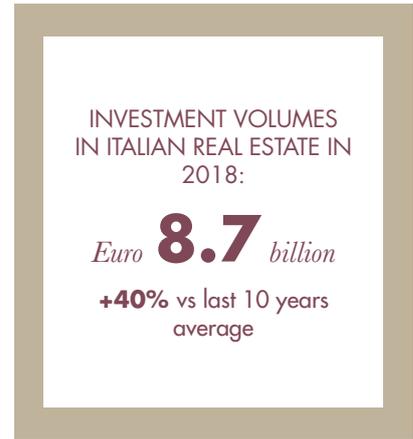


# WHY ITALY

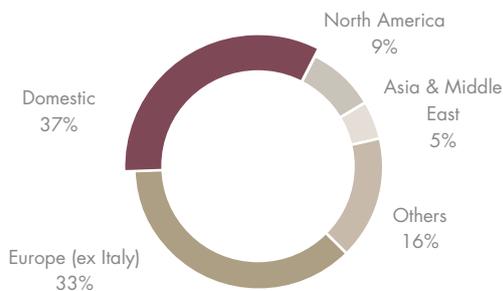
The Italian real estate market continues to offer investment opportunities with competitive returns. The current phase is characterised, on one hand, by a consolidation of capital values and rental growth and, on the other hand, by the persistence of structural gaps both in terms of product and sub-sectors. The real estate investment volumes recorded in Italy in 2018, equal to c. Euro 9 billion, confirm that the overall size of the commercial real estate market in Italy has consolidated in the last few years also increasing the competition and transparency in the sector, without negatively impacting the possibility for local operators to carry out “off market” transactions which can generate above-market returns.



## DESTINATION OF INVESTMENTS BY ASSET CLASS

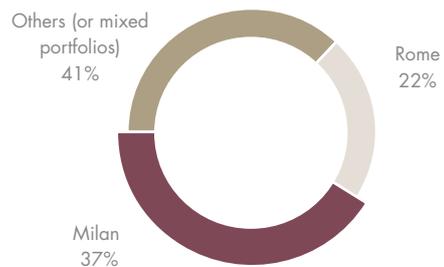


## INVESTORS' ORIGIN (2018)



Source: BNP Paribas Real Estate Research, JLL

## DESTINATION OF INVESTMENTS BY GEOGRAPHY (2018)



Source: BNP Paribas Real Estate Research, JLL



# WHY MILAN



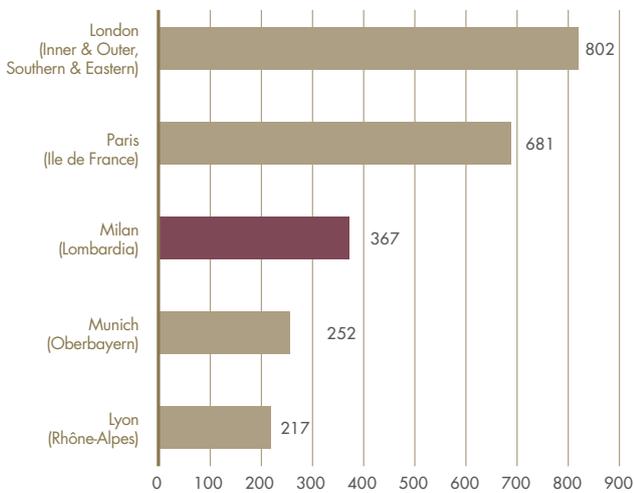
*“Milan is characterized by solid fundamentals between supply and demand, also in relation to the scarcity of properties in grade A, which represent only 10% of total stock for office use, but represent more than 70% of the demand from the tenants. This imbalance suggests that demand could exceed 2-3x the supply in the next few years which, will support rental growth in the short and medium-term.”*

**Gabriele Bonfiglioli**  
Head of Investments

## LOMBARDY AMONG THE MOST DYNAMIC REGIONS OF EUROPE

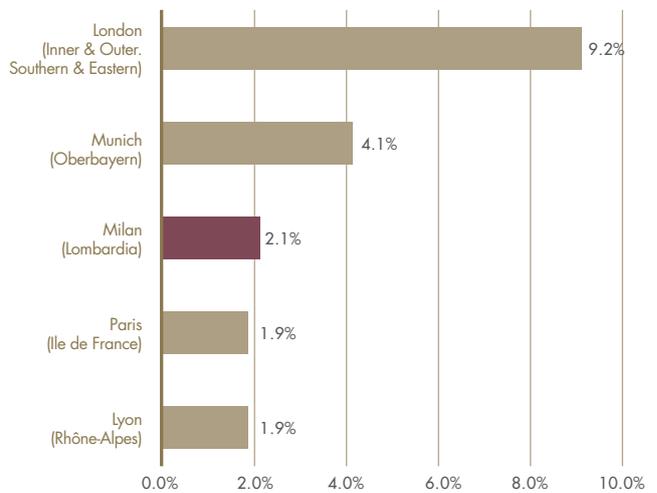
Lombardy is the third European region by size of the gross domestic product (GDP) and has recorded an average growth rate in the period 2013-2015 comparable with that of other regions of similar size.

GDP by region (billion of Euro, 2016)



Source: Eurostat

GDP growth (% CAGR, 2013-2016)



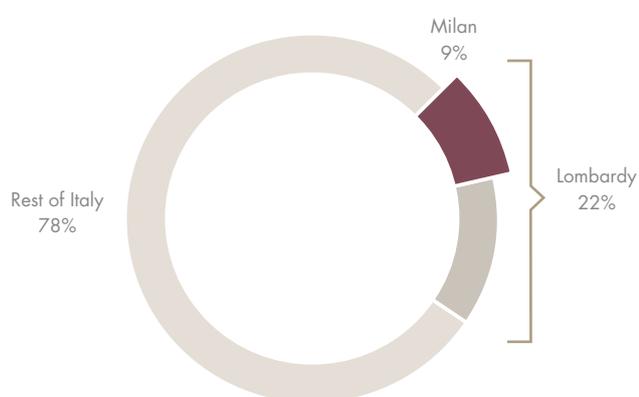
Source: Eurostat

## MILAN AND LOMBARDY

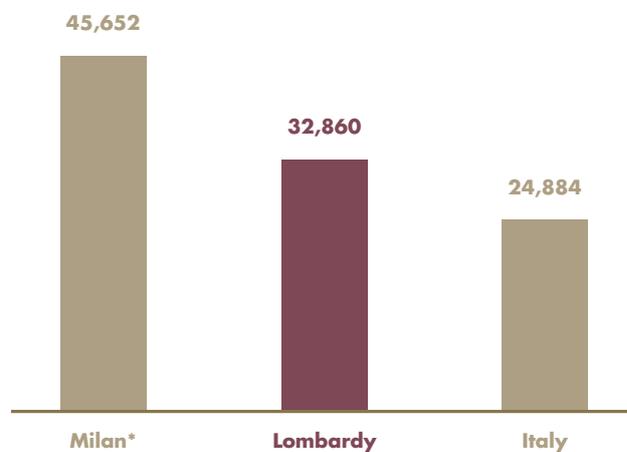
	LOMBARDY	ITALY	SHARE
AREA (sq. km)	<b>23,864</b>	302,073	7.9%
POPULATION (1/1/2018)	<b>10,036,258</b>	60,483,973	16.1%
WORKFORCE (thousand, 2017)	<b>4,399,374</b>	23,023,959	19.1%
GDP (nominal, million euro, 2016)	<b>368,582</b>	1,680,523	21.9%
VALUE ADDED (per capita, 2016)	<b>32,860</b>	24,884	-
NUMBER OF ENTERPRISES (2017)	<b>815,956</b>	5,150,149	15.8%
R&D EXPENDITURE (million euro, 2014)	<b>4,625</b>	22,291	20.8%
IMPORT (million euro, 2017)	<b>124,737</b>	400,659	31.1%
EXPORT (million euro, 2017)	<b>120,334</b>	448,107	26.9%

Source: Assolombarda on Istat and Prometeia data

Gross Domestic Product % - 2016



Value Added per capita - 2016 (euro)



(\*) 2015

## MILAN AS A FAST EVOLVING CITY<sup>1</sup>

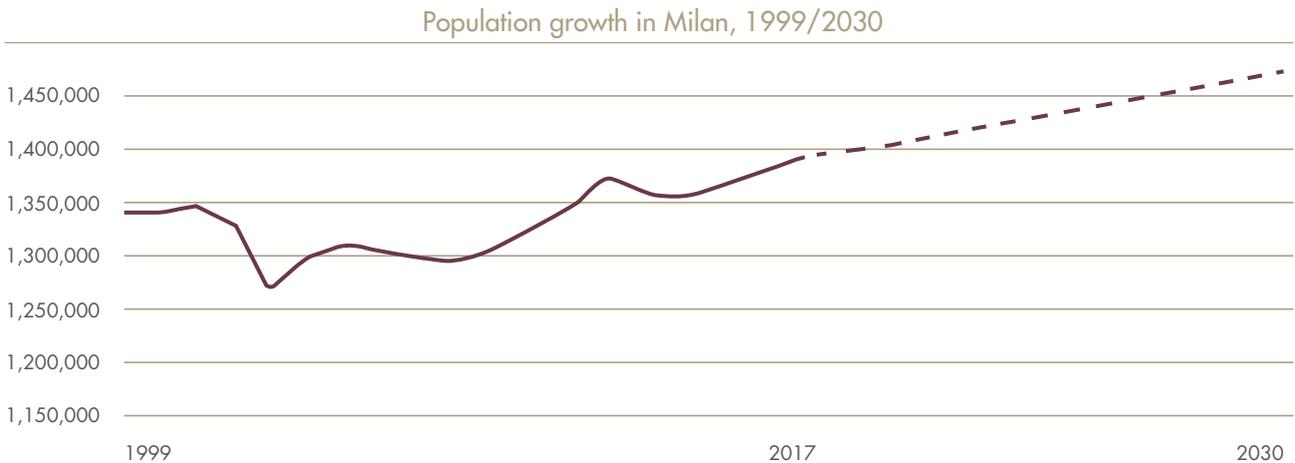
Milan is a fast-evolving city, with a significant number of redevelopment projects and infrastructure upgrades relevant at the European level.

The Milan 2030 plan, promoted by the City of Milan and currently being defined, is a plan that will make the city more attractive, more liveable, more inclusive and more sustainable with incentives for those investing in the suburbs, important measures for the fight against abandoned buildings and urban regeneration to increase green spaces.

The five main objectives of the Milan 2030 plan relate to the promotion (1) of a connected, metropolitan and global city, (2) of a city of opportunities, attractive and inclusive, (3) of a green city, liveable and resilient, (4) of a city that values its 88 neighbourhoods and (5) of a city that regenerates itself.

The entry of Milan into a new phase of development can be grasped through the observation of the demographic trends in the medium term: the population of the city returns to growth already starting in 2008 and in a clear way since 2014. Residents in Milan in 2017 were 1,380,873, over 86 thousand more than in 2008 (+ 6.7%), with an increase concentrated in the last three years.

The demographic projections, elaborated by the Municipality of Milan in the medium scenario at 2030, estimate further growth: the population will be 1,458,170 (+5.6% vs 2017).



Source: Comune di Milano

<sup>1</sup> THE FOLLOWING SECTION INCLUDES EXTRACTS FROM THE DOCUMENTS PUBLISHED BY THE MUNICIPALITY OF MILAN, AND IN PARTICULAR FROM THE DOCUMENT "TERRITORIAL GOVERNMENT PLAN - SEPTEMBER 2018".



After a long phase of employment growth that marked all the years '90 and a good part of the last decade, Milan - and its metropolitan area - suffered the crisis starting from 2008, recovering only in the most recent years the previous levels. The data on the labour force for 2016 indicate an unemployment rate equal to 6.2%, compared to 4.2% in 2008. Approx. 8% of the 3,000 medium-sized Italian companies are based in Milan, a city that sees the presence of 34% of the multinationals present in Italy.

The tourism sector deserves special mention. Milan tourism has had a strong momentum since the beginning of the 90s, but if then domestic tourism accounted for 64%, today, in addition to more than doubled arrivals (5,088,523 in 2016), the percentages are they are inverted and 64% is represented by international presences, with a very strong increase in flows coming from China and Russia.

### **MILAN: URBAN TRANSFORMATION PROJECTS<sup>1</sup>**

Milan and the metropolitan area are experiencing a particularly dynamic phase from the point of view of transformations, confirming the strong attractiveness of the city. A number of projects have started and more will start soon, which are helping to redefine the urban and metropolitan structure and balance. The process of transformation of the Porta Nuova / Garibaldi area, started over ten years ago, together with the new Palazzo della Regione, is perhaps the hub. Since then, other important interventions have taken place, of different size and nature, which have contributed to the extension of the city "centre": Porta Volta, with the Feltrinelli Foundation and Microsoft; CityLife, on the site of part of the historic Milan fair and the Portello, on the former Alfa Romeo areas. Other particularly significant interventions, for different reasons and nature, which have helped to regenerate important parts of the city are the recovery of the Darsena, heritage of Expo 2015, which has returned to new life; the former Ansaldo, which hosts, in addition to BASE Milano, the new Museum of Cultures of Milan (MUDEC); the new headquarters of the Prada Foundation, which transformed a former distillery of the early '900 in the Porta Romana area. Looking to the future, much revolves around MIND. In the post-Expo area there will be three major public functions: Human Technopole, the campus of the University of Milan and the IRCCS Galeazzi. Next to them will arise many other functions, developed by Lendlease (the operator who won the tender in November 2017), with residences, offices, work spaces and public facilities.

The other major regeneration process that will determine an important reorganization of the city with effects on the metropolitan scale is the AdP Scali Ferroviari, which represents an unmissable opportunity for urban regeneration for Milan. The accessibility and connection of the areas with the urban fabric, the possibility of creating new centres and services, including a new site for the Accademia di Brera, strengthening the green and ecological connections, promoting temporary uses will transform radically Milan. At the same time, the projects launched on the Ortomercato and the Barracks represent significant opportunities for the redevelopment of entire urban areas, as well as important transformation started some time ago and still awaiting completion (Santa Giulia, Porta Vittoria, Adriano, Cascina Merlata, Calchi Taeggi, etc.).

<sup>1</sup> THE FOLLOWING SECTION INCLUDES EXTRACTS FROM THE DOCUMENTS PUBLISHED BY THE MUNICIPALITY OF MILAN, AND IN PARTICULAR FROM THE DOCUMENT "TERRITORIAL GOVERNMENT PLAN - SEPTEMBER 2018".

*Milan - GIOIAOTTO - Terrace*

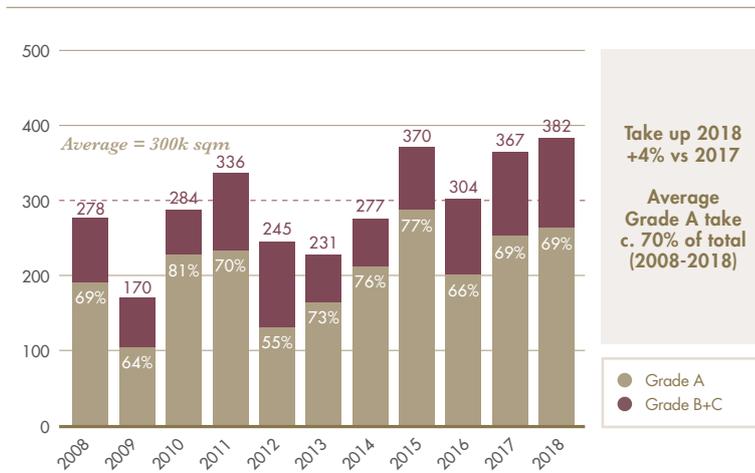


### OFFICE SECTOR IN MILAN: A DYNAMIC MARKET

The year 2018 saw a take-up level equal to about 380,000 square meters, up by 4% compared to 2017, a record value compared to the average of recent years.

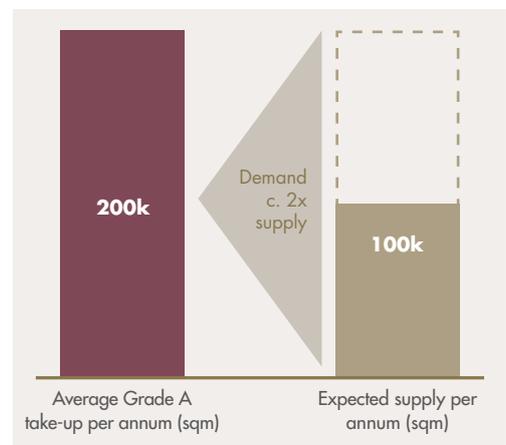
Milan is characterized by solid supply and demand fundamentals, in particular due to the scarcity of Grade A buildings, which represent only 10% of the total office stock, but represent more than 70% of tenants' demand. This imbalance suggests that demand could exceed the supply by a tune of 2-3x in the coming years, which will support rental growth in the short to medium-term.

Office Milan take-up ('000 sqm)



Sources: C&W, JLL

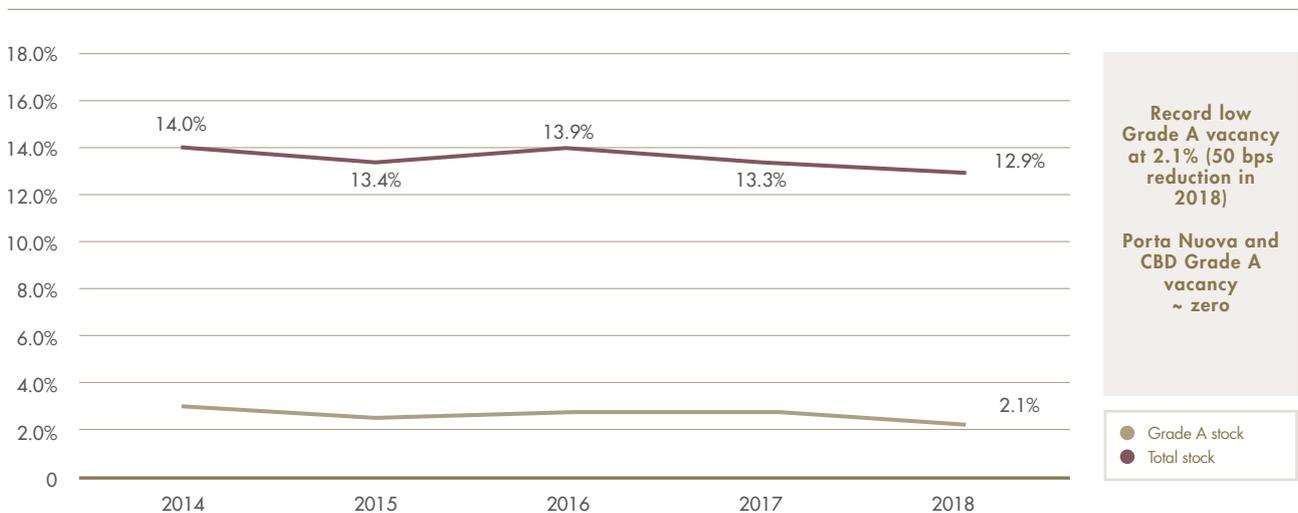
Supply and Demand for offices in Milan (2019-2022)



Sources: C&W, JLL

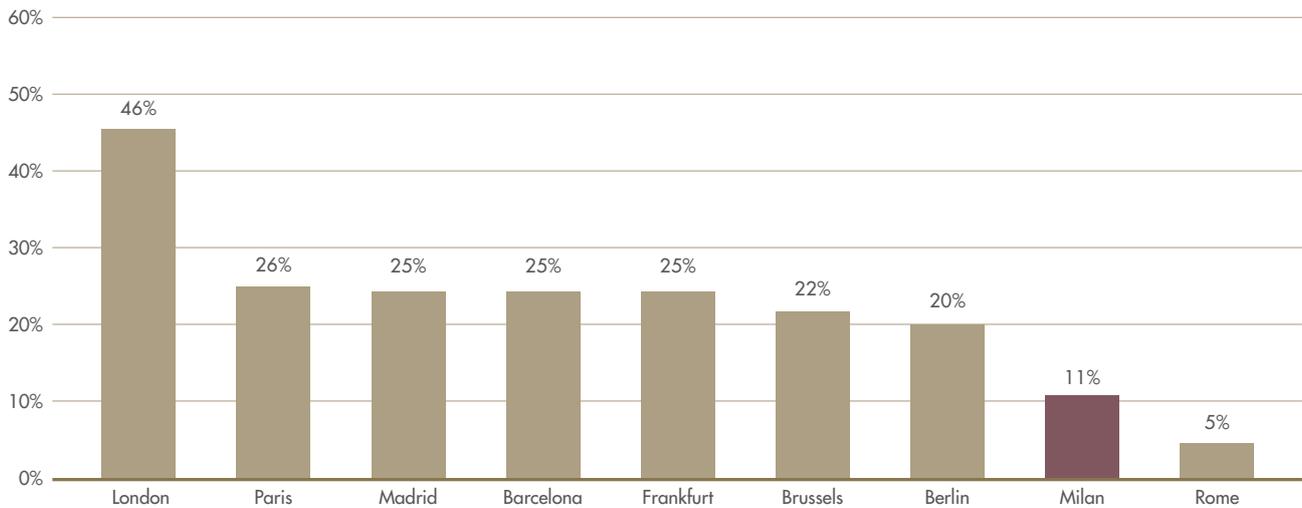
The vacancy rate in the Grade A office segment in Milan is at historical lows at a level of around 2.1%, a reduction of 50 basis points compared to the levels at the end of 2017.

Vacancy rate by grade for Milan offices (%)



Sources: C&W, JLL

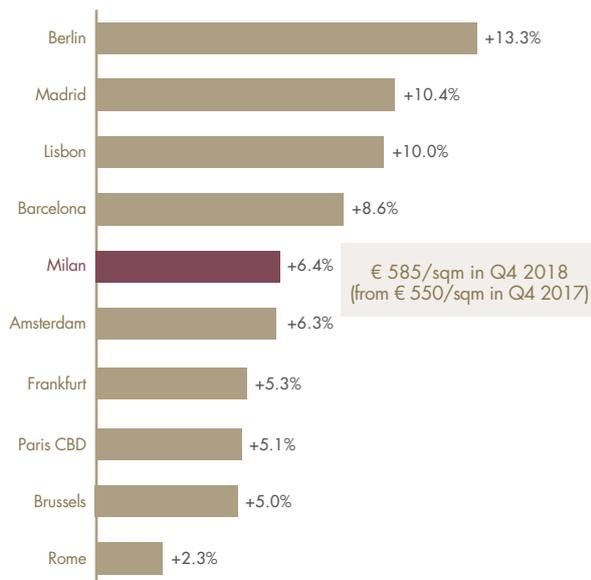
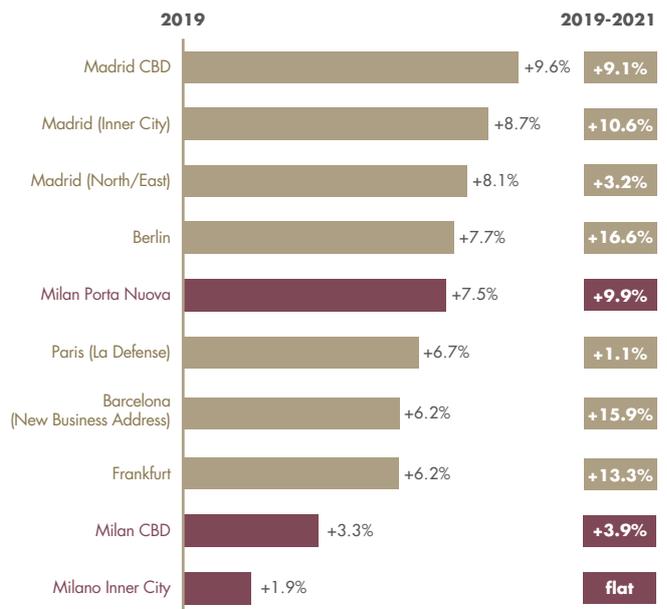
## Grade A office stock in context (% as total stock)



Sources: C&amp;W, JLL

The office market in Milan saw prime rent reaching the Euro 585 / sqm level at December 31<sup>st</sup>, 2018, an increase of 6.4% in 2018. Green Street Advisors estimates that the combined rental and occupancy growth over the period 2019-2021 will be + 9.9% for Milano Porta Nuova and + 3.9% for Milano CBD.

## Prime office rental growth (2018)

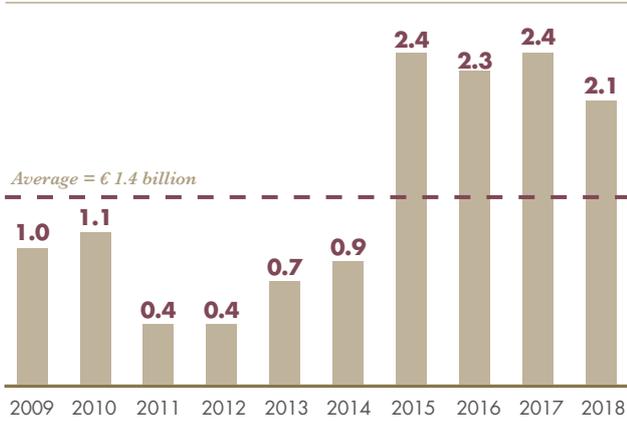
Office rental and occupancy growth<sup>1</sup>

Fonti: JLL (2018 data), Green Street Advisors (2019-2021 data)

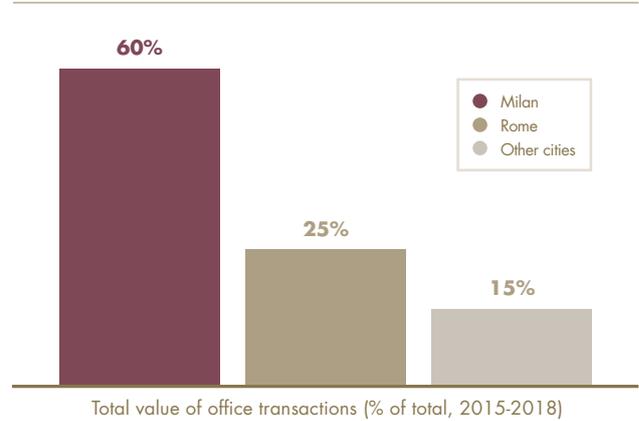
1 RevPAM

The investment market for Milan offices remains very dynamic with Euro 2.1 billion of transactions recorded in 2018, a level equal to 1.5x the average of the last 10 years. The net yield for the Milan prime office properties stands at 3.40%, down 10 basis points compared to the end of 2017 while the net yield for offices in good secondary locations stands at 5.00%, down 25 basis points compared to the end of 2017.

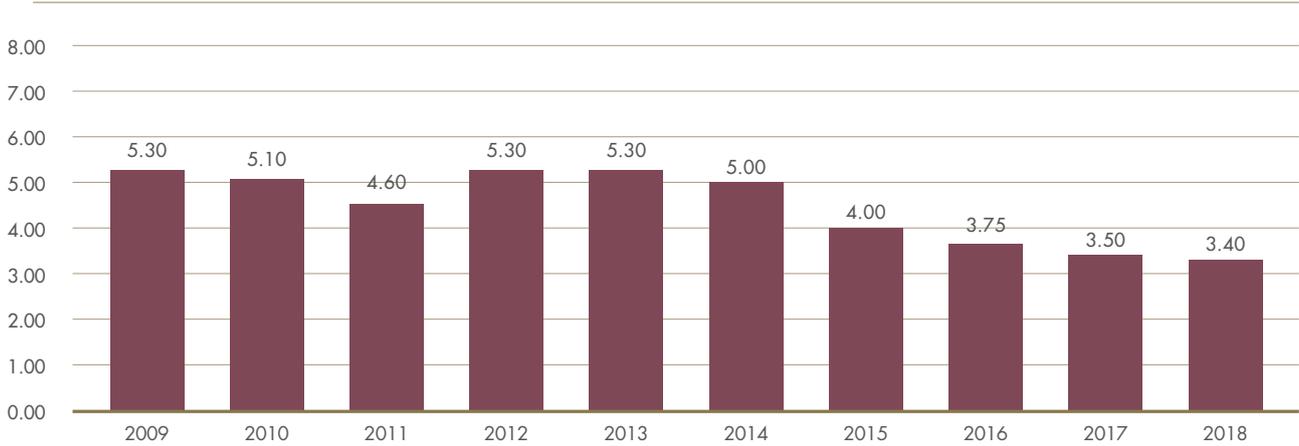
Milan offices - Investment volumes (€ billion)



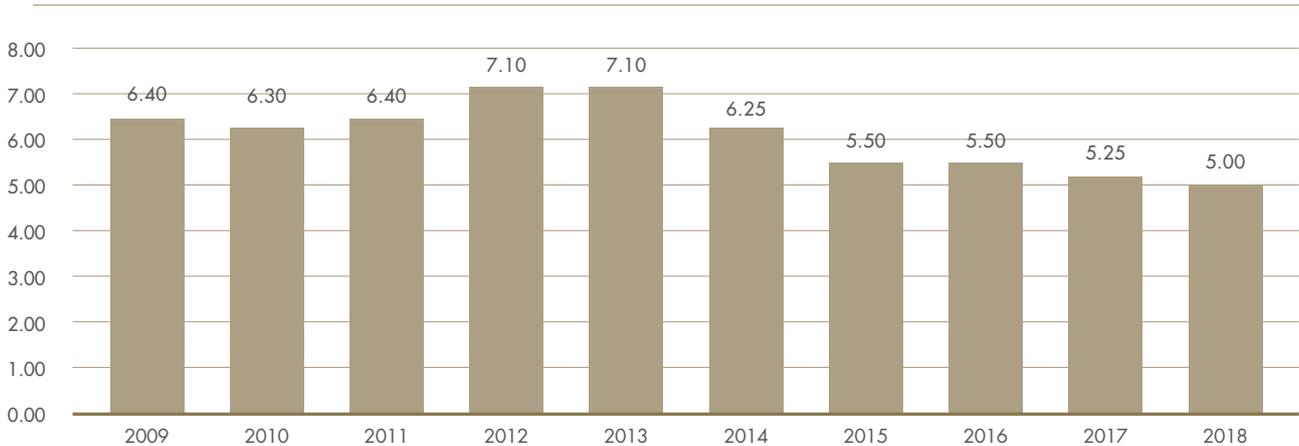
Italian offices - Investment market liquidity



Milan offices - Prime Net Yield (%)



Milan office - Good Secondary Net Yield (%)



Sources: CBRE, C&W