

MARKET INDICATORS

Market Outlook

Prime Rents:	Slight upward adjustments in top high street locations	▶
Prime Yields:	Yields expected to consolidate at the lowest levels	▶
Supply:	High street availability remains limited. Out of town development activity continuing, although completions have slowed	◀
Demand:	Retailer interest remains sustained, though somewhat cautious. Investors looking for best opportunities on high streets and among out-of-town schemes.	▶

Prime Retail Rents – June 2018

	€		US\$		GROWTH %	
	SQ.M	SQ.FT	1YR	5YR	5YR	CAGR
HIGH STREET SHOPS						
Milan	13,500	1468	0.0	12.5		
Rome	11,500	1251	0.0	10.4		
Venice	6,000	653	0.0	n/a		
Florence	5,800	631	0.0	n/a		
Turin	2,000	218	0.0	3.3		
OUT OF TOWN RETAIL						
RETAIL PARKS						
Country prime	180	19.6	0.0	-3.9		
SHOPPING CENTRES						
Country prime	900	97.9	5.9	1.1		

Prime Retail Yields – June 2018

	CURRENT	LAST		10 YEAR		
		Q	Q	Y	HIGH	LOW
HIGH STREET SHOPS (FIGURES ARE NET, %)						
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, %)						
Country prime	5.50	5.50	5.50	7.75	5.50	
SHOPPING CENTRES (FIGURES ARE NET, %)						
Country prime	4.75	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 recovery of Italy's economy is ongoing, but fragmented. Although consumers expectations for the general economic context are tainted by uncertainty, consumer confidence has increased, with more positive prospects for household economies, boosted by an improvement in the occupation levels. Unemployment in May was estimated at 10.7% and the volume of retail trade registered a slight increase compared to the previous month (0.9%), though compared to last year, figures are slightly lower (-0.2%). Leading indicators suggest that the pace of future growth will be contained.

Occupier focus

Prime rents on the main high streets continue to remain mainly stable, with interest still focused on Milan, Rome, Florence and Venice. The slight decrease in sales and the uncertainty tied to the evolution of e-commerce and the political situation however, have all contributed to dampening the enthusiasm expressed by the expectations laid out in 2017. This slight deceleration is, at any rate, in line with the general European context. After the pick-up in shopping center development registered over the past two years, during H1 2018 completions have also slowed down, reflecting the transitional phase the market is going through, with tenants and owners rethinking strategies to keep up with the evolution of modern retailing. Among the main openings in Q2 2018 it is worth mentioning the 17,000 sqm Aura shopping center in Rome, part of a larger urban redevelopment project close to the Vatican City, and the renovation and expansion of the Serravalle Retail Park, now reaching about 40,000 sqm of total GLA.

Investment focus

The retail sector continues to be targeted by investors, representing about 35% of the total amount invested in the Italian real estate market during the first semester, with about 60% of the volume deriving from the acquisition of out-of-town centers, followed by high street properties with 30%.

Outlook

The high streets of Milan, Rome, Venice and Florence confirm their attractiveness, supported by the dynamic leasing market linked to significant tourist flows. The out-of-town market will continue to be characterized by a widening gap between prime and secondary schemes.