

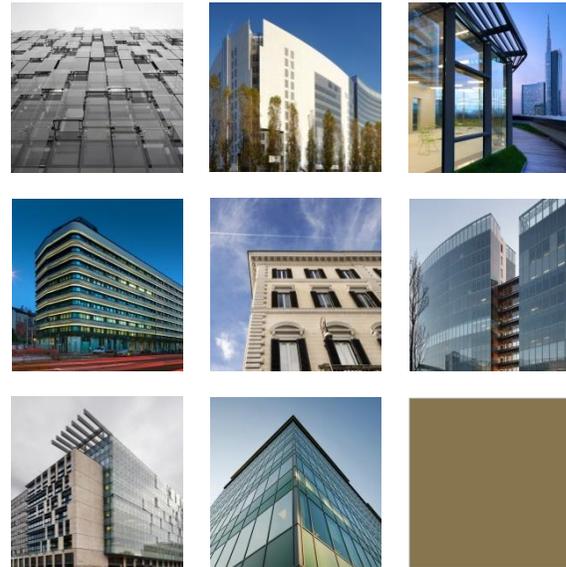


May 25th, 2017



MONTHLY CALL

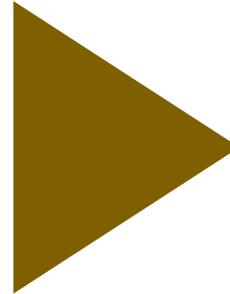
1. ITALIAN POLITICAL & ECONOMIC SCENARIO UPDATE





■ EUROPEAN ELECTIONS SEASON CONTINUING WITH FAVOURABLE OUTCOMES SO FAR

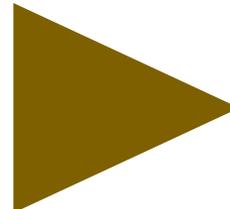
- **French Presidential election** outcome decreases European risk
 - ✓ Focus now on the **French National Assembly election** (June 11th, and June 18th, 2017)
- **United Kingdom general election** on June 8th, 2017
- **German Federal election** planned for September 24th, 2017



EUROPE: DECREASED POLITICAL RISK ON THE BACK OF FRENCH ELECTIONS AND CONTINUITY EXPECTED ON THE GERMAN AND UK FRONT

■ CURRENT ITALIAN GOVERNEMENT ACTING IN CONTINUITY, ELECTIONS EXPECTED IN Q2 2018

- **Democratic Party (PD) primaries** held on April 30th, 2017 saw **Mr Renzi re-elected as PD secretary** with 70% of the votes
 - ✓ Polls show electorate evenly split between PD, 5-Stars and the Centre Right at the moment



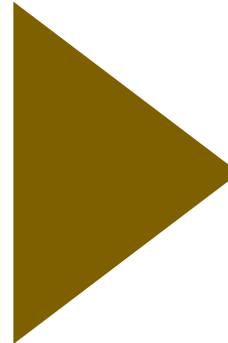
ITALY: INTERNAL STABILITY WITHIN CENTER-LEFT PARTY REGAINED



■ ITALIAN GOVERNMENT UPDATE

- **Economic and Financial Document 2017 (DEF) approved** on April 11th, 2017

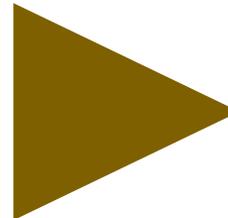
- ✓ Contrasting tax evasion, increasing taxes on tobacco and gaming, cuts to ministers' budgets
- ✓ Infrastructure investments at a local level
- ✓ Labour law reform aimed at decreasing cost of labour



OPTIMISATION OF PUBLIC DEBT AND PUBLIC SPENDING COUPLED WITH STIMULUS PACKAGE

- Mr Gentiloni's government agenda focused on:

- ✓ **Electoral system law** with objective to make uniform the electoral systems between the two houses
- ✓ **Budget Law for 2018**



FURTHER REFORMS EXPECTED BEFORE THE NEXT GENERAL ELECTIONS



■ EXITING THE EURO: A DIFFICULT PROCESS WITH MULTIPLE CHECK POINTS

- The **Italian Constitution does not allow a referendum to be held regarding matters covered by international treaties** (Article 75 of the Italian Constitution: “*No referendum may be held on a law regulating taxes, the budget, amnesty or pardon, or a **law ratifying an international treaty.***”)
 - ✓ This prohibition covers also Italy’s Eurozone membership
- The **process of exiting the Eurozone** would entail (i) **changing the Italian Constitution** and then (ii) **a referendum on exiting the euro**
 - ✓ **Modifying the constitution** requires **approval** by the **Chamber of Deputies** and the **Senate of the Republic** with two thirds of the votes, if only a **simple majority** is **achieved** then a **confirmatory referendum** could be needed
- The **two stage mechanism** make it **very difficult** for **Italy to leave the Eurozone** with possibly **two sequential referendum** needed



**THE ITALIAN CONSTITUTION
SIGNIFICANTLY MITIGATE THE RISK OF
ITALY LEAVING THE EUROZONE**

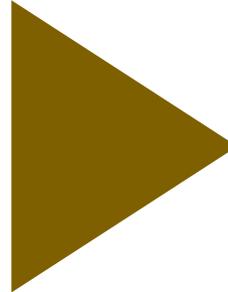
ITALY: FURTHER MEASURES TO ATTRACT TALENT & WEALTH



■ TAX BREAKS FOR PROFESSIONALS / ACADEMICS

■ **Tax breaks on personal income** for professionals who move residency to Italy after having lived abroad for 2+ years

- ✓ Academics (90% tax break for up to 4 years)
- ✓ Italian professionals (50% tax break for up to 5 years)
- ✓ EU professionals (50% tax break for up to 5 years)

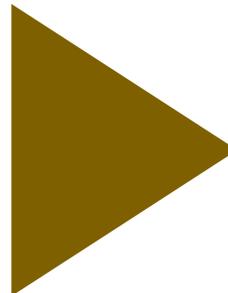


**REINVIGORATE DEMOGRAPHICS BY
ATTRACTING YOUNG AND HIGHLY
SKILLED PROFESSIONALS**

■ FLAT TAX RATE FOR HNWI

■ **Flat tax rate for High Net Worth Individuals (“HNWI”)** moving to Italy

- ✓ Euro 100,000 flat tax rate on income generated abroad for high net worth individuals moving tax residency to Italy
- ✓ Tax break available for a period of 15 years
- ✓ Extendable to HNWI's families



**ATTRACT WEALTH, INVESTMENTS AND
CONSUMPTIONS FROM HNWI**

THE ITALIAN BANKING SYSTEM IS STABILISING



■ ITALIAN BANKS DELIVERING A SOLID Q1 2017...

Q1 2017 results vs consensus	Revenues	Net income	Actual Capital Ratio	Minimum Capital Ratio Required
Intesa Sanpaolo	Better	Better	12.9%	9.3%
UniCredit	Better	Better	11.5%	8.8%
UBI	Better	Better	12.0%	7.5%
Banco BPM	Better	Better	10.9%	8.2%
Carige	Better	Worse	10.9%	9.0%
BPER	Worse	Better	13.1%	7.3%
Banco P. di Sondrio	Better	Better	10.8%	7.3%
Average			11.7%	8.2%

■ ...AND RECAPITALIZATIONS ARE MOVING FORWARD

Banks	Amount	Timing
UniCredit	Euro 13 billion	Done (Q1 2017)
UBI	Euro 400 million	Q2 2017
Carige	Euro 450 million	2017
BMPS	Euro 8.8 billion (State intervention)	July 2017
VB & BP Vicenza	Euro 5-6 billion (State intervention)	TBD

■ NPLs DISPOSALS ACCELERATING (EUR 5 BILLION IN Q4 2016) AND A HEALTHY PIPELINE FOR 2017-2018

Sellers	Volume (Euro million)	Type	Buyers
Banca IFIS	71	Mixed	Confidential
Banca Popolare di Bari	480	Mixed	Davison Kempner
Cassa Centrale Banca	338	Mixed	Locam
Confidential	76	Consumer	Banca IFIS
Sorgenia	131	Other	Davis & Morgan
Banco Popolare	600	Mixed	Hoist Finance
UniCredit	1,300	Other	PIMCO, GWM, Finance Roma
Confidential	100	Unsecured	Banca IFIS
Banca IFIS	861	Unsecured	Confidential
UniCredit	940	Mixed	Kruk
Total	4,897		

■ Euro 50+ billion of NPLs disposal in pipeline

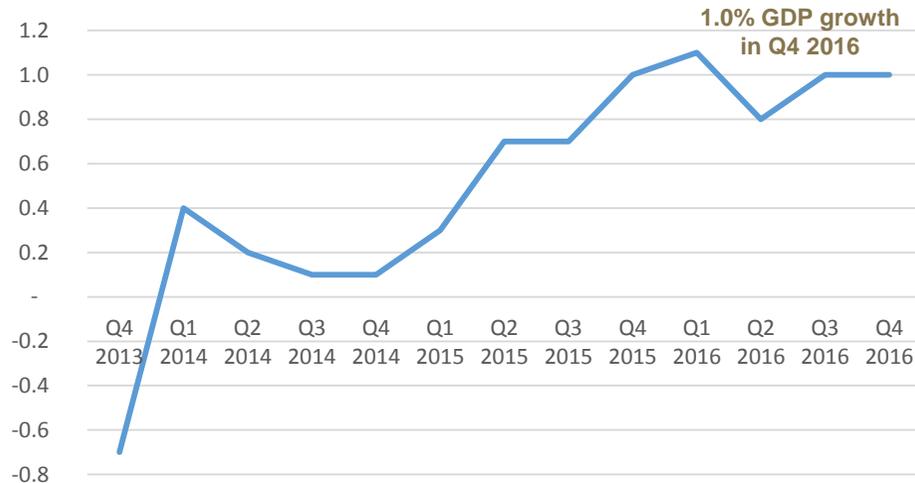
- MPS Euro 29 billion
- UniCredit Euro 18 billion
- Carige Euro 1 billion
- UBI Euro 2.7 billion
- Intesa Sanpaolo Euro 2 billion
- Banco BPM Euro 700 million

ITALIAN MACROECONOMIC UPDATE



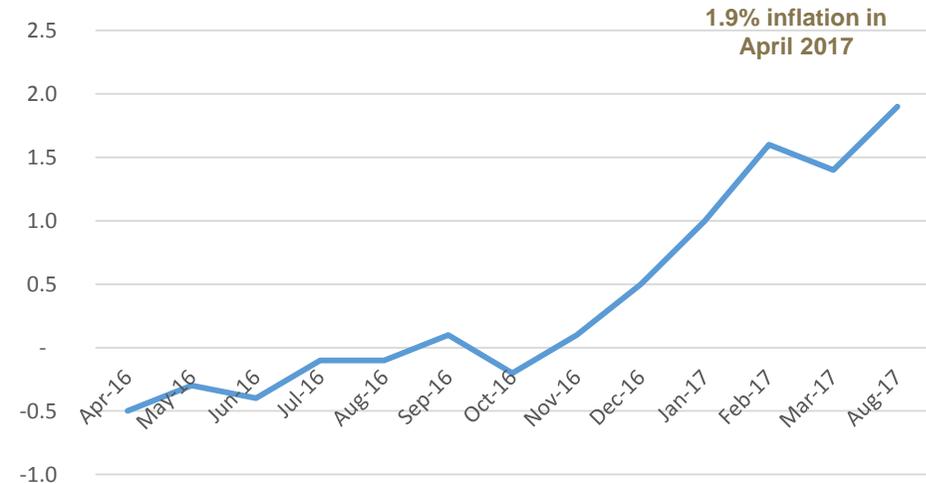
■ GDP GROWTH FOR 12 CONSECUTIVE QUARTERS

GDP growth (%)



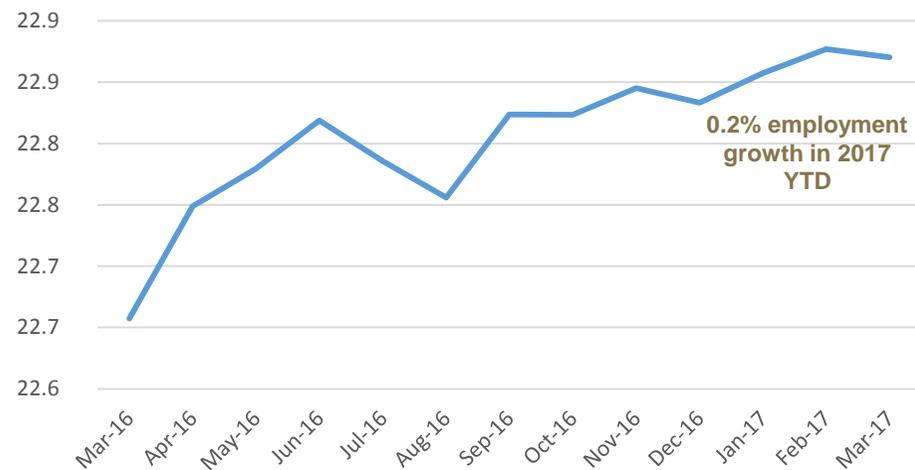
■ INFLATION FIRMLY INTO POSITIVE TERRITORY

CPI (%)



■ EMPLOYMENT RISING IN 2017 YTD

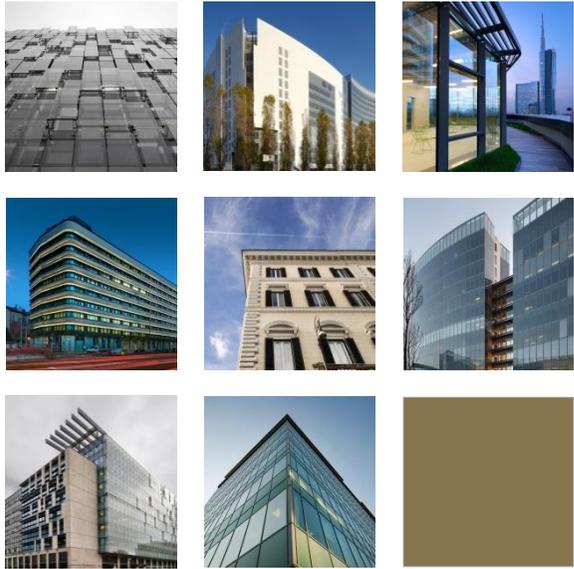
Employment (million workers)



■ SUPPORTIVE MACRO CONDITIONS

- **GDP** for Q4 2016 at 1.0% and **positive for 12 consecutive quarters**
- **Inflation** for April 2017 at 1.9%, **positive for the last 6 months**
- **Employment rising** by 0.2% in 2017 YTD, **+0.5% last 12 months**

2. ITALIAN REAL ESTATE MARKET UPDATE



MARKET UPDATE – ITALIAN REAL ESTATE MARKET OVERVIEW



Italian RE fundamentals

2016 investment transaction volume

~ **€ 9.1 Bn** in 2016 (+ 11% vs. 2015; +75% vs. 2014)

Q1 investment transaction volume

~ **€ 1.9 Bn** in Q1 2017 (~ + 10% vs. Q1 2016)

Italian RE prime yields (Q1 2017)

TREND vs. 2016

OFFICE	3.50% (-25 bps vs. 2016, -50 bps vs. 2015)	
HIGH STREET RETAIL	3.15% (-10 bps vs. 2016, -35 bps vs. 2015)	
LOGISTICS	6.00% (-25 bps vs. 2016, -25 bps vs. 2015)	
SHOPPING CENTERS	4.90% (-10 bps vs. 2016, -10 bps vs. 2015)	

Milan and Rome office prime rent (Q1 2017)

MILAN	520 (+4% vs. 2016, +6% vs. 2015)	
ROME	400 (0% vs. 2016, +5% vs. 2015)	

Milan and Rome office space market (Q1 2017)

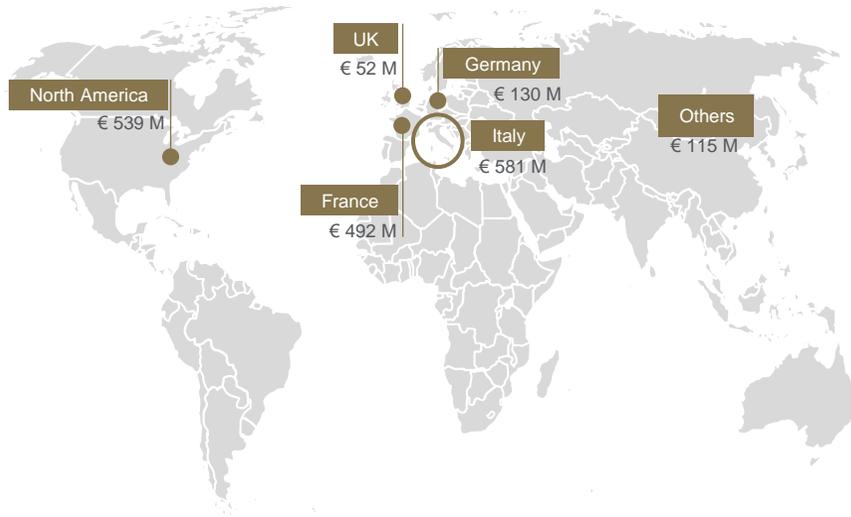
MILAN VACANCY	12.3%¹ (+20 bps vs. 2016, +50 bps vs. 2015)	
ROME VACANCY	12.1%¹ (+20 bps vs. 2016)	

CAPITAL FLOW CONTINUE TO BE SUPPORTIVE IN ITALY

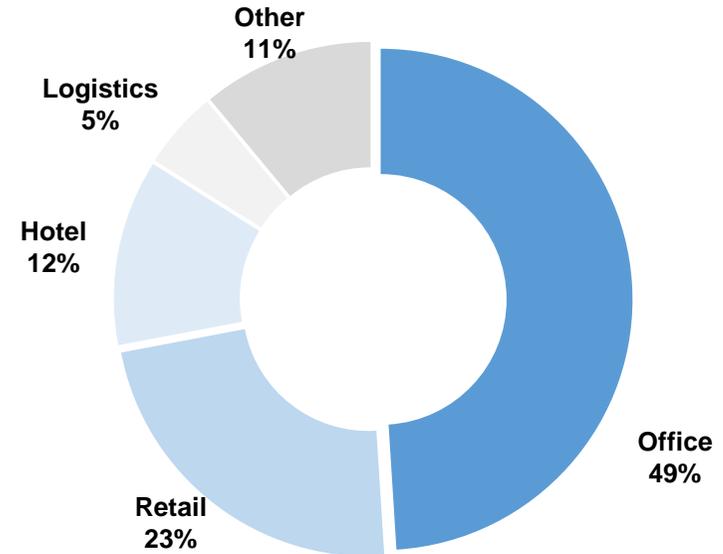


Approx. € 20 Bn of inward real estate investment in the last 2 years

~ € 1.9 Bn in Q1 2017



Investment per asset class – Q1 2017

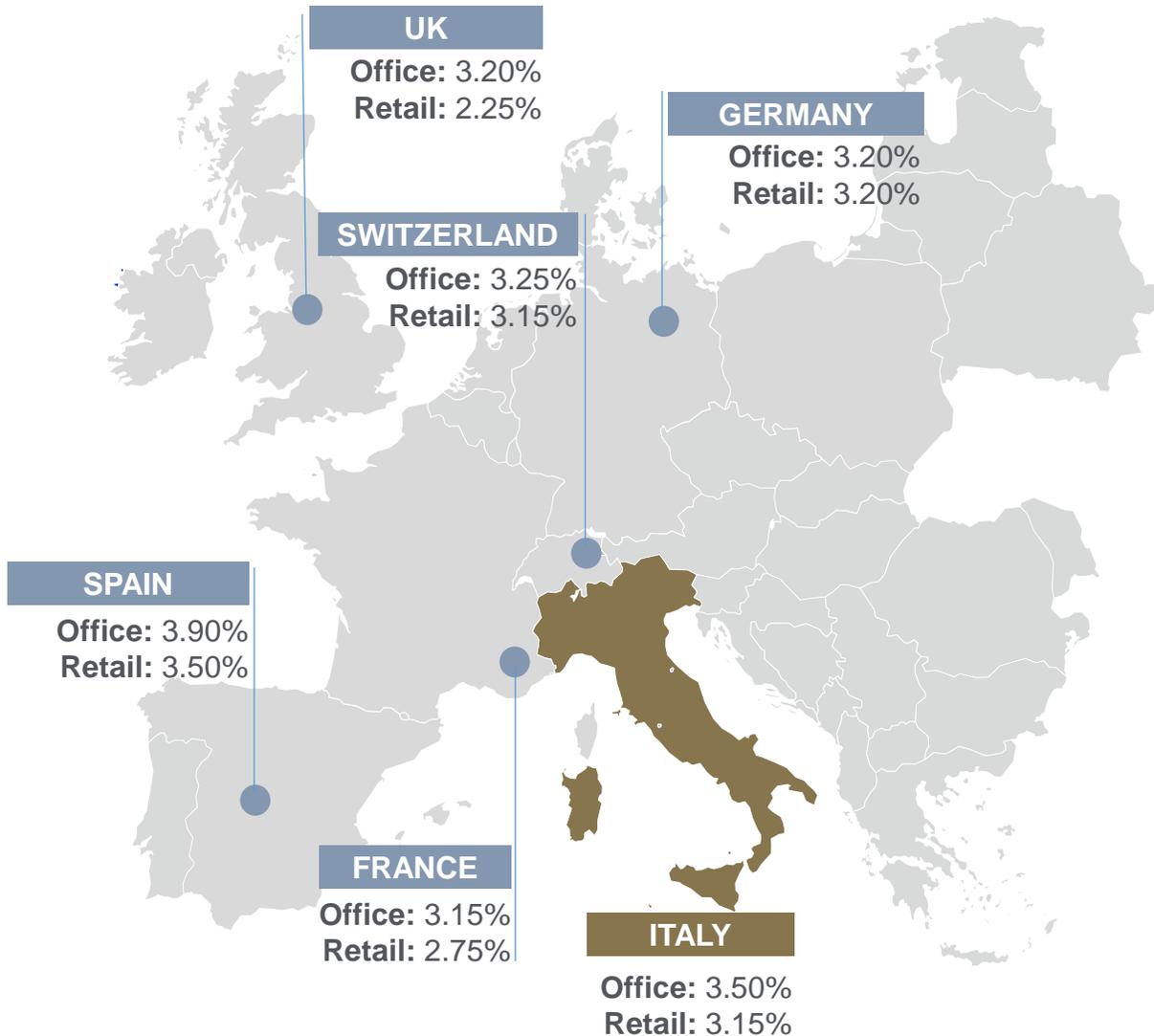


- National/foreign investors focused on **core assets in prime location**
- **US primary private equity funds chasing distressed assets**
- **Capital starting to move up the risk curve (core plus / value added)**

ITALY VS EUROPE – PRIME YIELDS



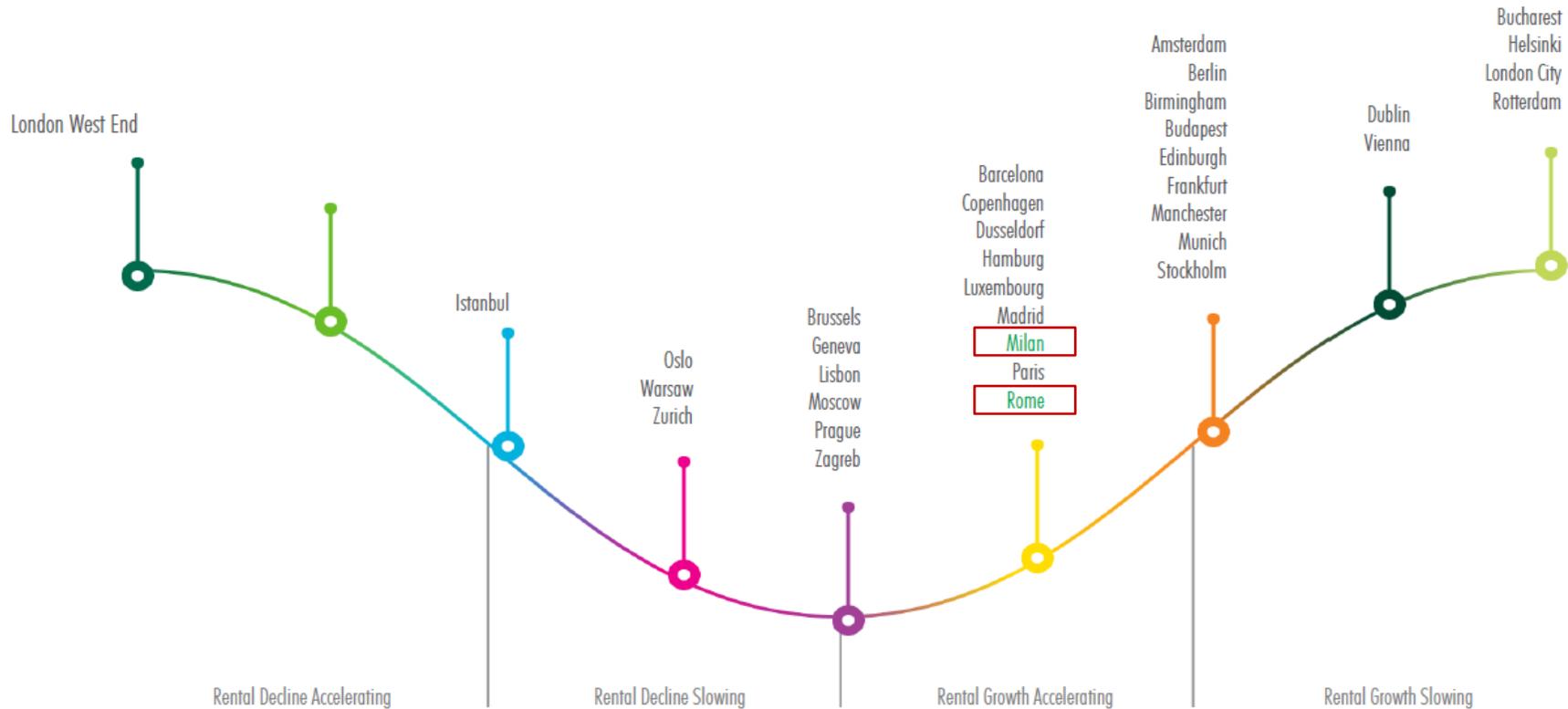
Prime office and retail net yields in Italy with a spread of 30 to 90 bps vs Core Europe



Italy vs Europe yield spread

	Office	Retail
UK 	+30 bps	+90 bps
GERMANY 	+30 bps	-5 bps
FRANCE 	+35 bps	+40 bps
SWITZERLAND 	+25 bps	0 bps
SPAIN 	-40 bps	-35 bps

EMEA MARKET RENTAL CYCLE – FOCUS ON ITALY

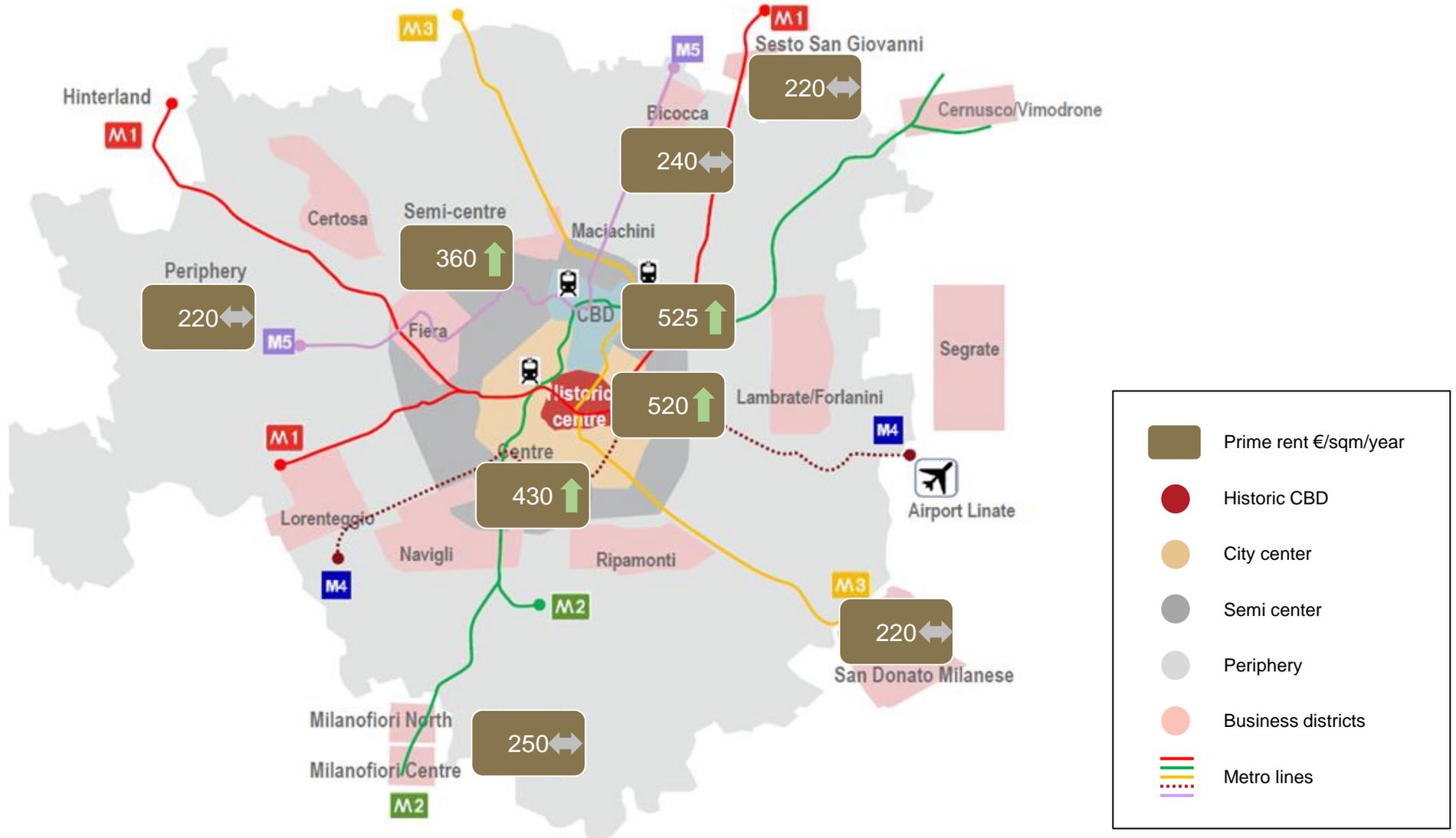


- Leasing – prime rents:** upward pressure on rents increasing in Milan CBD/Porta Nuova and tenants incentives reducing
 - 490 €/sqm (Q1 2016) vs 520 €/sqm (Q1 2017) (+6%)
- Take-up trend:** growing tenant demand (+88% Q1-17 vs Q1-16 in Milan; +140% Q1-17 vs Q1-16 in Rome), mainly focused on Grade A space
 - Main take-up drivers: cost efficiency and improving in office space quality

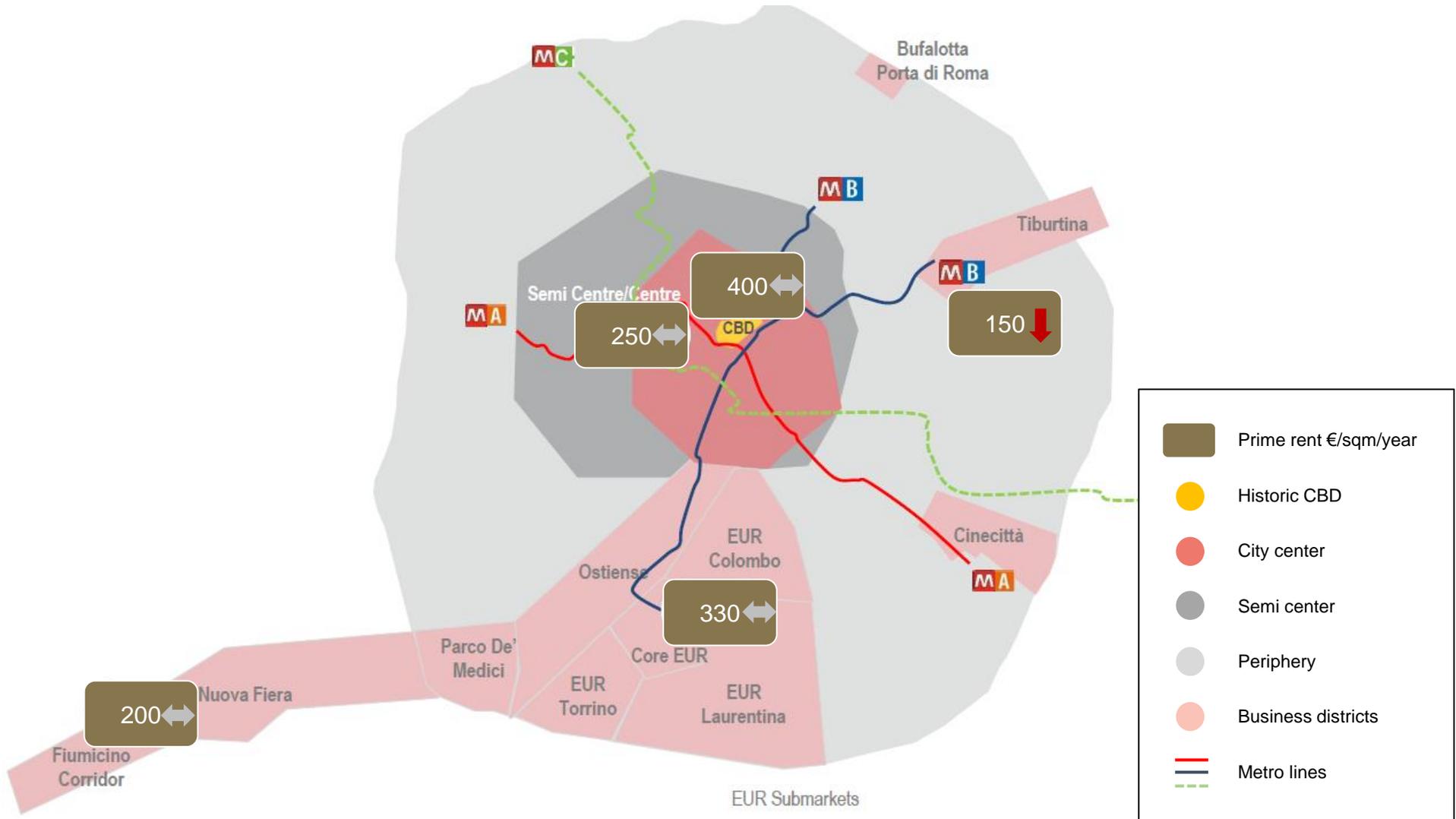
MILAN KEY AREAS AND PRIME RENTS



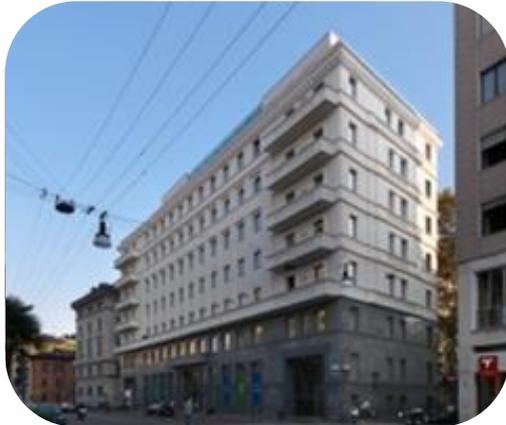
Key Areas and Prime Rents



ROME KEY AREAS AND PRIME RENTS



MAIN OFFICE INVESTMENT TRANSACTIONS



Via Borgogna 8

Milan - Office

Size: 7,000 sqm

Price: € 85 M (12,200 €/sqm)



Galleria San Carlo 6

Milan – Office/Retail

Size: n.a.

Price: € 54 M



HQ2 – Viale Pirelli

Milan - Office

Size: 15,000 sqm

Price: € 53 M (3,500 €/sqm)



Cassina Plaza

Milan area - Office

Size: 10,500 sqm

Price: € 16.5 M (1,600 €/sqm)

MAIN OFFICE LEASE TRANSACTIONS Jan-May



■ Porta Nuova Business District



Viale Monte Grappa 3

Milan – Office
Amazon
Size: 18,000 sqm
Rent (€/sqm): 430



Via della Liberazione 16

Milan - Office
Versace
Size: 8,500 sqm
Rent (€/sqm): 430



■ Historic City Center



Via Borromei 5

Milan - Office
Unicredit
Size: 5,244 sqm
Rent (€/sqm): 450



Via San Marco 21

Milan - Office
Loro Piana
Size: 5,000 sqm
Rent (€/sqm): 450



MAIN OFFICE LEASE TRANSACTIONS Jan-May



■ Semi-Center



Via Restelli 1/a
Milan - Office
Grade A Green
IT/Communication
Size: 1,000 sqm
Rent (€/sqm): 410



Via Filzi 29
Milan - Office
Chubb Insurance
Size: 4,000 sqm
Rent (€/sqm): 390



■ Periphery



Viale Monza 259
Milan - Office
Grade A
Services company
Size: 6,100 sqm
Rent (€/sqm): 160



Via Missaglia 97
Milan - Office
Grade B
IT/Communication
Size: 6,100 sqm
Rent (€/sqm): 150



KEY MARKET OPPORTUNITIES



■ INVESTMENTS

■ Market trend

- ✓ Continued interest by **international investors**
- ✓ Additional liquidity from **Italian investors** (insurance companies and pension funds)
- ✓ **Prime core cap-rates** in the **office** segment equal to **3.5% net** with marginal potential for further compression in the short to medium term
- ✓ **Good quality secondary core** and **value added/core plus** still remain attractive on a risk-adjusted basis

■ Real estate disposal

- ✓ **Bank portfolios** (sale & leaseback deal or NPL)
- ✓ **Public assets: € 4 Bn** planned to be disposed in the short term
- ✓ **RE funds liquidations** (approx. € 1 Bn of assets by the end of 2017)

■ LEASING

- ✓ Prime rents: upward pressure on rents increasing in Milan CBD/Porta Nuova and tenants incentives reducing
- ✓ Growing tenant demand in Milan, mainly focused on **Grade A space**
- ✓ Main demand drivers: **cost efficiency** and **improved office quality**
- ✓ Most **active tenants** by **sector: banking and finance, internet, services**
- ✓ Expected prime rental growth **5 – 10%** in the next 24 months in Milan; stable in Rome



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