

Key findings June 2013

Despite weak economic sentiment, **Knight Frank's Italian team agreed a record number of sales in 2012/13**

Enquiries from Scandinavian and Benelux buyers have seen the strongest growth

The new Italian government will provide some clarity on tax but it is the economic landscape rather than the political one which is most influential for Italy's prime buyers

Italy remains firmly on the radar of super-rich buyers, with a number of sales above €6m agreed in 2012/13

Liguria and Venice saw prime prices rise the most of all Italy's prime regions, increasing by c. 5% in the 3 months to March

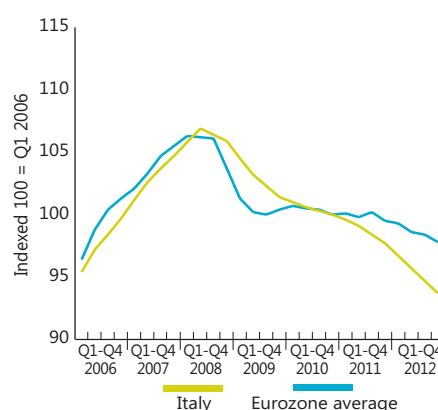
A second-home in Tuscany or a city retreat in Venice sits at the top of most wealthy buyers' wish lists. Despite the economic malaise, enquiry levels in previously sluggish markets such as Venice and the Lakes have improved since late 2012. Kate Everett-Allen assesses whether the tide is turning.

The Eurozone crisis is far from over but the urgency surrounding some of the more critical issues – the potential departure of some of its members and the ending of the single currency – has abated. Italy now has a new government with Enrico Letta at the helm but its challenges, while not insurmountable, are certainly steep. With unemployment at a 36-year high the Eurozone's third-biggest economy needs to reignite growth and generate new jobs. GDP growth in Italy is forecast to fall by 1.5% in 2013 compared to 0.5% on average in the Eurozone.

On the positive side, unlike its Eurozone counterparts Spain and Ireland, Italy did not experience a housing market boom and bust. Mainstream house prices in Italy have fallen by 12.3% since their peak in Q2 2008, weaker than the average for the Eurozone which fell by 8% over the same period (figure 1) but still outperforming Spain, Greece and Portugal.

Letta's government has already agreed to postpone the June payment of the controversial IMU tax which was introduced by his predecessor Mario Monti. The tax is based on an outdated cadastral value of a property and applies to both Italians and non-resident second home owners alike. Italy's new government will, it is hoped, provide some clarity on the issues of tax and austerity for prime buyers but it is the economic landscape rather than the political one which will have the greatest bearing on buyer activity.

Figure 1
Mainstream Italian house price performance
Italy versus Eurozone average



Source: Knight Frank Residential Research

Prime Italy

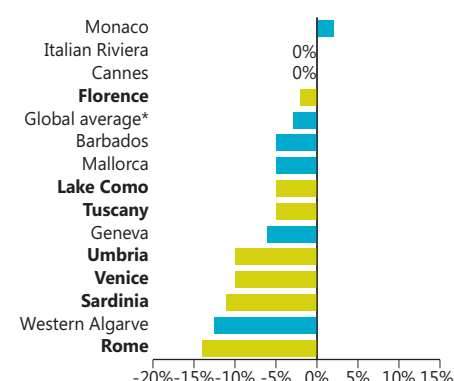
Despite the economic malaise, Knight Frank's Italian team agreed a record number of sales in 2012/13, up by 50% year-on-year. Sales volumes have strengthened because more buyers are seeking a long-term lifestyle purchase rather than a short-term investment gain. Vendors are increasingly taking stock of market sentiment when deciding on price. This has helped encourage prime second home buyers back to the market, many of whom perceive that properties are now better value than the previous year. Furthermore, it is now six years since the financial crisis took hold and there is a general acceptance of the current, slow-changing economic scenario and an unwillingness to delay purchase decisions any longer.

Italy remains firmly on the radar of super-rich buyers, with a number of sales above €6m agreed in 2012/13, particularly in Tuscany, Umbria and Liguria.

For British buyers requiring finance the weak pound may cancel out some of the positives associated with the European Central Bank's latest interest rate cut, but for wealthy Scandinavian and Benelux buyers it has been a motivating factor. According to the Scenari Immobiliari research institute, second-home sales to overseas buyers increased 14% in 2012 suggesting a growing number of international purchasers have been willing to make the trade-off between currency swings and sliding property prices in recent years.

Liguria and Venice have been the strongest prime markets in terms of price performance in 2013.

Figure 2
Prime residential price change by second home location
Annual % change, 2012



Source: Knight Frank Residential Research
*prime second homes

"Despite the economic malaise, Knight Frank's Italian team agreed a record number of sales in 2012/13, up by 50% year-on-year."



Kate Everett-Allen, International Residential Research

RESIDENTIAL RESEARCH ITALY INSIGHT

1. Liguria ↑

Liguria, or the Italian Riviera as it is known, is currently one of Italy's strongest property markets. The Italian coastline bordering France and only 30 minutes from Monaco is attracting interest from Swiss, German, Russian and Monégasque buyers.

Since the financial downturn, prices at the eastern end of the Riviera have proved more resilient particularly in the sought-after towns of Santa Margherita Ligure, Rapallo and Portofino. In the west, the stretch of coastline from Bordighera to Imperia is popular, with views across to Monaco highly desirable.

The best properties along the narrow strip of Liguria's coastline have risen 5% in value in the year to May 2013. Tight planning rules, along with the steep terrain, restrict new development. In 2012 demand was strongest in the €500,000 to €1.5m bracket but this has shifted in 2013 to the €1.5m-€3m price band.

2. Italian Lakes →

An hour from Milan's Malpensa airport, Lake Como and Lake Maggiore are the key centres of demand. A healthy level of enquiries has been recorded across all price bands in the last year. New developments such as Bellagio Lake Resort (prices start at €250,000) as well as Como Lake Resort (prices start at €1.2m) have attracted significant interest.

Lake views are a prerequisite for most luxury buyers but with a finite supply of stock around the Lakes prices have held firm in the last year.

A waterside home on Lake Como remains top of many wealthy Italians' wishlists making them a key component of demand; however, they are joined by a large number of Russian, British, German and US purchasers.

3. Venice ↑

Prime prices softened last year but, as we predicted, have started to recover since the end of 2012. Better quality properties are coming to the market and decisions are being made more quickly by buyers.

International buyers – which include French, British, Russian and German nationals – are typically seeking a two bedroom apartment that has been fully restored in the city centre and ideally one that overlooks the Grand Canal or is located in the sestieres of San Marco or Dorsoduro. Demand is strongest in the €800,000 to €1.5m price bracket. A growing number of buyers are looking to rent their second home between visits.

Confidence is rising. Luxury brands such as Louis Vuitton have opened new stores and there is evidence of more interest from Asian buyers. The number of searches for Venetian homes on Knight Frank's website by Chinese web users increased by 64% in 2012 year-on-year.

PRIME MARKET SNAPSHOT

Direction of prime prices in the three months to March 2013

↑ Rising → No change ↓ Falling



4. Tuscany & Florence ↓

Tuscany remains Italy's most popular region with international buyers. In 2012, 34% of all Italian property searches undertaken on Knight Frank's website related to homes in Tuscany.

Chianti and the picturesque Val d'Orcia are the focus of many searches, here prices have dipped by around 10% in the last 12 months due to an increase in stock levels. Cortona has also proved popular with northern European buyers in recent months.

Almost 80% sold over the last 18 months, the Castelfalfi development has bucked the wider market slowdown brought about by the economic malaise.

Prime international buyers in 2013 tend to be British, American, Benelux and Scandinavian nationals along with some Russians who are more focussed on the Tuscan coast.

The apartment market in the region's capital city, Florence, is sluggish but enquiries for Palazzo Tournabuoni from US and globally-based UK ex-pats are strong.

5. Umbria →

The volume of enquiries for Umbrian homes increased by 30% in 2012 year-on-year as buyers recognised the region's 'value-for-money' compared to more expensive parts of Tuscany. The average price of online property searches in Umbria was €1.7m in the first quarter of 2013, compared to €2.7m in Tuscany.

Prime property prices have fallen by around 35% since the financial crisis but are starting to flatten out. The market is most competitive between €800,000 and €1.5m with some cash buyers evident, above this threshold properties are staying on the market for longer.

Online property searches in Umbria increased by 86% between January and April 2013 compared to the same period a year earlier. Properties in Orvieto, Lake Corbara and the area surrounding Perugia generated a large volume of searches.

6. Rome ↓

Prime buyers continue to target the Centro Storico with the areas surrounding Piazza Navona and Piazza di Spagna highly popular. Most international purchasers are looking for a property between €800,000 and €1.5m but within this price bracket they face competition from local Italian purchasers.

The volume of sales has stayed relatively flat but prime prices fell by around 14% in 2012. The key change is that vendors are now more willing to acknowledge the impact the economic downturn has had on prices.

Online searches for properties in Rome increased 34% in the year to April 2013 compared to a year earlier with Russian, US and British interest on the rise.

7. Sardinia ↓

Sardinia's Porto Cervo and the surrounding Costa Smeralda are the location of choice for most prime international buyers. Russian buyers, although still evident, are not as active as they were. Instead, Scandinavian and British buyers are growing in number.

The price of luxury property fell by around 11% in 2012 and sales volumes in winter 2012-13 have been quiet but it is a highly seasonal market with online searches peaking between July and October.

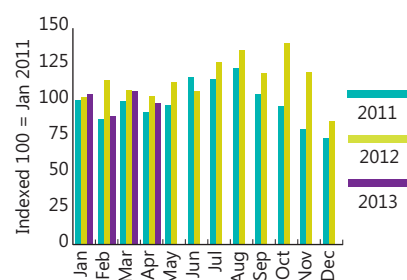
The typical requirement is for an already-restored beachfront villa between €5m and €10m.

We expect the number of Middle Eastern buyers to increase once the Qatari-funded Smeralda Holdings commences its plans for Pevero Golf Club and the marina.

Prime market trends

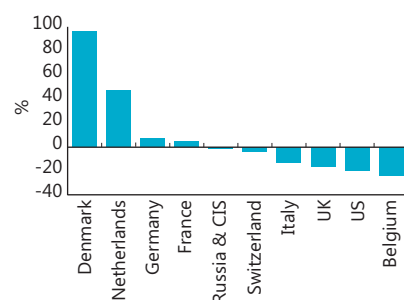
Knight Frank's Global Property Search website (GPS) receives up to 700,000 hits per month making it a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime Italian market.

Figure 3
Monthly activity
Volume of property searches Jan 2011-Apr 2013



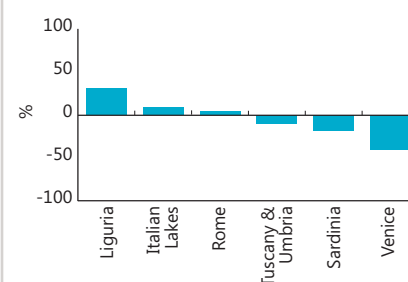
Online searches for luxury Italian homes rose by 22% in the second half of 2012 compared to the same period a year earlier. In 2011 online activity peaked in August but October generated the most searches in 2012.

Figure 4
Who is searching for an Italian home?
% change Jan-Apr 2013 versus Jan-Apr 2012



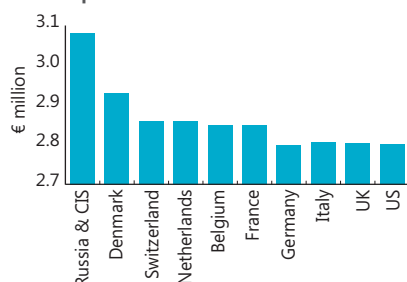
Activity by Danish web users increased the most in the first four months of 2013 (up 96%) compared to the same period a year earlier. Searches conducted by Italian, British, US and Belgian-based users shrunk the most but together accounted for 59% of all Italian searches to date in 2013.

Figure 5
Change in search volumes by Italian region
% change Jan-Apr 2013 versus Jan-Apr 2012



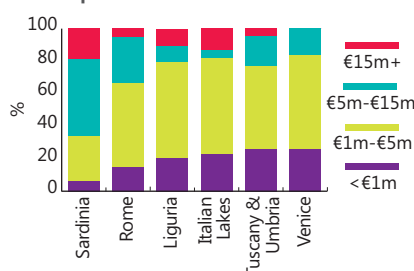
Liguria recorded the strongest rise in searches in the first four months of 2013 compared to the same period a year earlier (up 31%). The Italian Lakes and Rome also saw search activity rise, up 8.3% and 3.8% respectively.

Figure 6
Average price searched by key nationalities
Jan to Apr 2013



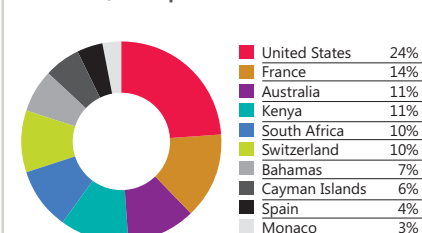
Russian and CIS nationals have searched for the highest-priced Italian properties to date in 2013 (c. €3m). Italian, British and Americans, by comparison, searched for homes closer to €2.8m on average.

Figure 7
Property searches by region and price bracket
Jan to Apr 2013



The breakdown of searches by price bracket shows a similar split across most of the Italian regions with properties priced between €1m-€5m the most popular. Sardinia is the exception, here, 66% of searches related to properties priced above €5m.

Figure 8
Where are Italians looking to buy abroad?
Search volumes for the ten most searched countries*, Jan-Apr 2013



The US, France and Australia together accounted for nearly half of all foreign property searches conducted by Italian-based web users in the first four months of 2013*.

*Excludes searches for property in the UK and Ireland, which accounted for over 50% of all searches.

Source: www.KnightFrank.com/search

Table 1 **Top nationalities buying prime property by city/region**

Rank	Liguria	Italian Lakes	Venice	Tuscany & Florence	Umbria	Rome	Sardinia
1	Italy	Italy	France	UK	UK	Italy	Russia & CIS
2	UK	Russia & CIS	Italy	Belgium	Belgium	UK	Italy
3	Netherlands	UK	Netherlands	Netherlands	Netherlands	France	UK
4	France	Germany	UK	Germany	Russia & CIS	Russia & CIS	Scandinavia
5	Russia & CIS	US	Switzerland	Italy	France	US	US

Prime properties for sale

LIGURIA



ITALIAN LAKES



VENICE



TUSCANY & FLORENCE



UMBRIA



ROME



SARDINIA



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Data correct at June 2013