At a glance H1 2018

INVESTMENTS IN ITALY

THE LACK OF PRODUCT RESTRICTS TOTAL VOLUMES

The macroeconomic outlook

In the first quarter of 2018 global economy slowed down. However, according to the analysis carried out by Bank of Italy, short-term projections are still comprehensively optimistic in a context where risks are mainly linked to trade tensions between the United States and the main economic players.

The growing trend continues also in the Eurozone despite the deceleration of the last months. The uncertainty regarding inflation remains but, in the light of the remarkable progress made, the ECB Governing Council expects to wind down net asset purchases by the end of the year and in any case maintain an ample degree of monetary accommodation with interest rates at their present low levels at least through summer of 2019. The purchase program will continue to be considered as an instrument to ensure that inflation adjusts to levels close to 2% over the medium term in a sustained manner.

According to Bank of Italy, the Italian economy continued to grow despite signs of slowdown in spring. In the second quarter, GDP growth was around 0.2%. Apparently, industrial production remained stable, while services are still on an uptrend. Employment is positive with values close to the peaks reached at the beginning of 2008. Wage increases are moderate but still showing a growing trend. Bank of Italy's macroeconomic projections expect GDP to rise also in the next three-year period (1.3% in 2018; 1.0% in 2019 and 1.2% in 2020) provided that the favourable global context is maintained along with unscathed credit offering conditions and a broadly expansionary monetary orientation incorporating the monetary policy decisions adopted by the ECB Governing Council. Moreover, these projections also take into account the already approved budget measures, but exclude government rulings that have not been defined in due detail yet, nor included in legislation.

H1 2018: performance above long-term average

In the second quarter of 2018, euro 1.7 billion were invested in the commercial Italian real estate market (-40% vs Q2 2017) for a total of approximately 50 transactions.

Volumes from the beginning of the year amounted to euro 3.2 billion, down 35% against the same period in 2017, which – it is worth recalling - was a record year for the segment in Italy. It should however also be noted that the market performance in the first half of the year was in line with the five-year half-year average and 22% above the ten-year half-year average.

Total volumes reduction in the first half of 2018 was attributable to dropping investments in the Office, Hotel and alternative asset classes.

Capital reduction is not due to lack of interest on the side of investors (which, in fact, is still high), but rather lies in the poor supply of adequate assets. In particular, Milan – Italy's most liquid market – reports unavailability of core Offices on sale, which is making investors shift their attention to value-added assets or assets located in sub-markets outside city center.

The Office segment, which structurally represents the largest volumes originator in Italy, recorded in the first half of 2018 a reduction in the volume of investments (approximately euro 1.2 billion, down 43% y-o-y) due to – as above indicated – lack of office assets that can adequately meet demand.

Conversely, investment volumes in Logistics more than doubled on a half-year basis, consolidating its growth (euro 410 million in H1 2018 against euro 170 million in H1 2017) thanks to, particularly, foreign investors. Also Retail performed well in the first half of 2018 with 2018 half-year volumes, equal to approximately euro 1.2 billion, in line with H1 2017 values. This is 60% above the five-year half-year average and 50% above the ten-year half-year average.

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In general, despite the slowdown compared to 2017, the Italian market still has a potential of attracting international investments, confirming prevalence of foreign investors.

In a nutshell, it is necessary to create opportunities in the future in order to meet the demand of all types of investors interested in a market that is becoming increasingly international.

Assets purchased in 2018

Unlike Q1 2018 (when the traditional hierarchies of the different asset classes were not observed), Q2 2018 showed the Office segment becoming again the largest investment volume originator in Italy (51% of the total in the quarter with approximately euro 880 million), confirming a structural characteristic of the Italian market. However, despite this record in Q2, the overall performance of the Office segment in the first six months of 2018 was, as above indicated, negative (-43%) versus H1 2017, reaching total investments slightly above euro one billion.

The reduction in the Office volumes was reported in Rome, while results in Milan were in line with the first half of 2017, with approximately euro 800 million. As anticipated, the reduction in investments is a result of the limited availability of office assets on sale.

The analysis by geographic regions reveals that almost 68% of the total Office volumes recorded in Italy in the second quarter of 2018 were concentrated in Milan and only 29% were in Rome. More specifically, in Q2 2018 office investments in Milan were up 64% against Q2 2017 for a total of nearly euro 600 million (77% of the city total which is equal to euro 775 million). Conversely, Office volumes in Rome in Q2 2018 totalled euro 260 million against approximately euro 580 million of Q2 2017, which however reflected the impact of the liquidation of a portfolio of rather relevant size (Scarpellini Portfolio) estimated approximately in euro 415 million. In any case, the Office segment remains the driver for investments in Rome which totalled euro 385 million in Q2 2018 including all commercial asset classes.

In terms of yields generated by the Office segment, in Q2 Milan reported a reduction of prime net values in the CBD Duomo by 10 basis points after five consecutive quarters at 3.50%, down to current 3.40%. CBD Offices in Rome reported stability at 4.15%.

In the first half of 2018 the performance of the Retail segment was positive with over euro 1.2 billion, essentially in line with the results of the same period in 2017. More specifically, in Q2 deals were stipulated in the Retail segment for a total of nearly euro 500 million, representing 30% of the total quarterly volumes in Italy. It is worth noting that, in line with Q1 2018 values, in Q2 2018 Retail volumes result almost entirely concentrated in secondary locations: only two deals were stipulated in Rome (equal to euro 14 million) and no deal was stipulated in Milan. This is also due to the type of asset traded, showing this year, as already commented in Q1, a growing interest in Shopping Centers compared to High Street. In the first six months of 2018, transactions regarding Shopping Centers were completed for a total of euro 756 million (62% of the total Retail in the semester) with a 42% y-o-y increase.

As for prime net yields, in Q2 2018 the Retail segment reported stability for Shopping Centers at 4.90% and for High Street in Milan at 3%. Reduced values were reported for High Street in Rome from 3.50% of Q1 2018 to the current 3.30%.

Logistics is on an uptrend: half-year capital investments, equal to euro 410 million, have more than doubled (+142%) thanks to euro 200 million reported in Q2 2018. Moreover, the excellent result recorded in H1 2018 exceeded the ten-year half-year average by 200%. Also in H1 2018, capitals invested in Logistics were mainly international (82% of the total) and, specifically, coming from US investors (for a total of nearly euro 210 million equal to 51% of the total).

In terms of prime net yields, reductions were reported in the Logistics segment with current levels at 5.25% (-25 basis points compared to Q1 2018).

As already mentioned, the Hotel segment contributed to the general negative performance in terms of volumes in the first half of the year. In the first semester of 2018, this asset class reported a slowdown compared to the growing trend started in 2014. In fact, in Q2 2018 investments totalled nearly euro 140 million with almost a 50% reduction on both a quarterly and half-year basis.

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Lastly, also the "Other" segment (including *Care Homes, student housing, data centers, barracks and cinemas*) reported investments in the year below the levels of 2017 (euro 130 million in H1 2018 compared to euro 860 million of H1 2017). In particular, in Q2 2018 only one transaction was completed in this segment for a value below euro 20 million.

Foreign investors' interest remains high

The capital market in H1 2018 was mainly characterized by foreign investors who concentrated investments in Italy for a total of approximately euro 1.9 billion (65% of the total of the semester).

The general reduction in volumes reported to date compared to last year is mainly due to reduced flows from the European countries which halved their investments to slightly above euro one billion (35% of the total of H1 2018). Among European investors, French investors proved more dynamic with a market share equal to 12% of the total invested capital in Italy in the first half of 2018 (euro 341 million mainly concentrated in the Retail segment).

Even if on a downtrend, capital investments from the United States continued with approximately euro 600 million to date in 2018 compared to over euro 900 million in H1 2017. More specifically, US investments in the first half of 2018 were mainly concentrated in the Office segment (40% of total US investments) and in the Logistics segment (35%).

It should be noted that in H1 2018 capitals from the Middle East grew exponentially: euro 136 million (+782% against the same period of 2017) were invested in Italy, including Office investments for 85% of the total (2 deals stipulated in Milan). In 2018, capitals from South Africa also started to appear in Italy for a total of euro 74 million, exclusively concentrated in the Logistics segment: one deal in Q1 and another one in Q2, both part of Pan-European portfolios. In H1 2018 and more precisely in the second quarter, investments were also made by Asian players for a total of nearly euro 80 million (1 deal in the Office segment in Milan) and by Australian ones for euro 17 million (1 deal in the Office segment in the Piedmont region). These investors were not present last year.

As for Italian investments, the traditional concentration in the Office segment is confirmed (51% of the total). In the first half of 2018, Italian investors reduced capitals invested in the country by 27% on a y-o-y basis.

H1 2018: 65% of international capitals / 38% of investments in Milan

€ 1,061 M -> 35%
Office (51%) - Retail (34%)

€ 594 M -> 20%
Office (40%) - Logistics (35%)

€ 341 M -> 12%
Retail (71%)

MILAN: € 1,214 M -> 66% Office
-12% on H1 2017

ROME: **€ 642 M** -> 50% Office
-17% on H1 2017

REST OF ITALY: **€ 1,330 M** -> 75% Retail
-52% on H1 2017

6 BUSINESS LINES in Europe

A 360°vision

Contacts

BNP Paribas Real Estate Italy

Piazza Lina Bo Bardi, 3 – 20124 Milan
Phone: +39 02 58 33 141
Via di San Basilio, 48 – 00187 Rome
Phone: +39 06 9826 2112
www.realestate.bnpparibas.it

Research

Cristiana Zanzottera

Head of Research

Piazza Lina Bo Bardi, 3 – 20124 Milan
Phone: +39 02 3211 5357
cristiana.zanzottera@bnpparibas.com

Best Research in Italy at the Euromoney Awards 2017

BNP PARIBAS REAL ESTATE

FOR MORE INFORMATION:

@BNPPRE

www.realestate.bnpparibas.com

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