

# Retail snapshot



## General Outlook

GDP growth recovery continues to face a high degree of uncertainty: US and UK forecasts remain robust, and the European ones are improving. The progress and effectiveness of vaccination campaigns and policies to support families and businesses continue to be driving factors for the international recovery. The strong dynamism was accompanied by a rise in prices.

In July 2021 meeting, the ECB Governing Council published its new monetary policy strategy which states that price stability is best maintained by aiming for a 2% inflation target over the medium term. This target is symmetric. The accommodative monetary policy stance was reconfirmed.

In Italy, after the relaxation of the lockdown measures and the restoration of the white zones, due to the surging of Covid-19 cases connected to the Delta Variant in July, government has extended the state of emergency until 31<sup>st</sup> December 2021 and the use of the green pass. The annual GDP growth estimates have been revised upwards for 2021, forecasting a growth of 5.9% (Oxford Economics, July 2021) thanks to an improvement in confidence among consumers and businesses. Reform and investment spending plans favored a restart of services, which goes hand in hand with the ongoing consolidation of the industrial activity. Unemployment rate will remain high as business support and redundancy ban gradually stop.

The European Commission and Ecofin approved the Italian plan for the Recovery Fund, paving the way for the arrival of €24.9 billion in pre-financing by the end of July; they will be used to finance the first investment projects and to sustain the economic recovery. The Italian PNRR – Piano Nazionale di Ripresa e Resilienza (i.e., National Recovery and Resilience Plan) plans the allocation of €248 bn.

In Italy, H1 2021 recorded 83 investment deals for a total of around €3 bn, lower by 15% YoY. The slowdown was mainly ascribable to a decrease in deal size (€34 mln vs €59 mln in H1 2020) as the semester registered more transactions than H1 2020, highlighting the positive market outlook. The downtrend was attributable to the retail and office sectors and, slightly, by the hospitality one, as all the other segments showed a positive variation. Office confirms to be the main asset class. Logistics is gaining a growing share of the market (25%) and became the second asset class in terms of investment volume. Living, alternatives and healthcare are now becoming an integral part of investment strategies. Appetite per higher-quality core and core-plus product persists, but the demand is increasing for value-added and opportunistic assets in competitive segments of the market. International investors supported the investment's volume. Milan continues to be the leading Italian market followed by a growing interest in other cities.

The pandemic containment measures adopted in many countries across Europe affected retail sales in the first six months of 2021, causing many issues to the leasing activity in key markets. Across Europe, many retailers with large store portfolios continue to focus on rent negotiations and optimising their footprint, while lease negotiations have predominantly been put on hold in markets that are reporting a significant resurgence of Covid-19 cases. However, several types of retail benefitted from the current market scenario. Grocers are opening smaller convenience stores, while consumer goods manufacturers strengthening their direct-to-consumer business model, sustainable fashion retailers, electric vehicle-producers and value goods specialists are also looking to acquire space across Europe's key cities.

During 2020, Italian retail sales recorded a strong decrease (-9%), but this situation should recover this year, with a 5% increase estimated; in 2023 retail sales should return to pre-Covid levels. The categories which should record the highest growth rate are those who suffered the most in 2020: package holidays, accommodation services, non-personal transport services, restaurants, eating out, outpatient services.

In the first six months of 2021 the Italian shopping centers development activity recorded three extensions of existing centers located in Piemonte, Toscana and Sicilia regions for a total of around 7,000 sqm. For the next four and a half years, 24 projects should be completed (18 of which are located in the North of the Country) for a total of more than 900,000 sqm. Many development projects have been postponed. Shopping centers prime rents decreased in Q2 2021 both for Milan and Rome, while high streets and retail parks values remained stable.

At the end of June 2021, around €200 million were invested in the retail sector, a figure 79% lower than the first semester of 2020; however, the number of deals increased with 14 transactions recorded (+5 YoY). Half of the operations were high street assets located in Rome, Milan, Firenze, Torino and Padova; the latter two were high street portions of mixed-use assets. Average deal size sharply decreased for high street products (€9 m in H1 2021; €53 m in H1 2020). Out of town segment reached €135 m across 7 deals; among them it's worth noting the purchase of two shopping centers (one of which located in the South), two retail parks and a supermarket in the city of Milan. Half of the capitals invested in the sector in the first semester was domestic, while the other half came from Europe, in particular from France, UK and Austria.

Prime net yields remained stable in Q2 2021 compared to the previous quarter for all the products, but another decompression could occur for high street and shopping centers in the next months.

# Retailer market

Prime Rents in €/sqm/pa



High street

Milan	Rome
<b>3,900</b>	<b>3,450</b>
(net key money)	



Shopping centres

Milan	Rome
<b>810</b>	<b>840</b>



Retail parks

Milan	Rome
<b>193</b>	<b>202</b>

Rental growth Q2 2021 | Q2 2020

▼ **10%**

▼ **2%**

▼ **4%**

# Out of town pipeline projects

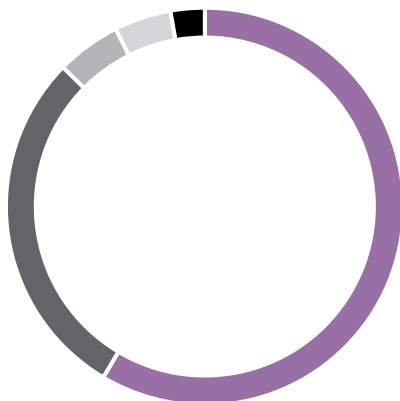
New projects and planned expansions by 2025

**24**  
of which:

**16** Projects in North West

**4** Projects above 50,000 sqm

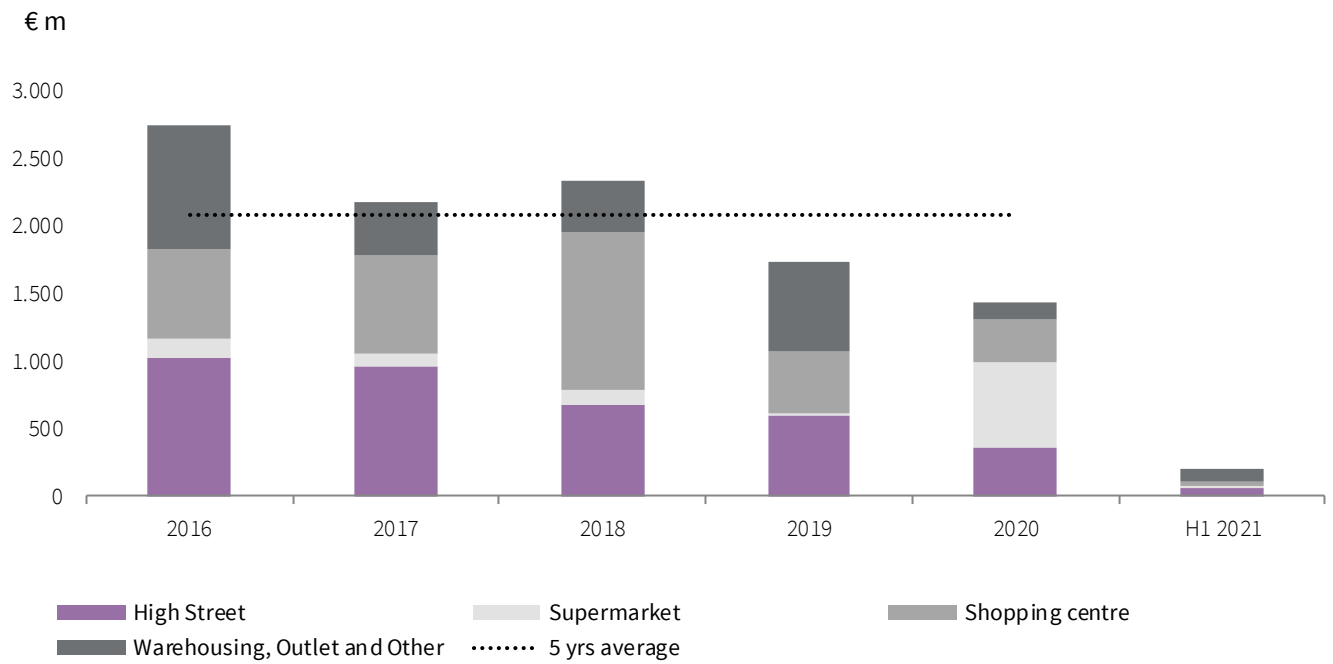
Pipeline by type (H2 2021-2025)



- Shopping Centre
- Retail Park
- Factory Outlet Centre
- Mixed Use
- Leisurecentre

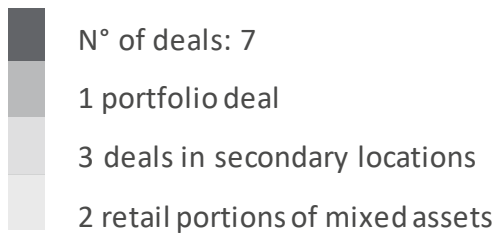
# Investment market

## Investment volume



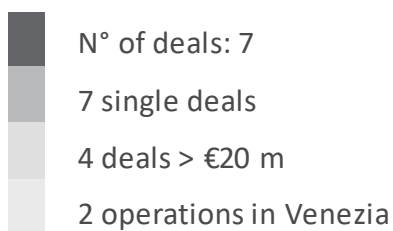
## High street

Investment volume: €65 m

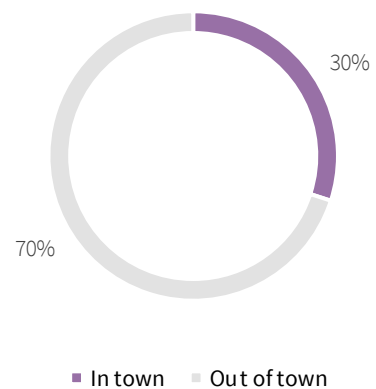


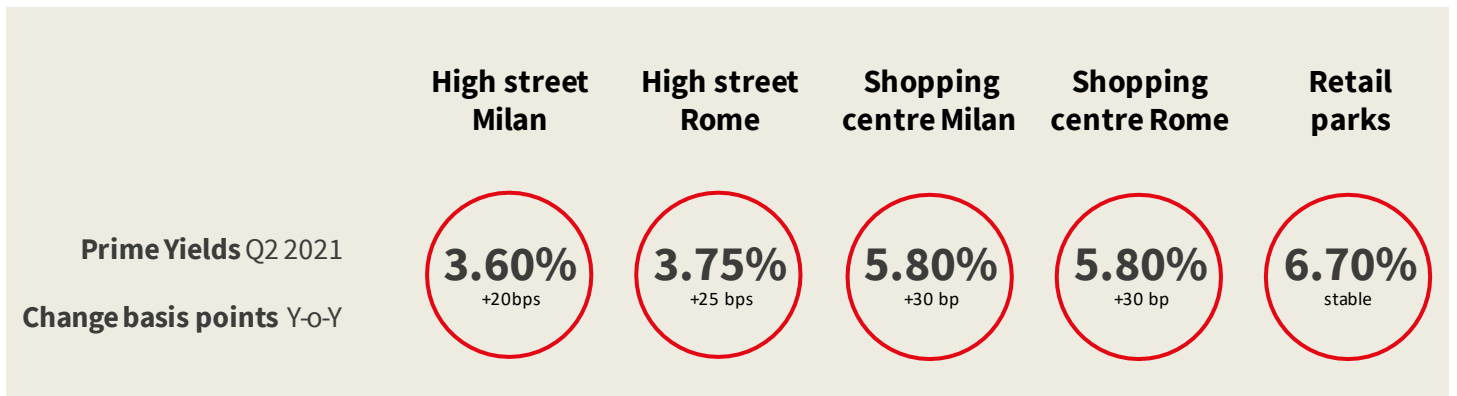
## Out of town

Investment volume: €135 m



H1 2021 Investment volumes by type





# The role of Retail in urban regeneration projects

Covid-19 restrictions had the positive consequence to reaffirm the strategic role played in cities by retail on commercial and social level. As soon as allowed, people went back to shop in person, reviving the city centres, new districts, shopping centres and outlets, underlying the key role of this sector in the urban regeneration context. Despite the difficult moment, retail and services are still perceived as fundamental in the urban regeneration and in keeping safe and dynamic the urban environment, as shown by the new projects that will change entire neighborhoods in the coming years. The new urban destinations will promote the conviviality between people, integrating entertainment, leisure, food&beverage, in a healthy context designed with smart technologies, agile infrastructures and green spaces.

## Examples of urban projects

### Santa Giulia, Milan

The project is composed by a residential area, the Sky HQ, a park, a nurse home, a shopping street; a new business centre will be realised soon. The north area will be composed by an urban park, apartments, public spaces and a retail and entertainment district.

### Campo Urbano, Rome

It is a requalification plan of the disused railway areas owned by Ferrovie dello Stato, winner of *Reinventing Cities* context. The area will include residences, offices, flexible and multifunctional spaces, a student hotel, an energy center, retail spaces and laboratories.

### Ex Trotto San Siro, Milan

The former hippodrome area of 150,000sqm recently acquired by Hines should be transformed in a new residential zone, offering accommodations, a museum, shops and services, offices and restaurants in a green urban context.

### MIND, Milan Innovation District, Milan

It will be transformed in an innovation district for the life sciences and the future of cities: here the retail offer will be balanced and widespread, it will take full advantage of the common outdoor spaces and will be developed according to the logic of urban street retail.



# Retail leasing market activity

Healthy retailer demand for quality space in prime shopping destination remains...



## Consolidation & optimisation of networks

- Major retailers have accelerated right-sizing of store portfolios
- Upgrades of remaining stores



## New formats and innovation

- Diversification and moves into new categories and partnerships
- Growth of subscription models loyalty programs



## Opportunistic growth

- Well-capitalised mature and new brands still expanding
- Fast and light concepts; lower cap-ex, test and demonstrate market
- Push towards more flexible deal structures, including step-rents

Retailer demand for space is pivoting towards experience led shopping destinations and accessible convenience orientated retail places.



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