

Country-Specific Legislation and Practice

Country Chapter



Italy

Introduction

One of the guiding principles of TEGoVA is to promote consistency of standard definitions of value and approaches to valuation trans-Europe. The publication of European Valuation Standards (EVS) provides the state, investors, the financial industry, valuers and their clients with a common benchmark which can be consistently applied, irrespective of the location of a real estate asset.

Whereas harmonisation of valuation standards enable recognised bases of valuation to be reported, the preparation and publication of a valuation must also respect client need, national legislation and custom. Customary differences, particularly in respect of valuation methodology, may result from the requirements of statute or regulation.

This Country Chapter illustrates differences that currently exist across Europe. The Country Chapters are not intended to provide definitive advice. The text that follows has been provided by TEGoVA Member Associations (TMAs) to outline country-specific legislation and practice.

The European Group of Valuers' Associations (TEGoVA)
Boulevard Saint-Michel 45
1040 Brussels
Belgium

Tel: +32 (0)2 503 32 34
Email: info@tegoval.org

Fax: +32 (0)2 503 32 32
Website: www.tegoval.org



Italy

Professional bodies represented on TEGoVA:

- **Consiglio Nazionale Geometri E Geometri Laureati (CNGGL)** - National Council of Italian Surveyors
- **Istituto Italiano Di Valutazione Immobiliare (IsIVI)** - Italian Institute for Real Estate Valuation
- **Associazione Geometri Valutatori Esperti (GEOVAL)** - Association of Expert Valuers
- **CRIF Certification Services (CCS)** – ISO 17024 accredited certification of property valuers

Real estate market - the real estate market in its aggregate / macroeconomic context

The real estate market in Italy has changed quite significantly during the last five years, but has historically always been very active. Even during the recent crises, prices have not been as severely affected as in other European countries – time to sell on the market has gotten longer but prices have not fallen, except in certain extraordinary contexts. In 1999 the first real estate fund was incorporated. Today there are several types of real estate funds: (i) classic closed and listed (“fondo chiuso immobiliare”), (ii) reserved and closed (“fondo riservato immobiliare”), (iii) speculative and closed (“fondo speculativo immobiliare”) and (iv) listed, with yearly distribution of most of the income (“Siiq”, similar to REITS).

All these real estate funds are closed, which means that the quota holder may ask for the liquidation of his portion only after a minimum period of time (usually 10 years).

The real estate market saw a booming in prices and in the volume of the transactions. The average size of real estate projects increased considerably. The entire real estate market faced a new era.

Today in Italy the real estate market is directly connected with the financial market.

The laws and the market awarded the funds and the listed structures with fiscal and credit incentives.

The same can be said of the valuation sector. Old style appraisal companies have been overwhelmed by new, more modern and more specialised appraisal companies, belonging also to international branches. Local knowledge of the urban conurbation has not always been considered as it should have been. This has been true for valuations of the financial sector as well.

After September 2008 and the culmination of the financial crisis, the market is working on regaining its credibility. Direct real estate investment is considered safer than investment through indirect real estate vehicles.

Transparency is the key word of the Financial Stability Forum (in its report “Enhancing the Market and Institutional Resilience”) as well as of all the national authorities including the Bank of Italy.

If transparency is key to the free market, the valuation sector should shall take leadership regarding the assessment of the real estate assets which underlie the funds and non-equity securities (Mortgage Backed Securities-MBS, Collateralised Mortgage Obligation-CMO, Covered Bonds etc.).

This is a big opportunity as well as a big responsibility, but it is neither easy nor friendly work.

It cannot happen again in the future that (i) the price of a MBS is much lower than the assessed value of its backing assets (this undermines also the respective valuation of the collateral) and/or (ii) the net asset value (NAV) of a listed real estate fund is ten times more than the price of the quotas of such a fund as determined by the stock exchange (again, there is presumably something wrong with the respective backed valuation or there is totally lack of information transparency in the market).

The Asset Monitor of a Covered Bond is required to be part of an auditing company. As the auditing companies do not have the capability to carry out an assessment of real estate premises, they usually instruct valuers to undertake the work.

The real estate sector is vital for the financial sector, not the opposite. The financial sector needs mortgages (correctly assessed), the real estate sector may survive also without so much credit (as it did in the past).

If the valuer is responsible than the valuation will be more prudent, credit will be contained and the economy as a whole will be more sound and sustainable.

Structure/s of the real estate market and its participants

The structure, as referred to above is divided into two parts:

Corporate real estate where investment banks or institutional investors have a central role and plan real estate acquisition, incorporation, re-structuring, finance and backed obligations. In this environment, the valuers play a very little role. Sometimes the valuation report is requested to be carried out by a valuation company for various purposes, but usually the appraisal is not a key element. Basically, they request it to simply support figures already determined with very limited power of the valuer/valuation company to provide an independent view. However, especially in case of debt restructuring, where the investment bank calls for real independent judgement, a new type of approach is requested. Not only the determination of the value is considered, but an integrated approach able to determine and weigh the underlying risks of the real estate transaction including fiscal, legal and technical issues (the outcomes are Due Diligence, SWOT analysis and Property and Market Rating models depending on the circumstances). In this case, the real estate advisor (not usually named simply valuer) called for this job is always a company, never a single person, and has in-house specialists capable to cover the different aspects of the submitted issues including specific market experts (for example residential, hotel, industrial etc.) as well as fiscal, technical and legal experts (sometimes fully licensed individuals). Sometimes this role is played directly by the auditing companies which have a specialized real estate division.

Non-corporate real estate which includes all real estate transactions carried out by ordinary banks or investors. The main difference from the previous category lies in the fact that these transactions are not directly or indirectly connected with the capital market or with auditing purposes. In this case, the role of the valuer is more defined and clearly limited and a report is always present at least for mortgage lending purposes.

Relevant legislation and regulatory requirements

Real estate valuation is an activity carried out by professionals belonging to professional bodies in Italy, whose regulations are approved by the public authority, as well as by the real estate agents who are allowed to carry out this activity thanks to their constitutive law.

The Bank of Italy has recognized the importance of the role of the valuer with the publication of the circular letter n. 263 (2006) in which the national supervisor stated that all mortgage collateral property must be valued at market value by an independent valuer (“perito”) who has the necessary experience, qualifications and competence. In case of foreclosure, each judge must appoint an expert to appraise the value of the property and carry out the necessary due-diligence.

Italian Market (residential property, commercial properties, real estate finance, mortgage lending etc.)

In Italy, 75% of families own the property in which they live (statistic from 2008). In 2010 there were over 800,000 real estate transactions, a 0,5% decrease compared to the previous year. Residential properties accounted for 761,519 (a 0,1% decrease compared to 2009 and a 26,2% decrease compared to 2006) and transaction of property other than residential (commercial, industrial, office space, rural, etc.) accounted for 49,862 (a 6,1% decrease compared to 2009 and a 27,7% decrease compared to 2006).

Transactions in the service sector (offices and banks), the commercial and productive sector (warehouses and industrial plants) in 2010, respectively decreased 5,8%, 4,0% and 3,5% compared to the previous year.

In 2010, 772,664 new mortgages were underwritten (of which 457,792 were guaranteed by real estate collateral, while 314,872 were not), which was an increase of 1,8% compared to 2009, but a decrease of 17,1% compared to 2006. In the residential sector, the total capital granted for property mortgages was 36 billion euro (average capital per property of 136,000\ and an average first instalment interest rate of 2,73%), which was a 15% increase compared to previous year.

The average price per square meter for residential property in 2010 was 1,579 $\sqrt{m^2}$, a 0,4% increase compared to previous year.

Roughly 80% of property valuation reports are carried out by professionals belonging to the major Italian professional orders (Surveyors, Architects, Engineers, etc.) and Brokers specialised in Property Valuation with University Degree.

The covered bond regulations ruling the “Asset Monitor” role (recently amended, see Bank of Italy regulation dated 24 March 2010) and the contribution in kind ruled by the Civil Code (art. 2465 c.c. as amended on January 2010) see in the auditing company (“società di revisione”) an important and new player in the valuation market.

Main customer groups requesting valuation services

Corporate clients, auditors and the financial services industry require valuation services. Some of them (investment banks, auditing companies etc.) subcontract the valuations in order to carry out directly a more complex assignment and therefore the single work of the valuer is merged into a greater project.

Volume of real estate finance

The demand of funds for the purchase of the house has grown in the last 6 years thanks to the positive trend of the Italian real estate market. Despite the current financial crisis, new legislation which allows the borrower to “move” without expenses the loan to another bank, has maintained the demand of valuations relatively high.

Moreover, the circular n. 263 of Banca d'Italia, in response to the Basel II agreements, provides that all the mortgage collateral in the form of real estate must be object of a valuation on behalf of a

single and independent appraiser (an appraiser is a professional who has the qualification, ability and experience to carry out a real estate valuation and who doesn't take part in the mortgage granting process).

Supplier of real estate finance

Equity and non-equity finance are the two sources of real estate finance.

Due to the fact that today banks are not willing and/or are not in the condition to finance real estate projects, joint ventures between investors are becoming more common in order to pay back existing credit exposures to the banks.

Types of real estate finance

Real estate finance is diversified as are the other finance sectors. The mortgage, senior, mezzanine, second lien and junior credit facilities were all used during the last six years to finance real estate.

Today only mortgages and senior lines have survived.

Capital markets / mortgage funding

Structured finance played a central role during the last six years. The main diffusion channel to finance credits granted in the real estate sector was through structured product markets in which mortgage and credits were securitised and sold by credit institutions.

The lack of transparency in the underlined risk and, in particular, the lack of a Property and Market Rating analysis regarding the backed assets has cooperated to create a secondary (in some cases, third or fourth) non-equity market which is very instable and illiquid.

The trend of banks today is to create MBS or Covered Bonds to be sold to the central banks in order to obtain funds. The danger is to repeat the same errors of the past and bring to insolvency the States and central banks. Valuers should have much more room and independence to determine the Property and Market Rating and to monitor the value of real estate collateralised assets.

Real estate valuation

In Italy in 2005, the Italian Property Valuation Standard was published by Tecnoborsa – a company belonging to the Chambers of Commerce, Industry, Craftsmanship, and Agriculture – that includes both the EVS and the IVS applied to the Italian real estate market.

In 2007 EVS was translated by IsIVI with the support of the Chamber of Commerce of Milan and the Politecnico of Milan. In 2007 the Consiglio Nazionale Geometri e Geometri Laureati (National Council of Surveyors) translated the International Valuation Standards 2007, in collaboration with Associazione Geometri Valutatori Esperti (Geo.Val.Esperti). A turning point in Italian valuation came in 2010 when the Italian Banking Association (ABI) along with all major stakeholders from both the professional side and the banking side, published the “Linee Guida per la valutazione degli immobili in garanzia delle esposizioni creditizie” (Guidelines for the valuation of property guaranteeing credit exposures). Today almost all Italian banks have adopted these guidelines and are beginning to implement them (www.abi.it).

The risk assessment on the basis of Guidance 14 of EVS2003 has been positively considered by both the Bank of Italy and CONSOB (public authority responsible for regulating the Italian securities market).

In mortgage lending, the Bank of Italy issued a directive in 2006 (Circolare n. 263 del 27 dicembre 2006) which, inter alia, requires banks to assess the value of property used as collateral according to the market value. Although the standard to be applied is not specified, the definition of market value is in line with the most common international valuation standards and the Bank of Italy clearly states that the value must be determined in a “clear and transparent” fashion.

As to the valuation of the funds, the Bank of Italy and CONSOB have issued a joint communication on the 27 July 2010 which rules the role of the independent experts valuing periodically the asset of the real estate funds.

Before that, on 29 December 2009, CONSOB has published a research regarding the relationship between SGR and experts on the basis of analysis of the information available regarding the last decade. The research has been extremely useful to highlight the area where a better governance was required.

The Due Diligence and the stream of information is one of the key element to provide appraisal report not misleading for the public. The technical, legal and fiscal due diligence are fundamental for transparent and reliable work. As a consequence thereof, the Mortgage Insurance or other type of instrument to cover the underlined risks are starting to be available on the market.

This provision rules also the conflict interesting prohibiting to carry out any other services (management, brokerage, consultant ect) to the same fund by the real estate experts in charged with the periodic valuation of the same.

The independent experts of the real estate funds play a role of guarantee for the investors and the market in general. This brings to high the valuers' society requirements and to enhance a better consideration for the valuations carried out.

Types of real estate valuers

In Italy there are several associations of valuers made up of engineers, economists, architects, surveyors and other professionals.

In Italy, property valuation is predominately an activity of the professional orders, such as, for example, the Surveyors, Architects, Engineers, Book Keepers, Auditors, Brokers, and Agriculture.

Unlike in most countries where the market usually shapes a profession and dictates its requirements and best practice criteria, in Italy the competence of property valuers has not been regulated and a best practice has only been introduced in recent years. In order to perform a valid valuation of a residential property in Italy for the bank sector there is only one professional requirement: membership in a professional order which is legally mandated, such as that of the Geometri, Architetti, Ingegneri, Commercialisti, Brokers, etc. In turn, this means that today in Italy there are over half a million professionals who are legally eligible to perform property valuations which determine the value of mortgage collateral.

According to the communication of the Bank of Italy and Consob (27-7-2010) future direction will be to render the valuers directly liable for their misconduct and malpractice towards the market and/or certain monitoring Public Authorities (such as CONSOB, Bank of Italy, COVIP ect), specifically if the valuation is carried out for financial purposes and the outcome of the valuation has direct or indirect impact to values of the financial market.

Certified valuers (ISO 17024)

The importance of the qualification of the property valuer has been felt throughout Europe and several countries have implemented proprietary certification schemes under ISO 17024 in order to respond to the market need of increased transparency, reliability and reassurance concerning the

valuation of property being offered as collateral. At present, valuations of residential property in Italy can be carried out by a multitude of professionals with varying degrees of preparation, competence, and experience.

Personnel certification, accredited according to the ISO 17024 standard, is one way of establishing a market shared best practice and guaranteeing a homogenous level of qualification, experience, and ability (as requested by the Bank of Italy in the 263 Circular Letter of 2006). Today in Italy there is one company which is accredited ISO 17024 for the certification of property valuers: CRIF Certification Services (CCS), an observer member of TEGoVA.

To be admitted to the examination procedure, the applicant must fulfil all admission requirements:

- Enrolment in a professional Order (which is regulated by law and authorized to carry out property valuations) for at least 3 years;
- Completion of at least 10 residential property valuations in the last 12 months
- Subscription of a valid insurance policy against all professional risks.

Certification is granted after successfully completing the written certification exam and must be maintained every year by demonstrating professional competence and life-long learning.

Recognised European Valuer – REV

TEGoVA's Recognised European Valuer Scheme is designed to maintain, enhance and harmonise valuation standards and the valuation profession in Europe, and, by the granting of the status TEGoVA 'Recognised European Valuer' and designation REV™, to provide individual practising valuers in each member country with a well-defined indicator of qualification and experience, with the aim of assuring clients of their valuation proficiency. ISIVI has successfully applied to TEGoVA to award the right to award Recognised European Valuer status (designated by the letters REV™) in Italy.

Candidate who has obtained a recognised university degree or post graduate diploma or other certificate relevant to asset valuation (covering the definition of recognised university degree or post graduate diploma or other degree relevant to asset valuation covering the areas of knowledge set out at Appendix 1 of the REV Scheme.

Needs to demonstrate to the TEGoVA Member Association (TMA), in accordance with the Recognition Document (RD), that he/she:

- a) Has 2 years of professional experience in property valuation; and
- b) Has undertaken and can show at least twenty written real estate valuations within the last two years. In exceptional circumstances, a lesser number of valuations may be accepted in accordance with paragraph 3.2 below;

Note: Subject to verification, where considered appropriate, an applicant is entitled to submit a valuation (s) prepared by him/her self but signed for policy reasons by partner of the applicant's firm.

c) Fulfils such further requirements as may be deemed appropriate by the TMA

Publicly appointed valuers

The Court may choose from a list of experts, but there is no specific list for real estate valuers. According to article 13 of the provisions implementing the Italian Civil Procedure Code, the experts are divided in six categories: (i) doctor, (ii) industrial, (iii) commercial, (iv) agriculture, (v) bank and (vi) insurance.

To be inserted in the list of experts kept by the Court, one must be a member of a professional order connected with the real estate sector if the expert wishes to carry out property valuations. The process of registration in the list of experts is regulated by law.