Report structure on

Real estate market dynamics and development in the province of Venice (Italy)

Contents

Abstract

The Study will identify the main characteristics of investment trends 2006 - 2009 in the construction industry with particular distinction between the residential and industrial / office / and commercial, bearing in mind the main forecasts of the construction market in 2010.

The analysis of building investment trends in the province of Venice made it possible to draw some conclusions about the investment prospects.

Regarding private investment, even in the face of expected growth in the GDP of Veneto (+ 1.3%) higher than the national average (+0.8) and the value of the North-East (+1.2), it is noted:

• that there is a the tendency to a further big contraction, in the residential and private non-residential sectors;
• the different speed of slowing down has caused a widening gap between supply and actual demand of buildings, creating a stockpile of unsold goods that will continue to have a negative influence on the possibility of recovery.

The analysis on the trend of public investment has shown a tendency to a progressive decrease in expenditure in the periods between 2010 – 2012, due to:

• compliance with the Stability agreement that for many common major aspects impact on the ability to invest;
• difficulty in planning future expenses in the face of lower governmental transfers;
• loss of revenue resulting from lower costs of urbanization in the private construction sector.

The Focus made on Eastern Veneto found good ability to attract regional public investment in this part of the territory, especially regarding the road sector.

In terms of municipalities there is a two-dimension reality:

• the inland municipalities have increasing difficulty in maintaining the level of public expenditure and a higher incidence of restoration and preservation of public property;
• the coastal municipalities that are able to maintain current spending levels as well as being able to plan a strong increase in investment, with a stronger projection to the new works.

2. Methodological approach

2.1 Number of Focus groups (FG) / interviews (I):

FG: 2

I: 2

2.2 Number of participants in each FG

FG 1: 6

FG 2: 6

2.3 About the FG Moderator / interviewer

The moderator / interviewer is Eng'r. Giancarlo Pegoraro, director of the GAL VENEZIA ORIENTALE (VeGAL), which is a development agency established as a non-profit association with a legal status under private law. The most representative public and private organizations of northeastern Veneto founded it in 1995. The organization's mission is to work for the development of East Venice through intersectoral actions to qualify the local offers, to integrate leading economic sectors in the area and to strengthen the local cultural identity.

2.4 Duration of the FG/interviews

Number of FG/I	Duration (in minutes)
FG 1	150 min
FG 2	30 min
I 2	45 min
I 1	30 min

2.5 Sampling and FG composition

The Association of Builders and the Allied Province of Venice have identified the participants of the focus groups under the following categories: public organizations and associations, entrepreneurs / investors and real estate experts.

Two opinion leaders were interviewed:

• Mr. Paolo Piacentini, Founder and creator of Real Estate Service Idea Ltd. located in Mestre. He is also a real estate consultant and Area Manager for the Tri-Veneto area for several real estate groups - Pirelli RE Agency Inc. Immobiliare Paulin Ltd., Real Estate Services Banking Inc. He is a Real estate professional and proposes assistance and management consulting for companies or individuals who need to enhance or simply lease their real estate assets.

• Mr. Gian Angelo Bellati, Director of the Regional Union of Chambers of Commerce of Veneto (Veneto Unioncamere), a structure that combines all the Chambers of Commerce, Industry, Handicraft and Agriculture of the Veneto Region, acting to support and promote the economy, is involved in coordinating relations with the Veneto Region and representatives of city council. His strategic role is also apparent in the light of the transfer of political, legislative and administrative power to the regions. Unioncamere supports the simplification in the relationships between business and public administration, creates opportunities for research, studies and promotes initiatives that target the economic development of Veneto and the internationalization of enterprises.

FG composition

FG Number	***Name of the participant***	***Sex***	***Age***	***Social Status***	***Responsiveness to requests***
1	Lionello Barbuio	M	55	Affiliation Representative	Chairman of ANCE Venezia
1	Vanni Basso	M	56	Entrepreneur	Representative of Europa Real Estate
1	Igor Visentin	M	41	Public organization representative	Chairman of Conferenza Sindaci Veneto Orientale
1	Milco Anese	M	47	Entrepreneur	Representative of ANESE S.r.l.
1	Maschietto Athos	M	39	Entrepreneur	Representative of COSTRUZIONI FERRACIN S.r.l.
1	Giovanni Demo	M	59	Entrepreneur	Representative of DEMO COSTRUZIONI S.r.l.
2	Pierluigi Pellegrini	M	43	Entrepreneur	Representative of PELLEGRINI S.r.l.
2	Carlo Miollo	M	40	Public organization representative	Chairman of VeGAL
2	Perale Cristiano	M	40	Entrepreneur	Representative of Perale Edilizia S.r.l.
2	Salmistrari Giovanni	M	49	Entrepreneur	Representative of COSTRUZIONI E RESTAURI G. SALMISTRARI S.r.l.
2	Errico Renato	M	67	Entrepreneur	Representative of Errico Costruzioni S.r.l.
2	Gregolin Francesco	M	47	Entrepreneur	Representative of Gregolin Lavori Marittimi S.r.l.

2.6 Incentives

NO

3. Findings

3.1 Local economic issues

Population

The Province of Venice, consists of 44 municipalities, has a population of about 859.000 inhabitants, covering 17% of the population of Veneto. Its surface area is 2,462 square kilometers, which represents 13% of the region. A significant population density, higher than the regional average and more than the national rate, characterizes the Venice area: 348 people per square kilometer, compared to the 267 in the Veneto region in and 200 Italy. In 2007 there were 7,593 births (9.1 ‰) and 8064 deaths (9.6 ‰) with a natural balance of -471 units compared to the previous year (-0.6 ‰). Most of the municipalities demonstrate a positive natural increase and Venice accounts for most of the deficit, which in recent years has shown a significant rate of aging. Excluding the latter, the balance would in fact be positive (+1.3 ‰). The values for old age, however, are affected by immigration. Foreigners who are legally resident in Venice, proportionately, fewer in number if compared with the neighboring provinces and to the regional average were 53,550 units (6.3%) births, of which 13.6% were foreigners. In the last year, however, the foreign population increased by 10,029 units (+19.0%), showing, among other things, a high birth rate.

Territory

The majority of the province has shared the Venetian model of development. Despite having conserved and still conserving important distinguishing features, resulting from the presence of the city of Venice, and from the municipalities that belong to the Regional capital of Venice, as well as including the coastal area dealing with tourism. This complexity and diversity of the province of Venice has contributed to a better grip of its production system in a phase of slackness in the dominant model of production.

Overall, the province of Venice produces 17.7% of the regional added value and the economic sector that creates the largest share of wealth (73.3%) is the service sector, followed by industry (25.3%) and finally the agriculture sector (1.4%).

A polycentric grid, construction, both residential and productive, characterizes the territory of the Veneto region. It does not concentrated in one urban area but is distributed in most towns of different sizes and importance in a balanced way. In 2009 the houses in the province of Venice were 474,507, 18.9% of all assets of Veneto and the largest share of the region. The rate of growth of housing follows that of families, not just quantity wise but also in size: as households, even new homes are getting smaller (from 84.2 square meters in 1995 to 70.4 in 2007) and in Venice 44% of sales is directed towards one bedroom houses of small dimensions.

Employment Trends

The employment trend in the province of Venice in 2009 registered a negative sign, as indicated the

employment rate rose from 66.9% in 2008 to 64.5% in 2009. The action at the redundancy fund (CIG) saw an increase of 249% compared to 2008. The companies that mostly apply to the CIG are those of the engineering, chemicals, footwear, textiles and non-metallic mineral processing industries, including sectors involved in trading and clothing.
The same trend was confirmed in 2010 but with positive signs of recovery.

International trade

Veneto is the second largest export region of Italy, holding a position of leadership in the international trade. Regarding the international trade, in 2009 the exports of the Province of Venice fell by 28.5%, while at the regional and national level, the decline was respectively 23.5% and 21.4%. The imports that account for 14.3% of Veneto's total imports, decreased by 21.5% compared to the regional decrease of 24.8% and the national decrease of 23%. This decline is due to the sharp drop in orders for raw materials that supply the local manufacturing industries. For both imports and exports a generalized contraction of the flows for all major market sectors is very clear. The textile sector, clothing and footwear sector, which characterize the province of Venice, had a fall in exports of 24.5%.
With regards to the geography of foreign trade, Europe is the main market of the province of Venice (70.7% of exports and 45.9% of imports), followed by America, Africa and Asia.
Among the means of transport that affect exports is the aircraft, holding the third position of the classification of the most sold goods abroad.
Also very important is the segment of the metals and metal products (- 29.3%). The same applies to machinery (- 28.8%) and food (- 22.4%). Against the trend however, are computer and electronic devices, optical products, which together with agriculture and fishing, respectively, both have an increase of 114% and 6.8%.
The trend seems to have been reversed in a positive way in the first months of 2010, exports showed a remarkable recovery.

Transportation

Transportation bears a decrease in the movement of the goods (-16.7%) in all sectors and an increase in the number of passengers (+ 9.8%). The Marco Polo Airport in Venice has seen, however, a decrease in passenger traffic of 2.6% compared to 2008.
This sector has confirmed an improvement in 2010 with an increase in traffic of heavy vehicles on the highway network and a growing movement of goods and passengers.

Tourism

The province of Venice has a natural attraction regarding the capital municipality that along side the historical heritage, the art and culture have always been elements of strong appeal for the entire area.

The situation of tourism in the province of Venice in 2009 remained stable (presences+0.2%; arrivals- 0.6%), achieving the best result, however, in comparison to the regional average. Analysis on tourism in the Province of Venice shows that Bibione and Caorle Cavallino-Treporti are the most dynamic provincial territories with an increase in both arrivals and presences. Jesolo-Eraclea and Venice, however, noted a decline in both arrivals and presences. Chioggia finally approaches an increase in arrivals but a decline in presence.
In 2010, there was a decline in tourist numbers compared to 2009 (- 0.5%) and an increase in arrivals (+3.2%). With regard to tourism only Venice has a positive result both in arrivals and presences.

3.2. Local and area businesses

The difficult international economic situation, starting from the sub-prime mortgage crisis to the current financial crisis, caused a contraction of the global economy in 2009 by almost one percentage (-0.8% GDP). The Italian economy, however, has shown progressive recovery, because in the first two quarters of 2010, GDP has had a positive trend.
Consistent with the global and national economy, even in Veneto and the Province of Venice in 2009, according to the survey VenetoCongiuntura Unioncamere Veneto, there has been a trend decline in several indicators that relate particularly to the production structure, commercial flows of import / export and the labor market.
In 2009, especially the business system in the province of Venice, suffered from the effects of the international crisis, effects that accompany the long-term trends regarding the structural category selection. The number of production sites that are in credit in the Venice Province amounted to 90,849 units, representing 16.5% of firms located in Veneto. The largest number of production sites in credit is in the Venice area - Cavallino. Compared to 2008 the decline in the province of Venice is 1%, although the dynamics are different in different areas. In fact, from a sectoral perspective, in the sectors of business services (+1.8%), personal services (+1.5%) and tourism (1.5%) all show a growth trend, a constancy is recorded for the trade and transport sector, while a decrease is recorded in agricultural enterprises (- 5.8%), construction (-2%) and some manufacturers (-2%). The greatest increases of companies in credit are those related to the business services, a factor that confirms the trend towards the relocation of labor force towards the territory. The companies that are most affected, are the minor ones, sole proprietorships and handicrafts, as well as sectors such as agriculture, manufacturing and construction that have been resized.

In 2010, the available data also confirm for the province of Venice, a recovery in production. Compared to 2009 the number of production sites in the province show a drop of 0.6%, highlighting how the business system has been affected more dramatically than the Veneto and Italian situations of economic downturn.
Companies that were in credit in the province of Venice in 2009 were: Agriculture (10.4%), Fishing (1.2%) Industry 26.0%) Manufacturing (11.9%), other industrial activities (0.1 %), Construction (14.1%), commerce

(27.5%), tourism (9.0%), transport (4.9%) Banking and insurance (2.3%) Business services (12, 8%), and other services (4.8%).

The real estate market

The construction market in the province of Venice is presented as the richest market in Veneto, succeeding in investments amounting to over 3,000 million Euros. Compared to other provinces, however, the market structure varies considerably, primarily because of the strong weight of the Regional capital compared to other areas of the hinterland, and secondly for the very important role of the great works in progress. The estate, in fact, accounted for approximately 50% of the total market, whereas the non-commercial sector and that of civil engineering works are divided, roughly into half of the remaining market share.
In the context of residential construction in 2006-2007 there was already a sharp slowing down in the number of housing and buildings, while in terms of volumes, the decrease was less significant, thus highlighting a structural modification of housing types required by the market. There has also been a partial repositioning of the housing market due to a sharp drop in new constructions, which has resulted in a slight increase in renovation and reconstructing.
Within non-residential construction there has been a substantial decline (-40%) in the number of buildings, accompanied by a less dramatic decrease of but still substantial volumes (-29%). Employment also registered a significant decline in employees, with 2,000 jobs lost from a total of about 30,000.

In 2008 the construction market in the province of Venice, which in 2007 still maintained good levels, showed the first substantial decline. Despite the positive effect of an even higher incidence of public works, the value of the construction downturn in the housing sector is placed below the Venetian average, suggesting a worse than average performance with regard to private residential sectors and industrial / commercial sectors.
In particular, there is a growing differential between the number of building permits and that of the buildings that have actually been constructed and a clear indication of a slowdown in construction operating at multiple levels, not only in absolute terms but also in terms of timing.

As for the residential market in 2008 its first big fall in the number of real estate sales was reported, and after substantial holding of sales in 2007 a decrease of 20% was recorded. Looking at the non-residential construction it appears smaller, but still higher than the regional average because of the decline in sales in the commercial sector, which fell by around 10%. The issues of trade are more complex in the manufacturing and service sectors, in the first case due to the mini-boom of 2007 (+19%), which found an exact parallel regarding the construction of important real estate transactions. An equally sudden drop in sales followed in 2008, which placed the number of transactions below the levels recorded in 2005. As can be seen from the observation of the real estate sales, demand in 2008 led to a higher decrease than the amount in the construction industry, beginning to show a phase shift of the productive market due to the excess of supply over demand.

As part of the residential construction slowdown in the number of housing and buildings, it has led to an alignment with the collapse of 20% of the demand for new housing. While the partial repositioning of the housing market has continued and due to a sharp drop in new constructions only made a modest adjustment regarding renovation and restructuring.

Regarding the decline in non-residential constructions, even though containing double figures, the value of investments, it seems it has not yet fully absorbed the decline, even more significant, the number of transactions, exacerbates the gap between supply and demand.

The effects of the economic crisis have changed dramatically in buying behavior and in the quantity traded. So in Veneto in the period between 2008-2009 has seen an overall reduction of building units traded of -29.1 percent. Clearly, a decrease of this magnitude and capacity has an adverse effect on the system of the real estate agencies and brokerage/mediation services, as well as the manufacturers directly involved in property investment, generating on the one hand, a significant surplus of supply over demand which is hard to quantify but destined to grow stronger over time given the current market conditions (economic crisis, fewer financial resources of families, poor access to loans, low confidence) and on the other hand, a difficulty in the production system, which due to the unsold finds itself a strong investments, however, it also suffers from lowered prices and therefore suffers from the value of capital assets. On the basis of the forecasts made by ANCE Veneto, in spite of regulatory action in favor of the construction sector, the value of investments in the construction sector is set to decline substantially in 2010. The most significant decreases are recorded in the residential sector, with a decline of 17% of new housing units built, in the construction and industrial / commercial sectors, with a decrease of 14.5% of the units built. However, the sector of residential renewals is expected to pick up with a modest increase following the slight fall encountered in 2009.

The main difficulties in the housing market

The economic environment - national and international - is characterized by clear economic difficulties, the housing market, which is always an element of driving force for the economy, is the key to boost economic development and planning.

The socio-economic framework in the province of Venice and the quantitative / qualitative research study of the real estate market have identified some problems that are also present in many of the constraints regarding the development of entrepreneurship.

<u>Networks of relationships between local participants of the territory</u>

The lack of a shared vision and coordinated thought on future strategy creates a lack of confidence in the network of relationships between the various participants in the fields i.e. companies, institutions. It is clear that the lack of planning and design and lack of political administration makes it possible to coordinate with unique visions and strategies more over – municipality territories.

Simplification

The most critical aspect is the functioning of institutions and the reform of public administration. It is necessary to develop the ability to respond faster, with a careful analysis of the system of judgments and skills, starting by simplifying work. In addition to the difficulties the businesses are facing, the many constraints and reference standards have become more difficult for entrepreneurs to handle. Nowadays starting a project requires a very long time and this has the inevitable consequence of an increase in construction costs. The excessive bureaucratic burden inevitably leads to a relapse on costs, and a decreased quality of jobs that companies are able to create. The significant time delay for starting construction, due to bureaucracy, discourages foreign investors, who are already were used to operate on other sectors, where the bureaucratic protocols are leaner and faster. Businesses call for transparency, the security of timing and costs of settlement and clarification of procedures.

Delayed payments of Public Administration

The delay in the P.A., which was supposed to pay the charges related to the implementation of public contracts, has become worrying. In fact, the data for the year 2009, indicates the time of payment that ranges from a minimum of 92 days to a maximum of 664 days. The average of the extent of the delays accumulated is about twice what is recorded in the rest of the European Union: on average 128 days against 65 days in comparison to the European level. Among the main causes of delay noted, are especially found in the Internal Stability Pact of local resources and the withdrawn payments from the local authorities. The delay is attributed also to the time of issuing the correct execution and money orders by contracting clients and, more generally, it also results from attachments inside the government. The issue is particularly relevant for small and medium enterprises, especially given the current economic situation of difficult access to bank credit, they suffer a severe lack of liquidity, which in addition to preventing the business plan is a major factor that limits the ability of business growth.

Infrastructure system

The province of Venice is characterized by high demand for mobility due to the large amount of people and goods. With the accession of Eastern European countries, the Veneto region has gone from having a position of providing the border for immigration to taking part in the strategic role of infrastructure. The region was hit by an increase in the volume of traffic transiting, at least with regard to infrastructures. The many planned infrastructure projects have resulted in a significant improvement of accessibility. To have a positive impact on the economic system, there are some crucial points remaining to be solved on the efficiency of road transport. One of the most important things in terms of traffic congestion regards the accessibility of the coastal areas during the summer when there is the greatest concentration of tourists.

The land market

The land market in recent years has been strongly on the upside. The significant increase in land values and the average duration of investments are having a major impact on economic returns, financial and qualitative housing offers.

Banking System

The trend of the credit for construction shows flexibility in loans granted to businesses for investments in construction. Given the difficulties of financing the capital market and of the tightening of conditions for disbursement of bank credit, it is possible that the economic and financial tensions could anticipate bankruptcies.

3.3. Key local actors and local economic development projects

The main participants in local development are the Veneto region, which takes the program as a method of intervention, which is in competition with the state and local authorities. For the new programming period 2007-2013 the European Commission has upgraded to structural target the former community initiative "Interreg", and defining in its strategic guidelines the purpose of the "European territorial cooperation". The latter intends to promote a stronger integration of the territory Union in all its dimensions. Due to past experience, and with the new planning an impulse is given to activate planning activities and programs of cooperation that have as their purpose the creation and development of small and medium enterprises. The key elements of these actions will have to be strong integration between public institutions and enterprises, and an equally strong interaction of different levels of government: at a regional, national and European level.

Among the planning priorities of the Region of Veneto is the great task of converting the center of Porto Marghera; a very complex task set to change the industrial view of Venice-Marghera in the prospective of strong tertiary logistics inclinations. In addition to structural funding, one must remember the many European programs for non-structural projects aimed at raising the quality and competitive level of local production. Among the major participants of local development we highlight the GAL Venezia Orientale and the GAL Antico Dogado that promote and develop innovative projects that are, integrated, supra-municipal, of cooperation, that facilitate the creation of adequate critical mass, that pick up specific opportunities or selection announcements, aimed at the local development.

The Quater Project is a project promoted by GAL Venezia Orientale, ANCE Venice and CRESME, aimed at promoting the competitiveness of construction companies of the area in question, by identifying opportunities and providing methods of construction regarding public partnerships- private partnerships within the territory of Eastern Venice. It makes use of the contribution of Measure 2.3 "Research and technology transfer" of the Docup Objective 2 - Veneto Region.

Important and effective projects were carried out by Unioncamere Veneto (Regional Union of Chambers of Commerce of Veneto), a structure that combines all the Chambers of Commerce, Industry, Handicraft and Agriculture of the region, Eurosportello of Veneto, which is part of the Enterprise Europe Network, chosen by the Directorate General for Enterprise of the European Commission to provide an integrated service support to small and medium enterprises.

Among the institutions at the local level, the Conference of Mayors represents the benchmark for achieving the development goals set by the Veneto Regional Law No 16/93. The tasks of the Standing Conference of Mayors from the different municipalities are: to promote and to guide the initiatives localized In the area, the formulation of advice required in relation to the interventions of regional expertise regarding infrastructure and promotion of socio-economic area. The proposal to the competent authorities in regards to the planning and implementation of action plans to promote economic and social infrastructure; proposals concerning the establishment of decentralized offices of the State, of the Region, and of the Province of Venice, and other public bodies also including economical ones.

3.4. Resources for economic development

The enhancement of the territory, its ability to attract investors and consumers is linked to the skills of professionals, including public and private administrators, who in their design and realization of infrastructures, housing, manufacturing plants contribute over time to promote such investments and to generate confidence and satisfaction in the exploiters. For companies operating in construction there is a need to classify the operators by introducing specific legislative requirements for access of technical-professional nature and of organization, such as to ensure the quality of products and services. The construction quality assurance in terms of impact on the environment and saving on the consumption of non-renewable energy and on the safety of buildings can act as a growth factor in the housing market.

The enhancement of the existing and of the recovery of the housing assets, based on the aim of reducing the consumption of non-urbanized land represent a strategic lever to trigger the virtuous cycle of local development. In order for the redevelopment to be activated incentives are needed that are convenient to citizens, including tax wise, to support the higher cost of redevelopment of existing buildings. Regarding public housing, defined as social housing, the offer of the property for social housing should be significantly increased following a rise in demand. To encourage the involvement of private investors, it would be appropriate to use incentive mechanisms such as the transfer of land intended for public housing and volumetric incentive mechanisms. The social housing representes a perspective investment to enable municipalities to acquire part of the unsold housing stock, the effect generated by the current economic crisis, to remarket some of them in the rental market, mainly in the form of social housing accommodation.

The strategic objective to encourage the development, is the simplification of the procedures together with the reduction in the number of rules and their stability. It should bring forward a real and effective interaction between the different administrations involved in administrative, business and trade associations, through the construction of shared visions and the resulting effective strategies for achieving the objectives of competitiveness.

To prevent the crisis from seriously affecting the production system, support to businesses will be required which can bring forth via an easy procedure access to credit for investment in construction and the purchase of homes by families. Also tax incentives for businesses and professionals operating in the real estate market can accelerate virtuous processes of the crisis.

3.5. Support for the LPA project, community leaders and investors

The analysis confirms a marked aggravation in the economic and financial environment. The role and contribution of regional policy is particularly relevant to counter the structural weakness of the Italian economy to the main industrialized countries and also in a counter-cyclical use the opportunities offered by the programs. The project will aim to draw a “map of opportunities” for the local production system. This objective corresponds to an immediate need in the part of businesses in the local construction industry, and can provide a detailed directory of investment opportunities in order to steer business decisions, on the individual and collective basis. The basis of evidence provided by the “map of opportunities” is to stimulate reflection on the organic capacity of local firms, weaknesses and gaps in the chain of production and functional buildings, but also the opportunities that public spending can lead to complete and innovate the local production system in addition to promoting a broader dialogue between institutions and social and economic participants in the process of urban development and testing of appropriate mode of governance.

4. Conclusions and recommendations

The analysis has identified an initial opportunity for the growth of local production system and, in particular, the construction sector by providing, important knowledge to inform and debate about the development process to support the urban and local participants in decisions-making. It would be desirable to create a scheme of permanent confrontation, whose main targets are the institutions, manufacturers and companies, which make the system of tourism. Within an economic environment - national and international - characterized by high economic difficulties, it is necessary for enterprises to achieve better performance than the average industry or even just for their own survival, and that they are able to consolidate their competitive position, even engaging in appropriate structural changes.