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# Only the strong survive, but the rewards are worth it

Shopping centre specialist IGD is not only used to standing on its own – the Italian SIIQ seems to positively relish it. As the first and only landlord in the country to convert to SIIQ status last year when the nationwide legislation was approved, CEO Filippo Carbonari has discovered from experience that being a pioneer has its good and bad sides. With the hoped-for evolution of the tax efficient vehicle stalling, it looks as if IGD will remain the only REIT on the Italian landscape for at least another year, giving them scant bargaining power in order to improve the current framework. However, IGD's single-minded approach, leading to the creation of a business model which is standing them in good stead, may soon draw copy-cats in Italy and beyond as the company continues its dynamic path. Carbonari is well aware that IGD has more on its plate in 2009 than some of their competitors added together, as he explains to REurope Magazine. "We're continuing to execute our planned strategy this year, so we're still extremely busy," he says. "There are a number of operations with which we're happy to proceed, and others which we're seeking to put the brakes on in the light of the changing climate. We've withdrawn from a couple of contracts recently, but are opening a whole raft of shopping centres in any case this year." He explains: "We cancelled the preliminary contract for the retail park at Spilamberto, close to Modena, which was far less attractive since the original project could not be executed. Then in Trapani, where the time schedule looked very uncertain we decided to exit the preliminary agreement. But in 2009 we will have three openings spread throughout Italy: in Guidonia, close to Rome, in Asti (Piedmont) and in Catania (Sicily)".

IGD, which has set itself the ambitious target of becoming the Italian leader in retail real estate, was born as the owner and asset manager of Coop Adriatica and a significant part of Unicoop Tirreno's holdings, and currently possesses 14 hypermarkets, 10 shopping malls, another 3 held as part of the RGD j.v. and three plots of land for development. The acquisition of Winmarkt Magazine SA for ¤192m last year, with a major real estate portfolio in Romania, brought them into the international arena in a moment when the world economy was starting to feel seismic shifts. But Carbonari is confident that their timing was impeccable.

"We made a unique investment in Romania last year, acquiring an outstanding portfolio of shopping centres located in 13 different cities. Not in Bucharest, not even in Timisoara - where there's already been extreme speculation - but smaller urban areas with ongoing potential. Romania's also suffering from a consumer crisis but we anticipated many of these aspects when we made our investment, also in terms of segmenting the portfolio, in order to analyse and improve the attractiveness of each centre and to identify the ideal merchandising mix. Over the next couple of years we will mostly focus on commercial investments, in order to attract and to retain key-tenants, both domestic and international. In the long run we will invest more in refurbishments, as we're more interested in the long-term business than the short-term rental returns," he explains. Carbonari also recognises that Romania is out of step with western Europe's growth cycles, another aspect in its favour. "While Europe's largest economies are registering extremely low annual increases in GDP, Romania is still registering 3 or 4% growth p.a. – light years ahead of the rest of the Europe."

Filippo Carbonari

Carbonari foresees a future climate which will reward those that survive a difficult 2009. "Our business model is fairly unique in Italy. In this day and age, IGD is one of few real estate companies in Italy capable of enduring the crisis with relative ease and looking forward to a brighter future. We're strong and haven't had to change our industrial plan, because we have a good business model, and didn't overgear in the past. Today we have no need to deleveraging our balance sheet, since our LTV remains around 51-52%. Our revenues do not suffer from pressures that some over-rented situations have generated elsewhere as we have always aimed at fixing rents at sustainable levels."

He adds: "To a certain extent, the crisis is weeding out the weak from the strong, and while in the past we stood in a crowded market place, there's a good chance we'll emerge in an environment in which we have less competition because there are simply fewer survivors."