ITALIAN REAL ESTATE OVERVIEW

H2 2022

LIFE IS WHAT WE MAKE IT

CUSHMAN & WAKEFIELD

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INTRODUCTION

We are leaving behind 2022, an eventful year: war, inflation, energy crises, interest rates. 4 words to define the year and which will continue to shape 2023. The second half of 2022 marked the turning point for the real estate industry: from the "lower for longer" to "higher for longer" interest rate environment. Italy chose a new Government led by a right-wing coalition and for the first time in years investors didn't react with nervousness, thus avoiding further turbulence on the Country.

Of course, we still must find out what will be next, and we are aware that we can't predict when the current headwinds will eventually subside. What we can do is read the past and look for opportunities for the next cycle. So: how was the market in 2022?

It was another strong year for the property sector in Italy mainly led by the record growth in the first half, which partially offset the declining trend in the last quarter of the year.

Occupier and investment markets behaved differently during the second half, with the latter quickly reacting to the worsening of the financial market while the former, strengthening further.

Despite the general slow down during the last quarter, Investment volumes reached 11.6€Bn: the highest volume recorded in the first half partially offset the sharp decline in the last quarter of the year. Investors still waiting and seeing, calibrating their strategies for a new "higher rate" environment. Property yields moved out across all asset classes reflecting the new "market cycle".

The office market continued to post strong absorption figures in Milan while Rome performed below expectations with some transactions carried over to 2023. Quality and location was strongly rewarded by occupiers and investors. Prime rents and yields further increased in both markets.

While Retail investments continue to lag behind the other asset classes, real market trends remained mildly positive, despite the worsened outlook due to the rising cost of living. Retailers kept a cautious optimism during H2, mainly the luxury sector and shopping center performance data gradually and constantly improved, confirming consumers' loyalty to the "shopping centre format".

The logistics market remained solid and active, maintaining a strong performance in the second half of the year both on the occupier and investment side, despite a slowdown in activity in the last quarter. The rising cost of capital and construction costs pose a concern to speculative pipeline and investors interest. Rents remain on the rise.

The tourism sector further strengthened in the last part of the year with a strong recovery in visitors compared to 2021. Overall, Italian hotels achieved one of the highest revenue per available room in Europe over 2022 (year average), +40% on the European average. The country's recovery exceeded expectations, with major cities experiencing record RevPAR increases, and Rome and Milan surpassing pre-pandemic levels in H2 2022.

Interest in Living continues as the sector recorded a sharp increase in Y/Y investments, mainly for residential segment. Transactions continue to relate primarily to developments and asset repositioning, mainly involving international investors with a value add opportunistic profile.

We enter 2023 with stronger fundamentals than the previous cycles. The current cycle is changing: the time for cheap money is over and real estate is entering a new era where the operational factor and a longer-term perspective will become increasingly important in assessing the value.

Repositioning and repurposing obsolete assets, ESG retrofit opportunities to optimize asset energy efficiencies, niche sectors driven by a resilient demand are some of the area for opportunities in the industry over 2023.

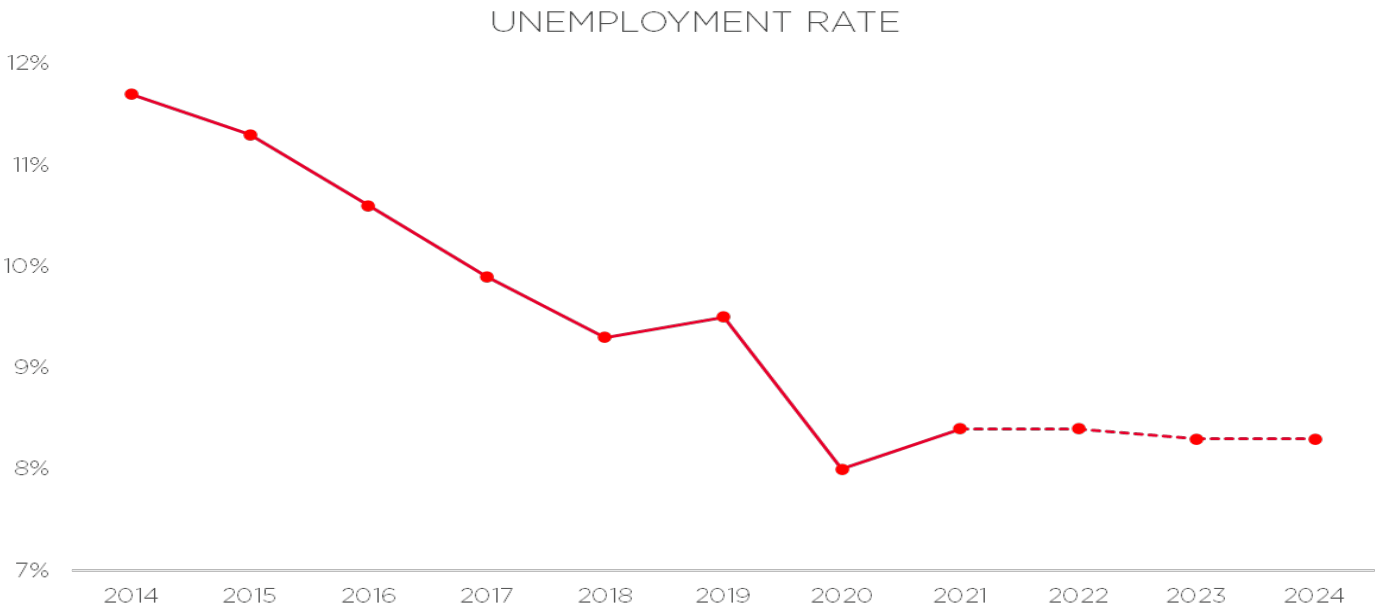
ECONOMIC OVERVIEW

GDP. Italian economy surprised in positive, despite the slow down in the fourth quarter: preliminary estimates for the year end 2022 GDP growth stands at almost 4%. Pre pandemic output recovered but was still 3% below the peak reached at the beginning of 2008. Household spending, which sharply grew in Q2 and Q3 - reporting levels above the 2019 for the first time – seems to have slowed down in the last part of the year.
The weakness of disposable income, only partially supported by government interventions aimed at controlling energy prices and mitigating their impact on the purchasing power of families, mainly affected the trend.

With inflationary headwinds and the prolonged outlook for the war in Ukraine, resulting in the sharp increase in the cost of life, the stiffness of wages could affect the household purchasing power and the future of consumers' spending.

LABOUR MARKET. The labor market confirmed its robustness with unemployment rate ending 2022 at 7.8%, below 2021 level. Total employment slightly rose in October and November, after stabilizing in Q3 at the high levels of the previous period, confirming a positive outlook for the future of job growth. Contractual wages are still not growing accordingly due to the slow down in the negotiation process.

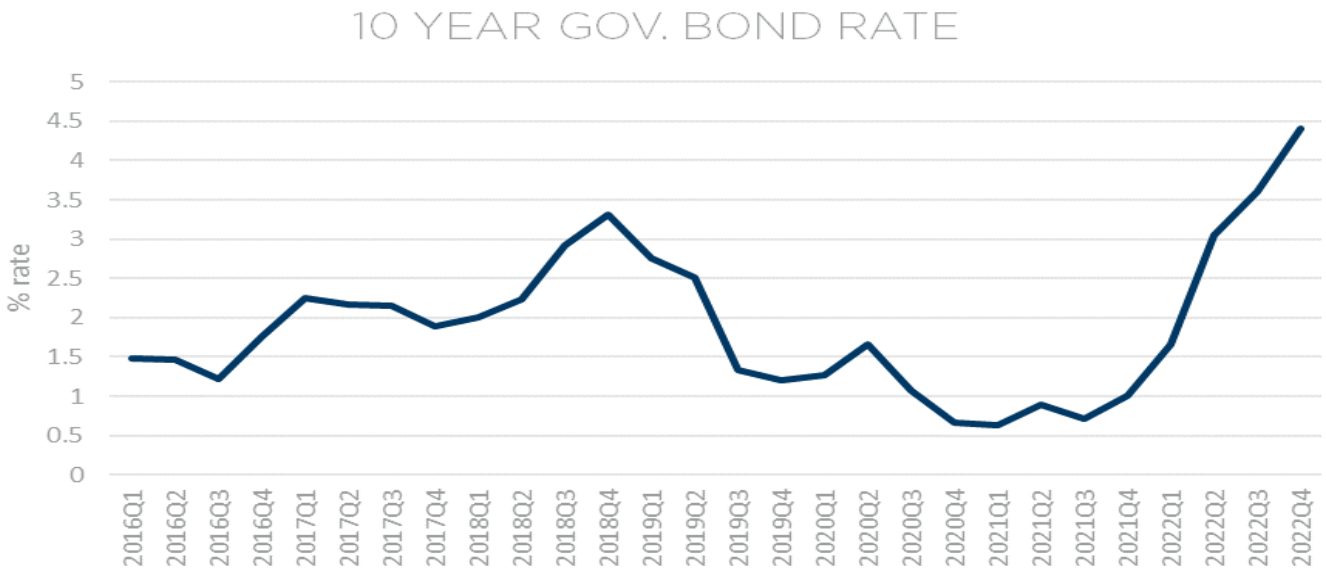
Source: Moody's, Cushman & Wakefiled



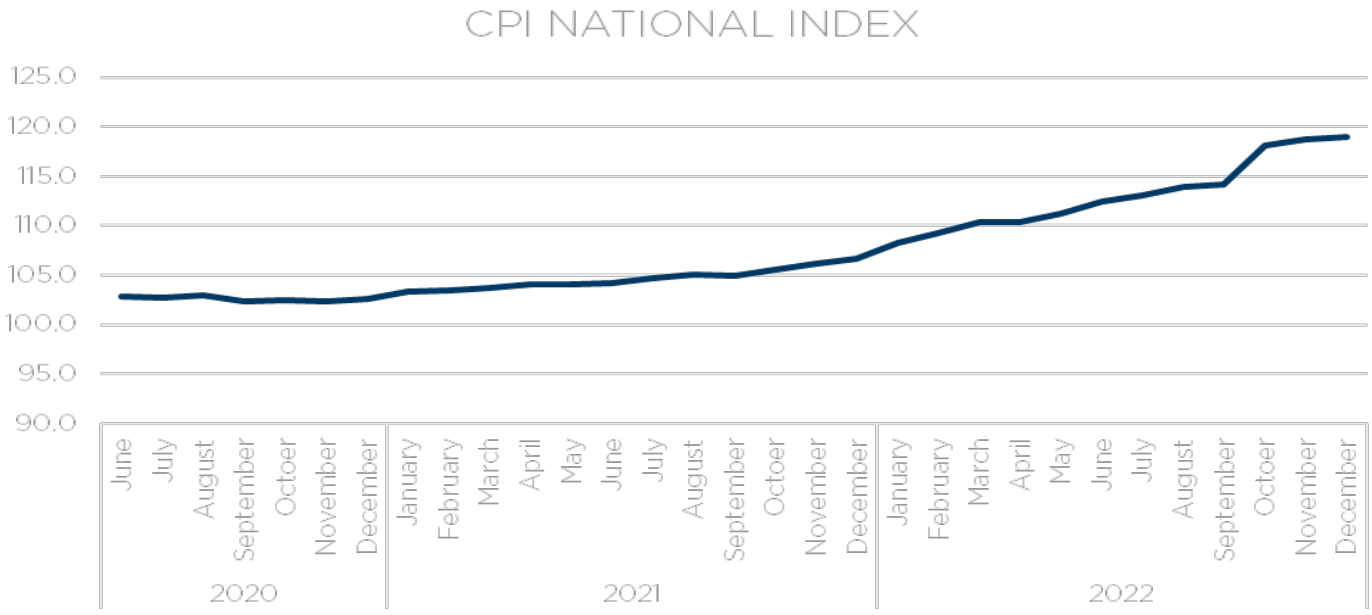
Source: Moody's, Cushman & Wakefiled

INTEREST RATE. The ECB raised its key interest rates by 75 and 50 basis points respectively in October and December and announced that they will still need to rise significantly, though at a slower pace, to support a return of inflation to its medium-term target. The cost of bank lending continues to rise and between August and November, bank lending to the non-financial private sector slowed. Credit supply conditions tightened moderately.

INFLATION. Inflation remains high, still mainly driven by energy, although the government's energy-related measures appear to have partially mitigated consumer price growth. In December the CPI for the whole nation increased by 0.3% on monthly basis, declining at 11.6% on annual basis. In 2022, the average annual rate of change of CPI, measured by NIC, was +8.1% while the HICP stands at +8.7%. Within the current environment of high uncertainty, stemming above all from the ongoing conflict in Ukraine which is not expected to end soon, CPI is projected to decline. in 2023.



Source: Moody's, Cushman & Wakefiled



Source: ISTAT, Cushman & Wakefiled

01
CAPITAL MARKETS
WE MAKE REAL EXPERIENCE COUNT

“POSITIVE CLOSURE OF THE YEAR
WITH 11,6 €BN INVESTED.
SELECTIVE MARKET FOR 2023”

CAPITAL MARKETS ITALY

Investors remained active during the second half of the year as volumes of the Italian investment market reached 11,60€Bn (+16% Y/Y), despite the slowdown registered during the last quarter. Yields moved out in all sectors; however, regardless of the current environment there are still investors willing to give a premium for top quality assets, compared to the quoted prime yields. The divide between prime and non-prime assets is widening, making the repositioning of properties, rethinking workspaces, and ESG's drivers for the coming year.

Office remains the top performing asset class as investments almost doubled 2021 volumes despite the general slowdown during Q4. Foreign capital accounted for 58% of totals and Milan attracted the majority of investments 75% throughout the year. Quality and location will continue to be strongly rewarded by occupiers and investors.

Accounting for a third of overall investments Industrial & Logistics end of year figures reached 2,9€Bn in line with 2021. Rising cost of capital and construction costs are impacting activity, which is expected to continue to perform well over the next year.

Performance in the Hospitality sector remained strong and above pre-covid levels: the sale of the W Hotel in Rome brought full year figures to 1,3€Bn, almost in line with 2021, and almost exclusively undertaken by cross-border capital (93%). While demand from investors is still robust, the first half of 2023 is expected to be subdued, as investors figure out their next steps.

Positive momentum continues for the Living sector with volumes recording a sharp Y/Y increase (+60%). Interest is centered on BTS and BTR in Milan and more selectively in Rome. The increase in mortgage rates may lead investors to expect a fall in residential prices.

Retail ended the year 50% below 2021 despite a large deal closing during the last quarter with a new entrant in the market: Realty Income Corporation. Interest for the grocery format continues, as well as for Big Box and Mass market high street at revised yields. Overall, sentiment toward this asset class is still cool with inflation weighing on the future resilience of consumers and the sustainability of rents.

A slowdown is expected in the first half of 2023 due to the uncertain environment, especially considering the cost (and availability) of money as well as the perception that asset pricing has not yet stabilized. The higher return asked for real estate investments will push more value add players to look for prospects. Opportunistic investors may move to debt financing filling the space left vacant by traditional lenders, currently financing in a very selective way.

INVESTMENT VOLUMES

ITALY
11.6€Bn

DOMESTIC CAPITAL

25%

CROSS BORDER CAPITAL

75%

OTHER
200€Mn

LIVING
1.12€Bn

HOSPITALITY
1.33€Bn

HEALTHCARE
250€Mn

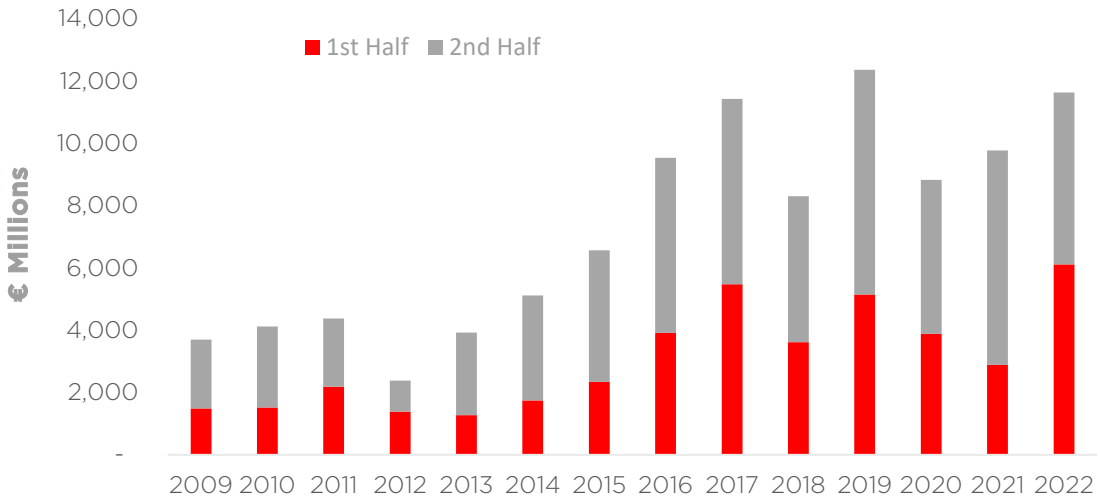
LOGISTICS
2.90€Bn

MIXED USE
500€Mn

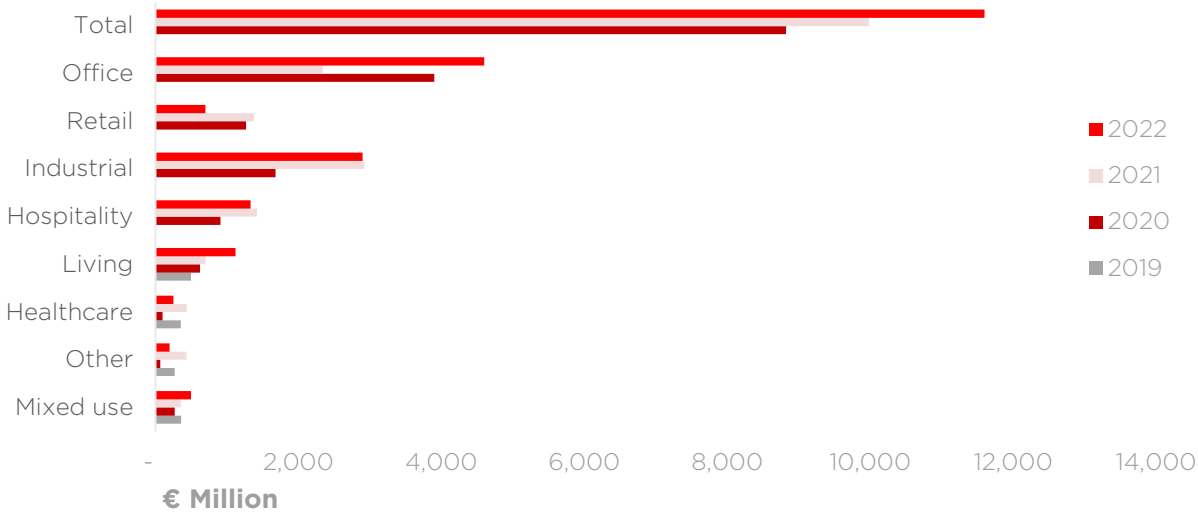
OFFICE
4.60€Bn

RETAIL
700€Mn

CRE INVESTMENT VOLUMES EVOLUTION



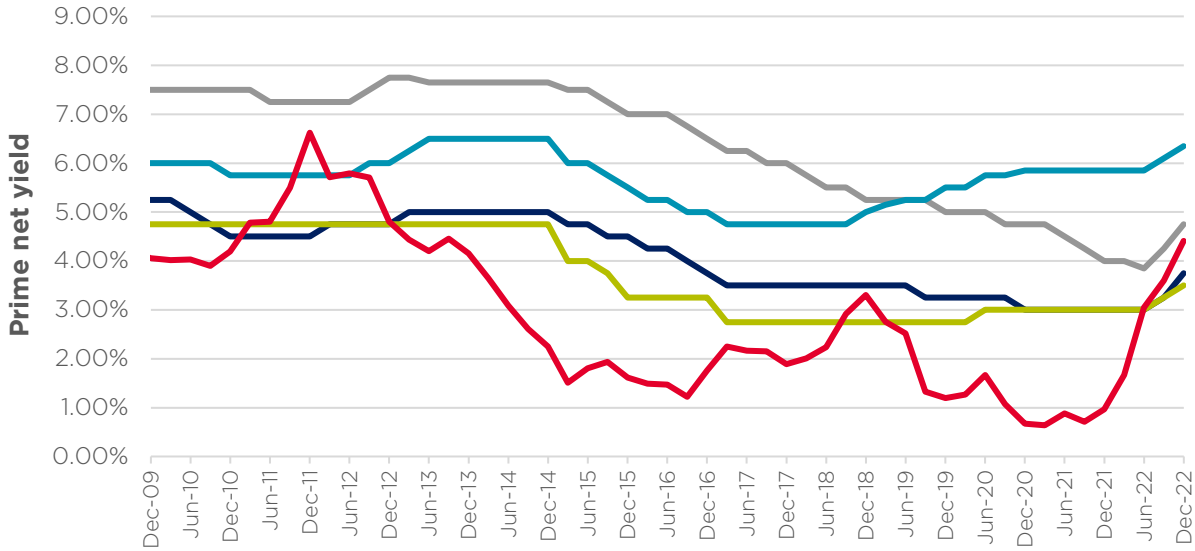
YEARLY COMPARISON BY SECTOR



Source: Cushman & Wakefield, RCA

PRIME YIELD EVOLUTION

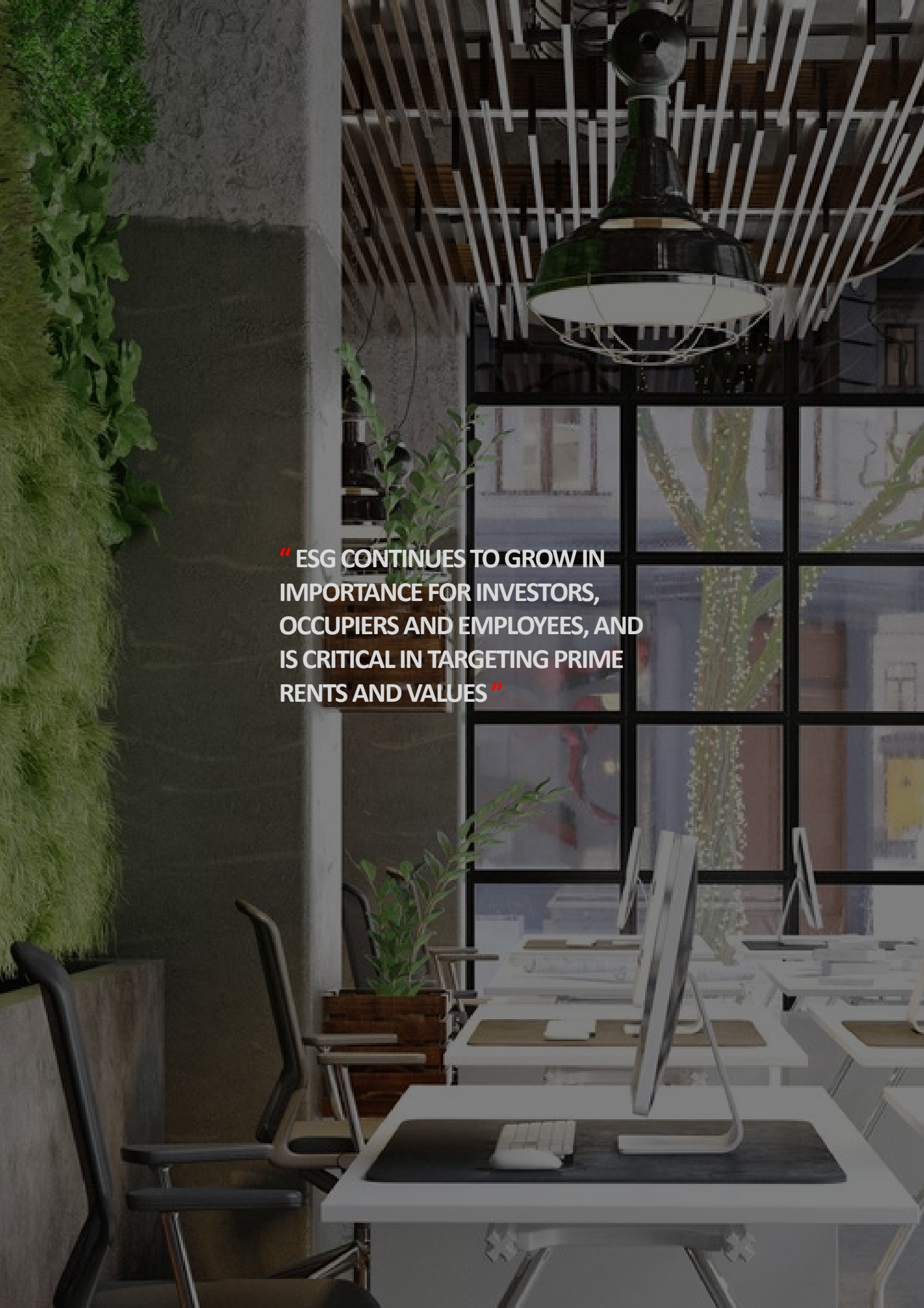
Shopping centers **6.35%** Logistics **4.75%** Prime office **3.75%** High street **3.50%**
Interest rate, 10 years government bond yield **4.41%***



** BTP 10 yr Gov.Bond 2021, sourced Moody's*

NOTES: (*) Property Yields are calculated on a net basis as reported: Net Yield = NOI (1) / PP (2)
1. Net Operating Income - after deducting all non-recoverable expenditure
2. Purchasing Price – excluding transfer costs, tax and legal fees. With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

02
OFFICE SECTOR
WE MAKE EXPERIENCE MATTER



“ ESG CONTINUES TO GROW IN IMPORTANCE FOR INVESTORS, OCCUPIERS AND EMPLOYEES, AND IS CRITICAL IN TARGETING PRIME RENTS AND VALUES ”

OFFICE SECTOR

The positive trend of the office occupier market was confirmed in the last part of the year, posting a new yearly record level for Milan, with circa 487,000 sqm (+40% on 2021) and 144,000 sqm in Rome. Healthy demand drove rents in H2: +8% H/H at €690 sqm/yr in Milan and stable in Rome at €525 sqm/yr.

Quality and location are strongly rewarded by occupiers and investors and the polarization between prime and non-prime assets is expected to increase.

With regulations coming into force across Europe requiring certain minimum standards to be met to lease space, sustainability and efficiency will remain top priorities and the focus on Grade A will intensify as these assets are fit for purpose today and for the future.

In Milan talent attraction and retention has become one of the main drivers of demand as each company seeks to create the right working environment to support a flexible working strategy, collaboration, and staff wellbeing, as well as improving brand identity by moving to Grade A / A Green buildings in prime locations or in areas undergoing a significant renovation offering a good level of services and connections to increase employees' wellness.

During the year, it became more common for companies to release or sublease spaces recently let and with high quality finishes, which can be offered as "plug & play" solutions. These spaces represent a competition for other available buildings, in particular for Grade B properties – whose landlords are more keen to accept leases shorter than the standards especially for spaces between 1.000 and 3.000 sq m – and for serviced office providers.

Overall, Milan recorded 295 transactions (+11% on 2021) with an average size of 1,650 sqm (+27% on 2021). The market has been characterized by small sized spaces (between 500 and 3,000 sqm) which accounted for most of the deals both by number and by volume; only 5 transactions above 10,000 sqm were recorded throughout the year.

With circa 63,000 sqm of take up registered during H2 the Rome office market closed the year circa 10% below expectations, as several transactions were carried over to 2023. Overall, 145 transactions were recorded with an average transaction size just under 1,000 sqm.

Take up polarized between core markets of the CBD and Greater Eur which continue to gather the majority of tenant interest jointly accounting for 40% of take up throughout

TAKE UP

MILAN
487,000 sqm

PRIME RENT
€690 sqm/yr

PRIME YIELD
3.75%

ROME
144,000sqm

PRIME RENT
€525 sqm/yr

PRIME YIELD
4.00%

the year. A certain amount of attention in central markets continues to be focused in the area around the seat of Government and is linked to the deployment of funds from the NRRP (National Recovery and Resilience Plan).

The most active tenant sector in 2022 was Consultancy with 30% of take up (27 transactions) followed by IT / Communications with 11% (20 transactions). As quality spaces immediately available remain chronically low, the pressure on rents will continue, with tenants willing to pay a premium to seize what little free space there is.

Thanks to a robust occupier market, office investment continued as the top performing sector in 2022, with a yearly total of circa 4.6€Bn, almost double the volume transacted in 2021.

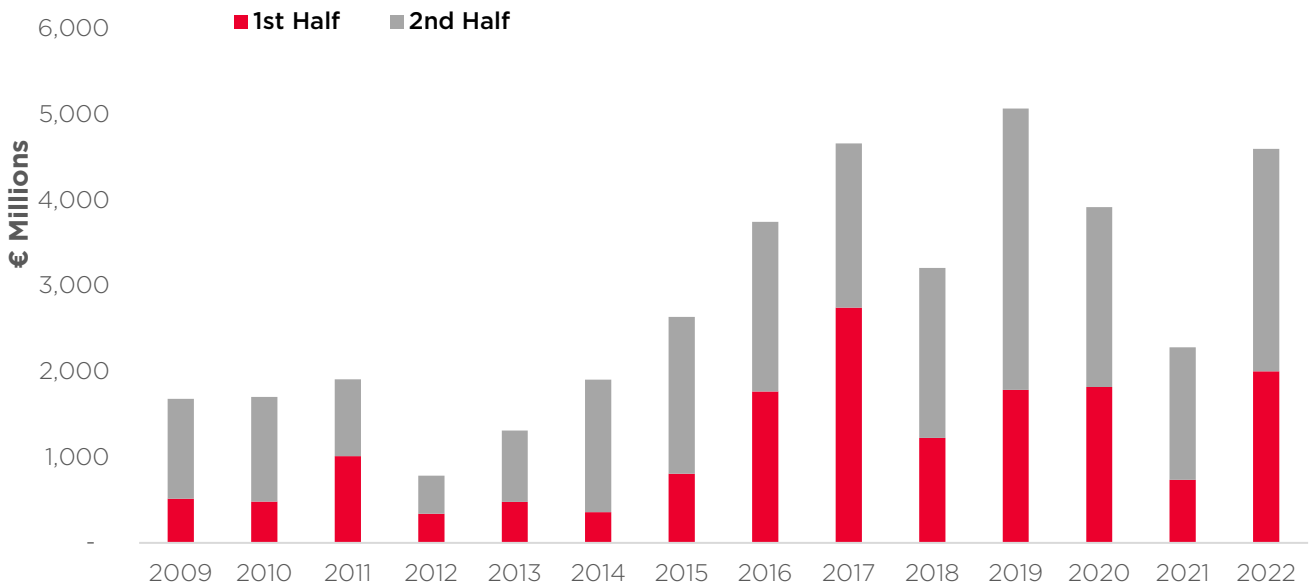
These results were backed by several large deals above 200€Mn, mostly in Milan, which accounted for 37% of overall volumes. Amongst these were: the office share of the ENPAM portfolio, Cortile della Seta bought by Generali, Via Montebello 18 acquired by Kryalos Sgr on behalf of a Club deal and the delisting of COIMA RES – the majority shares of which were bought by the QIA.

Investor risk profile was rooted in Core/Core+ opportunities which were mostly carried out by Italian Institutional investors; interest from foreign capital is set on Value add as well as Core opportunities. On the whole foreign capital accounted for the majority of office investment 58% of total investments in the sector.

Milan continues to be the gateway city for office investments in Italy accounting for 75% (3.35€Bn) of capital invested in the sector. Central submarkets continued to gather interest regardless of the risk profile, while in secondary locations, investments focused on stabilized assets. Reflecting the general uncertainty and instability of the markets, prime yield grew by 50/75 bps on Q2 figures and are now recorded at 3,75% in the CBD.

In Rome following the strongest H1 ever, investors entered a wait-and-see approach during the second half of the year. Overall investment reached 700€Mn and was mostly for Core opportunities within the central submarkets of the CBD and Centre. Prime yields have moved out by 75bps since Q2 in all main submarkets and 50bps in the periphery, which was already suffering.

OFFICE INVESTMENT VOLUMES

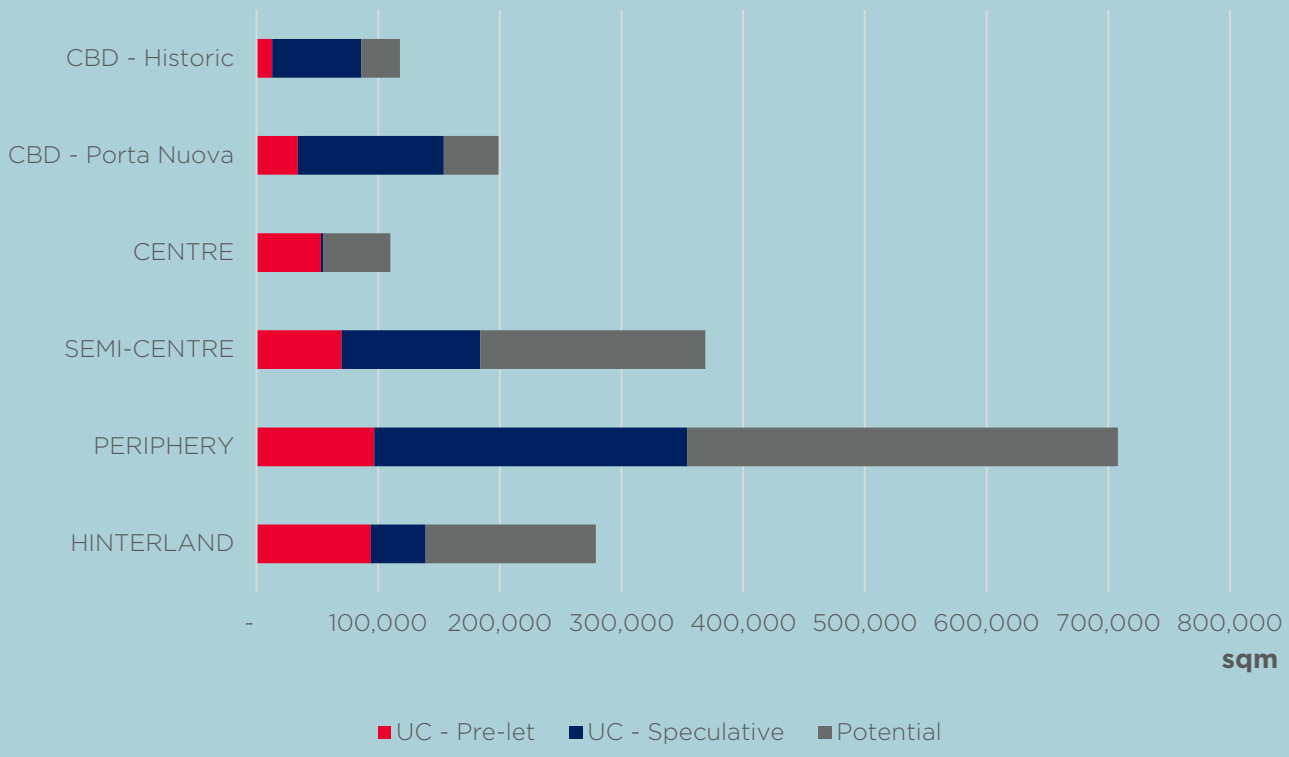


OFFICE SNAPSHOT MILAN

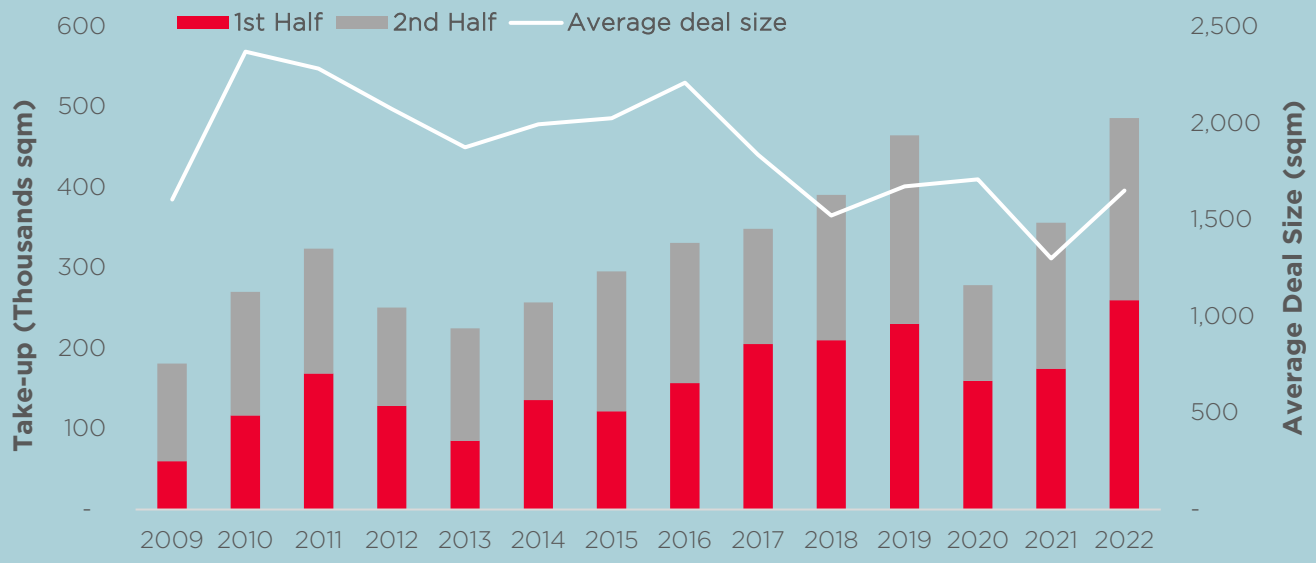
"1.7 MILLION SQM OF NEW OFFICE EXPECTED BY 2026. CIRCA 990,000 SQM CURRENTLY UNDER CONSTRUCTION (37% PRE-LET) AND 700,000 SQM OF POTENTIAL DEVELOPMENTS"

"CIRCA 280,000 SQM COMPLETIONS THROUGHOUT 2022 (43% PRE-LET) HIGHLIGHTING THE IMPORTANCE OF QUALITY IN TODAY'S MARKET:
OCCUPIERS WANT MODERN SPACE, WITH GREATER FLEXIBILITY AND SPACE UTILISATION, THAT MEETS THE LATEST ENVIRONMENTAL, WELLBEING AND DIGITAL CONNECTIVITY STANDARDS"

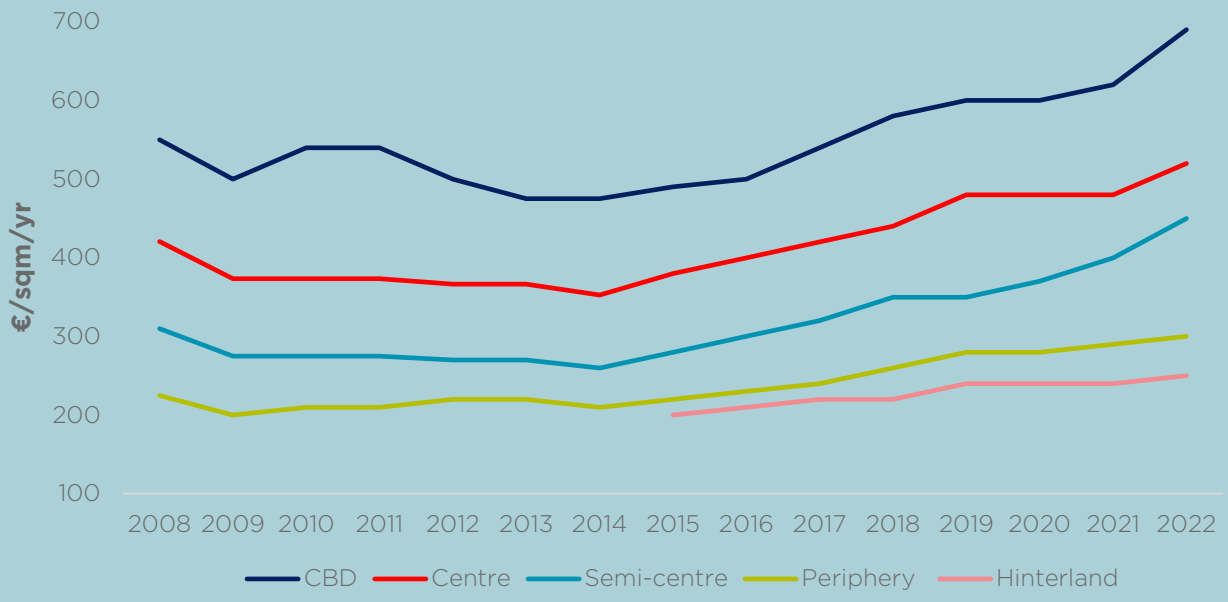
DEVELOPMENT PIPELINE, SQM



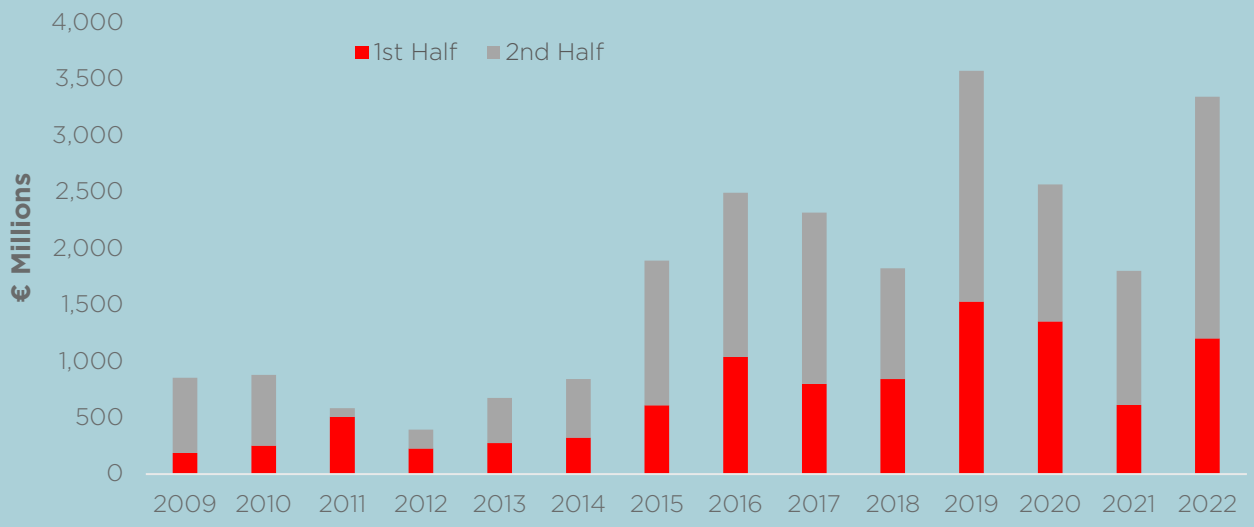
OFFICE TAKE-UP EVOLUTION AND AVERAGE DEAL SIZE



PRIME RENT EVOLUTION



OFFICE INVESTMENT EVOLUTION



MILAN CITY TRENDS

CBD
Take-Up 22: 128,000 sqm
Prime Rent: 690 €/sqm/year
Prime Yield: 3.75%
Pipeline UC 2023/2026:257,000 sqm
- pre-let: 25%

CENTRE
Take-Up 22: 39,000 sqm
Prime Rent: 520 €/sqm/year
Prime Yield: 4.25%
Pipeline UC 2023/2026:55,000 sqm
- pre-let: 96%

SEMICENTRE
Take Up 22: 87,000 sqm Prime Rent: 450 €/sqm/year Prime Yield: 4.75%
Pipeline UC 2023/2026:184,000 sqm
- pre-let: 38%

PERIPHERY
Take-Up 22: 152,000 sqm
Prime Rent: 300 €/sqm/year
Prime Yield: 5.75%
Pipeline UC 2023/2026:354,000 sqm
- pre-let: 27%

HINTERLAND
Take-Up 22: 80,000 sqm
Prime Rent: 250 €/sqm/year
Prime Yield: 6.25%
Pipeline UC 2023/2026:139,000 sqm
- pre-let: 68%

NEW CLUSTERS

MIND
Pipeline UC+Potential 2023-2026: 156,000 sqm

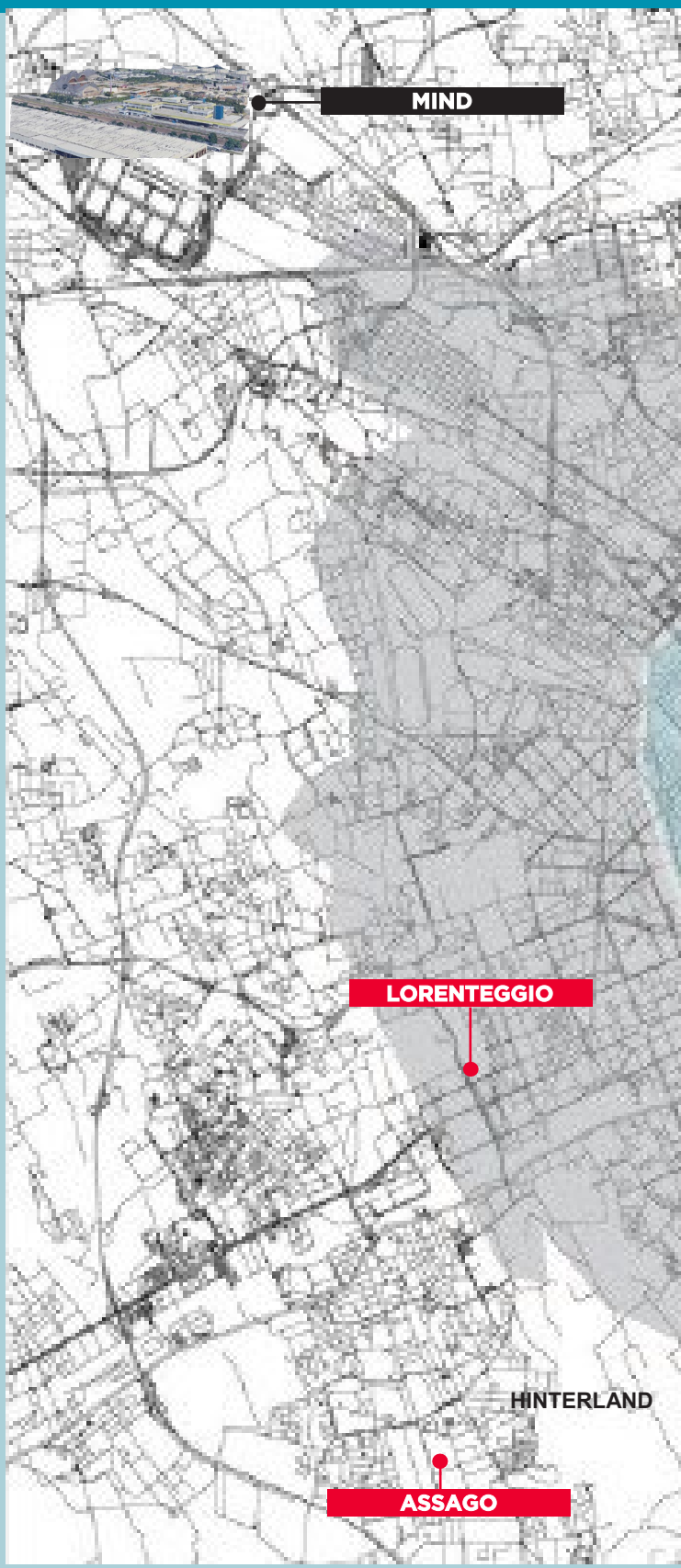
CITY LIFE DISTRICT
Pipeline UC+Potential 2023-2026: 85,000 sqm

SANTA GIULIA
Pipeline UC+Potential 2023-2026: - sqm

SCALO FARINI
Pipeline UC+Potential 2023-2026: 103,000 sqm

PORTA NUOVA
Pipeline UC+Potential 2023-2026: 230,000 sqm

SCALO DI PORTA ROMANA
Pipeline UC+Potential 2023-2026: 134,000 sqm



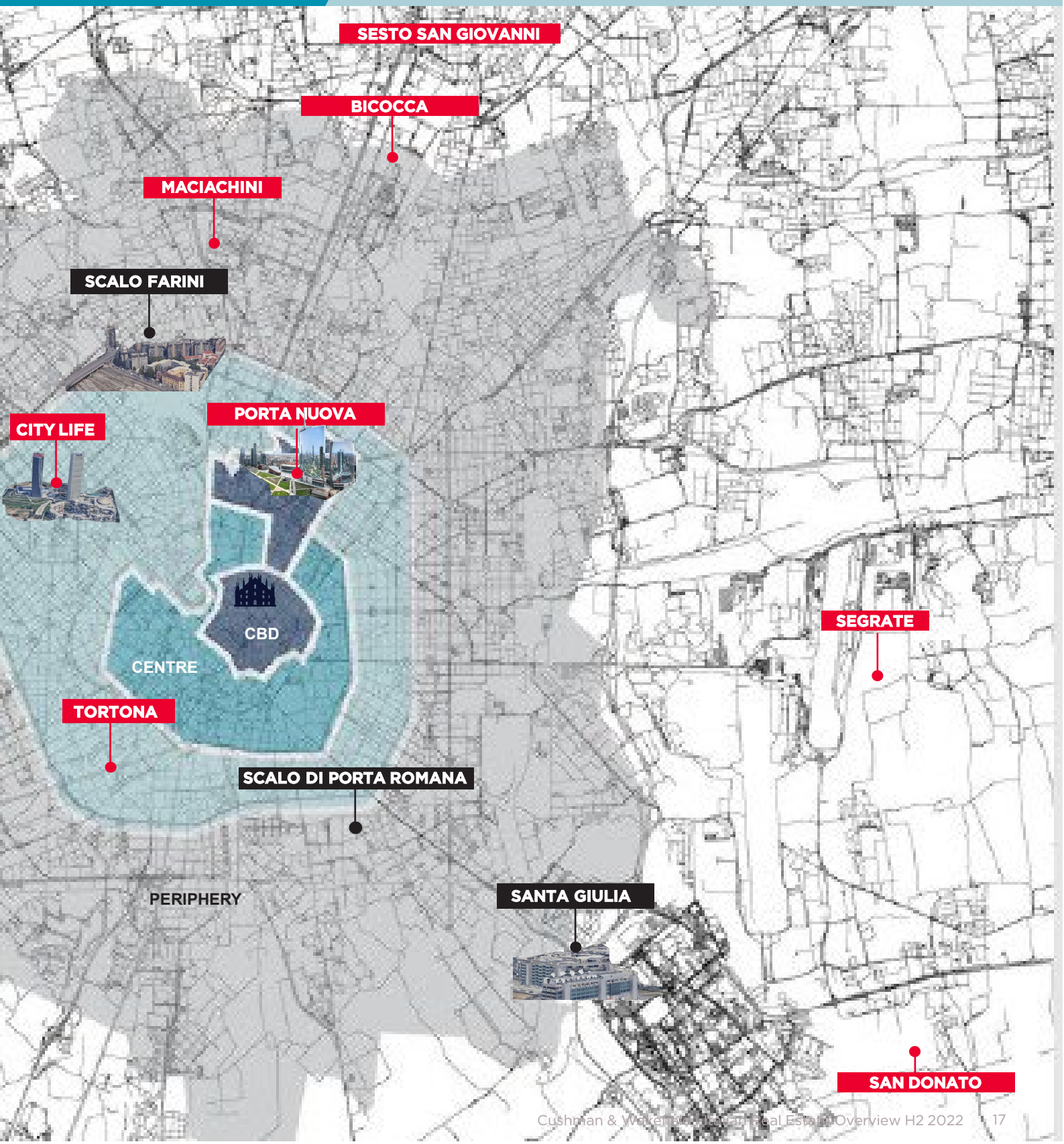
MILAN CITY

12.4 Mn sqm
STOCK

11.6%
VACANCY RATE
(Grade A,B,C)

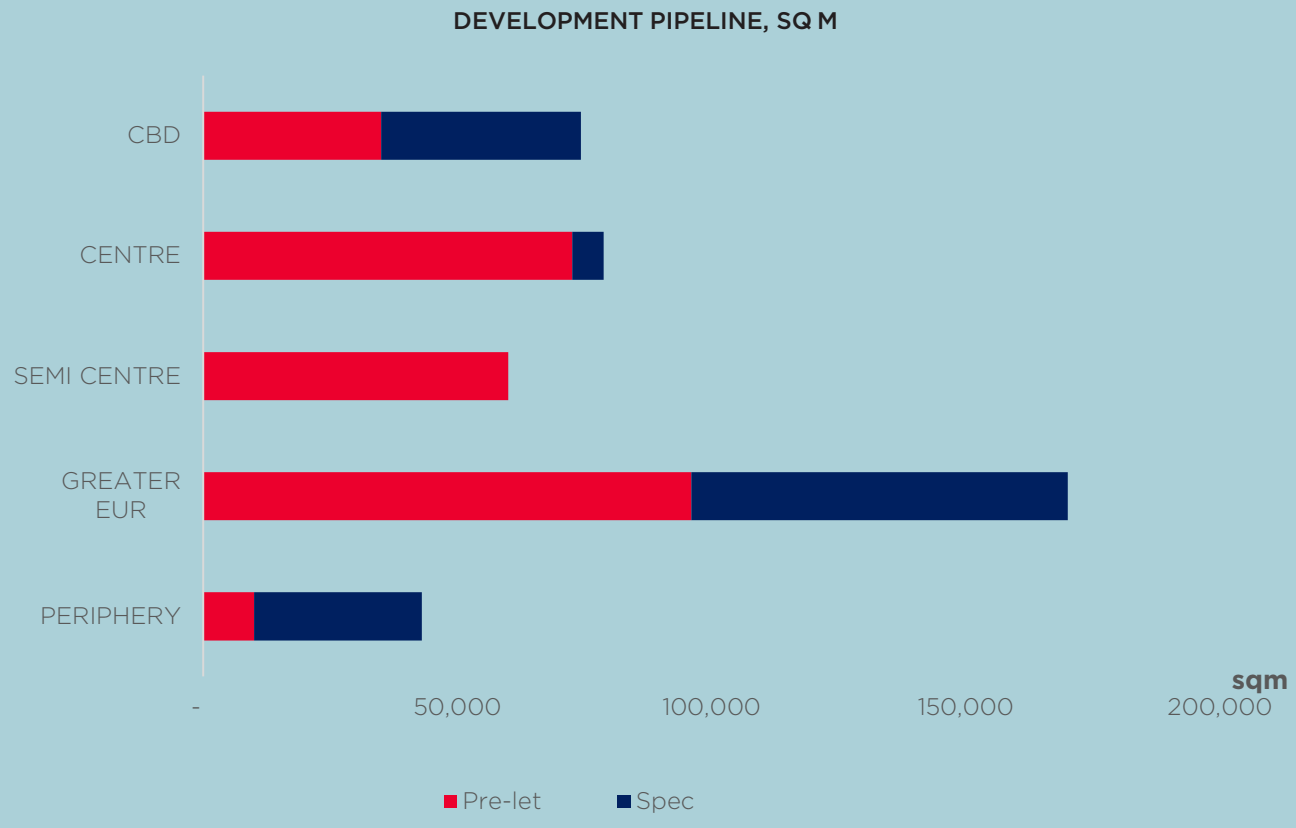
37%
SPACE UC PRE-LET

990,000 sqm
TOTAL SPACE UC

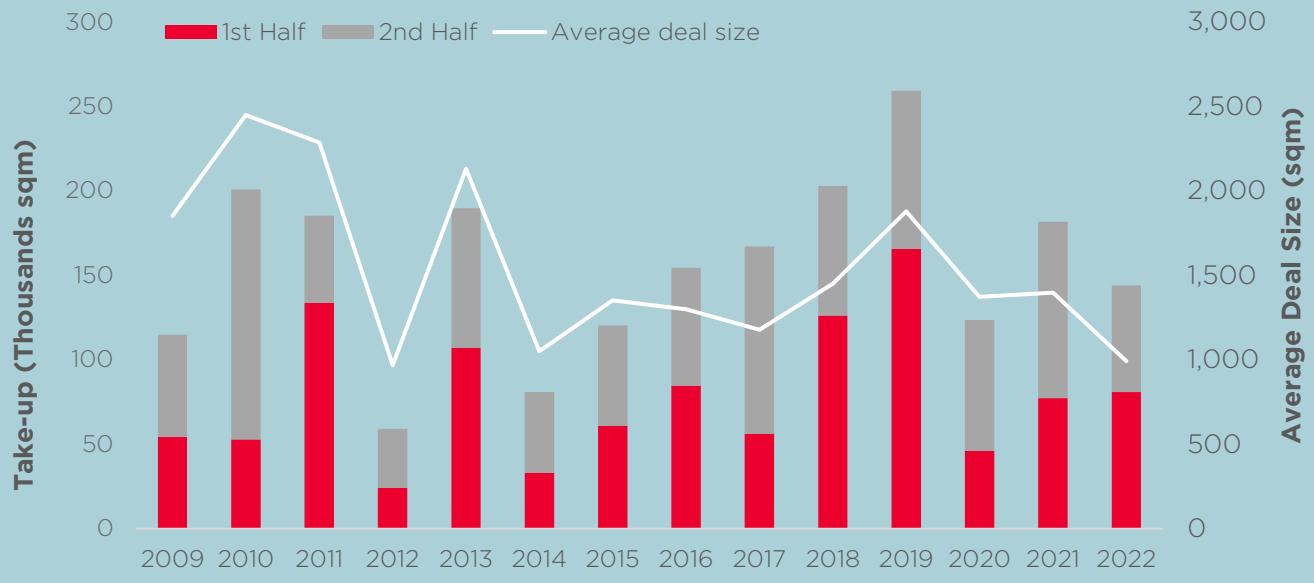


OFFICE SNAPSHOT ROME

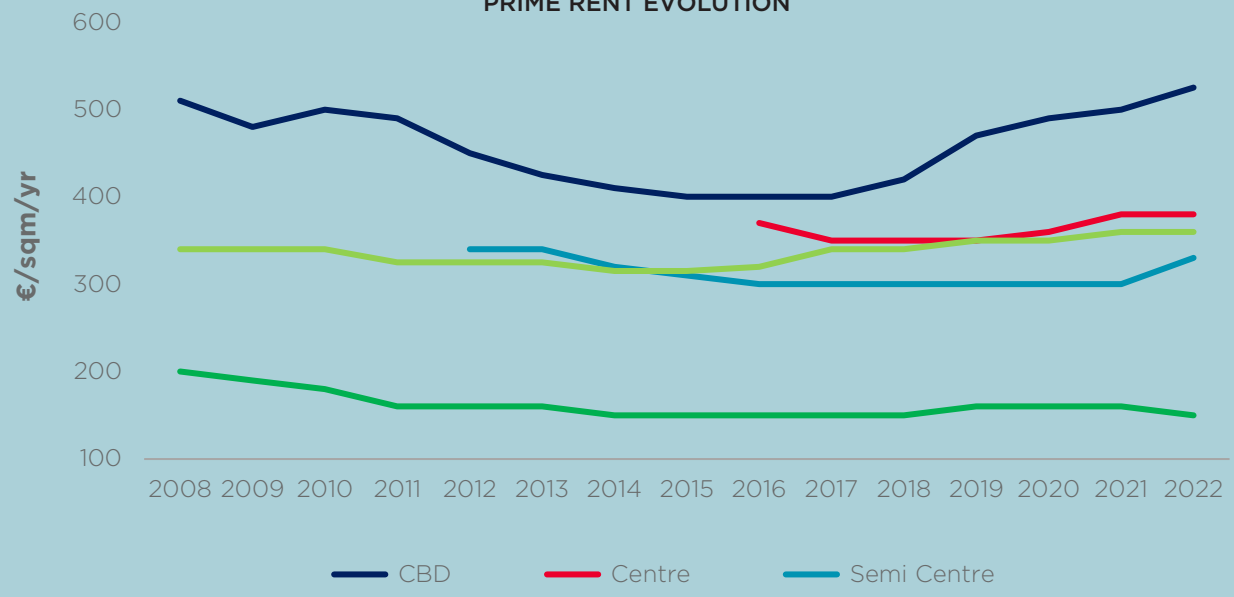
"IN ROME NEW STOCK COMES FROM REFURBISHMENTS: CIRCA 426,000 SQM (23 PROJECTS) ARE CURRENTLY BEING RENOVATED.
SINCE H1 TENANTS HAVE BEEN SECURED FOR SOME PROJECTS LEADING TO PRE-LETS ON 64% OF SPACES UNDER REDEVELOPMENT".



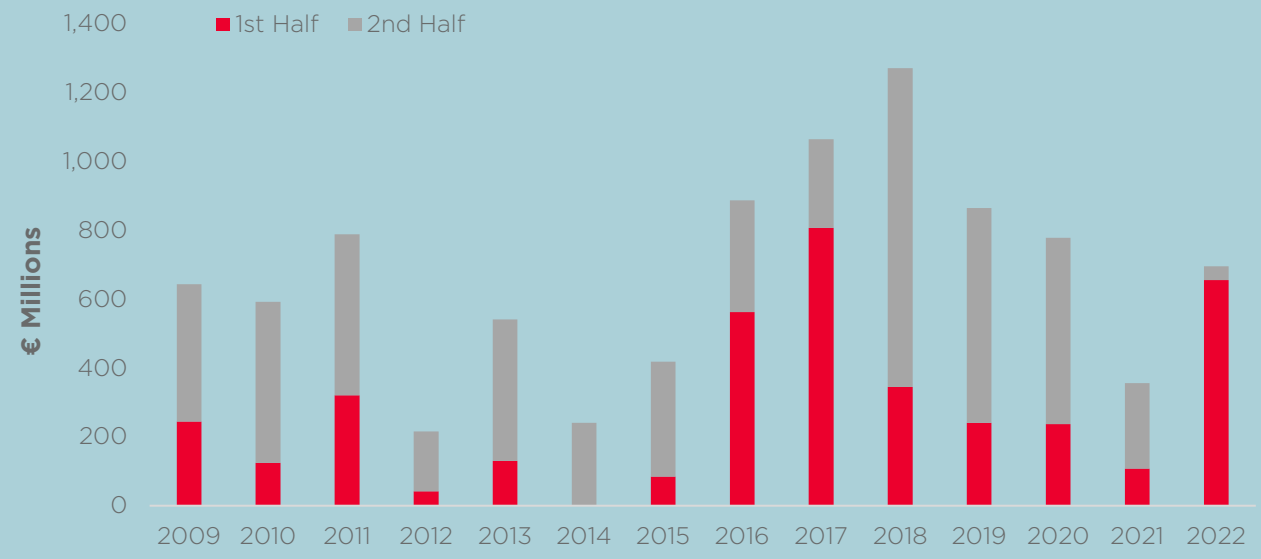
OFFICE TAKE-UP EVOLUTION AND AVERAGE DEAL SIZE



PRIME RENT EVOLUTION



OFFICE INVESTMENT EVOLUTION



ROME CITY TRENDS

CBD
Take-Up 22: 40,000 sqm
Prime Rent: 525 €/sqm/year
Prime Yield: 4.00%
Pipeline UC 2022/2025: 74,300 sqm
- pre-let: 47%

CENTRE
Take-Up 22: 12,600 sqm
Prime Rent: 380 €/sqm/year
Prime Yield: 4.50%
Pipeline UC 2022/2025: 78,800 sqm
- pre-let/EU: 92%

SEMICENTRE
Take-Up 22: 25,700 sqm
Prime Rent: 330 €/sqm/year
Prime Yield: 6.00%
Pipeline UC 2022/2025: 60,000 sqm
- pre-let/EU: 100%

GREATER EUR
Take-Up 22: 41,000 sqm
Prime Rent: 360 €/sqm/year
Prime Yield: 4.75%
Pipeline UC 2022/2025:170,000 sqm
- pre-let: 56%

PERIPHERY
Take-Up 22: 24,700 sqm
Prime Rent: 150 €/sqm/year
Prime Yield: 8.50%
Pipeline UC 2022/2025:43,000 sqm
- pre-let: 23%

OTHER CLUSTERS

FIUMICINO CORRIDOR
Prime Rent: 210 €/sqm/year
Prime Yield: 7.50%

TIBURTINA
Prime Rent: 140 €/sqm/year
Prime Yield: 8.00%

TUSCOLANA
Prime Rent: 180 €/sqm/year
Prime Yield: 7.50%

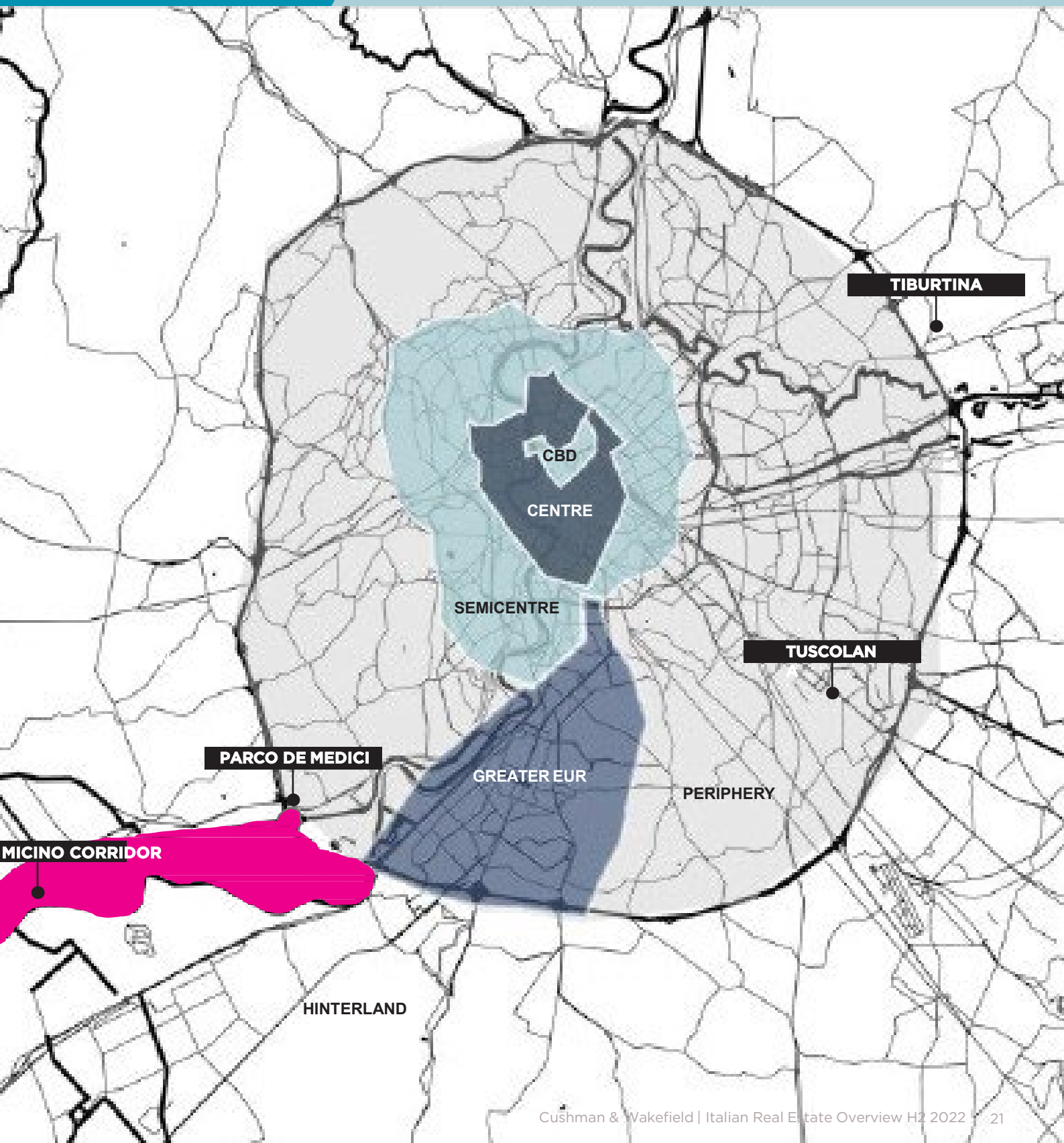
ROME CITY

10.05 Mn sqm
STOCK

9.8%
VACANCY RATE
(Grade A,B,C)

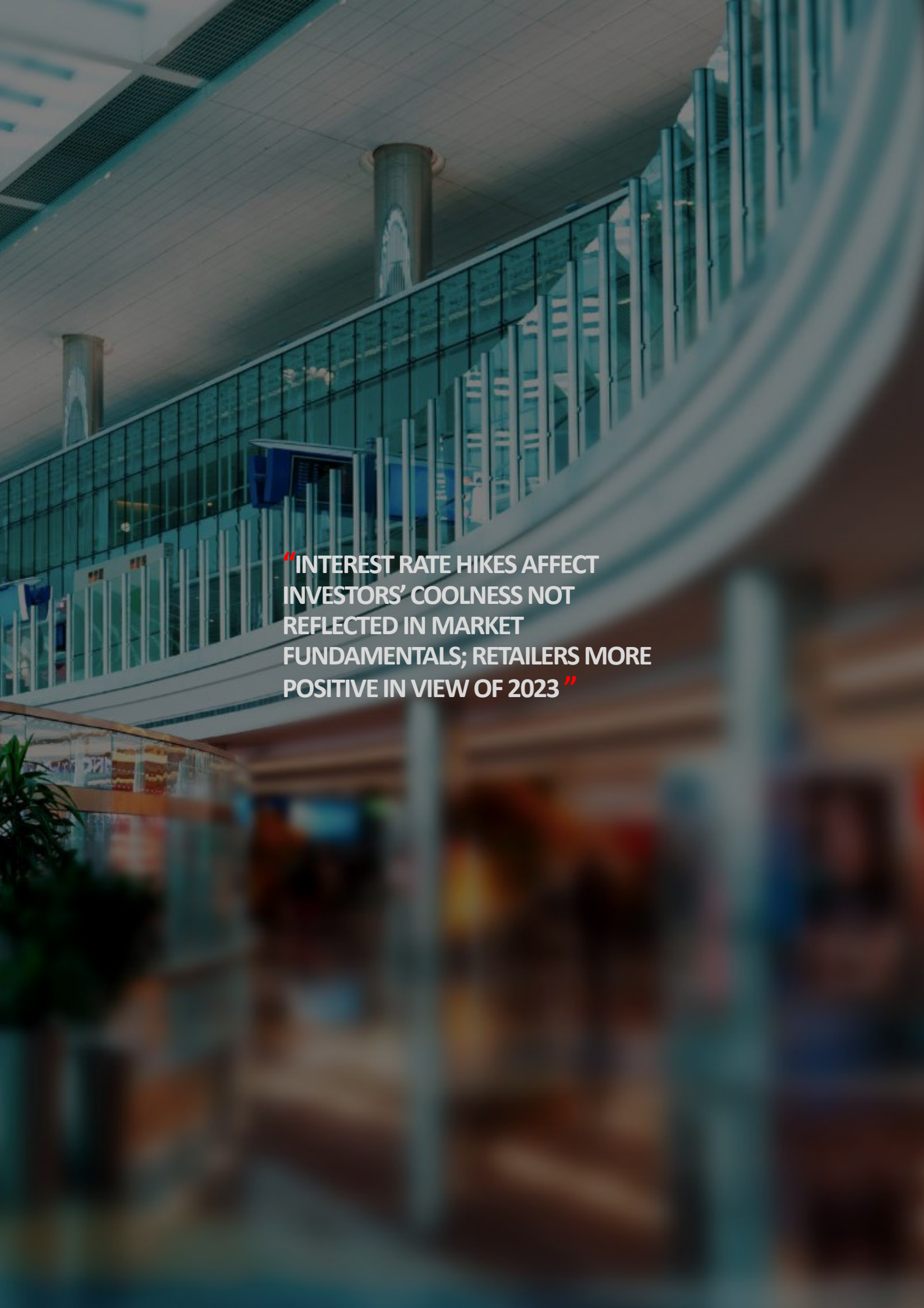
64%
SPACE UC PRE-LET

426,000 sqm
TOTAL SPACE U/REF



03 RETAIL SECTOR

WE MAKE COMMUNITIES COME ALIVE



"INTEREST RATE HIKES AFFECT INVESTORS' COOLNESS NOT REFLECTED IN MARKET FUNDAMENTALS; RETAILERS MORE POSITIVE IN VIEW OF 2023"

RETAIL SECTOR

Retail investments continue to lag behind the other asset class and, ending 2022 at 700€Mn, are still well below the long-term trend equal to 1.8€Bn.

The total volume of retail investments recorded in H2 2022, circa 360€Mn is almost aligned with previous quarter but still below the historical average, equal to 1€Bn.
Prime yields increased by 25bps, with high street at 3.50%, shopping centres at 6.35% and retail parks at 6.75%, mainly based on the worsening of the financial markets following the interest rate hikes rather than transactions of prime assets. The threat of Covid is not yet forgotten and investors are selecting retail investments looking for opportunities. While many investors active in the past have adopted a wait-&-see approach monitoring the financial markets to plan their exit strategies, newcomers arrived (i.e. Indotek, Realty Income Corporation).

Overall, in 2022, retail transactions comprised opportunistic retail galleries, stand-alone big boxes, supermarkets and hypermarkets and a secondary retail park. Investment activity in the high streets has been very limited, with two exceptions: the sale of via Rizzoli 7, Bologna and Piazzale Appio, Rome.

The polarization between prime and non-prime schemes, across all retail segments will strengthen further in 2023.

As concerns the leasing market, the luxury market reached a record. Via Montenapoleone in Milan, secured the top position within the European ranking for luxury locations and the third place in the global ranking as illustrated in our Main Street Across The World report.

Via Condotti in Rome follows Milan securing a third position in Europe.

After two difficult years, the mass market is improving with the number of vacant stores decreasing, new tenants coming and rental values going back to pre-Covid values in most of the locations.

Online penetration on total sales expected to reach 12% in 2022 but the trend slowed down after the boom during the pandemic with customers habits having found a balance following the pandemic.
After the biggest stress test for retailers represented by the pandemic, online has changed from being a threat to be a partner of the physical store.

PRIME RENTS & YIELDS HIGH STREET

MILAN
€15,000 sqm/yr

ROME
€12,800 sqm/yr

VENICE
€7,500 sqm/yr

FLORENCE
€6,000 sqm/yr

PRIME YIELDS

MILAN
3.5%

ROME
3.5%

VENICE
4.5%

FLORENCE
4.25%

Since the end of Covid restrictions, shopping centers performances gradually and constantly improved. According to the CNCC sample, **cumulative data Jan-Dec registered a slow but positive footfall trend:** -15.4% on 2019, +18.8% on 2020 and +11% on 2021*. **The number of visitors is expected to return to pre-Covid levels in the course of 2023.**

Since the second quarter of 2022, **turnover trend was encouraging,** trend confirmed in the remaining part of 2022 with a final **+13.7% on the previous year.** The peak was recorded in December with a +6.8% increase on 2021 and **the alignment with 2019 (-0.8%).**

In general, turnover trend was positive for most categories, lead by **electronics** and **household goods.**

In the second part of the year, the best performance was recorded by the **F&B sector** (+43.7%); notwithstanding the positive outcome, it is still behind 2019 figures (-7%) due to restrictions applied at the beginning of 2022.

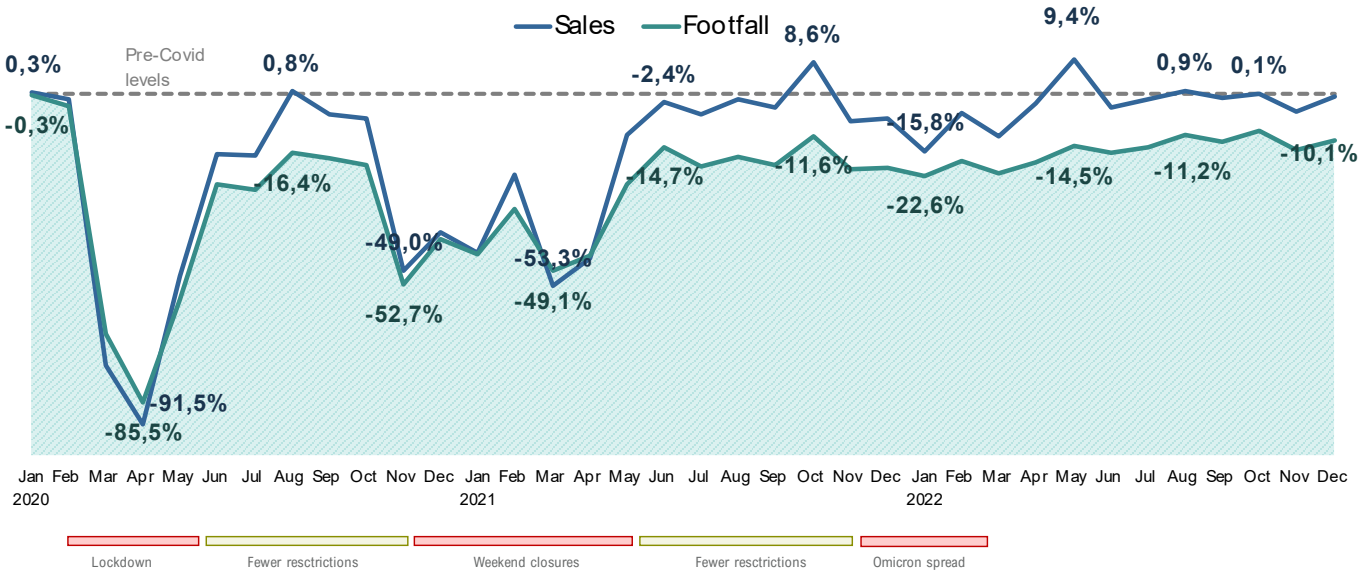
On a positive and interesting note, December data for **F&B** were surprisingly encouraging, with a 27% growth on 2021 and the alignment with 2019 (+1%).

Fashion turnover continued on the recovery path from 2021 (+15.3%) reducing the gap with 2019 (-4.9%).

Overall, 2022 confirmed consumers' loyalty to "shopping centre format" – worth of notice the change in consumers' habits and the significant increase in the average receipt.

The outlook is partially less positive due to inflation which is expected to impact on consumption in the medium term.

FOOTFALL MONTHLY DATA, INDEX NUMBER



**The performance analysis of shopping centres in Italy is strongly affected by the pandemic that has hit the country since March 2020 and in particular by the restrictions imposed in order to contain the infections, resulting in a succession of: total closures, limitations on travel between municipalities, partial closures and closures on weekends and public holidays (and days before).*
For these reasons, 2021 and 2022 data are difficult to compare with the same months of 2020 thus we have introduced the comparison with a "normal" year like 2019.
Source: Cushman & Wakefield analisys on CNCC data. Sample of over 300 Shopping Centers for a total GLA around 7,000,000 sq m, equal to 40% of the SC Stock in Italy.

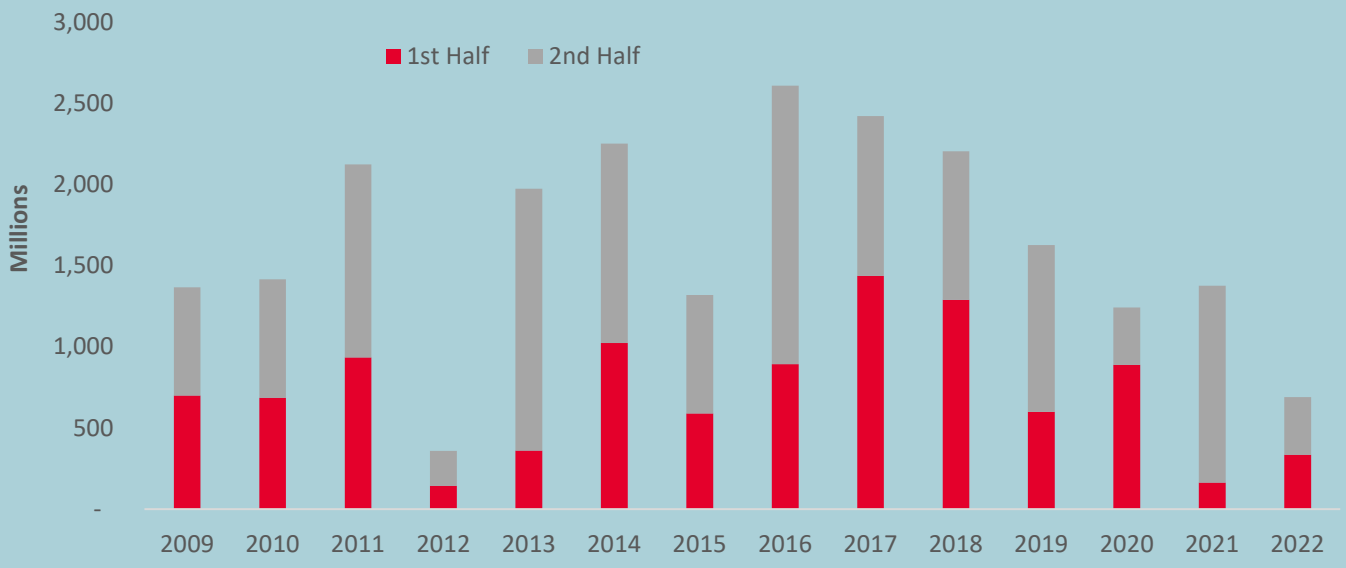
RETAIL SNAPSHOT

"AT ROUGHTLY 360€MN INVESTED IN THE SECOND HALF, VOLUMES ARE DOWN COMPARED TO THE SAME PERIOD LAST YEAR, THE OVERALL 2021 VOLUME WAS AFFECTED BY THE ACQUISITION OF THE TROPHY HIGH STREET RETAIL IN MILAN BY BLACKSTONE. WITHOUT CONSIDERING THIS MEGA DEAL, 2022 IS IN LINE WITH 2021. THE BIGGEST DEAL CARRIED OUT IN 2022 WAS SECURED BY A NEW PLAYER IN THE MARKET: REALTY INCOME CORPORATION BUYNG A 210€MN CASH&CARRY PORTFOLIO.

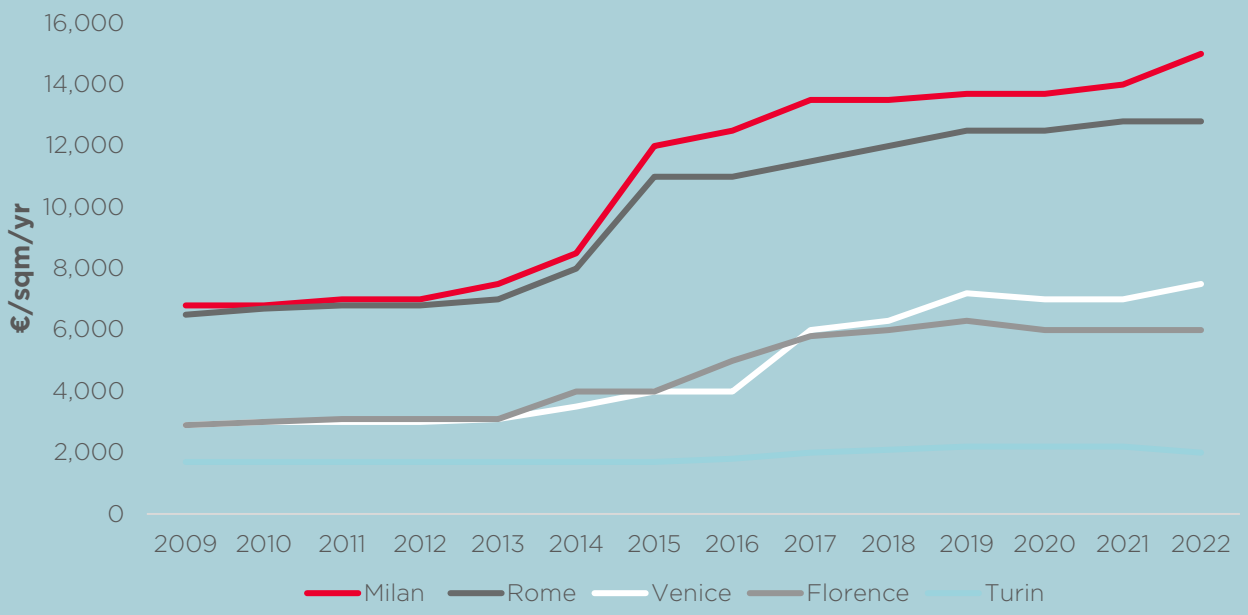
INVESTORS AND LENDERS SENTIMENT TOWARD RETAIL IS STILL COLD, KEENER ON THE GROCERY FORMAT.

DESPITE THAT, FUNDAMENTALS ARE IMPROVING WITH POSITIVE DATA FOR FOOTFALL AND SALES, CONFIRMING RETAILERS POSITIVE ATTITUDE, WILLING TO RESTART THE NETWORK EXPANSION IN THE NEAR FUTURE.

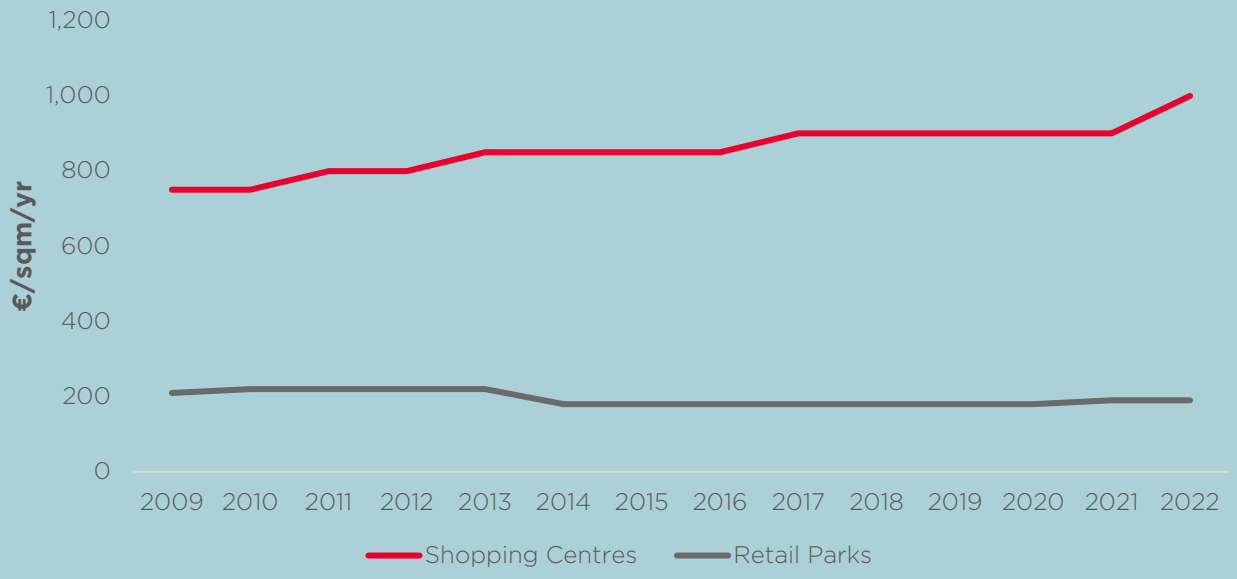
RETAIL INVESTMENT VOLUME



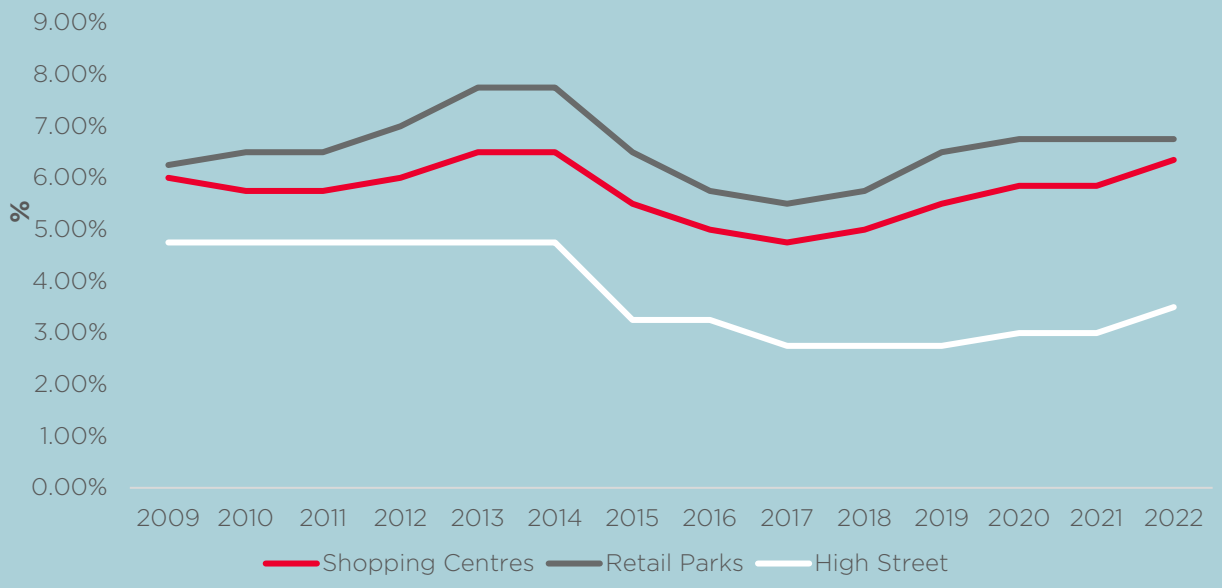
HIGH STREET PRIME RENTS



OUT OF TOWN RETAIL PRIME RENTS



RETAIL PRIME YIELD



04

LOGISTICS SECTOR

“INDUSTRIAL & LOGISTIC
THE BEST PERFORMING AND
ATTRACTIVE ASSET CLASS:

HOWEVER A SLOWDOWN
EXPECTED DURING H1 2023”

LOGISTICS SECTOR

The logistics occupier market remained solid and active, maintaining a strong performance in the second half of the year registering an annual volume well above 2021 (+17%), with 2.9 Mn sqm, setting a new record for the market.

In previous economic downturns, logistics take-up has shown to be counter-cyclical. As businesses have looked to reduce operating costs by outsourcing processes and upgrading to operationally and cost-efficient buildings, take-up has been much higher-than-expected during the same period.

Demand is mainly supported by 3PLs looking for modern space close to major cities, for an areas between 5.000 and 15.000 sqm. Throughout the year, 3PL accounted for 56% of the square meters leased, followed by distribution retailers and food operators which together covered the 23% of space leased.

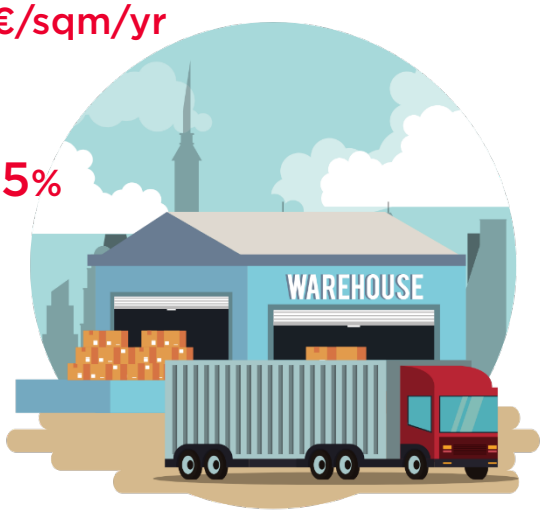
Milan, Verona, Pavia and Piacenza are the most active cities, registering 42% of annual take-up, but the biggest transactions (>50,000 sqm) were closed around Brescia, Pavia and Rome.

Rising construction costs and the subsequent uncertainty over developments, have resulted in many speculative pipeline developments being turned into potential developments with the condition of an eventual BTS project; this could impact the future availability of ready-to-use Grade A space. As consequence, speculative projects decreased by 9% compared to the first half of the year and stand today at approx. 1.8 Mn sqm.

The dynamism of demand has resulted in an increase in prime rents, by +5% H/H and by 7%-9% Y/Y in Milan and Rome respectively for standard logistics assets (both at 61€/sqm/yr); values for last mile/courier products are also increasing, by +11% and +5% H/H and by +11% and 18% Y/Y in Milan and Rome respectively and rental levels in those cities stand at 100 €/sqm/yr.

TAKE UP

	ITALY	LOMBARDY	LAZIO
	2.9 Mn sqm	**1,045,000 sqm**	**275,000 sqm**
PRIME RENT	**61 €/sqm/yr**	**61 €/sqm/yr**	**61 €/sqm/yr**
PRIME YIELD*	**4.75%**	**4.75%**	**4.85%**



NOTES: (*) Yields are calculated on a net basis as reported: Net Yield = NOI (1) / PP (2)
1. Net Operating Income - after deducting all non-recoverable expenditure
2. Purchasing Price – excluding transfer costs, tax and legal fees
With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

In H2 2022 the deteriorating economic outlook dented consumer and business confidence: take-up tends to lag business confidence indicators by 6-9 months, implying that a slowdown of activity is expected during the first half of 2023. This is largely due to occupiers slowing their decision-making processes, as consequence to the uncertain economic environment, especially considering the cost and availability of lending. Despite this, the appetite and interest in the sector remains high, supported by strong occupier demand and take-up levels still at historically very high levels.

On the Investment side, interest in this asset class is confirmed with an end of year volume in line with 2021, standing at almost 2.9€Bn, still accounting for a third of the overall CRE investment volume in 2022.

Reflecting market repricing, prime yields increased by 60-90bps in all major hubs during the semester, standing at 4.75% for the Milan market and 4.85% for the Rome market.

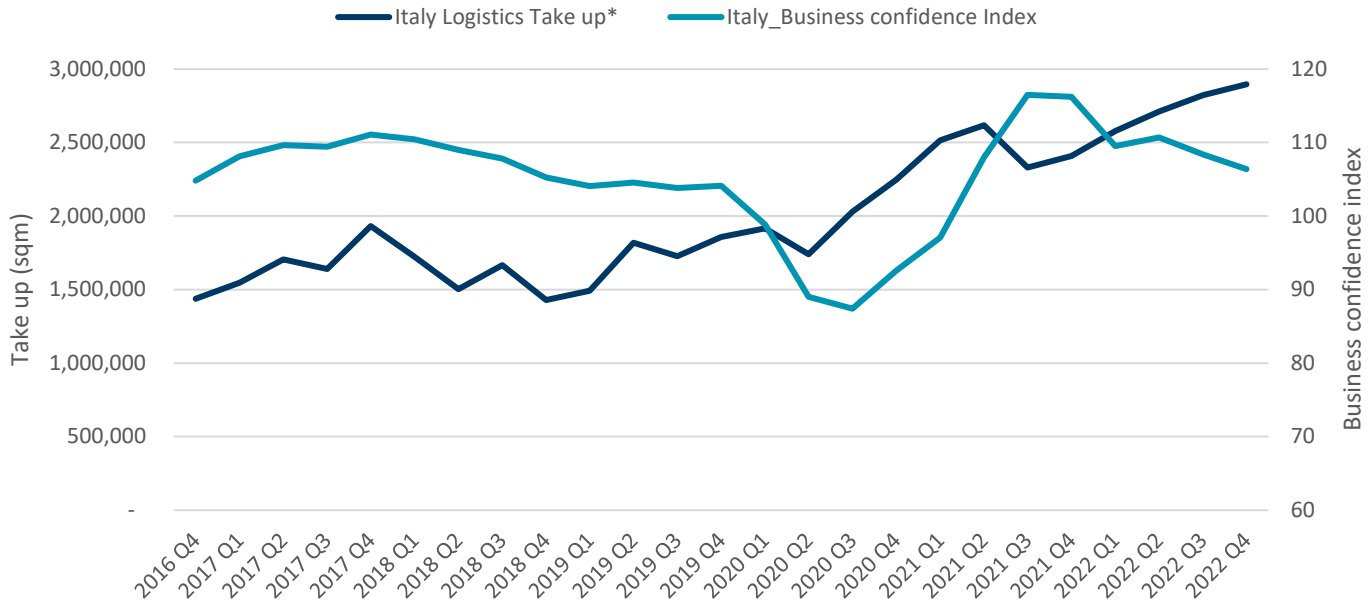
In terms of number of deals, a total of 76 transactions were recorded in the market, with an average deal size of circa 40€Mn.

Single asset deals dominated the market, representing 60% of the annual volume and an average size of €29 mln (in line with the value recorded in 2021) and 4 transactions with a value above €100 mln, all located in the Northern of the Country.

The largest deal was the Italian allocation of a pan European portfolio acquired by Prologis: 128 logistics facilities and six developments in urban and gateway locations from last-mile operator Crossbay, for a total of circa 1.6€bn, of which circa 22% allocated to Italy. Properties are 95% occupied and located in seven countries: Italy (Milan and Rome), Netherlands, Spain, France, Germany, Belgium and Poland.

The increasingly difficult to finance new projects could have dampening impact on longer-term pipeline.

LOGISTICS DEMAND AND BUSINESS CONFIDENCE



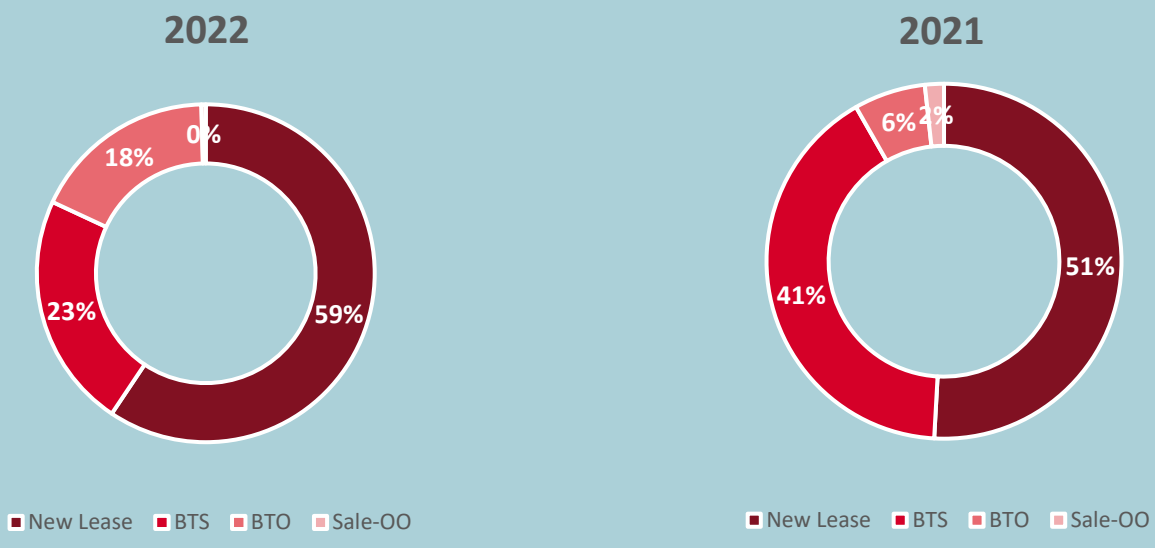
Source: Cushman & Wakefield, Moody's

LOGISTICS SNAPSHOT

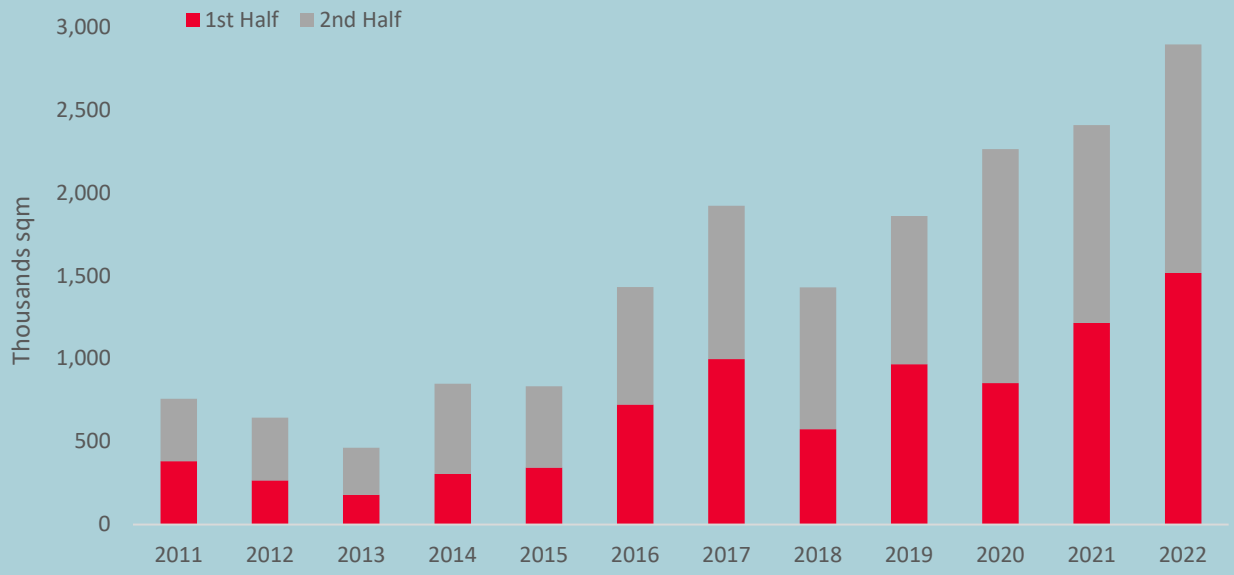
"BUILT-TO-SUIT/BUILT-TO-OWN TRANSACTIONS REPRESENT 41% OF ABSORPTION FOR THE 2022, IN LINE WITH VOLUME RECORDED IN 2021 ".

"SPECULATIVE PROJECTS AND BUILT TO SUIT UNDER CONSTRUCTION ARE DECREASING AND TODAY ARE AT 2.4 Mln sqm".

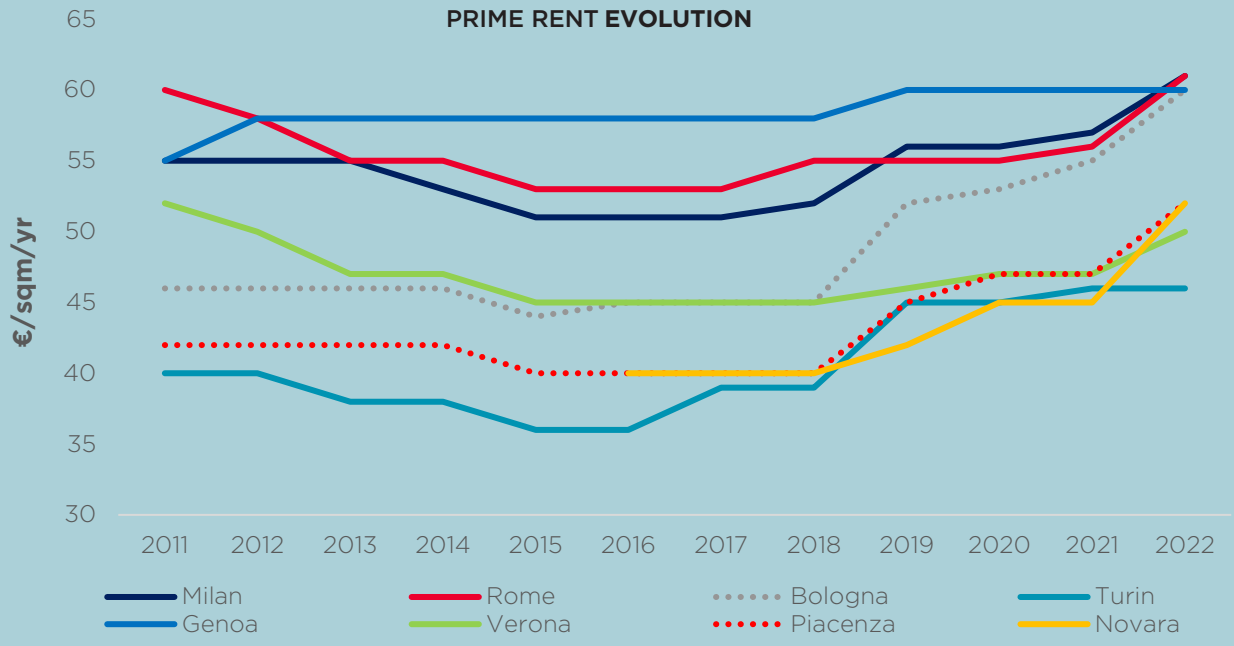
TAKE UP - COMPARISON BETWEEN TYPE OF TRANSACTIONS



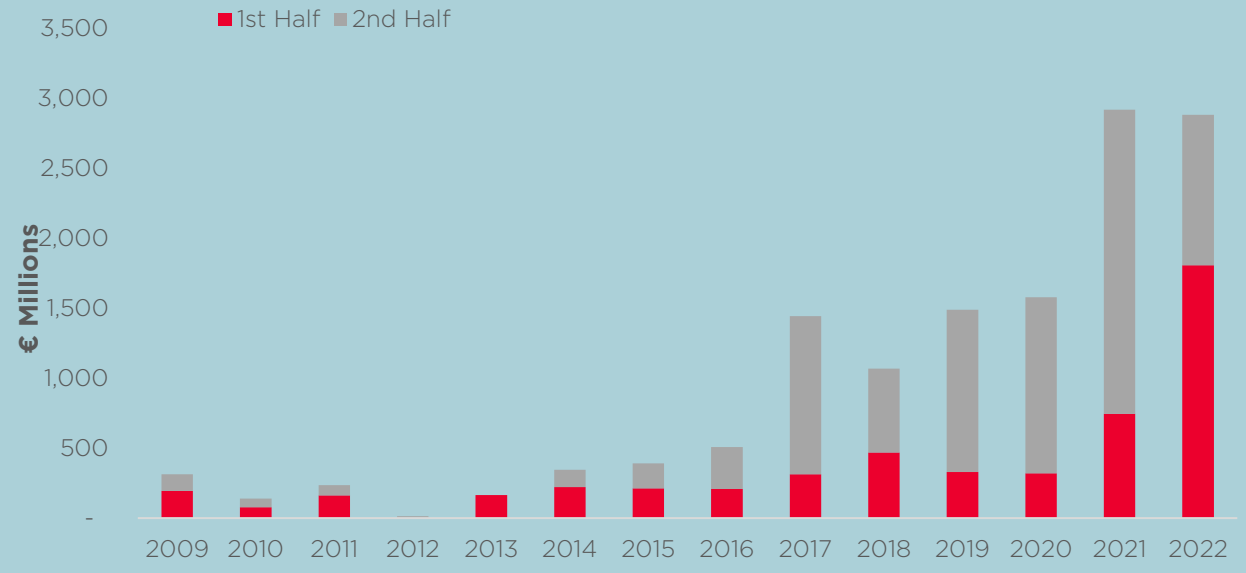
LOGISTICS TAKE-UP EVOLUTION



PRIME RENT EVOLUTION



LOGISTICS INVESTMENT VOLUME



LOGISTICS TRENDS

"THE LOGISTICS SECTOR CONFIRMS A ROBUST OCCUPIER MARKET AND INVESTORS MAINTAIN A KEEN INTEREST IN THE ASSET CLASS"

"THE MAIN CONSOLIDATED LOGISTIC HUBS, MILAN, ROME, BOLOGNA, VERONA, PIACENZA AND NOVARA RECORDED A RENTAL INCREASE AS WELL AS THE EMERGING MARKET OF FLORENCE AND BARI."

"PRIME YIELD VALUES, REFLECTING REPRICING ON THE MARKET, INCREASED DURING THE SECOND SEMESTER BY 60-90BPS IN ALL MAJOR HUBS, BEING AT 4.75% FOR THE MILAN MARKET AND 4.85% FOR THE ROME MARKET."

MAIN AND EMERGING MARKETS

	PRIME RENT (€/sqm/yr) (*)		PRIME NET YIELD (**)
SUB-MARKET	LOGISTICS WAREHOUSE	LAST MILE	LOGISTICS WAREHOUSE / LAST MILE
Rome	61	100	4.85%
Milan	61	100	4.75%
Bologna	60	90	4.85%
Turin	46	75	5.50%
Genoa	60	95	6.00%
Verona	50	90	5.25%
Piacenza	52	75	5.25%
Novara	52	75	5.25%
Florence	75	105	5.75%
Naples	50	80	7.00%
Bari	55	80	7.00%

NOTES: (*) Prime Rent and Yield figures illustrated in the table above refer to: Logistics properties (for space >10,000sqm) and Last Mile/for Courier (for space between 5,000-15,000sqm).
(**) Yields are calculated on a net basis as reported: Net Yield = NOI (1) / PP (2)
1. Net Operating Income - after deducting all non-recoverable expenditure
2. Purchasing Price – excluding transfer costs, tax and legal fees
With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

ITALY MARKET

24.1 Mn sqm
STOCK

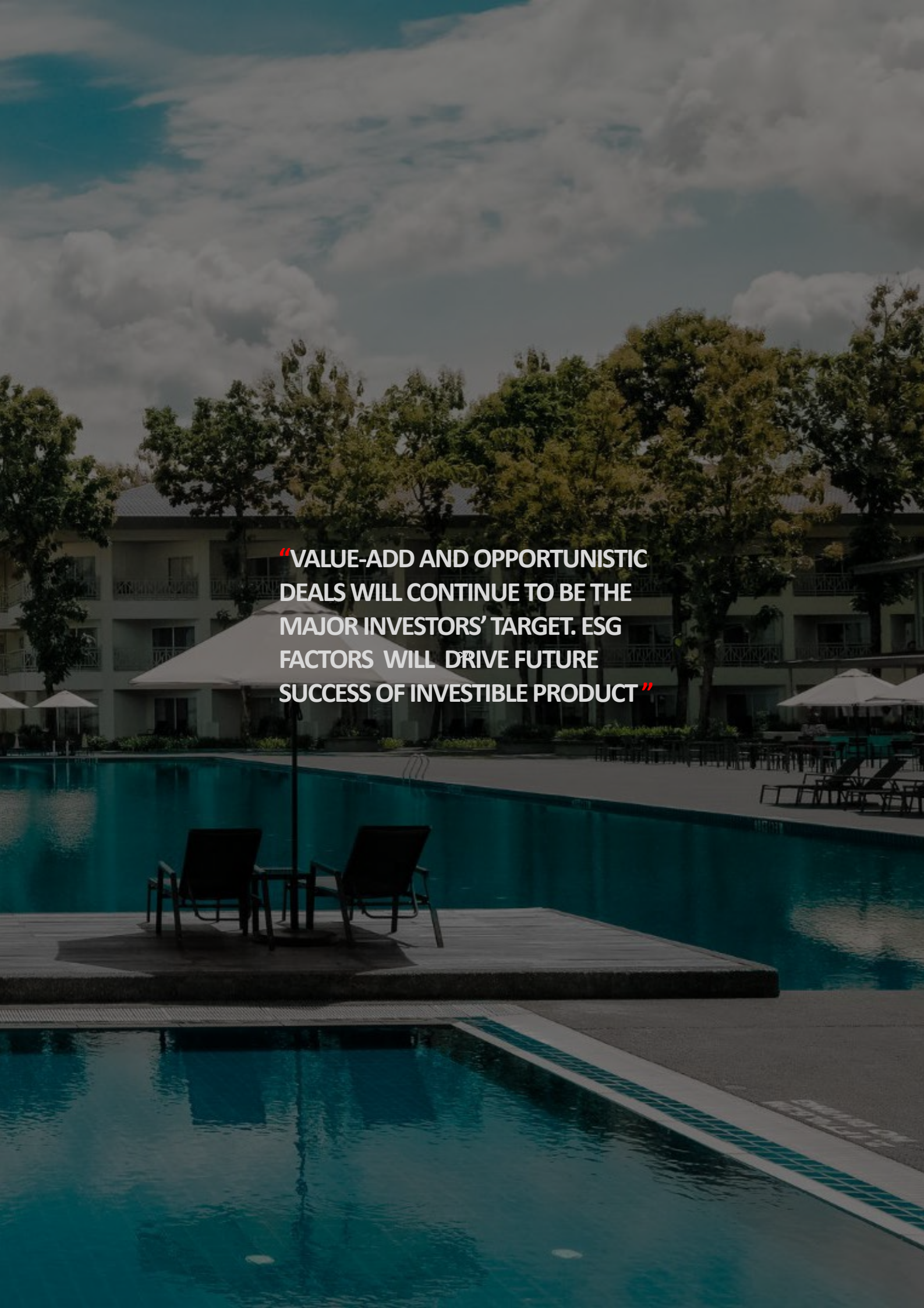
6.5%
VACANCY RATE
(Grade A,B)

2.4 Mln sqm
DEVELOPMENT PIPELINE

26%
PRE-LET PIPELINE

05 HOSPITALITY SECTOR

WE MAKE A DIFFERENCE



"VALUE-ADD AND OPPORTUNISTIC DEALS WILL CONTINUE TO BE THE MAJOR INVESTORS' TARGET. ESG FACTORS WILL DRIVE FUTURE SUCCESS OF INVESTIBLE PRODUCT"

HOSPITALITY SECTOR

Tourist demand strengthened in the summer season and preliminary estimate for the whole of 2022 show an increase of almost 40% in the tourism flows compared to 2021, nearing 400 Mn visitors (Source Assoturismo). Available preliminary data (ISTAT) for the first nine 9 months of 2022 confirms the improvement in fundamentals: +45.8% in arrivals and +40% in bed-nights compared to 2021.
Foreign demand continues to be strong. We are still below pre-pandemic levels, but the trend is improving although the current environment poses some threat due to the worsening of the cost of living.

Investment volume stood at 1.3€Bn in 2022, a 6% decline on 2021. The result has been mainly affected by the strong growth in H1 not fully offset by the slowdown experienced in the second half of 2022, as the general financial markets worsened (inflation and interest rate hikes). Second half volume, 500€Mn, was 40% below H1 2022 and down 50% on the same period last year.

Investors are in a wait and see mood, which will carry over to the first half of 2023.

Rome accounted for 35% on the total volume in 2022 while Milan 11%, confirming the strong appeal of the eternal City, where new completions and pipeline strengthened in the last years. Additionally, over the next 12-18 months both cities will see an important volume of new openings of luxury and extra-luxury structures, mainly coming from conversions and upgrades of existing assets.

Resorts, which held up well during the pandemic, continue to be of interest to investors.

Top sales transaction in the second half 2022 included the W Hotel Rome sold for an estimated 172€Mn to a Canadian institutional investor.

Hotel performance recorded levels well over 2019, driven, above all, by significant growth in ADR, which helped absorb increases in energy & utility as well as personnel cost.

Interest from investors and operators remains strong, thanks to the solid fundamentals of the sector, with a positive view for the next few years.

There is a growing focus on ESG aspects (average obsolete real estate assets) among investors and managers, as pointed out by C&W survey Europe.

HOTEL KPIs*

HOTELS
32,109

ROOMS
1,073,592

ARRIVALS (+45.8% vs '21)
89 Mn

BED-NIGHTS (+40% vs '21)
337.9 Mn

INTERNATIONALS ARRIVALS
47%

INTERNATIONAL
49% bed-nights

Source: ISTAT, data first 9 months 2022 v same period 2021

The general slow down in investment activity in H2 affected the hospitality sector with volumes declining compared to the previous half. Despite this, yearly volume stood at 1.3 €Bn, +27% on the LTA. Cross border capital represented 90% of investments in the sector.

HOSPITALITY PERFORMANCE

- Italian hotel performance* strengthened over the summer season and continued to be robust until the end of 2022. Both Occupancy and ADR significantly increased compared to 2021, boosting the RevPAR to nearly 80 EUR in December, more than 20% on 2019 levels (December).

- The market performance index (vs 2019 levels) strongly improved, mainly driven the sharp rise in occupancy index over the second half too, surpassing 2019 levels in August and being almost aligned in the other months. The ADR index has significantly surpassed 2019 levels mainly H2, largely incorporating the inflation effect.

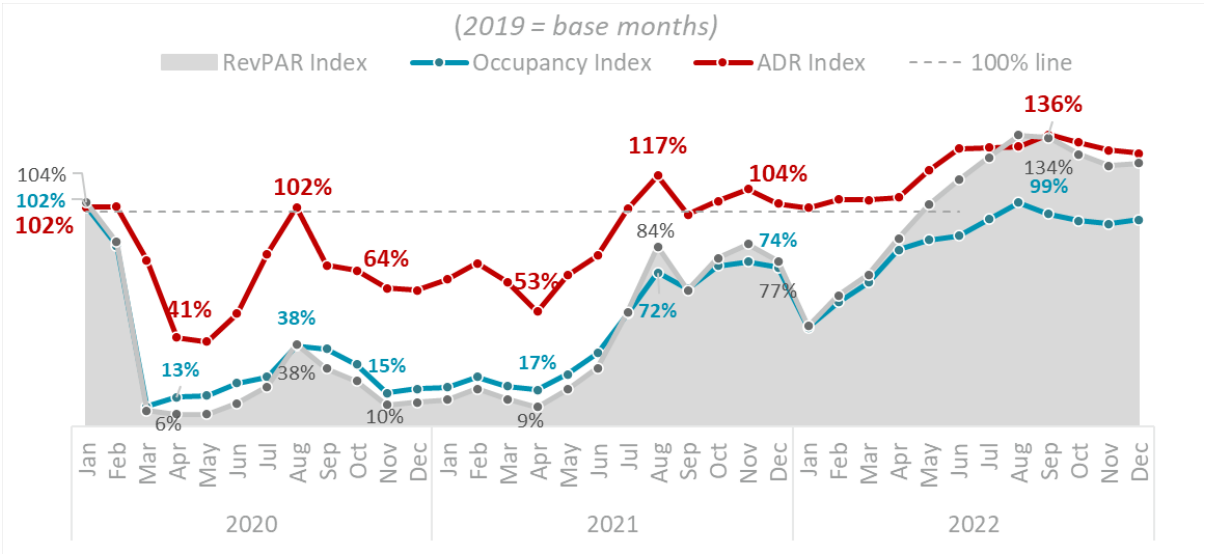
- The average daily rates in Italy continued to strengthen in H2, and overall, 2022 ADR reached nearly 190 EUR, +30% on 2021 levels.

- The average occupancy level of Italian hotels in December was almost in line with 2019 levels, better than first half, thanks to the strong summer and winter seasons.

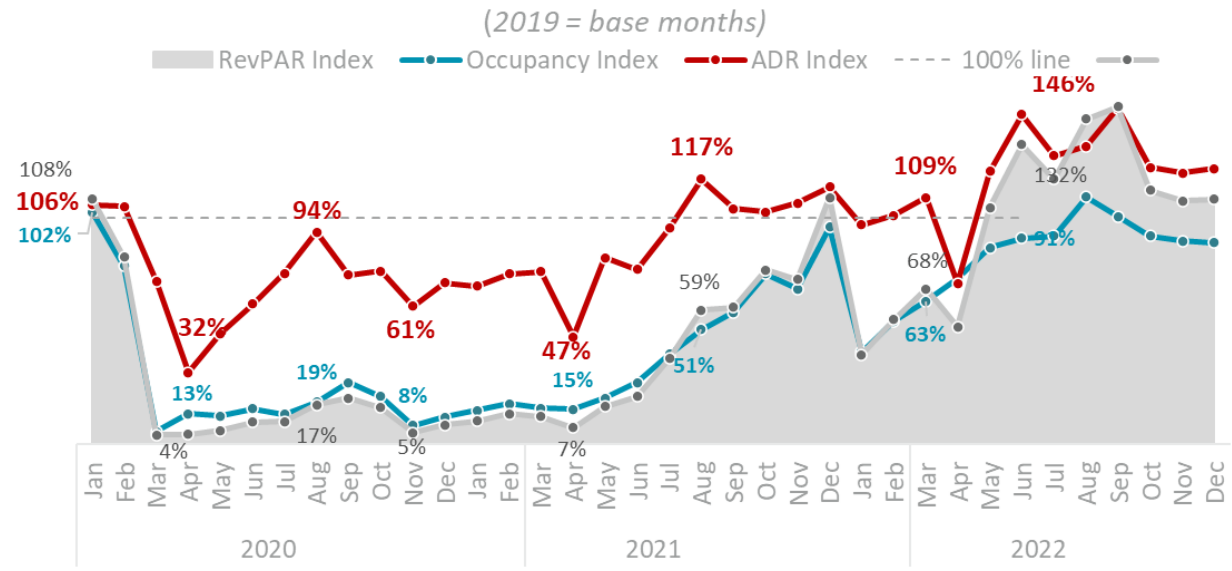
- Major cities are also experiencing a positive trend in their performance (RevPAR). Thanks to a strong second half, Milan is back to 2019 levels; Rome confirmed its positive performance over the second half of the year, sharply surpassing pre-pandemic figures, based on the yearly average (assuming occupancy based on open hotels). The recovery in physical business meetings helped Milan to recover the pre-pandemic performance.

**Commentary in this section are based on STR data , December 2022*

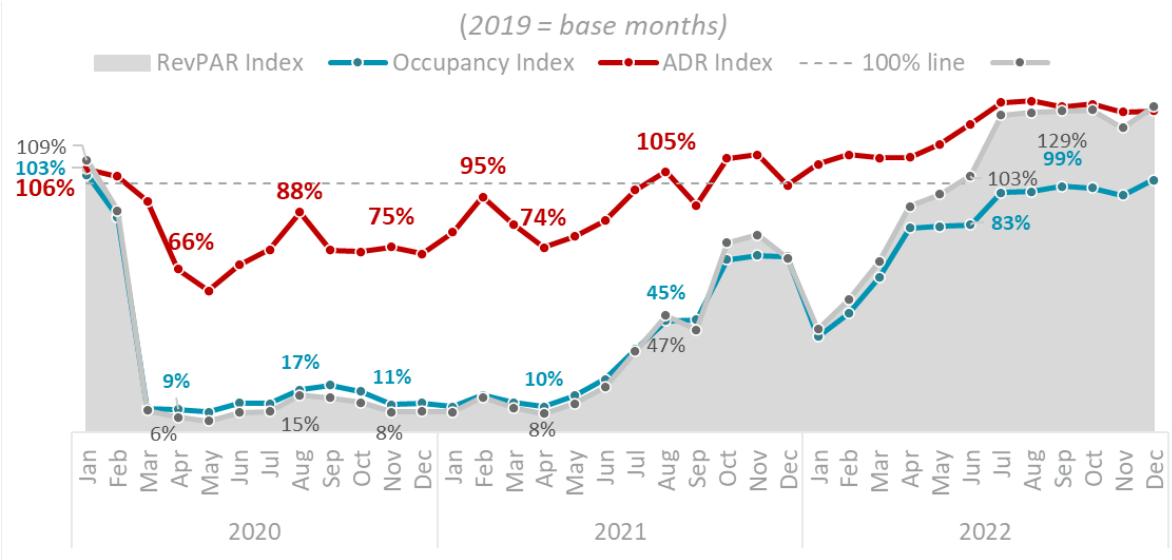
HOSPITALITY PERFORMANCE INDEX, ITALY



HOSPITALITY PERFORMANCE INDEX, MILAN



HOSPITALITY PERFORMANCE INDEX, ROME



Source: STR (based on total inventory – including closed hotels) / C&W. Based on values in EUR, December 2022

06
LIVING SECTOR
WE MAKE IT EXCITING

“ A RECORD YEAR:

INTEREST IS STILL THERE WITH SOME THREATS RELATED TO MACRO ECONOMIC CONDITIONS”

LIVING SECTOR

With 540€Mn deployed in the living sector in H2, full year investment volumes reached 1.1€Bn, a sharp increase (60%) on 2021, +400% on 2019 level. Investors continue to be keen on this sector, backed by a most resilient demand and anticyclical asset classes.

Value add and opportunistic investors still make up the bulk among buyers although a few core/core+ investors are also approaching this sector through forward funding or forward purchase strategies (with a preference for the latter).

Overall, PBSA accounted for 9% of the full year investment, with transactions mainly relating to developments and asset repositioning.

The Residential sector confirmed the growing trend from previous months, with a total volume of ca. 500€Mn invested during H2, +5% the figure of the same period of 2021. With roughly 1€Bn invested throughout 2022, residential investment increased 62% on 2021.

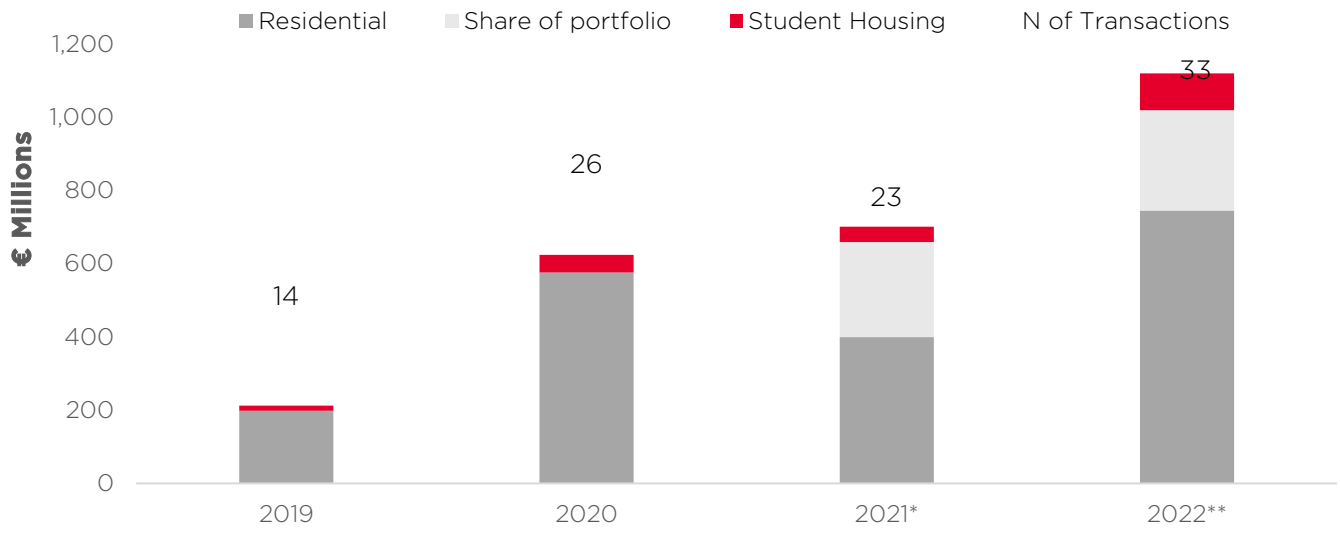
Domestic capital increased its market share accounting for 26% on the half yearly volume (14% on the full year) while foreign capital still accounts for the bulk of the investments. It is a sign that international investors consider Italy an interesting market, with considerable growth potential.

Moreover, many foreign investors are increasingly looking for a local partner (developer and/or operator) to enter the market.

An analysis of the number of transactions for the full year shows that the majority, 80%, was medium-small (up to 50€Mn), representing circa 35% of the total in terms of volumes. Transactions up to 100€Mn represent 60% of the total volume.

Milan remains the most active and attractive residential markets, characterized by high level of demand and by vivacious demographic, student and job market trends. Despite challenges from rising cost of capital and rising construction costs, demand from institutional investors is still robust but it clashes with the lack of product that meets their requirements.

LIVING INVESTMENT VOLUMES



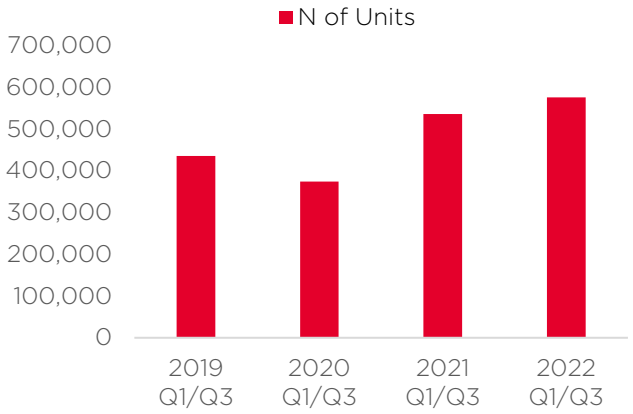
* Figures include share of former Reale Compagnia Italiana Portfolio (2021) for €260 M
** Figures include share of former ENPAM portfolio (2022) for €275 M

On the occupier side, the available data for the first nine months for residential sales (Source: Agenzia delle Entrate) confirms a positive trend, standing at around 575,000 units, +7% compared to the same period of last year. The trend follows the positive trend of 2021, highlighting the vitality of the market.

The best performing cities remain Milan and Rome which account for circa 10% of the overall residential sales, recording respectively 29,700 and 21,400 residential transactions (+7% and +10% vs the first nine months of 2021).

Expectation for the last part of 2022 and H1 2023 are for a slowdown in activity, driven by the increasing cost of mortgages and a general worsening in the households cost of living.

ITALIAN RESIDENTIAL SALES



Source Agenzia delle Entrate

STUDENT HOUSING

2022 continued along the same trend of 2021 with several preliminary agreements closed for the development of new PBSA schemes in major Italian cities and forward purchases or JV carried out by less opportunistic investors. The high interest for this asset class is confirmed by investors who look at a population of young foreign and out of town students, who are looking for a better accommodation, services and a comfortable and youthful environment. This interest is widening. In fact, if at the beginning Milan, Rome and Turin were the most targeted cities, now investors are more than willing to consider and evaluate second tier markets as well."

c.110,000
International students

27.5%
of students study in Milan and Rome

35%
of all international students study in Milan and in Rome

> 500
English-taught programmes (ETPs)

International students mainly from Albania, Romania and China

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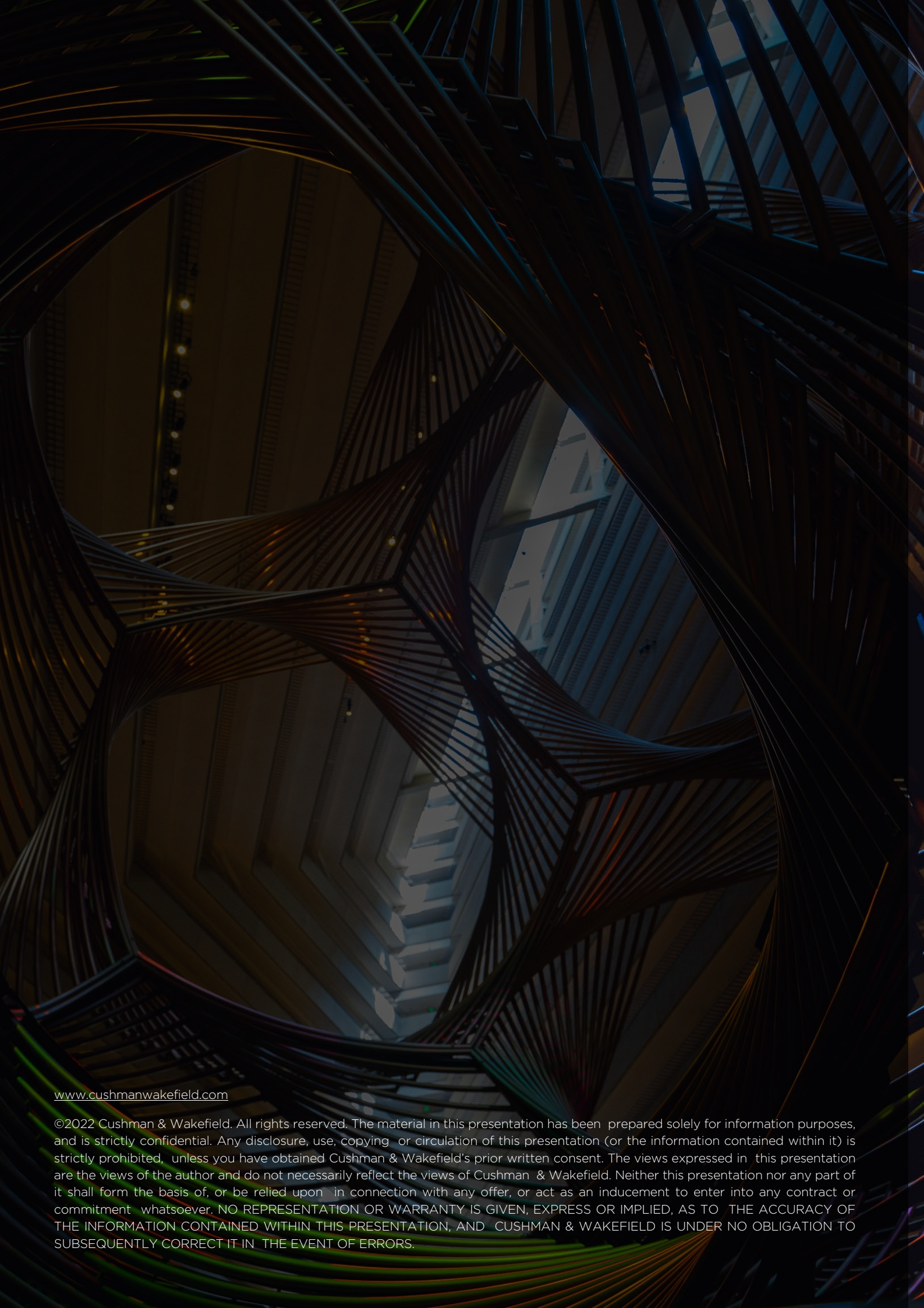

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