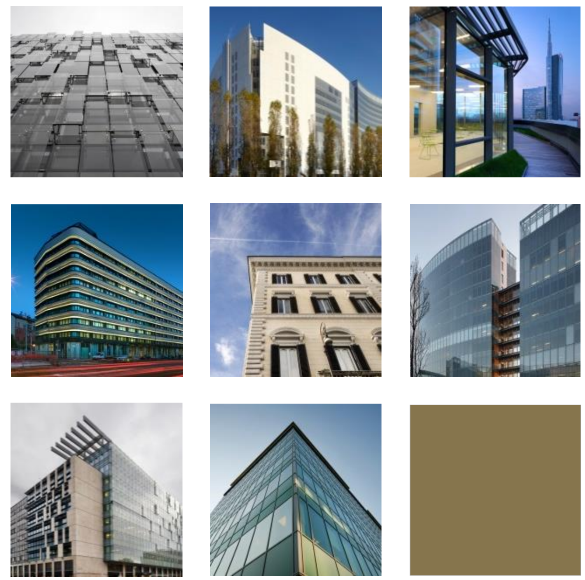
Real Estate SIIQ

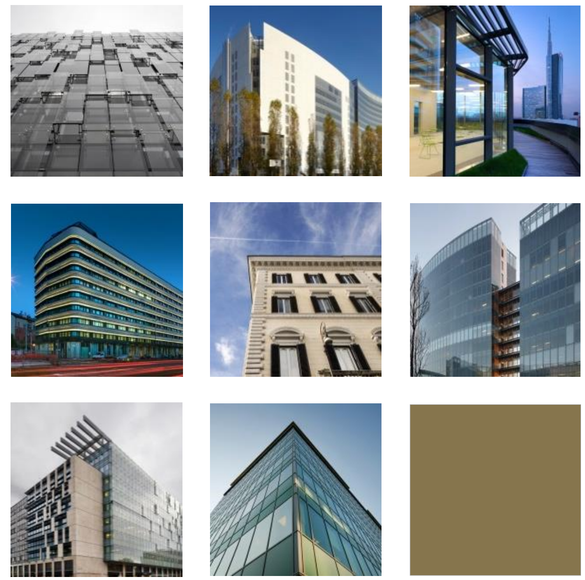
COIMARES

June 29th, 2017

MONTHLY CALL



1. ITALIAN POLITICAL & ECONOMIC SCENARIO UPDATE



EUROPEAN POLITICAL OUTLOOK UPDATE

CONTINENTAL EUROPE IN A RELATIVELY STRONGER POSITION POST FRENCH ELECTIONS OUTCOME

- **United Kingdom general elections** (June 8th, 2017): more uncertainty on Brexit negotiations
- **French national assembly elections** (June 18th, 2017): strong outcome for “La République en marche !” to allow Mr. Macron to better pursue his reform plans
- **German federal election** planned for September 24th, 2017

ITALIAN POLITICAL OUTLOOK

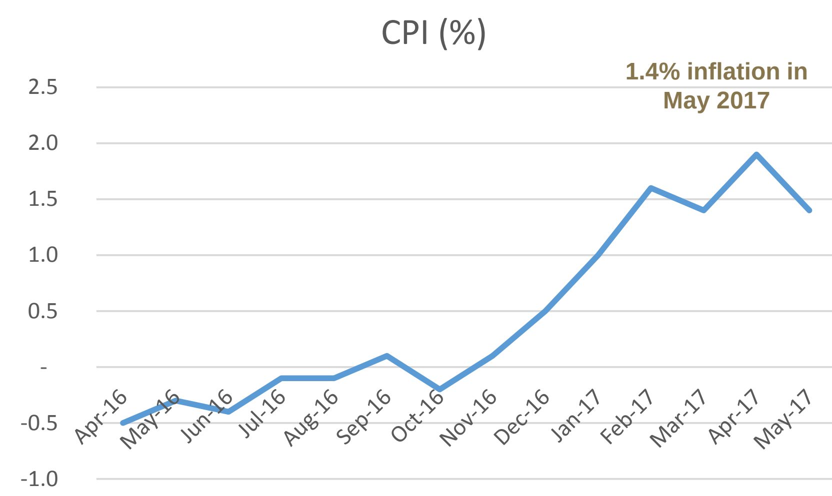
- **Italian municipality elections** (June 11th and second round June 25th, 2017) in 1,009 municipalities of which 24 are main cities (administrative centers at province level) and of which 8 have more than 100,000 inhabitants[1]
  Of the 24 main cities:
  - Center-left party (PD) won in 6 cities vs. 16 in the previous municipality elections
  - Center-right parties (FI, Lega, FdI) won in 16 cities vs. 6 in the previous municipality elections
  - Independents (*liste civiche*) won in 2 cities vs. 1 in the previous municipality elections
  - M5S lost Parma municipality (the only one won in the previous municipality elections)
- **City of Milan not part of 2017 local elections**. Milan Major (Giuseppe Sala) was elected on June 2016 at the first round with 51.7% of votes and his mandate lasts 5 years
- **National elections currently expected to be held by Q2 2018**
- **Electoral law** is the key milestone before general elections

1) Genoa, Monza, Padua, Palermo, Parma, Piacenza, Taranto and Verona
Source: Various

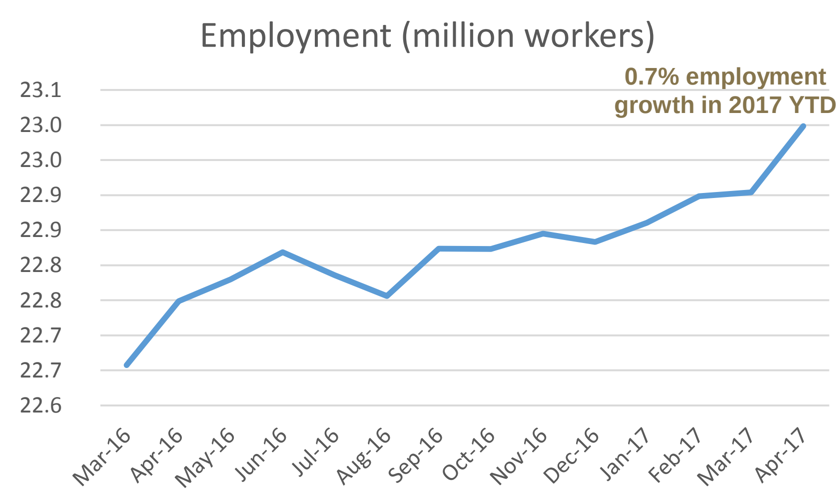
ITALIAN MACRO RECOVERY CONTINUING IN Q1-Q2 2017

GDP GROWTH FOR 13 CONSECUTIVE QUARTERS

INFLATION FIRMLY INTO POSITIVE TERRITORY



EMPLOYMENT RISING IN 2017 YTD



SUPPORTIVE MACRO CONDITIONS

- **GDP** for Q1 2017 at 1.2% and **positive for 13 consecutive quarters**
- **Inflation** for May 2017 at 1.4%, **positive for the last 7 months**
- **Employment rising by 0.7% in 2017 YTD** and **by 1.0% over the last 12 months**

Source: ISTAT, June, 15th, 2017

ITALIAN BANKS RECAPITALISATIONS AND NPLs DISPOSALS

- Veneto Banca and Banca Popolare di Vicenza rescue agreed: Intesa Sanpaolo to acquire the "good bank", Italian State to acquire the "bad bank", EU rules followed and retail investors protected from bail in
- Recapitalisation of Monte dei Paschi expected before the summer
- Expected acceleration of NPLs disposals also driven by new legal provisions (see next page for more details)

ITALIAN BANKS RECAPITALIZATIONS PROGRESS

Banks	Amount	Timing
UniCredit	Euro 13 billion (Market transaction)	Done (Q1 2017)
Veneto Banca / Banca Popolare di Vicenza	Euro 5 billion (Intesa Sanpaolo / Italian Government intervention)	Done (June 2017)
UBI Banca	Euro 0.4 billion (Market transaction)	Done (June 2017)
Monte dei Paschi di Siena	Euro 8.3 billion (State intervention)	Exp. July 2017
Gruppo Banca Carige	Euro 0.5+ billion	Exp. H2 2017

NPLs DISPOSALS PROGRESS

Banks	Timing	Amount	Buyer
Banca Popolare di Bari	Done (August 2016)	Euro 0.5 billion	Davison Kempner
UniCredit	Done (January 2017)	Euro 18 billion	Fortress, PIMCO
Banco BPM	Done (June 2017)	Euro 0.8 billion	Algebris
Veneto Banca / Banca Popolare di Vicenza	Done (June 2017)	Euro 19 billion	Italian Gov.
Monte dei Paschi di Siena	Exp. Jul 2017	Euro 26 billion	*Atlante*
Gruppo Banca Carige	Exp. Jul 2017	Euro 0.9 billion	*Ongoing*
Intesa Sanpaolo	2017	Euro 1.4 billion	*Ongoing*
Banca Marche, Etruria, Carife, Carichieti	2017-18	Euro 10 billion	*Ongoing*
Total volume closed	**-**	**Euro 38.2 billion**	
Total volume expected	**-**	**Euro 38.3 billion**	

Source: Press, SG Cross Asset Research / Equity, June, 26th, 2017

NEW MEASURES IMPROVING THE NPLs MARKET IN ITALY

- **New provisions of the Italian Securitisation Law (introduced by the Italian Parliament on June 15th, 2017) aim at improving the recovery of securitised non-performing receivables**
- **Expected improvement of the Italian NPL market through better supply and better management of NPL portfolios**

NEW PROVISIONS OF THE ITALIAN SECURITISATION LAW TO IMPROVE NPLs MARKET

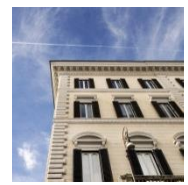
- ✓ **New financings to borrowers**
  - ✓ buyers of NPLs (through the securitisation SPVs) can now better work with underlying borrowers to **maximise value of NPLs recovery** also by providing new financings to borrowers
- ✓ **Re.O.Co.**
  - ✓ buyers of NPLs (through the securitisation SPVs) can purchase **assets underlying loans** through a Re.O.Co. (Real Estate Owned Company) thus improving market liquidity in auctions as well as transaction prices
- ✓ **Leasing financings**
  - ✓ in the case of leasing portfolios, buyers of NPLs (through the securitisation SPVs) can **step into the leasing contracts** through the Re.O.Co. and replace the seller in its capacity as lessor
- ✓ **NPLs portfolio construction**
  - ✓ banks can now **build better NPLs portfolios** which are **more customised** to market appetite as opposed to selling NPLs in large blocks

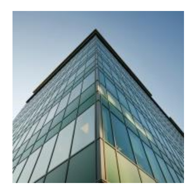
Source: COIMA elaboration on input from Italian law firms

2. ITALIAN REAL ESTATE MARKET UPDATE







MARKET UPDATE – ITALIAN REAL ESTATE MARKET OVERVIEW

Italian RE fundamentals

H1 expected investment transaction volume

~ € 4.6 Bn in H1 2017 (~ **+ 26%** vs. H1 2016)

Italian RE prime yields (H1 2017 estimates)

		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 (H1 2017)

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

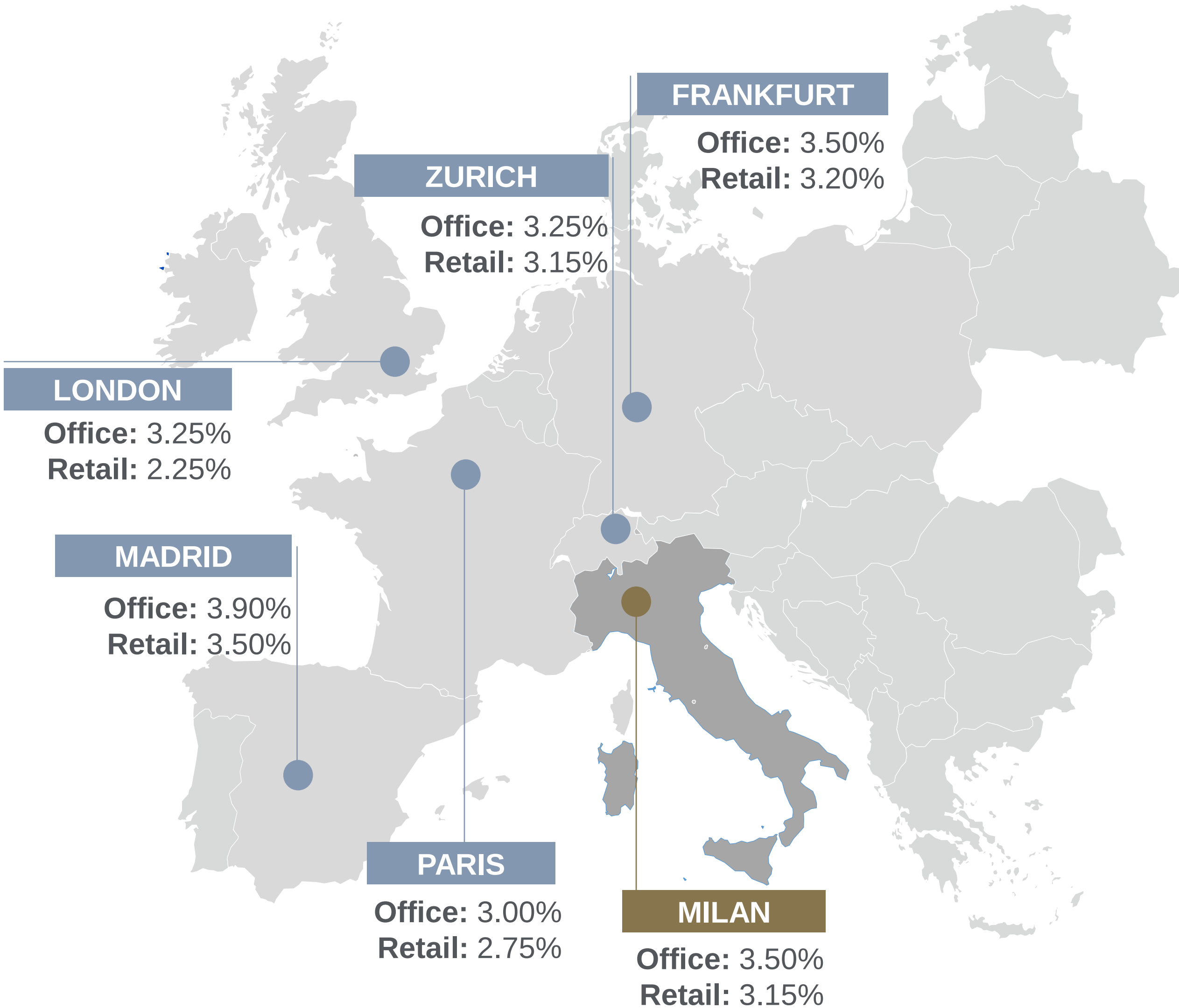
Milan and Rome office space market (H1 2017)

MILAN VACANCY	**~12.3%**[1] (**+20 bps** vs. 2016, **+50 bps** vs. 2015)	↔
ROME VACANCY	**~12.1%**[1] (**+20 bps** vs. 2016)	↔

Source: COIMA elaborations on CBRE data
1) Vacancy rate increased due to the inclusion of additional stock with higher vacancy (mainly Grade C)

ITALY VS EUROPE – PRIME YIELDS

Prime office and retail net yields in Milan with a spread of 30 to 90 bps vs Core European cities



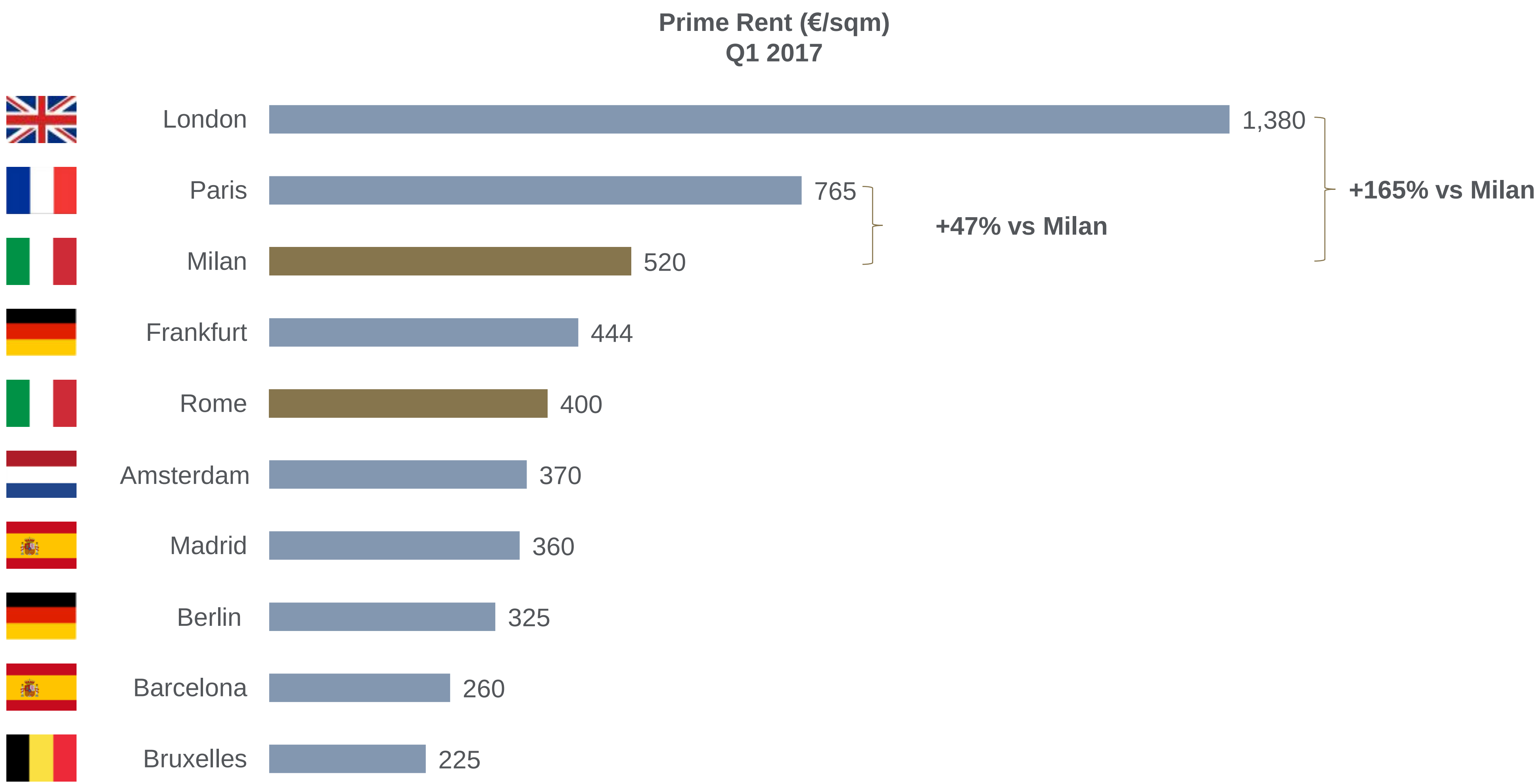
Milan vs main European cities yield spread

	Office	Retail
LONDON	+25 bps	+90 bps
FRANKFURT	0 bps	-5 bps
PARIS	+50 bps	+40 bps
ZURICH	+25 bps	0 bps
MADRID	-40 bps	-35 bps

Source: COIMA elaboration on CBRE and JLL data (Q1 2017)

ITALY VS EUROPE – PRIME RENT

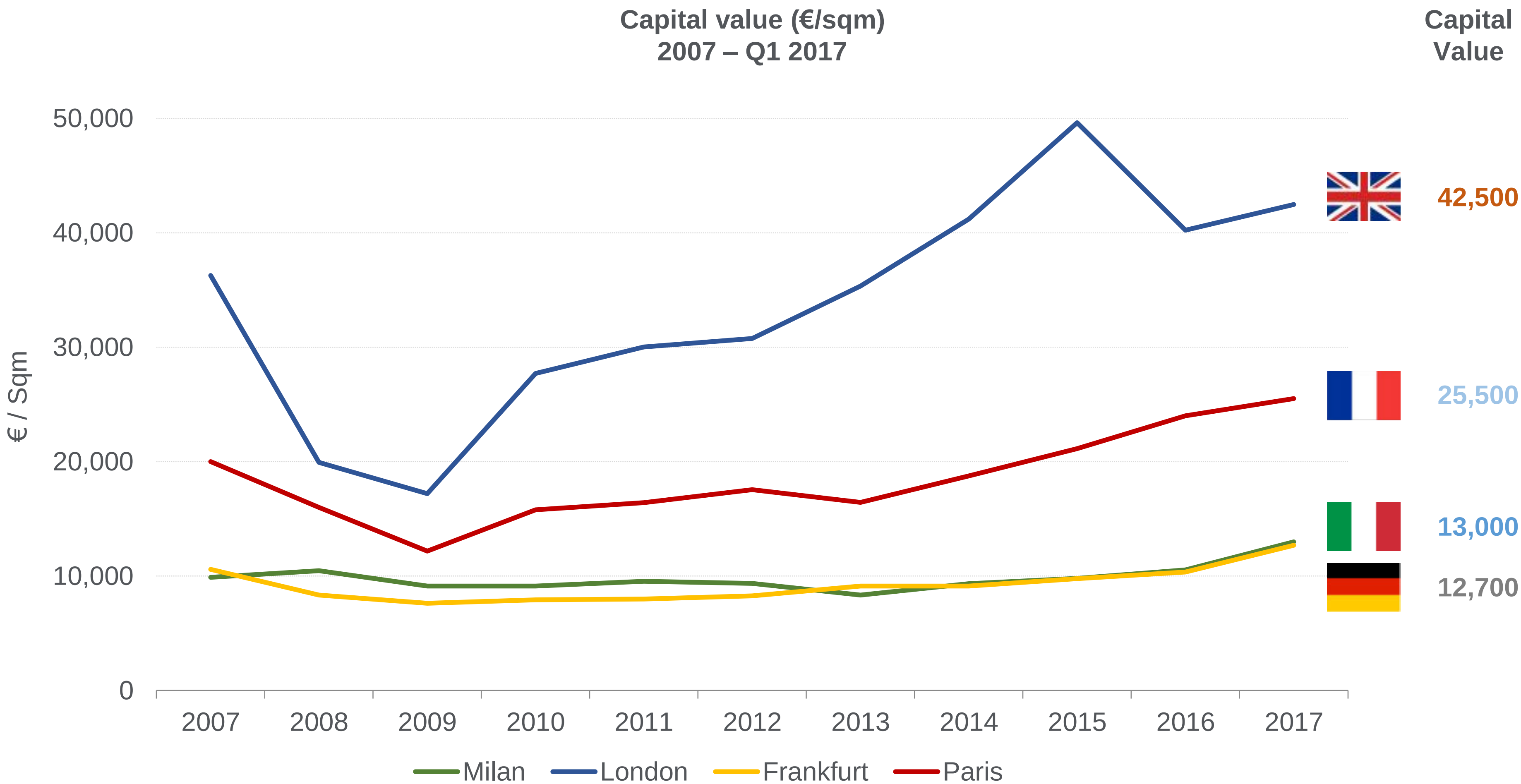
Milan still offers a meaningful gap vs Paris and London in terms of rents



Source: COIMA elaboration on CBRE and JLL data (Q1 2017)

ITALY VS EUROPE: CAPITAL VALUE EVOLUTION

Milan gap on capital values remains wide



Source: JLL Research (2017)

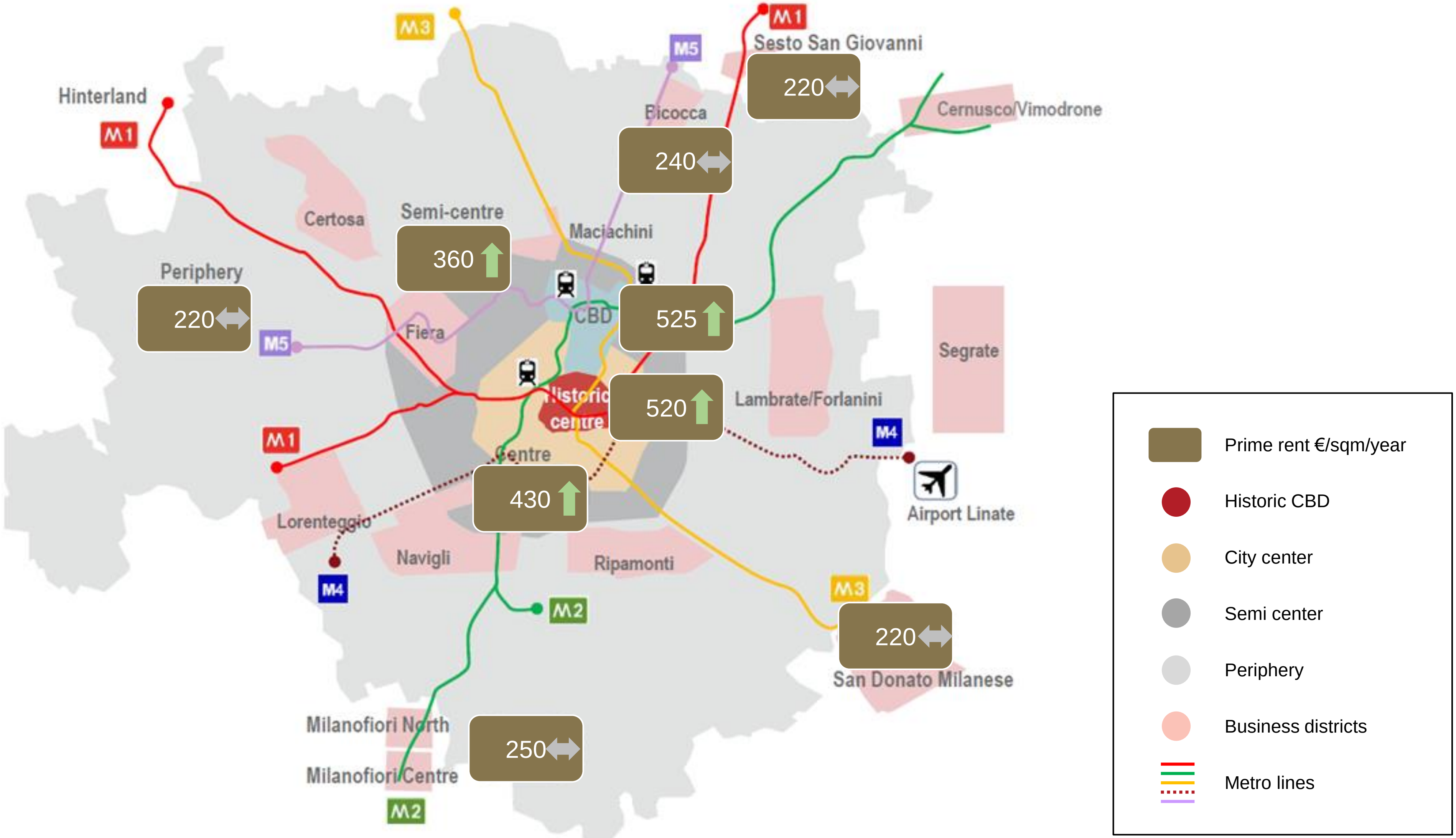
EMEA MARKET RENTAL CYCLE – FOCUS ON ITALY

- **Leasing – prime rents**: upward pressure on rents increasing in Milan CBD/Porta Nuova and tenants incentives reducing
  - 490 €/sqm (H1 2016) vs 525 €/sqm (H1 2017) (+7%)
- **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

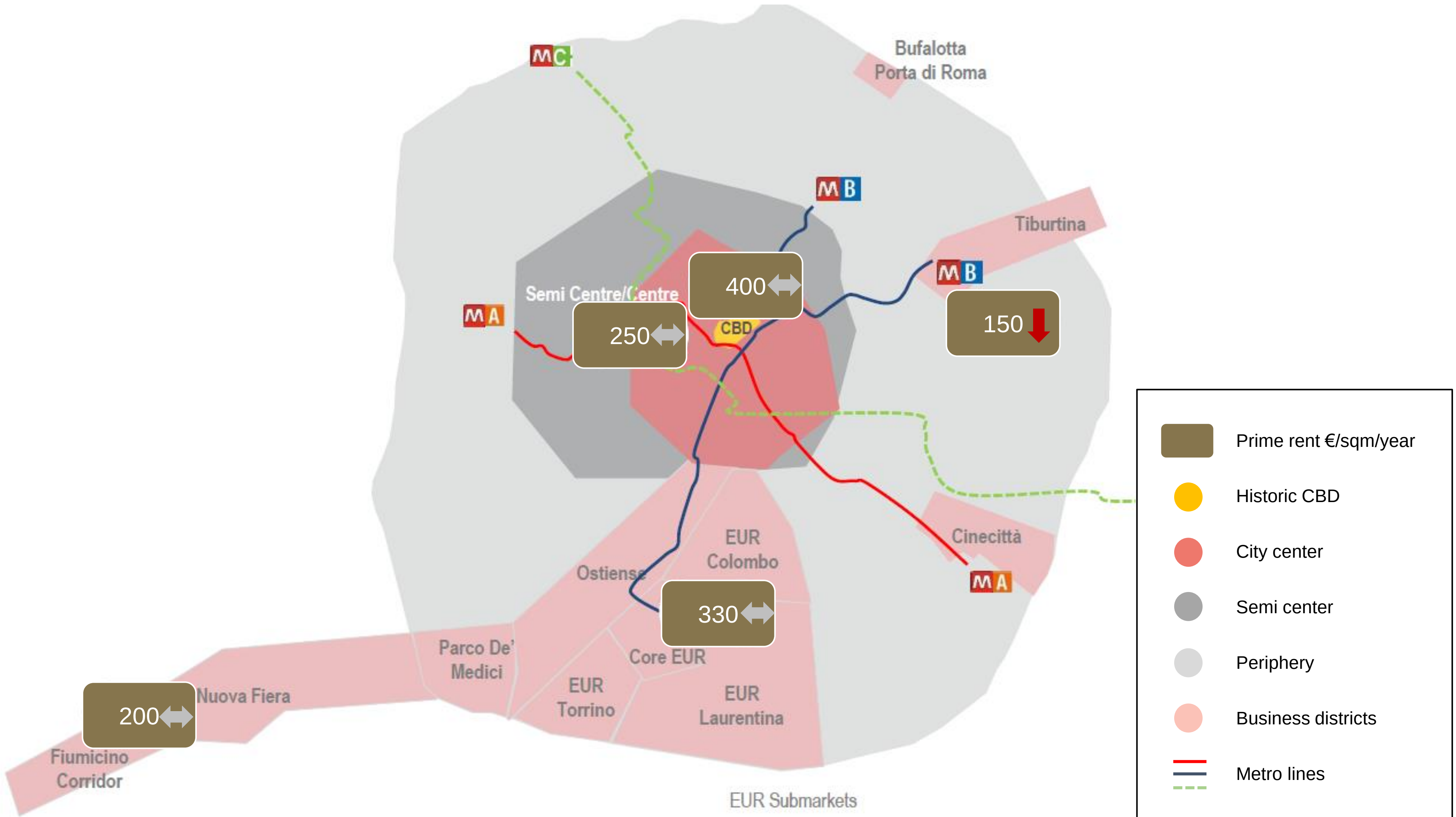
Source: CBRE (Q1 2017)

MILAN KEY AREAS AND PRIME RENTS

Key Areas and Prime Rents



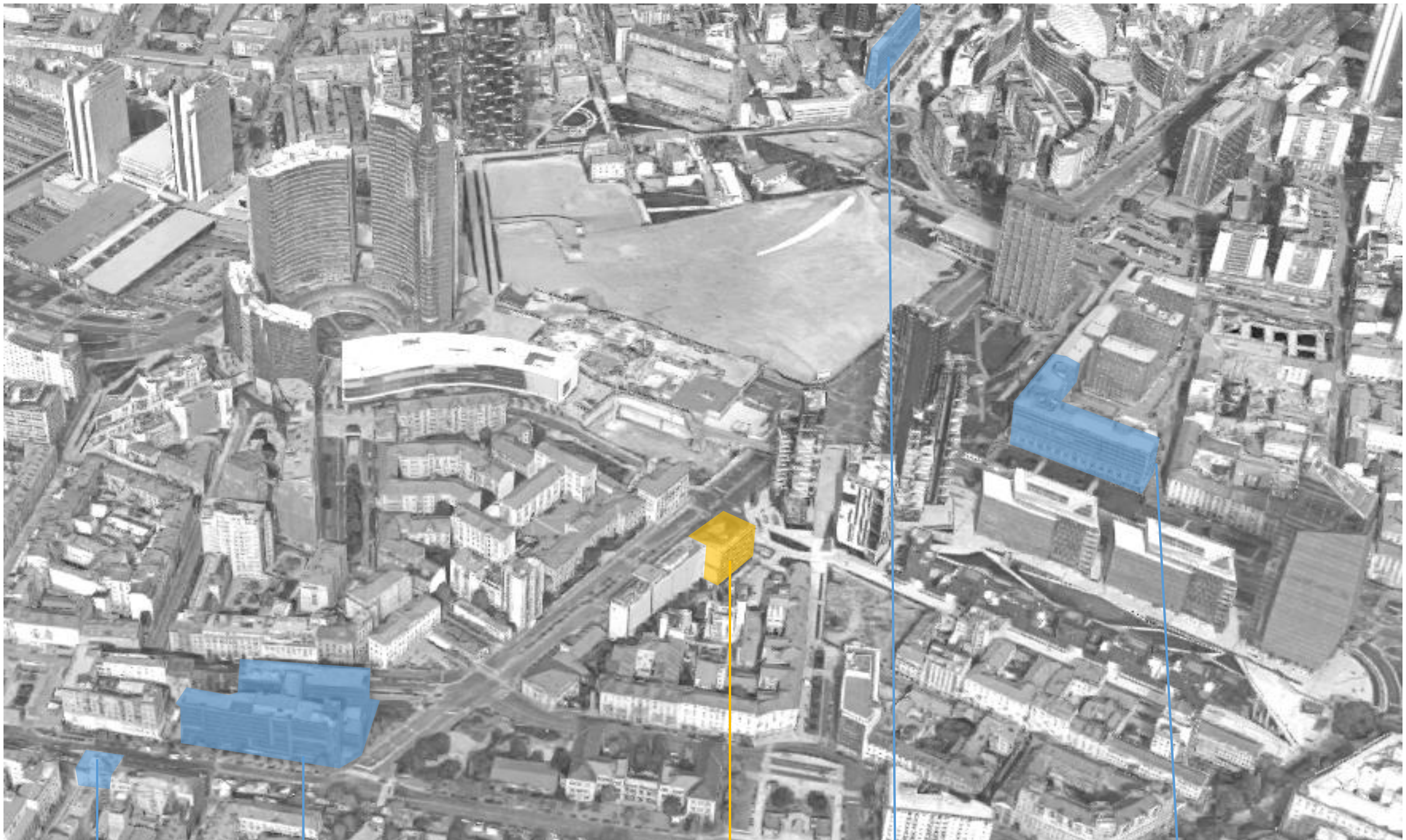
ROME KEY AREAS AND PRIME RENTS



Source: COIMA elaboration on JLL, CBRE and C&W research

MILAN PORTA NUOVA BUSINESS DISTRICT LEASE TRANSACTIONS

Prime rent new assets: € 525/sq.m
Prime rent refurbished assets: to € 430/sq.m (+18% vs. 2014)



REGUS – PORTA NUOVA 21	AMAZON – VIA MONTEGRAPPA	MULTI TENANT – GIOIA 6 - 8	N/A – VIA RASTELLI 1/A	VERSACE – VIALE DELLA LIBERAZIONE
€ 420/sq.m – Q3 2016	**€ 430/sq.m – Q1 2017**	**€ 365/sq.m – Q1 2014**	**€ 410/sq.m – Q1 2017**	**€ 430/sq.m – Q2 2017**

MAIN OFFICE INVESTMENT TRANSACTIONS H1 2017

Cloe Fund
Milan, Rome - Office
Ardian
Size: 91,000 sqm
Price: € 300 M

H&M – Piazza Duomo 25
Milan – Retail/Office
CBRE Global Investors
Size: 9,000 sqm
Price: € 220 M

Allianz Portfolio
Milan - Office
Blackstone
Size: 31,000 sqm
Price: € 120 M

CreVal Portfolio
Milan – Office
Beni Stabili
N. Assets: 17 units
Price: € 118 M

MAIN OFFICE INVESTMENT TRANSACTIONS H1 2017 (CONT'D)

San Nicolao
Milan – Office
Luxottica
Size: 11,700 sqm
Price: € 114.5 M

Ex-Luxottica HQ
Milan – Office
Hines
Size: 9,000 sqm
Price: € 100 M

Via Borgogna 8
Milan - Office
Fabrica Sgr
Size: 7,000 sqm
Price: € 85 M (12,200 €/sqm)

ONGOING DEAL

Palazzo Edison
Milan - Office
Size: 30,000 sq.m
Exp. Closing: Q2 2017
Exp. Price: > € 230 M

Source: COIMA analysis

MAIN OFFICE LEASE TRANSACTIONS H1 2017

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

Source: COIMA analysis

MAIN OFFICE LEASE TRANSACTIONS H1 2017 (CONT'D)

Semi-Center

Via Restelli1/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

Source: COIMA analysis

KEY MARKET OPPORTUNITIES

CAPITAL FLOW

- ✓ Continued interest by **international investors**
- ✓ Additional liquidity from **Italian investors** (insurance companies and pension funds)
- ✓ **Lack of product** is the major obstacle to a further acceleration of the investment flows

MARKET TREND

- ✓ **Good quality secondary core** and **value added/core plus** still remain attractive on a risk-adjusted basis
- ✓ **Prime core cap-rates** in the **office** segment equal to **3.5% net**
- ✓ Expected increase in asset capital value driven mainly by rental increase in the next months
  - ✓ Expected prime rental growth **5-10%** in the coming 24 months in Milan with upward pressure in selected areas such us Milan CBD/Porta Nuova and in **Grade A buildings**

RENTS

- ✓ Leasing – prime rents: **upward pressure on rents** increasing in Milan CBD/Porta Nuova and tenants incentives reducing
- ✓ Take-up trend: **growing tenant demand**, mainly focused on **Grade A space**
  - ✓ Main take-up drivers: **cost efficiency** and improving in **office space quality**

NPL

- ✓ Expected **acceleration of NPLs disposals** also driven by new legal provisions

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