

ITALY

Retail Market Snapshot

Third Quarter | 2019



MARKET INDICATORS

Market Outlook

- Prime Rents: Stable with slight upward adjustments in selected high streets. ▼
- Prime Yields: Stable ▶
- Supply: High street availability remains limited in top locations. New development activity is slowing. ▶
- Demand: Retailers focused on best locations. Strong demand for high street investment opportunities. Selective interest for performing out-of-town schemes. ▶

Prime Retail Rents – September 2019

	€	US\$	GROWTH %	
	SQ.M	SQ.FT	1YR	5YR CAGR
HIGH STREET SHOPS	YR	YR		
Milan	13,700	1437	1.5	10.0
Rome	12,500	1311	8.7	9.3
Venice	7,200	755	n/a	n/a
Florence	6,300	661	8.6	n/a
Turin	2,200	231	10.0	5.3
OUT OF TOWN RETAIL	€	US\$	GROWTH %	
RETAIL PARKS	SQ.M	SQ.FT	1YR	5YR CAGR
	YR	YR		
Country prime	180	18.9	0.0	-2.1
SHOPPING CENTRES	€	US\$	GROWTH %	
	SQ.M	SQ.FT	1YR	5YR CAGR
	YR	YR		
Country prime	900	94.4	0.0	1.1

Prime Retail Yields – September 2019

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	3.50	3.50	3.75	5.25	3.50
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	
	Q	Q	Y	HIGH	LOW
Country prime	6.25	6.25	5.50	7.75	5.50
SHOPPING CENTRES (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Country prime	5.25	5.25	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

Situational factors such as the rising protectionism and the deceleration of the Chinese economy have contributed to a limited growth for GDP in 2019 (+0.1%).

Forecasts for 2020 are positive at +0.4%, but still moderate. After several months of improvement, employment has stabilised, while unemployment rate has decreased further to 9.5%. The relatively good conditions of the labour market, supported by low levels of inflation, are generating some positive effects on private consumption.

Occupier focus

Retailer demand is still growing in the main high street markets of primary and tourist cities, while remaining stable or even slowing down in secondary locations. This is true for both, luxury and mass market brands. Facing the shift towards omni-channel, tenants are seeking premium locations with high visibility. Tenants are looking for small or medium sized units, while bigger units are suffering longer vacancies. In September, Uniqlo opened its first store in Italy (1,500 sqm on 3 floors) located in Milan's city centre - just few steps away from Starbucks Reserve Roastery.

In the out-of-town market, both new developments and refurbishments of shopping centres keep showing a strong focus on F&B and leisure activities, seen as a key driver to attract customers. The trend towards reduction of large units is still on-going, especially for hypermarkets and it could have a boost thanks to recent acquisitions in the sector.

Investment focus

Retail volumes in Q3 were strong, making one of the best quarters in the recent years. Out-of-town schemes accounted for the greatest part of the volumes, with a significant role played by Outlet Centres. While in the out-of-town market was characterised mainly by international and institutional investors, in the high street private investments were predominant.

Outlook

Demand for prime high street investment opportunities is expected to remain high. In the out-of-town sector, the gap between prime and secondary products has widened. The time frame needed to match supply and demand has been generally extended. This is particularly true for secondary products, that are monitored by value-add and opportunistic investors. However, vendors are still not willing to accept a repricing.

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