	YoY Chg	12-Mo. Forecast
2.1 M Italy Take-Ups sqm	▲	▬
€65 Prime Rent €/sqm/yr, Milan	▲	▲
€65 Prime Rent €/sqm/yr, Rome	▲	▲

ITALIAN ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
1.0% GDP Growth	▲	▲
7.7% Unemployment Rate	▼	▲

-2.1%
Retail Business Confidence Growth (Q3 2023 on Q2 2023)

-0.2%
Consumer Confidence Growth (Q3 2023 on Q2 2023)

Source: Moody's (Q2 2023 on Q2 2022 change and Q2 2023 data for employment and unemployment rate)

ECONOMY OVERVIEW

GDP growth in Italy remains weak after a decline during the second quarter, mainly due to the contraction in manufacturing and service activity. The indicators confirm the fragility of domestic demand, which reflects tighter credit conditions inflation-based erosion of household income, and a slowdown in the labour market. Projections for GDP growth are revised downwards, in the range of +0.7%. Consumer price inflation increased slightly in September, due to higher fuel prices, following a few months of decline. Households and businesses anticipate a reduction in inflationary pressures. HICP inflation is projected to moderate to 5.9% in 2023. The European Central Bank (ECB) has raised interest rates twice, by a total of 50 bp, in July and September, resulting in an overall increase in the reference rate to 4.00%.The yield on Italian ten-year government bonds has risen significantly compared with the first days of July, due to higher key interest rates and expectations of a cyclical downturn. The spread between Italian and German ten-year government bond yields has widened. In the second quarter of 2023, the number of workers continued to increase, and the unemployment rate further declined to 7.4%. Nevertheless, signs of a slowdown surfaced in early summer. High levels of uncertainty remain a prominent feature of the macroeconomic outlook and will have an ongoing impact on the flow of investment in real estate.
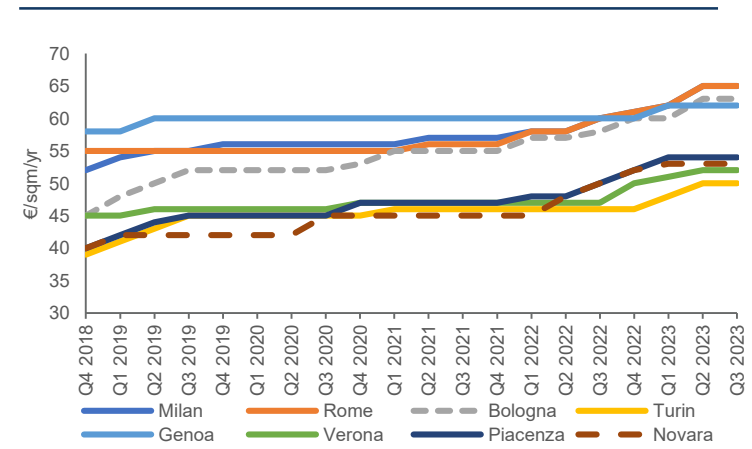
OCCUPIER AND INVESTMENT FOCUS

The occupational market continues to remain strong, with third quarter the take-up significantly higher than the same period of 2022 (661,000sqm, +29%): year-to-date figures are the best ever registered (2.1 Mln sqm, +4% on 2022). Demand is led by 3PLs (61% of the year-to-date-volume), which are focused on high quality assets with short and defined delivery times; as a result, nearly 45% of transactions in the quarter were for speculative projects; considering Q1/Q3, 42% of the volume was for speculative projects and 18% for build-to-suit assets. Despite this, the number of speculative projects in the pipeline have decreased (-27% on Q2 23) causing a consistent reduction of availability in the near future and an increase in competition for high quality spaces. Analyzing the transactions size for the first 9 months of the year, there is a return of large deals, but the majority were for spaces between 5,000 and 25,000 sqm (accounting for 65% by number of transactions and 42% by volume during this period). Investors and occupier's necessity to align to ESG (Environment, Society, and Governance) criteria is driving the market to increasingly focus on sustainability. On the investors' side, ESG criteria are vital for the attractiveness and future liquidity of the assets, while tenants see ESGs as an opportunity for saving energy and reducing service charges (for example with the use solar panels). Prime rents registered an 8% (YoY) increase at the beginning of the year, as a consequence of the unbalanced between demand/supply and of the increase in construction costs; in Q3 they remained stable Q/Q at 65 €/sqm/yr for logistics assets in both Milan and Rome while increased by 5% Q/Q for last mile / courier assets (110€/sqm/yr in both cities). On the investment side, despite an increase in prime yields (+ 25 bps), investors' preference has been towards logistic assets, which represented 32% of the total investment volume of Q3 (with circa 450€M) and 28% of the total year-to-date volume (with circa 1€B). The sale of Aurora Portfolio was finalized during the quarter, it is the biggest transaction of the year by value and size and alone it represents 34% of the quarterly volume; the portfolio, which includes four properties and two building plots mostly in the Milan metropolitan area, was sold by Blackstone to a joint venture between Boreal IM and Cadillac Fairview/Ontario Teachers' Pension Plan.
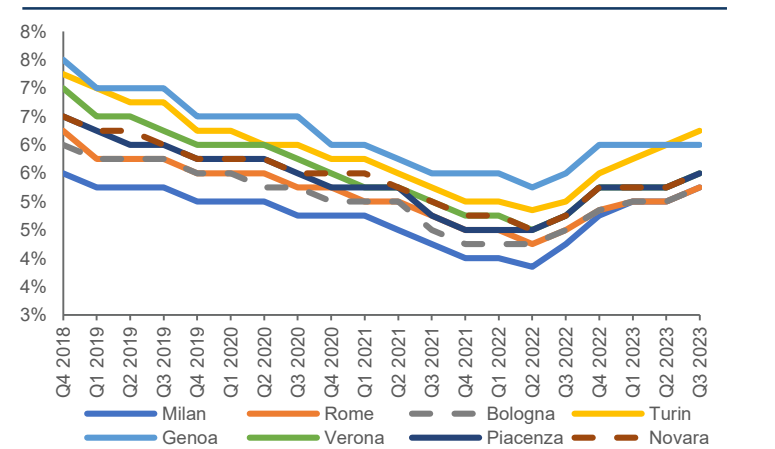
OUTLOOK

Despite the current economic and business climate, the logistics sector is still expanding, and its property market remains among the most intriguing ones. Repricing will likely continue until the end of the year with further interest rates hikes expected.

PRIME RENTS

Legend: Milan, Rome, Bologna, Turin, Genoa, Verona, Piacenza, Novara

PRIME YIELDS

Legend: Milan, Rome, Bologna, Turin, Genoa, Verona, Piacenza, Novara

MARKET VALUES (*)

| SUBMARKET | PRIME RENT €/Sqm/Yr | | | | | | PRIME YIELD (NET) | | |
| | LOGISTICS WAREHOUSE | | | LAST MILE/CROSS DOCK | | | LOGISTICS WAREHOUSE & CROSS DOCK | | |
	€/Sqm/Yr	Q/Q	Y/Y	€/Sqm/Yr	Q/Q	Y/Y	%	Q/Q	Y/Y
CONSOLIDATED MARKET									
Milan	65	�➔	↑	110	↑	↑	5.25	↑	↑
Rome	65	➔	↑	110	↑	↑	5.25	↑	↑
Bologna	63	➔	↑	95	↑	↑	5.25	↑	↑
Turin	50	➔	↑	80	↑	↑	6.25	↑	↑
Genoa	62	➔	↑	105	↑	↑	6.00	➔	↑
Verona	52	➔	↑	95	↑	↑	5.50	↑	↑
Piacenza	54	➔	↑	80	↑	↑	5.50	↑	↑
Novara	53	➔	↑	80	↑	↑	5.50	↑	↑
EMERGING MARKET									
Florence	76	➔	↑	115	↑	↑	5.75	➔	↑
Naples	60	➔	↑	85	↑	↑	7.00	➔	↑
Bari	60	➔	↑	85	↑	↑	7.00	➔	↑

KEY LEASE TRANSACTIONS

REGION	CITY (PROVINCE)	TENANT SECTOR	AREA (SQM)	TYPE
Piemonte	Cameri (NO)	GDO	70,000	Pre-lease (BTS)
Piemonte	Serravalle Scrivia (AL)	Retail	55,000	Lease (Speculative)
Lombardia	Verdellino (BG)	3PL	55,000	Lease
Emilia-Romagna	Monticelli D'Ongina (PC)	3PL	55,000	Pre-lease (Speculative)
Veneto	Oppeano (VR)	3PL	50,400	Pre-lease (Speculative)
Emilia-Romagna	Valsamoggia (BO)	End User	45,000	Lease

KEY SALES TRANSACTIONS

PROPERTY	REGION	CITY (PROVINCE)	SELLER / BUYER	AREA (SQM)	PRICE/€ MN
Portfolio Aurora	Multi-Region	Multi-City	Logicor/Boreal IM	198,000	155
Logistic Park Chiari	Lombardia	Chiari (BS)	Invesco/JP Morgan	84,000	72
Akno Roncaglia	Emilia-Romagna	Roncaglia (PC)	Akno/Patrizia	80,000	69
Artsana Como	Lombardia	Grandate (CO)	Artsana/Invesco	90,000	67
Tortona (part II)	Piemonte	Tortona (AL)	Hines / Garbe	54,000	56

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(*) NOTES:
(1) Prime Rent and Yield figures illustrated in the table above refer to: Logistics properties (for space >10,000sqm) and Cross Dock (for space between 5,000-20,000sqm). Prime rents for freight warehouses tend to be significantly higher.
(*) 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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