# AT A GLANCE Q1 2023

## ITALY CAPITAL MARKETS

BNP PARIBAS REAL ESTATE

# INVESTMENT VOLUMES CONTRACT SHARPLY TO 890 €M

### INVESTMENT VOLUMES REFLECT A FALL OF -73% IN Q1 2023

In the first quarter of 2023 the total real estate investment volume fell, to reach 890 M€ in line with the trend which was already being seen at the end of the previous year.

In Q1 2023 the Logistics asset class dominated the marketplace (33%), followed by Alternatives (26%) which includes the Living subsector. Offices accounted for just 15% of overall investment volume in the quarter, whereas Hospitality held a 14% weighting.

These negative volume adjustments were tightly linked to the yield decompression which is ongoing and has dominated capital markets since the latter part of last year. As this continues, reduced volumes are expected to persist in coming quarters.

### ONGOING YIELD DECOMPRESSION WEIGHS ON TRANSACTION LEVELS

The 10Y Italian Government Bond yield stood at 4.1% at end Q1 2023, after contracting from 4.69% at end 2022 but still up significantly Y-o-Y and exceeding the currently quoted prime Office CBD yield. With prime yield decompression in Italy expected to continue over coming months albeit at a reduced rate, this combined scenario has resulted in sharp declines in investment activity.

As the repricing already underway becomes more established and prime yields stabilize later in 2023, investment activity can be expected to resume, to varying degrees subject to asset class and market.

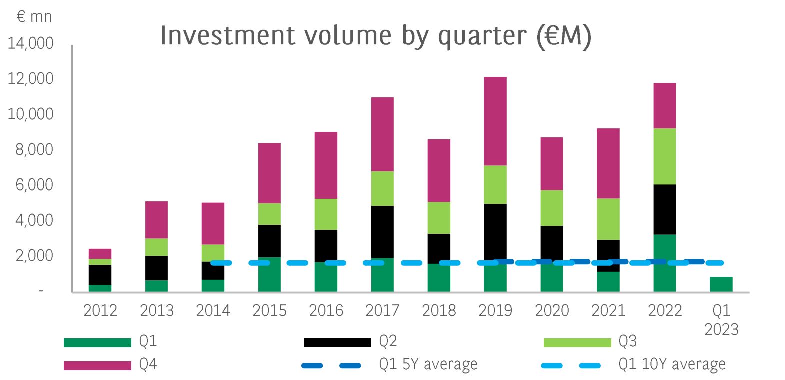
At the end of Q1 2023 the Manufacturing Purchasing Manager's Index (PMI) – one of the economic indexes most followed by decision makers and investors – grew to 51.1 and the Services PMI to 57.7. Both indices exceeded the 50 points threshold and exceeded expectations, as new business volumes increased, demand was robust and new export business improved. Factory output grew and lower inflation has lifted business confidence over the initial months of 2023.

Prime net yields expanded across the Italian marketplace to different degrees depending on asset class. The prime yield for the Milan Office CBD reached 4.0% (vs. 3.0% in Q1 2022) and 4.10% in the Rome CBD (vs. 4.0%). Prime net Italian Logistics yields stood at at 4.80% (vs. 4.0% in Q1 2022). In the retail sector High Street prime yields of 3.9% and 4.0% were seen in Milan and Rome respectively, whereas prime Italian Shopping Centre net yields grew to 7.0% in Q1 2023.

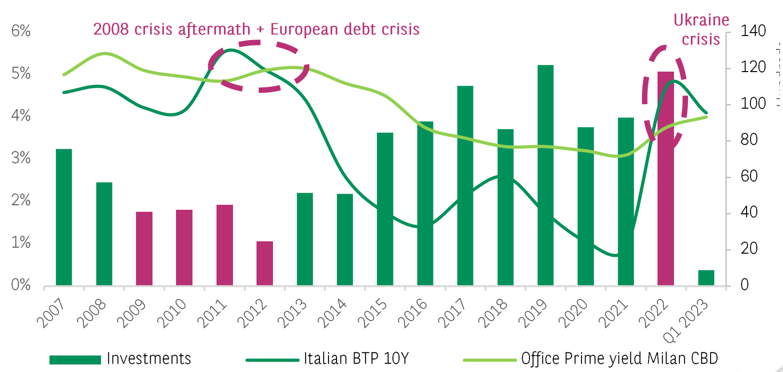
### TOTALS IN Q1 2023

| Q1 2023 | AVG. Q1 2014-2023 |
|---|---|
| 890 M€ | 1,680 M€ |
| -74% vs. Q1 2022 | |

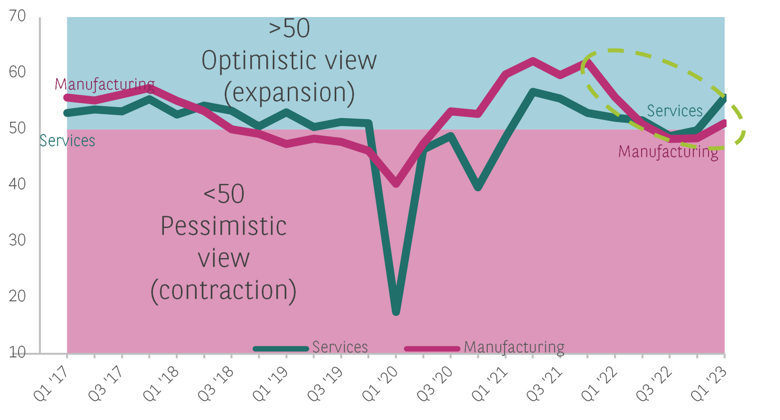
### TOTAL INVESTMENT VOLUME




### 10Y GOVERNMENT BOND > PRIME YIELD CBD, A WARNING SIGNAL FOR ASSET PRICING LEVELS




### THE ITALIAN PMI INDICES FALLING BELOW 50



# OFFICE

## INVESTMENTS CONTRACT IN FIRST Q AS ACTIVITY SLOWS DOWN DRAMATICALLY

After the Office sector returned to dominate investment volumes at the end of last year, in Q1 2023 the asset class contracted to represent 15% of overall investment volumes, equal to 130 €M, significantly below the 600 €M 10-yearly average and down by -89% on Q1 2023.

Within this context, in line with the historic trend the Milan market continued to dominate Office sector investments, attracting 65 €M of capital in Q1 2023, equal to 44% of total office investment volumes nationwide.

Rome held a 34% weighting in Q1 2023 (31 €M) and the weighting of other locations grew further (43 €M and 33% in Q1 2023), linked to scarcity of investment-grade product.

Transactions were generally smaller in Q1 2023, when there were no office investment deals with ticket sizes exceeding 100€M, despite these accounting for 62% of the total annual office investment volume in 2022.

## ONGOING REPRICING AS YIELD DECOMPRESSION CONTINUES

Thus at year-end prime office yields had reached 4.0% for Milan and 4.1% in Rome, up from 3.75% and 4.0% just one quarter previously.

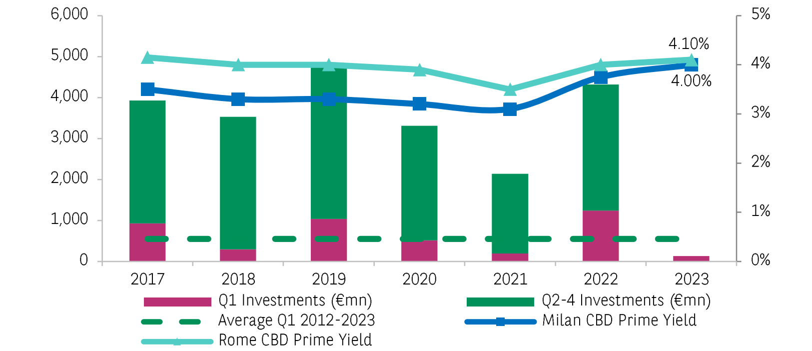
The yield decompression which has led to these values, from the much tighter yield levels seen previously, is expected to continue further in coming months, albeit to a lesser extent. In the meantime investment activity across the office asset class remains limited.

Investor interest in the Office sector, in the current context of 10-year BTP yields in line with quoted prime net yields, focuses firmly on quality product with good ESG compliance, although such product is limited as therefore are related volumes. Investors prefer prime covenants in the form of triple A tenants with strong credit ratings.

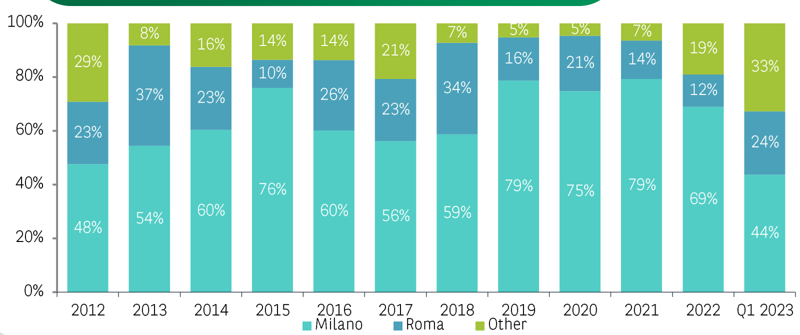
## TOTALS IN Q1 2023

| Q1 2023 | AVG. Q1 2014-2023 |
|---|---|
| **130 M€** | **600 M€** |
| -89% vs. Q1 2022 | |

## OFFICE INVESTMENT VOLUME AND CBD PRIME YIELDS




## INVESTOR FOCUS REMAINS ON MILAN, GROWING INTEREST IN OTHER MARKETS




## OFFICE INVESTMENTS Q1 2023

vs. Q1 2022

| Milan | Rome |
|---|---|
| -92% | -76% |
| 58M€ | 31M€ |

## PRIME YIELDS Q1 2023

Decompression vs. Q1 2022

| Milan CBD | Rome CBD |
|---|---|
| 4.00% | 4.10% |

## KEY OFFICE DEALS IN Q1 2023

| ASSET | LOCATION | DISTRICT | INVESTMENT PROFILE | VOLUME (M€) |
|---|---|---|---|---|
| Via Marchese Campodisola, 21 | Naples | Port district | Core | 20 |
| Scalo di Porta Romana - Via Ripamonti, 99 | Milan | Periphery | Core | 18.5 |
| Via della Camilluccia, 59 | Rome | Periphery | Value add | 18 |

# LOGISTICS

## SUSTAINED OCCUPIER DEMAND FOR LOGISTICS SPACE

In Q1 2023 Logistics returned once again to having the highest investment volume weighting of all asset classes (33%).

Despite fluctuations in demand from individual logistics or e-commerce operators, investor interest in Logistics is underpinned by ongoing occupier demand, which in turn is fueled by megatrends involving underlying demographic changes and the expansion of digital and online commerce, and which continues to support demand for Logistics services and property.

## OCCUPIER INTEREST CONSIDERING EXISTING STOCK

The 'golden triangle' represented by Lombardy-Veneto-Emilia Romagna is the focus for occupier and therefore also investor interest in Logistics. The area accounted for 63% all the Logistics investment volume in Q1 2023.

Occupier interest is also beginning to take into consideration existing assets, resulting from a combination of limited supply following increased construction costs in 2022 and difficulties in acquiring financing. Occupiers may also seek to achieve immediate operational savings by considering the lower rental values represented by second hand stock.

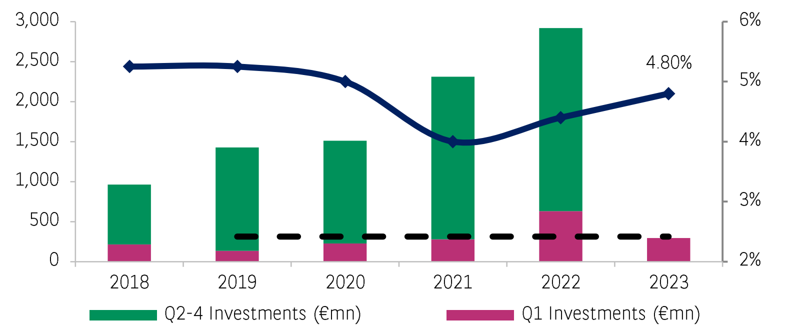
In line with other assets classes, prime net logistics yields decompressed to 4.80% by the end of Q1 2023, from 4.4% in Q4 2022 and 4.0% in Q1 2022. Some additional yield decompression is expected, although the extent will differ between subsectors. Urban logistics for example is expected to be more resilient thanks to stronger expected rental growth expected, resilient demand, a higher capital value, and greater alternative use values in many locations.

### TOTALS IN 2023

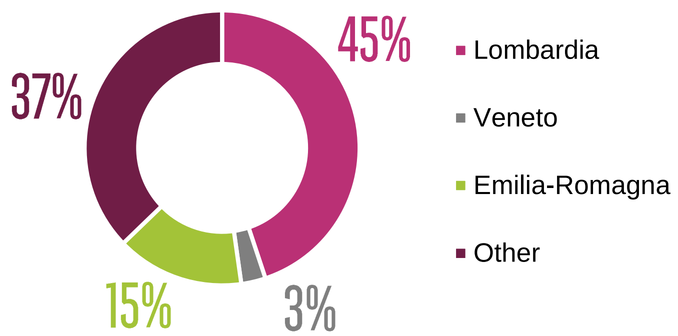
Q1 2023
**290 M€**
-53%
vs. Q1 2022

AVG. Q1 2014-2023
**220 M€**

### LOGISTICS INVESTMENT VOLUME AND PRIME YIELDS




### FOCUS ON THREE KEY 'GOLDEN TRIANGLE' MARKETS




### LOGISTICS INVESTMENTS Q1 2023

vs. Q1 2022

| Lombardy | Veneto | Other |
|---|---|---|
| 132M€ | 8M€ | 150M€ |
| -41% | -96% | -15% |

### PRIME YIELDS Q1 2023

Decompression vs. H1 2022

| Warehouses | Last-mile |
|---|---|
| 4.80% | 4.70% |

### KEY LOGISTICS DEALS IN Q1 2023

| ASSET LOCATION | | REGION | VOLUME (M€) |
|---|---|---|---|
| Logistics asset in Verdellino (Bergamo) | | Lombardy | 40 |
| Logistics asset in Mantova | | Lombardy | 34 |
| Logistics asset in Capriata d'Orba (Alessandria) | | Piedmont | 26 |

# RETAIL

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## INVESTOR INTEREST FOCUSES ON HIGH STREET RETAIL

In Q1 2023 the volume invested in the Retail sector was limited to a small number of in town retail transactions, totaling ca 20 €M across Italy, down by -90% compared to Q1 2022 and -94% on the 10-year Q1 average.

Retail investment volumes are expected to remain limited in the short term under the current economic scenario. However higher end retail should be less impacted.

In Q1 2023 investor interest continued to focus on the best quality assets, primarily in top locations which cater for higher end Retail demand and are expected to be less affected by economic difficulties.

Interest in the food sector remains strong, with a focus on supermarkets, cash&carry, and discount store assets, which can meet demand for cost savings. However translating this interest into transaction activity will be subject to variables such as suitable price adjustment following yield decompression.

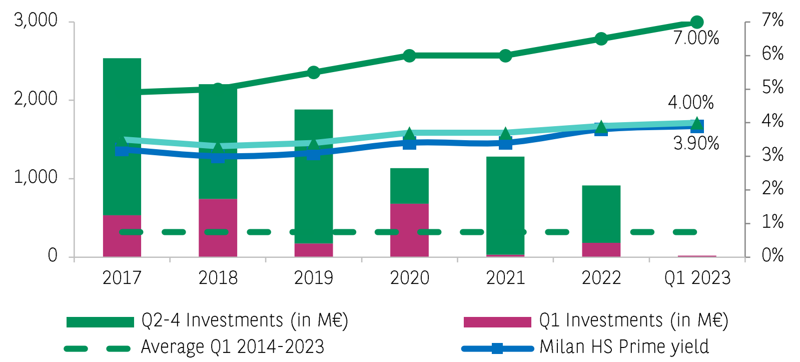
Shopping Centres were entirely absent from investment volumes in the first quarter of 2023. Indeed the Shopping Centre investment volume weighting had already begun contracting even before the Covid-19 outbreak and in 2022 already accounted for just 15% of total Retail investment volume.

As in other use sectors, prime Retail yields edged upwards slightly for High Street Retail product, to 3.80% for Milan High Street, 3.90% for Rome High Street, and 6.50% for Shopping Centres nationally, despite a lack of investment activity in the latter. Yields are expected to decompress further in upcoming quarters but to a limited extent.

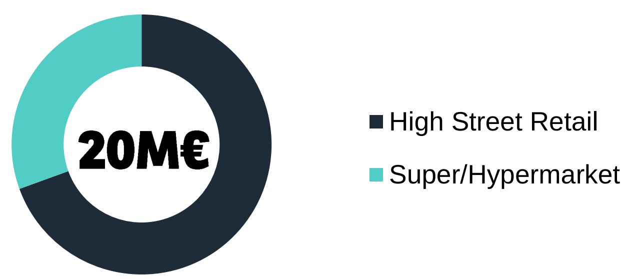
### TOTALS IN 2023

| Q1 2023 | AVG. Q1 2014-2023 |
|---|---|
| 20 M€ | 320 M€ |
| -90% vs. Q1 2022 | |

### RETAIL INVESTMENT VOLUME AND PRIME YIELDS




### Q1 2023 RETAIL INVESTMENTS BY PRODUCT




### RETAIL INVESTMENTS Q1 2023

Vs. Q1 2022

| -97% | +10M€ |
|---|---|
| 3M€ | 10M€ |
| Milan | Rome |

### PRIME YIELDS Q1 2023

Decompression vs. Q1 2022

| 3.90% | 4.00% | 7.00% |
|---|---|---|
| Milan High Street | Rome High Street | Shopping Centres |

### KEY RETAIL DEALS IN Q1 2023

| ASSET | LOCATION | TYPE | VOLUME (M€) |
|---|---|---|---|
| Via del Tritone / Via Poli | Rome | High Street | 10 |
| Ex-Cinema Empire | Naples | Supermarket | 5.5 |
| Piazzale Cantore, 2 | Milan | Bank Agencies | 2.5 |

# ALTERNATIVES

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## ALTERNATIVES DRIVEN BY RESIDENTIAL AND HEALTHCARE

The Alternatives asset class accounted for a total investment volume of 230 M€ in Q1 2023. Although this was down by -63% on Q1 2022 in line with the market overall, over the quarter Alternatives held the second greatest weighting after the Logistics asset class, at 26% of total Italy investment volume in Q1 2023.

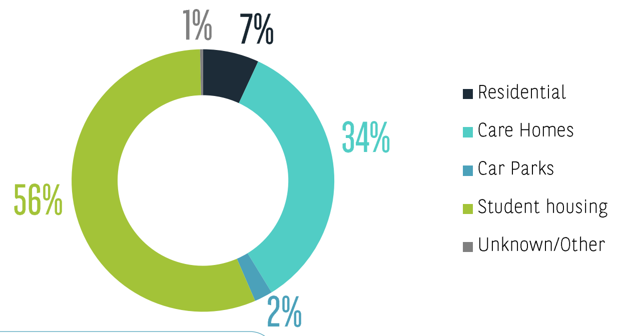
This asset class continues to be dominated by the Living segment, which totaled an investment volume of 150 €M in Q1 2023 thanks to growth over recent quarters fueled by underlying demographic trends, combined with a focus on homes with a good energy rating. These drivers should persist to a certain extent over coming quarters even in the face of a possible downturn in economic conditions.

After Living, the Healthcare subsector represented over a third of all investment into Alternative assets in Q1 2023, reaching 80 M€.

### TOTALS IN 2023

| Q1 2023 | AVG. Q1 2014-2023 |
|---|---|
| 230 M€<br>-63%<br>vs. Q1 2022 | 256 M€ |

### Q1 2023 ALTERNATIVES INVESTMENTS BY PRODUCT




### KEY ALTERNATIVES DEALS IN Q1 2023

| ASSET | CITY | REGION | PRICE (M€) |
|---|---|---|---|
| Aparto Milan Giovenale – Via Giovenale, 13 | Milan | Lombardy | 130 |
| Immobile dell'Istituto Dermopatico dell'Immacolata | Rome | Lazio | 47,5 |
| Clinica Sedes Sapientiae | Turin | Piedmont | 15 |

## STRONG RESIDENTIAL ACTIVITY ACROSS MAIN CITIES

Activity remained strong overall with over 780,000 transactions* closed annually in 2022 (+4.8% YoY) but with some disparities across key cities, with Milan showing most annual growth in 2023.

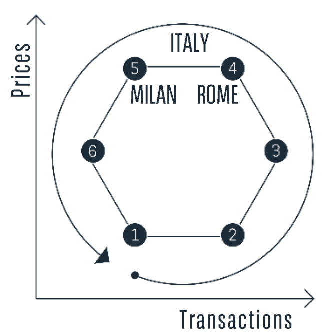
On a quarterly basis, taking Q4 2022, Y-o-Y growth was limited to the city of Verona (+7.1%) whereas both Milan, Rome and Bologna saw Y-o-Y contractions in transaction volumes (-4.6%, -6.1% and -12.5%). The remaining cities saw substantial stability Y-o-Y with variations compared to Q4 2021 not exceeding 2 pp from zero.

| CITY | 2021* | 2022* | VARIATION |
|---|---|---|---|
| Rome | 38,841 | 40,065 | 3.2% |
| Milan | 26,923 | 28,595 | 6.2% |
| Turin | 15,224 | 16,126 | 5.9% |
| Genoa | 8,886 | 9,182 | 3.3% |
| Naples | 8,096 | 8,316 | 2.7% |
| Verona | 3,785 | 3,938 | 4.1% |
| Bologna | 6,559 | 6,788 | 3.4% |
| Florence | 5,433 | 5,551 | 2.2% |
| Top 8 | 116,049 | 121,403 | 4.6% |
| Total Italy | 748,523 | 784,486 | 4.8% |

*Source : BNP Paribas Real Estate Research, Agenzia delle Entrate (OMI)
NTN = Normalised no. of transactions

The «Hexagon model» illustrates the different market phases of cities in terms of Residential transactions; not all Italian cities are at the same point within the cycle at any one time. Milan is currently between phases 3 and 4, as we witness a rise in prices but transactions are slowing down. Rome is towards the end of the cycle (between phases 6 and 1) because transactions are still growing – at a slower pace – but prices are falling in some districts.

### HEXAGON MODEL




**Phase 1-2**
Stable prices and increased number of transactions

**Phase 2-3**
Rising prices and transactions

**Phase 3-4**
Prices continue to rise, but transactions slow down

**Phase 4-5**
Prices are stable and transactions are falling

**Phase 5-6**
Decreasing prices and transactions

**Phase 6-1**
Prices fall and transactions start to grow again

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