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Emerging Trends in Real Estate Investment-Italy

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Abstract

Planning on raising money through investment in real estate is one of the ways since ages. To operate effectively in today's dynamic global real estate markets, it is essential to understand the complex processes that underpin them. Selection/fixing space is a typical one-shot decision for private investors and developers due to the huge investment expense and the fear of substantial loss. The one-shot decision framework involves two steps. The first is to identify which space of nature should be focused for each alternative. The second is to evaluate alternatives by using the focused space of nature. It is important and difficult to identify particular type of real estate to invest in this modern era as demand changes with change in people’s priorities and population. Recent years have seen some rapid developments in the global scale and structure of real estate markets. This dissertation analyzes those changes and identify the new trends in real estate domain that will help investors and developers to invest and choose among different alternatives from economic drivers or macro-economic indicators of the country. The context is explicitly for international investors, with a focus on Italy’s Real Estate. The aim is to identify specific market areas to describe the key trends that results from immigrants, rather than simply providing a description of various geographical markets.

Abstract (Italian)

Pianificare la raccolta di fondi attraverso investimenti in immobili è uno dei modi da secoli. Per operare efficacemente nei dinamici mercati immobiliari globali di oggi, è essenziale comprendere i complessi processi che li sostengono. Lo spazio di selezione / riparazione è una tipica decisione a colpo singolo per investitori privati e sviluppatori a causa delle enormi spese di investimento e del timore di perdite sostanziali. Il framework decisionale one-shot prevede due passaggi. Il primo è identificare quale spazio della natura dovrebbe essere focalizzato per ogni alternativa. Il secondo è valutare le alternative usando lo spazio focalizzato della natura. È importante e difficile identificare un particolare tipo di proprietà immobiliare da investire in questa era moderna poiché la domanda cambia con il cambiamento delle priorità e della popolazione delle persone. Gli ultimi anni hanno visto alcuni rapidi sviluppi nella scala globale e nella struttura dei mercati immobiliari. Questa tesi analizza tali cambiamenti e identifica le nuove tendenze nel settore immobiliare che aiuteranno gli investitori e gli sviluppatori a investire e scegliere tra diverse alternative tra driver economici o indicatori macroeconomici del paese. Il contesto è esplicitamente per gli investitori internazionali, con particolare attenzione al settore immobiliare italiano. L'obiettivo è identificare aree di mercato specifiche per descrivere le tendenze chiave che derivano dagli immigrati, piuttosto che fornire semplicemente una descrizione di vari mercati geografici.

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Introduction

As a broad definition, real estate can be used to mean a piece of land and all the buildings positioned on it. On the other hand, it can also be used as a narrow definition to describe the documents and agreements which state the owner as a property investor. Consequently, direct real estate investment is the direct ownership of real estate. These investments are bought and sold in the private property market that is characterized as having high transaction costs without central trading, and inefficiencies in information creation and asset pricing. Direct real estate investments are characterized by large unit size, indivisibility, heterogeneity, and low liquidity. In addition, direct real estate investments demand large amounts of capital, and they amount only to a small portion of the publicly traded assets, making it harder for small investors to invest in them. Despite the negative characteristics of direct real estate investments, they also comprehend features that are appreciated and preferred by investors. (Han Chan, 2003)

The balancing act between the pros and cons of real estate investments has glimmered new ways of investing in real estate. An alternative way of acquiring real estate assets is by investing in indirect real estate. Indirect real estate investments are securities that offer a claim on the cash flows and value increase of the security's underlying property assets. These securities are traded on the public asset markets and are generally characterized as having a small unit size, homogeneous claims on the underlying asset, and good liquidity. Besides the physical investment in direct real estate, investors also can invest in several forms of indirect real estate, for example in Italy, the principal juridical forms such as real estate companies (Ordinary commercial companies), real estate investment funds, fixed capital investment companies (SICAF- Società di Investimento a Capitale Fisso), Listed real estate investment companies (SIIQs- Società di Investimento Immobiliare Quotata) and Unlisted real estate investment companies (SIINQs- Società di Investimento Immobiliare Non Quotate). On a general basis, these instruments have the advantage of giving investors an acquaintance to the housing market identical to that of direct real estate investments.

There are substantial evidence that direct and indirect real estate investments share a common real estate factor that influences their values. This connection between the two types of real estate investments would suggest that investors could more easily invest in real estate via real estate securities. Nevertheless, for the investors to benefit from the positive characteristics of direct real estate, the securitized real estate assets need to be able to work as good substitutes for direct property investments. (Mueller, 2003) and in short-term indirect real estate is more closely related to the general stock market (Mueller, 2003). However, (Gilberto.M, 1990).

The existence of indirect real estate investments like REITs is not a novelty, for example, the U.S. capital market had publicly traded real estate securities on it since the 1960s. However, in recent decades the role of public real estate assets has changed, and due to the strong increase in asset securitization real estate investments have become more accessible for small and medium-size investors. A good indication of this is not only the huge increase in market capitalization of indirect real estate assets but also the increased number of actors on the market (Han Chan, 2003). Since indirect real estate investments are traded on the public market they have been considered as some type of hybrids that combine elements from both the general stock markets as well as from the private property market.

The listed Real Estate Investment Trusts (REITs) have reinforced in recent years with the ease of moving money in the global financial market. Over the past four decades, real estate investment trusts or REITs as they are commonly called have become a significant asset class. In fact, REITs have become the third largest asset class available to investors, behind bonds and stocks (Imperiale.R, 2002).

Chapter - 1. Real Estate Investments

When we talk about real estate investment, we usually discuss the purchase of a property to comprehend gains through rents income or capital appreciation. Extensively, in fact, direct purchase of properties is the conventional way of investing. For several years, however, thanks to the globalization, growing internationalization, and integration of capital markets with American and British markets as reference points, other types of investment have been full-fledged. Such investments aiming to resolve some of the difficulties associated to direct real estate investments, the high unit value of goods and their limited liquidity.

Real estate investing involves the purchase, ownership, management, rental and/or sale of real estate for profit. Improvement of realty property as part of a real estate investment strategy is generally considered to be a sub-specialty of real estate investing called real estate development. Real estate is an asset form with limited liquidity relative to other investments, it is also capital intensive (although capital may be gained through mortgage leverage) and is highly cash flow dependent. If these factors are not well understood and managed by the investor, real estate becomes a risky investment.

1.1 Sources and acquisition of investment property

Real estate markets in most countries are not as organized or efficient as markets for other, more liquid investment instruments. Individual properties are unique to themselves and not directly interchangeable, which presents a major challenge to an investor seeking to evaluate prices and investment opportunities. For this reason, locating properties in which to invest can involve substantial work and competition among investors to purchase individual properties may be highly variable depending on knowledge of availability. Information asymmetries are commonplace in real estate markets. This increases transactional risk, but also provides many opportunities for investors to obtain properties at bargain prices. Real estate entrepreneurs typically use a variety of appraisal techniques to determine the value of properties prior to purchase.

Typical sources of investment properties include:

1. Market listings (through a Multiple Listing Service or Commercial Information Exchange)
2. Real estate agents and Real estate brokers

3. Banks (such as bank real estate owned departments for REO's and short sales)
4. Government entities (such as Fannie Mae, Freddie Mac in US and other government agencies)
5. Public auction (foreclosure sales, estate sales, etc.)
6. Private sales (transactions for sale by owner for sale by owner)
7. Real estate wholesalers and investors (flipping)
8. Via shares in a listed REIT

Once an investment property has been located, and preliminary due diligence (investigation and verification of the condition and status of the property) completed, the investor will have to negotiate a sale price and sale terms with the seller, then execute a contract for sale. Most investors employ real estate agents and real estate attorneys to assist with the acquisition process, as it can be quite complex and improperly executed transactions can be very costly. During the acquisition of a property, an investor will typically make a formal offer to buy including payment of "earnest money" to the seller at the start of negotiation to reserve the investor's rights to complete the transaction if price and terms can be satisfactorily negotiated. This earnest money may or may not be refundable and is considered to be a signal of the seriousness of the investor's intent to purchase. The terms of the offer will also usually include several contingencies which allow the investor time to complete due diligence, inspect the property and obtain financing among other requirements prior to final purchase. Within the contingency period, the investor usually has the right to rescind the offer with no penalty and obtain a refund of earnest money deposits. Once contingencies have expired, rescinding the offer will usually require forfeiture of the earnest money deposits and may involve other penalties as well.

Real estate assets are typically very expensive in comparison to other widely available investment instruments (such as stocks or bonds). Only rarely will real estate investors pay the entire amount of the purchase price of a property in cash. Usually, a large portion of the purchase price will be financed using some sort of financial instrument or debt, such as a mortgage loan collateralized by the property itself. The amount of the purchase price financed by debt is referred to as leverage. The amount financed by the investor's own capital, through cash or other asset transfers, is referred to as equity. The ratio of leverage to total appraised value (often referred to as "LTV", or loan to value for a conventional mortgage) is one mathematical measure of the risk an investor is taking by using leverage to finance the purchase of a property. Investors usually seek to decrease their equity requirements and increase their leverage, so that their return on investment (ROI) is maximized. Lenders and other financial institutions usually have minimum equity requirements for real estate investments they are being asked to finance, typically on the order of 20% of appraised value. Investors seeking low equity requirements may explore alternate financing arrangements as part of the purchase of a property (for instance, seller financing, seller subordination, private equity sources, etc.)

If the property requires substantial repair, traditional lenders like banks will often not lend on a property and the investor may be required to borrow from a private lender utilizing a short-term bridge loan like a Hard money loan from a Hard money lender. Hard money loans are usually short-term loans where the lender charges a much higher interest rate because of the higher risk nature of the loan. Hard money loans are typically at a much lower Loan-to-value ratio than conventional mortgages.

Some real estate investment organizations, such as real estate investment trusts (REITs) and some pension funds and Hedge funds, have large enough capital reserves and investment strategies to allow 100% equity in the properties that they purchase. This minimizes the risk which comes from leverage, but also limits potential ROI.

By leveraging the purchase of an investment property, the required periodic payments to service the debt create an ongoing (and sometimes large) negative cash flow beginning from the time of purchase. This is sometimes referred to as the carry cost or "carry" of the investment. To be successful, real estate investors must manage their cash flows to create enough positive income from the property to at least offset the carry costs.

In U.S, with the signing of the JOBS Act in April 2012 by President Obama there has been an easing on investment solicitations. A newer method of raising equity in smaller amounts is through real estate crowdfunding which can pool accredited and/or non-accredited investors together in a special purpose vehicle for all or part of the equity capital needed for the acquisition. Fund rise was the first company to crowdfund a real estate investment in the United States.

1.2 Primary cause of investment failure

The primary cause of investment failure for real estate is that the investor goes into negative cash flow for a period of time that is not sustainable, often forcing them to resell the property at a loss or go into insolvency. A similar practice known as flipping is another reason for failure as the nature of the investment is often associated with short term profit with less effort.

1.3 Sources and management of cash flows

A typical investment property generates cash flows to an investor in four general ways:

1) net operating income (NOI)
2) tax shelter offsets
3) equity build-up
4) capital appreciation

Net operating income, or NOI, is the sum of all positive cash flows from rents and other sources of ordinary income generated by a property, minus the sum of ongoing expenses, such as maintenance, utilities, fees, taxes, and other items of that nature (debt service is not factored into the NOI). The ratio of NOI to the asset purchase price, expressed as a percentage, is called the capitalization rate, or CAP rate, and is a common measure of the performance of an investment property.

Tax shelter offsets occur in one of three ways: depreciation (which may sometimes be accelerated), tax credits, and carryover losses which reduce tax liability charged against income from other sources for a period of 27.5 years. Some tax shelter benefits can be transferable, depending on the laws governing tax liability in the jurisdiction where the property is located. These can be sold to others for a cash return or other benefit.

Equity build-up is the increase in the investor's equity ratio as the portion of debt service payments devoted to principal accrue over time. Equity build-up counts as a positive cash flow from the asset where the debt service payment is made out of income from the property, rather than from independent income sources.

Capital appreciation is the increase in market value of the asset over time, realized as a cash flow when the property is sold. Capital appreciation can be very unpredictable unless it is part of a development and improvement strategy. Purchase of a property for which most of the projected cash flows are expected from capital appreciation (prices going up) rather than other sources is considered speculation rather than investment.

1.4 Risk management

Management and evaluation of risk is a major part of any successful real estate investment strategy. Risks occur in many different ways at every stage of the investment process. Below is a tabulation of some common risks and typical risk mitigation strategies used by real estate investors.

Table 1: Risk and Mitigation strategy associated in Real Estate Investment

Risk	Mitigation Strategy
Fraudulent sale	Verify ownership, purchase title insurance
Adverse possession	Obtain a boundary survey from a licensed surveyor
Environmental contamination	Obtain environmental survey, test for contaminants (lead paint, asbestos, soil contaminants, etc.)
Building component or system failure	Complete full inspection prior to purchase, perform regular maintenance
Overpayment at purchase	Obtain third-party appraisals and perform discounted cashflow analysis as part of the investment proforma, do not rely on capital appreciation as the primary source of gain for the investment
Cash shortfall	Maintain sufficient liquid or cash reserves to cover costs and debt service for a period of time.
Economic downturn	Purchase properties with distinctive features in desirable locations to stand out from competition, control cost structure, have tenants sign long term leases
Tenant destruction of property	Screen potential tenants carefully, hire experienced property managers

Underestimation of risk	Carefully analyze financial performance using conservative assumptions, ensure that the property can generate enough cash flow to support itself
Market Decline	Purchase properties based on a conservative approach that the market might decline, and rental income may also decrease
General wear and tear	undertake DIY or professional technicians such as plumbers, electricians, builders, carpenters (Input from JC)
Fire, flood, personal injury	Insurance policy on the property
Tax Planning	Plan purchases and sales around an exit strategy to save taxes.

Source: from various readings

1.5 Investment strategies

Foreclosure investment:

Some individuals and companies focus their investment strategy on purchasing properties that are in some stage of foreclosure. A property is considered in pre-foreclosure when the homeowner has defaulted on their mortgage loan. Formal foreclosure processes vary by state and may be judicial or non-judicial, which affects the length of time the property is in the pre-foreclosure phase. Once the formal foreclosure processes are underway, these properties can be purchased at a public sale, usually called a foreclosure auction or sheriff's sale. If the property does not sell at the public auction, then ownership of the property is returned to the lender. Properties at this phase are called Real Estate Owned, or REOs.

Once a property is sold at the foreclosure auction or as an REO, the lender may keep the proceeds to satisfy their mortgage and any legal costs that they incurred minus the costs of the sale and any outstanding tax obligations.

The foreclosing bank or lending institution has the right to continue to honor tenant leases (if there are a tenant in the property) during the REO phase but usually the bank wants the property vacant in order to sell it more easily.

1.6 Buy, renovate, rent & refinance

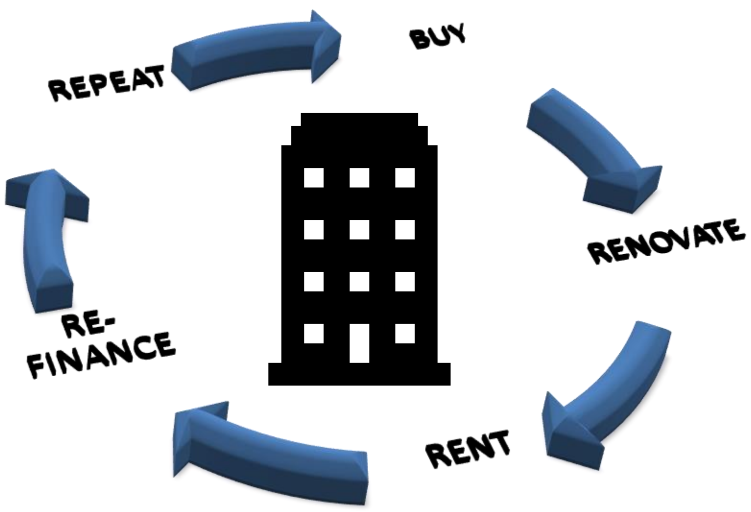
Buy, Renovate, Rent, Refinance (BRRR) is a real estate investment strategy, used by real estate investors who have experience renovating or rehabbing properties but who want to invest in rental property for consistent cash flow.

Some investors add an additional R that stands for Repeat as a way of building a real estate portfolio.

While the BRRR strategy is often used with single family rental (SFR) properties, it can also be used for multifamily units.

<u>How BRRR Works:</u>

Figure 1:BRRR Cycle



Source: Personal Elaboration

Buy:

A real estate investor purchases an investment property with a depressed value because it needs repairs and/or cosmetic updates.

Real estate investors have a variety of strategies for finding BRRR properties. They include conventional strategies like checking MLS listings and other online sources as well as investor-specific strategies such as contacting homeowners who might consider selling by direct mail or knocking on doors or gathering leads through an investor website or by posting yard signs (sometimes called bandit signs) in areas where they would like to purchase property.

Renovate:

The investor updates the property. This includes needed structural repairs, including plumbing and electrical needs, to bring a house up to the current code. It often includes cosmetic updates such as new paint, flooring, tile, counter tops, and kitchen appliances. Veteran renovators may add a bathroom or bedroom to increase the value of a home.

The BRRR investor may do these updates on their own or may choose to hire a contractor to coordinate the work.

Rent:

This is where the BRRR strategy differs from typical house flipping. While flippers sell a renovated property in order to realize profit all at once, rental property owners choose to receive cash flow consistently over time. The real estate investor finds a tenant and becomes a landlord receiving rent, usually on a monthly basis.

Refinance:

This is a key part of the BRRR strategy. Most house flippers use a Fix and Flip loan with a 13-month term that covers the purchase and renovation costs. By refinancing, a real estate investor moves the property to a loan with a fully amortized 30-year loan.

Repeat:

As real estate investors gain experience, they may repeat the BRRR strategy in order to build a real estate portfolio by buying more rental properties.

Chapter 2. The Italian Cadastral System

2.1 Background information:

The Italian cadastre, an inventory of the real property present throughout the national territory, was implemented through the subsequent establishment of two distinct sub-systems: the first – called *Catasto Terreni* (Land Cadastre) – comprising the list of all rural properties and unbuilt land plots, the second – called *Catasto Edilizio Urbano* (Urban Building Cadastre) – including buildings for civil, industrial and commercial use.

The "establishment" of the Land Cadastre, provided by Law n. 3682 of 1 March 1886, was completed in 1956. The regulation for the "maintenance" of the Land Cadastre was approved with Royal Decree n. 2153 of 8 December 1938.

The Land Cadastre is geometrically configured in parcels, as it includes information on both the geometric nature (topography – shape and consistency) and on the technical and economic features (technical-physical characteristics and incomes) of the minimum inventory item represented on the map, the "cadastral parcel".

The "establishment" of the Urban Building Cadastre, which followed the Land Cadastre, was provided by Law n. 1249 of 11 August 1939, approving the Royal Decree Law n. 652 of 13 April 1939, subsequently amended by Legislative Decree n. 514 of 8 April 1948. The relative implementing regulation was later approved with Presidential Decree n. 1142 of 1 December 1949. The Urban Building Cadastre went into the "maintenance" phase on the 1st of January 1962 with homogeneous regulations throughout the Italian State.

The *Catasto dei Fabbricati* (Cadastre of Buildings), established by Decree-Law n. 557 of 30 December 1993, passed with amendments into Law n. 133 of 26 February 1994, is an evolution of the Urban Building Cadastre; it concerns all the buildings, both urban and rural. Nowadays, the Cadastre of Buildings doesn't still replace the Urban Building Cadastre but completes it and extends its scope.
The founding objectives of cadastre are to survey and register real properties, track their changes and prepare the ground for a fair taxation.

The management of cadastral databases and the provision of related services were entrusted to *Agenzia del Territorio*, established by Legislative Decree n. 300 of 30 July 1999, which reformed the Finance Administration, transferring to the new Agency the duties previously charged to *Dipartimento del Territorio* of the Ministry of Finance.

As from the 1st December 2012, *Agenzia del Territorio* was incorporated in *Agenzia delle Entrate* (the Agenzia delle Entrate) according to art. 23-*quater*, paragraph 1, of Decree Law n. 95 of 6 July 2012, passed, with amendments, into law by art. 1, paragraph 1, of Law n. 135 of 7 August 2012. A decree of the Minister of Economy and Finance dated 8 November 2012 implemented the related transfer of functions, equipment, human and financial resources, with effect from the 1st December 2012. (Agenzia entrate, 2018)

2.2. Basic Principles of Cadastral System

In spite of the differences between the systems of the numerous countries operating a land registration system (either deeds or titles), there are four basic legal principles that can generally be recognized:

a) The booking principle implies that a change in real rights on an immovable property, especially by transfer, is not legally effectuated until the change or the expected right is booked or registered in the land register.

b) The consent principle implies that the real entitled person who is booked as such in the register must give his consent for a change of the inscription in the land register.

c) The principle of publicity implies that the legal registers are open for public inspection, and also that the published facts can be upheld as being more or less correct by third parties in good faith, so that they can be protected by law.

Concerning the public inspection, it can be remarked that in various countries the land register is open for inspection whether by anybody who wishes to do so (The Netherlands, Belgium, France), or by anybody who has a legally recognized interest in what is published (Germany), or by the registered owner or anybody who has a permission of the registered owner (in England, until 1991). In the last case the privacy element is very dominant.

There is a need to open the registers, which were up to now more or less "closed" for inspection by anybody. The register thus can not only assist in the simplification of conveyancing but will also help in identifying the ownership of properties for other purposes, such as conservation and development. Therefore, the land register will be an important component of a concept of a broad land information system. Evidence of this need can be found in England, where the Land Registration Act of 1988 heralds the end of the privacy of the register. This Act was brought into force in 1991.

d) The principle of specialty implies that in land registration, and consequently in the documents submitted for registration, the concerned subject (man) and object (i.e. real property) must be unambiguously identified.

Depending on the nature and extend of involvement of the state in the conveyancing process, which appears in activity or passivity of the state and which has the root in the "legal" history (in Continental Europe Roman law and Germanic law), there exist two recognized systems of land registration, the deed and the title registration system.

A deed registration system means that the deed itself, being a document, which describes an isolated transaction, is registered. This deed is evidence that a particular transaction took place, but it is in principle not in itself proof of the legal rights of the involved parties and, consequently, it is not evidence of its legality. Thus, before any dealing can be safely effectuated, the ostensible owner must trace his ownership back to a good root of title.

Deed registration, whether the "basic" or the "improved" one (=based on a survey and on documents of competent notaries as well as on an active role of the register) is usually applied in countries which are mainly based on the Roman law (in Europe: France, Spain, Italy, Belgium, The Netherlands) and also in countries that were influenced by the former ones in earlier times (South-America, parts of North-America, some African and Asian countries).

A title registration system means that not the deed, describing e.g. the transfer of rights is registered but the legal consequence of that transaction i.e. the right itself (=title). So, the right itself together with the name of the rightful claimant and the object of that right with its restrictions and charges are registered. With this registration the title or right is created.

So, one could say that deed registration is concerned with the registration of the legal fact itself and title registration with the legal consequence of that fact. In other words, the relation between deed and title registration is similar to the relation between legal facts and legal consequences.

Concerning the effect of a land registration system, especially a title registration, three principles are sometimes upheld namely the mirror principle, which means that the register is supposed to reflect the correct legal situation; the curtain principle, which means that no further (historical) investigation beyond the register is necessary except overriding interests; and the insurance or guarantee principle, which means that the state guarantees that what is registered is true for third parties in good faith and that a bona fide rightful claimant who is contradicted by the register is reimbursed from an insurance fund of the state. (Henssen, 1996)

2.3 The contents of the cadastral information system:

The cadastral information system comprises four archives which are different in nature (alphanumerical or graphic), but closely inter-correlated:

- The cartographic archive;
- The Land Cadastre archive (alphanumerical);
- The Urban Building Cadastre archive (alphanumerical);
- The real estate urban units plan archive.

The system also includes the following new archives:

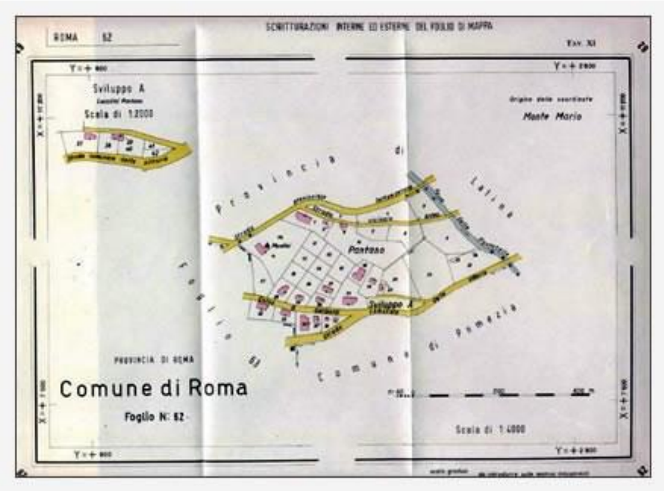
- The archive of buildings (currently being implemented);
- The national archive of urban streets and house numbers (ANNCSU)

The basic inventory item of the Land Cadastre is the cadastral parcel, legally defined as a continuous piece of land located in a single Municipal area, owned by one or more natural or legal persons, planted with a homogeneous type of crop and having a uniform degree of productivity (class).

The basic inventory item of the Urban Building Cadastre is the real estate urban unit, legally defined as a portion of a building (for example, a dwelling, a shop, an office, etc.), a whole building (for example, a hospital, a hotel, etc.), or a set of buildings (for example, an industrial plant), or an urban area that is independent in terms of its functions and profit capacity. (Henssen, 1996)

2.4 The cartographic archive:

Figure 2: Cadastral map of Roma



Source: Agenzia Entrate

The cartographic archive, through the cadastral maps, defines the shape, area and position on the territory of the cadastral parcels.

The specific objective of the cadastral cartography is, therefore, to represent real properties consistently with the different rights existing on them, an aspect that, among all the official cartographies held by the State, can only be found on cadastral maps.

Cadastral maps were normally drafted referring to municipal territories[2] and subdivided into sheets, identified through progressive cardinal numbers. Cadastral cartography may be defined as a “large scale” representation, as it was originally created mostly in a scale of 1:2000[3].

The Italian cartographic archive, which covers the whole national territory[4] (roughly 300,000 Km2), consists of about 300,000 cartographic files.

Cadastral cartography is one of the official maps of the Italian State[5]. *Agenzia delle Entrate*, as one of the Italian State Cartographic Bodies, takes part in national and international technical boards, such as the National Council for Territorial and Environmental Information, the United Nations Committee of Experts on Global Geospatial Information Management in Europe (UN-GGIM Europe), the Permanent Committee on Cadastre in the European Union (PCC) and Euro Geographics (International *non-profit* Organization, associating the main European National Mapping, Cadastre and Land Registry Authorities).

Today the Cadastral Cartography is available for the whole national territory in vector format and in the National Reference System[6]; this allows the full interoperability with other geographic data bases, becoming a fundamental element in the land information systems of the central and local Public Administrations.

Cartographic data are managed by *Agenzia delle Entrate* through a single GIS application, called WEGIS (Web Enable Gis), for the whole national territory, which operates in a web environment. This application software’s functions make it possible to query cartographic databases, provide users (technical professionals, citizens) with abstracts of cadastral vector maps upon request, update cadastral cartography in vector format either through its digitalization functions or by supplementing updating documents submitted by technical professionals.

Since 2016 the cadastral information system is integrated with new-generation high-resolution ortho-images (GSD 20 cm/pix), provided by *Agea* (Agency for disbursements in agriculture) every year for one third of the national territory.

In addition to the fiscal purposes (agricultural and real estate cadastral incomes are used for determining the taxable base of direct and indirect taxation), cartographic and cadastral information has progressively taken relevance also for civil and legal purposes (identification of real estate and legal value of the cadastral information), for the land management (civil protection, determination of municipal areas, fire cadastre, investigations of environmental crimes, etc.) and for historical aspects (reconstruction of natural and anthropic land evolution). (Agenzia ENtrate, 2018)

2.5 The Land Cadastre archive

The Land Cadastre archive registers technical-physical, juridical and economic data, linked to each cadastral parcel, including:

- **cadastral identification** (name of the Municipality, Section code, map sheet number, parcel number);
- **place** (address or name of the location area);
- **type of crop** for cultivated land parcels, or **permitted use** for parcels not used for agricultural production (the information is codified and refers to a General Table of the cadastral types of crop and permitted uses);
- **class of productivity** (codified information expressing different potential degrees of soil production levels);
- **consistency** (expressed in hectares, acres and centiares of surface area);
- **cadastral incomes** (subdivided into *landlord* income and *agrarian* income);
- **cadastral holder** (tax code number and personal data of natural persons, or corporate name of legal persons, holding title to the land parcel, supplemented with information on the type of right held and on the share of interest in it).

Additionally, each parcel is provided with identification data of the deeds that determined a change in the status of the holders (for example, transfer of title), or in the technical-physical state of the property. By tracking these changes, data relative to cadastral parcels are time-

linked for subsequent phases. This makes it possible to browse them also referring to a previous time period.
At the end of December 2017, the Land Cadastre archive comprised more than 85.5 million cadastral parcels; out of these, approximately 60 million producing a cadastral income.
The Land Cadastre archive is now completely computerized and organized into an Oracle database. (Agenzia ENtrate, 2018)

2.6 The Urban Building Cadastre archive

Analogously to the Land Cadastre, the Urban Building Cadastre archive registers technical-physical, juridical and economic data, linked to each real estate urban unit, including:
- **cadastral identification** (name of the Municipality, Section code, map sheet number, parcel number, sub-parcel number);
- **address** (usually referring to the official street guides provided by Municipal Authorities and included in the National Archive of urban streets and house numbers, managed by the Agency and Istat - the Italian National Institute of Statistics);
- **typology** (coded information, linked to the permitted use of the real estate urban unit, which refers to a general classification currently listing different typologies organized into 5 groups identified as letter A - residential use and offices, B - public use, C - commercial use and outbuildings, D - industrial and special commercial uses and E - uses of community interest. In the Urban Building Cadastre properties that do not have the capacity of producing a cadastral income because of their nature (real estate portions that are common utility of several real estate urban units) or state of construction (unbuilt urban areas, units under construction, units in a state of collapse, etc. - organized into *"fictitious"* categories of the group F) are also registered.
- **class of productivity** (this is expressed only for the real estate urban units registered under a typology of groups A, B and C and is coded information outlining different levels of possible income);
- **consistency** (this is expressed differently according to the typology under which the real estate urban unit is listed. For units listed under group A, it is expressed in number of main rooms. For units listed under group B, it is expressed in m3, while for units listed under group C it is expressed in m2 of net area. Consistency is not expressed for units listed under groups D and E. In addition to the consistency data originally provided for in the founding law of the Urban Building Cadastre, with reference to the provisions of Presidential Decree n. 138 of 23

March 1998, for the real estate units listed under groups A, B and C consistency of the gross area in m2 has also been determined);

- **cadastral income** (defined as the ordinary before-tax income that can be potentially produced from the real estate urban unit, after having detracted ordinary maintenance expenses and eventual losses).

The indication of the holders, of the type of right held and the share of interest in it, as well as the registration of changes in rights and in the state of real estate urban units, occur according to the very same procedures described above in relation to cadastral parcels registered in the Land Cadastre. (Agenzia ENtrate, 2018)

2.7 The urban real estate stock

The real estate stock registered in the Italian cadastral archives as at 31 December 2017 consists of more than 73.5 million buildings or parts of them. Out of these, about 63.5 million are registered under "ordinary" and "special" cadastral typologies, bearing indication of cadastral income (total cadastral income amounting to about 36.4 billion euros). More than 6.5 million properties are "common properties unsuitable for registration" (namely properties with a shared use by several real estate units, that do not independently produce an income).

More than 3.3 million properties are registered under cadastral typologies of group F, as real estate units that do not have the capacity of producing income (unbuilt urban areas, paved roofs, real estate urban units under construction or still lacking an assigned use, units in a state of collapse). (Agenzia ENtrate, 2018)

Figure 3:Real estate stock at 31 December 2017

Cadastral typologies	Stock
Group A (dwellings, offices, professional studios)	52.3%
Group C (commercial/artisan business, outbuildings)	39.9%
Group D (special use)	2.3%
Group E (specific use)	0.1%
Group B (public use)	0.3%
Group F (particular units – *fictitious* typologies)	5.0%

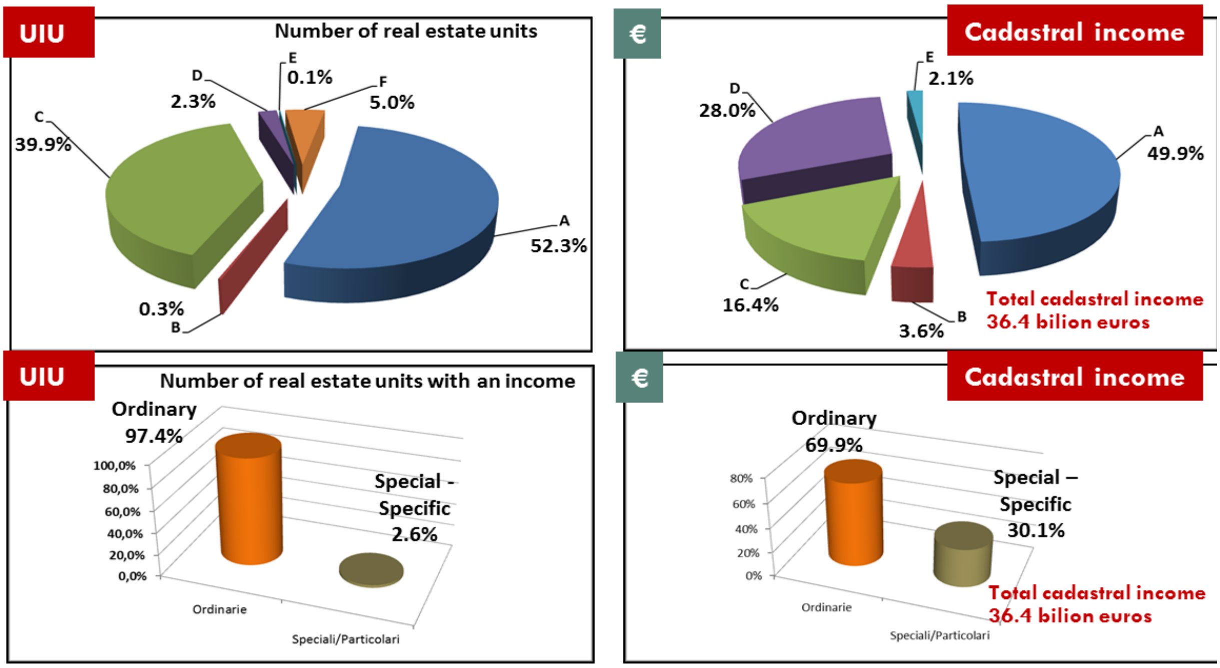
Source: Agenzia Entrata

Most part of the Italian real estate stock is registered under group A (dwellings, offices, professional studios - more than 52%) and under group C (commercial/artisan business, outbuildings – about 40%). 69,9% of the total cadastral income (24,5 billion euros) refers to properties from groups A and C.

Properties of group D, though only 2.3% of the total real estate stock, produce a relevant part of real estate income, equal to 28% (about 10.2 billion euros).

As in the case of the Land Cadastre, also the Urban Building Cadastre archive is now wholly computerized and organized into an Oracle database.

Figure 4: Cadastral income at 31 December 2017



Source: Agenzia Entrata

2.8 The real estate urban units plans archive

In addition to the information described above, the Urban Building Cadastre information system also includes graphic information. More specifically, each real estate urban unit comes complete with a planimetric representation that is normally projected in a scale of 1:200.

Units that do not require a cadastral income assessment are only represented in a special graphics datasheet (named "*elaborato planimetrico*") that defines their shape and position inside the building in which they are located.

The real estate urban units plans archive, linked to the alphanumerical information archive through the cadastral identification data of the units, is now wholly computerized. In details, while plans already existing in paper format were entered into the information system through the acquisition of their raster images, starting from the end of the '90s, thanks to the automation of updating procedures the new real estate urban units (new buildings or changes to the units already registered) are compulsorily10 entered into the information system having in attachment their planimetric representation in electronic format, directly provided by the technical professionals concerned. (Agenzia ENtrate, 2018)

2.9 The valuation system of the urban building cadastre

In respect of the mass valuation of the cadastral incomes of real estate urban units registered in the Urban Building Cadastre, cadastral rules provide different approaches to be taken according to the functional use of the units (cadastral typology).

More specifically, for units registered under the ordinary typologies of groups A, B and C (see Annex 1), the application of a comparative method (by classes and tariffs) is provided, while for real estate urban units registered under the typologies of groups D and E, in consideration of the peculiar and unique features of these assets, the direct valuation thereof, on a unit-by-unit basis, is applied.

Therefore, for real estate urban units registered under the typologies of groups A, B and C, it is necessary to preliminarily identify the list of typologies existing in each Municipality19 – this activity is named qualification procedure – referring to a pre-established comprehensive list of typologies (see Annex). The following activity is the identification, for each cadastral typology listed, of one or more income classes (classification procedure) on the basis of factors linked to the location of the units within the Municipal territory (center, suburbs, with the relative provision of public services and utilities). The income variation between one class and the following one is usually not less than 15%.

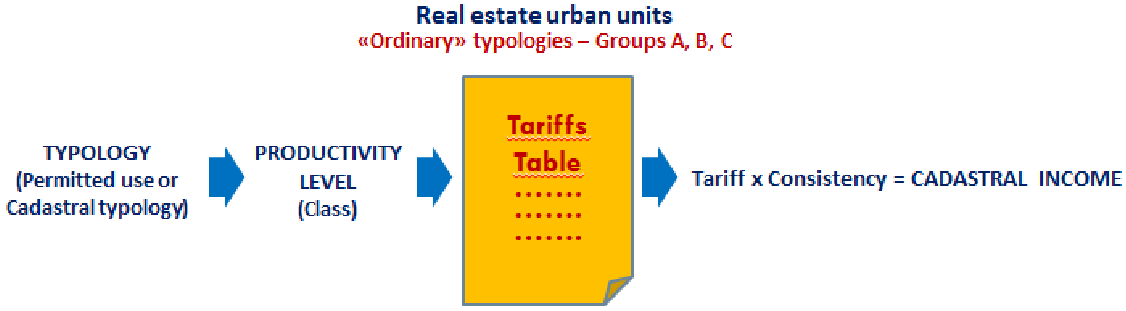
Once this operation is finished, a qualification and classification table containing the list of cadastral typologies and classes existing in its territory will be available for each Municipality.

The following step is the determination of the cadastral tariffs (cadastral income per consistency unit) to be referred to each typology and class listed in the table. This procedure consists in determining, through specific economic analyses performed on sample real estate units called “reference units”, the gross average ordinary income that might be (potentially) produced by each unit of consistency, after the deduction of maintenance costs and of any other expense and eventual loss, excluding taxes.

Finally, the method used to determine the cadastral income for each real estate urban unit registered in the Urban Building Cadastre comes complete with the determination of its “categorization”, which consists in linking to each unit the most pertinent typology and class present in the qualification and classification table of the Municipality in which it is located, considering its positional and construction characteristics, in determining its consistency (in terms of rooms, m2 or m3, according to the typology under which it is registered) and, subsequently, in multiplying the assessed cadastral tariff for the consistency of the real estate urban unit. (Agenzia ENtrate, 2018)

2.9.1 Procedure for determining the cadastral income:

Figure 5: Concept of cadastral income calculation



Source: Agenzia Entrate

The Urban Building Cadastre tariffs in force since 1 January 1992 were determined with reference to the fiscal period 1988/1989.

It is understood that, while categorization is a frequent operation in the maintenance activities of the Urban Building Cadastre (declarations of new urban units or changes in existing ones), the other operations leading to the definition (or updating) of the classification framework and of the related cadastral tariffs only occur as a consequence of provisions given by law and pertinent ministerial decrees.

The cadastral income of real estate urban units registered under the typologies of group D and E is determined on a case-by-case basis, through conventional urban valuation techniques. (Agenzia ENtrate, 2018)

2.10 The valuation system of the land cadastre:

The current valuation system of the Land Cadastre provides, for each cadastral parcel, the determination of a double economic value: the landlord income and the agrarian income. These incomes represent respectively the capital income referable to the owner of the parcel (landlord income) and the income referable to the farmer (agrarian income). The mass activity of determining the landlord and agrarian incomes for all the rural parcels was carried out using a comparative method, by classes and tariffs.

This methodology involves performing the following activities:

- qualification;
- classification;
- determination of the cadastral tariffs;
- categorization;
- evaluation of the landlord and agrarian incomes.

The qualification activity consists in defining, for each Municipality, the list of kind of crops existing in its territory, with reference to a predefined crop variety grid.

The following activity, classification, is the subdivision of each kind of crop into one or more classes, corresponding to different levels of soil production, in relation to agronomic, topographical and economic factors. The income variation between one class and the following one is usually equal to about 20%.

Once these operations are finished, a qualification and classification table containing the list of crop typologies and classes existing in its territory will be available for each Municipality.

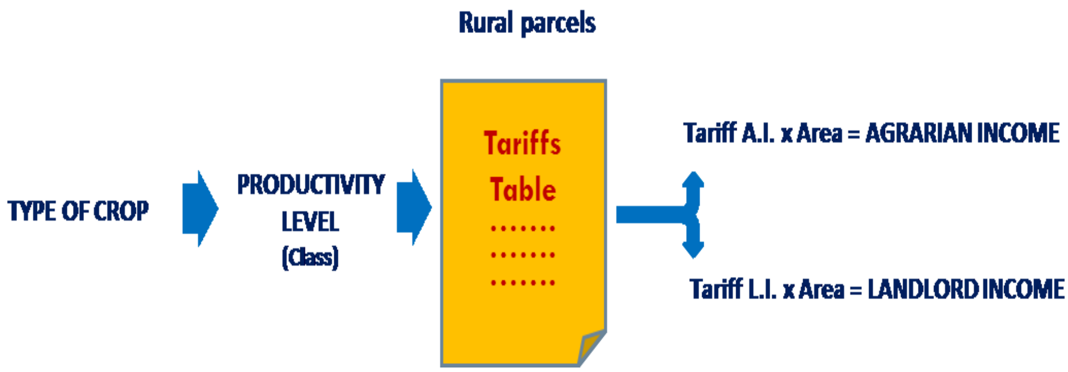
The following step is the determination of the cadastral tariffs. This procedure consists in determining, through specific economic analyses performed on sample farms called “reference farms”, the landlord tariffs (income per unit area referable to the owner) and the agrarian tariffs (income per unit area referable to the farmer) for each typology and class listed in the qualification and classification table.

In some cases, "deductions to the landlord income tariffs due to permanent works for protection, drainage and reclamation, and to irrigation costs” have been determined, too (extra tariff deductions).

The determination of the landlord and the agrarian incomes of each rural parcel registered in the Land Cadastre comes complete with the categorization activities, which consist in linking to each parcel, using synthetic-comparative criteria, the most pertinent typology and class present in the qualification and classification table of the Municipality (or census zone) in which it is located, and subsequently in multiplying the related cadastral tariffs (landlord20 and agrarian incomes) for the area of the parcel. (Agenzia ENtrate, 2018)

2.10.1 Procedure for determining the landlord and agrarian incomes

Figure 6: Calculation of landlord and agrarian incomes



Source: Agenzia entrate

It is understood that, while categorization is a frequent operation in the maintenance activities of the Land Cadastre (updating of a crop, creation of a new parcel resulting from the subdivision of an existing parcel, etc.), the other operations leading to the definition (or updating) of the classification table and of the related cadastral tariffs only occur as a consequence of provisions given by law and pertinent ministerial decrees.

The Land Cadastre tariffs in force since 1 January 1988 were determined with reference to the fiscal period 1978/1979. (Agenzia ENtrate, 2018)

2.11 Comprehensive list of typologies

1. Group A - Properties and offices (*Abitazioni e uffici*)
2. Group B - Buildings used for services (*Immobili destinati a servizi*)
3. Group C - Commercial real estate (*Immobili commerciali*)
4. Group D - Special purpose buildings (*Immobili a destinazione speciale*)
5. Group E - Properties for private use (*Immobili a destinazione particolare*)
6. Group F - Urban entities (*Entità urbane*)
7. Group T - Land (*Terreni*)

I) - REAL ESTATE UNITS FOR ORDINARY USE

GROUP A

A/1 - Luxury dwelling-houses

A/2 - Well-finished dwelling-houses

A/3 - Economic dwelling-houses

A/4 - Cheap dwelling-houses

A/5 - Ultra-cheap dwelling-houses

A/6 - Rural dwelling-houses

A/7 - Detached houses

A/8 - Villas

A/9 - Castles, palaces of great artistic and historical value

A/10 - Private offices and practices

A/11 - Traditional local dwelling-houses and accommodations

EXPLANATORY NOTES ON GROUP A:

The qualification statement showing the existing categories is relative and variable from place to place and will have a corresponding local meaning.

A / 1 - Stately housing. Real estate units belonging to buildings located in prestigious areas with construction, technological and level finishing features higher than that of residential buildings.

A / 2 - Civilian housing. Real estate units belonging to buildings with constructive, technological and finishing characteristics of the level corresponding to the premises market requests for residential buildings.

A / 3 - Economic housing. Real estate units belonging to buildings with characteristics of economy both for I materials used for finishing, and with technological systems limited to the sole one’s indispensable.

A / 4 - Popular housing. Real estate units belonging to buildings with construction features and finishes of modest level. Limited equipment of installations, however indispensable.

A / 5 - Ultra popular dwellings. Real estate units belonging to buildings with very low-level construction and finishing characteristics. Not normally equipped with exclusive sanitation services.

A / 6 - Rural housing.

A / 7 - Homes in small villas. A cottage must be considered a building, even if divided in real estate units, having construction, technological and finishing characteristics of a civil or economic building and be equipped, for all or part of the real estate units, of external areas for exclusive use.

A / 8 - Houses in villas. For villas must be understood those properties characterized essentially from the presence of park and / or garden, built in urban areas destined to such constructions or in areas of merit with constructive characteristics and of finishing, of a higher level than the ordinary.

A / 9 - Castles, eminent palaces. Castles and palaces fall into this category eminent that for their structure, the division of interior spaces and volumes buildings are not comparable with the standard units of the other categories; up ordinarily only one real estate unit. It is compatible with the attribution of category A / 9 the presence of other, functionally independent, units that can be found in the other categories.

A / 10 - Offices and private offices. This category includes those real estate units that by type, endowment of plants and finishes are intended for professional activity.

A / 11 - Houses and lodgings typical of the places Mountain shelters, baite, trulli, sassi, etc.…

GROUP B

B/1 - Schools and boarding schools; girls' boarding schools, shelters, orphanages, hospitals, convents, seminaries and barracks

B/2 - Nursing homes and hospitals (when, due to their characteristics, they are comparable with the reference units)

B/3 - Prisons and reformatories

B/4 - Public offices

B/5 - Schools, scientific laboratories

B/6 - Libraries, picture galleries, museums, art galleries, academies, not located in buildings included in group A/9

B/7 - Chapels and oratories not used as public places of cult

B/8 - Underground food storage

GROUP C

C/1 - Shops and workshops

C/2 - Warehouses and storage facilities

C/3 - Crafts and trades workshops

C/4 - Sports facilities

C/5 - Beach facilities and spas

C/6 - Stables, sheds, storehouses and garages

C/7 - Closed and open canopies

II) - REAL ESTATE UNITS FOR SPECIAL USE

GROUP D

D/1 - Factories

D/2 - Hotels and pensions

D/3 - Theatres, cinema theatres, concert and performance halls

D/4 - Nursing homes and hospitals (when, due to their characteristics, they are not comparable with the reference units)

D/5 - Credit, exchange and insurance institutions (when, due to their characteristics, they are not comparable with the reference)

D/6 - Sports facilities (when, due to their characteristics, they are not comparable with the reference units)

D/7 - Buildings constructed for or adjusted to meet special industrial needs and not liable to be destined for a different use without radical transformations

D/8 - Buildings constructed for or adjusted to meet special commercial needs and not liable to be destined for a different use without radical transformations

D/9 - Floating or pile buildings, tethered to fixed points on the ground, private toll bridges

D/10 - Buildings for productive functions connected to agricultural activities.

III) - REAL ESTATE UNITS FOR SPECIFIC USE

GROUP E

E/1 - Land, sea and air transport service stations

E/2 - Municipal and provincial toll bridges

E/3 - Constructions and buildings for special public use

E/4 - Fenced enclosures for special public use

E/5 - Buildings enclosed within fortifications and outhouses

E/6 - Lighthouses, traffic lights, municipal clock towers

E/7 - Buildings used as public places of cult

E/8 - Buildings and constructions in cemeteries, excluding burial niches, tombs and family graves

E/9 - Special-use buildings not included in the foregoing Group E typologies

FICTITIOUS TYPOLOGIES

GROUP F

F/1 - Unbuilt urban areas

F/2 - Units in a state of collapse

F/3 - Units under construction

F/4 - Units transitorily without a well-defined use

F/5 - Paved roof

F/6 - Buildings still to be declared for cadastral registration

F/7 - Infrastructure of public communication networks.

Chapter 3. The Italian Economy

The Italian economy is ranked as the third largest economy in the Euro area and eighth largest in the world. As a prominent country, it is a founding member of the G7, G8, the Euro zone and the OCED.

Italy has a diversified industrial economy, which is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with high unemployment. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned.

3.1 Background of Italian Economy

Italy also has a sizable underground economy, which by some estimate's accounts for as much as 15% of GDP. These activities are most common within the agriculture, construction, and service sectors. Italy has moved slowly on implementing needed structural reforms, such as reducing graft, overhauling costly entitlement programs, and increasing employment opportunities for young workers, particularly women.

The international financial crisis worsened conditions in Italy's labor market, with unemployment rising from 6.2% in 2007 to 8.4% in 2010, but in the longer-term Italy's low fertility rate and quota-driven immigration policies will increasingly strain its economy. A rise in exports and investment driven by the global economic recovery nevertheless helped the economy grow by about 1% in 2010 following a 5% contraction in 2009.

The Italian government has struggled to limit government spending, but Italy's exceedingly high public debt remains above 115% of GDP, and its fiscal deficit—just 1.5% of GDP in 2007—exceeded 5% in 2009 and 2010, as the costs of servicing the country's debt rose.

Labor force: 25.54 million (2015 est.)

Labor force by occupation:

- Agriculture: 3.9%
- Industry: 28.3%
- Services: 67.8% (2011)

3.2 Italy’s Trade Structure

Against the backdrop of a weak domestic demand, the external sector’s performance is crucial for the Italian economy. One of the most important pillars of the economy is the production of high-quality products such as in the machinery, textiles, industrial designs, alimentary and furniture sectors. These products contribute substantially to the country’s exports. However, as a country poor in national resources, its energy and manufacturing sectors are highly dependent on imports. This makes Italy’s external position vulnerable to changes in import prices such as fuel. The county recorded trade deficits from 2004 until 2011. However, in the last two years, falling imports have helped to turn the balance into positive figures.

Italy’s trade volumes increased significantly after the country joined the Eurozone. Despite growing global competition, in 2013 Italy ranked as the world’s 10th largest exporter and 11th largest importer. Italy’s main trading partners are inside the Euro area, in particular Germany, which is the country’s main exports destination and accounts for around 12.6% of Italy’s total exports and France, accounting for 11.1% of total exports. Other important export destinations are the United States, with a share of 6.9% of total exports, and Switzerland with 5.2%. Germany and France are Italy’s top imports partners, accounting for 12.4% and 10.8% share of total imports respectively.

Exports from Italy:

Exports: $454.6 billion (2015 est.)

Since the country’s manufacturing sector is specialized in high-quality goods, Italy plays an important role in the global market of luxury goods. The country’s main exports are mechanical machinery and equipment, which account for around 24% of total exports, as well as motor vehicles and luxury vehicles (7.2%). Home to some of world’s most famous fashion brands, Italy occupies a special niche in the global market of fashion and clothing. In fact, exports of clothing and footwear account for around 11.0% of the country’s total exports. Other important exports include electronic equipment (5.6%) and pharmaceutical products (4.6%). Since 2008, the country has experienced anemic growth in merchandise exports of 1.6% annually. In nominal terms, merchandise exports have gradually outsized imports, which caused the last two years (2012 and 2013) to close with a trade balance surplus.

Main Export commodities: Engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals; food, beverages and tobacco; minerals, and nonferrous metals.

Imports:

Italy’s main imports are fuels, which account for around 17% of total imports. This is due to the country’s lack of natural resources, which makes it highly dependent on energy imports. Other imports include machinery (14.2%), raw materials (10.0%) and food (7.0%)— Italy is a net food importer because the landscape is not suitable for developing agriculture. Since the financial crisis, merchandise imports have expended at a slower rate on average than merchandise exports. In fact, in the last six years merchandise imports have grown a meager 0.4%.

Imports: $389.2 billion (2015 est.)

Import commodities: Engineering products, chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing; food, beverages, and tobacco. (CIA the World Factbook, 2017)

3.3 Italy Economic Outlook 2019

The economy remained anemic in the third quarter, with GDP only just mustering an expansion for the fourth consecutive quarter. The external sector subtracted from growth, hit by headwinds blowing from Germany. In contrast, domestic demand timidly supported the expansion, although it was restrained by stifled credit extension, gloomy economic prospects, muted wage increases and some job shedding. Indicators for October suggest a similar pattern at the outset of the fourth quarter: Consumer sentiment slid, business confidence was downbeat, and the manufacturing PMI dipped further into contractionary terrain. Meanwhile, infighting among partners of the governing center-left coalition intensified following the center-right coalition’s landslide victory in local elections at the end of October. This will make governing more precarious and highlights that political risks remain substantial.

3.4 The main economic drivers of Italy

The country plays a significant role in the regional and global economy and it's a leading country in the world trade, exports and tourism. The mail economic drivers of Italy are Economic growth, Tourism, Population and migration. Italy has recovered from financial crisis, but it is growing slowly compared to other comparable countries. It is expected to grow an average of 0.5% per year over the next 10 years. Italy is the country with 3rd highest number of overnight stays in Europe. The Italian population is expected to grow to 61.3 million in 2020 mainly due to immigration. It is expected to suffer from population ageing as with the most developed nations. During 2015, Italy receives 2.80.100 legal immigrants. International migration will be key in future population demographics for Italy.

3.4.1 Economic growth

The economy is set to gain some strength next year (i.e., 2020), as domestic demand picks up and the industrial sector finds a way out of recession. That said, Italy will remain the Eurozone laggard, as waning investment activity and muted productivity growth weigh on the economy. Challenging fiscal metrics, policy volatility and a strained political environment skew risks to the downside. According to Focus Economics panelists project growth of 0.4% in 2020, which is unchanged from last month's forecast, and 0.7% in 2021.

The eurozone's third economy is not well. After a technical recession in the second half of 2018, when output shrank by 0.1 percent, Italy's economy saw zero growth in gross domestic product in the first half of 2019. Both the European Commission and International Monetary Fund predict the Italian GDP will grow by just 0.1 percent this year, while the outgoing government predicted growth of 0.2 percent. Some experts think Italy could slip back into recession. The country is feeling the squeeze from generally slow European growth and the economic tensions between Washington and Beijing, but also by businesses' reluctance to invest in the current global environment and domestic political instability.

Italy - GDP

Italy's gross domestic product (GDP) is the most important measure for evaluating the performance of Italy's economy (Economic Growth, GDP). GDP figures are published by the National Institute of Statistics (Instituto Nazionale di Statistica [Istat]) on an annual and quarterly basis. Focus Economics regularly publishes news on Italian GDP (GDP News). The table below shows the change of price-adjusted GDP for Italy, typically referred to as Italy's economic growth rate. A more complete assessment of Italy's GDP can be found below the table.

Gross domestic product (GDP) measures the economic performance of a country over a given period, typically a year or a quarter. It is therefore the most important economic indicator for evaluating the country's economy (see our GDP page for more information on this indicator).

Italy's GDP data (National Accounts [NA]) are produced by The National Institute of Statistics (Instituto Nazionale di Statistica [Istat]). Both annual and quarterly National Accounts are based on the European System of National Accounts (ESA 1995; ESA 2010 as of Q2 2014), which is derived from the System of National Accounts (SNA1993). ESA is a harmonized accounting system which guarantees the consistency and comparability of the statistics produced by all the EU member countries. Italian GDP data reach back to 1970.

Italy GDP Growth Performance:

In the 10 years before the financial crisis, Italy's economy grew on average 1.3%. Due to a sudden halt in private capital flows in 2009 triggered by the global economic crisis, the economy suffered a hefty contraction of 5.5%—the strongest GDP contraction in decades. Since then, the economy has shown no clear trend of recovery. In fact, in 2012 and 2013, GDP contracted 2.4% and 1.8%, respectively.

3.4.2 Tourism

The tourism is one of the economic sectors of ' Italy.

The country is, in 2018, the fourth most visited in the world with 94 million foreign visitors according to ENIT, with a number of 113.4 million foreign visitors in the cities of art alone and with 216.5 million presences Total. According to estimates, the foreign tourism industry would have contributed, with 42 billion euros (15.5 billion in the only cities of art), to the formation of 13% [*the Italian GDP is about 2000 billion, 42 is about 2%, not 13*] of GDP national. With 58.3 million tourists a year (2017), Italy is the fifth most visited country in international tourism arrivals.

People mainly visit Italy for its rich culture, cuisine, history, fashion and art, its beautiful coastline and beaches, its mountains, and priceless ancient monuments. Italy also contains more World Heritage Sites than any other country in the world.

Tourism is one of Italy's fastest growing and most profitable industrial sectors, with an estimated revenue of €189.1 billion.

According to a study in Italy by local.it news published in 2018,

Tourism in Italy is booming, as the latest figures show another record year for the country with more than 420 million visitors in 2017. The 4.4 percent increase in tourist numbers since the last record was set in 2016 is well above the European average, according to new figures from Istat. Most of Italy's tourists (14.1 percent) come from Germany, the figures show, followed by France, the UK and US, which had about three percent each.

Rome remains the most popular destination, attracting almost 27 million of these visitors, or 6.4 percent of the total, followed by Milan, Venice (both 2.8 percent), Florence (2.4 percent) and Rimini (1.8 percent.)

More than 275 million people stayed in hotels in Italy in 2017. There was a 2.8 percent increase in the number of people staying in Italian hotels, with an average stay of 2.9 nights recorded per customer.

Non-hotel accommodation, which includes *agriturismi* (farm stays) and Airbnb, recorded a 7.5 percent increase and an average stay of 4.9 nights. For the first time, the number of non-Italians staying in hotels and other accommodation outnumbered Italian residents, who frequently travel within their home country. 88 percent of trips taken by Italians within Italy are thought to be for holidays and leisure, while the remaining 12 percent are business trips.

Statistically, growth has been stronger in the south, with the number of visitors to Sicily growing by 7.3 percent and Basilicata by 6.5% However, the south continues to make less money from tourism than the Centre and northern regions, despite visitors tending to stay longer there. Italy's tourism sector makes up some 12 percent of national GDP and accounts for almost 13 percent of Italian jobs according to a study carried out by the Intesa Sanpaolo group. But not everyone in Italy is happy about the large numbers of people arriving every year.

The influx, however profitable, takes a considerable toll on quality of life for local people, and can put the survival of Italy's heritage at risk – despite it being key to Italy’s high profile as a travel destination.

Many of Italy's most established tourist destinations suffer from overcrowding, especially in the peak summer season.

An anti-tourism movement is growing in some of the country's most popular beauty spots including Venice and the towns of Cinque Terre, where local residents have protested against overcrowding in their cities and an impact on livability.

One of the government's priorities is to promote smaller destinations and authentic craftsmanship, gastronomy and wine tourism as a way of evening out visitor numbers and revenues throughout the year.

2017 was named the Italian 'Year of the Village', and the Culture Ministry reported an increase of 74 percent in tourism to rural areas this year, based on figures provided by Airbnb.

Another study in the year 2019 July by local.it and repubblica.it,

94 million tourists spent a total of 216 million nights in Italy last year, according to new figures released on 18 July 2019.This was more than the 140.7 million nights spent in France. Though Spain still ranks as the most popular European destination overall with a total of 301 million. The figures will be controversial in France, which is known for being the most visited country in the world. But as the new Italian government figures only counted visitors from within Europe, it remains unclear whether Italy now brings in more tourism overall.

The most recent study of global visitor numbers to Italy, using data from 2017, showed that the country had 420 million overnight stays - fewer than the 429 million recorded in France for the same year.

Tourism in both Italy and France is still on the rise, the new study confirmed.

France saw the biggest increase - 5.4 percent - while Italy grew by 2.8 percent. In contrast, the number of people visiting Spain dropped by 1.66 percent, it said. The Italian government figures, which only looked at European nations, showed that the highest number of EU tourists came from Germany, followed by France. The UK was third.

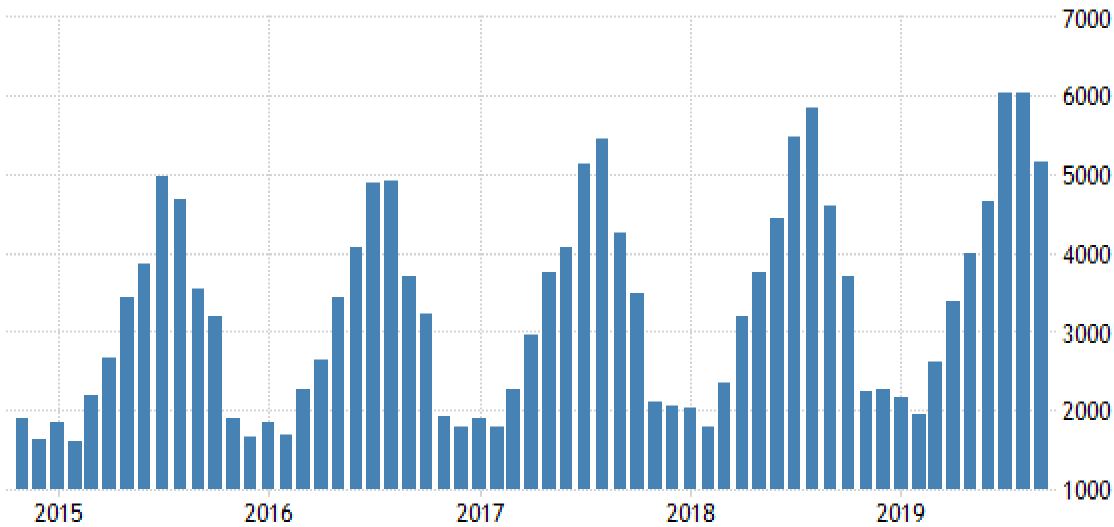
Announcing the new findings, ENIT chief Giorgio Palmucci said tourism accounted for 13 percent of Italy's gross domestic product.

The food and wine tourism sector continued to be the most profitable of all.

The study's authors found that "the daily per capita expenditure for a food and wine holiday is in fact in our country is about 117 euros. Meanwhile it was 107 for trips to the mountains and 91 on the coast."

According to a survey by bank of Italy, the revenue from tourism is constantly increasing and this includes a good movement in country's economy which is a positive element in one of the country economic indicators. (Banca D'Italia, 2019)

Figure 7: Trend of revenue from tourism



Source: Trade economics_Banca D'Italia

Travel and tourism's total contribution to GDP:

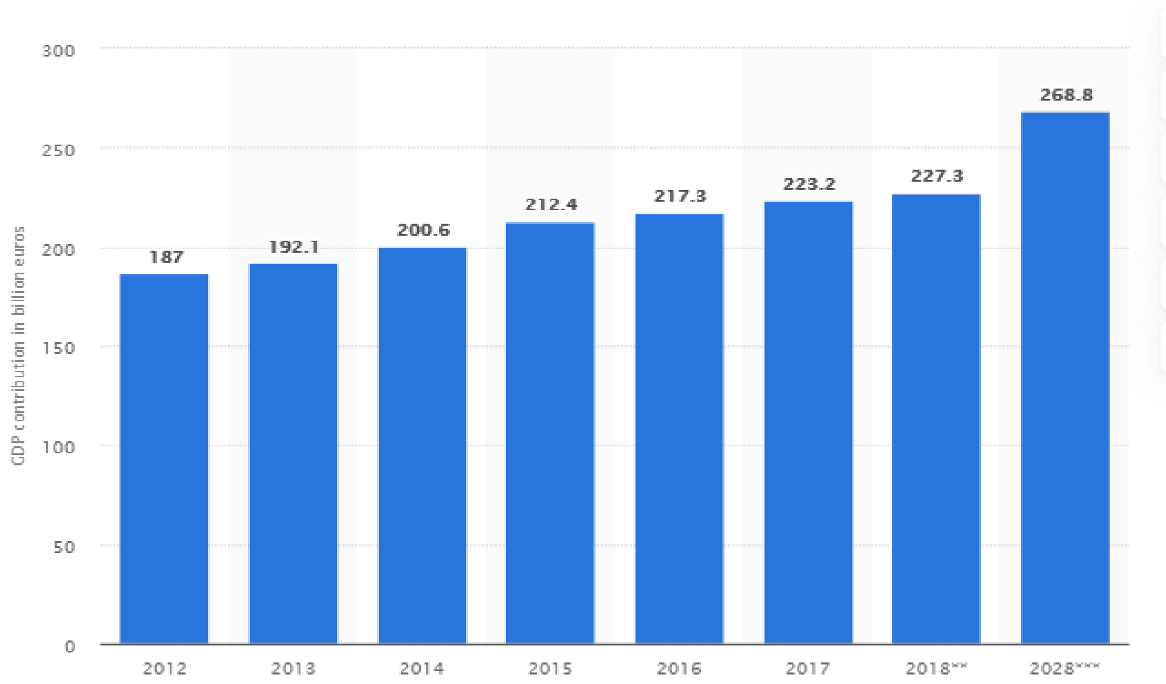
According to statista, a study on tourism in Italy in relation to GDP,

In 2017, the contribution of travel and tourism to the Italian gross domestic product amounted to 223.2 billion euros. The industry, which is one of the most important ones for the country's economy, constituted about 13 percent of the Italian GDP in the year considered and is predicted to reach 14.3 percent in 2028. (Statista, 2019)

Every year more and more foreigners come to Italy to discover the real Italian dolce vita – breathtaking landscapes, rich history, great art, interesting culture and delectable cuisine. Only between 2013 and 2017 the country registered an increase in the number of international tourist arrivals of more than ten million visitors.

In 2017, Italy ranked eighth on the world list of countries with the largest international tourism expenditure. In the recent years, the expenditure of foreign visitors has been constantly growing and is predicted to reach 56.8 billion euros in 2028. (Statista, 2019)

Figure 8: Forecast of Tourism contribution in GDP of Italy



Source: Statista Economic analysis

3.4.3 Population

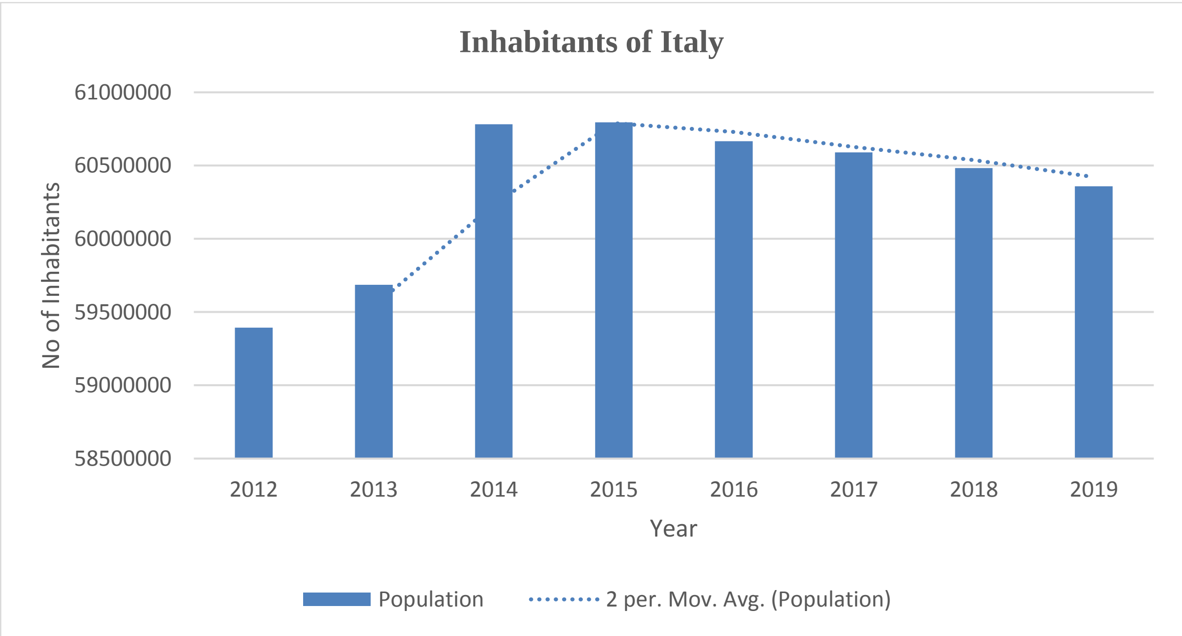
The population of Italy represents 0.88 percent of the world´s total population which arguably means that one person in every 115 people on the planet is a resident of Italy. Italy ranks number **23** in the list of countries (and dependencies) by population. The population density in Italy is 206 per Km^2 (533 people per mi^2).

At the beginning of year 2017, Italy had an estimated population of 60.4 million. Its population density, at 201 inhabitants per square kilometer (520/sq. mi), is higher than that of most Western European countries. However, the distribution of the population is widely uneven; the most densely populated areas are the Po Valley (that accounts for almost half of the national population) in northern Italy and the metropolitan areas of Rome and Naples in central and southern Italy, while other vast areas are very sparsely populated, like the plateaus of Basilicata, the Alps and Apennines highlands, and the island of Sardinia.

The population of the country almost doubled during the twentieth century, but the pattern of growth was extremely uneven due to large-scale internal migration from the rural South to the industrial cities of the North, a phenomenon which happened as a consequence of the Italian economic miracle of the 1950-60's. In addition, after centuries of net emigration, from the 1980s Italy has experienced large-scale immigration for the first time in modern history. According to the Italian government, there were an estimated 5,000,073 foreign nationals' resident in Italy. High fertility and birth rates persisted until the 1970s, after which they started to dramatically decline, leading to rapid population aging. At the end of the first decade of the 21st century, one in five Italians was over 65 years old. However, as a result of the massive immigration of the last two decades, Italy has, in recent years, experienced a significant growth in birth rates. The total fertility rate has also climbed from an all-time low of 1.18 children per woman in 1995 to 1.41 in 2008. (Statista, 2019)

The statistic shows the total population in Italy from 2012 to 2019. According to data, the population grew steadily from 2012 to 2015, and saw a decline from 2016. As of January 2019, the number of inhabitants reached roughly 60.3 million. (Statista, 2019)

Figure 9: Number of inhabitants of Italy



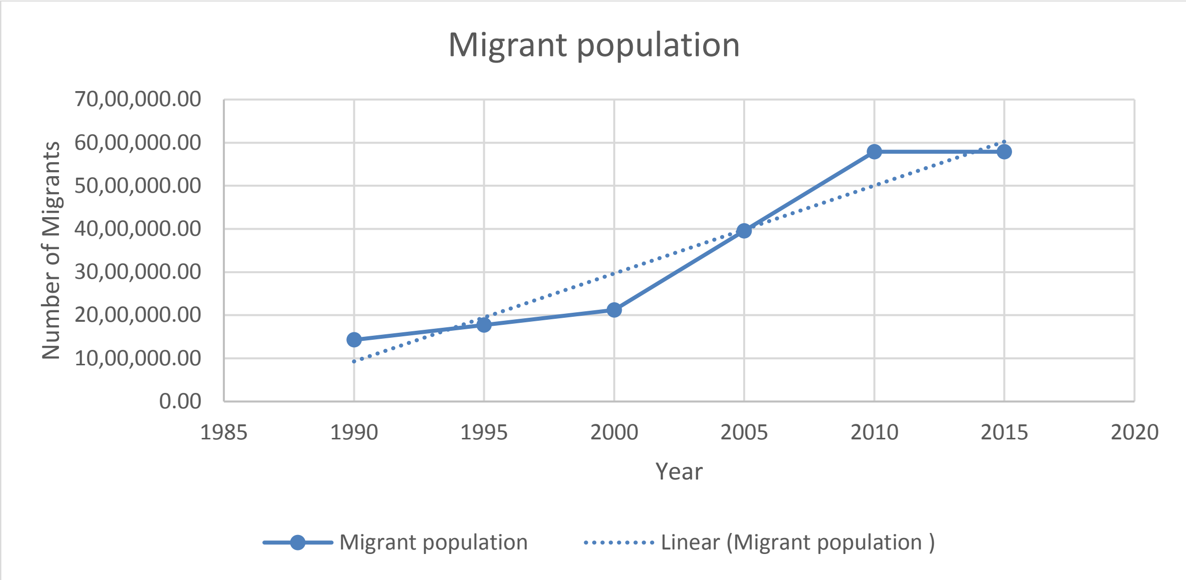
Source: Personal elaboration with data from agenzia entrate

3.4.4 Migration

There were 35.1 million people born outside the EU-28 living in an EU Member State on 1 January 2016, while 19.3 million people had been born in a different EU Member State than the one, they were residing in. In Hungary, Ireland, Luxembourg, Slovakia and Cyprus, the number of persons born in another EU Member State was higher than the number born outside the EU-28. (OCED, 2019)

Migrant arrivals in Italy 2014-2019: Between January and October 2019, 9.5 thousand migrants' arrivals on the coasts in Italy. Between 2014 and 2019, the number of migrants setting foot in the country peaked in 2016 at 181 thousand individuals. Among the most frequent nationalities declared upon arrivals, Tunisian and Pakistani ranked first and second. More specifically, 2.5 thousand people declared coming from Tunisia, while 1.1 thousand were Pakistani. In September 2019, the largest number of asylum applicants in Italy were from Pakistan. For instance, 779 requests were recorded only in that month. In addition, 218 applicants were from Nigeria, the second most common nationality among the asylum seekers. In the last years, many unaccompanied minors reached the Italian coasts. Between January and October 2019, over a thousand children migrated without their parents into the country. A part of Italians tend to overestimate the size of the immigrated population. The results of this survey uncovered the presence of distorted perceptions in 2018: people thought that about 28 percent of the Italian population was not born in Italy, whereas the actual percentage was around ten. Furthermore, the public opinion on migration was controversial. In the same year, roughly half of the population perceived migrants as a risk for the Italian economy. On the other hand, 18 percent of Italians believed that migration could be a resource for the country. (Ipsos, 2018)

Figure 10: Number of migrants of Italy



Source: Personal elaboration with data from agenzia entrate

3.5 Other economic drivers

In addition to economic growth, tourism, population, migration and, there are other economic drivers such as public debt, inflation, unemployment, etc., which are important part of macroeconomic indicators of the country.

Public Debt:

Italy's public debt measures how much the government of Italy owes to all public and private lenders. According to some studies and surveys, Italy's public debt is constantly increasing year wise and this effects the country's growth and need to be acted from all the sources. The table below shows public debt data for Italy as a percentage of GDP.

Table 2: public debt as a percentage of GDP of Italy

Year	2013	2014	2015	2016	2017	2018	2019
Public debt as a % of GDP	129	132	132	131	131	135	138

Source: Istat

Public debt represents the total outstanding debt (bonds and other securities) of a country's central government. It is often expressed as a ratio of Gross Domestic Product (GDP). Public debt as a percentage of GDP is usually used as an indicator of the ability of a government to meet its future obligations. Public debt data are collected by the Bank of Italy (BoI), which assists the Ministry of the Economy and Finance (MEF) in the management of the public debt.

Inflation:

The inflation rate is calculated using the price increase of a defined product basket. This product basket contains products and services, on which the average consumer spends money throughout the year. They include expenses for groceries, clothes, rent, power, telecommunications, recreational activities and raw materials (e.g. gas, oil), as well as federal fees and taxes. In 2018, the average inflation rate in Italy was at about 1.24 percent compared to the previous year.

Figure 11: Inflation rate change to previous year

Source: Istat

According to statista, a website that calculates countries macro indicators, the statistic shows the average inflation rate in Italy from 1984 to 2018, with projections up until 2024 in the above graph.

Unemployment:

Since reaching a decade low in 2007, unemployment in Italy has experienced considerable surges, most notably after 2011. This is mainly the cause of their late 2000s recession, originally triggered by the global crisis. Additionally, Italy experienced its highest spike in national debt from 2007 to 2011), indicating that it is becoming more dependent on other nations to fund and fuel its economy. A significant reason for the country's national debt is inefficient budgeting as well as incompetent leadership. Over the same timeframe as the crisis, Italy reported extensive trade deficits year-over-year, implying that they imported more than they exported. Italy experienced its largest trade deficit in 2010, mainly from their trade balance of goods, which reached a decade low.

In 2013, Italy earned a place as one of the top 20 leading import countries worldwide, ahead of prominent exporters such as Canada and Saudi Arabia. This signifies that the country is in fact capable of producing and selling goods however require funding from other countries to complete the job, which subsequently leads to a higher national debt.

Chapter 4. Analysis of the Real Estate Market and Trends

4.1 Italian real estate market outlook in 2018

• The search for yields in a more global market and in a prolonged low-interest-rate environment will continue to boost property market in Italy in 2018 as well.

• Global capital, which has led the transaction recovery from the lowest point of its cycle to today, will continue to provide a strong driver for Italian property investments.

• In 2018 new investors will join the market, thus helping keep the investment demand high.

• Milan proves to be the Italian market with the most liquidity, with 4.2 billion Euro invested in 2017, more than 40% higher than the 2016 volume, and in 2018 as well the activity will keep being very dynamic;

• The further reduction of the product in which to invest on Milan market, has prompted investors to move toward other markets, in particular the Roman one where a significant growth is expected in 2018.

• Among asset classes, 2017 was a record-breaking year for sectors once considered niche-markets such as hotels and logistics. Throughout 2018 this trend will keep rising and continue for at least couple of years. (CBRE/Italy, 2019)

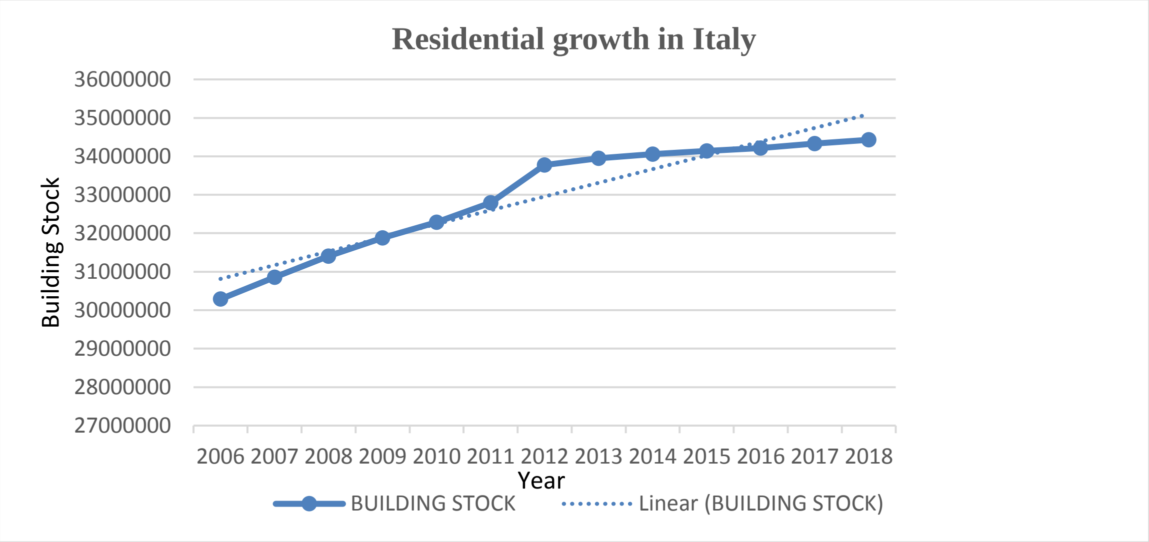
4.2 Housing market/Residential Sector

Property sales increased in major Italian cities in the first nine months of 2018, according to data from the research centre Centro Studi di Abitare Co., which analyzed trends in the real estate market for new homes in the main Italian metropolitan cities (Rome, Milan, Turin, Naples, Genoa, Florence, Bologna and Palermo). (centre Centro Studi di Abitare Co, 2019)

Residential housing transactions on the rise:

According to the study, in the first three quarters of the last year, home sales and purchases in Italy rose by 2.3% on 2017, driven by the sale of new homes (+9.4%), with supply of this typology reaching an average of 12% of the total residential market in 2018. In this last aspect, the shares range from 4.4% in Palermo to 25% in the livelier city of Milan. Furthermore, only in this segment did sales prices start growing again (+1.3%), given that for second-hand homes and properties in need of renovation, 2018 also showed a negative performance (-0.2%). (Idealista, 2019)

Figure 12: Building stock growth in Italy



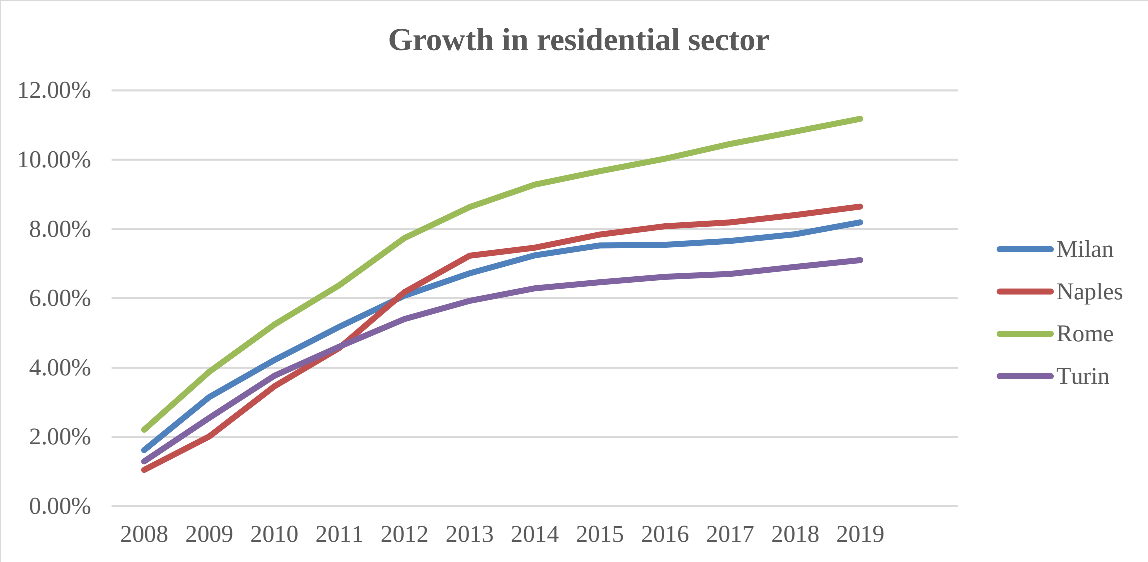
Source: Personal elaboration with data from agenzia entrate

Faster sales times:

In terms of used houses, sales times were much faster than in the previous year (4.9 months compared with 6.5). Moreover, in large cities such as Milan and Rome, beyond the home itself, more attention is paid to custom-made, personalized housing solutions with innovative services ranging from a personal architect to the concierge as if living in a luxury hotel, right up to the cookery service with chefs available to make dinner for homeowners in their new house. (Idealista, 2019)

Especially, residential sector in metropolitan cities like Rome, Milan, Naples, Turin are significantly increasing from the year 2006 to 2018 and will continue this pattern because of their Peculiarities associated with each city. (Idealista, 2019)

Figure 13: Residential growth in Italy



Source: Personal elaboration with data from agenzia entrate

According to a study, Naples is the city with the most trades. Among the individual metropolitan cities, according to Abitare Co.'s analysis, the most dynamic housing market in Italy in 2018 was Naples, which saw an increase in new house sales of +15.2%, followed by Milan (+14.5%), Rome (+13%), Turin (+11.3%) and Bologna (+9.7%). Sales also grew, albeit at a lesser rate, in Genoa (+5.5%), Florence (+3.2%) and Palermo (+2.6%).

With regard to the amount of supply, in 2018 the highest growth rate was seen in Milan (+5.4%) and Rome (+3.2%), and the promising times the real estate market is experiencing is also reflected in the house prices. For new builds alone, there are signs of reawakening in all Italy's metropolitan cities (on average +1.3% more than 2017), with Milan confirming that it is still the best performing city (+3.3%). (Idealista, 2019)

Real estate prices in Milan increase by 3.3%:

The average price per square meter to buy a new house in Italy is 4,500 euro. The three most expensive cities, all with prices above the national average, are Milan with 6,750 euro (+3.3% on 2017), Rome with 6,300 euro (+1.2%) and Florence with 4,800 euro (+0.8%). After them come Turin with 4,450 (+2.3%), Naples with 3,800 (+1.2%), Bologna with 3,700 (+0.7%), Genoa with 3,300 (+0.6%) and Palermo with 2,900 (+0.4%). (Global Property guide, 2019)

Compared to previously owned houses, prices on the market for new homes are 24% higher, with peaks in Palermo of 28%. Meanwhile, it's estimated that it takes an average of 4.9 months to sell a new house in Italy (compared with 6.5 months for the properties), but once again the most dynamic market is found in Milan with 3.7 months. (banca di italia, 2019)

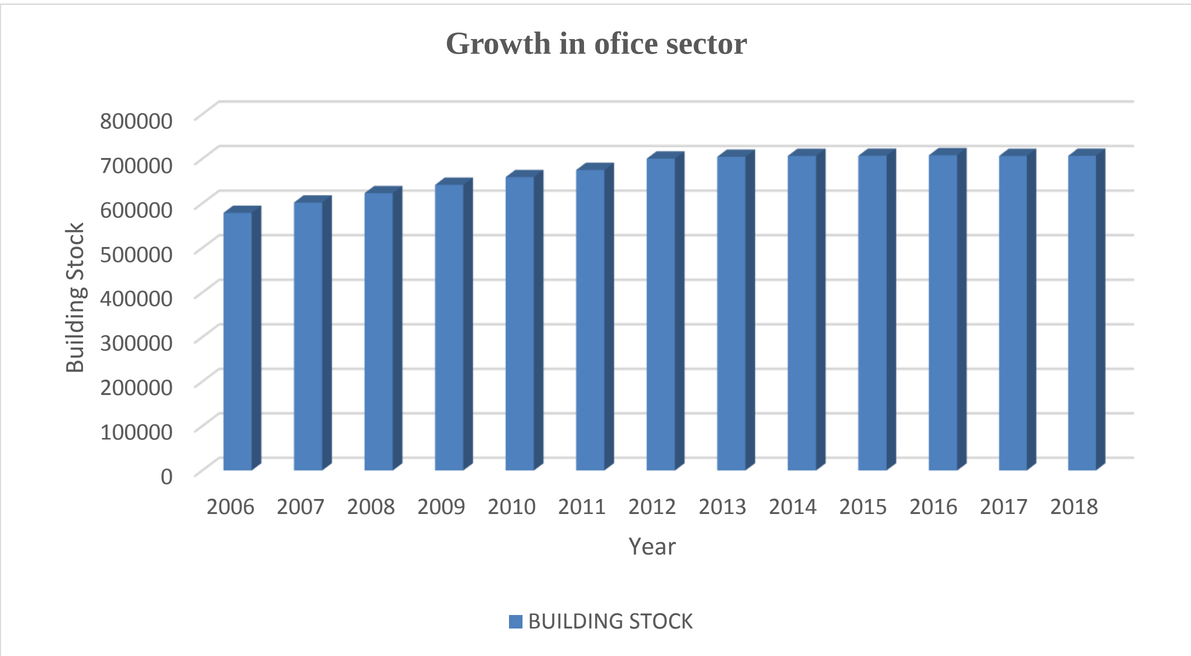
Italian real estate market: 2019 predictions

What are the prospects for the coming months? The forecasts are positive: "The residential real estate market for new buildings has confirmed its positive cyclical trend in 2018," says Alessandro Ghisolfi, Head of the Centro Studi di Abitare Co. "In comparison to the demand, today the supply is still very underestimated, and this encourages a shortening of sales times that up until three years ago were unthinkable. For 2019, the signs remain positive even as we remain cautious given the current economic situation." (Idealista, 2019)

4.3 Office Sector:

The office property market registers a positive performance in terms of number of transactions. It appears to be more dynamic, especially in central areas of big cities like Milan and Rome. The line chart on the right shows the normalized number of transactions in the last decade, with 2017 confirming incremental growth (+6,4%). NTN of office properties register a downturn in the first quarter of 2018 probably due to the Italian political uncertainty and elections in March and relating difficulties in forming a government.

Figure 14: Trend of office building stock in Italy



Source: Personal elaboration with data from agenzia entrate

The above graph shows the trend of office sector in Italy from the year 2006 along with the building stock that represents only A10 and B4 class of asset which is nothing but purely office sector.

The **office property sector** remains the most active in the Italian real estate market. Transaction volumes increased 70% from 2015 to 2017, and it's expected that the office sector will continue to drive investments throughout 2018. (Crushman & Wakefield, 2018)

4.3.1 Investments in Office sector:

Milan continues to be an appealing market, collecting 39% of investments since the beginning of the year. Specifically, the office market represents the majority share of total investment volumes. Foreign investors predominate on the Milan market, namely the REITs, foreign funds while the Italian ones represent a minor component. In terms of number of transactions, we apply a conservative estimate for the conclusion of the year.

Investments show a dynamic trend (pie chart at the top right corner), registering upturns for Germany, France, the UK and the Netherland. The Italian market is still alluring especially for international investors, despite the limited supply of grade A office spaces. The following table outlines office market indicators: (Yard, 2018)

Table 3: List of Indicators for office market

OFFICE MARKET INDICATORS	
Discount on asking price % (new premises)	11%
Property for sale average time on market (ToM) months	7
Property for rent average time on market (ToM) months	4

Source: Yard Publication

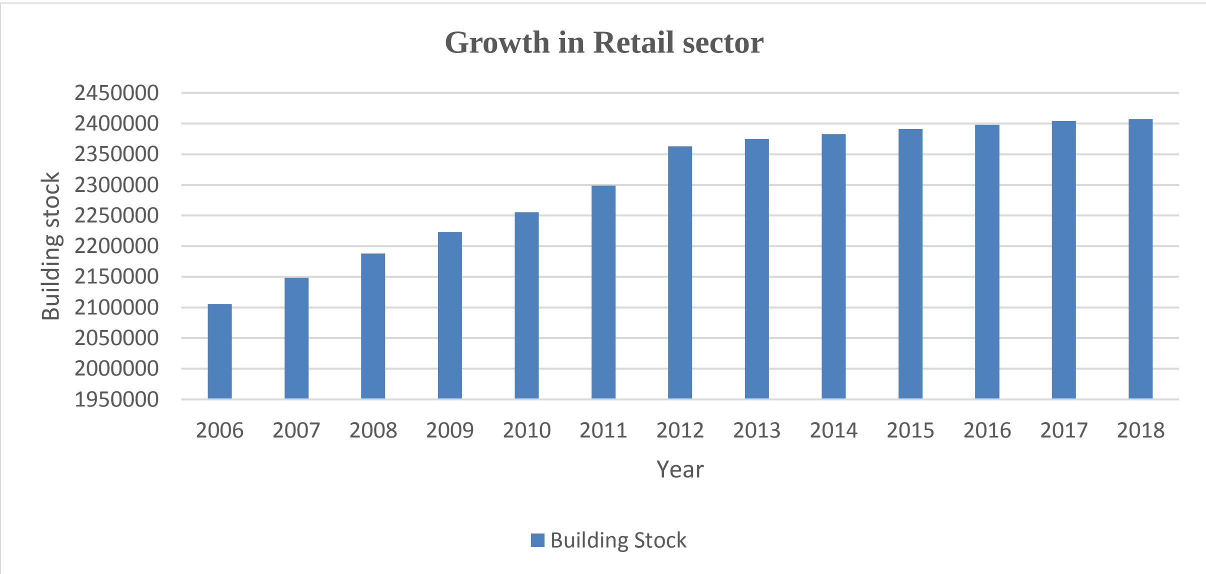
Regarding Milan, in 2018 office properties are still the favorite asset class, even if investors now tend to diversify e.g. with hotels, high-street retail stores, ALFs and student housing. However, Milan is still the leading market with the largest supply of grade A office spaces. Rental values are slightly on the rise and time on market is about 4 months for rent and over 7 months for sale. Demand is still very selective and office vacancy rate is about 10%. Porta Nuova and City Life are the brand-new business districts. Porta Nuova is a new business district where UniCredit, Amazon, Microsoft have their HQ and the most modern buildings are located here. City Life hosts the HQ of Generali and Allianz. The office property market confirms its positive trend and the outlook is also promising. Prime rents are about 480-530 €/sqm/year (grade A office spaces) with yields of 3,5-4%.

Regarding Rome, The Rome office market was not highly performant in 2018 and in the third quarter of the year real estate investments amounted to less than one billion euro, the office investment volume is about 300 million euro, while investment volume in alternative properties (hotels, student accommodation, ALFs) is about 500 million euros. The difficulty of finding properties that are aligned with the expectations of demand remains, especially for foreign investors. Prime rents are stable in the historical centre and Eur district at about 400-420 €/sqm/year with yields at 4%. Occupiers prefer lease re-gears and re-negotiations rather than relocation strategies. Office vacancy rate is about 9%. The following table reports the most significant transactions in Milan and Rome. (bnpparibas, 2019)

4.4 Retail Sector:

In a Publication of real estate market analysis report by Engel & Völkers, A price increase is also anticipated for retail space as of 2020. This development is again spearheaded by the city of Milan, which experienced an average purchase price increase of 1 percent. (Engel & Völkers, 2018)

Figure 15: Trend of Retail sector



Source: Personal elaboration with data from agenzia entrate

Rental rates also exhibited positive growth for investors in leading locations: For the first time since 2008, three major Italian cities achieved rent increases: Milan (+0.8 percent), Venice (+0.2 percent) and Florence (+0.1 percent). The best gross returns were achieved in Venice. In prime locations, the city yielded returns of 8 percent, in secondary locations near the city Centre a yield of 7 percent was attained. This is followed by the cities of Rome and Florence. The Italian capital achieved returns of 7.1 percent in prime locations and 7.5 percent in locations near the city Centre. Florence achieved 6.6 percent in locations near the city center and 7 percent for locations in the city center.

4.5 Industrial Sector

In a research of yard group, there is a boost towards innovation and the use of modern technology to support multi-channel strategies and the determination to improve the quality of home deliveries relating to the thriving expansion of online purchases. The turnover of the "food delivery" is growing, together with the pharmaceutical sector where logistic space for the timely supply of products is required. The number of e-commerce retailers is also growing.

In focus of logistics, Given the dearth of quality space, unused properties may be reconverted into logistic use on the outskirts of towns. Investments totaled 11% of real estate investments. International investors still find Italy an appealing market with margin of potential growth. Logistics is driven by an increase in freight traffic, online purchases and an upturn in exports. Sale values register a slight downturn. (PWC, 2019)

Figure 16: Trend of Industrial sector

Source: Personal elaboration with data from agenzia entrate

4.6 Hotel sector

Italy is among the most attractive European countries for hotel real estate investment. Rome takes the third place, behind Spain and Germany, in terms of market attractiveness in Tranio's overview of European hospitality real estate market, in a presentation during the 22nd edition of the **International Hotel Investment Forum** (IHIF). (Investor Visa, 2018)

In a survey conducted by investor visa, Italy is ranked as the third most attractive countries for investments overall. Investors' spirits are high, as the majority of those who participated in the survey indicated that they are willing to believe in European real estate and thus more likely to buy than to sell in 2019. There is, nonetheless, a lack of good offers available on the market while as Marina Filichkina, Tranio's Head of Sales, said many investors are searching every day for hotels to purchase and then rent. Survey participants showed more interest in higher value real estate purchases, as 71% of revealed that their average investment budget is over ten million euros; 23% of the sample indicated that their budget is in the one million to ten million range. (Investor Visa, 2018)

Figure 17: Trend of Hotel sector

Source: Personal elaboration with data from agenzia entrate

Investments made in Italy are usually held for longer periods, as well as those made in Germany and Spain, thus favoring a long-term investment strategy, usually over ten years. Another study, Deloitte's "2018 European hotel investment survey", revealed that 30% of respondents indicated a hold period of 5-10 years and 40% more claimed that they would be looking to hold for 10+ years.

4.7 Major impact on economic drivers by top four Metropolitan cities in every sector

The **metropolitan cities of Italy** (Italian: *città metropolitane d'Italia*) are administrative divisions of Italy, operative since 2015. The metropolitan city, as defined by law, includes a large core city and the smaller surrounding towns that are closely related to it with regard to economic activities and essential public services, as well as to cultural relations and to territorial features.

A metropolitan city is composed from municipalities (*comuni*) of the same province. Each metropolitan city is headed by a metropolitan mayor (*sindaco metropolitano*), who is assisted by a legislative body, the metropolitan council (*consiglio metropolitano*), and by a non-legislative assembly, the metropolitan conference (*conferenza metropolitana*). The metropolitan mayor is the mayor of the provincial capital municipality. Mayors and city councillors of each municipality in the metropolitan city are eligible candidates for the metropolitan council and are elected from amongst themselves using competing lists. The number of councillors a metropolitan city is granted depends upon its population: metropolitan cities with a population of 3 million or more have 24 councillors; metropolitan cities with a population of 800,000 but less than or equal to 3 million have 18 councillors; all other metropolitan cities have 14 councillors. The metropolitan conference is composed of mayors of the municipalities.

The main functions devolved to the new metropolitan cities are:

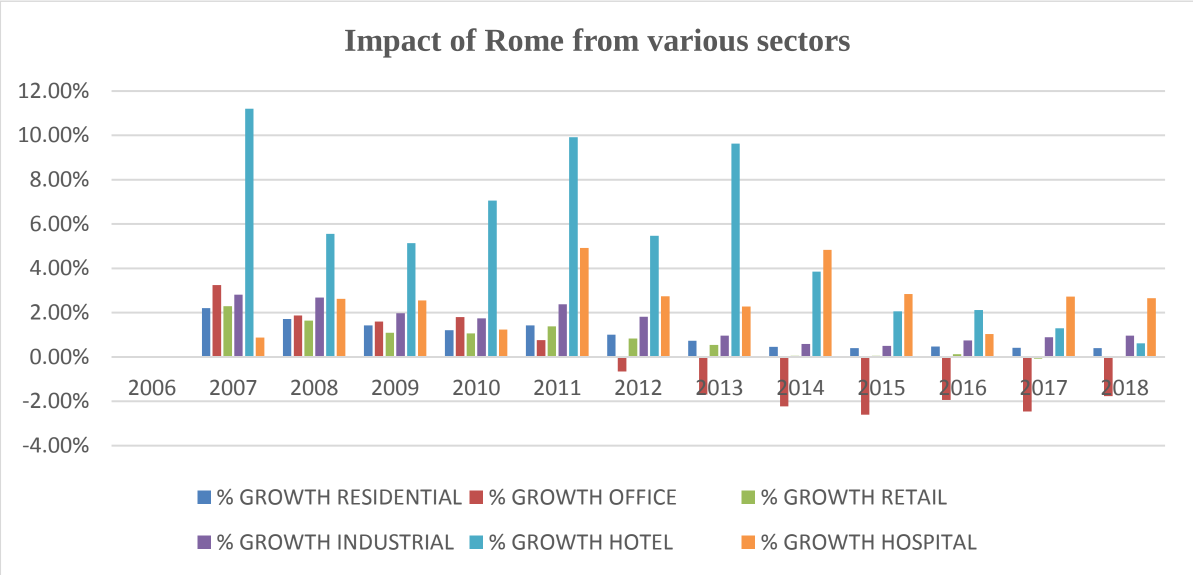
- local planning and zoning;
- provision of local police services;
- transport and city services regulation

So, considering the top 4 cities of Italy that are contributing major impact on economic drivers and higher percentage of every sector, we should focus on these cities.

1. Rome:

Rome, the capital of Italy, is a large cosmopolitan city with an artistic, architectural and cultural history that has influenced the whole world and dates back to almost 3000 years ago. Ancient ruins such as the Forum and the Colosseum bear witness to the power of the ancient Roman Empire. Rome is the city with positive growth trend in residential sector, retail sector, industrial sector, hotel sector and hospital sector except office sector.

Figure 18:Impact of Rome from various sectors



Source: Personal elaboration with data from agenzia entrate

When we see the numerical trend from 2006 to 2018, the Rome is in rise with some positive percentage growth and this can be a positive sign to and minimum investment that can bring positive return on the initial investment. The following table shows the numerical incremental growth percentage in all the sectors except office.

Table 4: Trend of various sectors in Rome

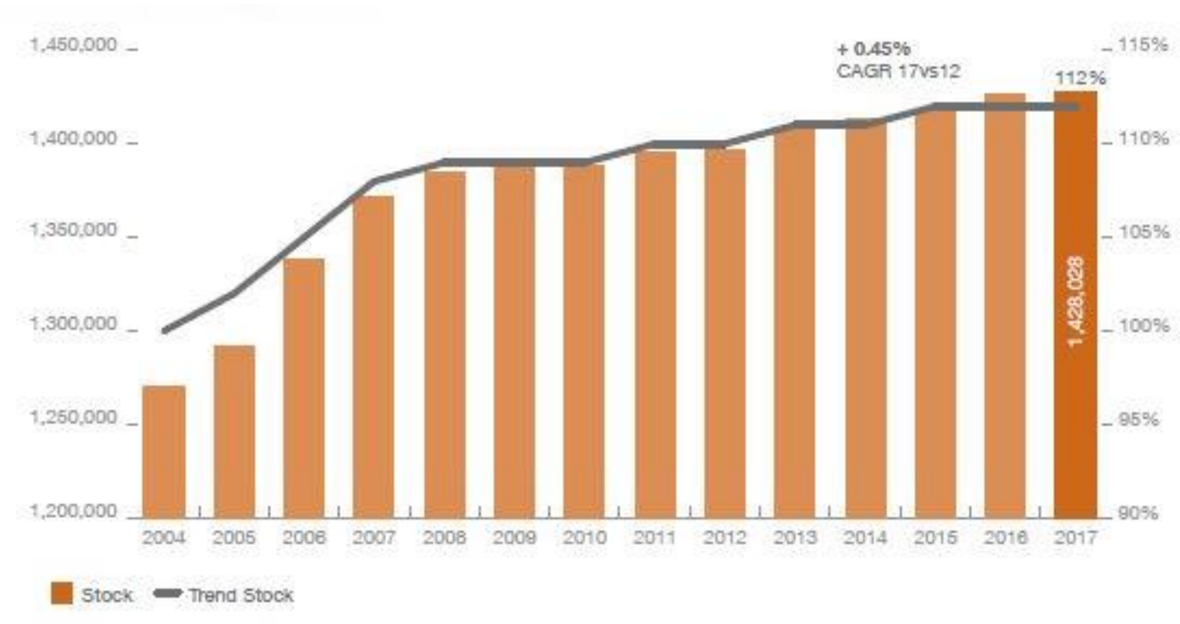
	% GROWTH					
YEAR	**RESIDENTIAL**	**OFFICE**	**RETAIL**	**INDUSTRIAL**	**HOTEL**	**HOSPITAL**
2006						
2007	2.20%	3.24%	2.29%	2.81%	11.20%	0.88%
2008	1.72%	1.87%	1.64%	2.69%	5.55%	2.62%
2009	1.43%	1.60%	1.10%	1.97%	5.14%	2.55%
2010	1.22%	1.80%	1.07%	1.75%	7.06%	1.24%

2011	1.43%	0.77%	1.38%	2.38%	9.92%	4.92%
2012	1.01%	-0.65%	0.84%	1.81%	5.47%	2.73%
2013	0.74%	-1.69%	0.54%	0.97%	9.62%	2.28%
2014	0.46%	-2.22%	0.05%	0.58%	3.85%	4.83%
2015	0.40%	-2.60%	0.06%	0.51%	2.06%	2.84%
2016	0.47%	-1.94%	0.13%	0.75%	2.12%	1.03%
2017	0.41%	-2.46%	-0.08%	0.89%	1.29%	2.73%
2018	0.41%	-1.77%	0.00%	0.96%	0.62%	2.66%

Source: Personal elaboration with data from agenzia entrate

In a survey and analysis by PWC, said that Rome is growing especially in the residential sector with positive number of transactions and also in terms of building stock which results from demand from the inhabitants. (Pwc, 2018)

Figure 19: Trend of real estate stock

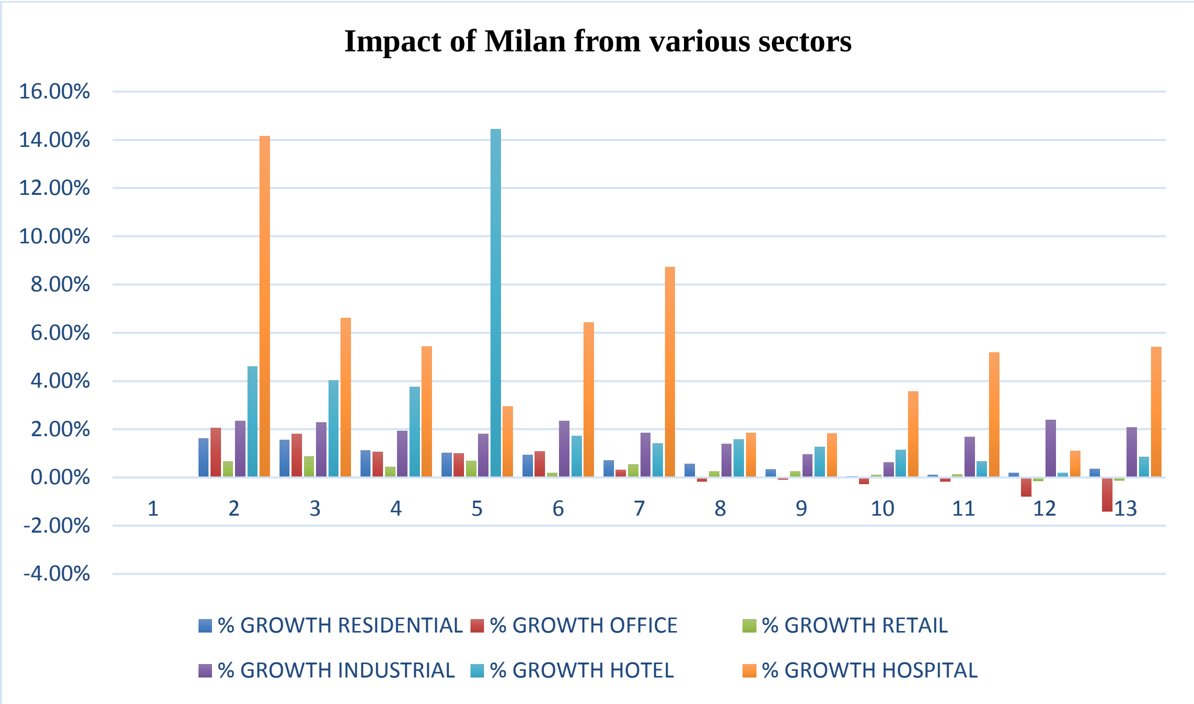


Source: (Pwc 2018)

<u>Milan:</u>

Milan, a part of Lombardy region is one of the top 3 regions in Europe able to attract investments with the strategic plan and is one of the 4 EU industrial aggregates. Milan is also a gateway for international investments to enter into Italy. Milan is the heart of Italy's economy, and is very attractive to multinational companies that want to enter the Italian market. In fact, 48.6% of all Italian companies' part of international corporations have headquarters in Milan. We can say that Milan is a city that attracts business value, A strong specialization in the service sector(sectoral expertise), A hub for talent(human capital), A leader in innovation(technology), An international city. (Pwc, 2018)

Figure 20: Trend of various sectors of Milan



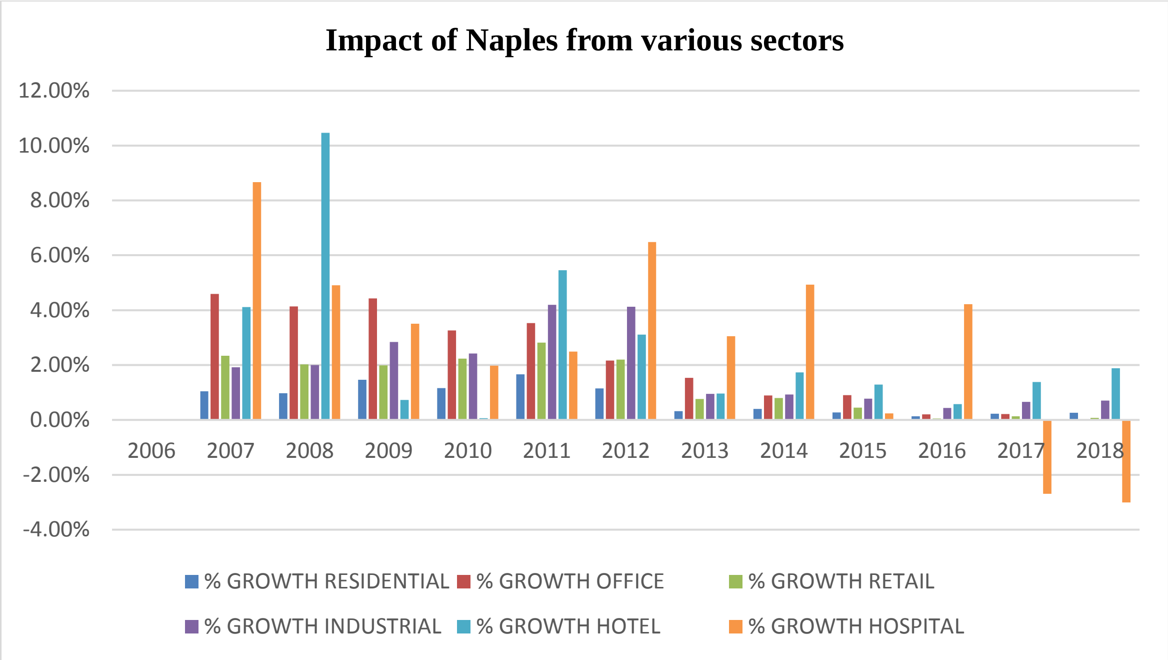
Source: Personal elaboration with data from agenzia entrate

Naples:

The economy of Naples and its surrounding area is based largely on **tourism**, commerce, industry and agriculture. Naples also acts as a busy cargo terminal and the port of Naples is one of the Mediterranean's biggest and most important.

For real estate investors, Naples, Florida has a track record of being one of the best long-term real estate investments in the nation. Naples is home to around twenty thousand people. The Naples housing market includes the broader Naples-Marco Island metropolitan area. That's home to around three hundred thousand people. Here are ten reasons to consider buying Naples housing market properties. (noradarealestate, 2019)

Figure 21: Trend of various sectors of Naples

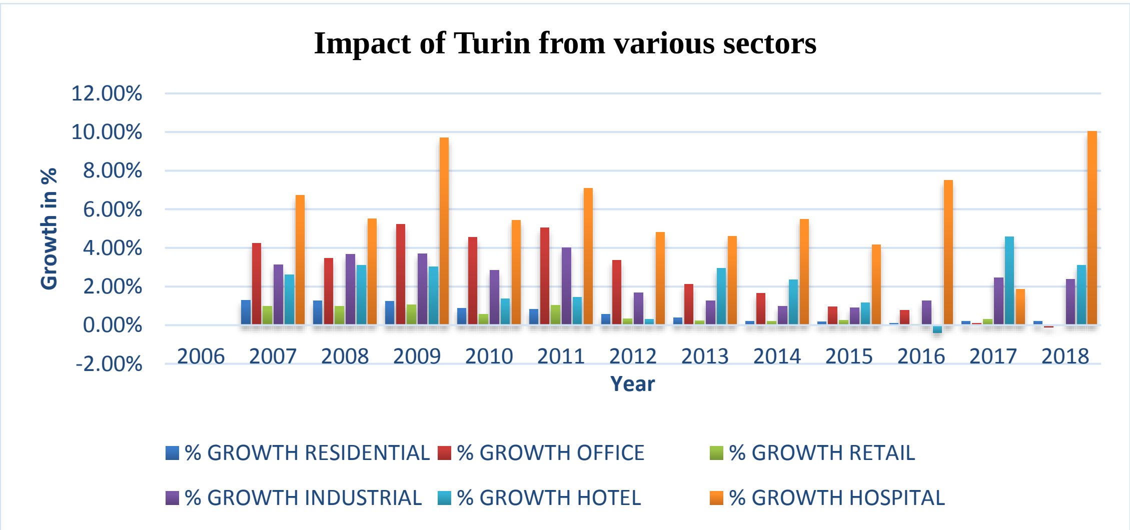


Source: Personal elaboration with data from agenzia entrate

Turin:

Turin is Italy's third largest economic center after Rome and Milan. In 2004, Turin produced a GDP of 25.439 billion euros, 2.2% of the national figure. The Turin greater metropolitan area produced 44.146 billion euros, 3.8% of the Italian GDP. Turin's taxable income was 12.455 billion euros. (Aura, 2018)

Figure 22: Trend of various sectors of Turin



Source: Personal elaboration with data from agenzia entrate

4.8 The link between Sector growth and Demographic factor:

4.8.1 Residential sector

The population of Italy has been gradually increasing till the year 2015 and starts a negative growth rate of 0.1% from the year 2015 and continues this pattern so far.

At the beginning of year 2017, Italy had an estimated population of 60.4 million. Its population density, at 201 inhabitants per square kilometer (520/sq. mi), is higher than that of most western European countries. However, the distribution of the population is widely uneven; the most densely populated areas are the Po Valley (that accounts for almost half of the national population) in northern Italy and the metropolitan areas of Rome and Naples in central and southern Italy, while other vast areas are very sparsely populated, like the plateaus of Basilicata, the Alps and Apennines highlands, and the island of Sardinia.

The below table shows the inhabitants and migrants of Italy with the Building stock of residential sector.

Table 5: Quantities of population and building stock yearwise

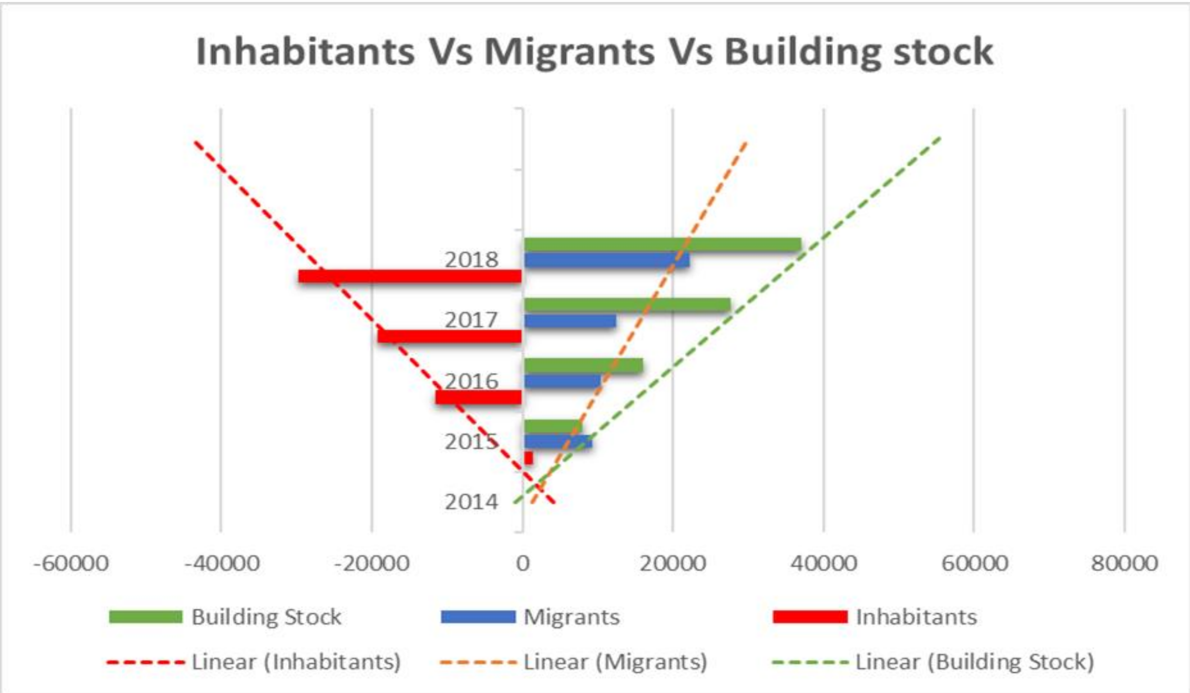
Sl. No.	Year	Inhabitants	Migrants	Building Stock
1	2014	6078200	49,22,085	3405741
2	2015	6079561	50,14,437	3413726
3	2016	6066555	50,26,153	3421819
4	2017	6058945	5,047,028	3433375
5	2018	6048397	51,44,440	3442865

Source: Istat

From the above table, the inhabitants of Italy has been following a trend of 0.1% negative growth rate in population and continues for certain years. The extent of the demographic changes is dramatic and will deeply affect future labor, financial and goods markets. The expected strain on public budgets – especially public pension, health and long-term care systems – has received prominent attention, but population aging poses many other economic challenges that threaten productivity and growth if they remain unaddressed, thereby also putting central banks under pressure. These differences will generate different growth paths and change the international pecking order.

The aging process will deeply affect future labor, financial and commodity markets. On a macroeconomic level, labor will become relatively scarce in the aging countries while capital will become relatively more abundant. This will precipitate changes in the relative price of labor, will lead to higher capital intensity, and might generate large international flows of labor, capital and goods from the faster to the slower aging countries. On a microeconomic level, the age composition of the labor force will change which might affect labor productivity. Consumption and savings patterns are likely to alter when the elderly become a larger proportion of consumers and savers, with widespread implications for goods and financial markets.

Figure 23: Inhabitants Vs migrants Vs Building stock (base year 2014)



Source: Personal Elaboration with data from Istat

Even though the population of Italy is falling, the building stock of residential sector continues to rise gradually. The link between the fall of inhabitants and rise in building stock is migrants. Because of the migrant population growth, the building stock of residential sector is being increased and stands the factor as demand. The negative growth rate of Italian population is occupied/filled with the migrant population resulting in demand for residential sector.

4.8.2 Hotel Sector

Italian cities have a long history and distinctive architecture that combines different era sand cultures, from the Roman Empire to the contemporary period. It is no coincidence that Italian tourism was born with the Grand Tour, when the youth of European aristocracy arrived to explore the beauty of the past and enjoy the wealth of its history. These reasons still hold true today, but they are not the only reasons.

Italy has plenty of tourist destinations to offer visitors, making it the undisputed world leader in terms of historic monuments and works of art 51 of these are registered in UNESCO's World Heritage List, the highest number for a single country Over 50 million tourists arrive each year, with Italy ranking fifth in terms of global destinations Consequently, the tourism sector accounts for approximately 10 of GDP and a similar percentage of employment. (Colliers International Italia, 2017)

Table 6: Flow of tourists in Italy

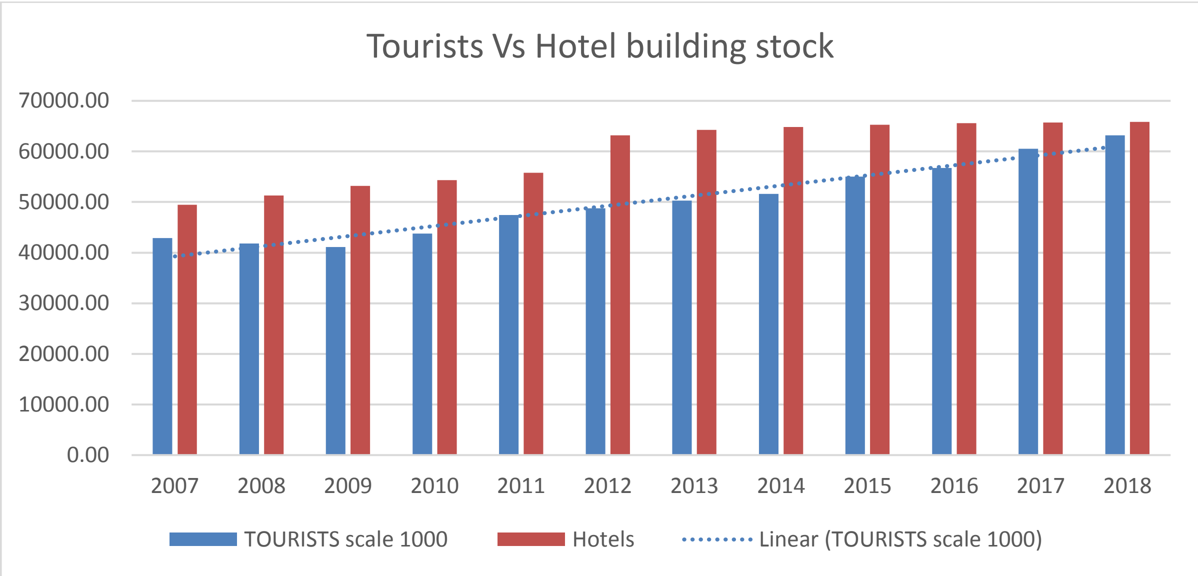
Year	Hotels	Tourists
2007	49,446	428,73,122
2008	51,317	417,96,724
2009	53,183	411,24,722
2010	54,301	437,94,338
2011	55,776	474,60,809
2012	63,163	487,38,575
2013	64,230	502,63,236
2014	64,803	516,35,500
2015	65,291	550,39,251
2016	65,566	567,64,239
2017	65,715	605,23,190
2018	65,812	631,95,203

Source: Istat

Rome is the top tourist destination in Italy in terms of arrivals and, together with Venice, boasts a total number of overnight stays that is approximately double the figures recorded in Milan and Florence However, Milan is the city that has invested the most in the five star segment This is a result of Expo, as well as of the active Milanese real estate market. (Colliers International Italia, 2017)

Hotel investments were not impacted by the crisis in 2012 increasing their percentage over the total invested in Italy, while in subsequent years, approximately 750 million in transactions were recorded in 2015-2016 The sector continues to be of considerable interest for investors, predominantly foreign ones, which view Italy as an important tourist destination where supply is not sufficient for the new demand. (Colliers International Italia, 2017)

Figure 24: Tourists Vs Hotel building stock



Source: Personal Elaboration with data from OCED

From the above graph, observing the trend of hotel sector as linearly increasing because of the factor increase in tourists from various parts of the world. As the tourists are increasing yearly, the building stock of hotel sector is also being increased. The demand lies in the tourists and supply lies in the building stock of hotel sector. Since there is rise is demand from the tourists, eventually the supply is also being raised by building stock of hotel sector. Hence the link between tourists and building stock of hotel sector is Increase in tourists over years.

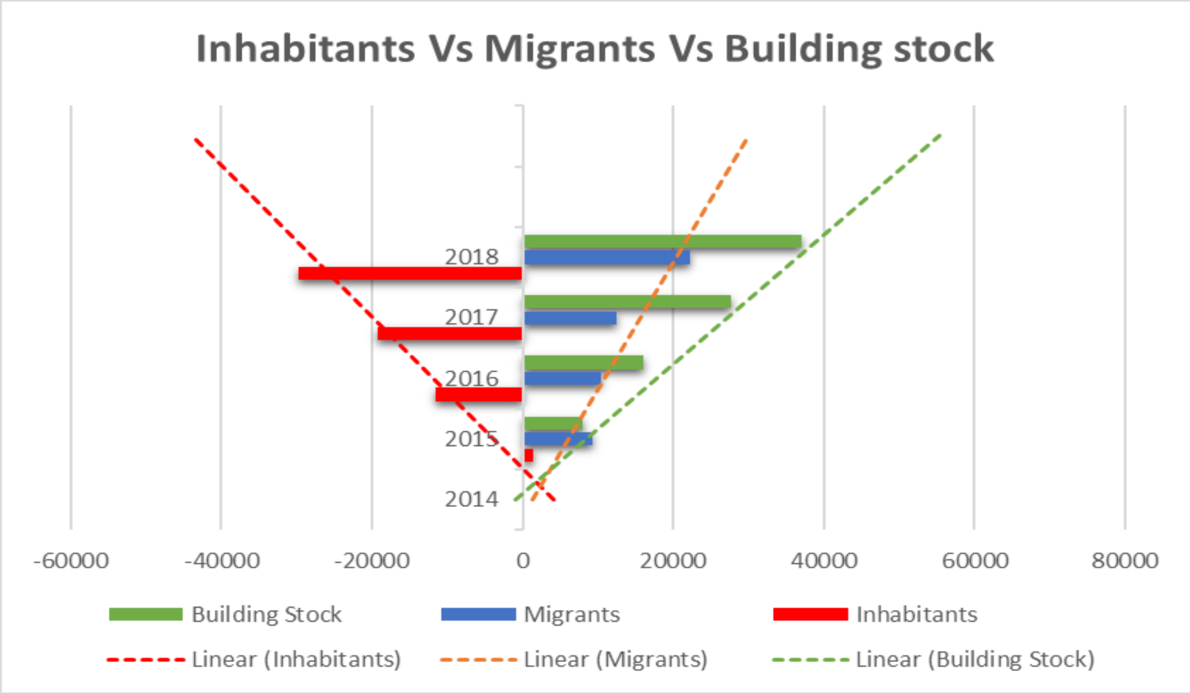
Chapter 5. Conclusion

It is logical to argue that the objectives that this work has set were comfortably met. From the past years particularly i.e., 2006 to 2018 in different sectors such as residential, office, retail, industrial, hotel and hospital, there is a growth for certain number of years and negative growth for certain years. But when we observe the trend keenly from years especially in residential sector and hotel sector there is only a growth which can be seen as a positive sign for investing such that investor or developer will be able get his/her investment along with good profitability index.

From the data through various sources in aspect of economic drivers of the country (i.e., Italy) with major indicators like Economic growth, Population, Tourism and Migration, it shows that Italy’s population growth rate is -0.1%. The tourism of Italy is growing gradually and eventually generating good amount of revenue every year with a growth. The migrants in Italy are also increasing gradually and as per government sources, it will tend to increase the percentage of immigrants.

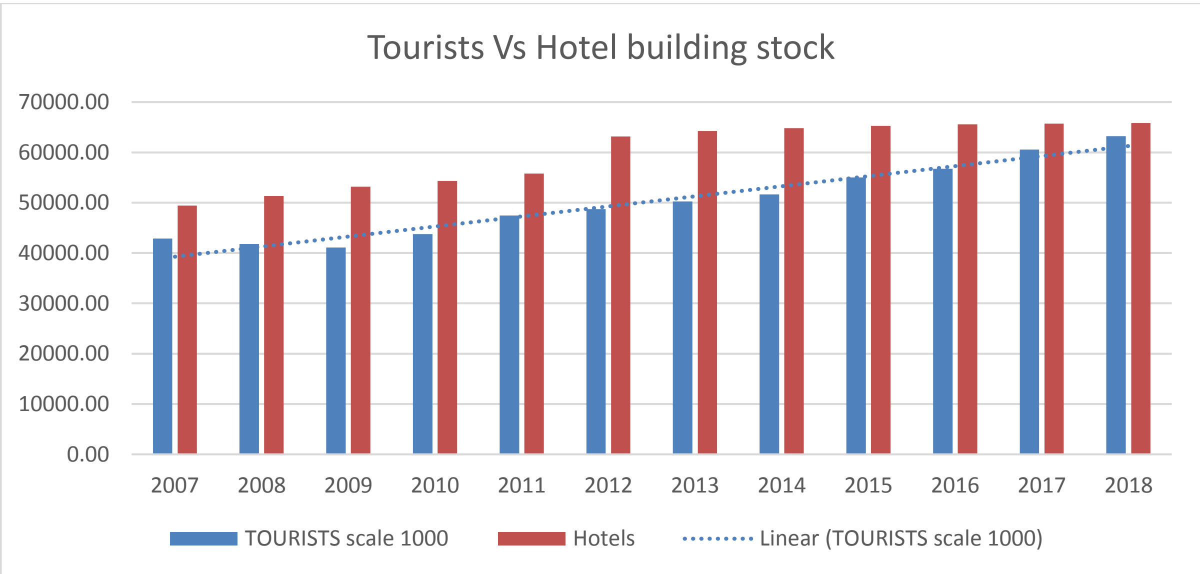
Now, observing the real estate trend in connection to the Italy’s economic drivers as listed above, we can say that the reason behind the growth of particular real estate sector is directly proportional to the economic drivers which means that, even though the Italy’s population growth rate is in negative still the residential sector is positive because of the migration that the government is granting which includes long stay visa’s, work visa’s, student visa’s etc., and in order to balance the negative growth population rate the economic drivers such as migration and tourism is substituting the negative sign and making into positive growth and as a consequence the building stocks have been significantly increasing with positive growth. Hence, we can say that, International migration will be a key in future population demographics for Italy.

Figure 25: Impact of migrants on residential building stock (Base year 2014)



Even though the population of Italy is falling, the building stock of residential sector continues to rise gradually. The link between the fall of inhabitants and rise in building stock is migrants. Because of the migrant population growth, the building stock of residential sector is being increased and stands the factor as demand. The negative growth rate of Italian population is occupied/filled with the migrant population resulting in demand for residential sector.

Figure 26: Impact of tourists on hotel building stock



The trend of hotel sector as linearly increasing because of the factor increase in tourists from various parts of the world. As the tourists are increasing yearly, the building stock of hotel sector is also being increased. The demand lies in the tourists and supply lies in the building stock of hotel sector. Since there is rise is demand from the tourists, eventually the supply is also being raised by building stock of hotel sector. Hence the link between tourists and building stock of hotel sector is Increase in tourists over years.

From the history, While the Italian real estate market has traditionally been driven by the Office, Retail and Industrial/Logistics sectors, other subsectors – such as Residential and Hotel sectors are also showing great prospects for future growth. Past years shows a growth in property investment, from both local investors (mainly insurance and pension funds), and foreign investors from all the sectors. We can expect this trend to continue through 2020. We can also expect to see growth in opportunistic and value-add investments, in response to investor search for greater returns especially in residential sector and hotel sector.

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