Retail

Italy | February 2024

jll.com

Retail snapshot

2023 – Market Overview

JLL SEE A BRIGHTER WAY

Contents list

1. Our Key Takeaways

The Italian economy is expected to grow by 0.5% in 2024

Looking ahead, latest market projections indicate an average GDP growth of +0.5% in 2024. inflation is slowing down and there are signals that interest rates will fall towards the end of 2024.

Retail is attracting investor interests on certain dominant schemes

Despite global geopolitical uncertainty the retail sector continues to weigh on investment activity and there was signs of recovery in Q4 2023 in terms of retail volumes in Italy, with investors looking mainly at out of town.

European retail leasing market continues to be strong with volumes on par with 2022

Pockets of rental growth have emerged in high street areas that are typically targeted by mainstream retailers, including cities in southern Europe that benefit from tourism, such as Rome and Milan.

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The Italian Economy

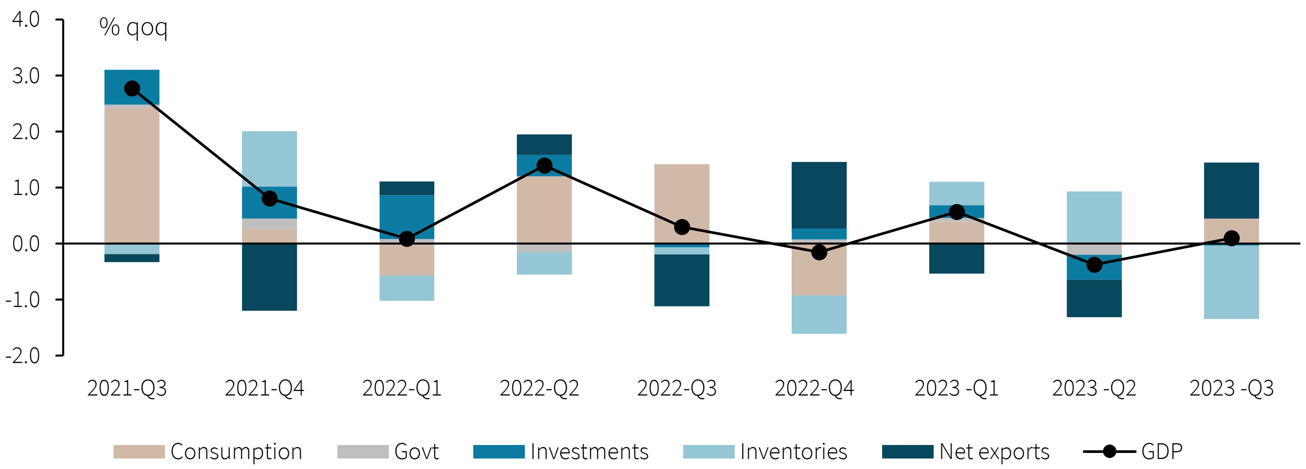
Projections for Italian economy indicate an average GDP growth of +0.5% in 2024

In Q3 2023 the Italian economy posted a GDP increase of 0.1% in comparison with both the previous quarter and the third quarter of 2022. Projections for 2024 annual GDP growth indicate an increase of 0.5% .

The impact of high inflation and interest rates persists, but there are signals that, overall, economic conditions are on an improving trend: Inflation remains high by historic standards, but it has peaked and is now slowing quickly and it's going to stabilize around 2%; commodity prices have fallen, supply chain disruption and costs have eased; interest rate tightening cycle is drawing to an end.

Q3 data were impacted by the continued weakness in the manufacturing PMI – Italian industry despite the continued resilience in more services-oriented sectors. Net exports and consumption drive positively GDP evolution. Having said this, latest market projections indicate an average GDP growth of +0.7% in 2023 and a +0.5% 2024 forecast.

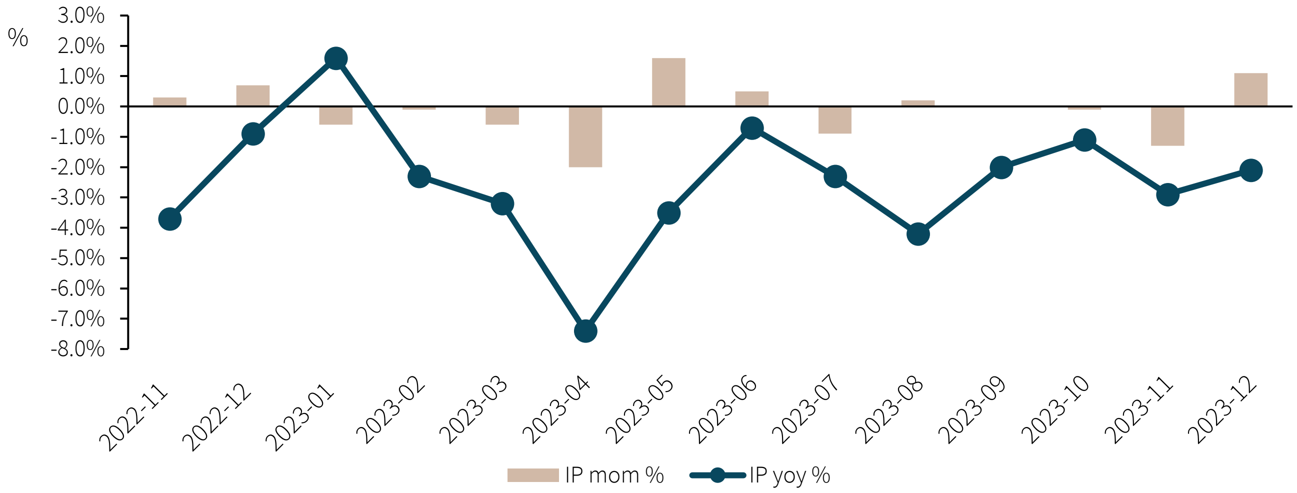
Contribution to GDP growth QoQ%



Source: JLL Research elaborations on ISTAT data

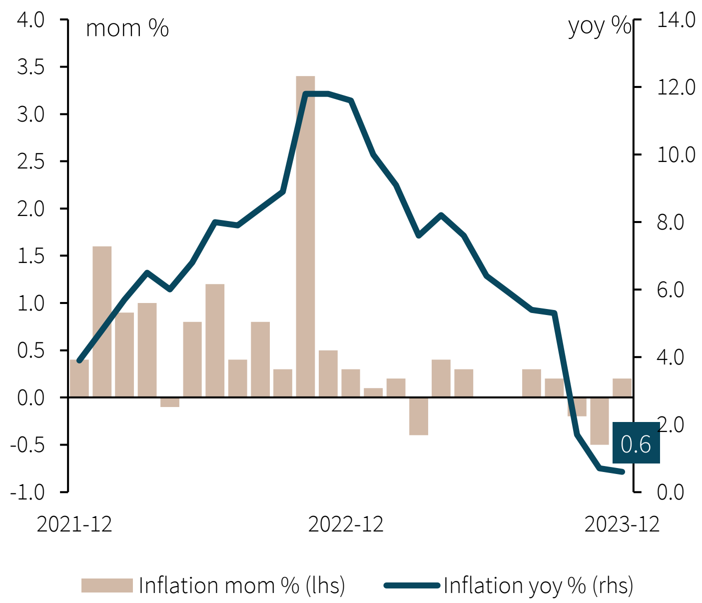
Industrial production in **December** posted a seasonally-adjusted increased of 1.1% **MoM** (-2.1% YoY on a calendar adjusted basis). The change of the average of the last three months with respect to the previous three months was -0.5%.

Industrial Production - December 2022 to December 2023



Source: JLL Research elaborations on ISTAT data.
Note: seasonally-adjusted qoq data; calendar-adjusted yoy data

Annualized headline **inflation** (HICP) reached **0.6% in December 2023** (down from 0.7% in November 2023). Looking ahead, headline inflation should continue to slow down throughout 2024. Core inflation, however, will take longer before it starts to come down, despite recent developments in the energy market.



Source: JLL elaborations on ISTAT data

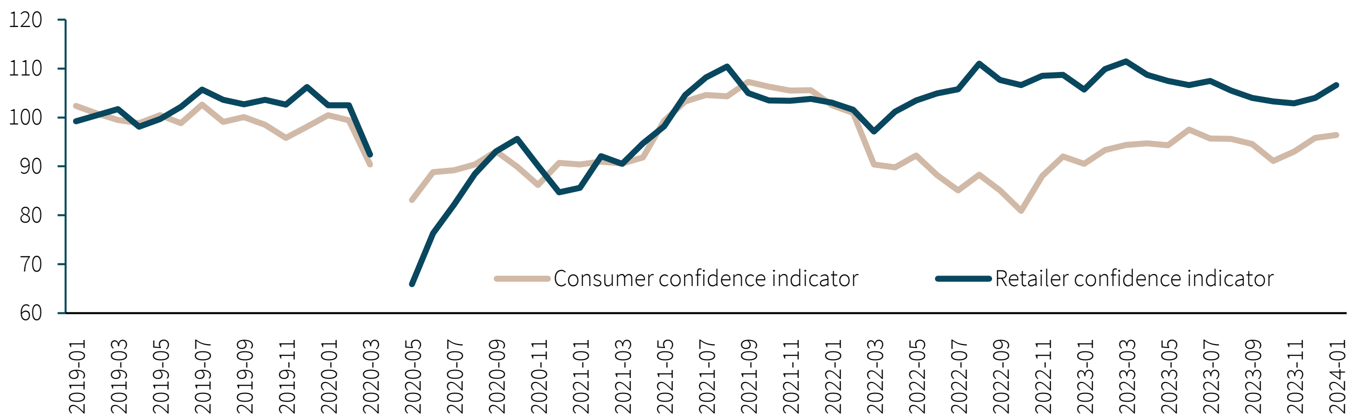
Forecasts (Italy)	2023F	2024F
Gross Domestic Product	0.7	0.5
Industrial Production	-2.3	1.2
Consumer Prices (%)	5.6	1.6
Govt Balance (% GDP)	-5.3	-4.5
10yr govt bond yield (% EOP)	3.7	4.0

Source: Oxford economics of January 2024
Data: annual percentage changes unless specified

A panorama of challenges and opportunities is emerging in the retail sector, with r**etail confidence index in Italy showing performance on average above 2019 levels**.

In January 2024, the **retail trade confidence index increased from 104.0 to 106.6**. The balance referring to the future business trend clearly grew, while assessments both on inventories and current sale volume went down. At the same time, the **consumer confidence index** also rose for the third consecutive month in January 2024, although the average level is lower than in 2019.

Consumer and Retailer Confidence Index (based 2021=100)

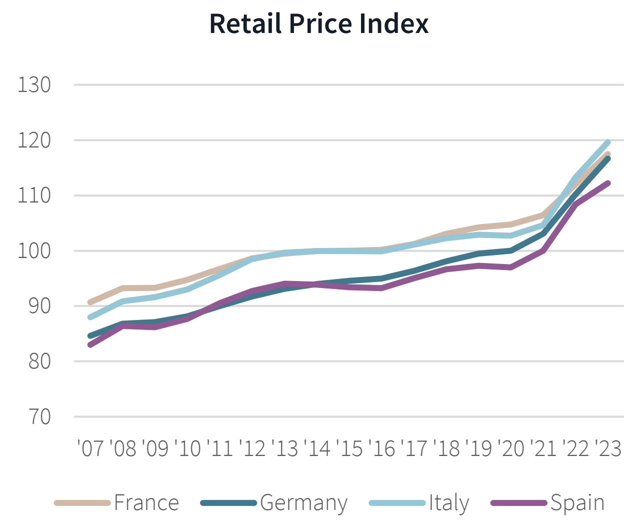


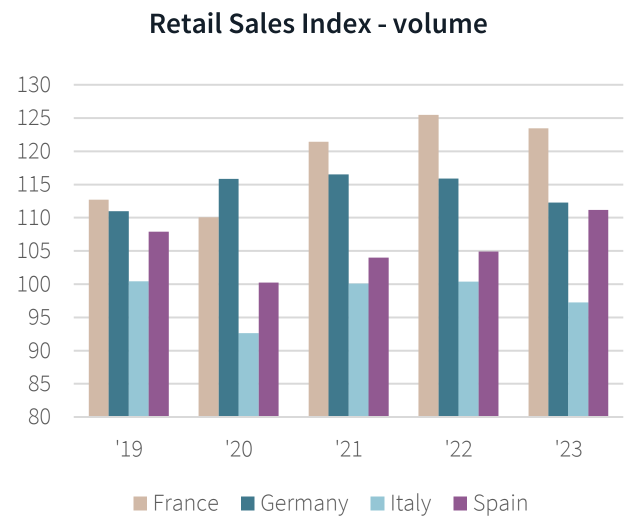
Source: JLL elaborations on ISTAT data

Note: The survey was not carried out in April 2020 due to lockdown

In Italy, according to Istat data, the **value** of retail sales (turnover) **increased** in 2023, but it hides two different dynamics: while the **volume of sales** (quantity sold) **decreased** by 3.1%, the **price level increased** by 5.6% compared to 2022.

This dynamic reflects the strong cost adjustment that companies have been forced to face, as well as the consumer's willingness to buy, even in such a difficult period.





Source: JLL Research elaborations on Oxford Economics database

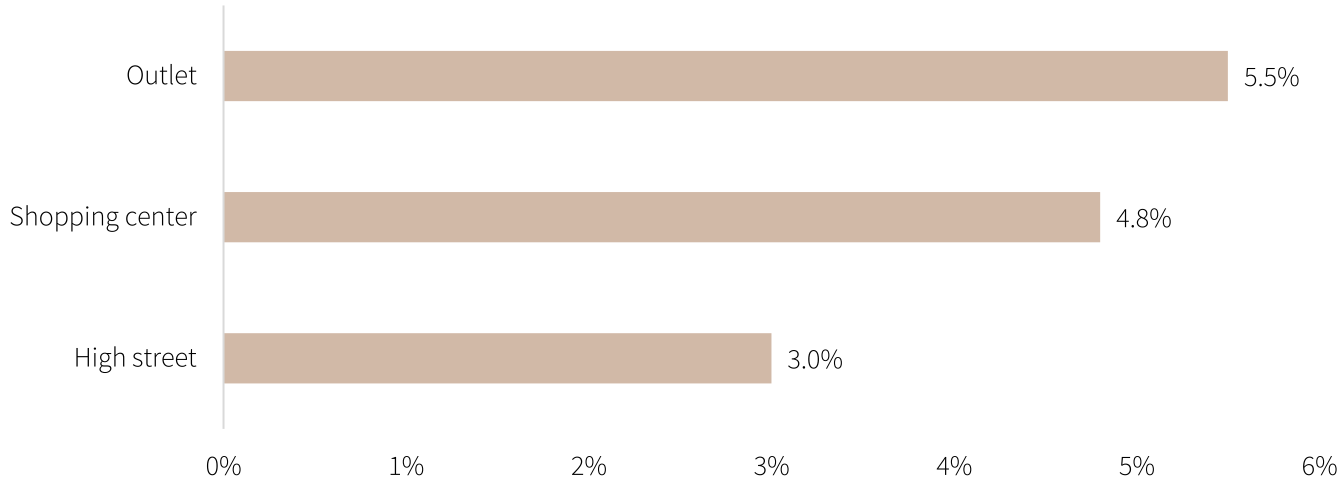
**The Retail trade index is compiled using data from the monthly survey on retail sales. This survey refers to enterprises whose main economic activity is retail trade (according to the Economic activity classification NACE Rev.2). Enterprises having the sale of car and fuel as main economic activity are excluded from the survey*

According to the "Survey Retail Barometer" carried out by Confimprese on a sample of member companies, in 2024, a picture of cost stabilization together with a growing trend in consumption is projecting an optimistic scenario that is reflected in the expectation of an increase in turnover for over 60% of companies.

The Confimprese-Jakala Observatory shows an **encouraging picture for retail sales in 2023** compared to the 2022 profile. In particular, if we analyse sales by channel, **shopping centres** outperformed 2022 sales by **+4.6%,** while **outlets** by **+5.5%. High streets** were also performing well at **+3%** compared to 2022.

Key Industry Observatories, such as the one carried out by the CNCC (Consiglio Nazionale dei Centri Commerciali), report that the performance of shopping centres is primarily driven by sales in the **food and beverage** and **personal care** categories, which are experiencing a significant upward trend.

Sales by channel, percent change variation 2023/2022

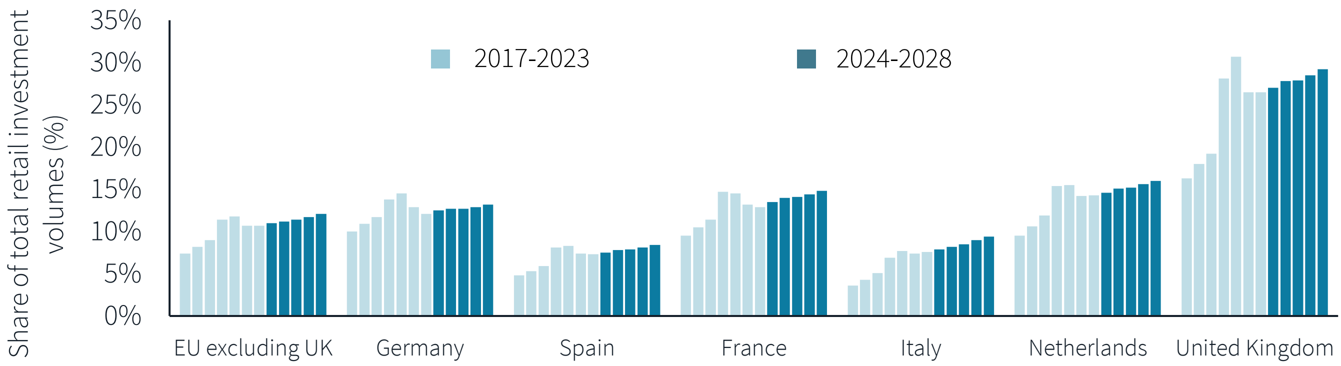


Source: Osservastorio Consumi Confimprese Jakala

Shift in retail spending towards **online channels** continues to moderate.

Europe's most mature markets and some other major markets may start to see a stabilization in the share of online retail spending as a proportion in total retail spending. Among the main European countries, Italy and Spain have the lowest percentage of **online sales penetration**. It is projected that by 2028, **online sales** will account for **less than 10% of total sales in Italy**.

Share online sales 2017 - 2028



Source: GlobalData, Oxford Economics, Eurostat, ONS, JLL Research

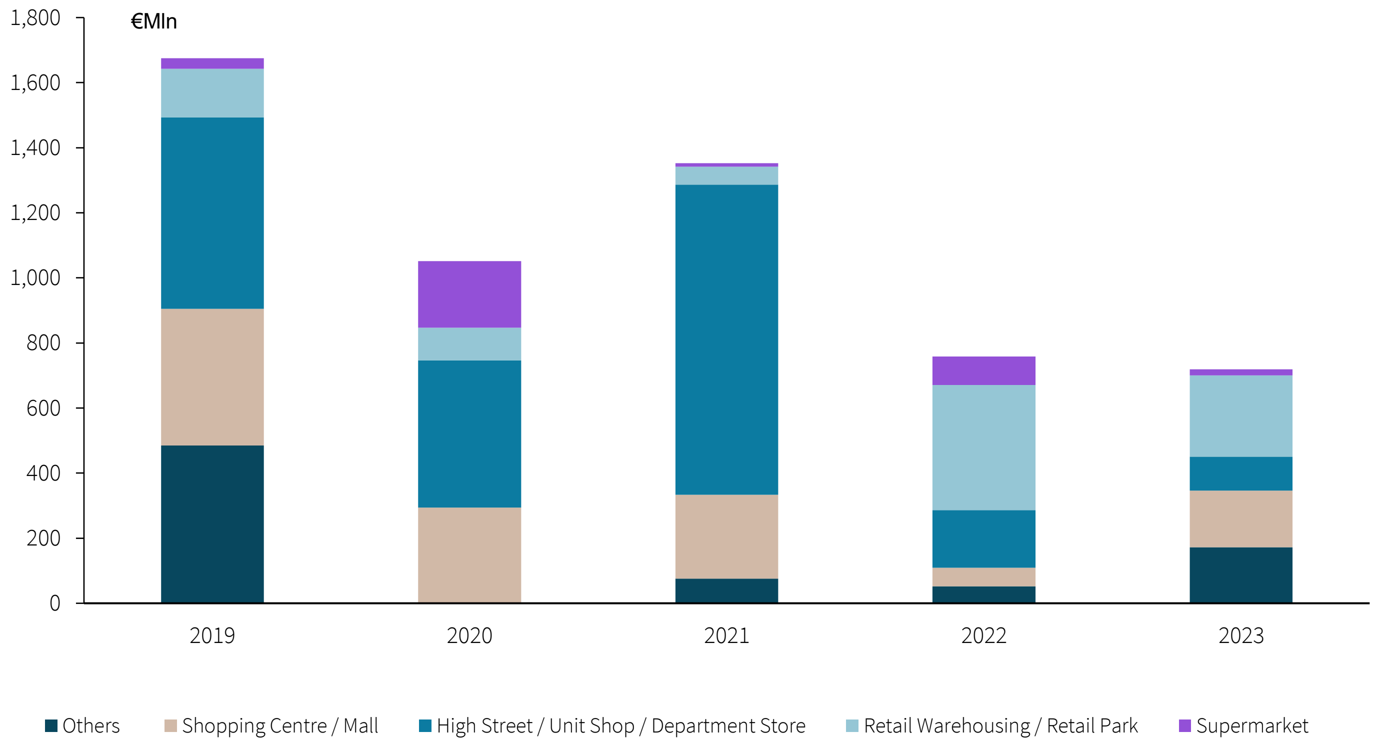
3. Retail Capital Markets

The broader market - EMEA

Conditions in the **European retail investment** market remain challenging: while a broad range of retail assets across the region are currently on the market and as additional stock is anticipated to enter the market in the coming months, **prospective buyers remain selective**. Many transaction processes are protracted due to financing challenges or a mismatch in pricing expectations from both vendors and buyers.
As a consequence, the **European retail investment** volumes fell marginally in 2023 compared to other commercial sectors, dropping 33% YoY to **€26bn**, showing greater resilience to macroeconomic uncertainty.

The **Italian retail market** is still recovering from the post-pandemic lows, but the 2023 figures show more stability and resilience for the sector, compared to the decline in overall investment volumes.
In 2023 investment flows amounted approximately to **€720 Mn*** (-5% YoY) of these, 85% were out-of-town transactions.

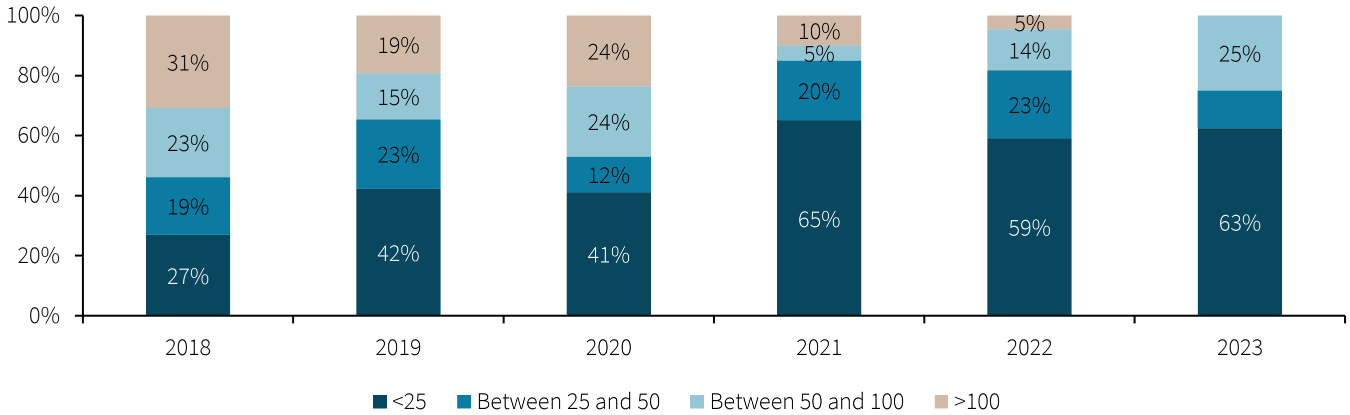
Retail Investment volumes



Source: JLL Research elaborations
*Aedes delisting retail portion included

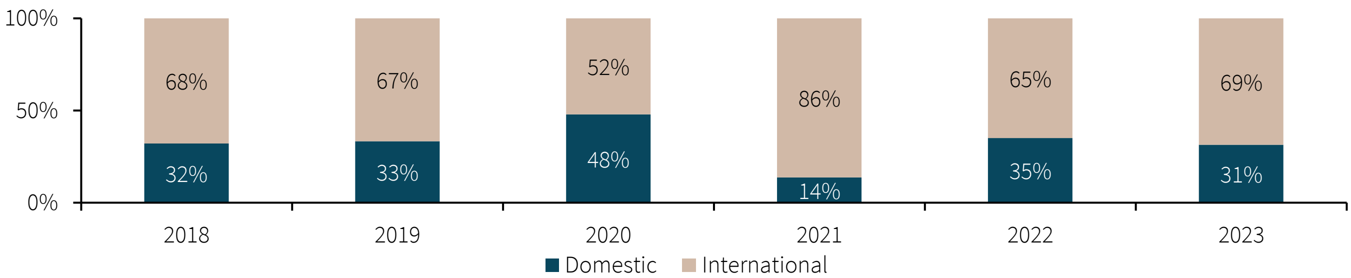
In 2023 Out-of-town transactions reached almost **€620 Mn** spanned across 20 deals versus 4 high streets (in town) deals; in terms of deal size, the majority of transactions had a ticket size lower than €25mln, with only 6 transactions over €50mln.

Number of deals by Size



In 2023, international capital is confirmed as the main source: around 70% of retail investment volume in the sector came from **foreign investors**, while the remaining 30% came from domestic capital.

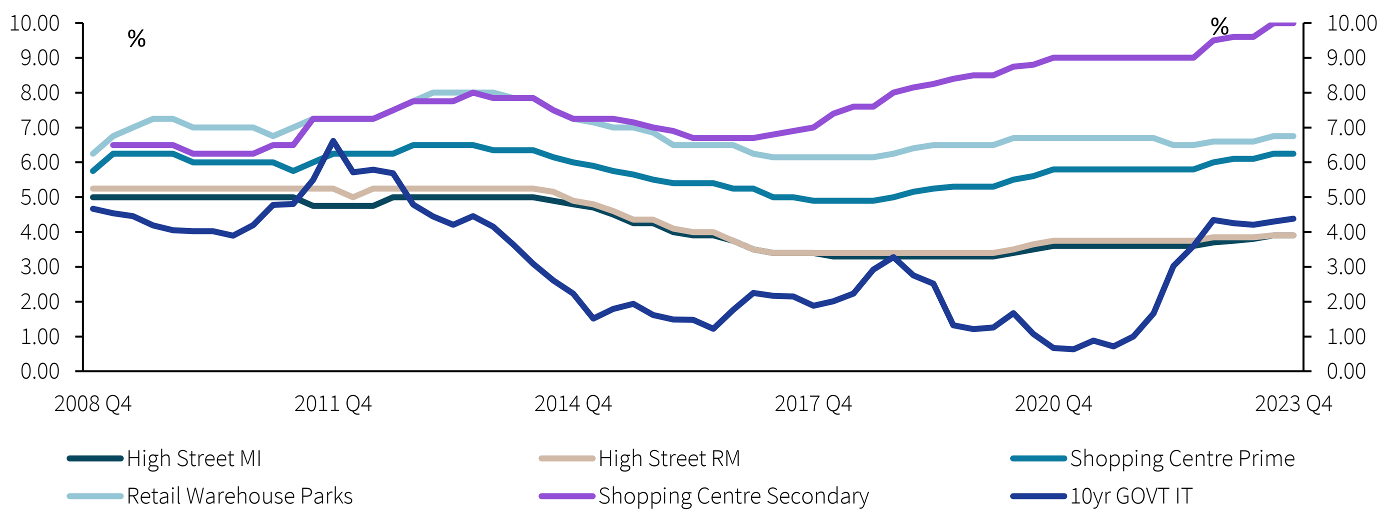
Retail Investment Volumes by Source of Capital (% tot)



Note: we exclude transactions with unknown origin of capital

Prime net yields in Q4 2023 remain stable (QoQ) in all retail submarkets.

Italian Retail Prime Net Yields (%)



Source: JLL Research elaborations

HIGH STREET

Investment volume: €97 Mn

N° of deals: 4

3 deals in Milan

1 deal in Rome

OUT OF TOWN

Investment volume: €622 Mn

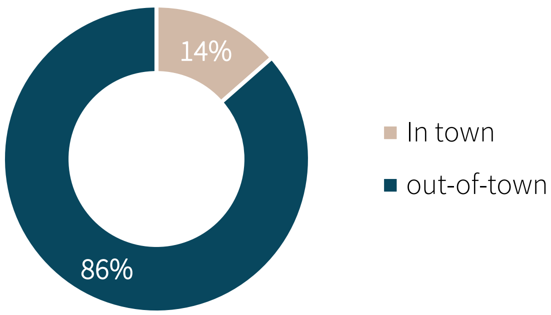
N° of deals: 20

14 single asset deals

6 portfolio deals

6 deals ≥ €50 m

2023 Investment volumes
% by type

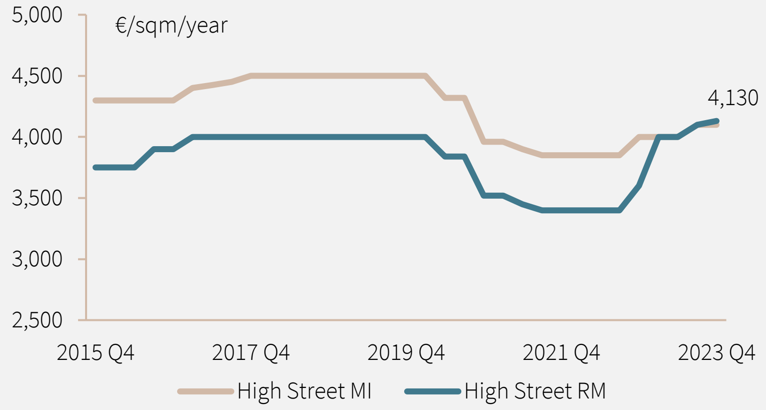


Prime Yields Q4 2023 and Y-o-Y change in basis points

High street Milan	High street Rome	Shopping centre	Retail warehousing
3.90% +20 bps YoY	3.90% +5 bps YoY	6.25% +25 bps YoY	6.75% +15 bps YoY

Source: JLL Research elaborations

Prime Rents - High Street (Mainstream)

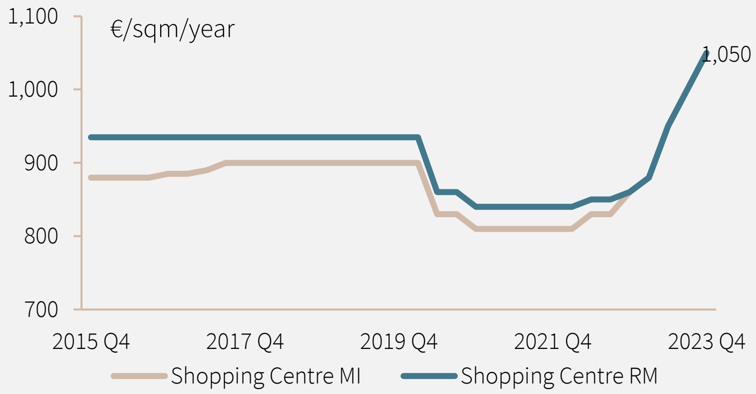


PRIME RENT
High Street

4,130

€/sqm/year

Prime Rents - Shopping Centre

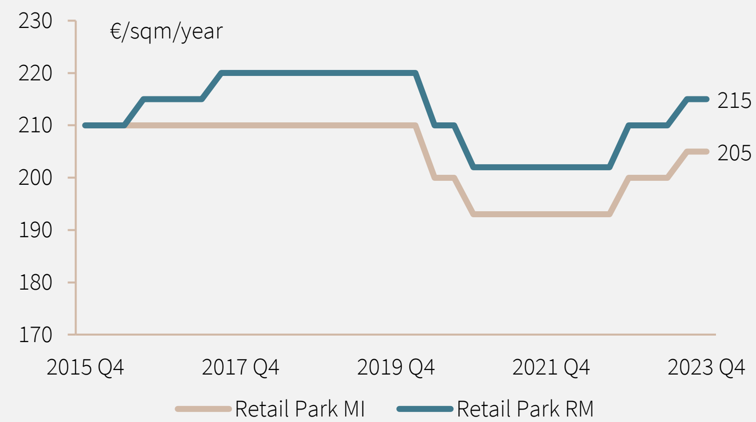


PRIME RENT
Shopping Centre

1,050

€/sqm/year

Prime Rents - Retail Park



PRIME RENT
Retail Park

215

€/sqm/year

Source: JLL Research elaborations

4. Retail Occupier Markets | EMEA

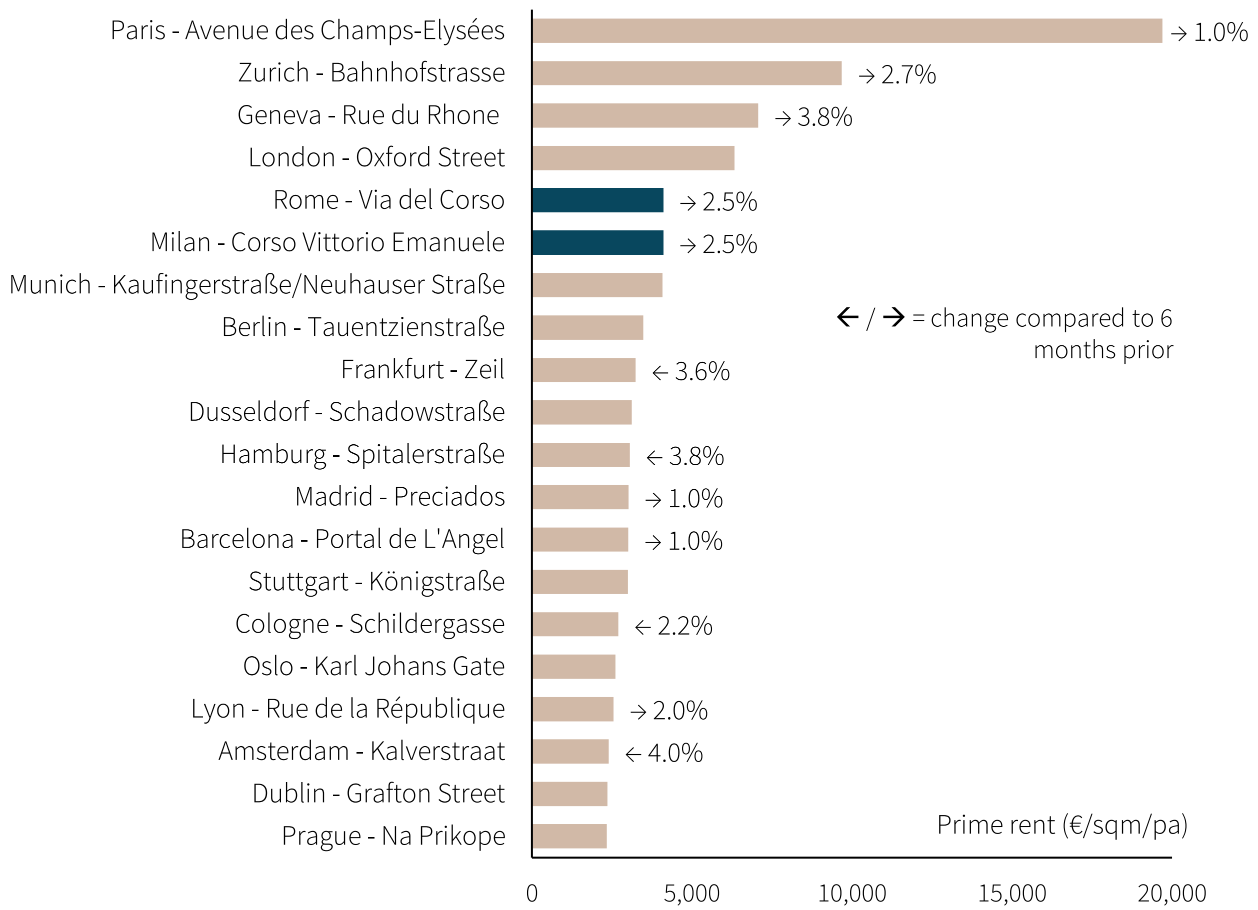
Retailer demand continues to focus on prime high streets and tourist corridors in larger cities, dominant shopping centres and large retail warehouse parks. Many of these locations are seeing solid leasing activity and competitive tension for space. Some locations are seeing upward pressure on rents and a ripple effect in demand.

The European retail market is seeing an increase in newly agreed leases in major retail destinations where the agreed rent exceeds rebased rent levels. This will likely support further growth in prime high street rents across Europe in the short term. Broader growth is expected to return gradually in 2024 and 2025.

Prime shopping centres have seen strong growth in **prime rent** levels in 2023. Growth is expected to ease in the coming years.

Polarisation will continue to play out, with greater occupier focus on prime destinations, where sales continue to remain extremely resilient, and footfall recovers to pre-COVID levels in select locations.

Prime rents mainstream retail locations Europe H2 2023



Note: H2 2023 is based on Q3 2023 values.

Source: JLL Research, iO Partners, Akershus Eiendom

Retail Demand | Market Activity

Footfall

- Footfall across Europe continued to improve, albeit the pace of growth across markets during the summer months has been mixed.
- Most major European cities have benefitted from a recovery in international tourism spend.
- The Black Friday weekend saw a slight shift away from the e-commerce dominance with an increase in footfall.
- Recovery in footfall is lagging in secondary shopping centres, less affluent places and various approach roads to prime destinations.

Leasing activity

- Leasing activity in major retail markets across Europe continues to be strong with 2023 volumes on par with 2022.
- Various retailers are currently focusing on opening fewer but larger high-quality stores in prime locations.
- Demand primarily focuses on locations in Europe's larger cities, including prime high street locations, dominant shopping centres and tourist corridors.
- Some locations are seeing an upward pressure or rents or a ripple effect in demand across retail destinations.

Retailer trends

- Vacancy in key retail locations has started to trend down in most mature European retail markets. Lack of quality space may constrain retail leasing volumes in some markets in 2024.
- Sustainability and Digital Integration have started to play a key role in 2023. Consumers in Italy are in fact increasingly conscious of sustainability and ethical considerations. Retailers are thou responding focusing their offer on eco-friendly products, transparent supply chains, and sustainable practices to align with consumer values. In addition to it, retailers are starting to integrate physical stores with digital technologies to enhance the customer experience. This may include interactive displays, mobile payments, augmented reality for product visualization, and in-store navigation tools.
- In the main cities and particularly in Milan, there was a growing demand for retail spaces located in urban and neighborhood areas, likewise Corso Garibaldi for Accessible Luxury and the area of Ticinese for F&B Retailers, in line with consumers' preference for more convenient shopping experiences integrated into the urban context.

Source: JLL Research elaboration

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Looking ahead

Despite challenging operating conditions, improving market sentiment will encourage return of investment in 2024.

- **All real estate asset classes** have **suffered** in 2023. Nevertheless, Retail ranks at the top of investment volumes in Italy in term of resilience.
- Looking ahead, while the economic environment still feels challenging, **inflation** is on the way down and is forecast to **continue to decline** over the coming months, stabilizing around 2% target.
- **More stable interest** rates will increase visibility and **confidence in underwriting,**
- which will in turn improve market sentiment and encourage return of investment in 2024.
- As a result, the pressure on **prime yields** should start to cool down but financing costs will continue to weigh on investment decisions.
- The softening GDP growth and reduction on consumption could reduce the increasing pace of **rents** compared to past years trajectory.
- **Retail sales growth outlook**: soft growth in H1 2024 is expected to give way to a stronger rise in consumer demand in H2 2024.
- **Rents** will probably grow in prime locations in H1 2024 due to the lack of offer compared to the current demand.

Retail Investment EMEA Market | Outlook

Consistent with the Italian scenario

Shopping Centres – Prime / Outlook: neutral

- Stability in borrowing costs and affordability of rents are key to see investor demand broaden.
- Effects of inflation and operational cost increases have potential to limit retailer performance.
- Anticipated increase in supply of core stock likely to be gradual by uncertain market over the next six months.

Shopping Centres – Secondary / Outlook: negative but improving

- Weaker second-tier shopping centre markets seeing more activity – predominantly from PE investors and wealthy individuals.
- Lack of debt availability affects most markets; there are some options with dominant schemes with historical track record showing resilient performances

Grocery – supermarkets / Outlook: neutral

- High demand from a range of investors – especially specialist investors.
- Volatility in borrowing costs and restriction in supply of stock are limiting deal volumes.
- Prime yields are affected by base rate increases.

Retail Warehouse (Parks) / Outlook: positive if grocery anchored

- High demand for grocery anchored RWP with a several initiatives underway to launch pan-European vehicles.
- Prime yields to be affected by base rate increases. Sellers are less flexible to adjust pricing.
- S&LB demand on big box unit portfolios including strong tenants among selected sectors

High Street Retail / Outlook: neutral / core positive

- Focused demand for a select number of prime high street retail assets and large high-quality portfolios.
- Demand to favor assets with stable rental income or rebased rents. Mix used buildings preferred
- Good demand for very best core assets in European capital/key cities.

Our Three Scenarios for the Italian Retail Market in 2024

ECONOMY

CRE

Base case

- **Geopolitical uncertainty** has increased and is unlikely to abate with elections in major economies in 2024
- **Inflation** has fallen as energy and commodity prices have fallen. Risks are to the upside from renewed supply
- **Interest rates** are at their peak and are widely expected to fall in 2024

- Despite **tighter lending conditions** there remains consistent demand for borrowing, particularly for refinancing existing debts, as well as for capex finance. **Opportunities** are likely to build, as the volume of debt maturities increases
- **Prime yields** reach the top of their cycle. The cost of debt funding remains high
- **Rental growth** to soften as inflation eases

Upside case

- **Geopolitical uncertainty** will not impact worldwide, and resilient economy allows confidence to remain stable as future conditions are becoming more predictable
- **Core inflation** has started to fall rapidly and will remain around 2% throughout the year
- **Interest rate** outlook is more predictable as there are fewer changes ahead in 2024. More predictable rates make underwriting easier

- **Investments** strengthen as investors gain confidence to start deploying allocated capital. Most markets perform well
- **Prime yield** decompression stops in the short term and a new compression phase starts. **Rents** expected to grow in all markets and submarkets

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Downside case

- **Geopolitical uncertainty** increases and is unlikely to abate with elections in major economics in 2024
- **Inflation** is not beaten yet and risks of a new price shock are rising; upside risk to inflation include supply chain fragmentation, climate shocks and armed conflicts
- Central banks should keep **interest rates** high for as long as necessary to bring and stabilize inflation down

- **Investments** suffer as investors flee to core markets. Most markets deteriorate
- **Prime yield** decompression set to continue for a while before reverting to long run average. **Rental growth** suffers in recession-hit sectors while remains stable or shows moderate growth in resilient segments

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