

10.1%

Grade A,B&C Vacancy Rate

YoY Chg

12-Mo. Forecast

100,000

Take-Up sqm

€600

Prime Rent €/sqm/yr

MILAN PROVINCE ECONOMIC INDICATORS 2020 (FORECAST FULL YEAR)

-3.4%

GDP Growth

6.4%

Unemployment Rate

1.99M

Employment

-0.6%

Employment Growth

ECONOMY

The evolution of the global economy is highly uncertain, due to the Covid-19 emergency, and the outcomes are hard to predict. The ongoing crisis has been described as unprecedented and the worst since WW2. With the Italian economy expected to fall into recession together with the whole Eurozone, information related to major cities has not been released yet. Milan, close to the epicentre of the Italian emergency, is currently under lockdown, and is expected to gradually reopen its economy from early may. However, given its position of leading city of the country and its favourable economic indicators before the crisis, the recovery time will be relatively short.

OCCUPIER AND INVESTMENT FOCUS

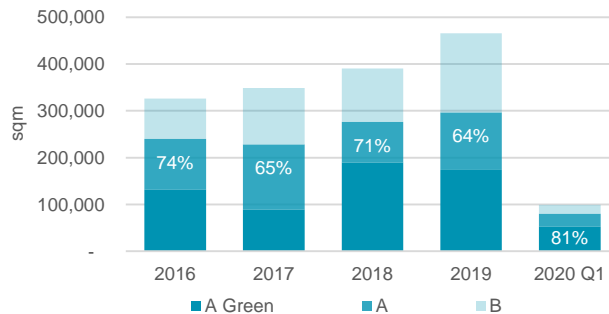
In 2019 the market has registered a significant growth, achieving record values and also the first quarter of 2020, not yet affected by the Covid-19 emergency, has followed a positive trend with a take up of approx. 100,000sqm. Such a high volume has been due to a single pre-let transaction which accounts for 41% of the overall take-up (leasehold acquisition from a Gas/Energy company). But if we compare the first quarter of 2020 with the same period of 2019, the remaining transactions have been for small-medium spaces; many companies have relocated last year and other are currently in negotiations and we expect them to increase the percentage of big pre-lease transactions as it happened last year. Levels of demand for grade A space continue to be at an all-time high, representing the 80% of the total take up and highlighting companies' attention to identify efficient spaces that can improve the wellbeing of their employees and therefore improve their productivity. Wellbeing and health and safety will be even more important once the Covid-19 emergency will be over. The development market remains strong, even if the completion of some projects may be delayed due to the interruption of construction works.

The office investment market, with € 510 Mln transacted, has witnessed a reduction of volume due, mainly, to a small pipeline rolling over from last year. Milan confirms its attractiveness, representing 63% of the total investment office volume. The largest transactions continue to be concentrated on core properties in the central areas of the city; Covid-19 emergency caused, starting from March, the postponement and, in some cases, the suspension, of some value-add transactions which were about to be completed.

OUTLOOK

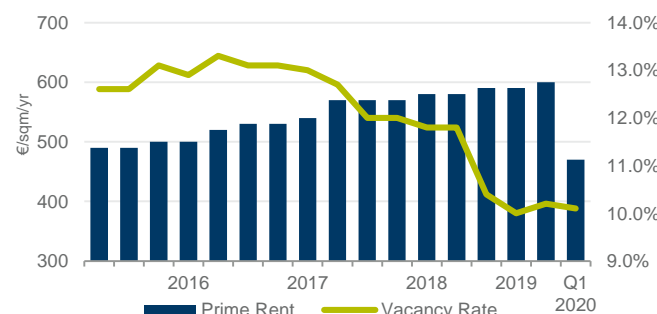
The global uncertainty generated from the health emergency will surely have an impact on the market, but it is still early to forecast tangible consequences due of this particular circumstance. The availability of existing grade A spaces is limited but the demand for such spaces is constantly increasing, there are several important project being developed and new decentralized clusters are establishing, generating new market opportunities for both occupiers and investors.

TAKE UP BY GRADE



Note: Percentages refer to the share of grade A-A Green take up on total take up.

OVERALL VACANCY & PRIME RENT



Sources: C&W elaborations based on ISTAT and Oxford Economics..

Note: Employment data refers to workplace based employment, individuals who work within the urban area.



MARKET STATISTICS

SUBMARKET	OVERALL VACANCY RATE (Grade A,B&C)	YTD OVERALL TAKE-UP(SQM)	UNDER CNSTR (SQM)	PRIME RENT €/sqm/yr	PRIME YIELD (NET*)
CBD	6.4 %	10,000	254,000	600	3.25 %
Centre	7.2 %	7,000	83,000	480	4.00 %
Semi Centre	2.6 %	12,000	160,000	350	4.50 %
Periphery	15.7 %	61,000	395,000	280	4.75 %
Hinterland	13.9 %	10,000	118,000	240	5.75 %
TOTALS	10.1 %	100,000	1,010,000	600	3.25%

KEY LEASE TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	TENANT SECTOR	AREA(SQM)	TYPE
Spark 1 & 2 Via Bonfadini	Periphery	Gas / Energy	41,300	Pre Lease
Via Rimini 34	Periphery	Public Sector	7,200	Owner Occupier
Corso di P.ta Vigentina 9	Centre	Insurance	4,500	Owner Occupier
V.Le Fulvio Testi 280	Periphery	Banking	2,900	New Lease
Via Fabio Filzi 25/A	CBD	Legal services	2,300	New Lease

KEY SALES TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	SELLER / BUYER	AREA (SQM)	PRICE/€ MLN
Via Orefici 13/ Via Cantù	Centre	Hines UK / DEKA	10,000 (Office&Retail)	210
MeVe - Palazzo Mellerio & Piazza Velasca	Centre	Kryalos SGR / DeA Capital Sgr	11,000	Confidential
Corso Venezia 56	Cbd	Banca IFIS / Merope Asset Management	-	50.5
Via Manzoni 9	Cbd	Polis Fondi Sgr and 2 Privates / Merope Asset Management	3,000	31
Milano Santa Giulia - Rogoredo Spark One and Spark Two	Periphery	Milano Santa Giulia Spa / Lendlease	47,000	23.5

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(*) NOTES:

(*) Yields are calculated on a net basis as reported below:

Net Yield = NOI (1) / PP (2)

1. Net Operating Income - after deducting all non-recoverable expenditure

2. Purchasing Price – excluding transfer costs, tax and legal fees

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

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11.9%
Grade A, B & C Vacancy Rate

YoY Chg
12-Mo. Forecast

26,000
Take-Up sqm

€470
Prime Rent €/sqm/yr

ROME PROVINCE ECONOMIC INDICATORS 2020 (FORECAST - FULL YEAR)

YoY Chg
12-Mo. Forecast

-3.4%
GDP Growth

9.8%
Unemployment Rate

2.16M
Employment

-0.3%
Employment Growth

ECONOMY

The evolution of the global economy is highly uncertain, due to the Covid-19 emergency, and the outcomes are hard to predict. The ongoing crisis has been described as unprecedented and the worst since WW2. With the Italian economy expected to fall into recession together with the whole Eurozone, information related to major cities has not been released yet. Rome, far from the epicentre of the Italian pandemic, is currently under lockdown and is expected to gradually reopen its economy from early May. However, given its institutional relevance in the country and its favourable economic indicators before the crisis, the impact is expected to be relatively moderate.

OCCUPIER AND INVESTMENT FOCUS

After five consecutive years of growth, the Rome office market contracted during Q1 2020, with absorption figures recorded at circa 26,000 sqm, down by 67% from last year. However excluding the large transactions which characterised 2019 – by far the peak of the Roman market with 250,000 sqm at year end – the first quarter of 2020 is only 20% under the average of the last 5 years. Overall there are large relocations in the pipeline some linked to the public sector, one of the city’s key tenants.

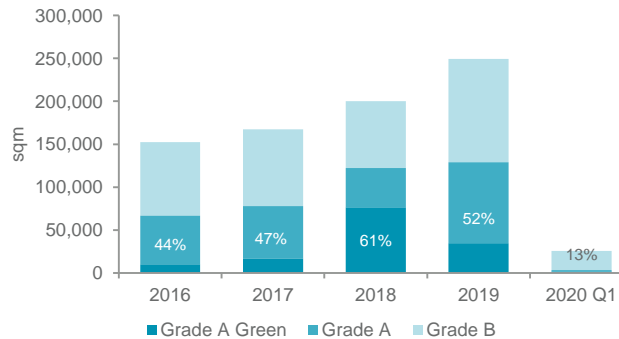
With the Covid-19 outbreak classified as a pandemic at the beginning of March, the Rome office market held its breath, waiting for the situation to unfold. Existing negotiations, originated before the emergency began, continued to move forward, albeit with longer timings; those due to start after March have been postponed or suspended. Rent reduction or indemnities, which have characterised other segments of the real estate market, are only begging to be requested by tenants in Rome.

On the investment side, similarly to Milan, core transactions initiated before the pandemic have gone ahead, while value added have either been withdrawn or put on hold; overall investors are adopting a *wait and see* approach.

OUTLOOK

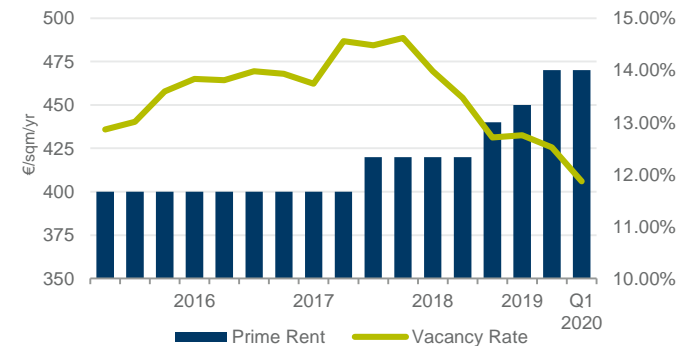
Although the effects of the outbreak are not easy to predict, it is possible that the pandemic will accelerate a process which was already underway; prime rental values are expected to decrease slightly by the end of the year, while tenant incentives are likely to rise in a bid to sustain stabilised rents. Moreover as the country prepares for *Phase 2* both occupiers and landlords will have to face the new challenges in the office space set by social distancing, which could continue at least until the end of the year, by implementing *smart working* or adopting the *six feet office* approach.

TAKE UP BY GRADE



Note: Percentages refer to the share of grade A-A Green take up on total take up.

OVERALL VACANCY & PRIMERENT



Sources: ISTAT and Oxford Economics.

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CBD	5.5%	4,000	0	470	3.75 %
Centre		6,000	0	350	4.25 %
Semi Centre	13.3%	4,000	10,000	300	6.00 %
Greater Eur	10.6%	5,000	12,500	350	4.25 %
Periphery	22.4%	7,000	0	160	8.00 %
TOTAL	11.9%	26,000	22,500	470	3.75 %

KEY LEASE TRANSACTIONS

PROPERTY	SUBMARKET	TENANT SECTOR	AREA (SQM)	TYPE
Via dei Magazzini Generali 38	SEMI CENTRE	Services	3.500	New Lease
Via Vincenzo Bona 101	PERIPHERY	Energy/Gas	2.650	New Lease
Via Montanelli 5	CENTRE	Services	2.500	New Lease
Piazza Cola di Rienzo 27-29	CENTRE	Media/Advertising	2.000	New Lease
Via Laurentina 449	GREATER EUR	Energy/Gas	1.350	Expansion
Via Tiburtina 1072	PERIPHERY	Services	1.200	New Lease

KEY SALES TRANSACTIONS

PROPERTY	SUBMARKET	SELLER / BUYER	AREA(SQM)	PRICE/€ MLN
Piazza Augusto Imperatore 22-36	CBD	Atlantica Properties/ Edizione Property	15.200	c.a.120
Villino Rattazzi e Villino Spierer	CBD	Colony Capital/ InvestiRE Sgr	4.000	37,5

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