

Real Estate SIIQ



# MONTHLY CALL

*January 26<sup>th</sup>, 2017*



# 1. ITALIAN POLITICAL & ECONOMIC SCENARIO UPDATE

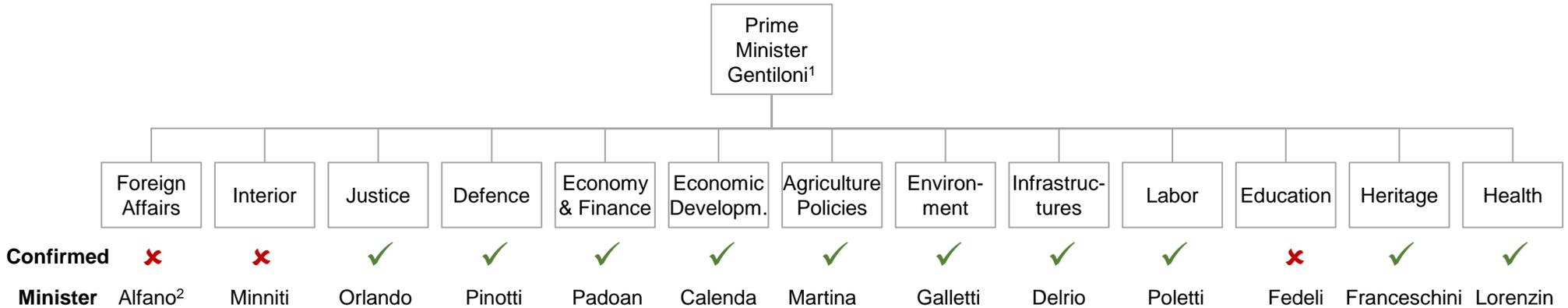


# PROMPT NEW GOVERNMENT CREATES CONTINUITY



■ On December 7<sup>th</sup>, Mr. Renzi resigned after the approval of 2017 Budget Law

■ On December 12<sup>th</sup>, Mr. Paolo Gentiloni has been appointed by President Sergio Mattarella to form a government in continuity with Renzi's government confirming 10 of 13 ministers



1) Minister of Foreign Affairs during Renzi's government

2) Minister of Interior during Renzi's government

## Paolo Gentiloni CV highlights:

- Jubilee and Tourism Councilor in the Rome City Council (1993)
- Member of the Chamber of Deputies (2001 – ongoing)
- Former Minister of Communications (2006 - 2008)
- Minister of Foreign Affairs during Renzi (2014 – 2016)





## ■ Electoral law reform

- On January 25<sup>th</sup>, the Italian Constitutional Court ruled on the compliance of the Italicum with the Constitution
  - Confirming the majority premium (55% of seats, to any party that manages to win 40% of the vote)
  - Rejecting the run-off voting that takes place between the two strongest parties if no group clears the 40-percent hurdle; seats should be appointed on a proportional basis if all the parties are below 40%
- On the basis the current electoral law, the two houses are elected through two different electoral systems
- Political target of the main parties is to uniform the electoral systems in the two houses in the coming months

## ■ Definition and approval of stimulus package for Italian economy's growth

## ■ Decree “Salva Banche”

- Approved on December 23<sup>rd</sup>
- Rescue plan with a firepower up to 20 billion Euros, whose aim is to support Italian banks' capital

# BUDGET LAW – EXPECTED POSITIVE IMPLICATIONS ON REITs



- Italian Budget Law approved in December 2016 includes specific measures aimed to stimulate investments in the capital of Italian companies, including Real Estate companies, through tax incentives

## PIR

- **Tax exemption from 26%** for income and capital gain that regard:
  - Holding period **5 years**
  - Maximum investment of € 30k
  - Investments in **listed companies** (Italian and/or European) also **REITs**

## Non residents

- **Non-residents who transfer in Italy** can opt for a **flat € 100,000 tax per year** on a forfeit basis
- **No gift and inheritance tax** on non-Italian assets

## Pension Funds & Social Security Institutions

- **Tax exemption** for income and capital gain up to 5% invested in shares or quotas of Italian companies **including REITs**

## BUDGET LAW - TAX INCENTIVE SYSTEM



- **Liquidity to the Italian listed market including small caps and REITs**
  - i. significant impact in small caps and REITs industry
  - ii. over 4.4 billion Euro inflows<sup>1</sup> in the next 3 years
  - iii. experiences of other countries show that this stimulus investment package is useful

# BANK SECTOR WORKING TO STABILIZE



## ■ Italian banks and government are acting to strengthen and stabilize capital requirements

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

Monte dei Paschi di Siena (MPS)	 <b>MONTE DEI PASCHI DI SIENA</b> BANCA DAL 1472	<ul style="list-style-type: none"> <li>✓ 8.8 billion Euros of capital increase by May</li> <li>✓ Italian government bailout</li> </ul>
UniCredit	 <b>UniCredit Bank</b>	<ul style="list-style-type: none"> <li>✓ 13 billion Euros of capital increase by mid of February</li> </ul>
Veneto Banca & Banca Popolare di Vicenza	 <b>VENETO BANCA</b> Banca Popolare di Vicenza	<ul style="list-style-type: none"> <li>✓ By the end of January, presentation of the merger roadmap</li> <li>✓ Capital increase defined after annual results presentation</li> </ul>

## ■ M&A activities

IntesaSanPaolo & Generali Assicurazioni	 <b>INTESA SANPAOLO</b> GENERALI GROUP	<ul style="list-style-type: none"> <li>✓ Potential interest of ISP to Generali Group for business synergies</li> </ul>
BPM & Banco Popolare	 <b>BANCO BPM</b>	<ul style="list-style-type: none"> <li>✓ Merger between Banco and BPM on Jan. 1<sup>st</sup></li> <li>✓ 3<sup>rd</sup> Italian Bank</li> </ul>

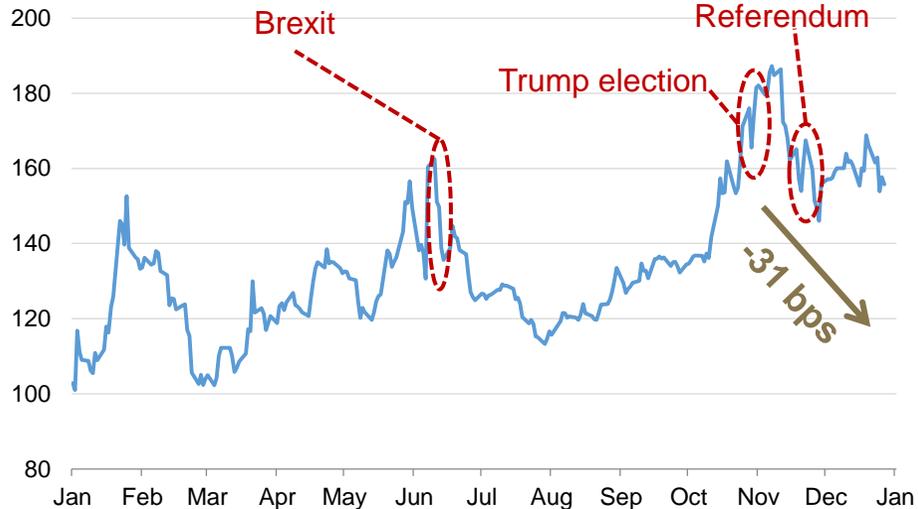
## ■ International Bank

Deutsche Bank		<ul style="list-style-type: none"> <li>✓ Agreement of \$7.2 billion settlement with the US department</li> <li>✓ Share price quotes above 18 € p.s. (+85% vs the 52-week minimum share price)</li> </ul>
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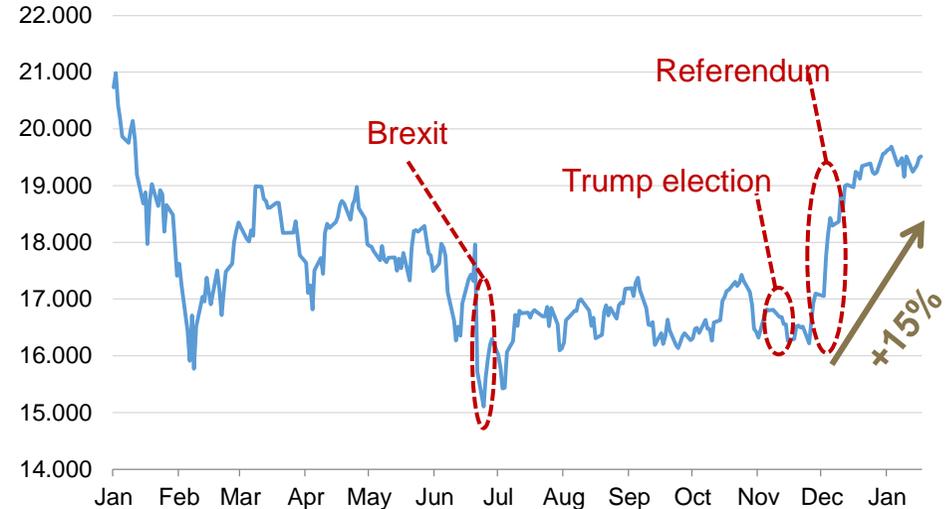
# MAIN 2016 CATALYSTS HAVE NOT AFFECTED ITALIAN OUTLOOK



■ Italian BTP vs German Bund spread in 2016 (bps)



■ FTSE MIB Index trend



■ Main 2016 catalysts not affected Italian stock market and BTP-Bund spread

■ Banking system on track to recovery

- MPS state bail-out
- Unicredit capital increase by mid-February

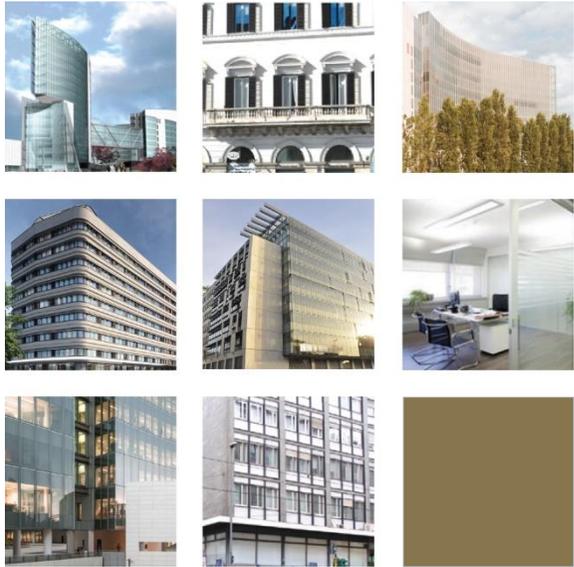
■ New prompt government in continuity with Renzi's mandate

■ No early Italian general elections expected for 2017



Improved outlook for 2017 with respect to 2016

# 2. ITALIAN REAL ESTATE MARKET UPDATE



# MARKET UPDATE – ITALY REAL ESTATE MARKET OVERVIEW (1/2)



## Italian RE fundamentals

### Investment transaction volume

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

### Italian RE prime yields (Q4 2016)

TREND vs. 2015

OFFICE	<b>3.75%</b> (-25 bps vs. 2015, -125 bps vs. 2014)	↓
HIGH STREET RETAIL	<b>3.25%</b> (-25 bps vs. 2015, -125 bps vs. 2014)	↓
LOGISTICS	<b>6.25%</b> (0 bps vs. 2015, -125 bps vs. 2014)	↔
SHOPPING CENTERS	<b>5.00%</b> (0 bps vs. 2015, -100 bps vs. 2014)	↔

### Milan and Rome office prime rent (Q4 2016)

MILAN	<b>500</b> (+2% vs. 2015, +4% vs. 2014)	↑
ROME	<b>400</b> (+5% vs. 2015, +5% vs. 2014)	↑

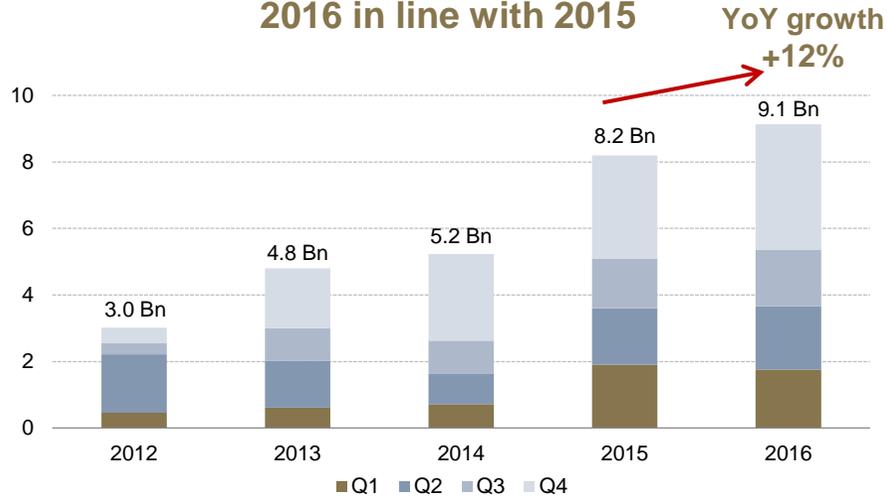
### Milan and Rome space market

MILAN VACANCY	<b>10.5%</b> (+ 30 bps vs. 2015, 0 bps vs. 2014)	↔
ROME VACANCY	<b>9.0%</b> (0 bps vs. 2015, +10 bps vs. 2014)	↔

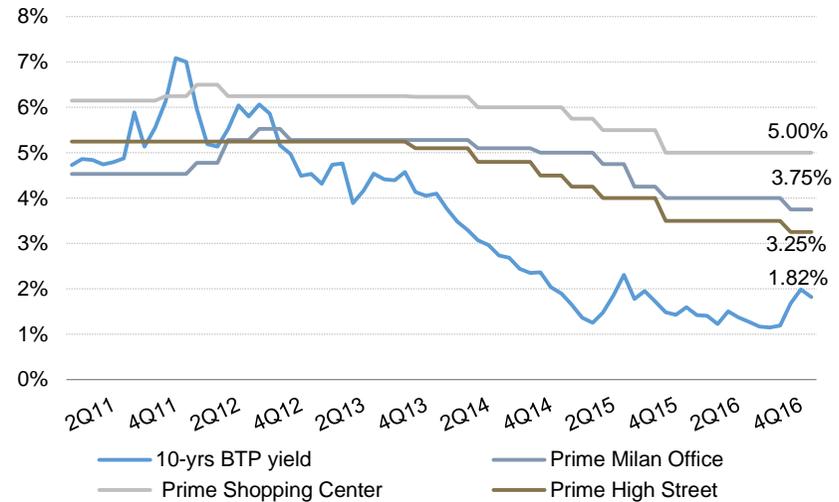
# MARKET UPDATE – ITALY REAL ESTATE MARKET OVERVIEW (2/2)



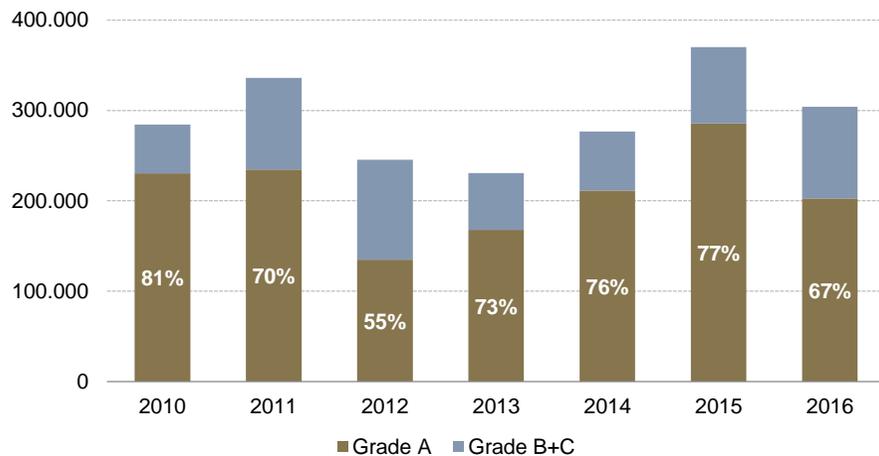
## Improved investment volume 2016 in line with 2015



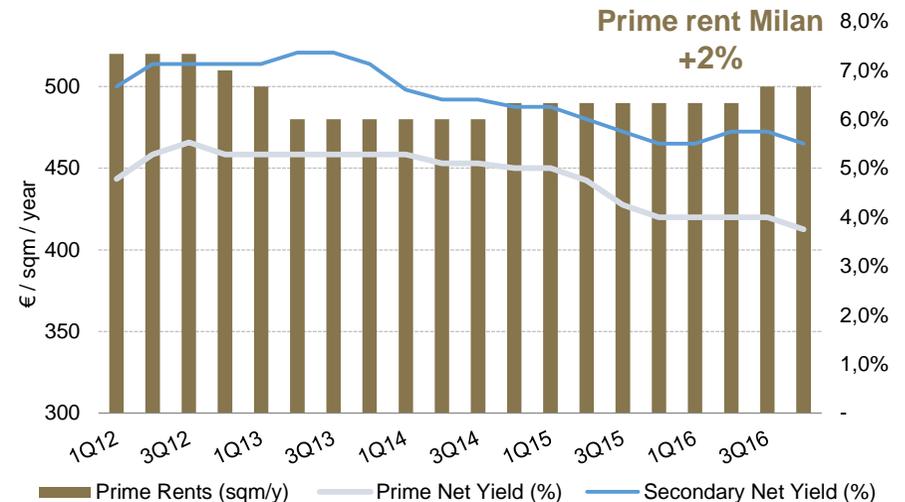
## Prime office yield lowering to 3.75%



## Office demand driven by Grade A assets



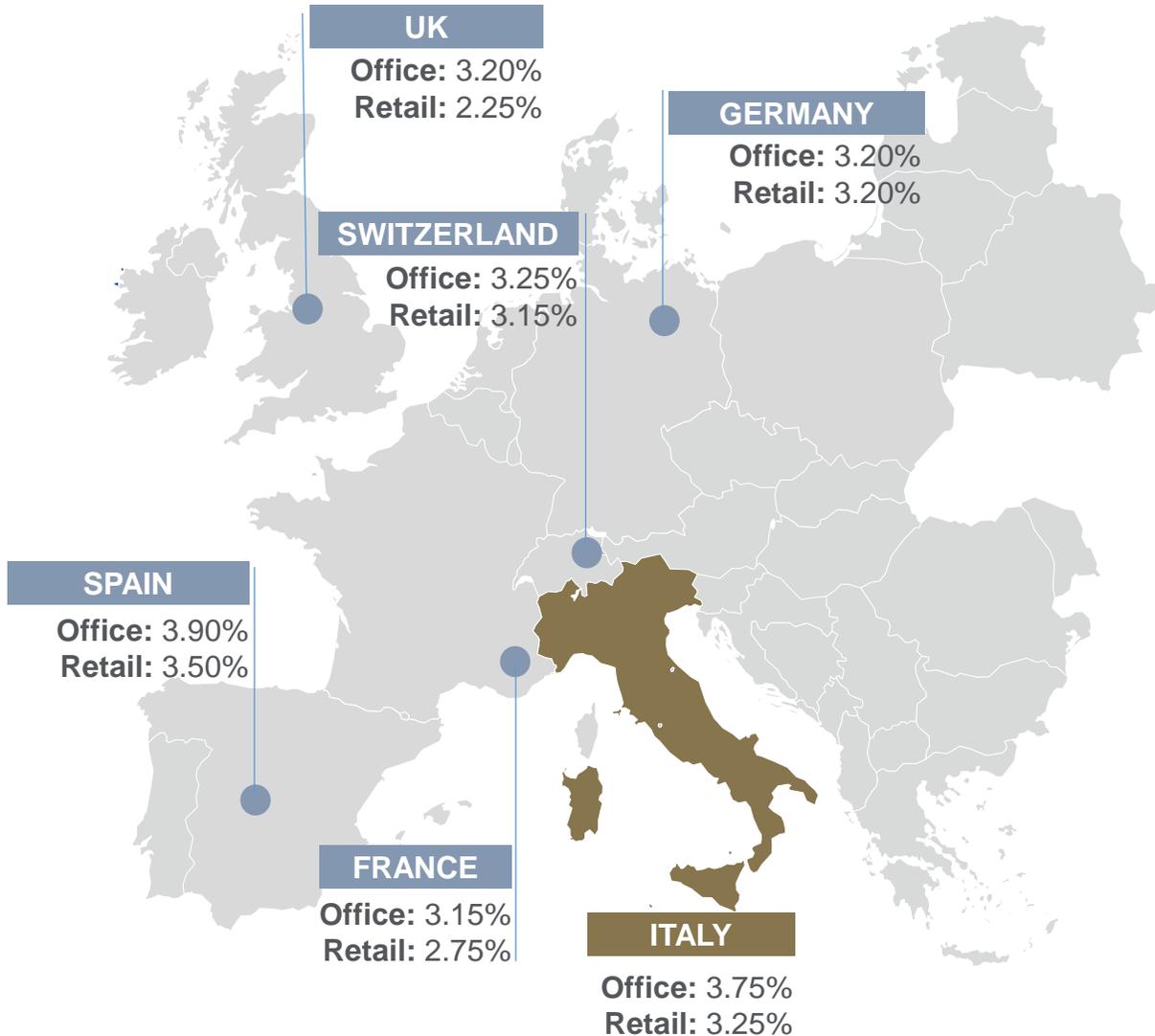
## Prime rent recovering



# ITALY VS EUROPE – PRIME YIELDS



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



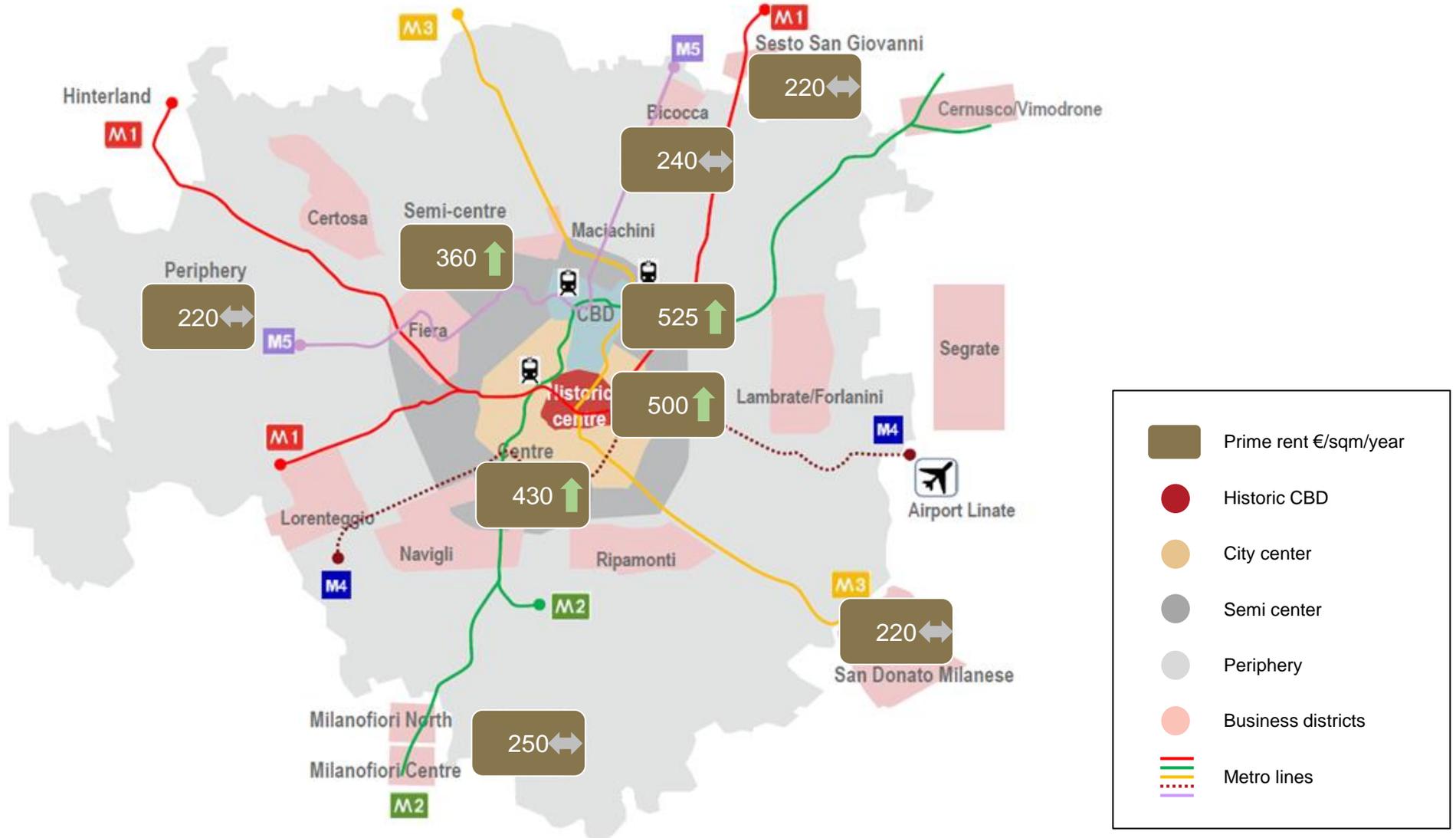
Italy vs Europe yield spread

	Office	Retail
UK 	+55 bps	+100 bps
GERMANY 	+55 bps	+5 bps
FRANCE 	+60 bps	+50 bps
SWITZERLAND 	+50 bps	+10 bps
SPAIN 	-15 bps	-25 bps

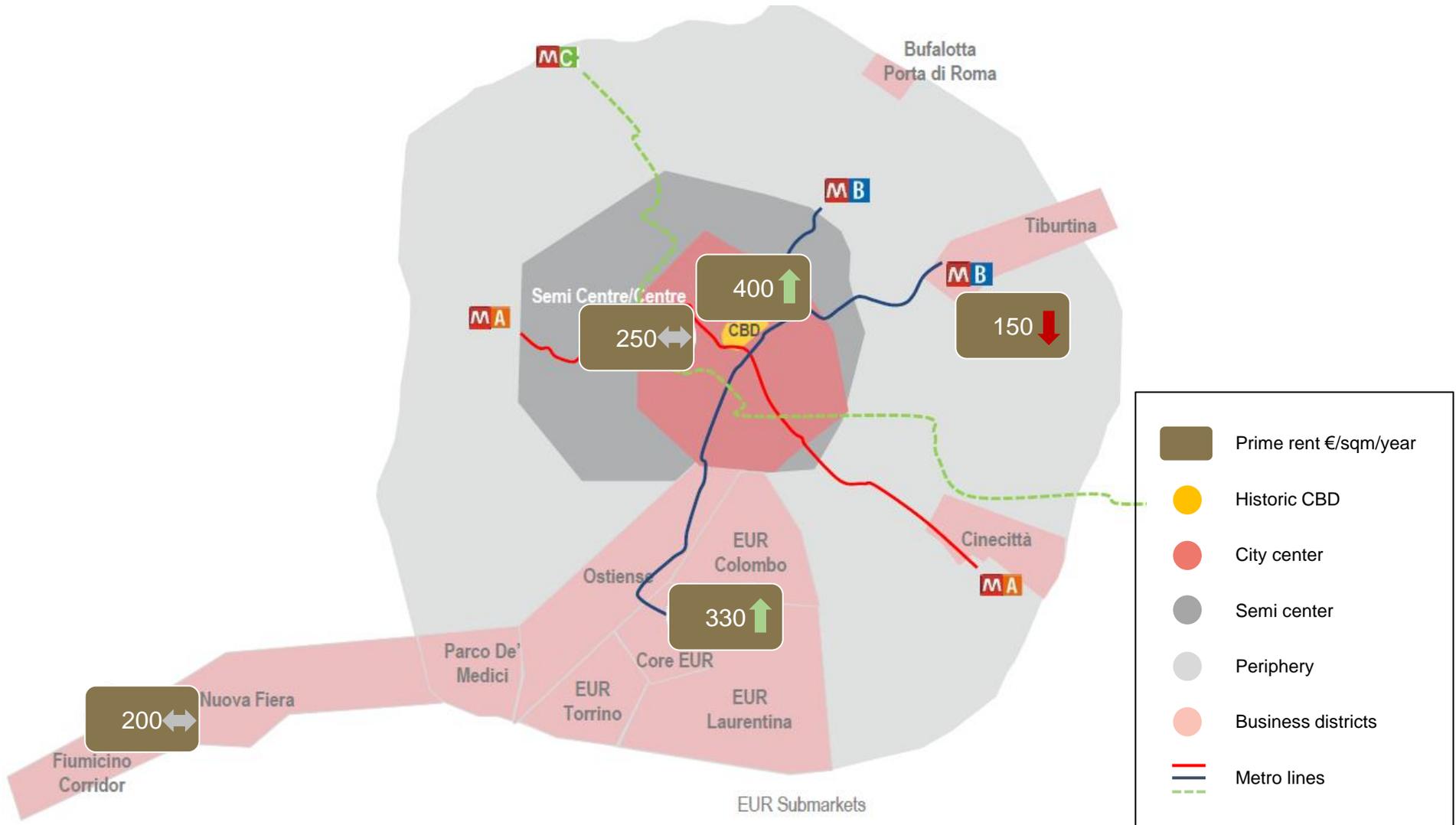
# MILAN KEY AREAS AND PRIME RENTS



## Key Areas and Prime Rents



# ROME KEY AREAS AND PRIME RENTS



# MILAN MAIN OFFICE LEASING TRANSACTIONS – 4Q 2016



## Milan Center



**Via San Marco 21**

Grade A

Leased to public company - 2016

Avg. Rent: c. **€ 420/sq.m**

Sub-market trend:



## Milan CBD



**Via Turati 25**

Grade A

Leased to banking company - 2016

Avg. Rent: c. **€ 505/sq.m**

Sub-market trend:



## Milan prime semi-center



**Via Filzi 29**

Grade A

Leased to consulting company - 2016

Avg. Rent: c. **€ 390/sq.m**

Sub-market trend:



## Milan periphery



**Centro Leoni**

Grade A

Leased to consulting company - 2016

Avg. Rent: c. **€ 240/sq.m**

Sub-market trend:



## Milan hinterland



**Via dell'Unione Europa – San Donato**

Grade A

Leased to consulting company - 2016

Avg. Rent: c. **€ 200/sq.m**

Sub-market trend:



# MAIN OFFICE INVESTMENT TRANSACTIONS Q4-2016



- Investment transactions in 2016 have confirmed investors strong focus on prime office locations, which resulted in a further compression of office prime yields



## Palazzo Banco di Roma

Milan – Office  
Hines Italy  
Size: 22,000 sqm  
Price: € 220 M



## Corso Europa 2

Milan - Office  
BNP Paribas REIM Sgr  
Size: 15,000 sqm  
Price: € 91 M

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



## Nestlè HQ

Milan - Office  
-  
Size: 22,000 sqm  
Price: ~ € 85 M

- Large banks portfolio continue to be a catalyst for investors



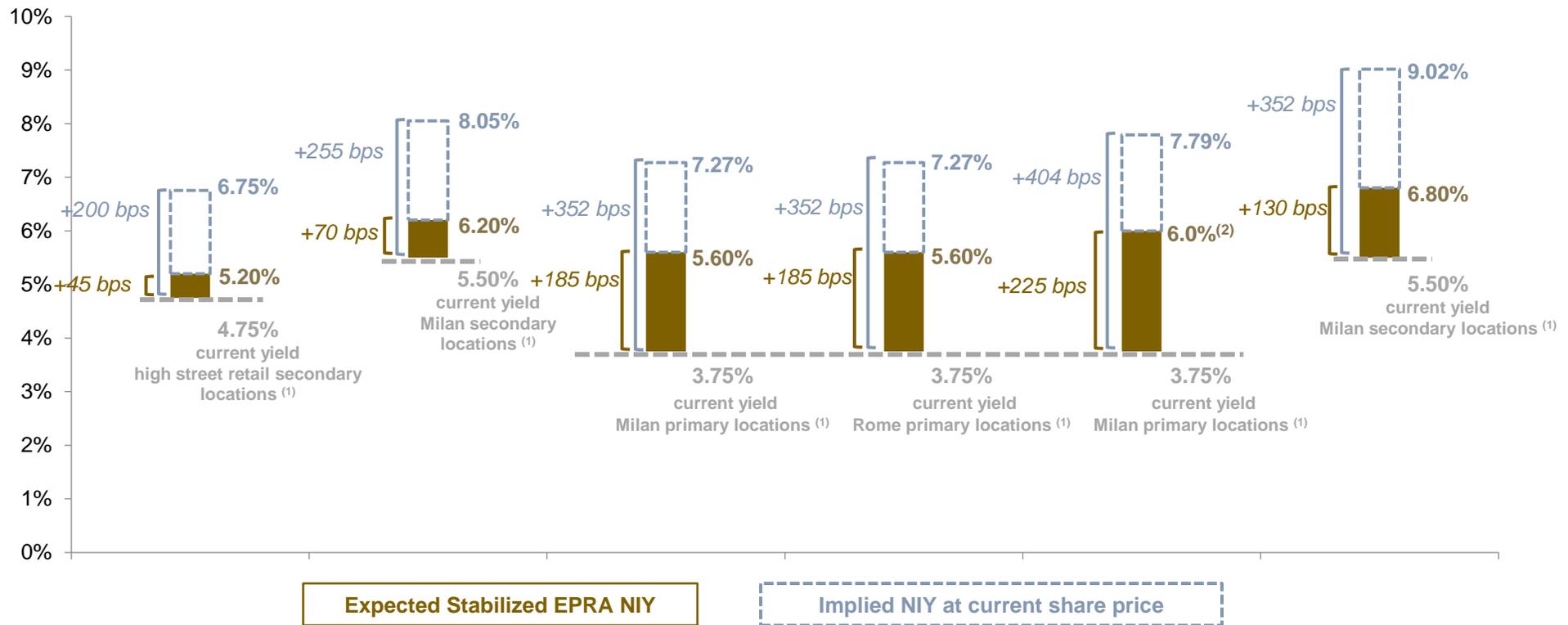
## Yielding Fund - Intesa Portfolio

Office  
IDeA FIMIT SGR, Postevita,  
Generali  
Size: 26 assets  
Price: € 500 M

# COIMA RES PORTFOLIO YIELD VS MARKET



- COIMA RES portfolio: approx. 630 million Euros
- All acquisitions executed off-market
- Portfolio located in liquid market (Milan 67% and Rome 14%)
- Office use focus





## INVESTMENT

- Continued interest by **international investors**
- Additional liquidity from **Italian investors** (insurance companies and pension funds)
- **Portfolio disposals** (Banks sale&leaseback, Public Assets, NPLs)
- Spread between prime and secondary **core assets** expected to reduce
- Expected **cap compression**:
  - ✓ 50+ bps for good quality secondary
  - ✓ 25+ bps for prime
- **Growing appetite for value added** assets in good locations near infrastructures

## LEASING

- Growing tenant' demand, mainly focused on **Grade A space**
  - ✓ Milan average vacancy rate 10.5% vs Milan average vacancy rate Grade A <2%
- Main demand drivers: **cost efficiency** and **improved office quality**
- Main demand sectors: IT, Financials and Telecom
- Demand concentrated on **specific locations**: Porta Nuova, CBD and peripheral business parks
- Expected prime rental **growth 5 – 10%** in the next 24 months



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