Q1 2021

Retail snapshot

General Outlook

GDP growth recovery continues to face a high degree of uncertainty: US and UK forecasts are accelerating while European one slowed down again. Inflation is coming back sustained by energy costs and government stimulus programmes, but we should plan for a temporary rebound between 2% and 3%, not for the emergence of a sustained period of above-normal price growth.

In Italy, strict lockdown measures were put in place over Easter to prevent a fresh surge in cases; an increase in vaccinations is essential in order to enable safe reopening. In March, the government led by Mario Draghi finalised an additional emergency €32 bn spending package, increasing support for businesses and extending the redundancy ban and furlough schemes. The Government has approved and transmitted to Parliament DEF 2021. The annual GDP growth estimates have been revised downwards for 2021, forecasting a growth of 4.5% due to the worsening of the epidemic and, consequently, the restrictive measures adopted to contain it. The deficit will reach 11.8% in 2021 while public debt will rise to 159.8% in 2021. Government will ask Parliament to authorise a further budget variance of €40 bn for a new measure that will be promulgated by the end of April.

By the end of April, the government will have to submit the plan for the Recovery Fund to the European Commission. The Italian PNRR – Piano Nazionale di Ripresa e Resilienza (i.e., National Recovery and Resilience Plan) plans the allocation of €221.5 bn related to 6 different Missions: digitisation, innovation, competitiveness and culture; green revolution and ecological transition; infrastructure for sustainable mobility; education and research; inclusion and social; health. Among these, more than €120 bn will be allocated to activities directly related to the real estate sector: energy upgrading and renovation of buildings; high speed railways and safe roads; renewable energy, hydrogen and local sustainable mobility; enhancement of skills and right to study; social infrastructures, families, communities and third sector; tourism and culture; special intervention for territorial cohesion; intermodality and integrated logistics and supply chain.

In Italy, Q1 2021 recorded 36 investment deals for a total of around €1.3 bn, lower by 18% YoY. The slowdown was mainly ascribable to a decrease in deal size (€36 mln vs €51 mln in Q1 2020) as the quarter registered more transactions than Q1 2020. The downtrend was attributable to the retail sector as all the other segments showed a positive variation; despite this, mixed-use asset combining office and high street, saw a great appetite. Logistics, residential, alternatives and healthcare are gaining a growing share of the market. International investors supported the investment's volume confirming the attractiveness of the Italian market.

The retail sector suffered in 2020 as a result of enforced store closures and lockdown measures in major European countries. However, over the festive period, essential retailers such as supermarkets, have reported positive trading results as shoppers spent extra money on groceries that they would usually have spent in pubs and restaurants.

In Italy, there was a 5% decrease of retail sales in 2020, but these are expected to recover in 2021 and to go back to pre-Covid level in 2022. Nevertheless, Italian shopping center sales decreased by 44% in January 2021 compared to the same period of the previous year: the food service was the most affected segment (-67%), followed by clothing (-52%) and services (-40%; source: CNCC). The extension of lockdown restrictions brought also to a compression of footfall, which decreased by 40% in the period March 2020-February 2021 compared to the 12 previous months.

However, the Covid-19 vaccine is expected to reach a tipping point in H2 2021, which is likely to result in a cautious recovery in leasing market and a further pick-up in 2022.

In the first quarter of 2021 the Italian shopping center development activity recorded two extensions of existing centers located in Piemonte and Toscana regions for a total of around 6,000 sqm. Besides, there are several projects in the pipeline for the coming years: by the end of 2023 around 600,000 sqm are expected to be completed, the 36% of it is already under construction and the 75% is in the North of the Country. In this context, shopping center, retail warehouse and high street prime rents remained stable in Q1 2021 compared to the previous quarter, but incentives for the latter are increasing.

The retail investment market recorded a 47% YoY volumes decrease in EMEA in Q1 2021, as the sector showed a continue mismatch in pricing expectations between sellers and buyers constraining transactional activities. The first quarter of 2021 did not show signal of recovery in the Italian scenario too, where 6 deals were recorded for a total of around € 70 mln, a figure 90% below Q1 2020. The high street sector saw the closure of 3 deals in the core markets of Milan and Rome while the Out-of-town segment recorded three deals for a total of €50 mln: two of them are related to assets which will be partially converted for new purposes.

Prime net yields compressed for all the segments during the last 12 months, even if in the last quarter they did not change on the previous three months. The variations are mostly based on a sentiment view which reflects a shortage of market liquidity and does not refer to effective transactions recorded at the above values.

Retailer market

Prime Rents in €/sqm/pa

	High street	Shopping centres	Retail parks
Milan	**3,960**	**810**	**193**
Rome	**3,520**	**840**	**202**

(net key money)

Rental growth Q1 2021 | Q1 2020

High street	Shopping centres	Retail parks
▼ **12%**	▼ **10%**	▼ **8%**

Out of town pipeline projects

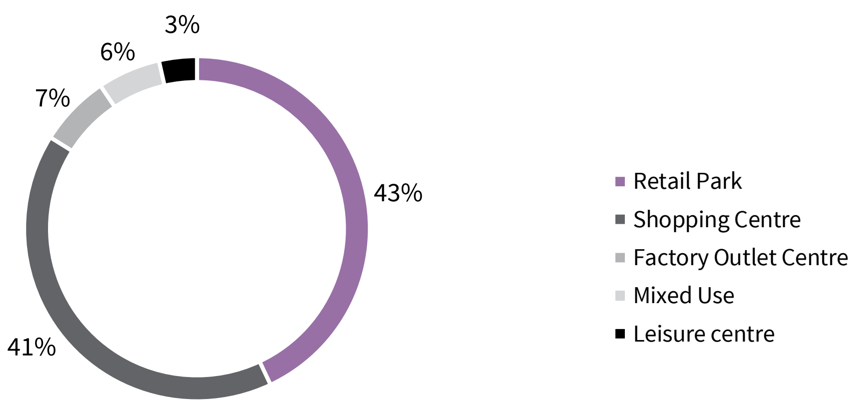
New projects and planned expansions by 2025

24
of which:

16 Projects in North West

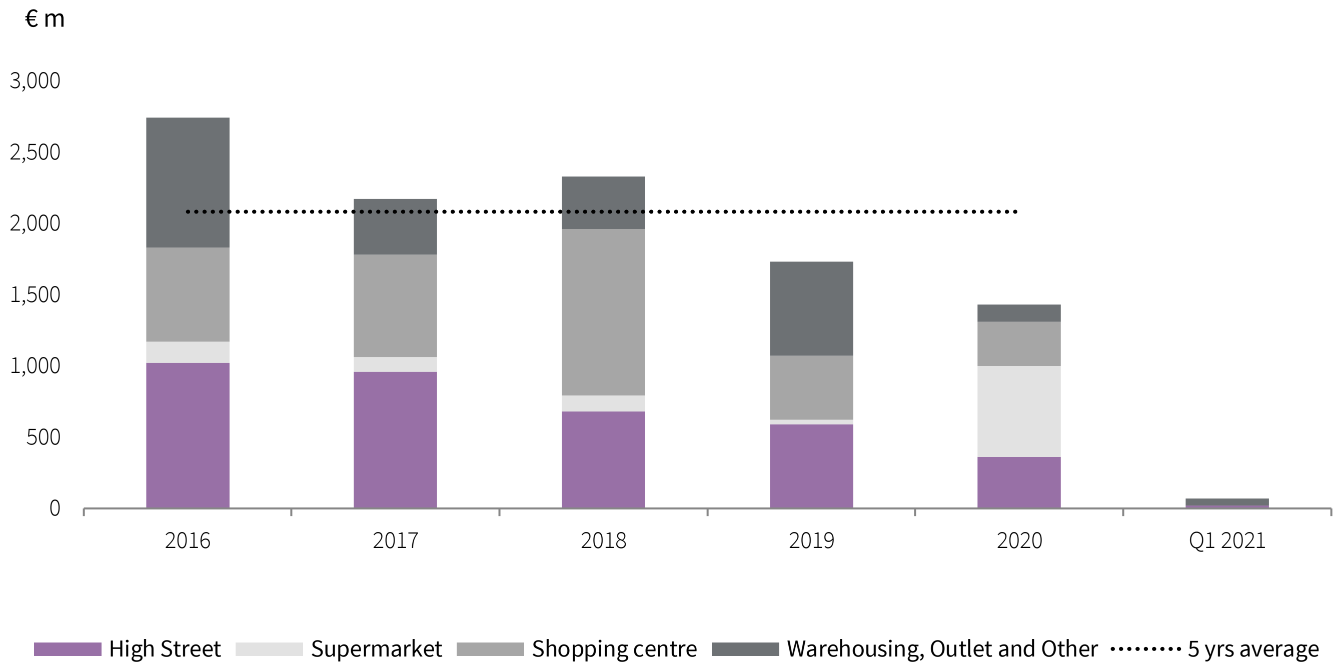
4 Projects above 60,000 sqm

Pipeline by type (2021-2022)



Investment market

Investment volume



High street

Investment volume: €20 m

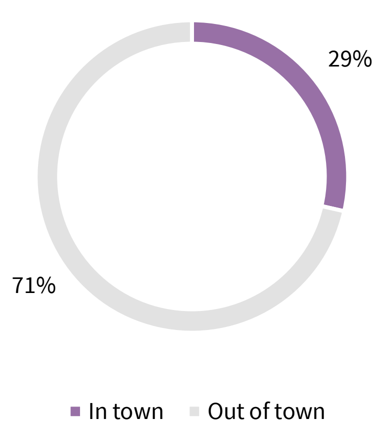
- N° of deals: 3
- 3 single deals
- 2 deals in Milan and 1 in Rome
- 2 value add operations

Out of town

Investment volume: €50 m

- N° of deals: 3
- 3 single deals
- 2 deals > €20 m
- 2 operations in Venezia

Q1 2021 Investment volumes by type



	High street Milan	High street Rome	Shopping centre Milan	Shopping centre Rome	Retail parks
Prime Yields Q1 2021	3.60%	3.75%	5.80%	5.80%	6.70%
Change basis points Y-o-Y	+30bps	+35 bps	+50 bp	+50 bp	+20 bps

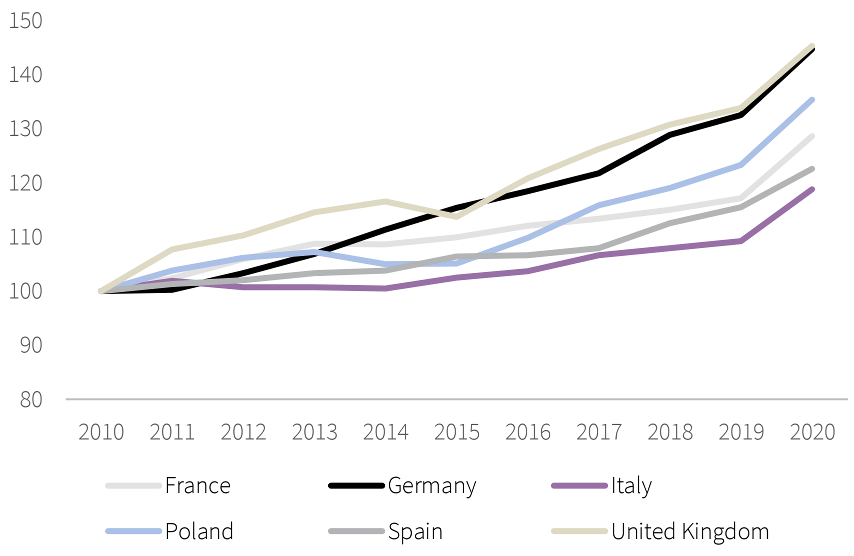
The European Grocery Real Estate Market

A secure and defensive sector in the retail scenario

Consumer market

The COVID-19 pandemic has been a major challenge for European grocery operators. Consumer stockpiling and elevated levels of homeworking have boosted demand throughout the year. While GDP for the EU (27 countries) fell by 6.7% year-on-year in 2020, food sales across the region were up by 3.2% on 2019 levels. The pandemic outbreak has spurred growth in online grocery sales. According to Kantar, the COVID-19 outbreak has resulted in a 30% growth in online grocery sales globally, but the increase in online grocery retail sales is expected to soften once the pandemic subsides. Grocery e-commerce today remains challenging; however, grocery retailers continue to invest in their omnichannel capabilities. With drive times being a major cost component to fulfil online orders via home delivery, various grocery operators are expected to introduce click-and-collect services and explore utilising excess grocery space in larger stores for micro-fulfilment purposes. While online is a difficult business model for discount operators, some have started to run trials with click-and-collect services due to the short-term impact of the COVID-19 pandemic on shopping behaviour and the longer-term structural change in the grocery market.

Food sales index (2010=100)



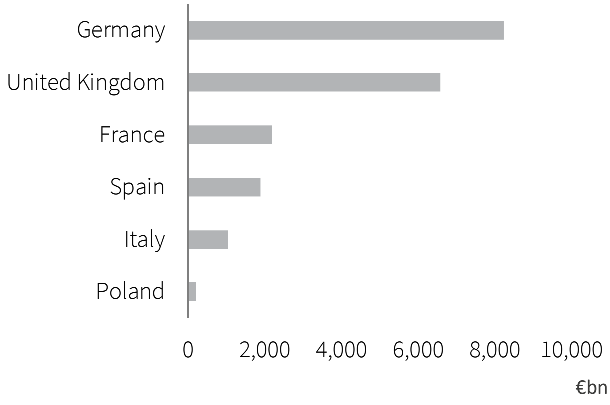
The online grocery business remains challenging. The role of the physical grocery store remains irreplaceable: future profitable growth of grocery e-commerce is largely tied to well-located bricks and mortar locations facilitating last mile fulfilment from stores.

Source: Oxford Economics, April 2021

Real estate investment market

The European grocery real estate investment market is gaining momentum with growth in investment volumes and increased market share. Despite the pandemic, the asset class proved to have solid fundaments and a crisis resilient investment, serving the fundamental basic needs of consumers. A rising number of regional and local real estate investors are now targeting stand-alone grocery stores and grocery-anchored assets across Europe. A daily flow of footfall supporting sales, an irreplaceable role of highly accessible stores in the food distribution process and diversification opportunities are among the defensive qualities now attracting more institutional capital. Typical grocery-anchored real estate may include shopping centres and retail parks, as well as residential units and office real estate, whereby a food store would contribute to a better secured income stream and, in some cases, be part of a larger investment proposition. With respect to supermarket portfolios and stand-alone food stores as an investment product, the European grocery real estate investment market has traded €4.5 billion in assets on average each year between 2014 and 2020, representing 10% of the capital flows into European retail real estate. European grocery real estate attracted 22% of capital flows targeting retail in 2020, up from 6% in 2016. In this scenario, the Italian market recorded 23 supermarkets deals in the last 10 years but now is witnessing a scarcity of portfolio opportunities. The prime yield outlook is stable for most markets but is likely to compress in the most sought-after areas.

Supermarket Real Estate investment volumes, 2015-2020



For more info download the "The European Grocery Real Estate Market" JLL report
https://realestate.union-investment.com/en/in-the-spotlight/european-grocery-study.html

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