of households index, 2021-2031 (2021 = 100)



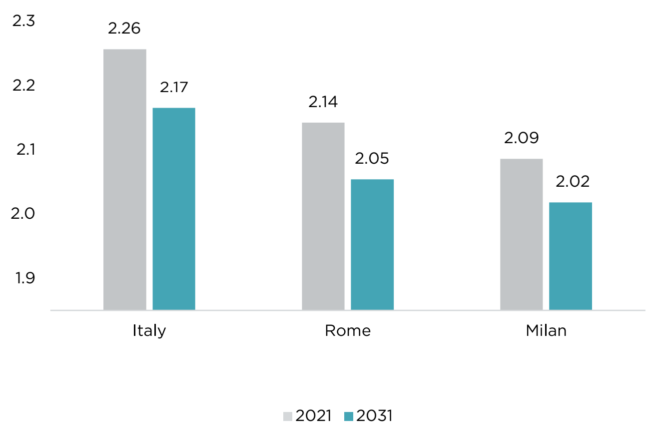
Source: Savills Research on Oxford Economics data

* Urban population: people living in urban areas, inhabitants of towns and cities; classification is based on population density, number of households working in agriculture, and public service access such as schools, markets, hospitals, asphalt road and electricity
** Households: a group of people who may or may not maintain kinship with each other while living in the same dwelling

In recent years, the total number of foreign residents in Italy has grown and today exceeds 5 million people, with the majority of new permits of non-EU citizens released for family reasons (51%), followed by work (21%) and study reasons (7%).

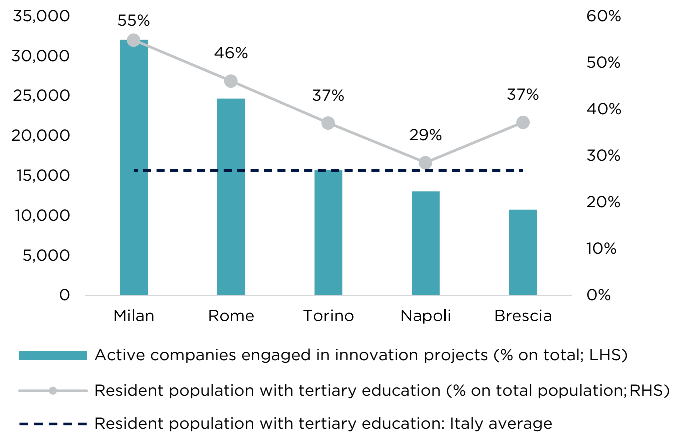
This increase is more evident in capital cities, with Milan registering 19% of the total population having foreign origin and Rome 13% (the Italian average is 9%).

Average household size (2021 vs 2031)



Source: Savills Research on ISTAT and Oxford Economics data

Innovation and education level: top 5 cities by number of companies engaged in innovation projects***



Source: Savills Research on ISTAT data

*** Active companies with 3 and more employees engaged in innovation projects: activities within its own innovation projects - research and development activities carried out within the company, acquisition of research and development services, staff training on adopted and/or planned innovations, technical and aesthetic design, acquisition of licences and patents, acquisition or development of software, databases and data analysis services, acquisition of computer hardware, network and telecommunications equipment, acquisition of machinery, equipment and facilities for adopted or planned innovations, marketing for the launch of new goods and/or services

DEMOGRAPHICS

- Inhabitants 58.8 mln (May 2023)
- Inhabitants/sq.km 195
- Foreigners 5.1 mln (Jan. 2023)
- Households 26.2 mln

INFRASTRUCTURES

- 41 Airports
- Airport passengers 175 mln/year (average 2015-2019); 165 mln/year (2022)
- Rail transport passengers 877 mln/year (average 2015-2019); 483 mln/year (2021)

EDUCATION

- Universities and Academies of Art&Music 257
- No. Students 1.8 mln (a.y. 2021/2022)
- Foreign university students 6%
- Mobile students 32%

ECONOMIC ENVIRONMENT

- Active companies 5,121,221
- Public limited companies 1,374,110
- Real GDP € 1,746 bln
- Per capita GDP € 29,700

ECONOMIC WELLBEING

- Disposable income per household € 48,180
- Households by income < € 20,000 15%
- Average household consumption € 43,569
- Unemployment rate 7.6%

TOURISM

- Tourists 122 mln (average 2015-2019); 119 mln (2022)
- International tourists 46%
- Number of beds 5.2 mln
- No. museum visitors 130 mln (2019; 36 mln 2020)

> In the upcoming years, demographic shifts will intensify the competition between cities to attract young individuals and talent. New generations will steer the demand for new residential solutions and cities that are able to overcome the challenges of urbanisation will thrive.

Source: Savills Research on Oxford Economics, ISTAT, Movimprese Infocamere and Assaeroporti data

CHAPTER 2

Debt market

Italian households remain low in debt, however rising borrowing costs dampen mortgage demand

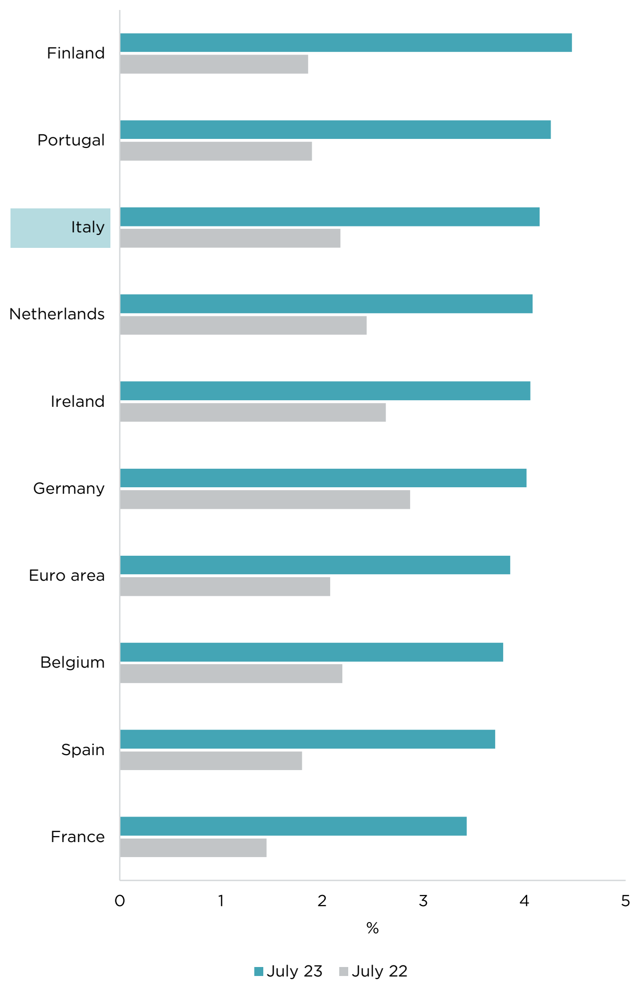
In the last months, the financing criteria for loans tightened due to a higher risk perception. Demand from companies and from households decreased reflecting the decline in investments and the increase of interest rates. For H2, intermediaries expect that financing conditions for corporate loans will worsen, while those for household loans will remain stable.

In July 2023, the Italian average interest rate on loans to households for house purchase was 4.19%, +204 bps vs July 2022. In just few months, interest rates rose to their highest level in 10 years (last 10 year average: 2.24%).

The rapid rise in interest rates has caused a sudden increase in mortgage payments: for a 20-year mortgage, there was an estimated 22% increase in just 12 months. The same mortgage in H1 2023 compared to H1 2022 (second-hand flat, same size, LTV 79%, duration 20 years), taking into account the prices increase as well, would have a 24% higher payment on average.

Nowadays, in order to buy a flat with the most commonly preferred size (106.8 sqm on average) with a 79% LTV, an Italian household needs a net monthly salary of € 3,300, whereas one year ago it was only € 2,700. With a salary of € 2,700 and under the same conditions, you could finance € 29,000 less by giving up about 21 square meters.

Loans for house purchase: interest rate*



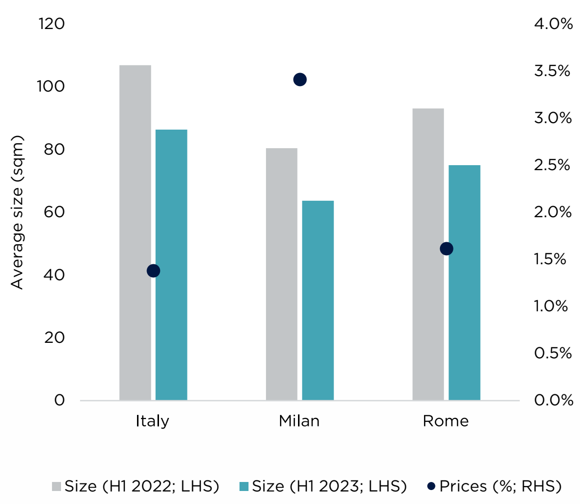
Source: Savills Research on ECB data

Average interest rate on loans to households (July 2023): 4.19%

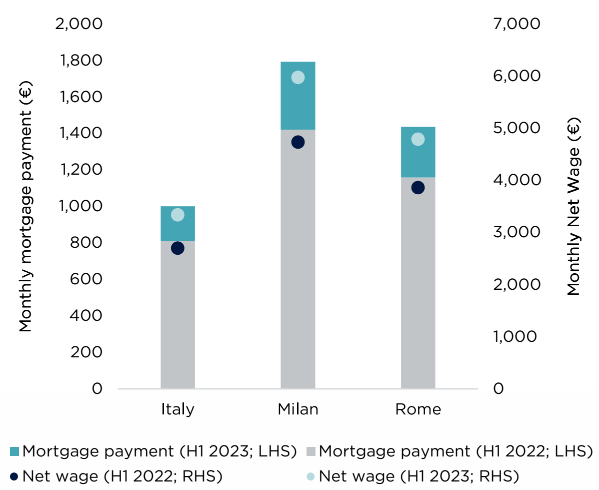
Households paying a mortgage (2021): 19%

* Cost of borrowing for households for house purchase, new loans

Dwellings purchase: impact of rising interest rates and prices on the average size*



Dwellings purchase: impact of rising interest rates and prices on mortgage payments and net needed wages*



Source: Savills Research on Agenzia delle Entrate and Banca d'Italia data
* Estimate based on the average price for second-hand houses in good condition for mortgages with a loan-to-value of 79% and an income weight of the mortgage payment of 30%

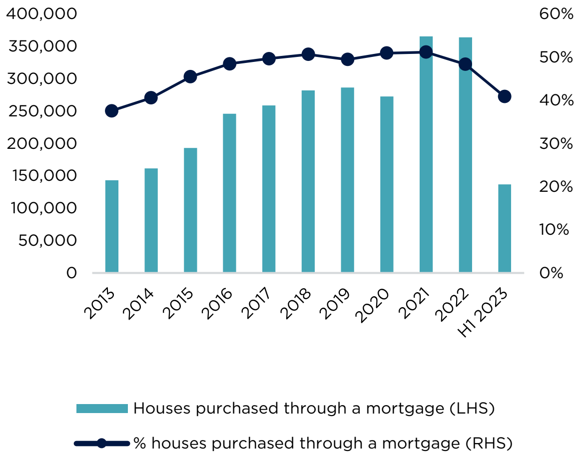
Despite this, Italian households remain low in debt: only 19% pays a mortgage and the majority of mortgages issued in recent years have fixed-rate. In addition, after peaking in 2019, this percentage declined steadily despite record-low rates. In April 2023, non-performing loans related to Italian consumer households reached their lowest value in the last 10 years; after that, it marginally rose again to the level of January 2023.

With € 55.3 bln, 2022 registered a slowdown in mortgage disbursements to households for house purchase, as a result of an inversion in interest rates although the buying and selling trend remained positive. Following revisions of the conditions, Q1 2023 registered a slowdown (-26%) as well in the market performance (number of normalized transactions: H1 2023 -12% YoY).

In Q1 2023, disbursements for new contracts represented 93% of total loans (96% in 2022), followed by subrogation (6% vs 3% in 2022). After the collapse in subrogations in 2022 ascribable to the rapid rise of the Eurirs, in Q1 2023 fear of further rapid rate tightening led to a new increase in subrogations and substitutions.

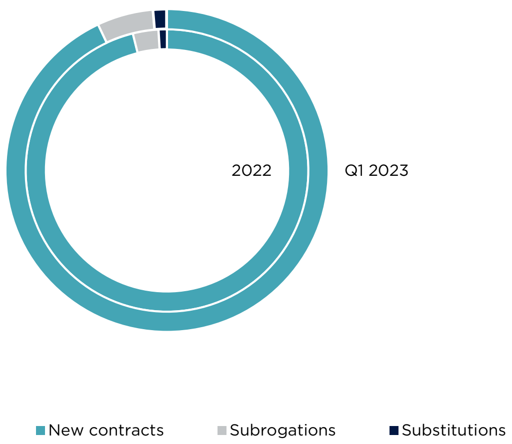
> The current shift in financial conditions is not leading to a surge in insolvencies; rather, it's contributing to a temporary deceleration in the market.

Households purchased through a mortgage



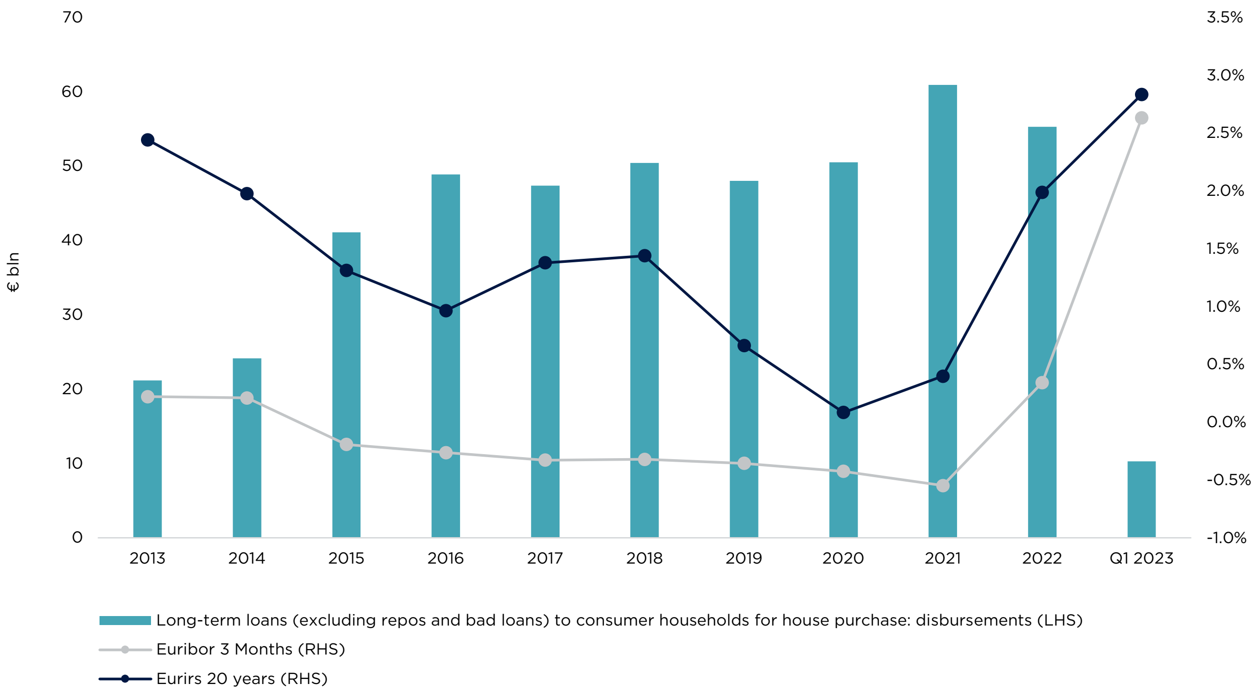
Source: Savills Research on Agenzia delle Entrate data

Purchases of buildings - Dwellings of consumer households: disbursements by type



Source: Savills Research on Banca d'Italia data

Purchases of buildings - Dwellings of consumer households: loans for house purchase



Source: Savills Research on Banca d'Italia and ECB data

CHAPTER 3

Affordability in the European context

Higher-for-longer inflation and policy rates impact household savings and income, affecting purchasing power and wealth

EU's gross household adjusted disposable income* was valued at € 10,858 bln in 2021. Germany accounted for the highest share (25%), followed by France (19%) and Italy (13%). As a result of the Covid-19 pandemic, 2020 saw a slowdown in gross household adjusted disposable income per inhabitant, followed by a rebound in 2021 to the highest rate in the last 10 years.

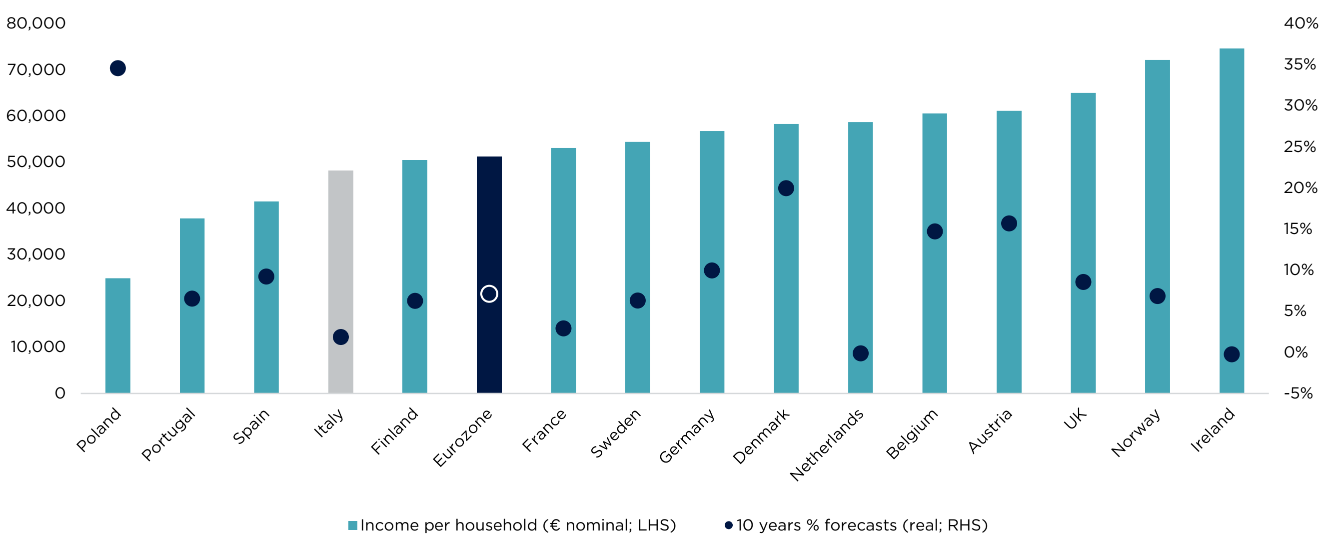
In terms of disposable income per household, figures vary substantially across European countries: the Italian disposable income amounts to € 48,180, 6% lower than the Euro Area average. Taking into account differences in price levels, Italy's figure is 3% lower than the European Union; gross household adjusted disposable income in PPS** per inhabitant in Germany was 1.7 times as high as in Poland and 1.3 times in Italy.

Within 10 years, household disposable income will grow by 7% in real terms in the Euro Zone while Italian forecasts predict a 2% increase, widening the gap with the European average.

Household gross disposable income (Italy Q1 2023; real): -0.3% YoY

Household final consumption expenditure (Italy Q1 2023): +12.2% YoY

Average disposable income per household***



Source: Savills Research on Oxford Economics data

* Gross household disposable income: the combined gross income of all members of a household, adjusted for changes in population numbers, before taxes or other deductions. This includes income from all sources, not just employment, and is not limited to income received in cash; it also includes property or services received

** The purchasing power standard, abbreviated as PPS, is an artificial currency unit. Theoretically, one PPS can buy the same amount of goods and services in each country

*** Average disposable income available per household within a region (household disposable income / total households). Household disposable income: private income from all sources (wages & salaries, interest receipts, property, government benefits, dividends and all other) less taxes (income tax, local taxes, taxes on benefits, property and all other direct taxes) and less social security contributions

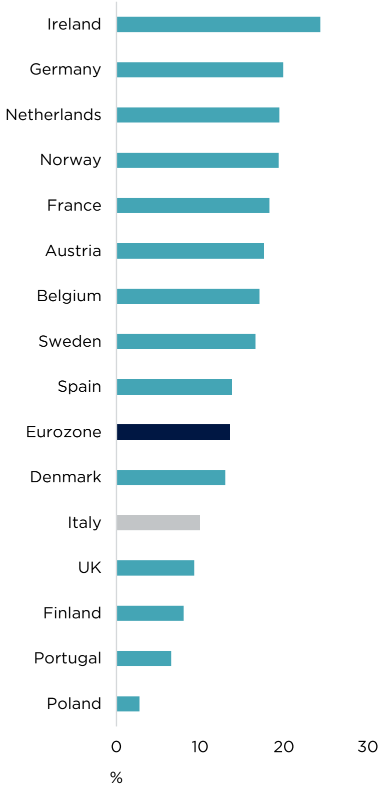
> Over the next ten years, real household disposable income in Milan and Rome will remain above the Italian average. Cities reaffirm their pivotal position for companies, students, and skilled professionals, while maintaining affordability becomes a key element.

During 2022, household saving rate in the Euro Area was 13.5%, 4 pps lower than 2021. Among the 15 countries sample, the gap between Poland, having the lowest rate (2.8%), and Ireland, with the highest (24.3%), is relatively wide. Italy ranked below the Eurozone level at 10% (-5 pps vs 2021). After the increase in savings, as a result of Covid-19 restrictions in 2020, 2021 showed signs of a return to normal. Rising inflation and financing costs eroded savings in 2022; provisional figures for 2023 show a further reduction.

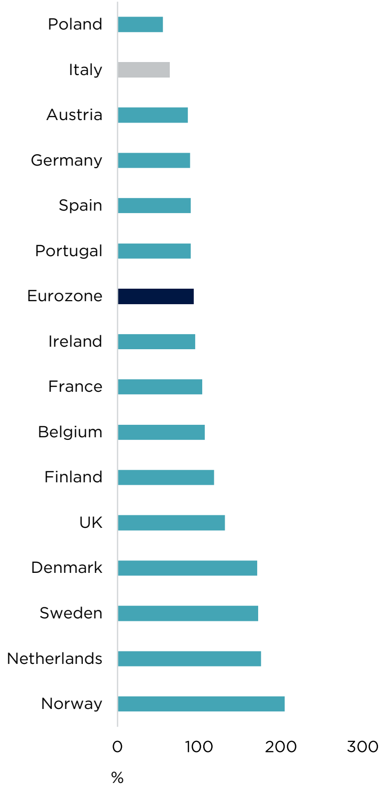
In 2022, the household debt-to-income ratio in the Euro Area was 93.1%, varying considerably across Europe. While it was below 80% in Italy and Poland only, it was over 150% in Denmark, Sweden and the Netherlands, peaking at 204.7 % in Norway; a rate of 200% indicates that it would take two years of disposable income for households to repay their debts. It should be considered that high household indebtedness may to some extent reflect high levels of financial assets, as for Denmark, Sweden and the Netherlands. It may also reflect ownership of non-financial assets, such as housing, or be influenced by national regulations that favour indebtedness (e.g. deduction of interest payments from taxable income). In Italy, despite a high percentage of households owning their homes, the debts-to-income ratio remains significantly lower (64.2%) compared to the average level in the Eurozone.

In 2022, net financial wealth was equivalent to 232.1% of household income in the Euro area. The household net financial wealth-to-income ratio differed substantially between EU Member States. The highest ratio was recorded in Sweden, followed by Denmark and Belgium with Italy registering a relatively high value above 300%.

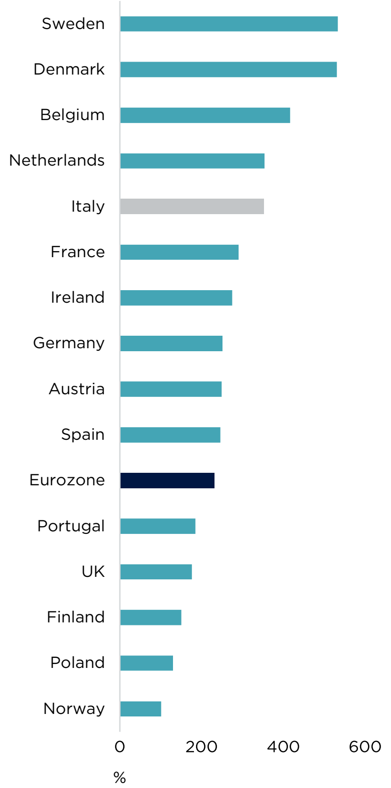
Saving rate to income ratio – households*



Debt to income ratio – households**



Net financial wealth to income ratio – households***



Source: Savills Research on Eurostat, Trading economics, Statista – latest available data (2022/2021)
* Gross household saving divided by gross disposable income. Gross saving is the part of the gross disposable income which is not spent as final consumption expenditure
** The ratio of households' debt arising from loans, recorded at the end of a calendar year, to the gross disposable income earned by households in the course of that year
*** All financial assets minus all financial liabilities – at the end of a calendar year, to the gross disposable income earned by households in the course of that year. It therefore represents the accumulation of financial assets, after deduction of liabilities, by households as a proportion of their annual income. However, this ratio does not account for non-financial assets such as dwellings

Prices and rents affordability

High demand affects rent affordability, but Milan and Rome remain competitive compared to major European cities

> The residential market in Milan and Rome is still competitive despite the significant increase of rents. New quality supply could mitigate this trend.

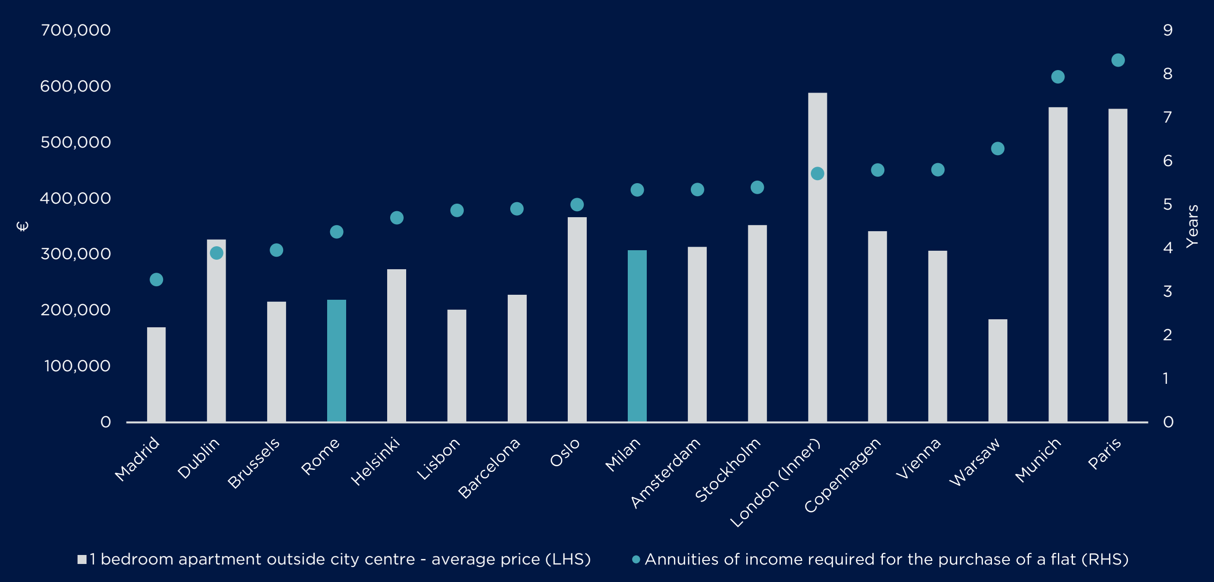
Considering a sample of 17 main European cities, the average price for purchasing a one-bedroom apartment, located outside the city centre, is equal to € 320,000 (-4% YoY), ranging from € 170,000 in Madrid to € 590,000 in London. The ratio of house price to household disposable income required for the purchase of an apartment registers the highest level in Paris and Munich (8 years); Madrid (3 years), Dublin and Brussels (4 years) see the lowest figure, whilst Italy figures look affordable, ranging from 4.4 years in Rome to 5.3 years in Milan. Compared to 2022, income annuities in Italian cities remained stable while they increased in cities such as London, Barcelona and Dublin. Cities like Paris and Madrid, on the other hand, experienced an improvement in accessibility to the BTS market.

Rent affordability (i.e. the average monthly rent for a one-bedroom apartment outside the city centre in a major European city compared to the household disposable income) ranges from a low of 15% in Vienna to 28% in Amsterdam. Considering the whole sample, rents in the main European cities saw a 5% increase YoY, and in many cities this exceeded 10% YoY. In the last 12 months, many European cities registered a deterioration in rent affordability. The list includes both Milan and Rome, although they are still considered competitive when compared to their European peers.

Annuities of income required to purchase an apartment:
Milan **5.3**
Rome **4.4**

Affordability index
Milan **19%**
Rome **17%**

The number of years income required to purchase an apartment (outside city centre)



Affordability index: monthly apartment rent (outside city centre) to income ratio

CHAPTER 4

The Italian residential market

A significant proportion of stock needs to be renewed

Italy real estate turnover is historically mainly represented by the residential market, which in the last 5 years transacted on average around € 105 bln (91%) in terms of volumes, while the commercial real estate represents 9% of the total.

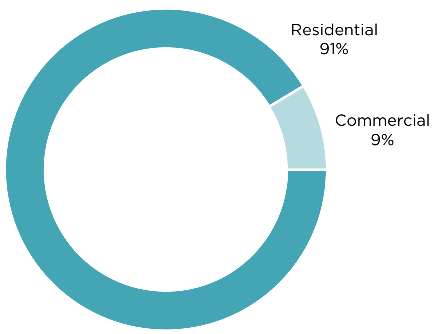
A new record high has been hit in 2022, with € 123 bln registered (+4% YoY). Based on the latest available data, total Italian stock in 2022 amounted to 35.5 million dwellings (+0.4% YoY). In Italy, dwellings are mostly held by private individuals (93%), but this share is lower in both Milan and Rome, 83% and 87% respectively. The existing residential stock is dated and needs refurbishment to meet future green standards: only 6% was built after 2006. At the European level, the Energy Performance of Buildings Directive is expected to be finalised this Autumn; only then it will be clear which energy efficiency parameters buildings will have to meet, how strict they will be, whether there will be exemptions, along with a feasible timetable.

More than half of the dwellings (approx. 19.8 mln) are used as main residences in Italy, although the number of rented houses has grown significantly in recent years (+7% increase in Italy, 2016 vs 2020), especially in main cities. In Milan, dwellings for rent represent 21% of the total and increased by 12% in 2020 compared to 2016 (+9% in Rome).

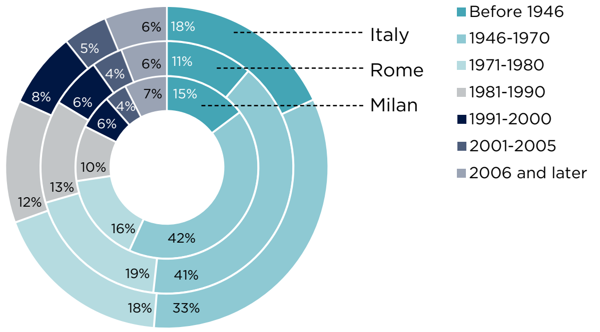
Dwellings constructed after 2006: 6%

Rented houses: 4.3 mln (Census, 2019)

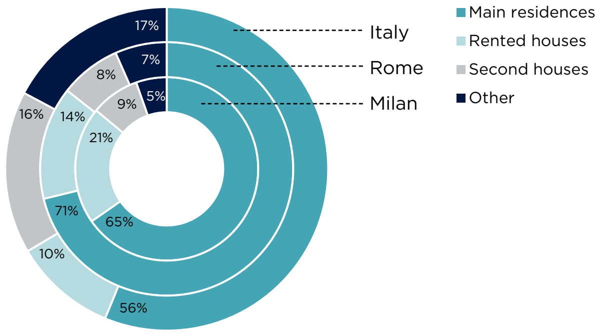
Italy real estate turnover* (2018-2022)



Dwellings by year of construction



Use of dwellings owned by private individuals



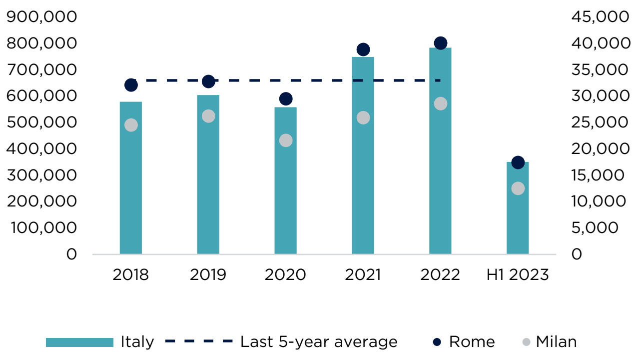
Source: Savills Research on Istat, MEF and Agenzia delle Entrate data
*Real estate turnover includes commercial (total investment volume of income producing assets transacted by institutional investors; source: Savills Research) and residential (estimate of total value of transacted dwellings by private individuals and non institutional investors; source: Agenzia delle Entrate)

CHAPTER 5

Build to sell market

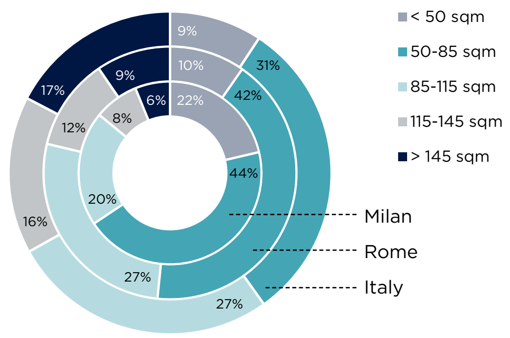
Following the change in financial conditions, H1 2023 registered an expected slowdown in activity

NTN (Number of Normalised Transactions) in Italy (LHS), Milan and Rome (RHS)



Source: Savills Research on Agenzia delle Entrate data

NTN by size band, 2022



The number of sold houses in Italy has steadily increased over the last years, reaching a peak in 2022, when more than 780,000 units were sold. However, a decrease has been registered in the first semester of 2023: approximately 350,000 dwellings have been acquired, recording a 12% decrease compared to the same period of the previous year. Despite this, the amount of transactions recorded in H1 is still 23% higher than the 10 years average.

Historically, Rome has been the main market in Italy; in H1 2023, it accounted for 5% of overall transactions with 17,400 NTN (-17% YoY). Milan is the second city and, following the general downward trend, it registered a slowdown in the first semester of the current year (-20% YoY).

Conversely, the average time to sell has decreased in recent years: in Milan stands at 3.5 months (-3.5 months compared to 2012), while in Rome is 29% higher (4.5 months; -2.6 months compared to 10 years prior).

Although ownership is the most common tenure status in Italy (77%), this ratio decreases for main cities: in Milan, ownership accounts for 70% of the total number of occupied houses, while in Rome this percentage stands at 76%.

In 2022, large size dwellings (above 115 sqm) covered 33% of demand in Italy, but this percentage was significantly lower in capital cities (21% in Rome and 14% in Milan). In general, most of the demand is related to dwellings ranging from 50 to 85 sqm. Smaller-sized apartments (below 50 sqm) are more popular in Milan, where, last year, they accounted for 22% of the total (compared to 10% in Rome).

Over the last decade, prices in Milan and Rome have steadily risen, especially in the former. This trend continues in the first semester of 2023, although at a lower pace. Currently, Milan records an average price of 4,550 €/sqm (+3% compared to 2022), a figure significantly higher than Rome (3,150 €/sqm).

Average size (sqm) of sold dwellings

Italy **107**
Rome **93**
Milan **80**

Average prices (€/sqm)

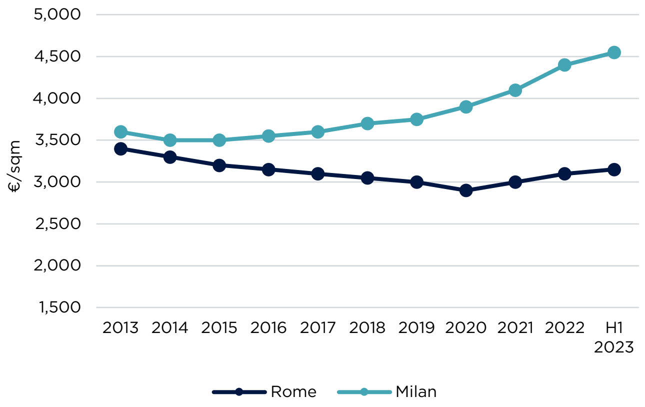
Rome **3,150**
Milan **4,550**

NTN, Top 10 cities, 2022

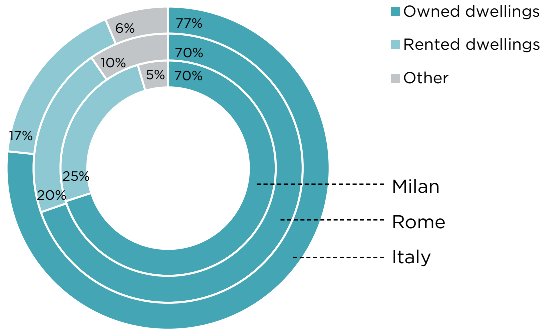
1. Rome
2. Milan
3. Torino
4. Genova
5. Napoli
6. Bologna
7. Palermo
8. Firenze
9. Bari
10. Catania

In this peculiar economic scenario and after the record numbers of 2022, prices have continued to rise, despite a deceleration in activity during the first half of 2023.

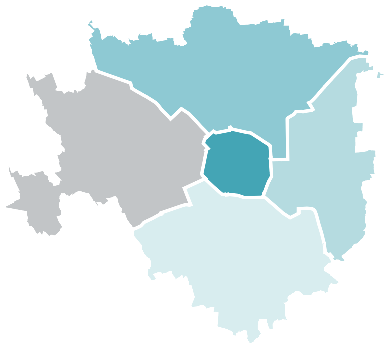
Average Price trend



Occupied houses by tenure status (Census, 2019)

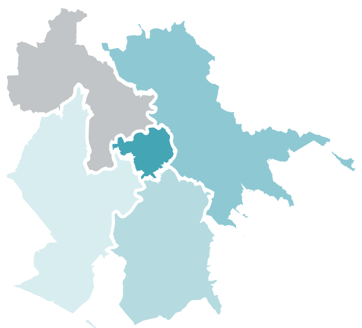


Source: Savills Research on ISTAT data



Milan, average prices €/sqm

Centre	10,300
North	5,400
East	4,700
South	4,700
West	4,400



Rome, average prices €/sqm

Centre	6,200
North East	3,200
South East	3,300
South West	3,300
North West	3,800

New developments

Rome set to expand in its South East, while Milan spreads North

By 2026, at least 31 projects* will be completed in Rome and 95 in Milan, bringing 1,670 and 4,660 new units on the market, respectively. Most dwellings in Rome are expected to be completed by the end of 2024 (81%), whereas in Milan dwellings completions are evenly distributed over the next three years.

Size-wise, both in Rome and Milan more than half of developments have a medium size (11 to 50 units), with very few of them classified as small (up to 10 units). The difference between the two cities becomes evident when considering large and extra-large projects. In Rome, only 10% of developments fall into the large category (51-80 units), while 26% are categorized as extra-large (more than 81 units). In contrast, Milan displays a different trend, with 20% of projects falling into the large category and 16% into the extra-large.

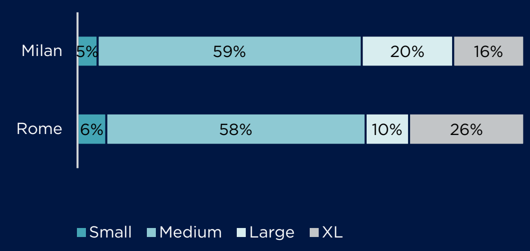
Location is also crucial and shows where a city is expanding. In Rome, most of new developments are rising up in the South East sector (32% of projects, accounting for 700 units), especially in the Garbatella neighbourhood, although South West Pisana is the neighbourhood with most units in pipeline. On the contrary, Milan is concentrated in the Northern area (38% of projects, with approximately 1,930 units), and specifically in the Gorla-Precotto neighbourhood including 6 projects, while the neighbourhood that will host most units will be Maggiore-Musocco-Certosa.

Another key factor that is increasingly impacting the success and pricing of new dwellings is the presence or absence of amenities and their respective types.

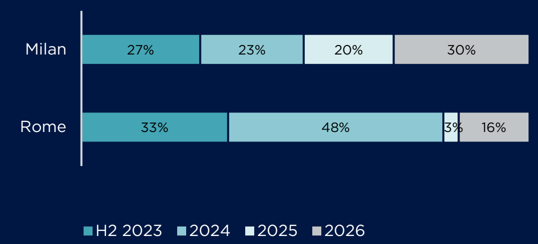
In this respect we can register a difference in the availability of amenities** in new dwellings between Rome and Milan, with the first offering at least some kind of amenities in more than half of its projects, while the same value drops to 15% for dwellings under construction in Milan.

Private lockers for deliveries and storage stand out as the most common amenity, with 53% and 71% of buildings in Rome and Milan, respectively, including this service. Nevertheless, the second most popular amenity differs between the two cities. In Rome, the concierge service, whether human or virtual, takes second place at 47%, while in Milan private green areas are the preferred choice, representing 64% of projects equipped with amenities.

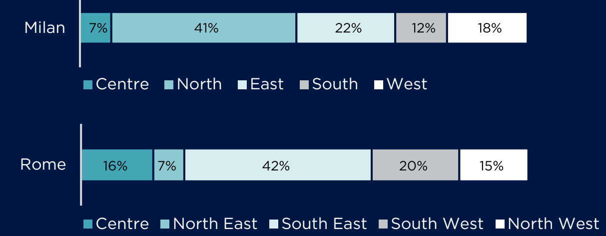
Under construction projects by size



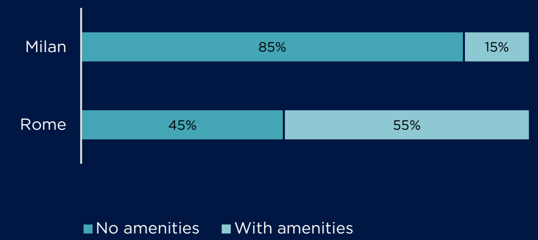
Under construction units by year of completion



Under construction units by submarket



Under construction projects by amenities

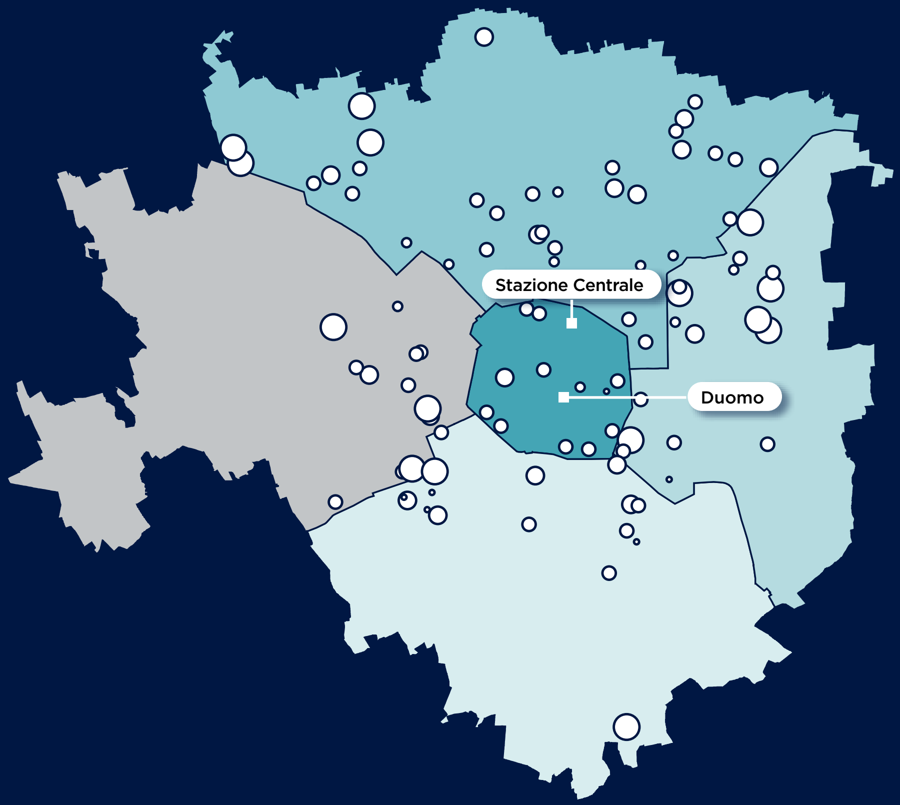


*The list of projects considered is not exhaustive and should be regarded as a sample of the main ongoing developments
** Amenities: we considered as amenities shared spaces as pools, rooftops, fitness areas, lounges, gardens, laundry rooms, coworkings, delivery lockers, spaces for kids or pets, and concierge services.

Main projects

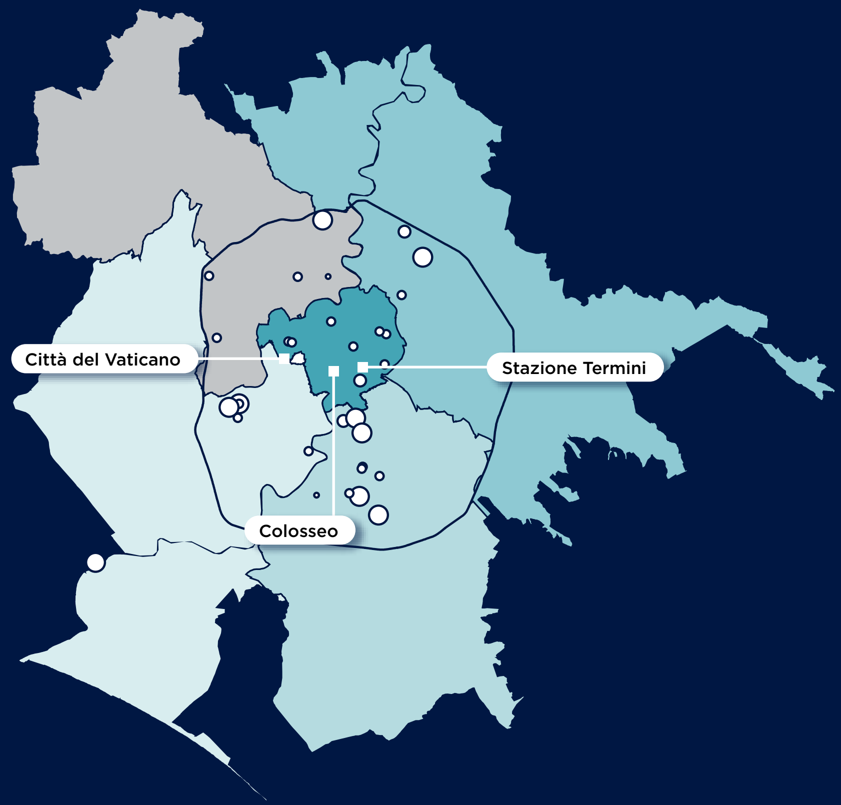
Milan

Projects **95**
Units **4,660**



Rome

Projects **31**
Units **1,670**



LEGEND SIZE

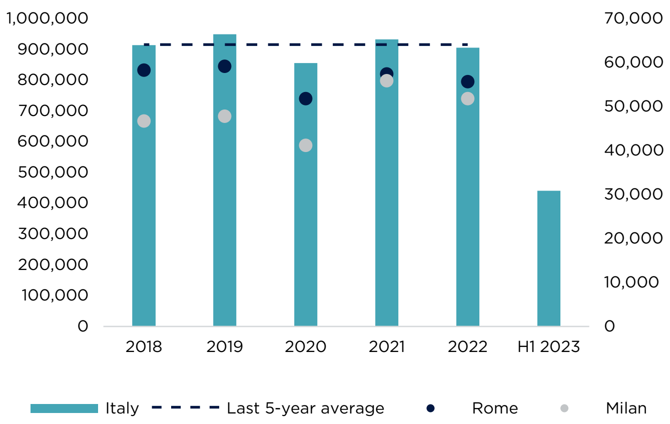
- Small (<150 beds)
- Medium (11-50 units)
- Large (51-80 units)
- Xlarge (81+ units)

CHAPTER 6

Rental market

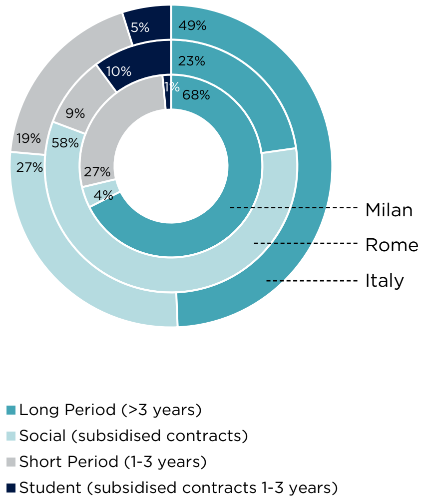
Rents are skyrocketing

Number of rented houses in Italy (LHS), Milan and Rome (RHS)



Source: Savills Research on Agenzia delle Entrate data

Rented houses by type of contract, 2022



In the last year, the number of rented houses totalled more than 904,000 units, a figure that remained substantial in line with the last 5 years average, despite a slight slowdown (-3% YoY). The first semester of 2023 registered a 1% increase YoY.

Rome and Milan still remain the primary markets, with both cities registering over 50,000 leases in 2022. Milan experienced a significant increase of rental agreements in recent times, but also suffered from a more pronounced slowdown in 2022 (-7% YoY).

Nevertheless, total turnover (overall annual income generated by rental accommodations) in 2022 did not slow down: Milan reached the highest turnover among Italian cities, with some € 610 mln transacted (+2% YoY), while Rome stood at € 580 mln with an higher growth YoY (+13%).

Italian residential take-up in the last 12 months amounted to circa 76.4 million sqm, recording a slight slowdown (-3%), as observed in Rome. In Milan the decrease was more pronounced: here, around 3.5 mln sqm were located, with an 8% decrease YoY.

In Italy, half of the contracts in 2022 were related to standard long period leases, while subsidised contracts represented 32%, mainly dedicated to social rents; what remains refers to short term rentals. Over the last 12 months, Milan subsidised contracts were only 4% of the overall market, with the majority represented by standard long leases (68%).
In contrast, the scenario in Rome is completely different: subsidised contracts are the most common (58%) while long period leases account for 23%.

Low supply against steadily growing demand kept supporting rental growth: in the first semester of the year rents reached a new peak, increasing by 8% and 7% in Milan and Rome, respectively, compared to 2022. This has been accompanied by a decrease in time to rent, which reached the bottom value of 1.5 months in Milan and 2.6 in Rome.

Average size (sqm) of rented dwellings

Italy **84**
Rome **79**
Milan **69**

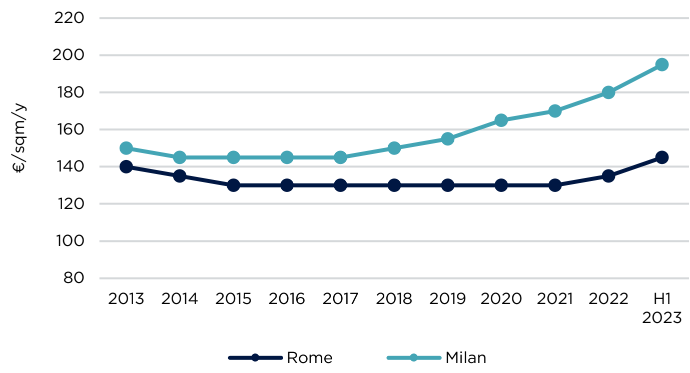
Average rent (€/sqm/y)

Rome **145**
Milan **195**

Rented houses, Top 8 cities, 2022

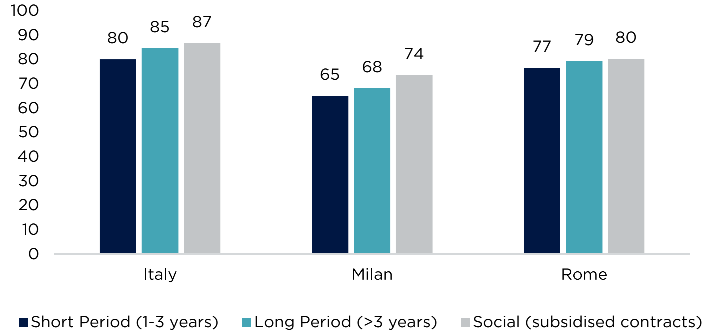
1. Rome
2. Milan
3. Torino
4. Napoli
5. Bologna
6. Palermo
7. Genova
8. Firenze

Average rental trend

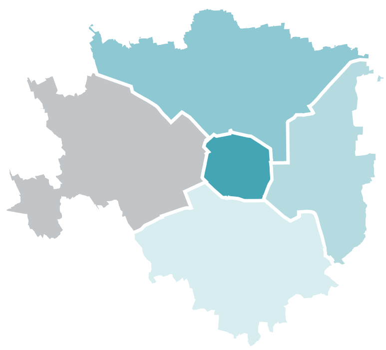


The number of households choosing to live in rented houses is increasing, thus supporting the growth of rents that are rising more than prices

Average size of rented dwellings (sqm; 2022)

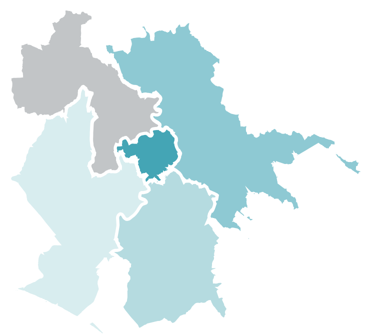


Source: Savills Research on Agenzia delle Entrate data



Milan, average rent, €/sqm/y

Centre	370
North	250
East	200
South	190
West	200



Rome, average rent, €/sqm/y

Centre	335
North East	185
South East	180
South West	180
North West	185

Multifamily sector

A new product is emerging, combining services, common spaces and expert management

The multifamily solution appeared recently in the Italian scenario and is rapidly spreading with several projects currently ongoing. The aim to offer a new kind of housing solutions, able to respond to the changing tenants' need, brings several operators to develop build to rent solutions.

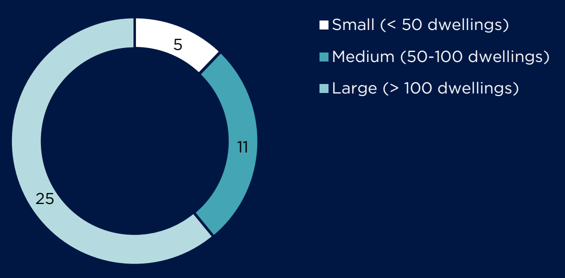
The preferred destination is obviously represented by Milan, while Rome offers the great opportunity to convert its old stock, in a market characterised by a low supply of new dwellings.

By 2026, a total of 41 projects will be built in Italy, offering more than 8,200 rental apartments. The new structures are mainly characterized by their large size (> 100 dwellings) and will be part of greater regeneration projects (i.e. MilanoSesto, Milan Santa Giulia, Mo.Le.Co.La. in Milan) where the multifamily offer is combined with build to sell, student housing, hospitality, office and retail solutions

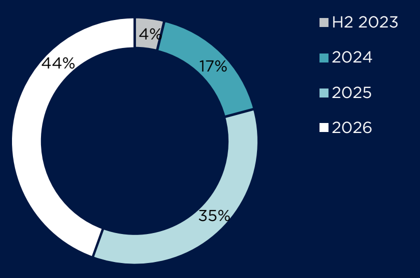
The new offer aims to meet the highest ESG sustainability standards: more than half of the flats are already planned to be green certified. The majority of the pipeline is composed by build to rent projects, followed by social housing schemes, which account for 27% of the total. Additionally, alternative solutions such as co-living and micro-living are attracting an increasing interest.

Most of the operators active in the market are international and see in this model a fresh new offer which was missing in the Italian market, enriched by unique amenities such as green areas, coworking and meeting spaces, gyms, concierges, laundry rooms, and delivery box stations.

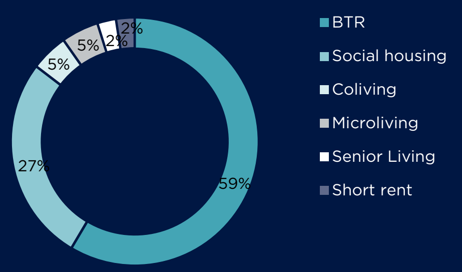
Number of projects by size



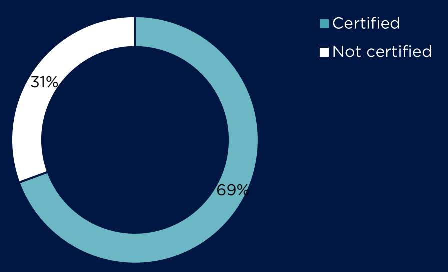
Number of dwellings in pipeline by year of completion



Number of projects by typology

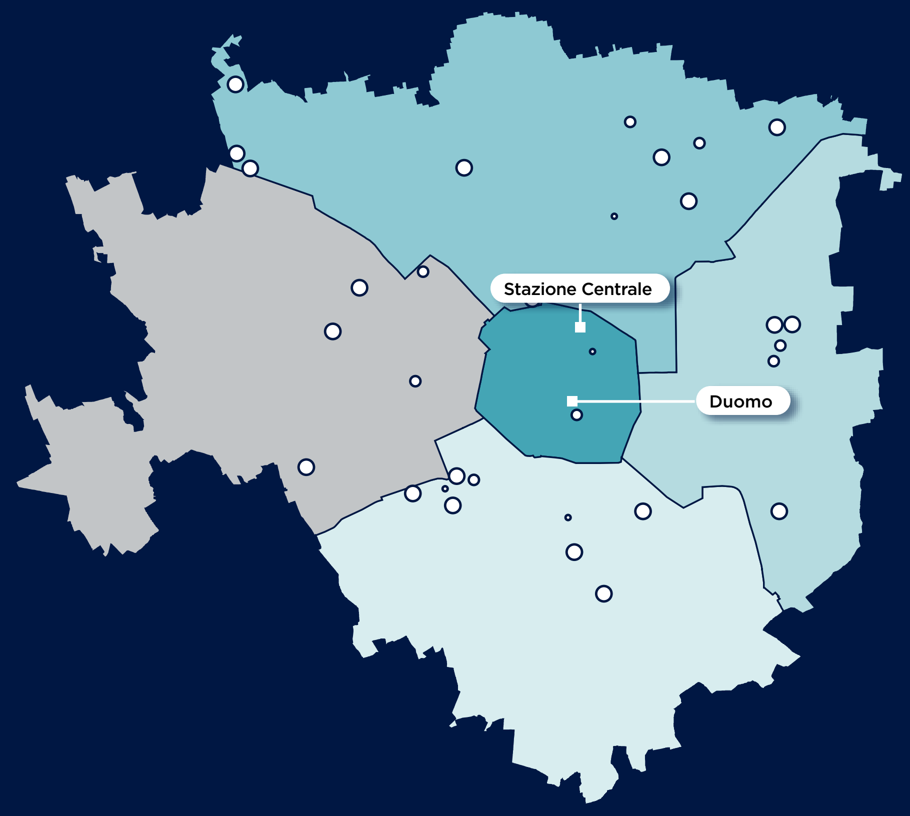


Number of dwellings with green certification

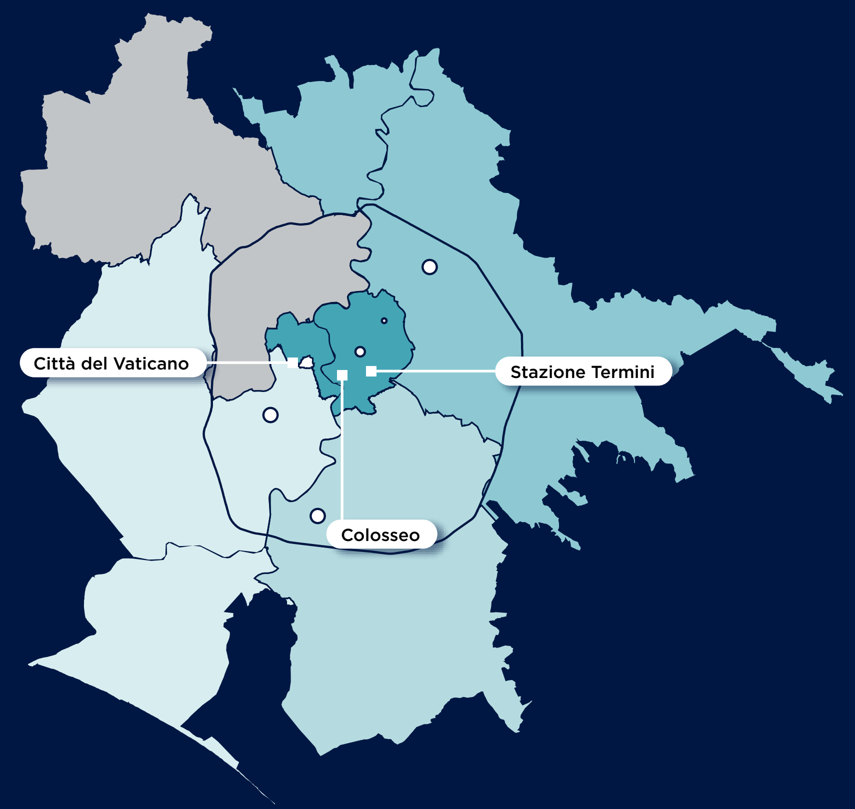


Main projects

Milan
Projects **33**
Dwellings **7,200**

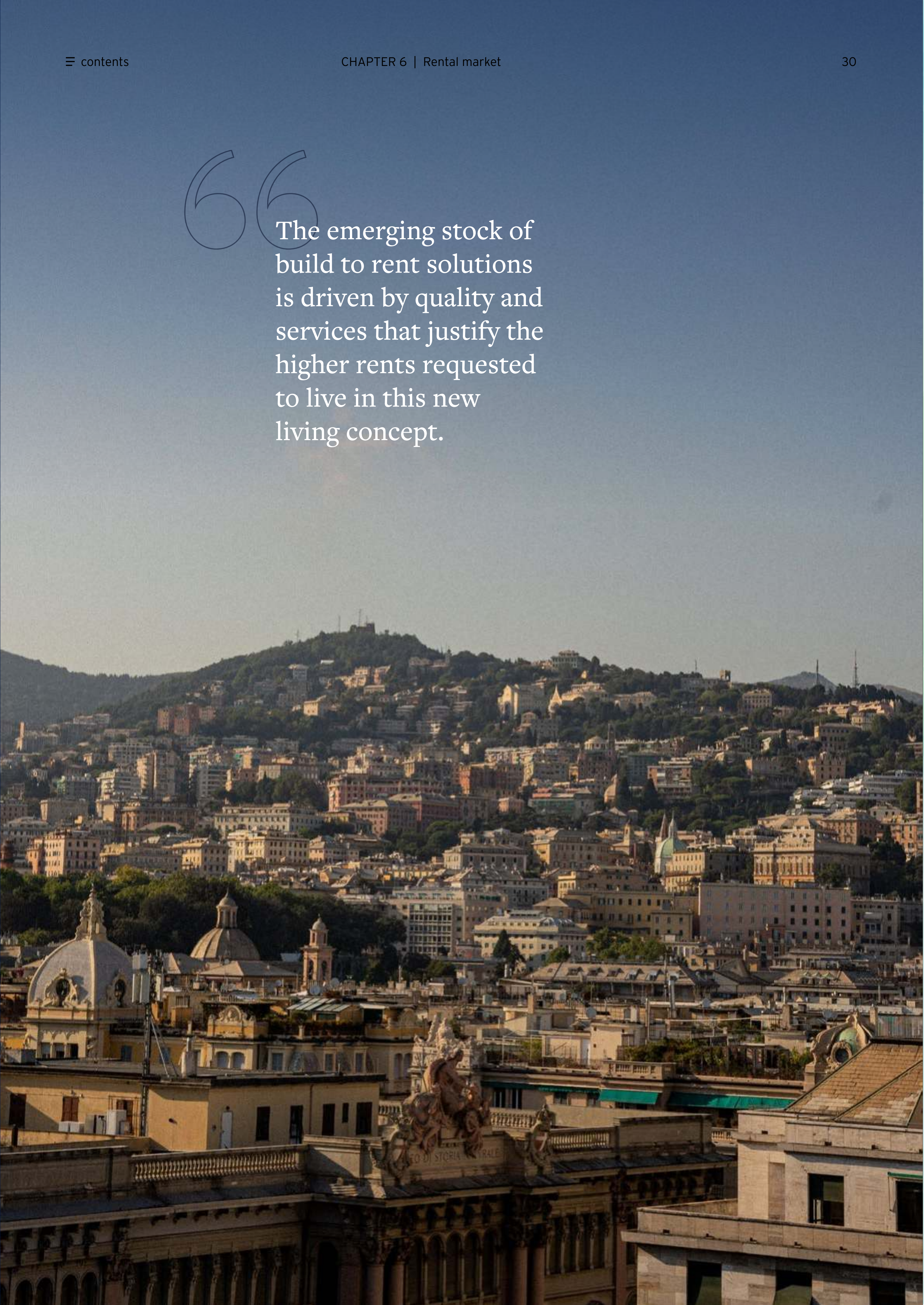


Rome
Projects **5**
Dwellings **750**



LEGEND SIZE

- Small (<50 dwellings)
- Medium (50-100 dwellings)
- Large (>100 dwellings)



> The emerging stock of build to rent solutions is driven by quality and services that justify the higher rents requested to live in this new living concept.

DENTONS

The Legal Perspective

What are the features of multifamily assets? How does the type of services provided inside a BTR scheme affect destination of use of the building and the contract signed with final users?

These are usually residential complexes included in housing complexes designed to be leased for residential use or sold. By way of example, these are condominium and supercondominium. Such complexes are characterized by having common areas and services, with the aim of promoting, inter alia, cost savings and energy efficiency.

With reference to the applicable laws, please refer to Law 431/1998 with regard to leases for residential use, as well as the provisions of the Italian Civil Code.

With reference to all new or hybrid ‘living’ categories such as student housing or serviced apartments, it should always be pointed out that the type of services offered may impact not only on the urban destination of the property, but also on the overall consistency of the model adopted and its legitimacy.

Brief overview of the Propco / Opco structure

The Propco / Opco structure is corporate setup by which to achieve the separation between ownership and operational management of real estate assets: on the one hand, Propco has the ownership of real estate assets; on the other hand, Opco handles their operational management.

Typically, Propco and Opco are subsidiaries of the same entity (or at least attributable to the same group), which, by controlling either directly or indirectly the shares in the two companies, in fact combines on itself both the status of owner and manager of the real estate assets, though through this separation.

Reasons for the adoption of the Propco / Opco structure

(i) splitting the business risk - by separating the ownership from the operational management of the assets, the latter can be protected from any financial or legal risks arising from the operational activity, with the effect of allowing any real estate investors not to be directly exposed to the risks associated with conducting the business (e.g., employment relationships); the structure can, also, facilitate the search for specialized investors.

(ii) resource management - the separation between Propco and Opco allows for a more efficient management of available resources and allows an easier release of fixed assets (e.g., through a sale and lease back).

(iii) tax planning - separating the ownership of the real estate assets from the operating business may allow for different tax treatments to be applied to the two entities, thus optimizing the overall taxation (e.g., deduction of rent payments made by the Opco to the Propco as operating expenses and consequent positive impact on taxable income; better planning in the event of a subsequent sale of the real estate assets, due to the possible management of capital gains and different tax regimes between the real estates and the business branch in the event of an asset deal).

Agreement types between Propco and Opco

In most cases, the agreements entered into between Propco and Opco mainly concern the enjoyment of real estate assets.

(i) commercial lease agreement - this is the prevalent solution that achieves the highest degree of separation between the two entities, which operate PropCo as landlord and Opco as tenant.

The Opco benefits from the greatest degree of autonomy in the operational management of the business exercised within the premises; the Propco is guaranteed a constant cash flow - from the Opco's rent payments - necessary to meet its mortgage obligations, while remaining tendentially responsible only for the structural maintenance of the real estate assets.

It should be noted that the Propco / Opco structure does not fit well with business lease agreements, which presume ownership of the business - including licenses, contracts, employees, etc. - under the Propco and its transfer to Opco in its entirety, thus frustrating the purpose of the separation embedded in the Propco / Opco structure.

(ii) management agreement - if the Opco (tenant through the lease agreement entered into with the Propco) does not have the necessary resources to fully manage on its own the business exercised within the premises, it may enter into the so-called "management agreement" with a third-party professional manager through which the manager assumes, for consideration, the obligation to manage the business using its own know-how and distinctive signs, but in the name, on behalf and at the risk of the Opco and thus following the latter's instructions.

How can serviced apartments be classified: tourist accommodations, hospitality facilities, or residential properties?

Serviced apartments are usually furnished flats rented out for short / medium-term periods, jointly providing services typically referable to the hotel industry (e.g. cleaning of spaces, dry cleaning, laundry).

At a national level, no standardized regulation of serviced apartments has yet been prescribed, with the result that the town planning intended use to which they are referred is identified on the basis of regional or municipal regulations. At present, a more detailed regulation is set only for non-hotel accommodation facilities, which are regulated autonomously by each region, and to which serviced apartments can be referred.

With regard to the applicable laws, it is necessary to assess:

(i) whether, in the relationship between the several services, the provision of the aforementioned services turns out to be equal to the enjoyment of the property and, in this case, the contractual parties will be able to sign an atypical contract of hospitality or accommodation in the facility; or

(ii) whether, on the contrary, these services turn out not to be significantly relevant with respect to the enjoyment of the property and, therefore, it will be applicable the regulations provided by the Italian Civil Code on leases, as well as the special regulations on residential leases under Law 431/1998 and the regulations on short leases under Decree Law 50/2017.

CHAPTER 7

Student housing market

A shortage of bed supply makes the sector attractive

Italy boasts prestigious universities that have seen the number of students grow steadily in recent years, exceeding 1.8 million in the 2021/2022 academic year. Rome counts the highest figure of enrolled students (280,000), followed by Milan (187,000).

The number of international students has increased in recent years, currently standing at 6% in Italy. In the meantime, the share of mobile students is rising as well, not only thanks to internationals, but also because Italian students are increasingly moving to cities where the best universities are located.

Total bed supply for students in Italy stands at around 68,000 units: public beds are the most widespread, especially those provided by DSU (Diritto allo Studio Universitario - Right to University Study), covering 72% of the total.

In recent years private student accommodations are increasing their presence in the market and today they represent 22% of the total (against 19% in 2021). Approximately half of total supply is concentrated in Milan, Torino, Rome, Bologna and Firenze.

Among European countries, Italy has one of the lowest provision rate (total number of beds divided by the total number of university students), standing at 4%, a figure significantly below the European average (12.5%).

To solve the bed shortage issue, several student housing projects are in pipeline: by 2026, around 24,000 more beds are expected to be delivered to the market. However, these figures are not sufficient to cover the potential demand for beds. Provision rate should rise up to 12% in Milan and 4% in Rome in 2026, suggesting the need of additional supply.

Gap in demand for beds

Italy **520,000**
Rome **48,000**
Milan **65,000**

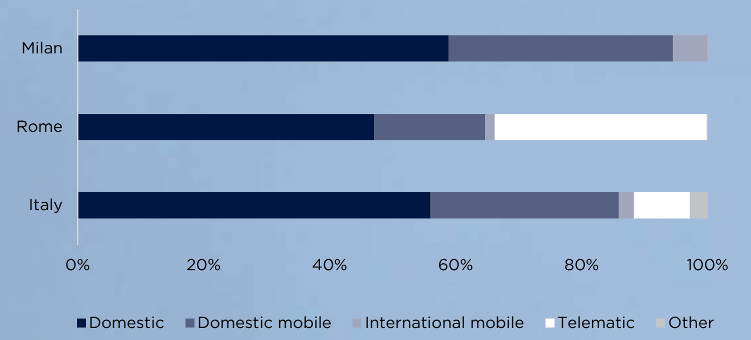
Average rents, Public student accommodation / PBSA (€/month)

Rome **350 / 670**
Milan **570 / 1,350**

Top 10 cities by number of university students, 2021/2022 academic year

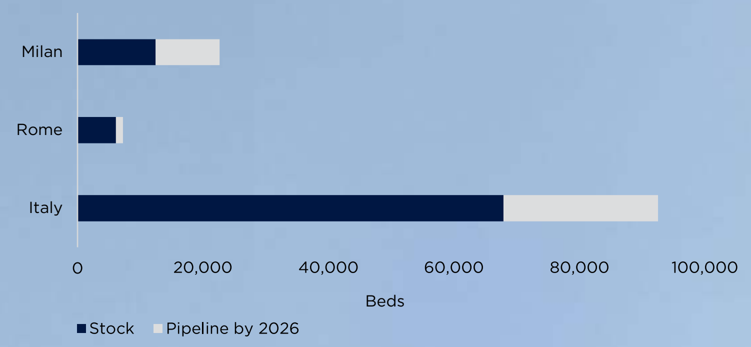
1. Rome
2. Milan
3. Napoli
4. Torino
5. Bologna
6. Padova
7. Firenze
8. Bari
9. Pisa
10. Palermo

Number of students by type*, 2021/2022 academic year

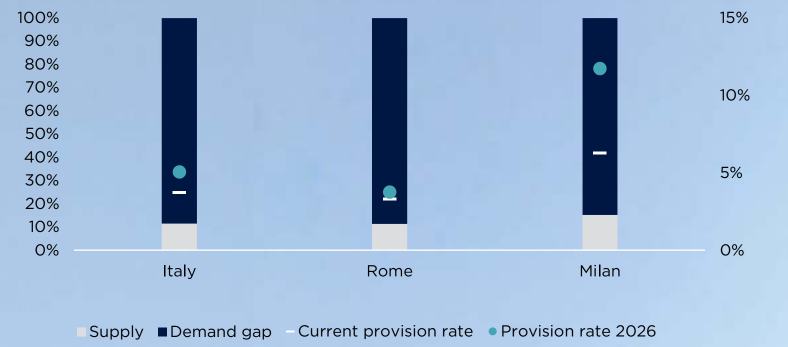


Source: Savills Research on MIUR data

Total stock and future pipeline



Total supply, demand gap (LHS) vs actual and future provision rate (RHS)



> PBSA sector proves to be resilient, dotted with several projects in pipeline and relevant number of operators, both national and international, active in the market or eager to enter it.

*Domestic: Italian students based in the same region and in a province with a journey time of less than 60 minutes; Students enrolled in telematic universities
Domestic mobile: Italian students based in other regions or in a province with a journey time of more than 60 minutes
% International: International students / total students
Other: Occurrences below 5

New developments

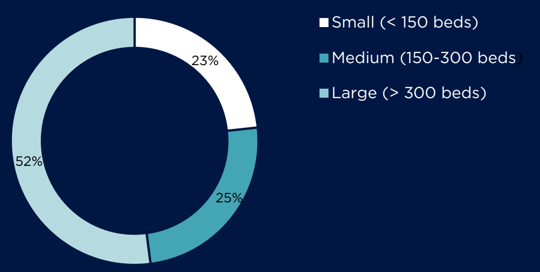
Thanks to the services offered, PBSA is establishing itself as a viable alternative to classic rental accommodations

A total of 73 future student housing projects were identified in the Italian market. Many of them are already under construction and expected to be completed by 2026; half of future structures are related to PBSA schemes, therefore characterised by large sizes. Although most of the pipeline is concentrated in the 5 key cities (Milan, Rome, Torino, Bologna and Firenze), we expect further interest for cities with less consolidated initial appeal in terms of location, but with a strong university presence, like Padova, Pisa, Venezia and Ferrara.

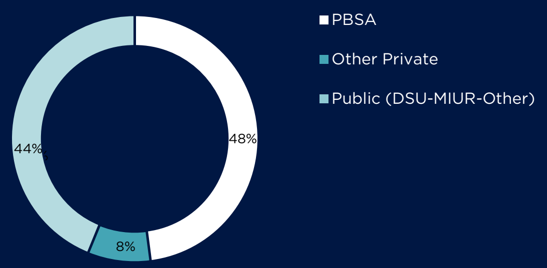
Milan stands out as the main destination where around 10,000 beds will be allocated, equal to 42% of the total pipeline; the future student offer in the city will be characterised by the highest standards, with various green certificated projects. Rome remains a step behind, counting fewer projects, but promoted by recognised developers.

New PBSA supply is driven by quality, services, amenities and facilities, strongly supported by the structural undersupply of student beds as well. These new products turn out to be more competitive and attractive than traditional accommodations for both national and international students willing to pay an extra amount to benefit of these unique services.

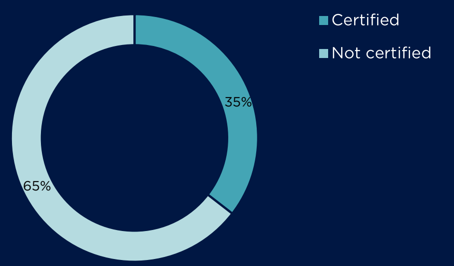
Number of projects by size



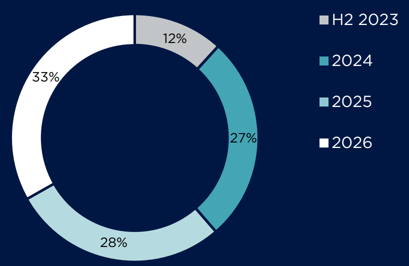
Number of projects by provider type



Number of dwellings with green certification



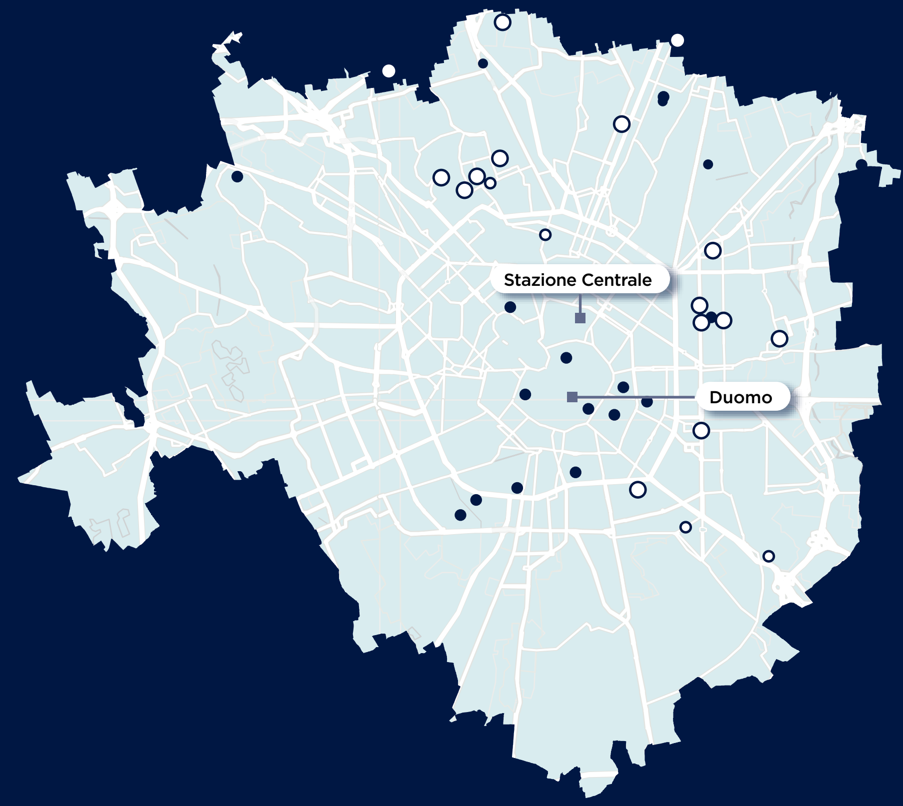
Number of dwellings in pipeline by year of completion



Main projects

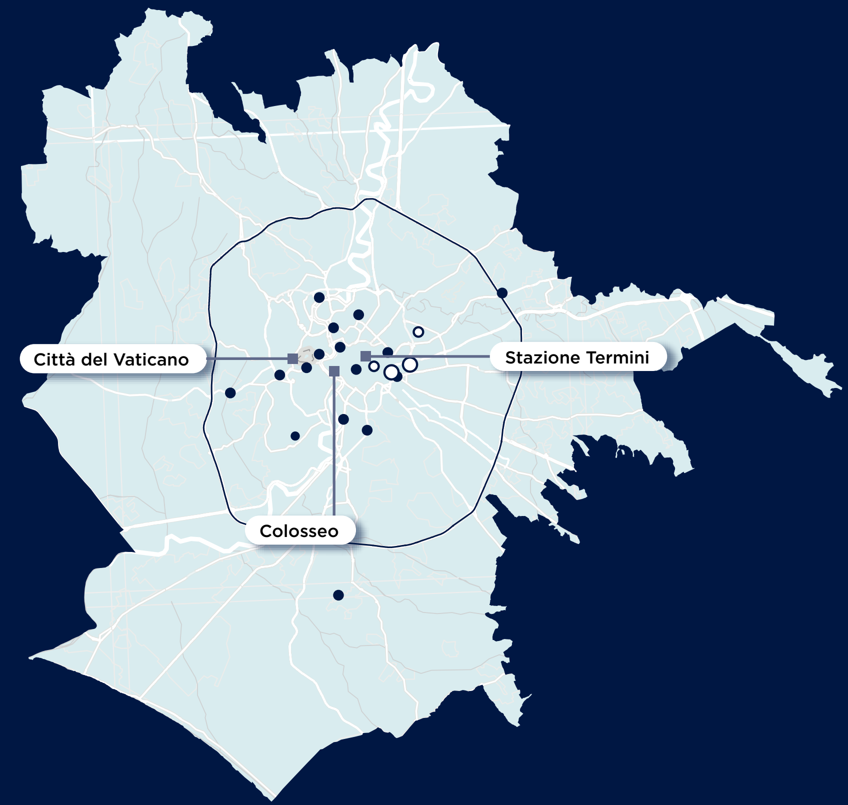
Milan

Projects **22**
Beds **10,000**



Rome

Projects **5**
Beds **1,100**



LEGEND

- Universities
- Student housing

LEGEND SIZE

- Small (<150 beds)
- Medium (150-300 beds)
- Large (>300 beds)

DENTONS

The Legal Perspective

What is the designated use of a PBSA scheme? Does it vary from municipality to municipality, or is there a uniform national regulation?

At national level, the lawmaker has classified accommodation and residences for university students mainly in order to:

a) regulating access to a public co-financing scheme for the construction of such properties (Law No. 338 of 14 November 2000, setting out "Provisions on housing and residences for university students" and implementing decrees of the MIUR, most recently Ministerial Decree No. 1256/2021, which approved Annex A setting out the "Minimum dimensional and qualitative standards and guidelines relating to technical and economic parameters concerning the construction of housing and residences for university students", specifying that the organizational model to structure the student housing and residences can be freely defined by the proposing party, indicating, by way of example, the following types: a) hotel-like; b) mini-housing; c) integrated units (nuclei integrati)) or

b) to dictate programmatic norms aimed at promoting the right to study (Legislative Decree no. 68 of 29 March 2012, on the "Revision of the principle regulations on the right to study and the development of legally recognised university colleges").

On the contrary, the national lawmaker has not provided either town planning or building regulations for student halls of residence, leaving wide autonomy to regional and municipal town planning regulations.

Each municipality, therefore, has the power to identify the town planning use to which student halls of residence should be assigned.

Usually this is either residential (in the subcategory of collective housing) or accommodation use. Only more rarely are student halls of residence assigned to service use.

The matter, however, is not always explicitly addressed by the municipalities, with the result that frequently remains rooms for applicative uncertainty and the choice of town planning is left to an assessment conducted on a case-by-case basis and with reference to the specific characteristics of the project.

What types of contracts exist between Propco, Opco and students?

Without prejudice to the framework summarized above concerning the relation between Propco and Opco, the different types of contracts that can be entered into by the final users (i.e. students) depend on different elements, such as contractual subject matter and duration:

(i) lease agreements pursuant to Law 431/1998 and the Italian Civil Code's regulations on leases, possibly under broader territorial agreements concluded by the most representative organizations of building owners and tenants with the relevant public bodies that provide the general criteria for the determination of rents and the models of contracts for university students away from home (possibly under the so-called temporary leases);

(ii) hospitality agreement if the services provided along with the enjoyment of the housing real estate units are relevant compared to the mere enjoyment of the property, affecting the contractual synallagma.

CHAPTER 8

Living investment market

The interest in the sector will intensify, especially in Milan and Rome

Over the last 18 months, European economies have been battling soaring inflation, rising energy and construction costs, geopolitical uncertainty and higher interest rates. This resulted in decreased investment volumes, which affected the living sector as well. Living volumes (which comprises residential, student housing and healthcare), after the peak reached in 2021, registered a contraction: in the first semester of 2023 less than € 20 bln were recorded (€ 620 mln of which in Italy).

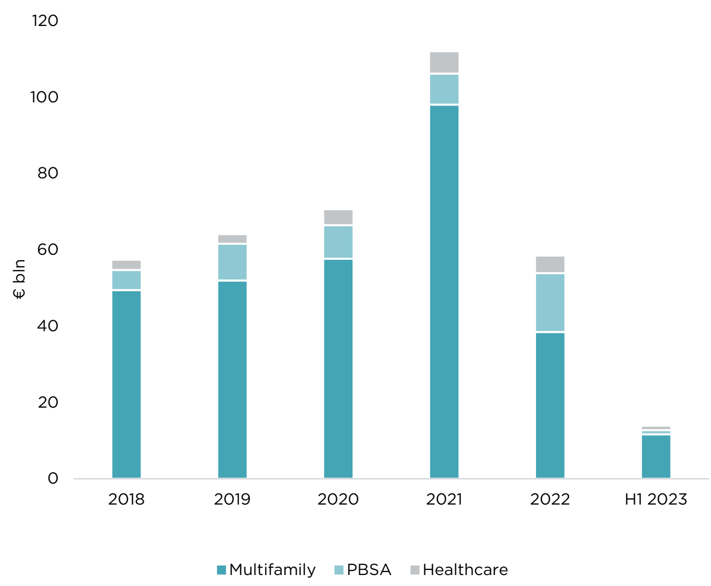
Living activity is historically driven by the multifamily component, which weighs on average 78% of total volume. The challenging economic backdrop and the structural supply and demand imbalance intensified by energy ratings legislation, resulted in a sluggish activity. Around € 11 bln have been invested in Europe in H1 2023, a figure 55% lower YoY, with Germany remaining the largest market.

In Italy, a growing interest in multifamily has been noted, especially in the last two and a half years: volumes have reached € 550 mln and mainly concern redevelopment projects (10 out of 11 transactions). Although Milan represents the main location, where around 80% of activity has been registered, other cities such as Rome and Firenze are gradually becoming more attractive to investors, generating increasing interest. The sector is however supported by its solid fundamentals: rising rents and difficult access to the residential market due to still growing interest rates will support greater demand in the future. The past 12 months have seen a correction in yields in major European countries, which have moved by between 60 bps and 110 bps. As the cost of debt remains consistently high, we foresee that yields will remain under pressure in the near future.

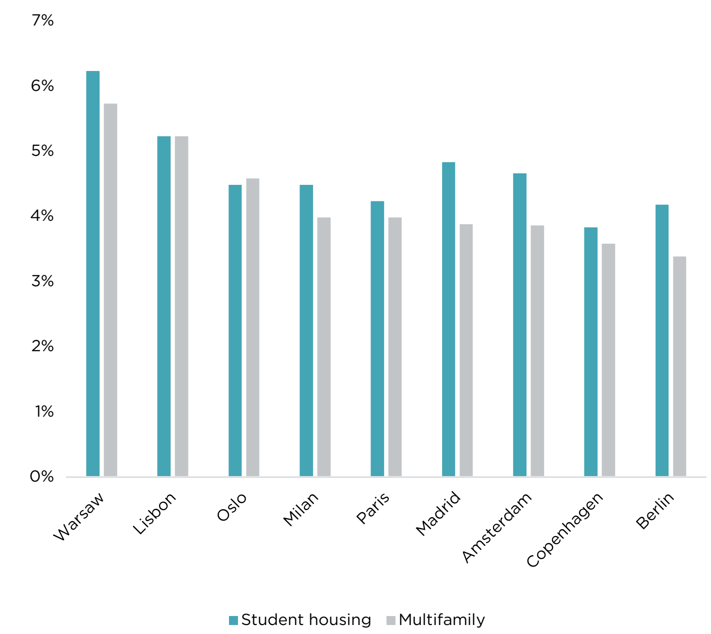
The student housing activity has been driven by rising total numbers of students and a strong growth in international student numbers. However, due to the lack of suitable existing stock, the main market entry is through forward funding of new developments, which has become challenging due to the escalating cost of construction. On average, in Europe, the prime student housing yield stands at 4.4% in Q2 2023, about 40 bps above the same period last year, with another slight increase expected next year.

Italian student housing volumes were limited in recent years, but in the first part of 2023 we started observing transactions of income producing products reaching a half year record of € 170 mln. The sector has shown good resilience, which has been reflected in a slight decompression (+25 bps) of Italian yields over the last year.

European living investment volumes



European living prime net yields, Q2 2023



Main Outcomes

1

Demographic trends and ESG criteria will increasingly affect the market in the next years. Ongoing demographic changes (growing urbanisation, ageing, smaller households, tendency to move for work and study, migration) will maintain the focus on cities. Those that succeed in addressing the challenges of quality of life, connectivity, affordability and sustainability will thrive by attracting talent and innovative businesses.

2

The rapid increase in interest rates caused a slowdown in loans disbursement, contributing to the deceleration of the market and affecting household purchasing power. The historical share of residential transactions supported by a mortgage decreased from 50% to 40% in H1 2023. For the coming months, the slowdown in transactions is expected to persist, but the level of insolvencies will remain low, with a limited and circumscribed impact on prices.

3

The Italian residential market, despite experiencing steady growth in prices and, above all, rents sustained by the limited supply, continues to maintain its competitive position when compared to major European cities. Thanks to the positive trend in the labour market, consumer confidence remains strong despite the decrease in real income and saving rate. The financial situation of Italian households remains good with low indebtedness and high wealth, even when excluding real estate holdings from the calculation.

4

The residential sector accounts for more than 90% of the total investment volume, both private and commercial, in real estate. The Italian residential stock is dated, suggesting a need to reconvert it to meet higher standards. Even though more than half of dwellings are used as main residences, the largest cities present a higher amount of rented houses, especially Milan, and a lower rate of privately owned housing.

5

After the record of the previous year, the number of sold dwellings slowed down in the first part of 2023 as a result of worsening financial conditions. Rome and Milan represent the main markets, where times to sell are steadily decreasing and small size units are increasingly in demand, especially in the latter city. Prices continued to rise in the first part of 2023, but at a slower pace compared to a year earlier.

6

The rental market has performed well during the last 18 months, reaching a take-up of around 76 million sqm in 2022. The market is characterised by robust demand and low supply, supporting a still sizable rental growth. Rome and Milan confirmed to be the main markets. Build to rent solutions are emerging as a new type of product combining amenities, common spaces and expert management.

7

Renowned Italian universities attract every year more than 1.8 mln students with the mobile and international component steadily increasing. Despite the development projects in pipeline, the gap in demand for beds is forecasted remain high. PBSA schemes are becoming established in the market: new offer in the sector is driven by quality, services, comfort and facilities, all of which sustain higher rents.

8

Due to the challenging economic scenario, investments in the European living sector were limited in H1 2023 but the sector is supported by its solid fundamentals. Living volumes in Italy recorded around € 600 mln, among which stand out redevelopment projects into multifamily solutions and transactions of income producing student housing. The sector is showing good resilience, with prime yields decompression likely to mitigate next year.

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