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Nomisma Real Estate

The Italian Property Market in 2004: Trends, Forecasts and Players

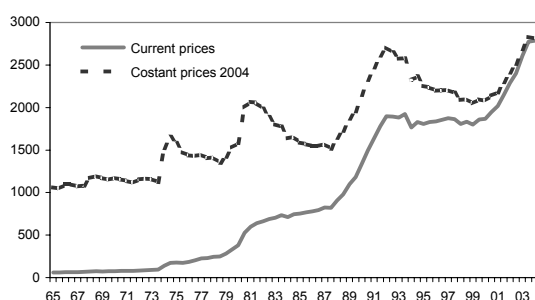
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The 2004 Italian Property Market at a glance

Housing

The year 2004 confirmed the growth of the Italian real estate market, with a substantial increase in the 13 main metropolitan areas property prices. The overall increase in mean prices was +9.7%, which means a 70.4% growth in the period 1998-2004 (+46.1% in constant prices; see Figure 1).

Figure 1
Average 13 main metropolitan areas -
Mean Prices of new housing



Source: Consuente Immobiliare data processed by Nomisma.

Price trends benefited from available liquidity in search of “safe” investments, which in turn was favoured by low interest rates, as the steady increase in loans shows. However, a slight decline in demand was reported, which caused an increase in sales and rental time; also, the number of contracts did not report any increase, and the discount on price widened (table 1).

Table 1
Average 13 main metropolitan areas
Main Property Indicators, October 2004

	Annual % price change	Mean sale time (months)	Price discount (%)
Houses	+9.7	3.7	10.0
Offices	+7.9	5.2	11.4
Shops	+8.6	4.7	11.0
Industrial	+6.7	5.9	11.2

Source: Nomisma.

Therefore, there was an increase in the supply of properties unrent, since rents were often higher than loan instalments; at the same time, the demand for low rents was largely

unmet. The number of property owners (79.4% in 2003) has in fact been steadily growing in recent years, as well as the number of people investing in housing, with a subsequent increase in the supply of houses for rent.

Commercial

With regard to the commercial sector, market growth was weaker and the annual price increase was lower than in the housing sector (offices +7.9%, shops +8.6%, industrial +6.7%). Demand for offices and shops slowed down, and the increase in rents was slower than the price increase, thus reducing rental yields. However, gross total yield in real estate investments was still very competitive vis-à-vis yields from other kinds of investment, since it was approximately 15% per year on average, summing the variation in capital values and the rental yield (table 2).

Table 2
2004 Real Estate Investment Yields (%)

	Initial yield	Gross total yield ⁽¹⁾
Houses	5.5	15.3
Offices	5.8	13.9
Shops	8.1	16.8
Industrial	8.0	14.8

⁽¹⁾ Gross total yield given by the algebraic sum of the variation in capital values and of the rental yield.

Source: Nomisma.

Demand for properties through channels like property funds was strong, and their market share recorded an exponential growth in the time period considered.

Although concerns about a possible “bubble burst” in the Italian Real Estate market have been growing in recent years, that will not be the case for the next months. The year’s forecast is actually for a further increase in property values and for the number of sale and rent contracts to hold, although commercial sector is expected to face more problems because of the weakness of the Italian economy.

Table 2

Main indicators of the property markets in Milan and Rome

Types	Milan		Rome	
	Mean prices (€/sqm)	Annual % change	Mean prices (€/sqm)	Annual % change
New houses	3,900	10.2	3,142	13.0
Offices	2,793	5.8	2,662	11.0
Shops	3,609	9.1	3,533	10.6
Industrial	838	8.9	866	7.1

Source: Nomisma.

MILAN

After an encouraging and dynamic beginning of the year, the real estate market showed the first signs of a cooling down, reporting increases in mean prices lower than in the past. Demand for **housing** declined, especially for houses for rent. As a consequence, supply increased and the number of contracts was more or less the same. Increase in prices and rents - on a six month and yearly basis- was lower than in previous years.

However, it was the **offices** sector which reported the most serious difficulties: further decrease in demand, subsequent piling up of supply, and decrease in the number of contracts, but also increase in the sales and rental time and in the discounts applied. With regard to prices, the worst yearly trend since 1998 was reported, especially for rents, which declined by 0.8% since 2003.

In the time period considered supply and demand for **shops** were unchanged, as well as the number of sales contracts in this sector. On the other hand, a slight decline in the rental market was reported. As far as prices are concerned, no significant slow down was reported in comparison with previous years; price performance was actually better in 2004 than in 2003.

In all sectors, the market was more lively in the city centre than in the suburbs, although suburban areas are affected by building projects of structural importance.

The forecast for the first half of 2005 is for no significant variation in present market conditions, except for the offices sector, for which a significant slow down is expected.

ROME

In spite of a five-year steady increase in mean prices and number of contracts, a reversal of this trend is not likely in the short term. The slight decline in demand reported in some sectors only affected the sales time, which became longer, and the number of transactions, which confirmed last year's record level.

Larger increase in prices than in rents caused a decline in rental yields for all the sectors surveyed.

The opinions expressed by the operators regarding the **housing** sector describe a lively market sustained by a growing demand and increasing property values (+13%). Semi-central and suburban areas were the most dynamic markets.

No significant variation was reported in the market for **offices** in comparison with 2003, although mean quotations kept growing; the biggest rates of increase were recorded in areas outside the city centre.

In spite of the positive opinions expressed by the operators during the first half of the year, the **shops** sector was less lively than the others, as reported in previous semesters.

Demand kept decreasing while supply remained unchanged, thus causing a decline in the level of buying and selling; however, mean values kept growing (prices +10.6% per year).

The forecast for 2005 is for the number of contracts to hold, and for a further increase in mean values of property.

The 2004 Real Estate game

Mergers, acquisitions, allegiances, jv

- ▶ Manutencoop and Pirelli RE & C. Facility Management have set up on an equal basis MP Facility S.p.A, for the facility management of Telecom Italia Group.
- ▶ Generali Properties has completed the acquisition of a 10% share in the capital of Gabetti Holding for 6.4 mln Euro.
- ▶ Aedes and Gruppo Franza have agreed to create a joint venture for the development of their properties in Sicily. The value of the real estate portfolio of the new company will be 100 mln Euro.
- ▶ Pirelli RE and Morgan Stanley signed an agreement to establish a common platform for the acquisition and management of securitized loans.
- ▶ Pirelli Real Estate & C. has acquired a 49% share in Sib (Servizi Immobiliari Banche).
- ▶ MPS Venture SGR, Giada Equity Fund and Centroinvest have created Manutencoop Facility Management.
- ▶ Marco della Valle and Antonio Stillitano have created Immogest S.p.A., in order to invest in the development of shopping centres.
- ▶ Aedes has set up a joint venture in the North Eastern regions - Aedilia Nord Est - with some prominent real estate operators from Veneto.
- ▶ Pioneer Investment Management SGRpA has incorporated UniCredit Fondi SGR.
- ▶ Carlo De Benedetti and Orazio Mascheroni have set up a new company, Promossa. Promossa Real Estate will also be created.
- ▶ Pirelli Real Estate & C. Agency signed an agreement to complete the acquisition of a 67% share in FIM, Fabbrica Italiana di Mediazione.

The main deals

PROPERTY FUNDS

- ▶ The property fund Polis of Polifondi SGR.p.A. has purchased two new buildings for 32 mln Euro.
- ▶ The property fund Bipiemme Investietico (Bipiemme Real Estate) has purchased three more properties in Rome, with a 70.9 mln Euro total investment.
- ▶ CGI, on behalf of HousInvest Europa, has purchased the office district "Le quattro porte" in Segrate (near Milan) from International Business Park, for 100 mln Euro.
- ▶ Pioneer IM SGRpA has purchased a shopping centre in Basiglio (Milan) for 5.5 mln Euro, a supermarket in Milan for 5 mln Euro and an office building in Milan city centre for 25.3 mln Euro.
- ▶ Nextra Sviluppo Immobiliare has purchased an office block in Bari from a vehicle company of the Carlyle Europe Real Estate Partner fund; the purchase price was 20 mln Euro.
- ▶ Sorgente Sgr has purchased a building in Palermo, where the Regione Sicilia has its headquarters, for 6.7 mln Euro. The building has been incorporated in the portfolio of the fund Caravaggio.
- ▶ The German property fund Deka has purchased a logistic district near Piacenza for 55 mln Euro.
- ▶ Seb, a German retail fund, has purchased two buildings for office use in Milan from Trixia (vehicle company of Pirelli RE) for 30 mln Euro. The management company also signed a preliminary agreement with Sireec (Bologna) to purchase a 110 mln Euro worth shopping centre in Chieti.
- ▶ Fondo Tecla (Pirelli RE SGR) has sold a building in Treviso to Compagnia Finanziaria Monte Pelmo for 4.5 mln Euro, a building in Torino to Fintel Srl for 10 mln Euro, and a building in Rome to Lico Santo Srl for 3 mln Euro.
- ▶ Impregilo has sold the company offices in Sesto San Giovanni (Milano) to Ubs' Euro Estate fund; the value of the transaction was 46 mln Euro.
- ▶ Doughty Hanson has sold to German funds Degi and Westinvest the Bodio Center and the L'Oreal offices respectively; both buildings are located in Milan. The value of the transaction was 280 mln Euro.

- ▶ AXA Investment Deutschland has purchased a shopping centre in Civitavecchia for 24.5 mln Euro. The building will become part of the open German fund Immoselect.
- ▶ The Carlyle Group has purchased the properties of SanPaolo Imi for 325 mln Euro.
- ▶ Bnl Fondimmobiliari SGR has purchased: a supermarket near Modena for 5.978 mln Euro, which will become part of the fund "Estense Grande Distribuzione"; a building in Corsico (Milan) for 19.53 mln Euro, a shopping centre in Civitanova Marche for 14.35 mln Euro, and an office building in Milan for 22.65 mln Euro, all to be incorporated in the fund "Portfolio Immobiliare Crescita". Bnl Fondimmobiliari has also made a 30.4 mln Euro investment in an office block in Velizy (Paris), on behalf of the fund "Bnl Portfolio Immobiliare".
- ▶ Deutsche Bank Fondimmobiliari SGRpA has purchased two buildings in Milan for 20.5 mln Euro.

PROPERTY COMPANIES

- ▶ Spazio Industriale, jv between Pirelli & C. Real Estate (25%) and Soros Real Estate Investors (75%), has signed a preliminary agreement to purchase 26 buildings formerly owned by Enel; the agreed purchased price is 93 mln Euro.
- ▶ Heitman has purchased three industrial portfolios in Europe (one of which is located in Bologna) for 100 mln Euro.
- ▶ Magiste Real Estate has purchased the building where Bibop Carire had its Milan office; the value of the transaction was over 28 mln Euro.
- ▶ Risanamento S.p.A. has sold 5 buildings in Naples to Pirelli & C. Real Estate for 51.841 mln Euro. Zunino sold the former Fiat Avio area to Regione Piemonte for 51.45 mln Euro.
- ▶ Pierdomenico Gallo signed an agreement with Real Estate operator Stefano Ricucci for the sale of Meliorbanca's headquarters; the price agreed upon is 85 mln Euro.
- ▶ Deutsche Bank Real Estate Investment has purchased the Fashion District Outlet complex in Valmontone (Roma) from the Fashion District group.
- ▶ Aedes has purchased buildings from IPI for a total cost of 38.5 mln Euro.
- ▶ The group Risanamento has signed an agreement to purchase the property portfolio of Société Foncière Lyonnaise (SFL). The overall value of the transaction, which affects the prime properties of the french company, is approximately 180 mln Euro.
- ▶ Beni Stabili has purchased part of the property portfolio of Prada (eight assets, in Italy and abroad, for a total value of 130 mln Euro) and has purchased a 51% share of Milano Zerotre Srl from Banca Intesa (Milano Zerotre is a jv between Banca Intesa and Beni Stabili which owns 46 non operational buildings worth 343 mln Euro).
- ▶ Generali Properties and Pirelli & C. Real Estate, together with a minority stake of Lehman Brothers, have purchased a 43 building portfolio formerly owned by Alitalia; the total value of the buildings, which are located in Milan and Rome, is 158 mln Euro. The same companies also purchased a portfolio of 36 buildings located in different parts of the country and formerly owned by Gruppo Generali, for 272 mln Euro.
- ▶ Aedes has transferred properties for 46.5 mln Euro to a joint venture in which the company has a 40% share, and has purchased a building for office use in Milan city centre from BPU, for 28 mln Euro.

BANKS AND INSURANCE COMPANIES

- ▶ AXA REIM has purchased 3 buildings for office use in Milan and Rome, for a total investment of 115 mln Euro.
- ▶ Unipol has purchased the E-Tower complex in San Donato Milanese (Milan) from Whitehall, and sold a building in Milan at the same time. The value of the investment in the operation is 129 mln Euro.

OTHERS

- ▶ The Demanio Agency plans to sell more areas and houses worth 330 mln Euro.
- ▶ Inarcassa won the auction for the purchase of 9 buildings from Coni Servizi, for 55.6 mln Euro.
- ▶ Fintecna (entirely controlled by the Treasury) has purchased a big property portfolio from Monopoli di Stato (State Monopolies). The investment, which includes different kinds of buildings (houses, offices, land and parking lots), amounts to approximately 500 mln Euro.

Prime and average prices, rents and yields, October 2004

	PRIME			AVERAGE		
	Prices	Rents	Yields	Prices	Rents	Yields
	<i>Euro/sq.m</i>	<i>Euro/sq.m/year</i>	<i>%</i>	<i>Euro/sq.m</i>	<i>Euro/sq.m/year</i>	<i>%</i>
HOUSING						
Bari	4.800	220	4,6	1.569	92	5,9
Bologna	7.100	330	4,6	2.445	114	4,7
Cagliari	4.000	230	5,8	1.333	78	5,8
Catania	4.500	200	4,4	1.208	65	5,4
Florence	8.700	430	4,9	2.819	155	5,5
Genoa	7.000	400	5,7	1.473	84	5,7
Milan	14.000	600	4,3	3.235	166	5,1
Naples	11.000	380	3,5	1.894	114	6,0
Padua	6.000	300	5,0	1.654	99	6,0
Palermo	3.400	210	6,2	1.193	71	6,0
Rome	14.000	720	5,1	2.731	188	6,9
Turin	6.000	225	3,8	1.665	80	4,8
Venice lagoon	13.000	720	5,5	3.418	160	4,7
Venice land (Mestre)	5.000	260	5,2	1.678	95	5,7
<i>Main Metropolitan Areas</i>	<i>7.750</i>	<i>373</i>	<i>4,8</i>	<i>2.022</i>	<i>111</i>	<i>5,5</i>
OFFICES						
Bari	3.900	250	6,4	1.539	102	6,6
Bologna	6.000	320	5,3	2.279	120	5,3
Cagliari	3.250	250	7,7	1.497	79	5,2
Catania	3.800	200	5,3	1.316	77	5,8
Florence	7.500	400	5,3	2.548	148	5,8
Genoa	3.800	280	7,4	1.388	78	5,6
Milan	10.000	600	6,0	2.793	154	5,5
Naples	9.000	380	4,2	1.987	122	6,2
Padua	5.500	300	5,5	1.793	111	6,2
Palermo	3.200	220	6,9	1.311	74	5,7
Rome	9.500	700	7,4	2.662	186	7,0
Turin	4.000	200	5,0	1.579	78	5,0
Venice lagoon	10.000	680	6,8	3.567	192	5,4
Venice land (Mestre)	4.000	280	7,0	1.965	123	6,3
<i>Main Metropolitan Areas</i>	<i>5.961</i>	<i>361</i>	<i>6,1</i>	<i>2.016</i>	<i>118</i>	<i>5,8</i>
SHOP UNITS						
Bari	5.400	500	9,3	1.746	135	7,7
Bologna	8.500	640	7,5	2.634	174	6,6
Cagliari	5.000	550	11,0	1.772	148	8,4
Catania	6.500	650	10,0	1.687	160	9,5
Florence	13.500	800	5,9	2.964	222	7,5
Genoa	7.800	650	8,3	1.953	147	7,5
Milan	21.000	1.900	9,0	3.609	265	7,3
Naples	13.000	750	5,8	3.133	247	7,9
Padua	10.000	800	8,0	2.329	224	9,6
Palermo	5.100	410	8,0	1.894	149	7,9
Rome	20.000	1.400	7,0	3.533	309	8,7
Turin	7.500	380	5,1	1.660	107	6,5
Venice lagoon	27.500	2.200	8,0	5.709	505	8,8
Venice land (Mestre)	5.600	550	9,8	2.147	183	8,5
<i>Main Metropolitan Areas</i>	<i>11.171</i>	<i>870</i>	<i>7,8</i>	<i>2.626</i>	<i>213</i>	<i>8,1</i>
INDUSTRIAL						
Bari	714	84	11,8	521	49	9,4
Bologna	1.090	82	7,5	848	63	7,4
Cagliari	940	80	8,5	700	59	8,4
Catania	674	46	6,8	487	32	6,6
Florence	1.250	99	7,9	863	73	8,5
Genoa	1.125	92	8,2	830	65	7,9
Milan	1.088	90	8,2	838	70	8,4
Naples	860	77	9,0	550	51	9,2
Padua	913	66	7,2	739	55	7,4
Palermo	850	46	5,4	589	34	5,7
Rome	1.360	131	9,6	866	76	8,7
Turin	693	60	8,7	567	48	8,4
Venice land (Mestre)	990	72	7,3	735	56	7,7
<i>Main Metropolitan Areas</i>	<i>965</i>	<i>79</i>	<i>8,2</i>	<i>702</i>	<i>56</i>	<i>8,0</i>

Nomisma *Real Estate*

Created in 1998 together with the review "Property Market Monitor", an established point of reference amongst key players in the field, Nomisma Real Estate is now undergoing a process of diversification in order to adapt to those transformations that in the last few years have concerned in the property market.

Thanks to the know-how acquired within property market economic analysis, new approaches to urban systems economic analysis have arisen. The research area, tuned with company addresses, has developed such methods and proficiencies that enable her to, on the one hand, improve the analysis of property systems and urban developments and, on the other hand, provide decision-making support for marketing strategies and territorial intervention planning, both in the private and in the public domain.

Moreover, the coexistence within the same company of different research areas allows for a transversal and multidisciplinary approach to analysis, that runs parallel to a more specialist and analytical view of the property sector.

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