AT A GLANCE H1 2023
ITALY CAPITAL MARKETS

INVESTMENT VOLUMES CONTRACT SHARPLY TO 2.24 €BN

INVESTMENT VOLUMES REMAIN TIGHT AT -63% END-H1 2023

Italy's total investment volume continued to reflect subdued market activity, reaching a total of 2.24 BN€ in the first half of 2023. This represented a significant fall Y-o-Y, a trend which had begun at the end of 2022.

The Logistics asset class continued to dominate the marketplace (24%) in H1 2023, followed by Office and Alternatives (both 22%). Mixed use deals, namely portfolios, represented 13% of total investment volume in the semester. Hospitality held an 11% weighting.

The negative volume adjustments seen in Italy over the last 12 months are a direct result of ongoing yield decompression. Not only is a new equilibrium between interest rates and yields being sought, but uncertainty, financing issues and reduced supply – not least resulting from increased construction costs as well as increasingly stringent ESG requirements – are also limiting activity.

YIELD DECOMPRESSION LEADS TO UNCERTAITY AND LIMITS VOLUMES

The 10Y Italian Government Bond yield stood at 4.1% at end H1 2023, roughly stable on Q1 2023 but down from 4.69% at end 2022. Whist this is now broadly in line with the currently quoted prime Office CBD yield level, further increases are expected in the second part of 2023, accompanied by corresponding prime yield decompression albeit at a reduced rate than seen over the last 12 months.

Repricing is therefore underway, but until rates stabilize and prime yields crystalize accordingly, uncertainty will persist and transaction levels remain limited. Equity is preferred over financing and deals often feature buyers with a specific interest in entering the Italian real estate market at the present time.

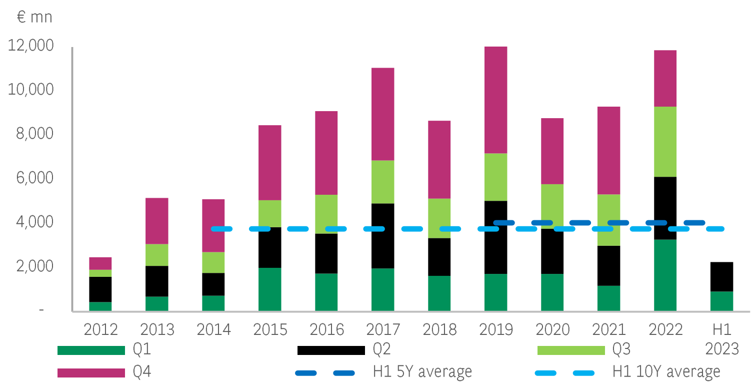
Both Purchasing Manager's Indices (PMI) – one of those most followed by decision makers and investors – contracted in the first half of 2023. However, at 52.2 the Services PMI exceeded the 50 points threshold thanks to expansion in the sector, despite interest rate increases and client uncertainty. The Manufacturing PMI was lower at 43.8, reflecting deterioration in operating conditions over the last quarter despite increased employment, combined with contractions in both production and new orders.

In H1 2023 prime net yields expanded across the Italian marketplace to different degrees depending on asset class. Prime net yields reached 4.25% and 4.4% for the Milan and Rome Office CBDs and 5.25% for Italy Logistics. In the retail sector High Street prime net yields grew slightly to 4.0% and 4.1% for Milan and Rome respectively, reaching 7.5% by the end of H1 2023 for Italian Shopping Centres.

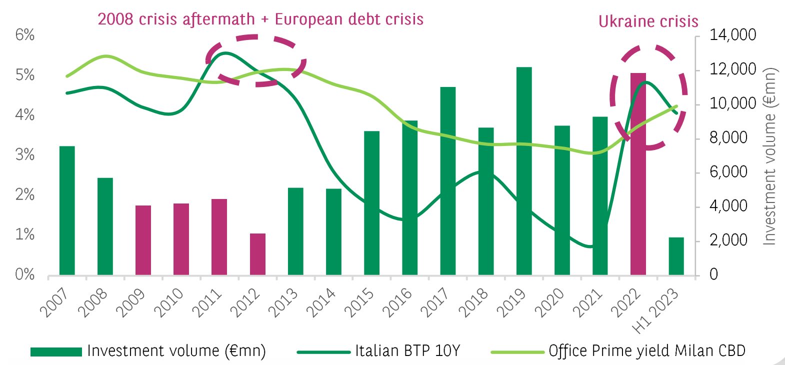
TOTALS IN H1 2023

H1 2023	AVG. H1 2014-2023
2,240 M€ -63% vs. H1 2022	3,760 M€

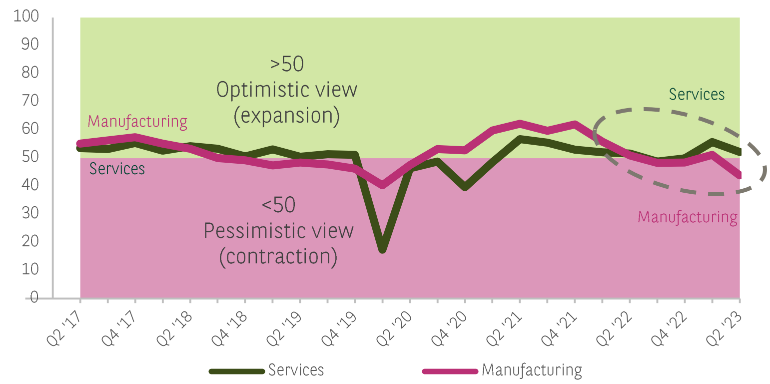
TOTAL INVESTMENT VOLUME



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



THE ITALIAN PMI INDICES FALLING BELOW 50



OFFICE

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CAUTIOUS APPROACH TO THE OFFICE SECTOR LIMITS INVESTMENT ACTIVITY

The Office sector accounted for 22% of total Italy investment volume in H1 2023, representing a fall in weighting after dominating investment volumes in 2022. The asset class totaled an H1 investment volume of 490 €M, down by -74% Y-o-Y and significantly below the 1,280 €M 10-yearly average.

Geographically, the investor focus remains firmly on Milan, which attracted 52% of total national office investment in H1 2023, equal to 250 €M.

Rome's 22% weighting represents a notable increase however. Other locations accounted for the remaining 26%, also up on 2022. These shifting weightings reflect an attempt by investors to identify suitable investment-grade product with more attractive yields by considering locations other than Milan. However even as investors look to new locations, prime covenants remain of importance.

Transactions were generally smaller and H1 2023 featured exclusively ticket sizes under 100 €M.

INTEREST FOCUSES ON PRODUCT RESPECTING ESG CRITERIA

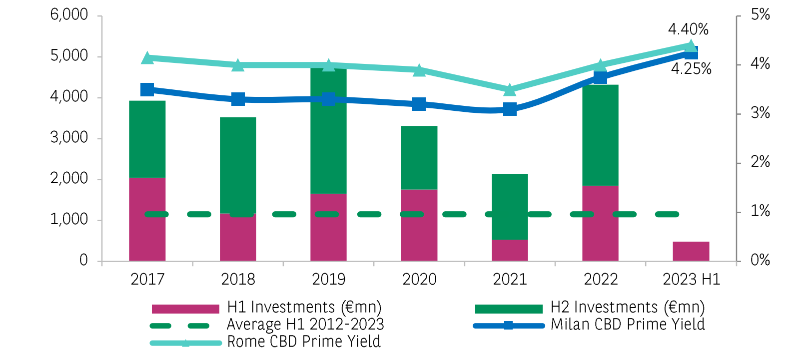
The Office sector has become polarized, in terms of asset quality as well as location. ESG criteria have become fundamental and interest in assets which do not meet these new requirements is greatly reduced. The awareness that refurbishment of such assets will be required can also lead investors to consider a change of use following works. Suitable existing product is limited in all locations, further restricting investment volumes.

As prime office yields continued moving upwards, reaching 4.25% in Milan and 4.4% in Rome, the perception that repricing is still ongoing has contributed to limited investments in the Office sectors.

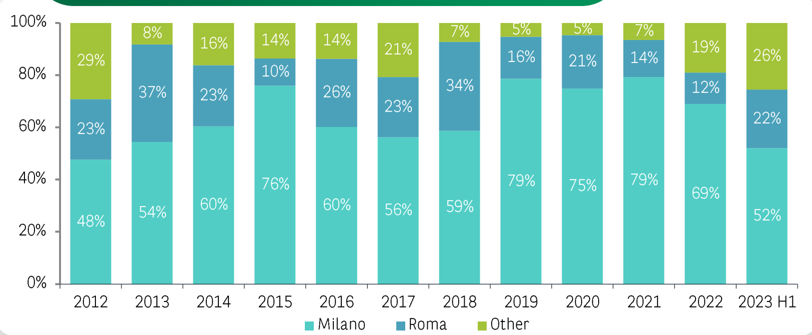
TOTALS IN H1 2023

H1 2023	AVG. H1 2014-2023
490 M€	1,280 M€
-62% vs. H1 2022	

OFFICE INVESTMENT VOLUME AND CBD PRIME YIELDS



INVESTOR FOCUS REMAINS ON MILAN, GROWING INTEREST IN OTHER MARKETS



OFFICE INVESTMENTS H1 2023

vs. H1 2022

Milan	Rome
-74%	-77%
250M€	110M€

PRIME YIELDS H1 2023

Decompression vs. H1 2022

Milan CBD	Rome CBD
4.25%	4.40%

KEY OFFICE DEALS IN H1 2023

ASSET	LOCATION	DISTRICT	INVESTMENT PROFILE	VOLUME (M€)
Piazza Affari, 2	Milan	CBD Duomo	Core	93.6
Via della Giovine Italia, 17	Florence	Santa Croce	Core	31
Via della Scrofa, 57	Rome	Centre	Value add	27

LOGISTICS

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SUSTAINED OCCUPIER DEMAND FOR LOGISTICS SPACE

Once again, in H1 2023 Logistics boasted the highest investment volume weighting of all asset classes (24%).

Good levels of investor activity are supported by strong occupier dynamics. The sector continues to benefit from the expansion of online commerce, albeit at a lower rate than during the pandemic period. Logistics is also supported by megatrends linked to demographic and technological evolutions, which continue to ensure ongoing growth.

OCCUPIER INTEREST CONSIDERING EXISTING STOCK

As construction costs remain high and their impact combines with issues relating to the financing of new developments, limited supply leads occupiers to take into consideration existing assets as well. Second hand stock may also have the benefit of affording immediate short-term operational savings deriving from lower rental levels.

Geographically, in addition to 60% of total Logistics investments being located within the 'golden triangle' of Lombardy-Veneto-Emilia Romagna, traditionally the focus of interest, in H1 2023 Piedmont also accounted for 18% of total Logistics investment volume.

Logistics - with reference to new warehouses of 5,000 sqm or above - saw prime yield decompression of 125 bp since its lowest point at the beginning of 2022. This was also in line with prime office yield movements.

Further outward yield movement is expected in the remainder of 2023, but to varying extents by Logistics subsector.

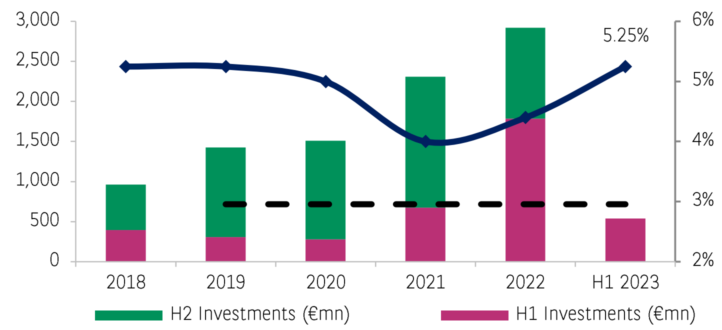
Urban logistics maintains slightly lower prime yield levels, currently around 5.1%, and is expected to continue benefiting from good rental growth prospects combined with persistently strong demand.

TOTALS IN H1 2023

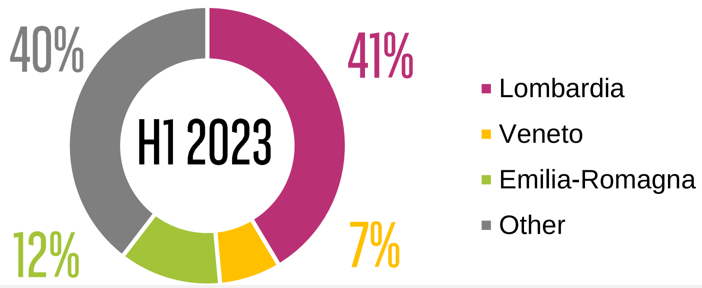
H1 2023
540 M€
-70%
vs. H1 2022

AVG. H1 2014-2023
480 M€

LOGISTICS INVESTMENT VOLUME AND PRIME YIELDS



FOCUS ON THREE KEY 'GOLDEN TRIANGLE' MARKETS



LOGISTICS INVESTMENTS H1 2023

vs. H1 2022

Lombardy	Veneto	Other
-66%	-93%	-54%
223M€	38M€	280M€

PRIME YIELDS H1 2023

Decompression vs. H1 2022

Warehouses	Last-mile
5.25%	5.10%

KEY LOGISTICS DEALS IN H1 2023

ASSET LOCATION	LOCATION	REGION	VOLUME (M€)
Two logistics assets	Brescia	Lombardy	81
Logistics portfolio	Alessandria	Piedmont	56
Portfolio of 5 logistics assets	North Italy	Mixed	46.9

RETAIL

INTEREST FOCUSES ON HIGH STREET AS WELL AS COST SAVING RETAIL

Investment in the Retail sector featured a mix of Retail types but remains limited, despite picking up a little in the second part of H1 2023.

Thus Retail investment involved a small number of transactions and totaled ca 170 €M nationwide in H1 2023. this was down both Y-o-Y and on the 10-year H1 average, by -60% and -75% respectively.

In H1 2023 investor interest continued to focus on best quality assets in top locations, reflecting retailer activity. However limited availability can require retailers to shift attention elsewhere, to units that nevertheless suit the new patterns of consumption. Space productivity remains a key concern which retailers place at the top of their agenda.

Current levels of inflation impact on the investments which tenants seeking a new location can make, including in indexed lease contracts. However interest is strong for those segments offering cost savings. The food sector - including supermarkets, cash&carry, and discount store assets - remains attractive.

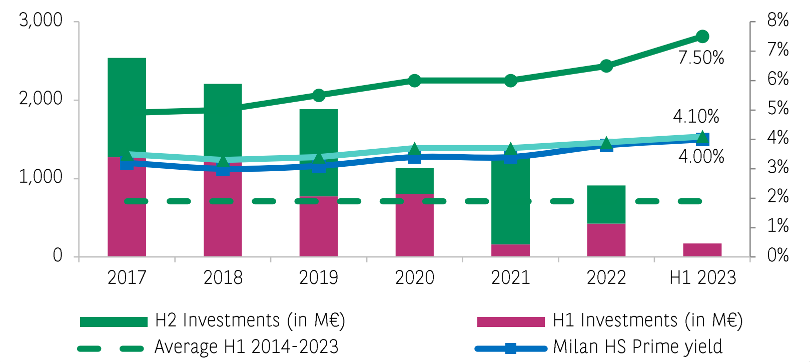
Luxury retail tends to be less affected by economic difficulties and demand is also strong in this segment. Opportunities for both retailers and investors are limited by the restricted number of streets comprising luxury retail destinations.

Retail yields edged upwards slightly across H1 2023 and further decompression is expected to the end of the year, in line with other asset classes. Prime net retail yields reached 4.0% and 4.1% for Milan and Rome High Street respectively, and 7.50% for Italy Shopping Centres.

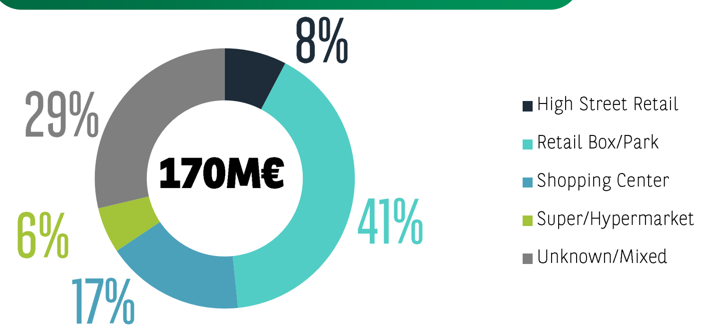
TOTALS IN H1 2023

H1 2023	AVG. H1 2014-2023
170 M€ -60% vs. H1 2022	**710 M€**

RETAIL INVESTMENT VOLUME AND PRIME YIELDS



H1 2023 RETAIL INVESTMENTS BY PRODUCT



RETAIL INVESTMENTS H1 2023

Vs. H1 2022

Milan	Rome
-94%	-39%
4M€	10M€

PRIME YIELDS H1 2023

Decompression vs. H1 2022

Milan High Street	Rome High Street	Shopping Centres
4.00%	4.10%	7.50%

KEY RETAIL DEALS IN H1 2023

ASSET	LOCATION	TYPE	VOLUME (M€)
Portfolio of 5 retail warehouses	Mixed	Retail Park	70
CC Piazza Umbra	Trevi	Shopping Center	18
Porzione del CC Aurelia Antica	Grosseto	Shopping Center	12

ALTERNATIVES

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ALTERNATIVES DRIVEN BY RESIDENTIAL AND HEALTHCARE

The volume of investments in the Alternatives asset class reached 500 M€ in H1 2023. It is worth noting that this was down by significantly less than the overall contraction for total investment in the semester.

As a result, alternatives matched Offices as the second asset class in terms of H1 2023 investment volume, thanks primarily to the Living segment. This weighting would increase even further if the number of deals involving a change from a different use to Living were taken into account and if the Living component of all Mixed use transactions were also included.

Recent growth of interest in Living as an investment asset class has been fueled by underlying demographic trends, a demand for homes with good energy ratings, and increased mortgage costs. These are all drivers which should persist to a certain extent over coming quarters.

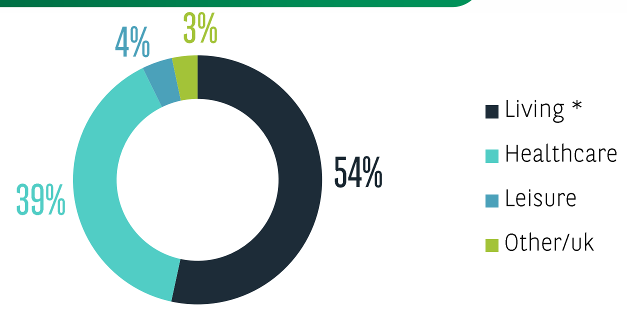
After Living, the Healthcare subsector made a significant contribution. Over coming years we also expect new segments, such as Data Centres for example, to also play an increasingly important role.

TOTALS IN H1 2023

H1 2023
500 M€
-40%
vs. H1 2022

AVG. H1 2014-2023
440 M€

H1 2023 ALTERNATIVES INVESTMENTS BY PRODUCT



*Living includes: Residential, BTR/Co-Living, Senior Housing, Student Housing

KEY ALTERNATIVES DEALS IN H1 2023

ASSET	CITY	REGION	PRICE (M€)
Aparto Milan Giovenale – Via Giovenale, 13	Milan	Lombardy	130
Portfolio of 6 care homes	Mixed	Mixed	125
Ex Ricordi HQ – Via Salomone, 77	Milan	Lombardy	75

STRONG RESIDENTIAL ACTIVITY ACROSS MAIN CITIES

Activity remained strong with over 780,000 transactions** closed in 2022 (+4.8% Y-o-Y) albeit with some disparities across key cities.

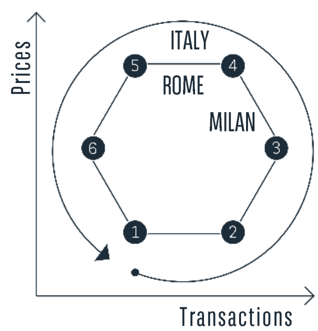
On a quarterly basis, Y-o-Y first quarter growth was limited to the city of Verona (+4.0%) whereas both Milan and Bologna saw a severe contraction in transaction volumes over the same period (-22.9% and -23.9% respectively). Rome and Florence experienced a similar trend (-10.3% and -9.4%). The remaining cities saw more limited Y-o-Y variations compared to Q1 2022.

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 and transactions slowing down. Rome is towards the end of the cycle (between phases 4 and 5) and transactions are still falling – albeit at a slower pace – whilst prices are stable.

CITY	2022**	Q1 2022**	Q1 2023**	VAR % Q1
Rome	40,065	9,226	8,274	-10.3%
Milan	28,595	7,681	5,920	-22.9%
Turin	16,126	3,822	3,552	-7.1%
Genoa	9,182	2,153	2,034	-5.5%
Naples	8,316	2,099	1,952	-7.0%
Verona	3,936	846	880	4.0%
Bologna	6,788	1,661	1,264	-23.9%
Florence	5,551	1,333	1,208	-9.4%
Top 8	118,559	28,821	25,084	-13.0%
Total Italy	784,486	181,766	166,745	-8.0%

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

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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