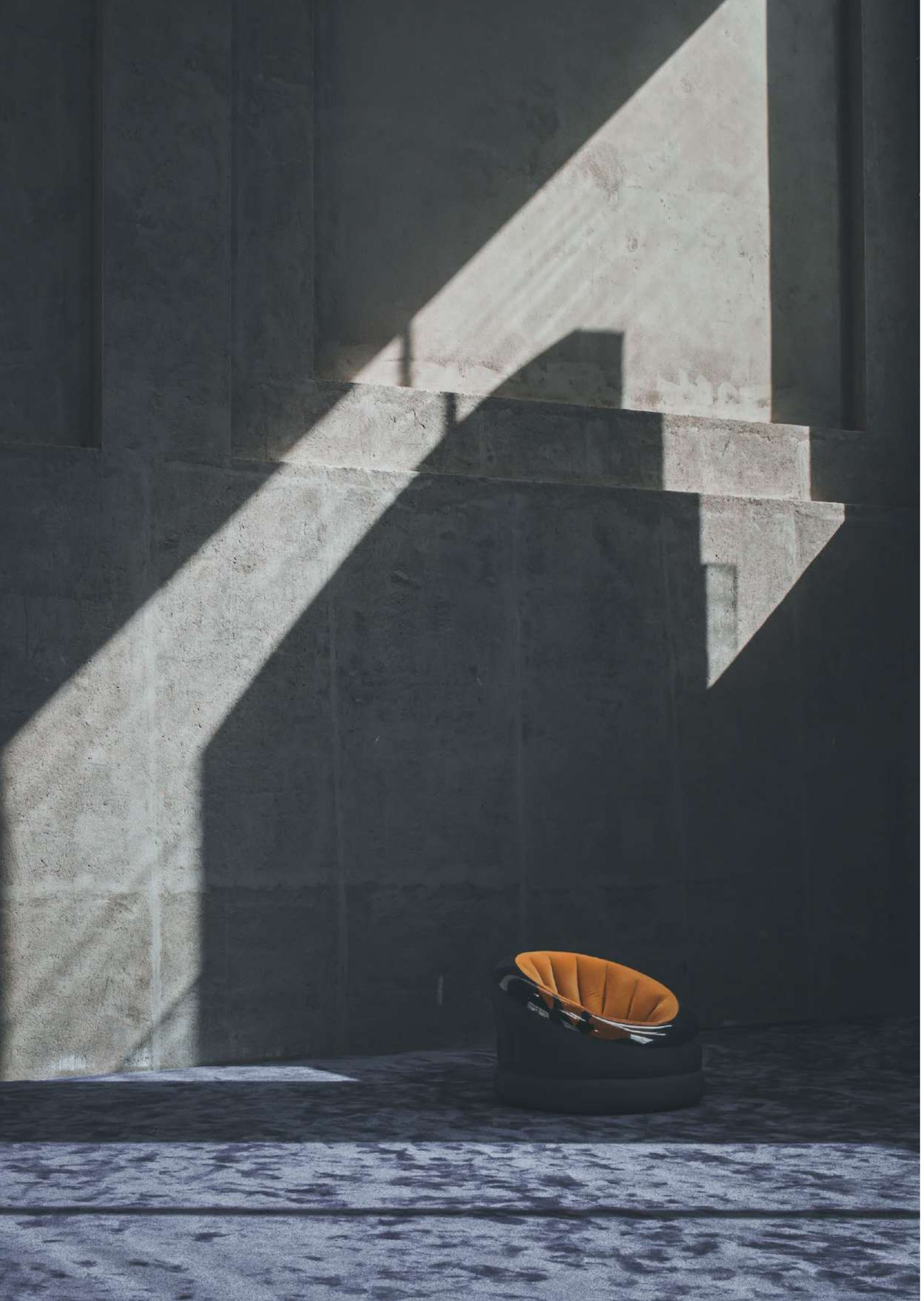
Italian Real Estate Perspective 2021



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Setting the scene

General Outlook

In 2020 the global economy suffered what will likely constitute its worst calendar-year performance during the modern era of economics, contracting by nearly 4%, far exceeding 1.4% contraction during the Global Financial Crisis. The pandemic left virtually no corner of the global economy unscathed and produced simultaneous supply-side impacts (due to measures such as shutdowns and lockdowns) and demand-side impacts (due to people avoiding activities). This sets the stage for a potential bounce back in 2021. The economy looks poised to attain growth of near 5% this year. Once a large share of the global economy becomes immunised, pent-up demand will be released, propelling the recovery. Until that juncture, the economy remains beset by massive uncertainty surrounding the pandemic. With the outbreak reaching record levels, the race has begun to vaccinate a wide enough swath of the population trying to keep the virus under control and enable the economy to recover. But the exact path between now and then is still highly unpredictable. The short-term outlook contains more uncertainty than the longer-term outlook.

After a deceleration in 2019, the Italian economy recorded a deep downturn in GDP in 2020 (-8.9% YoY), mainly due to a slowing down in investment and export components. The positive effects of the strong rebound in Q3 were held back by the restriction measures in the last quarter of the year. The new measures slowed down household consumption and the service sector. The recovery of the Italian GDP is postponed; a real recovery could only occur from mid-2021 if vaccinations will bring down the health emergency and restart consumption. In early 2021, the worsening of confidence pushes household to increase savings; in addition, due to Covid-19 regulations, consumers postpone purchases.

In 2020, global commercial real estate investment volumes totalled $762 bln, falling of 28% from record activity in 2019. Global capital markets continued to recover from the sharp contraction experienced earlier in the year during the final quarters. Strong performance during the fourth quarter moderated the full-year decline. After months of uncertainty, transaction pipelines are rebuilding globally, although investors remain cautious with many preferring to deploy capital in defensive, income-oriented assets. The heightened focus on resilient supply-demand fundamentals and income stability has triggered a shift toward demographically-driven sectors. Leading beneficiaries have been the logistics, multifamily and select alternative sectors. As for the office sector, capital remain active in select segments of the market: core products with creditworthy tenancies and long-let income continue to be attractive opportunities for investors. Major global investors continue to be a key source of liquidity in the markets however, many investors are pivoting to domestic and regional markets.

In Italy, 2020 recorded 141 investment deals for a total of around €8.3 billion, lower by 33% than 2019. The slowdown was mainly ascribable to the hotel and office sectors; logistics, residential, alternatives and healthcare are gaining a growing share of the market.

Record-low interest rates and government intervention continue to support debt markets globally, with indication from the FED and ECB more recently that rates will remain lower for longer. These factors are creating stability in real estate in the early stages of a recovery. Debt-pricing for high-quality assets is now back to pre-Covid levels for most asset sectors; this will support refinancing activities and the increase in investment volumes. Lenders are still conservative and continue to place greater scrutiny on leverage, loan size, sector, asset profile and cash flows.

The allocation of Recovery Plan capitals will be crucial for the recovery of the Italian economy affected by a high and growing public debt. Focusing on digitalisation, infrastructures, sustainability, tourism and research this will be a unique opportunity for our RE market. Production of energy from renewable sources, air and water pollution, the high-speed railway network, energy distribution networks for electric propulsion vehicles, the production and distribution of hydrogen, digitalisation, broadband and 5G communication networks will be at the core of the selected projects. The task is to define goals for 2026, final year of the Next Generation EU, and, more in the long-term, for 2030 and 2050, the year in which the EU aims to achieve net-zero carbon emissions. In the past, uncertainty about taxes and rules and public investment plans has limited investments, both Italian and international. The Next Generation EU foresees reforms on these aspects, as well as on transparency and competition.

In February 2020, Covid-19 spread throughout the entire World. A few days later, lockdown and social distancing measures drastically changed today's life. Covid-19 pandemic has proven to be an accelerator of change and transformation for the whole real estate sector that will last well behind the sanitary crisis. Five long-term trends are affecting the real estate market and the responses to these will shape the future not only of the entire industry but even that of our communities, cities and society.

1. Allocations to real estate stable and expected to increase

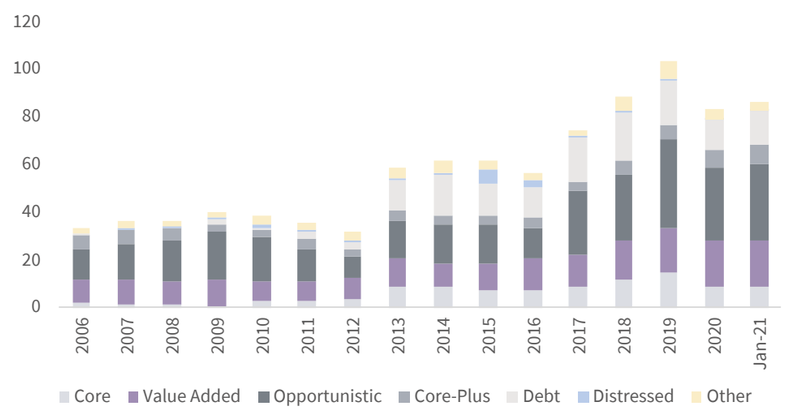
Uncertainties related to COVID-19 have not slowed down global institutions' confidence in commercial real estate. For investors, real estate is no longer an alternative asset. It's now a core asset class. The amount of dry powder in closed-end funds is at near-record levels totalling US$336 bln at the close of 2020; volumes shrank 8% YoY but are still well above the five-year average; the amount targeting the European real estate is at US$86 (January 2021).

The low interest rate environment and financial asset price volatility will support the case for portfolio diversification. "Flight to safety" in real estate, which continue to offer better relative returns in comparison to other asset classes, looks set to increase. Real estate market also shows low correlation of investment returns to other asset allocations. Some sectors, like residential and logistics, have favorable operating fundamentals in terms of supply and demand.

Investors are increasingly favoring locations and sectors that are resilient to economic or geopolitical disruption and cities that offer a diverse range of talent and innovation. Besides the established locations, high-growth midsized cities are attracting companies and investors as a means of mitigating risk, spotting future resilience and exploring alternative asset classes.

Dry Powder Targeting European Real Estate

(US$ billions)



Source: Preqin, January 2021

2. Growth in corporate outsourcing

Because of the heath crisis, we are assisting to an acceleration of the outsourcing trend. This will last over the long term. Occupiers will increasingly seek third-party real estate services to sustain business continuity. There will be increased demand for new workplace design, including more digital, flexible and health-oriented working solutions. This will consist in a strategic partnership, with service providers using sophisticated technologies to streamline and standardise the way properties are managed and drive positive business results. Reducing costs is still a large factor, but also employee well-being, satisfaction and productivity, as well as real-time decision-making support are part of the equation.

1. Corporate real estate teams are looking to become thinner, more agile and strategic. With the right external partner, a company can upskill its internal team and rely on its outsourced provider for day-to-day operations. The increased productivity, pricing leverage and access to resources that a partner is able to bring, can make the company's portfolio more effective and its performances more predictable.

2. Companies recognise that they will achieve better results by focusing on core competencies and bringing in strong strategic partners to provide noncore services to their business.

3. Changes are continuously taking place in regulatory, contractual and behavioral compliance requirements across the globe. Your strategic partner will need to be constantly on top of the regulatory changes and best practices to be able to effectively advise the business.

4. The way data is captured and reported around occupancy utilisation, service requests, equipment faults or actual energy consumption plays a fundamental role in effective decision-making and related business performance.

3. Urban regeneration and cities

Cities are growing faster than ever: more than half the global population live in cities now, and by 2050 another 2.4 billion people will join them. By 30 years, more than two-third of the world will live in urban areas. In Italy, 7 out of 10 people will live in an urban area. In the next 10 years, all European countries will have an ageing population with an average age for the continent increasing to 45.1 years-old. Changes in demographics have numerous effects such as on economic growth, patterns of consumption and labour market.

People will continue to move to the main cities looking for opportunities for work, study and socialisation. The pandemic is unlikely to slow the long-term trend in growing urbanisation, but will prompt a rethink in urban design, increasing the imperative to develop truly scalable smart city solutions, to put a much greater focus on public health and safety, and to deliver greater investments in public infrastructure.

Continuing growth in the world's population but at a deceleration rate.

Population by 2050:
World +2bln (+26%)
Europe +21m (+2%)
Italy -4m (-7%)

A strong concentration in population growth in cities and in a small number of countries.

Urban population by 2050 (% on total):
World 70% (2019 56%)
Europe 77% (2019 72%)
Italy 73% (2019 69%)

Population ageing in every country with the median age of the world's population rising to 33 years in 2030.

Population over 64 by 2050 (% on total):
World 16% (2019 9%)
Europe 25% (2019 17%)
Italy 34% (2019 23%)

GDP growth:
Europe +1,8% / Italy 1%
Main cities: 100 European cities +2% / 8 Italian cities +1.1%
(Annual growth 2021- 2035)

Employment growth:
Europe +0.1% / Italy -0.1%
Main cities: 100 European cities +0.6% / 8 Italian cities +0.1%
(Annual growth 2021- 2035)

Source: JLL on Oxford Economics data

4. Technology

Technological advances are blurring the lines between physical, digital and biological spheres. The mass adoption of remote-working technology through the pandemic phase will likely increase the pace of the Fourth Industrial Revolution, including even more emphasis on robotics and unmanned vehicles.

Property technology, or PropTech, refers to the innovation and origination poised to disrupt the way commercial real estate processes are done. While PropTech is not a new-to-the-industry concept, a new wave has presented even more sophisticated capabilities. Today's PropTech is incorporating: Artificial intelligence (AI), Big data and analytics, Virtual reality (VR) and augmented reality (AR), Computer aided design (CAD).

With PropTech comes the opportunity for a potentially faster, more insightful transaction process. Tools like VR and AR, drone technology and CAD now give potential buyers, investors and tenants the ability to truly visualise a space without ever stepping foot inside of it. Big data is closely associated with AI, which can automate building processes. AI and big data can provide insight into a property's operating efficiency, financial performance and more. By developing and implementing smarter, data-driven solutions, investors can make more informed decisions.

Technology will continue to change the way we experience buildings, but it will also play a fundamental role in making our cities more livable, sustainable and competitive.

5. Sustainability & rating schemes

Sustainability is rapidly moving up political and business agendas. Sustainability is becoming a mainstream issue within the real estate sector. There will be an increased spotlight on corporate social responsibility, and through this, greater awareness of the fragility of our society and ecosystem. Real estate contribution to 'city resilience' can be looked from several perspectives: from the specifics of creating resilient, healthy and sustainable buildings to how real estate can shape a more robust, innovative and inclusive economy and society, in terms of transformative developments, enhancing transparency and leveraging technology.

Sustainability raises huge challenges in terms of decarbonised assets and will drive big changes in the design and specification of buildings. Over the next 5 to 10 years and beyond, we anticipate growing demand for green assets, including net zero carbon buildings as major companies and customers make commitments on carbon emissions. The number of 'green' energy-efficient buildings worldwide is increasing rapidly, and there is a clear economic imperative – green buildings are out-performing and climate change is starting to impact negatively on values and insurance premiums.

Over time the sustainability agenda has broadened to embrace not just environmental issues but other social and governance factors (ESG factors). In this context there is an emerging interest among some developers and investors in developing buildings that provide enhanced characteristics and amenities which address worker wellbeing. This interest largely reflects the increasing challenges that companies are facing in attracting and retaining talents.

The COVID-19 pandemic is leading to elevated awareness of personal and environmental hygiene, health, work-life balance and social relations. Building owners and operators will need to adjust to keep workers and building users safe and healthy. 'Building health' will become a far more important element of resilience – buildings will need metrics that track not only light and noise, but building ventilation, air filtration and cleaning. Health concerns could force the redesign of buildings and places so that social distancing can be turned on or off without significant disruption – through use of innovative space design and smart building technologies.

> In the short-term, rating schemes will be related not only to environmental protocols but even more to wellbeing, digital and technology.

Milan
320 green buildings of which:

- 143 LEED
- 65 BREEAM
- 1 GBC Quartieri
- 12 Well
- 19 Wired Score
- 504 NZEB (Lombardia, 2018)
- > 10,000 certifications released in Italy

Rome
90 green buildings of which:

- 57 LEED
- 9 BREEAM
- 1 GBC Historic Building
- 1 Well
- 1 Wired Score
- n.a. NZEB

Source: GBC Italia, ENEA, CasaClima

02
Italian Real Estate Market 2020

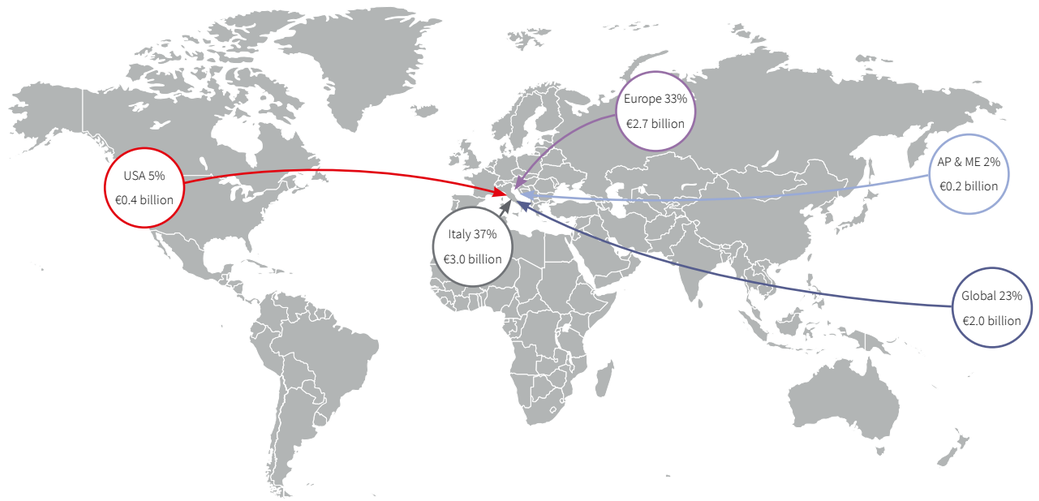
Due to the effects of the pandemic, the 2020 Italian commercial real estate market recorded a slowdown in terms of investment volume; logistics, residential, alternatives and healthcare are gaining a growing share of the market while Milan confirms its attractiveness.

With a total volume of €8.3 billion, Italy ranks 13th among the leading markets for investment in commercial real estate, confirming a strong interest in the Italian market. After the record level of 2019, the market recorded a significant contraction. Volumes are lower compared to 2019 (-33%) and to the last 5 years average (-16%). The number of transactions decreased significantly: 141 transactions were completed (-75 compared to 2019), with an average size of the deals (€57 mln in 2019; €59 mln in 2020) that remained almost stable. In terms of deal structure, the market recorded an increasing share of portfolios, which accounted for 30% of the total deals (vs to 18% in 2019). The international role is once again decisive for the resilience of the national market. International investors are still active and, although decreasing, maintained a predominant role in the Italian market (63% of total investment volume vs 75% in 2019). Italian investors' volume remained stable at €3 bn and in line with the last 5-years' average, confirming the confidence of institutional investors towards the sector but also its limitation. The key players in the market comprise capital from Germany, France and USA. Investor strategies are focused on defensive, resilient core assets maintaining pressure on prime yields for the office and logistics sectors; high difficulties in obtaining financing for value added operations affected the investment volume.

At geographical level, Milan is the most liquid market, accounting for over 40% of investments. The total volume recorded in Rome was €1 billion, significantly decreasing on an annual basis. Rome remains attractively priced. Its great potential will put Rome in the investors' focus in the next months.

The 2020 slowdown was mainly ascribable to the hotel and office sectors. Following an exceptional 2019, hospitality resulted to be one of the most affected sector, due to travel restrictions and government-mandated lockdowns that induced a dramatic decline in hotel occupancies across the world. Although the contraction, the office sector confirmed to be the most dynamic, representing the 43% of the volumes with around €3.6 bn; a strong competition for core high quality assets characterised the last 12-months' trend. For the second consecutive year, in 2020 the retail sector recorded a downtrend in investments. Although Covid pandemic dramatically limited shopping center activities, the out of town made a significant contribution to the yearly volumes; except for Milan and Rome, no other cities were involved in the high street market in 2020 confirming the difficulties of the sector and a wait-and-see approach of investors and landlords.

Italy, Source of capitals 2020 (percentage weight and absolute value)



In 2020, the logistics sector reached the highest amount of volume ever, gaining the 19% of total investments' volume (12% in 2019). Also the alternatives and healthcare sectors are gaining a growing share of the market.

2020 saw the first investment in the Italian PRS market for around €400 m. The living sector can count on strong fundamentals, supply-demand imbalance, stable cash flows, demographic and urbanisation trends.

A slowdown occurred in relation to office take-up, both in Milan and Rome, while logistics letting market achieved a new record in 2020.

Outlook

The global Covid-19 pandemic has proven to be an accelerant of change and transformation for the whole real estate sector that will last well behind the sanitary crisis: sustainability, digital and technology, flexibility of uses and regeneration will characterise the buildings of the future.

Prime office assets, logistics, multifamily, data centres and other alternative asset classes will continue to benefit from investors' defensive strategies. Retail and hospitality sectors will see a profound transformation that will lead them to a technological leap. For Corporate Real Estate leaders, this is an opportunity to rethink the historical workplace models as well as to accelerate the transformation of their portfolios. Companies will adapt to a hybrid operating reality: connectivity, collaboration and "hybrid" workplace ecosystems. Health and wellbeing are set to be the number one investment priority for corporate real estate over the medium term and this will impact design, amenities and services offered in the workplace.

Innovation is likely to reshape the workplace norm. The short-term will still be characterised by a climate of uncertainty, but with a very positive and solid starting from 2022. The current crisis must become an opportunity to rethink and reimagine the entire real estate industry.

The real estate can become a driver of development, bringing innovation and strategic visions, contributing to the design of the future of the economy and society.

The current crisis must become an opportunity to rethink and reimagine the entire real estate industry

We are witnessing structural changes in demand, new ways of living and working, new more hybrid real estate uses within the same building and new ways of defining the value of buildings based on the ability to guarantee health and well-being. Buildings and spaces are perceived as an ecosystem. The asset is not an "object" in its own right, but a "square": inclusive, open and integrated within the city.

Capital available for deployment into real estate is near all-time highs and the Italian market remains attractively priced compared to bonds and to the other main European countries. The key ECB interest rates are forecasted to remain at their present level in 2021 sustaining the market. Secondary markets, alternatives sectors and Recovery Plan will be fundamental to sustain the growth of the Italian real estate market. PNRR *(Piano Nazionale di Ripresa e Resilienza, i.e. National Recovery and Resilience Plan)* is a unique opportunity to simplify PA relations, invest in tourist infrastructure, urban regeneration, logistics and green with a long-term strategy and attract investments that could act as a multiplier.

Technology **Sustainability** **Human-centric** **RE-Imagine**

03
Milan, a successful brand in an ever-changing city

Macro-economic overview

The history of Milan spans more than 2,000 years and since the 12th century the Metropolitan City of Milan has been a great and wealthy economic center. Milan is located in the middle of the Po valley and its name probably derives from this. Milan hosts cutting-edge medical and scientific research centres and prestigious universities which attract many international students yearly. Lombardy boasts the highest number of resident graduates, at over 1.4 million (2019), and it has invested the most in research and development (over €5.2 billion in 2018) in addition to employing 22% of Italian workers in this sector. Milan's reputation is associated with fashion, design, food, business and sport. Today, it is home to the largest Italian banking groups, the national stock exchange and most of Italy's Forbes 2,000 companies. This region accommodates the highest number of companies in the country, with over 811 thousand active businesses (2020).

> This region accommodates the highest number of companies in the country

Milan is the second largest Italian city in terms of population and the third biggest economic and industrial hub before Rome and Torino. Thanks to the production excellence of this territory, Milan's metropolitan area ranks 1st in terms of exports, consolidating its position in the international markets: clothes, equipment, pharmaceuticals, chemistry and electrical devices are among its dominant sectors. Milan is a renowned centre of excellence in research, technology and innovation, as well as internationally recognised at the academic level. The renowned Politecnico di Milano, Università degli Studi di Milano and Università Vita-Salute San Raffaele are between the first 400 universities of the QS Ranking classification, which ranks top universities at a global level, while the private university Bocconi ranks 16th for Social Sciences and Management.

The unemployment rate is at significantly lower rates compared to the national average: 5.9% in the metropolitan area of Milan and 10% in the Italian average. The improved employment level is reflected in a higher per capita income than the Italian average of €31,393 (Lombardy +15%) and higher consumption (Lombardy +16%; Italian average €30,718 per households).

The tourism sector has enjoyed a significant growth thanks to 2015 Expo that has relaunched Milan's image as a city of tourism and not only a business one. Milan is the 3rd most visited city in Italy, with over 8 million of tourists in the metropolitan city (2019). *La* Triennale di Milano is the most visited attraction in the city (635,000 visitors in 2019), along with the 3 Scientific Museums and the Leonardo da Vinci Museum. Cenacolo Vinciano and Pinacoteca di Brera rank respectively 15th and 17th between the top 30 Italian Museums.

Many of the data available today on the economy of Milan refer to the pre-Covid period. First forecasts related to 2020 GDP show a strong contraction (-11%), due to the service-oriented economic structure of the city.

As for Italy, 2021 will see a strong rebound, but GDP will go back to pre-Covid levels only in 2023. Although the intense decrease in tourism, new students are growing (+1.2% 2021/2022), while active companies showed a slight reduction (-0.4% 2020 vs 2019).

The pandemic crisis and the consequent structural changes are an opportunity to accelerate ongoing transformations starting from a lower environmental impact, circular economy, digitisation and a more inclusive and equitable growth models.

Over time, Milan ability to adapt to technological, manufacturing and demographic changes is what has made it an international metropolis capable of attracting students, businesses, investments and tourists. In the medium terms, the attractiveness of students and corporates will be a strategic asset. In the long term, prospects cannot overlook the enhancement of the cultural and artistic offer in synergy with the creative, fashion and design industry.

> Milan is the 3rd most visited city in Italy, with over 8 million of tourists in the metropolitan city (2019)

Key figures for the metropolitan area of Milan

Inhabitants 3,251,689 (November 2020)
Inhabitants/sq.km 2,064 (November 2020)
Foreigners 451,131 (2020)
Average households' disposable income € 36,101
(2017; Lombardia)

Active companies 305,395 (2020)
Multinational companies 10,069 (2019)
GDP €176 bn (2017)
% National GDP 10.1% (2017)

3 Airports
Roads 2,746 km (directly managed by the Municipality or by Città Metropolitana di Milano)
Public transport: 18 tramway lines, 4 trolleybus lines, 133 bus lines and 4 underground lines and a metropolitan railway service (12 lines), 3 high speed train stations
Public transport passengers 1.15 million/day
(2020; 2019: 2.3 mln/day)

University and AFAM (Academies of Art and Music) **20**
No. students 220,441 (2019/2020)
% foreign students 9% (2018/2019)
% students based in other Italian regions 27%
(2018/2019)

Municipalities 133
Territorial area 1,575.65 sq.km
Anthropized surface 40.5%
Bicycle paths (City) **220 km**

Regional parks 24
Regional natural reserves 69
Provincial parks 17
UNESCO site 1

Tourists 8,016,853 (2019)
% international tourists 57%
Beds 112,818 (2021)
No. visitors to museums 7,731,148 (2019)

Source: ISTAT, Città Metropolitana di Milano, ATM, Infocamere, Camera di Commercio di Milano Monza Brianza Lodi, Oxford Economics, MIUR, Legambiente, Regione Lombardia

Urban regeneration and transports

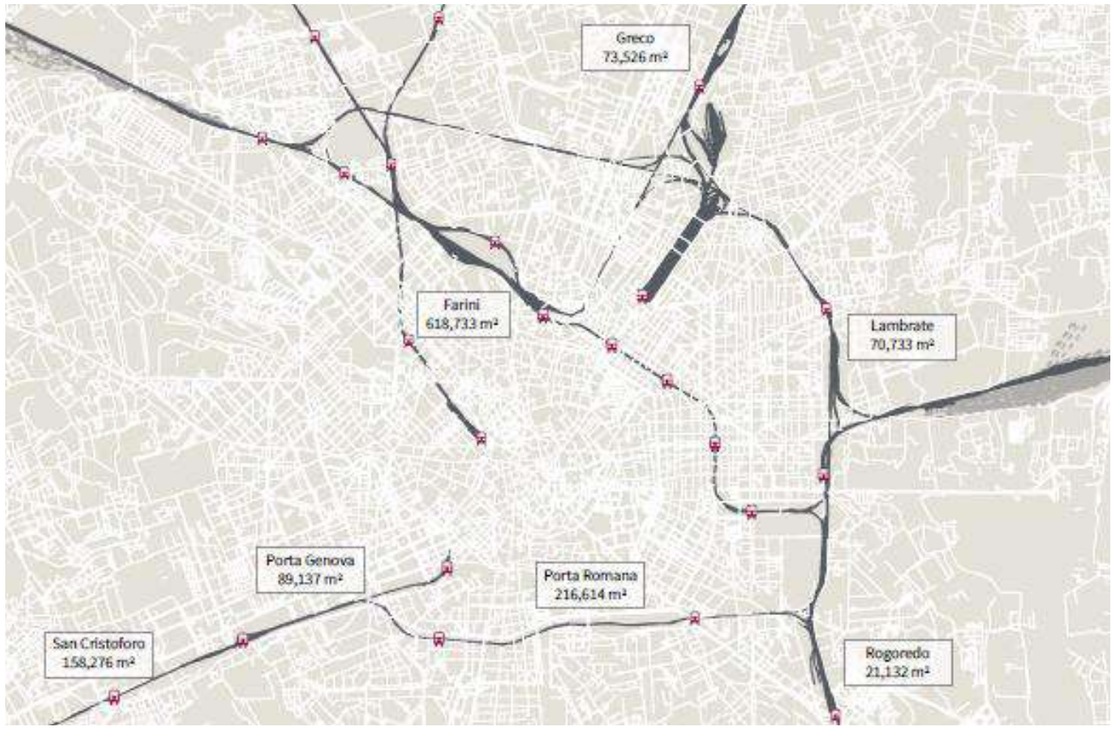
Milan has always been considered the ultimate Italian economic and financial centre. Today Milan stands for growth, innovation and development. What has turned the city from a simple location to a unique destination?

In the last 10 years, Milan has experienced an extraordinary transformation that continues today. Expo 2015 has been the stimulus that has turned the city into a place where people want to live, work and visit. Expo has paved the way for a success that has never stopped in Milan. Urban regeneration has a central role in the new strong identity of Milan. A lot of projects have changed the look of the city, developing or refurbishing not only single assets but also the surroundings.

Porta Nuova has completely transformed an area of 300,000 sqm with buildings which now are the main architectural icons of Milan (Bosco Verticale, Torre Unicredit, etc.) and, in 2018, this project won the Best Urban Regeneration Projects Award at MIPIM. Biblioteca degli Alberi, the third urban park of Milan, links Porta Nuova to Isola district, that has been transformed from a labouring district to a design and art area linking open-air markets and craft workshops to innovation. Isola, that is now integrated to the rest of the city thanks to the new configuration of the Garibaldi-Repubblica area, hosted the Design Week, now in a digital version following the Covid-19 pandemic (2020 and 2021 editions).

Another relevant urban regeneration project is affecting the Fiera district, now well known as City Life: 3 office towers designed by three arch stars (Hadid, Libeskind and Isozaki), a shopping centre, residences and public spaces with leisure and play areas. The third tower, Libeskind, has been completed in October 2020 while the construction of a new office building, The Portico, will complete the project.

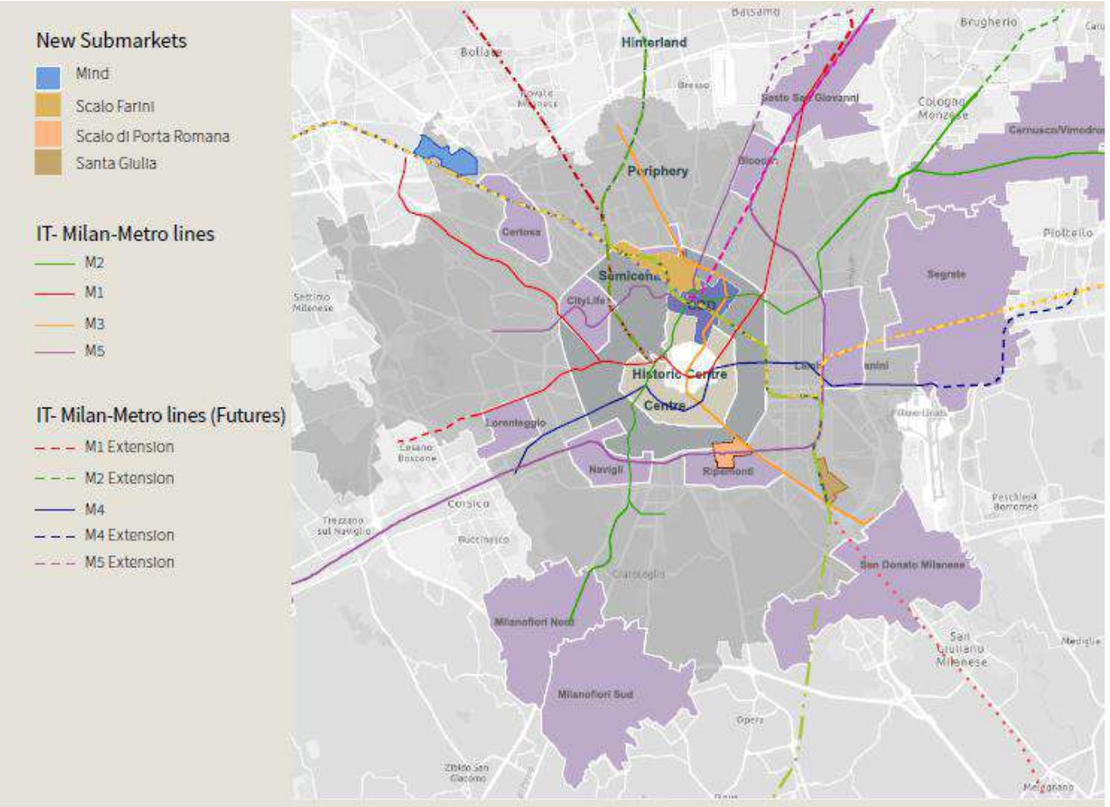
Following the opening of Starbucks and Uniqlo and the starting of the requalification of The Medelan, Piazza Cordusio is also undergoing a transformation: the project, which includes also via Orefici, via Dante, via Tommaso Grossi and Largo Santa Margherita, has been approved. Only trams and pedestrians will access the square. Thanks to the new Piazza Cordusio, the pedestrian area in the city center is growing: Palazzo Marino has presented the redevelopment projects of Piazza San Babila that extends up to Università degli Studi located in via Festa del Perdono and Largo Richini. The goal is to give more space to pedestrians, green and bicycles, as well as a performing connection with public transport and taxis.



The new PGT 2030, the redevelopment of the railway hubs and the underground extensions toward the hinterland, in addition to the new M4 metro line that will be operative in the spring, will continue the regeneration of Milan with positive effects on the real estate market and the definition of new submarkets. The agreement for the redevelopment of Milan's railway hubs also includes the creation of a Circle Line, namely a railway semi-ring crossing the city to the South, East and North.

The activities in Porta Nuova area will continue in the next years (The Edge, Il Nido Verticale, Pirelli 35, etc.) and will involve the neighboring areas (Corso Como, Gioia/Pirelli, Vittor Pisani and Central Station area).

Regarding Scalo Farini, 25 hectares will be allocated to green and public spaces thanks to the creation of a park that will link the railway hub with Porta Nuova, Bovisa and Mind. Existing buildings will be refurbished in order to provide public services, spaces for the Brera Academy and areas dedicated to children and sports.



The project foresees modular development based on different future economic scenarios. Scalo Romana will host the Olympic Village of Milan-Cortina 2026: after the Olympics, the athlete village will be converted into student housing. Scalo Grego-Breda will be the first Italian district at zero emissions; as Grego-Breda, also Scalo Rogoredo will be mostly dedicated to social housing. Scalo Lambrate takes part in Reinventing Cities 2. Scalo San Cristoforo will be totally reconverted in a park for a total of 14 hectares.

The best-known redevelopment project related to 2026 Olympics is PalaItalia that will be built in Santa Giulia district. Development counts more than 200,000 sqm of office spaces and approximately 6,000 sqm of amenities and food&beverages. Sky European headquarters are here situated and also Saipem will move in the new district. The remaining 100,000 sqm will be developed across 5 new buildings (University and student housing, hotel, residential and retail&leisure).

In the former Expo 2015 site, Lendlease will develop MIND, Milano Innovation District, mixed-use development of approximately 980,000 sqm comprising public institutions (Università degli Studi di Milano, Human Technopole and Ospedale Galeazzi), as well as office, residential, retail&leisure and amenities.

Milan Green City

Milan will become a 15 minutes' city where all essential services, from the supermarket to the post office and the metro stops, can be reached from home within 15 minutes on foot or by bicycle, in the center as well as in the suburbs. The Piano Quartieri (i.e. Neighborhoods' Plan) provides the allocation of €1.6 billion. The new PGT, approved shortly before the Covid-19 emergency, reflects a wave towards green, sustainability, regeneration and development of neighborhoods with the ongoing redevelopment of 80 Milanese squares. PGT 2030 identifies 1.7 million square meters of no longer buildable areas, protects 3.5 million square meters of new agricultural areas of which 1.5 million for expansion of the southern agricultural park and plans 20 new parks. Within the project ForestaMI, the planting of 3 million of trees in the metropolitan city is also planned.

The Piano Aria Clima (i.e. Air and Climate Plan) aims to achieve 3 goals:

- Fall within the limit values of the concentrations of atmospheric pollutants PM10 and NOx (fine particles and nitrogen oxides) to protect public health;
- Reduce CO_2 emissions by 45% by 2030 and become a Carbon Neutral City by 2050;
- Contribute to limiting the local temperature increase in 2050 to within 2° C, through urban cooling actions and reducing the urban heat island.

During the pandemic, the mobility has been forced to change and find a new balance between the need to move and safety requirements. To compensate the supply reduction in public transport, the reduction of travels, remote working and the rediscovering of the neighborhoods must be accompanied by an alternative and healthy mobility offer: walk and go by bikes. The program created 35 km of cycle paths in addition to what has already been planned, increased the zones with permitted speeds of less than 30 km per hour and expanded the provision of public space providing for temporary pedestrianisation to allow children to play and have physical activities (Play Streets).

The *"Piazze aperte in ogni quartiere"* program (i.e. Open squares in every neighborhood) plans to create new public spaces in place of redundant roads or intersections. 65 intervention proposals are included in the planning stage.

The C40 Group (Cities Climate Leadership Group) founded in 2005, is a forum that brings together cities that intend to share strategies for reducing carbon emissions and stimulate global action against climate change. To date, the C40 gathers almost 100 of the most important cities in the world (in Italy, Milan – which is part of the steering committee with London, Copenhagen and Stockholm in Europe - Rome and Venice), has about 700 million members and represents a quarter of the global economy. The international call for bids provides for the alienation of abandoned or degraded sites to be used for environmental and urban regeneration projects, in compliance with the principles of sustainability and resilience.

In the first edition of Reinventing Cities (2017/2018), 10 cities participated, with 20 selected sites (4 in Milan, including Scalo Greco-Breda, Scuderie de Montel, Doria and Serio). In the second edition (2020/2021), 12 cities from all over the world are participating (Cape Town, Chicago, Dubai, Houston, Madrid, Milan, Montreal, Reykjavík, Rio de Janeiro, Rome, San Francisco and Singapore), 25 competing sites (7 in Milan: Piazzale Loreto, Bovisa railway hub, Scalo Lambrate, areas in via Monti Sabini and Crescenzago, the former Slaughterhouse (ex Macello) area and the Liberty buildings in Viale Molise). The selection of the winning project will end by March 2021.

The Urban Sustainable Mobility Plan (PUMS – Piano Urbano della Mobilità Sostenibile) contains strategies and guidelines on the future of the mobility in Milan. The goal is to reduce the use of private cars and thus reduce organic fuel emissions by almost a third. The plan provides an increase of the zones with permitted speeds of less than 30 km per hour. The cycle path connect "30 zones" reaching the outskirts of the city and integrating with the cycle network of the other municipalities of the metropolitan area. The Milanese bicycle path will reach 406 kms.

Since 2018, ATM - Milan Transport Company - has already launched a Full Electric Plan which provides for the complete conversion of the bus fleet into zero-emission vehicles entirely powered by electricity, by 2030. All this will lead to a reduction in diesel consumption of 30 million liters and a reduction in CO_2 emissions of 75 thousand tons per year.

According to the latest report by Legambiente, Milan is the smartest metropolitan area in Italy due to the fewest number of cars on the road. Today only one in two Milanese use a private car. In order to improve the quality of urban life, Milan is increasingly investing in sharing mobility. In addition to car sharing and bike sharing, the smart mobility have also expanded to mopeds and scooters, with the idea of experimenting also with vehicles such as ninebots, hoverboards and push scooters.

70 charging columns for electric and hybrid vehicles

Bikesharing:
BikeMI (station-based)**: 5,430 bicycles**
(72,000 users and 5.6 mln kms)
Movi (free-loating)**: 8,000**
(3.8 mln kms and 401,000 users)

2,600 scooters
(of which 2,540 electric)

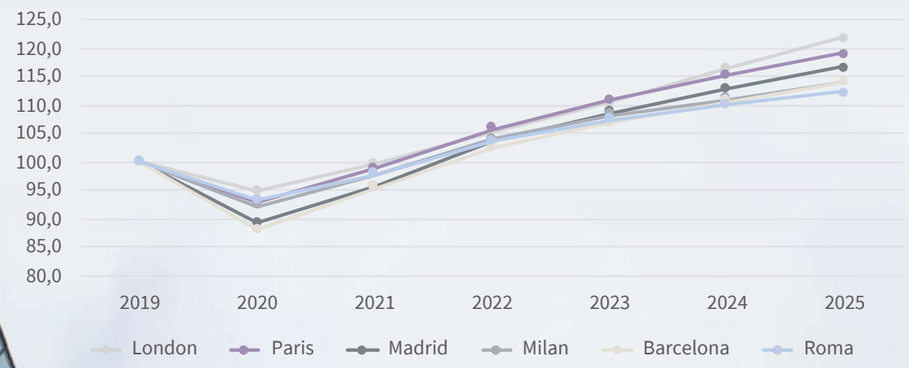
6,000 push scooters

Carsharing: 3,080 cars
(17% electric),
1 mln users

Enjoy
Sharen'go
Sharenow

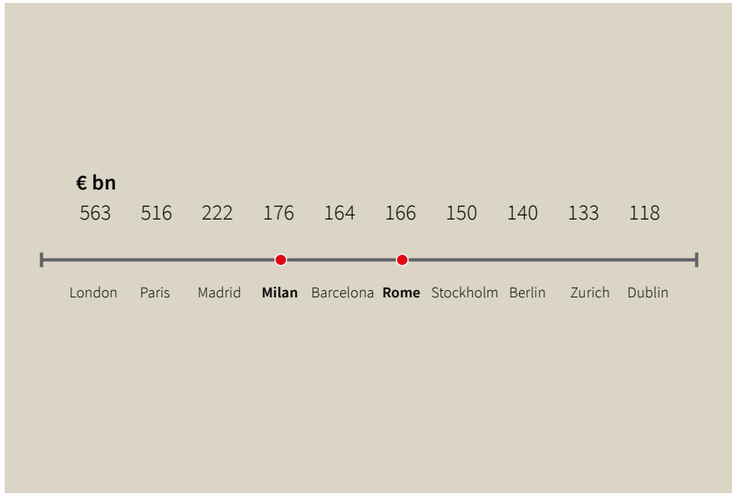
Source: a2a, Rapporto Nazionale sulla Sharing Mobility 2020

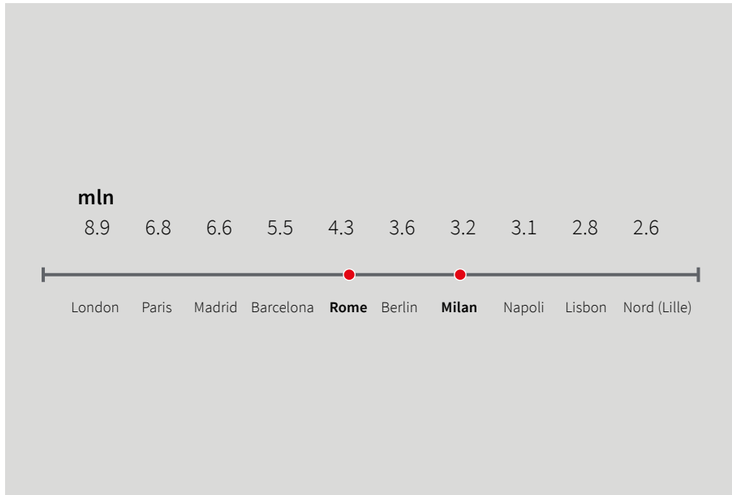
GDP forecasts (2019 = 100)



Source: JLL elaboration on Oxford Economics

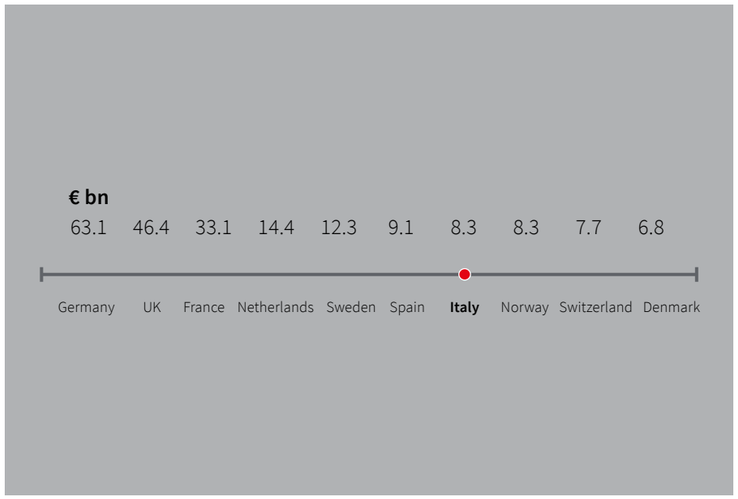
GDP





POPULATION

REAL ESTATE INVESTMENTS



04
Rome goes big

Macro-economic overview

Rome is the capital of Italy and the seat of the Italian Government. It is the heart of Catholic Christianity and the only city in the world to host an entire state, the enclave of the Vatican City: for this reason, it is often defined as the capital of two states.

With more than 4 million of inhabitants living in around 1,287 sq km, it is the 1st Italian city for number of people and the largest municipality of the Country. It is located in the central part of Italy in the region of Lazio; the territory is partially flat but mostly consists of hills and small mountains, among these we mention the famous seven hills of Rome. The city is crossed by the river Tevere and its tributaries, including the Aniene; the surroundings include also several lakes such as Bracciano, Albano and Nemi.

The 1st Italian city for number of people and the largest municipality of the Country

It is known worldwide as the "Eternal City", its history in fact spans more than 2,500 years. Today it is a modern and cosmopolitan city but its influence in politics, media, arts and culture is still vivid.

The city is a centre for banking as well as for IT, pharmaceutical and aerospace industries and international law firms. Today, it is home to 3 of the 5 Italian Fortune 500 companies and most of Italy's Forbes 2,000 companies. Numerous international headquarters, government ministries, conference centres and sports venues are located in the city. The headquarters of three United Nations organizations are here situated: the Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD) and the World Food Program (WFP). The region of Lazio is the second in Italy for investments in research and development (over €3.4 billion in 2018 and more than 26,000 researchers).

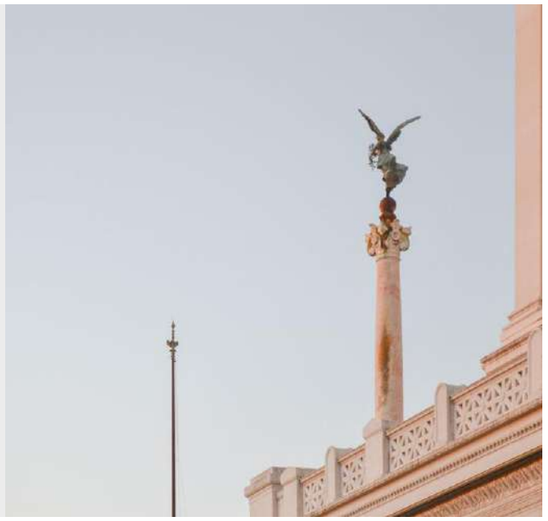
The fame and the wide offer of monuments, churches and historical points of interest make the city one of the main tourist destination in the world and the 1st in Italy. In 2019 more than 30 million of presences in accommodation facilities were recorded regarding both residents and non-residents people. The Colosseum is the most visited Italian museum, counting in 2019 more than 7.5 million of visitors. The Jubilee, which will take place in Rome in 2025, represents a great opportunity for the hospitality sector, the food business and the retail activities to rise once again; in addition, the city of Rome could be a possible candidate for Expo 2030.

The Capital hosts the highest number of university students: in 2020/2021 academic year the new enrolments grew by 7% on the previous period; Lazio has the second highest number of graduated students in Italy. The Capital can count the most elevated number of universities (17) and AFAM (Academies of Art and Music) institutes (15); half of the telematic universities of the Country is here located.

Moreover, the Sapienza University is between the first 400 universities in the QS ranking classification.

The presence of renowned international brands in the city have contributed to make the city an important centre of fashion and design, and the Cinecittà Studios have been the set of many Academy Award–winning movies.

Rome is the city with the most hectares of green in Europe



At the European level, Rome is confirmed to be among the top economies. The GDP showed a decrease in 2020 (-8%) compared to the year before, but it should come back to pre-Covid levels in 2022. A contraction in the last year was also observed in total consumer spending and disposable income (respectively -10% and -5%), but a rescue is forecasted from 2022.

On the other side, the unemployment rate in the Capital stood at 9.0% in 2019, a figure lower compared to the national average of 10%.

Even if some indicators showed negative signs in the last year due to the pandemic, the capital of Italy can count on a solid background and an elevated attractiveness for employees, students, new business and tourists which will help the city to shine again in the coming years.

Key figures for the metropolitan area of Rome

Inhabitants 4,253,314 (January 2020)
Inhabitants/sq.km 793 (January 2020)
Foreigners 509,057 (January 2020)
Average households' disposable income € 32,297 (2017; Lazio)

Active companies 369,285 (2020)
Public limited companies 156,877 (2020)
GDP €163 bn (2017)
% National GDP 9.4% (2017)

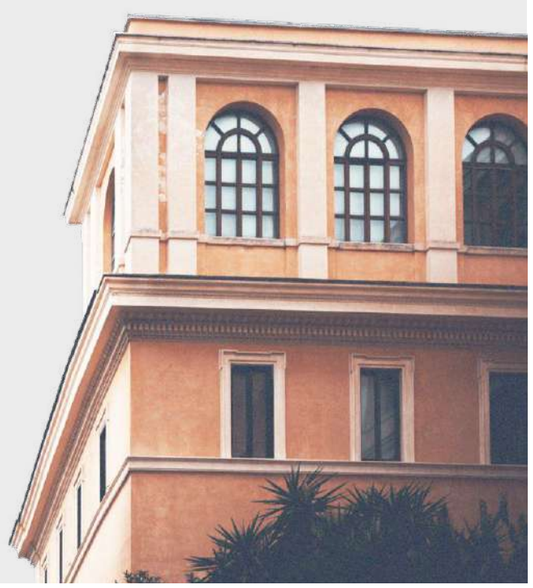
2 Airports (of which 1 international; +2 only for freight transport)
Airport passengers 49,412,069 (2019)
Public transport: 6 tramway lines, 2 trolleybus lines, 345 bus lines and 3 underground lines and a metropolitan railway service (11 lines), 2 high speed train stations
Public transport passengers 2.4 million/day (2018)

University and AFAM (Academies of Art and Music) **32**
No. students 232,273 (2019/2020)
% foreign students 5% (2018/2019)
% students based in other Italian regions 33% (2018/2019)

Municipalities 121
Territorial area 5,363 sq.km
Anthropized surface 23.8%
Bicycle paths (City) **254 km**

Regional parks 16
Regional natural reserves 31
National parks 3
UNESCO site 1

Tourists 21,656,481 (2019)
% international tourists 64% (2018)
Beds 173,107 (2020)
No. visitors to museums 24,490,692 (2019)



Source: ISTAT, Città Metropolitana di Roma, ATAC, Infocamere, Camera di Commercio di Roma, Oxford Economics, MIUR, Legambiente, Regione Lazio

Urban regeneration projects and green strategies

The dated stock of Rome presents a great opportunity for the real estate market to redevelop and make changes of destination of use to several assets, giving them a rebirth. Certifications not only such as LEED and BREEAM but especially those like WELL and HSE (Health, Safety and Environment) Management System are becoming increasingly popular with the pandemic. Many companies are moving to get them for their buildings, like CDP for example for Towers of E.U.R..

The capital of Italy has also different projects of urban regeneration which could donate to the city a new wave of modernity and brightness and could be sustained by The Recovery Plan which includes a generous amount allocated to Rome.

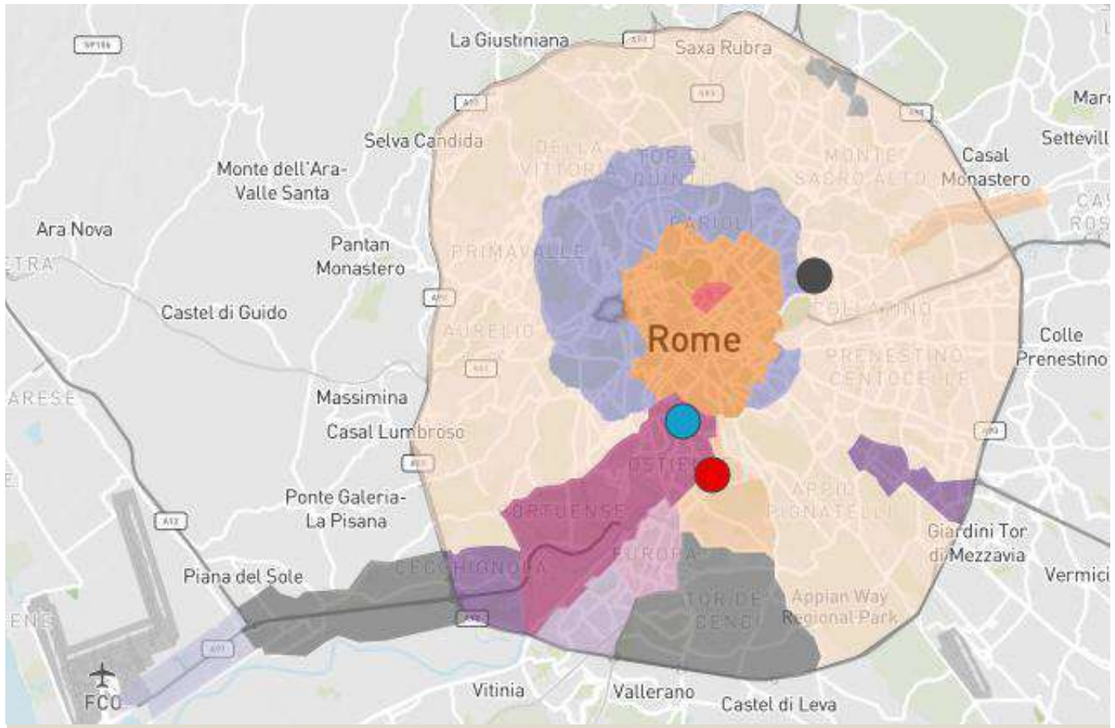
The area of the former Fiera of Rome located in the E.U.R. Colombo district has finally received from the regional Council the approval to make urban changes in order to redevelop the entire complex. The total area of approximately 44,000 sqm will be destined for the 80% to residential (with a component of social housing) and the remaining 20% to services; an international context will be made to select the best project.

In the east side of the Tiburtina Station, a new business center district should be created, with towers of 90 meters high and stained-glass buildings. The aim is to create a new modern neighborhood, a 1 kilometer long, which should remind the skyscrapers of Porta Garibaldi in Milan or the Défense in Paris.

Another possible regeneration project consists in the former Mercati Generali in Ostiense district with around 85,000 sqm of surface which should be completely transformed.

It is worth of note mentioning also the "Milleperiferie" project which in Rome aims to the redevelopment of the North-West Quadrant and the Southern coastal area. The city could become even larger by overcoming administrative boundaries in an urban continuum: strategic services and functions will be concentrated in the central zones while the peripherical districts could become more vivid and contribute to diminish the congestion of the connecting arteries and the inefficiency of public services.

Main urban regeneration projects



Legend ● Former Fiera ● Former Mercati Generali ● Tiburtina station

Due to the Covid-19 pandemic, topics such as sustainability and wellbeing became even more important and strengthened in everyone perception. Giving a good quality of transports to the citizens, a sustainable landscape and a higher environmental quality are among the top priorities for the local administrations.

The city of Rome is the one with the most hectares of green in Europe, thanks to its heritage which has no equal in the world: the variety of green represents the 67% of the overall area. This is contributing to move through a more sustainable approach across the implementation of different strategies.

The Urban Sustainable Mobility Plan (PUMS – Piano Urbano della Mobilità Sostenibile) has been created in order to satisfy the mobility needs of the citizens. The aim is to provide to all the inhabitants access to transports, improve safety conditions, reduce air and noise pollution, increase the efficiency and economy of the transport, contribute to the attractiveness of the area and the quality of the urban environment. In this direction, the City is trying to limit the vehicular transitions in certain districts, guarantee more bright pedestrian crossings and pedestrian areas, encourage the livability and local functions. Moreover, it has been approved an extraordinary plan to create 150 km of transitional cycle paths, making Rome the first European city for number of km of new cycle paths announced up to the period in September 2020 according to the ECF (European Cyclists' Federation). This also includes measures for the reduction of traffic, the creation of segments car-free roads and the enlargement of sidewalks.

The Capital participates in the Reinventing Cities program to transform abandoned areas and buildings into innovative places, with projects selected through expression of interest and competitive procedures aimed at investors, operators, designers, stakeholders and local communities. In the current edition of 2020/2021, Rome is attending in competition with other 11 global cities proposing 4 different sites (Former Filanda, Former Mercato di Torre Spaccata, Former Mira Lanza, Rome Tuscolana).

Reinventing Cities is a C40 Group's project (Cities Climate Leadership Group), a network of 100 cities which aims to improve the health, wellbeing and economic opportunities of urban citizens reducing the climate changes risks.

Rome is also one of the partner of *Soil4Life*, a European project that involves Italian, French and Croatian partners, which aims to promote the sustainable use of land as a strategic, limited and non-renewable resources.

>100 charging columns for electric and hybrid vehicles

Bikesharing:
Helbiz / Jump (free-floating)**: 3,500 bicycles** (250,000 users and 235,000 kms)

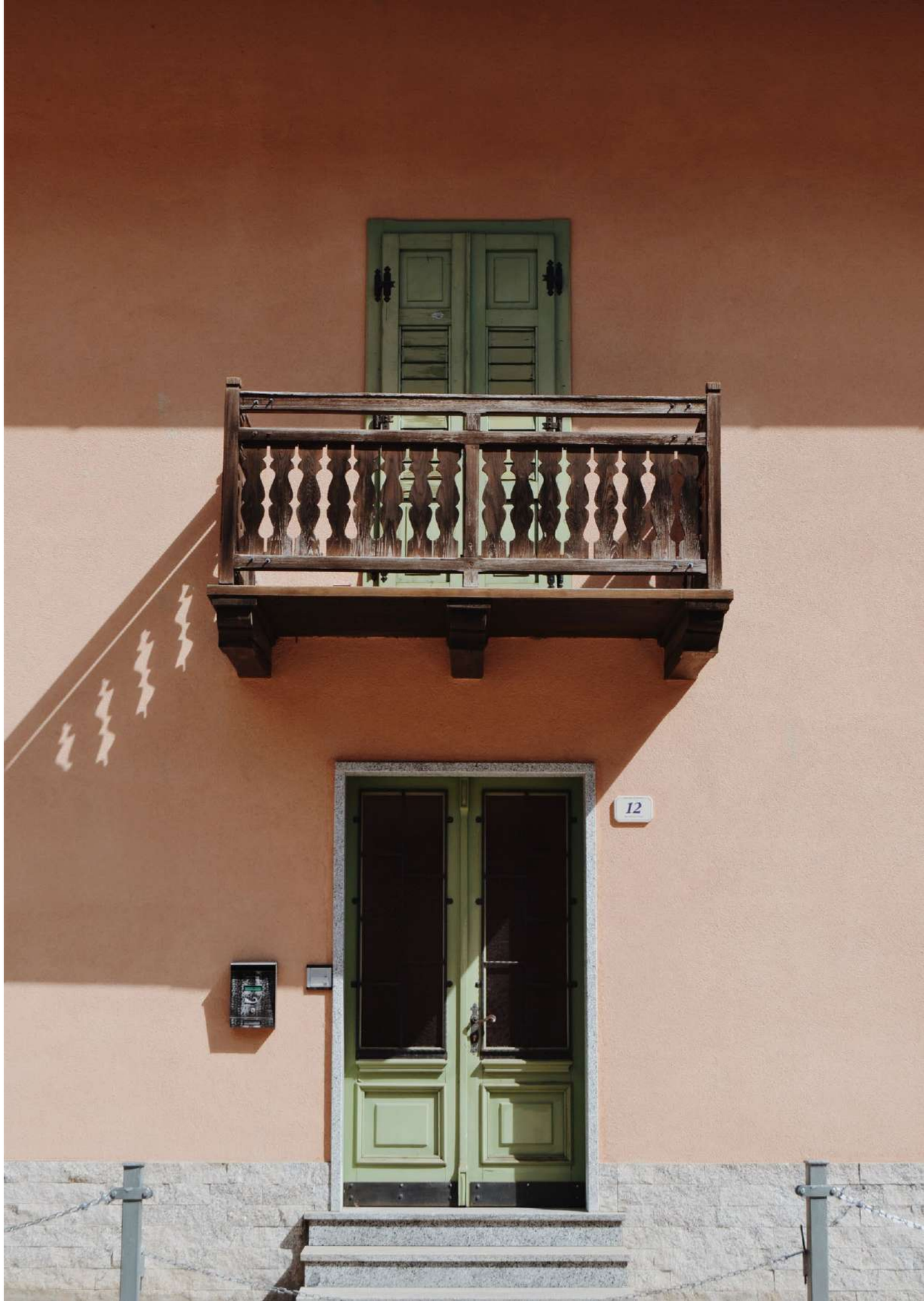
2,020 scooters
(of which 1,800 electric)

11,000 push scooters

Carsharing: 2,367 cars (26% electric)**, 780,000 users**

Enjoy
Sharen'go
Sharenow

Source: Roma Capitale, Rapporto Nazionale sulla Sharing Mobility 2020



05
Office

2021 is expected to be one of two halves, with very cautious optimism that the second half of 2021 should lead to the release of some pent-up demand as vaccination rollouts result in reduced restrictions and a move back towards a new normal. Lower workplace density and reconfigurations to handle greater logistical flexibility should help to keep the overall office utilisation and occupancy more stable than previously anticipated.

Corporate occupiers are accepting that they may never operate again in the way they did pre-crisis and that the ability to continuously adapt to new and changing conditions will be essential for future success. Companies should explore solutions that fit and flex with their organisation best – particularly the hybrid work model combined with a digital-first approach.

The future of offices

The Covid-19 pandemic has accelerated the digital transformation and changed our behavior and habits, especially in relation to the way we work. The forced use of remote working during the lockdown restrictions has led employees to change their approach and rethink about their needs.

On the other side, the remote working booming has pushed many companies to study strategies towards the future of the office, rethinking about their spaces and looking for new concepts.

After the pandemic, we estimate that employees will continue to adopt the remote solution 2/2.5 days a week: working from home will diminish since employees will miss the office needing interaction to generate new ideas. In addition to this, for many people their home living arrangements make working from home a below optimal choice, with its limited space, lack of privacy and more distractions. This is particularly true for the younger generation, with global JLL survey data indicating that 64% of millennials are most eager to return to the office, the highest percentage of any age group. Therefore, the direction of the companies won't be to get rid of spaces, but to create places that will have to adapt to the new needs, hybrid and human centric spaces.

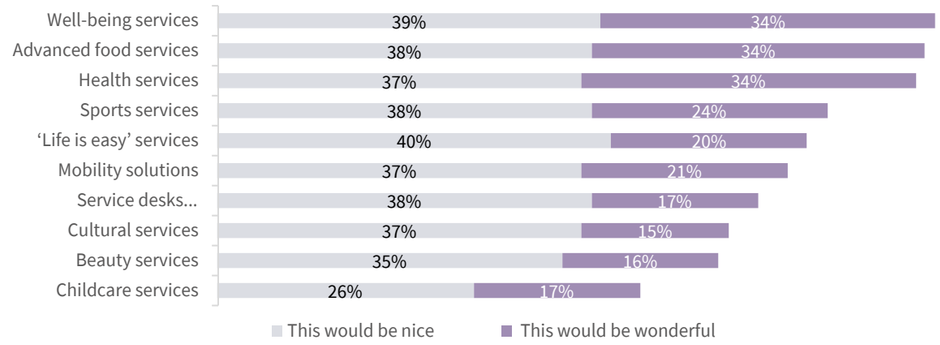
Even if the homeworking will be strongly utilised also in the future, the office will maintain its central role and the organisations will have to evaluate and integrate distributed working models for the long term. The hybrid solution will consist in evolving from the "Work from home" to the "Work from anywhere".

Employees will have the opportunity to work for instance in coworking spaces, client sites, third places (cafés, hotel lounges), satellite locations and partner offices.

The future workplace will be anywhere and at any time, with the traditional office acting as the central hive of productivity and center of innovation, providing employees with opportunities for social interaction and engagement, learning and team-building activities. The office will become one of the available instruments to choose from, not a simple space where to go. In this perspective, the workplace will have to be more human-centric than ever: the focus will consist in enhancing the office in terms of collaboration, innovation, talent attraction & retention, health and wellbeing.

The first focus of the companies is set to be the mental and physical health of the employees. The pandemic has caused in many people the fear of going to the offices, so one of the main target is to create places in which employees can be comfortable as they are at home: seating that will allow for social distancing, the use of greenery as an aesthetically pleasing, equipped break areas that reproduce the comforts of a home environment, guarantee indoor air quality, hygiene and constant cleaning.

What kind of services would you like to have access to?



Source: JLL Human Experience 2020 survey

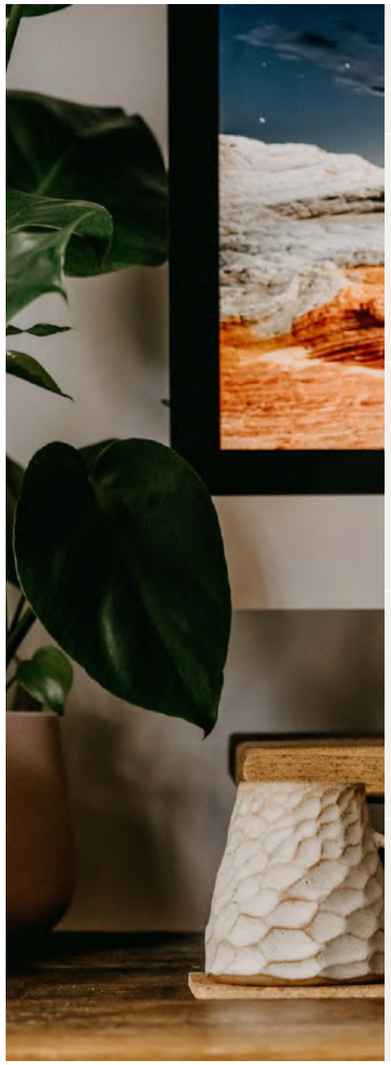
> Touch-free solutions and easy-to-clean materials will set new standards to ensure employees feel safe in common spaces

As a smaller number of employees is forecasted to be on site, the model of the hubs&clubs could be adopted, consisting in the existence of a central representative office to which smaller and more flexible secondary offices will be added. The need for individual workstations will diminish and will be replaced by diversified workspaces to accommodate more types of businesses, such as sofas and bar-style counters for informal group work sessions and isolated niches for individuals.

The investments in technology will rise in the short-term as companies need to adapt to a hybrid reality. The priorities in 2021 will shift towards digital enablement such as seamless connectivity and collaboration between office and home, touchless digital interface with the workplace, real time workplace analytics and performance management, virtual reality simulator systems.

A greater attention will be paid also to the sustainability, in order to achieve net zero carbon emissions and fight the global climate crisis. Companies should take net zero carbon decisions like:

- Occupy or acquire net zero carbon buildings
- Adopt sustainable design principles and specifications when looking to develop, refurbish, or fitout assets
- Manage assets towards net zero carbon by optimising a building
- Agree lease clauses to align with the net zero carbon target



Office adaptations

Relaxing seating densities

They could be more present in the post-Covid-19 offices as we do not anticipate density to tighten back to pre-Covid-19 levels

Adaptive space management to allow for peak usage

This solution can support the flexible flow of workers throughout any week

More formal & informal collaborative spaces

More meeting rooms and video reality spaces will stimulate the interaction between employers

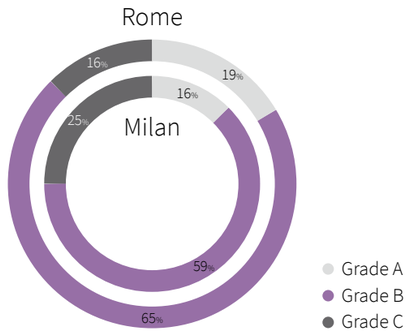
Amenities/ spaces supporting sustainability, health & wellbeing focus

More space will be dedicated to inhouse amenities, green space, health & wellbeing

The demand will gravitate toward high-quality assets, smart and sustainable buildings that can support companies' environmental, health & wellness and employee experience initiatives. The large amount of dated stock and available spaces suggests the opportunity to convert the existing space: in Rome the grade A vacancy represents just the 19% of the overall vacancy, while in Milan stands at 16%.

Companies will require a high level of elasticity in their strategy to adapt to continuous shifts in demand (lockdowns and relaxation phases) in an uncertain future and the office adaptations that will be made are likely to mitigate some of the reduction in office demand arising from higher levels of homeworking.

Milan and Rome office availability by grade



"Hybrid" workplace ecosystems

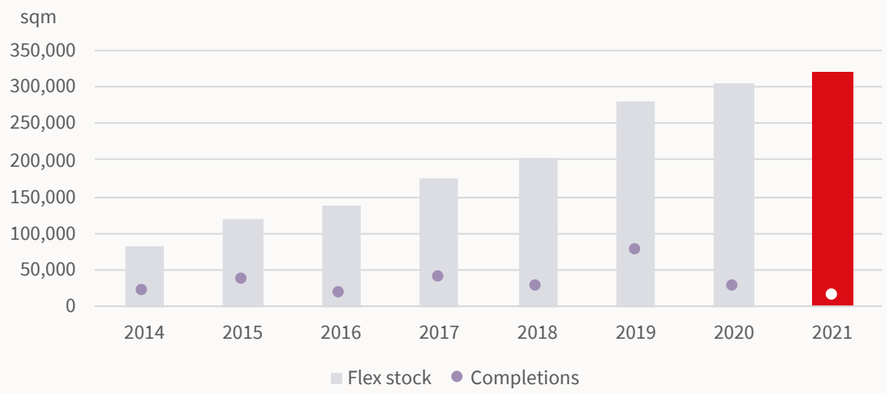
Flexible workspace

The Covid-19 pandemic caused many issues to the brand of flex markets in 2020. Some have increased the frequency of cleaning, some have stopped all events or closed common spaces, while others have closed down fully. Many flex offices recorded extremely low utilisation rates and in some cases were practically empty during the last year; as a consequence, they were under pressure to provide discounts, incentives or postponement of payments, while the wide use of short-term contracts gave the users the possibility to step away during the pandemic.

Therefore, it is not surprising that during the last year the new flex openings recorded a slow down all over the world: flex take-up decreased by 79% globally YoY and by 66% in Italy. In Milan and Rome 7 new openings were recorded (6 of which are located in Milan), while in the previous year 23 new centers were inaugurated. In 2020 the flex take-up in Europe represented the 4% of the overall absorption, while in Milan this value drops at 2%.

Major operators such as WeWork has paused expansion plans all over the world and is exiting unsuccessful locations, looking to restructure a significant portion of its portfolio. For the next year it is expected a limited growth as the office leasing market will remain influenced by the pandemic. The challenges for the operators will be first of all to cut costs waiting to the market recovery, then to rationalise the assets and reposition their portfolios. From 2022 the market is forecasted to improve: we could assist to an increase in the demand of flex spaces, with companies needs coming back and self-employed people looking for a place to start their own business like it happened in the last recession. In the long-term larger occupiers will look for high serviced flexible spaces and we can expect more landlords to enter this market contributing to accelerate the flex industry.

Milan and Rome flex stock and completions



Short-Term	Medium-Term	Near-Term	Long-Term
Significant drop in demand for all office space, including flexible office space	Widespread consolidation of underperforming centres and handing locations to landlords	Strong demand for flexible space, particularly de-centralised and accessible by private transport	High demand for agile portfolios, de-densified workspaces and more corporate control of flexible space solutions

Investment market

The Covid-19 pandemic caused many Office sector was once again the most required in terms of investment volumes also in 2020: it counts for 43% of the total volumes with around €3.6 billion, a figure however lower than the previous year (-34%) and the last 5 years average (-15%). The sector was also the most dynamic one, recording more than one third of the yearly transactions. 52 deals were closed in the last 12 months, less than the previous year (-29), but with a slightly higher average size (68 €m versus 66 €m in 2019).

Milan confirms to be the first destination, with 29 deals for around € 2,250 bn: the acquired offices were located both in the central zones as well as in the periphery and hinterland, such as San Donato Milanese and Milanofiori. The biggest deal of the year was the portfolio of seven central assets sold by UBI Banca to COIMA SGR for around €300 m. The volume invested in Rome was positive, reaching around €700 m (+14% YoY) across 16 deals (+4 YoY). The acquisition of the asset located in Via dell'Arte for €200 m by Allianz drove the volumes in the Capital and confirmed the high interest for the E.U.R location, which attracted the 58% of the volumes. The remaining 42% were in the centre and CBD submarkets.

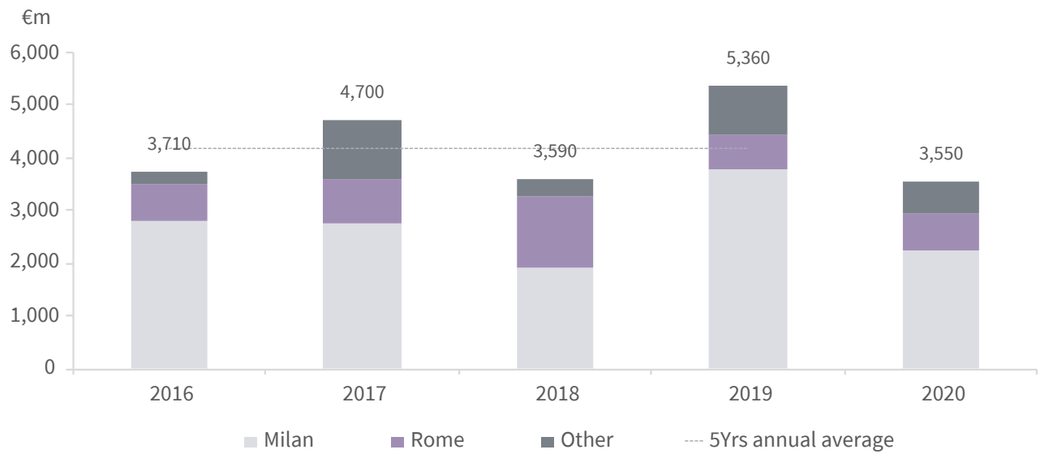
The "other" geographies amounted to around €600 m in 7 deals: among them there were single and mixed portfolios deals comprising assets situated in secondary markets such as Torino, Firenze, Genova and Padova.

The office market has once again seen a predominance of foreign capital but to a lower extent: in 2020, it accounted for approximately 60% of volumes, compared to 70% in the previous year. International capitals were however substantial, totalling around €2.1 bn and coming mainly from Europe (France and Germany), USA and Asia. Domestic investors were involved in 27 deals for over €1.4 bn.

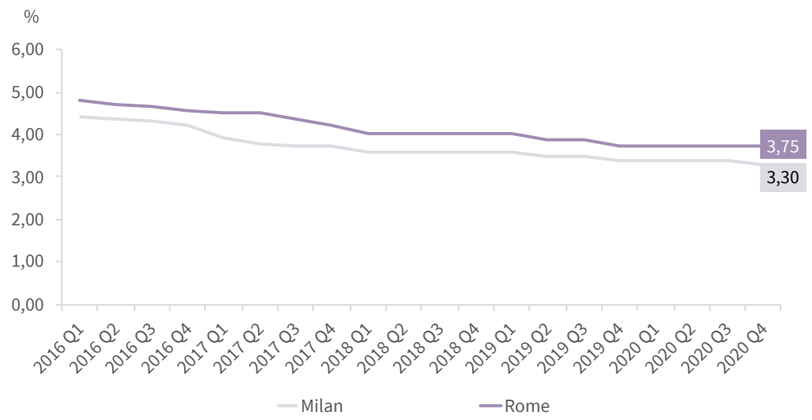
The market was once again dominated by core and core + operations, which affected more than 70% of the yearly volumes and which are expected to be highly requested also for the next year, due to their attractiveness which allows to minimize the risk associated with medium-term changes in the use and demand for spaces by tenants.

Value add and opportunistic deals slowed down, counting respectively 10 and 3 deals through the year.

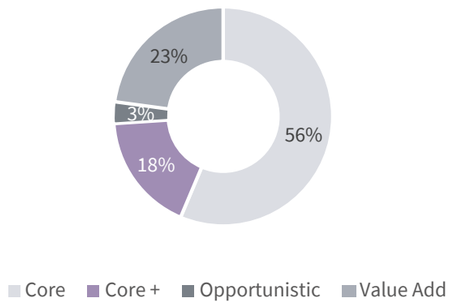
Office investment volumes by geography



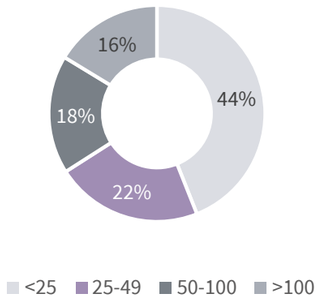
Milan and Rome prime net yields



2020 office investment volumes by profile



2020 office investment volumes by deal size (€m)



The competition for prime assets remained strong and led to a further decline in yields in the last part of the year in Milan where they currently stand at 3.30% (from 3.40% in Q4 2019). Moreover, net yields dropped across all Milanese sub-markets, including the CBD (from 3.70% to 3.60%), centre (from 3.75% to 3.65%), Fiera (from 4.75% to 4.60%) and Bicocca (from 4.80% to 4.60%).

In Rome, a compression was recorded in the E.U.R submarket where prime net yields reached the level of 4.50% (from 4.60%).

Occupier market

The letting market suffered across Europe in 2020 because of the pandemic and the consequent cautious approach of tenants.

In Italy, the take-up levels recorded a decrease in the major markets. In Milan, a decline was recorded in the market after 6 years of constant increase: in 2020 around 280,000 sqm were absorbed, a lower figure both than the previous year (-40%) and the last 5 years average (-25%). The number of deals decreased too: 174 operations were closed (-120 in 2019). In Rome, a similar trend was observed: 124,000 sqm of take up were reached (-56% YoY; -36% on the last 5 years average) across 96 operations (-41% in 2019).

Once again, service sector companies, including financial, drove the demand of office space in both cities (around 45%). Worthy of note is the great weight of the government sector in Rome compared to Milan (25% versus 10%), which was due to the biggest deal recorded in the year related to a public administration company which secured 30,000 sqm in the last quarter.

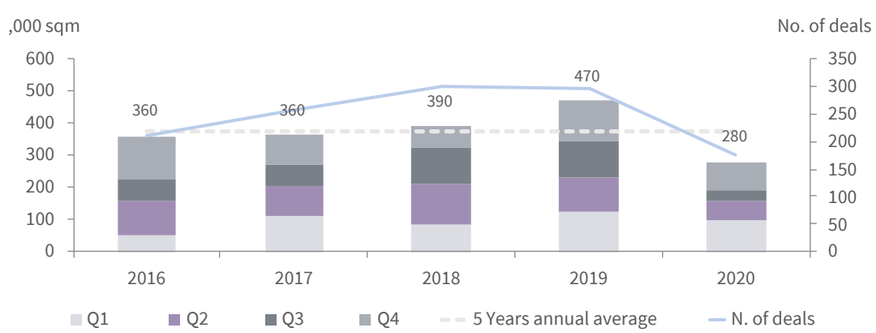
The periphery was the most required submarket in the last year in Milan, accounting for 42% of the total take-up, followed by the CBD and the hinterland (respectively 19% and 18%). In the Capital, the E.U.R. submarket was again the first for letting transactions, but to a lesser extent (33% in 2020 compared to 46% in 2019); the Laurentina and Core E.U.R. districts were the most wanted districts. On the other hand, the peripherical submarket grew in this respect, attracting the 30% of the yearly absorption (8% in 2019). Besides, in Rome there was a significant decrease of grade A take-up, which moved from 47% of 2019 to the actual 25%; at the same time grade C absorption increased by 34% in Milan YoY.

Regarding the size, in the last 12 months the market continued to be dominated by operations of less than 1,000 sqm (more than 65% in both cities); the deals of big dimension (> 5,000 sqm) were just 3 in Rome and 8 in Milan. The average deal size decreased in Rome (from 1,900 sqm in 2019 to 1,300 sqm in 2020), while remained unchanged in Milan (1,600 sqm).

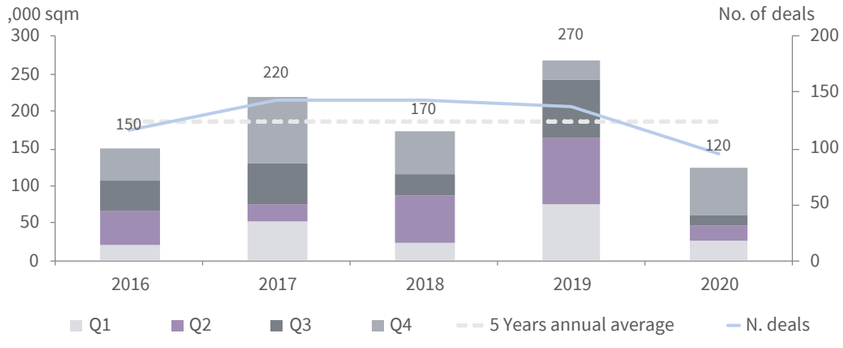
During the last year, prime rents did not change both in Milan and Rome, respectively steady at the level of 600 €/sqm/pa and 480 €/sqm/pa, with incentives holding stable too at an average value of 10 months for prime buildings in primary locations for the former and 12 months for the latter.

The development activity slowed down in 2020 also due to the pandemic restrictions: 15 completions were recorded in Milan for around 120,000 sqm (-29% YoY), while in Rome 5 new assets were completed for 25,000 sqm (-89% YoY). However, for the next three years there are several projects in pipeline which should bring in the Milanese market around 1 million of sqm and in the Capital 400,000 sqm; more than half of the pipeline is of speculative nature.

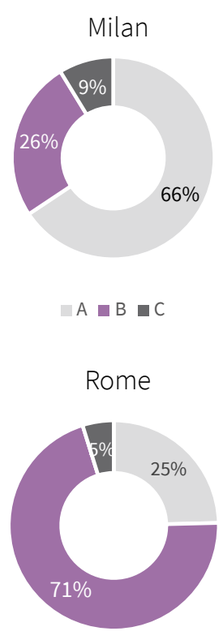
Milan, office take-up



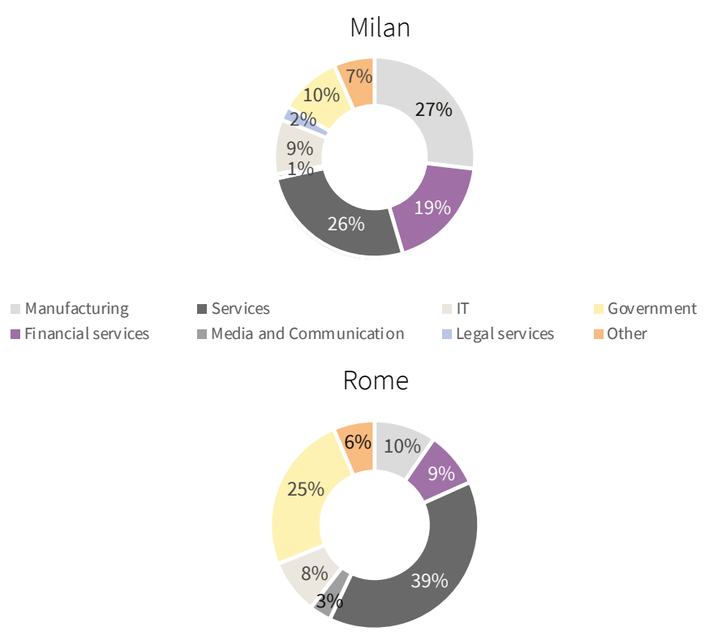
Rome, office take-up



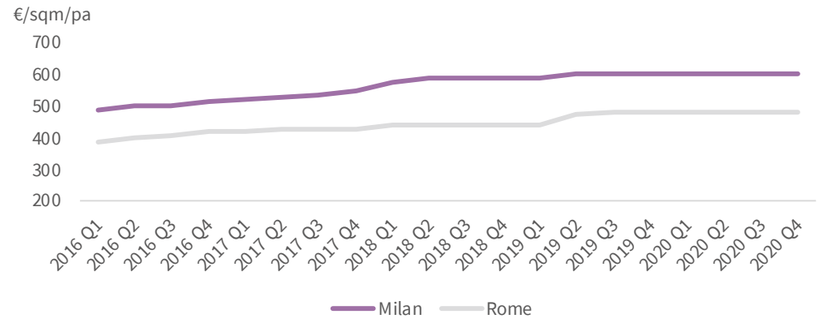
Take-up by grade, 2020



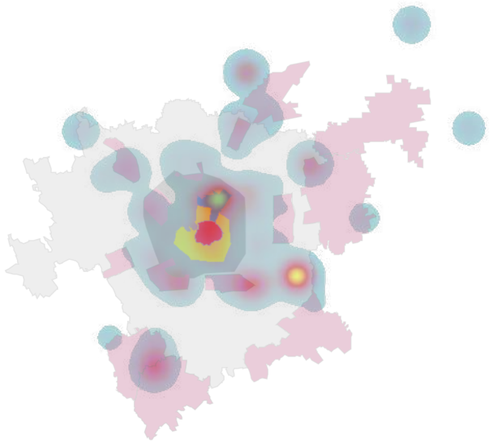
Take-up by occupier sector, 2020



Milan and Rome Prime Rents



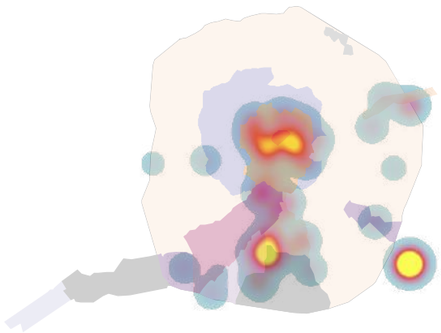
Milan, take-up concentration (sqm)



2020 main indicators and % change Y-o-Y

Take-up	280,000 sqm (-40%)
Stock	12,632,000 sqm (+0.01%)
Grade A vacancy rate	1.9% (stable)
Prime rent	600 €/sqm/pa (stable)
Prime net yield	3.30% (-10 bps)

Rome, take-up concentration (sqm)



2020 main indicators and % change Y-o-Y

Take-up	120,000 sqm (-56%)
Stock	12,142,000 sqm (-0.1%)
vacancy rate	5.90% (-20 bps)
Prime rent	480 €/sqm/pa (stable)
Prime net yield	3.75% (stable)

Outlook

The increasing focus on health, wellness and the employee experience will drive the demand for high quality, smart buildings. These assets will come at a premium and the rental value performance will be resilient. Demand for secondary stock will be limited, which will be clearly reflected in pricing and the cost of financing. The new workforce strategies are changing the demand: companies are adapting to a hybrid operating reality and 2021 will see organisations evaluating and integrating distributed working models. Demand for quality, technology and sustainability is disruptive for the whole industry creating the opportunity to enhance and regenerate the existing stock. In the long-term, office adaptions are likely to drive demand for space: relaxing seating density, more formal & informal collaborative spaces, adaptive spaces and amenities will form the basis for a new office usage and footprint.

06
Logistics

The logistics sector was one of the most resilient during 2020: the demand for spaces remained high in all the key markets, thanks especially to the increase penetration of e-commerce. In the short term we expect that this kind of demand will continue to drive the letting market: the request of last mile facilities will grow, and supply chains will be reassessed more carefully, increasing the focus on sustainability and carbon-neutral ones.

Sustainability, technology, supply chain and last-mile facilities will represent the key themes for the sector.

New trends

Sustainability

In recent years, a growing attention has been paid to the topic of sustainability, which has affected the real estate scenario and the logistics sector too: climate change and disruptive weather events pose in fact significant threats to global supply chains.

The real estate sector is trying to expand beyond operational energy efficiency in order to adopt a 'whole life embodied carbon' approach and embrace wider ESG goals. This is why the presence of green buildings (an environmentally sustainable asset in terms of energy consumption, energy sources and life-cycle carbon emissions) are growing also in the logistics scenario since 2003, when the first green logistics building was delivered by Gazeley in the UK.

A green structure is built in order to preserve the environment and contributing to the reduction of water and air pollution. There is no need for a green building to receive a certification by an accredited organisation in order to be recognised as such, but the trend is increasing in this respect. BREEAM and LEED are the market leaders. Health and wellbeing are a more recent phenomenon in logistics buildings in Europe and are expected to gain ground in the future. They can include, for example, amenities for employees and local communities, such as walking paths or fitness trails, on-site learning opportunities for local people, carsharing, cycling to work and dedicated bus routes.

In the long term, assets which do not meet sustainability requirements risk becoming stranded.

Following measures can be taken to turn the asset into a green building:

- Minimising water and air pollution
- Reducing water use through rainwater harvesting
- Implementing parking lots for electric vehicles
- Recycling and reuse of materials
- Improving air quality inside the building
- Using photovoltaic panels as a renewable energy source to reduce energy costs
- Low-energy lighting
- Reducing deforestation using certified wood
- Life-cycle cost analysis
- Climate change adaptability through heating and ventilation systems

Technology

The constant increase and acceleration of new technologies is deeply changing the real estate scenario, especially with the Covid-19 pandemic, which forced the pace of change for technology adoption. The technological changes have been drivers of change for logistics assets, with the adoption, for example, of robots, automated storages and retrieval systems. Besides, the increase of e-commerce has generated demand of different types of warehouses. There are a lot of different technologies, some established and others emerging which will change the warehouses in the future.

Artificial intelligence
AI-based technology brings intelligence to automate administrative tasks, plan supply chain processes and speed up information-intensive operations.

Robotics
Integrating robotics, even physical robotics such as collaborative robots "co-bots" and autonomous mobile robots "AMR", increases the speed and accuracy of supply chain processes and reduces human error.

Blockchain
Blockchain offers security through a decentralised ledger system and addresses traceability and related challenges, bringing transparency to the transaction process.

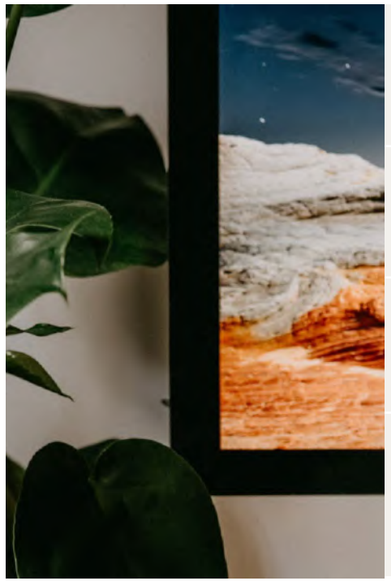
Data analytics
Data provides actionable insights for the improvement of warehouse productivity, performance management and optimal utilisation of logistical resources.

Last-mile delivery
Last-mile delivery tools such as drones & smart lockers are an integral part of logistics as it relates directly to customer satisfaction.

IoT
IoT in logistics enhances visibility in every step of the supply chain and improves the efficiency of inventory management.

Supply Chain

The Covid-19 pandemic has elevated the importance of supply chain risk mitigation: their disruptions resulting from lockdown measures proved a real-time stress test for supply networks, particularly those based around just in-time inventory. The measures to mitigate supply chain risk will lead to re-shoring, near shoring and higher inventory levels, providing an additional demand for warehousing and industrial spaces in Europe. Moreover, in the near term the rollout of vaccines is expected to increase pressures on some supply chains, bringing more attention on creating resilient infrastructures.



Risk mitigation approaches to consider

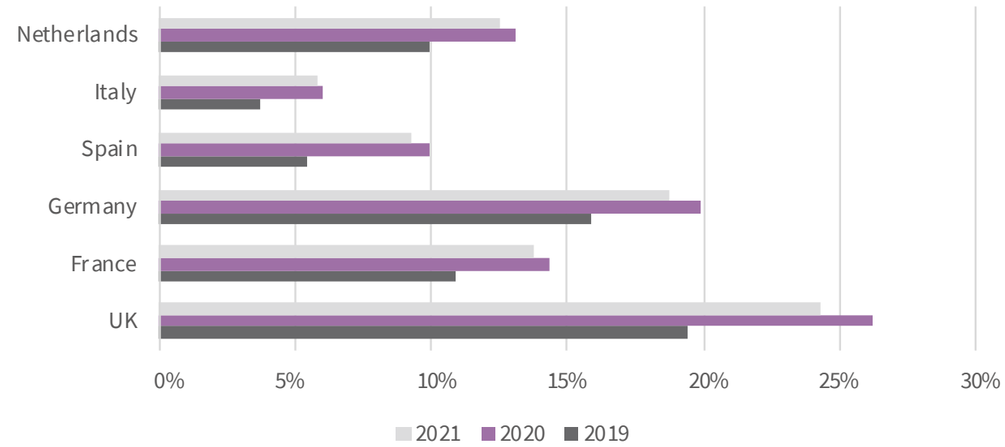
Supplier diversification and regionalisation	A 'port diversification' strategy
Multimodal transportation options	Invest in automation
Less 'just in time' and more 'just in case' inventory management	Network evaluation

Last Mile

The phenomenon of the e-commerce, the increasing urban population and the general need to reach the end customers in the shortest term has been contributing to the proliferation of unprecedented urban solutions.

Urbanisation is one of the main drivers behind the relatively recent rise of urban logistics solutions, which is generating increasing demand from occupiers and growing interest from developers and investors. With the COVID-19 pandemic and the associated national lockdowns, there was a rise in online retail purchases, suggesting an acceleration in online growth, which will persist also in 2021.

Total Online Retail Sales 2019-2021 (estimate)



Source: Centre for Retail Research (CRR)

50% Number of Italian eShoppers as % of population in 2020 (38% in 2019; Centre for Retail Research estimation)

The demand for logistics services and buildings in cities is growing, but the land available in cities is seemingly in short supply. The necessity to find the right asset brings many operators to convert existing and not utilised properties and warehouses into last-mile centres, presenting major challenges for operators but at the same time a huge opportunity for real estate developers and investors.

The high request for these assets' typologies is underpinning the rental growth of urban logistics warehousing: in Rome and Milan for example these type of rents reached in 2020 respectively the level of 90 €/sqm/pa and 85 €sqm/pa.

In certain European cities, where the availability of industrial land is particularly constrained and land values are high, we are beginning to see the development of multi-level buildings, where the upper levels are serviced by cargo lifts and multi-storey ramped buildings, which provide direct vehicle access to the upper floors.

Investment market

Despite the pandemic, the volumes invested in the logistics sector were explosive in 2020: they were around 1.6 €bn, representing the highest figure ever recorded, 7% higher than the previous year and 42% up on the last 5 years average. The market confirmed to be dynamic with the closure of 36 deals, 13 of which were portfolios. The average size of operations increased from €35 m in 2019 to €43 m in 2020: in fact, there was an increase in operations with sizes higher than €50 m, which represented the 44% of the total.

Investors were active in all segments including last mile, trophy assets and standard logistics with a higher preference for the latter: the biggest deals of the year involved indeed a standard logistics portfolio of 15 assets sold by Carlyle to Axa and the Kering warehouse in Trecate (Novara) sold by LCP to DWS.

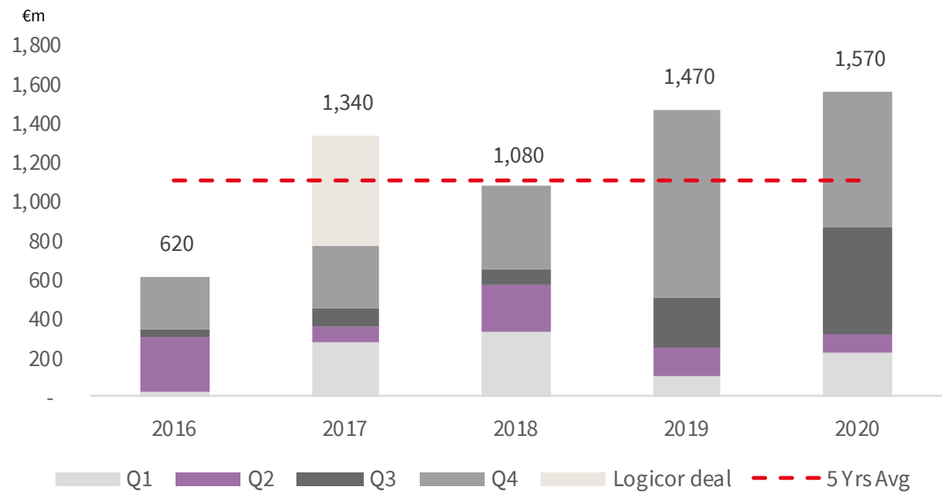
In 2020, the market was also characterised by a growing demand for land and developments (figures which are not tracked in our final numbers), amounting to around €100 million: the 78% of them was related to speculative projects, while the remaining 22% are related to build to suit assets.

The area of main interest was once again Milan, where 13 deals were closed for around €510 m (including just single deals and Milan portfolio deals, without considering a substantial part of mix locations portfolios). Other locations recorded a growing interest, such as Firenze, where 3 deals were recorded: among these a last mile portfolio of 3 assets stood out.

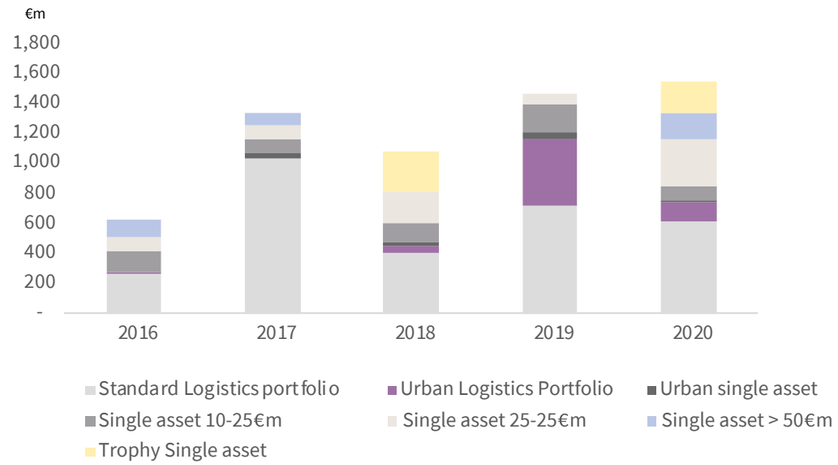
The origin of capitals confirmed to be predominantly foreign, involving 90% of the yearly volume and coming mainly from European countries (with German and British ones in the front), but also from USA and Asia.

The exceptional interest in the sector led to another compression of prime net yield, which recorded their lowest values in all the main geographies: Milan (from 5.00% in Q4 2019 to 4.75% in Q4 2020), Rome (from 5.15% to 4.90%), Bologna (from 5.25% to 5.00%), while in Veneto and Torino values remained stable respectively at 5.35% and 5.45%. Decreases were recorded also with regard to prime products in secondary locations (Milan from 5.20% to 5.10%, Rome from 6.10% to 5.90%, Bologna from 6.20% to 5.95%). A further downward trend is also expected in the key regions, with prime yields forecasted to fall again by the end of 2021.

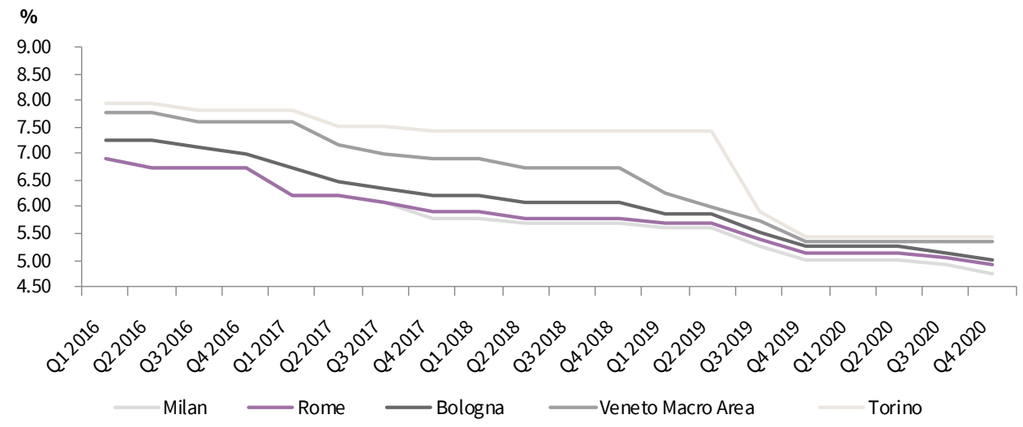
Logistics investment volumes by quarter



Logistics investment volumes by ticket size



Logistics prime net on net yield by geography

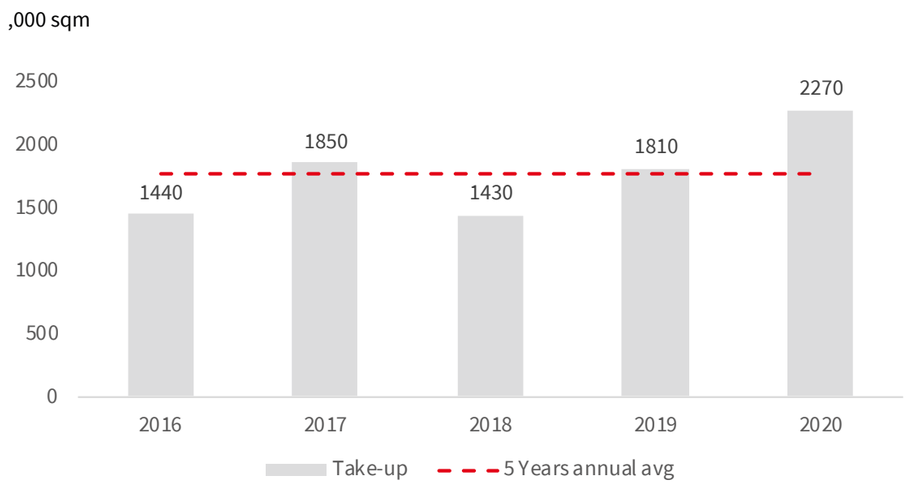


Occupier market

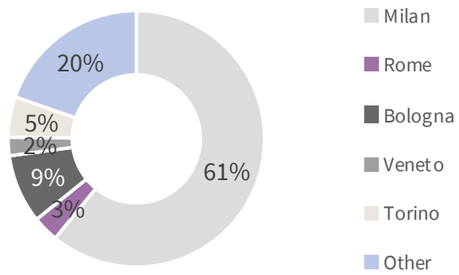
2020 represented an exceptional year for the Italian Logistics sector: the demand for spaces has remained resilient and reached the new record level of 2.3 million of sqm leased, a figure 25% higher than the previous year and 80% up compared to the last 10 years average. The number of transactions increased too: 116 operations were closed during the year (+8 compared to the previous one). The demand for spaces was sustained by the e-commerce phenomenon, which in the last year saw a sharp increase in large part due to the restrictions placed on physical retail stores. The square meters taken up by e-commerce players more than tripled in 2020 compared to the previous year, representing the 24% of total take up (9% in 2019) across 21 transactions (4 in 2019). 3PL presence remained high, while retail and manufacturing operators slowed down, recording respectively a decrease of 46% and 12% on the previous 12 months. Another trend observed in the market in the last 12 months was the decrease of let operations in favour of owner occupation ones, which more than doubled in terms of sqm absorbed Y-o-Y and build to suit deals which increased by 50% Y-o-Y. In fact, the development activity was effervescent and hit a new record in 2020: more than 1.4 million of sqm were completed related to 56 assets. Besides, for the next two years more than 2 million of sqm are in pipeline and still under construction.

Geographically, Milan drove once again the leasing activity, with around 1.4 million of sqm, 88% up on the previous year and the closure of 52 operations. It is also worth of note the increase of absorption in Torino (+114% Y-o-Y) and Firenze (+52% Y-o-Y) macroareas.

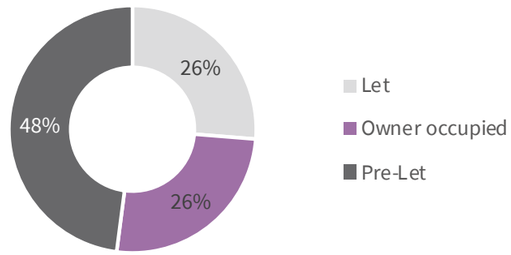
Logistics take-up, 2016 - 2020



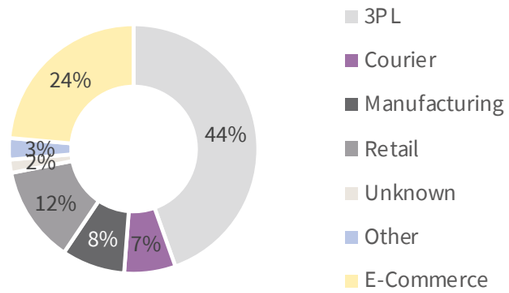
2020 Take-up by geography (sqm)



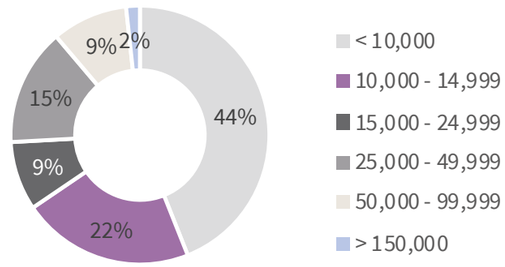
2020 Take-up by type (sqm)



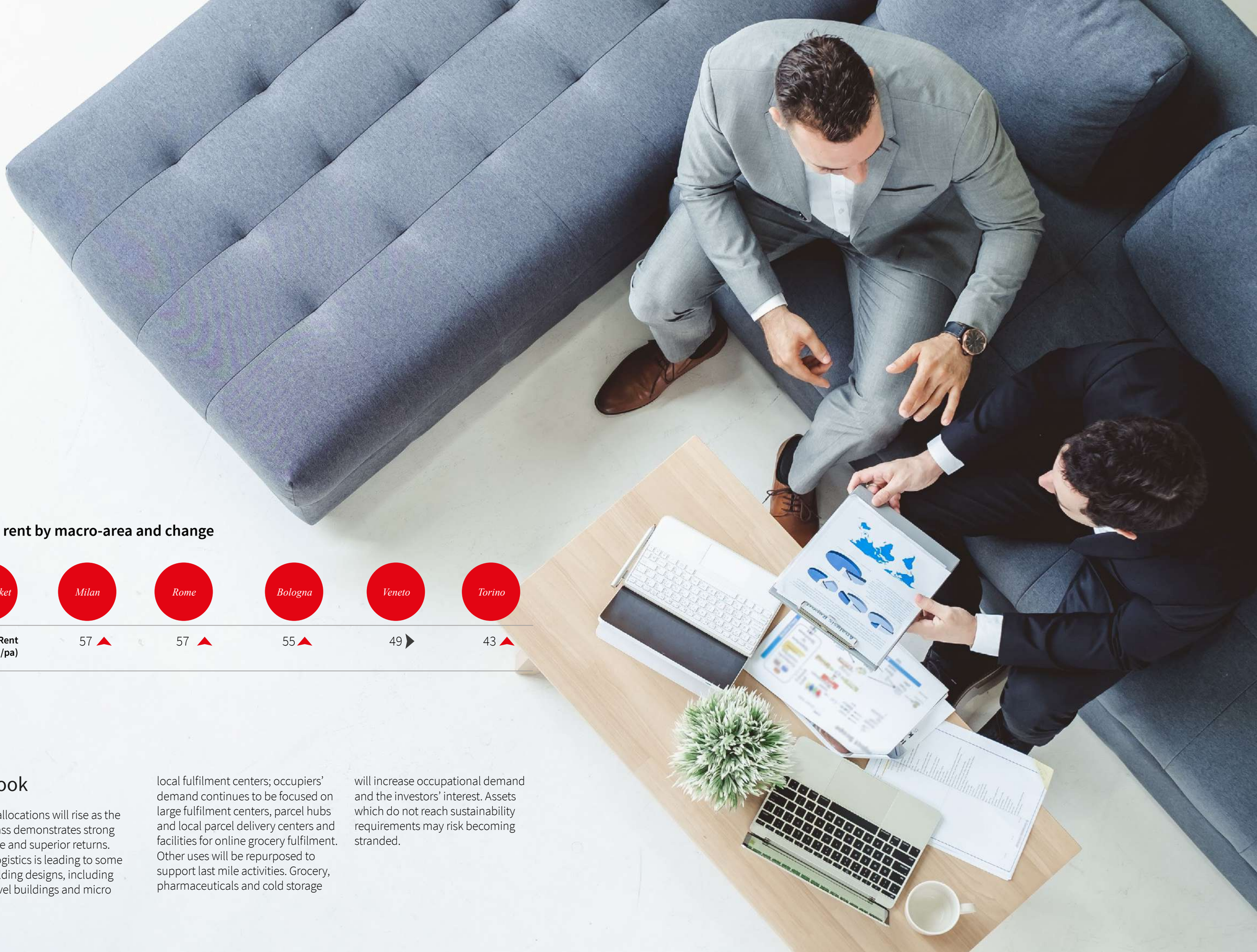
2020 Take-up by occupier sector (sqm)



2020 Take-up by size (n° of deals)



The encouraging phase of the market led to a growth of prime rents in Q4 2020 which, after two years of stability, increased in Milan, Rome, Bologna and Torino markets; for these assets it is also expected a slight increase also in 2021. Conversely, rents for secondary assets remained stable.



Prime rent by macro-area and change

Submarket	Milan	Rome	Bologna	Veneto	Torino
Prime Rent (€/sqm/pa)	57 ▲	57 ▲	55 ▲	49 ▶	43 ▲

Outlook

Capital allocations will rise as the asset class demonstrates strong resilience and superior returns. Urban logistics is leading to some new building designs, including multi-level buildings and micro local fulfilment centers; occupiers' demand continues to be focused on large fulfilment centers, parcel hubs and local parcel delivery centers and facilities for online grocery fulfilment. Other uses will be repurposed to support last mile activities. Grocery, pharmaceuticals and cold storage will increase occupational demand and the investors' interest. Assets which do not reach sustainability requirements may risk becoming stranded.

07
Retail

During the Autumn, the recovery in retail sales that was observed from May to August has stalled in Italy as in many major global retail markets due to the resurgence of COVID-19 cases. After months of fear and uncertainty, consumers have acted more cautiously even before government tightened again social distancing measures. Retail sales indexes and mobility reports point to a slowdown in retail spending also in the last months of the year: new lockdown measures affected also the highest revenue period for retails, food & beverage and hospitality sectors. The collapse in sales following the outbreak of the Covid-19 pandemic and the lockdown of commercial activities appears even more dramatic if read considering the stagnation of consumption recorded in the last 20 years. Consumptions are not forecasted to come go back to pre-Covid level before 2023.

New trends: a new era of retail

Consumptions

Consumers significantly increased online purchases during the lockdown. The online sales channel has been the main beneficiary across all markets and retail sectors, including the grocery sector. As a result of the pandemic, all retail, service and industrial sectors will have to have a digital approach to meet demand. When customers will return to the stores, online sales growth will soften, but it will remain above pre COVID-19 levels, supported by a large number of employees continuing to work from home and cautious consumers.

Demand for fashion and non-essential goods remains below pre-covid levels, but sales have recovered more strongly than expected. With fewer people going on holidays or visiting leisure venues and more people studying and working at home, some consumers have spent their budget on big-ticket items such as furniture, DIY, electronics and computers.

Customers are becoming more and more sensitive to sustainability and wellbeing, not only as regards niche products but also in mass consumption: animal welfare, traceability of raw materials, recyclable packaging, zero-km and healthy food, local products are gaining market share and retailers have to deal with it.

Retailers

Retailers continue to adjust their operations to navigate the unclear outlook.

Europe's big shopping destinations, from Galleria Vittorio Emanuele II in Milan to Galeries Lafayette in Paris and Harrods in London, are lamenting the loss of overseas shoppers. The usual crowds of affluent, high-spending tourists in Europe's capitals are noticeably absent. The absence of Asian and American tourists is being perceived across the region, but notably in popular major cities. In addition to strengthening their wider omnichannel platforms and supply chain, retailers have adopted new services and initiatives to allow for a quick collection of purchased goods and to diversify income streams. Local shopping centers and retailers continued to see better performances in terms of footfall and sales than prime high street locations and regional shopping centers, as many consumers are finding the convenience of easy parking and safe travel more appealing than using public transport and as they are not affected by tourists and commuter traffic such as luxury high streets. Many consumers are now choosing to continue shopping locally to contribute to the economic recovery of their community.

1. Strategic restructuring of retailers' portfolios

Major retail markets are expected to see more churn in occupiers as weaker operators downsize their store portfolios. This is likely to have a pronounced impact on underperforming and lower-quality locations, while rent structures will continue to evolve as physical stores and online platforms increasingly merge. Well-capitalised operators and new market entrants are selectively looking for expansion opportunities in prime retail locations, albeit with sufficient lease flexibility and in more affordable out-of-town locations that have seen a stronger recovery in footfall and sales. For some retailers, this means reducing the cannibalisation of sales and invest in the remaining stores to improve the shopping experience. For others this means opening smaller-stores, including click-and-collect facilities, to improve profitable sales.

2. The future is not online or offline, the future is retail

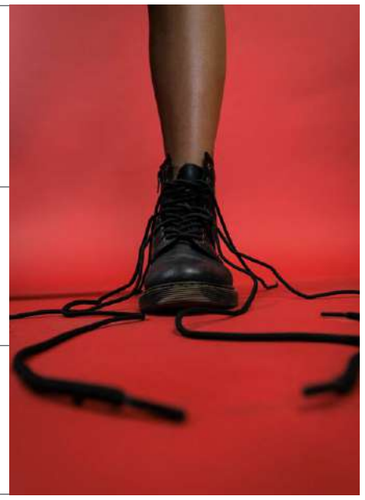
Cashless payments (applications and Bitcoin) and the attention to final customers experience are necessary also for brands that did not need them before Covid-19 due to their B2B business structure. Technical assistance to "non-technological" customers and tools for distant sales such as "virtual access to the store" are the future of the omnichannel model. Social-media is also an opportunity for future performance and diversification, including physical retail spaces, and it is also a key to mitigate risks, drive growth and build customer loyalty.

3. Flexible leases and formats are on the rise

They are increasingly important for retailers' and investors' real estate strategies in a progressively dynamic environment. With the rise of the online channel, there is growing demand for more flexible leases from retailers. Flexible leases can be offered in various options, ranging from a traditional lease with more break clauses to fully fitted-out spaces, ready to be used. Flexible space offers retailers the option to test product demand, drive brand awareness and manage costs.

New formats

Click&Collect	Buy Online Pickup In Store - BOPIS	Buy Online Ship in Store - BOSS
Sale of second-hand or vintage goods	Product rentals	Fully automated stores
From department store to tenant mixes	Fully circular business	Ghost kitchen



Landlords and investors

Landlords are also experimenting. By understanding structural and cyclical drivers of performance and what customers require, investors should be able to identify existing assets which, while at risk of obsolescence, can be adapted to remain fit for purpose in their current use. In many cities, for example, land is very constrained, and adaption of well-located buildings may be appropriate, with relatively modest capital expenditure far below replacement costs. Given the costs and environmental impact associated with developing new buildings, refurbishment and redevelopment will become more important for investors to preserve and enhance the value of buildings in their existing uses.

Where real estate is no longer fit for purpose in its current use, investors should be ready to identify opportunities to re-purpose assets for an alternative use, or uses, for which there is good demand. It will take some time to witness this phenomenon in Italy, but some assets with high vacancy level could be reconverted in micro-fulfillment and distribution centers. If in a good location, retail parks could see a new life as logistics centers. In USA and UK, some urban shopping centers have been converted in schools and elderly centers. There are already many examples of investors that have successfully re-purposed obsolete retail real estate into alternatives uses including housing, logistics and leisure uses.

Understanding and evaluating the impact of structural changes

Future proofing assets in their existing use

Re-purposing obsolete assets by converting them to alternative uses

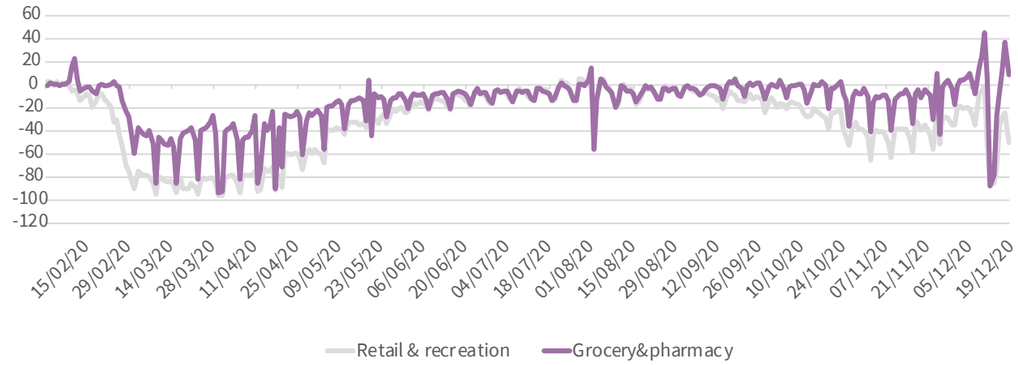
Winning product categories

Computer and telecommunication equipment
+15.3%

Household tools and hardware
+2.3%

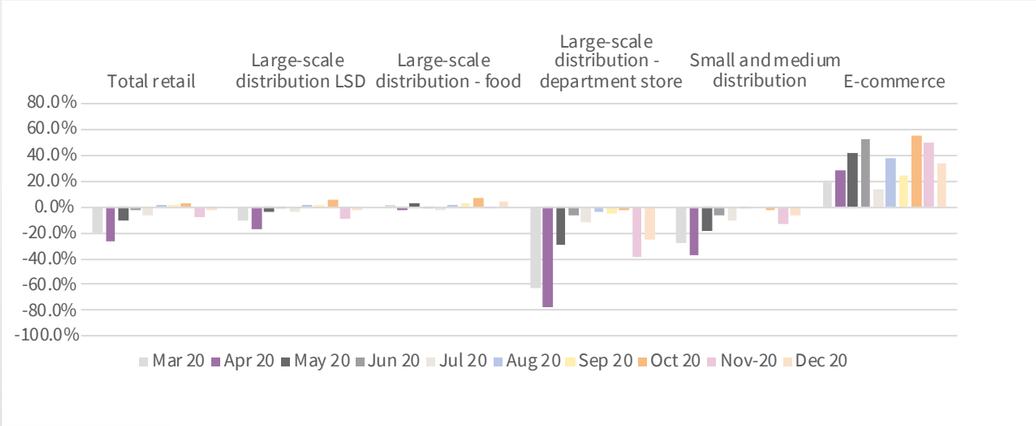
Furniture and textile items and household furnishings
+0.5%

Italy retail mobility report



Source: Google

Retail sales by format



Source: ISTAT

Real estate market overview

Stock and projects

Modern retail stock (which includes shopping centres, retail parks, factory outlets and leisure, entertainment and lifestyle centres) amounted to approximately 19,600,000 sqm at the end of 2020. Most of the square meters (43%) were constructed between 2001 and 2010 and are mostly located in Northern Italy (58%). Due to the temporary closing of construction sites in the first half of the year, only 6 completions were recorded in 2020. 65% of the total sqm developed (160,000) involved Lazio also thanks to the biggest completion of the year that was recorded in Rome (Maximo Shopping Centre); three centres were inaugurated in the North West.

Over the next four years, development activity will amount to over 800,000 sqm comprising 17 projects; among these, there are 4 large projects (> 60,000 sqm).

Concerning the stock of shops, these reached a total of 719,196 units at a national level in June 2020 (according to the latest figures by Osservatorio Nazionale del Commercio), recording a slight decrease of 0.4% YoY.

Italy, Completions 2020

Centre name	Type	City	GLA sqm (,000)
Maximo	Shopping centre	Rome	60.5
Le Maschere	Retail Park	Osnago (LC)	32
Da Vinci Village	Retail Park	Fiumicino (RM)	23
Parco 51	Retail Park	Pomezia (RM)	20
Green Pea	Shopping centre	Torino	15
Lingotto	Shopping centre	Torino	8

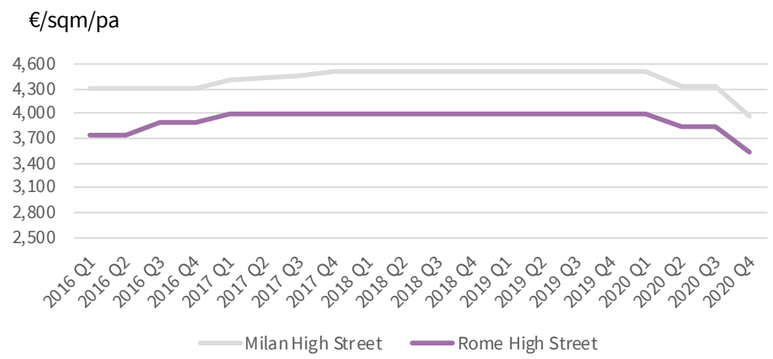
Italy, main projects, 2021 - 2024

Centre name	Type	City	GLA sqm (,000)	Opening
Auchan Rescaldina extension	Shopping centre	Rescaldina (MI)	57	2021
Merlata Bloom	Shopping centre	Milan	70	2022
Maximall Pompei	Shopping centre	Torre Annunziata (NA)	44	2022
COM - Caselle Open Mall	Lifestyle Centre	San Maurizio Canavese (TO)	113	2022
Go! Torino Vanchiglia	Retail Park	Torino	20	2022
Monopolis Lifestyle Centre	Lifestyle Centre	Monopoli (BA)	43	2022
Walther Park	Shopping centre	Bolzano	22	2023
Milanord2	Shopping centre	Cinisello Balsamo (MI)	120	2024

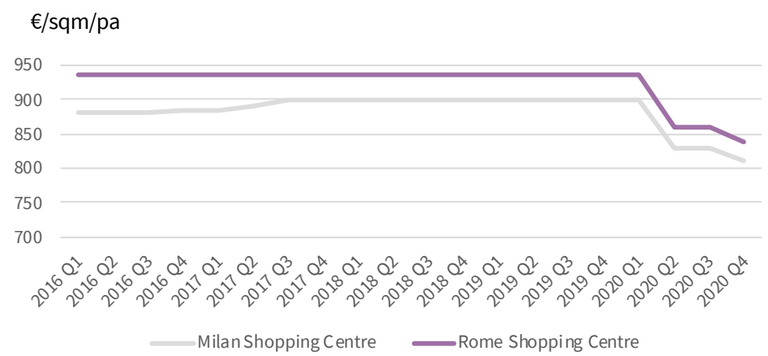
Rents

In 2020, prime rents decreased by 10% for shopping centres, by 8% for retail parks and by 12% for high street assets. After years of stability, prime retail rents saw a sharp correction, but downward pressure on rents, continuing demand for more lease flexibility, relocation and shrink of occupied space remain as the short-term outlook continues to be uncertain for the sector. Prime retail rents are expected to gradually recover from 2022 onward and to be back at pre-Covid levels by 2024.

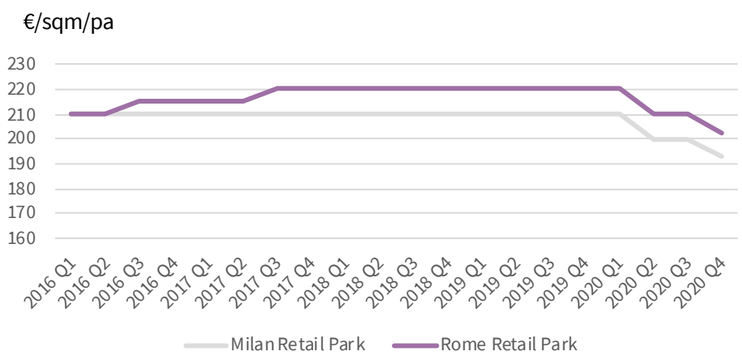
High Street, Shopping Centres, Retail Parks, Milan and Rome, prime rents, 2016 - 2020



High Street **3,960**



Shopping Centre **840**



Retail park **202**

Investment market

For the second consecutive year, in 2020 the retail sector recorded a downtrend in investments for approximately €1.4 billion, a lower figure than both the previous year (-18%) and the last 5-year average (-31%).

The number of transactions also declined: 16 deals were completed in the last 12 months (-11 compared to 2019), yet with a larger average size (€89 m in 2020 versus €64 m in 2019). Another trend observed in the last 12 months was an increase in portfolio deals, which accounted for 50% of total transactions compared to 19% in the previous year.

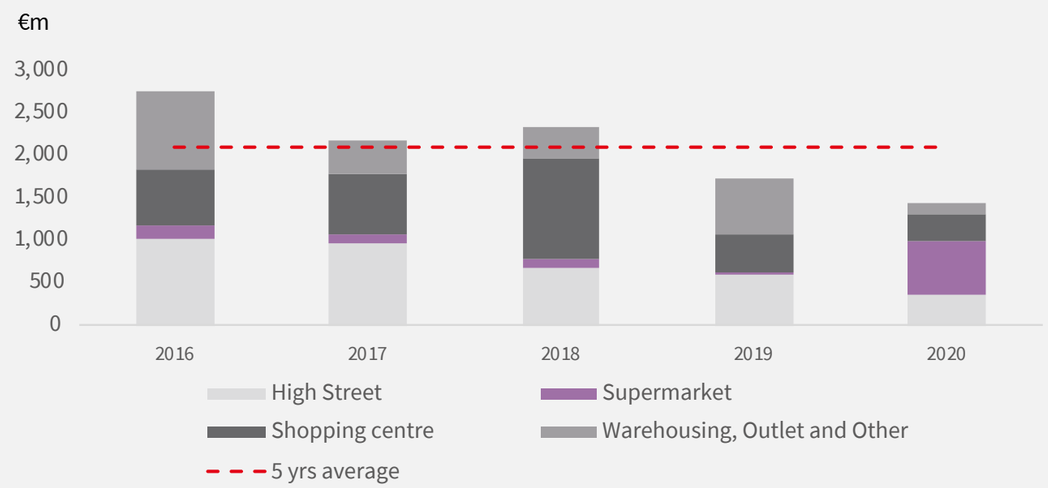
The out of town made a significant contribution to the yearly volumes (75%) with 11 deals. In particular, the supermarket product drove the volumes with the selling of 3 portfolios; among these Esselunga transaction stood out with the sell to Unicredit of 32.5% of Villata Spa, a real estate company that owns most of the properties hosting Esselunga stores. In Q4, another relevant deal in a sector like grocery, that was not hit by the pandemic, saw Unipol buying a portfolio of 10 supermarkets by Coop Alleanza for € 160m. The shopping centre component interested 5 transactions for a total amount of €310 m. The main deal is related to the acquisition by Credit Agricole of 2 shopping centers, Le Due Torri (Stezzano – Bergamo) and La Corte Lombarda (Bellinzago Lombardo– Milano). Covid pandemic dramatically limited shopping center activities in 2020, due to restrictions imposed by Government. This affects a sector that is already undergoing a dramatically transformation and sees cautious investors in committing with it.

The high street class, on the other hand, totaled €360 m across 5 operations. Milan took the lion's share with more than 86% of the amount and thanks to the selling of 3 mixed-use assets in Milan prime locations: Via Dante 16, Via Orefici 8 and Piazza Cordusio 3. Except for Rome, no other cities were involved in the high street market in 2020 confirming the difficulties of the sector and a wait-and-see approach of investors and landlords.

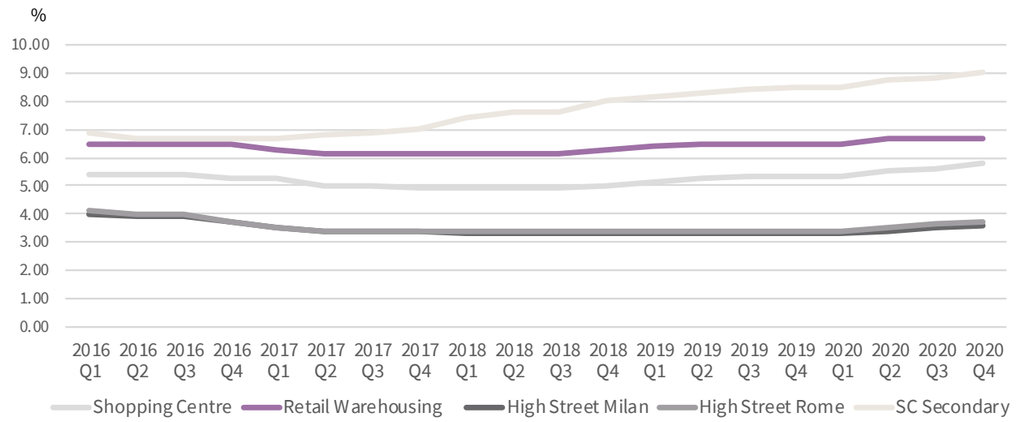
In 2020, in line with the historic trend, the retail segment was overall dominated by international capital, accounting for 80% of the annual volume. In particular, European investors stranded out with the German Deka.

In this scenario, yields continued the decompression process started in 2019; a growing gap is forecasted for prime and secondary yields.

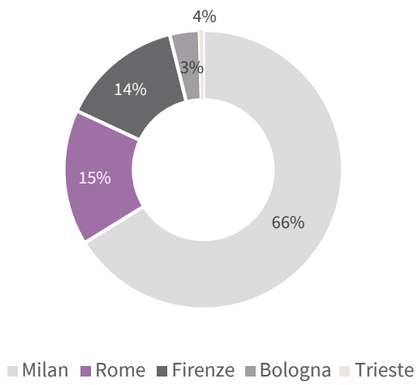
Italy, Retail Investment Volume 2016-2020



Prime net yields 2016 - 2020



High street investments by location 2016 - 2020



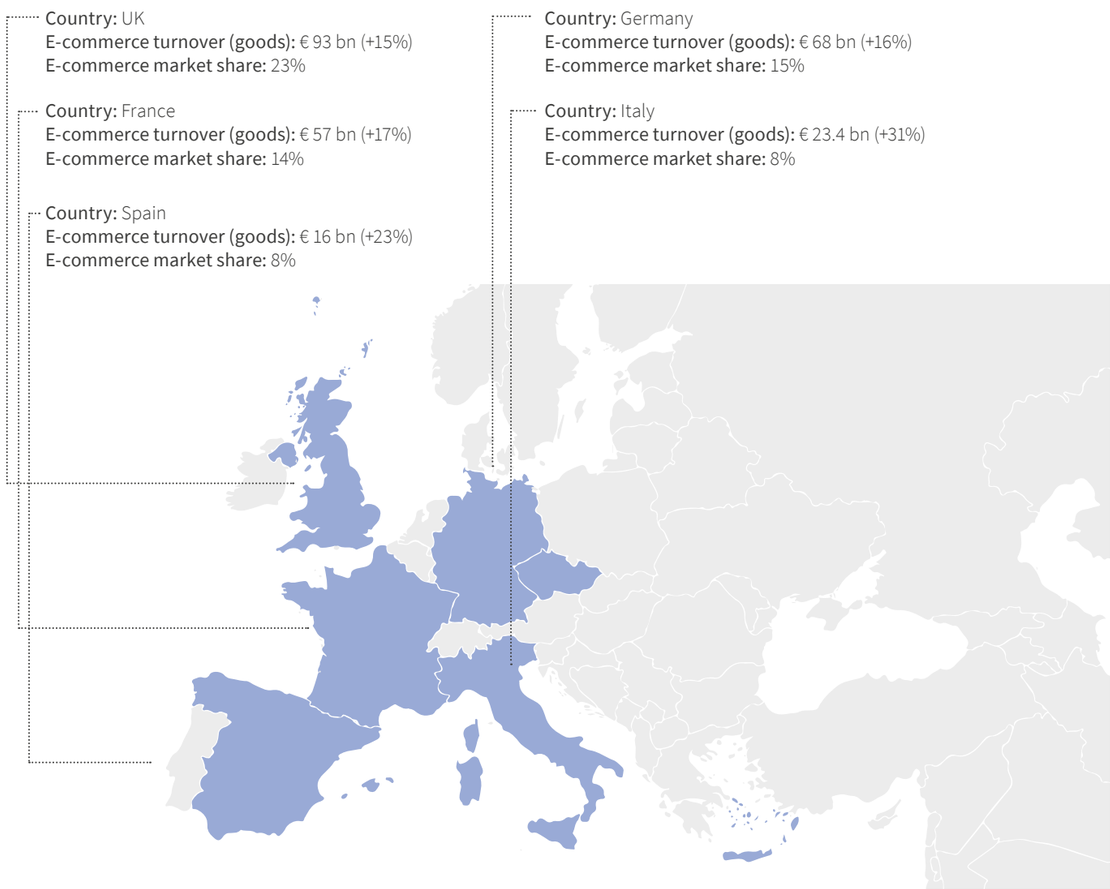
E-commerce

As reported by the B2c Observatory of the Politecnico di Milano, the global value of goods online purchases in 2020 is expected to have exceeded €2,580 billion (+16% against 2019). China is confirmed as the top market, with over €1,190 billion (+16% against 2019) and an online market share over total retail of 24%, followed by the USA with €560 billion (+18%) and a market share equal to 20%.

The pandemic and the following lockdown measures have caused the most radical change in the retail sector of the last decade. Border closures, restrictions on mobility and the ban on gathering have seriously affected the service sector in every sales channel.

In Europe, Italy is still far behind the key e-Commerce markets (France, Germany and UK), but the segment is rapidly growing; the pandemic has accelerated the change. A development of our e-commerce market requires a strengthening in the digitization of Italian companies.

In Italy, the whole e-commerce sector showed a slowdown in 2020 (-3%), with €30.6 billion in turnover and a 13% growth in monthly users, approaching €26.9 million. Following the lockdown, 1.3 million Italians shopped online for the first time in 2020. Regular web shoppers accounted for 96% of the overall market. Online product sales accounted for 8% of total retail sales, compared to 7.3% in the previous year. The turnover slowdown was attributable only to the services segment. For the fourth consecutive year, the sale of goods (€23.4 billion; +31%) exceeded the sale of services (€7.2 billion; -47%). Covid-19 Pandemic heavily affected tourism and transports (-56%) and ticketing; among the services, only insurances registered a growth (+6%). As for goods, the top sectors for online purchases were "IT and consumer electronics" (€6.2 billion; +20%), followed by "clothing" (€3.9 billion; 22%) and food & grocery (€2.7 billion; +70%). An increasingly important role has also been played both by furniture&home living segment (€2.4 billion; 32%) and publishing (€1.2 billion; 18%).



Outlook

The impact of the pandemic became evident in some sectors such as retail and hospitality, creating a unique chance for a technological leap and a profound transformation of these sectors.

Consumptions are not forecasted to go back to pre-Covid level before 2023. Rent structures and lease flexibility will continue to evolve as physical stores and online platforms increasingly merge.

The high street market was the most affected by the pandemic due to the massive use of remote working, more cautious consumers and the absence of tourists in Europe's capitals. Local shopping centers and retailers continued to see better performance in terms of footfall and sales. In the short-medium term, pressure on rental level for the high street sector will persist; investors remain cautious in committing with this segment of the market but are more confident on mixed-use (office and residential) assets. Although the out-of-town segment will continue to be perceived as safer by consumers, we do not expect significant transactions in the next 12 months due to different price expectations between buyers and sellers. Not only retailers are experimenting new formats, services and initiatives, but also landlords could reinvent their assets for new uses. Some secondary urban assets could be reconverted in micro-fulfillment and distribution centers.

08
Hospitality

Historically, the lodging industry has proved to be one of the most resilient industries in the world and there is no reason why this sector cannot recover from the COVID-19 shock. As one of the real estate sectors mainly depending on individual mobility, travel restrictions and government-mandated lockdowns induced a dramatic decline in hotel occupancies across the world. After months of lockdowns and travel restrictions, during the summer most hotels reopened also to international travelers, but in a world still grappling with the second wave of the pandemic, it's far from business as usual. In Italy, a new December decree dramatically limited movements and traditional winter holidays. The onset of the pandemic not only caused hotel occupancies to plunge, but also led to a surge in unemployment across the industry. The truth is that the global lodging industry will continue to be tested in ways it never had. In Italy, Covid-19 has cost the accommodation industry a halving of the turnover and a drastic reduction of hotel occupancy. How quickly hotels recover will depend largely on the travel industry itself.

As in the summer, the first round of leisure travelers will be domestic; after that, individual business travels will start to grow followed by group business travels and, at last, by group leisure travels. Until a vaccine is widely available and confidence to travel comes back, the performance of the lodging industry will remain stagnant. For parts of the world that are especially reliant on tourism such as Italy, where the sector is worth 13% of the national GDP, recovery is essential to sustain the economy. Italy is the 5th country in the world for number of international tourists.

New trends

The pandemic accelerated certain trends in the industry and encouraged hotel operators to be more creative in attracting guests and diversifying revenue streams.

1. Technology

Properties across the world have quickly adopted technology enabling check-in and check-out options to provide a contactless lodging experience.

2. Cleaning Protocols

Hotels are transforming their cleaning protocols and operating models based on the needs of an unprecedentedly germ-conscious public. Cleanliness ratings are likely to become the new key standard for hotels and will replace outdated brand standards. The psychological impacts of the pandemic outlast the virus. This may shift preferences to trusted brands over independent properties or sharing economy accommodations, as consumers trust the brand standards.

3. Sustainability

This is a major trend for the hospitality industry, with ESG investment becoming increasingly important for real estate investors. Many hospitality groups have announced policies to address environmental concerns, however, to move this forward, a Sustainability Council was set up at the hotel industry's leading hotel conference IHIF in 2020 to address sustainability concerns and provide guidelines on how investors, developers and hotel operators can commit to more sustainable practices in the hotel sector.

4. Temporary-uses and conversion

Considering the ongoing forecasting uncertainty and reinforced social distancing measures, some hotels may find themselves unable to justify the cost of re-opening. This conclusion has pushed hotel investors and operators to consider temporary-uses or conversion opportunities to other real estate uses such as coworking spaces, multifamily, senior living and student housing. Some unused spaces may be allocated to leisure services, sport or wellness while restaurants and bars will offer social spaces and a varied H24 service. In Italy, it is difficult to obtain a change in the destination of use, also due to bureaucratic problems related to Covid-19. It is still premature to hypothesize a conversion trend but a mixture of destinations of use is very likely.

Why is sustainability important?

Travellers are choosing more environmentally-conscious hotel options

Corporate strategies focusing on sustainability tend to have superior financial performance

Triple-bottom-line accounting can help measure success "the 3 P's": profit, people and planet

Hotels have long been remote workplaces, from business travelers sending emails after meetings nearby to more recently, coworking spaces in communal areas attracting a new generation of digital nomads. Now, with fewer guests staying overnight, some hotel groups, such as Accor, Holiday Inn Express, Novotel, Double Tree by Hilton are homing in on remote workers by offering bedrooms as makeshift daytime offices offering high-speed WiFi, unlimited printing, free parking, a better balance between work and private and life and, of course, a different scenario after months of lockdown. In Italy for example, a new service called daybreakhotels.com offers hotel rooms at discounted prices for the day as coworking spaces. Probably, this trend will last also after the pandemic in large cities where people live in smaller living area and overcrowded apartments or for commuters. Hotel groups such as the Marriott and Accor, were building their own coworking spaces well before COVID-19. We expect s more hotels to follow suit in the coming years as they increasingly look to alternative revenues streams and companies consider a wider range of locally-based spaces.

Lease contracts

During the Covid-19 pandemic, many hotel tenants were unable to pay their rents as hotels closed.

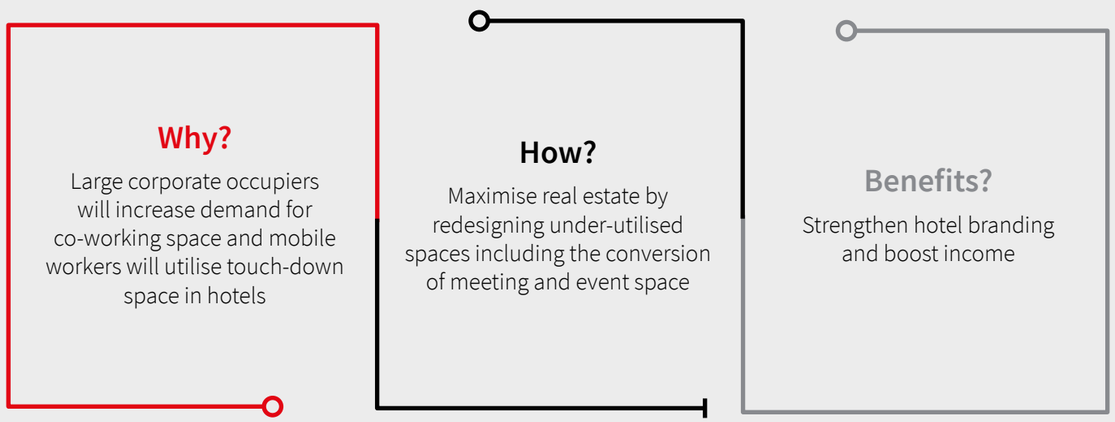
The number of hotel operators offering fixed rents are considerably down against pre-Covid-19 levels.

Most operators are now seeking to offer a mix of a lower base rent and variable rent that is linked to trading (either through a percentage of turnover or EBITDA). Those operators that are offering fixed rents for hotel opportunities are either seeking for a long rent-free period of 6 to 9 months or a phased increase to the rent over a period of 2 to 3 years. Hotel operators are seeking to agree pandemic clauses in the Force Majeure lease terms which will allow for the rent to be suspended in the case of another enforced lockdown.

Investment markets

Since April, hoteliers focused on asset management and lender outreach as they sought to negotiate forbearance periods. The shift away from hotel acquisitions was evident in the 2020 global and Italian transaction volume. For the first half of 2021, we anticipate another phase of loan restructuring and for activities to concentrate on rescue capital and note sales. It's expected that the investors' sentiment will begin to shift toward deal sourcing in H2 2021 as the pipeline of hotels available for sale is revitalised and the opportunity to acquire assets at a significant discount to replacement costs becomes more pronounced. With record level of dry powder on hand, private equity firms are preparing to pounce on distressed assets that come to market. Foreign investors are also expected to be providers of liquidity; despite embracing a domestic-focused investment strategy over the next six months, Europe and North America remain top of mind for foreign hotel acquisitions.

Co-working will reboot urban hotels as a one-stop shop



Key market indicators (2020 unless otherwise indicated)

Employees (accommodation and food services activities) – Q3 2020
1,429,000
-173,000 (vs Q3 2019)

Active accommodation companies – 2020
57,568
+1,151 (vs Q4 2019)

Hotels – 2019	N°	% 2019/2009
☆☆☆☆☆	554	+61%
☆☆☆☆	6,074	+24%
☆☆☆	18,054	+1%
☆☆	5,451	-21%
☆	2,597	-35%

RevPar
-16.6%
2020 vs 2019

Occupancy
-58.6%
2020 vs 2019

Turnover (accommodation companies)
-39.0%
Q3YTD 2020 vs Q3YTD 2019

Arrivals
51.5 mln **-56.4%**
October YTD 2020 vs October YTD 2019

International arrivals
16.2 mln **-73.1%**
October YTD 2020 vs October YTD 2019

Overnight stays
196.2 mln **-51.4%**
August YTD 2020 vs August YTD 2019

International traveller expenses
16.5 €bln **-58.1%**
2020 vs 2019

Airport passengers
52.9 mln **-72.6%**
October YTD 2020 vs October YTD 2019

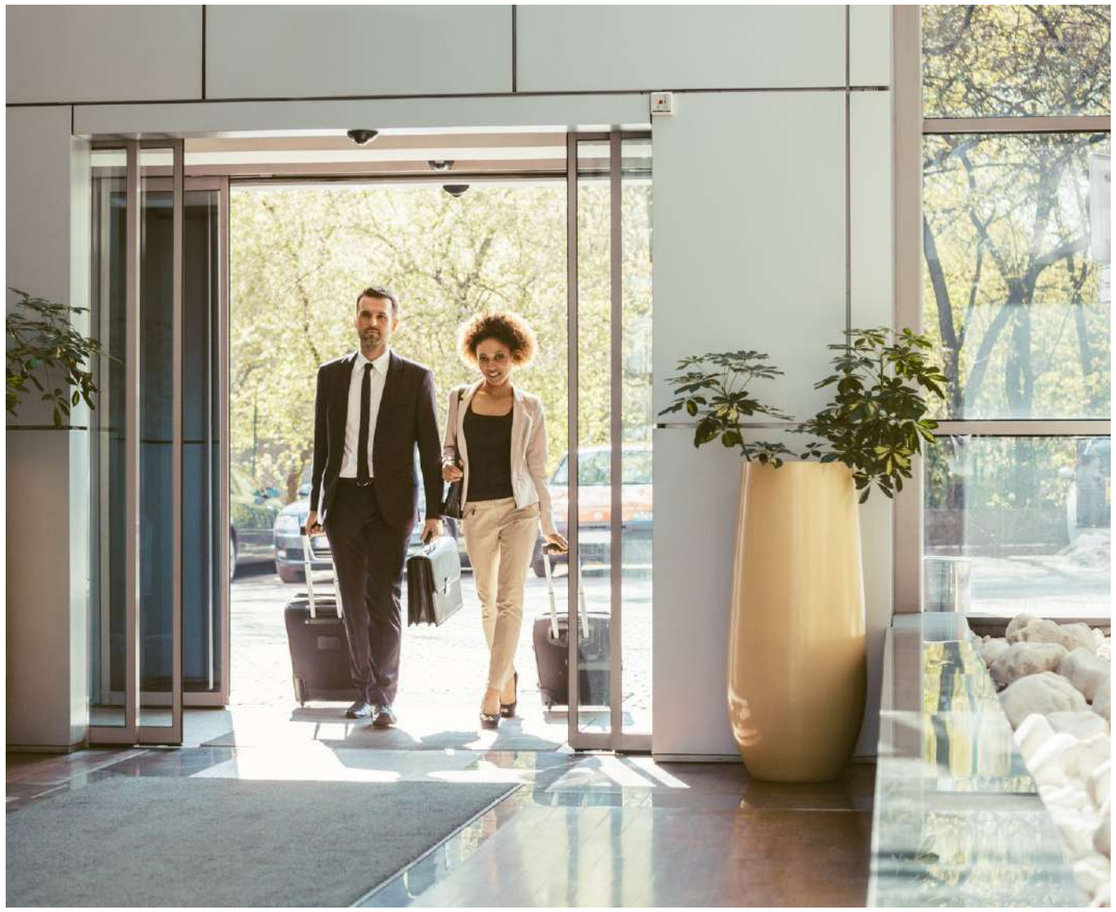
Investment volume
730 € mln **-76%**
2020 vs 2019

Investment volume by international capital
86% **+6% vs 2019**

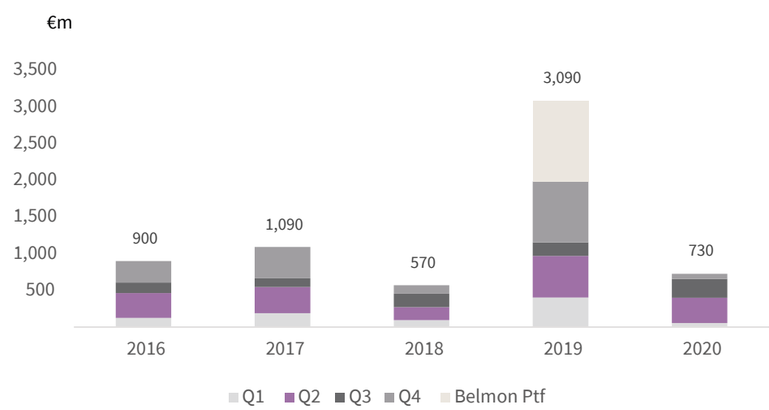
Prime yield
4%

International airport passengers
27.7 mln **-78.4%**

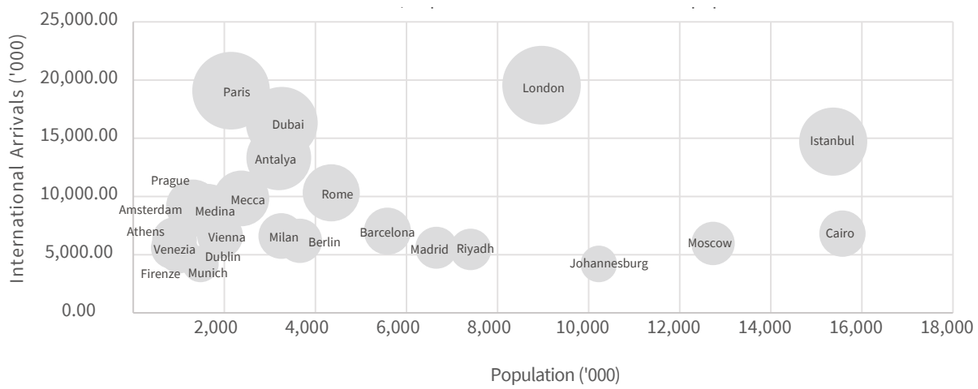
Source: ISTAT, Movimprese - Confindustria, Federalberghi on STR data, Assaeroporti, Banca d'Italia



Hotel investment volumes



EMEA, Top cities international arrivals on population



Source: Euromonitor International, Oxford Economics (2019 data)

Outlook

Italy is the 5th country in the world for number of international tourists and there is no reason why the industry cannot recover from the COVID-19 shock. As in the summer, the first round of leisure travellers will be domestic. The pandemic accelerated certain trends in the industry and encouraged hotel operators to be more creative in attracting guests and diversifying revenue streams. Cleanliness ratings are likely to become the new key standard and sustainability must be at the heart of operating strategies and customer experience. Some hotel investors and operators are considering temporary-use or conversion opportunities; although it is still premature for Italy, a mixture of destinations of use is very likely.

09
Living & alternatives

Residential

Demographic changes and urbanisation are not forecasted to invert their trend. In contrast to global growth, Europe's population is expected to decline in the next 10 years; over the same period, all European countries will have an ageing population with an average age for the continent increasing to 45.1 years-old. Although there has been some speculation that the impact of Covid-19 could be a slowdown or a reversal of urbanisation, this megatrend will continue in the long-term; people will continue to move to the main cities looking for opportunities for work, study and socialisation.

Over the next 10 years, millennials (people born between 1981 and 1996) will enter the peak household formation and home-buying age. Generational changes and different lifestyles, higher job mobility and income insecurity characterise the new generation and their choices. The growing urbanisation, the shortage of natural resources and the attention to environmental factors imply a growing demand for technology and sustainability.

The old Italian residential stock does not match the new demand for services and amenities, opening the way to new living sectors and to a demand shift towards the rental market. However, to meet the demand needs and gain a competitive edge with respect to the traditional residential sector, new living products will have to be focused on services and flexibility in order to facilitate and adapt to the multiplicity of purposes they must meet.

Until now, the residential market looks only partially affected by Covid-19 pandemic. Transactions have slowed down while prices and rents remained nearly stable. Long term demand for the residential sector remains strong thanks to continuing tenure shifts towards rental market, urbanisation and socio-demographic changes and supply/demand imbalances.

What's next?

- Refurbishments and design amendments
- High quality products which reflects wellbeing and sustainability concerns
- Adoption of digital solutions and tech investments
- New living sectors(multifamily, co-living, senior housing)
- Focus on services, communal areas and amenity space
- Multipilicity of purposes

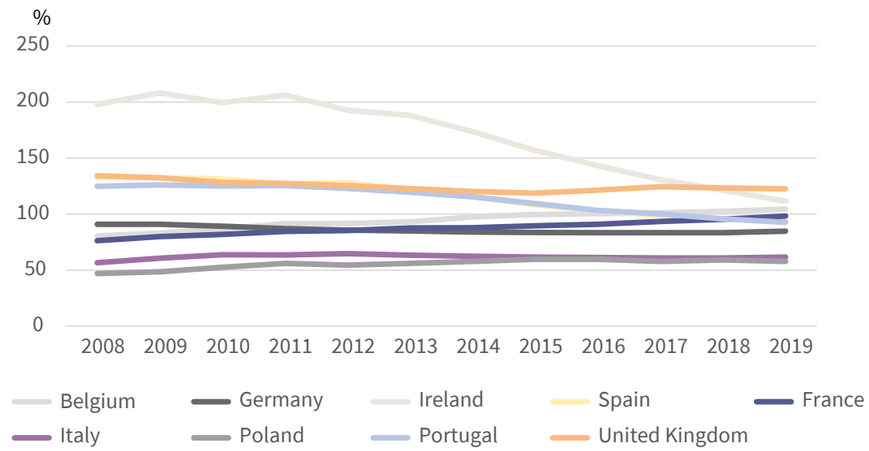
Key macro-economic indicators

Italy represents a healthy country in terms of households' debt when compared to others in the European scenario. Indeed, the gross debt-to-income ratio of households in our Country is just 62%, significantly lower than the European average of 96% and to other countries such as UK, Germany, France, Belgium, Spain.

This could be partially explained by the higher propensity to save of the Italian families which, besides, sharply increased in 2020 due to pandemic. Moreover, the wealth composition of Italian households is strongly represented by non-financial assets, totalling at the end of 2017 the 59% of the total wealth.

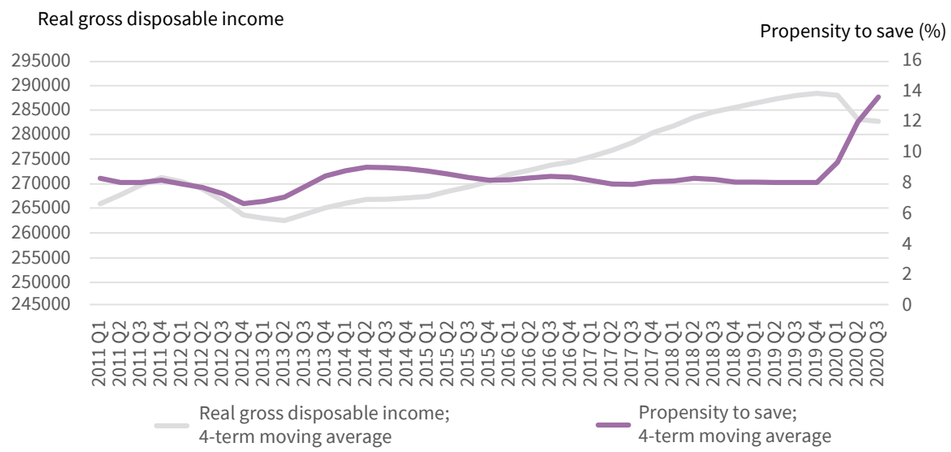
In 2020, banks' cost of funding stayed low, continuing to benefit from the highly accommodative monetary policy. Mortgages accelerated slightly, while consumer credit was still weak. The guarantee schemes for new loans and the moratoriums on outstanding loans adopted by the Government to support the liquidity of firms and households have been extended to June 2021. Consequently, despite a decrease in transactions, according to Banca d'Italia data the disbursement of mortgage loans related to dwellings of consumer households increased by 4% in Q3 2019 YTD, amounting to €35 billion. New contracts accounted for 81% of total disbursements, while subrogation and substitution amounted to 18% and 1%, respectively. The flow of non-performing loans for house purchases in our Country has been decreasing steadily since 2016. However, at the end of the third quarter of 2020 the level reached around €11.7 billion, slightly increasing (+2%) than the previous year. This was mainly ascribable to a rise of non-performing overdue loans/exposures. In September 2020, 52% of non-performing loans were bad loans, followed by unlikely-to-pay exposures (41%) and non-performing overdue loans/exposures (6%).

Gross debt-to-income ratio of households



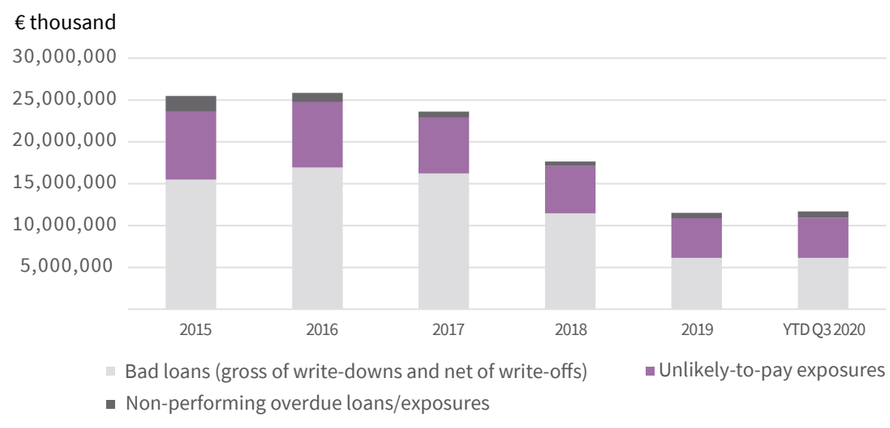
Source: JLL elaboration on Eurostat data

Consumer households' disposable income and propensity to save (seasonally adjusted data 2011- Q3 2020)



Source: JLL elaboration on Istat data

Non-performing loans to households – loans for house purchase

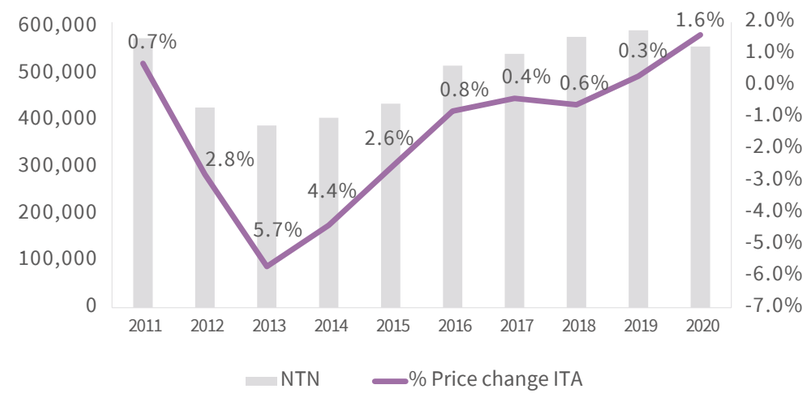


Source: JLL elaboration on Banca d'Italia data

House purchase market

The number of normalised transactions (NTN) in Italy in 2020 amounted to approximately 558,000, recording a decrease of 6% compared to the same period of the previous year. This represents the first downward trend recorded since 2013, due to the pandemic and the lockdown measures that occurred in the last year. Q4 showed a widespread and substantial rebound in transaction vs Q2, probably due to the closing of deals that have been postponed in H1 due to the lockdown. The fourth quarter trend sustained prices and rents. In Milan, the number of normalised transactions decreased by 18% while in Rome by 10%. Main cities showed a worst trend (-17%) compared to suburban ones (-13%). It's too early to say if this is an effect of the pandemic or if this trend will consolidate in the future. Average prices recorded a slightly negative compression in some areas of the country while prime remained nearly stable.

Number of normalised transactions and average price % change Y-o-Y, 2011 – 2020



Source: JLL elaboration on Agenzia delle Entrate data

Prime prices and prime rents*, Q4 2020

	Milan	Rome	Bologna	Firenze	Torino
Prime price (€/sqm)	15,000 ▶	8,600 ▶	5,800 ▶	7,800 ▶	5,100 ▶
Prime rent (€/sqm/pa)	450 ▶	350 ▶	230 ▶	300 ▶	175 ▶

Average prices and prime rents*, Q4 2020

	Milan	Rome	Bologna	Firenze	Torino
Average asking price (€/sqm)	3,850 ▲	3,200 ▼	2,850 ▲	2,700 ▼	2,100 ▶
Average asking rent (€/sqm/pa)	160 ▶	120 ▼	125 ▶	125 ▼	90 ▶

*Data refers to two-room and three-room apartments with medium or long term contracts

Healthcare

Investments

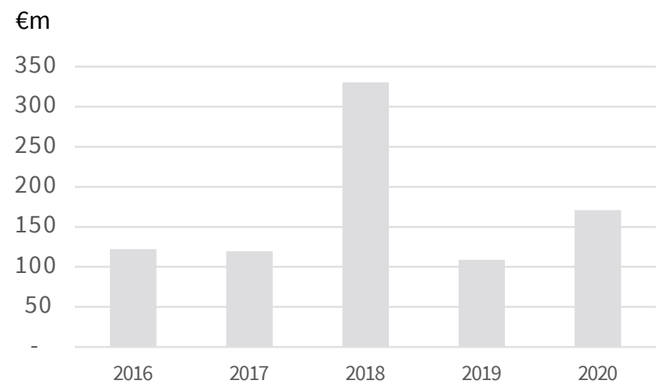
The European healthcare market has never seen higher levels of attention and analysis given the ongoing effects of the Covid-19 pandemic. The impact on operating hospitals and care homes have become significant in recent weeks, however the deployment of capital into the sector shows no sign of slowing. 2019 was a near record-breaking year of investment, with €11.5 billion invested across the spectrum of healthcare asset types from primary care buildings to senior living complexes. However, volumes in 2020 recorded a slight decrease reaching around 10.5 €bn in the whole year (-9% compared to 2019).

In Italy, the sector is not mature as it is in other European countries, but the attention for it is rapidly growing as it represents an opportunity for the real estate sector to improve the community quality of life by investing in a sector that will deliver care solutions for the future at interesting and nearly stable returns. Typically, lease terms are long and secure, downtime is not prevalent.

Institutional capital will increasingly target healthcare as the sector is anticyclic. The Covid-19 pandemic revealed the critical role of the life sciences industry within our national and global economy. Real estate will play an essential role in maximising the efficiency and results in a sector that it is built on innovation. The desire for good health and increased longevity can only rise, increasing demand for cutting-edge, productivity-enhancing life sciences real estate. New opportunities are emerging due to the need for modern medical centres to accommodate procedures which don't require overnight stays, medical data that requires specialised storage, and the growing number of GPs, physiotherapists and dentists cropping up in traditional real estate spaces, such as shopping centres.

Investment volumes in the last 5 years totalled more than €850 million, involving different typologies of products. The elderly care sector, in particular, reached around €125 million just in 2020 with the closure of 6 deals located in the North of the country and in which were involved both domestic and international operators.

Italy, healthcare investment volumes



Pricing & Returns (Q4 2020)

	Belgium	Germany	France	Portugal	Spain	Italy
Population	11,521,330	83,211,080	67,250,250	10,243,780	47,267,750	60.244.639
Over 65's (% of pop.)	19.20%	21.90%	20.50%	22.50%	19.70%	23.20%
Over 80's (% of pop.)	5.70%	7.00%	6.20%	6.70%	6.10%	7.50%
Long term care beds (per 100,000)	1,197	1,059	882	40	701	418
Healthcare spend (% GDP)	10.30%	11.20%	11.30%	9.10%	8.90%	8..80%
Prime Care Home Yield	4.25%	4.00%	4.25%	5.75%	4.90%	4.90%

Source: JLL; Eurostat; HBI; Oxford Economics; ECDC; OECD

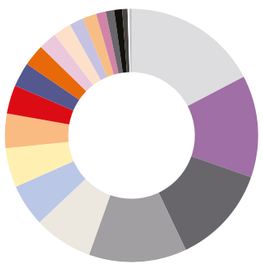
Supply

In Italy there are 14,809 public and private facilities which can be distinguished in residential structures (such as residential care homes, hospices, retirement houses), semi residential (psychiatric day centres and in general structures that carry out semi-residential activities) and other typologies (hydrothermal establishments, mental health centers, family counseling centers, district centers and in general structures that carry out territorial activities).

The north of the Country hosts the highest number of the structures and long-term care beds: Lombardia, Emilia Romagna, Piemonte and Veneto cover the 66% of the total availability which amounts to around 310,000 beds.

Moreover, hospitals have around 213,700 beds, which can be utilised for day hospital, day surgery, ordinary recovery or payment recovery by anyone who needs assistance. 80% of them are offered by public hospitals.

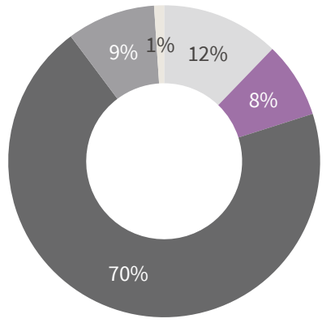
Public and private healthcare facilities by region



- Lombardia
- Emilia romagna
- Piemonte
- Veneto
- Toscana
- Puglia
- Lazio
- Sicilia
- Campania
- Liguria
- Marche
- Friuli venezia giulia
- Umbria
- Calabria
- Sardegna
- Abruzzo
- Prov. Auton. Trento
- Prov. Auton. Bolzano
- Basilicata
- Molise
- Valle d`aost

Source: Ministero della Salute, 2017 data

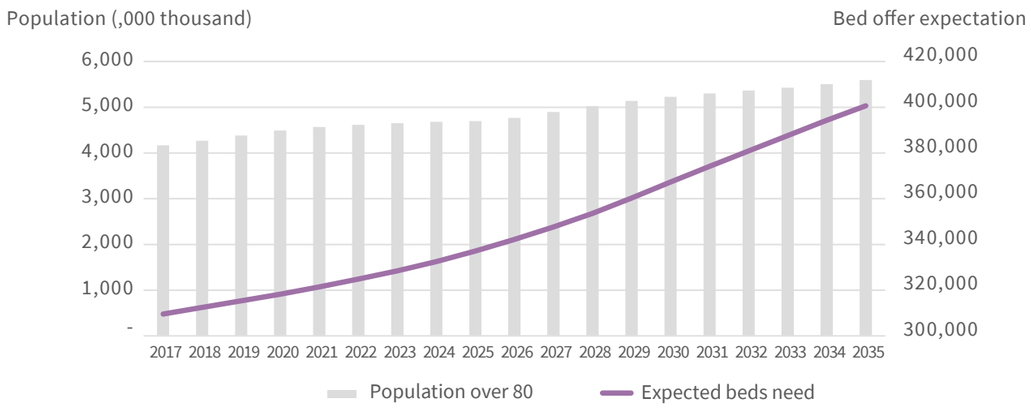
Long term bed offer by typology of assistance



- Psychiatric patients
- Mental illness
- Elderly
- Physically disabled
- Terminal patients

Source: Oxford Economics, Ministero della Salute, 2017 data

Italy, elderly population forecast, and long-term bed offer expectation (trend line based on maintaining 2017 offer)



Source: JLL elaboration on Oxford Economics

By 2035

Over 65 population
+3.6 million

Over 80 population
+1.1 million

Beds offer need
80,000

Italy is one of the oldest countries in the world. In 2019 the Country counted around 14 million of over 65 years-old people, representing 23% of the total population. The over 80s are around 4.3 million and this age group is set to increase by 17% by 2030, with an estimate 740,00 more people of this age in the decade and more than 1 million by 2035.

With the rise of an ageing population in Italy, the focus is on the care home sector and its rapidly growing demand. The trend line based on maintaining the actual bed offer suggests the need of 80,000 more beds.

Student Housing

In Italy, over 1,800,000 students were registered in higher education and training courses during the 2019/2020 academic year, of which over 90% were university students.

Despite the pandemic, in the last academic year (2020/2021) the number of new enrolled students in universities grew by 2% compared to the previous period, with a total of more than 316,000 new registrations. Conversely, the number of new enrollments in telematic universities decreased by 34% and the number of international students declined as well, but at a lower extent (-1%).

Government measures sustained the Italian university system. The "Decreto Rilancio" (i.e., Re-launch decree) allocated over €200 million to raise ISEE (Equivalent Financial Situation Index) no tax area from €13K to €20K, reducing university taxes from 30 to 80% up to €30K income and replenishing the fund for the right to education by €40 million. 2021 Budget Law increased by €165 mln the fund for ordinary financing in order to reduce taxes; resources are also recognised for a rental bonus for away-from-home students - an allocation of €15mln for 2021 to help students and families who have suffered economic consequences due to the Coronavirus emergency.

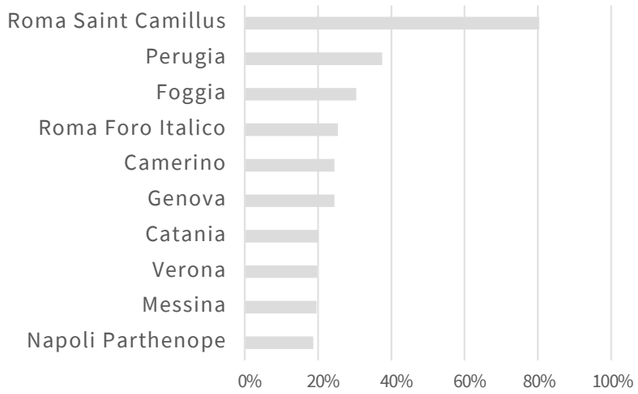
The academic year 2020/2021 shows a more varied and more widespread university panorama on the national territory. The Covid has not affected the number of students, but it has caused a greater distribution of students in the different Italian universities, from North to South. Many students have chosen to enroll in universities closest to their home. In order to prevent the consequences of future lockdown and thanks to the implementation of mixed teaching (partly on-line, partly in presence), students choose not to move from their cities saving on rents and travel costs.

Increase of new enrolments ay 2020/2021 vs ay 2019/2020

Milan	+1%
Rome	+8%
Torino	+5%
Bologna	-2%
Firenze	+9%
Padova	+11%

Source: JLL elaboration on MIUR

Top 10 Italian universities by %var. of enrolments (2020/2021 vs 2019/2020)



Supply and pipeline

The actual number of beds in the Country stands at around 64,000 units. 67% of them are regional residences under the DSU (Diritto allo Studio Universitario - Right to University Study); 22% are beds managed by private operators, 7% are private and public student housing that are legally recognised, while the remaining 5% are beds managed directly by universities.

The development activity of student housing continues to be fervid in our Country: for the next five years more than 50 projects are expected to be completed for a total of around 20,000 beds. Operators involved in the projects are both international and domestic such as Collegiate, Campus X, Camplus, The Student Hotel, Hines and Nuveen.The city with the most intensive activity is Milan, where 20 student housing structures should be opened by 2025 offering over 8,000 more beds. The most attractive areas are Bicocca, Bovisa and Scalo di Porta Romana.

Considering the students' trend and the existing supply, additional potential demand for the student housing sector is equal to about 480,000 beds.

Pipeline by main operators

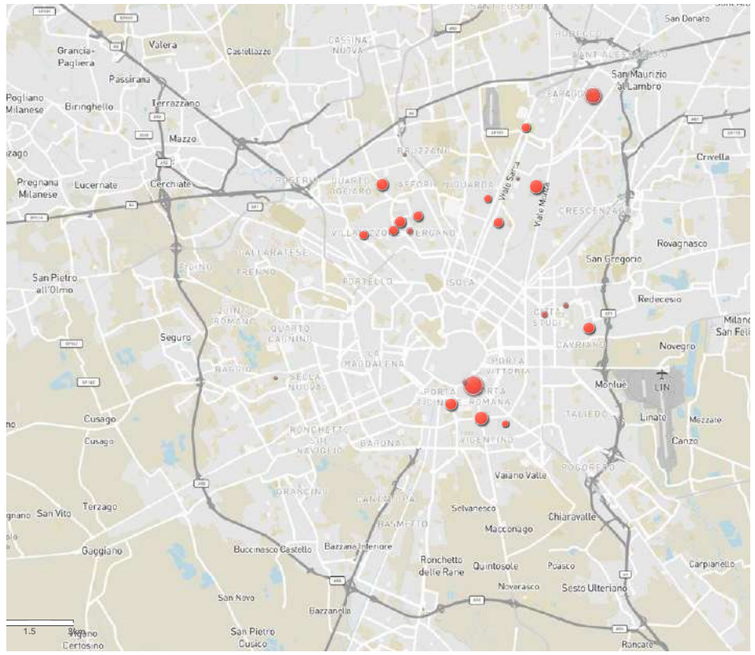
The Student Hotel:
+1,800 beds
4 new openings

Collegiate:
+1,500 beds

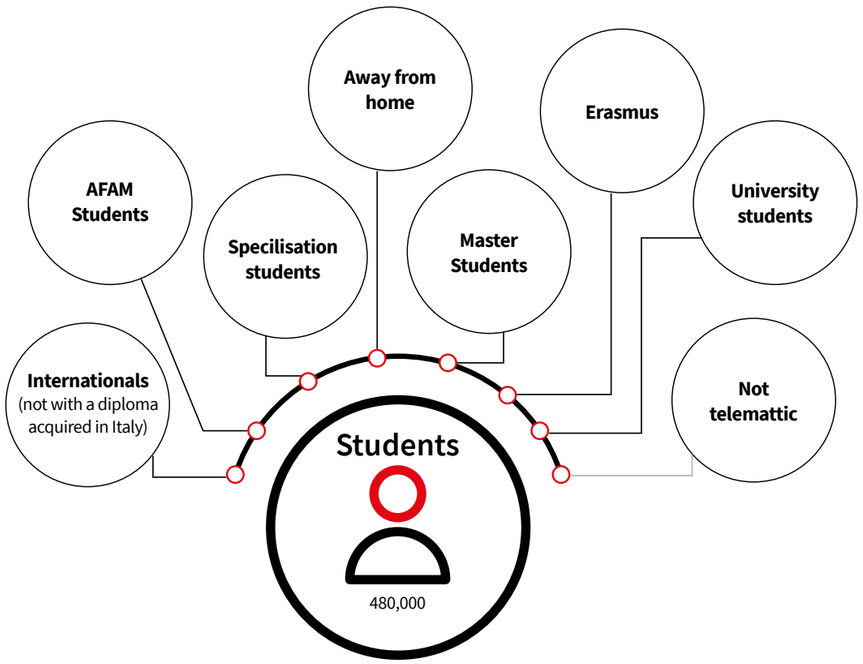
Aparto:
+1,300 beds
2 new openings

Camplus:
+1,100 beds
6 new openings

Milan, projects in pipeline, 2021 - 2025



Potential demand



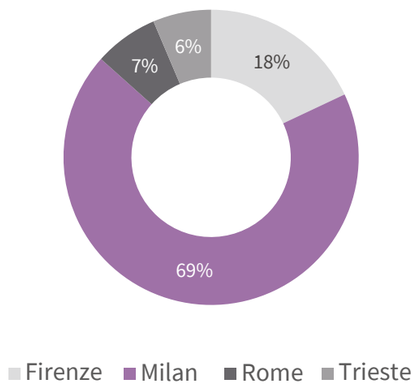
Investments

The sector proved to be resilient in 2020 in EMEA, totalling around €10.5 bln during the year, a consistent volume, even if slightly down compared to 2019 levels (-8%). The return to lockdowns and restrictions on movement have held back some enthusiasm for student housing assets due to the combination of short-term cash flow uncertainty and practical challenges of deal execution. Investors remain very positive on the sector fundaments beyond the current turbulence.

The three top countries in terms of volumes were: UK (€7.5 bln), Ireland (€600 mln) and Spain (€400 mln). In Italy, the transactions continued to be limited; in 2020, the overall investment volumes recorded a slowdown.

Both international and domestic players are however still interested in the Italian market, especially attracted by the possibility to redevelop existing sites in order to create new living concepts integrated also with a student housing component. The deals closed in the last year were all located in the North of the Country (Milan, Trieste, Torino) and related to redevelopment or development projects. Among the most interesting projects there is the former Manifattura Tabacchi conversion into student accommodations, retail units, as well as social housing, senior solutions and a kindergarten.

Student housing investment volumes by geography, 2016 - 2020



Outlook

The increasing interest in PRS, student housing and healthcare has been confirmed by the growing investment volume in the sector. This market is only braked by a lack of supply. Due to ageing population, care home demand is rapidly growing while student housing beds are well below the European levels; residential dwellings for rent are largely not modern and not professionally managed. Demographics and new ways of living, studying and working sustain the demand creating the opportunity to develop innovative spaces and ESG positive projects. In the next months, the disposals on the market of NPLs and UTPs will sustain investments' volumes.

Appendix: Italian macro-economic overview

In 2020, the global economy suffered what is expected to constitute its worst calendar-year performance during the modern era of economics. This sets the stage for a potential bounce back in 2021. With the Covid outbreak reaching record levels, the race has begun in order to vaccinate a wide enough swath of the population to bring the pandemic under control and enable the economy to recover. The exact path between now and then remains highly unpredictable, but the economy looks poised to attain growth of around 5% this year, driven by pent-up demand.

In 2020, the Euro area GDP limited the decline to -6.8%, thanks to a less negative Q4 (-0.7%) but, due to unemployment trend (-1.8%; source: Confindustria), the household confidence is not improving.

In the USA, President Biden's new US administration has presented the American Rescue Plan: the plan has a size of 1,891 billion dollars over three years and an estimated impact on GDP equal to 12% in 2 years; it should bring the employment level to balanced values by 2022.

In Italy, Covid restrictions remain in place. In Q1 2021, an economic recovery is now compromised. Moreover, downside risks emerge related to vaccines: they must be speeded up to reach the target threshold set at EU level. In the first months of 2021, a third pandemic wave seems on the way, so a real rebound could only occur since the 3rd quarter of the year.

Thanks to the new government, financial markets are more favorable. The interest rate on Italian 10-year Government Bond is at an all-time low (0.62% January 2021); the spread against the German Bund dropped under 100 bps in February, for the first time since 2015. If this trend will last, it will favour both the economic activity and the competitiveness of the Italian companies along with consumers and business confidence. A lower government bond rate facilitates credit, besides limiting public spending on interest.

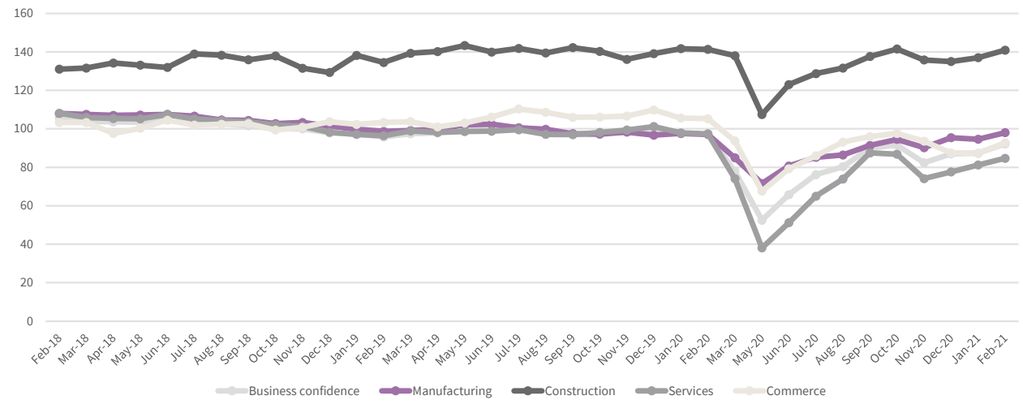
Uncertainty and limits on travelling and shopping push up household savings and deposits on bank accounts. In 2020, business loans increased (+8.5% Y-o-Y in December; source: Confindustria) but this has not been translated into investments, due to the erosion of cash flow in many sectors.

In the last 12 months, the business confidence index registered two drops. The first one in the spring, when Covid-19 pandemic spread out in Italy, and the second one when the second wave occurred in autumn. In the first months of 2021, the index continued to improve. As for manufacturing, companies revised upwards both their opinions on the current trend in the order book and their expectations on the future trend of production. Also, the components of the confidence index in constructions and services improved. For the retail sector, the confidence improvement was due to the increase of both the current and future business activity balances; confidence increased markedly in large-scale distribution and slightly for shops.

Indicator	2018	2019	2020	2021	2022
GDP growth rate	0.8%	0.3%	-8.9%	4.9%	4.4%
Unemployment rate	10.6%	9.9%	9.1%	10.0%	9.9%
Consumer Price Index	1.1%	0.6%	-0.1%	0.9%	0.9%
Household consumption	1.0%	0.5%	-10.1%	4.0%	4.8%
Industrial production	0.6%	-1.1%	-11.0%	10.9%	3.4%
10 years Government bond yields (period average)	2.6%	1.9%	1.2%	0.9%	1.7%

Source: Oxford Economics (March 2021)

Economic sentiment indicator

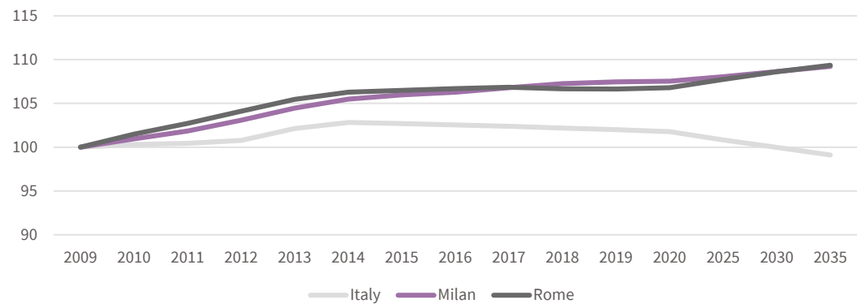


Source: ISTAT

The resident population in Italy as of January 1st, 2020 was 59.6 million inhabitants. The growth of around 450 thousand inhabitants over the last 10 years is solely attributable to the foreign immigration component, offsetting the natural balance that had been negative since 2006. Provisional data for 2020 shows a decrease of around 0.6% in resident population.

Over the next 20 years, the total population should stay at levels slightly under 60 million inhabitants, while we expect an urban population growth in the main Italian cities, such as Milan and Rome.

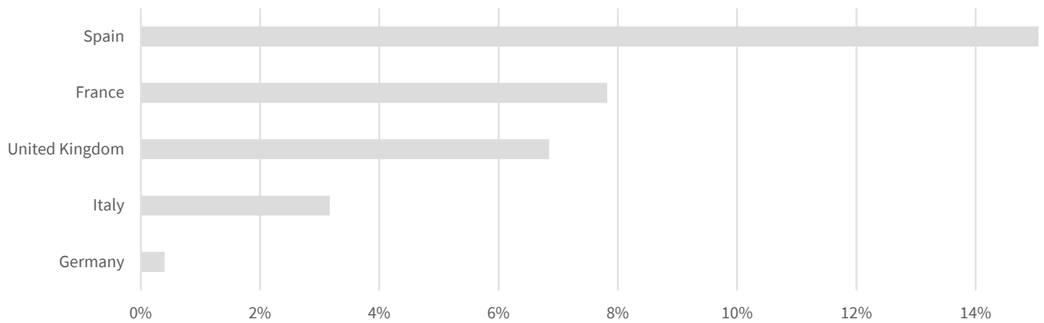
Population trend index (2009=100)



Source: Oxford Economics (February 2020)

The reduction in the population and the steady ageing underway will be translated into a gradual decline in the working age population (aged 15-64), expected to drop by around 6 million units within 2040. With respect to the total population, people aged 15-64 will decrease from 63.9% in 2020 to 55.9% in 2040. The number of employed people is expected to grow by about 2% over the next 10 years. Higher growth rates are expected in terms of number of people employed in the services sector, at 3%, accounting for over 18.9 million employees, approximately 600 thousand more than the current level.

Services employment growth (2020-2030)

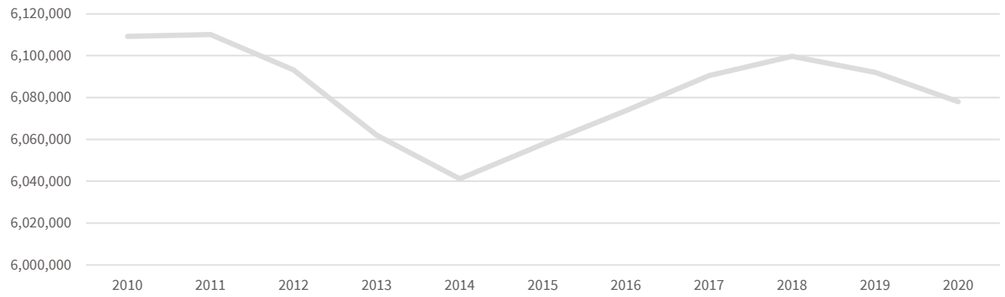


Source: Oxford Economics (March 2021)

In 2019, after 4 years of expansion, Italian companies stopped growing mainly due to the manufacturing sector - one of the most affected by competition - and the retail sector.

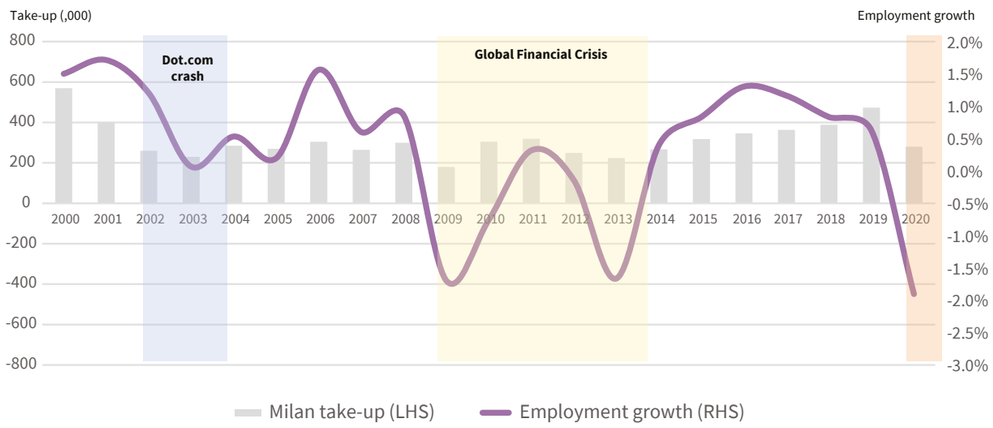
In 2020, the demographic trend of the Italian companies was characterised by a widespread uncertainty about the evolution of the pandemic. This has led to a decrease in both registrations and cancellations. To highlight the effects of the pandemic crisis, it will be useful to wait for the results of Q1 2021 as many closing communications received in the last days of the previous year are statistically counted in the new year.

Italy, number of companies

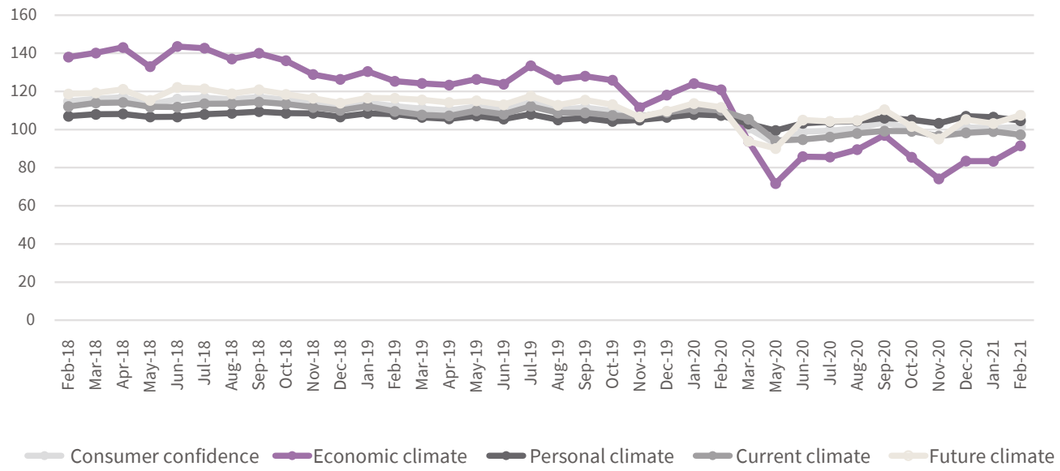


Source: Italian Chamber of commerce

Impact of crisis, Milan take-up vs employment growth



Consumer confidence index



Source: ISTAT

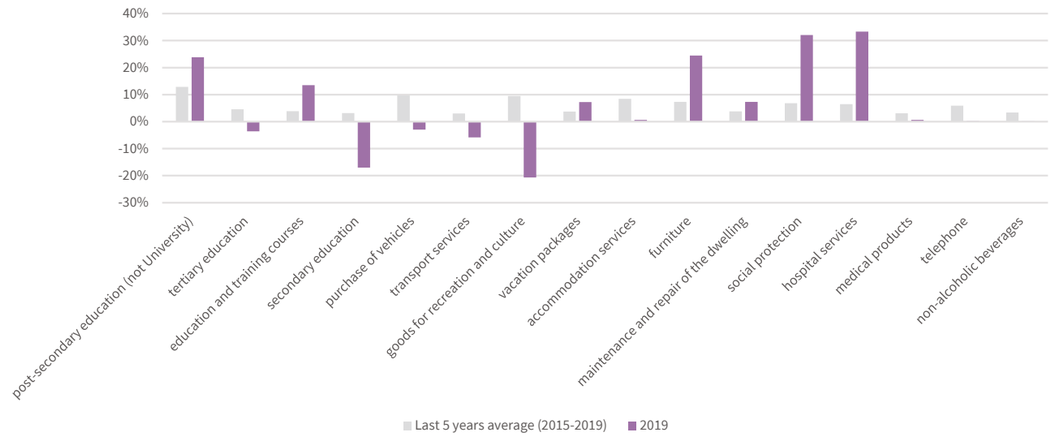
Based on the figures from Oxford Economics, household consumption decreased by 10.1% in 2020; although an expansion is forecasted for 2021, consumption will go back to pre-Covid level only in 2023. Positive wage growth and low inflation expected in 2021 should mitigate the expected rise in unemployment and support household spending over the coming years. Fluctuating consumer confidence resulted in a higher savings rate (from 8.1% in Q3 2019 to 14.6% in Q3 2020 - ISTAT data), and consumers continued to cautiously approach retail spending.

The further closure of shopping centres on weekends had a negative effect on footfalls reaching 60% of footfalls of December 2019; according to CNCC data (Consiglio Nazionale dei Centri Commerciali; en. National Council of Shopping Centres), 2020 footfalls registered a drop of 34.2% vs 2019. The overall trend in sales per square metre for the monitored shopping centres decreased by 29.9%. With regard to sales by category, the worst trend was observed for bar and restaurants, clothing and footwear and services.

Trade sales are slightly improving, and forecasts are positive for 2021 (+5.1%). In December 2020, the seasonally adjusted index of retail trade increased by 2.5% compared to November 2020, both in terms of value and volume. Lockdown brought to a strong increase of online purchases of goods in our Country: the percentage of online sales over the total is expected to raise from 7.3% of 2019 to 8% in 2020 (source: Osservatorio B2c, Politecnico di Milano).

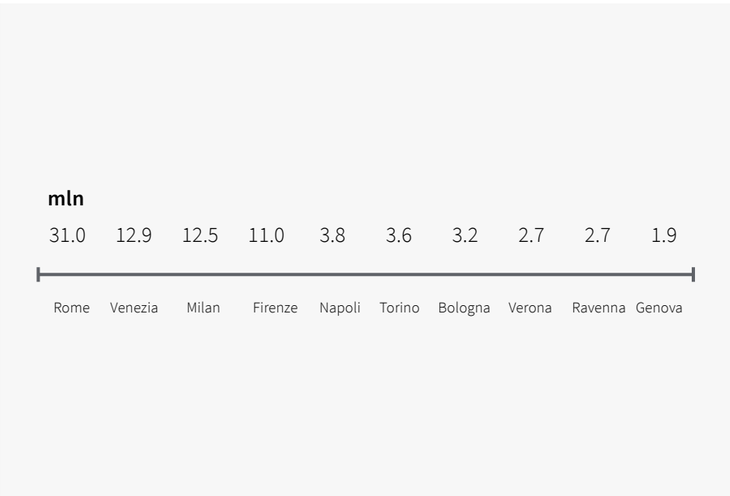
The huge changes that consumption patterns have been undergoing provide both opportunities and ground for concern. This has a substantial effect on business models, employment and ultimately the society. Environment, social value, technology and population ageing are changing consumers' behaviour. We spend more on travels and bike and car sharing, but we buy fewer cars; we invest in our education and wellbeing, while our clothes, footwear and appliances become cheaper.

Households average spending, last 5 year % variation



Source: ISTAT

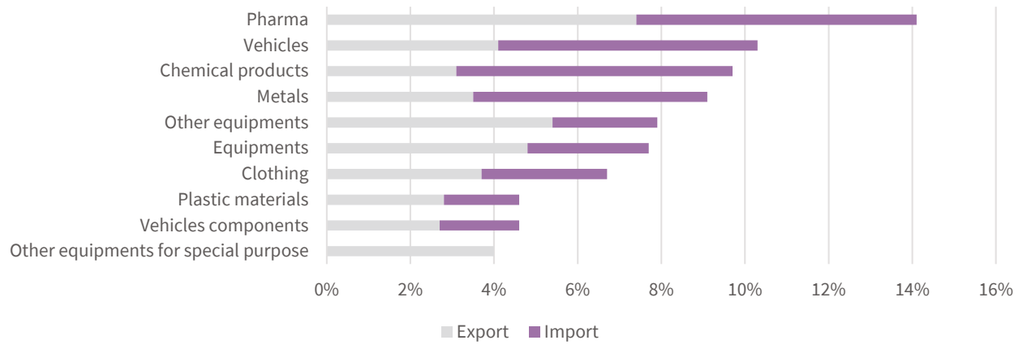
The tourism sector is historically one of the drivers of the economy and trade in Italy. Retail and restaurants play an important role in local tourism economies and are among the top leisure travel activities for travellers. According to the survey on international tourism conducted by the Bank of Italy, some 65 million international tourists visited our country in 2019, spending €44.3 billion (+6.2% compared to 2018) and ranking Italy 5th worldwide and 3rd in Europe in terms of international visitors. Due to Covid restrictions and lockdown measures, 2020 saw a dramatic drop both in international travellers (January-November 2020 -59%) and in tourists' spending (-59%).



Tourism:
main cities by overnight stays

Source: ISTAT, 2019; level: municipality

Total trade by economic activity (top 10 sectors, January-October 2020)



Source: Ministry of Economic Development - Osservatorio Economico - Ministero degli Affari Esteri e della Cooperazione Internazionale

Exports declined in 2020 (-9.7%) as global trade slowed. Total trade by economic activity sees among the most imported and exported sectors: pharma (1st) and clothing (7th); the total value of Italian trade was close to €800 bn in 2020 (-11.2%).

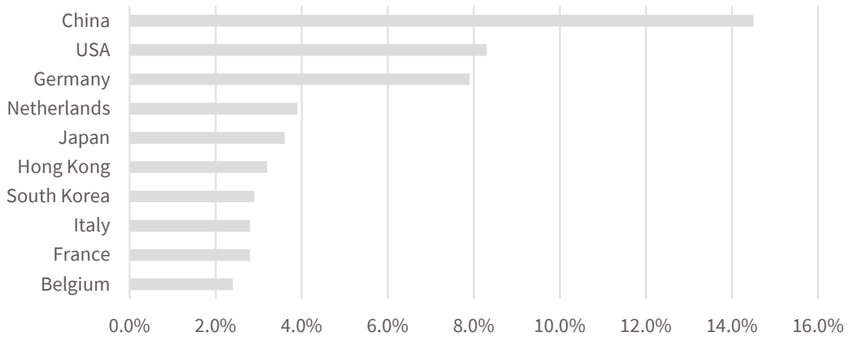
Among the top 10 exporting countries, Italy confirms its predominant role with a market share of 2.8%, ranking 8th globally.

Import and export (% change Y-o-Y)

Source: Ministry of Economic Development - Osservatorio Economico - Ministero degli Affari Esteri e della Cooperazione Internazionale

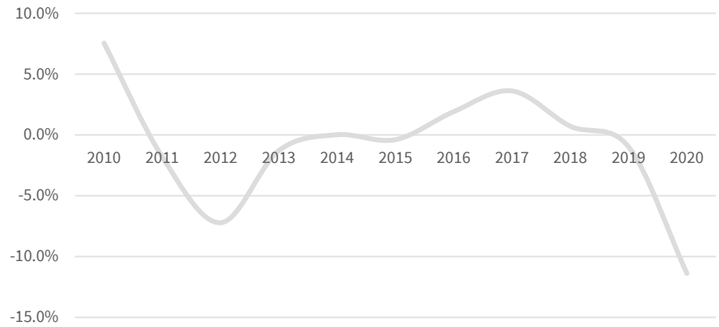
2020* provisional data

Top 10 exporter Countries: market share (%; January-October 2020)



Source: Ministry of Economic Development - Osservatorio Economico - Ministero degli Affari Esteri e della Cooperazione Internazionale

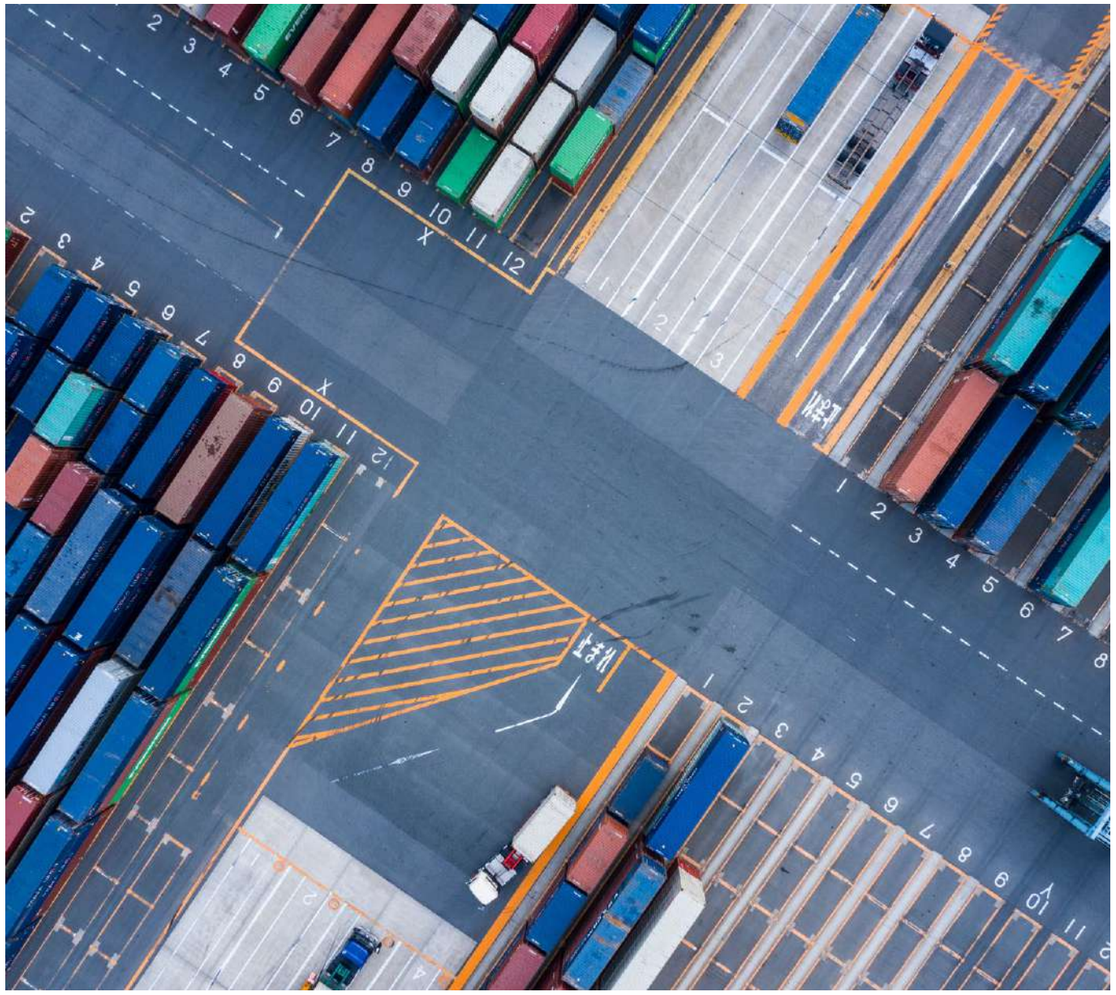
Industrial production (% Y-o-Y)



Source: ISTAT

The Italian industrial production recovered slightly at year-end, but the trend remained negative, registering a decrease of 11.4% (2020, Y-o-Y). The downturn is widespread worldwide as a consequence of trade and manufacturing weakness. Due to the slowdown in German production, a decline was also registered in Italy, since the country is one of the main exporters of semi-finished products to Germany.

The decline has spread to all major industrial sectors and, for consumer goods, is the largest ever recorded. The gradual recovery after the collapse of March and April has suffered setbacks in recent months, preventing the return to pre-Covid production levels.



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