

## **REAL ESTATE MARKET IN ITALY IN 2005**

### **The Local Market and Figures (Specially Cross Border Transaction and Services with Slovenia and Austria) Antonio Campagnoli**

#### **Abstract<sup>1</sup>**

Italy's internal Real Estate market has evolved greatly after 2000. Before this date mostly of the investors were focused on the stock market, following this date investors started looking at the Real Estate sector as a valid alternative for investment. The market in these last five years has evolved greatly, and it is very important for a foreign investor to know the main figures and the basic rules and regulations that control the Real Estate market in Italy. The purpose of this document is to supply a general introduction to the Real Estate market in Italy.

The document points out how the Real Estate market in Italy has been growing steadily and how it should be viewed by a foreign investor as a valid alternative to other low/medium risk investments. The prices have still increased in the first semester 2005. There are some signs of a possible showdown of the Real Estate market which seems physiologic and does not worry the market players.

On the other hand, Slovenia and Austrian Real Estate market is a very active market very closed to the North East of Italy. The opportunities either of cross border transaction or of providing cross border Real Estate services are growing day by day together with the harmonization of the legal and financial frame work respectively of Italy, of Slovenia and Austria.

The latter part of this document takes in consideration the different types of companies that can be settled in Italy and restrictions (if any) in the investment and funding process. A particular emphasis has been put on a key element as the fiscal aspects of the Real Estate industry, because of its complexion and articulation.

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<sup>1</sup> Avv. Antonio Campagnoli is the General Secretary of FIABCI Italia.

## 1. Definition

For the propose of this document:

- **ANACI** means Italian Association of Real Estate management ([www.anaci.it](http://www.anaci.it) )
- **FIABCI** means International Real Estate Federation ([www.fiabci.org](http://www.fiabci.org))
- **FIMAA** means Italian Federation of Real Estate Brokers ([www.fimaa.it](http://www.fimaa.it));
- **IMI** means the ratio between the NTN (as defined below) and the Stock (as defined below);
- **Is.I.V.I.** means the Italian Real Estate valuer association, "*Istituto Italiano di Valutazione Immobiliare*" ([www.isivi.it](http://www.isivi.it) ), full member for Italy of TEGoVA (as defined below);
- **LTV (Loan to Value)** means the ratio between the mortgage loan granted and the value of the Real Estate asset secured;
- **NTN** means "*Normalized Number of Transaction*" which is the number of transaction regarding the percentage of property subject to the transaction. For example, if three transactions refer to respectively 1/3, 1/3 and 1 of the right of property, NTN is equal to 1.66 not 3. So if you sell a full title of a property, it counts as one transaction, but if you sell a part of a property, it counts in proportion of the part sold.
- **OECD** means the countries which adhere to the Organization for Economic Co-operation and Development as listed on web site [www.oecd.org](http://www.oecd.org);
- **SPA** means "*Società per azioni*";
- **SRL** means "*Società a responsabilità limitata*";
- **Stock** means the number of the premises as reported in the public register;
- **TEGoVA** means the European Group of Valuers Association ([www.tegova.org](http://www.tegova.org) );

## 2. The Italian Real Estate Market: slow down and stability

The prices in Italy for Real Estate during the first semester 2005 have slightly increased.

**Table 1: Average % Price Variation during last semester and during last year in the Italian Real Estate Market**

| <b>Types of premises</b> | <b>%Price Variation on first semester 2005</b> | <b>% Price Variation during second semester 2004 and first semester 2005</b> |
|--------------------------|--|--|
| Residential              | (+) 4,0  | (+) 8,3  |
| Office                   | (+) 3,8  | (+) 7,1  |
| Retail                   | (+) 3,6  | (+) 7,3  |

Source: a ponderated averaged of different sources

This has been the lowest increase in prices since 2001 and, in particular, regarding the Milan market, the price of the residential premises have not had a so low increase since 1998.

**Table 2: Average % Price Variation during last five years in the Italian Real Estate Market**

| <b>Types of premises</b> | <b>June 2001</b> | <b>June 2002</b> | <b>June 2003</b> | <b>June 2004</b> | <b>June 2005</b> |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Residential              | (+) 8,7          | (+) 9,4          | (+) 9,7          | (+) 10,8         | (+) 8,3          |
| Office                   | (+) 7,6          | (+) 7,7          | (+) 8,4          | (+) 9,2          | (+) 7,1          |
| Retail                   | (+) 9,3          | (+) 7,4          | (+) 8,3          | (+) 9,1          | (+) 7,3          |

Source: a ponderated averaged of different sources

The Real Estate market of the lease during last year has performed even less better then the market of the sell and acquisition. Therefore, the return on Real Estate investments has slowed down comparing with the same period of the year before.

**Table 3: Yearly Potential Average % Return in the Italian Real Estate Market**

| <b>Types of premises</b> | <b>November 2004</b> | <b>June 2005</b> |
|--------------------------|----------------------|------------------|
| Residential              | (+) 5,5              | (+) 5,4          |
| Office                   | (+) 5,8              | (+) 5,7          |

| <b>Types of premises</b> | <b>November 2004</b> | <b>June 2005</b> |
|--------------------------|----------------------|------------------|
| Retail                   | (+) 8,1              | (+) 8,0          |

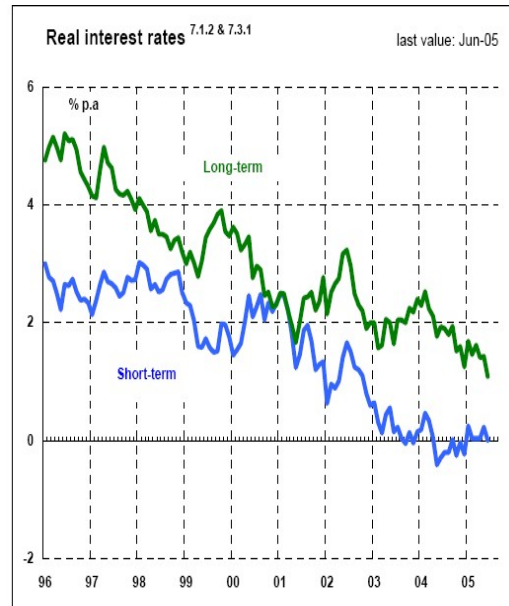
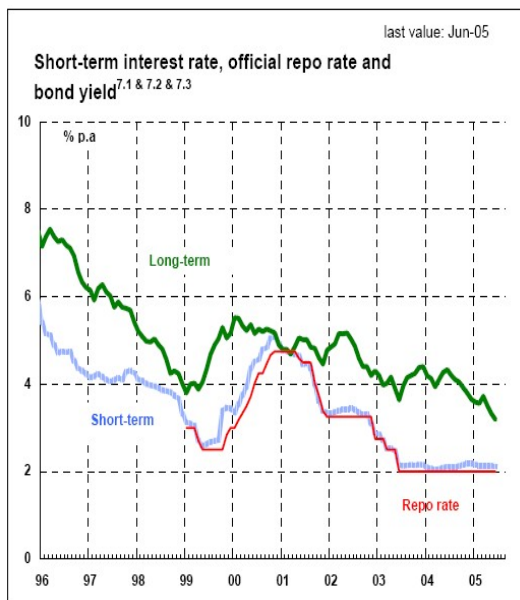
Source: a ponderated averaged of different sources

However, all the figures are positive number and the slow down seems to be normal and sign of a stability of the Italian market which run very fast during the last five years and now it is simply resting for a while.

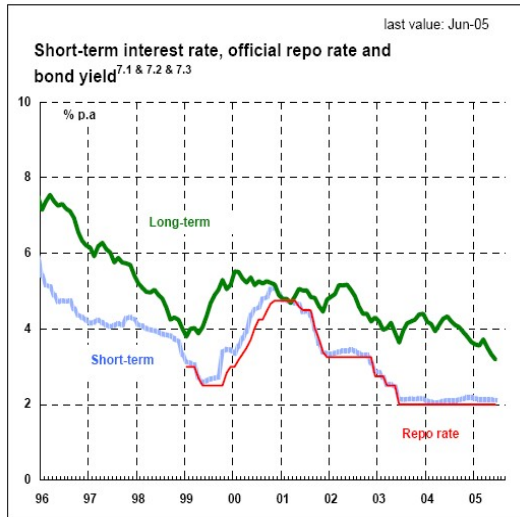
### 3. Interest Rate in EU and mortgage rate in Italy: effect on the Italian Real Estate Market

The interest rate plays a fundamental role in the stability of the Real Estate Market.

Picture 1: Nominal and seal interest rates (1996-2005) in EU market

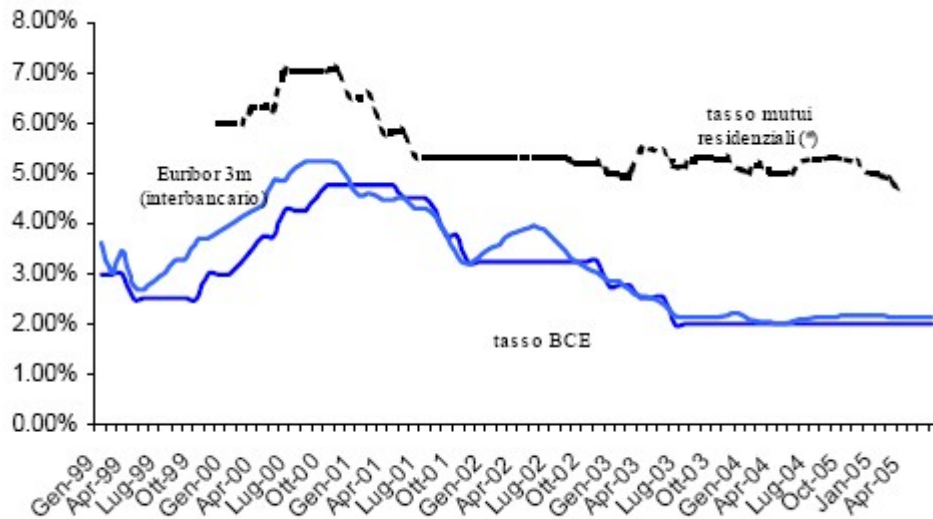


Source:[http://europa.eu.int/comm/economy\\_finance/indicators/key\\_euro\\_area/keyeuroa\\_rea\\_en.htm](http://europa.eu.int/comm/economy_finance/indicators/key_euro_area/keyeuroa_rea_en.htm))



It seems that interest rates will not increase in the brief period due to the weakness of European Economy. Low interest rates are low (near to zero) and thus one of the elements in favour to the stability of the Italian Real Estate market in accordance with the majority of observers.

**Picture 2: Interest rates on mortgage loans (% p.a.)**



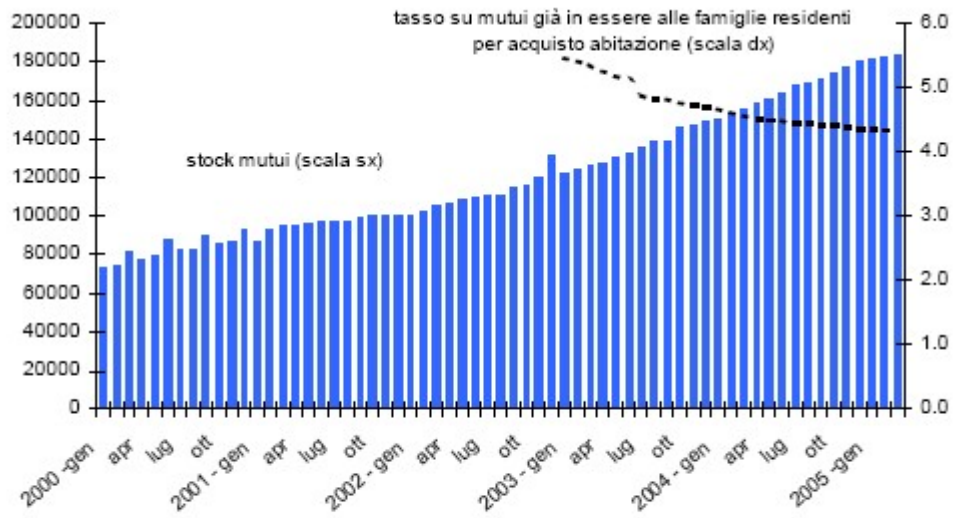
Fonte: Banca d'Italia (\*) da gennaio 2003 nuova serie armonizzata

**Source: Italian Central Bank**

As a consequence thereof, the interest rates on the mortgage loan are particularly low and Banks are willing to finance the acquisition of Real Estate assets.

The following chart shows the volume in million of Euro of mortgage loan granted on the Italian Real Estate Market.

**Picture 3: Volume of mortgage loan in million of Euro (left column) and % interest rate (right column).**

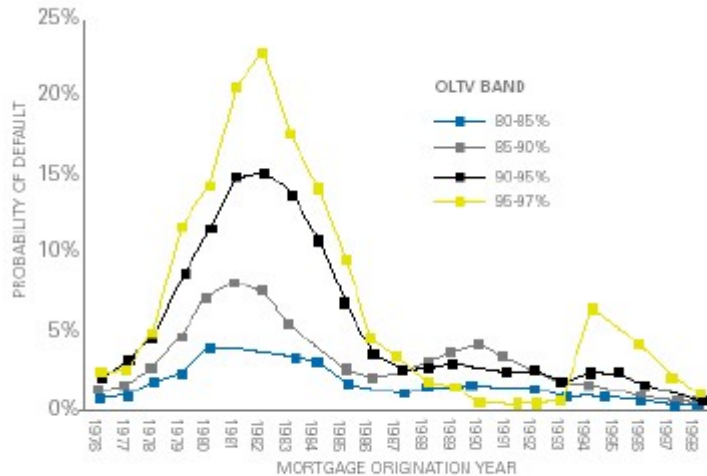


Fonte: Banca d'Italia

**Source: Italian Central Bank**

The ratio between the amount of the loan granted and the value of the asset back security, i.e. LTV ("Loan to Value") plays an important role in case of a falling prices on Real Estate Market as the following chart points out.

Picture 4: probability of default during the Real Estate crises depending on the different LTV



Fonte: Mortgage Insurance Companies of America (MICA)

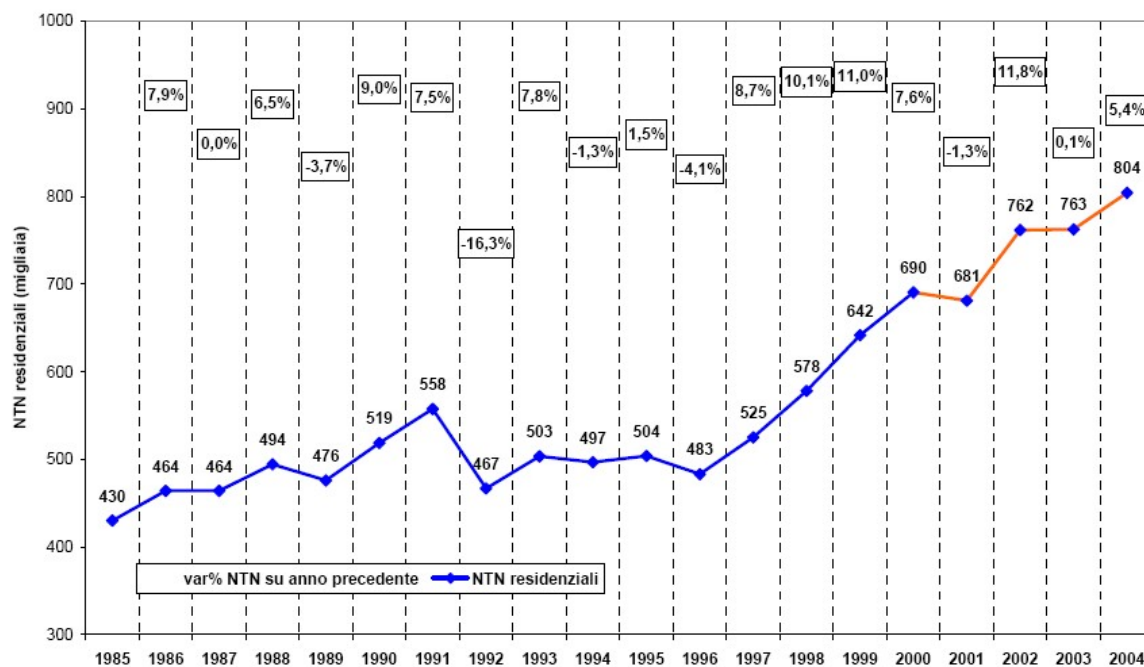
The probability of default increases, in occasion of drop of the Real Estate Market, with respect to higher LTV loans. As you may note, during the US Real Estate crises at the beginning of the '80, there has been almost 25% of default of the mortgage loan with a high LTV ("loan to value").

#### 4. **NTN: national figures on 2004**

The Italian Real Estate market has kept a strong volume of acquisition during the year 2004 (according to the data provided by the Public Authority of the Territory, "Agenzia per il Territorio"). In fact during all the year 2004, the Normalized Number of Transaction (NTN) on the national basis has been incredibly high: n. 1717.241 transaction on an aggregated basis of residential, commercial and others during all 2004 (against 1.625.000 of 2003).

Picture 5: Table 1 shows number of transactions for each semester starting from 1985 to 2004 for residential premises.



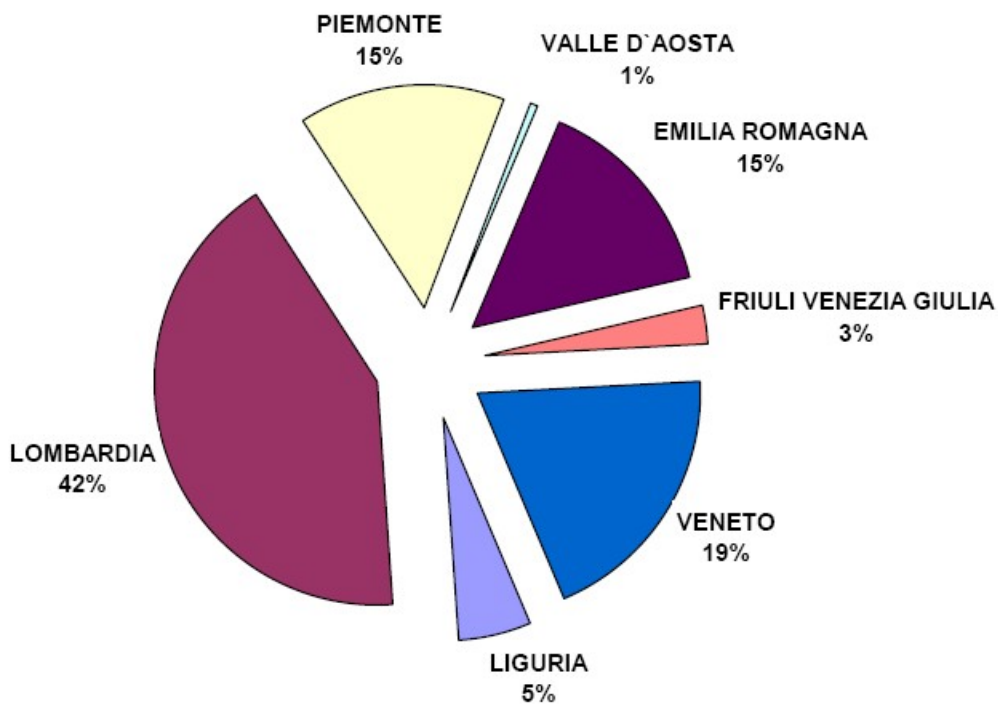


Picture 5:Table 1

Public Authority of the Territory's data

On the local market, the highest NTN has been registered in Milan and its province which had a NTN equal to 164.079. Hereafter, there is a chart showing the distribution of NTN between the regions of the north part of Italy.

**Picture 6:: % NTN distribution on 2004 in the Italian north regions for residential premises**



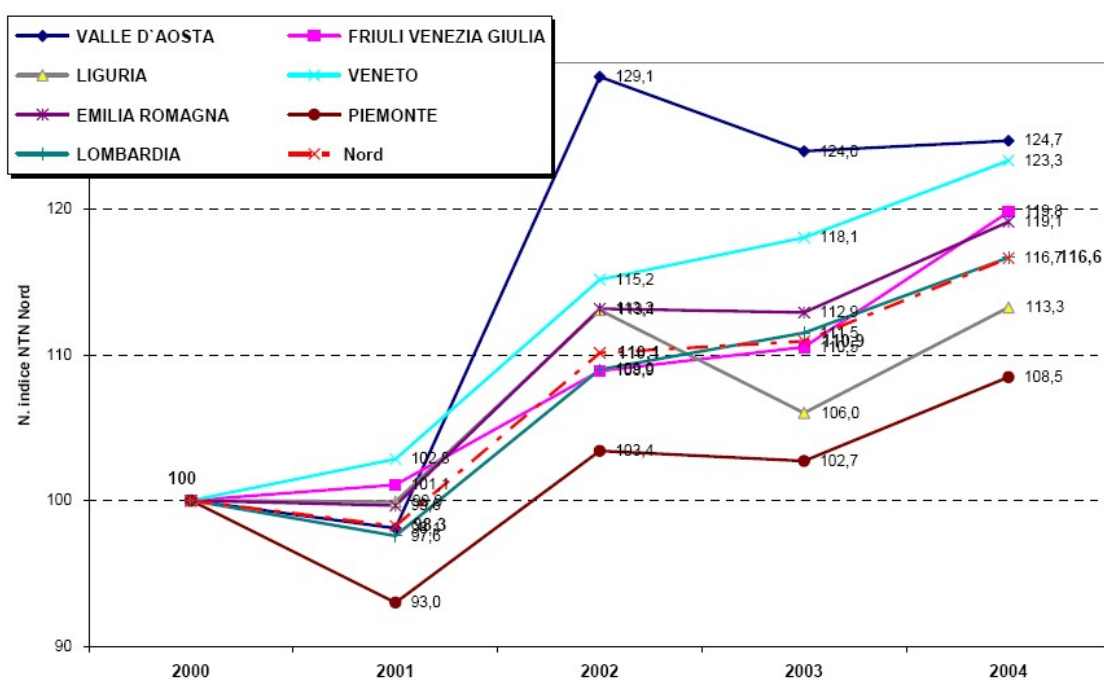
It is very interesting the grow of the NTN related to the region of Veneto who has shown during the past five years an aggregated increase of 23%. Friuli and Emilia Romagna have shown similar increase equal to about 19-20%.

Lombardia has kept a trend similar to other north regions equal to +16% during the last five years.

Liguria had a material grown on NTN during 2004 comparing to 2003 of about 13%.

Piamonte remains the worst region in terms of NTN equal to 8,5% on 2004.

**Picture 7:: % NTN variation during last five years in the main Italian north regions for residential premises**



|        | 2000    |            |       | 2001    |            |       | 2002    |            |       | 2003    |            |       | 2004    |            |       |
|--------|---------|------------|-------|---------|------------|-------|---------|------------|-------|---------|------------|-------|---------|------------|-------|
|        | NTN     | Stock      | IMI   | NTN     | Stock      | IMI   | NTN     | Stock      | IMI   | NTN     | Stock      | IMI   | NTN     | Stock      | IMI   |
| Nord   | 361.335 | 12.148.246 | 2,97% | 355.036 | 12.401.779 | 2,86% | 397.914 | 12.639.238 | 3,15% | 400.842 | 12.906.099 | 3,11% | 421.450 | 13.164.667 | 3,20% |
| Centro | 142.151 | 5.228.337  | 2,72% | 143.087 | 5.301.618  | 2,70% | 159.937 | 5.394.585  | 2,96% | 156.669 | 5.501.133  | 2,85% | 166.637 | 5.605.967  | 2,97% |
| Sud    | 186.993 | 10.045.759 | 1,86% | 183.142 | 10.160.616 | 1,80% | 203.672 | 10.294.987 | 1,98% | 204.575 | 10.405.858 | 1,97% | 216.039 | 10.517.981 | 2,05% |
| Totale | 690.478 | 27.422.342 | 2,52% | 681.264 | 27.864.013 | 2,44% | 761.522 | 28.328.810 | 2,69% | 762.086 | 28.813.090 | 2,64% | 804.126 | 29.288.615 | 2,64% |

## 5. The Italian Market: Real Estate Index (IMI)

Other important elements to be considered in order to analyse the Italian Real Estate market are, inter alia, the Real Estate Index (IMI) which is the ratio between the NTN and the Stock showing the intensity of the transaction in respect to the Stock.

**Table 4: Stock, NTN and IMI in residential sector in 2000-2004**

*Public Authority of the Territory's data*

The above chart "clearly" emphasizes the fact that the northern part of Italy has the 50% of the entire national NTN where the Stock which refer to the northern area is simply 45% of the entire national Stock. In other words, the properties located at North are sold much more easily than those located in the South of Italy. It depends on many factors including those linked to Southern culture less keen to dispose properties.

## 6. City of Milan: price and Milan Chamber of Commerce' s report.

After a brief review of some figures of the national market, it is useful to consider a specific market in order to offer a detailed example of the Real Estate market.

Milan and Ljubljana are very closed and, then, it is important to focus on the Milan's Real Estate market. The Chamber of Commerce of Milan on March 2005 has issued a report on the Milan's Real Estate market updated to second semester 2004.

**Table 5: Residential premises: price per square meter of each area for new (or as new) properties**

|              |              |               |
|--------------|--------------|---------------|
| BRERA        | Min. € 5.200 | Max. € 9.000  |
| MANZONI      | Min. € 6.500 | Max. € 12.000 |
| MAGENTA      | Min. € 4.800 | Max. € 8.100  |
| PORTA GENOVA | Min. € 3.500 | Max. € 5.400  |
| BOCCONI      | Min. € 3.200 | Max. € 4.400  |
| FIRENZE      | Min. € 3.000 | Max. € 4.300  |
| SARDEGNA     | Min. € 3.000 | Max. € 4.500  |
| PRECOTTO     | Min. € 2.500 | Max. € 3.200  |

The 2004 has been a good year for the Milan Real Estate market; the average increase of prices has been equal to 9%. Also the hinterland of the city has had a great performance with prices which increased on average 12%.

The time requested to complete the transaction is increased in respect to the 2003. The buyers pay usually more attention on buying their house. It is requested a minimum period of time of 4 months to 6 months maximum for selling the properties. The discount on the first price requested is around 5% to 10%.

The average rent for a double room apartment of about 60 m<sup>2</sup>s may vary from € 850 to € 1.200 per month.

The Commercial:Real Estate market is weak by demand, except the demand is still weak, unless for little office in central position in Milan.

## **7. Cross border transaction with Slovenia.**

The adherence of Slovenia to the EU enhances the opportunity for cross border investments in all fields including the Real Estate. The freedom to provide service, the freedom of movement of goods and people and a common legal framework are elements which grant a basis for an unified market.

Many foreign investors for many reasons look to Slovenia as a favourable market. The Slovenia internal market is one of the strongest between those countries which recently entered into EU and it has a very high individual income. The bank system is modern and foreign banks have acquired important interest of the main local banks. Many brokers have already notice an increase of the Italian investors in Slovenia.

Koper, Izola and Piran are the Slovenian touristic cities which seem to call for the highest number of Italian and foreign investors.

Moreover, the foreign investors are attracted to the capital of Slovenia, Ljubljana, which is one of the most tiny European capital with its 280.000 residents and it is closed to Austria. The price for residential premises located in such beautiful capital are considered positively by the foreign investors who strongly believe in increase of the Real Estate market prices.

Even the Italian market may be foreseen as location where the Slovenian investors may be attracted to invest in Real Estate premises. Recent events show the interest which may have the North East in this period of time; in particular, an important Real Estate fund, listed at Milan's stock exchange, has decided to acquire the majority of an important Real Estate company active specially in such a area.

Trieste is a very interesting city to invest in, because the price per sq/m is sensibly lower than the rest of Italy. The following chart represents the minimum and maximum average price in the center of Trieste, in particular b.go Teresiano, the shores, via f. Severo, via Giulia, via D'Annunzio, historical center near via Carducci.

Note: At last Law n. 340/2000 has repealed Law n. 1095/1935 according to which any investment from a Slovenian citizens was subject to authorization (the same happened in Slovenia with GURS 9/99 of 13/12/1999).

**Table 6: Prices and rents in Trieste (€/m<sup>2</sup>)**

*Public Authority of the Territory's data*

| <b>Type</b>                  | <b>Market value per sq/m</b> | <b>Monthly Lease value per sq/m</b> |
|------------------------------|------------------------------|-------------------------------------|
| Central Residential Premises | Min 1400 max 1600            | Min 4,2 max 4,8                     |

There are mutual opportunities for even Italian or Slovenian investors to carry out cross border Real Estate business between the respective two countries. It is only a matter of time to realize quantify the number and qualities of the transaction to be carried out .

## **8. Foreign Investment Regulations in Italy**

No prior authorization is required for the formation of an Italian company, except in the case of companies proposing to operate in certain sectors, such as banking and insurance, mining, land, sea and air transportation. Foreign nationals can subscribe to the capital of an Italian company with the same rights as Italian nationals. Foreign investments are only registered for statistical purposes.

The Italian exchange control system has been significantly deregulated. Currently only very limited exceptions exist to the free movement of funds in connection with regular business transactions.

## **9. Real Estate Licence Framework in Italy: broker, engineer, valuer, lawyer and management**

The Real Estate business for its nature needs many different skills to be carried out. Any Real Estate project may be divided in phases such as for example:

- research of the location which fits with the client requirements (client may want, for example, to reach some benchmark of return and bears a certain type of risk so called Real Estate Rating);
- preparing the structure of the investment (very important to contain the fiscal burden);
- acquisition of the property (legal, technical and fiscal Due Diligence, a prospective plan of the cost related to the next phases, contracts and mortgage);

- renovation of the property (in certain case even a new construction);
- promotion of the property in order to rent/sell it (this phase may start in advance to not loose time);
- management of the property (gathering and improving the income of the property, taking all actions needed to prevent damages and to keep it in good standing).

As you may see, there are a lot of key figures which are involved into a Real Estate transaction at least: broker, developer, engineer, valuer, lawyer and management.

FIABCI is not only international but multi-disciplinary. Anyone involved in real estate can belong whether they are brokers, counsellors, lawyers, appraisers, financiers, architects, developers, contractors or investors.

There are 50 FIABCI Chapters throughout the world and new ones are regularly being formed. Currently there are also around 100 professional associations in membership. Called Principal Members by FIABCI, they have a total membership approaching 1.5 million practitioners.

FIABCI has special status at the United Nations where it is recognised as the voice of the private sector when matters of real estate are considered. In co-operation with the UN, the Federation has done major work in pursuing its policy of property ownership for all in third world countries. The UN link has also seen FIABCI closely involved with the Habitat movement, where FIABCI was the first to highlight the value of public/private partnerships.

All real estate sectors are represented in FIABCI. Residential, office, commercial, leisure, agricultural, retail and industrial plus their various sub-divisions are included. FIABCI is multi lingual and multi cultural and operates in five official languages: English, French, German, Spanish and Japanese.

High point of the FIABCI year is the World Congress. Held annually in May/June at a different national venue, this year it has been the turn of Athens, Greece for the 2005 congress. There are also regional events which nevertheless attract a FIABCI audience from all parts of the world. More informations on FIBACI events are available on [www.fiabci.org](http://www.fiabci.org) .

A basic principle of the European Community is the freedom of provide service and movement of persons and goods. Therefore, it may be useful for comparing the Slovenia

legal framework with the Italian a list of the specific requirements set forth by the Italian laws in order to become respectively a broker, engineer, valuer, lawyer and management.

### **9.1. Broker: how to be a Real Estate broker licensed in Italy**

In order to become an Italian Real Estate broker, it behoves:

- to have at least an high school title;
- to attend a course kept by schools recognized by the local Chamber of Commerce;
- to pass an exam organised by the Chamber of Commerce;
- to enrol to the broker register kept by the Chamber of Commerce.

According to the Italian laws, to be entitled to ask for a broker commission it is necessary to be a licensed broker. The commission fee is between 2% up to 6% depending on the matter and on the willing of the parties (usually it is 3% on both side of the parties).

According to art. 3, paragraph 5-bis, of Law n.39 3 February 1989 as subsequently amended, the broker shall subscribe an insurance police covering the risks involved in the brokering activity. Moreover, according to art. 3 of Law n.39 3 February 1989 as subsequently amended, the broker activity is not only reserved but also exclusive and therefore, it may not be carried out by employees (other then employees of the broker companies) and/or by effective entrepreneurs or by other professionals.

For further information please visit the web site of FIMAA ([www.fimaa.it](http://www.fimaa.it)) which is the oldest Italian association of brokers and asks for high standards of professionalism and experience to its members.

### **9.2. Engineer: how to be a Civil engineer licensed in Italy**

To be qualified as an Italian civil engineer requires to be graduated at an Engineering University as civil engineer, to pass an exam and finally to be enrolled in a public register of engineers. In the recent past, the engineer bar have been divided into many sections including the civil engineer section which gathers all the engineer specialized in Real Estate construction work.



The civil engineer (together with architect and, in some limited cases, special survey called "geometri") is the licence required by the Italian laws in order to submit to the competent public authority any request of permit of construction and/or of renovation.

The engineering fee are stated by laws and varied on the subject and on the difficulty of the project executed.

### **9.3. Valuer: how to be a Real Estate valuer licensed in Italy (and Real Estate Rating agencies)**

Up to today, the Italian laws does not state a specific regulation to fix the requirements for the licensed Real Estate valuers. Therefore, many professions, such as, *inter alia*, architects and engineers, provide for Real Estate appraisal.

Moreover, an association, called "*Istituto Italiano di Valutazione Immobiliare or Is.I.V.I.*" (see [www.isivi.it](http://www.isivi.it)), has make a material effort to let adopt European common standards as pointed out by the European Association of Valuers' Group (TEGoVA, see [www.tegova.org](http://www.tegova.org)) with the European Valuation Standards 2003 (also named briefly and usually "**EVS2003**").

At this state of the art, even less regulated is the sector of the Real Estate Rating agencies. As you know, the rating measures the risk of the investment (either of a single property or an entire portfolio). The Guidance 14 of the aforementioned EVS2003 focuses exclusively on the methods and criteria to provide Real Estate Rating (this European wide method is called "**PaM**" which means Property and Market rating). "PaM" takes in consideration many factors including the property rights granted by the respective country and, in general, the country profile rating. Less risky is the investment, less yield the investor is willing to obtain; and otherwise, an investor pretends a high yield of investment in event of a high risk investment.

As to the Real Estate Rating's methods, the Italian Real Estate market is deeply touched by the rules enacted by the inter banks agreement called Basilea 2 which links the cost of the mortgage loan to the risk of the property more then its value.

### **9.4. Lawyer: there is not a specific qualification required for Real Estate business**

As see above, the lawyer is usually one of the players of a Real Estate transaction. Its role is important during the fiscal structuring of the project, Due Diligence and negotiation of the contracts.

Differently from other countries such as U.K. and U.S.A., in Italy there is no specialisation in Real Estate business addressed to the lawyers.

However, it is advisable to ask in advance about the experiences in the Real Estate sector of the chosen lawyer.

### **9.5. Property Management: no license required**

The management is often the core business in Real Estate sectors especially in the case of long term investment where the client needs to maintain high the profitability of the bought properties during a long period of time. Still this profession laves of rules in Italy and therefore, it is not required a license to be entitled to carry out Real Estate management. The management fee is negotiable (it is usually around 4% on the gross income of the premises).

A big portion of the volume of affairs of the Real Estate management sector refers to the condominium properties (where the owners of the single units of the building shall nominated a manager to take care of the common expensive and of the maintenance of the building).

More information are available on the web site of ANACI [www.anaci.it](http://www.anaci.it) and, in particular, of ANACI Lombardia ( [www.anacilombardia.net](http://www.anacilombardia.net) ).

## **10. Types of Italian companies, capital and registration**

The two most common types of Italian companies in which the liability of the stockholders is limited to the amount of capital subscribed are the Società per Azioni (SPA, similar to a Stock Corporation), and the Società a Responsabilità Limitata (SRL, similar to a Limited Liability Company)<sup>2</sup>. Most of the regulations concerning the

### **<sup>3</sup>Establishment of a Branch**

A branch is established by filing with the Companies' Register certified true copies, to be notarised before a Notary Public and legalized by means of Apostille pursuant to Hague Convention of October 5, 1961, if applicable, of (i) the resolution of the competent corporate body of the non-resident company concerning the opening of the branch, the appointment of the branch manager and the determination of his authority (ii) the articles of incorporation and by-laws of the non-resident company and (iii) a certificate of good standing of the non-resident company.

formation and management of an SPA apply equally to a SRL. There are, however, certain regulations which apply specifically to the latter, but most of them may be deviated in the by-laws. Therefore, broadly speaking, a SPA or a SRL can be used alternatively to organize a company in Italy. If costs are a major concern and the size of the operation is expected to be relatively small, a SRL will better serve the purpose. If instead the operation is expected to grow into a relatively large one, and image is a primary concern, it behoves to choose a SPA.

Both a SPA and a SRL are organized by drawing up the articles of incorporation and the by-laws before a notary public.

The minimum stated capital is 120,000 Euro for a SPA and 10,000 Euro for a SRL.

Before the deed of incorporation is settled in front of a notary public, the capital must be fully subscribed, if its subscription is promoted by a sole shareholder, the entire capital must be deposited in an authorized bank. The deposit is then returned to the company (with interest, however, normally below average market rates). On the other hand, if the shareholders subscribing the capital are a plurality, at least 25% (thirty percent) of the amount of the subscribed capital must be deposited in an authorized bank. In this case too the paid-up capital will then be released.

The articles of incorporation and the by-laws shall be approved by the notary public and must be filed with the Companies' Register for registration purposes.

## **11. Real Estate Property Purchase – Procedure and Taxes**

In order to purchase a Real Estate property in Italy it is necessary to execute an agreement in written form before an Notary Public which shall be subsequently reported in the competent Real Estate register. Any agreement regarding a Real Property which is not executed in the written form, is null and void.

Generally no authorizations are required to buy a Real Estate property in Italy.

It is advisable to carry out a deep investigations over the properties which are object of the deal. In particular, the zoning, constructions, environmental and tax regulations are some of the areas which shall be covered by a Due Diligence before executing any binding agreement.

The acquisition of Real Estate property in Italy is subject to different types of taxation:

- Cadastral Tax
- Mortgage Tax
- Register Tax
- VAT Tax

These taxes may be applied in fixed values, proportional or even excluded depending on a series of factors. It is important to point out that Italian legislation on Real Estate taxes is very complicated and every single transfer should be closely monitored;; however, some generic affirmations can be done.

If the seller is a company whose main activity is the building, restructuring, selling or buying of Real Estate property, the VAT will be applied in a proportional rate. Generally speaking this rate will be 20%. Some exceptions however are possible:

- if the buildings are sold after doing restructuring the rate lowers to 10%
- if the buildings are non-luxury residential housing the rate lowers to 10%
- if the building is bought by a natural person who is buying his first house, under certain conditions, the rate lowers even more to 4%.

The general rule is that if the VAT is applicable, the other taxes are applied in a fix value (129,11 Euro). On the other hand if the VAT is not applicable, because the seller is not an aforementioned company, then the other types of taxes will be applied in a proportional way:

- Cadastral Tax 1%
- Mortgage Tax 2%

The Register Tax varies depending on the type of Real Estate that is being transferred:

- 7% if the acquisition is of buildings
- 15% if the acquisition is of land
- 8% if the acquisition is of land on which buildings can be constructed.
- 3% if the acquisition is of buildings that are of a particular historical interest

In Italy owners of Real Estate are subject to a property tax called I.C.I. This tax too is a proportional tax. Its rate depends on the municipality where the Real Estate is, generally

the spread goes from 4 per 1000 to 8 per 1000. This tax is not linked to the revenues of the properties, therefore is similar at a wealth tax.

In addition to all the taxes that have to be paid, the buyer and the seller, both of them will also have to pay a fee to the brokerage agency that is normally 3%.<sup>3</sup>

The taxation on the loan has recently changed its rate. Initially it was 0,25% and now it has grown to 2%.

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<sup>3</sup>The brokerage fee is not mandatory and the amount of the same is fixed by agreement of the parties. According to art. 1755 of the Italian Civil Code, in the event the commission fee has not been fixed by the parties, the broker may ask the judge to determine it pursuant to the local practice.