

Italy

Italy an outlier as property prices continue to fall, data show

In contrast to the rest of the EU, sector still declining



Italy's real house prices have been falling consistently since 2007 and are now 23 per cent lower © Bloomberg
Valentina Romei
JANUARY 11, 2018

Falling property prices make Italy's market a notable EU outlier, as its ruling Democratic party touts an improving economy in its appeal to voters ahead of elections on March 4.

National data released this week showed a further deterioration in house prices in the third quarter of last year — and in a country where more than 72 per cent of households own their own home, this is feeding economic discontent. More than 80 per cent of Italians think the economic situation is bad, according to Eurobarometer.

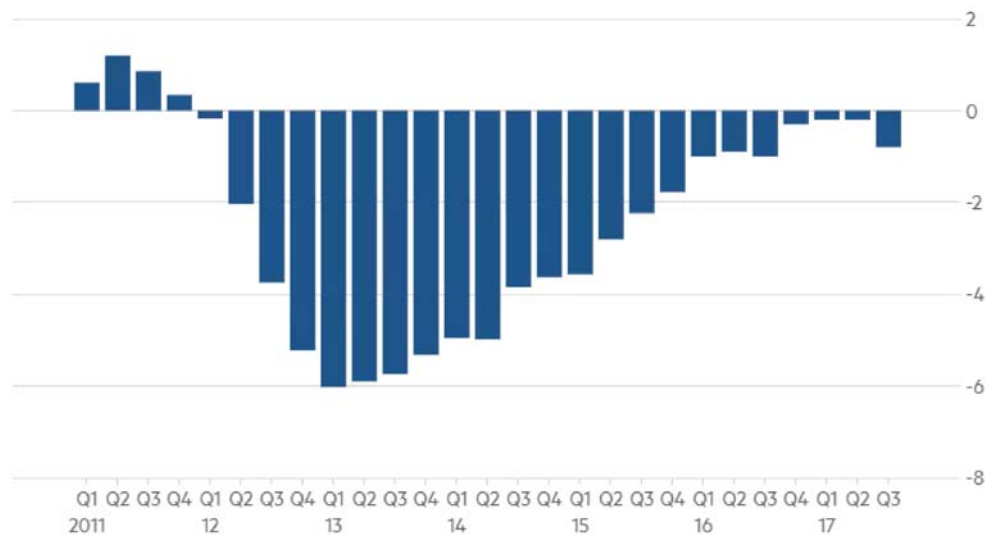
Moreover, the woes of the Italian property market are a drag on the country's troubled banking system, which is still struggling to recover from the financial crisis.

Italy was the only country in the EU where [house prices](#) contracted in the second quarter of last year, according to the latest figures from Eurostat, the EU statistics agency. In contrast, almost two-thirds of EU countries are reporting house price growth of more than 5 per cent.

In real terms, Italy's real house prices have been falling consistently since 2007 and are now 23 per cent lower — a drop that has brought the construction and property sectors to their knees.

Italy's house prices contraction worsens

Annual % change



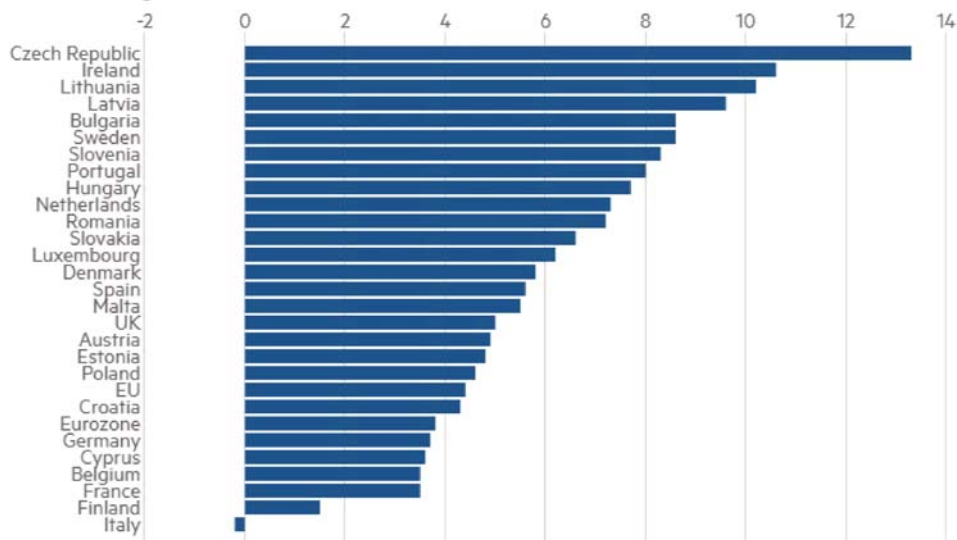
Source: Thomson Reuters Datastream, @valentinaromei

© FT

Construction has almost halved from its pre-crisis level. In 2016, 4.4 per cent of construction firms went bust, down from 5.5 per cent in 2013, but still much higher than the 2.6 per cent average across industry, according to data from Cerved, an Italian business information provider.

Italy is the only country in the EU where house prices are still contracting

Annual % change, Q2 2017

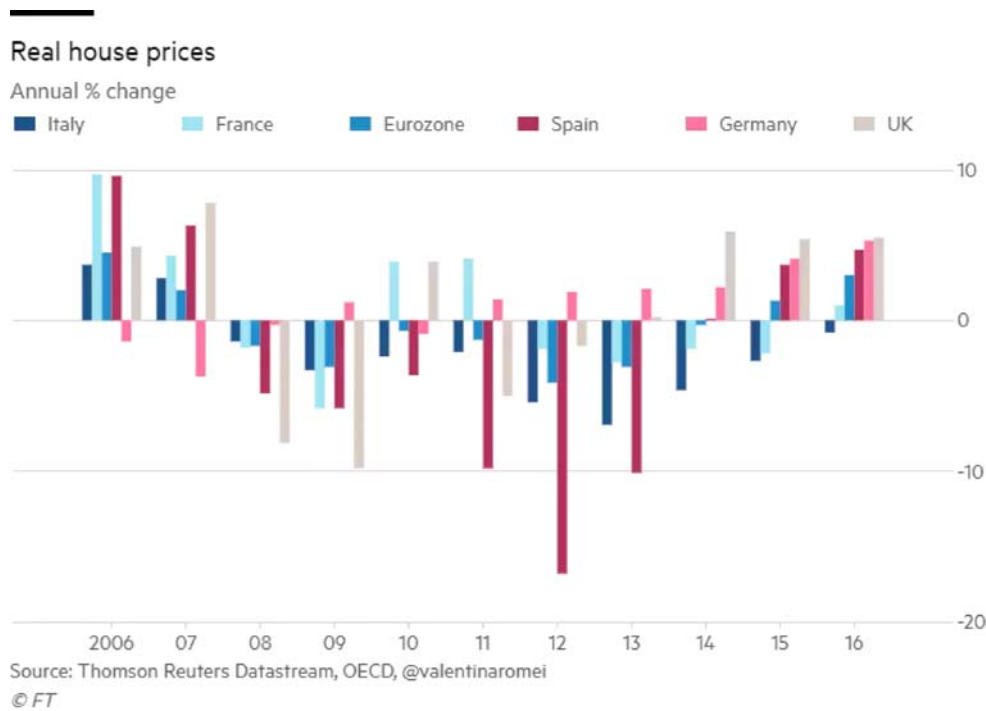


Source: Eurostat, @valentinaromei

© FT

And for property-related lending the proportion of loans turning bad has been twice as high as in the manufacturing sector, weighing on banks' €173bn of bad debts.

The Italian banking system is improving: the stock of gross bad debts shrank by €28bn in the 12 months to November 2017, because of rising securitisation — the parcelling out of loans — and because fewer new loans are turning bad. But property-related loans remain a drag.



Property now accounts for more corporate bad loans than any other sector: 42 per cent compared with 29 per cent in 2011.

Disposing of bad property loans has also been slower than for other sectors. Banks are more willing to write off bad manufacturing loans at an early stage, seeing little hope of them being resolved, says Massimo Massimilla, chief executive of Algebris Italy, an asset manager. In contrast, banks continue to harbour greater hopes of a recovery for secured loans to construction and real estate companies. As a result, this lending has remained in limbo for longer.

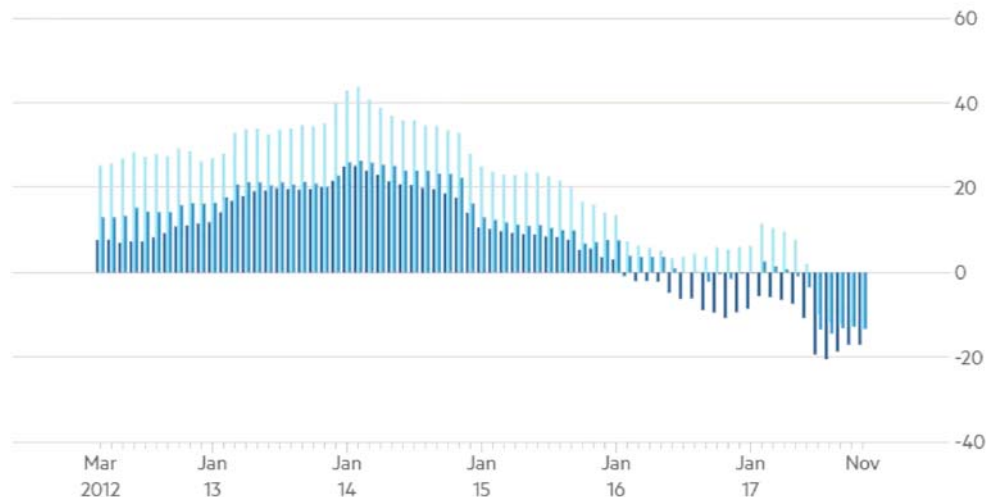


Luca Dondi, managing director at Nomisma, an Italian think-tank, says homeowners have been reluctant to acknowledge the reality of lower prices, creating a rising stock of unsold housing that has delayed a rebound.

Italy's manufacturing bad debt started shrinking earlier

Corporate, annual % change

■ Manufacturing ■ Construction and real estate ■ Others



Source: Thomson Reuters Datastream, Bank of Italy, @valentinromei

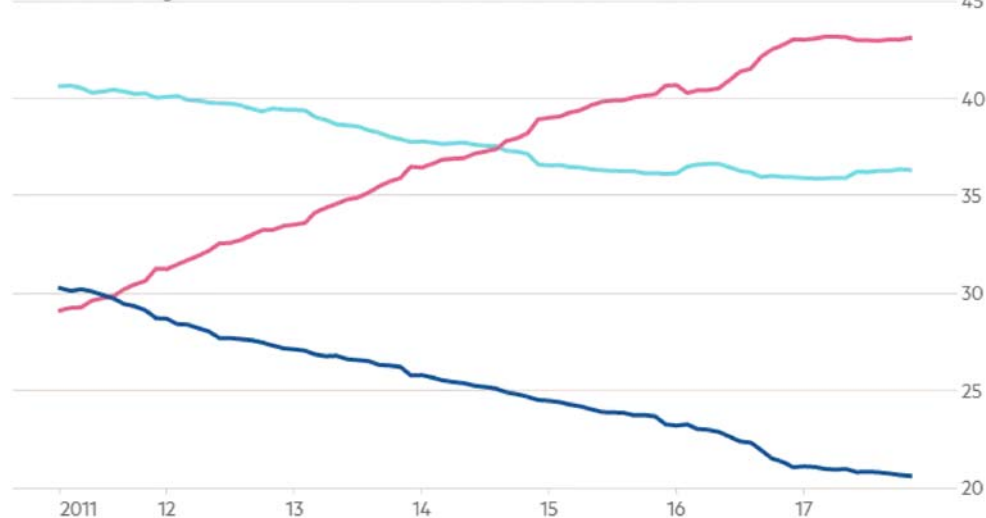
© FT

In a vicious circle, banks' sales of repossessed property is also contributing to the prolonged house price contraction. The number of real estate units sold via auction — the sale method for banks — increased 25 per cent in the last two years.

Brick-related bad debts account for the biggest share of Italy's debt pile

%

■ Manufacturing ■ Construction and real estate ■ Others



Source: Thomson Reuters Datastream, Bank of Italy, @valentinromei

© FT

What could help a recovery in house prices would be a significant return by property investors, who accounted for one in five transactions a decade ago but are now all but absent from the market.

As Matteo Renzi, the Democratic party leader, hopes to keep the party in power, he can point to economic improvements such as accelerating growth, improving household disposable income and more job creation. But the moribund property market might still make a widespread feelgood factor elusive.