


Italy: Is a retail upturn possible?

By Mario Taccini & Raffaella Pinto

OVERVIEW

Given Italy's role as the nominated country of honour at MAPIC 2011 – the annual international retail property show – CBRE has created a special report on Italy to show international players that, behind the newspaper headlines and speculation of recent months, lies a two-fold economy and economical players: more sound households and a less reliable political system. The next couple of years will be difficult, but we must remember Albert Einstein's words: **"Let's not pretend that things will change if we keep doing the same things. A crisis can be a real blessing to any person, to any nation. For all crises bring progress."** With this report, CBRE aims to bring the insider aspects of Italy to the attention of international retailers. Despite a challenging economic outlook and an ageing population, a strong development pipeline, structural market characteristics and resilient consumer base are providing exciting opportunities for international retailers to expand.

KEY THEMES

- Italy is one of the most populated countries in Europe
- Italian households are sound and are among the wealthiest and the least in debt in Europe
- Italian households have a high level of consumption
- The Italian retail market is highly fragmented and the modern retail penetration rate is one of the lowest in Europe (48% versus an average of 65%)
- Barriers to entry prevent the risk of over-supply
- Market fundamentals are sound: rents and retail trade are stable, vacancy levels remain low
- The development pipeline is stable and sustainable
- In CBRE's How Active are Retailers in EMEA? survey, which examines expansion plans of leading retailers across the region, Italy took top spot. Almost half (47%) of the retailers surveyed are looking to expand there in 2012.

These factors lead us to believe that Italy should be a potential target destination for both retailers and investors.

ECONOMIC FUNDAMENTALS ARE WEAKENING...

Late July and early August 2011 saw extreme volatility in the financial markets. This has been reflected most obviously in the substantial movements in stock markets worldwide. Italy is struggling to be kept separate from the other PIIGS countries (Portugal, Ireland, Greece and Spain), while its extremely high debt level is increasingly worrying. Expectations for the future have definitely changed all over the world and economic growth expectations have been cut, standing largely below 1% for Italy over the next couple of years. According to latest official data from The National Institute for Statistics (Istat), Italy's GDP grew by 0.8% in Q2 2011 compared to Q2 2010, and by 0.3% compared to Q1 2011. Over the beginning of Q3, tensions over sovereign debt spread to Italy, increasing fears over the future stability of the country. The Italian GDP/debt ratio remains high, and the government swiftly passed a budget plan in July to balance the budget by 2014. Due to low confidence in the national economic climate and increasing inflationary pressures, the Consumer Confidence Index weakened again in September, standing at 98.5, down from 100.3 in August, continuing the declining trend since December 2010 when it had slightly improved to 109.1. In July 2011, the seasonally adjusted retail trade index according to Istat decreased by 0.1% over June, with food goods decreasing by 0.3% and non-food goods by 0.1%. The average of the last three months compared to the previous three months decreased by 0.4%.

...BUT THE REGIONAL GAP IS STILL WIDE

Despite the current economic situation, Italy remains as one of the largest countries in the world and the fifth most industrialised country, contributing to almost 4% of global manufacturing output.

Italy is characterised by different regional economic fundamentals, with the northern regions closer to European traits in terms of economics and wealth. According to Oxford Economics, the Italian GDP growth of 1.2% in 2010 was mostly affected by the better performances of the northern and central regions: 1.7% growth in the northwest, 2.1% in the northeast, and 1.2% in the centre, compared to a weaker south with growth of 0.2%. The Bank of Italy confirms that for the past 30 years, GDP per person has been 40% lower in the south as opposed to the north and centre.

The regional unemployment rate in Italy, equal to 8.6% in 2010, is below the European average. At a regional level, the northern regions have the lowest unemployment rate compared to the national average, below 6%, while the southern regions have a double digit rate at times. These high rates reflect an underdeveloped economy, lower level of industry, reliance on the black market and allegations of widespread corruption.

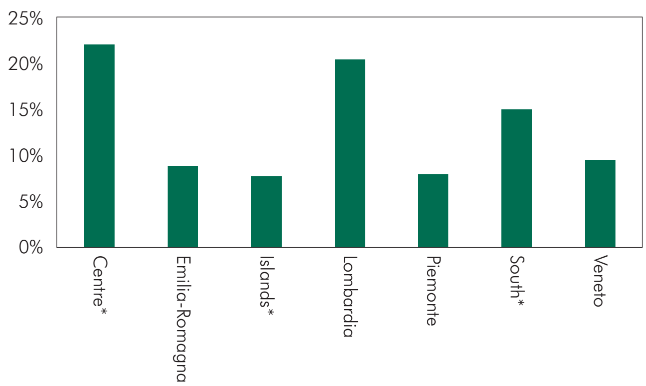
According to the GDP per capita figures as of 2010, the Italian average is lower than other major European economies: 10% below the eurozone, 18% below Germany, 16% below the UK, 11% below France and almost in line with Spain.

Large population

Italy has one of the largest populations (60 million inhabitants in 2010) in Europe and ranks 23rd in the world, according to the US Census Bureau.

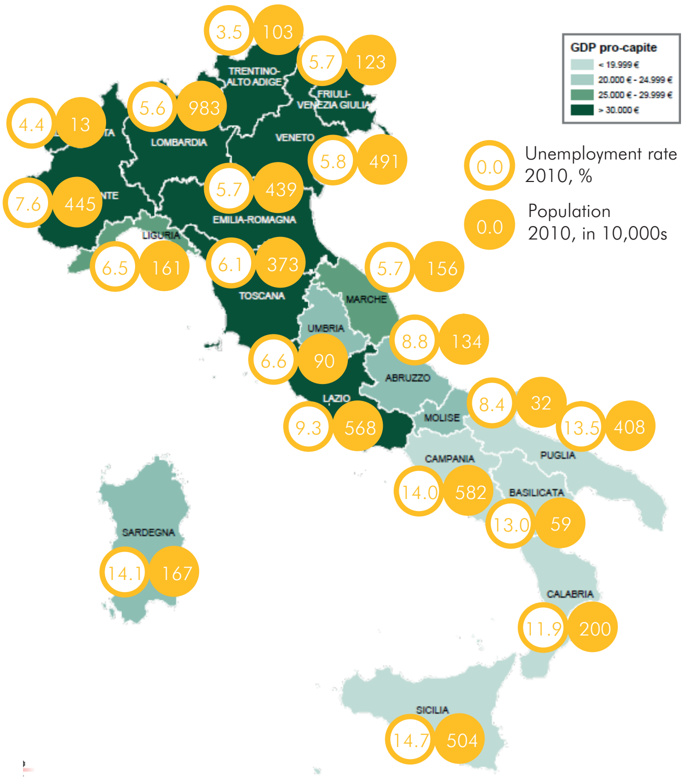
Although the population trend is set to decline gradually over the next 40 years due to low birth rates, ageing population and an increasing number of smaller households, the large population base represents a constant opportunity for new demand.

Regional GDP as % of all overall GDP, 2010



Regional GDP as % of all overall GDP, 2010
Source: Oxford Economics
Centre: Toscana, Umbria, Marche, Lazio
South: Abruzzo, Molise, Campania, Puglia, Calabria, Basilicata
Islands: Sicilia, Sardegna

Regional population and unemployment, Italy



Source: CBRE on Istat, map from Sincron

More importantly, the population groups and type of consumers that represent an opportunity are changing. Italy's 65+ population group is the largest in Europe and, according to Euromonitor, it is expected to grow by a significant 15% over the next 10 years, contributing to 2.5% of Italy's overall population growth, during which the median age will shift from 43 to 47 years old.

Sound households

Italian households are among the most sound in Europe. In 2010, Italian household financial debt reached 66% of disposable income, below the European average of 99%, showing the stability of Italian households compared to other European countries.

In addition, unlike many households in Spain or the Irish Republic, Italians do not have large mortgages, and generally maintain very little debt.

Regional differences of GDP per capita are wide, and the richest provinces have an income per capita that is more than the double that of the poorest provinces.

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For example, Milan and Bolzan have a GDP per capita in the range of €35-40,000, which is more than double that of some southern provinces with a GDP per capita in the range of €15-20,000 per capita.

The toll of the recession on Italy's economy is likely to lead to higher income inequalities as top income earners are expected to show the highest growth over the next five years. Per capita annual disposable income is expected to slightly increase but remain behind the UK and France.

Over the next few years, Italy will continue to feel the effects of the recession, however, high income earners are unlikely to change their spending habits significantly, despite having their wealth reduced.

Consumers lifestyle

Italy's demographics are expected to shift over the next few years, most notably in the form of three trends: an ageing population, an increase in the number of one- and two-person households and lower birth rates.

From 2010 to 2020, consumer expenditure is expected to grow at a slower pace (around 1% yearly), mostly due to inflation rather than an increase in demand.

Considering this slow recovery, consumers are expected to remain value-conscious in the short-term, through 2015. While most Italians will continue to shop in traditional supermarkets and street markets, many will be looking to spend less, building upon the thrifty habits they gained during the recession.

This will lead to more people shopping in discount supermarkets and most notably, lead to an increase in private label (products that are typically manufactured by one company for offer under another company's brand) purchases. Sales of luxury goods and services will continue to be affected, which should benefit low- to mid-range products that can now reach a wider target market.

Despite the general slowdown, demographic changes will create a different consumer lifestyle that will alter the way Italians spend. For example, since women are playing an increasing role in the labour market and delaying starting a family, they will have more disposable income to spend on clothing.

On the same note, since marriage seems to be occurring at a later age, unmarried men have higher disposable incomes to spend on indulgences like fashion, technology and music.

Age group spending habits

Italians have always been passionate about fashion, believing that quality and elegance define their history, and the recession has not changed this. In 2009, Italian spending on clothing (including footwear) as a percentage of total consumption was 7.6%, the highest recorded in Europe (it was around 5% in the UK, Germany and Spain, 4-4.5% in France, and below 4% in Poland, Romania and Hungary).

Age group	% of population 2009	% change by 2020	Retail opportunity
65+	20.2%	+15.3%	Luxury cosmetics, health goods
Middle-aged	34.5%	+8.5%	Luxury fashion and cosmetics, household goods, hobbies
30s	15%	N/A	Low-cost household goods, electronics
20s	11%	-6%	Lower cost branded clothing
Teenagers	7%	+1.4%	Clothing, footwear, accessories, electronics
Tweenagers*	3.7%	+4.5%	Clothing, accessories, mobile phones

* Tweenagers are youth between the ages of 10-12, who are no longer children but are not yet teenagers
Source: Euromonitor

Increasing use of the Internet

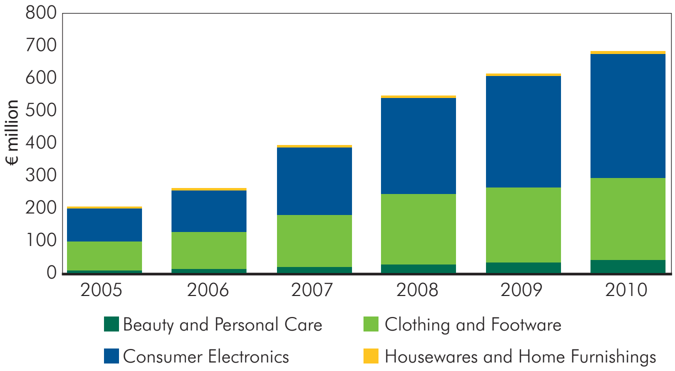
According to Euromonitor, around 22 million people in Italy currently use the internet, of which 6 million regularly shop online because of its convenience, efficiency and lower price, despite the recession. 54% of people purchasing online are under the age of 35.

As it stands, internet retailing in Italy is very under-exploited and highly fragmented. It mostly consists of price-competitive, small-to-medium-sized retailers specialising in niche or low-cost products. Store-based retailers will continue to experience competition from the internet, with online and discount retailers expected to perform the best. Store-based retail for electronics is expected to feel the most competition from the internet.

Clothing and footwear is one of the largest product categories in terms of retail value sales on the internet. In fact, Italy's online spend in clothing and footwear is 7%, compared to 4% in most other categories.

However, internet retailing is unlikely to overcome in-store retail value sales because not all Italians are converting to this method of shopping so willingly. Many customers prefer the fun and experience of in-store shopping and feel the need to try items on. Because many Italians view shopping as a social experience, demand is weakened in this channel. Furthermore, Italy is a cash-driven culture and many of the Italians who actually own a credit card are wary of online security.

Internet retailing by category, Italy



Source: Euromonitor

CBRE commissioned a survey of 10,000 consumers in 10 European countries in May 2011 to better understand consumers' attitudes to shopping online. The results of the survey are reported in CBRE's 'Europe's Online Consumer' report, which showed that the internet is now a key part of the shopping experience. 38% of Italians aged 16-65 years use the internet to buy products and/or services online and 43% use it for browsing goods. The survey also revealed that, in future, 44% of Italians plan to use the internet for shopping more/much more than they currently do.

RETAIL SECTOR IN ITALY

Modern distribution is fragmented

Distribution is extremely fragmented in Italy, creating opportunities for retailers to expand. In 2010, there were only about 600 department stores and almost 250 shopping centres with a Gross Lettable Area (GLA) above 20,000 sq m.

Large scale distribution, both food and non-food, represented 55% on the total, which decreases to 38% when considering only the non-food sector. Traditional shops in this sector still show the largest penetration, at 47%. Foreign retailers have seen this opportunity, and brands such as Eurospin, Lidl, Hennes & Mauritz (H&M), Leroy Merlin and IKEA are planning to further expand their presence in Italy, creating significant competition for domestic brands.

Italy's clothing and footwear sector is deeply fragmented, and according to estimates by Euromonitor, the 10 leading clothing and footwear brands accounted for just 9% of retail value sales in 2010, with shares of 4% or lower.

The picture is similar in Spain, with the three biggest national clothing and footwear brands only representing 9% of the total sales within the market, and the three biggest international clothing and footwear brands representing 7%.

On the other hand, some Italian retailers like Coin Group have increased their market position over the past few years, thanks to the acquisition and repositioning of different brands.

In fact, the mixed retail sector (i.e. department stores) is dominated by Italian companies, and Coin Group leads with a value share of 47% in 2010. Therefore, this format is not very competitive because independent retailers dominate the arena. As shown by Coin, mixed retailers must adapt to the increasingly price-aware attitude of consumers – only then will they see value growth in sales.

Clothing and footwear retailers brand shares, % value in Italy

Brand	2009	2010
Benetton	3.8	3.8
H&M	0.7	1.1
Original Marines	0.8	0.8
Foot Locker	0.7	0.7
Zara	0.5	0.5
Combipel	0.5	0.5
Stefanel	0.5	0.4
Giorgio Armani	0.4	0.4
Undercolors of Benetton	0.3	0.3
Bershka	0.2	0.2
Kiabi	0.1	0.1
Others	91.6	91.1

Source: Euromonitor

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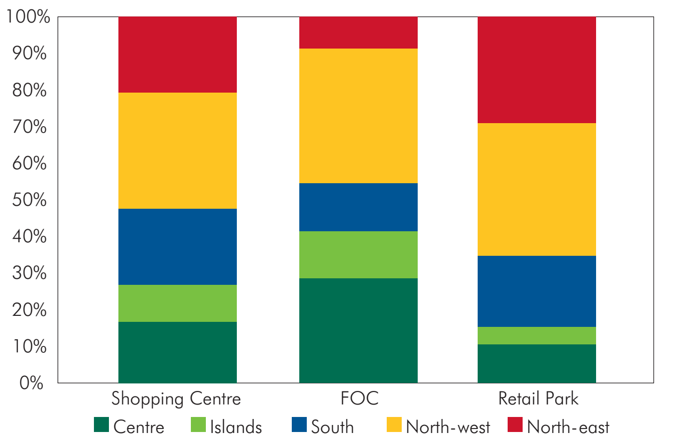
Supply: Shopping centres, factory outlet centres, retail parks

Retail space in Italy stands at almost 16 million sq m GLA, with shopping centres accounting for 90%, while only 3% of the stock is made up of Factory Outlet Centres (FOCs) and 7% of Retail Parks. Modern distribution began to develop late in Italy compared to other European countries, and in 2011 the schemes above 20,000 sq m represent only 60% of the total retail stock. Shopping centre expansion began in the 1970s and was centred in the more prosperous northern regions of the country. Consequently, the majority of the country's shopping centres are located in the northern region, close to cities such as Milan, Bologna, Brescia, Bergamo and Turin. Despite this, northern regions still lack modern supply of regional shopping centres. FOC and retail park development began only at the beginning of the 21st century, so the geographical distribution is more balanced compared to shopping centres, mainly for FOC.

Retail stock by format and area, % on the total



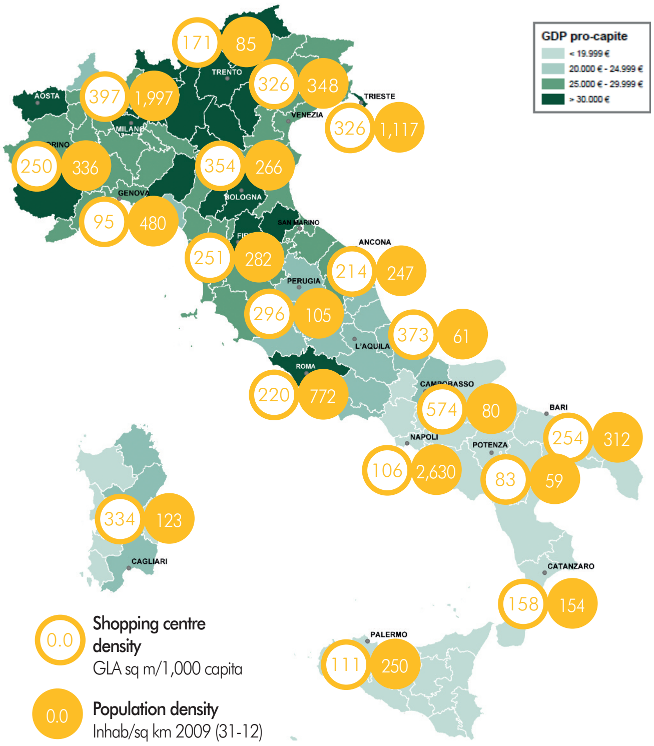
Source: CBRE

The shopping centre evolution for the schemes above 20,000 sq m GLA over the last decade have underscored a strong level of completions since 2000, for a yearly average of 12 schemes until 2010. This figure was only six in previous years. Shopping centre completions declined after 2007, until the lowest peak was reached in 2010, with only seven new openings.

In the first nine months of 2011, two new shopping centre openings (over 20,000 sq m) were recorded in Italy, for a total GLA of almost 90,000 sq m.

Nevertheless, the Italian shopping centre stock, in terms of sq m per capita, is equal to 235 sq m/1,000 inhabitants in Q3 2011, below the European average (248 sq m/1,000 inhabitants). If we consider stock above 20,000 sq m GLA, density is even lower, equal to 135 sq m/1,000 inhabitants.

Italian shopping centre density vs population density*



Source: CBRE, Istat
*Data refers to the main region's province (capoluogo di provincia)

In terms of retail space per capita, regional differences are still large in Italy, reflecting the structural imbalance that characterises the Italian regional economy. In fact, northern regions record figures above the European average.

The map above points out that there are some metropolitan areas with high density of population, like Naples and Palermo in the south that still have a low stock of shopping centres.

A weaker consumer per capita level in these markets does not mean that retail market is weak. In fact, the level of per capita consumption is only one of many variables affecting the performance of a shopping centre, and often it is one of the least relevant, as shown by the exciting performance of some centres in the south or islands, which is in some cases difficult to find in the northern markets' schemes.

Despite the trend of slowing completions, future completions in Italy are expected to be one of the highest in Europe. Based on current data, aggregate shopping centres (with a GLA over 20,000 sq m) currently under construction due to be completed over 2011-2013 amount to 20, a total of approximately 762,000 sq m GLA.

There is further potential for 800,000 sq m GLA (equal to 18 schemes) to be developed and completed between 2012-2015.

The newly announced Westfield Milan, Parma Urban District in Parma and the new IKEA shopping center (Villesse) are among these planned schemes, with a GLA of 170,000 sq m, 90,000 sq m and 90,000 sq m respectively. These schemes will help to equip the northern region with modern regional shopping centres.

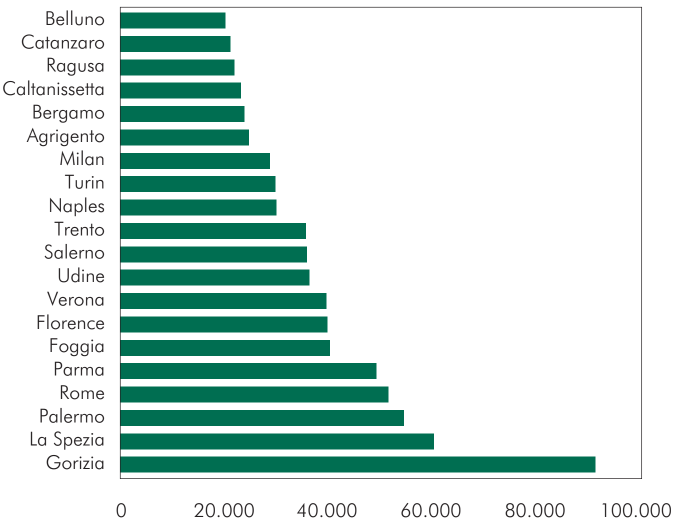
Italy's strong pipeline compared to other countries could create opportunities for retailers that have been kept out of Italy due to the lack of a suitable product. In fact, high-quality new projects continue to be in strong demand by tenants.

For example, all the new shopping centres completed in 2011 were either fully let upon the opening date or had an occupancy rate of at least 90%, and some of the schemes due for completion at the end of 2011 have a similar occupancy rate.

Regarding the markets where future schemes will be completed, the centre, south and islands are almost in line with the strongest northern regions.

This demonstrates an intense interest in shopping centres, especially in central and southern Italy, where there are more opportunities for development, mainly in Sicily and Campania. These policies of development will start to bridge the gap between the north and centre-south of Italy in terms of retail space.

Shopping centre schemes under construction due to be completed 2011-2013, Italy



*GLA above 20,000 sq m
Source: CBRE

Barriers to entry

(See the Appendix for more detailed information). Over the past years, Italy's market has been characterised by a restrictive planning regime, negatively affecting the development of large schemes like shopping centres or retail parks.

Despite the introduction of the Bersani Law, designed to accelerate and streamline development procedures, the situation has not improved much. In fact, the Bersani Law gives more power to the Regions and they tend to mediate the interests of the Municipalities, exerting a powerful role over planning, and often their decisions are influenced by the political situation.

It is clear that the barriers to entry, which have operated to date, will remain in effect for a considerable time to come. In any case, these barriers are less strict for high street units, where it is easier for retailers to get licences. Furthermore, the structure of supply in Italy is extremely fragmented (for example, Italy still has more than 800,000 commercial licenses), which has hindered the expansion of new developments.

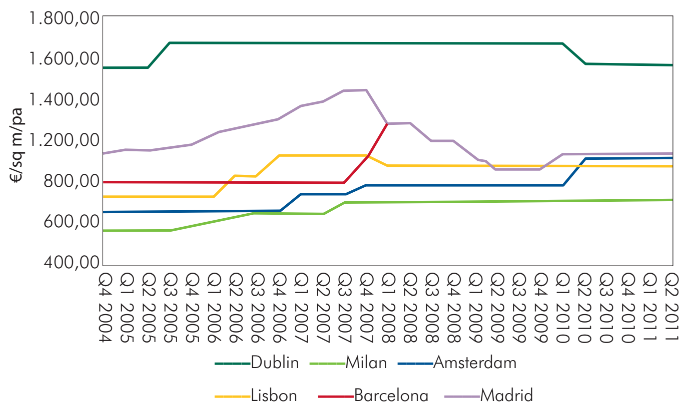
For all these reasons, despite the current pipeline level, there is no foreseeable risk of over-supply in Italy.

Rent

Prime rents in Italian shopping centres have increased steadily from 2000-2007, at almost 9% on yearly average, remaining almost stable over the following periods. The increasing trend at the beginning of the 21st century was the result of the combination of strong demand and low supply of quality stock.

The years following the global crisis in 2008 that weakened demand and the finance for new development, represent the turning point for the market, with prime rents stabilising on €760/sq m and development pipeline falling. On average, rental levels have remained almost flat over the last two years across Italy, below the major European markets.

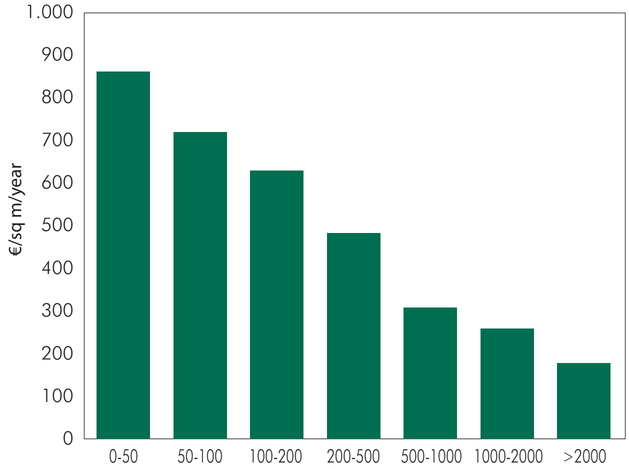
Prime rental evolution of shopping centres, Italy vs Europe



Source: CBRE

In the current market, negotiating power is shared fairly evenly between landlords and tenants, with rents showing little change year-on-year. Landlords are, however, proving more accommodating to retailer requests for better terms and conditions, such as step rent, break options and contributions to store fit-outs, but only the most dynamic brands in the market are able to secure turnover-based rents instead of the more common minimum guaranteed rents.

Prime rental level by unit size in shopping centres in Italy, from a sample of top centres



Source: CBRE

Over the coming years, we believe that prime rental level will continue to be stable, sustained by more balanced supply and demand.

Retailers

Retailers, both new and existing, international and local, remain interested in the Italian market. After a weak 2009 and the cautious approach toward new developments over 2010, retailers' demand improved during the first half of 2011. Even though their approach is still more cautious, new retailers are planning an expansion strategy in Italy.

On the other hand, some retailers are very active, despite the uncertain economic outlook. Among them, Coin Group, which is busily reconfiguring stores of its recently acquired brands OVS and UPIM, as well as planning new stores in both high street and shopping centre environments within the next three years. Another active domestic player is Calzedonia Group, which continues to roll out its brands Intimissimi, Calzedonia and Tezenis.

While there have been no major international names entering the Italian market in 2011, several companies that have arrived within the past two or three years—including Gap, Banana Republic, C&A and Takko—are now looking to accelerate their growth.

Meanwhile, some existing international brands have strengthened their presence in Italy by opening new stores, like Foot Locker in Corso V. Emanuele, Milan's prime high street location, Desigual in Corso Buenos Aires in Milan and Zara in the former Rinascente building in Via del Corso, Rome.

Some other retailers already foresee a development plan that on one hand seeks to complete their diffused sales organisation covering the markets where they are still absent, and on the other hand seeks to improve and strengthen the markets that they have already penetrated. Some examples of retailers that are planning expansion are McDonalds', IKEA, Zara and H&M.

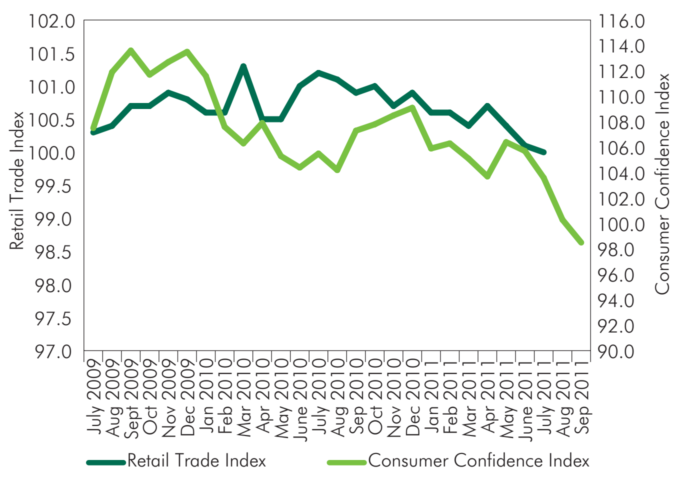
Retail performance

According to the Italian retail trade analysis over 2008-2010, the weakest period for retail trade was 2009. The uncertainties regarding both economy and household financial situation, combined with increasing inflationary pressures, all influenced the poor results for 2009. In 2010, the retail trade showed a slight improvement and slowing of the decreasing trend.

In 2010, total national retail trade increased 0.1% compared to 2009. The retail trade trend has been two-fold, with northern regions performing positively in 2010, reporting a yearly increase in retail trade of 0.6% (northeast) and +0.4% (northwest), while the central and southern regions stood behind with a decrease of 0.2% (centre) and 0.4% (south), according to Osservatorio del Commercio.

2010 confirmed the double trend in the retail distribution in Italy, with an increasing gap between modern trade and traditional shops. In fact, modern trade turnover increased by 0.7% over 2010, against a decreasing value of 0.3% in the traditional shops.

Retail Trade Index, seasonally adjusted and Consumer Confidence Index, Italy



Source: Istat, July data are preliminary

In the second half of 2011, due to weakening confidence in the national economic climate and increasing inflationary pressures, the Consumer Confidence Index decreased to 98.5 in September, compared to 100.3 in August, and 109.1 in December 2010. Consumer spending is still held back by weak growth in real incomes and households are still spending cautiously. However, consumer consumption returned to growth, up 0.5% from 2009 to 2010.

Retail performance from a sample of Italian shopping centres

The following information is based on two samples of shopping centres in Italy: one representative of the top prime shopping centres and the other representative of the average shopping centres in Italy.

For both samples, where available, we analysed the key figures of the market in order to compare the performance of the centres.

The analysis points out that the average net sales for the "top" sample is around €4,400/sq m, almost, 36% more than the net sales in the average shopping centres, equal to €3,250/sq m.

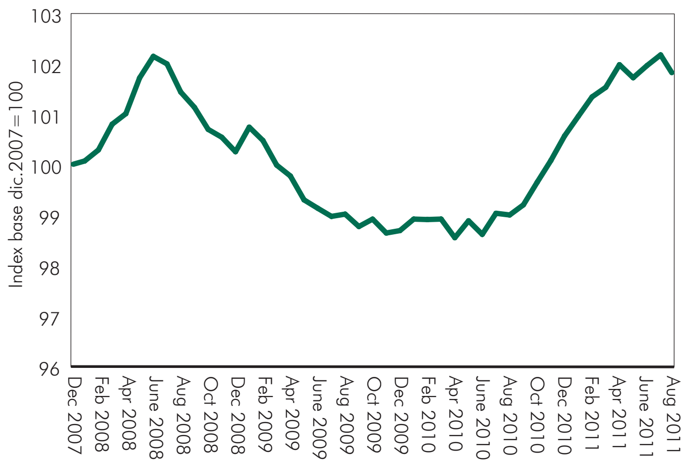
The average effort rate for the sample of top shopping centres is 8.3%, while different ratios related to size and merchandise can be defined as shown in the chart. On the "average" sample, the average effort rate (MGR on Net Sales per merchandising), from our experience is equal to 12% (excluding service charges).

We also analysed the visitors trend from 2007 to August 2011. For the "average" shopping centres, there was an increase from 2010 to the first half 2011, until the slight contraction in August, testifying to the general contraction in confidence following the summer of financial turmoil.

Finally, on the same sample, we recorded the occupancy level from 2007 to September 2011, which was always above 90%. More specifically, it ranged between 93.1% in 2007 to 91.5% in September 2011. In our experience, vacancy levels are generally low and schemes under construction achieve good levels of occupancy before the completion.

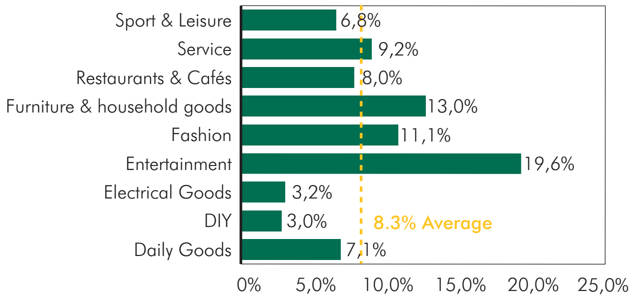
Our analysis has found that shopping centre performance has remained stable for a long period, even through the crisis. Net sales are stable, effort rates are sustainable, footfall trend remains substantial and occupancy rates are elevated. These factors, combined with stable prime rent, make Italy a potential target destination for both retailers and investors.

Footfall evolution in the sample of shopping centres, Italy



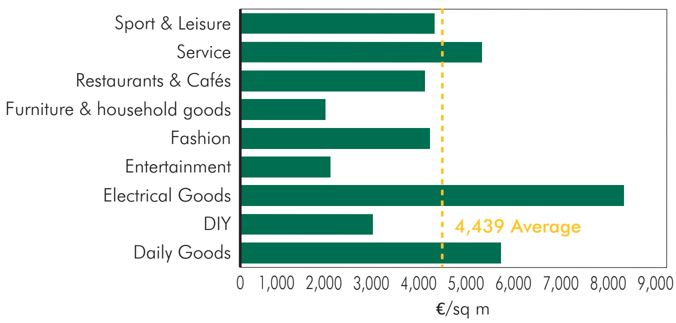
Source: CBRE

Effort rate by sector in a sample of top shopping centres, Italy



Source: CBRE

Net sales €/sq m in a sample of top shopping centres by sector, Italy



Source: CBRE

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Retail Investment

The direct Italian real estate investment volume over 2006-2010 recorded over €37 billion of investment transactions, mainly concentrated in the boom years of 2006-2007. The retail sector accounted for 25% each year, on average, with the lowest share of 19% in 2008 to the highest of 37% in 2009.

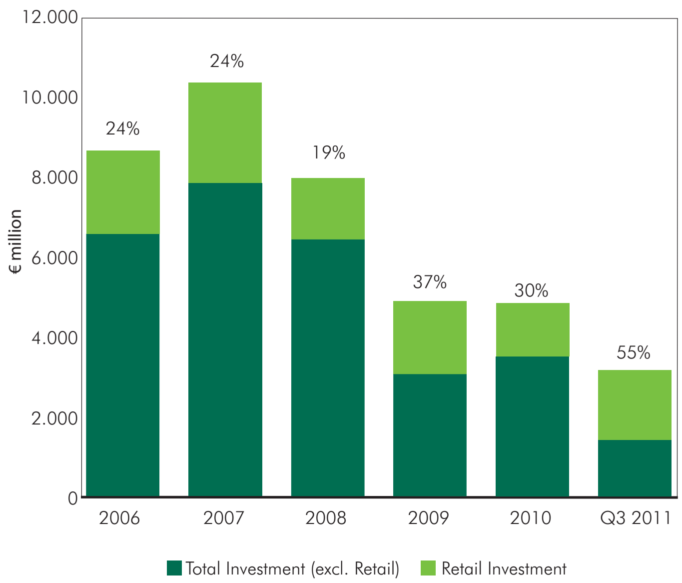
Over the last decade, the retail sector strengthened its share on overall investment volume, at the expense of the office sector.

Shopping centre investment accounted for 65% of the total retail sector, on average yearly. Other retail investments were mainly made up of retail parks, FOCs, high street and other retail formats (hypermarkets, etc). Foreign investors have been the most active in the retail sector, accounting for over 50% of total capital invested in the sector during the boom years 2006-2008. Its share decreased in 2009 to 39%, in 2010 to 51% and in the first nine months of 2011 to almost 40%.

In the first nine months of 2011, total real estate investment volume in Italy stood at €3.24 billion an increase of 7.4% compared to the same period of 2010. The upward trend recorded over the third quarter reflects, in part, the closing of investment transactions that had been under negotiations for a long time and the closing of few portfolio transactions.

In Italy, retail remains the sector with the largest volume invested in the first nine months of 2011, amounting to about €1.8 billion, equal to almost 55% of total real estate investment volume, well above the long-term yearly average of 25%. The retail sector continues to be the most attractive to international investors (retail specialists and institutions): 73% of foreign capital invested in Italy in the first nine months of 2011 was in the retail sector.

Investment evolution and retail share compared to total, Italy



Source: CBRE

Regarding the retail sub-sector distribution, high street retail has been the most targeted asset, in the first nine months of 2011 it accounted for 45% of total retail investment volume.

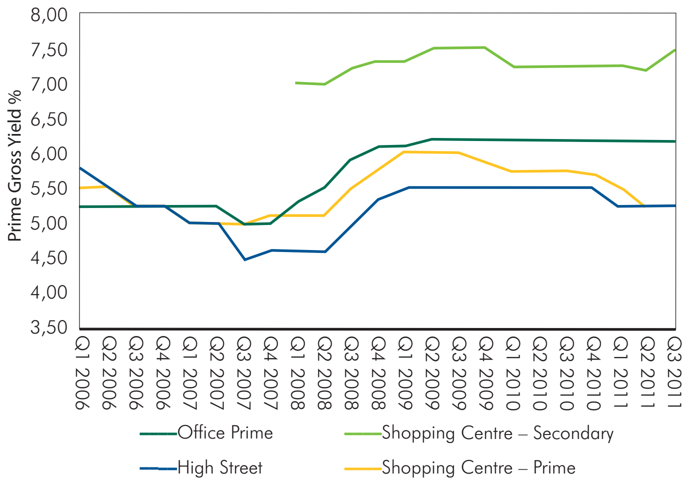
This has mainly been due to one large transaction (La Rinascente Duomo), but investors' appetite for high street retail remains strong. Compared to previous years, high street retail is also becoming attractive for institutional investors, both local and foreign. Shopping centre investment accounted for 15% of total retail investment in the first nine months of 2011.

In Q3, retail investment activity has been boosted by two portfolio transactions, the largest is the selling of the second part of the METRO Cash & Carry portfolio for almost €300 million.

Over the past quarter, interest in the retail sector by local non-specialist retail investors and new international players increased. Among the first group of investors, some institutions (generally office-driven investors with long-term asset allocation strategies) are targeting the retail sector. For those type of investors, a joint venture acquisition of retail assets, to be shared with a specialist retail investors, could be an opportunity to enter the sector for the first time. In fact, this model allows the non-specialist investors to benefit from the expertise and asset management skills of the specialist, who retain a share of the asset. In turn, this structure allows the specialist to share the risk of the investment and to transact large lot sizes.

Investors continue to be focused on core assets in all sectors, thus creating a downward pressure on yields, which remain low in the high street sector at 5.25%. Prime shopping centre supply is limited, but is more balanced with demand compared to other asset classes (office and logistics), leading prime yields to stabilise at 6.15% in the first nine months of 2011.

Prime yield evolution Italy



Source: CBRE

INTERNATIONAL PLAYERS IN ITALY

In the last section of the report, we would like to share quotes from some of the most active international players that own and/or have developed shopping centres in Italy, and continue to believe in this sector and market: Eurocommercial, Westfield, Sonae Sierra.

EUROCOMMERCIAL

Eurocommercial has €2.5 billion in retail property assets, 38% of which are in Italy, and the remainder in France and Sweden. In September, Eurocommercial bought its 10th shopping centre in Italy, Cremona Po, in Brescia, Lombardy. We asked Tim Santini, Director, why they continue to invest in Italy:

"If you are willing to learn about the Italian culture, to be patient and understand the social and economic realities of the market, as Eurocommercial has done, you can make good investments in Italy. We are not overly worried by the demographic and economic changes expected over the next few years. Shopping centres provide considerable opportunities to add value over time through good management. If you are smart in anticipating the coming trends and integrate these new requirements into your centre, you should be a winner."

WESTFIELD

At the beginning of August, after long negotiations, the agreement between Australian developer Westfield and the Italian firm Percassi to develop the biggest shopping centre in continental Europe (170,000 sqm GLA) was signed, and Westfield officially entered the Italian market for the first time.

In an interview for Europroperty, Michael Gutman, MD of Westfield, answered the question: Why Milan and why now? He responded: "The Milan site, its catchment area and demographics make it a very compelling proposition. We have studied very carefully the fundamentals of our trade area and believe that this part of Lombardy has very healthy long-term prospects and a substantial undersupply of quality retail floorspace."

How does Milan compare with other European cities? "In our view, Milan is, and will remain, one of the truly great cities of the world for commerce, industry, tourism and retail."

SONAE SIERRA

When asked by an Italian journalist about Sonae Sierra's commitment in Italy over the next few years, Fernando Guedes de Oliveira, CEO of Sonae Sierra, said: "Italy is always a core market for us. Next march, Sonae will open its fifth Shopping Centre in Italy – Le Terrazze (La Spezia) in JV with ING development – and they want to stay in Italy, strengthening their position. We believe that in Italy there are still several opportunities and, for the future, we are planning to open one shopping centre per year ".

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APPENDIX 1: RETAIL MARKET PRACTICE

Opening Hours

- Italian law allows retailers to open no longer than 13 hours per day, between 07.00 and 22.00, and retailers must choose their opening hours according to local government restrictions. National legislation deems that retailers cannot stay open 24 hours per day.

- Local governments dictate the days on which shops must stay closed, as well as decide whether retailers can stay open on Sundays and holidays.

- National legislation deems that retailers should close on Sundays and an additional half day per week, which can only be derogated from local governments.

- Retailers located in tourist areas can decide their own opening and closing times, even on Sundays and holidays.

Retail Landscape

- The Italian population is mainly urban: 73% of Italian households were urban in 2010, up from 69% in 1990.

- There is a long tradition of small supermarkets and convenience stores, initially making it difficult for hypermarkets to succeed. Although declining, independent stores remained dominant in towns in 2010, particularly in non-grocery retailing like health and beauty, clothing and footwear, pet shops, home furniture, and leisure and personal goods.

- Luxury retailers are typically situated in pedestrianised zones and high streets.

- In 2010, there were nearly 250 shopping centres in Italy with a GLA of more than 20,000 sq m. There has been much consolidation over the past decade, with a few large retailers buying out independent stores. Shopping centres are generally anchored by well-known supermarkets or hypermarkets.

Barriers to entry

- Barriers to entry are predominately administrative and can be traced back to a complicated permit process which must be completed in order to develop either a shopping centre or large retail park. In this case there are three levels of decision making (Municipality, Province and Region) which must give their consent and within these levels, various other entities which control diverse activities - Fire Department, Sanitary Services, Environmental control etc. Before the implementation of the Bersani Law (December 1998), the authorisation procedure involved an "average" time between the request to realise a shopping centre/retail park and the opening of 8 to 10 years and in some cases over 15 years.

- The national commercial legislation was reformed with Legislative Decree No. 114 dated 31 March 1998 which gives Regions the job of defining the general guidelines for the settlement of the commercial activities and commits the municipalities to bring their general and implementing town planning tools in line with these guidelines. The old "commercial planning" evolves into "commercial programming" whose choices mainly relate to identifying the free localization of the various types of sales structures (neighbourhood businesses, retail, medium and large-sized sales structures).

- The legislation provides that the opening of neighbourhood businesses or medium sized sales structures not within a shopping centre or retail park is exclusively subject to decision of the Municipality:

    - neighbourhood businesses (esercizi di vicinato) with selling surfaces below 150 sq m in municipalities with less than 10,000 inhabitants and below 250 sq m in municipalities with over 10,000 inhabitants;

    - medium-sized sales structures (medie strutture di vendita) with selling surfaces greater than the limits specified above and up to 1,500 sq m in municipalities with less than 10,000 inhabitants and up to 2,500 sq m in municipalities with over 10,000 inhabitants.

APPENDIX 2: RETAIL MARKET PRACTICE

Obtaining a permit to open a store with a sales area of up to 2,500 sq m in municipalities with over 10,000 inhabitants involves, as already mentioned, only one level of decision making (Municipality). The Municipality has a maximum of 90 days to deny the permit otherwise it is automatically authorised.

A more complicated process is foreseen for large-size "sales areas" with a selling surface greater than 2,500 sq m. In Italy, according to the legislation, the sales area of a commercial business (superficie di vendita) is defined as the area designated to sales, including space occupied by counters and shelves. Sales area does not include storerooms, deposits, workshops, offices and bathrooms.

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