

Quick Stats Milan

	Change from	
	Q4 09	Q1 10
Prime Rents	→	→
Prime Yields	↓	→

Quick Stats Rome

	Change from	
	Q4 09	Q1 10
Prime Rents	→	→
Prime Yields	↓	→

Country Topics

- Italian economy return to growth since the second half of 2009.
- The retail market maintained a comfortable position in terms of turnover and stable consumptions
- Banking System Financially Sound
- Economic Indicator Confirmed Lower Volatility of Italian Market

Market Topics

- Upward investment market with €1,330 million total turnover
- More active International Investors attitude
- Equity Buyers still dominant
- Stable outlook with regard to Investment volumes and pricing

ITALIAN MARKET OVERVIEW

Q2 investment turnover, reaching approximately €1,330 million, is roughly in line with the same quarter of the previous year and nearly double of the previous quiet quarter. Investor sentiment has clearly improved, with investment volumes rising, but attention is very much concentrated in the prime market. Many of the active investors would not consider secondary property, because it lies outside their investment subjects.

In contrast with previous year, the level of cross-border activity was recorded over 45% in H1 2010, and certainly the level of interest from cross-border investors has increased. The cross-border share, however, remains slightly lower than the last three years' average.

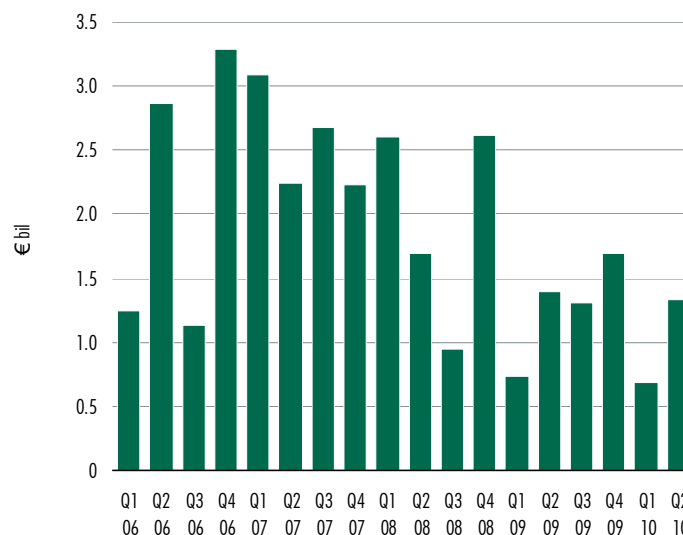
At a sector level – strong investor interest in retail product has continued to be evident in the Italian investment market. Its share of total commercial investment in Italy reached a high of over 40% in Q2, due to closing a notable transaction with €440 million, Porta di Roma Shopping Centre at the beginning of Q2.

The investor attitude, over the last 12 months, completely changed and now potential buyers are expected to analyze new deals and finalize new transactions.

Even though we have seen some large deals are in a pipeline, it is expected that the total value of transactions in 2010 will be stable, because the risk assessment still is very restrictive and due diligence findings are crucial to close transactions. Purchasing activity has so far been dominated by equity players acquiring prime well-let assets in core markets. Most present investors in Italy are German Open-Ended Funds, some Pan-European Fund Managers, Retail Specialists and Insurance Companies. Although the rental growth takes still holds, we have been seeing an improvement in occupier markets. It is expected to rebound in rental levels slightly as market strengthens and to fall in prime yields, whilst the spread between prime and secondary will remain divergent.

With regard to general economic situation in Italy, in June, Confindustria revised its GDP growth forecasts up to 1.2% of GDP in 2010 and 1.6% in 2011, compared to its previous estimates in December of 1.1% and 1.3% respectively. CPI is stationary compared to the previous month and rose by 1.3% in comparison to the same month of the previous year. The unemployment rate was 8.70 % in May 2010.

Italy Investment Transaction Volume



MILAN OFFICE MARKET

Leasing activity in the Milan office markets reflect the economic recovery. Second quarter take-up in Milan was the highest for a year, with Unicredit Bank's pre-let of approximately 35,000 sqm representing the largest transaction. Patterns at submarket level continue to vary and there are considerable differences in the degree of choice for occupiers depending on the flexibility and rents. As previous quarters, semi-central sub-market has been benefiting from a combination of competitive rents and more flexible premises, together with greater accessibility by road and public transport and a wide range of surrounding amenities, which have continued to attract international occupiers.

For now, office demand is mostly being driven by corporate rationalization and consolidation.

Regarding CBD, market activity has been supported by small to medium-sized transactions. CBD prime rents have been stable at €520/sqm/annum with some positive sentiments.

While landlords are still offering incentive packages to secure tenants, this is expected to fall and prime rent will rebound slightly as market strengthens in the latter half of the year.

There will be trends that occupiers consolidate premises into one modern building, particularly to the semi-central or decentralized areas.

ROME OFFICE MARKET

Even if economic recovery in Italy remains patchy, Rome office market saw indications of demand stabilizing, due to its large size, importance and prestige as the nation's capital and the vast number of political, governmental agencies and non governmental organizations present, Leasing activity in Rome has been improving this quarter, particularly for high-quality space, and rents appear to be stabilizing. Overall the vacancy rate for the city has remained constant in comparison to the first quarter.

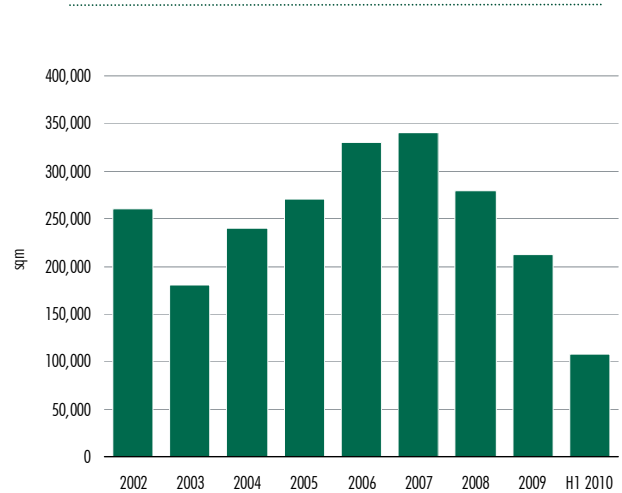
Like Milan, prime rents in CBD were stable in Q2 2010, due to the ongoing lack of office space and continuing stable demand. As a consequence of the requirement for Grade A spaces and limited supply, rents will have upward pressure in the next quarters.

The public sector will continue to contribute significantly and to be active for the occupier market. For the short-term outlook for the Rome office market, there are no significant changes foreseen for the rest of this year. The relocation trend, however, will help to raise rental levels in mid term.

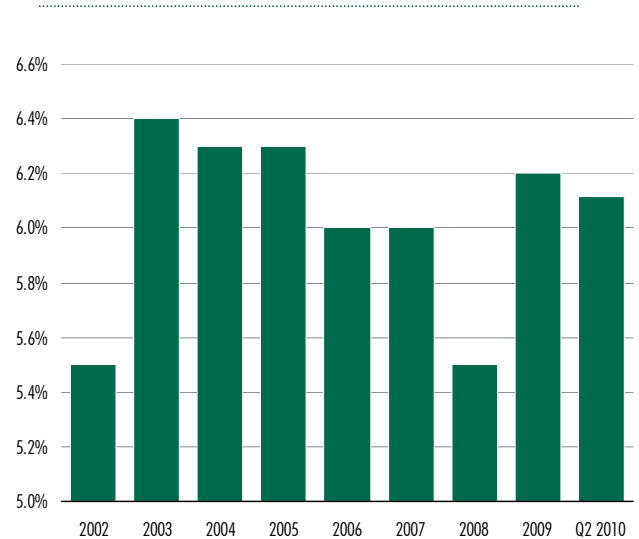
The second phase of Business Park Europarco, the most significant new development in the Rome market, located in the EUR district will be completed by the end of 2010.

In the middle to long term, new development projects in Rome should improve the overall office qualities and provide more flexible choice to occupiers.

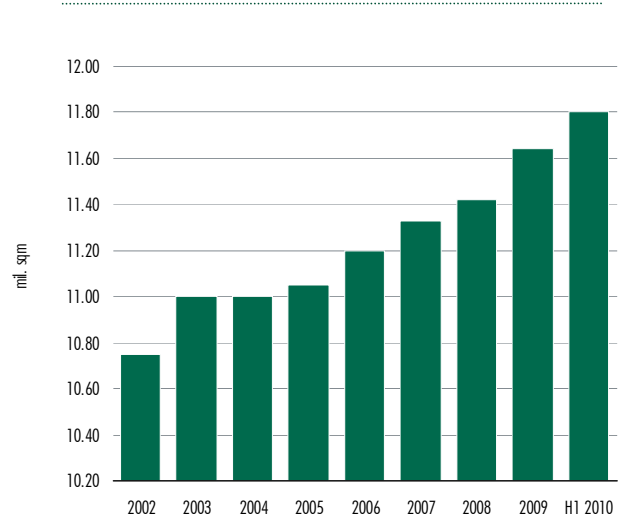
Office Take-up Milan



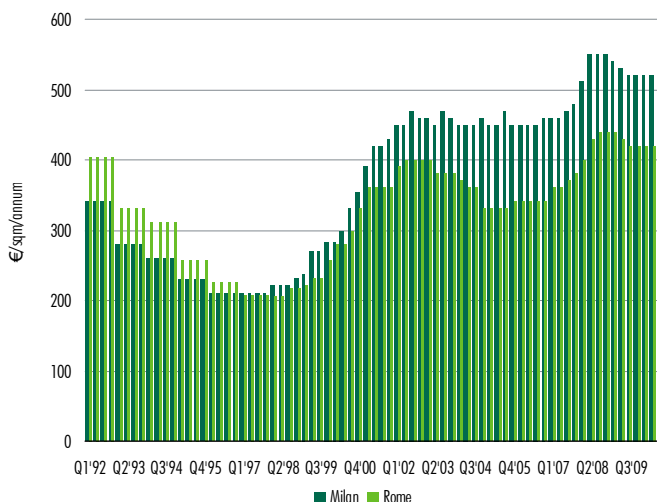
Milan Vacancy Rates



Milan Office Stock



Milan & Rome Prime Rent- Office Space



INVESTMENT MARKET ITALY

Q2 turnover, reaching approximately €1,330 million, is roughly in line with the same quarter of the previous year and nearly double of the previous quiet quarter. However, in terms of the total value of transactions completed, the figures remain low by recent standards. This brings the total H1 2010 turnover to €2.0 billion, 5% decline compared with the same period of 2009.

At the beginning of Q2, we recorded a notable transaction with €440 million, Porta di Roma Shopping Centre, the largest single asset transaction in two years. Investor sentiment has been clearly improving, with investment volumes rising, but the majority of investment interest continued to concentrate in the prime segment of the market. Since the real estate debt market in Italy has slowed in H1 2010, purchasing activity has so far been dominated by equity players acquiring prime well-let assets in core markets. Most present investors in Italy are German Open-Ended Funds, some Pan-European Fund Managers, Retail Specialists and Insurance Companies.

With values having fallen recent years, we would have expected more activity from such opportunistic funds and value-add players looking to acquire sites or income management opportunities. However, due to the combination of the limited number of vendors and the rigidity of the banking system, their activities have not been as strong as expected.

Investors attitude, over the last 12 months, completely changed and now potential buyers are expected to analyze new deals and finalize new transactions. Even considering this new mood, the risk assessment still is very restrictive and due diligence findings are crucial to close transactions.

For this reason, we expect certain stability in later this year with regard to investment volumes and pricing. Improved investor sentiment and a large pool of investors targeting the prime segment of the market will be supporting value recovery. This is in contrast to secondary real estate, the short term outlook for which remains muted in the current economic climate.

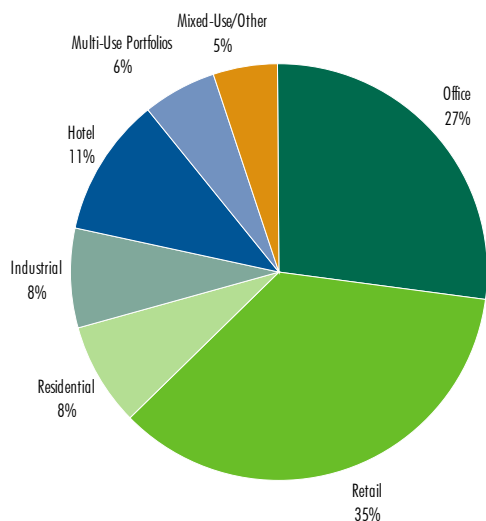
At a sector level – strong investor interest in retail product has continued to be evident in the Italian investment market. Its share of total commercial investment in Italy reached a record high of over 40% for Q2 and this brings 35% in H1.

In contrast with previous year, 2010 see a substantial increase in the proportion of transactions that involved a cross-border investor, especially for buyer. For the first half of the year, the share of cross-border buyer was 42%, more than 10% increase from the one in 2009.

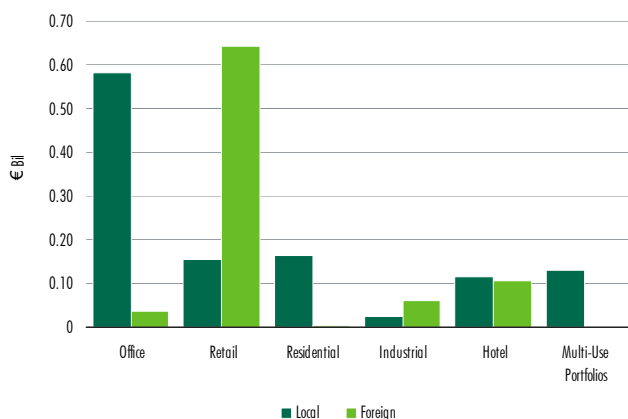
Italian retail market has received particular interest from international investors, who almost concentrated on the sector.

In the H1 2010, hotel and logistics sector accounted for approximately 8% and 11% of total investment volume respectively, increased significantly from 2009 with 3% and 4% respectively.

Transactions by Property Type H1 2010



Italy Sector Investment by Purchaser Origin H1 2010



OUTLOOK

We recorded that several important transactions were closed in the first half of 2010 and the number of potential buyer are increasing. The retail sector continues to represent one of the asset classes attracting the highest levels of international institutional investor attention, due to the stable retail sales and high quality stocks in Italy.

Features of the Italian market in this quarter were confirming the general recovery in the property market that began in the latter part of 2009 and the growing number of large deals. Following the European trend, with quite a few larger deals already in pipeline and due to complete later in a year, this should help to boost the activity levels further in Italy, even though the upturn in Italy activity is relatively modest in Q1 2010. We have a confidence that investment activity will pick up further, even though prime well-let assets will remain the main focus of investors' buying patterns.

OFFICE: The trend is certainly evident elsewhere in Europe, and this could indicate a more consolidated recovery in the Italian office market. Generally, rents are expected to be upward trends over the mid term, while occupiers will continue to be selective.

There has been no significant reduction in the office development pipeline over the medium term, which is focused on high visibility projects aimed at increasing the supply of international quality Grade A office space, even though some projects will be delayed or suspended.

We estimate that approximately 330,000 sqm of new construction will be completed in 2010, half of which have already come on to the market in H1 2010. Other than Unicredit pre-let for Porta Nuova, one of the significant development projects in Milan, the pre-let ratio is very limited. In the current economic environment, due to the limited development finance without pre-let, some developers may well have to modify their project schedule.

Buildings which are sustainable and offer energy savings are more demand. It is widely recognized that such buildings reduce overall occupational costs, maintain property's marketability and have value in to the future.

RETAIL: The retail sector maintains a strong position in the Italian real estate markets both for high street and shopping centers. Shopping centers, Factory outlet and retail parks record stable performances both in turnover and footfall with relatively low vacancy rate. Tenants continue to focus on the occupancy costs, particularly in the new opening, in starting up new/expanded schemes and other unperformed schemes. New project under letting continues to be recorded strong tenant demand, and rental outlook is stable.

The development activity remains significant both under constructions and pipeline, especially for shopping centers in the southern Italy, due to the low level of supply, as well as regional shopping centers in the northern Italy. No over supply is foreseeable. In terms of investment activity, retail sector represents the predominant asset class, and the interests of investor will continue to be significant. Both prime and secondary yields are expected to remain stable in the next quarters. High street in Milan and Rome continue to record strong tenant demands by not only existing brands, but also ones not present in the Italian market yet. Rents and capital value will continue be stable in the major high street destination-cities across Italy.

INDUSTRIAL: As we have seen the slowdown of speculative development, most of the developments are still built-to-suit type. Developers will continue to focus on providing quality buildings in prime locations in the knowledge that modern occupiers require well-designed buildings with high cubic capacities and high quality office accommodation in secure, landscaped environments that have access to associated service and facilities.

Prime yields stabilization is expected over the next quarters.

HOTEL: Hotel investment activity was positive in H1 2010. Recorded hotel investment share was 11% at € 220 million. Traded assets belonged to the resort segment, both luxury and mid-scale, in Southern Italy, and to the mid-scale and economy segment in Rome and in secondary urban markets.

There is constant demand for advisory and operator search services, a signal for sustained hotel and resort development activity.

International brands have just signed new management agreement for golf resorts in Southern Italy.

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