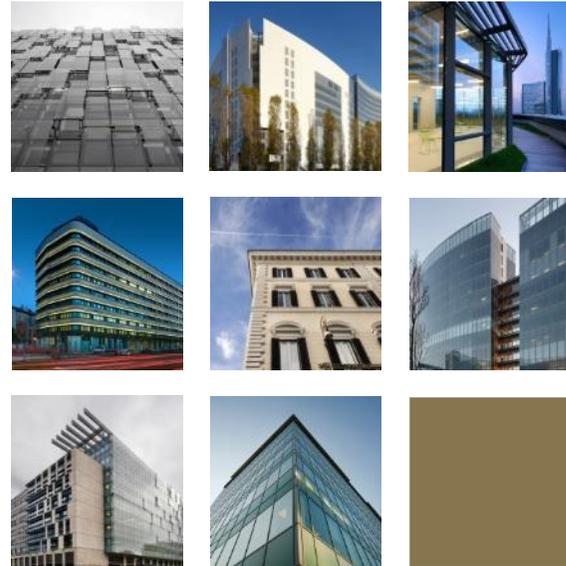


Real Estate SIIQ

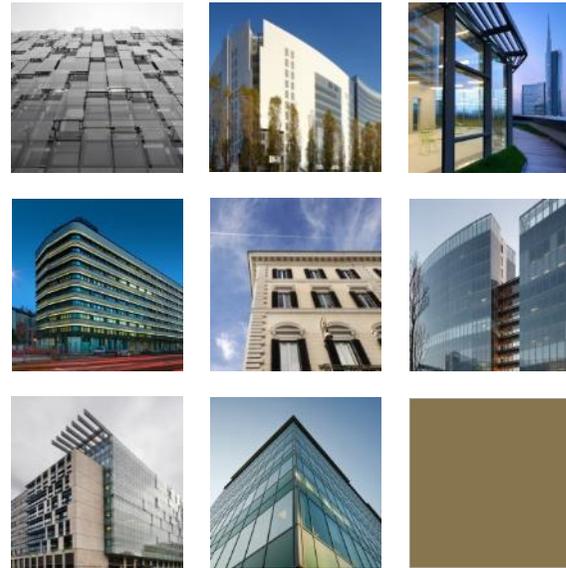


*September 28<sup>th</sup>, 2017*



# MONTHLY CALL

# 1. ITALIAN POLITICAL & ECONOMIC SCENARIO UPDATE



# ITALY: ELECTIONS, WHAT TO EXPECT?



## GENERAL OBSERVATIONS

### ■ TIMING

- ✓ Most likely scenario is elections in May 2018

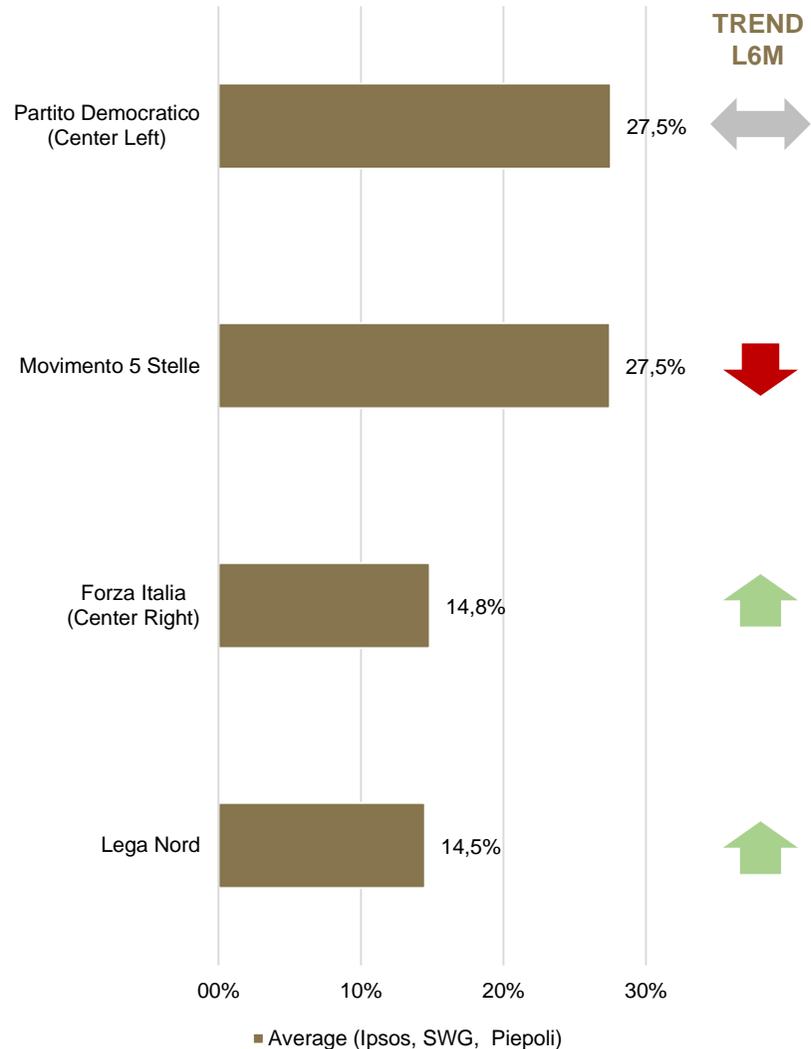
### ■ ELECTORAL LAW

- ✓ Parliament working on a new electoral law to improve the current electoral system
- ✓ Current electoral system based on:
  - ✓ two round system
  - ✓ party-list proportional representation
  - ✓ majority bonus to 54% for party achieving more than 40% votes

### ■ POTENTIAL 2018 ELECTION OUTCOME

- ✓ Unlikely one party able to secure a majority
  - ✓ Most likely scenario entails a coalition
- ✓ Reform process initiated by Mr Renzi and continued by Mr Gentiloni likely to continue

## LATEST POLLS (4-10 SEPTEMBER 2017)



# BUDGET LAW ADD STIMULUS TO ITALIAN ECONOMY

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## BUDGET LAW: WHAT TO EXPECT

### ■ TIMING

- ✓ Discussions on the Budget Law started on September 21<sup>st</sup>, 2017
- ✓ Approval of the Budget Law expected for December 2017
- ✓ Budget Law of €18bn expected (vs €27bn of 2017 and €35bn of 2016)
  - ✓ €18bn sourced from
    - ✓ deficit (€8bn)
    - ✓ cost-cutting and tax evasion collection (€8bn)
    - ✓ 5-G frequency auction (€2bn)

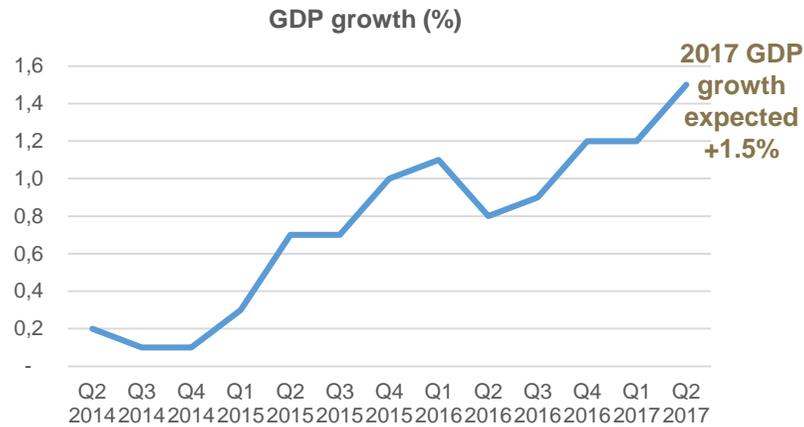
### ■ KEY PILLARS

- ✓ Corporate tax incentives to support new hires (32 years old or younger)
- ✓ Toll-over of the tax incentives introduced with the Industry 4.0 package
  - ✓ Tax incentives aimed at boosting investments:
    - ✓ 40% depreciation for machinery and equipment
    - ✓ Full tax exemption for long term investments
  - ✓ Tax incentives to support innovation:
    - ✓ 250% depreciation for high-tech goods

# ITALY: CONTINUED MACRO IMPROVEMENTS



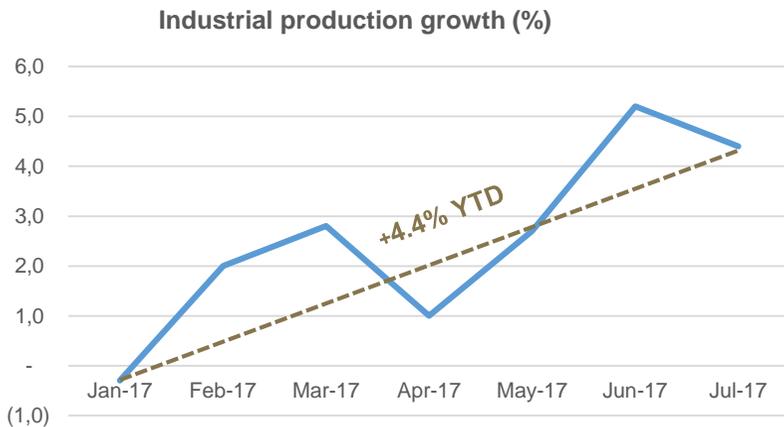
## GDP GROWTH POSITIVE TREND CONTINUING



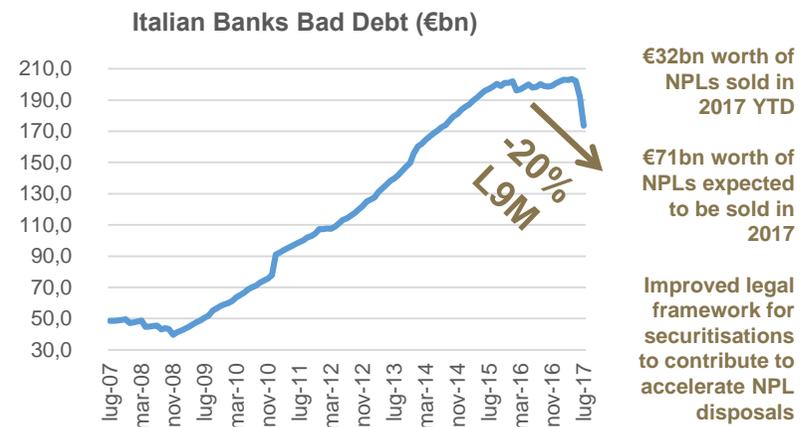
## NEW JOBS BEING CREATED



## INDUSTRIAL PRODUCTION GROWTH



## ITALIAN BANKS BAD DEBT DECLINING



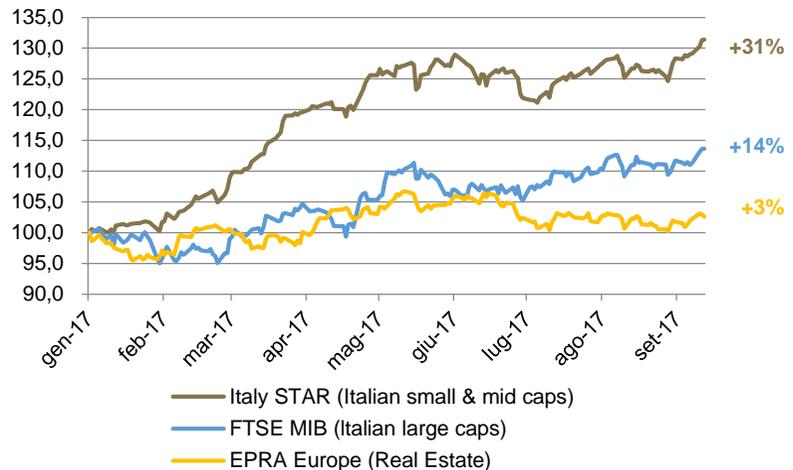
# PIR: REAL ESTATE ELIGIBILITY IS A POSSIBILITY



## PIR: MAIN FEATURES AND REIT INCLUSION

- PIR are tax exempt (incomes and capital gains) investment schemes:
  - Maximum annual investment of €30k for 5 years
  - At least 70% invested in financial instruments issued by Italian listed or non-listed Italian companies (with the exception of real estate) of which, at least, 30% invested in Italian mid-small caps securities
  - Residual 30% invested in any financial instrument
- REITs inclusion in PIR under discussion**
  - Assoimmobiliare** and **European Real Estate Public Association (EPRA)** supportive
  - If change enacted, inclusion is likely to be effective from **January 1<sup>st</sup>, 2018**

## PIR: BOOST EFFECT ON ITALIAN SMALL CAPS



## PIR: ACTUAL NET IN-FLOWS 3x INITIAL FORECAST

- As of June 30<sup>th</sup>, 2017, net in-flows of €5.3bn (3x initial forecast)
  - Intesa Sanpaolo Group: €1.4bn inflows
  - Mediolanum: € 1.2bn inflows
  - Others (Arca, Pioneer, Anima, Amundi, etc.): €2.7bn inflows
- PIR funds invested €2.7bn in Italian equities, of which €930m (ca. 35%) in small & mid caps
  - Italian mid-small caps has recorded a performance of 31% YTD

## PIR: EXPECTED INFLOWS

EUR million	2017	2018	2019	2020	2021
<b>Inflows</b>					
Year 1	10,000	9,000	8,000	7,000	6,000
Year 2		5,000	4,500	4,000	3,500
Year 3			2,500	2,250	2,000
Year 4				1,250	1,125
Year 5					625
<b>Total inflows</b>	<b>10,000</b>	<b>14,000</b>	<b>15,000</b>	<b>14,500</b>	<b>13,250</b>
Outflows	-	(1,400)	(2,660)	(3,894)	(4,955)
<b>Net cumulated inflows</b>	<b>10,000</b>	<b>22,600</b>	<b>34,940</b>	<b>45,546</b>	<b>53,841</b>

# THE “BREXIT OPPORTUNITY” FOR MILAN

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- Potential allocation / consolidation of resources in Milan by international investment banking
  - ✓ 1,500 resources from UK to Milan according to preliminary forecasts by Ministry of Finance
  
- Milan’s mayor is actively pitching **as the location of choice for the European Medicine Authority (“EMA”)** supported by Government
  - ✓ EMA currently hosts approx. **900 employees**
  - ✓ **500 international meetings** per year, c. **100,000 visitors** per year
  
- There have been **19 offers from European cities** to host the EMA
  
- **3-steps procedure** for EMA location decision
  - ✓ By end of September: Commission assesses the offers based on agreed criteria
  - ✓ By end of October: political discussion on the Commission’s assessment
  - ✓ By end of November: EU27 Ministers vote and decide the relocation

# MILAN FINTECH DISTRICT – A NEW EUROPEAN HUB DEDICATED TO START-UP

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- Opened in Milan Porta Nuova Fintech District, the **country's first hub** dedicated to **the most cutting edge businesses in the financial and technological industry**
  - ✓ the hub, modelled as Level39 in London or Station F in Paris, is a **dedicated place to foster the development and growth of companies in the industry** for
    - ✓ start-ups
    - ✓ entrepreneurs
    - ✓ financial institutions
    - ✓ investors and
    - ✓ universities
  
- **30 firms** have already selected the Fintech District as their home
  - ✓ Approx. € 200M of funds already collected by 10 firms

# INCENTIVES SYSTEM TO ATTRACT CORPORATES AND HUMAN CAPITAL



■ Relevant structural reforms have been implemented in the last years to create a more flexible economy and attractive business environment

## Corporate Taxation

- ✓ Reduced tax wedge from 27.5% to 24%
- ✓ **Boosted investment:**
  - ✓ Full tax exemption for long term investment
- ✓ **Fostered innovation**
  - ✓ 250% depreciation for high-tech goods
  - ✓ Package of incentives for Innovative SMEs and Start ups

## Individual Taxation

- ✓ **Tax breaks for qualified staff moving to Italy**
  - ✓ 4-year tax exemption on 90% of remuneration for professor and researchers
  - ✓ 5-years tax exemption on 50% of remuneration for managers and professionals
  - ✓ 15-years substitute tax of € 100k on all foreign source income
- ✓ **No property tax on main dwellings**

## Labour market: “Jobs Act”

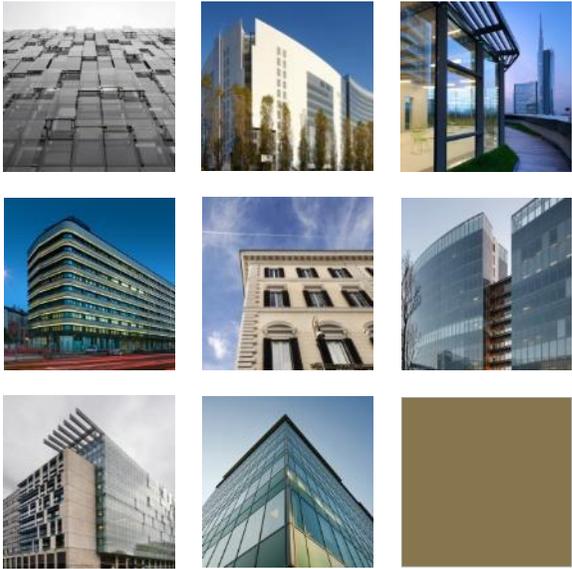
- ✓ One **single employment contract** with increasing protection
- ✓ **Standard compensation** in case of lay-offs with caps set by law
- ✓ Workplace **reinstatement limited** to exceptional circumstances
- ✓ **Strengthened tax incentives** for performance-linked salaries
- ✓ Streamlined **unemployment benefits**

## Tax administration

New measures provide **certainty and predictability to investors:**

- ✓ **Abuse of law codified**, with a defined perimeter of application
- ✓ **Cooperative compliance and rulings** introduced and operational
- ✓ **Distinction between criminal and civil law liabilities** clarified
- ✓ **Post BEPS, arbitration on international tax disputes** soon to be introduced in Italy's treaty network

# 2. ITALIAN REAL ESTATE MARKET UPDATE



# MARKET UPDATE – ITALIAN REAL ESTATE MARKET OVERVIEW



## Investment transaction volume

~ **€ 5.9 Bn** in H1 2017 (~ + 60% vs. H1 2016)

## Italian RE prime yields (Q2 2017)

TREND vs. 2016

		TREND vs. 2016
OFFICE	<b>3.50%</b> (-25 bps vs. 2016, -50 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 (Q2 2017)

<b>MILAN</b>	<b>530</b> (+6% vs. 2016, +8% vs. 2015)	
<b>ROME</b>	<b>400</b> (0% vs. 2016, +5% vs. 2015)	

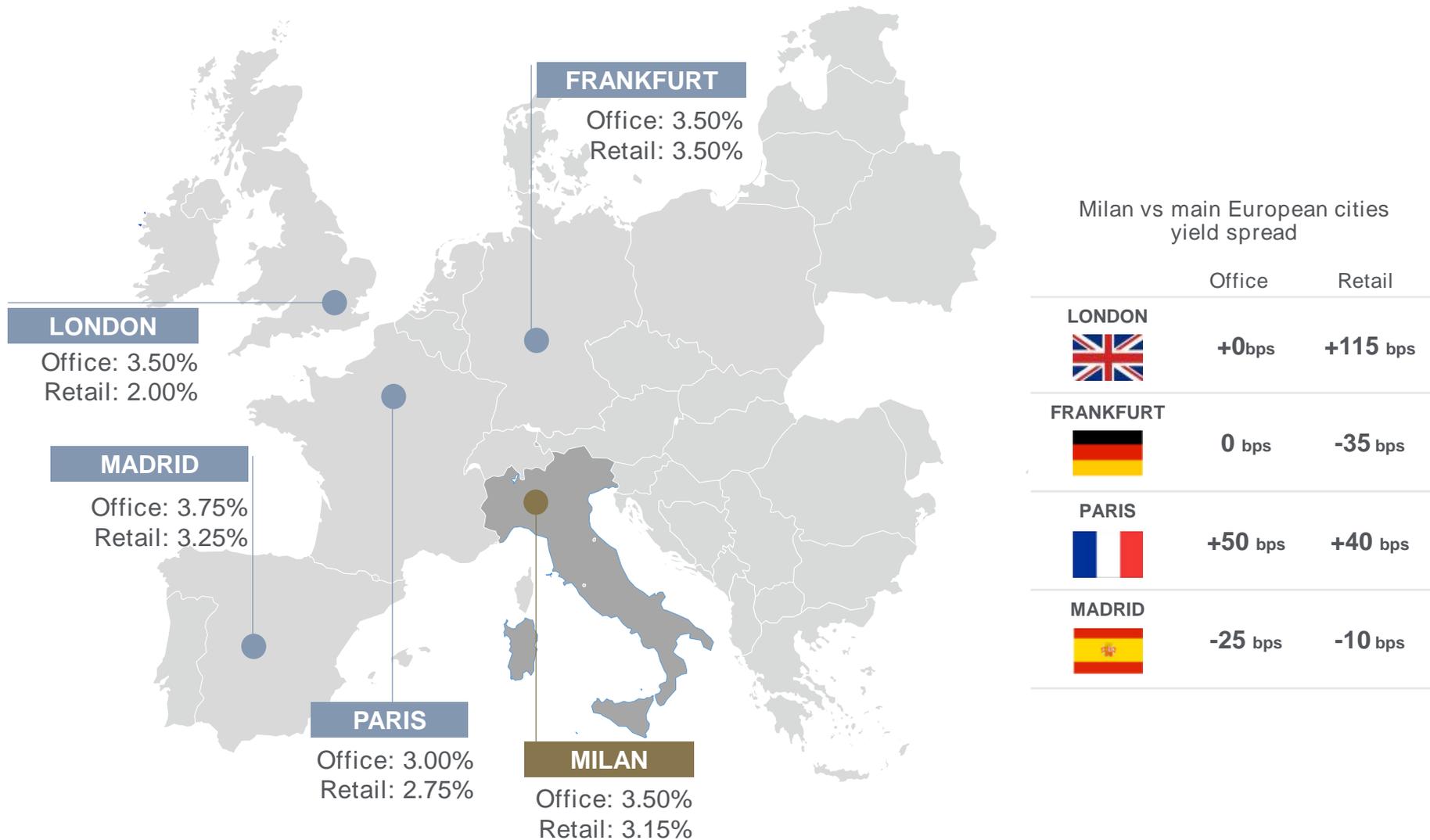
## Milan and Rome office space market (Q2 2017)

<b>MILAN VACANCY</b>	<b>12.1%</b> (+0 bps vs. 2016, +0 bps vs. 2015)	
<b>ROME VACANCY</b>	<b>12.1%</b> (+20 bps vs. 2016)	

# ITALY VS EUROPE – PRIME YIELDS



Prime office net yields in Milan with a spread up to 50 bps vs Core European cities

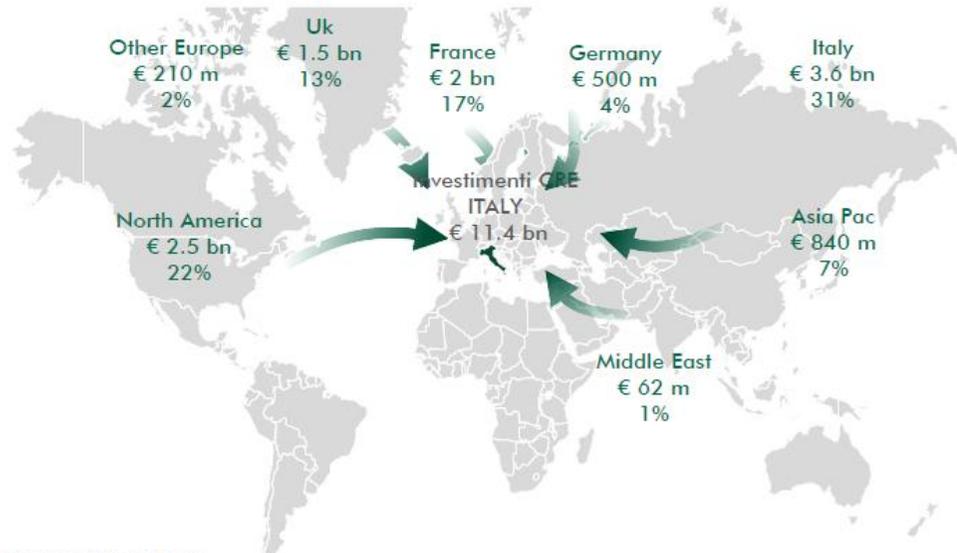


# CAPITAL FLOW CONTINUES TO BE SUPPORTIVE IN ITALY

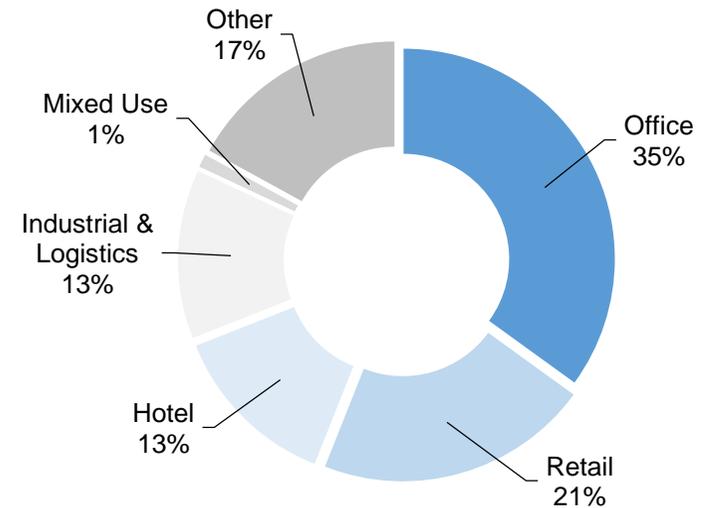


■ More than €11bn of inward Real Estate investment from foreign players in the last 12 months

Investment volume  
H1 2016 - H1 2017



Investment per asset class  
H1 2017

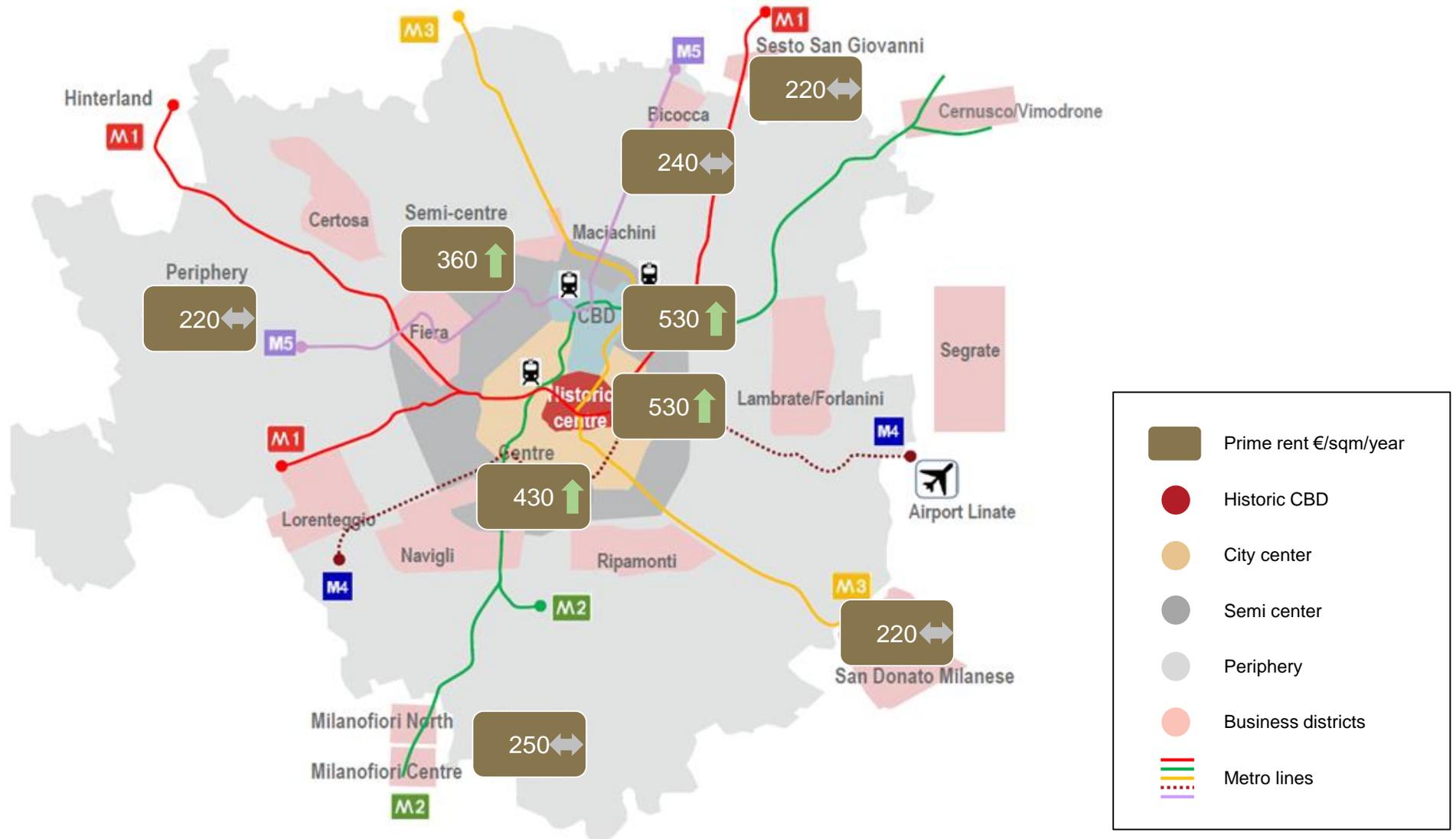


- National/foreign investors focused on core assets in prime location
- US primary private equity funds chasing distressed assets
- Capital starting to move up the risk curve but still good market window (core plus / value added)

# MILAN KEY AREAS AND PRIME RENTS



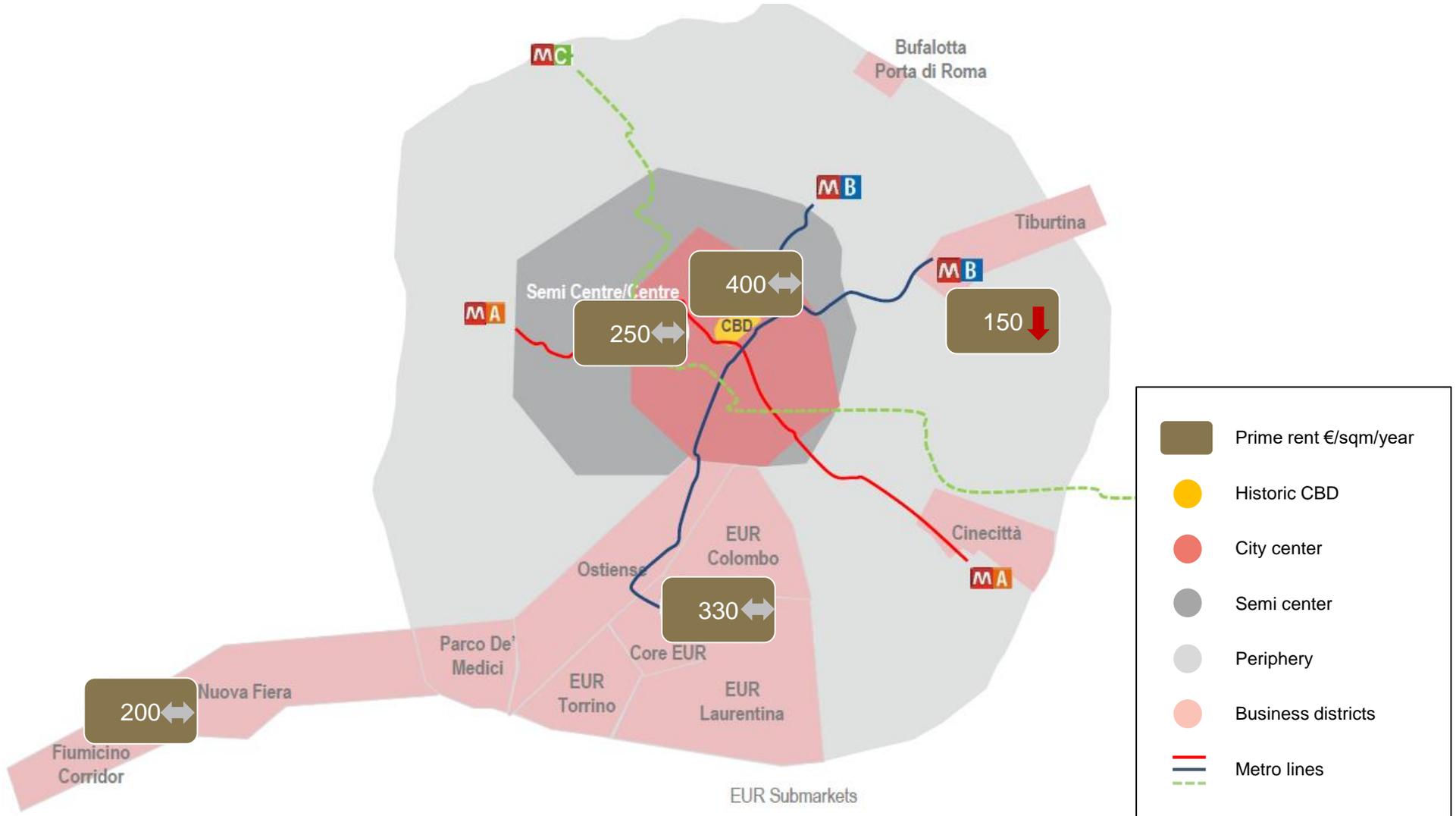
## Key Areas and Prime Rents



# ROME KEY AREAS AND PRIME RENTS



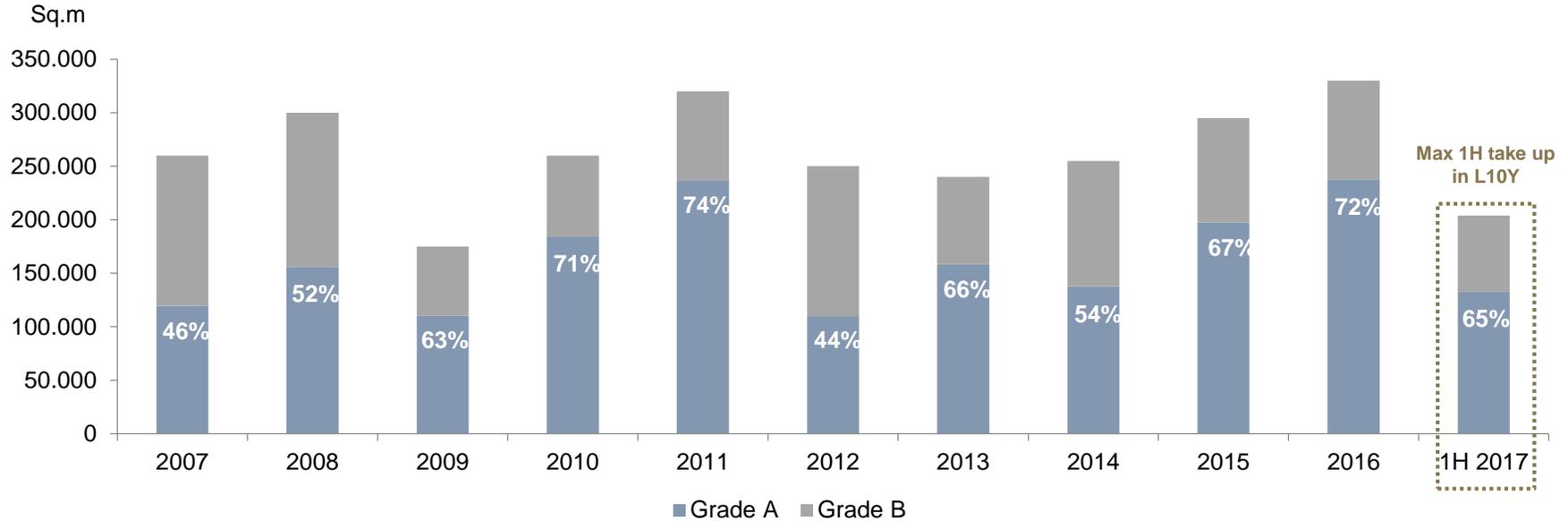
## Key Areas and Prime Rents



# MILAN OFFICE MARKET – TAKE UP

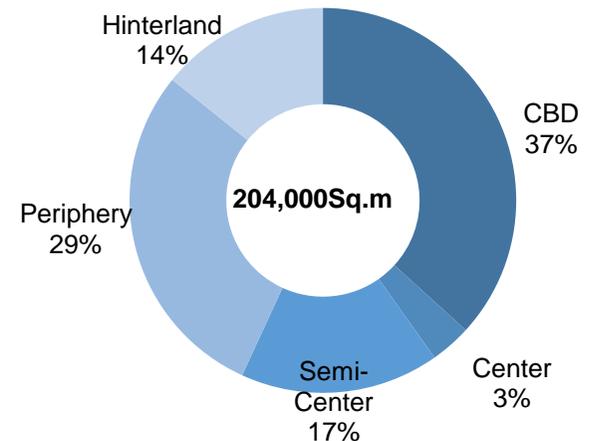


## Take up (Gross) by Grade 2007 – H1 2017



- **2016:** Milan take up reaches a 10y peak with 330,000 sq.m
- **1H – 2017:** the occupational market continues to be active, recording the highest level of take up ever registered in the first semester of a year in the last decade
- **Market trend:** tenant’s general preference to locate to high quality spaces and iconic buildings

## Take up by submarket (H1 2017)



# MILAN OFFICE SPACE SUPPLY: FOCUS ON PORTA NUOVA



- Cumulated take-up in Porta Nuova Business for office space in the last 5 years: ca. 200,000 sqm, approx. 15% of total take up in Milan
  - **Most of the development projects either pre-let or owner occupied**
  - **Speculative development pipeline** for the next 5 years is approx. 45,000 sqm
  - Limited sites available for new development projects in the area

Structural gap between fundamental solid demand and constrained supply of Grade A office space



# MILAN OFFICE INVESTMENT TRANSACTIONS JULY – SEPT 2017 (1/2)



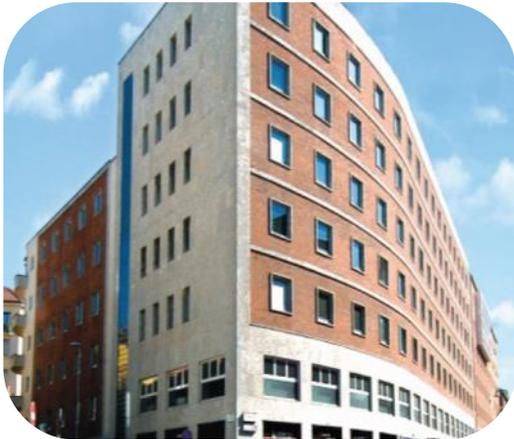
## ■ Historic City Center



**Verri 4**  
Milan – Office/Retail  
Amundi RE Italia SGR  
Size: 5,600 sqm  
Price: € 92M  
High street



**Piazza Affari 1**  
Milan –Office  
Generali  
Size: 3,846 sqm  
Price: € 40 M



**Ticinese 1**  
Milan – Retail/Office  
Invesco Real Estate  
Size: 13,500 sqm  
Price: € 61.5 M



**Palazzo Edison**  
Milan - Office  
Size: 30,000 sq.m  
Exp. Price: > € 250 M  
Ongoing deal

# MILAN OFFICE INVESTMENT TRANSACTIONS JULY – SEPT 2017 (2/2)



## ■ Porta Nuova Business District



### Fondo Kensington

Milan - Office  
Allianz  
Size: 2 assets in Porta Nuova  
business district  
Price: undisclosed



### Viale Sasseti 32

Milan - Office  
Banca Sella  
Size: 7,000 sqm  
Price: > € 50 M  
Owner occupier

## ■ Semi-Center



### Bodio 1 – 2 – 3

Milan - Office  
AXA IM – Real Assets  
Size: 30,000 sqm  
Price: € 83 M

## ■ Periphery



### Amedeo 59

Milan - Office  
Prelios SGR  
Size: 12,000 sqm  
Price: € 33 M



## ■ Rome



V.le Regina Margherita

Rome - Office

Prelios SGR

Size: 23,000 sqm

Price: € 62.75 M

# MAIN OFFICE LEASE TRANSACTIONS JAN - SEPT 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 Fatebenefratelli 14  
Milan - Office  
Trussardi  
Size: 3,100 sqm  
Rent (€/sqm): Conf.



Via Cernaia 8/10  
Milan - Office  
Amundi  
Size: 8,300 sqm  
Rent (€/sqm): 460



# MAIN OFFICE LEASE TRANSACTIONS JAN - SEPT 2017 (CONT'D)



## ■ Semi-Center



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



## ■ Periphery



Viale Sarca 226  
Milan - Office  
Grade A  
Services company  
Size: 3,190 sqm  
Rent (€/sqm): 190



Viale Certosa 144  
Milan - Office  
Automation & Robotics  
Size: 3,700 sqm  
Rent (€/sqm): 200



# KEY MARKET OPPORTUNITIES

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## ■ CAPITAL FLOW

- ✓ Continued interest from **international investors** (ca. 70% of investment volume in the last 12 months)
- ✓ 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

- ✓ **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

## ■ RENTS

- ✓ Leasing – prime rents: **upward pressure on rents** increasing in Milan CBD/Porta Nuova; tenant incentives reducing
  - ✓ Expected prime rental growth **5-10%** in the coming 24 months in Milan with upward pressure in selected areas such as Milan CBD/Porta Nuova and in **Grade A buildings**
  - ✓ Stable in Rome
- ✓ Take-up trend: **growing tenant demand**, mainly focused on **Grade A space**
  - ✓ Main take-up drivers: **cost efficiency** and improving in **office space quality**
  - ✓ Milan H1 2017 take up: ca. 210,000 sq. m (+27% on H1 2016)



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