

Quick Stats

	Change from	
	Q410	Q1 11
Total Turnover	↑	↑
Yields	↓	→
Capital Values	↑	→

Hot Topics

- Retail Investment turnover improving compared to the beginning of past year, boosted by one single trophy transaction.
- Still cautious approach from investors worried about the fiscal impact of new fund rules.
- Occupier market is improving, mainly for high street retail.

OVERVIEW

• Prime rents are stable

Top prime rents in prime markets, Rome and Milan, remain stable over the Q1 2011, driven by the scarcity of prime space and the increasing demand for this product. Market value in the secondary market is weakening, especially for the smallest center in secondary location. Incentives moved out across most markets.

• Retail sales remain flat

Retail Sales increased 0.1% in February compared to previous month, affected by the slight increase in food goods trade (0.2%), while the non food goods sales showed a null variation. On yearly base, retail sales has remained stable. Galleries in Italy continued to perform well whereas food locomotives slightly suffered.

• Occupiers still looking for new spaces mainly in High street in the prime markets

The beginning of 2011 continued the trend pointed out over the end of 2010, with a recovery in the expansion plans of retailers, existing or new, even if more cautious and cost sensitive approach is the new "normal". Retailers are starting to assess the quality of the opportunity without making difference between shopping centre or high street if they are interested on that market and that location and the rental level are in line with the tenant's expectation. Italy still exercise a strong appeal on the international retailers. Vacancy remains low for both secondary and prime centres.

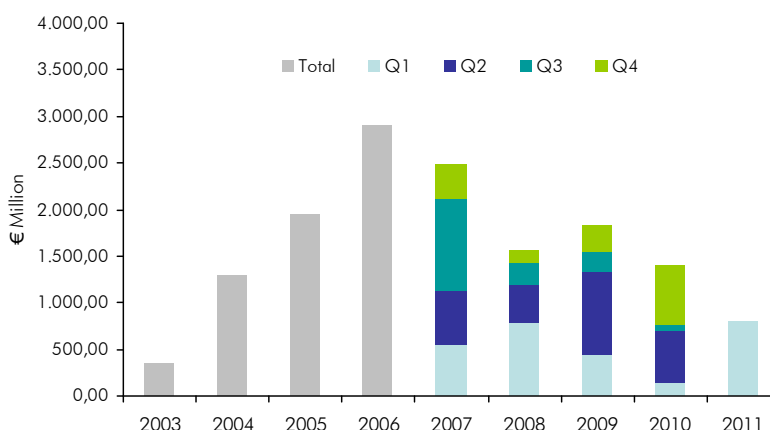
• Consumer confidence slightly worsened over the beginning of the year

The consumer confidence index, after the recovery pointed out in the last part of 2010, is set back a little at the beginning of 2011, standing at 103.7 in April. The main factors affecting the result regards both the deteriorating confidence on the national economic climate and the increasing inflationary pressures.

• Retail Investment driving the whole quarterly investment volume

Italian retail investment stood at €800 mln in Q1 2011, one of the highest quarterly total since Q1 2008 and almost 40% over the five year quarterly average. Large transaction accounted for around 40% of the total, purchased by an institutional fund. Cross border capital was almost 25% of the whole retail investment and it was the only foreign capital in Italy in the first quarter.

Italian Retail Investment evolution



RETAIL ECONOMICS

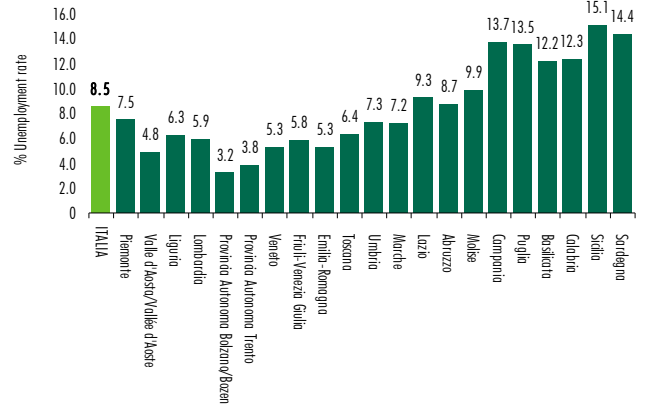
Italian economy signs some improvement at the beginning of 2011 but still at low pace compared to other core European Markets (Germany, the Nordics, Uk). In the Q4 of 2010 Italy's GDP grew by 0.1 per cent compared with the previous quarter. On average for the year, it expanded by 1.3 per cent. Positive contributions came from the performance of domestic demand and the recovery of exports. A modest acceleration in economic activity seems likely in the first quarter of 2011, as indicated by the slight recovery of industrial production and the livelier pace of exports in January and February. Industrial firms' confidence and their expectations for demand have improved to good levels.

Consumer spending is held back by declining real income and households are still spending cautiously, in the light of weakening labor market conditions and the trend in disposable income, which declined again in 2010 in real terms. Consumption returned to growth last year, but in recent months the upswing has not gathered momentum, judging by the performance of retail sales, which contracted in January, and by consumer confidence, which saw a gradual improvement come to a halt early in 2011.

Consumer price inflation, which was stable at around 1.7 per cent in the second half of 2010, rose to an average of 2.3 per cent in the first three months of 2011 year on year, as measured by the general consumer price index. Employment continue to be weak and after a slight gain in the fourth quarter, in January and February the number of persons employed lipped back at last summer's lows. The unemployment rate was stable at its 2010 average, while the incidence of long-term and youth unemployment increased.

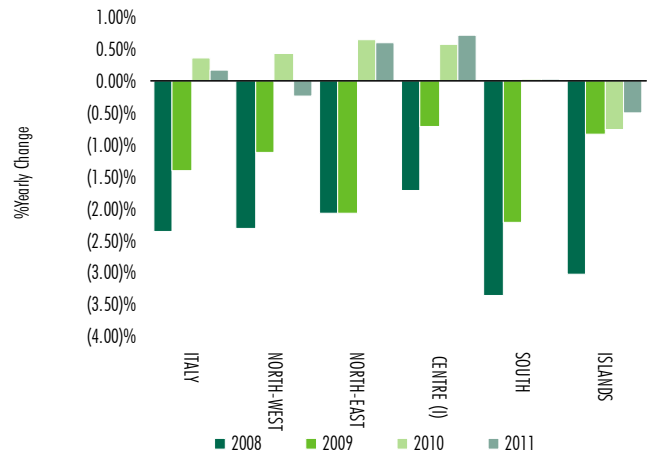
On a regional level, there are still deep differences between northern and southern region in terms of economical fundamentals. According to the 2010 performance southern region showed the worst performance in terms of retail-sales. In terms of consumer confidence, the latest data from April (Source Istat) showed a general decrease, stronger in the north-eastern and central region and less marked in the southern and the north-western region.

Italian Regional Unemployment rate, 2010



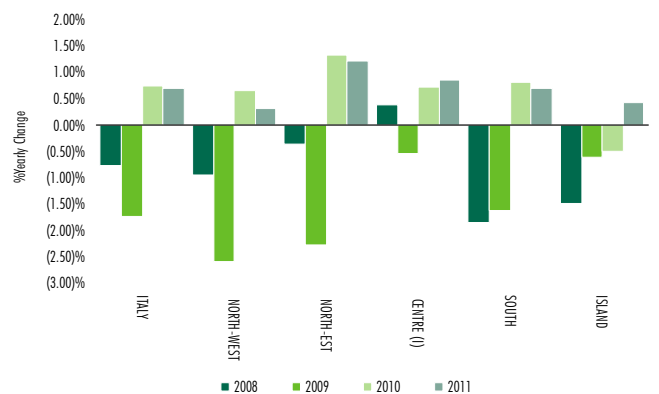
Source: Oxford Economics, March 2011

Italian Location-based retail sales by macro area



Source: Oxford Economics, March 2011

Residence Based Consumer Spending, Italy



Source: Oxford Economics, March 2011

RETAILERS ACTIVITY

After a weak 2009 and the cautious approach toward new developments over 2010, retailers demand improved at the beginning of 2011. Even though the approach is still more cautious, new retailers are planning expansion strategy in Italy. Tenants continue to focus on the occupancy costs, particularly in the new opening, in the starting up new/expanded schemes and in other unperformed schemes. High quality new projects under letting continue to record strong tenants' demand, not only from existing brands, but also retailers not present in the Italian market yet that are particularly keen to secure flagship stores in the "must be" high street retail destinations, first of all Milan.

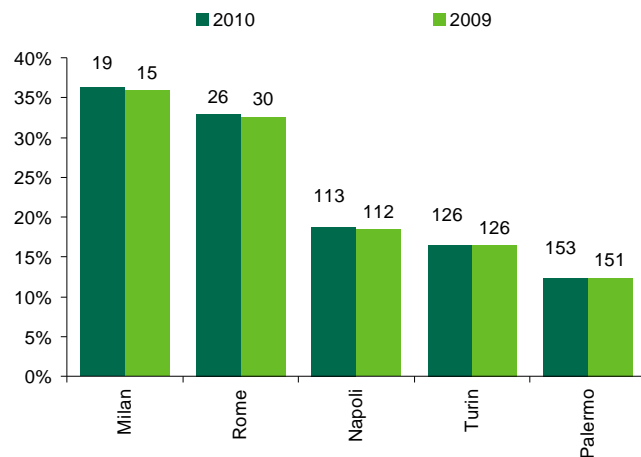
Italy still exercise a strong appeal on the international retailers. Generally they start from the Northern Italy to sound the market and then expand to the south only in a second phase despite the potentiality of such market generally less competitive. Some retailers already foresees a development plan that pursue on one side to complete their diffused sales organization covering those markets where there are still absent and from the other to improve and to strengthen their positions where they are already penetrated. Both companies have also revised their format that now requires larger surfaces. Therefore the expansion strategy includes the repositioning of some stores in line with the new requirements.

SUPPLY

The Italian Retail Stock is almost 16 mln sq m, almost characterized by Shopping Centers while the remaining stock comprises Retail Park (almost 1 mln sq m) and Factory Outlet center (almost 700,000 sq m). Supply density (Gla/1000 inhabitants) is around 234 sq m, still below the major European Countries. In Q1 2011 one completion has been recorded, a small shopping center in Parma, Emilia Romagna, EUROSIA for a total GLA of 16,500 sq. In April a further scheme has been completed: 33,863 sq m GLA in Forli, Emilia Romagna Region. Current GLA of shopping center under construction is about 400,000 sq m, for a total of 12 schemes mainly concentrated in Sicily and Lombardy regions (44% and 23% of total GLA respectively). The schemes under construction comprise also innovative projects for Italy such as the Shopping Centre Stadio Torino integrated in the new Juventus Football Club's Stadium.

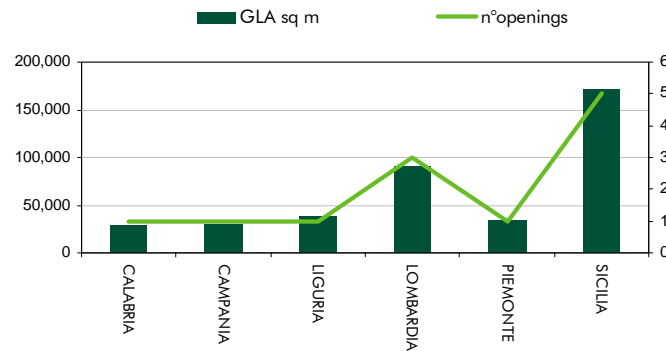
Shopping centre opening decreased over 2010 but the average unit size has increased, standing at about 25,000sqm of GLA and will increase further in the next years. Pipeline remains robust for the next years and no risk of oversupply is expected due to the entry's barriers. As a matter of fact, there is almost 1 mln sq m pipeline expected to be delivered between 2012-2015, with some of it that has good probability to start development during 2011.

Proportion of retailers targeting Italian country and position in the general ranking



Source: CB Richard Ellis * How global is the business of Retail, 2011

Schemes under construction to be delivered in 2011 by Regions



Source: CB Richard Ellis

Major schemes by stage of development, Q1 2011

Scheme	GLA sq m	Development stage	Completion date
Eurosia (Parma)	16,520	Completed	Q1 2011
Punta Di Ferro (Forli)	33,863	Completed	Q2 2011
CC Stadio Torino	34,000	Under C.	Q4 2011
Le Terrazze (SP)	38,460	Under C.	Q4 2011
Centro Sicilia (Misterbianco)	45,000	Under C.	Q4 2011

Source: CB Richard Ellis

RENTS

Across Italy rental growth has remained almost flat over the Q1 2011, following a two years period of flat trend. Italy has not suffered a decline for the prime rental values due to an adequate levels below the major European countries, that have brought in the recent past to a stable rental growth to reduce the gap.

At the beginning of 2011 shopping center prime rent stood at 760 Euro/sqm in Milan and little higher at 800 Euro/sq m in Rome.

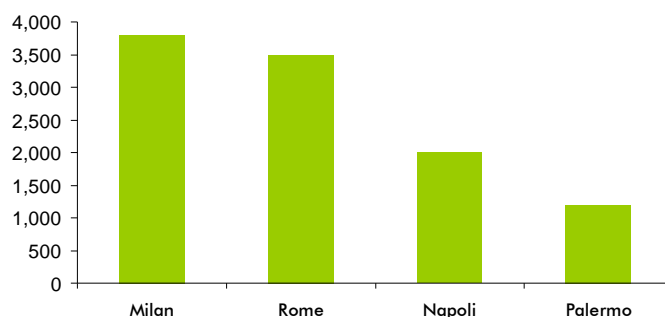
Average rent for medium units (over 1.500 sq m GLA) has confirmed in the range of €140-250 per sq m pa. High streets rents and key money in the major Italian cities, seems to be pretty much stable too, even tough there has been some upward pressure on rent in the most important high street in both Milan and Rome.

HIGH STREET

In the recent past, the high street retail market has undergone a general upturn. Northern Italy is the target market for new players, with Milan representing the pre-eminent retail city in Italy for both luxury brands and international chains where the vacancy rate is almost null. Demand for high street retail in Milan has continued to grow over the Q1 2011, confirming the strong interest of local and international retailers. Due to the historical low level of vacancy, there is an increasing trend in refurbishing existing building in the top location for retail in the city, in order to create supply for new stores (the recent Gap new store in Corso Vittorio Emanuele, or the breathing building in via Torino for Geox). Currently is under construction (refurbishment) a new department store where an old cinema used to be, near Corso Vittorio Emanuele.

Rome high street retail, like Milan, has been affected by a new wave of renewal, with new and existing retailers repositioning on the market and refurbishment of existing building into retail stores. Among the latest opening in the city center the most relevant are Ash, Loriblu (first flagship store), and Trussardi 1911. Demand has increased over the first quarter and vacancy rate decreased further and currently is almost zero. Prime rents remained stable.

High Street Prime Rent, Q1 2011



Source: CB Richard Ellis "How Global is the Business of retail, 2011"

Main High street in Milan

Street Name	Rental range €/sq m/ pa
Via Montenapoleone	4,000 – 5,000
Via della Spiga	3,000 – 4,000
Corso V. Emanuele	1,500 – 3,000
Corso Buenos aires	400 – 1,000
Via Torino	800 – 1,500

Source: CB Richard Ellis

Main High Street in Rome

Street Name	Rental range €/sq m/ pa
Piazza di Spagna	3,000 - 4,000
Via Condotti	3,500 – 4,500
Via Frattina	800 – 1,000
Via Borgognona	1,500 – 2,000
Via del Corso	800 – 2,000

Source: CB Richard Ellis

INVESTMENT ACTIVITY

With €800 Million, retail investment grew strongly in Q1 2011 compared to the same quarter of previous year. It accounted 75% on the total investment volume in the quarter. The retail share on total investment volume in Italy has continued to grow since the beginning of 2000' largely at the expense of the office sector. Over the 2003-2010 period the retail sector share on the total has increased from 13% to 40%, for a yearly average of 25%.

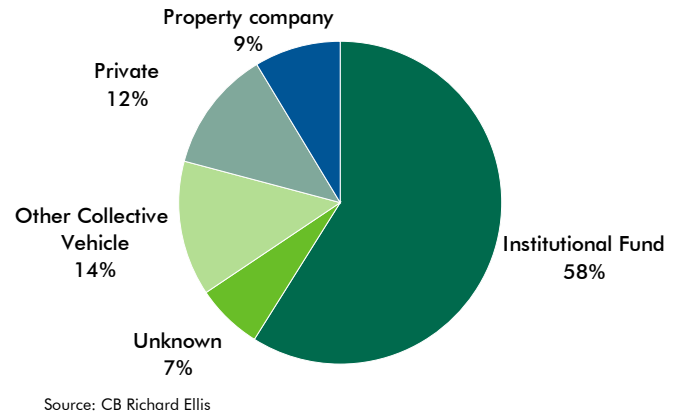
The main transaction in the quarter was the selling of the luxury department store in the CBD of Milan, piazza Duomo, La Rinascente Duomo, almost 40% of the whole quarterly investment in Italy. Anyway, other transactions took place in the quarter, both for high street and SC, testifying the renewed interest in the wider retail sector.

The whole foreign capital invested in Italy in Q1 2011, almost € 200 mln, targeted retail sector. It was 25% of total quarterly retail turnover. Generally, foreign capital represented an high share on retail investment: from the highest peak of 70-80% reached in 2003-2004 to the lowest of 40% in 2005 and 2009.

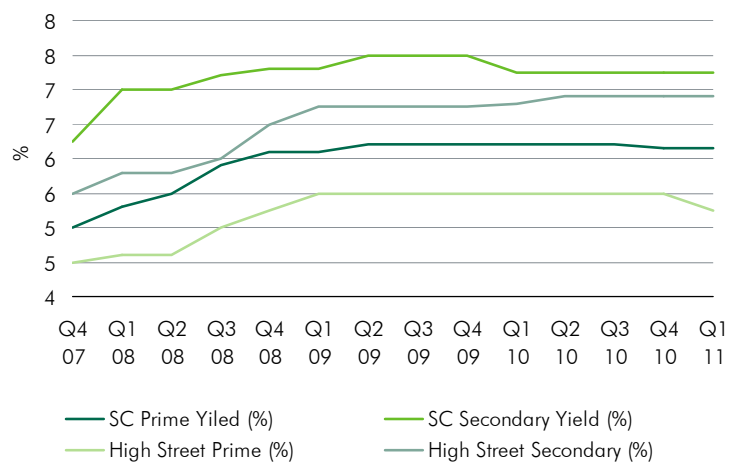
Regarding the foreign investors active in Q1 2011 in the retail sector, they are mainly those who have already invested in Italy, taking advantage of good investment performance during the crisis period that are continuing to seek opportunities in Italy. This confirms that, even in Italy as in Europe, in 2011 the retail sector will be an interesting area among investors. But it will be "handled with care", since the exogenous factors that have slowed the recovery of the market in 2010, would also be maintained for the next two years.

Shopping Centre prime yield, after the lowest peak reached in 2007, increased gradually 120 bps up to 6.20% gross yield reached in Q2 2009, then stabilizing till Q4 2010 when prime yield decreased 5 bps to 6.15%, stable in Q1 2011. Prime yield for high street in both Rome and Milan decreased further over Q1 2011, reaching 5.25% while has remained stable at 6.9% for the secondary units. High demand for prime space in prime location of the main markets is driving down the yield trend.

Italian Retail Investment by type, Q1 2011



Prime gross yield evolution



Largest Retail Investment deals in Italy, Q1 2011

Market/Sector	Buyer	Price € Million
Milan/La Rinascente Duomo gallery	Fondo Ippocrate	472
Rome/Casalbertone SC	Union Investment	49
Forli/Romagna Retail Park	Klepierre	69
Milan/San Babila 1	Private	66

Source: CB Richard Ellis

OUTLOOK

Although expectation for the economy remains low and 2011 GDP growth has been revised down at 1.1%, retail market fundamentals confirmed more solid than the rest of the economy over 2010. As a matter of fact, the results from the analysis of retail sales in 2010 compared to 2009, despite the differences between food and non food areas and between large and small shops, have shown an overall tightness consumption, thus confirming the greater solidity of Italian households compared to the European average. Furthermore, the Italian families in Europe are those with one of the highest share of wealth compared to disposable income and one of the lowest level of indebtedness. In addition, the level of vacancy rate in the retail sector, both for the high street and the shopping center, remained very low during 2010 and the beginning of 2011 and international brands that have developed in Italy have reached a positive performance. At last but not least, the Italian market penetration of modern business is significantly less than other European countries, with considerable room for growth for the sector. For all those reason, we expect the coming quarters to follow the trend of previous quarters in the high street and shopping centre sector.

High Street: strong demand from new retailers and existing that are expanding their brand, in both Rome and Milan, and increasing pipeline for refurbishment of existing building. Even tough the high pressure of demand and the low level of vacancy, we do not expect prime rent to further increase over the medium-short period. It is mainly due to the fact that landlords are more careful on the quality of the tenants and their reliability to ensure strong cash flow.

Shopping Centre: Potential pipeline is increasing and we expect prime rents and yields to remain stable for prime schemes while for not-prime schemes in secondary location, where there are signs of weakening demand and increasing vacancy levels we expect a decreasing rental trend.

On the investment side, the retail sector has confirmed the most interesting among foreign investors, mainly for its characteristic of less volatility and greater availability of *Investment Grade* asset compared to other asset classes, such as offices. Despite the interest of foreign investors already present in Italy, we do not believe new global capitals flow to Italy, such as to match the volumes recorded in the period 1999-2004. For this reason we believe that alternative ways of raising capital will replace foreign capital, such as the creation of Family Office and / or facilitate joint ventures between specialists and core investors or between private equity funds / developers / investors.

Currently on the market, there are some transactions that should be closed for high street in other market than Milan. Institutional investors are still the main target investor for this kind of asset. We expect investment transaction to slightly increase over the coming months and the general market condition to improve.

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