

ISSUE #1

INSIDE VIEW

ITALY 2016





For Sale - Portofino, Liguria, Price on Application.

Italian Market Overview

From its art and architecture to its food and wine, its landscapes and language to its exuberant people and their love of life, what Italy does best it has been doing for thousands of years.

It is this timeless charm that inspires many overseas buyers. Combined with a favourable currency rate, plenty of property for sale and prices at the bottom of the curve, Sterling or Dollar buyers in particular are viewing now as the time to step back into the market. We saw enquiry rates rise by 50% in the year leading up to 2015. Italians are also looking at the investment market with renewed interest.

And what can we expect in 2016? Prices will stay level; we don't see immediate rises or substantial drops on the horizon. What we are seeing is a return to the long-term trusted locations.

At the market's peak, buyers looked to regions such as Le Marche, and Abruzzo for greater value for money. With prices having dropped across the board since 2009 and now resting at about 30% below their peak, Chianti is back in favour, along with Lucca and Pisa and the hilltop villages of Montepulciano, Cortona and the Val d'Orcia. In Umbria, the Niccone valley, Perugia and, to the south, Todi

and Orvieto remain the more requested locations.

We find buyers are either a Tuscany type, drawn by its rolling hills and Renaissance architecture, or they love Umbria for its rugged Etruscan landscapes; they rarely search in both. But the price gap between the two is narrowing. Where Tuscany's rise to fame in the 1970s means many of its properties are now in need of a new bout of modernisation – and priced accordingly – Umbria joined the picture later and its properties tend to have been more recently renovated.

For opportunities beyond the big two, Liguria – long a holiday home destination for Italian buyers – is regaining its appeal with British, American and Northern European buyers. The Western side in particular, easily accessible from Nice airport, offers far greater value for money than the Cote d'Azur and its coastal towns such as San Remo and Bordighera are seeing a resurgence in popularity.

Lifestyle will always be the primary reason for people to invest in Italy, but the purchase needs to make commercial sense too. Increasingly, that means buyers are looking at rental potential to cover their outgoings. They also want something that is ready to go, with no major work needed, whether urban or rural.

High quality new-build projects are still scarce in Italy, but we are seeing growing demand for lock up and leave apartments in Florence, Rome, Milan and Venice. Owners can reasonably expect a 22-25 week rental season for a recently renovated, well-located property.

Those searching for a rural property tend to have a more extensive wish-list and need to keep in mind the need to compromise. The dream country home is detached and well-renovated with a hilltop location to offer panoramic views but close to the amenities of a village. Should you find all that in one property, our advice is to act quickly. Buyers may feel they can take their time due to the amount of stock on the market, but a property that ticks everyone's boxes won't stay around for long.

Knight Frank has one of the largest networks of any international agency, covering the most requested areas of Italy. We are seeing a return to the Italian locations that overseas buyers have always loved the most and rising demand for a lifestyle that caters to many tastes – and remains reassuringly unchanged.



Rupert Fawcett
Head of Italian
Department

La dolce vita

Castello di Reschio owner Benedikt Bolza, speaks to Zoe Dare Hall about running his Umbrian Estate



Set among 3,000 acres of privately-owned wilderness on the border of Umbria and Tuscany, Castello di Reschio has become the benchmark for luxury property in Italy.

It is not just the mesmerising beauty of the Umbrian estate that sets it apart from the rest, with its verdant expanses dotted with vineyards, olive trees and the occasional ancient ruin. Reschio's uniqueness also lies in what its owners, the Bolza family, have created from the abandoned estate they bought two decades ago and have dedicated their lives to transforming ever since.

Reschio is a sanctuary where home owners and guests can enjoy the authentic Umbrian landscapes and lifestyle with the luxury of "having their every wish fulfilled", explains Benedikt Bolza, who runs the estate and lives there with his wife Nencia, a mural painter, and their five children.

"Our house owners don't want to worry about how to do the shopping

or hire a car. Every house has its own maid, gardener and concierge service," says Benedikt. "It's not a club with fancy fractional-ownership-style concepts. We sell everything freehold and owners have extensive private grounds so they can spend time here in total privacy and walk, ride or mountain bike around the estate for hours without seeing another person."

Reschio can organise activities ranging from truffle hunting to yoga classes and "little events that are carefully woven into the calendar," says Benedikt, who mentions the dressage displays (Reschio has its own stud with 40 Andalusian purebreds), tennis tournaments and art shows in the restored Tabaccaia (tobacco factory).

This may be the height of rural luxury, but it's a place for families to make memories just as Benedikt has with his children. "My father fled Hungary after the Second World War and his family lost all their land and castles. He bought this estate to recreate what he had enjoyed as a child," he explains. "Our buyers come with their children year after

year and probably in future they will come with their grandchildren."

Of Reschio's 50 ancient ruins hidden away around the estate, 25 have been converted into houses that are palatial in their dimensions and design but with distinct traces of their heritage including lime-washed beams, Carrara marble and terracotta floors. Some are traditionally Umbrian in their interior design, others highly contemporary. A few have their own vineyards and olive groves, which the estate will manage for owners.

Benedikt, an architect described by Architectural Digest as one of the world's 100 most inspiring, designs every aspect of the properties inside and out, including the gardens and pools. He also designs bespoke items of furniture under his brand B.B. for Reschio.

"We only convert a ruin when someone buys it and we typically work on one or two at a time as each one is a huge project. Every ruin is completely different and has its own spirit. The buyer needs to fall in love with it," he says.

For a "total ruin to renovation" project, prices start at around €4m for the smaller buildings to €7m and more for the larger properties of up to 900sq.m. The occasional resale property also comes on the market. It takes around 100 tradespeople and artisans to work on each property, including mosaic and stucco craftsmen. "We don't import any workers. Everyone is from the very valuable local community," says Benedikt.

Restoring the remaining ruins and updating some of Reschio's earliest houses is enough to keep Benedikt busy for years to come. But another major challenge awaits – to restore the ruined castle that sits at the estate's entrance and currently houses the winery. Benedikt plans to turn it into a 33-room hotel by 2020.

It's a life's work indeed. "It would be impossible for me to ever move away from this estate," he says. Doubtless many of the buyers he has enticed there feel exactly the same way.

Our house owners don't want to worry about how to do the shopping or hire a car. Every house has its own maid, gardener and concierge service."

Benedikt Bolza

Moving on up

Italy's residential market has turned a corner with viewings, prices and sales all increasing in 2015. Confidence is returning to the market but accurate pricing and realistic wish lists are a must for vendors and buyers.

Prices

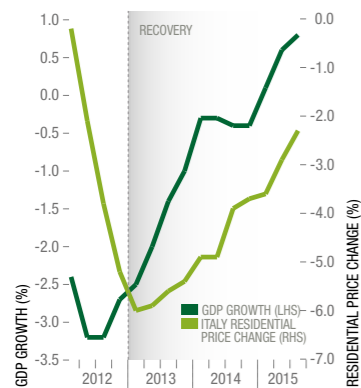
According to the Italian Statistics Office, 2015 marked a turning point for residential prices with price growth re-entering positive territory. Prime prices, having softened for several years, are following a similar trend.

Across Knight Frank's nine prime second-home markets, price performance has converged with annual growth ranging from 2.1% (Venice) to -3% (Sardinia) in 2015.

Although double digit annual price falls are firmly in the past we do not expect luxury prices to increase rapidly. Accurate, sensible pricing by vendors remains critical, particularly given the volume of properties available.

Prices and economy pick up

Annual % change



Knight Frank Research, Istat

Sales

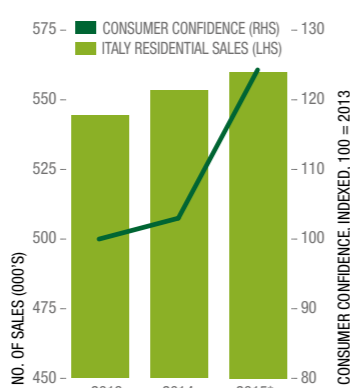
Market confidence is strengthening, residential sales increased by 7% in 2015 and Italy's consumer confidence index is up 39% since its low in 2012.

With properties now competitively priced and the choice of properties at its best for several years those buyers with access to cheap finance and those foreign buyers, able to take advantage of the favourable exchange rate, are deciding to act.

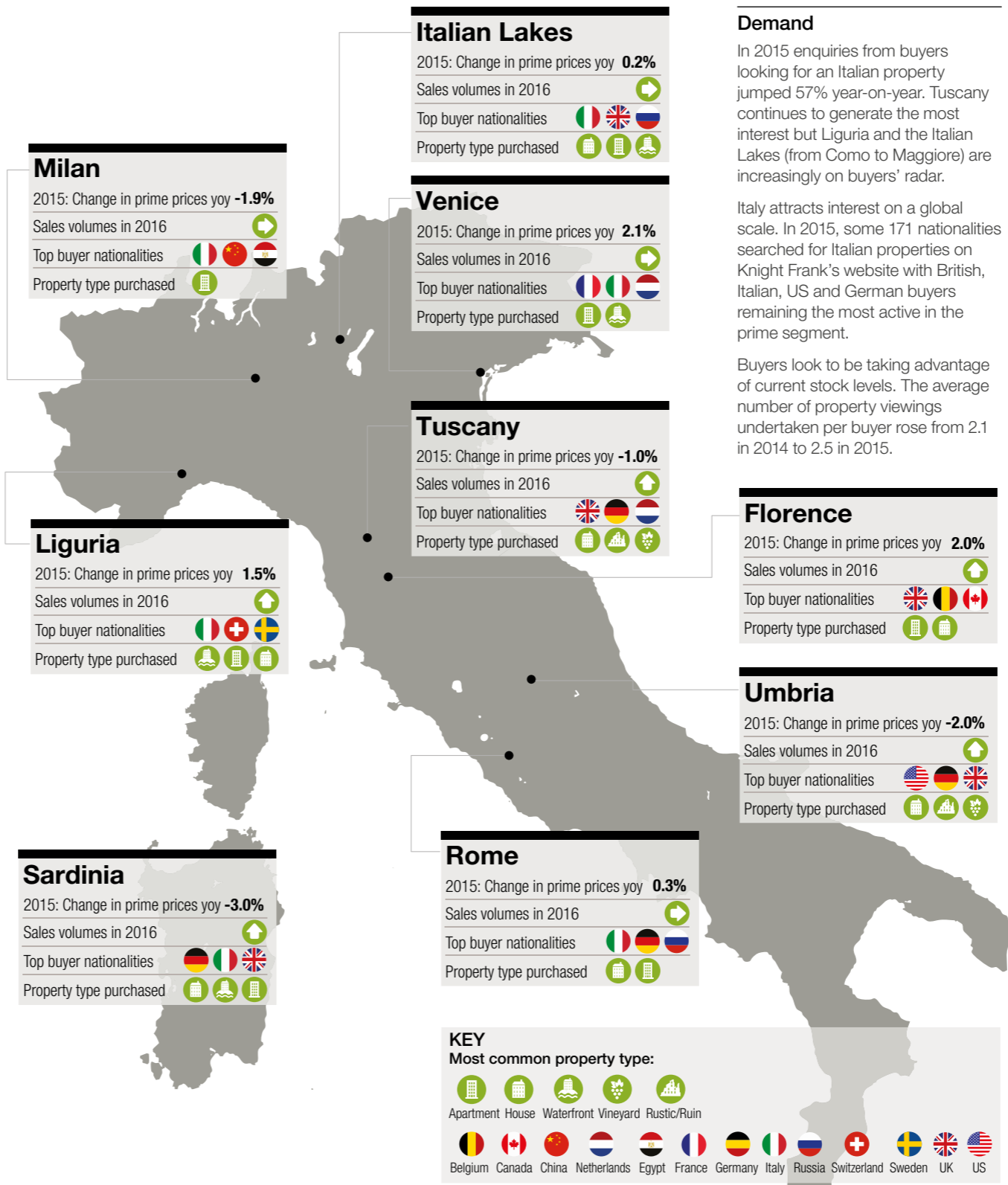
In 2016 we expect sales activity to strengthen in five of our prime markets (Tuscany, Florence, Umbria, Liguria and Sardinia) and to stay broadly stable in the remaining four.

Sales and confidence recover

Sales vs. CPI Index



Knight Frank Research, Istat
*Estimate



KEY

Most common property type:

- Apartment House
- Waterfront
- Vineyard
- Rustic/Ruin

Other nationalities: Belgium, Canada, China, Netherlands, Egypt, France, Germany, Italy, Russia, Switzerland, Sweden, UK, US

Demand

In 2015 enquiries from buyers looking for an Italian property jumped 57% year-on-year. Tuscany continues to generate the most interest but Liguria and the Italian Lakes (from Como to Maggiore) are increasingly on buyers' radar.

Italy attracts interest on a global scale. In 2015, some 171 nationalities searched for Italian properties on Knight Frank's website with British, Italian, US and German buyers remaining the most active in the prime segment.

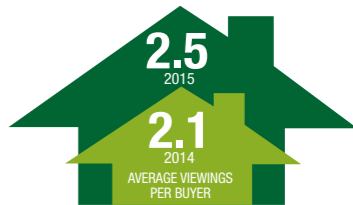
Buyers look to be taking advantage of current stock levels. The average number of property viewings undertaken per buyer rose from 2.1 in 2014 to 2.5 in 2015.

Enquiries strengthen

57%

The increase in enquiries from buyers looking to purchase in Italy (2015 vs. 2014)

MORE VIEWINGS PER BUYER



Knight Frank Research

Currency

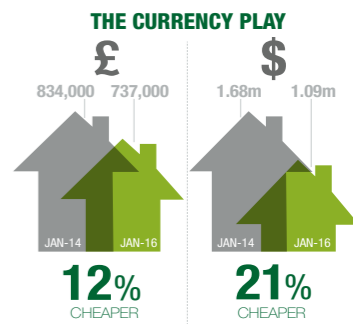
In the last two years, the euro has slipped from 0.83 to 0.73 against the pound and from 1.38 to 1.09 against the dollar providing British and US buyers with a strong buying opportunity in Italy.

Taking account of currency movements only this means a British buyer purchasing a €1m property will have seen a 12% reduction in price (or £98,000 in real terms) whilst a US buyer would have seen a saving of 21% (or \$288,000).

With QE stimulus still in place across the Eurozone and the dollar likely to strengthen in 2016 on the back of the Federal Reserve's rate rise we expect foreign buyers to continue to benefit during 2016.

Purchasing a €1m home: Potential savings for a British and US buyer

Jan 16 vs. Jan 14



Knight Frank Research

The Purchase Procedure in Italy

Thinking of buying in Italy? Our step-by-step guide takes you through some of the key considerations.

Exchange of Contracts (Compromesso)

The buyer may be requested to provide a formal written offer for the purchase of a property, which should be approached with caution, and great attention and possibly legal counselling should be obtained as the offer, if accepted, becomes a fully binding contract under Italian law.

The buyer may also be requested to put down a bank cheque to be held in escrow by a real estate agent in order to secure the offer (Proposta d'aquisto).

In most cases however, the buyer and the seller upon reaching agreement on the terms of a sale would enter into a preliminary agreement (Compromesso) which has the legal effect of fully binding all parties.

The Compromesso does not transfer title but is meant to set out all details of the sale and enable the seller to gather the required property documentation. It also allows the purchaser time to prepare funds for the purchase. Usually a deposit of 20% to 30% of the purchase price is exchanged between buyer and seller at Compromesso. Given the importance of the document the drafting is entrusted to a Notary, who is instructed (and paid) by the purchaser.

Upon reaching agreement between buyer and seller the buyer's solicitor and/or surveyor will undertake

initial searches, check for good title, check consistency with planning permission records and check for any agricultural pre-emption rights (if applicable), with a view to drafting a fully detailed Compromesso (which in certain circumstances may be conditional upon specific conditions being met).

Agent's fees under Italian law are payable by both the buyer and the seller. The standard rate at this time is 3% +IVA for seller and 3% + IVA for buyer, sometimes payable in part upon the exchange of the Compromesso.

Prior to completion

Prior to completion the buyer must have obtained an Italian tax code number (Codice Fiscale); your agent can help in this process. Further tax advice should be sought as to the advantages and disadvantages of becoming resident in Italy and appropriate vehicles for holding the property. If renovation work is planned, which is subject to strict regulations under local planning rules, please note that permissions can take up to a year, so the earliest involvement of an architect/surveyor (Geometra) is advisable.

Completion (Rogito Notarile)

Following Compromesso, the Notary Public (an independent professional who holds the Seal of the Republic and collects taxes on



behalf of the Government, payable by the buyer, but not representing any of the parties) will undertake an appropriate update on title search, tie up any loose ends and prepare the final contract transferring title.

If the seller is found to be in material default of any warranties made under the Compromesso, the purchaser may withdraw and claim back the deposit paid, and possibly more as a predetermined penalty. If the purchaser withdraws after Compromesso without just cause he/she will forfeit the deposit.

Please be aware that damages could also be requested from either side under certain circumstances and that an enforcement order could be obtained as well.

Upon signature of the final contract (Rogito Notarile) in front of the Notary (the sole authority under Italian law authorised to certify the sale of real estate property), the purchaser pays the balance of the purchase price to the seller, the notary's fees (circa 1%) which are mandatory, the solicitor's fees (if applicable), purchase taxes (or IVA), Stamp Duty and any remaining agent's fees. Please note that the purchase tax/IVA payable may vary.

The Notary, after the signing of the Rogito Notarile, will record the transfer of title in the Title Office

and pay the Stamp Duty and other purchase taxes on the buyer's behalf.

Ownership/Costs

In summary, the overall costs of purchasing a property in Italy depends on the Stamp Duty and purchase tax rates applicable to the asset. These costs consist primarily of property taxes, notary fees and agency fees. As a very general indication this can be expected to amount to circa 10% to 12% of the purchase price.

Income tax is payable in Italy by all property owners on the theoretical rental income of the property during the year; non-residents in Italy are subject to this tax only if the income exceeds a certain threshold.

IMU: Council tax (Imposta Municipale Unica) is a property tax based on the land registry value of the property and is collected by the local authority twice a year.

There is currently no Capital Gains Tax in Italy for private individuals if the disposal of a property takes place more than five years after the purchase.

All foreign owners are advised to draw up an Italian will.

The standard IVA rate in Italy is currently 22%.

This note is meant to give a very basic indication of the purchasing process and no liability is assumed as each interested person should seek local professional advice.



ITALIAN TERM	ENGLISH MEANING	RATE
Proposta d'aquisto	Offer	
Compromesso	Preliminary Agreement	Deposit of 20 – 30% of purchase price
	Agents Fee	3% + IVA for both buyer and Seller
Codice Fiscale	Italian Tax Code	
Geometra	Architect/Surveyor	
Rogito Notarile	Final Contract	
	Notary	Circa 1%
	Overall Purchase Costs	Circa 10 – 12%

The Italian Network



Our team

The London team works closely with our network of local experts in Italy. Our local agents have been carefully selected for their integrity, experience and professionalism, and speak English as well as Italian.

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