Retail snapshot

General Outlook

Economic growth rebounded during the third quarter and is expected to reach roughly 7%, leaving 2020 global GDP about 4% below its level before the onset of the pandemic. Following the second wave, Q4 remained beset with massive uncertainty as it is growing the awareness that only a widely approved and distributed vaccine will end the crisis. In USA, the unemployment is compressing but still above the pre Covid-19 levels. In the Eurozone, economic activity is gradually deteriorating; services are compressing followed by a slowdown in manufacturing. Fears about the employment situation led consumers to postpone spending.

After a deceleration in 2019, the Italian economy recorded a deep downturn in GDP in Q3 2020 YTD (-8.4% YoY), mainly due to a slowing down in investment and export components. Preliminary data for 2020 show a contraction of 8.9%: 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 in employment continued slightly in 2019 followed by a slowdown (-1.7%) in the first 11 months of 2020; despite the slight improvement since the summer, occupation remained below 2019 levels. In December, business expectations on employment were improving in manufacturing and retail trade sectors but construction and, above all, services clearly deteriorated. Till October, the second wave of the pandemic did not stop the positive trend of the industrial production. The gap between Italian (-0.2%) and European (0.2%) inflation (HICP) is decreasing; Italian CPI remained negative mainly due to energy products. In December, inflation remained negative for the eighth consecutive month. In November 2020, the interest rate on Italian 10-year Government Bond stood at 0.66%, compressing for the seventh consecutive month. The spread against the German Bund fluctuated dramatically till the end of May; at the end of October the index stabilized well below 120 bps. The Governing Council expects the key ECB interest rates to remain at their present level or lower until the inflation outlook robustly converges at 2%.

The new January decree have extended the state of emergency until the end of April and have adopted new measures to contain the pandemic until March, 5th. 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 digitalization, infrastructures, sustainability, tourism and research this will be a unique opportunity for our RE market.

The impact of the pandemic became evident in the retail sector, creating a unique chance for a technological leap and a profound transformation. 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 the European capitals. Local shopping centers and retailers continued to see better performances 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.

The further closure of shopping centres on weekends had a negative effect on footfalls reaching 50-60% of footfalls of November 2019. Trade sales are improving, and forecasts are positive for 2021, although consumptions are not forecasted to go back to pre-Covid level before 2023. After the positive trend of the period August-October, in November sales decreased in terms of value (-8.1% YoY). The lockdown situation 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 Italian shopping centres' total stock slightly increased at around 19,600,000 sqm at the end of December 2020: due to the temporary closing of construction sites in the first half of the year, only 8 completions were recorded in H2.

In Italy, 2020 recorded 141 investment deals for a total of around €8.3 billion, lower by 33% than2019. The slowdown was mainly ascribable to the hotel and office sectors; logistics, residential, alternatives and healthcare are gaining a growing share of the market. The retail sector totalized €1.4bn of volumes since the beginning of the year, mainly related to the out-of-town segment which accounted for around 75% of investments across 11 deals; among these a supermarket portfolio transaction stood out. Six shopping centres were acquired for around 290 €m while the high street market registered five operations in Milan and Rome for a total of 360 €m (of which 90% part of a mixed-use asset). Deals involved both domestic and international players. Among the latter, Deka Immobilien and Hayfin Capital Management stood out. In this scenario, prime yields raised up in all the segments; a growing gap is forecasted for prime and secondary yields. Prime rents decreased by 10% for shopping centres, by 8% for retail parks and by 12% for high street assets; in the short-medium term, pressure on rental level for the high street sector will persist. The variations are mostly based on a sentiment view which reflects a shortage of market liquidity and does not refer to effective transactions recorded at the above values.

Retailer market

Prime Rents in €/sqm/pa

	High street		Shopping centres		Retail parks	
	Milan	Rome	Milan	Rome	Milan	Rome
	3,960	**3,520**	**810**	**840**	**193**	**202**
	(net key money)					

Rental growth Q4 2020 | Q4 2019

High street	Shopping centres	Retail parks
▼ **12%**	▼ **10%**	▼ **8%**

Out of town pipeline projects

New projects and planned expansions

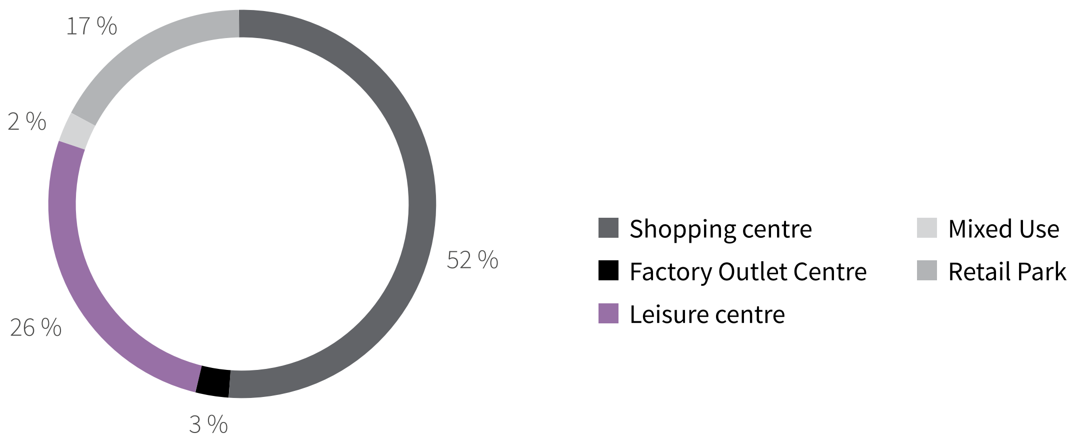
19

of which:

25 Projects in North West

2 Projects above 60,000 sqm

Pipeline by type
(2021-2022)



Investment market

Investment volume

High street

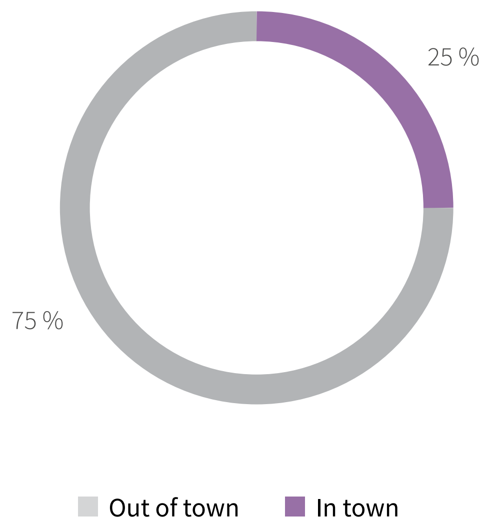
Investment volume: €360 m

N° of deals: **5**

1 portfolio and 4 single deals

4 deals in Milan and 1 in Rome

3 mixed-use deals



Out of town

Investment volume: €1,070 m

N° of deals: **11**

7 portfolios and 4 single deals

5 deals > €50 m

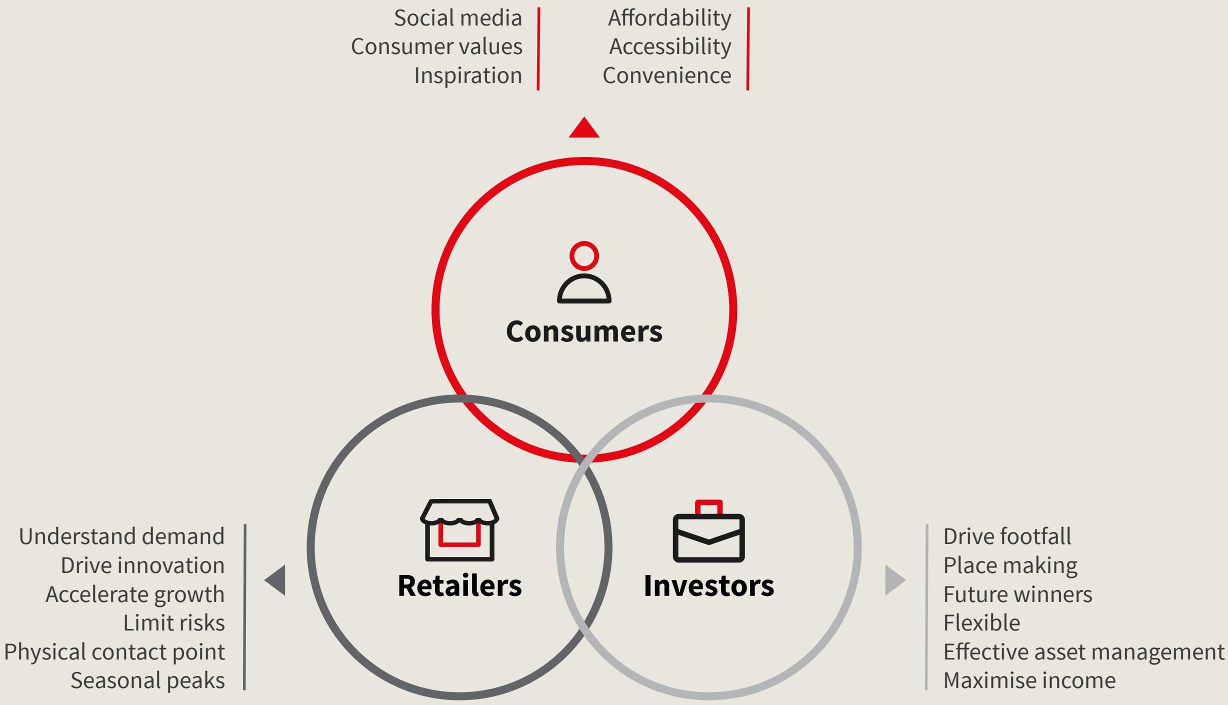
5 shopping centre deals

	High street Milan	High street Rome	Shopping centre Milan	Shopping centre Rome	Retail parks
Prime Yields Q4 2020	3.60%	3.75%	5.80%	5.80%	6.70%
Change basis points Y-o-Y	+30bps	+35 bps	+50 bp	+50 bp	+20 bps

Flexible leases

Flexible leases and retail formats are on the rise

Stakeholder benefits of flexible retail space

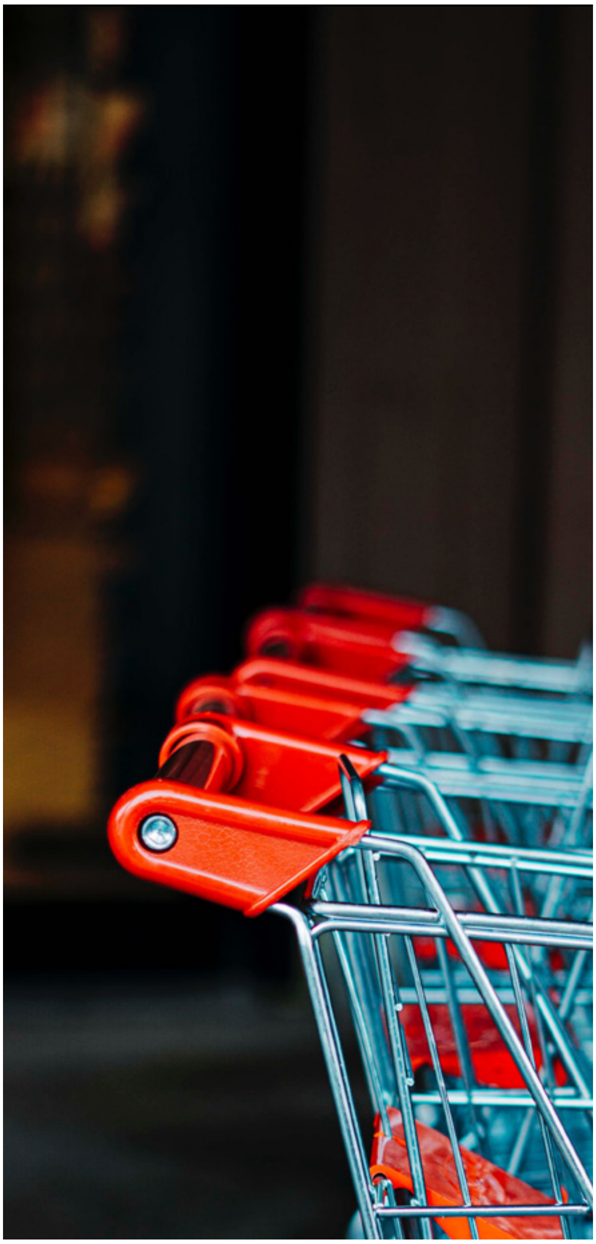


Flexible leases and formats are increasingly important for retailers' and investors' real estate strategies in a progressively dynamic environment.

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.

Shopping centre investment market

Stabilisation of assets in H2 2021 will see a gradual return of investors' interest in 2022



The second lockdown implemented in Q4 2020 is affecting the performance of non-essential retailers as stores are forced to close again or see footfall diminishing as consumers are forced to stay home and buy products online. November and December are traditionally the key months for trade for many non-essential retailers. In the next months, the Covid-19 lockdown during the festive trading period will lead to more retailer casualties, adding renewed pressure on rental incomes.

With the uncertainty of operational income of shopping centres likely to last until the second half of 2021, prime yields are expected to see further decompression.

The prospect of a Covid-19 vaccine and promise that life will be able to return to normal in the second half of 2021, coupled with pent-up consumer demand once social distancing measures have been lifted, offer investors the opportunity to stabilise cash-flows and for prospective buyers to assess valuations.

Once shopping centres have been stabilised, investors' interest is expected to return in 2022, attracted by affordable pricing. Once the economy improves and there has been at least 6 months of stability in operational income, yields are likely to compress again.

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