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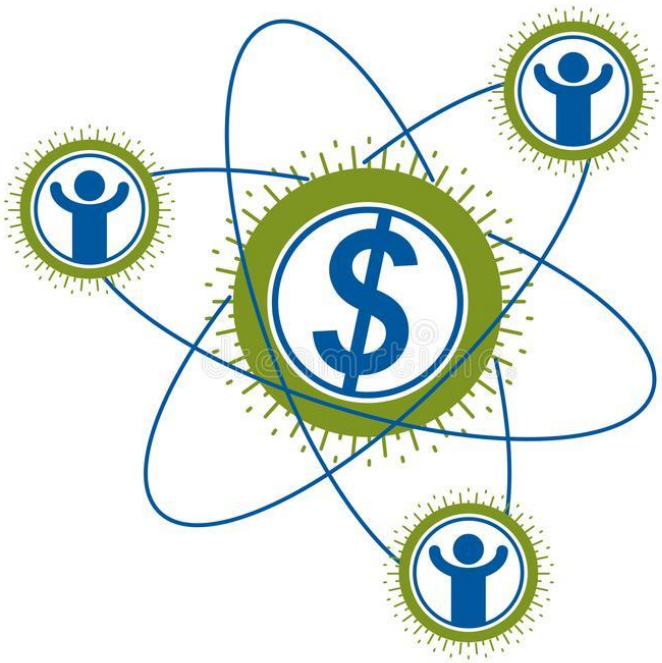

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GEOPROGRESS EDITIONS

NOVARA

GeoProgress Journal

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Table of Contents

Editorial Note

Articles

Geofinance between Market Dynamics and Political strategies.....11
Federico SERGIANI, Umberto TRIULZI

Geopolitical Strategy of States in Trade Surplus.....25
Umberto ROSATI

Real Estate Capital Markets: Market Overview and Processes of Disposal and Acquisition of Income Properties.....35
Francesca FANTUZZI, Claudio SANTUCCI

Real Estate Market and Foreign Investment Flows. Could Brexit Enable Redistribution?.....51
Simona EPASTO

The Capsule Hotel as an Innovative Financial Management System in the Airports: the Neapolitan case of "Benbo".....61
Viviana D'APONTE

Editorial Note

The extensive use of IT in financial services, together with policies permitting free movement of capital and the resulting integration of individual countries' financial systems have fueled the perception that the financial system can operate anywhere, regardless of physical location.

Scholars have sought to demonstrate that the geographic context continues to have a role despite the "dematerialization" of financial transactions, noting the dual dynamics of agglomeration and dispersal in the range of services. For instance, in Italy, particular attention has been directed to the localization of banks and the consequences of the mergers and acquisitions that have taken place since the Nineties. The fact that banks' head offices are concentrated in the north of the country has severed the ties of trust between local banks and their business customers, leading to greater information asymmetry that has made it much more difficult for small and medium enterprises to access credit. The close links between finance and the growth of the real economy, as well as the dangers posed by a predominately speculative financial system were brought into sharp relief by the 2007-2008 financial crisis, whose effects were felt by industry, labor and the social structure - albeit in different ways and with varying intensity around the world. Thus, for example, the subprime mortgage meltdown in the United States sparked a sovereign debt crisis in the countries of the European Union. Here, Italy, Greece, Spain, Portugal and Ireland were hit hardest, burdened as they were by a high current account deficit and a level of public debt that did nothing to inspire market confidence.

The papers presented in this issue of *GeoProgress Journal* testify the strategies fielded in response to the crisis brought about changes in geopolitical relationships, an ever-greater tendency towards protectionist policies and re-regulation, and calls for redressing the balance between the financial economy and the real economy. In *Geofinance between market dynamics and political strategies,* Federico Sergiani and Umberto Triulzi explore the impact of finance on political strategies, arguing that Long Term Investment Funds (LTIFs) - and, specifically, Europe's recently introduced ELTIFs - which concentrate on infrastructures, services and education and were heavily penalized by the financial crisis, could put the relationship between the financial system and the real economy back on a better footing in the medium term. Umberto Rosati also looks at finance from a geopolitical policy perspective, analyzing the case of an Optimum Currency Area (OCA) linked to a fixed currency exchange. The author emphasizes the costs and benefits of the monetary union, finding that geopolitics has created a hierarchy in the euro area by forming two different categories of states.

The next papers address the relations between finance and the real estate sector, relationships that - as has oft been remarked - could bring finance back to its traditional function. Francesca Fantuzzi and Claudio Santucci find that capital has once again begun to flow into Italian real estate, both from institutional investors and from non-institutional "private" investors, putting the virtuous circuit between capital, real estate and local development back into action.

Simona Epasto extends the scope of investigation to Europe as a whole, with particular attention to the shifts in real estate investments that are taking place in connection with Brexit. She outlines a possible scenario in which capital flows are drawn to other European countries as British real estate becomes less attractive.

The benefits of investing in the economy can also be seen in the growth of transportation infrastructures and tourism, where demand continues to rise despite the recession resulting from the financial crisis. In this connection, Viviana D'Aponte investigates a particular form of financial outlay in airport facilities, namely, capsule hotels, which provide minimal accommodation for travelers during layovers on long trips. Here again, there is an effective interaction between the airport's attraction potential and the size of the investment flows, which can have positive effects in other areas of this economic sector, tourism in particular.

Maria Giuseppina Lucia
(Management Editorial Board)

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Articles

GEOFINANCE BETWEEN MARKET DYNAMICS AND POLITICAL STRATEGIES

Federico Sergiani[*], Umberto Triulzi[**]

Abstract

Geofinance was born in 1986 from the work of Charles Goldfinger, who understood a structural change in market infrastructures due to three interconnected forces: deregulation, ICT revolution and the globalization of finance and its risks. During time, geofinance assumed a strategic value being a good tool for public and business decision making process. From this privileged perspective it is possible to study how, considering the relationship between real economy and speculative finance, it is necessary to introduce new instruments, such as portfolios hereby defined as strategic or introducing LTIFs. Looking at Long Term Investment Funds or at ELTIFs (its European version) seems to be a new important shift in the medium and long-run development and growth policies.

Keywords: geofinance, finance, strategy, business, ELTIF, long term investment fund, portfolio, market infrastructure

1. Introduction

The debate about the financialization of the economy and the impact of the recent 2007-2008 crisis on financial markets, global economy and sovereign debt have raised a growing interest of different academia communities and many social scientists on exploring the changes induced by these events on the theoretical foundations and empirical evidence of their disciplines. This intellectual and methodological process is particularly evident on the scientific work carried out by geopolitical scholars, economic geographers, and more recently financial geographers, who have dedicated their energies interpreting and describing, not until the 1990s, the impact of money and finance in shaping the economy and the life of people and communities at different spatial scale (Lee et al., 2009; Lai, 2017). The main emphasis of the research work is investigating not only the relationship between financial capitalism and nation-states policies but also the impact of the financial system, strengthened by the new ICT technologies, in reducing national sovereignty and deterritorializing the shape of economic space at national and international level. As it is evident from the outstanding increased of financial services industry share on global gross domestic product in the 90s and the early years of the new millennium, neither a single state,

[*] *Sapienza University of Rome*; umberto.triulzi@uniroma1.it
[**] *Sapienza University of Rome*; federico_sergiani@yahoo.it

nor a single financial space has the power, as it has been in the past with the hegemony of Great Britain and later with the US, to influence the international financial systems and the regulatory authorities. The decentralization of state power, together with the deregulation of financial market and the spatial diffusion in a high number of nodal centers for capital flows, have radically transformed the behavior of the agents who operate in territorial apolitical spaces were limited (or null) regulatory regimes are in place. The state and its administrative territorial institutions are still at the center of the geopolitics analysis but the capacity to play a leading role in the direction and allocation of capital flows has been reduced by the conflicting process induced by the financialization of the economy.

The approaches followed by the social science scholars on these issues have open up new areas of investigation or subfields that have extended the interpretation of the role of money and finance in the relationship between states and markets and brought to conclusions with socially and spatially different outcomes. New contributions have also been proposed to a better comprehension of the contraposition between critical and realistic approaches in geopolitics (Moisio-Paasi, 2013), new interests are growing in analyzing the impact of finance on development geography and inequality growth (Mawdsley, 2016; Rankin, 2013), a recent literature on geoeconomics, based on Luttwak pioneering work, is aiming to provide a wider critical interpretation of the geostrategic use of economic power by nation states (Vihma, 2018; Moisio 2018; Moisio 2019). The increasing research on contemporary geoeconomic processes and geopolitics highlight clearly the need to investigate further the conceptualization of the risks linked to the financialization of the economy, which has increased the vulnerability of States, but also that of firms, individuals and households, due to the changes induced in the economic space and economic foreign policies.

Our paper is inspired by the need to investigate the impact of finance, understood as the "*impact of geography on the geometry of finance*" (Woods, 2017), on border, location, distance on the shape of banks, insurers, and financial regulation, from a different perspective. We share the idea, as described in *Complex Economics* by Kirman (2011), that the recent crisis and the volatility of financial markets are the result of agents' adjustments to standard procedures, introduced by the credit sector and financial intermediaries (clearing house, brokers, hedge funds, regulators) who were not aware that they were generating a threat to the whole system stability. The chaotic outcome of financial markets has not remained confined to the financial area but has invaded dramatically the global economy, the State policies and the markets.

In order to bring back finance closer to the growth needs of the real economy we first investigate the contribution of Geofinance in exploring the complex relationship between finance and geopolitics highlighting political conflicts induced by mass speculative short-term investment. Then we analyze the impact of finance when it assumes not only the aim of maximizing the return from the investment but also a political ROI, a way to influence policy strategies at different geographical national and international space levels. We end with a proposal to create of new financial asset oriented not to short-term speculative investment but to long-term investment in the sectors where the needs of the communities and the States are higher, including energy, *greenfield* infrastructures, communication, industrial plants, services, as well as education and research and development (Leonetti-Triulzi 2019). The European Long Term Investment Fund (ELTIF), recently introduced by the European Union, may be the answer to the economic sectors that have been severely hit by the crisis, mainly

infrastructure investment, and the limited public budgets available to rebalance the huge gap existing in most of the advanced and less advanced countries in this strategic area of development.

2. The Geofinance value added

Geofinance was born in 1986 from the work of Charles Goldfinger, World Bank analyst. From his privileged position, he perceived the change that occurred in the economic and financial scenario in the eighties produced by the interaction of three processes. Such processes led to a modification of the traditional model of transfer of resources from surplus operators to deficit operators. Goldfinger attributed to deregulation, the information revolution and the globalization of risks, the main causes of the changes that had occurred in the economic-financial system since the 1980s. In the same period, this process started assuming a central role in the mechanism for refinancing the public debt of the States. In the author's words, “from these contradictory evolutions, interactions between these three forces, a new form of the system is being born: the geofinance”. This discipline, in the author's analysis, was thus gradually detaching itself from the financial geography whose research goals remain the study of the relations between finance and territory. Financial geography is defined by Lucia (1999) as "the extension and the geographical value of the various financial phenomena that during the Nineties were affected by processes of decentralization and pervasive diffusion in the territory".
More recently, Pegorer (2011, p. 15) emphasizes the role of those relationships defining them "an innovative discipline that has as its reference the capital market and, consequently, the socio-spatial relationships determined by the intermediation activity movable”. As a result, what seems to be excluded from financial geography is the multidimensional dimension of these phenomena, induced by the economic-financial changes, which is the specific field of observation of geofinance. This process is analogous to that which has affected political geography and geopolitics, whose objectives today are carried out through the study of financial markets, especially in the dynamics that also involve allied countries. As note Lizza:
The term geopolitics makes its first appearance in 1916, in the work of the Swedish political scientist Rudolf Kjellen [...] with respect to the political geography up to then delineated, the work of Kjellen is diversified by the broader field of topics [...] the geopolitics it reconfirms its dynamic science character, while political geography, studying the State in the present and in the past, is proposed as a static discipline.
In this regard Goldfinger can be described as the “Kjellen of geofinance”, when he states, among other things, that:
finance is much more than a passive reflection of the economy. Of course, it acts and reacts in relation to its environment […] these actions and reactions are rarely simple and direct […] As an opaque reflection, the international financial system is a complex and autonomous whole, whose dynamic and tumultuous trajectory has contributed to economic imbalances.
Geofinance looks at economic imbalances from a different perspective, observing the causes that are at the origin of market dynamics. Similarly to what happened with the Crisis of 1929; the Oil Crises of the Seventies; the financial Crises of the Nineties; the most recent linked to the financial bubble burst in the United States in the summer of 2007 and, lastly, the economic and political crisis that gave rise in 2011 to massive

demonstrations against the corrupt and illiberal regimes of many Arab countries. Recalling the causes that led to this last event, the Arab Spring (*al-rabi'a al-arabiyya*), it is important to emphasize that these originate in the profound socio-economic imbalances that have affected most of the countries of the Mediterranean and the Middle East. These causes can be found in high unemployment; the growth of inequalities; low wages; high levels of corruption, and the riots, which overthrow many Arab political regimes. However, it is equally true that one of the reasons that led to the beginning of the demonstrations in the Arab countries, strongly dependent on the imports of cereals and other important food commodities, was the increase recorded between October 2010 and January 2011 in the prices of consumer goods (flour + 47%, wheat + 92%). This increase was induced by massive short-term speculative financial movements on agricultural commodities, thus starting the popular uprisings initially known as "bread protests". In the crisis scenarios analysis, geofinance is therefore placed on a fundamental strategic plan in the impact assessment of economic intelligence analysis. Money market and money market fund dynamics, or problems with liquidity injection strategies in the economic systems, become central and strategically sensitive in those countries most affected by the recent economic and financial crisis, which depend on the refinancing of short-term debt in order to pay their long-term debt. In advanced economies where the GDP depends for more than seventy percent on tertiary sector, it is easy to understand how the refinancing mechanism, both public and private – detached from the purely industrial logic of production – assumes an even more central role, including the decision of the amount of resources that has to be allocated to the defense budget. Moreover, as Thirlwell points out, "*There is a growing tendency (for good or ill) for governments to view issues of international economics through the prisms of national security and foreign policy as well as though the default of economic policy*" (Thirlwell, 2010). The strategic importance of relations between the State and the market, which today is found in the interrelations between finance and micro and macroeconomic variables already analyzed in other works (Sergiani,Triulzi, 2015), makes geofinance an element of analysis and central interpretation for the whole information production and evaluation cycle, from the analytical process to the final decision maker. As we argued, the underlying hypothesis in the development of the discipline is that such discipline must gain a profile of independence and continue to look also at the financial geography. This is due to the intrinsic relationships that are tightening over time with the territory, defined as “a place, even not physical (such as the development of trading on line), to which companies, institutions, governments and individual operators resort for their operations by moving large volumes of wealth from one area of the globe to another" (ibidem).

A further example that can help to understand the approach suggested by geofinance concerns the scenario of Africa. While on the one hand many geopolitical analysts underline the role that the continent will play in the future global development[1], the geo-financial analyst turns his gaze to Africa as to a game played from long time. In this game, the policy of colonization pursued by the European states is followed, today, not only by the very current Chinese neocolonialism but also by a strong presence in the area of western finance groups. Where many highlight the role of Chinese investments on the African continent and the impact they induce on local economies,

[1] See, among others, "Afric: our future", Limes, December 2015, n. 12.

less attention is given to the central role that large transnational banks, especially Anglo-Saxon ones such as Citygroup, Barclays, HSBC, have in the control system of the debt and credit mechanisms of many African economies. These institutions focus their functions as suppliers of advisory services, prime brokerage, primary dealers, trading in local currency, becoming, for example, irreplaceable operators in the negotiation of debt securities of these countries. The widespread presence of groups such as Citygroup, which boasts a market position in many African countries (Nigeria, Zambia, Botswana, Egypt, the Democratic Republic of the Congo, Kenya, Ghana, Malawi, Mauritius, Tanzania, Uganda, Mozambique) allows the analyst of geofinance to understand how, in economies that are still very fragile and dependent on foreign financing, the financial services sector is the exclusive competence of the Anglosphere with all that follows in terms of economic intelligence and repercussions on national security. The relations between finance and territory, in Africa, are predominantly the prerogative of these powers, with a supporting role for some European banks such as the French, German or Italian (including Intesa San Paolo). Here is the added value of geofinance in strategic analysis: a continuous search for dialectics that develops in the relationship between market dynamics and political strategies; a dialectic increasingly determined by private subjects that with their weight and their influence replace the foreign policy of States, increasing their vulnerability and dependence on possible and sudden changes of strategy.

3. Geofinance between strategy and markets

Geofinance, as mentioned above, allows us to look at aspects that are poorly considered by the traditional approach of financial geography. Paying attention to the relationships that are established between market dynamics and policy strategies means grasping aspects that can anticipate the occurrence of sudden imbalances of a macroeconomic nature and - *ceteris paribus* - lead to instability and deep volatility of the markets. The main market players, together with a constantly interconnected global system made up of well-defined networks of actors in continuous dialogue, can thus exploit the information asymmetries to dominate entire strategic sectors. The market players can enter with important amount of voting shares in the management of the main companies in sensitive sectors, such as defence, aerospace and transport, or acting as specialists in providing liquidity to the market for the financing of sovereign bonds. Furthermore, in finance, unlike in the industrial sector, rapid modifications can be verified in the balance sheet of the financial intermediaries, where the different labels of assets and liabilities in the balance sheet can change suddenly and profoundly. These changes can occur even after a few months or a single year, creating a world which is much faster than before and opening the way, for the studies of economic intelligence, to scenarios which can lead, in extreme cases, to fourth-generation warfare. Regarding the fourth-generation wars (Lind, 1989)[2], the main dimensions that are at stake are: high dispersion of the battlefield (until it reaches the entire globe); low relevance of the mass and dominant role of agile, slender and well-organized actors; low relevance of logistics and collapse of the enemy from within. Therefore, the identification and analysis of the strategic centres of the enemy, such as the banking,

[2] For an in-depth study of the relationship between markets and fourth-generation wars, reference can also be made to the studies of the French École de guerre economique.

insurance or money market systems, through which States and private individuals refinance their debt, becomes central. As Lind notes (1989): "In broad terms, fourth generation warfare seems likely to be widely dispersed and largely undefined; the distinction between war and peace will be blurred to the vanishing point. It will be nonlinear, possibly to the point of having no definable battlefields or fronts. The distinction between 'civilian' and 'military' may disappear'.

Geofinance, however, assumes a strategic importance not only in the framework of new scenarios, but becomes important when finance, in addition to the objective of maximizing profit and investment, also seeks to maximize a "political" ROI (Savona, 2009) that finalizes not only the choices of operators regarding the relationship between risk and return, but also choices that produce an impact of a governmental nature or, more generally, of political governance. This new approach, which looks substantially at a different relationship between finance, territory and global economy, can turn out to be a risk and, at the same time, an opportunity for the States. A risk, inasmuch as through strategic financial investments, a public or private operator (such as the large financial intermediaries) can permeate national economies and implement strategies settled to alter the decisions of the policymakers; an advantage, on the other hand, for those who succeed in seizing the opportunities dictated by a new strategic vision of finance[3]. As mentioned above, the construction of strategic portfolios makes it possible to use finance to exert a power of influence over the decisions of countries or to direct financial resources towards specific targets of interest to donor countries or financial intermediaries. In this way, investments can be modulated to support the policies of a country that becomes a target of influence, by inserting asset classes concerning critical infrastructures or government bonds of certain African countries, or by acting in concert with multilateral financial institutions, such as the IMF or the World Bank, to maximise not only an "economic" but also a "political" ROI. Furthermore, finance is perfectly fitted for the study of phenomena that are apparently unrelated to each other, but which are actually present in markets as weak signals, something that can be observed and brought to the analyst's attention (Sergiani, Triulzi, 2016). In a recent work, Chesney, Crameri and Mancini (2014) analysed an interesting correlation, based on the study of the price trend of the options of many insurance, banking and aerospace companies, between the volatility of the VIX index[4] and possible terrorist events. This intuition could be further deepened by resorting to indices capable of predicting possible attacks through the analysis of financial hedging strategies from the geopolitical risk. It is an analysis which all the operators in the field activate in the continuous process of protection of the investments, thus arriving, where sufficiently developed markets exist, to identify regional or local predictive

[3] Saudi Arabia, for instance, has changed in 2016 the structure of its sovereign fund, the Public Investment Fund, through the sale of minority shares in Aramco and by channelling resources into the PIF. It is estimated that the operation could bring two trillion dollars into the coffers of the fund to invest in the market and in so doing support the policies of the Saudi Government in the world. At the same time, Saudi Arabia has also launched the first five-year, ten-year and thirty-year government bonds, with yields ranging between 2% and 4%. It was the first debt issue in the country's history, partly due to the falling of oil prices.

[4] As noted by Fugazzi, "VIX is a trademarked ticker symbol for the CBOE Volatility Index, a popular measure of the implied volatility of S&P 500 index options; the VIX is calculated by the Chicago Board Options Exchange (CBOE). Often referred to as the fear index or the fear gauge, the VIX represents one measure of the market's expectation of stock market volatility over the next 30-day period" (Fugazzi S. per ABC economics "The VIX index always predict terrorist attacks?").

indices that could be useful to prevent phenomena of a terrorist nature. Here is how geofinance finds its ideal place in the relationship between market dynamics and political strategies: framing the study of markets in a dynamic perspective and with reference to multidisciplinary subjects that until now were not related to each other, often considered monads in a post-global world where it is the interdependence of different phenomena to draw the complexity of the scenarios that arise daily to our attention.

Moreover, what is clear from the dynamics of the financial markets and that characterizes priorities in portfolio strategy of the financial operators, is the prevalence of a vision that remains substantially speculative, of short to very short period rather than long period, and that has led, as is known, to the numerous crises that have occurred in recent years, with increasing dimensions and intensity. In this regard, starting from the Dot.com speculative bubble of 2000 and arriving, in more recent years, at the real estate bubble produced by subprime mortgages, the securitization operations activated by credit institutions and the enormous development of structured securities that are too complex for risk assessment. This is why, regarding the dialectic between market dynamics and political strategies while going beyond all at the negative effects that speculative finance has produced in the global economy, what seems necessary to reflect on is whether it is possible to reduce the risks that situations similar to those experienced in the last fifteen years, trying to create financial instruments and investment opportunities that can bring the world of finance closer to the growth needs of the real economy.

Long-term Investment Funds, such as those recently activated in Australia and Canada to finance long-term investments in the infrastructure sector and ELTIF, introduced by the European Commission in 2015 to facilitate the construction of a single capital market in the EU and to encourage investment by institutional and retail operators in projects that require the use of long-term capital, seem to respond positively to this issue in order to recover competitiveness and growth needs of the territories and the importance that they take on from a geofinance analysis perspective.

4. Long term investment funds and ELTIF

An IMF report, "Fiscal Affairs Department, Making Public Investment more Efficient" (2015), highlighted two important aspects of public investment: the first relates to the positive effects of public investment on GDP, thus supporting growth in domestic demand and the second is that the higher the quality and efficiency of public investment, the more positive the effect is. The IMF has used a "Public Investment Management Assessment" (PIMA) tool to assess investments. It takes account of 15 variables, which in turn are divided into 45 indicators, including tax rules, the existence of sectoral and national plans, budgetary issues, project appraisal and selection and other aspects relating, inter alia, to the implementation of investments.

The results of the IMF report show that countries that have efficient public and private investment governance procedures and institutions are also those that benefit from a higher level of productive investment, and therefore a higher level of economic growth. In a situation in which, as it happened in the years following the recent economic crisis, we are witnessing not only a shrink in public investment but also the absence for financial operators of valid investment alternatives and certain returns, it is logical to expect that the huge liquidity created by the monetary authorities to

support the financial system and the demand for credit of companies will find its redistribution in the allocation of resources to short-term financial products unrelated to the dynamics of the productive economy. A concrete example is the growing use of ETFs by investors (Fig. 1).

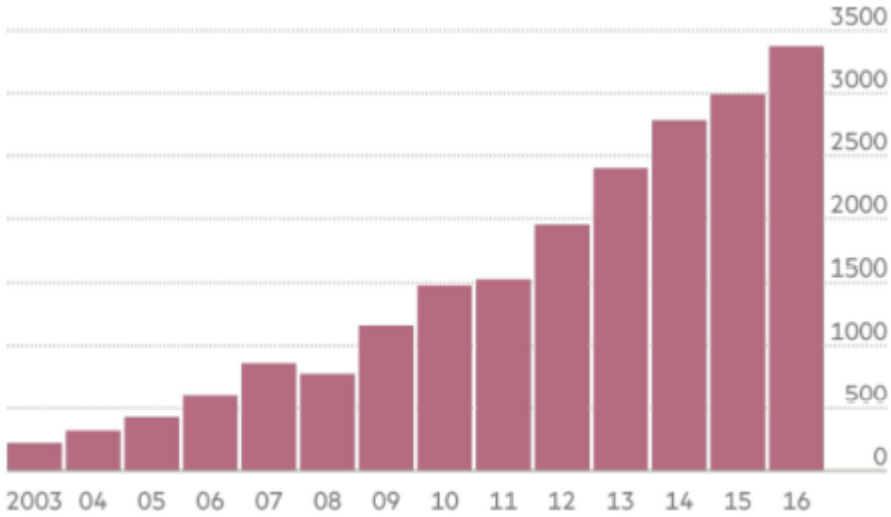

Figure 1: Global growth of ETFs (in billion dollars).
Source: ETFGI for Financial Times.

The massive recourse to these funds[5], which today have reached 3.5 trillion dollars confirming the theories of the financial market regarding the herd behaviour[6], involves a separation of available resources from other types of assets more related to the development of the territory. Returning to use finance in its most classic use, that is, as an acquisition and use of the resources of private individuals (savers) for productive economic uses (businesses), it is necessary, metaphorically, to rebuild a bridge that has been destroyed by the negative dynamics that have affected the global economic-financial system. For example, there are currently more than 3.5 billion assets with a negative return, especially in the fixed income sector (Fig. 2).
This situation makes it possible to imagine the creation of financial products that stimulate investors to leave the negative-yielding assets sector to focus on different and more profitable products linked, for example, to the financing of infrastructure.

[5] ETF, or Exchange Traded Fund, is a type of investment fund or Sicav that is traded on an exchange as a share and has as its sole investment objective to replicate the index to which it refers (benchmark) through a totally passive strategy. In finance, ETFs have significant advantages, increasing the possibility of diversification, reducing the cost of the portfolio, containing the issuer risk. It is suitable for medium/long-term transactions and for intraday transactions. However, it remains exposed to currency risks and to those of typical of the stock market. See, among others, Borsa Italiana.
[6] Flock behaviour. This is a phenomenon often observed in markets where the action of a market maker always corresponds to the overall reaction of the rest of the operators. See Fuller and Farrel (1993).

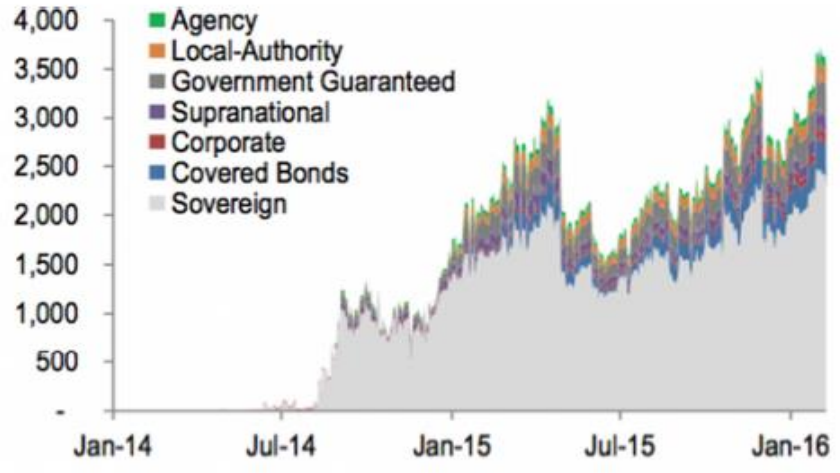

Figure 2: Growth of negative return assets in Europe.
Source: BofA Merril Lynch Global Research Sbn, GFIM index.

The OECD, in turn, and at the request of the G20, set up a task force in 2013 to develop "principles for the financing of long-term investments" by institutional investors. Similar interests, for the promotion of a less penalizing regulation for long-term investments, also come from international bodies such as the World Bank, the IMF, the Financial Stability Forum (Leonetti, Triulzi, 2016).
In Europe, the Commission introduced an Action Plan for Long Term Financing of European Economy in 2014 and a regulation for the establishment of European Long-Term Investment Funds (ELTIFs) was introduced in 2015[7]. This instrument makes it possible to support investments in what are defined as critical infrastructures in a country (Directive 2008/114/EC and the following regulations), such as activities in electricity, oil, gas, transport to which telematic infrastructures have been added and investments in strategic activities requiring a multi-annual action plan, a strategy that has been undervalued by other investment funds. In this respect, the Regulation is very clear: an ELTIF should invest at least 70% of its capital in eligible investment assets. In order to ensure the integrity of ELTIFs, it is also appropriate to prohibit them from participating in financial transactions which, as they pose different risks to those expected from a fund dedicated to long-term investments, could jeopardise their investment strategy and objectives. In addition, such activities could include, by way of indication, social infrastructure generating predictable returns, such as energy, transport and communication infrastructure, as well as education, health and social security facilities or industrial installations. On the contrary, activities such as works of art, manuscripts, stocks of jewellery wines should not be eligible, as they do not normally generate predictable cash flows.

[7] See EU Regulation 2015/760. In fact, the introduction of the ELTIF requires that a set of actions and procedures be activated at European level that can build a regulatory framework that favours and supports businesses and channels private and public resources towards long-term productive investments. On these aspects, see Bassanini (2015).

It is therefore clear, from the analysis perspective suggested by geofinance, that the ELTIF, or at least the activation of alternative investment funds to credit to be allocated in the financing of unlisted European companies and their assets, both tangible and intangible that produce innovation and competitiveness, is a useful tool to bring finance closer to the local economy and to create spillovers at the micro and macroeconomic level important for the growth of EU countries, and in particular those of the euro area.

5. Conclusions

The scientific debate that arose within the academic community and among social scientists, on the impact of money and finance in the shaping, specially after the 2007-2008 financial crisis, the economy and the life of people and communities at different spatial scale, have produced a significant and wide amount of research finalized to focus on the consequences produced by these events on the investigation fields of geopolitics, economic geographers, financial geographers. Our research starts from a different approach to finance, conceived as a process crossing and influencing multidimensional physical and immaterial geographical space, as borderless financial centers, markets dynamics, banks and insurances institutions, investors, financial intermediaries, national and foreign policy strategies. Finance has proved to be a complex economic process where decisions are taken from different participants interacting and learning from each and moving from different, but not stable, equilibrium positions.

Geofinance is a discipline that has born basing on Goldfinger's intuition and his observations on the dynamics of change in increasingly complex markets. It is a privileged observation point for understanding the interrelation of social, economic, financial and geopolitical phenomena and the socio-spatial relations that are created with the territory, on which geofinance insists at different levels (regional, national, macro-regional or global). As explained in other works briefly mentioned here, geofinance often seems to be, especially in the economic dynamics within allied countries, the armed arm of big geopolitics. In the great geopolitics environment, a well-defined plurality of actors, such as Anglo-Saxon investment funds, sovereign wealth funds, institutional investors and regulatory agencies, make an important contribution to the process of market globalization. This is possible by reallocating capital around the world, supporting objectives linked to not only profit maximization and risk mitigation, but also interests close to policymakers, supporting the debt of states, influencing their economic policies, investing in strategic sectors.

In this scenario, geofinance allows us to grasp important nuances not only for the geopolitical analysis, but also for that of economic intelligence, drawing weak signals from a predictive point of view, which allows us to formulate possible forecasting scenarios with greater precision. Recently, in Europe, a plan has been introduced which concerns alternative investment funds destined to bring together the multi-year objectives of the policy making. This plan involves investments in infrastructure projects with the more short-term ones of the markets, clarifying, above all, the perimeter of action of those, which have been defined ELTIF, long-term European funds. This instrument is important because it is aimed at institutional investors who are looking for stable returns that can reward capital in the longer term and because it can provide incentives for a sector that has been severely hit by the crisis, that of

infrastructure investment. In addition, the austerity policies pursued by the EU to rebalance public budgets have certainly not encouraged.
The role of these investments is crucial to restore growth and stimulating the competitiveness of economic systems. Geofinance, and not only this "under construction" discipline, has the task of studying and understanding how institutional investors will allocate the financial resources in the coming months and years. To do so, there are several topics to be discussed, such as: what types of assets; with what objectives and possible impacts on the territory and what mechanisms of influence those financial resources can achieve for the economic policies of both advanced and less advanced countries. It is also from this information and from this analysis that we will better understand if the new initiatives proposed at international and European level will be able to get us out of a crisis that has lasted too long and that needs to reactivate a sustainable growth of the global economy.

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GEOPOLITICAL STRATEGY OF STATES IN TRADE SURPLUS

Umberto Rosati*

Abstract

This paper highlights the role of a national state in the international financial system scenario. The case study herein reported details the creation of an "optimum currency area" (OCA), linked to a fixed currency exchange. A geopolitical strategy, able to give rise to 2 different state categories, is described. On one hand, there are numerous geographical areas in economic surplus, on the other there are some in economic deficit. The relationship of the countries, united in an OCA, defines a hierarchy linked to the economic value and production capacity created by each territory.

1. An Optimum Currency Area: a Geographical Enclosure for Global Economies

The political economy of a country is linked to the use of one's own currency. However, a state could renounce using this economic instrument, thus losing the ability both to make a national monetary policy and to establish advantages for the competitiveness of production in goods and services. The countries adhering to a monetary union i.e. an Optimum Currency Area (OCA) sign a political and financial agreement linked to the removal of power from the national banks. The members of a monetary union cannot modify the price of the respective currencies using the financial instrument of devaluation and revaluation. An OCA does not allow the national financial system to determine the amount of money required for public expenses within a state or it to modify the short-term interest rate, so that the political capacity of each member to modify the local economic trends is blocked. This financial and economic strategy is not able to increase the local competitiveness trends or to decrease the economic and social divergences.

This economic and geographical analysis, called OCA, was studied and reported by Robert Mundell (1961), McKinnon (1963) and Kenen (1969) emphasizing the costs and benefits of the monetary union linked to competitive advantages or disadvantages (Ishiyama, 1975; Tower, Willett, 1976; Mongelli, 2002).

The OCA strategy is linked to the rigidity of the exchange rate, imposing a common monetary policy to the countries in trade deficit economic policies, aimed at making macroeconomic convergences emphasizing economic and financial dynamics, based on mercantilist ideology (Bagnai, 2012). The choice of each state to adopt a common currency is linked to a complex rule system between technical and political laws. The

* Umberto Rosati. Ph.D. in Economic and Political Geography, University of Torino, E-mail: rosati.umberto@gmail.com.

political system is divided into two layers, e.g. there are the advantages raised by the monetary union for the middle-class creating more employment and social mobility and numerous economic advantages for the social élite.
The most important advantages linked to an OCA geographical area are: the decrease of costs both for financial transactions and the uncertainty of the financial exchange. However, the macroeconomic impact linked to the decrease of financial transactions costs is low, it is quantifiable in 0.4% of GDP (Emerson, 1990). There are fewer advantages for the territories as most of the financial transactions are linked to a large amount of money with a low impact of commissions. Indeed, the financial markets have created a system called *forward market* able to protect the financial operators against financial risks.
The OCA project is contradictory from a macroeconomic point of view, as there is no need for a monetary union in a group of states with a similar range of institutional levels, economic productive factors and economic policies producing balanced exchanges. In fact, their exchange rates have similar trends and the uncertainty of financial exchange is negligible. Some authors on macroeconomics have reported that alignment plays a pivotal role in the exchange trends of each country (Kim, Mao, 1995). The OCA system is useful to territories with inhomogeneous economic and financial systems, in order to avoid productive economies that decrease the economic divergences and the range of currency exchange. The exchange flexibility is a useful tool able to reduce the economic divergences connected to the economic productive factors amongst countries, as it is important to decrease the costs linked to the economic fundamentals within the economic shock cycles. However, renouncing monetary flexibility means imposing high cost levels in social and economic environments.
The OCA theory is connected to the concept of harm reduction by the adoption of a fixed monetary exchange i.e. all economic fundamentals of each country are analysed and emphasized to introduce the strategy linked to not damaging the respective economies. However, numerous policies have been made to compensate for the economic rigidity introduced by a fixed exchange i.e. mobility of productive factors[8], wage flexibility[9], industrial diversification[10] (Kenen, 1969), openness to foreign trade, the convergence of inflation levels towards a common value (Fleming, 1971) and tax integration. Moreover, one important goal is to make a two-layer system, i.e. a set of efficient rules and common political strategies (Kenen, 1969).
However, in Europe, there are no *best practices* so as to overcome the current economic and social crisis, i.e. the job mobility is discouraged by cultural and language barriers, different education systems and social security, as well as the segmentation of the job market. The mercantilist ideology evaluates exclusively positive strategies and the economic policies aimed at increasing the export flows, downloading the costs of economic adjustments to the countries in trade deficit[11]. The strategy linked to

[8] This strategy emphasizes the movement of the unemployed during the economic cycles of stagflation. This flow of people stems from countries in economic deficit, to States in economic surplus, where there it is easier to find employment.
[9] This job policy is connected to recovering territorial competiveness, thus decreasing the productive costs of goods and services.
[10] It is an industrial strategy linked to the economic dynamics of scale economies, which are useful in overcoming difficulties connected to a specific productive hub.
[11] Wage flexibility is linked to the reduction of *pro capita* income within the countries in trade deficit, e.g. one case study by PIIGS (Portugal, Ireland, Italy, Greece and Spain). The strategy linked to the

productive diversification is bad for the smaller economies as they have more difficulties in emerging in every productive sector and to take advantage of scale economies. Krugman (2015) reports on how the tax and monetary integrations in numerous states in a monetary union are connected by gathering some specific productive branches to create economic comparative advantages within each country. Moreover, the monetary union is not an efficient strategy for the cost distribution during economic shocks, as some productive branches are gathered by the scale cycle of economy and are the ones that are most affected by the economic crisis. The differences linked to trade volumes are linked to geopolitical tensions that have been ignored by governmental intuitions for the political project in the Eurozone.

2. Economic Adjustments within States in Trade Surplus

This case study, connected to the states in trade surplus, aims at clarifying some geopolitical strategies within an OCA. This paragraph gives a strategic example linked to states in economic surplus, hereafter know as S, all of which have a larger volume of export than import. Moreover, the goods, services and currency of an S are highly valued and exchanged, so as to link the financial market to the law of supply and demand. They suffice to both balance the trends of the national currency and link the increase of demand to exchange value. This analysis highlights how goods and currency of S are fundamental.

The financial market establishes the price of the exchange rate and evaluates it faster than the market connected to goods and services, enabling instant bargaining. The trend of financial increase is mainly linked to the exchange rate, which, in turn, increases the monetary value. Then, there is a revaluation of the assets of an S, which become more expensive for *foreigner traders* (i.e. those outside **the S**) as the currency value of an S increases to decrease the export trends of the S. However, the residents in an S have more spending power within foreign financial and economic markets, this means that they can increase their imports. The foreigner traders analysing the high trends of currency value consider the currency of an S a good investment and are willing to buy their bonds, i.e. stocks, bonds and government bonds. These financial flow movements from other countries to an S allow for the lending of money to residents within an S. The result of this financial chain is a rebalancing of the import and export trends of goods and capital flows, emphasising the increase of imports in both cases. This currency rebalance is linked to the creation of a larger market for people who live within an S, as monetary revaluation is connected to spending power aimed at increasing the import flows. Moreover, the currency demand of an S allows for inexpensive financing, i.e. the foreigner traders invest in an **S's** stocks by lending money to its residents, in an effort to obtain a capital gain from the difference between the initial and the last exchange rate linked to the future revaluation. This case study of financial flows discusses how money is invested in an **S**.

The monetary revaluation within a country in surplus trade makes raw materials cheaper, stimulates consumption and accelerates the foreign capital investments. However, the presence of a greater amount of money creates inflation connected to the

decreasing income of the middle and worker classes is implemented also within the countries in trade surplus, as the economic and social élite refuse to share the earnings made with the rest of society, aiming to keep production costs low. The strategy linked to keep the levels of the territorial competitiveness high creates external economic imbalances (De Grauwe, 2012).

goods and services in an **S** making them less convenient. Thus, the export trends decrease in an S, creating a financial rebalance linked to economic growth, which focuses on internal demand for goods within the **S**. The exchange flexibility makes an easier economic and financial adjustment between an **S** in trade surplus and the other countries in trade deficit.

3. The Geopolitical Strategy within the States in Trade Surplus

One of the main issues involved in OCA is the political relationship amongst the countries who decide to join the monetary union. Indeed, some states are known as "central," i.e. all countries that are in trade surplus, others are called "peripheral," i.e. all territories that are in trade deficit. The central regions have a strong financial and industrial base, whilst the peripheral regions are relatively backward. Frenkel's economic model (Frenkel, Rapetti, 2009) may be used to analyse the geopolitical strategy of the countries in trade surplus. This model is formulated to identify the economic and political steps so agreements linked to form a monetary union can be signed, i.e. the choice to adopt a fixed exchange, making new trade agreements within the OCA regions, aimed at the implementation of financial and economic integration within the monetary union. The central regions *suggest* the peripheral countries (in trade deficit) adopt *The Code of Liberalisation of Capital Movements* and a fixed exchange. Thus the central countries reach a double goal, i.e. they can lend money to the peripheral states (fig. 1) without running exchange risks, the peripheral regions always have the highest internal interest rates (fig. 2) with the aim of obtaining returns on the investment. This political scenario is a good strategy for the peripheral regions to obtain easily borrowed money linking to the second advantage of the central states i.e. to make an inflation economic cycle within the peripheral countries connected to a two-fold goal i.e. on the one hand the peripheral regions can increase the pro capita incomes through a easy access to credit aimed at buying the central countries' goods and on the other, the central states can make another market for their goods within the peripheral regions (fig. 3).

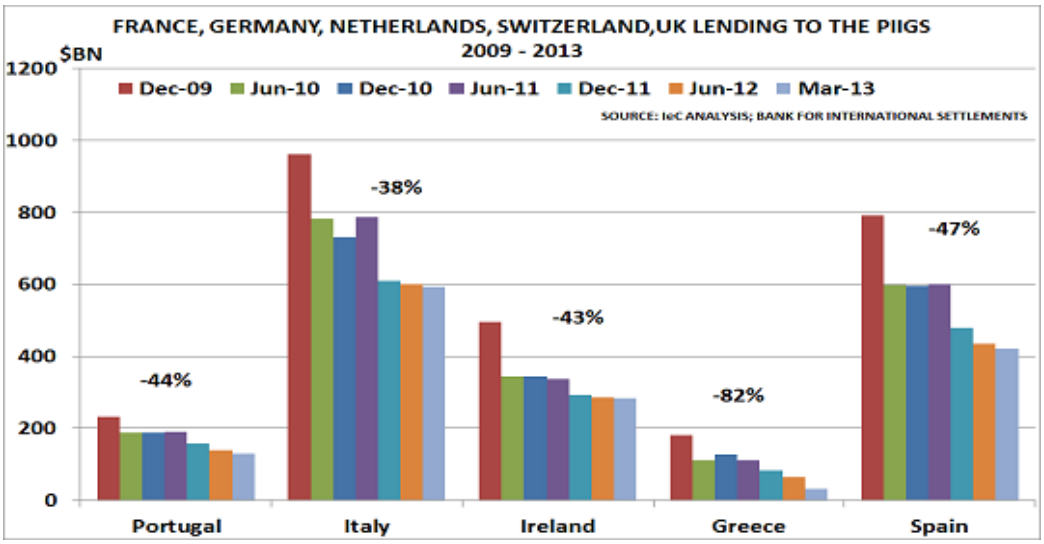

Figure 1

Source: https://www.icis.com/chemicals-and-the-economy/2013/10/the-eurozone-debt-crisis-is-no-nearer-solution.

However, the inflationary economic trend is linked to the economic growth within the peripheral regions, emphasising an improvement of public finances i.e. the relationship between public debt and GDP is stable or decreased depending on the increase of the private debt, i.e. the foreign capital is lent to families and entrepreneurs. The inflation trend is linked to an excess of easy credit, making foreign goods more competitive. Moreover, the deficit trade tends to expand, which then requires foreign capitals to finance the trade imbalance.

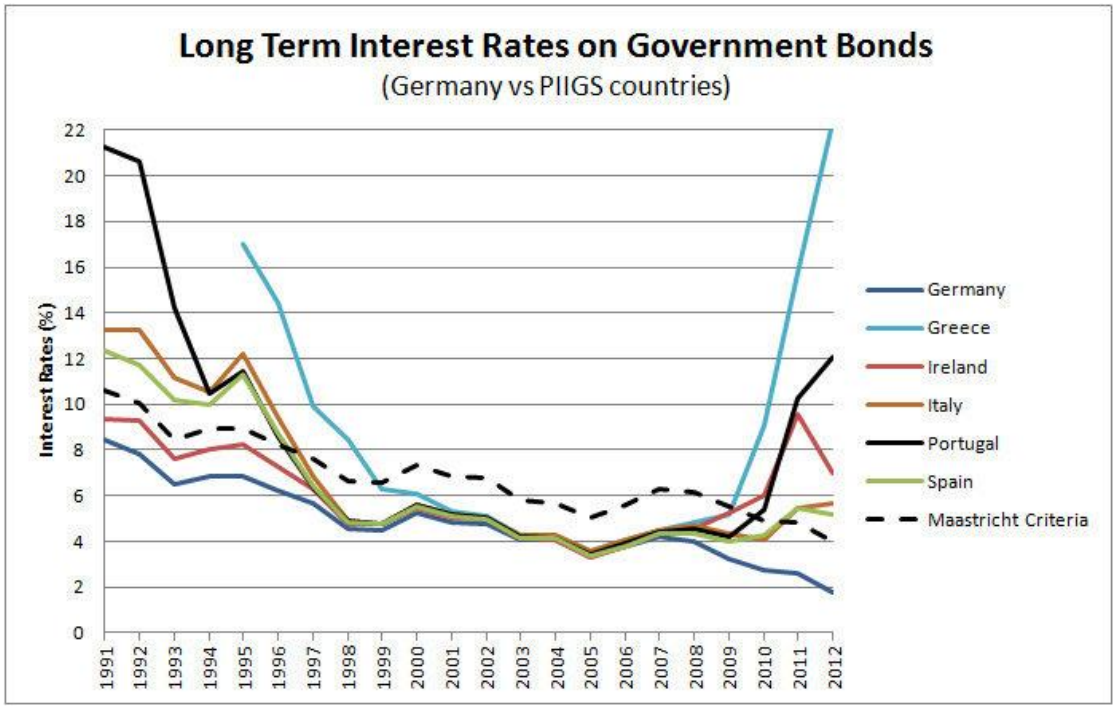

Figure 2
Source: Kuo R. (2012).

Capital flows lent by the central regions to the peripheral countries constitute debts that the states in trade deficit have to repay. The states in trade surplus then use a pretext, such as the outbreak of an economic recession to put in doubt the deficit countries' ability to repay the debts. Moreover, the central regions ask the peripheral countries for a higher interest rates than those previously agreed to cover the risk on the debts, making a process of acceleration to increase the spread so that the countries in deficit trade are pressed by the debt spiral. The debt cycle is linked to a social and political scenario of crisis e.g. Greece's economic and financial crisis, in 2009.

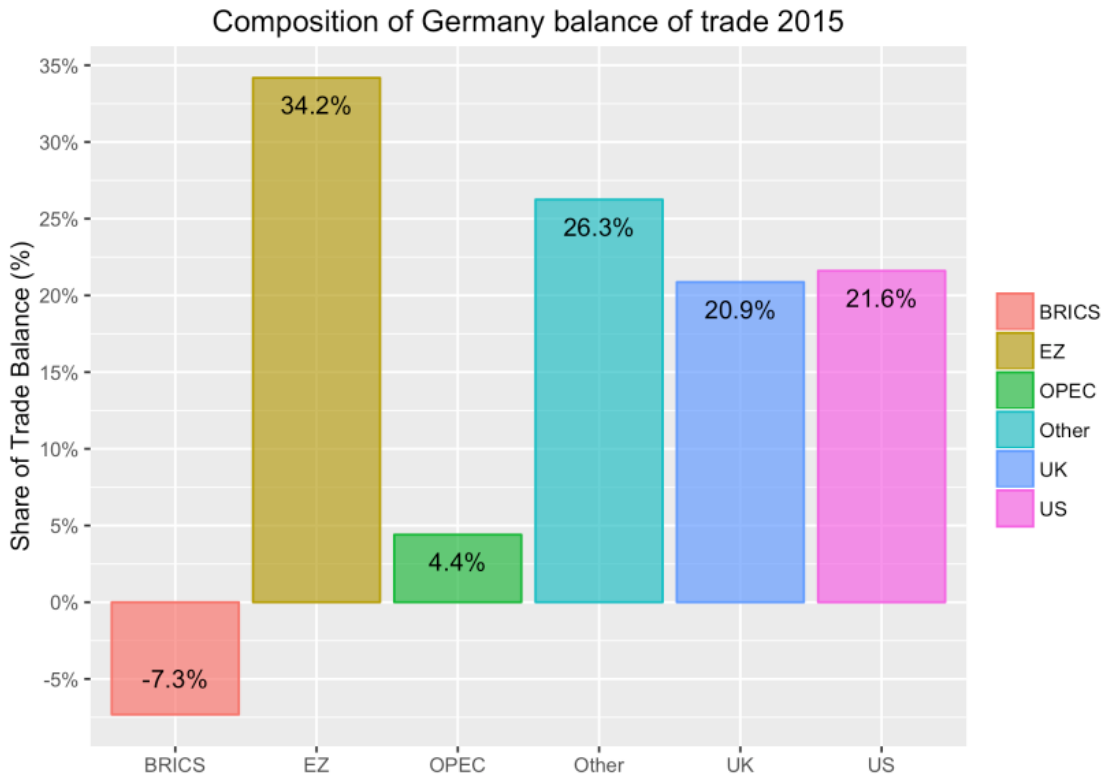

Figure 3: This graphic is connected to the trade trends of Germany, that is both a central region within the EU group and a state in trade surplus. The European area becomes a large internal German market.
Source: Eurostat.

The strategies of political destabilization are led by the financial markets as there is a speculative gain; during the inflation phase the central regions make high interests to create financial instability, linked to the national banks. The private debts of the national banks are repaid by *the state*, who, in turn increases taxes to cover them. It has been reported that public debts create financial and economic instability. Therefore, a financial analysis of the economic crisis must include a study of the national banks' debt level, which is connected to the loan the banks have made to families and companies. There are numerous ideological solutions that create obstacles for the making of public policies and facilitate the neoliberal policy for the free action of the financial market. Most economic interests are linked to the economic élite within the central regions i.e. the industrial classes earn through the sale of goods within the peripheral countries, creating political strategies against trade unions through external economic constraints. Indeed, the policies connected to wage deflation and increase in production are tools that enable the economic system to reach its profit goal (fig. 4; fig. 5) (Acocella, 2005).
However, only some economic élite benefit from the economic advantages within the countries in trade surplus, as the success is linked to the industrial system based on the export of goods and capitals. The exporter territories must decrease their internal consumption as they can become imports which, in turn, create economic advantages for the peripheral regions. Therefore, the citizens within the state in trade surplus do

not always benefit from the big profits made within the countries in trade surplus (Bagnai, 2012).

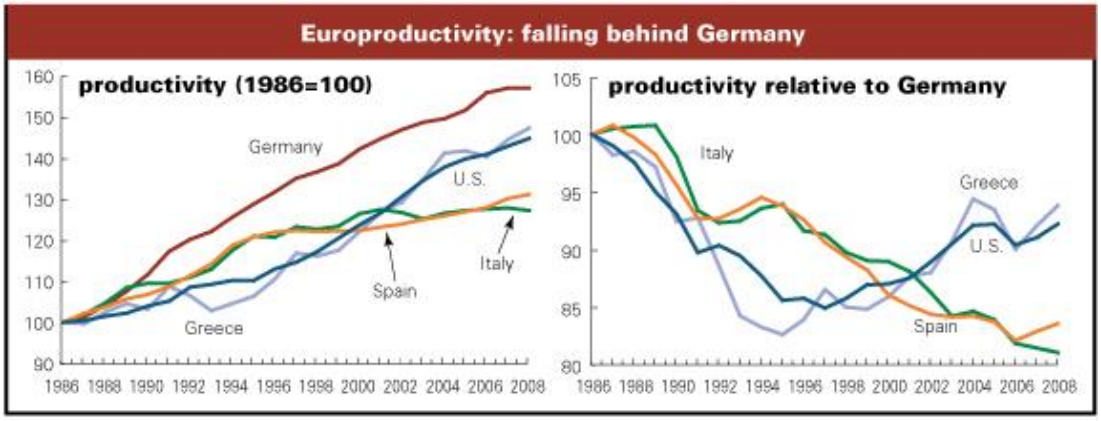

Figure 4
Source: Eurostat.

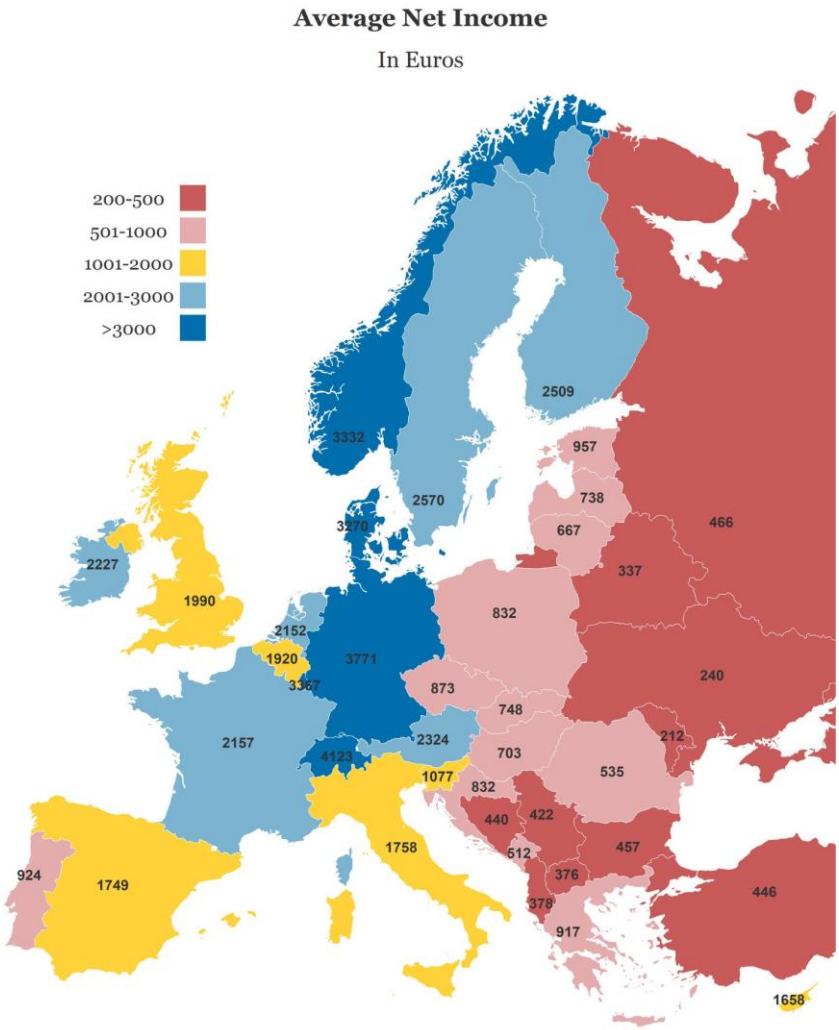

Figure 5
Source: Eurostat.

4. Conclusions

The modern economies are linked to endogenous cycles (Minsky, 1982), i.e. there is an expansive phase connected to both a good economic trend and the introduction of innovations and deregulation of the financial market; there numerous financial agents who take a progressively riskier financial position. There is also a debt step linked to the financial markets and another phase connected to the purchase of financial securities with a high risk level. However, whilst, on the one hand there is an economic and financial trend connected to an inflation trend, on the other there is a recessive cycle.

Frenkel (2009) adds two important links i.e. he emphasises the existence of a transnational level (centre/periphery) linked to the relationships between debts and credits; he also highlights an exogenous feature connected to an economic cycle linked to the changes in economic policies that adopt a fixed exchange rate and the liberalization of the financial markets. The economic and financial analysis always raises the contraposition between centre and periphery, i.e. the former are the United States of America or the Anglo-Saxon countries that are the international financial hubs; then there are all territories in the South of the world. Moreover, Frenkel analyses the economic cycle linked to *The Glorious Thirty* i.e. the period after the Second World War. During this period economic crisis were not so frequent or as large as todays. The change in the economic trends is linked to the choice to deregulate the financial markets promoted by Regan and Thatcher in the '80s concluding the previous period of financial control, called *Bretton Woods*. The Bretton Woods' agreements were linked to the government control of the interest rates and there were national markets that financed the public debt (Reinhart, Sbrancia, 2011). The features of the financial markets were: the local banks' dependence on the National Treasury that is involved in financing public expenditure. The other financial institutions, i.e. banks and pension funds, were linked to the direct or indirect state control. The cost of money was fixed by the state who established goals of maximum limits for interest rates. The capital movement were controlled as the capital flows would have fled to places with lower taxes and the capital inflows were controlled so as to maintain the property of national strategic assets. The national financial institutions were controlled by the governments so as to impose a portfolio constraint and the purchase of a share in the public debt. A limit, linked to the bank credit was imposed to eliminate the risk of a high debt level. The state was not highly indebted, that is its relationships between the GDP and public debt decreased as it did not use interest expenditure linked to the increase in the tax levels for the essential services and the redistribution of income from taxpayers to holders of debt securities.

It is a must to analyse the economic and financial system linked to the '80s when politics controlled finance, if we are to limit the movement of capitals, profits and interest rates. The world connected to the Bretton Woods' agreements was more stable, the national states used some economic and political instruments to change the dynamics linked to the economic and financial recessions.

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REAL ESTATE CAPITAL MARKETS: MARKET OVERVIEW AND PROCESSES OF DISPOSAL AND ACQUISITION OF INCOME PROPERTIES

Francesca Fantuzzi[*], Claudio Santucci[**]

Abstract

The real estate sector retains its attractiveness for institutional investors who rely on advisory companies for their business operations. Following an analysis of the real estate investment market, the objective of the paper is to outline the main players involved, the different investment asset classes and the geographical distribution of investment flows. Secondly, we will discuss the importance of the role of real estate companies, which offer consulting to investors in the processes of disposal and acquisition of income properties. Consequently, a number of case histories of transactions managed directly by the Gabetti Group as advisor will be examined, as well as key transactions in terms of their significant impact on the territory.

Keywords: real estate investment; capital market; office market.

1. Introduction

Real estate has nowadays become a valuable financial asset that can be traded on the global market. The capital can indeed be invested to purchase property able to generate income, even through proper requalification processes.

It is particularly evident that the trend in the real estate market, both residential and commercial, represents a valid indicator for the overall economic situation of a Country.

In particular, the residential sector refers to property where people live; it is appealing to private and institutional investors, pension and welfare institutions and the Public Administration, who seek to satisfy a primary need (i.e. a home), to obtain an economic return on investment (i.e. rent) or to refurbish the property[12].

On the contrary, the non-residential sector comprises property destined for commercial use, requested for the most part by the private and public sectors or by the Civil engineering department. Depending on the objectives of the various subjects involved,

[*] Francesca Fantuzzi, Responsabile Ufficio Studi Gabetti. E-mail: ffantuzzi@gabetti.it.

[**] Claudio Santucci, Deputy General Manager - Head of Capital Markets Italy. Gabetti Agency: csantucci@gabetti.it.

[12] Borghi A., Fantuzzi. F., *Investire nel mercato immobiliare*, in Manuale del Provate Banker, Egea 2013.

the demand for investment is subsequently divided into that for new properties, and that for requalification projects[13].
The commercial sector follows a trend related to GDP. We indeed observe that as the economy of a Country grows and develops, the demand for commercial real estate becomes increasingly more consistent (XU, 2017).In this context, the asset classes which are usually regarded as investment material in Italy refer to non-residential uses, office and retail in particular, even though the residential sector is gradually attracting the attention of investors.
Following the Sub-Prime crisis, the increasing influence of the financial sector on the real estate market has attracted the attention of numerous scholars, who have expressed divergent conclusions about the transformation of real estate into a financial asset.
On the one hand, this process has raised concern for the impact that it could have on the weaker social classes (ERES,2012; von Loo e Albers, 2019; Folk and Richardson, 2017), on the other hand, it has been made clear how financial innovation may be able to solve these social problems.
For instance, by covering examples of different financial products that are essentially part of the 'financialization of housing', (consider e.g. the insurance policies) Gerritsen demonstrates that innovation in finance may effect positive change[14]. Home equity insurance may in fact counteract displacement and allow homeowners to protect themselves against events like the global financial crisis of 2008.
In this perspective of analysis, the trend of Italian real estate market will be examined. A significant increase in capital market investments, in terms of volumes of euros invested, has characterized real estate asset classes in Italy in the last few years. Starting from the market reports by Gabetti Research Department, this paper will analyze the geographical distribution of this flows and the different sectors involved, such as hotel, office, retail and industrial one. Secondly, we will discuss the role of real estate consulting to investors in the processes of disposal and acquisition of income properties, through two examples of transactions managed by Gabetti as advisor in Naples and in Turin.

2. Real estate investment volumes

Starting from 2015, there was a significant increase in capital market investments in Italy, reaching a record investment volume in 2017; consequently, the overall figure for 2018 shows a physiological decline compared to the prior year. From a total volume of around €5 billion in 2014, the value grew to a total of €7.8 billion in 2015, +44% compared to 2014, while in 2016 it amounted to €9.3 billion, +19.4% compared to the prior year. Growth in real estate investment in Italy continued in 2017, reaching a total of approximately €11.2 billion, up +20.4% over 2016.
In 2018, €8.3 billion in investments were recorded. At the quarterly level, after recording a total in-
vestment volume of €1.6 billion in the first quarter, the second quarter recorded €1.5 billion in investments, the third quarter approximately €2 billion and the fourth quarter approximately €3.1 billion.

[13] Ibidem
[14] Gerritsen J., *A Different Perspective: On the Financialization of Housing*, 2008.

In the first semester of 2019 a volume of approximately €5 billion was recorded, a strong increase compared to the same period in 2018[15]. (Ufficio Studi Gabetti, 2019).

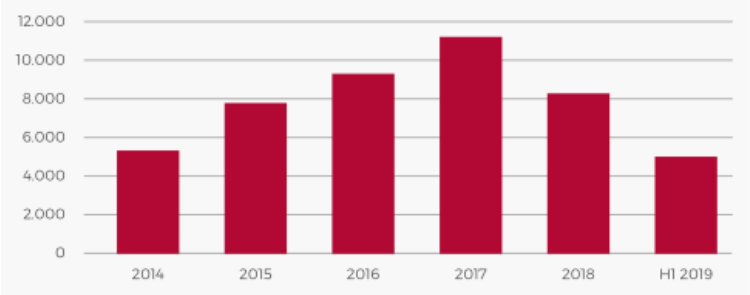

Figure 1: Capital markets investment, Italy (volume - Million €).
Source: Gabetti Research Department analysis.

A total investment volume of €5 billion was recorded in H1 2019. The majority of this volume comprised the hotel sector (43.4%), which recorded more than €2 billion in investments, and the office sector, which accounted for 33.7% of the total, for a volume of €1.7 billion. These were followed by investments in properties in the retail sector, which amounted to €550 million,
accounting for 11.1% of the total, and the industrial segment (industrial and logistic), at €410 million and approximately 8% of the total invested. Investments for other use (mostly Universities, Student Housing and Land) at €80 million, accounted for 1.7% of the volume invested, while properties for residential use represented 0.9% of the total, with a volume of approximately €45 million. Lastly, the healthcare/nursing homes segment accounted for 0.6% or €30 million, and the mixed segment for 0.3% or €16 million.

[15] Ufficio Studi Gabetti, *Investment Overview Q2 2019*, Milano, 2019.

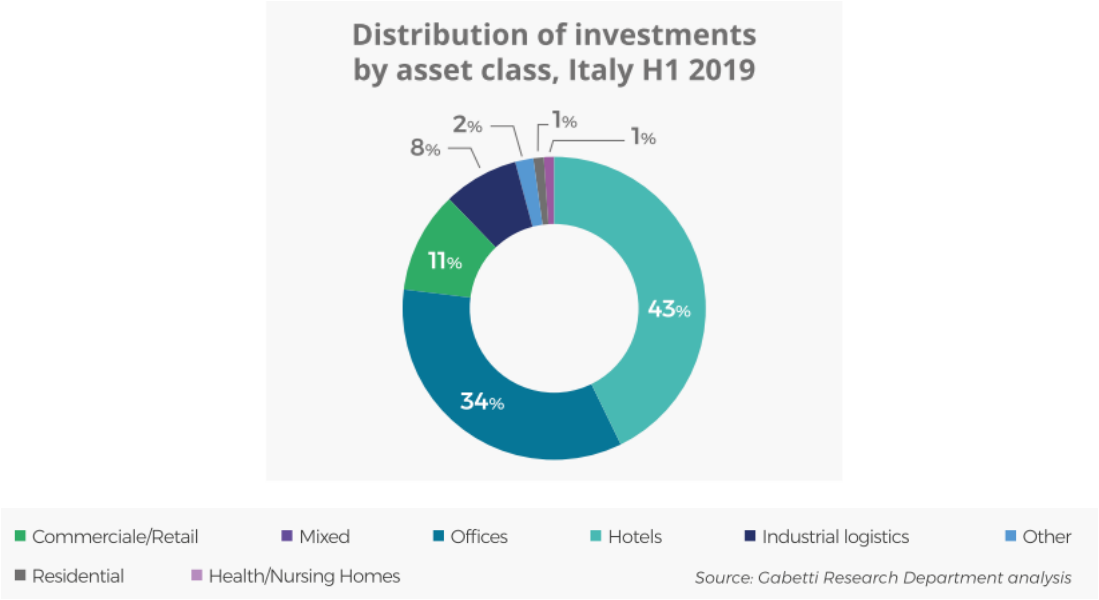

Figure 2: Distribution of investments by asset class, Italy H1 2019.
Source: Gabetti Research Department analysis

During 2019, the majority of investments (approximately 52%) attributable to a specific geographical area took place in Northern Italy, followed by the Centre with approximately 13.7% and the South with 3.6% of the total, while the remaining 30.7% comprised portfolios distributed throughout the country.
More specifically, the investment volume recorded in the province of Milan accounts for 31.7% of the national total, followed by the province of Rome with 12.4% of the total, while 0.8% comprises investments in mixed portfolios with properties situated in the two cities.
At the absolute level, the total investment volume in the province of Milan was approximately €1.6 billion, while in the province of Rome it was around €618 million. Northern Italy also ranks first in terms of number of transactions, at 57%, followed by the Centre (22%) and the South (8%), while 13% of the investment volume is not attributable to a single area.

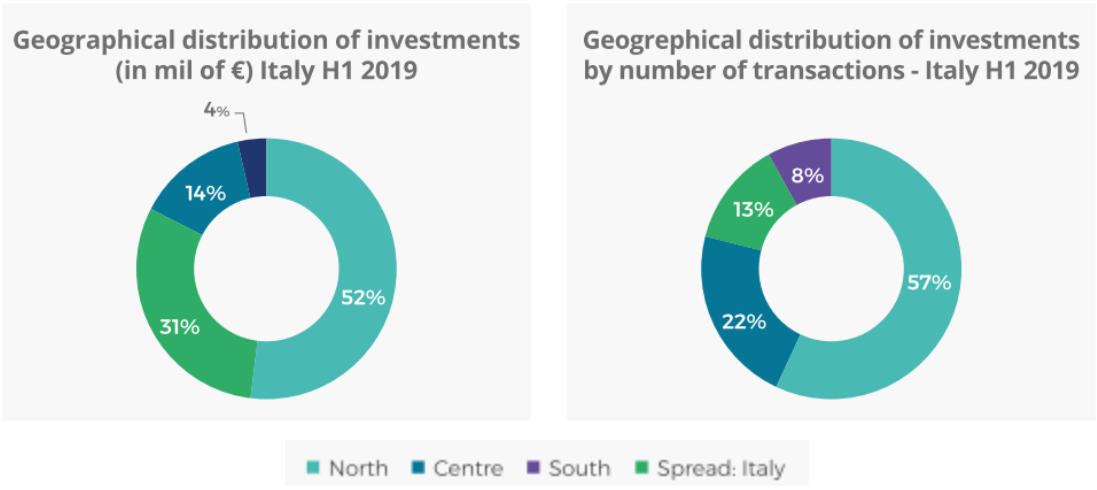

Figure 3: Geographical distribution of Investment volumes
Source: Gabetti Research Department analysis

3. Real estate investment volumes by sector

3.1 Focus on hotel

After the year 2018, in which hotel investments for approximately €718 million were recorded, the first half of 2019 recorded over €2 billion in investments (43.4% of the volume invested), a sharp increase over the same period in 2018[16].
Mention goes to an important transaction in the hotel segment during this half-year, comprising a portfolio of 8 assets, with a predominance of international capital (91%) compared to domestic capital (8%). Venice, Florence and Rome were the most attractive cities in the first six months of 2019, with high-end hotels recording the greatest interest.
The first six months of 2019 confirmed the preference for high-end hotel facilities and a predominance of foreign investors, at 91%, following the purchase of two major portfolios: one of 15 assets by the USA and one of 8 assets by France. In 2018, foreign investors represented approximately 67% of the total invested, with France and the USA among the top investors
Hotel facilities recorded a +1.6% change in terms of overnight stays in 2018 and +3.2% in arrivals compared to 2017, confirming the growth trend that began in 2014. Italy's appeal also emerges from the breakdown in overnight stays, with 50% of the total 279 million originating from foreign countries.

3.2 Focus Office

Total reported investment in the office market in H1 2019 amounted to approximately €1.7 billion. The highest investment volume attributable to a specific region was recorded in Lombardy (81.6% or €1.4 billion), followed by Lazio with €282 million (16.7%).

[16] Ufficio Studi Gabetti, *Hotel Overview Q2 2019*, Milano, 2019.

In detail, a total of 36 transactions were mapped: 24 in Lombardy (of which one mixed office/retail property), 9 in Lazio, 1 in Veneto, 1 in Piedmont, 1 in Friuli-Venezia Giulia, (the latter with a mixed residential/office building).
The average value of estimated investment per individual asset in the office sector, excluding transactions involving mixed properties or parts of mixed portfolios, was approximately €51 million in 2018.

Figure 4: Geographical distribution of office investment volumes.
Source: Gabetti Research Department analysis.

3.3 Focus Retail

Retail investments reported during the first half of 2019 amounted to €550 million. The highest investment volume attributable to a specific region was recorded in Lombardy (55,7% or €310 million) and Lazio (36.2% or €200 million).
In detail, a total of 16 transactions were mapped: 61 from a portfolio of discount stores distributed across the country, 7 in Lombardy, 4 in Lazio, 2 in Veneto, and individual transactions in Piedmont, Campania and Friuli Venezia Giulia.
The average value of estimated retail investment per asset, excluding transactions involving mixed properties or portfolios, was approximately €39.7 million in H1 2019.

Figure 5: Geographical distribution of retail investment volumes.
Source: Gabetti Research Department analysis.

3.4 Focus Industrial

Reported investments in the industrial market (which includes both the industrial and logistics sectors) amounted to a total of approximately €410 million. The highest investment volume attributable to a specific region was recorded in Piedmont (38% or €156 million), followed by Lombardy, with €107 million (26.2%).
More specifically, a total of 23 transactions were mapped, involving logistics properties and areas: 7 in Lombardy, 4 in Piedmont, Veneto and Emilia Romagna, 3 in Lazio, 1 in Campania.
The average value of estimated investment per individual asset in the industrial/logistics sector in 2018 was approximately €20.5 million.

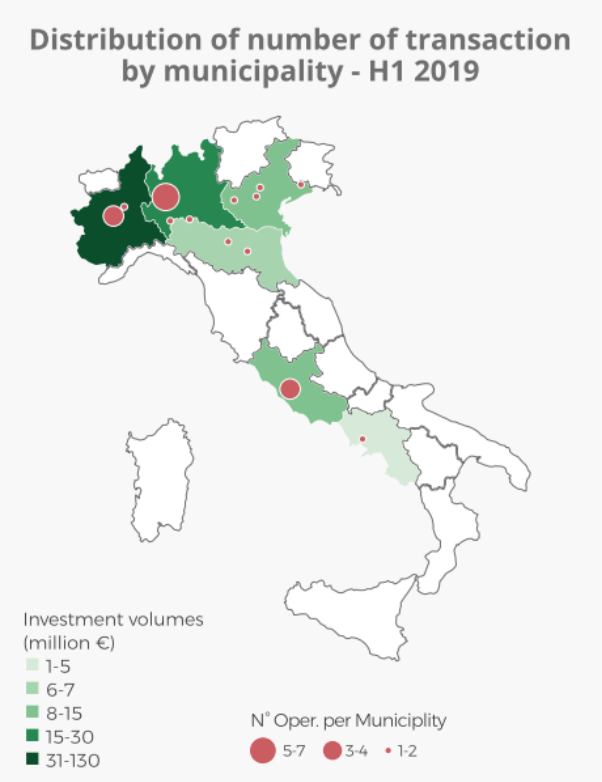

Figure 6: Geographical distribution of industrial investment volumes.
Source: Gabetti Research Department analysis.

4. The geography of investments

In the real estate investment market, Milan confirms itself as economic-financial center, catalyzing interest above all in the office sector, while in Rome investments are more distributed in the various sectors, with particular attention to the retail and hotel sector, thanks to its nature as a cultural-tourist attraction.
Even Florence, from this point of view, is increasingly at the center of investment operations in the two sectors, while Emilia Romagna, with Bologna and Reggio Emilia, is being characterized by an increase in investments in the industrial-logistic sector.
In addition to more traditional investments, we are witnessing of an increase in the transformation of obsolete property, to be redeveloped and commercialized, which in the coming years will be one of the main products on which long-term investors will concentrate[17].
On a global level, Italy, due to its geographical position and to the fact that it is bathed by the sea, has seen a growing interest in the tourist accommodation sector by international investors. That's why, we expect significant growth in investment in the

[17] Fantuzzi, Cogotti, *Il mercato degli investimenti immobiliari*, (S)radicamenti, Società di studi geografici. Memorie geografiche NS 15, pp. 615-625; 2017.

hotel asset class, which will pay an increasingly important role in investor asset allocation.
According to the Focus on Office quality, by Gabetti Research Department, we can analyze the weight of certain drivers in the marketability of properties with office designated use in Milan. Statistics were drawn up based on 259 sale and lease agreements stipulated in 2017 in Milan and its hinterland and 188 agreements stipulated in 2016.
The factors analyzed are:

Size: measured according to the size of the areas taken up;

Building quality: measured according to Grade;

Accessibility: measured in terms of the distance of the properties from the underground.

An analysis of the sizes most in demand highlights that in both 2016 and 2017, areas under 700 sqm had the biggest market in terms of contracts stipulated. In 2017 in particular, they accounted for approximately 51% of the total, compared to around 46.8% in 2016.
The available data indicate how a building's Grade is a decisive factor, with Grade A buildings achieving higher rent across all regions.
Proximity to the underground is also a key factor in terms of commercial appeal. In 2016, approximately 58% of the agreements stipulated involved properties that were less than 500 meters from an underground station. This trend was observed in 2017 as well, again accounting for about 58% of agreements stipulated.
Moreover, there continues to be a direct relationship between distance from the underground and rent, albeit with different trends in the average unit rents depending on grade. Lastly, the analysis confirms the growing importance for tenants of factors such as accessibility and the presence of services in the area.

2017		
Distance from subway station	Lease agreements (%)	Average rent (€/sq.m/year)
Underground < 200 m	20%	340
Underground > 200 m <500 m	38%	291
Underground > 500 m <1,000 m	20%	196
Underground > 1,000 m < 1,500 m	7%	196
Surface lines	11%	180
Not connected	3%	158
Total	**100%**	

Table 1: take-up of office building by distance from subway station.
The values indicated refer to unit headline rents.
Source: Gabetti Research Department analysis.

2017				
Zone / Grade	Rented area (%)	lverage rent (€/sq.m/year		Rent A/B
CBD Historic Center				
A	38%	425		111%
B	62%	382		100%
CBD Porta Nuova				
A	50%	393		140%
B	50%	281		100%
Centre				
A	38%	420		144%
B	63%	291		100%
Semi-centre				
A	43%	281		117%
B	57%	241		100%
Periphery				
A	40%	222		128%
B	60%	174		100%
Hinterland				
A	29%	200		142%
B	71%	140		100%

Table 2: take-up by grade of office building in Milan.
The values indicated refer to unit headline rents.
Source: Gabetti Research Department analysis.

5. The main players involved in capital markets[18]

We can divide investors into two categories: institutional and private ones; the first ones are mainly real estate funds, property companies, credit institutions, financial and insurance institutions,
private pension funds and developers; the second ones are construction companies, non-real estate companies that diversify through real estate, private families with important budget and club deals.

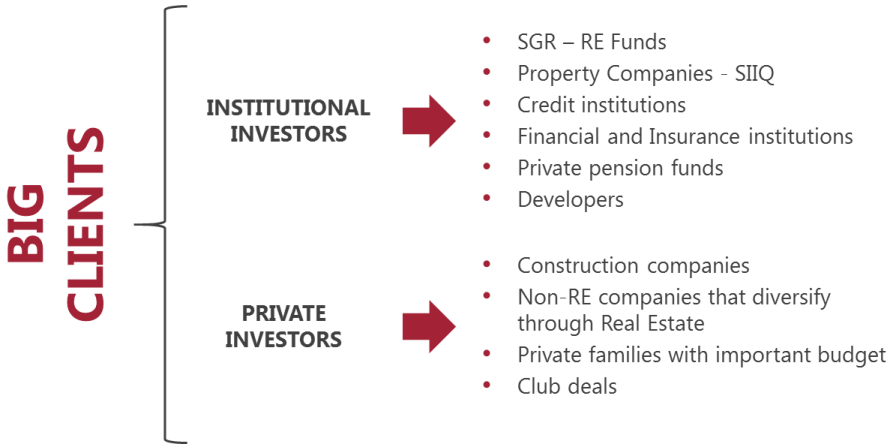

Figure 6: Investors.
Source: Gabetti elaboration.

[18] For a complete overview, Fantuzzi, Cogotti (2017), *Il mercato degli investimenti immobiliari*, (S)radicamenti, Società di studi geografici. Memorie geografiche NS 15, pp. 615-625.

There are four investment criteria connected to the different risk profile, estimated yields and property maintenance: *core, core plus, value added* e *opportunistic*. (see also Borghi, 2009, pp. 12-13)

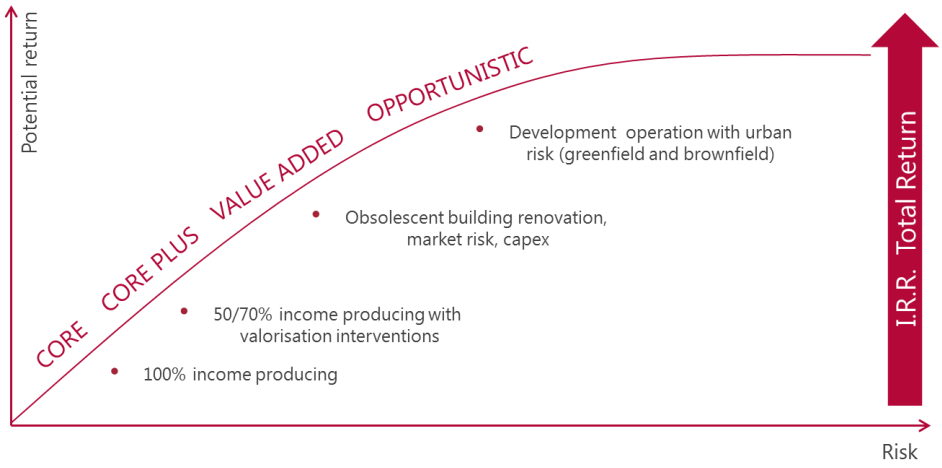

Figure 7: Investment criteria.
Source: Gabetti elaboration.

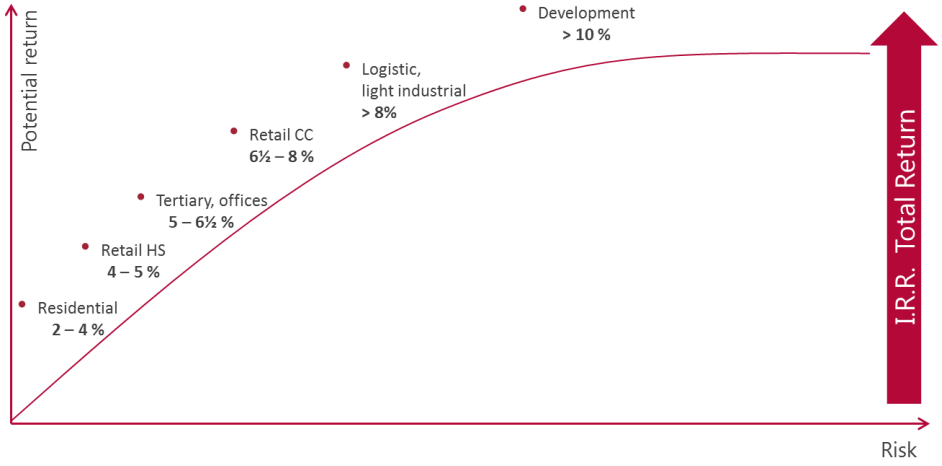

Figure 8: Prime gross yields.
Source: Gabetti elaboration.

6. Capital market advisory: the gabetti group experience

In capital market advisory, we generally can find different assignment/ mandate typologies:

Advisory mandate: consultancy on investment operations for sell side or buy side;

Brokerage mandate: intermediation in the trade of operations between seller/buyer;

Mandate for the implementation and management of selling procedures through competitive process;

Sell & Lease back operations mandate.

The main asset classes in capital market transactions are:

Directional buildings/detached offices;

Shopping centers, retail parks, big box retail, high street retail;

Logistic platforms, warehouses, industrial sheds;

Receptive buildings, mainly hotels;

Senior living, student houses;

Detached residential buildings.

As an example, the Capital Markets department is the Gabetti Agency Business Unit that specifically works for big clients and it supplies real estate consultancy related to the disposal and acquisition processes of single properties or building portfolios, finalizing sales and purchase transactions. (www.gabettiagency.it).

The client is supported with a strategic and integrated approach, interacting with the other company divisions in all the steps of the operation: from the analysis of the initial pricing of the building or portfolio, to the implementation of the best selling/purchasing strategy, to the production of costumed marketing materials, till the support in the operation closing.

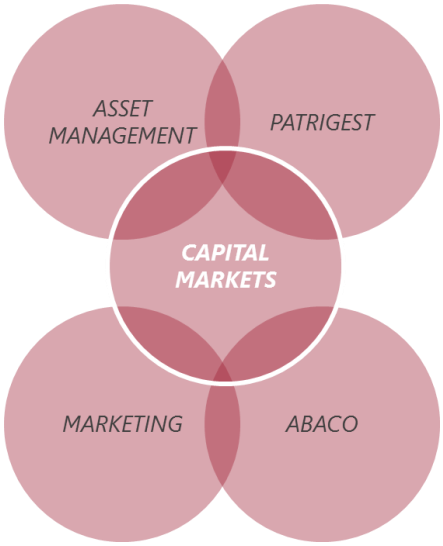

Figure 9: Work approach – Team Work.
Source: Gabetti elaboration.

The Department offers a service of coordination of all the actors involved in the deal till the closing of the operation with the role of **project coordinator** in relation to the disposal and acquisition of both single assets and building portfolios, that comprehend mainly income generating properties.

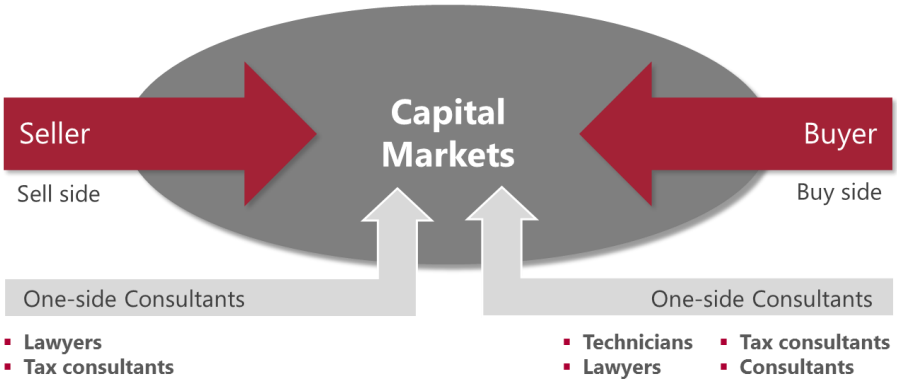

Figure 10: Work approach – coordination role.
Source: Gabetti elaboration.

Every step of capital market operations is really important and we can divide it into three main phases: analysis and assignment acquisition, pre-commercialization and soft marketing phase, commercialization and marketing phase

Each case, as we have seen, has its own specificity, which also translates into the relationship with the consulting company: these are processes that do not always start with an information activity, which the advisor does to the market, once received the mandate assignment; often, in fact, we are faced with "off-market" operations, in which the potential buyer, interested in a specific property, through his advisor, sends an letter of interest to the "property" without the asset being actually on the market.

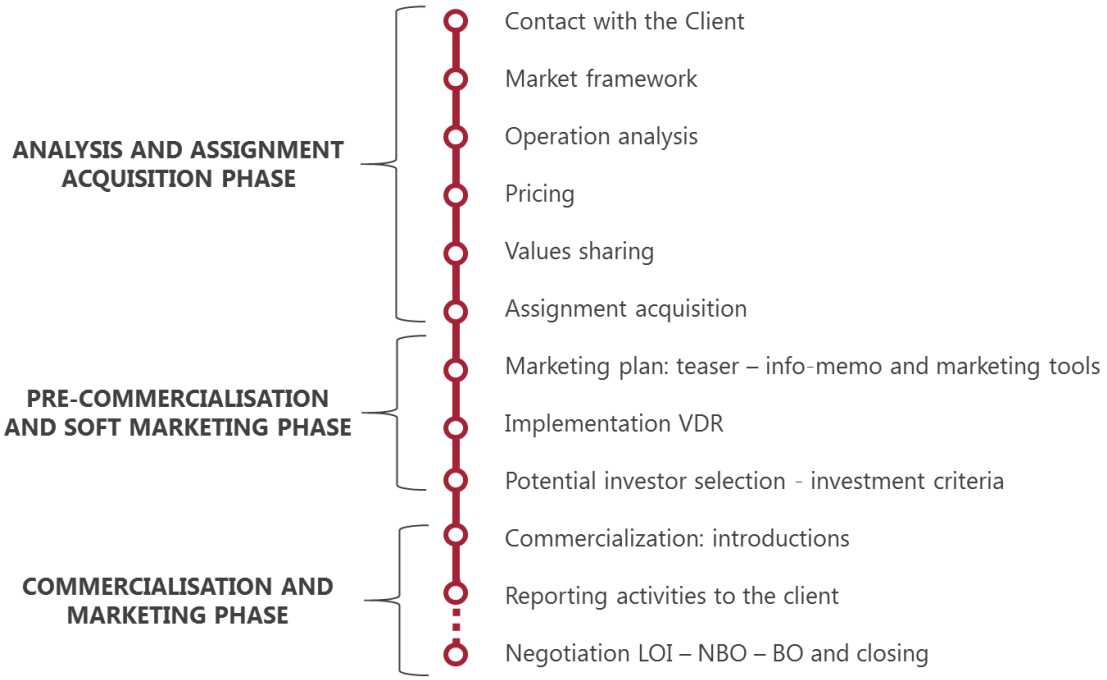

Figure 11: Selling mandate operative process.
Source: Gabetti elaboration.

Figure 12: Purchasing mandate operative process - Off market operations.
Source: Gabetti elaboration.

7. Case Histories

To clarify capital market operations we can show two examples of transactions carried out by Gabetti Agency ad consultant.
The first one in Naples regards an historic building the previous headquarter of the newspaper "Il Mattino", on behalf of Seneca Fabbricati (Caltagirone Group) to the company Chiatamone 65 srl, with a loan from Banco BPM[19].

VIA CHIATAMONE	NAPOLI
Vendor	GRUPPO CALTAGIRONE
Purchaser	PRIVATE
Nature of Instruction	SELL SIDE
Size	7.500 sqm
Date	2019
Price	€ 14,3 mil
Asset Type	Mixed use Office & Retail
Deal Type	Asset Deal

Table 3: via Chiamontone, Naples.
Source: Gabetti Agency.

The second one in Turin: the Real Estate Lanificio Maurizio Sella, a vehicle of the Sella group, purchased the complex that was the headquarters of Juventus F.C. from 2002 to 2018 in Corso Galileo Ferraris 32 in Turin. The building, intended for office use of over 5,000 square meters, was sold by a Piedmontese private club deal and will become a new Sella Group in Turin.

[19] http://www.gabettigroup.com/it-it/area-stampa/dettaglio/artmid/1738/articleid/800.

CORSO GALILEO FERRARIS, 32 |	**TORINO**
Vendor	PRIVATE
Purchaser	BANCA SELLA HOLDING
Nature of Instruction	SELL/BUY SIDE
Size	5.300 sqm
Date	2019
Price	€ 9,625 mil
Asset Type	Office
Deal Type	Asset Deal

Table 4: case history: Corso Galileo Ferraris, Turin.
Source: Gabetti Agency.

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REAL ESTATE MARKET AND FOREIGN INVESTMENT FLOWS. COULD BREXIT ENABLE REDISTRIBUTION?

Simona Epasto*

Abstract

Foreign investment in the real estate market has been growing steadily in the UK economy for more than 20 years, to the point of creating the inverse problem of emptying the central districts, a direct consequence of the wealth effect generated by the overvaluation of the currency. This leads real estate developers to leave their own space empty rather than rented, with the aim of increasing the instrumental value of the property, giving up the progressive profitability of the asset and causing damage to the real economy, due to the decrease in available real estate assets. While there is a positive correlation between property prices and the current account, the long-term effects of Brexit could lead to a loss of attractiveness of the UK as a preferred location for real estate investments and cause a decline in foreign flows in the real estate market, opening the door to a crisis in the sector, the resilience of which is already being tested by the closure of several investment funds. Through the analysis of sector variables and related geopolitical and geo-economic issues, the work constitutes an attempt to outline the possible scenario of redistribution of foreign investment flows in the real estate sector and the development prospects of the main European countries and capitals potentially affected by their reallocation.

Keywords: housing market, Brexit, foreign investments.

1. The role of foreign investments in national economies

The movement of capital flows from a country of origin to a recipient country can be summarised in two main subcategories: the first – which includes loans, venture capital investments, acquisitions of foreign companies, etc. – concerns international portfolio investments, that represent a category made mainly for financial reasons, usually in the short term. On the contrary, the second one involves *foreign direct investments* (FDI), made by a person resident in a country to establish long-term relationships and to acquire durable interests and control in an enterprise resident in another one, according to an industrial logic. This subcategory can be further divided into those generated by domestic companies abroad *(outflow*) and those generated by foreign companies on the domestic territory (*inflow*, as the UK case, which will be discussed in the paper). According to Krugman and Obstfeld (2007), the *raison d'être* of FDI is the construction of multinational organizations capable to extend the control capacity

* *University of Macerata*; E-mail: simona.epasto@unimc.it.

of a company (which has its origin and headquarters in one country and aims to broaden the geographical boundaries of relevance in another country) and not an *alternative* method to make international loans between countries with industrialized economies.

Among the positive effects of *foreign direct investments*, it should be emphasised that it can boost national productivity and, consequently, increase employment and salaries (Dhingra et al., 2016); however, it must be kept in mind that the inflow of capital from one country to another is a *debt* for the recipient and – due to its nature – FDI should be managed carefully. It can be an advantage or a disadvantage depending on the conditions in the receiving country: for example, if there is already a high level of debt in the latter or the employment rate is rather high, the injection of capital from abroad could have effects opposite to those hoped for (Bagnai, 2004; 2012). Multinational companies, through the transfer of technological and managerial know-how, can also stimulate production improvement in an economic/social/geographical environment different from that of origin, while according to others (Harrison and Rodríguez-Clare, 2009) investment flows can also be seen as an element of stimulus for national companies, since they raise the level of competitiveness through leaner production processes, more efficient production chains, etc.

1.1 The effects of geopolitical patterns on the trade balance of investments

Recent literature suggests that larger and richer markets tend to attract more investment and convey localisation choices (Dhingra et. al., 2016), which is why it is desirable to assume that the UK has become a sort of *repository* for investment in real estate, particularly over the last fifteen years. There are many studies investigating the effects of a condition of membership or non-membership of the EU. Straathof et al. (2008), using a *gravitational model* containing some classic independent variables (GDP, geographical proximity, GDP per capita, *cultural distance*, etc.), estimate that membership of the EU can correspond to an increase ranging from +14% to +28% of total foreign investment. The model considers if the country belongs or not to EFTA - in the case of Switzerland - in the same way as countries completely outside the European Union, such as, for example, Japan or the USA. In other words, this means that an *exit* negotiation from the EU – with any type of trade/bilateral agreement – could anyway lead to reductions in foreign investment flows to the UK. Other findings (Bayer et. al., 2008) suggest that *full* membership of the European Union leads to more intense trade with other member countries, about a quarter more than countries that are bound by EFTA-type agreements (and the like). Similarly, Campos et al. (2015) estimate that EU membership encourages to trade flows ranging from +25% to +30% more than non-member countries. More recently, however, Dhingra et al. (2016), estimate that the positive effect of a country's *full* membership of the European Union can vary from a minimum of +14% to a maximum of +38% on the scale of foreign investment, with an average of around +28%. The final hypothesis of the latter (on the basis of a *gravitational model* similar to that of Straathof et al., with more recent data) is that, following an exit from the EU, investment flows to the United Kingdom may fall by about 22%. There are also several contributions that argue that foreign investment benefits in terms of added value also for other companies operating in the same segment in which the investment is located (Haskel et al., 2007), both in terms of productivity (Bloom et al., 2012) and in terms of GDP growth (Alfaro et al., 2004), especially for those countries that, like the United Kingdom, have a fairly strong

financial sector. In view of this, there are some more pessimistic estimates about the reduction in household income (-3.4% according to Alfaro et al., 2004), and less drastic evaluations (-2.2%, according to Dhingra et al., 2016), on the assumption of a scenario that foresees the exit from the EU by a Member State. In general, it is clear that there is a shared view that the possibility of increasing trade investment flows with other countries (both within and outside the EU) rises depending on whether the country is a Community member or not.

2. Real estate rootedness of commercial properties in UK

According to some not too distant estimates (Real Capital Analytics, 2013), the United Kingdom has become one of the world's favourite *customers* for the export of commercial property flows, reaching a *negative balance* of about 20 billion pounds (or 33.6 billion dollars in 2013). Through a reworking of data from RCA, ONS and *Capital Economics*, it was possible to draw up a sort of 'flow map' from and to (mainly) the United Kingdom, by observing two time periods, 2007 and 2013, obtaining an eloquent *picture* of the considerable increase in the flow of commercial property exports to the UK in less than a decade.

Country of provenance	**2007(t_1)**	**2013(t_2)**	**Variation (%)**	**Change (absolute value, bn £)**
Extra-EU countries				
USA	**5,300**	**5,600**	**+5,66**	**+0,3**
Kuwait	**,000**	**3,060**	**.**	**+3,060**
China	**-,434**	**2,310**	**+632,26**	**+2,734**
Singapore	**1,310**	**2,120**	**+61,83**	**+0,81**
Hong Kong	**,015**	**1,330**	**+8.766,67**	**+1,315**
Canada	**,757**	**1,140**	**+50,59**	**+0,383**
UAE	**,575**	**,921**	**+60,17**	**+0,346**
Malaysia	**,007**	**,825**	**+11.685,71**	**+0,818**
South Korea	**,000**	**,455**	**.**	**+0,455**
Saudi Arabia	**,360**	**,345**	**– 4,17**	**–0,015**
Qatar	**,049**	**,322**	**+557,14**	**+0,273**
Australia	**,965**	**,168**	**– 82,59**	**–0,797**
Israel	**1,280**	**,091**	**–92,89**	**–1,189**
Total amount of Extra-EU countries	**10,184**	**18,687**	**+83,48**	**+8,503**
EU countries				
Germany	**-4,410**	**,557**	**+112,63**	**+4,967**
Spain	**-,623**	**,467**	**+174,95**	**+1,09**
Netherlands	**-,539**	**,283**	**+152,50**	**+0,822**
Switzerland	**,030**	**,111**	**+270**	**+0,081**
Ireland	**4,660**	**,094**	**– 97,98**	**– 4,566**
Sweden	**-,543**	**-,181**	**+66,67**	**+0,362**
France	**-1,410**	**-,390**	**+72,33**	**+1,02**
Total amount of EU Countries	**-2,835**	**0,941**	**+133,18**	**+3,776**
Whole extra-EU + EU	**7,349**	**19,628**	**+167,07**	**+12,279**

Table 1: UK balance of investment flows in commercial property (billion pounds) – 2007/2013.
Source: Author's work on Real Capital Analytics, Office for National Statistics and Capital Economics data.

Over the period 2007/2013, the United Kingdom experienced a dramatic increase in the flow of investment in commercial property from around the world (from 7.3 billion to about 20 billion pounds, almost tripling the figure). In 2013, inflows coming from commercial and residential property helped to cover about one third of the current account deficit, while in 2007 the *real estate trade deficit* accounted for only about one eighth of the trade balance. From the data in Tab. I, it is clear that the United Kingdom is a preferred destination for investment, especially from countries outside the European borders (in some cases, in 2007 there was no trace of real estate trade flows, while in 2013 - Kuwait, Hong Kong, Malaysia - the flows reach enormous proportions). In general, all *non*-EU countries have a positive balance towards the UK, even among those that have experienced a decline, while remaining positive (Saudi Arabia, Australia, Israel). As far as the EU *countries* are concerned, over the same period, all – with the exception of Ireland – have increased their real estate trade balances towards the UK, sometimes remaining negative (France and Sweden), sometimes jumping from a strong debit balance to a surplus balance (Germany, Spain, the Netherlands).

2.1 The real estate market of investments and leases in the UK. What role for Brexit?

For that it concerns the investment market, according to RICS, the first uncertainties about the intention to invest in commercial property in the UK emerged from the February 2016 reports.

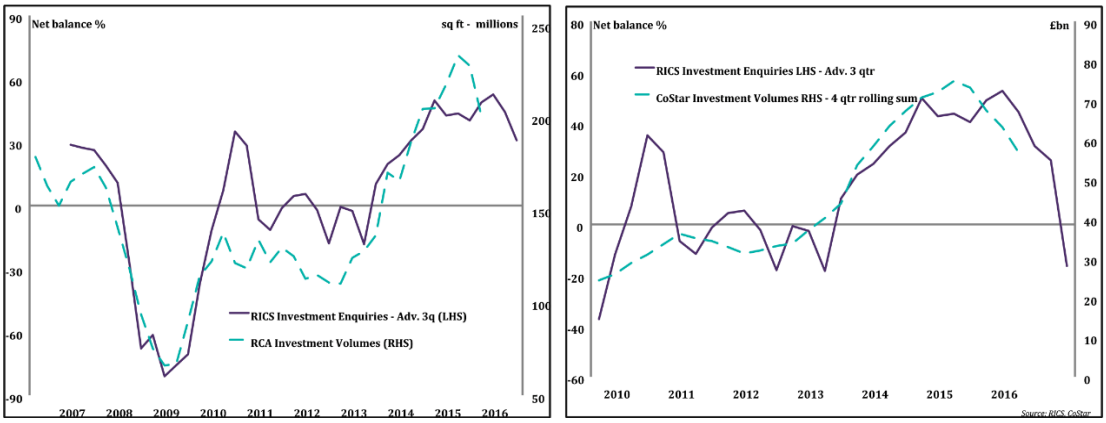
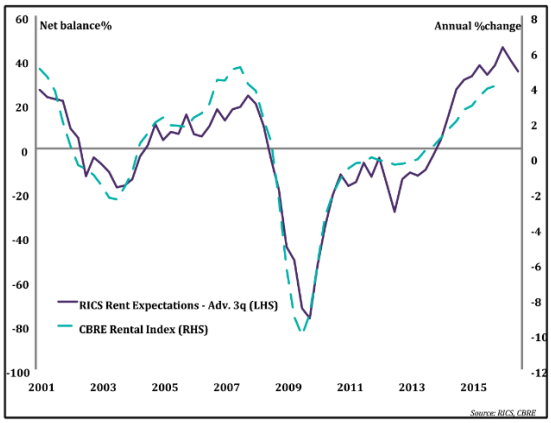
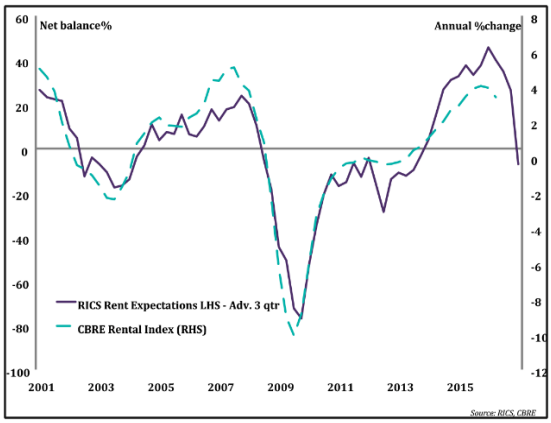


Figure 1: RICS investment intentions and historical series of investment volumes (mln sq.m.) RCA. Figure 2: RICS investment intentions and historical series of investment volumes (bn £) CoStar.
Source: RICS, 2016.

After two years of record volumes (2014 and 2015) the series starts to diverge downwards (RCA, 2016), in the first 3 quarters of 2016 (Fig. 1). Although volumes were set to remain rather high according to *pre-Brexit* projections (RICS, 2016), post-vote uncertainty contributed to lower investment forecasts in the commercial real estate market. In terms of monetary flows (CoStar, 2016), after the peak reached in the second quarter of 2015 (£75 billion), by mid-2016 investments in the real estate market were already reduced to £57 billion (Fig. 2) and the drop in demand suggests an even greater decline. Investment intentions are therefore affected by the immediate *post-Brexit* period and fall from +25% to -16%, the most significant decline on a quarterly

basis since 2006. Aggregating the figure to that of foreign investors, the reduction in demand widens to -27%, still far from the values found in the immediate post-crisis 2009 (around -40%).





Figures 3 and 4: Quarterly Expectations of RICS Lease and CBRE Lease Index, 2001-2015.
Source: RICS, 2016.

With reference to leases, the index drawn up by CBRE (2016) shows that until the last quarter of 2015 the demand for leasable space (Fig. 3) from both the commercial/industrial sector (retail, primary and secondary industries) and the residential sector continued to grow, albeit with modest values (+1%). On the other hand - in line with investments - at the beginning of 2016 the demand for rented space began to soften, before the referendum outcome. Looking at the same graph - updated, however, to the data immediately following the *leave* vote (August 2016) - it can be seen that the rental index has begun to fall (slightly) down (about -1%). For the first time since 2012, in the second quarter of 2016, demand was unable to increase (Fig. 4). On the other hand, rental expectations (quarterly basis) are strongly affected by the post-referendum shock, with a drop from +26% to -7% (a value that was already showing negative signals and that swelled following the *leave*, despite the fact that they remain projections, which however have always followed roughly the same fluctuation of rental indices from 2001 onwards).

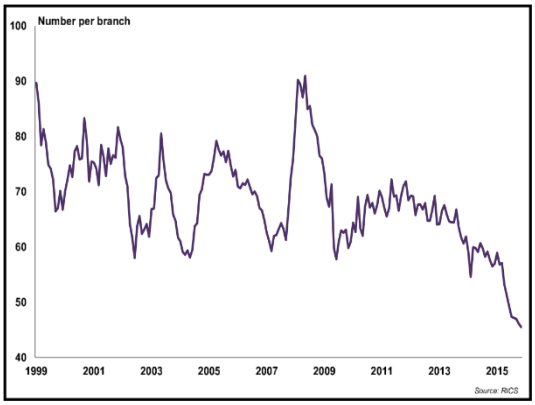


Figure 5: Cyclicality of owned stocks for sale and lease, 1999-2015.
Source: RICS, 2015.

The real reason for the downturn in real estate is the lack of stocks available for sale and rental (Fig. 5), according to an aggregate index developed by RICS (2015) based on surveys of major real estate companies in the UK. Fig. 5 shows that the cyclical trend of previous years has progressively eased from 2009 to 2013, with a collapse from 2015 onwards. Over the same period (2009-2013), real estate prices in London increased by 47% and the nominal value of the pound sterling rose by 13%. On the basis of these reasons, many people already agreed two years ago (Dumas, Hutchings, Sieracki, Bloom) that the too high value of the pound and the expansion in demand in recent years would have led to a decline in the real estate market, assuming a decline in the nominal value of the pound (which later occurred in the run-up to 2017) with a consequent fall in real estate prices as a solution to the reversal of the trend. Of course, *post-Brexit* uncertainty has contributed to the problem, but it is not and will not be the only reason to explain the downturn in the sector.

3. Prospects of real estate scenarios in Europe

In the meantime, in Europe, the economies of Portugal, Spain and Ireland have been plunged into deep and damaging recessions as a result of the global crisis. GDP fell by almost 10% in all three countries, although the lowest point was first reached in Ireland. This decline was accompanied by a sharp increase in the unemployment rate in each country (+17.4% Spain, +8.7% Portugal, +9.8% Ireland), (Eurostat, 2016). Until 2008, the real estate market boom fuelled speculation in the construction sector (property tax increases, etc.) with a consequent collapse following the financial crisis, which led to a drastic reduction in property market taxes and huge losses for domestic banks (Lourenço et al., 2015), leaving the financial system in a fragile state (collapse of property prices of -50% in Ireland, -40% in Spain, -20% in Portugal). As a result, public debt rose to over 100% of GDP in Ireland (Bainistíochta et al., 2015) and Portugal, to 82% in Spain, resulting in long-term financial debt because of *bailout* plans and financial aid needed to restore the 'hole', (Martí et al., 2015). Nevertheless, following the great recession, these three financially troubled European nations have emerged among the leaders of the economic recovery of the Eurozone, which is particularly true for Spain and Ireland (Portugal is travelling at a slower pace). In this

context, *outperformance* in these countries has started to attract the attention of international investors - a particularly visible trend in the real estate sector. There are many reasons for a reversal of the fortunes of the countries previously referred to as *'Sick man of Europe'* (RICS, 2015), including reduced labour costs, labour market reforms (reduced severance indemnity, flexible working hours), wage increases, increased disposable income, increased household consumption, increased exports. The sharp fall in prices (2007-2013; Ireland -66%, Spain -32%, Portugal -22%), together with the glimpsed favourable economic conditions, suggested solid returns on commercial property to investors. Ireland has far exceeded pre-crisis levels, while Spain has not, however, experienced a sharp rise, while Portugal is almost realigned to 2008. It is no coincidence that those countries that have adopted the most expansive policies in the last five years (post-crisis) are the ones that are now reaping the greatest benefits in terms of the recovery of the real estate market in Europe. Ireland and Spain - in fact - are among those with the highest negative primary budget balance in the post-crisis five-year period, while Portugal follows different dynamics of recovery (it was the slowest to suffer the shock of 2008 with a gradual, but persistent, decline in the market, as well as its recovery).

For that it concerns the various exit negotiation hypotheses that some people have already feared (Irwin, 2015) during the previous year (EEA agreements on the Norwegian model, FTA agreements, bilateral agreements on the Swiss model, customs union on the Turkish model and MFN agreements), in general, in the event that countries converge towards 'economic integration', it is easier to fall back into the free trade area; vice versa, when there is a 'competitive divergence', the choice of customs unions, with the respective tariff and non-tariff barriers, is more plausible. In the case of the United Kingdom, by 2015 it is the country with the highest negative balance of goods and services towards the EU and – therefore – it would not be a gamble to assume that the solution goes back to EEA or FTA agreements, maintaining the free movement of goods and services. In conclusion, any hypothesis of evolution of the real estate market, at the moment, remains suspended on the basis of the trends recorded in recent years. As long as the *post-Brexit* is not absorbed by the final outcome of the vote, a climate of uncertainty among investors will continue to exist. Of course, the Brexit affair has more rapidly fuelled a recent downward trend in the UK real estate market for the reasons set out above, although to assume *(un)entrenchment* would be a constraint given the strength and attractiveness of the UK market. In this context, the countries that can *take advantage* of the period of post-referendum uncertainty (and those that have – in part – already done so) are those that will be able to make a breakthrough in the labour market, boosting wages, incomes and consumption, in order to become potential alternative real estate attraction poles to the United Kingdom.

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THE CAPSULE HOTEL AS AN INNOVATIVE FINANCIAL MANAGEMENT SYSTEM IN THE AIRPORTS: THE NEAPOLITAN CASE OF "BENBO"

Viviana D'Aponte*

Abstract

The paper analyzes an innovative investment organizational model to be realized in the airport space, branded "capsule hotel", whose mkt model directly recalls the logic of "b & b". Objective of the reasoning is to show how, given the spread that such a model is having a global and European level, the recent implementation project of this service within the Naples airport, international airport, but medium-range could boost the attractiveness of the same and their attributes nodality. What emerges from the survey conducted, is that the city of Naples, making it a leader in the national project of such a scale, it would receive a major impact in terms of visibility and consequent increase of the tourist flow and a strong impetus to the overall development of tourism in the South.

Keywords: hub, nodality, capsule hotel.

1. Introduction - Financial geography, air transport and tourism

The study of medium-long term behavior of transport and tourism demand produces an interaction between flows whose territorial projections assume great importance for the financial implications. The relative geographical market basins, in fact, are areas in which there is a polarization on the territory of financial resources. The demand and supply of investments, in support of development of the various economic activities, revolve around these sectors. As been explained, the geographical research, trying to interpret the territorial forms of the markets and the financial services industry, investigating the complex relationship between global and local dimensions between processes of selective agglomeration of functions in metropolitan areas and diffused localization dynamics of activities and services (Lucia, 1999, p 15), performs an important function for the interpretation of all those organizational and productive phenomena, distributed throughout the territory which, due to their economic relevance, constitute an opportunity for financial activity. The consideration from which we start is that, despite the crisis that involved the main contemporary economies between 2007 and 2008, the transport sector, above all the air sector, and the demand for tourism, seem to have suffered somewhat from the repercussions of

* Dipartimento di Studi Economici e Giuridici Università di Napoli "Parthenope", E-mail: viviana.daponte@uniparthenope.it.

the negative conjuncture which, on the contrary, appears to be still laboriously contained in various spheres of the real economy (Federturismo, 2016). The confirmation that the contribution of travel demand, linked to tourism, represents a significant component for supporting the demand for air transport comes from the consideration that according to the UNWTO report, during the last ten years, tourist arrivals have grown with an average rate of around 4.5% and which will continue to increase, although at a slower pace, exceeding, at a global level, the threshold of over one billion travelers[20]. On the other hand, the airport sector has also experienced steady and continuous growth (SRM, 2008), even if, in the years of the global crisis, there was an evident contraction of total flows; however, all the forecasts coincide in assessing the growth of the sector around interest rates ranging between 4 and 5% per annum[21].
From a strictly economic-business point of view, the forecast of significant increases in the demand for mobility poses many problems for the airport structure, whose adaptation needs involve numerous categories of technical interventions, aimed both at the aircraft handling sector and at to the receptivity and quality of services offered to users, including the aspect of security. These factors contribute to define a set of territorial systems that in the geographical reality express different and specific financial opportunities strictly linked to the public and private investments necessary for the adaptation of the infrastructural system.

2. Investments in the airport sector in Italy

While for airlines there are numerous risk factors to which carriers react with continuous modifications of their own set-ups, for the airport structure the increase in traffic involves substantial financial investments which directly affect the balance of the local management bodies. In Italy, with the recent DPR 201 of 2015, the Regulation adopted determines the infrastructural priorities of the air transport sector through ten homogeneous traffic basins, in which airports of national interest operate, among which thirteen are identified as strategic airports, while three national hubs perform intercontinental gate functions (Fiumicino, Malpensa, Venice). The use of resources that the active 2016-2019 four-year Plan is decidedly significant, amounting to just under € 1.3 billion, of which over 2/3 are directly borne by local management (David, 2012).

[20] According to the data collected by the UNWTO (2018 Report), the greatest increases occurred in Asia, the Pacific and Africa (with values ranging from 4% to 6%) followed by the Americas and Europe (from + 2% to + 4%). Moreover, the Middle East has started to recover part of the losses recorded in 2011 (from 0% to + 5%). See SEA, Annual Report.
[21] The International Civil Aviation Organization (ICAO) forecasts a 4.7% annual growth between 2010 and 2030, the Airbus Industry 4.8% between 2010 and 2029 and Boeing estimates a doubling by 2030 of the global passenger traffic. An in-depth analysis of current trends in the global airline sector is carried out by the Word Aviation Yearbook, published annually by the Center for Aviation (CAPA).

Four Years intervention plan	Total investment by the local management	Amount of public financing	Total Amount (mil. €.)	Enac resolution for-year plan
2016-2019 National Airport System	966,2	353	1.319,9	Resolution approved between 2015 and 2016 about plans of 2015-18 and 2016-19 Plans for Brescia Montechiari, Parma, Perugia and Treviso are still under investigation

Implementation of the Plan	Total investment 2016-19	Spending preview 2016	Amount payment by June	Estimated expense by Dic. 2016
National system	1.280,2	353,9	40,4	113,50

Table 1: Airport investments and its implementation status (values in mil. of euros). Source: our elab. from ENAC (2017).

As shown by the data, the airport sector, unlike other infrastructures, presents an extraordinary feature in terms of financial economy. In fact, in implementing the Development Plan, the necessary resources derive, to a large extent, from the same budget as the Management, while the State participates in it for less than a third. This explains how the development of airport network development leads to significant market space for financial activity (Forte, Sabatella, 2013).

Traffic basin	Passenger 2015 (milions of)	Total investment by local management	Public financing	Total Amount (mil. €.)
Northen Region				
West Nord (Milano Malpensa-Bergamo-Brescia-Cuneo-Milano Linate-Genova-Torino)	43 (Prev. 2030=68)	782,08	0	782,08
Est Nord (Venezia-Treviso-Trieste-Verona)	14,3 (Prev. 2030=24)	634,8	13,8	648,6
Central Region				
Nordcenter (Bologna-Firenze-Pisa-Parma-Ancona)	15 (Prev. 2030=22)	207,6	86,9	294,5
Center (Roma Fiumicino-Ciampino- Perugia-Pescara)	42 (Prev. 2030=71)	1807,3	8,6	1815,9
South Region				
Campania (Napoli-Salerno)	6,1 (Prev. 2030=12)	44,3	0	44,3
Mediterranean Adriatic (Bari-Brindisi-Taranto)	6,2 (Prev. 2030=9)	19,8	89,0	108,8
Calabria (Lamezia Terme-Crotone-Reggio Cal.)	3 (Prev. 2030=5)	31,5	32,47	63,97
Islands				
Est Sicily (Catania-Comiso)	7,4 (Prev. 2030=14)	215,4	0	215,4
West Sicily (Palermo-Trapani-Lampedusa-Pantelleria)	6,8 (Prev. 2030=13)	61,2	13	74,2
Sardegna (Cagliari-Olbia-Alghero)	7,6 (Prev. 2030=12)	59,1	99,8	158,9

Table 2: Territorial polarization of airport investments 2015-19.
Source: Our elab. from ENAC, (2017).

However, the most worrying aspect is the great difficulty of expenditure, as evidenced by the fact that in 2016, the initial year of programming, less than a third of the resources is actually reported. But, in any case, it is important that the investments distributed in the various regional areas of the ten "traffic basins" feed a large financial market.

3. Investments in Campania's airports

In the context of Continental Southern airport traffic, the position of Capodichino airport is relevant for at least two reasons. The first is represented by the fact that passengers represent 60% of the flow that involves the three southern regions with an airport (Campania, Puglia, Calabria). The second reason depends on the high rate of growth of the routes that the Naples airport has progressively added to its offer. Furthermore, for a second-tier airport operating in a region, the Mezzogiorno, still struggling to achieve stable endogenous economic growth, the forecast, in a fifteen-year period, of doubling traffic is a factor of attractiveness for financial activities.

Year	Flow	%	Passenger	%	Cargo (tons)	%
2000	62.494	9,8	4.136.508	13	7.440	27,5
2005	58.002	-3,3	4.588.695	-0,9	7.608	-0,1
2007	72.330	17,2	5.775.838	13,3	7.863	-5,9
2009	64.032	-6,6	5.322.161	-5,7	5.655	-2,5
2011	62.878	-1,1	5.768.873	3,3	4.948	-7,1
2013	55.940	-8,5	5.444.422	-6,2	7.515	42,3
2014	58.681	4,9	5.960.035	9,5	9.950	32,4
2015	60.261	1,4	6.163.188	3,4	10.727	7,8
2016	63.935	6,1	6.775.988	9,9	10.724	0
2017	75.013	17,3	8.577.507	26,6	11.068	3,2
2018	79.722	6,3	9.932.029	15,8	11.691	5,6

Table 3: trend of "Capodichino" flow 2000-2019.
Source: our elab. by Assaeroporti, 2000-2019.

Compared to the traffic to the extension of the users and to the wide choice of directly connected destinations, for many reasons, the same configuration of second level airport appears rather limitative. The lack of a modern and fast infrastructure network on iron in the south of Salerno, ends up increasing the hinterland of Capodichino airport, to an extent that allows it to intercept the demand for extra regional transport towards Basilicata, part of Puglia and Calabria, in particular with regard to the European destinations which, with the new routes of imminent extension, will determine, for the Neapolitan port of call, a further increase in traffic (D'Elia, Festa, Marasco, 2001).

Figure 1: The airport destinations directed from Naples-Capodichino.

Besides, European airspace, while characterized by travel times between individual destinations within a time frame that rarely exceeds three hours, for traffic reasons, widely uses handling schedules in the very first hours of the day and, to optimize the filling of passenger seats, uses connections that provide for intermediate stops, with consequent lengthening of travel times and transit intervals of up to several hours.
The result is a structure of the relationships between second-level airports that, in order to have the advantage of reducing the price of transport, make sure that the user adapts to various binding conditions, in terms of access to the terminal at inconvenient times, or, long waits inside the airport for route segmentation needs (Lupi, 2007). From the point of view of receptivity, the same airport facilities of the main airports have, for some time, performed an important function to satisfy both the need for intermediate parking, along a route consisting of more than one airport, or, in other cases, providing a support base for business activities. However, the reference business model placing itself fully in the hotel category, mostly within international groups, often within the same corporate aviation supply chain, in order to remain competitive it must have a wide application, a fast turnover arrivals and departures, or respond to promotional needs related to the policy followed by the airlines.

4. A new receptive model: the "capsule hotel"

As the need for contemporary cost reduction, both for the company that places the service on the market in a competitive perspective, and for the users that use that

service, a trend that produces an organizational model is emerging very recently (Chiang, 2018) of extreme interest for the aspects of innovation that it expresses, both financially and in terms of integration and expansion of the geographical background in which the intermediate level airports operate. On the one side, the economic difficulties that characterize the management of airports served by a few lines and on which limited routes converge, sees the hypothesis of a multiplication of the regional terminals completely disappear; on the other hand, the integration between different modes of transport, particularly on iron, allows for a greater concentration of flows within traffic basins that widely extend beyond regional boundaries, as determined in the current situation of the passenger flow handled from Naples Capodichino airport (D'Elia, Festa, Marasco, 2001). However, precisely because of security needs, which involve the extension of the times of advance at the airport with respect to the actual departure, as well as due to the distance from the places of residence of potential travellers, even a few hundred kilometres from the airport, in many cases it is necessary to have accommodation in the city at the start, or, on arrival, in the case of advanced evening landing hours.

Due to this market structure, the news is represented by an entrepreneurial project aimed at creating minimal structures, the "capsule hotels", to be built in the same airport space. The construction of an accommodation facility within the airport space, represent a reception method aimed at satisfying, more than anything else, the demand for customers in transit, often attributable to the "business" segment, against which the determining factor is the maximum reduction in the cost of the service, without, however, sacrificing the attributes of comfort and absolute practicality of the same (Marèe, 2011).

The capsule hotel, to which airport receptivity refers, was born in Japan, in Osaka in 1979, but for a long time it remains a local experiment, strictly confined to Japanese practice and experience. Until 2012, year in which always in the East, but this time in Xi'an, in the very dynamic China (Huang, Sun, 2014), a first change in that receptive model takes shape, through the creation of minifunctional structures, designed to satisfy a rapidly growing demand in a place of great tourist interest. The capsule hotel formula has had an initial application in Europe just in 2014, in Belgium (Stupariu, 2017), from where it subsequently developed in Italy through two new contemporary realizations: the Bergamo experiment of Orio al Serio called "ZZZleeepandgo", and the BEnBO project implemented in the Neapolitan reality and operational since the second half of January 2017. However, there is a clear difference between the Asian origin of the minimal receptive model of the capsule hotel and its revival in western reality. In fact, in Japan, the structure was created as an addition to the accommodation offer of the large urbanized areas, to perform short functions permanence and cost reduction.

On the contrary, in the experience that begins to assert itself on the European market this formula of accommodation offer is aimed at a mainly interested user to a short stop, even for a few hours, whose origin and motivation arise from functions linked to reasons of a transport nature, rather than the need to stay in a particular place. On a structural and dimensional level, the Asian and the European experiences are similar in purely technical terms and in the application of the related functional model. The constructive module, therefore, to a large extent, remains the simple and minimal one of the first original copies made in Japan, while their location, in the European reality and especially in the Italian case, which also inspires itself, is connected to the

geography of airport development. In other words, the entrepreneurship idea takes the form of a subsequent financial investment through an assessment of the attractive potential that the airport function expresses.

5. The Neapolitan case of the "Benbo" Srl

Given the explicitly expansive trend of passenger traffic handled by Capodichino airport and the forecasts in the expansion of destinations served by more than one low-cost airline, the attention to the business opportunities that the Neapolitan airport allowed us to think, could only be translated into concrete business initiatives.
Also because, in the very last few years, the implementation of the four-year investment plan approved by ENAV for the Capodichino airport, recorded an appreciable progress in activities, with a significant 99% of the liquidation rate of resources made available for the 2015-2016 year. The innovative project that has involved the Neapolitan airport called, in an evocative way "Bed n Boarding", led to the creation of a common area, equipped with all services, of 52 living units of the size of just 4 square meters, and an additional 4 modules, of the size of approx 5.40 sq. M., intended for the use of disabled people[22].

The structure is designed to work full-time (7 days a week and 24 hours a day), through a highly automated system for carrying out all the reception operations, from arrival to departure. An absolutely significant feature of the project is represented by the location of the structure that creates one virtuous form of reuse of abandoned areas from previous functions. The space in which they were made the "Bed n Boarding" modules, in fact, is the one where, previously, the company canteen of ex ATI employees had been built, for years demobilized, conceived in the first half of the Sixties, for accompanying and encouraging the development of national traffic. On a functional level, the project is based on the realization of real autonomous housing units equipped with the necessary comforts to satisfy the needs of relaxation, rest and privacy, capable to allow travellers to optimize waiting times and cancel travel stress. At the same time, the receptive structure represents a reality of undoubted interest for the same airport operator since, with the services made available to the users in transit, it allows a wider planning of departures, exploiting timetables also in the first morning band and allowing the conjunction between multiple routes (Tüzünkan, 2017). The capsule management system, to ensure effective automation of procedures, will be managed by software designed to guide customers through the entire process of reservation and management of use, from the allocation of the unit used, up to the final phase of the release of the structure, with the consequent cleaning at check-out. The methods of use provided are very simple: the customer can book his form, using personal and credit card data, even before arriving at the airport, both through the

[22] On a constructive level, the realization is conceived as a function of maximum flexibility with the use of lightweight materials in order to allow the transportability in complete assembly and to limit installation times to the maximum and allow to vary the capacity receptive, increasing or reducing it, depending on the needs. Each module is configured to ensure comfort and privacy, having: automated door and external walls in panels with thermal and acoustic insulation, window with blinds, standard bed, table work, air conditioning, lighting and power outlets, mirror and clothes hanger, Wi-Fi and iPod docking station and MP3 player, multimedia touch screen that allows access to entertainment functions, flight information, alarm clock.

website Internet of the manager, and with the use of a smartphone application. Moreover, from the architectural point of view, the project shows some aspects of great interest, that in the creation of the structure there is an explicit reference to the local context, as a function of a perspective that is attentive to the needs of differentiation, personalization and experience that characterize the contemporary traveller[23]. From a financial point of view, the investment falls within decidedly sustainable limits[24],while the forecast of revenues, due to a rather prudent coverage of the offer (40% of the availability), as early as the first year of operation should cover at least 60% of the initial investment[25].

[23] The capsules are designed to recall the outward appearance of Neapolitan popular houses, and the fund is inspired by the paved in the historic center with the typical Hippodamian layout.
[24] From the Master Plan of the Srl, an investment of around 600,000 euros is forecast.
[25] From the documentation made available by the Srl, the following forecast data are obtained: annual beds available 14,600; rate of coverage of the offer 40%; stations sold 5,840 for the first year. Price per night € 25; hourly rates 8 euros the first hour, 7 euros a starting from the second. Evaluating the revenues of the individual activities, the gross revenue for the first year is expected to be in the amount of € .364.280 i.e. achievement of the fourth year of activity, the collection forecast stands at € 788,000. Deducts the various financial and management costs, beyond the rent of the premises (lease / RoY), it is expected to close the financial statements, net of taxes, starting from the third accounting year (EBITDA with positive profitability for the company).

Figure 2: Service presentation poster.

6. Airport function as a strategic market factor

In the context of financial economy, the development prospects characterized by the presence of innovative factors of the industrial economy, translate into attractive conditions for the concentration of investments. In other words, when an unavoidable passage of scale of the productive structure is affirmed, in a concept based on complete automation of the production process, at the same time, the entrepreneurial model must undergo rapid evolution, to govern the control of the markets through the challenge of global competitiveness. And, precisely in this view, in the broader systemic context, the infrastructural sector constitutes an essential factor to ensure virtuous conditions of accessibility in terms of easy mobility, both for individuals and for the free movement of capital and goods.

And, from this point of view, the infrastructure sector plays a central role in ensuring virtuous conditions of accessibility, representing the true indicator of shared globalization. Although, therefore, within the limits associated with the research presented, which reasons for an extremely innovative project, BEnBO looks like a major project for two reasons: first of all, because this structure amplifies the background of the Naples airport, contributing to the enhancement of the attractiveness

of the demand for transport both for active tourism, and for the business flow, compared to European destinations that the Neapolitan airport allows to reach directly. Secondly, because this innovation occurs in the capital of Campania region which, although limited to European airspace, has an interest in strengthening the transit function with which provides a greater supply of final destinations. With regard to all these extensive methods of movement, the availability of a low-cost form of hospitality represents an appreciable supplementary form of the services made available to users. In conclusion, noting the entrepreneurial success that marks the experiment of the "capsule hotel" carried out in the Naples Capodichino airport the usefulness of the geo-economic analysis in identifying the market choices that accompanied the conclusion of the strategic agreements for the constitution of the business capital from which the investment created by the "BenBo" Srl company emerges to a very affirmative extent.26 Further, it is possible to affirm the coherence of a typically geo-economic paradigm in relation to which an important market is defined in terms of territorial investment attractiveness, confirming that "the geography of the financial industry continues to be a geography of settlements, activities, privileged functions" (Lucia, 2009 p.36).

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[26] Particularly important, for the purpose of the expectation of a high success of the investment, the circumstance assumes that the capital committed to the realization is directly participated by the same private operator, who manages the airport, Gesac spa.

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