Retail snapshot

General Outlook

GDP growth recovery continues to face a high degree of uncertainty as countries are struggling to quantify the impact of growth against the Delta variant and global supply bottlenecks. Inflation expectations have risen in many major economies and continue to incite speculation over the timing of policy tightening. US Fed Chair Powell indicated that QE tapering might start at year-end.

In September 2021 meeting, the ECB Governing Council expects the key ECB interest rates to remain at their present or lower levels until inflation reached 2%, well ahead of the end of its projection horizon and durably for the rest of it.

In Italy, after the relaxation of the lockdown measures and the restoration of the white zones, due to the surgency of Covid-19 cases connected to the Delta Variant in July, the government has extended the state of emergency until the 31st December 2021 and the use of the green pass. The annual GDP growth estimates have been revised upwards for 2021, forecasting a growth of 6.6% (Oxford Economics, October 2021) thanks to an improvement in confidence among consumers and businesses. GDP expansion is driven by a 5% surge in household consumption that reflects the gradual reopening of the economy since April.

The first tranche of funding (around €25bn) from the EU Recovery Fund has been disbursed to the Italian government in August. The Italian PNRR – Piano Nazionale di Ripresa e Resilienza (i.e., National Recovery and Resilience Plan) plans the allocation of €248 bn. With the D.M. 6th August 2021, the Ministry of Economy and Finance has proceeded with the allocation of resources in favor of each Administration responsible for the interventions. Brussels will make ten transfers to the Italian state upon reaching the objectives, by mid-2026.

In Italy, the first nine months of 2021 witnessed a good dynamicity of the market, with the closing of 144 deals for a total of around €5.4 bn, higher by 2% YoY. Even if the office sector confirmed to be the main investors' target with around €2 bn of volumes, the logistics one hit a new record high reaching in Q3 2021 the highest number of investments ever recorded. Living, alternatives and healthcare are becoming an integral part of investment strategies, while the retail sector continued to record a downward trend as the hospitality one, although the latest remained one of the most sought-after sector. The positive market momentum was highlighted by the increasing number of transactions which were characterised by a smaller deal size (€36 mln vs €61 mln in YTD Q3 2020). International investors were the most active in the market, looking for assets in the whole investment spectrum in the most competitive segments. Milan is still the main investors' destination, attracting the 43% of the volumes, but other geographies are becoming more and more appealing along with the increasing interest in the living, alternatives and healthcare sectors.

The re-opening of economies is expected to lead to a fast recovery in retail spending in the best retail locations. While the short-term outlook is uncertain and differs by market, cautious rental growth is expected to return towards the end of the year in a small number of markets in 2021, with more markets to follow from 2022 onwards. The leasing activity continues to pick up, albeit the retailer demand remains focused on securing quality retail space in and around major cities that are on track to see a fast-paced recovery in economic activity. The pandemic is creating opportunities for retailers to secure quality retail space in some of the best locations at more attractive terms than before COVID-19. Demand is pivoting towards experience led shopping destinations and accessible convenience orientated retail places.

During 2020, Italian retail sales recorded a strong decrease (-5%), but this situation should recover this year, with a 5% increase estimated; in 2022 retail sales should return to pre-Covid levels. The categories which should record the highest growth rate are those who suffered the most in the last 18 months: package holidays, accommodation services, non-personal transport services, restaurants, eating out, outpatient services. An expanding consumer confidence (+15.3% in September YoY) is driving expenditure (+14.2% Q2 2021 YoY); also, tourism is coming back to a positive trend (+1% H1 2021 YoY). For shopping centres, turnover and footfall are improving but are still far from 2019 levels.

In the first nine 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 years, 25 projects should be completed (19 of which are located in the North of the Country) for a total of more than 1 million sqm. Many development projects have been postponed. Shopping centers prime rents remained stable in Q3 2021 both for Milan and Rome, while high streets values are still decreasing, even if at a slow pace.

At the end of September 2021, around €290 million were invested in the retail sector, a figure 74% lower than the first 3 quarters of 2020; the increasing number of deals was however a good result for the sector (+2 YoY). 45% of the total volume targeted high street assets located in Rome, Milan, Firenze, Verona, Torino and Padova; the latter two were high street portions of mixed-use assets. Average deal size sharply decreased for high street products (€12 m in YTD Q3 2021; €55 m in YTD Q3 2020). Out of town segment reached €160 m across 9 deals; among them it's worth noting the purchase of three shopping centers (one of which located in the South), three retail parks and a supermarket in the city of Milan. 67% of the capitals invested in the sector in the first 9 months of the 2021 was domestic, while the rest came from Europe, in particular from Austria, France and UK. Prime net yields remained stable in Q3 2021 compared to the previous quarter for all the products; yields are forecasted to remain stable till the end of the year.

Retailer market

Prime Rents in €/sqm/pa

	High street	Shopping centres	Retail parks
Milan	**3,850**	**810**	**193**
Rome	**3,400**	**840**	**202**
	(net key money)		

Rental growth Q3 2021 | Q3 2020

High street	Shopping centres	Retail parks
▼ **11%**	▼ **2%**	▼ **4%**

Out of town pipeline projects

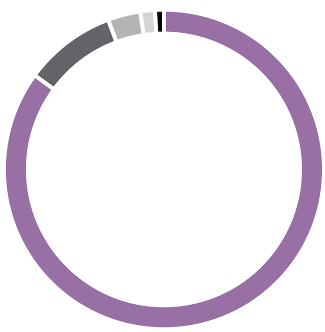
New projects and planned expansions by 2025

25 of which:

17 Projects in North West

7 Projects above 50,000 sqm

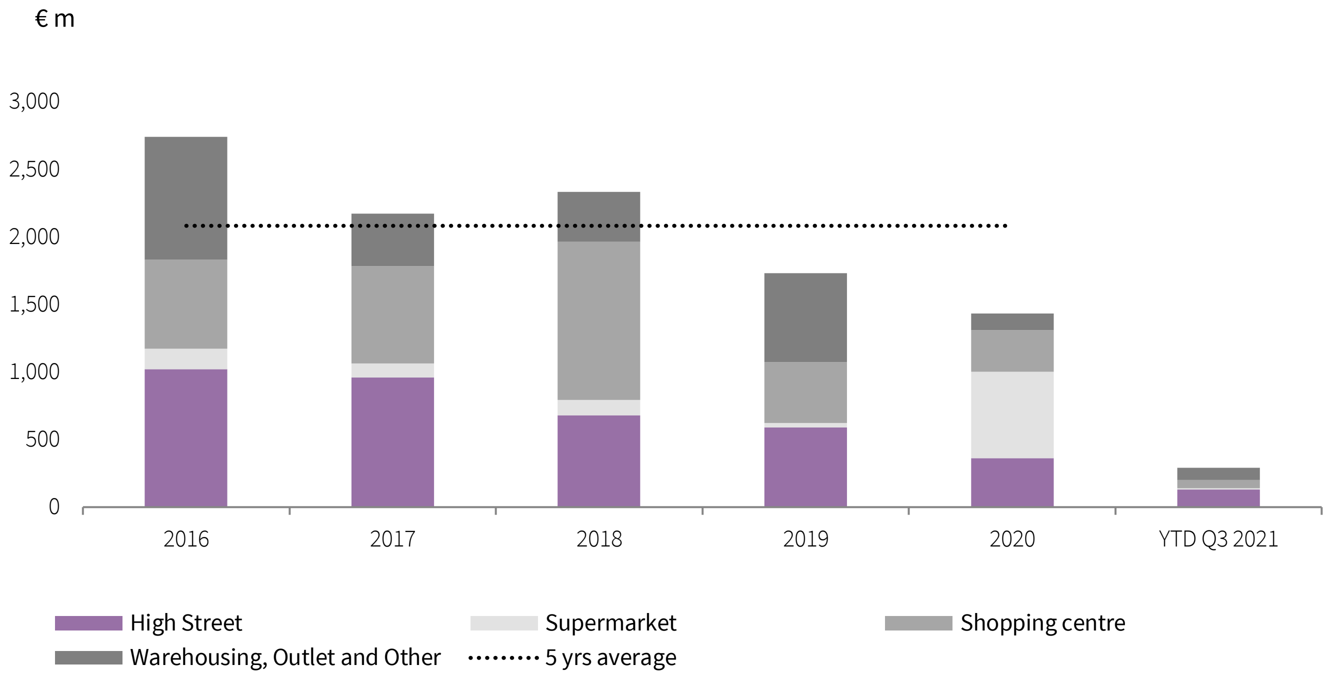
Pipeline by type (Q4 2021-2025)



■ Shopping Centre ■ Retail Park ■ Factory Outlet Centre
■ Mixed Use ■ Leisure centre

Investment market

Investment volume



High street

Investment volume: €130 m

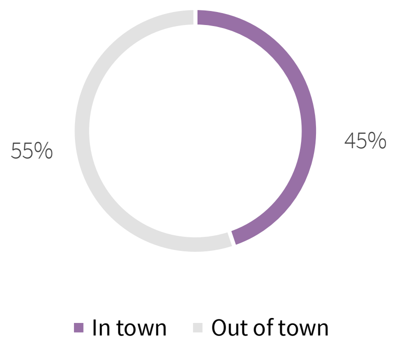
- N° of deals: 10
- 1 portfolio deal
- 3 deals in Milan
- 2 mixed-use assets

Out of town

Investment volume: €160 m

- N° of deals: 9
- 6 single deals
- 5 deals > €20 m
- 3 shopping centre deals

YTD Q3 2021 Investment volumes by type

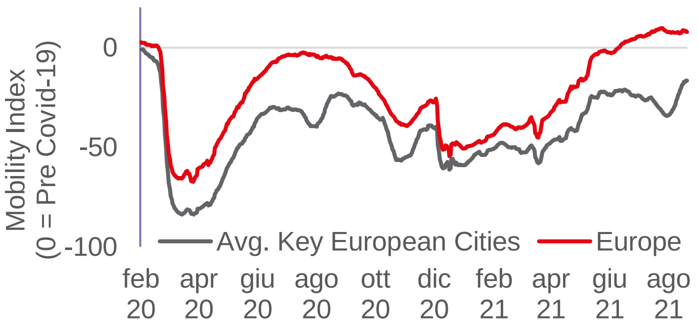


	High street Milan	High street Rome	Shopping centre Milan	Shopping centre Rome	Retail parks
Prime Yields Q3 2021	3.60%	3.75%	5.80%	5.80%	6.70%
Change basis points Y-o-Y	+10bps	+10 bps	+20 bp	+15 bp	stable

Re-opening: retail and recreation mobility index

Consumers return to the shops, but recovery in footfall delays across Europe's major cities

EUROPE

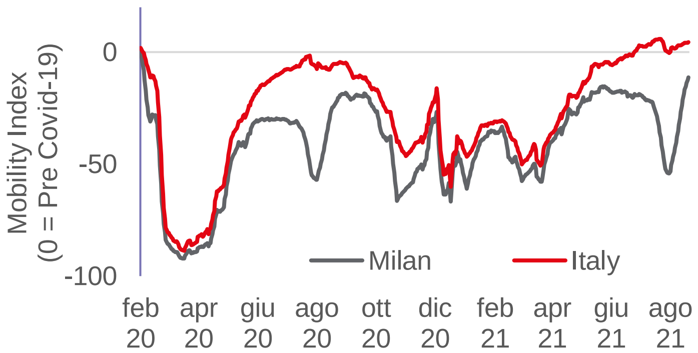


HIGHLIGHTS

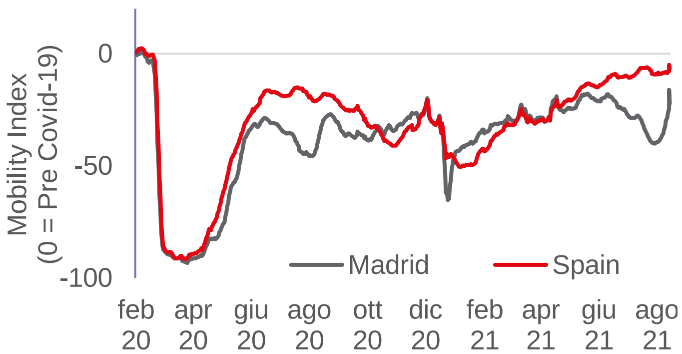
As several social distancing measures remain in place in the near-term and many people continue to work from home, the recovery in footfall across Europe's major cities has not kept pace with the national average

As lockdown measures ease, consumers opt to shop more locally and in out-of-town locations, such as retail parks

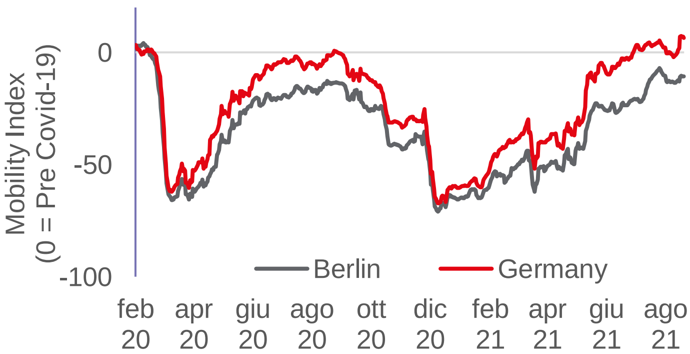
ITALY



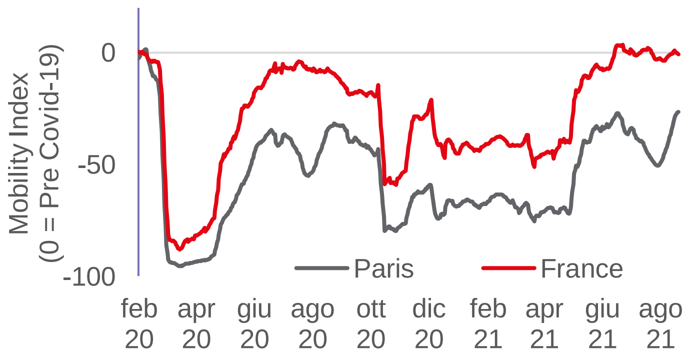
SPAIN



GERMANY



FRANCE

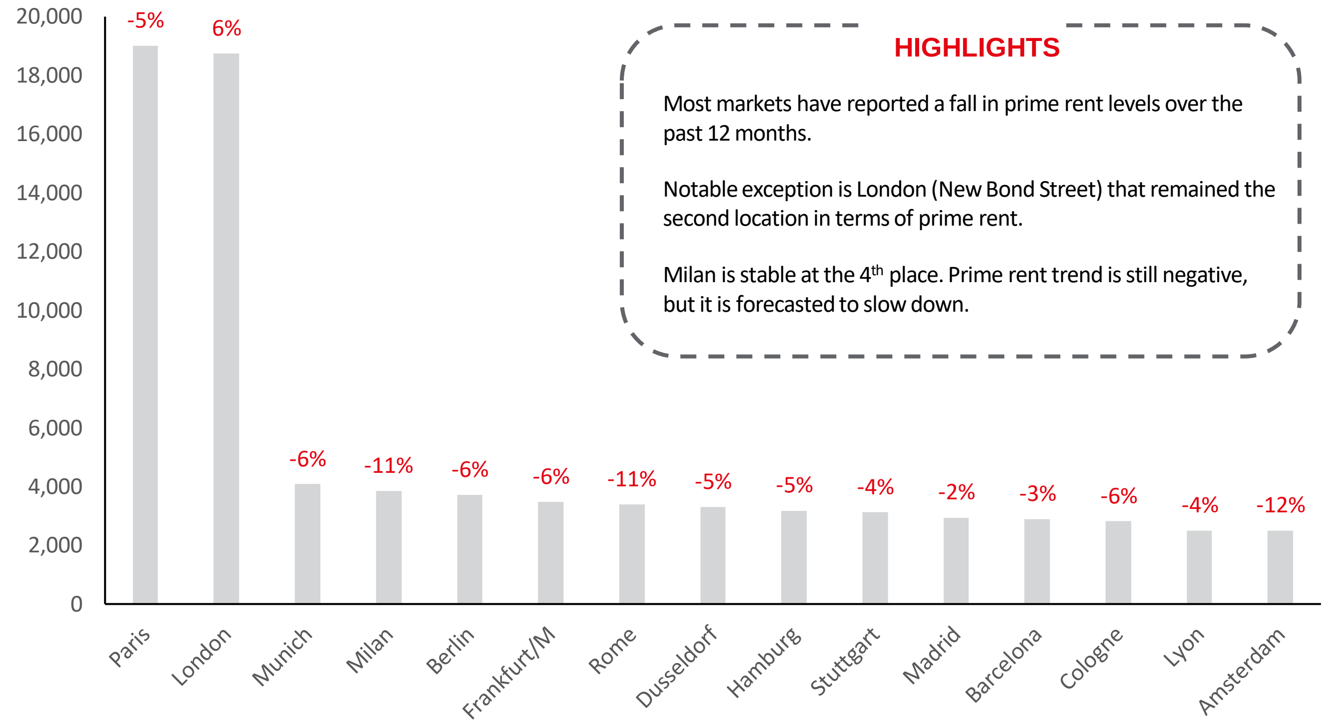


Source: Google COVID-19 Community Mobility Report (Updated on 14 September 2021); Note: Index based on a 7-day rolling average.

Retail leasing market: prime high street rent

Greater emphasis on lease flexibility and contributions from landlords

Top 15 Prime High Street Rents Q3 2021



HIGHLIGHTS

Most markets have reported a fall in prime rent levels over the past 12 months.

Notable exception is London (New Bond Street) that remained the second location in terms of prime rent.

Milan is stable at the 4th place. Prime rent trend is still negative, but it is forecasted to slow down.

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