

AT A GLANCE 2023

ITALY RETAIL

RETAIL INVESTMENT VOLUME TOTALS 690 €M IN 2023

OVERVIEW

RETAIL MARKETPLACE CONTINUES TO ADAPT TO A CHANGING LANDSCAPE

The year has seen real estate markets continue to evolve, in a process which begun pre-Covid.

Alongside the challenges faced by the sector, as e-commerce continues to fuel consumers' search for more flexible approaches to shopping, technology is creating new and evolving opportunities. An omnichannel approach maximises synergies between physical and

digital, and artificial intelligence helps merge online and in-store retailing seamlessly.

However retailers continue to rethink their store portfolios renewing physical space, whilst also funding investment in digital. Implementing technology such as Artificial intelligence and Augmented or Virtual Reality (AR and VR) further transforms the shopping experience and can

provide an outstanding in-store experience.

Consumers also more aware of ESG-related issues and, keen to 'do the right thing', are causing a shift towards local and experiential consumption. Retailers are thus encouraged to pursue environmental, social and governance (ESG) goals.

KEY INDICATORS 2023

ITALY INVESTMENT VOLUME
2023

6.1 BN€

-49%
vs. 2022

ITALY INVESTMENT VOLUME
AVG. 2014-2023

9,060 M€

PRIME NET
HIGH STREET YIELD

4.10%

+30 bps
vs. 2022

RETAIL
INVESTMENT VOLUME

690 M€

2023

+0.7%

Real GDP GROWTH
(2023)

(Oxford Economics)

23.7

TOTAL EMPLOYMENT
(mn persons, Nov. 23)

(ISTAT)

0.6%

ANNUAL INFLATION RATE
Y-o-Y (Dec. 23)

(ISTAT)

Value **+0.2%** | Volume **+0.1%**

RETAIL SALES GROWTH
Y-o-Y (Nov. 23)

(ISTAT)

MACRO-ECONOMIC SCENARIO

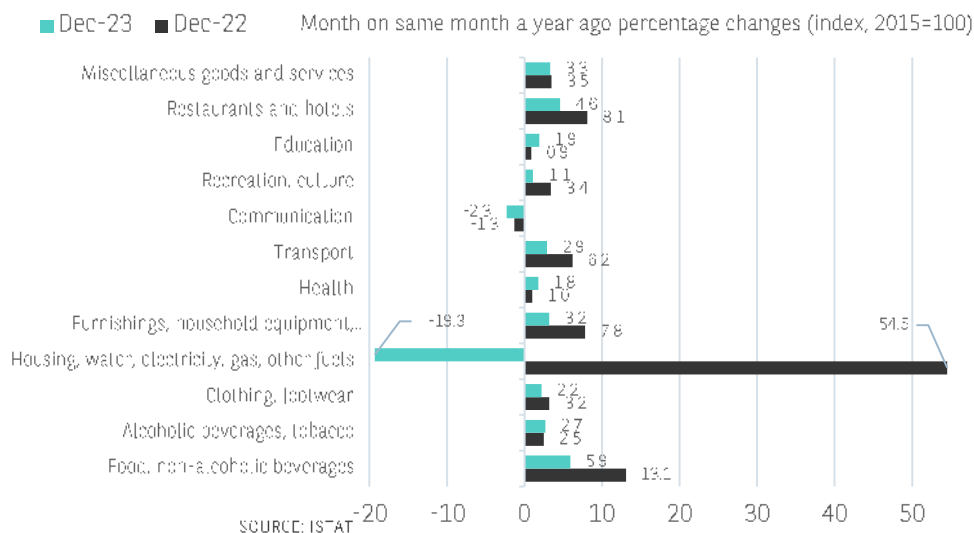
CONSUMER PRICE INDICES BY SECTOR

CONSUMER PRICES

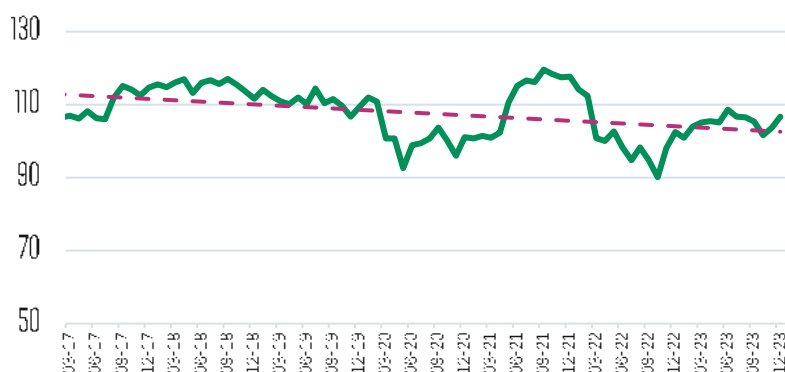
Socio-economic conditions have a significant impact on brands and on their turnover.

In 2023 Italy's consumer price index grew by +5.6% on an annual basis. In the final month of 2023, Italy's core inflation was up by +3.08% over the same month of the previous year, after peaking at 6.29% in February 2023.

The cost of Food had increased 5.9% by the end of 2023 compared to the same month the previous year. Services inflation fell to 3.3% in Dec 2023 after peaking at 4.8% in April.



CONSUMER CONFIDENCE



CONSUMER CONFIDENCE

Consumer confidence has been growing over recent months, after experiencing a sharp contraction which run through to the final quarter of 2022.

Sentiment is now improving both for the current climate and in terms of future expectations. However, ongoing concerns regarding borrowing costs as well as economic considerations are expected to continue limiting improvements in consumer confidence.



MACRO-ECONOMIC INDICATORS PROVIDE PARTIAL COMFORT

At the end of a year featuring global conflict following on from the impact of the pandemic previously, 2023 was a key year for the Retail sector.

Annual inflation, which had stood at just under 10% at the start of the year, fell continuously to reach just 0.59% by year end. Core consumer prices in Italy increased 3.08% in December 2023 Y-o-Y.

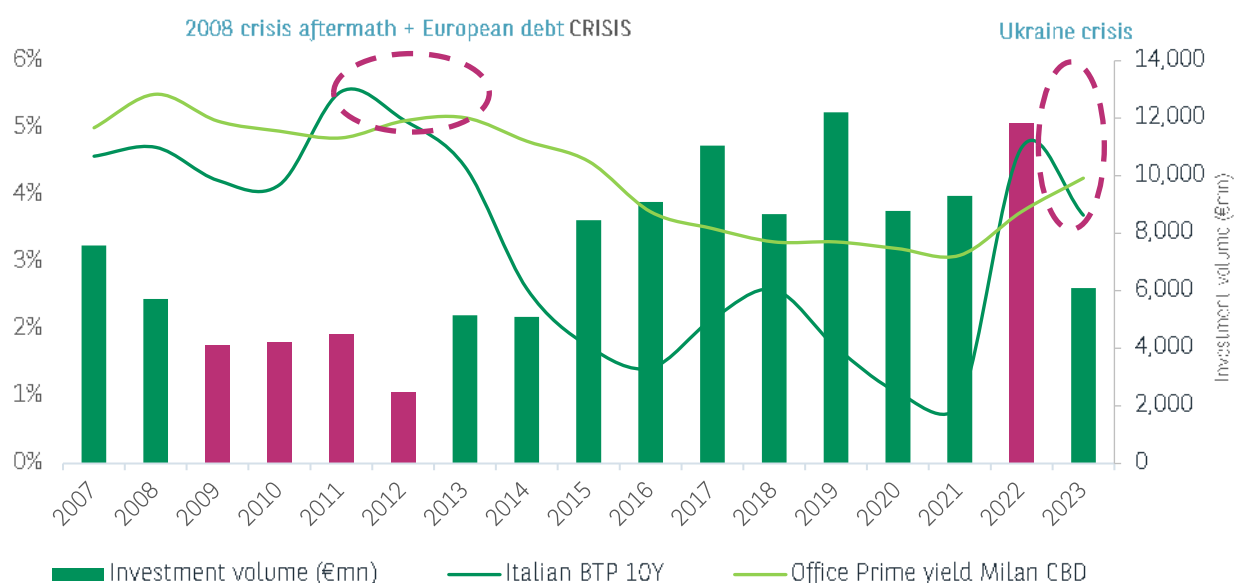
GDP is expected to have grown by 0.7% in 2023 and 2024, increasing to 1.2% in 2025.

The 10Y Italian Government Bond yield stood at 3.7% at end 2023, after contracting from 4.9% at the start of the year.

Prime yield decompression in Italy resulting from interest rate growth has been ongoing across asset classes and the Retail sector has been no exception, although movement is differentiated by segment. In this uncertain context, throughout 2023 repricing has been accompanied by a sharp declines in investment activity across the board.



10Y GOVERNMENT BOND > PRIME YIELD CBD, A WARNING SIGNAL FOR ASSET PRICING LEVELS



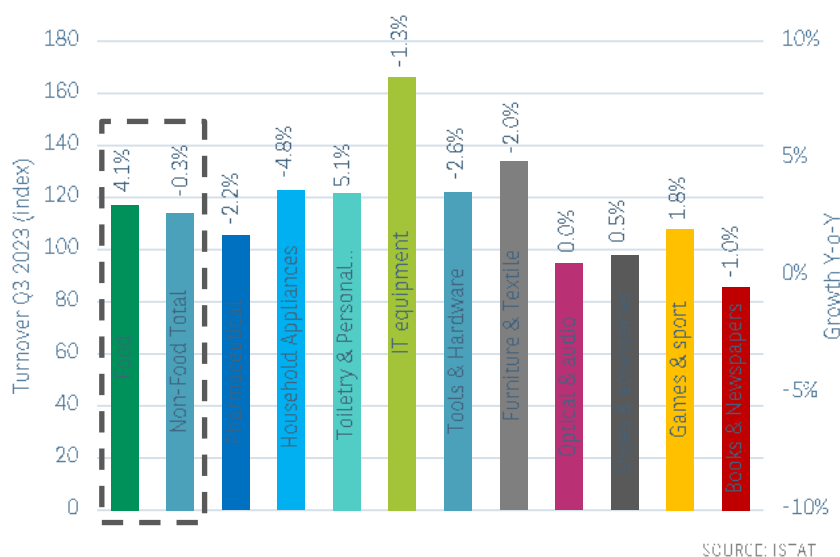
SOURCE: BNP PARIBAS, TRADING ECONOMICS

RETAIL SPENDING

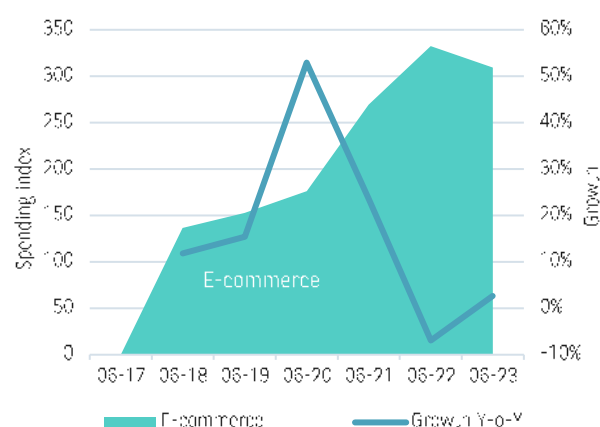
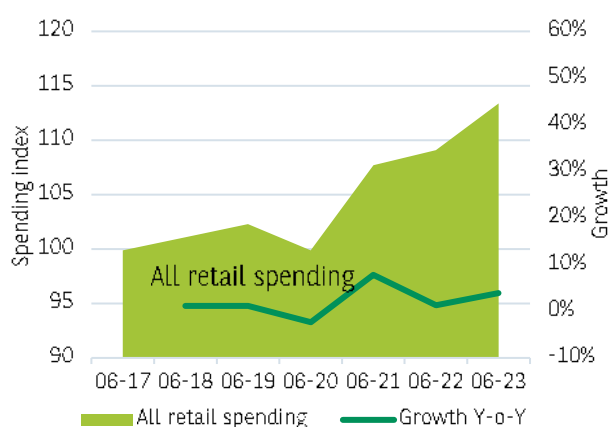
At the end of 2023 retail trade had contracted (-0.3% Y-o-Y) for Non-Food categories overall, but grew 4.1% Y-o-Y for Food spending suggesting a focus on necessity retail.

When compared with the same month a year earlier, large-scale distribution had increased by 3.4%. E-commerce saw some limited Y-o-Y growth (+0.6%). In contrast, both small & medium-scale retail and non-store retail contracted slightly (-0.3% and -0.9% respectively).

RETAIL TRADE



ONLINE RETAIL SPENDING



SOURCE: CNCC



RETAIL
SPENDING

+3.9%

June 23 VS. June 2022

RETAIL INVESTMENTS

RETAIL INVESTMENT VOLUMES SHOW A -23% FALL IN 2023

Total annual investment reached ca 690 €M nationwide representing a contraction both Y-o-Y and compared to the 10-year average. In 2023 Logistics assets held first place accounting for over a quarter of the total investment volume (26%), followed by Office and Alternatives (23% and 22% respectively).

The Retail capital markets sector also experienced repricing throughout 2023. Prime yield decompression was least significant in the High Street segment, given the more limited volumes achieved. However, retail investment

volumes had already been contracting since 2018. Volumes were therefore very limited in 2023 and accounted for 11% of the annual total, despite retail investment in Q4 2023 achieving the highest quarterly total for either of the previous two years.

2023 saw investment in a range of retail types, with a focus on Retail Box assets followed by Shopping Centres. Investor interest also includes secondary assets or locations. As well as yield considerations, limited availability of prime product can shift attention to such assets.

Activity in the Retail capital market in 2023 has been divided between a range of asset types. This has followed on from a prolonged period featuring limited activity, leading to subdued annual Retail investment levels.

INVESTMENT IN RETAIL REAL ESTATE 2023

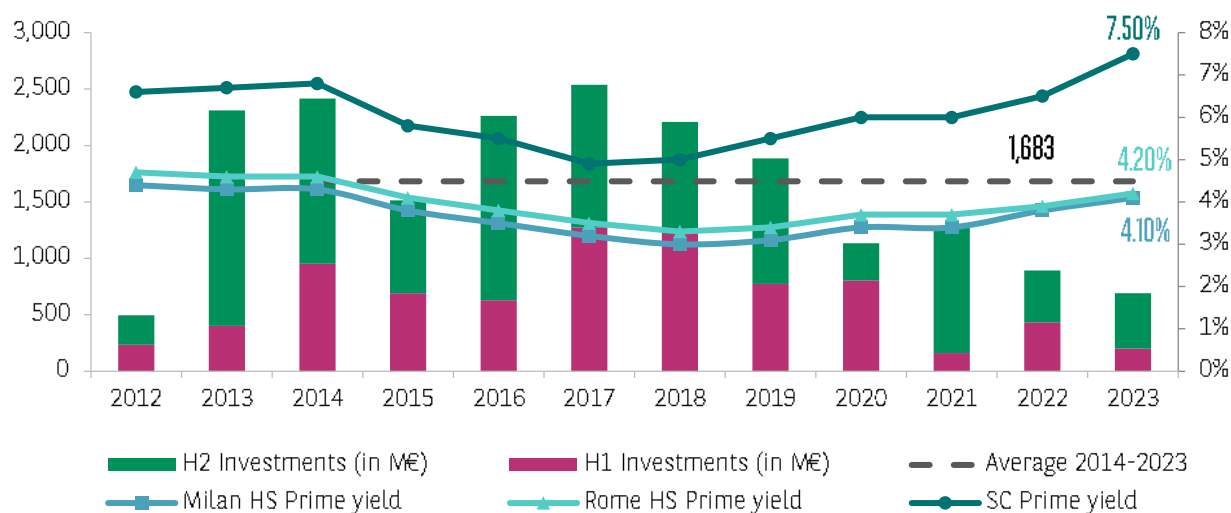
2023
690 M€
-23%
vs. 2022

AVG. 2014-2023
1,680 M€

Milan
150 M€
-32%
vs. 2022

Rome
30 M€
-45%
vs. 2022

RETAIL INVESTMENTS AND PRIME YIELDS



SOURCE: BNP PARIBAS

NECESSITY RETAIL AND LUXURY RETAIL BOTH THE FOCUS OF INVESTOR INTEREST

Today's patterns of consumption focus on the shopping experience on one hand and on cost savings on the other. Thus, in the light of current economic concerns, interest in necessity retail is particularly strong.

Investor interest involved quality assets and locations, which demonstrate a higher degree of resistance to socio-economic change.

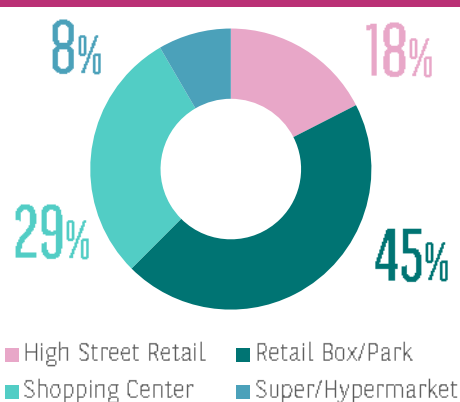
At the other end of the scale, demand is also strong in the Luxury retail segment, less affected by economic difficulties.

Investor interest is however contrasted by the low supply of suitable opportunities, particularly for luxury retail destinations, which are limited by the restricted number of streets involved.

ONGOING YIELD DECOMPRESSION

Yield decompression has been a feature of all real estate capital markets. Over 2023 Milan and Rome High Street prime retail yields edged up to reach 4.10% and 4.20% respectively at year end. Yields remained stable at 7.50% for prime Italian Shopping Centres.

2023 RETAIL INVESTMENTS BY PRODUCT



PRIME YIELDS 2023

DECOMPRESSION VS. 2022

4.10%
Milan High Street

4.20%
Rome High Street

7.50%
Shopping Centres

KEY RETAIL DEALS IN 2023

ASSET	LOCATION	TYPE	VOLUME (M€)
Portfolio Decathlon	Mixed	Retail Box	88
Portfolio OBI	Mixed	Retail Box	70
Portfolio of five warehouses	Mixed	Retail Park	70

All in all, liquidity and repricing depend significantly on location and asset quality (turnover, vacancy and footfall).



HIGH STREET RETAIL

HIGH STREET RENTS CONTINUE TO GROW

Although retailers were impacted negatively in 2023 by the current macroeconomic scenario, in particular inflation, interest continues to focus on Italy's best High Street locations.

The effects of inflation are most marked in the Mass Market, especially when combined with recent increase in operational costs. The food sector has been particularly impacted,

especially due to the higher fixed costs entailed in food retail.

The Luxury submarket is particularly resilient to the effects of cost increases. However interest is focused predominantly on a limited number of luxury retail streets in just a few cities, where tourist flows are strong and local purchasing power high – such as premium Milan and Rome

destinations.

Tenants have clear programmes and continue opening flagships, albeit negotiating leases more decisively. Where vacancy exists it tends to be evident mainly in secondary streets. Prime rental growth was seen across 2023, although a discrepancy between asking rents and tenant expectations remains.

ROME FOCUS

As the capital city and a major centre for tourism, Rome exerts a strong appeal for retailers, second only to Milan. The city's historic centre tends to house Luxury brands, with Mass-Market retail in the surrounding streets.

Although inflation had less of an impact on Rome's Luxury retail, in line with the broader national trend, older, centrally located buildings do present practical obstacles to upgrading to ESG criteria.

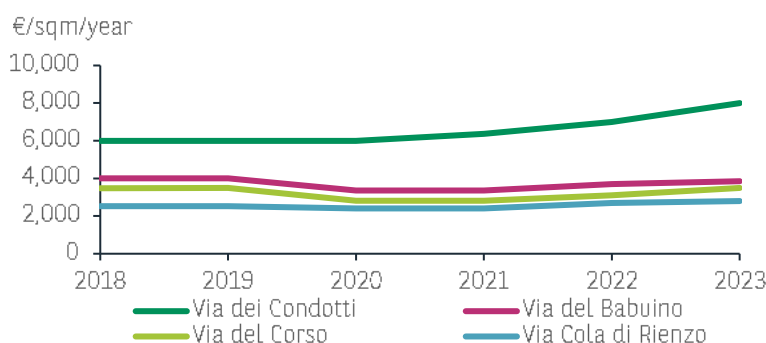
Thus, although demanding brand specifications can further restrain activity, demand for retail space remains strong, particularly within sustainable assets.

ROME HIGH STREET PRIME RENTS AND FOOTFALLS



Average rent for a small size shop excluding key money. Please note that rents could greatly vary for every single asset according to the position on the street, the sidewalk, cadastral use of the premises, size of the shop, layout features, number of levels and number of shop windows.

ROME HIGH STREET PRIME RENTS



SOURCE:BNP RE Market Research & Analysis



MILAN FOCUS

Milan's appeal as a shopping destination continues to benefit from strong tourist flows, which have been growing for almost a decade (subsequent to the 2015 EXPO exhibition).

The city is a major global shopping capital and is often a first port of call for brands coming to Italy. However the supply of potentially suitable, high quality and visible stores is limited. This places significant upward pressure on prime rents and can restrict take-up.

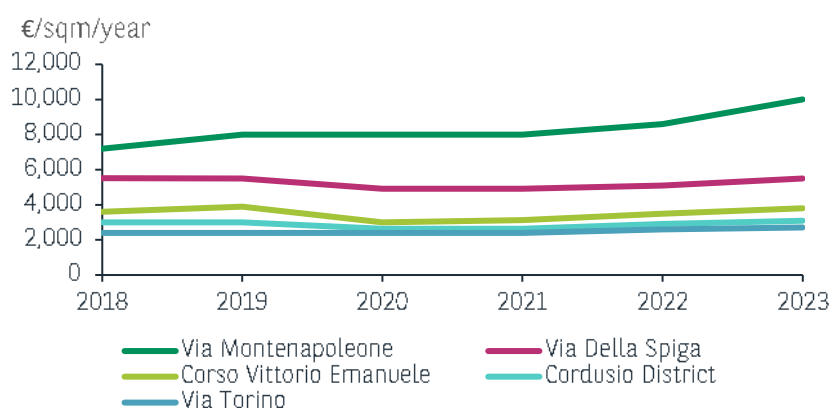
With international retailers still expressing interest in entering Milan, store openings (of fashion and innovative F&B formats in particular) are continuing to transform the city.

MILAN HIGH STREET PRIME RENTS AND FOOTFALLS



Average rent for a small size shop excluding key money. Please note that rents could greatly vary for every single asset according to the position on the street, the sidewalk, cadastral use of the premises, size of the shop, layout features, number of levels and number of shop windows.

MILAN HIGH STREET PRIME RENTS



SOURCE:BNP RE Market Research & Analysis

KEY HIGH STREET OCCUPIER TRANSACTIONS IN 2023

STREET	LOCATION	AREA (SQM)	BRAND
Corso Vittorio Emanuele II	Milan	960	On Running
The Medelan - Via Tommaso Grossi	Milan	1,650	Arket (H&M Group)
Via Alessandro Manzoni	Milan	740	Elisabetta Franchi

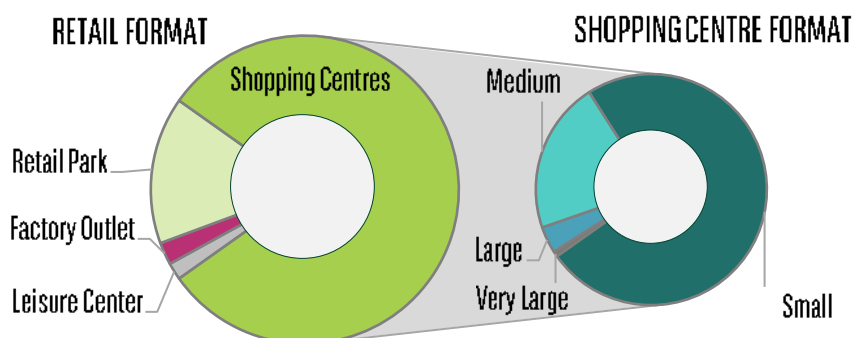


OUT OF TOWN RETAIL

EXISTING STOCK DOMINATED BY SHOPPING CENTRES

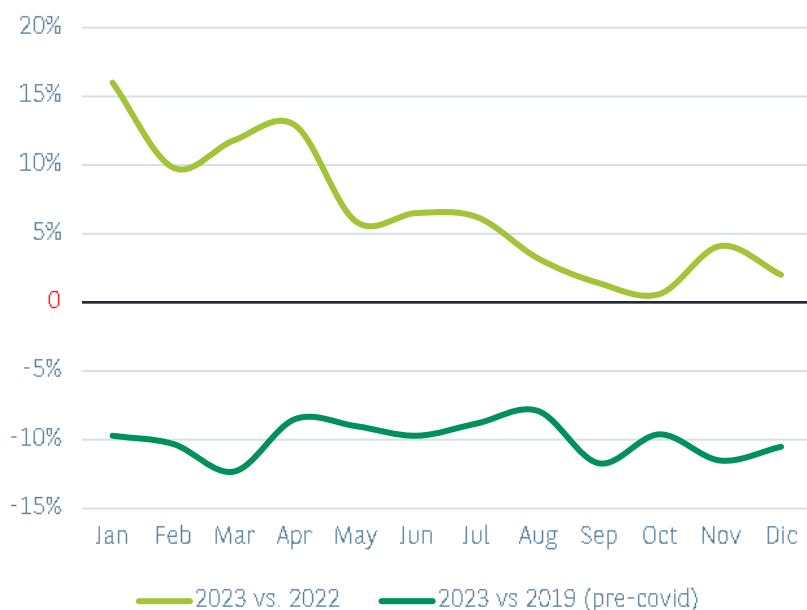
Retail parks of all sizes are a popular retail format, although shopping centres presently make up the majority of total stock. Attention is going to newly developed shopping centres and to the renovation of prime, existing malls, in order to meet the most updated of customer needs. Schemes may incorporate an integrated mix of complementary leisure and business uses.

OUT OF TOWN RETAIL STOCK



SOURCE: CNCC, 12/22

CONSUMER ATTENDANCE



SOURCE: CNCC

LIMITED IMPROVEMENTS IN SHOPPING CENTRE ATTENDANCE

Out of town Retail segments have been impacted in different ways by the evolution of the Retail sector, which has been underway for a number of years.

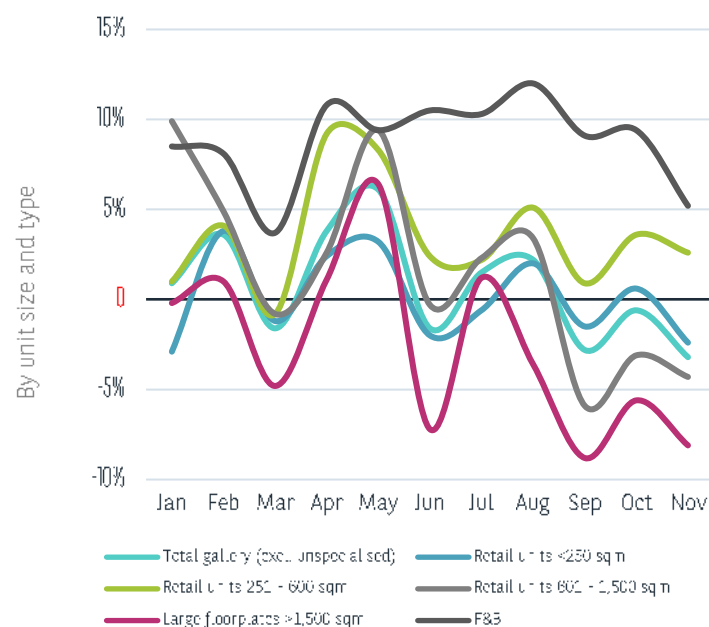
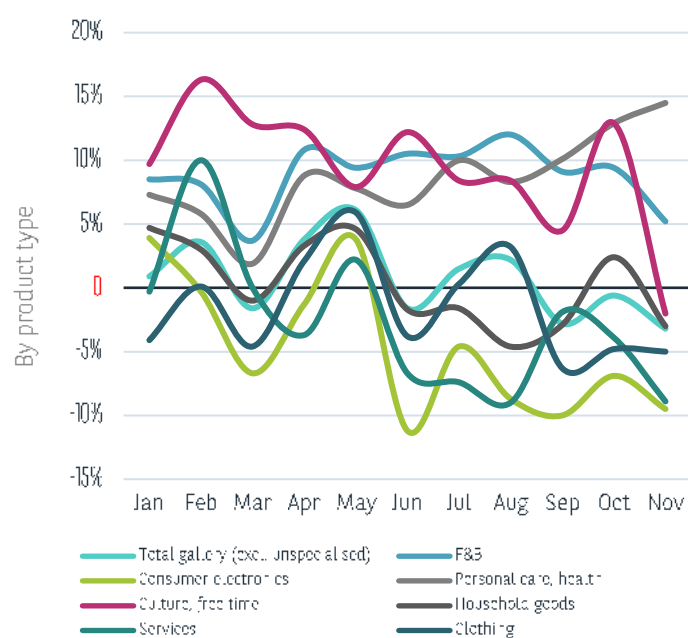
Shopping Centre turnout had increased by a relatively low +2.0% Y-o-Y in December 2023 and visitor levels still lagged behind the pre-pandemic situation in 2019 as the sector continues to evolve.

Retail Parks showed greater resilience in 2023 and remain an attractive alternative. Although all out of town retail was impacted by the negative impact of increases in energy costs on the propensity to travel, reductions in this area in the latter part of the year are viewed in a positive light.





SHOPPING CENTRE **TURNOVER**



KEY SHOPPING CENTRE PIPELINE 2023

CENTRE	LOCATION	AREA (SQM)	COMPLETION
Maximal Pompeii	Torre Annunziata (Naples)	50,000	H2 2024
Parma Promenade	Parma	43,885	Q4 2024
Centro Commerciale Messina	Messina	43,000	Fall 2025
Montalto Center	Montalto Uffugo (Caserta)	35,500	2025
Waltherpark	Bolzano	35,000	Q1 2025

SOURCE: CNCC

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