

YoY Chg 12-Mo. Forecast

€13,700

Milan Prime Rent /sqm/yr



€12,500

Rome Prime Rent /sqm/yr



€900

Out of Town Prime Rent /sqm/yr



ITALIAN ECONOMIC INDICATORS Q3 2020

YoY Chg 12-Mo. Forecast

-8.8%

GDP



9.7%

Unemployment Rate



-0.5%

Consumer Price Index



-15.1%

Retail Business Confidence



-8.3%

Consumer Confidence



Sources: C&W elaborations based on ISTAT and Oxford Economics.

Note: Data refers to Q3 2020 variations with respect to the previous year, except for the unemployment rate.

ECONOMY OVERVIEW

As the second wave of Covid-19 contagions hits Europe, the recovery phase that began in early Q3 appears to be slowing down - even if the situation is less worrying than in other European countries. Overall, GDP is expected to contract by 9.8% in 2020. However, being one of the worst-hit economies in the eurozone, Italy will benefit from the Recovery Fund, that may provide additional resources and support. The labor market seems to be performing better than expected, but estimates may be 3-5% lower than real figures due to furloughs and underemployment. Meanwhile, the country stayed in deflation in the quarter as energy prices fell further. Forecasts see consumer prices converge towards zero over the next few months. While private consumption will fall this year, due to the higher risk aversion and saving propensity, consumer and business confidence are improving with respect to the previous quarters. Moreover, Italy's industrial production grew by more than expected, nearly reaching last year's level and outperforming other major eurozone economies. As the whole economy relies on the containment of the virus outbreak, the next months will be crucial in determining the national and global evolution.

OCCUPIERS & INVESTMENT FOCUS

Following the rebound experienced by the national economy, traditional retail appears to have regained relevance. Even if pre-crisis levels haven't been reached yet, turnover and footfall figures have improved since the beginning of the pandemic. However, the threat of new restrictions makes the outlook uncertain.

High Street continues to suffer from the lack of tourist flows in some cities – such as Venice and Florence – and the widespread remote working policies. As a result, several streets have recorded decreases in rents, except for prime locations in which they remained stable. Out-of-Town schemes have improved their figures in the quarter: turnovers increased in August and September (YoY), and footfall moved closer to 2019 volumes. Fashion, home furnishing and electronics have been the best performers among product categories.

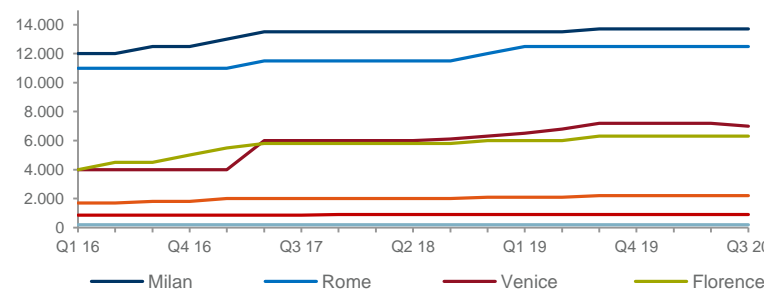
The Food & Beverage industry is the most impacted from the current situation, nevertheless figures have gradually improved since Q2. But as strong limitations were still in place, attendance rates remained low. This trend is also due to the lack of entertainment activities and the changes in behavior, as consumers are not willing to spend considerable amounts of time in closed spaces. Alternative solutions – take away and deliveries – appear to be more successful.

Investments are very selective on an asset by asset situation. A number of deals negotiated in previous quarters are still on hold and waiting for the situation to improve and become clearer.

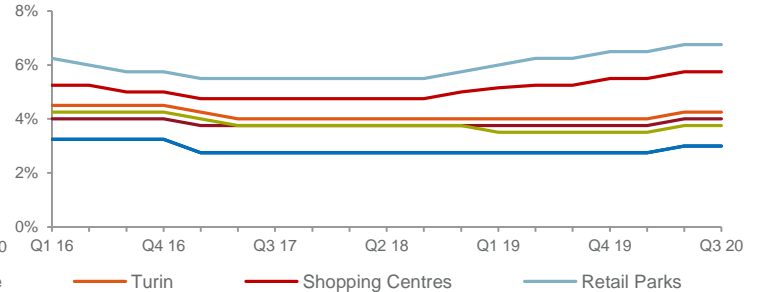
OUTLOOK

Rent stability is strongly tied to the current situation and relies upon its evolution. The threat of a second wave of infections is closer, making the prospect worse. Uncertainty pervades the industry – together with the whole economy. However, relatively low interest rates could attract in investors interested in opportunistic investments, but the general approach is to remain cautious.

PRIME RENTS



PRIME YIELDS



MARKET STATISTICS (*)

SUBMARKET	PRIME RENT	1 YEAR GROWTH	5 YEARS CAGR	PRIME YIELD (NET*)	10 YEARS HIGH	10 YEARS LOW
Milan	€ 13,700	0.0%	1.9%	3.00%	4.75%	2.75%
Rome	€ 12,500	0.0%	2.6%	3.00%	4.75%	2.75%
Venice	€ 7,000	-2.7%	11.8%	4.00%	5.25%	3.75%
Florence	€ 6,300	0.0%	6.7%	3.75%	5.25%	3.50%
Turin	€ 2,200	0.0%	4.1%	4.25%	5.50%	4.00%

KEY LEASE TRANSACTIONS

PROPERTY	SUBMARKET	TENANT
Via Condotti 61/A	Rome	Burberry
Via Borgognona 32	Rome	Zimmerman
Via del Gesù 17	Milan	Cartier
Via Torino 22	Milan	Sephora
Galleria Vittorio Emanuele	Milan	Fendi
Galleria Vittorio Emanuele	Milan	Dior

KEY SALES TRANSACTIONS

PROPERTY	SUBMARKET	PROPERTY TYPE	SELLER	BUYER
ESSELUNGA Portfolio	Various	Portfolio - Hypermarket	Esselunga	Unicredit
Le Due Torri – La Corte Lombarda	Various	Portfolio – Shopping Centre	Altearea Cogedim	Credit Agricole
Retail Portion: Via Orefici 13	Milan	Single Asset – High Street	Hines	DEKA
Leroy Merlin – Bricoman	Various	Portfolio – Big Box	Gruppo Adeo	Blue Sgr (JV Batipart, Covéa)
Retail Portion: Via Dante 16	Milan	Single Asset – High Street	Hines	Amundi Sgr RE
Archimede Shopping Centre	Siracusa	Single Asset – Shopping Centre	CDS Holding	Serenissima Sgr
DOCKS Cash & Carry	Piemonte	Portfolio – Supermarket	BNP Paribas REIM Italy SGR	Kryalos
SC Primavera	Rome	Single Asset – Shopping Centre	Kryalos Sgr OBO Partners Group	PAC 2000
Tory Burch Via del Babuino 36-37	Rome	Single Asset – High Street	Private	Tander Inversiones Premier Alliance

KEY CONSTRUCTION COMPLETIONS

PROPERTY	SUBMARKET	OWNER / DEVELOPER
Santa Caterina RP	Bari	Bari Immobiliare Srl
Parco 51 RP	Rome	Gruppo Ziaco
Le Cinque Porte RP	Salerno	Gruppo Moccia

KEY PIPELINES 2020-22

PROPERTY	SUBMARKET	OWNER / DEVELOPER
Maximo	Rome	Parsec 6
MaxiMall	Naples	IrgenRE
Cascina Merlata	Milan	Ceetrus

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Notes:

Renewals not included in leasing statistics

*Yields are calculated on a net basis as 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.

Yields may be based either on estimations or market sentiment, depending on the number of transactions occurred in the selected submarkets.

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