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# Public Assets Sale Operations: an Italian Inefficiency History

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ABSTRACT

In Italy since 1999 disposals of public assets have been made by using securitization or real estate funds. Not always the results of these public asset sale operations, have resulted as efficient as those that were obtained in the private sector. This article provides a description of successfully completed operations discerned according to the nature of the underlying assets and disposal techniques used. Particular attention will be given to the technique of real estate funds and to a comparison with similar market-based instruments to detect if the "public hand" has acted in an efficient market way achieving results in line with competitors in the market in term of Rap (Risk Adjusted Performance) measure. From late 2001 through the operations SCIP1 and SCIP2 more than 90,000 housing units were sold by social security institutions and Government State. Between 1999 and 2005 the INPS has made six securitizations, yielding a total of € 76.45 billion of loans outstanding due to national insurance contributions. In 2003 an operation was carried out concerning the transfer of personal loans supplied by INPDAP to its members with the issuance of AAA-rated securities for a total of 4.23 billion of Euros. In 2004 and 2005 two real estate funds promoted by the MEF have been instituted, which were transferred to two real estate portfolios composed of a total 428 properties for government use and instrumental properties of the social security institutions (INPS, INAIL INPDAP ). In Italy the market growth of real estate funds continues, the first fund started February 15, 1999. At December 31, 2009 are being operating 154 real estate funds (131 of which are reserved), managed by 26 asset management companies. The funds' assets under management raised at 22,054,7 million of Euros, booming compared to a year earlier. However since their launch, in 1999, real estate funds have performed an annual average of 5.84%, considering the values reported in financial reports. On the whole this result is under the performance targets stated in the statute of the various funds, but very respectable when compared with the average annual rate offered by European government bonds (5.42%) or international equity markets (-2.77%) in the last decade. This positive trend however is not followed by FIP, the first real estate investment fund, sponsored by the Italian State, which is part of a broader process of privatization made by the MEF (Ministry of Economy and Finance) through sale, securitization and transfer of property in real estate investment trusts.

Keywords: Public Asset Operations, Securitization, Real Estate Funds, Risk Adjusted Performance.
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## 1. Italian Public Assets Sale Operations

In Italy since 1999 disposals of public assets have been made by using securitization or real estate funds. In Italy securitization has led to significant divestments by both banks (mainly doubtfoul loans) and government institutions. More under many securitisation operations or attempted to be ask, have given rise to criminal investigations[1]. For public authorities the Court of Auditors certify the solvency of credit and authorize the securitization. Intermediaries who care placement of securities may accept guarantees from other entities.

**2. Securization**

Securitization is the sale of assets or property of a company called originator, through the issuance and placement of bonds. The credit is given to other parties, and reimbursement should ensure the repayment of capital and bond coupon interests. Italy fundamental law in this context, Law 130/1999 is amended by adding Article 7 bis and ter by Law No. 80 of May 14, 2005. These operations are realized through the sale of monetary credits, both existing and future, identified collectively in the case of a plurality of credits, where the following requirements:

- the cessionary is a company provided by Art.3;
- the sums paid by the debtor or debtors transferred, are used exclusively, by the cessionary company to the satisfaction of the rights incorporated in securities issued by the same or another company to finance the purchase of such loans, and the payment of full operation costs[2].

Within the law 130/1999 are identified:

- the individual seller (originator);
- the cessionary company and the company issuing securities for securitization of monetary credits (SCC), where the issue is not effected directly by the cessionary itself;
- the third party dealing with the issue and asset placing (arranger);
- stakeholders responsible for collection of monetary credits (servicer) and the management of late payments or insolvent credits;
- other companies that provide additional services, those of the current account, where the transaction flow passes on, those providing cash management services and those dealing with administrative management. Finally, if the issue requires, firm offering service for hedging the risks arising from any mismatch between the underlying asset flows and those for debt service.

Furthermore it should be noted that usually to achieve a securitization transaction contribute as well:

- rating agencies that assign on the request of originator, their assessment on securities issued by the SCC in order to facilitate placement within the portfolios of investors;
- Law consultants preparing the full-bodied information support necessary for the transfer of credits, the asset issuance and management of the operation;
- audits who traditionally perform a due diligence on the original portfolio to be securized and on procedures of risk management of the originator and servicer.

Assets subject of a securization mostly consist of credits, but may be real estate, derivatives or other financial instruments. Assets are sold to company-vehicle (SPV, the cessionary company authorized to issue the bonds incorporating the credits sold) which pay the arranger

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[1] See cases Federconsorzi for what concerned the credits against the State for management supplies or, more recently, credits for Health against Abruzzo region.

[2] Are therefore not covered in the sample those transactions using credit derivatives.

the amount due by the issue and the placement of bonds. The bonds are divided into classes depending on the rating (AAA, AA, BBB, BB, etc..). Investors, securities underwriting, accepted a clause limited recurse, which links the payment coupon to the credit refund from which bonds depend.
The largest market in the world is the U.S. occupying a share to about 80% of the total. 15% of the market is then divided between the United Kingdom, Italy and Japan. Italy in particular, in relation to the total emissions do not originate in the United States in 2003 reached a share of 20%. The largest number of emissions is related to the securitization of residential and commercial mortgages. Secondly there are consumer loans and those linked to leasing contracts. Another characteristic of the Italian Market is the role of emissions arising from the central government. The Italian state has in fact made extensive use of this instrument, especially for the privatization of its real estate portfolio and to fund the Department of Health and Social Security.

## 3. Real Estate Fund

This is a financial instrument that allows the investor to participate in the economic results of private enterprises taken part in the housing sector, not using the typical pattern of participation in a company, but the scheme of the assets managed by a professional intermediary. Real estate funds invest not less than two-thirds in real estate assets, real estate rights and shareholdings in estate companies. The gain of a real estate fund is derived from the revaluation of properties contained in the fund and the rent that the fund receives. Real estate funds are closed-end funds, that is the total amount of the subscribed capital and the number of shares are determined at the time of the constitution and the right to reimbursement is recognized only at maturity. Real estate funds are born with an initial endowment of assets, variable for effect of normal changes in value related to the appreciation / depreciation of real assets. This asset property is divided into a predetermined number of shares. The first phase of the birth of a real estate fund start with the subscription of all shares. Purpose of the fund is in fact to collect a certain amount of money from its subscribers (investors) which will be used for portfolio management. There is then a second phase, in which, once the money has been collected, the fund selects the real properties to be detected. The properties are selected according to the guidelines of the fund management: some funds prefer to invest in residential real estate offices, other commercial properties (shopping centres and galleries in particular), some areas by building or complex to be restored.

Shares may be subscribed within the limits of the availability of the fund only during the offer period and repayment is usually only at maturity, it remains possible to buy or sell on a regulated market where there are negotiated. With two decrees requiring the approval of Parliament, No. 351, 2001 and No 47, 2003, have been introduced the possibility of further issues of shares and of prepayments to increase the liquidity of the fund. The listing on a regulated market is intended to facilitate the sale of shares by the underwriter wishing to disinvest. In this way, participants may then regain the capital invested, plus any capital gain or suffer from market discount or the difference that exists in a given time between the market price and the value of the share capital. The public offer of shares is accompanied by the Financial Prospectus memorandum previously passed and deposited at CONSOB[3].

[3] Commissione Nazionale per le Società e la Borsa. Organization whose activities are devoted to investor protection, efficiency, transparency and development of the Italian stock market

The holding period of funds like that must be consistent with the nature of the investments. Currently the law states that the minimum maturity of the fund is 10 years, maximum 30. When maturity is gained , asset are distributed as provided in the prospectus. This class of funds is actually available to the public only about ten years, following the regulatory changes that have allowed. by DL 351, 2001, through Law 410/01, and subsequently the implementing decree of 47 January 2003. The legal evolution has led to important changes, including:

- the minimum lot size was reduced from 100 million to 3;
- it has been made compulsory of stock quote within 24 months from the closing of the placement;
- the fund assets can be raised through more issues of shares, following the first, of the same denomination;
- where the Fund Regulation provides for new issues after the first, the prepayments occur with equal frequency and in connection with new issues;
- the same date as new issues are expected to periodically determine the value of fund shares.

Real estate funds are classified according to the subjects to whom they are addressed (retail or qualified investors), formality of acquiring the property (contribution, not contribution) and dividend distribution policy (distribution or storage). At maturity the fund is liquidated and the value of the shares acquired will be paid to the subscriber. Then it is usually also provided an objective of return that is then distributed through dividends payment. In case that shares are not quoted, a real estate fund shares do not provide a daily valuation, as is the case for open funds, which they see every day their value published in the newspapers. In particular, every six months or in harmony with the new issues the fund assets is evaluated by independent experts and certified by them. Starting from this assessment it determines the Net Asset Value Fund (NAV = value of real assets + other assets value- liabilities), or total net value of the fund. As regards the tax system, it is applied a tax scheme provides a tax asset (1%) directly on the fund, in addition for a private subscriber, fund revenues not constitute a component of taxable income, but on gains from participation in real estate investment trusts, the SGR[4] applies taxation at source of 12.50% on the amount of income distributed as well as the difference between the redemption value (or liquidation) of shares and the subscription cost (or purchase). Instead, with regard to inheritance taxes, the shares of the Fund are subject to inheritance tax because the shares are considered as a part of the heritable estate, except for the part that corresponds to government bonds or financial instruments included in fund assets.

The real estate fund serving the municipal property tax[5], when they are located abroad they are subject to applicable taxes where the state is situated. A closed real estate fund can take a debt equal to 60% of the market value of properties.
Regarding the organization of fund management board responsible for is the Board of Directors of the SGR. Are not permitted general forms of delegation that actually deprive members of the Board to relevant functions such as investment choices. With reference to Fund statute[6] we can say that it consists of three parts:

[4] SGR (Società di Gestione del Risparmio) Private company managing fund.
[5] In Italy this taxi s called ICI.

[6] Provision of law:

A) Identification tab. Contains the essential elements of Fund identification and provides to the subscriber base main references in order to the Fund to the company that manages it and the depositary bank[7].
.B) Product characteristics. The Fund Statute describes the fundamental characteristics of the fund, with particular reference to the purpose and object to the investment policy and the system of income and expenditure.
C) Conditions of operation. This part contains the rules of the fund. Participation in the fund is made by subscripting of shares.

The main advantage associated with these types of investment for the retail customer is to get hold of a new investment instrument than traditional (mutual funds, bonds, bills, shares) of medium and long term, tied to a type of investment (buildings) that are not covered by other instruments or not linked to other indices or markets. It also allows a small investor to direct investment in real estate with a small amount of money. It also allows to be able to finance by pledging the shares of the fund corresponding to the funding requested (this form of guarantee can replace the mortgage on the property at a cost considerably less). In addition, the investment in a fund represents an investment more practicable compared to a real estate property (e.g. Flat), thanks to the listing of fund units in a secondary market. Some of these advantages are practicable for the institutional investor, for this kind of investor it also exists the possibility of establishing an ad hoc property fund (restricted fund) by making an agree before the start of the fund on a set of variables among which: investment objectives, asset allocation policy, rules, revenues, and maturity. The disadvantage is instead linked to the fact that the real estate fund is an instrument of medium and long term, should therefore, in theory at least, acquired in the issue and kept up to date. Although many real estate funds are then listed in stock, so an investor can negotiate them even before they expire, this financial instruments are much less liquid than equities and may be more difficult to quickly find a counterparty.

## 4. Successfully completed operations

The operations were organized into separate programs depending on the nature of the underlying assets transfer and disposal techniques:

- <u>SCIP</u>. Assignment of properties owned by social security institutions and by the State (Art. 3 Decree No. 351/2001 and amended by Law No 410 of 2001);

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- 14.04.2005 Bank of Italy mesure
- D.L. n. 58 on the 24.02.1998.
- Law n. 410 on the 23.11.2001.
- Department of Treasure Decree n. 288 on the 24.05.1999.
- Consob measure n. 16190 on the 29.10.2007
- Consob Bylaw n. 11971 on the 14.05.1999 e successive modifiche e integrazioni
- Consob Bylaw n. 14015 on the 01.04.2003
- Borsa Italiana S.p.A Regulation Policy.
- Borsa Italiana S.p.A Instructions Regulation Policy.

[7] The role of the Custodian is to preserve both the financial assets that the cash fund. Another key task is to ascertain the legality of the issue and redemption of fund shares, the calculation of their value and purpose of the trust's income. In addition, the depositary bank executes SGR statements if they are not contrary to law or fund regulation or to the requirements of supervisors.

- SCIC assignment of monetary credits supplied to employees of public sector, private enterprises, institutions (Article 15 of Law No 448 of 1998);
- SCCI Assignment credits due to national insurance contributions (Art. 13 Law n. 448/ 1998);
- Real estate Closed-end Fund (art. 4 DL n.351/2001 amended by Law. n. 410/2001) contribution and transfer of real estate property owned by the social security institutions and State.

SCIP

From late 2001 through the operations SCIP1 and SCIP2 more than 90,000 housing units, including about 85% for residential use and approximately 15% commercial, were sold by social security institutions and Government State. Operation SCIP 1 ended a in 2003, following the repayment to the expected maturity of debt, equal to 2,3 billion Euros.

The deal SCIP 2 was developed in two tranches: the first since 2002, with issuance of securities for a nominal amount to 6.7 billion Euros, all repaid in April 2005. In that year the operation has undergone a restructuring as a result of regulatory changes that have occurred in relation to pricing of goods sold, for which the right of option was exercised before 2001. The restructuring program was to be both in the development of new business plan, and in a new issue of more securities for a nominal value equal to 4.37 billion Euros.

The deal SCIP 2 ended April 27, 2009, following come into force of Article. 43 bis of Legislative Decree 207/2008, converted with amendments into Law No. 14/2009, which has ordered the closure and liquidation of the Company's securitization.

SCCI - INPS

Between 1999 and 2005 the INPS has made six securitizations, yielding a total of € 76.45 billion Euros of loans outstanding due to national insurance contributions. SCCI has acquired those loans by issuing securities rated triple A for a total of € 20.91 billion euros. Securities issued in transactions denominated INPS 1, 2, 3, 4, 5 have been repaid in full to their expected maturities, of which the last in July 2009.

SCIC - INPDAP - PERSONAL LOANS

In 2003 an operation was carried out concerning the transfer of personal loans supplied by INPDAP to its members with the issuance of AAA-rated securities for a total of 4.23 billion of Euros. The transaction was completed on December 21 following the repayment of total debt to the expected maturity

Real Estate Close-end Funds (FIP and PATRIMONIO UNO)

In 2004 and 2005 two real estate funds promoted by the MEF (Ministry of Economy and Finance) have been instituted, which were transferred to two real estate closed-end funds composed of a total 428 properties for government use (Tax agencies, offices of the Ministry of Economy and Finance, headquarters of the Ministry of Infrastructures and Transport, the

Ministry of Labor offices, barracks of the Guardia di Finanza[8] and the Police, etc) and instrumental properties of the social security institutions (INPS, INAIL INPDAP[9]).

Simultaneously with the transfer of property, the State Property Office has signed with Funds two lease agreements relating to abandoned property, which have been reassigned to the original users. Both funds are reserved exclusively to qualified investors.

FIP[10] is the first investment fund sponsored by the Italian Republic is part of a broader process of privatization made by the MEF through sale, securitization and transfer of property to real estate investment trusts. Under Italian legislation, investment funds are the assets represented by the shares held by underwriters on a collective basis and managed by licensed asset management company. Real estate funds, having no legal personality, are not subject to Italian law on bankruptcy.
The holding period of the fund was established in 15 years. The Bank of Italy, at the request of the fund manager may grant an extension of 3 years of the Fund holding period in order to complete the process of reintegration.
The duration of the fund was established in 15 years. The Bank of Italy, at the request of the fund manager may grant an extension of 3 years duration of the Fund in order to complete the process of real assets sales.

FIP has issued two classes of shares:
13,292 Class A shares (par value € 100,000.00) and 1 (one) share of Class B (par value € 1).
The assets of the fund consists of 394 non residential properties in destination for a transfer value / total contribution of approximately € 3.3 billion ("asset by asset" market value on the date of transfer / contribution of approximately € 3, 7 billion).
On December 30, 2004, the underwriters have signed 100% of their Class A shares sold by the MEF that have provided placement with institutional investors during 2005.
The share of class B will be assigned to a non-profit chosen by the two Presidents of the Italian Parliament.

On December 28, 2004 ("Transfer Date"), the FIP has become the owner of the portfolio, which includes 394 non-residential buildings primarily occupied by the MEF, social security institutions and other government agencies. The properties were transferred through act of transferring and sale by order of MEF.

[8] Fiscal and Customs Police.
[9] Italian .social security institutions
[10] Investire immobiliare SGR was selected as fund manager. Investire immobiliare SGR S.p.A. is the Finnat Euramerica Bank Group company's asset management, a leading financial firm in the field of private banking. The company's activities is the promotion, implementation and management of real closed-end estate funds addressed to qualified investors and retail.
The Custodian is State Street Bank S.p.A.
All activities on building management, including the management and execution of extraordinary maintenance and control of maintenance carried out by the Agency of State Property, have been outsourced to the following companies: Generali Gestione Immobiliare S.p.A and Pirelli & C. Real Estate Property Management S.p.A.
In particular, the property management services is outsourced for the entire real assets portfolio to the General Property Management SpA.
In October 2004, the Board of Directors of Investire Immobiliare has approved the statute that rules the Fund, then approved by the Bank of Italy December 16, 2004. The Bank of Italy also has the task of monitoring the activities of the FIP. The fund manager has selected REAG - Real Estate Advisory Group, American Appraisal Group, as independent expert to carry out the initial assessment and subsequent periodic evaluations of the portfolio every six months.

FIP has entered into a lease (9-year contract automatically renewable for a further 9, subject to the termination of the conductor with a notice of at least 12 months before it expires) with the State Property Office, which in turn has made available every property set into Fund, to individual government users.
FIP for the establishment of the fund, has used an initial loan of 2 billion euros, which is expected to securitize to reduce the financial burden of the Fund.
The basic strategy of FIP is the maximization of value and long-term income produced by the Compendium through effective management of buildings in relation to the Lease Agreement in order to proceed with the whole property disposal within the maturity of the Fund. The lease is a source of stable income for FIP, and is of vital importance for the debt and dividends to subscribers. The business plan provides for the FIP gradual liquidation, in a tme periods of 15 years, of the entire portfolio, excluding the possibility of reinvestment of profits from sales.

The Portfolio was initially divided into four homogeneous groups according to characteristics of assets "and consequently" management and disposal strategy:

- Group 1 - "Long-term" (approximately 19% of the value of portfolio), includes real properties with long-term strategy. The optimal sale strategy included in the FIP Business Plan was divesting around the deadline for the first nine-year renewal of the lease.
- Group 2A - "High liquidity" (about 47% of the value of portfolio), including cash and property of great value for size, location and quality. Located in central areas of major Italian cities, these properties are of interest to local and institutional buyers. May be sold throughout the duration of the fund, taking advantage of more favourable market trends.
- Group 2B - "Medium liquidity" (approximately 31% of the whole transfer value / contribution) includes properties that are beneficial for location, size and quality, but with a lower degree of liquidity than in group 2A. The lease is valued higher than in group 2A. It provides a greater concentration of sales at the beginning of the two rental periods of nine years to provide investors a safe and sustainable rental income.
- Group 3 - "added value" (about 3% of portfolio) includes a limited number of real assets that have a clear potential for development due to several factors such as different end-uses, urban area and location. The value is determined by the flow of rents and by the potential revaluation at the end of the lease. In this case management and disposal strategy is related to the market trend.

According to Article 4 paragraph 2 of Law 410/2001, the State Property Office has waived the right to terminate the lease at any time for compelling reasons.
In case FIP intend to start procedures for the sale of property, it must notify the State Property Agency which, within 30 days after the notice of sale must communicate to the FIP if and when it intends to exercise its right of rescission about such property. Failure to exercise the right to withdraw at this stage, this right is definitely failed.
The Lessee correspond an annual fee, initially amounting to over 270 million, by six-monthly instalments (for subsequent purchasers of property the payment is by six-monthly instalments). The rent is increased annually by 75% because the percentage change in consumer price index (CPI) established by ISTAT[11] in accordance with Italian legislation.

[11] Italy's National Statistics Institute.

The State Property Agency has the right to use a specific annual fund established by the Budget Act, to make payments under the lease.

The ordinary and extraordinary maintenance must be charged to Lessee (and/or by Public Administration Agencies users) with the exception of: unique structural maintenance, routine maintenance due to equipment replacement, and expenditures for bringing real assets up to code for safety measures.
The State Property Agency has given an undertaking to release properties (end of maturity or in case of "early termination") fully comply with the regulations in force at the date of transfer and in good maintenance condition.

Additional fees related to the portfolio such as consortiums charges, condominium charges, utilities, etc. must be borne by the Lead Agency of State Property and/or Public Administration end users. FIP is naturally charged of all costs relating to: insurance charges, fee management services (for the Fund Manager ) and building management in addition to fees.
Specific exemptions are provided for the payment of ICI on real property (or portions thereof) included in the compendium, and in particular: till the buildings are owned by FIP and occupied by Public Administration (PA) end users in accordance with the Lease Agreement and if, prior to the transfer / contribution, PA owners were previously exempted from payment of ICI, FIP is also exempt from ICI.

The State Property Agency has a right of pre-emption with respect to:

- rental property at the expiry of the lease under the same conditions and with the possible adjustment of rent at market value;
- acquisition of real assets at the price announced by the fund manager before being put for sale on the market.

Both rights are structured in a way that facilitates FIP in the marketing of properties for sale and lease.

Patrimonio Uno is a real estate closed-end fund for allocated to qualified investors, set up by BNP Paribas REIM SGR SpA, whose creation was sponsored by Patrimonio dello Stato S.p.A and subsequently by the Economy and Finance Department, under existing legislation by Decree of 20 October 2004.
The Fund has two classes of shares: Class A and Class B, which give different rights to the holders, in accordance with the terms and conditions established by the Fund Statute. Given the contribution of buildings, Economy and Finance Department (MEF) has signed, including on behalf of public owners of property, shares of Class A and Class B. Class A shares were subsequently sold by the MEF to BNL[12], Banca Intesa and Morgan Stanley, and then sold, following a competitive process, to "Qualified Investors".
The share of Class B was assigned by decree by the MEF to 'ANFFAS NPO (National Association of Families of intellectual disability and Relational).
The Fund Maturity is set at 12 years and, therefore, the same will expire on December 31, 2017, unless prior clearance or extended period of time, according to the Statute Rules on request by the Bank of Italy, for a period not exceeding three years or to a different time

[12] Banca Nazionale del Lavoro: a lead Italian national Bank part of BNP-Paribas Financial Group.

period provided by law for the current time for the completion of disinvestment policy.

The total net value of the Fund is determined on the basis of the criteria for evaluating the activities of real estate funds established by the Bank of Italy.
The unit value of Class A shares is communicated to owners by publishing a notice in at least one national daily newspaper within 15 working days from the deadline for evaluation and on the website of SGR and - if established - on the website of the Fund.
The unit value of the share of Class B is notified by letter sent by recorded delivery with acknowledgement of receipt from the SGR to the holder of Class B share within 15 working days from the deadline for evaluation.

**5. Public Real-estate Closed-end Fund and the action of public fund manager**

In Italy, real estate funds have a very recent history. The first real estate funds have been placed for the first time by Deutsche Bank and other institutions. In Italy, the first real estate fund started February 15, 1999. At December 31, 2009 are being operating 154 (131 of which are reserved), managed by 26 asset management companies. The funds raised amount to 22.054,7 million of euros, booming compared to a year earlier. The assets of retail funds (targeting all investors) amounted to 5.7471 million euros
As regard to geographic localization the buildings that make up the portfolios of the funds are concentrated in the northwest (43.8%) and central (30.4%), in the northeast is located 14.7% of the buildings, the 8.9% is invested in the south and islands, while the remaining 2.2% abroad.

For these properties, the intended use is:

- 51.7% offices;
- 19.1% commercial;
- 7.4% residential;
- 5.1% tourism/recreation;
- 4.3% Industrial;
- 2.6% Logistics;
- 0.8% nursing homes and hospitals;
- 9.0% other.

In order to increase profitability, some of the properties purchased by the funds is affected by recovery plans.

The composition of assets is as follows:

- Property rights and real estate: 86.3% (-0.9% compared to December 2008);
- controlling shareholder in real estate companies: 2.1% (-0.3% compared to December 2008);
- securities and cash: 8.3% (+1.4% over December 2008);
- other: 3.3% (-0.2% compared to December 2008).

The data analysis of the real estate sector suggests that this market can offer from 2 to 4 percentage points more than inflation. This sector has also a big advantage: it is quite

unrelated to financial markets. The cycles of the real estate market are much, much longer than the cycles of financial markets.
Usually a target return is provided by funds statute (on average 5%), which to date, some funds have also passed, and distributed, taking advantage of opportunities in the regulation of rewarding participants with dividend payment.
Since their launch, back in 1999, real estate funds have performed an annual average of 5.84%, whereas the values reported in balance sheets. A result that is on the whole below the performance targets stated in the statute of the various funds, but very respectable when compared with the rate per annum offered by European government bonds (5.42%) and international equity markets (-2.77%) in last decade.

2005-2008 Return

The reference unit for calculating the fund average return is the NAV of the fund. Net Asset Value (NAV) is the market value of all assets, including cash and indirect property interests, net of all liabilities and deliberated dividend . The NAV used for each fund is required to be calculated on a consistent basis, and it is audited by IPD[13] .
Particularly Net Asset Value total return per unit is the current month-end net asset value per unit, plus distribution (gross of tax, net of expenses), divided by the previous month-end net asset value per unit, expressed as a percentage:

$$\left(\frac{\left(NAVunit_t - NAVunit_{t-1} + Distribution_t - NetCapitalInvesterd_t\right)}{NAVunit_{t-1}}\right)\times 100 \qquad (1)$$

Where:

NAVunit is the net asset value per unit. Quarterly and longer time period returns are calculated by compounding monthly returns together.

The NAV is adjusted for performance measurement purposes and approved dividends and redemptions are detracted from the accounting NAV.
The average return of the pooled real estate funds was 6.4% in period 2005-2008. Analyzing the different sectors we find that the best performance was that of Specialist funds equal to 8.1% while the smaller was the result of Balanced funds that are gained almost 5%. The average return on all pooled real estate funds, amounting to more than 6%, is still higher than it would be perceived by an investment in shares or in bonds.
For more details see table 1 exposed below.

[13] Investment Property Databank.

Tab.1Real Estate Fund Sector Return 2005-2008

| Indice fondi immobiliari italiani e altri assets - total return | Pooled property fund indices & other assets - total returns % | | | |
|---|---|---|---|---|
| NAV total return | 6 mesi 6 mth | 12 mesi 12 mth | 3 anni* 3 yrs | 5 anni* 5yrs |
| Indice fondi ordinari / Blind pool funds | -2.7 | -1.6 | 5.2 | 5.5 |
| Indice fondi ad apporto / Seeded funds | -1.1 | 2.3 | 7.6 | - |
| Indice fondi diversificati / Balanced funds index | -2.2 | 0.2 | 4.8 | 5.9 |
| Indice fondi specializzati / Specialist funds index | -1.5 | 0.8 | 8.1 | - |
| **Indice fondi immobiliari italiani / All Pooled funds index** | -1.8 | 0.6 | 6.4 | 7.8 |
| **Total return** | | | | |
| Azioni / Equities 1 | -32.8 | -46.1 | -14.1 | -1.8 |
| Azioni settore immobiliare / Property Equities 2 | -29.3 | -52.4 | -27.9 | -5.5 |
| Obbligazioni / Bonds 3 | 9.1 | 7.4 | 2.9 | 4.8 |

Source. Assogeastioni Factbook 2009

2009 Return

Last year, purchases and transfers of property, amounting to 4.6 billion euros, fell by about 1.9 billion compared to those recorded in the previous year. Instead, on the front of divestitures there is an increase of about 200 million, from 1.9 billion euros in 2008 to just under 2.1 billion euros in 2009.

On the contrary the total investment in real estate (i.e. the direct and that achieved by controlling stakes in property companies) reaches 34412 million euros, up 8.7% compared to June 2009 and 11.1% and 62 1% at one and three years respectively.

In Italy in 2009 was a year “with two faces”. To scroll through the results reported in the balance sheets, real estate funds have keep stored 2009 with a weighted average return of -2.1% with a second half overall less negative (-0.9%) compared to the first (-1, 2%). For the fund share quoted in Stock Exchange, however, there was a good recovery, with most of the funds show double-digit returns, which reduced on average by 40% to 33% of the persistent gap between stock prices and values of the balance sheet (the so-called discount ), which characterizes the secondary market (Stock Exchange) for closed real estate funds[14].

[14] The issue of shares listed at a discount price on the market, compared to their book value, with reference to closed-end funds (known as closed-end fund puzzle) is known and widely discussed in literature internationally. The review of international literature on this matter has highlighted two alternative approaches in an attempt to explain the phenomenon in question: a Rational Approach and a Motivational Nature. The Rational Approach assumes that the discount to NAV is dependent on specific technical characteristics of the funds, such as the amount of management fees (Youngsoo, Bong Soo, 2007, and Berk, Stanton, 2007).

The approach of Motivational Nature suggests instead that the discount to NAV depends, fundamentally, by the motivation underlying the investment decisions of small investors who have historically represented the main share holders of closed-end funds. This characteristic of closed-end funds is the basic assumption of many scientific contributions that, in general, want to prove that the evolution of the discount / premium to NAV is function of small investors sentiment on market trends stock. In other words, expectations of positive developments in the stock market would seem to encourage small investors to buy shares of closed-end funds (also agreed to buy at a premium), while expectations of negative trend of the stock market would seem to encourage small investors to buy shares of closed-end funds only faced with a considerable discount to the underlying value (NAV). The motivational approach is questioned by some authors (Doukas, Milonas, 2004), through empirical studies assert the absence of a relationship between the performance and consistency of the discount / premium on NAV and the sentiment of small investors.

High levels of discount make attractive investment for those seeking investment opportunities in the medium and long term, with attractive risk /return ratio. These differentials, however, must induce the investor to approach the market with caution, because those who mistake the temporal evaluation of the investment, in terms of disinvestment before the natural expiration of the fund, may have a bitter disappointment[15].
2009 is a year, then that may be closed by the real estate fund managers with at least acceptable results given the serious crisis that continues to involve the sector, but with the necessary distinctions not only in terms of products but also sectors. Suffering the most was the logistics sector, while the offices have largely held, especially in large metropolitan cities. Also shopping complex have held out, although there are critical situations in some province area.
An analysis of the financial statements of the end of 2009 shows a strong focus on portfolio quality: if a property has reliable tenants who pay a reasonable rent, the devaluation has been contained. The fees collected may however be swallowed up by management fees and charges paid to banks for loans. These are all variables that need to be careful when you decide to buy a property fund.

An investor must have an eye for the 'real' residual life of the fund. Between lines of regulation, the fund manager sometimes has the right to extend the life of the fund beyond the natural expiration mentioned in the Fund Statute[16]. Furthermore, in anticipation of facing a critical situation of the market near the end of the fund, all fund manager may ask the Bank of Italy to grant a grace period not exceeding three years, to complete a divestiture plan already started . A delay that in the latter case, however, it doesn't set off automatically, as reiterated in the annual BankItalia Report 2008 by Governor Mario Draghi, after the rejection of the request by Fund "Crescita" managed by BNP Baripas Reim

Public Real Estate Closed-end Fund Return

For institutional investors who have been paid subscription to the FIP, the public real estate fund, is proving a pretty good business. At the end of 2007 the value of fund units in which the state has given its "jewels" real properties has reached almost 2 billion euros (1.974 billion, 148,547 euros per share). The nominal value of the fund at the time of placement was 1.329 billion euros (100 thousand euros for each of 13,292 shares), even if the proceeds of the auction was 1.688 billion euros, with a premium of approximately 27%. The increase in the value of the share, stated in the 2007 report, was mainly determined by rents that have generated revenues of approximately 274 million net for the amount to be relegated to the Government Property Agency to compensate for fees paid by third parties. Moreover, the value of the share gains have affected 61 million for property sales and revaluation gains for other 122 million. Not only. It was also already returned a share capital of 4,123 euros. From the standpoint of costs, however, reducing the value of the share are interest expense on financing for about 90 million and operating expenses amounting to 28 million. From the statement released by Real Estate Investing in 2007 emerge even more news.
Finnat decided to extend for a two-year contract with the building manager dealing with the monitoring and maintenance of real estate. In the first half of 2007, FIP began his real estate

[15] In particular, analyzing the data of the shares traded on the stock exchange we want to highlight two negative evidence: -27% of the Fimit Delta Fund, -14% of Investire Immobiliare Obelisco Fund and -13% of Vegagest. Europa Immobiliare Fund.
[16] In last December, for example, the "Bnl Portfolio Immobiliare" fund manager decided to exercise that prerogative by postponing the deadline of end of three years, until December 2013.

assets disinvestment activity by selling two real assets portfolios[17]. This sale was followed by a new proposal to auction for a portfolio that consists of 42 properties distributed more or less throughout the country. Within the national portfolio, however, it can submit tenders for sub regional portfolios affecting Basilicata, Calabria and Campania Regions.
The results for average returns, displayed in table 2, show that the Patrimonio Uno Fund, over the years has experienced some variability of results. Particularly it concern about the gradual decline in performance measured in terms of appreciation / depreciation of the Nav share.
It should also be referred that the fund has produced in years, usually payments have followed with time periods correspond to a semester, significant payments in terms of extraordinary dividends, related to the disinvestment policy and revaluation of property. In all cases the return are higher than the rate of inflation and in the majority are also higher those obtainable from monetary market and bond.

Tab.2

| NAV : FIP<br>Share Value | | | | | |
|---|---|---|---|---|---|
| **Date** | **NAV *** | **Dividends per share*** | **Dividend Calendar** | **Nav Semestral Return** | **Dividend Return** |
| **30/06/2010** | **145090.981** | **8065** | **13/09/2010** | **4.4%** | **5.6%** |
| **31/12/2009** | **139016.804** | **9277** | **15/03/2010** | **1.1%** | **6.7%** |
| **30/06/2009** | **137441.506** | **5019** | **14/09/2009** | **-0.8%** | **3.7%** |
| **31/12/2008** | **138552.563** | **4672** | **16/03/2009** | **-4.5%** | **3.4%** |
| **30/06/2008** | **145017.99** | **4814.512** | **15/09/2008** | **-2.4%** | **3.3%** |
| **31/12/2007** | **148547.04** | **7905** | **13/03/2008** | **-3.1%** | **5.3%** |
| **30/06/2007** | **153375.064** | **11043** | **13/09/2020** | **8.4%** | **7.2%** |
| **31/12/2006** | **141517.329** | **6260** | **13/03/2007** | **2.3%** | **4.4%** |
| **30/06/2006** | **138384.061** | **6350** | **13/09/2006** | **3.0%** | **4.6%** |
| **31/12/2005** | **134362.449** | **5850** | **13/03/2006** | | |
| * Euros | | | | | |

In 2005 Patrimonio dello Stato S.p.A. have launched Patrimonio Uno Fund to which have been transferred 70 real property owned by National Research Council and the CONI[18] Servizi SpA for a total amounting to 648 million euros. The revenue for the transfer of assets is entirely due to the institution already holds and therefore results in no loss of value on the balance sheet, but only a transformation of the book value of fixed assets in cash in many cases exceeding the book value.

[17] The first was awarded by Beni Stabili for 181 million euros, while the latter was awarded by East capital for 35 million.
[18] CONI (Comitato Olimpico nazionale Italiano): Italian National Olympic Committee

The results in term of average returns, displayed in table 3, show that the Patrimonio Uno Fund, despite some variability of results, has over the years produced largely positive results, with the exception of the last period.
As regard to dividends payments, it must be reported that the fund has paid an average return, in line with the rate of inflation, and on two occasions, much higher than the gross market yield bonds recorded in the period in which these results have occurred.

Tab.3

| NAV : Patrimonio Uno | | | | | | | |
|---|---|---|---|---|---|---|---|
| Share Value | | | | | | | |
| Date | NAV * | Dividends per share* | Dividend Calendar | Net Worth ** | Attivo** | Nav Semestral Return | Dividend Return |
| 31/12/2009 | 143764.282 | 2676 | 15/03/2010 | 374,79 | 775,97 | -3.0% | 1.9% |
| 30/06/2009 | 148281.505 | 8875 | 22/09/2009 | 386,56 | 771,42 | 0.1% | 6.0% |
| 31/12/2008 | 148130.222 | 3164 | 23/03/2009 | 386,17 | 778,53 | -2.7% | 2.1% |
| 30/06/2008 | 152234.512 | 7593 | 22/09/2008 | 396,87 | 796,06 | 6.1% | 5.0% |
| 31/12/2007 | 143545.183 | 3505 | 25/03/2008 | 374,22 | 787,49 | 1.9% | 2.4% |
| 30/06/2007 | 140834.919 | 3202 | 20/09/2007 | 367,15 | 775,37 | 3.3% | 2.3% |
| 31/12/2006 | 136328.323 | 3307 | 23/03/2007 | 355,40 | 763,50 | 3.3% | 2.4% |
| 30/06/2006 | 131920.154 | 2977 | 26/09/2006 | 343,91 | 754,07 | 3.4% | 2.3% |
| 31/12/2005 | 127586.337 | 0 | | 332,61 | 745,01 | | 0.0% |
| * Euros | | | | | | | |
| **Million euros | | | | | | | |

Comparing average returns of two funds (Table 4), and the same in comparison with the entire sector of reference, it must be said that the asset management decisions of fund managers who managed the real estate closed-end public funds, were not in line with industry averages, since the average performances of the two funds showed, a delay of about 1% in one case and more than 3% in the other, against the average pooled fund data return.
This allows us to state that the choices of the public operator, although conveyed by private asset management company, do not respond, in 2005-2009, that is almost the entire lifetime of these funds, to a criteria of efficiency and searching for the best profile risk-return.

Tab.4 Comparing Public closed-end Fund and all pooled fund

| | Patrimonio uno | FIP | All pooled Fund | Differential | Differential |
|---|---|---|---|---|---|
| | a | b | c | a-c | b-c |
| 2008-2009 | -2.9% | 0.3% | -2.1% | -0.8% | 2.4% |
| 2007-2008 | 3.2% | -6.7% | 6.4%* | -3.2% | -13.1% |
| 2006-2007 | 5.3% | 5.0% | 6.4%* | -1.1% | -1.4% |
| 2005-2006 | 6.9% | 5.3% | 6.4%* | 0.5% | -1.1% |
| Average | 3.1% | 1.0% | 4.3% | -1.2% | -3.3% |
| * Avrage return in period 2005-2008 | | | | | |

The management of real estate owned by public administrations is a thorny issue. On one hand there is the problem of reducing the financial resources available to the public, and the consequent need to rationalize spending. Second, it must consider the need to

transform public real assets into a resource that is often considered a passive voice in the government budget.
A lot of policy makers stresses that government should orient its decisions- whether through a public / private partnerships or through innovative financing instruments- into forms that enable the development of modern actions, effective and efficient in managing and using of public assets.
The real challenge is to be found in the enhancement of the public as a strategic lever to overcome the balance crisis
An enhancement process of public real heritage is a complex action that comprises several phases and includes the provision of more skills, it requires the intervention of professionals dedicated to economic planning, financial, administrative and technical. On the one hand we must stress the awareness of the role of the PA, as owner of real property, on the other part we should highlight the possible functions of private stakeholders in relation to the actual contribution that these player can make for the success of every development operations.

On this playing field, goals seem to be several: first, to help redesign the governance of urban real estate assets and not only considering these assets as budget items, most often passive, but as real active economic resources, so large as yet poorly known.
More, it need to manage and exploit the public real assets with wealth management criteria and according to the principles of programming, transparency, efficiency and economy. In this way the experience of real estate funds is worthy of being pursued, although at least in part by reviewing funds management decisions and allocation.
Microeconomic studies on the impact of the instrument of real estate closed-end funds as a tool for managing public real property, also showed the following benefits:

- promoting the enhancement and regularization.
- Decaying of government use and constrains to that destination.
- Rationalisation of space-use in the public administration.
- Cost-of routine maintenance and repairs transferred to the property, resulting in savings of about 12.5% (estimated mean value in period 2005/2006) for the state budget.

Finally it seems worthwhile to note how any policy of asset management real public must be aimed not only to achieve economic results but also social benefits.

## 6. Concluding Remarks

In Italy since 1999 disposals of public assets have been made by using securitization or real estate funds. In 2004 and 2005 two real estate closed-end funds promoted by the MEF. In Italy, real estate funds have a very recent history. In Italy, the first real estate fund started February 15, 1999. At December 31, 2009 are being operating 154 (131 of which are reserved), managed by 26 asset management companies. Since their launch, back in 1999, real estate funds have performed an annual average of 5.84%, whereas the values reported in balance sheets. A result that is on the whole below the performance targets stated in the statute of the various funds, but very respectable when compared with the rate per annum offered by European government bonds (5.42%) and international equity markets (-2.77%) in last decade. Comparing average returns of real estate closed-end public funds with the entire sector of reference, it must be said that the asset management decisions of fund managers who managed the real estate closed-end public funds, were not in line with industry averages. This allows us to state that the choices of the public operator, although conveyed by private asset management company, do not respond, in 2005-2009, to a criteria of efficiency and searching for the best profile risk-return. However must be reported as regard to dividends payments, that both funds has paid the return in term of dividends, in line with the rate of inflation, and in many time, much higher than the gross market yield bonds and monetary market return recorded in the period in which these results have occurred. The management of real estate owned by public administrations is a thorny issue. An enhancement process of public real heritage is a complex action that comprises several phases and includes the provision of more skills, it requires the intervention of professionals dedicated to economic planning, financial, administrative and technical. In this way the experience of real estate funds is worthy of being pursued, although at least in part by reviewing funds management decisions and allocation. The real challenge is to be found in the enhancement of the public as a strategic lever to overcome the balance crisis

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