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Real estate. Investing in Italy

Reforms pave way for property renaissance

Recent liberalisation has encouraged sovereign wealth funds to move into the market

KATE ALLEN

A concrete shopping centre surrounded by scrubland and low-rise apartment blocks on the outskirts of Rome is an unlikely starting point for a renaissance in the Italian property market.

Long unpopular among international investors for its red tape, lengthy and unreliable court processes and reputation for corruption, Italy has so far seen little of the tide of cash that is flooding into the European property market.

But last week, Singaporean sovereign wealth fund GIC paid an undisclosed sum for 50 per cent, and outright control, of the Roma Est mall from CBRE Global Investors. The deal "demonstrates GIC's confidence in the long-term prospects for Italy", the fund said.

It is not alone. Local advisers report a growing number of inquiries from foreign investors.

Italian commercial property prices are still falling – down 2 per cent in the first six months of 2014, according to data company IPD. But Alessandro Balp, a partner at Italian law firm Bonelli Erede Pappalardo, said that buyers were making a "macro bet" on the prospect of economic recovery.

"The fears of the euro breaking up have gone away so they think that in the end, the Italian economy will recover along with the rest of the eurozone, and so eventually real estate prices will also recover," he said.

Massimo Saletti, a managing director at Deutsche Bank, said investors' appetite was shifting from Ireland and Spain – both have seen a wave of international capital in the past couple of years – and moving eastward across Europe.

"There is a general feeling that other markets have already been explored from a valuation and opportunity standpoint, and Italy is an obvious choice for capital at competitive pricing levels," Mr Saletti said.

The retail and leisure sectors were the first to see interest from international investors. Late last year, Morgan Stanley spent €635m to acquire a portfolio of 13 shopping malls and two retail parks from French retail group Auchan, while Chechen businessmen Musa and Dani Bashaev recently bought a Sardinian resort for €180m.

Global shopping mall operator Westfield is building one of continental Europe's largest shopping centres in Milan, a €1bn project.

Now Mr Balp expects to see buyers moving into the office sector as well; a couple of deals of about €500m are already in the pipeline, he said.

> 'They think that in the end the Italian economy will recover along with the rest of the eurozone'

A Middle Eastern sovereign wealth fund this summer set a new pricing benchmark in Milan by spending €110m on an office building.

Stephen Screene, a partner at property advisers Cushman & Wakefield, said this type of long-term investor was beginning to join opportunistic funds, which have been present in the market for the past year.

Prospective buyers' appetites were whetted last month when the Italian government announced a range of property sector reforms.

These included changes to the real estate investment trust (Reit) model that, industry figures say, have long been needed. The reforms also included liberalisation of the law on leases and lending.

Aldo Mazzocco, chief executive of Italy's largest publicly listed landlord, Beni Stabili, said the changes would trigger a flurry of IPOs. Italy has just two Reits, but Mr Mazzocco estimated there was now scope for up to 10 to float.

Just €6bn-worth of Italian property was owned by Reits, while €45bn was held by closed funds, he said. The changes would bring "more liquidity and more transparency".

Italy's biggest domestic property investor, the insurance company Generali, welcomed the reforms – in spite of the prospect of greater competition on its home patch. Alberto Agazzi, managing director of Generali Real Estate Italy, said: "We are the biggest player and we're always happy to see new players joining the game."

However, Mr Saletti warned that despite the recent reforms Italy "is not going to be a mass [investment] market similar to Spain".

He added: "More than any other market it requires local expertise."

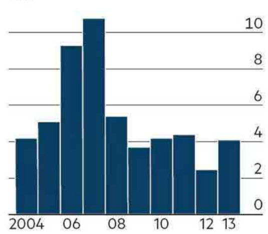
Mr Balp said the changes were not enough and, in particular, the government had to speed up the judicial process. It can take up to eight years for a lender to enforce a mortgage through the courts.

Another unresolved issue is the government's own property holdings. It is under pressure to sell off a swath of assets and cut its spending on rents.

The changes are thus only the first step in what could become a series of reforms. Mr Agazzi added: "The market is opening up a little bit and in the future I expect it to open up some more."

Italian real estate investment volumes

€bn



Source: Cushman & Wakefield

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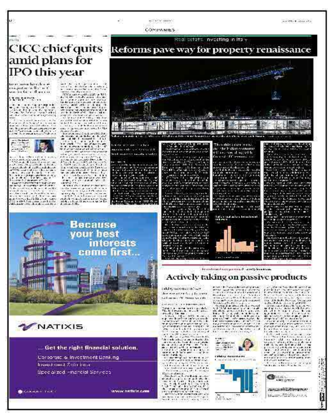
Italian commercial property prices are still falling and the country is starting to attract the attention of overseas investors — Alessia Pierdomenico/Bloomberg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