

INSIDE VIEW

ITALY 2017





For Sale - Lucca, Tuscany, Price on application

Italian Market Overview

As we enter 2017, tumultuous events are taking place all around the world – and on the face of it, Italy is no exception. In the past 12 months, Italy has seen economic uncertainty, earthquakes and a referendum that ousted its PM.

The UK's Brexit vote has caused British buyers to think twice about buying in Europe, not least because of the immediate effect the shock referendum outcome had on weakening Sterling against the Euro. A general sense of nervousness surrounds people's decisions to invest.

And yet, in many senses, it is business as usual in Italy. The nation's referendum in December 2016, which asked voters if they approved constitutional and parliamentary reform, saw a victory for the 'No' camp, which prompted the resignation of prime minister Matteo Renzi. His successor, however, Paolo Gentiloni, is an old face within the Democratic Party who hardly marks a rupture in the status quo.

There is further noise from the populist and Eurosceptic Five Star Movement, who hope to precipitate a General Election before 2018. But political wrangling is nothing new in Italy – or anywhere else in the world, for that matter – and little has changed in recent months, in that sense, from a property buyer's perspective. What may have a greater bearing on buyers' confidence – and undoubtedly on the Euro – is the outcome of the French and German elections later this year, and of Brexit when the UK's departure from the EU comes into effect.

For Northern Europeans, who are big investors in second homes in Italy, the opportunity to take advantage of price falls without the currency fluctuations is propelling them to buy. Tuscany tends to be their first port of call. It is the region they most readily associate with all that is wonderful about the Italian lifestyle and culture and a location that is easily accessed overland from central Europe.

Buyers of all nationalities feel a similarly magnetic pull towards Tuscany as the epitome of Italian charm, from its city architecture and rural farmhouses to its glorious landscapes and views. The strongest interest is for areas around Lucca, Chianti and into the Val d'Orcia, the perennial favourites. Buyers happy to be a little further from cities and airports in return for greater value for money are looking at Maremma, a region that has the added appeal of long, woodland-fringed beaches.

After a stint in the doldrums, Sardinia's Costa Smeralda is seeing renewed interest among buyers from the Middle East, but also from Germans and Northern Europeans. Americans are slowly taking a renewed interest in Italy, partly promoted by highly favourable exchange rates earlier in 2016. Russians, too, are returning to the mid-priced market, particularly in Liguria.

A sense of compromise is a handy tool for buyers in general in Italy. Now is a great time to house-hunt. There is a large amount of stock available and prices have more or less hit their floor. There is, however, a perception amongst buyers that prices are falling still in some areas, but that is simply

because vendors, after years of reluctance to acknowledge price drops locally, are now playing catch up and prepared to negotiate.

While prospective buyers should always keep their standards high, never settle for anything they feel uneasy about and always take advice from their agent on whether the asking price is appropriately pitched, there is a risk of becoming an eternal house-hunter who never ends up buying anything. We see buyers miss out because they eventually come full circle, wanting to put in an offer on a home they saw early in their search – only to find another buyer got there first.

Italy, like much of the world, may be in a period of political flux, which naturally prompts a sense of uncertainty among buyers, but for a lifestyle purchase, it is hard to beat. Buyers still overwhelmingly invest in Italian property as a holiday home. The ability to earn some income through holiday rentals is a consideration – but it has never been the key driver behind people's motivation to buy in Italy. The real pulls are its world-renowned food and architecture, its breathtaking landscapes and warm, charming people who appreciate just how important tourists and property buyers are to their country.

Upheaval may be at the forefront of people's minds in 2017, but what Italy does impeccably – and has done for millennia – is not going to change any time soon.



Rupert Fawcett
Head of Italian Desk

Italian View – A cultural year

By Zoe Dare Hall



Food festivals

Italian cuisine is all about using what's in season – and the Italians never miss an opportunity to celebrate the year's best offerings. Sagre (food festivals) take place all over the country, usually to toast the Autumn harvest, from mass tastings of mortadella in **Bologna** to crowds of 300,000 packing out the streets of **Cuneo**, near **Turin**, where the stars of the show are chestnuts.

Naples' Pizzafest in **September** celebrates the culinary staple synonymous with Italy and truffles are big business in **Alba**, whose White Truffle Festival in early **October** offers tastings of many dishes concocted

with the delicacy. The medieval Tuscan town of **San Miniato** similarly makes a song and dance of its truffle season in **November**.

Many small towns and villages turn their olive harvest into an excuse for a party. Celebrating the new harvest olive oil in the Ligurian town of **Imperia** is a new event, Olioliva in **November**, with cooking demos, tastings and story-telling. If wild boar is more your thing, go to **Rimini** in Emilia-Romagna in late **October** for boar meat dishes set to music.

The sweet-toothed should head to **Perugia** in **October**, where the Euro Chocolate festival turns the town into a real life chocolate factory.

Wine-lovers, meanwhile, must make a stop in **Verona** in **April** for the world's biggest wine exhibition, Vinitaly. Among the experiences, you can tipple at the top of the Lamberti Tower overlooking the UNESCO World Heritage site.

Cultural

Italy has been honing many of its best-loved cultural events for centuries, including the world-famous **Venice** Carnival in **February**, a raucous, colourful annual celebration that began in 1268. From zip-wiring in St Mark's Square to water-based pageants in Arsenale, the city is gripped by Carnival fever. If you're in town at the time, be sure to procure a mask. It shouldn't be hard as Venice has more mask-makers than butchers or greengrocers.

The Tuscan coastal town of **Viareggio** is similarly famed for its historic carnival in **February**, with parades of papier-mâché floats along the seafront promenade. The following month, head to **Sanremo** in Liguria, whose floats in their ancient Carri Fioriti carnival are ornately floral, this being the 'City of Flowers'.

Medieval **Gubbio**, the oldest town in Umbria, has seen its Corsa dei Ceri (Race of the Candles) take place every **May 15th** since the 12th century. During this long day of festivities, the highlight is the three 16-foot high candles that are carried through the narrow streets to the Basilica of Sant'Ubaldo on Mount Ingino.

Literary minds will love **Rome's** annual Festival delle Letterature in **June**, where world-famous authors take over venues including the Piazza del Campidoglio and Casa delle Letterature in a fortnight of events.

If you love the idea of jazz spilling out from piazzas and cobbled streets and world-famous names performing on stages throughout the city, make a beeline for the Umbria Jazz Festival in **Perugia** every **July**.

Then finish your Italian summer of culture at the hugely prestigious **Venice** Film Festival in late August/early **September**. It is the oldest film festival in the world, now in its 74th year, and brings an annual dose of global glamour to Venice's Lido island.

Art and design

Dating back to 1895, the **Venice Biennale** runs from **May** to **November** and this year's event, Viva Arte Viva, focuses on artists and the process of creating art.

When it comes to design, however, the world comes to Milan, the international reference point for the furniture and design world. The highlight is **Milan** Design Week in **April**, including the Salone del Mobile, whose events are spread around districts such as arty Navigli and Brera. Milan's fashion weeks are similarly renowned, notably the bi-annual event, each Spring and Autumn.

Sport

Italy's sporting events encapsulate tradition, prestige, glamour and glory – and nothing quite exemplifies the Italian sporting spirit like **Siena's** Il Palio. The bareback horserace that takes place every **July 2nd** and **August 16th** may take just 90 exhilarating seconds, but its participants dedicate their lives striving to triumph in this age-old rivalry between Siena's contrade (wards).

Italy takes its tests of endurance equally seriously. The **Milan-San Remo** cycling classic in **March** is, at 185 miles, the longest professional one-day race in cycling.

Or you could take to your classic car for the **Mille Miglia** (Thousand Miles) in **May**, which in its 1920-50s heyday saw Gran Turismo cars hurtle along the 8-shaped route from **Brescia to Rome**. These days the race is less hazardous, taking place over four days, via such wonders as **Verona, Lake Garda and Florence**.

The **Rome** Marathon is as much about the sights as the sport, too, with the **April** event starting and ending in the shadow of the Coliseum, passing en route the city's most famous landmarks, including the Piazza di Spagna and Trevi Fountain.

The Italians have a flair for looking good on water too, whether it is in **Venice's** sumptuous 700-year-old Historic Regatta in **September**, or in modern regattas such as the Rolex Swan Cup in **Porto Cervo**, which sees more than 100 yachts and the world's best sailors flock to **Sardinia** in **March**.



Land of Opportunity

Italy's economy has endured a rocky ride since 2008 but its prime property market is at, or close to, the bottom of its cycle sparking the interest of Euro-denominated buyers

By Kate Everett-Allen

Transparency, or the lack of it in Italy's property market, has long been a major hurdle for investors, owners and buyers when trying to gauge price performance and obtain accurate valuations.

Unlike in the UK, where the Land Registry publishes transactional data for the entire housing market, sales data is not freely available. This void means vendors' pricing can be unrealistic and buyers' offers overly optimistic, resulting in protracted negotiations.

To address this knowledge gap, we are pleased to announce Knight Frank's **new Italian Prime Residential Index**. Mirroring the same repeat-valuation methodology adopted in our other global markets, we have produced a valuable and unrivalled tool enabling, for the first time, the tracking of prime residential prices across 15 of Italy's top second-home destinations.

The results of our inaugural index underline the extent to which significant regional variations persist. The price of a prime property in Italy declined by 5.5% on average in 2016 but more than 14 percentage points separate the strongest and weakest-performing Italian market.

Lake Como leads the rankings, with prices rising 1.2% year-on-year. Good accessibility via Milan, its proximity to the Swiss border, and the Lake's popularity with both Italians and overseas buyer has shored up prices.

The overall narrative is one of an improving market. The country's major cities – Rome, Milan, Florence and Venice, all sit within the top half

of the rankings and all have seen their rate of decline slow significantly in the last two years.

Forte dei Marmi, located in the province of Lucca, recorded the weakest growth with prices slipping 13% in the year to December. A niche market, the town saw a surge in Russian buyers prior to the financial crisis but high stock levels and softening demand has seen values fall.

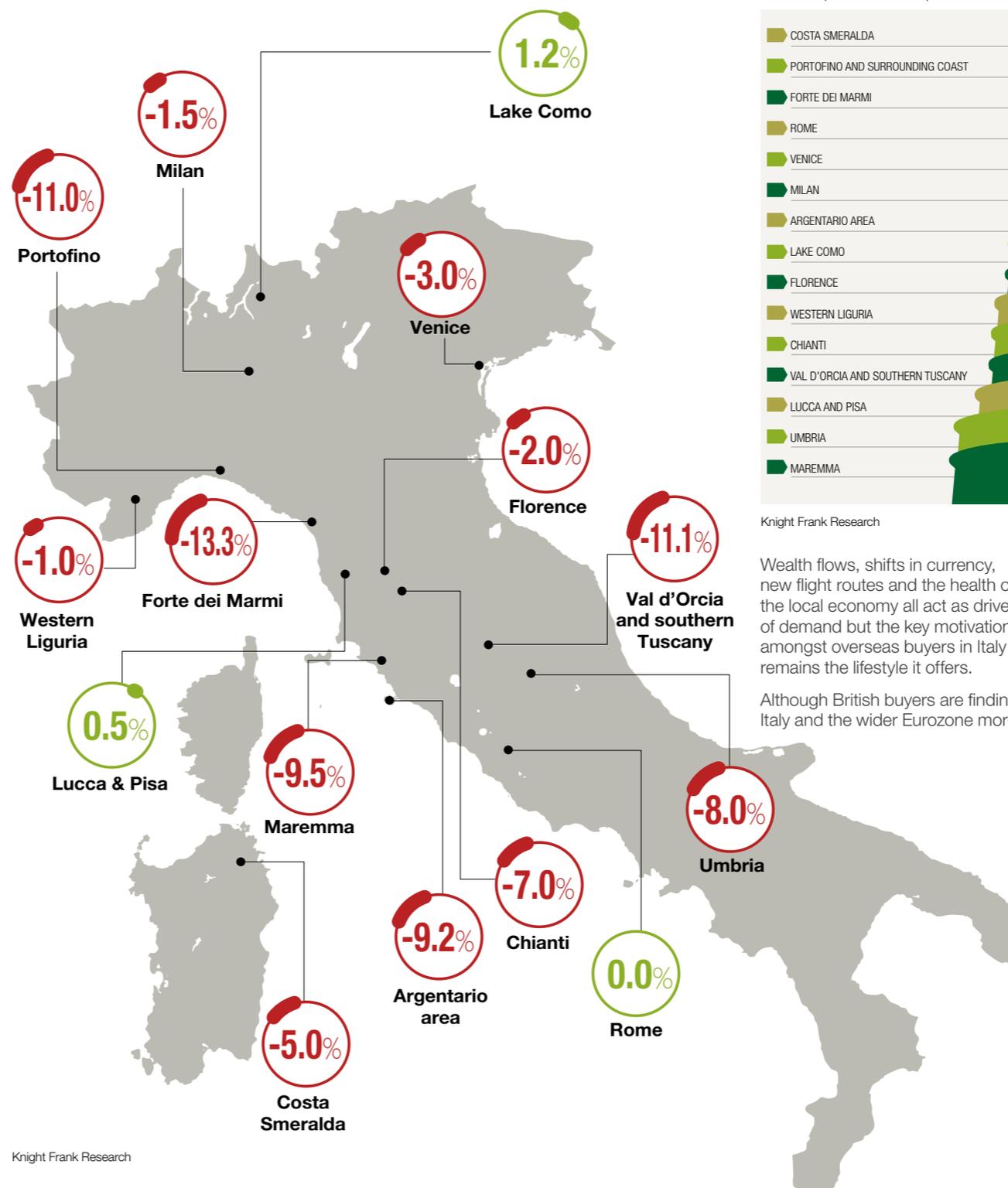
A number of markets are playing catch up. Vendors have been slow to adjust their prices but in some markets high stock levels have forced them to accept the market reality. We are seeing a return to long-term trusted markets. Having dipped their toe in peripheral areas, buyers have retreated back to Italy's core locations.

Seeking value?

As we have seen from the results of our index price performance across Italy varied significantly in 2016, but our research shows actual prime prices are equally wide-ranging. Sardinia's Costa Smeralda commands the highest values, meaning a million euros buys 50 sq m.

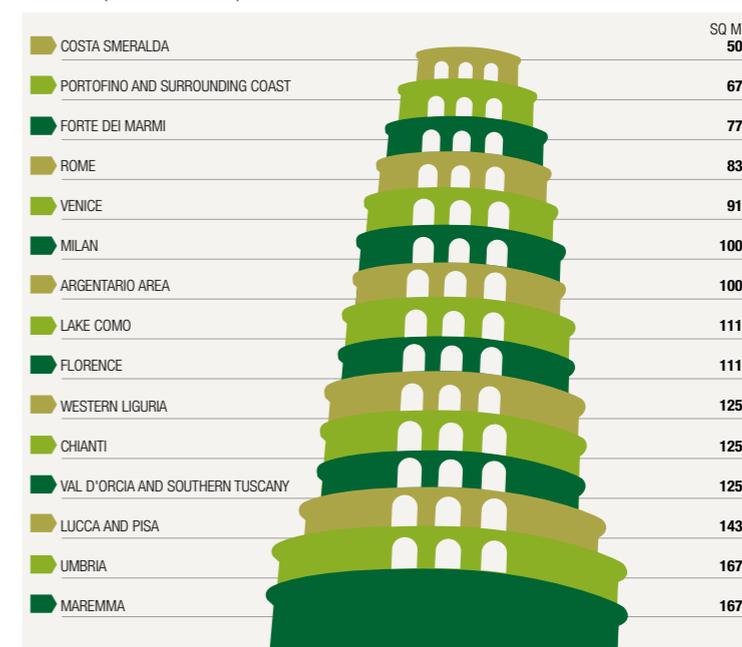
Portofino, perched on the cliffs of the Italian Riviera sits in second place (67 sq m) but compare this to Maremma and Umbria where prime prices are close to €6,000 per sq m, and a million euros buys around 167 sq m of floorspace. A million euros in Rome, Italy's most expensive city, buys 83 sq m but Venice and Milan are not far behind with 91 sq m and 100 sq m respectively.

Italian Prime Residential Index 2016
Annual % change to Q4 2016



Knight Frank Research

The number of square metres €1m buys
Based on prime residential prices as at Dec 2016



Knight Frank Research

Wealth flows, shifts in currency, new flight routes and the health of the local economy all act as drivers of demand but the key motivation amongst overseas buyers in Italy remains the lifestyle it offers.

Although British buyers are finding Italy and the wider Eurozone more

expensive, Euro-denominated buyers are hunting for, and in some cases finding, good value. US buyers have yet to pick up in large numbers, despite the favourable USD/EUR exchange rate, but we expect enquiries to strengthen during 2017.

Unlike France, the UK, Australia and Canada, Italian policymakers are showing little appetite to increase taxes or deter foreign investment. On the contrary, Italy's new non-dom tax incentive, will mean UHNWIs opting to become Italian residents will be subject to a flat rate of tax for all foreign-sourced income.

2016 proved a turbulent year, but that's nothing unusual in Italian politics, and although both the domestic and global economy are facing their own respective headwinds, we expect prices will stay largely static, we don't see immediate rises or substantial declines on the horizon.

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'acquisto).

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'acquisto	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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