



Key findings Oct 2012

Enquiries for homes above €3m are strong, along with demand for properties in new developments priced below €1m

Italian prime property has performed better than its mainstream counterpart. Although prices have fallen by c.20% since their peak in 2008 the market is now gaining traction

Mainstream prices across Italy are estimated to have seen price falls of 30% since 2008

A weaker euro in the first half of 2012 had little impact on sales volumes but has provoked interest from non-Eurozone buyers

The introduction of the IMU tax by Mario Monti, although a complex tax, is likely to have little impact on the luxury homes market

Although Italy's economic challenges have led to a more cautionary attitude amongst buyers, the world's wealthy still consider it to be one of the most desirable second-home hotspots. Kate Everett-Allen assesses how the prime residential market is performing in light of the economic downturn and what's driving demand.

Mainstream market

Unlike the UK, US, Ireland or Spain, Italy did not experience a housing market bubble prior to the financial crisis. Although official data reports that mainstream prices are only 10.5% lower than their peak in Q2 2008, most analysts acknowledge that mainstream prices have dropped by around 30% over this period.

The absence of a housing bubble meant Italy's banks coped relatively well with the credit crunch in 2008/09 but the strains appeared in 2011 when the Eurozone's sovereign debt crisis deepened and the banks' large holding of Italian public debt left them exposed. Italy's public debt to GDP ratio now stands at 120% and it is forecast to be 2014 before GDP growth re-enters positive territory.

Prime market

Italy's prime residential market has outperformed its mainstream counterpart. The €3m+ market is in good shape and sales volumes are healthy. However, in some markets such as Tuscany, Umbria and Florence the €450,000 to €1m price bracket is sluggish as buyers in this market segment tend to be more heavily reliant on finance. Nonetheless, there remains strong demand for development products below €1m.

For many international buyers, Italy's established prime locations offer a more secure second home option without the risk that many emerging European markets present.

A weaker euro in the first half of 2012 made very little difference to the volumes of sales but interest from non-Eurozone buyers improved once the euro reached 1.20 against the pound.

Buyers from the UK, US, Belgium, Denmark, the Netherlands and Russia are the most active. The one issue that connects these buyers is their level of wealth, many are increasingly internationally-mobile with multiple residences globally.

In late 2011 Mario Monti's new government of technocrats embarked on a strict austerity programme. For the first time Italians now have to pay tax on all their properties, including their primary residence. The IMU tax, which also applies to non-resident second-home owners, is expected to raise €10bn in 2012 but many Italians consider it to be unfair given it is based on a public register which relies on an outdated 'cadastral' rental value for each home.

We do not expect the IMU tax to have a significant impact on Italy's luxury housing market for two reasons. Firstly, because the sums remain relatively small. Homeowners are due to pay 0.4% of the cadastral value on a primary residence and up to 1.06% on a second home. Secondly, despite the IMU tax changes Italy's purchase costs and annual property charges continue to compare favourably with some of Europe's other prime second-home destinations.

Foreign buyers who use a company structure to purchase property are advised to seek tax advice as they are now potentially subject to higher taxes.

Figure 1
Mainstream Italian house price performance
Italy versus Eurozone average

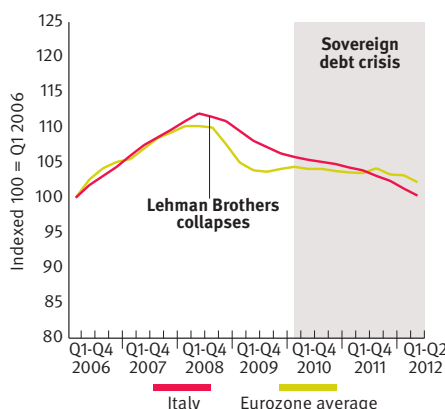
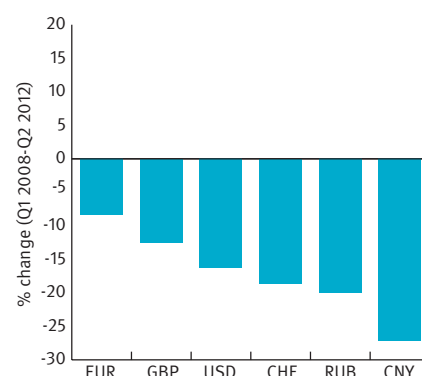


Figure 2
Currency impact
Effective change in mainstream Italian house prices, June 2012 compared to March 2008, due to price and currency movements



"Italy's prime property market has outperformed its mainstream counterpart. The €3m+ market is in good shape and sales volumes are healthy."



Kate Everett-Allen, International Residential Research

RESIDENTIAL RESEARCH

ITALY INSIGHT

Knight Frank

Prime market snapshot

1. Liguria

The prime market in Liguria has seen a higher level of activity in 2012. New stock being brought to the market is not only of good quality but is being realistically priced.

In contrast to some of Italy's other prime markets Liguria has seen prices hold firm with small price rises observed in the best locations such as Portofino, Bordighera and Alassio.

British, Danish, Swiss, French and Russian buyers are the most prevalent with many seeking homes within the €500,000 to €1.5m price bracket. Above this threshold the region finds itself competing with the neighbouring Côte d'Azur.

2. Italian Lakes

The decision by buyers to return to familiar core markets in the wake of the global recession has reaffirmed Lake Como's status as the Italian lake of choice for foreign buyers.

Prices have held firm in the last 12 months due in part to the flight to quality trend displayed by buyers – both in terms of location and property type – but also due to its geographical position.

Russian, British and some north Europeans are active at the top end of the market. Despite its exclusive reputation apartments with lake views are available from around €300,000.

3. Venice

Prior to the financial crisis, prime prices in Venice were slightly inflated which has meant values in the city have had further to fall. Prices are now 10% lower than at the start of 2012 and around 30% lower than their peak in 2007.

We believe a floor has now been reached and activity will strengthen in the remainder of 2012 with the potential for price growth, albeit marginal.

Foreign buyers continue to target the popular areas of San Samuele and Dorsoduro with French, Swiss, Austrian and Italian buyers the most evident in 2012.



4. Tuscany & Umbria

Tuscany represents Italy's archetypal luxury market and despite the cautionary climate, locations such as Chianti and Val d'Orcia continue to appeal to an eclectic mixture of buyers seeking their Italian idyll.

In Florence, the city centre apartment market (€450,000-€2m) has been sluggish in 2012 but this has been counterbalanced by a more active villa market within the Florentine hills and strong interest in the Castelfalfi development in Tuscany.

In Umbria, the Niccone Valley, close to the Tuscan border, is attracting the most interest particularly from northern Europeans (Scandinavian and Benelux buyers).

5. Rome

The city's prime market has been subdued in 2012, prices have slipped by around 5% since the start of the year.

The volume of sales is down year-on-year and sales, due to a greater hesitancy on the part of buyers, are taking longer to complete.

Properties priced between €800,000 and €2m are attracting the most enquiries with British and US buyers still the mainstay of foreign demand. The Centro Storico is still favoured by most international buyers although some are looking to more peripheral areas such as Parioli to the north and Aventino to the south.

6. Sardinia

Demand for second homes on Sardinia's exclusive Costa Smeralda increased at the end of 2011 and enquiries in 2012 have been steady. The village of Porto Cervo continues to be the main focus of interest for international buyers.

Qatari Holdings's recent purchase of Smeralda Holdings, including its four hotels, Pevero Golf Club and the marina, is expected to further enhance the amenities available to second home owners.

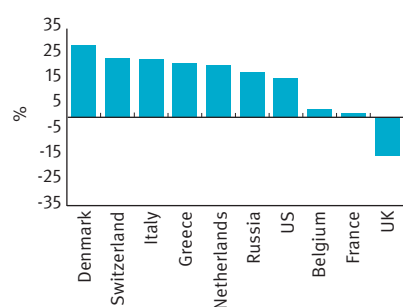
Russian, Italian, US, British and northern Europeans are responsible for the bulk of foreign demand with the typical requirement being a waterfront villa priced between €5m and €10m.



Prime market trends

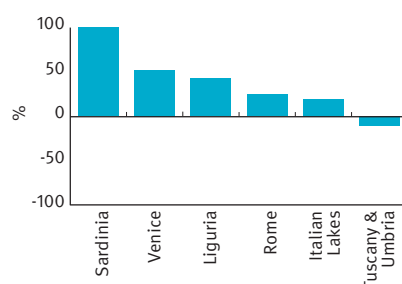
Knight Frank's Global Property Search website (GPS) receives up to 700,000 hits per month making it a unique barometer of the demand for prime international property. The following charts highlight the key trends in the prime Italian market.

Figure 3
Who is searching for Italian property?
% change Jan-Aug 2012 versus Jan-Aug 2011



Online search activity amongst the Danes and the Swiss increased the most between January and August 2012 compared to the same period last year. In both cases the volume of searches rose by 20% or more. French and UK residents, by comparison, were less active than in the same period a year earlier.

Figure 4
Change in search volumes by region
% change Jan-Aug 2012 versus Jan-Aug 2011



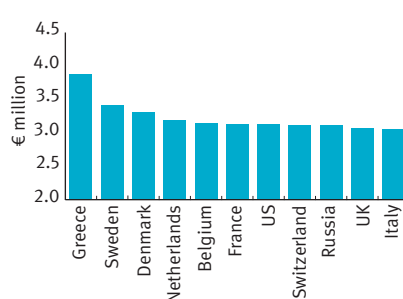
Sardinia saw the largest rise in property searches in the first eight months of 2012 compared to a year earlier. Despite the cautious climate only Tuscany and Umbria saw search activity dip although the region still accounts for 56% of all online Italian property searches.

Figure 5
Monthly activity
Volume of property searches Jan 2011-Aug 2012



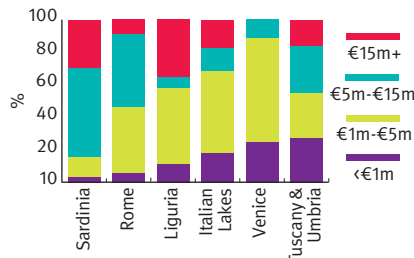
Online searches for Italian property are less seasonal than other prime markets. Search volumes are relatively steady in the first half of the year before peaking in August and tailing off in the final quarter.

Figure 6
Average price searched by key nationalities
Jan to Aug 2012



The average price searched by key nationalities in Italy varies only marginally. Greek buyers searched for the highest-priced properties (on average around €3.8m) between January and August 2012. UK and Italian buyers are looking for homes closer to €3.1m.

Figure 7
Property searches by region and price bracket
Jan to Aug 2012



In Sardinia 84% of property searches related to homes above €5m in the first eight months of 2012, in Venice the comparable figure was only 11%. The volume of searches below €1m are strongest in Tuscany, Umbria and Venice.

Table 1
Where are Italians searching?

Rank of top prime property search locations for people based in Italy, Jan to Aug 2012

Rank	Country	Year-on-year change
1	United Kingdom	-13.3% ▼
2	France	-4.8% ▼
3	Ireland	2.1% ▲
4	Italy	0.5% ▲
5	United States	26.7% ▲
6	Spain	-11.2% ▼
7	Switzerland	47.2% ▲
8	Kenya	52.7% ▲
9	Monaco	23.4% ▲
10	Barbados	-11.5% ▼

Source: www.knightfrank.com/search

Table 2
Top nationalities buying prime property by city/region

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

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Instructions and sales

LIGURIA



Sold: Q2 2012
Location: Portofino

What's in demand:

Property type: Small villa or apartment
Price band: €500,000-€1.5m
Area: Sanremo and Portofino

Local knowledge:

Up and coming area: Levanto
Who buys: Families seeking a holiday home in the mountains and on the Mediterranean
Closest airports: Nice, Genoa, Milan and Pisa

ITALIAN LAKES



Asking price: €2.7m
Location: Lake Como

What's in demand:

Property type: Restored villa with lake view
Price band: €750,000-€2.5m and €5m+
Area: Lake Como

Local knowledge:

Up and coming area: Lake Maggiore
Who buys: Russians and UK buyers looking to enjoy lakeside living at its best
Closest airports: Milan or Bergamo

VENICE



Asking price: €1.95m
Location: Fondamente Nuove

What's in demand:

Property type: Large apartments with canal views
Price band: €1.5-€2m
Area: San Samuele and Dorsoduro

Local knowledge:

Up and coming area: Giudecca
Who buys: Europeans looking for a summer bolthole to soak up the city's culture
Closest airport: Venice Marco Polo

TUSCANY & UMBRIA



Sold: Q4 2011
Location: Chianti

What's in demand:

Property type: 4-bedroom+ farmhouse
Price band: €1-€1.5m and €3-€4m
Area: South Tuscany and Chianti region

Local knowledge:

Up and coming area: Elba
Who buys: Mostly British, Dutch, Belgian and Russian buyers looking for a slower pace of life
Closest airports: Florence, Pisa and Perugia

ROME



Asking price: €1.85m
Location: Centro Storico

What's in demand:

Property type: 2-bedroom terraced apartment
Price band: €1-€2.5m
Area: Centro Storico

Local knowledge:

Up and coming area: San Lorenzo
Who buys: Those relocating or seeking holiday apartment with good rental potential
Closest airports: Fiumicino and Ciampino

SARDINIA



Sold: Q4 2011
Location: Porto Cervo

What's in demand:

Property type: 3 or 4-bedroom beachfront villa
Price band: €5-€10m
Area: Porto Cervo and Romazzino

Local knowledge:

Up and coming area: Pevero Golf
Who buys: Yacht owners wanting privacy and security but in a low-key, relaxed setting
Closest airport: Olbia

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