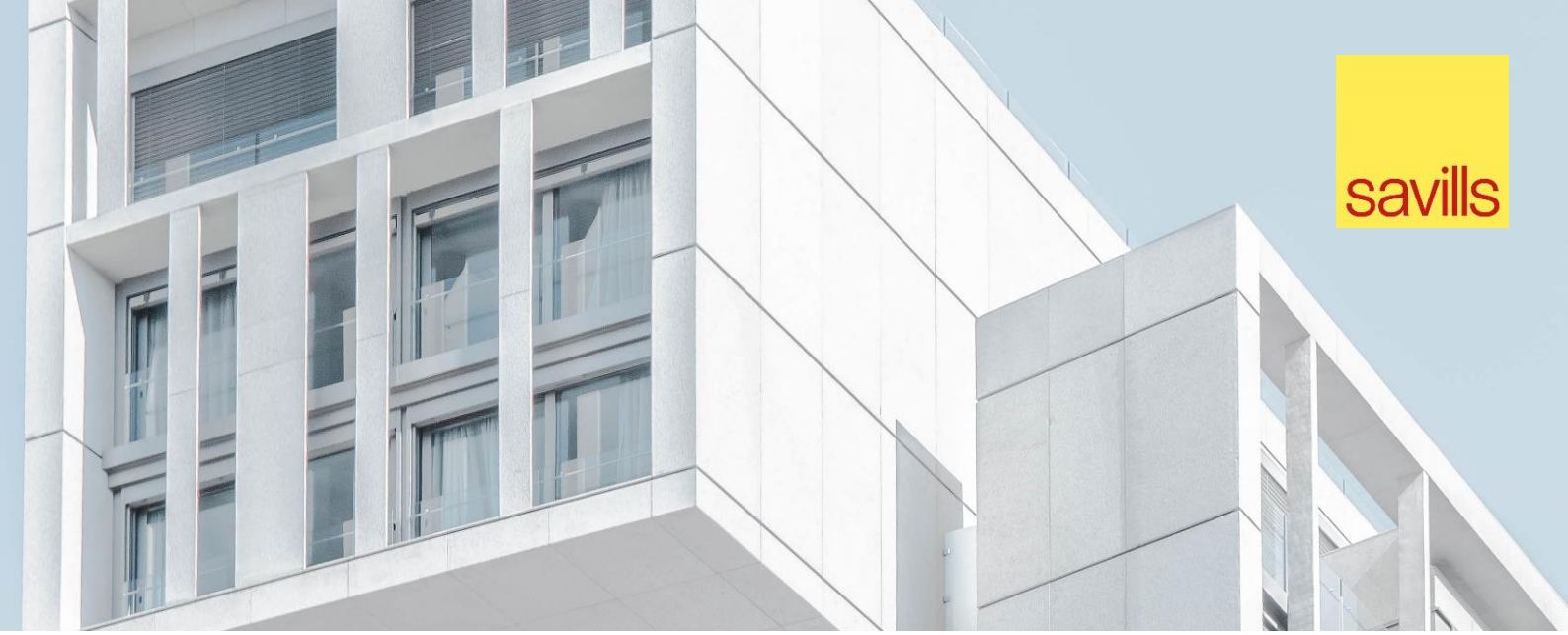


Italian Spotlight Q1 2022
Booming despite growing uncertainty

HIGHLIGHTS

- In terms of investment volume, Q1 2022 represented the best first quarter of the last 10 years
- Offices came back as the main investors' target, followed by logistics
- Official ECB interest rates are likely to move already this year, as inflation and war slow down economic growth
- Prospects remain solid for the remaining of the year, despite the risks
- Typically, in periods of uncertainty, there will be a focus on core assets with sustainable fundamentals
- Competition for the limited core assets on the market will sustain current yield levels and prime rents
- Logistics, prime office and retail high street will remain in the investors' focus together with living developments
- Trends in construction costs and rising financing costs will slow down new projects, impacting the sustainability of some developments

INVESTMENT VOLUMES

€3.4

TOTAL
€ 3.4 bn
+172% YoY

OFFICE
€ 1.5 bn
+394% YoY
43% weight

LOGISTICS
€ 0.7 bn
+139% YoY
20% weight

LIVING&HEALTHCARE
€ 0.5 bn
+172% YoY
16% weight

HOSPITALITY
€ 0.4 bn
+269% YoY
13% weight

RETAIL
€ 0.2 bn
+305% YoY
6% weight

ALTERNATIVES
€ 50 mln
n.a.
1% weight

MIXED&OTHER
€ 50 mln
n.a.
1% weight

Macro-economic Outlook

The global scenario is currently dominated by the Russian invasion of Ukraine. As events evolve on a daily basis, it is difficult to fully understand and forecast the extent of the impact of this unprecedented crisis. Moreover, the crisis comes on top of an already complicated framework, made difficult by the ongoing pandemic, upward pressures on various commodity prices, and the bottlenecks in some global supply chains. The effects of the crisis at global level are strongly uneven across areas and sectors. Among macro-areas, the European Union is the most affected whilst among the sectors, the most affected are the energy-intensive ones, and other highly internationalised ones such as transports equipment.

In Italy, rising oil, gas, and coal prices are increasing the costs of businesses. Italian core inflation is still low, as companies have largely absorbed their higher costs eroding margins. However, in the medium term this practise will turn out to be unsustainable and will lead to reduced or stopped production.

The increase in energy and food prices is squeezing households' purchasing power and this will affect the scale and pace of growth in good consumption, the recovery of which is now hampered by the greater uncertainty affecting confidence. Nevertheless, after two years of pandemic, the easing of restrictions is likely to support services and leisure expenditure. Propensity to save is still far from being normalise at pre-Covid level (14.9% 2021 average).

The direct impact of sanctions on Russia, concerning the Italian exports, is overall modest (1.5% of total Italian exports; source: Confindustria). The conflict will tend to reinforce the bottlenecks in the global supply network, which already appeared in 2021.

Further, the geographical concentration of Italian exports, EU countries, and its specialisation (metal products) will not help.

The positive effects of PNRR and incentives could slow down, even if it will continue to sustain investments and construction: some of the planned projects may be difficult to realise at current prices while others will have to be postponed due to lack of materials.

With the Ukraine war and pandemic-related prices pressures still much stronger than anticipated, the ECB could begin to raise the interest rates this year in order to bring inflation back down to 2% in the medium term. Consensus Economics forecasts three 25bps rate this year and five next year, bringing the deposit rate to 1.5% by end-2023. In March, the Bank of England increased its base rate to 0.75% while the FED raised the benchmark rate by 25 bps to a range of 0.25%-0.5%, its first interest rate increase since 2018.

The inevitable rise in interest rates will have direct impacts on government bond yields, making public debt more expensive, as well as on loans, as borrowing money will become more difficult and expensive.

In March, both Consumer and Business Confidence Index worsened. Consumers are starting to see a deterioration of both economic and future climate. Companies in all economic sectors, on the other hand, are starting to become more cautious.

According to Consensus Economics, after a growth of 6.6% in 2021, Italian GDP will register an increase of 3% in 2022 followed by a 1.5% in 2023, bringing Italy back to pre-pandemic levels only in the first quarter of next year.

CPI
+6.7% YoY
(Mar. 2022, provisional)

GOVERNMENT BOND YIELDS 10 YEARS
1.79% (+120bps YoY)
(Feb. 2022)

CONSTRUCTION COSTS' INDEX
+6.8% YoY
(Feb. 2022)

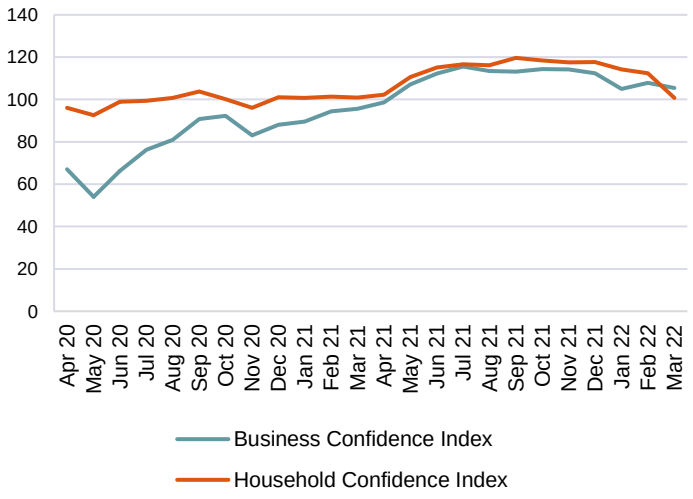
INTEREST RATE – LOANS FOR HOUSE PURCHASE
1.49% (+20bps YoY)
(Feb. 2022)

Macro-economics KPIs

Italy (% YoY)	2010-19 average	2020	2021	2022 (F)	2023 (F)
GDP	0.30	-9.00	6.60	3.00	1.50
Consumer spending	0.10	-10.80	5.20	3.70	1.90
Employment	0.30	-2.80	0.50	2.50	1.00
CPI inflation	1.30	-0.30	1.90	5.70	1.40
Official interest rate	-0.17	-0.50	-0.50	-0.25	0.25
Government bond yields 10 years	3.20	1.17	0.81	2.25	2.75

Source: Consensus Economics, Oxford Economics, ISTAT, Banca d'Italia

Confidence index



Commercial Real Estate Investment Market

In Q1 2022, around € 3.4 bn were invested in the Italian commercial real estate market, registering a 172% increase compared to Q1 2021. The first three months of 2022 represented the best first quarter of the last 10 years. Q1 2022 investments' volume surpassed the last 5 years' average by 69%.

The trend would have been positive even without the closure of the biggest deal of the quarter: The selling of a € 842 mln portfolio from Enpam to Apollo was signed in March. This big deal accounted for around 25% of total investment volume. Mega deals' (> €100 mln) weight increased (55% of total investments) compared to Q1 2021. Portfolio deals continued to grow, reaching 49% of the volumes transacted in the quarter.

Foreign capitals continued to be predominant, accounting for the 84% of the total investment volumes; Global and European capitals represented the biggest share.

In terms of geographies, Milan confirmed to be the preferred destination, registering 50% of the quarter investment volume, followed by Rome (9%). Thanks to the positive trend of logistics and hospitality sectors, the other italian cities accounted for 27%; among this, Siena (hospitality) and Verona (logistics) stood out.

With € 1.5 bn, offices returned to be the main sector in terms of investment volumes, followed by logistics. Rome and mainly Milan remained central, as well as grade A assets.

Logistics confirmed its relevance in the Italian panorama, representing around 20% of total investments. International investors confirmed to be the most active actors in the segment.

The resilient characteristics of the living & healthcare sectors sustained volumes. The Q1 level was mainly driven by the residential segment; in particular, among the 9 deals of the quarter, several transactions involved lands and developments, while other investors remained focused on Milan. As regards as healthcare, care homes and clinics drove volume.

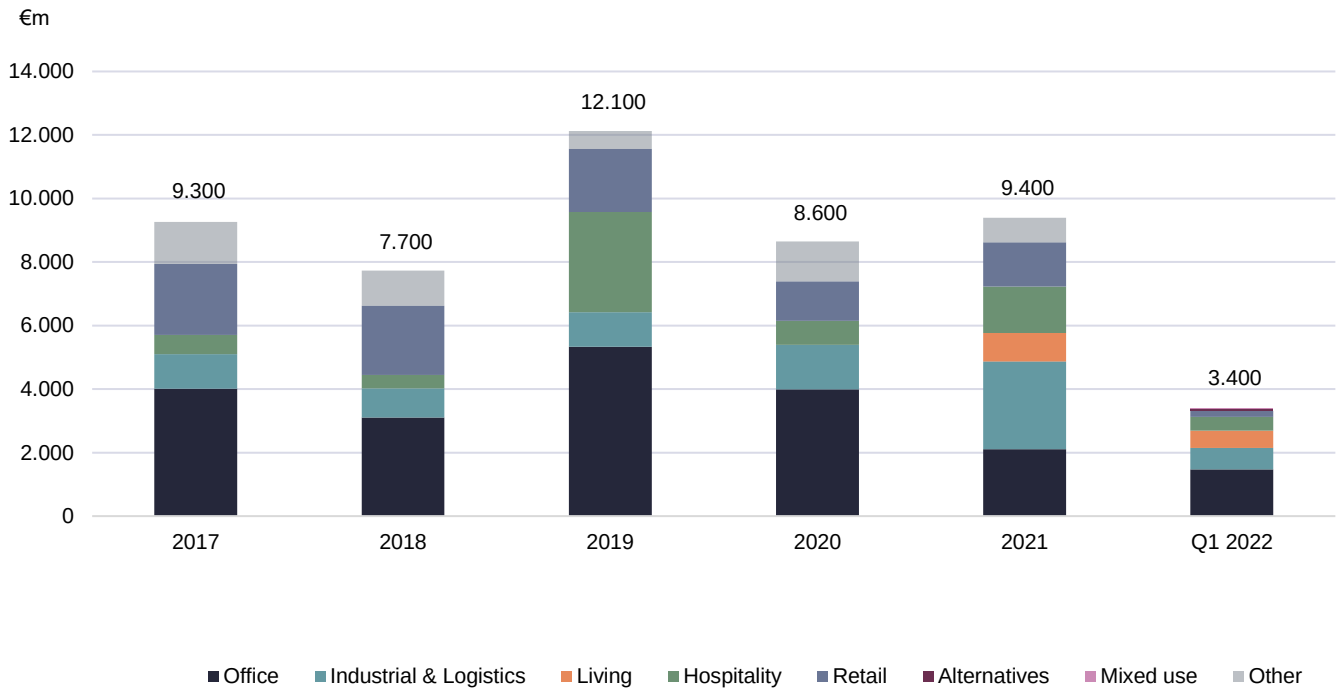
Following the great rebound of 2021, hospitality continue to expand, driven by solid fundamentals. Key leisure and business destinations have seen a rebound in investment volume, although the segment is still facing a challenging momentum.

Rental levels remained stable for high street while the shopping centre ones started to incorporate the inflation trend; offices and logistics registered an increase sustained by demand for grade A assets. High competition for prime assets resulted in a further yield compression in office and logistics.

Despite the risks, investors demand for the Italian CRE market will remain strong in the next months, driven by more competitive yields compared to other segments, and relative to the major European countries. As events evolve on a daily basis, it is difficult to fully understand and forecast the extent of the impact of the current unprecedented crisis. Typically, in periods of uncertainty, there will be a focus on core assets with sustainable fundamentals. Competition for the limited prime assets on the market will sustain current yield levels and rents; yields are forecasted to further compress for logistics, while prime rents will reach higher levels for both offices and logistics. Investors with higher risk appetite will come back towards more profitable sectors.

"Following the good wave of 2021, Q1 2022 exceeded expectations. Prospects remain solid for the remainder of the year but, if risks persist, the outlook will be uncertain ."

Investment volume by sector



Office

The office sector came back to take the lion's share in terms of investment volumes in Q1 2022 reaching around € 1.5 bn, representing the higher Q1 of the last ten years with a figure 56% higher than the last 5 years quarterly average.

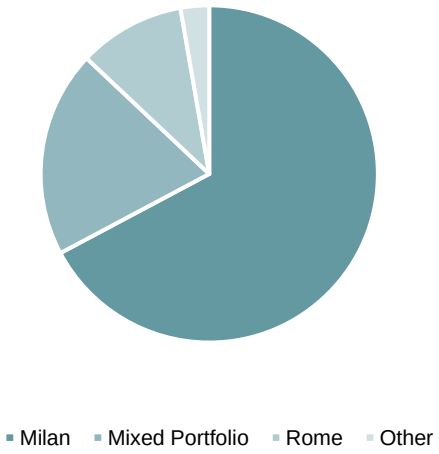
The quarter was highly dynamic (19 deals were recorded) and characterized by the presence of several deals of huge dimensions. Among them it is worth mentioning the office component of Enpam portfolio (counting for around € 400 mln), the A2A portfolio sold in Milan, and the IFAD head quarter in Rome. These operations combined counted for half of the quarterly office volumes.

Milan continued to be the first investors' target: 67% of the total volumes were transacted in the city across the acquisitions of 25 assets. Deals were mainly related to assets localized in the historical centre as well as in the peripherical areas of the city and presenting *core* or *value add* profile. In the city of Rome, 5 single deals were closed, in addition to several assets included in mixed portfolios.

More than 90% of the capitals were of international origin, confirming the high appetite for the sector: prime net yields decreased both in Milan and Rome, respectively at 2.90% and 3.7%.

The leasing activity remained positive, sustained by demand for flexibility and the need for a workplace that enables health and wellbeing. Prime rents continued to rise both in Milan (650 €/sqm) and Rome (475 €/sqm). That being said, another upsurge could occur by the end of the year.

Q1 2022 Investment volumes by geography



Logistics

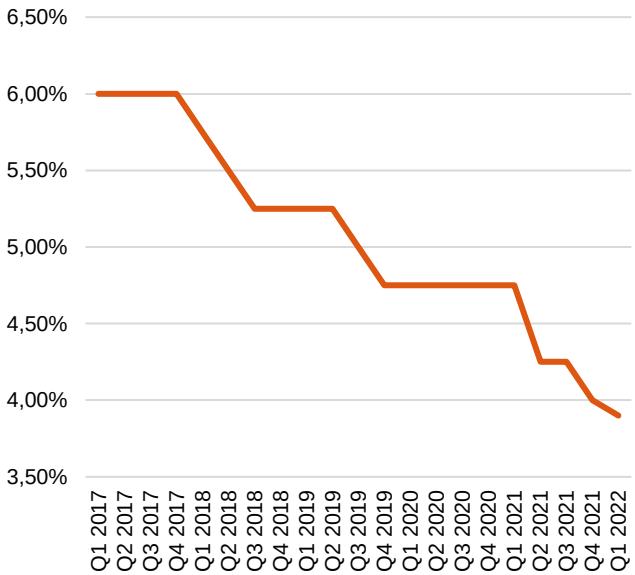
Logistics represented the most dynamic sector of the first quarter of the year, recording the closure of 21 operations related to different types of products. Standard logistics, cross docks, light industrial, land, and developments were all targeted by operators, confirming once again the wide spectrum of appeal of the sector. In Q1 2022, € 700 mln were registered, recording a strong increase both on Q1 2021 (+139%) and on the last Q1 five years average (+300%). The total number of assets transacted in the quarter was 52; 27 of which were cross dock solutions.

In line with historical trends, the market was dominated by international capitals (more than 90%). The Verona market represented the first cluster of the quarter, attracting the 34% of quarterly volumes and followed by Milan (24%). The prime net yield in the latter market contracted by 10 bps, reaching in Q1 2022 the record bottom value of 3.90%.

Despite the North of the Country being still the preferred destination (76%), a growing interest for emerging and secondary locations has been registered for investments, letting, and development activity. The absorption of spaces in the first quarter was positively, with a total of around 700,000 sqm being taken up.

The high demand for logistics space and the lack of products that meet the current needs of players (such as ESG criteria, automation, cold storage, and accessibility) will persist during the year, leading to an increase in prime rents and a concomitant further compression of prime net yields.

Prime net yields



Retail

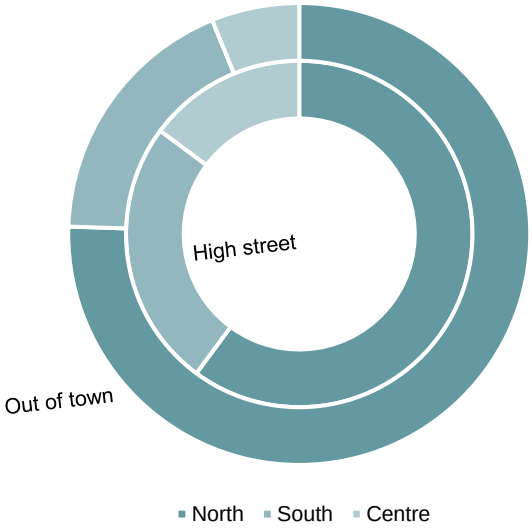
Retail investment volumes in Q1 2022 were limited but showed the first sign of recovery: around € 200 mln were recorded, a figure equal to more than the triple of the first quarter of the previous year, but still lower (-60%) compared to the last Q1 five years average. Despite the general trend, this sector was characterized by a great presence of domestic buyers, which accounted for 45% of quarterly volumes.

High street attracted half of the investments across the closing of 4 deals. The city of Milan was the most sought after location (60%) thanks to the sell of Eataly store acquired by COIMA; a great attention was nevertheless paid to Rome and to the South of the Country. On the other side, the out of town segment recorded 3 deals for € 100 mln. The retail park segment drove the volumes with the acquisition of Terminal Nord in Udine, signed by Immofinanz.

Prime net yields hold stable for both for High street (3.25%) and as well as for Shopping centre (5.90%). For the latter there is no evidence of prime product transactions, while the gap between buyer and seller expectations on pricing for secondary stock is still large. An increasing attention for the grocery segment is instead expected to be seen by the end of the year.

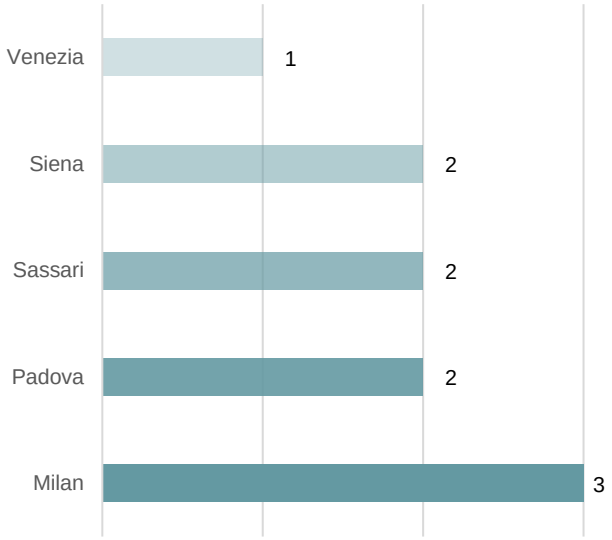
Regarding prime rents, high streets continued to show stability in Milan and Rome, while prime Shopping centres showed an increase due to inflation upsurge, and the high demand in prime centres. More incentives are anticipated to be granted, especially in the prime centres.

Q1 2022 Investment volume by segment and geography



Hospitality

Q1 2022 Number of hotels' transaction by province



The easing of Covid restrictions expected in our Country is set to represent a sign of recovery for the hospitality sector. A return of tourists has been recorded in the first nine months of 2021, a figure that went up by 22% compared to 2020. Even if the figures were far from the pre-covid levels, another additional increase of tourist numbers is foreseen for this year.

The investment volumes transacted in Q1 2022 amounted to € 430 mln, a figure more than tripled compared to the first quarter of the previous year and 28% higher on the last 5 years quarterly average. The assets acquired included both resorts and 5 stars category hotels as well as hotels to be totally renovated. 10 hotels located mainly in Milan were acquired, as well as in the province of Padova, Sassari, Siena and Venezia.

A big deal drove the volumes, represented by the Castiglion del Bosco sold by the Ferragamo family and managed by Rosewood Hotels.

In the first quarter, the capitals invested in the sector were international (98%), precisely coming mainly from Asia and of global origins.

Living&Healthcare

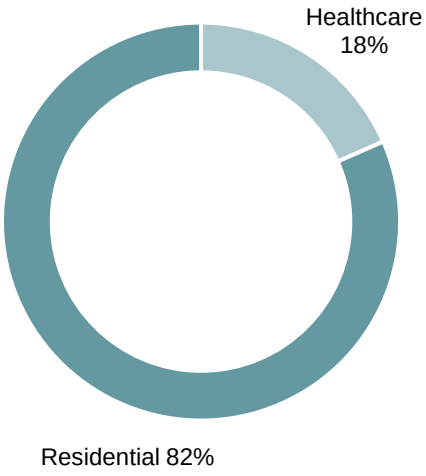
2021 saw the establishment of the living segment, driven by its solid fundamentals and positive macro-economics and demographic outlook. The rising star of the investment arena is now at the top of investors' agenda.

Investors are looking to diversify the risk/return of their existing portfolios, so living products are becoming increasingly mainstream.

For the next months, prospects are expected to remain solid: living developments will remain in the focus of investors. Students and professionals are coming back to universities and offices in the main cities, sustaining the rental market and the increasing pressure to modernise the existing stock. Loans rates will slowly tightening, providing a boost to PRS/multifamily demand. The increase in construction cost prices could affect the viability of some schemes, although demographics will continue to drive tenants' demand. Investors will continue to be focused on the sector, pushed by yield compression in traditional asset classes.

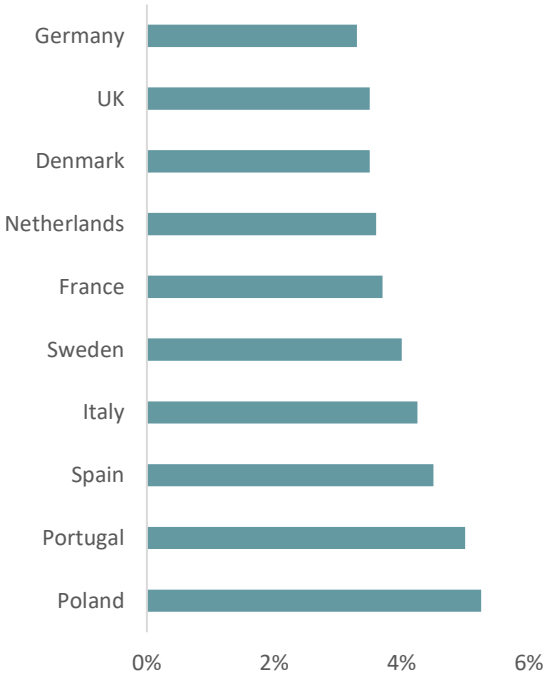
Strong rental growth is forecasted for both residential and student housing accomodations in cities like Milan and Rome, where the supply is significantly lower than the demand. For multifamily, growing prices and rents will support the development of new and modern products, like co-living.

Investment volume by segment



"The growing appeal of the sector is confirmed by the large amount of operators, developers and players which are entering the market to develop new structures."

PBSA prime yields by Country



As for PBSA, unmet demand for professionally managed products will accelerate investments on quality accommodation with adequate facilities and amenities to attract an increasing number of mobile students, Italian and international.

In the healthcare segment, ageing populations and a low level of beds per inhabitants will sustain demand and investments for adequate living facilities, able to meet a demand for modern supply and amenities. The consolidation of owners and operators will continue, alongside with redevelopment opportunities.

In terms of investment volume, the living sector accounted for € 50 mln (16% of total investment volume).

Residential and BTR developments drove volumes followed by the healthcare segment; the student housing sector is still held back by a lack of up-and-running products, but with a substantial pipeline of FF/FP opportunities in Tier 1 cities.

Milan registered the 82% of total investment volume. The source of capital is mainly international (89%).

Several milestone living transactions have been initiated in the last 2 years and refer to future development projects (e.g. Cascina Merlata, MilanoSesto, Sei Milano). Around 8.000 BTR apartments are in pipeline in Milan in the next years.

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