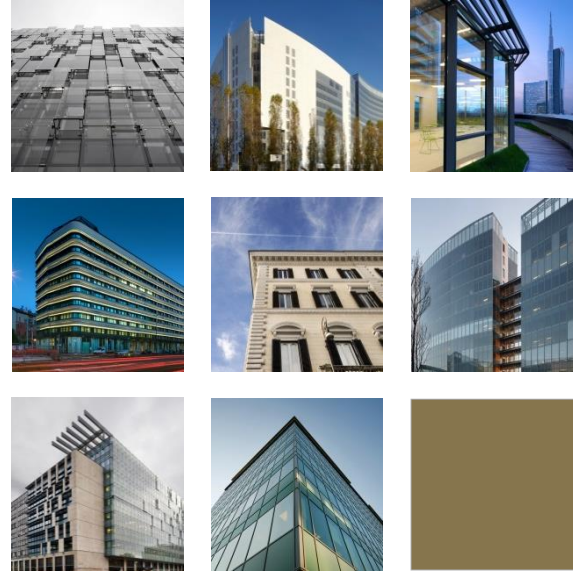


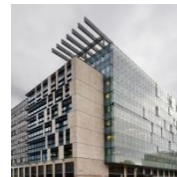
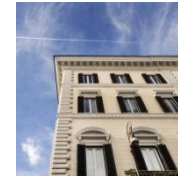


*March 30<sup>th</sup>, 2017*



# MONTHLY CALL

# 1. ITALIAN POLITICAL & ECONOMIC SCENARIO UPDATE



# MAIN ITALIAN POLITICAL CATALYSTS

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## ■ GOVERNMENT AGENDA

- Gentiloni's government agenda, supported by the Parliament's majority:
  - ✓ Approval of the Economic and Financial Document (**DEF**) expected for April
    - ✓ Optimize **public debt** and **public spending**
    - ✓ Stimulus package aimed at boosting **Italian economy's growth**
  - ✓ Approval (expected by Q4) of
    - ✓ **Electoral system law**: political aim of the main parties is to uniform the electoral systems between the two houses
    - ✓ **Budget Law 2018**

## ■ POLITICAL UPDATE

- 30th of April: **Democratic party** (PD) secretary election
  - ✓ Renzi is expected to be **re-elected** as PD secretary according to latest polls (Renzi >50%)
- All message collected suggest the **legislature** will easily reach its natural conclusion in **March 2018**
  - ✓ Italian general elections expected starting from **Q2 2018**

# DEF – EXPECTED POSITIVE IMPLICATIONS ON ITALIAN ECONOMY



■ DEF should include specific measures aimed to:

- ✓ **reduce the Italian public debt** through privatizations and real estate disposal plan
- ✓ **stimulate economic growth** through fiscal incentives and investments

## DEBT REDUCTION

- **Privatization program**
  - Up to **8 billion Euros** (equivalent to 0.5% of GDP) from:
    - **Poste Italiane** secondary offering
    - **Ferrovie dello Stato** (Railway) IPO
- **Real Estate disposal Plan**
- **Spending review**
  - Reduction of procurement costs, increasing efficiency and cutting unproductive public spending

## GROWTH

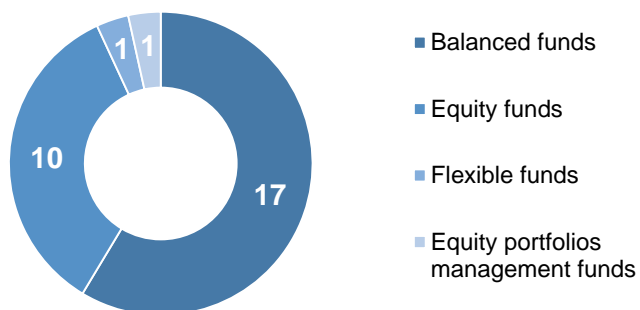
- **Tax system**
  - **Reduction in tax wedge** (i.e. IRES)
  - More transparent, simplified and **growth-oriented tax system**
  - **Legal certainty** between tax administration and taxpayers (i.e. binding advance rulings issued by tax administration)
- **Finance for growth and investment framework**
  - Confirmation of **incentives on private investments**
  - Strengthening of **R&D tax credit**

# PIR – ENCOURAGING PRELIMINARY RESULTS



- PIR is an “**individual savings plan**” for retail investors being implemented in Italy which is similar to the UK ISA schemes and the French PEA schemes
- PIR tax incentive system is expected to **provide liquidity** to the **Italian listed market including small caps and REITs**
- PIR is **tax exemption** from all **income and capital gain** subject to the following conditions
  - ✓ Holding period 5 years
  - ✓ Maximum investment of € 30k/year
  - ✓ Investments in listed companies (Italian and/or European) also REITs
- **29 PIR-eligible investment products** already structured
- PIR estimated inflow in the next 5 years equal to 18 billion Euros
  - ✓ **REITs** are eligible for a PIR bucket that is estimated at **5.4 billion Euros** inflow

## CURRENT PIR ELIGIBLE PRODUCTS



## COMPARISON WITH EQUIVALENT SCHEMES IN EUROPE





	Piano individuale di risparmio (PIR)	Individual saving account (ISA)	Plan d'épargne en action (PEA)
<b>Country</b>	Italy	UK	France
<b>Date of launch</b>	2017	1999	1992
<b>Max annual investment</b>	€ 30,000	£ 15,240	/
<b>Max total investment</b>	€ 150,000	/	€ 150,000
<b>Holding period</b>	5 years	/	8 years

# ITALIAN BANKING SECTOR STABILIZING




## ■ Italian banks strengthening and stabilizing capital position in coordination with the Italian government

- ✓ Potential real estate investment opportunities ranging from sales and lease back to repossessed assets and NPLs

<p><b>UniCredit</b></p>		<ul style="list-style-type: none"> <li>✓ 13 billion Euros of capital increase completed</li> <li>✓ Cet 1 Ratio after capital increase above 12%</li> <li>✓ By June, potential securitization of 17.7 billion Euros of NPL's using the state guarantee</li> </ul>
<p><b>Monte dei Paschi di Siena (MPS)</b></p>		<ul style="list-style-type: none"> <li>✓ 8.8 billion Euros of capital increase to be performed</li> <li>✓ Italian government bailout (6.6 billion Euros implying a 70% ownership after the capital increase)</li> <li>✓ Potential disposal of NPL in single tranche in 2017</li> </ul>
<p><b>Veneto Banca &amp; Banca Popolare di Vicenza</b></p>		<ul style="list-style-type: none"> <li>✓ Expected merger by the end of September</li> <li>✓ Estimated capital need of over 5 billion Euros</li> </ul>
<p><b>Banca CARIGE</b></p>		<ul style="list-style-type: none"> <li>✓ Capital increase of up to 450 million Euros to be performed by the end of 2017</li> <li>✓ Creation of a vehicle to manage NPLs (spin-off bad bank) by the end of 2017</li> </ul>

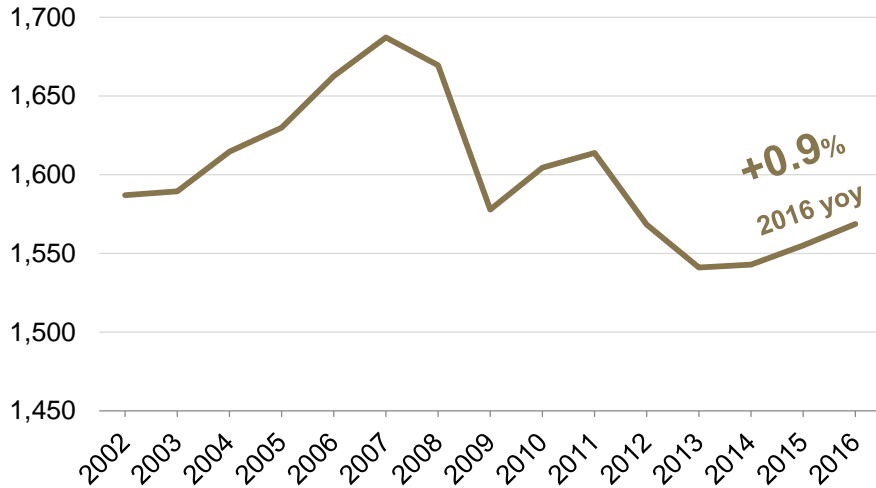
## ■ International Bank

<p><b>Deutsche Bank</b></p>		<ul style="list-style-type: none"> <li>✓ Deutsche Bank announced a fully underwritten 8 billion Euros capital raising</li> <li>✓ The subscription period started on March 21 and ending on April 6</li> <li>✓ Estimated Cet 1 Ratio after capital increase equal to 14.1%</li> </ul>
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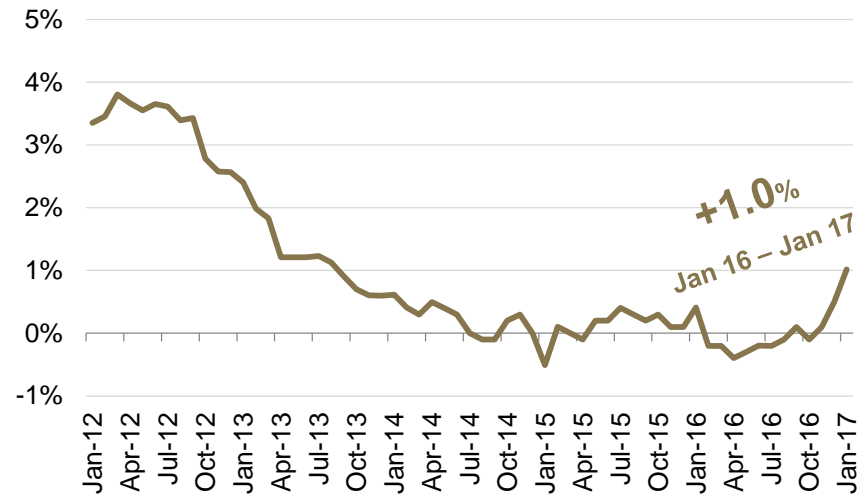
# ITALIAN MACROECONOMIC UPDATE



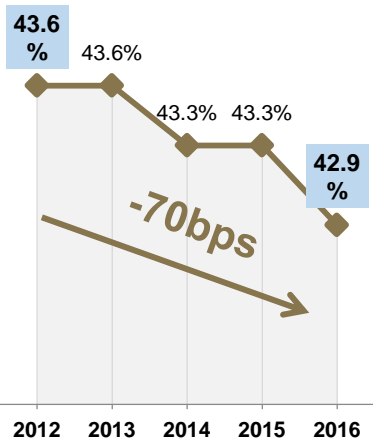
## GDP growth trend



## Inflation

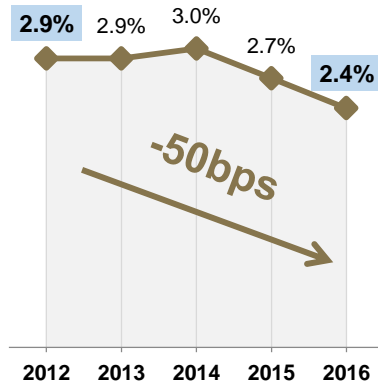


## Tax burden



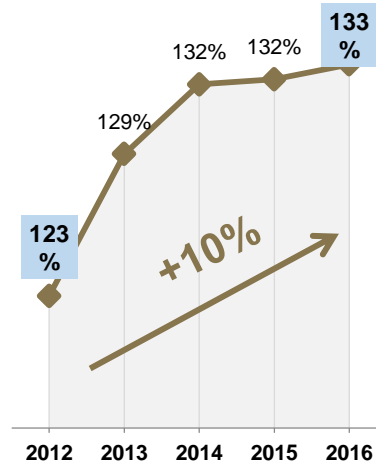
## Deficit

(% of GDP, reversed scale)



## Public Debt

(% of GDP)



✓ GDP growth rate of **0.9%** in 2016, **best since 2010**

✓ After first full year of deflation since 1959, Italy registered its **highest inflation (+1%)** since **2013 in January 2017**

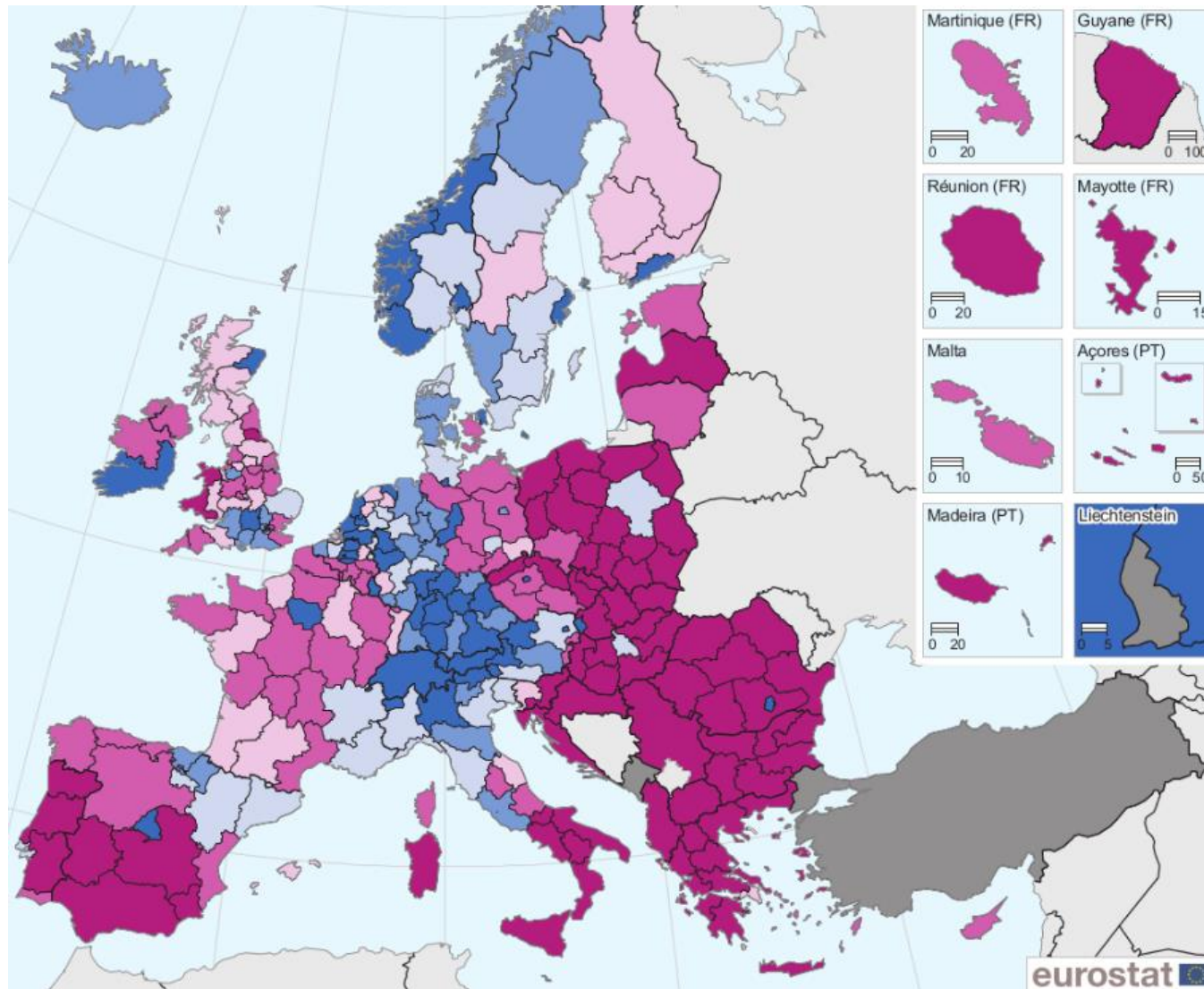
✓ Rising inflation is good news for Italy's mounting debt burden

✓ **Real estate** could be attractive as **inflation hedge**

# REGIONAL GDP PER INHABITANT RELATIVE TO EU-28 AVERAGE



■ Lombardy is positioned among the richest regions in Europe



■ Wide pro-capite GDP gap between **Northern** and **Southern Italian regions**

■ **Lombardy** among the **wealthiest European regions** such as Ile-de-France, Bayern and Baden-Württemberg



# THE “BREXIT OPPORTUNITY” FOR MILAN



- Milan’s mayor Sala is actively pitching **Milan as the location for the European Medicine Authority** supported by Gentiloni’s government

- ✓ EMA currently hosts approx. **900 employees** and receives more than **36,000 visitors annually**
- ✓ Decision for EMA location is expected to be announced in **June**
- ✓ Main competitor cities: Copenhagen, Amsterdam and Vienna



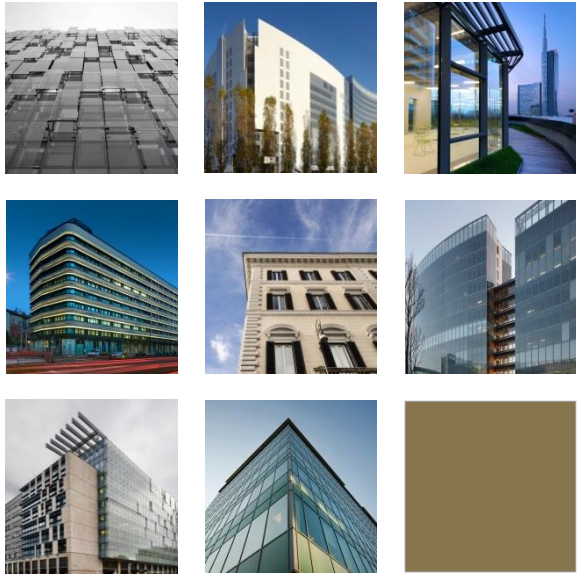
EUROPEAN MEDICINES AGENCY  
SCIENCE MEDICINES HEALTH

- Furthermore, in the context of the “**Pact for Milan**”, which envisages a **€ 2.5 Bn** of public investment plan for the city of Milan, the **Human Technopole** will be developed in a portion of the ex-EXPO area

- ✓ **Scientific-technological international hub**
- ✓ **Catalyst area** for public and private corporate
- ✓ Expected opening in **2018**



# 2. ITALIAN REAL ESTATE MARKET UPDATE



# MARKET UPDATE – ITALY REAL ESTATE MARKET OVERVIEW



## Italian RE fundamentals

### Expected investment transaction volume

~ **€ 2.0 Bn** in Q1 2017 (~ +10% vs. Q1 2016)

### Italian RE prime yields (Jan-Feb 2017)

TREND vs. 2016

OFFICE	<b>3.75%</b> (0 bps vs. 2016, -25 bps vs. 2015)	↔
HIGH STREET RETAIL	<b>3.15%</b> (-10 bps vs. 2016, -35 bps vs. 2015)	↓
LOGISTICS	<b>6.00%</b> (-25 bps vs. 2016, -25 bps vs. 2015)	↓
SHOPPING CENTERS	<b>4.90%</b> (-10 bps vs. 2016, -10 bps vs. 2015)	↓

### Milan and Rome office prime rent (Jan-Feb 2017)

MILAN	<b>500</b> (0% vs. 2016, +2% vs. 2015)	↔
ROME	<b>400</b> (0% vs. 2016, +5% vs. 2014)	↔

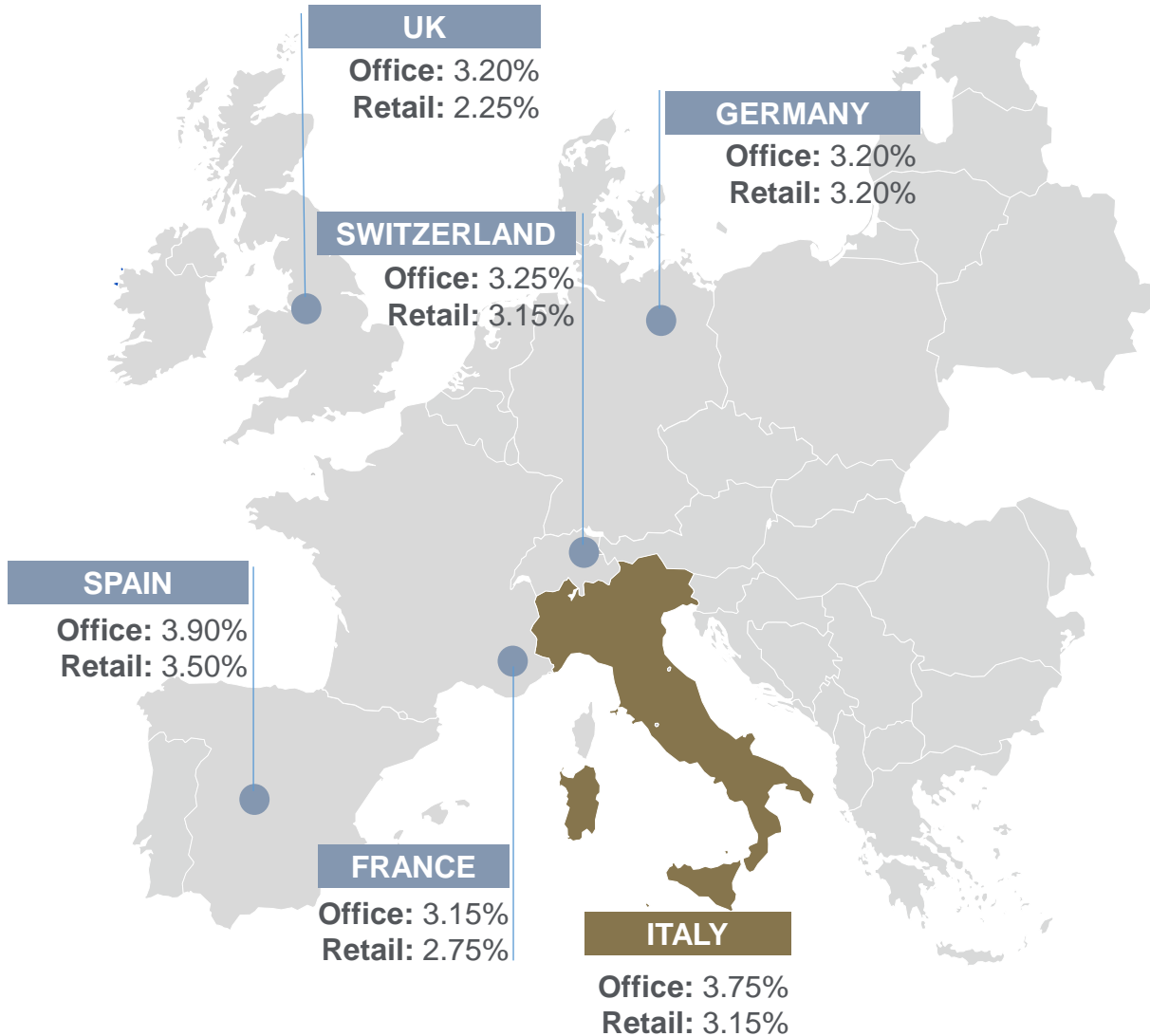
### Milan and Rome space market (Jan-Feb 2017)

MILAN VACANCY	<b>10.5%</b> (0 bps vs. 2016, +30 bps vs. 2015)	↔
ROME VACANCY	<b>9.0%</b> (0 bps vs. 2016, 0 bps vs. 2015)	↔






# ITALY VS EUROPE – PRIME YIELDS



Prime office and retail net yields in Italy with a spread of 50 to 100 bps vs Core Europe



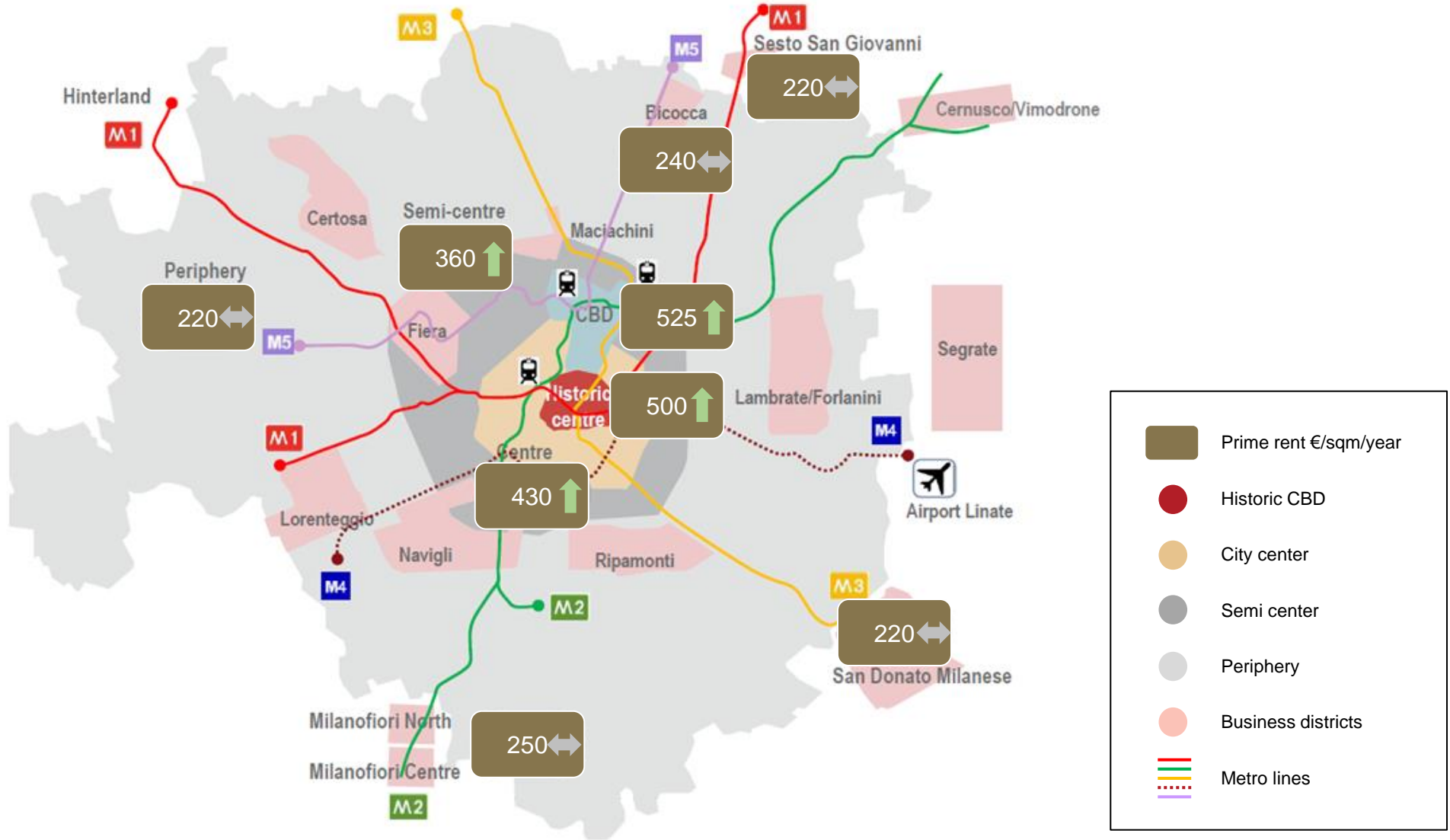
Italy vs Europe yield spread

	Office	Retail
UK 	+55 bps	+90 bps
GERMANY 	+55 bps	-5 bps
FRANCE 	+60 bps	+40 bps
SWITZERLAND 	+50 bps	0 bps
SPAIN 	-15 bps	-35 bps

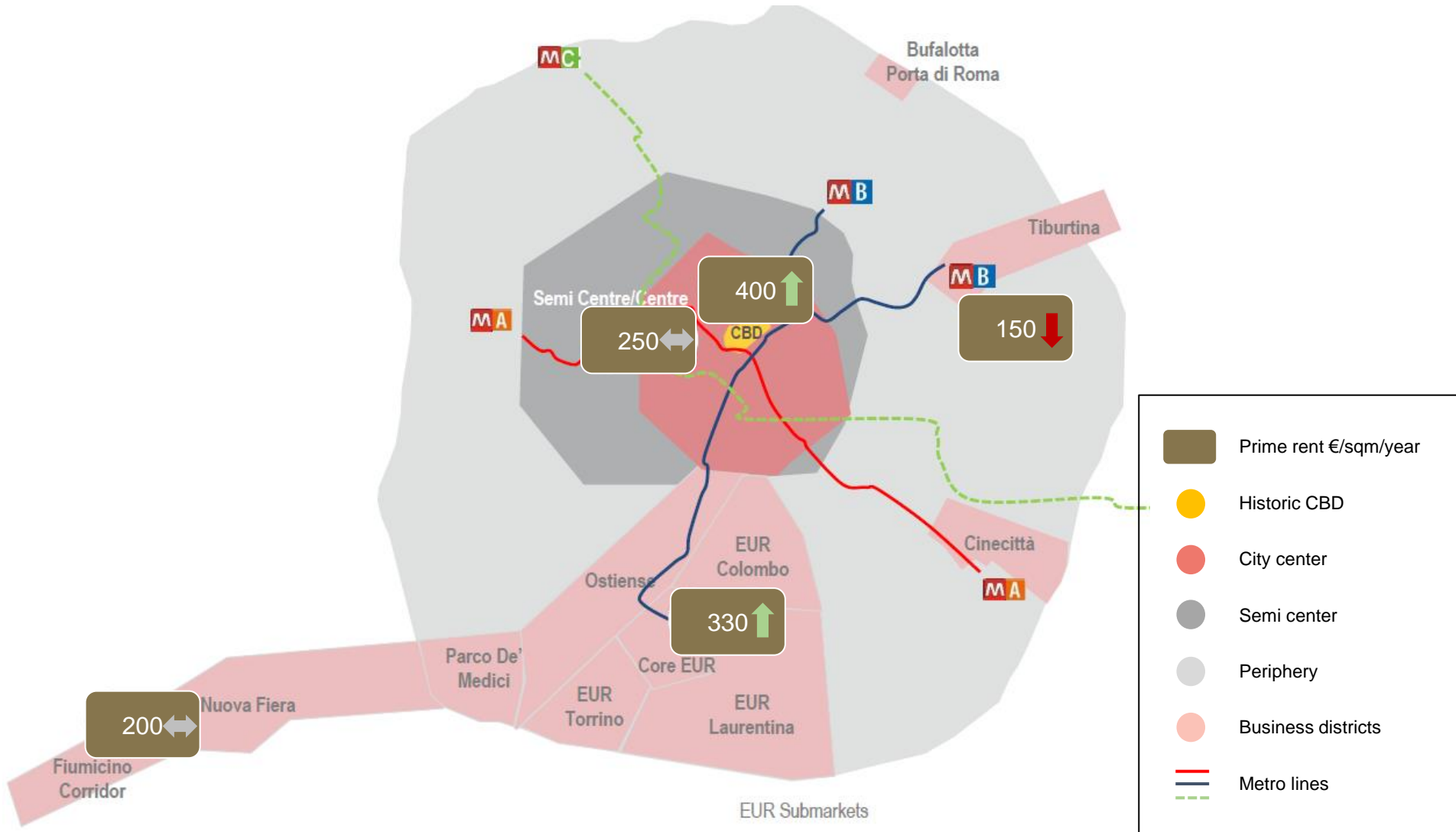
# MILAN KEY AREAS AND PRIME RENTS



## Key Areas and Prime Rents



# ROME KEY AREAS AND PRIME RENTS



# MAIN OFFICE INVESTMENT TRANSACTIONS Jan-Feb 2017 (1/2)



- Investment transactions in the first 2 months of 2017 confirms investors' strong focus on prime office locations, highlighting the continuing trend of prime yields compression



## 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

- Renewed interests for secondary office locations, which trade at premium with respect to prime opportunities



## Via Forlanini 23

Milan - Office  
BNP Paribas REIM Sgr  
Size: 33,000 sqm  
Price: € 59 M



## Deruta

Milan - Office  
Coima RES  
Size: 13,650 sqm  
Price: € 46 M

# MAIN OFFICE INVESTMENT TRANSACTIONS Jan-Feb 2017 (2/2)



■ Large portfolios continue to be a catalyst for investors



## Cloe Fund

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



## Allianz Portfolio

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





# MAIN OFFICE LEASE TRANSACTIONS Jan-Feb 2017 (1/2)



## ■ 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 CBD



### Via Borromei 5

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



## ■ Semi-Center



### Via Filzi 29

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



# MAIN OFFICE LEASE TRANSACTIONS Jan-Feb 2017 (2/2)



## ■ Semi-center



**Via Algardi 4**  
Milan – Office  
Sorgenia  
Size: 4,000 sqm  
Rent (€/sqm): 230



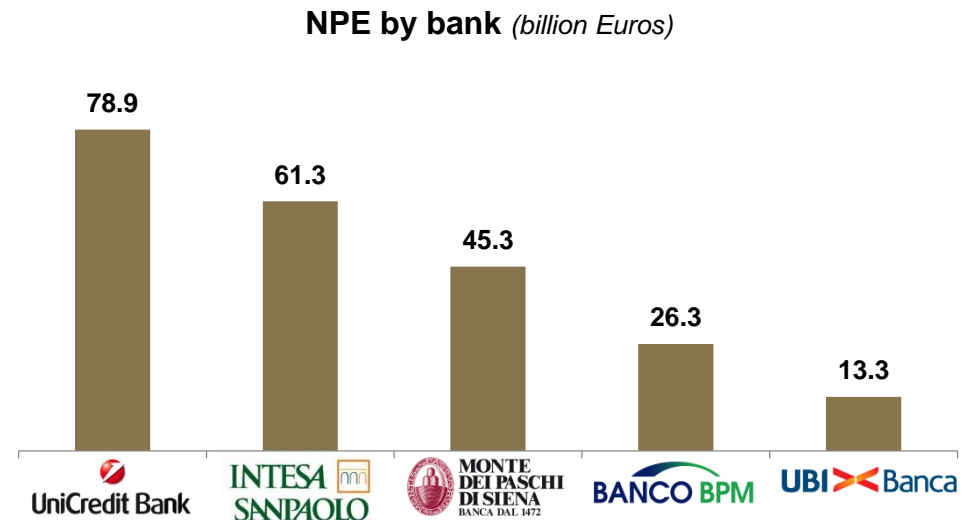
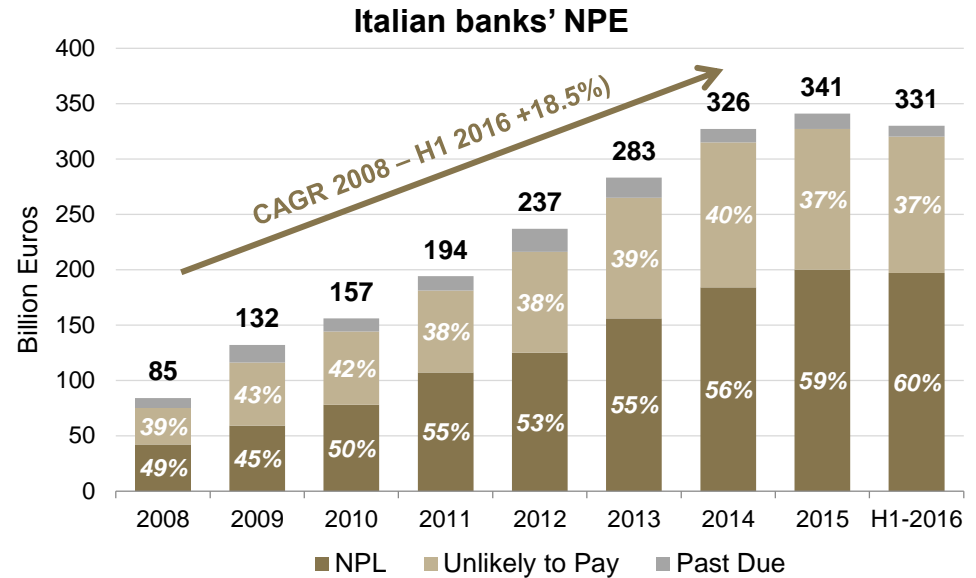
**Via Arconati 1**  
Milan - Office  
Everis  
Size: 5,000 sqm  
Rent (€/sqm): 230



# ITALIAN NPLs (1/2)



- As of June 2016, Non-Performing Exposures (NPE) has risen in Italy, reaching **331 billion Euros**
- Ca. **60%** of the total amount of NPE, is related to **NPLs**
- Nearly half of corporate and retail NPLs are **collateralized by real estate assets**
- ECB pressure on Italian lenders to clean up their balance sheets
- ✓ Italian banks are negotiating the so-called **Asset strategy template** which will detail the **disposal plan of NPLs**





## MAJOR TRANSACTIONS (2015-2016)

Seller	Volume (GBV € M)	Type of Portfolio	Buyer
Unicredit	17,700	Mixed	Fortress + Pimco
RBS & GE	2,500	Mixed	Anacap
Unicredit	2,400	Mixed	Fortress
Archon	2,000	Mixed	DeShaw
MPS	1,700	Unsecured	Deutsche Bank
DeShaw	1,400	Consumer	Banca Ifis
MPS	1,300	Consumer	Banca Ifis + Cerberus
Unicredit	1,200	Secured	Pimco + GWM
BPER	450	Mixed	Algebris + Cerberus

# KEY MARKET OPPORTUNITIES

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## ■ INVESTMENTS

### ■ Market timing

- ✓ Window for **prime core** closing with potential marginal cap compression in the short term
- ✓ **Good quality secondary core** and **value added** still remain interesting on a risk adjusted basis

### ■ Real Estate disposal

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

## ■ LEASING

- ✓ Growing tenant demand in Milan, mainly focused on **Grade A space**
- ✓ Main demand drivers: **cost efficiency** and **improved office quality**
- ✓ Most **active tenants** by **sectors: banking** and **finance, internet, services**
- ✓ Tenants demand higher in specific winning locations. Milan: Porta Nuova, CBD North of Duomo and some selective peripheral business parks; Rome: EUR and City Center



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