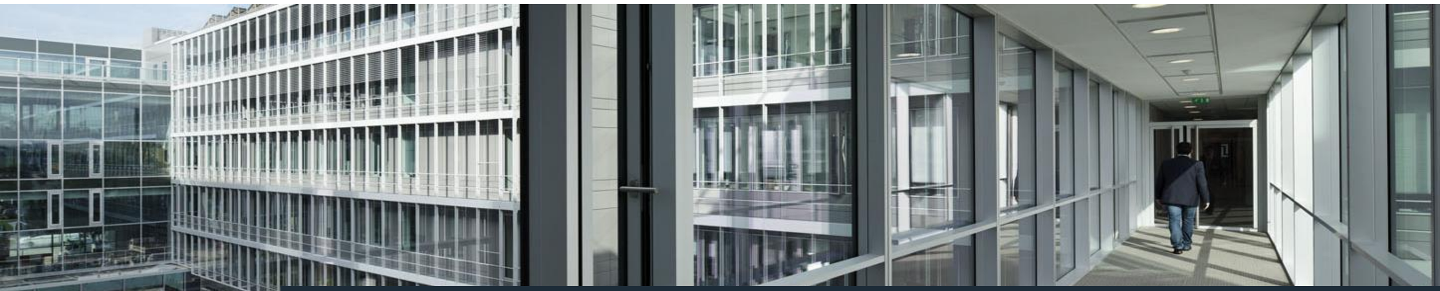
BNP PARIBAS REAL ESTATE

Real Estate for a changing world



INVESTMENT STILL REACHING RECORD VOLUMES IN ITALY, MORE CAUTION EXPECTED BY YEAR END €8.7BN INVESTED IN NINE MONTHS : +63% vs. Q1-3 2021

GOOD PERFORMANCES IN Q3 2022

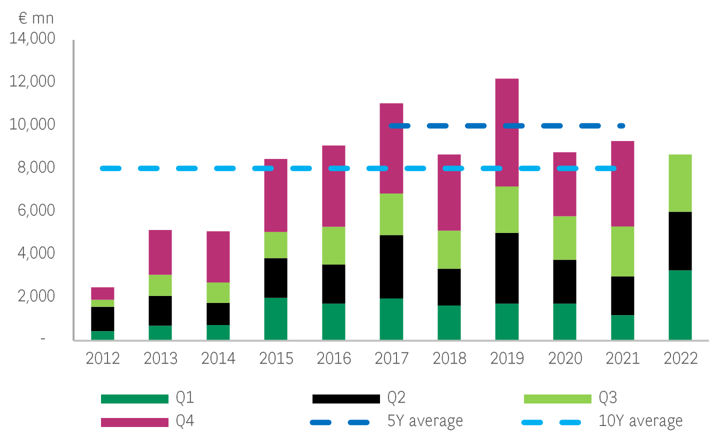
Real Estate investment volumes in Italy reached **8.7BN€ during Q1-3 2022** for the first time in history. This represents an **increase of 63% compared to Q1-3 2021** and way above the Q1-3 average for the last ten years (+79%).

Offices experienced a strong resilience over the first three quarters of the year with **3,154M€** invested mostly in Milan (2,165M€).
Logistics continues to demonstrate its attractiveness with **2,419M€ of investments** in Q1-3, significantly more than in recent quarters.

Decompression started for prime yields across all sectors compared to Q2, with **Milan Office CBD** at **3.20%** (vs. 3.00% in Q2) and **Italian Logistics at 4.20%** (vs. 4.0% in Q2).

As anticipated the first nine months of 2022 showed solid investment figures for the Italian market however numerous deals that had initiated in 2020-2021 were concluded in Q1 to Q3 2022.

Investment in Italian Real Estate (M€)



... BUT ECONOMIC UNCERTAINTY WILL INFLUENCE PERFORMANCE IN LAST QUARTER

10Y Italian Government Bond yield established itself **higher than the Office CBD prime yield** (4.60% at the end of June 2022 vs. 3.25%), in line with the trend of Q2 2022.

While Real Estate can still be seen as an hedge against inflation (which does not provide Fixed Income) and as a diversification tool in portfolios, question now need to be raised on investment activity looking forward.

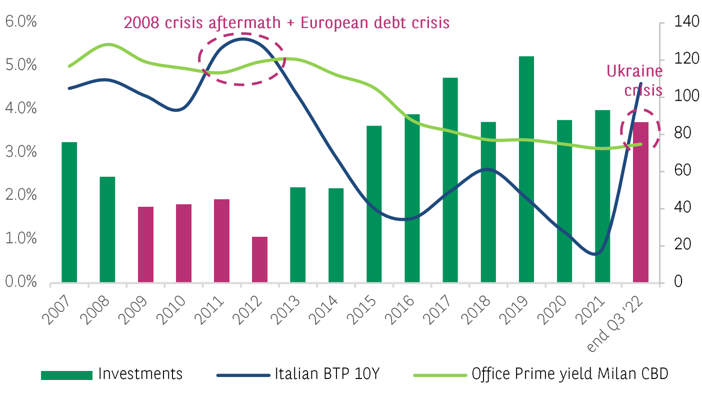
Current and expected economic conditions are set to worsen : continued **high inflation** (8.9% in September 2022), **lower 2022 GDP forecast** (Italy forecast 2.5% for 2022 vs. 4.2% in March 2022), **increase in central bank interest rates** (ECB should rise interest rates by 50/75 bps by end 2022).

Given the time lag between Real Estate transactions versus traditional liquid investments the negative impact of this situation is not obvious yet, but signs begun to appear during Q3.

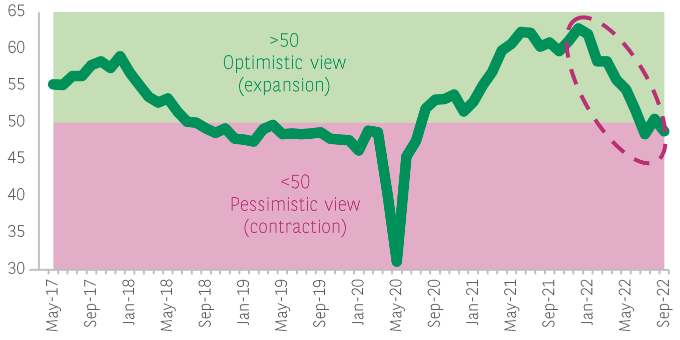
The Manufacturing Purchasing Manager's Index (PMI) – one of the economic indexes most followed by decision makers and investors – **dropped from 62 points in January to 48 in September,** going below the 50 points threshold, indicating economic contraction.

All these factors lead us to hold the view that investments in Real Estate should be more subdued for the remainder of H2 compared to H1 and should diversely affect different sectors (and will likely be more pronounced for Offices and Logistics).

10Y Government Bond > Prime Yield CBD, a warning signal for asset pricing levels ?



The Italian PMI Index is falling and should be <50 in H2



Source : BNP Paribas Real Estate Research, IHS Markit (PMI index)

OFFICE

Q3 2022	AVG. Q1-3 2012-2022	Q1-3 2022
1,300M€	1,844 M€	3,150 M€
+49 % vs. Q3 2021		+124 % vs. Q1-3 2021

A STRONG Q3

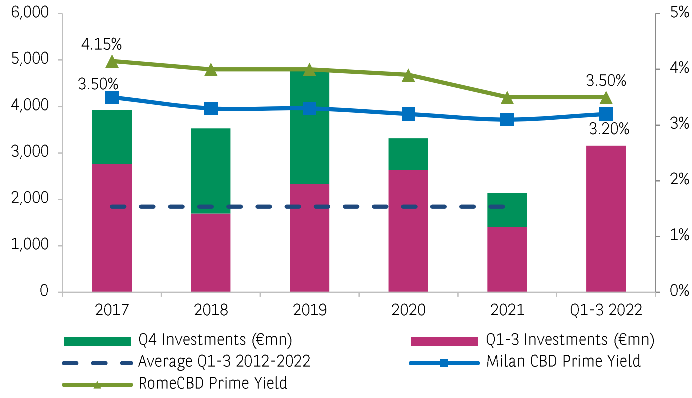
Investments in the Office sector totaled 3,150 **M€ in the first 9 months of 2022** (+124% YoY) of which **1,300M€ in Q3 alone** (+49% YoY), both record volumes for any year.

Milan attracted **2,165M€ of capital** in the first nine months of the year, a significant increase compared to the same period in 2021 (+82%), with a dominance of deals located in **prime locations (710M€ in the CBD Duomo submarket and 353 €M in CBD Porta Nuova)**.

At **518 M€ (+208%), investments in the Rome** office market were significantly higher in Q1-3 2022 than in the same period of 2021.

Prime yields begun edging upwards this quarter, to 3.2% for CBD Duomo in Milan and 3.5% in Rome, reflecting a global move repricing trend with further decompression expected by year end.

Office investment trend and CBD prime yields



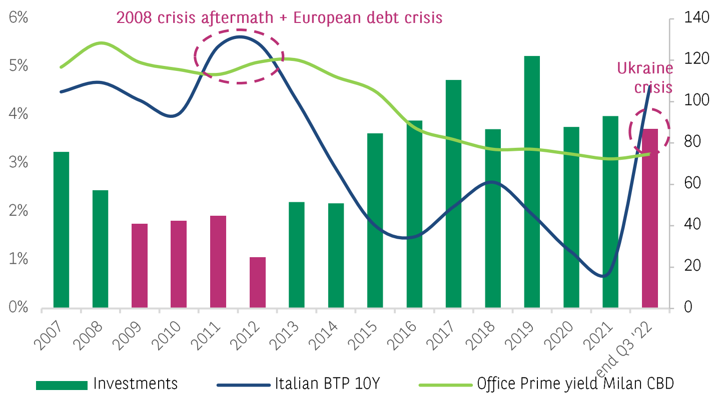
« A FLIGHT-TO-QUALITY » APPROACH ALREADY UNDERWAY

Ongoing macroeconomic uncertainty has lead investors to focus on security of income, with a general adversity to risk and a strong preference for Core/Core+ product and locations.

During bear market periods, the percentage of investments in Core and Core+ assets is higher than the 10Y average (36%). A similar trend has been visible in Q3 and we expect this to continue to year end and into 2023, as the majority of the larger deals closed in the marketplace ytd have been Core and Core+ deals closed in early July.

This type of product also allows owners to benefit from strong rent indexation levels, of particular significance in the current climate, and remains in demand despite restricted supply.

The story repeats : During bear markets, investors are seeking security



Office Investments Q1-3 2022

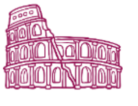
Milan	Rome
2,165M€	518M€
+82 %	+209 %

vs. Q1-3 2021

Prime yields Q3 2022

Milan CBD	Rome CBD
3.20%	3.50%

Decompression vs. Q3 2022



KEY OFFICE DEALS IN Q3 2022

Asset	Location	District	Investment profile	Volume (M€)
Cortile della Seta – Via Moscova, 33	Milan	Centre	Core	284*
The Bridge – Via San Giovanni sul Muro	Milan	CBD Duomo	Core	159
Via Melzi d'Eril, 34	Milan	Semicentre	Core	77

*Total asset value (including retail portion): 355 M€

Source : BNP Paribas Real Estate Research

Q3 2022	AVG. Q1-3 2012-2021	Q1-3 2022
632M€	672M€	2,419 M€
-21% vs. Q3 2021		+66 % vs. Q1-3 2021

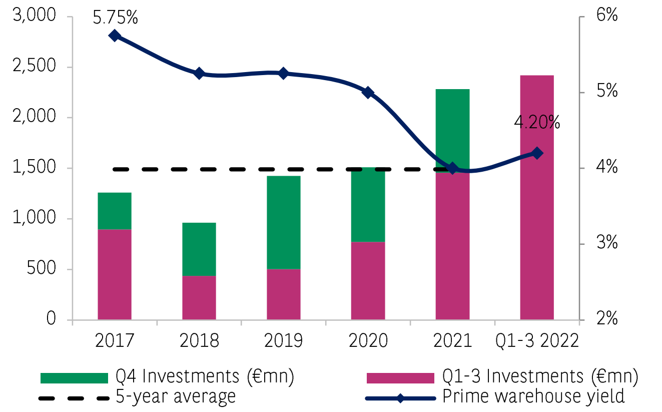
LOGISTICS

SECTOR CONTINUING TO ATTRACT CAPITAL

The volume invested in Logistics in the first 9 months of 2022 reflected ongoing interest in the market and was up by 66% on the same period in 2021, to 2,419M€ . Although a slight Q3 fall to 632 M€ (-21% YoY) was observed, it is still the highest total invested in the first 9 months of any year.

The Logistics sector continues to benefit from pent-up demand from the e-commerce sector, although the extremely rapid growth seen as a result of the Covid-19 health emergency has slowed. In terms of locations, the focus remains on prime markets, with the Lombardy and Veneto regions accounting for over half of total investment volume in Q1-Q3 2022 (31% and 22% respectively).

Logistics investment trend and prime yields



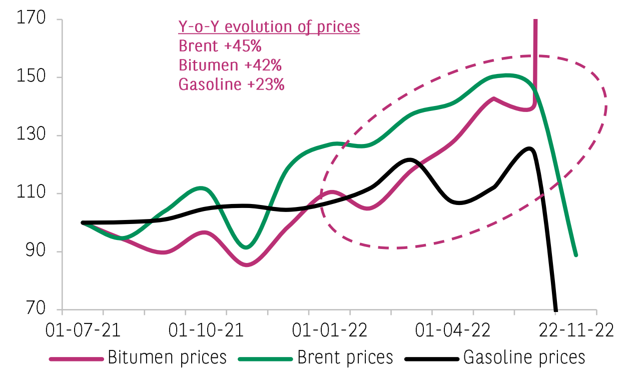
URBAN LOGISTICS SHOULD PROVE MOST RESILIENT

Over previous quarters we saw a significant drop in the prime logistics yield so that, despite a slight decompression over recent months, at 4.20%, it is now closer than ever to prime yield levels for urban logistics at 4.10%.

Given current and future economic conditions, we are of the opinion that prime yields should decompress further towards the end of 2022 and the beginning of 2023.

However, the extent of this decompression will differ between subsectors. Urban logistics is expected to prove more resilient to economic turmoil thanks to factors including the stronger rental growth expected as demand is in turn more resilient, a higher capital value/sqm and a greater alternative use value in the majority of locations.

Increasing cost of raw materials should have a negative impact on speculative developments (07/21 = Base 100)

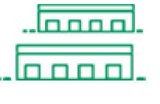
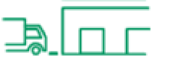


Logistics Investments Q1-3 2022

Lombardy	Veneto	Other
		
749M€	527M€	1,143M€
+225 %	x13	-4 %

vs. Q1-3 2021

Prime yields Q3 2022

Warehouses	Last-mile
	
4.20%	4.10%

Decompression vs. Q1-3 2022

KEY LOGISTICS DEALS IN Q3 2022

Asset	Location	Region	Volume (M€)
Portfolio Prologis – 32 assets	Mixed location	Mixed	350
Portfolio Logiman – 7 assets	Mixed location	Lombardy and Veneto	90
Portfolio Gryphon	Genova	Ligury	32

Source : BNP Paribas Real Estate Research, Trading economics (raw materials)

BNP PARIBAS REAL ESTATE

Q3 2022	AVG. Q1-3 2012-2021	Q1-3 2022
154M€	1,120 M€	564 M€
+76% vs. Q3 2021		+128 % vs. Q1-3 2021

RETAIL

HIGH STREET RETAIL PREOVES RESILIENT

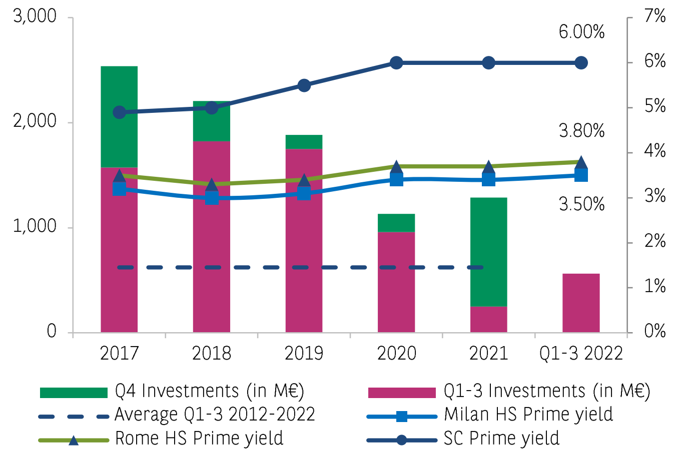
The Retail sector as a whole registered 154 M€ of investments in Q3, 76% higher than in Q3 2021, and over the first 9 months of the year 564 €M were invested, significantly more than in Q1-3 2021 (+128%).

High Street Retail continues to command the majority of investor interest and the best quality assets are become of increasing interest, accounting for 40% of Retail investment activity in the first 9 months of 2022. Shopping Centres lag behind, with just 21% weighting in Q1-3 2022.

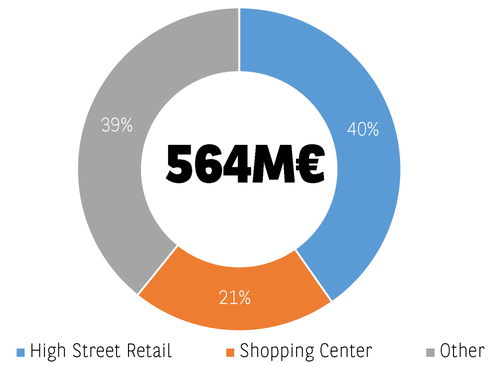
As in other sectors, prime yields edged upwards slightly for High Street Retail product, to 3.50% for Milan High Street and 3.80% for Rome High Street, remaining stable at 6% for Shopping Centres due at least in part to a absence of activity. This lack of transactions makes a detailed analysis difficult especially for the Shopping Centre sector. However High Street yields are expected to decompress further in the upcoming quarters in the current economic climate, and government bond yields to stabilise just below 4%.

However, overall Retail investment volumes should continue to be limited in the short term, as economic uncertainties remain, although the impact on higher end retail should be more limited.

Retail investment trend and prime yields



Q1-3 2022 Retail investments by product



Retail Investments Q1-3 2022

Milan	Rome
217M€	19M€
+109 %	N/A

vs. Q1-3 2021

Prime yields Q3 2022

Milan High Street	Rome High Street	Shopping Centres
3.50%	3.80%	6.00%
Decompression vs. Q2 2022		Stable vs. Q2 2022

KEY RETAIL DEALS IN Q3 2022

Asset	Location	Type	Volume (M€)
Retail Portion, Cortile della Seta – Via Moscova 33	Milan	Street Retail	71*
Retail Portion - Via del Lauro 1	Milan	Street Retail	31.2
Retail Portion – Viale Cassala 22	Milan	Street Retail	21.5

*Total asset value (including office portion): 355 M€

Source : BNP Paribas Real Estate Research

BNP PARIBAS REAL ESTATE

Q3 2022	AVG. Q1-3 2012-2021	Q1-3 2022
393 M€	496 M€	1,148 M€
+96% vs. Q3 2021		-17% vs. Q1-3 2021

ALTERNATIVES

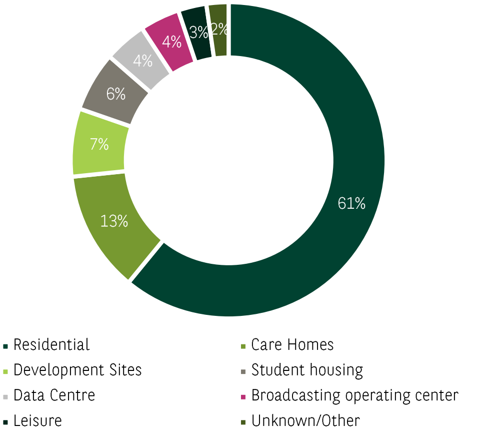
ALTERNATIVES ARE STILL DRIVEN BY RESIDENTIAL

During the first three quarters of 2022 ca € 1.150 mn were invested in Alternative asset classes, representing a 17 increase on the previous year (YoY).

Residential remains the main component within the Alternatives sector, accounting for 168 €M of total investments in Q3 2022 (700 M€ in the Q1-3 period). Senior Housing / Care homes represented a little over 140 M€ during the first nine months of 2022.

Although high levels of uncertainty prevail as supply issues and the escalation of raw materials cost impact developers' margins, and the economic outlook remains unfavourable, the residential marketplace should benefit from demand upheld by demographics, especially in segments such as BTR where rental levels can be more flexible over time.

Q1-3 2022 Alternatives investments by product



KEY ALTERNATIVES DEALS IN Q3 2022

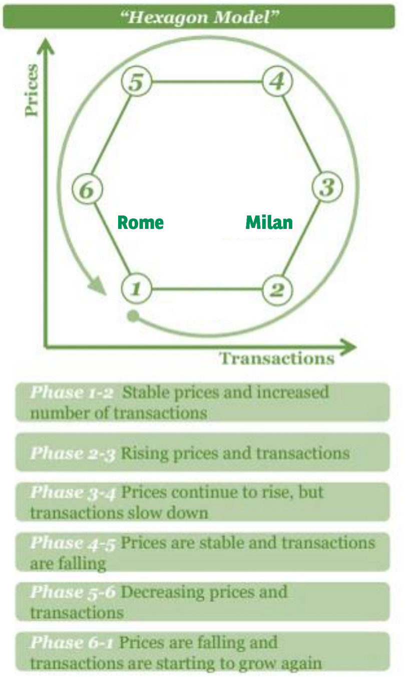
Asset	City	Region	Price (M€)
Marinai House Complex – BTR 526 units	Catania	Sicily	72.5
Student housing development - Turin (ex Diatto)	Turin	Piedmont	70
25 Ha land for development (Residential)	Milan	Lombardy	70

STRONG RESIDENTIAL ACTIVITY ACROSS MAIN CITIES

Activity remained strong overall with over 400,000 transactions* closed in the first 9 months of 2022 (+10.2% YoY) but with some disparities. Rome replaces Milan as the most attractive city after it witnessed a 9% increase in the number of transactions, from 19,153 at the end of Q3 2021 to 20,868 in Q1-3 2022. However, out of all the major 8 Italian cities, Milan grew most (17.5%) followed by Palermo and Bologna which grew by 11.9% and 11.5% respectively, and Rome by 9%: The remaining key markets fared a little worse but still showed strong performance: Turin (6.7%), Naples (6.1%) and Florence (up 5.8%).

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.

City	Q1-3 2021	Q1-3 2022	Variation
Rome	19,153	20,868	9.0%
Milan	13,274	15,600	17.5%
Turin	7,678	8,189	6.7%
Genoa	4,544	4,779	5.2%
Naples	4,142	4,394	6.1%
Palermo	3,103	3,473	11.9%
Bologna	3,282	3,659	11.5%
Florence	2,752	2,912	5.8%
Top 8	38,775	43,006	10.9%
Total Italy	363,750	400,850	10.2%



* NTN = Normalised no. of transactions

Source : BNP Paribas Real Estate Research, Agenzia delle Entrate (OMI)

BNP PARIBAS REAL ESTATE

BNP PARIBAS REAL ESTATE ITALY
www.realestate.bnpparibas.it

CONTACT

Susan TREVOR-BRISCOE
Head of Market Research & Analysis
susan.trevor-briscoe@realestate.bnpparibas
Tel : +39 335 1718200