

ITALY

Retail Market Snapshot

Fourth Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Stable with some slight upward adjustments in top high street locations.	▶
Prime Yields:	Stable	▶
Supply:	Limited high street availability in prime locations. Moderate out of town development.	▶
Demand:	Stable but more selective retailers' interest. Investors looking at high street properties in prime and secondary cities and selected out-of-town schemes.	▶

Prime Retail Rents – December 2018

	€	US\$	GROWTH %	
	SQ.M	SQ.FT	1YR	5YR CAGR
HIGH STREET SHOPS				
Milan	13,500	1430	0.0	12.5
Rome	12,000	1271	4.3	11.4
Venice	6,300	667	1.7	n/a
Florence	6,000	636	3.4	n/a
Turin	2,100	222	5.0	4.3
OUT OF TOWN RETAIL PARKS	€ <td>US\$ <td colspan="2">GROWTH %</td> </td>	US\$ <td colspan="2">GROWTH %</td>	GROWTH %	
Country prime	180	19.1	0.0	-3.9
SHOPPING CENTRES	€ <td>US\$ <td colspan="2">GROWTH %</td> </td>	US\$ <td colspan="2">GROWTH %</td>	GROWTH %	
Country prime	900	95.3	0.0	1.1

Prime Retail Yields – December 2018

HIGH STREET SHOPS (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Milan	2.75	2.75	2.75	4.75	2.75
Rome	2.75	2.75	2.75	4.75	2.75
Venice	3.75	3.75	3.75	5.25	3.75
Florence	3.75	3.75	3.75	5.25	3.75
Turin	4.00	4.00	4.00	5.50	4.00
OUT OF TOWN RETAIL (RETAIL PARKS) (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
Country prime	5.75	5.50	5.50	7.75	5.50
SHOPPING CENTRES (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
Country prime	5.00	4.75	4.75	6.50	4.75

(*) Yields are calculated on a net basis as reported below:

Net Yield = NOI (1) / PP (2)

1. Net Operating Income - after deducting all non-recoverable expenditure

2. Purchasing Price - excluding transfer costs, tax and legal fees

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Overview

The high street sector is attracting high interest on behalf of domestic and foreign investors, supported by a consolidated occupational market, not only in prime touristic locations, but also in secondary cities. The out-of-town sector is characterised by limited new development activity, with landlords and tenants rethinking strategies to keep up with the retail sector evolution.

Occupier focus

The main high streets in prime cities continue recording an active occupational market with low vacancy rates and stable rents. Overall retailers are generally adopting a more cautious approach considering the lower than expected year end results and concerns about the macro-economic environment. In the out-of-town sector, the development activity was quite limited in 2018 with an overall new GLA below 200,000 sqm including both new schemes and extensions. As a consequence of changing consumer habits, landlords are adopting strategies to respond timely to tenants' new requirements.

Investment focus

The retail investment volume closed below the previous year, mainly due to lack of product in high street and a more selective demand for out of town investments. The market continues to be dominated by foreign investors, but domestic players, although still limited in number, have been more active in 2018. Out-of-town investments were equally divided between core/core plus and value-added profiles, marking a shift from core to value-added in comparison to the previous year. The lack of high street opportunities has also pushed investors towards value-added and opportunistic assets.

Outlook

The high street sector is expected to continue attracting high investors' demand, although activity might be limited by the lack of suitable products. In the out of town sector, the gap between prime and secondary product is widening with interest focused on best opportunities.

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