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18%

Increase in property
transactions in 2016

SPOTLIGHT | 2017

ITALY

Residential real estate insight | Values and sales | Regional focus



La dolce vita

Stability is returning to the Italian residential market. Transaction volumes are rising and prices are beginning to level out

“ From Dante to da Vinci, Puccini to Pavarotti, Italy is a country with a formidable cultural heritage. It boasts 53 UNESCO World Heritage Sites, more than any other country. It's no surprise that people from around the world choose to take a more permanent stake in the country and buy a property so that they can live the Italian life.

Italy's economy is emerging from a period of financial and political challenges, but stability is now in sight

Hard hit during the global financial crisis, Italy's economy is emerging from a period of financial and political challenges. The country's property markets suffered and residential prices fell by up to 30%. However, after several difficult years, stability is now in sight. Transaction volumes have risen 33% from their 2013 low, while prices are beginning to level out.

In the prime sector, there are high levels of stock. This makes it a buyer's market and 'best-in-class' properties are in demand.

Italy's status as a top visitor destination, coupled with the high-quality life it offers, will underpin its enduring appeal for generations to come. ”

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Summary

Transactions on the rise

Numbers of transactions grew by 18% in 2016, but remain 39% below their 2006 peak

A buyer's market

Prime prices are 30% below their 2008 high. Sensibly priced properties are trading

International buyers

The international buyer base is broadening – Americans are a growing force

Search for income

Growth in the city-break market supports demand for short-term rentals in Italy's major urban centres

Pricing outlook

Prices may stabilise next year as transaction levels rise

On the cover

St Peter's Basilica, Rome

Italy overview

After a series of difficult years, Italy may be entering a period of stability. We look at the rise in transactions, the signs of domestic growth and the wider international interest in the prime market

Domestic stability

Lower interest rates and improved affordability drive activity

Stability is returning to the Italian residential market. Transactions increased by 18% in 2016, reaching their highest level since 2012, although they remain 39% below their 2006 peak.

Recovery has been strongest in the north – the south continues to lag.

Domestically, activity has been driven by low interest rates, better

access to mortgage finance, and improved affordability.

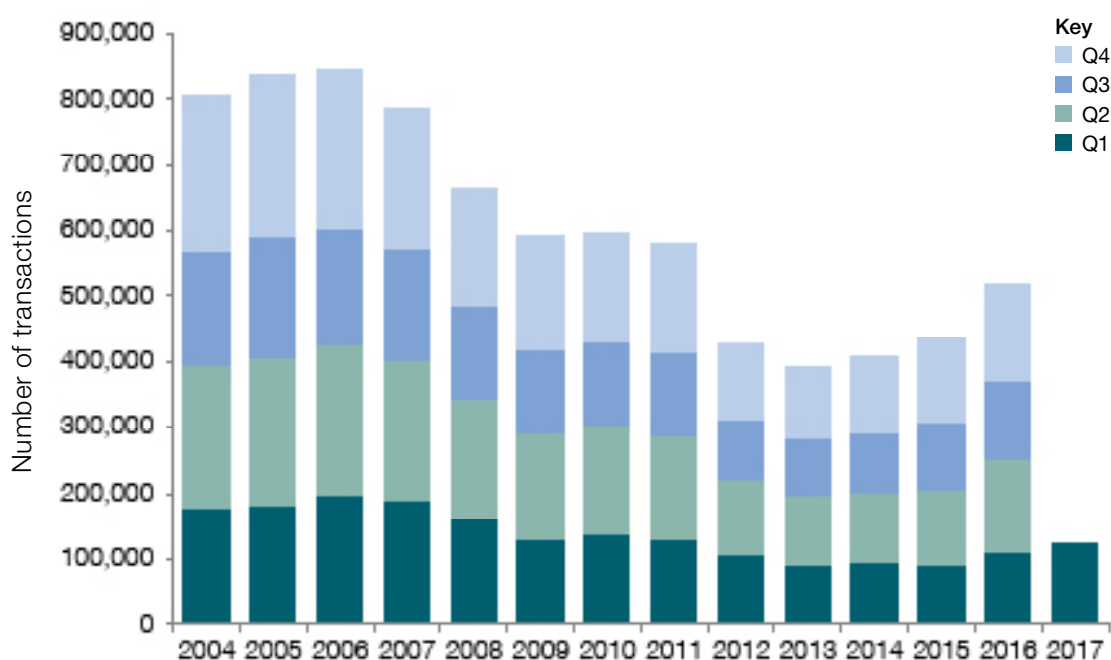
Higher transaction levels come from more realistic pricing. In the first quarter of 2017, the average discount on asking price was 12% (in 2014 it was 16%).

Importantly, sentiment is improving. The latest Bank of Italy survey of estate agents suggested that expectations are for the

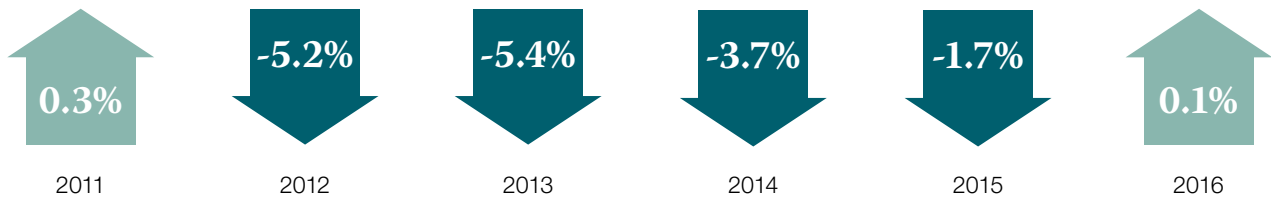
market to continue to strengthen in the short and medium term.

Price growth is more muted. According to ISTAT (see above right), national price growth was positive in 2016, up 0.1% in the year to Q4 2016. More recent data from Idealista, however, reports national price falls of 1% in the second quarter of 2017, and an annual drop of 6.5%.

Sales volumes Transactions increased by 18% in 2016



Source Savills World Research using Agenzia Entrate

Annual growth

Source Savills World Research using ISTAT

Second homes

High stock levels are helping create a buyer's market

Stock levels are high in the prime second home market, creating a buyer's market. Prices are around 30% down from their 2008 peak and a greater willingness to price properties accurately has helped to increase sales. A growing trend is to 'try before you buy', with rentals of three to six months available to prospective buyers.

Most international buyers are drawn to Italy's heritage, natural beauty and quality of life. Some 74% of prime property buyers favour historic properties, and those renovated to a high standard are most in demand. Views are important, as is access to a town.

Europeans comprise the bulk of international buyers. Germans and Swiss are particularly active in the north of the country, while Dutch, Belgians and those from the Nordics are buying, too.

In spite of Brexit uncertainty and weak sterling, British buyers are present, some actively seeking euro-denominated assets. British vendors who intend to repatriate funds are in a strong position.

Americans have been mobilised by the strong dollar and are a growing force. Buyers from India, Singapore, Hong Kong, China, Australia, New Zealand and South Africa are present, but in smaller numbers.

Signs of growth

Challenges persist, but Italy's economy is forecast to rise

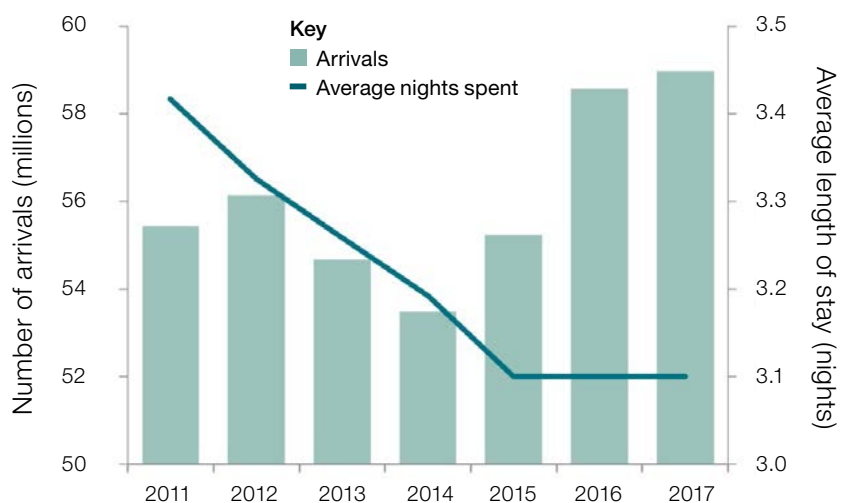
Italy is the eurozone's third largest economy, and the eighth largest in the world. It is a major exporter of pharmaceuticals, cars, oil and vehicle parts. It is the world's second largest exporter of wine by volume, just behind Spain.

Following the eurozone crisis, Italy's economy is now returning to growth and is forecast to rise by 1.4% in 2017. Modest recovery has been driven by domestic demand, retail sales and, recently, industrial output, which is on track to record double yearly growth.

Italy is the fifth most-visited country in the world and expected to host a record number of tourists in 2017. Reflecting rising demand for city breaks, the fastest-growing tourist markets are Milan, Verona and Rome, where tourists are up a combined 17% in the last five years.

Challenges persist. Government debt stands at 133% of GDP – higher than Portugal, but lower than Greece. Unemployment stands at 11.3% (forecast to fall to 10.7% by 2019) and youth unemployment is high, at 37%.

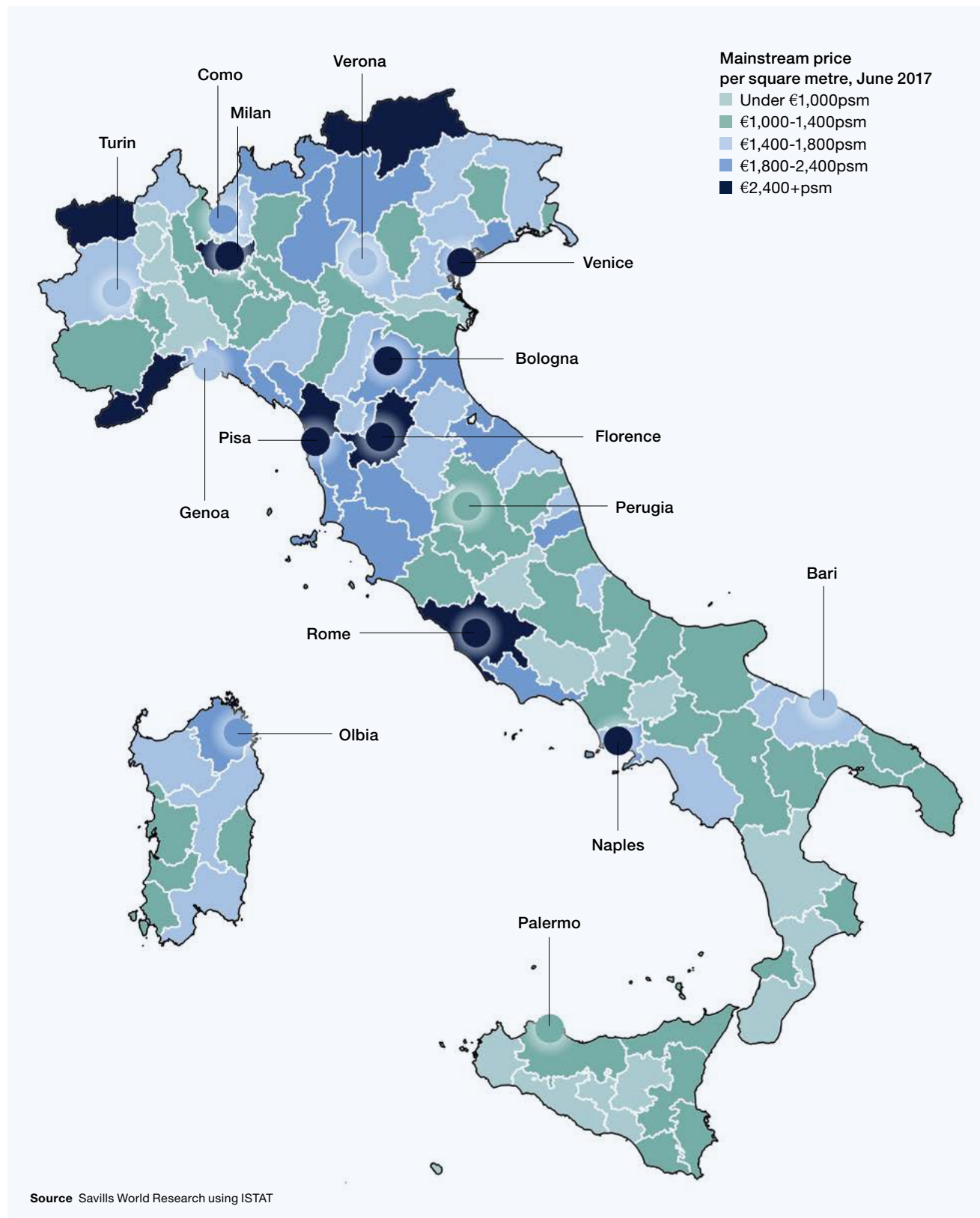
Tourist numbers up Italy is the world's fifth most-visited country



Source Savills World Research using ISTAT, year to March 2017

Mainstream residential markets

The highest mainstream values are found in Italy's economic heartlands in the north and west



Global prime prices

How luxury property prices in Italy compare to cities and leisure hotspots globally

Cities

Price per square metre



Leisure hotspots

Price per square metre



Source Savills World Research

Rental markets

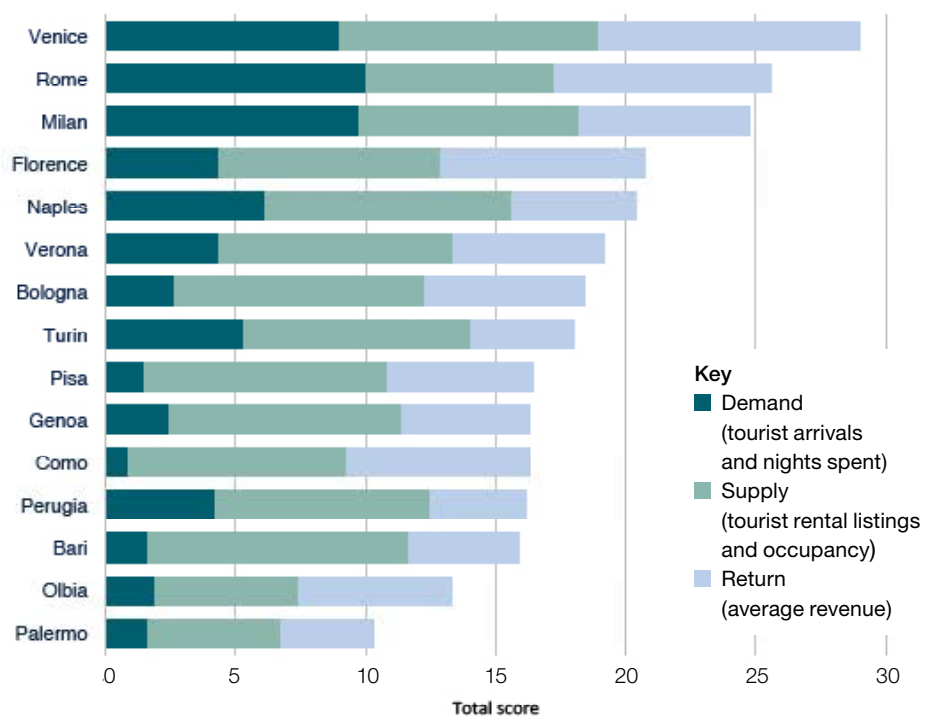
With the introduction of a new tax on holiday rentals, we identify the cities with the strongest markets for short lets

Short-let services, such as Airbnb, have exploded in popularity. They bypass the long tenancies and rent caps enforced in Italy's highly pro-tenant rental markets. For some second-home owners, they are a means to receive rental income for at least part of the year.

In June 2017, however, the Italian Government introduced a 21% tax on the income from short-term holiday rentals in an effort to stem this activity. The tax will be paid by the letting agency or web portal (previously, owners had to declare it and be taxed as part of their income).

Three indicators show which cities have the strongest markets for short lets (see chart on right). Venice, a high-yielding, year-round tourist destination, tops our overall ranking. Rome and Milan are second and third respectively, benefiting from broad demand both as city break and business destinations.

City strength Rental demand, supply and return (Savills score)



Source Savills World Research



Three key cities

We take a look at three cities playing a lead role in Italy's residential real estate. Transactions are up and new incentives for HNWIs could stimulate the prime market

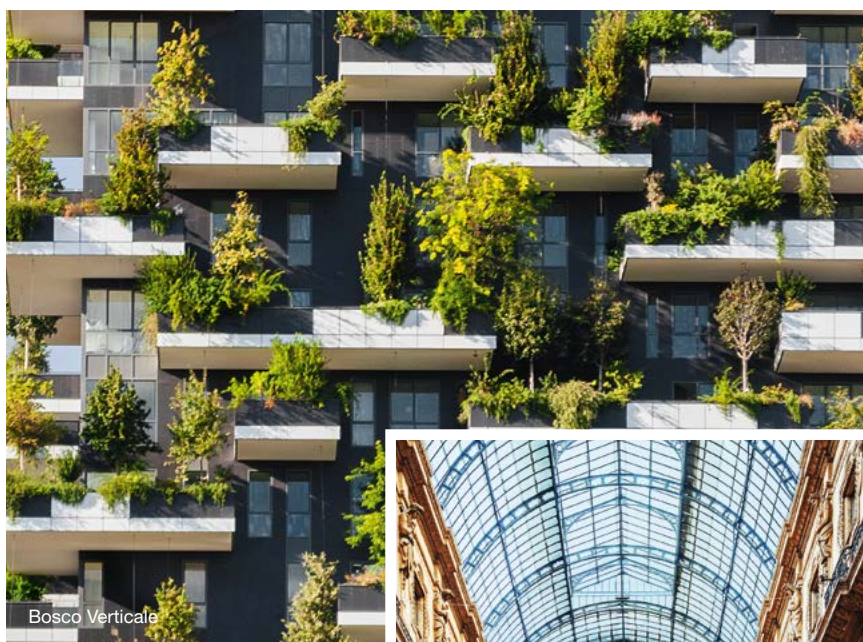
Milan

The capital of the Lombardy region, Milan is also a global capital of design and fashion. Luxury towers have entered the mix of high-end real estate options

Milan is Italy's second largest city and the country's premier financial and retail centre. Its diversified economy has outperformed many other Italian cities. Residential transactions were up 22% in 2016 (but remain 13% below peak) and, according to Idealista, prices increased by 1.4% in the second quarter of 2017.

The historic centre is the city's most prestigious area, notably the Scala and Quadrilatero della Moda quarters. Prices across Milan average €3,400psm, while prime prices can reach €13,000psm.

A number of luxury towers have emerged around the Porta Nuova business district. They include Solaria, Italy's tallest residential building, and the 'vertical forest' terrace planting of Bosco Verticale.



Bosco Verticale

Galleria Vittorio Emanuele II

Milan is top for commercial real estate

In 2016, €8.6bn was invested in Italy's commercial real estate, the highest volume since 2007. A further €3.7bn was invested in the first half of 2017.

Institutional investors are taking advantage of Italy's early position in the market cycle, with an eye to capital growth and better returns. Milan has been the major recipient.

International investors accounted for 72% of invested volumes in the first half of 2017, attracted by a relatively weak euro, better returns compared with other EU countries, and low interest rates. The majority of these deals focused on prime retail and offices, representing 50% and 30% of the total invested volumes respectively.



Gondolier in Venice

Venice

The iconic city that rises from the Venetian lagoon continues to enchant visitors, and the best properties are now increasing in value

There's a strong, year-round rental market in Venice, supported by the fact that the city's resident population is outnumbered by the number of visitors it receives daily.

Prime prices in Venice fell by 20-25% from their 2008 high. After a small rebound to 2012 levels, they fell again, but have now bottomed out. The best properties rose by 4-5% last year.

Such is its enduring appeal, Venice is seen as a safe, long-term bet. Gross tourist rental yields exceed 5%, compared with 3% in the open residential market.

Dorsoduro is Venice's most expensive district, with Grand Canal properties the most in demand. Prime prices average €9,000psm, but values vary significantly

on a property basis. Exceptional properties renovated to a high standard in top locations can reach €25,000psm. Apartments on the piano nobile (principal floor) are the most sought after, providing high ceilings and large windows.

Neighbourhood to watch

Beyond the core prime districts of Venice, central parts of Cannaregio are on the rise. Prices here are lower (from €6,000psm to €7,000psm), yet the district is well located and offers good rental potential.

Locals favour the areas of Santa Croce and San Polo, which are central, bound by the Grand Canal and provide easy access to the train station.

Rome

Quality properties are in high demand in the capital

Activity in Italy's capital city is rising. The number of transactions in Rome increased by 11% in 2016, but remain 29% below their levels of 10 years ago. Prices are close to stabilising, although no increases have been recorded yet.

Prices across Rome average €3,200psm. Prime properties in the historic heart of the city range from €8,000 to €10,000psm, but those that are well renovated and in the best locations, particularly those with a terrace or view, can reach €15,000psm. Just outside the centre is the prime residential area of Parioli, where prices range from €6,000 to €7,500psm.

New development (including renovation) in central Rome is tightly regulated – obtaining permits for it is difficult. As a consequence, many buildings lie empty, in spite of the high demand for finished properties. New and renovated homes carry a significant premium as a result.

Area on the rise

Quartiere Trieste is home to a mix of students and young professionals, and currently ranges from €4,500 to €6,500psm. It offers value compared with the neighbouring district of Parioli, but is just as accessible to the historic centre.



Quartiere Trieste

Tuscany



The Tuscan landscape stretches over the Apennines down to the coast. Buyers and sellers are acting, and achieved prices are much closer to asking price



Main: A trattoria. Inset: Pienza



Tuscan farmhouse

Tuscany has long held appeal as a second home destination, thanks to its charming landscape and the famous cities of Pisa, Florence and Siena.

The region enticed a raft of international buyers in the 1970s and 80s, many attracted by renovation projects. Those properties now need a second (more modest) round of renewal and are the projects for new buyers. Today, foreigners comprise 10% of the resident population.

Perhaps best known for its secluded farmhouses set in olive groves and vineyards, properties

close to a town or village are most sought after. Accessibility to amenities also helps with rental potential. Three to four-bedroom properties are in greatest demand, although separate guest accommodation is desirable.

Prices have fallen by up to 30% from their peak, and are starting to stabilise at an average of €2,500 to €4,000psm in the countryside.

Buyers and sellers who have been waiting out the market are now acting, and achieved prices are now much closer to asking. Chianti is outperforming the rest of the region as buyers seek out best-in-class properties.

Umbria



Landlocked Umbria is a mountainous region crossed by the Apennines. Properties close to towns with good tourist traffic are most in-demand



Assisi

Directly to the south-east of Tuscany, Umbria is Italy's fertile 'green heart'. It received foreign investment later than its neighbour. Prices are lower, typically between €2,000psm and €3,000psm, and are also down around 30% from their peak.

Competitively priced properties are trading, with the lifestyle market under €600,000 the most buoyant. The most in-demand locations are those close to towns with good tourist traffic, increasing rental potential.

Area to watch

Orvieto is a historic walled town, built on an outcrop of volcanic rock. It's a vibrant, youthful university town and a fast-growing tourist destination that is off the main tourist circuit. That said, it's only a one-hour commute to Rome. Property here currently offers value relative to the region.

Sardinia



Costa Smeralda, on Sardinia's north coast, is one of the Mediterranean's most exclusive resorts. Porto Cervo's marina hosts 60 super-yacht berths and holds international regattas. Prices can reach €45,000psm at Romazzino (and exceptional properties have significantly exceeded this). Attractive to ultra-high-net-worth individuals, there is also a super-prime lettings market for those looking to enjoy the summer season.

Porto Cervo



The Lakes



The larger lakes of Como, Garda, Lugano and Maggiore are close to the Alps. Properties here achieve some of Italy's highest real estate prices

A property on the Italian Lakes can command some of the highest prices in Italy outside the country's major cities and would attract a global audience.

Lake Como is the most expensive, with prices ranging from €5,000 to €8,000psm. Being close to Switzerland makes it popular with Swiss looking for a second home in a more affordable country with a high quality of life.

The most desirable properties are those that have direct lake access and a sunny aspect, but these rarely come to market. In Bellagio, a 50% premium can be achieved for being on the Como-facing bank.

The town of Como itself is sought after by those who work in Milan (a 30-minute train journey away). It offers lake access, international schools, and is popular with young families.

On the up

Historically, Lake Garda has been attractive to Germans and other northern Europeans. It is now opening up to a wider international audience and offers good value.

Main: Torbole, Lake Garda. Inset: Villa del Balbianello, Lake Como



Liguria



Known as the Italian Riviera, Liguria forms a beautiful and imposing arc of coastline in the north-west of Italy. Quality apartments are in demand



Liguria is a popular tourist destination, known for its attractive towns and beaches. The region also features several ports of call on the Mediterranean super-yacht circuit.

A key destination is Portofino, one of Italy's iconic coastal towns. Along with Santa Margherita, quality apartments here in refurbished buildings are both in short supply and high demand.

Up the coast in Genoa, the best properties are found in the central Albaro district with coastal views. Prices here can reach €10,000psm.

A range of nationalities are active in the region and, as Liguria is close to Milan and Turin, it's especially popular with Italians as a second-home location.

Area to watch

Western Liguria is accessible from Nice Airport, and prices are far lower than the Cote d'Azur. Monaco's marinas are at full capacity, so the Principality has acquired a marina at Ventimiglia.



Italy attracts high-net-worth individuals with new tax rules and investor visas

In 2017, the Italian Government introduced a new tax and investment regime aimed at attracting high-net-worth individuals (HNWIs).

For new residents, taxation on foreign assets and other foreign-secured capital gains is substituted for a yearly flat rate of €100,000. This also grants an individual exemption from inheritance tax related to assets held outside of Italy. Any Italian-sourced income continues to be

taxed on a progressive basis, boosting domestic tax revenue, in addition to local taxes on any investment and consumption made by the HNWI.

A new investor visa has also been introduced, requiring an investment of between €500,000 and €2 million in specified vehicles, held for at least two years. Successful applicants are entitled to a Schengen visa for themselves and family members.



Italy outlook

■ Price stability

Rising transaction levels will reduce currently high levels of stock. Prices could stabilise next year, led by best-in-class properties.

■ Economic growth

The Bank of Italy revised its GDP growth estimates for 2017 to 1.4%, a significant upward revision since January 2017.

■ Political uncertainty

National elections will be held by the spring of 2018. Polls show the Democratic Party neck and neck with the anti-establishment Five Star Movement.

■ HNWI incentives

Italy's new incentives for wealthy individuals follow in the footsteps of European rivals. If successful, they could further stimulate the prime residential markets.

■ Enduring appeal

The country's history, heritage and beautiful natural environment will sustain demand over the long term.

Savills World Research We monitor global real estate markets and the forces that shape them. Working with our teams across the globe, and drawing on market intelligence and published data, we produce a range of market-leading publications, as well as providing bespoke research services to our clients.

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74%

Prime property buyers
that favour historic homes

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