AT A GLANCE Q3 2023

ITALY CAPITAL MARKETS

INVESTMENT VOLUMES CONTRACT SHARPLY TO 3.59 €BN

INVESTMENT VOLUMES REMAIN TIGHT AT -61% END-Q1-3 2023

Italy's investment volume has been contracting since the start of 2023 and closed Q1-3 down by -61% Y-o-Y. This contraction was common across asset classes, although to varying degrees and with the exception of the 'Alternatives' asset class which saw Y-o-Y growth.

Deal sizes saw a shift in the first 9 months of the year. Over a third of all investment volume related to deals between €40 and €100 mn, in contrast with the previous year when deals over €100 mn represented the size bracket with the greatest weighting.

During the period, domestic capital made an increasingly significant contribution to total investment volumes. However foreign capital did continue to dominate the marketplace.

YIELD DECOMPRESSION LEADS TO UNCERTAINTY AND LIMITS VOLUMES

The 10Y Italian Government Bond yield stood at 4.9% at end-Q3 2023, a further increase both Q-o-Q and with respect to the previous year. This still exceeds Italy's quoted prime Office CBD yield level.

Repricing has therefore been underway over recent quarters, but until such time as rates stabilize and prime yields crystalize accordingly, uncertainty persists 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 a given time.

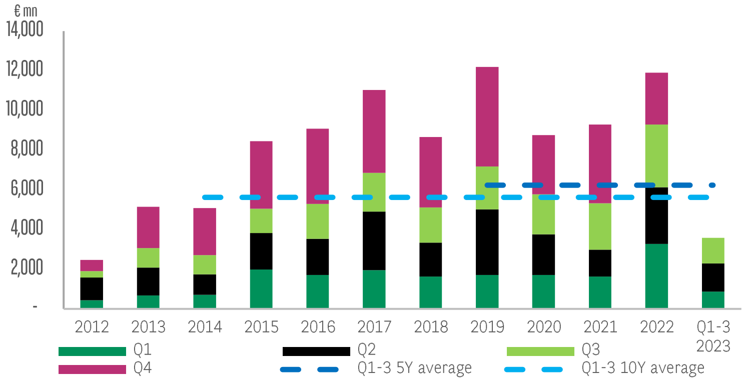
The Purchasing Manager's Indices (PMIs) – indices closely followed by decision makers and investors – contracted in the first nine months of the year. Despite expansion in the sector and due to interest rate increases and client uncertainty, both indices stood below the 50 points threshold at end-Q3 2023. Concerns regarding protracted weakness of demand weigh on growth expectations for the Manufacturing PMI. The Services PMI also fell in Q3 2023, as optimism in the Italian service sector continued to remain below its long-term average.

Yield levels decompressed further in Q3 2023, although the rate of growth slowed, leading to hopes of more repricing towards year end. Thus, at the end of Q3 2023, prime net yields were stable at 4.25% and 4.40% for the Milan and Rome Office CBDs and had grown to 5.50% for Italy Logistics. In the retail sector, High Street prime net yields remained unchanged at 4.00% and 4.10% for Milan and Rome respectively, and 7.50% for Italian Shopping Centres.

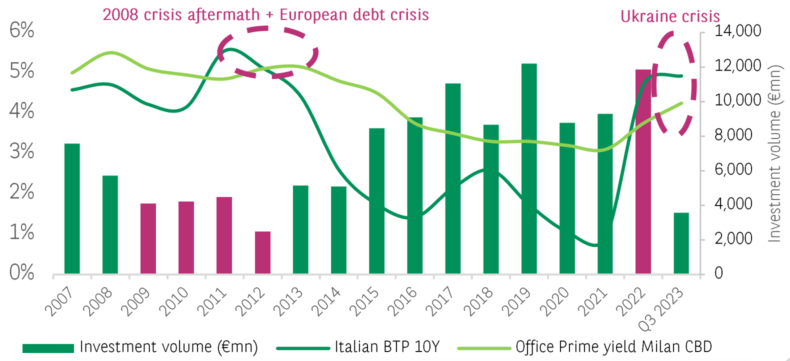
TOTALS IN Q1-3 2023

Q1-3 2023	AVG. Q1-3 2014-2023
3,590 M€	5,620 M€
-61% vs. Q1-3 2022	

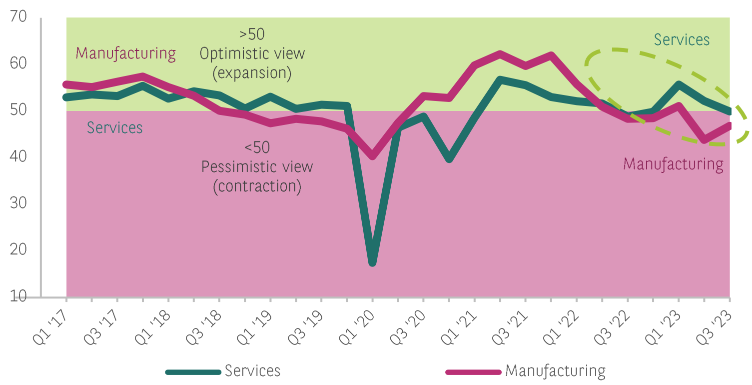
TOTAL INVESTMENT VOLUME



10Y GOVERNMENT BOND > PRIME YIELD CBD, NEGATIVELY AFFECTING ASSET PRICING LEVELS



THE ITALIAN PMI INDICES FALL BELOW 50



OFFICE

CAUTIOUS APPROACH TO THE OFFICE SECTOR LIMITS INVESTMENT ACTIVITY

The Office sector accounted for 17% of total Italy investment volume in the first nine months of 2023, representing a fall in weighting, to third place, after dominating investment volumes historically and in 2022. The asset class totaled a Q1-3 investment volume of 600 €M, down by -83% Y-o-Y and just 30% of the 10-yearly Q1-3 average.

Geographically, the investor focus remains firmly on Milan, which attracted 53% of total national office investment in Q1-3 2023, equal to 315 €M.

Rome's 22% weighting, stable Q-o-Q, represented a notable increase Y-o-Y. Other locations accounted for the remaining 25%, also up on 2022. These shifting weightings reflect a combination of limited product and 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.

INTEREST FOCUSES ON QUALITY AND SUSTAINABILITY CRITERIA

ESG criteria are now fundamental for investors in Italian real estate and assets which do not meet these new requirements are greatly penalized, polarizing the sector in terms of asset quality.

Furthermore, the awareness that refurbishment of non-compliant assets will be required can also lead to considerations regarding a change of use following works. Suitable existing product is limited in all locations, further restricting investment volumes.

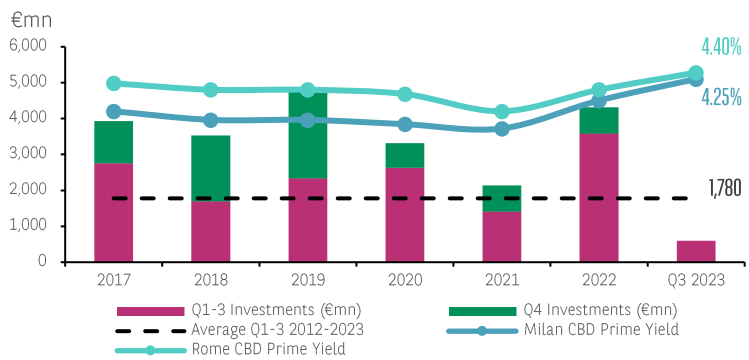
As prime office yields moved upwards during the course of the year, reaching 4.25% in Milan and 4.40% in Rome, the perception that repricing has not yet fully concluded has contributed to limited amounts of investments in the Office sector.

TOTALS IN Q1-3 2023

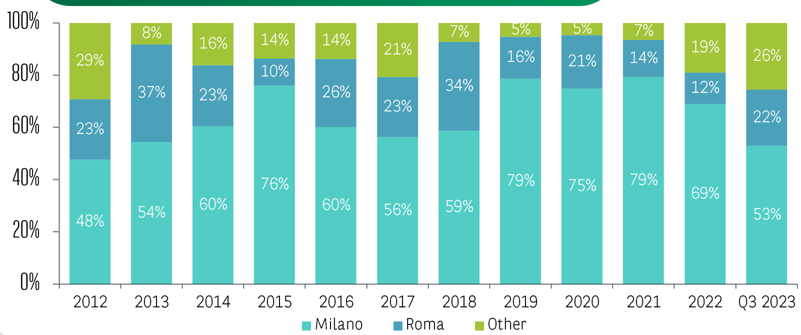
Q1-3 2023
600 M€
-83%
vs. Q1-3 2022

AVG. Q1-3 2014-2023
2,010 M€

OFFICE INVESTMENT VOLUME AND CBD PRIME YIELDS



INVESTOR FOCUS REMAINS ON MILAN, GROWING INTEREST IN OTHER MARKETS



OFFICE INVESTMENTS Q1-3 2023

vs. Q1-3 2022

-86%
320M€
Milan

-75%
130M€
Rome

PRIME YIELDS Q1-3 2023

Decompression vs. Q1-3 2022

4.25%
Milan CBD

4.40%
Rome CBD

KEY OFFICE DEALS IN Q1-3 2023

ASSET	LOCATION	DISTRICT	INVESTMENT PROFILE	VOLUME (M€)
Piazza Affari, 2	Milan	CBD Duomo	Core	93.6
Via Sassetti, 27	Milan	Semicentre	Opportunistic	59
Via della Giovine Italia, 17	Florence	Santa Croce	Core	31

LOGISTICS

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SUSTAINED OCCUPIER DEMAND FOR LOGISTICS SPACE

In Q1-3 2023 Logistics was Italy's asset class with the greatest weighting in terms of investment volume (29%).

High levels of investor activity are supported by strong occupier dynamics as the sector continues to benefit from the expansion of online commerce, in turn supported by megatrends linked to demographic and technological evolutions.

In the first 9 months of 2023, over half of volume in the period was placed within the 'golden triangle' comprising Lombardy, Veneto, and Emilia Romagna. However the Piedmont region has also contributed significantly to the total Logistics investment volume (14%).

Prime yields continued to expand throughout Q1-3 2023, event for newly developed and well-located assets of 5,000 sqm or above.

Thus, after decompression of 130 bps Y-o-Y, prime yields stood at 5.50% for the Milan area and at 5.70% for Rome.

Urban logistics commands a slightly lower prime yield, of 5.10% (with reference to the Milan area).

ESG CRITERIA COMMAND INVESTOR AND OCCUPIER ATTENTION ALIKE

The availability of suitably ESG-compliant premises has been contained this year by a combination of high construction costs and issues linked to the availability of finance for new developments.

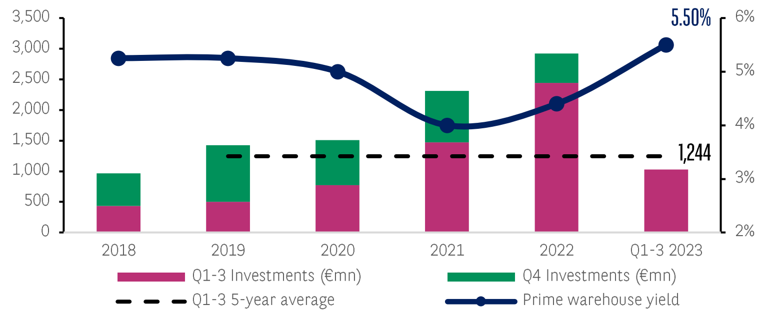
However in some instances limited supply can also induce occupiers to take into consideration existing assets, with second-hand stock having the added benefit of presenting immediate rental savings.

TOTALS IN Q1-3 2023

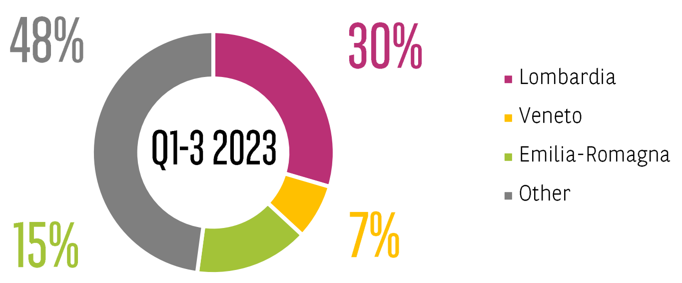
Q1-3 2023
1,030 M€
-58%
vs. Q1-3 2022

AVG. Q1-3 2014-2023
830 M€

LOGISTICS INVESTMENT VOLUME AND PRIME YIELDS



FOCUS ON THE THREE KEY 'GOLDEN TRIANGLE' MARKETS



LOGISTICS INVESTMENTS Q1-3 2023

vs. Q1-3 2022

Lombardy	Veneto	Other
-59%	-86%	-44%
304M€	76M€	650M€

PRIME YIELDS Q1-3 2023

Decompression vs. Q1-3 2022

Warehouses	Last-mile
5.50%	5.10%

KEY LOGISTICS DEALS IN Q1-3 2023

ASSET LOCATION	LOCATION	REGION	VOLUME (M€)
Logistics portfolio	North West	Mixed	155
Two logistics assets	Brescia	Lombardy	81
Piacenza Business Park	Piacenza	Emilia-Romagna	68.8

RETAIL

BNP PARIBAS REAL ESTATE

INTEREST SPREAD ACROSS A RANGE OF RETAIL SEGMENTS

Investment in the Retail sector was very limited in Q1-3 2023 and total volumes have been contracting since 2018. Thus, Retail investment totaled ca 290 €M nationwide in Q1-3 2023, down both Y-o-Y and on the 10-year average, by -51% and -73% respectively.

In the first 9 months of 2023 investment in Retail has involved a range of property types, including shopping centres. However the totals have remained limited, despite appearing to pick up a little in the previous quarter.

This subdues interest remains focused on best quality assets in top locations, reflecting retailer activity, although limited availability can shift attention to other unit types that nevertheless suit the new patterns of consumption. Space productivity remains a key concern which retailers place at the top of their agenda.

In the light of current economic concerns, interest is strong in segments offering cost savings and in the food sector. However, Luxury retail tends to be less affected by economic difficulties and demand is strong in this segment. In structural terms, opportunities for both retailers and investors are limited nationwide by the restricted number of streets comprising luxury retail destinations.

The Retail sector continues to experience repricing, although at a slower rate than some other asset classes given the more limited volumes achieved.

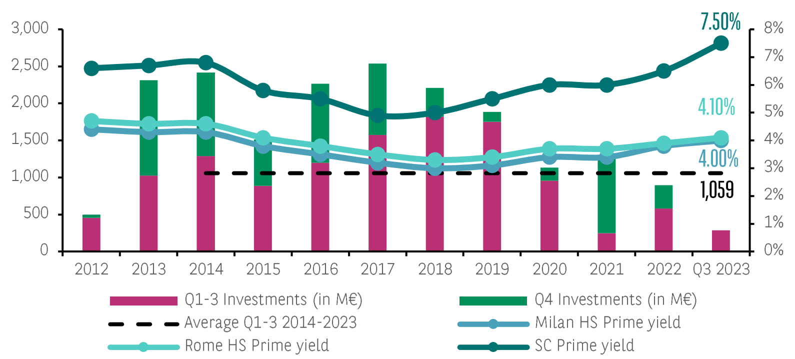
Thus, after edging upwards slightly at the start of 2023, in Q3 prime retail yields remained stable, standing at 4.00% and 4.10% for Milan and Rome High Street respectively, and 7.50% for prime Shopping Centres (Italy).

TOTALS IN Q1-3 2023

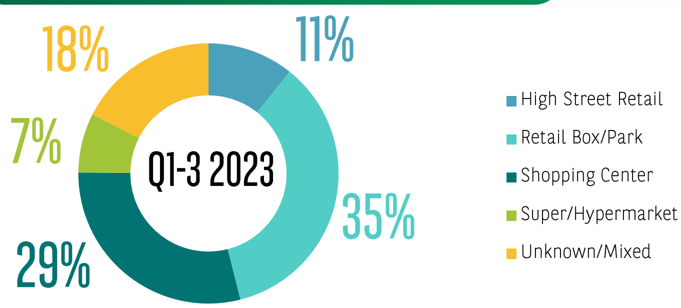
Q1-3 2023
290 M€
-51%
vs. Q1-3 2022

AVG. Q1-3 2014-2023
1,060 M€

RETAIL INVESTMENT VOLUME AND PRIME YIELDS



Q1-3 2023 RETAIL INVESTMENTS BY PRODUCT



RETAIL INVESTMENTS Q1-3 2023

Vs. Q1-3 2022

Milan	Rome
-98%	-39%
4M€	10M€

PRIME YIELDS Q1-3 2023

Decompression vs. Q1-3 2022

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

KEY RETAIL DEALS IN Q1-3 2023

ASSET	LOCATION	TYPE	VOLUME (M€)
Portfolio of 5 retail warehouses	Mixed	Retail Park	70
Coop Allenza 3.0 portfolio	Mixed	Mixed Retail	Conf.
Il Grifone shopping centre	Bassano del Grappa	Shopping Center	28

ALTERNATIVES

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ALTERNATIVES DRIVEN PRIMARILY BY LIVING AND HEALTHCARE

After the Logistics sector, Alternatives took the greatest share of investment volume in Q1-3 2023 (28%) and have contracted by the least Y-o-Y in comparison with the Italian market's other asset classes.

The two most active segments in 2023 have so far been Healthcare and Living. Both are fuelled by underlying demographic domestic and global trends. The Living segment is benefits from the effects of ESG compliance requirements. Energy ratings, which favour new build, are scheduled to play a very significant role in coming years.

Falling mortgage numbers due to increased costs also attract interest to the rental sector.

It is worth noting that investment volume calculations do not take into consideration changes of use; the Living sector weighting would increase further if deals involving a change to Living from a different asset class were also taken into account.

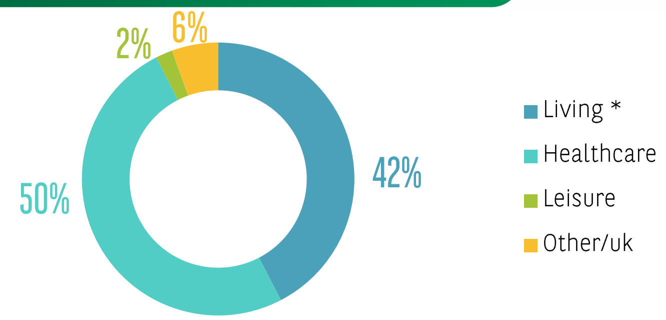
Over coming years, we also expect new segments, such as Data Centres for example, to also play an increasingly important role.

TOTALS IN Q1-3 2023

Q1-3 2023
1,010 M€
-18%
vs. Q1-3 2022

AVG. Q1-3 2014-2023
650 M€

Q1-3 2023 ALTERNATIVES INVESTMENTS BY PRODUCT



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

KEY ALTERNATIVES DEALS IN Q1-3 2023

ASSET	CITY	REGION	PRICE (M€)
Student Housing in Via Giovenale, 13	Milan	Lombardy	130
Portfolio of 6 care homes	Mixed	Mixed	ca 125
Ex-Trotto urban regeneration	Milan	Lombardy	ca 68

NON-INSTITUTIONAL RESIDENTIAL SECTOR EXPERIENCES A CONTRACTION

Until the beginning of 2023, activity in the non-institutional residential market remained strong, with over 780,000 transactions* closed in 2022 (+4.8% Y-o-Y) albeit with some disparities across key cities.

However, on a quarterly basis, Y-o-Y second quarter growth was absent from all 8 of the key cities tracked, down by -17.1% overall in these 8 cities, and by a similar -16.0% nationwide.

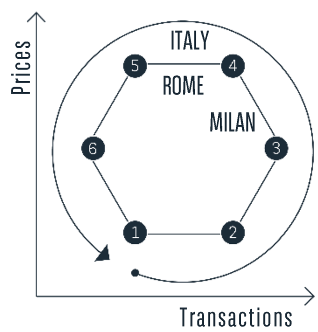
Thus, both Bologna and Rome saw a severe contraction in transaction volumes over the same period (-22.8% and -21.5% respectively), followed by Verona and Milan (-18.9% and -17.1% respectively). The remaining cities saw progressively less negative Y-o-Y variations.

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*	Q2 2022*	Q2 2023*	VAR% Q2
Rome	40.065	11.642	9.144	-21,5%
Milan	28.595	7.919	6.568	-17,1%
Turin	16.126	4.447	3.965	-10,8%
Genoa	9.182	2.626	2.248	-14,4%
Naples	8.316	2.295	2.173	-5,3%
Verona	3.937	1.113	903	-18,9%
Bologna	6.788	1.998	1.542	-22,8%
Florence	5.551	1.579	1.333	-15,6%
Top 8	118.560	33.619	27.876	-17,1%
Total Italy	784.486	219.082	184.110	-16,0%

*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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