

Quick Stats Milan

	Change from	
	Q2 09	Q3 09
Prime Rents	↓	→
Prime Yields	↓	↓

Quick Stats Rome

	Change from	
	Q2 09	Q3 09
Prime Rents	↓	→
Prime Yields	↓	↓

Country Topics

- Italian economy return to growth in the second half of 2009.
- Despite the current economic conditions, the retail market maintained a comfortable position in terms of turnover.
- Banking System Financially Sound
- Economic Indicator Confirmed Lower Volatility of Italian Market

Market Topics

- The results seen in Q4 are an indication of improving investor sentiment with €1.7 billion of turnover.
- The Italian share of the European investment market reached its historical peak.
- Slightly declined office prime yields and stabilized for other sector in Q4.
- Important Development Opportunities [Equity Contributions/Equity Replacement]

ITALIAN MARKET OVERVIEW

Italian real estate investment grew to €1.7 billion in Q4 2009, a 30% increase on Q3 2009 and the highest quarterly result this year. Italian market saw an increase in investment activity quarter-on-quarter, as well as on a half-yearly basis. This brings the total 2009 turnover to €5.1 billion, 36% below the one in 2008. However, taken into account that the investment activity just started to recover around mid-year, Italian investment market held up well compared with European average.

Italy is now very important presence in the European investment markets, compared to the recent past. This can be found anecdotal evidence that the Italian share of the market reached its historical peak with 7.3%.

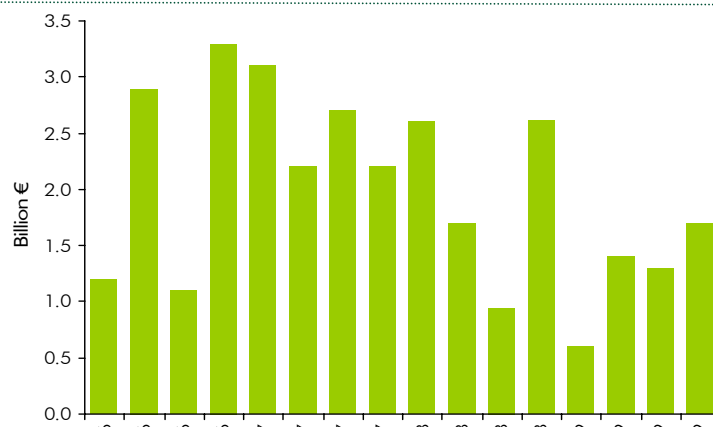
Investor interest in Italy remains highly focused on the prime segment of the market. In terms of specific investment sectors, retail has represented one of the asset classes attracting the highest levels of investor attention.

In Q4 2009, the office prime yields has fallen slightly, while the other sectors saw no change quarter-on-quarter. As a result, the prime yield for offices is around 5.85% and prime shopping centers remained unchanged around 6.2%. On the other hands, with investor interest still predominantly focused on well-let prime assets in good locations, secondary values are likely to remain weaker, for longer.

As major European markets, the Italian real estate investment market is being dominated by equity buyers, such as Italian pension funds, German Open-ended Funds, institutional funds, mostly seeking well-let assets in core markets. In addition to these equity investors, some opportunity Funds are coming back to look for special situations or market opportunities to achieve their target double digit IRR. 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.

According to Confindustria, Italian economy contract 4.7% in 2009, compared with an earlier prediction of 4.8%, will grow more than previous forecast in 2010, as the recovery began in the third quarter of 2009. GDP growth will reach 1.1% in 2010. Consumer price inflation in December 2009 rose by 1.0% in comparison to the same month of the previous year. It is expected to rise gradually to 1.5 % in 2010 and 1.9% in 2011, respectively.

Italy Investment Transaction Volume



MILAN OFFICE MARKET

Regarding the occupier markets, even in the current challenging market conditions, Italian office rents are less volatile compared with other major European markets, due to the moderate rental growth over the past decade.

Take-up in the fourth quarter showed in line with the previous quarter's level. In year-on-year terms, however, it remains around two third year as a whole. This reflects the high degree of uncertainty that still exists in the business environment, despite recent upward revisions to GDP figures in Italian economies. As a result, expansion appetite has been limited in Q4 2009, with tenants keen to renegotiate or extend current lease terms, and landlords generally taking an accommodating stance. In fact, tenants are renegotiating in situ rather than relocating is constraining new take-up.

After a gradual downturn periods, office rental levels have remained stable in Q4 2009. Looking forward, Milan office market is expected to be stable, while the current economic slowdown may depress significant recovery prospects in the short term. Moreover, growth in rents will depend on the re-development pipeline and the delivery of internationally acceptable quality space onto the market.

Following the economic recovery, demand is expected to be positive in next year, together with activities of occupier consolidation and relocations that will continue key driving factors for take-up.

We estimate that approximately 220,000 sqm of new construction have come on to the market in 2009.

ROME OFFICE MARKET

For most of 2009, occupiers have been in a position to renegotiate lease terms in their own favor. Incentive packages including rent-free periods, capital contribution or break options have been deployed by tenants looking to take advantage of market conditions. Leasing activity in Rome has been subdued and on course to show year-on-year contraction to 2008.

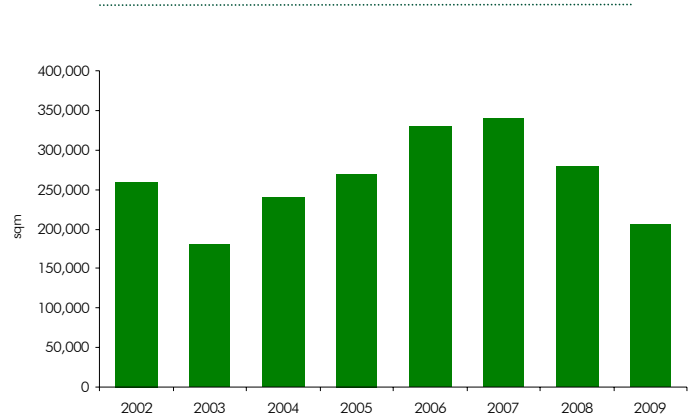
Rome market, however, has been showing relatively less severe demand contraction than other major European markets, due to stable demands by public sectors. Regarding sub-markets, market demand continues to be primarily divided between the EUR and the CBD.

Like major office markets across Europe, Rome have signs of rent stabilization and stronger trending for prime yields.

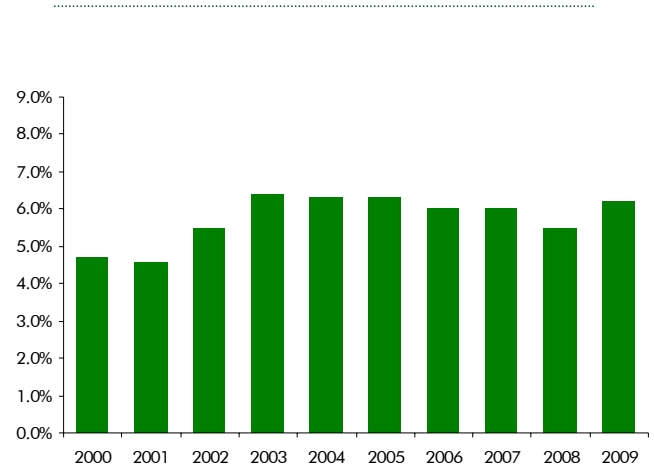
Looking at the pipeline of new schemes, we highlight the mixed-use projects will be developed in periphery Rome. It is expected that they potentially change the urban, however, many of these projects remain in the planning phase or precise construction and delivery dates continue to be uncertain.

As to CBD in Rome, the situation should remain stable with regard to the relationship between demand and supply, considering the office stock that will not increase and undoubtedly appeal to the public sectors as well as private companies, favoring prestigious locations.

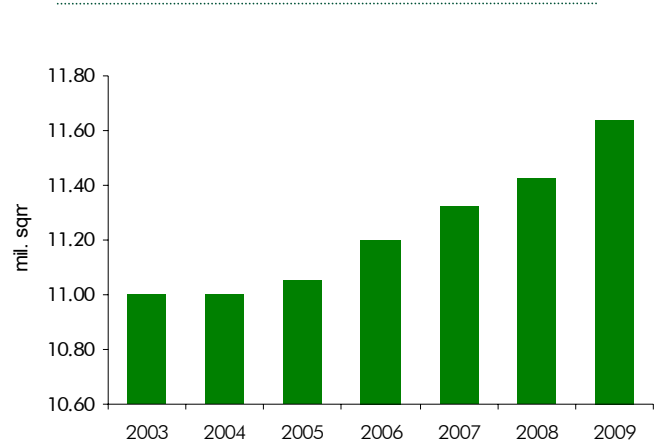
Office Take-up Milan



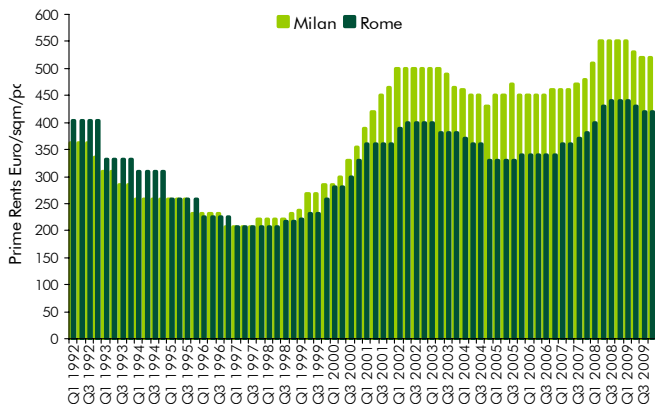
Milan Vacancy Rates



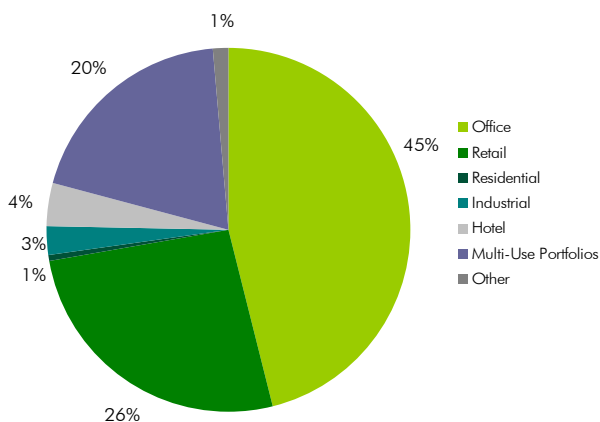
Milan Office Stock



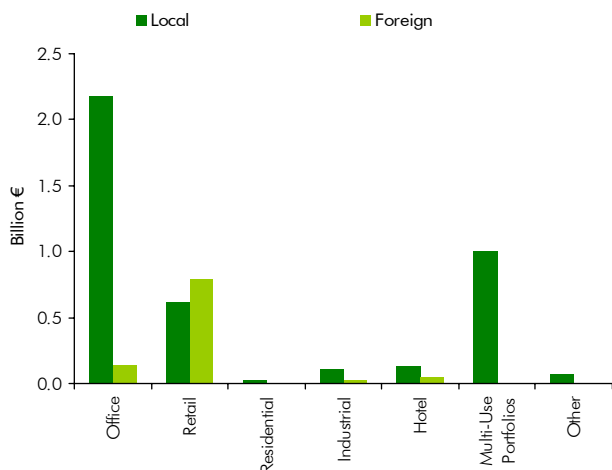
Milan & Rome Prime Rent- Office Space



Transactions by Property Type



Italy Sector Investment by Purchaser Origin



INVESTMENT MARKET ITALY

Improved market sentiment resulted in an upturn in the Italian commercial real estate investment market in Q4. Activity totaled €1.7 billion, an increase of 30% on Q3 2009 and the highest quarterly result this year. Italian market saw an increase in investment activity quarter-on-quarter, as well as on a half-yearly basis. Traditionally Q4 is the busiest quarter, so of course seasonal effects have played a part.

The upturn in both sentiment and activity is further illustrated by the trend in increasing investment volumes, and in stabilizing prime yields. Along with the prime yield stabilization, prices also has been seen positive trends.

Italy is now very important the presence in the European investment markets, compared to the recent past. This can be found anecdotal evidence that the Italian share of the market reached its historical peak with 7.3%.

Despite the increase in investment activity, investor interest in Italy remains highly focused on the prime segment of the market. Many of the active investors have not considered secondary property almost regardless of price, because it lies outside their investment subjects.

In terms of specific investment sectors, retail has represented one of the asset classes attracting the highest levels of investor attention, as well as office.

In fact, we recorded a notable single asset transaction in Milan with €300 million, the largest single asset transaction in 2009, were completed, in Q4 2009.

As the European market, the Italian real estate investment market is being dominated by equity buyers, such as Italian pension funds, German Open-ended Funds, institutional funds, mostly seeking well-let assets in core markets. In addition to these equity investors, some opportunity Funds are coming back to look for special situations or market opportunities to achieve their target double digit IRR. 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.

In this year, cross-border activity was at a relatively low level and is primarily intra-region. This is mainly due to a significant slowdown in activity from American investors. Their activity, both in terms of buying and selling, has fallen off enormously this year. In 2009, cross-border activities accounted for only 32% deals as opposed to the last three years' average of 50%.

As recent trends, the investment using indirect vehicles was significant, accounted for more than 60% (by value) of all investments.

In terms of the potential of positive movement, Italy is likely included to be among early recovery markets, due to relatively less volatile market nature.

OUTLOOK

Italian real estate market will be seen gradual improvement with economies likely to see at least some growth in 2010. While deal flow is likely to remain subdued for a while, we expect that the steady improvement that have been seen through the latter half of 2009 will continue in 2010. Investment activity will pick up further, even though prime well-let assets will remain the main focus of investors' buying patterns. As a consequence, it is crucial that the paths of prime and secondary values are likely to remain divergent.

The extent to which investment appetite broadens away from this tightly defined segment of the market will be a key issue, because so long as investor demand remains largely focused on this prime segment of the market, the scale of growth in activity will be restricted. Moreover, we expect to see early signs that some more opportunistic cross-border buyers will be starting to take an active interest.

OFFICE: Leasing activity will gradually recover as economic prospects improve in 2010. Both Milan and Rome markets should see stabilization or slight improvement in take-up next year.

Generally, rents are expected to be stable over the short to mid term, while occupiers will continue to scrutinize carefully their potential occupational costs and spatial efficiency and are looking to find flexible solutions to meet their accommodation needs. Moreover, the growth in rents will depend on the re-development pipeline and the delivery of internationally acceptable quality space onto the market.

As in other major markets, 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: Italy's shopping centre development pipeline will grow significantly in comparison to its European counterparts. Approximately 1.3 million sqm is projected in the development pipeline up until 2011, with a particular focus in Central and Southern Italy where there are more opportunities for development, due to a relatively low provision of existing shopping center stock. In addition, some important northern regions are still lacking regional shopping centers. Therefore, it is not expected to cause any significant threat of over supply.

In 2010, some new centers will open across the country and several new openings have already planned. Schemes of new modern retail formats continue to attract international operators who don't present in the Italian market yet. The level of the rent has recorded a growth over the last years reducing the gap with the more mature European market comparable in terms of per capita spending. It is foreseeable that the rents will remain stable over the next years with more concerns about service charges. The performance of the shopping center and retail park maintained in a comfortable position in 2009. As recent trends, factory outlet centers in particular saw strong performance and are expected to continue next year. High street markets in Milan and Rome continues to be stable both for rents and for occupier demand.

HOTEL: In Italy, the share of the international brands of the total supply is well below the European average and trail behind the other major continental markets. International brands are expected to increase their penetration in the Italian market, because hotels affiliated with international brands can easily establish themselves and gain market share and recognition. In the context of new entering, demands for advisory services have been increased, especially for development activities.

In the meantime, the market has just seen two trophy resort assets' transactions in Sicily (83 million, 161 rooms, 515.528 €/key) that we provided valuation services.

We expect to continue growing both local and international investor interest and transaction activity in 2010.

INDUSTRIAL: Industrial investment activities were slow in 2009, however, yields are showing signs of stabilizing, reflecting a narrowing in the gap between vendors' and purchasers' pricing aspirations, which will boost liquidity.

Occupier decisions around space utilization and supply chain reconfiguration may create strong demand for modern flexible space, where this serves wider corporate efficiency or consolidation aims. Therefore, the quality and flexibility of buildings will be a key consideration and so, even in a generally moderate demand environment, the need to upgrade will generate requirements for more efficient buildings.

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