



December 2009

REAL ESTATE UPDATE

Real Estate Investment in Italy**THE ITALIAN ECONOMY**

As in many countries, Italy's economy has slowed markedly since 2007. In 2008, the gross domestic product growth was no more than 0.4 percent, compared with a euro zone average of more than 1.5 percent. In the second quarter of 2009, Italy's economy shrank by 0.5 percent, a smaller contraction than expected. While business investment may struggle to maintain growth rates seen in previous years, particularly if the European Commission's prediction that consumer spending would be sapped by inflation running at 3 percent and slumping confidence is accurate, investment in real estate continues to be one of the main features of financial activity. It is expected that Italian real estate values may hold better than those in other European countries because of the strong underlying demand, both from domestic and external sources. This bulletin identifies and explores some of the key issues concerning real estate in Italy.

OWNERSHIP OF REAL ESTATE IN ITALY

Ownership of land is generally on a freehold basis (absolute ownership).

The purchase of real estate can be structured in a number of different ways, including in the individual's sole name, in co-ownership with other individuals or through an Italian or "offshore" company, among others.

BUYING REAL ESTATE IN ITALY

The general process of buying and selling real estate is as follows:

- The real estate is marketed, usually by the owner or a real estate agency on its behalf.
- If there is an agency involved, the buyer may be asked to sign a reservation contract ("proposta di acquisto") where he or she makes an initial offer to purchase the real estate and pays a small deposit (1 to 5 percent of purchase price) which will usually be held by the agent. If the offer is not accepted, the contract is considered void and the deposit is returned. If the offer is accepted and then the buyer does not proceed within the specified period in the reservation contract, the buyer will lose the deposit.
- Once an offer is accepted, the buyer will arrange for a survey to take place, arrange means of finance and set up an Italian bank account.
- The buyer appoints a notary public to deal with the purchase.



- The buyer registers with the Italian tax authorities and obtains a tax identification number.
- Both parties sign a legally binding contract called the preliminary contract (“compromesso”) that defines the terms for the future transaction at a specified date, at an agreed price and with a detailed description of the real estate involved and the terms and conditions. The buyer pays a deposit (“caparra”) that is generally 10 to 30 percent of the agreed purchase price, with the actual percentage decided by mutual agreement. If the buyer pulls out of the transaction after signing the preliminary contract, he loses the deposit; if the seller pulls out, he pays double the amount of the deposit to the buyer.
- The notary checks the title, confirms that there are no debts or mortgages on the real estate and verifies the tax situation.
- The notary then drafts the purchase deed (“rogito”). Both parties sign the deed in the presence of the notary and a translator (if necessary) and the balance of the purchase price is paid.
- The last step is for the purchase deed to be registered at the Land Registry.

The total costs for the purchaser are approximately 9 percent of the purchase price. This includes agency fees, which are usually 3 percent of the purchase price; registration tax at 7 percent of the “cadastral” value of the real estate (which is the value attributed to the property by the local authority—often lower than the purchase price); and mortgage tax at 2 percent of cadastral value (see below). Notary fees vary from 1.5 to 2.5 percent of the purchase price and surveyor’s fees will vary depending on the complexity of the work involved.

WAYS OF “BUYING IN” TO ITALIAN REAL ESTATE

The most common ways of investing in real estate in Italy are personally or through a resident company.

The Italian Financial Act 2007 introduced a new real estate investment vehicle called “società d’investimento immobiliare quotata” (SIIQ). It is the Italian equivalent of the United States’ real estate investment trust.

The SIIQ regime can apply to listed or non-listed resident companies, provided that the company’s primary activity is rental activity and it complies with certain conditions. For example, at least 85 percent of its net profits deriving from its leasing business and from investments in other SIIQs should be distributed annually by way of dividends to its shareholders.

The benefit of this vehicle is that income deriving from the rental activity will be fully exempt from 33 percent corporate income tax (IRES) and 4.25 percent local tax (IRAP), and the dividends paid out of profits deriving from the rental activity are fully taxable and subject to an ad-hoc 20 percent withholding tax. Dividends paid to, among other investors, other SIIQ companies, pension funds or investment funds will be exempt from withholding tax.



TAX ISSUES

Non-residents who buy Italian real estate must pay registration tax at a rate of 7 percent, mortgage tax of 2 percent (if there is a mortgage) and stamp duty of 1 percent. Since January 1, 2007 (as a result of the Budget 2007 Law), these tax rates can be calculated on the cadastral value of the real estate (which is usually lower than the purchase price). The notary should state in the purchase deed that the base for the calculation of the taxes is the cadastral value of the real estate and not the purchase price.

For newly built real estate bought directly from a developer, value-added tax (imposta sul valore aggiunto) should be paid, which is levied at 10 percent for non-luxury properties and at 20 percent on luxury homes. Registration tax is reduced to 4 percent; mortgage tax and stamp duty are also reduced.

Properties not rented out are subject to a tax on notional rental. This is usually no more than 1 percent of the real estate's value per annum. Non-Italian resident individuals receiving Italian rental income are subject to income tax on the income at the normal Italian income tax rates, which are progressive and range from 23 to 43 percent.

Any gains made on real estate sold within five years of purchase are subject to income tax at the rates described above. After five years of ownership, any gain is exempt from Italian income tax.

INVESTMENT OPPORTUNITIES

The Real Estate Report 2008 issued by the Italian government states that the market for commercial real estate sector—shops, workshops and shopping malls—is the most stable but shows low growth since 2000.

Recent reports on the housing market have noted the shift of the residential market from capital cities to smaller centers in the province. This phenomenon is connected to two main factors: the considerable increase in housing prices in major centers that pushes people to seek less expensive solutions in the adjacent municipalities; and the greater availability of new developments in the municipalities than in capitals, where the territory is, in many cases, saturated and few building areas exist.

Real estate prices are lower in southern Italy, while an interesting mini emerging market of hidden investment hotspots is currently spawning around areas such as Calabria. An Italian mayor of a Sicilian city is currently offering abandoned homes in the historic town of Salemi, 72 km from Palermo, for just one euro each in order to revive the town. The council owns 3,700 houses that have been left derelict for the past 40 years after an earthquake. The new owners will be given two years to restore their real estate to its former glory, a feat that is estimated to cost approximately £80,000 per home. Developers would also need to use the skills of local architects, builders and decorators rather than bringing in outside help so as to boost the static economy of the local area.



Northern Italy boasts pricier locations near ski resorts in the Alps, while buy-to-lets in this region are ever popular. Meanwhile cities such as Rome, Turin, Milan, Venice and Florence are great centers on which to base carefully selected investment in cultural tourism.

The last year has seen a marked slowdown in the market and lower prices, with a fall of 6.5 percent in the residential property market.

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