CUSHMAN & WAKEFIELD

ITALIAN REAL ESTATE OVERVIEW 2020

INDEX

The resurgence of coronavirus cases in October led to a slowdown in the economic activity at the end of 2020 leading to a decrease in GDP in the fourth quarter, partially offsetting the sharp increase experienced in the third quarter. There is still a great deal of uncertainty over the year-end final figure and on estimates for 2021. There's a growing consensus that activity will turn to be more robust from the second quarter onwards and significantly stronger in 2022, thanks to the stimulus provided by the support measures. The start of the vaccination campaigns is affecting the medium-term prospects favorably, but the timing and intensity of the recovery remain uncertain. **In Italy, the higher than expected growth in the third quarter of 2020 demonstrated the economy's strong capacity to recover.**

While there are no easy answers at this uncertain time, we remain focused on keeping our clients informed on the continually evolving commercial real estate landscape in Italy. In this report, we look at the market evidence from the second half of 2020 and establish an overall picture for the whole year. The pandemic has affected the property sector and it will leave a legacy for the industry, opening up to new opportunities that have materialized, as well as posing real challenges to the industry.

From the living sector to logistics and datacenter, 2020 witnessed a shift from the "traditional" real estate to new asset classes, more related to the macro trends affecting society. **The living sector is the rising star of the year**. Covid-19 has been an accelerator of an already ongoing process, that is now set to strengthen. The investment volume was more than four times that invested in 2019. We are facing an increasing number of investors placing the living sector on the top of their agendas.

Logistics is confirmed as the hotspot for all investors, a **must have**, backed by strong fundamentals. Within logistics, data center is proving attractive for a number of international investors although the Italian market is still at a very early stage. Despite that, Milan has a sizable upside for operators and cloud service providers alike, reflected in the increased demand for datacenter development in Milan.

Hospitality and retail are the most challenged sectors, with the latter experiencing an unprecedented cooling of investors' demand driven by the worsening fundamentals linked to the pandemic and to e-commerce. Hospitality, on the other side, despite performing poorly compared to 2019, is still attractive for opportunistic investors and hotel operators. As a matter of fact, the latter still **share a positive outlook** on Italy as highlighted in the survey we carried out in October on a sample of national and international hoteliers active in the Italian market. There is still **strong long-term confidence and desire by hoteliers to continue their expansion into the Italian market.**

Office is the evergreen, attracting the largest share of capital both domestic and international which invested almost half of the total volume for the year: approximately €4 Bn. Investors are still cautious on the long-term view, but they are starting to look for opportunities. Core and core + are confirmed as the most resilient target and a number of deals took place in the second half of the year in both Milan and Rome, with a slight contraction for prime yield.

Overall, **2020 ended with almost €9 bn invested in the CRE in Italy**, 30% below last year's volume but also one of the best years ever over the past 20 years.

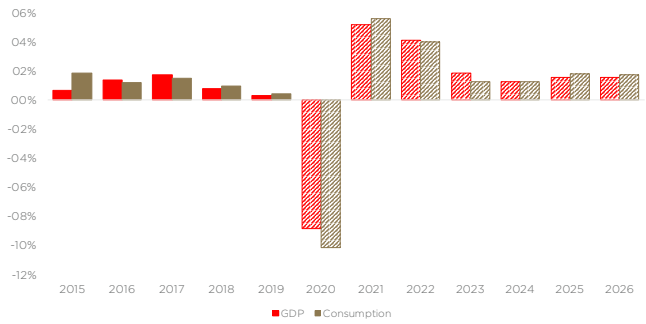
The huge liquidity available in the markets is continuing to drive investors toward real estate and this will not change in 2021. Setting growth plans to address the changes we are experiencing in society will be the most advantageous route to take (i.e. interventions under NGEU).

ECONOMIC OVERVIEW

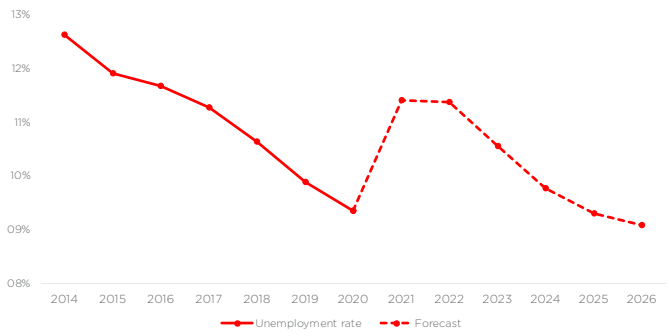
GDP. After a sharp recovery in Q3 (15.9% against Q2), the new containment measures lead to a slowdown in economic activity in the Q4. For the whole year, GDP is expected to decrease by 8.8% in 2020 and to grow by around 5.2% in 2021. A full recovery to pre-Covid level is forecasted in late 2022 or the beginning of 2023 with swift delay compared to EU average. Fiscal policy has been very supportive to the GDP and further expansionary stimulus should come from the Next Generation EU programme.

LABOUR MARKET. The labour market shows positive signs with unemployment rate lower than 2019, but the limited impact of the pandemic is the result of the supporting government policies. If we consider people that benefited from the short-term unemployment scheme and the unusual drop in the participation rate, the "true" unemployment rate is much higher (around 5 percentage points). In the coming months, when government support will be gradually withdrawn, the rate of unemployment is estimated to grow over 11% in 2021.

GDP, CONSUMPTION % YEAR CHANGE & FORECAST

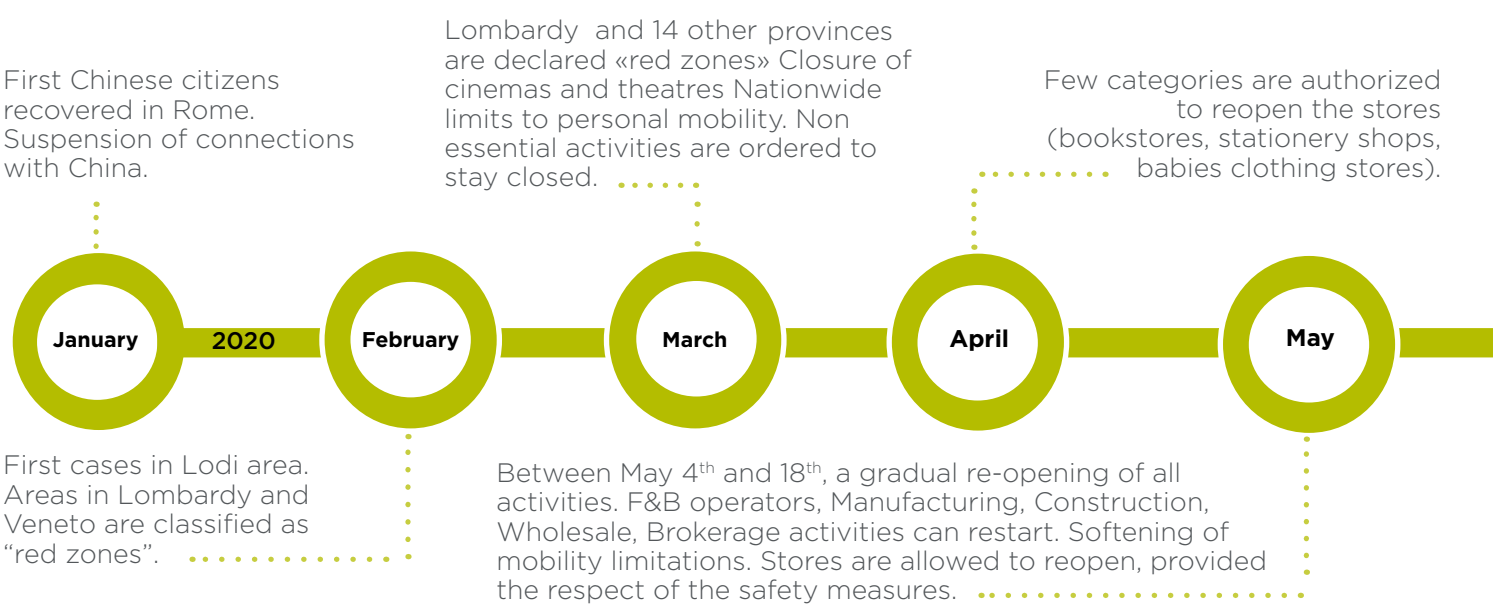


UNEMPLOYMENT RATE %



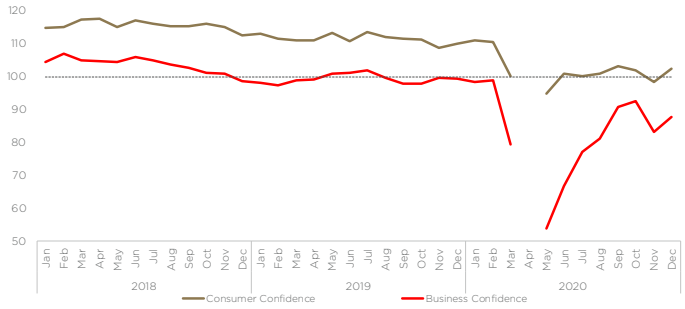
Source: Moody's, Cushman & Wakefiled

C-19: THE EVOLUTION OF THE PANDEMIC IN ITALY

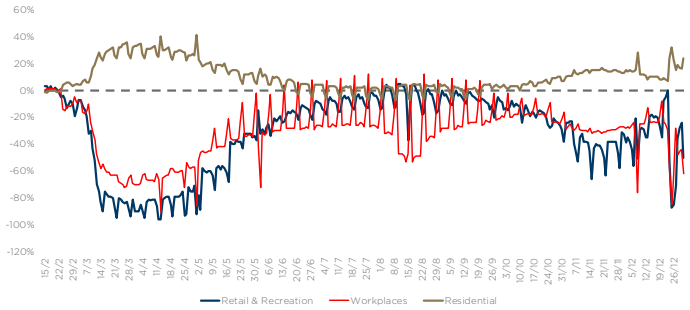


COVID-19

CONSUMER AND BUSINESS CONFIDENCE. Both consumer and business confidence improved in the recent months besides a strong decrease in November, nevertheless indexes are still far from pre-Covid levels. Business confidence was the most affected by the first wave of Covid-19 and still shows the largest gap with previous levels. Consumer confidence is over the baseline since months, dragged down by the economic climate component while the other are basically at pre-Covid level.



DATA MOBILITY. Since June people were gradually coming back to normality and between September and October mobility data were near the baseline. During October the second wave of the pandemic started and data were again diverging from the baseline. The containment measures imposed from November have been much milder than the first lockdown and the impact in term of in mobility trend has been quite different.



Source: www.google.com/covid19/mobility

Note: *positive and negative peaks are related to Sundays or holidays where mobility attitudes strongly change compared to the baseline. Positive peaks recorded by the workplaces index (red line) correspond to non-working days, in which values are aligned with the pre-crisis levels. Negative peaks recorded by Retail & Recreation from November correspond to holidays and pre-holidays where Shopping Centres, Retail Parks and other sites where forced to be closed.*

A "new normality" was taking place, but it is extremely difficult to foresee what old behaviorus will remain and what will change permanently.

Due to the worsening of the pandemic situation in Italy, some restriction has been reintroduced until the end of November (among others: F&B activities to close at 6PM, restricted mobility, cufew after 22.000 division of the nation's regions, by risk, in three different grades).

June — **Summer** — **October** — **December**

Regional borders reopened. Theatres, cinemas and recreational structures for children reopened.

Pfizer's vaccines and starts being distributed in Italy, others are in the final stages of approval.

CAPITAL MARKETS ITALY

“YEARLY INVESTMENT VOLUMES DIDN’T DISAPPOINT DESPITE COVID-19 DISRUPTION: LOW INTEREST RATE WILL CONTINUE TO DRIVE CAPITAL TO REAL ESTATE FOR LONG”.

CAPITAL MARKETS ITALY

Yearly investment for 2020 totaled around €8.9 bn, a 30% decrease on last year but quite above the long-term average. Thanks to strong activity recorded during the second half of the year, with almost €5 bn invested, yearly contraction was lower than expected. Domestic capital lost the advantage gained in the first half, reducing its share to 40% at year-end against the 53% of the first quarter. This brought yearly investment volume by foreign capital to 61% of the total. The resurgence of optimism, mainly in the third quarter, combined with the strong financial market and the low-level interest rate environment unlocked a number of deals which were put on hold at the beginning of the pandemic, thus restoring some confidence in the market. Main events in the second half of the year included:

- Exceptionally strong activity from the logistics sector with over one billion invested in the second half, mainly sourced during the pandemic, which boosted yearly volume to a record ever.
- A resurgence of interest in the Rome market, which almost doubled the volume invested in the first half of the year, accounting for a third of the office volume in the second half.
- Alternatives lead by residential development and a big portfolio (180€Ml) have been winners in the overall 2020, with 70% increase in volumes.
- Retail and Hospitality, the most impacted asset classes by the COVID-19 pandemic, closed the year with a reduction of 22% and of 74% respectively.

According to our deal tracker, updated for the whole year, circa 13% (in terms of number of transactions) of previous pipeline activity was withdrawn or postponed, a reduction compared to the beginning of the pandemic. The improved confidence since the end of the lockdown combined with a strong financial market, led investors to unlock some deals previously put on hold and/or back to negotiate. The lower level of bond yields will continue to make real estate investment attractive.

ITALY 2020

INVESTMENT VOLUMES

ITALY	MILAN	ROME
€8.9Bn	€3.0Bn	€1.0Bn

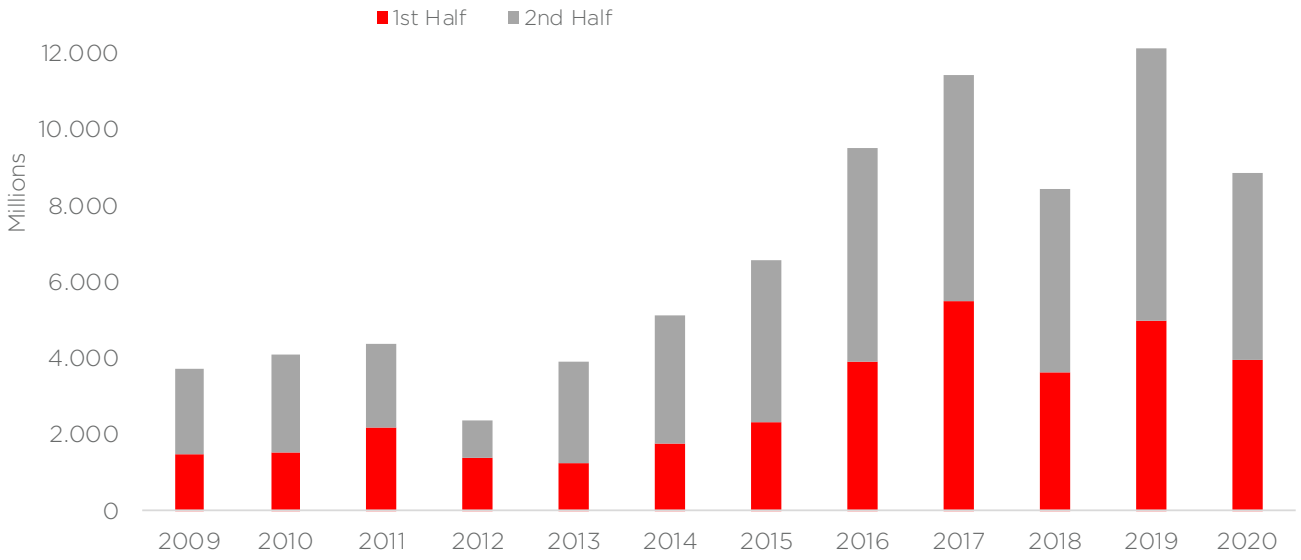
DOMESTIC CAPITAL

39%	52%	54%

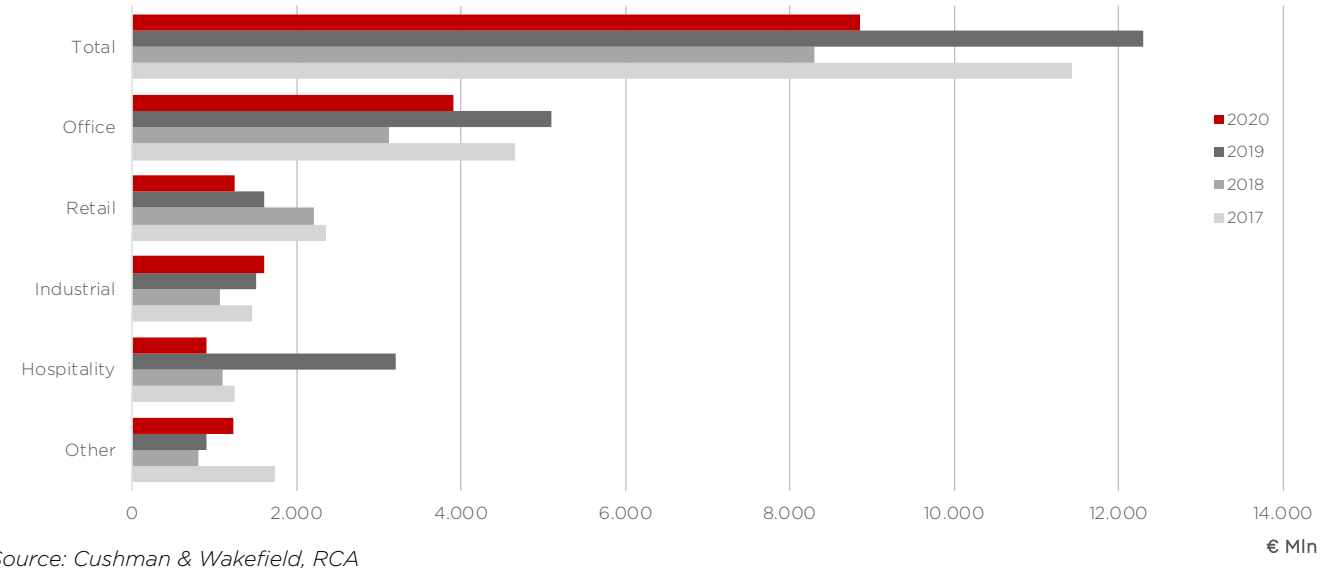
CROSS BORDER CAPITAL

61%	48%	46%

CRE INVESTMENT VOLUMES EVOLUTION



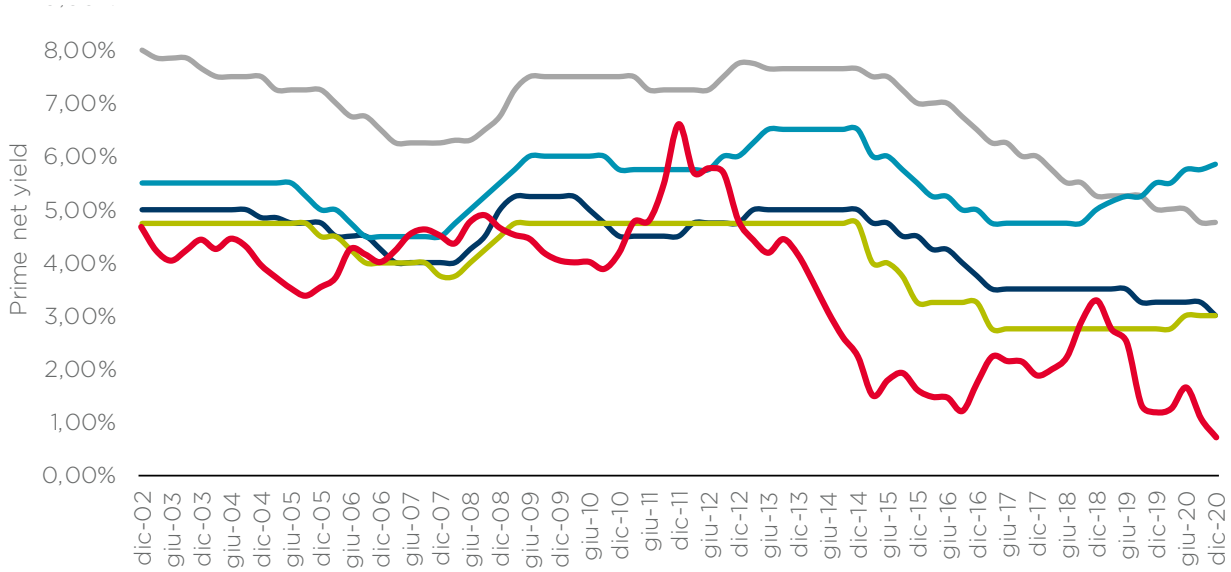
CRE INVESTMENT EVOLUTION BY SECTOR



Source: Cushman & Wakefield, RCA

PRIME YIELD EVOLUTION

Shopping centers **5.85%** Logistics **4.75%** Prime office **3.00%** High street **3.00%**
Interest reate, 10 years government bond yield **0.7%***



** BTP 10 yr Gov.Bond 2020, sourced Moody's*

ITALY CAPITAL MARKETS COVID-19 TRACKER

Key Highlights

Cushman & Wakefield's Capital Markets team tracked deals put on the market from February 15th 2020 (beginning of Covid – 19 pandemic) to December 31st 2020, for a total estimated volume of circa €11.3 bn. Of total volume, 71% were core and core + investments (66.4% considering number of deals), reflecting a more cautious investor approach due to an initial uncertainty from the pandemic. At year-end, circa 36% of deals tracked was completed, for a total volume approx. €4.1 Bn with an additional 25% Exchanged / Under Offer.

With regards to completed deals, we registered a higher success rate of the Core / Core + opportunities versus the Value add / Opportunistic: 46.3% vs 10.3% (51.5% vs 26.5% performance in terms of number of deals).

The second part of the year was more active with an improved deal flow and some negotiations re-opening on deals previously withdrawn, with the share of withdrawn deals dropping from 35% in June to 13% in December reflecting the improved epidemiological framework with the easing of restrictions combined with an increased investor confidence since June.

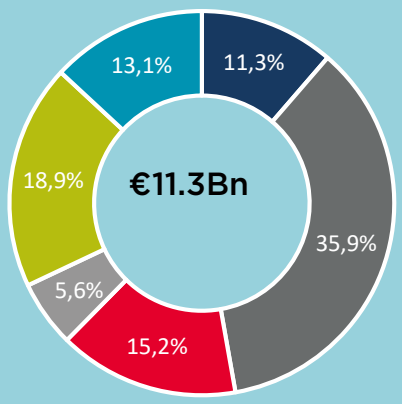
Core and Core + Offices in Milan are confirmed the most resilient with circa 74% of assets put on the market from last February under offer, exchanged or closed.

Logistics and Alternative sectors performed extremely well regardless of the risk profile of the deals.

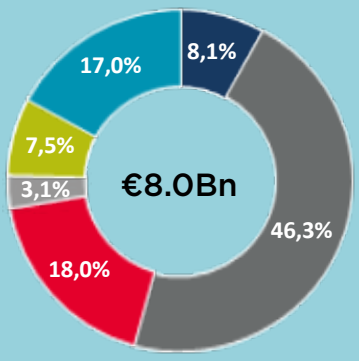
We enter 2021 with almost €6Bn of potential pipeline consisting of deals delayed from 2020, those exchanged, under offer and available.

INVESTMENT MARKET – DEAL STATUS

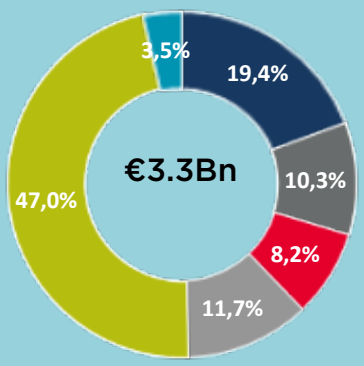
By volumes - €



INVESTMENT MARKET – CORE AND CORE+ DEALS



INVESTMENT MARKET – VALUE ADD AND OPPORTUNISTIC DEALS



Available · Delayed · Withdrawn · Exchanged · Completed · Under Offer

OFFICE MARKET ITALY

“A STRUCTURAL SLOW DOWN IN THE OCCUPIER SECTOR COMBINED WITH THE THREAT POSED BY THE WFH TREND BOOSTED BY THE PANDEMIC: THIS WILL BE THE REAL CHALLENGE FOR THE SECTOR IN THE FUTURE”.

OFFICE SECTOR

The slow-down in the occupier market recorded during the first half of the year was confirmed at year-end in both Milan and Rome. Leasing activity in Milan in H2 was slightly above 110,000 sq m, a 30% contraction on the first half. Overall, for 2020, take-up stood at circa 280,000 sqm, a sharp reduction to the record level of 2019 (465,000 sqm) marking a decrease of circa 40%. The structural slowdown in demand, exacerbated by the pandemic and the threat from the increasing WFH trend, contributed to this result.

Overall, Milan recorded 163 transaction with an average size of 1,700 sqm and nearly 50% of overall take-up referred to the top ten largest transactions while 30% to the top three. Regarding large transactions taking place in the second half, it is worth mentioning that the public sector, leased 19,000 sqm at via Sile, in the south-east periphery sub-market. Pre-let activity accounted for nearly 40% throughout the year and is expected to remain very high over the next years.

Activity in Rome in H2 was sustained by a large lease transactions (30,000 sq m) from the public sector which almost doubled the first half result, with overall take-up for 2020 standing at 125,000 sqm, a strong contraction of around 50% compared to 2019, the best year on record with 250,000 sqm leased.

Rome recorded 90 transactions with an average size of 1,400 sqm, although nearly 25% of the overall absorption referred to the pre-let signed by the public sector at Via Anagnina in the peripheral sub-market.

In Milan, the Covid-19 pandemic halted the increasing take-up trend recorded in the past six years, while grade A availability reached the lowest level and is expected to increase because of early surrenders. In Rome, grade A remains low and although availability especially for secondary product is increasing, repositioning and conversion tactics are expected especially in peripheral and secondary locations.

ITALY 2020

TAKE UP

MILAN	ROME
278,000sqm	125,000sqm

PRIME RENT

MILAN	ROME
€600sqm/yr	€490sqm/yr

PRIME YIELD

MILAN	ROME
3.00%	3.50%

Quality is confirmed as the main demand driver in both markets: efficiency, wellbeing and health & safety are the new keywords from corporates looking for spaces. Real estate is increasingly considered as a tool to communicate brand identity and corporate values.

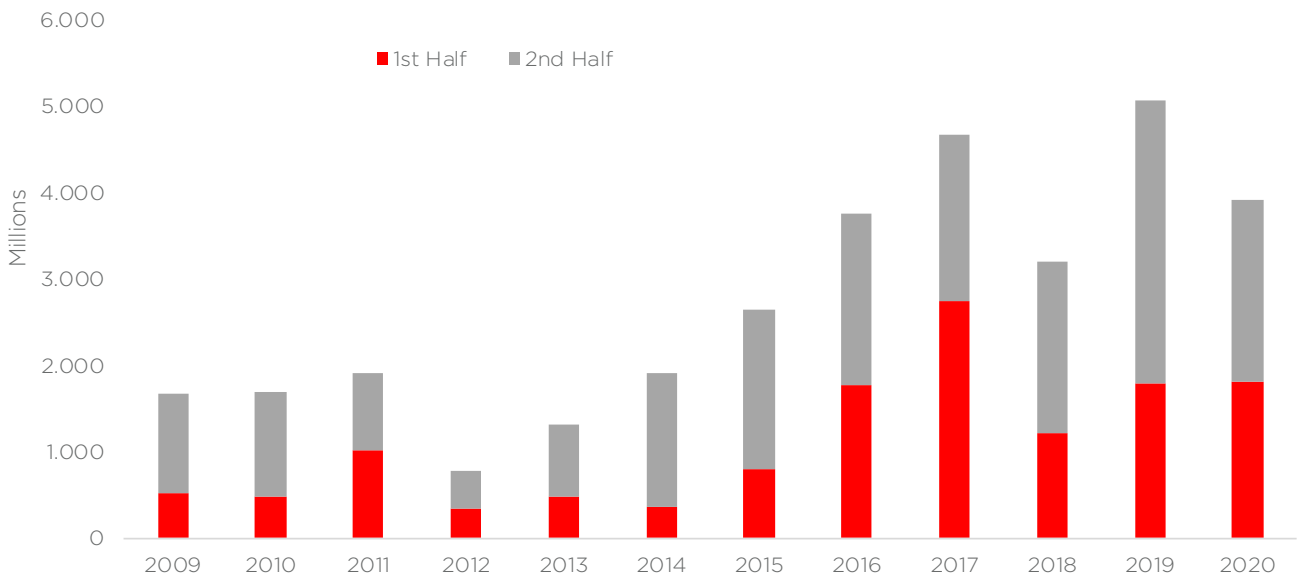
Prime rental levels were stable in Milan but increased slightly in Rome for top quality assets. However, they could be under pressure due to the Covid-19 pandemic with tenants asking for more incentives to reach previous prime rental levels.

Office investment volume increased by 16% in H2, confirming this sector as the most sought-after asset class with 2.1 €Bn in the second half, bringing the yearly volume to 3.9 €Bn, a contraction of 23% against the 5€bn invested during 2019.

The majority of investment – 85% - was concentrated in the cities of Milan and Rome; with 65% of the total office volumes, Milan was confirmed as the key destination for office investments, with core and core-plus remaining the assets of choice. Concerns about the leasing market evolution have led to a more cautious approach in respect to value-added and opportunistic products.

Overall, the second half of the year saw investment doubling in Rome compared to H1 and although there was a decrease of 10% in YOY volumes, the city accounted for a third of office volume during H2, driven largely by core opportunities in well-established locations. While domestic capital sustained the market during the pandemic, international capital returned during the latter part of the year.

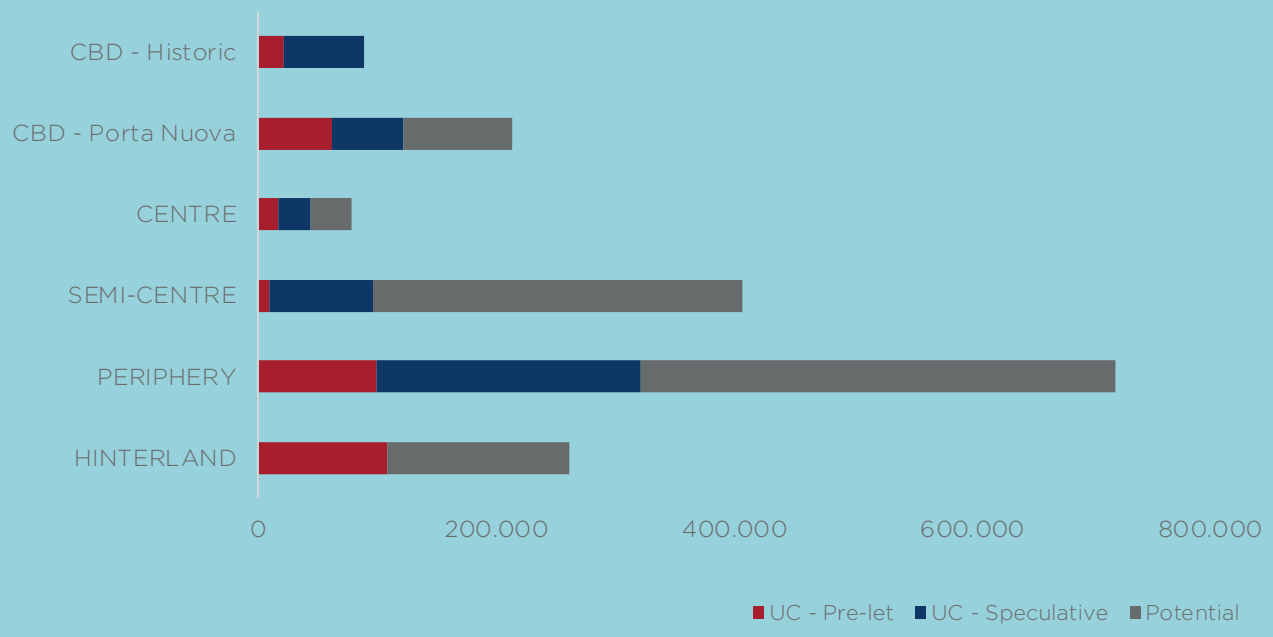
OFFICE INVESTMENT VOLUMES



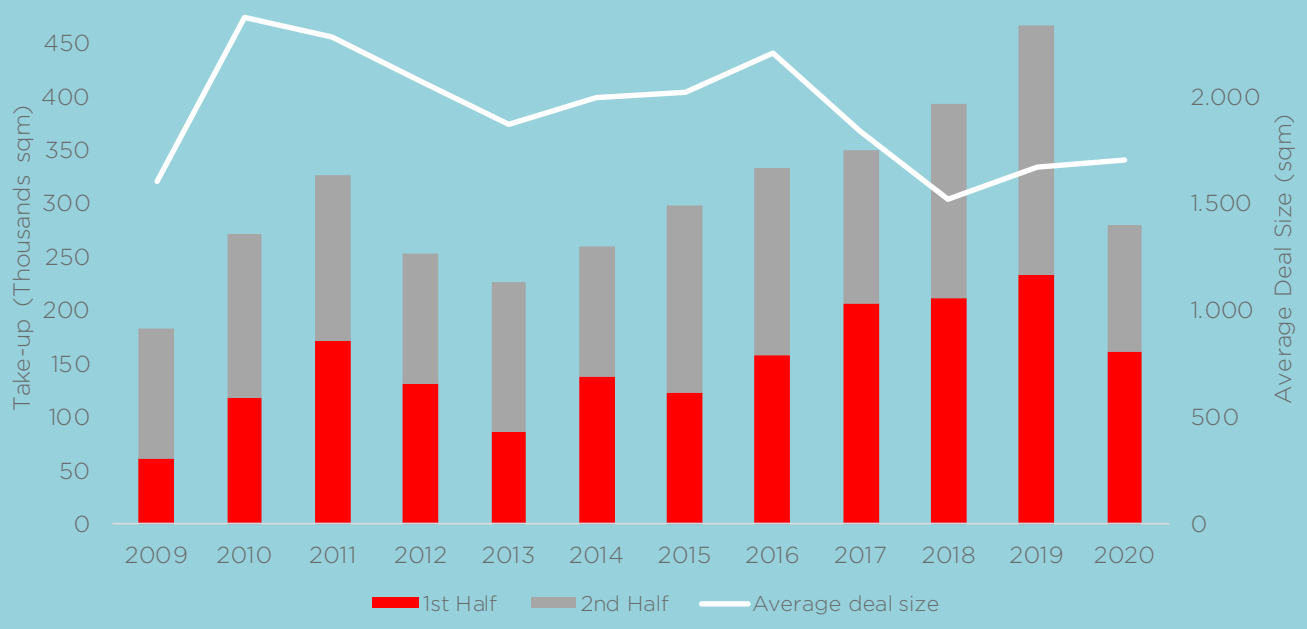
OFFICE SNAPSHOT MILAN

"THREE RELEVANT COMPLETIONS IN 2020: THE NEW PWC HQ IN THE CITYLIFE AREA, CORSO COMO PLACE IN PORTA NUOVA WHERE ACCENTURE WILL MOVE ITS HQ AND THE LIBERTY TOWER FULLY REFURBISHED BY HINES. OVERALL WE RECORDED JUST OVER 100,000 SQ M OF COMPLETIONS IN MILAN, COMPRISED IN 11 BUILDINGS. LESS THAN 10% IS AVAILABLE ON THE MARKET. THE RISK OF OVERSUPPLY IS LOW AND POTENTIAL PROJECTS ARE STILL AT AN EARLY STAGE".

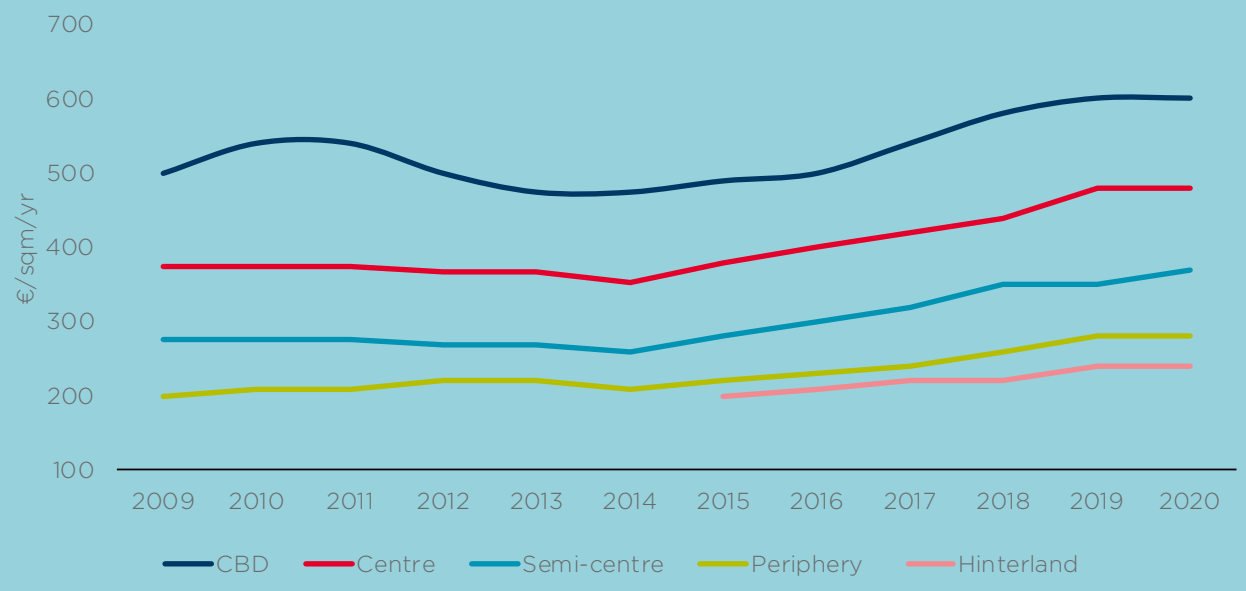
DEVELOPMENT PIPELINE, SQ M



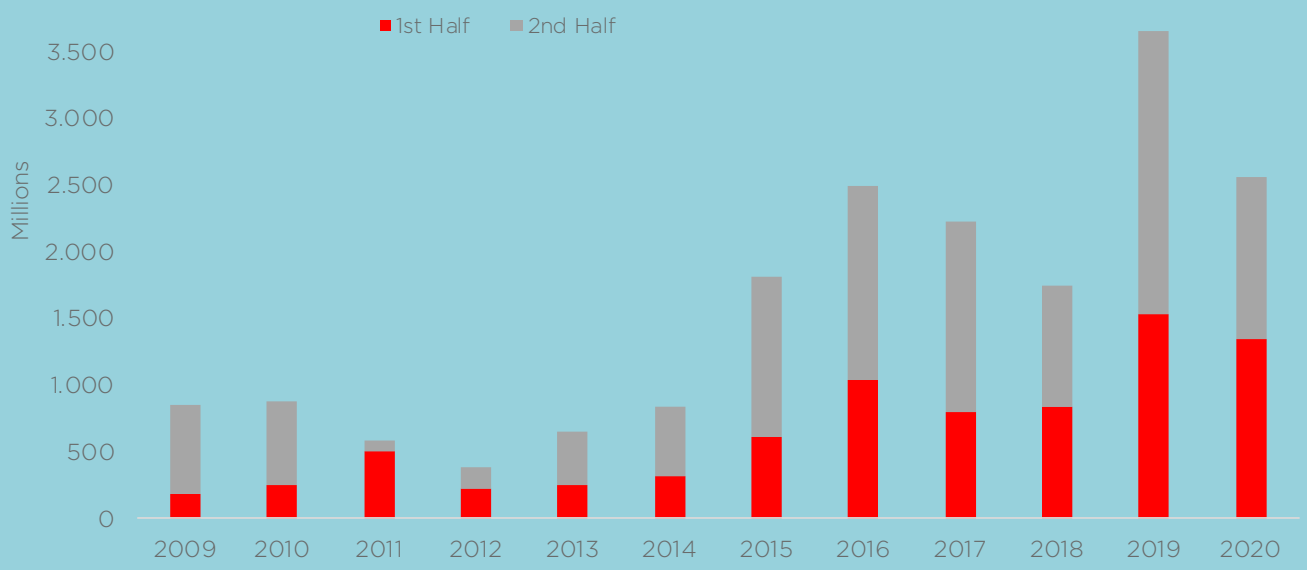
OFFICE TAKE-UP EVOLUTION AND AVERAGE DEAL SIZE



PRIME RENT EVOLUTION



OFFICE INVESTMENT EVOLUTION



MILAN CITY TRENDS

CBD
Take-Up 2020: 73,000 sqm
Prime Rent: 600 €/sqm/year
Prime Yield: 3.00%
Pipeline UC 2021/2025: 210,200sqm
- pre-let: 40%

CENTRE
Take-Up 2020: 14,000 sqm
Prime Rent: 480 €/sqm/year
Prime Yield: 3.50%
Pipeline UC 2021/2025: 43,000sqm
- pre-let: 40%

SEMICENTRE
Take Up 2020: 28,000 sqm
Prime Rent: 370 €/sqm/year
Prime Yield: 4.50%
Pipeline UC 2021/2025: 95,300sqm
- pre-let: 10%

PERIPHERY
Take-Up 2020: 113,000 sqm
Prime Rent: 280 €/sqm/year
Prime Yield: 4.75 %
Pipeline UC 2021/2025: 322,000sqm
- pre-let: 31%

HINTERLAND
Take-Up 2020: 50,000sqm
Prime Rent: 240 €/sqm/year
Prime Yield: 5.75%
Pipeline UC 2021/2025: 107,500sqm
- pre-let: 100%

NEW CLUSTERS

MIND
Pipeline UC+Potential 2021-2025: 155,000sqm

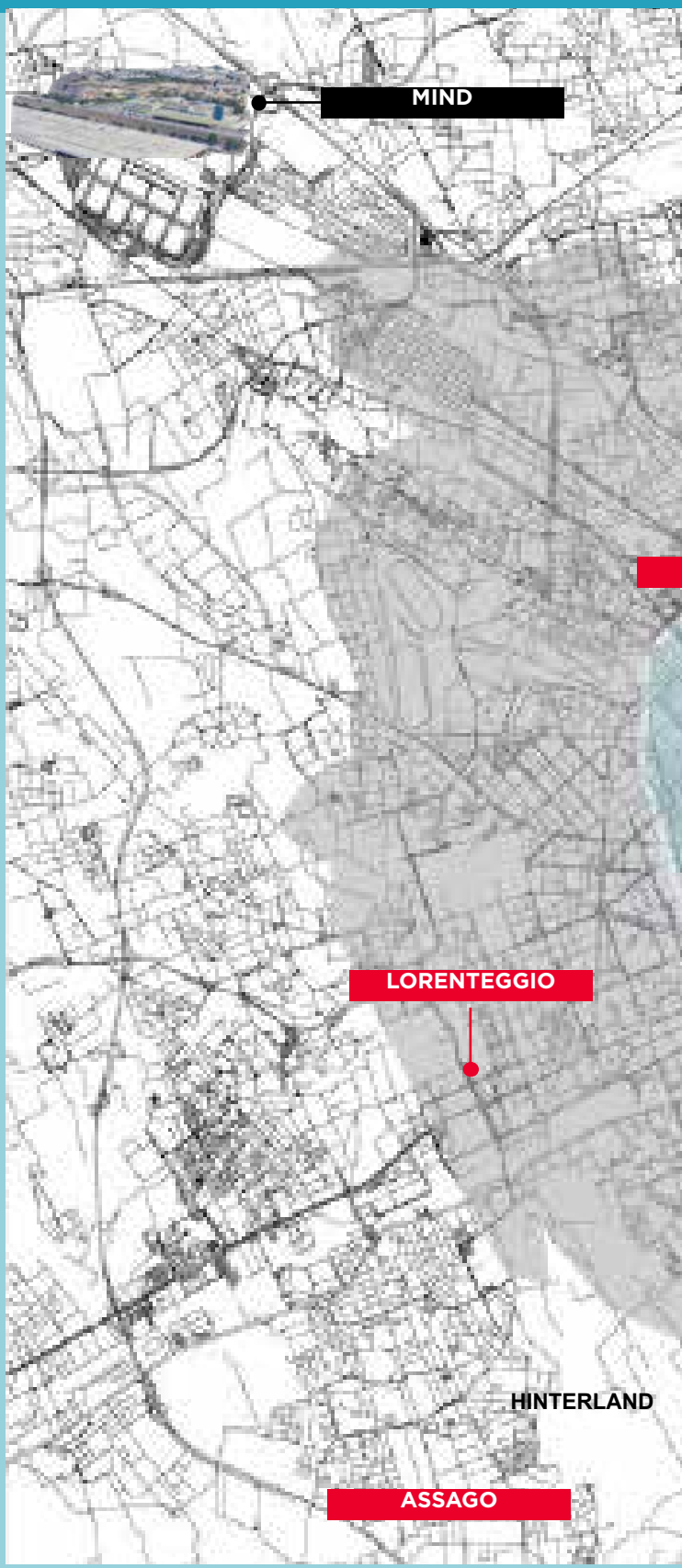
SCALO FARINI
Pipeline UC+Potential 2021-2025: 110,300sqm

CITY LIFE DISTRICT
Pipeline UC+Potential 2021-2025: 141,800sqm

PORTA NUOVA
Pipeline UC+Potential 2021-2025: 213,300sqm

SANTA GIULIA
Pipeline UC+Potential 2021-2025: 153,000sqm

SCALO DI PORTA ROMANA
Pipeline UC+Potential 2021-2025: 176,500sqm



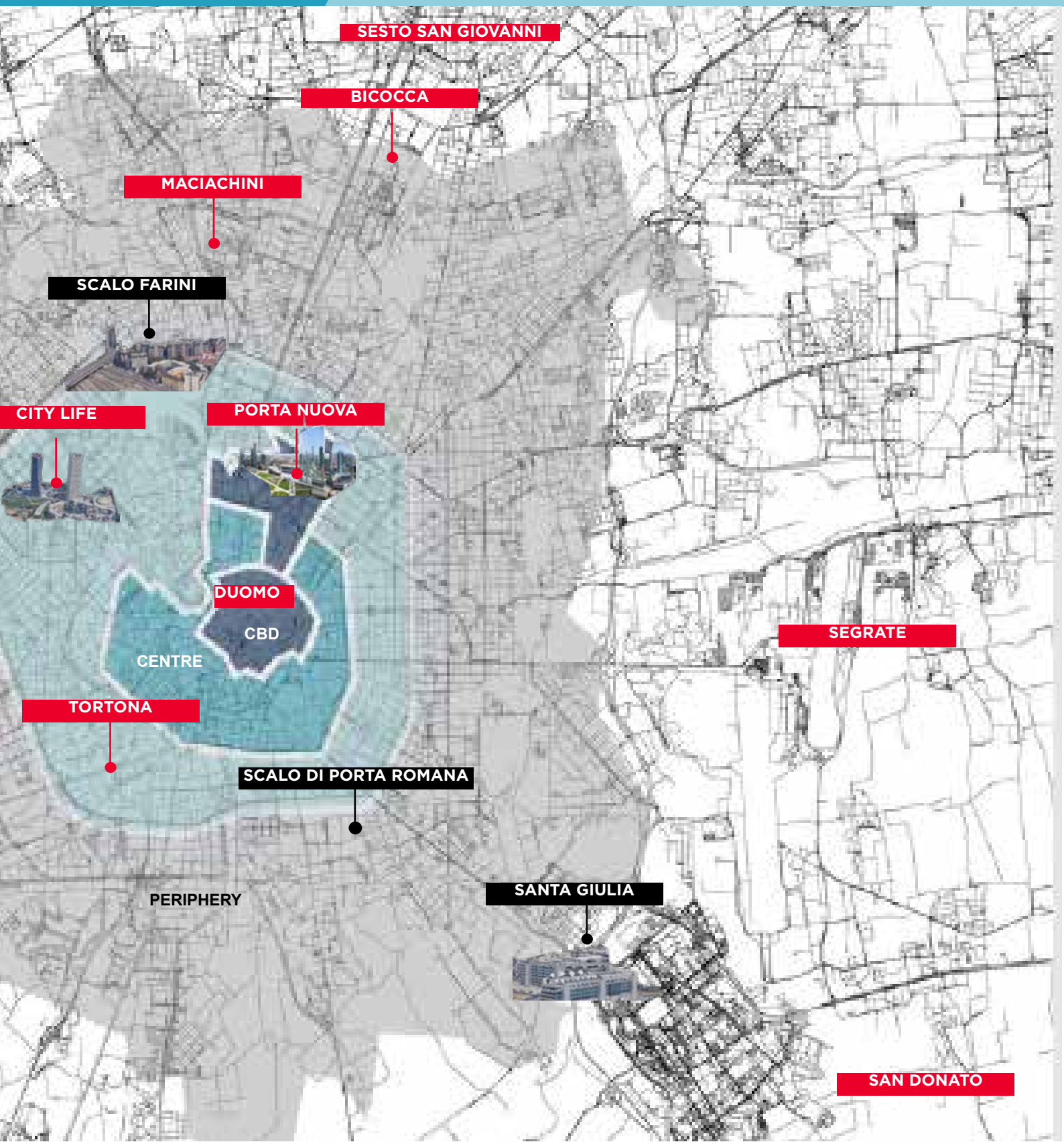
MILAN CITY

12.3Msqm
STOCK

9.5%
VACANCY RATE

40%
SPACE UC PRE-LET

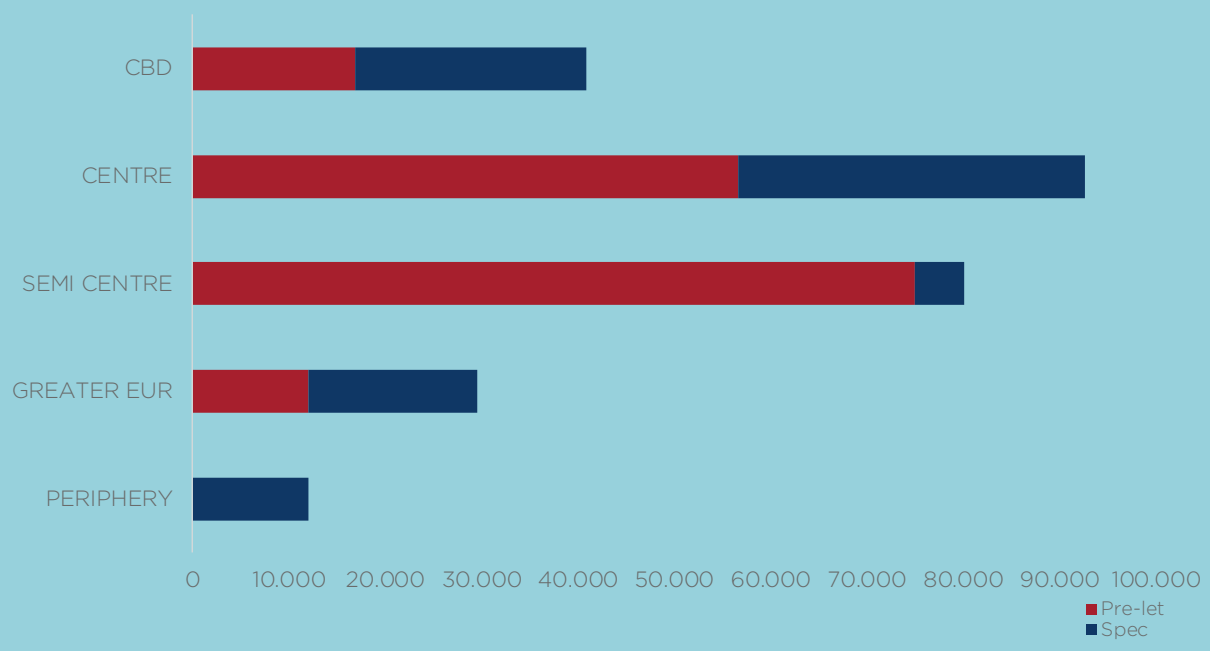
778,000sqm
TOTAL SPACE UC



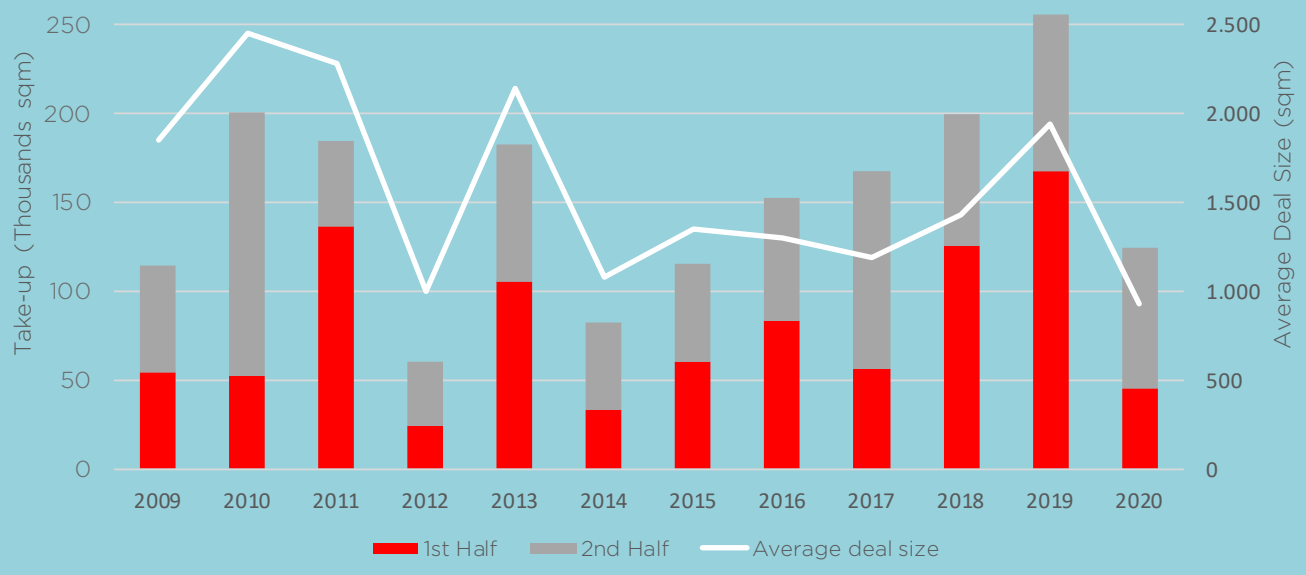
OFFICE SNAPSHOT ROME

"IN ROME GRADE A SUPPLY IS NEGLIGIBLE AND PIPELINE COMPRISES LITTLE MORE THAN 20,000SQM OF NEW BUILDINGS UNDER CONSTRUCTION (2 SCHEMES) AND CIRCA 230,000SQM UNDER REFURBISHMENT (11 PROJECTS), THE MAJORITY OF WHICH IS PRE-LET, FULLY OR PARTIALLY PRE-LET OR OWNED".

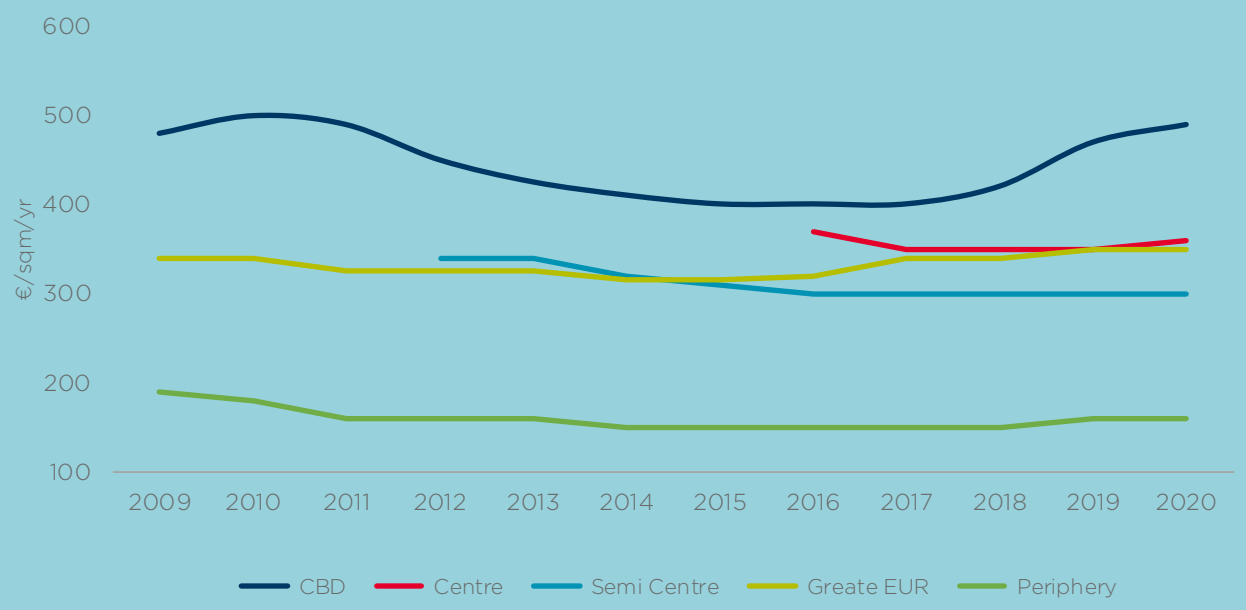
DEVELOPMENT PIPELINE, SQ M



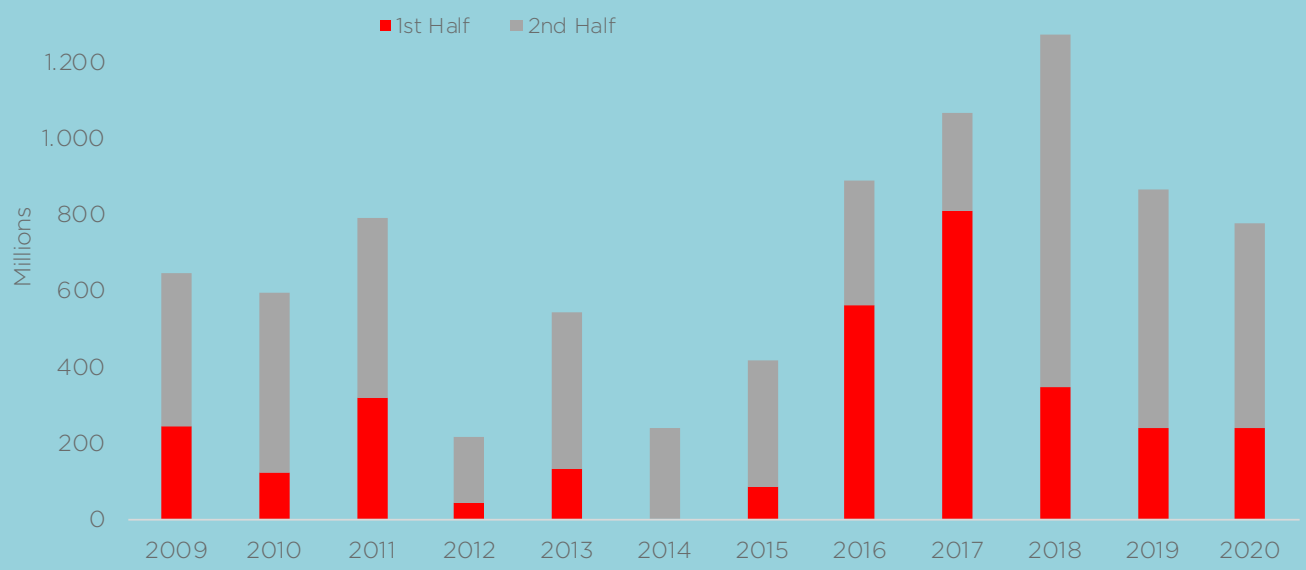
OFFICE TAKE-UP EVOLUTION AND AVERAGE DEAL SIZE



PRIME RENT EVOLUTION



OFFICE INVESTMENT EVOLUTION



ROME CITY TRENDS

CBD
Take-Up 2020: 8,000sqm
Prime Rent: 490 €/sqm/year
Prime Yield: 3.50%
Pipeline UC 2021/2025: 41,000sqm
- pre-let: 40%

CENTRE
Take-Up 2020: 26,5000sqm
Prime Rent: 360 €/sqm/year
Prime Yield: 4.25%
Pipeline UC 2021/2025: 93,000sqm
- pre-let: 60%

SEMICENTRE
Take Up 2020: 7,500sqm
Prime Rent: 300 €/sqm/year
Prime Yield: 6.00%
Pipeline UC 2021/2025: 80,000sqm
- pre-let: 95%

GREATER EUR
Take-Up 2020: 38,500sqm
Prime Rent: 350 €/sqm/year
Prime Yield: 4.00 %
Pipeline UC 2021/2025: 30,000sqm
- pre-let: 40%

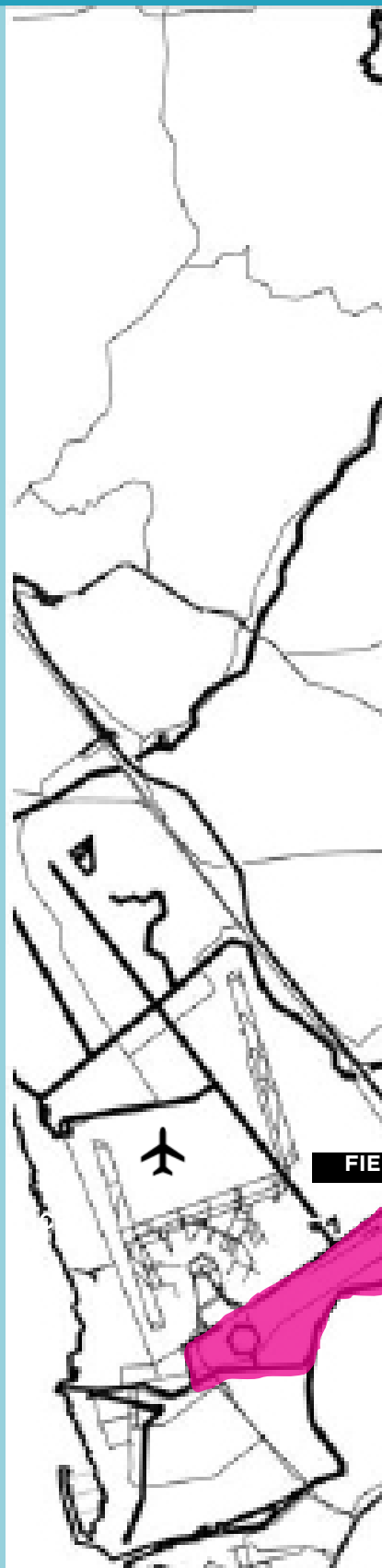
PERIPHERY
Take-Up 2020: 44,500sqm
Prime Rent: 160 €/sqm/year
Prime Yield: 8.00%
Pipeline UC 2021/2025: 12,000sqm
- pre-let: 0%

OTHER CLUSTERS

FIUMICINO CORRIDOR
Prime Rent: 220 €/sqm/year
Prime Yield: 7.00%
Pipeline planned: 70.000sqm

TIBURTINA
Prime Rent: 120 €/sqm/year
Prime Yield: 7.50%

CINECITTA'
Prime Rent: 180 €/sqm/year
Prime Yield: 7.00%



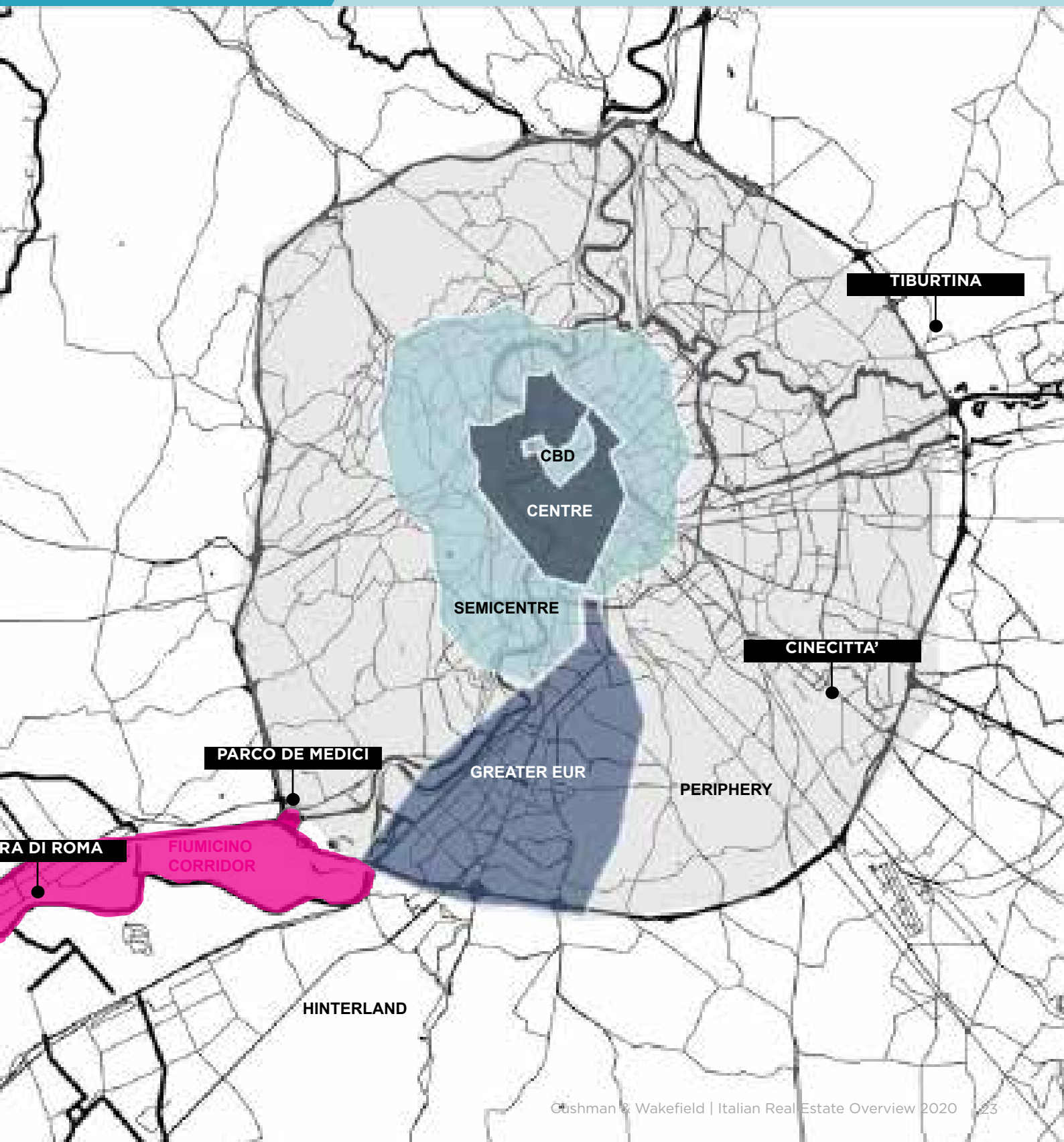
ROME CITY

10.08M sqm
STOCK

10.8%
VACANCY RATE

59%
SPACE UC PRE-LET

255,000sqm
TOTAL SPACE UC



RETAIL MARKET ITALY

“PEOPLE ARE REACTING BETTER THAN EXPECTED AND A NEW RETAIL EXPERIENCE WILL REPLACE THE PRE-COVID ONE. INVESTORS STILL COLD BUT NEW OPPORTUNITIES TO BE STUDIED”

RETAIL SECTOR

The worsening of the pandemic after the summer with the hardening of restriction measures since October have cooled optimism, partially offsetting the improvement gained in since May and reversing the positive performance experienced by retail properties during the third quarter.

It was mainly true for shopping centers that had to face week-end closures since November (late October for some regions); these measures caused closures equal to 51.6% of the holiday season (7 Dec – 6 Jan) with shopping centres only opening in traditionally off-peak days. High street stores experienced a softer treatment being allowed to stay open over the weekend but overall, performance has been hit hard, especially where tourism and workers have a strong role in visitor flow. Thus, the positive notes experienced in Q3 were partially offset. The occupiers' perspective remains gloomy and though. Retail rents across all markets were stable in Q4; rent stability was also confirmed by ongoing agreements, where rents remain flat in favor of some temporary concessions. Both tenants and landlords postponed major decisions, waiting to have a clearer picture of the pandemic evolution.

The decline in footfall between August and September settled at -15% (compared to 2019), giving hope for a return to normality. The new restrictions introduced in October have pushed footfall down (-25% on 2019). The decline reached -57% in November, worsened by the weekend closures extended to all of Italy.

ITALY 2020

PRIME RENTS HIGH STREET

MILAN
€13,700sqm/yr

ROME
€12,500sqm/yr

VENICE
€7,200sqm/yr

FLORENCE
€6,000sqm/yr

PRIME YIELD

MILAN
3%

ROME
3%

VENICE
4%

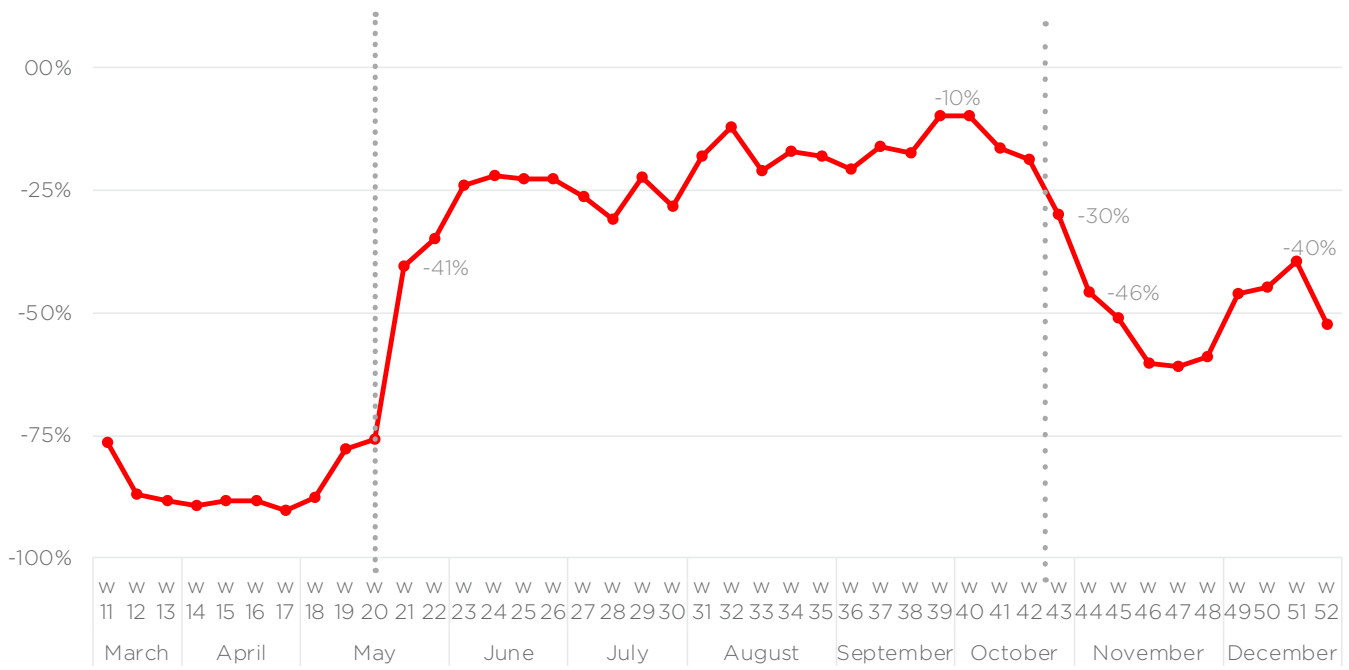
FLORENCE
3.75%

The November drop is comparable to May (first post lockdown opening). In December, the slight improvement of the epidemiological scenario allowed a recovery, tightening the gap with 2019 at -47%, with a "peak" of -39.5% in the week between the 14th and the 20th of December.

Turnover had a similar trend, but slightly better compared to footfall, pointing out that people prefer to shop with targeted purchases. In that sense, in August and September turnover basically went back to 2019 levels. Food & Beverage and fashion are confirmed to be the most hit categories, while Electronics and Household performed better than the average again and, in some months, than the previous year.

Overall, for shopping centres, an estimate of 30% contraction on turnover is expected in yoy figures (based on CNCC sample of shopping center).

FOOTFALL 2020 VS 2019 - SHOPPERTRACK INDEX

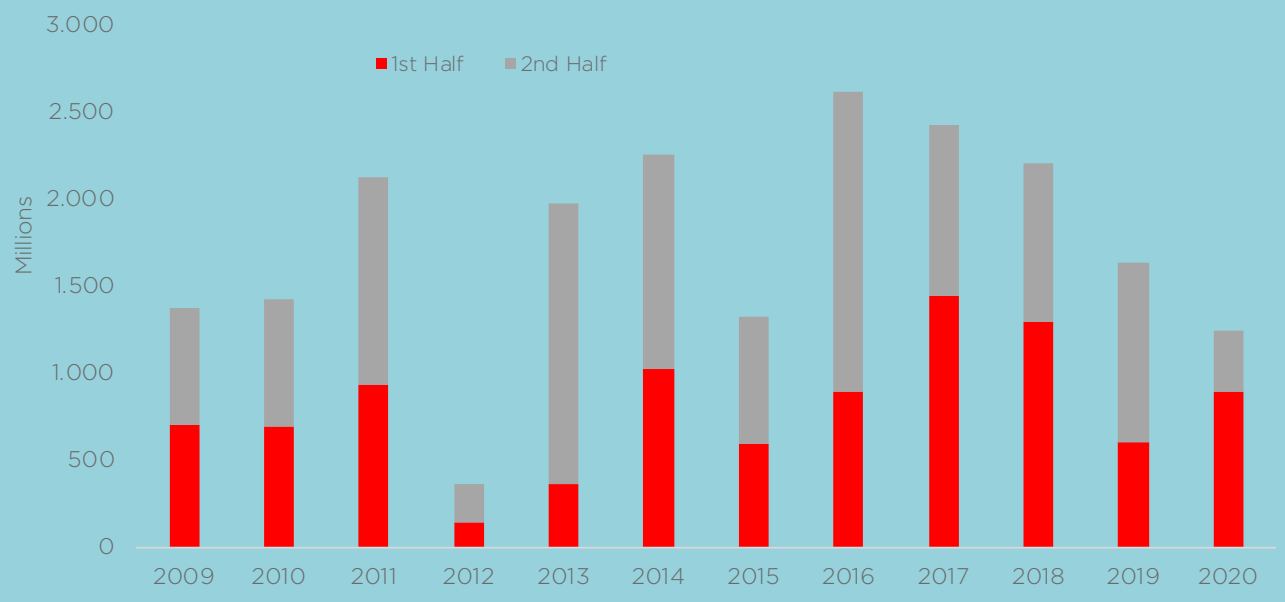


* In terms of comparable sales, it has to be taken into account that stores were closed for 18 days in May 2020. Based on this assumption, we used the daily turnover to compare the two years. The sample comprises 1,432 stores for ca 430,000 sqm GLA comprised in shopping center and retail parks under management; it excludes hypermarkets and supermarkets and some category such as travel agencies, tobacconist, telecommunications, medical services etc).

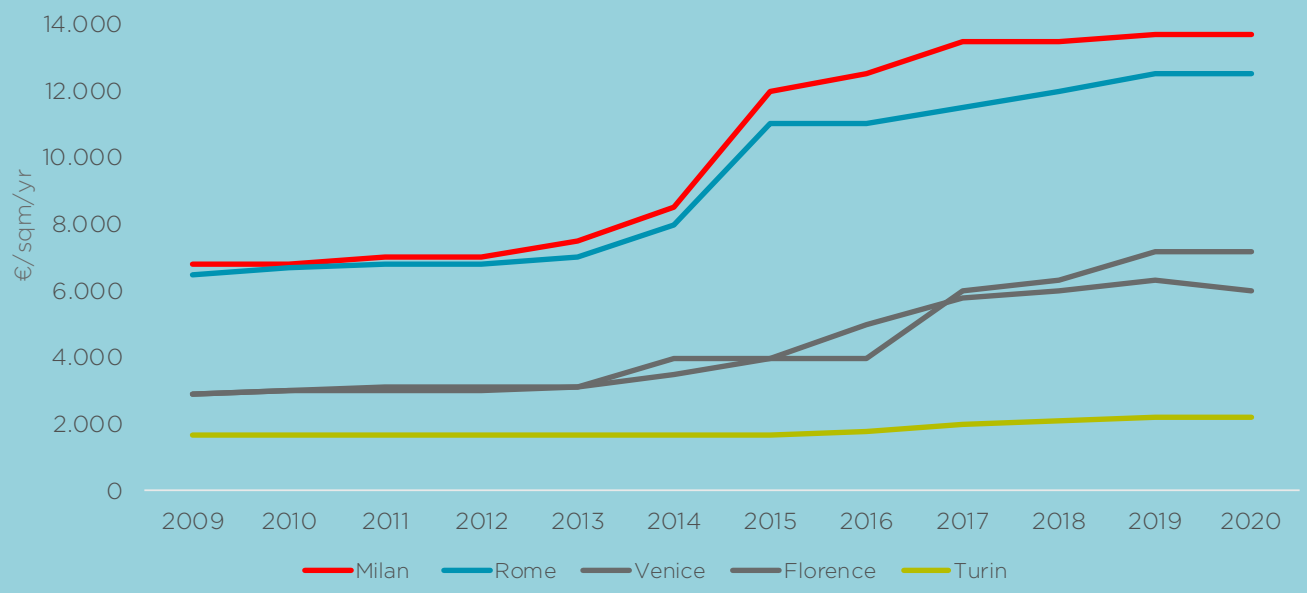
RETAIL SNAPSHOT

" SECOND HALF 2020 VOLUME WAS SLIGHTLY ABOVE €350 MLN, BRINGING THE YEARLY TOTAL AT € 1,250 MLN, 22% LESS THAN 2019. THE MOST RELEVANT TRANSACTION COMPRISED A PORTFOLIO OF SUPERMARKET BY COOP AT CA €160 M, ACQUIRED BY UNIPOL, THE ITALIAN INSURANCE COMPANY. THE REMAINING TRANSACTIONS INVOLVED ALL SECTORS FROM HIGH STREET TO SHOPPING CENTERS. 54% OF THE CAPITAL INVESTED IN THE SECOND HALF WAS CROSS BORDER BUT ON THE YEAR THE MAJORITY OF THE CAPITAL INVESTED IN THE RETAIL SECTOR WAS DOMESTIC, 56%. ACROSS ALL THE RETAIL SECTORS, MOST LANDLORDS AND TENANTS CONTINUE THE PURSUIT OF AN EQUILIBRIUM FOR SUSTAINABLE LEASING CONDITIONS. LOOKING FORWARD URBAN SUPERMARKETS ARE EXPECTED TO BE AN ATTRACTIVE TARGET FOR RETAIL INVESTORS BECAUSE OF THE RESILIENCE DEMONSTRATED DURING THE LOCKDOWN".

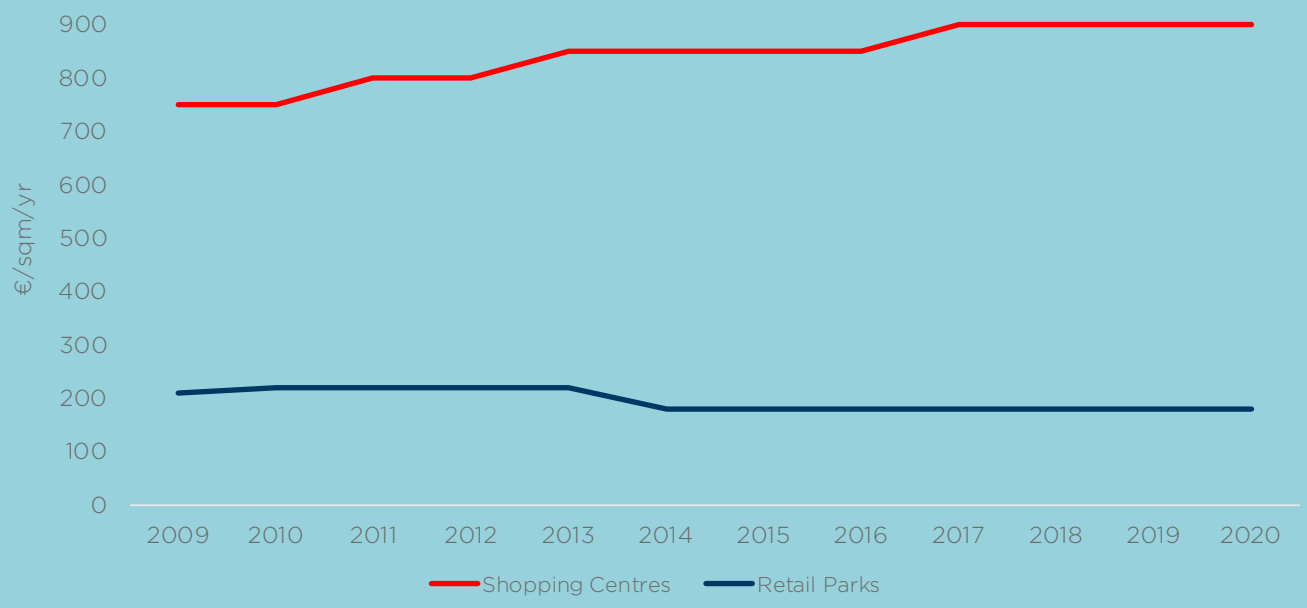
RETAIL INVESTMENT VOLUME



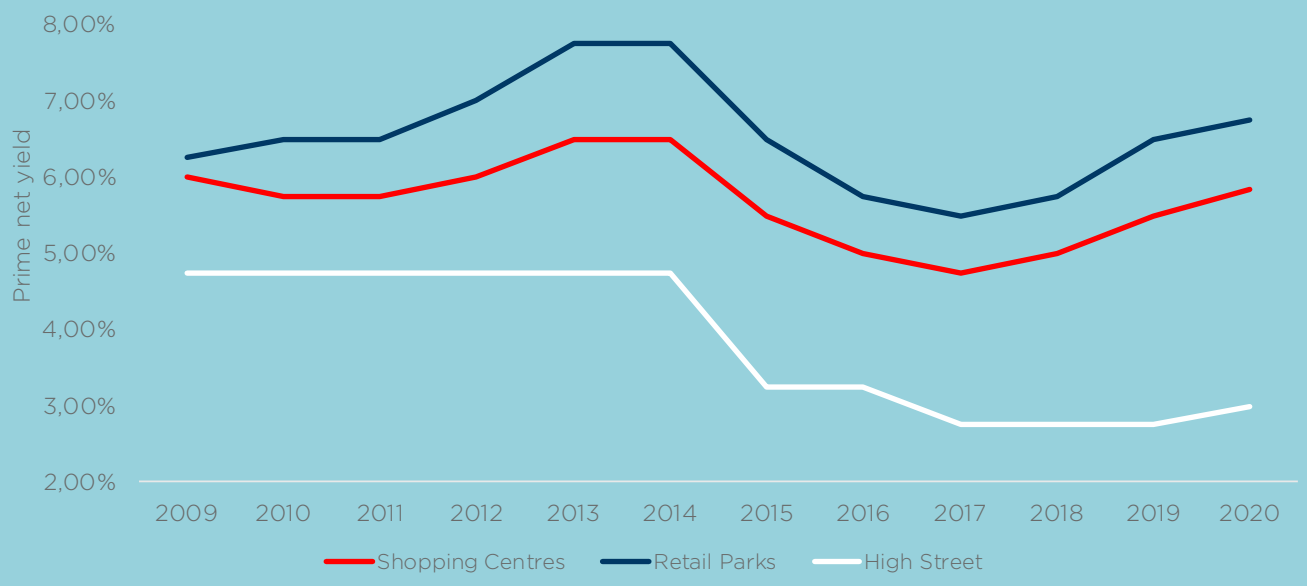
HIGH STREET PRIME RENTS



OUT OF TOWN RETAIL PRIME RENTS



RETAIL PRIME YIELD



LOGISTICS MARKET ITALY

“THE GROWING NEED FOR GOODS AND SERVICES ONLINE PUT A STRAIN ON THE SUPPLY-CHAIN AND CHALLENGED THE DISTRIBUTION SYSTEM, WITH AN IMPACT ON THE LOGISTICS SECTOR WHICH IS STILL EVOLVING”.

LOGISTICS SECTOR

The second half of 2020 confirmed the extraordinary year for the Logistics sector, from both an occupiers' and investors perspective. Logistic take-up during H2 reached 1.3Mln sqm bringing end of year figures to 2.1Mln sqm, a 16% increase compared to 2019, slightly below the record level of 2017. The strong growth in online shopping, which strengthened during the second part of the year with the tightening of restrictions, drove e-commerce take-up to more than double the figures reached during H1, standing at 650,000 sqm for the whole year, circa 30% of the total. Overall, e-commerce, large-scale distribution retailers and 3PLs are confirmed as the most active players, looking for modern, efficient and strategically located warehouses. BTS/BTO projects continue to drive demand, accounting for circa 75% of the overall transactions. Northern regions and mainly Lombardy, Emilia Romagna and Piedmont attracted circa 90% of total take-up.

The current crisis has highlighted how many retailers have yet to develop on-line sales platforms; as development of these platforms begin, additional pressure will be put on logistic demand.

Prime rents increased in locations such as Piacenza and Novara - as well as other markets in the north east of Italy - which are proving a good alternative to Milan, the hottest market. In general, although with different performance according to the specific sector, the Logistics market remains one of the most resilient: investors continue to look positively at Italy, especially at grade A properties, and demand was strong until the end of the year, supported by the positive fundamentals. Overall 2020 ended with €1.6Bn invested in the sector, +7% on 2019. Major players specialized in logistics, on both development and investment sides, proved particularly active, taking advantage of their expertise and consolidated clients.

ITALY 2020

TAKE UP

ITALY	LOMBARDY	LAZIO
2.1Mln sqm	1.23Mln sqm	70,000sqm

PRIME RENT

€56sqm/yr	€56sqm/yr	€55sqm/yr

PRIME YIELD

4.75%	4.75%	5.25%

However, many other players with different investment profiles also sought logistics opportunities.

The strong demand facing the scarcity of products is generating high competition thus leading to prime yield compression for core products in top locations.

Investors are more flexible in considering land banking, speculative projects and redevelopment opportunities in top locations, and many new developments in pipeline are expected to reach the market in the next years. In line with the other European markets, cross-dock/last mile buildings are attracting increasing interest, while an appetite for sale & lease-back operations with strong fundamentals is confirmed.

DATACENTER: Milan is an intriguing market with a sizable upside for operators and cloud service providers alike. Continued growth is anticipated over the next couple of years as the network develops.

Milan is the largest Datacenter market in Italy, buoyed by strong financial and engineering sectors and considered the business capital of the country. The market has long acted as a second-tier location in relation to the largest Datacenter clusters throughout Europe, with players such as Equinix, SUPERNAP, Colt, Telecom Italia, DATA4, and Aruba. it offering colocation options among others. Milan boasts the Via Caldera internet exchange spanning 110,000 sqm and providing access to all major telecommunications networks in-country. As Italian enterprises, as well as the public sector, begin their progression to cloud technology, Milan has drawn interest from the largest cloud services organizations as a new growth market, like AWS, Microsoft, Google Cloud. On the operator front, Aruba and Telecom Italia are joined by pan-European operator DATA4, global firms Colt and Equinix, and the Switch-backed SUPERNAP Italia campus. American hyperscale operator is at work on the first phase of what will be a 32 MW campus at full buildout and Equinix is working on a local expansion of their own.

2020 recorded an increase in demand for Datacenter development in Milan, with a focus on the north-west, where the main Datacenter operators are already located, and which could be considered as an established cluster for these assets. New areas are emerging as clusters, attracting operators looking for availability of "power" and fiber. One is the eastern area of Milan, as reflected by an important transaction closed last year in that area and others are currently in the pipeline. A further area is in the south of Milan where important projects are underway with completion expected during 2021. In the current market transactions recorded and negotiations in progress refer only to land acquisitions, both greenfield and brownfield. Although there is strong interest from investors, the market is not yet mature. We believe there to be strong potential for future evolution, with many new opportunities arising.

Milan: hottest secondary market in Europe?

MIX

The Milan Internet Exchange functions as the biggest in-country, with its own data center and 315 members for better peering options.

ARUBA.IT

Longtime hosting and services provider added another 10,000 sqm in Milan late-2019, with their IT3 campus capable of growing to 90,000 sqm.

SWITCH

Switch-advised Supernap Italia is planning another 5 MW expansion, with the campus able to provide 40 MW at full buildout. A recent contract with Telia Carrier adds connectivity options.

ITALY DATA CENTER: BIG SERVICES, RAPID CHANGE

Amazon Web Services (AWS) launched a full region with three availability zones in May 2020, their first region in-country and across Southern Europe.

Microsoft had their own major Azure announcement in the same month, with a $1.5 billion investment plan over the next five years to bring Azure to Italy and a major IT and skills partnership with Poste Italiane.

Google Cloud and Telecom Italia announced last November a partnership that will develop many data centres across the country in coming years and diversify the telecom giant's offerings.

EQUINIX

New ML5 underway, with first phase due Q1 2021 at an expenditure of euro 43million, and a second phase already planned for Q4 following. The company will now have four campuses in-market.

VANTAGE
DATA CENTER

Now entering Milan with an 8 MW first phase in 2021 of what will eventually be a 32 MW campus on a seven-hectare site.

MICROSOFT

AWS

TELECOM ITALIA

GOOGLE

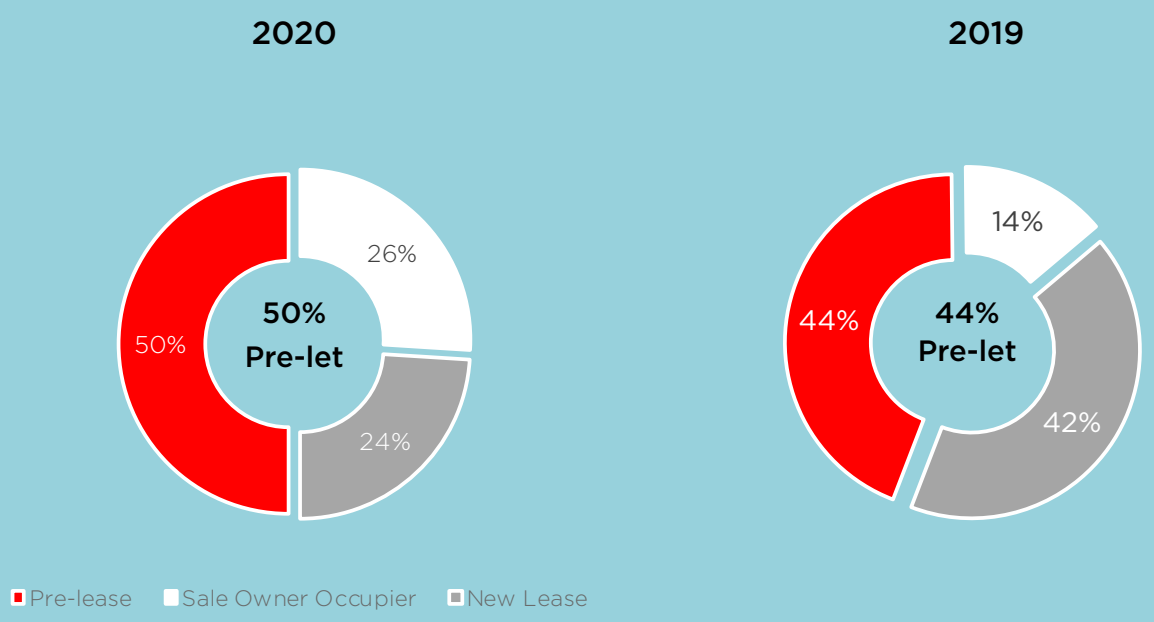
POSTE ITALIANE

LOGISTICS SNAPSHOT

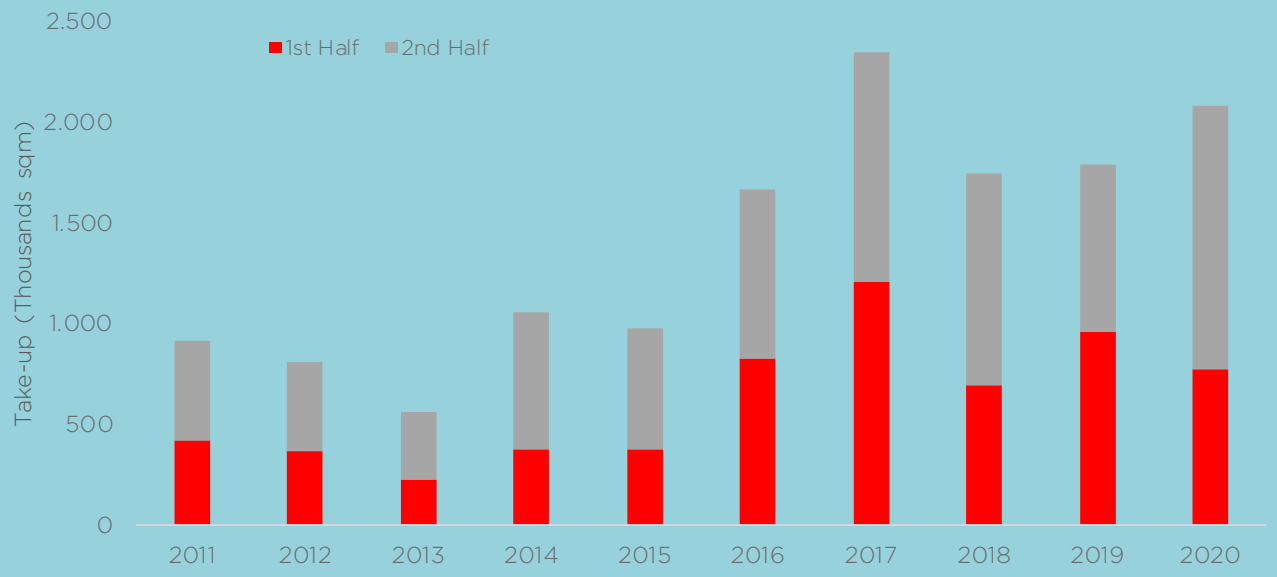
"PRE-LEASE TRANSACTIONS REPRESENT 50% OF ABSORPTION FOR THE WHOLE OF 2020 AND ARE CONFIRMED AS THE MAIN DRIVER OF DEMAND. THE VOLUME FOR BUILT-TO-SUIT/BUILT-TO-OWN PROJECTS STOOD AT 75% OF THE TOTAL, A SHARP INCREASE COMPARED TO 53% IN 2019".

"THE INCREASED VOLUME IN SPECULATIVE DEVELOPMENTS IS NOT ENOUGH TO FILL THE GAP WITH THE STRONG LEVEL OF DEMAND; WE BELIEVE THAT BUILT-TO-SUIT TRANSACTIONS WILL CONTINUE TO DOMINATE THE MARKET IN THE FUTURE".

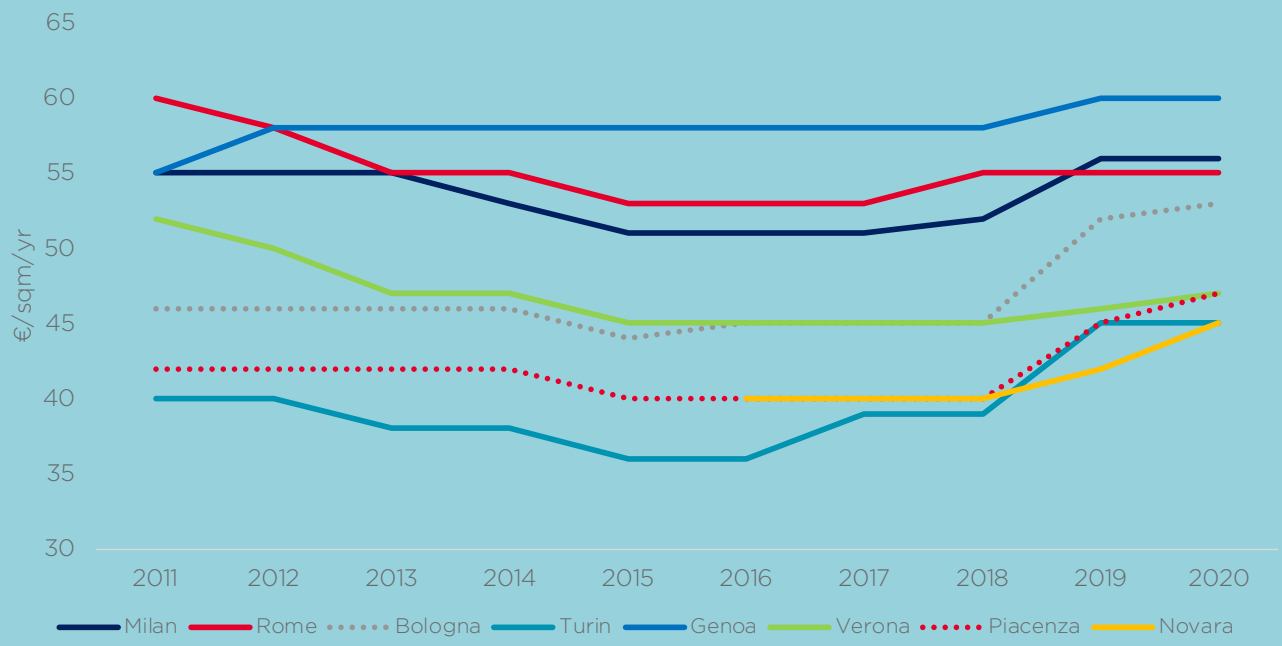
TAKE UP - COMPARISON BETWEEN TYPE OF TRANSACTIONS



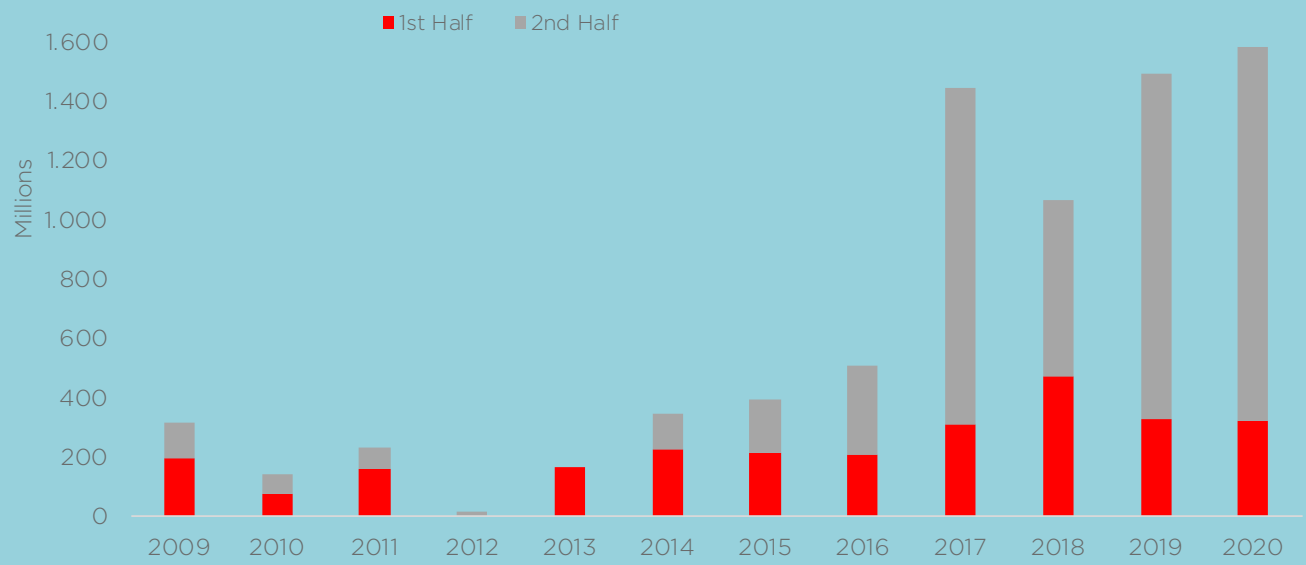
TAKE-UP EVOLUTION



PRIME RENT EVOLUTION



LOGISTICS INVESTMENT VOLUME



ITALY LOGISTICS TRENDS

"IN THE SECOND HALF OF 2020 THE STRONG LOGISTICS DEMAND FROM BOTH OCCUPIERS AND INVESTORS PUT KEY INDICATORS UNDER PRESSURE. THE MAIN CONSOLIDATED LOGISTIC HUBS, BOLOGNA AND PIACENZA AS WELL AS VERONA AND NOVARA RECORDED THE LARGEST RENTAL INCREASE. YIELDS PRESSURE DROVE PRIME LOGISTICS YIELD TO AN EVER LOW LEVEL AT 4.75% (MILAN)".

MAIN AND EMERGING MARKETS

SUB-MARKET	PRIME RENT (€/sqm/yr)	PRIME YIELD
Rome	55	5.25%
Milan	56	4.75%
Bologna	53	5.00%
Turin	45	5.75%
Genoa	60	6.00%
Verona	47	5.50%
Piacenza	47	5.25%
Novara	45	5.50%
Florence	70	5.50%
Naples	48	6.75%
Bari	43	6.75%

ITALY MARKET

20.7Msqm
STOCK

6.3%
VACANCY RATE

1,673,000sqm
DEVELOPMENT PIPELINE

84%
PRE-LET PIPELINE

HOSPITALITY MARKET ITALY

“THE MARKET SLOWED DOWN IN 2020 AS EXPECTED BUT INTEREST FROM HOTEL OPERATORS IS CONFIRMED AS SOUND”.

HOSPITALITY SECTOR

2020 marked a sharp contraction of almost all the indicators for the tourism industry due to the pandemic. The worsening of the epidemiological situation in the last quarter, led the Government to increase restrictions in order to control the spread of the disease, offsetting the slight benefit from the summer and Q3 in general. As a consequence, Italy recorded ca. 184 million bed nights (-51% compared to 2019 - last available 2020 data - January-September).

In particular, demand hit an all-time low between March and June, when all regions were in lockdown and non-essential travel was banned, registering a total of ca. 18.4 million bed nights (-86% compared to 2019 March-June).

Travel restrictions caused a significant shift in demand, historically composed for 50% by international tourists, to a market share dominated by domestic tourism, which accounted for 68% of the overall bed-nights in 2020.

From a real estate perspective, overall investment during 2020 reached 900 €Ml Euro, a sharp decline to the previous year, with volumes almost evenly divided between the first and second half of the year. Major investment deals in the second half were the sale of a hotel portfolio with assets in Rome, Florence and Venice at an estimated 330 €Ml and the sale of a hotel in Rome at 62 €Ml located in the historic centre.

Despite this, interest from operators for development of a hotel platform in Italy was remained buoyant also during the second part of the year, as pointed out by a survey carried out between September and October 2020 by the C&W Hospitality on a sample of over 20 national and international hoteliers active in the Italian market.

The key finding was that, despite the significant impact created by the Covid-19 pandemic, there is still strong long-term confidence and desire by hoteliers to continue their expansion into the Italian market.

HOTEL KPI*

43% room supply comprised in the 3-star category

28% occupancy rate

5% room supply affiliated/ managed by international hotel brands

€42 average RevPAR

185Mln bed-nights

68% International bed-nights

** 2020 provisional data (Jan-Sept)*

ITALY 2020

From a recovery perspective, respondents believe that summer/seaside destinations should recover by the end of 2022, quicker than prime cities, which instead, according to 74% of respondents are expected to recover between 2023 and 2024.

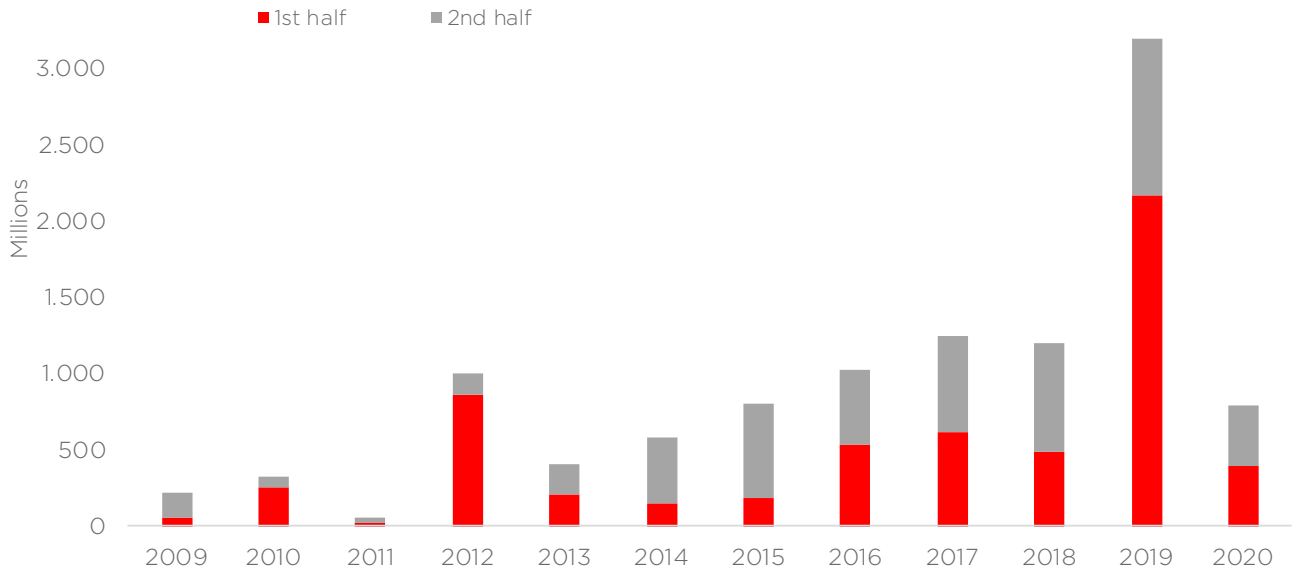
National lockdowns and other governmental restrictions have not impacted ongoing developments as 79% of hoteliers indicated that their projects are continuing as planned. The most relevant operator selection deals in the second half involved the luxury hotel brand, Rosewood, that will develop its first hotel in Rome in the previous BNL HQ in the prestigious via Veneto. However, many developments have been delayed or aborted mainly because of debt funding issues (36% of responses) and because commercial terms have become unviable (32% of responses).

In addition, 84% of respondents highlighted that the Covid-19 pandemic impacted the commercial terms of their deals causing either minor or notable amendments.

> Hotel operators keep looking with positivity to their development plans in Italy: deals and transactions are, to date, proceeding normally although at a slightly different pace. Interest in new developments remains unchanged, for they generally reach the market 2-3 years after the beginning of construction, in this case when the Covid-19 outbreak should be overcome".

Despite the difficulty in making hypothesis with regards to the real impact that this crisis will have on the sector in the medium and long term, this crucial moment could represent an opportunity for a new cycle to start, possibly accelerating the shift of supply towards more professional and institutional players, enabling it to become more resilient and less vulnerable should other crisis arise in the future.

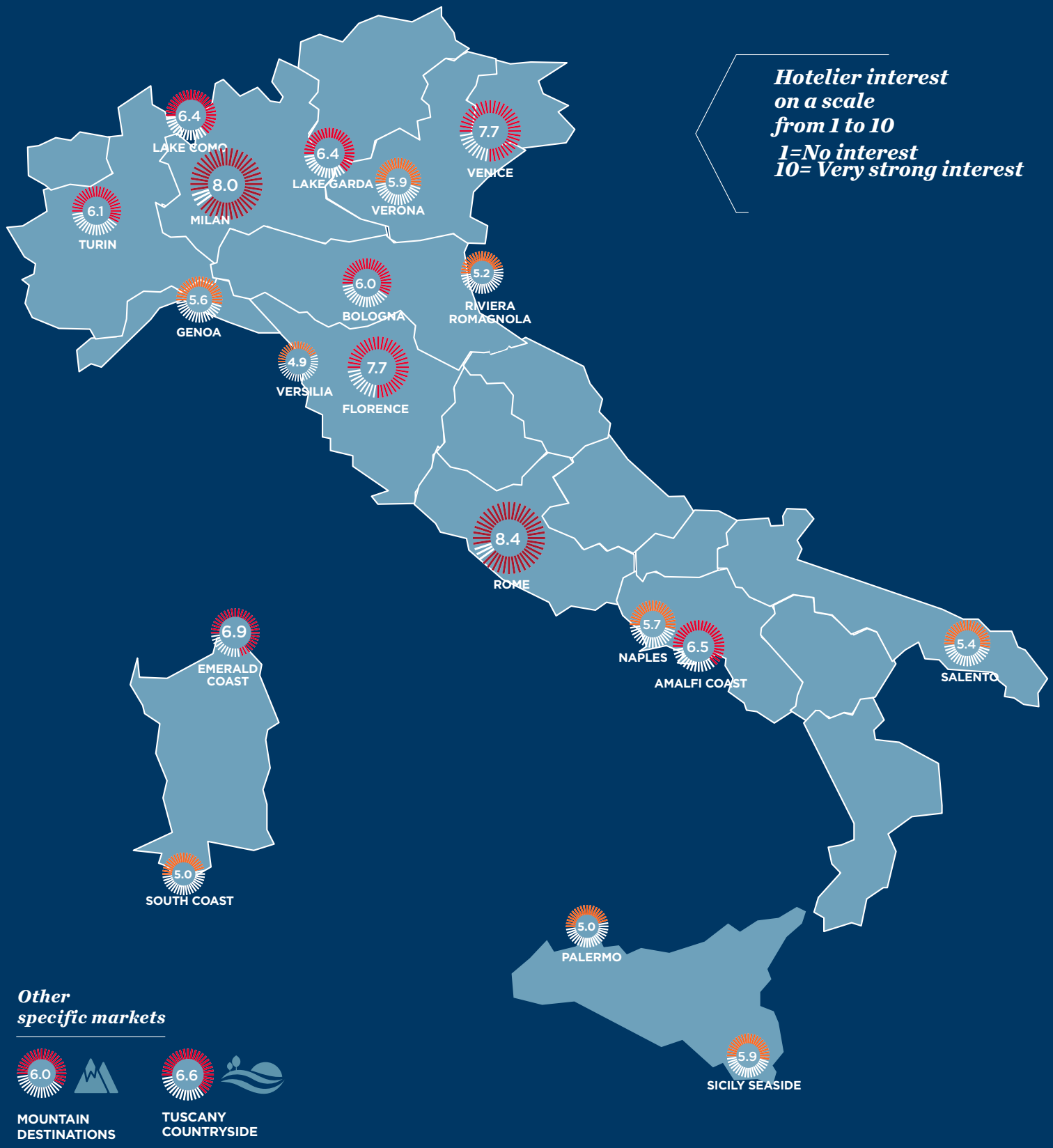
HOSPITALITY INVESTMENT EVOLUTION



OPERATOR BEAT

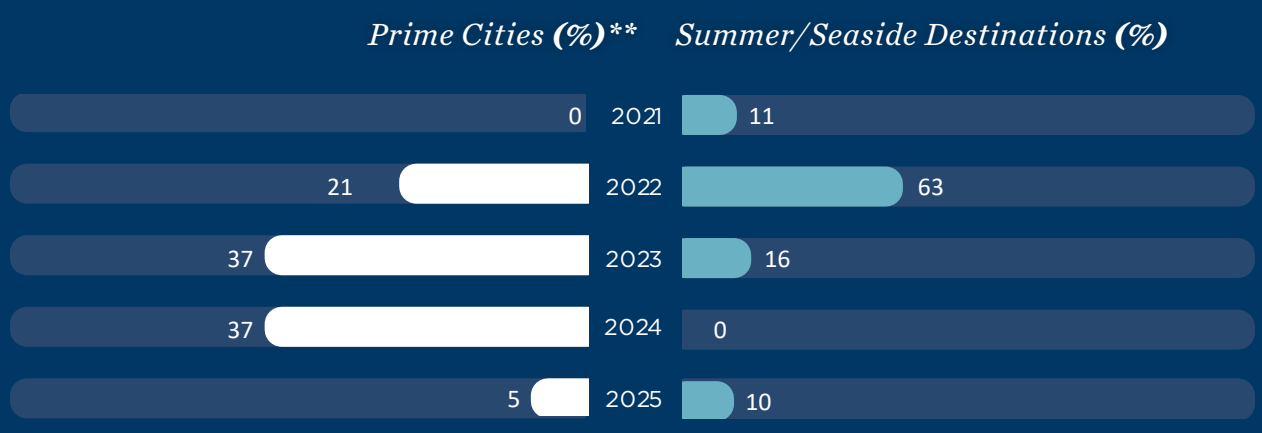
Interest in the Major Hotel Markets in Italy

H2 2020



Survey amongst >20 international and national hoteliers, who are active in Italy.

How long will it take the Italy hotel market to recover (similar levels as in 2019)?



79%

of the operators indicate, that all or the majority of their ongoing development projects continue as planned.

68%

of the impacted projects are primarily due to debt funding issues followed by commercial terms becoming unviable.

84%

of respondents indicated that COVID 19 caused amendments to the commercial terms of their deals.

**Prime Cities include: Rome, Venice, Florence and Milan

LIVING MARKET ITALY

“TURNING THE MULTI-FAMILY SECTOR INTO AN ASSET CLASS FOR INSTITUTIONAL INVESTORS IN ITALY IS THE BIG CHALLENGE FACING THE INDUSTRY FOR THE FUTURE”.

LIVING SECTOR

Italy is one of the biggest countries in Europe with the lowest share of population living in rented accommodation – circa 21% – and this has delayed the creation of the PRS in the last years. But today we are beginning to see changes in demand, living habits and required characteristics of accommodation that could push the introduction of this market in Italy. Quality, services, sustainability and social interaction are becoming increasingly important in the choice of a home, either to buy or rent, and there is an increasing segment of the population, especially young people, who see flexibility as a positive element, and who are moving towards renting not only out of necessity but also as a lifestyle choice, especially in dynamic and highly populated cities such as Milan and Rome. In general, there is a high level of demand, from investors and end users, not currently matched by an adequate supply in terms of both size and of underlying real estate characteristics; in fact assets available are often dated and with a fragmentation of ownership that makes it difficult to acquire entire buildings to be managed professionally.

In this context, Covid-19 accelerated an already ongoing process, with institutional investors looking with even more interest at alternative more resilient asset classes, such as the residential sector, or that have experienced a significant growth in terms of economic turnover, such as logistics, supported by the significant increase of e-commerce.

7% residential share on the total institutional investment volume recorded in 2020 - €630 Mn.

€97.5Bn residential transaction volume recorded in Italy (2019), +3.5% compared to 2018.

€5.4Bn total rent volume of the new lease contracts registered in Italy (2019), +4.5% compared to 2018.

17,970 new residential building permits release in Italy in 2018 (+4.2% compared to 2017), for a total of 54,664 new dwellings.

603,540 total number of transactions recorded in Italy (2019), +4.2% compared to 2018.

948,290 new contracts registered in 2019, +3.8 compared to 2018. 53.6% out of the total refers to ordinary long-term contracts.

86.5 sqm the average size of the new residential dwellings under construction.

20.8% of the population lives in a let dwelling, while 79.2% lives in an owned residence.

28.5% the average percentage of gross income paid monthly on rent (2018), for a total of c. 560 €.

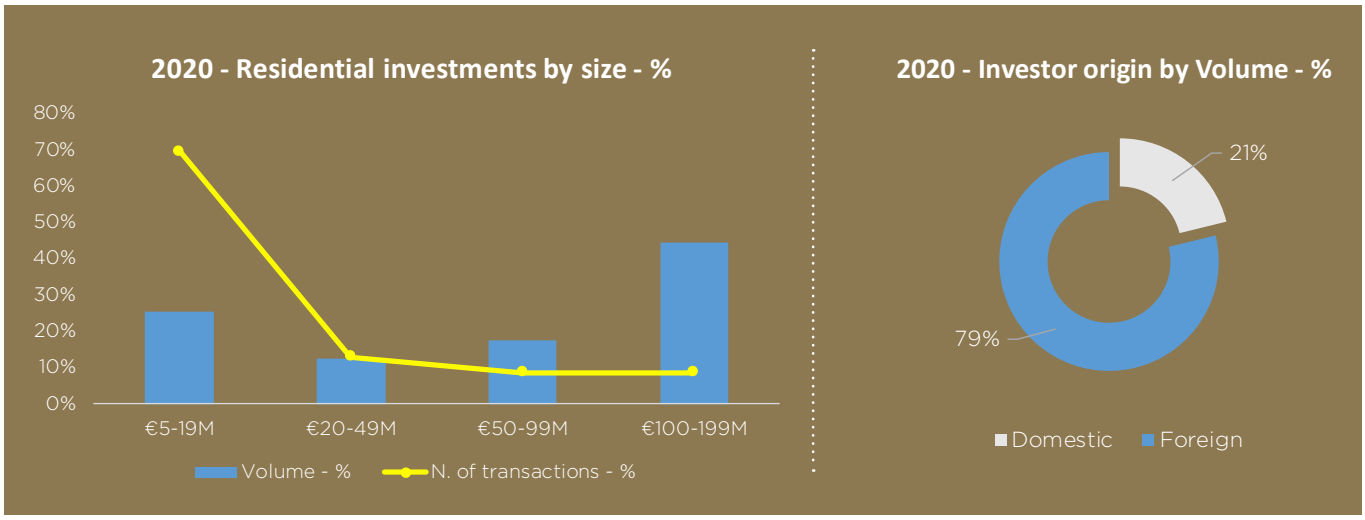
Source: CW data, RCA, Agenzia delle Entrate (2019)

Overall, 2020 was a very dynamic year for the residential sector, officially entering the sights of institutional investors. Total volume invested by institutional investors was slightly over € 600 million, more than four times the volume invested in 2019. Only 21% of this volume was domestic capital, while the remaining 79% was foreign capital, a sign that international investors look at Italy as an interesting market, with significant growth potential.

An analysis of transactions size, shows how the majority were medium-small transactions, under € 19 million. In terms of number only 35% (but representing 77% of the volume) was recorded over this volume and involved almost entirely foreign institutional investors looking for significant size deals to start up residential funds. The transactions concerned both portfolios, single assets and areas to be redeveloped.

On the other hand, about 65% of the recorded transactions were between 5 and 19 € million and about 95% of these involved domestic investors, both private individuals and local developers specialized in the residential sector.

Milan recoded the highest volume of investments, followed by Turin, Florence and Rome, while multi-city portfolios accounted for circa 44% of total volumes. International capital accounted for almost all of these transactions, while in smaller or secondary cities the percentage of domestic or local institutional investors was higher, a sign that institutional investors are still operating at an early stage, trying to consolidate in a new unexplored market by investing in already known cities.



Milan, Rome, Turin & Florence

The most active residential markets, both for institutional investors and for families.

PURPOSE-BUILT STUDENT ACCOMODATION

The purpose-built student accommodation (PBSA) sector in Italy remains largely under-developed and immature, characterized by the lack of fit for purpose and modern purpose-built accommodation. Despite that, on the demand side, the Italian student market has a number of strong fundamentals, such as 1.83m students and a diverse educational offer across some of the oldest universities in the world.

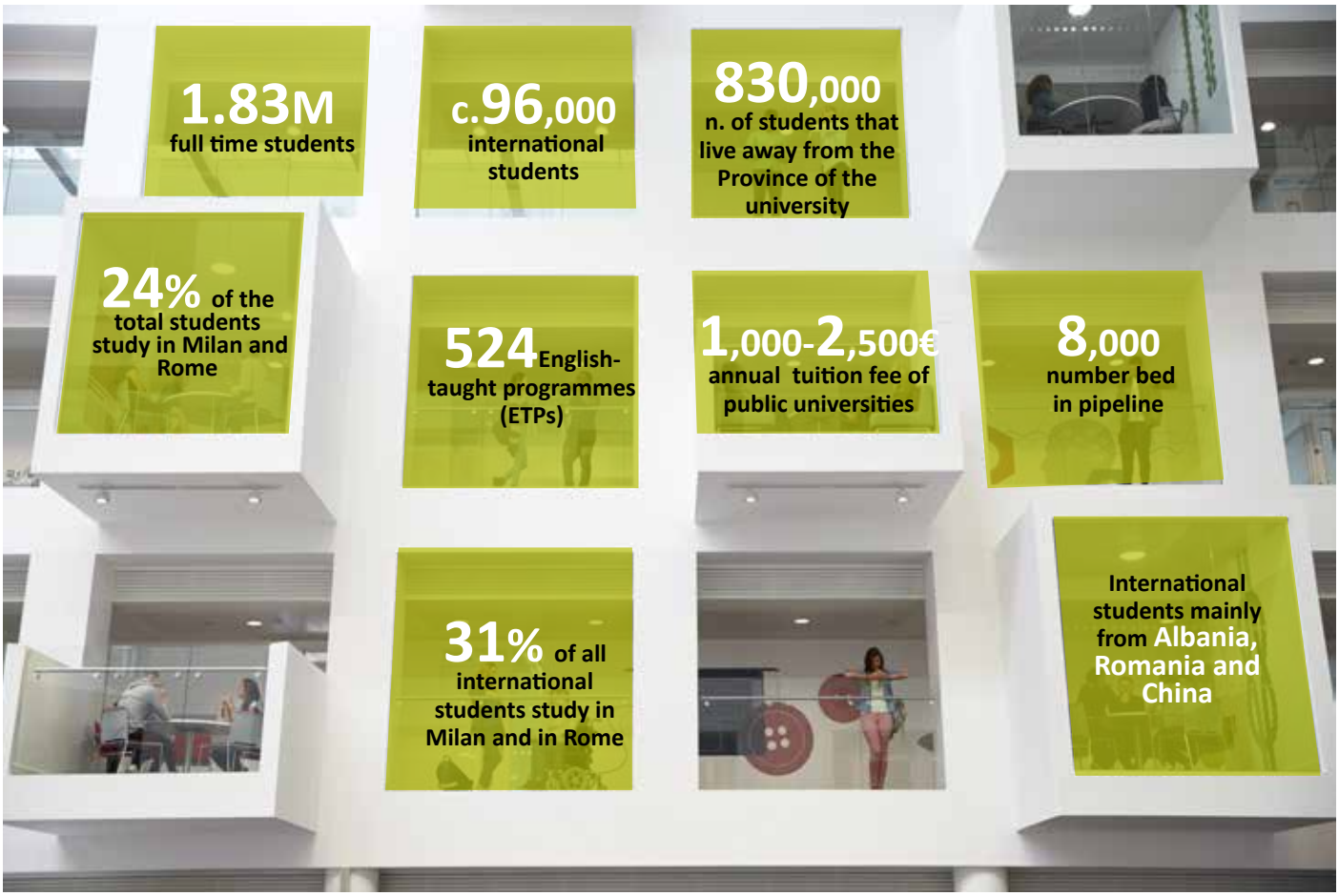
In Italy, there are currently approximately 65,000 operational PBSA beds of varying size and quality, with the majority owned and operated by public bodies. We estimate that publicly controlled beds amount to 84% of the operational market.

Public operators can be summarised in three groups:

- **DSU:** residences affiliated with the regional bodies for the Right to Study **(66%).**
- **CCUM:** residences at university colleges of merit **(7%).**
- **ACRU:** residences of the Italian Association of Colleges and University Residences **(10%)**.

Approximately 49% of all the public operated beds are in the major regions, with 24% of all beds located in Lombardy, 9% in Tuscany, 8%, in Emilia-Romagna and 7% in Lazio.

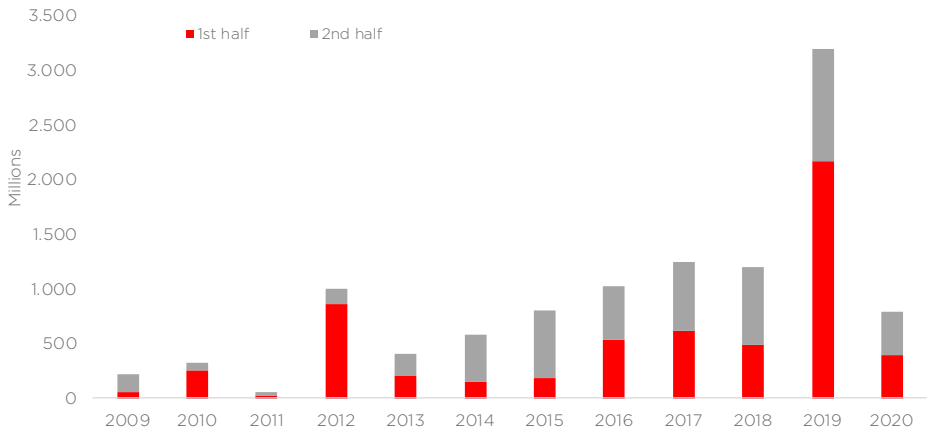
Overall, 8% of the demand for accommodation of out-of-home students in Italy is covered by the current supply of public and private PBSA, one of the smallest coverages in Europe.



The limited number of the existing stock of PBSA and the quality of these that is often not fit for purpose, under-scaled or inferior to what is currently demanded by students in terms of quality of accommodation and basic services/amenities has increased investor interest. It is estimated that there are some 8,000 beds in the development pipeline across Italy, which will change the landscape over the coming years and establish new concepts in key markets such as Milan, Turin, Bologna, Florence, and Rome. These new operations will provide modern amenities and service levels in a market which often provides basic accommodation run by non-for-profit organizations. These operators will also cater for international students, particularly those from the US, as well as Erasmus students, with some 27,945 students choosing Italy as their exchange destination according to latest figures.

> In general, 2020 has been a positive year, with the closing of various preliminary agreements for the development of new student housing in the main Italian cities. Although Covid-19 has changed the daily life of students, forcing them to remote learning, investors have confirmed their interest in this asset class, remaining optimistic that once the pandemic will be over, the situation will return to normality, with a high demand for beds, today not supported by an adequate supply."

ITALIAN STUDENT NUMBERS AND YEARLY % CHANGE



MAIN CITIES FOR OVERSEAS STUDENTS

CITY	TOTAL ST.	%OVERSEAS ST.
Rome	222,500	7.41%
Milan	183,149	6.36%
Turin	90,974	8.40%
Bologna	86,502	8.48%
Florence	51,783	8.15%
Pisa	47,700	4.22%
Padova	44,476	4.81%
Pavia	26,758	7.13%
Venice / Mestre	21,000	6.28%
Siena	13,557	8.99%

Source: MIUR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Joined March 2009

Wall of money for RE is here to stay. Flight to quality to manage greater risk, widening gap prime vs secondary. Shed and beds on the top of the agendas and climate issues are no longer a tabu #CapitalMarkets

A brighter outlook, an opportunity to start a new positive cycle #hospitality

Corporate put decisions on hold: new workplace strategy will reshape the future of the office #office

Stronger fundamentals will drive investment up: logistics still on the rise #Industrial&Logistics

Milan to consolidate its global premiership as a luxury market #highstreet retail Offline retail will survive online but needs to evolve #retail

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