MARKETBEAT

ITALY

Investment Q1 2021

	YoY Chg	12-Mo. Forecast
1.190 €Bn Total Volume	▼	▼
360 €Mn Office Volume	▼	—
84 €Mn Retail Volume	▼	▼
323 €Mn Industrial Volume	▲	—
134 €Mn Hospitality Volume	▼	▼
90 €Mn Living Volume	—	▲
210 €Mn Other Volume	▲	▲

ITALIAN ECONOMIC INDICATORS Q1 2021

	YoY Chg	12-Mo. Forecast
-1.5% GDP Growth		▲
10.0% Unemployment Rate	▲	▲
0.6% 10-Yr Treasury Yield	▼	▲

Sources: ISTAT, Moody's, Ministry of Economy and Finance.

ECONOMY

Recent GDP data showed a recovery in Q3 2020, but the second pandemic wave caused a drop in Q4. With the recent tightening of containment measures, forecasts for Q1 2021 are still for a contraction, but in the following quarters GDP is expected to rebound. As a whole, 2020 recorded a fall of -8.8%, but GDP is projected to grow by around 5.0% in 2021 and to go back to pre-pandemic levels in 2023. Since Q3 manufacturing, driven by exports, and constructions are recovering, on the other hand, services are suffering due to impact of restriction measures. The improved global outlook together with the NGEU program should sustain the growth, however in the short term, it will depend on the evolution of Covid-19. Unemployment is still relatively stable due to employment protection schemes and dropping participation rate, whilst employment showed a sharp fall compared to pre-pandemic levels (-945k persons year over year on February); nevertheless, the labour market is expected to improve in the next quarters. Support measures drawn up by the Government limited the decline in household's disposable income, but consumption is still suffering since household spending is partly held back by fears of the pandemic or by the restrictions themselves.

INVESTMENT OVERVIEW

Volumes invested in the first quarter followed a similar trend to that of the end of 2020 with a 33% decrease compared to Q1 2020, standing at just below €1,2 Bn. Overall the first quarter has been the weakest from the start of the Covid-19 pandemic but also the weakest quarter since 2017; over the last three years volumes ranged between €1,5 Bn in 2019 and €1,8 Bn in 2020 (which benefited from an extraordinary 2019 pipeline). These results were influenced by the uncertainty of the real impact of one year restrictions (although partially compensated by the extraordinary financial support from the government) and by a small pipeline from 2020. Analyzing individual sectors it emerges that:

Office, the most appealing asset class, recorded circa €350 ml with a 30% drop compared to Q1 2020 (the lowest volume since 2017). A more prudent approach related to occupier market dynamics (take up in Milan down by 30% and Rome by 10% without considering a 16.000 sqm pre-let transaction in city center) and a lack of core products impacted on quarterly volumes.

Industrial & Logistics saw a 20% YoY increase recording the best quarter since 2017. Strong occupier demand (+76% in registered take up), a more diversified market (in terms of type of asset and location), the amount of equity allocated to the sector together with the scarcity of product, led investors to expand their strategies to include a more speculative approach as well as value add acquisitions.

Hospitality also showed an increase, + 34% on Q1 2020 figures. The sectors medium term positive outlook and the perception that the market is ready for asset repricing pushed investors to actively look at opportunities with a positive sentiment in terms of year end volumes.

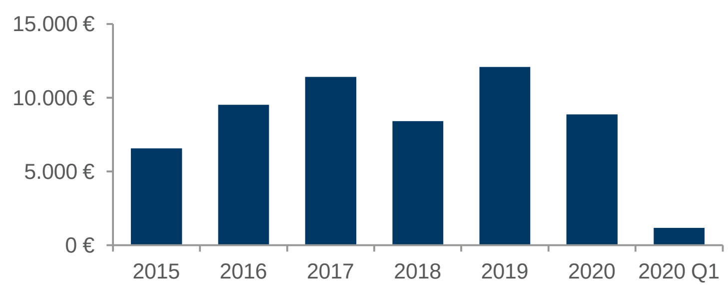
Living, the most dynamic and interesting asset class, is now firmly established as an institutional investment target. Volumes are still low but grow at a sustained rate. Developers and international Core / Core + investors are actively looking at the market with the aim of buying to develop and sell or to keep long term as PRS.

Retail recorded a further reduction with over €80 Ml invested during the first quarter. The combination of the pandemic restrictions, lack of tourism (with a particular impact on the high street retail), e-commerce boom and economic difficulties limited the interest of the investors which is today focused on supermarkets, DIY and Sales & Leaseback deals with interesting returns.

OUTLOOK

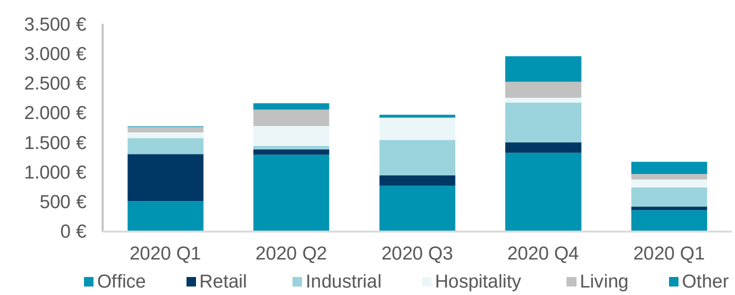
Overall investments are expected to pick up during the second part of the year, with a record year for **Industrial & Logistics** volumes, considering the strong pipeline. The **Living** sector will continue to grow, on the road to becoming an institutional asset class. Core **Offices** will remain a target for investors especially in Milan, where we witnessed a scarcity of product during Q1.

INVESTMENT SALES VOLUME



Source: Cushman & Wakefield Research

INVESTMENT SALES VOLUME BY SECTOR



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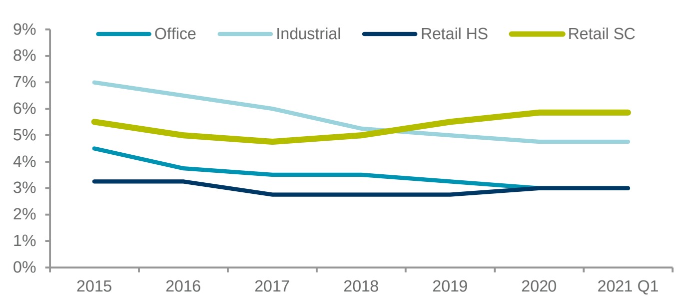
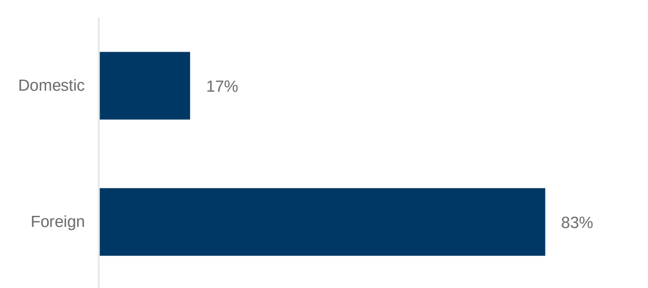
SIGNIFICANT SALES 2021

PROPERTY NAME	TYPE	BUYER	SELLER	PURCHASE PRICE	MARKET
Tristan Portfolio	Industrial	GLP	BNP OBO Tristan Capital Partners	Confidential	Multi-City
Baglioni Luna Hotel	Hospitality	Reuben Brothers	Baglioni	100 €Ml	Venezia
Office - Torre Velasca	Office	Hines	Unipol	c.a.80 €Ml	Milan
Residential -Torre Velasca	Living	Hines	Unipol	c.a. 80 €Ml	Milan
Via Ceresio 7/9	Office	Deka Immobilien	Dsquared2	Confidential	Milan
AP Wireless - Centraline Telecom Portfolio	Other	AP Wireless	Central Sicav	58,4 €Ml	Multi-City
90% Shares Fund SP&I	Mixed use	Bain Capital	Ad Majora	Est.50 €Ml	Multi-City

PRIME YIELD TREND



TOTAL VOLUME INVESTED



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